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Happiness is in crossing
the \$1 billion mark

Zydus
dedicated to *life*

www.zyduscadila.com

Cadila Healthcare Limited
Annual Report 2010-11

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Important Communication To Members

The Ministry of Corporate Affairs has taken a "Green Initiative in Corporate Governance" by allowing paperless compliances by the Companies and has issued circulars allowing service of notices / documents including Annual Report by e-mails to its members. To support this green initiative of the Government in full measure, members who have not registered their e-mail address so far, are requested to do the same immediately.

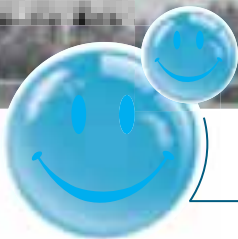
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In 2007, we set out on a journey to achieve the 'Healthy Billion' - posting \$1 bn in revenues. This dream is now a happy reality. We are now ready to embark on a new journey. Stepping beyond the billion, we aspire to achieve sales of \$3 bn by 2015.

Happiness is in aiming for more!





Highlights of Operations – 2010-11

India Formulations

- First company in India to launch an indigenously developed and manufactured H1N1 vaccine – VaxiFlu-S.
- Forayed into the new therapy segment of Hepatology with the launch of a super specialty division Zydus Heptiza.
- Focused efforts in cardiology and respiratory segments have yielded expected results, with the Company outpacing the market growth in both these segments and strengthening its market share.
- Launched over 60 new products including line extensions in the formulations market, of which, 24 were first in India.
- Overall, the India formulations business posted sales of Rs. 17,145 mio., up by 19%.
- Signed an agreement with Bayer Healthcare to form Bayer Zydus Pharma Pvt. Ltd., a joint venture to market products in India with a focus on women's healthcare, metabolic disorders, diagnostic imaging, cardiovascular diseases, anti-diabetic treatments and oncology.

Global Formulations

- US business posted sales of Rs. 9,655 mio., up by 44% y-y, with launch of 11 new products, including four Day-1 launches. Zydus Pharmaceuticals USA Inc. is now amongst the top 3 players in the market for nine out of the top ten products marketed by it in the US and has recently been ranked 12th amongst the top US generic companies based on scripts.

- Despite the challenging time that the overall French market faces, the French business continued to progress and outpaced the market growth. Launched over 20 new products and line extensions in France, including four Day-1 launches. Continued to increase market presence in Spain through new product launches. The Company now ranks amongst the top 20 generic companies in Spain. Overall, posted sales of Rs. 2,740 mio., in Europe, up by 13% in constant Euro terms.
- Continued to make headway in Japan in spite of price reductions during the year. With the launch of Amlodipine in Japan, the Company became the first Indian company to get marketing approval and launch a product manufactured in India. Also launched 3 in-licensed products, including two Day-1 launches. During the year, Japan operations posted sales of Rs. 422 mio., up by 34% y-y.
- Business in Brazil continued to progress well with a healthy growth in both the branded and pure generics segments with the launch of 4 new products. Business in the other emerging markets of Asia Pacific, Africa and the Middle East also registered a healthy growth, maintaining leadership positions in Sri Lanka, Myanmar, Uganda and Sudan. Overall, registered sales of Rs. 4,230 mio., in the emerging markets, up by 24% y-y.

- Entered the Mexican pharmaceuticals market with the setting up of the new subsidiary – Zydus Pharmaceuticals Mexico S.A. de C.V. Valued at approx. \$9 bn, the Mexican pharmaceuticals market is growing at over 8% and offers great potential.

Other Businesses

- Zydus Wellness Ltd. continued its journey on the growth track and registered sales of Rs. 3,355 mio., up 25% and net profit of Rs. 595 mio., up 31%. During the year, Zydus Wellness launched a couple of new variants of existing categories of Sugar Free. Extending the wellness range, it introduced 'ActiLife' – a nutritional beverage in select markets, marking its foray into the nutraceutical space.
- API Exports (other than Nycomed JV) grew by 18% during the year in spite of challenges in the form of price erosions and appreciation of the rupee.
- Zydus Nycomed, the JV with Nycomed commissioned the newly expanded API manufacturing facility at Navi Mumbai, which is slated to emerge as a hub for global supplies of APIs for Nycomed's branded generic portfolio.
- Zydus Hospira JV (50% share) posted sales of Rs. 2,152 mio. It completed successful audits by ANVISA, Brazil and NDA, Uganda.
- Zydus Animal Health Ltd., one of India's leading companies in the animal health space, posted sales of Rs. 1,390 mio., up by 17%, with the launch of 10 new products, of which, one was a first in India launch. It received the Indian Poultry Journalists Association Award 2010 for 'The Best Poultry Health Care Products Company' of India.
- Signed a strategic licensing deal with Abbott Laboratories to license 24 branded generics in 15 key emerging markets. This deal is expected to create a considerable competitive advantage for value creation for both the partners in the long term.

R&D

- On the NME research front, ZYOG1, the novel orally acting GLP-1 agonist completed Phase I clinical trials during the year.
- Received USFDA approval for conducting Phase 1 clinical trials for the IND ZYD1, a novel GLP-1 agonist for treating diabetes. Filed IND for ZYGK1, a novel glucokinase activator which received permission from the USFDA for Phase I clinical trials recently.

The Company's state-of-the-art Vaccine Technology Centre at Changodar, Ahmedabad

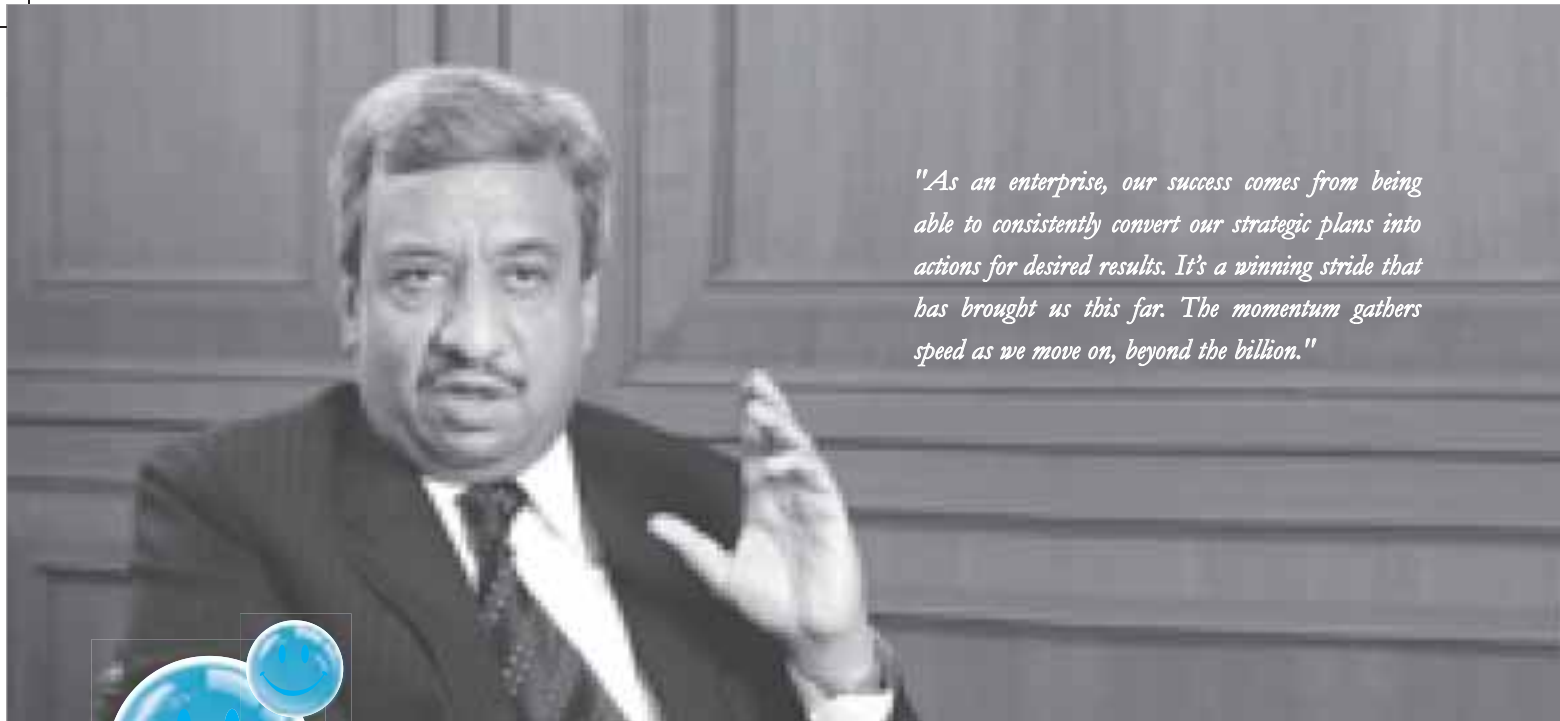
- ZYPH0907, a novel oral PTH agonist for treating osteoporosis, and ZYG19, a novel GPR-119 agonist for treating diabetes have completed IND enabling pre-clinical development.
- On the biologics front, received Indian marketing authorisation for biosimilar versions of EPO during the year. Also completed clinical trials of biosimilar versions of Teriparatide and PEG-IFN α -2b.
- On the vaccine research front, commissioned a new, fully equipped, state-of-the-art Vaccine Technology Centre near Ahmedabad, which would house several vaccine research programmes.
- Filed 24 ANDAs with the US FDA, 26 new product dossiers for EU market and 5 new product dossiers for Brazil.

Awards and Recognition

- Declared the 'Emerging Company of the Year' by the Economic Times Awards for Corporate Excellence 2010.
- Ranked 75th amongst the top 100 stocks in India by ET Wealth.

Consolidated Financial Highlights

- Total income from operations was up by 26% y-y to Rs. 46.3 bn i.e. over \$1 bn from Rs. 36.9 bn last year.
- EBITD was up by 27% y-y to Rs. 10,262 mio., from Rs. 8,086 mio., last year. EBITD margin was up by 0.3% to 22.2% from 21.9% last year.
- Operating profit before tax (excl. non-operating incomes, exceptional items and exchange rate fluctuation on forex loans) was up by 38% y-y to Rs. 8,212 mio., from Rs. 5,939 mio., last year.
- Net profit after tax was up by 41% y-y to Rs. 7,110 mio., from Rs. 5,051 mio., last year, and in line, EPS was also up by 41% to Rs. 34.73 from Rs. 24.67 last year.
- Return on average capital employed increased to 24.5% vis-à-vis 21.1% last year, while return on average net worth increased to 37.5% from 35.9% last year.



"As an enterprise, our success comes from being able to consistently convert our strategic plans into actions for desired results. It's a winning stride that has brought us this far. The momentum gathers speed as we move on, beyond the billion."



Chairman's Message

This was a momentous year, one which was of strategic importance for our company. Four years ago we set out with a vision to achieve the 'Healthy Billion' – our dream of crossing the billion dollar mark in revenues. The year 2010-11 was therefore the 'HB Year' – marking the countdown to our overarching goal. In a year packed with initiatives, novel and strategic, we once again generated a robust all round performance. For fiscal 2011, we reported total income from operations of Rs. 46.3 bn i.e. over \$1 bn and a healthy 41% growth in Net Profit. This can attributed to the relentless focus on the goals, skillful execution of our business plans and sheer consistency, which are the fundamental strengths of the organization.

As the company's performance in the year 2010-11 has been dealt with in greater detail elsewhere in this annual report, I'd like to focus my thoughts on the foundations of our success, the trends that are emerging and our journey ahead in the coming years.

The foundation of our successes

The foundation of any successful growth process lies in aligning the organisation to its goals. We internalized this process, at the very start of our growth story in 1995. From our first goal of becoming a Rs. 1000 crore company by the year 2000, to the next goal of becoming a \$400 mn company by 2006-07 and the recently achieved goal of becoming a billion dollar company - the growth process has become a 'Zydus Way' of doing things. At the heart of it all, lies a bold vision, clear direction, consistent performance and well thought out implementation plans. Under this broad canopy, are the various initiatives that we ongoingly undertake to integrate efforts, achieve synergies, enhance value and constantly improve our capabilities. The 'Zydus Way' has worked well for us and will continue to be the mainstay as we continue to make substantial improvements to our operational effectiveness and create a culture of sustainable growth.



Being prepared for the next wave

It's often said that the ability to anticipate key trends that will shape the future of technology, customers, society and the marketplace will determine the survival of the enterprise.

All around the world, the healthcare fraternity continues to be engaged in exploring the critical role of new medicines in the prevention, treatment and management of diseases and improving the quality of life. Trends such as globalization, shifting demographics, patent cliff and concerns on R&D productivity and pricing pressures are transforming the industry. The critical questions shaping our world are : How can innovation lead to new ways of tackling the enormous disease burden and improving healthcare outcomes? Are we prepared for the market transitions? What steps can be taken to reduce the economic burden of healthcare costs? How do we bring innovation to the frontline and more importantly, are we equipped to ride the next wave of innovation which may not just be restricted to products and extend to how we do our business?

At Zydus, we have always believed that the first step to evolution is embracing change. Whenever we have adopted a differentiated strategy it has been in response to the need to break the mould and look at new approaches. This continues to be the guiding spirit as we look at a new horizon of business opportunities that may come our way. Broadly, our four-step strategy aims to:

- First : identify and capture market transitions and new business opportunities with speed and agility
- Second : approach innovation in new ways – in terms of technology, products, and business processes that can lead to new dimensions of growth
- Third : explore differentiated strategies to drive value in the markets that we operate and in the products that we offer
- Fourth : form strategic partnerships and alliances with best-in-class companies to offer new solutions and reach out to newer markets more quickly and efficiently

Aiming higher, moving faster

It's on a strong record of achievement that we are basing the next evolution of our company. Our next goal 'Beyond the Billion' calls on us to aim higher, move faster and perform better than ever before. It raises the bar of growth and profitability and puts more emphasis on global expansion. We believe that we are in an advantageous position to optimise strengths, capitalise on investments, efficiently leverage leadership and talent resources and extend our ability to compete in the global marketplace. The 'Business Health' metrics, which we maintained right through the journey to the billion, will continue to play an important role in the future as well. Well-defined performance parameters to drive consistent results, maximisation of resources and adopting systems and processes that create a lean culture will continue to step up efficiencies and enhance business productivity.

Well-positioned for the future

At Zydus, we are driven, not by a sense of nostalgia for the past, but by a vision of what we can be in the years ahead. We believe that the team at Zydus which consists of over 13,000 people across 20 geographies, are creating new windows of opportunities for the group with their diversity, creativity and a passion for achieving results. Over the years, by attracting, engaging and retaining our talent, we have put together high performance teams possessing excellent business as well as technical skills. The right mix of talent has helped us successfully combine business expertise with a technological edge for desired results.

The starting point in building a high-performance team is leadership and that is why one of the key focus areas of our organisation transformation programme has been to strengthen the leadership bench strength and develop leadership competencies. We believe that this is crucial as we proactively lead change and guide the organisation towards newer levels of achievement.

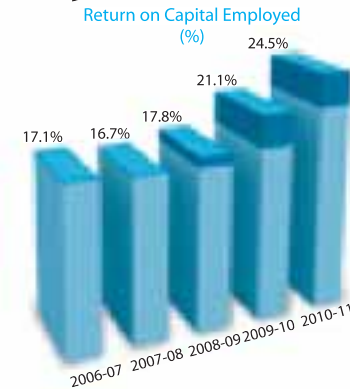
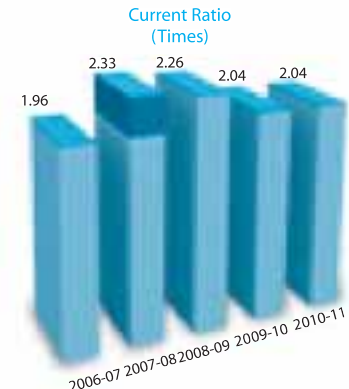
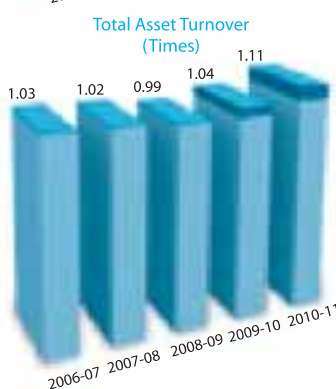
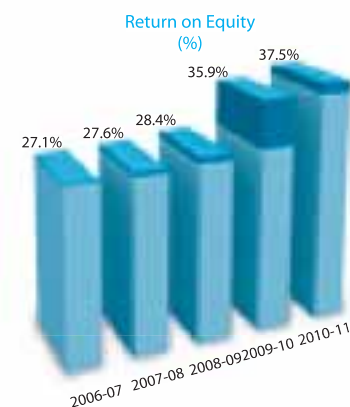
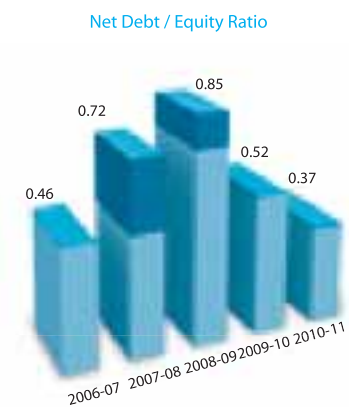
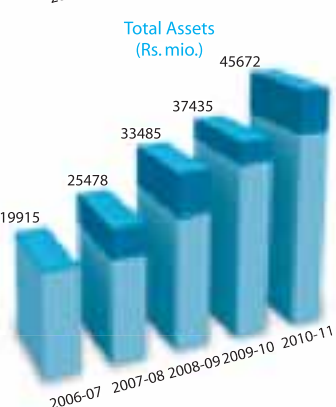
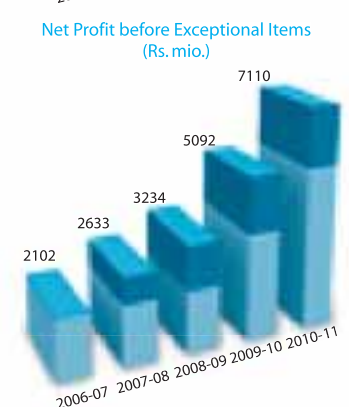
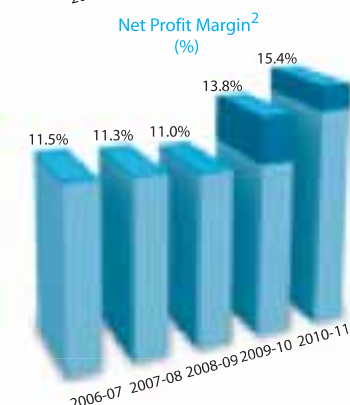
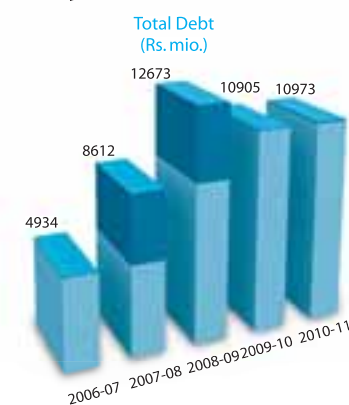
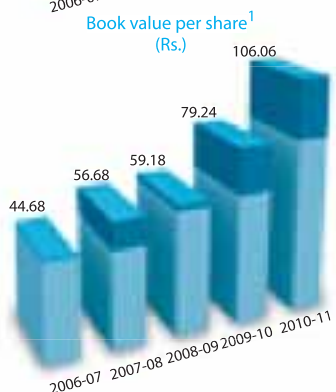
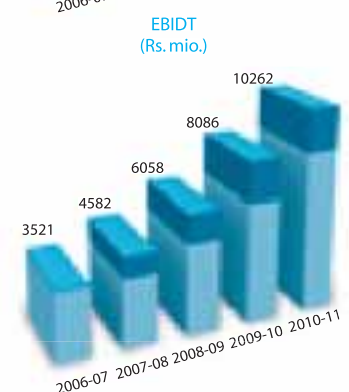
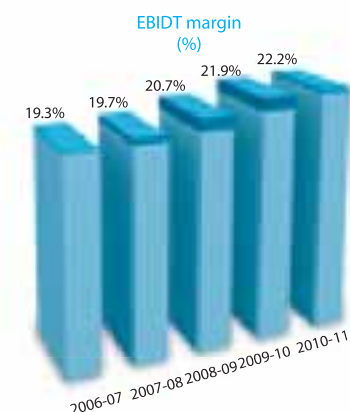
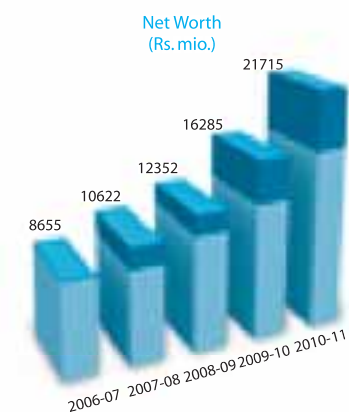
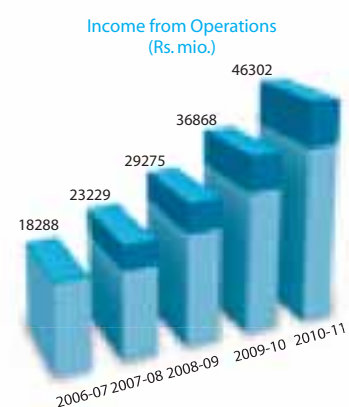
Moving ahead, we have now reset our vision. We aspire to be a leading global healthcare provider with a robust product pipeline. Stepping beyond the billion, we shall achieve sales of over \$3 bn by 2015 and be a research-based pharmaceutical company by 2020.

Our accomplishments and successes, as always, are to support long term value creation for all our stakeholders. We wish to thank our employees, partners in progress, the healthcare fraternity and the shareholders for their unstinted support. Working together, we will create healthier communities through novel ideas, innovation and quality healthcare solutions. I look forward to your continued support as we embark on our next phase of growth, beyond the billion.

Pankaj R. Patel



Financial Highlights (Consolidated)



BEYOND THE BILLION 2015

The Executive Committee members of the Zydus Group are seen here with Chairman and Managing Director, Mr. Pankaj R. Patel, at the 16th Annual Day celebrations of the group in January 2011. Standing from left to right are Mr. H.T. Patel, Mr. M.S. Kulkarni, Mr. Savyasachi Sengupta, Mr. M.K. Patel, Mr. Pankaj R. Patel, Dr. Sharvil Patel, Mr. Ganesh Nayak, Mr. Nitin Parekh, Mr. S.G. Belapure, Mr. Ashok Bhatia and Mr. P.R. Joshi.

Management's Discussion and Analysis – 2010-11

Economy and Industry Overview

Global Economy and the Pharmaceutical Industry

As reported by the World Bank in the Global Economic Prospects 2011, the real GDP of the global economy is estimated to have expanded by 3.9% in 2010, led by a strong domestic demand in the developing countries. The economic activities in most of the developing countries, which experienced a downward trend following the global economic crisis post 2008, have, or are close to having recovered. This has been supported by a resurgence in the international and domestic financial flows and a hike in commodity prices, which has helped economies of the developing countries regain the growth rates close to those observed in the pre-crisis period. Conversely, the recovery process in many high-income countries has been weaker. The robust recovery process in the developing countries is quite remarkable as it reflects a significant expansion of their domestic markets, which contributed to 46% of the global growth in 2010. Going forward, developing countries are expected to lead the growth journey and outpace high-income developed countries in terms of economic growth. (Source: World Bank Report on "Global Economic Prospects 2011")

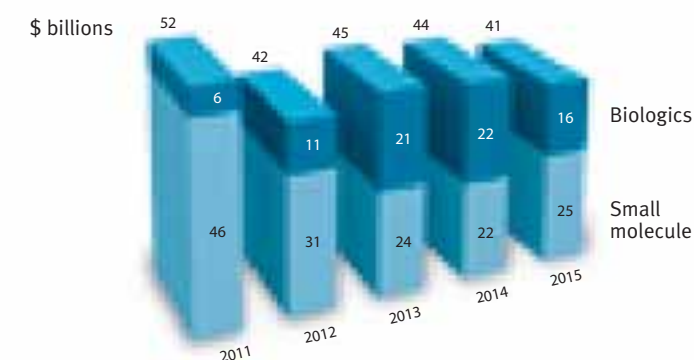
The global pharmaceutical industry is estimated to have grown by over 4% in 2010, slower than the growth rate of over 5.5% in 2009 and approximately 5.9% average CAGR of the last five years. The highly developed and mature pharmaceutical markets of North America, Europe and Japan grew by less than 3% while the emerging markets of Asia, Africa and Latin America, termed as the 'Pharmerging' markets, grew by over 14%. This shift can be attributed to the low costs, rising income levels, better standards of living and a favourable regulatory environment in these countries. These markets are expected to play the role of the growth engine of the global pharmaceutical industry in times to come (Source: IMS Health).

Generic drugs continue to have a significant share in the overall growth pie, outpacing the growth of patented drugs. Growth in this segment has been propelled by various Government initiatives to promote the use of these products over higher-priced or branded products. Generics have not only amassed a critical scale in the world market, but have also generated significant share of the prescription volume with a high penetration in several key markets across the globe. This indicates that generics would grab a dominant pie of the overall global pharmaceutical market going forward.

Factors such as increasing penetration of generic drugs, patent expiry of 'block-buster' products and a declining R&D productivity of 'big pharma' companies have led to a wave of consolidation, partnerships and licensing arrangements in the global pharmaceutical space.

The year 2011 is said to be the beginning of the 'patent cliff', a period in which patent protection of many 'block-buster' branded drugs of 'big pharma' companies will expire. By 2015, branded drugs of over \$200 bn sold by 'big pharma' MNCs are expected to lose patent protection. This provides a huge opportunity for generic players, with low cost product development and manufacturing capabilities, to tap the market for these drugs.

Estimated brand sales value of the 'Loss of Exclusivity' drugs



Includes drugs from the top 20 pharmaceutical companies only
Forecasted estimates of drugs going off patent
(Source: McKinsey Knowledge Bank)

Indian Economy and Pharmaceutical Industry

The fundamentals of the Indian economy continued to remain strong during FY 10-11. The GDP is estimated to have grown by 8.6% in 2010-11 as compared to 8% in 2009-10 which is remarkable considering the muted growth globally. This growth has been witnessed across all the major sub-sectors in the industry and services. Despite the sluggish growth in the global markets, the employment opportunities continued to show an upward trend in India. The inflationary trends which have been steadily rising are a cause for concern. The average Wholesale Price Index (WPI) inflation rate for 2010-11 was 9.4% as compared to 3.6% in 2009-10.

(Source: Monthly Economic Report, March 2011 as published by Ministry of Finance, Govt. of India)

India is one of the fastest growing pharmaceutical markets in the world and its market size has nearly doubled since 2005. The Indian pharmaceutical market is expected to continue growing in double digits and establish its presence amongst the world's top ten markets. The domestic pharmaceuticals market grew by 15% in 2010-11 and reached a size of over Rs. 48000 crores (Source: IMS MAT Mar-11). This was led by rising income levels, an increasing awareness about healthcare and higher government spending on healthcare. Chronic therapies continued to dominate the market and outpaced acute therapies in terms of growth.

The exports of pharmaceutical goods from India continued to surge rapidly with a rise in sales of generic products in the developed regulated markets and the emerging markets. The cost competitiveness in product development and manufacturing and a large resource pool of technical talent has helped India emerge as a dominant player in the global generics space. With the onset of the 'patent cliff' period, the Indian generics exports' growth potential holds a lot of promise.



Operating Highlights

The year 2010-11 has been a special one for the Company as it marched ahead to achieve the goal of \$1 bn in consolidated revenues by March 2011.

Four years ago when the Company set out to achieve the billion, it added an important prefix to the goal and called it the 'Healthy Billion' as it looked at achieving the billion dollar mark with an overall improvement in business health parameters – growth, market share, productivity, margins and returns and increase in value for all the stakeholders.

The Company ended the year on a high note as it entered the billion dollar league. It's a big leap, achieved through an all-round effort in terms of strengthening existing businesses, building new capabilities and venturing into new geographies.

Here is an account of the initiatives and achievements of the different business verticals in the 'Healthy Billion' year, 2010-11.

India Formulations

The Company's formulations business in India has been one of the significant contributors to the 'Healthy Billion' with a dominant share in the overall business.

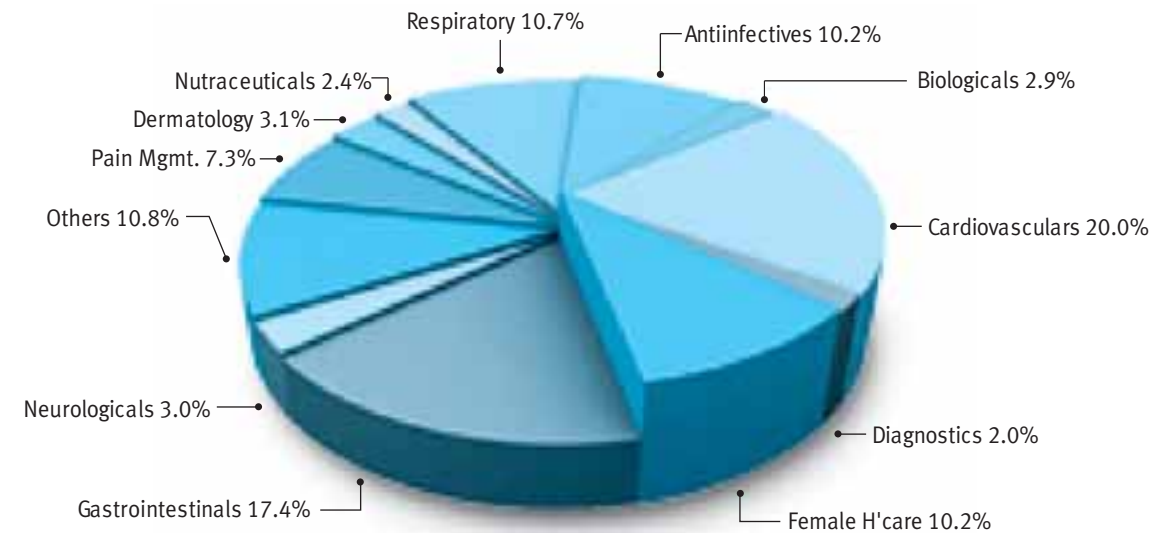
During the year 2010-11, the Company's branded formulations business in India posted sales of Rs. 16,200 mio., up by 19% from Rs. 13,625 mio., last year. The Company maintained its strong position in the Indian pharmaceuticals market with a market share of 3.73% (Source: IMS MAT March 2011).

During the year, the Company continued with its efforts and strategic initiatives towards increasing the market reach and improving market share through portfolio expansion, new product introductions and increased market penetration. Last year, the Company had initiated a strategic expansion of the field force in the cardiology and respiratory segments. This has yielded expected results as the Company outpaced the market growth and strengthened its market share in both these segments during the year.

During the financial year 2010-11, the Company made a foray into the new therapy segment of Hepatology with the launch of the super specialty division – Zydus Heptiza.

The Company continued its focus on strengthening its pillar brands. 17 of the Company's brands now feature amongst the top 300 pharmaceutical brands in India (Source: IMS MAT March 2011). The Company maintained its strong position in the participated market segments of cardiovasculars, gastrointestinals, women's healthcare and respiratory.

The therapeutic area-wise break up of branded formulations sales in India is given below:



During the year, the Company continued its thrust on new product introductions and launched over 60 new products including line extensions, of which, 24 were first in India. With the launch of VaxiFlu-S, the Company became the first to launch an indigenously developed and manufactured H1N1 vaccine in India. The new products launched in 2010-11 contributed to about 4% in the growth of the formulations business in India.

During the year, the group entered into a 50:50 joint venture with Bayer HealthCare to set up Bayer Zydus Pharma Pvt. Ltd., for the sales and marketing of pharmaceutical products in India. Bayer Zydus Pharma will operate in the key segments of the Indian pharmaceuticals market with a focus on women's healthcare, metabolic disorders, diagnostic imaging, cardiovascular diseases, anti-diabetic treatments and oncology. The JV will leverage the strengths of Bayer's optimised product portfolio and Zydus' marketing and distribution capabilities to enhance the sales of existing brands and launch of new products.



International Formulations Business

A. US

The US pharmaceutical market remains the world's largest market at approximately 40% of the global pharmaceutical industry and currently reflects the growth of a matured market at around 2% over 2009 in dollar terms. Zydus Pharmaceuticals (USA) Inc., the Company's 100% subsidiary in the US continued to progress with an all-round performance in 2010-11 and posted sales of Rs. 9,655 mio., up by 44%. The Company launched 11 new products during the year, including four Day-1 launches. The Company continues to be the 'preferred supplier' and 'partner of choice' for its customers. It ranks amongst the top three players in the market for nine out of the top ten products marketed by it in the US and has also recently been ranked 12th amongst the top US generic companies based on scripts (Source: IMS). The strong performance in the US has been driven by the Company's continuous efforts to improve its service levels to satisfy the needs of the customers, supply products at the most competitive rates and adhering to stringent regulatory and quality standards. The Company also increasingly focuses on identifying, developing and launching complex and niche products, which are difficult to develop and/or manufacture and products of different dosage forms. Going forward, the Company will further strengthen its core competencies in terms of a large product portfolio, cost competitiveness, superior quality standards and rigorous compliance with regulatory standards and strive to enhance value for its customers with an aim to maintain its leadership position.

B. Europe

The Company is present in the French and Spanish generic pharmaceutical markets through its subsidiaries, Zydus France SAS in France and Laboratorios Combix SL in Spain. During the year 2010, the French generics market grew by approximately 8% to €2.7 bn. The slowdown in the growth of the market compared to the growth it has achieved in the previous years can be mainly attributed to the absence of patent expiry of any major products and lower than expected generic substitution rates. The Spanish generics market grew by 16% in 2010 and crossed Euro 836 mio. (Source: IMS Health). Against this backdrop, the Company's business in Europe registered sales of Rs. 2,755 mio. In constant currency (Euro) terms, the European business grew by 13%.

In France, the Company's business continued to progress despite the challenging times that the French market is facing. The Company's French business outpaced the market growth, though the acceleration was lower. It launched over 20 new products and line extensions in France, including four Day-1 launches. Zydus France is now recognised as one of the most reliable partners by pharmacists as per a survey conducted by an independent external agency. In Spain, the Company continued to increase its market presence through new product launches and now ranks amongst the top 20 generic companies. During the year 2010-11, the Company launched 8 new products, including a Day-1 launch. The prospects for generic products in Spain look quite positive and promising as the Spanish Government has started promoting the use of generics as a measure to reduce their healthcare expenses. This, combined with the continuous flow of products going off-patent and the launch of new products from the portfolio built from India would ensure that the Company's business in Spain continues to expand its market presence and posts a healthy growth year-on-year.

C. Japan

The Company is present in Japan, the world's second largest pharmaceutical market, through its subsidiary Zydus Pharma Japan Co. Ltd. (ZPJ), previously known as Nippon Universal Pharmaceutical Co. Ltd. The mounting healthcare costs and rapidly ageing population have made the Japanese government encourage and incentivise generic players to play a vital role in increasing the generic penetration and reduce the healthcare cost burden. This has resulted into an increase in the generic penetration year-on-year, which now accounts for about 22% in terms of volume and 7% in terms of value.

In spite of price reductions in the generic products in Japan, during the year 2010-11, the Company continues to make headway in this market by expanding the product portfolio, product development and registration programmes. With the launch of Amlodipine in Japan, the Company became the first Indian company to get a marketing approval and launch a product manufactured in India in Japan. It also launched 3 in-licensed products, including two Day-1 launches. During the year 2010-11, the Company posted sales of Rs. 422 mio., in Japan, up by 34% y-y. Going forward, the Company has plans to launch new products to expand the market reach in the generics market in Japan.

D. Emerging Markets of Latin America, Asia Pacific, Africa and the Middle East

As the geographic balance of the global pharmaceutical market continues to shift towards the developing and the emerging markets, which are expected to grow in double digits vis-à-vis developed markets which are expected to grow in the range of 3-5%, the emerging markets are expected to drive over 70% of the market growth globally in the times to come. The Company is present in these highly potential emerging markets through its operations in the select countries of Latin America, Asia Pacific, Africa and the Middle East.

In Brazil, the Company's operations, which are spearheaded by its subsidiaries, Quimica e Farmaceutica Nikkho do Brasil Ltda., and Zydus Healthcare Brasil Ltda., continued to progress registering a healthy growth in both the branded and pure generics segments with the launch of 4 new products. Business in the other emerging markets of Asia Pacific, Africa and the Middle East also registered a healthy growth while maintaining leadership positions in Sri Lanka, Myanmar, Uganda and Sudan. The Company has built a strong position in these markets with an emphasis on new product launches and increase in customer oriented activities through the field force. Overall, the Company registered sales of Rs. 4,230 mio., in the emerging markets, up by 24 % y-y.

E. Mexico

In keeping with the Company's strategy to consolidate its position as a global generics player, the Company entered the Mexican pharmaceutical market by setting up its 100% subsidiary – Zydus Pharmaceuticals Mexico S.A. de C.V. Valued at approx. \$9 bn, the Mexican pharmaceuticals market is growing at over 8% and offers a lot of potential.



In the Wellness domain

The consumer healthcare and wellness market in India is a niche segment within the overall FMCG market, which is growing rapidly with increasing urbanisation, increasing income levels and mounting aspirations of the consumers for a better life.

The Company's presence in this rapidly growing segment is spearheaded by Zydus Wellness Ltd. (ZWL), a publicly listed subsidiary in which it owns approximately 72% stake. With iconic brands like Sugar Free, EverYuth and Nutralite, ZWL has a strong brand equity in the niche segments of sugar substitutes, skincare and table spreads.

During the year 2010-11, ZWL continued to make brisk progress. With all the three pillar brands viz. Sugar Free, EverYuth and Nutralite contributing to its growth, ZWL registered sales of Rs. 3355 mio., up by 25% and a net profit of Rs. 595 mio., up by 31%. All the three brands posted a healthy growth and maintained leadership positions in their respective categories. This performance came on the back of ZWL's continued strategic efforts in terms of launching newer concepts in the wellness category and focused and creative communication backed by promotional support to ensure good visibility of the brands across media.

During the year, ZWL launched a couple of new variants of existing categories like 'Sugar Free TeaLite', a unique concept which offers the goodness of tea minus the calories, Sugar Free Mints, Sugar Free Natura sweet drops in liquid form, Sugar Free Herbvia which is the first herbal sweetener made from Stevia. Extending its wellness range, it introduced 'ActiLife' – a nutritional beverage in select markets, marking its foray into the nutraceutical space.



API & Intermediates *

Globally, the market for APIs and intermediates remained more or less stagnant during the year 2010-11 except for a few products where the entry of newer players resulted into price competition. During the year, the Company's APIs and intermediates business grew by 17%, with exports registering a growth of 18% in spite of challenges including price erosion and appreciation of the rupee. The Company continued its focused initiatives to launch newer products, enter newer markets and reach out to a larger customer base to consolidate its API business. The Company further strengthened its pipeline by filing 7 new DMFs with the USFDA during the year, taking the cumulative DMF filings to 97.

*Excluding business of JV with Nycomed.

Animal Health Business

Zydus Animal Health Ltd. (Z AHL), which spearheads the Company's operations in the animal healthcare market, is one of India's leading companies in the animal health space with a strong market share in several therapeutic areas, offering a wide range of drugs, feed supplements and vaccines for livestock, companion animals and poultry. During the year 2010-11, Z AHL posted sales of Rs. 1,390 mio., with a growth of 17%, driven by robust growth in most of the segments. Z AHL continued to improve its profitability through a better product mix, effective marketing strategies and austerity measures. Z AHL has been at the forefront in providing technical support to all its target customers and key stakeholders including farmers, pet owners and veterinarians. During the year, Z AHL introduced 10 new products, of which, one was first in India. Z AHL has also introduced 3 poultry vaccines, for the first time, in an effervescent tablet form. In recognition of its efforts in the areas of improvement in animal healthcare, Z AHL received the Indian Poultry Journalists Association Award 2010 for 'The Best Poultry Health Care Products Company' of India. Going forward, Z AHL will continue to introduce new products, make field services more effective as well as improve geographical coverage to become a leading player in the segment.

Alliances

A. Zydus Nycomed Healthcare Private Limited

Zydus Nycomed, the 50:50 JV between Zydus and Nycomed for manufacturing of key starting materials (KSM) for Pantoprazole, recorded sales of Rs. 1112 mio., during the year 2010-11, which declined post the patent expiry of Pantoprazole in the US market (50% of JV's financials are reported in the Company's consolidated financial statements). During the year, Zydus Nycomed commissioned the newly expanded API manufacturing facility at Navi Mumbai. Slated to emerge as a hub for global supplies of APIs for Nycomed's branded generic portfolio, the facility will manufacture complex high-end APIs and would be audited by several regulatory authorities. The commercial production and supply shall commence in the forthcoming year.

B. Zydus Hospira Oncology Pvt. Ltd.

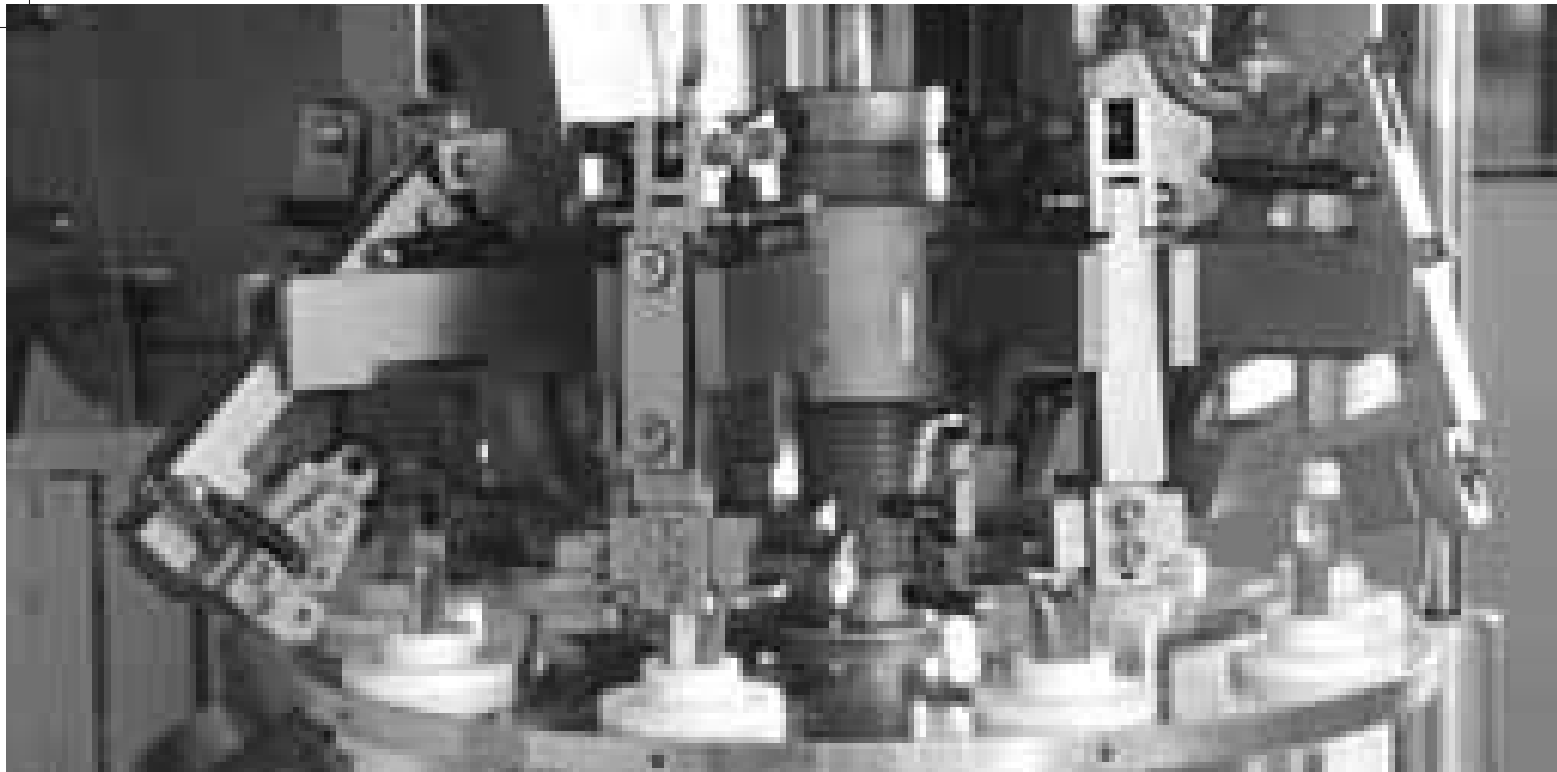
Zydus Hospira Oncology Pvt. Ltd. (ZHOPL), the 50:50 JV between Zydus and Hospira Inc., USA successfully completed its second year of operations. During the year 2010-11, it registered sales of Rs. 4,304 mio. During the year, ZHOPL also completed successful audits by ANVISA, Brazil and NDA, Uganda. With this, ZHOPL has received approvals from the regulatory authorities of US, Europe, Canada, Australia, Brazil and Uganda.

C. Zydus BSV Pharma Pvt. Ltd.

Zydus BSV Pharma Pvt. Ltd. (ZBSV), the 50:50 JV set up in alliance with Bharat Serums and Vaccines Ltd., owns rights to a novel and patented product for use in Oncology. ZBSV also operates in the generic oncology segment by way of contract manufacturing. ZBSV has completed the Phase II clinical study during the year and will now initiate the Phase III study on this novel product. ZBSV has now embarked upon a new development strategy for approval of this product in the US and EU. This will be put up as an IND application in the forthcoming year. ZBSV's product, sold under the brand name 'Nudoxa' continues to enjoy a strong brand position amongst the oncology practitioners in India.

D. Strategic out-licensing deal with Abbott Laboratories

During the year, the Company signed a strategic licensing deal with Abbott Laboratories to license 24 of its branded generics in 15 key emerging markets, where Abbott has a strong and growing presence. The products will be manufactured by the Company for Abbott at its state-of-the-art manufacturing facilities in India. This deal is expected to create a considerable competitive advantage for value creation for both the partners in the long term.



Manufacturing Operations

The Company's state-of-the-art facilities for manufacturing formulations and APIs, considered to be the backbone of the Company's operations have continued to make a significant contribution to its growth and success. These facilities have been instrumental in consistently catering to the demand for high quality products at the most competitive costs and helped the Company have an edge in sustaining the stiff competition and growing the business.

Environment, Health and Safety



The ceramic based ultra filtration unit, at the Ankleshwar API plant, is the first of its kind in India for effluent treatment

The Company's mission of creating healthier communities globally reflects its commitment towards conservation of the environment and compliance with all the requirements related to Environment, Health and Safety (EHS). The Company undertook various initiatives during the year to adopt best environmental management practices and promote awareness on EHS management. The Company launched the Zydus EHS portal for accessing the EHS documents, legal updates, forms, achievements, events and developments in the field of EHS. The formulations manufacturing facilities at Baddi and Goa have received the ISO 14001 and OHSAS 18001 accreditations during the year. The Company's API manufacturing facility at Ankleshwar has implemented the absolute zero discharge system for waste water recycling. During the year, the Company also initiated actions on carbon foot printing. The Company aspires to get the ISO 14064 certification for its environment friendly practices.

The Company's initiatives in ensuring Environment, Health and Safety have been appreciated by several agencies. The Zydus Research Centre, the Company's NME research facility near Ahmedabad was awarded the Gujarat State Safety Award - Rotating Shield for Lowest Disabling Injury Index by the Gujarat Safety Council. Zfine, the Company's fine chemical manufacturing facility near Ahmedabad and the Company's API manufacturing facility at Dabhasa were awarded the Certificate of Appreciation at the State level by the Gujarat Safety Council for achieving 10 lac accident free man hours during the year.

Research and Development

In keeping with the long term objective of emerging as an innovation driven, research based company, the Company continued its concerted efforts and substantial investments in research during the year. The Company now has state-of-the-art facilities for research in the field of NME, NDDS, biologics, vaccines, formulations and API process research and a rich talent pool of over 1050 dedicated scientists.

During the year 2010-11, the total expenditure on R&D initiatives was Rs. 2,976 mio., of which, the revenue expenditure was Rs.2,502 mio., up by 51% from last year, while the capital investment was Rs. 474 mio. The total R&D expenditure as a % to total operating income was 6.4%.

A. NME research

The Company's state-of-the-art Zydus Research Centre (ZRC) spearheads the Company's NME and Biologics research activities with a dedicated research team of over 400 research professionals. The fully integrated R&D facility is well equipped to carry out new drug discovery and development activities.

During the year 2010-11, ZRC made remarkable progress in the area of NME research and development. The Company currently conducts basic new drug discovery research in cardio-metabolic, inflammation, pain and oncology therapeutic areas. The Company has a portfolio of 12 candidates in various stages of development.

