

I think differently!

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Cadila Healthcare Limited
Annual Report 2005-06

Five Year Financial Summary (Standalone)

(Rs. in Millions)

Sr No	Particulars	2001-02 pre-merger	2002-03 * post-merger	2003-04* post-merger	2004-05* post-merger	2005-06* post-merger	5 Year CAGR *
1	Financials:						
	Sales	5472	9628	11160	11253	13082	22.2%
	PBIDT	1003	1922	2456	2395	2820	27.3%
	EBITDA	892	1671	1813	1923	2441	27.1%
	EBIT	704	1289	1282	1358	1825	25.4%
	PBIT	816	1540	1925	1830	2204	25.9%
	PBT	734	1053	1634	1504	1888	21.7%
	Net Profit	672	766	1429	1314	1649	20.3%
	EPS	11.27	12.20	22.75	20.93	26.26	19.1%
	DPS (FV Rs 5 each) Rs	3.50	3.50	6.00	6.00	6.00	
2	Total Assets	9675	11931	12756	13290	15388	17.3%
3	Net Worth	5515	4390	5247	6069	7363	6.3%
	Total debt (incl. Buyers' Credit)	2691	4429	4223	3946	4522	53.9%
	Book value per share (Rs)	93	70	84	97	117	5.2%
II	Key Ratios:						
	Growth ratios						
	Sales Growth (y-y)	14.1%	75.9%	15.9%	0.8%	16.3%	
	PBIDT Growth (y-y)	18.7%	91.7%	27.8%	-2.5%	17.7%	
	EBITDA growth (y-y)	21.0%	87.3%	8.5%	6.1%	26.9%	
	EBIT growth (y-y)	19.7%	83.1%	-0.5%	5.9%	34.4%	
	PAT growth (y-y)	2.5%	14.0%	86.6%	-8.0%	25.5%	
	Growth Of Net Worth (y-y)	1.5%	-20.4%	19.5%	15.7%	21.3%	
	Total Assets Growth (y-y)	39.8%	23.3%	6.9%	4.2%	15.8%	
	Performance ratios						
	PBIDT Margin	18.3%	20.0%	22.0%	21.3%	21.6%	
	PBT Margin	13.4%	10.9%	14.6%	13.4%	14.4%	
	Net Profit Margin	12.3%	8.0%	12.8%	11.7%	12.6%	
	TA turnover	0.6	0.8	0.9	0.8	0.9	
	Return on equity	12.2%	17.4%	27.2%	21.7%	22.4%	
	Return on total assets	6.9%	6.4%	11.2%	9.9%	10.7%	
	Return on capital employed	9.5%	15.9%	18.7%	17.0%	17.2%	
	Debt Equity Ratio	0.49	1.01	0.80	0.65	0.61	
	Dividend pay out ratio	31%	29%	26%	29%	23%	

* Post merger data- not strictly comparable with previous years.

Regrouped figures taken wherever applicable

“When I grow up,
I want to be a pilot and fly like the birds,
A superman who is strong and can do anything,
A brave king who protects his people,
A leader like Gandhiji,
An artist, a dancer, a scientist and a singer...
I'll be anything I wish,
Because I'll be an actor,
A different person every day,
Do things in a different way.”

~ Ahan Kayastha

7 years old and a budding theatre artiste,
Ahan studies at the Zydus School for Excellence set up by the Group.

When we asked Ahan what he wished to be when he grew up, we got an interesting response and a reasoning that was quite refreshing. How wonderful to lead many lives at the same time! And why lead one life, when you can pack so much more in a lifetime? That's what Ahan thinks. And that is thinking differently.

Ahan's response struck a chord with us because we also like to see the world from a different view. Over the years, we have been looking beyond the obvious, asking ourselves "Why not?" and "What if?"

Thinking differently for us is about creating ideas that redefine an outlook, trying out new approaches, looking at new strategies and charting out new paths. It's about making the process of growth an exciting one!

Our aspirations are to become a top ten global generics company with sales in excess of \$1 bn by 2010 and a global research-driven company by 2020. Our ability to think differently colours these aspirations, making it possible to add value to our operations and set up new signposts of success.

Zydus
dedicated
to life

Thinking Differently - An Integrated Approach to Business

Research

- ∪ Continually investing in NME research, biologicals, formulation development, process research, NDDS, strategic technology
- ∪ Made headway through a focussed thrust. NME ZY H1 has reached Phase II clinical trials. Filed two INDs ZY H2 and ZY I1 consecutively within one year
- ∪ Promising NMEs under advanced pre-clinical testing

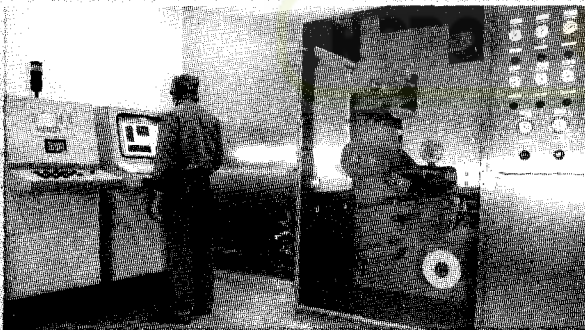
Development

- ∪ Built robust regulatory pipeline. Filed total 36 ANDAs and 40 DMFs within three years
- ∪ Robust development engine to maximise value of research
- ∪ Capabilities for early stage, global clinical development



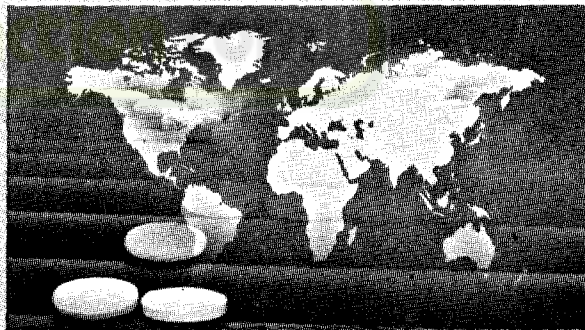
Manufacturing

- || Globally compliant manufacturing infrastructure* to support product launch in markets like U.S., EU, Latin America and other emerging markets
- || Expertise in manufacturing speciality chemicals, fine chemicals, advanced intermediates, high-end bulk actives and investigational bulk actives
- || Unique capabilities to manufacture complex dosage forms such as transdermals, inhalers (MDI/DPI), suppositories, vaccines, injectables (sterile liquids and lyophilised) and oral dosage forms such as tablet, hard and soft gel capsules
- || Leveraging these strengths to emerge as a strong player in CRAMS



Sales, Distribution & Marketing

- || No. 1 player in CVS, GI and WHC segments in the Indian pharmaceutical industry
- || Growing presence in U.S. and France. Maximising reach through unique distribution arrangements. Tie-ups with Mallinckrodt in U.S. and Evolupharm in France for greater access to customers by leveraging strengths of local partners
- || Strengthening presence in emerging markets



- || Maximising value through vertical integration of business
- || Building strong platforms for win-win partnerships
- || Continuously improving operating efficiencies resulting in competitive advantage
- || Accelerating growth and generating quantum improvement in profitability which is sustainable

*Formulation plant at Moraiya approved by US FDA, MHRA (U.K.) - Solid Orals, AFSSAPS (France), MCC (South Africa), ANVISA (Brazil), PIC (Romania), BFAD (Philippines) etc. The group also has US FDA approved API plants at Ankleshwar and Dabhasa. The API plant at Ankleshwar is also approved by AFSSAPS (France).

Chairman's Message



Dear Shareholders,

The year 2005-06 has been a momentous one for the Company. Firstly, our efforts to establish business in the regulated markets and develop a strong base for our international business have now borne fruit. Secondly, we have leveraged our strengths as a vertically integrated company to open up new revenue streams through CRAMS. Thirdly, we have made brisk progress in our NME research programme, capping our sustained efforts over the last few years. Above all, we have once again demonstrated our ability to generate impressive results by growing revenues. On a consolidated basis, the gross sales reached Rs. 15,078 mn up by 18% y-y. The major growth driver was formulation exports, which grew by 114% over the preceding 12 months. Your Company is now better positioned to generate a stream of solid, strong and sustainable future revenues and profits. I'd like to share with you some of the key drivers of business performance which have helped us achieve these results.

When we did some crystal ball gazing and looked at how we are going to unleash value in the future, we identified four major drivers of growth. During the year, we made significant strides in each one of them.

Global Generics Business

An impressive year

The global generics business is one of the key drivers of growth and we have been focussing our energies over the past few years on creating a strong base in the U.S., Europe and Latin America. Our vision is to emerge as a top ten global generics company with sales in excess of \$1 bn by 2010 and during the year we made a great start in this direction. We launched our operations in the U.S. during the year with just five products. I am happy to report that our U.S. operations turned profitable in the very first year. It's a differentiated strategy that we have adopted for this highly competitive market and it has reaped handsome dividends. Our focus has been on careful product selection, cost excellence through backward integration, a unique approach to distribution and an emphasis on customised solutions.

The two-pronged approach in distribution of products has helped us maximise our market coverage in the U.S. While we marketed products in alliance with Mallinckrodt, the seventh largest generics player in the U.S. under the joint label 'ZyPharma', we also extended our reach by servicing select customers directly under the label 'ZyGenerics'. We plan to launch another 10-12 products in 2006 and hope to triple the topline in U.S. operations.

In France, we decided to focus on the pure generics business to drive growth in the coming years. In line with this, we sold off the branded business of Zydus France SAS to Aerocid of France for 7mn Euros. The branded business, a non-core asset for your Company, comprised mature prescription and OTC products. We had acquired the branded business from Alpharma France for 3.7mn Euros. Another key initiative which is bound to have a significant impact on our generics business in France, is the distribution agreement with Evolupharm. With an additional reach through Evolupharm's network of 2250 pharmacies, I believe that we have greatly reinforced our marketing strengths in France. With 40 major drugs going off patent in France, we expect to grow at the rate of over 20% per annum in this key market.

2005-06 will also be remembered for the launch of operations in two more key markets - Brazil and South Africa. In Brazil, we have launched ten products through our subsidiary Zydus Healthcare Brasil Limitada. We have filed 23 pure and branded generics dossiers for this market so far. In South Africa, we have launched four products so far and plan to launch eight more in the coming year. Overall, it has been a great year for our International business with total consolidated exports registering a quantum jump of 30%, driven by growth of 114% in Formulation exports.

Domestic Operations

Anchoring growth

Our focus on the domestic market continues to be strong and our domestic formulations business grew by 15% during the year. I believe that the key to successful marketing and competing lies in differentiation and the concept of being unique or different is far more important today than it was ten years ago. One of the key aspects of our growth over the years has been our ability to stand apart in the marketplace. Our focus has not just been on being different from the rest, but on looking at possibilities which can help us deliver products, services and solutions better than anyone else. In this light, I'd like to share the developments on two initiatives undertaken during the year.

Chairman's Message

As part of Project Diamond, we restructured our domestic formulations business to ensure wider coverage, increase yield per person and improve efficiencies. On the other hand, Project Phoenix, a comprehensive programme, was launched to rejuvenate mature brands and strengthen pillar brands. The programme would also be looking at innovations in product positioning, packaging and promotion. Both these initiatives have helped us take stock of how we can continue to create a niche for ourselves in the domestic pharma business.

Global Contract Manufacturing Opening up new revenue streams

The global pharmaceutical industry is witnessing a wave of change due to stricter regulatory norms and spiraling costs. Pharmaceutical companies are opting to outsource manufacturing requirements to improve efficiency and productivity. The opportunities for the in-sourcing partner lie in offering strategic value-added services. Indian companies with proven skills in process development, process optimisation and specialised technology are best placed to tap the opportunities emerging in this field.

By combining specialised skills, high quality products at low costs and adequate regulatory protection of intellectual property, India is poised to become a global manufacturing hub. It is estimated that approximately 30-50% cost-saving opportunity is possible in India. Your Company is well positioned to leverage its strengths as a vertically integrated manufacturer to make significant inroads in this sphere. Our Global Contract Manufacturing cell, set up to tap opportunities in this sphere has posted revenues of Rs. 92 mn during the year. We have signed 11 contracts with innovator and generic companies with a peak revenue potential of \$23.6 mn. I am confident that with our customised approach and value-added services, we will be able to capitalise on this promising start.

Research and Development Expanding our pipeline

During the fiscal 2005-06, we continued to make vital progress in our research programme. Of the four NMEs that we are working on, our first IND - ZY H1 has now reached the Phase II clinical trials. Additionally, we have filed two more INDs ZY I1 (NME for treating inflammatory disorders) and ZY H2 (NME for treating diabetes) during the year. This is indeed a remarkable achievement and it reflects the high calibre of research professionals that your Company is fortunate to have. We now have a team of more than 500 professionals engaged in research and development, of which, 230 scientists alone are involved in the NME research programme at the Zydus Research Centre. We will continue to invest in research and strengthen our capabilities to develop newer drug-discovery targets. Our product pipeline is filled with new and exciting projects, which I believe will bring to fruition our goal of being a global research-driven pharma major by 2020.

Thinking Differently To enhance value

The new world that is shaping up demands new solutions. It commands that we think out of the box. As the celebrated thinker Edward De Bono once said, "Breaking out of established patterns and look at things in a different way." The old economic order of protected markets and guaranteed margins no longer exists. And the new economic order is being created by companies that are constantly innovating their systems, processes, business solutions and approaches.

We have been looking at unleashing value by 'thinking differently' - in our approach to business, markets, customers and meeting the needs of all those with whom we do business. 'Working together on win-win partnerships' is one such example of our differentiated thinking and approach. Rather than focus on short-term gains, your Company believes in getting into partnership arrangements, which create value in the long term. It is this philosophy that governs our Joint Ventures and Alliances with partners like Altana Pharma, Mayne Group of Australia, Bharat Serums and Vaccines, Mallinckrodt, Schering AG, Boehringer Ingelheim and Ambalal Sarabhai Enterprises, to name a few. We believe that these JVs combine the technological, manufacturing and marketing strengths of the respective partners in super-speciality areas to create value across the board.

We have also applied the process of 'thinking differently' to create a whole new way of working - which is faster, more efficient and certainly one that produces excellent results. Given that the regulated markets will play a crucial role in your Company's future growth, it was important that product development for the U.S. market be fast-tracked. With this in mind, in FY 2005-06, your Company formed a specialised Pharmaceutical Technology Centre (PTC), which grouped together six departments - Formulations Development, Analytical Development, Pharmacokinetics and Project Management, Regulatory Affairs, IPR and Packaging Development encapsulated within one cohesive team. This makes the team more fleet-footed, productive and better connected to achieve faster results. The process of 'thinking differently' is also reflected in the way we nurture leaders from within the organisation to come to the fore, lead transformation initiatives to cope with change and encourage fresh ideas in every aspect of our business. It's a culture that will continue to shape our future-focussed organisation.

Moving Ahead...

Continuing our distinctive approach

We will continue to:

- ∪ Leverage strengths of our vertically integrated business model
- ∪ Explore opportunities for inorganic growth and consolidate operations to meet our goal of becoming a top ten global generics company by 2010
- ∪ Optimise our processes and costs
- ∪ Build intellectual property and relentlessly focus on our NME programme
- ∪ Manage our alliances in such a manner that they continue to create value for both partners
- ∪ Retain our character as an innovative, fleet-footed and progressive global healthcare company
- ∪ Nurture growth and develop skills and competencies of our people
- ∪ Remain committed to building healthier communities globally

And as we go about the task of value creation, we are encouraged by your support. We believe that we are on the right track. We have the right strategy in place - a distinctive approach. We believe it is a strategy, which will allow us to continue to deliver an outstandingly competitive performance. We are confident of the way ahead. We have the products, the people and the clarity of focus to maintain the momentum. And as we forge ahead, we remain committed to our goal of increasing shareholder value.

Pankaj R. Patel

May 15, 2006

Highlights of 2005-06



Highlights of International Operations

- || Entered the U.S. generics market with launch of five products. Revenues of Rs. 500 mn posted in seven months. Operations turned profitable in the first year of business
- || Operations launched in Brazil and South Africa
- || French operations grew by 78% y-y
- || Branded business of Zydus France SAS comprising mature prescription and OTC brands sold to Aerocid of France for 7 mn Euros. These were acquired from Alpha Pharma France for 3.7 mn Euros in 2003
- || Agreement with Evolupharm, France, gives your Company access to 2250 more pharmacies across France
- || Launched 76 generics presentations in France until March 2006 including three blockbuster brands - Simvastatin, Omeprazole and Sertraline
- || Formulations manufacturing facility at Moraiya and API manufacturing facilities at Ankleshwar approved by AFSSAPS, the French regulatory agency. Commenced supply of products to France from India

- || Formulations exports to emerging markets grew by 49% y-y
- || 12 ANDAs and DMFs filed during the year, taking the cumulative filings to 36 ANDAs and 40 DMFs. So far your Company has received approval for 12 ANDAs

Highlights of Domestic Operations

- || Restructured the domestic pharma business to optimise resources under Project Diamond
- || Launched 34 new products including extensions (formulations) during the year
- || Launched Project Phoenix - a comprehensive programme to rejuvenate mature brands, strengthen pillar brands and bring about innovations in the marketplace
- || Maintained leadership positions in the CVS, Gastrointestinal and WHC segments
- || Operations at Baddi formulation manufacturing facility streamlined and entire investment recovered within just one year