



# Neuland

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Neuland Laboratories Limited Annual Report 2005

## *The Neuland Way*

<b>With our customers</b>	Everything we do reflects the interests and needs of our customers
<b>With our business associates</b>	We act in a spirit of sincere co-operation, mutual assistance, and complete transparency
<b>With our shareholders</b>	We aim to keep the support of our shareholders by creating wealth in the long term
<b>With our employees</b>	We are one team
<b>With our society</b>	We will continuously strive to increase our role in improving the community around us

## **ANNUAL REPORT**

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# Fr. Nieuwland was the inspiration.....

We are all inspired by great thoughts, thoughtleaders and their foot-prints. The impact can be permanent.

Julius Arthur Nieuwland, (1878-1936), PhD, a Belgian born Catholic priest, an alumni of the University of Notre Dame, USA and a Professor of Organic Chemistry, worked with a single-minded devotion on acetylene and ended up being the father of synthetic rubber. He created a formula that works.

He made a great impact with his industrial invention. His creation chloroprene, when polymerized, forms an elastic material very similar to fully vulcanized rubber. The new material is resistant to degradation by oil, sunlight, and air, and chloroprene rubber does not require the addition of sulfur for vulcanization. He had created history.

Father Nieuwland was an unassuming man who stayed mostly in his laboratory, often eating and sleeping there, stretched out on the lab bench, a rolled up lab coat as a pillow. He refused any royalties on his creation due to his vow of poverty as a priest.

His single-minded devotion to organic chemistry and his humble nature has inspired many generations of students at Notre Dame. Dr. D. R. Rao was one of them.

When he formed the Company, he decided to pay his tributes to this path finder. The name was kept Neuland (more easy to spell). The devotion to chemistry, the dedication to find solutions and the humble approach to life has remained the same.



# The Neuland logo

## what does it signify

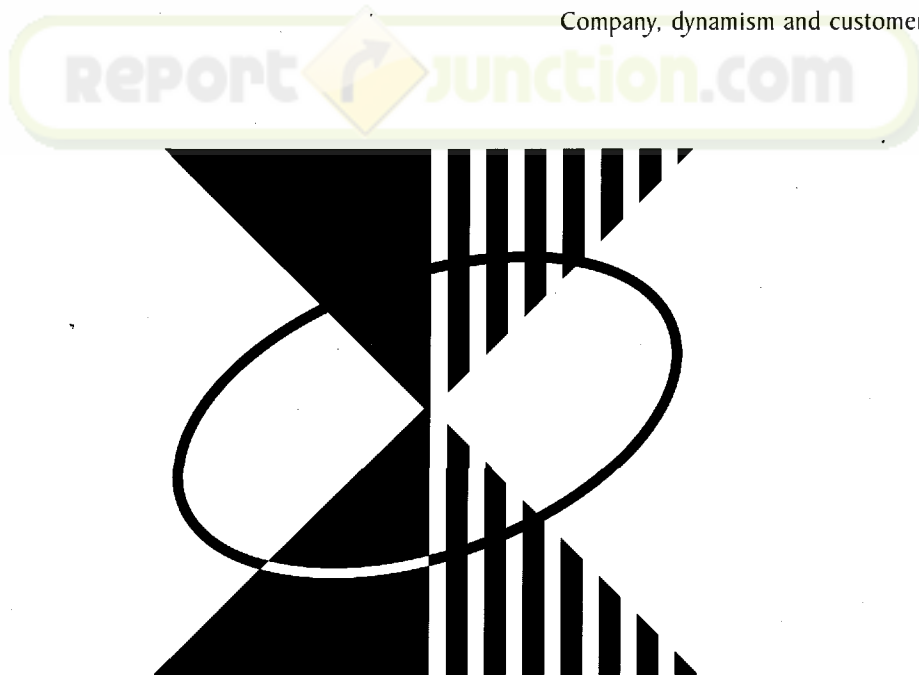
The one inverted triangle over another is indicative of the hour glass, suggesting that Neuland has found its rightful place in the time slot.

The deep filled in colours to the left of the angles depict Neuland's single-minded philosophy, viz. commitment to customer satisfaction, while the stripes to the right of the angles depict Neuland's expansion of capacities and newer facets of the business.

The oval ring moving across suggests two things:  
Dynamism (true to Neuland's performance)  
The chemical reaction process (true to Neuland's activities)

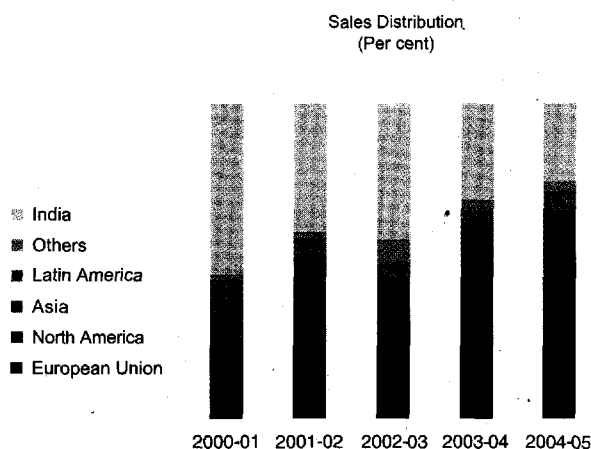
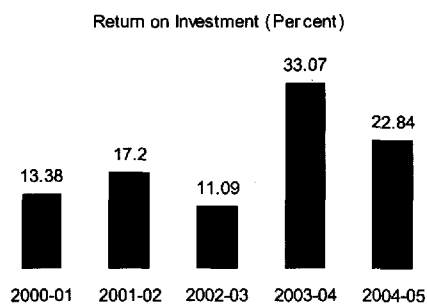
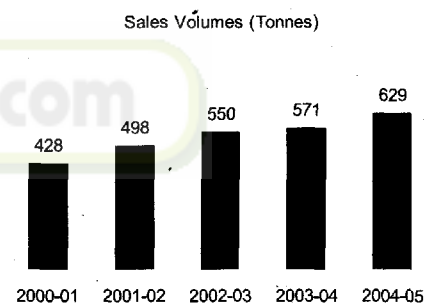
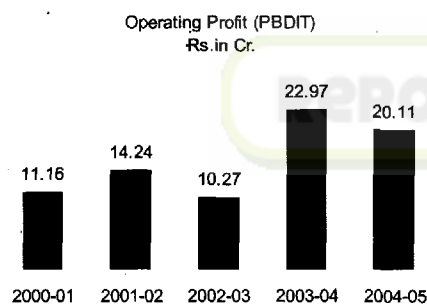
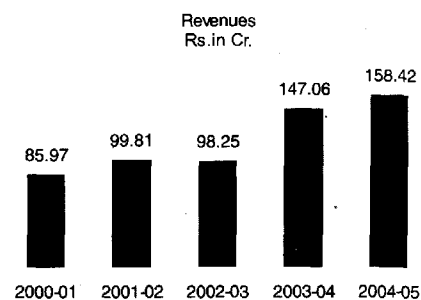
The point at which the oval ring meets is also the epicenter, suggesting that this is the point that sparks off Neuland's dynamic activity.

The logo represents the basic philosophy of the Company, dynamism and customer satisfaction.



# HIGHLIGHTS OF THE YEAR 2004-05

- ▲ Revenues at Rs.158.4 crore, up by 7% in uncertain market conditions
- ▲ Sales volume at 629 tonnes, a 10% improvement over the previous year
- ▲ Net income for the year at Rs.4.9 crore, the highest ever recorded by the Company
- ▲ Total exports at Rs.119.9 crore, an improvement of 18% over the previous year. Total exports stood at 75% of total revenues
- ▲ Exports to regulated markets at Rs.82.3 crore, rose by 36% over the previous year. Regulated markets constituted 68% of total exports and 52% of total revenues
- ▲ Establishment of North American office as of 14th September, 2004
- ▲ Significant milestones were achieved in FY2005 in support of Neuland's long-term objective of becoming a fully-integrated pharmaceutical company



# We planned well..

Long-term strategies that have set Neuland apart

- Long term sustainability has led us to focus on innovation and fully integrated processes
- Our business model is based on a simple strategy - complement our customers' strengths
- A clear vision gave us a head start in the regulated markets that reward quality conscious suppliers with supporting infrastructure and systems
- Growth driven by quality right from inception
- Neulands' commitment is reflected in its employees

## MILESTONES

1984	Neuland incorporated in Hyderabad, India
1986	Made the first sale of albuterol sulfate / salbutamol sulphate
1987	Exported the first kilogram of albuterol sulfate / salbutamol sulphate
1992	Transition into a multiproduct company
1994	Neuland goes public, issue oversubscribed by 70 times Created large scale production facility for manufacture of ciprofloxacin HCl
1995	Commissioned production facility for manufacture of ranitidine HCl & developed a process for ranitidine Form I
1996	Awarded Export House status by Government of India & received ISO

# We executed better.

## Our journey has brought us some distance

- Both our production facilities are systems inspected by the USFDA allowing for a major thrust into the US market
- Product approvals from most regulators including the US FDA, EDQM, TGA, MHRA, and MCA. The earliest received in 1997
- Received CoS (Certificate of Suitability from EDQM) for 7 of our key products giving us a strong presence in the European Union
- Diversified market share, strong product pipeline, and patented processes are the basis for consistent income and revenues in the future
- Improved focus on EHS systems has helped preserve the health of the organisation
- Maximising contribution by taking up difficult to make niche products, based on complex chemistry and positioning ourselves for strategic markets
- Neuland built a strong production base that has structured capacities, consistent quality systems and flexibility in manufacturing
- Efficient knowledge management based on a strong IT infrastructure and customised MIS helps to respond quickly to changing market demands

We are the first to believe we  
have as yet miles to go.  
We are at it..

First US FDA inspection for Neuland's flagship product albuterol sulfate USP/  
salbutamol sulphate EP (Unit I)

1997

First Certificate of Suitability for anti-ulcerant product ranitidine HCl Form-I received (Unit II)

1998

Neuland received a string of regulatory approvals from US FDA & EDQM for its major  
products such as ciprofloxacin HCl, albuterol sulfate, sotalol HCl, ranitidine HCl Form-II

1999

Neuland was also systems inspected by US FDA for Unit II

2002

Neuland clocked more than 40% of its revenues from the regulated markets of US & EU

2003

US FDA systems inspected for Unit I, bringing both facilities under full cGMP compliance

2004

Also received cGMP clearance for both facilities from TGA, Australia

Opened the North American office at New Jersey

Regulated markets constituted 68.6% of total exports and 52% of total revenues

2005

# MILESTONES



FROM THE DESK OF THE CHAIRMAN &  
MANAGING DIRECTOR

# We have the Edge



Dear friends,

We had a satisfactory financial year. You will appreciate from the audited accounts, we achieved during 2004-2005 revenues of Rs.158.4 crore and net profit after exceptional items of Rs.4.9 crore. These are a new high for the Company, and are gratifying all the more since we achieved them in an environment of challenging market conditions.

There was severe competitive pressure in the market, leading to price erosion. This was an industry wide phenomenon, and margins were squeezed. We saw this early, and ensured that we offered the best prices to our customers to help them compete better in the market.

We have as customers some of the strongest generic producers in the regulated markets. We saw long term value in building a strong partnership with them. This is consistent with our business strategy, of never sacrificing long term sustainability for short term gains. We will go the extra mile to add value to our customers. In turn, we are confident of improving our business volume in the foreseeable future.

We turned inwards, examined our operational areas and worked to become the most cost effective producer.

In all this process, our operating profit was indeed shaded, while our efficiencies improved. More significant, we earned the trust and confidence of our customers, and have enhanced our positioning as the most preferred source worldwide.

During the financial year 2004-2005, we at Neuland vigorously pursued our stated goals of making a strong presence in the regulated markets with our basket of bulk actives. We improved the breadth and depth of our market. We added new customers for our products and deepened the relationships by increasing volume and repeat orders for existing products. We also launched new products.

Going forward, we will become a  
strong R&D based company working  
with complex chemistry.



Approvals from international authorities are being converted into value. The focused effort into the regulated markets has enabled us to improve conversion rate of product approvals. Our increased presence in our addressable markets has hence improved the quality of income stream.

Our business model has become more robust. We have the strength to deliver consistently what the quality conscious customers demand. We at Neuland were one of the first to recognise the value of being the preferred source in such markets. Indeed, as early as 1993 we had moved to create infrastructure, systems and products that were to stand formal certification.

Today, we continue to pursue this strategy, by filing Drug Master Files and seek approvals for all our products with the respective regulators in quality conscious countries. As a continuous process, we shall augment our pipeline by adding more products to our basket. We already hold approvals for both our manufacturing units.

We will continue to retain our cutting edge, by providing best quality products at desired prices from regulatory approved production facilities. Our structured operations will help us minimise overheads and maximize contribution.

Going forward, we will become a strong R&D based company working with complex chemistry. Neuland is setting up a state-of-the-art R&D center, with the stated objective of partnering with large and medium sized global pharma companies and participating in their drug discovery and development programs.

The key will be to build upon the existing strengths and maintain our core competency.

While it will help them to hold or reduce costs, and enhance their research potential, for Neuland the revenue stream will be a forerunner of a long-term partnership. We hope to create a more sustainable business model, and be the preferred source producer.

We see this as a building block and having a multiplier effect. The key will be to build upon the existing strengths and maintain our core competency.

In the pharma industry, the future will be carved by those who have intellectual properties, infrastructure and facilities that are globally approved and viable, execute strategies superbly and meet the needs of discerning customers.

We believe we can sustain this effort and renew our products and processes and refresh our strategies as we move along. We also believe that we have just started our journey and we will ensure that we add value to our customers, associates and stakeholders.

I take this opportunity to thank my fellow Neuland employees, and shall continue to count on them as we together create a vibrant and valuable pharma player.

Warm regards,



THE CHIEF OPERATING OFFICER  
DISCUSSES THE PERFORMANCE

# We did the basics right

*Q. How was 2004-2005 different?*

The year was remarkable for many significant initiatives Neuland took to revamp its operations. Time and resources were invested in adding to the overall infrastructure. Additions were made in immovable assets and in IT platforms.

It is noteworthy to mention that we expanded the boundaries of our marketing domain, accelerated by the increasing number of approvals from regulatory authorities, better marketing strategy, as well as by the opening of our North America office. We got closer to our customers in the market in an effort to understand their needs at first hand and improve our decision making.

Investments made into the regulated markets started to pay-off. We added volume and customers. We introduced new products as well as executed larger quantities of existing products.

This was a year when we brought about reduction in manufacturing costs, and achieved lower cost of debt.

We also made a major thrust and investment in ensuring long term sustainability by taking steps towards transforming Neuland into a comprehensive drug discovery and development company.

*Q. Growth in turnover was lower, and the margins were also lower. Why?*

Competitive pressures of the market impacted our top & bottom line. We sacrificed short term gains to ensure long term sustainability. We responded to customers better by offering prices that made them more competitive.

In the domestic market, higher inventories and over supplies eroded prices and margins. Cheaper imports added to this competitive pressure.

Increased marketing efforts translated to higher selling & distribution costs. These did impact profitability. Despite the pressures of the market, Neuland increased its volume of bulk actives sold by 10% and the revenues improved by 7.7%. Pressure on margins was to an extent mitigated by improvement in manufacturing efficiencies.

*Q. Are these pressures likely to continue?*

We believe the current financial year 2005-2006 will also bear the margin pressures. This is a short term phenomenon.

There are landmark changes taking place in the industry, and it is natural that new equations are arrived at. In the long term, only players with strong infrastructure and diversified markets will survive.