

Nicholas

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NICHOLAS PIRAMAL INDIA LIMITED
ANNUAL REPORT 2003-2004

THE BOARD OF DIRECTORS

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- Dr. Swati A. Piramal
- Harsh Piramal
- J. C. Saigal
- N. Santhanam
- Vijay Shah
- Dr. Somesh Sharma

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 S. Venkitaramanan (upto 24th June 2004)
 Dr. William Jenkins (upto 24th June 2004)

Auditors
 Price Waterhouse, Mumbai.

Solicitors
 Crawford Bayley & Co.

Bankers
 Allahabad Bank
 Oriental Bank of Commerce
 Deutsche Bank
 Corporation Bank
 Bank of America
 Citibank N.A.
 HDFC Bank
 Standard Chartered Bank
 Calyon Bank
 UTI Bank
 IDBI Bank
 State Bank of Hyderabad

Registered Office
 100, Centrepoint,
 Dr. Ambedkar Road,
 Parel, Mumbai 400 012

Share Transfer Agent
 Amtrac Management Services Ltd.,
 Plot No.101/102, MIDC,
 Satpur, Nasik 422007.

NICHOLAS PIRAMAL INDIA LIMITED

Vision

To become the most admired Indian pharmaceutical company 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

Best year yet

- Consolidated Pharma portfolio in place
- Net Sales Rs. 12.7 billion, growth 31.6%
- Net Profit Rs. 1.9 billion, growth 59.2%
- Consolidated Net Profit touches Rs. 2 billion mark
- Exports cross Rs. 1 billion, grow 136.4%
- Record Dividend of 150%.

The Year at a Glance

2004
OVER
2003

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Rs. million

Particulars	FY2004	FY2003	% growth
Net Sales	12690.5	9642.2	31.6
OPBIDTA	2561.0	1,947.5	31.5
OPM %	19.9	19.9	—
EPBIDTA	2605.5	2285.0	14.0
Interest (net)	164.2	205.8	(20.2)
Depreciation	396.1	234.9	68.6
Profit before tax & exceptional items	2045.2	1844.3	10.9
Profit After Tax	1880.1	1181.1	59.2
Debt / equity ratio	1.0	0.8	—
ROCE %	34.9	31.3	—
RONW %	47.6	32.4	—
EVA	1668.1	1200.5	—
EPS (Rs.)	49.0	31.0	58.1
Consolidated EPS (Rs.)	52.1	30.3	71.9
Book value (Rs.)	102.9	95.7	—

Branded formulations: Consistent out performance

- Overall growth 31.0%
- Organic growth 13.0%, industry growth 7.3% (FY11-NAR 04, ORG. MARG.)
- Out performance in 8 out of 9 therapeutic areas of the market
- 14 Divisions, largest field force of 3,074 persons in the Indian market
- High franchise - top 30 brands from 50.5% of Net Sales

Exports: Custom manufacturing game plan takes shape

- Exports of Rs. 1.1 billion, reach 8.5% of Net Sales.
- End-to-end custom manufacturing capabilities in place
- First custom manufacturing contract signed with Advanced Medical Optics, Inc.
- Strong contracts pipeline built for FY2005


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Dear Shareholders,

I am pleased to report that we have yet again delivered a strong performance in FY2004. Net Sales have grown 31.6% to Rs. 12.7 billion; Operating Profit has grown 31.5% to Rs. 2.6 billion, while Net Profit was Rs. 1.9 billion, growing at a faster rate of 59.2%.

What is more satisfying, however, is the strategic positioning that Nicholas Piramal has achieved through the year. In that sense, FY2004 has truly been an inflection year in the history of our Company.

A marginal players' journey to leadership:

Over the past 16 years, Nicholas Piramal (NPIL) has risen from being a marginal player, to become the second largest pharmaceuticals Company in the domestic market.

When the current management took-over the reins of Nicholas Piramal in 1988, the Company had Net Sales of Rs. 165 million, PBIDT of Rs. 22 million and PAT of Rs. 8 million. Nicholas was then ranked 48th in the Indian formulations market.

Since then, NPIL has been on a relentless growth drive, clocking a 16-year compounded annual growth rate (CAGR) of Net Sales 31%, PBIDT 35% and PAT 41%. Net Sales/share have increased during the same period from Rs. 113 to Rs. 334, while EPS (after exceptional charges) has increased from Rs. 5.3 to Rs. 49.0.

Being a small player with big aspirations, Nicholas had to think differently - we complemented organic growth with acquisitions. This strategy made sense, considering the fragmented nature of the Indian market and the growing disillusionment that MNCs then had with the Indian IPR regime. Between FY88 to FY04, we acquired nine entities. More importantly, we demonstrated every time the ability to choose the right deal, to quickly integrate and to deliver higher growth from the acquired portfolio.

Today, NPIL is the second largest Pharmaceuticals player in India, and we are ranked fourth (AC Neilson-ORG MARG) in the Indian Formulations segment.

NPIL today covers 90% of the formulations market in India, with leading presence in nine therapeutic areas. It has the largest field force in the country - with 3,074 representatives. It has 14 divisions, of which 7 are organized along therapy-specialty. We also have a strong brands portfolio, with 30.4% of our formulations sales coming from the top-10 brands. We have outperformed market growth over the past two years, and have been delivering organic growth in the region of 13%.

We have emerged as a strong contender for leadership in the Indian market.

Domestic underpinnings:

There has been an intense debate among market participants about the merits of a strong domestic presence. To put this in perspective, India is the fourth largest market in the world in volume terms, but only the thirteenth largest in terms of value. The moot point is, therefore - is it worth the while to invest one's resources in this geography?

And here again, Nicholas thinks differently. We believe it is the extreme nature of the Indian market that makes Indian Companies so competitive. India is one of the lowest priced pharmaceutical markets in the world. And yet, Indian Companies have had a strong record of operations and profit growth. A market that addresses one-sixth of humanity cannot be a bad place to focus for a pharmaceuticals Company.

The 2005 patent regime change will indeed present new challenges. But, for Companies that take the right steps, it will

A Letter to the Chairman

also present attractive opportunities.

We believe that if a pharmaceutical company can survive in India, it will thrive globally. A continuing dominant presence in the Indian market is not only a healthy business proposition – it is essential to hone the chemistry, innovation and marketing/sales ability of any Indian Pharmaceutical Company that has global aspirations.

Exports – the next growth horizon:

Given their competitive strengths, Indian Pharmaceutical Companies have enormous opportunities to tap in the regulated global markets. But, before each Company charts its course, it needs to address two key issues:

1. What is the risk?
2. How predictable are the earnings?

In keeping with its ethos, NPIL has decided to partner innovator companies in global markets, rather than compete or patent-litigate against them.

Over the past 16 years, we have demonstrated unrelenting commitment to our partnerships with global innovator companies across products, IPR and technology in the domestic market. This has won us their faith and confidence.

Building on this base, Nicholas Piramal has developed an Exports model that centers on delivering the India advantage to global innovator companies.

We will provide an end-to-end outsourcing solution across the pharmaceutical life cycle – from custom chemical synthesis, bulk intermediates, APIs to formulations.

Through FY2004, Nicholas has systematically put the building blocks in place for this initiative. We have USFDA-approved API facilities at Hyderabad and high quality formulations facilities at Pithampur. We have four process development groups at multiple locations in India. We have also set-up a 100% subsidiary in the USA for closer customer reach.

With these resources in place, we have demonstrated an early proof of concept by signing an agreement with Advanced Medical Optics Inc., USA to manufacture select eye-care products for global markets. We have a strong pipeline of additional custom manufacturing contracts, and hope to report further milestone progress in FY2005.

Our business development work in the custom manufacturing space over the past two years indicates that there is an exceptional opportunity to be tapped by becoming the outsourcing partner for global innovator companies.

Indeed, we are confident that our Exports will measure up to our domestic business in salience in the medium term.

The way ahead:

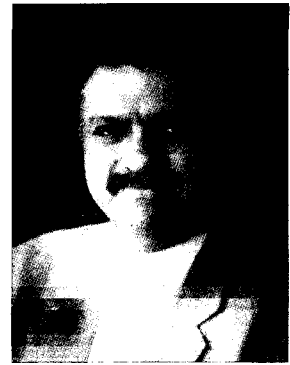
We recently completed a review of our strategic direction ahead, and have named the initiative – Project Agya Chakra.

We will be communicating to you on the plan further. But, at the moment, suffice to say – the next five years will not dilute the momentum of the past 16 years.

And this time, the driver will be Exports - ably supported by a strong, outperforming domestic business. That's the inflection point!

Thank you,

Ajay G. Piramal
Chairman



Nicholas Piramal India Limited (NPIL) again delivered a year of strong business performance in FY2004. Net Sales grew 31.6% to Rs. 12.7 billion, compared to FY2003 Net Sales of Rs. 9.6 billion. We continued to build on our nascent Exports initiative and consolidated the strong domestic market presence through the year.

Operating Profit Before Interest, Depreciation and Tax (OPBIDTA) was Rs. 2.6 billion, growing 31.5% over FY2003 Rs. 1.9 billion.

Net Interest cost declined by 20.2% to Rs. 164.2 million, compared with Rs. 205.8 million in FY2003. This was in spite of Interest cost increasing by Rs. 81.2 million from the Sarabhai Piramal and Canere mergers during the year. The reduction in Interest cost related to continuing operations was achieved through debt repayment and substitution of high cost debt with lower cost debt.

Total Debt (including Preference Shares) at the end of FY2004 was Rs. 3.9 billion, compared with Rs. 3.0 billion at the end of FY2003. Again, this was despite the addition of Debt (including Preference Shares) of Rs. 1.9 billion from the Sarabhai Piramal and Canere mergers. Debt/Equity ratio (considering preference shares as Debt) was 1.0 for FY2004, compared to 0.8 for FY2003.

The year also witnessed NPIL making significant capital expenditure, which was Rs. 856.8 million. This impact, coupled with Depreciation increase of Rs. 129.9 million from the Sarabhai Piramal and Canere mergers, increased total Depreciation charges by 68.6%, to Rs. 396.1 million, compared with Rs. 234.9 million for FY2003.

Higher Exports income, R&D expenditure and the mergers resulted in total Income Tax (current + deferred) for FY2004 of Rs. (51.8) million, compared with Rs. 63.4 million in FY2003.

During FY2004, NPIL incurred exceptional expenditure items of Rs. 216.9 million- mainly consisting of Voluntary Retirement Expenses ('VRS').

Profit After Tax & Exceptional Items therefore, stood at Rs. 1.9 billion for FY2004, an increase of 59.2% over the previous financial year (FY2003: Rs. 1.2 billion).

The FY2004 Earnings per share after Exceptional Items were Rs. 49.0 per share, a growth of 58.1% over the FY2003 Rs. 31.0 per share.

NPIL consolidated Profit After Tax & Exceptional Items reached the Rs. 2.0 billion mark in FY2004. Consolidated Earnings per share after Exceptional Items were Rs. 52.1 per share in FY2004, as compared to Rs. 30.3 per share in FY2003.

Review Year

MANAGEMENT DISCUSSION & ANALYSIS

In FY2004, we increased our performance bandwidth and put in place key growth drivers for the future.

Net Sales analysis :

NPIL's domestic branded formulations business, which contributes to 75.8% of total Sales, grew 31.0% over the previous financial year. Exports – growing to 8.5% of Net Sales – were Rs. 1.1 billion.

Rs. million

No.	Net Sales break-up	% total	FY2004	FY2003	% growth
I	Domestic :				
1	Formulations	75.8	9,620.0	7,340.8	31.0
2	Generics	3.2	403.4	435.6	(7.4)
3	APIs	0.9	113.4	40.9	177.5
4	Vitamins & Fine Chemicals	5.1	642.9	706.0	(8.9)
5	Diagnostics	6.1	776.1	663.5	17.0
6	Others	0.5	58.1	–	–
	Sub-total	91.5	11,613.9	9,186.8	26.4
II	Exports:				
1	Formulations	1.8	225.7	212.7	6.1
2	Generics	0.5	60.4	32.7	84.7
3	APIs	4.9	621.5	142.0	337.7
4	Vitamins & Fine Chemicals	1.0	125.2	68.0	84.1
5	Others	0.3	43.8	–	–
	Sub-total	8.5	1,076.6	455.4	136.4
	Total	100.0	12,690.5	9,642.2	31.6

Note : Exports Sales include Deemed Exports.

The FY2004 Net Sales growth is 17.0%, without considering the following businesses that were present in FY2004 for a part of the year:

1. Sarabhai Piramal Pharmaceuticals Private Limited (merged w.e.f. 01 April 2003).
2. Canere Actives & Fine Chemicals Pvt. Ltd. (merged w.e.f. 01 October 2003).
3. F. Hoffman La Roche six biotech products (returned w.e.f. 01 November 2003).

The growth rate was 11.2% without considering the API business, which was present for the period January-March in FY2003.

MANAGEMENT DISCUSSION & ANALYSIS**Domestic Branded Formulations****Market commentary :**

After the low growth phase in Jan-Mar 03, the market growth has picked up significantly in the latter half of FY2004. This has been driven by good demand from the smaller towns and rural markets.

Although the year again witnessed a spate of new product launches, it was interesting to note that launches based on new molecules came down considerably. We estimate that only about 30% of the growth came from new molecules during the year.

The growth continued to be driven by the chronic therapy areas like Cardiac, Diabetes and CNS.

Nicholas Piramal performance :

NPIL's domestic branded formulations business again outperformed industry growth during FY2004, registering Net Sales of Rs. 9,620.0 million. The business has now delivered consistently high organic growth for the last eight quarters.

Organic growth :

The total domestic branded formulations growth was 31.0%. Excluding corporate action – i.e., the addition of Sarabhai Piramal brands and the return of six biotech products to F. Hoffman La Roche - the domestic branded formulations business grew at an impressive 13.0% against an industry growth rate of 7.3% (MAT-Mar-04, ORG-MARG).

No.	Domestic Branded Formulations	Value		Growth	
		Sub-total Rs. million	Total Rs. million	Sub-total %	Total %
I	FY2003 Net Sales		7,340.8	–	–
II	Own growth (without biotech adj.)**		777.8		10.6
	1. New products	149.4		2.0	
	2. Value & volume	628.4		8.6	
III	Inorganic growth (SPPL merger)		1,501.4	20.4	20.4
	Total		9,620.0		31.0

Note: **This growth calculation of 10.6% is without factoring-in the return of six biotech products to F. Hoffman La Roche. Net Sales for the six biotech products were FY04: Rs. 241.1 million, FY03: Rs. 370.2 million. The organic growth rate (i.e., the growth rate adjusted for the Sarabhai Piramal products acquisition as well as the biotech products return) is 13.0%.