

Chairman's Statement 2012-13

Dear Shareholders,

On behalf of the board of directors and on my personal behalf, I am delighted to welcome you all to this 40th Annual General Meeting of your Company. I trust, by now you would have received and reviewed the Annual Report for the year 2012-13.

It gives me immense pleasure to inform you that the Company has completed four decades of its successful business operations. Commemorating the same, the Board has recommended a special dividend of 200%, i.e. Rs. 10.00 per equity share. The aggregate dividend, including final dividend and special dividend, amounts to Rs. 23.00 per share for the year 2012-13.

Further, the Board had also recommended the issuance of Bonus Shares in the ratio of 1:1 to the eligible shareholders of the Company as on the record date fixed for the purpose. The same has already been approved by you through Postal Ballot process as per the results announced on 12th July, 2013.

In my brief address today, I will touch upon the performance of your Company during last fiscal year, a brief on the manufacturing, marketing and research front, Company's philosophy on safety, environment & CSR activities and of course, the outlook for the coming years.

Performance Overview

I am happy to inform you that the Company achieved consolidated operating revenues of Rs. 3212 Crores, a growth of 19% over previous year. The domestic business recorded revenues of Rs. 1024 Crores, registering a growth of 13%. The international revenues grew by 24% to Rs. 1835 Crores. The consolidated net profit was Rs. 433 Crores, which shows a growth of 52% over last year. However, after adjusting for one time and exceptional items of income and expenditure, including the charge of Rs. 65 Crores on account of future sales returns during the year 2011-12, the growth is 33%.

However, the operations of the Company during the year have been influenced by the changes in the Global and National economic scenario. Some of the key issues impacting the Company's business in the domestic and international markets during the year were -the increased emphasis on unbranded generic drugs by Governments across the world, -slow down in the approvals for launch of new drugs, -erosion in the price and margins due to increased competition in the overseas generic markets -the uncertainty arising from the proposed introduction of new Drug Price Control Order (DPCO)

Manufacturing

The Company's state of art manufacturing facilities at Indrad, Baddi and Sikkim have significantly contributed to the growing demand of high quality pharmaceutical products. Capacity at all the three plants were utilised satisfactorily to cater to the growing demand. The work at its formulation and API

manufacturing project at Dahej SEZ in Gujarat is progressing well and the commercial production would start after approvals from regulatory authorities of various countries.

During the year, the Company has initiated decongestion and modification of manufacturing facilities at Indrad and Baddi plants and additional capacities due to this will be fully available from financial year 2014-15.

Marketing

On the operational front, the domestic business registered a growth of 13% in comparison to 8% during the previous year, primarily due to improved performance of Cardiology, Gastro Intestinal and Diabetology portfolio. The Company also registered better growths in its new segments like Dermatology and Oncology. The Company has continued with its efforts towards improving its market share through re-alignment of the business units to bring in higher focus on key customer segments. On the international front, the Company has witnessed a five years Compounded Average Growth Rate (CAGR) of over 24% in the revenues which now accounts for around 60% of the total revenues. International business witnessed a healthy growth of 24% during the year under review. This growth is mainly on account of robust upward surge of nearly 64% in revenues from US operations, 20% from European business and 32% from Rest of the World segment. However, the Brazil performance was adversely affected due to the pricing pressures from generic players and subdued market growth.

The Government of India has notified the new DPCO w.e.f. 15th May, 2013. This has far reaching implications for the Pharma industry. The number of products, which were under price control significantly increased from existing 74 drugs to 348 drugs. Under the new provisions, the ceiling prices of controlled drugs will be calculated by taking the average prevailing prices of all brands of all companies with more than 1% market share. Thus the narrow cost based approach has been replaced by bringing in progressive competitive market based pricing mechanism. Although some additional products of the Company have been now covered under price control, the impact of this on the margins of the Company is not very significant.

Research and Development

Continuous investment in R&D over the years has positioned your Company strongly to meet the growth requirements. During the year, the Company has initiated Phase-II & Phase-I clinical trial in India for few of its New Chemical Entity (NCE) and working on certain other in-house NCE projects in the areas of diabetes, cardiovascular and other related areas.

During the year, the Company received approval for 12 ANDA and 7 EU dossiers and approval for certain others are in the pipeline. The Company has initiated development work on long acting injectables for improved disease management of Alzheimer, Pain, Parkinsons. Similarly, work was initiated in new technology platforms like Nano suspensions & nasal drug delivery systems and in management of Dermatology, strengthening Oral Solid Dosage portfolio and designing newer dermato-cosmeceutical formulations. Efforts are also on for new cost effective, eco-friendly & safe processes for APIs and formulations.

Outlook for the coming year

Let me now share with you the outlook for the coming year. The domestic market is anticipated to grow at a better pace considering various new initiatives taken by the Company. However, the initial ambiguities arising from the new DPCO and the long drawn out dispute between the regulatory authorities and trade have had some subduing effect on the performance during the first quarter.

International generic opportunities continue to be the growth engine for the Company. The Company is well positioned to capitalise on these growth opportunities with strong development pipeline, good market reach and marketing capabilities built over a period of time. The US business will continue to see good growth on back of new product introduction. UK and Romania are identified as territories having high potential and provide significant opportunities. German market has become predominantly tender based, which is a challenge going forward. The constant growth of unbranded generic segment continues to be challenge for the Brazil operations.

At the same time, larger presence of multinational companies and consolidation by domestic players leading to greater competition, the increasing breadth of Government regulatory actions, and the changing business scenario for generic products in major world economies including Europe, Brazil etc., is continuously putting pressure on our operating margins. Simultaneously, the continued high levels of inflation are hindering our efforts to control costs.

I am happy to inform you that over the year we have maintained healthy relations with our business and trade partners, whilst fostering positive industrial relations throughout the Company.

Your Company is committed to uphold the best corporate governance practices, creating wealth for all its stakeholders and enriching long-term shareholder value.

Lastly, on behalf of your Board of Directors, I would like to extend our sincere gratitude to all our stakeholders including the medical fraternity, our customers and our business partners, who have reposed great trust in us and in our products. I also thank the various central and state government bodies, banks & financial institutions and all our employees for supporting us in our activities and helping us grow further. My colleagues on the Board have always provided valuable guidance to whom I owe my gratitude.

I thank all of you for attending this meeting.