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ANNUAL REPORT  
2007 - 2008

## The Board of Directors

Ajay G. Piramal, Chairman

Keki Dadiseth

Y. H. Malegam

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

S. Ramadorai

R. A. Shah

Deepak Satwalekar

N. Vaghul

N. Santhanam

## Management Committee

Ajay G. Piramal

Dr. Swati A. Piramal

N. Santhanam

Praneet Singh

### Auditors

Price Waterhouse, Mumbai.

### Solicitors

Crawford Bayley & Co.

### Registered Office

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

### Bankers

Allahabad Bank

Corporation Bank

Bank of America

Citibank N.A.

HDFC Bank Limited

Standard Chartered Bank

Calyon Bank

Axis Bank Limited

State Bank of Hyderabad

ICICI Bank Limited

ING Vysya Bank Limited

The Hongkong & Shanghai  
Banking Corporation Limited

The Gyana Mudra, which embodies Knowledge, Action and Care, has been adopted as the new logo by the Piramal Group.

The front page carries a creative rendition of the Gyana Mudra by renowned artist Mr. Ravi Mandlik.

# The Vision

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

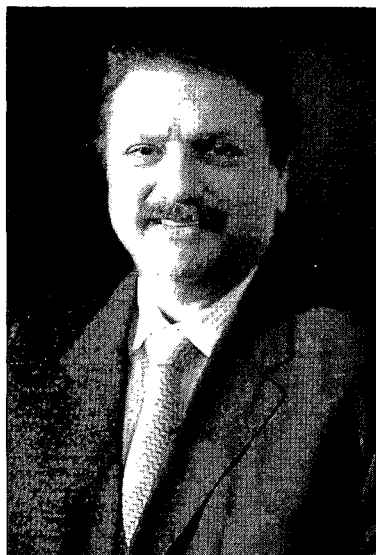
- Building distinctive sales & marketing capabilities
- Evolving from licensing to globally launching our patented products
- Inculcating a high performance culture
- Being the partner of choice for global pharmaceutical companies

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,

Warm greetings to you all!

It gives me great pleasure to share with you, that 2008 marks the 20th year of Piramal group's foray into the healthcare space. Since our acquisition of Nicholas labs in 1988, our company has come a long way to stand tall as one the largest healthcare companies in our country. Many years of dedication and sweat have contributed to this fruitful yet exhilarating journey.

Over the years, we have created significant shareholder value and built a strong track record of consistent performance (20 year CAGR - Sales- 29%, PAT- 35%, Market capitalization -40%). More importantly, our progress has touched the lives of millions of patients, helping to improve the quality of life by reducing the burden of disease across the world. We feel privileged to participate in a noble industry in which business success means victory against the burden of disease.

In a major re-branding exercise carried out over the past year, we engaged extensively with our stakeholders to understand the unarticulated principles, which were guiding our business. Our stakeholders told us that while the Nicholas prefix reinforced our MNC image in the past, today we had carved an identity for ourselves across the globe. Building Piramal as a strong and distinctive brand in the healthcare space would open huge opportunities for our company. Hence after intense deliberation we have adopted Piramal Healthcare as our new corporate identity.

Our core values: Gyana Yoga (knowledge), Karma Yoga (action) and Bhakti Yoga (care) are embodied in our new logo – the Gyan Mudra. We are confident that our new corporate identity as Piramal Healthcare will allow us to leverage our strengths better and provide greater impetus towards our ambition of becoming the largest and most admired healthcare company in India.

In Financial year 2007-08, our company delivered an exceptionally strong performance. Consolidated Revenues for the year grew 16.2% to Rs. 28.7 billion. Operating Profit grew 41.3% to Rs. 5.4 billion. Operating Margin increased from 15.5% to 18.9%, while Net Profit grew 53.1% to Rs. 3.3 billion.

While increasing disposable income and awareness levels have led to accelerated growth in the domestic formulations market, the penetration of modern medicine continues to be abysmally low. Our Company's presence across ten therapeutic areas, its comprehensive range of formulations and field force of 3,789 people seek to close this gap and tap a market that has immense potential. In addition, our Company launched a rural healthcare initiative with the aspiration of 'democratizing healthcare' by providing cutting edge primary healthcare services to the underserved rural population.

The Healthcare Solutions (domestic formulations) business registered a growth of 11.7% for the year, led by strong growth in the Anti-infectives, Dermatology, Diabetes and OTC segments. The disturbance in raw material supply for a key brand – Phensedyl – during the first quarter of the year, has since stabilized.

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Production at the manufacturing facility in Baddi, Himachal Pradesh, increased significantly during the year and has resulted in higher profitability for our domestic formulations business.

Globally, the pharmaceutical industry is facing enormous challenges. Global pharmaceutical companies are increasingly looking for strategic outsourcing partners that can help them to efficiently manage their product life cycle in a cost-effective manner. This presents a significant opportunity for our Company.

The Pharma Solutions (custom manufacturing) business registered an impressive growth of 18.9% for the year. Its facilities in India, have now gained significant traction with five new contracts and revenues increasing three-fold to Rs. 2.2 billion. During the course of the year, our Company secured its first non-Pfizer-related revenues at the Morpeth facility in the UK. Our Company also successfully engaged in manufacturing excellence programmes, improving efficiency and making our overseas assets more profitable.

A sterile injectibles facility was acquired in Bangalore during the year to help widen our custom-manufacturing offering. The facility at Digwal, Andhra Pradesh, has successfully completed USFDA inspection without any 483s for the third time in succession. This is a strong demonstration of the Quality Assurance capability of our company.

Our New Chemical Entity (NCE) research, with a pipeline of 13 compounds including 4 in clinical trials has reached at a stage, which called for increased investments and dedicated management attention. The investment in NCE Research calls for longer time horizon and has a significantly higher risk profile. To give our shareholders the option of staying invested or to monetize this value, we have de-merged our NCE unit into a new company now known as Piramal Life Sciences Limited.

With your support, our Company has enjoyed much success over the last twenty years and – given the vast opportunities internationally and a booming domestic economy – is suitably positioned to scale even greater heights. Our Company's accomplishments are a result of the dedication and commitment of its employees, partners, customers and shareholders.

I would like to thank all our shareholders for their ongoing contribution to our collective success. With your support and encouragement, I am confident that our company will achieve greater success in the twenty years ahead

Warm regards,

**Ajay G. Piramal**  
Chairman

Date : 16 May 2008

# Management Discussion & Analysis

## FY2008 : (Consolidated) at a glance

### ■ Summary - consolidated:

■ Total Operating Income	: Rs. 28.7 billion
■ Operating Profit	: Rs.5.4 billion
■ Net Profit	: Rs.3.3 billion
■ Gross margins (sales less material costs)	: From 64.4% to 62.0% in FY08
■ R&D spend	: From 5.1% to 2.8% in FY08
■ OPM (Operating Profit Margin)	: From 15.5% to 18.9% in FY08
■ PAT (Profit After Tax)	: From 8.8% to 11.6% in FY08

### ■ Revenue and Profit - consolidated:

■ Net Sales growth	: 16.2%
■ Healthcare Solutions growth (Domestic branded formulations)	: 11.7%
■ Pharma Solutions (CMG) Sales growth	: 18.9%
■ Operating Profit growth	: 41.3%
■ Net Profit growth	: 53.1%

### ■ Operations highlights - consolidated:

#### ■ Healthcare Solutions:

- Field force of 3,789; 16 Marketing Divisions, 9 Specialist Divisions.
- Thirty new products & line extensions launched, new products (launched during the last 24 months) form 4.9% of sales.
- Top-10 brands grew by 8.5% for FY2008.

#### ■ Pharma Solutions (Custom Manufacturing) Sales:

- Custom manufacturing sales were 46.7% of sales at Rs.13.4 billion.
- Shipments to 5 new contracts started from Indian facilities.
- Acquired injectible formulations manufacturing facility of Healthline Private Limited.

#### ■ Allied Businesses:

- Piramal Diagnostic Services (Pathlabs & Radiology) business grew by 71.8% to Rs.1.2 billion.
- Piramal Diagnostic Services acquired 16 new Laboratories during the year.
- New joint-venture formed with ARKRAY Inc. for marketing Diagnostic Products in India.

**PHL financial highlights: Consolidated**

Particulars	Year		
	FY 2008 Rs. Million	FY 2007 Rs. Million	Growth %
Total Operating Income	28,728.4	24,719.3	16.2
OPBIDTA	5,416.9	3,834.7	41.3
OPM %	18.9	15.5	
EBIDTA	5,477.6	3,838.6	42.7
Interest (Net)	463.1	305.1	51.8
OPBT	4,006.5	2,711.4	47.8
PBT before exceptional items	4,067.2	2,715.3	49.8
PAT (after exceptional items)	3,337.8	2,180.5	53.1
EPS Rs.	15.9	10.3	54.2

Particulars	31 March 2008	31 March 2007
Debt / Equity ratio	0.66	0.65
ROCE %	24.3	20.7
RONW %	30.4	20.6
EVA (annualized) (Rs. million)	1,657.3	683.6
Net Sales / NFA ratio	2.3	2.0
Inventory (days*)	50	62
Receivables (days*)	55	52

Note: \* Days have been worked on the basis of gross sales and also includes other operating income and exclude sales tax.

**Review of the year ended 31 March 2008: (Consolidated)**

The operating results discussion in the Management Discussion and Analysis refers to Consolidated Financial Statements, unless stated otherwise. Following the change in corporate identity, the domestic formulations business will now be known as Healthcare Solutions business and Custom Manufacturing business will be referred to as Pharma Solutions business.

For the year ended 31 March 2008, Total Operating Income grew by 16.2% to Rs. 28.7 billion compared with FY2007 total operating income of Rs. 24.7 billion.

Operating Profit Before Interest, Depreciation and Tax (OPBIDTA) was also higher at Rs. 5.4 billion, an increase of 41.3% over FY2007 OPBIDTA of Rs. 3.8 billion. Operating Margin increased to 18.9%, compared with 15.5% for FY2007. The increase in operating profits and margins has been achieved due to increased Custom Manufacturing sales from Indian assets, which has higher margins. FY08 Operating profit does not include NCE R&D expenses, while the same were included in FY07 OPBITDA

Net Interest increased by 51.8% to Rs.463.1 million, compared with Rs. 305.1 million in FY2007. Total Debt (considering preference shares as Debt) as on 31 March 2008 was Rs. 7.2 billion, compared with Rs. 6.8 billion for FY2007. Debt/Equity ratio (considering preference shares as Debt) was 0.66 in FY2008, compared to 0.65 in FY2007. The Debt level increased during the year due to increased investments in Fixed Assets. The interest cost for FY2008 were higher because of higher debt level coupled with increased cost of borrowing.

Depreciation for the year was Rs. 947.3 million compared to Rs. 818.2 million in FY2007.

Income Tax and Fringe Benefit Tax for FY2008 was Rs. 376.6 million, compared with Rs. 388.9 million in FY2007.

Profit After Tax before exceptional items (net of tax) was Rs. 3.6 billion as compared to Rs. 2.2 billion in FY 2007, registering a growth of 64.5%. However due to a one-time exceptional cost towards Voluntary Retirement Scheme (VRS) expenditure of Rs. 341.8 million, Profit After Tax after exceptional items (net of tax) grew by 53.1% to Rs. 3.3 billion as compared to Rs. 2.2 billion in FY2007.



## MANAGEMENT DISCUSSION & ANALYSIS

Earnings per share before Exceptional Items for FY2008 were Rs.17.4 per share vs. Rs.10.3 per share in FY2007, an increase of 68.6%. Earnings Per Share after Exceptional items was up by 54.2% to Rs. 15.9 as compared to Rs. 10.3 in FY2007.

### Net Sales analysis (Consolidated):

PHL's Healthcare Solutions (domestic branded formulations) business, which at Rs. 12.9 billion contributed 44.9% of Total Operating Income, grew by 11.7% over FY2007. Sales from Pharma Solutions (Custom Manufacturing) business growing to 46.7% of Total Operating Income– were Rs. 13.4 billion as compared to Rs. 11.3 billion for FY2007.

Regrouping of Numbers:

We have done away with the earlier format of India and Global sales, to focus on business-wise reporting. The CMO sales, which were earlier shown in India revenues, are now classified as Others in Pharma Solution segment.

The break-up of aggregate Total Operating Income as per is as under:

Rs. million

No.	Total Operating Income break-up	Year ended			
		% sales	31-Mar-2008	31-Mar-2007	Growth %
1.	Healthcare Solutions	44.9	12,913.5	11,564.6	11.7
2.	Pharma Solutions	46.7	13,410.5	11,275.1	18.9
	PDS	4.9	1,412.2	1,458.6	-3.2
	PMS	30.2	8,668.4	6,648.4	30.4
	MMBB	7.8	2,293.6	2,266.1	1.2
	Others	3.6	1,036.2	902.1	14.9
3.	Diagnostic Services	4.2	1,194.0	695.0	71.8
4.	Others	4.2	1,210.6	1,184.6	2.2
	<b>TOTAL</b>	<b>100.0</b>	<b>28,728.5</b>	<b>24,719.3</b>	<b>16.2</b>

#### Notes:

1. Custom manufacturing revenues from Indian assets included in PDS and PMS above; were Rs. 2.2 billion in FY2008, compared with Rs. 767.4 million in FY2007.
2. The operating income is included under "Others" segment in the break-up give above.
3. PDS – Pharmaceutical Development Services; PMS – Pharmaceutical Manufacturing Services and MMBB – Marketable Molecules/Building Blocks

### Healthcare Solutions (Domestic Branded Formulations)

#### Market commentary & Industry outlook:

The domestic pharmaceutical market continued to grow well as a result of rising income levels and increasing penetration of modern medicine. As per ORG-IMS MAT March, the growth for the year was 14.8%. Chronic therapies continue to grow faster than acute. The year has seen players making investment in field-force to tap the rural markets. No major price increases were seen during the year, instead the focus instead has been on penetrating the rural markets.

The domestic pharmaceuticals industry is centered on branded generics, and is intensely competitive. Top-10 companies account for only 36% of the market share. This year did not see any major consolidation; industry continues to be highly fragmented. Introduction of new patent regime since-2005 has implied that growth from new products will considerably slow down in the coming years. Companies are looking at other avenues for growth such as in licensing tie-ups with multi-national companies and increasing reach.

#### Piramal Healthcare's consolidated formulations performance:

During the year, PHL's Healthcare Solutions (domestic branded formulations) business grew 11.7% in aggregate terms to Rs. 12.9 billion as compared to Rs. 11.6 billion for FY2007. Growth in the first quarter was adversely affected by non-availability of raw material for company's largest brand –Phensedyl, a cough syrup. However the performance has been steady since the second quarter, led by growth in Anti-infective, Dermatology, Anti-Diabetic and OTC segments.



**Formulations sales analysis: Consolidated portfolio**

## Therapy area analysis

Rs. million

No.	Therapeutic area	Company Financials year ended				ORG-IMS MAT-Mar. 08
		Sales Wt (%)	31-Mar-2008	31-Mar-2007	Growth (%)	Market Growth (%)
<b>I.</b>	<b>Piramal Healthcare</b>					
	1. Respiratory	17.4	2,241.4	2,352.7	-4.7	12.0
	2. Anti-Infective	14.3	1,844.1	1,537.7	19.9	15.0
	3. CVS	13.0	1,683.6	1,471.2	14.4	24.0
	4. CNS	11.6	1,501.0	1,337.0	12.3	16.0
	5. Nutritionals	8.9	1,143.9	1,004.9	13.8	10.0
	6. Biotech	1.7	224.2	183.0	22.5	—
	7. Anti-Diabetic	6.5	842.1	697.8	20.7	27.0
	8. Gastro-intestinal	4.3	557.4	511.9	8.9	13.0
	9. Dermatology	3.7	484.1	384.1	26.0	13.0
	10. NSAIDs	4.8	625.4	625.4	0.5	8.0
	11. OTC	5.3	685.0	522.3	31.2	—
	12. Others	4.9	632.7	562.7	12.4	—
<b>II.</b>	<b>Allergan India</b>					
	13. Ophthalmology	3.5	448.5	377.1	18.9	14.0
	<b>Total Healthcare Solutions</b>	<b>100</b>	<b>12,913.5</b>	<b>11,564.6</b>	<b>11.7</b>	<b>14.8</b>

## Note :

Market data source: ORG-IMS, no similar market data available for Biotech segment.

**Portfolio performance: Joint Ventures & Subsidiaries****Allergan India Limited ('AIL'):**

AIL is a 51:49 Joint Venture between Allergan Inc., USA and Piramal Healthcare Limited. During the year, AIL entered into an agreement with Allergan Australia Pty. Ltd., Australia ('Allergan Australia') whereby AIL has been appointed to provide promotion, selling, marketing and administration services to Allergan Australia. AIL will receive a mark-up of 10% on the annual costs and expenditure along with reimbursements of all the costs incurred in this regard.

Net Sales of AIL grew by 18.9% to Rs. 913.3 million (FY2007 Net Sales: 767.1 million) AIL has received an amount of Rs. 5.2 million toward the mark up fees from Allergan Australia. The PBIDT for FY2008 was up by 102% to Rs.211.7 million as compared to Rs.104.6 million in FY2007. Profit after tax for FY2008 was up by 149.8% to Rs. 109.8 million as compared to Rs. 43.9 million for FY2007. The significant improvement in profitability is because of higher sales of its key brands.

**Merger of NPCPPL and NPIL Healthcare:**

During the year, the Company's wholly owned subsidiaries, Nicholas Piramal Consumer Products Private Limited (NPCPPL) and NPIL Healthcare Private Limited (NHPL) merged with the Company under a Scheme of Amalgamation sanctioned by the Hon'ble Bombay High Court with effect from 1st April, 2007 which was the Appointed Date under the Scheme.

**Core Brand Analysis:**

The sales of top-10 brands was 29.4% of the consolidated total branded formulations sales and that of the top-30 brands was 55.8% of the total branded formulations sales. The sales from Lifestyle segment (which include therapy areas of CVS, CNS, Anti-diabetic and Biotech) contributed to 32.9% of the total operating income.

**Brands portfolio expansion:**
**New Products launch:**

Piramal Healthcare's Healthcare Solutions (domestic formulations) business launched 30 new products (including extensions) during FY2008. Sales from new products launched during the past 24 months were Rs. 566.9 million during the year.

**DPCO:**

Products under the Drug Price Control Order (DPCO) contributed 14.1% of Healthcare Solutions (domestic branded formulations) sales in FY2008.

**Field Force (standalone):**

During the year, we increased our field force from 3,154 people to 3,789 people. We continue to believe that Indian formulations market has a good growth potential. This growth will come from reaching out to newer doctors. To tap this large under penetrated market, we are investing in field-force. Our vast yet specialized field presence also adds to our in-licensing attractiveness. Piramal Healthcare now has a total of 16 Divisions, out of which 9 focus on specific therapies.

				No. of People	
No.	Formulations Divisions	TA Focus	31 March 2008	31 March 2007	
I.	<b>Multi-specialty &amp; Institutional</b>				
1.	Multi-Specialty	General Medicine	287	515	
2.	Actis	Respiratory/Paediatrics	497	537	
3.	Aakar (Ethical)	General Medicine	359	348	
4.	Anant (Specialty)	General Medicine/Pain management	282	284	
5.	Drishti	General Medicine (and some specialty products)	0	23	
6.	Zivon	General Medicine	310	249	
7.	Vistaar	Trade Management	195	0	
8.	Nepal		22	22	
	<b>SUB-TOTAL</b>		<b>1,952</b>	<b>2,146</b>	
II.	<b>Dedicated</b>				
8.	Cardex	Cardiovascular	243	211	
9.	Cadence	Cardiovascular	190	191	
10.	Extra Care	Diabetology	307	216	
11.	Cognex	Neuro-Psychiatry	215	234	
12.	Glotek	Dermatology/Gynaecology	126	116	
13.	BioteK	Nephrology/Oncology	31	30	
14.	Carex	Critical Care/Anaesthesiology	10	10	
15.	Pulse	Cardio-Diabetes	234	0	
16.	Ortho	Orthopaedic	344	0	
17.	OTC	Consumer Products	137	0	
	<b>SUB-TOTAL</b>		<b>1,837</b>	<b>1,008</b>	
	<b>TOTAL</b>		<b>3,789</b>	<b>3,154</b>	

**Launch of Cardio-diabeto division:**

During the year we created two new divisions "Pulse" and "Ortho". We have also recruited a field force of 234 and 344 people for these divisions respectively. A team of 137 people was recruited during the year for marketing of OTC products.

**Pharma Solutions (Custom Manufacturing)**
**Market commentary:**

The Global Custom Manufacturing market continued to show good growth. Increased acceptance of Indian companies as manufacturing partners has resulted in higher growth. Larger pharmaceutical companies are also increasingly looking at outsourcing their manufacturing operations faced by rising cost-pressures and patent expiry of blockbuster drugs. The year also marked the entrance of some Indian companies in the custom manufacturing business. However, custom-manufacturing market is large and growing. The lead-times are also longer in this business which create a significant entry barrier.