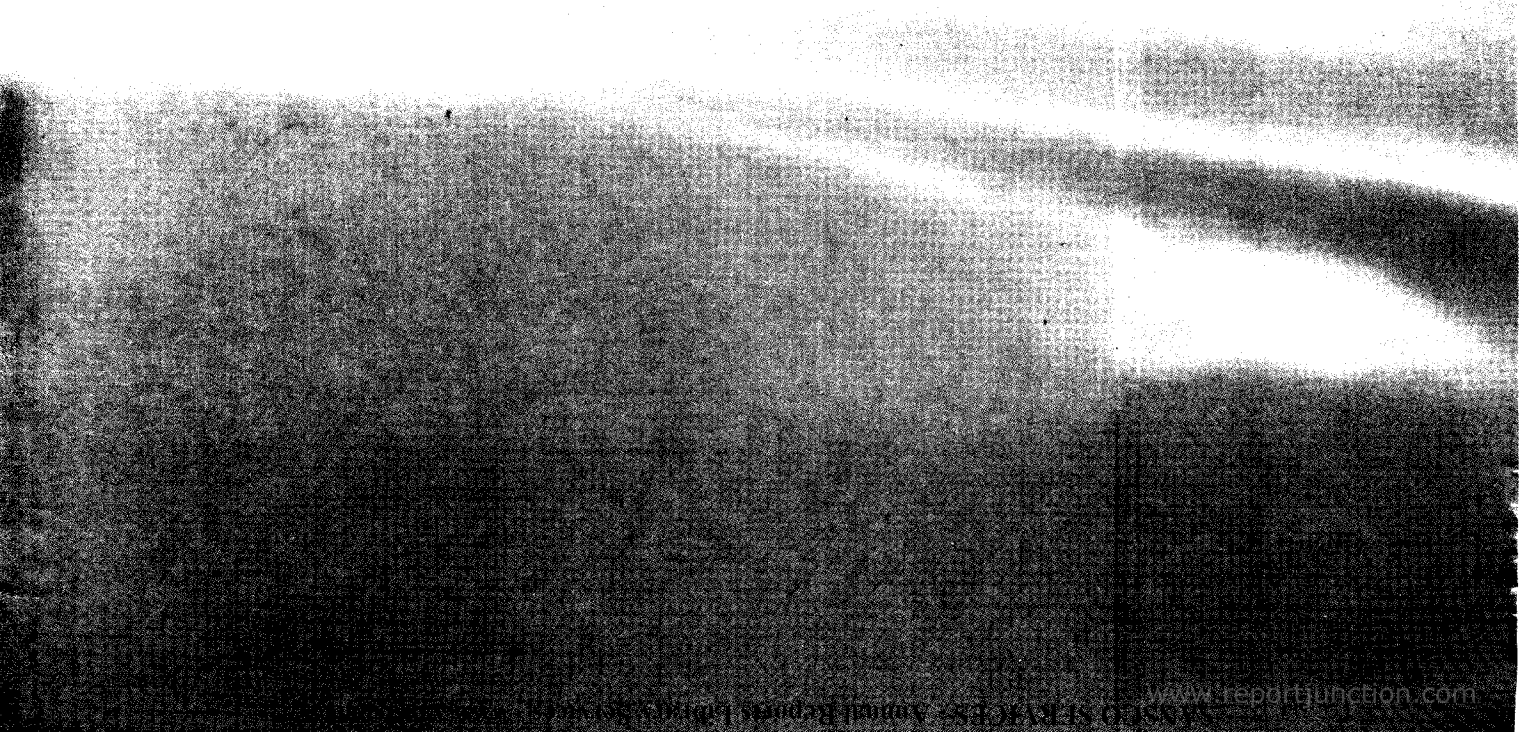
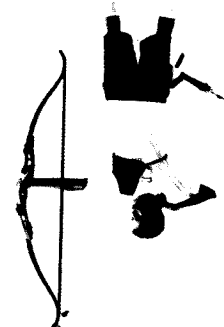
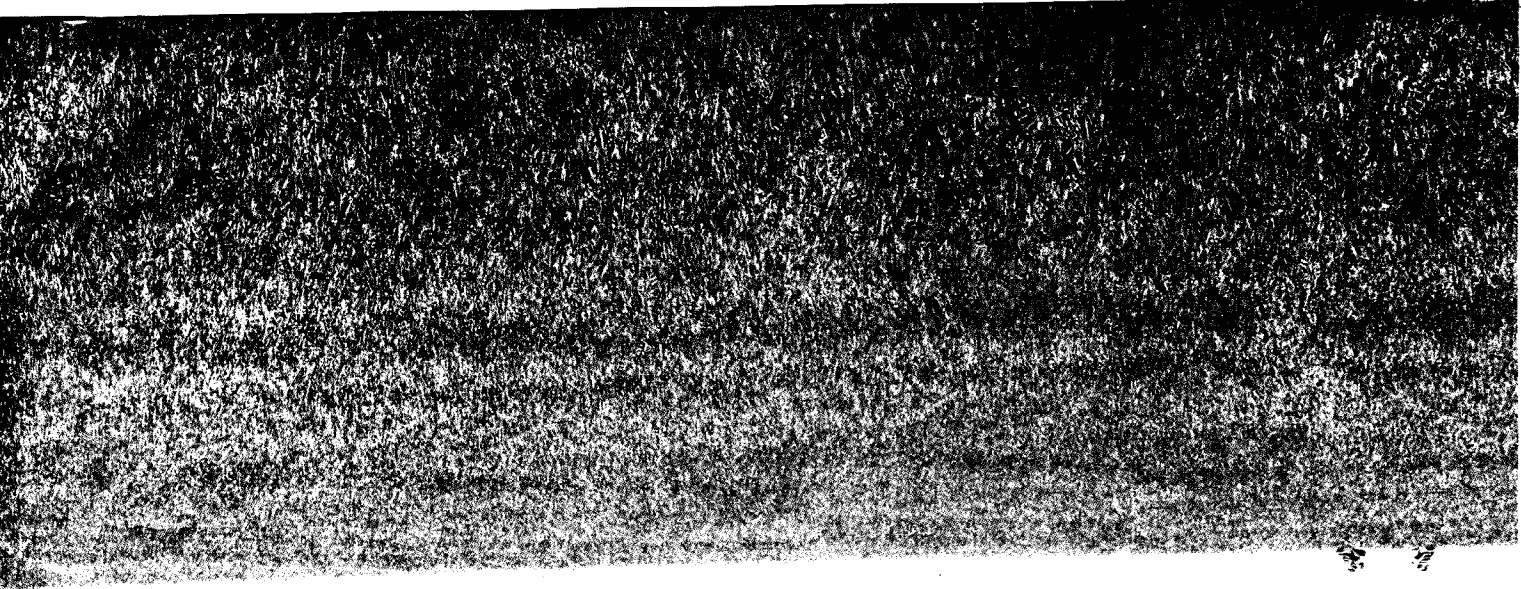
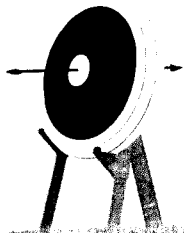


Report Junction



Report  junction.com

In 2004, we said we'll achieve sales of \$ 400 mn by 2006-07 and we've done it!
Our next goal is the 'Healthy Billion' - posting sales of over \$ 1 bn by 2010.



Contents

FOUNDER	Late Mr. Ramanbhai B. Patel
BOARD OF DIRECTORS	Pankaj R. Patel Chairman & Managing Director
DIRECTORS	Mukesh M. Patel Pranlal Bhogilal Sharvil P. Patel H.K. Bilpodiwala H. Dhanrajgir A.S. Diwanji
COMPANY SECRETARY	Upen H. Shah
CHIEF ACCOUNTS OFFICER	Jyotindra B. Gor
BANKERS	Bank of Baroda BNP Paribas Corporation Bank Citibank ICICI Bank Limited IDBI Bank State Bank of India State Bank of Saurashtra
AUDITORS	R.R. Patel & Co. Mukesh M. Shah & Co. Chartered Accountants
REGISTERED AND CORPORATE OFFICE	'Zydus Tower', Satellite Cross Roads, Ahmedabad - 380 015. www.zyduscadila.com
REGISTRAR AND SHARE TRANSFER AGENTS	M/S Pinnacle Shares Registry Pvt. Ltd. Near Asoka Mills, Naroda Road, Ahmedabad - 380 025.
WORKS	
Formulation Units	S.No. 417, 419 & 420, Village Moraiya, Taluka Sanand, District Ahmedabad. Kundaim Industrial Estate, Ponda, Goa 403 401. Village Saraj Mujra P.O. - Baddi Tehsil - Nalagarh Dist. Solan (HP)
API Units	GIDC Estate, Ankleshwar, Gujarat. Patalganga, Dist. Raigad, Maharashtra - 410 220. Dabhasa, Tal. Padra, Dist. Vadodara
Nutraceutical products	Plot. No. 5504, GIDC Estate, Vatva, Ahmedabad.
Zydus Research Centre	Zydus Research Centre S.No. 396/403, Village Moraiya, Taluka Sanand, District Ahmedabad.

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Safe Harbour Statement

In this Annual Report we have disclosed forward-looking information (within the meaning of various laws) 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' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realised, 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 materialise 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.

"Vision isn't forecasting the future, it is creating the future by taking action in the present to prepare for it."

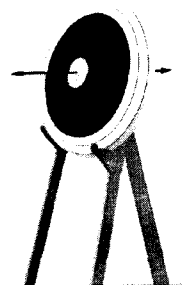
~ Edward I. Koch and Christy Heady in Buzz: How to Create It and Win With It

Envisioning and Creating our Future

Our journey of growth has been all about envisioning and creating a future for ourselves. Since 1995, we have been looking ahead at the big picture and exploring opportunities that can lead our growth story further on. In doing this, we have chased every idea and looked at all possibilities that can enable us to take the next leap forward.

In charting out our path ahead, we have been very specific with our goals and clear on the direction in which we are headed. In 2004, we said we would post sales of \$ 400 million and since then it became the overarching goal in the organisation to achieve it. The year 2006-07 is a landmark year as it marks the fulfilment of this first goal in our vision to globalise our business. Moving ahead, our vision is to be a leading global healthcare provider with sales of over \$ 1 bn by 2010, cross the \$ 3 bn mark in sales in 2015 and become a research-based pharmaceutical company by 2020.

This annual report presents a detailed account of the company's achievement, the initiatives that were undertaken in the year 2006-07 and the broad strategic programme for growth in the years ahead.





Highlights

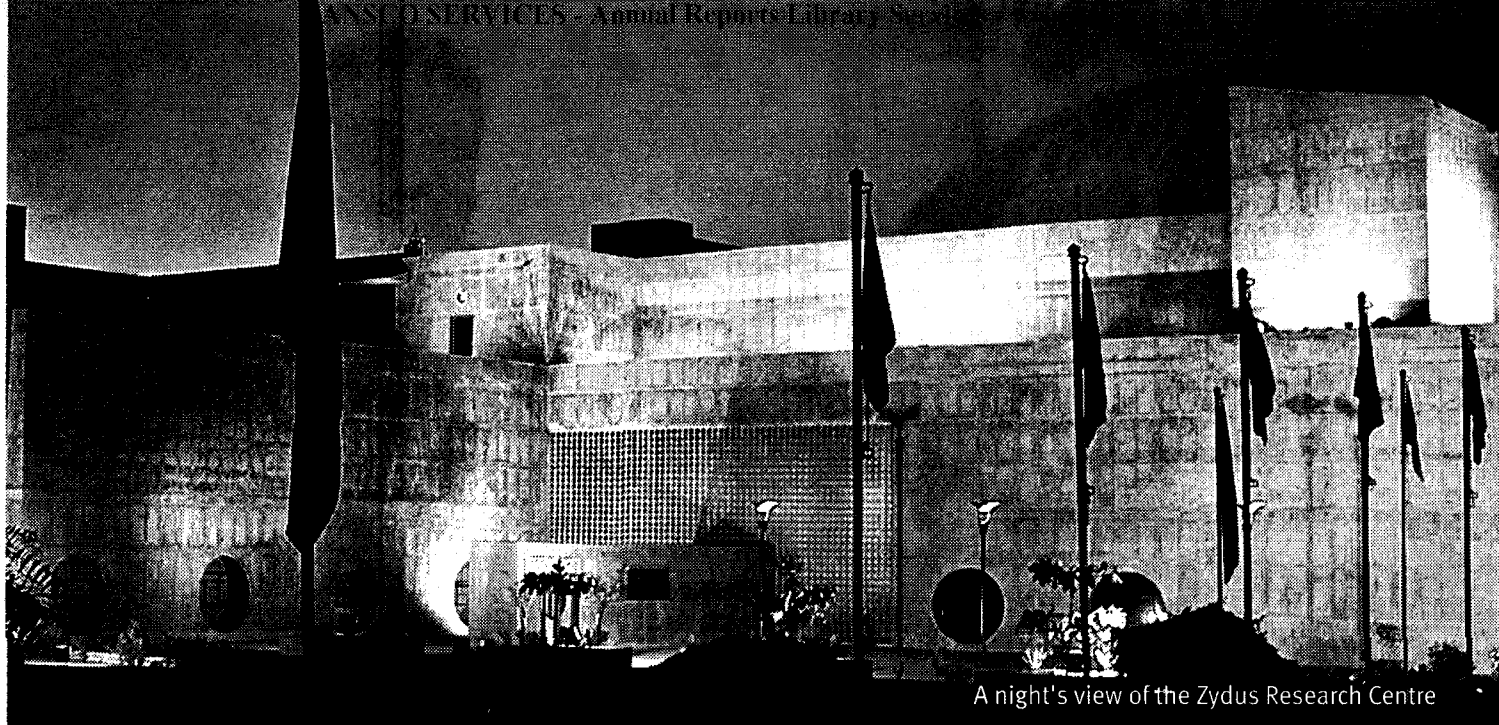
Highlights of International Operations

- Gained remarkable acceptance in US Generics market, with excellent customer services, expansion of our customer base and two successful day-1 launches of Meloxicam and Simvastatin. US Operations recorded sales in excess of \$ 31 mn (Rs. 1,428 mn)
- Filed 26 ANDAs with US FDA during the year, more than double compared to last three years' average of 12. Cumulative filings till date have touched 60, of which 23 have been approved
- Complete focus attained on pure generics business in France after completion of sell-off process of branded business. French operations crossed € 21 mn mark (Rs. 1,267 mn) in sales with significant reduction in operational losses - from Rs. 238 mn last year to Rs. 155 mn
- Filed 21 additional site transfer applications for transferring the manufacturing site from France to India, taking the total to 25 site transfers. Received 6 approvals so far, of which commercial supply of 4 products from India has been commenced
- Submitted 15 additional dossiers for new products for French market from India, taking the total to 23 dossiers. Received approval for 4 products so far
- The total sales in Emerging Markets crossed Rs. 1 bn mark, and registered sales of Rs. 1,074 mn, up from Rs. 852 mn, showing growth of 26% y-y, with Brazil registering sales of Rs. 176 mn with growth of 53% compared to previous year
- Registered turnaround in API business with a focus on new product introduction, cost improvement, better key account management and good support from captive consumption for US market. API Exports business grew by a healthy 33%

- Filed 11 DMFs, of which 5 would give us first to file status. Total DMF filings now stand at 51
- Forayed into Japanese market with opening up of a new subsidiary - Zydus Pharma Inc., Japan. The subsidiary will market APIs and formulations in Japanese market, and start product registration process in current year
- Acquired Nippon Universal Pharmaceutical Ltd., which has got countrywide reach to more than 4000 hospital and clinics in Japan, and which will enable us to have critical access to a ready manufacturing and marketing base as well as a distribution network

Highlights of Domestic Operations

- Completed the restructuring process of the branded formulations business, which has started paying dividends, with rural market showing good potential of growth in time to come
- 39 new products (including line extensions) were launched in India during the year, of which 8 were 1st to launch
- Entered Rs. 1500 cr dermatology market, with acquisition of Mumbai based Liva Healthcare Ltd., which has got wide product portfolio in dermatology segment
- Green field formulations manufacturing facility at Sikkim was constructed in record period of seven months and production is scheduled to commence within short time
- Consumer products business registered robust performance with sales of Rs. 1,219 mn, up 89%, with Sugar Free brand crossing Rs. 500 mn mark
- Revamped Nutralite brand with change in promotion strategy, which started yielding results. The brand recorded sales of Rs. 427 mn, up 38%



A night's view of the Zydus Research Centre

Highlights of Joint Ventures

- Zydus Altana Healthcare Pvt. Ltd. posted sales revenues of Rs. 1,674 mn, up 28% from Rs. 1,306 mn last year and profits of Rs. 1,326 mn, up 44% from Rs. 920 mn last year
- Business of Sarabhai Zydus Animal Health Ltd. grew by 7% to Rs. 888 mn from Rs. 834 mn in 2005-06, while net profit grew by 28% to Rs. 84 mn from Rs. 66 mn last year
- Construction of the state-of-the-art oncological injectables manufacturing facility of Zydus Mayne Oncology Pvt. Ltd. has been almost completed with all the machines and equipment installed and commissioned. This facility is located in a pharmaceutical sector specific Special Economic Zone near Ahmedabad
- Construction of finished dosage manufacturing facility for Zydus BSV Pharma Pvt. Ltd. has been started in a pharmaceutical sector specific Special Economic Zone near Ahmedabad

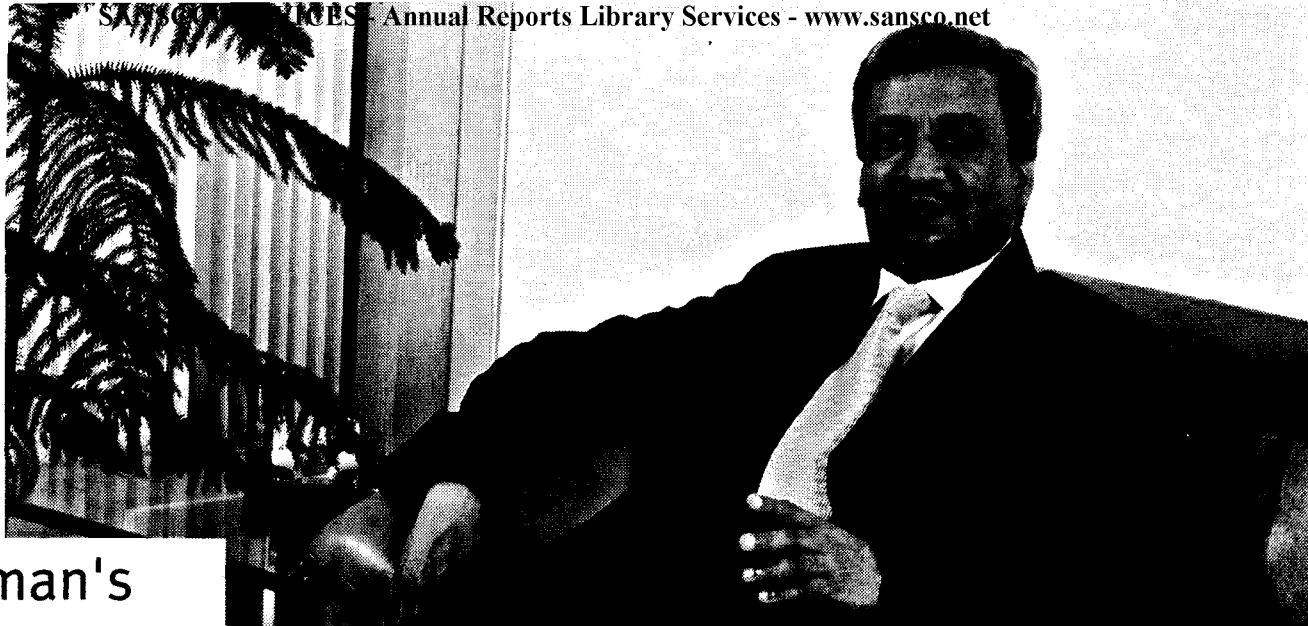
Highlights of R&D and IPR

- ZYH1, our first NME for treating dyslipidemia has successfully passed Phase I clinical trials, and has entered Phase II clinical trials
- ZYI1, the anti-inflammatory and pain management compound has also passed Phase I clinical trials and has entered Phase II trials. ZYH2, the novel agent for treating diabetes is undergoing Phase I trials
- Filed fourth Investigational New Drug application (IND) with DCGI for ZY01, a novel drug candidate for treating obesity and related disorders

- Expanded the state-of-the-art development facilities of Pharmaceutical Technology Centre (PTC) and now facilities to develop parenteral products, both liquid and lyophilised, transdermal drug delivery systems and respiratory dosage forms are operational
- More than 100 patents have been filed by Zydus group in 2006-07 in the US, EU and other emerging global markets, taking the cumulative patent filings to over 225

Financial Highlights of FY 2006-07 (Consolidated)

- Total Operating Income went up by 23% y-y to Rs. 18,288 mn from Rs. 14,845 mn last year. Topline growth was mainly driven by growth of 91% in formulations exports, growth in API exports by 33% and growth of 89% in Consumer Business
- EBITD went up by 22% y-y to Rs. 3,521 mn from Rs. 2,877 mn. This was after spending Rs. 1,344 mn on R&D, which increased by 69% from Rs. 797 mn last year
- EBITD margin (% to operating income) remained at 19.3% vs 19.4% last year in spite of 2% increase in R&D spends
- PAT up by 54% y-y to Rs. 2,338 mn from Rs. 1,524 mn last year
- In line with that, EPS up by 54% to Rs. 18.6 from Rs. 12.1 last year



Chairman's

Message

Dear Shareholders,

The year 2006-07 was a landmark year, which reflected both - our unwavering focus in achieving the targets that we set for ourselves and the commitment to step up the momentum of growth with new goals that challenge and stretch our capabilities.

We entered the year 2004 with a new vision in place and an agenda for growth: to post sales of \$ 400 mn by 2006-07. With strategies to support our growth agenda and timely execution of these plans, we have achieved our target.

On the platform of this robust business health, we are moving ahead towards the new goal that we have set for ourselves - of achieving sales of over \$ 1 billion by 2010. Our strategic thinking and differentiated approaches in the marketplace will continue to create the pathways to new possibilities as we work towards this goal. As we evolve, grow and expand, we will be a nimble organisation that adapts to a rapidly changing business landscape.

Over the last few years, we have been steadily expanding our business and improving our returns. In all areas of our business we have been making substantial progress towards achieving sustainable, profitable growth. And in this we are guided by our commitment to unleash value for our shareholders.

Our transformation programme, which rests on the five pillars of Direction, Leadership, Accountability, Control and Co-ordination and Capability Building, has been guiding the efforts for the next leap forward. Each of these pillars, in turn, is creating new excellence benchmarks in terms of Performance, Operational Excellence and People Excellence.

We are surging ahead...

When we reset our vision in 2004, we were aspiring to be a global healthcare company. We acknowledged that our core strengths were our integrated capabilities, our willingness to accept new challenges, set new targets and the ability to go full steam ahead and achieve each one of them. Those were to become the cornerstones of our growth plans.

As noted earlier, the year in review was a milestone year and we are on course to become one of the leading global healthcare providers by 2010 :

- In the US where we started operations in 2004, we are already rated as a top tier generics company among peers. We recorded sales in excess of \$ 31 mn last year and enjoy a market share of more than 10% in 8 out of 9 products we have launched so far. In France we crossed € 21 mn mark in sales during the year

- During the year we entered Japan, with a new subsidiary Zydus Pharma Inc., Japan. With the acquisition of Nippon Universal Pharmaceutical Ltd., we now have gained critical access to a ready manufacturing and marketing base as well as a distribution network
- Exports to other emerging markets grew by 26% and recorded sales of Rs. 1.07 bn
- Our efforts to create a robust product pipeline for the global markets is on track. We filed 26 ANDAs with US FDA during the year, more than double from last three years' average of 12. We now have cumulative filings of 60, of which 23 have been approved so far
- We filed 15 dossiers for new products and 21 site transfer applications for French market during the year

Looking at newer avenues for growth

The domestic market is changing rapidly and we have always been fashioning our responses appropriately. We have built strong leaderships in key therapy segments and in the coming years we will continue to rely on our strengths - the speed to market, building and sustaining strong customer relationships and creating an edge through brand building capabilities. All of this has helped us widen the market base to see how our healthcare expertise can reach hitherto unexplored segments. In the year 2006-07:

- We continued to lead in the participated markets in the cardiovasculars, gastro intestinals and women's healthcare
- We are broadening our reach, exploring new markets in rural India
- We are expanding our presence in new segments. Our acquisition of Liva Healthcare opened up the dermatological segment for us, which is growing at the rate of 14 %
- We launched 39 new products during the year in the domestic formulations market and of these, 8 products were first in India.
- 17 of our brands feature amongst the top 300 pharma brands in India, affirming our status as a company that has an edge in creating, marketing and nurturing brands

Other key achievements of 2006-07

- We achieved turnaround in our API business. With a focus on cost improvement and better key account management, API exports grew by a healthy 33%. This alongwith good support from captive sales, turned the business profitable again
- Post acquisition, we revamped and repositioned the Nutralite brand which crossed sales of Rs. 420 mn
- Overall, our consumer products business grew by 89%, with the Sugar Free brand crossing Rs. 500 mn in sales
- Our ability to seize the first mover advantage extended to other spheres too. The green field formulation manufacturing plant at Sikkim was completed within a record seven months, making the plant the first to be operational in the region
- On the research front, we posted new milestones by filing the 4th IND for ZY01, a novel drug candidate for treating obesity and related disorders. Our 1st IND ZYH1 successfully completed Phase I clinical trials and work has commenced on Phase II trials. ZY11 has also completed Phase I trials, while ZYH2 is undergoing Phase I trials

These milestones have been a result of our continuous investment in building a global platform for our operations, investment in new ideas and investing in talent who can make these ideas happen. They are reflective of a company that is constantly renewing itself and reinvigorating its approach.

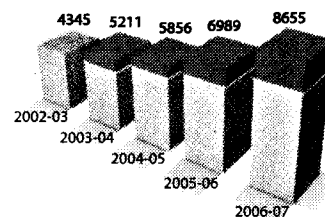
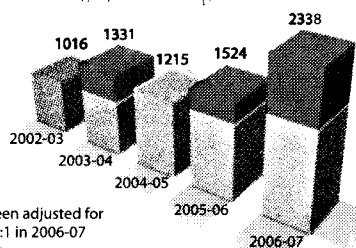
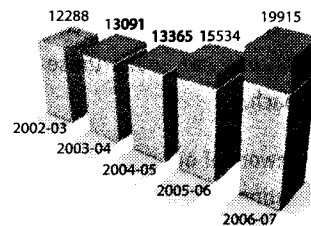
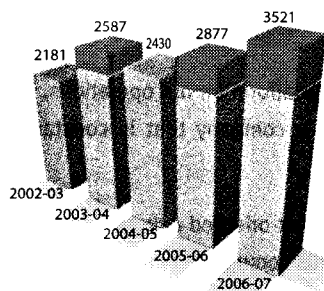
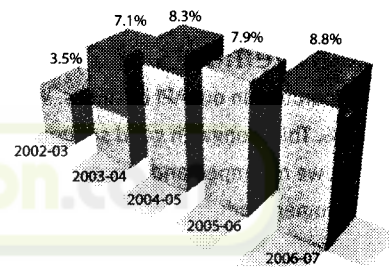
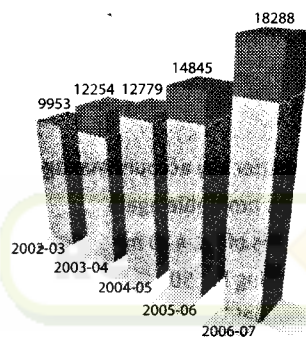
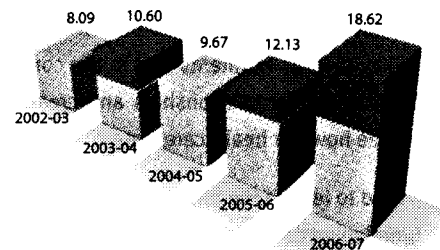
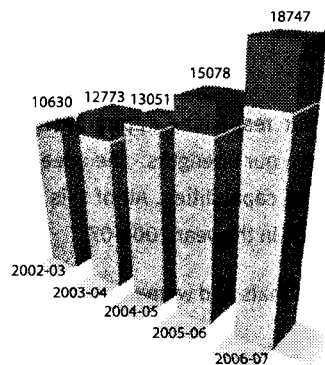
The expertise and teamwork of our people have created a high-performance driven, result-oriented culture across the entire company. Our agility and strong execution have allowed us to seize the market opportunities. With this committed team, I am confident that we will reach our targets in 2010 and beyond, successfully.

The key to our success over the years has also been about striking the right balance - the balance between the wisdom of experience and the exuberance that comes in with fresh, new ideas. We have been able to back vision with action, strategy with implementation and passion with commitment. These attributes have shaped us into a peak performer and I am confident that they will continue to play an important role as we carve out a distinctive position for ourselves. I would like to thank all of you for your support and good wishes, as we leapfrog towards our next goal and post new milestones of success.

Pankaj R. Patel

Financial

Highlights (Consolidated)



1 Excl. Other Incomes

2 EPS and DPS of earlier years have been adjusted for bonus shares issued in the ratio of 1:1 in 2006-07

3 Both Revenue & Capital R&D Spends

Previous years' figures have been regrouped wherever necessary.