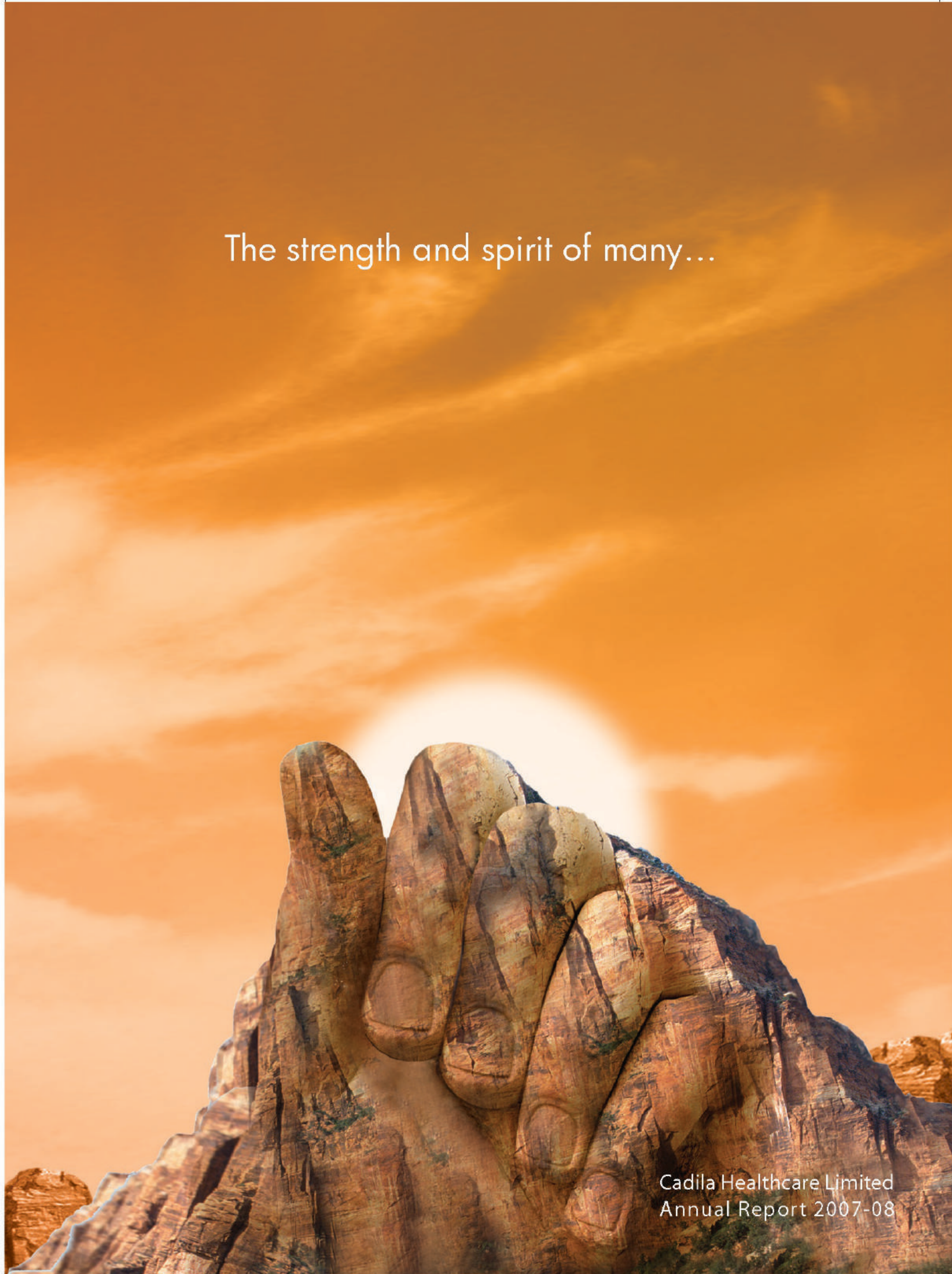
Zydus
dedicated to life

www.zyduscadila.com

Cadila Healthcare Limited Annual Report 2007-08



...culminates as the 'Power of One'

Over 9000 Zydans are working together as one unified team to achieve the next goal of the 'Healthy Billion', posting sales of over $ 1 bn by 2010.

Contents

FOUNDER Late Mr. Ramanbhai B.Patel

BOARD OF DIRECTORS **Pankaj R. Patel**
Chairman & Managing Director

Dr. Sharvil P. Patel
Deputy Managing Director

Directors Mukesh M. Patel
Pranlal Bhogilal
H.K. Bilpodiwala
H. Dhanrajgir
A.S. Diwanji

COMPANY SECRETARY Upen H. Shah

CHIEF ACCOUNTS OFFICER Jyotindra B. Gor

BANKERS Bank of Baroda
BNP Paribas
Corporation Bank
Citibank
ICICI Bank Limited
IDBI Bank
State Bank of India
State Bank of Saurashtra

AUDITORS 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 Units S.No. 417, 419 & 420, Village Moraiya,
Taluka Sanand, District Ahmedabad.

Kundaim Industrial Estate, Ponda,
Goa 403 401.

Village Saraj Mujra
P.O. - Baddi
Tehsil - Nalagarh
Dist. Solan (HP)

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

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

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 uncertainties 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.

The Power of One

It is said that a picture speaks a thousand words. The interesting visual on the cover page of this year's Annual Report certainly does that. Created by Antonio Carlos Landim from Quimica e Farmaceutica Nikkho do Brasil Limitada, a Zydus group company, this graphic says it all. Any ascent has its own share of challenges but it's the spirit, the will and the determination that helps one reach the summit.

The 'Power of One', as depicted by Antonio Carlos, is the unified power of over 9000 Zydans on an ascent. Collectively, they unleash a power to transform their world. It's a power that comes from an ability to think ahead and think differently. It's a power that packs in a tenacity of purpose and gets stronger with the spirit of 'Togetherness'.

Moving on towards the next summit of the 'Healthy Billion' - crossing sales of over $ 1 bn by 2010, the 'Power of One' is about creating the future that has been envisioned and anchoring our collective aspirations to reality.

Zydus dedicated to life

An exterior view of the Zydus Hospira manufacturing facility set up in a 50:50 JV with Hospira Inc., USA.

Highlights 2007-08

Highlights of International Operations

- Remarkable performance in the US market with the launch of seven new products in 2007-08 and robust growth from existing products. Posted sales of Rs. 2568 mn, up 80%, with a healthy bottomline of Rs. 142 mn, after accounting for Rs. 265 mn as product development charges incurred in India.
- Filed 18 new US ANDAs with the US FDA, taking the cumulative ANDA filings to 78, of which 44 are now pending approval. Received 12 ANDA approvals, taking the total approvals to 34, of which 15 have been launched so far. Also, filed 8 new US DMFs, taking the cumulative US DMFs to 59.
- The French business also posted another year of strong performance, with sales of Rs. 1647 mn, up 30% y-y, even after selling off the branded business. Generic business, on like-to-like basis grew by 55%. Launched over 10 new products, which included four day-1 launches.
- For the first time since its acquisition in 2003, the French business has achieved a turnaround registering a net profit of Rs. 129 mn during the year.
- Filed 17 dossiers for new products for the French market, taking the cumulative filings to 40, of which 15 have been approved so far. Also, filed 16 site transfer applications, taking the cumulative filings to 41. Received 25 approvals for site transfers, taking the cumulative approvals to 31.
- Started production and supply of 18 products from India to France, which accounts for over 20% of the total sales.
- Made a foray in the branded generics market in Brazil with the acquisition of 100% stake in Quimica e Farmaceutica Nikkho do Brasil Ltda. (Nikkho), which registered sales of Rs. 1010 mn and profit after tax of Rs. 60 mn in 2007-08.

Highlights of Domestic Operations

- Domestic branded formulations business grew by 13% which was contributed by
  - The launch of more than 35 new products and over 25 line extensions, including 10 products, which were launched for the first time in India.
  - Increase in field force by over 150 people for rural marketing for further penetration in this market.
  - The launch of a range of cosmetology products and increasing the field force for the same in Liva Healthcare after acquisition.
- Improved ranking, to become the 4th largest pharmaceutical company in India with a market share of 3.70% (Source: IMS ORG, MAT March 2008).
- Commenced production and commercial supply of over 50 products for the domestic market, at the Sikkim facility.
- Consumer products business posted a healthy growth of 26%, with the combined business of Sugar Free and EverYuth registering sales of Rs. 976 mn and a growth of 23% during the year, while the acquired business of Nutralite posted a 32% growth.
- Acquired remaining 50% stake in the JV with Sarabhai, which is now a 100% subsidiary renamed as Zydus Animal Health Ltd. On a like-to-like basis, the animal health business posting a growth of 16%, crossed sales of Rs. 1 bn.

Highlights of Joint Ventures' Operations

- Expanded the scope of the JV agreement with Nycomed to transfer production of their global requirement for certain APIs, including Pantoprazole, from their other plants to the Zydus Nycomed plant in India within a span of four years.
- Completed construction of the manufacturing plant and all validation activities of Zydus Hospira JV and produced exhibit batches of the oncological injectibles successfully.
- Zydus BSV JV successfully scaled up the production of Liposomal Doxorubicin at the anti-cancer facility at Goa and launched it in India under the brand name Nudoxa. Also, completed construction of its manufacturing plant and initiated qualification work.

Highlights of R&D and IPR

- Successfully completed patient recruitment for Phase II clinical trials for ZYH1, lead compound for treating dyslipidemia. The initial data analysis is under progress.
- ZYI1, the lead compound for treatment of inflammatory disorders and pain is presently undergoing Phase II clinical trials, while ZYH2, the lead compound for diabetes is undergoing Phase I clinical trials.
- ZYO1, the lead compound for treating obesity and related diseases has completed Phase I clinical trials.
- Filed our fifth IND application for conducting clinical trials for the New Molecular Entity (NME) - ZYH7, a novel drug candidate for treating dyslipidemia and metabolic disorders.
- Also, filed 132 patents in the US, Europe and other countries during the year, taking the cumulative filings to 344.

Consolidated Financial Highlights

- Total operating income up by 27% y-y to Rs. 23.2 bn, mainly driven by formulations exports which grew by 72%.
- Operating EBITDA (Earnings before interest, tax, depreciation and amortisation and excluding non operating incomes) increased by 31% to Rs. 4,598 mn. The EBITDA margin (% to operating income) increased by 0.5% to 19.8% from 19.3% a year ago.
- Profit before tax and exceptional items increased by 33% to Rs. 3,303 mn from Rs. 2,475 mn last year.
- Net profit after tax and minority interest excluding exceptional items was up 28% from Rs. 2,074 mn to Rs. 2,645 mn and net margin was up to 11.4% from 11.3% last year.
- Return on Net Worth (RONW = Net Profit ex. Exceptional items / Average Net Worth) increased to 27.3% from 26.5% last year.

"As we accelerate top-line growth and drive bottom-line productivity, the underlying strength which makes all this happen is an inspired team of over 9000 Zydans who are committed to creating a world class pharma company."

Chairman's Message

Dear Shareholders,

During the last four years, we have relentlessly pursued a consistent set of strategic aims. Broadly, this includes our efforts to continuously build our business performance, to create differentiated approaches in the markets where we operate and to add value to our operations with ideas and initiatives, making it more efficient and more cost-effective. In 2007-08, which was an important year for us, we continued to press ahead with all these strategic aims as they are going to be the bedrock of your Company's success in 2010 and beyond.

I'd like to take this opportunity to share with you my reflections on three themes:

- Where your Company stands today.
- The global challenges we face as a business.
- How we as an organisation, are prepared for these challenges.

Before specifically focussing on the year gone by, I'd like to very briefly profile the future-focussed organisation that we, have together created. We have created the fourth largest healthcare company in the Indian pharma market; we have created a global enterprise through a fast-tracked global expansion plan, which is already contributing profitably to the bottomline and we have transformed ourselves in a way that helps us reset our vision and achieve the goals that we have set for ourselves. We have been looking for ways to continuously excel in our operations and at the heart of all our efforts has been our three-pronged approach: sustain profitability, provide impetus for growth and drive competitive edge.

We have repeatedly asked ourselves the question, "How do we add more value to our operations and in turn bring greater productivity to the organisation itself?" It's a critical question that fundamentally defines all the initiatives that we undertake in the organisation.

In the year 2007-08, the emphasis continued to be on growth as we moved ahead to meet the end-of the-decade goal of posting sales of over $ 1 bn by 2010. Going forward, we are also focused on achieving sales of over $ 3 bn by 2015. The growth of 72% in our global business, 13% growth in domestic operations, overall growth of 27% in our operating income and a growth of 28% in our Operating Net Profit - is the beginning of a new growth trajectory that will gain momentum as we press forth to achieve our goals. While we continue to enjoy success, we are constantly aware that it's a tough, competitive environment that we operate in, one in which we have to face huge challenges.

It's a host of questions that the pharmaceutical industry is grappling with:

- What are the ways to optimise revenues amidst increasing competition in the global generics market which constantly places margins under pressure?
- What are the newer business models and business segments that can open up new revenue streams despite intense competition in the domestic market?
- How can profitability be maximized to feed increasing investments in research?
- How do we meet escalating developmental costs necessary to build a robust pipeline of products for different global markets?

We have been fashioning our own responses to these challenges and I believe that we can turn them into opportunities which can unlock growth for us in the future.

- To start with, our focus has been to improve operating processes to reduce costs and enhance efficiencies across the value chain. We have achieved significant improvements by minimising inefficiencies and institutionalising a structured programme of cost identification and improvement.
- Project SLIM (Strategic Lean Integrated Manufacturing), the programme launched to continually improve our competitiveness and sustainability while offering products that are most efficiently manufactured at the most competitive costs, has been a resounding success. Several viable ideas, which were taken up for implementation, have resulted in an overall reduction in manufacturing costs. Our past initiative PRISM continues to address our non-labour spend and is helping us reduce this on an year-on-year basis.
- Our strategic forays into new markets are also adding value to our operations. In Brazil, for instance, we reinforced our presence by acquiring Quimica e Farmaceutica Nikkho do Brasil Ltda. (Nikkho), an established player in the branded formulations market. In 2007-08, our Brazilian operations contributed to over 25% of our exports' growth.
- Another key market where we see several opportunities unfolding is Japan and our acquisition of Nippon Universal Pharmaceuticals has helped us jumpstart operations in this very critical market. Well-timed, strategic acquisitions that provide a quick access in prioritised markets have enabled us to accelerate our global expansion.
- In the domestic pharma market, we have ventured into newer therapeutic areas, set up new divisions and penetrated the rural markets. The Indian pharma market is expected to touch $ 20 bn by 2015 and several strategic plans are underway to spearhead our foray into newer business segments.
- We have made strategic investments to cater to a niche and growing market for novel dosage forms in the global markets and set up a joint venture company, Zydus Noveltech Inc. that leverages high-end capabilities to develop products, which offer higher margins.
- On the research front, there are several exciting prospects taking shape. Firstly, our research pipeline has shaped up into a very promising one with 5 NMEs in various stages of clinical trials, with our very first NME - ZYH1 completing Phase II proof-of-concept clinical trials. Besides this, there are several other candidates in late stage preclinical development, which augurs well for us. Secondly, we have entered into strategic alliances with Prolong Pharmaceuticals of USA and Karo Bio of Sweden to undertake joint drug discovery and development programmes. These initiatives take us closer to realising our vision of becoming a research-driven pharmaceutical company by 2020.

These are just a few of the many initiatives that we undertook in 2007-08 and will be developing upon as we respond to challenges and opportunities in the years ahead.

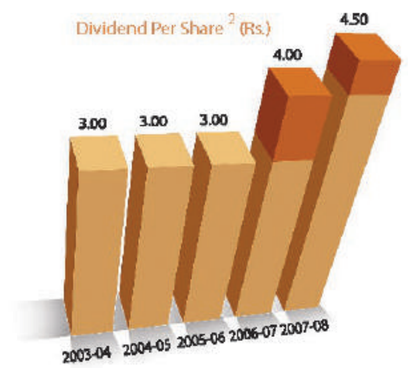
Our success so far has been a combination of several aspects. We have been flexible, innovative and willing to change; we have been open to learning - from our own experiences, from customers and from the best across the world; we have worked with partners for win-win solutions; we have made tough decisions when we had to and unwaveringly focused on the goals that we had set for ourselves. As we accelerate top-line growth and drive bottom-line productivity, the underlying strength which makes all this happen is an inspired team of over 9000 Zydans who are committed to creating a world class pharma company.

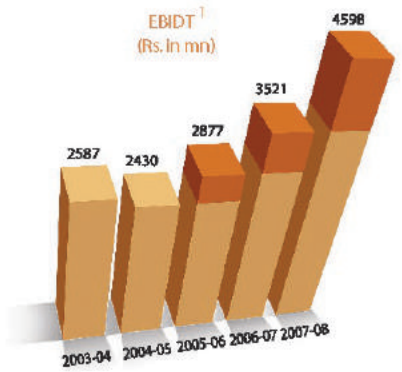
Our efforts, as always, remain focused on stepping up the momentum that we have already created and in making sure that Zydus Cadila optimises its potential to create sustainable growth and profitability, thereby delivering shareholder value.

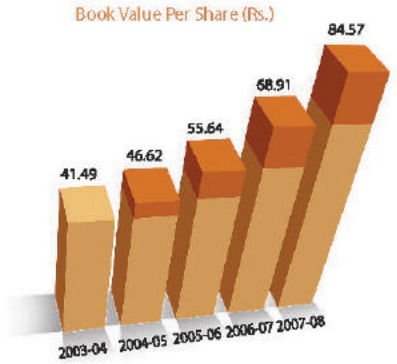
Moving on, it's an exciting journey that we have embarked upon. The programme we have initiated is called the 'HEALTHY BILLION' - achieving the next milestone of posting over a billion dollars in sales with excellent business health. I look forward to sharing more developments undertaken as a part of this programme in my next overview for the year 2008-09.

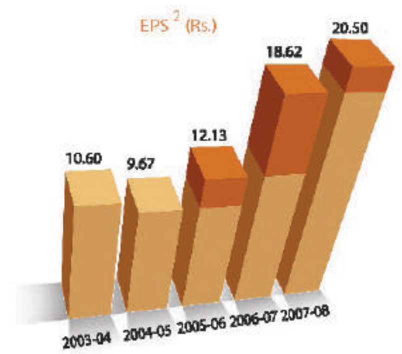
Pankaj R. Patel

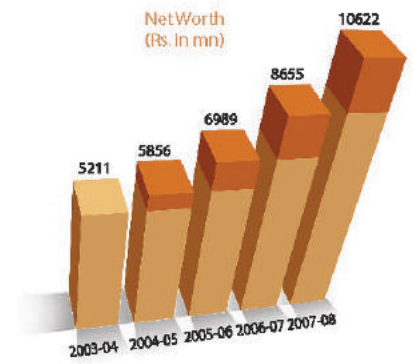
Financial Highlights (Consolidated)

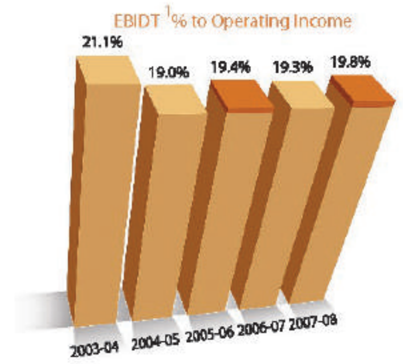


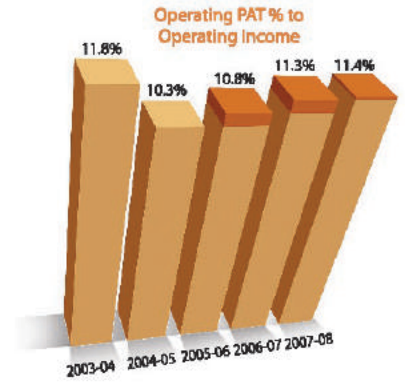


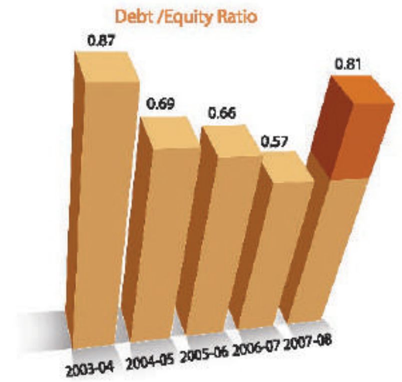


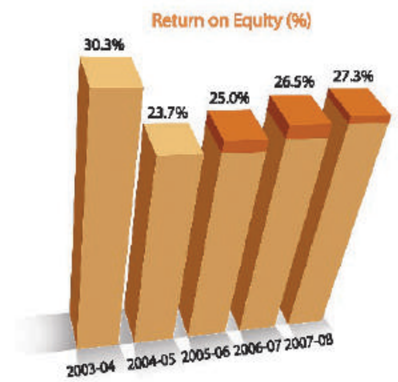


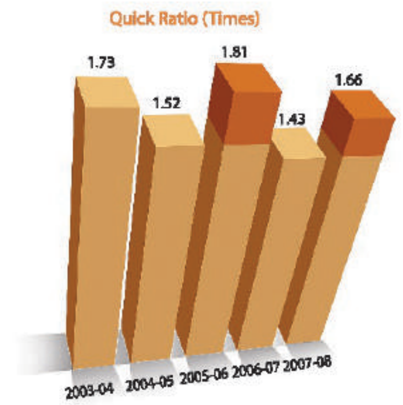


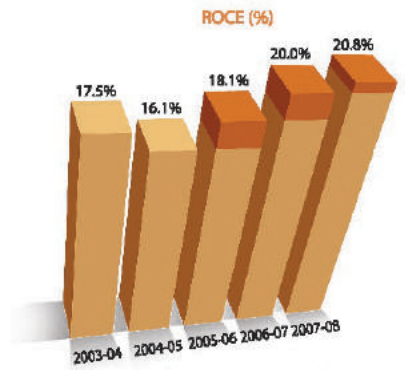












Base Value Incremental Value

1 Excl. Other Incomes
2 EPS and DPS of earlier years have been adjusted for bonus shares issued in the ratio of 1:1 in 2006-07
Previous years' figures have been regrouped wherever necessary.

The Executive Committee members of the Zydus Group are seen at the 13th Annual Day celebrations of the group in January 2008.
Standing from left to right are - Mr. Ashok Bhatia, Mr. M.K. Patel, Mr. H.T. Patel, Mr. J.C. Jani, Dr. Sharvil Patel, Mr. Pankaj R. Patel, Dr. Ganesh Nayak, Mr. S.G. Belapure, Mr. Savyasachi Sengupta, Mr. M.S. Kulkarni & Mr. P.R. Joshi

Management's Discussion & Analysis-2007-08

The journey of growth continues...

It's a clear directional path that the Company is racing ahead on. The immediate goalpost is to achieve sales of over $ 1 bn by 2010; by 2015, the Company aims to post sales of over $ 3 bn and in the long term, successfully emerge as a research based pharmaceutical company by 2020. The Management's Discussion and Analysis provides an overview of the industry both local and global, an account of the Company's growth and performance in 2007-08 and the initiatives which it will be undertaking to achieve its strategic goals in the years ahead.

The Industry Overview

Global Pharmaceutical Industry

Globally, the pharmaceutical industry grew by 7% to $ 680 bn. The growth was led by Asia and Latin America, which grew in double digits, whereas the US and European markets grew by 6%. Rising healthcare costs have placed tremendous budgetary pressures on the governments in the developed countries leading to an increasing support in favour of generics. The generics market, estimated at over $ 80 bn, therefore continued to provide abundant opportunities for generic manufacturers in general, and Indian pharmaceutical companies in particular due to their cost competitiveness and ability to deliver quality products on time.

Mapping the segment-wise growth, the chronic segment continued to grow at a faster rate compared to the acute segment. With changing life styles and greater exposure to unhealthy diets, smoking, lack of exercise and stress, the growth of the chronic segment is likely to be higher than the acute segment over the next few years. The pharmaceutical markets in developing economies, such as India, China etc., which have a large population base than the rest of the world grew at a much faster pace.

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 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.

Indian Economy and Pharmaceutical Industry

The Indian economy, as measured by its GDP, continued to grow at more than 8% in 2007-08. However, despite growth, the economy was reeling under inflationary pressures. Under these circumstances, the Indian Pharma Industry, boosted by an increased GDP, reduced unemployment and increased spending by the government particularly on the improvement of health in rural areas, recorded a growth of around 15%. (Source: IMS)

With the government's decision to waive off considerable amount of farmers' debt, increased spending on rural employment and various measures of healthcare announced by the government in the budget for the year 2008-09, the pharmaceutical industry is expected to post robust growth in the coming years. The drug sales in India, aided by a fast growing economy and expansion in healthcare insurance and infrastructure, is likely to triple by 2015. (Source: Indian Pharma 2015: Unlocking the potential of the Indian Pharma Market, McKinsey & Company)

In sync with the global trends, in India too, the chronic segment grew by 20% while the acute segment grew approximately by 12%. (Source: IMS)

Formulation exports also continued to grow rapidly with a number of products going off patent globally. This, along with the ability to provide timely supplies of high quality products at competitive prices, has resulted in a substantial growth of pharmaceuticals exports from India.

Despite this, the rupee dollar parity changing by over 15% placed severe pressure on the overall export margins in API and formulations. The industry was unable to offset this by increasing the prices because of the stiff competition in the developed generics markets of US and Europe. The scenario was partially compensated by the industry's efforts to reduce cost. The government also announced measures to compensate for the steep fall of the dollar against the rupee and assist the exporters. However, they could not make up for the extent of the fall and the speed at which the fall took place.

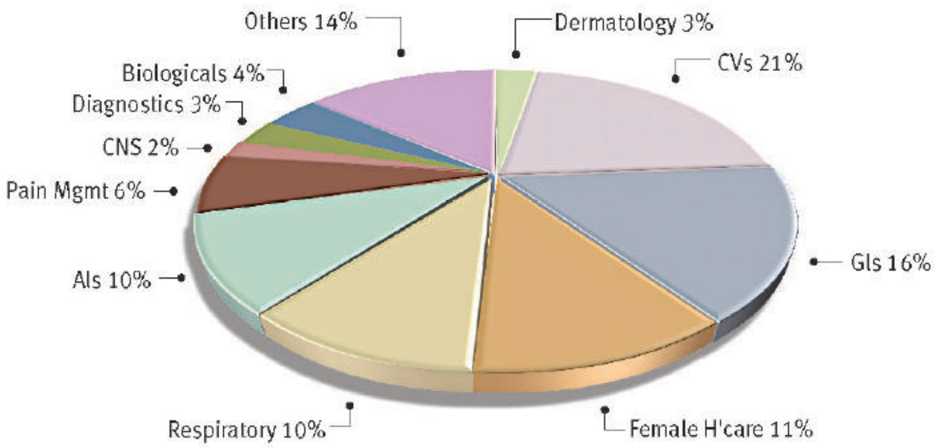
Margins, particularly of APIs, also came under pressure, with China withdrawing incentives on exports and making the environmental compliance stringent. Resultantly, the sourcing of Intermediates and API imports became more expensive for Indian manufacturers of both formulations and APIs.

Operating Highlights
Domestic Formulations

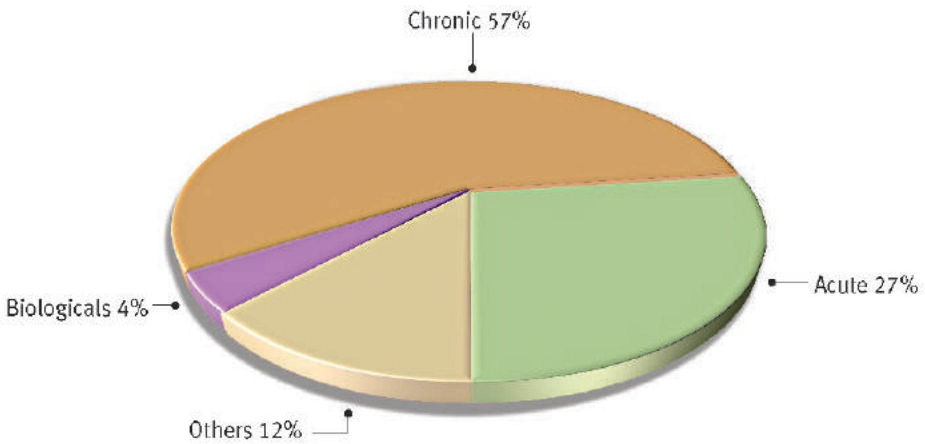
During the year, the Company's domestic branded formulations business grew by 13.4% and recorded a sale of Rs. 11,098 mn from Rs. 9,790 mn in 2006-07. The Company improved its ranking to become the 4th largest pharmaceutical company in India with a market share of 3.70% (Source: IMS ORG, MAT March 2008). The generic business, however, continued to decline and recorded a sale of Rs. 665 mn, compared to Rs. 812 mn in the previous year, due to the government's policy on generic formulations.

During the year, the Company spearheaded several initiatives, which included the launch of new specialty divisions, foray into new therapeutic areas, expansion of existing business and launch of new products. The Company's major formulations division, Alidac, was restructured and two new sub-divisions - Corza and Fortiza were launched. Making a foray in the Rs. 3,500 crore neutraceutical industry, the Company launched a new division, Zydus Nutriva, with a workforce of 250 people. A special task force has been set up to shape the Company's foray into hospitals, COPD and Rheumatology segments.

Therapeutic area-wise break-up of domestic branded formulations sales 2007-08



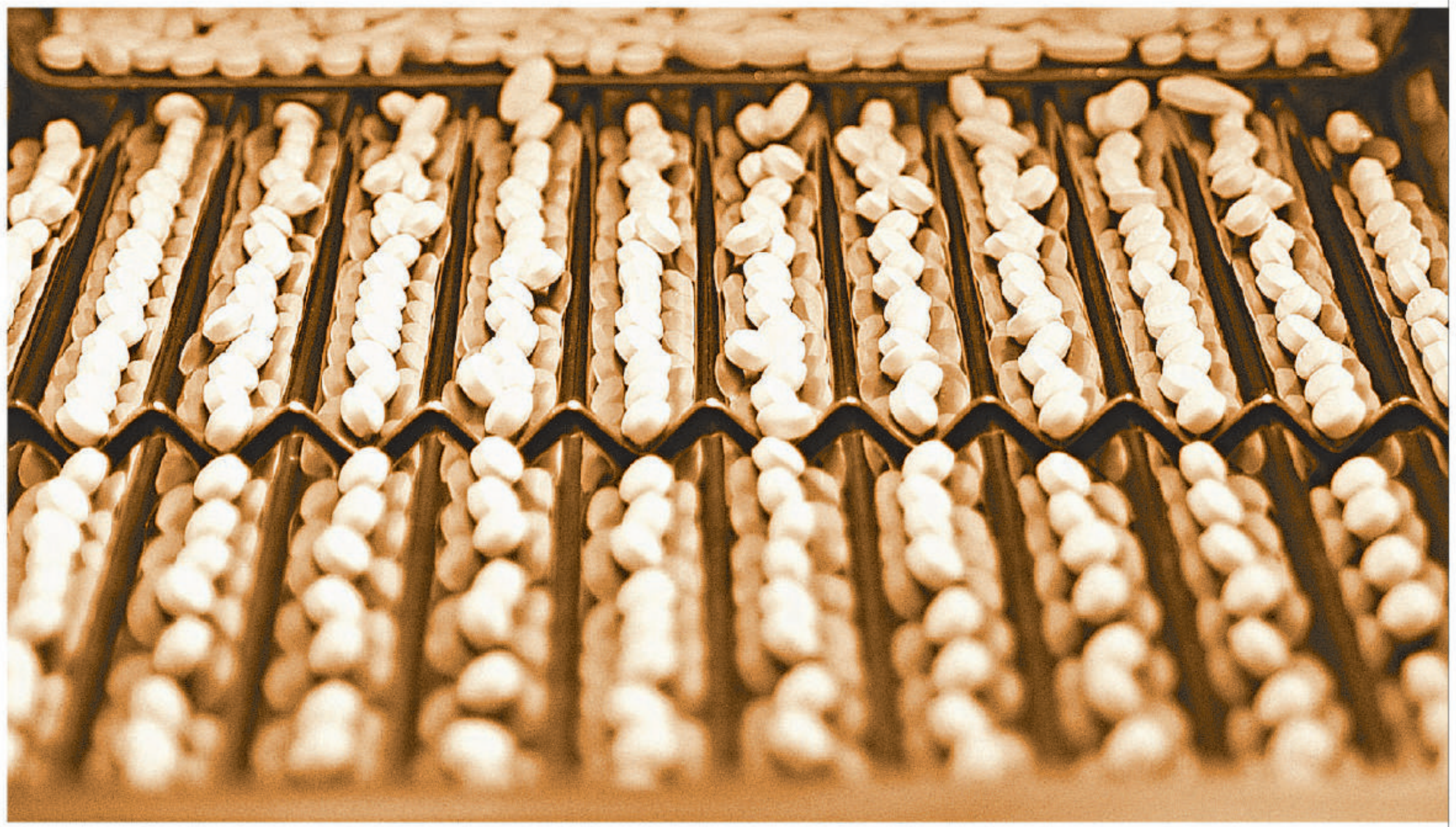
Categorywise break-up of domestic branded formulations sales 2007-08



The Company's move to strengthen its presence in the rural markets has been yielding positive results. In keeping with this, the Company increased its field strength particularly in the rural areas by over 150.

During the year, the Company launched more than 35 new molecules and over 25 line extensions in the domestic formulations market. Of these, 10 were the first to be launched in India. New products contributed about 3% to the domestic branded formulations sales of the Company. Introducing a new range of products in the dermatology segment, 10 products were launched by Liva Healthcare, a 100% subsidiary of Cadila Healthcare Ltd. This derma-focused company, which was acquired last year, spearheaded the Company's foray into the dermatology segment which is growing at the rate of 15% as per the IMS.

The Company maintained its dominant position in the fast-growing segments of cardiology, diabetology, respiratory and women's healthcare and established its presence in the rapidly growing neurological segment. Continuing to leverage its brand building capabilities, 16 of the Company's brands feature amongst the top 300 pharmaceutical brands in India (Source: ORG IMS MAT March 2008). The top 10 brands of the Company contribute to over 35 % of the domestic formulations sales.



API & Intermediates*

The API business continued to face price pressures in the domestic as well as international markets. As mentioned earlier, the rupee appreciation against the dollar also added to the pressure on margins. The withdrawal of export subsidy and considerable increase in environmental compliance by China also increased the cost of inputs and further reduced margins. However, the Company's research and development initiatives made a significant impact by reducing the cost of production. During the year, the Company developed and manufactured 7 new products - Rimonabant, Cinitapride, Anegralide and Pantoprazole (for captive consumption) being the major ones. The Company also filed 8 new DMFs with the US FDA, taking the cumulative filings to 59.

During the year, the API business grew by 16%, with exports growing at 12% and the domestic business registering a growth of 34%. Going forward, the Company expects good business from the regulatory markets through its DMF products - Carvedilol, Tramadol, Omeprazole, Atenolol, HCQ, Topiramate etc.

* Excluding business of JVs

The USFDA approved global formulations manufacturing hub at Moraiya.

International Formulations Business

US Market

Zydus Pharmaceuticals (USA) Inc. successfully completed the second full year of commercial operations in the US market. For the second straight year, Zydus was rated as one of the fastest growing generic companies in the US by the IMS, as it once again posted growth of over 100%. Through its customer focused model, Zydus has captured an attractive market share for all the generic products launched till date and continues to expand on its relationship with all the key customers. With the launch of seven new products in 2007-08, which included blockbusters like Paroxetine and Amlodipine and Day-1 launch of Carvedilol and robust growth from existing products, the US business continued to better its performance. It posted sales of Rs. 2,568 mn, up 80% ($ 64 mn, up 105%), with a healthy bottomline of Rs. 142 mn, after accounting for Rs. 265 mn as product development charges incurred in India. Profit before such charges was Rs. 407 mn, up 55% on like-to-like basis.

With the US generic market continuing to be a very competitive market, the Company anticipates pricing pressures for its existing as well as new products. In 2007-08, the Company focused its efforts on continuous cost improvement initiatives which helped overcome these price pressures and counter the losses arising due to the dollar depreciation against the rupee.

In this scenario, the Company's strategy will be based on new product and unique portfolio development, cost effectiveness, superior supply chain performance and outstanding customer relationships. While the Company has considerable strength in the oral solids market i.e. tablets and capsules, it has yet to make a foray in the liquid and injectibles market. Gaining strengths in these new segments forms an important part of the Company's future plans for this key market.

The Pharmaceutical Technology Centre which spearheads new product development and filings for global markets.

Europe

The French generics market, growing at a rate of over 35% is also one of Europe's fastest growing markets. The generics business in France has grown substantially from Euro 850 mn in 2003-04 to Euro 2 bn in 2007 due to a large number of patent expiries during this period.

Zydus France SAS that spearheads operations in this critical market was the Company's first overseas acquisition in 2003. From a revenue base of Euro 5 mn in 2003, the Company has registered an almost 6 fold growth to Euro 29 mn in 2007-08, even after selling off the branded business last year. In rupee terms, the revenue was Rs. 1,647 mn, up 30%. Generic business, on like-to-like basis, grew by 55%. More importantly, for the first time after the acquisition, the French business has achieved a turnaround registering profitable results with a net profit of Rs. 129 mn during the year.

To strengthen its presence and capture a higher market share, the Company continued to focus on new launches, introducing over 10 new products during the year. The Company also capitalised on first-to-launch opportunities with four Day-1 launches.

With a focus on 'pure generics', having completely divested its branded formulations business last year, Zydus France SAS has been adjudged the fastest growing business by IMS. The Company now holds the 11^{th} position in France with a share of 2.4% of the represented French generics market. With more than 60% representation in the market, the Company is well placed to leverage this opportunity and deliver high growth rates over the next few years.

Continuing with the initiatives for cost improvements, the Company filed 17 dossiers in 2007-08, taking the cumulative filings to 40, of which 15 have been approved so far. The Company also filed 16 applications for site transfers, taking the cumulative filings to 41. During the year, the Company received 25 site transfer approvals, so far the highest in a year, taking the cumulative approvals to 31. The Company now produces and supplies 18 products from India to France, which accounts for over 20% of the total sales on an annualised basis.

The Company has been successful in creating strong relationships with the distributors and customers and increasing the market penetration. The Company is now looking for new opportunities in markets like Spain and Italy.

Latin America

The branded generics market of Brazil, which is the largest in Latin America, estimated at $ 12 bn, is quite similar to the Indian pharma market and offers stable margins. The Company has been present in the Brazilian generics market through its 100% subsidiary, Zydus Healthcare Brasil Ltda. In 2007-08, with the acquisition of Quimica e Farmaceutica Nikkho do Brasil Ltda. (Nikkho), a mid-sized, privately held company, the Company entered the branded generics market. Maintaining a strong relationship with the doctors and hospitals is the most essential aspect of marketing products in Brazil. The acquisition of Nikkho, with a revenue of over R$ 45 mn in 2007-08, sales force of 250 representatives, 14 launched products and nearly 50 registered products which can be launched in future and a ready manufacturing facility in Brazil, has proved to be the appropriate strategy to successfully penetrate the branded generics market in Brazil.

During the year, the Company successfully integrated the business operations of Nikkho and recorded a revenue of over R$ 56 mn (Rs. 1,230 mn). This includes the existing generics business, which recorded sales of Rs. 220 mn, up 25% from Rs. 176 mn last year. The Company plans to introduce new products in the market by filing for registration of products from India as well as entering into in-licensing arrangements.

Japan

As a part of the strategy to enter Japan's generics market, the Company acquired Nippon Universal Pharmaceuticals Ltd. and integrated its operations during the year. The Company plans to introduce new products through the in-licensing route as well as through filings for registration of products from India. Nippon Universal Pharmaceuticals Ltd., which has a strong equity with the doctors and hospitals will jumpstart operations in Japan with introduction of 20 in-licensed products.

Asia Pacific, Africa and CIS

Exports to Asia Pacific, Africa and CIS markets grew by 8% and achieved sales of Rs. 971 mn ($ 23 mn, up 15%). The Company continued to be amongst the top pharmaceutical companies in Sri Lanka and Myanmar and is looking to penetrate South Africa and other markets. As a part of the integration strategy, the business in the CIS countries now forms a part of the European business. The Company plans to float a 100% subsidiary in the CIS region shortly.

Consumer Products

The health and wellness revolution is sweeping across the country bringing with it a definite shift in consumer preferences and attitudes. The pursuit of healthier lifestyles has resulted in a growing demand for products that provide additional health and nutritional benefits. It's a new market taking shape with the health conscious consumer willing to try other alternatives and making informed choices.

The Consumer Products Division of the Company caters to this growing segment of health and fitness conscious consumers, through its portfolio of product offerings - Sugar Free, the low calorie sweetener, Nutralite, the premium table spread and EverYuth, a specialty skin care range.

Sugar Free - India's largest selling sweetener

Launched in 1988, Sugar Free is India's largest selling sweetener with a 78% market share. With a presence in both aspartame as well sucralose categories, Sugar Free enjoys a top of the mind recall in the minds of calorie conscious consumers.

With the success of its aspartame based sugar substitute, the Consumer Products Division launched the sucralose based variant, Sugar Free Natura in 2005. In less than 3 years, Sugar Free Natura has become the second largest sugar substitute in India after Sugar Free Gold. Highly heat stable, Sugar Free Natura can be safely used in cooking and baking without any loss of sweetness.

Making a foray in the low calorie beverage market, the division successfully extended the Sugar Free brand name to launch its soft drink Sugar Free Dlite. Marketed in three flavors, Sugar Free Dlite is fortified with antioxidants, Vitamins and energy boosters. With only 10 calories per serving, it is an ideal low calorie beverage.

Brand Sugar Free recently bagged the Consumer World Award in the sugar substitute category organised by Fast Moving Consumer Goods Federation of India.

EverYuth - a specialty skincare range

The specialty range of skin care products are marketed by the division under the umbrella name 'EverYuth'. The brand today enjoys the No.1 position in the scrub and peel-off categories and is the 2nd largest selling face wash brand in India. A focus on niche categories, innovations in product offerings and exploring new concepts in skin care such as the Ultra Mild Scrub for everyday use, has enabled the division to make a significant impact in the skin care market.

The combined business of Sugar Free and EverYuth registered sales of Rs. 976 mn with a growth of 23% during the year.

Nutralite - India's leading table spread

The Company entered the health foods segment with the acquisition of Carnation Nutra-Analogue Foods Ltd., manufacturers of 'Nutralite' the premium table spread in 2006. The Company today holds 61.56% stake in this subsidiary.

'Nutralite' India's leading table spread offers several benefits for the health conscious and fitness conscious consumer as it is cholesterol free, has no hydrogenated fats and no trans fats. Low in saturated fats, Nutralite is also enriched with Vitamins A, D and E.

Gaining widespread consumer acceptance, Nutralite has emerged as the second largest brand in the category of butter and butter substitutes. The brand also bagged the most preferred brand award in the tablespread category, instituted by FMCG Federation of India.

To provide consumers with international standards of packaging, Nutralite has been introduced in a tub pack - the first of its kind in India. It is airtight, tamperproof and microwave safe. Carnation Nutra Analogue Foods Ltd., expanded its facility and also set up a new facility for manufacturing Nutralite in tubs. For the year 2007-08, Carnation Nutra Analogue Foods Ltd. posted a net profit of Rs. 48 mn, up 27%, with Nutralite doubling its sales from Rs. 28 crores in 2005-06 to Rs. 56 crores in 2007-08.

Animal Health Business

The Company has been present in the animal health business through Sarabhai Zydus Animal Health Ltd., a 50:50 joint venture with Ambalal Sarabhai Enterprises. During the year, the Company acquired the remaining 50% stake in the joint venture making it a 100% subsidiary. It is now known as Zydus Animal Health Ltd. On a like-to-like basis, the animal health business posted a growth of 16% and crossed sales of Rs. 1 bn. The Company posted a net profit of Rs. 113 mn, up 34% on a like-to-like basis.

Manufacturing Facilities

Formulation Manufacturing Facilities

The Company has invested in Zydus Healthcare, which has set up a manufacturing facility at Sikkim. The Company has also renovated its manufacturing facility at Goa to make it a regulatory compliant facility for supplying products to the semi regulated markets. The Company's Moraiya plant continues to supply products to the regulated market. The upgradation of the injectibles facility at Moraiya has been completed and is ready for inspection by regulatory authorities.

API Units

The Company has started setting up a fine chemical facility at Dabhasa at a cost of about Rs. 200 mn and will commence production in 2008-09. The Company has also expanded its manufacturing facility at Ankleshwar. The land, building and the plant at Patalganga, which was quite a small facility, were disposed off during the year.

Research and Development

In keeping with the long term objective to emerge as an innovation-driven, research based company, the Company continues substantial investments in its research and development programme. During the year, the total expenditure on R&D initiatives was Rs. 1,585 mn, of which the revenue expenditure was Rs. 1,317 mn while the capital investment was Rs. 268 mn.

NME Research

The NME research initiatives focus on developing proprietary therapeutics for the treatment of metabolic disorders (Type II Diabetes, Obesity and Dyslipidemia), Inflammation and Pain (Rheumatoid Arthritis & pain) and Cardiovascular diseases. A team of 370 people spearhead the NME research programme, which is focused primarily on large pharmaceutical markets with significant unmet medical needs and commercial potential. In 2007-08, the Company achieved the following milestones in its NME research programme:

- Successfully completed patient recruitment for Phase II clinical trials for ZYH1, lead compound for treating dyslipidemia. The initial data analysis is under progress.
- ZYI1, the lead compound for treatment of inflammatory disorders and pain is presently undergoing Phase II clinical trials.
- ZYH2, the lead compound for diabetes is undergoing Phase I clinical trials.
- ZYO1, the lead compound for treating obesity and related diseases has completed Phase I clinical trial.
- Filed the fifth IND (Investigational New Drug) application for the New Molecular Entity (NME) - ZYH7, a novel drug candidate for treating dyslipidemia and metabolic disorders.
- Successfully completed pre-clinical studies for other lead molecules in the area of diabetes, arthritis and atherosclerosis. The Company expects to file IND applications for promising compounds from these leads.
- To boost the research activities, the Company has entered into a collaborative research programme with Karo Bio, Sweden for developing NMEs, which are selective GR agonists and with Prolong Pharmaceuticals, USA to initiate the development of a next generation therapeutic protein, for the treatment of severe anemia.

NME	Target	Indication	Drug Discovery	Lead Optimisation	Pre-clinical Development	IND	Phase I	Phase II	Phase III	NDA
ZYH1	PPAR alpha; gamma	Dyslipidemia								
ZYO1	CB-1 antagonist	Obesity, Diabetes								
ZYI1	Multi-model	Pain								
ZYH2	PPAR alpha; gamma	Diabetes								
ZYH7	PPAR alpha	Dyslipidemia								
Collaborative research prog. with Karo Bio	Selective GR agonist	Inflammation								
Collaborative research prog. with Prolong	PEG-EPO	Anemia								

Progress made up to 2007-08

Pharmaceutical Technology Research

To tap the opportunities in the global generics market, the Company focuses on prioritized markets such as USA, EU, Japan and emerging markets like Latin America, Asia Pacific and Africa.

Apart from the generics, the Company has also invested in the development of complex dosage forms. The Company believes that this will offer an edge by bringing in a differentiated product portfolio in the generic market place.

During 2007-08, the Company filed 18 ANDAs and received 12 ANDA approvals, filed 17 generic new product dossiers and 16 site transfer applications for the French market. The Company also filed more than 250 generic product registrations in emerging markets of Latin America, Asia Pacific and Africa.

Chemical Process Research

The generics sector has been very active with increasing competition and pressure on profit margins. One of the key strategic opportunities for the Company is to focus on vertical integration of active pharmaceutical ingredients (APIs) and finished dosage forms. Zydus' chemical process research initiatives focus on development of novel, cost-effective and environment friendly chemical processes of manufacturing of commercially attractive APIs. The chemical process research is critical towards the Company's goal of achieving a formidable position in the generics markets through vertical integration of its generic products.

During 2007-08, the Company has made substantial investments in Chemical Process Research resulting in filing of 8 US DMFs, 12 EDMFs and 2 Certificates of Suitability (CoS).

Intellectual Property Rights

The Company continues to invest aggressively on developing new molecules with process innovative formulations and new drug delivery systems for product technologies, processes and product development. The Company has filed 132 patents in the US, Europe and other countries during the year, taking the cumulative number of filings to 344.

Human Resources

With the organisation racing ahead to achieve its end of the decade goal of posting sales of over $ 1 bn, Team HR has been steering the group on the path of organisational transformation and facilitating the process of global expansion of business and accelerated growth.

The HR focus has been on seamless integration of global businesses, streamlining and standardising HR systems and processes and harmonising work cultures while retaining the local essence. Aligning with the organisation's Healthy Billion initiative and future business goals, Team HR continued to focus on strengthening leadership bench strength, institutionalising a performance driven work culture and building competencies.

In keeping with this, the leadership bandwidth in the organisation was expanded from 97 to 118 leadership role holders. Encouraging proven performers and promoting internal talent, 172 internal promotions including various overseas postings in various business spheres were made through the Zydus Talent Management Programme. A multi-spectrum learning base involving 5800 Zydans across the organisation in 574 training programmes emerged during the year to create knowledge assets for the organisation and drive a competitive edge. As on 31st March 2008, the total number of people employed by the group stood at 9052.

With the organisation poised to become a leading global generic company with sales of over $ 1 bn by 2010 and $ 3 bn by 2015, the process of aligning HR with the organisational goals will continue.

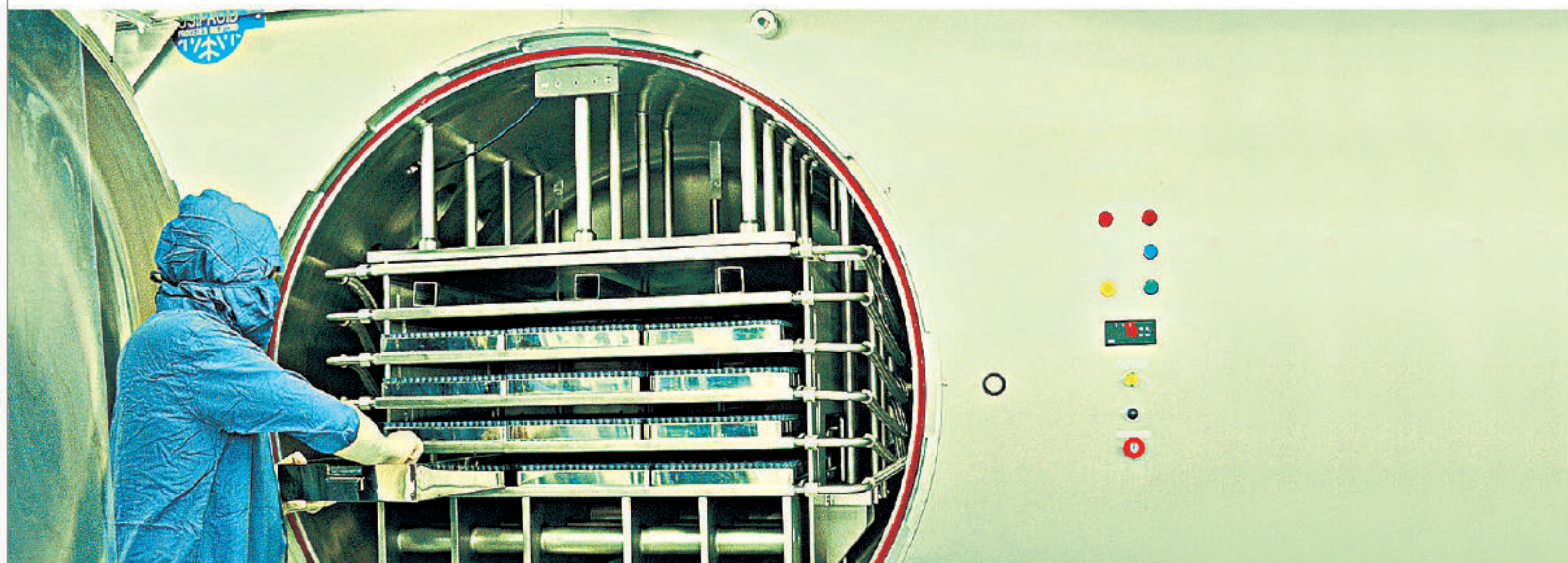
Environment Management Cell (EMC)

Environment Mission

To implement the best environmental management practices, ensure compliance of environmental laws and to maintain and disseminate information on environmental policies and regulations, the Company has set up a dedicated Environment Management Division.

Highlights of Environment-Health-Safety (EHS) Management :

- A dedicated environment cell with laboratory facilities has been established at API Unit-I & II at Ankleshwar.
- Considerable investments have been made to install and operate the in-plant effluent segregation system (IPESS), solvents stripper, multi-effect thermal evaporation system, incinerator etc. at API Unit-I & II, Ankleshwar.
- A special drive was undertaken to assess water consumption. Based on the findings, water conservation steps were identified and implemented. As a result, the total water consumption was brought down to half.
- As part of the awareness campaign, guiding documents were prepared and disseminated. EHS awareness training was also imparted.
- An ISO 14001:2004 EMS has been certified & awarded for API Unit-I at Ankleshwar and has been recommended for the API Unit at Vadodara.



Performance and Progress of JVs

Zydus BSV Pharma Pvt. Ltd.

Zydus BSV Pharma Pvt. Ltd. is a 50:50 JV set up in alliance with Bharat Serums & Vaccines Ltd. The manufacturing plant of Zydus BSV at the SEZ near Ahmedabad is nearing completion and the qualification activities have been initiated. The plant will be ready to start the manufacturing activities by August 2008 followed by successful qualifications.

Zydus BSV has successfully scaled up the manufacturing of its patented liposomal product at Zydus Cadila's Goa plant. The company launched its novel, patented product Nudoxa in the Indian market in January 2008. The product has been well received by the medical fraternity.

The ongoing clinical trials in India have shown promising results and the company is working with leading global consultants to finalise the strategy for registrations in the US and EU markets.

To streamline the financial and operational aspects, the Management decided to merge the Research and Development JV into Zydus BSV Pharma Pvt. Ltd. The Gujarat High Court has approved the scheme of merger.

Zydus Hospira Oncology Pvt. Ltd.

Zydus Hospira is a 50:50 JV set up in alliance with Hospira Inc., USA. A specialty injectible pharma unit has been set up by the JV in a Special Economic Zone (SEZ) in Ahmedabad. The construction and installation of the plant and machinery has been completed and the process of validation has commenced, with Zydus Hospira manufacturing the initial batches successfully. Zydus Hospira, which has started filing dossiers in the US and Europe, will offer its manufacturing facility for inspection by the regulatory authorities. The company plans to launch two products in the international market by the end of the year.

Zydus Nycomed Healthcare Pvt. Ltd.

Zydus Nycomed, the 50:50 JV between Zydus and Nycomed is one of the most successful JV models and a benchmark for high quality production at the most cost competitive prices. The joint venture company was set up in 1999 to manufacture key starting materials for the production of Pantoprazole at its state-of-the-art plant at Navi Mumbai.

During the year under review, both companies entered into a strategic agreement that will enhance the competitiveness of Zydus Nycomed. By leveraging its expertise to address concerns of both costs and quality excellence, Zydus Nycomed will be a key sourcing base for Nycomed's global API requirements.

Expanding the scope of the JV, Zydus Nycomed will be an API manufacturing hub with Nycomed planning to transfer its current API production from facilities at Linz (Austria) and Singen (Germany) to Zydus Nycomed in India over a period of four years. This would result in manufacture of several APIs including Pantoprazole.

During the year, Zydus Nycomed registered a turnover of Rs. 1336 mn and net profit of Rs. 960 mn. The company has decided to invest Rs. 500 mn to set up an API manufacturing facility at its Mumbai plant.

Financial Highlights*

Operating Incomes

Sales

The gross sales revenue grew by 26% to Rs. 23,638 mn in 2007-08 from Rs. 18,747 mn in 2006-07. Sales growth was mainly driven by formulations exports which grew by 72% on the back of sales growth of 80% in the US business, 55% growth in the French generics business and sales of Nikkho of Rs. 1,010 mn, which was acquired this year.

Domestic branded formulations business grew by 13%. Consumer business grew by a healthy 26%, while the animal health business posted a growth of 117%, after we acquired 50% remaining stake in our Sarabhai Zydus JV (now renamed as Zydus Animal Health Ltd.). On a like-to-like basis, the animal health business grew by 16%.

Break up of Gross Sales

Rs. Mn.

	FY 07-08	FY 06-07	% Growth
Total Sales	**23,638**	**18,747**	**26%**
Domestic Sales	**14,887**	**12,695**	**17%**
Formulations	**11,763**	**10,602**	**11%**
Branded Formulations	11,098	9,790	13%
Generic Formulations	665	812	-18%
APIs and Intermediates	**506**	**378**	**34%**
Consumer & Others	**2,618**	**1,715**	**53%**
Consumer Business	1,539	1,219	26%
Animal Health & Other Businesses	1,079	496	117%
Export Sales	**8,751**	**6,052**	**45%**
Formulations	**6,465**	**3,770**	**71%**
US	2,568	1,428	80%
France	1,647	1,267	30%
Brazil (Generics + Branded)	1,230	176	599%
Other Emerging Markets	1,020	898	14%
APIs and Intermediates	**2,286**	**2,282**	**0%**
Own APIs and Fine Chemicals Business	1,618	1,445	12%
Zydus Nycomed Business	668	837	-20%

*In the consolidated financial statements, our share in incomes, expenses, assets and liabilities of Joint Ventures (JVs) have been shown at the end of the schedule of such incomes, expenses, assets and liabilities. However, for financial analysis, share in each head of income, expense, asset and liability of the JVs has been considered for better understanding.

Other Income

The other income, which mainly comprises of export incentives, income from global contract manufacturing and other processing income, reduced by 15% to Rs. 593 mn from Rs. 697 mn in 2006-07. Last year's other income included one time profit of Rs. 263 mn on selling off the branded business of our French subsidiary, Zydus France SAS, and excluding this, other income grew by 37% in 2007-08.

Export incentives reduced by 31% from Rs. 101 mn in 2006-07 to Rs. 70 mn. This was even after surge in exports due to the fact that export incentives of 2006-07 were higher since it included one time special incentive of Rs. 32 mn on account of Target Plus Scheme of the Government, which was not there this year. Also, major exports growth was contributed by the US and French markets, for which we avail Advance Authorization scheme benefit, which entitles us to import the inputs required for manufacturing finished goods to be exported without payment of any import duty. So this export incentive is reflected as reduction in material cost unlike other incentives, which are accounted for as other income.

Processing and global contract manufacturing income grew by 25% from Rs. 267 mn in 2006-07 to Rs. 333 mn. Of this, income from existing contracts was Rs. 165 mn, while income from contracts signed by our Global Contract Manufacturing (GCM) Cell was Rs. 165 mn, up 64% from Rs. 101 mn last year.

Operating expenses

Material Cost, Excise Duty and Processing Charges

The combined cost of consumption of materials and finished goods, excise duty and manufacturing and processing charges as % to gross sales reduced from 39.9 % last year to 39%, as shown below.

Rs. Mn.

	FY 07-08	FY 06-07	% Growth	% to Sales FY 07-08	% to Sales FY 06-07	Change
Consumption of Materials	7,903	6,372	24%	33.4%	34.0%	-0.6%
Excise Duty on Sales	978	892	10%	4.2%	4.8%	-0.6%
Processing Charges for Finished Goods	328	211	55%	1.4%	1.1%	0.3%
Total	**9,208**	**7,476**	**23%**	**39.0%**	**39.9%**	**-0.9%**

The overall improvement in material cost was partly due to favorable exchange rate for imports between US Dollars and Indian Rupees, which dropped by over 10% during the year. Also, lower than average material cost in recently acquired Nikkho in Brazil and sustained improvement in material cost of animal health and other businesses has helped bring down overall material cost.

Personnel Costs

The Personnel cost (excluding R&D staff cost) increased by 33% y-y to Rs. 2,529 mn from Rs. 1,902 mn last year. The increase in the personnel cost was mainly due to inclusion of personnel cost of acquired companies viz. Quimica e Farmaceutica Nikkho do Brasil Ltda. (Nikkho), Liva Healthcare, Nippon Universal Pharmaceutical Ltd. and Zydus Animal Health (50% additional stake). However, last year's base personnel cost was higher due to payment of special one time bonus to all the employees on occasion of achieving our first milestone of USD 400 mn sales mark. Increase in personnel cost excluding all these one-offs from cost basis of both the years, on a like-to-like basis was 13%, which was both due to net addition in manpower and average cost per employee. As % to operating income, the personnel cost was marginally up to 10.9% from 10.4% last year, which was attributed to the increase in manpower mainly for domestic formulations in the rural market, hospitals and for ventures into new therapeutic areas.

Manufacturing, Selling, Distribution and General Expenses

The manufacturing (excl. processing charges), selling, distribution and other general expenses (MSGA) increased by 33% y-y to Rs. 6,571 mn from Rs. 4,938 mn in the previous year. Growth in MSGA excluding costs of the acquired companies, which were not there in the last year's base, was 21%. Manufacturing expenses (excl. processing charges) grew by 17% from Rs. 757 mn to Rs. 876 mn. Marketing and Sales Promotion Expenses increased by 21% from Rs. 1,851 mn in 2006-07 to Rs. 2,234 mn. Distribution expenses increased by 9% to Rs. 863 mn from Rs. 794 mn last year. Overall MSGA as % to operating income were up 1.5% from 26.3% last year to 27.8%.

Depreciation and Amortisation

The depreciation and amortisation expenses were up 18% y-y to Rs. 969 mn, versus Rs. 823 mn in 2006-07. This includes amortisation of Rs. 435 mn on intangible assets. Growth in depreciation expenses excluding depreciation costs of acquired companies was 10%.

Interest and Financial Charges

The money market, globally, passed through a state of turmoil following the announcement of heavy losses by banks in the US on account of sub-prime lending. The resultant slowdown in the US housing market had a widespread impact on the US economy. It also percolated to a large number of banks, funds and financial institutions, globally, which are facing losses on account of write-offs and provisioning for sub-prime landings, ultimately leading to inadequacy of capital and credit crunch situation. Crude oil prices continued to rise during the year and crossed the psychological barrier of USD 100 per barrel.

All these developments have resulted in an adverse movement in the Foreign Currency Market, with the Indian Rupee, which was until then appreciating, started depreciating sharply towards end of fiscal year 2007-08. With the increase in credit spread and RBI measures, the money market witnessed an overall increase in the interest rate structure during the year.

In spite of this, the Company could bring down its average finance cost from 6.2% last year to 6.1% of the debt. However, due to an increase in debt by over Rs. 3.8 bn (representing growth of 85%), raised mainly for the purpose of acquisitions and capital expenditure during the year, the net finance cost (including impact of exchange rate fluctuations on translation of foreign currency loans) was up 50% from Rs. 223 mn last year to Rs. 335 mn.

Profits and Margins

The operating EBITDA (Earnings before interest, tax, depreciation and amortisation and excluding non operating incomes) increased by 31% to Rs. 4,598 mn in 2007-08, from Rs. 3,521 mn last year. The EBITDA margin (% to operating income) increased by 0.5% to 19.8% from 19.3% a year ago. Factors contributing to changes in EBITDA margin are explained below.

Reconciliation of EBITDA Margin

	% to Operating Income
EBITDA margin for 2006-07	**19.3%**
Lower net material cost & processing charges	0.6%
Lower other manufacturing costs	0.3%
Higher personnel cost (excl. R&D staff cost)	-0.5%
Higher marketing and promotion costs	-0.4%
Lower distribution costs	0.1%
Higher other administrative costs	-1.3%
Lower R&D spends	1.7%
EBITDA margin for 2007-08	**19.8%**

The PBT (Profit before tax) increased by 18% y-y to Rs. 3,234 mn from Rs. 2,739 mn last year and the net profit after tax and minority interest was up 10% y-y to Rs. 2,576 mn from Rs. 2,338 mn in 2006-07. The net margin stood at 11.1% vis-a-vis 12.8% in 2006-07.

However, last year's profit included one time profit of Rs. 263 mn on selling off the branded business of our French subsidiary, Zydus France SAS. Excluding exceptional items, the PBT increased by 33% to Rs. 3,303 mn from Rs. 2,475 mn last year. Net profit after tax and minority interest excluding exceptional items was up 28% from Rs. 2,075 mn to Rs. 2,645 mn, and net margin was marginally up to 11.4% from 11.3% last year.

Reconciliation of Net Margin

	% to Operating Income
Net margin before exceptional items for 2006-07	**11.3%**
Increase in EBITDA margin as above	0.5%
Lower depreciation charge	0.3%
Increase in net interest expenses	-0.2%
Increase in tax provision	-0.9%
Increase in share of minority in profits of partly owned subsidiaries	0.2%
Net margin before exceptional items for 2007-08	**11.4%**
Exceptional expenses (VRS compensation amortisation)	-0.3%
Net margin for 2007-08	**11.1%**

Net Worth

The consolidated Net Worth increased to Rs. 10,622 mn at the end of March 31, 2008, up 23% from Rs. 8,655 mn at the end of March 31, 2007. The reserves and surplus increased to Rs. 9,994 mn at the end of 2007-08, from Rs. 8,027 mn last year mainly on account of increase in retained earnings by Rs. 1,848 mn.

The book value per share increased to Rs. 84.6 as at 31st March, 2008 from Rs. 68.9 last year. The return on net worth (RONW = Net Profit ex. Exceptional items / Average Net Worth) % increased to 27.3% from 26.5% last year.

Debt

Consolidated debt (including buyers' credit) of the group stood at Rs. 8,612 mn, up by Rs. 3,678 mn from Rs. 4,934 mn last year. There was, however, cash balance of Rs. 926 mn as on 31st March, 2008 as against Rs. 990 mn last year, and debt net of cash was Rs. 7,686 mn against Rs. 3,944 mn last year. Increase in the debt was mainly to fund acquisitions viz. Nikkho Brazil, Liva Healthcare, Nippon Japan and 50% stake in Animal Health JV with Ambalal Sarabhai Enterprises, combined cost of which was over Rs. 2.3 bn. Part of the debt was also utilized to fund capital expenditure of over Rs. 2.5 bn during the year.

Out of this, debt of Rs. 7,260 mn is in foreign currency, representing 84% of total debt. 48% of the foreign currency debts have been hedged with derivatives and balances are kept open considering the natural hedge against future export receivables. Due to increase in debt levels by 85% during 2007-08, debt to equity ratio at the end of the year increased to 0.81:1 from 0.57:1 last year.

Fixed Assets and Capital Expenditure

The consolidated gross block (including capital work in progress) at the end of 2007-08 was Rs. 20.5 bn, up by Rs. 5.7 bn from Rs. 14.8 bn last year, while Net Block stood at Rs. 14 bn. The fixed assets block also includes assets of acquired companies and goodwill arising on consolidation of these companies. Net capital expenditure (including capital work in progress, but excluding assets and goodwill arising on consolidation of acquired companies) during the year was Rs. 2,563 mn. Broad break up of this capital expenditure was as follows:

	Rs. Mn.
Formulations manufacturing facilities at Moraiya, Sikkim and other locations	1,114
API and intermediate manufacturing facilities at Ankleshwar and other locations	773
Research and Development facilities (at both ZRC and PTC)	271
Other capexes including intangibles	405
Total Capital Expenditure in 2007-08	**2,563**

Working Capital and Liquidity

Working capital level (excl. Buyers' Credit) at the end of 2007-08 was Rs. 6,407 mn as against Rs. 4,824 mn, which shows an increase of Rs. 1,583 mn. Net working capital of acquired companies as on 31st March, 2008 was Rs. 418 mn. Average working capital represents 23.8% of turnover for 2007-08, as against 22.7% last year.

Accounts Receivable increased by Rs. 771 mn to Rs. 3,555 mn at the end of 2007-08 representing 55 days (of turnover) in 2007-08, marginally up from 54 days last year. The increase was mainly on account of higher exports where higher credit period is allowed to customers. Loans and Advances reduced from Rs. 2,201 mn to Rs. 2,013 mn, showing reduction of Rs. 188 mn.

Inventory level went up to Rs. 4,729 mn at the end of 2007-08 from Rs. 3,896 mn last year with average of 161 days of cost of goods sold against 147 days at the end of 2006-07. Major part of this increase is attributable to higher levels of stocking required for export business.

Capital Employed and Operating Efficiency

Total Capital Employed (CE) at the end of the year was Rs. 20.4 bn, up from Rs. 14.5 bn at the end of the previous year, which corresponds to the growth of business - both organic and inorganic. Increase in capital employed was partly attributed to capital employed in acquired companies also. Return on Capital Employed (ROCE = Operating Earnings Before Interest and Tax/ Average CE) was up to 20.8% vis-à-vis 20% last year.

Risk Identification and Risk Mitigation

The Company is involved in basic research, generic product development and marketing of pharmaceutical products in domestic and global markets. The above activities of the Company's business involve certain risks. The Company has taken adequate measures to mitigate these risks.

Risk of R&D spending proving to be infructuous

The Company has strict policies and guidelines of when to stop the project and the spending on it to mitigate the risk. The Company also writes off the entire research expenses in its profit and loss account except capital expenditure.

Risk of international operations including forex risk and litigations abroad

The Company has strategically spread its international operations across continents to mitigate the risk of political uncertainties. The Company also has forex risk management policy approved by the Board of Directors and always keeps its forex exposure well balanced. As for litigation risk due to quality of the products, the Company has necessary insurance policies in place. For litigations of any patent infringement, the Company always believes in adopting a compromising route.

Risk of the Company's products coming under price control

The Company consciously follows to balance the product portfolio in such a way that number of products falling within the price control do not go beyond a certain level. The Company also continuously works on improving product costs to maintain profitability.

Internal control systems and their adequacy

The Company has established requisite control systems on receipt of materials and payments thereof, manufacturing of products and sale of finished products. The Company regularly reviews such control systems and continuously improves upon them. The Company also has an internal audit process carried out by a reputed firm of Chartered Accountants to ensure implementation of management policies.

During the year, the Company appointed a reputed firm of Chartered Accountants to study risk identification and chalk up a risk mitigation strategy. A detailed exercise was carried out by the firm which included meeting more than 100 Zydans across the organisation. The Company has appointed a Chief Risk Officer and is in process of setting up a strong risk identification and management set up.