focus

NOUN:
1. A place of concentrated activity, influence, or importance: center, headquarters, heart, hub, seat.
See EDGE. 2. A point of origin from which ideas or influences, for example, originate: bottom, center, core, heart, hub, quick, root f. See START.

VERB:
1. To devote (oneself or one's efforts): address, apply, bend, buckle down, concentrate, dedicate, devote, direct, give, turn. See COLLECT. See WORK. 2. To direct toward a common center: center, channel, concentrate, converge, focalize. See EDGE.

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Focus on the speciality customer is the centre point at Sun Pharma

It is the principle of light
in which all things are found dissolved,
Its only from this light that mind
expresses clarity of thought.
All burning fire, all shining sun
all subtle qualities of the atmosphere
all silver radiance of the moon
are nothing else but this.

4.1. Shvetashvata Upanishad
excerpted from "From the Upanishads"
Ananda Wood, Full Circle Publications
centre point

Last year when we wrote to you, we detailed the three areas we had honed in on as drivers of our business: clear leadership in therapeutic areas of focus, management of innovation and international markets. These continue to be the thrust of our strategy—the focus areas where we are diligently building strengths to take the company well into the new century.

Rapid sea changes in the Indian markets mirror the state of flux that the international pharma market has been witness to. Quick fire responses and a sense of urgency in making the most of opportunities across an expanding canvas remain paramount.

Our continuing double-digit growth (in excess of 34% that we've shown this year) had 2 important elements—growth across the specialty therapy areas and growth across the international markets. While the therapy areas in which we have already reached a significant presence continue to form a foundation on which we are building, growth from new therapy areas have now added to this base. Research is becoming an increasingly important area for your company and the investments in the past year reflect this. Our blueprint for the international markets is delivering numbers as far as the specialty bulk active business is concerned, the strategy for the international dosage form business requires fine tuning. Several structural changes to this effect were put into place this year.

From a ranking of 10th place in the domestic prescription market in March last year, in March 2000 we had moved up to 8th position. Our rank for May, cumulative from January is 5th. We added prescription share in all our key therapy areas—psychiatry, neurology, cardiology, and gastroenterology; each increase in prescription share very closely fought. As satisfying was the ranking upswing with the newer therapy areas as we diligently put into place our template for growth.

Our template for growth is centered around a single element—the **customer**. We have learnt and internalized that one creates lasting value only when one delivers value to the customer year after year. The elements that enable us to deliver value remain unchanged: In house sourcing of complex bulk active that equips us to launch new molecules ahead of competition, new products that deliver therapy advantages for the patient, effective coverage and meaningful promotional strategies.
summary

Total income was up 34% propelled by domestic growth and even stronger bulk active export. Domestic formulation sales moved from strength to strength. We now intend to leverage our bulk skills to enter developing markets with interesting dosage forms at attractive prices ahead of the competition. The idea is to build a similar therapy area specific specialty franchise in those markets. Ideally, we would like to be identified closely with at least 2 high growth therapy areas in each country we operate in.

Exports of specialty bulk actives across Sun Pharma and Sun Pharma Exports increased 42% to Rs. 90.23cr. These are repeat orders from large end users where we have already established a presence over the last few years. Increasing approvals from the regulatory authorities from the developed markets such as the Canadian HPB, the EU and the US FDA will also translate into value addition for these bulk actives. In India your company continues to grow at a rate that is more than 3 times the average rate of growth for the industry. (ORG Retail Chemist Audit, March 2000). As we take steps to consolidate our position in newer therapy areas that we entered post acquisition, market share stands at 2.49%, up from 2.18% last year and 0.9% at the time of our IPO in 1994 (a sensible baseline year). The specialty segments of our interest are growing faster than industry average and are expected to continue this pace of growth, led by expanding markets and new treatments for hitherto unaddressed areas.

International Markets:
High value bulk actives enabled the company to make inroads into exacting markets.

SALES BREAK UP BY TYPE; SUN PHARMA
(Rs. cr.)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Domestic</td>
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<tr>
<td>Formulation</td>
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<tr>
<td>Bulk actives</td>
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<tr>
<td>Other Sales</td>
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SALES BREAK UP BY TYPE; SUN PHARMA EXPORTS
(Rs. cr.)

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<tr>
<td>Bulk actives</td>
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<tr>
<td>Domestic</td>
<td>10.43</td>
<td>15.76</td>
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FIELD TEAM SIZE

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<tr>
<th>Division</th>
<th>PSR</th>
<th>Managers</th>
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<tr>
<td>Synergy</td>
<td>95</td>
<td>36</td>
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<tr>
<td>Aztec</td>
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<td>53</td>
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<td>Sun</td>
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<td>Solares</td>
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<td>TDPL</td>
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<td>Inca</td>
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<tr>
<td>Milmet</td>
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Domestic Markets:
The size of the team depends on the specialty covered - their number and spread.
therapy review

At close to 35% of domestic formulation sales, psychiatry and neurology continue to be the largest segments. Cardiology/diabetology are a close second, at over 25% sales. Gynecology, oncology and orthopedics are the high growth areas, although on a smaller base. 6 brands feature among the country's top prescribed 300 pharma brands (Monotrate, Alzolam, Zeptol, Glucored, Encorate, Coldact). This year a new speciality division Symbiosis was made operational in order to bring the benefits of cross promotion to older yet frequently prescribed psychiatry and neurology lines.

customer centric

The increase in customer rankings signals increasing acceptance in the newer therapy areas that we have entered in the last few years. A sensible mix of elements has caused this rank increase- effective field coverage, focused product promotion, aggressive new product introduction and the right doctor-product match. Major among the products with a delivery system advantage that have been launched this year are Timolet GFS (timolol maleate gel forming system), Direc 2 (diazepam rectal gel), Azelast nasal spray (azelastine nasal spray). 9 Bulk actives were developed in-house and scaled up. Several of these bulk actives allowed us to enter interesting formulation markets. Some of these dosage forms were designed to offer a delivery system advantage, making it more convenient for the patient.

This report looks at the events behind the numbers- the progress and significant highlights at each of our marketing divisions.

### Financial Results

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31st March 2000</th>
<th>Year ended 31st March 1999 [Rs. in Lacs]</th>
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<tbody>
<tr>
<td><strong>Total Income</strong></td>
<td>48100</td>
<td>35967</td>
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<tr>
<td>Profit before depreciation and tax</td>
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<tr>
<td>Depreciation</td>
<td>1294</td>
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<tr>
<td>Tax</td>
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<tr>
<td><strong>Profit after tax</strong></td>
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<tr>
<td><strong>Dividend</strong></td>
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<tr>
<td>Preference Shares</td>
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<tr>
<td>Equity Shares Interim</td>
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<tr>
<td>Equity Shares Final</td>
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<td>309</td>
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<tr>
<td><strong>Corporate Dividend tax</strong></td>
<td>228</td>
<td>154</td>
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<tr>
<td><strong>Transfer to various Reserves</strong></td>
<td>5131</td>
<td>4007</td>
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<tr>
<td><strong>Rate of dividend including interim on equity shares</strong></td>
<td>100%</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Book value per equity share (Rs.)</strong></td>
<td>199</td>
<td>168</td>
</tr>
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</table>

The current year's results include figures of erstwhile Gujarat Lyka Organics Ltd (GLOL).

An interim dividend at 10.5% p.a. was paid to the Preference Shareholders whose names stood on the Register of Members on 15th March 2000. First and Second Interim Equity Dividends at the rate of 60% & 40% on the paid up equity share capital were paid to the Members whose names stood on the Register of Members as on 29th December, 1999 & 23rd March 2000 respectively. Your Directors recommend that the two interim dividends on equity shares aggregating 100% (Previous year 80%) be treated as final.

The Company on 1st April, 2000, allotted 3,08,44,466 Bonus Equity Shares of Rs. 1/- each to the shareholders of the Company as on Record Date, 23rd March, 2000 in the ratio of 2 (two) shares for every 1 (one) held by the shareholders which are pari passu with existing equity shares in all respects. With this, the equity capital increases from Rs 135.42 Cr to Rs 46.26 Cr w.e.f. 1-4-2000.
Consolidation, Operations and Future outlook

Total income increased 34% over last year. At the net level profit increased 54% over last year. As your company becomes larger, we need to restate to ourselves that it is more important for us to become a tightly run, sharply focused company with strong brands that are the mainstay of therapy rather than simply a larger sized company.

The pivot of our business is meeting customer aspirations. Our performance this year only affirms our belief in customer service creating value for consistent, long-term growth.

Over the last 5 years we have made a significant headway in speciality rankings. Yet there is immense untapped potential; not the least because the segments themselves are growing. As we stretch to post increased prescriptions both in new therapy areas and in the therapy areas where we are already lead, we continue to become a better company.

Market Ranking

On a cumulative basis since January this year, your company was ranked 5th by domestic prescription market share, up from 10th rank last year. According to the retail chemist audit from the research agency Operations Research Group (ORG, March 1999 and 2000) we are ranked 8th by moving annual total. This means your company moved up 5 places from March last year, and by 26 places from our baseline 34th rank at the time of our IPO in January 1994. Market share is 2.49% cumulative from January, up from 0.9% in 1994. With a growth rate of 35.6%, we continue to grow at more than three times the rate of growth for the pharma industry (9.8%).

BCG ranks us among the top value creators

We are glad to share with you another important rating that we consider as reinforcement of our strategy. In a recent survey, the international consulting company Boston Consulting Group reviewed the performance of companies listed on the stock exchanges in India over a 5 year period. (Corporate Dossier/The Economic Times, May 12, 2000)

This survey ranked companies by Total Shareholder Return, which measured the ability to deliver value consistently over time. A key parameter was year after year quality of growth demonstrated over a 5 year timeframe and not merely “flash in the pan” episodic growth.

BCG rated your company no 1 among all pharma companies, as also no. 8 across industries.
6

speciality brands
rank among the top 300
brands in the country

Encorate, an antiepileptic, entered the list of the top 300 pharma brands in the country. This fortifies our presence with 6 brands that span the speciality range: Monotrate (antianginal), Alzolam (tranquiliser), Zeptol and Encorate (antiepileptics), Glucorex (oral antidiabetic) and Coldact (a prescription medication for colds). This affirms our belief that speciality brands build with time, and command a prescription share that is fairly stable.

CMARC registers
specialist preferences

Year after year, CMARC's prescription audit ranks have proven to be a precursor of likely prescription trends. This is the reason why the improvement in customer rankings with the newer customer groups excites us. Such upswing in ranking is an assurance that the strategies which we have put to work in the newer therapy areas post acquisition, are bringing results to the table.

In the newer therapy areas of orthopaedics, oncology and chest physicians we have improved ranks significantly and rank among the top 5. In these segments, a portfolio has been built with a mix of acquired brands and own brands, new products have been launched, customer lists refined and coverage made more intensive. We are confident that this focused approach will help us build on these rankings going ahead.

Update on Caraco

We continue to be positive about the US generics market. The overall market for generic drugs was estimated at $27 billion in 1998 and is expected to reach $43 billion in 2003. Three factors will push this growth: patent expirations of blockbuster drugs in the US, increasing presence of managed care and cost containment programs, higher number of prescriptions filled with generic alternatives. (MedAdnews, October 1999)

When we wrote to you last year, we had shared our plans about Caraco, a US based generic formulations manufacturer, in which your company holds 48.54% stake. We continue to work towards using Caraco as an entry vehicle for the US generic market.

Caraco posted a loss of $9.3 million on sales of $2.89 million for the year ended Dec 1999. This $9.3 million loss includes $6.3 million that were incurred for R&D related to product filings. The primary reason for continuing losses at Caraco is the delay in receiving ANDA approvals from the USFDA.
Caraco's current range is marketed to large wholesalers, such as Cardinal, Amerisource and Bergen Brunswick. Efforts are underway to increase the number of products ordered by these wholesalers from across Caraco's formulary. In the course of the year some of Caraco's products have been listed by Federal and State agencies such as the Veteran Administration.

Caraco currently has 5 ANDAs (abbreviated new drug applications; a regulatory filing for generic drugs) submitted to the USFDA for approval. 3 more products await submission. In all Caraco has 21 products (including the filings made) under scale up and development.

Caraco is trying to make its mark in a very competitive market with a differentiated product selection strategy. Our intent is to build a line of generics where margin erosions are not as steep because of technical complexity. Over time, Caraco may introduce branded generics that have a product/technology/delivery advantage.
At Sun Pharma, research has been crucial to our long-term plans, right from the time we commenced research investments in 1993. The work at SPARC has enabled us to bring a stream of new products to market. Over 40% of current turnover is from products that have been introduced in the last 5 years.

In the last two years, we have witnessed the first returns on the investments Indian companies have made in research over the past decade. We believe the post 2005 years offer a tremendous opportunity for well prepared pharma companies to move up the learning curve. These initial investments form a platform for innovative technologies with a much higher scope for value addition.

At Sun Pharma, we have followed a phased approach to research and have invested over Rs. 60cr since 1993. We have invested in projects that will earn us revenue streams over three distinct time horizons- the short, medium and long term. In the short term the emphasis has been on process development for specialty bulk actives and development of formulations for the Indian market, and other markets similar to India. The emphasis for the medium term is on novel drug delivery systems and formulation development for the regulated markets across North America and Europe. These skills build the platform for drug discovery, where the value addition is the most and revenue streams can be earned across markets.

The missing piece in our research strategy so far had been drug discovery research, with the necessary infrastructure such as molecular biology, pharmacology, toxicology. Last year, a 40-person team in Vadodara commenced work in three specific therapy areas in drug discovery. This group is actively working on interesting approaches and is screening more than 1 compound/day.

During the course of the year 2000, our research campus in Chennai- our third research location- will commence operations. This research campus will focus almost entirely on innovation spanning projects across new chemical entity and novel drug delivery systems. This large 30 acre site will be staffed with a 150 strong team of scientists over the next 18 months effectively doubling our research strength.

We envisage this new research initiative as adding vital elements to our research matrix. With the continual infusion of new skills, we will be well placed to make the most of exciting opportunities ahead.
International markets
a presence for the long term

Exports are up 27%, largely on account of increased bulk active sales. Dosage form sales across Sun Pharma and Sun Pharma Exports was flat at Rs.23.54cr.

In the international markets too, our intention is to move up the value addition chain. Using the export of speciality bulk active as a starting point, this value chain extends to higher margin dosage forms/generics. The market presence, which we build today, can eventually be a means to register our research-based products.

In the coming year, bulk active sales are expected to continue increasing as we move from the less regulated markets to the high value markets. We have begun the process for DMF approvals from the USFDA and European Certificate of Suitability for our speciality bulk actives from the EU authorities. These approvals, once received, may result in much higher value addition for the same bulk actives that we currently sell.

We are revamping our international formulation products business, and are reviewing the way we are structured across markets. Our intention is to focus on building market share for a dependable revenue stream with year on year growth. Over the long term, we intend to become an attractive partner for international companies in these markets.

An extensive study that aims to match market potential with appropriate field structure is now underway. While the completion of this exercise is likely to take two years, we expect to put corrective measures in place immediately.

Other developments

This year marked the merger of the bulk cephalosporin manufacturer Gujarat Lyka Organics Ltd after the requisite approval from BIFR - a logical next step. GLOL was merged effective 1st April, 1999 at a post bonus swap ratio of 21:33:1 in pursuance of the order from the Board for Industrial and Financial Reconstruction, New Delhi. Ever since we took an equity stake in GLOL in 1996, its products were being marketed internationally by Sun Pharma. This arrangement had given a boost to the rest of our speciality bulk active business, as is evident from the increase in bulk export turnover over the last 4 years. After the merger, functions such as purchase, operations and manufacturing have been integrated, resulting in substantial cost savings.

Sun Pharmaceutical Exports Ltd, the company's subsidiary, is proposed to be merged with the Company, subject to approvals of the shareholders and the High Court.

The mergers of Gujarat Lyka and Sun Pharma Exports into your company only strengthen our growth platform further. These moves effectively complement the framework we've built so far through a judicious mix of organic growth and acquisitions.
A consistent value system

At the close of 15 years of our existence of our business, the principles on which this growth engine moves remains unchanged. We have always believed in making the most of resources - we continue to retain this startup mindset. The enthusiasm with which we approach our business too, remains undiluted. Integrity, respect for people, a need for high performance - these continue to be the unwritten beliefs that influence every single thing that we do as a company.

Finance

All the banks in consortium have given their highest rating to your Company enabling it to source funds from the Banks at the finest rate of interest. CRISIL continued to reafirm their highest rating of 'P1+', to your Company's Commercial Paper Programme throughout the year.

During the year under review, your Company redeemed 1,10,000 Non Convertible Redeemable Preference Shares of Rs. 100 each. The coupon of 10.5% was reduced to 9.5% on balance preference shares with effect from 1st April, 2000.

No fresh Fixed Deposits were accepted by your Company during the year under review. All deposits matured during the year under review were either repaid or renewed on time. One fixed deposit amounting to Rs. 5000 has not been claimed upto 31/3/2000.

Directors

Mr. S. Mohanchand S. Dadha's term of appointment as Whole-time Director expired on 1st February, 2000 and has been re-appointed as Whole-time Director of the Company for a further period of two years from 1st February, 2000 which has been approved by the shareholders of the Company at the Extra Ordinary General Meeting held on 3rd March, 2000.

Mr. Sudhir V. Valia and Mr. Dilip S. Shanghvi retire by rotation and being eligible, offer themselves for re-appointment.

Status of Y2K Compliance

The Company managed to roll over successfully to the new millennium in a smooth manner without any adverse impact, thanks to intensive efforts undertaken by the Company.
Auditors and Auditors' Report

Your Company’s auditors, Price Waterhouse, Chartered Accountants, Mumbai, retire at the conclusion of the forthcoming Annual General Meeting. The 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. The observations of the auditors in their report on accounts read with relevant notes are self-explanatory.

Human Resources

If Sun Pharma enjoys a “can do” reputation today, the credit for this goes solely to the team. It is the team that challenges high stretch targets year after year to place the company forward on a high growth trajectory. As a campaign slogan from one of the divisions succinctly put it; “Together we can, together we will”. Your directors recognise this commitment and wish to thank the team for their contribution.

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is available in the Registered Office of the Company. 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 excluding the statement of particulars of employees u/s 217(2A) of the said Act. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Registered Office of the Company.

Additional Information

The additional information 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.

Acknowledgments

Your Directors wish to thank the Company’s bankers, financial institutions, medical profession and business associates for their continued support and valuable cooperation. The Directors also wish to express their gratitude to investors for the faith that they have reposed in the Company.

For and on behalf of the Board of Directors
DILIP S. SHANGHVI
CHAIRMAN & MANAGING DIRECTOR