

Management Discussions and Analysis

Company Profile:

Plethico Pharmaceuticals Limited is a leading global healthcare / pharmaceutical company with strong emphasis on the herbal and nutraceuticals segments. The company which was established in 1991 is focused on manufacturing, marketing and distribution of pharmaceutical and allied healthcare products in the nutraceuticals and herbal segments in both domestic and global markets. Plethico operates in the segments of sports nutrition, confectionary and OTC in India. It is also a leading player in the Commonwealth of Independent States (CIS), Africa, South East Asia, Latin America and in the GCC for its Travisil range of products. In 2008, Plethico acquired Natrol, a leading manufacturer and marketer of branded nutritional products in the United States.

The consolidated revenue of Plethico in year 2012 was USD 314 Mn., an annual increase of 1.6%. The nutraceutical segment's share of revenue was 49% while the herbal segment's contribution was 35%. The balance 16% was accounted by allopathic segment which included trading sales.

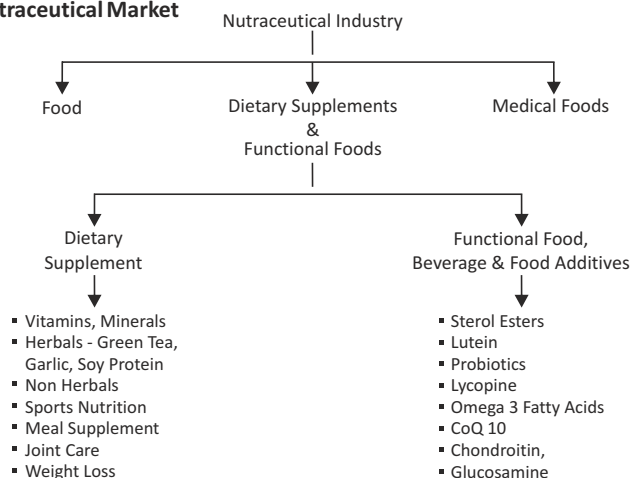
As per the market research firm Euro Monitor, Plethico is one amongst the top 20 players in the USD 5 Bn. sports nutrition product market. The group today has a portfolio of over 200 branded products sold in more than 60 countries.

Vision:

To be amongst the top 10 international herbal / nutraceutical player by creating a 'global Plethico healthcare brand', drawing upon the rich heritage of the Indian system of herbal medicine.

Industry Overview:

Nutraceutical Market



Nutraceuticals can be broadly categorised as products, which supplement the diet to provide nutrition or health benefits including the prevention and treatment of diseases in addition to the basic nutritional value found in foodstuffs.

Nutraceuticals are particularly of interest to the present generation because they have the potential to maintain health and normal body functions. Nutraceuticals are also widely used as adjuvant supplements for management of chronic and lifestyle related diseases. Primarily used in functional foods and dietary supplements, nutraceutical ingredients are natural, bioactive or chemical compounds that have health promoting properties.

Since the early 1990s, there has been a considerable shift in consumers' (especially consumers from developed countries) perspective towards nutraceuticals and functional foods. Currently, consumers are much more conscious and aware about health and many share the perception that the onset of many

chronic diseases can be prevented with the proper intake of nutritious diet. Dietary supplements serve the purpose of maintaining the functioning of body systems and also serve as an aid for performance enhancement and disease prevention.

In addition to the above-mentioned changes, consumers' preference has now undergone a paradigm shift from synthetic ingredients toward natural and organic foods, beverages and supplements. Present day's consumers are more informed, and this could be attributed to current day media, which keeps consumers abreast of the latest scientific developments in health and wellness. Consumers are now moving towards food products that are obtained from natural non GMO (genetically modified organisms) extracts.

Although the term nutraceuticals is in vogue, there is no universally accepted definition of the term. Broadly put, nutraceuticals can be defined as foods or food derived substances in extracted form, which claim to provide medicinal and health benefits. In fact, the term is so broad that functional foods/beverages, dietary supplements and any other type of food that provides health benefits fit into the nutraceutical category. However, the term becomes too broad and needs to be differentiated. Thus, for the purpose of this report, the term nutraceutical is restricted to functional foods and beverages and dietary supplements.

The global nutraceutical market has seen maximum growth in the last decade. While, nutraceuticals as an industry emerged in the early 1990s, 2002-2010 has been the key growth period for the industry. From 1999 to 2002, the nutraceutical industry grew at an Annual Average Growth Rate (AAGR) of 7.3 %, while from 2002 to 2010, the AAGR doubled to 14.7 %. The industry is expected to maintain comparable growth till 2015 driven by growth from India, China and Brazil.

State of the market

Globally, US and Japan are the most developed markets for nutraceuticals, due to the consumer acceptability achieved in these regions. India, China and Brazil are developing nations which show huge potential for the nutraceuticals market. Germany and Israel have emerged as the key innovation hubs of the nutraceutical industry.

North America

Currently, US enjoys the highest share in the world's nutraceutical market. The sector is fast approaching maturity in the dietary supplements segment, while functional food and beverages are quickly catching up. US Consumers are extremely health conscious and they demand specific ingredients in the nutraceutical products they consume, resulting in a need for customization of nutraceuticals for each target group. Currently, companies in the US are looking to diversify their products and are leaning more and more towards natural nutraceutical ingredients in their product offering, mainly due to the increasing consumer demand for all-natural, non-modified functional ingredients.

India

In 2011, the Indian Nutraceutical industry was estimated at USD 2Bn., roughly 1.5 % of the global nutraceutical industry. Although currently a nascent market, efforts are being undertaken trying to incorporate traditional herbal ingredients (usually ayurvedic) into the nutraceutical portfolio. The existence of alternative medicine in India and the Indian consumer belief in them could provide a platform for the nutraceutical industry to capitalize on. The Indian

consumer awareness about conventional nutraceutical ingredients such as omega-3 fatty acids or lutein is severely limited, so nutraceutical manufacturers need to take up the cause and spread awareness about their products to the Indian masses. In India, functional foods are expected to see increased consumption over the next five years resulting in functional foods and beverages garnering greater product share in the market as compared to dietary supplements. The total Indian nutraceuticals market in 2015 is expected to be roughly USD 5 Bn.

Herbal and Ayurvedic Market

Herbal medicine involves the use of any or all of the different parts of plants (roots, leaves, stems and seeds) to treat illnesses and maintain health. The herbal medicines are extracted from leaves, petals and roots of plants and are often a complex mixture of different phytochemicals.

Right from the ancient times, India has a rich heritage of usage of Ayurveda & herbal medicines. Herbal industry at times get clubbed with the nutraceutical industry in the sense that primary and secondary produce viz. medicinal plants and extracts respectively are shipped to European and other places either for final formulation preparation or for extraction or intermediate preparation. Herbal medicine is being practiced in many countries all over the world for many centuries but has only recently started getting legal acceptance by the global regulatory authorities as complimentary & alternative system of medicine; however, they demand the validation of the claims of clinical efficacy of these products.

Trends

Major trends influencing the market include growing competition leading to industry consolidation, maturing markets in the developed regions, food and pharmaceutical players flooding the market and volatile conditions in the herbal supplements market. The factors that drive this market include an aging population, affluence of working population with growing interest in healthy diet and reducing affordability of sick care that is driving consumers towards wellness. The positive trends for the industry are facilitated by increasing physician awareness, media penetration and increased accessibility due to newer distribution channels.

The world, which due to technological advances, developed medicines which are quick acting, potent and capable to treat and provide symptomatic relief, has now started to feel the need for longer lasting and more fundamental cures for their health problems. Attention is now being shifted from relief to prevention cure giving rise to the intent to go back to nature & use natural materials & methods of ancient times.

Nutraceutical market is becoming increasingly competitive with the entry of major food and pharmaceutical companies, including Kellogg, Heinz, Quaker, Unilever, Royal Numico, Dupont, Novartis, Abbott, Amway, Cargill, Hormet, GlaxoSmithKline, Warner-Lambert, Wyeth and others. The Indian nutraceutical market is dominated primarily by pharmaceuticals and FMCG companies with very few pure-play companies. Pharmaceutical and FMCG players' active in the nutraceuticals space have diversified by introducing product extensions and developing variants under existing brand names.

Pharmaceutical companies are employing state-of-the-art technologies to improve therapeutic value of natural substances

derived from herbal and other sources. One of the key ingredients to rapidly expand and succeed in this arena will require the players to develop new competencies by way of different and better dosage forms for the Nutritional Delivery (NDDS).

Quality standards and regulations are becoming more and more stringent similar to that of pharmaceutical markets. Some of the regulations of recent times include the GMP (Good Manufacturing Practices) Act of UK introduced in 2007 and the Dietary Supplement Health and Education Act (DSHEA) of US in 1994. The latter lays down regulatory guidelines for the manufacture, marketing and distribution of dietary supplements. DSHEA also regulates the claims made by dietary supplement manufacturers and retailers.

What will drive the Nutraceutical Market in the future?

- Investment in awareness programs to educate the public about the ingredient.
- Branding, to differentiate the product and position it as a high quality, effective and value for money offering.
- Investment in Research and development to develop innovative products, packaging and delivery mechanisms.
- Investment in verifying health claims of the products.
- Investment in market research to tune in to consumer behavior.
- Customization of the product offering to suit the target audience to increase penetration.
- Synergistic Mergers and Acquisition to enter new geographical and product markets.
- Increased advertising and promotional activities.

Plethico - Core Business

Overview of brands/products

Plethico group has two major lines of business- Nutraceuticals and Herbal finished formulations. The Company also engages in Allopathic finished formulation as well as contract manufacturing/toll manufacturing.

Plethico has its own brands in the herbal wellness space like Travisil, Mountain Herbz, Actifresh and Travopassit selling mostly in the emerging markets like CIS, SEA and Africa. Similarly, it has a large portfolio of Nutraceutical wellness brands like MRI, Prolab, Coach's formula in the sports nutrition.

Natrol and its subsidiaries (collectively referred to as "Natrol") manufacture and market branded, high-quality dietary supplements, herbal teas, and sports nutrition products under seven primary brands: Natrol, MRI, Laci Le Beau, NuHair, ShenMin, Promensil, and Prolab. The majority of Natrol's dietary supplements are sold under the Natrol brand. The Natrol brand focuses on supplements that are in high demand as well as specialty niche and proprietary formulations. These supplements include vitamins, minerals, herbal products and specialty combination formulas that contribute to an individual's physical and mental well-being.

Natrol's second largest brand umbrella is MRI. MRI develops markets and distributes sports nutrition products including NO2, Black Powder, CE2, Pro-Nos, HSP Active, WAR and Anabolic Switch. The Prolab sports nutrition line of products is targeted at body builders and health conscious individuals seeking a high degree of physical fitness. Prolab's products include supplements designed to help these individuals gain and lose weight as well as improve muscle mass and muscle definition.

Sales:

Plethico group sells largely into International markets like US, Europe including CIS, Africa, Asia Pacific, Middle East and LatAm. It also has presence in India.

US

Plethico Group has its presence in the US through Natrol Inc; which sells its products in the US under the brand name Natrol through multiple channels of distribution that reach customers through mass-market drug, warehouse/club stores, grocery store chains, health food stores, fitness centers, internet retailers and independent catalog companies and reaches out to more than 40 countries through international distributors including through Plethico distribution capabilities. Natrol products have more than 54,000 points of distribution.

Plethico's super speciality sports SBU MRI, sells its products mainly through health nutrition outlets such as GNC (General Nutrition Corporation), Vitamin Shoppe, NBTY, Lifetime Fitness, 24 Hour Fitness, internet outlets that focus on sports nutrition and distributors.

Prolab products are sold primarily through sports nutrition retail stores, fitness centers, websites, health-food stores and internationally, through designated distributors. The NuHair brand of hair product is sold exclusively through the mass market channel of distribution in the US while the ShenMin brand of hair products is sold exclusively within the health food channel of trade.

Asia Pacific, Latin America and Middle East

This region comprises of: Latin American countries like Chile, Mexico, Trinidad & Tobago, Barbados, Colombia, Bahamas, Bermuda, Brazil and several other countries. Asia Pacific Countries like Taiwan, Korea, Philippines, Myanmar, Cambodia, Vietnam, Australia, Singapore, Indonesia and other Countries and Middle East countries like Kuwait, UAE, Iran, Lebanon, Bahrain, Turkey, Israel and other Countries. The principal products are herbal and nutraceuticals, specifically the Natrol, Prolab, Travisil and Coach's Formula ranges.

CIS

The Commonwealth of Independent States (the "CIS") SBU focuses on marketing and distribution of herbal/Nutraceuticals/allopathic formulations in Russia, Kazakhstan, Ukraine, Moldova, Kyrgyzstan, Azerbaijan, Belarussia and several other countries including the Eastern European countries. Its principal products are Travisil, Prolab, Natrol, Mountain Herbz and Effertabs range of products alongwith various other herbal and allopathic formulations, all of which require significant sales and marketing efforts. The CIS market is characterised by typical long credit cycles, with most purchases made on the basis of credit rather than cash payments. During the period 2004-06, the company acquired majority stakes in six marketing and distribution companies operating under the name of Rezlov as separate legal entities in Russia, Kazakhstan, Ukraine, Moldova, Kyrgyzstan and Azerbaijan (the "Rezlov group of companies"). The Company's investment in the Rezlov group of companies enabled it to extend its geographic presence as well as provided it with a strong distribution platform. Other benefits included better recovery, thorough product registration & filings in the CIS. The Company consolidated its position in the distribution chain in the CIS market through its acquisition of a stake in Tricon, a leading retail pharmacy chain.

Due to the extremely cold winters affecting the CIS during the period October to March, there is a strong seasonal factor in the CIS SBU shipments and sales. This period is the peak period for colds, coughs and related ailments leading to a high demand for the company's products in related category. However, the extreme weather conditions in the CIS necessitate shipments to be made in advance i.e. during February to August.

Africa

The countries where Plethico is present is: Ivory Coast, Gabon, Kenya, Uganda, Congo, Nigeria, Ghana, Togo, Benin, South Africa and many other countries. The major products include Travisil, Therasil, Natrol, Prolab and Coach's Formula. The Company is one of the leading Indian Companies in terms of reach in French West Africa.

India

The Company's current activities in India are broadly divided into:

- Consumer Product Division
- Sales to Tricon retail pharmacy chain
- Contract manufacturing / Toll Manufacturing
- a) the Company has been selling one of its globally recognised brand "Travisil" in India in both syrup and lozenge form as well as other products such as "Doctor Relief" foot powder and a mouth ulcer gel. It also engages into selling sports nutrition products under Coach's formula, MRI and Prolab.
- b) Herbal formulations including extracts in own brand as well as private labels are sold.
- c) Plethico Pharma was formerly engaged in some contract manufacturing activity, but no longer pursues any material activity in this segment.

Brand Building

For over a decade, Plethico group has followed a focused strategy of building brands. The company uses various advertising vehicles such as media, modes of travel, in-store promotion, doctor detailing, conferences, medical symposiums and exhibitions in the respective countries of operation.

In the US, its core strategy has been to build brands within the channels of distribution that are appropriate for each brand and to develop increased brand awareness and strong brand recognition among consumers seeking products with a reputation for quality. A suitable illustration is the "MRI" range, which is positioned as a premium brand within the sports nutrition segment worldwide and its brand identity is underpinned by a reputation for innovative science.

Trademark and Patents

The company regards its trademarks, patents and other proprietary rights as valuable assets and believes that protecting the key trademarks is crucial to its business strategy of building strong brand name recognition. Plethico's policy is to pursue registrations for all of the trademarks associated with all key products.

Natrol has US patent for its Kavatro product and two US patents relating to two amino acid products, SAF and SAF for Kids. MRI holds a number of patents most of which are related to products that contain Alpha Lipoic Acid.

Manufacturing Units

The manufacturing facilities of Plethico in India are located in the state of Madhya Pradesh & Gujarat.

The Kalaria plant located in Indore is WHO-GMP certified and is also approved by other 10 regulatory bodies from Africa, CIS, SEA, FWA etc. The plant has received "Approval" note from UKMHRA and TGA Australian authorities for Oral Solid dosage forms area - Tablets & Capsules. The area is also equipped with manufacturing of Effervescent Tablets. The Kalaria plant has 3 Manufacturing blocks:

1. Herbal Block- Tablets, Capsules, Liquid orals with special premises for Lozenges/ Medicated Lozenges products. This is being geared up to comply with the 21 CFR 111, Dietary supplement Good Manufacturing Practices (GMP) and THMP registration guidelines (Traditional Herbal Medicine Product) / EU-GMP in coming years.
2. Allopathic Block- Tablets, Capsules, Liquid orals, Injectables. Allopathic block is expected to comply with the UKMHRA (Injectable Unit), USFDA, TGA, ANVISA, PIC(s) & SA-MCC.
3. Nutraceuticals-Powder, Granules, Tablets and Capsules

Manglia plant at Indore is WHO-GMP certified having manufacturing facilities for chewables, coated tablets, hard gelatin capsules, dry syrup and dry powder suspension, with isolated block for manufacturing Antibiotics products (Beta-lactam, Cephalosporins). It also has a separate block for Rifampicin based Anti-TB formulations. The company plans to make suitable upgradation of this plant and get the same approved through WHO-Geneva Pre-Qualification program for Antimalarials and Anti-Tubercular products. There are plans to get the approval for the isolated block at Manglia from SA-MCC and also some other CIS/SEA regulatory Authorities.

In 2001, the Company commissioned its Kandla plant in the Special Economic Zone in Kutch, Gujarat. The plant was established to cater to the Company's export markets, particularly the CIS, Africa and Latin America. This unit is currently equipped to manufacture food supplements and herbal products in tablet, capsule and lozenge dosage forms. The design and construction of the Kandla unit conforms to GMP guidelines for herbal products and supplements.

The Kandla plant has been awarded the "Top Exporter Award" consecutively for the fifth year for the chemicals, drugs, pharmaceuticals and allied sectors and for the combined category of manufactured products and services, respectively, by the Office of the Development Commissioner, Kandla Special Economic Zone, Ministry of Commerce and Industry.

UAE Plant: In 2008, the Company through its wholly-owned subsidiary, Plethico International Limited, commenced work to establish a manufacturing facility for high end, herbal lozenges and other solid dosage preparations (including NDDS) in UAE, to cater to the demand of high end markets such as US, Europe (Including OTC segment, the company faces competition from products from CIS and Eastern Europe), French West African and GCC markets, coordinate the sale/distribution of the Company's and Natrol's high-end products and to take advantage of the proximity to the market and tax-free zone/ free-trade zone status in the Middle East.

Natrol - Chatsworth Plant

Natrol manufactures most of its tablets and capsules at its 94,000 square foot manufacturing facility and headquarters located in

Chatsworth, California.

In June 2009, this facility was certified new cGMP compliant by the NPA (Natural Products Association). At this facility, tablets and capsules are manufactured, which account for the vast majority of Natrol's supplement sales. Natrol's liquid products, powders, softgels and herbal teas are outsourced to third party manufacturers.

Raw Materials

The basic raw materials required to manufacture the Company's products are a combination of herbal ingredients and bulk drugs comprising both active and non-active ingredients. Active raw materials are the herbal/chemical compounds that are needed to produce the desired medicated or therapeutic effect in any herbal/pharmaceutical product. Non-active materials are all other materials used in the manufacture of such products. The active raw materials are required in bulk quantities whereas the non-active ingredients are required in small quantities. The majority of its raw materials are available in India. Most of the purchases are made on an unsecured credit basis of between 90 and 120 days without any letters of credit. There is currently no supply shortage in most of the raw material items.

Natrol obtains its raw materials from third-party suppliers. Many of the raw materials used in Natrol's products are harvested internationally. Natrol does not have substantial multi-year contracts with suppliers committing such suppliers to provide the materials required for the production of our products.

Competition Export markets

In the herbal products segment, formulations of German and US origin dominate the market while products from the rest of the world, including those of the Company and other Indian companies, compete for the remainder of this market. The competition in this market is compounded by low cost producers from South East Asia and by-products based on the Chinese alternative system of medicine. In the CIS, the Company's major competitor for herbal cough and cold related products is a mid-sized Indian player. For food supplements, the Company's principal competitor in the CIS is also a noted mid-sized Indian player, which has a wide range of food supplement products competing with many of the Company's products. The competition in the food supplements segment is again from smaller Indian players, while it is the US companies that are active in the sports supplements segment. In the allopathic products segment, the Company faces competition for its effervescent products from UPSA Laboratories (France), which is marketing a product similar to one of the Company's therapeutic products. For its other allopathic products the Company faces intense competition from a large number of generic pharmaceutical companies.

Domestic markets

Following its 2003 exit from the ethical segment in India, the Company only operates domestically in the OTC market for consumer products. For sports nutrition products, the Company faces competition from international companies, particularly those from the US, and, due to the semi-regulated nature of the market, even from relatively small scale and informal producers. For the OTC segment, the Company faces competition from products like 'Vicks' and 'Strepsils.'

Natrol and US markets

The dietary supplement industry is highly competitive. Competition is based primarily on price, quality and assortment of products, customer service, marketing support and the availability of new products. However, price is a key variable. Natrol competes by positioning itself as a supplier of quality products, often with unique compositions.

Natrol's principal competition in the health food store distribution channel comes from a limited number of large nationally known manufacturers and many smaller manufacturers of dietary supplement sales viz. health and natural food store chains, drugstore chains, mass merchandisers and supermarket chains.

In the mass-market distribution channel, Natrol's principal competition comes from broad line manufacturers as well as major private label manufacturers. In addition, several large pharmaceutical companies compete with the nutritional supplement companies. Competition from such companies is strong because these companies have greater financial and other resources available to them and possess manufacturing, distribution and marketing capabilities far greater than Natrol.

Business strategy:

Focus on key brands and leverage on cross-selling opportunities

- Develop a network of strong brands and agile businesses in Nutraceutical, Herbal and Allopathic segments in identified geographies
- Focus on brands with high relative market share and strong consumer franchise
- Continue to focus on marketing efforts in India for herbal and allopathic products and significantly increase brand awareness campaigns for nutraceutical products
- Cross sell products and optimise product portfolio

Successfully leverage Acquisitions and alliances

- Acquire products, brands and businesses that are complementary to our existing product line.
- Expand into new markets via the inorganic route which could be a manifold approach

Strong focus on distribution network

- Expand distribution capabilities in the CIS, Europe and Asia Pacific
- Leverage strong distribution network to introduce herbal products in the US
- Plan for our own distribution set up and / or field force in all principal places of business like FWA, SEA, Lat Am and Europe by 2020.

Manufacturing

- Integrate multi-location production facilities to capture cost efficiencies
- Exploit locational advantages and tax holiday schemes
- Decrease outsourced production
- Emphasis on quality and adherence to regulations

Financial Management

- The Company is looking to reduce its debt burden from its current levels
- Receivables management and reduction of receivables period from CIS and Third Front markets

Capability to deliver results

Diversified product portfolio & Recognised brands

The company has a portfolio of over 200 brands including recognized brands like Prolab, Natrol, Travisil & host of wellness products. Its presence is across a wide range of mature and high-growth nascent product categories such as sports nutrition, food supplements, mouth fresheners, cough and cold medications and lifestyle diseases. The Company has an established presence in markets with high growth potential for lifestyle /nutraceutical products such as India, Middle East and the emerging economies of LatAm & South East Asia.

Large distribution network

A critical success factor for the Company has been the emphasis on building a strong global distribution network. Plethico has a wide marketing and distribution network in the US, Russia and other CIS countries, French West Africa and Cambodia. The acquisition of Natrol enables the Company to access the US market with its existing products. Natrol has strong relationships with nearly every retail establishment in the US in all channels of trade. These channels extend from Wal-Mart, the largest American retail store, drug chains including Walgreens, specialty chains that include GNC and grocery outlets to smaller stores including internet retail.

Engaged management team

The company's board is well represented in experience and skill sets in the context of the industry and managerial skills. The entrepreneurial nature of the management is well illustrated with the company being the pioneers in the organized sports nutraceuticals industry in India.

State of art manufacturing and stringent quality standards

The company has a well-defined modern manufacturing set up which can cater to multiple market regulation requirements. This is demonstrated in the following:

- 3 manufacturing facilities in India which are cGMP compliant. Kalaria facility is UKMHRA & TGA accredited.
- 1 manufacturing facility in the US certified by industry organization as US cGMP complaint

The company has also invested USD45million to set up a manufacturing facility in the UAE which enjoys 50 year tax holiday.

Strong brand recognition

The Company has established several brands of repute like Travisil, Coach's Formula, Prolab, Natrol, Actifresh and many others in different parts of the world. The success has come out of focused brand marketing and a conscious strategy of "feet on the street."

Natrol's core brands are well established in the US market. The Natrol brand is almost thirty years old and the brand holds leading national positions in many key niche markets such as Melatonin, 5-HTP, Carb Intercept, Acai Berry. MRI is widely recognized as a science-based leader in sports nutrition technology. The NuHair and ShenMin brands are one of the leading natural alternatives in hair enhancement products.

Prolab is recognized both within the US and internationally for its weight gain and weight loss sports products. Laci Le Beau is one of the leading diet tea brands within the health channel of trade.

Successful acquisition synergy

The company's success in deriving synergy from its acquisitions and partnerships is evident in the continuing growth of Natrol and the distribution leverage from the investments in CIS based firms. Natrol has also profited from acquisition of brands and manufacturing rights. The above reflects well on the company's ability to venture and manage inorganic growth initiatives, which is slated to be a key success factor governing the increasing consolidation trends in the industry.

Threats, Risks and Concerns

In the pharma / nutraceutical industry, the risk and regulatory concerns span the full product life cycle - from drug development, testing, manufacturing, and marketing. The company carries out a detailed risk management exercise for identification of risks and putting in place corrective measures and controls to mitigate these risks.

Lack of awareness among consumers

According to Research on India's Healthcare Industry series, 45% of Indian consumers have no idea or a vague idea about nutraceuticals and their benefits whereas a major portion of the balance 55% have a mixed level of understanding about the category. In some instances, the high prices of nutraceuticals and perception regarding credibility of nutraceuticals (Scientific studies and clinical trials supporting safety and efficacy claims) and Herbal formulations not being precise parameter driven unlike Synthetic drugs could have led to the alienation. Moreover, the Indian market is majorly prescription driven and there is no secular trend in these being regularly recommended by the physician.

Competition from global and Indian manufacturers and indirect competition from substitutes

The nutraceutical industry is highly competitive. On the one hand, there could be competition from countries that offer low cost manufacturing such as China, Korea and Taiwan. Low barriers to entry and nascent regulations in the developing markets have lead to a highly fragmented nutraceutical industry with lot of small and in some instances, spurious manufacturers. The latter actually affect the consumer confidence by supplying sub standard products.

On the other hand, the company's products compete with a wide variety of commercial weight-loss programs, pharmaceutical products, self-help diets, supplements and meal replacements.

New diets or pharmaceutical solutions could put the company at a competitive disadvantage.

The food industry is highly subjective and influenced by many factors. Another new diet could sweep the nation or consumer preferences could change, which may impact existing business growth.

The company's business is subject to regulatory and legislative restrictions but there is an absence of clear regulatory guidelines.

Indian nutraceutical industry is regulated by multiple laws. But there is a lack of clarity on setting up of manufacturing units or in product categorization. In such a situation, availing subsidies, quality and price control become major issues.

Drug production and marketing are highly regulated by a variety of federal, state and local agencies in most countries. Additionally,

selling practices are regulated by competition authorities in the United States and abroad. Some of the Governments may also desire to play a more active role in regulating market access, particularly for high-cost medicines. The Government of India through its Drugs (Prices Control) Order, 1995 (DPCO) imposes price controls for specified pharmaceutical products under certain circumstances.

Third parties may infringe on the company's brand and other intellectual property rights, which may have an adverse impact on our business

The company relies on a combination of trademark, copyright, trade secret, patent and other intellectual property laws and confidentiality procedures to establish and protect proprietary rights, including the various brands. The precautions may not prevent misappropriation of intellectual property, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights fully.

The company's results of operations may decline as a result of a downturn in general economic conditions or consumer confidence

A downturn in general economic conditions or consumer confidence and spending in any of our major markets could result in people curtailing their discretionary spending, which, in turn, could lead to a decrease in product sales. Any such reduction would adversely affect our results of operations.

The sale of ingested products involves product liability and other risks

Like other distributors of products that are ingested, the company does face an inherent risk of exposure to product liability claims if the use of our products results in illness or injury. The food products sold in the U.S. are subject to laws and regulations, including those administered by the USDA and FDA that establish manufacturing practices and quality standards for food products.

The company may not successfully make acquisitions or enter into joint ventures and may not be successful in realizing the benefits of such businesses.

The company may not realize the anticipated benefits of acquisitions and joint ventures or may experience difficulties in integrating any acquired companies and products into the existing business; attrition of key personnel from acquired businesses; significant charges or expenses; higher costs of integration; or unforeseen operating difficulties.

Internal Control Systems

The Company, in consultation with its Statutory Auditors, periodically reviews and ensures the adequacy of Internal Control Procedures for the orderly conduct of business and also includes a review to ensure overall adherence to management policies and applicable laws & regulations. The Company's internal audit team carries out extensive audits throughout the year, across all functional areas, and submits its reports to the Audit Committee of the Board of Directors. Cost control measures, especially on major cost determinants, are continuously being implemented. The Company also has a proper and adequate Internal Control System to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition, and those

transactions are authorized, recorded and reported correctly. The Company will continue to take substantial measures to ensure compliance through routine internal and external audits.

Human Resources Development:

During the year under review, the Company continued with its emphasis on Human Resource Development as one of the critical areas of its operations. Executives and officers of the Company having high potential in the field of Finance, Accounts, Marketing, International Business, Production, Quality Control, Quality Assurance and New Drug Development were regularly met at all the plant locations as well as the head office with a view to update their knowledge and skills and keep them abreast of the present scenario for meeting the challenges ahead.

We have the highest degree of intellectual and technical milieu which is a perennial one at the company. The Company organizes periodical external and internal trainings to encourage and develop vital human resources. All the efforts are aimed to develop and nurture the entrepreneurial attitude and skill among the employees.

Company viewpoint

The company is cognizant that future success depends on its ability to continue to develop and market new products and to enhance existing products on a timely basis to respond to new and evolving customer demands, achieve market acceptance and keep pace with new nutritional developments. Hence, the emphasis has always been on product development and brand building. The company's research and development efforts moving forward will be more targeted by monitoring developments within the dietary supplement industry. The company has been able to align its product mix and place more emphasis on exports to off-set the lower consumer awareness as well as the overall impact of moderate prices in domestic market on the top and bottom line of the company. Additionally, the company is focusing on de-controlled products to maintain profitability. While concentration on cough and cold segment continues, the company intends to diversify its product and geographical spread to mitigate any risk arising from such concentration. To date, the company has not been a party to any product liability litigation. The company is not aware of any instance in which any of their products are or have been defective in any way that could give rise to material losses or expenditures related to product liability claims. The company does maintain adequate product liability insurance. The company's legal staff reviews all label claims and manufacturing process to ensure that

the company is in compliance with Federal Drug Administration and Federal Trade Commission rules and regulations.

The company adheres to environmental laws and regulations that seek compliance with a number of permits, authorizations and approvals and to maintain and update training programs and safety data regarding materials used in various processes. The company's manufacturing operations presently do not result in the generation of material amounts of hazardous or toxic substances.

Financial Performance

Plethico's consolidated revenues for 2012 stood at ₹ 16680.70 Million an increase of 1.6% over 2011 figure of ₹ 16413.80 Million EBITDA margins for the year 2012 at 12% against 18% for Year 2011, a decrease of 600 bps. Consolidated net profit for the year 2012 stood at ₹ 1014.88 Million against ₹ 1029.11 Million in Year 2011. This translated to a basic EPS for the year 2012 ₹ 29.79 decrease by 1% over the Previous Year 2011 of ₹ 30.21..

The details of the financial performance of the Company appear in the Balance Sheet, Statement of Profit and Loss and other financial statements appearing separately. Please refer the Directors' Report for highlights.

In spite of the challenging market conditions, the Company was able to maintain its client base and market share of various products across different geographies. The Company continued its efforts towards geographic diversification both by exploring new markets and cross selling of products across geographies which to a great extent yielded the desired results. We believe that these efforts would continue and the focus of the Company would be to constantly devise ways and means of rewarding the shareholders.

Disclaimer

The statement made in this report and those appearing elsewhere may be 'business outlook' that set forth anticipated results based on management plans and assumptions. These statements are likely to address the company's growth strategy, financial results, product development, product approval, product potential and development programs. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks, uncertainties materialized or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Some of the factors that could cause actual results to differ materially are stated in the section "Threats, Risks and Concerns."