

annual report

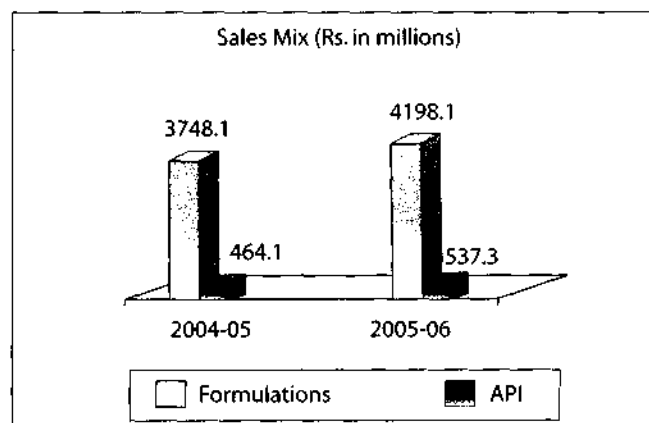
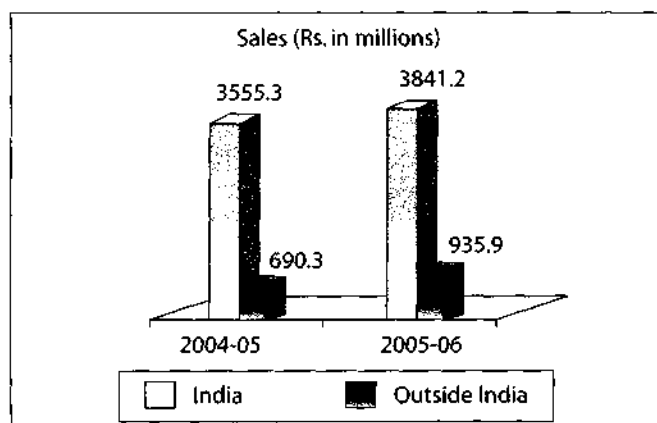
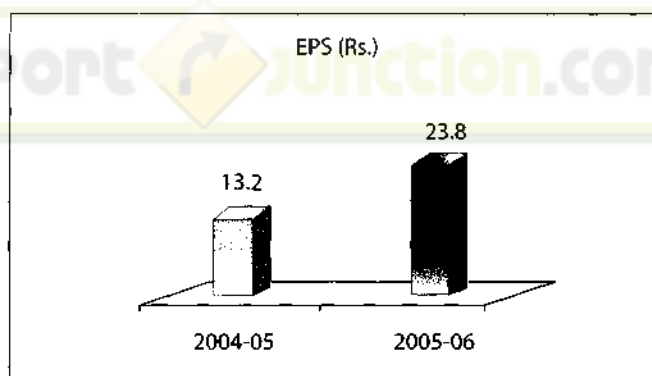
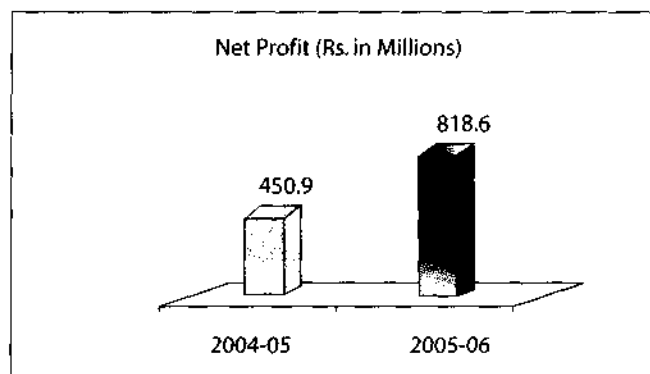
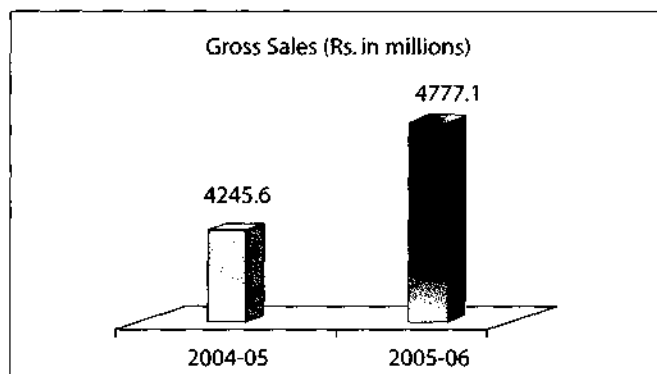
2005-06



UNICHEM
LABORATORIES LTD.

financial highlights

- Total Revenue up by 13.4% to Rs. 4599.7 millions
- Revenues outside India up by 35.6% to Rs. 935.9 millions
- Exports contributed 19.6% of Gross Sales as against 16.3% last year.
- Recommendation of a dividend of Rs. 5 on Equity Share of Rs. 5 each.



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chairman's letter



Dear Stakeholders,

I hope you would find our performance in the financial year ended March 31, 2006 to be good with total revenues growing by an impressive 13.4% over the previous year to cross the Rs. 4500 million mark and profit at Rs. 818.6 million, posting an 81.5% increase over the previous year, inspite of domestic market facing pricing pressures and reduction of opportunities to launch new molecules under the new patent regime.

In the current year, Domestic sales of formulations were Rs. 3615.4 million as compared to Rs. 3302.6 million in the previous year, recording a growth of 9.5%. Chronic therapy market will drive growth of the industry in the coming years and Unichem is consistently improving its share in this segment, accounting for over 45 per cent of our turnover in financial year 2005-06. Unichem has launched over 20 new products and brand extensions

across various therapeutic segments apart from numerically strengthening its field force.

During the year, Unichem commenced commercial production at its new formulations manufacturing facility at Baddi. Additionally we are in the process of setting up two more formulations manufacturing facility at Baddi to service our marketing requirements. These facilities are also expected to contribute significantly from the date of commencement of commercial production.

The Indian domestic formulations market is expected to show better growth as compared to the current year subject to any unforeseen developments taking place in the regulatory environment.

The Company has registered a healthy growth of over 30% in its international formulation sales. With consistent growth in international business we would be in position to post improved performances. We have successfully launched branded generics in South Africa through our distributors during the year under review. We have also filed our first abbreviated new drug application in USA. We expect these initiatives clubbed with India advantage

to benefit Unichem from the generic opportunities opening up across various international markets. We are considering options of setting-up manufacturing facilities in Special Economic Zones to meet growing international supply requirements of formulations.

The global generics market is fast becoming a commodity market, with low entry barriers, increasing competition, and shrinking margins. Our ability to continuously identify and develop new growth opportunities and the speed of product launches in these markets is becoming critical. The Company has entered into a Product development and marketing alliance with M/s. PLIVA Inc. USA in addition to the already existing alliance with M/s. Lannett Company Inc. for marketing our products under Joint labels in USA, the world's largest pharmaceutical market. We hope to build many more such mutually beneficial relationships for marketing our generics in the US market.

Our Active Pharmaceutical Ingredients (API) business recorded a turnover of Rs. 537.3 million as compared to Rs. 464.1 million in the previous year. Our top line products namely Bisoprolol Fumarate, Hydrochlorothiazide, Telmisartan,

chairman's letter

have done well. The export market is expected to witness a healthy growth in the coming years due to imminent patent expiries and pro-generic initiatives across the US & Europe.

Unichem is also expected to benefit from some of these emerging opportunities in the near future with its increased capacity and focused API business approach. Our API manufacturing facilities at Roha and Pithampur are undergoing a major capacity enhancement accompanied with upgradation of existing manufacturing facility at Pithampur. This will help us in being fully integrated for our formulations export market requirements and to explore key generic API opportunities in global markets.

Unichem is increasingly investing on enhancing its research and

development capabilities to meet its own requirements as well as to look it as an opportunity to service the global pharmaceutical industry which is under cost pressures and looking for outsourcing to low cost countries like India.

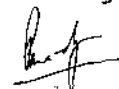
Consolidated net profit for the group is at Rs. 779 million for the FY06 as compared to Rs. 1110 million in the previous year; this is due to the fact that the previous year revenues included one time licensing fee received by our UK subsidiary.

None of these endeavours would have been possible without the dedicated efforts of our human resources. Unichem's quest for value creation would not have been possible but for the support that my colleagues and I received from all the customers, business associates, shareholders and

members of the Board. I am grateful to them for their continued confidence in the management. I firmly believe that with the solid foundation that has been laid and the large opportunities in front of us, we will continue to create superior value for all our stakeholders. I would like to end this communication with the famous words of Denis Watley:

"The reason most people never reach their goals is that they don't define them, or ever seriously consider them as believable or achievable. Winners can tell you where they are going, what they plan to do along the way, and who will be sharing the adventure with them."

Warm Regards,



Dr. Prakash A. Mody

Chairman and Managing Director

corporate information

BOARD OF DIRECTORS

Dr. Prakash A. Mody
Chairman & Managing Director

B. K. Sharma
Executive Director

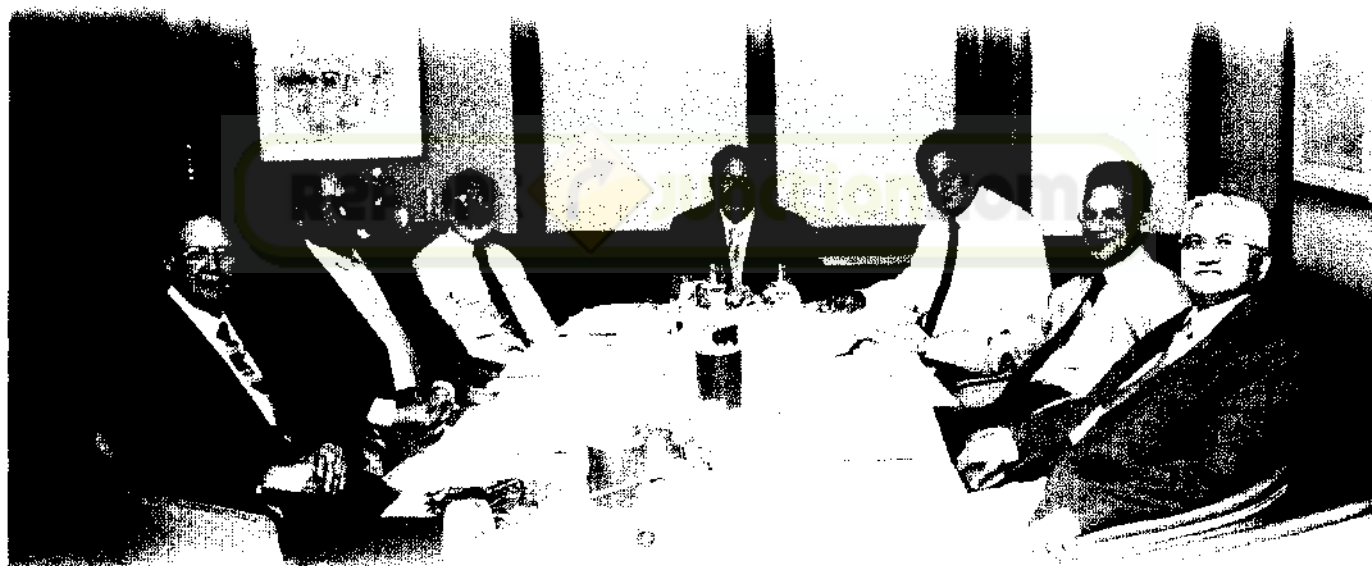
Prafull Anubhai
Non-executive Director

Ramdas Gandhi
Non-executive Director

Nasser Munjee
Non-executive Director

Prafull Sheth
Non-executive Director

Anand Mahajan
Non-executive Director



(from left to right) Prafull Sheth, B. K. Sharma, Prafull Anubhai, Dr. Prakash A. Mody,
Nasser Munjee, Anand Mahajan, Ramdas Gandhi

Statutory Auditors
B. D. Jokhakar & Co.
Chartered Accountants
8, Ambalal Doshi Marg,
Fort, Mumbai - 400 001

Management Auditors
N. A. Shah & Associates
Chartered Accountants
64,65 & 84 - C, Mittal Tower,
Nariman Point,
Mumbai - 400 021

Registered & Corporate office
Unichem Bhavan,
Prabhat Estate, off S. V. Road,
Jogeshwari (West),
Mumbai - 400 102
www.unichemindia.com

profile of directors

Dr. Prakash A. Mody is a doctorate in Organic Medicinal Chemistry from University of Bombay and alumni of Harvard Business School. He is associated with various industry associations. He serves on the Boards of Kewal Kiran Clothing Limited and all Subsidiary Companies of Unichem. He was appointed as Chairman and Managing Director in 1999. He is the Chairman of the Management Committee of Unichem.

Mr. B. K. Sharma holds a Masters degree in Commerce from Agra University and a Postgraduate Diploma in Personnel Management from Delhi University. He was appointed as Executive Director in 1994. Prior to this appointment he was Vice President in charge of operations and marketing since 1989. He joined the Company in 1969 and was in charge of operations of our Ghaziabad plant till 1989. He serves on the Board of all the Subsidiaries of Unichem. He is a member of the Management Committee and Shareholders Grievance Committee of Unichem.

Mr. Prafull Anubhai, is a management consultant and is associated with educational, research and cultural institutions like Indian Institute of Management (IIMA), Ahmedabad Education Society (AES), Centre for Science Technology and Policy (CSTEP), ATIRA, Saptak (An Indian Classical Music organization) etc. He has done his B.Sc.(Econ.) from the London School of Economics and attended PMD at Harvard Business School. He has 30 years of experience in top management of Textile and other businesses. He serves on the Boards of Gruh Finance Ltd.,

Torrent Cables Ltd., The EMSAF Mauritius (The Emerging Markets South Asia Fund), Mahavir Spinning Mills Ltd. (Vardhman Group), Birla Sun Life Trustee Co. Pvt. Ltd. etc. He has served on the Board of Unichem since 1979. He is the Chairman of the Audit Committee and member of the Compensation Committee of Unichem.

Mr. Ramdas Gandhi is an advocate and solicitor by profession. He holds a Masters degree in Law from University of Bombay. He was enrolled as an attorney at law in the High Court of Mumbai in 1956. He also served as partner in a leading law firm in India namely M/s. Bhaishanker Kanga & Girdharlal, and M/s. Manilal Kher Ambalal & Co. He presently serves on the Boards of Pidilite Industries Limited, Aarti Industries Limited, Vinyl (India) Chemicals Limited and Aarti Drugs Limited. He has served on the Board of Unichem since 1985. He is the Chairman of the Shareholders Grievance Committee and member of Audit Committee, Compensation Committee and Management Committee of Unichem.

Mr. Nasser Munjee holds a Bachelor & Masters degree in economics from the London School of Economics. Presently, he is Chairman of Development Credit Bank Limited. He has served as Managing Director and CEO of Infrastructure Development Finance Company and Executive Director of Housing Development Finance Corporation. He has handled consultancy assignments of World Bank, Asian Development Bank, UN Habitat Centre and UNCDF. He serves on the Board of many leading Indian and

multinational companies including Cummins India, Gujarat Ambuja Cements Limited, HDFC Limited, Voltas Limited, Maharashtra Airport Development Company Limited, etc. He has served on the Board of Unichem since 2003. He is a member of the Audit Committee of Unichem.

Mr. Prafull Sheth currently serves as Vice-President, Federation of Asian Pharmaceutical Association, Manila, Philippines, Professional Secretary, SEAR Pharma Forum (South East Asian FIP-WHO Forum of National Pharmaceutical Associations), and Member, Executive Committee, Community Pharmacy Section, International Pharmaceutical Federation, The Hague, The Netherlands. He holds a Bachelors Degree in chemistry from University of Bombay, Masters degree in Pharmacy from University of Missouri, USA. He has served as Executive Director of Ranbaxy Laboratories Limited, and President of Indian Pharmaceutical Association. He has served on the Board of Unichem since 2003. He is the Chairman of the Compensation Committee of Unichem.

Mr. Anand Mahajan is the Managing Director of Grindwell Norton Limited and the General Delegate of Compagnie de Saint-Gobain responsible for India, Sri-Lanka and Bangladesh. He holds a Masters degree in Economics from University of Bombay and Masters in Business Administration from the Johnson Graduate School of Management, Cornell University, USA. He serves on the Boards of all Saint-Gobain subsidiaries and associate companies in India. He has served on the Board of Unichem since 2005.

five - year financial highlights

(Rs. in millions)

Balance Sheet

As at March 31	2002	2003	2004	2005	2006
Sources of funds					
Equity share capital	85.30	85.30	170.60	170.60	180.02
Reserves & surplus	901.69	1,096.55	1,340.12	1,655.62	2,826.09
Net worth	986.99	1,181.85	1,510.72	1,826.22	3,006.11
Secured Loans	186.76	211.80	228.83	258.31	104.67
Unsecured Loans	191.06	337.49	248.56	190.55	178.16
Total Loans	377.82	549.29	477.39	448.86	282.83
Total Liabilities	1,364.80	1,731.14	1,988.11	2,275.08	3,288.94
Application of funds					
Gross block	1,247.36	1,545.95	1,672.47	1,977.48	2,436.69
Depreciation	336.20	395.09	474.03	557.23	656.19
Net block	911.16	1,150.86	1,198.44	1,420.25	1,780.50
Capital WIP	85.62	23.84	72.33	365.82	100.48
NB + CWIP	996.78	1,174.70	1,270.77	1,786.07	1,880.98
Investment	6.17	147.33	142.58	31.18	274.93
Current Assets					
Inventories	286.89	379.62	472.57	540.80	597.46
Debtors	522.00	569.39	657.29	711.45	956.56
Cash and bank balance	19.79	14.45	26.78	18.95	436.15
Loans & advances	104.71	165.95	240.43	189.91	219.40
Total Current Assets	933.39	1,129.41	1,397.06	1,461.11	2,209.57
Current Liabilities					
Creditors	322.33	428.12	459.88	534.47	522.45
Other current liabilities	43.59	43.05	59.60	87.93	72.86
Provisions	70.72	78.22	115.48	155.74	241.09
Total current liabilities	436.65	549.40	634.96	778.14	836.40
Deferred tax liability	134.91	170.91	187.34	225.14	240.14
Net current assets	361.85	409.11	574.77	457.83	1,133.03
Misc expenditure	-	-	-	-	-
Total Assets	1,364.80	1,731.14	1,988.11	2,275.08	3,288.94

five - year financial highlights

(Rs. in millions)

Profit and loss Account

For the year ended March 31	2002	2003	2004	2005	2006
Sales and income from operations	3,010.60	3,250.10	3,871.96	4,245.61	4,777.06
Other Income	25.30	29.26	12.04	119.85	42.08
Total Income	3,035.90	3,279.36	3,884.00	4,365.46	4,819.14
Material consumption	815.78	858.27	1,037.06	1,045.53	1,183.14
Purchase of goods	401.26	512.26	610.20	741.75	796.29
Increase/ (Decrease) in stocks of semi- finished and finished goods	(13.87)	(45.83)	(49.78)	(37.57)	(27.27)
Research & Development Expenses	53.30	66.60	68.23	85.13	100.63
Stores and spares	8.54	15.79	21.31	24.67	33.33
Power and fuel	63.58	70.55	88.08	90.66	119.63
Staff costs	233.88	259.97	320.99	378.93	439.86
Excise	309.32	308.03	337.47	310.95	219.52
Selling expenses	343.56	336.68	336.80	400.70	434.11
Other expenses	340.10	388.37	473.86	581.87	567.50
Total cost	2,555.45	2,770.69	3,244.22	3,622.63	3,866.74
PBDIT	480.45	508.67	639.78	742.83	952.40
Interest	44.94	48.78	31.23	23.07	22.74
PBDT	435.51	459.89	608.55	719.76	929.67
Depreciation	65.54	69.85	83.78	93.13	114.20
Profit before tax	369.97	390.04	524.77	626.63	815.47
Extra ordinary & prior period items	0.55	(0.27)	1.85	0.12	(133.48)
Current tax	41.50	83.46	127.57	141.50	81.00
Fringe benefit tax	-	-	-	-	19.00
Profit after current tax	327.92	306.85	395.35	485.01	848.95
Deferred tax	20.37	36.00	16.43	37.80	15.00
Profit after tax	307.55	270.85	378.92	447.21	833.95
Export at FOB value	194.85	242.85	411.26	591.18	890.62
Equity dividend	68.24	68.24	102.36	119.42	180.02
Expenditure on					
R & D - Capital	47.41	19.82	16.04	68.80	22.62
- Recurring	53.30	66.60	68.23	85.13	100.63
Total R & D expenditure	100.71	86.42	84.27	153.93	123.25

Key Ratios

As at March 31	2002	2003	2004	2005	2006
ROCE %	29.40	25.80	27.20	27.90	27.80
RONW %	31.20	22.80	25.10	24.50	23.70
EVA (Rs. in millions)	230.10	167.60	250.00	257.50	449.30
Per share Data					
EPS (Rs.)	36.30 *	31.75*	12.98	13.22	23.84
Dividend	80%	80%	60%	70%	100%
Book Value per Share (Rs.)	115.70	138.50	44.30	53.55	83.50

* Prior to sub-division of shares from Rs. 10/- to Rs. 5/- and issue of bonus shares in the ratio of 1:1

directors' report

Dear Members,

Your Directors are pleased to present the 43rd Annual Report on the business and operations of the Company for the year ended March 31, 2006.

Financial Highlights

Table - 1 gives the financial highlights of the Company for the year ended March 31, 2006 as compared to the previous financial year.

Operations

The Total Revenue increased to Rs. 4599.7 million in 2005-06 from Rs. 4054.5 million in 2004-05 at a growth rate of 13.4%. Export revenues increased to Rs. 935.9 million from Rs. 690.3 million registering a growth rate of 35.6%. The profit after tax and extraordinary gain and after prior period adjustments increased to Rs. 818.6 million in the current year from Rs. 450.9 million in the previous year, registering a growth of 81.5%.

Appropriations

Your Company proposes to transfer Rs. 150 million to the General Reserve. An amount of Rs. 463.3 million is proposed to be retained in the Profit & Loss Account.

Dividend

Your Directors are pleased to recommend a dividend of Rs. 5/- per Equity Share of Rs. 5/- each for the financial year 2005-06. The total dividend payout for the financial year 2005-06 is Rs. 180 million as against Rs. 119.4 million for the previous financial year.

Dividend, if approved at the ensuing Annual General Meeting, will be paid to those shareholders whose names appear in the Register of Members of the Company as on July 22, 2006. Under the Income Tax Act, 1961, the receipt of dividend is tax-free in the hands of the shareholders.

Employee Stock Options Scheme

Your Company has granted a total of 3,00,000 options to employees under the Employees Stock Option Scheme 2004, pursuant to the approval obtained from the Shareholders at the Extraordinary General Meeting of the Company held on February 28, 2004, for introduction of the scheme.

Details of options granted under the Scheme are set out in **Annexure I** to the Directors' Report.

Preferential Allotment

Your Company, in its endeavour to achieve its turnover targets, is

investing in building infrastructure facilities, research and development, developing robust product pipeline, investing in new markets etc. In addition to these organic growth strategies your Company is also evaluating inorganic growth opportunities. In order to ensure that your Company is adequately funded to achieve these strategic objectives, 18,75,000 Equity Shares were allotted at a price of Rs. 300/- per Equity Share to New Vernon Private Equity Limited, a Foreign Institutional Investor. These shares are under lock-in till February 14, 2007.

Corporate Governance

Your Company has complied with the provisions of Revised Clause 49 of the Listing Agreement. A certificate from the Statutory Auditors of the Company regarding compliance of Corporate Governance as stipulated in the Revised Clause 49 of the Listing Agreement, forms a part of this Annual Report.

Your Company is committed to Good Corporate Governance Practices and has taken requisite steps to comply with the requirements of SEBI in this regard. A detailed report on Corporate Governance is provided in this Annual Report.

TABLE - 1

For the year ended March 31
(Rs. in millions)

PARTICULARS	2006	2005
Total Revenue	4599.7	4054.5
Operating PBDIT	910.3	623.0
PBIT	838.2	649.7
PBT & extraordinary gain	815.5	626.6
Provision for tax (including deferred tax)	115.0	179.3
PAT but before extraordinary gain and prior-period items	700.5	447.3
Extraordinary gain / (loss) net of tax	133.9	-
Profit after tax and extraordinary gain but before prior-period items	834.4	447.3
Prior period Expenses / (Income)	0.4	0.1
Excess/(Short) provision for taxation pertaining to previous year/earlier year	(15.4)	3.7
Profit after tax and extraordinary gain and after prior-period items	818.6	450.9

Notes: (1) In order to get a more accurate picture of the Company's operational performance, Operating PBDIT has been calculated net of "Other Income".
(2) Previous year's figures have been regrouped/reclassified wherever necessary