We're Global

Cadila Healthcare Limited
Annual Report 2003-04

FOUNDER

Late Mr. Ramanbhai B.Patel

BOARD OF DIRECTORS

Pankaj R. Patel
Chairman & Managing Director

DIRECTORS

Dr. Manubhai A. Patel
Mukesh M. Patel
Pranlal Bhogilal
Sharvil P. Patel
H.K. Bilpodiwala
H. Dhanrajgir
A.S. Diwanji

COMPANY SECRETARY

Upen H. Shah

CHIEF ACCOUNTS OFFICER

Jyotindra B. Gor

BANKERS

Bank of Baroda
ICICI Bank Limited
Corporation Bank
State Bank of India
Citibank
IDBI Bank

AUDITORS

R.R. Patel & Co.
Mukesh M. Shah & Co.
Chartered Accountants

REGISTERED AND CORPORATE OFFICE

'Zydus Tower', Satellite Cross Roads,
Ahmedabad-380 015.
www.zyduscadila.com

REGISTRAR AND SHARE TRANSFER AGENTS

M/S Pinnacle Shares Registry Pvt. Ltd.
Near Asoka Mills, Naroda Road,
Ahmedabad 380 025.

WORKS

Formulation Unit
S.No. 417, 419 & 420, Village Moraiya,
Taluka Sanand, District Ahmedabad.

Kundaim Industrial Estate, Ponda, Goa - 403 401.

API Unit
GIDC Estate, Ankleshwar, Gujarat.
Patalganga, Dist. Raigad, Maharashtra -410 220.
Dabhasa, Tal. Padra, Dist. Vadodara.

Nutraceutical products
Plot. No. 5504, GIDC Estate, Vatva, Ahmedabad.

Zydus Research Center
S.No. 396/403, Village Moraiya, Taluka Sanand,
District Ahmedabad.

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Safe Harbour Statement

In this Annual Report we have disclosed forward-looking information (within the meaning of various laws) to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainities and even inaccurate assumptions. Should known or unknown risks or uncertainities materialise or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

There are no such things as limits to growth, because there are no limits on the human capacity for intelligence, imagination and wonder.

– Ronald Reagan

We're Global

The year 2003-04 was a year full of achievements for the company: not only in terms of strong revenue and profit growth, but also in terms of adding value by entering the global generics market.

These achievements helped us set the stage open to further prospects for growth in the coming years. This we did, by taking stock of where we were, where we wished to be in the future and embarked on a path to get there. We set new goals for ourselves in the form of a new vision - a global vision. We strengthened our resolve to be one of the top ten global generics companies by 2010 and a research driven global pharma player by the year 2020.

This annual report describes in detail, the Company's activities during 2003-04 that formed a part of a broader strategic programme for global growth. The report also gives you a glimpse into the future.

A Distinctive Global Vision

Zydus Cadila is well and truly set on the path of becoming a global pharmaceutical provider. In 2003-04 the company undertook bolder initiatives that would help it achieve its global aspirations. The first step, of course, was to align the mission and vision with the emerging opportunities.

Globally, the opportunities are enormous

- Patent expiry and challenges for leading molecules are creating new opportunities in the generics market over the next few years.
- Rising healthcare costs have forced the governments in different countries to come out with new regulations in favour of generics.
- The drive to reduce costs by global pharma companies is opening up several outsourcing opportunities for Indian companies in the manufacturing and research segments.

To capitalise on these opportunities, it is important to have a critical mass, strong research infrastructure, strong knowledge base, excellent chemistry skills, sound regulatory infrastructure and a robust pipeline of filings. In addition, cost competitiveness, relationships with global players, the ability to scale-up and world class manufacturing facilities are factors that will help the company make the most of these emerging opportunities.

Zydus Cadila's growth strategy is aligned to a distinctive global vision. The new vision and mission launched in January 2004 was the result of an organisation-wide discussion on the strengths, collective expertise and new opportunities of growth that were emerging. The vision aims to capitalise on these unfolding opportunities. It aims to have a tangible impact in terms of sustained growth and unleashing value.

Mission

We are dedicated to life... in all its dimensions. Our world is shaped by a passion for innovation, commitment to partners and concern for people in an effort to create healthier communities, globally.

Vision

One of India's leading healthcare players, we aim to be a global-research driven company by 2020.

We shall achieve sales of $ 400 million by 2006 and

We shall be a top ten global generics company with a strong R&D pipeline and sales in excess of $ 1 billion by 2010.

By making a foray into the regulated markets of USA and Europe and strengthening its market presence in other focussed markets worldwide, Zydus Cadila is aiming to become one of the top ten global generics companies by 2010. By 2020, the company aims to be a global research driven pharma player. Its people will power the company's future growth by their spirit of innovation and the will to turn challenges into opportunities. Zydus Cadila will continue to identify leaders, build competencies and attract the best talent to shape the company's global future. With its passion for innovation, commitment to its partners and a corporate philosophy to build healthier communities, the company plans to guide its efforts in creating a global company.

The Global Roadmap

- Entering the world's largest generics market, estimated at US $ 17 bn, as an integrated generics player.
- Established Zydus Healthcare (USA) LLC and Zydus Pharmaceuticals (USA) Inc., to cater to the API and formulation generics markets respectively.
- Identified a basket of about 100 formulation products for launch in the US market over the next few years.
- Filed 12 ANDAs with the US FDA in 2003-04, the largest number by any Indian company in the very first year of filing.

- Focus on Brazil - Established 100% subsidiary Zydus Brasil Healthcare Limitada.
- Building a regulatory pipeline and targeting 12 product approvals in the current year.
- Planning to launch generics starting from 2005.

- Established its presence in France through Zydus France SAS.
- Launching generics in the French market in the current year.
- Process for site transfers to Moraiya, Ahmedabad is underway.
- Planning to enter Italy and Spain over the next two years.

- Revamped business model to grow aggressively in the CIS markets, mainly Russia & Ukraine.
- Focus on high growth therapeutic segments of CVS & GI.
- Expanded field-force and geographic coverage and entered into an arrangement with top distributors.

Chairman and Managing Director's Message

Dear Shareholders,

The year 2003-04 will be remembered as a remarkable year in which the company made unprecedented all round progress, and set many records. In the process, we have begun to unleash value. Broadly, in 2003-04, your company internationalised operations and ascended the value chain with a quantum jump in exports, while consolidating the domestic operations. The company also launched several transformational initiatives and reviewed its overall vision and strategy which would go a long way towards building a strong foundation to nurture and sustain growth.

2003-04 : A Remarkable Year

A Year of Excellent Performance

- The company posted the highest sales ever at Rs. 11.7 bn, up by 14% y-y. The major growth driver was exports, which grew by 62% y-y. On a consolidated basis, the sales reached Rs. 13.3 bn, growing by 18% y-y.
- The company significantly increased investments in R&D, with total R&D expenses going up to Rs. 0.9 bn, from Rs. 0.4 bn in 2002-03, or nearly two and a half times y-y. Of this, the revenue expenses on R&D went up three-fold to Rs. 0.6 bn.
- Inspite of substantial hike in R&D spend, Profit Before Interest Depreciation and Tax (PBIDT) increased by 29.4% to Rs. 2.5 bn. The PBIDT margin jumped to 21.2% from 18.7%, the highest in the history of the company.
- Net Profit jumped to Rs. 1.43 bn, a growth of 86.5% which is the highest growth in the last several years.

- Zydus Altana Healthcare Pvt. Ltd., the 50:50 JV with Altana Pharma turned in an excellent performance with record sales of Rs. 1.47 bn and Net Profit of Rs. 1.22 bn, an 82% net margin on sales. The JV paid Rs. 600 mn in dividends, up three-fold from 2002-03.

These results mark another successful year in our pursuit to realise the full potential of Zydus Cadila. Our initiatives were well received by both the investors and the stock market and this is reflected in the market capitalisation which nearly quadrupled to Rs. 28 bn by the end of the financial year. Your company has been ranked 64th amongst the ET top 500 companies in India, in terms of market capitalisation. This is a significant improvement from the 87th rank in September '03.

Entry into Regulated Generics Markets

US and European Markets

Our focus in the coming years will be on globalisation of operations. This is both a challenging and inevitable process. As the President of France, Mr. Jacques Chirac very succinctly put it - "Everything there is to say has been said-and well said-about the tidal wave that is mingling the irreversible globalisation of human activity with ever-faster scientific and technical progress".

The year 2003-04 was when we truly globalised our operations by marking our presence in the large and lucrative regulated generics markets.

Just why is the regulated global generics market so important? Facts speak for themselves. The total global pharma market is estimated at US $ 466 bn (IMS). North America, Europe and Japan account for 88% of the pharmaceuticals sales in 2003. Generics sales contributes almost 4-5% of this market, making the global generics market about 6 times the Indian market. While the generics business in US is the largest in the world, Europe is also an attractive market and provides quicker access opportunities.

It is a tremendous growth opportunity that these markets represent with several blockbuster multi-billion dollar drugs going off patent over the next few years. The other favourable factor is the rising healthcare costs in the developed countries leading to a perceptible shift towards generics. On the other hand, India is uniquely placed to benefit from this opportunity in terms of marketing generics formulations, intermediates and APIs. The advantage lies in the combination of immense talent pool that it possesses, the process chemistry capabilities, the competitive cost structure and world class manufacturing base that can deliver high quality products at a much lower cost.

Our global market strategy is aligned to these opportunities and I clearly see global generics as an important growth driver for the company. To make this possible, the company took the following concrete steps:

- Entered the French market which is amongst Europe's most exciting generics markets with the acquisition of Alpharma's French subsidiary, renamed as Zydus France SAS. We have prioritised over 60 generics market authorisations for launch in the French market over 2004 and I am confident of growing this business rapidly.
- Set up Zydus Pharmaceuticals (USA) Inc. for generics formulations business in the USA. With Zydus Healthcare (USA) LLC - a subsidiary set up in 2002 to cater to the API market and a strong team, we now have a solid footing in the world's most important market.
- Filed 12 ANDA's with the USFDA. This is a record as we are the first Indian company to file as many as 12 in the very first year of filing. Cumulative DMF filings also stand at 12 at the end of the year.
- Re-structured international business strategy (non-regulated markets) prioritising Brazil and CIS for future thrust. In CIS, where we have been present for over a period of time, we re-structured the business with a new team and wider geographic spread. We expect good growth to come in from the CIS market in the current year.
- In the API business, we nearly doubled exports on the back of strong relationships with large players. Total exports of the company grew by 62%, primarily driven by growth in APIs and intermediates exports. Total exports now constitute 16% of the company's revenues, up from 11% last year and with efforts being made to globalise the business, the contribution of exports is set to grow continuously.

World over there is a considerable pressure to cut down healthcare costs which has led to pharma majors looking at outsourcing their requirements to high quality, low cost manufacturing centres, such as India. We clearly see a window of opportunity as a result of this and have taken up Global Contract Manufacturing as a separate initiative. We see this initiative as an extension of our core capability - to provide quality products at cost-competitive prices.

Domestic Operations

Consolidating Gains

Our growth in the domestic market has been a balanced one. Domestic formulations business grew at 11.9% during 2003-04, well above market growth rate of 7.3%. Over the last few years our focus has been on consolidating our position in the core therapy areas and ranking amongst the top five in all the major segments that we participate in. Working on this plan, we retained our lead position in the Cardiovascular, Gastrointestinal and Women's healthcare segments (ORG MAT - March 2004). We also strengthened our product pipeline and introduced 69 new products in the domestic market of which 10 were launched for the first time in India. This amply reiterates our ability to seize the first mover advantage.

In line with the strategy of the company to strengthen alliances with German Remedies' erstwhile promoters and to ensure top line growth in the post-2005 era, the company entered into an agreement with Schering AG whereby Cadila Healthcare will be the preferred partner for future product launches of Schering's innovator products in India. We also signed an agreement with Boehringer Ingelheim India Limited, a wholly owned subsidiary of Boehringer Ingelheim, to manufacture and market products in India and identified new line extensions for launch in the near future.

With aggressive new product introductions, exposure to fast growing therapy areas, extending our brand equity and emerging as a partner of choice for key multinational partners, we are better positioned than ever before to leverage our strengths in the domestic market.

Gathering Momentum

Improving Operational Efficiency

The year 2003-04 was also significant for the implementation of two programmes - 'PRISM' and 'DELTA' that will have a far reaching impact on improving operational efficiency and realising more fully our strengths and potential. 'PRISM' is a programme aimed at improving operational efficiency across the organisation by saving on non-labour spend. In the first cycle, we identified some 1500 cost saving ideas and a large number of these are already implemented, resulting into quantum savings for the company. Riding high on the success of the first cycle and with an aim to institutionalise the effort, we have created a separate purchase and supply chain management cell and the second cycle of 'PRISM' was launched in March 2004.

As a part of 'DELTA' - a three year value creation programme which we flagged off last year, we are delving into issues linked to the core business growth. We have been looking at all aspects that are related to near-term profit improvement, areas that can drive momentum in core business and the long term strategic opportunities. I firmly believe that now is the time for action. Now is the time to reach out and chase every possible idea that can lead us onto a greater opportunity. So, from strengthening domestic operations to globalisation of operations, long term value creation through research and bringing about an organisational transformation - we are looking at an entire gamut of initiatives that are critical to spur the company's growth as a part of this 'DELTA' programme. The goal is to take the organisation to a higher level of accomplishment and ensure our distinctiveness.

Organisational Transformation

Laying the Foundation for Managing Future Growth

Last year, I spoke about unleashing value and we have had a great start in this direction. To step up the pace we will have to explode with energy, look at every aspect of our business performance and take a quantum jump in each one of them. We must fundamentally transform the way we organise ourselves to address the challenges of the future.

We have begun to set the wheels in motion by triggering off a transformational process that can take us on to a higher plane. The entire process at Zydus Cadila rests on five pillars of Direction, Leadership, Accountability, Co-ordination and Control and Capability. The overall focus is on leadership and people development through different ways, which involves:

- Setting an overall direction and vision for the company that anchors our beliefs, values, mind-set and work culture.
- Developing leaders who continuously transform the culture of how we think, meet, plan and perform our work. Our new Zydus Leadership Competency Model looks into all these dimensions.
- Initiating performance discussions for a more focussed performance in tandem with the organisational goals and objectives. Motivating people to take on and achieve stretched targets.
- Building in the right systems and processes for greater efficiency in the organisation.
- Greater thrust on competency building, strengthening the recruitment processes and nurturing the value creators in the organisation.

Our transformational agenda will strengthen the relationship between employees and the company, between the company and its customers and between employees and the community. It will play a crucial role in the creation of an organisational environment and culture that supports innovation and flexibility, the development of individual and organisational competencies and the trust and shared vision necessary to move forward.

Enhancing Value

Through Sustainable Growth Platforms

In the long term we aim to create value for the company through our research initiatives. During fiscal 2003-04, we substantially stepped up investments in our research and development activities and we continue to expand our R&D pipeline and strengthen and accelerate measures aimed at the rapid launch of new products. We are working to strengthen our discovery research capabilities to develop newer drug-discovery targets. Of the five NCEs that we are working on, three are in the pre-clinical stage and two are under various stages of development. Besides this, we have developed several NDDS and are also actively engaged in biology research.

While I have highlighted some of the value creation initiatives that we have undertaken in the medium and long term, I firmly believe that the process of enhancing value is a more holistic and an ongoing process. Value is created through understanding and meeting the needs of all those with whom we do business. We create value through our therapies, through technology and research, by making continued inroads into the global marketplace, through the motivation and expertise of our people, by creating win-win situations for our partners and by fostering good relationships with governments and communities in which we work. We cannot neglect any of these issues.

And as we go about the task of creating value, we are encouraged by your support. We believe that we are on the right track. We have the right strategy in place - a distinctive approach to cater to a global market. We are confident of the way ahead. We have the products, the people and the focus to maintain the momentum. And we will maintain that momentum in pursuit of one clear and overriding goal - to deliver sustained and increasing shareholder value.

Pankaj R. Patel

Highlights of 2003-04:

2003-04 will be remembered as a year in which the company made unprecedented progress, set many records and in the process, unleashed value.

Broadly, in 2003-04 CHL

- Internationalised operations.
- Consolidated domestic operations.
- Went up the value chain with quantum jump in exports.
- Improved operating efficiencies with DELTA and PRISM programmes.
- Reset overall vision and strategy.
- Launched organisation transformation initiatives.

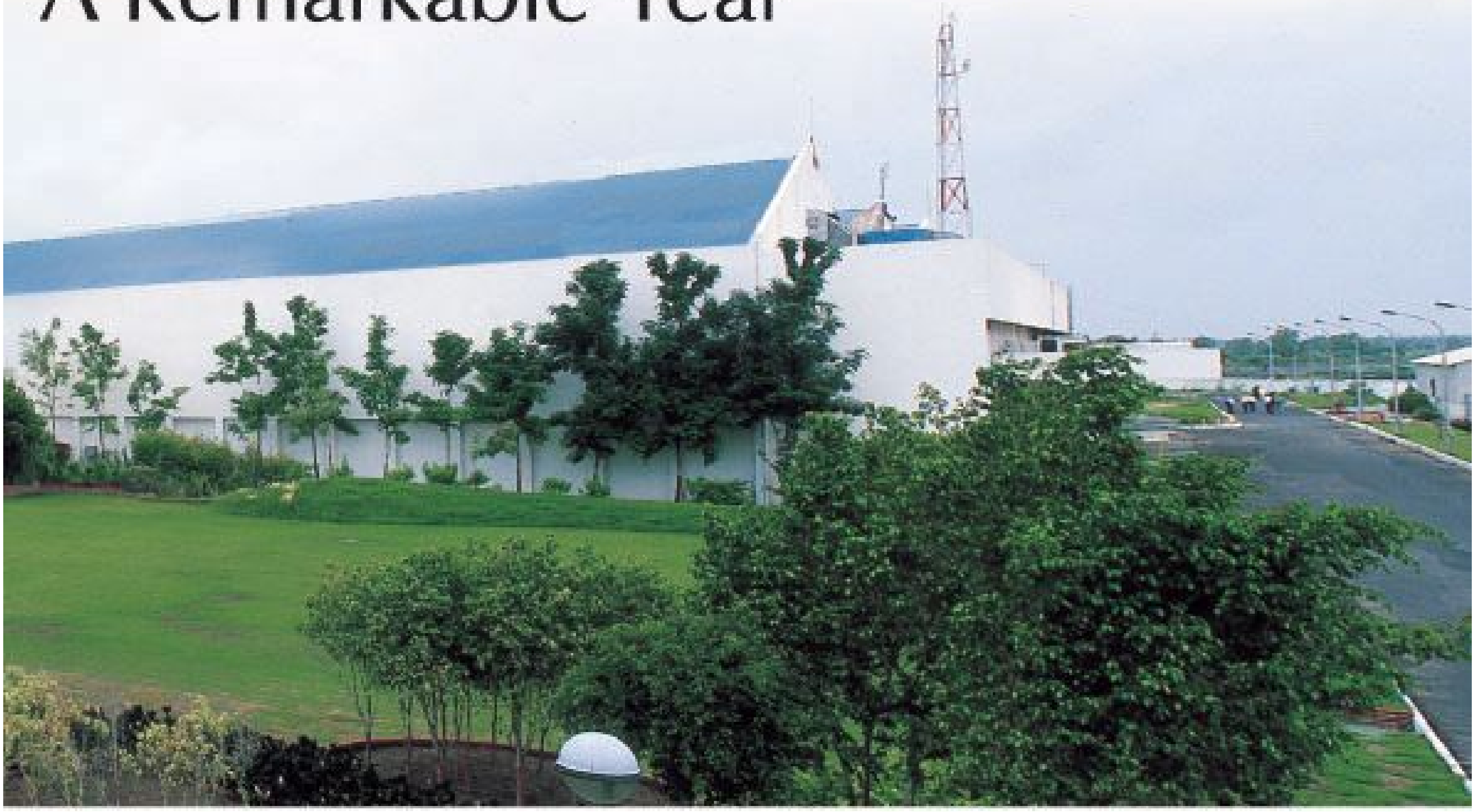
The financial records of 2003-04

- Highest ever sales (Rs 11.7 bn.)
- Net Profit crossing Rs. 1 bn. (Rs. 100 crores) for the first time and reached Rs. 1.43 bn.
- Net Profit growth of 86.5% y-y, highest in past several years.
- Highest ever PBIDT margin of 21.2%.
- Zydus Altana JV has a record Net Profit of Rs. 1.22 bn and net margin of 82%.
- Highest ever market capitalisation, crossing Rs. 28 bn by year-end.
- Rated as the 64^{th} largest listed Indian Company by ET - 500.

Highlights of international operations

- Entered the French market with acquisition of Alpharma's French subsidiary, renamed as Zydus France SAS.
- Set up Zydus Pharmaceuticals (USA) Inc. for generics formulations business in the USA.
- Filed 12 ANDAs with the USFDA - First Indian company to file as many as 12 in the very first year of filing. Cumulative DMF filings stand at 12 at the end of the year.
- Re-structured international business (non-regulated markets) prioritising Brazil and CIS for future thrust.
- Total exports grew by 62%, driven by growth of 96% in exports of APIs and intermediates.

A Remarkable Year



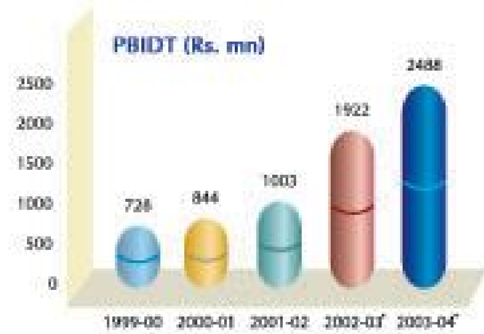
Highlights of domestic operations

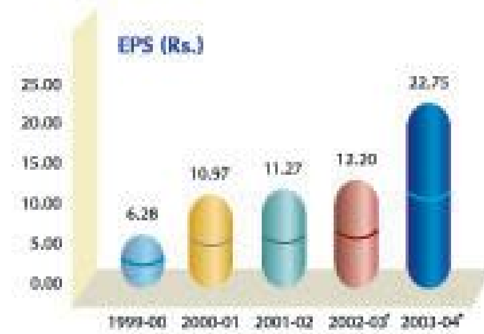
- Domestic formulations business grew at 11.9%, well above the market growth rate of 7.3%.
- Overall 5th ranking in the domestic formulations market (ORG MAT - March 2004).
- Retained No. 1 position in CVS, GI and FHC participated segments (ORG MAT - March 2004).
- Launched 69 new products in the domestic market.
- Crystallised in-licensing arrangements with Schering AG, Boehringer Ingelheim.
- Manufacturing optimisation implemented.

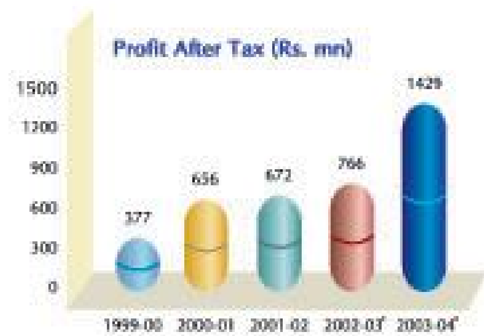
Financial highlights of FY 2003-04

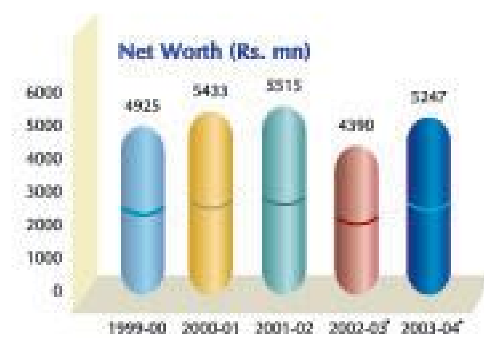
- Sales revenue of Rs. 11723 mn, up 14% from Rs. 10282 mn in 2002-03.
- PBIDT up 29.4% y-y to Rs. 2488 mn, from Rs. 1922 mn last year.
- PBIDT margin up to 21.2%, compared to 18.7% last year.
- PBT up 55.2% to Rs. 1634 mn, from Rs. 1053 mn last year. PBT margin expanded to 13.9% from 10.2% in 2002-03.
- Net Profit of Rs. 1429 mn, up 86.5% y-y from Rs. 766 mn in 2002-03. Net margin of 12.2% compared to 7.4% last year.
- EPS of Rs. 22.75 compared to Rs. 12.2 in 2002-03, up 86.5%.

Financial Highlights of 2003-04

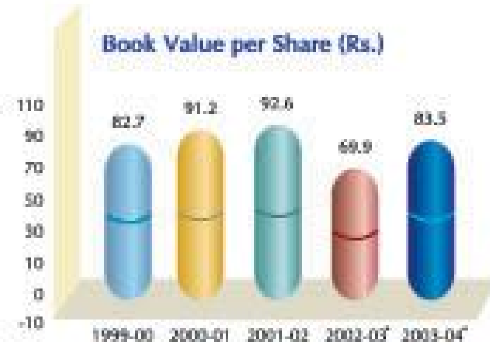




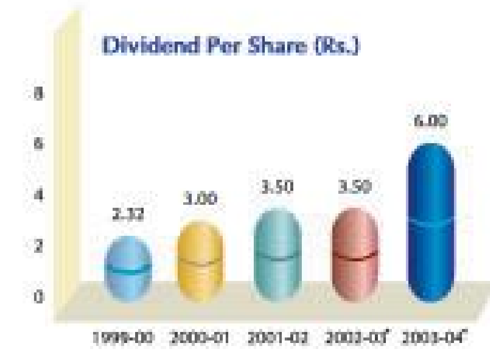


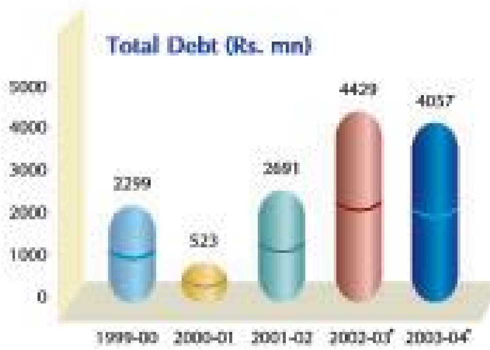


Note : *Indicates post-merger data and is not strictly comparable with prior years.

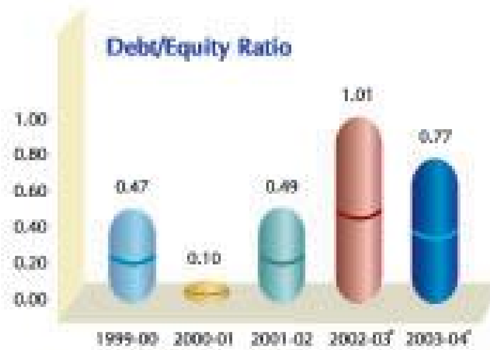

Book Value per Share (Rs.)
110
90
70
50
30
10
0
-10
82.7
91.2
92.6
69.9
83.5
1999-00
2000-01
2001-02
2002-03*
2003-04*

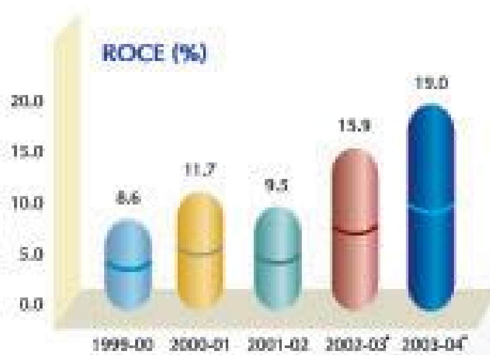

TA Turnover
1.1
0.9
0.7
0.5
0.3
0
0.6
0.7
0.6
0.9
0.9
1999-00
2000-01
2001-02
2002-03*
2003-04*


Dividend Per Share (Rs.)
8
6
4
2
0
2.32
3.00
3.50
3.50
6.00
1999-00
2000-01
2001-02
2002-03*
2003-04*


Total Debt (Rs. mn)
5000
4000
3000
2000
1000
0
2299
523
2691
4429
4057
1999-00
2000-01
2001-02
2002-03*
2003-04*


Return on Equity (%)
30.0
20.0
10.0
0.0
7.7
12.1
12.2
17.4
27.2
1999-00
2000-01
2001-02
2002-03*
2003-04*


Debt/Equity Ratio
1.00
0.80
0.60
0.40
0.20
0.00
0.47
0.10
0.49
1.01
0.77
1999-00
2000-01
2001-02
2002-03*
2003-04*


ROCE (%)
20.0
15.0
10.0
5.0
0.0
8.6
11.7
9.5
15.9
19.0
1999-00
2000-01
2001-02
2002-03*
2003-04*

Economic Value Addition

A firm's management creates value when it makes decisions that generate benefits exceeding costs. Economic Value Added (EVA) is a measure of a firm's economic profit. It is calculated as the excess of economic profit over the cost of capital employed.

Rs. mn

Economic Value Added	2002-03	2003-04
EBIT	1489	1837
Less : Adjusted tax	116	100
NOPAT (Net operating profit less tax)	1372	1737
Equity	4390	5247
Debt	4429	4057
Total Invested Capital	8819	9304
Average capital employed	9102	9061
Post tax Cost of debt	8.3%	5.7%
Cost of equity	11.6%	10.6%
WACC % (market value weighted)	10.4%	9.7%
WACC	948	883
EVA (NOPAT - WACC)	424	854

Notes :

- EVA is a registered trademark of Stern, Stewart & Company.
- EBIT (Earnings Before Interest and Taxes) include dividends received from the Altana JV, being a strategic investment.
- Tax calculation excludes deferred tax and is adjusted for tax shield on interest.
- Cost of equity is based on cost of risk free debt plus equity premium adjusted for firm's beta variant. The equity premium is assumed at 7%, while the beta is calculated at 0.7.
- Cost of debt is based on 10 year Government of India bond.
- WACC (Weighted Average Cost of Capital) is based on market value based weights of debt and equity.
- The above calculations are based on Indian GAAP.

Market Value Addition

Market Value Added (MVA) is a measure of the value that the management has been able to add to given resources. It is measured by calculating the difference between a firm's market value (equity and debt) and its capital as per book value. Change in market value added is the change in market value of capital (equity and debt) less the change in the book value of the capital.

Rs. mn

Market Value Added	2002-03	2003-04	Change y-y
Market value of equity (year-end)	7586	28524	20938
Market value of debt	4429	4057	-372
Market value of debt & equity	12015	32581	20566
Less : Invested capital			
Book value of equity	4390	5247	857
Book value of debt	4429	4057	-372
Total	8819	9304	485
Market Value Added	3196	23277	20081

Notes :

- Market value of debt assumed same as book value in the absence of debt being listed / regularly quoted.

Management's Discussion and Analysis

Overview

Cadila Healthcare Ltd., the flagship company of the Ahmedabad based Zydus Group, is one of India's leading integrated pharmaceutical companies. It currently ranks amongst the top 5 in the domestic formulations market, with a market share of 3.85%. The company is also a leading producer of niche and complex bulk drugs. While the domestic business currently contributes over four fifths of the revenue, over the past two years the company has put in place a focussed strategy, invested resources and created the infrastructure to benefit from the global generics opportunity, both in dosage forms and bulk APIs. The company aims to be a leading global generics player by the end of this decade and to be innovation driven in the long run.

Cautionary statement:

Shareholders and readers may be advised that some parts of this section contain data and information external to the company and which are forward looking. These are based on sources considered to be reliable, and on the best estimation available at that point of time. Further, the details and explanations given in the following paragraphs reflect the management perception on material and relevant issues as on date, which are subject to change without prior notice due to change in government policies, competition and other risk factors. The company undertakes no obligation to publicly update or revise any of the opinions expressed hereinafter.

The Global Pharma Market

The global pharmaceutical sales in 2003 stood at US$ 466 bn and grew at 9%. The growth was driven by a robust drug development pipeline, ageing population and ongoing demand for innovative therapies. Almost 88% of the sales was accounted for by North America, Europe and Japan. North America (US$ 230 bn) alone represented almost half of entire global sales and grew at a handsome 9% in 2003 (Source: IMS).

USA is the largest generics market in the world, estimated at around US$ 17 bn in 2003 and grew at an estimated 14% over 2002.

Global Generics Opportunity

Over the last few years, a unique opportunity has been unfolding for the Indian pharmaceutical industry. It is the opportunity to participate in the growing Global Generics market, which is about 6 times the size of the entire domestic formulations market. The growth of the Global Generics market is driven primarily by :

- Patent expiry for a large number of drugs, including blockbusters, over the next few years.
- Increasing healthcare costs in developed countries that has resulted in governmental support, often legislative, to generics medicines.

The big opportunity for Indian pharma companies

Global market dynamics
- Existing & new generics (>US$ 50 bn drugs going off patent in next few years)
- Rising healthcare costs
- APIs & intermediates
- Outsourcing

+

Advantage India
- Process chemistry skills
- Talent pool
- World-class manufacturing base
- Lower costs

Zydus group's global market strategy is aligned to these opportunities

Indian pharma companies, particularly the larger players, are well positioned to benefit from this big opportunity, for the following reasons:

- They have been 'reverse engineering', through innovative processes for the past several decades and have the technical competency to develop high quality products.
- They are cost competent and effective and have been thriving at prices, often a tenth of their counterparts in other markets.
- They have built world-class manufacturing facilities and acquired the necessary approvals to supply to regulated markets from these facilities.
- They have also developed competency in regulatory matters, to meet the stringent requirements of the markets in advanced countries, including the USA.

As a result, leading Indian companies have been able to penetrate the Global Generics markets. Indian companies now account for up to a third of the regulatory filings to the USFDA, have the largest number of USFDA approved plants outside the USA and have collectively earned an estimated US$ 0.8 bn in revenues from generics exports to regulated markets in 2003-04.

Indian Pharma Market

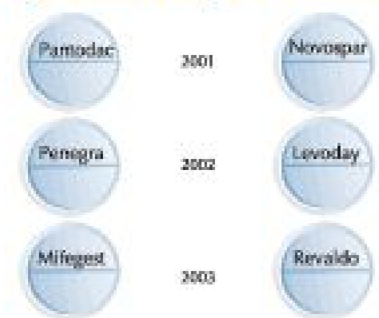
The Indian pharma market is about Rs. 197 bn, or US$ 4.3 bn in size. During 2003-04, the domestic pharmaceutical market grew at 7.3% (ORG MAT - March 2004).

The top 10 companies account for about a third of the market and many of them recorded single digit growth in domestic formulations. Anti-infectives, gastro-intestinals (GI) and cardiovasculars (CVS) are some of the largest therapeutic segments, accounting for nearly two fifths of the total market. During 2003-04, CVS was one of the fastest growing segments, notching above market growth of 15%, while the respiratory segment grew at about 8%. In contrast, anti-infectives, GIs and NSAIDs grew by less than 5-6%, below market growth.

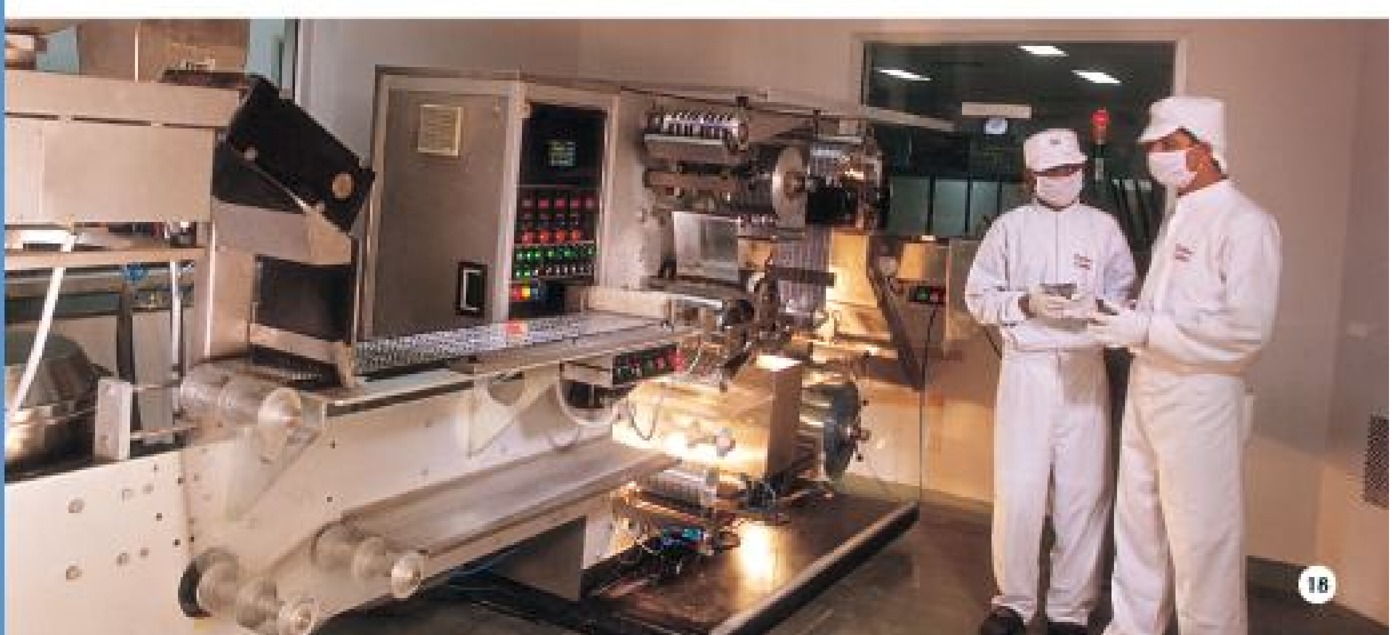
In this backdrop, the company's strategy to grow at higher than the market rate has been underpinned by the following:

- Focus on chronic segments and life style products
- Focus on building power and core brands
- New product introductions of significant therapeutic advances
- In-licensing from alliance partners who are global innovative drug companies
- Accelerating growth through geographic expansion, increased coverage and higher penetration

Zydus brands in top new launches



Source: ORG IMS



Operating Highlights - (Division-wise)

Domestic Formulations

The company's domestic formulations business grew by 11.9% in the year 2003-04. The total domestic formulations sales in 2003-04 was Rs. 8341 mn, compared to Rs. 7456 mn in 2002-03.

The growth of the formulations business as per ORG MAT - March 2004 was 8.6%. It retained 3.85% share of the total market and maintained its top rankings in CVS, GI and FHC segments, while gaining 4% market share in the respiratory segment. 16 of the company's top brands are rated amongst the top 300 brands in the country.

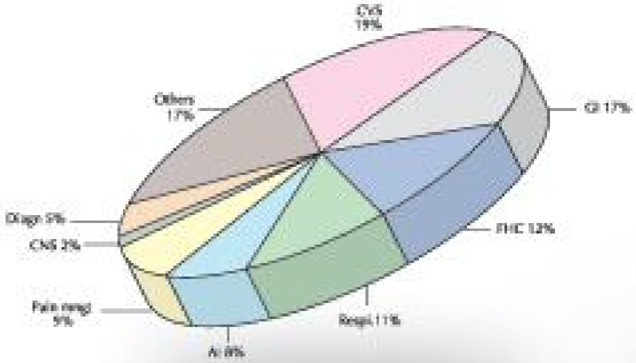
During this year, the company launched 69 new products under various therapeutic segments. Some of the major ones include:

Pain Management	GI	CVS	Nephrology	Erectile Dysfunction	Hypolipidemic	Diuretic
• Nucoxia (Etoricoxib) • Zyrof Injection (Roficoxib) • Revaldo (Valdecoxib)	• Omi O (Omidazole + Ofloxacin) • Ocid IV and QRS (Omeprazole)	• Aggramed (Tyrofiban) • Zyrova (Rosuvastatin) • Samlodon (S-Amlodipine)	• Siromus (Sirolimus)	• Zydalis (Tadalafil)	• Ezta (Ezetimibe)	• Zytanix (Metolazone)

Anti-bacterial	Anti-depressant	Anti-psychotic	Anti-infective	Women's Healthcare	Respicare	Oncology
• Ultipime (Cefipime) • Ultipime-O (Cefetamet Pivoxil)	• Firsito (Escitalopram) • Narebox (Reboxetine)	• Aridus (Aripiprazole) • Zipra (Ziprasidone)	• Impavido (innovator product Zentaris AG)	• Naturogest injection • Progynova & Enew • Diane 35 (innovator product-Schering AG)	• Forair	• Holoxan & Uromitexan

These products contributed to about 3% of the branded formulations sales in 2003-04. The company plans to continue to launch new products aggressively in the near future.

TA-wise break-up of formulations revenue.



Chronic segments contribute to half of the formulations revenues, while the share of highly competitive anti-infective segment has been falling.

In-licensing Opportunity

In line with the strategy of the company to strengthen alliances with the erstwhile foreign promoters of German Remedies and to ensure top line growth in the post-2005 era, the company entered into an agreement with Schering AG, whereby CHL will be the preferred partner for the Indian market for future launches of Schering's innovator products. The company also signed an agreement with Boehringer Ingelheim to manufacture and market products and identified new line extensions.

Schering AG, Berlin

- Signed contract for 10 years with provision for extension of another 5 years to manufacture and market existing products in India.
- Separate agreement signed for 10 years for sale and distribution of imported formulations of Schering in India.
- Acquired 6 trademarks and technology transfers

Boehringer Ingelheim

- Signed contract for 10 years with provision for extension of another 5 years to manufacture and market existing products and identified new line extensions.
- Identified new products to market in India.
- Agreed to form JV with Boehringer Ingelheim's Indian subsidiary to market new research products in India.

Viatris, Germany

- Signed contract for 10 years to manufacture Multi-Dose Powder Inhaler Device (MDPI) and filling of cartridge for COPD and Asthma.

APIs

The bulk drug market in India is estimated at around Rs. 78 bn and over 400 products are manufactured in India by a large number of players. In recent years, the focus of the larger players has been to move up the value chain by moving from intermediates to APIs, from commoditised APIs to specialty ones and from local market to global markets, including the regulated markets.

The company's strategy in the bulk drug business has been to focus on niche APIs, particularly in therapeutic areas of cardiovasculars, anti-ulcerants, anti-depressants and anti-histamines.

2003-04 was a landmark year for the API division, as the exports of APIs and intermediates increased to Rs. 1395 mn, registering a quantum jump of 95.8%. This was on the back of certain strategic relationships forged with manufacturers in Europe. The total sales of the division increased to Rs. 2321 mn, registering growth of 23.5%. Exports contributed to 60% of the total API sales, up from 38% last year.

Growing API exports (Rs. mn)

Some other highlights of the division were

- Accelerated filing of DMFs to the USFDA , taking the total to 12 DMFs at the end of the year.
- Launched several new products - Etoricoxib, Rosuvastatin calcium, Mebeverine Hcl, Noresthesterone and Testesterone for captive use.
- Acquired two manufacturing units in Ankleshwar to augment capacity.
- Capacity expansion project for augmenting Banyan 's capacity is under implementation and likely to go on stream during 2004-05.

Zyfine Chemicals

The company has also set up a new division called Zyfine Chemicals with focus on custom synthesis products. The division has set up its facilities near Ahmedabad and will go on stream in 2004-05.

International Formulations

International formulations business of the company has two focus areas:

- regulated markets
- semi or non-regulated markets

Regulated Markets

2003-04 has been the year of focusing on setting up the company's presence in the regulated markets of USA and Europe, with focus being on the generics opportunity. During the year, the company took several concrete steps towards this end. Specifically:

USA

- US strategy has been put in place, with over a hundred products carefully selected for future launch. These include not only blockbusters going off patent in the coming years, but also mature or difficult-to-make products with low competition and also products differentiated by novel delivery systems.
- The company now has two subsidiaries in the US, with Zydus Pharmaceuticals (USA) Inc. dedicated to generics formulations, while Zydus Healthcare (USA) LLC will focus on developing generics bulk drugs. The company has taken on board a strong and experienced team.
- As mentioned elsewhere in this report, the company filed 12 ANDAs during the year with the USFDA.

EUROPE

- In Europe also, the company has identified France, Italy and Spain as its priority markets, characterised by low generic penetration but high growth.
- With the acquisition of Alpharma's French unit, a marketing and distribution company, in mid 2003-04, renamed as Zydus France SAS, the company has entered the French market. Zydus France, at the time of acquisition, had a presence mainly in branded formulations but had over a hundred market authorizations (MAs) of which 91 (including line extensions) have been prioritised for launch in 2004 and 2005. The plan is to launch a generic basket in mid-2004 and efforts are on for site transfer so that the products can be eventually made in India. The company plans to grow revenues in France rapidly.

The Zydus Pharmaceuticals (USA) Inc. and Zydus Healthcare (USA) LLC teams.

Developing Markets

Amongst the semi and non-regulated markets also, the company took concrete steps to grow revenues aggressively. The company is now focussing on 3 markets - Russia, Ukraine and Brazil which would get them the best of resources in terms of products, promotion and people. In Russia and Ukraine, the company has created new infrastructure and put in place an expanded field force and a new managerial team. Another major step has been establishing business relationships with large distributors and a large number of new product registrations in all three countries are underway.

Growing pipeline of regulatory filings

The Zydus France SAS team.

Global Managers Meet at Ahmedabad.

The CIS team.

Manufacturing

During 2003-04, the formulations manufacturing facilities at Moraiya (Ahmedabad) and Goa maintained production of 3.6 bn tablets. Production of Pantodac IV attained a record 1.3 mn vials. The Goa factory also produced 10 mn suppositories, utilising more than 100% of its capacity for the same. The aerosol facility started producing MDI products of German Remedies, while the transdermal facility is expected to gear up with launch of products in 2004-05. Likewise, the production of the typhoid vaccine has also begun and the product launch is expected soon. The Moraiya plant received approvals from MoH Ghana and Oman.

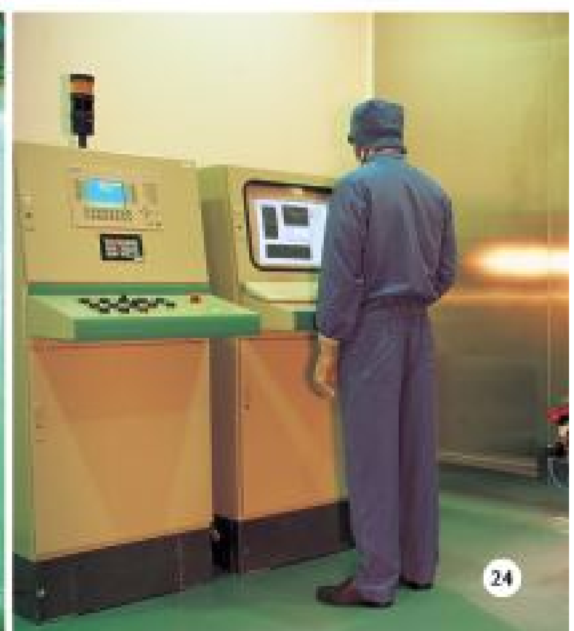
A new formulations facility is being set up at an estimated cost of Rs. 250 mn at Baddi in Himachal Pradesh, to cater to the growing demand of the domestic market and to avail of fiscal benefits available as per government policy for investments made in HP. The facility is expected to go on stream in the second half of 2004-05.

Additionally, as part of its manufacturing optimisation and cost savings, the following initiatives were successfully implemented:

- Overall manufacturing strategy was reformulated to optimise manufacturing at the two sites at Moraiya and Goa as well as third party locations.
- The Andheri factory that was shut down in October 2002 was dismantled, surplus equipment was relocated or sold and a portion of land disposed.
- Large number of cost saving ideas were implemented under PRISM (an in-house efficiency improvement programme) to obtain cost savings from product reformulation, packaging changes and energy savings.

Global contract manufacturing has been taken up in 2003-04 as a separate initiative to drive growth and better utilisation of the world class Moraiya plant. Some contracts are likely to be finalised during 2004-05.

Concurrently, environment, health & safety issues remained in focus. The Moraiya plant maintained its zero accident (major) status share since its inception and received an award for organisational excellence in good housekeeping from the Baroda Productivity Council.



A well integrated player with a wide range of capabilities

Eight state-of-the-art plants

- 2 formulation plants - one each at Moraiya in Ahmedabad and Goa.
- An upcoming formulations facility at Baddi, Himachal Pradesh.
- 3 API plants at Ankleshwar, Vadodara and Patalganga.
- An Agiolax plant at Goa.
- An API plant at Mumbai to manufacture key intermediates of Pantoprazole.

Intermediates and APIs

- Specialty chemicals, fine chemicals.
- Advanced intermediates.
- High end bulk actives.
- Investigational bulk actives.

Formulations

- Oral dosage forms (Tablets, hard and soft gel capsules).
- Injectables (Sterile liquids and lyophilised).
- Inhalers, transdermals, suppositories and vaccines.
- Formulation development for ANDA candidates.
- Development of specialised dosage forms.

Proven Strengths in Formulations Manufacturing

Strong F&D

Key Strengths
- Development of New Drug Delivery Systems (NDDS)
- Development and scale-up of dosage form for ANDA

Highlights
- Sole Indian company to develop soft gel capsules for iron supplements
- Indigenously developed complex typhoid vaccine

Strong Support Function

- Analytical laboratories
- Regulatory affairs and quality assurance

Highlights
- Complete integration of regulatory affairs and quality assurance with numerous accreditations

Regulatory Approvals - Moraiya plant

- MHRA (U.K.) - Solid Orals
- MCC (South Africa)
- ANVISA (Brazil)
- PIC (Romania)
- BFAD (Philippines)
- NDA (Uganda)
- MoH (Latvia, Namibia, Ghana, Oman)

Size and Scale

Key Strengths
- 3 formulation plants
- Unprecedented scalability

Highlights
- Moraiya plant is the largest single solid dosage plant in India
- Largest Indian suppository manufacturer

Variety of Dosage Forms

- Strengths in numerous novel dosage forms

Highlights
- Asthma dosage forms our (DPI/MDI) key strength
- Vaccines - anti-rabies, typhoid
- Dedicated plant for oncology formulations
- Extensive expertise in sterile lyophilised powders
- Transdermal facility

Research and Development

During 2003-04, two hundred scientists at the state-of-the-art Zydus Research Center continued to focus on creating NMEs in areas of metabolic disorders, including dyslipidemia, hypercholestermia, diabetes, obesity, inflammation and pain as well as bacterial infections. Further, the centre continued its focus on the following research areas:

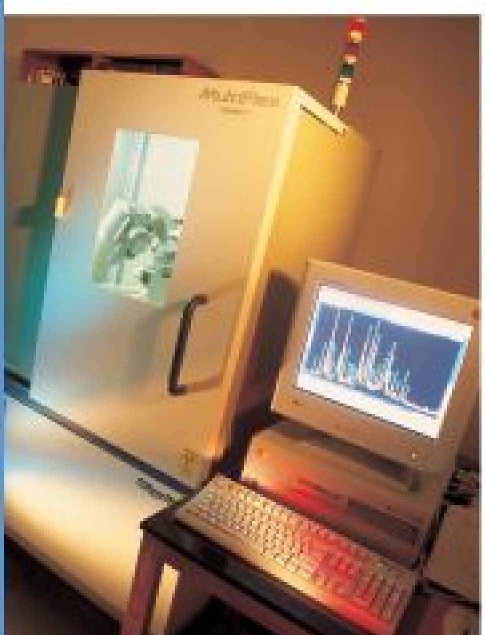
- New drug delivery systems including controlled release, sustained release and transdermal delivery.
- Process development for generic drugs and NMEs.
- Biotechnology-development of proteins that play a key role in diseases.

At the end of 2003-04, three NMEs are under pre-clinical stage, of which one is at an advanced pre-clinical stage, while two others are under bio-testing. The company is hopeful of filing its first IND in India during 2004-05. In biotechnology, Interferon alfa-2B has been developed and is awaiting approvals for launch, while other products are under scale up or optimisation.

The company has received a US patent for Clopidogrel novel process. Several patents have been filed for novel processes and New Drug Delivery Systems (NDDS) and several formulations based on NDDS have been launched in the domestic market.

NME Research : Current Capabilities

NDDS : Current Capabilities



During 2003-04, the company filed 6 patents under PCT (Patent Co-operation Treaty) route, taking the total to 17 cumulative filings. 55 applications were made in India, taking the total to 98 and 110 patent filings were made in foreign countries.

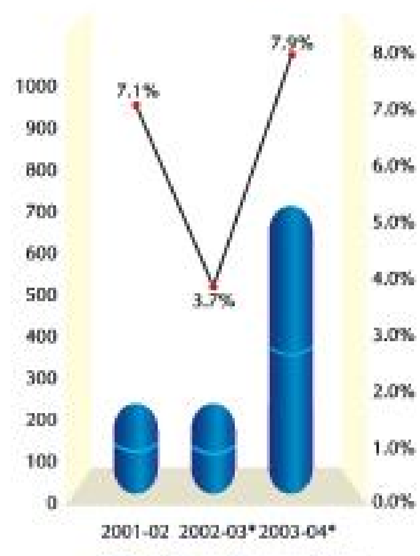
The company was granted three patents in India, one in USA and seven in other foreign countries during the year.

As part of its global generics drive during the year, the company set up the necessary technical team to file for regulatory approvals for the regulated and other markets. During the second half of the year, the company filed for 12 ANDAs. This is the highest number of ANDA filings made by any Indian company during the very first year. Additionally, the company has filed a total of 12 DMFs at the end of 2003-04.

The expenses on R&D during the year increased substantially to Rs. 926 mn from Rs. 383 mn in 2002-03, including the capex. As % to sales, the expenses increased to almost 8% of sales. Revenue expendiure as % of sales increased to 5.8% from 2.1% in 2002-03.

Although the expenses on the above efforts (other than capex) have been completely charged to revenue, in effect the company has created intangible assets in the form of - 1) pipeline of regulatory approvals/filings and 2) patents and new technologies, which will potentially spearhead future growth.

Research expenditure



* 2002-03 & 2003-04 data is post-merger and not strictly comparable with prior years.

Operating Highlights

Revenue

The sales revenue including income from operations increased to Rs. 11723 mn in 2003-04 from Rs. 10282 mn in 2002-03, registering a 14% growth.

Break-up of revenue

Rs. mn

	2003-04	2002-03	% growth y-y
Domestic sales	9839	9121	7.9%
Total exports	1884	1161	62.3%
Total sales	11723	10282	14%
% exports to total	16.1%	11.3%	

The total domestic sales grew by 7.9%, driven primarily by growth in the core business of branded formulations. Exports grew with a quantum jump in the exports of APIs and intermediates.

Break-up of revenue

Rs. mn

	2003-04	2002-03	% growth y-y
Domestic formulations	8341	7456	11.9%
Exports-formulations	489	449	9.0%
API-domestic	926	1167	(20.7%)
API-exports	1395	712	95.8%
Consumer and others	572	498	14.9%
Total	11723	10282	14.0%

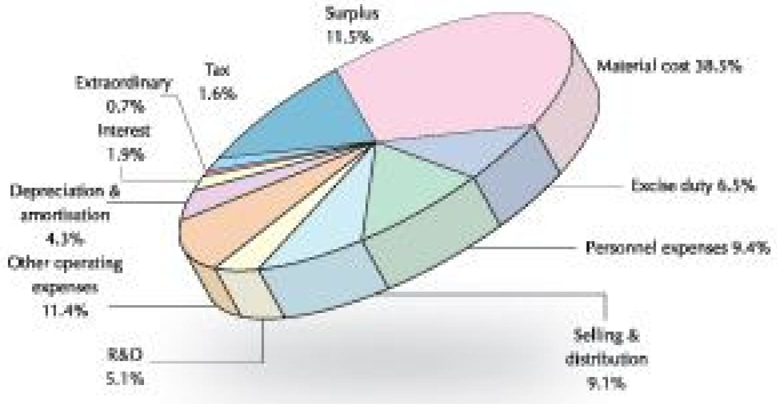
The domestic formulations business grew by 11.9% to Rs. 8341 mn, while the formulation exports grew by a modest 9%. During the year, the company re-structured its export business to Russia, which affected exports to Russia for a few months. The de-growth in the domestic API sales is largely due to a conscious shift to more value added export business with available capacity.

Other Income Including Dividend

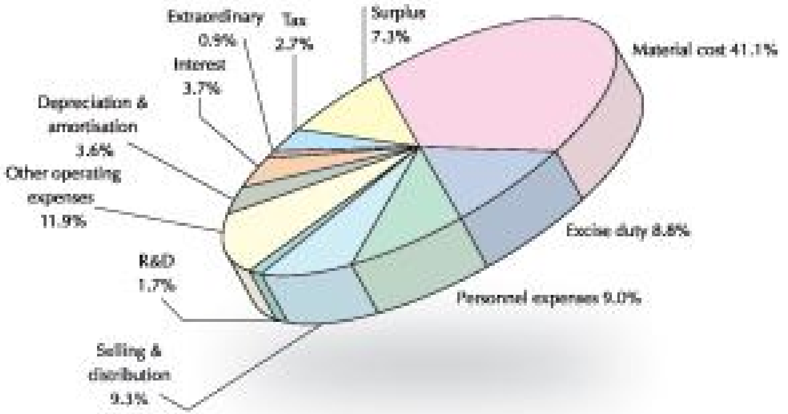
The total other income increased to Rs. 719 mn from Rs. 276 mn in 2002-03. During the year 2003-04, the company received a total dividend of Rs. 600 mn from the Zydus Altana JV compared to Rs. 200 mn in 2002-03. This was up 200% y-y on the back of increased profits of the JV during the year 2003 and higher pay out. Additionally, the company registered notional forex gains to the extent of Rs. 70 mn in 2003-04 on the US$ borrowings due to strengthening of the Rupee as at end of 2003-04.

Breakdown of total revenue and comparison with previous year

Breakdown of total revenue 2003-04



Breakdown of total revenue 2002-03



Note: Total revenue includes sales revenue & other income.

Operating Costs

Material Cost

Material cost (after inventory adjustment) increased by 10.4% y-y but as per cent to sales decreased to 40.9% in 2003-04, down 1.3% from 42.2% in 2002-03. This is largely attributed to the conscious efforts made by the company under the PRISM project (an in-house efficiency improvement programme) to bring in efficiencies in purchase and in consumption of raw materials and packaging materials.

Personnel

Personnel cost (excluding R&D) increased by 23.1% y-y and went up from 9.2% of sales to 10% in 2003-04 mainly as the teams for international business were augmented during the year. The total number of employees at the end of the year exceeded 5900.

The cost of the Voluntary Retirement Scheme (VRS) implemented in German Remedies in the year 2002 continued, with incidence of Rs. 125 mn in 2003-04 (Rs. 89 mn in 2002-03) which was booked as an extraordinary item. The payments and amortisation will continue till 2005-06 (total 42 months).

Research & Development Expenses

As the company geared up on research and development, including the regulatory filings for regulated markets, there was a corresponding sharp increase in the costs and as per company's conservative accounting policy, all costs related to research and regulatory dossiers are completely charged to revenue in the same year, irrespective of the potential future benefits. Hence the R&D costs (including salaries of R&D personnel, costs for research materials and for regulatory filings to developed and other countries but excluding depreciation) jumped 253% in 2003-04 to Rs. 632 mn from Rs. 179 mn, and to 5.4% of sales, from 1.7% in the previous year.

Selling, Distribution and Other Operating Costs

Selling, distribution and other operating costs increased by 14% y-y to Rs. 2552 mn (Rs. 2238 mn in previous year). The marketing, selling and distribution costs increased by 16.3% to Rs. 1137 mn, from Rs. 978 mn a year ago and in terms of per cent to sales, increased marginally from 9.5% to 9.7%. However, other operating expenses increased by 12.3% to Rs. 1415 mn, from Rs. 1260 mn. A major contributor to the increase was legal and professional fees.

Depreciation and Amortisation

Depreciation and amortisation cost was up 39% y-y to Rs. 531 mn, from Rs. 382 mn in 2002-03. This is largely on account of increased brand depreciation, which in turn was due to additional brands acquired in the German Remedies division and also due to change in amortisation period to 10 years from 17 years earlier, as per requirements of new accounting standard AS 26.

Details of depreciation for the year

Rs. mn

	2003-04	2002-03	% change y-y
Depreciation on trademarks, patents & designs	166	73	127%
Depreciation on technical know-how	65	37	76%
Depreciation on other assets	300	272	10%
Total	531	382	39%

Interest

Interest cost reduced in absolute terms and decreased from Rs. 388 mn to Rs. 233 mn, a drop of 40% and nearly halved as per cent of sales from 3.8% to 2.0%. This is due to efforts made by the company to restructure substantial part of its debt portfolio and switch to lower cost loans to benefit from the huge reduction in market interest rates as well as switch to FC loans. As on March 31, 2004, the company has foreign currency loans including ECB (External Commercial Borrowings) of US$ 44.3 mn equivalent to Rs. 1945 mn (previous year Rs. 413 mn) or 48% of its total loans.

Tax

The tax provision for the year, including deferred tax, was Rs. 205 mn, down 28.6% from Rs. 287 mn in 2002-03. The tax provision decreased, in spite of higher profits, due to the tax shelter available on higher R&D spend as well as lower surcharge. The effective tax rate more than halved from 27.3% to 12.5%.

Profits and Margins

The PBITDA (Profit Before Interest, Tax, Depreciation and Amortisation) increased by a handsome 29.5% to Rs. 2488 mn in 2003-04, from Rs. 1922 mn a year ago. The PBITDA margin (% to sales) increased by 250 basis points, to 21.2% from 18.7% a year ago. The reasons for the y-y improvement are detailed below:

Reconciliation of net improvement in PBIDT margin

	% to sales
PBIDT margin for 2002-03	18.7%
Lower material cost & excise	3.4%
Higher personnel cost	(0.7%)
Higher R&D costs	(3.7%)
Other expenses	0.1%
Higher dividend and other income	3.4%
PBIDT margin for 2003-04	**21.2%**

It is clear from the above that the margin expansion of 250 basis points was achieved in spite of the increase in R&D costs and was largely aided by material cost efficiency and tripling of dividend from Zydus Altana JV. In line, the PBIT (Profit Before Interest and Tax) increased by 27.1% y-y to Rs. 1957 mn from Rs. 1540 mn in 2002-03. This was inspite of the 39% increase in depreciation and amortisation during 2003-04. The PBT increased by a large 55.1% y-y to Rs. 1634 mn, boosted by the 40% lower interest cost. The PBT margin improved by 370 basis points to 13.9% from 10.2% in the previous year.

The beneficial impact of the above, resulted in a quantum jump in the Profit After Tax, which increased by 86.5% y-y to Rs. 1429 mn, from Rs. 766 mn in 2002-03. The net margin gained 480 basis points to 12.2%, from 7.4% in 2002-03.

Reconciliation of net margin

	% to sales
PAT margin for 2002-03	7.4%
Improvement in PBIDT margin as above	2.5%
Higher depreciation and amortization (% to sales)	(0.8 %)
Lower interest cost	1.8%
Extraordinary items	0.2%
Lower tax	1.1%
PAT margin for 2003-04	**12.2%**

Shareholders' Funds

The total shareholders' funds increased to Rs. 5395 mn at the end of March 31, 2004, from Rs. 4612 mn at the end of March 31, 2003. While the share capital remained at Rs. 314 mn, the reserves increased to Rs. 5081 mn at the end of 2003-04 from Rs. 4298 mn at the end of 2002-03 mainly on account of retained earnings.

Of the profit available for appropriation of Rs. 1904 mn for 2003-04, after providing for dividend at Rs. 6 per share and tax thereon of Rs. 425 mn, transfer to Debenture Redemption Reserve of Rs. 150 mn and of Rs. 265 mn to General Reserve, the balance of Rs. 1064 mn has been carried to the balance sheet.

The net worth (after deducting Miscellaneous expenditure to the extent not written off) from shareholders' funds, increased to Rs. 5247 mn as on March 31, 2004 from Rs. 4390 mn at the end of March 31, 2003. The book value per share increased to Rs. 83.5 at the end of 2003-04 from Rs. 69.9 a year ago.

The Return On Equity (ROE) improved dramatically to 27.2% in 2003-04, from 17.4% a year ago on the back of the 87% increase in Net Profit.

Debt

The total debt of the company reduced from Rs. 4429 mn at the end of 2002-03 to Rs. 4057 mn at the end of March 31, 2004. This includes FC loans of US $ 44.3 mn equivalent to Rs. 1945 mn or about 48% of total loans from previous year Rs. 413 mn. The debt to equity ratio at the end of March 31, 2004 was 0.77:1, improved from 1:1 a year ago.

The net debt as at the end of 2003-04 was Rs. 3685 mn, after deducting cash and equivalent of Rs. 372 mn. The net debt to equity ratio reduced to 0.7:1, compared to 0.99:1 at the end of March 31, 2003.

All the existing loans, with the exception of the sales tax deferment loan are repayable by 2007-08, and the scheduled repayment during 2004-05 is Rs. 1088 mn (of which Rs. 200 mn is likely to be rolled over).

The average cost of borrowing at the end of the year 2003-04 was 5.8%, substantially lower than 8.8% in the previous year, as a result of lower market rates and the efforts made by the company to benefit from the same.

Investments

The total investments increased by Rs. 541 mn to Rs. 1381 mn as on March 31, 2004. Investments in subsidiary companies, JVs and associates increased from Rs. 765 mn to Rs. 1089 mn (after deletion of investment of Rs. 206 mn in Banyan Chemicals Ltd. due to merger). The company subscribed to bonds of Rural Electrification Corp, NHB (National Housing Bank) & NABARD (National Bank for Agriculture & Rural Development) for an amount aggregating Rs. 215 mn to save capital gains, tax arising from sale of land at Andheri.

Fixed Assets and Capital Expenditure

The total gross block at the end of 2003-04 is Rs. 8460 mn, 30% of which is by way of intangible assets such as trade marks, patents, technical know how and commercial rights. Net block stood at Rs. 6476 mn.

The total capital expenditure (including capital work in progress) during the year was about Rs. 1.00 bn. This includes an amount paid towards acquisition of brands, trade marks and know how of Rs. 237 mn. During 2003-04, the company sold a portion of land at Andheri for a total consideration of Rs. 360 mn and a gain of Rs. 38.5 mn on revalued amount .

Currently, the major ongoing capex projects forming part of the capital work in progress include Banyan expansion project, setting up a new formulation unit at Himachal Pradesh and a unit for custom synthesis with a aggregate outlay of about Rs. 600 mn. Additionally, the company is investing as needed in balancing equipment, modernisation/replacement equipment and machinery for marginal capacity expansion at the R&D center, API units and formulation units.

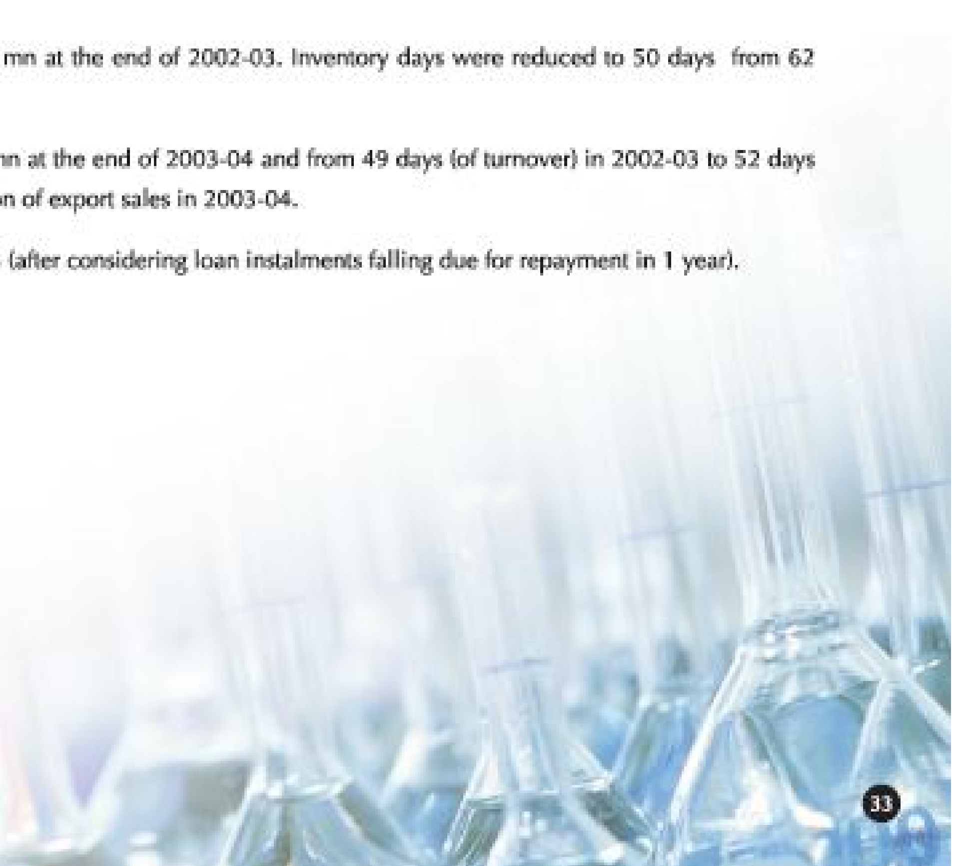
Working Capital and Liquidity

The working capital at the end of March 31, 2004 changed marginally to Rs. 2005 mn and comprised current assets of Rs. 4335 mn net of current liabilities and provisions of Rs. 2330 mn. Current assets as per cent of sales reduced from 39% in 2002-03 to 37%.

Inventories reduced to Rs. 1603 mn from Rs. 1756 mn at the end of 2002-03. Inventory days were reduced to 50 days from 62 days' turnover in 2002-03.

Receivables increased by Rs. 291 mn to Rs. 1659 mn at the end of 2003-04 and from 49 days (of turnover) in 2002-03 to 52 days in 2003-04. This was on account of higher proportion of export sales in 2003-04.

The current ratio at the end of March 2004 was 1.15 (after considering loan instalments falling due for repayment in 1 year).



Loans and Advances

Loans and advances reduced from Rs. 826 mn as on March 31, 2003 to Rs. 701 mn as on March 31, 2004.

Capital Employed and Operating Efficiency

The total capital employed at the end of the year was Rs. 10.3 bn, modestly up from Rs. 9.7 bn at the end of the previous year. The return on capital employed (ROCE=PBIT/capital employed at year-end) improved to 19% from 15.9% a year ago, implying an improvement in operating efficiency. The asset turnover ratio improved to 1.14x from 1.06x last year.

Forex Earnings and Risk Management

Over the last one year, your company has tried to actively hedge the currency exposures and has started borrowing in US$ which may be partially hedged from time to time to mitigate the risk of Rupee depreciation versus the US$. As at the end of 2003-04, US$ borrowings aggregated US$ 44.3 mn.

As at the end of March 31, 2004, the company has hedged future exports /receivables to the extent of US$ 25.2 mn, which cover over half of the projected exports/receivables in 2004-05. Further, the company has hedged Euro payments to the extent of Euro 2.5 mn and bought options to the extent of Euro 9.78 mn as at the end of March 31, 2004.

Performance on a Consolidated Basis

On a consolidated basis, the sales revenue increased by 18.2% to Rs. 13.34 bn from Rs. 11.29 bn in 2002-03. The PBIDT increased in line by 18.5% to Rs. 2594 mn., while the Net Profit was up 37.9% to Rs. 1331 mn.

Rs. mn	2003-04	2002-03	% y-y
Domestic sales	10450	9506	10%
Exports	2886	1780	62%
Total sales	13336	11286	18%
% exports	21.6%	15.8%	
PBIDT	2594	2190	18%
% to sales	19.5%	19.4%	
PBT and exceptional items	1606	1284	25%
Net Profit	1331	965	38%
% to sales	10.0%	8.6%	
EPS (Rs.)	21.2	15.37	38%

Losses by some subsidiaries and JV, mainly Zydus France SAS, Dialforhealth and SZAHL resulted into consolidated net profit being lower than the parent company's stand alone Net Profit of Rs. 1.43 bn.

Threats, Risks and Risk Mitigation

✦ R&D Spend and Corresponding Benefit

Even as the company has stepped up spending on basic research and on developments of new markets and generic business in regulated and semi regulated markets, there is no certainty of the benefit from this spend. This risk is more pronounced for the spend on basic research. However, as a matter of prudent accounting policy, the company spends the entire spend (other than capex in case of research) in the year of spend itself.

✦ Risk from International Operations

As the company steps up its international operations, and the contribution of exports to the total revenue grows larger, the ensuing risk from operating in foreign countries also grows higher. This includes inter-alia political risk, credit risk, litigation risk and currency risk. Your company's exports are principally denominated in the US$ and the Rupee appreciation versus the US$ is a matter of concern. However this is partially compensated by imports denominated in US$. The company has imports partially denominated in Euro and here also continously rising Euro may marginally adversely affect the cost of imported raw materials.

✦ Litigation Risk

As the company enters the generics markets in advanced countries, it faces the risk of entering into litigation with product orginator or patent holder and the ensuing costs. However, as per current thinking, the global generics strategy of the company is not a litigation/patent challenge-centric strategy, and as such this risk is not considered high at this stage.

✦ Post 2005 Patent Regime

From January 1, 2005, the new product patent regime will be in place. The implication is that it will not be possible for Indian companies to launch products patented from January 1, 1995 onwards. This could lead to slowdown in growth of domestic formulation revenues, as new products have been an important driver of growth. The expected fall out of the new IPR regime has been known for years and your company has chalked out its growth strategy to absorb the likely gradual negative impact. Specifically,

- The company plans to launch a large number of products over the next 2-3 years, which would be compliant with the new IPR requirements (products other than those patented after Jan 1, 1995).
- The company is increasingly focussing on global generic markets to create new opportunity for the company to grow and is putting in place necessary infrastructure to obtain the regulatory approvals.
- The company has tied up with its alliance partners Schering AG and Boehringer Ingelheim to become their preferred partner for sale of their products (including patented products) in India.
- As a long term strategy, the company aims to be research driven and to this end has set up a world class R&D center which is involved in research on NCE and NDDS in specific therapeutic areas.

Price Control

The Indian pharma industry is subject to the Drug Price Control Order (DPCO) 1992 enforcable by the National Pharmaceutical Pricing Authority (NPPA). While the new Drug Price Control Order has not yet taken final shape, it may have adverse effect on the prices of products marketed by the company.

JV Risk

The Zydus Altana JV has been remarkably successful and has contributed Rs. 600 mn in dividend in 2003-04. The JV's operations are secured by a 10 year agreement upto 2009. In terms of off take and price, there seems no imminent operational threat to the JV, though adverse external developments could potentially affect the JV.

Operating Highlights of JV Companies

Zydus Altana Healthcare Private Ltd. (50:50 JV)

The Zydus Altana JV completed its second year in 2003 with results that well surpassed expectations. The aggregate production of KSM 6 and KSM 14 increased by 19% to 89 tonnes, from 75 tonnes in 2002. The total sales revenue was up 32% to Rs. 1476 mn from Rs. 1114 mn in 2002 on the back of higher dispatches and higher sales price. The latter was boosted by a stronger Euro.

The EBITDA margin improved to 81.4% in 2003 from 73.8% in 2002. A major boosting factor was the drop in material cost as per cent to sales from 12.5% to 9.4%.

The Profit After Tax for 2003 rose to Rs. 1221 mn from Rs. 771 mn a year ago, an increase of 58%. This was on the back of higher EBITDA margin, as well as lower tax provision of Rs. 7 mn versus Rs. 30 mn in 2002 and higher other income of Rs. 73.7 mn, versus Rs. 23.7 mn in 2002.

The PAT margins increased to 82.7%, beating its own record of 69.2% margin in 2002.

The excellent performance of the JV and the high profitability have highlighted the kind of opportunity that Indian pharma companies in general have in the field of outsourcing and contract manufacturing in catering to the requirements of global pharma companies.

The JV paid a total dividend of Rs. 600 mn for 2002 and Rs. 1 bn for 2003. For the company this has translated into dividend income of Rs. 600 mn in 2003-04, thrice that of Rs. 200 mn in 2002-03.

The company is confident of continued good performance of the JV in the forseeable future.

Sarabhai Zydus Animal Healthcare Ltd. (SZAHL)

During 2003-04, the 50% owned animal healthcare JV engaged in distribution of veterinary products for livestock and poultry registered 12.5% growth in sales revenue to Rs. 837 mn, from Rs. 744 mn for 2002-03. The PBIDT increased 19% to Rs. 139 mn, from Rs. 117 mn for 2002-03, and the PBIDT margin from 15.7% to 16.6%. However, the JV ended the year with a higher loss of Rs. 36 mn, compared to Rs. 22 mn in the previous year, as the depreciation for the year was sharply higher by 69% to Rs. 106 mn, compared to Rs. 63 mn in 2002-03. The increase in depreciation was largely on account of write off of trademarks, technical know-how and other rights over a shorter period of 10 years compared to 17 years earlier as per the requirements of the AS 26. Together with Rs. 130 mn accumulated amortisation for prior years, the total loss was higher.

Internal Control Systems and their Adequacy

The company has established procedures for purchase of raw materials and stores, manufacture of finished goods as well as for its sale. Proper procedures exist for receipt/transfer of raw materials, stores and finished products as well as for their proper accounting, including periodical physical verification thereof. Apart from these internal control procedures, a well defined and established system of internal audit is in place to independently review and strengthen these control measures, resulting in considerable cost savings. The Audit Committee of the Board reviews the report of the internal auditor and action as recommended by the Audit Committee is initiated to remedy any weakness in the system.

Human Resources

Aligning HR with the business challenges and the group's global aspirations was one of the key steps that the company undertook during the year under review. The aim was to look at every aspect of our business performance and examine how the challenges of the future can be addressed. Triggering off the transformational process, the focus was on five key areas of setting new direction, identifying and developing leaders, bringing in greater accountability, facilitating co-ordination and control and strengthening competencies or capabilities across the organisation. In keeping with this, the following initiatives were undertaken:

- The overall direction and vision for the company was articulated with Zydans across hierarchies coming together to evolve the new mission and vision in sync with the group's global plans.
- The Zydus Leadership Competency Model was charted out to develop and build leadership capabilities across organisation. The 5 step focus of the model is on entrepreneurship, strategic planning, business planning, networking and people development.
- As a part of the Performance Management System, performance commitment discussions were conducted for key leadership roles. The objective of these discussions was to bring in a greater understanding of one's role in achieving the organisation's goals, leading to a focussed performance.
- Redefined the HR systems and processes for greater efficiency in the organisation.
- Greater thrust on competency building through training and development initiatives. The key development focus during the year was on strengthening competencies. Also introduced and implemented the concept of 'Key Account Management' (KAM) for the API Division.

During the year under review, the First Zydus International HR conference was organised at Lonavala. The objective of the conference was to align the HR mission and vision with the vision of the Zydus group. What emerged at the end of the discussions and brainstorming was the HR mission and vision that would guide the HR processes and Human Resource Management in the group.

Zydus HR Vision

We shall lead the way
by transforming and building our HR environment
to achieve our business aspirations

(to achieve sales of US $ 400 mn by 2006, to become a top ten global generics company with a strong R&D pipeline and sales in excess of US $ 1 bn by 2010 and a global research driven company by 2020)

We shall nurture our current capabilities
and build new capabilities,
bringing in higher levels of
transparency, accountability and promoting meritocracy.

Zydus HR Mission

Basic to our business aspirations,
we are driven by a mission
to make Zydus the best company to work for.
we shall build our HR environment to be continually-exciting, enriching, enabling and empowering.

Community Development

Creating Healthier Communities

In keeping with its corporate philosophy of creating happier, healthier communities, Zydus Cadila's objective is to work closely for the development of the society.

Our community involvement programme has two main thrusts - working at the company level on key initiatives, and supporting local activities in the sphere of healthcare and education under the aegis of the Ramanbhai Foundation.

Company Initiatives

We aim to create community benefits on key social issues that relate directly to our business by helping others to help themselves. We have concentrated these activities in the area of health awareness, particularly in creating an awareness about hypertension. Several health camps were organised across the country which had local doctors conducting free blood pressure check-ups and ECG if necessary.

The Ramanbhai Foundation

The foundation supports initiatives in the field of education and healthcare areas in which the Late Founder Chairman of the Zydus group, Mr. Ramanbhai B. Patel had contributed significantly during his lifetime.

Zydus School for Excellence

An educational institution, set up under the aegis of the Ramanbhai Foundation, the school is now into its third year and provides a rich academic environment for children. It currently has classes from kindergarten to Class VIII (scalable to Class XII with each passing year). It has been founded on the belief that a school is not just a place where young minds come to learn but an institution where character is built.

Rural healthcare camp at Moraiya, Ahmedabad.

Shri Ramanbhai B. Patel - AMA Centre for Excellence in Education

The centre aims to provide a platform for parents, teachers and students to share views, experiences and insights in the field of education. The centre has instituted the 'Shrestha Shikshak Award' to honour the contributions of a teacher to the child's world of learning. Nomination forms were sent to 2000 schools across Gujarat and the centre received an overwhelming response with nominations pouring in from far flung areas. Mr. Natwarlal Shantilal Bhatt, a teacher from Matirala High School in Amreli District was adjudged the Shrestha Shikshak. He received the award from the Former Chief Justice of India and Member of the United Nations Human Rights Committee Mr. P.N. Bhagwati.

The Ramanbhai Foundation in association with the Indian Pharmaceutical Association also instituted a lifetime achievement award to honour outstanding contributions in the field of pharmacy. The award was conferred on Mr. M. R. Shastri (retd. Director, Drugs Control Administration of Gujarat), Mr. C. Gopalakrishna Murthy (an analytical chemist and Former Director, Drugs Control Administration, Andhra Pradesh) and Mr. S.N. Desai (a pharma management consultant with reputed allopathic and ayurvedic companies).

Healthcare Camps

Many of the company's employees volunteered their services at the general healthcare camps at Moraiya, Ahmedabad and a general healthcare and eye-care camp at Dhabasa, near Vadodara. A team of leading doctors from Ahmedabad and Vadodara attended on the patients alongwith the company's panel of medical advisors.

Students of the Zydus School for Excellence.

'ATENsion Hypertension', a hypertension awareness camp in progress.

Directors' Report

Your Directors take pleasure in presenting their report on the business and operations of your Company for the year ended 31st March 2004.

Financial Review

(Rs. in Millions)

For the year ended	31st March 2004	31st March 2003	Growth (%)
Sales and Other Income	12442	10558	18
Profit before Interest, Depreciation, Extraordinary items and Tax (PBIDT)	2488	1922	29
Less : Depreciation	531	382	39
Profit Before Interest and Tax (PBIT)	1957	1540	27
Less : Interest	232	388	(40)
Less : Extraordinary items	91	99	(8)
Profit Before Tax	1634	1053	55
Less : Provision for tax	205	287	(29)
Profit After Tax	1429	766	87
Add : Profit brought forward from the previous year	567	327	73
Less : Goodwill written off on Amalgamation	92	0	100
Profit available for appropriation	1904	1093	74
Earnings per share (EPS) in Rs.	22.75	12.2	86

The results for the year ended on 31st March 2004 includes financial affairs of Banyan Chemicals Limited (BCL), which got merged with the Company with effect from 1st April 2003.

During the year under review, the Company achieved sales of Rs. 11723 mn, up 14 % compared to the previous year. The PBIDT increased by 29% year-on-year to Rs. 2488 mn. The Profit Before Tax was up 55% to Rs. 1634 mn. The Profit After Tax increased to Rs. 1429 mn up by 87% compared to Rs. 766 mn. in 2003-04. The Company achieved EPS of Rs. 22.75 compared to Rs. 12.2 in 2002-03. The annexed auditors' report and the notes forming part of accounts are self explanatory.

A detailed analysis of the operations of the Company has been provided in the Management's Discussion and Analysis Report, which forms a part of this Annual Report.

Dividend

Your Directors are pleased to recommend a dividend of Rs. 6/- (120 %) per equity share on 62,806,854 equity shares of Rs. 5/- each for the financial year ended 31st March 2004. The dividend, if approved by the shareholders at the forthcoming Annual General Meeting, will be paid to the eligible shareholders on or after 24th July 2004.

Scheme of Amalgamation

During the year, your Directors decided to amalgamate wholly owned subsidiary Banyan Chemicals Limited with the Company. The Hon'ble High Court of Gujarat has sanctioned the Scheme on 25th March 2004.

This scheme of amalgamation of 100 % subsidiary has not resulted in issuance of any new shares and hence there is no change in the capital structure of the Company. The Company's investments in its subsidiary so amalgamated has been extinguished.

Performance of Subsidiary and Joint Venture Companies

The audited accounts of Zydus Pharmaceuticals Limited (Zydus Pharma), Dialforhealth India Limited (DIL), Zydus International Private Limited (ZIPL), Zydus Healthcare SA (Proprietary) Limited (ZHSA), German Remedies Limited (GRL), Zydus Healthcare Brasil Limitada (ZHBL), Zydus Healthcare (USA) LLC (ZHUSA), Zydus France SAS (ZF) and Zydus Pharmaceuticals USA, Inc., the wholly owned subsidiaries of the Company, along with the statement required under Section 212 of the Companies Act, 1956 are annexed.

Performance of subsidiaries during 2003-04

Sr.	Name of Subsidiary	% holding	Main business	Revenues 2003-04 (Rs mn)	Profit after tax 2003-04 (Rs mn)
1	Zydus Pharmaceuticals Limited	100%	Distribution of pharma goods	2143	4.2
2	Zydus France SAS *	100%	Marketing of generics (Pharmaceuticals)	4.89 €	Loss of 1.92 €
3	German Remedies Ltd. (Formerly Known as German Remedies Specialities Ltd.)	100%	Marketing of drugs and pharmaceuticals diagnostics and personal hygiene and allied products	330.63	0.73
4	Dialforhealth India Ltd.	100%	Operates a chain of retail pharmacies	36	Loss of 17.3
5	Zydus Healthcare (USA) LLC	100%	Operates bulk API business in USA	0.39 US$	0.02 US $
6	Zydus Healthcare Brasil LTDA.	100 %	Operates formulation business of the Company in Brazil	Nil	0.01 US $
7	Zydus International Pvt. Ltd.	100%	Based in Ireland to hold Company's Global Investments	Nil	0.02 UK £
8	Zydus Healthcare SA (Pty) Ltd.	100%	Operates formulation business of the Company in South Africa	Nil	Loss of 0.002 R
9	Zydus Pharmaceuticals USA Inc. **	82.63 %	Marketing of generic formulations in USA	Nil	Loss of 0.009 US $

* 100 % share holding acquired pursuant to share purchase agreement by Zydus International Private Limited during the year.
** Incorporated during the year as Joint Venture Company between Zydus International Private Limited and Mr. Joseph D. Renner.

Joint Ventures

Detailed discussion of performance of joint ventures is covered in Management Discussion and Analysis Report.

1. Zydus Altana Healthcare Private Limited (ZAHL)

   This 50:50 joint venture company between the Company and Altana Pharma AG, is a 100% EOU situated at Navi Mumbai. ZAHL paid out three interim dividends of 100% in addition to a final dividend of 200% during the year.

2. Onconova Therapeutics Inc., USA (ONCONOVA)

   Onconova is a US-based oncology research company. The Company has invested Rs. 187 mn (US$ 4 mn) in Convertible Preferred Stock, amounting to 18.17 % stake in total paid up capital.

3. Sarabhai Zydus Animal Health Ltd. (SZAHL)

   SZAHL is a 50:50 joint venture formed between the Company and Ambalal Sarabhai Enterprises Limited to market animal healthcare products. It incurred loss of Rs. 36.09 mn for the year under review.

International Market Initiative

Your Directors are pleased to inform you that the Company has chalked out an ambitious plan to foray into the international market. Detailed discussions on these initiatives are covered in Management Discussion and Analysis Report.

Fixed Deposits

The Company does not accept any fresh deposits from the public. As on 31st March 2004, the Company had Rs. 0.15 mn of fixed deposits. All deposits that matured during 2003-04 were paid, except deposit of Rs. 0.09 mn pertaining to erstwhile German Remedies Limited remained unclaimed as on 31st March 2004. There is no other unclaimed / unpaid deposits with the Company as on 31st March 2004.

Credit Rating

As on 31st March 2004, CRISIL assigned P1+ credit rating for the Rs. 600 mn commercial paper programme of the Company, signifying the Company's strong position in the domestic pharmaceutical formulation market. CRISIL has also assigned / reaffirmed the AA rating for issuing Rs. 1300 mn long-term debentures and / or bonds.

Disclosure

As required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988, the relevant information and data with respect to the conservation of energy, technology absorption and foreign exchange earnings/outgo have been provided in **Annexure-A**, attached to this report, and forms a part of this report.

There have been no material changes and commitments, which can affect the financial position of the Company between the end of the financial year and the date of the report.

As required under Section 217(2) of the Companies Act, 1956, the Board of Directors inform the members that during the financial year there has been :

* No change in the nature of the Company's business,
* No change in the Company's subsidiaries, except those stated in this report or in the nature of the business carried out by them,
* No change in the classes of business in which the company has an interest.

Management's Discussion and Analysis (MDA)

MDA covering details of operations, international markets, research and development, opportunities and threats, etc. for the year under review is given as a separate statement, which forms part of this Annual Report.

Directors

Dr. Manubhai A. Patel and Mr. Sharvil P. Patel, Directors of the Company retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment. Dr. Manubhai A. Patel has not offered himself for re-appointment. The Board recommends the re-appointment of Mr. Sharvil P. Patel who has offered himself for re-appointment. In accordance with stipulation under Clause 49 of the Listing Agreement, brief resume of Mr. Sharvil P. Patel together with nature of his expertise in specific functional areas and names of the companies in which he holds office of the Director and/or the Chairman/Membership of Committees of the Board, is given in the Corporate Governance Report.

Auditors

The Audit Committee of the Board of Directors of the Company has recommended the re-appointment of M/s. R. R. Patel & Company and M/s. Mukesh M. Shah & Company, both Chartered Accountants, as joint auditors of the Company, who retire at the conclusion of the ensuing Annual General Meeting. Both the auditors are eligible for re-appointment.

Personnel

The statement of particulars of employees, providing information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, form a part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Annual Report excluding this statement is being sent to all the members. Any member interested in obtaining a copy of this statement may write to the Company Secretary at its registered office.

Directors' Responsibility Statement

To the best of their knowledge and belief, and according to the information and explanations provided to them, your Directors hereby state that :

(a) In preparation of the Annual Accounts, the applicable accounting standards have been followed. Necessary explanations are given for material departures;

(b) Such accounting policies have been selected and applied consistently and judgements and estimates made that are reasonable and prudent so as to give true and fair view of the state of affairs of the Company as on 31st March 2004 and of the profit of the Company for the year ended on that date;

(c) Proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for prevention and detection of fraud and other irregularities;

(d) The Annual Accounts for the year ended 31st March 2004 are prepared on going concern basis.

Corporate Governance

The Company has complied with the mandatory provisions of Corporate Governance as prescribed in the Clause 49 of the Listing Agreement with the Stock Exchanges. A separate report on Corporate Governance and auditors report thereon are included as a part of the Annual Report.

Acknowledgement

Your Directors place on record their deep sense of appreciation for the contribution made by the employees at all levels, including that of the merged Company and subsidiaries, for their dedicated service, enabling the Company to achieve a satisfactory performance during the year under review.

Your Directors also take this opportunity to place on record the valuable co-operation and continued support extended by the financial institutions, Company's bankers, medical professionals, foreign collaborators, business associates and investors.

By Order of the Board of Directors

Place : Ahmedabad
Pankaj R. Patel

Date : 26th April 2004
Chairman

Annexure to the Directors' Report

ANNEXURE - A

Information required under Section 217(1)(e) of the Companies Act, 1956.

Disclosures

1. Conservation of Energy:

a. The Company has taken the following measures for Conservation of Energy.

General measures :

- Installed FRP blades on cooling tower fans in place of aluminum.
- Installed automatic power factor controllers to improve power factor.
- Usage of better reflectors to reduce number of tube lights.
- Using fuel additives for better and efficient use of fuel.

Specific measures taken :

Formulation unit at Moraiya (Ahmedabad) :

- Installed waste heat recovery system on DG Set to produce chilled water.
- Introduced Refrigerated type Compressed Air Dryer in place of descent type.
- Installed Solar Water Pump for gardening.
- Reduced Lyophilization cycle of Vaccine.
- Reduced AHU numbers in non critical sterile area and reduced speed for sterile area during non working hours.
- Automated Steam Pressure reducing stations throughout the plant.
- Installed steam condensate recovery system in other areas.
- Installed V.F.D. on pumps to reduce power consumption in other areas.

API unit at Ankleshwar :

- Introduced Cyclic Star (Cyclic load Energy Saver), Variable Frequency Drives in Centrifuges.
- Installed Fuel saving Magnetics Devices on fuel line of power plant and boiler.

Formulation Unit at Goa :

- Started re-use of rejected water of RO Plant for utility services.
- Baby boiler installed in place of big boilers for WFI heating.

Agiolax Plant at Goa :

- Second phase of condensate recovery system installed and commissioned to reduce consumption of Furnace oil and water.

API Unit at Patalganga :

- Using of pre-heating furnace oil by steam instead of electricity.

API Unit at Dhabasa (Vadodara) :

- Installed one Samson controller in steam line to control the temperature of steam to the jacket of process water tank, to give better temperature control ranging 80-86^{O} C to avoid excessive steam utilisation.
- Replaced the coil type Boiler v/s shell & tube type to avoid recurring costs and get dry steam.

b. Additional investment and proposals, if any, being implemented for reduction of consumption of energy.

Formulation unit at Moraiya (Ahmedabad) :

- Installed high efficiency Trane Chiller.
- Found an alternative source of fuel/power. Working on the feasibility of gas as a fuel.
- Installed Steam Condensate recovery system in other areas.
- Installed well designed tubelight reflectors in other areas.
- Increased the installed capacity of Capacitor bank to improve the power factor based on load.
- Installed waste heat recovery system.
- Installed variable frequency drive, solar system.

API unit at Ankleshwar :

- Installed Backpressure Saturated Steam Turbine of 75KW capacity (co-generation power plant) by replacing existing Pressure Reducing Valve (PRV)

c. Impact of measure (a) and (b) :

Above measures will reduce energy consumption and consequently reduce cost of production of goods. These measures will also reduce consumption of electricity, water, steam, furnace oil and HSD.

Form-A

(A) Power and fuel consumption

	Current Year (from 1/4/2003 to 31/3/2004)						Previous Year (from 1/4/2003 to 31/3/2004)					
	API Plant at (Ank.)	Formula -tion Plant (Moraiya A'bad)	GRD Plant (Vatwa A'bad)	R&D Centre (Moraiya A'bad)	GRL Plants at Goa & Patalganga	Dhabasa (Vadodara)	API Plant at (Ank.)	Formula -tion Plant (Moraiya A'bad)	GRD Plant (Vatwa A'bad)	R&D Centre (Moraiya A'bad)	GRL Plants at Andheri, Goa & Patalganga	Banyan API Plants at Dhabasa (Vadodara)
1. Electricity :-												
(a) Purchased												
Units	1534918	8196750	275745	2420848	10106562	636971	2030256	8279520	242500	2180073	11174101	324315
Total Amount (Rs.in mn)	8.33	36.15	1.42	13.04	36.28	3.002	1.082	3.744	0.127	1.118	4.381	1.543
Rate/Unit (Rs.)	5.43	4.46	5.14	5.37	3.59	4.71	5.35	4.52	5.25	5.13	4.18	4.76
(b) Own Generation :												
i) Through Diesel Generator												
Units	71076	163640	5250	99900	3687163	15856	58572	1093572	6300	190000	5868938	3942
Units per ltr. Of Diesel Oil	3.54	3.50	3.00	3.33	3.24	3.25	3.00	3.70	3.40	3.45	7.23	3.25
Cost/Unit (Rs.)	7.14	8.09	9.17	6.60	6.48	8.19	7.10	5.62	6.11	6.51	3.79	13.03
ii) Through steam Turbine/Generator												
Units	4986712	1979042	NIL	NIL	NIL	NIL	3356144	709964	NIL	NIL	NIL	NIL
Units per ltr. Of Fuel Oil/Gas	3.10	3.40 (LDO)	NIL				2.67	3.90				
Cost/Unit (Rs.)	3.00	2.99	NIL				3.30	3.99				
2. Coal (Specify quality and where used)	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
3. Furnace Oil	NIL						NIL		NIL			
Quality (K.Ltr)		2133.93	1.87 (HSD)	65	1099.60	47.22		2039.70		47.54	1279	24600
Total Amount (Rs.in mn)		26.16	0.04	1.00	10.38	0.582		2.34		0.07	1.23	0.33
Average Rate per Ltr.		12.26	22.68	15.40	9.44	12.33		11.45		15.4	9.61	13.34
4. Others/internal Generation		NIL	NIL	NIL	NIL	NIL		NIL	NIL	NIL	NIL	NIL
Natural Gas	3020755M³											
Quantity							2421769 M3					
Total Cost (Rs. in mn)	26.88						21.45					
Rate/Unit (Rs.)	9.00 /M³						8.86 / M³					

(B) Consumption per unit of production

- Products (with details) unit
- Electricity
- Furnace Oil
- Coal (Specify quality)
- Others (Specify)

The Company manufactures a wide range of bulk drugs, a large number of formulations and other products. In view of this, it is impractical to apportion the utilities unit wise.

Form - B

Research and Development

A. Specific areas of Research & Development

Following Research & Development activities are carried out :

Sr. No.	Location	A. Main area of Focus	B. Benefits derived as a result of Research and Development Activities
1	Zydus Research Centre, Moraiya, Gujarat	**1. NCE Research on :** a. Metabolic Disorders b. Inflammation and Pain c. Bacterial Infections	Several compounds are in the various stages of development.
		2. Process Research & Novel Process Research Development of Novel processes for filing ANDA / DMF	Several processes are developed and are at various stages of registrations.
		3. Novel Drug Delivery Research a. Development of Novel platform technology for slow/extended release of drug b. Development of Novel formulations	Several NDDS for various products were developed and are at various stages of registration / patenting.
2.	Pharmaceutical Technology Centre (PTC), Moraiya, Gujarat	Formulations development for developed countries like USA and Europe and preparation of filings for developed markets and ANDA filings	Developed several ANDAs for filings in developed markets like US, Europe, etc. Twelve ANDAs filed with USFDA during the year under report.
3.	Zydus Fine Chemicals Research and Development Centre, Moraiya, Gujarat	Process development for custom synthesis	Developed custom synthesis of small volume chemicals which are required for research and other development work.
4.	Research and Development Facility, Dabhasa, Gujarat	Development of new bulk active manufacturing processes for developed markets and DMF filings	Number of DMFs filed and few are ready for filing.
5	Research and Development Facility at Andheri, Mumbai, Maharashtra	Development of formulations and drug delivery systems	Developed a number of formulations for domestic and international markets and is also marketing them.
6.	Active Pharmaceutical Ingredients Research Centre, Ankleshwar, Gujarat	Process development for : a. Studying the different polymorphs & discovery of new polymorphic compounds b. Developing commercially viable non infringing processes for patented drugs c. Existing products, process improvement for cost reduction, reduction in time cycle to increase the productivity	Developed several new bulk actives for commercial use. It also improved existing processes and developed new processes to improve productivity and reduce consumption of inputs. It also filed several DMFs (Drug Master Files), EDMFs for exports of APIs to regulated and non-regulated markets.
7.	Research and Development Facilities at Banglore, Karnataka	Development of formulations for marketing in India.	Developed number of formulations for marketing in India.
8.	Research and Development Facility, Patalganga, Maharashtra	Development of bulk active manufacturing processes.	Developed manufacturing process for five products and is being manufactured on commercial scale.

B. **Future plan of action**

1. Continue to work on NCES.
2. The Company has plans to work aggressively on filings in developed markets like US, Europe, etc., both in APIs and formulations.
3. It will also work on development of APIs and formulations for the domestic market.
4. It will continue to improve processes for APIs and formulations and develop NDDS.

C. **Expenditure on R & D**

	(Rs. in mn)
(i) Capital	250.00
(ii) Recurring	632.00
(iii) Total	882.00
(iv) Total R&D expenditure as a percentage of turnover	7.52 %

D. **Technology absorption, adaptation and innovation:**

1. Efforts in brief, made towards technology absorption, adaptation and innovation :
   The Company has successfully implemented the technology for the manufacture of several formulations developed through in-house R&D efforts. These products are sold commercially. It has also implemented the processes for APIs which are not only sold in India but also exported.
2. Benefits derived as a result of the above efforts :
   Several products for MDI's, DPI's, Extended Release Products, Modified Release Products and Delayed Released Products have been successfully developed and manufactured for commercial purposes.
3. Details of imported technology during the last five years :

Technology Imported	Year of Import	Whether fully absorbed ?
For manufacture of Anti Rabies Vaccine from Berna Biotech, Switzerland	1998-1999	Fully Absorbed
For manufacture of Transdermal Patches from Ethical Holdings PLC, U.K.	1999-2000	Absorbed to commercial level. Will be considered as fully absorbed after three commercial batch productions
For manufacture of certain pharmaceutical products from Schering AG, Germany	2003-2004	Fully Absorbed

a. If not fully absorbed, areas where this has not taken place, reasons there of and future plans of actions : Nil

3. Foreign exchange earnings and outgo

(Rs. in mn)

	2003-04	2002-03
Earnings :		
1. F.O.B. Value of exports	1773	1032
2. Others	0	5
Outgo :		
1. CIF value of imports	1072	1534
2. Expenditure in foreign currency	701	786

By order of the Board of Directors

Place : Ahmedabad

Date : 26th April 2004

Pankaj R. Patel

Chairman

Corporate Governance

Your Company has complied with all the material aspects of the Corporate Governance Code as per Clause 49 of the Listing Agreement with the Stock Exchanges. A report on the compliance with the Corporate Governance Code of the Listing Agreement by the Company during the financial year 2003-04 is furnished below.

1. Company's Philosophy on Code of Governance

Your Company has always believed in managing its affairs with diligence, transparency, responsibility and accountability. We have therefore designed our systems and actions to enhance performance and stakeholder value in the long run. To create a culture of good governance, your Company has adopted certain practices which comprises performance accountability, effective management control by the Board of Directors, constitution of Board Committees as a part of the internal control system, fair representation of professionally qualified, non-executive and independent Directors on the Board, the adequate timely disclosure of information and the prompt discharge of statutory duties. We take pleasure in reporting that your Company's existing policies and practices are in conformity with the requirements stipulated under Clause 49 of the Listing Agreement.

2. Board of Directors

a) Composition of the Board :

The Composition of the Board of Directors, with reference to the number of Executive and Non-Executive Directors, meets the requirement of the Code of Corporate Governance. The Board is headed by the Executive Chairman, Mr. Pankaj R. Patel, who is also the promoter Director. The Board of your Company comprises eight Directors; one is the Executive Director while seven are Non-Executive Directors. Except Mr. Pankaj R. Patel and Mr. Sharvil P. Patel, all other Directors are independent Directors. The Board represents an optimum mix of professionalism, knowledge and expertise.

b) Number of Board Meetings and attendance:

During 2003-04, seven meetings of the Board of Directors were held on 30th April, 2003, 15th July 2003, 16th August, 2003, 30th September, 2003, 20th October, 2003, 20th January, 2004 and 12th February, 2004. There was no gap of four months between any two meetings. The details of the Board of Directors, their positions, attendance record and other Directorships (excluding private limited and foreign companies and alternative Directorships) and the membership of Board Committees other than your Company as on 31st March, 2004 are as under :

Name of Director	Position	Number of Board meetings held	No. of Board meetings attended	Attendance at the last AGM	Member of other Board Committees	Number of other Directorships held
Mr. Pankaj R. Patel *	Chairman and Managing Director	7	7	Yes	2 **	7
Mr. H. K Bilpodiwala *******	Non-executive and independent	7	4	Yes	6 *****	7
Mr. Mukesh M Patel	Non-executive and independent	7	7	Yes	3 ***	3
Mr. Pranlal Bhogilal	Non-executive and independent	7	6	Yes	0	8
Mr. H. Dhanrajgir *******	Non-executive and independent	7	4	Yes	9 ****	6
Mr. A S Diwanji *******	Non-executive and independent	7	4	Yes	0	0
Dr. Manubhai A Patel	Non-executive and independent	7	2	Yes	0	1
Mr. Sharvil P Patel ******	Non-executive	7	1	No	0	5

*	Promoter Director
**	Chairman in all two committees
***	Of which Chairman in one committee
****	Of which Chairman of five committees
*****	Of which Chairman of three committees
******	Relative of Mr. Pankaj R. Patel
*******	Appointed w.e.f.16-08-2003

c) Information placed before the Board of Directors:

The Board of the Company is presented with the following information under the following heads, whenever applicable and materially significant. These are submitted either as a part of the agenda papers well in advance or are tabled in the course of the Board meetings. Among others, they include :

- Review of annual operating plans of business, capex budget and updates, if any.
- Quarterly results of the Company.
- Minutes of the meeting of the Audit Committee and other committees.
- Information on the recruitment and remuneration of senior officers just below the Board level including the appointment and removal of the Chief Financial Officer and the Company Secretary.
- Materially important show causes, demands, prosecutions and penalty notices.
- Fatal or serious accidents or dangerous occurrences.
- Any materially significant effluent or pollution issues.
- Any materially relevant default in financial obligations to and by the Company or any substantial non-payment for goods sold by the Company.
- Any issue which involves possible public or product liability claims of a substantial nature.
- Details of any joint venture or collaboration agreement.
- Transactions that involve substantial payments towards goodwill, brand equity and intellectual property, if any.
- Significant labour problems and development in human resources / industrial relations.
- Material sale of investments, subsidiaries and assets not in the normal course of business.
- Quarterly details of foreign exchange exposure and the steps taken by the management to limit the risk of adverse exchange rate movement.
- Non compliance of any regulatory or statutory provision or listing requirements as well as shareholder service such as the non-payment of dividend and delays in share transfer.
- Working of the subsidiary companies.

d) Role of Independent Directors :

The Independent Directors play an important role in the deliberations in Board Meetings and bring to the Company a wide guiding experience in pharmaceutical industry, accountancy, finance, taxation and legal fields, among others.

e) Board meetings :

The meetings of the Board of Directors are held at regular intervals of not more than four months at the Company's Registered Office at Ahmedabad or at Mumbai as per the convenience of the Directors; these are generally scheduled well in advance. The provisions under the Companies Act, 1956 and those under Clause 49 of the Listing Agreement are strictly followed in this regard. The Board meets at least once a quarter to review the performance and financial results. The agenda for the meeting is prepared by the Company Secretary in consultation with the Chairman and Managing Director and the agenda papers are circulated to the Directors well in advance. The members of the Board have access to all information pertaining to the Company and are free to recommend the inclusion of any matter in the agenda. The statutory auditors and senior executives of the Company are invited to the Board Meeting for discussion and to provide inputs whenever required.

3. Audit Committee

The Audit Committee was formed on 24th April 2000 and presently comprises of five independent Non-Executive Directors, namely Mr. Mukesh M. Patel (Chairman of the Committee), Mr. H. K. Bilpodiwala, Mr. Pranlal Bhogilal, Mr. H. Dhanrajgir and Dr. M. A. Patel. The Company continued to derive an immense benefit from the deliberations emerging from the Audit committee meetings since members are experienced in the areas of finance, accounts, taxation, company law and the industry.

The Committee carries out the functions in accordance with the terms of reference set out under Clause 49 (II) of the Listing Agreement read together with Section 292A of the Companies Act, 1956, and additional responsibilities assigned to the Committee by the Board of Directors. The Committee also reviews reports of the internal auditors and statutory auditors along with the comments and action taken. Senior executives are invited to the meetings of the Audit Committee as and when considered appropriate. The head of the management audit, the head of the finance function, statutory auditors and cost auditor regularly attend the meetings of the Audit Committee; the Company Secretary acts as the Secretary of the Committee.

The functions of the Audit Committee, among others, includes the following:

- Overseeing the Company's financial reporting process and ensuring the correct, adequate and credible disclosure of financial statements,
- Reviewing with management, the annual financial statements before their submission to the Board with a special emphasis on accounting policies and practices, internal control requirements, compliance with the accounting standards and other legal requirements concerning financial statements,
- Reviewing the adequacy of the audit and compliance function, including their policies, procedures, techniques and other regulatory requirements,
- Recommending the appointment of statutory auditors.
- To review the observations of internal and statutory auditors about the findings during the audit of the Company.

Attendance of Audit Committee members

The Audit Committee met three times during the year: on 30th April, 2003, 16th August, 2003 and 20th January, 2004. The attendance of the members are given hereunder:

Name of the Director	No. of Meetings	Meetings Attended
Mr. Mukesh M. Patel	3	3
Mr. Pranlal Bhogilal	3	3
Dr. Manubhai A. Patel	3	-
* Mr. H. K. Bilpodiwala	3	1
* Mr. H. Dhanrajgir	3	1

* Appointed w.e.f. 16th August, 2003

4. Shareholders'/Investors' Grievance Committee

a) Terms of reference :

The Company has formed a Shareholders'/Investors' Grievance Committee under the Chairmanship of Mr. Mukesh M. Patel, a non-executive independent director. The Committee monitors investors' grievances.

b) Composition :

The Committee comprises the following members:

Mr. Mukesh M. Patel – Chairman,

Mr. Pankaj R. Patel,

Dr. Manubhai A. Patel.

Mr. Upen Shah, Company Secretary, acts as the Compliance Officer of the Committee.

The status of the complaints received by the Company are submitted periodically to the Committee. As on 31st March, 2004, all complaints have been resolved.

The Committee met at regular intervals and the members present reviewed the complaints and then provided solution to the satisfaction of investors.

The Committee is responsible for the redressal of shareholders and investors grievances relating to transfer of shares and non-receipt of dividend.

There was no transfer of shares pending for transfer as on 31st March 2004.

As at 31st March, 2004 33,222 equity shares were remained in the in-transit account with National Securities Depository Limited / Central Depository Services Limited.

5. Share Transfer Committee :

a) Terms of reference:

The Committee approves and monitors transfers, transmission, dematerialisation, rematerialisation, issue of duplicate shares, splitting and consolidation of shares issued by the Company.

b) Composition:

The Share Transfer Committee comprises the following members:

Mr. Pankaj R. Patel - Chairman

Mr. Mukesh M. Patel; and

Dr. M. A. Patel.

c) Meetings and attendance during the year:

The Committee met at regular intervals to approve the share transfers. There were 34 meetings of the Committee held during the year which ended on 31st March, 2004.

The Committee meets on a need basis at least twice a month to ensure the regular process of transfers/transmissions of shares and to ensure that the transfers of shares are effected within one month of receipt.

6. Remuneration

The Directors' Remuneration Policy of your Company confirms with the provisions under the Companies Act, 1956. The Board of Directors determine the remuneration of the Non-Executive Directors within the limits approved by the shareholders.

The Company does not pay any remuneration to Non-Executive Directors, except commission not exceeding one per cent per annum of net profits of the Company, subject to maximum of Rs.50,00,000/- in aggregate to be paid to the Directors of the Company or some or any of them other than Managing Director and the non-independent Director, and the sitting fees for attending the meeting of the Board/Committee of the Board and reimburses the travelling and out-of-pocket expenses for attending such meetings. There are no pecuniary relationship or transactions with the Company. The details of the payment of commission / sitting fees to the Non-Executive Directors during the year 2003-04 are given below:

Non-Executive Directors	Commission	Sitting fees (Rs.) **		Total
		Board Meetings	Audit Committee Meetings	
1. Dr. Manubhai A. Patel	85,714	10,000	NIL	95,714
2. Mr. Pranlal Bhogilal	2,57,143	30,000	15,000	3,02,143
3. Mr. Mukesh M. Patel *	3,00,000	35,000	15,000	3,50,000
4. Mr. Sharvil P. Patel	0	5,000	N. A.	5,000
5. Mr. H. Dhanrajgir	1,71,429	20,000	5,000	1,96,429
6. Mr. H. K. Bilpodiwala *	1,71,429	20,000	5,000	1,96,429
7. Mr. Apurva Diwanji *	1,71,429	20,000	N.A.	1,91,429

* Also paid professional fees for rendering professional services to the Company.

** Sitting fees paid to the Directors of erstwhile German Remedies Limited (GRL) are not included above.

Mr. Pankaj R. Patel, the Managing Director of the Company, was appointed for a period of five years from 1st September, 2001, on a remuneration permissible under Section 198 and 309, read with Schedule - XIII of the Companies Act, 1956. An agreement is entered into with the Managing Director. As per the terms of agreement, Managing Director can resign his office by giving three calendar months notice in writing to the Company and the Board may appoint any other person (s) to be Managing Director(s) at any time. The office of the Managing Director if determined before the expiry of his term of office, Company will pay compensation for loss of office in accordance with the provisions of Section 318 of the Companies Act, 1956.

The Company has not introduced any stock option scheme for any of its Directors.

Remuneration paid/payable to the Managing Director towards salary and contribution to the Provident fund and other funds amount to Rs. 84 mn for the year 2003-04.

Computation of the remuneration of the Managing Director is given in Note 17 of Notes on Accounts, under Schedule 20 of the accounts.

7. Management

a) Management's Discussion and Analysis Report:

Management's Discussion and Analysis Report is set out in a separate section included in this Annual Report and forms a part of this Report.

b) Disclosures on materially significant related party transactions:

Transactions with related parties are disclosed in Note No. 19 of Schedule 20 of the Accounts under the heading 'Significant Accounting Policies and Notes on Accounts' in the Annual Report.

These transactions have no potential conflict with the interest of the Company at large.

8. Note on appointment or re-appointment of Directors

Dr. M. A. Patel and Mr. Sharvil P. Patel retire by rotation at the forthcoming Annual General Meeting. Being eligible, Mr. Sharvil P. Patel has offered himself for re-appointment as a Director, however, Dr. M. A. Patel has not offered himself for reappointment. A brief resume of Mr. Sharvil P. Patel is given below :

Brief resume of Mr. Sharvil P. Patel

Mr. Sharvil P. Patel is a graduate in Chemical and Pharmaceutical Science (CPS) from University of Sunderland U.K. Presently he is pursuing his Ph.D in the field of cancer at Johns Hopkins Bayview Medical Centre, USA.

Mr. Sharvil P. Patel is presently on the Board of the following Public Limited Companies.

- Dialforhealth (India) Limited
- Zydus Finance Limited
- Zydus Pharmaceuticals Limited
- Pharmaceuticals Business Group (India) Ltd.
- Sarabhai Zydus Animal Health Limited

9. Means of communication

The quarterly, half yearly and annual financial results of the Company are sent to the Stock Exchanges immediately after they have been taken on record by the Board. The same are published in well circulated Gujarati and English dailies.

The results are simultaneously posted on www.zyduscadila.com., the company's website.

The Company also provides periodic event-based information to investors and the public at large by way of press releases / intimation to the Stock Exchanges where the shares of the Company are listed.

The Company also makes the presentation to the Institutional Investors and the copy of presentation are also filed with the Stock Exchange and also uploaded on the Company's website for the information of the investors at large.

10. General shareholder information

(i) Annual General Meeting :

Day	:	Tuesday
Date	:	20th July 2004
Time	:	10.00 a.m.
Venue	:	Bhaikaka Bhavan Law College Road Ellisbridge Ahmedabad – 380 006.

(ii) Tentative financial calendar (subject to change) for the financial year 2004-05:

i) Results for the first quarter by 31st July 2004

ii) Half-yearly results by 31st October 2004

iii) Results for the third quarter by 31st January 2005

iv) Audited results for the year ending on 31st March 2005 by 30th June 2005

(iii) Dates of book closure:

16th July 2004 to 20th July 2004 (both days inclusive)

(iv) Date of payment of dividend:

On and after the 24th July 2004

(v) Listing of securities and Stock Code:

The equity shares of the Company are listed on the following Stock Exchanges:

Name of the Stock Exchange	Address	Stock Code
The Stock Exchange, Ahmedabad	Kamdhenu Complex Opp. Sahjanand College, Panjara Pole, Ahmedabad - 380 015.	10927
The Stock Exchange, Mumbai	1st Floor, New Trading Ring, Rotunda Bldg., P. J. Towers, Dalal Street, Fort, Mumbai - 400 001.	532321
The National Stock Exchange of India Limited	Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051	CADILAHC EQ

(vi) Listing fees

The Company has paid listing fees for the financial year 2004-05 to all the Stock Exchanges where its securities are listed.

(vii) Demat ISIN Number for NSDL & CDSL

ISIN Number issued for equity shares by NSDL & CDSL: INE010B01019. Trading in the Company's equity shares has been made compulsorily in a dematerialised form with effect from 24th July 2000.

(viii) Stock price data:

The table given below depicts the monthly high and low of Company's share on the Stock Exchange, Mumbai, National Stock Exchange of India Limited and the Stock Exchange, Ahmedabad.

Table - 1

Month	BSE Sensex	The Stock Exchange Mumbai		National Stock Exchange of India Limited		The Stock Exchange, Ahmedabad	
		High	Low	High	Low	High	Low
April, 2003	2960	125.45	120.85	128.90	120.10	N.T.	N.T.
May	3181	121.95	115.15	127.00	110.00	N.T.	N.T.
June	3607	174.80	125.55	175.35	120.75	N.T.	N.T.
July	3793	246.50	178.85	255.00	173.00	N.T.	N.T.
August	4245	297.95	236.95	300.00	232.50	N.T.	N.T.
September	4453	338.85	291.50	351.90	280.10	N.T.	N.T.
October	4907	342.85	300.35	348.40	290.50	N.T.	N.T.
November	5045	378.00	341.75	384.00	332.00	N.T.	N.T.
December	5839	411.50	381.45	421.00	375.05	N.T.	N.T.
January, 2004	5696	417.80	369.85	424.00	366.00	N.T.	N.T.
February	5668	513.00	365.20	524.00	360.00	N.T.	N.T.
March	5591	491.10	442.40	503.00	421.15	N.T.	N.T.

N.T. = No Trading Recorded

Chart 'A' given below shows the stock performance in comparison to broad based BSE Sensex.

Chart 'A'

(ix) Registrars and transfer agents:

For lodgment of transfer deeds and other documents or any grievances / complaints investors may contact the Company's Registrar and Transfer Agent at the following address:

M/s. Pinnacle Shares Registry Pvt. Ltd.,
Near Ashoka Mills, Naroda Road, Ahmedabad – 380 025.
Telephone: 079 – 22204226, 22200591, 22200582.
Fax number: 079 – 22202963. Email: gautam.shah@psrpl.com

(x) Share transfer system:

Shares sent for transfer in physical form are processed and transferred by Registrar and Share Transfer Agents within 30 days from the receipt of proper documents following approval by the Share Transfer Committee. Shares transfers which are under objection are returned within 21 days. The Share Transfer Committee meets on a need basis at least twice in a month to approve share transfers/transmissions.

(xii) Dematerialisation of shares and liquidity:

The Company's shares are in compulsory dematerialised (demat) list and are settled through the depository system. The Company signed agreements with National Securities Depository System (NSDL) and Central Depository Services (India) Limited (CDSL) to offer depository services to shareholders. As on 31st March, 2004, 26.86% equity share capital of the Company has been dematerialised. However, 71.10% of the paid up capital held by the promoter group has not been dematerialised.

(xiii) Location of the company's manufacturing plants:

Company's plants are located at:

- **Formulation Complex**
  Survey Nos. 417, 419, 420
  Village: Moraiya
  Taluka: Sanand
  Dist.: Ahmedabad (Gujarat)
- **Active Pharmaceuticals Ingredient Complex**
  Plot No. 291 and Plot No. 5/1/B
  GIDC Industrial Estate
  Ankleshwar
  Dist.: Bharuch (Gujarat)
- Kundiam Industrial Estate
  Ponda
  Goa - 403 401
- Plot No. 31
  Dabhasa, Umraya Road
  Dabhasa, Taluka Padra - 391 440
  Dist. Vadodara
- **Food Products**
  Plot No. 5504
  GIDC Estate, Vatwa
  Ahmedabad (Gujarat)
- Plot A-2, MIDC
  Patalganga, Dist. Raigad
  Maharashtra - 410 220.
- **R & D Centre**
  Survey Nos. 396 & 403
  Village: Moraiya. Tal: Sanand
  Dist.: Ahmedabad (Gujarat)
- **Diagnostic and re-agents manufacturing plant**
  Shed No. A/1-3707
  GIDC Estate, Vatwa
  Ahmedabad - 382 445.

(xiv) Registered Office/address for correspondence:

Shareholders can send their correspondence to the Registered Office of the Company at Zydus Tower, Satellite Cross Roads, Ahmedabad 380 015 or to the Registrar and Transfer Agent at M/s Pinnacle Share Registry Private Limited, Near Asoka Mills, Naroda Road, Ahmedabad – 380 025, in case of transfers, transmission, change in address and bank particulars etc. with respect to physical shares.

Shareholders holding their shares in the electronic mode should address all their correspondence to their respective depository participants.

(xv) Outstanding GDRs/ADRs/Warrants:

The Company has not issued GDRs/ADRs/warrants or any convertible instruments.

(xi) Pattern/distribution of shareholding:

Table 2 and Table 3 below gives the details about the shareholding pattern and the distribution of Company's shares as at 31st March, 2004.

Table 2, shareholding pattern as at 31st March, 2004

		Category	No. of Shares held	% of share holding
A.		Promoter's holding		
1.		- Indian promoters	45064885	71.75
		- Foreign promoters	NIL	NIL
2.		Persons acting in Concert	NIL	NIL
		Sub-total	**45064885**	**71.75**
B.		Non-promoters Holding		
3.		Institutional Investors		
	a.	Mutual Funds and UTI	1403562	2.23
	b.	Banks, financial institutions, Insurance Company/ies (Central / State government institutions / Non-government Institutions)	4457301	7.10
	c.	FIIs	5119473	8.15
		Sub-Total	**10980336**	**17.48**
4.		Others		
	a.	Private corporate bodies	740414	1.18
	b.	Indian public	5862277	9.33
	c.	NRIs / OCBs	158942	0.26
	d.	Any other (please specify)	NIL	NIL
		Sub-total	**6761633**	**10.77**
		GRAND TOTAL	**62806854**	**100.00**

Table 3, Distribution of shareholding as at 31 March 2004

No. of equity Shares held	No. of Folios	%	No. of Shares	%
Upto 25	5401	11.81	74857	0.12
26 to 50	21822	47.70	1066793	1.70
51 to 100	8936	19.53	821584	1.31
101 to 500	8292	18.12	1942479	3.09
501 to 1000	718	1.57	523818	0.83
1001 to 10000	472	1.03	1185123	1.89
10001 and above	110	0.24	57192200	91.06
Grand Total	**45751**	**100.00**	**62806854**	**100.00**
No. of Shareholders in Physical Mode	13360	29.20	45939826	73.14
No. of Shareholders in Electronic Mode	32391	70.80	16867028	26.86
	45751	**100.00**	**62806854**	**100.00**

11. General body meetings

The particulars of the last three Annual General Meetings of the Company are provided hereunder. All the resolutions set out in the respective notices were duly carried on by the shareholders.

Nature of Meeting	Date and Time	Venue
Sixth Annual General Meeting	16th July 2001	Bhaikaka Bhavan
	10 a.m.	Law College Road,
		Ahmedabad - 380 006.
Seventh Annual General Meeting	28th September 2002	Bhaikaka Bhavan
	10 a.m.	Law College Road,
		Ahmedabad - 380 006.
Eight Annual General Meeting	30th September 2003	Town Hall, Ellisbridge
	10 a.m.	Ahmedabad - 380 006.

All resolutions including the special resolution set out in the respective notices were passed by the majority of shareholders.

No resolution, which required to be passed through a postal ballot, as recommended under Clause 49 of the Listing Agreement and the Companies (Passing of Resolutions through Postal Ballots) Rules, 2001, were placed for shareholders' approval at the meeting.

12. Details of non-compliance

There was no non-compliance during the year and no penalties were imposed or strictures passed on the company by the Stock Exchanges, SEBI or any other statutory authority. The Company obtained a Certificate from the Statutory Auditors of the Company with respect to compliance with the conditions of Corporate Governance and annexed the certificate with the Directors' Report and sent the same to all the shareholders of the Company. The same certificate shall also be sent to all the concerned Stock Exchanges along with the annual returns filed by the Company.

13. Report on Corporate Governance

This section of the Report, together with the information given under the Management Discussion and Analysis Report and the Additional Shareholders' Information constitutes a detailed report on the Corporate Governance efforts of the Company during the year ended 31st March 2004.

Extent of compliance with the non-mandatory requirements:

1. Chairman of the Board:
   The Chairman and Managing Director of the Company Mr. Pankaj R. Patel is entitled to maintain Chairman's office at the expense of Company and is also reimbursed the expenses incurred by him in the course of performance of his duties.
2. Remuneration Committee:
   The Company has not established any Remuneration Committee. The Board of Directors and shareholders approve the remuneration of Managing Director and also payment of commission to the Directors other than Managing Director.
3. Shareholders' rights:
   The quarterly / half-yearly results, after they are taken on record by the Board of Directors, are sent forthwith to the Stock Exchanges where the Company's shares are listed. The results in the prescribed proforma are usually published in leading Gujarati and English dailies. These results are made available on Company's website www.zyduscadila.com.

4. Postal ballot:

Provisions relating to postal ballots have been introduced by the Companies (Amendment) Act, 2000. However, the same are applicable to particular businesses as specified therein. The same shall be complied with as and when applicable.

Auditors' Certificate on Corporate Governance

We have examined the compliance of the conditions of Corporate Governance by Cadila Healthcare Limited, for the year ended on 31st March 2004 as stipulated in Clause 49 of the Listing Agreement of the said Company with the concerned Stock Exchanges in India.

The Compliance of the conditions of corporate governance is the responsibility of the management. Our examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of an opinion on the financial statements of the Company.

In our opinion and to the best of our information and explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned listing agreements.

We state that in respect of the investor grievances received during the year ended 31st March 2004, no such investor grievances remained unattended/pending for more than 30 days.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **R. R. Patel & Co.**
Chartered Accountants

R. R. Patel
Proprietor

Place : Ahmedabad
Date : 26th April 2004

For **Mukesh M. Shah & Co.**
Chartered Accountants

Mukesh M. Shah
Partner

Place : Ahmedabad
Date : 26th April 2004

Auditors' Report

To
The Members of
Cadila Healthcare Ltd.
Ahmedabad

We have audited the attached Balance Sheet of Cadila Healthcare Limited ('the company') as at 31st March 2004, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles applied and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of section 227(4A) of the Companies Act, 1956. We enclose in the annexure, a statement on the matters specified in paragraph 4 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

(a) We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit;

(b) In our opinion, proper books of account as required by law have been kept by the company, so far as it appears from our examination of the books;

(c) The Balance Sheet, Profit and Loss account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

(d) In our opinion, the Balance Sheet, Profit and Loss account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

(e) On the basis of the written representations received from the directors of the company and taken on record by the Board of Directors, we report that no director is disqualified as on 31st March 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956; and

(f) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts subject to significant accounting policies and notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

(i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2004;

(ii) In the case of the Profit and Loss account, of the profit for the year ended on that date; and

(iii) In the case of Cash Flow statement, of the cash flows for the year ended on that date.

For R.R. PATEL & CO.,
CHARTERED ACCOUNTANTS
(R. R. PATEL)
PROPRIETOR
Membership No. 7871

For MUKESH M. SHAH & CO.
CHARTERED ACCOUNTANTS
(MUKESH M. SHAH)
PARTNER
Membership No.30190

Place : Ahmedabad
Date : 26th April 2004

Annexure to the Auditors' Report

With reference to the Annexure referred to in paragraph 3 of the report of the Auditors to the Members of Cadila Healthcare Ltd on the accounts for the year ended 31st March, 2004, we report that:

1. (a) The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   (b) Some of the fixed assets were physically verified during the year by the management in accordance with programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.

   (c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.

2. (a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.

   (b) The procedures for the physical verification of inventory followed by management are reasonable and adequate in relation to the size of the company and the nature of its business.

   (c) The Company has maintained proper records of inventory. No material discrepancies were noticed on physical verification of inventory.

3. (a) The Company has neither granted nor taken any loan, secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Therefore, requirements of clauses (iii-b), (iii-c) and (iii-d) of paragraph 4 of the order are not applicable.

4. In our opinion, and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and nature of its business for the purchase of inventory and fixed assets and for the sale of goods. In our opinion, and according to the information and explanations given to us, there is no continuing failure to correct major weaknesses in internal control.

5. (a) In our opinion, and according to the information and explanations given to us, the transactions that need to be entered into a register in pursuance of Section 301 of the Companies Act, 1956, have been so entered.

   (b) In our opinion and according to the information and explanations given to us, the transactions exceeding rupees five lakhs each have been made at prices, which are reasonable having regard to prevailing market prices at the relevant time.

6. In our opinion, and according to the information and explanations given to us, the company has complied with the directives issued by the Reserve Bank of India and provisions of section 58A and 58AA of the Companies Act, 1956 and the rules framed there under with regard to deposits accepted from the public. We are informed that no order has been passed by the Company Law Board.

7. The Company has an internal audit system which, in our opinion is commensurate with its size and the nature of its business.

8. We have broadly reviewed the books of accounts maintained by the Company pursuant to the order made by the Central Government for maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956, and are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have not, however made a detailed examination of the records.

9. (a) According to the information and explanations given to us and on the basis of our examination of the books of account, the company has been generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Custom duty, Excise duty, cess and any other dues during the year with the appropriate authorities. A few minor delays have been noted. However, at 31st March 2004, there are no undisputed dues payable for a period of more than six months from the date they became payable.

   (b) According to the information and explanations given to us, there are no cases of non-deposit with appropriate authorities of disputed dues of Sales tax, Income tax, Customs duty, Wealth tax, Excise duty and cess except Rs.241 Millions in respect of Income tax (pending with Commissioner of Income-tax (Appeals) and Rs.219 Millions in respect of excise duty (pending Rs. 125 Millions with Assistant / Joint Commissioner (Appeals), Rs. 68 Millions with CEGAT, Rs.1 Million with High Court and Rs. 25 Millions with Supreme Court) and Rs.77 Millions in respect of Sales Tax (pending Rs. 13 Millions with Commissioner of Sales tax (Appeals) and Rs.64 Millions with High Court).

10. The company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.

11. The company has not defaulted in repayment of dues to a financial institution or bank or debenture holder.

12. The company had granted loan to a corporate in earlier years against security of shares. The said loan has been fully recovered during the year. Further, the company has granted an advance to a joint venture company for honouring its obligations as a guarantor to a bank against the security of some of the assets of the said company and against pledge of shares of a said party to a joint venture. Adequate records are maintained for the same.

13. The company is not a chit fund / nidhi / mutual benefit fund / society.

14. According to the information and explanations given to us, the company is not dealing or trading in shares, securities, debentures and other investments.

15. In our opinion and according to the information and explanations given to us, the terms and conditions of guarantees given by the company for loans taken by joint venture company and subsidiaries from banks and financial institutions are not, prima facie, prejudicial to the interests of the company.

16. Term loans obtained by the Company were applied for the purpose for which the loans were obtained.

17. According to the Cash-flow statement and other records examined by us and the information and explanations given to us, on an overall basis, funds raised on short term basis have not , prima facie, been used during the year for long term investment However, funds raised on long term basis to the extent of Rs. 192 millions have been utilised for short term investment.

18. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.

19. The Company has issued debentures for which securities were created during the year.

20. The Company has not raised any money by public issues during the year.

21. To the best of our knowledge and belief, and according to the information and explanations given to us, no fraud on or by the company was noticed or reported during the year.

For R.R. PATEL & CO.,
CHARTERED ACCOUNTANTS
(R. R. PATEL)
PROPRIETOR
Membership No. 7871

For MUKESH M. SHAH & CO.
CHARTERED ACCOUNTANTS
(MUKESH M. SHAH)
PARTNER
Membership No. 30190

Place : Ahmedabad
Date : 26th April 2004