
MANAGEMENT DISCUSSION AND ANALYSIS REPORT (MDA)

GLOBAL INDUSTRY OVERVIEW

Global spending on medicines crossed US\$ 1.2 Trillion in 2018; and is projected to grow at a compound annual growth rate (CAGR) of 3-6% in the next five years, reaching over US\$ 1.5 Trillion by 2023.

Growth in the global pharmaceutical market will continue to be led by the US and pharmerging markets. While new product launches, especially specialty products, will be the key growth catalyst in developed markets, pharmerging market expansion will be driven by multiple factors. These factors comprise improving per capita income, increasing healthcare awareness, ageing population and rising incidence of chronic ailments. The product mix in the developed world will continue to shift towards specialty and orphan products. Emerging technologies are enabling healthcare providers to innovate

The Indian pharmaceutical industry is also expected to grow with the world and become pivotal as a global pharmaceutical provider. As per industry estimates, India's pharmaceutical industry is expected to reach USD 55 billion by 2020, and by 2025 it would grow to USD 100 billion.

Industry Outlook:

The industry outlook remains positive given the following:

- Increasing Per Capita Income
- Growing penetration of Health insurance
- Government thrust on improving penetration of modern medicines into rural areas and accelerating access of pharmaceutical products to the poor and low-income sections of the population.
- Increased incidence of chronic ailments.
- Changing lifestyle and consumption patterns.
- Improving healthcare awareness.

Company Overview

(A) Domestic Formulations Business:

Your Company registered rank of 98 in the latest AIOCD AWACS March 19 annual ranking. Overall formulations business showed a decline of 7% in revenues. The fall in revenue was due to non -availability of working capital issues, right sizing of the field force & FDC ban of few SKU's. Key focus brands for the company continue to be Cpink, Coriminic, Adtrol range, Chymonac, Folinine & Productiv range. However few brands like Coriminic, L-Folinine, Chymonac - have reflected positive sales growth trend in their respected markets.

Your Company focused on addressing persisting challenges related to operational efficiencies, cost optimisation and capability building during the last 3 quarters that will have a positive impact in the near as well as long term periods. Some of the key initiatives are as follows:

Operations and Capability Building:

- Monitoring and control systems put in place helped achieve improved operational efficiency.
- Field force training continued to be focused as a critical area to ensure an engaged field force.
- MDP [Managers Development Program] was undertaken in all the divisions so as to build capability of managers.
- The MIS team continues to support with detailed data analytics that helped improve governance.
- Distribution SOPs in place helped rationalise costs and improve sales hygiene.
- Monthly Engagement programs for various support teams at the HO has been conducted to facilitate a common understanding of Business needs.

(B) Active Pharmaceutical Ingredients (API) Business:

APIs are chemicals and biologically active elements of drugs with a direct impact on cure, mitigation, treatment and prevention of diseases. The worldwide API market is likely to exceed US\$ 225 Billion by 2024 – a 6% CAGR for the forecast period.

The API division in FY 2019 registered Growth of 10% with revenue clogged at ₹ 278 Crs. The increase in revenue was mainly driven by improved availability of raw material through arrangement with some Trader. Sertraline continued to do well with a revenue Growth of 30% compared to FY18. The business saw growth in the order book position of Sertraline & Tramadol.

The favourable macroeconomic parameters of emerging markets offer encouraging long-term potential, Going forward, the Company will Focus on developing and commercialising more products with better realisation and margins.

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(D) Margin Improvement Initiatives:

We have identified various avenues of margin improvement like cost reduction, Yield improvement, better product realisation. The company have merged its r&D centre T Mahape & Tanuku, same will yield in better sync between R&D and Plant and will result in cost optimisation and reduction product lead time.

(E) Human Resource (HR) Initiatives at Wanbury:

As part of our continuous effort to improve employee engagement and reduction of employee attrition, company have taken various initiatives during the year. This includes imparting training, ensuring work life balance and defining carrier progression for key talents.

(F) Threats, Risk and Concern:

As any other business, your Company is subject to various risks and threats. The key risks/ threats are as follows:

Competition:

Your Company operates in a highly competitive environment with pricing being one of the key determining factors of success. In the API business, your Company has been able to overcome this risk by influencing the prices as it is the largest manufacturer of Metformin in the world with significant market share. Sertraline and Tramadol are seeing high demand especially in international markets. In the Formulations Business, the Company has mitigated this risk to a very large extent by diversifying its product portfolio and launching new value added products. The continuous rise in crude oil in the past and other commodities prices impacted the prices of raw material and intermediates and in turn increased the cost of APIs.

Regulatory:

Manufacturing of pharmaceutical products is highly regulated and controlled by regulatory and government authorities across the world. Failure to fully comply with such regulations, could lead to stringent actions from the authorities/ government. Regulators across the world, including the USFDA, have become stricter with the pharmaceutical industry.

Regulatory requirements and consequences for non-compliance are also getting more severe. Your Company is operating in a state of compliance as required by the Regulatory Agencies. During the year, Company has successfully completed USFDA Audit at its major API facility in Tanuku Plant, Andhra Pradesh.

Foreign Exchange Fluctuations:

As the share of exports to total sales made by your Company is considerable, same is partly hedge through natural hedging via raw material imports. Further management exercise close monitoring of currency fluctuations.

(H) Financial Review:

The detailed financial & operational performance is provided on page no. 65.

(I) Cautionary Statement:

Statements in the "Management Discussion and Analysis" describing the Company's objectives, estimates, expectations or projections may be "forward looking statements" within the meaning of applicable laws and regulations. Actual results may differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations; include Government regulations, patent laws, tax regimes, economic developments within India and countries in which the Company conducts business, litigation and other allied factors.

For and on behalf of the Board of Directors,

K. Chandran
Vice Chairman
DIN: 00005868

N. K. Puri
Director
DIN: 00002226

Mumbai, 14th August, 2019