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Jubilant Organosys Ltd.
Annual Report 2002-03

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OUR JUBILANT PROMISE

CARING, SHARING, GROWING

We will, with utmost care for the environment, continue to enhance value: for our customers by providing innovative products and economically efficient solutions; and for our shareholders through sales growth, cost effectiveness and wise investment of resources.

Our Values

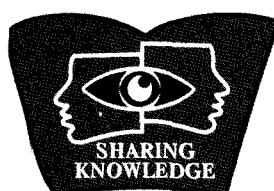
OUR TEAMWORK



OUR EFFICIENCY



OUR KNOWHOW



OUR DELIVERY



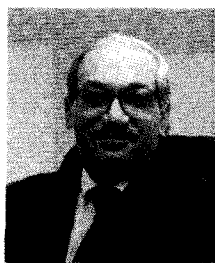
Board of Directors



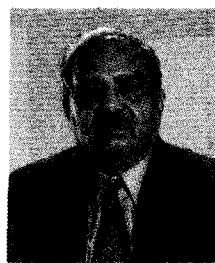
S.S. Bhartia
Chairman & Managing Director



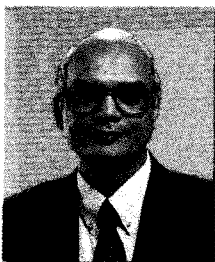
H.S. Bhartia
Co-Chairman & Managing Director



Dr. J.M. Khanna
Executive Director



S.N. Singh
Executive Director



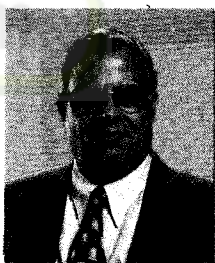
Shyam Bang
Executive Director



Arabinda Ray
Director



J.B. Dadachanji
Director



Bodhishwar Rai
Director



Surendra Singh
Director



Dr. Naresh Trehan
Director



R. Sankaraiah
Chief Financial Officer



► DIRECTORS

S.S.Bhartia
H.S.Bhartia
Dr. J.M.Khanna
S.N.Singh
Shyam Bang
Arabinda Ray
J.B.Dadachanji
Bodhishwar Rai
Surendra Singh
Dr. Naresh Trehan

Chairman & Managing Director
Co-Chairman & Managing Director
Executive Director
Executive Director
Executive Director
Director
Director
Director
Director
Director

► CHIEF FINANCIAL OFFICER

R. Sankaraiah

► SECRETARY

Ajay Krishna

► STATUTORY AUDITORS

K. N. Gutgutia & Co.
11K, Gopala Tower
25, Rajendra Place
New Delhi-110048,
India.

US GAAP AUDITORS

KPMG
4B, DLF Corporate Park
DLF City, Phase III
Gurgaon-122 002,
India.

COST AUDITORS

J.K. Kabra & Co.
552/1B, Arjun Street,
Main Vishwas Road,
Vishwas Nagar,
Delhi-110 032, India.

► REGISTRARS AND TRANSFER AGENTS

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► REGISTERED OFFICE

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Dear Shareholders,

The financial year 2002-03 has been a year of opportunities and challenges, a year of change and paradigm shifts for the chemicals industry as well as for us. The chemicals industry has emerged as a significant contributor to the economy in recent years and is now increasingly becoming a knowledge-based industry. Although bulk chemicals still account for almost half of the global industry's output, there is a visible shift towards value-added speciality and knowledge chemicals as industry players look for higher growth opportunities in a difficult economic environment. The increasing focus on the knowledge-based segment within the chemicals industry not only improves margins but also insulates against the cyclicity witnessed in other segments. It presents a promising global opportunity for established Indian players with the requisite flexibility and resources, due to the inherent intellectual assets that India possesses. Companies that are able to achieve global scale and leverage the knowledge component in their products by continuously innovating and making investments in technology and R&D, stand to benefit the most from the rapid changes occurring in the global marketplace today.

At Jubilant, over the past five years, we have increasingly focused on speciality and pharmaceutical chemicals and have made strategic investments in creating world-class R&D and manufacturing infrastructure. This has helped us build globally dominant positions in our defined product categories. During the year under review, we have made significant progress towards consolidating our position as a high value-added innovation-led player in the knowledge-based segment of speciality chemicals. This is also reflected in our results.

Results

We are pleased to report another excellent year of continued growth, with our knowledge-led businesses making increased contributions to both revenues and earnings. The progressive performance during the FY 2003 is a strong endorsement of our strategy to focus on high value-added speciality chemicals and exports supported by enhanced efficiencies and reduced cost of capital.

Chairmen's statement

Our net profits have increased by 104 per cent for FY 2003. Our revenues too demonstrated continued growth, and increased by 19 per cent to touch Rs 7,105 million compared to Rs 5,951 million in the previous year. The pharmaceuticals and speciality chemicals business accounted for two-thirds of total net sales. R&D continued to be the key growth driver in our knowledge-based speciality chemicals business. During the year, products developed over the last five years contributed 28 per cent of the net sales of the company.

Dividend

Jubilant Organosys' dividend policy is aimed at enabling shareholders to progressively share in the operating performance of the Company, and in keeping with this, the Board of Directors of the Company have recommended a dividend of 90 per cent for the year under review, which amounts to a higher payout than last year.

Business focus
Capitalising on the Life Sciences Opportunity

Jubilant Organosys has constantly evolved to meet changing market needs and the global scenario. Over half a decade ago, Jubilant Organosys, with extensive focus on the pharmaceutical and agrochemical sectors, identified the need to change its business model to focus more on R&D-driven high value-added products. This means building on the Company's strong base in the bulk chemicals business, in terms of inherent expertise and capabilities, to create a high-value speciality and fine chemicals business on a global scale for the fast growing life sciences industry. The life sciences industry is a vibrant sector that has shown a healthy growth trend over the years and continues to possess strong potential for long-term sustained and orderly growth. The imminent change in the global drug patent regime and impending expiration of several drug patents is likely to offer tremendous opportunities in the area of Active Pharmaceutical Ingredients, Advance Intermediates and Custom Research & Manufacturing Services (CRAMS) for pharmaceuticals.

API business integration

Jubilant's entry into the Active Pharmaceutical Ingredients (API) business, through the acquisition of Max India's API operations, is reflective of the Company's strategy to keep moving up the value chain and is a complementary extension of its current position that will lead to an enhancement of its business portfolio. The acquired API business, which has a state-of-the-art, US FDA approved manufacturing facility in Nanjangud near Mysore, has been completely integrated and synergised with Jubilant Organosys during the year under review.

The acquired API business operates primarily in the high growth Central Nervous System (CNS) segment and has an established manufacturing and marketing position with unique strengths in R&D, SCM, and IT functions that will be leveraged by Jubilant Organosys to intensively drive the API business in the future. This expansion will also enable Jubilant Organosys to further target global corporations, augment its leadership position in domestic and international markets and create more sustainable and scalable customer relationships.

Enhancing global positions

The cornerstone of our strategy is to establish leading positions in our chosen areas of activity and, thereby, generate superior and consistent long-term growth. Jubilant has already established its position as the country's largest manufacturer of speciality chemicals and a leading manufacturer of Active Pharmaceutical Ingredients. During the year, the Company enhanced or maintained its global position in various product categories. For example:

- Second largest producer of Pyridine and its derivatives
- Second largest producer of Carbamazepine – an API for the CNS segment
- Third largest producer of solid PVA

Leveraging exports to drive growth

- Sixth largest producer of VP Latex
- Sixth largest producer of Acetaldehyde
- Seventh largest producer of Choline Chloride
- Ninth largest producer of Acetic Anhydride

Such global scale manufacturing capabilities provide improved operating efficiencies that make us more cost competitive and take us closer to realising our goal of becoming a dominant global player in our defined business areas.

Exports are a key growth driver for Jubilant Organosys. Exports revenue for FY 2003 increased to Rs. 1,964 million, indicating a growth of 66 per cent over the previous year. Jubilant Organosys already exports over 30 products to leading companies across 50 countries and has a fully owned subsidiary in Connecticut, USA and a representative office in Shanghai, China for greater proximity to key markets. The Company has aggressively explored new export markets and expanded existing ones in the US and Europe in FY 2003. Business relationships with leading pharmaceuticals and agrochemical companies in Europe in the area of Advance Intermediates and Custom Research and Manufacturing Services (CRAMS) business units were strengthened. Among the new markets for exports, China emerged as a significant export destination for speciality chemicals. In addition, new markets for ethyl acetate were opened up in Europe as well as Asia, further enhancing the Company's global footprint.

Going forward, the Company will leverage its cost competitiveness as a platform to enter new global markets, introduce new products and to enhance existing market penetration. It will also focus on leveraging R&D to develop and deliver customised downstream solutions to global majors as a means of building strong relationships. We expect these strengths and initiatives to yield positive results.

Setting high standards in corporate governance

We recognise that creating sustainable shareholder value depends on a full understanding of the risks inherent in our business operations and the responsible management of our business in a manner consistent with our values and principles. To this end, we have established a Corporate Sustainability Management System (CSMS) that sets the framework for developing and reporting our efforts in this area. Corporate sustainability is a comprehensive business case approach focused on opportunities and risks, and could also be described as the "Triple Bottom Line" approach since it is about meeting economic, ecological and social objectives and goals. This approach helps in ensuring wider stakeholder engagement processes, which in turn lead to improved information flows and decision-making. We feel that this interactive, measurement-oriented approach will be a catalyst for innovation, will create new options and will strengthen our competitive advantage. By also ensuring that the long-term relationships we develop with our stakeholders are built on mutual respect and trust, CSMS will underpin our strategic goals.

The Company's Board of Directors was further strengthened during the year with the induction of Dr. J.M. Khanna - an eminent person in the Indian pharmaceutical industry; Mr. Surendra Singh - a well known bureaucrat and administrator, and Dr. Naresh Trehan, a prominent cardiologist. The Jubilant Organosys Board now has 10 members comprising eminent professionals who bring to the Company extensive experience in the chemicals and pharmaceuticals industry and in establishing and leading diverse businesses and long-term strategic relationships. The Board has a balanced representation, with five independent

directors, three executive directors and two promoter directors, imperative for guiding the organisation towards long-term growth.

The progressive results we have achieved in FY 2003 are much due to the continuing support, commitment and enterprise of all our stakeholders – our employees, partners, customers, vendors and suppliers as well as our shareholders. We are pleased that this report gives us the opportunity to express our personal appreciation.

In the next fiscal, we expect to be able to capitalise further on our strengths – our world-class integrated manufacturing facilities, cutting-edge R&D capability, experienced human resources and impressive client base – to deliver sustainable profitability. We view the future with optimism, believing that our best days are still ahead of us, and look forward to another exciting and rewarding year.



S.S. Bhartia
Chairman & Managing Director



H.S. Bhartia
Co-Chairman & Managing Director

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Corporate Headquarter, Noida (near Delhi)