



Unleashing Value

**FOUNDER**

Late Mr. Ramanbhai B. Patel

**BOARD OF DIRECTORS**

Pankaj R. Patel

*Chairman & Managing Director*

**DIRECTORS**

Dr. Manubhai A. Patel

Mukesh M. Patel

Pranlal Bhogilal

Sharvil P. Patel

H. K. Bilpodiwala (w.e.f.16-08-03)

H. Dhanrajgir (w.e.f.16-08-03)

A. S. Diwanji (w.e.f.16-08-03)

**COMPANY SECRETARY**

Upen H. Shah

**CHIEF ACCOUNTS OFFICER**

Jyotindra B. Gor

**BANKERS**

Bank of Baroda

ICICI Bank Limited

Corporation Bank

State Bank of Saurashtra

State Bank of India

Citibank

IDBI Bank

**AUDITORS**

R.R. Patel & Co.

Mukesh M. Shah & Co.

Chartered Accountants

**REGISTERED & CORPORATE OFFICE**

"Zydus Tower", Satellite Cross Roads,

Ahmedabad 380 015

www.zyduscadila.com

**REGISTRAR & SHARE TRANSFER****AGENTS**

M/S Pinnacle Shares Registry Pvt. Ltd.

Near Asoka Mills, Naroda Road,

Ahmedabad 380 025.

**WORKS**

Formulation Unit

S. No. 417, 419 & 420, Village Moraiya

Taluka Sanand, District Ahmedabad.

Kundaim Industrial Estate

Ponda, Goa 403 401

API Unit

291, GIDC Estate, Ankleshwar.

Patalganga, Dist. Raigad

Maharashtra 410 220

Nutraceutical Products

Plot No. 5504, GIDC Estate, Vatva

Ahmedabad

Zydus Research Centre

S.No. 396/403, Village Moraiya,

Taluka Sanand, District Ahmedabad.

## Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', 'likely', 'may' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

We would also advise readers to consider that the company's unconsolidated financials for 2002-3 represent the operations of the merged company (with German Remedies, Recon Healthcare, Zoom Properties and Zydus Pathline) whereas the corresponding numbers for 2001-2 represent the unmerged operations. As a result, the two sets of numbers may not be strictly comparable.

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## Our vision

- Cadila Healthcare aims to emerge as one of the top three players in the Indian pharmaceutical industry by 2005, a leading Asian pharma company by 2010 and a global pharma player by 2020.



## Zydus Cadila and Value

- Cadila Healthcare Limited (Zydus Cadila) is committed to enhance value for its shareholders. Appreciably and responsibly.

- The consolidated revenues for 2002-3 increased 29% to Rs 11.3 bn and Profit after Tax\* increased 25% to Rs 888 mn.

- Having attained the number four position in the domestic formulations market (IMS, MAT May 03), Zydus Cadila has taken a number of initiatives to benefit from the generics opportunity in the large and lucrative markets of USA and Europe.

- At Zydus Cadila, these growth initiatives are likely to remain a sustainable feature of the company's working, with the potential of unleashing value for shareholders over the foreseeable future.

\*attributed to the group







## Chairman and Managing Director's message

*Dear Shareholders,*

The year 2002-03 at Zydus Cadila was a defining year, marked by events that accelerate growth. This year's strong financial results are an indication of this. The consolidated sales grew by 29% to Rs. 11286 mn and consolidated net profit (attributed to the group) by 25% to Rs. 888 mn in 2002-3. We elevated our status on the domestic front and focussed on building our infrastructure globally. The wheels have now been set in motion and I am confident that they will lead to unprecedented progress.

The initiatives that we undertook this year demonstrate the management's ability to steer the company on the path of sustainable growth and profitability and deliver on its promises to create shareholder value.

Our achievements during the year can be categorised under three major areas.

Firstly, we delivered on our commitment with respect to merging the group companies to create a single listed entity.

### LEVERAGING BENEFITS OF A MEGA MERGER

During the year we initiated the merger process of four of our Group companies — German Remedies Ltd., Recon Healthcare, Zoom Properties and Zydus Pathline with Cadila Healthcare Ltd. The merger was approved in June 2003 and has become effective since 1 April 2002. I have the pleasure to present the first Annual Report of the new entity — the merged entity, to the shareholders.

As a result of the merger:

- We are now the 4th largest pharmaceutical company in the domestic formulations market with a market share of 3.8% (IMS MAT May '03).
- Revenues for 2002-3 and total assets at the end of 2002-3 exceed Rs 10 bn.
- Share capital has increased by 5% to Rs. 314 mn.
- Market capitalisation, post merger (July 2003) is in excess of Rs. 13 bn.

Zydus Cadila signed an agreement to acquire Alpharma SAS, France (French affiliate of Alpharma, one of the world's leading generic companies) to leverage an existing revenue of Euro 5 mn, 109 product registrations and a deep distribution network.

Our second area of achievement is about delivering value-adding growth – from acquisitions, international operations and alliances.

## ENTRY INTO REGULATED MARKETS

### Europe

Your company has signed an agreement to acquire Alpharma SAS, France, the French affiliate of Alpharma, one of the world's leading generic companies. The acquisition, when formalised, will give your company a ready base in one of the fastest growing generics markets of Europe. Europe is the second largest pharma market in the world and within Europe, France is the second largest market.

Alpharma SAS, France, has current revenue of Euro 5 mn and a large number of product registrations - 109, which is a very attractive feature of the company, on top of a ready distribution network. Our plan is to introduce large number of products, to grow revenues rapidly. The production is planned to be eventually shifted to our state-of-the-art manufacturing plant at Moraiya.

### USA

Another achievement during the year was the decisive step taken to make a foray in the world's largest market - USA.

- In 2002-3 we launched Zydus Healthcare (USA) LLC, our subsidiary for bulk drug (API) operations in the US. We also set up an office in the U.S.A. and now have a team to cater to the world's largest generics market.
- Back home we have built a strong team along with the physical infrastructure to file the DMFs and ANDAs to enter the US market. As of now, our pipeline of DMF filings to the USFDA stands at nine of which three have been approved.
- The work on filing ANDAs is progressing satisfactorily. I am confident that we will be able to file ANDAs from 2003-4.

As a result of these efforts, Zydus Cadila expects to accelerate regulated market revenues from bulk actives in 2004-5 and from formulations in 2005-6.



Our Joint Venture Company Zydus Altana Healthcare (formerly Zydus Byk Healthcare) has turned in excellent results in its first full year of operations and has paid handsome dividends.

### UNIQUE MODEL FOR GROWTH - ALLIANCES

Our strategic initiatives over the last few years has been in response to the question : "How do we strengthen and add value to our core business beyond 2005?" Our differentiated model for growth is to look at key partnerships with global pharma majors and capitalise on opportunities for growth. Our ongoing efforts in this direction over the last few years bore fruit during last year.

Our Joint Venture Company Zydus Altana Healthcare (formerly Zydus Byk Healthcare) has turned in excellent results in its first full year of operations. The company posted sales of Rs 1114mn and strong net earnings of Rs 771 mn, yielding a whopping 69% net margin. Your company also received a handsome dividend from the JV. The current year performance is encouraging and I remain optimistic on the future potential of this venture.

During the year, we have also strengthened our relationships with Schering AG and Boehringer Ingelheim, our alliances from the GRL acquisition, and have taken concrete steps towards creating win-win situations.

Our third horizon of achievement are initiatives on the front of making a quantum improvement to our profits through improving operating efficiency and saving costs.

### OPERATIONAL EFFICIENCY

As mentioned in my last year's message, the seeds of cost rationalisation were sown in 2001-2 with the operational integration with GRL. During 2002-3, we took the major step of closing down the operations at the high-cost formulations factory of GRL at Andheri, pursuant to a successful VRS. Recently, we sold the surplus Andheri factory land for Rs 360 mn.

Further, in a step which will have substantial impact on the company's future profits, your company launched in January 2003 "PRISM" - a programme to save costs by addressing the entire non-labour spend base, facilitated by an internationally reputed consultant. We have currently completed two 'waves' of 3 months each and generated over a thousand cost saving



We have embarked on a value creation programme "DELTA" with a specific goal to "double the sales and triple the profits" at the end of three years.

ideas, which have the potential to boost future operating profits substantially.

### VALUE CREATION INITIATIVES

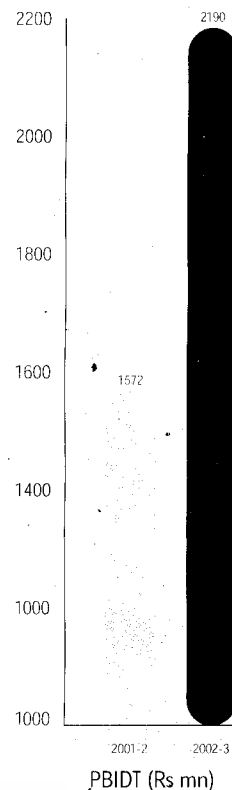
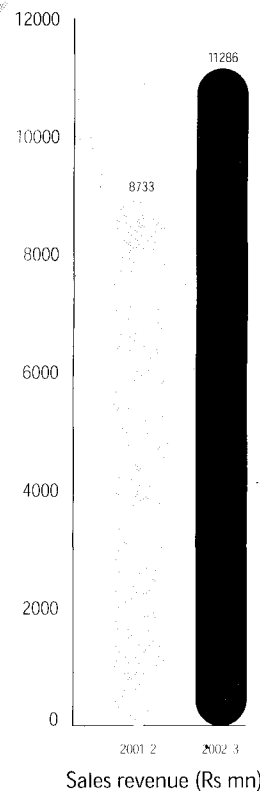
I have always believed that what we are going to be tomorrow is determined by what we are doing today. That is why managing change is a crucial process at Zydus Cadila. The process of searching, growing and discovering new paths is ongoing and one that can lead to unthinkable opportunities. The paradigms of change always begin with challenging the status quo. We have begun to do this through a value creation programme "DELTA" with a specific goal to "double the sales and triple the profits" at the end of three years. The task is a challenging one and the result will ensure our distinctiveness in the years to come.

On the research front, the Zydus Research Centre, has been focussed in the areas of NCE, NDDS and Biotechnology. Our team is now strengthened to 160 research scientists and there is now some visibility in their efforts. We now have a pipeline of 41 patent filings in India, 14 PCT applications and 42 patent applications in foreign countries. Pre-clinical studies continue for the advanced molecules and I am optimistic of the results.

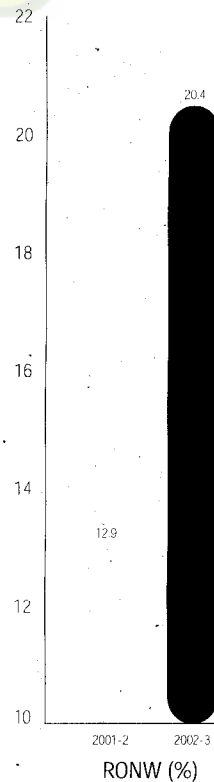
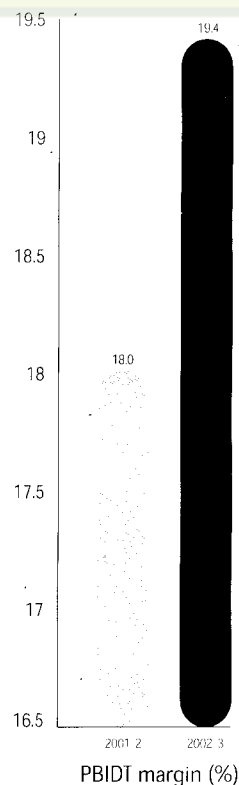
The underlying strength of our achievements is a reflection of the success we have had in implementing a clear vision and focus. Of course, we have much to do and a long way to go from here to realize our full potential. At each step of the way I am joined by 6000 inspired Zydans who are committed to creating a world class pharma company.

I would like to thank them, you and other stakeholders for your patience, support and good wishes and look forward to presenting this overview for 2003-4 with a stronger performance.

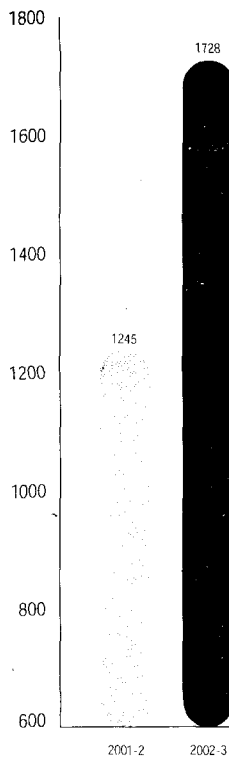
Pankaj R. Patel  
(August 15, 2003)



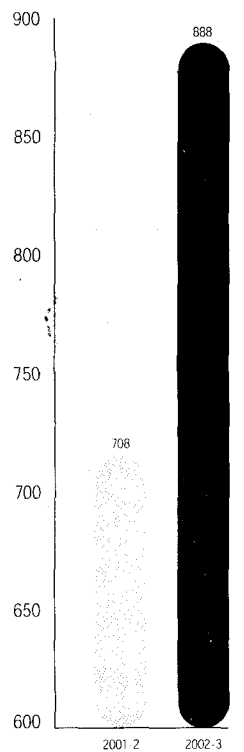
## Consolidated Financial Highlights 2002-3



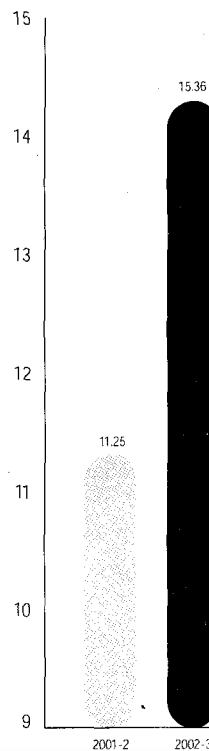




PBIT (Rs mn)

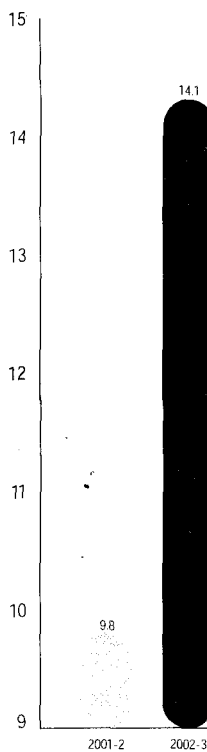


PAT Attributed to the Group (Rs mn)

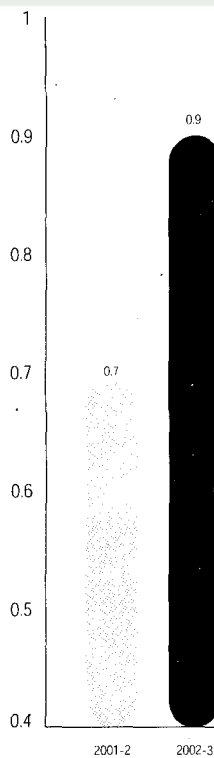


EPS (Rs.)

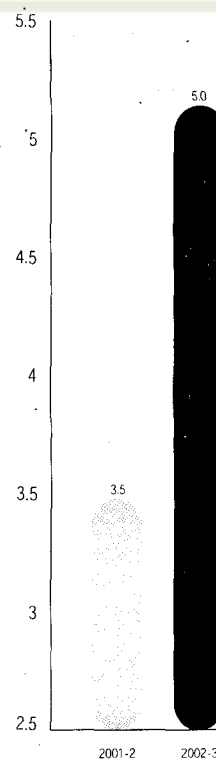
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ROCE (%)



Total Assets Turnover



Working Capital Turnover

## Zydus Cadila's value-driver size

At Zydus Cadila, we believe that size and scale are among the biggest value-drivers in the pharmaceutical industry.

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For a number of reasons.

Size encourages international companies to enter into win-win alliances, leading to profitable technology and marketing opportunities.

Size makes it possible to transact favourable vendor agreements, leading to efficient procurement.

Size facilitates manufacturing economies, leading to a low cost of production.

Size reinforces the consumer's confidence, leading to accelerated offtake.

Size enhances confidence among young and experienced professionals, leading to better recruitment.

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