



Neuland



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Neuland Laboratories Limited Annual Report 2006

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Fr. Nieuwland was the inspiration.....

We are all inspired by great thoughts, thought leaders 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.

The Neuland Way

With our customers : Everything we do reflects the interests and needs of our customers

With our business associates : We act in a spirit of sincere co-operation, mutual assistance, and complete transparency

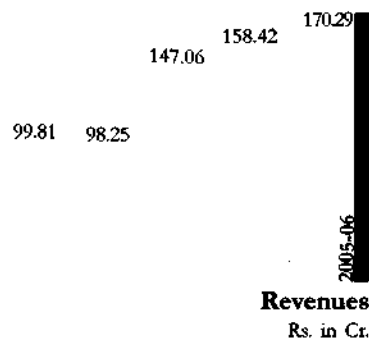
With our shareholders : We aim to keep the support of our shareholders by creating wealth in the long term

With our employees : We are one team

With our society : We will continuously strive to increase our role in improving the community around us

HIGHLIGHTS OF 2005 - 06

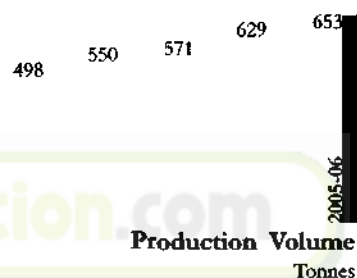
- Revenues at Rs.170.3 crore, up 7% in a highly competitive year



- Manufacturing volume at 653 tonnes, a 4% increase over the previous year

- Net income for the year at Rs.6.2 crore, the highest ever recorded by the Company

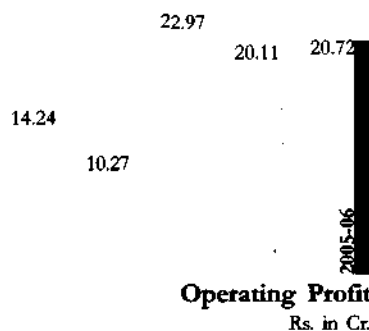
- Total exports at Rs.120 crore, constituted 70% of total revenues



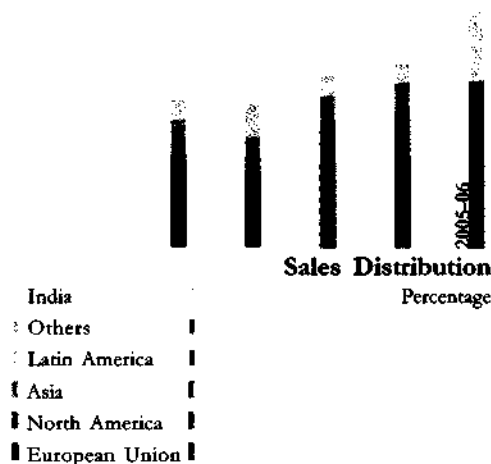
- Exports to regulated markets totaled Rs.79.3 crore which constituted 66% of total exports and 47% of total revenues

- Expanded North American office by adding senior level staff

- Significant progress made on the path to becoming a fully integrated pharmaceutical company



- Initiated expansion projects for R&D as well as manufacturing to cater to the increased demand in contract chemical development and subsequent manufacturing



Our *mantras*, our beliefs and our processes

Neuland is committed to the cause of good health, and shall devote itself to fulfilling this role by providing products and services of the highest quality at the most affordable prices.

In doing business with the aim of keeping people healthy, the Company has drawn up a set of mission critical guidelines and action plans:

Neuland is a company on the move. Our destination is clear. We're constantly pursuing ways to generate profitable growth.

We have presence in major therapeutic segments such as cardiovascular, anti-asthmatics, CNS, anti-fungals, anti-microbials, fluoroquinolones, anti-ulcerants, anti-Parkinsons, and anti-Alzheimers.

We have products that are approved and production facilities stand inspected by international regulators. Our focus is on global market for active pharmaceutical ingredients (API). We have aligned our product profile around growing, dynamic markets.

We approach the future with a cogent strategy and a positive outlook. In the near term, we expect to enter many more premium markets. Our differentiation is our well established and growing presence in the regulated markets of Europe and the USA.

Expansion of our North American offices will create an organisation to consolidate sales and increase our foothold. This will help us get nearer our customers.

In Europe, increased visibility and larger consumption will drive our top and bottom line growth.

Although our emphasis will be on exports, Neuland will continue to improve its presence in the Indian API market. We will consolidate domestic gains and enlarge our market share and relationship with the discerning customers in the market.

Strengthening our core capabilities will allow us to broaden our geographical reach, expand our customer base, and leverage our resources.

We're establishing new benchmarks in productivity and stimulating continuous improvement. By ensuring that our R&D arm is in sync with production, we aim to contain



Our business model will be strengthened by the new R&D Centre, and our commitment is to become a comprehensive drug discovery and development company.

costs and improve our process efficiencies. Our efforts in this direction are paying off. Yields are steadily climbing and we continue to be able to compete effectively in low and high premium markets alike.

Team Neuland is aggressively driving change and improvement in every aspect of the business. Neuland has re-engineered its processes to eliminate wastage. We are again increasing capacities to meet rising demand as well as new product launches.

We are devoted to ensuring a reliable vendor base. We have an enviable relationship with all of them, which enables them to effectively link up with our overall supply chain.

Neuland's strong financial condition is reflected in the improved cash flow. We will leverage this to build productive assets.

Our plans are in place. Our products are tried and tested. Our people are well-equipped and

motivated to meet the future. We're aiming to exercise our diverse strengths, work together, and perform with urgency.

By turning our potential into profitable business strategies and replicating them across all markets, we will continue to remain the preferred source for our customers.

Our business model will be strengthened by the new R&D Centre, and our commitment is to become a comprehensive drug discovery and development company.

In all our endeavors, we will protect the environment, use resources better, and value human capital.

Neuland has emerged stronger as a result of past challenges and will continue to create long term value for all its stakeholders.

We believe that change remains our ally, and that Neuland's future holds great promise.

Positioned to deliver better

From the desk of the Chairman & Managing
Director

Dear friends,

Neuland did well in FY06. Revenues were higher and so was net income. More important, we reached out better to our customers, enhanced our deliverables and created a robust platform for growth. We partnered with our customers, added value to their products and in turn, helped them meet their customer needs. I am happy to report Neuland is now increasingly seen as the preferred source worldwide by its customers.

We widened our market by adding new customers and new product offers. We also improved the depth of our business by increasing the volume of orders and by execution of repeat orders. In a year when the selling prices were subdued and raw materials were at a premium, all the same, we managed to post higher revenues and improved net income.

Neuland closed FY06 with 7% higher revenue at Rs.170.3 crore, while the net income was higher by 30% at Rs.6.2 crore. Apart from the marketing initiatives, improvement was achieved by consolidating and restructuring the production processes and managing constraints at the manufacturing facilities.

We have delivered strong performance while investing in the future of our Company.

The year saw Neuland moving ahead in its pursuit of becoming a research-led manufacturer of bulk actives.

Our research base adds value and we are committed to development of intellectual property. Neuland is strengthening its capabilities and adding to its capacity by integrating up to 200 scientists in the foreseeable future. The impact of our investment in people and systems will be visible and rewarding to all our stakeholders.

The new R&D Center being set up will have state-of-the-art equipments and will cater to the chemistry needs of top pharmaceutical companies in the world. We are assisted by one of the best resources in the industry, A. M. Pappas & Associates, our partners. We have mapped our milestones to become an end-to-end R&D partner for our customers.

Our strength is manufacturing active pharmaceutical ingredients and we have a large basket of products that are approved by regulatory authorities globally.

170.3
Revenue Rs. Cr.

30%
Income Growth

Neuland will be relentless in improving further its manufacturing efficiencies, and shall exert to be a very efficient producer of high quality bulk actives.



As you are aware, our facilities are systems inspected by authorities such as the US FDA and the EDQM, and certified by TGA, Australia. We have trained resources with skills that enable us to deliver products and services that our customers need.

We have added more products to the pipeline, and we believe we can support our customers by offering them a wider choice. They will stand to gain and simultaneously this approach will improve the business mix and add value to Neuland.

As in earlier years, we will continue to extend our pipeline of products and we shall offer our customers the quality that they need. We believe this will deepen our association with some of the best names in the global pharmaceutical industry.

Our customers need continued reliability and for years we have lived up to their expectations. We now see growing opportunities, as global formulators seek alternatives to reduce their cost of inputs. Neuland is ideally positioned to partner with them, recognised as we are as a significant player by the industry majors.

We have charted a plan to become a dedicated manufacturing resource for a few well known customers. Neuland will be relentless in improving further its manufacturing efficiencies, and shall exert to be a very efficient producer of high quality bulk actives. In the process, we will utilise our assets much better.

My colleagues and I will expand our core competencies by concentrating on our existing strengths i.e. our motivated and well-qualified employees, our expertise in chemistry, our cost leadership and our technology platform.

During the year, we reinforced our strengths as perceived by our customers. We are known for our quality of thinking, ethical approach, and farsightedness. We are in an industry where competency is appreciated, and are trusted to deliver what our customers need.

A key feature of our strategy is to extend our business to growth segments. To this end, we are focusing our attention on quality-conscious and demanding markets such as Japan, since we are well equipped to service them. Our enormous strengths overcome high entry barriers and protect us from competitive forces.



We shall expand our boundaries to meet the needs of innovators for research-related services.

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The new financial year has opened well. The level of order has been good and manufacturing facilities are operating at optimal capacity.

Going forward, Neuland will be strengthening its business model and will be seen as a dependable source for research and manufacturing capabilities. We will invest in intellectual property and partner with customers in their pursuit of cost-effective yet result oriented research.

Today we are known for chemistry capabilities and manufacturing strengths. Soon we will be contributing to research on behalf of customers. As we expand our scope and boundaries, we will offer expertise in products that are going off-patent. At the same time, we shall expand our boundaries to meet the needs of innovators for research-related services.

We are investing in the future and ensuring long-term sustainability of the business and

profitable growth. We are well-positioned and have initiated a number of projects to keep us ahead. It will also demand a lot from us as we accelerate our efforts.

Our customers will continue to see us as the preferred source for the best APIs, while also being able to trust us as their intellectual property partners for product research.

To achieve our ambitious goals, we are relying on the commitment and high motivation of all our employees. My colleagues on the Board and I would like to extend our sincere appreciation and thanks to them all. I take this opportunity to thank you our shareholders, for placing your confidence in us, and to particularly thank our business partners for their valuable co-operation. We will do our part to successfully build on this trust in to the future.

Warm regards,
DR Rao

Adding value through growth

The Chief Operating Officer discusses the outlook

Where is Neuland today?

Neuland is a preferred source to the qualitative segment of the generic pharmaceutical industry. This has been built on a strong foundation of IP in R&D, efficient manufacturing, and well establish regulatory framework.

We at Neuland have consolidated our operations and made ourselves far more customer-friendly than before. Neuland continues to improve manufacturing efficiencies by managing constraints in some of its critical processes.

Recognizing the significance of the role Neuland plays in the success of its generic clients, Neuland has expanded its product offering and aligned its capacities to meet rising demand.

We added to the customer interface by strengthening the North American operations. We serviced the quality conscious regulatory markets of the US and Europe and ensured that we were never too far away from the customers.

Improved manufacturing capacities, added product offers and close business relationship with customers has got Neuland ready to face the challenges of growth.

Neuland has also leveraged its experience and reputation built over the last two decades to establish strong strategic relationships with

organizations operating in various segments of the pharmaceutical industry. Neuland will be able to leverage these relationships into significant business and ultimately value for its shareholders.

What are the long term prospects?

Neuland is a company that is built of consistent and strong fundamentals.

Characterized by continuous change and dynamic growth, Neuland is pursuing a course of active change and responding to the constant evolution and developments of the markets. Following are some of the long term prospects:

- Will continue to be a very strong player in the generic segment of the pharmaceutical industry while continuously finding ways to create value.
- Expanding its scope to include Drug Discovery and Development related activities, will diversify and de-risk its existing business. This will also create tremendous value in the long term.
- As Neuland continues to look inward to exploit its constraints, it will be able to build a solid business, less affected by shifts in market dynamics.

What makes the Company different?

It is in our thinking and our execution that we are different. We recognise

33.07

28.44

22.84

17.2

11.09

2005-06

Return on Investment
Percentage

that our customers need to succeed in their markets; they (our customers) need to provide cost-effective products which impart the desired therapeutic effects; their patents need to be protected and, they need vendors who will put the interests of their customers ahead of themselves.

Some of our differentiation factors include:

- We align our business processes with that of our customers and their markets.
- We carry a reputation for being consistently a value driven company
- Our enviable customer and employee base
- Common goals within the organization keep us aligned and focused
- Achieving quality, speed, and efficiency are not mutually exclusive
- Focus on leveraging our core competencies
- Leveraging our existing capabilities to build long term value.

Is Neuland's growth sustainable?

Yes, it is. Neuland is a vibrant organisation. We will maintain, and improve on best practices. The training that we impart to staff and the supervision that we provide at manufacturing stage will be the cornerstone of our commitment. Our commitment to the customer will guide our activities.

We are working to leverage this platform. We are aggressively adding to product pipeline, investing in R&D infrastructure and skill sets of scientists, and are now making a paradigm shift by adding drug discovery and development and related services for our customers. We

believe we will offer the same reliability that we are known for, at terms that will also create economic advantage for them.

Our commitment to the customer will guide our activities.

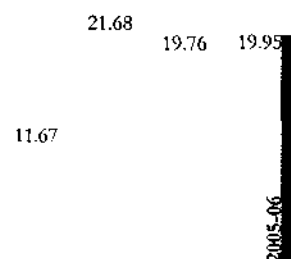
There is considerable traction in our business model, and Neuland will benefit with every value addition delivered to its customers.

What are the immediate/ short-term plans of the Company?

Neuland is working to become the most cost-effective producer of the highest quality products. We hope to step up volumes because of the restructuring and consolidation we have achieved in our operations.

Our position as a significant player in the world of complex chemistry will get a further boost when our new R&D Centre goes live in Q2 of FY07. We will provide support to customers in early stage discovery of molecules and hope to be associated with some of the industry leaders in the conduct of early stage clinical development.

Our strength is understanding and analysing of molecules and their solid structure. We aim to ensure that we will meet the needs of customers and help them with



Economic Value Added (EVA)

Percentage

Average interest rate paid for the respective year has been applied on the total funds borrowed