A view of the new API plant near Hyderabad, India

Nicholas

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NICHOLAS PIRAMAL INDIA LIMITED

ANNUAL REPORT 2002-2003

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NICHOLAS PIRAMAL INDIA LIMITED

ANNUAL REPORT 2001-2002

The Vision

To become the most admired pharmaceutical company in India with leadership in market share, research and profits by:

- Building distinctive sales & marketing capabilities
- Evolving from licensing to globally launching our patented products
- Inculcating a high performance culture
- Being the partner of choice for global pharmaceutical companies

Always adhering to our Values, based on our obligations as the trustees of our customers, employees, shareholders and society

NICHOLAS PIRAMAL
INDIA LIMITED

1

THE BOARD OF DIRECTORS

Ajay G. Piramal, Chairman
G. P. Goenka
C. M. Hattangdi
Dr.William Jenkins
Y. H. Malegam
Dalip Pathak
Dr. Swati A. Piramal, Chief Scientific Officer
Urvi A. Piramal
R. A.Shah
Vijay Shah, Chief Operating Officer
M. R. Shroff
B. K. Taparia
N. Vaghul
S. Venkitaramanan

Auditors
Price Waterhouse, Mumbai.

Solicitors
Crawford Bayley & Co.

Bankers
Allahabad Bank
Bank of America
Bank of Baroda
Citibank N.A.
Credit Lyonnais
Deutsche Bank
Oriental Bank of Commerce
State Bank of Hyderabad

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Share Transfer Agent
Amtrac Management Services Ltd.,
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CHAIRMAN'S LETTER

The recent past has seen far-reaching changes in the global pharmaceutical arena. The coming of age of biotechnology and genetic engineering, rising research costs and a concomitant decrease in research productivity, increased vigilance levels by drug regulatory authorities, pressures by public interest groups against the high cost of life saving drug therapies, and the bunching up of patent expirations over the next few years, are creating new imperatives for change within the industry.

The Indian industry will also see major change with the introduction of the product patents regime in 2005. The real impact of the product patent regime is, however, likely to be felt only with a time lag of 4-5 years. Dramatic changes in product usage are unlikely in the years immediately following 2005, though the underlying trend towards chronic lifestyle-related therapies *vis-á-vis* anti-infectives will persist. Consequently, the Indian pharmaceutical market will see a shift towards higher value products and therapies, blunting some of the pressures brought about by the advent of generics.

Post-2005, the reverse engineering skills that were a source for new products in India, will be of limited utility, and NCE research and global alliances will be the core of new product strategy. In time, R&D capabilities will be critical for Indian companies with growth aspirations, not just for new products but also for collaboration, contract research and licensing. With relatively lower drug discovery and development costs, India could emerge as an economical source of new drug candidates that keep the pipelines of MNCs robust.

India's fragmented industry, where no player has more than a 7 % overall market share, will see further consolidation as companies seek economies of scale to pursue their marketing and research goals.

MNCs will also seek Indian partners to co-market and in-license their products in a mutual win-win situation. While the MNCs will benefit from the established and wide marketing network of leading Indian companies, the latter will gain from the research pipelines of the global majors.

In India, anti-diabetes, cardiovascular and central nervous system-related products should see sharp growth rates for the next few years. These segments have high brand loyalty and better profitability (since therapy is continuous over extended periods). Given their specialised nature, these segments will call for knowledge-based marketing.

We are focused on taking advantage of these trends. Best-in-class management consultants have helped us implement processes that build distinctive capabilities across a range of functionalities, including sales and brand management. We aim to create a balanced growth portfolio across formulations, and diagnostics, emphasizing organic growth through new product launches and the strengthening of our existing brands. Given the growing importance of OTC in India, we've strengthened our joint venture with Boots Plc. and aim to consolidate our leadership position in this segment.

The organization now emphasizes a high performance culture with a system of rewards and censures, with ESOPs introduced for key individuals. Our compensation structure now increasingly reflects a variable component with almost no fixed annual increments.

Following our acquisition and subsequent integration of Rhone-Poulenc India Ltd., we now have a new organization structure, with a cost management strategy that has optimized efficiencies considerably across all support functions, supply chain management, manufacturing and finance.

NPIL, today, is a significantly stronger entity, focused on excelling in brand management and marketing skills. Specialised marketing divisions, attentive to the customer, have been created. Cardiovascular, Diabetes, and Central Nervous System are the focus segments for future launches, and market leadership.

We have now achieved a critical mass by effectively leveraging our M&A capabilities. All future acquisitions will be driven by strategic fit, as seen from our last acquisition — the pharmaceutical business of ICI Ltd. This propelled us to leadership in the Cardiovascular segment with products that complemented our existing portfolio, giving us both volume and breadth across the segment.

NPIL has a rich tradition of partnering with global pharma players for marketing their products in India. Managing such relationships calls for experience and skill. Our reputation for fairplay, accumulated knowledge-bases and track record will make us the partner of choice for the Indian market and give us a unique and significant competitive advantage post-2005.

NPIL's acquisition of the Aventis Research facilities at Mulund, Mumbai, brought to the company scientists with a proven track record in NCE research and international patent filings. We've further strengthened our research team and are confident that our R&D efforts will give the company an edge in the years to come. We look forward to sharing with you positive developments in the near future.

We are enthusiastic and confident about the future, and renew our pledge to measure up to the trust you've reposed in us. With your continued encouragement and support, we are confident that Nicholas Piramal India Ltd. will go from strength to strength in the years to come.

The year 2001-02 (FY02) has witnessed major change initiatives at Nicholas Piramal India Ltd. Specialised marketing divisions have been created to enhance coverage of key customer segments such as Cardiovascular, Diabetes, and Central Nervous System, which are the focus segments for future launches. We seek leadership in these areas in the coming years.

Consistent with our philosophy of using both organic and inorganic means to grow, we acquired ICI Ltd.'s pharmaceutical business in January 2002 at a cost of Rs 70 crores on a going concern basis. The consideration includes acquisition of brands, manufacturing facilities, export business and net current assets. This business has recorded a gross sale of Rs 72 crores in FY02, including exports of Rs. 20 crores. The acquired business also has a strong presence in the international markets, exporting speciality bulk drugs manufactured at its Ennore Plant to the unregulated markets.

We have rationalized our portfolio of Joint Ventures and Alliances. Those Alliances that were small in size and offered little in terms of strategic value or were in markets that were not poised to grow significantly in the next few years, have been discontinued.

A relook at the manufacturing strategy has resulted in efficiencies that will offer continuing cost benefits in the years to come. We have made several make versus buy decisions in order to gain cost advantages. Outsourcing is now being used as a strategic tool to minimise costs with in-house locations focusing on strategically important, high volume products. Through an optimization of manufacturing locations, loan licensees and third party network considerable manufacturing efficiencies have been realized.

As a consequence, we have significantly reduced the operational complexity of our plants and consolidated in-house manufacturing locations with a view to align capacities with future demand requirements. Our Pithampur facility has been upgraded to improve yields. Our Bhandup and Paithan facilities have been closed down and the Deonar facility has been downscaled. The Paithan facilities have been sold. With this restructuring the overall conversion cost has reduced from 7.5 % of gross sales to 6%.

We emphasise Human Resources Management and have, during the year under review, instituted systems of performance and consequence management that will strengthen the work ethic in the organization.

MANAGEMENT DISCUSSION & ANALYSIS

With a distinct strategy in place to improve business process efficiencies to ensure greater productivity and superior business performance, we have managed a 45 % reduction in personnel across support functions like Supply Chain, HR, Finance and IT, post-integration of the erstwhile Rhone Poulenc India Ltd.

Formulations

We are now, along with our Joint Ventures, the second largest pharmaceutical Group in India and the fourth largest domestic Formulations company. Our Formulation business grew by 9 %, which was in line with industry performance. Our growth was driven mainly by improved growth in the cardiovascular, nutritional and biotech segments.

The performance in anti-diabetics and CNS suffered partly from the lacklustre performance of the older products in our portfolio. We will rectify the situation with the launch of newer products in these areas.

Brand Marketing and New Products

During the last year, we have taken several initiatives in the marketing domain. These include product rationalization and aggressive new launches in strategic high growth therapeutic segments. Product extensions and brand relaunches have also been used to maximize growth and revenue potential.

The product rationalisation strategy is formulated to concentrate on a few star brands with high growth potential. After a detailed study of all our brands, we have grouped them under three categories – primary, secondary and tertiary – in order to allocate managerial and financial resources optimally.

Brands with high growth potential are classified as primary brands. These brands today account for more than 67 % of our revenues and are growth drivers for us. Such Brands include Phensedyl, Ismo, Supradyn, Gardenal, Stemetil, Haemaccel and Rejoint. These strategic brands will enjoy a disproportionate share of resources be it financial, marketing or managerial.

Secondary brands are our cash cows, contributing to around 24 % of our revenue. We will continue to optimize returns from these brands. These brands include Paraxin, Flagyl and Omnatax. Our Tertiary Brands, in the aggregate, contribute to 9 % of revenue. We intend to phase out these brands over a period of time.

Organic growth within our existing brands and brand categories is being given increased focus. We have identified key levers to propel our strong older brands to growth and streamlined processes to make a focused thrust on key brands. The product portfolio has also been rationalized to create a cohesive and sustainable brand basket that addresses profitable therapeutic areas (TAs) with future potential.

We have built a distinct competence around individual therapeutic areas. These TAs will be the main focus for new launches with the clear intention of being among the first three to enter the market in any chosen molecule.

New launches, in the immediate term, will be through in-licensing of new molecules – both locally and globally. Management teams have been put in place to seek opportunities in each.

In the last 12 months, we have launched 18 new products, most of them in high growth lifestyle therapeutic segments such as Oral Anti-Diabetics, Anti-Depressants, Cardio-Vascular and Anti-Arthritics. Aggressive new launches and strategic acquisitions in the high growth lifestyle segments have reduced our exposure to the highly competitive antibiotic segment. Respiratory, Cardiac, NSAIDS and Psychiatry now account for 42% of Formulation sales. Significantly, the highly competitive antibiotics segment now contributes 11.5 % in FY02 compared to 12.2 % in FY01.

The anti-infective Gatifloxacin was launched under the brand names — Gatrim and Gres. An innovative launch and a strong push from the field force enabled us to corner a combined market share of around 50% in the first six months. The reduced price levels and increased competition in this segment will help expand the segment considerably and will benefit both these brands.

We launched Irbesartan under the brand name Xarb, in the second half of the current year. In this highly competitive segment, this new generation molecule was launched innovatively with a strong scientific input. We are confident that Xarb will emerge as the preferred brand choice in the anti-hypertensive segment over the next financial year.

The brands and the manufacturing facilities acquired from ICI Ltd.'s pharmaceutical business represent a very good fit with our existing businesses. The ICI pharmaceutical business acquisition gives NPIL key brands in the CVS segment like Tenormin, Inderal, Zestril and Tenochlor making us the largest player in the Cardiovascular segment with sales of Rs 95 crore. Fluothane and Diprivan in the Anaesthetics segment are other important brands brought in by this accquisition in the Critical Care category.

MANAGEMENT DISCUSSION & ANALYSIS

We continue to perform well in the Neutraceuticals segment. Haemmacel continued to show a high growth rate and Supradyn remains the largest prescribed brand in the multi-vitamin segment. We also launched Gluspan, a specific Nutritional supplement for diabetics. This product has been well accepted by Diabetologists and Consulting Physicians. In the coming year, we are planning to launch more speciality Nutritional supplements to consolidate our presence in this segment.

Brands Introduced by NPIL in Formulations in FY 02

Brand	Molecule	Therapeutic Category
Xarb	Irbesartan	Antihypertensive
Xarb H	Irbesartan + hydrochlorothiazide	Antihypertensive
Stromix	Clopidogrel	Antiplatelet
Gluspan	Multivitamin + Multimineral	Nutraceutical
Zetalo	Citalopram	Antidepressant
Piozone	Pioglitazone	Antidiabetic
For OA	Glucosamine	Antiarthritic
Rejoint 100	Chondroitin 100 + Glucosamin 400	Antiarthritic
Omnaone	Ceftriaxone	Antibiotic
Orthobid MR	Nimesulide + Tizanidine	NSAID + muscle relaxant
Orthobid Plus	Nimesulide + Serratiopeptidase	NSAID + antiinflammatory
Ismorin	Isosorbide mononitrate + aspirin	Antiplatelet + antianginal
Gatrim	Gatifloxacin	Antibacterial
Gres	Gatifloxacin	Antibacterial
Trustyl	Ambroxol + Guaiphenesin + terbutaline	Cough
Phenargan Plus	Promethazine + paracetamol	Antihistaminic + antipyretic
Nivaquin P forte	Chloroquine	Antimalarial
Flagynor	Metronidazole + norfloxacin	Antidiarrhoeal

Sales Force

Our sales force is the third largest in the Indian industry. In view of the complex business dynamics, our 1794-strong-field force is segregated into discrete divisions with a disease focus to improve customer coverage. Some of the field forces are of a size that would do justice to a medium-size pharmaceutical company in India, enabling us the advantage of scale and size, even while capturing micro-opportunities across the market. Our strong IT skills enable us to leverage the advantages of scale and learning across the sales forces.

The divisionalisation of our field forces not only helps us capture micro-opportunities in the market but also brings to bear the strengths of scale and size. Each high growth area like Cardiovascular, Diabetes, Central Nervous System, Gynaecology, Dermatology, and Oncology now have a dedicated field force that has been retrained to drive brand growth.

NPIL's Field Forces (Dedicated)

SBU	TA Focus	Field Strength	
		FY-02	FY-03
Cardex	Cardiovascular	210	250
Extra Care	Neuro-Psychiatry	261	288
	Diabetology		
Glotek	Dermatology	42	119
	Gynaecology		
Biotek I	Nephrology	48	48
	Oncology		
Biotek II	Oncology	10	12
Critical Care	Anaesthesiology	44	50
Total (1)		**615**	**767**

In addition to the above, we have a multi-speciality approach to mass consumption brands and products, which require considerable reach and penetration across the country. Our field force, therein, direct their effort primarily to General Practitioners and Consulting Physicians. To achieve enhanced focus in areas which encompass a large range of diseases we have segregated our field forces as under:

NPIL's Field Forces (Multi Specality & Institutional)

SBU	TA Focus	Field Strength	
		FY-02	FY-03
Multi Speciality I	General Medicine	605	605
	Orthopaedic		
Multi Speciality II	Respiratory	419	455
	Paediatrics		
Franchises	Anti-infectives	151	311
Institutional	Tender Business	4	10
Total (2)		**1179**	**1416**

The frachisee field forces, while not employees of our company, enhance our presence in the market by promoting older brands with high growth potential in non-urban markets.

Restructuring, Integration and Cost Management

The process of integration with Rhone Poulenc India Ltd. gave us an opportunity to relook and bring down costs across the company as a whole. The effort has been to benchmark against, and set better norms, for the best

MANAGEMENT DISCUSSION & ANALYSIS

practices in the industry, while looking into all our operations anew. Considerable efficiencies have been realized in the supply chain. Several initiatives, such as consolidation of suppliers, partnership with suppliers, import substitution, packing material value engineering, were undertaken during the year, which yielded reduction in material cost.

We now have in place a highly effective hub and spoke system for distribution with three hubs across India. As a result of distribution network modeling & CFA rationalisation, distribution costs have been reduced from 3.6% to 3.1% of sales. We now have 23 CFAs post merger against a total of 40 after the Rhone Poulenc acquisition.

Implementation of a state-of-the-art planning system, along with a web-based tool for sales forecasting, has helped achieve reductions in inventory and lost sales. Web-enabled sales forecasting tools have improved sales forecasting accuracy considerably. We now use web-enabled tools for online connectivity with contract manufacturers and have automated the third party procurement process. Cost reduction initiatives have been identified and begun to be implemented across the company.

Diagnostics & Patient Care

Nicholas Piramal's Diagnostics Division competes primarily in the invitro diagnostic market (blood, urine, cardiac and tumour markers, etc.) and the diabetes monitoring market, leveraging the product range of world leaders like Roche Diagnostics and Boule, Sweden. The split in sales between these segments is Rs. 32 cr in invitro diagnostics and Rs. 38 crore in diabetes monitoring. During the year, this Division registered sales of Rs. 70 crore, maintaining its leadership position in both these segments.

The increasing incidence of diabetes in the country indicates that the diabetes monitoring market will show tremendous growth and will be a thrust area for us. Our sales in this segment achieved a growth rate of 24% over last year, which is double the estimated market growth rate of 12%.

The offerings of this division allow NPIL to take an integrated disease management approach to diabetes as it complements the anti-diabetic range of products from the formulations business. We are unique in this respect and our range of offerings places us advantageously with diabetologists and other members of the medical fraternity.

Vitamins

For FY02 the sales of the Division stood at Rs. 62 crores. Despite significant improvements in the productivity of resources and various cost reduction initiatives, the sale of Vitamin A and its commercial forms showed de-growth due to the dumping of low cost imports and reduced demands from the user industries.

In the interest of operational efficiency and to increase profitability, the Division established its own Selling & Distribution network and severed its distribution arrangements with Voltas Ltd., reducing distribution costs substantially.

Joint Ventures

Sarabhai Piramal Pharmaceuticals Pvt. Ltd.

Sales for this Joint Venture for the FY02 stood at Rs. 192 crores compared to Rs. 206 crores in FY01.

The fall in sales was primarily due to a price reduction in some of the major brands like Pentids, Resteclin and Tresmox. However, innovative Promotional Strategies resulted in the healthy growth of some major brands like Tresmox LB, Kenacort, Mazetol and Biozobid.

Twelve new products were launched by this company in FY02. These contributed to around 5% of total company sales.

SPPL has improved the prescription trend in some market segments like Dentistry and Orthopaedics. To strengthen these segments and acquire a leadership position, innovative and unique promotional strategies are in place for the next financial year. ENT, Neuropsychiatry and Surgery are additional segments, which have been identified for focussed promotion.

Boots Piramal Healthcare Pvt. Ltd.

This company has achieved a turnover of Rs. 40 crores for FY02 representing growth of 22 % over the previous year. The Operating Profit (PBIDT) for the year at Rs. 9.29 crores shows healthy improvement compared to previous year's Rs. 7.52 crores. The higher operating profit margin is due to changes in the sales mix and the cost reduction initiatives implemented during the year. The Profit After Tax for the year, at Rs. 5.68 crores, is about 30 % higher than the previous year.

MANAGEMENT DISCUSSION & ANALYSIS

The business portfolio of this company is being restructured. It will henceforth focus only on OTC products. In order to create a large OTC company, NPIL brands like Polycrol, and Lacto Calamine will be marketed by this Joint Venture from April 2002. This company will also work as a Super distributor for Saridon. The above new products along with Strepsils and Clearasil will enable BPHL to become a leading OTC company in the country. The Rx products namely Melalite and Lobate from this JV will now be withdrawn and will be marketed by a newly created division of NPIL, Glotek, from the financial year commencing April 2002.

Given that this JV will be the driving force for Nicholas Piramal in the OTC segment and to reflect the changed product portfolio, NPIL's equity stake in the Joint Venture has been increased from 40 % to 49 % effective April 2002.

Allergan India Ltd.

Allergan India continued to make strides in consolidating its leadership position in the Indian Ophthalmology market. This company is ranked No. 1 in the market with a share of 17.4 per cent (source ORG) as against 6.6 percent in 1998.

This company has achieved a turnover of Rs. 66 crores for FY02 representing growth of 15 % over the previous year. The Operating Profit (PBIDT) for the year, at Rs. 12.45 crores, shows a healthy improvement compared to Rs. 8.85 crores in the previous year.

Its range of pharmaceutical products grew 19 % during the current financial year, well above the industry growth. This enabled the business to gain around 1.5 points of market share.

Allergan continues to play a pioneering role in developing the ophthalmology market through its marketing programs and service to the ophthalmic community. Major initiatives during the year include

- Improving awareness, diagnosis and treatment of Glaucoma in the country, one of the leading causes of irreversible blindness. Significant resources have been deployed in physician training through CME programmes, visiting faculty, etc.
- Developing the treatment of ocular surface disease/ dry eye, the incidence of which is on the increase due to environmental problems.

Allergan's major new product LUMIGAN®, a prostamide, for the treatment of Glaucoma was launched in India in February this year within a year of the first global launch.

The surgical business posted strong growth in sales and Allergan, today, is the clear leader in small incision cataract surgery. It is also preparing for the launch of the Amadeus Microkeratome, its first product for the Lasik surgery market.

Allergan's goal is to provide the India practitioners and consumers with the latest advances in technology. The focus is on continually upgrading products and services and building a strong well-trained organization to meet future needs.

Pathlabs

The path labs market in India is estimated at Rs 3,000 crores, growing at a CAGR of 20 per cent annually. This market is highly fragmented with very few large players. There is a perceived opportunity for accredited high quality testing as the overall standards for health care in the country increase. NPIL's strategy is to exploit this opportunity through a three-pronged approach.

This business will grow through the acquisition of established, reputed labs in metros which will create the foundation on which the business will be built. These labs wll be expanded rapidly by increasing the range of offerings and enhancing the geographical coverage through branches and collection centers. Accreditation from the National Accrediation Board for Testing and Calibration of Laboratories, Government of India, (NABL) will be obtained for each of these labs and and an umbrella brand be established to leverage this opportunity.

To augment the existing business, which currently comprises Drs. Tribedi & Roy Diagnostic Laboratories Pvt. Limited, Kolkata, and the NPIL – Dr. Phadke Pathology Laboratory & Infertility Center Pvt. Limited, in Mumbai, we acquired Dr. Golwilkar's Labs in Pune in January 2002. Dr. Golwilkar's Lab is Pune's largest pathology laboratory and has been in business for more than 20 years.

Sales for these Joint Ventures stood at Rs. 14.97 crores, which represents a growth of 41 %, while profits stood at Rs. 7.01 crores representing a growth of 34 % over the previous year.

Drs. Tribedi & Roy Diagnostics Labs and NPIL-Dr. Phadke Labs have already obtained the NABL accreditation. A sharing of the best practices to obtain the NABL Accreditation for Dr. Golwilkar's Labs, Pune, is underway.

MANAGEMENT DISCUSSION & ANALYSIS

Gujarat Glass Pvt. Ltd.

This company maintained its leadership position in the domestic flaconnage market for pharmaceutical applications and made significant inroads into the cosmetics and perfumery segments.

Gujarat Glass registered a total income from operations at Rs 247 crores, marginally down from Rs 253 crores in the previous year, due to a planned shutdown of some furnaces for relining. Significantly, the company's export thrust showed good results with exports increasing by 51% from Rs 21.54 crores in the previous year to Rs 32.52 crores in FY02.

During the year, the company focused mainly on developing products in newer segments in both the domestic and export markets, which enabled the company retain its margins in a scenario where the domestic liquid pharma market was sluggish and fixed costs were increasing.

Ceylon Glass Co. Ltd.

Ceylon Glass Co Ltd achieved 6 % growth in Sales from LKR 73 crores in the previous year to LKR 78 crores. After acquisition and the subsequent turnaround, the company has improved its profitability with a 75 % increase in Profit Before Tax from LKR 8 crores in the previous year to LKR 14 crores in the current year. Profit After Tax was also higher by 38 % from LKR 6.5 crores in the previous year to LKR 9 crores in the current year.

FINANCIAL HIGHLIGHTS

Income Statement (Rs. Crores)

	2001 - 02	2000 - 01	Growth
Total Income			
Sales	946.49	566.76	67.0 %
Other Income	20.88	11.37	
Dividends	16.52	3.03	
Total	**983.89**	**581.16**	**69.3 %**
PBIDT			
Operating Profit	149.34	94.20	58.5 %
operating profits as a % of Op. Income	15.4 %	16.3%	
Dividends	16.52	3.03	
Total	**165.86**	**97.23**	**70.6 %**
PBIDT as a % of Total Income	**16.9 %**	**16.7 %**	
Interest	31.98	9.59	
Depreciation	16.90	13.90	
Profit before Tax	116.98	73.74	58.7 %
Income Tax			
- Current	4.58	7.02	
- Deferred	19.94		
Total Tax	24.52	7.02	
Profit After Tax	**92.47**	**66.7**	**38.6 %**
Earning Per Share	**24.33**	**19.14**	**27.1 %**

Sales

Sales during the year registered a growth of 67% over the previous year. This includes growth on account of acquisition of Rhone-Poulenc (India) Limited (RPIL). Detailed analysis of sales are explained earlier in the report.

Dividend

Dividend income represents dividend received from Subsidiaries and Joint Ventures. The low dividend income in the previous year was on account of most of these companies declaring interim dividend in the year 1999-2000 in view of the levy of dividend tax. The dividend income now has reverted to normal levels.

Profit Before Interest, Depreciation and Tax (PBIDT)

PBIDT increased from Rs.97.23 crores last year to Rs.165.86 crores in the current year registering a growth of 71%. Our main business – Formulations registered good improvement in margins aided by benefits of integration of Rhone-Poulenc (India) Limited (RPIL) operations and various cost saving measures implemented

during the year. However, the margins were partly affected by lacklustre performance of Vitamins Division which continued to be affected adversely due to large scale dumping and flat growth in vitamins consuming industries. During the year, an amount of Rs.12.87 crores was spent on Research and Development activity compared to Rs.9.16 crores during 2000-01.

Interest

Interest for the year is higher mainly due to interest on monies borrowed for acquisitions of RPIL and ICI Pharma business aggregating to Rs.29.32 crores.

The reduction in operating interest was mainly due to :

a. Higher Internal Accruals.

b. Better working capital management.

c. Better Financial Management.

Depreciation

The increase was mainly on account of acquisition of RPIL.

Taxation

In view of permissible deductions under the Income Tax Act, provision for tax – Current, is the minimum tax payable under Section 115JB of the Income Tax Act. Further, in compliance with Accounting Standard - AS 22 relating to 'Accounting for Taxes on Income' issued by The Institute of Chartered Accountants of India which became mandatory from the current year, deferred tax liability of Rs.19.94 crores has been recognized in the Profit & Loss Account. The carried forward of Rs.8.88 crores as at the year end is available for set off in future under Section 115 JAA.

Profit After Tax

Profit After Tax (before extraordinary items including restructuring cost) increased from Rs.66.72 crores to Rs.92.47 crores registering an increase of 39% .

Earning Per Share (EPS)

EPS (before extraordinary items including restructuring cost) increased from Rs.19.14 to Rs.24.33 registering an increase of 27% over the previous year.