



**UNICHEM**  
LABORATORIES LTD.



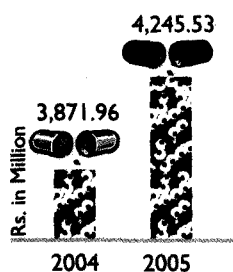
ANNUAL REPORT  
2004 - 2005

OUR INFRASTRUCTURE

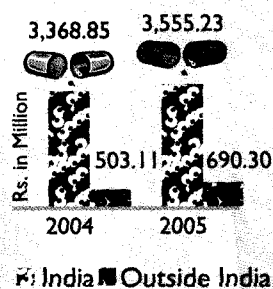
## FINANCIAL HIGHLIGHTS

- Total revenue up by 9.65% to Rs 4245.53 million.
- Revenues outside India up by 37.21% to Rs 690.30 million; contributing 16.25 % to total Revenues.
- Research and Development expenditure up by 82.65% to Rs. 153.92 million.
- Recommendation of a dividend of Rs 3.5 on equity share of Rs 5/- each.

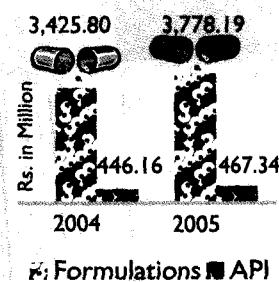
### GROSS SALES



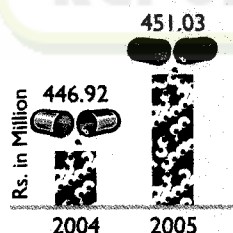
### SALES



### SALES MIX

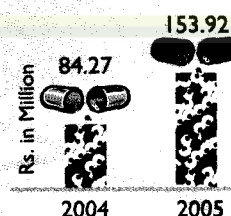


### NET PROFIT \*



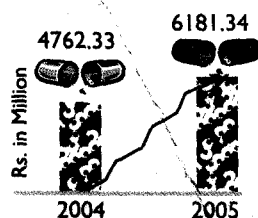
\* After tax and extra ordinary gain

### R & D EXPENDITURE

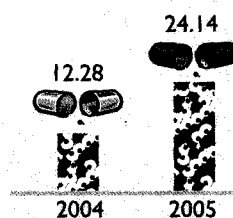


## CONSOLIDATED

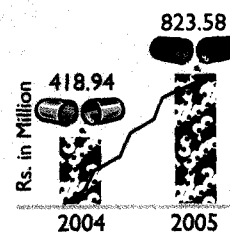
### INCOME



### EPS (Rs.)



### NET PROFIT



# CONTENTS

CHAIRMAN'S LETTER	2
BOARD OF DIRECTORS	4
PROFILE OF DIRECTORS	5
INFRASTRUCTURE	6
WORLD IS THE MARKET	7
RESEARCH AND DEVELOPMENT	8
TALENT MANAGEMENT	9
5 YEARS AT A GLANCE	10
DIRECTORS' REPORT AND ANNEXURES	12
MANAGEMENT DISCUSSION AND ANALYSIS	19
CORPORATE GOVERNANCE REPORT	30
INFORMATION FOR SHAREHOLDERS	39
UNICHEM STAND ALONE FINANCIAL STATEMENTS	45
UNICHEM CONSOLIDATED FINANCIAL STATEMENTS	69
NICHE GENERICS LIMITED	87
UNICHEM FARMACEUTICA DO BRASIL LTDA.	99
UNICHEM S. A. (PROPRIETARY) LIMITED	108
NOTICE	115



## CHAIRMAN'S LETTER

Dear Stakeholders,

"We are what we think.

All that we are, arises with our thoughts.

With our thoughts, we make the world."

Buddha

These inspiring words from Buddha are so realistic that they hold fort even today. It lays a basic value to achieve our goal. With this philosophy as a foundation, Unichem is heading towards its mission of 2010/2010\*.



Fiscal 2005 has been an eventful year for your Company both performance-wise and challenges-wise. Gross sales were at Rs. 4245.53 million for fiscal 2005 as compared to the previous year of Rs. 3871.96 million thus recording a year on year growth of over 9%. International Sales contributed Rs. 690.30 million of the gross sales recording a year on year growth of over 37% as compared to the previous year. Profit after tax and before extraordinary gains is at Rs. 451.03 million as compared to Rs. 389.06 million during the previous year recording a year on year growth of over 15%.

Formulations business in India continues to be the major bread earner for the company with a sale of Rs. 3778.19 million as compared to Rs. 3425.80 million over last year thereby recording a growth of 10.29%. Unichem's strategy to de risk its over dependence on acute care therapy has started reaping dividends. We are now a key player in the chronic care therapy with some of our brands featuring in the top 300 brands. We are now ranked 17<sup>th</sup> by ORG IMS\*\*. We are continuing to build brand leaders in these therapies with innovative marketing strategy, entering the virgin rural markets, setting up therapy focused teams and leveraging the marketing investments with innovative ideas. We will continue to maintain a healthy balance between Acute & Chronic therapy portfolio. Pricing pressures are been felt in this market along with the increase in number of players in each of the therapeutic segment with "ME TOO" strategy been played by most of the formulations manufacturers.

With over 70% of India's population dwelling in rural areas, India still continues to be a rural economy. However with the increase of rural income combined with increased accessibility and modes of communication, these markets present great opportunity for growth. Hence enhancing rural market coverage and focused marketing are the two key areas which will drive growth for Unichem in the years to come. We would also be evaluating inorganic growth opportunities especially if it adds value to the existing portfolio.

Fiscal 2005 also saw the introduction of Value added tax regime, maximum retail price concept for medicines. These industry wide phenomena had adverse impact for the entire sector and Unichem was also not immune to these impacts. With the increase in post marketing surveillance and analysis of information by regulators world wide, certain COX II molecules were withdrawn which had resulted in Unichem's brand ROFF also been withdrawn from the market. We expect the regulatory agencies world wide to increase their post marketing surveillance in the coming years as well. The stricter enforcement of the Narcotics Drugs and Psychotropic Substances Act by the Government also affected the performance of our Psychiatry portfolio. These were some of the temporary aberrations that your company withstood and I believe that the company has grown stronger with the learning it underwent in all these situations.

January 1, 2005 witnessed a sea change for Indian pharmaceutical companies as India became product patent compliant with the enforcement of notification and subsequent approval of the patents amendments bill by the parliament. This will definitely result in slowing down of introduction of new molecules by Indian companies. Unichem has devised a strategy to exploit the generic opportunity as a result of many blockbuster products going off patent by 2011. Though a late entrant into this area Unichem's global foray's has successively shown promising growth. International formulations business recorded at turnover of Rs. 445.50 million as compared to Rs. 273.90 million recording a year on year growth of over 62% with business in rest of the world and Russia growing on expected lines. Our strategy of setting up subsidiaries in South Africa and Brazil will start yielding results in the coming fiscal. Unichem's plants have successfully undergone inspections and received approvals from the regulators of these countries apart from the regulators of other countries where we market our products. We are also on target to file our first US ANDA in the coming fiscal. This year will also witness increased investments in facilities in order to improve upon our strength to comply with the regulatory requirements of US markets. With our continuing focus in building value-added branded generics in the rest of the world markets we have been growing at a very respectable pace in these markets. Thus we are all set to achieve our target to be among the top fifteen players in each of these markets.

\* To achieve the target of Rs. 2010 crores by the year 2010.

\*\* ORG IMS March 2005 report.

## CHAIRMAN'S LETTER

Our Active Pharmaceutical Ingredients (API) business recorded a turn over of Rs. 467.34 million in fiscal 2005 as compared to Rs. 446.16 million reflecting a year on year growth of over 4%. At the end of fiscal year 2005, Unichem acquired an API facility at Pithampur there by fulfilling the long felt need to strengthen the API capacity thereby providing support to its key formulations sold in Indian and International markets. We expect the new facility to be upgraded to the USFDA requirements in the next 12 to 18 months. Our API facility at Roha is expected to undergo USFDA inspection as a trigger to our filing the ANDA in this fiscal. Upgrading this facility to USFDA standards is expected to be completed in this fiscal.

With the introduction of product patent regime, the importance of Intellectual Property Management has increased substantially. Unichem had prepared well in advance to welcome this regime by focusing its research and development effort in non infringing process development, novel drug delivery systems, developing recombinant proteins and cost effective process. We had also undertaken a thorough product portfolio review that helped us in concluding that Unichem is prepared to embrace the product patent regime with confidence. The amount spent on research and development (R&D) in fiscal 2005 is Rs. 153.92 million as compared to Rs. 84.27 million in the previous year recording an R&D spent of over 3% of our gross turnover. This is expected to increase further in the years to come in order to help your company to be on the growth trajectory and help in meeting the product pipe line requirements of both the Indian and international business.

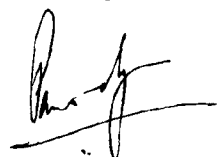
Unichem also strengthened its infrastructure to meet its growth targets by commissioning its new product development center exclusively devoted for the Developed markets. We completed the setting up of our second formulations plant at Baddi, which has commenced production in April 2005. We would be setting up two more formulations plants at Baddi to meet our ever-increasing formulations requirements in India. We would also be exploring certain acquisitions for maintaining our growth strategy in the Indian market. Internationally, coming year will see product launches in Brazil and commencement of operations of our South African subsidiary. In Brazil we are setting up our own marketing setup and in the coming year and the year thereafter we would be in investment mode in Brazil to ramp up our marketing operations which would initially be through the launch of generics in this market and gradually move over to branded generics. South Africa operations are routed through stockiest and we expect these operations to be contributing to the bottom line from the first year itself. With a clear-cut strategy to own our entire product registration as well as file ANDAs in USA a subsidiary in USA is already floated for this purpose. We also had entered into a marketing arrangement with Lannett Company Inc., in fiscal 2005 we would be entering into many more such co marketing arrangements with companies in US till we have a critical mass of ANDA's which would result in our either setting up marketing operations in USA or acquiring a marketing company in US. In the coming year we would be on investment mode in USA till we develop the necessary regulatory skills required for marketing our products in this market.

We would also be exploring the possibility to acquire the minority stake from the foreign partners in M/s. Niche Generics Limited in the year to come to make it a wholly owned subsidiary. On completion of this acquisition we would use this company as a beachhead for all our future western European forays. We would continue with the contract manufacturing activity for some of our clients with whom we have long standing relationship apart from exploring new avenues in this field.

As said by Helen Keller "Although the world is full of suffering, it is also full of overcoming of it". This year we saw the world moved by the Tsunami waves. Unichem in its own way tried to help the needy by providing free medicines and aid. It was heartening to note that our employees voluntarily contributed a days earning to help the needy.

I take this opportunity to thank Unichem team, right from the senior management personnel and scientists to all the employees for their remarkable contribution. I also want to thank our business associates for their support and you, our stakeholders for having faith in us.

Warm Regards,



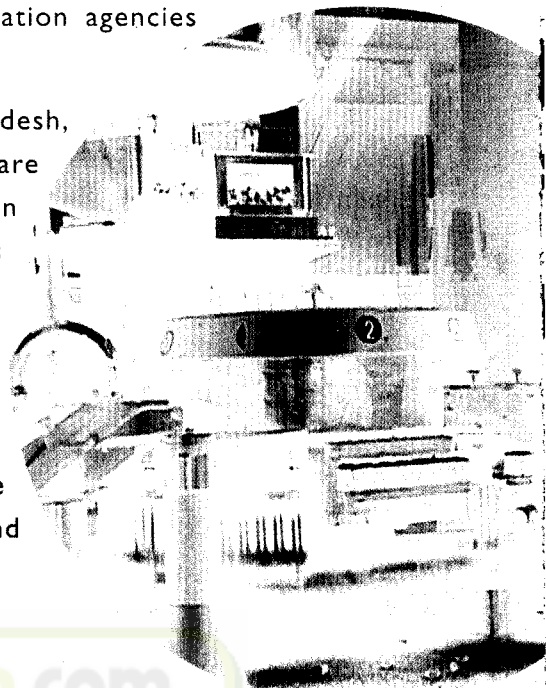
Dr. Prakash A. Mody  
Chairman and Managing Director

## INFRASTRUCTURE

Infrastructure of any pharmaceutical company plays a key role in its quality and advancement. Unichem has been consistent in maintaining its Quality Standards, which is quite evident from the certification it has received from over 10 international certification agencies including MHRA, TGA, ANVISA, WHO-GMP etc.

Unichem's formulation facilities are located at Ghaziabad in Uttar Pradesh, Baddi in Himachal Pradesh and Goa. All these facilities put together are capable of manufacturing over 3,800 million tablets, 730 million capsules, 12 million liquids, 30 million ampoules, 20 million injections and 6 million dry syrups. The Active Pharmaceutical Ingredients (API) facilities are located at Roha in Maharashtra and Pithampur in Madhya Pradesh. Cumulative production capacities of APIs and Intermediates is over 6,500 metric tons.

Unichem has always worked towards offering the best and have exploited the increasing opportunities presented by the regulated and semi regulated markets.



### LOCATIONS

Formulations manufacturing facilities at:  
Ghaziabad (UP), Goa and Baddi (HP)

APIs manufacturing facilities at:  
Roha (MAH) and Pithampur (MP)

### AREAS

Cumulative built up area is over 82,400 sq. mts.

Cumulative production area is over 22,800 sq. mts.

Cumulative warehouse area is over 10,900 sq. mts.

### PRODUCT PRODUCTION CAPABILITY

We have about 17 production lines capable of producing the following category of dosages namely; Tablets, Capsules, Liquids, Ampoules, Injection vials and Dry syrups

### TECHNOLOGY

Technologies employed in these plants are indigenous and automated to a great extent.



An ultra-modern manufacturing facility certified by UK MHRA, MCC (South Africa), WHO (Geneva) and TGA (Australia)

International business is expected to be over 50% by the year 2010 from the current contribution of over 16%. Product registrations, DMF filings etc. are the key drivers for achieving this target. Unichem has also set up subsidiaries in certain key markets to meet its international business requirements.



Total approved registration and products being marketed (as on March 31, 2005)



## RESEARCH AND DEVELOPMENT

Unichem is not only focusing on World Class infrastructure but is also expanding its Research and Development capabilities.

the development of non-infringing routes for products going off-patent as these are likely to drive industry growth in the highly regulated geographies.

### RESEARCH AND DEVELOPMENT INFRASTRUCTURE

R & D and Product development centres are located at:  
Mumbai, Bangalore & Goa

Total built up area is over 13,000 sq. ft.

#### Types of research undertaken:

- Develop non infringing process
- Develop cost effective process of manufacture
- Novel drug delivery systems
- Identify cono-toxin variants
- Develop recombinant proteins
- Contract research for certain customers

Unichem's Research and Development team comprises over a dozens PhDs supported by a young and dynamic team of scientists.

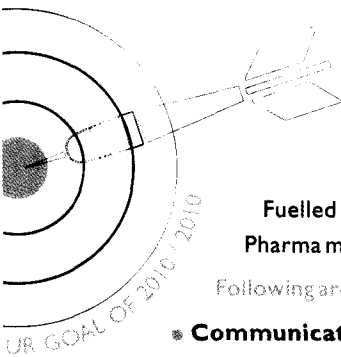




## TALENT MANAGEMENT

Unichem has channelised its organizational attention towards the articulation of a suitable new vision and goal that would serve to drive its growth across the foreseeable future, while maintaining World Class standards of operating the business.

Modern techniques, trained professionals, hi-tech minds, the perfect set up and the right environment are the essentials to maintain a World Class Infrastructure, which is exactly what lies in Unichem.



### TALENT MANAGEMENT AND DEVELOPMENT IN UNICHEM

Unichem employs over 1800 employees and they are considered as the most valuable asset of the company. Unichem focuses on attracting talent, retaining talent and developing talent for enhancing business performance.

Fuelled by our Core Mission, Vision and Values of OCTAPACE, our people create a forte for us in the global Pharma market.

Following are the keystones of our efforts towards achieving our Goal of 2010/2010:

#### • Communication of Mission, Vision and Goal

Following our Value of Authenticity, we have established a continuous communication channel with our employees on our Milestone towards Mission, Vision and Goal. Channel of Personalised emails, special screenings of corporate events, website and intranet were used for the continuous communication to create belongingness and commitment in achieving our Goal.

#### • Rewarding employees

The Company granted one-lakh stock options under the Unichem Employee Stock Option Scheme to key employees working in critical functions. We are sure this gesture from the company would result in enhanced and superior commitment towards performance.

#### • Values Reinforcement & Dissemination

Towards making Values our walk of life and linking it towards success at professional and personal life, induction for new joiners, Values practice competition, rapid-fire test, and Value based Experiential-learning programme were successfully conducted at Corporate office and Units.

#### • Career Progression and Advancement

We have always acted on the belief that a company excels when its employees do and vice versa. With each year of surpassing performance, our belief continues to be demonstrated.

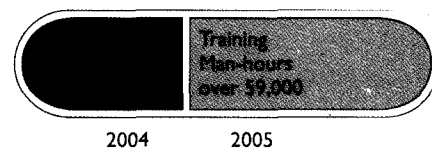
To make our belief a reality and in lines with our Value of Proaction, we conducted Will 2 Win and Win 2 Win training programme to develop competence to meet our future requirement. We have also taken initiatives to develop our employees to meet and absorb the requirement of International market.

We strongly believe that Career Progression and Advancement of our internal customer is the key to successful talent management and retention.

#### • Managerial and Behavioural Competence Development

Competency Development is ensured through on-the-job training, nomination to coveted training programmes at prestigious institute (IIMs, XRLI, TMTC) and customised in house workshops conducted during the year at various intervals.

During the year 2004 - 05, we have invested over 59,000 man-hours of training our employees.



# 5 YEARS AT A GLANCE

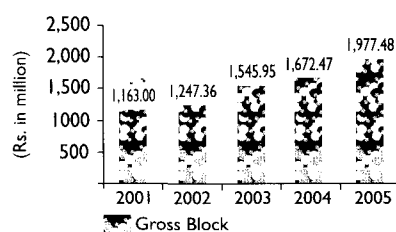
## BALANCE SHEET

UNICHEM LABORATORIES LIMITED

(Rs. in millions)

As at 31st March	2001	2002	2003	2004	2005
<b>Sources of Funds</b>					
Equity share capital	85.30	85.30	85.30	170.60	170.60
Reserves & surplus	803.34	901.69	1,096.55	1,340.12	1,655.62
Net worth	888.64	986.99	1,181.85	1,510.72	1,826.22
Secured Loans	254.95	184.65	211.80	228.83	258.32
Unsecured Loans	184.82	191.06	337.49	248.56	180.08
Total Loans	439.77	375.71	549.29	477.39	438.40
Total Liabilities	1,328.41	1,362.69	1,731.14	1,988.11	2,264.61
<b>Application of Funds</b>					
Gross block	1,163.00	1,247.36	1,545.95	1,672.47	1,977.48
Depreciation	310.42	336.20	395.09	474.03	557.23
Net block	852.59	911.16	1,150.86	1,198.44	1,420.26
Capital WIP	9.63	85.62	23.84	72.33	365.82
NB + CWIP	862.21	996.78	1,174.70	1,270.77	1,786.08
Investment	10.21	6.17	147.33	142.58	31.19
<b>Current Assets</b>					
Inventories	288.02	286.89	379.62	472.57	540.80
Debtors	399.74	522.00	569.39	657.29	711.45
Cash and bank balance	16.64	19.79	14.45	26.78	18.95
Loans & advances	116.33	104.71	165.95	240.43	189.91
Other current assets	-	-	-	-	-
Total Current Assets	820.73	933.39	1,129.41	1,397.06	1,461.11
<b>Current Liabilities</b>					
Creditors	276.49	322.33	428.12	459.88	554.04
Other current liabilities	41.26	45.70	43.05	59.60	98.41
Provisions	46.98	70.72	78.22	115.48	136.17
Total current liabilities	364.74	438.76	549.40	634.96	788.62
Deferred tax liability	-	134.91	170.91	187.34	225.14
Net current assets	455.99	359.74	409.11	574.77	447.34
Misc expenditure	-	-	-	-	-
Total Assets	1,328.41	1,362.69	1,731.14	1,988.11	2,264.61

GROSS BLOCK



TOTAL INCOME

