# DIRECTORS' REPORT

Your Directors take pleasure in presenting the Twenty-Second Annual Report and Audited Accounts for the year ended 31st March, 2014

## FINANCIAL RESULTS

(₹ in Million except dividend per share and book value)

| | Standalone | | Consolidated | |
|---|---|---|---|---|
| Particulars | Year ended 31st March, 2014 | Year ended 31st March, 2013* | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
| Total Income | 29,882 | 26,683 | 166,326 | 116,880 |
| (Loss) / Profit after tax | (28,285.2) | 5,166 | 31,415 | 29,831 |
| Dividend on Equity Shares | 3,107 | 5,178 | 3,107 | 5,178 |
| Corporate Dividend tax | 528 | 880 | 528 | 880 |
| Transfer to various Reserves | NIL | 520 | NIL | 520 |
| Amount of dividend per equity share of ₹ 1/- each | 1.50 | 2.50# | 1.50 | 2.50# |
| Book value per equity share ₹ 1/- each | 36 | 38# | 89 | 72# |

* Previous year figures for standalone are not comparable, since current year figures include the effect of merger of the Specified undertaking of Sun Pharma Global FZE, into the Company with effect from 1st May, 2013.

# Post Bonus Issue

## DIVIDEND

Your Directors are pleased to recommend an equity dividend of ₹ 1.50 per equity share of face value ₹ 1/- each (previous year ₹ 2.50 per equity share) for the year ended 31st March, 2014.

## MERGER OF RANBAXY

At Sun Pharma, we have taken a significant initiative to enhance shareholder value for the future. We are in the process of acquiring Ranbaxy Laboratories Limited, India's leading Company in sales, in one of India's largest M&A transactions. The deal, an all-stock transaction valued at US$ 4 billion, is expected to be completed by December 2014. Ranbaxy shareholders will receive 0.8 share of Sun Pharma for each Ranbaxy's share. Further details on the merger, are provided in the Management Discussion and Analysis report which forms part of this Report.

## BONUS SHARES

The Company had on 3rd August, 2013 allotted 1,035,581,955 Equity Shares of ₹ 1/- each as Bonus Shares to the Equity Shareholders of the Company in the ratio of 1 (One) Equity Share of ₹ 1/- each for every 1(One) Equity Share of ₹ 1/- each held on the Record Date, being 30th July, 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis on the operations of the Company is provided in a separate section and forms part of this report.

## HUMAN RESOURCES

Your Company considers its employees as most valuable resource and ensures strategic alignment of Human Resource practices to business priorities and objectives. The Company has a dedicated team of over 14,000 employees at various locations across our corporate office, various R & D Centers & 25 plant locations (including Associate Companies) spread across three Continents. Our constant endeavor is to invest in people and people processes to improve service delivery to our customers. Attracting the right talent and engaging them for high performance is our focus, whereas we strive to provide a great place to work to our human resources through challenging and learning environment.

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is available at the registered office of your Company. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all shareholders of the Company and others entitled thereto excluding the aforesaid information. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary/ Compliance Officer at the Corporate Office or Registered Office address of the Company.

## INFORMATION ON CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The additional information relating to energy conservation, technology absorption, foreign exchange earnings and outgo, pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in Annexure and forms part of this Report.

## CORPORATE GOVERNANCE

Report on Corporate Governance and Certificate of the auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges, are annexed.

## BUSINESS RESPONSIBILITY REPORT

The Business Responsibility Report of the Company for the year ended 31st March, 2014, in line with Green initiative, is made available on the website of the Company (www.sunpharma.com) and forms part of the Annual Report, and is kept at the Registered Office of the Company for inspection. A copy of the aforesaid report shall be made available to such of those shareholders who are desirous and interested, upon receipt of a written request from them.

## CONSOLIDATED ACCOUNTS

In accordance with the requirements of Accounting Standard AS-21 prescribed by the Institute of Chartered Accountants of India, the Consolidated Accounts of the Company and its subsidiaries is annexed to this Report.

## SUBSIDIARIES

The Ministry of Corporate Affairs, Government of India, New Delhi has issued direction under Section 212(8) of the Companies Act, 1956 vide general circular No.2/2011 dated 8th February, 2011 and in accordance with the same, the Balance Sheet, the Profit and Loss Account and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. The information relating to each subsidiary including subsidiaries of subsidiaries, as required by the aforesaid circular, is disclosed in the Annual Report. The Company will make available the Annual Accounts of the subsidiary companies and the related detailed information to any member of the Company and its subsidiaries who may be interested in obtaining the same. The annual accounts of the subsidiary companies will also be kept open for inspection by any investor at the Registered Office & Corporate / Head Office of the Company and that of the respective subsidiary companies. The Consolidated Financial Statements presented by the Company include financial results of its subsidiary companies also.

## FINANCE

CRISIL continued to reaffirm its highest rating of "AAA/ Stable" and "A1+", for your Company's Banking Facilities throughout the year enabling your Company to avail facilities from banks at attractive rates. The Company does not offer any Fixed Deposit Scheme.

## CORPORATE SOCIAL RESPONSIBILITY

Your Company has identified health, education, livelihood, disaster relief and civic utilities as the areas where assistance is provided on a need-based and case-to-case basis. Your Company persisted with participation in such activities at the local, grassroot level during the year. In the past, support has been offered towards disaster relief as well as participation in the facilitation of civic utilities around the Plants/Research Centers. Your Company remains interested in these contributions.

## DIRECTORS

Mr. Israel Makov, Director retires by rotation and being eligible offers himself for re-appointment. Ms. Rekha Sethi

was appointed as Additional Independent Director of the Company with effect from 13th February, 2014 and holds office as a Director up to the ensuing Annual General Meeting.

In terms of Section 149, and other applicable provisions, if any of the Companies Act, 2013 read with Companies (Appointment and Qualification of Directors) Rules, 2014, the Independent Directors of the Company viz. Mr. S.M Dadha, Mr. Keki Mistry, Mr. Hasmukh Shah, Mr. Ashwin Dani and Ms. Rekha Sethi are proposed to be appointed as Independent Directors of the Company in accordance with the requirements of Companies Act 2013, at the ensuing Annual General Meeting of the Company.

The Company has received the requisite notice under Section 160 of the Companies Act, 2013 from members to proposing their name for being appointed as Independent Directors of the Company.

The Company has received declarations from all the Independent Directors of the Company confirming that they meet with the criteria of independence as prescribed under sub-section (6) of Section 149 of the Companies Act, 2013.

Appropriate resolutions for the appointment/re-appointment of Directors are being placed for your approval at the ensuing Annual General Meeting.

Your Directors recommend the appointment/re-appointment of the aforesaid Directors by the Members at the ensuing Annual General Meeting.

## DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

(i) that in the preparation of the annual accounts for the financial year ended 31st March, 2014, the applicable accounting standards have been followed along with proper explanation relating to material departures;

(ii) that the Directors have selected appropriate accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and on the loss of the Company for the year under review;

(iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 and of Companies Act, 2013 to the extent applicable, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and,

(iv) that the Directors have prepared the annual accounts for the financial year ended 31st March, 2014 on a 'going concern' basis.

## AUDITORS

Your Company's auditors, Messrs. Deloitte Haskins & Sells LLP, Chartered Accountants, Mumbai, retire at the conclusion of the forthcoming Annual General Meeting. Your Company has received a letter from them to the effect that their re-appointment, if made, will be in accordance with the provisions of Section 139 of the Companies Act, 2013.

## COST AUDITORS

The Company has appointed Messrs. Kailash Sankhlecha & Associates, Cost Accountants, Vadodara as Cost Auditors of our Company for conducting Cost Audit in respect of Bulk Drugs & Formulations of your Company for the year ended 31st March, 2014.

## ACKNOWLEDGEMENTS

Your Directors wish to thank all stakeholders and business partners, your Company's bankers, financial institutions, medical profession and business associates for their continued support and valuable co-operation. The Directors also wish to express their gratitude to investors for the faith that they continue to repose in the Company.

For and on behalf of the Board of Directors

ISRAEL MAKOV

Chairman

12th August, 2014

Mumbai

# ANNEXURE (1) TO DIRECTORS' REPORT

## CONSERVATION OF ENERGY

| | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| **A. Power and Fuel Consumption** | | |
| **1. Electricity** | | |
| (a) Purchased | | |
| Unit (in '000 KWH) | 68,825 | 54,412 |
| Total Amount ( ₹ in Millions) | 507 | 383 |
| Rate ( ₹ /Unit) | 7.4 | 7.0 |
| (b) Own Generation through Diesel Generator | | |
| Units (in '000 KWH) | 2,605.7 | 2,881.3 |
| Units per Litre of Diesel Oil | 3.3 | 3.1 |
| Cost ( ₹ /Unit) | 19.2 | 15.0 |
| (c) Own Generation through Gas | | |
| Units (in '000 KWH) | 35,637.6 | 40,801.1 |
| Units per M3 of Gas | 3.8 | 3.7 |
| Cost ( ₹ /Unit) | 11.1 | 8.7 |
| **2. Furnace Oil** | | |
| Quantity (in '000 Litres) | 1,147.2 | 746.8 |
| Total Amount ( ₹ in Millions) | 48.1 | 32.4 |
| Average Rate | 41.9 | 43.4 |
| **3 Gas (for Steam)** | | |
| Gas Units (in '000 M3) | 8,746.9 | 8,513.3 |
| Total Amount ( ₹ in Millions) | 237.1 | 195.9 |
| Average Rate ( ₹ /Unit) | 27.1 | 23.0 |
| **4 Wood / Briquitte** | | |
| Quantity (in '000 Kgs) | 30,446.7 | 30,196.1 |
| Total Amount ( ₹ in Millions) | 146.9 | 145.6 |
| Average Rate ( ₹ /Unit) | 4.8 | 4.8 |

**B. Consumption per unit of production**

It is not feasible to maintain product category-wise energy consumption data, since we manufacture a large range of formulations and bulk drugs having different energy requirements.

**C. Energy conservation measures**

1 Source Electricity through cheaper source wherever feasible for e.g. grid instead of CPP, Wind power instead of Grid Power

2 Substitute Natural Gas with briquette as fuel for steam generation in boiler

3 Use bio intensifiers along with briquette to improve steam to fuel ratio (improve boiler efficiency)

4 Improving power factor by installation of capacitor bank

5 Steam Condensor recovery by installation of steam recovery pump

6 use of low voltage transformer for lighting load

7 Improving insulation (thickness) on steam, chilled water line

8 Use LED lights instead of MVL/CFL

9 Temprature Controller with FRP cooling fan in cooling towers

10 Repalce old transformers with efficient transformers to reduce losses from 4% to 2% approximately

## TECHNOLOGY ABSORPTION

**A. Research and Development**

**1. Specific areas in which R&D is carried out by the Company**

We continue to make fairly large investments for generic-related pharmaceutical research and technology. This research supports our generic business across all the markets we're present in, and ensures we have a healthy pipeline for future growth. At our four modern R&D centres, expert scientist teams are engaged in complex developmental research projects in process chemistry and dosage forms, including complex generics based on drug delivery systems. This work across formulations and API supports the short, medium and long term business needs of the Company, in India and world markets. Projects in formulation development and process chemistry help us introduce a large number of new and novel products to the Indian and rest of the world markets including products with complexity or a technology edge. Expertise in medicinal/ process chemistry equips us to be integrated right up to the API stage, for important products, or products where the API is difficult to source. Strong new product capability is an important part of our strategy, and R&D expertise helps us maintain our leadership position in the Indian and ROW market with specialty formulations. The team also works on products that are based on complex drug delivery systems. Complex API like steroids, sex hormones, peptides, carbohydrates immunosuppressant and taxanes which require special skills and technology, are developed and scaled up for both API and dosage forms. This complete integration for important products works to the Company's advantage. These projects may offer higher value addition and revenues.

**2. Benefits derived as a result of the above R&D**

In 2013-14, 29 formulations were introduced across marketing divisions in India. All of these were based on technology developed in-house. Technology for 25 APIs was commercialised. For some of the important APIs that we already manufacture, processes were streamlined or altered so as to have more energy efficient or cost effective or environment friendly processes. Some of the new processes were developed to be non-infringing, so as to support our plans for ANDA filings for the US. A large part of our external API sales is to the regulated markets of US / Europe, and earns valuable foreign exchange, as also a reputation for quality and dependability. The Company's formulation brands are exported to over 48 international markets where a local field force promotes the same. In addition, Taro's formulation development capability supports the filing and scale up of ANDAs for the US and other markets where it is present. The Department of Scientific and Industrial Research, Ministry of Science and Technology of Government of India has granted approval to the in house research and development facility of your Company under the provision of the Income Tax Act, 1961.

### 3. Future plan of action

We will continue to invest in people, capability development, equipments and infrastructure to compete effectively across world markets. Taro is likely to invest more in R&D as it ramps up its product pipeline.

### 4. Expenditure on R&D

₹ in Million

| | | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|---|
| a) | Capital | 471.6 | 377.2 |
| b) | Revenue | 3,752.3 | 2,725.0 |
| **c)** | **Total** | **4,223.9** | **3,102.2** |
| d) | Total R&D expenditure as % of Total Turnover | 15.9 | 13.8 |

## B. Technology Absorption, Adaptation and Innovation

### 1. Efforts in brief, made towards technology absorption, adaptation and innovation

Year after year, your Company continues to invest on R&D, both as revenue expenses as well as capex. A large part of the spend is for complex products, ANDA filings for the US, and API technologies that are complex and may require dedicated manufacturing blocks. Investments have been made in creating research sites, employing scientifically skilled and experienced manpower, adding equipment and upgrading continuously the exposure and research understanding of the scientific team in the technologies and therapy areas of our interest.

### 2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution

(a) Market leader for several complex products. Offers complete baskets of products under speciality therapeutic classes. Strong pipeline of products for future introduction in India,emerging markets, as well as US and European generic market. Ability to challenge patents in the US market, and earn exclusivity.

(b) Not dependent on imported technology, can make high cost products available at competitive prices by using indigenously developed manufacturing processes and formulation technologies.

(c) Offer products which are convenient and safe for administration to patients, products with a technology advantage.

(d) We are among the few selected companies that have set up completely integrated manufacturing capability for the production of anticancer, hormones, peptide, cephalosporins, immunosuppressant and steroidal drugs.

(e) The Company has benefited from reduction in cost due to import substitution and increased revenue through higher exports.

### 3. Your has not imported technology during the last 5 years reckoned from the beginning of the financial year.

## C. Foreign Exchange Earnings and Outgo

₹ in Million

| | Year ended 31st March, 2014 | Year ended 31st March, 2013 |
|---|---|---|
| Earnings | 23,168.0 | 19,615.2 |
| Outgo | 12,628.6 | 7,876.6 |

# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

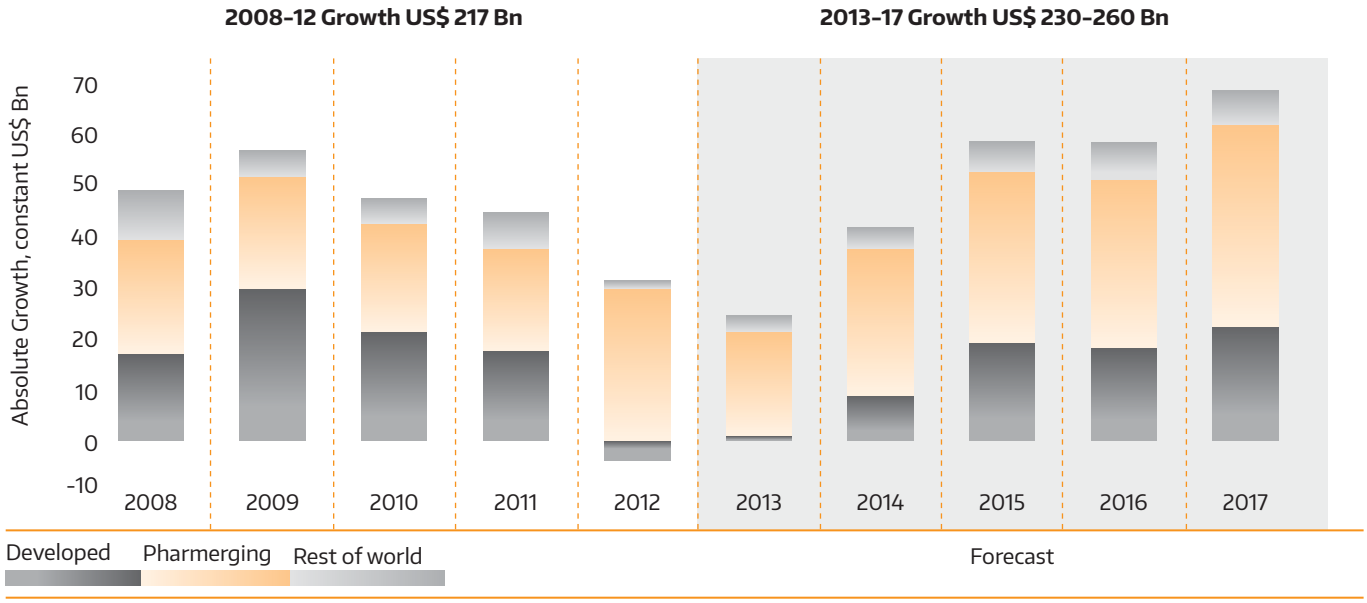
## GLOBAL PHARMACEUTICAL INDUSTRY

The market size of the global pharmaceutical industry is estimated to reach US$ 1.2 trillion by 2017 growing at a Compound Annual Growth Rate (CAGR) of 3-6% and the emerging markets are likely to be the key growth drivers. Several factors like economic growth, demographic changes, transition in community health and policy responses and focus on healthcare funding are expected to lead to double-digit growth in the pharmerging markets.

On the other hand, economic and healthcare austerity measures and the savings realized from the growing availability of generic drugs, following their patent expiry, may see developed markets record low single-digit growth.

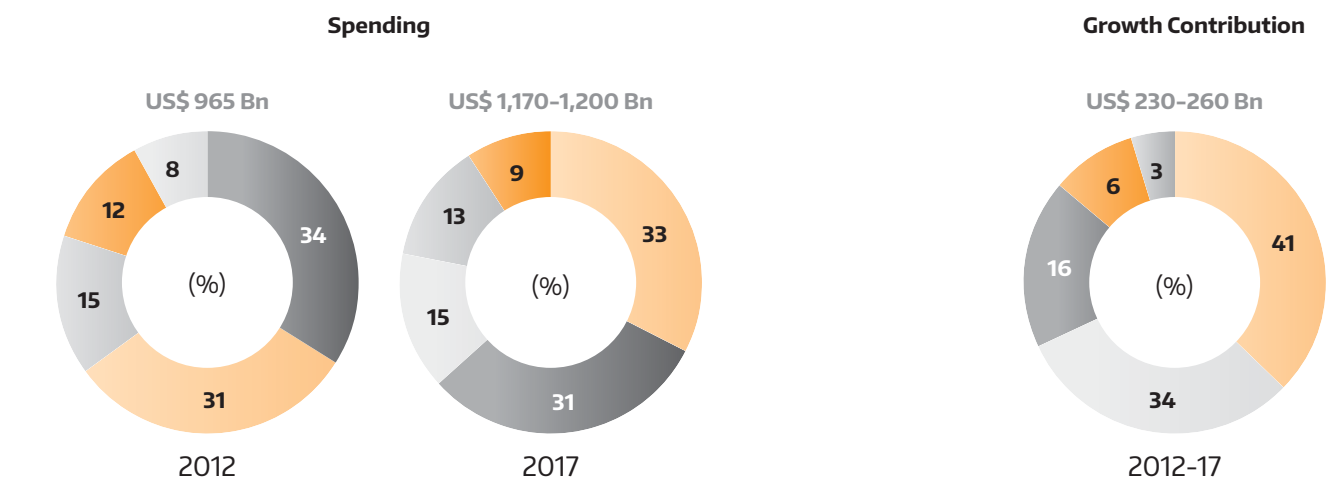
THE MARKET SIZE OF GLOBAL PHARMACEUTICAL INDUSTRY IS ESTIMATED TO REACH **US$ 1.2 TRILLION** BY 2017 GROWING AT A COMPOUND ANNUAL GROWTH RATE OF 3-6% AND THE EMERGING MARKETS ARE LIKELY TO BE THE GROWTH DRIVERS.

**Chart 1** **Pharmaceutical Spending - Global Markets** (1)



Halol Plant

## Chart 2 Pharmaceutical Spending - Geography-wise [1]



Ahmednagar Plant

**Table 1** **Global Pharma Market Growth Rate for 2013-17** [2]

| Developed Markets CAGR 2013-17 | (%) |
|---|---|
| US | 1-4 |
| Japan | 2-5 |
| Germany | 1-4 |
| France | (-1)-2 |
| Italy | 0-3 |
| Canada | 1-4 |
| Spain | (-4)-(-1) |
| UK | 1-4 |
| **Developed** | **1-4** |

| Pharmerging Markets CAGR 2013-17 | (%) |
|---|---|
| Tier 1 (China) | 15-18 |
| Tier 2 | 10-13 |
| Brazil | 11-14 |
| Russia | 9-12 |
| India | 11-14 |
| Tier 3 | 7-10 |
| **Pharmerging** | **11-14** |

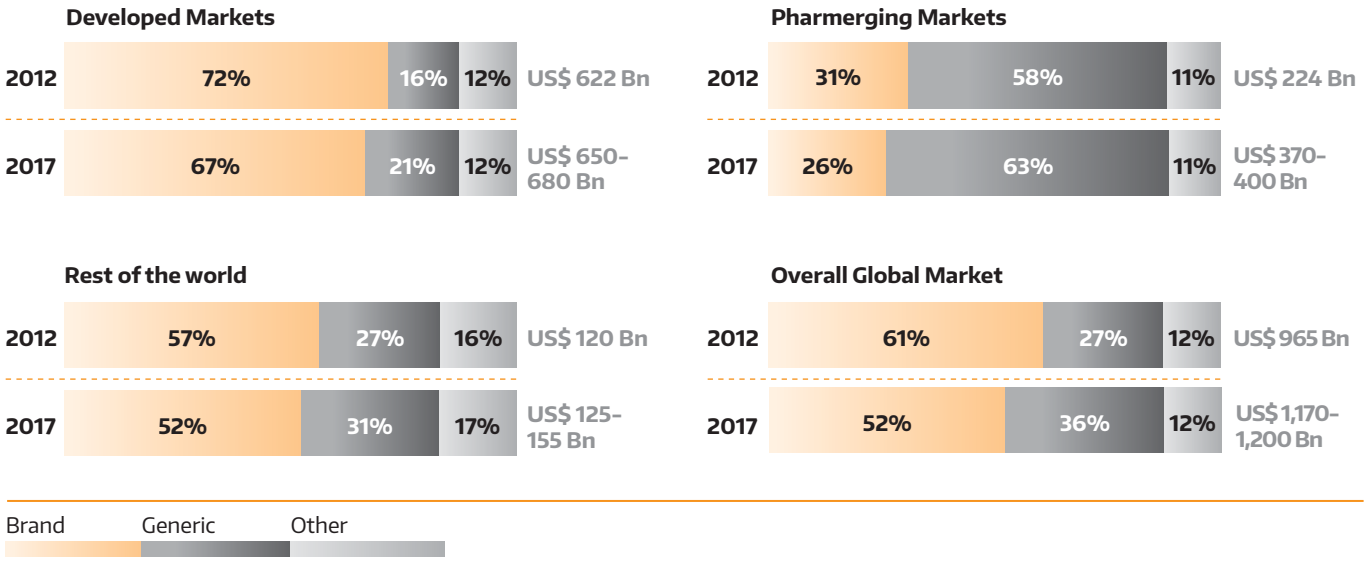
At par with region CAGR | Lower than region CAGR | Higher than region CAGR

## GLOBAL GENERICS [1]

A shift of the global spending mix towards generics over the next five years has been forecasted, a move primarily driven by the pharmerging markets, despite branded drugs continuing to form almost two-thirds of global spending in the developed markets.

It is estimated that the generic spending on medicines will grow from US$ 261 billion in 2012 to US$ 421-432 billion by 2017 globally. Global generic spending is likely to reach 36% of total spending by 2017, as against 27% in 2012.

### Chart 3 Global Pharmaceutical Spending [1]




### Table 2 Branded Drugs vs. Generics [1]

| Key Areas | Branded Drugs | Generics |
|---|---|---|
| Spending | Accounted for 61% of total pharmaceutical spending in 2012 | Accounted for 27% of total pharmaceutical spending in 2012 |
| Market value | Projected to increase from US$ 589 billion in 2012 to US$ 608-624 billion by 2017 | Projected to increase from US$ 261 billion in 2012 to US$ 421-432 billion by 2017 |
| Opportunity | While developed markets are likely to reduce overall branded drug spending over the next five years, brand spending will increase for specialty drugs targeting specific complex ailments | Ageing global population, patent expiries in developed markets and favourable demographics in emerging markets will drive growth for generics globally |
| USA | Patent protected brand volume growth is expected to slow down going forward driven by patent expiries | Around 34% of 2012 brand spending will shift to generics by 2017 in the US alone |


Bottle Packing Line, Halol

## GLOBAL PHARMA INDUSTRY - GROWTH DRIVERS [3,4,5]

**Increase in life expectancy and ageing population:** Life expectancy is expected to reach 73.7 years by 2017 from an estimated 72.6 years in 2012, bringing more than 10% of the total global population to over the age of 65 years.

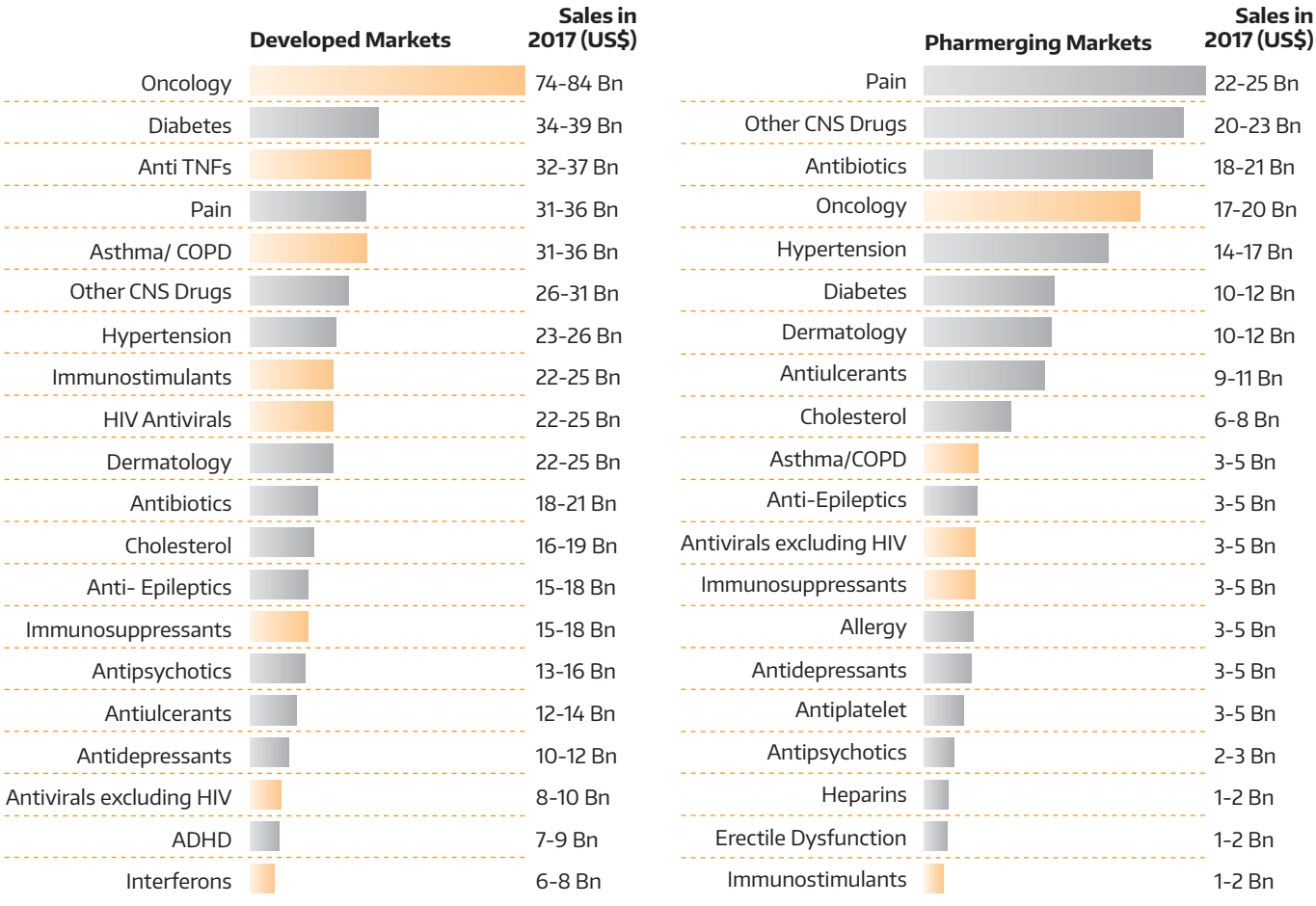
Moreover, the global population aged 60 or above has almost tripled over the period 1950-2000 and is expected to reach nearly two billion by 2050 – prompting the need for more medical care, a key demand driver for the pharmaceuticals industry.

**Rising income of households:** It is forecasted that the number of high-income households (annual earnings of over US$ 25,000) will rise by about 10%, taking the count to over 500 million by 2017 - almost over 50% of such growth will come from Asia. Rising income will make expensive medicines affordable, providing a thrust to growth of the pharmaceuticals industry.

**Growing incidence of chronic diseases:** At present, chronic diseases, including heart disease, cancer, stroke, diabetes and respiratory illnesses top the global health agenda, accounting for over 63% of all deaths worldwide. Sedentary lifestyles, diet changes and rising obesity levels are likely causes. Healthcare demand for these diseases will contribute to the industry's growth.

**Improved healthcare access reforms:** With more than one billion people lacking access to a health care system across the world, different countries are introducing healthcare reforms, including increases in government funding and broader insurance coverage. For example, the US extended health insurance to more than 30 million uninsured citizens under the Patient Protection and Affordable Care Act (PPACA or ACA), making medicines affordable and driving the growth potential and industry outlook.

## Chart 4 Spending by Therapy Area in 2017 (1)




## OUTLOOK (1,2)

**Developed markets:** Patent expiries, impact of the global economic crisis and the increasing specialist nature of new drugs may cause a slide in the share of the developed countries (US, Europe, Japan) in total pharmaceutical spending to 53% in 2017 from 61% in 2012.

Spending on generics is estimated to rise from 16% of the total spending in 2012 to 21% of the overall developed market spend in 2017, reaching a market value of US$ 136-143 billion by 2017.

**USA:** The US was the largest pharmaceutical market globally, with a market size of US$ 328 billion in 2012 and it is estimated to grow at a compound annual growth rate (CAGR) of 1-4% during the year 2013-2017 to reach US$ 350-380 billion by 2017. But, USA's contribution to the global spending pie is expected to decrease from 34% in 2012 to 31% by 2017. Overall growth will continue to be impacted by patent expiries and low cost generics.

### ANDA Approvals

The rate of ANDA approvals at the US FDA has remained stagnant over the past five years, in fact, it even declined in 2013, despite a slight improvement in 2010-2012. The US FDA, is in the process of implementing the 'Generic Drug User Fee Amendments of 2012 (GDUFA)' programme, which is designed to speed access to safe and effective generic drugs.

**Table 3 US FDA – ANDA Approvals**

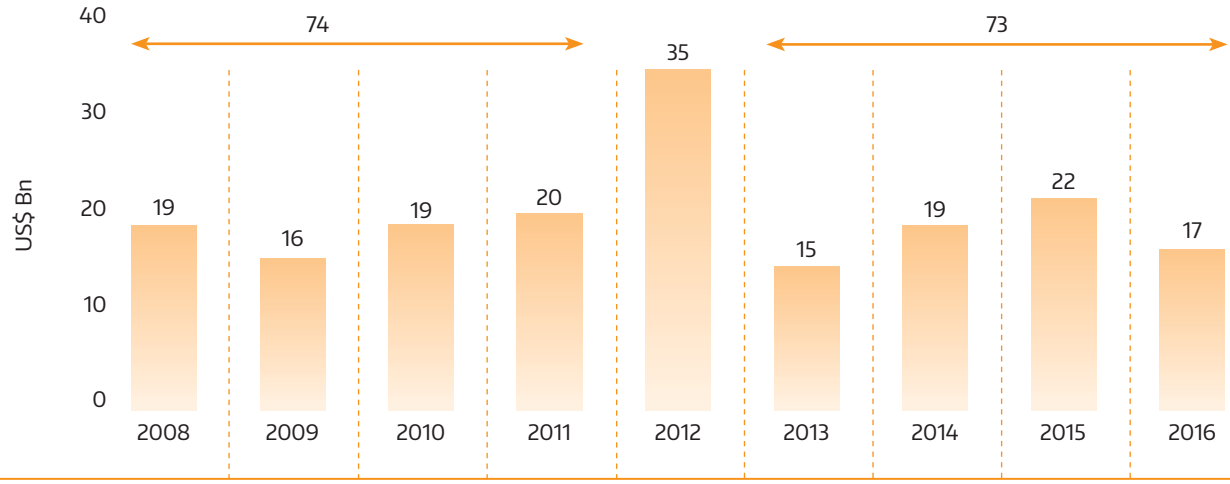
| Year | No. of Approvals |
|---|---|
| 2006 | 347 |
| 2007 | 476 |
| 2008 | 458 |
| 2009 | 457 |
| 2010 | 401 |
| 2011 | 420 |
| 2012 | 467 |
| 2013 | 396 |

**Patent Expiries**

After hitting a peak in 2012, patent expiries in the US have normalised to more moderate levels. Drugs going off-patent contribute to incremental growth of the US generic market. While patent expiries are lessening, the low share of Indian generic players in the US implies potential for future growth.

Vial Filing Machine, Halol

**Chart 5 US – Patent Expiries** (6)




**EU5*:** The EU5 pharmaceutical market size was around US$ 149 billion in 2012, but EU5's contribution to the global spending pie is likely to come down from 15% in 2012 to 13% in 2017. Loss of patent protection, government's austerity measures due to the economic crisis and restricted use of innovative launches impacted the overall growth in these markets in the last five years. Pharmaceutical spending growth in the EU5 is expected to be 0-3% for the period 2013-2017, in comparison to 2.4% during 2008-2012. The market size is estimated to reach US$ 140-170 billion in 2017.

(*Germany, France, Italy, Spain and UK)

**Table 4 EU5 – Country-wise Spending** (1)

| | Market value by 2017 (US$ billion) | CAGR growth, 2013-17 (%) |
|---|---|---|
| France | 30-40 | (-2)-1 |
| Germany | 41-51 | 1-4 |
| Italy | 23-33 | 0-3 |
| Spain | 13-23 | (-4)-(-1) |
| UK | 20-30 | 1-4 |

**Table 5 Pharmerging Market Spending** (1)

| | Market size 2017 (US$ billion) | 2013-17 CAGR (%) |
|---|---|---|
| China | 160–190 | 14-17 |
| Tier 2 | 90–110 | 10-13 |
| Brazil | 38-48 | 11-14 |
| Russia | 23-33 | 8-11 |
| India | 22-32 | 11-14 |
| Tier 3 | 100-130 | 5-8 |

**Japan:** Japan's pharmaceutical market contributed around 12% of the global pie in 2012. In 2010, the Japanese government embarked on healthcare reforms, with the objective of increasing the penetration of generic drugs in the country.

The market size is projected to reach US$ 90-120 billion by 2017. Spending growth will be in the range of 2-5% with gradual increases, but partly impacted by the expected gradual increase in generic volumes due to the government's biennial price cuts. Premium pricing is expected to sustain only for drugs delivering substantial innovation over existing therapies or for drugs which target complex/unmet medical needs.

**Pharmerging markets**: While the emerging markets are likely to be the main growth drivers of the global pharmaceutical industry over 2012-17, the pharmerging markets are to be the main contributors to this growth. The size of the pharmerging markets is expected to reach US$ 370-400 billion by 2017 from US$ 224 billion in 2012, growing at a rate of CAGR of 10-13%. China, Brazil, and India will be the key contributing countries, driven by factors like rising income levels, healthcare reforms and increased access to medicines.

The pharmerging markets are forecasted to contribute around 31% to the total market share of the industry by 2017, driven by economic growth, coupled with changes in public health policy responses and demography. Spending on generics in these markets is estimated to rise from 58% in 2012 to 63% of the overall pharmerging market spend in 2017, reaching a market value of US$ 233-252 billion by 2017.

(**China, Brazil, India, Venezuela, Poland, Argentina, Turkey, Mexico, Vietnam, South Africa, Thailand, Indonesia, Romania, Egypt, Pakistan, Ukraine, Algeria, Colombia, Nigeria, Saudi Arabia and Russia)

## ACTIVE PHARMACEUTICAL INGREDIENTS (API) (7)

The global API market size stood at US$ 113 billion in 2012 as against US$ 91 billion in 2008. It is expected to grow further at a CAGR of around 8% during 2012-2017, owing to patent expiries, increase in outsourcing and demand for potent and biogeneric APIs.

With stiff competition in the global API market, a significant proportion of API production is outsourced to China and India - two of the largest API markets in the world.

## INDIAN PHARMACEUTICAL SECTOR

The Indian pharmaceutical market is estimated to reach US$ 22-32 billion by 2017 compared to US$ 14 billion in 2012, establishing India as the 11th largest market by 2017, compared to its 13th position in 2012.

**Crisp facts** (1, 7, 4, 8)

- Ranked thirteenth in terms of value in the global pharmaceutical industry in 2012
- Fourth largest among the pharmerging markets in terms of market size in 2012
- Projected to grow at a CAGR of 11-14% during 2013-2017
- One of the key exporters to the US and other markets - the highest number of US FDA approved manufacturing facilities outside USA.
- Indian pharmaceutical companies received over 150 ANDA approvals from US FDA during 2013, accounting for approximately 38% of the total approvals.

Fluid Bed Dryer, Halol

The Indian pharmaceutical industry received foreign direct investments (FDI) worth around US$ 11.95 billion during April, 2000 to September, 2013

**Exports** [8]

The pharmaceutical exports from India during 2012-13 stood at US$ 14.6 billion, witnessing an increase of US$ 1.4 billion from 2011-12. Indian pharmaceutical sector exports are likely to reach US$ 25 billion by 2016.

**Demand drivers** [9, 10]

**Rising spend on healthcare:** Total annual healthcare spending is expected to more than double to US$ 201.4 billion, growing at an average annual rate of 15.8% during 2012-2017. Healthcare spending is estimated to be around 0.5% of GDP in 2013.

**Growing health insurance coverage:** The Indian government plans to bring 80% of India's population under health insurance cover under its Health Insurance Vision 2020. This will lead to higher volumes for the pharmaceuticals industry.

**Growing incidence of chronic diseases:** Chronic therapies have grown at a faster pace than that of traditional acute therapies over the past four years. Their contribution in the Indian pharmaceutical market escalated from 27% in 2010 to 30% in 2013. Lifestyle changes, rapid urbanisation and increasing affluence are factors which are expected to drive it further.

**Table 6 Chronic Therapies' Contribution** [9]

| Therapy | Contribution (%) | | Growth in 2013 (%) |
|---|---|---|---|
| | 2010 | 2013 | |
| Acute | 73 | 70 | 9.6 |
| Chronic | 27 | 30 | 14.0 |

**Rapid urbanisation:** An increase in urban population from 31% to 40% or more by 2030 will see better accessibility, with which will come with rapid urbanisation and the growth of the pharmaceutical industry.

**Industry concerns**

**Regulatory challenges**

The Indian pharmaceutical market has its own set of regulatory challenges in the form of:

- Government-mandated price controls
- Delay in new product approvals
- Delay in clinical trial approvals
- Uncertainties over FDI policy

These concerns act as a deterrent to the growth of the industry.

**Manufacturing quality**

India is attracting greater scrutiny from the US FDA in relation to cGMP compliance, owing to the fact that it is the largest drugs supplier to the US. Indian companies will have to conform to standards at par with the global benchmarks. This will involve continuous improvement in systems and processes and training of the workforce to ensure compliance to such standards.

Analytical Lab, Dissolution Testing, Vadodara

## SUN PHARMA – RANBAXY MERGER

**A Landmark Transaction**

At Sun Pharma, we have taken a significant initiative to enhance shareholder value for the future. We are in the process of acquiring Ranbaxy Laboratories Limited, India's leading company in sales, in one of India's largest M&A transactions. The deal, an all-stock transaction valued at US$ 4 billion, is expected to be completed by December 2014. Ranbaxy shareholders will receive 0.8 share of Sun Pharma for each Ranbaxy share.

**Enhancing stakeholder value**

The combination has the potential to generate significant value for shareholders:

- The new entity will emerge as the world's fifth largest specialty generic pharmaceutical company with a diverse, highly complementary portfolio of specialty and generics (with minimal overlap) targeting chronic and acute treatments globally. The entity's global presence across 55 markets will be supported by over 40 manufacturing facilities and capabilities across multiple dosage forms, including specialty branded products and complex generics.
- In the US, the merged entity will become No.1 in the generic dermatology market and No. 3 in the branded dermatology market with products to treat Actinic Keratosis, Anti-Fungal, Acne and steroids for other treatments. Post-merger, the overall pro-forma US revenues of the Company will be about US$ 2.2 billion, with strong capabilities in developing complex products through a broad portfolio of 184 ANDAs pending US FDA approval, including high-value FTF (First-to-file) opportunities.
- In India, the merger will lead to Sun Pharma becoming the largest pharmaceutical company with over 9% market share, enhancing value share across product offerings and market territories. It will be ranked No.1 by prescriptions across 13 different classes of specialist doctors in India. Besides, the Ranbaxy acquisition will give it a competitive edge in acute care, hospitals and OTC businesses with robust brands. It will have 31 brands among India's top 300 brands and a greater distribution reach. The merger will also create a foundation for the OTC business in India. Pro-forma revenues of the merged entity in India will be about US$ 1.1 billion.

- With Sun Pharma's proven complex product capabilities and Ranbaxy's strong global footprint, it will have a strong product pipeline and established presence in key high-growth pharmerging economies like Russia, Romania, South Africa, Brazil and Malaysia. Along with this the merged entity will have the combined pro-forma revenues of about US$ 0.9 billion in emerging markets. In some of these markets, the combined entity will have sales exceeding US$ 100 million each. The enhanced footprint across multiple markets will offer opportunities for cross-selling and better brand building.

- On a pro-forma basis, the merged company's revenues are estimated at US$ 4.2 billion for calendar year CY 2013. The overall business will be much more balanced with 47% of sales contributed by the US, 22% of it coming from India and around 31% coming from the rest of the world and other businesses.

- Pro-forma EBITDA will be US$ 1.2 billion for the twelve-month period ended 31st December, 2013.

- Transaction value implies a revenue multiple of 2.2x, based on 12 months ended 31st December, 2013.

- Post-deal closure, the merged entity targets to generate synergy benefits, of about US$ 250 million by the third year - driven by a combination of revenue, procurement, supply chain and other cost synergies.

After deal closure, Daiichi Sankyo will become the second largest shareholder in Sun Pharma (owning approximately 9% stake in Sun Pharma) and will have the right to nominate one Director to Sun Pharma's Board of Directors. It has agreed to indemnify Sun Pharma and Ranbaxy for, among other things, certain costs and expenses that may arise from the recent subpoena, which Ranbaxy has received from the United States Attorney for the Toansa facility.

Daiichi Sankyo (which holds approximately 63.4% of the outstanding shares of Ranbaxy) and the Promoters of Sun Pharma (who hold approximately 63.7% of the outstanding shares) have irrevocably agreed to vote in favour of the transaction. Both the Ranbaxy and the Sun Pharma Boards have recommended approval of the transaction to their respective shareholders.

The transaction closure will be subject to the usual closing conditions, including approval by the following authorities: the Government of India; the High Courts of Gujarat, Punjab and Haryana; anti-competition authorities in India and a few other markets; the National Stock Exchange of India; The Bombay Stock Exchange and expiration of the waiting period under the Hart-Scott-Rodino Anti-trust Improvement Act in the United States.

### Credible track record of successful turnarounds

One of the major challenges for Sun Pharma in this acquisition will be to improve Ranbaxy's overall growth and profitability.

Sun Pharma has a robust track record of turning around its acquisitions into success stories by enabling business and operational strategies and building supply chain efficiencies, and Ranbaxy is likely to be a major challenge. Sun Pharma's ability to juggle different businesses and multiple cultures is likely to help in this transformation.

The Company leverages complementary functional strengths to achieve top line growth and gains through both revenue enhancement and cost efficiencies - translating into higher margins, greater market share and more operating profits.

There were eight successful acquisitions in the period 1996-07 till 2000-01. Sharp increases in net sales and EBITDA across its acquisitions like Taro, DUSA and URL marked the last decade. The Company acquired Taro in 2010 and was able to enhance the EBITDA from US$ 105 million to US$ 400 million within three years by focusing on top line growth and becoming more efficient. The payback from Sun Pharma's URL acquisition has been much faster than expected.


API Unit, Panoli


Analytical Lab, HPLC, Mumbai

## SUN PHARMACEUTICAL INDUSTRIES LIMITED (SUN PHARMA)

Sun Pharmaceutical Industries Ltd is currently the fifth largest global specialty pharmaceutical company manufacturing and marketing a variety of pharmaceutical formulations as branded generics, as well as generics in the US, India and several other global markets.

In India, the Company is a leader in niche therapy areas of psychiatry, neurology, cardiology, nephrology, gastroenterology, orthopaedics and ophthalmology. It has expertise in product development, process chemistry and manufacture of complex dosage forms and APIs.

**Major business segments**

- US Generics
- Indian Branded Generics
- International Branded Generics (Rest of the world, except the US)
- Active Pharmaceutical Ingredients (API)

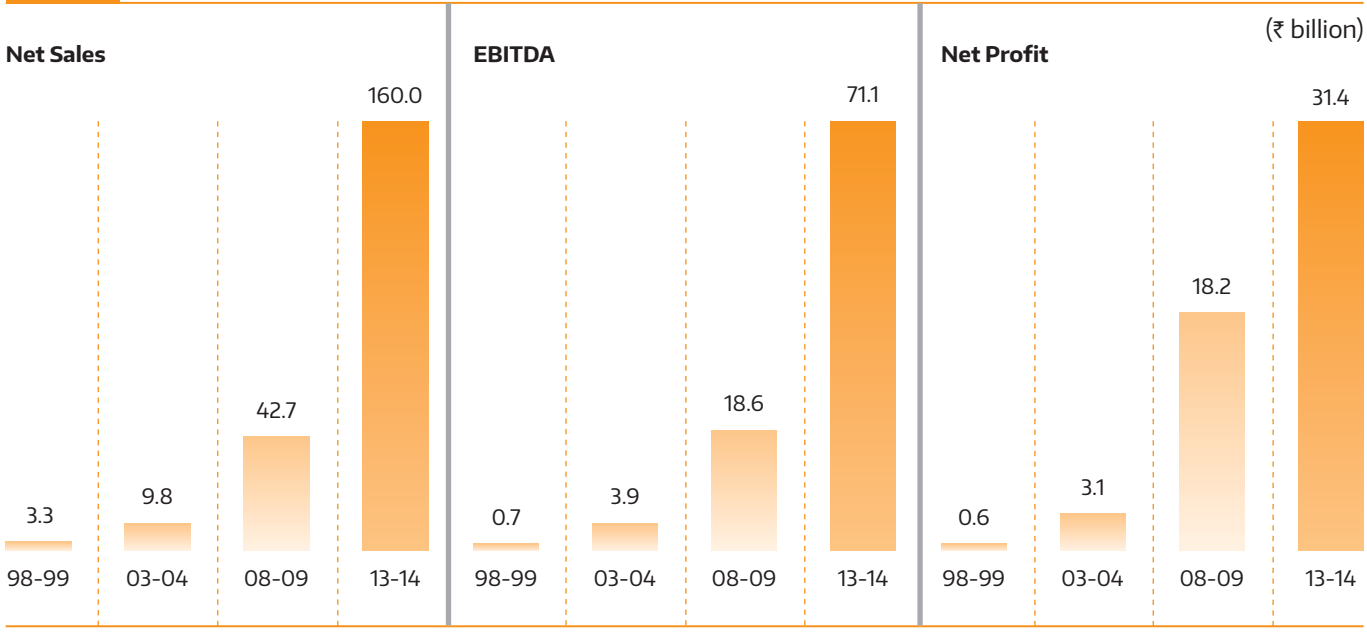
**Strategy and Approach**

Sun Pharma's strategy and business approach is underpinned by the following:

- **Create sustainable revenue and cash flow stream:** Ensuring sustainable growth in revenues and cash flows is one of the key objectives. The Company achieves this by targeting complex/differentiated products in key markets; focusing on fast-growing chronic therapies and timely product launches
- **Balance profitability and future investments:** Achieving a pragmatic balance between current profitability and future investments through its unwavering focus on developing complex products coupled with a strong track record of acquiring and turning around underperforming businesses.
- **Cost leadership:** Rationalising cost through vertical integration, optimisation of operational expenses and strengthening back-end and supply chain linkages

| >50 | 25 | >14,000 | >1,000 |
|---|---|---|---|
| Markets addressed | Manufacturing facilities across four continents | Global Team | Products marketed |

## Chart 6 Key Financial Indicators




**Operational performance, FY14**

- **Strong performance:** Consolidated revenues for FY14 grew 42% over FY13 to ₹ 162 billion, while EBITDA grew by 45% to ₹ 71 billion. The constant currency revenue growth guidance for FY14 was upgraded twice during the year from 18-20% to 29%. The strong performance was mainly driven by:
  - A significant escalation in US revenues, which grew 59% and contributed about 60% to overall revenues - was led by increased contribution from complex generics, strong profitability at Taro, favourable pricing for certain products and contribution from the 180-day exclusivity for generic Prandin. The Ranbaxy acquisition will further strengthen Sun Pharma's positioning in the US branded market as well as enhance its overall product portfolio in the US.
  - The India formulations business recorded 25% growth, despite the implementation of the new pricing policy and related trade channel disruptions. The Ranbaxy acquisition is likely to further strengthen Sun Pharma's pan-India presence, as it will enable the merged entity to be ranked no.1 by prescriptions with 13 different classes of specialist doctors and facilitating its entry into India's OTC business with a few strong brands.
  - Our Rest of World (RoW) business recorded 25% growth over FY13, led by a strengthening presence in key markets. The Ranbaxy acquisition is likely to significantly enhance Sun Pharma's presence in these markets and enable its entry into new markets.
- **Ramp-up in specialty revenues:** The Company continues to build its specialty revenues in the US, aided by a ramp-up in sales of generic Doxil and DUSA revenues - being the only company in the US market, with a US FDA approved version of generic Doxil. It also benefited from the supply constraints faced by the innovator.
- **Taro:** Taro reported good performance despite increasing competition. For FY14, Taro's top line grew by 13% to US$ 759 million, while EBITDA grew by 29% to US$ 447 million. EBITDA margins have expanded by 730 bps to 59% for the year. Taro's net profit for FY14 improved by 35% to US$ 360 million. The good performance was catalysed mainly by favourable sale prices throughout the year, which also witnessed a gradual increase in competition for some of Taro's products. The competition for some of Taro's products may intensify in future.
- **DUSA business scaling up:** Sun Pharma had acquired DUSA in the US in December 2012, giving it access to a branded patented product. DUSA revenues have gradually started scaling up, led by increasing penetration with dermatologists and gradual price increases.

- **Sun-intrexon joint venture:** As part of its efforts to establish a long-term specialty portfolio, Sun Pharma has entered into a joint venture with Intrexon Corporation (USA) to develop controllable gene-based therapies to treat ocular diseases that cause partial or total blindness in millions of people worldwide. Initial targets are dry age-related macular degeneration (AMD), glaucoma and retinitis pigmentosa. The joint venture will leverage Sun Pharma's global capabilities and experience in developing and manufacturing specialty pharmaceuticals for niche therapy areas.

- **Ramp-up in URL:** FY14 was the first full year of consolidation of the US-based URL acquisition. Favourable product pricing enabled significant ramp-up in URL's revenues with the relaunch of some of the discontinued products from URL's portfolio. The February 2013 acquisition broadens Sun Pharma's US product portfolio, besides giving access to two US FDA approved facilities.

- **Generic Prandin exclusivity in the US:** Sun Pharma's US business benefited from the one-time upside of 180-day exclusivity on generic Prandin, which expired in January 2014. By virtue of its successful patent challenge, it enjoyed the First-to-File (FTF) status and was the only generic player in the US market for 180 days in FY14. Post exclusivity, other generic players have also launched their versions of the product.

- **Generic Gleevec settlement:** In May 2014, one of Sun Pharma's subsidiaries executed a settlement agreement with Novartis Pharmaceuticals Corporation, stipulating a dismissal of the lawsuits filed in the US against the Company regarding submission of an Abbreviated New Drug Application (ANDA) for a generic version of Gleevec®, ImatinibMesylate tablets. Indicated for the treatment of chronic myeloid leukemia and having annual sales of about US$ 2 billion in the US market, a generic version of these Gleevec tablets is to be launched by Sun Pharma's subsidiary in February, 2016, under the terms of the settlement.

- **US FDA Approvals:** Received a total of 26 Abbreviated New Drug Applications (ANDA) approvals from the US FDA, including approvals for Repaglinide, Testosterone Cypionate Injections, TopotecanHCl Injection, Duloxetine HCl capsules, Temozolomide capsules, and a few controlled substances.

- **Strengthening senior management team:** Sun Pharma consistently nurtures internal talent and is in the process of expanding the pool of capable people to drive growth. In FY14, the Company reinforced its senior management team by attracting national and global talent for its key functions.

- **Strengthening the Board of Directors:** In February 2014, Sun Pharma strengthened its Board of Directors by appointing Ms. Rekha Sethi as an additional Independent Director. Ms. Sethi is the Director General of the All India Management Association (AIMA), India's apex body for management. She is associated with the following organizations: Indo-Netherlands Joint Working Group on Corporate Governance and Corporate Social Responsibility, under the Ministry of Corporate Affairs, Government of India; Advisory Board of the Switzerland-based St Gallen Foundation thinktank, Leaders of Tomorrow – Knowledge Pool. She had also worked with the Confederation of Indian Industry (CII) for over 17 years before joining AIMA.

- **Settling the generic Protonix patent litigation in the US:** The Company has settled the patent litigation in the US regarding generic Protonix with Wyeth and Atlanta Pharma AG and paid US$ 550 million to Pfizer as part of the settlement. Sun Pharma can continue to sell its generic Protonix in the US.

- **Karkhadi facility:** In May 2014, the Company received a warning letter from the US FDA for its cephalosporin facility located at Karkhadi, Gujarat, India. This letter was

Freeze Dryer, Halol

a follow-up to the import alert issued by the US FDA for this facility in March, 2014, identifying some practises at the facility, which are non-compliant with current Good Manufacturing Practice (cGMP) regulations. The Company remains fully committed to compliance and has already initiated several corrective steps to address the US FDA's observations. It is committed to working cooperatively and expeditiously with the USFDA to resolve matters indicated in its letter. However, the USFDA might withhold approval of pending new drug applications from the facility until resolution of the issue. However, the contribution of this facility to Sun Pharma's consolidated revenues is negligible.

**Table 7 Financial Performance**

(₹ in million)

| Year | 2013-14 | 2012-13 | Growth (%) |
|---|---|---|---|
| Net Sales | 160,044 | 112,389 | 42 |
| EBITDA | 71,141 | 49,063 | 45 |
| PBT before Exceptional Item | 71,432 | 49,428 | 44 |
| Exceptional Item | 25,174 | 5,836 | |
| PBT after Exceptional Item | 45,816 | 43,149 | 6 |
| Net profit after Minority Interest | 31,414 | 29,831 | 5 |
| Adjusted profit after Minority Interest (excluding exceptional items) | 56,589 | 35,666 | 58 |
| Adjusted EPS (₹) | 27.3 | 17.2 | 58 |

**Table 8 Revenue Break-up**

| Business Segment | For the year ended 31st March, 2014 | For the Year ended 31st March, 2013 |
|---|---|---|
| US Generics | 60% | 54% |
| India Branded Generics | 23% | 26% |
| International Generics (Rest of the world, except the US) | 12% | 13% |
| Active Pharmaceutical Ingredients (API) & Others | 5% | 7% |

**Table 9 Revenue Break-up**

(₹ in Million)

| Business Segment | For the year ended 31st March, 2014 |
|---|---|
| US Generics | 97,844 |
| Indian Branded Generics | 36,918 |
| International Generics (Rest of the world, except the US) | 19,084 |
| Active Pharmaceutical Ingredients (API) & Others | 8,148 |

## BUSINESS SEGMENTAL REVIEW

### US Generics

| 60% | 478 | 344 | 45% |
|---|---|---|---|
| Revenue contribution from US geography | Cumulative ANDAs filed | Cumulative ANDAs approved | 5-year revenue CAGR |

As of 31st March, 2014

**Divisional Highlights**

**Financial**

- Revenues increased from ₹ 61,537 million in FY13 to ₹ 97,844 million in FY14, a 59% growth, driven by:
  - Increased contribution from Complex generics
  - Favourable pricing for some products
  - Full-year consolidation of the DUSA and URL acquisitions
  - The 180-day exclusivity on generic Prandin and
  - A favourable currency
- Revenue contribution from this geography increased to 60% in FY14 compared to 54% for FY13.

**Operational**

- As on 31st March, 2014, ANDAs for 134 products await approval, including 12 tentative approvals. This is one of the strongest pipelines amongst Indian companies. For FY14, the Company filed 27 ANDAs and received approval for 26 from the US FDA.
- The Company is in the process of gradually increasing the penetration of DUSA's portfolio with US dermatologists. It is also gradually re-launching some of the discontinued products from URL's product basket.
- Efforts to strengthen Taro's future pipeline continues. Its annual R&D spend has increased significantly over the past three years from approximately US$ 30 million to the US$ 55 million for FY14. As of 31stMarch 2014, Taro had a pipeline of 27 ANDAs pending approval from the US FDA.

**Caraco**

The entire US operations of Sun Pharma, except Taro, are now consolidated under Caraco. For FY14, Caraco performed well, aided by the distribution of Sun Pharma's portfolio in the US and the addition of URL and the DUSA businesses. URL's performance was partly boosted by favourable product pricing. Efforts are on to re-launch some of URL's discontinued products in the US market.

Injectable Unit, Halol

While Caraco continues to distribute Sun Pharma's products in the US, as a part of its manufacturing consolidation, the Company has closed its Detroit facility. The products manufactured here are being transferred to other units to avoid market shortage. The impact of this closure on the overall revenues of Sun Pharma will be negligible.

### Ramping-up DUSA

Following the acquisition of DUSA (USA) in December 2012, efforts have been initiated to ramp-up its operations. DUSA's drug-device combination for treating Actinic Keratosis (AK) has the potential to improve its market share in the US AK market. The Company is improving its penetration with dermatologists by increasing the coverage of these specialists and the usage of its products in AK treatment.

### Pillars of growth

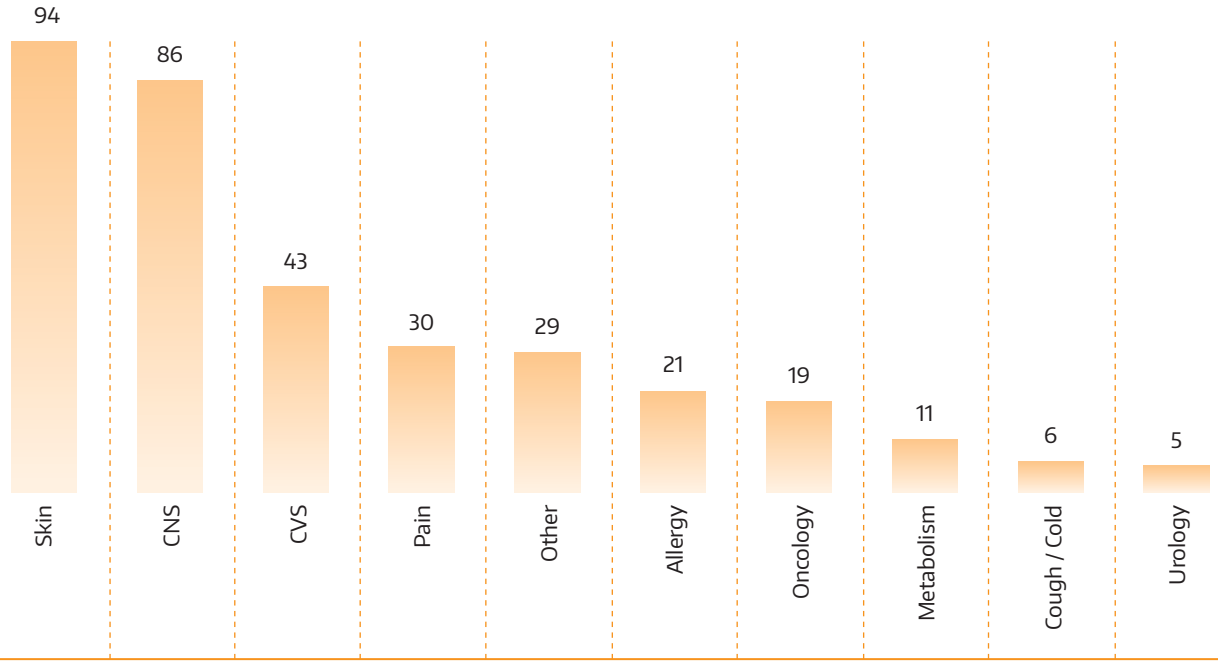
- The Company continues to focus on enhancing its pipeline of complex/specialty products for the US market. Over the past few years, it has developed/ acquired the capability to synthesise and commercialise products across a range of dosage forms including injectables, nasal sprays, liquids, ointments, tablets and capsules, among others. The Company has a wide product basket, including a prudent mix of specialty/ complex generics, Para-IV filings and normal generics. It has 134 ANDAs pending approval with the US FDA. This pipeline is expected to be one of the key drivers of future growth.

- Sun Pharma has demonstrated a strong track record of enhancing the growth and profitability of acquired assets, especially in the US market. It continues to evaluate potential acquisitions, which can generate shareholder wealth in the medium-to-long term. The proposed acquisition of Ranbaxy is also a step in this direction.

- Sun Pharma, along with its subsidiaries, currently has 10 US FDA-approved formulation facilities, of which five are in the US, two in India and one each in Canada, Israel and Hungary. This is one of the largest US FDA-approved manufacturing infrastructure amongst Indian companies.

- The Company's patents, together with those of Taro, have reached 573 filings and 346 were granted patents as of 31st March, 2014.

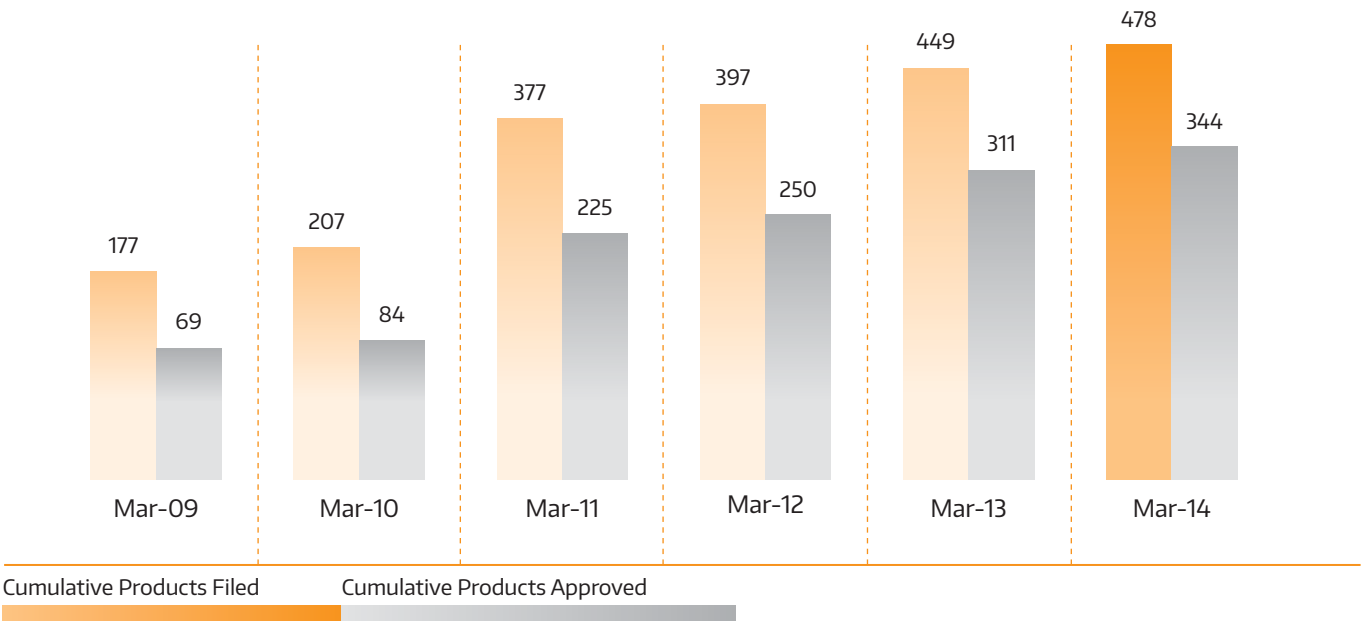
**Chart 7** **US-Therapy-wise ANDA Approvals as of 31st March, 2014** (Nos.)




Note – Taro's ANDAs added since March 2011 & URL's ANDAs added since March, 2013

## Chart 8 US - ANDA Pipeline

(Nos.)




Note – Taro's ANDAs added since March 2011 & URL's ANDAs added since March, 2013

### Road ahead

- Future focus will be on building a differentiated specialty product basket, foraying into products that yield stable and consistent cash flows.
- The strong pipeline of 134 ANDAs will be a key contributor to future growth. A significant portion of this pipeline will be backward integrated through in-house API capabilities.
- The Company continues to be on the lookout for value-enhancing inorganic opportunities in the US market.

Formulation Plant, Halol

## India Branded Generics

**23%**
Revenue contribution

**TOP 3**
In over 50% of more than 500 brands

**2nd**
Largest domestic drug maker by market share

**14%**
Last five-year revenue CAGR

## Divisional Highlights

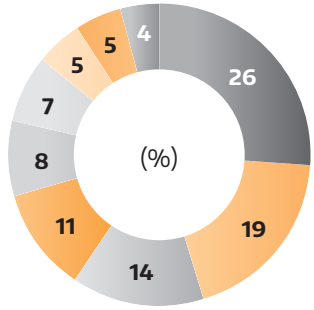
### Financial

- Revenues increased from ₹ 29,657 million in FY13 to ₹ 36,917 million in FY14, a 25% growth. This growth has been achieved, despite the implementation of the new pricing policy and related trade channel disruptions.
- Revenue contribution from India reduced from 26% in FY13 to 23% in FY14 due to significant growth in the US business and a favourable currency, which helped the export revenues.
- Market share on moving annual total (MAT) basis increased from 4.8% for March 2013 to 5.4% for March 2014 according to AIOCD AWACS.
- It continues to be ranked no. 1 based on its share of prescriptions with seven classes of specialists, for example psychiatrists, neurologists, cardiologists, ophthalmologists, orthopaedicians, nephrologists and gastroenterologists. The Sun Pharma – Ranbaxy merged entity will be ranked no. 1 with 13 classes of specialists.

### Operational

- The Company currently has an empowered team of medical representatives (MR) promoting its products and building relationships with doctors. A team of 4,000-plus MRs, including managers, cover about 140,000 specialist doctors across the country.
- Launched 16 products in FY14 including several technology-based products
- Enjoys strong positioning in chronic segments, such as CNS, CVS and diabetology, together accounting for more than 50% of Sun Pharma's India formulation revenues as per AIOCD-AWACS.
- For FY14, the top 10 brands contributed about 20% to domestic formulation sales

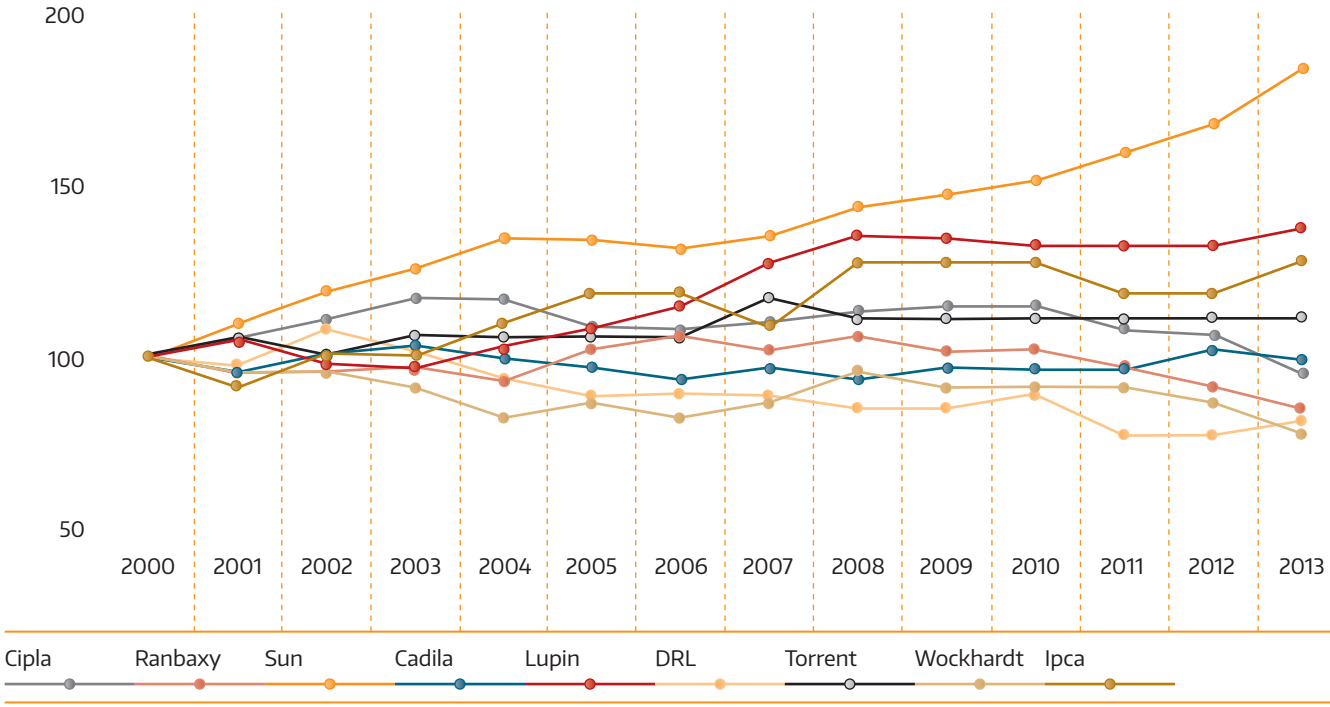
**Chart 9 India Formulations – Therapeutic Break-up** (12)





API Unit, Panoli

## Chart 10 Consistent Increase in Market Share in India (11)




### Growth Pillars

- The Company continues to enjoy high brand equity with the doctor community. It is ranked no. 1, based on the share of prescriptions by seven specialist classes: psychiatrists, neurologists, cardiologists, ophthalmologists, orthopaedics, nephrologists and gastroenterologists – thus imparting immense strength to the Company's India business. As per AIOCD-AWACS study, these segments contribute more than 70% of Sun Pharma's India formulation revenues.

- Market leader in chronic segments – These segments are expected to grow faster than the acute segments, given the changing life-style of the Indian population. Post the closure of the Ranbaxy acquisition, the Company will have strong positioning in the acute segment as well, thus expanding its presence across many more therapeutic segments.

- Extensive product coverage – from older molecules to the latest molecules for relevant therapeutic segments. This broad portfolio helps ensure that the Company is able to cater to the demand for most products.

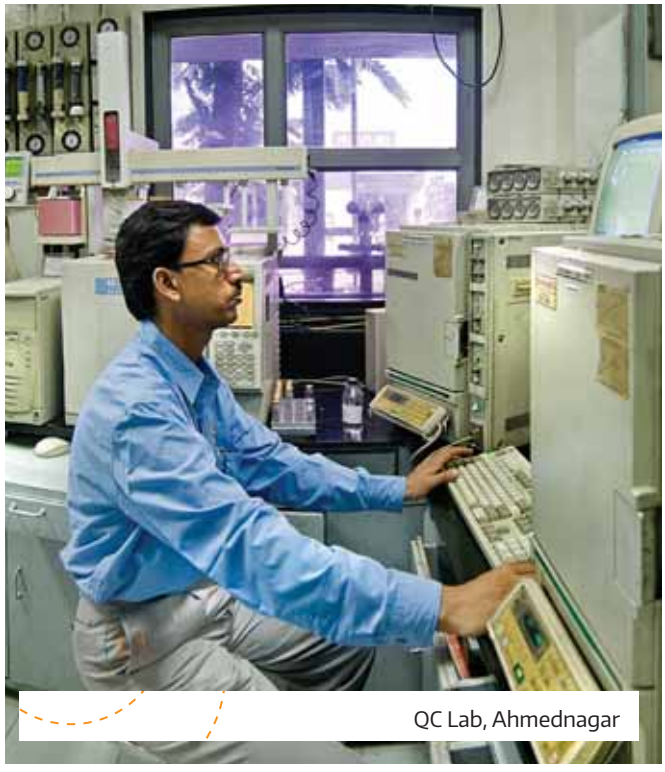
## Table 10 Sun Pharma – Prescription Rankings (13)

| Therapeutic segments | Ranking for October 2010 | Ranking for October 2013 |
|---|---|---|
| Psychiatrists | 1 | 1 |
| Neurologists | 1 | 1 |
| Cardiologists | 1 | 1 |
| Orthopaedics | 1 | 1 |
| Ophthalmologists | 1 | 1 |
| Gastroenterologists | 1 | 1 |
| Nephrologists | 2 | 1 |
| Diabetologists | 2 | 2 |
| Chest Physicians | 4 | 5 |
| Consultant Physicians | 3 | 5 |
| Gynaecologists | 6 | 7 |
| Dermatologists | 14 | 7 |
| Oncologists | 9 | 7 |
| Urologists | 8 | 12 |

| Table 11 | Top 10 Brands Contribute about 20% of India sales [11] |
|---|---|
| Brands | Therapies |
| Pantocid | Proton pump inhibitor/ anti-ulcerant |
| Gemer | Oral anti-diabetic |
| Susten | Women's healthcare |
| Levipil | CNS |
| Pantocid-D | Proton pump inhibitor/ anti-ulcerant |
| Aztor | CVS, cholesterol reducing agent |
| Glucored Group | Oral anti-diabetic |
| Istamet | Anti-diabetic |
| Rozavel | CVS |
| Montek-LC | Respiratory |

### Road ahead

The Company's future focus will continue to be on strengthening customer relationships, brand building and expanding product portfolio through a combination of internal development and potential in-licensing opportunities.



QC Lab, Ahmednagar

### International Generics (ex-US)

| 12% | 48 | 900+ | 38% |
|---|---|---|---|
| Revenue contribution | Market presence | Products marketed | 5-year revenue CAGR |

### Divisional Highlights

#### Financial

- Revenues increased from ₹ 15,271 million in FY13 to ₹ 19,084 million in FY14, a growth of 25%.
- Segmental revenue contribution was 12% of total revenues for FY14, compared to 13% for FY13. The contribution has declined marginally, despite good overall growth due to the strong US growth revenues, which increased US contribution significantly.

#### Operations

- Sun Pharma supplies its products to 48 international markets, including the emerging markets.
- Future markets for particular focus will include Latin America, Russia & CIS, South Africa and a few Asian markets.
- The Company plans to replicate its specialty product basket in these markets, including technology-based products.

#### Growth pillars

- Sun Pharma's product portfolio spans over 48 countries; plans to replicate its specialty pipeline, including technologically complex products in some of these markets to tap the market potential

- Major markets include primary pharmerging markets, such as Mexico, Brazil, Russia & CIS, South Africa and Asia
- Markets are penetrated by a diverse product basket manufactured at the Company's approved plants in India; also has manufacturing facilities in Brazil, Mexico and Bangladesh to comply with local regulatory requirements

### Road Ahead

The focus ahead will be on enhancing the Company's presence in key emerging markets led by chronic therapies like the metabolic syndrome, diabetes, neurology and cardiology. Besides, the Company is focusing on expanding its presence to new geographies, organically and through partnerships. It currently has about 300 products awaiting regulatory approvals in these markets.

## Active Pharmaceutical Ingredients (API)

| 5% | 256 | 8 | 11% |
|---|---|---|---|
| Revenue contribution | DMF/ CEP files | World class facilities, accredited by ISO 14001 and ISO 9002 | 5 year revenue CAGR |

### Divisional Highlights

#### Financial

- Revenues increased from ₹ 7,549 million in FY13 to ₹ 8,010 million in FY14, a 6% growth
- Revenue contribution from the division reached 5% for FY14 compared to 7% for FY13.

#### Operational

- Filed 15 DMF/ CEPs
- Six DMFs have been approved (including Taro)
- Currently has a total of eight API facilities, of which five are US FDA approved.
- The India-based manufacturing facilities have dedicated units for peptides, anti-cancer, steroids and sex hormones. The API facility in Tennessee, USA has the capability to manufacture controlled substances.

#### Growth pillars

- The API business continues to be largely used for vertical integration on key products. It imparts the much-needed competitive advantage to the Company's formulations business, particularly for the US market. External API sales account for a fraction of the total API production.
- The Company markets products across more than 48 countries; products are sold to large generic or innovator companies
- Manufactures over 170 specialty APIs, most of which are used in-house to manufacture formulations
- Most facilities have in-place approvals from US FDA/ Europe/Australia
- Scales up over 25 API processes annually

#### Road Ahead

- Ensure long-term competitiveness of the formulations business through strong backward integration
- Establish long-term contracts with customers in regulated markets for sustainable revenue growth and margins

API Plant, Ahmednagar

## RESEARCH & DEVELOPMENT ENDEAVOURS

Sun Pharma's R&D efforts are driven by the Company's overall objective of ensuring sustainable and profitable growth by a consistent focus on developing differentiated specialty products across multiple dosage forms. The Company's R&D investment provides crucial support to strategies for manufacturing new products.

Most of the product and process development is undertaken at the Company's R&D centres at Vadodara and Mumbai with the help of a strong team of about 800 scientists across locations. Sun Pharma's R&D capabilities span the development of differentiated products, such as liposomal products, inhalers, lyophilised injections, nasal sprays, besides developing controlled release dosage forms. Taro's R&D centres are located in Israel and Canada

At the Vadodara R&D centre, the Company develops complex APIs and dosage forms for India, the US, Europe and ROW markets. The Mumbai R&D centre develops differentiated dosage forms and generics for developed markets like the US and Europe. The group at Haifa Bay (Israel centre) works on API and product development.

**Table 12** **Research and Development Investments** (₹ in million)

| | FY10 | FY11 | FY12 | FY13 | FY14 |
|---|---|---|---|---|---|
| Expenditure on R&D | 2,242 | 3,313 | 4,449 | 7,042 | 10,418 |
| R&D Expenditure as % of Revenue | 6.0 | 6.0 | 6.0 | 6.0 | 6.5 |

R&D Centre, Vadodara

## QUALITY STANDARDS

In the pharmaceutical business, ensuring the highest quality standards is an important pre-requisite. Sun Pharma's operations are driven by best-in-class technology and processes, abiding by all major stringent regulatory approvals. The Company's global Quality Management Team ensures that every product manufactured and distributed complies with internationally accepted standards of quality, purity, efficacy and safety.

To maintain quality standards, each plant has well-defined procedures and systems in compliance with the cGMP requirements - thus ensuring that the Company's operating procedures continue to meet demanding regulatory standards like US FDA, EMEA, MHRA and TGA, among others.

Quality systems are well-defined and validated to ensure consistency in deliveries. Quality units are independent of other operations like warehousing and engineering support. Each site has well trained personnel for quality control along with a regulatory affairs department, ensuring strict adherence to quality systems and procedures. The teams are guided by a Corporate Quality Unit (CQU). CQU ensures that the latest updates in GMP are being translated into Guidelines, SOPs and Protocols. The team also ensures that these guidelines are implemented to deliver quality products consistently.

In addition, an independent Corporate Compliance department audits the sites to strengthen all controls and procedures to fulfill the goal of 24x7 compliance. Besides, systems are being improved in line with regulatory requirements for advanced quality and safety.

The Company has recently received a warning letter from the US FDA for its Karkhadi facility citing non-compliance with some cGMP norms. Details of this development are discussed in prior sections of this report.

| | | | |
|---|---|---|---|
| 478 | 344 | 256 | 174 |
| Cumulative ANDAs filed | Cumulative ANDAs approved | DMF / CEP cumulative applications filed | DMF / CEP cumulative applications approved |
| 573 | 346 | 27 | 26 |
| Total patent applications submitted | Total patents granted | ANDAs filed in FY14 | ANDAs approved in FY14 |
| 15 | 6 | | |
| DMFs filed in FY14 | DMFs approved in FY14 | | |

## HUMAN ASSETS

Human resources are the organization's most important assets. Attracting relevant talent remains its key focus, even as it continues to nurture leadership capabilities it pays special attention to training, welfare and safety of its people, strengthening its human capital. The total employee strength as on 31st March, 2014 stood at over 14,000.

Growth across markets will need the right talent. The Company has initiated a 'Speed Programme,' in partnership with the SP Jain Institute of Management and Research. This is an education development programme, where managers from various departments are selected for an intensive Executive MBA course.

The Company has recruited several senior management professionals across functions since an empowered team has ensured its strong growth over the past decade. As the Company gears up for the next growth phase, it becomes imperative to strengthen its capabilities and also to get external talent on board.

## INTERNAL CONTROLS

Sun Pharma's defined organisational structure, documented policy guidelines and adequate internal controls ensure efficiency of operations, compliance with internal policies, applicable laws and regulations, protection of resources and assets and accurate reporting of financial transactions.

The Company's philosophy on corporate governance envisages working towards high levels of transparency, accountability and consistent value systems across all facets of operations.

It continuously upgrades its systems in line with the best available practices. The internal control system is supplemented by extensive internal audits, conducted by independent firms of Chartered Accountants to cover various operations on a continuous basis.

## DISCLAIMER

Statements in this "Management Discussion and Analysis" describing the Company's objectives, projections, estimates, expectations, plans or predictions or industry conditions or events are "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results, performance or achievements could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include global and Indian demand supply conditions, finished goods prices, feedstock availability and prices, competitors' pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic conditions within India and the countries within which the Company conducts businesses and other factors such as litigation and labour unrest or other difficulties. The Company assumes no responsibility to publicly update, amend, modify or revise any forward looking statements, on the basis of any subsequent development, new information or future events or otherwise except as required by applicable law. Unless the context otherwise requires, all references in this document to "we", "us" or "our" refers to Sun Pharmaceutical Industries Limited and consolidated subsidiaries.

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