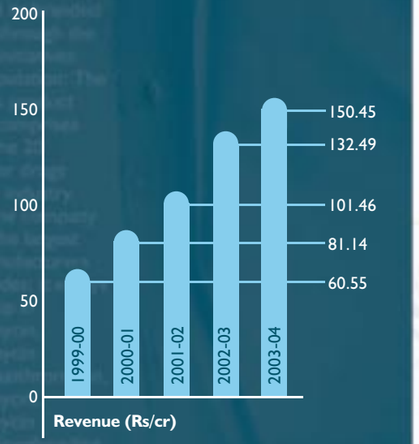
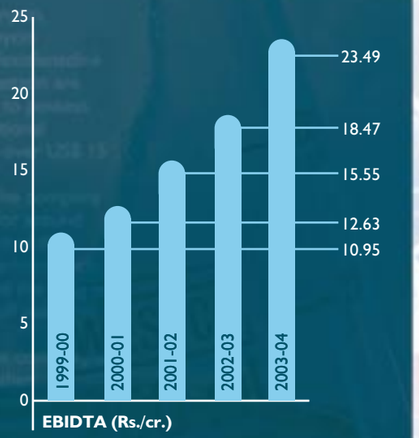
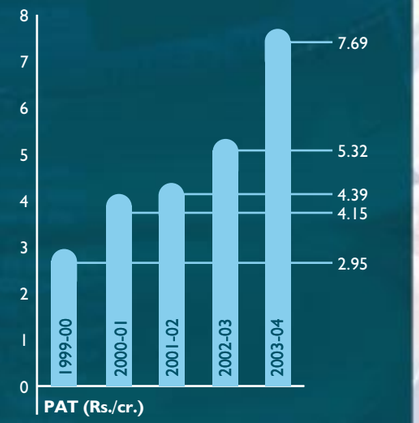
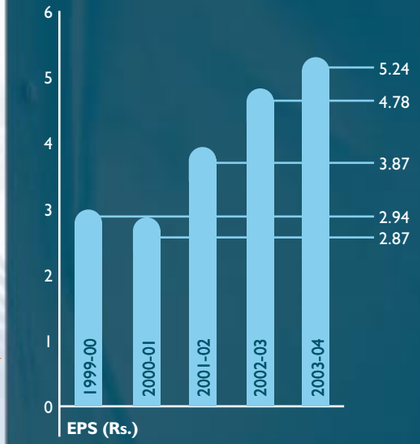


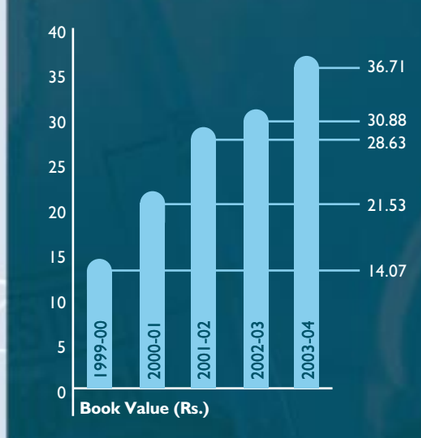


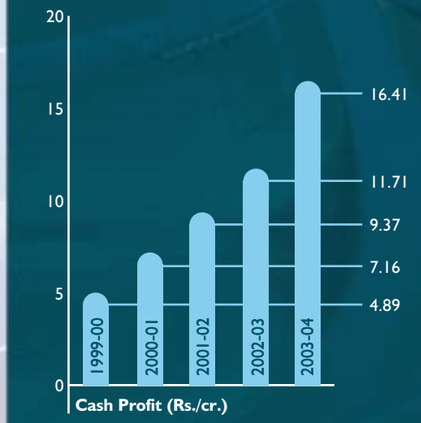


What we Achieved in 2003-04

- **A total shareholder return of Rs. 29.70 per share.**
  Indicating that we more than met the expectations of our shareholders.
- **An increase in the ROCE from 15.74 per cent in 2002-03 to 16.39 per cent in 2003-04.**
  Indicating that we strengthened our business model.
- **An increase in our net profit margin from 4.02 per cent in 2002-03 to 5.11 per cent in 2003-04.**
  Indicating that we reduced costs and enhanced product value.
- **An increase in our export earnings by 60.21 per cent.**
  Indicating the success of our globalisation strategy.
- **A decline in our average cost of funds by 308 basis points to 12.82 per cent.**
  Indicating our ability to capitalise on changes in the prevailing environment.
- **An increase in the installed capacity from 81.18 TPA to 120 TPA.**
  Indicating our ability to proactively grow our business in line with increasing product acceptance.
- **A commissioning of the granulation facility strictly as per cGMP standards.**
  Indicating our ability to create globally benchmarked assets.
- **The development of 'Nitazoxanide, an anti-diarroheal molecule, for the first time in Asia and for the second time in the world,approved by USFDA.**
  Indicating our ability to create molecules that are internationally accepted and globally benchmarked.
- **The emergence as the largest Asian and the second largest global manufacturer of Clarithromycin.**
  Indicating our ability to scale our successful products in line with the prevailing global demand
- **The commissioning of a US subsidiary to enhance our regulated market presence and expand our CRAMS exposure.**
  Indicating our long-term commitment in addressing the growth coming out of large and protected markets.
- **The filing of one DMF in the US and two DMFs in 14 European countries in the CTD format.**
  Indicating our commitment to build business-enhancing intellectual capital.
- **The award of the coveted Pharma Pulse Award for overall performance in our category.**
  Indicating the industry respect for our achievements.
- **An increase in market capitalisation by 277.93 per cent.**
  Indicating shareholder approval of our ongoing business strategy.







"We have charted out a forward path comprising decisive steps to meet the emerging challenges and opportunities."

Dr. G. Munjal, Chairman

Dear Shareholders,

I AM PLEASED TO PRESENT TO YOU IN BRIEF THE EVIDENCE OF OUR SUPERIOR PERFORMANCE IN 2003-04: OPERATIONAL REVENUE GROWTH OF 13.55 PER CENT, A PROFIT AFTER TAX INCREASE IN EXCESS OF 44.56 PER CENT, EXPORT JUMP OF MORE THAN 60.21 PER CENT, AN INCREASE IN OUR MARKET CAPITALISATION BY MORE THAN 277.93 PER CENT AND A PROPOSED MAIDEN DIVIDEND FOR OUR SHAREHOLDERS.

Considering that this improvement came in the face of declining realisations and a rupee stronger by close to eight per cent, I see the improvement as a watershed in our history and a vindication of our business model.

Overview

Before I venture to explain the character of our business model, it would be relevant to highlight the industry background, which makes it significant.

For decades, India respected product patents, leaving it free to develop alternative process routes. As a result, a number of Indian manufacturers reverse-engineered patented products. However, following India's recognition of TRIPS from 1 January 2005, which will result in a comprehensive respect for process patents as well, reverse engineering will be banned for all products patented from that date onwards.

As a result, companies with a long-term business outlook will need to invest significantly in their proprietary research with the objective to discover new molecules. While this could well be daunting - the development cost of a single molecule is estimated at US$ 800 mn across 10-12 years with a success rate of one out of 200 applicants – there is an attractive opportunity that could well serve as an intermediate strategy for a number of smaller but progressive organisations.

Generic opportunity

Even as the pharmaceutical industry could be interpreted as restrictive on the one hand, there is a once-in-a-lifetime opportunity on the other. More than US$ 88 bn worth of products are going off-patent by 2008, which will widen the number of new products that can be manufactured. India is expected to emerge as a significant beneficiary: it possesses low cost, high quality and internationally certified manufacturing facilities.

This reality is expected to work in two ways: a number of international majors will be inclined to enter into longstanding supply alliances with select Indian manufacturers in exchange for low outsourcing costs; on the other hand, an increasing number of global pharma majors will intend to market their products in India in view of the impending correction of its longstanding therapeutic under-penetration.

This scenario holds out two distinctive opportunities for Ind-Swift: of emerging as a dependable supplier of products to international majors and of emerging as a preferred marketing intermediary on behalf of multinational organisations intending to enter India.

Strategy

At Ind-Swift, we have addressed emerging opportunities with a number of strategic initiatives. We are working to significantly increase our presence in the regulated markets. For this, we are working to develop complex molecules primarily catering to sustained use therapies slated to go of patent in the near future. As a result, we expect to significantly increase our basket from 18 to 40 products over the near-term. Besides, with our R&D strength, we expect to retain our niche among the fastest developers of novel APIs, providing us with a first mover's advantage in a highly crowded segment.

Initiatives

To make these a reality, we have embarked on a number of business-strengthening initiatives: a subsidiary in the US, the largest pharmaceutical market in the world, a new state-of-the-art facility focused on the regulated markets as per the cGMP and USFDA standards and a new dedicated Rs. 50 cr R&D centre, among others.

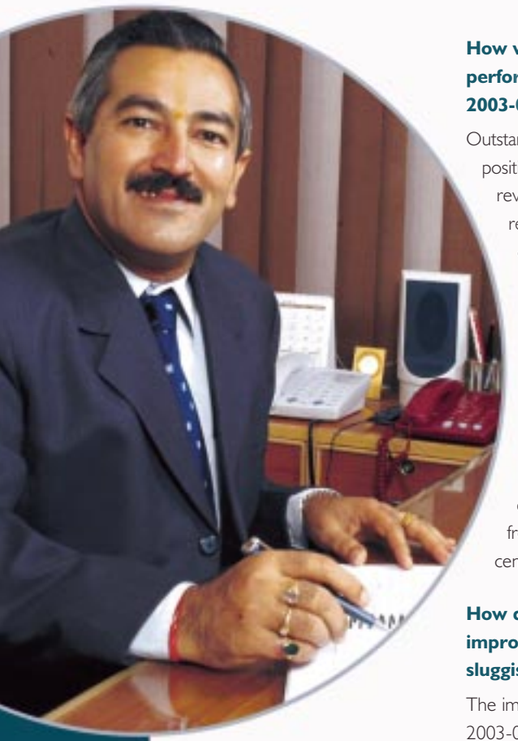
Outlook

We are confident that these initiatives will lead to a substantial increase in turnover over the next five years, increased cash flow and enhanced value in the hands of our owners.

Dr. G. Munjal
Chairman

"A continuous raising of the bar translated into superior financials in 2003-04."

Mr. V. K. Mehta and Mr. N. R. Munjal review the company's performance in 2003-04.



Mr. V. K. Mehta
Joint Managing Director

How would you assess the performance of the company in 2003-04?

Outstanding! This is best reflected in the positive divergence between our revenues and profits. While operational revenues grew nearly 13.55 per cent, our profit before tax grew by 56.87 per cent. One can see this improvement translate into various other numbers despite a squeeze in the Indian pharmaceutical industry: our EBIDTA margin, which increased from 13.94 per cent in 2002-03 to 15.61 per cent in 2003-04, and our return on employed capital, which increased from 15.74 per cent to 16.39 per cent.

How do you explain this improvement despite the industry sluggishness?

The improvement that we reported in 2003-04 was essentially derived from an ability to look on the inside and seek improvements to effectively counter the challenges on the outside. What we really did was raise the bar – the theme of this year's report – across various operational parameters under our control rather than complain about factors beyond our control.

Take an instance: at a time when realisations of most of our products declined, we re-worked our capacity and processes to increase supply, shrink the manufacturing cycle, rationalise the use of raw materials and reach out to a wider customer profile. As a result, Clarithromycin continued to remain our profitable revenue-driver even though realisations in 2003-04 were 60 per cent lower than the US$ 1200 per kg in 1997.

What other factors accounted for the improved performance?

Clearly our increasing global exposure. At Ind-Swift Laboratories, we have clearly identified the need to be globally relevant if we are to succeed across the long-term. This is because the international pharmaceutical industry is witnessing a trend of paradigm importance – genericisation. We expect US$ 88 bn of drugs to go off-patent by 2008, an unprecedented phenomenon, which will create a significant room for a number of new low-cost manufacturers. We clearly see ourselves as one: we possess low cost, high quality and high capacity manufacturing competencies, which we expect to leverage through secured and dedicated supply contracts across the long-term. In our opinion, this arrangement will progressively de-risk our company from volatile realisations and erratic volume requirements.

What has the company done to make itself ready for this emerging environment?

We filed one DMF in the US and two DMFs in 14 European countries in the CTD format in 2003-04; we commissioned a US subsidiary to create a visible presence that will encourage a number of US buyers to outsource from us an increasing number of generic products. Some of the benefits were already reflected in our results for 2003-04: increased product and service exports. For instance, we added 25 international clients and our product exports increased more than 60.21 per cent in 2003-04. This was partly a result of a strategy to emerge as the largest macrolide manufacturer in India, which immediately translated into increased orders in a SARS-affected Asian environment. Besides, we made a maiden entry into the contract manufacturing segment, a heartening development after years of painstaking initiatives to benchmark ourselves with international standards.

In what other ways did the management create a stronger organisation for the future?

Over the last five years, the company made sustainable growth its principal focus, which translated into an investment of Rs. 21.97 cr in research and development leading to a topline 25 per cent CAGR. During the financial year under review, the company reinforced this focus through the following initiatives:

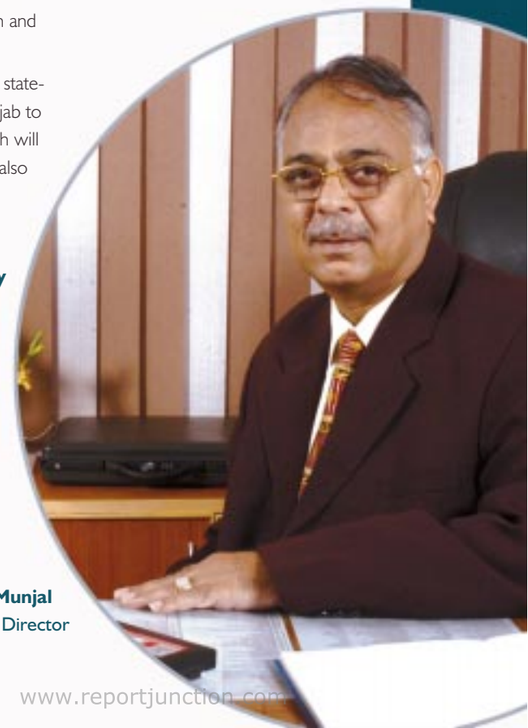
- The launch of Nitazoxanide, a blockbuster anti-diarroheal molecule, for the first time in Asia.
- The forging of product supply alliances with four of the top 15 US companies.
- The continued servicing of customer needs in rapidly growing therapeutic segments like cardiology, diabetology, anti-histamine, anti-depressant and macrolide antibiotics.
- Growing investments in research and development.
- The investment of Rs. 50 cr in a state-of the art R&D facility at Mohali, Punjab to be operational by March 2005, which will not only drive ongoing research but also strengthen the company's CRAMS presence.

What strategy has the company adopted towards sustained growth in the long-term?

For the long-term, the company has strategised on the following options, which have been captured in our evolving business model (see next page).

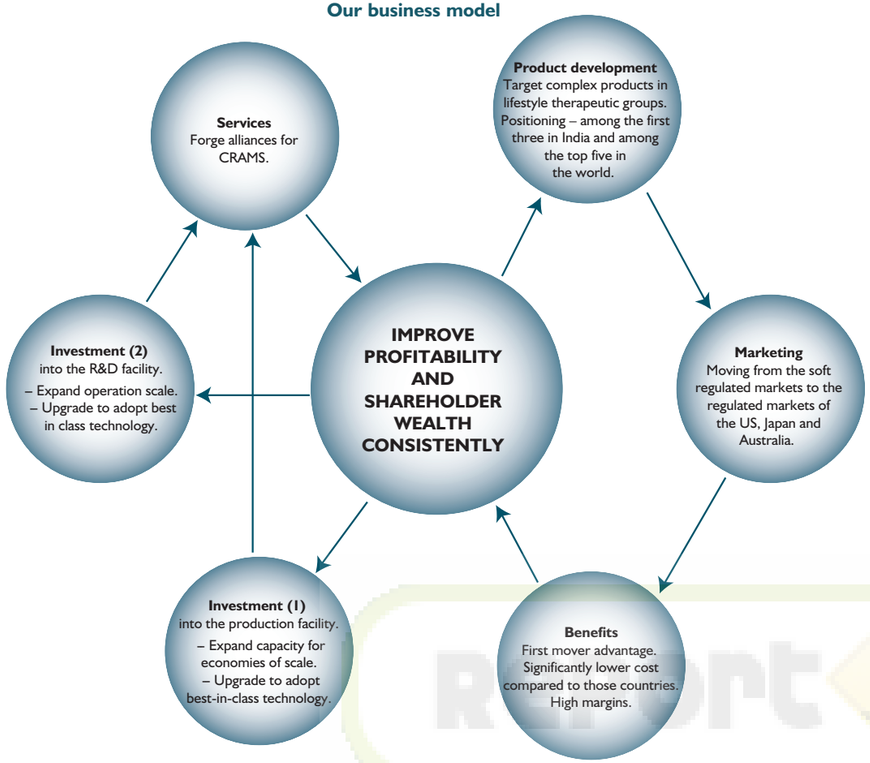
Calendar for 2004-05

- Launch around four products.
- Submit 4-6 DMFs for approval in the USA.
- Enhance the CRAMS business to account for 35 per cent of the company's profitability.
- File four new non-infringing process patents in the antidiabetic, cardiovascular, anti-biotic, oncology and antihistamine therapeutic segments.



Mr. N. R. Munjal
Managing Director

Our business model



Ind-Swift's business model will comprise the following characteristics:

- **A high regulated market presence:** We expect to evolve our export exposure from 20 per cent in the soft regulated markets to 60 per cent in the fully regulated markets by 2008.

- **Differentiated product development:** We will increasingly develop complex molecules slated to genericise in the near future, creating a niche in the process.

- **Income quality:** We have selectively evolved our product mix towards high growth therapeutic segments catering to lifestyle diseases. For instance, three of four products introduced in 2003-04 addressed lifestyle therapeutic segments. Besides, three of the drugs to be commercialised in 2004-05 will be from high growth therapeutic segments. As a result of this focus, revenues from lifestyle therapeutic groups are expected to grow substantially over the next five years.

- **Pioneering launches:** Over the years, the company has maintained its position of being among the first three in the country and among the first five in the world to launch a majority of complex products. This translates into attractive margins and shrinking payback, allowing us to invest horizontally (new product development) and vertically (capacity expansion).

- **Launch of new products:** We expect to grow our basket of 18 products to around 40 over the next five years with an eye on patent expiry in the US. Around five products will be launched in the current.

How has this strategy extended to the company's back-end?

We recognised that an increasing outsourcing opportunity will require us to strengthen our business across a number of areas. In view of this, we commissioned a massive Rs. 125 cr modernisation and expansion programme to be implemented over the next 2-3 years, comprising an FDA compliant bio-batch plant, an R&D centre to drive the company's entry into regulated markets, two new API manufacturing units compliant with the USFDA standards, an upgraded existing facility to meet the USFDA standards and the setting up of an additional manufacturing facility dedicated completely to the growing requirements of a reputed international player. Besides, we increased the Clarithromycin capacity to 70 TPA. As these projects are commissioned, we are confident that we will double our revenue and increase our profits by more than 150 per cent across three years and enhance value in an attractively sustainable way for all those who hold shares in our company.

We expect to evolve our export exposure from 20 per cent in the soft regulated markets to 60 per cent in the fully regulated markets by 2008.

Raising the bar

RELEVANT PRODUCTS

IN A BUSINESS WHERE PRODUCT DIFFERENTIATION IS NEGLIGIBLE, A BLOCKBUSTER PRODUCT IS THE MOST POTENT BRAND BUILDER.

Over the years, Ind-Swift Laboratories has reinforced its branded presence through the following initiatives:

High population: The company's product portfolio comprises seven of the 20 blockbuster drugs within the industry.

Scale: The company is one of the largest global manufacturers of macrolides; it enjoys a leadership in Clarithromycin, Clarithromycin granules, Azithromycin, Roxithromycin, Roxithromycin granules, Fexofenadine and Atorvastatin.

Space: Clarithromycin, Clarithromycin granules, Fexofenadine and Atorvastatin are estimated to possess an international market of over US$ 15 bn.

Share: The company supplies close to a fifth of the world's Clarithromycin needs. The drug is set to go off patent in 2005.

Select: The company is the only other manufacturer of Clarithromycin granules after its originator Abbott Labs; it is also the first Indian company to produce Roxithromycin granules.

Basket: The other revenue drivers comprise Fexofenadine (anti-allergic) whose sales (attributable to the company) are estimated to touch Rs. 20 cr by 2005, and Atorvastatin, a cardiovascular product (originator Pfizer), that has been declared as one of the biggest blockbusters in pharmaceutical history.

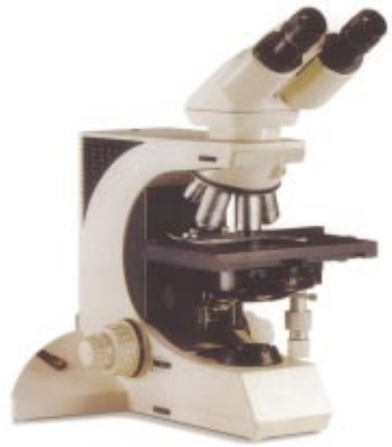
Result: The company's revenues have grown 25.55 per cent (compounded) over four years, while profits have grown faster at 27.06 per cent over the same period.

Ind-Swift Laboratories Limited has developed Nitazoxanide, an anti-diarroheal molecule for the first time in Asia and only the second time in the world. A presence in this segment has been justified by the following:

- The only molecule approved by the FDA in the last 40 years was for Gardia.
- The only molecule for the treatment of diarrhea for children between 12 months and 11 years age is Cryptosporidium pravum.
- This drug is more effective as it is a three-day therapy against the conventional one week dosage.
- US diarrhea cases are estimated at 300 mn, leading to 1.8 mn hospitalisations and 1800 deaths. An estimated 3.1 mn deaths occur worldwide due to this ailment.
- The originator estimates a US market size of US$ 100 mn for this molecule in the first year, with annual growth estimated in excess of 40 per cent.

Raising the bar

Focused Research And Development



Chiral technology

Ind-Swift Laboratories is among the few in its industry to successfully harness Chiral technology to manufacture APIs. The technology has been used in the manufacture of a number of APIs like Clopidogrel, Atorvastatin, Ezetimibe and Rosuvastatin. In addition, the company has also got the chiral synthesis of one of the compounds patented and is working to patent another such process. Besides, the R&D department has reported a breakthrough in part-reversing wastage in the use of this technology by nearly 40 per cent through recimisation, enhancing yield and profitability.

IN A BUSINESS WHERE 400 BULK DRUGS COMPETE, SUCCESS IS INFLUENCED BY PRODUCT SELECTION, QUALITY, TIMING AND A FIRST MOVER'S ADVANTAGE, AMONG OTHER FACTORS.

Over the years, Ind-Swift Laboratories has enriched its track record with a number of successful products, emerging among the first three in India and among the top five in the world across a majority of its launches.

Over the years the company embarked on a number of R&D-driven initiatives to strengthen its presence:

- R&D investment of Rs. 21.97 cr over five years, approximating 4.18 per cent of its annual turnover.
- Staffing its R&D division with 70 technically qualified scientists.
- Installing a bio-batch plant, operating as per cGMP norms.
- Developing sophisticated techniques of chiral separations, stereoselective synthesis and stereospecific synthesis.
- A recognition from the Research and Development, Chemical Research and Analytical Development facility recognised by the Department of Science and Technology (Government of India).
- A tie-up with premier research institutes like NIPER (National Institute of Pharmaceutical Education and Research) and IICT (Indian Institute of Chemical Technology), Hyderabad.

As a future-focused organisation, the company is investing Rs. 50 cr in creating a new state-of-the-art R&D facility at Mohali, the first phase of which will be operational by March 2005. The company is also setting up a Rs. 10 cr pilot facility for the manufacture of high value low volume molecules to be operational by December 2004 while Rs. 35 cr had been earmarked for the development of new molecules intended for short-term commercialisation.

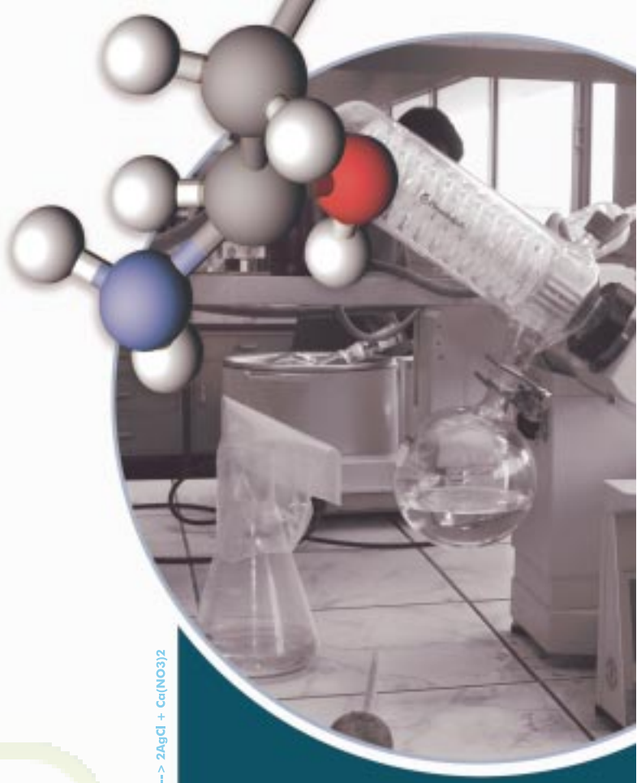
Result: The company's product basket grew from eight products in 1998-99 to 11 in 2001-02 to 18 products in 2003-04. The R&D unit now is planning to launch 4-5 products in 2004-05 addressing a total market of US$ 6 bn.

Major product profile

Product	Therapeutic segment	Ranking at the time of launch	
		Global	Indian
Clarithromycin	Anti-infective	2	1
Fexofenadine	Anti-allergy	2	1
Clarie granules	Anti-infective	3	2
Pentazocine	Analgesic	3	2
Roxithromycin	Anti-infective	4	2
Clopidogrel	Cardiovascular	4	3
Azithromycin	Anti-infective	5	3
Atorvastatin	Cardiovascular	5	3

Raising the bar

REGULATORY COMPLIANCE



IN A BUSINESS WHERE TIMING IS EVERYTHING, THE MAJOR GAINS ARE REALISED IN THE FIRST FEW MONTHS FOLLOWING PATENT EXPIRY.

Over the years, Ind-Swift Laboratories Limited has demonstrated a successful track record of timely product launches.

- Clarithromycin (to go off patent in 2005) was launched by the company in 1997 and the company is today the largest global manufacturer of this product after the originator.
- Ezetimibe (recently launched globally) was launched by the company in 2004.
- Nitazoxanide was launched for the first time in Asia.
- Rosuvastatin was recently launched by the company (to go off patent in 2012).

The company monitors molecules going off patent over the foreseeable future. This knowledge has enabled it to time the launch of its products with the exponential market growth once the product goes off patent. As a result, this strategy is directed to help the company capture a significant value before competition forces a price decline, enabling it to generate an attractive return on its investment.

Presently the company is working on 20 different molecules, which are expected to genericise over the next 5-6 years. To facilitate this study, the company has instituted an IPR cell manned by four technically qualified professionals, which extensively incorporate the ICH and USFDA guidelines. Besides, the company's US subsidiary has strengthened its awareness of ongoing international regulations and standards leading to informed decision-making.

Highlights, 2003-04

- Two patents were filed with non-infringing processes.
- One DMF was filed in the US and 2 DMFs in 14 European countries in CTD format.
- The company emerged among the first few in India to file a DMF in CTD format.

Calendar, 2004-05

- Four patents for APIs with non-infringing processes are ready for filing.
- The company expects to file 4-5 DMFs every year for the next five years.

Raising the bar

Contemporary Infrastructure

IN A BUSINESS WHERE COMMISSIONING A MANUFACTURING FACILITY ENTAILS A LOW GESTATION AND CAPITAL INVESTMENT, THE UNIT THAT RECONCILES STATE-OF-THE-ART FACILITIES WITH MULTI-FUNCTIONAL CAPABILITY IS USUALLY THE MOST SUCCESSFUL.

Over the years, Ind-Swift Laboratories' long-termism has been reflected in the selection of assets that were not only contemporary when they were commissioned but which have remained so over time.

The company's production facilities comprise 125 stainless steel and glass-lined reaction vessels with capacities ranging from 50 to 5000 litres. Besides, the company has invested in stainless steel centrifuges and driers, three fluidised bed coaters for granule manufacture and a fully automated solvent recovery system, among other equipment.

This versatile infrastructure enables the company to manage hazardous material and complex reactions of the following nature: Grignard Reaction, Friedset Craft Acylation and high pressure reactions comprising hydrogenations, chlorination, Bromination Stetter Reaction and Arbuzov Reaction, among others, with a capability to address all reactions between -110^0C to $+300^0$C across various corrosive inputs.

Over the last few years, the company invested Rs. 25 cr to build adequate capacities, make its facilities cGMP compliant and approvable by regulatory bodies like the USFDA and UK MCA. As a result, the company's facilities operate in line with globally accepted standards/ICH guidelines, successfully passing audits conducted by the Ministry of Health (Iran) and the World Health Organisation in 2003-04.

Ind-Swift Laboratories has built globally benchmarked capacities in several high potential molecules, namely Clarithromycin, Fexofenadine and Atorvastatin. The company recently expanded its macrolides capacity from 65.40 TPA to 90.50 TPA.

Result: Production increased from 40,232 kgs in 1999-00 to 107,909 kgs in 2003-04 at a CAGR of close to 28 per cent over a four-year period. In an industry plagued by declining realisations and profitability, the company improved its per unit profit at a CAGR of 18 per cent and gross profit margin by 27 per cent over the same period.

Highlights, 2003-04

- Production increased by 96.32 per cent in volume terms.
- A granulation facility was installed in line with cGMP standards.
- The capacity of various high value, high growth APIs was expanded.

Road ahead

- Commissioning an API facility in Jammu and Kashmir.
- The upgradation of two existing facilities to USFDA approvable standards by 2005.
- Obtaining the USFDA approval for one of its plant by the end of 2005.
- A Rs. 35 cr expansion in the capacity of Fexofenadine, Atorvastatin, Clarithromycin and Nitazoxanide for meeting growing market and regulatory demand.

Raising the bar

INTELLECTUAL CAPITAL

IN A BUSINESS WHERE RE-ENGINEERING HAS COMPRISED THE MAKING OF MINOR MODIFICATIONS IN AN EXISTING DISCIPLINE, THE SUCCESSFUL COMPANY IS ONE THAT MAKES A SWEEPING CHANGE IN ITS APPROACH WITH THE MOST REMARKABLE RESULTS.

At Ind-Swift Laboratories, we have embarked on product development from the basic stage, leading to an accurate process understanding, a seamless transfer from the laboratory to the production unit and an easy identification of areas where time and costs can be significantly reduced.

At the company, this on-job knowledge repository has been reinforced through extensive training. In 2003-04, for instance, the company invested Rs. 22.28 lacs in training programmes primarily directed towards the incorporation of cGMP and FDA standards.

The company has protected the quality of this intellectual capital through the following retention-enhancing people initiatives:

- A performance-aligned pay structure and increments higher than industry standards.
- An encouragement to employees to attend seminars and other pharma meets.
- An open and cross-functional communication approach across the organisation.
- A centralised HR department to facilitate a functional clarity and structured organisational development.
- A performance management system, which involves the recruitment of qualified professionals with a proven track record, career profiling, competency mapping and performance-linked awards, linking organisational growth to individual development – and vice versa.

Result: Production per employee increased 63.39 per cent; profit per employee strengthened from Rs. 1.80 lacs to Rs. 2.11 lacs.

In 1997, Ind-Swift Laboratories realised US$ 1200 per kg from the production of Clarithromycin. Despite a fall in the price of the product by close to 60 per cent since, the company continues to earn a handsome return through effective cost reduction derived from process re-engineering. This knowledge-led approach has enabled the company to retain its leadership in Clarithromycin and Fexofenadine, among other products.