

## Directors' Report

[Archives](#)

The Directors take pleasure in presenting the Sixty-Fourth Annual Report of the Company and Audited Accounts for the year ended 31st March 2001.

	Rupees in millions	
	31st March 2001	For the year ending 31st March 2000
Sales and other income	10861.24	7913.85
Gross profit before depreciation and tax	2532.04	1859.99
Depreciation	156.34	133.40
Tax	585.00	396.00
Profit after tax	1790.70	1330.59
Appropriations :		
Dividend	269.88	177.85
Tax on dividend	27.52	19.58
General reserve	1493.30	1133.16

### Dividend

The Directors recommend a dividend of Rs.4.50 per share on 5,99,72,349 equity shares of Rs. 10 each.

## Management Review : 2000-01

### Industry Scenario

The general economic slowdown has affected almost every major indigenous industry. Inflationary trends have escalated operating expenses, while increasing domestic and global competition has led to lower price realisation. The Indian pharmaceutical sector was adversely affected, showing an overall growth rate of just 8 percent for the year compared to over 12 percent in previous years.

### Operations Review

Your Company was able to overcome the negative industry trend and recorded an overall turnover growth of about 40 percent - the highest in the last three decades. Sales crossed the Rs. 10000 million mark for the first time and touched Rs. 10475 million, while profit after tax at Rs. 1790 million registered a 34 percent growth. A strong product portfolio, a substantial rise in exports and sustained efficiency in operations contributed to this outstanding performance.

The exports division recorded a commendable sales growth of 84 percent over the previous year. Total exports for the year amounted to Rs. 2583 million. In addition, your Company earned around Rs. 80 million as fees for transfer of technical know-how. Cipla has made successful forays into new markets in Europe, the USA, South America, Africa, Australia and the Middle East.

Various therapeutic segments, especially the antiasthmatic and cardiovascular groups, continued to do well. New formulations launched during the year included:

- **Amlopres Z** (amlodipine and losartan potassium tablets)-combination therapy for hypertension
- **Axalin** (ambroxol, guaiphenesin and salbutamol suspension)-forcough associated with bronchitis
- **Cobix** (celecoxib capsules)-COX-2inhibitor for arthritis
- **Dinex** (didanosine chewable tablets)-antiretroviral for HIV/AIDS
- **Docetax** (docetaxe injection)-for cancer
- **Duolin** (ipratropium bromide and salbutamol inhaler, rotacaps and respules) - bronchodilator combination therapy for asthma and COPD
- **Flomex** (fluorometholone eye drops) -topical corticosteroid for ocular allergy and inflammation
- **Flomist** (fluticasone nasal spray)- intranasal corticosteroid for allergic rhinitis
- **Foratec** (formoterol inhaler and rotacaps)- long-acting inhaled bronchodilator for asthma
- **Forcan TZ** (fluconazole and tinidazole tablets)-antifungal-antiprotozoal combination forvaginal infections
- **Olexar** (olanzapine tablets)-antipsychotic for schizophrenia
- **Obestat** (sibutramine hydrochloride capsules)-for obesity
- **Pamidria** (pamidronate injection) - f or bone metastases
- **Paclitax** (paclitaxel injection)-forcancer
- **Rofixx** (rofecoxibtablets)-COX-2inhibitor for acute and chronic pain
- **Seroflo** (salmeterol and fluticasone inhaler)- long-acting bronchodilator - corticosteroid combination inhaler therapy for asthma
- **Silagra** (sildenafil tablets) - for erectile dysfunction
- **Topex** (topiramate tablets) - for epilepsy

The following Active Pharmaceutical Ingredients (APIs) were successfully scaled up for commercial manufacture:

- **Anagrelide** - platelet-reducing agent
- **Citalopram** - antidepressant
- **Granisetron** - antiemetic
- **Irinotecan** - anticancer
- **Levosalbutamol** - chiral bronchodilator
- **Levofloxacin** - broad spectrum chiral antibacterial
- **Loteprednol** - topical corticosteroid
- **Paroxetine** - anxiolytic antidepressant
- **Tamsulosin** - selective alpha 1A-blocker

- **Tibolone** - hormonereplacementtherapy

These products are expected to make a significant contribution to the Company's growth in the near future.

## Research and Development

Over the years, the Company's Research and Development efforts have played a pivotal role in its success. During the year under review, bulk drug research focused essentially on new processes and productivity improvements.

New processes were developed for several APIs, in many instances, for the first time in the country. These included: alfuzosin, azelastine, butoconazole, beclomethasone, bicalutamide, clopidogrel, esomeprazole, gatifloxacin, lomerizine, nelfinavir, oxcarbazepine, quetiapine, riluzole, rosiglitazone, rubitecan and zaleplon. During the year, the Company obtained international patents for new antihistamines and antiinfectives.

In the area of formulations R&D, the Company successfully developed various new products and line extensions. Once again, the emphasis was on novel drug delivery systems including aerosols and transdermal systems.

As before, all the four Cipla R&D centres have the approval of the Ministry of Science and Technology, Government of India. The Company continues to work in close collaboration with the CSIR laboratories and other research institutions.

The Company's expenditure on R&D during the year was Rs. 409.23 million, about 4 percent of sales.

## Outlook: Concerns and Opportunities

The government's drug policy continues to be a matter of major concern to the industry. The main objectives of a healthy drug policy ought to be:

- to ensure abundant availability of all necessary drugs at reasonable and affordable prices;
- to strengthen indigenous GMP and production capability for drug formulations;
- to encourage production of quality APIs within the country, and
- to create an environment conducive to greater investment in R&D.

Rather than pursue its current ad hoc policy, the government should essentially let free competition and market forces decide drug pricing. The government ought to intervene only if there is a monopoly situation as is the case with many imported formulations.

As of today, over 70 percent of the major drugs available in India have at least five bulk drug manufacturers and over ten formulators. This in itself is sufficient to keep a check on the price of these drugs. In the case of several essential drugs that are currently not under price control, market forces have brought about a steady decline in prices over a period of time.

In the Union Budget, the Finance Minister had announced the government's intention to liberalise the pricing norms for drugs. There is now talk of reducing both the scope and span of price control by revising the parameters. It is fervently hoped that the government would implement a liberalised drug pricing policy in the near future, which will give the necessary impetus to the pharmaceutical industry, particularly the national sector. As a matter of fact, the government can play a more positive role by concentrating its efforts on reviving its own dormant and loss-making public sector drug units to make essential medicines available for the masses.

New patent laws to formally align India with the provisions of TRIPS are on the anvil. The Indian pharmaceutical industry has been campaigning for various safeguards some of which are in place in countries like Kenya, Argentina, Brazil, Ghana and Israel. These include:

- permanent compulsory licensing for a fixed royalty payment
- permission for parallel imports
- restricting the life of patents on essential drugs to 10 years
- not allowing imports to be construed as working of patents
- not imposing any restriction on non-commercial activities such as research and process development during patent protection
- not granting patent protection to formulations based on drugs whose patents have expired.

These measures will go a long way in ensuring that monopolistic conditions of the kind prevalent in the West and certain African countries do not endanger the Indian consumer. It is for our government to provide these safeguards even if the provisions of TRIPS have to be reviewed in the interests of developing countries.

The challenge for Cipla is to maintain its momentum amidst all these uncertainties. The Company is confident that it will continue to capitalize on emerging business opportunities, given its technological strengths and strong presence across a wide range of therapeutic segments. With its highly committed and skilled workforce backed by sound infrastructure and state-of-the-art systems, Cipla is poised to scale greater heights in the years to come.

### **Internal Control Systems**

The Company has a well-established internal control system in all functional areas, which is reviewed periodically. The internal control system is further reinforced by adequate audits by independent agencies.

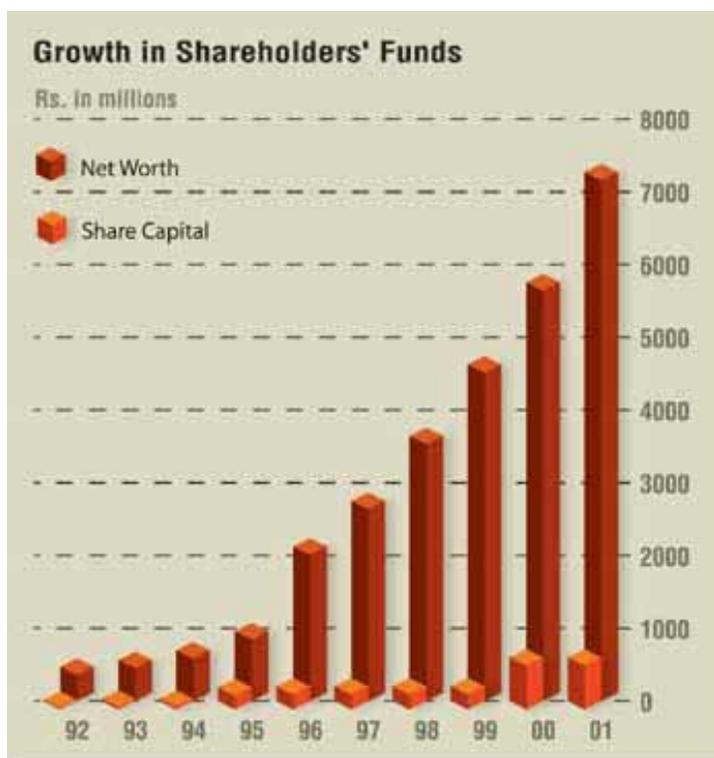
### **Human Resources**

The leadership position that the Company has attained over the years is largely due to the dedication and commitment of its people. The Company's focus has been not only to impart adequate training but also to provide the right environment to maximise productivity and growth potential.

The Directors record their appreciation of the support and contribution of all employees towards the growth and progress of the Company.

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of employees are set out in the annexure to the Directors' Report. However, as per the provisions of said Act, the annual report and accounts are being sent to all the members of the Company

excluding the aforesaid information. Any member interested in obtaining the annexure may write to the Company Secretary at the Registered Office of the Company.



## Social Responsibility

Cipla took the lead in announcing a combination triple drug therapy for HIV/AIDS at a price of USD 350 per patient per year as compared to prices in excess of USD 10000 to USD 15000 charged by western drug manufacturers. This single humanitarian act has come as a boon to HIV/AIDS patients in developing countries. It has not only forced multinational companies into a drastic reduction of prices for their antiretrovirals but, in addition, it has triggered an international debate on broader public health issues such as drug pricing, patents for life-saving drugs and certain provisions of TRIPS.

The Company has offered to provide antiretroviral drugs, free of charge for a two-year period to the National Aids Control Organisation in India to help prevent mother-to-child transmission of HIV.

Cipla provided substantial quantities of essential drugs free of cost to the earthquake-hit state of Gujarat. The Cipla Foundation's Palliative Care Centre continues to provide care to terminally ill cancer patients. As of date, this institution has provided solace to nearly 1600 patients. The Hamied Institute has been continuing its training activities in palliative care science. Orientation courses and workshops are being conducted regularly for the benefit of medical and paramedical personnel.

## Fixed Deposits

Fifty-six deposits, amounting to Rs. 0.47 million, due for repayment as on 31st March, 2001 were not claimed by the depositors. As of date, fifty-seven deposits amounting to Rs.0.48 million remain unclaimed.

## Disclosure of Particulars

As required by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information and data are annexed to this report.

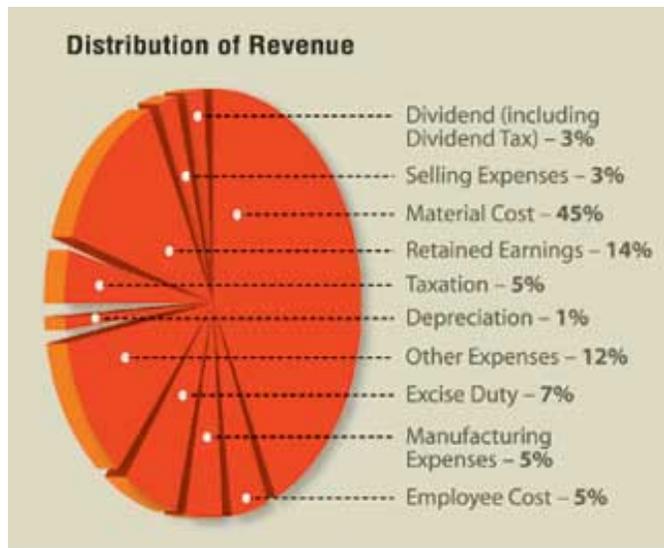
## Responsibility Statement

Pursuant to Section 217 (2AA) of the Companies Act, 1956, your Directors confirm:

- i. that the applicable accounting standards have been followed in the preparation of the annual accounts;
- ii. that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- iii. that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. that the Directors have prepared the annual accounts on a 'going concern' basis.

## Corporate Governance

Your Company is committed to good Corporate Governance practices. The report on Corporate Governance, stipulated by clause 49 of the listing agreement, is annexed hereto and forms part of this Annual Report.



## Directors

Subject to the approval of shareholders, Mr. Amar Lulla was reappointed by the Board of Directors for a period of five years with effect from December 22, 2000.

Mr. M. K. Hamied and Mr. Amar Lulla have been redesignated as Joint Managing Directors.

Mr. Ramesh Shroff and Mr. B. K. Khare, retire by rotation and being eligible, offer themselves for reappointment.

A short resume of these Directors is provided in the Notice pertaining to their appointment as Directors.

The tenure of Mr. Harish Chawla as Whole-time Director came to an end on December 13, 2000. The Board of Directors would like to record their appreciation of his association with the Company.

## **Cost Audit**

Messrs R. Nanabhoy & Co. have been reappointed to carry out the cost audit for the year.

## **Auditors**

Messrs R.S. Bharucha & Co., the auditors of the Company, retire at the conclusion of the forthcoming Annual General Meeting and are eligible for reappointment.

On Behalf of the Board,

**Y. K. Hamied**

*Chairman & Managing Director*

Mumbai, 26th July 2001