

# MANAGEMENT DISCUSSION AND ANALYSIS

## THE GLOBAL PHARMA MARKET

### Global Pharma quick facts 2010



- The global pharma market has registered **4.1% growth** to reach **US\$856 billion**.
- Global generic drug spending is estimated to be **US\$ 234 billion**.
- The US pharmaceutical market stood at US\$310.6 billion.
- European markets of Germany, France, Italy, Spain and UK reached US\$ 147.4 billion.
- The 17 'pharmerging' countries of China, India, Russia, Brazil, Turkey, Venezuela, Poland, Argentina, Mexico, Vietnam, South Africa, Thailand, Indonesia, Romania, Egypt, Pakistan and Ukraine stood at US\$ 150.5 billion.
- The Indian pharma market stood at US\$ 12.3 billion.

(Source: IMS Health)

### Outlook

Global pharma market is expected to grow by **5-7%** to reach **US\$ 880 billion** in 2011

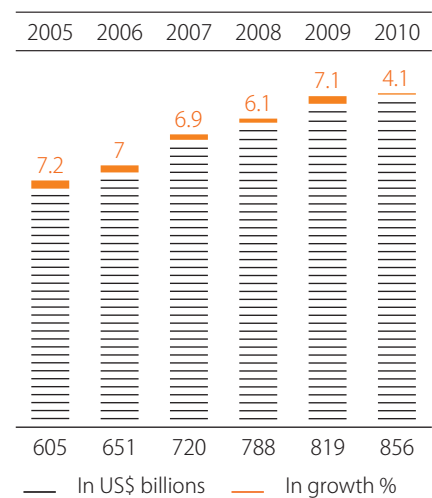
Global pharma market to reach **US\$ 1.1 trillion** by 2014

US pharma market will reach anywhere between **US\$ 320** and **350 billion** by 2015

European markets to reach up to **US\$ 160 billion** by 2015

(Source: IMS Health)

### A GROWTH OF WORLDWIDE PHARMA SPENDING OVER THE YEARS



(Source: IMS Health)

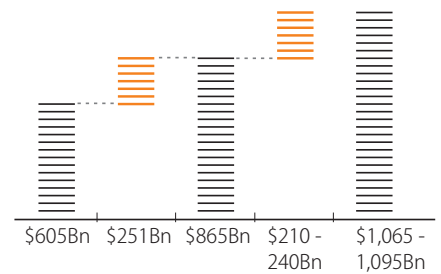
Management Discussion and Analysis

Although global spending on medicines is expected to grow from US\$ 856 billion in 2010 to reach around US\$ 1,065-1,095 billion in 2015, the incremental growth in global medicine spending is expected to slow from the US\$251 billion increment registered in 2006-10 to the expected US\$ 210-240 billion increment during 2010-15. Patent expiries, increasing generic sales and budget controls may restrain successive growth in medicines spending globally, especially in developed markets.

Between 2005 and 2015 the share of developed markets (US and EU 5) in global medicine spending is expected to fall, the share of pharmerging countries is expected to rise, and is expected to remain steady for Japan, rest of Europe and Canada. Pharmerging markets will witness the highest growth in the next five years, driven by increased access through healthcare reforms and economic growth.

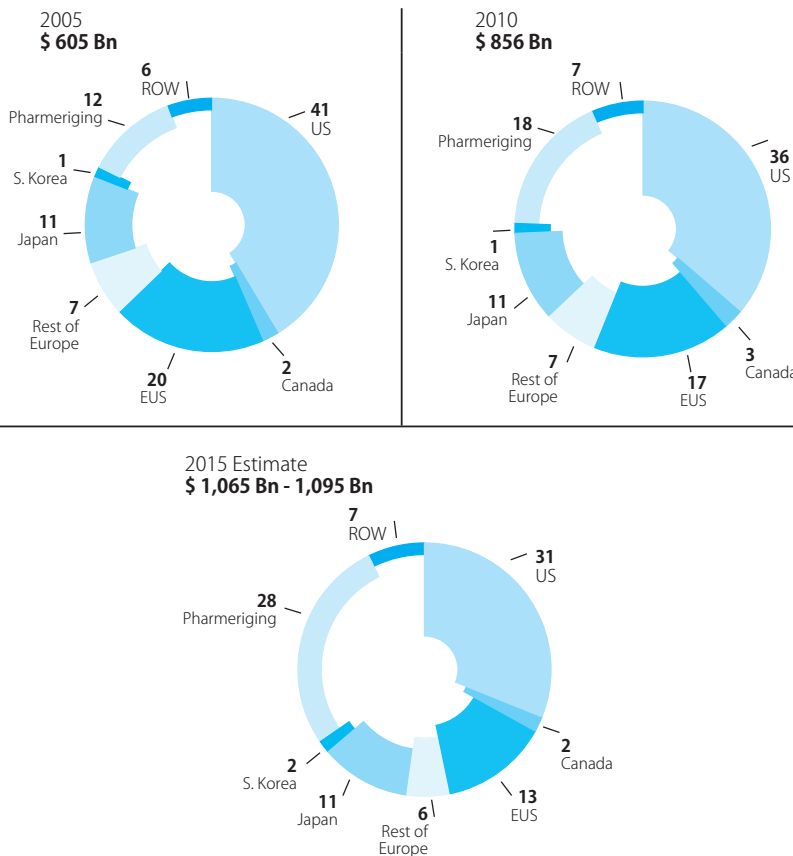
**B** GLOBAL SPENDING ON MEDICINES

2005	2006-10	2010	2011-15	2015 E
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(Source: IMS Health)

**C** SPENDING ON MEDICINES BY GEOGRAPHY (In %)



(Source: IMS Health)

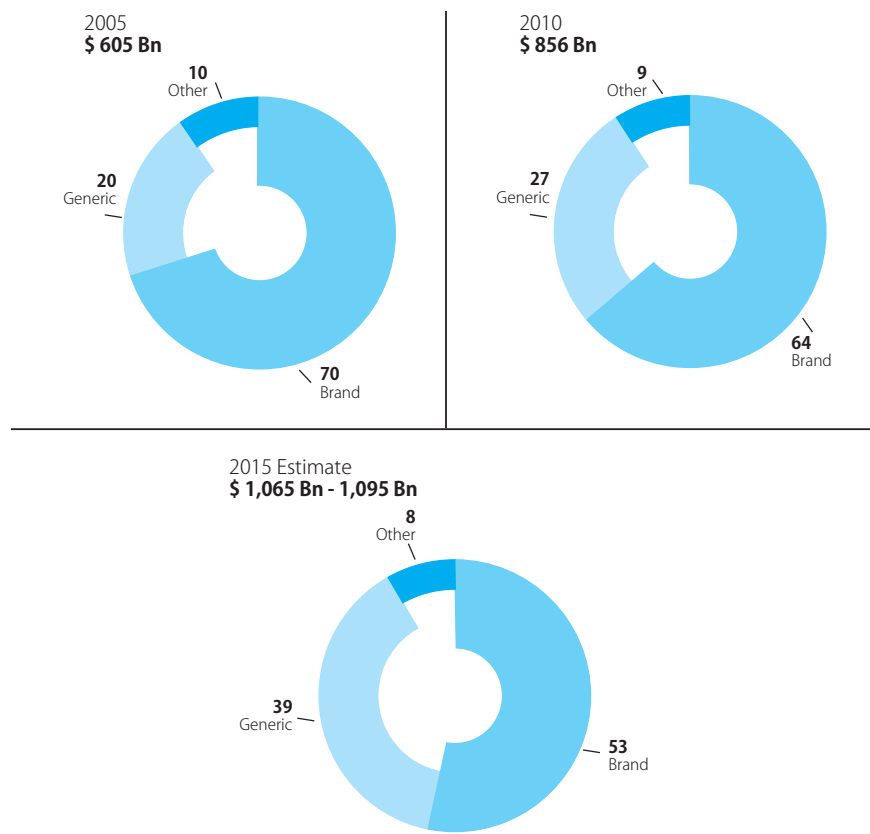


## BRANDED GENERICS VS. PATENTED DRUGS

Although a large number of branded products lost their patent protection during the year in the US, however, this did not trigger extensive growth in generic drugs (which are low cost therapeutic equivalents of patented or innovative drugs), on account of intense price competition. Pricing continues to be one of the most important issues in the pharma world, as affordable healthcare remains a priority for governments worldwide. The rising cost of new product development for new molecules on one hand, as well as spiraling healthcare budgets and mounting governmental pressure to reduce drug prices have prompted companies to ramp up their generic/ branded generic business (Source: IMS Health).

Brands comprised about 2/3rd of the global pharmaceutical spending during the year 2010. As patents expire in developed markets, the share of branded or patented products is expected to decline in the coming years.

### D GLOBAL MARKET, SEGMENT WISE (In %)



(Source: IMS Health)

Note: a) Generics includes branded generics  
b) Others includes OTC and non categorized products

Global generic drug spending is estimated to be **US\$ 234 billion** in 2010

Global spending on generics to reach **US\$ 400-430 billion** by 2015

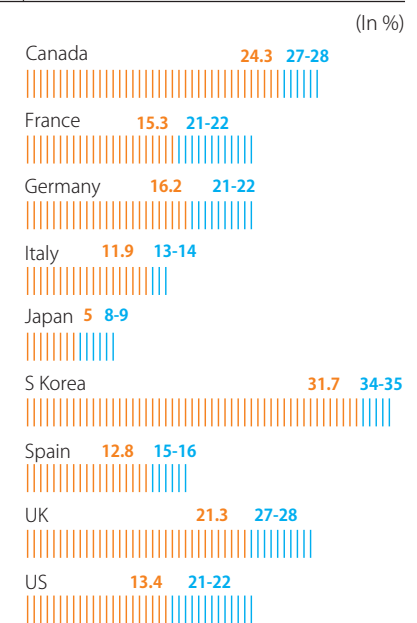
US pharma spending to grow **0-3%** by 2015 but US Generics market to grow at a CAGR of 10% by 2013 reaching **US\$ 108.5 billion** by 2013

The global market share for patented medicines is expected to decline from **64%** in 2010 to **53%** by 2015

(Sources: IMS Health and Credit Suisse Report, April 2011)

It is expected that highest growth in generics spending would come from the US, Canada, UK, and South Korea. Japan may continue with the lowest generic share, despite significant policy incentives to increase generic prescribing and dispensing.

### E DEVELOPED MARKETS GENERIC SHARE (In %)



○ 2010 Generic Share    ● 2015 Share Increase Estimate

(Source: IMS Health)

## GROWTH SHIFTING TO PHARMERGING MARKETS

The 17 'pharmerging' countries are expected to contribute 28% to global market spending by 2015. Pharmerging markets are expected to double their spending on medicines to \$285-315 billion by 2015, compared with \$151 billion in 2010 (Source: IMS Health).

The Asia Pacific pharmaceutical market, comprising India, China, Malaysia, South Korea and Indonesia, has emerged as one of the fastest growing pharmaceutical markets. High growth, witnessed in emerging markets, has led to a focus shift for large pharma companies from regulated markets to emerging markets. It is expected that while growth in regulated markets will slow down, emerging markets would lead industry growth. Emerging markets have traditionally been characterized with one or more of the following:

- Relatively low entry barriers in terms of product registration requirements and intellectual property rights
- Price sensitivity
- Favorable regulatory environment
- Rising disposable incomes
- Likely increase in health insurance schemes
- Low manufacturing costs
- Competitive local industry presence

The past decade has witnessed the industry scenario undergoing a transformation with the expansion by Big Pharma in India, China, Brazil, Russia and Latin America. Some of the challenges faced by Big Pharma in emerging countries, as well as some of the strategies that they've adopted to counter the challenges are as follows:

### Challenges

- Increasing competition in generic segment
- Pricing issues
- Declining research and development (R&D) productivity

### Strategies

- Offering low-cost generic products
- Cutting down costs
- Contract manufacturing
- Mergers & acquisitions
- Partnerships & alliances

### Future projections

Tier wise countries		Incremental Pharma Market Growth (2008-13)
Tier I	China	US\$ 40 billion +
Tier II	Brazil Russia India	US\$ 5-15 billion
Tier III	Venezuela Poland Argentina Turkey Mexico Vietnam South Africa Thailand Indonesia Romania Egypt Pakistan Ukraine	US\$ 1-5 billion

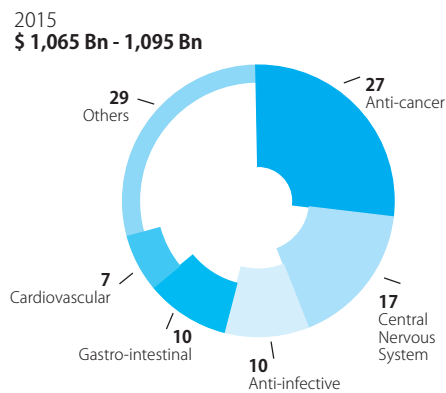
(Source: IMS Health)

## CHRONIC THERAPY AREAS GLOBALLY

During the year, high volume sales were recorded for anti-cancers, antipsychotics, lipid regulators, proton pump inhibitors and antidepressants. A combination of changing lifestyle patterns, better diagnostic tools and increasing awareness and access, are leading to an increase in incidence and treatment sought for chronic diseases like hypertension, congestive heart failure, depression, asthma and diabetes all over the world. Additionally, factors like pollution and environment changes contribute to an increased incidence of asthma.

Growth is expected to continue in generics, as well as in anti-diabetics, cardiovasculars, and anti-hypertensives in 2011. The prevalence of Type II diabetes is expected to increase in pharmerging countries, such as China, India and Brazil, because of a growing population and changing lifestyle conditions, as well as better access and diagnosis (Source: IMS Health).

**G** 2015: LEADING THERAPY AREA ESTIMATES (BRANDED PRODUCTS): (in %)



(Source: India Pharma 2015, McKinsey Research Report)



Formulation analytical area, SPARC

## THE INDIAN PHARMACEUTICAL MARKET

Globally, the Indian pharmaceutical industry ranks 10th in terms of value and third in terms of volume (Source: India Pharma 2020, McKinsey Research Report). According to IMS Health, the Indian Pharma market was estimated to be around \$12.3 billion in 2010.

### Branded generics in India

India is largely a branded generics market, which makes up nearly 70-80% of the total pharmaceutical market, with a small percentage of unbranded generics being sold here (Source: India Pharma 2020, McKinsey Research Report). The country exports branded generics in large volumes, which are expected to grow at a CAGR of 21-23% during 2009-2014 (Source: Crisil, March 2010).

### Formulations in India

Formulations are mostly manufactured for therapeutics, such as anti-diabetics, neuro/central nervous system (CNS), cardiovascular, respiratory and anti-infectives, with acute therapy products, such as anti-infectives and painkillers forming the largest share. The domestic formulations market, which stood at around ₹ 417 billion in 2009-10, is expected to grow further owing to better access, awareness, affordability, an increasing middle class population, urbanization, increasing efforts by the government to offer rudimentary health insurance, particularly in the rural areas. India exports formulations in large volumes to semi-regulated markets (SRM), such as Africa, Asia, CIS and Latin America (Source: Crisil, March 2010).

### Global Pharma in India

The Indian pharmaceutical market is highly fragmented with 300 large and 18,000 mid-sized and small companies. Some of the Indian pharma companies provide contract research and manufacturing services (CRAMS) to global pharma majors, who find it more cost effective to outsource these activities. The last two years have witnessed a sudden expansion surge by multiple global pharma giants in India, like setting up offices and R&D centers, offering patented products at a special India price, building a portfolio of branded generics, and expanding their reach to rural India. The markets, which were intensely competitive to begin with, became even more so with these new and refocused companies becoming serious about their presence in the Indian market.

### Chronic therapy products in India

India is one of the fastest growing pharma markets, attributed to rising disposable incomes with increased affordability, gradually growing insurance penetration, greater life expectancy, rural penetration, and a shift in disease profile towards chronic lifestyle illnesses. Specialty and super specialty therapies are expected to continue growing faster than the rest of the market in the coming years. Increasing pressures of urbanisation, lifestyle changes and work stress are responsible for an increase in the incidence of chronic diseases. Cardiovascular diseases are expected to be the largest cause of deaths and disabilities in India by 2020.

Diabetes incidence to increase by **25%** by 2020

(Source: India Pharma 2020, McKinsey Research Report)

Cancer incidence to increase by **40%** by 2020

(Source: India Pharma 2020, McKinsey Research Report)

People suffering from hypertension would increase to **213.5 million** in 2025

(Source: Mint, July 8, 2010)

### Future projections

It is expected that by 2020, **73 million** new households would enter the middle and upper income bracket and nearly **650 million** people would enjoy health insurance cover. The Indian Government is expected to increase its health spending to **1.5% of the GDP** by 2020

(Source: India Pharma 2020, McKinsey Research Report)

To grow at a CAGR of **12-14%** between 2009 and 2015 to reach **US\$ 20-24 billion** by 2015

To reach **US\$ 55 billion** by 2020

(Source: India Pharma 2020, McKinsey Research Report)

## OPERATIONAL HIGHLIGHTS 2010-11

- Successful acquisition of Taro Pharma following three years of litigation and negotiations. Sun Pharma holds an economic stake of **66%** and enjoys voting rights of **77%** in **Taro**
- Indian branded generics grew **37%** to reach **₹ 23,800 million**
- The API segment sales declined **4%** to reach **₹ 5,212 million**
- The emerging market branded generic business grew **32%** to reach **₹ 6,444 million**
- International operations grew across **41 markets**.
- Received approvals of **18 products** from the USFDA, including complex products like **Diltiazem HCL ER Capsules, Galantamine HCL ER Capsules** and **Atomoxetine HCL Capsules**.
- Brought exclusive products (**Eloxatin and Pantoprazole**) to the US market, these products enjoy limited competition.
- During the year, Research & Development expenditures stood at **₹ 3,096 million**



SPARC Centre, Mumbai

## FINANCIAL HIGHLIGHTS 2010-11

 50%

Annual sales grew **50%** to reach  
₹ **57,214** million

14%

Staff cost is 14% of net sales,  
largely on account of Taro's staff  
cost

 44%

EBITDA jumped **44%** to reach  
₹ **19,670** million

26%

Other expenditure is **26%** of the  
net sales

 34%

Net profit surged **34%** to reach  
₹ **18,160** million

31%

EBIT margin is at 31%

26%

Material cost stood at 26% of  
net sales

₹ 17.50

Diluted EPS is ₹ 17.50,  
significantly up from ₹13  
for the last year



In the Panoli Plant

### Note:

- a) Taro financials have been consolidated for a little over 6 months in FY11 financials (from 20th September, 2010 onwards)
- b) Financials include significant components of non-recurring sales and profits contributed by a few products sold in first half of FY11



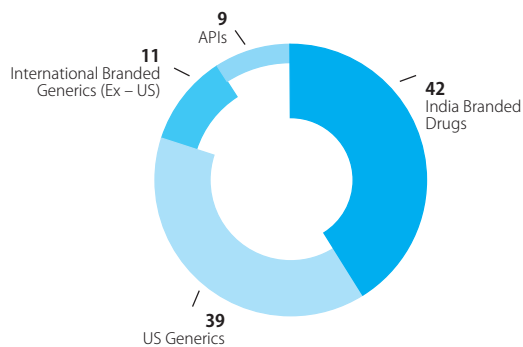
## SEGMENT ANALYSIS



### Our business can be divided into four segments:

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

### H 2010-11 BUSINESS SEGMENTS REVENUE BREAK-UP (WITH TARO) (in %)



Business Category	Sales (₹. Million)
India Branded Drugs	23,800
US Generics	22,538
International Branded Generics (Ex - US)	6,444
APIs	5,212

## INDIAN BRANDED GENERIC

Revenue: ₹ 23,800 million  
YoY Growth: 37 %

Revenue Share: 42%  
Manufacturing locations: Six

### Segment identity

- Sixth largest branded generics player in India by prescription share
- Ranked 1st based on share of prescriptions in six classes of specialists: psychiatrists, neurologists, cardiologists, ophthalmologists, orthopaedics and gastroenterologists.
- Market leader in chronic segments
- Over 50% of our brands feature among the top three brands for the molecule
- Product basket includes 537 formulations
- Marketing therapy-based products through 18 divisions and 2,700 sales representatives to 130,000 specialist doctors
- We specialize in technically complex products and offering a complete therapy basket, enabling us to remain competitive in a challenging market environment

### Highlights of the year

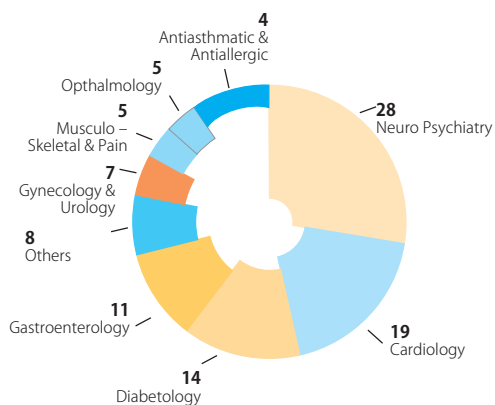
- Revenues increased from ₹ 17,412 million in 2009-10 to ₹ 23,800 million in 2010-11
- Market share at 4.3% in 2010-11, according to AWACS
- Launched 38 new products during the year
- Strengthened our prescription share
- Our top 10 brands contributed 15% to the domestic revenues
- Our top 50 brands contributed 52% to the domestic revenues



Halol Plant

### THERAPY WISE BREAK-UP

(in %)



(IMS data)

## INDIAN BRANDED GENERICS

We continue with our emphasis on building customer relationships by facilitating academic interaction and continuing medical education. For instance, an epilepsy course was organized countrywide, with international speakers. CMEs and programs to share therapy advances in neurology, ophthalmology and respiratory were also organized. We also conducted over a hundred health camps for disease detection last year.



Future projections	
Therapeutic segment	Ranking (CMARC ranking, November 2010 - February 2011)
Psychiatry	1
Neurology	1
Cardiology	1
Orthopedic	1
Ophthalmology	1
Diabetology	2
Gastroenterology	1
Chest physicians	4
Nephrology	2
Consultant physicians	2
Oncologists	8
Urology	8
ENT specialists	18
Gynecology	6

Top ten brands in India	
Brand	Therapy
Pantocid	Proton pump inhibitor/ antiulcerant
Glucored Group	Oral antidiabetic
Susten	Women's healthcare
Aztor	CVS, cholesterol reducing agent
Pantocid-D	Proton pump inhibitor/ antiulcerant
Gemer	Oral antidiabetic
Repace Group	CVS, Hypertension
Strocit	CNS, stroke
Clopilet	CVS, anticlotting agent
Encorate chrono	CNS, epilepsy

## US GENERICS

### Revenue: ₹ 22, 537.9 million

(Includes Taro Pharma sales from September 20, 2010)

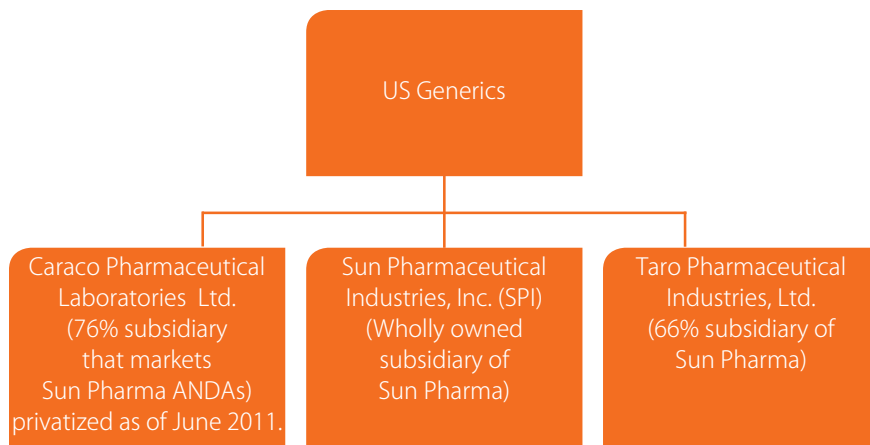
**Growth: 104%** including Taro Pharma sales for this year, one-offs from exclusivity products with limited period sales, and acquisitions. Also two plants, the Detroit and Cranbury plants have not been operational for the past year.

### Revenue Share: 39%

### Manufacturing locations:

Nine – US (3) Canada (1), Israel (1), Hungary (1), and India (3)

The three formulation sites in India are approved for US generics, including a facility that holds approvals for injectables and eye drops. One of the US sites is designed to handle controlled substance formulations.



### Segment identity

- Successfully acquired Taro in September 2010
- From 1997 to 2005, acquired Caraco, the plants and business of the erstwhile Able Labs, a semisolids plant in Ohio, and an API plant in Tennessee from Valeant
- Product basket includes a mix of generics with limited competition, and some with intensive competition
- Launched technically complex products, such as Amifostine, Lupreolide, Octreotide and Vecuronium

## US GENERICS

### Taro identity

- Strong presence in dermatology where Taro is working actively to regain its leadership amidst heightened competition
- Major thrust on introducing globally accepted products, penetrating new markets, and strengthening the research and development pipeline
- The production facility at Canada is approved by the Ministry of Health and USFDA
- Delivering to high expectation remains the key challenge.

### Caraco identity

- Production facility continued to be non-operational; however, efforts were on to accelerate compliance and meet FDA requirements; active involvement of consultants underway to achieve this
- Overall sales of distributed products has been good during the year
- Caraco to benefit from an increased focus on generics in the US, post its resolution of FDA issues and restarting of manufacturing operations.

### Highlights of the year

- Grew revenues **104%** from ₹ 11,069 million in 2009-10 to **₹ 22,537.9** million in 2010-11
- Launched **18** new products during the year
- Filed **25 ANDAs** and received approvals on **18 ANDAs** during the year
- This takes the total to **377 ANDA** filed and **225 ANDA** received, in all, across companies.

### Therapy wise approvals

Therapeutic segment	Number of approvals received till date
Skin	89
CNS	53
CVS	20
Pain	15
Allergy	13
Oncology	12
Metabolism	7
Cough / Cold	6
Antibiotic	3
Urology	2
Respiratory	1
Gastro	1
Endocrine	1
Others	2



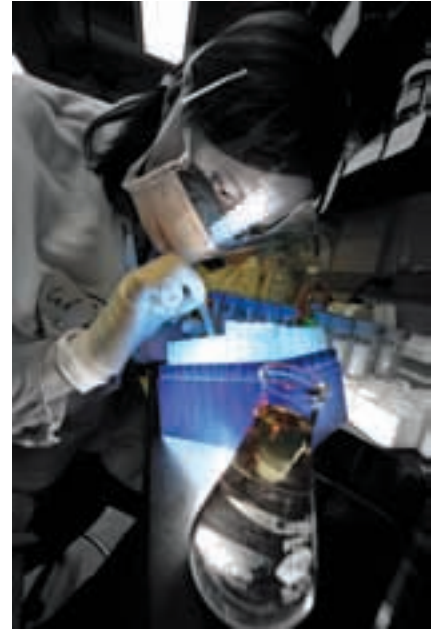
### ANDA Approvals

Year	Cumulative Products Filed	Cumulative Products Approved
2004-05	40	15
2005-06	59	20
2006-07	96	29
2007-08	142	53
2008-09	177	69
2009-10	207	84
2010-11 (with Taro)	377	225

## INTERNATIONAL BRANDED GENERICS (EX-US)

**Revenue: ₹ 6,444.4 million**  
(includes Taro Pharma ROW sales from September 20, 2010 onwards)  
**Growth: 32%**

**Revenue Share: 11%**  
**Manufacturing locations:**  
One each in Mexico, Brazil, Bangladesh;  
3 sites in India also hold approvals to manufacture products for these markets.



### Segment identity

- Over 1,578 registered products and more than 900 products in the pipeline
- Chronic therapy areas are expected to continue growing faster than the rest of the market - increased demand for medicines of metabolic syndrome, obesity, diabetes, neurology, and respiratory
- More than 600 sales representatives including local personnel as part of the sales force; representatives make doctor calls, build a prescription- pull. Events and CMEs focused on creating lasting relationships through academic means in much the same way as we do in India
- The filing of products from the facilities at Mexico and Brazil has commenced
- We had initiated generic exports to select markets in Europe last year, which has continued this year as well, with approvals such as Docefrez and Gemcitabine

### Presence

- Present in 41 pharmaceutical markets across four continents
- High potential markets are Russia, China, Brazil, Mexico, ex-CIS nations and South Africa
- Future plan to selectively build a presence with difficult or technically differentiated generics, such as injections, in certain European markets. Continue to bring differentiated branded generics to the rest of the world markets

### Highlights of the year

- Received registration for our drugs in the Philippines, Taiwan, Hong Kong and Australia
- At the close of the year, entered into an agreement with Merck to create a joint venture to market branded generics with a delivery system advantage, which would use our product development capability and their regulatory/market strength. The first of these products is at least three years from market. The joint venture does not include current registrations by either company.

## API

Revenue: ₹ 5,212 million

Growth: (4)%

Revenue Share: 9%

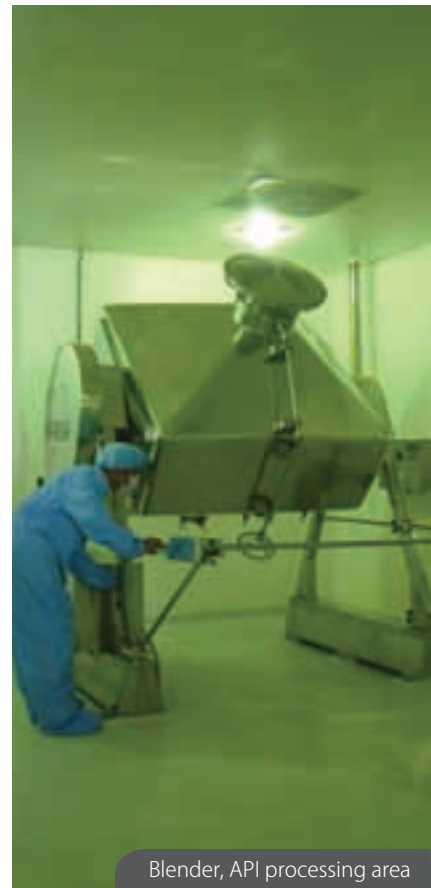
Manufacturing locations: Five in India, one in the US, one in Hungary, and one in Israel

### Segment identity

- Backward integration to specialty API has helped us compete against global competitors for our formulations. We internally source API for most of our key products.
- Presence in over 56 countries, sales primarily to large companies or innovator companies.
- Dominant player in products like Pentoxifylline, Clomipramine and Mesalazine
- Manufacture over 170 APIs; most of these complex APIs are used in the manufacture of specialty or chronic pharmaceuticals in-house
- The Panoli and Ahmednagar facilities manufacture APIs for peptides, anticancers, steroids and sex hormones
- World-class facilities, accredited ISO 14001 and ISO 9002
- Most of our plants have received approvals from USFDA and regulatory authorities of various developed countries
- Implemented value engineering, which helped improve equipment productivity, reduced process steps, improved chemistry and optimized manufacturing costs
- Plans to strengthen presence in Japan and China, and the API hubs of Germany and Italy
- The Hungary unit manufactures controlled substances
- The Tennessee plant holds quotas for controlled substances API manufacture in the US
- We scale up around 25 API processes annually
- 15 DMF/ CEPs filed in 2010-11

### Highlights of the year

- Revenues declined from ₹ 5,427.7 million in 2009-10 to ₹ 5,212.2 million in 2010-11
- Scaled up 28 new API during 2010-11
- Received DMF/ CEP approvals for 15 APIs from various regulatory authorities in 2010-11



Blender, API processing area

## RESEARCH & DEVELOPMENT



SPARC Centre, Baroda

Research and development provides critical support for all our manufacturing and new product plans. It is undertaken at our state-of-the-art centres at Baroda and Mumbai. Additionally, Taro has R&D centres in Israel and Canada. We have over 983 qualified scientists. We are now well experienced in developing complex APIs as well as formulating complex, technology-intensive products, across dosage forms. Through our research and development activities, we are able to offer complex products. This year, generic R&D spend is around 5% of net sales, partly on account of slowdown in development work related to generics at Cranbury and Caraco's sites. Our research team specializes in generics, finished dosage development, analytical development, biological support and chemistry or process development.

### R&D expenditure

Year	Investment in R&D (₹ in million)	R&D investment (as % of net revenue)
2005-06	2,015	12
2006-07	2,787	13
2007-08	2,859	9
2008-09	3,320	8
2009-10	2,242	6
2010-11 (includes Taro)	3,096	6

The Baroda centre develops complex APIs and dosage forms for India, ROW markets, US and Europe; while the Mumbai centre focuses on developing differentiated dosage forms and generics for developed markets like the US and Europe. These laboratories are equipped with facilities that aid us in pharmacokinetics, formulation development, organic synthesis, clinical research and analytical development. Our team has developed several products that use delivery systems, such as metered dose inhalers, osmotic release formulations and nasal sprays.

377 cumulative ANDAs filed

225 cumulative ANDAs approved

207 DMF / CEP cumulative applications filed

127 DMF / CEP cumulative applications approved

549 total patent applications submitted

248 total patents granted

25 ANDAs filed in 2010 -11

18 ANDAs approved in 2010 -11

15 DMFs filed in 2010 -11

15 DMFs approved in 2010 -11

### Regulatory

Value chain functions encompass product development, manufacturing, marketing and quality compliance of regulatory requirements. We regularly update ourselves with the changing regulations across different countries and adopt the norms accordingly. Operating in such a competitive environment, it is imperative to be the first mover in adapting to the changing regulations. We adopt and periodically upgrade the regulatory norms across India.



## QUALITY

The most important factor in a pharma company is to consistently maintain and improve quality. We are focused on quality-conscious regulated markets, and hence our products abide by the highest quality standards. Our Quality Management Team worldwide comprises over 1200 members. Nearly all our facilities have received quality accreditations from some of the world's most demanding regulatory bodies

At Sun Pharma we are committed to ensure that every product we manufacture and distribute meets with and conforms over its shelf life to internationally accepted standards of quality, purity, efficacy and safety.

System and procedures are in place to ensure that each batch of the product manufactured by Sun Pharma is of right quality. In order to maintain quality consistently each plant has well defined procedures and systems in compliance with cGMP requirements that meet demanding regulatory requirements such as that of the USFDA, EMEA, MHRA, TGA, etc.

Quality systems are well defined and validated to ensure consistency in deliveries. Quality unit at plant is independent from manufacturing and other support functions such as warehousing and engineering support. All quality personnel are qualified and well trained. Each site has a dedicated team of Quality personnel from quality assurance, quality engineering, quality control, and regulatory affairs departments ensuring the strict adherence to the quality systems and procedures. This site quality team, at each manufacturing site, is guided by a Corporate Quality Unit (CQU). CQU ensures that all latest updates in GMP are being translated into Guidelines, SOPs and Protocols and at the sites Quality unit ensures that these guidelines, SOPs and protocols are implemented to deliver quality product consistently.



Granulation area, Dadra

## INTELLECTUAL CAPITAL



We have largely been successful in attracting and retaining talent and creating opportunities for them to develop their technical skills as well as soft skills. One of the powerful drivers of our growth is the human resources team. Although one of the key challenges lies in retaining the junior level employees operating in R&D, manufacturing and on the field.

At Sun Pharma, we try to offer a congenial environment for our people to help them to perform, lead and grow the organization. We have implemented an institutionalized system of promotions, known as Career Progression Program (CPP) which helps us choose our leaders from within the organization.

## INTERNAL CONTROLS

Sun Pharma's defined organizational 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.

Moreover, the Company continuously upgrades these 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.

The Company regularly upgrades its systems in line with the best available practices.

# DIRECTORS' REPORT

Your Directors take pleasure in presenting the Nineteenth Annual Report and Audited Accounts for the year ended March 31, 2011.

## FINANCIAL RESULTS

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

	Year ended March 31, 2011	Year ended March 31, 2010
Total Income	32989	26084
Profit after tax	13838	8987
Dividend on Equity Shares	3625	2848
Corporate Dividend tax	588	473
Transfer to General Reserve	5000	3000
Amount of dividend per equity share of ₹1/- each (Previous year per equity share of ₹ 5/- each)	3.5	13.75
Book value per equity share of ₹1/- each(Previous year per equity share of ₹ 5/- each)	65	276

### Dividend

Your Directors are pleased to recommend an equity dividend of ₹ 3.50 per equity share of face value ₹ 1/- each (previous year ₹ 13.75 per equity share of face value ₹ 5/- each) for the year ended March 31, 2011.

### Split of Equity Shares

As approved by the Shareholders of the Company by way of postal ballot conducted during November, 2010, the results of which were announced on November 12, 2010, the Equity Shares of ₹ 5/- each of the Company were sub-divided into 5 Equity Shares of ₹ 1/- each during the year under review.

### 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.

Your Directors recommended an equity dividend of ₹ 3.50 per equity share of face value ₹ 1/- each for the year ended March 31, 2011.

The Equity Shares of ₹ 5/- each were sub-divided into 5 Equity Shares of ₹ 1/- each during the year.

Your Company has a dedicated team of over 11200 multicultural employees at various locations across our corporate office, associate companies, various R&D centers & 19 plant locations spread across three continents.

## Human Resources

Human Resource development continues to be a key focus area at Sun Pharma and your Company takes great pride in the commitment, competence and vigor shown by its workforce in all realms of business. You have a dedicated team of over 11200 employees at various locations across our corporate office, various R&D Centers & 19 plant locations (including associate companies) spread across three continents. The Company continues to take new initiatives to further align its HR policies to meet the growing needs of its business. A transparent work culture, quality of work and supportive environment induces discretionary behavior among employees which gives them the opportunity to personally succeed in a way that leads to collective organizational success. Your Directors truly appreciate the efforts and contribution by Team Sun Pharma for maintaining and further accelerating the growth pace.

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 Earning and Outgo.

The additional information relating to energy conservation, technology absorption, foreign exchange earning 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.

## 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 February 8, 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 "P1+", 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

At the close of a relatively event-free, disaster-free year, your Company persisted with participation in activities at the local, grassroots level across health and education. 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

Shri Dilip S. Shanghvi, Shri Sailesh T. Desai and Shri S.Mohanchand Dadha retire by rotation and being eligible offer themselves for re-appointment.

## 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 March 31, 2011, 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 judgements 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 profit 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 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 March 31, 2011 on a 'going concern' basis.

## Auditors

Your Company's auditors, M/s. Deloitte Haskins & Sells, 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 224(1-B) of the Companies Act, 1956.

## 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 March 31, 2011.

## 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

**Dilip S. Shanghvi**  
Chairman & Managing Director

May 28, 2011  
Mumbai