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## ANNUAL REPORT 2008-2009

## The Board of Directors

Ajay G. Piramal, Chairman

Keki Dadiseth

Y. H. Malegam

Dr. Swati A. Piramal

S. Ramadorai

R. A. Shah

Deepak Satwalekar

N. Vaghul

Nandini Piramal

Executive Director

(w.e.f. 1st April, 2009)

N. Santhanam

Executive Director and Chief Operating Officer

## Management Committee

Ajay G. Piramal

R. Ananthanarayanan

Sudarshan Jain

Rajesh Laddha

Dr. Swati A. Piramal

Nandini Piramal

Murari Rajan

N. Santhanam

### 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 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,

My warm greetings to all of you.

In FY09 we made significant progress in realizing our vision. Our core values of Knowledge, Action and Care continue to propel us to democratize healthcare and reduce the burden of disease. Knowledge propels us to understand our customers, innovate and stay at the cutting edge of our domain area, Action drives us to convert challenges into opportunities with speed and Care ensures that we are devoted to our customers' results and the development of our employees. This year marked another year of strong performance for our Company in an extremely challenging business environment. Consolidated Revenues for the year grew 14.4% to Rs.32.8 billion.

The domestic market continues to be vibrant, and led by increasing disposable income and rising awareness levels has grown by 10.1% for FY09. Penetration of modern medicine continues to be at extremely low level and there is a significant potential for growth in this market. Large multinational companies are now looking at strengthening their presence in India. With coverage of 10 therapeutic areas, a field-force of about 4,000 people and wide range of formulations, our Company is well placed to take advantage of this growth opportunity.

Our Healthcare Solutions (domestic formulations) business registered a strong growth of 24.3% for the year, led by above-market growth across all major therapeutic categories. We have been investing in building brands in this business recognizing the branded generic nature of this market. This combined with our innovative sales and marketing techniques and emphasis on best-in-class business practices has resulted in our company outperforming the industry growth by a huge margin. Our market share has increased from 3.6% for FY08 to 4.0% for FY09 and we continue to grow that.

The pharmaceutical industry globally continues to face challenging time. Companies faced with expiries of large blockbuster drugs and fewer new product approvals are looking at ways of reducing costs. Many of them have started re-looking at their working capital cycles and decided to reduce their inventory levels. This has in some ways affected the performance of companies like ours in the custom manufacturing business.

Our Pharma Solutions (Custom Manufacturing) business registered a growth of 5.2% for the year. We had significant new contract wins in India, which helped our business from India to grow by 73.8%. During the year we have renewed a contract with Pfizer, which formed about 25% of revenues of Morpeth (UK) site's revenues. We have taken a numbers of initiatives during the year to drive profitable growth. These include increased focus on Early Phase work by expanding our capabilities at our facility in Ennore and setting up a new formulation development facility at Ahmedabad; and introducing clinical trial packaging service in Morpeth. In order to rationalize our manufacturing network, we have decided to shutdown our facility at Huddersfield in U.K. and move the work to Digwal and Morpeth.

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To enhance our presence in the niche Inhalation anesthetics segment, we acquired Minrad International Inc. and RxElite Holdings Inc. in March 2009. These acquisitions give us presence in the high value Sevoflurane and Desflurane markets globally. Our experience with the earlier acquisition of inhalation anesthetic business from Rhodia has been satisfactory. Since our acquisition of Rhodia, we have increased our market share in Halothane and Isoflurane and have become the global leaders in this business. We have also been able to improve profitability significantly by shifting manufacturing to India. This has given us confidence to build this business more aggressively and hence the acquisition of Minrad/RxElite. We also acquired the marketing rights for 38 countries of the blood plasma volume expander – Haemaccel. We intend to leverage our existing marketing and distribution network for our inhalation anesthetic products to achieve global leadership in this business.

This year marked an uncertain business environment where we had extreme volatility in Foreign Exchange rates and commodity prices. Our Company has been able to successfully manage these changes. EBITDA excluding FOREX related impact grew by 23.7% to Rs.6.7 billion. EBITDA margin excluding FOREX related impact increased from 18.9% to 20.4%. Net Profit excluding FOREX related impact and exceptional items grew by 23.5% to Rs.4.4 billion. We have incurred a foreign exchange loss of Rs.821.1 million on repayment of short-term borrowings taken in U.S. dollars; this has impacted our reported numbers.

Overall, the year re-affirms our commitment of creating value for our shareholders by focusing on profitable growth. Clearly, our businesses are all in the sweet spot of strong growth. We have the game plan to leverage the opportunities and realize our growth potential. And our core values will propel us towards our vision of becoming the largest and most admired healthcare company in India. This will help our Company to deliver sustainable and profitable growth for many years to come.

With gratitude to our investors, employees, customers and all stakeholders, we look forward to your continued support in our endeavor.

Warm regards,

**Ajay G. Piramal**

Chairman

Date : 18 May 2009

# Management Discussion & Analysis

## FY2009 : (Consolidated) at a glance

### Summary - consolidated:

■ Total Operating Income	: Rs.32.8 billion
■ EBIDTA excluding FOREX related impact	: Rs.6.7 billion
■ EBIDTA	: Rs.5.9 billion
■ Net Profit excluding FOREX & exceptional items	: Rs.4.4 billion
■ Net Profit	: Rs.3.2 billion
■ Gross margins (sales less material costs)	: From 61.9% to 62.3% in FY2009
■ EBIDTA Margin excluding FOREX impact	: From 18.9% to 20.4% in FY2009
■ EBIDTA Margin	: From 19.1% to 17.9% in FY2009
■ PAT excluding FOREX & exceptional items	: From 12.5% to 13.5% in FY2009
■ PAT	: From 11.6% to 9.6% in FY2009

### Revenue and Profit - consolidated:

■ Total Operating Income growth	: 14.4%
■ Healthcare Solutions sales growth	: 24.3%
■ Pharma Solutions sales growth	: 5.2%
■ Global Critical Care sales growth	: 33.7%
■ EBIDTA (excluding FOREX impact) growth	: 23.7%
■ EBIDTA growth	: 7.5%
■ Net Profit excluding FOREX & exceptional items	: 23.5%
■ Net Profit growth	: (5.3)%

### Operations highlights - consolidated:

#### ■ Healthcare Solutions:

- Market Share expanded from 3.6% in FY2008 to 4.0% in FY2009. (ORG IMS MAT March 2009)
- Field force of 3,984 people; 18 Marketing Divisions including 11 Specialist Divisions.
- 42 new products & line extensions launched, new products (launched during the last 24 months) form 7.9% of sales.
- Acquired Anafortan and CEFI brands from Khandelwal Laboratories.

#### ■ Pharma Solutions:

- Renewed a contract with Pfizer that formed about 25% of Morpeth, UK facility's sales.
- Scaled-up early phase API development facility at Ennore.
- Commissioned an early phase formulation development facility at Ahmedabad.
- Introduced Clinical Trial Packaging services at Morpeth facility.

#### ■ Global Critical Care:

- Acquired Minrad International Inc. and RxElite Holdings Inc. in U.S. to strengthen our presence in the inhalation anesthetics business.
- Acquired Heamaccel brand from PlasmaSelect AG, Germany.

**PHL financial highlights: Consolidated**

Particulars	Year		
	FY2009 Rs. Million	FY2008 Rs. Million	Growth %
Total Operating Income	32,811.0	28,674.8	14.4
EBIDTA excluding FOREX related impact	6,708.4	5,424.0	23.7
(%)	20.4	18.9	
Forex (gain)/losses	821.1	(53.6)	
EBIDTA	5,887.3	5,477.6	7.5
(%)	17.9	19.1	
Interest (Net)	838.0	463.1	81.0
Depreciation	1,195.7	947.3	26.2
PBT before exceptional items	3,853.6	4,067.2	(5.3)
PAT	3,162.5	3,337.8	(5.3)
EPS Rs. (Basic)	15.1	15.9	(4.8)
EPS Rs. before forex and exceptional items	21.3	17.1	24.1

Particulars	FY2009	FY2008
Debt / Equity ratio	1.02	0.66
ROCE %	19.0	24.3
ROCE % excluding FOREX related impact and exceptional items	24.8	25.9
RONW %	24.0	30.4
RONW % excluding FOREX related impact and exceptional items	33.7	32.8
EVA (Rs. million)	1,414.8	1,647.1
Inventory (days*)	53	50
Receivables (days*)	53	55

Note: \* Days have been worked on the basis of gross sales and also includes other operating income and exclude sales tax. The previous year numbers have been calculated on the basis of regrouped financials.

**Review of the year ended 31 March 2009: (Consolidated)**

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

For the year ended 31 March 2009, Total Operating Income grew by 14.4% to Rs.32.8 billion compared with FY2008 total operating income of Rs.28.7 billion.

Earnings Before Interest, Depreciation and Tax (EBIDTA) excluding FOREX related impact grew by 23.7% to Rs.6.7 billion, as compared to Rs.5.4 billion for FY2008. The EBIDTA margin was also higher at 20.4%, compared to 18.9% for FY2008.

Due to significant appreciation of U.S. Dollar against the Indian Rupee during the year, we have incurred a FOREX loss of Rs.821.1 million on repayment of short-term loans taken in U.S. Dollar. As a result, actual EBIDTA was Rs.5.9 billion registering growth of 7.5% over FY2008 EBIDTA of Rs.5.5 billion. The EBIDTA margin was lower at 17.9% as compared to 19.1% in FY2008.

Net Interest increased by 81.0% to Rs.838.0 million, compared with Rs.463.1 million in FY2008. Total Debt as on 31 March 2009 was Rs.13.4 billion, compared with Rs.7.2 billion for FY2008. Debt/Equity ratio was 1.02 in FY2009, compared to 0.66 in FY2008. The Debt level increased during the year mainly due to acquisitions of Minrad/RxElite and brands from Khandelwal Laboratories. The interest cost for FY2009 was higher because of higher debt level coupled with increased cost of borrowing.

Depreciation for the year was Rs.1.2 billion compared to Rs.947.3 million in FY2008.

Income Tax including Fringe Benefit Tax for FY2009 was Rs.219.4 million, compared with Rs.376.6 million in FY2008.

Profit after Tax before FOREX related impact and exceptional items (net of tax) was Rs.4.4 billion as compared to Rs.3.6 billion in FY 2008. We also incurred restructuring costs towards shutdown of Huddersfield facility in U.K. and some VRS expenditure. As a result, Profit After Tax declined by 5.3% to Rs.3.2 billion as compared to Rs.3.3 billion in FY2008.

Earnings per share excluding FOREX related impact and Exceptional Items for FY2009 was Rs.21.3 per share vs. Rs.17.1 per share in FY2008, an increase of 24.1%. Earnings Per Share after Exceptional items was lower at Rs.15.1 as compared to Rs.15.9 in FY2008.

### Net Sales analysis (Consolidated):

PHL's Healthcare Solutions business, at Rs.16.0 billion grew by 24.3% over FY2008. Sales from Pharma Solutions business were Rs.10.6 billion as compared to Rs.10.1 billion for FY2008.

### Regrouping of Numbers:

We have done away with the earlier format of Pharma Solutions (CMG) sales to focus on region-wise reporting. As a result of the acquisition of Minrad & RxElite that we completed this year, we will begin to report the performance of Global Critical Care business separately.

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

Rs. million

No.	Total Operating Income break-up	% sales	Year ended		
			31-Mar-2009	31-Mar-2008	% Growth
1	Healthcare Solutions	48.9	16,048.9	12,913.5	24.3
2	Pharma Solutions	32.4	10,606.5	10,080.7	5.2
	From Assets in India	12.0	3,925.1	2,258.6	73.8
	From Assets outside India	20.4	6,681.3	7,822.1	(14.6)
3	Pathlabs	5.1	1,689.6	1,194.0	41.5
4	Global Critical Care	4.0	1,315.9	984.5	33.7
5	Others	9.6	3,150.1	3,502.2	(10.1)
	<b>Total</b>	<b>100</b>	<b>32,811.0</b>	<b>28,674.8</b>	<b>14.4</b>

### Note:

Other operating income is included under "Others" segment in the break-up give above.

### Healthcare Solutions (Domestic Branded Formulations)

#### Market commentary & Industry outlook:

Despite the current economic slowdown, the domestic market continued to grow at 10.1%, assuring its defensive nature. Increasing purchasing power of people, especially in rural areas has resulted in newer avenues of growth. Expanding reach in this highly under-penetrated market (only 35% population has access to modern medicine) has resulted in good growth for most companies who have a large field-force presence across the country.

The market continued to remain highly competitive and fragmented. Multinational companies are looking at strengthening their presence in this market due to its strong growth prospects.

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

During the year, PHL's Healthcare Solutions Sales grew 24.3% in aggregate terms to Rs.16.0 billion as compared to Rs.12.9 billion for FY2008. The performance was led by high growth in Anti-infective, Dermatology, Respiratory, Diabetes and Cardiovascular (CVS).



**Formulations sales analysis:****Therapy area analysis**

Rs. Million

No.	Therapeutic area	Company Financials year ended				ORG-IMS MAT-Mar. 09
		Sales Wt (%)	31-Mar-2009	31-Mar-2008	Growth (%)	Market Growth (%)
1.	Respiratory	17.7	2,833.2	2,241.4	26.4	7.8
2.	Anti-Infective	15.9	2,557.8	1,844.1	38.7	9.8
3.	CVS	12.8	2,055.9	1,683.6	22.1	13.4
4.	CNS	10.5	1,684.8	1,501.0	12.2	10.2
5.	Nutritionals	6.7	1,081.7	1,143.9	(5.4)	8.3
6.	Oncology/Nephrology	1.7	275.8	224.2	23.0	—
7.	Anti-Diabetic	6.4	1,021.2	842.1	21.3	16.2
8.	Gastro-intestinal	4.8	768.1	557.4	37.8	8.9
9.	Dermatology	3.7	587.9	484.1	21.4	10.6
10.	NSAIDs	4.6	736.3	625.4	17.7	9.0
11.	OTC	4.7	759.0	685.0	10.8	—
12.	Others	7.5	1,206.7	632.7	90.7	—
13.	Ophthalmology	3.0	480.3	448.5	7.1	4.1
	<b>Total</b>	<b>100</b>	<b>16,048.9</b>	<b>12,913.5</b>	<b>24.3</b>	<b>10.1</b>

**Note :**

Market data source: ORG-IMS, no similar market data available for Oncology / Nephrology segment.

**Acquisition of Khandelwal brands:**

During the year, PHL acquired two brand groups, Anafortan and CEFI from Khandelwal Laboratories Pvt. Ltd. (K-Lab) for total consideration of Rs.1.3 billion. Anafortan and CEFI are unique brand groups in the Indian market with patented drug delivery systems technology. As a part of the agreement, K-Lab has provided certain patents' use and non-compete assurances for Cefixime and Camylofin based drugs. Anafortan is the only smooth muscle, anti-spasmodic drugs of its kind in India consists of six Camylofin-based formulations in pure and combination forms where as CEFI Group consists of third-generation, wide-application, Cefixime-based formulations in pure and combination forms. We have since then integrated these brands into our business and these are now growing well.

**Increased market share in domestic formulations market:**

During the year, PHL performed well across all therapies and witnessed strong double-digit growth in almost all therapeutic areas and particularly in Anti-Infective, Dermatology, Respiratory, Diabetes and Cardiovascular therapy segments. Piramal Healthcare's market share increased to 4.0% in FY2009 (MAT Mar 09) as compared to 3.6% in FY2008 (MAT Mar 08) as per ORG IMS data.

**Moved from 9th to the Top 3 in the doctors' mind:**

Our rebranding exercise was named one of the World's most effective re brands at ReBrand 100® Global Awards the highest recognition for brand rebuilding and redesign as it "transcends cosmetic changes to make an emotional connect." In a nationwide survey conducted by an independent research agency, Piramal Healthcare made it to the Top 3 in the doctors' perception.

**Launch of Piramal Knowledge Academy:**

We launched 'Piramal Knowledge Academy' with the objective of sharing and spreading the latest scientific knowledge amongst the medical fraternity and honoring their outstanding achievements in the field of medicine. Piramal Knowledge Academy will regularly conduct Continuing Medical Education, Skill Upgradation and Collaborative Educational Programmes covering all therapy areas under the guidance of advisory panels of eminent doctors. The best faculties, both national & international, in their respective areas of specialty will be invited for these programmes. Training continues to be a high priority for the business and our strong field training team developed customized modules aligned to the business priorities.

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

Total Operating Income of AIL grew by 12.3% to Rs.1.0 billion (FY2008 Total Operating Income: 915.1 million). PBIDT for FY2009 was up by 54.0% to Rs.322.2 million as compared to Rs.209.2 million in FY2008. Profit after tax for FY2009 was up by 75.1% to Rs.192.3 million as compared to Rs.109.8 million for FY2008. The significant improvement in profitability is because of higher sales of its key brands.

**Core Brand Analysis:**

The sales from our top-10 brands was 24.3% of the Healthcare Solutions sales and that from our top-30 brands was 49.5%. The sales from Lifestyle segment (which include therapy areas of CVS, CNS, Anti-diabetic and Oncology/Nephrology) contributed to 31.4% of the total Healthcare Solutions sales.

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

Piramal Healthcare launched a total of 42 new products (including extensions) during FY2009. Sales from new products launched during the past 24 months was Rs.1.3 billion during the year.

**DPCO:**

Products under the Drug Price Control Order (DPCO) contributed 13.0% of Healthcare Solutions sales in FY2009 as compared to 14.1% in FY2008.

**Field Force (standalone):**

During the year, we increased our field force from 3,789 people to 3,984 people. We are continuously investing in our fieldforce to achieve our objective of market penetration. Piramal Healthcare now has a total of 18 divisions, out of which 11 focus on specific therapies.

No. of people

No.	Formulations Divisions	TA Focus	31 March 2009	31 March 2008
<b>I.</b>	<b>Multi-specialty &amp; Institutional</b>			
1.	General Medicine	Respiratory/Pediatrics	504	497
2.	Multispecialty	General Medicine	266	287
3.	Acute Care	General Medicine	307	310
4.	Multi Therapy	General Medicine	355	359
5.	Pain Management	General Medicine/Pain Management	310	282
6.	Trade Management	Trade Management	193	195
7.	Nepal		21	22
	<b>SUB-TOTAL</b>		<b>1,956</b>	<b>1,952</b>
<b>II.</b>	<b>Specialist</b>			
8.	Cardiac	Cardiovascular	251	243
9.	Diabetes	Diabetology	307	307
10.	Biotek	Nephrology/Oncology	26	31
11.	Critical Cardiology	Cardiovascular	219	190
12.	Cardio – Diabeto	Cardio-Diabetes	219	234
13.	Consumer Products	OTC	200	137
14.	Neuro-Psychiatry	Neuro-Psychiatry	219	215
15.	Derma	Dermatology/Gynaecology	171	126
16.	Ortho	Orthopaedic	337	344
17.	Institutional Sales	Critical Care/Anaesthesiology	9	10
18.	CNS	CNS	70	0
	<b>SUB-TOTAL</b>		<b>2,028</b>	<b>1,837</b>
	<b>TOTAL</b>		<b>3,984</b>	<b>3,789</b>

**Launch of CNS division:**

During the year we created CNS division and recruited 65 new business managers for this division and transferred some from our existing division. A team of additional 63 people and 45 people were recruited for OTC and Derma divisions respectively.