The connecting thread
Regardless of how one looks at the exacting discipline of drug discovery.

As a simple or a cryptic process.

A result of chance, of serendipity, thoughtful luck. Or perhaps the outcome of a disciplined, carefully detailed, systematic approach.

Regardless of the approach, for an advance to gather meaning and context it has to bind to, and impact real life. It has to move out of the clean room environment of a lab and make a real time difference.

Perhaps rescuing a Van Gogh from the murky quicksand of schizophrenia.

Perhaps recognizing the wisdom, despair and beautiful mind of yet another John Nash.

Supporting, nourishing life. Making a return to baseline possible.

The cover design uses two elements- the fingerprint of a molecule as decoded by an NMR®, and the human brain.

With NMR, the structure of a substance can be worked out by studying the spectrum that results in a strong magnetic field, when pulses of radio waves are beamed into a sample. Since each atomic nucleus causes one or more peaks, a large structure gives rise to a very complicated spectrum with numerous peaks. By measuring these peaks the arrangement of a molecule can be worked out.

And the symmetry of each structure, with its spatial array of groups has a beauty of its own, tensile and strong. Energy efficient.

So that’s one part of the picture.

The brain, representative of the powerhouse of cerebral activity, is another.

For it translates, cross links and multiprocesses several chunks of this kind of arcane, disparate information.

Eventually creating a product that touches human life. Causing a human connect.

A connect that places almost a magical spell on the demanding discipline of drug discovery.

Transforming lives.
At the close of the year, over 100 products were among the top 3 by molecule.

At the close of an interesting year, the domestic pharma market registered a 6% growth rate, and had quietly been settling towards this number for much of the year. Large volume segments such as antibiotics continued to register slower growth on account of increased price based competition. Despite some instances of the entry of lower priced speciality products, such as lower priced fluoxetine brands, atorvastatin or celecoxib brands, the higher end speciality therapy areas continued to show a double-digit rate of growth.

At Sun Pharma, formulations (domestic and exports) were the drivers of growth for the year. As every year, SPARC helped bring several interesting products to market, several of these such as the prostate cancer treatment Lupride Depot and the asthma inhaler range Sunhaler, used technology for a differentiating advantage. High margin complex bulk actives were also developed and scaled up. Several of these enabled us to be the first to market with an interesting formulation.

Keeping in mind the tremendous opportunity in global markets, the work we’ve done so far represents a beginning, yet a modest one, since we still have to go a long way keeping in mind the opportunity upside ahead of us. We now have an on the ground presence with products registered and a good pipeline with products under registration. After a confident double digit growth number in the exports market this year, we aim for a similar number for the next year too.

In the Indian prescription product market for March 03, Sun Pharma this year stood firm at 5th rank, the same position that we’ve been ranked at, for the last two years. Overall prescription share improved significantly. The AC Nielsen-ORG Retail Chemist Audit
Interesting products like Lupride Depot and the asthma inhaler range Sunhaler were brought to market.

March 03 shows a 15% growth rate for the company as versus 5.4% for the industry. Market share is strong at 2.99%, up from 2.8% last March, reflective of the increased prescription share in each of our therapy areas.

On the C-MARC audit, prescription share moved from 2.0% to 2.1% and we were amongst only two companies to increase market share in the top 10 companies listed there.

In core therapy areas, ranks were maintained despite increasing competitive interest. In select non-core therapy areas such as oncology and gynecology, in which we hold a long-term interest, dramatic rank increases were seen. We continue to seek means to put in place customer relationships in these new therapy areas, for at the end of the day, customer trust is the differentiating factor between a top rank and an also ran.

The most apt backing for the numbers was from the C-MARC doctor audit, with diabetology also featuring among therapy areas where we rank among the top 3 - which in effect now takes the total number of such core therapy areas, to 5. Diabetology, a high prestige therapy area for the company entered the top 3 rankings after 5 years of effort, despite the fact that we do not market an insulin range, a staple of a large chunk of prescriptions that are written for diabetics.

The 5 core areas: psychiatry, neurology, cardiology, diabetology, gastroenterology accounted for over 72% of domestic prescription formulation sales. 6 brands continued to feature in the list of the top 300 brands as per the ORG. In keeping with our record of aggressive new product introductions, interesting new products were launched including 16 with a different technology or complexity of formulation. At the close of the year, over 100 products were among the top 3 by molecule, signalling the growing strength of the product basket.

Export formulation markets grew 40% this year

In Diabetology we reached a top 3 ranking after years of effort
Summary

Turnover for 2003 was up 15%, backed by a 24% growth in domestic formulations, and 40% growth in international formulations. Among top runners in the domestic market on performance were Synergy, Symbiosis, Arian and Inca divisions, rated on target achievement of fairly stiff, high stretch numbers.

In order to meet anticipated increases in domestic market demand as well as in order to be able to source different types of formulations in house, an additional facility in Jammu is being built to comply with USFDA and UK MCA norms. This 9500 sq. ft built up area formulations site, created to meet international regulatory standards, is expected to be operational early next year. Like most Sun Pharma projects, this site too, was made operational in record time, with tight schedules. Over the years, these schedules are getting better managed as we learn how to manage logistics and construction challenges in different kinds of terrain.

Dosage form exports now begin to live up to their promise. The speciality strategy that we've perfected with great success in the Indian market is the same one that we are putting into place in the international market, and given the fact that most these markets have much larger speciality segments than we have in India, we expect the pickup to be that much quicker. The turnaround we've seen this year is on account of the proper execution of strategy on the ground. With the manpower and resources not vastly different from that in the past, and with 200 people on the ground in 36 markets, we now have in place a well-entrenched base that we shall now build on. We believe this is only a better or more sensible allocation of resources that we had in any event put to work earlier, however going ahead we certainly expect to increase the spend. The international formulations business is likely to grow much faster over the next few years.

THERAPY WISE BREAK-UP (\%)

- Psychiatry: 18.02
- Cardiology: 21.56
- Oncology: 1.63
- Ophthalmology: 3.41
- Orthopaedic: 4.62
- Gynaecology: 5.00
- Respiratory: 5.72
- Gastroenterology: 9.27
- Diabetology: 9.05
- Others: 7.39

<table>
<thead>
<tr>
<th>Sales Breakup by type</th>
<th>Mar 03</th>
<th>Mar 02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Formulations</td>
<td>5764</td>
<td>4661</td>
</tr>
<tr>
<td>Domestic Bulk</td>
<td>1335</td>
<td>1398</td>
</tr>
<tr>
<td>Others</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Export Formulations</td>
<td>398</td>
<td>284</td>
</tr>
<tr>
<td>Export Bulk</td>
<td>1062</td>
<td>1070</td>
</tr>
<tr>
<td>Export Others</td>
<td>9</td>
<td>42</td>
</tr>
</tbody>
</table>

3 more DMF and 3 COS were received. Panoli received Australian TGA approval
Continue to show a double digit rate of growth
Market share moved from 2.88% to 2.9%
16 products launched had a technology advantage

Across domestic and export markets, the turnover of speciality bulk actives was Rs2397mill, or 28% sales. After we phased out cephalixin bulk actives completely and replaced this with better margin speciality bulk, which is sold largely to end users in the regulated markets, the margins for the bulk business have improved remarkably. 5 high value bulk actives were scaled up and introduced this year, and most critical of all, during the year 3 more DMF and 3 COS were received, and we also received our first Australian TGA approval for bulk actives.

The USFDA approved Ahmednagar plant received 3 more DMF approvals, taking the total DMF approvals from this plant to 4. Panoli received 2 more bulk approvals for Europe for COS, taking the tally now to 3. Both plants have been routinely inspected during the course of the year by a number of international companies as a part of their site registration process. The facilities at Ankleshwar and Chennai received ISO 9002 certification during the year. The Vapi formulation plant also received ISO 9002 approval.

As we’ve indicated, Ahmednagar and Panoli plants are now largely dedicated for the international regulated markets, and the other two bulk plants, Chennai and Ankleshwar, are meant for India and the neighboring markets.

We anticipate reaching good numbers with speciality bulk actives in these markets as we consolidate this business and develop long-term customer relationships.

A discussion of the key marketing divisions follows

<table>
<thead>
<tr>
<th>Divisionwise representative strength</th>
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<tbody>
<tr>
<td>Sun 262</td>
</tr>
<tr>
<td>Spectra 257</td>
</tr>
<tr>
<td>Solares 257</td>
</tr>
<tr>
<td>Arian 167</td>
</tr>
<tr>
<td>Aztec 167</td>
</tr>
<tr>
<td>Synergy 99</td>
</tr>
<tr>
<td>Milmet 95</td>
</tr>
<tr>
<td>Symbiosis 85</td>
</tr>
<tr>
<td>Inca 76</td>
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<tr>
<td>Radiant 73</td>
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<tr>
<td>RTF 30</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C-MARC RANKS</th>
<th>JULY 01 TO OCT 01</th>
<th>NOV 01 TO FEB 02</th>
<th>NOV 02 TO FEB 03</th>
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</thead>
<tbody>
<tr>
<td>Psychiatrists</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Neurologists</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cardiologists</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Gastroenterologists</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Chest Physicians</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Consultant Physicians</td>
<td>6</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>4</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Ophthalmologists</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>ENT Specialists</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Diabetologists</td>
<td>6</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Oncologists</td>
<td>11</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Nephrologists</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>General Practitioners</td>
<td>22</td>
<td>23</td>
<td>22</td>
</tr>
<tr>
<td>Pediatricians</td>
<td>33</td>
<td>34</td>
<td>49</td>
</tr>
<tr>
<td>Surgeons</td>
<td>23</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>Gynaecologists</td>
<td>17</td>
<td>17</td>
<td>11</td>
</tr>
</tbody>
</table>

Product processing, Panoli

**FINANCIAL RESULTS**

(Rs. Million except book value)

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31st March, 2003</th>
<th>Year ended 31st March, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>8732</td>
<td>7590</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>2314</td>
<td>1686</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preference Shares</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Equity Shares - Final (Previous year Interim)</td>
<td>465</td>
<td>234</td>
</tr>
<tr>
<td><strong>Corporate Dividend tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to various Reserves</td>
<td>1530</td>
<td>1327</td>
</tr>
<tr>
<td>Rate of dividend including interim on equity shares</td>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Book value in Rs. per equity share</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>(adjusted for Rs.5 paid up)</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Proposed Dividend**

Your Directors are pleased to recommend a preference share dividend 6% p.a. on pro-rata basis on paid up amount of preference shares to those preference shareholders of the company whose preference shares are still outstanding and not redeemed, and equity dividend at the rate of 100% for the year ended 31st March, 2003 (previous year 50%) on the equity share capital. An extraordinary general meeting of the Members is being convened to amend the Articles of Association of the Company so as to enable those Shareholder(s) who wish to waive/forgo his/their right to receive the dividend (interim or final) for any financial year, to waive/forgo his/their such right.
Bonus Preference Shares

The Company on 2nd November, 2002 allotted 1,87,177,232 6% Redeemable Cumulative Preference Shares of Re. 1/- as Bonus Shares to the Shareholders of the Company as on Record Date, 10th October, 2002 in the ratio of 4 (four) Preference Shares of Re. 1/- each, for every 1 (one) equity share held by the shareholders.

Split of Equity Shares

As approved by the Shareholders of the Company at the extraordinary general meeting of the Company held on 20th December, 2002, the equity shares of Rs. 10/- each of the Company were sub-divided into 2 equity shares of Rs. 5/- each during the year under review.

Buyback of the Company’s Equity Shares

The Company has so far bought back its 8,32,938 equity shares of Rs. 5/- each pursuant to and as authorised by the Shareholders of the Company at the extra ordinary general meeting of the Company held on 20th December, 2002.
Voluntary Delisting of Company's Equity Shares from the Stock Exchanges of Ahmedabad, Delhi, Chennai, Kolkata and Vadodara.

As you would be aware that the Members at the Company's Ninth Annual General Meeting held on 28th November, 2001 had approved by way of a special resolution the Company's proposal for voluntary delisting of the Company's Equity Shares from the Stock Exchange - Ahmedabad, the Calcutta Stock Exchange Association Ltd, Madras Stock Exchange Ltd and the Delhi Stock Exchange Association Ltd. The Company's equity shares have been delisted voluntarily from Madras Stock Exchange Ltd, the Delhi Stock Exchange Association Ltd and The Stock Exchange-Ahmedabad with effect from 23rd July, 2002, 26th August, 2002 and 28th October, 2002 respectively. In spite of complying with all the formalities for voluntary delisting & constant follow up, the Calcutta Stock Exchange Association Ltd. has not so far granted its approval. The Company has also sought the help of the Securities and Exchange Board of India in this regard. The Company is seeking the approval of the Members for voluntary delisting of the Company's Equity & Preference Shares from the Regional Stock Exchange, viz, Vadodara Stock Exchange at the ensuing Annual General Meeting.

Management Discussion and Analysis

Two achievements we'd like to begin the report with:

A ranking amongst Business Today's ranking of the country's biggest wealth creators at 16th position (last year: not ranked)

–BT, April 13, 2003

An strong show of numbers at Caraco for the first half of 2003, with sales of $20 m, up 131% and PAT of $6.5 m, from a loss of $2.49 m in the first half of the previous year.

Industry outlook

A sector wide slowdown in growth rates prevailed throughout the year, as a result of which the pharma sector closed the year with a 5.7% growth rate (March 2003 A C Nielsen-ORG Retail Chemist Audit). This is the net result of a multitude of factors, ranging from the inroads made by generic generics, the growth of regional/smaller companies, and price cut led slowdown in larger segments such as
antibiotics/vitamins/tonics. However, despite higher competitive interest in speciality therapy areas, these continue to grow faster than the average for the sector as a whole. As a matter of fact, in certain of these segments increased competitive interest has helped expand the market, as a larger number of companies enter the fray with a high potential product. Increasing affluence, diet and lifestyle changes and even economy related events have meant that the root reasons that cause chronic ailments persist, perhaps now more than ever before, and these segments continue to grow at a sensible rate.

In preparation for the post 2005 years, while a new patent act was put into place, lack of patent office/regulatory staffing as well as a lack of clarity on the issue of compulsory licensing with respect to less developed countries that lack the requisite manufacturing infrastructure, still prevails. The new DPCO continues to be in a state of suspended animation as it makes its steady way through the legal framework, stalled at this point in time by a citizen's petition. It is anybody's guess as to when the policy will be implemented and the form it will eventually take. With increasing competitive pressure on pricing, a vigilant trade, and nationwide opposition to VAT which was earlier to be implemented by April 1,2003 and then was deferred, industry has been repeatedly impacted by external factors, not entirely of its own making, that may likely pan out in the year ahead.

**Company Performance**

Total income increased 15% over the last year. Domestic formulations, the backbone of operations, increased 23.7% to Rs.5764 mill. This however includes a component of special price sales of Rs.350 mill which pertains to the next quarter. International markets increased 5.3%, and most important of all, export formulations increased 40.2% albeit on a small base.

Time and again we have reiterated our intent of remaining a speciality pharma company. Competition is a fact of life, a given, and this only increases the pressure on us to grow the gap between our closest competitor and us. Customer relationships remain the keystone, and we have left no effort unexplored to strengthen these relationships. As we make larger commitments than ever in the past, in the areas of international markets and research, we reinforce our commitment to becoming a substantially better pharma company. We also fully well understand that going ahead, strong brands, research and international markets will propel this growth and we are increasing the time and effort that we expend in these areas.

Now for specifics of our domestic operations. In the domestic market, as per the A.C.Nielsen-ORG Retail Chemist Audit for March 2003, we closed the year at 5th rank with 16.4% growth rate reported, a growth number that is well in excess of that for the industry. Market share has increased to 2.99%, up from 2.80% last March and 2.61% from March 2001. 6 stellar brands continue to move up the ORG
rankings of the best-selling pharma brands in the country. Over 100 brands featured among the top 3 by molecule, indicative of the long standing acceptance of our products despite heightened competitive activity.

New products introduced over the last 3 years accounted for 41% of formulation sales. This pattern is typical of speciality brands, a slow and gradual buildup of prescriptions as the product is prescribed for a larger patient base over time.

C-MARC's speciality list

The phenomenon of repetitive price cutting with new molecules in speciality therapy areas as an entry strategy continued over the last year, but at a somewhat slower pace than in the previous year. Speciality rankings continued to reflect our strength with core prescriber groups, a top 3 ranking in almost all core areas with quietly increasing prescription share. In new therapy areas, efforts to build a similar rapport continued unabated, and success was seen in oncology, where rank increased to 6th from 10th in the preceding quarter. In gynecology, our rank has increased to 11th, up from 18th preceding quarter. Our plan is to work on 2 fronts simultaneously- offer a complete product offering and introduce product/s with a tech advantage to create a differentiation. The success that we've witnessed with Susten in gynecology last year was reinforced with Survact in pediatrics and the path breaking Sunhaler range in the respiratory area. Several interesting products that offer this kind of niche potential, are ready for launch.

New manufacturing sites

2 new manufacturing sites, at Dadra and Jammu; with a total tabletting capacity of 1560 mill tabs/ year, and a built up floor area of 22,000 sq.ft are in process of being commissioned. These have been formed as partnerships between Sun Pharma (95% stake) and Sun Pharma Key Employees Benefit Trust (5%) stake. This additional manufacturing capacity will help us meet the increasing demand from domestic as well as international markets.

In the last few years, Indian pharma companies have begun to be taken seriously in the US generic market, and the last year was no different. Strong process chemistry skills, ability to access and deploy the best legal acumen available, staying advantage of low cost product development, bulk manufacturing capability, a comprehension of the entire process from development to market- these are some of the factors aiding this growth.
For Half 1/2003, Caraco posted sales of $20.6 mill and PAT of $6.5 mill.

With our stake exceeding 49%, Caraco’s numbers have been consolidated with that of Sun Pharma for the year ending March 03.

The combined sector revenue of Indian pharma from the US generic market increased from $32 mill in 1998, to over $400 mill in 2002. (CLSA Emerging Markets Report March 2003) in a total addressed market of $4 bill, a clear signal of willingness to learn and grow. Another recent report by the market intelligence agency Datamonitor says that by 2007, products that had enjoyed branded sales of over $82 bill in 2001, would have lost patent protection. These numbers factor in generic expiries and likely patent challenges. In a nutshell, the US generic market will continue to be extremely lucrative and rewarding for the well prepared—and Indian companies are both willing, capable and well prepared to take on this opportunity.

For the first half of 2003, our subsidiary company in the US, Caraco Pharm Lab posted a strong performance with sales in excess of $20 mill (as against $22.4 mill for the year ending Dec 2002 and $5.9 mill for Dec 2001). Profit for the first half was $6.5 mill as against a loss of $2.4 mill in the same period of the previous year Caraco has recently announced a revision of its revenue estimates from $35 mill to over $42 mill for December 2003.

In 2002, Caraco received 6 ANDA approvals and 1 more in quarter 1, 2003, taking the total approvals based on Sun Pharma assisted filings to 10. 3 more ANDAs await approval with the USFDA. After a minimal dilution in 2001 due to the private placement of 635,000 shares aggregating $1.69 mill, no further dilution has occurred. In Nov 2002, the earlier product registration agreement between Sun Pharma and Caraco expired and was duly renegotiated. Sun Global will receive 5.44 lac shares of preferred stock convertible in shares after 3 years on a 1:1 basis.

Caraco currently markets 14 products in 23 strengths and 47 pack sizes. Caraco targets 4-5 more filings this year, which will help add to the pipeline. Caraco’s products are now represented by major wholesalers such as McKesson, AmerisourceBergen and Cardinal Health. Caraco’s products have also reached drug wholesalers because of interest from buying groups of retail pharmacists, hospitals, nursing homes and drug purchasers. Caraco is well placed on the growth trail, and we expect to have much more to say in our report to you next year.
International markets:

Dosage forms

We continue to be enthused by opportunities ahead of us in the international branded products market. Our plans of gaining recognition as a high quality manufacturer with products that can be prescribed with confidence are gaining ground, albeit slowly and steadily. In the core markets identified, teams have been expanded, new registrations steered through the regulatory channels, and an element of systems and regularity brought into operations. The team has now increased to 169 medical representatives and 50 managerial/supervisory personnel, working for Sun Pharma either directly or indirectly. The path of building product ownership for a brand/therapy area is long and calls for hard work, but given the fact that the current base is small whereas the opportunity is immense, we are on good ground.

Bulk Drugs

In continuation of the trend of regulatory approvals earned last year, several certifications and approvals were received this year too. Last year Ahmednagar had received approval from the USFDA for 1 bulk active, as well as ISO 9002 and ISO14001 certifications, 2 more Drug Master Files (DMFs) were approved by the USFDA from this facility. Panoli received Australian TGA approval, in addition to the European Certificate Of Suitability (COS) and ISO 9002 received last year. Sites at Ankleshwar and Chennai, bulk sites for India and the traditional markets, received ISO 9002 certification. So far now a total of 8 developed nations approvals have been received. A tally of 5 DMFs and 2 COS await approval. Increased sales of speciality bulk actives to customers in regulated markets, tonnage that offers substantially higher value addition, is an important corollary of these approvals, one that offers much higher value addition per kilo of bulk sold.
We gained notable progress on our long term objectives- to have 1 New Chemical Entity (NCE) and 2 Novel Drug Delivery Systems (NDDS) in human trials by 2004-05. The time, money and energy invested in R&D have been increased substantially, of which one parameter is certainly quantifiable; investments in R&D now exceed Rs. 1,857 mill, up from Rs. 1,200 mill last March.

A number of interesting new products, of which 16 were delivery system based or complex technology based, reached market. This continual stream of new products helps keep up the tempo of working, and helps us meet our goal of 40% turnover from new products launched in 4 years. Several of these have been brought to market very quickly after their international introduction, offering the latest molecules to the patient in India at a sensible cost.

Research & development

At the risk of repeating the information that we’ve shared with you in earlier reports, over the short/medium term the focus is reverse engineered bulk actives and dosage forms for India and the traditional markets. And we’ve had considerable success in this, as we’ve shared above. As a % of the R&D spend, this allocation continues to be brought down, with a larger proportion invested in projects with a long term timeframe, namely the NCE and NDDS projects.

We had earlier written about 2 significant trends- that Indian companies were beginning to gain revenues from early stage licensing deals; and that international market revenues were beginning to be a sizable part of the total. During the course of the year, several such R&D deals suffered reversals, which one would consider as a normal part of the business risk associated with research. As a sign of the increasing maturity that the sector is being viewed with, these reversals were taken in stride and companies moved on. A better comprehension of the intricacy of the US legal process as well as willingness to pay for the best legal acumen were signs of this maturity. The R&D and international generic juggernaut rolls on, despite setbacks and minor detours; and given the size of the industry and the ambition of Indian companies, there is little to stop the sector.
Indian companies continued to gain from an investment in the lesser understood parts of the USFDA laws, won some legal battles, and sometimes lost some. An obdurate will to be part of the para 4 and section 505b2 opportunity is evident. Regardless of one case lost or another won, or yet another making it through the legal maze, the net result was a gain for the sector, in terms of maturity and comprehension of risk taking ability. This can only contribute to a more lasting, long term growth, in your boards’ opinion.

The NDDS projects at Sun Pharma, in the areas of Dry powder inhalers (DPIs), Controlled release/Sustained Release(CR/SRs), biodegradable membranes, and targeted delivery systems are on track.

NCE projects in 3 therapy areas of interest, continue. Current synthesis capability has been ramped up, and would continue to be increased in the year ahead. We intend to share more information on these only once the required intellectual property is in place, and till then we seek your understanding.

**New R&D campus:**

200,000 sq.ft. of research floor area over 16 acres

Construction for the new R&D campus, which offers 200,000 sq. ft of research floor area over i6 acres, is well on schedule and should commence operations by mid 2003. The NCE and NDDS projects and teams will then shift from the current SPARC premises to this center. Recruitment for the center is well underway, and this task has been somewhat aided by the interest shown by Indian academics and scientists based overseas, in returning to India. In Mumbai, in the Mahakali area, a 75,000 sq.ft site for NDDS as well as for projects for the US/Europe generic markets is expected to be operational by mid-2003.

These expansions at the R&D sites which add over 275,000 sq.ft of research floor area to our current 45,000 sq. ft of floor space is a good pointer to both our intent and the long term potential that we see in this area. The company is gearing up for this exciting opportunity, with work of an international quality. This year we invested about Rs. 650 mii for R&D- money we would have otherwise invested in 5 years at our normal burn rate. For the next year, we expect a Rs. 750 mii commitment- and the numbers will be increased as required. The entire team at Sun Pharma and SPARC in particular are well on their way to participating in this important transition.
Human Resources

Our continued growth is attributed clearly to a concerted and committed team effort—the company is today a cohesive and well-knit team of over 3000 employees. Your company’s Human Resources is constantly engaged in expanding potential and productivity of this invaluable asset. To this end, Team Sun Pharma is constantly upgrading skills by way of several in-house and outside training programs. Expanding business, the opportunity to learn and grow and an enabling culture within your company attracts an expert workforce while helping retain existing talent.

While such continued endeavor is not tangible in absolute numbers, your directors recognize the team’s steadfast contribution and place on record their acknowledgment of the work done by Team Sun Pharma.

Corporate Governance

Certificate dated 28th July, 2003 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, is enclosed.

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.

Finance

All the banks in consortium continued to offer their highest rating to your company enabling it to source funds from banks at the finest rate of interest. CRISIL continued to reaffirm its highest rating of “P1+”, for your Company’s short term borrowing programme and “AAA” for long term borrowing.

During the year under review, your Company redeemed 3,01,30,384 Non Convertible Redeemable Preference Shares of Rs.1/- each as per the terms of the issue.

Your Company does not offer any Fixed Deposit schemes.
Shri Keki M. Mistry was appointed as an additional Director of the Company, by the Board of Directors with effect from 28th August, 2002 and holds the office up to the ensuing Annual General Meeting. The Company has received notice from a Member to propose his name for being appointed as a Director of the Company.

Shri Hasmukh S. Shah and Shri Dilip S. Shanghvi retire by rotation and being eligible offer themselves for reappointment.

Shri Sudhir V. Valia’s & Shri Sailshe T. Desai’s term of appointment as Wholetime Directors expires on 31st March, 2004. During the tenure of Shri Valia & Shri Desai, the Company has attained all round growth in its business. Your Directors recommend the reappointment of Shri Valia & Shri Desai for a further period of 5 years.

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:
  That in the preparation of the annual accounts for the financial year ended 31st March, 2003, the applicable accounting standards have been followed along with proper explanation relating to material departures;

- 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;

- 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;

- That the Directors have prepared the annual accounts for the financial year ended 31st March, 2003 on a ‘going concern’ basis.

Auditors

Your Company’s auditors, Price Waterhouse, 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 reappointment, if made, will be in accordance with the provisions of Section 224(1-B) of the Companies Act, 1956.

Acknowledgements

Your Directors wish to thank all stakeholders and business partners—your Company’s bankers, financial institutions, the medical profession and business associates for their continued support and valuable cooperation. Your 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

Mumbai, 28th July, 2003

DILIP S. SHANGHVI
CHAIRMAN & MANAGING DIRECTOR