



# NICHOLAS PIRAMAL INDIA LIMITED



ANNUAL REPORT 2006 -2007

## The Board of Directors

Ajay G. Piramal, Chairman

Keki Dadiseth

Rajesh Khanna

Y. H. Malegam

Dr. Swati A. Piramal, Director –  
Strategic Alliances & Communications

S. Ramadorai

R. A. Shah

Deepak Satwalekar

N. Vaghul

Michael Fernandes, Executive Director (CMG)

## Management Committee

Ajay G. Piramal

Dr. Swati A. Piramal

Michael Fernandes

Dr. Somesh Sharma

N. Santhanam

Praneet Singh

## Auditors

Price Waterhouse, Mumbai.

## Solicitors

Crawford Bayley & Co.

## Registered Office

Nicholas Piramal Tower,  
Ganpatrao Kadam Marg,  
Lower Parel,  
Mumbai 400 013, India.

## Bankers

Allahabad Bank

Deutsche Bank

Corporation Bank

Bank of America

Citibank N.A.

HDFC Bank Ltd.

Standard Chartered Bank

Calyon Bank

UTI Bank Ltd.

State Bank of Hyderabad

ICICI Bank Limited

ING Vysya Bank Limited

The Hongkong & Shanghai  
Banking Corporation Limited

## Recent Acquisition



Manufacturing facilities at the newly acquired  
Plant at Morpeth, U.K.



# The 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

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## Chairman's Letter



Dear Shareholders,

The Financial Year 2006-07 marked a strong performance by our Company.

I am pleased to report that Total Operating Income for the year grew 55.0% to Rs. 24.7 billion compared to Rs. 15.9 billion for the year ended 31 March 2006. Operating Profit for the year grew 83.0% to Rs. 3.8 billion. Profit after tax grew 80.7% to Rs. 2.2 billion compared to Rs. 1.2 billion in FY2006. Earnings per share were Rs. 10.3 per share vs. Rs. 5.8 in FY2006.

The strong performance has been achieved on the back of increased traction in our custom manufacturing business. Global sales (outside India) for the year were up by 214.1% to Rs. 10.6 billion in FY2007 from Rs. 3.4 billion in FY2006. With this, global sales (outside India) now account for 43.1% of our total sales.

We had acquired Avecia Pharmaceuticals, U.K., in December 2005, for a consideration of GBP 11.8 million. The business then had sales of GBP 36.0 million and operating loss of GBP 4.6 million. I am pleased to report that we have been able to add significant value to Avecia with our business development efforts, and well-thought measures to bring down costs - by efficient raw material sourcing and rationalization of fixed costs. As a result, Avecia has turned around and is now profitable.

During the year, we also acquired a world-class manufacturing facility of Pfizer, Inc. at Morpeth in U.K. This site has approval from USFDA as well as UK-MHRA and has full range of pharmaceutical operations such as finished APIs, finished dosages with containment suites, process development for APIs and finished dosages, packaging and worldwide distribution abilities. We secured the facility along with a long-term supply arrangement to Pfizer upto November 2011. With the acquisition of this facility, our Company has become the biggest supplier within Pfizer's Global Sourcing network. The acquisition of Morpeth is consistent with our intent of becoming a global leader in Custom Manufacturing across the Pharmaceutical Value Chain.

During the year, our Custom Manufacturing revenues from Indian facilities increased from Rs. 206.4 million in FY2006 to Rs. 767.4 million registering an impressive growth of 271.8%. We have received a number of new contracts at our facilities in India. I am pleased to report that after starting ground-up in 2003, within a time span of four years, our company has become a leading global Custom Manufacturing Company, across Custom Synthesis, APIs and Finished Dosage.

Globally, large players in the pharmaceutical industry are under pressure to reduce their manufacturing costs as more blockbusters are replaced by their generic versions, and the new ones are hard to come by. As a result, we are seeing increasing interest from innovator companies to outsource their production. We believe that Indian companies with their significant cost advantage and capabilities in manufacturing as per the highest standards, will be the beneficiaries of increased outsourcing.



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The domestic formulations market registered good growth this year. With the strong growth in Indian economy, we believe that we will continue to see healthy growth going forward in the domestic formulations market, as rising incomes result in a larger part of the population having access to medication. However, the proposed new drug policy, if implemented, would increase the span of price controls, and this could lead to significant challenges for the industry going forward.

Our domestic formulations business continued to register healthy growth. Branded formulations Sales were up by 11.9% to Rs. 11.7 billion from Rs. 10.5 billion in FY2006. Our top-10 brands have recorded a growth of 12.7%. We launched twenty-two new products during the year. As a result of our strong brand-building efforts and innovative marketing techniques, Sales from new products (launched during the last 24 months) have reached 5.2% of total branded formulations sales and seven new brands have become market leaders in their category. During the year, we also successfully completed migration of manufacturing from Pithampur to our new facility at Baddi.

Our Company continued to expand its R&D program in FY2007, committing 5.1% of Total Operating Income to R&D revenue expenditure. The R&D pipeline has expanded significantly; we now have two phyto-pharmaceutical molecules in Phase II clinical trials. Besides, clinical trials for our lead oncology molecule P276-00, which is in Phase I/II, also started in India. During the year, we signed an innovative drug development agreement with Eli Lilly & Company, USA, wherein Eli Lilly has given us a novel patented pre-clinical drug candidate for development in the metabolic disorders segment. We will design and execute the global clinical development program for this candidate up to beginning of Phase III, and in return, we could receive milestone payments. We will also get royalties and commercialization rights in select markets on successful launch of the first compound.

You will recollect that we undertook a major strategic planning exercise in FY2004, christened Agya Chakra. This strategic plan reflected the high growth aspirations and ethos of our Company. As we look back over the past three years, we realize the major ground covered by our Company in building our domestic formulations, custom manufacturing, and R&D businesses. We have remained committed to our business plan, in spite of facing many challenges, and it is in year FY2007, that we are now beginning to see its rewards. Today, we have emerged as a global company that is poised to harness significant opportunities ahead.

Thank you,

**Ajay G. Piramal**  
Chairman

Date : 26th April, 2007



## Management Discussion & Analysis

### FY2007: (consolidated) at a glance

#### ■ Summary - consolidated:

■ Net Sales	: Rs. 24.7 billion
■ Operating Profit	: Rs. 3.8 billion
■ Net Profit	: Rs. 2.2 billion
■ Gross margin (sales less material costs)	: From 58.2% to 64.4%
■ R&D spend	: From 4.9% to 5.1%
■ Operating Profit Margin (OPM)	: From 13.1% to 15.5%
■ Net Profit Margin (PAT)	: From 7.6% to 8.8%

#### ■ Revenue and Profit - consolidated:

■ Net Sales growth:	
• Aggregate	: 55.0%
• Organic & Continuing businesses	: 17.0%
■ Domestic branded formulations growth	: 11.9%
■ Global Sales* growth	: 214.1%
■ Operating Profit growth	: 83.0%
■ Net Profit growth	: 80.7%

#### ■ Operations highlights - consolidated:

##### ■ Domestic branded formulations:

- Field force of 2,986; 14 Marketing Divisions, 7 Specialist Divisions
- Twenty two new products & line extensions launched, new products (launched last 24 months) form 5.2% of sales
- Top-10 brands grew by 12.7% in FY2007

##### ■ Global Sales & Custom Manufacturing:

- Global Sales were 43.1% of sales
- Turnaround of Avecia Pharmaceuticals, UK, operations achieved
- Acquisition of Pfizer's Manufacturing facility at Morpeth, UK

##### ■ Research & Development:

- Lead molecule in Oncology Phase I/II progressing well, simultaneous trials started in India
- Two new molecules – Sphira and Hespiderm currently undergoing Phase II clinical studies in India
- Landmark in-licensing agreement for a novel, patented pre-clinical drug candidate signed with Eli Lilly & Company, USA

##### ■ Allied Businesses:

- Pathlabs business growth 54.5%
- Pathlabs business acquired 6 new Laboratories

\*Note: Global Sales are sales outside India



**NPIL financial highlights: Consolidated**

Particulars	Year		
	FY2007 Rs. million	FY2006 Rs. million	Growth %
Total Operating Income	24,719.3	15,944.9	55.0
OPBIDTA	3,834.7	2,095.7	83.0
OPM %	15.5	13.1	—
EBIDTA	3,838.6	2,377.7	61.4
Interest (Net)	305.1	173.0	76.4
OPBT	2,711.4	1,234.6	119.6
PBT before exceptional items	2,715.3	1,516.6	79.0
PAT	2,180.5	1,206.5	80.7
EPS Rs.	10.3	5.8	77.6

Particulars	31 March 2007	31 March 2006
Debt / Equity ratio	0.65	0.38
ROCE %	20.7	14.3
RONW %	20.6	12.2
EVA (annualized) (Rs. million)	682.7	182.5
Net Sales / Net Fixed Assets ratio	2.0	1.5
Inventory (days*)	62	61
Receivables (days*)	52	52

Note: \* Days have been worked on the basis of gross sales. From the current year, gross sales also include other operating income and exclude sales tax. The numbers for previous year have been restated accordingly.

**Review of the year ended 31 March 2007: (Consolidated)**

The operating results discussion in the Management Discussion and Analysis Section refers to Consolidated Financial Statements, unless stated otherwise.

Driven by consolidation of the newly acquired entities, FY2007 Total Operating Income grew by 55.0% to Rs. 24.7 billion compared with FY2006 Net Sales of Rs. 15.9 billion. Total Operating Income from organic & continuing businesses (i.e. excluding erstwhile Avecia and Morpeth revenues) grew by 17.0% to Rs. 17.3 billion, compared with FY2006 total operating income of Rs. 14.8 billion.

Rs. million

No.	Sales	Consolidated Net Sales	
		FY2007	FY2006
1	<b>Net Sales - aggregate</b>	<b>24,719.3</b>	<b>15,824.9</b>
	Less:		
2	Sales from NPIL Pharmaceuticals (UK) Ltd.	6,302.0	748.0
3	Sales from Torcan Chemical Company, Canada	1,142.3	311.8
	<b>Net Sales - continuing businesses (1–2–3)</b>	<b>17,275.0</b>	<b>14,765.1</b>
	Organic & Continuing Sales growth	17.0%	

Note: Sales of NPIL Pharmaceuticals (UK) Limited include Sales generated from the Morpeth, UK facility for the period 19 June 2006 to 31 March 2007. The Morpeth, UK facility was acquired as an asset purchase by NPIL Pharmaceuticals (UK) Limited

For the year ended 31 March 2007, Operating Profit Before Interest, Depreciation and Tax (OPBIDTA) was also higher at Rs. 3.8 billion, an increase of 83.0% over FY2006 OPBIDTA of Rs. 2.1 billion. Operating Margin increased to 15.5%, compared with 13.1% for FY2006. The increase in operating profits and margins has been achieved mainly due to the traction in custom manufacturing sales, which grew by 214.1% during the year. A significant factor behind the higher margins was the turnaround achieved at Avecia Pharmaceuticals operations ('Avecia'). Avecia had a negative OPBIDTA of Rs. 247.0 million in FY2006, for the period 02 December 2005 to 31 March 2006.

Net Interest increased by 76.4% to Rs. 305.1 million, compared with Rs. 173.0 million in FY2006. Total Debt (considering preference shares as Debt) as on 31 March 2007 was Rs. 6.8 billion, compared with Rs. 3.6 billion for FY2006. Debt/Equity ratio (considering preference shares as Debt)



## MANAGEMENT DISCUSSION & ANALYSIS

was 0.65 in FY2007, compared to 0.38 in FY2006. The Debt level and interest costs for FY2007 were higher as we used internal funds and debt to finance capital expenditure for the year and for acquisition of Pfizer's Morpeth facility.

Depreciation for the year was Rs. 818.2 million compared to Rs. 688.1 million in FY2006.

Income Tax and Fringe Benefit Tax for FY2007 was Rs. 388.9 million, compared with Rs. 238.1 million in FY2006.

Profit After Tax after exceptional items (net of tax) was Rs. 2.2 billion in FY2007 as compared to Rs. 1.2 billion in FY2006, registering a growth of 80.7%.

Earnings per share for FY2007 were Rs. 10.3 per share vs. Rs. 5.8 per share in FY2006, an increase of 77.6%.

### Net Sales analysis (Consolidated):

NPIL's domestic branded formulations business, which at Rs. 11.7 billion contributed 47.5% of Total Operating Income, increased 11.9% over FY2006. Global Sales - growing to 43.1% of Total Operating Income – were Rs. 10.6 billion as compared to Rs. 3.4 billion for FY2006.

Change in Reporting Format:

Starting FY2007, we have changed the reporting format for global sales to align it with revenue segments of our global Custom Manufacturing business. The global sales are now sub-divided into:

1. PDS (Pharmaceutical Development Services): This includes Process Development Services for API and Formulations.
2. PMS (Pharmaceutical Manufacturing Services): This includes commercial-scale Custom Manufacturing contracts for APIs and Formulations.
3. MMBB (Marketable Molecules and Building Blocks): This includes off-patent APIs and Formulations products, Inhalation Anaesthetic products, Vitamin-A products and other catalogue products.

Vitamins sales in domestic market are now reported under Custom Manufacturing Operations (CMO) category in the India sales break-up. The sales from Diagnostics business, which were earlier included in India Sales under separate headings, have now been clubbed with the Others category within India Sales.

The break-up of aggregate Net Sales as per the new format is as under:

Rs. million

No.	Net Sales break-up	% sales	Year ended		
		FY2007	31-Mar-07	31-Mar-06	% growth
<b>I</b>	<b>India Sales:</b>				
1	Formulations	47.5	11,741.5	10,496.5	11.9
2	CMO	3.3	826.0	944.8	(12.6)
3	Pathlabs	2.8	695.0	449.7	54.5
4	Others	3.3	810.1	663.9	22.0
	SUB-TOTAL	56.9	14,072.6	12,554.9	12.1
<b>II</b>	<b>Global Sales:</b>				
1	PDS	5.9	1,458.6	413.6	252.7
2	PMS	26.9	6,648.4	904.1	635.3
3	MMBB	9.2	2,266.1	1,890.4	19.9
4	Others	1.1	273.7	181.1	51.1
	SUB-TOTAL	43.1	10,646.7	3,389.3	214.1
	<b>TOTAL</b>	<b>100.0</b>	<b>24,719.3</b>	<b>15,944.2</b>	<b>55.0</b>

### Notes:

1. Custom Manufacturing revenues from Indian assets, consisting of AMO, Allergan contracts and PDS-India revenues, were Rs. 767.4 million in FY2007, compared with Rs. 206.4 million in FY2006.
2. The income of Rs. 178.0 million towards agreement related to the Joint Venture with Alliance Boots is included under "Others" segment of India Sales.

### Domestic Branded Formulations

#### Market commentary and Industry Outlook:

Backed by a strong growth in GDP, the Indian Pharmaceutical industry experienced a strong growth rate of 14.3% during the year (ORG IMS MAT March 2007). An important contributor to industry growth in FY2007 was the spread of epidemics such as Dengue and Chickungunya, which led to a sharp increase in sales of antibiotics and painkillers during the first half of the year. A redeeming feature of growth during the year was the rise in volumes contributing to bulk of the 14.3% growth. On the new products front, there has been a fair amount of innovation by Indian companies in the



area of combination therapy.

The domestic pharmaceuticals industry is centered on branded generics, and is intensely competitive. Top-10 companies account for only 37% of the market. The new patent regime which came into effect from January 2005 disallows generic copies of any drug patented after 1995. Given this industry structure, we expect brands franchise; field force strength and product innovation to be key success factors in the coming years. Industry studies suggest that modern medicine still covers less than a third of the population. We believe that coverage will substantially improve in the coming years because of higher economic growth and focus of pharmaceutical companies to increase service to semi-urban and rural areas. If this happens, the domestic pharmaceuticals industry would continue to grow faster than GDP.

#### Nicholas Piramal consolidated formulations performance:

During the year, NPIL's domestic branded formulations grew 11.9% in aggregate terms to Rs. 11.7 billion as compared to Rs. 10.5 billion for FY2006.

#### Launch of Healthcare division:

We have created a new division as a 100% subsidiary named NPIL Healthcare Pvt. Ltd., targeting Mass Market Branded Formulations (MMBF). Currently, we are in a pilot phase. We have recruited 400 people who will service about 50,000 General Practitioners in 12 states.

#### Formulations sales analysis: Consolidated portfolio

##### Therapy area analysis

Rs. million

No.	Therapeutic area	Company Financials year ended				ORG-IMS MAT-Mar-07
		Sales wt. %	FY2007 Rs. million	FY2006 Rs. million	Growth %	Market growth%
<b>I</b>	<b>Nicholas Piramal</b>					
1	Respiratory	20.0	2,348.8	1,983.8	18.4	12.9
2	Anti-Infective	12.7	1,488.8	1,397.9	6.5	15.1
3	Cardio Vascular System	12.5	1,468.2	1,281.2	14.6	11.0
4	Central Nervous System	11.4	1,335.9	1,265.1	5.6	12.8
5	Nutritionals	8.6	1,004.9	885.8	13.5	10.1
6	Biotech	1.4	166.1	136.5	21.7	—
7	Anti-Diabetic	5.9	697.8	601.9	15.9	17.6
8	Gastro-intestinal	4.4	511.2	442.6	15.5	14.7
9	Dermatology	4.1	475.8	396.5	20.0	16.1
10	NSAIDs	5.3	619.6	539.8	14.8	22.2
11	Others	9.7	1,133.2	1,182.0	(4.1)	—
<b>II</b>	<b>Allergan India</b>					
11	Ophthalmology	3.2	377.1	383.3	(1.6)	15.6
<b>III</b>	<b>NPIL Healthcare</b>					
12	MMBF	1.0	113.9	—	—	—
	<b>Total Branded Formulations</b>	<b>100.0</b>	<b>11,741.3</b>	<b>10,496.5</b>	<b>11.9</b>	<b>14.3</b>

Notes:

1. Market data source: ORG-IMS, no similar market data available for Biotech segment.
2. On 17 July 2005, Allergan India sold its Medical Optics business in India to Advanced Medical Optics, Inc., USA ("AMO") for a consideration of Rs. 436.2 million. Sales from this business segment were Rs. 69.3 million in FY2007. As a result, the Ophthalmology segment shows a decline of 1.6%. Adjusting for this discontinued business, the sales in Ophthalmology segment have grown by 7.7%.
3. Adjusting for the decline in OTC/Allergan businesses, NPIL's core branded formulations business grew by 14.0%.

#### Portfolio performance: Joint Ventures & Subsidiaries

##### Allergan India Limited ('AIL'):

AIL is a 51:49 Joint Venture between Allergan Inc., USA and Nicholas Piramal. It specializes in sales and marketing of ethical Ophthalmology products. On 17 July 2005, Allergan India sold its Medical Optics business in India to Advanced Medical Optics, Inc., USA (AMO) for a consideration of Rs. 436.2 million. Sales from this business segment were Rs. 69.3 million in FY2007.

As a result, during FY2007, the Net Sales of AIL degrew by 1.9% to Rs. 767.7 million (FY2006 Net Sales: Rs. 782.3 million) PBIDT for FY2007 was Rs.104.6 million, compared with FY2006 Rs. 448.8 million, a degrowth of 76.7%, mainly because of a one time income of Rs. 311.2 million in FY2006 on sale of discontinued operations. Profit after tax for FY2007 was Rs. 43.9 million, compared with FY2006 value of Rs. 310.5 million, a degrowth of 85.8%.

##### Nicholas Piramal Consumer Products Pvt. Ltd. ('NPCPPL'):

(formerly Boots Piramal Healthcare Pvt. Ltd. ('BPHPL'))

On September 29, 2006, NPIL acquired the balance 51.0% equity stake held by The Boots Company Plc, a subsidiary of Alliance Boots Plc, in the Joint Venture Company, Boots Piramal Healthcare Private Limited. BPHPL's marketing rights for the brands Strepsils, Clearasil and Sweetex in



India were transferred to Reckitt Benckisser India Limited. Further as a part of this arrangement, NPIL received a one-time sum of Rs. 178.0 million from Alliance Boots/Reckitt Benckisser.

BPHPL has since become a wholly owned subsidiary of the company and has been renamed as Nicholas Piramal Consumer Products Pvt. Ltd. (NPCPPL). NPCPPL will continue to actively market and distribute its own Over The Counter (OTC) products viz. Saridon, Polychrol and Lacto Calamine. In addition, NPCPPL also plans to launch OTC brands in new therapy areas as well as transition some of NPIL's Rx brands to OTC by leveraging its sales and marketing team.

Net Sales for NPCPPL for FY2007 was Rs. 506.1 million, PBIDT was Rs. 34.4 million and PAT was Rs. 26.7 million.

### Core Brand Analysis:

Sales of top-10 brands was 29.8% of the consolidated total branded formulations sales and that of the top-30 brands was 55.7% of the total branded formulations sales. Sales from Lifestyle segment (which include therapy areas of CVS, CNS, Anti-diabetic and Biotech) contributed to 31.2% of the total branded formulations sales.

### Brands portfolio expansion:

#### New Products launch:

Nicholas Piramal launched 22 new products (including extensions) during FY2007. Sales from new products (launched during the past 24 months) were Rs. 611.2 million during the year. Seven new brands have become market leaders in their respective sub-segments.

#### DPCO:

Products under the Drug Price Control Order (DPCO) contributed 14.1% of domestic branded formulations sales in FY2007, against 14.5% in FY2006.

### Field Force (standalone):

Nicholas' Formulations field force of 2,986 personnel continues to be one of the largest in the Indian Pharmaceutical industry. We believe our investment in field force is one of our key strengths. Our vast yet specialized field presence also adds to our in-licensing attractiveness. Nicholas Piramal now has 14 Divisions, out of which 7 focus on specific therapies.

Sharper therapy-wise focus has enabled us to attain high coverage in specialty doctor segments. Our Multi-specialty Divisions, meanwhile, focus on General Practitioners and build mass consumption brands and primary care products.

NPIL has a tertiary field layer of two Franchisee Divisions: First division comprising of 116 persons which markets older brands to General Practitioners in semi-urban and rural areas; and second division comprising of 168 persons that does retail order booking for big brands.

			No. of people	
No.	Formulations Division	TA Focus	FY2007	FY2006
<b>I.</b>	<b>Multi-specialty &amp; Institutional</b>			
1	Multi-Specialty	General Medicine/Orthopaedic	515	532
2	Actis	Respiratory/Paediatrics	537	558
3	Aakar (Ethical)	General Medicine	348	381
4	Anant (Specialty)	General Medicine/Pain management	284	273
5	Drishti	General Medicine (and some specialty products)	23	—
6	Zivon*	General Medicine	249	—
7	Nepal		22	20
	<b>SUB-TOTAL</b>		<b>1,978</b>	<b>1,829</b>
<b>II.</b>	<b>Dedicated</b>			
8	Cardex	Cardiovascular	211	214
9	Cadence	Cardiovascular	191	181
10	Extra Care	Diabetology	216	237
11	Cognex	Neuro-Psychiatry	234	244
12	Glotek	Dermatology/Gynaecology	116	106
13	BioteK	Nephrology/Oncology	30	24
14	Carex	Critical Care/Anaesthesiology	10	8
	<b>SUB-TOTAL</b>		<b>1,008</b>	<b>1,014</b>
	<b>TOTAL</b>		<b>2,986</b>	<b>2,778</b>