

Exporting to over **50** countries

Serving over **300** customers

Five-year revenue
CAGR of **26.6%**

Five-year net income
CAGR of **7.8%**

Throughout our 25 years, Granules has formed strong strategies, developed cutting-edge processes and built industry-leading capabilities. Our focus is the reason why Granules is thriving in today's market and is well positioned to capture tomorrow's opportunities.

Highlights, 2008-09

Organisation

- Received approval from the Therapeutic Goods Administration (TGA) for the Finished Dosage unit at the Gagillapur plant
- Filed three ANDAs
- Commenced operations at our Finished Dosage unit
- Increased monthly production at Bonthapally by 55.5%

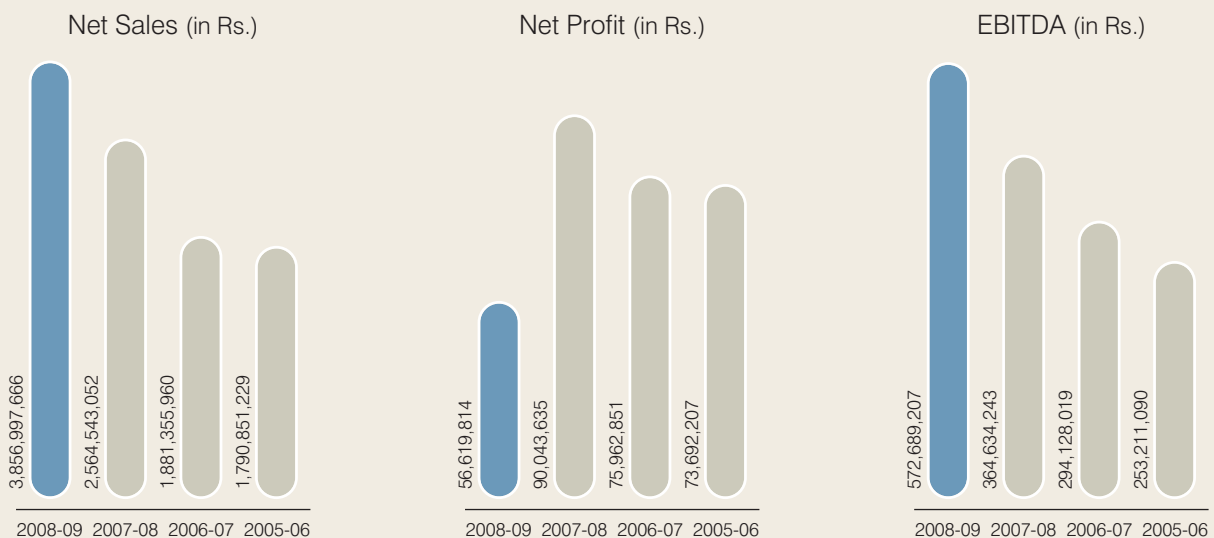
Financials (Consolidated)

- Grew revenue to Rs. 289.3 cr in nine months in FY08-09 from Rs. 256.5 cr in FY07-08, an increase of 12.8% (50.4% on an annualised basis)
- EBITDA grew to Rs. 42.9 cr in FY08-09 from Rs. 36.5 cr in FY07-08, an increase of 17.8% (57.1% on an annualised basis)
- Dividend of Rs. 1.25 per share (Rs. 10 face value)

Outlook, 2009-10

- Improve capacity utilisation at all our facilities
- File one ANDA
- Strengthen our R&D infrastructure
- Explore new markets, particularly in Eastern Europe and Asia
- Strengthen our team with skilled professionals

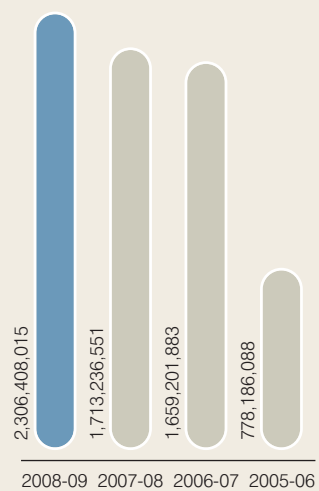
Financial Highlights (Consolidated basis)



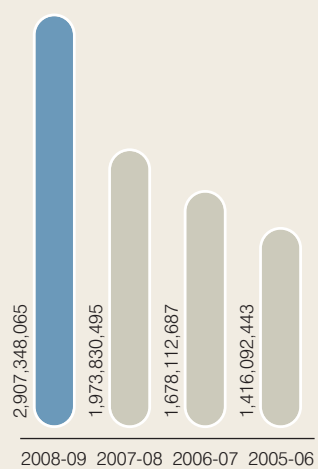
Figures for FY08-09 are annualised



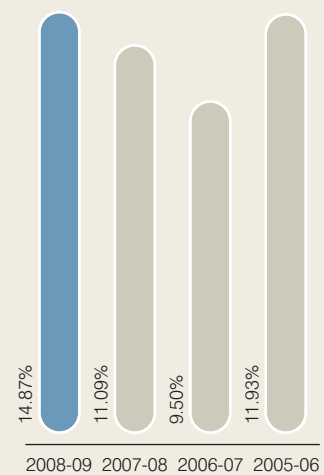
Net Worth (in Rs.)



Total Assets (in Rs.)



ROCE (%)





Our Vision

To be the leader in the large volume pharmaceutical product segment

Manufacturing Facilities

Location	Manufacture	Approvals
Bonthapally, Andhra Pradesh	API (Paracetamol/ Acetaminophen)	U.S. FDA, EDQM, Infarmed (EU)
Gagillapur, Andhra Pradesh	PFI	U.S. FDA, German HA, Australian TGA, Infarmed (EU)
	Formulations	Infarmed (EU), Australian TGA
	Research & Development	Canada TPD
Jeedimetla, Andhra Pradesh	API (multi-product) PFI (multiple small volume facility)	U.S. FDA, EDQM, Authority for Social Affairs, Family, Health and Consumer Protection, Hamburg (Germany)
Jingmen, China (under Hubei Biocause Heilen Pharmaceutical Co. Ltd)	API (Ibuprofen)	U.S. FDA, EDQM, TPD – Canada, MCC, Russian Health Authorities

Our Business

An integrated B2B pharmaceutical player

With manufacturing and marketing capabilities that span the entire pharmaceutical value chain

From active pharmaceutical ingredients (APIs) to pharmaceutical formulation intermediates (PFIs) and finished dosages (FDs)

Specialisation in products including Paracetamol, Ibuprofen, Guaifenesin, Metformin and their derivatives relating to PFIs and formulations

Our Presence

- Headquartered in Hyderabad, Andhra Pradesh, India
- Satellite offices in the U.S., EU and Latin America
- Manufacturing facilities on the outskirts of Hyderabad at Bonthapally, Gagillapur and Jeedimetla
- Ibuprofen manufacturing facility in Jigmen, China through a joint venture with Hubei Biocause Heilen Pharmaceutical Co. Ltd

Our Markets

- Enjoys a reach spanning 50 countries
- Possesses an established presence in the U.S., EU Latin America and China



Managing Director's Message



Dear Shareholders

In 2009, Granules India celebrated its 25th anniversary. During our infancy, Granules started at the first step of the value chain by supplying Paracetamol APIs. As we grew with the market, we chose to move up the value chain by pioneering the concept of PFIs. After a successful debut with a Paracetamol PFI, we chose to apply the same concept to other APIs such as Ibuprofen and Metformin. We recently added the final piece of our value proposition by introducing and commercialising our Finished Dosage plant, effectively completing the pharmaceutical manufacturing value chain.

Our evolution from a commodity supplier to a value-adding partner is entirely due to our customers. We believe in leveraging our strengths so that they complement those of

our clients therefore curtailing the challenges they face. We originated the PFI concept to reduce our customers' capital expenditure and supply chain complexities. After our customers expressed the need for higher volumes, we built one of the world's largest PFI plants with a 6 metric ton batch size. As a testimony of our client dedication, we developed relationships with several leading global pharmaceutical companies entrenching our presence in major regions and markets. This partnership-driven approach has allowed us to move from day-to-day cost pressures to long-term relationships forged around mutual success, high quality products and services.

Reflecting on fiscal year 2008-09

Fiscal 2008-09 was a profitable year for Granules and gave a strong indication of the Company's direction for 2009-10. The annualised fiscal year resulted in a topline growth of 50.4% over the prior financial year. Revenue growth was primarily driven by increased utilisation at our Bonthapally plant. We automated more processes in the facility, which garnered higher production efficiency and lowered rejected batches. Despite strong growth, our annualised profit after taxes declined to Rs. 4.2 cr compared with Rs. 9.0 cr in the prior fiscal year. The decline was solely due to an Rs. 8.9 cr loss on restatement of foreign currency liabilities against which there was no cash outflow during the year. Excluding this one-time charge, our PBT would have been Rs. 13.1 cr.

In late 2008, we commenced operations in our Finished Dosage plant which reflects a major milestone in our Company's history. This facility will enable Granules to provide products throughout the value chain in both a cost-effective and efficient manner. Apart from increasing revenue, we will increase profit margins and ROI since finished dosages have substantially higher profit margins than APIs and PFIs. The facility has been through 15 customer audits and also received approvals from regulation agencies such as Infarmed (EU) and TGA.

Our formulations development department has been an important element in our endeavour to create more value for

our customers through new product development and customisation. We put in place a 60-member team dedicated to developing new products. In the past year, the department filed three ANDAs. After we receive approval for these ANDAs, Granules will be able to distinguish itself further from its competitors by offering more options with our extensive product portfolio. We also launched an Organisational Excellence (OE) initiative across the organisation. This initiative will increase efficiency in our process systems through Functional Effectiveness Teams (FETs) and Area Effectiveness Teams (AETs). The OE program will also undertake focused cross-functional and vertical projects, which will provide us with key insights to improve ourselves.

The Road Ahead

We are extremely excited and believe we have a strategy in place to increase shareholder value. The cornerstone of our near-term growth strategy is the finished dosage plant. The facility has not generated material returns since it was completed in 2007, which we expect to change in 2009. In the past year, we had over a dozen customers and agencies audit the facility. We expect to receive approvals from these customers, which will increase production substantially and drive our growth. Also, we anticipate U.S. FDA approval in 2009, which will expand our reach in the U.S. market. Early indications have been encouraging; in mid-2009, Granules signed a multi-year contract with a large multinational pharmaceutical company.

Our organisation has seen tremendous growth in the last few years and we are undertaking several initiatives to sustain this growth. These initiatives will not only help us become more efficient and effective, but will help us develop the resources and talent we need to match the continued growth we expect to see in 2009. We are in the process of rolling out an enterprise resource planning (ERP) system throughout our organisation. This system will automate several processes and will allow departments to communicate more effectively with one another. The increased coordination will help cut lag

time between steps, allowing Granules to be more responsive to our customers. We are also developing the Company's most valuable asset, our employees. We are conducting more training so employees can constantly develop their skills. To strengthen our talent pool and reduce turnover, we are starting an HR initiative that helps employees chart their career path and formulate goals.

As our Company grows, we are actively reducing our environmental impact. Our green initiatives will not only help the environment, but will lower operating costs and will support our endeavour to become a preferred partner. I have requested our OE programme to seek environmentally friendly manufacturing alternatives wherever possible. Environmental projects have ranged from small items such as creating a compost pile using organic kitchen waste to large scale projects such as installing a more efficient boiler at our Bonthapally plant. We have also targeted a carbon neutral goal at Gagillapur and expect to embark on more similar initiatives.

While it is comforting to reflect on our history, we are more excited about what the future holds. Our strategy has helped us evolve from a small API commodity supplier in Hyderabad to a multi-faceted organisation with operations in four continents, catering to 300 clients in 50 countries. Our drive for excellence through a fully integrated value chain, expanding reach in established and emerging markets, zeal to cultivate in-house talent and pursuit to remain environment friendly all translate into our ability to seize the moment.

Yours sincerely,



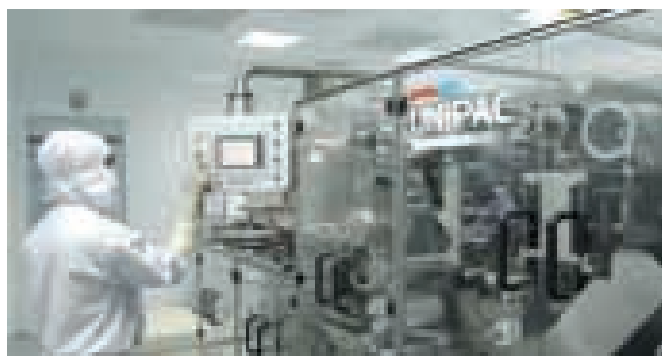
C. Krishna Prasad
Managing Director



Vertical Integration



Business Flexibility



AT GRANULES, OUR EXTENSIVE INTEGRATION EMPOWERS US TO MEET THE UNPROCESSED, SEMI-PROCESSED AND PROCESSED PRODUCT NEEDS OF OUR CUSTOMERS.

- One of the world's largest granulation (PFI) plants with a batch-size of 6 MT
- Large capacity facilities for Paracetamol and Ibuprofen
- Strategic product portfolio focused on high-volume products, such as Paracetamol, Ibuprofen, Guaifenesin and Metformin and other related PFIs and formulations
- Catering to a select range of quality-conscious pharmaceutical players
- Expected to grow capacities commensurately across the value chain
- Proposed to enlist a growing number of API/ PFI customers for formulations; proposed leverage of marketing infrastructure to gain new customers



Partnerships/Relationships



Long-term Commitments with Global Pharmaceutical MNCs

AT GRANULES, WE INTEND TO EMERGE AMONG THE TOP FIVE SUPPLIERS IN SPECIFIC PRODUCTS IN THE WORLD'S LARGEST PHARMACEUTICAL MARKETS.

- Supplier of Paracetamol, Ibuprofen, Guaifenesin, Metformin and other related PFIs and formulations to the regulated and quality-conscious markets of the U.S., Europe, Latin America, Australia and Canada
- Extensive integration provides a growing scope to enhance volumes across select products
- Infrastructure designed for large-scale production, including the largest batch size in the world for PFIs at 6 MT
- One of the largest capacities in the world for Paracetamol and Ibuprofen, catering to varying customer needs
- Focus on strengthening relationships with select global MNCs, remain close to their developments and add value through our offices in the U.S., United Kingdom, China and Colombia



Future focus: Finished Dosages



High Growth Products

AT GRANULES, WE ARE INTEGRATED ACROSS THE PHARMA VALUE CHAIN – FROM APIs TO PFIs TO FDs.

- Commenced operations of our Finished Dosage unit at Gagillapur in October 2008
- Established our capability to manufacture multi-dosage forms – tablets, capsules, collar express, fit and gel caps (soft and hard)
- Installed a capacity to produce six billion tablets annually, scalable to 12 billion tablets annually with a marginal investment
- Filed three ANDAs in 2008-09; plan a proposed filing in 2009-10
- Enlisted a prominent U.S. customer for OTC products
- Received TGA and EU approval and expecting to receive the U.S. FDA certification for our formulations facility



1984

Inception of Triton Laboratories at Bonthapally for manufacture of Paracetamol/ Acetaminophen (API)

1991

Formation of Granules India Limited

1995

Announced its Initial Public Offering

2001

Obtained U.S. FDA & CGMP approval for PFIs and other APIs at Jeedimetla facility

1990

Established multi-active facility at Jeedimetla

1993

Established a small volume PFI facility at Jeedimetla with a plant capacity of 1,440 TPA

1998

Expansion of Jeedimetla facility for the development of Guaifenesin and Metformin API

2002

Obtained U.S. FDA and CGMP approval for PFIs and other APIs at Jeedimetla facility





2003

Opened a large volume PFI facility at Gagillapur

2004

Obtained approval from U.S. FDA, Australian TGA and German Health Authority for Gagillapur facility

2006

Joint venture with Hubei Biocause Pharmaceutical Co. Ltd, China to manufacture and sell Ibuprofen API



biocause



2003

Set up wholly-owned subsidiary in the U.S., Granules USA, for marketing and logistics purposes

2005

Built a new manufacturing facility for Paracetamol/ Acetaminophen (API) at Bonthapally

2008

Start up of 6 billion Tablet facility at Gagillapur after receiving approval from European Regulatory Body in October 2008



Review of our Consolidated Financial Performance, 2008-09

The Company's accounts for 2008-09 covered nine months from July 1, 2008 to March 31, 2009; this was done with the intention of aligning the Company's financials with the generally

followed financial year. The Company is proactively working towards adapting the process and policies as included in the International Financial Reporting Standards (IFRS).

(Rs. cr)

	2008-09*	2007-08	Percentage Growth***
Net sales	289.27	256.45	50.40
EBIDTA	42.95	36.46	57.06
Profit before tax**	7.02	12.60	(25.71)
Profit after tax**	4.25	9.00	(37.00)
Cash profit**	27.31	22.66	60.68
Earnings per share after extraordinary items (basic) (Rs.)	2.12	4.16	(32.21)

* Figures for 2008-09 are for nine months and have not been annualised,

** PBT and PAT were lower due to exchange losses of Rs.9.24 cr due to depreciation of INR against USD. Excluding this, the PBT would be Rs.16.26 cr (5.6% of sales) showing a growth of 29.03%.,

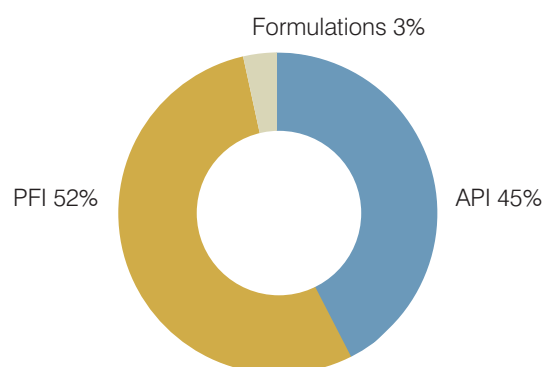
*** Percentage growth was annualised

Revenue

The Company achieved a 50.40% (annualised) increase in net sales from Rs. 256.45 cr in 2007-08 (12 months) to Rs. 289.27 cr in 2008-09 (nine months) on account of larger sales volumes, enhanced marketing initiatives and higher realisations across most segments.

Revenue by Geography: Exports increased by 62.95% (annualised) from Rs. 192.68 cr in 2007-08 (12 months) to Rs. 235.48 cr in 2008-09 (nine months) on account of tapping new markets at existing and new geographies. Net domestic sales decreased from Rs. 63.78 cr in 2007-08 (12 months) to Rs. 53.79 in 2008-09 (nine months). However, there was a growth of 12.47% on an annualised basis.

Revenue by Product



EBIDTA Margins The Company's EBIDTA margin increased 63 basis points from 14.22% in 2007-08 to 14.85% in 2008-09. The Company maintained EBITDA margin despite an increase in raw material costs by reducing manufacturing and distribution expenses. The Company's net profit margin decreased from 3.5% in 2007-08 to 1.5% in 2008-09 mainly due to extra-ordinary item of restatement of foreign exchange liabilities.

Cost

The total cost (excluding depreciation, interest & finance charges and forex losses) increased by 11.97% from Rs. 219.99 cr in 2007-08 (12 months) to Rs. 246.32 cr in 2008-09 (nine months), on account of increased scale.

Capital Employed

The Company's capital employed increased 12.7% from Rs. 328.81 cr in 2007-08 to Rs. 370.57 cr in 2008-09, on account of an increase in reserves and surplus and debt portfolio. A 12.28% return on average capital employed was reported during 2008-09.

Shareholders' Funds

Shareholders' funds (equity capital plus reserves and surplus) increased by 0.76% to Rs. 174.94 cr in 2008-09. With the inclusion of forfeited shares, equity increased from Rs. 20.23 cr in 2007-08 to Rs. 21.74 cr.

The reserves and surpluses increased 0.86% from Rs. 151.89 cr in 2007-08 to Rs. 153.20 cr in 2008-09, reflecting robustness. Free reserves comprised 22.97% of the reserves as on March 31, 2009, indicating self-reliability. The Company generated a net return on net worth of 2.45% during 2008-09 against 5.26% in the previous year.

External Funds

The Company's external funding increased 26.71% during 2007-08 and debt stood at Rs.183.36 cr on March 31, 2009 against Rs.144.71 cr on June 30, 2008. The external funding included a forex restatement of Rs. 8.85 cr for our foreign currency term loans. On account of funding business growth and expansion, secured loans increased 23.96% in 2008-09 and unsecured loans increased 61.05%. Correspondingly,

debt-equity ratio increased from 0.84 to 1.06. Interest costs increased from Rs. 13.03 cr in 2007-08 to Rs. 15.68 cr in 2008-09 and interest cover stood at 3.15 in 2008-09 (3.15 in 2007-08).

Gross Block

The Company's gross block increased by 47.29% after adjusting for deletion of assets pertaining to the old Bonthapally plant, from Rs. 197.38 cr in 2007-08 to Rs. 290.73 cr in 2008-09 a result of expansions. Depreciation was provided on straight-line method. Accumulated depreciation on gross block decreased from 20.86% in 2007-08 to 16.39% in 2008-09, representing asset newness. Capital work-in-progress decreased 97.8% from Rs. 92.7 cr to Rs. 2.0 cr in 2008-09.

Working Capital

Enhanced operations, inputs and overheads increased the Company's working capital outlay from Rs. 77.30 as at June 30, 2008 (110 days of turnover) to Rs. 123.21 cr as at March 31, 2009 (116 days of turnover) mainly due to a reduction in current liabilities.

Inventory: Inventory increased 12.57% from Rs. 52.86 cr in 2007-08 to Rs. 59.51 cr in 2008-09. Raw materials formed 29.70% of the inventory, work-in-progress 14.05%, finished goods 49.90% and the balance comprised consumable and packing materials and stores and spares. The inventory cycle decreased from 56 days to 51 days of turnover equivalent.

Sundry Debtors: On account of expanding operations, debtors increased 68.30% from Rs. 37.50 cr in 2007-08 to Rs. 63.10 cr in 2008-09. The debtors' cycle decreased from 51 days of turnover equivalent to 46 days.

Forex Management

Around 80% of the Company's revenue was derived through exports in 2008-09. The Company has been covering its foreign currency turnover with appropriate forward cover. The Company has a significant foreign currency exposure by way of long-term debt. The exposure has not been covered and an amount of Rs. 8.85 cr has been written-off during the year by restating these liabilities at the current exchange rates.

Managing Risks at Granules

AT GRANULES, OUR ONGOING OBJECTIVE IS TO REINFORCE A CULTURE WHERE RISKS ARE ESTIMATED, CONTROLLED AND COUNTERED THROUGH AN INSTITUTIONALISED APPROACH.

Regulatory Risk

The Company may not possess the necessary regulatory approvals for manufacturing facilities.

Risk Mitigation

- The state-of-the-art Gagillapur facility was reviewed by the U.S.

FDA and is expected to receive approval in 2009. The facility also possesses approvals from the EU and TGA.

- The Company successfully completed 15 major customer audits.
- The Company received regulatory approvals from major regulatory agencies such as the U.S. FDA, Australian TGA, Canadian TPD and German Health Authority.

Operations Risk

The Company may have inadequate operational facilities, affecting production.

Risk Mitigation

- The Company possesses three internationally benchmarked manufacturing facilities in India and one in China.

- The Company ensures preventive maintenance for all facilities, minimising breakdowns and enhancing uninterrupted operation.
- The Company ensures strict adherence to quality management systems through robust quality processes.
- The Company possesses integrated facilities ranging from the manufacture of PFIs (strategically backward integrated through in-house API manufacture) to finished dosages (tablets).

Raw Material Risk

The Company's inability to procure quality raw material at the right time and price can affect profitability.

Risk Mitigation

- The Company entered into long-term contracts with approved vendors, establishing itself as a preferred buyer.

- The Company conducted vendor rating to minimise supply interruptions.
- The Company implemented ERP, strengthening raw material planning.
- The Company substitutes expensive material with easily available economical alternatives without compromising end-product quality.

Geographic Risk

A limited geographic footprint could hamper growth.

Risk Mitigation

- The Company is present in over 50 countries with the individual revenue contributions not exceeding 27.6%

- Plans to enhance penetration in Southeast Asia and Gulf Cooperation Council countries
- Revenues from international markets accounted for 81.7% of aggregate revenues with the U.S. contributing 27.6% to turnover, Latin America 18.3%, the EU 24.2% and the rest of the contribution from Canada, Australia and Asia.

Product Portfolio Risk

A limited product portfolio may not be able to cater to wider customer demands, endangering business prospects.

Risk Mitigation

- The Company's presence across the value chain – APIs, PFIs and formulations – provides it with a competitive advantage.
- Apart from being a leading paracetamol manufacturer, the

Company also caters to high-margin prescription products like Guaifenesin, Ibuprofen and Metformin

- The Company focuses on the manufacture of value-added Paracetamol and Ibuprofen products.
- The Company launched five formulation products for several brand-enhancing customers in 2008-09; 17 new formulation products are in the pipeline for 2009-10.

Environment Risk

Untreated effluent release could lead to environmental degradation and consequent closure.

Risk Mitigation

- The Company proactively invested in modern effluent treatment units, curbing effluent generation to below permissible limits and

targeting zero discharge status by 2010.

- Implemented 'Environmental Best Practices' at the Gagillapur plant (recognised by the CII).
- Developed a green belt in and around all plants; used recycled water for gardening and landscaping.
- Conducted training for employees to inculcate environment-friendly practices.

Management Discussion and Analysis

Global Overview

In 2008, the global pharmaceutical market grew 4.8% to \$773.1 billion. The U.S, which enjoys a 40.3% market share, witnessed a sluggish 1.4% growth rate, while emerging markets in Asia, Africa, Australia and Latin America reported

the strongest growth at 15.3% and 12.6%, respectively.

Growth in the pharmaceutical market will be driven by several factors including the growth of emerging markets, an ageing population and lifestyle choices.

Global Pharmaceutical Market by Region

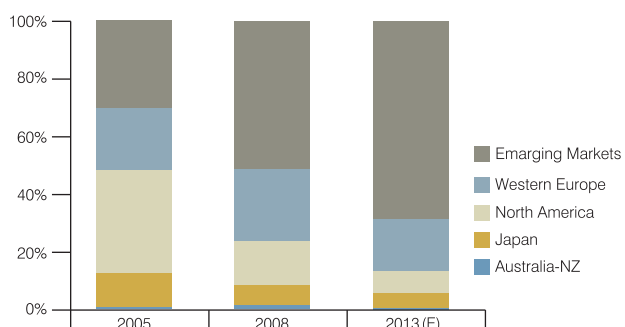
Region	Market Size, 2008 (\$ in billions)	Growth rate					
		2008	2009(E)		2008(E)	2013(E)	
North America	\$311.8	1.4%	(1.0)%	– 0.0%	(1.0)%	– 2.0%	
Europe	\$247.5	5.8%	3.0%	– 4.0%	3.0%	– 6.0%	
Asia/ Africa/ Australia	\$90.8	15.3%	11.0%	– 12.0%	11.0%	– 14.0%	
Japan	\$76.6	2.1%	4.0%	– 5.0%	1.0%	– 4.0%	
Latin America	\$46.5	12.6%	9.0%	– 10.0%	11.0%	– 1.4%	
Total	\$773.1	4.8%	2.5%	– 3.5%	3.0%	– 6.0%	

While emerging markets represent only 17.7% of the current market, they will be responsible for a majority of the growth over the next several years. Consumers in the emerging markets are vastly underrepresented; China, India, Brazil, Russia, Mexico and Turkey represent 45.0% of the world's population but only 10.0% of Rx drugs sales. Aside from an increasing number of absolute consumers, sales will be compounded in these countries due to a strengthening GDP, expanding government healthcare coverage and increasing purchasing power of the middle-class. Within the emerging markets, Latin America and Asia will lead in terms of growth, while Central and Eastern Europe, the Middle East and Africa

will grow at a slightly slower rate.

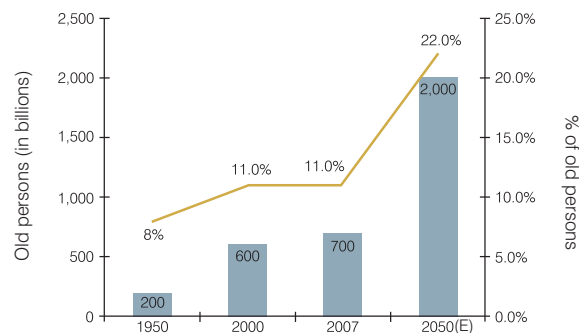
The second growth driver is the ageing global population. The elderly will require medication in order to improve their lifestyles and also to mitigate the effects of chronic diseases. The proportion of older persons, those above sixty, has increased from 8.0% in 1950 to 11.0% in 2007, and is expected to be 22.0% by 2050. The number of older persons is growing at 2.6% annually, while the general population is only growing at 1.1%. The disparity in growth rates has led the number of old persons to exceed children in 1998 in developed countries. Old persons will exceed children on a global basis by 2047.

Contribution Rate to Pharmaceutical Growth



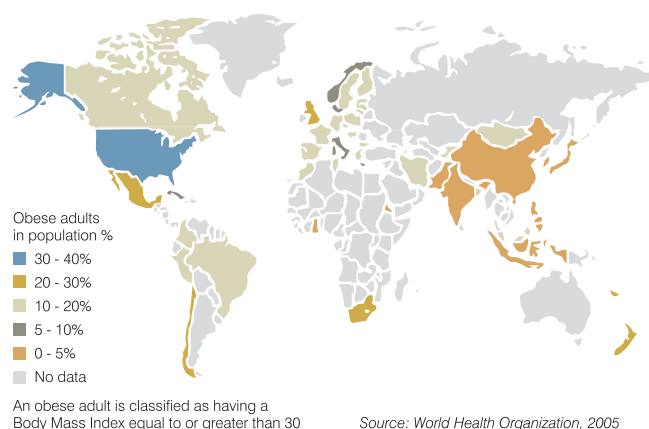
Source: IMS MIDAS and IMS market prognosis

Ageing Population



The third driver of growth is lifestyle choices. The WHO predicts there will be 2.3 billion overweight adults in the world by 2015, and more than 700 million of them will be obese. This is a sharp increase from 2005 when there were 1.6 billion overweight adults and 400 million obese ones. Overweight patients will deal with a plethora of diseases including cardiovascular diseases, type-2 diabetes, sleep apnea, certain types of cancer, and osteoarthritis. While the Western world has been dealing with obesity for several decades, it is rapidly increasing in developing nations, which will open up opportunities for pharmaceutical companies.

The Global Obesity Problem



Product Segments

Paracetamol

Paracetamol (also known as acetaminophen) is the world's most widely consumed analgesic, accounting for nearly 63% of overall consumption. Paracetamol is a safe, affordable and efficient product with millions of users throughout the world. The drug is used to reduce body pains, headaches and lower fevers.

Paracetamol is an off-patent product whose market continues to grow two to three percent by volume annually. The total annual market for paracetamol is estimated at approximately 105,000 tonnes with the highest consumption being in the U.S. and Europe. Global paracetamol capacity, which is predominately based in China and India, is estimated to be around 137,000 tonnes, a 74.5% utilisation rate.

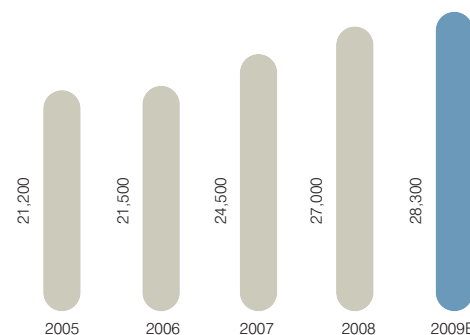
Last year was an eventful year for the paracetamol market.

Rhodia SA shut its 8,000 TPA French plant due to pricing pressures from China and India. The shutdown had a substantial effect on the market because it left Mallinckrodt, a U.S. manufacturer, as the only remaining Western producer of paracetamol. While there is an excess capacity in the market, only few manufacturers are capable of providing quality supplies that consistently meet brand owners health standards in the quantity that customers need. The supply vacuum created by Rhodia's exit will lead to consolidation within the regulated markets as brand owners secure supplies from the few manufacturers who can provide high-capacity, high-quality supplies. The unregulated market will continue to be fragmented since there is more emphasis on pricing, instead of securing quality products.

Ibuprofen

Ibuprofen is a popular analgesic primarily used for arthritis relief and fever reduction. The drug is popular in North America and Western Europe, which account for nearly 60.0% of global sales. Sales of Ibuprofen are rapidly growing as its popularity grows in other markets. In 2008, production rose to approximately 27,000 tonnes from 24,500 tonnes in 2007, an increase of 9.2%. While demand will slow in 2009, Ibuprofen is still expected to grow 4.5%. Ibuprofen is a more complex analgesic to manufacture compared to paracetamol, which is why there are not as many suppliers. There are four manufacturers that control approximately 66.0% of the market. The two largest, BASF and Albemarle, are Western-based companies while the next two, Shasun and Granules BioCause, are based in Asia.

Ibuprofen Growth (2005 – 2009E)



Guaifenesin

Guaifenesin is an off-patent product which helps loosen and liquefy mucus. Respiratory illnesses such as bronchitis and

the common cold typically cause excess or thick mucus. Guaifenesin is the only expectorant approved by the FDA to treat these ailments. The drug helps loosen mucus and thin bronchial secretions to rid the bronchial passageways of mucus and make cough more productive. Guaifenesin is available in both long-acting and short-acting formulations and as a single ingredient or in combination with other active ingredients. Long-acting formulations are typically in tablet form and dosed every 12 hours. Short-acting or immediate-release formulations are often in liquid form and are dosed every four to six hours.

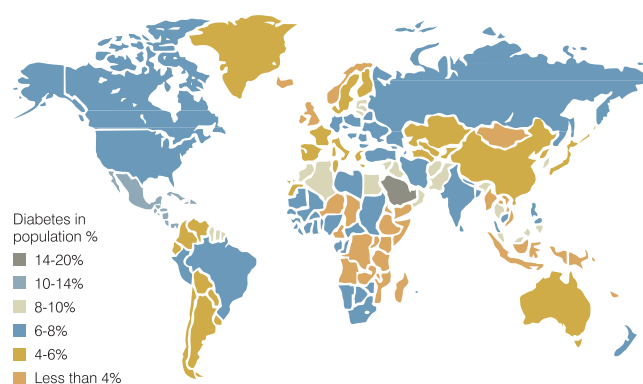
Common products with guaifenesin include Mucinex and Robitussin DAC. These products were among the first to be granted OTC status by the U.S. FDA. The guaifenesin market is approximately 3,500 tonnes, with over 60.0% of sales coming from North America.

Metformin

Metformin is a prescription drug to treat type II diabetes. The drug is the first biguanide oral anti-diabetic agent to be approved by the FDA after phenformin (phenethylbiguanide) was banned in the U.S. in 1977. The annual production capacity for the drug is approximately 25,000 tonnes with approximately 50.0% of capacity based in India.

Diabetes is a lucrative market; the number of people with diabetes is expected to grow from 246 million to 380 million by 2025. The market opportunity has grown from \$21.0 billion in 2006 to \$24.0 billion in 2008 and is expected to grow to \$34.5 billion by 2013 as more treatment options are released. The emerging markets are expected to be a major source of new diabetes cases as they adapt the Western lifestyle; India and China alone have over 80 million cases of diabetes.

Estimated Prevalence of Diabetes in 2007

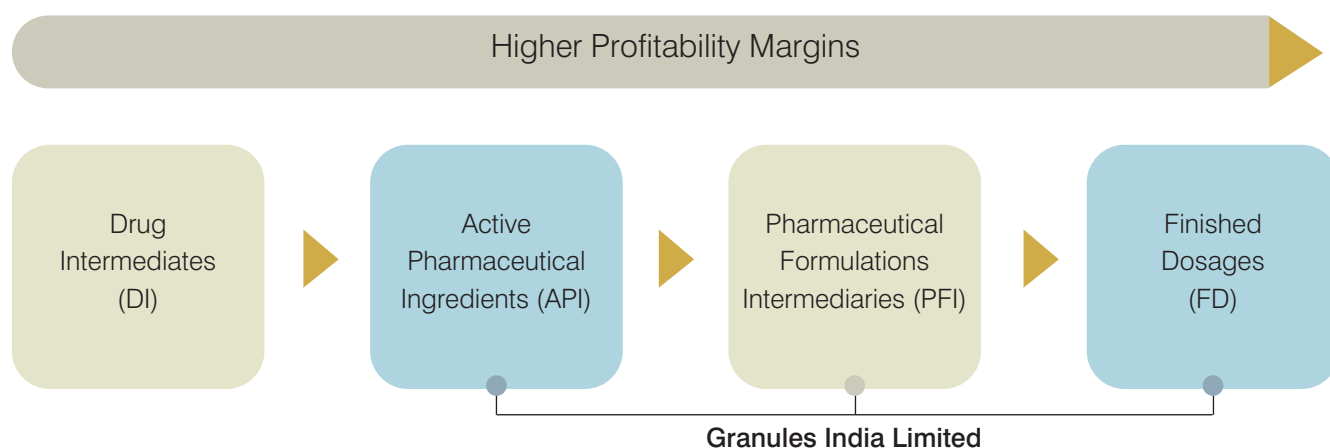


Map shows type 1 and type 2 diabetes

Source: Diabetes Atlas, 2006

Operations

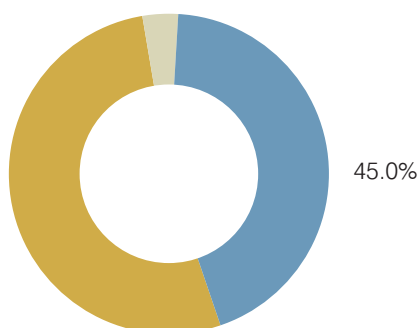
The Pharmaceutical Manufacturing Value Chain



API Division

Overview

The Company's API facilities are located at Bonthapally and Jeedimetla. The Bonthapally unit manufactures a Paracetamol API, also commonly known as Acetaminophen while the Jeedimetla unit manufactures APIs such as Metformin, Guaifenesin, Methocarbamol and Phenazopyridine.



Highlights, 2008-09

- Hired consultants for enhancing plant operation and maintenance
- Increased monthly production by 55.5% at Bonthapally
- Implemented structured preventive maintenance at all plants
- Optimised manpower utilisation
- Eliminated the use of Class I solvent in the manufacturing of API

API Product List

Paracetamol
Ibuprofen
Guaifenesin
Metformin
Isometheptene Mucate
Methocarbamol
Oxymetazoline
Pamabrom
Phenazopyridine
Xylometazoline

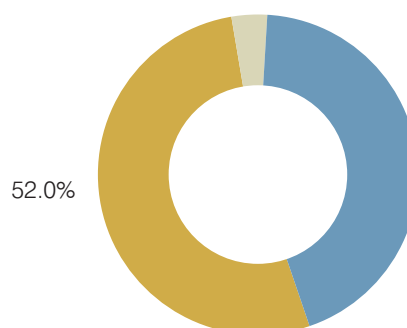
Road Ahead

- Increase production at all locations through equipment and process upgrades
- Commission a new coal-based boiler at Bonthapally in 2009 that will increase productivity and lower costs due to higher boiler efficiency and lower coal consumption
- Strict adherence to quality management systems through robust quality processes
- Continuous training for production floor personnel
- Continue proper planning of production schedules with equipment preventive maintenance

PFI Division

Overview

The Company's PFI facilities at Gagillapur and Jeedimetla manufacture combination PFIs using multiple APIs. These PFIs have received regulatory approvals from major regulatory agencies such as the U.S. FDA, Australian TGA, Canadian TPD and German HA.



Highlights, 2008-09

- Increased utilisation by 8.7% at Gagillapur
- Experienced an upswing in multi-active PFIs

Road Ahead

- Targeted conversion of 30% of PFI into finished dosages in 2009-10
- Strict adherence to quality management systems through robust quality processes
- Continuous training for shop floor personnel
- Proper planning of production schedules with equipment preventive maintenance

PFI Product List

Single Actives List

Paracetamol
Ibuprofen
Metformin
Guaifenesin
Analgin
Azithromycin
Ciprofloxacin
Gemfibrozil
Glucosamine
Methocarbamol
Naproxen
Phenazopyridine

Multiple Actives List

Paracetamol
Ibuprofen
Chlorpheniramine Maleate
Dextromethorphan
Diphenhydramine
Phenylephrine
Pseudoephedrine
Sulfamethoxazole
Trimethoprim

- Completed 15 major customer audits

Road Ahead

- Commissioning of a Ferrous Sulphate project by 2009
- Targeted procurement of new coating equipment and new blister packing machine to augment customer requirements
- Projected accreditation by U.S. FDA in 2009

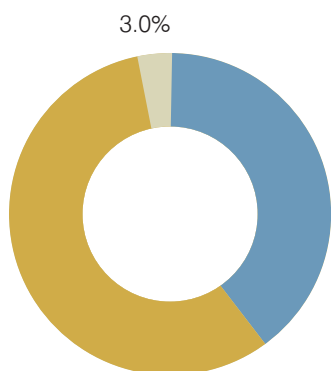
Product List

Paracetamol	Diphenhydramine
Ibuprofen	Hydrochloride
Guaifenesin	Methocarbamol
Metformin	Naproxen Sodium
Chlorpheniramine Maleate	Phenylephrine
Dextromethorphan	Pseudoephedrine

Finished Dosages Division

Overview

The Company commenced commercial production at its tablet facility at Gagillapur in October 2008. The facility, which has an annual capacity of six billion tablets, is scalable up to 12 billion tablets annually. The state-of-the-art plant has automated processes, robust infrastructure, superior quality systems and accreditations with TEVA, EuGMP, World Health Organisation, Sun Pharmaceuticals Ltd., Par Pharmaceuticals Ltd., ACTAVIS and A&A.



Highlights, 2008-09

- Launched Acetaminophen Rapid Release Gel caps (500 mg), Extra Strength Acetaminophen, APAP (500) + METHO (400) tablets, APAP(325)+METHO (400) tablets, Metformin (500, 850, 1000 mg) tablets, Pinex (250, 500, 1000 mg) tablets

Raw Materials Management

Overview

The Company's bulk raw material procurement translated into competitive sourcing. The Company's 100% export-orientation attracted zero-duty imports from China, France, Germany, Taiwan, Korea, etc., which were done following stringent audits.

Highlights, 2008-09

- Optimised key raw material inventory according to lead times and safety stocks
- Increased the packaging size from suppliers to optimise freight costs
- Conducted regular vendor rating to minimise supply interruptions

Road Ahead

- Implementation of ERP to enhance raw material planning
- Stronger vendor relationships, leading to uninterrupted supply

Research and Development

Overview

The Company's R&D infrastructure represents an effective edge, reflected in the introduction of pioneering products and processes around a superior price-value proposition. The Company consistently invests in new product development as well as process improvement, leading to enhanced yield and profitability.

The Company's R&D infrastructure specializes in the development of PFI and finished dosage products. The R&D department offers end-to-end solutions for OTC-monograph, required for filing ANDAs. The Company owns capabilities in the development of several products and in the filing of ANDAs/Dossiers in U.S., Europe, Australia and other countries.

Highlights, 2008-09

- The Company invested Rs. 2.8 cr in R&D, focusing on technology development and transfer for OTC products, OTC ANDA products, rapid release gels and Rx ANDA products.
- The Company filed three ANDAs

Road Ahead

- Targeted filing of one ANDA by September 2009
- Four OTC products are in pipeline in gel cap form for the U.S. and Canadian clients
- Proposed launch of effervescent sachets for tablets in 2009-10

Marketing

Overview

The Company enjoys a wide global presence in diverse, value-added and relevant segments, catering to the growing partnership needs of pharmaceutical majors in global environments.

Highlights, 2008-09

- Increased annualized API sales 20.6%, annualized PFI sales 1.3% and annualised finished dosages 3.245% year over year

Road Ahead

- Maintain non-competing relationships with customers
- Scale volumes from existing customers
- Increase share in existing markets
- Enter Southeast Asia and Gulf Cooperation Council countries

Environment, Health and Safety

Overview

At Granules, worker health, safety and environment preservation are priority issues. The Company undertook several environment management initiatives for the responsible treatment of liquid effluents, solid waste and air pollutants.

Environment

- Developed a green belt in and around all plants
- Implemented stack monitoring system with controls and filtration systems
- Invested in an effluent treatment plant across all sites for waste and sewage water treatment
- Implemented the 'Environmental Best Practices' at the Gagilapur plant (recognised by Confederation of Indian Industry CII)
- Delegated eco-friendly measures to all employees
- Used sophisticated equipment to collect dust generated during process activities and material transfer
- Conducted wastewater analyses on effluent samples
- Monitored ground water, soil, ambient air, stacks and noise levels.

- Separated liquid effluent into high TDS-high COD effluents and low TDS-low COD effluents, customizing their treatment and dispatching the residue to the Hyderabad Waste Management Project for responsible disposal. Low COD effluents were collected in a common sump and following homogenisation and pH adjustments, were dispatched to the CETP for onward treatment and disposal.
- Hazardous solids from various production stages and effluent collection tanks were sent to the Hyderabad Waste Management Project for safe disposal.
- Gaseous emissions were scrubbed, cleaned and neutralised with suitable chemical reagents before harmless release.

Safety and Health

- Creation of a detailed on-site emergency plan at each facility for responding to fires, chemical-related explosions and the accidental release of hazardous substances
- Conduct of regular drills according to an emergency plan in collaboration with the local fire brigade
- Investment in personnel protective equipment (safety helmets, respiratory masks, goggles and gloves) with monitored use.
- Conduct of induction training monitored by the EHS staff on health and safety issues (first aid, fire fighting, emergency preparedness, hazardous chemical handling and waste disposal management).

Road ahead

- Targeted zero discharge status by 2010

Human Resources

Overview

The Company's success in process orientation was derived

through the deployment of the right people at the right places supported by institutionalised HR management. The Company had 655 employees on its direct payroll as on 31st March 2009 with an average employee age of around 30 years, highlighting a young and dynamic work culture.

Highlights, 2008-09

- Added 161 professionals
- Implemented a performance management system to enhance performance
- Operational excellence programme enhanced customer delivery standards
- Training need analysis facilitated the creation of a training calendar.

Road Ahead

- Clarity around employee roles and responsibilities
- Extensive training
- Streamline organisational structures
- Launch of employee engagement activities
- Simplify compensation structure

Internal Control

The Company's internal control and documented procedures encompass financial and operating procedures – providing proper accounting control, monitoring the Company's economic viability and efficiency and protecting assets from unauthorised use or losses – to ensure the reliability of financial and operational information. The Audit Committee of the Board of Directors regularly reviews future plans, significant audit findings and adequacy of internal controls, as well as compliance with accounting standards.

Directors' Report

Dear members

The Directors submit the Annual Report of the Company together with the audited statement of accounts for the year ended March 31, 2009.

1. Financial results

(Rs. lakhs)

Particulars	2008-09	2007-08
Sales	25,387.36	21,414.65
Other income	85.47	68.51
Total income	25,472.83	21,483.16
Expenditure before depreciation, interest and tax	21,980.10	18,032.71
Interest and finance charges	1,453.83	1,197.21
Depreciation and amortisation	974.79	972.09
Profit before tax	1,064.12	1,281.15
Provision for taxes including deferred tax and FBT	277.15	367.70
Profit after tax	786.97	913.45
Add: surplus brought forward	3,921.16	3,324.03
Surplus available	4,708.13	4,237.48
Appropriations		
Dividend	250.71	250.71
Tax on distributed profits	42.60	42.60
Transfer to general reserve	13.00	23.00
Balance carried to balance sheet	4,123.36	3,921.17

2. Change in Financial year

The Accounting year of the Company was changed to end on March 31, 2009 with a nine-month period to bring it in line with the Income tax assessment year. Consequently, the Company will have a twelve-month accounting year beginning from the year 2009-10. The change was approved by your Board of Directors.

3. Dividend

In view of the Company's profitable performance, the Directors are pleased to recommend for approval of the shareholders, a dividend of 12.5% on 2,00,57,154 equity

shares (face value of Rs. 10 each) of the Company in respect of the financial year 2008-09. The dividend, if declared as above, would involve an outflow of Rs. 250.71 lakhs towards dividend and Rs. 42.60 lakhs towards dividend tax, resulting in a total outflow of Rs. 293.32 lakhs. Under the Income Tax Act, 1961, the dividend will be tax free in the hands of the shareholders.

4. Transfer to reserves

The Company proposes to transfer Rs. 13.00 lakhs to the general reserve out of the amount available for appropriations. After the appropriations, it is proposed to retain Rs. 480.66 lakhs from the current year's profits.

5. Operating Results

The Company achieved a turnover of Rs. 25,472.83 lakhs showing a significant growth of 18.57% compared to the previous year. The operating profit during the period was Rs. 404.10 lakhs.

6. Funding

During 2008-09, your Company availed equipment finance of Rs. 500 lakhs from the Kotak Mahindra Bank Limited.

7. Research and Development

R & D at Granules India, a service organisation, is catering to our in-house product development requirements for both PFI and finished dosage. Our in-house development philosophy aims to collaborate and offer a business model of delivering end-to-end solutions for OTC – monograph, OTC ANDA and prescription products.

During 2008-09, the Company's R & D developed many new products with novel formulations that deliver superior customer value and better consumer appeal and focus was made on developing process technology to launch new APIs and cost reduction of APIs that are currently produced by the Company.

Granules provide comprehensive drug development resources and solutions for pre-formulation, formulation development, analytical development, cGMP scale-up, stability and also coordinate for conducting bioavailability, bioequivalence studies for regulated and emerging markets.

8. Directors

Notice was received from the Company's members under Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Philip Brian Logan, Mr. C. Parthasarathy and Dr. Krishna Murthy Ella for appointment as the Company's Directors. Resolutions seeking your approval to their appointment are in the Notice convening 18th Annual General Meeting of the Company.

Pursuant to Article 51 of the Articles of Association of the Company, Dr. C. Nageswara Rao will retire by rotation at the forthcoming Annual General Meeting and being eligible offers himself for reappointment as the Director. Your Board of Directors recommend his reappointment.

Brief profiles of Dr. C. Nageswara Rao, Mr. Philip Brian Logan, Mr. C. Parthasarathy and Dr. Krishna Murthy Ella, the nature of their expertise in specific functional areas and the number of companies in which they hold directorships and memberships/chairmanships of Committees of the Board, as stipulated under Clause 49 of the Listing Agreement with the stock exchanges, are provided in the section on Corporate

Governance in this Annual Report.

Changes in Directorate after balance sheet date

a. Shri N.R.Ganti, Independent Director had resigned from the Board with effect from May 15, 2009.

b. Shri C.Parthasarathy and Dr.Krishna Murthy Ella were appointed as Additional Directors by resolutions of the Board passed by circulation on May 27, 2009 and June 4, 2009 respectively. Both are Independent Directors.

c. Consequent upon the resignation of Shri N.R.Ganti as Director, the Compensation & Remuneration Committee and the Share Transfer and Shareholders' / Investors' Grievance Committee were re-constituted. (Details of re-constitution are provided in the section on Corporate Governance).

9. Corporate Governance Report and Management Discussion and Analysis Statement

A Report on Corporate Governance and a Management Discussion and Analysis statement is attached to this Report, which forms part of this Annual Report.

10. Directors' Responsibility Statement

Pursuant to the requirement of Section 217 (2AA) of the Companies Act, 1956 and based on the representations received from the operating management, the Directors hereby confirm that:

- i. The applicable accounting standards issued by the Institute of Chartered Accountants of India were followed
- ii. Appropriate accounting policies were applied consistently. Judgment and estimates that were reasonable and prudent were made so as to give a true and fair view of the Company's state of affairs as at the end of the financial year and of the Company's profits for the year.
- iii. Proper and sufficient care was taken to maintain adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the Company's assets and for preventing and detecting fraud and other irregularities.
- iv. The annual accounts were prepared on a going concern basis.

11. Subsidiary Companies

Granules USA Inc.

Granules USA Inc., a wholly-owned subsidiary company, operates for the marketing requirements of the Company in USA. During 2008-09, the subsidiary company achieved a turnover of Rs. 2,874.41 lakhs.

The relevant particulars of Granules USA Inc. and the consolidated final accounts for the period ended March 31, 2009, in accordance with the Accounting Standard AS-21 on Consolidated Financial Statements, read with Accounting Standard AS-23 on Accounting for Investment in Associates are appended to this Report.

GIL Lifesciences Private Limited

GIL Lifesciences Private Limited, a wholly-owned subsidiary of the Company has acquired land to set up a multi-product API facility.

Granules Singapore Pte Ltd.

Granules Singapore Pte. Ltd., a wholly-owned subsidiary of Granules India Limited was incorporated on November 18, 2008. The Company plans to commence trading activity in order to assist the holding and fellow subsidiary companies to minimize procurement cost of materials and financing costs

12. Joint Venture Company: Granules-Biocrine Pharmaceutical Co. Ltd

During 2008-09, Granules-Biocrine Pharmaceutical Co. Ltd, the joint venture company achieved a total turnover of Rs. 2,918.34 lakhs.

13. Explanation to qualifications in Auditors' Report

a. Dues to micro, small and medium enterprises (Clause 4(a) of the Auditors' report)

In view of its long standing relationship with these particular enterprises, your Company enjoys credit period higher than that prescribed by law and the outstanding dues are paid accordingly. However, your Company would ensure that the outstanding dues to these parties would be minimized over a period.

b. Confirmation of balances (Clause 4(b) of the Auditors' report)

Your Company has circulated letters to debtors, creditors, capital Work-in-progress for confirmation of balances. Your Company has received confirmation from 76 accounts and the same are in agreement with the balances as per the company's books.

14. Statement under Section 212 of the Companies Act, 1956

A statement pursuant to section 212 of the Companies Act, 1956 related to Subsidiary Companies has been given elsewhere in this Report.

15. Auditors

M/s. Kumar & Giri, Chartered Accountants, who are the statutory auditors of the Company hold office, in accordance with the provisions of the Companies Act, 1956, up to the conclusion of the forthcoming Annual General Meeting and have confirmed their eligibility and willingness for reappointment.

16. Cost Auditors

Mr. E. Vidya Sagar, Cost Accountant, was appointed as the Company's cost auditor subject to the consent of the Government of India to conduct cost audit of the bulk drugs division of the Company for 2009-10.

17. Fixed Deposits

Your Company did not accept any public deposits and, as such, no amount on account of principal or interest on public deposits was outstanding on the date of balance sheet.

18. Conservation of energy and technology absorption, among others

The particulars as prescribed 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 are set out in Annexure I to this Report.

19. Human Resources

Your Company enjoys cordial employee relations, marked by empowerment and delegation. In view of this need, the Company approved an Employee Stock Option Plan and implemented the Granules India Equity Option Plan 2002, framed and implemented in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Regulations 1999.

20. Particulars of Employees

Information as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, is given in Annexure II to this Report.

21. Employee Stock Option Plan

Your Company implemented the Granules India Equity Option Plan 2002 with the objective of enhanced employee commitment.

The details of the stock options granted under the Granules India Equity Option Plan 2002, including grants to the senior management (comprises all Independent Directors), are given below:

	Description	Details
A.	Total number of shares	3,91,082 one share represents one option
B.	Pricing formula	At the fair market value as on the date of the grant
C.	Options granted during the year	Nil
D.	Options vested during the year	22,000
E.	Options exercised during the year	Nil
F.	Total number of shares arising as a result of exercise of options	Not applicable
G.	Options lapsed during the year	9,000
H.	Variation of terms of options	Not applicable
I.	Money realised by exercise of options during the year	Not applicable
J.	Total number of options in force	10,500
K.	Options granted to the Independent Director during the year	Nil
L.	Employees who were granted options amounting to 5% or more of the options granted during the year.	Nil
M.	Employees who were granted options in any one year equal to or exceeding 1% of the issued capital of the Company at the time of grant	Not applicable

22. Related party transactions

As a matter of policy, your Company carries out transactions with related parties on an arms-length basis. Statement of these transactions is given in the Notes to Accounts in compliance of Accounting Standard AS – 18.

23. Acknowledgements

The Directors thank the Company's customers, vendors, investors, business associates, bankers and financial institutions for their support to the Company.

The Directors also thank the Government of India and the Governments of various countries, the concerned state Governments and other Government departments and Governmental agencies for their cooperation.

The Directors place on record their appreciation of the contributions made by every member of the Granules family.

On behalf of the Board of Directors

Place: Hyderabad
Date: July 25, 2009

Dr. C. Nageswara Rao
Chairman

Annexure - I to Directors' Report

Particulars under Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 for the period ended March 31, 2009.

FORM A – Particulars of conservation of energy

A. Power and fuel consumption

Particulars	For the period ended March 31, 2009	For the year ended June 30, 2008
1. Electricity		
Unit (KWH)	1,03,76,693.00	1,07,22,128.00
Total amount (Rs. in lakhs)	269.29	360.72
Rate/Unit (Rs.)	2.60	3.36
Rate/Kg of production (Rs.)	2.48	2.89
2. Own generation from Diesel generator		
Unit (KWH)	7,72,903.00	5,15,886.00
Total amount (Rs. in lakhs)	93.72	75.01
Rate/unit (Rs.)	12.13	14.54
Unit/kg of production (Rs.)	0.07	0.04
Rate/kg of production (Rs.)	0.86	0.60
3. Coal		
Quantity (MT)	6,371.54	6,336.19
Total cost (Rs. in lakhs)	239.95	240.86
Rate/Unit (Rs.)	3.77	3.80
Rate/kg of production (Rs.)	2.21	1.99
4. Furnace oil, LSHS and LD oil		
Qty. (K. Ltrs.)	385.37	775.17
Total cost (Rs. in lakhs)	83.17	164.09
Average/K. ltrs. (Rs.)	21.58	21.17
Rate/kg of production (Rs.)	0.77	2.66

B. Consumption per unit of production

Particulars	Standards	Current year	Previous year
Products (with details) unit	Since the Company manufactures a wide range of bulk drugs and granulations, it is not practicable to give consumption per unit of production.		
Electricity			
Furnace oil			
Coal			

FORM B – Particulars of absorption

Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation:

With wide expertise in R & D, technocrats at GIL have the ability to reproduce the reference products of all the regulated markets. Innovative products like gel caps have been successfully developed and manufactured, more products are being formulated for North American markets. To meet the customer demand, our teams are all geared up with innovative techniques for product development.

For the products where technology is being transferred by manufacturers for site variations, our teams adapt to the process and reproduces to meet the regulatory acceptance.

2. Benefits derived as a result of the above efforts

- Recognition in pharma Industry
- Better market acknowledgment
- Quick to launch

3. Imported technology

There was no import of technology.

Research and development (R & D)

1. Specific areas in which R & D work was carried out by the Company

During the period July 2008-March 2009, the Company filed

three ANDAs. R & D is currently focusing on development and filing generic products for regulated markets and also on large volume OTC drugs, quick to launch and to earn faster returns on the investment.

- Press fit / express fit (gel caps) OTC products are on the priority list
- Delayed / extended release
- Immediate release generic products
- Capsules

2. Benefits derived as a result of the above R&D

GIL will have the ability to market the products directly and can also tie up with MNC/market leaders to penetrate in markets meet for immediate launch.

3. Future plan of action

Few large volume generic products were identified and development and filing (in all regulated markets) is planned in Europe, U.S. and Canada.

4. Expenditure on R&D

The expenditure on R & D during the year 2007-08 was approximately Rs. 278.44 lakhs.

FORM C – Foreign exchange earnings and outgo

(Rs. in lakhs)

Particulars	2008-09 (9 months)	2007-08
Foreign exchange earnings	18,878.22	15,142.40
Foreign exchange outgo	12,104.45	8,941.88

On behalf of the Board of Directors

Place: Hyderabad
Date: July 25, 2009

Dr. C. Nageswara Rao
Chairman

Annexure – II to Directors' Report

Information pursuant to Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975

Name	Age (yrs)	Qualification	Designation	Date of commencement of employment	Experience (yrs)	Gross remuneration (Rs. lakhs)	Last employment
Mr. C.Krishna Prasad	55	B.Sc.	Managing Director	August 31, 1994	25	41.71	–
Mr. Harsha Chigurupati	25	BBA	Chief Marketing Officer	September 1, 2006	–	24.00	–
Dr. Bhaskar Krishna Arumugam	39	B.Tech (Chemical), MBA, Ph.D	Chief Operating Officer	April 4, 2007	13	32.40	Eastman Chemical Co. Kingsport, USA
Mr. Shriram Darbha	45	MA, MBA	Vice President – Corporate HR	July 14, 2008	17	21.71	Secovae & Services Limited, Chennai
Dr. Sanjib Mall	49	M.Tech, Ph.D	Sr. Vice President – API R&D	September 8, 2008	19	16.92	Prochem Solutions Pvt. Ltd, Pune
Mr. N. D. Poonja	62	M.Pharmacy	Director – Technical Affairs	November 26, 2008	38	12.00	Strides Acrolabs Limited, Bangalore

Notes:

1. The gross remuneration specified above is for the period July 2008–March 2009
2. Remuneration includes salary, allowances, Company's contribution to provident fund and perquisites valued on the basis provided in the Income Tax Act 1961.
3. The nature of employment of the above employees is permanent.
4. Mr. Harsha Chigurupati is related to Mr. C. Krishna Prasad, Managing Director and Dr. C. Nageswara Rao, Chairman.
5. Dr. Sanjib Mall was employed for part of the year.

On behalf of the Board of Directors

Place: Hyderabad

Date: July 25, 2009

Dr. C. Nageswara Rao

Chairman

Declaration regarding compliance with the Code of Conduct of the Company by Board Members and senior management personnel

This is to confirm that the Company adopted Code of Conduct for the Board of Directors and the senior management personnel of the Company, which is available at www.granulesindia.com.

I declare that the Board of Directors and the senior management personnel affirmed compliance with the Code of Conduct of the Company.

Place: Hyderabad

Date: July 25, 2009

C. Krishna Prasad

Managing Director

Corporate Governance

I. Company's philosophy on Code of Governance

The Company believes that good Corporate Governance practices should be enshrined in all activities of the Company. This would ensure efficient conduct of affairs of the Company and help the Company achieve its goal of maximising value for all its stakeholders. The Company will continue to focus its resources, strengths and strategies to achieve its vision, while upholding the core values of transparency, integrity, honesty and accountability, which are fundamental to the Company.

The Company has a strong legacy of fair, transparent and ethical governance practices. The Company is in compliance with the requirements of the revised guidelines on Corporate Governance stipulated under Clause 49 of the Listing Agreement with the stock exchanges. The Company's Corporate Governance philosophy was further strengthened through the Code of Conduct for Senior Management.

II. Board of Directors

- i) Your Company has an optimum combination of executive, non-executive, independent and non-independent directors in terms of clause 49 of the Listing Agreement entered into with the Stock exchanges. The Company has a total of seven directors out of which one is executive and six are non-executive. The total number of independent directors is four.
- ii) The number of non-executive directors at six is more than 50% of the Board of Directors. The Company has a Non-Executive Chairman; the number of Independent Directors at four is more than one-third of the total number of Directors.
- iii) None of the Directors on the Board is a member of more than 10 committees or Chairman of more than five committees as specified in Clause 49, across all the companies in which he is a Director. The Directors made necessary disclosures regarding committee positions in other public companies as on March 31, 2009.

Board Meetings:

- iv) Four Board meetings were held during the period July 2008-March 2009 and the gap between any two meetings did not exceed four months. The dates on which the Board meetings were held are as follows: July 31, 2008, October 20, 2008, December 19, 2008 and January 29, 2009.
- v) The following information inter alia is usually placed before the Board:
 - a. Annual operating plans and budgets (including capital budgets) and updates
 - b. Quarterly results of the Company and its operating divisions
 - c. Minutes of meeting of Audit Committee, Management Committee, Compensation & Remuneration Committee and details of share transfers.
 - d. Information on new recruitments and resignations of senior management personnel i.e, officers just below the Board level.
 - e. Public or product liability claims of substantial nature
 - f. Quarterly details of foreign exchange exposures and the steps taken to limit the risks of adverse exchange rate movement.
- vi) The names and categories of the Directors on the Board, their attendance at Board meetings held during the period July 2008-March 2009 and the number of directorships and committee chairmanships / memberships held by them in other companies is given below. Other directorships do not include alternate directorships, directorships of private limited companies and of companies incorporated outside India. Chairmanship / Membership of Board Committees include only Audit and Shareholders / Investors Grievance Committees.

Name	Category	No. of Board Meetings during the period July 2008–March 2009		Whether attended last AGM	No. of Directorships in other public companies	No. of Committee positions held in public companies	
		Held	Attended			Chairman	Member
Dr. C. Nageswara Rao, (Chairman)	Non-Independent, Non-Executive	4	4	Yes	–	–	1
Shri C. Krishna Prasad, (Managing Director)	Non-Independent, Executive	4	4	Yes	–	–	2
Shri L. S. Sarma	Independent, Non-Executive	4	4	Yes	3	2	4
Shri A. P. Kurian	Independent, Non-Executive	4	1	No	5	2	–
Shri N. R. Ganti#	Independent, Non-Executive	4	4	Yes	2	1	4
Shri Stephen R. Olsen*	Non-Independent Non-Executive	4	–	No	–	–	–
Shri Nelson David Corda**	Non-Independent Non-Executive (Alternate Director to Mr. Stephen R. Olsen)	4	4	Yes	–	–	–
Shri Phillip Brian Logan***	Non-Executive, Non-Independent	1	1	NA	–	–	–
Shri C. Parthasarathy@	Independent, Non-Executive	–	–	NA	10	–	1
Shri Krishna M. Ella @	Independent, Non-Executive	–	–	NA	1	–	–

Shri N. R. Ganti resigned as Director w.e.f. May 15, 2009, after the date of this report

* Shri Stephen R. Olsen resigned as Director w.e.f. January 29, 2009

** Shri Nelson David Corda, Alternate Director to Mr. Stephen R. Olsen, ceased to be a Director w.e.f. January 29, 2009

*** Shri Phillip Brian Logan was appointed as Additional Director at the Board Meeting held on January 29, 2009

@ Shri C. Parthasarathy and Shri Krishna M. Ella were appointed as Additional Directors on May 27, 2009 and June 4, 2009, respectively, after the date of this report.

vii) None of the non-executive directors has any pecuniary or material relationship or transaction with the Company.

III. Audit Committee

- i) The composition, procedures, powers and role of the Audit Committee constituted by the Board comply with the requirements of Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956.
- ii) The terms of reference of the Audit Committee are broadly as under:
 - a. Overview the Company's financial reporting process and disclosure of its financial information to ensure that the financial statements reflect a true and fair position and that sufficient and credible information is disclosed.
 - b. Recommending the appointment and removal of external auditors, fixation of audit fee and approval for payment for

- any other services.
- c. Reviewing financial statements and draft audit report, including quarterly / half yearly financial information.
 - d. Reviewing with the management the annual financial statements before submission to the Board, focusing primarily on
 - The changes in accounting policies and practices
 - Major accounting entries based on exercise of judgment by the management
 - Qualifications in draft audit report
 - Significant adjustment 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 as per Accounting Standard 18
 - e. Reviewing, with the management, external and internal

- auditors, the adequacy and compliance of internal control systems
- f. Reviewing the adequacy of internal audit functions
 - g. Discussion with internal auditors on any significant findings and follow up thereon
 - h. Reviewing the findings of internal investigations by 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
 - i. Discussion with external auditors, before the audit commences on nature and scope of audit as well as post-audit discussion to ascertain any area of concern
 - j. Reviewing the Company's financial and risk management policy
 - iii) The Audit Committee comprises three members, with majority independent directors. Shri L.S.Sarma, Chairman and Shri A.P.Kurian, are experts in the finance and accounting function.

The composition of the Audit Committee and particulars of meetings attended by the members of the Audit Committee are given below:

Name	Category	Number of meetings during the period July 2008 –March 2009	
		Held	Attended
Shri L. S. Sarma, Chairman	Independent, Non-Executive	4	4
Shri N. R. Ganti*	Independent, Non-Executive	4	4
Shri A. P. Kurian	Independent, Non-Executive	4	1
Shri C. Krishna Prasad	Non-Independent, Executive	4	4

*Shri N.R.Ganti resigned as Director w.e.f. May 15, 2009, after the date of this report

- iv) Four Audit Committee meetings were held during the period July 2008–March 2009. The dates on which the said meetings were held are as follows: July 31, 2008, October 20, 2008, December 19, 2008 and January 29, 2009. The Audit Committee meeting held on October 20, 2008 considered the Audited Annual Accounts for the financial year 2007-08.
- v) The Audit Committee meetings are usually attended by the representatives of Statutory Auditors and Internal Auditors. Shri L.S.Sarma, the Chairman of the Audit Committee, attended the previous Annual General Meeting of the Company held on December 19, 2008.

IV. Compensation & Remuneration Committee

- i) The Compensation & Remuneration Committee administers the Employee Stock Option Scheme and deals with all elements of remuneration package, stock options, service contracts and other terms and conditions of service of the Executive Directors and the senior management.
- ii) The Compensation & Remuneration Committee currently comprises three Independent, Non-Executive Directors and one Executive Director. Shri L. S. Sarma, Independent Director, is the Chairman of the Committee.

- iii) The remuneration policy is directed towards rewarding performance, based on review of achievements on a periodical basis. The remuneration policy is in consonance with the existing industry practice.
- iv) During the period July 2008–March 2009, one meeting of

the Compensation and Remuneration Committee was held on July 31, 2008, which was attended by all the members.

- v) Details of remuneration to Directors during financial period July 2008–March 2009

a) Executive Director

(Rs. in lakhs)

Name	Salary	Perquisites	Commission	Total
Shri C. Krishna Prasad	22.50	5.77	13.43	41.70

b) Non-Executive Directors: The Company paid a sitting fee of Rs. 5,000 for attending each meeting of the Board of Directors and other committee meetings except the Management Committee and Share Transfer and Shareholders' / Investors' Grievance Committee for which a sitting fee of Rs. 7,500 and Rs. 2,500 per meeting was paid.

Name	Sitting fee (Rs.)
Dr. C. Nageswara Rao	57,500
Shri L. S. Sarma	1,12,500
Shri A. P. Kurian	10,000
Shri N. R. Ganti	1,30,000
Shri Nelson David Corda	20,000

Committee of Directors was constituted to specifically look into the matters of investors' grievances such as transfer, transmission, split and consolidation of investors' holding, replacement of lost/mutilated/stolen share certificates, dematerialisation of shares, non-receipt of dividend / notices / annual reports and change of addresses, among others. The main object of the Committee is to strengthen investors' relations.

- ii) Dr.C.Nageswara Rao, non-executive director is the Chairman of the Share Transfer and Shareholders'/Investors' Grievance Committee
- iii) The Committee meets every fortnight and during the period July 2008–March 2009, 18 meetings were held. During the said period, 41 complaints were received from the shareholders and all the complaints were resolved.
- iv) The composition of the Committee and the details of meetings attended by its members are given below:

V. Share Transfer and Shareholders'/Investors' Grievance Committee

- i) A Share Transfer and Shareholders' / Investors' Grievance

Name	Category	Number of meetings during the period July 2008 –March 2009	
		Held	Attended
Shri N. R. Ganti, Chairman*	Independent, Non-Executive	18	7
Dr. C. Nageswara Rao	Non-Independent, Non-Executive	18	15
Shri C. Krishna Prasad	Non-Independent, Executive	18	14

*Shri N.R.Ganti resigned as Director w.e.f May 15, 2009, after the date of this report.

Consequent upon the resignation of Shri N.R.Ganti, Chairman, the Share Transfer and Shareholders' / Investors' Grievance Committee has been re-constituted by circular

resolution of the Board dated July 17, 2009. Accordingly, the present composition of the Share Transfer and Shareholders' / Investors' Grievance Committee is as follows:

Name	Category
Dr. C. Nageswara Rao Chairman	Non-Independent, Non-Executive
Shri L.S.Sarma	Independent, Non-Executive
Shri C. Krishna Prasad	Non-Independent, Executive

v) Ms.T. Swapna, Assistant Manager (Secretarial and Legal) is the Compliance Officer of the Company.

viii) Number of shareholders' complaints received – 41

ix) Number not solved to the satisfaction of the shareholders – Nil

x) Number of pending complaints – Nil

VI. Other Committees

Management Committee

The Board constituted a Management Committee to advice on all matters related to the management of the Company. The Management Committee meets once in every month to review inter alia the operational and financial performance of the Company.

Seven meetings of the Committee were held during the period July 2008–March 2009 on August 1, 2008, October 21, 2008, November 26, 2008, December 30, 2008, January 28, 2009, February 27, 2009 and March 26, 2009.

The composition of the Committee and the details of meetings attended by its members are given below:

Name	Category	Number of meetings during the period July 2008 –March 2009	
		Held	Attended
Shri N. R. Ganti *	Independent, Non-Executive	7	7
Shri L. S. Sarma	Independent, Non-Executive	7	7
Shri C. Krishna Prasad	Non-Independent, Executive	7	7

*Shri N. R. Ganti resigned as Director of the Company w.e.f May 15, 2009

VII. General Body Meetings

Particulars of last three Annual General Meetings

AGM	Year	Location	Date	Time	No. of special resolutions passed
17th	2008	Chancery Hall, Hotel Green Park Ameerpet, Hyderabad	December 19, 2008	4.00 pm	One
16th	2007	Chancery Hall, Hotel Green Park Ameerpet, Hyderabad	December 29, 2007	4.00 pm	None
15th	2006	West Minister Hall, Hotel Central Court, Lakdi Ka Pool, Hyderabad	December 28, 2006	4.00 pm	None

For the nine-month period ended March 31, 2009, there were no resolutions passed through postal ballot. At the ensuing Annual General Meeting, there is no resolution proposed to be passed through postal ballot.

VIII. Subsidiary Companies

The Company does not have any material non-listed Indian subsidiary company and hence, the requirement of inducing

an independent director on the Board of Directors of the subsidiary company in terms of Clause 49 III of the Listing Agreement does not arise. However, the Company has two foreign subsidiaries namely, Granules USA Inc, and Granules Singapore Pte. Ltd.

IX. Disclosures

i) There were no materially significant related party

transactions, which could have potential conflict with the Company's interests at large.

- ii) The Company complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters related to capital markets; no penalties or strictures were imposed on the Company by the stock exchanges or SEBI or any other statutory authorities relating to the above.
- iii) The Managing Director and the Chief Finance Officer have certified to the Board, the compliance of matters specified in Clause 49V of the Listing Agreement.
- iv) The members of the Board and senior management personnel of the Company have affirmed compliance with the Code of Conduct as at March 31, 2009.
- v) All the mandatory requirements of Clause 49 of the Listing Agreement on Corporate Governance have been complied with.
- vi) The Company fulfilled / adopted the following non-mandatory requirements as prescribed in Annexure ID to Clause 49 of the Listing Agreement with the stock exchanges:
 - a) The Company set up a Compensation & Remuneration Committee (Please see the paragraph on Compensation & Remuneration Committee for details).
 - b) The Company has set up a suitable mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct; and adequate

safeguards provided against victimisation of 'Whistle blowers'.

- c) The statutory financial statements of the Company are unqualified.

vii) Secretarial audit

A qualified practicing Company Secretary carried out secretarial audit to reconcile the total admitted capital with the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The secretarial audit report confirms that the total paid-up capital was in agreement with the total number of shares in physical form and the total number of dematerialised shares held with NSDL and CDSL.

X. Means of Communication

The quarterly, half-yearly and annual financial results of the Company are communicated to the stock exchanges immediately after the same are approved by the Board and are published in the prominent English and Telugu newspapers namely, *Business Standard*, (Mumbai, Surat, Pune and Ahmedabad editions) and *Andhra Prabha* (Telugu Edition). The results are also displayed on the Company's website www.granulesindia.com besides the website of SEBI www.sebiedifair.nic.in. Press releases made by the Company from time to time, besides being communicated to the stock exchanges, are also displayed on the Company's website. The Management Discussion and Analysis Report forms part of this Report and is provided elsewhere in this Annual Report.

XI. General shareholder information

i) Annual General Meeting

Date	: September 25, 2009
Time	: 4.00 pm
Venue	: Residency Hall, Hotel Green Park, Hyderabad

ii) Financial year

: July 1, 2008 to March 31, 2009

iii) Date of book closure

: September 23, 2009 to September 25, 2009 (both days inclusive)

iv) Dividend payment

: The final dividend, if declared, shall be paid / credited on or before October 24, 2009

v) Listing on stock exchanges

: The Bombay Stock Exchange Limited (BSE)
The National Stock Exchange of India Limited (NSE)

vi) Stock codes/symbol

At BSE : 532482
At NSE : GRANULES

vii) Listing fee

: The Company has paid the listing fee to the stock exchanges for the financial year 2009-10

viii) Annual Custodial fee

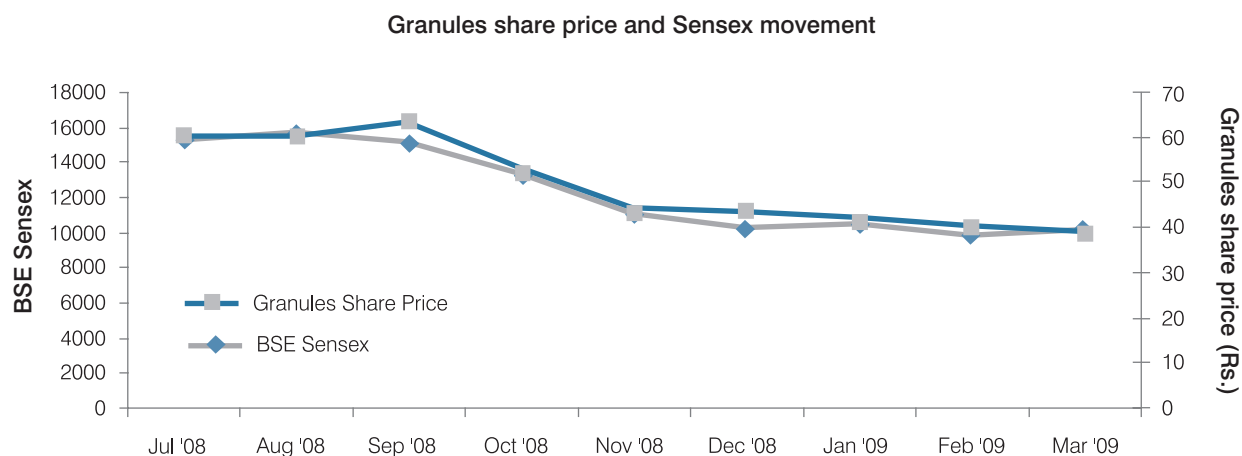
: The Company has paid the Annual Custodial fee to the Depositories for the financial year 2009-10.

ix) Market price data

High, low (based on the closing prices) and number of shares traded during each month in the last financial year on BSE and NSE were as follows:

Month	BSE			NSE		
	High	Low	Volume	High	Low	Volume
July 2008	60.00	46.00	6,97,694	59.80	45.00	6,18,144
August 2008	59.95	52.30	83,784	60.00	53.00	1,35,463
September 2008	63.00	45.05	10,5078	60.60	45.00	1,82,137
October 2008	52.95	28.20	1,14,575	51.60	25.25	1,69,236
November 2008	44.00	33.00	1,07,685	44.00	32.15	1,35,919
December 2008	43.00	33.10	48,478	44.00	33.05	83,044
January 2009	41.85	34.05	39,859	43.40	32.00	82,095
February 2009	40.00	34.65	40,575	39.90	34.90	64,824
March 2009	38.95	32.00	46,063	39.00	31.10	1,03,162

x) Performance of share price of the Company in comparison to the BSE Sensex



xi) Registrar and Transfer Agents

M/s. CIL Securities Limited were appointed as Registrars and Transfer Agents and Depository Transfer Agents of the Company. Any request pertaining to investors' relations may be addressed to the following address:

CIL Securities Limited

214, Raghva Ratna Towers

Chirag Ali Lane, Abids

Hyderabad – 500 001

Ph No: 91-40-23202465 / 66661276

Fax No: 91-40-23203028 / 66661267

Email: advisors@cilsecurities.com

Website: www.cilsecurities.com

Investors' correspondence may also be addressed to:

The Compliance Officer

Granules India Limited

2nd Floor, 3rd Block, My Home Hub

Madhapur, Hyderabad - 500081

Tel: 91-40-66760000 Fax: 91-40-23115145

E-mail: companysec@granulesindia.com

xii) Share Transfer System

Share transfers are processed by the Registrar and Share Transfer Agents and approved by the Share Transfer Committee depending on the volume of transfers.

At present, the share transfers received in physical form are processed and the share certificates are returned within a period of 15 days from the date of receipt, subject to the documents being valid and complete in all respects.

xiii) Shareholding

a) Distribution of shareholding as on:

Shareholding of nominal value	March 31, 2009				June 30, 2008			
	Number of shareholders		Number of shares		Number of shareholders		Number of shares	
	Total	%	Total	%	Total	%	Total	%
1 – 5000	18,942	99.43	43,25,162	21.56	20,262	99.41	45,69,620	22.78
5001 – 10000	49	0.26	3,68,540	1.84	56	0.27	3,92,787	1.96
10001 – 20000	29	0.15	4,28,476	2.14	30	0.15	4,28,845	2.14
20001 – 30000	6	0.03	1,49,645	0.75	10	0.05	2,30,861	1.15
30001 – 40000	3	0.02	98,876	0.48	0	0.00	0	0.00
40001 – 50000	1	0.01	43,543	0.22	2	0.01	85,447	0.43
50001 – 100000	5	0.03	3,36,454	1.68	4	0.02	2,51,472	1.25
100000 and above	16	0.07	1,43,06,458	71.33	19	0.09	1,40,98,122	70.29
Total	19,051	100.00	2,00,57,154	100.00	20,383	100.00	2,00,57,154	100.00

b) Distribution pattern as on March 31, 2009

Category	Number of shares held	Percent to capital	Number of members
Promoters/associates	68,63,172	34.22	18
Mutual funds, banks & FIIs	1,75,860	0.88	2
Bodies corporate	68,30,575	34.05	350
Individual shareholders	56,14,507	27.99	18,680
GDRs	5,73,040	2.86	1
Total	2,00,57,154	100	19,051

xiv) Dematerialisation of shares and liquidity

The Company's shares are compulsorily traded in dematerialised form and are available for trading on both the depositories in India viz. the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL). The Company's equity shares, representing 77.40% of the Company's share capital were dematerialised as on March 31, 2009.

The Company's shares are regularly traded on The National Stock Exchange of India Limited and The Bombay Stock Exchange Limited, in electronic form.

Under the depository system, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE101D01012.

xv) Outstanding GDRs / ADRs / warrants

Out of 37,61,007 GDRs issued during the year 2004-05, 5,73,040 GDRs were outstanding as on March 31, 2009.

xvi) Plant locations

- a. Plot No. 15/A/1, Phase III, I.D.A. Jeedimetla, Hyderabad-500 055
- b. Temple Road, Bonthapally, P.O. Jinnaram (M), Medak-502 313
- c. Plot No. 160/A & 161/E, Gagillapur Village, Qutubullapur Mandal, R R District-500 043

R&D Centre

Plot No. 160/A & 161/E, Gagillapur Village, Qutubullapur Mandal, R R District-500 043

xvii) Address for Correspondence

Granules India Limited

2nd Floor, 3rd Block, My Home Hub

Madhapur, Hyderabad – 500081, India

Tel: 91-40-66760000, Fax: 91-40-23115145

E-mail: mail@granulesindia.com

Website: www.granulesindia.com

Brief Profile of Directors seeking appointment / re-appointment at the ensuing Annual General Meeting

Name of Director	Dr.C.Nageswara Rao	Dr.Krishna Murthy Ella	Shri C. Parthasarathy	Shri Phillip Brian Logan	Shri C.Krishna Prasad
Date of Birth	15.08.1926	10.07.1955	07.07.1955	01.03.1962	02.10.1954
Date of Appointment	18.03.1991	04.06.2009	27.05.2009	29.01.2009	31.08.1994
Relationship with other Directors	Father of Mr. C. Krishna Prasad, Managing Director	None	None	None	Son of Dr. C. Nageswara Rao, Chairman
Expertise in specific functional area	Medical Surgeon	Scientist par international standard, well versed in the Plant / Human / Yeast systems. He is an expert in Gene Expression systems	Expert in Finance & Accounts	Specialty Chemical industry	Pioneer of Pharmaceutical Formulation Intermediates
Qualification	M.S. (Surgery & Urology)	M.S, Ph.D (Molecular Biology)	B.Sc., LLB, FCA, FCS	Diploma in Applied Science	B.Sc.
Board membership of other Indian Companies	Santhi Surgery Pvt Ltd	<ul style="list-style-type: none"> ■ Bharat Biotech International Ltd; ■ Bharat Biotech Foundation; ■ Biovet Pvt Ltd; ■ Conress Labs (India) Pvt Ltd; ■ Innova Agri Bio Park Ltd; ■ Mindtree Trading Company Pvt Ltd; and ■ RCC Laboratories India Pvt Ltd 	<ul style="list-style-type: none"> ■ Kary Consultants Ltd; ■ Kary Stock Broking Ltd; ■ Kary Insurance Broking Ltd; ■ Kary Investor Services Ltd; ■ Kary Comtrade Ltd; ■ Kary Computershare Pvt Ltd; ■ Kary Global Services Ltd; ■ Kary Global Services Inc., USA; ■ Kary Inc., USA; ■ Ocean Sparkle Ltd; ■ EPR Pharmaceuticals Pvt Ltd; ■ Nova Consultants Ltd; ■ Athena Infraprojects Pvt Ltd; ■ Srisairam Projects Ltd; ■ Pennar Industries Ltd 	<ul style="list-style-type: none"> ■ ISP (India) Private Limited 	<ul style="list-style-type: none"> ■ Triton Securities Pvt Ltd; ■ GIL Lifesciences Pvt Ltd; ■ Harikrishna Vineyards Pvt Ltd; and ■ Bhanodya Winery Pvt Ltd
Chairman/member of the committee of the Board of Directors of the Company	Chairman of Share Transfer and Shareholders' / Investors' Grievance Committee	Member of Compensation & Remuneration Committee	None	None	Member of: Audit Committee; Share Transfer and Shareholders' / Investors' Grievance Committee; Management Committee; and Compensation & Remuneration Committee
Chairman / member of the committees in other companies in which he is a Director	Chairman in Share Transfer and shareholders' /Investors' Grievance Committee – Granules India Ltd	None	Pennar Industries Limited	None	None
Number of shares held in the company	6,610	None	None	None	46,53,445

Auditors' Certificate

To
The Members of
Granules India Limited

We have examined the compliance of corporate governance by Granules India Limited, for the year ended on March 31, 2009, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The Compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Share Transfer and Shareholders'/Investors' Grievance Committee.

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 Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No.25480

Place: Hyderabad
Date : July 25, 2009

Financial Section

Auditors' Report

To
The Members of
M/s GRANULES INDIA LIMITED
Hyderabad - 500 081

1. We have audited the attached Balance Sheet of **M/s Granules India Limited**, Hyderabad as at March 31, 2009 and the Profit and Loss Account and Cash Flow Statement of the Company for the period 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.
2. 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 amounts and disclosures in the financial statements. Audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to the above, our comments are as under:
 - a) Reference is invited to Note No. B (3) under Schedule No. Q regarding dues to micro, small and medium enterprises,
 - b) Reference is invited to Note No. B (21) under Schedule No. Q regarding confirmation of balances.
5. Further to our comments in the Annexure referred to in paragraph (3) & (4) above:
 - 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, proper books of account as required by the Law have been kept by the Company so far as it appears from our examination of such books.
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement referred to in this report are in agreement with the Books of Account.
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement comply with the requirements of the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - e) On the basis of the written representations received from the directors, and taken on record by the Board of Directors, we report that none of the Directors are disqualified as on March 31, 2009, from being appointed as directors in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
 - f) In our opinion, and to the best of our information and according to the explanations given to us, the said Balance Sheet, Profit & Loss Account and Cash Flow Statement read together with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.
 - i) in so far as it relates to the Balance Sheet, of the state of affairs of the Company as on March 31, 2009.
 - ii) in so far as it relates to the Profit & Loss Account, of the Profit of the Company for the period ended on that date
 - iii) in case of the Cash Flow Statement, of the cash flows for the period ended on that date.

For **M/s Kumar & Giri**
Chartered Accountants

J. Bhadra Kumar

Partner

Membership No. 25480

Place: Hyderabad

Date: July 25, 2009

Annexure referred to in paragraph (3) of our report of even date

(I) Fixed Assets

- a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets of the Company.
- b) The Physical verification of fixed assets is being carried out as per the program drawn up and to the extent the physical verification is carried out, no material discrepancies were noticed on such verification.
- c) During the year, the Company has written off the assets of the old Paracetamol Plant at Bonthapally, amounting to Rs 35.91 lakhs representing the written down value (WDV) of the Assets.

(II) Inventory

- a) The stocks of raw materials, consumables, stores, work-in-progress and finished goods have been physically verified during the year at regular intervals by the management.
- b) The procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. In respect of finished goods lying with the consignees, the certificate given by the management is relied upon.
- c) The discrepancies noticed on verification of stocks as compared to books were not material and it has been properly dealt with in the books of account.

(III) Loans taken / granted

According to the information and explanations given to us, the company has neither taken nor granted any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

(IV) Internal control

- a) In our opinion and according to the information and explanations given to us, the internal control procedures are being strengthened on a continuous basis so as to be commensurate with the size of the company and the nature of its business for the purchase of inventory keeping in view of the expansion.
- b) There are no major weaknesses in the internal control procedures.

(V) Section 301

In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered into with parties entered in the register maintained under Section 301 of the Companies Act, 1956 aggregating during the year to a value exceeding Rs. 5,00,000/- in respect of such party during the year.

(VI) Public deposits

The Company has not accepted any deposits from the public.

(VII) Internal audit

The Company has an internal audit system so as to be commensurate with its size and the nature of its business.

(VIII) Cost records

The Central Government has prescribed maintenance of cost records in respect of manufacture of API products and formulations. The Company has made and maintained account and records of such activities.

(IX) Statutory dues

The Company is generally regular in depositing undisputed statutory dues including Provident Fund,

Employees State Insurance, Income tax, Customs Duty, Wealth Tax, Sales Tax, Excise Duty, Cess and other statutory dues with the appropriate authorities. There are no arrears of outstanding statutory dues as at the last day of the period ending 31.03.2009 for period exceeding 6 months from the date they became payable, except an amount of Rs. 13.78 lakhs representing unpaid dividend.

(X) Accumulated losses / cash losses

The Company has no accumulated losses.

(XI) Repayment of dues

There are minor delays in repayment of dues to banks.

(XII) Loans & advances

The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(XIII) Chit – Fund companies/ Nidhi/Mutual benefit societies

The provisions of special statute relating to chit fund companies and the provisions of Nidhi or mutual benefit fund/ societies are not applicable to the Company.

(XIV) Financing companies

The Company is not dealing or trading in shares, securities and other investments.

(XV) Guarantee for loans

The Company has not given any guarantee for loans taken by others to banks or financial institutions.

(XVI) Term loans

The term loans are applied for the purpose for which the loans were obtained.

(XVII) Usage of funds

According to the information and explanations given to us and on an overall examination of Balance Sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except permanent working capital.

(XVIII) Preferential allotments

The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.

(XIX) Creation of securities

The Company has not issued any debentures during the year, hence, the question of creation of securities does not arise.

(XX) Public issue

The Company has not raised any money through Public Issue.

(XXI) Frauds

According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For **M/s Kumar & Giri**
Chartered Accountants

J. Bhadra Kumar
Partner

Place: Hyderabad
Date: July 25, 2009

Membership No. 25480

Balance Sheet as at March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	As at March 31, 2009	As at June 30, 2008
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	217,424,066	202,304,066
Share Application Money		–	15,120,132
Reserves & Surplus	B	1,610,941,357	1,589,421,254
Loan Funds			
Secured Loans	C	1,081,632,717	1,003,292,561
Unsecured Loans	D	107,524,468	107,524,468
Deferred Tax Liability		123,563,411	105,538,200
Total Sources of Funds		3,141,086,020	3,023,200,682
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	2,680,883,981	1,753,028,846
Less: Accumulated Depreciation		435,835,472	391,608,524
Net Block		2,245,048,509	1,361,420,322
Add: Capital Work in Progress including advances (Net)		20,224,425	925,367,664
		2,265,272,934	2,286,787,986
Investments	F	216,713,567	216,665,567
Current Assets, Loans & Advances			
Inventories	G	371,478,844	291,612,088
Sundry Debtors		305,452,594	220,742,382
Cash & Bank Balances		74,977,783	59,184,029
Other Current Assets		7,485,716	2,095,103
Loans and Advances		193,095,186	182,198,510
		952,490,123	755,832,112
Less: Current Liabilities & Provisions	H		
Current Liabilities		279,186,154	220,914,529
Provisions		33,507,593	37,910,664
Net Current Assets		639,796,376	497,006,920
Miscellaneous Expenditure (to the extent not written off or adjusted)	I	19,303,143	22,740,210
Total Application of Funds		3,141,086,020	3,023,200,682
Significant accounting policies and notes to accounts	R		

As per our report of even date

For and on behalf of the Board

for Kumar & Giri

Chartered Accountants

J. Bhadra Kumar

Partner

Membership No. 25480

Place: Hyderabad

Date: July 25, 2009

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Dr. C. Nageswara Rao

Chairman

C. Krishna Prasad

Managing Director

Pranesh Raj Mathur

Chief Financial Officer

Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	9 months ended March 31, 2009	Year ended June 30, 2008
INCOME			
Gross Sales		2,597,810,798	2,247,257,848
Less: Excise duty & Sales Tax		59,074,565	105,792,515
Net Sales	J	2,538,736,233	2,141,465,333
Other Income	K	8,546,919	6,851,442
		2,547,283,152	2,148,316,775
EXPENDITURE			
Cost of Materials Consumed	L	1,557,896,011	1,247,807,639
Manufacturing Expenses	M	270,560,527	281,715,147
R & D Expenses	N	27,844,438	5,348,365
Marketing & Selling Expenses	O	156,680,620	150,166,541
Administrative Expenses	P	121,652,059	111,314,453
Foreign Exchange Fluctuations		89,041,209	2,263,299
Interest and Finance Charges	Q	145,383,034	119,721,886
Depreciation		97,478,814	97,209,156
Misc. Expenditure written off		2,179,208	4,655,672
Total Expenses		2,468,715,920	2,020,202,158
Profit before tax		78,567,232	128,114,617
Less: Provision for taxes :			
Current Tax Expense		8,901,667	14,515,386
Deferred Tax Expense		18,025,211	21,084,596
Fringe Benefit Tax		787,917	1,169,676
Net Profit after Taxes		50,852,437	91,344,959
Add: Profit brought forward from previous year		392,116,265	332,403,640
Balance available for appropriation		442,968,702	423,748,599
Less: Provision for dividend		25,071,443	25,071,443
Provision for dividend tax		4,260,891	4,260,891
Transfer to General Reserve		1,300,000	2,300,000
Balance transferred to Balance Sheet		412,336,368	392,116,265
Surplus carried forward to Balance Sheet		412,336,368	392,116,265
Weighted average No. of shares		20,057,154	21,647,819
Basic Earnings per share		2.54	4.56
Basic Earnings per share (annualised)		3.38	4.56
Diluted Earnings per share		—	4.22
Significant accounting policies and notes to accounts	R		

As per our report of even date

For and on behalf of the Board

for Kumar & Giri

Chartered Accountants

J. Bhadra Kumar

Partner

Membership No. 25480

Place: Hyderabad

Date: July 25, 2009

Dr. C. Nageswara Rao

Chairman

C. Krishna Prasad

Managing Director

Pranesh Raj Mathur

Chief Financial Officer

Schedules forming part of Balance Sheet as at March 31, 2009

(Amount in Rupees)

	As at March 31, 2009	As at June 30, 2008
SCHEDULE A SHARE CAPITAL		
Authorised Capital		
3,00,00,000 Equity Shares of Rs. 10 each	300,000,000	300,000,000
(Previous year 3,00,00,000 Equity Shares of Rs. 10 each)		
	300,000,000	300,000,000
Issued, Subscribed and Paid up Capital		
2,00,57,154 Equity Shares of Rs.10/- each.	200,571,540	200,571,540
(Previous year : 2,00,57,154 equity shares of Rs.10 each)		
(Of the above 24,12,134 equity shares of Rs.10/- each issued for consideration otherwise than cash ,of which 16,67,334 equity shares are issued as per the Scheme of Amalgamation)		
Add: Forfeited shares	16,852,526	1,732,526
Consists of 39,000 equity shares and 17,60,783 warrants		
(Previous year consists of 39,000 equity shares and 1,60,783 warrants)		
	217,424,066	202,304,066

	Opening Balance	Additions	Withdrawals	Closing Balance
SCHEDULE B RESERVES & SURPLUS				
General Reserve	17,403,369	1,300,000	–	18,703,369
Central Subsidy	1,214,159	–	–	1,214,159
Share Premium	1,178,687,461	–	–	1,178,687,461
Profit & loss Account	392,116,265	20,220,102	–	412,336,368
	1,589,421,254	21,520,102	–	1,610,941,357

	As at March 31, 2009	As at June 30, 2008
SCHEDULE C SECURED LOANS		
I) Term loans		
From Banks	888,106,516	826,047,433
Interest accrued and due	2,475,276	1,221,089
II) Hire purchase loans	4,152,551	5,879,996
III) Working Capital Borrowings from banks	186,898,374	170,144,045
Total (I+II+III)	1,081,632,717	1,003,292,563

SCHEDULE D UNSECURED LOANS		
From Banks	100,000,000	100,000,000
Sales Tax Deferment Loan	7,524,468	7,524,468
	107,524,468	107,524,468

Schedules forming part of Balance Sheet as at March 31, 2009

SCHEDULE E FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on July 1, 08	Additions	Deletions	Total as on March 31, 09	As on July 1, 08	For the Period	On Deletions	As on March 31, 09	As on March 31, 09	As on June 30, 08
Land	54,861,965	–	–	54,861,965	–	–	–	–	54,861,965	54,861,965
Buildings	382,739,303	295,996,564	8,387,077	670,348,790	62,478,804	14,226,573	5,900,638	70,804,739	599,544,051	320,260,499
Plant & Machinery	950,175,986	682,572,685	48,765,265	1,583,983,406	249,759,291	57,168,364	47,075,753	259,851,901	1,324,131,505	700,416,695
Computers	10,701,617	753,311	–	11,454,928	5,649,344	1,302,348	–	6,951,691	4,503,237	5,052,273
Office equipment	18,513,543	591,160	22,500	19,082,203	5,868,500	670,813	1,781	6,537,532	12,544,671	12,645,043
Furniture & Fixtures	28,973,947	4,494,957	–	33,468,904	4,269,449	1,527,691	–	5,797,140	27,671,764	24,704,498
Vehicles	20,802,205	635,346	776,547	20,661,004	11,509,678	1,094,702	273,691	12,330,689	8,330,315	9,292,527
Technical Knowhow	286,260,281	762,500	–	287,022,781	52,073,458	21,488,322	–	73,561,780	213,461,001	234,186,823
Total	1,753,028,846	985,806,523	57,951,389	2,680,883,980	391,608,524	97,478,812	53,251,862	435,835,472	2,245,048,508	1,361,420,322
Previous year totals	1,587,878,377	178,035,567	12,885,098	1,753,028,846	305,856,340	97,209,158	11,456,974	391,608,524	1,361,420,322	1,282,022,035

Note: 1) Gross Block of Vehicles includes Rs. 1,01,03,520/- (Previous year Rs.1,26,49,701) acquired on hire - purchase basis.

2) Sale / write off of old Paracetamol facility at Bonthapally is included in the deletions to Gross block (Rs.5,27,78,434) and Depreciation on deletions (Rs.4,91,87,914), respectively a Net block of Rs.35,90,520/-

	As at March 31, 2009	As at June 30, 2008
SCHEDULE F INVESTMENTS		
(At Cost less provision for diminution in value)		
Quoted		
Long term - non-trade		
Andhra Bank (11,277 shares of Rs. 10/- each)	1,014,930	1,014,930
	1,014,930	1,014,930
Unquoted		
Trade long term		
Jeedimetla Effluent Treatment Ltd. (15,142 Equity shares of Rs.100/- each)	1,566,200	1,566,200
Pattancheru Envirotech Ltd (34,040 Equity shares of Rs. 10/- each)	340,400	340,400
	1,906,600	1,906,600
Subsidiaries		
(Unquoted Shares)		
Granules USA Inc - Wholly owned subsidiary 500 fully paid equity shares of US\$100 each	2,379,470	2,379,470
GIL Life Sciences Pvt Ltd., Wholly owned subsidiary (2,946,176 fully paid equity shares of Rs. 10 each)	29,461,760	29,461,760
GIL Singapore PTet Ltd., Wholly owned subsidiary (1000 shares)	48,000	–
Joint Ventures		
(Unquoted Shares)		
Granules Biocause Pharmaceutical Co. Ltd. (50% Joint-Venture in equity)	181,902,807	181,902,807
	216,713,567	216,665,567

Schedules forming part of Balance Sheet as at March 31, 2009

(Amount in Rupees)

	As at March 31, 2009	As at June 30, 2008
SCHEDULE G CURRENT ASSETS, LOANS & ADVANCES		
i) Stock in hand		
Raw Materials	150,824,096	97,342,818
Finished Goods	101,027,145	108,372,736
Work In Process	83,633,015	62,854,214
Consumable and packing materials	12,793,302	7,152,251
Stores and Spares	23,201,286	15,890,069
	371,478,844	291,612,088
ii) Sundry Debtors		
(Unsecured, considered good)		
a) For more than six months	43,446,686	26,370,200
b) Others	262,005,908	194,762,819
	305,452,594	221,133,019
Less: Provision for doubtful debts	–	390,637
	305,452,594	220,742,382
iii) Cash & bank balances		
Cash on hand	110,634	108,618
Bank Balances:		
With scheduled banks:		
– in current account	6,009,852	4,618,494
– in deposit accounts (including margin money)	68,857,297	54,456,917
	74,977,783	59,184,029
iv) Other current assets		
Interest receivable	7,485,716	2,095,103
	7,485,716	2,095,103
v) Loans & Advances		
(Unsecured, considered good)		
Advances to suppliers	4,437,493	3,961,750
Deposits	21,300,270	20,478,278
Excise duty	37,777,978	33,379,630
Service Tax Receivable	43,818,888	34,479,228
Prepaid expenses	24,986,789	10,406,361
Sales tax refund	20,378,426	18,297,050
Import entitlements	16,874,120	44,270,399
Loan to Granules USA	–	6,465,000
Other advances	23,521,222	10,460,814
	193,095,186	182,198,510

Schedules forming part of Balance Sheet as at March 31, 2009

(Amount in Rupees)

	As at March 31, 2009	As at June 30, 2008
SCHEDULE H CURRENT LIABILITIES & PROVISIONS		
Current liabilities		
Due to Small Scale Industrial Undertakings	24,415,183	12,975,082
Due to Others		
– for goods & services	211,815,353	162,884,132
– for capital goods	16,247,286	12,967,634
Advances from Customers	13,090,251	25,609,938
Unpaid dividends	1,377,882	874,355
Interest accrued but not due	3,585,598	–
Other Liabilities	8,654,601	5,603,387
	279,186,154	220,914,528
Provisions		
Provision for taxation (net of advances)	4,175,259	8,578,329
Provision for dividend	25,071,443	25,071,443
Provision for dividend tax	4,260,892	4,260,892
	33,507,593	37,910,664
SCHEDULE I MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
(i) Public Issue Expenses		
Opening Balance	12,358,185	13,446,825
Less: Written off during the year	1,562,412	1,088,640
	10,795,773	12,358,185
(ii) VRS Expenses		
Opening Balance	10,382,025	1,575,231
Additions / (Reversals) during the year	(1,257,859)	12,373,826
Less: Written off during the year	616,796	3,567,032
	8,507,370	10,382,025
Total (i+ii)	19,303,143	22,740,210

Schedules forming part of Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

	9 Months ended March 31, 2009	Year ended June 30, 2008
SCHEDULE J SALES		
Export Sales	2,063,896,013	1,575,176,376
Domestic Sales	509,456,115	661,771,887
By products	20,186,495	6,888,056
Export benefits	4,272,175	3,421,529
Gross Sales	2,597,810,798	2,247,257,848
Less: Excise duty & sales tax	59,074,565	105,792,515
Net Sales	2,538,736,233	2,141,465,333

Schedules forming part of Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

	9 months ended March 31, 2009	Year ended June 30, 2008
SCHEDULE K OTHER INCOME		
Interest	6,120,010	2,692,455
Dividends received	22,669	42,892
Sale of Scrap	2,329,532	2,760,888
Insurance Claims received	74,708	80,743
Profit on sale of Assets	–	1,274,464
	8,546,919	6,851,442

SCHEDULE L COST OF MATERIALS CONSUMED		
a) Consumption of Raw Material	1,512,466,169	1,283,309,507
b) Consumption of Packing Materials	58,863,052	51,423,442
c) (Increase)/Decrease in Stocks		
(i) (Increase)/Decrease in WIP		
Opening stock	62,854,214	31,020,976
Closing Stock	83,633,015	62,854,214
	(20,778,801)	(31,833,238)
(ii) (Increase)/Decrease in FG		
Opening stock	108,372,736	53,280,664
Closing Stock	101,027,145	108,372,736
	7,345,591	(55,092,072)
Total (Increase)/Decrease in stocks	(13,433,210)	(86,925,310)
Total cost of material consumed (a+b+c)	1,557,896,011	1,247,807,639

SCHEDULE M MANUFACTURING EXPENSES		
Salaries, Wages	102,767,075	100,409,555
Contribution to PF/ESI	5,211,819	6,224,618
Employee welfare expenses	3,496,442	3,672,151
Conversion charges	15,406,000	7,845,297
Power & Fuel	68,612,939	84,067,939
Effluent Treatment expenses	22,737,438	17,361,620
Repairs & Maintenance		
– Factory Building	6,962,374	4,201,347
– Plant & Machinery	27,329,726	27,652,769
– Others	2,840,875	4,829,617
Consumables & Lab Chemicals	9,202,901	21,111,620
Analytical Fees	2,695,662	1,145,689
Others	3,297,276	3,192,925
	270,560,527	281,715,147

Schedules forming part of Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

	9 months ended March 31, 2009	Year ended June 30, 2008
SCHEDULE N R & D EXPENSES		
Salaries	3,695,909	1,080,655
Consumables & Lab Chemicals	5,241,761	4,267,710
Raw Materials	18,906,768	–
	27,844,438	5,348,365

SCHEDULE O MARKETING & SELLING EXPENSES		
Business Promotion expenses	15,898,307	14,244,767
Sales Commission	27,437,443	27,294,972
Freight & Clearing charges	101,065,451	94,282,493
Discount	32,177	3,075,373
Travelling expenses	12,247,242	11,268,936
	156,680,620	150,166,541

SCHEDULE P ADMINISTRATIVE EXPENSES		
Salaries, Wages & Bonus	23,958,209	25,049,617
Contribution to PF/ESI	803,948	757,899
Employee welfare expenses	1,234,714	1,802,712
Directors remuneration	2,250,000	3,000,000
Managerial Commission	1,342,275	2,545,000
Repairs & Maintenance – Others	906,913	876,994
Rent	11,987,968	14,152,846
Rates & Taxes	1,634,387	3,875,994
Auditors' remuneration	350,000	400,004
Insurance	5,710,073	9,441,610
Consultancy & Professional Charges	34,361,586	12,315,886
Communication expenses	4,542,457	5,413,547
Printing & stationery	3,548,687	4,044,324
Travelling & Conveyance	15,747,826	14,090,482
Directors sitting fees	330,000	310,155
Advertisement Charges	366,737	242,401
Garden Maintenance	2,198,749	2,047,156
Donations	592,624	566,128
Provision for Doubtful Debts	–	390,637
Loss on sale of assets / write off	920,800	–
Sundry expenses	8,864,106	9,991,061
	121,652,059	111,314,453

SCHEDULE Q INTEREST AND FINANCE CHARGES		
Interest on Term loans	37,598,428	28,185,998
Interest on Working Capital	72,567,137	67,027,796
Interest Others	7,080,942	1,395,361
Bank Charges	28,136,527	23,112,731
	145,383,034	119,721,886

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

- 1) **System of accounting:** The accounts have been prepared and presented under the historical cost convention method on the accrual basis of accounting in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI) to the extent applicable.
- 2) **Fixed Assets:** Fixed Assets are stated at cost less accumulated depreciation. Cost is inclusive of duties & taxes (net of CENVAT / VAT), incidental expenses and erection / commissioning expenses.
- 3) **Depreciation:** Depreciation on fixed assets is provided on straight-line method at the rates specified in Schedule XIV of the Companies Act, 1956. The depreciation on incremental value arising from the revaluation of the fixed assets is charged to Revaluation Reserve Account.
- 4) **Expenditure during construction period:** Expenditure (including finance cost relating to borrowed funds for construction or acquisition of fixed assets) incurred on projects under implementation are treated as preoperative expenses pending allocation to the assets and are shown under "Capital Work in Progress" and the same are apportioned to fixed assets on commencement of commercial production.
- 5) **Investments:** Long-term investments and investments in subsidiary companies are carried at cost. Provision for diminution in value is made whenever necessary in accordance with the Accounting Standards in force.
- 6) **Valuation of Inventories:**
 - a) Inventories are valued at the lower of cost or net realizable value.
 - b) Inventories of raw material, consumables and stores and spares are valued at cost as per FIFO method. Cost does not include duties and taxes that are subsequently recoverable.
 - c) Cost for the purpose of finished goods and material in process is computed on the basis of cost of material, labour and other related overheads.
 - d) Goods in transit are stated at costs accrued up to the date of Balance Sheet.
 - e) Stocks with consignment agents are stated at costs accrued up to the date of the Balance sheet.
- 7) **Government Grants:** Government grants received in the nature of promoter's contribution and where no repayment is ordinarily expected are treated as capital reserve.
- 8) **Foreign Exchange:** Foreign exchange transactions are recorded at the exchange rates prevailing at the time of transactions or at contracted rates. Current assets and current liabilities are translated at values prevailing at the Balance Sheet date. Gains/Losses, if any, arising thereby are recognized in the Profit and Loss account.
- 9) **Revenue Recognition:**
 - a) Revenue from sales is recognized when significant risk and rewards in respect of ownership of the products are transferred.
 - b) Revenue from domestic sales is recognized on dispatch of products from the factory of the Company and in case of consignment sale, on further sale made by the agents.
 - c) Revenue from export sales is recognised on the basis of dates of Bill of Lading.
- 10) **Export Benefits:** Advance licenses are issued to the company under the Advance License Scheme [Duty Exemption Entitlement Certificate (DEEC Scheme)] / duty entitlement credited under the Duty Entitlement Pass Book Scheme (DEPB Scheme) on the export of the goods manufactured by it. Whenever export sales are made by the company, pending receipt of imported duty-paid raw materials under the DEEC / DEPB Schemes, the cost of domestic raw materials actually consumed for the purpose of such exports is compensated and / or matched by accruing the value of the benefit under the DEEC / DEPB Scheme.
- 11) **Research and development expenses:**
 - a) Research costs not resulting in any tangible property/equipment are charged to revenue as and when incurred.

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- b) Know-how / product development costs incurred on an individual project are carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized over the period of expected future benefits from the related project, not exceeding ten years.
- c) The carrying value of know-how / product development costs are reviewed for impairment annually when the asset is not yet in use and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

12) Employee Retirement Benefits:

- a) Contributions paid/payable to the defined contribution plan of Provident Fund for certain employees covered under the scheme are recognized in the Profit and Loss account each year.

The Company makes contributions to a State operated contribution scheme for certain employees at a specified percentage of the employees' salary. The Company has an obligation only to the extent of the defined contribution.

- b) Defined Benefit Plan: Gratuity for certain employees is covered under a scheme of Life Insurance Corporation of India (LIC) and contributions in respect of such scheme are recognized in the Profit and Loss account. The liability as at the Balance Sheet date is provided for based on the actuarial valuation carried out in accordance with revised Accounting Standard 15 as at the end of the year/period.
- c) Other long term employee benefits: Other long term employee benefits comprise of leave encashment which is provided on the actuarial valuation carried out in accordance with revised Accounting Standard 15 as at the end of the year/period.

- 13) **Borrowing costs:** Borrowing costs incurred in relation to the acquisition and construction of assets are capitalized as part of the cost of such assets up to the date when such assets are ready for intended use. Other borrowing costs are charged as an expense in the year in which they are incurred.

14) Income tax expense:

- a) Current Tax Expense
The Current charge for income tax is calculated in accordance with the tax regulations.
- b) Deferred Tax Expense
Deferred income tax reflects the impact of timing difference between accounting income and tax income for the year / period. Deferred tax is measured based on the tax rates and the tax laws enacted at the Balance Sheet date. Deferred tax asset is recognized only to the extent of certainty of realization of such asset.
- c) Fringe Benefit Tax
Fringe Benefit Tax is calculated in accordance with the tax regulations.

B) NOTES TO ACCOUNTS:

1) Contingent liabilities not provided for in respect of:

(Rupees in Lakhs)

	As at March 31, 2009	As at June 30, 2008
a) Claims against the Company not acknowledged as debts:		
Income tax	43.47	43.47
Customs duty	43.47	43.47
b) Estimated amount of contracts remaining to be executed on Capital account and not provided for (net of advances)	—	412.97
c) Letters of credit and Bank Guarantees issued by Bank	1965.02	4519.04
d) Bills discounted with banks	8050.26	6247.31

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

2) Secured loans:

- Term loans: Term loans from Banks are secured by equitable mortgage of Land and Buildings and hypothecation of plant and machinery located at Jeedimetla, Gagillapur and Bonthapally on pari passu basis. Term loans are further secured by second charge on hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables.
- Working capital facilities: The working capital facilities from Banks are secured by hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables on pari passu basis. The working capital facilities are further secured by a second charge on the fixed assets of the Company.
- All the above loans except loan from International Finance Corporation are further secured by personal guarantee of the Managing Director. The Company has requested Consortium Bankers to waive the personal guarantee of the Managing Director, which is under active consideration.
- Hire purchase loans are secured by hypothecation of the asset purchased.

- Sundry Creditors include a sum of Rs. 244.15 lakhs due to micro, small and medium enterprises. Total outstanding dues of micro, small and medium enterprises have been determined to the extent such parties have been identified on the basis of the information available with the Company. The parties to whom the Company owes sums outstanding for more than 30 days including LCs opened as at the Balance Sheet date are:

Durga Industries	Spectrum Filtration Pvt.Ltd	Super Olefins (P) Ltd
Trijama Filterall Pvt.Ltd	Unnathi Stickers	Shree Engineering Works
Mohankrihsna Polymers	Tirumala Comprints Pvt.Ltd	Pragati Pack Pvt.Ltd
Stick Lables	Yenflexi Pack	Sree Venkatasai Packaging Pvt.Ltd
Shivshakti Timber Industries	Standard Reagents Pvt.Ltd	

4) Particulars of Production, Sales and Stock of Finished Goods (Previous year figures in brackets).

(Qty in. M. Tons and Value Rs. in Lakhs)

Product	Opening stock		Production	Closing Stock		Sales	
	Qty	Value	Qty	Qty	Value	Qty	Value
API's	302.37 (84.07)	558.58 (303.38)	6486.29 (7116.44)	265.59 (302.37)	594.68 (558.58)	3713.88 (4105.58)	9896.92 (8432.07)
PFI' s	106.96 (128.54)	406.17 (222.52)	4250.00 (5377.60)	122.38 (106.96)	344.08 (406.17)	3985.47 (5247.08)	14588.20 (12979.06)
Formulations (Tablets) (in '000)	7917.05 (7935.25)	6.91 (6.91)	198825.90 (6548.17)	42012.06 (7917.05)	71.51 (6.91)	164730.90 (6566.37)	902.24 (3.52)
Total							25387.36 (21414.65)

Note: Captive consumption of API's is 2809.19 MT and PFI is 249.10 (Previous Year API is 2792.56 MT) and that of PFI's is 152.10) included in Production.

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

5) Consumption of Raw materials during the year:

(Qty in. M. Tons and Value Rs. in Lakhs)

Name of the material	2008-09		2007-08	
	Qty	Value	Qty	Value
Para Amino Phenol	4039.80	5780.78	3825.45	3396.42
Acetic Anhydride	4237.14	2255.99	4184.80	2058.13
Ibuprofen	347.91	1587.28	350.67	1365.25
Paracetamol	993.44	1462.89	999.56	1134.42
Guaicol	370.00	1384.85	440.04	1009.61
Acetamide	119.00	205.46	668.65	689.56
PVPK	63.84	383.85	66.78	393.34
Ciprofloxacin	16.96	236.11	27.79	318.01
Dicyandiamide	230.51	349.82	393.27	307.70
Epichlorohydrin	260.10	239.57	358.08	301.27
Others		1238.05		1859.38
Total		15124.66		12833.10

6) Remuneration to Managing Director

(Rupees in Lakhs)

	2008-09	2007-08
Salary	22.50	30.00
Commission	13.42	25.45
Perquisites	5.79	10.90
Total	41.71	66.35

7) Computation of Net Profit u/s 198 read with Section 309 (5) of Companies Act, 1956

(Rupees in Lakhs)

	9 months ended March 31, 2009	Year ended June 30, 2008
Profit before Income tax as per Profit & Loss account	785.67	1281.15
Add: Directors remuneration	22.50	30.00
Directors' commission	13.42	25.45
Directors sitting fees	3.30	3.10
Loss / (Profit) on assets sold / written off (Net)	9.20	(12.75)
Total	834.09	1326.95
Total remuneration payable including commission @5%	41.71	66.35
Less: Remuneration & perquisites paid	28.27	40.90
Balance being commission payable	13.44	25.45

8) Remuneration to Statutory Auditors

(Rupees in Lakhs)

	2008-09	2007-08
As Auditor	3.50	3.50
As adviser, or in any other capacity, in respect of:		
Taxation services	1.25	1.25
Company Law matters	Nil	Nil
Management services	Nil	Nil
Certification	0.51	0.44
Out of pocket expenses	Nil	Nil
Total	5.26	5.19

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- 9) Licensed, Installed capacity and actual production of Active Pharmaceutical Ingredients (APIs), Pharmaceutical Formulation Intermediates (PFIs) (As certified by the Management) (Rupees in Lakhs)

	2008-09	2007-08
Capacity and Production		
i) Licensed Capacity (Metric tones per annum)	NA	NA
ii) Installed Capacity (Metric tones per annum)		
APIs	9751.00	9751.00
PFIs	8400.00	8400.00
Tablets (in millions)	6172.80	172.80
iii) Production (Metric tones)		
APIs	6486.29	7116.43
PFIs	4250.00	5377.61
Tablets (in millions)	198.83	6.55

- 10) Foreign Exchange outgo/earnings towards: (Rupees in Lakhs)

Expenditure/Earnings in Foreign Currency	2008-09	2007-08
Import of goods	11429.87	7928.45
Foreign travel	6.55	4.85
Sales commission	152.79	265.35
Consultancy charges	109.10	69.21
Capital assets	177.47	532.68
Interest	135.96	93.05
Other expenditure	92.71	48.29
Foreign exchange earnings – Export sales realized	18878.22	15142.40

- 11) Details of Imported and Indigenous Raw Materials:

Raw materials consumed – Imported/ Indigenous (Rupees in Lakhs)

Name of the material	2008-09		2007-08	
	%	Value	%	Value
Imported	76.90	11776.90	70.17	9004.48
Indigenous	23.10	3536.83	29.83	3828.63
Total	100.00	15313.73	100.00	12833.11

- 12) During the year, the Company has capitalised borrowing costs of Rs. 1044.89 lakhs towards Tablet facility at Gagillapur, grouped under Capital Work in Progress, (Previous year Rs. 466.92 lakhs for Tablet facility at Gagillapur, grouped under Capital Work in Progress), incurred during the year.
- 13) Segment reporting: The Company has only one business segment of "Pharmaceuticals". Therefore, the disclosure requirements of "Segment reporting" are not applicable.

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- 14) Related party disclosures required as per Accounting Standard (AS-18) on "Related party disclosures" issued by the Institute of Chartered Accountants of India, are as below:

a) Names of related parties and the nature of relationships:

Name	Relationship
(i) Granules USA Inc	Wholly owned subsidiary company
(ii) GIL Lifesciences Private Limited	Wholly owned subsidiary company
(iii) Granules Singapore Pte Ltd	Wholly owned subsidiary company
(iv) Granules-Biocause Pharmaceutical Co. Ltd	Joint – Venture
(v) Key Management Personnel: Shri C. Krishna Prasad	Managing Director
(vi) Others: Dr. C. Nageswara Rao	Non-Executive Chairman
Mr. C. Harsha	Chief Marketing Officer

b) Transactions with Subsidiary Company:

(Rupees in Lakhs)

	March 31, 2009	June 30, 2008
(i) Granules USA Inc		
Sale of goods	6928.46	4943.82
Interest on unsecured loan	5.35	5.26
Amounts outstanding at Balance Sheet date:		
Loan granted	–	64.65
Interest on loan	22.40	17.05
Equity subscribed	23.79	23.79
Amounts receivable for sales made	4552.51	3433.58
(ii) GIL Lifesciences Private Limited		
Equity participation	–	294.62
Amounts outstanding at Balance Sheet date:		
Equity subscribed	294.62	294.62
(iii) GIL Singapore PTE Ltd		
Equity Participation	0.48	–
Advance for expenses	2.07	–
Amount outstanding at Balance Sheet date:		
Equity participation	0.48	–
Advance for expenses	2.07	–
c) Transactions with Joint-Venture		
Equity Participation	–	–
Purchase of goods	1374.97	1611.82
Amounts outstanding at Balance sheet date:		
Equity	1819.03	1819.03
Amounts payable for purchase of goods	69.71	712.55
d) Transactions with other related parties:		
Mr. C. Krishna Prasad, Managing Director:		
Remuneration	41.71	66.35
Dr. C. Nageswara Rao, Chairman:		
Sitting fee paid	0.20	0.30

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

15) Details of Loans and advances given to Subsidiary company:

Unsecured loan to Granules USA, Inc., (Rupees in Lakhs)

	2008-09	2007-08
Balance as at 31 March 09	–	64.65
Maximum balance during the period	–	64.65
Rate of interest charged	–	7%p.a.

16) Employee Benefits

a) Defined benefit plans:

The following table sets forth the status of the Gratuity Plan of the Company and the amounts recognized in the Balance Sheet and Profit and Loss Account:

(Rupees in Lakhs)

Particulars	Gratuity Plan	
	2008-09	2007-08
Projected benefit obligation at the beginning of the period	54.92	53.04
Current service cost	12.60	12.60
Interest cost	5.28	4.77
Actuarial loss/(gain)	–	–
Benefits paid	(4.36)	(15.49)
Projected benefit obligation at the end of the period	68.44	54.92
Amounts recognized in the balance sheet		
Projected benefit obligation at the end of the period	68.44	54.92
Fair value of plan assets at end of the period	68.44	54.92
Funded status of the plans – (asset) / liability	–	–
Liability recognized in the balance sheet	–	–
Cost for the period		
Current service cost	12.60	12.60
Interest cost	5.20	4.77
Net actuarial (gain) / loss recognized in the period	–	4.77
Past service cost	–	–
Actual Return on Plan Assets*		
Assumptions	8%	8%
Estimated rate of return on plan assets	9.15%	9.15%
Expected rate of salary increases	4%	4%

*Details of the scheme with Life Insurance Corporation of India

17) Earnings per share – Basic and Diluted:

	2008-09	2007-08
Net profit for the year (Rs. in lakhs)	508.52	913.45
Weighted average number of shares outstanding during the year	2,00,57,154	2,16,47,819
Basic earnings per share (Rs.)	2.54	4.56
Basic Earnings per share (annualized)	3.38	4.56
Diluted earnings per share (Rs.)	–	4.22
Nominal value of shares (Rs.)	10.00	10.00

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- 18) Deferred tax has been accounted for in accordance with the Accounting Standard – 22, “Accounting for taxes on income”, issued by the Institute of Chartered Accountants of India. The components of Deferred Tax Assets and Liabilities recognized in these accounts are as follows: (Rupees in Lakhs)

	Opening balance as on 1.7.2008	Charge/(Credit) during the period	Closing balance as on 31.3.2009
Deferred tax liability			
Depreciation	1128.42	267.62	1396.04
Deferred revenue expenses	2.55	(2.55)	–
Total	1130.97	265.07	1396.04
Deferred tax asset			
Leave encashment	22.89	(4.44)	18.45
Bonus	11.21	0.24	11.45
MAT Credit	41.48	89.02	130.50
Total	75.58	84.82	160.40
Net Deferred tax liability	1055.39	180.25	1235.64

- 19) Sundry debtors include a sum of Rs. 4552.51 lakhs (Previous year: Rs. 3433.58 lakhs) due from a subsidiary company.
- 20) Balances appearing under Sundry creditors, Capital WIP, Loans and advances and debtors are subject to confirmation and / or reconciliation, if any.
- 21) **Amortization of Miscellaneous Expenditure:**
- GDR issue expenses of Rs.151.89 lakhs carried forward from earlier years are amortized over a period of 5 years commencing from the year in which the Projects commence commercial production. Tablet Block at Gagillapur had commenced commercial production during September 2008, hence the issue expenses are proportionately amortized.
 - The Company has implemented a Voluntary Retirement Scheme (VRS). During the year, the Company has reversed the provision for an amount of Rs.12.58 lakhs on account of some of the employees not accepting the scheme.
- 22) The Government of Andhra Pradesh, Commissionerate of Industries has vide its Letter No.20/2/9/0444/ID dated 11 October 1999 and its clarification vide Letter dated 4 August 2001 determined an eligibility of Rs.184.12 lakhs towards Sales tax deferment on the sale of Paracetamol and the Sales tax payable by the company for a period of 14 years commencing from 30 June 1998 to 29 June 2012 is deferred. The liability of Rs.75.24 lakhs as at 31 March 2009 (Previous year Rs.75.24 lakhs) for the deferred Sales tax is shown under unsecured loans.
- 23) In terms of accounting policy 11 for the accrual of export benefits, estimated benefits of Rs.168.74 lakhs (Previous year Rs. 442.70 lakhs) have been taken into account under the DEEC/DEPB Schemes.
- 24) Previous year figures are not comparable as current year consists of nine months as against twelve months previous year.
- 25) Figures in Balance Sheet and Profit & Loss account have been rounded off to the nearest Rupee and figures in Notes have been rounded off to the nearest thousand and have been expressed in terms of decimals of thousands.

As per our report of even date

For and on behalf of the Board

for Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: July 25, 2009

Pranesh Raj Mathur
Chief Financial Officer

Cash Flow Statement for the Period ended March 31, 2009

(Amount in Rupees)

Particulars		9 months ended March 31, 2009		Year ended June 30, 2008
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		78,567,232		128,114,617
Adjustments for:				
Depreciation	97,478,814		97,209,156	
Misc. Expenditure written off	2,179,208		4,655,672	
Profit / (Loss) on sale of assets	920,800		(1,274,464)	
Provision for doubtful debts	–		390,637	
Interest & dividend income	(6,142,679)		(2,735,347)	
Interest & finance charges	117,246,507	211,682,650	96,609,154	194,854,808
Operating profit before working capital changes		290,249,882		322,969,425
Increase in Trade and other receivables		(96,203,013)		4,446,976
Increase in inventories		(79,866,756)		(92,690,689)
Increase/(decrease) in Trade Payable		58,298,944		49,496,861
Cash generated from operations		172,479,057		284,222,573
Interest paid	115,992,320		97,792,587	
Direct Taxes paid	14,027,374		9,448,809	
Dividends paid	28,828,807		29,287,453	
		158,848,501		136,528,849
Net Cash from operating activities		13,630,556		147,693,724
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	80,663,417		416,255,217	
Increase in Miscellaneous expenditure	(1,257,859)		12,373,826	
Purchase/(sale) of investments	48,000		29,461,760	
Sale of Fixed Assets	(3,778,727)		(2,702,587)	
Interest/dividends received	(752,066)		(6,520,498)	
Net Cash used in investing activities		74,922,765		448,867,718
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital including premium	–		1,501,880	
Increase/(decrease) in Working Capital Loans	16,754,328		(102,705,300)	
Proceeds from Long Term & Other Borrowings	164,001,782		369,544,776	
Repayment of long term loans	(103,670,145)		(108,949,572)	
Proceeds from Unsecured Loans	–		–	
Repayment of unsecured loans	–		(70,000,000)	
Net Cash used in Financing Activities		77,085,965		89,391,794
Net Increase/(decrease) in cash & cash equivalents (A+B+C)		15,793,756		(211,782,200)
Cash equivalents (Opening Balance as at 1-7-2008)		59,184,029		270,966,230
Cash equivalents (Closing Balance as at 31-03-2009)		74,977,785		59,184,029

Notes: Cash flow statement has been prepared following the indirect method. Interest paid, direct taxes paid, dividend paid are on the basis of actual movement of cash

As per our report of even date

For and on behalf of the Board

for Kumar & Giri

Chartered Accountants

J. Bhadra Kumar

Partner

Membership No. 25480

Place: Hyderabad

Date: July 25, 2009

Dr. C. Nageswara Rao

Chairman

C. Krishna Prasad

Managing Director

Pranesh Raj Mathur

Chief Financial Officer

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details:

Registration No.

0	1	-	1	2	4	7	1
---	---	---	---	---	---	---	---

 State Code

0	1
---	---

 Balance Sheet Date

3	1
---	---

0	3
---	---

2	0	0	9
---	---	---	---

 (Refer code list)

II. Capital Raised during the year (Amount in Rs. '000)

Public Issue

				N	I	L
--	--	--	--	---	---	---

 Right Issue

				N	I	L
--	--	--	--	---	---	---

 Bonus Issue

				N	I	L
--	--	--	--	---	---	---

 Private Placement

				N	I	L
--	--	--	--	---	---	---

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. '000)

Total Liabilities

3	1	4	1	0	8	6
---	---	---	---	---	---	---

 Total Assets

3	1	4	1	0	8	6
---	---	---	---	---	---	---

Sources of Funds

Paid-up capital

	2	1	7	4	2	4
--	---	---	---	---	---	---

 Reserves & Surplus

1	6	1	0	9	4	1
---	---	---	---	---	---	---

 Secured Loans

1	0	8	1	6	3	3
---	---	---	---	---	---	---

 Unsecured loans

	1	0	7	5	2	4
--	---	---	---	---	---	---

 Deferred tax liability

	1	2	3	5	6	3
--	---	---	---	---	---	---

Application of Funds

Net Fixed Assets

2	2	6	5	2	7	3
---	---	---	---	---	---	---

 Investments

	2	1	6	7	1	4
--	---	---	---	---	---	---

 Net Current Assets

	6	3	9	7	9	6
--	---	---	---	---	---	---

 Misc. Expenditure

		1	9	3	0	3
--	--	---	---	---	---	---

IV. Performance of Company (Amount in Rs. '000)

Turnover

2	5	4	7	2	8	3
---	---	---	---	---	---	---

 Total Expenditure

2	4	6	8	7	1	6
---	---	---	---	---	---	---

 Profit before tax

		7	8	5	6	7
--	--	---	---	---	---	---

 Profit / (Loss) after tax

		5	0	8	5	2
--	--	---	---	---	---	---

 Earning per share

			2	·	5	4
--	--	--	---	---	---	---

 Dividend

		1	2	·	5	%
--	--	---	---	---	---	---

V. Generic names of principal products/services of the Company (As per Monetary terms)

Item Code No. (ITC Code)

2	9	4	2	0	0	0
---	---	---	---	---	---	---

 Product Description

Bulk drugs
Formulations & Granulations

As per our report of even date

for Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: July 25, 2009

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Pranesh Raj Mathur
Chief Financial Officer

Annexure to the Balance Sheet as at March 31, 2009

Statement pursuant to Section 212 of the Companies Act, 1956.

01.	Name of the subsidiary	Granules USA Inc.	Granules Singapore Pte. Ltd.	GIL Lifesciences Pvt. Ltd.
02.	Financial period ended	March 31, 2009	March 31, 2009	March 31, 2009
03.	Date from which it became a subsidiary.	March 5, 2003	November 18, 2008	July 19, 2007
04.	Holding company's interest	100% (500,000 shares of USD 0.10 each fully paid-up)	100% (1,000 shares of USD 1 each fully paid-up)	100% (29,46,176, shares of Rs.10/- each fully paid-up)
05.	The net aggregate amount of the profits or losses for the current period of the subsidiary so far as it concerns the members of the holding company			
	a. dealt with or provided for in the accounts of the holding company	Nil	Nil	Nil
	b. not dealt with or provided for in the accounts of the holding company	Loss of Rs. 49.07 lakhs	Loss of Rs. 1.78 lakhs	Nil
06.	The net aggregate amount of the profits or losses for the previous financial years of the subsidiary so far as it concerns the members of the holding company			
	a. dealt with or provided for in the accounts of the holding company	Nil	Nil	Nil
	b. not dealt with or provided for in the accounts of the holding company	Loss of Rs. 474.97 lakhs	Nil	Nil

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: July 25, 2009

Pranesh Raj Mathur
Chief Financial Officer

Consolidated Auditors' Report

To
The Members of
M/s GRANULES INDIA LIMITED
Hyderabad - 500 081

1. We have audited the attached consolidated Balance Sheet of **M/s Granules India Limited, its subsidiaries of M/s Granules USA Inc., M/s Granules Singapore Pte Ltd, GIL Lifesciences Pvt Ltd and joint-venture with M/s. Granules-Bioclause Pharmaceutical Co. Ltd.**, as at 31st March 2009 and the consolidated Profit and Loss Account and the consolidated Cash Flow Statement of the Company for the period 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.
2. 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 amounts and disclosures in the financial statements. Audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the subsidiaries and the joint-venture, whose financial statements reflect total assets of Rs. 8,456.16 lakhs as at 31st March 2009, the total revenue of Rs. 11,846.56 lakhs for the period ended on that date. These financial statements and other financial information have been audited by other auditors whose report has been furnished to us, and our opinion is based solely on the report of other auditors.
4. We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements and Accounting Standard 27, Financial Reporting of Interest in Joint-ventures, issued by the Institute of Chartered

Accountants of India and on the basis of separate audited financial statements of the group and unaudited financial statements of a consolidated entity.

5. Further to the above, our comments are as under:
 - a. Reference is invited to Note No. B (3) Schedule No. R regarding dues to micro, small and medium enterprises,
 - b. Reference is invited to Note No. B (13) under Schedule No. R regarding confirmation of balances.
6. In our opinion, and to the best of our information and according to the explanations given to us, the said consolidated Balance Sheet, consolidated Profit & Loss Account and consolidated Cash Flow Statement read together with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.
 - i. in so far as it relates to the consolidated Balance Sheet, of the state of affairs of the Company as on 31st March 2009.
 - ii. in so far as it relates to the consolidated Profit & Loss Account, of the Profit of the Company for the period ended on that date.
 - iii. in case of the consolidated Cash Flow Statement, of the cash flows for the period ended on that date.

For **M/s Kumar & Giri**
Chartered Accountants

J. Bhadra Kumar
Partner

Place: Hyderabad
Date: July 25, 2009

Membership No. 25480

Consolidated Balance Sheet as at March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	As at March 31, 2009	As at June 30, 2008
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	217,424,066	202,304,066
Share Application Money		–	15,120,137
Reserves & Surplus	B	1,531,991,837	1,518,859,311
Loan Funds			
Secured Loans	C	1,660,478,486	1,339,570,543
Unsecured Loans	D	173,163,312	107,524,468
Deferred Tax Liability		122,655,199	104,747,935
Total Sources of Funds		3,705,712,900	3,288,126,459
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	2,907,348,065	1,973,830,495
Less: Accumulated Depreciation		476,441,695	411,695,667
Net Block		2,430,906,370	1,562,134,828
Add: Capital Work in Progress including advances (Net)		20,224,425	926,686,243
		2,451,130,795	2,488,821,071
Investments	F	2,921,530	2,921,530
Current Assets, Loans & Advances			
Inventories	G	595,105,726	528,634,122
Sundry Debtors		631,247,795	375,050,039
Cash & Bank Balances		128,385,790	108,503,492
Other Current Assets		11,203,371	1,993,770
Loans and Advances		208,078,072	191,225,411
		1,574,020,754	1,205,406,833
Less: Current Liabilities & Provisions	H		
Current Liabilities		308,462,478	394,159,270
Provisions		33,507,594	37,910,664
Net Current Assests		1,232,050,682	773,336,899
Miscellaneous Expenditure (to the extent not written off or adjusted)	I	19,609,892	23,046,959
Total Application of Funds		3,705,712,900	3,288,126,459
Significant accounting policies and notes to accounts	R		

As per our report of even date

For and on behalf of the Board

for Kumar & Giri

Chartered Accountants

J. Bhadra Kumar

Partner

Membership No. 25480

Place: Hyderabad

Date: July 25, 2009

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Dr. C. Nageswara Rao

Chairman

C. Krishna Prasad

Managing Director

Pranesh Raj Mathur

Chief Financial Officer

Consolidated Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	9 months ended March 31, 2009	Year ended June 30, 2008
INCOME			
Gross Sales		2,951,822,813	2,670,335,567
Less: Excise duty		59,074,564	105,792,515
Net Sales	J	2,892,748,249	2,564,543,052
Other Income	K	10,029,406	7,911,417
		2,902,777,655	2,572,454,469
EXPENDITURE			
Cost of Materials Consumed	L	1,764,726,055	1,536,061,255
Manufacturing Expenses	M	324,779,219	335,060,052
R&D Expenses	N	27,844,438	5,348,365
Marketing & Selling Expenses	O	185,011,678	167,932,310
Administrative Expenses	P	160,869,954	155,506,827
Foreign Exchange Fluctuations		92,404,739	(4,996,490)
Interest and Finance Charges	Q	156,757,594	130,291,866
Depreciation		117,997,888	116,571,582
Misc. Expenditure written off		2,179,208	4,655,672
Total Expenses		2,832,570,772	2,446,431,439
Profit before tax		70,206,883	126,023,030
Less: Provision for taxation			
Current Tax Expense		8,928,894	14,515,386
Deferred Tax Expense		18,025,211	20,294,333
Fringe Benefit Tax		787,917	1,169,676
Net Profit after Taxes		42,464,861	90,043,635
Add : Profit brought forward from previous year		321,432,329	263,021,029
Balance available for appropriation		363,897,190	353,064,664
Less: Provision for dividend		25,071,443	25,071,443
Provision for dividend tax		4,260,891	4,260,891
Transfer to General Reserve		1,300,000	2,300,000
Balance transferred to Balance Sheet		333,264,855	321,432,329
Surplus carried forward to Balance Sheet		333,264,855	321,432,329
Weighted average No. of shares		20,057,154	21,647,819
Basic Earnings per share		2.12	4.16
Basic Earnings per share annulised		2.82	4.16
Significant accounting policies and notes to accounts	R		

As per our report of even date

For and on behalf of the Board

for Kumar & Giri

Chartered Accountants

J. Bhadra Kumar

Partner

Membership No. 25480

Place: Hyderabad

Date: July 25, 2009

Dr. C. Nageswara Rao

Chairman

C. Krishna Prasad

Managing Director

Pranesh Raj Mathur

Chief Financial Officer

Schedules forming part of Consolidated Balance Sheet as at March 31, 2009

(Amount in Rupees)

	As at March 31, 2009	As at June 30, 2008
SCHEDULE A SHARE CAPITAL		
Authorised Capital		
3,00,00,000 Equity Shares of Rs. 10 each	300,000,000	300,000,000
(Previous year 3,00,00,000 Equity Shares of Rs. 10 each)		
	300,000,000	300,000,000
Issued, Subscribed and Paid up Capital		
2,00,57,154 Equity Shares of Rs.10/- each.	200,571,540	200,571,540
(Previous year : 2,00,23,634 equity shares of Rs.10 each)		
(Of the above 24,12,134 equity shares of Rs.10/- each issued for consideration otherwise than cash ,of which 16,67,334 equity shares are issued as per the Scheme of Amalgamation) Add: Forfeited shares	16,852,526	1,732,526
Consists of 39,000 equity shares and 17,60,783 warrants		
(Previous year consists of 39,000 equity shares and 1,60,783 warrants)		
	217,424,066	202,304,066

	Opening Balance	Additions	Withdrawals	Closing Balance
SCHEDULE B RESERVES & SURPLUS				
General Reserve	17,403,369	1,300,000	–	18,703,369
Central Subsidy/Capital reserve	1,214,159	–	–	1,214,159
Share Premium	1,178,809,454	–	–	1,178,809,454
Profit & Loss Account	321,432,329	11,832,527	–	333,264,855
	1,518,859,311	13,132,527	–	1,531,991,837

SCHEDULE C SECURED LOANS		
I) Term loans:		
From Banks	888,106,516	826,047,433
Interest accrued and due	2,475,276	1,221,089
II) Hire purchase loans	4,152,551	5,879,996
III) Working Capital Borrowings from banks	765,744,143	506,422,025
Total (I+II+III)	1,660,478,486	1,339,570,543

SCHEDULE D UNSECURED LOANS		
From Banks	100,000,000	100,000,000
From Others	65,638,844	–
Sales Tax Deferment Loan	7,524,468	7,524,468
	173,163,312	107,524,468

Schedules forming part of Consolidated Balance Sheet as at March 31, 2009

SCHEDULE E FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on July 1, 08	Additions	Deletions	Total as on March 31, 09	As on July 1, 08	For the Period	On Deletions	As on March 31, 09	As on March 31, 09	As on June 30, 08
Land	83,895,722	791,673	–	84,687,395	–	–	–	–	84,687,395	83,895,722
Buildings	429,682,348	295,996,564	8,387,077	717,291,835	64,405,057	16,328,471	5,900,638	74,832,890	642,458,945	365,277,291
Plant & Machinery	1,058,102,168	687,356,981	48,765,265	1,696,693,885	263,696,383	71,818,716	47,075,753	288,439,346	1,408,254,539	794,405,785
Computers	10,701,617	753,311	–	11,454,928	5,649,345	1,302,347	–	6,951,692	4,503,236	5,052,273
Office equipment	19,575,799	619,522	22,500	20,172,821	6,736,767	849,516	1,781	7,584,501	12,588,320	12,839,033
Furniture & Fixtures	29,482,436	4,553,057	–	34,035,493	4,300,040	1,527,691	–	5,827,731	28,207,762	25,182,396
Vehicles	20,802,206	635,349	776,546	20,661,010	11,509,678	1,094,701	273,690	12,330,689	8,330,320	9,292,528
Technical Knowhow	321,588,199	762,500	–	322,350,699	55,398,399	25,076,446	–	80,474,846	241,875,853	266,189,800
Total	1,973,830,495	991,468,956	57,951,388	2,907,348,065	411,695,667	117,997,888	53,251,862	476,441,695	2,430,906,369	1,562,134,828
Previous year totals	1,587,878,377	178,035,567	12,885,098	1,753,028,846	305,856,340	97,209,158	11,456,974	391,608,524	1,361,420,322	1,282,022,035

Note: 1) Gross Block of Vehicles includes Rs. 12,649,701/- (Previous year Rs. 5,135,628) acquired on hire-purchase basis.

2) Deletions in Gross Block and Depreciation represent sale/write off of fixed assets of the old Paracetamol Plant at Bonthapally.

	As at March 31, 2009	As at June 30, 2008
SCHEDULE F INVESTMENTS		
(At Cost less provision for dimunition in value)		
Quoted		
Long term - non-trade		
Andhra Bank (11,277 shares of Rs. 10/- each)	1,014,930	1,014,930
	1,014,930	1,014,930
Unquoted		
Trade long term		
Jeedimetla Effluent Treatment Ltd. (15,142 Equity shares of Rs.100/- each)	1,566,200	1,566,200
Pattancheru Envirotech Ltd (34,040 Equity shares of Rs. 10/- each)	340,400	340,400
	1,906,600	1,906,600
	2,921,530	2,921,530

Schedules forming part of Consolidated Balance Sheet as at March 31, 2009

(Amount in Rupees)

	As at March 31, 2009	As at June 30, 2008
SCHEDULE G CURRENT ASSETS, LOANS & ADVANCES		
i) Stock in hand		
Raw Materials	176,718,752	118,945,129
Finished Goods	296,950,239	320,865,736
Work In Process	83,633,015	62,854,214
Consumable and packing materials	14,602,434	10,078,973
Stores and Spares	23,201,286	15,890,069
	595,105,726	528,634,121
ii) Sundry Debtors		
(Unsecured, considered good)		
For more than six months	43,446,686	26,370,199
Others	594,989,692	355,165,097
	638,436,378	381,535,296
Less: Provision for doubtful debts	7,188,583	6,485,257
	631,247,795	375,050,039
iii) Cash & bank balances		
Cash on hand	191,029	274,419
Bank Balances:		
With scheduled banks:		
– in current account	59,337,464	53,772,156
– in deposit accounts (including margin money)	68,857,297	54,456,917
	128,385,790	108,503,492
iv) Other current assets		
Interest receivable	8,098,519	1,993,770
Others	3,104,852	–
	11,203,371	1,993,770
v) Loans & Advances		
(Unsecured, Considered good)		
Advances to suppliers	9,192,820	9,086,671
Deposits	21,400,081	20,478,278
Excise duty	37,777,978	33,379,630
Prepaid expenses	25,054,039	10,406,361
Sales tax refund	20,378,426	18,297,050
Import entitlements	16,874,120	44,270,399
Service Tax Receivable	43,818,888	34,479,228
Other advances	33,581,720	20,827,794
	208,078,072	191,225,411

Schedules forming part of Consolidated Balance Sheet as at March 31, 2009 (Amount in Rupees)

	As at March 31, 2009	As at June 30, 2008
SCHEDULE H CURRENT LIABILITIES & PROVISIONS		
Current liabilities		
Due to Small Scale Industrial Undertakings	24,415,183	12,975,082
Due to Others		
– for goods & services	240,088,853	209,243,157
– for Capital goods	16,247,286	12,967,634
Advances from Customers	13,090,251	–
Unpaid dividends	1,377,882	874,355
Interest Accrued but not due	3,585,598	–
Other Liabilities	9,657,425	158,099,042
	308,462,478	394,159,270
Provisions		
Provision for taxation (net of advances)	4,175,259	8,578,329
Provision for dividend	25,071,443	25,071,443
Provision for dividend tax	4,260,892	4,260,892
	33,507,594	37,910,664
SCHEDULE I MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
(i) Public Issue Expenses		
Opening Balance	12,358,185	13,446,825
Less: Written off during the year	1,562,412	1,088,640
	10,795,773	12,358,185
(ii) VRS Expenses		
Opening Balance	10,382,025	1,575,231
Additions during the year	(1,257,859)	12,373,826
Less: Written off during the year	616,796	3,567,032
	8,507,370	10,382,025
(iii) Preliminary Expenses		
Opening Balance	306,749	
Additions during the year		306,749
	306,749	306,749
Total (i+ii+iii)	19,609,892	23,046,959

Schedules forming part of Profit & Loss Account for the Period ended March 31, 2009 (Amount in Rupees)

	9 months ended March 31, 2009	Year ended June 30, 2008
SCHEDULE J SALES		
Export Sales	2,350,527,879	1,923,369,203
Domestic Sales	576,836,264	736,656,779
By products	20,186,495	6,888,056
Export benefits	4,272,175	3,421,529
Gross Sales	2,951,822,813	2,670,335,567
Less: Excise duty & Sales Tax	59,074,564	105,792,515
Net Sales	2,892,748,249	2,564,543,052

Schedules forming part of Consolidated Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

	9 months ended March 31, 2009	Year ended June 30, 2008
SCHEDULE K OTHER INCOME		
Interest	5,904,062	2,255,628
Dividends received	22,669	42,892
Sale of Scrap	4,027,967	4,257,690
Insurance Claims received	74,708	80,743
Profit on sale of Assets	–	1,274,464
	10,029,046	7,911,417

SCHEDULE L COST OF MATERIALS CONSUMED		
a) Consumption of Raw Material	1,679,723,533	1,627,041,066
b) Consumption of Packing Materials	63,042,687	57,583,288
c) (Increase)/Decrease in Stocks		
(i) (Increase)/Decrease in WIP		
Opening stock	62,854,214	31,020,976
Closing Stock	83,633,015	62,854,214
	(20,778,801)	(31,833,238)
(ii) (Increase)/Decrease in FG		
Opening stock	267,087,347	150,357,487
Closing Stock	224,348,711	267,087,347
	42,738,636	(116,729,860)
Total (Increase)/Decrease in stocks	21,959,835	(148,563,098)
Total cost of material consumed (a+b+c)	1,764,726,055	1,536,061,256

SCHEDULE M MANUFACTURING EXPENSES		
Salaries, Wages	117,403,624	112,207,181
Contribution to PF/ESI	5,211,819	6,224,618
Employee welfare expenses	3,496,442	3,672,151
Conversion charges	15,406,000	7,845,297
Power & Fuel	94,164,868	117,192,973
Effluent Treatment expenses	22,737,438	17,361,620
Repairs & Maintenance		
– Factory Building	6,962,374	4,201,347
– Plant & Machinery	37,572,256	31,998,136
– Others	2,840,875	4,829,617
Consumables & Lab Chemicals	9,202,901	21,111,620
Analytical Fees	3,125,436	2,344,009
Others	6,655,186	6,071,483
	324,779,219	335,060,052

Schedules forming part of Consolidated Profit & Loss Account for the Period ended March 31, 2009
(Amount in Rupees)

	9 months ended March 31, 2009	Year ended June 30, 2008
SCHEDULE N R & D EXPENSES		
Salaries	3,695,909	1,080,655
Consumables & Lab Chemicals	5,241,761	4,267,710
Raw Materials	18,906,768	–
	27,844,438	5,348,365
SCHEDULE O MARKETING & SELLING EXPENSES		
Business Promotion expenses	22,678,065	18,409,816
Sales Commission	29,001,586	27,294,972
Freight & Clearing Charges	118,905,623	104,853,889
Advertisement	98,550	692,701
Discount	32,177	3,075,373
Traveling expenses	14,295,677	13,605,559
	185,011,678	167,932,310
SCHEDULE P ADMINISTRATIVE EXPENSES		
Salaries, Wages & bonus	47,532,478	47,899,359
Contribution to Provident Fund	803,948	757,899
Employee welfare expenses	1,238,492	1,802,712
Directors remuneration	2,250,000	3,000,000
Managerial Commission	1,342,275	2,545,000
Repairs & Maintenance - Others	935,233	1,024,899
Rent	13,311,473	15,475,568
Rates & Taxes	2,313,871	5,390,238
Auditors' remuneration	398,728	400,004
Insurance	7,063,670	10,378,863
Consultancy & Professional Charges	37,889,633	13,232,469
Communication expenses	5,282,153	6,123,948
Printing & stationery	3,995,840	4,064,247
Travelling & Conveyance	16,500,951	14,749,606
Directors sitting fees	330,000	310,155
Advertisement Charges	366,737	242,401
R & D Fee	927,129	–
Garden Maintenance	2,198,749	2,047,156
Donations	592,624	566,128
Provision for Doubtful Debts	(273,929)	6,485,257
Loss on sale of assets / write off	920,800	–
Sundry expenses	14,949,099	19,010,918
	160,869,954	155,506,827
SCHEDULE Q INTEREST AND FINANCE CHARGES		
Interest on Term loans	37,598,428	28,185,998
Interest on Working Capital	81,625,809	75,597,972
Interest Others	7,502,800	1,836,066
Bank Charges	30,030,557	24,671,830
	156,757,594	130,291,866

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

- 1) **System of accounting:** The accounts have been prepared and presented under the historical cost convention method on the accrual basis of accounting in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI) to the extent applicable.
- 2) **Principles of consolidation:** The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down on the accounting standards on Consolidated Financial Statements by the ICAI. The financial statements of the parent company, Granules India Limited, GIL Lifesciences Private Limited, Granules USA Inc and Granules Biocause Pharmaceutical Co. Limited (50% joint-venture) have been combined on a line-by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealized gains / losses. Exchange differences resulting from the difference due to transactions of foreign currency assets and liabilities in subsidiary company is disclosed as foreign currency translation adjustment. The consolidated financial statements are prepared applying uniform accounting policies for like transactions and other events in similar circumstances in use at the parent and subsidiary company.
- 3) **Fixed Assets:** Fixed Assets are stated at cost less accumulated depreciation. Cost is inclusive of duties & taxes (net of CENVAT / VAT), incidental expenses and erection / commissioning expenses.
- 4) **Depreciation:** Depreciation on fixed assets is provided on straight-line method at the rates specified in Schedule XIV of the Companies Act, 1956. The depreciation on incremental value arising from the revaluation of the fixed assets is charged to Revaluation Reserve Account.
- 5) **Expenditure during construction period:** Expenditure (including finance cost relating to borrowed funds for construction or acquisition of fixed assets) incurred on projects under implementation are treated as Preoperative expenses pending allocation to the assets and are shown under "Capital Work in Progress" and the same are apportioned to fixed assets on commencement of commercial production.
- 6) **Investments:** Long-term investments and investments in subsidiary companies are carried at cost. Provision for diminution in value is made whenever necessary in accordance with the Accounting Standards in force.
- 7) **Valuation of Inventories:**
 - a) Inventories are valued at the lower of cost or net realizable value.
 - b) Inventories of raw material, consumables and stores and spares are valued at cost as per FIFO method. Cost does not include duties and taxes that are subsequently recoverable.
 - c) Cost for the purpose of finished goods and material in process is computed on the basis of cost of material, labour and other related overheads.
 - d) Goods in transit are stated at costs accrued up to the date of Balance Sheet.
 - e) Stocks with consignment agents are stated at costs accrued up to the date of the Balance sheet.
- 8) **Government Grants:** Government grants received in the nature of promoter's contribution and where no repayment is ordinarily expected are treated as capital reserve.
- 9) **Foreign Exchange:** Foreign exchange transactions are recorded at the exchange rates prevailing at the time of transactions or at contracted rates. Current assets and current liabilities are translated at values prevailing at the Balance Sheet date. Gains/Losses, if any, arising thereby are recognized in the Profit and Loss account.
- 10) **Revenue Recognition:**
 - a) Revenue from sales is recognized when significant risk and rewards in respect of ownership of the products are transferred.

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- b) Revenue from domestic sales is recognized on dispatch of products from the factory of the company and in case of consignment sale, on further sale made by the agents.
 - c) Revenue from export sales is recognized on the basis of dates of Bill of Lading.
- 11) Export Benefits:** Advance licenses are issued to the company under the Advance License Scheme [Duty Exemption Entitlement Certificate (DEEC Scheme)] / duty entitlement credited under the Duty Entitlement Pass Book Scheme (DEPB Scheme) on the export of the goods manufactured by it. Whenever export sales are made by the company, pending receipt of imported duty-paid raw materials under the DEEC / DEPB Schemes, the cost of domestic raw materials actually consumed for the purpose of such exports is compensated and / or matched by accruing the value of the benefit under the DEEC / DEPB Scheme.
- 12) Research and development expenses:**
- a) Research costs not resulting in any tangible property/equipment are charged to revenue as and when incurred.
 - b) Know-how / product development costs incurred on an individual project are carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized over the period of expected future benefits from the related project, not exceeding ten years.
 - c) The carrying value of know-how / product development costs are reviewed for impairment annually when the asset is not yet in use and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.
- 13) Employee Retirement Benefits:**
- a) Contributions paid/payable to the defined contribution plan of Provident Fund for certain employees covered under the scheme are recognized in the Profit and Loss account each year.
The Company makes contributions to a State operated contribution scheme for certain employees at a specified percentage of the employees' salary. The Company has an obligation only to the extent of the defined contribution.
 - b) Defined Benefit Plan: Gratuity for certain employees is covered under a scheme of Life Insurance Corporation of India (LIC) and contributions in respect of such scheme are recognized in the Profit and Loss account. The liability as at the Balance Sheet date is provided for based on the actuarial valuation carried out in accordance with revised Accounting Standard 15 as at the end of the year/period.
 - c) Other long term employee benefits: Other long term employee benefits comprise of leave encashment which is provided on the actuarial valuation carried out in accordance with revised Accounting Standard 15 as at the end of the year/period.
- 14) Borrowing costs:** Borrowing costs incurred in relation to the acquisition and construction of assets are capitalized as part of the cost of such assets up to the date when such assets are ready for intended use. Other borrowing costs are charged as an expense in the year in which they are incurred.
- 15) Income tax expense**
- a) Current Tax Expense
The Current charge for income tax is calculated in accordance with the tax regulations.
 - b) Deferred Tax Expense
Deferred income tax reflects the impact of timing difference between accounting income and tax income for the year / period. Deferred tax is measured based on the tax rates and the tax laws enacted at the Balance Sheet date. Deferred tax asset is recognized only to the extent of certainty of realization of such asset.
 - c) Fringe Benefit tax
Fringe Benefit tax is calculated in accordance with the tax regulations.

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

B) NOTES TO ACCOUNTS:

1) Contingent liabilities not provided for in respect of:

(Rupees in Lakhs)

	As at March 31, 2009	As at June 30, 2008
a) Claims against the company not acknowledged as debts: Customs duty	43.47	43.47
b) Estimated amount of contracts remaining to be executed on Capital account and not provided for (net of advances)	–	412.97
c) Letters of credit and Bank Guarantees issued by Bank	1965.02	4519.04
d) Bills discounted with banks-Subsidiary Company bills	4676.96	3362.78
e) Bills discounted with banks-Others	3373.30	2884.54

2) Secured loans:

- a) **Term loans:** Term loans from Banks are secured by equitable mortgage of Land and buildings and hypothecation of plant and machinery located at Jeedimetla, Gagillapur and Bonthapally on pari passu basis.

Term loans are further secured by second charge on hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables.

- b) **Working capital facilities:** The working capital facilities from Banks are secured by hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables on pari passu basis. The working capital facilities are further secured by a second charge on the fixed assets of the company.

- c) All the above loans except loan from International Finance Corporation are further secured by personal guarantee of the Managing Director. The Company has requested Consortium Bankers to waive the personal guarantee of the Managing Director, which is under active consideration.

- d) Hire purchase loans are secured by hypothecation of the asset purchased.

- 3) Sundry Creditors include a sum of Rs.244.15 lakhs due to micro, small and medium enterprises. Total outstanding dues of micro, small and medium enterprises have been determined to the extent such parties have been identified on the basis of the information available with the company. The parties to whom the company owes sums outstanding for more than 30 days including LCs opened as at the Balance Sheet date are:

Durga Industries	Spectrum Filtration Pvt.Ltd	Super Olefins (P) Ltd
Trijama Filterall Pvt.Ltd	Unnathi Stickers	Shree Engineering Works
Mohankrihsna Polymers	Tirumala Comprints Pvt.Ltd	Pragati Pack Pvt.Ltd
Stick Lables	Yenflexi Pack	Sree Venkatasai Packaging Pvt.Ltd
Shivshakti Timber Industries	Standard Reagents Pvt.Ltd	

4) Remuneration to Managing Director

(Rupees in Lakhs)

	2008-09	2007-08
Salary	22.50	30.00
Commission	13.42	25.45
Perquisites	5.79	10.90
Total	41.71	66.35

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

5) Remuneration to Statutory Auditors (Rupees in Lakhs)

	2008-09	2007-08
As Auditor	3.50	3.50
As adviser, or in any other capacity, in respect of:		
Taxation services	1.25	1.25
Company Law matters	Nil	Nil
Management services	Nil	Nil
Certification	0.51	0.44
Out of pocket expenses	Nil	Nil
Total	5.26	5.19

- 6) During the year, the company has capitalized borrowing costs of Rs.1004.89 lakhs towards Tablet facility at Gagillapur (Previous year Rs. 466.92 lakhs for Tablet facility at Gagillapur, grouped under Capital Work in Progress) incurred during the year.
- 7) Segment reporting: The Company has only one business segment of "Pharmaceuticals". Therefore, the disclosure requirements of "Segment reporting" are not applicable.
- 8) Related party disclosures required as per Accounting Standard (AS-18) on "Related party disclosures" issued by the Institute of Chartered Accountants of India, are as below:

a) Names of related parties and the nature of relationships:

Name	Relationship
(i) Granules USA Inc	Wholly owned subsidiary company
(ii) GIL Lifesciences Private Limited	Wholly owned subsidiary company
(iii) Granules Singapore Pte Ltd	Wholly owned subsidiary company
(iv) Granules-Biocause Pharmaceutical Co. Ltd	Joint – Venture
(v) Key management personnel: Shri C. Krishna Prasad	Managing Director
(vi) Others: Dr. C. Nageswara Rao Mr. C.Harsha	Non Executive Chairman Chief Marketing Officer

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

b) Transactions with Subsidiary company: (Rupees in Lakhs)

	March 31, 2009	June 30, 2008
(i) Granules USA Inc		
Sale of goods	6928.46	4943.82
Unsecured loan	—	—
Interest on unsecured loan	5.35	5.26
Equity participation	—	—
Amounts outstanding at Balance sheet date:		
Loan granted	—	64.65
Interest on loan	22.40	17.05
Equity subscribed	23.79	23.79
Amounts receivable for sales made	4552.51	3433.58
(ii) GIL Lifesciences Private Limited		
Equity participation	—	294.62
Amounts outstanding at Balance sheet date:		
Equity subscribed	294.62	294.62
(iii) GIL Singapore PTE Ltd		
Equity Participation	0.48	—
Advance for expenses	2.07	—
Amount outstanding at Balance Sheet date:		
Equity participation	0.48	—
Advance for expenses	2.07	—
c) Transactions with Joint-Venture		
Equity participation	—	—
Purchase of goods	1374.97	1611.82
Amounts outstanding at Balance Sheet date:		
Equity participation	1819.03	1819.03
Amounts payable for purchase of goods	69.71	712.55
d) Transactions with other related parties:		
Mr. C. Krishna Prasad, Managing Director:		
Remuneration	41.71	66.35
Dr. C. Nageswara Rao, Chairman:		
Sitting fee paid	0.20	0.30

9) Details of Loans and advances given to Subsidiary company:

Unsecured loan to Granules USA, Inc.,	(Rupees in Lakhs)	
	March 31, 2009	June 30, 2008
Balance as at 31 March, 09	—	64.65
Maximum balance during the period	—	64.65
Rate of interest charged	—	7%p.a.

10) Earnings per share – Basic and Diluted:

	2008-09	2007-08
Net profit for the year (Rs. in lakhs)	424.65	900.43
Weighted average number of shares outstanding during the year	2,00,57,154	21,647,819
Earnings per share (Rs.)	2.12	4.16
Basic Earnings per share (annualized)	2.82	4.16
Nominal value of shares (Rs.)	10.00	10.00

Schedules forming part of Consolidated Balance Sheet and Profit & Loss Account

SCHEDULE R SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

- 11) Deferred tax has been accounted for in accordance with the Accounting Standard – 22, “Accounting for taxes on income”, issued by the Institute of Chartered Accountants of India. In the case of Subsidiaries and Joint Venture, deferred tax liability or asset is considered as calculated by them. The components of Deferred Tax Assets and Liabilities recognized in these accounts are as follows:

(Rupees in Lakhs)

	Opening balance as on 1.7.2008	Charge/(Credit) during the period	Closing balance as on 31.3.2009
Deferred tax liability			
Depreciation	1 128.42	267.62	1396.04
Deferred revenue expenses	2.55	(2.55)	–
Total	1 130.97	265.07	1396.04
Deferred tax asset			
Leave encashment	22.89	(4.44)	18.45
Bonus	11.21	0.24	11.45
MAT Credit	41.48	89.02	130.50
Others	7.91	2.68	10.59
Total	83.49	87.50	170.24
Net Deferred tax liability	1047.48	177.57	1226.55

- 12) The Company has invested Rs.0.48 lakhs in a wholly owned subsidiary “GIL Singapore PTE Ltd, Singapore”. The subsidiary has not yet commenced any activity.
- 13) Balances appearing under Sundry creditors, Capital WIP, Loans and advances and debtors are subject to confirmation and / or reconciliation, if any.
- 14) **Amortization of Miscellaneous Expenditure:**
- GDR issue expenses of Rs.151.89 lakhs carried forward from earlier years are amortized over a period of 5 years commencing from the year in which the Projects commence commercial production. Tablet Block at Gagillapur had commenced commercial production during September 2008, hence the issue expenses are proportionately amortized.
 - The Company has implemented a Voluntary Retirement Scheme (VRS). During the year, the company has reversed the provision for an amount of Rs.12.58 lakhs on account of some of the employees not accepting the scheme.
- 15) The Government of Andhra Pradesh, Commissionerate of Industries has vide its Letter No.20/2/9/0444/ID dated 11 October 1999 and its clarification vide Letter dated 4 August 2001 determined an eligibility of Rs.184.12 lakhs towards Sales tax deferment on the sale of Paracetamol and the Sales tax payable by the company for a period of 14 years commencing from 30 June 1998 to 29 June 2012 is deferred. The liability of Rs.75.24 lakhs as at 31 March 2009 (Previous year Rs.75.24 lakhs) for the deferred Sales tax is shown under unsecured loans.
- 16) In terms of accounting policy 11 for the accrual of export benefits, estimated benefits of Rs.168.74 lakhs (Previous year Rs.442.70 lakhs) have been taken into account under the DEEC / DEPB Schemes.
- 17) Previous year figures are not comparable as current year consists of nine months as against twelve months previous year.
- 18) Figures in Balance Sheet and Profit & Loss account have been rounded off to the nearest Rupee and figures in Notes have been rounded off to the nearest thousand and have been expressed in terms of decimals of thousands.

As per our report of even date

For and on behalf of the Board

for Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: July 25, 2009

Pranesh Raj Mathur
Chief Financial Officer Annual Report 2008-09 | 77

Consolidated Cash Flow Statement for the Period ended March 31, 2009

(Amount in Rupees)

Particulars	9 months ended March 31, 2009		Year ended June 30, 2008	
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		70,206,883		126,023,031
Adjustments for:				
Depreciation	117,997,888		116,571,582	
Misc. Expenditure written off	2,179,208		4,655,672	
Profit / (Loss) on sale of assets	920,800		(1,274,464)	
Provision for doubtful debts	(273,929)		6,485,257	
Interest & dividend income	(5,926,731)		(2,298,520)	
Interest & finance charges	126,727,307	241,624,272	105,620,036	229,759,563
Operating profit before working capital changes		311,831,155		355,782,594
Increase in Trade and other receivables		(276,155,269)		(38,329,385)
Increase in inventories		(66,471,605)		(232,635,899)
Increase/(decrease) in Trade Payable		(85,669,475)		236,654,929
Cash generated from operations		(116,465,194)		321,472,239
Interest paid	125,472,849		106,803,469	
Direct Taxes paid	6,318,765		9,448,809	
Dividends paid	28,828,808		29,287,456	
Prior period expenditure /(income)		160,620,422	–	145,539,734
Net Cash from operating activities		277,085,616		175,932,505
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	93,183,253		540,351,773	
Increase in Miscellaneous expenditure	(1,257,859)		12,680,574	
Sale of Fixed Assets	(3,778,726)		(3,165,846)	
Interest/dividends received	178,018		(4,994,438)	
Net Cash used in investing activities		88,324,686		544,872,063
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital including premium	–		1,348,269	
Increase in Working Capital Loans	259,322,118		(78,701,704)	
Proceeds from Long Term & Other Borrowings	202,096,271		402,359,847	
Repayment of long term loans	(141,764,633)		(141,764,633)	
Proceeds from Unsecured Loans	65,638,844		(70,000,000)	
Repayment of unsecured loans	–			
Net Cash used in Financing Activities		385,292,600		113,241,799
Net Increase/(decrease) in cash & cash equivalents (A+B+C)		19,882,298		(255,697,779)
Cash equivalents (Opening Balance as at 1-7-2008)		108,503,492		364,201,271
Cash equivalents (Closing Balance as at 31-03-2009)		128,385,790		108,503,492

Notes: Cash flow statement has been prepared following the indirect method. Interest paid, direct taxes paid, dividend paid are on the basis of actual movement of cash

As per our report of even date

for Kumar & Giri

Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar

Partner

Membership No. 25480

Place: Hyderabad

Date: July 25, 2009

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Dr. C. Nageswara Rao

Chairman

C. Krishna Prasad

Managing Director

Pranesh Raj Mathur

Chief Financial Officer

Directors' Overview

Fiscal Year: 08 – 09

The abbreviated fiscal year ended March 31, 2009 was a truly successful period for Granules USA, Inc. even as we were called upon to meet challenging economic events. Two major adverse economic events distinguished the period. Our business was significantly tested by both the escalation and eventual deflation of oil prices during the fiscal period and the economic recession of 2008-2009. The price of oil increased to over \$140/barrel in July 2008 and then eventually dropped to and remained under \$60/barrel from November 2008 through March 31, 2009. As many of our pharmaceutical feedstock starter raw materials are directly derived from petroleum based products, the period was characterized by unusually volatile costing and as a result, respectively difficult pricing to our customers. In direct response to this situation, we formalized our pricing structure to all key customer accounts to provide for improved pricing clarity and stability, thus helping support our customer's business planning requirements. We feel this initiative has gained Granules additional customer loyalty. Secondly, the global economic recession caused major US retailers to evaluate their inventory positions. In response to the economic uncertainty due to the economic downturn, major US retailers responded by working down their inventories in the latter part of calendar 2008, temporarily dampening demand for our customer's products and reducing the sell-through of our raw materials, temporarily affecting our sales. This apparent one-time event also temporarily impacted our inventory levels. In our quick response to these challenges, we were able to bring our inventory levels back to target levels while sales readjusted. That being said, although the economic climate has punished many industries globally, to date, Granules has found its product lines which service both private label OTC pharmaceutical manufacturers and global branded pharmaceutical companies alike to be quite defensive in nature. We believe our long term partnership philosophy with respect to our value based approach to our customers, along with our insistence on product quality, has established the Company for further growth into the future.

Operationally, our culture of relentless customer service and focus on quality, in addition to consistent forward planning

initiatives has translated to not only high service levels to our customers, but also to manageable inventory levels in our warehouses. We believe these initiatives will further our efforts as we accept the challenge of servicing the ever consolidating segment of the pharmaceutical marketplace that requires suppliers to provide high quality, high volume, competitively priced products with consistency and reliability, thus keeping us well positioned in what is a continually challenging, changing and competitive landscape.

To keep in line with our parent company's changed accounting period (now ending March 31 versus June 30), accounts were closed for the 9 month period ending March 31, 2009. On a go forward basis, financial closings will cover the 12 month period ending March 31. Financial results for the fiscal period ended March 31, 2009 showed both top-line revenue growth as well as market share expansion at Granules USA, Inc. The extension and depth of our industry partnerships has led to Granules USA's increased wallet share from our existing customers while we have begun the process of introducing new products/dosage forms thus executing our plan of providing additional alternatives and higher value added solutions to our customers. Revenue grew in excess of 85% in comparison to the previous nine month period ended March 31 2008, while margins remained relatively consistent. API (Active Pharmaceutical Ingredients) and PFI (Pharmaceutical Formulation Intermediates) volumes increased approximately 40% representing the above mentioned increased market penetration and customer wallet share. To date, we have seen success in the execution of our current value proposition; providing both high levels of service and high quality/large volume pharmaceutical products at cost competitive price points. Thank you.

Sincerely

Jonathan Berlent
President
Granules USA Inc.

Professional Accountant Associates

To

The Board of Directors

Granules USA Inc.

101, Howard Blvd.,

Mt. Arlington, New Jersey, 07856

We have reviewed the accompanying balance sheet of Granules USA Inc., as of March 31, 2009, and the related statements of income, retained earnings, and cash flows for the period July 1, 2008 to March 31, 2009, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All of the information included in the financial statements is the representation of the management of Granules USA, Inc.

Review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Anjali Patel, CPA

July 24, 2009

Balance Sheet as at March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	As at March 31, 2009	As at June 30, 2008
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	2,379,470	2,379,470
Loan Funds			
Unsecured Loans	B	2,239,706	8,166,333
Total Sources of Funds		4,619,176	10,545,803
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	C	1,862,376	1,775,914
Less: Accumulated Depreciation		1,140,049	950,325
Net Block		722,327	825,589
Current Assets, Loans & Advances	D		
Inventories		164,428,738	198,393,263
Sundry Debtors		265,458,830	131,538,131
Cash & Bank Balances		6,529,902	4,303,964
Loans and Advances		10,060,497	11,966,980
		446,477,967	346,202,339
Less: Current Liabilities & Provisions			
Current Liabilities	E	494,985,693	383,979,488
Net Current Assests		(48,507,726)	(37,777,149)
Miscellaneous Expenditure (to the extent not written off or adjusted)			
Profit & Loss Account		52,404,575	47,497,364
Total Application of Funds		4,619,176	10,545,803
Significant accounting policies and notes to accounts			

As per our report of even date

For and on behalf of the Board

For Professional Accountant Associates

Anjali Patel
CPA

Jonathan Berlent
President

Place: New Jersey
Date: July 24, 2009

Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	9 months ended March 31, 2009	Year ended June 30, 2008
INCOME			
Sales (net)	F	892,821,649	550,852,248
		892,821,649	550,852,248
EXPENDITURE			
Cost of Goods Sold	G	830,644,073	516,253,405
Marketing & Selling Expenses	H	17,997,829	10,576,774
Administrative Expenses	I	47,476,869	29,688,932
Interest and Finance Charges	J	1,420,368	1,857,670
Depreciation		189,722	225,608
		897,728,861	558,602,624
Profit before tax		(4,907,212)	(7,750,140)
Net Profit after Taxes		(4,907,212)	(7,750,140)
Add profit brought forward from previous year		(47,497,365)	(39,747,225)
Balance transferred to Balance Sheet		(520,404,575)	(47,497,365)
Surplus carried forward to Balance Sheet		(52,404,575)	(47,497,365)

As per our report of even date

For Professional Accountant Associates

For and on behalf of the Board

Anjali Patel

CPA

Place: New Jersey

Date: July 24, 2009

Jonathan Berlent

President

(Amount in Rupees)

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Schedules forming part of Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

	9 months ended March 31, 2009	Year ended June 30, 2008
SCHEDULE F SALES		
Sales (Net)	892,821,649	550,852,248
	892,821,649	550,852,248

SCHEDULE G COST OF GOODS SOLD		
Cost of Goods Sold		
i) Purchases	796,679,564	79,885,472
ii) (Increase)/Decrease in Finished goods		
Opening stock	198,393,264	134,761,197
Closing Stock	164,428,755	198,393,264
Total (Increase)/Decrease in stocks	33,964,509	(63,632,067)
Cost of goods sold	830,644,073	516,253,405

SCHEDULE H MARKETING & SELLING EXPENSES		
Marketing & Selling Expenses:		
Sales Commission	1,564,143	–
Freight and Clearing charges	14,782,766	8,410,692
Travelling expenses	1,650,921	2,166,082
	17,997,829	10,576,774

SCHEDULE I ADMINISTRATIVE EXPENSES		
Salaries, Wages & bonus	20,850,681	19,260,143
Repairs & maintenance - Others	20,010	48,777
Rent	1,323,505	1,322,722
Rates & Taxes	10,194,945	375,094
Insurance	996,278	771,217
Consultancy & Professional Charges	3,471,214	916,583
Communication expenses	739,696	442,086
Printing & stationery	288,725	381,435
Foreign Exchange Fluctuations	8,502,085	1,924,605
Research expense	429,774	–
Utilities	32,543	–
Advertisement Charges	23,969	–
Sundry expenses	603,444	4,246,270
	47,476,869	29,688,932

SCHEDULE J INTEREST AND FINANCE CHARGES		
Interest and Finance Charges:		
Interest on Working Capital	224,476	877,767
Bank Charges	1,195,892	979,903
	1,420,368	1,857,670

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE K SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

1. Business

Granules USA Inc. ("Granules and the "Company") was incorporated on March 5, 2003 in Delaware. Granules is a wholly owned subsidiary of Granules India Limited ("GIL"), a company incorporated in India.

Granules acts as an exclusive front-end value chain for GIL and develop markets for the products manufactured by GIL. The business of GIL comprises of manufacture and sale of pharmaceutical products.

2. Basis of presentation

- a. The accompanying financial statements for the short period July 1, 2008 to March 31, 2009, are prepared in accordance with the accounting principles generally accepted in the United States of America ('US GAAP')
- b. In preparing the Company's financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period, the important estimates made by the Company in preparing these financial statements include those on the useful life of property and equipment, the valuation of deferred taxes and allowance for doubtful debts and actual results could differ from those estimates.

3. Cash and cash equivalents

The Company considers all highly liquid investments and deposits with an original maturity of ninety days or less to be cash equivalents. Cash and cash equivalents comprise cash on hand and balance with banks.

4. Inventories

Inventories consist of products purchased from GIL, and are stated at cost. The cost of the products is determined using the first in first out ('FIFO') method.

5. Accounts receivables

The Company provides allowance for doubtful accounts equal to the estimated uncollectable amounts in the aggregate, based on the present and prospective financial condition of customers and ageing of accounts receivables after considering historical experience and economic environment.

6. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation provided over the estimated useful economic life of the assets using the straight-line method. Depreciation of an asset commences when the asset is put to use. The estimated useful lives used to determine depreciation are:

Furniture and fixture	7 years
Computers	5 years

7. Intangible assets

Purchased trademarks are capitalized at cost; intangible assets with finite useful life are amortized over the useful or economic life of the intangible.

8. Revenue

Customers of the Company consist primarily of large pharmaceutical companies. Revenue from product sales is recognised when the merchandise is shipped to customers and all the four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products has occurred; (iii) the selling price is both fixed and determinable and; (iv) collectibles is reasonably probable.

Provisions for sales discount, damaged product returns, exchanges for expired products are established as a reduction of product sales revenue at the time such revenues are recognised. Certain charge backs and rebate programs extended to

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE K SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

customers pursuant to the industry standards, are recognised as a reduction from product sales revenues at the time of shipment.

9. Research and Development

Research and development costs are expensed when incurred. Expenditure for obtaining regulatory approvals and registration of products is charged to revenue when incurred. During the period July 1, 2008 to March 31, 2009, the Company incurred Rs 429,756 on research and development.

NOTE B – CASH AND EQUIVALENTS

The cash and cash equivalents of the Company comprise of:

(Amount in Rupees)

	As of March 31, 2009
Checking account the PNC Bank-2 accounts aggregating	6,529,902

Generally bank balance only to Rs. 5,064,000 is FDIC insured, but for the current year under the new policy it is FDIC insured up to Rs. 12,660,000.

NOTE C – INVENTORIES

Inventories comprise of:

(Amount in Rupees)

	As of March 31, 2009
Traded Goods	93,284,602
Goods-in-transit	71,144,136
Total	164,428,738

NOTE D – ACCOUNTS RECEIVABLES

Granules accounts receivables are primarily related to sale of granules to pharmaceutical companies. Credit is extended based on prior experience with the customer and evaluation of customers' financial condition. Granules had gross receivables from outside customers of Rs. 265,458,829.92 as of March 31, 2009. The Company had provided for doubtful allowance Rs. 4,438,089.6 in the previous year for the amount owed by Leiner, which has filed for bankruptcy.

An agreement has been entered into with Pharbest Pharmaceutical Corporation on March 30, 2009 for payment of outstanding balance of Rs. 10,323,672.96 in installments of Rs. 506,400 per week. No amount has been received from them so far.

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE K SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

NOTE E – OTHER CURRENT ASSETS

Other current assets comprise of:

(Amount in Rupees)

	As of March 31, 2009
Advances (to Lehigh Valley Technologies Inc)	5,359,820
Other advances	4,700,607
Total	10,060,497

The Company had made a loan to Lehigh Valley Technologies Inc for Rs. 18,273,038.88 payable in 56 equal weekly installments of Rs. 359,695.92 commencing from May 18, 2008. Interest chargeable was at 8% per annum. Only Rs. 12,913,200 has been paid to date and the entire amount has been allocated towards principal. No provision for accrued interest has been made.

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment comprise of the following:

(Amount in Rupees)

	As of March 31, 2009
Furniture and fixtures	566,590
Computer equipment	1,090,618
Less: Accumulated depreciation	(1,046,969)
Total	579,648

NOTE G – INTANGIBLES

Intangibles comprise of:

(Amount in Rupees)

	As of March 31, 2009
Trade marks	205,168
Less: Accumulated amortization	(62,488)
Total	142,680

NOTE H – OTHER CURRENT LIABILITIES

Other current liabilities comprise of the following:

(Amount in Rupees)

	As of March 31, 2009
Accrued expenses	700,604
Loan from Granules India Limited	2,018,156
Total	2,718,760

The Company received a loan of Rs. 7,596,000 from its parent company GIL. This loan carries 7% simple interest. Interest accrued for the period is Rs. 531,720. The outstanding amount represents the interest that has not been paid.

NOTE I – COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies as on March 31, 2009.

NOTE J – NET OPERATING LOSSES CARRIED FORWARD

As at March 31, 2009, the Company had Rs. 39,801,774 in Federal net operating loss and Rs. 41,237,367.36 New Jersey State operating losses carry forwards which can be carried forward for future utilization within 15-20 years.

Schedules forming part of Balance Sheet and Profit & Loss Account

NOTE K – RELATED PARTY TRANSACTIONS

The Company had following transactions and balances with its parent, GIL:

(Amount in Rupees)

	Period ending March 31, 2009
Purchases by the Company from GIL	755,953,722
Interest due on short term loan	2,018,156
Related party balances at the year end:	
Accounts payable by the Company to GIL	487,922,072
Short-term loan interest payable by the Company to GIL	2,018,156
Accounts Receivable from GIL to the Company	7,535

NOTE L – SEGMENT INFORMATION

The Company's main business is marketing of pharmaceutical products of the parent company. The management views the Company's operations as a single reportable segment.

NOTE M – CONCENTRATION

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect future operating results and cause actual results to vary materially from expectations include but are not limited to government regulations, competition, reliance on certain customers and credit risk.

The Company has concentration in respect of region in which it operates, which is the USA. The Company has concentration in receivables and revenue. Contract Pharmacal, Amneal, LNK and Kirk Pharma constitute approximately 5%, 16%, 41% and 9% of the accounts receivables and approximately 5%, 7%, 55%, and 6% of the revenue respectively.

NOTE N – STOCKHOLDERS' EQUITY

The authorized share capital of the Company has been changed from 1,500 equity shares of no par value to 2,500,000 shares of \$0.10 each. The Company had issued 500 equity shares of \$ 100 each, which would be converted into 1,000 shares (forward split). Each share carries an equal voting right and is entitled to an equal share in the assets of the Company at liquidation.

Cash Flow Statement for the Period ended March 31, 2009

(Amount in Rupees)

Particulars	9 months ended March 31, 2009		Year ended June 30, 2008	
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		(4,907,212)		(7,750,139)
Adjustments for:				
Depreciation	189,723	189,723	225,608	225,608
Operating profit before working capital changes		(4,717,489)		(7,524,531)
Increase in Trade and other receivables		(132,014,216)		5,968,832
Increase in inventories		33,964,525		(77,047,234)
Increase/(decrease) in Trade Payable		111,006,206		76,993,691
Cash generated from operations		8,239,027		(1,609,243)
Net Cash from operating activities		8,239,027		(1,609,243)
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	86,462		92,212	
Net Cash used in investing activities		86,462		92,212
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from Long Term & Other Borrowings	(5,926,627)		891,768	
Net Cash used in Financing Activities		(5,926,627)		891,768
Net Increase/(decrease) in cash & cash equivalents (A-B+C)		2,225,938		(809,687)
Cash equivalents (Opening Balance as at 1-7-2008)		4,303,964		5,113,651
Cash equivalents (Closing Balance as at 31-03-2009)		6,529,902		4,303,964

As per our report of even date

For and on behalf of the Board

For Professional Accountant Associates

Anjali Patel

CPA

Place: New Jersey

Date: July 24, 2009

Jonathan Berlent

President

Directors' Report

Your Directors have pleasure in presenting the Second Annual Report of the Company together with the Audited statement of Accounts for the period ended 31st March, 2009.

COMPANY PERFORMANCE

The land was acquired for setting up a Pharmaceutical manufacturing unit in near future at Jawaharlal Nehru Pharma City (JNPC), Parwada Mandal, Visakhapatnam.

CHANGE OF ACCOUNTING PERIOD

Your Company has changed the accounting period from June to March to facilitate uniform accounting along with the Holding Company accounts. Accordingly, the current year accounts represents the nine month period from July, 2008 to March, 2009.

DIRECTORS

There is no change in the constitution of the Board of Directors.

AUDITORS

M/S.Vijaya Bhaskar & Co., Chartered Accountants, the retiring auditors are eligible for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217(2AA) of the Companies Act, 1956, your directors wish to state :

- (a) That in preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (b) That they have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for the year under review;
- (c) That they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and

- (d) That they have prepared the accounts for the year ended 31st March, 2009 on a 'going concern' basis

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE FLUCTUATIONS

The relevant information as required under Section 217 (2) of the Companies Act, 1956 is not enclosed, since the said provisions are not applicable to the Company.

No research and development undertaken during the year and no expenses have been incurred on research and development during the year.

FIXED DEPOSITS

During the year under review, your Company did not accept or invite any deposits from the public.

DIVIDENDS

As the company has not commenced any business operations, your directors are unable to recommend any dividend.

PARTICULARS OF EMPLOYEES

There are no employees, employed throughout the year and in receipt of Rs. 24,00,000/- or more per annum or employed for part of the year in receipt of Rs. 2,00,000/- per month.

SECRETARIAL COMPLIANCE CERTIFICATE

Pursuant to Section 383A of the Companies Act, 1956, the Secretarial Compliance Certificate issued by Practising Company Secretary is attached to this report.

ACKNOWLEDGEMENTS

The Directors would like to thank the shareholders, bankers and other stakeholders for their support given by them to the Company.

For and on behalf of the Board

C. Krishna Prasad

Director

Place: Hyderabad

Date : July 23, 2009

Harsha Chigurupati

Director

Secretarial Compliance Certificate

Registration Number: U24230AP2007PTC054839

Nominal Capital: Rs 30,000,000.00

To

The Members of

M/S. GIL Lifesciences Private Limited

Hyderabad-500081

I have examined the registers, records, books and papers of M/S. GIL LIFESCIENCES PRIVATE LIMITED (the Company) as required to be maintained under the Companies Act, 1956 (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended March 31, 2009 (financial year from 01.07.2008 to 31.03.2009). In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded
2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate with the Registrar of Companies and other authorities as required under the Act and the rules made there under.
3. The Company is a Private Limited Company, and has the minimum prescribed paid-up capital and its maximum number of members during the said financial year were 2 excluding its present and past employees and the Company during the year under scrutiny:
 - i) has not invited public to subscribe for its shares or debentures; and
 - ii) has not invited or accepted any deposits from persons other than its members, directors or their relatives.
4. The Board of Directors have duly met 3 times on 15-09-2008, 29-12-2008 and 25-03-2009 in respect of which meetings, proper notices were given and the proceedings were properly recorded and signed.
5. The Company was not required to close its Register of Members during the financial year under review.
6. The Annual General Meeting for the financial year ended June 30, 2008 was held on 18.10.2008 after giving notice

to the members of the Company and resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose.

7. No Extra ordinary general meeting was held during the financial year.
8. The Company has not advanced any loans to its directors or persons or firms or companies referred to under Section 295 of the Act.
9. The Company has not entered into any contracts falling within the purview of Section 297 of the Act.
10. The Company has made necessary entries in the Register maintained under Section 301(3) of the Act.
11. The provisions of Section 314 of the Act have not been attracted and therefore, no approvals were required to be obtained.
12. The Company has not issued any duplicate share certificates during the financial year under review.
13. The Company has:
 - i) there was no allotment/ transfer/ transmission of securities during the financial year.
 - ii) not declared any interim or final dividend during the financial year under review;
 - iii) not declared any dividend, issued any debentures and has not accepted deposits, and hence the question of transfer of dividend in the unpaid dividend account, application money due for refund, matured deposits, matured debentures and the interest accrued thereon which have remained unclaimed or unpaid for a period of 7 years to Investor Education and Protection Fund, does not arise; and
 - iv) duly complied with the requirements of Section 217 of the Act.
14. The Board of Directors of the Company is duly constituted. There was no appointment of additional directors, alternate

Secretarial Compliance Certificate (Contd.)

directors and directors to fill casual vacancy during the financial year.

15. The Company has not appointed Managing Director/Whole-time Director during the financial year.
16. The Company has not appointed any sole selling agents during the financial year under review.
17. The company was not required to obtain any approvals of the Central Government, Company Law Board, Regional Director, Registrar of Companies and/or such other authorities prescribed under various provisions of the Act during the financial year.
18. The Directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under.
19. The Company has not issued any shares or other securities during the financial year.
20. The Company has not bought back any shares during the financial year under review.
21. The Company has so far not issued any redeemable preference shares/debentures.
22. During the year under review, the Company has not declared any dividend, rights shares and bonus shares and, hence, the question of keeping in abeyance rights to dividend, rights shares and bonus shares, pending registration of transfer of shares, does not arise.
23. The Company has not invited/accepted any deposits falling within the purview of Section 58A of the Act during the financial year.
24. The Company has not made any borrowings during the financial year.
25. The Company has not made any loans or advances or

given guarantees or provided securities to other bodies corporate and consequently no entries have been made in the register kept for the purpose.

26. The Company has not altered the provisions of the Memorandum with respect to situation of the Company's registered office from one State to another during the year under scrutiny.
27. The Company has not altered the provisions of the Memorandum with respect to the objects of the Company during the year under scrutiny.
28. The Company has not altered the provisions of the Memorandum with respect to name of the company during the year under scrutiny.
29. The Company has not altered the provisions of the Memorandum with respect to share capital of the company during the year under scrutiny.
30. The Company has not altered its Articles of Association during the financial year.
31. There was no prosecution initiated against or show cause notices received by the company during the financial year, for offences under the Act and consequently the question of fines or penalties does not arise.
32. The Company has not received any money as security from its employees during the financial year under review.
33. The Company has not constituted any fund under the provisions of Section 418 of the Act and, hence, the provisions of Section 418 of the Act are not applicable.

Place: Hyderabad
Date: July 23, 2009

S. Srikanth
Company Secretary
C. P. No: 7999

Annexure – A

Registers as maintained by the Company:

1. Register of Contracts u/s 301(3) of the Act
2. Register of Members u/s 150 of the Act
3. Register of Directors u/s 303 of the Act
4. Register of Directors' Shareholding u/s 307 of the Act
5. Minutes of General Meetings u/s 193 of the Act
6. Minutes of Board of Directors Meetings u/s 193 of the Act
7. Register of Fixed Assets

Place: Hyderabad
Date: July 23, 2009

S. Srikanth
Company Secretary
C. P. No: 7999

Annexure – B

Forms and Returns as filed by the Company with the Registrar of Companies, Regional Director, Central Government or other authorities during the period ended March 31, 2009

Sl. No.	Form No.	Relevant Section	Description	Date of Filing	Whether filed within prescribed time Yes/No	If delay in filing Whether Requisite Additional fee Paid Yes/No.
1.	Form No. 23AC and 23ACA	220	Annual Accounts for the Financial year ended 30.06.2008 laid and adopted by members in Annual General Meeting held on 18.10.2008	29.01.2009	No	Yes
2.	Form No. 20B	159	Annual Return in connection with the Annual General meeting held on 18.10.2008	29.01.2009	No	Yes
3.	Form No. 2	75(1)	Allotment of 2,906,176 Equity shares to Granules India Limited	10.07.2008	Yes	Not Applicable

Place: Hyderabad
Date: July 23, 2009

S. Srikanth
Company Secretary
C. P. No: 7999

Auditors' Report to Members

We have audited the attached Balance Sheet of GIL Lifesciences Private Limited as at 31st March, 2009. 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 the audit in accordance with auditing standards accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financials are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts 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 our audit provides a reasonable basis for our opinion.

We report as follows:

- 1 As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we enclose a statement on the matters specified in Paragraphs 4 and 5 of the said order.
- 2 Further to our comments in the Statement referred to in paragraph(1) above:
 - a) We have obtained all the information and explanation which, to the best of our knowledge and belief, were necessary for the purposes of our audit.
 - b) In our opinion, proper books of accounts as required by law have been kept by the company in so far as it

appears from our examination of the books.

- c) The Balance Sheet referred to in the Report are in agreement with the books of accounts.
- d) In our opinion, the accounts have been prepared in accordance with the Accounting standards referred to in Sub-section 3 (C) of Section 211 of the Companies Act, 1956.
- e) On the basis of written review of written representations received from the directors, and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2009 from being appointed as director in terms of clause (g) of Section 274(1) of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to the explanation given to us, the said accounts read with the notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in so far as it relates to the Balance Sheet, of the state of affairs of the Company as at 31st March, 2009.

For Vijaya Bhaskar & Co.,
Chartered Accountants

Place: Hyderabad
Date : July 23, 2009

A. Vijaya Bhaskar
Partner

Annexure to Auditors' Report

- | | |
|---|---|
| <p>(i) a) The Company does not own any fixed assets other than land and has maintained proper records for the situation of fixed assets.</p> <p>b) The fixed assets(land) has been physically verified by the company during the year in accordance with a programme of verification, which in our opinion is reasonable having regard 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, a substantial part of fixed assets have not been disposed of by the Company during the year.</p> <p>(ii) There are no stocks of the Company as at 31st March, 2009 and hence the clause (ii) of CARO,2003 is not applicable.</p> <p>(iii) The Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.</p> <p>Therefore, clause (iii)(b) regarding terms and conditions of such loans, clause (iii)(c) regarding payment of principal amount and interest and clause (iii)(d) regarding recovery of overdue amount of Para 4 of the Order are not applicable.</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 expenses and we have not observed any continuing failure to correct weakness in such internal controls.</p> <p>(v) In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into the Register maintained under Section 301 of the Companies Act, 1956.</p> <p>(vi) The Company has not accepted any deposits from the public within the meaning of Section 58 A and 58 AA of the Act and the rules framed thereunder.</p> <p>(vii) In our opinion, the reporting on the internal audit system of the Company is not applicable.</p> <p>(viii) Maintenance of cost records under Section 209(i) (d) of the Companies Act, 1956 is not applicable to this Company.</p> <p>(ix) The disclosure under Clause (ix) relating to Statutory dues is not applicable to the Company.</p> | <p>(x) The Company does not have accumulated losses as at 31st March, 2009 and has not incurred cash losses during the financial year ended on that date or in the immediately preceding previous financial year.</p> <p>(xi) The Company has not availed any loans from banks or institutions, hence the comment on the default in repayment is not applicable.</p> <p>(xii) According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.</p> <p>(xiii) The Provisions of any special statute as specified under paragraph (xiii) of the Order are not applicable to the Company.</p> <p>(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments.</p> <p>(xv) According to the information and explanation given to us, the Company has not given any guarantees for the loans taken by others from banks or financial institutions.</p> <p>(xvi) The Company has not raised any term loans during the year.</p> <p>(xvii) According to the information and explanation given to us and on an overall examination of the Balance Sheet of the Company, we report that no funds raised on a short term basis were used for long term investment.</p> <p>(xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.</p> <p>(xix) The Company has not made any preferential allotment of shares to parties and Companies covered in the Register maintained under Section 301 of the Companies Act, 1956 during the year.</p> <p>(xx) The Company has not raised any money by Public Issue during the year.</p> <p>(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.</p> |
|---|---|

For Vijaya Bhaskar & Co.,
Chartered Accountants

Place: Hyderabad
Date : July 23, 2009

A. Vijaya Bhaskar
Partner

Balance Sheet as at March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	As at March 31, 2009	As at June 30, 2008
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	29,461,760	29,461,760
Total Funds Employed		29,461,760	29,461,760
APPLICATION OF FUNDS:			
Fixed Assets	B		
Gross Block		29,825,431	29,033,758
Less: Depreciation		—	—
Net Block		29,825,431	29,033,758
Current Assets, Loans and Advances:			
Cash and Bank balances	C	79,053	130,812
		79,053	130,812
Less: Current Liabilities and Provisions:			
Current Liabilities	D	749,472	9,558
Provisions		—	—
Net Current assets		(670,419)	121,254
Miscellaneous expenditure (to the extent not written off or adjusted)	E		
Preliminary expenses		306,748	306,748
Total Funds Used		29,461,760	29,461,760
Significant Accounting Policies and Notes to the accounts	F		

As per our report attached

For and on behalf of the Board of Directors

For Vijaya Bhaskar & Co.,
Chartered Accountants

A. Vijaya Bhaskar
Partner

C. Krishna Prasad
Director

Harsha Chigurupati
Director

Place: Hyderabad
Date : July 23, 2009

Schedules forming part of Balance Sheet as at March 31, 2009

(Amount in Rupees)

	As at March 31, 2009	As at June 30, 2008
SCHEDULE A SHARE CAPITAL		
Authorised:		
30,00,000 Equity Shares of Rs.10/- each	30,000,000	30,000,000
Issued, subscribed & Paid up:		
29,46,176 Equity Shares of Rs.10/- each fully paid up	29,461,760	29,461,760
	29,461,760	29,461,760

SCHEDULE B FIXED ASSETS								
	GROSS BLOCK			DEPRECIATION			NET BLOCK	
Particulars	As on July, 1 2008	Additions during the year	As on March 31, 2009	As on July 1, 2008	For the period	Upto March 31, 2009	As on March 31, 2009	As on June 30, 2008
Land (including development)	28,950,315	722,720	29,673,035	–	–	–	29,673,035	28,950,315
Pre-operative expenses pending capitalisation	83,443	68,953	152,396	–	–	–	152,396	83,443
Total	29,033,758	791,673	29,825,431	–	–	–	29,825,431	29,033,758
Previous Year	–	29,033,758	29,033,758	–	–	–	29,033,758	–

	As at March 31, 2009	As at June 30, 2008
SCHEDULE C CURRENT ASSETS, LOANS & ADVANCES		
Cash and Bank balances		
Cash on hand	2,266	9,766
Balance with Scheduled Banks in Current account	76,787	121,046
	79,053	130,812

SCHEDULE D CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities		
Dues to Holding Company	–	8
Other Creditors	722,720	–
Other liabilities	26,752	9,550
	749,472	9,558

SCHEDULE E MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Preliminary Expenses	306,748	306,748
Less: Written off	–	–
	306,748	306,748

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE F SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

The Company was incorporated on July 19, 2007 and is promoted by Granules India Limited. The Company was incorporated to carry on the business of manufacturers, dealers, distributors, agents, exporters, importers, processors and developers of all types of drugs and chemicals.

2. Basis of Accounting

The financial Statements of the Company are prepared under the historical cost convention in accordance with the generally accepted accounting principles applicable in India and the provisions of the Indian Companies Act, 1956.

3. Fixed Assets

Fixed assets are stated at cost of acquisition.

4. Preliminary Expenses

Preliminary expenses will be amortized over a period of 5 years from the year of commencement of business.

B. NOTES TO ACCOUNTS

	2008-09	2007-08
1) Contingent Liabilities	Rs. Nil	Rs. Nil
2) As the Company is yet to commence its business, the information required under Paragraph 3 and 4 of Part II of Schedule VI of the Companies Act, 1956 is not furnished.		
3) Remuneration to the Auditors:		
	2008-09	2007-08
Audit fee	Rs. 9,376	Rs.9,550
4) Particulars of Remuneration to Directors	Rs. Nil	Rs. Nil
5) Earnings in Foreign Currency	Rs. Nil	Rs. Nil
6) CIF Value of imports	Rs. Nil	Rs. Nil
7) As the Company changed the accounting period, the Balance Sheet covers the period July 01, 2008 to March 31, 2009.		
8) The Company has no employees in its rolls.		
9) Since the Company is yet to commence the business, all the expenses incurred during the period amounting to Rs. 68,953 is transferred to Pre-operative expenditure pending capitalization.		

10) Related Party Disclosures

Disclosures as required by Accounting Standard 18(AS-18) 'Related Party Disclosures' issued by the Institute of Chartered Accountants of India is as follows:

a) Names of Related parties and description of relationship:

Name	Relationship
(i) Granules India Limited	Holding Company
(ii) Granules USA Inc.	Fellow Subsidiaries
(iii) Granules Singapore Pte Ltd	Fellow Subsidiaries
(iv) Granules Biocause Pharmaceutical Ltd, China	Associates
(v) Key Management Personnel	Mr.C.Krishna Prasad, Director Mr.C.Harsha, Director

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE F SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS (Contd.)

b) Details of transactions with related parties:

Granules India Limited, Holding company

Nature	2008-09	2007-08
	Rs.	Rs.
Equity Participation	Nil	2,94,61,760
Outstanding balances as of 31st March, 2009 Payables	Nil	8

- 11) The segment information as required under Accounting Standard 17(AS-17) is not reported as the Company is yet to commence the business. There are no reportable geographical segments.
- 12) The disclosure about the suppliers for their status under Micro, Small and Medium Enterprises Development Act, 2006 is not applicable as there are no balance of Sundry Creditors who are registered under the said Act at the year end.
- 13) The disclosure on the Deferred Tax asset/liability as required under the Accounting Standard 22(AS-22) is not applicable.
- 14) The figures have been rounded off to the nearest rupee and this being the first set of Financial Statements of the Company, there are no figures for the previous year.

As per our report attached

For and on behalf of the Board of Directors

For Vijaya Bhaskar & Co.,
Chartered Accountants

A. Vijaya Bhaskar
Partner

C. Krishna Prasad
Director

Harsha Chigurupati
Director

Place: Hyderabad

Date : July 23, 2009

Directors' Report

The Directors submit their report to the members together with the financial statements of the company for the financial period from November 18, 2008 to March 31, 2009

1. Directors

The Directors in office at the date of this report are: -
Mr. Chigurupati Krishna Prasad
Ms. Beulah Shanthini

2. Arrangements to enable Directors to acquire Shares or Debentures

Neither during nor at the end of the financial period was the company a party to any arrangement whose object was to enable the directors of the company to acquire benefits through the acquisition of shares in, or debentures of the company or any other body corporate.

3. Directors' interests in Shares or Debentures

The following directors, who held office at the end of the financial year, had according to the register of directors' shareholdings required to be kept under section 164 of the Companies Act Cap 50, an interest in the company and related corporations as stated below:

	No. of shares	
	At Incorporation	At 31 March 2009
	Shares of Rupees 10 each	
Granules India Ltd		
Mr. Chigurupati Krishna Prasad	46, 53,445	46, 53,445

4. Directors' Contractual Benefits

During the period, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or by a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest other than those disclosed in the financial statements.

5. Share Options

No options were granted during the financial year to take up un-issued shares of the company.

No shares were issued by virtue of the exercise of options.

There were no un-issued shares under option at the end of the financial period.

6. Independent Auditor

The independent auditor, M/s MGI N Rajan Associates, Certified Public Accountants has expressed its willingness to accept re-appointment.

Mr. Chigurupati Krishna Prasad
Director

Ms. Beulah Shanthini
Director

Place: Singapore/India
Date: July 24, 2009

Statement by Directors

In our opinion, the accompanying balance sheet, profit and loss account, statement of changes in equity and cash flow statement together with the notes thereon, are drawn up in accordance with and comply with the Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at March 31, 2009 and of the results of the business, changes in equity and cash flows of the company for the financial year ended on that date and at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

Mr. Chigurupati Krishna Prasad
Director

Ms. Beulah Shanthini
Director

Place: Singapore/India
Date: July 24, 2009

Independent Auditors' Report to the members of Granules Singapore Pte Ltd

We have audited the accompanying financial statements of the Company, which comprise the balance sheet as at March 31, 2009, and the income statement, statement of changes in equity and cash flow statement for the period from November 18, 2008 to March 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provision of the Singapore Companies Act (Cap.50) (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

- a) devising and maintaining a system of internal accounting controls sufficient to provide reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transaction are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;
- b) selecting and applying appropriate accounting policies; and
- c) making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion,

- a) the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at March 31, 2009 and the results, changes in equity and cash flows of the Company for the period November 18, 2008 (date of incorporation) to March 31, 2009; and
- b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

MGI N Rajan Associates
Public Accountants and
Certified Public Accountants

Place: Singapore,
Date: July 24, 2009

Balance Sheet as at March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	As at March 31, 2009
SOURCES OF FUNDS		
Shareholders' Funds		
Share Capital	A	48,000
Total Sources of Funds		48,000
APPLICATION OF FUNDS		
Current Assets, Loans & Advances	B	
Cash & Bank Balances		41,272
Loans and Advances		167,061
		208,333
Less: Current Liabilities & Provisions		
Current Liabilities	C	338,225
Net Current Assests		(129,892)
Miscellaneous Expenditure		
(to the extent not written off or adjusted)		
Profit & Loss Account		177,892
Total Application of Funds		48,000
Significant accounting policies and notes to accounts	E	

As per our report of even date

For and on behalf of the Board

**MGI N Rajan Associates Public Accountants and
Certified Public Accountants**

Mr. Chigurupati Krishna Prasad
Director

Ms. Beulah Shanthini
Director

Place: Singapore

Date: July 24, 2009

Profit & Loss Account for the Period ended March 31, 2009

(Amount in Rupees)

Particulars	Schedule No.	For the period March 31, 2009
INCOME		
Sales(net)		—
EXPENDITURE		
Administrative Expenses	D	177,892
		177,892
Profit before tax		(177,892)
Net Profit after Taxes		(177,892)
Balance transferred to Balance Sheet		(177,892)
Add profit brought forward from previous year		—
Surplus carried forward to Balance Sheet		(177,892)
Significant accounting policies and notes to accounts	E	

As per our report of even date

**MGI N Rajan Associates Public Accountants and
Certified Public Accountants**

For and on behalf of the Board

Mr. Chigurupati Krishna Prasad
Director

Ms. Beulah Shanthini
Director

Place: Singapore
Date: July 24, 2009

Schedules forming part of Balance Sheet as at March 31, 2009

(Amount in Rupees)

	As at March 31, 2009
SCHEDULE A SHARE CAPITAL	
Authorised Capital	
1000 Shares of USD 1 Each	48,000
Issued, Subscribed and Paid up Capital	
1000 Shares of USD 1 Each	48,000
	48,000

SCHEDULE B CURRENT ASSETS, LOANS & ADVANCES	
i) Cash & bank balances	
– in current account	41,272
	41,272
ii) Loans & Advances	
Deposits	99,811
Prepaid expenses	67,250
	167,061

SCHEDULE C CURRENT LIABILITIES & PROVISIONS	
Due to creditors for goods & services	338,225
	338,225

Schedules forming part of Profit and Loss Account for the period ended March 31, 2009

(Amount in Rupees)

	Period ended March 31, 2009
SCHEDULE D ADMINISTRATIVE EXPENSES	
Consultancy & Professional Charges	56,833
Foreign exchange loss	1,709
Auditors fees	48,728
Sundry expenses	70,622
	177,892

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE E SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General

The Company is incorporated on November 18, 2008 as a limited liability company and domiciled in the Republic of Singapore.

The principal activities of the Company are that to carry on the business of general importers & exporters. However, Company has not commenced any activities during the period

The company's registered office address:

10 Jalan Basar, Unit #10-12, Sim Lim Tower, Singapore 208787.

These financial statements are presented in United States dollar which is the Company's functional currency. The financial statements of the Company for the period from November 18, 2008 to March 31, 2009 were authorized for issue in accordance with a resolution of the directors on the date of the statement by directors.

2. Significant Accounting Policies

2.1 Basis Of Preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of the financial statements in conformity with Singapore Financial Reporting Standards requires using of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the financial period. The company has assessed that there are no estimates (or) judgments used that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.

New Accounting Standards and FRS Interpretations not yet Adopted

The Company has not applied the following accounting standards which are relevant (including their consequential amendments) and interpretations that have been issued as of the balance sheet date but are not yet effective:

Reference	Description	Effective for annual periods beginning on or after
FRS 1	Presentation of Financial Statements-Revised presentation	1 January 2009
FRS 23	Borrowing costs	1 January 2009

2.2 Financial Assets

Loans and receivable include "cash and cash equivalents"

These financial assets are initially recognised at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. They are presented as current assets, except for those maturing later than 12 months after the balance sheet which are presented as non-current assets.

The Company assesses at each balance sheet date whether there is objective evidence that these financial assets are impaired and recognises an allowance for impairment when such evidence exists. Allowance for impairment is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2.3 Financial Liabilities

Financial Liabilities include trade payables and other payables. Financial Liabilities are recognised on the Balance Sheet

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE E SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

date when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at fair value of the consideration received less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method.

2.4 Cash and Cash Equivalents

Cash and bank balances comprise cash on hand and balances with bank in current accounts and bank deposits.

2.5 Currency Translation

Functional currency

Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company ("the functional currency"). The financial statements are prepared in United States dollar, which is the functional currency of the Company.

Transactions and balances

Monetary assets and liabilities in foreign currencies are translated into United States dollar at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Exchange differences arising from such transactions are recorded in the profit and loss account in the period in which they arise. However, where a foreign currency transaction is to be settled at a contracted rate or is covered by a related or matching forward exchange contract, the rate of exchange specified in the contract will be used and any corresponding monetary assets or liabilities will not be retranslated.

2.6 Income taxes

Current income tax liabilities for current and prior periods are recognized at the amounts expected to be paid to the tax authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax assets/ liabilities are recognized for all deductible / taxable temporary differences arising between the tax bases of assets and liabilities and tax assets/liabilities and their carrying amounts in the financial statements except when the deferred income tax assets /liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred tax asset is recognized to the extent that is probable that future taxable profit will be available against which the temporary differences can be utilized.

Current and deferred income taxes are recognized as income or expenses in the income statement for the period, except to the extent that the tax arises from a transaction which is recognized directly to equity.

2.7 Related Party

For the purpose of these financial statements, parties are considered to be related to the company if the company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the company and the party are subject to common control or significant influence. Related parties may be individuals or other entities.

2.8 Share capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE E SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

3. Taxation

	Rs.
Current Tax Expense	—

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the Singapore statutory rate of income tax on Company's profit as a result of the following:

	Rs.
(Loss) before taxation	(177,892)
Tax at statutory rate of 17%	(29,948)
Tax on non deductibles	8,302
Deferred tax asset not recognised for the loss	21,646

4. Cash And Cash Equivalents

	Rs.
Cash at bank	41,272
	41,272

5. Other Receivables

	Rs.
Prepayment	67,250
Deposit	99,811
	167,061

6. Amount Due To Holding Company

The amount due to holding company is for non trading transaction, unsecured and has no fixed repayment terms.

The company is wholly owned subsidiary of Granules India Ltd, India which is also ultimate holding company.

7. Share Capital

	No of shares issued	31 March 2009 US\$
Ordinary shares and Fully paid up		
Balance at the beginning of the period	1,000	1,000
Balance at the end of the period	1,000	1,000

The ordinary shares are denominated in United States dollars. The holder of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

Capital Management

The Company has not commenced its business during the period and hence, capital management is not applicable.

8. Financial Risk Management

The Company does not have any written financial risk management policies and guidelines. The Company does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange. The Company's exposure to financial risks associated with financial instruments held in the ordinary course of business includes:

a) Price risk

i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is not exposed to any significant currency risk.

Schedules forming part of Balance Sheet and Profit & Loss Account

SCHEDULE E SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS (Contd.)

However, the Company does not use any financial derivatives such as foreign currency forward contracts, foreign currency options or swaps for hedging purposes.

ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Company has no interest-bearing financial instruments, hence, is not exposed to any movements in market interest rates.

iii) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Company does not hold any quoted or marketable financial instrument, hence, is not exposed to any movements in market prices.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company has no significant concentrations of credit risk.

Cash is held with financial institutions of good standing/ established financial institutions/ reputable financial institutions.

c) Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The company ensures that there are adequate funds to meet all its obligations in a timely and cost-effective manner.

The Company maintains sufficient level of cash and cash equivalents and continued financial support from the holding company to meet its working capital requirements.

d) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

The Company is not exposed to any cash flows risk as it does not have any monetary financial instruments with variable interest rates.

9. Fair Value of Financial Assets and Financial Liabilities

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 2 to the financial statements.

10. Comparative Figures

There are no comparative figures available as this is the first set of accounts for the Company.

Cash Flow Statement for the Year ended March 31, 2009

(Amount in Rupees)

Particulars	Period ended March 31, 2009
A. CASH FLOW FROM OPERATING ACTIVITIES	
Net Profit/(Loss) before tax and extraordinary items	(177,892)
Operating profit/ (Loss) before working capital changes	(177,892)
Increase in Trade and other receivables	(167,061)
Increase/(decrease) in Trade Payable	338,225
Cash generated from operations	(6,728)
Net Cash from operating activities	(6,728)
B. CASH FLOW FROM INVESTING ACTIVITIES	–
C. CASH FLOW FROM FINANCING ACTIVITIES	
Proceeds from issue of share capital including premium	48,000
Net Cash used in Financing Activities	48,000
Net Increase/(decrease) in cash & cash equivalents (A–B+C)	41,272
Cash equivalents (Opening Balance)	–
Cash equivalents (Closing Balance as at 31-3-2009)	41,272

As per our report of even date

**MGI N Rajan Associates Public Accountants and
Certified Public Accountants**

For and on behalf of the Board

Mr. Chigurupati Krishna Prasad
Director

Ms. Beulah Shanthini
Director

Place: Singapore
Date: July 24, 2009



Granules India Limited

Regd. Office: Second Floor, Block III, My Home Hub, Madhapur, Hyderabad - 500081

Notice

Notice is hereby given that the Eighteenth Annual General Meeting of the members of Granules India Limited will be held on **Friday, the 25th day of September 2009 at 4.00 P.M.** at **Residency Hall, Hotel Green Park, Green Lands, Begumpet, Hyderabad**, to transact the following business:

Ordinary Business:

1. To consider and adopt the Audited Balance Sheet as at March 31, 2009 and the Profit and Loss Account for the period ended as on that date along with schedules and notes appended thereto and the reports of Directors and Auditors thereon.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Dr.C.Nageswara Rao who retires by rotation and being eligible offers himself for reappointment.
4. To appoint M/s. Kumar & Giri, Chartered Accountants, Hyderabad as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.

Special Business:

5. **To appoint Shri Philip Brian Logan as Director**
To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED that Shri Philip Brian Logan be and is hereby appointed as a Director of the Company, liable to retire by rotation."

6. **To appoint Shri C.Parthasarathy as Director**
To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri C.Parthasarathy be and is hereby appointed as a Director of the Company, liable to retire by rotation."
7. **To appoint Dr. Krishna Murthy Ella as Director**
To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT Dr.Krishna Murthy Ella be and is hereby appointed as Director of the Company, liable to retire by rotation."
8. **To consider re-appointment of Shri C.Krishna Prasad as Managing Director**
To consider and if thought fit, to pass with or without modification(s), the following resolution as Special Resolution:

"RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310, 311 read with Schedule XIII and other applicable provisions of the Companies Act, 1956 (including any statutory modification(s) or re-enactment thereof, for the time being in force) and subject to such other approvals and consents as may be necessary, the consent of the Company be and is hereby accorded for the re-appointment of Shri C. Krishna Prasad as Managing Director of the Company, for a period of 5 (five) years with effect from 1st September 2009, on the following terms and conditions:

Salary

Salary: Rs 5,00,000/- (rupees five lakhs only) per month

Perquisites and Allowances

Perquisites which shall be evaluated at actual cost to the Company and where it is not possible to ascertain the actual cost, such perquisites shall be evaluated as per Income -tax Rules, 1962, and as per details given below subject to a ceiling of Rs.6,00,000/- (rupees six lakhs only) per annum.

- i) Rent free furnished accommodation together with gas, electricity and water and other utilities
- ii) Use of fully maintained Company's car with Chauffer with fuel reimbursement
- iii) Club fees subject to a maximum of two clubs (not being admission and life membership fees) and all actual entertainment expenses at the club reasonably incurred in or about the business of the Company
- iv) Communication facilities:
 - Reimbursement of telephone bills at residence (Use of telephone for office purpose shall not be considered as perquisite)
 - One mobile telephone for official purpose
 - Reimbursement of Internet and fax bills
- v) Reimbursement of servant's salary subject to maximum of two servants
- vi) Reimbursement of Gardener's salary, subject to one Gardener only.
- vii) Leave Travel Concession for self and family once in a year.
- viii) Reimbursement of medical expenses for self and family.
- ix) Reimbursement of insurance premium for coverage under Mediclaim Policy (Self & Dependants)
- x) Reimbursement of insurance premium for coverage under Personal Accident Policy (Self & Dependants)
- xi) Reimbursement of entertainment and/or other expenses, if any, incurred for and on behalf of the Company and such payment shall not form part of the remuneration for the purpose of computation of ceilings, wherever applicable.
- xii) Gratuity shall be calculated as per Company policy for each completed year of service.

xiii) Contribution to Employee's Provident Fund and Superannuation Fund to the extent not taxable under the Income tax Act, 1961

xiv) Gratuity not exceeding half month's salary, for each completed year of service.

xv) Encashment of leave as per the rules of the Company

xvi) Any other allowances, benefits and perquisites as per the rules applicable to the Senior Executives of the Company and/or which may become applicable in the future and/or any other allowance, perquisites as the Board may from time to time decide.

"RESOLVED FURTHER THAT the aggregate of above salary, perquisites and allowances taken together shall be subject to the overall ceilings laid down under Section 198 and 309 read with Schedule XIII of the Companies Act, 1956.

"RESOLVED FURTHER THAT in case of adequacy of profits, Shri C.Krishna Prasad be paid such commission which, together with salary, allowances and perquisites as above shall not exceed 5% of the net profits of the Company calculated in accordance with the provisions of Section 309 of the Companies Act, 1956."

"RESOLVED FURTHER THAT notwithstanding anything contained herein above, where in any financial year during the currency of this appointment, the Company has no profits or its profits are inadequate, Shri C.Krishna Prasad shall be paid remuneration by way of salary, allowances and perquisites not exceeding the maximum limits as prescribed under Schedule XIII to the Companies Act, 1956 or such other limits as may be prescribed by the Government from time to time as minimum remuneration."

"RESOLVED FURTHER THAT the Managing Director shall not be paid sitting fees for attending meetings of the Board of Directors or any Committee(s) thereof."

9. To consider issue of shares to employees of the Company under the Employee Stock Option Scheme

To consider and if thought fit, to pass the following resolution with or without modification(s):

"RESOLVED THAT pursuant to the provisions of Section

81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (the 'Act') and in accordance with the provisions of the Memorandum and Articles of Association of the Company, provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("the ESOP Guidelines") [including any statutory modification(s) or re-enactment of the Act or the ESOP guidelines for the time being in force], the Listing Agreement entered into with the stock exchanges where the securities of the Company are listed, and subject to all applicable rules, regulations and guidelines issued by the Securities and Exchange Board of India (hereinafter referred to as "SEBI"), Stock Exchanges, Foreign Investment Promotion Board, Secretariat for Industrial Assistance, Government of India, Reserve Bank of India, and / or under Foreign Exchange Management Act, 1999, and subject to such approvals, permissions, sanctions and consents as may be necessary and required under applicable laws, rules and regulations and on such terms and conditions (including any alterations, modifications, corrections, changes and variations if any, that may be stipulated under such approvals, permissions, sanctions and consents as the case may be), which may be accepted by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall include any Committee including the constituted Compensation & Remuneration Committee to exercise its powers, including the powers conferred by this resolution) and subject to any alterations, modifications, corrections, changes and variations that may be decided by the Board at their discretion, the consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot Stock Options / Performance options to or for the benefit of such person(s) who are in permanent employment of the Company, including Directors of the Company, whether whole time or not, whether working in India or abroad or otherwise, except the Promoter directors under a Scheme titled 'Granules India Limited – Employee Stock Option Scheme-2009' (hereinafter referred to as the "ESOP Scheme 2009") such number of equity shares not exceeding 5% of the issued equity shares of the company as on the date of grant of option(s)

convertible into equivalent number of shares, at such price, in one or more tranches and on such terms and conditions as may be fixed or determined by the Board / Committee in accordance with the applicable provisions of the law or guidelines as may be prevailing at that time."

"RESOLVED FURTHER THAT the said shares may be granted/allotted directly to such employees/directors of the Company in accordance with the ESOP Scheme 2009 framed in that behalf and as tabled before the Board / Committee of the Company."

"RESOLVED FURTHER THAT the issue of shares to any non-resident employee(s), non-resident Director(s) shall be subject to such approvals, permissions or consents as may be necessary from Reserve Bank of India or any other relevant authority as prescribed by the Foreign Exchange Management Act, 1999 and the regulations made thereunder in this regard."

"RESOLVED FURTHER THAT the new Equity Shares to be issued and allotted by the Company in the manner aforesaid shall rank *pari passu* in all respects with the then existing Equity Shares of the Company."

"RESOLVED FURTHER THAT the Company shall conform to the accounting policies prescribed from time to time under the ESOP Guidelines."

"RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue or allotment of shares, the Board / Committee be and are hereby authorized on behalf of the Company to evolve, decide upon and bring into effect the Scheme and make any modifications, changes, variations, alterations or revisions in the said Scheme from time to time or to suspend, withdraw or revive the Scheme from time to time as per the discretion of the Board / Committee and to do all such acts, deeds, matters and things as it may in its absolute discretion deem fit or necessary or desirable for such purpose and with power on behalf of the Company to settle any issues, questions, difficulties or doubts that may arise in this regard without requiring the Board / Committee to secure any further consent or approval of the members of the Company."

10. To consider issue of shares to employees of Subsidiary Company(ies) under the Employee Stock Option Scheme

To consider and, if thought fit, to pass with or without modification(s), the following resolution as Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (the ‘Act’) and in accordance with the provisions of the Memorandum and Articles of Association of the Company, provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (“the ESOP Guidelines”) [including any statutory modification(s) or re-enactment of the Act or the ESOP guidelines for the time being in force], the Listing Agreement entered into with the stock exchanges where the securities of the Company are listed, and subject to all applicable rules, regulations and guidelines issued by the Securities and Exchange Board of India (hereinafter referred to as “SEBI”), Stock Exchanges, Foreign Investment Promotion Board, Secretariat for Industrial Assistance, Government of India, Reserve Bank of India, and / or under Foreign Exchange Management Act, 1999, and subject to such approvals, permissions, sanctions and consents as may be necessary and required under applicable laws, rules and regulations and on such terms and conditions (including any alterations, modifications, corrections, changes and variations if any, that may be stipulated under such approvals, permissions, sanctions and consents as the case may be), which may be accepted by the Board of Directors of the Company (hereinafter referred to as “the Board” which term shall include any Committee including the constituted Compensation & Remuneration Committee to exercise its powers, including the powers conferred by this resolution) and subject to any alterations, modifications, corrections, changes and variations that may be decided by the Board at their discretion, the consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot Stock Options / Performance options to or for the benefit of such person(s) who are in permanent

employment of the Subsidiary Company(ies), including Directors of the Subsidiary Company(ies), whether whole time or not, whether working in India or abroad or otherwise, except the Promoter directors under a Scheme titled ‘Granules India Limited – Employee Stock Option Scheme 2009’ (hereinafter referred to as the “ESOP Scheme 2009”) such number of equity shares not exceeding 5% of the issued equity shares of the company as on the date of grant of option(s) convertible into equivalent number of shares, at such price, in one or more tranches and on such terms and conditions as may be fixed or determined by the Board / Committee in accordance with the applicable provisions of the law or guidelines as may be prevailing at that time.”

“RESOLVED FURTHER THAT the said shares may be granted/allotted directly to such employees/directors of the Company in accordance with the ESOP Scheme 2009 framed in that behalf and as tabled before the Board / Committee of the Company.”

“RESOLVED FURTHER THAT the issue of shares to any non-resident employee(s), non-resident Director(s) shall be subject to such approvals, permissions or consents as may be necessary from Reserve Bank of India or any other relevant authority as prescribed by the Foreign Exchange Management Act, 1999 and the regulations made thereunder in this regard.”

“RESOLVED FURTHER THAT the new Equity Shares to be issued and allotted by the Company in the manner aforesaid shall rank pari passu in all respects with the then existing Equity Shares of the Company.”

“RESOLVED FURTHER THAT the Company shall conform to the accounting policies prescribed from time to time under the ESOP Guidelines.”

RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue or allotment of shares, the Board / Committee be and are hereby authorized on behalf of the Company to evolve, decide upon and bring into effect the Scheme and make any modifications, changes, variations, alterations or revisions in the said Scheme from time to time or to suspend, withdraw or revive the Scheme from time to time as per the discretion

of the Board / Committee and to do all such acts, deeds, matters and things as it may in its absolute discretion deem fit or necessary or desirable for such purpose and with power on behalf of the Company to settle any issues, questions, difficulties or doubts that may arise in this regard without requiring the Board / Committee to secure any further consent or approval of the members of the Company.”

11. To consider appointment of Mr.Vijay Ramanavarapu in terms of Section 314 of the Companies Act, 1956

To consider and if thought fit, to pass, with or without modification(s), the following resolution as Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section

314(1B) and all other applicable provisions if any, of the Companies Act, 1956 (including any statutory modification(s) or re-enactment thereof, for the time being in force), and subject to the approval of the Central Government and such other approvals as may be necessary, the consent of the Company be and is hereby accorded to Mr. Vijay Ramanavarapu, relative of Dr.C.Nageswara Rao, Chairman, to hold an office or place of profit as Senior Manager (Special Projects) in the Company or such other designation as may be assigned, with effect from October 1, 2009 or such other date as the Central Government may approve, at a remuneration of Rs.1,25,000/- (rupees one lakh twenty five thousand only) per month as per the Company's Employment Rules.”

By order of the Board
for **Granules India limited**

Dr. C. Nageswara Rao
Chairman

Place: Hyderabad

Date: August 24, 2009

Notes:

1. A Member entitled to attend and vote is entitled to appoint Proxy to attend and vote instead of himself and the Proxy need not be a Member of the Company. The proxies, in order to be effective should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to Special business to be transacted at the meeting is annexed hereto.
3. Members/proxies are requested to duly fill the attendance slips for attending the meeting and bring their copies of the Annual Report to the meeting.
4. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
5. Members who hold shares in dematerialization form are requested to write their client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.
6. Members are requested to notify immediately any change in their address to the Share Transfer Agents.
7. Those members who have so far not encashed their dividend warrants for the below mentioned financial years, may claim or approach the Company for the payment thereof as the same will be transferred to the Investor Education and Protection Fund (IEPF) of the Central Government, pursuant to Section 205C of the Companies Act, 1956 on the respective dates mentioned there against. Kindly note that after the said dates, the members will lose their right to claim such dividend.

Financial year ended	Due date of transfer
31/03/2002	24/10/2010
30/06/2004	19/01/2012
30/06/2005	04/01/2013
30/06/2006	27/01/2014
30/06/2007	28/01/2015
30/06/2008	18/01/2016

8. Closure of register of Members and Dividend payment:

- a) The Company has already notified closure of Register of Members and Transfer Books thereof from September 23, 2009 to September 25, 2009 (both days inclusive) for determining the names of Members eligible for dividend, if approved, on equity shares. In respect of shares held in electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
- b) The dividend on equity shares, as recommended by the Board of Directors, if declared at the Annual General Meeting, will be paid on or before October 24, 2009
- c) Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank printed on reverse of the Dividend Warrant for an initial period of 3 months only. Thereafter, the Dividend Warrant on revalidation is payable only at limited centres/ branches. The members are, therefore, advised to encash Dividend Warrants within the initial validity period.

9. Payment of Dividend through ECS:

The Company offers the facility of electronic credit of Dividend directly to the respective bank accounts of shareholders, through Electronic Clearing Services (ECS). This facility is currently available at the locations specified in the Mandate form enclosed in this Annual Report.

- i) Members holding shares in physical form are advised to submit the Bank mandate particulars of their bank account viz., name and address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number latest by September 15, 2009 to the Company's Registrar and Share Transfer Agent.

- ii) In respect of shareholders holding shares in electronic form, the Company will make payment through ECS if the bank account details have been furnished by the shareholder to the concerned depository participant with whom the shareholder is maintaining his demat account. In case, so far the bank details have not been furnished to the depository participant or change in the bank particulars already furnished, advised to submit the same to the depository participant.

10. Non-Resident Indian Shareholders are requested to inform M/s.CIL Securities Limited immediately of:

- a) the change in the Residential status on return to India for permanent settlement.
- b) the particulars of the Bank Account maintained in India with complete name, branch, account number and address of the Bank, if not furnished earlier.

11. Corporate Members intending to depute their authorized representatives are requested to send a duly certified copy of the Board resolution authorizing their representatives to attend and vote at the Annual General Meeting.

12. M/s.CIL Securities Limited, (214, RAGHAVA RATNA TOWERS, CHIRAG ALI LANE, HYDERABAD - 500 001) acts as the Company's Registrar and Share Transfer Agent for both manual and electronic form of shareholding. All communication relating to shares should be addressed directly to them.

13. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their request in Form 2B (which will be made available on request) to the Registrar and Share Transfer Agent i.e., M/s.CIL Securities Limited.

14. Members desiring to seek any information on the Annual Accounts are requested to write to the Company at an early date to enable compilation of information.

Explanatory Statement

[Pursuant to Section 173(2) of the Companies Act, 1956]

Item No. 5, 6 & 7

The Board of Directors, under Section 260 of the Companies Act, 1956 and the Articles of Association of the Company, appointed Mr. Phillip Brian Logan, Mr.C.Parthasarathy and Dr. Krishna Murthy Ella as Additional Directors of the Company with effect from 29th January, 27th May and 4th June 2009 respectively.

In terms of Section 260 of the Act, Mr. Phillip Brian Logan, Mr.C.Parthasarathy and Dr. Krishna Murthy Ella hold office up to the date of this Annual General Meeting.

The Company has received notice(s) in writing from members along with a deposit of Rs. 500/- each, proposing the candidatures of Mr. Phillip Brian Logan, Mr.C.Parthasarathy and Dr. Krishna Murthy Ella for the office of Director of the Company under Section 257 of the Act.

Mr. Phillip Brian Logan, Mr.C.Parthasarathy and Dr. Krishna Murthy Ella have confirmed that they are not disqualified from being appointed as Directors under Section 274 (1) (g) of the Act. Approval of the shareholders is sought by way of Ordinary resolution in the Annual General Meeting for their respective appointments as Directors.

Brief profiles of the proposed appointees are annexed to the Notice.

The Board recommends the resolution as set out in Item no. 5, 6 & 7 for your approval.

Except Mr. Phillip Brian Logan, Mr. C.Parthasarathy and Dr. Krishna Murthy Ella, who are interested in the matters relating to their respective appointments, no other Director of the Company is interested in these resolutions.

Item No. 8

Shri C.Krishna Prasad, a technocrat, has been associated with the Pharma Industry for the last 25 years. Shri C.Krishna Prasad has been with the organisation since its inception in the year 1991 and has vast experience and expertise in the Pharma industry. In view of his consistent efforts which have contributed to the growth of the organization during the last two decades, and the sincere service rendered to the performance of the organization during his tenure as

Managing Director, the Board of Directors at their meeting held on July 25, 2009 approved the re-appointment of Shri C.Krishna Prasad as Managing Director for a further period of five years effective September 1, 2009, on such terms and conditions and at such remuneration specified in the resolution and subject to the approval of members in the forthcoming Annual General Meeting. The Compensation & Remuneration Committee at its meeting held on July 24, 2009 approved the remuneration payable to Shri C.Krishna Prasad.

The above may also be considered as an abstract of the terms of the appointment of Shri C.Krishna Prasad as the Managing Director of the Company and a memorandum of concern or interest in the said appointment in accordance with the provisions of Section 302 of the Companies Act, 1956.

In compliance with the provisions of Section 269 and 309 read with Schedule XIII of the Companies Act, 1956, the terms of appointment and remuneration as specified in the resolution are now placed before the members for their approval.

The Board recommends the resolution as set out in Item no. 8 for your approval.

None of the Directors except Shri C.Krishna Prasad and Dr. C Nageswara Rao is interested in the resolution.

Item No. 9 & 10

Human Capital is the key resource of the competitive advantage and the continuing growth and development of any organization. The success of organizations to a large extent depends on its ability to attract, retain and motivate its employees. Offering stock options go a long way in achieving the above key objectives. With this in view and in order to enable the employees to participate in the long-term growth and financial success of the Company, to achieve sustained growth of the Company, create shareholder value by aligning the interests of the employees with the long term interests of the Company and create a sense of ownership and participation amongst employees including employees of its subsidiary company (ies), it is proposed to formulate an ESOP scheme titled "Granules India Limited - Employee Stock Option Scheme 2009 (the ESOP Scheme 2009)".

Your Company had already issued and granted stock options to the employees of the company under the ESOP Scheme 2002 which was very successful and in order to extend the stock options to employees who have recently joined the organization, the Board of Directors in its meeting held on August 24, 2009 have proposed to form the said ESOP scheme.

The Compensation & Remuneration Committee will administer the ESOP Scheme 2009 and formulate the detailed terms and conditions. The Compensation Committee will, specify, inter alia, the following:

- Quantum of options to be granted to an employee;

- Conditions under which options vested in employees may lapse;
- Time period within which an employee may exercise vested options in the event of termination or resignation;
- Rights of an employee to exercise all vested options at one time or at various points of time within the exercise period;
- Procedure for making a fair and reasonable adjustment to the number of options and to the exercise period, in case of rights issues, bonus issues, other corporate actions, or otherwise; and
- Any other incidental matter

Disclosures as per Regulation 6.2 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 as amended:]

Sl. No.	Particulars	Disclosures
1.	Total number of options/Performance options that may be granted	Upto five percent (5%) of the aggregate of the number of issued equity shares of the company, from time to time, on the date of grant of such options to the eligible employees (or such other adjusted figure for any bonus, stock splits or consolidations or other re-organisation of the capital structure of the Company as may be applicable from time to time).
2.	Identification of classes of employees entitled to participate in the ESOP	All permanent employees of the Company (including a director, whether whole-time or not of the Company) and its subsidiaries working in India or abroad.
3.	Vesting, requirement of vesting and maximum period of vesting	The Options granted shall vest so long as the employee continues to be in the employment of the Company. Vesting of the options shall take place over a maximum period of 4 years with a minimum vesting period of 1 year from the date of grant.
4.	Exercise Price or Pricing formula	The options would be granted at the market price of the shares as on the date of grant, calculated in accordance with the ESOP Guidelines.
5.	Exercise period and the process of exercise	The exercise period will commence from the date of vesting and will expire not later than 7th year from the date of grant of the option or such other period as may be determined by the Compensation & Remuneration Committee.
6.	Appraisal process for determining the eligibility of employees to the ESOP	<p>The appraisal process for determining the eligibility of the employee will be specified by the Compensation & Remuneration Committee, and will be based on criteria such as seniority of employee, length of service, performance record, merit of the employee, future potential contribution by the employee and/or such other criteria that may be determined by the Committee at its sole discretion.</p> <p>The Committee would also determine the weightage / relative importance to be attached to each criterion for determining the eligibility of the employees.</p>

Sl. No.	Particulars	Disclosures
7.	Maximum number of options to be issued per employee and in the aggregate	The maximum number of options / performance options granted to any employee including Directors of the Company in any one year will not exceed 1% (one per cent) of the issued equity share capital (excluding outstanding warrants and conversions) of the Company.
8.	Disclosure and Accounting policies	The Company shall comply with the disclosure and accounting policies as applicable.
9.	Method of valuation of stock options	The Company shall use the Intrinsic Value method for valuation of the options granted. The difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options and the impact of this difference on profits and on EPS of the Company shall be disclosed in the Directors' Report.

In terms of the provisions of section 8(1A) and other applicable provisions of the Companies Act, 1956 and ESOP Guidelines, 1999, approval of the shareholders is sought to issue the shares, pursuant to the options granted under the ESOP Scheme 2009, not exceeding in the aggregate, five percent (5%) of the number of issued equity shares of the Company from time to time, as on the date of grant of options.

The Board recommends the resolutions as set out in Item no. 9 & 10 of the Notice for your approval.

None of the Directors of the Company is in any way concerned or interested in the resolution, except to the extent of the shares that may be offered to them under the scheme.

Item No.11

Mr. Vijay Ramanavarapu holds a Bachelor of Business Administration in Finance and a Bachelor of Arts in Political Science from The Ohio State University.

Since June 2006, Mr. Ramanavarapu has been an investment banking analyst, in which capacity he carried out valuation and strategic analysis. His valuation skills include public comparable and transaction analysis, LBOs, DCFs and sum-of-the-parts and M&A analysis. His strategic analysis includes comprehensive industry research within the consumer and

technology fields. He executed several buy and sell-side deals totaling approximately \$500 million and assisted in the execution of 27 equity deals totaling \$6.5 billion in capital.

Mr. Ramanavarapu, with three years experience in an investment banking analyst has been found competent to hold the proposed position in the Company.

In light of explanations and justifications given above, it is proposed to appoint Mr. Vijay Ramanavarapu, as Senior Manager (Special Projects) in the Company. The proposed remuneration is commensurate with his experience and is in line with the prevailing industry standards.

Mr. Vijay Ramanavarapu being related to Dr. C.Nageswara Rao, Chairman and Shri C.Krishna Prasad, Managing Director, in terms of Section 314(1B) of the Companies Act, 1956, this resolution is required to be passed as a Special Resolution, and shall be subject to prior approval of Ministry of Corporate Affairs, Government of India and shall take effect from such date as may be approved.

The Board recommends the resolution as set out in Item no. 11 of the Notice for your approval.

None of the Directors except Dr. C.Nageswara Rao, Chairman and Shri. C.Krishna Prasad, Managing Director, is interested in this resolution.

By order of the Board
for **Granules India Limited**

Dr. C. Nageswara Rao
Chairman

Place: Hyderabad
Date: August 24, 2009



Granules India Limited

Regd. Office: 2nd Floor, 3rd Block, My Home Hub, Madhapur, Hyderabad - 500081

PROXY FORM

18th Annual General Meeting

Regd. Folio No.	
*Demat A/c No.	

DP ID No.	
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I/We of in the district of being a member/members of the Company, hereby appoint of or failing him/her of in the district of as my / our Proxy to vote for me / us on my / our behalf at the 18th Annual General Meeting of the Company to be held at Residency Hall, Hotel Green Park, Green Lands, Begumpet, Hyderabad, on Friday, the 25th September 2009 at 4.00 p.m. and at any adjournment (s) thereof.

Signed this day of 2009

Affix
Re. 15 paisa
Revenue
Stamp

Signature.....

Note: This form, in order to be valid and effective, should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting.

*Those who hold shares in demat form must quote their Demat A/c No. and Depository Participant (DP) ID. No.



Granules India Limited

Regd. Office: 2nd Floor, 3rd Block, My Home Hub, Madhapur, Hyderabad - 500081

ATTENDANCE SLIP

18th Annual General Meeting

Regd. Folio No.	
*Demat A/c No.	

DP ID No.	
No. of Shares held	

I certify that I am a Member/Proxy for the Member of the Company.

I hereby record my presence at the 18th Annual General Meeting of the Company at Residency Hall, Hotel Green Park, Green Lands, Begumpet, Hyderabad, on Friday, the 25th day of September 2009 at 4.00 p.m.

Member's/Proxy's Name

Signature of Member/Proxy

