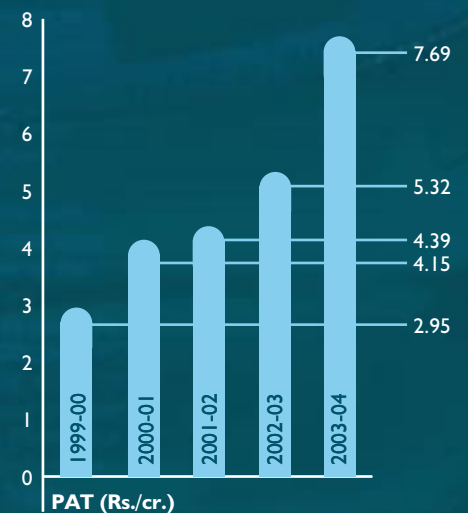
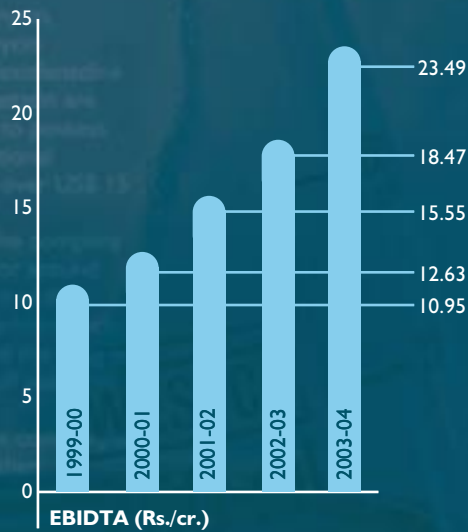
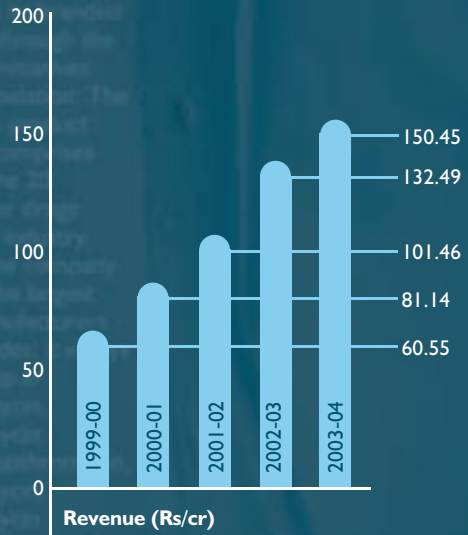


THE COMPANY POSSESSES AN ATTRACTIVE TRACK RECORD: REVENUES INCREASED AROUND 15.55 PER CENT CAGR ACROSS FOUR YEARS WHILE PROFIT AFTER TAX GREW 27.06 PER CENT CAGR OVER THE SAME PERIOD. IN 2003-4, THE COMPANY REPORTED A 13.55 PER CENT INCREASE IN OPERATIONAL REVENUES TO ₹ 150.45 CR, EBITDA INCREASED FROM ₹ 18.47 CR TO ₹ 27.69 CR WHILE PROFIT AFTER TAX STRENGTHENED FROM ₹ 7.69 CR TO ₹ 10.45 CR. IN THE YEAR, COMPANY REPORTED SALES & OTHER INCOME

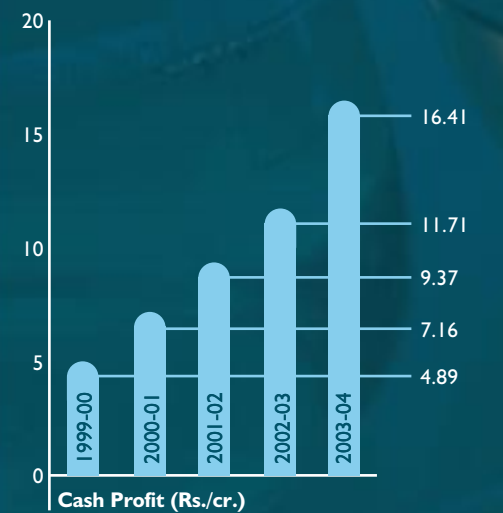
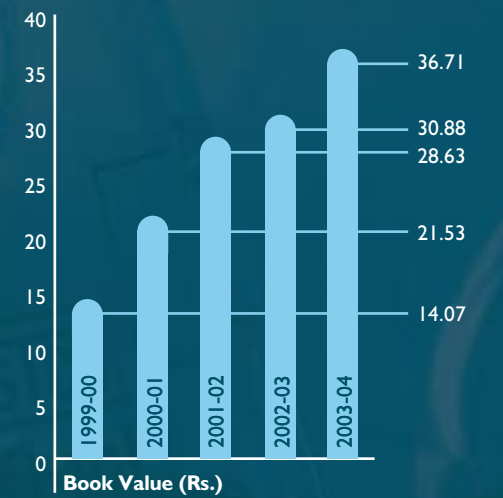
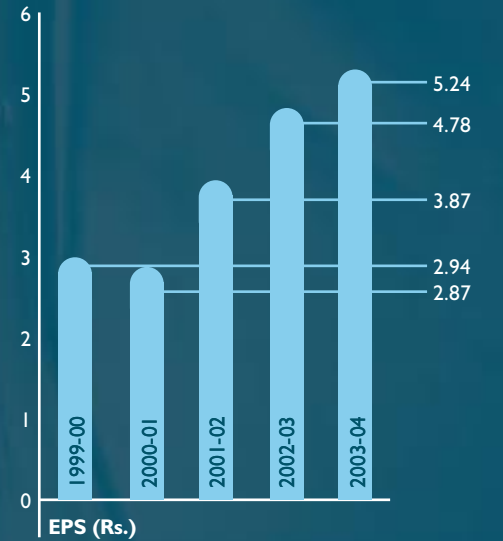


# WHAT WE ACHIEVED IN 2003-04



- A total shareholder return of Rs. 29.70 per share.**  
 Indicating that we more than met the expectations of our shareholders.
- An increase in the ROCE from 15.74 per cent in 2002-03 to 16.39 per cent in 2003-04.**  
 Indicating that we strengthened our business model.
- An increase in our net profit margin from 4.02 per cent in 2002-03 to 5.11 per cent in 2003-04.**  
 Indicating that we reduced costs and enhanced product value.
- An increase in our export earnings by 60.21 per cent.**  
 Indicating the success of our globalisation strategy.
- A decline in our average cost of funds by 308 basis points to 12.82 per cent.**  
 Indicating our ability to capitalise on changes in the prevailing environment.
- An increase in the installed capacity from 81.18 TPA to 120 TPA.**  
 Indicating our ability to proactively grow our business in line with increasing product acceptance.
- A commissioning of the granulation facility strictly as per cGMP standards.**  
 Indicating our ability to create globally benchmarked assets.

- The development of 'Nitazoxanide, an anti-diarroheal molecule, for the first time in Asia and for the second time in the world, approved by USFDA.**  
 Indicating our ability to create molecules that are internationally accepted and globally benchmarked.
- The emergence as the largest Asian and the second largest global manufacturer of Clarithromycin.**  
 Indicating our ability to scale our successful products in line with the prevailing global demand.
- The commissioning of a US subsidiary to enhance our regulated market presence and expand our CRAMS exposure.**  
 Indicating our long-term commitment in addressing the growth coming out of large and protected markets.
- The filing of one DMF in the US and two DMFs in 14 European countries in the CTD format.**  
 Indicating our commitment to build business-enhancing intellectual capital.
- The award of the coveted Pharma Pulse Award for overall performance in our category.**  
 Indicating the industry respect for our achievements.
- An increase in market capitalisation by 277.93 per cent.**  
 Indicating shareholder approval of our ongoing business strategy.





**“We have charted out a forward path comprising decisive steps to meet the emerging challenges and opportunities.”**

**Dr. G. Munjal, Chairman**

*Dear Shareholders*

I AM PLEASED TO PRESENT TO YOU IN BRIEF THE EVIDENCE OF OUR SUPERIOR PERFORMANCE IN 2003-04: OPERATIONAL REVENUE GROWTH OF 13.55 PER CENT, A PROFIT AFTER TAX INCREASE IN EXCESS OF 44.56 PER CENT, EXPORT JUMP OF MORE THAN 60.21 PER CENT, AN INCREASE IN OUR MARKET CAPITALISATION BY MORE THAN 277.93 PER CENT AND A PROPOSED MAIDEN DIVIDEND FOR OUR SHAREHOLDERS.

Considering that this improvement came in the face of declining realisations and a rupee stronger by close to eight per cent, I see the improvement as a watershed in our history and a vindication of our business model.

#### **Overview**

Before I venture to explain the character of our business model, it would be relevant to highlight the industry background, which makes it significant.

For decades, India respected product patents, leaving it free to develop alternative process routes. As a result, a number of Indian manufacturers reverse-engineered patented products. However, following India's recognition of TRIPS from 1 January 2005, which will result in a comprehensive respect for process patents as well, reverse engineering will be banned for all products patented from that date onwards.

As a result, companies with a long-term business outlook will need to invest significantly in their proprietary research with the objective to discover new molecules. While this could well be daunting - the development cost of a single molecule is estimated at US\$ 800 mn across 10-12 years with a success rate of one out of 200 applicants - there is an attractive opportunity that could well serve as an intermediate strategy for a number of smaller but progressive organisations.

#### **Generic opportunity**

Even as the pharmaceutical industry could be interpreted as restrictive on the one hand, there is a once-in-a-lifetime opportunity on the other. More than US\$ 88 bn worth of products are going off-patent by 2008, which will widen the number of new products that can be manufactured. India is expected to emerge as a significant beneficiary: it possesses low cost, high quality and internationally certified manufacturing facilities.

This reality is expected to work in two ways: a number of international majors will be inclined to enter into longstanding supply alliances with select Indian manufacturers in exchange for low outsourcing costs; on the other hand, an increasing number of global pharma majors will intend to market their products in India in view of the impending correction of its longstanding therapeutic under-penetration.

This scenario holds out two distinctive opportunities for Ind-Swift: of emerging as a dependable supplier of products to international majors and of emerging as a preferred marketing intermediary on behalf of multinational organisations intending to enter India.

#### **Strategy**

At Ind-Swift, we have addressed emerging opportunities with a number of strategic

initiatives. We are working to significantly increase our presence in the regulated markets. For this, we are working to develop complex molecules primarily catering to sustained use therapies slated to go of patent in the near future. As a result, we expect to significantly increase our basket from 18 to 40 products over the near-term. Besides, with our R&D strength, we expect to retain our niche among the fastest developers of novel APIs, providing us with a first mover's advantage in a highly crowded segment.

#### **Initiatives**

To make these a reality, we have embarked on a number of business-strengthening initiatives: a subsidiary in the US, the largest pharmaceutical market in the world, a new state-of-the-art facility focused on the regulated markets as per the cGMP and USFDA standards and a new dedicated Rs. 50 cr R&D centre, among others.

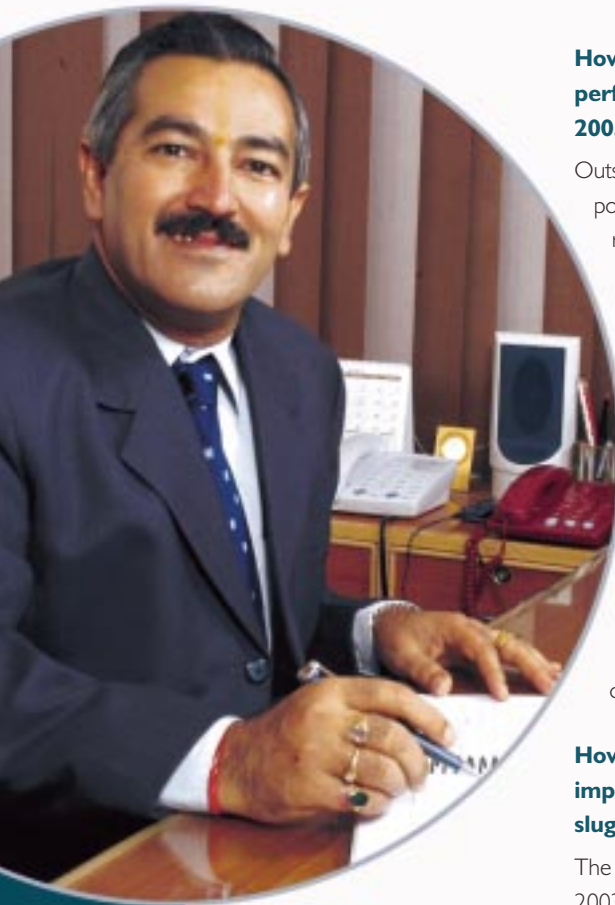
#### **Outlook**

We are confident that these initiatives will lead to a substantial increase in turnover over the next five years, increased cash flow and enhanced value in the hands of our owners.

**Dr. G. Munjal**  
Chairman

# “A continuous raising of the bar translated into superior financials in 2003-04.”

Mr. V. K. Mehta and Mr. N. R. Munjal review the company's performance in 2003-04.



**Mr. V. K. Mehta**  
Joint Managing Director

## How would you assess the performance of the company in 2003-04?

Outstanding! This is best reflected in the positive divergence between our revenues and profits. While operational revenues grew nearly 13.55 per cent, our profit before tax grew by 56.87 per cent. One can see this improvement translate into various other numbers despite a squeeze in the Indian pharmaceutical industry: our EBIDTA margin, which increased from 13.94 per cent in 2002-03 to 15.61 per cent in 2003-04, and our return on employed capital, which increased from 15.74 per cent to 16.39 per cent.

## How do you explain this improvement despite the industry sluggishness?

The improvement that we reported in 2003-04 was essentially derived from an ability to look on the inside and seek improvements to effectively counter the challenges on the outside. What we really did was raise the bar – the theme of this year's report – across various operational parameters under our control rather than complain about factors beyond our control.

Take an instance: at a time when realisations of most of our products declined, we re-worked our capacity and processes to increase supply, shrink the manufacturing cycle, rationalise the use of raw materials and reach out to a wider customer profile. As a result, Clarithromycin continued to remain our profitable revenue-driver even though realisations in 2003-04 were 60 per cent lower than the US\$ 1200 per kg in 1997.

## What other factors accounted for the improved performance?

Clearly our increasing global exposure. At Ind-Swift Laboratories, we have clearly identified the need to be globally relevant if we are to succeed across the long-term. This is because the international pharmaceutical industry is witnessing a trend of paradigm importance – genericisation. We expect US\$ 88 bn of drugs to go off-patent by 2008, an unprecedented phenomenon, which will create a significant room for a number of new low-cost manufacturers. We clearly see ourselves as one: we possess low cost, high quality and high capacity manufacturing competencies, which we expect to leverage through secured and dedicated supply contracts across the long-term. In our opinion, this arrangement will progressively de-risk our

company from volatile realisations and erratic volume requirements.

## What has the company done to make itself ready for this emerging environment?

We filed one DMF in the US and two DMFs in 14 European countries in the CTD format in 2003-04; we commissioned a US subsidiary to create a visible presence that will encourage a number of US buyers to outsource from us an increasing number of generic products. Some of the benefits were already reflected in our results for 2003-04: increased product and service exports. For instance, we added 25 international clients and our product exports increased more than 60.21 per cent in 2003-04. This was partly a result of a strategy to emerge as the largest macrolide manufacturer in India, which immediately translated into increased orders in a SARS-affected Asian environment. Besides, we made a maiden entry into the contract manufacturing segment, a heartening development after years of painstaking initiatives to benchmark ourselves with international standards.

## In what other ways did the management create a stronger organisation for the future?

Over the last five years, the company made sustainable growth its principal focus, which

translated into an investment of Rs. 21.97 cr in research and development leading to a topline 25 per cent CAGR. During the financial year under review, the company reinforced this focus through the following initiatives:

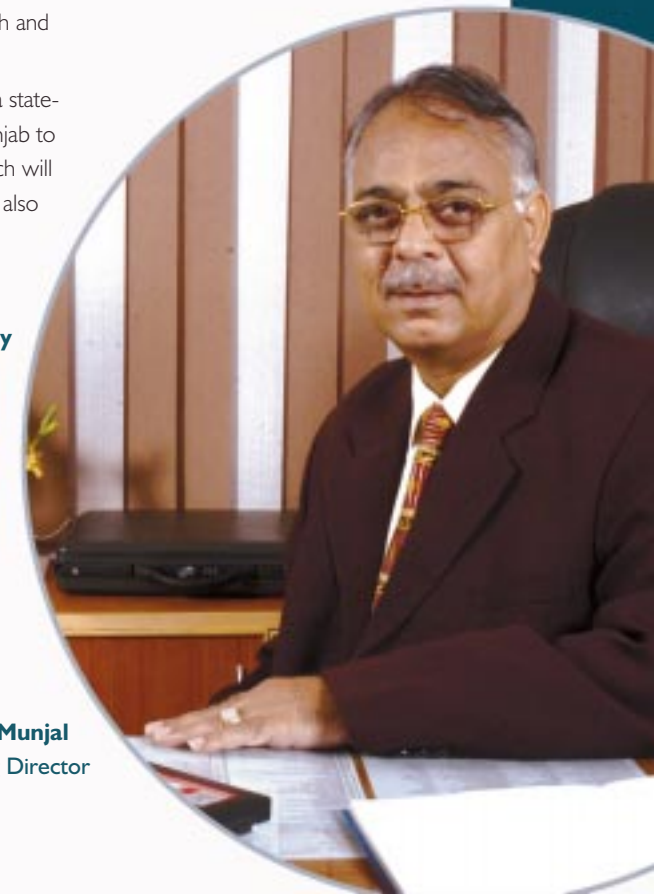
- The launch of Nitazoxanide, a blockbuster anti-diarrhoeal molecule, for the first time in Asia.
- The forging of product supply alliances with four of the top 15 US companies.
- The continued servicing of customer needs in rapidly growing therapeutic segments like cardiology, diabetology, anti-histamine, anti-depressant and macrolide antibiotics.
- Growing investments in research and development.
- The investment of Rs. 50 cr in a state-of-the-art R&D facility at Mohali, Punjab to be operational by March 2005, which will not only drive ongoing research but also strengthen the company's CRAMS presence.

## What strategy has the company adopted towards sustained growth in the long-term?

For the long-term, the company has strategised on the following options, which have been captured in our evolving business model (see next page).

## Calendar for 2004-05

- Launch around four products.
- Submit 4-6 DMFs for approval in the USA.
- Enhance the CRAMS business to account for 35 per cent of the company's profitability.
- File four new non-infringing process patents in the antidiabetic, cardiovascular, anti-biotic, oncology and antihistamine therapeutic segments.



**Mr. N. R. Munjal**  
Managing Director



Ind-Swift's business model will comprise the following characteristics:

- **A high regulated market presence:** We expect to evolve our export exposure from 20 per cent in the soft regulated markets to 60 per cent in the fully regulated markets by 2008.
- **Differentiated product development:** We will increasingly develop complex molecules slated to genericise in the near future, creating a niche in the process.
- **Income quality:** We have selectively evolved our product mix towards high growth therapeutic segments catering to lifestyle diseases. For instance, three of four products introduced in 2003-04 addressed lifestyle therapeutic segments. Besides, three of the drugs to be commercialised in 2004-05 will be from high growth therapeutic segments. As a result of this focus, revenues from lifestyle therapeutic groups are

expected to grow substantially over the next five years.

- **Pioneering launches:** Over the years, the company has maintained its position of being among the first three in the country and among the first five in the world to launch a majority of complex products. This translates into attractive margins and shrinking payback, allowing us to invest horizontally (new product development) and vertically (capacity expansion).
- **Launch of new products:** We expect to grow our basket of 18 products to around 40 over the next five years with an eye on patent expiry in the US. Around five products will be launched in the current.

**How has this strategy extended to the company's back-end?**

We recognised that an increasing outsourcing opportunity will require us to

strengthen our business across a number of areas. In view of this, we commissioned a massive Rs. 125 cr modernisation and expansion programme to be implemented over the next 2-3 years, comprising an FDA compliant bio-batch plant, an R&D centre to drive the company's entry into regulated markets, two new API manufacturing units compliant with the USFDA standards, an upgraded existing facility to meet the USFDA standards and the setting up of an additional manufacturing facility dedicated completely to the growing requirements of a reputed international player. Besides, we increased the Clarithromycin capacity to 70 TPA. As these projects are commissioned, we are confident that we will double our revenue and increase our profits by more than 150 per cent across three years and enhance value in an attractively sustainable way for all those who hold shares in our company.

We expect to evolve our export exposure from 20 per cent in the soft regulated markets to 60 per cent in the fully regulated markets by 2008.

Raising the bar

# RELEVANT PRODUCTS

IN A BUSINESS WHERE PRODUCT DIFFERENTIATION IS NEGLIGIBLE, A BLOCKBUSTER PRODUCT IS THE MOST POTENT BRAND BUILDER.

Over the years, Ind-Swift Laboratories has reinforced its branded presence through the following initiatives:

**High population:** The company's product portfolio comprises seven of the 20 blockbuster drugs within the industry.

**Scale:** The company is one of the largest global manufacturers of macrolides; it enjoys a leadership in Clarithromycin, Clarithromycin granules, Azithromycin, Roxithromycin, Roxithromycin granules, Fexofenadine and Atorvastatin.

**Space:** Clarithromycin, Clarithromycin granules, Fexofenadine and Atorvastatin are estimated to possess an international market of over US\$ 15 bn.

**Share:** The company supplies close to a fifth of the world's Clarithromycin needs. The drug is set to go off patent in 2005.

**Select:** The company is the only other manufacturer of Clarithromycin granules after its originator Abbott Labs; it is also the first Indian company to produce Roxithromycin granules.

**Basket:** The other revenue drivers comprise Fexofenadine (anti-allergic) whose sales (attributable to the company) are estimated to touch Rs. 20 cr by 2005, and Atorvastatin, a cardiovascular product (originator Pfizer), that has been declared as one of the biggest blockbusters in pharmaceutical history.

**Result:** The company's revenues have grown 25.55 per cent (compounded) over four years, while profits have grown faster at 27.06 per cent over the same period.



$\text{HNO}_3 + \text{NaOH} \rightarrow \text{NaNO}_3 + \text{H}_2\text{O}$ 
 $\text{Fe}_2(\text{SO}_4)_3 + \text{K}(\text{SCN}) \rightarrow \text{K}_3\text{Fe}(\text{SCN})_6 + \text{K}_2\text{SO}_4$ 
 $(\text{NH}_4)_2\text{CO}_3 \rightarrow \text{NH}_3 + \text{CO}_2 + \text{H}_2\text{O}$ 
 $\text{CaCl}_2 + 2\text{AgNO}_3 \rightarrow 2\text{AgCl} + \text{Ca}(\text{NO}_3)_2$

Ind-Swift Laboratories Limited has developed Nitazoxanide, an anti-diarroheal molecule for the first time in Asia and only the second time in the world. A presence in this segment has been justified by the following:

- The only molecule approved by the FDA in the last 40 years was for Gardia.
- The only molecule for the treatment of diarrhea for children between 12 months and 11 years age is Cryptosporidium parvum.
- This drug is more effective as it is a three-day therapy against the conventional one week dosage.
- US diarrhea cases are estimated at 300 mn, leading to 1.8 mn hospitalisations and 1800 deaths. An estimated 3.1 mn deaths occur worldwide due to this ailment.
- The originator estimates a US market size of US\$ 100 mn for this molecule in the first year, with annual growth estimated in excess of 40 per cent.



### Chiral technology

Ind-Swift Laboratories is among the few in its industry to successfully harness Chiral technology to manufacture APIs. The technology has been used in the manufacture of a number of APIs like Clopidogrel, Atorvastatin, Ezetimibe and Rosuvastatin. In addition, the company has also got the chiral synthesis of one of the compounds patented and is working to patent another such process. Besides, the R&D department has reported a breakthrough in part-reversing wastage in the use of this technology by nearly 40 per cent through recimisation, enhancing yield and profitability.

IN A BUSINESS WHERE 400 BULK DRUGS COMPETE, SUCCESS IS INFLUENCED BY PRODUCT SELECTION, QUALITY, TIMING AND A FIRST MOVER'S ADVANTAGE, AMONG OTHER FACTORS.

Over the years, Ind-Swift Laboratories has enriched its track record with a number of successful products, emerging among the first three in India and among the top five in the world across a majority of its launches.

Over the years the company embarked on a number of R&D-driven initiatives to strengthen its presence:

- R&D investment of Rs. 21.97 cr over five years, approximating 4.18 per cent of its annual turnover.

- Staffing its R&D division with 70 technically qualified scientists.

- Installing a bio-batch plant, operating as per cGMP norms.

- Developing sophisticated techniques of chiral separations, stereoselective synthesis and stereospecific synthesis.

- A recognition from the Research and Development, Chemical Research and Analytical Development facility recognised by the Department of Science and Technology (Government of India).

- A tie-up with premier research institutes like NIPER (National Institute of Pharmaceutical Education and Research) and IICT (Indian Institute of Chemical Technology), Hyderabad.

As a future-focused organisation, the company is investing Rs. 50 cr in creating a new state-of-the-art R&D facility at Mohali, the first phase of which will be operational by March 2005. The company is also setting up a Rs. 10 cr pilot facility for the manufacture of high value low volume molecules to be operational by December 2004 while Rs. 35 cr had been earmarked for the development of new molecules intended for short-term commercialisation.

**Result:** The company's product basket grew from eight products in 1998-99 to 11 in 2001-02 to 18 products in 2003-04. The R&D unit now is planning to launch 4-5 products in 2004-05 addressing a total market of US\$ 6 bn.

Raising the bar

# FOCUSED RESEARCH AND DEVELOPMENT

### Major product profile

Product	Therapeutic segment	Ranking at the time of launch	
		Global	Indian
Clarithromycin	Anti-infective	2	1
Fexofenadine	Anti-allergy	2	1
Clarie granules	Anti-infective	3	2
Pentazocine	Analgesic	3	2
Roxithromycin	Anti-infective	4	2
Clopidogrel	Cardiovascular	4	3
Azithromycin	Anti-infective	5	3
Atorvastatin	Cardiovascular	5	3

Raising the bar

# REGULATORY COMPLIANCE

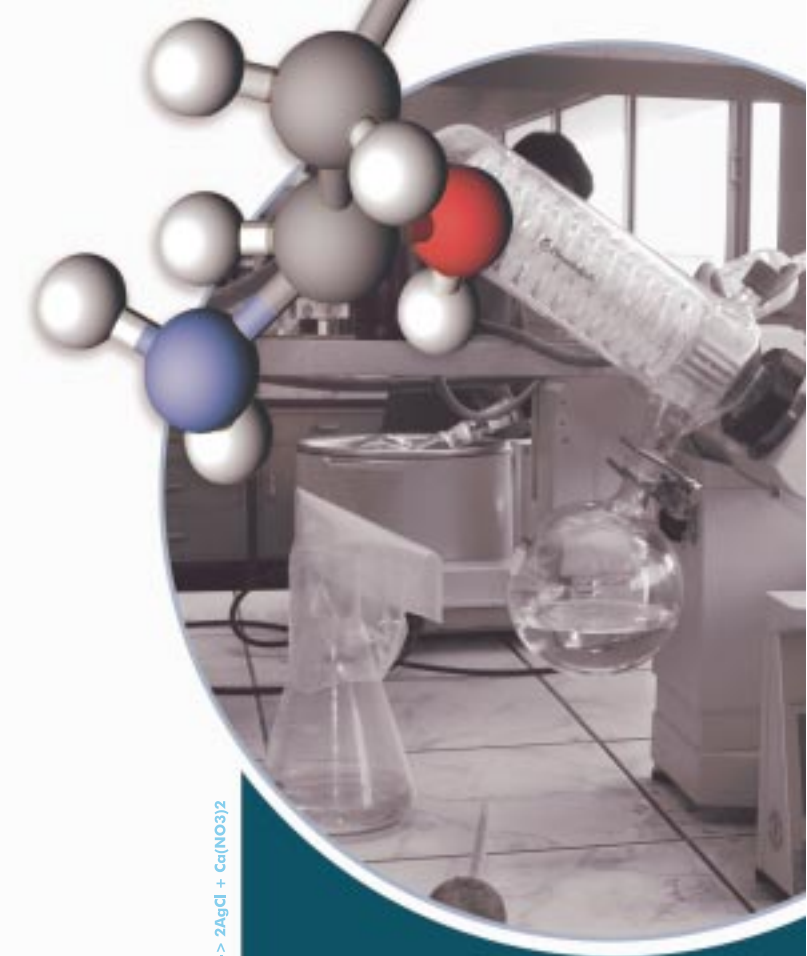
IN A BUSINESS WHERE TIMING IS EVERYTHING, THE MAJOR GAINS ARE REALISED IN THE FIRST FEW MONTHS FOLLOWING PATENT EXPIRY.

Over the years, Ind-Swift Laboratories Limited has demonstrated a successful track record of timely product launches.

- Clarithromycin (to go off patent in 2005) was launched by the company in 1997 and the company is today the largest global manufacturer of this product after the originator.
- Ezetimibe (recently launched globally) was launched by the company in 2004.
- Nitazoxanide was launched for the first time in Asia.
- Rosuvastatin was recently launched by the company (to go off patent in 2012).

The company monitors molecules going off patent over the foreseeable future. This knowledge has enabled it to time the launch of its products with the exponential market growth once the product goes off patent. As a result, this strategy is directed to help the company capture a significant value before competition forces a price decline, enabling it to generate an attractive return on its investment.

Presently the company is working on 20 different molecules, which are expected to genericise over the next 5-6 years. To facilitate this study, the company has instituted an IPR cell manned by four technically qualified professionals, which extensively incorporate the ICH and USFDA guidelines. Besides, the company's US subsidiary has strengthened its awareness of ongoing international regulations and standards leading to informed decision-making.



HNO3 + NaOH -----> NaNO3 + H2O Fe2(SO4)3 + K(SCN) -----> K2Fe(SCN)6 + K2SO4 (NH4)2CO3 ----> NH3 + CO2 + H2O CaCl2 + 2AgNO3 -----> 2AgCl + Ca(NO3)2

## Highlights, 2003-04

- Two patents were filed with non-infringing processes.
- One DMF was filed in the US and 2 DMFs in 14 European countries in CTD format.
- The company emerged among the first few in India to file a DMF in CTD format.

## Calendar, 2004-05

- Four patents for APIs with non-infringing processes are ready for filing.
- The company expects to file 4-5 DMFs every year for the next five years.



Raising the bar

# CONTEMPORARY INFRASTRUCTURE



IN A BUSINESS WHERE COMMISSIONING A MANUFACTURING FACILITY ENTAILS A LOW GESTATION AND CAPITAL INVESTMENT, THE UNIT THAT RECONCILES STATE-OF-THE-ART FACILITIES WITH MULTI-FUNCTIONAL CAPABILITY IS USUALLY THE MOST SUCCESSFUL.

Over the years, Ind-Swift Laboratories' long-termism has been reflected in the selection of assets that were not only contemporary when they were commissioned but which have remained so over time.

The company's production facilities comprise 125 stainless steel and glass-lined reaction vessels with capacities ranging from 50 to 5000 litres. Besides, the company has invested in stainless steel centrifuges and

driers, three fluidised bed coaters for granule manufacture and a fully automated solvent recovery system, among other equipment.

This versatile infrastructure enables the company to manage hazardous material and complex reactions of the following nature: Grignard Reaction, Friedset Craft Acylation and high pressure reactions comprising hydrogenations, chlorination, Bromination Stetter Reaction and Arbuzov Reaction, among others, with a capability to address all reactions between  $-110^{\circ}\text{C}$  to  $+300^{\circ}\text{C}$  across various corrosive inputs.

Over the last few years, the company invested Rs. 25 cr to build adequate capacities, make its facilities cGMP compliant and approvable by regulatory bodies like the USFDA and UK MCA. As a result, the company's facilities operate in line with

globally accepted standards/ICH guidelines, successfully passing audits conducted by the Ministry of Health (Iran) and the World Health Organisation in 2003-04.

Ind-Swift Laboratories has built globally benchmarked capacities in several high potential molecules, namely Clarithromycin, Fexofenadine and Atorvastatin. The company recently expanded its macrolides capacity from 65.40 TPA to 90.50 TPA.

**Result:** Production increased from 40,232 kgs in 1999-00 to 107,909 kgs in 2003-04 at a CAGR of close to 28 per cent over a four-year period. In an industry plagued by declining realisations and profitability, the company improved its per unit profit at a CAGR of 18 per cent and gross profit margin by 27 per cent over the same period.

## Highlights, 2003-04

- Production increased by 96.32 per cent in volume terms.
- A granulation facility was installed in line with cGMP standards.
- The capacity of various high value, high growth APIs was expanded.

## Road ahead

- Commissioning an API facility in Jammu and Kashmir.
- The upgradation of two existing facilities to USFDA approvable standards by 2005.
- Obtaining the USFDA approval for one of its plant by the end of 2005.
- A Rs. 35 cr expansion in the capacity of Fexofenadine, Atorvastatin, Clarithromycin and Nitazoxanide for meeting growing market and regulatory demand.



Raising the bar

# INTELLECTUAL CAPITAL

IN A BUSINESS WHERE RE-ENGINEERING HAS COMPRISED THE MAKING OF MINOR MODIFICATIONS IN AN EXISTING DISCIPLINE, THE SUCCESSFUL COMPANY IS ONE THAT MAKES A SWEEPING CHANGE IN ITS APPROACH WITH THE MOST REMARKABLE RESULTS.

At Ind-Swift Laboratories, we have embarked on product development from the basic stage, leading to an accurate process understanding, a seamless transfer from the laboratory to the production unit and an easy identification of areas where time and costs can be significantly reduced.

At the company, this on-job knowledge

repository has been reinforced through extensive training. In 2003-04, for instance, the company invested Rs. 22.28 lacs in training programmes primarily directed towards the incorporation of cGMP and FDA standards.

The company has protected the quality of this intellectual capital through the following retention-enhancing people initiatives:

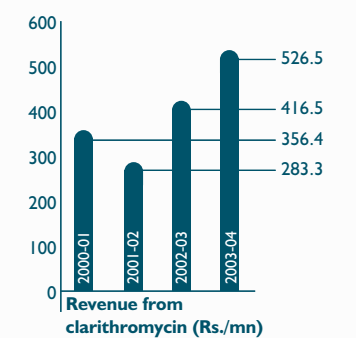
- A performance-aligned pay structure and increments higher than industry standards.
- An encouragement to employees to attend seminars and other pharma meets.
- An open and cross-functional communication approach across the

organisation.

- A centralised HR department to facilitate a functional clarity and structured organisational development.
- A performance management system, which involves the recruitment of qualified professionals with a proven track record, career profiling, competency mapping and performance-linked awards, linking organisational growth to individual development – and vice versa.

**Result:** Production per employee increased 63.39 per cent; profit per employee strengthened from Rs. 1.80 lacs to Rs. 2.11 lacs.

In 1997, Ind-Swift Laboratories realised US\$ 1200 per kg from the production of Clarithromycin. Despite a fall in the price of the product by close to 60 per cent since, the company continues to earn a handsome return through effective cost reduction derived from process re-engineering. This knowledge-led approach has enabled the company to retain its leadership in Clarithromycin and Fexofenadine, among other products.



Raising the bar

# MEANINGFUL BUSINESS ALLIANCES



IN A BUSINESS WHERE REVENUE SUSTAINABILITY IS A PRIME SUCCESS DRIVER, THE SUCCESSFUL COMPANY IS ONE THAT EVOLVES A TRANSACTION INTO A LONG-STANDING PARTNERSHIP.

At Ind-Swift Laboratories, we have strengthened the quality of our business partnerships through the following initiatives:

**Non-competing approach:** The company has adopted a business model which does not compete with that of its client but complements it, inspiring the confidence of an increasing number of prospective customers.

**Wide product range:** The company's wide basket of products largely caters to high growth, sustained use therapeutic segments.

**Cost-effective solutions:** The company's R&D strength goes beyond product identification and development towards process re-engineering, enhanced productivity and cost reduction across a number of products, eventually leading to increased customer profitability.

**Service:** The company has emphasised the additional product development services – the preparation of product documents and dossiers, providing support during the use of the drug in the end formulations and matching the end product to customer specifications.

**Extension of client's operation:** The company is providing man and machine facilities for research into and manufacturing of the client's products. In doing so, the company is setting up a new R&D centre and a cGMP standard pilot plant, installing a new API plant with multi-processing capabilities, upgrading existing facilities to match the best in the world operating standards and working aggressively towards receiving the quality and performance certifications.

**Result:** The company's clients comprise leading Indian formulators like Ranbaxy, Lupin, Wockhardt, Glenmark, IPCA, Dabur, Unichem and Cadilla Health Care.



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- The European markets accounted for more than 36 per cent of the company's international business in 2003-04.
- The company emerged as the market leader for Fexofenadine in the Egyptian market.
- The company has tied up with four US companies, which feature among the top 15 companies in the US for the supply of its products.



Raising the bar

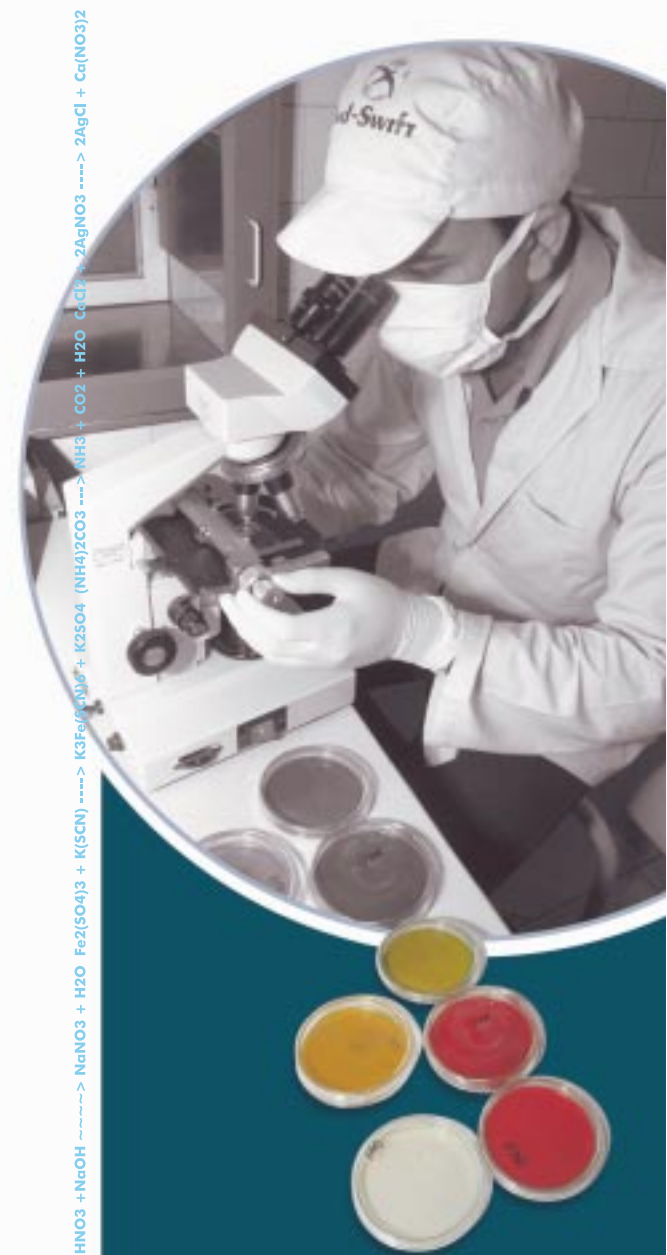
# CONSISTENT QUALITY

IN A BUSINESS WHERE API MANUFACTURERS HAVE GENERALLY FOCUSED ON THE SUPPLY OF A QUALITY CONFORMING TO PHARMACOPOEIAL NORMS, THE COMPANY THAT PROVIDES PRODUCTS THAT CONSISTENTLY BETTER THESE STANDARDS CREATES BRAND EQUITY.

At Ind-Swift Laboratories, we have exceeded customer and industry benchmarks through the following initiatives:

- Focused divisions:** The commissioning of the Quality Assurance and Quality Control departments with clearly defined responsibilities that serve as effective checks.
- Continuous focus:** The company has instituted Standard Operating Practices (approved by the QA team) that creates a step-by-step validation of the entire manufacturing process leading to assured product quality.

**Result:** The company's products exceed industry quality benchmarks. For instance, in Atorvastatin, the pharmacopoeial acceptable benchmark is an impurity level of 3.5 per cent, but the company has provided customers a one per cent impurity benchmark on request. Besides, a number of the company's products command a premium and have been well accepted in the regulated markets.



$\text{HNO}_3 + \text{NaOH} \rightarrow \text{NaNO}_3 + \text{H}_2\text{O}$ 
 $\text{Fe}_2(\text{SO}_4)_3 + \text{K}(\text{SCN}) \rightarrow \text{K}_3\text{Fe}(\text{SCN})_6 + \text{K}_2\text{SO}_4$ 
 $(\text{NH}_4)_2\text{CO}_3 \rightarrow \text{NH}_3 + \text{CO}_2 + \text{H}_2\text{O}$ 
 $\text{CaCl}_2 + 2\text{AgNO}_3 \rightarrow 2\text{AgCl} + \text{Ca}(\text{NO}_3)_2$

## Approvals and certifications

- The Clarithromycin quality was audited by WHO and received product approval.
- The Atorvastatin and Clarithromycin (including granules) quality was inspected and approved by the Ministry of Health, Iran.
- The company received the ISO 9001:2000 certificate from Underwriters Laboratories.

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# MANAGEMENT'S DISCUSSION AND

## Industry overview

The Indian pharmaceutical sector, almost non-existent before 1970, now meets almost 95 per cent of India's pharmaceutical needs. Domestic sales increased 13.7 per cent CAGR from Rs. 4 bn in 1970-71 to Rs. 214 bn in 2002.

Today, the industry is marked by the following:

- A broad industry growth of 16 per cent at a CAGR over the last seven years. While the bulk drug segment (19 per cent of the total production) reported a growth at 20 per cent, the formulations segment (81 per cent share of the market) grew at about 17 per cent.
- Around 1.3 per cent of the world market by value and eight per cent by volume.
- A per capita drugs consumption of US\$ 3, among the lowest in the world compared to US\$ 412 in Japan, US\$ 222 in Germany and US\$ 191 in the USA.
- The manufacture of about 400 bulk drugs across various therapeutic segments.
- A fragmented nature of industry, 80 per cent of the manufacturers with sales of less than Rs. 100 cr and the top ten players accounting for close to 35 per cent of the industry.
- The emergence of the anti-infective segment as the largest segment (24 per cent market share) followed by the respiratory and cardiovascular segments.
- A predominant focus on low cost reverse engineering.
- An export of 35 per cent of the industry's production by value; an annual export growth of 25 per cent.
- An increase in the incidence of mergers and acquisitions, driven by a need to strengthen the product portfolio, reduce costs and widen market coverage.

## Strengths

- India's population of over a billion is largely untapped with relation to pharmaceutical use. The penetration of modern medicine is less than 30 per cent in India. Its per capita expenditure in health care is US\$ 3, compared with US\$ 453 and US\$ 189 in peer countries like Brazil and Malaysia respectively.
- The growth of India's middle-class has inspired a change in lifestyles, which opens up a huge market for lifestyle drugs.
- Indian manufacturers are one of the lowest cost producers with a scalable labour force. As a result, Indian manufactures can produce drugs at 40 to 50 per cent of the global benchmark in most cases.
- India possesses excellent chemistry and process re-engineering skills, which enhances its competitive advantage.

## Weaknesses

- A part of the Indian pharma industry is price regulated. The NPPA (National Pharma Pricing Authority) sets prices of different drugs, which caps profitability.
  - India accounts for almost 16 per cent of the world population but only one per cent of the global pharma industry, indicating a serious absence of purchasing power.
- The presence of 300 large manufacturing units and about 18,000 small units has translated into price erosion. For instance, the industry grew by 10.4 per cent in 2003 but real growth was only 8.2 per cent as prices declined.

## Financial performance, 2003-04

Ind-Swift Laboratories reported all round growth in 2003-04:

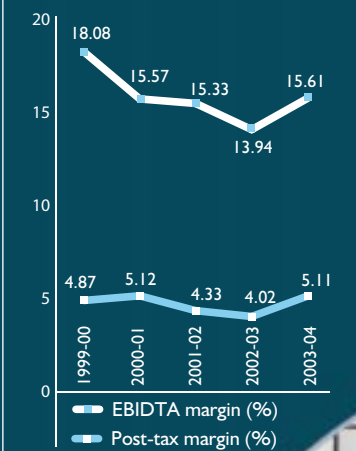
- Total income increased from Rs. 140.77 cr in 2002-03 to Rs. 160.52 cr in 2003-04 cr.

- EBIDTA grew from Rs. 18.47 cr in 2002-03 to Rs. 23.49 cr in 2003-04.
- Cash profit increased from Rs. 11.11 cr in 2002-03 to Rs. 15.65 cr in 2003-04.
- Profit after tax moved from Rs. 5.32 cr in 2002-03 to Rs. 7.69 cr in 2003-04.

## Margins

The company's stronger performance is reflected in its margins:

- EBIDTA margin improved from 13.94 per cent in 2002-03 to 15.61 per cent in 2003-04.
- Pre-tax margin grew from 5.63 per cent in 2002-03 to 7.77 per cent in 2003-04.
- The post tax profit margin has also moved northward – from 4.02 per cent to 5.11 per cent.



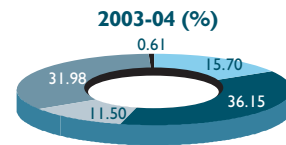
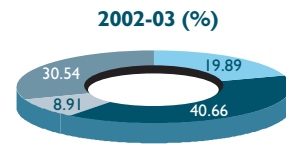
# ANALYSIS

## Revenues

The company's revenues grew from Rs. 60.55 cr in 1999-00 to Rs. 150.45 cr in 2003-04 at a CAGR of 25.55 per cent, due to the following factors:

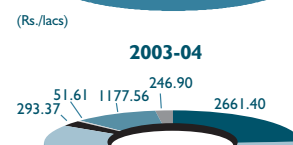
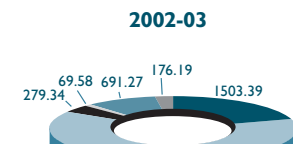
- Increased contribution from the international business division, and
- Increased contribution from the launch of new products.

**International business:** Foreign exchange earnings grew at a CAGR of 38.50 per cent across four years, increasing its exposure from 30.04 per cent of revenues in 1999-00 to 44.50 per cent in 2003-04. In 2003-04, export income jumped more than 60.21 per cent as shipments were made to more than 45 countries, primarily developing. The company earned Rs. 80



■ Asia Pacific ■ Latin America  
■ Europe ■ Middle East  
■ USA

**Domestic operations:** Revenue from domestic operations decreased by 8.40 per cent in 2003-04 even as the contribution to revenues declined from 64.55 per cent of turnover in 1999-00 to 54.85 per cent in 2003-04. This reduction progressively de-risked the organisation from an excessive



■ Cardiovascular ■ Anti Diabetic  
■ Macrolide Antibiotic ■ Anti Histamine  
■ Steroids ■ Analgesic

## Expenses

At Ind-Swift Laboratories, competitiveness was protected due to a prudent management of raw material and energy,

dependence on imported raw material with domestic sourcing, outsourced low-value products from contractors and reallocated its capacity for value-added products.

**R&D expenses:** In 2003-04, the company invested Rs. 8.31 cr in research and development, accounting for 5.53 per cent of turnover. The year-wise revenue and capital expenditure break-up is given as under.

Parameter	1999-00	2000-01	2001-02	2002-03	2003-04
Capital exps.	0.22	1.56	2.54	1.05	3.18
Revenue exps.	2.74	1.02	1.17	3.52	5.13

business at a later date, besides other funds for specific deployment. These reserves represent the lowest cost of funds available with the company, especially the ones created out of accruals. Reserves increased significantly from Rs. 25.52 cr in 2002-03 to Rs. 35.82 cr in 2003-04, primarily due to improved performance and the issue of shares at a premium. Year-end free reserves at Rs. 20.25 cr accounted for more than 56 per cent of the total reserves.

and improved performance. This strategy of low cost plough-back is reflected in the improved return on net worth from 18.83 per cent in 2002-03 to at 22.34 per cent in 2003-04.

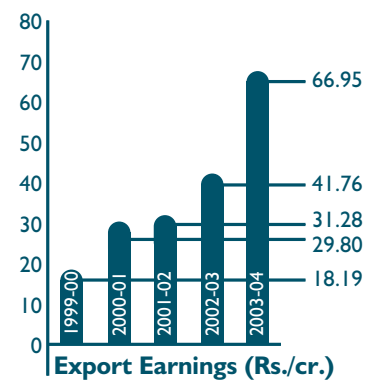
## Loan funds and costs

Loans comprise a significant part of the capital employed, declining from 53.80 per cent in 1999-00 to 42.30 per cent as on 31 March 2004. This is the consequence of painstaking virtuous cycle initiatives: manufacture of quality products, improved realisations, cost-cutting initiatives, increased

**In 2003-04, the company invested Rs. 8.31 cr in research and development, accounting for 5.53 per cent of turnover.**



lacs from contract manufacturing during the year under review.



dependence on any specific market.

**New products:** The company launched four new products in the anti-diarroheal, anti-hyperlipidemia and alcohol abstinence segments during the year under review, accounting for 0.17 per cent of revenues. The introduction of new and complex products was partly responsible for enhanced realisations in an otherwise competitive market dominated by declining margins. Average realisation per kg increased by nearly 12 per cent to Rs. 6705. Nitazoxanide was the latest and most significant launch, the full effect of which will be reflected during 2004-05.

among others.

**Raw material:** The company focused on productivity enhancement to maintain its competitive edge in the API segment. As a result, even as compounded revenue growth was a little above 25 per cent over the period (1999-2004), the growth in total costs was 200 basis points lower. In absolute terms, raw material costs more than doubled from Rs. 50.41 cr in 1999-00 to Rs. 115.81 cr in 2003-04 but when viewed in relation to revenues, they declined from over 83.26 per cent of turnover in 1999-00 to a little under 76.97 per cent in 2003-04. This transpired as the company prudently substituted its

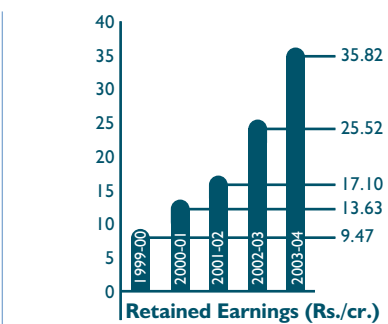
## Own funds

**Share capital:** The company's equity share capital increased by Rs. 2.56 cr to Rs. 15.61 cr during the year under review on two counts:

- Conversion of preference shares into equity shares at Rs. 32 per share.
- Preferential issue of shares in the first quarter of 2003-04 at Rs. 25 per share.

The company's share capital also comprised redeemable preference shares amounting to Rs. 3.51 cr (previous year Rs 7.43 cr).

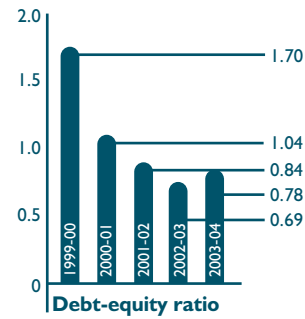
**Reserves:** These represent cumulative retained earnings for deployment into the



Increasing reserves allowed the company to consistently invest in improved technology and state-of-the-art equipment. During the preceding five years, the company invested Rs. 41.80 cr in capacity enhancement, R&D

profitability, enhanced cash flow and the repayment of borrowed capital.

In 2003-04, the company repaid borrowed funds worth Rs. 7.29 cr as against Rs. 5.10 cr in 2002-03. The debt portfolio was skewed towards relatively lower cost secured term loans comprising more than 85 per cent of the company's total debt profile. In 2003-04, the company swapped rupee loans with dollar-denominated loans and dear institutional funds for lower cost bank options. As a result, average debt cost rationalised from 14.27 per cent in 2002-03 to 8.68 per cent.



### Capital employed

In a capital-intensive business, a company's fiscal efficiency is gauged by its ability to report a return that is higher than what investors would ordinarily have derived out of an investment in fixed income instruments. Over the years, the company managed its people and plant assets efficiently, moving towards value-added

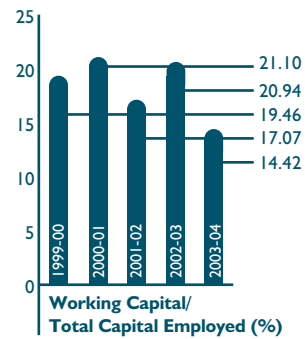
### Investments

The company has historically invested its operational surplus into capacity enhancement and business up gradation. In 2003-04, the company made a break: in addition to its investment of Rs. 15.74 lacs in its US subsidiary, it ventured to invest Rs. 5 lacs in a mutual fund for capitalising on investment opportunities in the international markets.

### Working capital

In the pharmaceutical business, working capital is critical for a number of reasons: investment in volatile raw materials, a long production cycle and the disbursement of credit to dealers and customers. The company strengthened its working capital management by prudently dividing its

than doubled from Rs. 60.56 cr to Rs. 150.45 cr during the period.



### Inventories

At Ind-Swift Laboratories, inventory management is a critical driver of working capital efficiency for an important reason: raw materials comprise 59.27 per cent of the company's total inventory. Total

### Debtors

In a business where an average working day generates a turnover of around close to Rs 0.50 cr and debtors are dispersed across geographies, the company must sell with a certainty that its debtors will remit proceeds on schedule. Any disruption can inflate working capital and debt.

At Ind-Swift Laboratories, debtors accounted for 17.5 per cent of the total capital employed in the business. Analyses of these debtors reveal that they are considerably secure. More than 82 per cent of the debtors were less than 90 days old. Also, the provision for doubtful debts was Rs. 0.33 cr or 1.5 per cent of the total debtors outstanding at the end of the financial year under review, a testimony to the credit-worthiness of the company's customers.

blockbuster drugs going off patent. An estimated US\$ 45 bn of drugs are expected to go off patent by 2007 in the US alone.

Every year the US National Institute of Health distributes US\$ 28bn to US researchers to conduct scientific research. A portion of this could now make its way to India, if the NIH finds that collaboration between researchers in the two countries is feasible.

The introduction of a new patent regime in 2005 will open up a tremendous outsourcing opportunity of bulk drugs. Consider these statistics: in 1997,

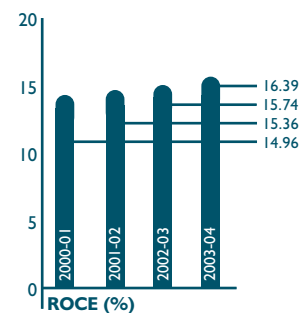
percolates to India, it could transform the fortunes of the country's pharmaceutical industry.

Equipped with the lowest production costs and US FDA-approved plants, India can emerge as a global outsourcing hub for pharmaceutical products. For one, India is the largest democracy and the second-most populous state in the world even as health investments are among the lowest. The Indian economy has grown at an average of a little over five per cent in the last few years and at 8.2 per cent in 2003-04, providing it with an exponential growth opportunity.

An estimated US\$ 45 bn of drugs are expected to go off patent by 2007 in the US alone.



products, improved margins and increasing productivity aligning systems and processes with the best in global standards. The result is visible in its numbers: while the average capital employed increased at a CAGR of 20 per cent over a four-year period, EBIDTA grew more than 20 per cent.



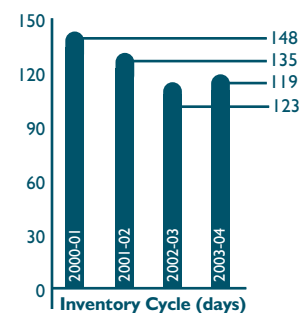
revenue between two markets ensuring a regular flow of funds into the company and growing its profitability:

- Domestic markets:** The domestic market was a volume business characterised by faster realisations but narrow margins.

- International markets:** Exports were adequately protected as transactions were conducted primarily through banks and attracted high margins.

A balanced mix of businesses was visible in the numbers: while working capital increased from Rs. 17.35 cr in 1999-00 to Rs. 38.63 cr in 2003-04, net sales more

inventory increased significantly by Rs. 6.33 cr over the previous year, necessitated by growing operations. However, the company did well to maintain its inventory cycle at the previous year levels despite expanded operations.



### Creditors

To deliver quality material, the company must source material from quality domestic and international suppliers, making creditor management critical. Thanks to a better negotiation, the company extended its creditor cycle from 68 days (as on 31 March, 2003) to 86 days (as on 31 March, 2004), which relieved the pressure on its working capital.

### Room for optimism

The US market will remain the most lucrative market for the Indian companies led by its market size and the intensity of

outsourcing by global pharmaceutical majors accounted for a staggering US\$ 67 bn. In 1998, this figure increased by 10 per cent to US\$ 73 bn. According to International Medical Statistics, a premier market research organisation, half of the big pharmaceutical companies worldwide have moved towards aggressive outsourcing through long-term strategic alliances. Also, the outsourcing of patented drugs represents a lucrative market. Statistics show that of the 65 'new chemical entities' (NCEs) introduced between 1994 and 1998, bulk requirements for 35 molecules were outsourced, averaging US\$ 60 bn per year. Even if a small segment of this

The growth of India's middle-class has resulted in an increase in lifestyle diseases. Statistics indicate that India has the highest number of diabetes cases in the world and, according to various estimates, will have around 57.2 million diabetic patients by 2025. Since only 12 per cent of India's diabetic population enjoys access to treatment, there exists a huge market for sustainable growth.

Presently, the US\$ 5 billion Indian pharmaceutical industry is expected to grow to US\$ 25 billion by 2010. The US\$ 2 billion bulk drug segment is expected to grow to US\$ 12 billion by 2010.

# RISK MANAGEMENT

SINCE RISK IS INHERENT IN EVERY BUSINESS, IT IS THE COMPANY'S PRINCIPAL RESPONSIBILITY TO MINIMISE ITS INCIDENCE.

Ind-Swift Laboratories' risk management approach is derived not from the directive of a handful of individuals but an organisation-wide culture, supported by effective processes. The company's risk management revolves around:

- Risk identification and risk measurement:** Facilitated through corporate policies that provide risk standards and guidelines (credit, market, liquidity, funding and operational).
- Risk management:** Facilitated through the involvement of senior management for approval, reviews and other policy measures. The end-point responsibility in risk mitigation is vested with the senior management, which approves the initiatives and makes a continuous review of risk assessment.
- Risk control:** Facilitated through an ongoing check of whether the risk taken is in line with the company's risk appetite.

Type of risk	Risk explanation	Risk mitigation	Mitigation measurement
<b>Industry risk</b>	The pharmaceutical industry may cease to remain attractive.	As long as there is life, the pharmaceutical industry will continue to remain relevant. The low per capita consumption of India vis-a-vis the other developing countries is also a pointer to its potential. Consequently, the growth is expected to accelerate following the deepening of India's insurance industry.	India's pharmaceutical industry has grown at a compounded rate of close to 16 per cent over the last decade.
<b>Strategy risk</b>	A strategic error could result in declining profitability.	The company has taken initiatives to enhance production, migrate to more complex (and value-added) molecules and strengthen its presence in regulated markets. It is preparing to migrate to value-added products and high margin businesses (CRAMS) to improve shareholder return.	The company earned Rs. 80 lacs through CRAMS in 2003-04. It forged alliances with pharmaceutical majors in the US, UK, Germany, Spain and Mexico to supply products, which will significantly increase income over the years.

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<b>Product selection risk</b>	The selection of a product is a time and resource consuming exercise, an error in which could lead to losses.	The company is present in the macrolide antibiotic, anti-allergy, cardiovascular, diabetology and anti-ulcerant therapeutic segments. Over the years, these have emerged among the fastest growing segments with a huge market. For instance, Clarithromycin (macrolide antibiotic API) is expected to grow to a Rs. 160 cr market by 2008 while Atorvastatin (cardiovascular API) has been endorsed as one of the biggest blockbuster drugs in the pharmaceutical industry.	The company's revenues grew at a CAGR of 25.55 per cent over the last four years.
<b>Competition risk</b>	India's pharmaceutical industry is fragmented and competitive, making it important for players to carve out niches to sustain their growth.	Ind-Swift Laboratories is a research-driven pharmaceutical company, its core strength being organic synthetic chemistry. The company has strategically chosen products requiring complex reactions and hazardous material, protecting the company from competition. In doing so, the company has emerged as a pioneer in process development of a number of APIs in India. For instance, it is the only company in the world to have developed Clarithromycin granules apart from its innovator; it is the first company to develop Roxithromycin granules.	Ind-Swift Laboratories is manufacturing seven of the 20 blockbuster drugs within the industry, positioning it ahead of competition.
<b>Quality risk</b>	APIs entail complex, multi-stage manufacturing processes conducted at high temperatures and pressures, the slightest variation in which could lead to serious underdelivery.	At Ind-Swift Laboratories, quality management extends from process compliance to the entire business cycle -from all inputs entering the factory premises to the final product being despatched from the company gates across every product batch. This quality discipline is facilitated by the recruitment of qualified technical personnel in the quality control and assurance cells, the cGMP and FDA compliant manufacturing facilities, a systematic maintenance of complete documentation (for each product developed) facilitating arrests of any in-process deviations in the shortest possible time and cost reduction through consistent process improvements. These quality initiatives are periodically audited by external and internal agencies to assure that deviations are significantly below their predetermined benchmarks.	The company's domestic client list includes several leading companies in the domestic formulation industry. It supplies APIs to companies like Ranbaxy, Cipla, Wockhardt, Lupin, Glenmark and Dabur, among others.  Moreover, exports are made to 45 countries as the company has attained a preferred supplier status in a number of international markets. In 2003-04, the company made a breakthrough in supplying products to the regulated markets.

Type of risk	Risk explanation	Risk mitigation	Mitigation measurement	Type of risk	Risk explanation	Risk mitigation	Mitigation measurement
<b>Product portfolio risk</b>	The company may be banking on just a few products, which may lose their relevance over time.	Over a seven-year span, the company has developed a portfolio of 18 products, which feature in the high growth therapeutic segments of the pharmaceutical industry. For a majority, the company has been among the first three developers in the domestic industry and among the first five globally. Some of the complex products comprise Clopidogrel, Candesartan, Pioglitazone and Citalopram. Concurrently, the company has focused on new product development. In 2003-04, it launched four new products, the blockbuster being Nitazoxanide, and will launch four products in the current fiscal year. The market size of the forthcoming product launches is estimated at US\$ 6 bn. Moreover, the company is working on 20 products, which will be added to its product portfolio in the coming years, whose combined global sales were approximately US\$ 25 bn in 2003.	This stream of product introduction has strengthened the company's revenues. Enabling the company to grow faster than the industry.	<b>Regulatory risk</b>	The pharmaceutical industry is strictly regulated by government agencies in most developed countries. An inability to meet these demanding regulatory norms could prevent the company from entering these markets.	Ind-Swift Laboratories addresses regulatory issues at two levels – for sales within India and abroad. In the domestic market, the company has prudently concentrated on the production of products that are outside the purview of the Drug Pricing Control Order (DPCO). To address international regulatory issues, the company has instituted a team of technically qualified personnel strictly to focus on and monitor the evolving regulatory requirements in the developed economies. This team coordinates with the R&D, production and quality management cells to ensure that products conform to the stipulated regulatory norms and specifications consistently. The company has also set up a subsidiary in the US to enable it to be informed of all the changing industry regulations to proactively address them.	The company has applied for DMFs and patents for non-infringing processes and is optimistic of shortly receiving relevant approvals.
<b>Technology risk</b>	The company may not possess the requisite technology to perform the various processes to comply with ever changing industry requirements.	Manufacturing technology has a direct bearing on the production yield, especially in the case of bulk drugs. Also, improvements in chemical synthesis processes and technology upgrades enable quality improvement and cost reduction. Ind-Swift Laboratories has demonstrated its competence in managing a number of complex processes - namely the Grignard Reaction, Friedel Craft Acylation and other high pressure reactions. It is amongst the leading players in the industry in Chiral technology.	The launch of the complex Nitazoxanide for the first time in Asia bears testimony to the company's technology capability. The profitable retention of its market leadership in Clarithromycin seven years after its launch in 1997, endorses the company's process upgradation prowess.	<b>Environment risk</b>	API manufacture involves the use of hazardous material, generating harmful effluent, which, if untreated, could adversely impact the environment and the company's brand.	As a responsible corporate, Ind-Swift Laboratories has invested in specialised equipment - fully automated solvent recovery systems and state-of-the-art equipment - to minimise the impact of harmful and hazardous reactions. There is an awareness of the dangers that could arise from the non-compliance of the environmental norms, which has percolated to the personnel at the shop-floor through regular and comprehensive training in environment management supplemented by a detailed documentation of the processes and practices. This discipline has had a two-way impact: a regular compliance with the standards and the immediate rectification of deviations (detected through periodic audits).	The company has been awarded the Express Pharma Pulse Award for the best operations for 2003 in its category.
<b>People risk</b>	Employees in the pharmaceutical industry represent knowledge banks, any attrition in which could lead to the transfer of confidential information and competitive strength.	The company has strengthened a number of attrition-arresting initiatives. For a better understanding of the same we would request our readers to refer to the People section on page 19 of this Annual Report.	With an increase of only 60 employees over the previous year, the company succeeded in increasing production volumes by about 96 per cent.				

# 5-YEAR FINANCIAL HIGHLIGHTS

(Rs./millions)

	1999-00	2000-01	2001-02	2002-03	2003-04
Sales & Other Income*	663.12	889.57	1094.86	1407.68	1605.20
EBIDTA	109.51	126.36	155.55	184.75	234.93
EBIT	93.06	99.78	122.27	142.15	187.79
Profit Before Tax	32.51	45.10	60.50	74.56	116.96
Profit After Tax	29.51	41.52	43.91	53.21	76.92
R&D Expenditure	27.66	25.89	37.20	45.80	83.14
<b>What we owe:</b>					
Equity Share Capital	99.42	136.50	159.56	130.46	156.14
Reserve & Surplus	94.75	136.32	171.04	255.17	358.17
Deferred Tax Liability	-	-	48.95	64.30	96.79
Total	194.17	272.82	379.55	449.92	611.10
Less Misc Exp.	52.78	56.51	63.26	47.00	37.93
<b>Net Worth</b>	<b>141.39</b>	<b>216.31</b>	<b>316.29</b>	<b>402.92</b>	<b>573.17</b>
Preference Share Capital	64.30	74.33	74.33	74.33	35.05
Terms Loans	202.81	154.58	225.20	259.37	358.43
Unsecured Loans	37.00	69.75	40.86	20.54	88.15
<b>Total Term Liabilities</b>	<b>239.81</b>	<b>224.33</b>	<b>266.06</b>	<b>279.91</b>	<b>446.58</b>
Bank Borrowing for Working Capital	107.64	137.73	135.16	200.49	177.75
Creditors & Other current liabilities	152.99	254.27	203.65	264.58	366.08
<b>Total Current Liabilities</b>	<b>260.63</b>	<b>391.99</b>	<b>338.81</b>	<b>465.07</b>	<b>543.83</b>
<b>Total Borrowing</b>	<b>500.43</b>	<b>616.32</b>	<b>604.87</b>	<b>744.98</b>	<b>990.42</b>
<b>What we own:</b>					
Net Block of Fixed Assets (including CWIP)	271.97	369.21	402.88	450.42	666.40
Investments	-	-	-	-	2.07
<b>Net Current Assets</b>	<b>173.53</b>	<b>145.76</b>	<b>253.81</b>	<b>306.74</b>	<b>386.33</b>
<b>Total Current Assets</b>	<b>434.16</b>	<b>537.75</b>	<b>592.62</b>	<b>771.81</b>	<b>930.17</b>
Current Ratio	1.67	1.37	1.75	1.66	1.71
Book Value of Share	14.07	21.53	28.63	30.88	36.71
Total Debt/Equity Ratio	3.54	2.85	1.91	1.85	1.73
Term Loan to Net Worth	1.70	1.04	0.84	0.69	0.78
R&D % of PBT	85.08	57.41	61.49	61.43	71.09
ROCE	16.29	14.96	15.36	15.74	16.39

\* Net of Excise

**Note:** Deferred Tax Liability has been considered as a Part of Net Worth and Capital Employed

ROCE= EBIT Adj for Interest on Term Loan /Avg Capital Employed

# DIRECTORS' REPORT

*Dear Shareowners,*

YOUR DIRECTORS HAVE GREAT PLEASURE IN PRESENTING THE NINTH ANNUAL REPORT TOGETHER WITH AUDITED STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2004.

## Financial Results

The financial performance of the Company for the year ended 31st March 2004 is summarised below:

(Rs. in millions)

Particulars	Year ending 31st March 2004	Year ending 31st March 2003
Sales and other income	1605.20	1407.68
Profit before interest, depreciation, tax and amortisation	234.93	184.75
Less: - Interest	70.83	67.58
- Depreciation	27.87	23.35
- Amortisation	19.27	19.25
Profit before tax	116.96	74.56
Less: - Provision for taxation	7.55	6.01
- Provision for deferred tax	32.50	15.34
Profit after tax	76.92	53.21
Amount b/f from previous year	143.58	91.21
Accumulated profit available for appropriations	220.49	144.41
Provision for dividend on preference shares	0.35	0.74
Provision for preference dividend tax	0.04	0.10
Provision for dividend on equity shares	15.61	-
Provision for equity dividend tax	2.00	-
Transfer to general reserve	7.69	-
Balance carried forward to balance sheet	194.79	143.58

### Operations

Your Company has achieved a turnover of Rs. 1605.20 millions registering a growth of 14.03 per cent over the previous year's turnover of Rs. 1407.68 millions. Profit before tax also increased from Rs.74.56 millions to Rs. 116.96 millions registering a growth of 56.87 per cent. A provision for deferred tax to the tune of Rs. 32.50 million was made during the financial year 2003-04. The exports of the Company also increased by 60.21 per cent from Rs. 423.99 million to Rs. 679.26 millions during the year. The earning per share increased to Rs. 5.24 from Rs. 4.78.

The rise in margins was mainly due to higher exports and also due to:

- Focus on regulated markets.
- Steps taken to reduce the costs.
- Introduction on new products with higher margins

### Dividend

Your Directors have recommend one per cent dividend on 3,50,540 non-cumulative preference shares of Rs. 100 each for the financial year 2003-04.

Your Directors are pleased to recommend a maiden dividend of 10 per cent ( Re. 1 per equity shares of Rs. 10 each) for the financial year 2003-04. The dividend, if declared at this Annual General Meeting will be paid to those members whose names stand registered in the Register of Members as on 24th September 2004. The total outflow on account of the equity dividend payment, including the distribution tax, is Rs. 17.61 millions, which is approximately 23 per cent of net profits for the year.

### Capital Structure

During the year, the Company allotted 13,40,000 equity shares on preferential basis to private corporate bodies at a price of Rs. 25 per share to raise Rs. 33.5

millions. The funds were utilised for the up-gradation of the R&D and manufacturing facilities to meet long-term working capital requirements.

With the approval of members received in the last AGM held on 30th September 2003, the board also issued 12,27,375 equity shares at a price of Rs. 32 per share upon conversion of one per cent Preference shares.

Consequent to these issues, the paid-up equity share capital of the Company has increased from Rs. 130.46 millions to Rs. 156.13 millions and equity share capital as on 31st March 2004 are 1,56,13,675 equity shares of Rs. 10 each.

### Research and Development

The year 2003-04 had been significant as research and development of the Company successfully filed two patents for non-infringing processes. Both the molecules were developed in-house by the Company R&D. One patent was filed in the US and two in CTD format in Europe. This has provided a major fillip to the Company's R&D efforts. The Company has accelerated its R&D activity as it plans to file patents for 3-4 non-infringing processes in the current financial year .

As a part of the Company's major expansion plans the Company is setting up a separate R&D centre at Mohali, Punjab, which would support the filing of 4-5 DMFs every year besides strengthening the Company's plans of generating revenues from the C-R-A-M-S business.

### New Product Launches

Addressing the sustained use and fastest growing therapies segments the Company successfully launched the four new molecules viz : Acamprostate (alcohol abstinence), Ezetimibe (anti-hyperlipidemic), Anastrozole (oncology) and Nitazoxanide

(anti-diarroheal).

Besides these, various products are planned to be launched in the future which are at different stages of R&D. These new products are from the high growth therapeutic segments of statins, cardiology, diabetology and neurology.

### Nitazoxanide-A Blockbuster Drug

The R&D department of your Company has successfully developed an anti-diarroheal molecule 'Nitazoxanide' – for the first time in Asia. This is the first molecule to be approved by the FDA in the last 40 years for Gardia and is the only drug approved for the treatment of diarrhea caused by cryptosporidium parvum in children aged 12 months to 11 years of age.

### Subsidiary Ind-Swift Laboratories Inc. (USA)

The wholly owned subsidiary of your Company in the USA, viz. Ind-Swift Laboratories Inc. (USA), was incorporated during the last quarter of the financial year 2003-04. The Company has now become fully operational. The subsidiary would facilitate the marketing operations of the Company and strengthen the Company's presence in contract research and manufacturing services (C-R-A-M-S). The subsidiary is in negotiations with leading pharmaceuticals companies for forging long-term alliances.

### Awards and Recognitions

During the year, your Company was awarded the prestigious Express Pharma Pulse award for overall performance in its own category. The Company's manufacturing facilities were successfully inspected by the Ministry of Health (Iran) and World Health Organisation. The respective approvals from these authorities are expected in the current fiscal.

### SEBI Regulation and Listing fees

Since SEBI has stipulated electronic filing of annual report, corporate governance report, shareholding pattern, etc. on website www.sebiedifar.nic.in, statements of your Company can be accessed through this website.

The annual listing fees for the year under review has been paid to The Stock Exchange, Mumbai, The National Stock Exchange of India Ltd, Ludhiana Stock Exchange Association Ltd and Delhi Stock Exchange Association Ltd. where your Company's shares are listed.

### Cost-Audit

M/s V. Kumar & Associates, Cost Accountant, has been appointed as Cost Auditor of the Company for conducting the cost audit for the year ending 2004.

### Directors

In accordance with the articles of association of the Company, Mr. V. K. Mehta and Dr. V. R. Mehta retire by rotation at the Company's forthcoming annual general meeting and, being eligible offer themselves for re-appointment.

### Management's Discussion and Analysis Report

Management's Discussion and Analysis Report as required under the listing agreement with the stock exchanges forms part of this Directors' Report.

### Corporate Governance

The Company has complied with the mandatory provisions of the corporate governance as prescribed in the listing agreement with the stock exchanges. A separate report on corporate governance is included as a part of the Directors' Report along with the Auditors' Certificate on its compliance.

### Auditors

Messers Jain & Associates, Chartered Accountants, the Company's auditors, retire at the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. The Company has received letters from them to the effect that their appointment, if made, would be within the prescribed limits under Section 224(I-B) of the Companies Act, 1956.

### Deposits

During the year under review, your Company has launched a fixed deposit scheme with effect from 28th June 2003 and received overwhelming responses from the public. The aggregate amount of fixed deposit as on 31st March 2004 is Rs. 2.37 crores approximately and there was no unclaimed deposit as on that date.

### Technology R&D, Foreign Exchange

The information relating to conservation of energy, technology absorption and foreign exchange earning and outgo as required under Section 217(1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 is annexed and forms part of this report.

### Human Resources

The Company continued to have cordial relationship with the employees. Management development continued to be an area that received high importance. Employees are continuously sponsored for various external programmes and seminars.

Statement of particulars of Employees under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars or Employees) Rules, 1975 is NIL.

### Directors' Responsibility Statement

In accordance with the provisions of Section 217 (2AA) of the Companies Act, 1956 ('the Act'), your Directors confirm that:

- (i) in preparation of the annual accounts for the year ending 31st March 2004, the applicable accounting standards have been followed;
- (ii) the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the year ended 31st March 2004 and the profit for that year;
- (iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) the Directors have prepared the annual accounts on a going concern basis.

### Acknowledgement

Your Directors thank all the employees for their sincere efforts, active involvement and devoted services rendered.

Your Directors thank the shareholders of the Company for the confidence reposed in the Management of the Company.

Your Directors place on record their gratitude to the customers, suppliers, Company's bankers and financial institutions for their support and cooperation during the year under review.

On behalf of the Board

Chandigarh,  
30th August, 2004

**Gopal Munjal**  
Chairman

ANNEXURE TO

# DIRECTORS' REPORT

## ANNEXURE 'A'

INFORMATION PURSUANT TO THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988, AND FORMING PART OF THE REPORT OF DIRECTORS.

### A. Conservation of Energy

#### a) Energy conservation measures taken:

Installation of fan-less natural draught cooling tower in place of fan-fitted forced draught cooling towers. Replacement of mercury vapour lamps of higher wattage with CFL lamps, rationalisation of cooling tower water distribution system, installation of incinerator cum heat recovery system to recover heat by burning of E.T.P. residue and use of cheaper fuel (pet coke) in place of furnace oil, installation of energy efficient refrigerating machine in place of conventional machine to generate the effective chilled and brine service.

#### b) Impact of measures taken:

The adoption of energy conservation measures indicated above has resulted in considerable energy saving and its awareness among employees.

#### c) Total energy consumption and energy consumption per unit of production:

##### i) During the year the following energy conservation measures were undertaken:

- Reduced fuel consumption by taking steam condensate and recovery.
- Reduced power consumption in chilled water generation by balancing flow of primary and secondary floors thereby

reducing short cycling of chilled water in hot and cold wells and improving efficiency by regular maintenance of chillers and AHU's.

- Reduced power consumption by replacement of 80 per cent of higher wattage mercury lamps with low wattage CPL lamps.
- Reduced power consumption by cooling tower fans by use of fan-less jet water natural draught cooling towers.
- Reduced furnace oil consumption by operation of incinerator-cum-heat recovery system from heat recovered by burning of ETP residue.

### ii) Total energy consumption and energy consumption per unit of production: -

	2003-04	2002 - 03	
<b>A ELECTRICITY AND FUEL CONSUMPTION</b>			
1. Electricity			
A Purchase unit (KWH)	4056415	2997540	
Total amount (Rs. in lacs)	15558729	10782451	
Rate / Unit (Rs.)	3.84	3.60	
B Own generation			
i Through diesel generator unit (KWH)	921820	959580	
Unit per litre of diesel oil	3.35	3.46	
Cost / Unit	5.11	4.73	
ii Through steam turbine/generator	NIL	NIL	
2. Coal	NIL	NIL	
3. Furnace oil/L.D.O. (quantity)	1137160	1171720	
Total amount (Rs. in lacs)	12346436	14014577	
Average rate (Rs. per litres)	10.86	11.96	
4. Other/Internal generation (please give details)	NIL	NIL	
<b>B CONSUMPTION PER UNIT OF PRODUCTION</b>			
Unit	Standards	2003 - 04	2002- 03
Electricity	( KWH )	46.13	71.99
Diesel/ Furnace oil	( Ltr. / Kg.)	13.85	22.17
Coal (specify quality)			
Others (specify)			

### B) Technology Absorption

#### I) Research and Development (R&D)

##### a) Specific area in which R&D carried out by the Company:

- Development of non-infringing processes for the blockbuster molecules going off patent in next 5-7 years.
- Technology developments for active

pharmaceutical ingredients (APIs) and key intermediates - complying with international quality and regulatory norms.

- Design, synthesis and discovery of new drug molecules in select therapeutic areas like anti-asthmatic.

- Innovation/upgradation of existing technologies / products on an ongoing basis.

- Stability studies complying with US Food and Drug Administration (USFDA) guidelines.

##### b) Benefits derived as a result of the above R&D:

- Filed one DMF in the US and two in 14 other countries for two molecules.
- Four non-infringing processes developed in-house.

- Technology to manufacture APIs and high value intermediaries.
- Generation of high quality data complying with the international regulatory requirement for registration of APIs in India and abroad.
- Improved productivity/process efficiencies.
- Improved product quality.
- Competitive cost.
- Development of new drug delivery system.
- Speed-to-market.
- Enhanced global presence / visibility.
- Safe and environment-friendly process.
- Foreign exchange earning / saving.
- Generation of intellectual wealth for the Company.
- Waste minimisation

**c) Future plan of action**

- Filing of patents for the non-infringing processes and their further development.
- Filing of 4-6 DMFs.
- Contract research for the International majors under long-term alliances.
- Augmentation of R&D capabilities and productivity through technological innovations coupled with modern scientific and technological tools (such as FMEA, DOE, combinatorial technologies, high throughput screening assays, etc.)
- Development of more refined procedures for safety, pollution control and environmental preservation to suit new processes and products and for greater effectiveness.

- Development of products under the indigenous system of medicines.
- Enhanced thrust in the area of new drug discovery research. Research in bulk drugs and drug formulation under joint development projects with overseas companies.
- Main thrust shall be given to products in the categories of cardiology, diabetology, neurology, anti-diarrhoeal and anti-asthmatic.
- Continue developing innovative, commercially viable process knowhow for both APIs and dosage forms.
- Upgradation of regulatory filings, networking and compliances.
- Enhanced focus on national and international research collaboration/networking.

**d) Expenditure on R&D during the year 2003 –2004**

(Rs. in millions)

	2003-04	2002-03
a. Capital	31.81	10.55
b. Revenue	51.34	35.25
<b>Total</b>	<b>83.15</b>	<b>45.80</b>
c. Total R&D expenditure as a percentage of total turnover	5.53	3.46

**II. Technology Absorption, Adaptation and Innovation**

a) The Company has continuously adopted innovative processes in the manufacture of its bulk drugs and its intermediates.

b) The Company has adopted, upgraded and successfully commercialised the processes developed and involved in the manufacture of Clarithromycin / Granules, Roxithromycin / Granules, Azithromycin, Atorvastatin Calcium, Clopidogrel Bisulphate, Candesartan Clixetil, Fexofenadine HCL, Pioglitazone HCL, Pentazocine, Betamethasone Valerate, Betamethasone Dipropionate, Betamethasone Sodium Phosphate, Citalopram Hydrobromide, Letrozole, Nitazoxanide, Montelukast, Acamprosate, Rosuvastatin and Ezetimibe.

**c) Foreign exchange earning and outgo**  
**1. Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans:**

Exports in the year under review are Rs. 679.26 million as compared to Rs. 423.99 million, an increase of 60.21 per cent.

The Company continued to comply with regulatory requirements of various international authorities. Its facilities retained the approval of various international authorities all over the world. This will continue to provide the necessary platform to further expand the Company's overseas operations.

**2. Total foreign exchange used and earned:**

During the year the foreign exchange outgo was Rs. 21.18 million and the earnings in foreign exchange were Rs. 669.45 million. Details have been given at Point No. F&G of Note 26 of Schedule XVI to Accounts in the attached balance sheet.

# CORPORATE GOVERNANCE

**INTRODUCTION**

THE COMPANY IS COMMITTED TO STRONG CORPORATE GOVERNANCE AND BELIEVES IN ITS INDISPENSABILITY AS A TOOL FOR INVESTOR PROTECTION AND AS AN INSTRUMENT FOR ENHANCING BOTH CORPORATE ACCOUNTABILITY AND THE CREATION OF WEALTH.

IT UNDERSCORES THE COMPANY'S PHILOSOPHY THAT GOOD CORPORATE GOVERNANCE MUST PROVIDE PROPER INCENTIVES FOR THE BOARD AND MANAGEMENT TO PURSUE OBJECTIVES THAT ARE IN THE INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS AND SHOULD FACILITATE EFFECTIVE MONITORING. THE COMPANY IS OF THE VIEW THAT CORPORATE GOVERNANCE PRACTICES WORK BOTH WAYS - IMPROVING ECONOMIC EFFICIENCY AND GROWTH OF THE COMPANY, AS WELL AS ENHANCING INVESTOR CONFIDENCE AND THE COMPANY IS COMMITTED TO IT.

THE COMPANY'S COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR THE FINANCIAL YEAR 2003-04 IN TERMS OF CLAUSE 49 OF THE LISTING AGREEMENT WITH THE STOCK EXCHANGES IS DETAILED IN THIS SECTION.

**A. Mandatory requirements**

**1. Company's Philosophy on Corporate Governance**

Corporate governance is the combination of voluntary practices and compliance with laws and regulations leading to effective control and management of the organisation. Good corporate governance leads to long-term shareholder value and enhances the interest of other stakeholders as well. It brings into focus the fiduciary and the

trusteeship role of the Board to align and direct the actions of the organisation towards creating wealth and shareholder value.

**2. Board of Directors**

The Company's Board presently comprises two (2) executive directors, four (4) non-executive directors and three (3) independent directors.

The constitution of the Board is given below:

Name of Director	Promoter/ Executive / Non-Executive / Independent	No. of other Directorships*	Membership of other Board Committees
Dr. Gopal Munjal #	Promoter/ Non-Executive	3	1
N.R. Munjal	Promoter/ Executive	2	1
V.K. Mehta	Promoter/ Executive	4	-
S.R. Mehta #	Promoter/ Non-Executive	2	2
Dr. V.R. Mehta #	Promoter/ Non-Executive	2	1
Himanshu Jain #	Promoter/ Non-Executive	1	1
Dr. J.K. Kakkar	Non-Executive/ Independent	-	2
Udayan Roy	Non-Executive / Independent (Nominee IIBI)	1	2
K.M.S. Nambiar	Non-Executive/ Independent	1	4 (all Chairmanships)

# Appointed as Director w.e.f. 31.07.2003

\* This includes directorships held in public limited companies and excludes directorship held in private limited companies and overseas companies.

As required by the Companies Act, 1956 and clause 49 of the Listing Agreement, none of the directors hold directorship in more than 15 public companies, membership of board committees in excess of 10 and chairmanships of committees in excess of five.

#### Attendance of directors at board meetings and annual general meetings

The Board of the Company met 11 times during the last financial year, on the following dates:

28th April 2003	13th June 2003	28th June 2003
31st July 2003	4th September 2003	29th September 2003
30th September 2003	20th October 2003	24th December 2003
19th January 2004	4th March, 2004	

The Company placed before the Board the budgets, annual operating plans, performance of the business and various other information, including those specified under Annexure I of clause 49 of the listing agreement, from time to time.

The attendance at the Board meetings and annual general meeting were as under:

Name of Director	No. of Board meetings attended	Whether attended the AGM held on 30th September 2003
Dr. Gopal Munjal	8	✓
N.R. Munjal	11	✓
V.K. Mehta	9	✓
S.R. Mehta	7	✓
Dr. V.R. Mehta	7	✓
Himanshu Jain	7	✓
Dr. J.K. Kakkar	10	✓
Udayan Roy	7	✓
K.M.S. Nambiar	10	✓

#### 3. Audit committee

During the financial year 2003-04, four Audit Committee meetings were held, one of which was before finalisation of accounts and others before the quarterly financial results by the Board. The dates on which the said meetings were held are as follows:

28th June 2003	31st July 2003	20th October 2003
19th January 2004		

The constitution of the committee and the attendance of each member of the committee are given below:

Name	Designation	Non-Executive/ Independent	Committee meeting attended during the financial year ended 31 March 2004
K.M.S. Nambiar	Chairman	Non-Executive/ Independent	4
Dr. J.K. Kakkar	Member	Non-Executive/ Independent	3
Udayan Roy	Member	Non-Executive/ Independent	2
Dr. G. Munjal*	Member	Non-Executive	2
N.R. Munjal	Permanent Invitee	Executive Director	4
V.K. Mehta	Permanent Invitee	Executive Director	3
N.K. Bansal	Permanent Invitee	Executive	4

\* Appointed as member of committee w.e.f. 04.09.2003

The terms of reference of Audit Committee includes the following:

- Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval of payment for any other services.
- Reviewing with management the annual financial statements before submission to the Board, focussing primarily on:
  - Any changes in accounting policies and practices.
  - Major accounting entries based on exercise of judgment by management.
  - Qualifications in draft audit report.
  - Significant adjustments arising out of audit.
  - The going concern assumption.
  - Compliance with accounting standards.
  - Compliance with stock exchange and legal requirements concerning financial statements.
  - Any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the company at large.
- Reviewing with the management and external and internal auditors, the adequacy of internal control systems.
  - Reviewing the adequacy of the internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and the frequency of internal audit.
  - Discussing with internal auditors any significant findings and following up thereon.
  - Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
  - Discussing with external auditors before the audit commences, regarding the nature and scope of the audit as well as post-audit discussion to ascertain any area of concern.
  - Reviewing the company's financial and risk management policies.
  - To look into the reasons for substantial defaults in the payment to depositors, debenture-holders, shareholders (in case of non-payment of declared dividends) and creditors.
  - Any other matter, which the committee may deem fit to review in the Audit Committee meeting.

The Statutory Auditors, Internal Auditors and Director-in-Charge of Finance are invited to attend and participate at the meetings of the committee.

The Company Secretary acts as the secretary to the committee.

**4. Remuneration of directors**

Details of remuneration paid / payable to directors for the year 2003-2004 are as follows:

(Rs. in lacs)	
Executive Directors	
Name of Director	Salary and perquisites #
N.R. Munjal @	6.23
V.K. Mehta ^	6.07

# Includes HRA, contribution to provident fund/gratuity/ superannuity fund and approved perquisites. The Company does not have any stock option scheme.

@ Appointed for a period of 5 years w.e.f .29.03.2001.

^ Appointed for a period of 5 years w.e.f . 01.09.2001.

The independent directors are paid sitting fees of Rs. 1,000/- for every meeting of Board and Audit Committee attended.

The terms of appointment of whole time directors are governed by a resolution of the Board of Directors/ shareholders and applicable rules of the Company. None of the directors are entitled to severance fees.

**5. Shareholders' grievance redressal committee**

The board has constituted a Shareholders' Grievance Redressal Committee, which looks into shareholders' and investors' grievances. As of date, the following are the members of the committee:

**6. General body meeting**

The location and time of the annual general meetings held during the last three years are as follows:

Annual General Meeting (AGM)	Date	Time	Venue	No. of Special Resolutions passed
6th AGM	29th September 2001	9:30 A.M.	Bal Bhawan, Sector 23-B, Chandigarh	2
7th AGM	25th September 2002	11:30 A.M.	Bal Bhawan, Sector 23-B, Chandigarh	1
8th AGM	30th September 2003	3:00 P.M.	Bal Bhawan, Sector 23-B, Chandigarh	3

The Special Resolutions were passed by show of hands. The Company has not passed any shareholders resolution through postal ballot during the year under reference.

Name	Designation	Non-Executive/ Independent
K.M.S. Nambiar	Chairman	Non-executive/ Independent
Dr. J.K. Kakkar	Member	Non-executive/ Independent
S.R. Mehta	Member	Non-Executive
N.R. Munjal	Member	Executive

Mr. Pardeep Verma, the Company Secretary, provides secretarial support to the committee and is also designated compliance officer for such matters.

**Share transfer (physical form)**

- All shares have been transferred and returned within 15 days from the date of receipt of complete documents.
- The share transfer committee considers share transfer approvals once in a fortnight.
- The total number of shares (physical form) transferred during the year 2003-04 was 2,06,400.
- As on 31st March 2004 there were no equity shares pending for transfer.

**Secretarial audit**

The Company conducts a secretarial audit on a quarterly basis in accordance with SEBI requirements.

**Investor relations**

The investor's complaints are generally replied within 15 days from filing with the Company.

**7. Disclosures**

- Except for the Agreement to sell the building/ flat purchased in Mumbai in the name of Managing Director as per Note 22 of Schedule XVI to the accounts in the attached balance sheet, no materially significant transaction was made by the Company with its directors or management and their relatives etc. that may have a potential conflict with the interest of the Company. The Register of Contracts containing transactions, in which directors are interested, is placed before the Board regularly for its approvals.
- Transactions with the related parties are disclosed in Note No. 8 (b) of Schedule XVI to Accounts in the attached balance sheet.
- There has been no instance of non-compliance by the Company on any matter related to capital markets. Hence, the question of penalties or strictures being imposed by SEBI or the stock exchanges does not arise.
- **SEBI prescription of insider trading**  
As per SEBI guidelines, the Board has framed a code of conduct for prohibition of insider trading strictly in accordance with the model code of conduct prescribed. The code, besides other relevant matters, prohibits an insider from dealing in the shares of the Company while in possession of unpublished price sensitive information in relation to the Company.

**8. Means of communication**

- The annual, half-yearly and quarterly results are displayed on the website of the Company www.indswiflabs.com and simultaneously posted on the electronic data information filing and retrieval website namely www.sebiedifair.nic.in. These are also submitted to the stock exchanges immediately after these are taken on record by the Board in accordance with the listing agreement and normally published in leading newspapers like
  - Economic Times (Mumbai and Delhi editions)
  - Business Standard (Delhi and Mumbai editions)
  - Nav Bharat Times (Delhi and Mumbai editions)
  - Amar Ujala (Chandigarh edition)

All official news releases of relevance to investors are also made available on the website for a reasonable period of time.

- Management's discussion and analysis forms a part of this report.

**9. General shareholders information**

- a) **Annual general meeting**
  - Date: 29th September 2004
  - Time: 10:00 A.M.
  - Venue: Bal Bhawan, Sector 23 – B Chandigarh 160023
- b) **Financial calendar**  
Financial reporting for
  - Quarter ending June 30, 2004: By 30th July 2004
  - Quarter ending September 30, 2004: By 31st October 2004
  - Quarter ending December 31, 2004: By 31st January 2005
  - Year ending March 31, 2005: By 30th June 2005 (as audited results will be considered)
  - Annual general meeting for the year ending March 31, 2005: in September 2005
- c) **Date of book closure**  
The Company's Register of Members and Share Transfer Books will remain closed from 25th September 2004 to 29th September 2004 (both days inclusive) for the purpose of dividend.
- d) **Dividend payment date**  
The dividend as recommended by the Board of Directors for the year ended 31st March 2004, if declared at this annual general meeting will be paid to those members whose names

stand registered in the Register of Members as on 24th September 2004 and in respect of shares held in electronic form, to those 'deemed members' whose names appear in the statement of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) at the close of business hours on 24th September 2004 and dividend warrants will be dispatched before 28th October 2004.

**e) Registered office**

Ind-Swift Laboratories Limited  
SCO 493-94, Sector 35-C, Chandigarh – 160022.  
Email: info@indswift.com, Website: www.indswiftlabs.com

**f) Listing of equity shares on stock exchanges**

The Company's shares are listed at Bombay, Delhi, Ludhiana and National Stock Exchanges. The listing fees have been paid to all stock exchanges for the year 2003-04.

**g) Stock market data**

– **Stock code:** The stock code for the Company's shares is as follows:-

The Stock Exchange, Mumbai : 532305  
National Stock Exchange : INDSWFTLAB

– **The ISIN nos. for the Company's shares in demat mode –** INE915B01019

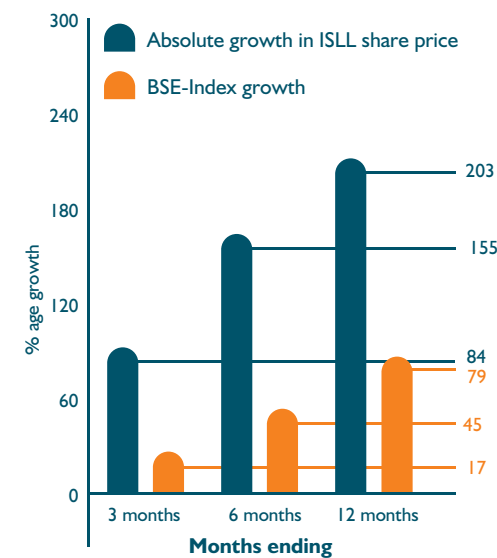
Monthly share price movement during 2003-04 at BSE & NSE						
Month	BSE			NSE		
	High	Low	Volume	High	Low	Volume
Apr-03	18.05	13.25	434231	18.00	13.05	327207
May-03	24.80	15.15	1902591	24.75	15.30	4042977
Jun-03	24.50	20.00	1565455	25.00	20.60	3130484
Jul-03	31.95	22.00	2318208	32.00	22.00	5651968
Aug-03	35.60	25.10	1535298	35.50	25.50	3420041
Sep-03	42.70	30.50	2875883	42.60	30.60	8494952
Oct-03	37.75	29.25	1513162	36.50	29.15	3231471
Nov-03	44.00	32.00	3057368	43.00	32.00	7828935
Dec-03	54.85	39.50	4126773	55.40	39.55	9421135
Jan-04	52.05	38.10	2214385	51.45	38.00	4842384
Feb-04	43.20	36.00	1418999	42.80	35.50	2614161
Mar-04	47.00	35.85	1361938	45.75	36.00	2846610
<b>Total</b>			<b>24324291</b>			<b>55852325</b>

(Source: www.bseindia.com)

**h) Stock performance vs BSE Sensex**

The growth of the Company's equity shares relative to the BSE Sensitivity Index (BSE Sensex) growth is represented in the chart below:

Stock Performance in comparison to BSE Sensex



The Company share price saw an absolute growth of 203 per cent as on 31st March 2004 in comparison to its closing prices as on 31st March 2003.

**i) Registrar and Transfer Agent**

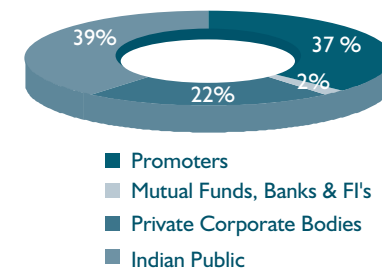
**Transfer agent for physical transfers and demat shares:**

Alankit Assignments Limited  
Registered & Corporate Office  
205-208, Anarkali Market, Jhandewalan Extension,  
New Delhi - 110055  
Tel – 91-11-51540060-63, Fax – 91-11-51540064  
E-mail: alankit@alankit.com, Website: www.alankit.com

**j) Distribution of equity shareholding as on 31st March 2004**

Category	No. of shares held	% age of shareholding
Promoters	5834081	37.36
Mutual Funds/ Banks & FI's	389750	2.49
NRIs / OCBs	44625	0.29
Private Corporate Bodies	3368874	21.58
Indian Public	5976345	38.28
<b>Total</b>	<b>15613675</b>	<b>100.00</b>

Shareholding Pattern as on 31st March 2004



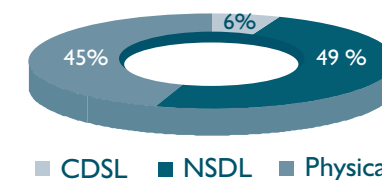
**k) Distribution of shareholding as on 31st March 2004**

No. of shares	No. of shareholders	%	Shares amount	%
1-5000	9324	79.93	20224030	12.95
5001-10000	1283	11.00	11103770	7.11
10001-20000	543	4.65	8638830	5.53
20001-30000	173	1.48	4465390	2.86
30001-40000	80	0.69	2885880	1.85
40001-50000	86	0.74	4109020	2.63
50001-100000	81	0.69	6126340	3.92
100000 & above	95	0.81	98583490	63.14
<b>Total</b>	<b>11665</b>	<b>100.00</b>	<b>156136750</b>	<b>100.00</b>

**l) Dematerialisation of shares**

The shares of the Company are in compulsory demat segment and are available for trading in the depository system of both National Securities Depository Limited and Central Depository Services (India) Limited. As on 31st March 2004, 85,31,485 equity shares of the Company, forming 54.64 per cent of the share capital of the Company, stand dematerialised.

Shares held in physical and dematerialised form as on 31st March 2004



**m) Share transfer system**

With a view to expedite the process of share transfer, a committee of directors has been constituted to approve the transfer, transmission, issue of duplicate shares certificates and allied matters. The Company's registrar's, M/s Alankit Assignments Limited have adequate infrastructure to process the above matters.

**n) Outstanding GDRs/ADRs/warrants or any convertible instruments.**

The Company does not have any outstanding instruments of the captioned subject.

**o) Plant locations**

Ind-Swift Laboratories Limited  
Barwala Road, Vill.Bhagwanpura,  
Near Derabassi  
Distt. Patiala, Punjab  
Tel. 91-1762-281072  
Telfax. 91-1762-281073

**p) Investor correspondence**

Pardeep Verma  
Company Secretary  
Ind-Swift Laboratories Limited  
Corporate Office  
SCO –850, Shivalik Enclave  
NAC, Manimajra  
Chandigarh 160101  
Tel: 91-172-2730503, 2730920  
Fax: 91-172-2730504  
Email: pradeepverma@indswift.com

**B. Non-mandatory requirements**

**I. Remuneration committee**

The Remuneration Committee of the Company was formed in 2001 and was re-constituted in September 2003. The committee consisted of three directors. The Remuneration Committee reviews and makes recommendations on salary packages of Executive Director/Whole time Directors. All decisions on remuneration to Executive Director/Whole time Directors are taken by the Board of Directors and approved by the shareholder in the general meeting.

The Remuneration Committee met once during the year. As on date, the members of the committee are:

Name	Designation	Executive/Non-Executive/Independent	No. of meetings attended
K.M.S. Nambiar	Chairman	Non-Executive and Independent	1
Udayan Roy	Member	Non-Executive and Independent	–
S.R. Mehta	Member	Non-Executive	1
N.R. Munjal	Permanent Invitee	Executive	1
V.K. Mehta	Permanent Invitee	Executive	1

## 2. Details of public funds obtained in the last three years

During the year under review, your Company has launched a fixed deposit scheme with effect from 28th June 2003 and received overwhelming responses from the public. The aggregate amount of fixed deposit as on 31st March 2004 is Rs. 2.37 crores approximately and there was no unclaimed deposit as on that date.

## AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

The Board of Directors  
**Ind-Swift Laboratories Ltd.**

We have examined the Compliance of conditions of Corporate Governance by Ind-Swift Laboratories Ltd. (the Company) for the year ended March 31, 2004 as stipulated in Clause 49 of the Listing Agreements of the said Company with the Stock Exchanges in India.

The compliance of 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 the 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 investor grievances received during the year ended March 31, 2004, only one investor grievances was pending against the Company for want of completion of legal formalities.

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 **Jain & Associates**  
Chartered Accountants

**R. K. Gulati**  
Partner

Place : Chandigarh  
Date : 30th August, 2004

Membership No. 11999

## AUDITORS' REPORT

The Members,  
**Ind-Swift Laboratories Limited,**  
Chandigarh.

We have audited the attached Balance Sheet of M/s Ind-Swift Laboratories Limited as at 31st March, 2004 and the Profit & Loss Account and Cash Flow Statement of the Company 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 amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by Companies (Auditors' Report) Order, 2003, issued by the Central Government of India in terms of Section 227(4A) of the Companies Act 1956, we annex hereto a statement on the matters specified in paragraph 4 of the said order.
2. Further to our comments in the annexure referred to in paragraph 1 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 purpose of our audit.
  - b) In our opinion, the Company has kept proper books of accounts as required by law, so far as appears from our examination of the books.

- c) The Balance Sheet and Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of accounts.
- d) In our opinion, the Balance Sheet, Profit & Loss Account and the Cash Flow Statement dealt with by this report are in compliance with accounting standards specified by The Institute Of Chartered Accountants of India referred to in Section 211(3C) of Companies Act, 1956.
- e) On the basis of the written representations received from the Directors as on 31.3.2004 & taken on record by the Board of Directors, we report that none of the Directors is disqualified for being appointed as a Director in terms of Clause (g) of sub-section (1) of Sec 274 of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to explanations given to us, the said accounts read together with notes thereon, give the information required by the Companies Act, 1956 in the manner so required and also give a true and fair view.
  - i) In the case the Balance Sheet, of the state of affairs of the Company as at 31st March 2004.
  - ii) In the case of Profit and Loss Account, of the profit for the year ended on that date.
  - iii) In case of Cash Flow Statement, of the cash flows for the year ended on that date.

For **Jain & Associates**  
Chartered Accountants

**R. K. Gulati**  
Partner

Place: Chandigarh  
Date: 28th June, 2004

Membership No. 11999

# ANNEXURE TO THE AUDITORS' REPORT

- |   |   |   |  |
|---|---|---|--|
| <p>I. In respect of its fixed assets:</p> <p>a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.</p> <p>b) According to the information and explanations given to us, the Company has a system of physical verification of all its fixed assets once in a year. In our opinion having regard to the size of the Company and the nature of its assets, the program of verification is reasonable. No material discrepancies have been noticed in respect of assets physically verified.</p> <p>c) During the year, Company has not disposed of any substantial / major part of fixed assets.</p>  | <p>loans from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956 amounting to Rs. 95.50 Lacs from one Company.</p> <p>b) According to the information and explanations given to us, the loan taken is unsecured &amp; interest free and in our opinion, the terms and conditions of loans taken, are not prima facie prejudicial to the interests of the Company.</p> <p>c) As per the information and explanation given to us, the loan is interest free and repayment of principal amount is not due.</p>   | <p>VII. In our opinion, the Company has internal audit system which commensurate with the size and nature of its business.</p>  | <p>XIII. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.</p>  |
| <p>II. In respect of its inventories:</p> <p>a) The inventory was physically verified during the year by the management. In our opinion, frequency of verification is reasonable.</p> <p>b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.</p> <p>c) In our opinion and according to the information and explanations given to us and on the basis of our examination of the records of inventory, the Company is maintaining proper records of its inventory. The discrepancies noticed on physical verification of inventory as compared to the book records were not material and have been properly dealt with in the books of account.</p> | <p>IV. 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 the nature of its business for the purchase of inventory and fixed assets and for the sale of goods.</p> <p>V. In respect of transactions entered in the register maintained in pursuance of section 301 of the Companies Act 1956.</p> <p>a) To the best of our knowledge and belief and according to the information and explanation given to us, transactions that needed to be entered into the register have been so entered.</p> <p>b) According to the information and explanations given to us, the transactions exceeding Rs. five lakh rupees have been made at prices, which are prima facie, reasonable having regard to the prevailing market prices at the relevant time.</p> | <p>VIII. The Company is required to maintain cost records under section 209(1)(d) of the Companies Act, 1956 for the products of the Company and according to the information and explanation given to us, the Company has maintained proper records as prescribed by the Central Government but we have not carried out the examination of these records.</p> <p>IX. According to the information and explanations given to us in respect of Statutory and other dues:</p> <p>a) The Company is regular in depositing undisputed statutory and other dues, including provident fund, Employees' State Insurance, Income Tax, Sales Tax, Custom Duty, Excise Duty and any other statutory dues with the appropriate authorities during the year.</p> <p>b) As per the information and explanation given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Custom Duty were outstanding as on 31.03.2004 for a period more than six months from the date of becoming payable.</p> | <p>XIV. To the best of our knowledge and belief and according to the information and explanations given to us, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained.</p> <p>XV. According to the Cash flow statement and other records examined and as per the information and explanations given to us, on an overall basis, funds raised on short term basis have, prima facie, not been used during the year for long term investment and vice versa.</p>   |
| <p>III. a) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956. However the Company has taken</p>  | <p>VI. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of section 58A and 58AA of the Companies Act 1956 and the rules framed there under and the directives issued by the Reserve Bank of India, with regard to the deposits accepted from the public.</p>  | <p>X. The Company does not have accumulated losses as at the end of the year and the Company has not incurred cash losses during the current and the immediately preceding financial year.</p> <p>XI. Based on our audit procedures and on the basis of information and explanations given by the management, we are of the opinion that the Company has not defaulted in the repayment of dues to financial institutions and banks.</p> <p>XII. According to the information and explanations, given to us, the Company has not granted loans or advances on the basis of security by way of pledge of shares, debentures and other securities.</p>  | <p>XVI. The Company has made preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act 1956, during the year and the price at which shares have been issued is not prejudicial to the interest of the Company.</p> <p>XVII. The Company has not raised monies by public issues during the year and hence the question of disclosure and verification of end use of such monies does not arise.</p> <p>XVIII. 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.</p> <p>XIX. The other clauses of Companies (Auditors' Report) Order 2003, which are not applicable, have not been reported.</p> |

For **Jain & Associates**  
Chartered Accountants

**R. K. Gulati**  
Partner

Place: Chandigarh  
Date: 28th June, 2004

Membership No. 11999

## Balance Sheet

(Amount in Rupees)

As at 31st March	Schedules	2004	2003
<b>I. SOURCES OF FUNDS</b>			
<b>Shareholder's Funds</b>			
Share Capital	I	191,190,750	204,793,000
Reserves & Surplus	II	358,174,861	255,165,618
<b>Loan Funds</b>			
Secured Loans	III	536,180,673	459,860,281
Unsecured Loans	IV	88,154,892	20,540,408
<b>Deferred Tax Liability</b>		96,792,961	64,295,108
<b>TOTAL</b>		<b>1,270,494,136</b>	<b>1,004,654,415</b>
<b>II. APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	V	705,135,408	484,612,688
Less: Depreciation		112,779,160	86,368,566
Net Block		592,356,248	398,244,122
<b>Capital Work in Progress</b>		74,044,203	52,178,521
		666,400,451	450,422,643
<b>Investment</b>		2,073,950	-
<b>Current Assets, Loans and Advances</b>			
(a) Inventories	VI	546,935,989	483,603,533
(b) Sundry Debtors		216,433,351	173,581,968
(c) Cash and Bank Balances		56,460,102	45,078,448
(d) Loans and Advances		110,337,379	69,317,003
		930,166,821	771,580,951
<b>Less</b>			
<b>Current Liabilities &amp; Provisions</b>			
(a) Current Liabilities	VII	339,802,660	258,401,397
(b) Provisions		26,277,027	5,952,122
		366,079,686	264,353,519
<b>Net Current Assets</b>		564,087,135	507,227,432
<b>Miscellaneous Expenditure</b>	VIII	37,932,600	47,004,340
(To the extent not written off or adjusted)			
<b>TOTAL</b>		<b>1,270,494,136</b>	<b>1,004,654,415</b>
<b>Significant Accounting Policies &amp; Notes on Accounts</b>	XVI		

As per our separate report of even date

For and on behalf of the Board

For <b>Jain &amp; Associates</b> Chartered Accountants	<b>Dr. G. Munjal</b> Chairman	<b>N. R. Munjal</b> Mg. Director	<b>V. K. Mehta</b> Jt. Mg. Director	<b>S. R. Mehta</b> Director
<b>R. K. Gulati</b> Partner Membership No. 11999 Place : Chandigarh Date : 28th June, 2004	<b>Dr. J. K. Kakkar</b> Director	<b>Dr. V. R. Mehta</b> Director	<b>K.M.S. Nambiar</b> Director	<b>Himanshu Jain</b> Director
	<b>N. K. Bansal</b> V. P. Finance	<b>Pardeep Verma</b> Company Secretary		

## Profit and Loss account

(Amount in Rupees)

For the year ended 31st March	Schedules	2004	2003
<b>INCOME</b>			
Gross Sales		1,583,873,723	1,372,602,424
Less: Excise Duty		79,331,364	47,630,568
Net Sales		1,504,542,359	1,324,971,856
Other Income	IX	100,652,908	82,709,506
<b>TOTAL (A)</b>		<b>1,605,195,267</b>	<b>1,407,681,362</b>
<b>EXPENDITURE</b>			
Cost of Materials Consumed	X	1,158,053,748	1,074,412,423
Manufacturing Expenses	XI	98,017,071	62,449,163
Administrative & Other Expenses	XII	37,297,087	32,123,794
Selling and Distribution Expenses	XIII	38,976,455	30,398,999
Financial Charges	XIV	70,830,693	67,584,426
Research & Development Expenses	XV	34,844,865	19,933,304
Depreciation		27,867,001	23,345,716
Misc. Expenditure Written Off		19,273,644	19,254,935
Provision for Doubtful Debts		1,181,221	1,391,566
Loss on Sale of Fixed Assets		1,308,939	1,061,588
<b>TOTAL (B)</b>		<b>1,487,650,724</b>	<b>1,331,955,914</b>
<b>Profit For the Year Before Tax (A-B)</b>		<b>117,544,543</b>	<b>75,725,448</b>
Previous Year Income		415,256	5,571
Previous Year Expenses		997,618	1,169,606
<b>Profit Before Tax</b>		<b>116,962,182</b>	<b>74,561,413</b>
Provision for Income Tax		8,267,397	5,113,587
<b>Profit Before Deferred Tax</b>		<b>108,694,785</b>	<b>69,447,826</b>
Provision for Deferred Tax		32,497,853	15,343,108
<b>Net Profit After Tax</b>		<b>76,196,932</b>	<b>54,104,718</b>
Income Tax Adjustment of Previous Years		719,691	896,687
<b>Profit available for appropriation</b>		<b>76,916,623</b>	<b>53,208,031</b>
Provision for dividend on Preference Shares		350,540	743,300
Provision for preference dividend tax		44,913	95,235
<b>Profit available for Equity Shareholders</b>		<b>76,521,170</b>	<b>52,369,496</b>
Transfer to General Reserve		7,691,662	-
Provision for dividend on Equity Shares		15,613,675	-
Provision for Equity dividend tax		2,000,502	-
<b>Retained Profit</b>		<b>51,215,331</b>	<b>52,369,496</b>
Profit B/F from Previous Year		143,580,118	91,210,622
<b>Profit C/O to Balance Sheet</b>		<b>194,795,449</b>	<b>143,580,118</b>
Basic Earning per share		5.24	4.78
Diluted Earning per share		4.87	4.78
Nominal Value of each share		10.00	10.00

As per our separate report of even date

For and on behalf of the Board

For <b>Jain &amp; Associates</b> Chartered Accountants	<b>Dr. G. Munjal</b> Chairman	<b>N. R. Munjal</b> Mg. Director	<b>V. K. Mehta</b> Jt. Mg. Director	<b>S. R. Mehta</b> Director
<b>R. K. Gulati</b> Partner Membership No. 11999 Place : Chandigarh Date : 28th June, 2004	<b>Dr. J. K. Kakkar</b> Director	<b>Dr. V. R. Mehta</b> Director	<b>K.M.S. Nambiar</b> Director	<b>Himanshu Jain</b> Director
	<b>N. K. Bansal</b> V. P. Finance	<b>Pardeep Verma</b> Company Secretary		

## Schedules forming part of the Accounts

(Amount in Rupees)

As at 31st March	2004	2003
<b>I SHARE CAPITAL</b>		
<b>Authorised</b>		
1,75,00,000 Equity Shares of Rs. 10/- each	175,000,000	175,000,000
7,50,000 Preference Shares of Rs. 100/- each	75,000,000	75,000,000
	<b>250,000,000</b>	<b>250,000,000</b>
<b>Issued, Subscribed &amp; Paid Up</b>		
1,56,13,675 Equity Shares of Rs. 10/- each fully called up and paid up (Previous Year 1,30,46,300)	156,136,750	130,463,000
350,540 Preference Share of Rs. 100/- each fully paid up redeemable at par in September, 2015 (Previous Year 7,43,300 1% Non Cumulative)	35,054,000	74,330,000
	<b>191,190,750</b>	<b>204,793,000</b>

II RESERVES & SURPLUS		
(a) Capital Reserves		
Punjab State Investment Subsidy	–	3,000,000
Equity share forfeited Account	866,500	866,500
(b) Securities Premium	154,821,250	107,719,000
(c) General Reserve	7,691,662	–
(d) Profit & Loss Account	194,795,449	143,580,118
	<b>358,174,861</b>	<b>255,165,618</b>

III SECURED LOANS		
(A) Loans and Advances from Banks		
(a) Borrowings for working capital	177,754,967	200,490,520
(b) Term Loan from Exim Bank	78,025,000	48,125,000
(c) Term Loan from Bank of India	22,500,000	30,000,000
(d) Term Loan from State Bank of India	15,796,073	23,236,073
(e) Corporate Term Loan from State Bank of India	32,218,662	39,834,950
(f) Term Loan UTI Bank	50,000,000	–
(g) Term Loan Catholic Syrian Bank	43,650,000	–
(h) Term Loan Indusind Bank	30,000,000	–
(B) Other Loans and Advances		
(a) Term Loans from Financial Institutions	69,415,239	110,727,000
(b) ICICI Home Loan	3,040,943	–
(c) Other term loans	8,137,229	5,286,406
(d) Vehicle Loans	5,642,559	2,160,332
	<b>536,180,673</b>	<b>459,860,281</b>

**Note :**

- a) Bank borrowings for working capital from consortium of State Bank of India, State Bank of Patiala and Bank of India together with interest, compound interest, additional interest, liquidated damages, costs, charges, expenses and other moneys payable in respect thereof are secured in favour of the said Banks by a Pari Passu, First Charge by way of hypothecation of the Company's current assets, namely, Stocks of Raw Materials, Semi Finished, Finished Goods, Stores and Spares not relating to plant and Machinery (Consumable Stores & Spares), Bills Receivable and Book Debts and all other movables of the Company both present and future excluding such movables as may be permitted by the said Banks from time to time.

## Schedules forming part of the Accounts

Also by a pari passu second mortgage and charge in favour of the said banks ranking after the charges created & /or to be created in favour of the Term Lenders of the Company on the Company's immovable and movable properties (other than current assets) both present and future.

- b) Term Loan from Exim Bank, Bank of India, Catholic Syrian Bank and term loan from financial institutions together with all liquidated damages, premia on prepayment or on redemption costs, expenses and other monies is secured by a first pari passu charge by way of Joint Equitable Mortgage by deposit of title deeds of the Company's immovable properties and a first charge by way of hypothecation of all its movable assets (save and except book debts), including machinery, machinery spares, tools and accessories present and future, subject to the charges created/to be created, in favour of the Company's Banker for Working Capital.
- c) The Term Loan from State Bank of India, Chandigarh is secured by exclusive charge of plant & machinery and other assets at new plant set up for the production of Pioglitazone & Candesartan.
- d) Term Loan from UTI bank is secured by pari passu first charge on fixed assets, both present & future property, as per the loan agreement, including its moveable plant & machinery, equipment, appliances, furniture, vehicles, machinery, spares & stores, tools and accessories whether or not installed excluding assets worth Rs. 3.72 crores under exclusive charge of SBI and second charge on current assets of the Company.
- e) Term Loan from Indusind Bank is secured by subservient charge on entire current assets and moveable machinery of the Company. Further secured by the personal guarantees of Mr. S. R.Mehta, Mr. V. K.Mehta, Mr. N. R. Munjal, Dr. G. Munjal, Mr. V. R. Mehta and Mr. Himanshu Jain.
- f) The Bank Borrowings for working capital and term loan from State Bank of India, Exim Bank, Bank of India, are further secured by Personal Guarantees of Mr. S. R. Mehta, Mr. V. K. Mehta, Mr. N. R. Munjal, Dr. G. Munjal, Mr. V. R. Mehta and Mr. Himanshu Jain and corporate guarantees of Ind-Swift Ltd., Mukur Pharmaceuticals Co. Pvt. Ltd. and Swift Formulations Pvt. Ltd. Further the term loan from UTI Bank is secured by the personal guarantee of Mr. N. R. Munjal & Mr. V. K. Mehta.
- g) Corporate Term loan from State Bank of India, together with all liquidated damages, premia on prepayment or on redemption costs, expenses and other monies are secured by a second pari passu charge by way of hypothecation of all its movable fixed assets (both present & future), including machinery, spares, tools and accessories present and future, subject to the charges created/to be created, in favour of the Company's Banker for working capital. This term loan is further secured by personal guarantees of Mr Anil K. Jain, Mr. S. R. Mehta, Mr. V. K. Mehta, Mr. N. R. Munjal, Dr. G. Munjal and Mr. V. R. Mehta and Corporate Guarantees of Ind-Swift Ltd.
- h) ICICI Home Loan is in the name of Mr. N. R. Munjal, Managing Director of the Company is secured against the office premises in Mumbai.
- i) Other term loans are secured against respective fixed assets under hire purchase agreement.
- j) Loans against vehicles are secured against hypothecation of the vehicles under hire purchase agreement.

(Amount in Rupees)

As at 31st March	2004	2003
<b>IV UNSECURED LOANS</b>		
(a) Fixed Deposits	23,740,824	–
(b) Short Term Loan & Advances		
From Banks	–	–
From Others	4,864,068	10,990,408
(c) Other Loans & Advances		
From Banks	50,000,000	–
From Others	9,550,000	9,550,000
<b>TOTAL</b>	<b>88,154,892</b>	<b>20,540,408</b>

Short Term Loan & Advances Rs. 48.64 Lacs includes Rs. 26.42 Lacs (Previous Year Rs. 84.90 Lacs) being bill factoring facility from SBI Factors & Commercial Services Private Limited against accepted hundies, bills & other instruments duly endorsed and personal guarantees of directors and corporate guarantees of other Companies. Other Loans & Advances from Bank is Rs. 500.00 Lacs (Previous Year Nil) Loan from State Bank of Indore is secured by personal guarantees of Mr. S. R. Mehta, Mr. V. K. Mehta, Mr. N. R. Munjal, Dr. G. Munjal, Mr. Himanshu Jain and Mr. V. R. Mehta.

## Schedules forming part of the Accounts

## V FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	As on 1.04.2003	Addition	Sale/ Transfer	As on 31.03.2004	As on 1.04.2003	During the year written back	During the year	As on 31.03.2004	As on 31.03.2003
Land	9,565,176	–	–	9,565,176	–	–	–	9,565,176	9,565,176
Factory buildings	63,342,558	28,472,036	–	91,814,594	9,015,454	–	2,559,965	11,575,419	80,239,175
Office buildings	10,986,976	4,116,661	–	15,103,637	1,057,610	–	190,118	1,247,728	13,855,909
R&D buildings	6,163,355	716,673	–	6,880,028	845,312	–	206,446	1,051,758	5,828,270
Plant & machinery	326,788,701	149,265,962	3,736,387	472,318,276	59,928,161	1,276,886	19,613,749	78,265,024	394,053,252
R&D machinery	27,287,008	21,491,795	–	48,778,803	3,501,588	–	1,838,290	5,339,878	43,438,925
Electric installations	24,149,373	8,805,656	–	32,955,029	6,115,481	–	1,211,280	7,326,761	25,628,268
Furniture & fixtures	1,785,455	1,667,702	–	3,453,157	562,676	–	195,695	758,371	2,694,786
Office equipments	6,940,379	2,911,615	–	9,851,994	3,051,814	–	1,237,515	4,289,329	5,562,665
Vehicles	7,603,707	7,102,961	291,954	14,414,714	2,290,470	179,521	813,943	2,924,892	11,489,823
<b>TOTAL</b>	<b>484,612,688</b>	<b>224,551,061</b>	<b>4,028,341</b>	<b>705,135,408</b>	<b>86,368,566</b>	<b>1,456,407</b>	<b>27,867,001</b>	<b>112,779,160</b>	<b>592,356,248</b>
Previous year	447,933,975	38,353,056	1,674,343	484,612,688	63,513,062	490,212	23,345,716	86,368,566	398,244,122
<b>Capital work in progress</b>									
(a) Building	17,393,622	18,770,877	33,305,370	2,859,129	–	–	–	2,859,129	17,393,622
(b) Plant & machinery	7,662,547	183,024,039	140,107,024	50,579,562	–	–	–	50,579,562	7,662,547
(c) Expenses pending capitalisation*	–	2,220,354	29,424	2,190,930	–	–	–	2,190,930	–
(d) Electrical fittings	899,288	4,659,164	4,805,752	752,700	–	–	–	752,700	899,288
(e) Advance for capital goods	26,223,064	–	–	17,661,882	–	–	–	17,661,882	26,223,064
<b>TOTAL</b>	<b>52,178,521</b>	<b>208,674,434</b>	<b>178,247,570</b>	<b>74,044,203</b>	–	–	–	<b>74,044,203</b>	<b>52,178,521</b>
Previous year	18,455,647	19,743,518	2,771,584	52,178,521	–	–	–	52,178,521	18,455,647

\* Expenses pending capitalisation include borrowing cost on account of interest Rs. 9.22 Lacs (Previous Year Nil) and processing/brokerage charges Rs. 12.98 Lacs (Previous Year Nil).

As at 31st March	2004	2003
<b>VI CURRENT ASSETS, LOANS &amp; ADVANCES</b>		
<b>A) CURRENT ASSETS</b>		
<b>I) Inventories</b>		
(As per inventories taken, valued & certified by the Management)		
Stores & Consumable	4,143,092	2,769,144
Raw Materials	324,178,728	329,807,583
Work in Process	179,380,089	116,013,370
Finished Goods	39,234,080	35,013,436
<b>TOTAL</b>	<b>546,935,989</b>	<b>483,603,533</b>
<b>II) Sundry Debtors</b>		
(Unsecured, Considered Good)		
Debts outstanding for a period exceeding six months		
- Considered good	11,257,985	20,980,226
- Considered doubtful	3,256,809	2,075,588
Other Debts	205,175,366	152,601,742
	219,690,160	175,657,556
Less: Provision for Doubtful Debts	3,256,809	2,075,588
<b>TOTAL</b>	<b>216,433,351</b>	<b>173,581,968</b>
<b>III) Cash and Bank Balances</b>		
Cash in hand	4,471,021	4,121,950
Bank Balances with Scheduled Banks :		
- Fixed deposits	33,409,384	30,563,130
- Interest accrued on fixed deposits	1,634,601	904,053
- Current accounts	16,945,096	9,489,315
<b>TOTAL</b>	<b>56,460,102</b>	<b>45,078,448</b>
<b>IV) Loans and Advances</b>		
(Unsecured, Considered good)		
Advances recoverable in Cash or in kind or for value to be received	106,272,865	66,734,513
Advances to subsidiary	298,271	–
Security deposits	3,766,242	2,582,489
<b>TOTAL</b>	<b>110,337,379</b>	<b>69,317,003</b>

## Schedules forming part of the Accounts

(Amount in Rupees)

As at 31st March	2004	2003
<b>VII CURRENT LIABILITIES AND PROVISIONS</b>		
<b>A) CURRENT LIABILITIES</b>		
<b>Sundry Creditors</b>		
Total outstanding dues to Small Scale Industrial Undertakings	1,982,430	674,725
Outstanding dues of Creditors other than Small Scale Industrial Undertaking	328,459,239	249,572,369
Statutory Liabilities	1,243,510	695,658
Expenses payable	6,624,131	5,601,836
Interest accrued but not due	1,493,349	1,856,809
<b>TOTAL</b>	<b>339,802,660</b>	<b>258,401,397</b>
<b>B) PROVISIONS</b>		
Income Tax	8,267,397	5,113,587
Preference share dividend	350,540	743,300
Tax on proposed preference share dividend	44,913	95,235
Equity share dividend	15,613,675	–
Tax on proposed equity share dividend	2,000,502	–
<b>TOTAL</b>	<b>366,079,686</b>	<b>264,353,519</b>
<b>VIII MISCELLANEOUS EXPENDITURE</b>		
(To the extent not written off or adjusted)		
1. Capital enhancement expenses/ upfront fees	582,000	895,000
2. Seed marketing expenditure	6,357,204	10,270,416
3. Research & Development	21,392,708	35,838,924
4. Intangible Assets	9,600,689	–
<b>TOTAL</b>	<b>37,932,600</b>	<b>47,004,340</b>
<b>For the year ended 31st March</b>	<b>2004</b>	<b>2003</b>
<b>IX OTHER INCOME</b>		
Export Incentives	81,341,896	75,463,086
Difference in Foreign Exchange Fluctuation	14,901,102	3,868,413
Interest Income	2,453,180	2,808,109
Other Income	1,956,731	569,899
<b>TOTAL</b>	<b>100,652,908</b>	<b>82,709,506</b>
<b>X COST OF MATERIAL CONSUMED/SOLD</b>		
Opening Stock	329,807,583	218,398,576
Purchases	1,220,012,256	1,167,972,287
	1,549,819,839	1,386,370,863
Less: Closing Stock	324,178,728	329,807,583
<b>TOTAL (A)</b>	<b>1,225,641,111</b>	<b>1,056,563,280</b>
<b>Increase/Decrease in Inventory</b>		
<b>Opening Stock</b>		
Work in Process	116,013,370	167,068,949
Finished Goods	35,013,436	1,807,000
	151,026,806	168,875,949
<b>Closing Stock</b>		
Work in Process	179,380,089	116,013,370
Finished Goods	39,234,080	35,013,436
	218,614,169	151,026,806
<b>TOTAL (B)</b>	<b>67,587,363</b>	<b>(17,849,143)</b>
<b>TOTAL (A-B)</b>	<b>1,158,053,748</b>	<b>1,074,412,423</b>

## Schedules forming part of the Accounts

(Amount in Rupees)

For the year ended 31st March	2004	2003
<b>XI MANUFACTURING EXPENSES</b>		
Job Work Charges	26,406,409	4,661,467
Wages	15,175,761	12,286,893
P.F. & other funds	1,493,184	1,233,406
Power, Fuel & Water Charges	34,696,681	30,110,050
Stores & Spares	14,612,378	11,089,558
Repair & Maintenance :		
– Plant & Machinery	2,964,385	2,314,648
– Buildings	630,077	286,441
– Electrical	1,683,688	261,049
Other manufacturing Expenses	354,508	205,651
<b>TOTAL</b>	<b>98,017,071</b>	<b>62,449,163</b>
<b>XII ADMINISTRATIVE &amp; OTHER EXPENSES</b>		
Directors Remuneration		
– Salary & Allowances	912,000	912,000
– Contribution to P.F.	18,720	18,720
Salary & Allowances	6,979,364	5,566,398
P.F. & other funds	284,445	249,513
Gratuity Premium	238,390	363,941
Travelling & conveyance	10,010,124	7,667,838
Audit Fee	194,400	189,000
Rent	1,431,481	925,105
Rate & Taxes	409,748	1,002,440
Insurance	2,662,823	1,739,845
Legal & Professional Charges	1,583,427	4,147,968
Printing & Stationary	2,610,709	1,754,852
Vehicle Running & Maintenance	3,142,037	2,134,106
Telephone & Postage	3,371,166	2,503,657
Office Expenses	416,164	498,107
Charity & Donation	152,847	43,946
Listing Fees	33,808	134,500
Books & Periodicals	93,586	244,303
Membership & Subscription Fees	423,617	232,850
Security Expenses	836,682	604,127
Staff Welfare	206,680	273,927
Repair & Maintenance	694,402	669,037
Other Expenses	590,468	247,614
<b>TOTAL</b>	<b>37,297,087</b>	<b>32,123,794</b>
<b>XIII SELLING &amp; DISTRIBUTION EXPENSES</b>		
Advertisement & publicity	593,603	824,493
Business Promotion	1,137,247	351,684
Commission on Sales	21,754,969	18,579,301
Rebate & Discount	692,016	1,112,810
Freight Outward	11,451,635	7,738,013
Insurance Charges	424,800	244,003
ECGC Premium	1,129,418	675,987
Bad Debts w/off	998,883	–
Other Expenses	793,885	872,708
<b>TOTAL</b>	<b>38,976,455</b>	<b>30,398,999</b>

## Schedules forming part of the Accounts

(Amount in Rupees)

For the year ended 31st March	2004	2003
<b>XIV INTEREST AND FINANCIAL CHARGES</b>		
Interest on Term Loans	31,513,203	36,731,519
Interest on Working Capital from Banks	19,742,499	14,470,734
Bank Charges & Others	19,169,842	16,382,173
Brokerage & Commission	405,150	–
<b>TOTAL</b>	<b>70,830,693</b>	<b>67,584,426</b>
<b>XV RESEARCH &amp; DEVELOPMENT EXPENSES</b>		
Salary & Wages & Other Allowances	5,925,584	6,002,945
Travelling & Conveyance	1,022,181	–
Raw Material	22,060,373	9,563,060
Consumables	1,986,333	4,367,299
Lab chemicals & Others	3,850,394	–
<b>TOTAL</b>	<b>34,844,865</b>	<b>19,933,304</b>

## XVI SIGNIFICANT ACCOUNTING POLICIES &amp; NOTES TO ACCOUNTS

## A. SIGNIFICANT ACCOUNTING POLICIES

## 1 System of accounting

The Accounts are prepared under the historical convention and on the basis of going concern. All expenses and incomes to the extent ascertained as payable and receivable respectively are accounted for on Mercantile basis unless otherwise stated.

## 2 Fixed assets &amp; depreciation

All Fixed Assets are valued at cost less depreciation. Depreciation is provided on straight line method at the rates specified in schedule XIV of the Companies Act 1956 on prorata basis and the assets having the value upto Rs. 5000 have been depreciated at the rate of 100%.

## 3 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction of qualifying assets have been capitalised as part of cost of assets.

## 4 Inventories

Inventories are valued as under :

Stores & spares are valued at cost. Raw Materials are valued at cost on FIFO basis. Work in process is valued at estimated cost basis or net realisable value whichever is less. Finished Goods are valued at cost or net realisable value whichever is less and is inclusive of excise duty and all expenditure directly attributable to production. Finished Goods under test are valued at cost or net realisable value whichever is less and all expenditure directly attributable to production but exclusive of excise duty.

## 5 Sales

Sales are stated inclusive of Excise Duty, but exclusive of Sales Tax & Export incentives.

## 6 Foreign currency transactions

Transaction in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. The gain or loss arising from forward transactions have been stated on prorata basis over the terms of the contract. Foreign currency denominated current assets & current liabilities are translated at year end exchange rates. The resulting gain or Loss is recognised in the Profit & Loss Account.

## 7 Retirement benefits

The Retirement benefits of the employees include Gratuity ,Provident Fund & Leave Encashment. The Gratuity is funded through the group insurance scheme of Life Insurance Corporation of India. The Leave Encashment is provided on the basis of employees' entitlement in accordance with Company's rules.

## 8 Current &amp; deferred tax

The provision for current tax is made at the actual rate applicable for the income of the year as given under the Income Tax Act, 1961. However provision for deferred tax is made at the rate applicable to financial year 2004-05.

## 9 Contingent liability

Contingent liabilities are not provided for and are disclosed by way of notes.

## Schedules forming part of the Accounts

### XVI SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS (contd.)

#### 10 Miscellaneous expenditure

Amortisation of Miscellaneous expenditure :

- (a) Capital Enhancement expenses are written off over a period of five years.  
(b) Product Development Expenses and Seed marketing Expenses are written off over a period of five subsequent years.

#### 11 Intangible assets

The intangible assets recognised are amortised on the basis of straight line method over the period of Five subsequent useful years of asset.

#### 12 Government subsidy

The Policy of Company is to account for the Government Subsidy on actual receipt basis.

#### 13 Export incentives

The same is being recognised at the time of export.

#### 14 Investments

Long term Investments are being valued at cost

#### 15 Other accounting policies

Accounting Policies not specifically referred to are in accordance with generally accepted accounting principles.

### B. NOTES ON ACCOUNTS :

#### 1 Contingent liabilities not provided for:

(Rs. in Lacs)

	2003-04	2002-03
Letter of Credit	322.11	357.80
Bank Guarantees	13.98	12.20
Export bills purchased by bank	415.75	352.40
Export obligation in respect of custom duty	256.73	394.28

#### 2 Estimated amount of contracts remaining to be executed on capital account and not provided for (Net of advances) Rs. 120.37 Lacs (Previous year Rs. 138 Lacs)

#### 3 In the opinion of the Board, the Current Assets, Loans & Advances shown in the Balance Sheet have a value on realisation in the ordinary course of business at least equal to the amount at which they are stated.

#### 4 Director Remuneration includes

(Amount in Rupees)

	2003-04	2002-03
<b>A Salary</b>		
Managing Director	462,000	462,000
Jt. Managing Director	450,000	450,000
<b>B Contribution to provident fund</b>		
Managing Director	9,360	9,360
Jt. Managing Director	9,360	9,360
<b>C Perquisites</b>		
Managing Director	1,51,760	—
Jt. Managing Director	1,47,948	—
<b>Total</b>	<b>1,230,428</b>	<b>930,720</b>

#### 5 Other expenses under head administrative expenses includes Rs. 23000 (Previous Year Rs.12000) paid to directors as sitting fee.

#### 6 Expenses payable includes Rs. 0.46 lacs (Previous year Rs. 0.76) lacs payable to directors as remuneration.

## Schedules forming part of the Accounts

### XVI SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS (contd.)

#### 7 The stock of finished goods include 6388.20 Kg (Previous Year 3278.93 Kg) of the goods which are under test amounting to Rs. 375.86 (Previous Year Rs. 342.56)

#### 8 In accordance with Accounting Standard 18, 'Related Party Disclosures', issued by the Institute of Chartered Accountants of India, the Company has compiled the following information :

##### a. List of related parties and their relationship

Associates	Ind-Swift Limited Essix Financial Services Limited Ind Swift Communications (P) Limited
Key Management personnel-Directors	Mr. N. R. Munjal Mr. V. K. Mehta
Subsidiary	Ind Swift Laboratories Inc. USA

##### b. Related party transactions

(Rs. in Lacs)

Name of related party	Ind-Swift Limited		Essix Financial Services Limited		Ind Swift Communications (P) Ltd		Ind Swift Laboratories Inc. USA	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
<b>Nature of transactions</b>								
(1) Transactions during the year								
Purchases	22.60	133.22	—	—	—	—	—	—
Sales	431.83	351.02	—	—	—	—	—	—
Purchased DEPB	0.55	—	—	—	—	—	—	—
Publicity Exp	—	—	—	—	1.08	0.54	—	—
(ii) Outstanding balances as on 31.03.04								
Share Capital	225.80	312.09	32.39	32.39	—	—	—	—
Investment	—	—	—	—	—	—	15.73	—
Advances	—	—	—	—	—	—	2.98	—
Debtors	86.18	—	—	—	—	—	—	—
Creditors	0.08	—	—	—	—	—	—	—
Unsecured Loans	—	—	95.50	95.50	—	—	—	—

##### Directors Remuneration includes

(Amount in Rupees)

	2003-04	2002-03
<b>A. Salary</b>		
Mr. N. R. Munjal	4,62,000	4,62,000
Mr. V. K. Mehta	4,50,000	4,50,000
<b>B. Contribution to Provident Fund</b>		
Mr. N. R. Munjal	9,360	9,360
Mr. V. K. Mehta	9,360	9,360
<b>C. Perquisites</b>		
Mr. N. R. Munjal	1,51,760	—
Mr. V. K. Mehta	1,47,948	—
<b>Total</b>	<b>12,30,428</b>	<b>9,30,720</b>

## Schedules forming part of the Accounts

## XVI SIGNIFICANT ACCOUNTING POLICIES &amp; NOTES TO ACCOUNTS (contd.)

- 9 The Company has calculated basic Earning Per Share and diluted Earning Per Share in accordance with Accounting Standard 20 regarding "Earning Per Share" issued by The Institute of Chartered Accountants of India, by dividing the net Profit attributable to equity shareholders i.e Rs. 765.21 Lacs (Previous Year Rs. 523.69 Lacs) by weighted average of equity shares 146.11 Lacs (previous year 109.61 Lacs) for calculating basic earning per share & by weighted average of equity shares 157.07 Lacs (previous year 109.61 Lacs) for calculating diluted earning per share.
- 10 The deferred tax liability has been calculated in accordance with Accounting standard-22 regarding "Accounting for taxes on income" issued by Institute of Chartered Accountants of India. The deferred tax liability as on 31.03.04 of Rs. 967.93 Lacs (Previous year Rs. 642.95 Lacs) comprises of timing difference on account of Depreciation Rs. 925.06 (Previous year Rs. 673.43 Lacs), Research and development Rs. 76.12 (Previous year Rs. Nil) after netting off deferred tax assets on account of brought forward losses Rs. 33.25 (Previous year Rs. 30.48 Lacs).
- During the year the deferred tax liability of Rs. 324.98 Lacs (Previous year Rs. 153 Lacs) has been provided. The deferred tax liability on account of brought forward losses have been recognised on the basis of Income tax returns of the Company.
- 11 The balance in the parties accounts whether in debit or credit are subject to confirmation and resultant adjustment.
- 12 The sundry balances written off of Rs. 7.93 Lacs (Previous Year Rs. 4.61 Lacs) debited to profit and loss account during the year is net off of credit balances written off amounting to Rs. 1.58 Lacs (Previous year Rs. 0.04 Lacs).
- 13 Interest received includes interest on Fixed deposits amounting to Rs.22.06 Lacs (previous year Rs. 26.08 Lacs) and Interest from Others amounting to Rs. 2.46 Lacs (Previous Year Rs. 2.00 Lacs). The tax deducted thereon Rs. 4.55 Lacs (previous year Rs. 5.47 Lacs).
- 14 Fixed deposits with banks of Rs. 334.09 Lacs (Previous year Rs. 305.63 Lacs) are pledged with banks.
- 15 The Company operates only in one business segment viz. Bulk Drugs & Pharmaceuticals. However, the figures in Segment reporting is based on geographical location of its customers.

## Segment Reporting

(Rs. in Lacs)

	In India	Outside India	Total
Revenue-External	9046	6793	15839
	(9487)	(4239)	(13726)
Results	1044	1800	2845
	(965)	(1328)	(2293)
Less: Financial Expenses			708
			(676)
Less: Unallocated Expenses			1160
			(944)
Add: Interest Income & Others			44
			(28)
Add: Diff in Foreign Exchange			149
			(44)
Less: Income Tax Provision			83
			(51)
Less: Deferred Tax			325
			(153)
Profit after Tax			762
			(541)

## Schedules forming part of the Accounts

## XVI SIGNIFICANT ACCOUNTING POLICIES &amp; NOTES TO ACCOUNTS (contd.)

(Rs. in Lacs)

	In India	Outside India	Total
<b>Other Information</b>			
Segment Assets	815	1349	2164
	(983)	(755)	(1738)
Unallocated Assets			14201
			(10954)
Total Assets			16366
			(12692)
Segment Liabilities	1883	1421	3304
	(1463)	(1042)	(2505)
Unallocated Liabilities			7392
			(5588)
Total Liabilities			10696
			(8093)
Capital Expenditure			6664
			(4504)
Depreciation			279
			(233)
Non Cash Expenses other than Depreciation			193
			(193)

## Notes:

## 1 Geographical Segments

The segment reporting is performed on the basis of the geographical location of customers.

The management views the indian market and export markets as distinct geographical segments.

## 2 Segment assets &amp; liabilities

Segment assets consists of debtors & the segment liabilities consists of creditors and accrued liabilities.

## 3 The figures in brackets are in respect of previous year.

- 16 Total amount of Term Loans installments payable during twelve months following 31-03-2004 are Rs. 1274.88 Lacs (Previous year Rs. 761.27 Lacs)

## 17 Expenditure on Research &amp; Development

(Rs. in Lacs)

	2003-04	2002-03
a) Addition in Fixed Assets	222.08	78.54
b) Intangible Assets (Incl Under Development)	96.01	-
c) Deferred Revenue Expenditure	-	27.00
d) Debited to Profit & Loss Account		
Salary & Wages & Travelling exp	69.48	60.03
Raw Material	220.60	95.63
Consumables	19.86	43.67
Lab chemicals & Others	38.50	-
Depreciation	20.45	14.09
Misc Exp W/off	144.46	139.06

The Depreciation and misc exp w/off related to research & development are clubbed under respective heads in profit & loss account.

## Schedules forming part of the Accounts

## XVI SIGNIFICANT ACCOUNTING POLICIES &amp; NOTES TO ACCOUNTS (contd.)

- 18 Intangible assets under the head Miscellaneous Expenditure in Balance Sheet recognised during the year are internally generated by the Company which comprises of the following: (Amount in Rupees)

	Developed	Under Development
Raw Material	363,188	6,267,642
Consumables & Spares	75,145	1,296,800
Salary & Wages	699,591	898,323
<b>Total</b>	<b>1,137,924</b>	<b>8,462,765</b>

- 19 The outstanding dues of small scale industrial undertakings have been determined to the extent such parties have been identified on the basis of information available with the Company.

The parties to whom the Company owes sum outstanding for more than 30 days as at the balance sheet date are:

Sood Plastics Pvt. Ltd.  
Saurav Chemicals Limited  
Kanoria Chemicals & Industries Limited  
Sonal Plasrub Industries Pvt. Limited

The above information and that given in Schedule VI -"Current Liabilities and Provisions" regarding Small Scale Industrial Undertakings has been determined to the extent such parties have been identified on the basis of information available with the Company.

- 20 The Company has passed a resolution in annual general meeting dated 30th September ,2003 for conversion of existing 7,43,300 1% Non Cumulative redeemable preference shares of Rs. 100 into fully paid up equity shares of Rs. 10 each at the premium of Rs. 22 per share . During the year Company allotted 12,27,375 equity shares of Rs. 10 each at the premium of Rs. 22 by conversion of 392760 1% Preference shares and balance 350540 1% preference shares are yet to be converted.
- 21 Investment of Rs. 20.74 Lacs are at Cost (Market Value N.A.)  
a) Share Application Money deposited with Ind Swift Laboratories Inc, USA Rs. 15.74 Lacs  
b) Application Money for purchase of units of Principle Global Opportunities Fund Rs. 5.00 Lacs
- 22 The addition in Office Building Rs.41.17 Lacs is on account of Building purchased in Mumbai in the name of the Managing Director of the Company which is mortgaged with ICICI Bank. The Company has entered into an "agreement to sell" and has taken GPA from the Managing Director. The property is yet to be registered in the name of Company.
- 23 The Company has made preferential allotment of 13,40,000 equity shares of Rs. 10 each at a premium of Rs. 15/- each on 28.06.03. The proceeds of preferential allotment were fully utilised towards the capital expenditure/projects undertaken by the Company.
- 24 A sum of Rs. 30 Lacs is recoverable from State Govt of Punjab as Punjab State Investment Subsidy.
- 25 Previous year figures have been regrouped, rearranged wherever considered necessary for comparison.
- 26 Additional information pursuant to the provisions of paragraph 3 & 4 of Part II of Schedule VI of the Companies Act, 1956 is as under :

## A. Particulars of Capacity &amp; Production :

Sr. No. Product	Licensed Capacity	Installed Capacity
I Bulk Drugs, Intermediates, Solvents & Others	N.A.	120000 kgs (81180 kgs)

The installed capacity is as certified by the management on which auditors have placed reliance being a technical matter.

## Schedules forming part of the Accounts

## XVI SIGNIFICANT ACCOUNTING POLICIES &amp; NOTES TO ACCOUNTS (contd.)

## B. Production Turnover &amp; Stocks :

(Amount in Rupees)

Sr. No.	Product	Opening Stock		Production Qty	Turnover		Closing Stock	
		Qty (Kgs.)	Value (Rs.)		Qty (Kgs.)	Value (Rs.)	Qty (Kgs.)	Value (Rs.)
1	Bulk Drugs, Intermediates etc.	3,295	35,013,436	107,909	188,792	1,266,366,838	6,625	39,234,080
		(112)	(1,807,000)	(54,965)	(134,779)	(805,250,099)	(3,295)	(35,013,436)
2	Contract Research Income					8,000,000		
						(10,000,000)		
3	Trading Goods			84,213		309,506,885		
	(Intermediates & Chemicals etc.)			(82,997)		(557,352,325)		
	<b>TOTAL</b>		<b>35,013,436</b>			<b>1,583,873,723</b>		<b>39,234,080</b>
			<b>(1,807,000)</b>			<b>(1,372,602,424)</b>		<b>(35,013,436)</b>

# The Production include 3109.27 Kg (Previous Year 3278.93 Kg) which are under test.

# The stock of finished goods include 6388.20 Kg (Previous Year 3278.93 Kg) of the goods which are under test amounting to Rs. 375.86 Lacs (Previous Year Rs. 342.56 Lacs)

# Figures in brackets are in respect of Previous year.

## C. Detail of Consumption of material

(Amount in Rupees)

Sr. No.	Raw Material Consumed/Goods Purchased	2003-2004		2002-2003	
		Quantity	Value	Quantity	Value
1	TIOC	114,207	330,529,460	61,379	227,316,782
2	Beta	246	27,335,293	157	21,991,094
3	Others		559,152,458		250,740,695
4	Trading Goods	84,213	308,623,900	82,997	556,514,709
	(Intermediates & Chemicals etc.)				
	<b>TOTAL</b>		<b>1,225,641,111</b>		<b>1,056,563,280</b>

## D. Detail of Raw Material, Stores &amp; Spares Consumed

(Amount in Rupees)

Particulars	Raw Material				Stores & Spares			
	2003-04		2002-03		2003-04		2002-03	
	Value Rs.	% of Total Consumption	Value Rs.	% of Total Consumption	Value Rs.	% of Total Consumption	Value Rs.	% of Total Consumption
Imported	585,754,758	47.79	390,746,318	36.98	-	-	-	-
Indigenous	639,886,353	52.21	665,816,962	63.02	14,612,378	100	11,089,558	100
<b>Total</b>	<b>1,225,641,111</b>	<b>100.00</b>	<b>1,056,563,280</b>	<b>100.00</b>	<b>14,612,378</b>	<b>100</b>	<b>11,089,558</b>	<b>100</b>

## Schedules forming part of the Accounts

## XVI SIGNIFICANT ACCOUNTING POLICIES &amp; NOTES TO ACCOUNTS (contd.)

(Amount in Rupees)

	2003-04	2002-03
<b>E. C.I.F. Value of Imports :</b>		
(i) For Raw Materials	567,304,706	465,752,158
(ii) For Capital Goods	636,503	7,282,048
<b>F. Expenditure in Foreign Exchange :</b>	21,184,643	10,728,384
<b>G. Earnings in foreign exchange</b>		
FOB Value of Sales	669,457,330	417,565,827
Others	664,894	—

27 Schedule I to XVI form an integral part of Balance Sheet and Profit & Loss Account and have been duly authenticated.

## Cash Flow Statement

(Rupees in Lacs)

For the year ended 31st March	2004	2003
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit before tax and Extra-Ordinary Items	1169.62	745.61
<b>Adjustments for:</b>		
i) Depreciation	278.67	233.46
ii) Preliminary, Issue & Deferred Expenses amortised	192.74	192.55
iii) Loss on sale of fixed assets	13.09	10.61
iv) Exchange profit on secured loans	(86.19)	(11.33)
v) Interest on term loans	315.13	367.32
vi) Interest received on fixed deposits	(22.06)	(28.08)
vii) Preference Share Dividend Provision	3.51	7.43
viii) Dividend Tax	0.45	0.95
ix) Provision for Doubtful Debts	11.81	13.91
x) Others Exchange Profit/Loss	(18.08)	(16.55)
<b>Operating Profit before Working Capital Charges</b>	<b>1858.69</b>	<b>1515.88</b>
<b>Adjustments for:</b>		
i) Trade & Other Receivables	(440.33)	(458.18)
ii) Inventories	(633.32)	(937.88)
iii) Loan & advances	(433.88)	(250.88)
iv) Current Liabilities	821.48	507.02
v) Income taxes	(50.26)	(40.71)
	(736.31)	(1139.92)
<b>Net Cash flow from operating Activities</b>	<b>1122.37</b>	<b>375.96</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
i) Purchase of fixed Assets	(2245.51)	(383.53)
ii) Sale of fixed assets	12.63	1.23
iii) Increase/Decrease in Capital work in progress	(218.66)	(337.23)
iv) Purchase of Investments	(20.74)	0.00
v) Capital Issue & Deferred Expenses	(102.02)	(30.00)
vi) Interest Received on Fixed Deposits	22.06	28.08
<b>Net Cash from investing activities</b>	<b>(2552.24)</b>	<b>(721.46)</b>

As per our separate report of even date

For and on behalf of the Board

For **Jain & Associates**  
Chartered Accountants**Dr. G. Munjal**  
Chairman**N. R. Munjal**  
Mg. Director**V. K. Mehta**  
Jt. Mg. Director**S. R. Mehta**  
Director**R. K. Gulati**  
Partner  
Membership No. 11999**Dr. J. K. Kakkar**  
Director**Dr. V. R. Mehta**  
Director**K.M.S. Nambiar**  
Director**Himanshu Jain**  
DirectorPlace : Chandigarh  
Date : 28th June, 2004**N. K. Bansal**  
V. P. Finance**Pardeep Verma**  
Company Secretary

## Cash Flow Statement (contd.)

(Rupees in Lacs)

For the year ended 31st March	2004	2003
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
i) Proceeds from Share Capital	134.00	9.05
ii) Proceeds from Securities Premium	201.00	17.52
iii) Proceeds from Term Loans From Banks & Financial Institutions	1710.60	891.55
iv) Repayment of Term Loans From Banks & Financial Institutions	(729.74)	(510.63)
v) Interest paid on term loans	(299.59)	(340.46)
vi) Proceeds from Short Term Loans from Banks and Financial Institutions	(227.36)	653.32
vii) Proceeds from other loans	178.02	32.47
viii) Repayments of other loans	(84.28)	(87.24)
ix) Proceeds from Unsecured loan	1385.43	109.90
x) Repayments of unsecured loans	(709.29)	-
xi) Interest on Unsecured loans	(6.74)	-
xii) Increase in deferred payment liabilities	-	(313.10)
xiii) Preference Dividend Paid	(7.43)	-
xiv) Dividend Tax Paid	(0.95)	-
<b>Net Cash flow from Financing Activities</b>	<b>1543.68</b>	<b>462.37</b>
<b>Net increase in Cash or Cash Equivalents</b>	<b>113.82</b>	<b>116.87</b>
Cash & Cash Equivalents as on 31.3.2003	450.78	333.91
Cash & Cash Equivalents as on 31.3.2004	564.60	450.78

As per our separate report of even date

For and on behalf of the Board

For **Jain & Associates**  
Chartered Accountants**Dr. G. Munjal**  
Chairman**N. R. Munjal**  
Mg. Director**V. K. Mehta**  
Jt. Mg. Director**S. R. Mehta**  
Director**R. K. Gulati**  
Partner  
Membership No. 11999**Dr. J. K. Kakkar**  
Director**Dr. V. R. Mehta**  
Director**K.M.S. Nambiar**  
Director**Himanshu Jain**  
DirectorPlace : Chandigarh  
Date : 28th June, 2004**N. K. Bansal**  
V. P. Finance**Pardeep Verma**  
Company Secretary

## Auditors' Certificate

We have verified the above Cash Flow Statement of Ind-Swift Laboratories Limited, derived from the audited financial statements for the year ended 31st March 2004 and found the same to drawn in accordance therewith and also with requirements of clause 32 of the Listing Agreement with the Stock Exchange.

for **Jain & Associates**  
Chartered Accountants**R. K. Gulati**

Partner

Membership No. 11999

Place : Chandigarh  
Date : 28th June 2004

## Balance Sheet Abstract

and Company's Business Profile

## I. Registration Details

Registration No.

1 5 5 5 3

State Code

5 3

Balance Sheet Date

3 1 0 3 2 0 0 4

## II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue

N I L

Right Issue

N I L

Bonus Issue

N I L

Private Placement

2 5 6 7 3 . 7 5

## III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities

1 2 7 0 4 9 4

Total Assets

1 2 7 0 4 9 4

## Sources of Funds

Paid-up Capital

1 9 1 1 9 1

Reserves &amp; Surplus

3 5 8 1 7 5

Secured Loans

5 3 6 1 8 1

Unsecured Loans

8 8 1 5 5

Deferred payment liabilities

9 6 7 9 3

## Application of funds

Net Fixed Assets

6 6 6 4 0 0

Net Current Assets

5 6 4 0 8 7

Investments

2 0 7 4

Misc. Expenditure

3 7 9 3 3

## IV. Performance of Company (Amount in Rs. Thousands)

Turnover &amp; other income

1 6 0 5 1 9 5

Profit/Loss Before Tax

1 1 6 9 6 2

Earning per Share (Basic) in Rs.

5 . 2 4

Total Expenditure

1 4 8 8 2 3 3

Profit/Loss After Tax

7 6 9 1 7

Dividend Rate %

1 0

## V. Generic Names of Principal Products of Company

Item Code No.

2 9 4 1 5 0

2 9 4 2 0 0

Product Description

Clarithromycin

Betamethasone Salt

As per our separate report of even date

For and on behalf of the Board

For **Jain & Associates**  
Chartered Accountants**Dr. G. Munjal**  
Chairman**N. R. Munjal**  
Mg. Director**V. K. Mehta**  
Jt. Mg. Director**S. R. Mehta**  
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Membership No. 11999**Dr. J. K. Kakkar**  
Director**Dr. V. R. Mehta**  
Director**K.M.S. Nambiar**  
Director**Himanshu Jain**  
DirectorPlace : Chandigarh  
Date : 28th June, 2004**N. K. Bansal**  
V. P. Finance**Pardeep Verma**  
Company Secretary



