Cipla

Seventy-Fifth Annual General Meeting

Thursday, 25th August, 2011

Address by **Dr. Y. K. Hamied**
Chairman and Managing Director

Ladies, Gentlemen, Friends and Colleagues,

Welcome to the seventy-fifth annual general meeting of your Company. As in previous years, I would like to extend to all of you my best wishes and greetings on behalf of your Directors and myself. With your permission, I take as read the Director's report and the audited accounts for the year ended 31st March, 2011.

At the onset I would like to share with you our deep sense of grief at the sad demise of one of your Directors, Mr. Amar Lulla on 22nd April earlier this year. May his soul rest in peace. During his tenure of three decades in Cipla, he contributed significantly to the growth and progress of your Company and we will all miss him. I also wish to inform you of the recent resignation on health grounds of Mr. Sidney Pinto from your board; he was a pillar of strength and we used his wisdom and experience to good effect. Cipla has recently inducted Mr. S. Radhakrishnan as an Executive Director and he has already made his presence felt on various fronts.

The past year has seen a major change in the structure and thinking of the worldwide pharmaceutical industry in general and also in ourselves. This is due to three main factors. Firstly, the dearth of new products and a generally dwindling R&D pipeline of the multinational pharma companies. Secondly, a large number of products are coming off patent during the next few years essentially in the regulated markets. Thirdly, the economy in the developed world has been sluggish and all this has led to a shift in the attitude and working of the pharma industry. The North-South divide is rapidly shrinking inspite of patents and monopoly. Pharma markets are expanding faster in the developing world and India is no exception. The move into the emerging markets that include Brazil, Russia, India, China, Indonesia, South Africa and Turkey appear to be the main focus of most pharma companies. It is a difficult and a daunting task for individual companies to expand their activities in all the emerging markets simultaneously. There is therefore a likelihood for the creation of strategic alliances and various types of partnerships. Companies are putting their minor differences aside and joining hands with a view to expand their businesses as best possible.

India currently has a domestic market of around US$ 10 billion and pharma export is in the region of US$ 10 billion. By 2020, it is predicted that India will have a total pharma market of US$ 50 billion, equally divided between domestic and export. Overall this increase is two and half times the current level. To achieve this major target there has to be total cooperation between government and the indigenous pharma industry. This to me is the backbone of the healthcare industry in India.

I would like to dwell on this issue and make some meaningful suggestions considering the experience that your Company has developed over the past 75 years. It is of utmost importance for the government to provide an infrastructure conducive to allow the industry to grow. It is essential for the government to have a long-term pragmatic drug policy, so that industry can invest for the future, particularly in one's domestic market. Without this, companies cannot also plan and expand internationally. This involves, the government to formulate workable import and export strategies with incentives and pricing policies which protect the people of our country. Time and again, I have said that prices can be rationalized only if we have healthy competition and no monopoly.

For India's 1.2 billion population, there has to be no uncertainties at all times in healthcare. We do not want healthcare to be in a state of crisis. India cannot afford a monopoly in lifesaving essential drugs. We need access to all medicines at affordable prices. To achieve this, the government should put under price control only those drugs where there is a monopoly and those that are being imported. Where there are multiple producers and the drugs made within the country, there should be no price control. I have also suggested that key drugs required could be produced by the public sector drug undertakings and that if technology for these are not available, companies like Cipla would be happy to provide this without any cost to the government. It must be appreciated by one and all that most drugs made today by the indigenous pharma industry are priced among the lowest in the world and are of the highest quality.

Apart from the above, the government has to take a major decision whether they want affordable drugs or allow higher prices, so that companies can spend more on R&D. Today, our government's expenditure on fundamental drug research within India is virtually negligible. In comparison, the US government spends over US$ 30 billion annually to maintain the National Institute of Health, various university research and public funded conceptual R&D in pharmaceuticals. The pharma industry on its part does more on the final development and focuses on process oriented R&D rather than novel discoveries. On all successful products, many large international companies tend to spend a great deal to protect their monopoly even beyond the patent expiry period. Frivolous patents are taken to maintain evergreening and for simple minor incremental innovations, where there is no real novelty. If Indian scientists have to compete in new chemical entity research, there has to be a major re-think and a full working arrangement has to be jointly undertaken with the government as the funds required are considerable. For your information, Cipla concentrates its R&D on novel drug delivery systems, newer chemical processes and devices. We also develop products that are due to come off patent with a view to capitalize after the drugs become generic. This in itself is a major task and over the years, your Company has been fairly successful in maintaining its edge in this daunting area of drug development.

I would now like to highlight certain key features of your Company. We are the leading standalone generic pharma company worldwide and ranked among the leading 15. We have over 30 manufacturing units in the country. 11 of these have all major international regulatory approvals. All our factories are state-of-the-art and those at Indore and Goa are among the most advanced in the world. We have more than 2000 products in over 65 therapeutic categories. In addition, we have around 6000 product approvals in over 150 countries. We are vertically integrated and produce API's at 3 major locations for our consumption and export. The growth, progress and expertise achieved during the past few decades now needs to be consolidated and rationalized. This is vital to stay ahead of the industry. At all times we will keep the Company's and the Shareholders' interests uppermost in whatever we do.

Last year your Company's performance was relatively good. The turnover improved by over Rs. 700 crores and the net profit was in line with the leading performers in the industry. This year with the rationalization planned, your Company is aiming to stabilize and consolidate. We will continue to focus on our main core business which is pharmaceuticals as well as the allied veterinary and OTC areas.

The Indore formulation facility for international business is now commercially operational but is yet to reach its optimum capacity unlike the Company's other manufacturing units. To meet the growing demands, your Company has to continue to expand its manufacturing base. Many steps are being taken in this direction such as a new API unit at Patalganga and an API unit specializing in anti-cancer drugs at Bengaluru. Upgrading of our existing plants is an ongoing exercise at all our major units - Kurkumbh, Baddi, Sikkim, Patalganga and Goa. The total investment for this is in the region of Rs. 600 crores that also includes a new R&D centre at Patalganga and an upgraded R&D centre at Vikhroli.

Our efforts in the domestic market have consistently increased with expansion into new therapeutic categories, expansion of the field force to nearly 7000 people and an ever expanding distribution network along the length and breadth of the country.

You will be happy to know that in some therapeutic areas your Company is among the world leaders. These are AIDS, Malaria and Asthma. We also have a strong presence in cardiac, cancer and anti-infective medication. Investments have been made in the manufacture of Bio-therapeutic drugs in India and China and Stem Cell research in India and Malaysia. We have a manufacturing presence in Uganda and China with our partners and may extend this to a few other countries. Under the present circumstances and uncertainties, your Company continues to have a strong asset base in terms of products, people, plants and machinery. We are always aiming to enhance value by providing additional business opportunities, thereby increasing shareholder value.

Cipla's mission is to see that there is full access to life-saving and vital medicines at affordable prices and that none should be denied health care.

Lastly, my thanks and appreciation to all our Directors, Staff and Employees throughout India for their dedication and contribution to the Company. A word of thanks to the Medical Profession and Trade for their continuing support. To all our Shareholders, my personal gratitude for your ongoing encouragement and faith in your Company.

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