27th

Annual Report 2011

Neuland Laboratories Limited

Contents

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Neuland is about …

People working together with values that are best highlighted by their customer centricity, reliability, accountability, ownership, openness and transparency.

People striving hard to make the Company the first choice of customers in the pharmaceutical industry across the world.

People who translate complex chemistry into effective products.

People who make things happen the ethical, quality conscious way, to make Neuland a value based company.

People doing their best to make a difference to the lives of consumers.

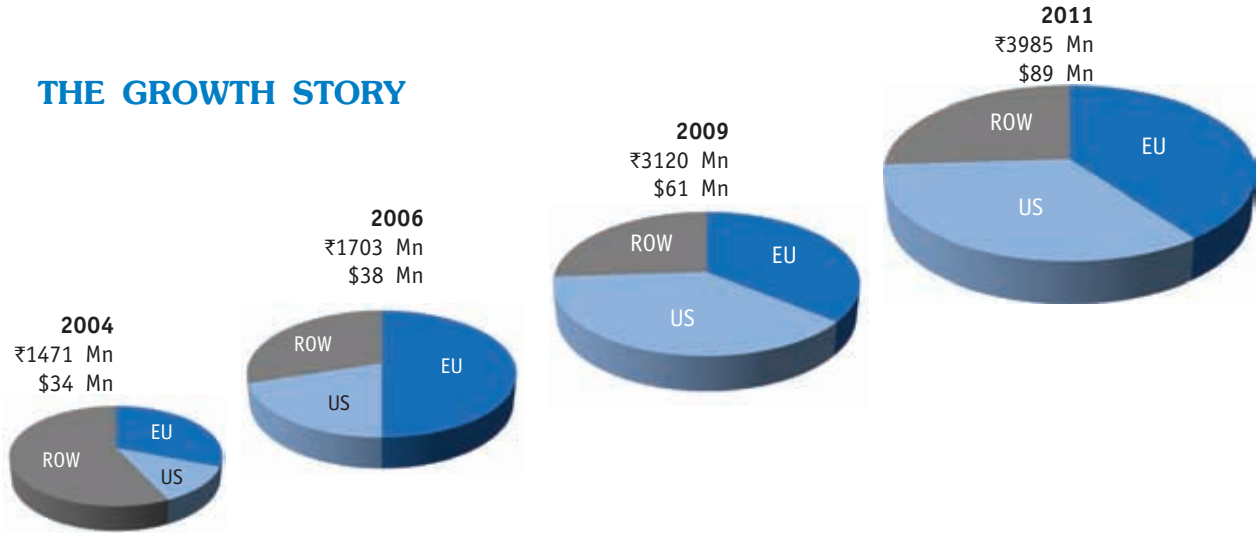
This is the Neuland Way. All the way.

Our DNA

The spirit of research and professionalism pervades Neuland's corporate culture. From inception, Neuland has strived to offer the best in quality to customers in the pharmaceutical industry backed by its manufacturing capabilities and competence to deal with complex chemistry. Neuland will continue to differentiate itself by offering products and services that are not only superior in quality but also reliable.

Neuland today supports some of the successful companies in the pharmaceutical industry, both in research and manufacturing. The core strategy of Neuland is never to compete with its customers. In doing so, the Company focuses purely on a service provider model, whether in manufacture of active pharmaceutical ingredients (APIs), contract research or contract manufacturing services. As a result of this strategy, the Company's customers are never in a situation where they find themselves competing with Neuland, either in the drug development space or in the generics space.

THE GROWTH STORY



1984	1986	1994	1997	1999	2003
Neuland Laboratories incorporated in Hyderabad	Made first sale of salbutamol sulphate/ albuterol sulfate	Went public with an IPO; Raised capital for construction of second production facility (Unit-2 at Pashamylaram)	Received first US FDA approval	Both manufacturing facilities inspected by US FDA. Received Certificate of Suitability for Ranitidine	US and EU markets contribute over 40% of Neuland's sales

KEY PRODUCTS

Top ten products of the Company are

Ciprofloxacin

Ranitidine

Mirtazapine

Enalapril Maleate

Ramipril

Sotalol HCI

Olanzapine

Levetiracetam

Levofloxacin Hemihydrate

Salmeterol xinafoate

THERAPEUTIC SEGMENTS

Neuland operates in the following therapeutic segments:

Anti-Asthmatic

Anti-Infective

Cardiovascular

Central Nervous System

- Anti-Depressants
- Anti-Parkinsons
- Anti-Alzheimer's

Anti-Ulcerants

Anti-Fungals

Fluoroquinolones

Anti-Diabetic

CUSTOMER PROFILE

The key customers include some of the largest pharmaceutical manufacturers in the world, from countries such as the USA, Canada France, Israel and India. Over 81% of the sales of the company are to export markets, with a majority to American & European markets.

North America accounts for 34% and Europe accounts for 40% of the overall sales. Top 7 customer groups account for 58% of sales and average relationship of these customers is over 15 years.

VISION

To be a superior and reliable science and technology driven company in manufacturing active pharmaceutical ingredients and providing contract research services to the global pharmaceutical industry.

2004	2006	2007	2008	2009	2010
Established North American operations	Nine products with Certificate of Suitability; US office started operations from California	Established Japanese subsidiary in Tokyo; Unit-2 inspected by German Health Authority	Certified in ISMS. SAP enabled Business Processes; Unit-1 inspected by US FDA; Unit-1 Certified for ISO 14001 and OHSAS 18001	Units 1 & 2 receive approval from PMDA, Japan	Unit-2 certified for ISO 14001:2004 & OHSAS 18001:2007; Exclusive peptide collaboration with Genzyme Corporation

CORPORATE FACT SHEET

- ✓ 27 years of successful presence in the pharmaceutical industry.
- ✓ Focused on manufacture of APIs, contract research and contract manufacturing.
- ✓ US FDA, TGA, EDQM, PMDA, German Health Authority, ISO 14001, ISO 27001 and OHSAS 18001 Certified.
- ✓ Over 400 DMFs worldwide; with a presence in over 85 countries.
- ✓ 40,000 sq. ft. state-of-the-art R&D facility at Hyderabad.
- ✓ Over the past three years Neuland invested ₹1,464 million in capital expenditure, of which ₹338 million in R&D and ₹1,126 million in manufacturing facilities.
- ✓ As at March 31, 2011 on roll 977 employees.
- ✓ 176 scientists working in R&D including 22 PhDs.
- ✓ Shares listed on the Bombay Stock Exchange and National Stock Exchange.

MANUFACTURING FACILITIES

Unit 1

- Inspected by US FDA in 1997, 2004, 2008 and 2010.
- Inspected by EDQM in 2005.
- TGA-GMP and WHO GMP Certification.
- ISO 9001:2000, ISO 14001 and OSHAS 18001 certified.
- Unit-I is a versatile high value production facility and consists of reaction vessels that range between 20 litres through 5,000 litres.
- Capable of handling broad spectrum of reactions and wide range of process parameters.
- Six production blocks covering 3,600 Sq. Mts.
- Total reactor volume 151,000 litres.
- Product line includes anti-asthmatics, cardiovasculars, anti-bacterial, CNS, fluoroquinolones, corticosteroids, anti-diabetic, anti-parkinsons, anti-alzheimers and anti-fungal.
- Robust EHS policy in place with regular drills for fire fighting and training for use of personal protective equipment (PPE). Use of HAZOP (Hazards and Operability), regular internal audits, EHS impact study as part of change control forms the core of the EHS system.

Unit 2

- Inspected by US FDA in 1999, 2002 and 2005.
- Inspected by ANVISA (Brazil)
- TGA-GMP and WHO GMP Certification.
- Received GMP certificate from German Health Authority in June 2007.
- High volume facility with dedicated production blocks for range of products.
- Product line includes fluoroquinolones, anti-parkinsons and anti-ulcerants.
- Three production blocks covering 2,810 Sq. Mts.
- Total reactor volume of 310,200 Litres.
- Large reactor size of 5,000 Litres (MSGLR).
- New state-of-the-art pilot plant in compliance with GMP with two production lines.
- Robust EHS policy in place with regular drills for fire fighting and training for use of personal protective equipment (PPE). Use of HAZOP (Hazards and Operability), regular internal audits, EHS impact study as part of change control, forms the core of the EHS System.

Towards sustained growth

From the Desk of the Chairman & Managing Director

We had a very robust year in terms of overall increase in revenues as well as volumes and number of products introduced into the market. However, the bottom line could not keep up with the other performance parameters. Volume produced was stepped up to 1290.9 MT, an increase of 43.3% over 900.8 MT achieved in the previous year. Significantly, the operating profit margin was increased during the year to 12.5% from 10% earned in the previous year. Revenues rose by 41.7% at ₹3985.41 million from ₹2812.53 million and we achieved profit after tax of ₹50.69 million as against loss of ₹70.45 million in the earlier year.

This performance reflects the benefit of being agile and adapting our plans to better utilize our facilities, the ability to scale up volumes of our key products and more important, the strength of our relationship with our customers.

There was significant increase in the volumes and market share of two of our key products. We have become global leaders for both these active pharmaceutical ingredients. We have also launched two niche products that are making an impact on our bottom line. Today, we have 60 products on offer to our customers, with several either gaining volumes or are high value products contributing to our margin expansion.

Consequent to the stress witnessed in 2009-10, we revisited our business plan as well as systems and processes in a bid to derisk the Company from the pressures of the market. While a few lessons were learnt, we are now more than assured that our time tested strategies are working well. We are convinced that for achieving above average industry growth, we need to stay centered on three key priorities:

- ✓ Strengthen our pipeline of new active pharmaceutical ingredients from our state-of-the-art research facility;
- ✓ Explore the global market for delivering the full potential of our scaled up product basket through rigorous quality control and excellent customer support;
- ✓ Challenge our cost structure at the research center, in sourcing of materials, as well as in the production process.

Each of these priorities was tested successfully. Impetus was given to these priorities by focusing on three core drivers of success: products, people and processes. We managed to increase volumes with existing customers, sought new customers and geographies for existing products, while ensuring that we have a continuous pipeline of in-demand products. We have energized our research function with motivated leadership, enhanced R&D productivity and are confident of commercializing larger number of new products in 2011-12.

We have also invested in the continued commitment and energy of our people and we shall provide the leadership and encouragement they need to deliver to their potential. We did a detailed study of the demonstrated values within the organization such as customer centricity, reliability, accountability, ownership openness and transparency. These were identified as fundamental facets of the Neuland Way and have now become a way of life across the organization. The employees are conscious of these values and have internalized them to bring a difference to the way Neuland operates in a crowded market.

Performance standards were enhanced especially by reducing raw material costs, adding newer sources of supplies, optimizing process efficiencies, raising productivity on the shop floor and carefully trimming overheads. We had to make the improvements and hit the ground running.

Looking ahead, our active pharmaceutical ingredients business will be stepped up year after year with newer products, rising volumes and increasing margins. Our entry into contract manufacture will accelerate our growth and supplement value addition. We are working towards significant contribution in both revenues and bottom line and with our known strengths are looking forward to rapid strides in this business.

In the past year, we did considerable development work on our foray into synthesis of peptides. We commercialized new products and have launched generic peptides. We see potential for value addition and a steady growth in the foreseeable future. In fact, we are giving it the necessary impetus to make the business a powerful engine for our future growth.

I am confident that with capable stewardship, clear direction and a sense of urgency in our operations, we at Neuland will have a sound platform to maintain momentum. We are working towards sustained, profitable and responsibly managed growth. Our stakeholders, in particular our customers and investors, will stand protected as the Company climbs the staircase of growth.

Warm regards

Interview with CEO

Getting ahead of the curve

Q. *How did Neuland overcome the challenges of the previous year?*

A. We did well in the year as a whole, despite pressures in the first quarter. You will recall, we had reported a loss in the previous financial year since the capacity expansion could not be fully utilized. This was compounded by margin pressures due to headwinds in a stressed global market. This trend continued into the first quarter of the financial year 2010-11. As a result, we also had to cope with working capital pressures.

In the first quarter of 2010-11, we experienced raw material price escalation which added to our challenges. As far as possible, we were keen that we did not pass on the increased costs to our customers, since we believe that temporary pressures need to be held by us and we must make it easier for our customers to compete in their markets. All these impacted our first quarter results and we reported a loss of ₹47.65 million.

Team Neuland responded with a sense of urgency to the situation and the additional capacity created was marketed with considerable success. Capacity utilization has improved and with higher deliveries, we have become global leaders in two of our key products.

We also stepped up marketing of high value products and expanded into newer territories. Almost immediately, in second quarter itself, we witnessed good order flow and reported profits in each of the three successive quarters from July 2010 to March 2011. The cumulative profits in the three successive quarters totaled ₹98.34 million.

Q. *What was the learning for the future?*

A. Stay focused on cash flow. We minimized operational costs and maximized cash flow through effective working capital management and reduced capital expenditure. We have seized available opportunities to improve our processes and lean out our cost structure. We sharpened our manufacturing efficiencies and have cutting edge operational excellence.

We stopped what we thought was not really critical almost immediately. We became more selective, and focused on investing only where we saw sustainable