

initiatives = success

Ind-Swift Laboratories Limited
Annual Report 2004-05

Cautionary statement

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include raw materials' cost or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labour negotiations and fiscal regimes.

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Our visiting card

Parentage

Ind Swift Laboratories Limited (Ind-Swift Labs) is a part of the Rs 494 cr Ind Swift Group, headquartered in Chandigarh, India. The Company was set up in 1995 as a joint venture between Ind-Swift Ltd. (Ind-Swift) and Punjab State Industrial Development Corporation (PSIDC). Ind-Swift later purchased the PSIDC equity to emerge as a single largest shareholder, holding 24.31% equity in Ind-Swift Laboratories Ltd.

Products

In a country like India, acknowledged as one of the most attractive global proxies for high quality and low cost manufacture, Ind-Swift Labs (commercial production from 1997) has emerged as one of the largest manufacturers of APIs and advanced intermediates. Ind-Swift Labs has prudently selected to be present in 11 therapeutic segments, of which five comprise sustained-use therapies (cardiology, diabetology, oncology, anti-depressant and anti-hyperlipidemic). Its product portfolio comprises 20 APIs that are marketed in India and in the international markets. Of the product basket, 8 APIs pertain to sustained-use therapies. The Company is among the two leading global manufacturers of Clarithromycin/granules, Atorvastatin, Fexofenadine, Clopidogrel and Nitazoxanide.

Plants

Ind-Swift Labs has invested prudently in relevant assets, equipment and

infrastructure. It possesses nine manufacturing blocks - located at Derabassi, Patiala (Punjab) and Samba, Jammu (J&K) - designed to comply with stringent USFDA and cGMP standards. The Company possesses a cumulative reactor capacity of 150 TPA per annum, one of the largest in north India. The Company's competitive edge has been reinforced with a sophisticated R&D centre manned by more than 85 scientists, again one of the largest of its kind in the region.

Presence

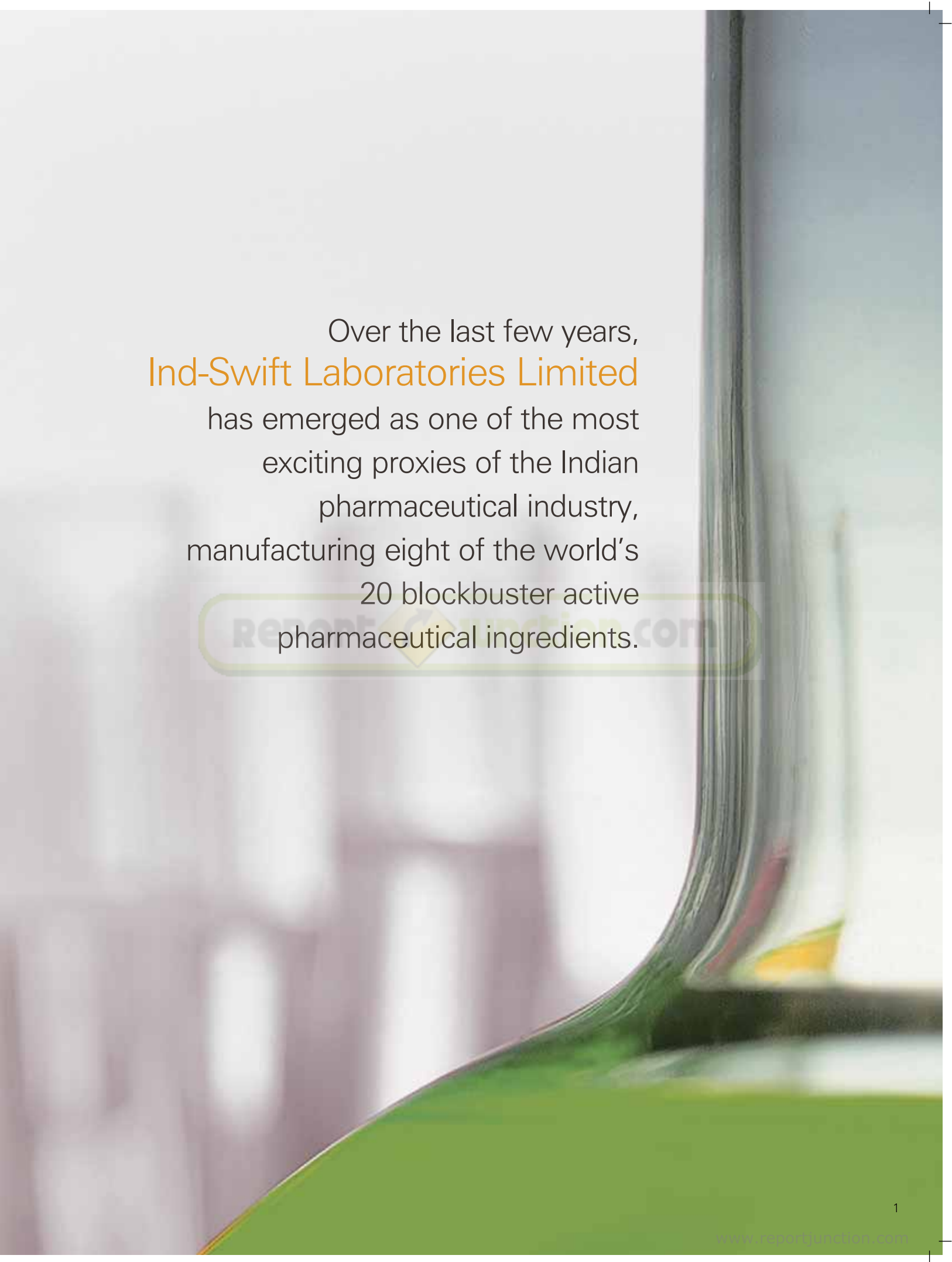
Ind-Swift Labs markets its products to two distinct client categories: respected Indian finished dosage manufacturers with a large global exposure and to those in semi-regulated countries, the former accounting for 50.8 % of its turnover and the latter 49.2 %.

Performance

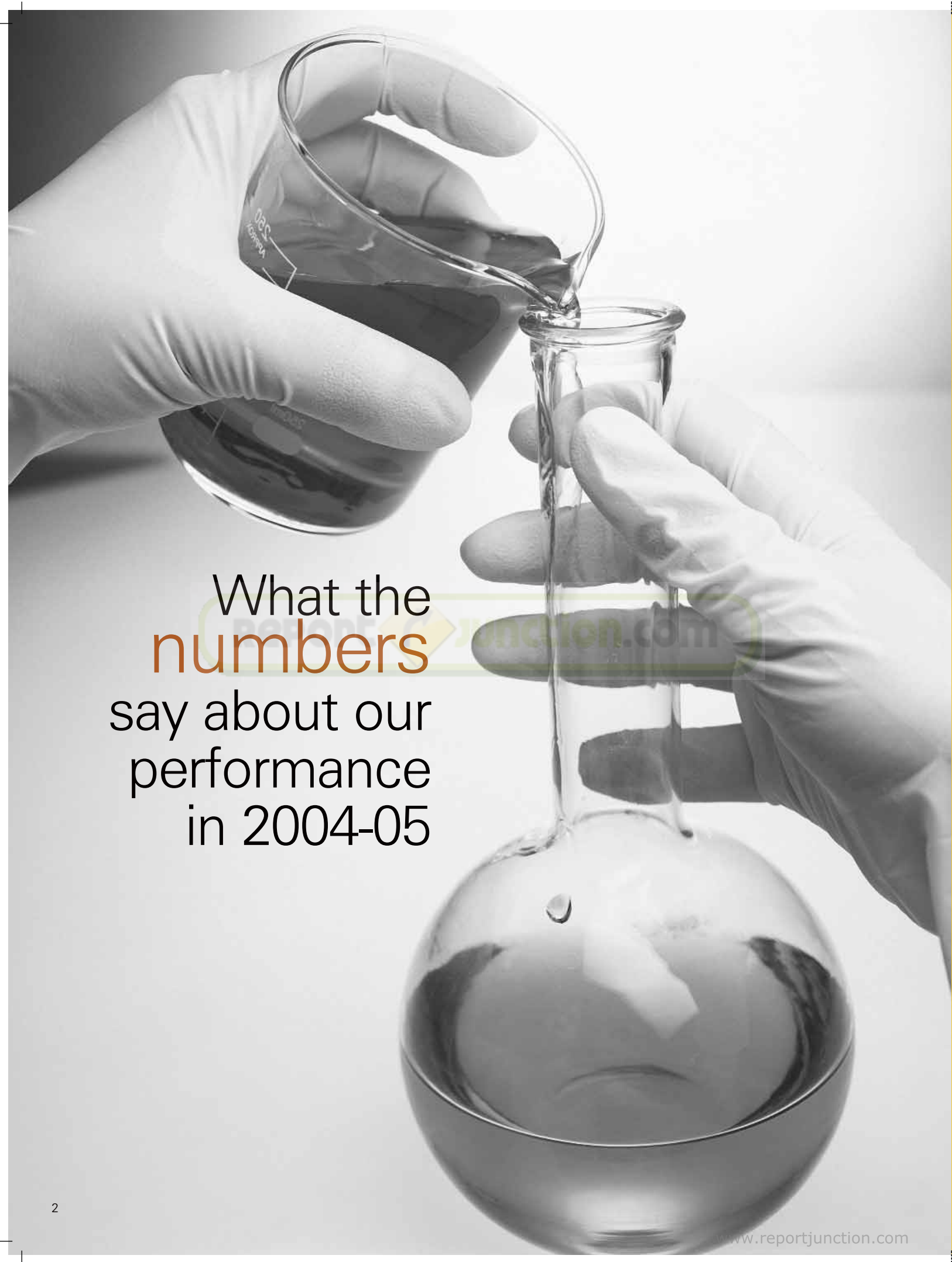
Ind-Swift Labs has grown its topline in each year of its existence. Revenue grew at a CAGR of 27.2 % over the last 5 years, while profits increased at a compounded 58.9 % during the period.

Public holding

In 2004-05, the Company's shares were listed on the Mumbai, National, Delhi and Ludhiana Stock Exchanges and enjoyed a market capitalisation of Rs.364 cr as on 31st March 2005.



Over the last few years,
Ind-Swift Laboratories Limited
has emerged as one of the most
exciting proxies of the Indian
pharmaceutical industry,
manufacturing eight of the world's
20 blockbuster active
pharmaceutical ingredients.



What the
numbers
say about our
performance
in 2004-05

Numbers

- 46.17% growth in net sales from Rs.158.58 cr in 2003-04 to Rs.231.80 cr in 2004-05.
- 94.5% increase in EBIDTA from Rs.23.49 cr in 2003-04 to Rs.45.70 cr in 2004-05.
- 500 basis point increase in the EBIDTA margin from 14.6% in 2003-04 to 19.7% in 2004-05.
- 244.26% increase in net profit from Rs.7.69 cr in 2003-04 to Rs.26.48 cr in 2004-05.
- 122.26% increase in cash profit from Rs.15.66 cr in 2003-04 to Rs. 34.80 cr in 2004-05.

Operations

- Exceeded the budgeted output, profit and profitability.
- 14% increase in production of APIs to 123.12 MT.
- 45% increase in per person productivity from 183 kgs in 2002-03 to 265 kgs in 2004-05
- Opening of an office in China to

facilitate the import of raw materials.

Project management

- Expansion in the capacity of Atorvastatin intermediates, Fexofenadine and Clarithromycin.
- Upgradation in the existing API facilities in line with USFDA requirements.
- Commissioning of a waste heat recovery unit to reduce energy costs.
- Commissioning of a solvent recovery system.

Research and development

- Commencement of the initiative to set up an R&D centre at Mohali.
- Introduction of five new products.

Regulatory cell

- Filing of four DMFs in US and 48 DMFs in Europe.
- Filing of nine non-infringing process patents for APIs.

Marketing

- 60.18% increase in exports from

Rs.67.92 cr in 2003-04 to Rs.108.80 cr.

- 36.42% increase in domestic earnings from Rs.82.53 cr in 2003-04 to Rs.112.58 cr.
- Six new domestic clients added and 54 new international customers added to the customer list.
- Entered into an agreement with a brand-enhancing Indian pharmaceutical finished dosage manufacturer.
- Entered into a long-term supply agreement with reputed international pharma companies in the US and other regulated markets.
- Initiated an MOU for a joint venture in Iran.

Pharmaceutical services

Agreements with reputed European pharmaceutical companies for the contract research of molecules, expected to culminate into manufacture.



Chairman's review

Our success driver:

identifying opportunities amidst challenges, translating initiatives into success

Dr. G. Munjal, *Chairman*

Dear Shareholders

The year 2004-05 was a happy one on two accounts:

- Our financially superior performance, reflected in sales growth of 46.17%, export increase of 60.18% and a net profit jump of 244.26%.
- We embarked on some of the boldest initiatives during the year under review than in the previous history of our organisation.

OVERVIEW

The strength of our resolve and extent of our daring was prompted by a development of paradigm importance in India's pharmaceutical industry. This development resulted in a challenge for the majority and a significant opportunity for the proactive minority.

1. Patents challenge

India made a paradigm shift from its long standing position: it recognised process and product patents comprehensively from 1 January 2005, bringing an end to its money-spinning strategy of reverse engineering patented products and thus creating business opportunity for a number of companies.

Opportunity

This challenge represents a once-in-a-lifetime generic opportunity as more than US\$ 100 bn worth of products are going off-patent in the US alone by 2008. This development will widen product portfolios and generate attractive growth for the proactive.

2. Profitability challenge

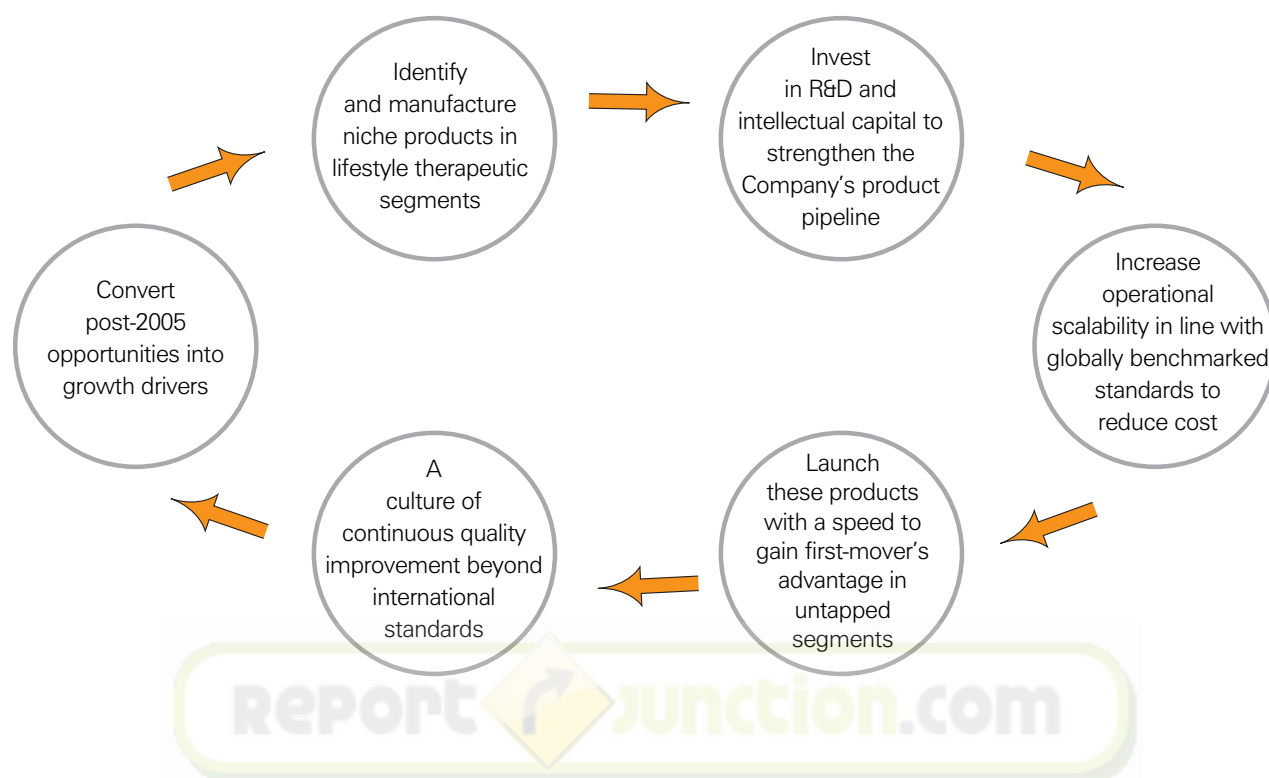
Following the opening of this large generics market, protecting quality and profitability in the face of price erosion will represent a big challenge.

Opportunity

The fears of imminent price erosion have made cost cutting imperative for finished dosage manufacturers, leading them to enter into low-cost generic manufacturing agreements. India is expected to emerge as a significant beneficiary: over the years it has established its image as a responsible, cost-effective, quality conscious and research-led outsourcing destination possessing among the largest number of internationally-certified manufacturing facilities in the world.

IND-SWIFT LABS' BUSINESS MODEL

Ind-Swift Laboratories responded to this dynamic industry environment with the following business model:



Ind-Swift's comprehensive business model leverages on the following areas of competence:

- **Product development:** Development of complex molecules in growing lifestyle therapeutic segments
- **Superior service:** Serving customers through the defined service portfolio, including post-shipment technical

assistance; protecting the quality and responsiveness of this service in accordance with client feedback

- **Challenging workplace:** Providing an enjoyable work environment to catalyse intellectual capital growth through a global employment of skills, established culture of meritocracy and institutionalisation of systems

- **Sustainability:** Strengthening financial solidity and sustainability for stakeholder benefit

In doing so, Ind-Swift Laboratories expects to emerge as one of the most profitable pharmaceutical companies in India, enhancing value for user, consumer, community and shareholder.

CALENDAR FOR 2005-06

- Commissioning of the new R&D centre.
- Commissioning of the new facilities in Punjab.
- Commissioning of capacity expansions of existing products at the present plant. Launch around five products making an entry into anti-cancer and anti-histamine segments.
- Submit around six DMFs, for approval in the US and European markets.
- Enhance the CRAMs business to account for 20-25% of the

Company's profitability.

- Long-term supply agreements to be commercialised in the international market.

FORESEEABLE TARGETS

- Revenue of US\$ 100 mn (2006-07).
- Increased in the pharma service business to 25-30% of the Company's profitability (2006-07).
- Increase in exports to regulated markets to the extent of 30% of the Company's income (2007-08).

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ways in which we are

1 Our intellectual capital
Growing investment in our people, enabling them re-invest into the organisation, making qualitative and quantitative growth a predictable reality.

2 Our product mix
Our ability to select complex molecules in growing lifestyle therapeutic segments with high entry barriers, enabling us to create a niche in a populated business space.

3 Our research and development
Our ability to undertake complex and hazardous reactions, enabling to position ourselves among the top five within our product category in the Indian and global pharmaceutical industry.

4 Our uncompromising quality
Our uncompromising quality standard, reflected in more than meeting pharmacopoeial benchmarks and helping us create a brand in the minds of discerning customers.

5 Our state-of-the-art manufacturing infrastructure
Our operational scalability and flexibility in meeting diverse customer requirements with speed, leading to attractive profitability and significant economies of scale.

creating a growing Company


6 Our strategic process development
Our continuously enhancing efficiency, strengthening our edge in a competitive generic market.

7 Our regulatory compliance
Our ability to address a complex global regulatory framework, identifying changes in the global economy with speed, leading to a proactive strategy.

8 Our innovative marketing
Our ability in extending the quality of our products into an irresistible price-value-added proposition, translating one-off transactions into long-standing business relationships.

9 Our focus on pharmaceutical services
Our ability to provide a wholesome solution for complex research and product manufacture, making us a preferred business ally for Indian and international pharmaceutical majors.

10 Our prudent fund management
Our ability to infuse low-cost funds just when they are needed, making us a fiscally competitive pharmaceutical manufacturer.



intellectual capital = higher profitability