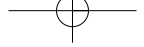


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MAX INDIA LIMITED ANNUAL REPORT 2002-2003

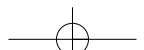
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**MAX INDIA LIMITED ANNUAL REPORT 2002-2003**

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## LETTER TO SHAREHOLDERS



Dear Shareholders,

As we close another year of operations, and as I see our new businesses develop distinct character, I am reminded of a Harvard Business School don, Theodore Levitt, who prophesied the age of the global corporation 20 years ago. Professor Levitt's message of globalization was simple: as new technology extended the reach of global media and brought down the cost of communications, the world would 'shrink'. As a result of this, consumer tastes everywhere would converge, creating global markets for standardized production on a previously unimagined scale. "The world's needs and desires have been irrevocably homogenized", Prof. Levitt proclaimed. "This makes the multinational corporation obsolete and the global corporation absolute".

### MAX'S WORLDVIEW

Everybody would agree with the professor. And in actual fact it is universally accepted wisdom that the "one size fits all" approach is out. "Think local, act local is in". Customers today want locally generated products and services which are global in content, character and features. Businesses have to sharp-focus on local needs and sensibilities and fine-tune products/services to meet them. Coca Cola for example, owns not one, but more than 200 brands, mostly local. McDonald's varies its menu to suit local tastes. MTV has different programming to suit different countries and regions. Closer home, we have the example of Nirula's. The company has adapted the essentially Western concept of fast food, to the Indian palate on international standards of speed, quality and price.

Max understands and follows this intently. We have worked hard to implement it to the micro levels of even a city, as in the case of Max Healthcare. The Company has carefully calibrated service profiles of its facilities for catering to several different vectors in the National Capital Region. In the case of our life insurance business Max New York Life, the U.S. parent New York Life's strategy is to focus almost only on agency driven sales; Agent-Advisors are its primary engines of distribution. Max New York Life, on the other hand, has customized its market strategy very carefully. Whilst it relies on Agent-Advisors as a vital sales medium, it is actively in the process of tapping other supplementary channels: bancassurance, corporate agents, and brokers. This mix of distribution channels, enables Max New York Life to reach customers in a 'fuller' manner; helping it maximize market reach/penetration in the Indian context.

This approach is one aspect of our world-view. The other is, overwhelming passion for our brand. We are obsessed with building the Max brand. With creating a unique brand led

'Total Customer Experience'. 'Total Customer Experience' is determined by one critical success factor: product and service excellence. Max New York Life (MNYL) and Max Healthcare have undertaken several service initiatives. Among these, MNYL has established a toll-free agency and customer service helpline for efficient claims investigation and settlement. Whilst the IRDA stipulates a timeframe of 30 days for settlement of non-investigated claims, and 6 months for investigated claims, MNYL settles all claims (investigated as well as non-investigated) within a 16 day period. In the healthcare domain, Max Healthcare is launching a new Customer Relationship Management (CRM) programme. This enables optimum levels of customer satisfaction through customized offerings. Each customer is able to access higher levels of personalized 'care' as different from 'treatment' alone. A fine example of service excellence initiatives in a manufacturing business, is offered by Max Speciality Products. It is responsible for almost the entire packaging needs of some of India's best brands. And stepping overseas, MSP caters to 85% requirements of the world's largest print finishing company based in the U.K.

#### THE YEAR IN REVIEW

It has been a very eventful year. In keeping with Max's re-structuring exercise of moving towards its core businesses of life insurance and healthcare, the Company divested Max Pharma in this year and wound down the IT business. On the other hand, it invested in a new enterprise within the healthcare domain: Max HealthStaff. This is an international healthcare staffing company, recruiting, training and placing paramedics (initially nurses), in international medical institutions.

Max's restructuring exercise of moving away from a manufacturing based, business-to-business profile, in favour of customer oriented, service driven businesses, was realized. Over time, this has resulted in divestment of the Company's interests in businesses like Max Atotech, Max GB and Avnet Max. You are aware that Max re-defined its Vision in 2000-2001 of entering the Services sector. This Service focus is articulated in our Vision statement: *"To be one of India's Most Admired Corporates for Service Excellence"*.

#### DIVESTMENT IN MAX PHARMA

Max Pharma has found a new parent in Jubilant Organosys, which has acknowledged expertise in the area, the status of a leading player, and the vision to grow further on a global scale. Jubilant sees Max Pharma as a valuable, and important building block in their progressive entry into the Active Pharmaceutical Ingredients (API) area. Jubilant Organosys paid Rs 63.11 crore for acquiring Max Pharma.

#### WINDING DOWN MAX ATEEV

Max Ateev's IT Services division concentrated on offshore product development, which translated into a close working relationship with primarily U.S. based software companies. Unfortunately, the business had to contend with a general slowdown of the global economy, even as it commenced commercial operations. This meant struggling for market share in a shrinking, or at best a flat economic situation, spurred by recession in America. The events of September 11 2001, followed by the warlike situation between India and Pakistan, travel advisories issued by several Western countries cautioning their citizens against traveling to India, and the U.S. war against Iraq, compounded the damage.

Max had a difficult choice: to retain a division at considerable loss, despite being aware of the fact, that it displayed indications of a very steep climb for growth or break-even. To do this, at the cost of diverting scarce capital and resources away from our new and growing businesses, which are long haul and capital intensive. We chose to cease operations in IT Services. Max Ateev's Knowledge Management practice, however, is operational.

#### INVESTMENT IN MAX HEALTHSTAFF

Aligned with Max's Vision-Mission and the core businesses of life insurance and healthcare, the Company's interests in healthcare were enhanced. The venture aims at training, educating, placing paramedical healthcare staff in institutions in India and abroad. Max HealthStaff seeks to offer end-to-end services in this area. It will offer options to paramedical professionals for all/any of the following: training, recruitment/placement in Max Healthcare/overseas placement/placement for paramedics returning to India. Max HealthStaff is setting up the Max Institute for Nursing Development (M.I.N.D.) in collaboration with the Institute for Nursing Healthcare Leadership (I.N.H.L.), U.S.A. to design curricula and train nurses on international benchmarks.

Max HealthStaff has positioned itself as an international healthcare staffing company, founded on world-class quality and service excellence. It is committed to becoming India's leading healthcare staffing company, offering professionals to healthcare institutions in India and abroad.

#### BUSINESS UPDATE

##### MAX NEW YORK LIFE

In our core businesses of life insurance and healthcare, the year saw continued progress on course as planned. Max New York Life (MNYL) maintained its top quartile position amongst all private life insurance players in the country. It commenced group insurance activity and has already attracted 25 leading

corporate clients. The sterling quality of Max New York Life Agent-Advisors was acknowledged, when 45 of them qualified for the Million Dollar Round Table (MDRT). MDRT is an internationally recognized forum of top performing financial services professionals from around the world. These achievements were heightened by the extended geographical reach of MNYL, which now stands at 20 offices countrywide.

The relevance of these developments should be viewed in terms of the overall market scenario. The Indian life insurance industry offers a huge opportunity. It is a challenge as well, given the propensity of customers to view insurance as a savings and investment vehicle, ignoring protection, which is its true value. Max New York Life from the beginning pitched its faith in protection-oriented products. Selling these products required great knowledge and expertise on the agent's part and the company decided that the quality of the sales force was going to be critical in deciding the success of its products.

Today, MNYL's Agent Advisors are recognized as the best in the industry. They score over their competitors on virtually all parameters – case rate, persistency and the quality of their portfolio. MNYL has invested significantly in its sales force and the quality it has succeeded in building in its agency distribution is an endorsement of the agency-focused strategy. There has traditionally been a monopolist environment in the Indian life insurance business. Selling skills were sorely lacking. MNYL's agent training and coaching programmes have started to alter that paradigm. We are in pursuit of international standards in the quality of our agency force.

## MAX HEALTHCARE

Max Healthcare has made impressive progress. On an average, it treats 5,500 new patients every month; 300 new patients visit Max Healthcare facilities every day. It boasts of a customer base in excess of 85,000 which is more than twice the number last year. It has a corporate clientele of more than 200 distinguished names. An outstanding physician base of 281 physicians comprises some of the best known names in the world of medicine, who enjoy international repute. They are represented across departments and specialities. Several more have expressed strong inclination to join us, once the first tertiary care hospital comes up. The mention of physicians is incomplete without mentioning Dr. Narottam Puri, Max Healthcare's new Medical Director. The business has benefited from his in-depth understanding of the variables which influence medical content. In addition to Dr. Puri, Dr. P.N. Kakar (Anesthesiology); Dr. H.C. Agarwal (Ophthalmology); Dr. Rakesh Tandon (Gastroenterology); Dr. T.K. Thusoo (Endocrine Surgery); Dr. Ambrish Mithal (Endocrinology); Dr. Arvind Taneja (Pediatrics) add prestige to Max Healthcare.

The business has demonstrated rapid scalability of the business model. Max Healthcare today has grown to 10 facilities. In what is perhaps an unprecedented example of rapid scalability, we are implementing plans for not one, but three tertiary care hospitals. These are the Max Devki Devi Hospital, Saket; a congenial plot of land adjacent to this facility, which has been acquired by Max Healthcare; and a hospital site at Gurgaon. Distinct, but complementary service profiles of these hospitals will greatly enhance the medical excellence aspect of Max Healthcare. For the Max hospitals at Saket, we have retained internationally reputed architects and have tied up with the prestigious Singapore General Hospital for hospital design, operations, selection of medical equipment, staff training, IT systems, and process flow reviews.

The erstwhile Max Medcentres™ have been revamped and re-positioned in a fuller expression of their profiles, as secondary care Max Hospitals. In addition to the Max Medcentre™ at Panchsheel, these are operational at NOIDA and Pitampura.

In addition to the two existing Dr. Max™ Clinics at Greater Kailash I and Maharani Bagh, six new Dr. Max™ Clinics are planned for the year 2003-2004. The on-campus primary/emergency care facilities, Dr. Max™ Implants, have grown from three last year, to five. At present they are operational at: the GE Call Centre, Gurgaon (two Implants); Spectranet; EXL Services; National Highways Authority of India.

The key attributes of medical and service excellence, accessibility, comprehensive character, best-in-class facilities, and standardized care, are synonymous with the Max Healthcare brand. And will only be enhanced with the passage of time.

## MAX SPECIALITY PRODUCTS: A TRADITIONAL ASSET

Max Speciality Products (MSP) is a traditional, mature, stand-alone business and an asset Max is committed to retaining. Sterling performance in 2002-2003 and promising market prospects have encouraged us to invest in enhancing MSP's production capacity. The majority of MSP's business comes from reputed clients. Prominent among these are: Paper Products Limited, ITC Limited, Moser Baer, Parle, Hindustan Lever Limited, Nestle and Joyco.

Max Speciality Products has had a very successful year. Its turnover increased by 35% (from Rs 91.21 crore to Rs 122.83 crore) and PBT by as much as 91% (from Rs 8.9 crore to 17 crore). The BOPP division of MSP has maintained its leadership position with regards to Return on Capital Employed; this increased from 18% to 32%. The export division of MSP, Maxfoil, exported to the Chinese and Slovenian markets, whilst the Division's BOPP business has made in-roads into the very competitive EU market. At home, MSP enhanced its



portfolio of clients by including more leading brands as customers. The BOPP and foils segments show great promise and we are taking steps to maximize realization from these areas.

## OTHER BUSINESSES

- Given its new focus on defense contracts, after the decision to completely exit the telecom sector, Lockheed Martin decided to sell its equity in Comsat Max to Max India Limited. Max will now become the sole owner of Comsat Max. On the operations front, Comsat Max has displayed agility and a high standard of customer focus by expanding its product/service offering on the one hand, whilst further improving services in existing offerings on the other. The earlier decisions to migrate to Ku Band VSATs and invest in HPDM (Host, Protect, Deliver, Monitor) services are bearing fruit.
- Despite challenges (initiated in part by the U.S. hesitation in outsourcing BPO work to India), Max HealthScribe, our medical backoffice business, has reported a good year. Forty four overseas hospitals rely on Max HealthScribe. Overall quality has shown marked improvement. The number of lines proof-read in the United States declined from 5% last year to 1.8% Consequently, the U.S. proofing costs declined by Rs. 0.77 crore, from Rs 1.78 crore. Total number of lines delivered, increased by 23.7% from 68.75 million to 85.05 million. Max HealthScribe registered a growth in revenue; the net profit increased by 137% from Rs. 1.99 crore to Rs. 4.72 crore.
- Undaunted by changes in regulatory guidelines in several of its sites, Neeman Medical International consolidated its existing business volumes, expanded its geographical reach and added to its service offerings. Coupled with aggressive marketing, these initiatives have led to 100 studies being undertaken by Neeman. Neeman's North American operations were increased to six locations. In addition to the original site at Cary, North Carolina, Neeman added Atlanta (Georgia); Houston (Texas); Milwaukee (Wisconsin); Fall River (Massachusetts); Birmingham (Alabama) to its North American sites. Neeman Asia now enjoys the reputation of being a leader of clinical research in India. Neeman's clients include distinguished names like Novartis, Otsuka, Wyeth, Ayerst, GSK, and Aventis.

## CLOSING PERSPECTIVE

We are on track with our business plan, because Max has demonstrated the genius to bridge the gap between the 'theoretical' and the constantly changing 'practical'. Moving forward, we see the core businesses of life insurance and healthcare coming into their element. And traditional businesses

like Max Speciality Products realizing greater success. The growth and good performance of Max New York Life by being a first quartile player amongst private life insurance companies, have encouraged Max India Limited to further invest its share of capital in the Company. On the healthcare front, I am pleased to tell you that Max Healthcare has received support from the International Finance Corporation (IFC), Washington, which has sanctioned a Rupee denominated loan of Rs 90 crore. In addition, Max Healthcare received the first ever private sector loan of US\$ 20 million by the Asian Development Bank (ADB). This was ADB's first local currency loan in India and also the first private sector infrastructure project funding in India. Funding plans for core businesses, which are capital intensive and long haul, have been realized. As for the recently announced expansion of Max Speciality Products production capacity, the Division will commission its second Metalliser, which will result in almost doubling its capacity. The 13,200 tonnes expansion at a project cost of Rs 75 crore will further strengthen Max Speciality Products' market position.

Max is on track, following its new Vision. Central to this pursuit, is an underlying effort to attract, train, and retain a vast human capital. In just the last 24 months, in the life insurance business Max has added approximately 3,840 people. The corresponding figure for healthcare is 500. By 2003-2004 these numbers are expected to rise by 4,270 and 550 respectively. It is this engine of human capital that I thank and reach out to. As I do so, I also extend my gratitude to our partners in progress: New York Life, Singapore General Hospital, Harvard Medical International, Lockheed Martin Global Telecommunications Inc. and HealthScribe Inc.

A final word of thanks, as much from Max as from me, is to you; the shareholders who have demonstrated faith in our abilities and have extended support to our plans.

New Delhi  
AUGUST 11, 2003

For Max India Limited  
ANALJIT SINGH  
Chairman

02

## MANAGEMENT DISCUSSION & ANALYSIS





IF 2000-2001 WAS MARKED BY new business launches, and 2001-02 was a year which saw the commencement of our quest to create operational and service excellence, 2002-03 has been a year of significant expansion and growth. Notwithstanding this progress, business landscapes change; sometimes too rapidly. The excitement of growth in 2002-03 was tempered by some crucial decisions. Whilst in most cases these called for greater agility in business models, or their fine-tuning, in the case of our IT business, Max Ateev, it meant a decision to scale down operations. We exercised the option to do so, after great deliberation and because it was in the best interests of a crucial audience: Max's shareholders. From a strategic perspective, Max also views this as a progression of the re-structuring process under which, the Company seeks to sharp-focus on core businesses and grows its key competencies, while exiting or scaling down ventures which do not serve the new vision-mission substantially.

**If 2000-2001 was marked by new business launches, and 2001-2002 a year which saw the commencement of our quest to create operational and service excellence, 2002-2003 has been a year of significant expansion and growth.**

More importantly, the core businesses of life insurance and healthcare recorded impressive gains. In a less than conducive business climate, operating in new emerging sectors, these businesses met their objectives successfully. Max's initial business successes in life insurance and healthcare, demonstrate two things: proof of concept, and strong credentials in India's emerging service sector. The traditional business of speciality plastics, alongwith other mature businesses, continued a steady growth. People, the greatest asset of a service organization, continued to work towards the vision of making Max "one of India's Most Admired Corporates for Service Excellence". This is a goal Max pursues relentlessly by building a reservoir of credibility and reliability. Because Max believes a good reputation is a drawing card. It brings in customers and investors; creates a sense of pride in employees, and generates enduring value for each stakeholder. The year in review, saw this purpose being served very substantially.

#### **SIGNIFICANT DEVELOPMENTS OF 2002-2003 DIVESTMENT OF MAX PHARMA**

In keeping with its track record, Max Pharma performed remarkably. Revenues generated by this business showed a very healthy increase. From Rs. 19.41 crore for the first five months last

year (2001-02), to Rs. 37.26 crore over a five month period from April 1 2002 to August 31, 2002 (prior to divestment). Of this, Rs. 15.56 crore came from exports.

However, Max India Limited's strategic restructuring saw the Company making a complete exit from Max Pharma in favour of Jubilant Organosys Limited (formerly Vam Organics Limited). Effective September 1 2002, Max Pharma is a part of Jubilant Organosys.

#### **RATIONALIZATION IN MAX ATEEV & ALTA+CAST**

Diminution in the value of investments of Rs. 65.53 crore in respect of Max's investments in Alta+Cast and Max Ateev were booked. Alta+Cast is undergoing protective bankruptcy proceedings under U.S. laws. It is probable that existing stakeholders in that company will be unable to recover the investments. The Company, based on prudent and conservative accounting practices, has decided to provide for diminution equal to the value of investment in Alta+Cast LLC, which is Rs. 36.53 crore. The remaining diminution Rs. 29 crore has been provided in the case of Max Ateev, the rationale whereof, has been discussed elsewhere in this report.

#### **REDUCTION IN MAX INDIA LIMITED'S DEBT**

The other major highlight of the year in review, has been a successful reduction in the debt of Max India Limited. The Company has repaid Rs. 61.45 crore of debentures in 2002-03, in addition to repaying smaller debts as reflected in the balance sheet. Max India Limited's debt has reduced from Rs. 186.72 crore to Rs. 144.01 crore as of March 31, 2003.

#### **NEW INITIATIVE: MAX HEALTHSTAFF**

Max India Limited has entered the healthcare staffing resources business through a 50% investment in a new company, Max HealthStaff. Max HealthStaff complements the core business of healthcare, whilst also being a stand-alone business with an independent agenda.

The Company's turnover declined from Rs. 201.02 crore in 2001-02 to Rs. 179.17 crore in 2002-03. This however, should be viewed against only five months of pharma business during the year.

Post divestment, the direct substantial revenue stream for the Company is now Max Speciality Products. Its turnover increased from Rs. 91.21 crore in 2001-02 to Rs. 122.83 crore in 2002-03. Other businesses like Comsat Max, Max Health-Scribe, Neeman have invested their earnings or do not make substantial contributions. Core businesses of life insurance and healthcare are too young to contribute to the company's revenue income.