

**A quality centered
integrated pharmaceutical company**



sms

pharmaceuticals Ltd.

Values Life, Values Quality

Annual Report 2009 - 10



Oncology Facility, Parawada



New API Facility, Kandivalasa



Contents

Corporate Information	3
Notice	4
Directors' Report	6
Management Discussion and Analysis	12
Corporate Governance	15
Auditors' Report	25
Balance Sheet	30
Profit & Loss Account	31
Schedules	32
Cash Flow Statement	56
Balance Sheet Abstract	58
Proxy Form / Attendance Slip	59



Pharmaceuticals Ltd.

Corporate Information

Board of Directors

Sri P. Ramesh Babu	Chairman & Managing Director
Sri TVVSN Murthy	Vice-Chairman & Joint Managing Director
Sri S. Srinivas	Nominee Director of Exim Bank
Sri A.P. Rao	Director
Dr. Mihir K. Chaudhuri	Director
Dr. B.M. Choudary	Director
Sri K.S. Rao	Director
Dr. Ayman Sahli	Nominee Director of Gulf Pharmaceuticals, U.A.E.

Chief Financial Officer
Sri N. Rajendra Prasad

Company Secretary
P. Prabhakara Rao

Registered Office

Plot No. 19-III, Road No. 71,
Opp. Bharatiya Vidya Bhavan Public School
Jubilee Hills, Hyderabad-500 034
Phone : 040-66288888,
Fax : 040-23551401/23551402
Email : info@smspharma.com

Auditors

M/s. Rambabu & Co., Chartered Accountants
31, Pancom Chambers, Rajbhavan Road, Hyderabad-500 082.
Phone : 040-23311587
Fax : 040-23397182
Email : rambabuandco1982@yahoo.com

M/s. P. Murali & Co., Chartered Accountants
6-3-655/2/3, Somajiguda, Hyderabad-500 082.
Phone : 040-23326666
Fax : 040-23392474
Email : pmurali.co@gmail.com

Share Transfer Agents

M/s. Aarthi Consultants Private Limited
1-2-285, Domalguda, Hyderabad-500 029
Phone : 040-27638111/27642217-27634445
Fax : 040-27632184
Email : info@arthiconsultants.com

Bankers

State Bank of India
Exim Bank
AXIS Bank Ltd.
IDBI Bank Ltd.

Plant Locations

Unit-I

IDA Kazipally, Jinnaram Mandal,
Medak Dist. A.P. - 502 319
Phone : 08458-277067
Fax : 08458-277069
Email : unit1@smspharma.com

Unit-II

Plot No. 24 & 24B, S.V. Co.op Ind. Estate
Bachupally, I.D.A., R.R. Dist. A.P. - 502 325.
Phone : 040-65986691
Fax : 040-23040981
Email : unit2@smspharma.com

Unit-III

Plot No. D-63, Phase-I, I.D.A.,
Jeedimetla, Hyderabad-A.P.-500 055
Phone : 040-23096380
Email : unit3@smspharma.com

Unit-IV

Plot No. 66/B-D, Phase-I,
IDA Jeedimetla, Hyderabad-500 055
Phone : 040-23095151
Fax No. : 040-23735639
Email : unit4@smspharma.com

Unit-V

Sy. No. 296/7/4, I.D.A., Via Miyapur, Hyderabad.
Phone : 040-64547975
Email : unit5@smspharma.com

Unit-VI

Plot No. 28, Jawaharlal Nehru Pharma City,
Parawada, Visakhapatnam.
Phone : 091-9949887739
Email : parawada@smspharma.com

Unit-VII

Sy. No. 160, 161, 163 to 167,
Kandivalasa, Poosapatirega (Mandal),
Vijayanagaram Dist.
Phone : 08922-258051
Fax : 08922-258052
Email : kandivalasa@smspharma.com

Corporate R&D

Sy. No. 186, 189 & 190, Gagillapur,
Qutubullapur, Ranga Reddy Dist., Hyderabad.
Phone : 08418-257337/8
Fax : 08418-257469
Email : rnd@smspharma.com

In house R&D

No. C-23, Industrial Estate,
Sanathnagar, Hyderabad-500 018.
Phone : 040-23702318
Fax : 040-23814709
Email : ansingh@smspharma.com



NOTICE

Notice is hereby given that the 22nd Annual General Meeting of the Company will be held on Wednesday the 29th September, 2010 at 3.00 PM. at the Jubilee Hills International Centre (Jubilee Hills Club), Jubilee Hills, Hyderabad-500 033 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31st March, 2010, Balance Sheet as on that date along with the Reports of the Directors' and Auditors' thereon.
2. To declare dividend for the financial year 2009-10.
3. To appoint a Director in place of Sri K.S. Rao, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri A.P. Rao, who retires by rotation, and being eligible, offers himself for re-appointment.
5. To appoint M/s. Rambabu & Co., Chartered Accountants and M/s. P. Murali & Co., Chartered Accountants as Joint Auditors of the Company and to fix their remuneration.

By Order of the Board
P. Ramesh Babu
Chairman & Managing Director

Place: Hyderabad
Date: 27.08.2010

Notes:

1. A member entitled to attend and vote at the meeting, is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the company. The instrument of proxy in order to be effective, must be deposited at the registered office of the company, duly completed and signed not less than 48 hours before the meeting.
2. Corporate members intending to send their authorized representative(s) to attend the meeting are requested to send a certified copy of the Board Resolution authorizing their representative(s) to attend and vote on their behalf at the meeting.
3. The register of members and the share transfer books of the company will remain closed from 25.09.2010 to 29.09.2010 (both days inclusive) in connection with the payment of dividend for the financial year 2009-10.
4. Dividend if declared at the Annual General Meeting, will be payable to those members whose names appear on the company's register of members as on 25.09.2010.
5. The shareholders are requested to intimate immediately any change in their address or bank mandates to their depository participants with whom they are maintaining their demat accounts or to the Company's Share Transfer Agent M/s. Aarthi Consultants Private Limited, if the shares are held in physical form.
6. For the convenience of members and for proper conduct of the meeting, entry to the

place of meeting will be regulated by attendance slip which is part of the annual report. Members are requested to duly fill in and sign at the place provided on the attendance slip and hand it over at the entrance of the venue.

7. Shareholders desiring any information relating to the accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready.
8. The additional information on Directors, seeking re-appointment as Directors under Item Nos. 3 and 4 above, as required by Clause 49 of the Listing Agreement is given below:

Details of Directors retiring by rotation and seeking re-appointment (in Pursuance of Clause 49 of the Listing Agreement).

Name of the Director	Sri K.S. Rao	Sri A.P. Rao
Date of Birth	10.08.1942	16.08.1943
Date of Appointment	29.05.2005	21.10.1994
Qualification	FCA	AICWA
Expertise in specific Functional Area	In the fields of Auditing.	In the fields of Finance.
Details of other Directorships	1) CMH Tools Ltd., 2) Auctus Pharma Limited.	1) Siricybertech Private Limited 2) Energy Leader Batteries India Limited.
Details of other Committee & Membership status.	1) Chairman - Audit Committee. 2) Chairman - Remuneration Committee and 3) Chairman - Investors Grievances Committee.	1) Member - Audit Committee. 2) Member - Remuneration Committee and 3) Member - Investors Grievances Committee.

By Order of the Board
P. Ramesh Babu
Chairman & Managing Director

Place: Hyderabad
Date: 27.08.2010



DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the 22nd Annual Report and Audited Accounts of your company for the year ended 31st March, 2010.

Financial Results

(Rs. In Lakhs)

Particulars	2009-10	2008-09
Gross Sales	23,876.77	27,406.95
Net Sales	21,975.51	24,478.67
Other Income	243.61	40.52
Total Net Income	22,219.12	24,519.19
PBIDT	2,480.42	2,381.52
Finance Charges	1,355.85	959.04
Depreciation	836.48	627.91
Profit before Tax	288.09	794.57
Taxation	48.55	164.72
Profit After Tax	239.54	629.85
Profit brought forward	1,952.55	1,657.05
Available for Appropriations	2,192.09	2,286.90
Appropriations:		
Proposed Dividend	100.15	200.31
Dividend Tax	16.63	34.04
Transfer to General Reserve	100.00	100.00
Profit carried to Balance Sheet	1,975.31	1,952.55
Earning per share	2.39	6.29

Management's Discussion and Analysis

A detailed Management Discussion and Analysis is provided in the Annual Report.

Dividend

Your Board of Directors have recommended the dividend of Re.1.00 per Equity Share of Rs. 10/-

each (previous year Rs. 2/- per Equity Share) considering the financial commitments of the Company.

Transfer to General Reserve:

The Company proposes to transfer Rs.1,00,00,000/- to the General Reserve out of the amount available for appropriations.

Auditors

The Statutory Auditors of the Company, M/s. Rambabu & Co., Chartered Accountants and M/s. P. Murali & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for re-appointment have confirmed their eligibility and willingness to accept office for the financial year ended 31st March, 2011.

The Company has received confirmation from both the firms that their appointment will be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956. The Audit Committee of the board has recommended the re-appointment of joint auditors.

Cost Auditor

Sri KSN Sarma, Cost Accountant was appointed as Cost Auditor of the Company subject to the consent of the Government of India to conduct cost audit of the Company for the year 2009-10.

Fixed Deposits

The company has not accepted/ invited any deposits from the public in terms of Section 58 A and 58 AA of the Companies Act, 1956.

Directors

Pursuant to Article 110 of the Articles of Association of the Company Sri K.S. Rao and Sri A.P. Rao, will retire by rotation at the ensuing Annual General Meeting and are being eligible offers themselves for re-appointment as Directors. Your Board of Directors recommends their re-appointment.

The profiles of the respective Directors are included in the Report on Corporate Governance annexed.

Corporate Governance

A detailed Report on Corporate Governance along-with the Certificate issued by M/s CSB Associates, Company Secretaries confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement, forms part of this Annual Report.

The Ministry of Corporate Affairs, Government of India has issued a set of voluntary guidelines on Corporate Governance in December, 2009. These guidelines provide for good governance practices which may be adopted by the corporate voluntarily. The Board of Directors would examine and comply the guidelines with the extent possible.

Contribution to the ex-chequer.

Your Company has contributed Rs.2,165.05.lakhs to the ex-chequer (Previous year Rs.3,152.02 lakhs) by way of taxes.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 on the Directors' Responsibility Statement, it is hereby confirmed:

1. That in the preparation of the Annual Accounts for the year ended 31st March, 2010, applicable, accounting standards were followed along with proper explanations relating to material departures.
2. That your Directors selected such accounting policies and applied them consistently and made judgments and estimates 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 31st March, 2010 and of the profit of the company for that period.
3. That your Directors took proper and sufficient care to maintain adequate accounting records in accordance with the provisions of this act to safe guard the assets of the Company and to prevent and detect fraud and other irregularities.
4. That your Directors prepared the Annual Accounts for the year ended 31st March, 2010 on a going concern basis.

Research and Development (R & D).

Your company places significant emphasis on research and development with a dual focus on non infringing and cost effective processes. The company has two R & D Centers with the first one working on new products and process development, custom synthesis and contract research for customers. This center has 10 labs including a dedicated oncology lab in 40,000 Sft area. It has infrastructure right from product conception to DMF filing. The center is capable of developing 20 products per annum. The center is also equipped with dedicated analytical development block in 22,000 sft area, kilo lab, and cGMP pilot plant.

The company has developed non infringing process in anti cancer, anti migraine and other highly potential therapeutic categories which will enable us to have early entry opportunities in different markets

The second R & D center in 3750 sft area is dedicated for continuous process improvement of existing products which enables us to maintain our leadership position in cost competitive generic industry. Both R & D Centers are recognized by the Department of Scientific and Industrial Research.

Due to ongoing cost reduction efforts from this R&D center, the company has been able to maintain leadership in extremely competitive API like Ranitidine, Sildenafil, Sumatriptan, Pantoprazole etc

Particulars of Employees

The particulars of employees required under the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended to date were not applicable to your Company as none of the employees were in receipt of remuneration which in aggregate is Rs.24,00,000/- or more per year or Rs.2,00,000/- or more per month..

Disclosure of Particulars

As required by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information and data is attached as an Annexure to this report.

Dematerialization

Your Company's shares are under compulsory DEMAT mode and all the physical shareholders are hereby recommended to opt for this facility for prompt services.

Related party transactions.

As a matter of policy, your company carried out transactions with related parties on an arms-length basis. Statement of these transactions is given in Notes on Accounts in compliance with accounting standards issued by ICAI.

Transfer of unpaid/unclaimed dividend to Investor Education and Protection Fund (IEPF)

The dividend declared for the year 2002-03 has been fully claimed and paid by the Company.

Acknowledgements

Your Directors gratefully acknowledge and appreciate the support extended by the Banks, Financial Institutions, various government authorities and also customers, dealers and trade, employees and workers for their continued support and confidence reposed in the company.

for and on behalf of the Board
P. Ramesh Babu
Chairman & Managing Director

Place: Hyderabad
Date : 27.08.2010

ANNEXURE TO THE DIRECTORS' REPORT

Information pursuant to 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.

FORM - A

Disclosure of particulars with respect to Conservation of Energy

A. POWER & FUEL CONSUMPTION

	(Rs.in Lakhs)	
Particulars	2009-10	2008-09
I. ELECTRICITY:		
a. Purchased :		
Units (Lakhs)	100.83	91.62
Total Amount (Rs.in Lakhs)	390.04	334.34
Rate/Unit (Rs.)	3.87	3.65
b. Own generation		
Through Diesel Generator		
Units (KWH in Lakhs)	30.76	18.44
Unit per Lt. Of Diesel	3.35	3.40
Cost/Unit (Rs.in Lakhs)	10.58	10.70
2. COAL (D/C Grade):		
Quantity (Ton)	12,020	9,693
Total cost (Rs.in Lakhs)	417	324
Average Rate per Ton (Rs.)	3,469	3,340
3. FURNACE OIL:		
Quantity (Ltrs)	3,05,940	1,68,000
Total Amount (Rs.in Lakhs)	87.54	40.31
Average Rate per Ltr. (Rs.)	28.61	23.99

B. CONSUMPTION FOR UNIT OF PRODUCTION:

Products
Electricity
Coal (D/C Grade)
Others (specify)



Since the Company manufactures different Bulk Drugs & Drug Intermediates, it is not practicable to give consumption per unit of production.

FORM - B

Disclosure of particulars with respect to Technology Absorption

I. Research and Development (R & D)

(a) Specific areas in which R&D is carried out by your company

- Development of patent non-infringing process in therapeutic areas of antimigraine, antihypertensive, anticancer (oncology), antidepressant, antifungal and hypolipidemic.
- Development of cost effective process
- Custom synthesis and contract manufacture
- Development of analytical methods
- Impurities profiling and synthesis of impurities and their sale creation of intellectual property and international regulatory filings.

(b) Benefits derived as a result of the above

(i) The above research activity has resulted in commercialising/ / scaling up of a number of products including

- Imatinib mesylate (alpha and beta forms) in oncology unit at Parawada
- Gemcitabine hydrochloride in oncology unit at Parawada
- Capecitabine in oncology unit at Parawada
- Bicalutamide in oncology unit at Parawada
- Eletriptan Hydrobromide in Unit-II (FDA Unit)
- Tadalafil in Unit-II (FDA Unit)

(ii) 1) Process Development was carried out for the following products., ready to be scaled up

Erlotinib Hydrochloride

Perindopril Erbumine

Nabumetone and

Losartan

2) Products under development

Azacytidine

Bortezomib

Pemetrexed Disodium

Rosuvastatin Calcium

Olmesartan

Solifenacin

Candesartan

Irbesartan

Telmisartan

Nateglinide

- (iii) Modification of existing processes for reducing the cost of product in the areas of anti-migraine, anti-hypertensive, anti-fungal, anti-ulcer etc.

Drug Master Files (DMF) have been filed for active pharmaceutical ingredients such as :-

Imatinib mesylate alpha form Gemcitabine Hydrochloride

Capecitabine Imidapril hydrochloride

Rizatriptan benzoate.

Future plan of action

Development processes for new products in various therapeutic categories

Improvement of the cost of production of the existing products.

Undertake custom synthesis and contract manufacture

Expand the R&D activities in the new facility

II. TECHNOLOGY ABSORPTION, ADOPTATION AND INNOVATION.

a) Efforts in brief, made towards technology absorption, adaptation and innovation:

No technology absorption is involved. The company has its own R & D Centre which has been developing and improving processes for manufacture of Active Pharmaceutical Ingredients and drug intermediates.

b) Benefits derived as a result of the above efforts:

Processes for several new products have been developed. Process optimization has been achieved in Production, which resulted in lower cost of production.

c) Details of technology imported during the past 5 Years.

Technology imported.

Year of Import.

Has Technology been fully absorbed
If not fully absorbed, areas where this
has not taken place, reasons there for
and future plan of action.

No technology has been
imported during past
five year.

FORM - C

FOREIGN EXCHANGE EARNINGS AND OUTGO

(Rs. in Lakhs)

Particulars	2009-10	2008-09
Export of Goods (FOB)		
Foreign Exchange outgo	11,022.19	8,514.21
i) CIF Value of Imports		
Raw Materials	3,428.44	3,969.84
Capital Goods	321.09	150.33
ii) Expenditure in Foreign Currency		
Traveling	1.17	0.46
Sales Commission	138.59	129.46

MANAGEMENT DISCUSSION AND ANALYSIS

Economic overview

Global economic growth - having been severely affected by the worldwide recession 2008 - is expected to recover from a negative 0.8% in 2009 to 3.9% in 2010 and 4.3% in 2011 following monetary fiscal support, improved investor confidence and emerging market recovery (Source: The International Monetary Fund). India outperformed the global average in 2009-10 with a GDP of USD 1,217 billion (1.96% of the world economy) growing at 7.4% (Source: World Bank) following a Government stimulus package, tax cuts, increased infrastructure spending and lower interest rates.

Global pharmaceutical sector

The global pharmaceutical industry is strengthening its focus on generic products and growing pharmaceutical volumes in the developing world. The global pharma market is expected to grow at 4-6% to US\$837 billion in 2010 and expected to grow 4.4% over the next five years to US\$1.1 trillion by 2014 (Source: IMS Health).

Emerging pharmaceutical markets namely Brazil, Russia, China, India, Turkey, Mexico and Indonesia are projected to grow at a 14.7% CAGR across 2009-2012, characterised by rapid urbanisation, government support and patent expiries, among others (Source: December 2009, RNCOS).

Concurrently, developed nations (US, EU and Japan) are expected to report subdued growth owing to rising healthcare costs on account of demographic changes, patent expiries and increasing generics preference by medical professionals.

Developing markets are expected to grow at 14-17% to about US\$120-140 billion through 2014, while major developed markets are expected to grow at 3-6%. Drugs worth nearly US\$ 70 billion are likely to go off-patent in the US, offering India a chance to capture a considerable share of the generics opportunity (Source: RNCOS)

Projected growth

Countries	Additional contribution in global sales by 2013
China	USD\$40 billion
Brazil, Russia and India	USD\$5-15 billion each
13 fast followers*	USD\$1-5 billion each
Total	USD\$90 billion

*13 fast followers comprise Venezuela, Poland, Argentina, Turkey, Mexico, Vietnam, South Africa, Thailand, Indonesia, Romania, Egypt, Pakistan and the Ukraine.
(Source: IMS Health Market Prognosis)

US branded generics market: The US is one of the world's largest generics markets, with generics sales of around US\$34 billion compared with the US\$83 billion global generic sales in 2009 (Source: BCC Research). Generics account for 72% of the total US pharmaceutical market. The use of generic products, including branded generics, now represents 75% of all dispensed prescriptions in the US (57% in 2004). The total number of generic prescriptions dispensed increased 5.9% in 2009, while the number of branded prescriptions dispensed declined 7.6% (Source: IMS)

The US generics market is anticipated to grow at an 8.8% CAGR through 2010-2013, fuelled by low cost, ageing population and increasing per capita drugs consumption. In view of this trend, large pharmaceutical players are making deals with generics manufacturers from Asian countries like India to access products and market them in the US (Source: RNCOS).

Japanese generic market: Japan is the world's second largest pharmaceutical market with a US\$5.8-billion generic drugs market, expected to touch US\$7.94 billion by 2013 owing to patent expiries before 2012, a rapidly aging demographic, government initiatives to reduce healthcare cost and comparatively high reimbursement prices. This makes the generic drug sector in Japan attractive to foreign manufacturers looking for a large, relatively untapped and receptive market.

Geographical distribution of the global pharma industry (2008)

Countries	Market share (US\$ billion)
Emerging market	148.7
US	312
Japan	65.3
Europe	247

(Source: Annual Report, KRC Research)

Outlook of the global market by 2015

Countries	Market share (US\$ billion)
US	196
China	23
India	14
France	14
Japan	14
UK	13
Canada	12
Brazil	11
Germany	7

(Source: Mckinsey report)

Indian pharmaceutical industry

India's pharmaceutical industry is the world's third largest by volume and 14th in value terms (about Rs 1,00,611 crore), registering a total turnover of US\$21.04 billion between September 2008-09 - of which the domestic market accounted for US\$12.3 billion - and is well-placed to capitalise on the emerging opportunities in the generics space, driven by rising generics penetration (over 20% of world's generics are produced in India., Source: RNCOS), larger-selling drugs going off-patent, push by governments worldwide for cheaper generic drugs and emerging innovator-generic partnerships. The Indian formulation market is expected to grow to US\$13.7 billion by 2013 at a CAGR of 12.2% across 2008-2013 (Source: The Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers). India's outsourcing sector is growing at 43%, with drug discovery and development segment growing at 65% (over three times the global average). India aims to become one of the top five innovator countries by 2020 (Source: Report by Ernst & Young, September, 2009). India's organised pharma retail market is growing at 20-25% annually and possesses the potential to double to US\$9 billion by 2011 from US\$4.5 billion in 2009.

SWOT analysis of the Indian pharmaceutical industry

<p>Strengths</p> <ul style="list-style-type: none"> • Availability of low-cost raw materials (APIs) both from India and China • Large pool of installed capacity • Low production cost • Efficient technology for large number of generics 	<p>Weakness</p> <ul style="list-style-type: none"> • Lack of scale due to fragmentation • Non availability of major intermediaries for bulk drugs • Low investment in R&D • Lack of differentiation to tap new markets
<p>Opportunities</p> <ul style="list-style-type: none"> • In developed markets, governments provide funds for healthcare, with a greater focus on generic consumption. • Mergers among Indian pharma players is opening up avenues to compete with bigger international players 	<p>Threats</p> <ul style="list-style-type: none"> • Intense competition both local and global players in untapped markets, as the prospects of big generics players Srink in the mature markets of the US and the EU • Fluctuation in earnings due to cross currency volatility

Over-the-counter drugs: India currently ranks 11th in the global OTC market size at US\$1,793 million (euro 1,310 million) with an annual growth rate of 23% and is likely to rise to the 9th position within five years (Source: Organisation of pharmaceutical producers of India).

Active pharmaceutical ingredients: India is the world's third largest API player - growing at 6.5% - after China and Italy and is expected to be the second largest - growing at 10.5% -- after China by 2010. India currently has about 3,000 API factories and 5,000 reagent factories. A large number of drugs are scheduled to go off patent in the near future, expected to result in a sales surge for generic APIs, which should comfortably outpace growth for innovator APIs over the next five years. Out of 48 countries, India received the highest number or 21.47% of Certificate of Suitability of European Pharmacopoeia (CEP) monographs from the European Directorate for Quality Medicines and Healthcare (EDQM) followed by its closest competitor Italy (11%) and the US (10%).

Emerging markets like Asia, Commonwealth of Independent States (CIS) and Latin America are expected to become the global API production hub in the next few years and are expected to grow at a 12.6% CAGR during 2010-2012.

Exports: Majority of India's revenues comes from the overseas markets (mainly the US and Europe), making export an important growth. The Indian pharmaceutical export market stood at Rs.244 billion (US\$5.48 billion) in 2009-10 and is expected to arrive at Rs. 593 billion (US\$ 13.31 billion) by 2011-12 (Source: RNCOS).

Indian pharmaceutical exports registered a 28.54% growth during April-December 2009 compared with 14.37% over the corresponding period in the previous year (Source: The Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers).

It is expected that due to the increasing generic penetration and global patent enquiries, Indian pharmaceuticals companies are placed to monetise these opportunities and increase exports.

Outlook

With several international pharmaceutical companies slated to make investments in India, the domestic industry's future appears promising. India is expected to rank among the top 10 global pharmaceutical markets by 2015 (Source: Report by Angel Broking, October, 2009) and is likely to touch Rs 2.2 trillion (US\$50 billion) and open a probable US\$8 billion market for MNCs selling expensive drugs by 2015, making it a lucrative destination for clinical trials for global giants.

CORPORATE GOVERNANCE

Introduction

A report for the financial year ended 31st March, 2010 on the compliance by the Company with the Corporate Governance requirements under Clause 49 of the Listing Agreement, is furnished below :-

1. Company's Philosophy on Corporate Governance.

Corporate Governance is the combination of voluntary practices and compliance with laws and regulations leading to effective control and management of the organization. Good Corporate Governance leads to long term shareholder value and enhances interest of other stake holders. It brings into focus the fiduciary and the trusteeship role of the Board to align and direct the actions of the organization towards creating wealth and shareholder value.

2. Board of Directors.

The Company's Board at present consists of 8 members, of which majority are independent non-executive directors, who are leading professionals in their respective fields. The Board comprises of Two (2) Executive Directors and Six (6) independent directors.

The constitution of the Board is given below:

Name of Director	Category* (Designation)	Other Directorships (1)		Membership of other Board Committees (2)	
		As Member	As Chairman	As Member	As Chairman
Sri P. Ramesh Babu	ED (Chairman)	–	–	–	–
Sri TVVSN Murthy	ED (Vice-Chairman)	–	–	–	–
Sri A.P. Rao	ID	1	–	3	–
Sri K.S. Rao	ID	1	–	–	3
Sri B.M. Choudary	ID	–	–	3	–
Dr. Mihir K. Chaudhuri	ID	–	–	–	–
Sri S. Srinivas	ID	–	–	1	–
Dr. Ayman Sahli *	ID	–	–	–	–

Note: ED - Executive Director; ID - Independent Director

*Nominee Director of M/s. Gulf Pharmaceuticals, RAK, U.A.E.

- (1) This includes directorships in public limited companies and subsidiaries of public limited companies and excludes directorships in private limited companies, overseas companies and companies under Section 25 of the Companies Act, 1956.
- (2) This relates to Committees referred to in clause 49 of the Listing Agreement, viz. Audit Committee and Investors Grievance Committee. This also includes Remuneration Committee which is not to be considered for purpose of computing maximum limit under clause 49.

3. Attendance of Directors at Board Meetings and Annual General Meeting.

The Board of Directors met five times during the financial year, on the following dates:

30th April, 2009; 25th July, 2009; 10th August, 2009; 28th October, 2009 and 30th January, 2010

The Company placed before the Board the budgets, annual operating plans, performance of the business and various other information, including those specified under Annexure--IA of Clause 49 of the Listing Agreement, from time to time.

The attendance of Directors at the Board Meetings and the last Annual General Meeting held on 30th September, 2009 were as under :-

Name of the Director	Board Meetings		AGM
	Held during the year	Attended	
Sri P. Ramesh Babu	5	5	Yes
Sri TVVSN Murthy	5	5	Yes
Sri A.P. Rao	5	5	Yes
Sri K.S. Rao	5	5	Yes
Dr. B.M. Choudary	5	4	Yes
Dr. Mihir K. Chaudhuri	5	1	No
Sri S. Srinivas	5	5	No
Dr. Ayman Sahli	5	1	No

4. Code of Conduct

The Company has formulated and implemented a Code of Conduct for Board Members and Senior Management of the Company. Requisite annual affirmations of compliance with the respective Codes have been made by the Directors and Senior Management of the Company.

5. Audit Committee

During the financial year 2009-10, five Audit Committee Meetings were held on the following dates:

30th April, 2009; 25th July, 2009; 10th August, 2009; 28th October, 2009 and 30th January, 2010

The constitution of the Committee and the attendance of each member of the Committee are given below:-

Name of the Director	Designation	Category	Profession	Committee Meetings	
				Held during their tenure	Attended
Sri K.S. Rao	Chairman	Independent Director	Chartered Accountant	5	5
Sri A.P. Rao	Member	Independent Director	Cost Accountant	5	5
Dr. B.M. Choudary	Member	Independent Director	Business	5	4
Sri S. Srinivas	Member	Independent Director	Service	5	5

The terms of reference of the Audit Committee include those specified under Clause 49 of the Listing Agreement as well as under Section 292 A of the Companies Act, 1956, such as:

- a) To hold periodic discussions with the Statutory Auditors and Internal Auditors of the Company concerning the accounts of the Company, internal control systems, scope of audit and observations of the Auditors/Internal Auditors.
- b) To review compliance with internal control systems;
- c) To review the quarterly, half-yearly and annual financial results of the Company before submission to the Board;
- d) To investigate into any matter in relation to items specified in Section 292 A of the Companies Act, 1956 or as may be referred to it by the Board and for this purpose, to seek any relevant information contained in the records of the Company and also seek external professional advice, if necessary;
- e) To make recommendations to the Board on any matter relating to the financial management of the Company, including the Audit Report.

6. Remuneration Committee

The Remuneration Committee reviews and makes recommendations on annual salaries, performance linked bonus, perquisites and other employment conditions for executive Directors. The Committee takes into consideration remuneration practices followed by leading companies as well as information provided by reputed consultants while determining the overall remuneration package. The annual variable commission in the form of "Performance Linked Bonus" to executive Directors, non-promoter Executive Directors, are linked to the performance of the Company in general and the individual performance of the Executive Directors for the relevant year measured against specific Key Results Areas, which are aligned to the Company's objectives.

Non-executive Directors are paid remuneration by way of Sitting Fees. The Remuneration Committee met one time during the year.

The members of the Committee are:

Name of the Director	Designation	Category	No. of meeting attended
Sri K. S. Rao	Chairman	Independent Director	One
Sri A.P. Rao	Member	Independent Director	One
Sri B.M. Choudary	Member	Independent Director	One

7. Remuneration of Directors.

Details of remuneration paid/payable to the directors for the year ended on 31st March, 2010 are as follows.

(Rs. In Lakhs)

Name of the Director	Relationship with other directors	Business relationship with the Company	Sitting fees	Salary & Perquisites	Performance Linked Bonus/ Commission.	Total
Sri P. Ramesh Babu	None	Wholetime Director	–	40.58	–	40.58
Sri TVVSN Murthy	None	Wholetime Director	–	39.33	–	39.33

- (a) Non-Executive Directors are only entitled to sitting fees for attending the Board and Committee Meetings.
- (b) No loans and advances have been given to any Director of the Company.

8. Investors Grievance Committee.

The Investors Grievance Committee met four times during the year on 11th May, 2009, 22nd June, 2009, 4th November, 2009, 12th February, 2010. At present the followings are the members of this Committee:

Name of the Director	Designation	Category
Sri K.S. Rao	Chairman	Independent Director
Sri A.P. Rao	Member	Independent Director
Dr. B.M. Choudary	Member	Independent Director

Sri P. Prabhakara Rao, Company Secretary and Compliance Officer.

Investor Grievances

The following table shows the No. of complaints received from shareholders during the year 2009-10.

No. of Complaints received	No. of Complaints resolved	No. of Complaints pending
24	24	Nil

The Complaints are generally replied to within 7 days from their lodgment with the Company.

The Company has designated the email id cs@smspharma.com exclusively for the purpose of registering complaints by investors electronically. The email id has been displayed on the Company's website ie. www.smspharma.com

9. General Body Meetings.

The location and time of the Annual General Meetings held during the last 3 years are as follows :

Annual General Meeting (AGM)	Date	Time	Venue	No. of Special Resolutions passed.
19th AGM	28th September, 2007	11.00 A.M.	Jubilee Hills Club, Jubilee Hills, Hyderabad-500 033.	Nil
20th AGM	29th December, 2008.	11.00 A.M.		3
21st AGM	30th September, 2009.	11.00 A.M.		1

The special resolutions were passed unanimously on show of hands.

10. Note on Directors re-appointment.

Sri K.S. Rao and Sri A.P. Rao are retiring by rotation at the ensuing Annual General Meeting (AGM) and are eligible for re-appointment.

Brief details concerning these Directors are given below:

Sri K.S. Rao

Sri K. Subramanyeswara Rao, is a commerce graduate from Osmania University. He did his Chartered Accountancy in 1972 and became a member of ICAI. He is a partner in Brahmaya & Co., a renowned Chartered Accountants firm in southern India.

He has more than 30 years of experience in the area of income tax, auditing, accountancy and corporate governance. He has worked for various organizations at senior positions. He was inducted into our Board on 29th May 2005.

Sri A.P. Rao

Sri A.P. Rao, an MBA and Cost Accountant by qualification, is a senior management expert in the financial sector with over 35 years of experience in the field. Besides, he is also qualified as an Associate for other professional bodies. He was part of Dr. Reddy's group as Chief Executive in one of the group Companies and member of the Board of other group companies. He played a key role in the capital structuring and resource mobilization during the growing phase of Dr. Reddy's Group. He has been on the Board of Directors of SMS Pharmaceuticals Ltd. since 1994.

11. Disclosures

No transaction of material nature has been entered into by the Company with its Directors or Management and their relatives, etc. that may have a potential conflict with interests of the Company. The Register of Contracts/statement of related party transactions are being placed before the Board/Audit Committee regularly;

Transactions with related parties are disclosed in Note No. 19 of Schedule 23 to the Accounts in the Annual Report;

There has been no instance of non-compliance by the Company on any matter related to capital markets. Hence, the question of penalties being imposed by SEBI or the Stock Exchanges or any other statutory authority does not arise;

Compliance with Mandatory/Non-mandatory Requirements.

- The Company has complied with all the applicable mandatory requirements of Clause 49 of the Listing Agreement.
- The Company is also in compliance with the non-mandatory requirements as specified in Annexure ID to Clause 49 of the Listing Agreement regarding tenure of Directors, constitution of remuneration committee, unqualified financial statements, training of Board Members, and establishment of mechanism for evaluating non-executive directors.

12. Means of Communication

- The Annual, half-yearly and quarterly results are regularly posted by the Company on its website www.smspharma.com These are also submitted to the Stock Exchanges in accordance with the Listing Agreement and published in leading newspapers.
- Management Discussion & Analysis forms part of this Annual Report.

13. General Shareholder Information.

a) Annual General Meeting

- Date and Time : Wednesday 29th September, 2010 at 3.00 P.M.
 Venue : Jubilee Hills Club, Jubilee Hills, Hyderabad-500033

b) Financial Calendar

- Financial reporting for Quarter ending 30th June, 2010 : 23rd July, 2010
 Half year ending 30th September, 2010 : October, 2010
 Quarter ending 31st December, 2010 : January, 2011
 Year ending 31st March, 2011 : June, 2011
 Annual General Meeting for the Year ending 31st March, 2011 : September, 2011
- c) Date of book closure : 25th September, 2010 to 29th September, 2010
 d) Dividend Payment Date : Within 30 days from the date of AGM.
 e) Regd. and Corporate Office : Plot No.19-III, Road No.71 Opp. Bharatiya Vidya Bhavan Public School, Jubilee Hills, Hyderabad-500 034.
 f) Listing of Equity Shares : The Bombay Stock Exchange Limited (Code: 532815) and The National Stock Exchange of India Limited (Code: SMSPHARMA)
 g) Stock market data : The Stock of the Company has listed in the month of February, 2007.

The table below shows the monthly high and low price on the National Stock Exchange and Bombay Stock Exchange during the year 2009-10.

Month	Bombay Stock Exchange			National Stock Exchange		
	High (Rs.)	Low (Rs.)	Volume	High (Rs.)	Low (Rs.)	Volume
April, 2009	99.90	77.15	37,996	100.00	77.00	78,607
May, 2009	147.40	84.40	86,724	148.00	88.00	2,44,414
June, 2009	151.00	115.00	2,17,897	153.00	116.00	1,69,925
July, 2009	140.00	119.00	89,354	135.00	116.55	1,43,182
August, 2009	147.85	125.10	49,412	150.00	122.05	1,32,946
September, 2009	174.00	136.60	1,04,612	175.50	136.10	2,41,367
October, 2009	172.00	135.00	1,33,703	171.50	137.15	3,07,950
November, 2009	152.50	134.00	44,726	150.00	134.00	65,413
December, 2009	189.90	132.50	5,79,431	188.00	137.60	11,26,979
January, 2010	188.00	144.70	2,89,828	188.60	160.00	5,22,329
February, 2010	179.00	149.00	4,36,221	177.00	140.00	7,21,605
March, 2010.	179.20	155.00	3,25,564	179.90	153.60	6,93,578

- h) Share Transfer Agents** : M/s. Aarathi Consultants Private Limited
1-2-285, Domalguda
Hyderabad-500 029.
Tel: 040-27638111/4445
Fax:040-27632184
Email: info@aarthiconsultants.com

i) Share Transfer System

To expedite the share transfer process in the physical segment, authority has been delegated to the Investors Grievances Committee, which comprises:

- Sri K.S. Rao : Chairman
Sri A.P. Rao : Member
Dr. B.M. Choudary : Member

Share transfers/transmissions approved by the Committee and/or the authorized executives are placed at the Board Meeting from time to time.

In case of shares held in physical form, all transfers are completed within 12 days from the date of receipt of complete documents. As at 31st March, 2010 there were no Equity Shares pending for transfer. Also, there were no demat requests pending as on 31st March, 2010.

j) Distribution of Equity Shareholding.

The table below shows the distribution of shareholding of various groups as on 31st March, 2010.

Slab of shareholdings	Shareholders	%	No. of Shares	%
1 to 5000	14,938	96.00	8,92,074	8.91
5001 to 10000	266	2.00	2,28,067	2.28
10001 to 20000	163	1.00	2,79,380	2.79
20001 to 30000	32	0.00	80,066	0.80
30001 to 40000	29	0.00	1,09,922	1.10
40001 to 50000	16	0.00	76,200	0.76
50001 to 100000	20	0.00	1,50,942	1.51
100001 and above	73	1.00	81,98,552	81.86
Total	15,537	100.00	1,00,15,203	100.00

According to categories of Equity Shareholders as on 31st March, 2010.



Category of Shareholders	No. of Shareholders	No. of Shares
(A) Shareholding of Promoter and Promoter Group	16	53,68,137
(B) Public shareholding		
1. Institutions		
(a) Mutual Funds/UTI	–	–
(b) Financial Institutions/Banks	2	42,114
(c) Insurance Companies	–	–
(d) Foreign Institutional Investors	1	70,000
Sub-Total	3	1,12,114
2. Non-Institutions		
(a) Bodies Corporate	246	10,67,356
(b) Individuals		
(i) holding nominal share capital up to Rs.1 lakh	15,135	16,36,895
(ii) holding nominal share capital in excess of Rs.1 lakh.	42	9,04,018
(c) Any Other (Specify)		
(i) Non-Resident Individuals	66	22,949
(ii) Overseas corporate bodies	1	9,00,000
(iii) Clearing Members	26	3,562
(iv) Trusts	2	172
Sub-Total	15,518	45,34,952
Total Public Shareholding	15,521	46,47,066
TOTAL	15,537	1,00,15,203

m) Dematerialisation of Shares

As on 31st March, 2010, 87,00,042 Equity Shares i.e. (86.86%) of the total number of shares were in dematerialised form.

n) Details of shares held in demat suspense account with HSE Securities Ltd. (IN302734-10034023) for the period from 01/04/2009 to 31/03/2010.

(i)	Aggregate number of shareholders and the outstanding shares in the suspense account lying at the beginning of the year.	No. of shareholders : 2 No. of shares : 50
(ii)	Number of shareholders who approached issuer for transfer of shares from suspense account during the year.	No. of shareholders : - No. of shares : --
(iii)	Number of shareholders to whom shares were transferred from suspense account during the year.	No. of shareholders :-- No. of shares : --
(iv)	Aggregate number of shareholders and the outstanding shares in the suspense account lying at the end of the year.	No. of shareholders : 2 No. of shares : 50
(v)	That the voting rights on these shares shall remain frozen till the rightful owner of such shares claims the shares.	Yes

o) Corporate Governance Voluntary Guidelines 2009

Ministry of Company Affairs (MCA) released in December 2009 the "Corporate Governance Voluntary Guidelines 2009". While mandatory aspects for adoption by corporates are included in the Companies Bill 2009, the Voluntary Guidelines are intended to serve as a benchmark for corporates to help them achieve the highest standard of corporate governance.

MCA has observed that these guidelines do not substitute any extant law or regulation but are essentially for voluntary adoption by the corporates. It expects more and more corporates to voluntarily go forward to adopt these guidelines. Where there are genuine reasons for companies not being able to adopt some of these provisions, it expects such companies to inform their shareholders of the details of such non adoption.

Your Company has adopted most part of the Voluntary Guidelines while some of the new requirements would be addressed in due course. Considering the fact that the guidelines have come only towards the later part of the financial year, a more detailed report on this would be included from the next financial year.

Corporate Social Responsibility Voluntary Guidelines 2009.

MCA in December 2009 has released the "Corporate Social Responsibility Voluntary Guidelines 2009". This is intended to assist the businesses to adopt responsible governance practices. The guidelines indicate some of the core elements that businesses need to focus on while conducting their affairs. These have been framed, factoring the governance challenges being faced in our country and the expectations of the society.

The Voluntary Guidelines underscore the fundamental principles of business. It further dwells on the core elements, viz. care for all stakeholders, ethical functioning, respect for workers' rights and welfare, respect for human rights, respect for environment and activities for social and inclusive development. It also outlines implementation guidelines.

Your company has steadfastly stood for the principles stated in these Guidelines. It enjoys considerable goodwill of the neighbourhood residents based on transparency of dealings and fair practices followed all along. It would endeavour further to strengthen its focus and attention to abide by the spirit of these new Guidelines.

Investors Correspondence

Sri P. Prabhakara Rao

Company Secretary and Compliance Officer
SMS Pharmaceuticals Limited
Plot No.19-III, Road No.71
Opp. Bharatiya Vidya Public School
Jubilee Hills, Hyderabad-500 034.
E-mail : cs@smspharma.com
www.smspharma.com

Certificate on Corporate Governance

To
The Members of
SMS Pharmaceuticals Limited

We have examined the compliance of conditions of Corporate Governance by SMS Pharmaceuticals Limited ("the Company"), for the year ended 31st March, 2010, 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.

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

We state that in respect of investor grievances for the year ended 31st March, 2010, no investor grievances are pending against the Company, as per the records maintained by the Company and presented to the Investors/ Shareholders Grievance Committee.

We further state that such compliance is neither an assurance as to the further viability of the Company nor the efficiency of effectiveness with which management has conducted the affairs of the Company.

Place: Hyderabad
Date: 27.08.2010

For **CSB ASSOCIATES**
Company Secretaries
C. Sudhir Babu
Proprietor

AUDITORS' REPORT

To
The Members
SMS PHARMACUETICALS LIMITED
HYDERABAD.

We have audited the attached Balance Sheet of **M/s. SMS PHARMACUETICALS LIMITED, HYDERABAD**, as at 31st March 2010 and the Profit and Loss Account for the year ended on that date annexed thereto and Cash Flow statement for the year ended on that date which we signed in reference to this report. 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 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. 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 that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we give in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the annexure referred to in paragraph one above, we report that :
 - i) 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.
 - ii) In our opinion proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
 - iii) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow statement dealt with by this report are in agreement with the books of account.
 - iv) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow statement read with significant accounting policies and notes thereon, dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - v) On the basis of written representation received from the directors of the Company as at 31st March, 2010 and taken on record by the board of directors, we report that none of the directors is disqualified as on 31st March, 2010 from being appointed as a director in terms of Clause (g) of sub section (1) to Section 274 of the Companies Act, 1956; and
 - vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with 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:
 - a) In so far as it relates to Balance Sheet, of the state of affairs of the Company as at 31st March 2010.

- b) In so far as it relates to Profit and Loss Account, of the Profit of the Company for the year ended on that date.

And

- c) In so far as it relates to Cash Flow Statement, of the Cash Flows of the Company for the year ended on that date.

for **RAMBABU & Co.,**
Chartered Accountants
Registration No.02976S

RAVI RAMBABU
Partner
M.No.18541

Place: Hyderabad
Date : 27-08-2010

for **P. Murali & Co.,**
Chartered Accountants
Registration No.007257S

PMURALI MOHAN RAO
Partner
M.No.23412

ANNEXURE TO THE AUDITORS' REPORT:

Referred to as in paragraph I of our report of even date.

1. In respect of its Fixed assets:
 - (a) The company has maintained proper records showing full particulars including details and situation of fixed assets.
 - (b) As explained to us, the management has physically verified the fixed assets during the year and there is a regular program of verification in phased periodical manner, which in our opinion is reasonable, having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such physical verification
 - (c) As per the information and explanations given to us, during the year the company has not disposed off any substantial part of the fixed assets that would affect the going concern status of the company.
2. In respect of its Inventories:
 - (a) Inventories were physically verified during the year by the management at regular intervals. In our opinion, the frequency of verification is reasonable.
 - (b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
 - (c) The company is maintaining proper records of inventories. The discrepancies noticed on verification between the physical stocks and the book records were not material.
3. According to the information and explanations given to us, that the company has not granted / not taken any loans secured or unsecured from/to the companies, firms or other parties to whom the provisions of Sec.301 of the Companies Act 1956 apply. Accordingly paragraph 4(iii) of the order is not applicable.

4. 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 purchase of inventory, fixed assets and for the sale of goods. During the course of audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
5. (a) In our opinion and according to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register to be maintained under that section.
(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the companies Act, 1956 have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
6. The company has not accepted Deposits from public. Hence, the provisions of sections 58-A and 58-AA and other relevant provisions of the Companies Act, 1956, and the Companies (Acceptance of Deposits) Rules, 1975, are not applicable to the company.
7. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
8. We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of Cost records under Section 209(1) (d) of the Companies Act, 1956 in respect of manufacturing activities of the company and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.
9. In respect of its statutory dues:
 - (a) According to the records of the company and as per the information and explanations given to us, the company is generally regular in depositing with appropriate authorities undisputed Statutory dues including Provident fund, Investor education & protection fund, Employee's state insurance, Income tax, Sales tax, Wealth tax, Customs duty, Excise duty, Cess and other material statutory dues applicable to it.
 - (b) According to the information and explanations given to us, there are no undisputed Amounts payable in respect of Income tax, Wealth tax, Sales tax, Customs duty, Excise duty and Cess were in arrears, as at 31st March, 2010 for a period of more than six Months from the date they became payable, except the following:

S.No	Name of the Statute	Nature of the dues	Year	Amount. Rs
1	Income Tax Act, 1961	Income Tax	1988-89	672
2	Income Tax Act, 1961	Income Tax	1991-92	8,809
3	Income Tax Act, 1961	Income Tax	1992-93	15,07,858
4	Income Tax Act, 1961	Income Tax	1993-94	2,47,280
5	Income Tax Act, 1961	Income Tax	1994-95	15,26,900
6	Income Tax Act, 1961	Income Tax	1996-97	19,53,992
Total				52,45,511



(c) According to the information and explanation given to us, the following amounts have not been deposited with the appropriate authorities on account of dispute. (Amount in Rs.)

S. No.	Name of the Statute	Nature of the dues	Forum where dispute is pending	Year	Amount	Amount Deposited	Not Deposited Due to Dispute
1	Income Tax Act, 1961	Interest	AO	1992-2010	1,22,00,000	--	1,22,00,000
2	Central Excise Act, 1944	Interest	AP High Court	1992-2010	65,00,000	--	65,00,000
3	Income Tax Act, 1961	Income Tax	ITAT	2000-01	68,520	--	68,520
4	Income Tax Act, 1961	Income Tax	ITAT	2001-02	52,63,610	50,40,279	2,23,331
5	Income Tax Act, 1961	Income Tax	AO	2001-02	1,21,475	--	1,21,475
6	Income Tax Act, 1961	Income Tax	ITAT	2002-03	10,15,048	7,90,000	2,25,048
7	Income Tax Act, 1961	Income Tax	AO	2003-04	36,50,000	--	36,50,000
8	Income Tax Act, 1961	Income Tax	AO	2005-06	9,54,203	--	9,54,203
Total					2,97,72,856	58,30,279	2,39,42,577

10. The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses during the financial year under report and in the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to its bankers or debenture holders or to any financial institutions.
12. According to the information and explanations given to us, the company has not granted loans and advances on the basis of security by way of pledge of Shares, debentures and other securities.
13. In our opinion and according to the information and explanations given to us, the company is not a chit fund / nidhi / mutual benefit fund/society.
14. According to the information and explanations given to us, the company is not dealing or trading in shares, securities, debentures and other investments.
15. In our opinion, according to the information and explanations given to us, the company has not given guarantees for loans taken by the others from banks or financial institutions.
16. As informed to us, the term loans to the extent availed by the company were, prima-facie, applied for the purpose, for which the loans were obtained.

17. In our opinion, according to the information and explanations given to us and on an overall examination of statements and records of the company, that the funds raised on short-term basis have, prima facie, not been used during the year for long-term investment.
18. In our opinion, according to the information and explanations given to us, the company has not issued debentures during the period covered by our report and hence the Company is not required to create/register/modify any security (charge).
19. In our opinion, and as per the information and explanations given to us, the end-use of money raised by public issue has been disclosed in the notes to the financial statements.
20. In our opinion, the Company has not made any preferential allotment of shares/securities during the year to parties and companies covered in the register maintained under section 301 of the companies act, 1956.
21. According to the information and explanations given to us and based on audit procedures performed, no fraud on or by the Company has been noticed during the year.

for **RAMBABU & Co.,**
Chartered Accountants
Registration No.02976S

RAVI RAMBABU
Partner
M.No.18541

for **P. Murali & Co.,**
Chartered Accountants
Registration No.007257S

P.MURALI MOHAN RAO
Partner
M.No.23412

Place: Hyderabad
Date : 27-08-2010

BALANCE SHEET AS AT 31st MARCH, 2010

PARTICULARS	Schedule No.	As at 31.03.2010 Rs.	As at 31.03.2009 Rs.
I. SOURCES OF FUNDS			
1. Share Holders Funds			
(a) Share Capital	1	10,01,52,030	10,01,52,030
(b) Reserves & Surplus	2	203,38,51,059	202,15,75,669
2. Loan Funds			
(a) Secured Loans	3	155,95,27,813	129,88,09,493
(b) Un-Secured Loans	4	7,36,44,041	7,36,44,041
3. Deferred Tax Liability		16,95,01,019	16,95,01,019
TOTAL		393,66,75,962	366,36,82,252
II. APPLICATION OF FUNDS			
1. Fixed Assets			
(a) Gross Block	5	268,93,24,629	131,03,44,306
(b) Less: Depreciation		52,14,95,073	43,79,20,947
(c) Net Block		216,78,29,556	87,24,23,359
(d) Add: Capital Work-in-Progress		36,97,90,986	120,43,96,303
		253,76,20,542	207,68,19,662
2. Investments	6	51,65,440	51,65,440
3. Current Assets, Loans & Advances			
(a) Inventories	7	75,77,03,664	71,92,64,108
(b) Sundry Debtors	8	48,31,61,051	49,12,58,917
(c) Cash & Bank Balances	9	5,24,89,060	20,37,44,128
(d) Loans & Advances	10	36,37,26,061	29,63,88,937
		165,70,79,836	171,06,56,090
4. Less: Current Liabilities & Provisions	11	41,60,48,646	32,00,93,551
Net Current Assets		124,10,31,190	139,05,62,539
5. Miscellaneous Expenditure (to the extent not written off/adjusted)	12	15,28,58,790	19,11,34,611
TOTAL		393,66,75,962	366,36,82,252
Accounting policies	22		
Notes on Accounts	23		

as per our report of even date.

for and on behalf of the Board

for **RAMBABU & CO.,**
Chartered Accountants
RAVI RAMBABU
Partner

for **P. MURALI & CO.**
Chartered Accountants
P. MURALI MOHAN RAO
Partner

P. RAMESH BABU
Chairman and
Managing Director

T V V S N MURTHY
Voice Chairman and
Joint Managing Director

P. PRABHAKARA RAO
Company Secretary

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 27-08-2010



Pharmaceuticals Ltd.

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2010

PARTICULARS	Schedule No.	Current Year 2009-10 Rs.	Previous Year 2008-09 Rs.
I. NET INCOME			
Gross Sales	13	238,76,77,413	274,06,94,841
Less: Taxes		19,01,26,520	29,28,27,422
Net Sales		219,75,50,893	244,78,67,419
Other Income	14	2,43,61,556	40,52,275
Increase/(Decrease) in Stocks	15	5,09,38,440	4,07,49,509
TOTAL : (A)		227,28,50,889	249,26,69,203
II. EXPENDITURE			
Materials Consumed	16	155,27,45,420	181,27,97,296
Manufacturing Expenses	17	19,02,93,530	14,67,20,027
Personnel Expenses	18	9,92,79,002	10,17,63,061
Administration & Other Expenses	19	4,30,32,330	5,98,39,297
Selling Expenses	20	6,34,08,747	5,77,66,981
Financial Charges	21	13,55,85,090	9,59,04,073
Depreciation	5	8,36,47,989	6,27,91,542
Misc. Expenditure written off	12	7,60,49,805	7,56,30,246
TOTAL : (B)		224,40,41,913	241,32,12,523
III. PROFIT			
Profit Before Tax	(A) - (B)	2,88,08,976	7,94,56,680
Less: Provision for Income Tax			
Current Tax		50,00,000	90,00,000
Excess IT Provision written back		(1,45,016)	(38,90,248)
Deferred Tax		-	1,05,61,894
F B T		-	8,00,000
Provision for Taxation		48,54,984	1,64,71,646
Profit After Tax		2,39,53,992	6,29,85,034
Profit Brought Forward		19,52,55,453	16,57,04,992
Available for Appropriations		21,92,09,445	22,86,90,026
IV. APPROPRIATIONS :			
Transfer to General Reserve		1,00,00,000	1,00,00,000
Proposed Dividend		1,00,15,203	2,00,30,406
Dividend Distribution Tax		16,63,400	34,04,168
Profit Carried to Balance Sheet		19,75,30,842	19,52,55,452
		21,92,09,445	22,86,90,026
Earnings Per Share - Basic/Diluted		2.39	6.29

as per our report of even date.

for and on behalf of the Board

for **RAMBABU & CO.,**
Chartered Accountants
RAVI RAMBABU
Partner

for **P. MURALI & CO.**
Chartered Accountants
P. MURALI MOHAN RAO
Partner

P. RAMESH BABU
Chairman and
Managing Director

T V V S N MURTHY
Voice Chairman and
Joint Managing Director

Place : Hyderabad
Date : 27-08-2010

P. PRABHAKARA RAO
Company Secretary

N. RAJENDRA PRASAD
Chief Financial Officer

SCHEDULES TO BALANCE SHEET

PARTICULARS	Schedule No.	As at 31.03.2010 Rs.	As at 31.03.2009 Rs.
1. SHARE CAPITAL			
Authorised:		12,00,00,000	12,00,00,000
1,20,00,000 Equity Shares of Rs.10/- each			
Issued, Subscribed and Paid up:		10,01,52,030	10,01,52,030
1,00,15,203 Equity Shares of Rs.10/- each fully paid up (Previous year 1,00,15,203 Equity Shares of Rs.10/- each fully paid up) (Out of the above 28,50,000 shares of Rs.10/- each were allotted as fully paid up Bonus Shares and 29,35,978 Shares were allotted for consideration other than cash)			
		10,01,52,030	10,01,52,030
2. RESERVES & SURPLUS			
a) Capital Reserve			
Security Premium		109,29,39,450	109,29,39,450
b) General Reserve			
Opening Balance		73,33,80,767	72,33,80,767
Additions during the year		1,00,00,000	1,00,00,000
		74,33,80,767	73,33,80,767
c) Profit and Loss Account		19,75,30,842	19,52,55,452
TOTAL (a+b+c)		203,38,51,059	202,15,75,669
3. SECURED LOANS			
Term Loans - Rupee			
- EXIM Bank		52,91,14,280	58,38,57,140
- AXIS Bank		40,00,00,000	20,00,00,000
Corporate Demand Loan			
- EXIM Bank		-	1,38,45,992
Working Capital Loans - Rupee			
- EXIM Bank		9,50,00,000	11,63,00,000
- SBI		38,74,81,385	29,03,44,823
Working Capital Loans - Foreign Currency			
- EXIM Bank		14,72,55,600	9,25,06,377
Hire Purchase Loans		6,76,548	19,55,161
TOTAL		155,95,27,813	129,88,09,493
4. UN-SECURED LOANS			
Sales Tax Deferement		6,14,54,041	6,14,54,041
D S I R Assistance		1,20,00,000	1,20,00,000
Others		1,90,000	1,90,000
TOTAL		7,36,44,041	7,36,44,041

(Amount in Rs.)

5. FIXED ASSETS - SUMMARY

Name of the Asset	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.04.2009	Additions	Delitions	As at 31.03.2010	Up to 31.03.2009	For the year	On Delitions	Up to 31.03.2010	As at 31.03.2010	As at 31.03.2009
Fixed Assets	107,22,62,150	137,76,64,355	1,91,094	244,97,35,411	42,73,05,296	7,41,02,765	73,863	50,13,34,198	194,84,01,213	64,49,56,854
R & D Assets	23,80,82,156	15,07,062	-	23,95,89,218	1,06,15,651	95,45,224	-	2,01,60,875	21,94,28,343	22,74,66,505
Total	131,03,44,306	137,91,71,417	1,91,094	268,93,24,629	43,79,20,947	8,36,47,989	73,863	52,14,95,073	216,78,29,556	87,24,23,359
Capital Work In Progress	120,43,96,303	53,50,91,535	136,96,96,852	36,97,90,986	-	-	-	-	36,97,90,986	120,43,96,303
Grand Total	251,47,40,609	191,42,62,952	136,98,87,946	305,91,15,615	43,79,20,947	8,36,47,989	73,863	52,14,95,073	253,76,20,542	207,68,19,662
Previous Year	194,25,62,243	75,72,15,343	18,50,36,977	251,47,40,609	37,64,68,673	6,27,91,542	13,39,268	43,79,20,947	207,68,19,662	156,60,93,570

(Amount in Rs.)

5. FIXED ASSETS

Name of the Asset	GROSS BLOCK			DEPRECIATION				NET BLOCK		
	As at 01.04.2009	Additions	Delitions	As at 31.03.2010	Up to 31.03.2009	For the year	On Delitions	Up to 31.03.2010	As at 31.03.2010	As at 31.03.2009
Land	3,90,48,871	1,71,54,480	-	5,62,03,351	-	-	-	-	5,62,03,351	3,90,48,871
Buildings: Factory	16,14,83,257	26,58,58,534	-	42,73,41,791	4,09,42,886	89,49,373	-	4,98,92,259	37,74,49,532	12,05,40,371
Non Factory	50,59,042	15,69,31,626	-	16,19,90,668	11,95,312	10,01,454	-	21,96,766	15,97,93,902	38,63,730
Plant & Machinery	67,16,93,646	79,39,75,050	1,91,094	146,54,77,602	27,87,80,115	4,95,15,515	73,863	32,82,21,767	113,72,55,835	39,29,13,531
Electrical Installation	6,36,78,332	8,01,34,566	-	14,38,12,898	3,69,84,259	63,92,415	-	4,33,76,674	10,04,36,224	2,66,94,073
Pollution Control Equipment	5,58,16,913	4,95,30,331	-	10,53,47,244	2,80,14,998	32,82,167	-	3,12,97,165	7,40,50,079	2,78,01,915
R & D Equipment	1,02,31,730	-	-	1,02,31,730	57,98,521	5,40,235	-	63,38,756	38,92,974	44,33,209
Data Processing Equipment	85,87,260	26,88,309	-	1,12,75,569	76,51,554	1,63,440	-	78,14,994	34,60,575	9,35,706
Furnitures & Fixtures	99,64,165	31,42,819	-	1,31,06,984	47,30,398	6,36,241	-	53,66,639	77,40,345	52,33,767
Vehicles	2,45,51,932	-	-	2,45,51,952	1,24,59,237	6,78,336	-	1,31,37,573	1,14,14,379	1,20,92,715
Office Equipment	90,51,583	10,39,004	-	1,00,90,587	31,50,490	5,90,604	-	37,41,094	63,49,493	59,01,093
Other Assets	65,43,059	21,500	-	65,64,559	43,21,356	3,46,040	-	46,67,396	18,97,163	22,21,703
Improvements on Leased Premises	65,52,340	-	-	65,52,340	32,76,170	16,38,085	-	49,14,255	16,38,085	32,76,170
Intangible Assets	-	30,79,125	-	30,79,125	-	1,89,809	-	1,89,809	28,89,316	-
Land Scaping	-	41,09,011	-	41,09,011	-	1,79,051	-	1,79,051	39,29,960	-
Total	107,22,62,150	137,76,64,355	1,91,094	244,97,35,411	42,73,05,296	7,41,02,765	73,863	50,13,34,198	194,84,01,213	64,49,56,854
Capital Work-in-Progress	120,43,96,303	53,50,91,535	136,96,96,852	36,97,90,986	-	-	-	-	36,97,90,986	120,43,96,303
Grand Total	227,66,58,453	191,27,55,890	136,98,87,946	281,95,26,397	42,73,05,296	7,41,02,765	73,863	50,13,34,198	231,81,92,199	184,93,53,157
Previous Year	173,28,26,403	54,60,79,662	22,47,612	227,66,58,453	37,31,42,715	5,55,01,849	13,39,268	42,73,05,296	184,93,53,157	135,96,83,688

(Amount in Rs.)

5. FIXED ASSETS - R & D ASSETS

Name of the Asset	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.04.2009	Additions	Deletions	As at 31.03.2010	Up to 31.03.2009	For the year	On Deletions	Up to 31.03.2010	As at 31.03.2010	As at 31.03.2009
Land	1,82,91,773	-	-	1,82,91,773	-	-	-	-	1,82,91,773	1,82,91,773
Buildings: Factory	8,62,77,579	-	-	8,62,77,579	25,82,121	28,81,671	-	54,63,792	8,08,13,787	8,36,95,458
Non Factory	2,00,25,597	-	-	2,00,25,597	2,40,751	3,26,417	-	5,67,168	1,94,58,429	1,97,84,846
Plant & Machinery	9,92,98,178	3,34,880	-	9,96,33,058	64,05,658	52,43,100	-	1,16,48,758	8,79,84,300	9,28,92,520
Electrical Installation	1,10,52,182	11,72,182	-	1,22,24,364	8,31,928	7,81,390	-	16,13,318	1,06,11,046	1,02,20,254
Data Processing Equipment	11,57,459	-	-	11,57,459	4,08,879	1,87,624	-	5,96,503	5,60,956	7,48,580
Furnitures & Fixtures	13,33,685	-	-	13,33,685	1,15,383	84,422	-	1,99,805	11,33,880	12,18,302
Vehicles	-	-	-	-	-	-	-	-	-	-
Office Equipment	6,19,663	-	-	6,19,663	26,117	39,225	-	65,342	5,54,321	5,93,546
Other Assets	26,040	-	-	26,040	4,814	1,375	-	6,189	19,851	21,226
Total	23,80,82,156	15,07,062	-	23,95,89,218	1,06,15,651	95,45,224	-	2,01,60,875	21,94,28,343	22,74,66,505
Capital Work-in-Progress	-	-	-	-	-	-	-	-	-	-
Grand Total	23,80,82,156	15,07,062	-	23,95,89,218	1,06,15,651	95,45,224	-	2,01,60,875	21,94,28,343	22,74,66,505
Previous Year	20,97,35,840	21,11,35,681	18,27,89,365	23,80,82,156	33,25,958	72,89,693	-	1,06,15,651	22,74,66,505	20,64,09,882



Pharmaceuticals Ltd.

SCHEDULES TO BALANCE SHEET

PARTICULARS	As at 31.03.2010 Rs.	As at 31.03.2009 Rs.
6. INVESTMENTS		
Un-quoted		
(a) 17,538 Equity Shares of Rs.10/- each in Pattan Cheru Enviro Tech Ltd	1,75,380	1,75,380
(b) 2238 Equity Shares of Rs.100/- each in Jeedimetla Effluent Treatment Ltd.	2,25,300	2,25,300
(c) 4,76,476 8% Preferencel Shares of each Rs.10/- in Divya Enterprises Limited	47,64,760	47,64,760
TOTAL	51,65,440	51,65,440
7. INVENTORIES		
(As valued and certified by the Management)		
Raw Materials	22,80,09,000	24,02,37,005
Stock-in-Process	47,08,96,263	43,72,09,375
Coal & Fuel	7,25,455	9,96,334
Finished Goods	5,80,72,946	4,08,21,394
TOTAL	75,77,03,664	71,92,64,108
8. SUNDRY DEBTORS		
(Unsecured and Considered good)		
Outstanding for more than 6 months	4,83,53,789	4,01,95,489
Others	43,48,07,262	45,10,63,428
TOTAL	48,31,61,051	49,12,58,917
9. CASH AND BANK BALANCES		
Cash in Hand	7,31,735	8,64,455
Balances with Schedule Banks		
in Current Accounts	89,20,529	17,17,50,889
in Margin Money Deposits	2,36,84,062	2,28,72,969
in Special Term Deposits	1,91,52,734	82,55,815
TOTAL	5,24,89,060	20,37,44,128
10. LOANS AND ADVACNES		
(Unsecured and considered good, receivable in Cash or kind or for value to be received.)		
Advances for Purchases	10,89,76,103	7,57,74,801
Other Advances	2,03,29,058	2,00,75,236
Deposits	1,62,04,838	1,46,18,484
Advance Income Tax	2,13,71,890	2,49,43,473
Interest Receivable	90,71,654	98,23,177
Export Benefits Receivable	2,31,29,259	1,80,59,637
Cenvat and Service Tax Credit Receivable	10,98,50,950	9,87,13,047
Sales Tax Credit Receivable	5,47,92,309	3,43,81,082
TOTAL	36,37,26,061	29,63,88,937

SCHEDULES TO BALANCE SHEET

PARTICULARS	As at 31.03.2010 Rs.	As at 31.03.2009 Rs.
II. CURRENT LIABILITIES & PROVISIONS		
a) Current Liabilities		
Creditors for: Purchases	31,53,17,721	20,82,62,768
Capital works	87,35,689	1,70,12,928
Expenses	5,55,47,894	4,16,54,035
Others	1,22,06,688	1,67,86,462
Interest Accrued but not due	75,62,051	31,42,784
Total (a)	39,93,70,043	28,68,58,977
b) Provisions		
for Income Tax	50,00,000	90,00,000
for Fringe Benefit Tax	-	8,00,000
for Dividend	1,00,15,203	2,00,30,406
for Dividend Distribution Tax	16,63,400	34,04,168
Total (b)	1,66,78,603	3,32,34,574
TOTAL (a+b)	41,60,48,646	32,00,93,551
12. MISCELLANEOUS EXPENDITURE		
(To the extent not written off / adj.)		
a) Deferred Revenue Expenditure		
Op. Balance	15,24,81,400	14,83,39,264
Add: Incurred during the year	-	6,28,16,472
Less: Written off during the year	5,46,98,277	5,86,74,336
Closing Balance	9,77,83,123	15,24,81,400
b) Deferred R & D Expenditure		
Op. Balance	3,50,69,366	2,74,71,921
Add: Incurred during the year	3,77,73,984	2,19,94,740
Less: Written off during the year	1,98,35,280	1,43,97,295
Closing Balance	5,30,08,070	3,50,69,366
c) Business Development Expenditure		
Op. Balance	31,37,463	42,20,197
Add: Incurred during the year	-	10,73,223
Less: Written off during the year	12,34,276	21,55,957
Closing Balance	19,03,187	31,37,463
d) Patent Filing Fee		
Op. Balance	4,46,382	7,51,040
Add: Incurred during the year	-	98,000
Less: Written off during the year	2,81,972	4,02,658
Closing Balance	1,64,410	4,46,382
TOTAL	15,28,58,790	19,11,34,611

SCHEDULES TO PROFIT AND LOSS ACCOUNT

PARTICULARS	Current Year 2009-10 Rs.	Previous Year 2008-09 Rs.
13. SALES		
Export	120,04,95,476	95,27,73,481
Domestic	94,75,21,373	145,85,53,682
Export Incentives	4,95,34,044	3,65,40,256
	<u>219,75,50,893</u>	<u>244,78,67,419</u>
Add:Excise Duty	15,71,61,616	23,80,75,236
Sales Tax	3,29,64,904	5,47,52,186
TOTAL	<u>238,76,77,413</u>	<u>274,06,94,841</u>
14. OTHER INCOME		
Interest Received	31,71,828	35,56,897
Exchange Flctuation	77,89,659	-
Profit on Sale of Assets	44,769	-
Others	1,33,55,300	4,95,378
TOTAL	<u>2,43,61,556</u>	<u>40,52,275</u>
15. INCREASE / (DECREASE) IN STOCKS		
Opening Stock		
Stock-in-Process	39,20,04,772	38,28,11,867
Finished Goods	8,60,25,997	5,44,69,393
Sub Total (a)	<u>47,80,30,769</u>	<u>43,72,81,260</u>
Closing Stock		
Stock-in-Process	47,08,96,263	43,72,09,375
Finished Goods	5,80,72,946	4,08,21,394
Sub Total (b)	<u>52,89,69,209</u>	<u>47,80,30,769</u>
Increase in stock (b-a)	<u>5,09,38,440</u>	<u>4,07,49,509</u>
16. MATERIALS CONSUMED		
a) Raw Materials		
Opening Stock	23,90,83,439	19,64,32,913
Add:Purchases	152,67,12,426	184,33,27,836
	<u>176,57,95,865</u>	<u>203,97,60,749</u>
Less:Closing Stock	22,60,79,913	23,90,83,439
Consumption during the year	<u>153,97,15,952</u>	<u>180,06,77,310</u>
b) Packing Materials		
Opening Stock	11,53,566	11,96,226
Add:Purchases	1,38,04,989	1,20,77,326
	<u>149,58,555</u>	<u>1,32,73,552</u>
Less:Closing Stock	19,29,087	11,53,566
Consumption during the year	<u>1,30,29,468</u>	<u>1,21,19,986</u>
TOTAL = (a+b)	<u>155,27,45,420</u>	<u>181,27,97,296</u>

SCHEDULES TO PROFIT AND LOSS ACCOUNT

PARTICULARS	Current Year 2009-10 Rs.	Previous Year 2008-09 Rs.
17. MANUFACTURING EXPENDITURE		
Power & Fuel	12,30,24,882	8,97,72,622
Consumable Stores	90,64,065	72,92,854
Testing Charges	9,00,612	9,42,756
Water Charges	39,95,089	38,12,831
Conversion Charges	58,54,399	48,13,442
Carriage Inward	1,03,60,253	90,36,844
Central Excise Duty	13,42,039	19,47,777
Effluent Treatment Charges	41,23,267	50,47,984
Repairs & Maintenance to Plant & Machinery	2,60,34,446	2,02,57,790
Repairs to Building	16,96,019	7,97,365
Factory Maintenance	38,98,459	29,97,762
TOTAL	19,02,93,530	14,67,20,027
18. PERSONNEL EXPENSES		
Salaries, Wages and Bonus	8,48,48,291	8,69,71,206
Contribution to PF and other funds	61,30,107	60,71,243
Staff Welfare Expenses	83,00,604	87,20,612
TOTAL	9,92,79,002	10,17,63,061
19. ADMIN. & OTHER EXPENSES		
Travelling Expenses	35,16,775	29,99,064
Travelling Expenses - Directors	9,00,192	6,89,988
Postage & Telephones	25,49,109	29,28,384
Printing & Stationary	34,37,887	32,00,841
Directors Remuneration	79,91,304	55,10,060
Rent, Rates & Taxes	1,04,10,174	81,09,973
Insurance	33,31,000	25,96,544
Professional Charges	30,35,462	18,89,491
General Expenses	45,02,764	40,11,599
Auditors Fee	9,25,000	4,40,594
Repairs to other assets	10,51,680	11,47,246
Vehicle Maintenance	13,80,983	14,11,816
Foreign Exchange Fluctuation	-	2,49,03,697
TOTAL	4,30,32,330	5,98,39,297



Pharmaceuticals Ltd.

SCHEDULES TO PROFIT AND LOSS ACCOUNT

PARTICULARS	Current Year 2009-10 Rs.	Previous Year 2008-09 Rs.
20. SELLING EXPENSES		
Carriage Outward	4,07,31,461	3,57,54,564
Sales Commission	1,83,33,690	1,78,93,380
Trade Discount	19,18,712	18,59,486
Business Promotion Expenses	24,24,884	19,51,275
Sales Tax	–	3,08,276
TOTAL	6,34,08,747	5,77,66,981
21. FINANCIAL CHARGES		
Interest on Term Loans	6,32,24,468	1,21,13,975
Interest on Bills Discounted	1,22,43,239	1,74,41,955
Interest on Cash Credit	3,83,04,722	3,83,42,011
Interest on Others	13,36,440	11,40,498
Bank Charges	2,04,76,221	2,68,65,634
TOTAL	13,55,85,090	9,59,04,073

SCHEDULES TO BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

22. ACCOUNTING POLICIES

1. ACCOUNTING ASSUMPTIONS:

The Financial Statements have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the accounting policies generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") issued by the Institute of Chartered Accountants of India ("ICAI") to the extent applicable and the relevant provisions of the Companies Act, 1956.

2. FIXED ASSETS:

- i. Fixed Assets are stated at cost of acquisition as reduced by accumulated depreciation. All costs including financial costs up to the date of commissioning and attributable to the fixed assets are capitalized apart from taxes, freight and other incidental expenses related to the acquisition and installation of the respective assets.
- ii. Assets acquired on Hire Purchase arrangements are accounted for as assets in accordance with AS-19 issued by the Institute of Chartered Accountants of India.

3. CAPITAL WORK IN PROGRESS:

Assets under installation or under construction as on the date of balance sheet are shown as Capital work in progress. Advances given towards acquisition of assets are also included in Capital work in progress.

4. DEPRECIATION:

Depreciation on Fixed Assets is provided on Straight Line Method at the rates prescribed in Schedule - XIV of the Companies Act, 1956.

Depreciation on addition to/deletion from fixed assets made during the year is provided on pro-rata basis from/up to the date of such addition/deletion as the case may be. In case of assets costing less than Rs.5,000/- purchased during the year also depreciation has been provided at normal rates on pro-rata basis from the date of purchase.

The amount incurred towards improvements and other relating expenses on leased premises duly charged to Profit & Loss account during the primary lease period.

Depreciation on landscape is provided @10% under Straight Line Method.

5. INVESTMENTS:

Long term Investments are carried at cost. Provision for diminution in the value of long-term investments is made if such diminution is other than temporary in nature in the opinion of the management.

6. INVENTORIES:

Inventories are valued at lower of cost or net realizable value. Cost of inventories comprises cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The methods of determining cost of various categories of inventories are as follows:

Raw Materials	-	At cost
Stores and spares	-	At cost
Work in Process	-	At cost and an appropriate share of overheads
Finished Goods	-	At cost or realizable value, whichever is lower

7. SALES:

Sales include value of goods, Excise Duty, Export Benefits, Sales Tax and transport charges where ever applicable. However Excise Duty and Sales Tax to the extent of recoverable from customers are disclosed as reduction from turnover.

8. RESEARCH & DEVELOPMENT EXPENSES

- i. Revenue expenditure on research and development activities is expensed as and when incurred.
- ii. Expenditure incurred on Research and Development of new molecules and process development of existing products has been treated as deferred revenue expenditure and same has been written of in Five (5) equal yearly installments commencing from the year in which it is incurred.
- iii. The expenditure on capital assets having alternative use either in R & D activity or otherwise are capitalized are amortized at the rate specified in schedule 14 of the Companies Act, 1956.

9. BUSINESS DEVELOPMENT EXPENDITURE:

Expenditure incurred on Product Promotion and brand establishment has been treated as deferred revenue expenditure and the same has been written off in Five (5) equal yearly installments from the year in which it is incurred.

10. OPERATING LEASES:

Assets taken on lease under which all risks and rewards of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under operating leases are recognized as expenses on accrual basis in accordance with the respective lease agreement.

11. RETIREMENT BENEFITS:

A. Defined Contribution Plans:

Provident Fund:

Contribution to Provident Fund is made at the prescribed rates to the Employees Provident Fund Scheme by the Central Government and is charged to Profit and Loss Account

B. Defined Benefit Plans:

- i. **Gratuity:** Accounting liability towards gratuity is provided on the basis of actuarial valuation made by an independent actuary. The actuarial valuation is done as per projected unit credit method. Actuarial gain /loss immediately taken to profit and loss account.
- ii. **Leave encashment benefit:** The Company records its un availed leave liability based on actuarial valuation using projected unit credit method.

C. Short term employee benefits:

Short term employee benefits are recognized as an expense as per the company's scheme based on expected obligation on un discounted basis.

D. State Plans:

Employers' contribution to employee's state insurance is charged to profit and loss account.

12. EXCISE DUTY / SALES TAX:

Excise Duty and Sales Tax are accounted for at the time of dispatch / sale. These taxes are included in sales. However the amounts to the extent of realizable from customers are disclosed as reduction from gross sales in profit and loss account and the remaining amounts were shown as expenditure in manufacturing expenses and selling expenses respectively.

13. CENVAT / VAT CREDIT:

Cenvat / Vat credit claimed on capital goods (Plant and Machinery) is credited to relevant Plant and Machinery Account. Cenvat / Vat credit on purchase of raw materials, packing materials, consumables, spares and components are deducted from the cost of respective materials.

Un-utilised Cenvat Credit was shown under the head Loans and Advances

14. REVENUE RECOGNITION:

Revenue from sale of goods is recognized when significant risks and rewards in respect of ownership of the products are transferred to the customer. Export Benefits are recognized on accrual basis.

15. FOREIGN CURRENCY TRANSACTIONS:

- i. Transactions denominated in foreign currency are normally recorded at the exchange rate prevailing at the time of the transaction
- ii. Any income or expense on account of exchange differences on foreign currency transactions are recognised in the profit and loss account.
- iii. Financial Derivative Contracts are accounted on the date of their settlement and realized gain / loss in respect of settled contracts are recognized in the profit and loss account along with underlined transactions.

16. TAXATION:

Tax expense or saving is the aggregate of current year tax, Deferred Tax and Fringe Benefit Tax charged or credited as the case may be to the profit and loss account for the year. It also includes adjustment relating to excess or short provision made for earlier years.

i. Current year charge:

The provision for taxation is made based on an estimate of assessable income determined by the company under the Income Tax Act, 1961.

ii. Deferred Tax:

Deferred Income Tax is recognized for the future tax consequences attributable to timing differences between the financial statements determination of income and their recognition for tax purposes. The effect on deferred tax assets and liabilities of a change in tax rates is recognized

in income using the tax rate that have been enacted by the balance sheet date. Deferred tax assets are recognized and carried forward only to the extent that there is a virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. MAT credit is recognized as an asset, only if, there is convincing evidence that the company verified normal Income Tax during the specified period.

17. BORROWING COSTS:

- i. Borrowing costs that are attributable to the acquisition of Fixed Assets are capitalized as part of the cost of the asset till the date the asset is ready for commercial use.
- ii. Other borrowing costs are treated as expenses in the period, in which they are incurred, except bank charges for processing / renewal of working capital.
- iii. The bank charges for processing of working capital application are charged to expenses on prorata basis.

18. MISCELLENEOUS EXPENDITURE:

Preliminary and Pre-operative expenses have been written off over a period of Five Years. Deferred Revenue Expenditure has been written off over a period of Five Years.

19. CONTINGENT LIABILITIES:

Contingent Liabilities are generally not provided for and are disclosed by way of Notes on Accounts.

20. IMPAIRMENT OF ASSETS:

The carrying amounts of assets are reviewed at each balance sheet date. If there is any indication of impairment based on internal / external factors, an asset is impaired when the carrying amount of asset exceeds the recoverable amount. An impairment loss is charged to the profit and loss account in the year in which an asset is identified as impaired. An impairment loss recognized in prior accounting periods is reversed if there has been change in the estimate of the recoverable amount.

21. EXPORT BENEFITS:

Benefits under Duty Exemption Pass Book (DEPB) scheme on exports and other export benefits are recognized on accrual basis.

23. NOTES ON ACCOUNTS

I. (a) Contingent Liabilities not provided for

(Amount in Rs.)

Particulars	2009-10	2008-09
(a) Guarantees given by banks	1,72,33,700	65,44,700
(b) Foreign Letter of credits opened in favour of suppliers for which goods are yet to be received	16,00,84,603	4,20,59,381
(c) Inland Letter of credits opened in favour of suppliers for which goods are yet to be received	1,26,51,577	–
(d) Claims not acknowledged as debts by the company.	5,62,79,529	5,62,79,529
(e) Disputed Income Tax demands against which company is in Appeals.	1,36,89,411	1,76,37,052
(f) Interest dues in respect of disputed demands of Income Tax and Central Excise.	1,87,00,000	1,70,00,000

- (b) Claims not acknowledged as debt of Rs.5,62,79,529/- is the claim made against the company by M/s. Natco Pharma Ltd. The facts of the issue are that the Company entered into an agreement with Natco Pharma Ltd. ('Natco') on September 10, 1998 for conversion of raw materials supplied to Natco into finished products. Subsequently, due to a dispute in respect of payment terms, Natco filed a suit on October 9, 2002 before the Chief Judge, City Civil Court, Hyderabad for recovery of Rs.5,62,79,529/- and interest thereon. The Company has filed a written statement refusing the contentions made by Natco. The suit is pending before Fast Track Court at City Civil Courts, Hyderabad.

The company has made a claim against Natco Pharma Limited for recovery of Rs.15,62,90,614/- which consists of Natco's illegal misappropriation and failure to return and illegal sale of raw materials belongs to the Company, non payment of amounts received by Natco on the sale of finished goods belongs to the company, failure to return Duty Entitlement Pass Book (DEPB) benefits to the Company and failure to repay the amounts paid by the Company on behalf of Natco to their creditors along with interest on all above stated claims. For recovery of this amount the Company filed a suit on October 12, 2002. The suit is also pending before City Civil Court, Hyderabad.

The management has considered that no provision is required.

(c) Capital Commitments:

Estimated amount of contracts remaining to be executed on capital account not provided for (net of advances) Rs.3,22,10,798/- (Previous year Rs.15,71,92,000).

2. Secured Loans:

- a) Rupee Term Loan of Rs.30 Crores availed from Exim Bank for setting up Oncology facility in Jahwarlal Nehru Pharmacy, at Parawada, Visakhapatnam are secured by First charge by way of equitable mortgage of company's immovable properties and hypothecation of all movable fixed assets both present and future on pari-passu basis with Axis Bank and other loans of Exim Bank

apart from exclusive charge on the said facility and also un-conditional and irrevocable personal guarantees of promoters of the company ,except the exclusive charges mentioned below.

- b) Other Term Loans both Rupee & Foreign Currency and Working Capital Term Loan availed from Exim Bank and Axis Bank are secured by First charge by way of equitable mortgage of company's immovable properties and hypothecation of all movable fixed assets both present and future on pari-passu basis, apart from un-conditional and irrevocable personal guarantees of promoters of the company, except the following assets of the Company.
- Flat No.417, Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad to SBI for working capital facilities.
 - Oncology facility at Pharma city, Vizag to Exim Bank for Rupee Term Loan of Rs.30 Crores for the said plant.
- c) Working Capital Facilities availed from State Bank of India are secured by hypothecation of all chargeable current assets of the company, both present and future, apart from an exclusive charge on Flat No.417, Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad and also second charge on fixed assets of the Company, on pari-pasu basis with Exim Bank for its Working Capital facilities, apart from un-conditional and irrevocable personal guarantees of promoters. These facilities are also covered by collateral security by way of Equitable Mortgage of agricultural lands belonging to the promoters.
- d) Working Capital Facilities availed from Exim Bank both Rupee & Foreign Currency are secured by hypothecation of all chargeable current assets of the company, both present and future, and also second charge on fixed assets of the Company, on pari-pasu basis with State Bank of India except exclusive charges as stated above, apart from un-conditional and irrevocable personal guarantees of the promoters.
- e) Vehicle loans are secured by hypothecation / lien on the respective assets acquired with the loan amounts.

3. Unsecured Loans:

(a) Sales Tax Deferment

The company is eligible for sales tax deferment to the tune of Rs.6,14,55,460/- and the same was availed from the year 1996-97 to 2007-08. This amount is repayable in 12 years commencing from the year 2009-10 and for which details are furnished below.

(Rs. In Lakhs)					
Year	Amount	Year	Amount	Year	Amount
2010-11	5.84	2014-15	71.80	2018-19	74.19
2011-12	23.01	2015-16	60.32	2019-20	65.64
2012-13	32.51	2016-17	48.27	2020-21	69.63
2013-14	62.84	2017-18	65.48	2021-22	35.02*

* Subject to completion of Assessment

(b) DSIR Assistance

Financial assistance received from Department of Scientific and Industrial Research (DSIR) of Rs.1,20,00,000/- (previous year Rs.1,20,00,000/-) sanctioned under TPDU program for development of Active Pharmaceutical Ingredients (API's), and their intermediates.

As per the terms of agreement entered with DSIR, 1.3 times of the above amount is payable in 5 equal annual installments after commencement of commercial sale” of the “product(s)”. Till such time, royalty @ 6% on ex-factory price of commercial sale of the “product(s)” is payable.

However, the company has not yet commenced commercial operations of the products developed with the assistance of DSIR.

4. Funds raised during the year 2006-07 through IPO, private placement and term loan for new project and their utilization.

(Rs. in Crores)

Particulars	As per Prospectus	Funds Utilized
Sources:		
IPO	97.93	98.01
Pre IPO placement	14.00	14.00
Term Loan	30.00	30.00
Internal Accruals	17.40	17.40
TOTAL	159.33	159.41
Utilization:		
New Project	113.02	126.83
Working Capital requirement	40.07	26.21
Issue Expenses	6.24	6.37
Funds on Hand	-	-
TOTAL	159.33	159.41

During the year execution of Kandivalasa project was completed and commercial operations were started.

- Land shown under Schedule 5 “Fixed Assets” consists of the value of Rs.10.84 lakhs to the extent of 950 Sq.Yds in Hyderabad city, acquired by merger of erstwhile Plant Organics Limited with the company, is under litigation, with City Civil Court at Hyderabad was purchased during the year 1994-95 by the said erstwhile Plant Organics Limited. The management is confident of winning the case.
- Advance Income Tax shown under schedule 10 “Loans & Advances” includes an amount of Rs.73.04 Lakhs paid against demands raised by the Income Tax Department for which Appeals under the Income Tax Act, 1961 are pending before ITAT for the years 2000-01 to 2003-04 and with CIT (A) for the year 2006-07.
- The company has acquired 43 Acres land from APIIC through Ramky Pharma City (India) Ltd, in JN Pharma City, Parawada near Vishakapatnam, besides to the existing oncology plant is under dispute. For this an amount of Rs.5.57 Crores was paid and the same was included in Capital Work in Progress.

8. Lease:

The company obtained office premises under leases. The future minimum lease payments and payment profile of non cancellable leases and lease amount incurred during the year are as under:

a. General description of leasing arrangements:

Office premises – Lease rental are charged on the basis of agreed terms.

b. Lease payment recognized in the profit & loss account Rs.50,14,900/- (previous year Rs.56,49,175/-)

c. Future Lease Rental Payments:

	(Rs. in Lakhs)	
	2009-10	2008-09
Not more than one year	57.44	49.71
More than one year and not more than five years	57.44	56.91
More than five years	—	—

9. Information on Employee benefits required under accounting standard 15 :-

	(Rs. in Lakhs)	
	2009-10	2008-09
A. Defined Contribution Plans:		
Contribution to Provident Fund	52,30,976	46,28,720
B. Defined Benefit Plans:		
1. Gratuity (Funded)		
2. Leave Encashment (Un funded)		
Disclosures (as per actuary certification)		

(Amount in Rs.)

Particulars	2009 - 10		2008- 09	
	Gratuity (Funded)	Leave Encashment (Unfunded)	Gratuity (Funded)	Leave Encashment (Unfunded)
(i) PROFIT AND LOSS ACCOUNT:				
Current Service Cost	13,91,022	10,81,999	12,36,519	10,46,227
Interest cost on benefit obligation	5,54,973	2,14,303	4,24,530	1,20,146
Expected return on plan assets	—	—	(1,98,539)	—
Net Actuarial (Gain)/Loss recognized in the year	(7,72,631)	(12,91,392)	8,78,331	3,71,589
Short Term compensated absence liability		10,70,463		
Past service cost	33,26,657	—	—	—
Contribution paid	(15,00,175)	(2,33,320)	—	(1,31,502)
Provided on account of amalgamation	—	—	(9,47,110)	—
Net benefit expenses	29,99,846	8,42,053	13,93,731	14,06,460

(Amount in Rs.)

Particulars	2009 - 10		2008- 09	
	Gratuity (Funded)	Leave Encashment (Unfunded)	Gratuity (Funded)	Leave Encashment (Unfunded)
(ii) BALANCE SHEET:				
Change in the present value of the defined benefit obligation are as follows:				
Opening defined benefit obligation	54,41,282	29,74,036	31,00,441	15,67,576
Interest cost	5,54,973	2,14,303	4,24,530	1,20,146
Current services cost	13,91,022	10,81,999	12,36,519	10,46,227
Actuarial (Gain)/Loss on obligation	(7,72,631)	(12,91,392)	8,78,331	3,71,589
Expected return on planed Assets	-	-	(1,98,539)	-
Contribution paid	(15,00,175)	(2,33,320)	-	(1,31,502)
Closing defined benefit obligation	51,14,471	27,45,626	54,41,282	29,74,036

- Net benefit expenses of Rs.29,99,846/- relating to Gratuity charged to P&L A/c being the difference between the independent actuary valuation and that of LIC. This amount was unfunded and total amount of unfunded was Rs.51,14,471/-.

(iii) The Principal assumptions used in determining gratuity

Salary rise	3.50%	3%
Discount rate	7.50%	7.50%
Attrition rate	2%	2%

10. Disclosure required by Micro, Small and Medium Enterprises (Development) Act, 2006.

Disclosure of Sundry Creditors under Current Liabilities is based on the information available with the company regarding the status of the suppliers as defined under the "Micro, Small and Medium Enterprises Development (Act, 2006)" and relied upon by the auditors. During the year the company has paid no interest in terms of Section 16 of the said Act.

Amount in Rs.

Particulars	2009-10	2008-09
Principal amount remaining unpaid as at the end of the year	52,50,502	68,76,274
Interest due and payable for the period of delay	3,04,353	3,88,784
Interest paid on above	Nil	Nil

The above information regarding Micro Small and Medium Enterprises has been determined to the extent such parties have been identified on the basis of information available with the company. This has been relied upon by the auditors



11. Earnings Per Share (EPS):

	Year Ended 31.03.2010	Year Ended 31.03.2009
Profit attributable to equity share holders (Rs.) (A)	–	6,29,85,034
Basic/Weighted average number of equity shares Outstanding (B)	1,00,15,203	1,00,15,203
Diluted/ weighted average number of equity shares Outstanding (c)	1,00,15,203	1,00,15,203
Face value of equity share	10	10
Basic earnings per share (Rs.) (A/B)	2.30	6.29
Diluted earnings per share (Rs.) (A/C)	2.30	6.29

12. Remittance in Foreign Currency on account of Dividend.

	2009-10	Paid in 2008-09
a) Year to which the dividend relates	2008-09	2007-08
b) Number of non resident share holders to whom remittances were made	7 (Seven)	7 (Seven)
c) Number of shares on which remittances were made	7,00,286	7,00,286
d) Amount remitted (Rs.)	14,00,572	14,00,572

13. Research and Development Expenditure:

(Amount in Rs.)

Particulars / Year	2009-10	2008-09
Capital Expenditure		
Land	–	1,20,78,582
Buildings	–	10,30,37,832
Equipment	15,07,062	9,60,19,267
Capital work in progress	–	(18,27,89,365)
Total	15,07,062	2,83,46,316
Revenue Expenditure	3,77,73,984	2,19,94,740
Grand Total	3,92,81,046	5,03,41,056

14. a) The company has entered in to an agreement with M/s. Divya Enterprises Limited for purchase of 918 sqm industrial plot and buildings and structures situated at D-63, Phase – I, Jeedimetla, for a consideration of Rs.60.00 lakhs. Pending registration of the same, the company has paid to the vendor an amount of Rs.34.82 lakhs for the said property and has taken the possession of same.

- b) The company has constructed/ modified buildings and structures to suit the requirement for carrying out its manufacturing activity in the said premises. The said assets were capitalized and the company is claiming depreciation. The said property was not yet registered in the name of the company as on the Balance Sheet date.

15. Deferred Tax Liability:

For the year 2009-10 Deferred Tax Asset is more than deferred tax liability on account of unabsorbed carry forwarded losses and depreciation apart from unabsorbed R&D expenditure. Considering the reasonable certainty deferred tax asset was not recognised. Hence there is no change in the amount of net deferred tax liability as on 31-03-2010 and 31-03-2009

16. *Managerial Remuneration:

(Amount in Rs.)

Particulars	2009-10	2008-09
Remuneration	72,00,000	47,50,000
P F	5,76,000	4,74,000
Other Perquisites	2,15,304	2,86,060
TOTAL	79,91,304	55,10,060

* On account of inadequacy of profits minimum remuneration was paid.

17. Auditors' Remuneration:

(Amount in Rs.)

Particulars	2009-10	2008-09
Statutory Audit Fee	2,75,000	2,75,000
Taxation and other Representations	2,00,000	1,00,000
Other Services	4,00,000	–
Cost Audit Fee	50,000	50,000
Out of pocket expenses	–	15,594
TOTAL	9,25,000	4,40,594

18. Segment Reporting:

As the company's business during the reporting period consists of single reportable business segment of manufacturing and sale of Active Pharmaceutical Ingredients and intermediates, no separate disclosure pertaining to segmental reporting is given. As part of business segment, revenues are attributed to geographical areas based on the location of the customers as detailed below:

(Amount in Rs.)

Particulars	2009-10		2008-09	
	Revenue	%	Revenue	%
Exports	120,04,95,476	54.65	95,27,73,481	38.92
Domestic	94,75,21,372	43.14	145,85,53,682	59.59
Export Incentives	4,84,97,322	2.21	3,65,40,256	1.49
TOTAL	219,65,14,170	100.00	244,78,67,419	100.00

19. Related Party Disclosures:

Disclosures as required by the Accounting Standard 18 of the Institute of Chartered Accountants of India are given below:

a) Key Management personnel and their relatives

S. No.	Name	Relationship
1.	Sri PRamesh Babu	Key Management personnel
2.	Sri T.V.V.S.N.Murthy	Key Management personnel
3.	Sri PHari Kishore	Relative of the Key Management personnel
4.	Sri T.V.Praveen	Relative of the Key Management personnel

(i) Associated Companies.

(Enterprises in which the key management personnel / relatives are interested)

S.No.	Name of the associated Company
1.	Webcity Softech Private Limited
2.	Potluri Builders Private Limited
3.	Potluri Real Estate Private Limited.
4.	Hima Farms Private Limited.

(ii) **Joint Ventures, Subsidiaries - Nil**

b) Transactions:

(Amount in Rs.)

Particulars	Subsidiaries & Associates	Key Management Personnel	Relatives of Key Management Personnel	Total
Remuneration	—	79,91,304	23,63,515	1,03,55,209
Previous Year	—	55,10,060	17,35,160	72,45,220
Lease Rent	—	—	—	—
Previous Year	—	—	—	—

20. Balances of sundry debtors/ creditors and Loans and advances are subject to confirmation.

21. Additional information pursuant to the provisions of Paragraph 3, 4C and 4D of Part II of Schedule VI to the Companies Act.

a) Capacities & Production:

(i) Licensed Capacity

In terms of press Note No.4 (1994 series) dated 25-10-1994 issued by the Department of Industrial Development, Ministry of Industry, Government of India and Notification No.S.O.137 (E) 13 dated 01-03-1999 issued by the Department of Industrial Policy & Promotion, Ministry of

Industry, Government of India, industrial licensing has been abolished in respect of bulk drugs and formulations. Hence, there is no registered / licensed capacities for these bulk drugs and formulations.

(ii) Installed Capacity

Installed capacity is flexible as the plant is versatile, enabling the company to production in different capacities and therefore it varies depending on the product mix.

(iii) Actual Production

Particulars	Qty in M.T Actual Production	
	2009-10	2008-09
Bulk Drugs	1,011	877
Intermediates	1,431	1,310

(a) Sales, Opening and Closing Stock:

Particulars	2009-10		2008-09	
	Quantity M.T	Amount Rs.	Quantity M.T	Amount Rs.
1. Sales:				
Bulk Drugs	1,032	122,20,61,082	903	120,67,77,567
Intermediates & Others	1,524	111,60,82,287	3,514	149,73,77,018
Export Incentives		4,84,97,322	-	3,65,40,256
Total	2,556	238,66,40,691	4,417	274,06,94,840
2) Opening Stock:				
Bulk Drugs, Intermediates & others	27	4,08,21,394	38	5,44,69,394
3) Closing Stock:				
Bulk Drugs and Intermediates	31	5,80,72,945	27	4,08,21,394

(b) Consumption of Raw materials:

(Amount in Rs.)

Particulars	2009-10		2008-09	
	Consumption	%	Consumption	%
Imported	37,36,71,229	24.27	38,63,01,665	21.45
Indigenous	116,60,44,723	75.73	141,43,75,645	78.55
TOTAL	153,97,15,952	100.00	180,06,77,310	100.00

(c) **Details of Raw Material Consumption:**

Material Name	2009-10 Consumption		2008-09 Consumption	
	Quantity MT	Amount Rs.in Lakhs	Quantity MT	Amount Rs.in Lakhs
Caustic Potash Flakes	605.51	354.91	534.50	300.04
Cystamine	646.36	992.19	622.35	1196.58
DMA Hcl	548.12	249.33	480.52	244.01
DMSO	256.26	235.48	362.65	315.62
DMS	1029.38	175.93	941.53	272.99
Furfuryl Alcohol	560.00	336.25	562.33	459.16
IPA	358.43	195.97	201.52	157.72
Methanol	1180.01	190.09	890.10	200.08
MITC	502.43	723.88	464.11	794.93
MIBK	206.70	131.88	165.88	147.96
Nitromethene	426.67	372.82	460.83	584.41
Stannous Chloride	3.47	19.27	19.54	128.38
Acetone	476.37	260.81	272.31	163.80
Caustic Soda Lye	1157.09	123.98	1101.57	138.64
Toluene	354.41	161.77	271.15	152.51
1,3 Dichloro Acetone	52.53	228.98	51.23	231.87
2,4 Dichloro Acetophenone	42.45	110.55	144.80	513.93
Guanyl Thiourea	44.54	135.87	43.04	183.35
Sulfamide	19.18	125.71	22.60	128.71
Acetonitrile	41.51	101.90	31.76	122.04
Methylene Chloride	439.15	160.71	275.16	101.64
Vitride	6.22	40.27	15.54	100.31
Phosphorous Pentoxide	62.40	109.56	42.10	104.76
Others	–	9859.05	–	11263.33
TOTAL	9,019.18	15,397.16	7,977.12	18,006.77

(d) **CIF Value of Imports:**

(Amount in Rs.)

Particulars	2009-10	2008-09
Raw Materials	34,28,43,503	39,69,83,784
Capital Goods	3,21,09,397	1,50,33,299
TOTAL	37,49,52,900	41,20,17,083

(e) Expenditure in Foreign Currency:

(Amount in Rs.)

Particulars	2009-10	2008-09
Sales Commission	1,38,58,755	1,29,46,421
Travelling expenses	1,17,114	46,025
TOTAL	1,39,75,870	129,92,446

(f) Earnings in Foreign Currency:

(Amount in Rs.)

	2009-10	2008-09
FOB Value of Exports	110,22,19,221	85,14,20,942

22. Previous Year figures have been regrouped / reclassified wherever necessary to corroborate with current year figures.
23. Figures have been rounded off to the nearest Rupee.

as per our report of even date.

for and on behalf of the Board

for **RAMBABU & CO.,**
Chartered Accountants
RAVI RAMBABU
Partner

for **P. MURALI & CO.**
Chartered Accountants
P. MURALI MOHAN RAO
Partner

P. RAMESH BABU
Chairman and
Managing Director

T V V S N MURTHY
Voice Chairman and
Joint Managing Director

P. PRABHAKARA RAO
Company Secretary

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 27-08-2010



SMS
Pharmaceuticals Ltd.

CASH FLOW STATEMENT AS AT 31st MARCH, 2010

(Amount in Rs.)

PARTICULARS	2009-2010		2008-2009	
	Details	Amount	Details	Amount
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before Tax		2,88,08,976		7,94,56,680
Add: Depreciation	8,36,47,989		6,27,91,542	
Interest on Term Loans	6,32,24,468		1,21,13,975	
Deferred Revenue Expenses written off	7,60,49,805		7,56,30,246	
Loss/(Profit) on sale of assets	—		46,870	
		<u>22,29,22,262</u>		<u>15,05,82,633</u>
Operating profits before working capital changes		25,17,31,238		23,00,39,313
Less: Increase in Inventory	3,84,39,556		8,37,48,383	
in Trade Receivables	(80,97,866)		(2,78,82,216)	
in Other Advances	6,31,29,426		(9,50,96,574)	
Decrease in Trade payables	(9,84,06,409)	(49,35,293)	2,46,23,118	(1,46,07,289)
Cash generated from operations		25,66,66,531		24,46,46,602
Less: Incometax paid		42,07,698		3,55,25,948
Net cash From Operating Activities (A)		25,24,58,833		20,91,20,654
B. CASH FLOW FROM INVESTING ACTIVITIES				
Less: Increase in Capital work-in-Progress	(83,46,05,317)		35,03,06,335	
Increased in Fixed Assets	1,37,92,29,114		22,41,19,643	
Sale of Fixed Assets	(1,74,928)		(8,61,474)	
Deffered Revenue Expenditure	3,77,73,984		8,59,82,435	
Net cash used for investing Activities (B)		(58,22,22,853)		(65,95,46,939)

(Contd.)

CASH FLOW STATEMENT (Contd.)

(Amount in Rs.)

PARTICULARS	2009-2010		2008-2009	
	Details	Amount	Details	Amount
C. CASH FLOW FROM FINANCING ACTIVITIES				
Inflow:				
Term Loans received	44,73,36,937		64,81,19,081	
Un-secured loans received	–		(1,95,06,623)	
Increase in Bank borrowings	13,05,85,785		7,08,91,710	
	<u>57,79,22,722</u>		<u>69,95,04,168</u>	
Out flow:				
Repayment of Term Loans	31,59,25,789		24,27,74,829	
Repayment of Vehicle Loans	12,78,613		15,72,533	
Dividend paid including CDT	2,34,04,168		2,34,34,574	
Interest paid	5,88,05,200		1,12,59,861	
	<u>39,94,13,770</u>		<u>27,90,41,797</u>	
Net cash generated from Financing Activities (C)		<u>17,85,08,952</u>		<u>42,04,62,371</u>
Net Increase in cash and Cash equivalents (A+B+C)		(15,12,55,068)		(2,99,63,914)
Cash and Cash equivalents at beginning of the year		20,37,44,128		23,37,08,042
Cash and Cash equivalents at end of the year		5,24,89,060		20,37,44,128

- Note: 1. Previous year figures have been regrouped, wherever necessary to corroborate to current year figures
2. The above Cash Flow has been prepared under the "Indirect Method" as set out in the Accounting Standard - 3 on Cash Flow Statements, issued by the Institute of Chartered Accountants of India.
3. Cash and cash equivalent is Cash & Bank Balances as per Balance Sheet
4. Additions to Fixed Assets (including movements in Capital Work-in-Progress) are considered as a part of investing activities.

as per our report of even date.

for and on behalf of the Board

for **RAMBABU & CO.,**
Chartered Accountants
RAVI RAMBABU
Partner

for **P. MURALI & CO.**
Chartered Accountants
P. MURALI MOHAN RAO
Partner

P. RAMESH BABU
Chairman and
Managing Director
P. PRABHAKARA RAO
Company Secretary

T V V S N MURTHY
Voice Chairman and
Joint Managing Director
N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 27-08-2010

ANNEXURE
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(Pursuant to part IV of Schedule VI to the Companies Act, 1956)

1. Registration Details

Registration No. State Code

Balance Sheet Date

2. Capital raised during the year (Amount Rs. in thousands)

Public Issue Rights Issue

Bonus Issue Private Placement

3. Position of Mobilisation and Deployment of Funds (Amount Rs. in thousands)

Total Liabilities Total Assets

Sources of Funds

Paid up Capital Reserves & Surplus

Secured Loans Unsecured Loans

Deferred Tax Liability

Application of Funds:

Net Fixed Assets Capital WIP

Investments Net Current Assets

Misc. Expenditure

4. Performance of Company (Amount Rs. in thousands)

Turnover Total Expenditure

Profit before Tax Profit/Loss after Tax

Earning per Share (EPS) Dividend Rate %

5. General Names of Three Principal Products/Services of Company

(as per monetary terms)

ITC Number

2942 : Ranitidine HCL

2942 : Sumatriptan Succinate

2942 : Ketoconazole



SMS PHARMACEUTICALS LIMITED

Regd. and Corp. Office: Plot No.19-III, Road No. 71,
Opp. Bharatiya Vidya Bhavan Public School,
Jubilee Hills, Hyderabad - 500 034.

PROXY FORM

DP. Id:

Regd. Folio No. :

Client Id :

No. of Shares held :

I/We.....of.....
.....being a member/members of the above named company
hereby appoint.....
of.....as my/our
proxy vote for me/us on my/our behalf at the 22nd Annual General Meeting of the Company to be held on
Wednesday, the 29th day of September, 2010 at 3.00 P.M. at Jubilee Hills International Centre (Jubilee Hills Club),
Jubilee Hills, Hyderabad and at any adjournment thereof.

Signed this.....day of September, 2010.

Affix
Re. 1/-
Revenue
Stamp

NOTE:

- a) A Member entitled to attend and vote at the meeting is entitled to appoint a proxy and vote instead of himself.
- b) Proxy need not be a member.
- c) The proxy form duly completed should be deposited at the Registered Office of the company not less than 48 hours before the time fixed for holding the meeting.



SMS PHARMACEUTICALS LIMITED

Regd. and Corp. Office: Plot No.19-III, Road No. 71,
Opp. Bharatiya Vidya Bhavan Public School,
Jubilee Hills, Hyderabad - 500 034.

ATTENDANCE SLIP

(Please present this slip at the entrance of the meeting venue)

DP. Id:

Regd. Folio No. :

Client Id :

No. of Shares held :

I hereby record my presence at the 22nd Annual General Meeting to be held on Wednesday, the 29th day of
September, 2010 at 3.00 P.M. at Jubilee Hills International Centre (Jubilee Hills Club), Jubilee Hills, Hyderabad.

Name of the Shareholder :

Name of the Proxy :

Signature of member/proxy :

Note:

- 1) To be signed at the time of handing over this slip.
- 2) Members are requested to register their names at least 15 minutes prior to the commencement of the meeting.



R&D and Analytical Development Lab, Gagillapur



Isolator Barrier Technology, Parawada

**PRINTED MATTER
BOOK - POST**

If undelivered, please return to:



Regd. Off: Plot No. 19-III, Road No. 71, Opp. Bharatiya Vidya Bhavan Public School,
Jubilee Hills, Hyderabad - 500 034.
Phones: 040 - 66288888, Fax: 040 235510401/402
E-mail: info@smspharma.com

www.smspharma.com