From M.D's Desk

Dear Shareholders,

The Indian Pharmaceutical Industry is now gearing up for a huge opportunity that will be thrown up by the introduction of product patent law by 2005. New Drug Discovery costs about $ 800 mn over a period of 10-12 years and the success factor is extremely low. The high cost, as well as the high risk, is forcing global leaders to look at outsourcing R&D from India with a view to bring down costs.

This trend fits perfectly with the Contract Research And Manufacturing Services (C-R-A-M-S) business model adopted by your company way back in 1994. Today we are proud to be associated with 22 global life science and fine chemical companies by developing and supplying cost effective pharmaceutical and agrochemical intermediates for New Chemical Entities (NCE's), meeting world standards in quality, speed and respect for the environment.

Suven was probably the first company from India to focus on Contract Research leading to manufacture and supply of intermediates for NCE's as a thrust area. While the initial growth in this model is slow, as sales volumes are low during clinical trials, revenues pick up rapidly during registration and commercial launching.

The most important feature of this model is that Suven becomes an exclusive supplier of intermediates from India when the NCE goes into a commercial launch till the expiry of the patent. In fact, Suven becomes one of the three exclusive suppliers of that intermediate on a world wide basis. The perils and pitfalls inherent to a Drug Discovery Program, like the suspension of clinical trials of Dr. Reddy's DRF 2725, are part and parcel of our business model as well. The sales volumes could surge when any of the NCE's for which we have developed intermediates, is launched commercially. Similarly, volumes could shrink if any of the products that we are associated with, are suspended during Clinical Trials.

The sharp swing in our performance during the last three years has clearly brought out the volatility of our business model. Our revenues had grown sharply from Rs. 35.41 crores in 1999-00 to Rs.60.37 crores in 2000-01 primarily because two of our intermediates moved into the commercial phase. The sales and profits have shrunk consider- ably in 2001-02 because none of our products were involved in a commercial launch. I must also admit, that the decline in sales volumes was higher than expected due to lower sales volume from the products that were commercialized in 2000-01. However, the soundness of this business model is evident from the fact that the net profit of Rs. 8.21 crores for the year 2001-02 shows a growth of 97% over the net profit of Rs. 4.16 crores for 1999-00, despite a substantial decline from the net profit of Rs. 17.51 crores achieved in 2000-01

The success of new products can do wonders for your company, while there is a steady growth from the contract research pipeline. Today we have six intermediates in the clinical trials Phase III and another twenty in Phase II. The confidence of our customers will increase the research

pipeline with better R&D facilities from our side and the introduction of product patent laws in India.

This is just the beginning and we have a long way to go. We are investing a lot in building our R&D and manufacturing facilities. In 2001 we had commissioned the Suven Research Centre (SRC). A cGMP lab was commissioned in May 2002 at the SRC. We are now in the process of building a cGMP pilot plant and a kilo lab, which are expected to be fully operational within 12 months. The cGMP manufacturing facility in Suven Synthesis Limited is expected to be fully operational by the end of this financial year.

Our strategy over the next two years is to build world-class research and manufacturing facilities, and also develop and harness the best talent in research activity to prepare ourselves for achieving a leadership position in the 'C-R-A-M-S' business model and becoming a Drug Discovery Partner to global life science companies by 2005.

VENKAT JASTI
MANAGING DIRECTOR