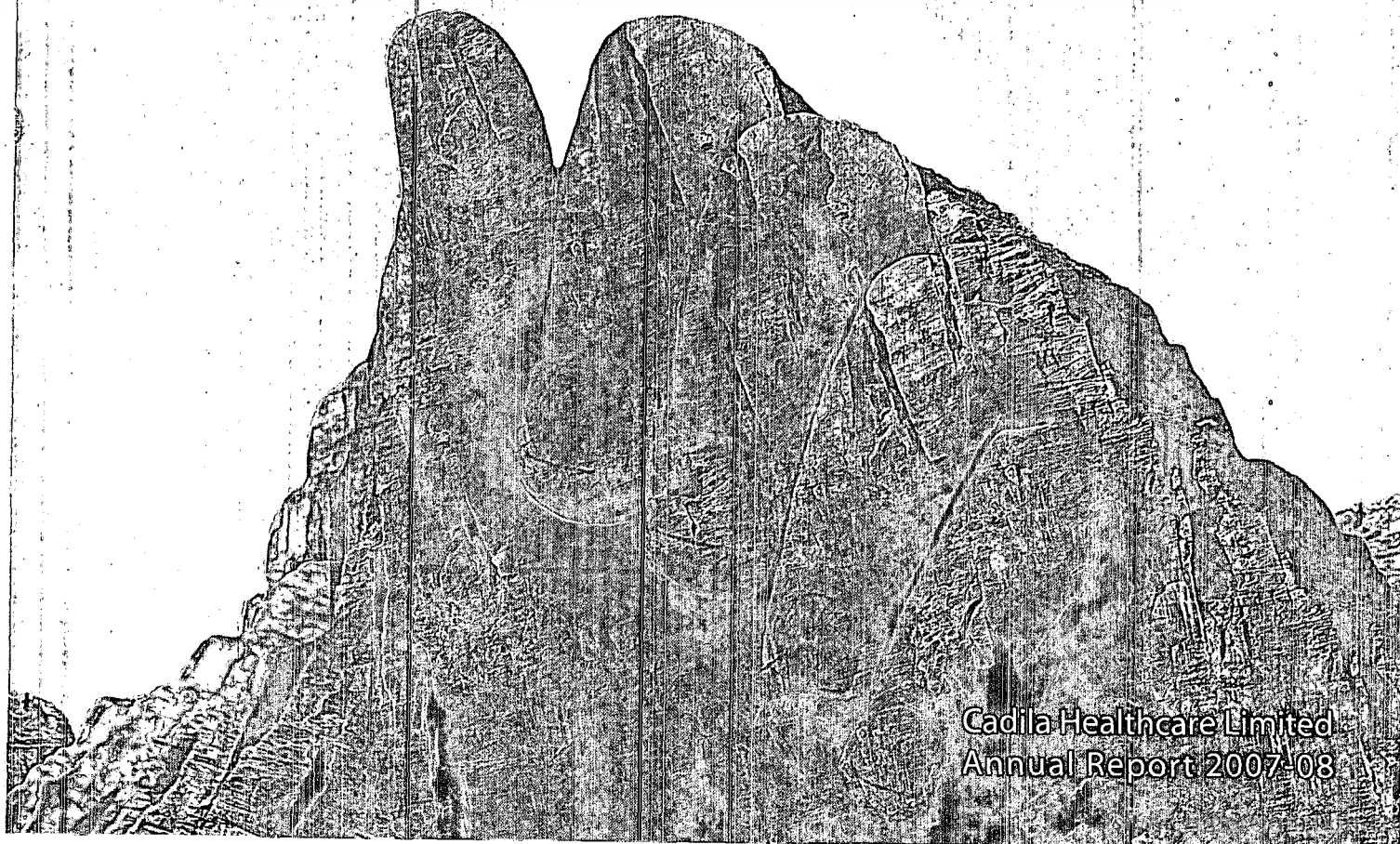


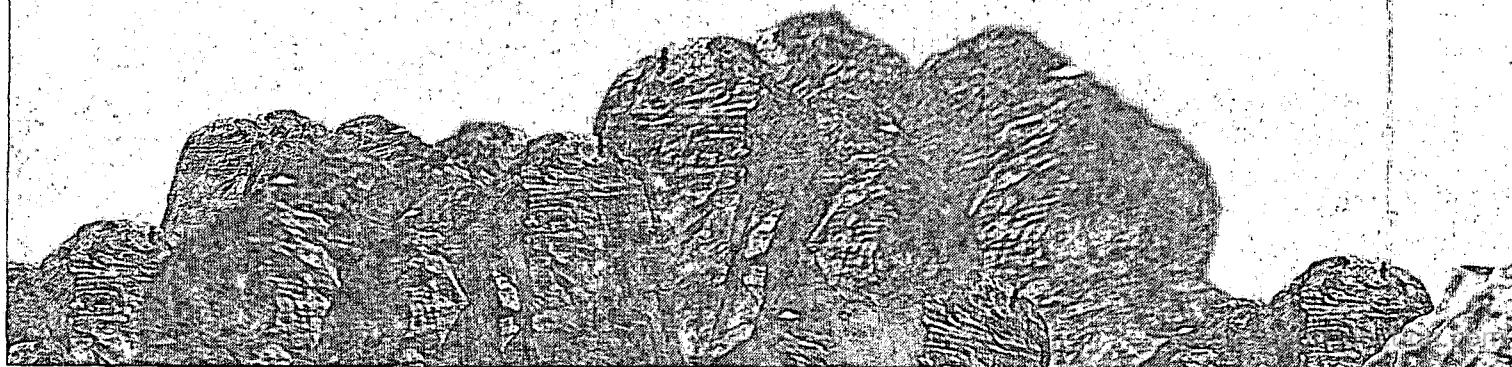
The strength and spirit of many...

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Cadila Healthcare Limited
Annual Report 2007-08

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...culminates as the 'Power of One'

Over 9000 Zydans are working together as one unified team to achieve the next goal of 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

Dr. Sharvil P. Patel
Deputy Managing Director

Directors Mukesh M. Patel
Pranlal Bhogilal
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 Mukesh M. Shah & Co.
Chartered Accountants

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Ahmedabad - 380 015.
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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, Dist. 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.

Zydus Research Centre Zydus Research Centre
S.No. 396/403, Village Moraiya, Taluka Sanand,
Dist. Ahmedabad.

01	The Power of One
02	Highlights 2007-08
04	Chairman's Message
06	Financial Highlights
08	Management's Discussion & Analysis
28	Directors' Report and Relevant Annexures
40	Corporate Governance
54	Auditors' Report
58	Balance Sheet
59	Profit & Loss Account
60	Cash Flow Statement
62	Schedules
87	Consolidated Audit Report
89	Consolidated Financial Accounts
105	Section 212, 212(8) Statement
107	Notice

Safe Harbour Statement

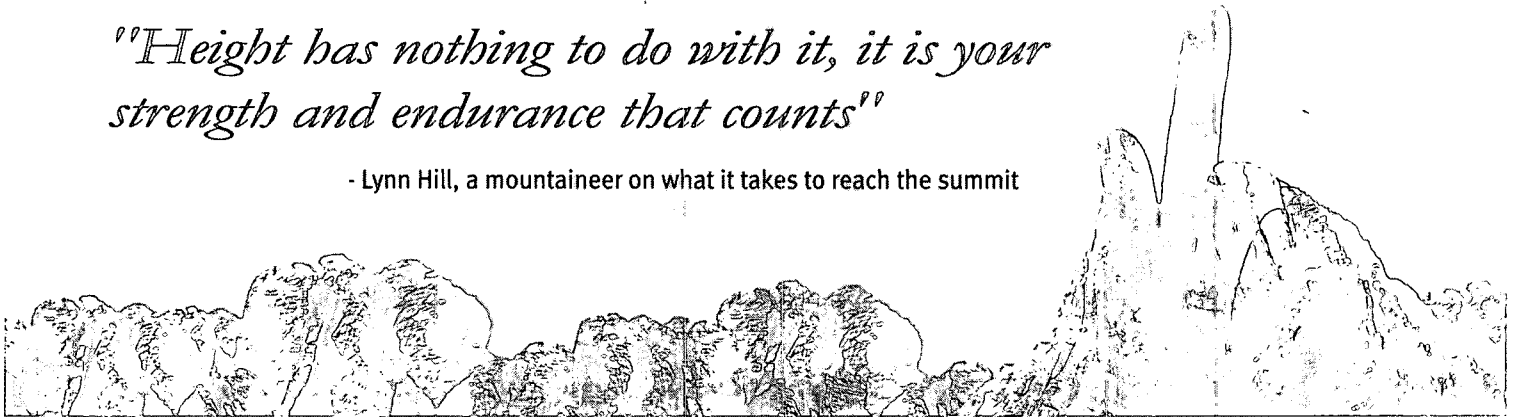
In this Annual Report we have disclosed forward-looking information (within the meaning of various laws) to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements 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.

"Height has nothing to do with it, it is your strength and endurance that counts"

- Lynn Hill, a mountaineer on what it takes to reach the summit

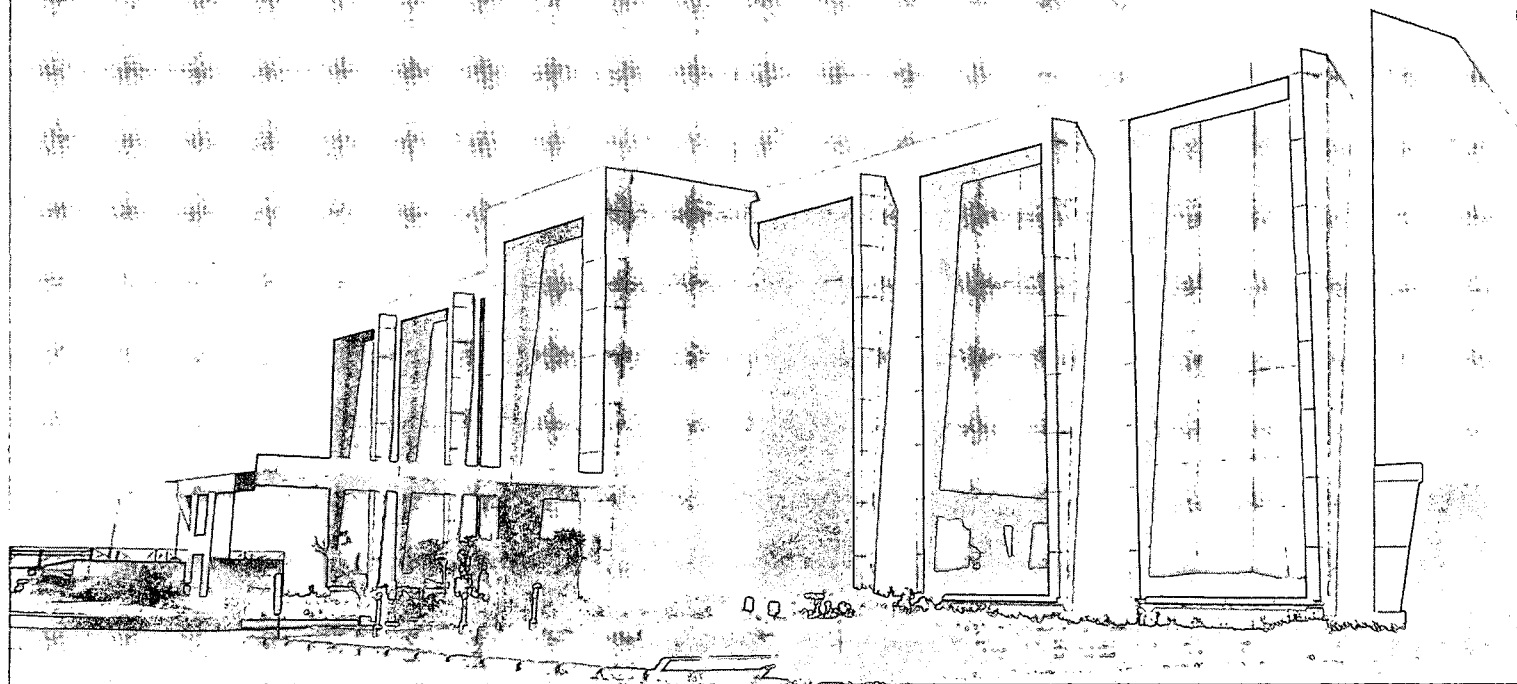


The Power of One

It is said that a picture speaks a thousand words. The interesting visual on the cover page of this year's Annual Report certainly does that. Created by Antonio Carlos Landim from Química e Farmaceutica Nikkho do Brasil Limitada, a Zydus group company, this graphic says it all. Any ascent has its own share of challenges but it's the spirit, the will and the determination that helps one reach the summit.

The 'Power of One', as depicted by Antonio Carlos, is the unified power of over 9000 Zydans on an ascent. Collectively, they unleash a power to transform their world. It's a power that comes from an ability to think ahead and think differently. It's a power that packs in a tenacity of purpose and gets stronger with the spirit of 'Togetherness'.

Moving on towards the next summit of the 'Healthy Billion' - crossing sales of over \$ 1 bn by 2010, the 'Power of One' is about creating the future that has been envisioned and anchoring our collective aspirations to reality.



2007-08

Highlights of International Operations

- Remarkable performance in the US market with the launch of seven new products in 2007-08 and robust growth from existing products. Posted sales of Rs. 2568 mn, up 80%, with a healthy bottomline of Rs. 142 mn, after accounting for Rs. 265 mn as product development charges incurred in India.
- Filed 18 new US ANDAs with the US FDA, taking the cumulative ANDA filings to 78, of which 44 are now pending approval. Received 12 ANDA approvals, taking the total approvals to 34, of which 15 have been launched so far. Also, filed 8 new US DMFs, taking the cumulative US DMFs to 59.
- The French business also posted another year of strong performance, with sales of Rs. 1647 mn, up 30% y-y, even after selling off the branded business. Generic business, on like-to-like basis grew by 55%. Launched over 10 new products, which included four day-1 launches.
- For the first time since its acquisition in 2003, the French business has achieved a turnaround registering a net profit of Rs. 129 mn during the year.
- Filed 17 dossiers for new products for the French market, taking the cumulative filings to 40, of which 15 have been approved so far. Also, filed 16 site transfer applications, taking the cumulative filings to 41. Received 25 approvals for site transfers, taking the cumulative approvals to 31.
- Started production and supply of 18 products from India to France, which accounts for over 20% of the total sales.

- Made a foray in the branded generics market in Brazil with the acquisition of 100% stake in Quimica e Farmaceutica Nikkho do Brasil Ltda. (Nikkho), which registered sales of Rs. 1010 mn and profit after tax of Rs. 60 mn in 2007-08.

Highlights of Domestic Operations

- Domestic branded formulations business grew by 13% which was contributed by
 - The launch of more than 35 new products and over 25 line extensions, including 10 products, which were launched for the first time in India.
 - Increase in field force by over 150 people for rural marketing for further penetration in this market.
 - The launch of a range of cosmetology products and increasing the field force for the same in Liva Healthcare after acquisition.
- Improved ranking, to become the 4th largest pharmaceutical company in India with a market share of 3.70% (Source: IMS ORG, MAT March 2008).
- Commenced production and commercial supply of over 50 products for the domestic market, at the Sikkim facility.
- Consumer products business posted a healthy growth of 26%, with the combined business of Sugar Free and EverYuth registering sales of Rs. 976 mn and a growth of 23% during the year, while the acquired business of Nutralite posted a 32% growth.



An exterior view of the Zydus Hospira manufacturing facility set up in a 50:50 JV with Hospira Inc., USA.

- Acquired remaining 50% stake in the JV with Sarabhai, which is now a 100% subsidiary renamed as Zydus Animal Health Ltd. On a like-to-like basis, the animal health business posting a growth of 16%, crossed sales of Rs. 1 bn.

Highlights of Joint Ventures' Operations

- Expanded the scope of the JV agreement with Nycomed to transfer production of their global requirement for certain APIs, including Pantoprazole, from their other plants to the Zydus Nycomed plant in India within a span of four years.
- Completed construction of the manufacturing plant and all validation activities of Zydus Hospira JV and produced exhibit batches of the oncological injectibles successfully.
- Zydus BSV JV successfully scaled up the production of Liposomal Doxorubicin at the anti-cancer facility at Goa and launched it in India under the brand name Nudoxa. Also, completed construction of its manufacturing plant and initiated qualification work.

Highlights of R&D and IPR

- Successfully completed patient recruitment for Phase II clinical trials for ZYH1, lead compound for treating dyslipidemia. The initial data analysis is under progress.
- ZYI1, the lead compound for treatment of inflammatory disorders and pain is presently undergoing Phase II clinical trials, while ZYH2, the lead compound for diabetes is undergoing Phase I clinical trials.

- ZY01, the lead compound for treating obesity and related diseases has completed Phase I clinical trials.

- Filed our fifth IND application for conducting clinical trials for the New Molecular Entity (NME) - ZYH7, a novel drug candidate for treating dyslipidemia and metabolic disorders.

- Also, filed 132 patents in the US, Europe and other countries during the year, taking the cumulative filings to 344.

Consolidated Financial Highlights

- Total operating income up by 27% y-y to Rs. 23.2 bn, mainly driven by formulations exports which grew by 72%.
- Operating EBITDA (Earnings before interest, tax, depreciation and amortisation and excluding non operating incomes) increased by 31% to Rs. 4,598 mn. The EBITDA margin (% to operating income) increased by 0.5% to 19.8% from 19.3% a year ago.
- Profit before tax and exceptional items increased by 33% to Rs. 3,303 mn from Rs. 2,475 mn last year.
- Net profit after tax and minority interest excluding exceptional items was up 28% from Rs. 2,074 mn to Rs. 2,645 mn and net margin was up to 11.4% from 11.3% last year.
- Return on Net Worth (RONW = Net Profit ex. Exceptional items / Average Net Worth) increased to 27.3% from 26.5% last year.



"As we accelerate top-line growth and drive bottom-line productivity, the underlying strength which makes all this happen is an inspired team of over 9000 Zydans who are committed to creating a world class pharma company."

Chairman's Message

Dear Shareholders,

During the last four years, we have relentlessly pursued a consistent set of strategic aims. Broadly, this includes our efforts to continuously build our business performance, to create differentiated approaches in the markets where we operate and to add value to our operations with ideas and initiatives, making it more efficient and more cost-effective. In 2007-08, which was an important year for us, we continued to press ahead with all these strategic aims as they are going to be the bedrock of your Company's success in 2010 and beyond.

I'd like to take this opportunity to share with you my reflections on three themes:

- Where your Company stands today.
- The global challenges we face as a business.
- How we as an organisation, are prepared for these challenges.

Before specifically focussing on the year gone by, I'd like to very briefly profile the future-focussed organisation that we, have together created. We have created the fourth largest healthcare company in the Indian pharma market; we have created a global enterprise through a fast-tracked global expansion plan, which is already contributing profitably to the bottomline and we have transformed ourselves in a way that helps us reset our vision and achieve the goals that we have set for ourselves. We have been looking for ways to continuously excel in our operations and at the heart of all our efforts has been our three-pronged approach: sustain profitability, provide impetus for growth and drive competitive edge.

We have repeatedly asked ourselves the question, "How do we add more value to our operations and in turn bring greater productivity to the organisation itself?" It's a critical question that fundamentally defines all the initiatives that we undertake in the organisation.

In the year 2007-08, the emphasis continued to be on growth as we moved ahead to meet the end-of-the-decade goal of posting sales of over \$ 1 bn by 2010. Going forward, we are also focused on achieving sales of over \$ 3 bn by 2015. The growth of 72% in our global business, 13% growth in domestic operations, overall growth of 27% in our operating income and a growth of 28% in our Operating Net Profit - is the beginning of a new growth trajectory that will gain momentum as we press forth to achieve our goals. While we continue to enjoy success, we are constantly aware that it's a tough, competitive environment that we operate in, one in which we have to face huge challenges.

It's a host of questions that the pharmaceutical industry is grappling with:

- What are the ways to optimise revenues amidst increasing competition in the global generics market which constantly places margins under pressure?
- What are the newer business models and business segments that can open up new revenue streams despite intense competition in the domestic market?
- How can profitability be maximized to feed increasing investments in research?
- How do we meet escalating developmental costs necessary to build a robust pipeline of products for different global markets?

We have been fashioning our own responses to these challenges and I believe that we can turn them into opportunities which can unlock growth for us in the future.

- To start with, our focus has been to improve operating processes to reduce costs and enhance efficiencies across the value chain. We have achieved significant improvements by minimising inefficiencies and institutionalising a structured programme of cost identification and improvement.
- Project SLIM (Strategic Lean Integrated Manufacturing), the programme launched to continually improve our competitiveness and sustainability while offering products that are most efficiently manufactured at the most competitive costs, has been a resounding success. Several viable ideas, which were taken up for implementation, have resulted in an overall reduction in manufacturing costs. Our past initiative PRISM continues to address our non-labour spend and is helping us reduce this on a year-on-year basis.
- Our strategic forays into new markets are also adding value to our operations. In Brazil, for instance, we reinforced our presence by acquiring Química e Farmaceutica Nikkho do Brasil Ltda. (Nikkho), an established player in the branded formulations market. In 2007-08, our Brazilian operations contributed to over 25% of our exports' growth.
- Another key market where we see several opportunities unfolding is Japan and our acquisition of Nippon Universal Pharmaceuticals has helped us jumpstart operations in this very critical market. Well-timed, strategic acquisitions that provide a quick access in prioritised markets have enabled us to accelerate our global expansion.
- In the domestic pharma market, we have ventured into newer therapeutic areas, set up new divisions and penetrated the rural markets. The Indian pharma market is expected to touch \$ 20 bn by 2015 and several strategic plans are underway to spearhead our foray into newer business segments.
- We have made strategic investments to cater to a niche and growing market for novel dosage forms in the global markets and set up a joint venture company, Zydus Noveltch Inc. that leverages high-end capabilities to develop products, which offer higher margins.
- On the research front, there are several exciting prospects taking shape. Firstly, our research pipeline has shaped up into a very promising one with 5 NMEs in various stages of clinical trials, with our very first NME - ZYH1 completing Phase II proof-of-concept clinical trials. Besides this, there are several other candidates in late stage preclinical development, which augurs well for us. Secondly, we have entered into strategic alliances with Prolong Pharmaceuticals of USA and Karo Bio of Sweden to undertake joint drug discovery and development programmes. These initiatives take us closer to realising our vision of becoming a research-driven pharmaceutical company by 2020.

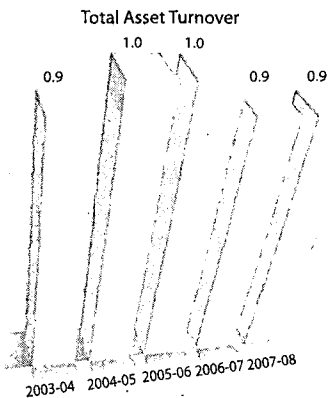
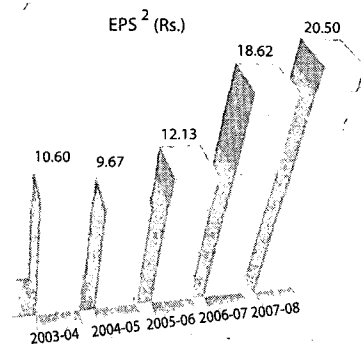
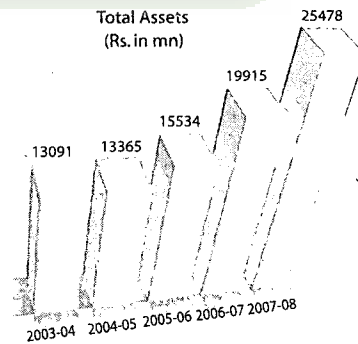
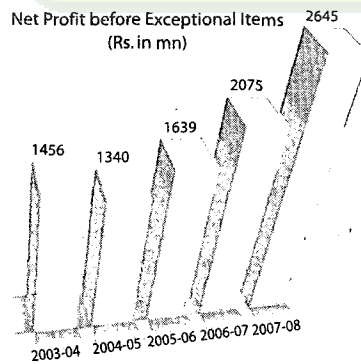
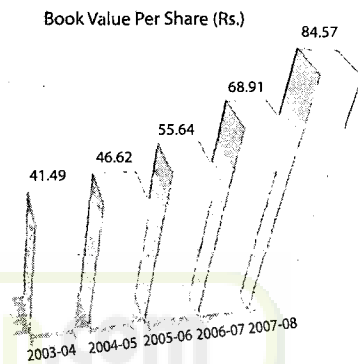
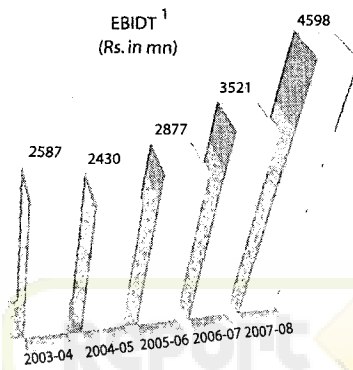
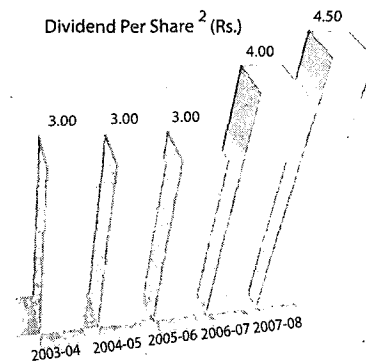
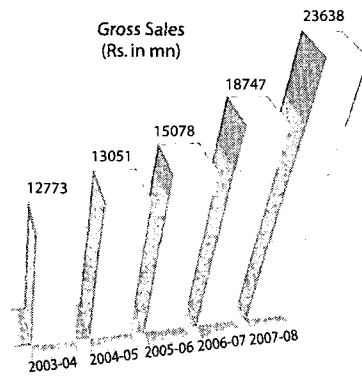
These are just a few of the many initiatives that we undertook in 2007-08 and will be developing upon as we respond to challenges and opportunities in the years ahead.

Our success so far has been a combination of several aspects. We have been flexible, innovative and willing to change; we have been open to learning - from our own experiences, from customers and from the best across the world; we have worked with partners for win-win solutions; we have made tough decisions when we had to and unwaveringly focused on the goals that we had set for ourselves. As we accelerate top-line growth and drive bottom-line productivity, the underlying strength which makes all this happen is an inspired team of over 9000 Zydans who are committed to creating a world class pharma company.

Our efforts, as always, remain focused on stepping up the momentum that we have already created and in making sure that Zydus Cadila optimises its potential to create sustainable growth and profitability, thereby delivering shareholder value.

Moving on, it's an exciting journey that we have embarked upon. The programme we have initiated is called the 'HEALTHY BILLION' - achieving the next milestone of posting over a billion dollars in sales with excellent business health. I look forward to sharing more developments undertaken as a part of this programme in my next overview for the year 2008-09.

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. Previous years' figures have been regrouped wherever necessary.