



Granules India Limited | Annual Report 2006-07

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Granules India Limited

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Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as

'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', 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.



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Vision >

To become a large-scale consumer healthcare-focused service provider with a global presence and infrastructure to support strong partnerships with industry leaders.



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More is the keyword for success at Granules India Limited.



It applies to customers, suppliers, employees and stock holders, and extends beyond mere satisfaction. Towards delight.

To address growing global outsourcing opportunities, the Company responded with urgency and sensitivity: it restructured its business model in line with the ongoing industry evolution from process to value-added research outsourcing.

The result is that Granules, which was commissioned in 1991 to merely trade in APIs, is today an integrated pharmaceutical outsourcing group with a presence across the complete industry value chain, which extends from the manufacture of APIs to PFIs to finished dosages at one level, and towards providing R&D and regulatory services at the other.

What makes the Granules story relevant is that having made progressive investments in service and product expansions, the Company is now at the cusp of sustainable growth.

It is with this perspective that the Company's performance in 2006-07 must be appraised. In short, the investments have taken place and the results will begin to transpire.

The Company also extended its integration strategy and forged relationships with its business partners. The result was a year of appreciable volume, revenue and profit growth.

Strengthening its potential to [deliver more](#).



Deliver more

06

billion tablets per annum capacity in October 2007

12

billion tablets per annum capacity under commissioning

18

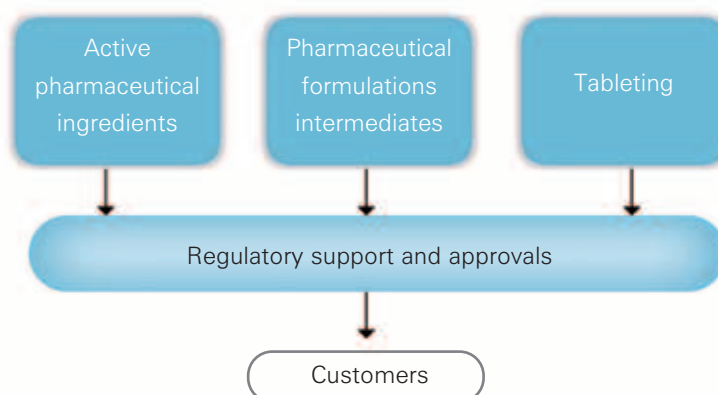
billion tablets per annum capacity expansion potential

Convenience>

Granules continues to strengthen its presence across the pharmaceutical value chain.

The Company is reinforcing its positioning as a one-stop solutions provider. It possesses an in-built flexibility in sourcing from multiple points and economies of scale that are translating into lower costs and a faster time-to-market.

Integrated outsourcing chain



Plant

The Company strengthened its forward integration into the manufacture of formulations through the commissioning of a 6-billion-tablet per annum facility, a part of the proposed 18-billion-tablet per annum manufacturing plant. The product mix at the plant and corresponding scale have evolved Granules from a mere process outsourcing company into an integrated outsourcing partner.

Granules strengthens the businesses of its customers through a value-added outsourcing provision at competitive costs. This helps its customers liberate their precious resources for onward investment in research and marketing. Granules also provides customers with the convenience of sourcing multiple products – API, PFI or formulations – from a single source. The combination of these customer conveniences has evolved the Company from a peripheral to a central role in the business plan of its customers.

Once fully operational, Granules' tablet manufacturing




facility will translate into increased topline, bottomline and margins. The tablets and other oral solid dosage forms will be manufactured at Gagillapur, derived from APIs and PFIs manufactured by the Company. The Company's tablet manufacturing plant is equipped with a facility to transfer PFIs through automated conveyor belts (as opposed to the conventional manual process), shortening the transfer time and protecting quality.

The plant's versatility enables Granules to address demand across various delivery forms – effervescent, sachet, pressfit, rapid release and controlled release dosage – as well as capsules. Besides, the Company's formulations plant has been audited successfully by the European Union Good Manufacturing Practices (EUGMP) a formal approval expected shortly.

Scale

Granules is among a handful of global companies to enjoy the benefit of scale across its entire value chain. The Company possesses an API capacity of 13,550 TPA, a PFI capacity of 8,400 TPA and a tableting capacity of six billion units per annum (to be scaled to 18 billion). Besides, the Company has invested in the world's largest PFI batch size of 6,000 kg and is one of the few global companies to provide granulation services beyond paracetamol.

The Company has invested in scale not merely to service existing customers smoothly; it has done so to reduce operational costs, leading to enhanced customer value as well. Over time, this consistent approach has also helped the Company attract large brand-enhancing pharmaceutical customers, a volume-value implication.



Deliver more

8000

TPA of paracetamol API

3800

TPA of ibuprofen API

03

new APIs in pipeline

Capability >

Granules has progressively strengthened its business model through proactive investments in forward integration on the one hand, while consistently strengthening its backward integration. The result is a robust supply chain that protects quality and accelerates delivery.

As a conscious strategy, the Company has reduced dependence on third-party suppliers by setting up captive API facilities. This decision has translated into visible advantages: a high quality standard and a progressive de-risking from market price fluctuations and delivery variations.

Alliances

At Granules, we invested in business-enhancing relationships with credible partners. For one, the Company entered into a joint venture with Hubei Biocause Heilen Pharmaceutical Co. Ltd – China's largest and the world's fourth largest manufacturer and exporter of ibuprofen – to manufacture and sell pharmaceutical APIs.

The arrangement provides Granules with an API manufacturing base (3,800-TPA) in China, the global API manufacturing hub. The plant enjoys a high GMP compliance in the manufacture of ibuprofen for the

regulated markets in Europe and the US.

This joint venture helped the Company integrate backwards into the manufacture of ibuprofen APIs in China, securing the supply of major raw materials at acceptable quality and prices. A manufacturing base in India and China will enable Granules to cash in on the respective geographic strengths in two of the fastest growing economies. More importantly, it has paved the way for the Company to enter into more business-expanding joint ventures.

Expansion

In line with its strategy to offer end-to-end solutions in consumer healthcare products, Granules commissioned a fully automated paracetamol API plant (8,000 TPA) in Bonthapally in March 2006. This helps the Company meet 10% of the 80,000-TPA global paracetamol market. Once the formulations plant goes on stream, it will help the Company meet its entire captive requirement of paracetamol APIs, besides making merchant sales.

The Bonthapally plant was audited and approved by the US Food and Drug Administration (US FDA) in May 2007. Granules also proactively increased the capacities of its metformin, methocarbamol and guaifenesin APIs to meet the growing demand. Going ahead, the Company will strengthen its supply chain through capacity expansions, strategic acquisitions and alliances, providing the benefits of bulk purchase and scale economies to customers at one end, while protecting margins at the other.





Deliver more

3500

sq ft Class 100,000 R&D facility

37

products under development

06

ANDAs in pipeline

Efficiency >

Over the years, Granules has evolved from a process outsourcing company into a value-added research outsourcing partner. In doing so, the Company has evolved from piecemeal products to the delivery of end-to-end solutions. The expertise to offer research outsourcing services across product development and regulatory approvals provides its customers with the dual benefits of reduced costs and a faster time-to-market.