

TO THE MEMBERS

Your Directors have pleasure in presenting the 68th Annual Report and Audited Financial Statements for the year ended 31st March, 2018.

STANDALONE FINANCIAL RESULTS		
	(` crores)	
	For the year ended 31.3.2018	For the year ended 31.3.2017
Sales and other Income	3258.75	3178.87
Profit before finance cost & depreciation	481.18	452.54
Less : Finance cost	24.02	23.34
Depreciation and Amortisation	174.36	171.00
Profit before tax	282.80	258.20
Less : Provision for taxation		
Current Tax	60.01	56.95
Short / (Excess) provision of taxes for earlier years	(0.34)	(0.04)
Deferred Tax liability / (asset)	(9.98)	13.00
Net Profit	233.11	188.29

FINANCIAL STATEMENTS

The standalone and consolidated financial statements are prepared in accordance with the Indian Accounting Standards (Ind-AS) as prescribed under Section 133 of the Companies Act, 2013 read with Rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) Amendment Rules, 2016.

In accordance with Indian Accounting Standard (Ind AS-110), the audited consolidated financial statements are provided in the Annual Report.

CREDIT RATING

During the year under report, CARE Ratings has re-affirmed CARE AA; Stable / Care A1 + (Double A; Outlook: Stable / A One Plus) ratings to the Company's long term / short term bank facilities (fund based / non-fund based) amounting to ₹ 1140 crores.

MANAGEMENT DISCUSSION AND ANALYSIS

a) Industry Structure and Development

The global pharmaceutical market is now estimated to be over US \$ 1.2 trillion and is expected to grow at a CAGR of about 4 to 5%. Though the pharmaceutical industry is developing at a rapid pace, the pharmaceutical manufacturing companies are confronted with enormous challenges such as cost and pricing, new medicines and therapy dosages, changing regulatory landscape and growing digitization. The market for pharmaceuticals is growing persistently and this industry is expected to be US\$ 1.5 trillions in size by 2020. The growth in the pharmaceuticals market is led by 1% plus annual global increase in the population, increasing life expectancy leading to growth in the proportion of people aged above 65 years to about 27% of world population as well as increasing urbanization and growing middle income population making drugs available and affordable for more people. Other potential growth drivers include improved economic activity in key geographies.

Thanks to advances in science and technology, the research based pharmaceutical industry is entering an exciting new era in medicine development. The research methods are evolving and the innovative pharmaceutical industry aims to turn fundamental research into innovative treatments that are widely available and accessible to patients.

b) Outlook, Risks and Concerns

Although economic woes of certain geographics are impending the pharmaceutical market growth, the long term outlook for the industry remains positive. The industry growth is driven by ageing population and ever growing middle income group in emerging economies boosting demand for the branded and generic formulations. Additionally, the emergence of new viruses and drug resistant infections, biological agents, immune therapies etc. spurred research and development activities in the recent past providing the industry with more products in their drug pipeline with revenue and growth streams.

The Indian pharmaceuticals market is the third largest in terms of volume and twelfth largest in terms of value. India is the biggest provider of generic medications internationally accounting for about 20 percent of global exports volume and enjoys a significant position in the world pharmaceuticals sector. The country also has a huge pool of engineers and scientists having the capability to steer this industry forward to a much greater degree. The cost efficiency also continues to create opportunities for Indian pharmaceutical companies in the emerging global economies.

The Indian pharma industry is expected to outperform the global pharma industry and grow over 10% per annum in next couple of years to a size of about US \$ 55 billion by 2020 thereby emerging as one of the top 10 pharmaceutical market globally by absolute size. Indian pharmaceutical export which was about US \$ 16 billion in 2017 is expected to reach a size of about US \$ 20 billion by 2020.

Indian pharma companies are focusing on global generic and API business, R&D activities and contract research and manufacturing alliances. India is also fast emerging as a preferred pharmaceuticals manufacturing location. Increasing use of pharmaceutical generics in developed markets to reduce healthcare cost will also provide attractive growth opportunities to Indian generic formulations manufacturers and thus Indian pharmaceutical industry is poised for an accelerated growth in the coming years.

However, poor public healthcare funding and infrastructure, low per capita consumption of medicines in developing and under developed countries including India, currency fluctuations, regulatory issues, government mandated price controls, inflation and resultant all round increase in input costs are few causes of concern.

During the year under report, there was no change in the nature of Company's business.

c) Financial Performance and Operations Review

During the financial year under report, the Company registered on a standalone basis a total income of ₹ 3258.75 crores as against ₹ 3178.87 crores in the previous year, a growth of 3%.

Withdrawal of exemptions given to certain APIs and formulations manufactured by the Company from the import alert by US FDA in June 2017 as well as Global Fund not sourcing the anti-malarial formulations manufactured by the Company impacted the Company's international business growth during the financial year. The implementation of GST with effect from 1st July, 2017 in the country and the resultant inventory rationalisation in the marketplace also impacted the Company's business growth in the domestic market.

The Company has implemented comprehensive remedial measures at all its manufacturing sites to ensure quality and regulatory compliances. These remedial measures included review of all processes and procedures, revamping of training system, recruitment of senior quality personnel as well as automation of quality control laboratories. The Company is awaiting re-inspection by US FDA of its manufacturing facilities currently under import alert. The Company is committed to its philosophy of highest quality in manufacturing, operations, systems, integrity and cGMP culture. Your management is confident that implementation of remedial measures will ensure that the Company will regain all its regulatory approvals.

The Directors are happy to inform you that the Global Fund has once again selected your Company as their panel supplier of anti-malarial medicines for the Global Fund Pooled Procurement mechanism and private sector co-payment mechanism for an initial period of 3 (three) years and this business is expected to restart from the current financial year.

During the financial year under report, the earnings before interest, depreciation and taxation amounted to ₹ 481.18 crores as against ₹ 452.54 crores in the previous financial year. The operations have resulted in a net profit of ₹ 233.11 crores during the financial year under report as against ₹ 188.29 crores in the previous financial year, a growth of 24%.

Break-up of Sales								(₹ Crores)	
	2017-18				2016-17				
	Domestic	Exports	Total	Growth	Domestic	Exports	Total	Growth	
Formulations	1425.38	993.96	2419.34	1%	1388.55	995.89	2384.44	11%	
APIs & Intermediates	178.45	570.25	748.70	5%	144.41	565.85	710.26	8%	
Total Sales	1603.83	1564.21	3168.04	2%	1532.96	1561.74	3094.70	10%	
Growth	5%	--%	2%		12%	9%	10%		

d) International Business

The products of the Company are now exported to nearly 120 countries across the globe. During the financial year under report, the international business amounted to ₹ 1564.21 crores as against ₹ 1561.74 crores in the previous year. Formulation exports of the Company was flat at ₹ 993.96 crores and exports of APIs and Drug Intermediates increased by 1% to ₹ 570.25 crores.

Continent-wise Exports								(₹ Crores)	
Continent	2017-18				2016-17				
	Formulations	APIs and Intermediates	Total	% to exports	Formulations	APIs and Intermediates	Total	% to exports	
Europe	290.34	205.78	496.12	32%	381.25	221.92	603.17	39%	
Africa	264.21	20.99	285.20	18%	239.92	22.45	262.37	17%	
Americas	102.52	154.34	256.86	16%	107.26	136.48	243.74	15%	
Asia	66.50	172.84	239.34	15%	65.67	171.22	236.89	15%	
CIS	142.15	11.87	154.02	10%	100.57	9.08	109.65	7%	
Australasia	128.24	4.43	132.67	9%	101.22	4.70	105.92	7%	
Total	993.96	570.25	1564.21	100%	995.89	565.85	1561.74	100%	

Formulation Exports - Therapeutic Contribution		
Therapeutic Group	2017-18	2016-17
Cardiovasculars & Anti-diabetics	31%	32%
Pain Management	20%	23%
Anti-malarials	18%	16%
Anti-bacterials	10%	13%
Anthelmintics	7%	6%
Central Nervous System (CNS) products	6%	5%
Gastro Intestinal (G.I) products	2%	2%
Cough Preparations	2%	1%
Others	4%	2%
TOTAL	100%	100%

Europe

The Company achieved European export sales of ₹ 496.12 crores during the financial year under report as against sales of ₹ 603.17 crores in the previous year. Regulatory imposition against one of the Company's major customer adversely impacted Company's generics formulations business in the United Kingdom.

The Company has developed and submitted 62 generic formulation dossiers for registration in Europe out of which 61 dossiers are registered. The Company has also obtained certificate of suitability (COS) of 43 APIs from European Directorate for Quality Medicines.

Africa

The Company achieved export sales of ₹ 285.20 crores to Africa during the financial year under report as against ₹ 262.37 crores in the previous year, a growth of 9%.

The Company exports branded and generic formulations as well as APIs to many African countries. The Company markets branded formulations in Africa through dedicated field force. The Company also supplies generics formulations to South Africa.

The Company is expanding its branded formulations business in this continent through expansion of geographical coverage and increase in the number of branded formulations marketed. The Company is also continuously filing new formulation dossiers for registration in the African countries.

During the year under report, the Global Fund has once again selected your Company as their panel supplier of anti-malarial medicines for the Global Fund Pooled Procurement mechanism and private sector co-payment mechanism for an initial period of 3 (three) years.

The Company has filed 64 dossiers of generic formulations for registration in South Africa out of which 42 dossiers are registered till date.

Americas

The Company achieved sales of ₹ 256.86 crores in this continent as against ₹ 243.74 crores in the previous year. As reported earlier, the US formulations and APIs business continues to be impacted due to ongoing US FDA import alert for three of the Company's manufacturing facilities.

47 ANDA applications of generic formulations developed by the Company are filed with US FDA out of which 18 ANDA applications are granted till date. 47 DMFs of the Company are also currently filed with US FDA.

Asia

The Asian business (excluding India) recorded sales of ₹ 239.34 crores as against ₹ 236.89 crores in the previous year. The Company exports formulations as well as APIs to several Asian countries. In countries like Nepal, Srilanka, Myanmar, Philippines and Vietnam, the Company markets its branded formulations through dedicated field force.

Confederation of Independent States (CIS)

The Company's CIS business recorded sales of ₹ 154.02 crores as against ₹ 109.65 crores in the previous year, a growth of 40%. Most of the business is from branded formulation sales in Russia, Ukraine, Kazakhstan and Belarus. The Company's branded formulations are marketed in this continent by its own field force appointed through its non-trading offices.

Australasia

The Company exports APIs to Australia and formulations to Australia and New Zealand in this sub-continent. The business from this continent was ₹ 132.67 crores during the financial year under report as against ₹ 105.92 crores in the previous year, a growth of 25%.

The Company has developed and submitted 70 generic formulation dossiers for registration in this market out of which 65 dossiers are registered.

e) Domestic Formulations Business

The Company's formulations business in India now comprises of 14 marketing divisions focusing on key therapeutic segments. Your Company is now the 20th largest in the domestic formulations market as per IMS Health - MAT April 2018.

During the financial year under report, the domestic formulations business recorded a modest growth of 3% at ₹ 1425.38 crores as against ₹ 1388.55 crores in the previous year.

Inventory rationalization in the market place due to implementation of GST with effect from 1st July, 2017 coupled with lower incidences of malaria in the country, impacted the Company's Indian branded formulations business.

Domestic Branded Formulations - Therapeutic Contribution		
Therapeutic segment	2017-18	2016-17
	% to sales	% to sales
Pain Management	44%	41%
Cardiovasculars & Anti-diabetics	21%	21%
Anti-malarials	8%	12%
Anti-bacterials	6%	6%
Dermatology	5%	4%
Gastro Intestinal (G I) products	4%	4%
Cough Preparations	4%	5%
Neuro Psychiatry	3%	3%
Urology	3%	2%
Neutraceuticals	1%	1%
Others	1%	1%
Total	100%	100%

f) Active Pharmaceutical Ingredients (APIs) and Intermediates Business

During the financial year under report, the APIs and Intermediates business recorded sales of ₹ 748.70 crores as against ₹ 710.26 crores in the previous financial year, a growth of 5%. Nearly 76% of the APIs and Intermediates business is from exports.

The Company exports its APIs across the globe. Most of the international customers of the Company are end user formulations manufacturers including several multinational companies.

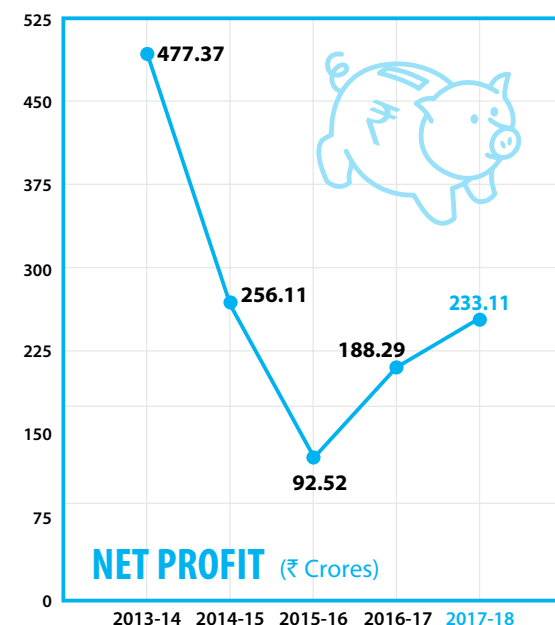
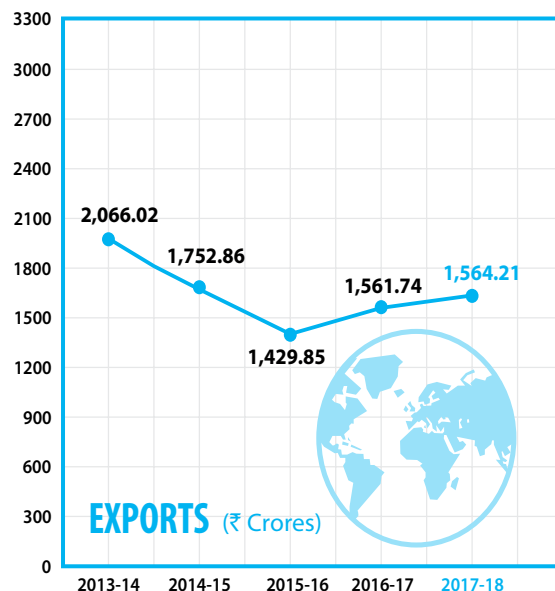
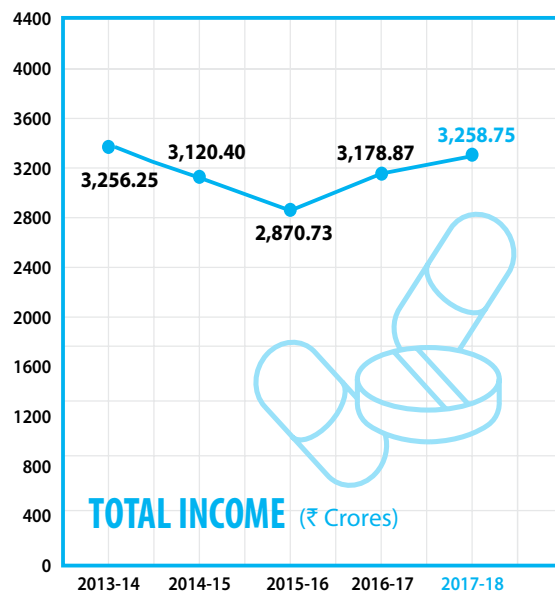
Your Company is in the process of commercializing several new APIs for the global market.

g) Intellectual Property Protection

The Company has created intellectual property management group within the Research and Development centers to deal with management and protection of intellectual property. The Company has filed many patent applications till date in India, USA and other countries. These applications relate to novel and innovative manufacturing processes for the manufacture of APIs and pharmaceutical formulations.

h) Internal Control Systems and its adequacy

The Company has adequate internal control systems including suitable monitoring procedures commensurate with its size and the nature of the business. The internal control systems provide for all documented policies, guidelines, authorisation and approval procedures. The Company has an internal audit department which carries out audits throughout the year. The statutory auditors while conducting the statutory audit, review and evaluate the internal controls and their observations are discussed with the Audit committee of the Board.



i) Human Resources

The human resource plays a vital role in the growth and success of an organization. The Company has maintained cordial and harmonious relations with employees across various locations.

During the year under review, various training and development workshops were conducted to improve the competency level of employees with an objective to improve the operational performance of individuals. The Company has built a competent team to handle challenging assignments. The Company strives to enhance the technical, work related and general skills of employees through dedicated training programs on a continuous basis.

The Company has 13,254 permanent employees as on 31st March, 2018 out of which 6,035 employees are engaged in the marketing and distribution activities.

j) Cautionary Statement

Certain statement in the management discussion and analysis may be forward looking within the meaning of applicable securities law and regulations and actual results may differ materially from those expressed or implied. Factors that would make differences to Company's operations include competition, price realisation, currency fluctuations, regulatory issues, changes in government policies and regulations, tax regimes, economic development within India and the countries in which the Company conducts business and other incidental factors.

MATERIAL CHANGES AND COMMITMENTS AFTER THE END OF THE FINANCIAL YEAR

No material changes or commitments affecting the financial position of the Company have occurred between the end of the financial year to which financial statements in this report relate and the date of this report except allotment of 1,53,000 equity shares of ₹ 2/- each fully paid-up @ ₹ 300/- per share by the Company on 29th May, 2018 upon conversion of options granted under Ipca Laboratories Ltd. Employees Stock Option Scheme – 2014.

SHARE CAPITAL

The paid-up equity share capital of the Company as at 31st March, 2018 was ₹ 25.24 crores.

The Company on 29th May, 2018 allotted 1,53,000 equity shares of ₹ 2/- each fully paid-up at a price of ₹ 300/- per share upon conversion of options granted under Ipca Laboratories Ltd. Employees Stock Option Scheme – 2014. With this allotment, the paid-up share capital of the Company has now increased to 12,63,52,109 equity shares of ₹ 2/- each aggregating to ₹ 25.27 crores.

Post the allotment, the Company currently has no outstanding shares issued with differential rights, sweat equity or ESOS.

EMPLOYEES STOCK OPTION SCHEME (ESOS)

The Company has a scheme - Ipca Laboratories Ltd. Employees Stock Option Scheme – 2014 (ESOS) approved by the Board of Directors as well as Company's shareholders. This ESOS is in compliance with SEBI (Share Based Employee Benefits) Regulations, 2014. There was no change made in this ESOS Scheme during the financial year under report.

At the meeting of the Board of Directors of the Company held on 25th April, 2017 and as recommended by the Nomination and Remuneration Committee of the Board, the Company had issued options under the said ESOS to selected permanent employees of the Company including one Wholetime Non-Promoter Director.

