

Annual Report 2011 - 12

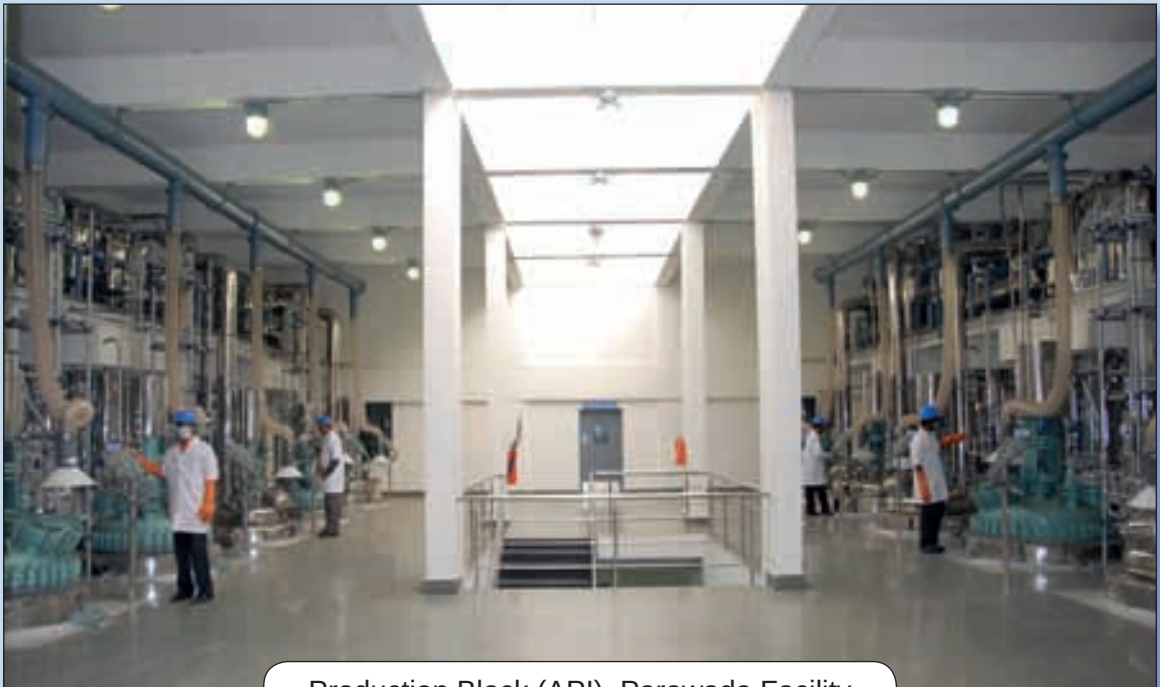


sms

pharmaceuticals Ltd.

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Production Block (API), Parawada Facility

Corporate Information

Board of Directors

Sri P. Ramesh Babu	<i>Chairman & Managing Director</i>
Sri TVSN Murthy	<i>Vice-Chairman & Joint Managing Director</i>
Sri A.P. Rao	<i>Director</i>
Dr. Mihir K. Chaudhuri	<i>Director</i>
Dr. B.M. Choudary	<i>Director</i>
Sri K.S. Rao	<i>Director</i>
Dr. Ayman Sahli	<i>Nominee Director of Gulf Pharmaceuticals, U.A.E.</i>
Sri Utpal Gokhale	<i>Nominee Director of Exim Bank (w.e.f. 18.04.2012)</i>
K. Umamaheswaram	<i>Nominee Director of Exim Bank (upto 18.04.2012)</i>

Chief Financial Officer
Sri N. Rajendra Prasad

Company Secretary
Sri P. Prabhakara Rao

Registered Office

Plot No. 19-III, Opp. Bharatiya Vidya Bhavan Public School
Road No. 71, Jubilee Hills, Hyderabad-500 096
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
I-2-285, Domalguda, Hyderabad-500 029
Phone : 040-27638111/27642217-27634445
Fax : 040-27632184
Email : info@arthiconsultants.com

Bankers

State Bank of India
Export Import Bank of India
ICICI 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
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, S.V. Co.op Ind. Estate
I.D.A., Bollaram, Medak Dist. A.P. - 502 325.
Phone : 040-64547975
Email : unit5@smspharma.com

Unit-VI

Plot No. 28, Jawaharlal Nehru Pharma City,
Parawada, Visakhapatnam.
Phone : 08924236066 / 77
Fax : 08924236055
Email : parawada@smspharma.com

Unit-VII

Sy. No. 160, 161, 163 to 167,
Kandivalasa, Poosapatirega (Mandal),
Vijayanagaram Dist.
Phone : 08922-258051 / 53 / 54
Fax : 08922-258052
Email : kandivalasa@smspharma.com

R&D Center - I

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

R&D Center - 2

C-23, Industrial Estate,
Sanathnagar, Hyderabad-500 018.
Email : ansingh@smspharma.com

NOTICE

Notice is hereby given that the 24th Annual General Meeting of the Company will be held on Saturday the 29th day of September, 2012 at 11.00 A.M. at Jubilee Hills International Centre (Jubilee Hills Club), Jubilee Hills, Hyderabad-500 096 to transact the following business :

ORDINARY BUSINESS:

1. To receive, consider and adopt the Statement of Profit and Loss for the year ended 31st March, 2012, Balance Sheet as on that date along with the Reports of the Directors' and Auditors' thereon.
2. To appoint a Director in place of Dr. B.M. Choudary, who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. A.P. Rao, who retires by rotation, and being eligible, offers himself for re-appointment.
4. 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.

SPECIAL BUSINESS:

5. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to Section 293 (1) (d) of the Companies Act, 1956, and other applicable provisions, if any, of the Companies Act, 1956, the consent of the members be and is hereby accorded to the Board of Directors of the Company, for borrowing monies for the purpose of business of the Company, from time to time, notwithstanding that the monies to be borrowed together with the monies already borrowed (apart from temporary loans obtained from the Company's bankers in the ordinary course of business) will or may exceed the aggregate of the paid up capital of the Company and its free reserves that is to say, reserves not set apart for any specific purpose, provided however that the aggregate of amounts so borrowed and outstanding at any time (apart from temporary loans obtained from the Company's bankers in the ordinary course of business) shall not exceed Rs.500.00 Crores (Rs. Five Hundred Crores) Only."

By Order of the Board
P. Ramesh Babu

Chairman & Managing Director

Place: Hyderabad

Date: 10.08.2012

Notes:

1. A member entitled to attend and vote instead of himself is entitled to appoint a proxy to attend and vote instead of himself and the 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 24.09.2012 to 29.09.2012 (both days inclusive).
4. 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.
5. 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.

Company at an early date so as to enable the management to keep the information ready.

6. Shareholders desiring any information relating to the accounts are requested to write to the

7. The additional information on Directors, seeking re-appointment as Directors under Item Nos. 2 and 3 above, as required by Clause 49 of the Listing Agreement is given below.

Name of the Director	Dr. B.M. Choudary	Mr. A.P. Rao
Date of Birth	10.08.1946	16.08.1943
Date of Appointment	29.05.2005	21.10.1994
Qualification	Ph.D. in Science.	ACMA, MBA
Expertise in specific functional Area	In inorganic Chemistry.	In the fields of Finance.
Details of other Directorships	(1) Ogene System (I) Private Limited (2) Apries Labs Private Limited.	(1) Siri Cybertech Private Limited. (2) APR Investments and Leasing Private Limited. (3) Vision Financial Services Private Limited (4) Vijay Bhargavi Finance Limited (5) Igen Labs Private Limited
Details of other Committee & Membership status.	1) Member - Audit Committee. 2) Member - Remuneration Committee and 3) Member - Investors' Grievances Committee.	1) Member-Audit Committee. 2) Member-Remuneration Committee and 3) Member-Investors' Grievances Committee

Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956.

Item No. 5

At present the Board of Directors are empowered to borrow towards future expansion (apart from temporary loans obtained from the Company's bankers in the ordinary course of business) up to Rs.300.00 Crores vide resolution passed by the Members under Section 293 (1) (d) of the Companies Act, 1956 in the Annual General Meeting held on 30th September, 2009. To meet the increased working capital needs, working capital term loans and other requirements, considering proposed future expansion, the company proposes to obtain the consent of the Members to increase the borrowing limits to Rs.500.00 Crores from Rs.300.00 Crores.

The Board therefore recommends the proposed resolution. None of the Directors of the Company are interested or concerned in any way in the resolution.

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

Place : Hyderabad
Dated : 10.08.2012

DIRECTOR'S REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the 24th Annual Report and Audited Accounts of your company for the year ended 31st March, 2012.

Financial Results

(Rs. In Lakhs)

Particulars	2011-12	2010-11
Gross Sales	22,630.57	24,911.60
Net Sales	20,692.30	22,427.43
Other Operating Income	717.44	166.69
Other Income	42.95	219.08
Total Net Income	21,452.69	22,813.20
PBIDT	3,818.06	4,099.83
Finance Charges	2,412.34	1,787.17
Depreciation	1,263.97	1,264.29
Profit before Tax	141.75	1,048.37
Taxation	28.00	209.10
Profit After Tax	113.75	839.27
Profit brought forward	2,539.98	1,975.31
Total available for Appropriations.	2,653.73	2,814.58
Appropriations:		
Proposed Dividend	-	150.23
Dividend Tax	-	24.37
General Reserve	-	100.00
Profit carried to Balance Sheet	2,653.73	2,539.98
Earning per share		
- Basic/Diluted	1.14	8.38

Operational performance

During the year 2011-12 your company has produced 1945 M.T. of APIs and their intermediates as against 2948 MT. during the corresponding year. The net sales of the company has reached to Rs.206.92 crores as against Rs.224.27 crores during

the previous year. Your company has earned net profit of Rs.1.14 crores as against Rs.8.39 crores during the year 2010-11.

Dividend

Your Directors have not recommended the dividend for the year 2011-12 to the Shareholders keeping in view of the conservation of resources (Previous year Rs.1.50 per equity share of Rs.10/-).

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 being eligible for re-appointment have confirmed their eligibility and willingness to accept office for the financial year ended 31st March, 2013.

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

Cost Auditors

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has prescribed Cost Audit for the Company. Based on recommendations of the Audit Committee and with the approval of the Central Government, Sri K. S. N Sarma, Cost Accountant, Hyderabad was appointed as Cost Auditor of the Company for the year 2012-13.

The relevant cost audit report for the financial year 2010-11 was already filed. The cost audit report for the financial year 2011-12 shall be submitted to the Central Government within the stipulated period.

Fixed Deposits

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

Directors

Pursuant to Article 110 of the Articles of Association of the Company Dr. B.M. Choudary and Mr. A.P. Rao, will retire by rotation at the ensuing Annual General Meeting and 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 annexure.

Contribution to the ex-chequer.

Your Company has contributed Rs 2,215.10 lakhs to the ex-chequer (Previous year Rs.3,040.68 lakhs) by way of taxes.

Directors' Responsibility Statement

As required under Section 217(2AA) of the Companies Act, 1956, Directors of your company hereby state and confirm that:

1. The applicable accounting standards have been followed in the preparation of the Annual Accounts.
2. The accounting policies as mentioned in the schedule 27 of the notes to the financial statement have been selected and applied consistently and judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at 31st March, 2012 and its profit for the year ended on that date.
3. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safe guarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. The Annual Accounts have been prepared on going concern basis.

Research and Development (R & D)

Research and Development is the backbone of a Company in Pharma Industry. The R & D activity of your company focusing mainly on development of new chemical entities apart from cost cutting of the existing products and also for development of cost effective non-infringing routes for the products whose patents are due for expiry in the coming years. The major therapeutic focus of the R & D is Oncology, Retro Viral and anti-Hypertensive.

Management's Discussion and Analysis

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

Corporate Governance

A detailed Report on Corporate Governance as required under the Listing Agreement forms part of this Annual Report.

Particulars of Employees

During the year under review, there was no employee drawing salary in excess of the prescribed limit and whose particulars are required to be given under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Amendment Rules, 1975 as amended.

Conservation of Energy, Technology Absorption

The information required under Section 217 (1) (e) of the Companies Act, 1956 read with the Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is enclosed herewith and forms part of this report.

Corporate Social Responsibility

Corporate Social Responsibility is commitment of the Company to improve the quality of life of the workforce and their families and also the community and society at large. The Company believes in undertaking business in such a way that it leads to overall development of all stake holders and society.

Environment

The Company has taken initiatives to reduce the pollution, Anti-pollution measures taken by the Company help minimize the impact of industrial process on the environment.

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.

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 : 10.08.2012

ANNEXURE TO THE DIRECTOR'S 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. Conservation of Energy

Power & Fuel Consumption

Particulars	(Rs.in Lakhs)	
	2011-12	2010-11
1. Electricity:		
a. Purchased :		
Units (Lakhs)	115.94	129.00
Total Amount (Rs.in Lakhs)	556.05	614.12
Rate/Unit (Rs.)	4.80	4.76
b. Own generation		
Through Diesel Generator		
Units (KWH in Lakhs)	28.31	22.61
Unit per Lt. of Diesel	3.29	3.32
Cost/Unit (Rs.in Lakhs)	12.88	12.01
2. Coal (D/C Grade):		
Quantity (Mt.)	13,154	14,023
Total cost (Rs.in Lakhs)	600.73	534.97
Average Rate per Ton (Rs.)	4,567	3,815
3. Furnace Oil:		
Quantity (K. Ltrs)	257	230
Total Amount (Rs.in Lakhs)	94.54	71.06
Average Rate per Ltr. (Rs.)	36.76	30.91

B. Consumption per 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

The Company's R & D strength are in developing intellectual property in the area of non-infringing processes and resolving complex chemistry challenges. In the process your company is developing new drugs apart from development of cost effective processes for existing products.

(b) Benefits derived as a result of the above

- (i) Developed new products and achieved cost and process efficiencies of existing products
- (ii) Modification of existing processes for reducing the cost of production in the areas of antimigraine, antihypertensive, antifungal, antiulcer etc.

(c) Future plan of action

- Process development for new bulk drugs of various therapeutic categories identified after an extensive analysis of the market.
- Development of cost effective process for the existing products.
- Undertake more of custom manufacturing projects.
- Improvements in quality and productivity.

(d) Expenditure on R&D

Particulars	(Rs. in Lakhs)	
	Current Year	Previous Year
Capital	-	5.05
Recurring	156.38	209.68
TOTAL	156.38	214.73
Total R & D expenditure to sales	0.69%	0.96%

II. Technolog Absorption, Adaptation 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 Centres which have 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 last 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 Out Go

- (a)** Activities relating to exports, initiative taken to increase exports, developments of new export markets for products and services and export plans.
- (i) The export turnover consists of 58.09% of total turnover for the year 2011-12 as against 54.62% for the previous year.
 - (ii) Total exports on FOB was Rs.101.32 crores for the year 2011-12 as against Rs.104.50 crores for the year 2010-11.
 - (iii) Your Company expects considerable export revenue for the forthcoming years.
- (b)** Foreign Exchange Earned and Used.

Total Foreign Exchange earnings and used is given in note 27 B (o) & (p) of the Notes to Accounts.

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Overview

According to the economic survey - 2011-12 Indian Economy is estimated to grow at 6.9% in 2011-12 and is expected to be around 7.6% in 2012-13. The growth has been broad based with a rebound in the agricultural sector which is expected to grow around 2.5%. Manufacturing and services sector also have registered impressive gains. The survey reports that the industrial output growth rate was 3.9% while the services sector registered a growth rate of 9.4% in 2011-12.

- India remains among the fastest growing economies of the world. The country's sovereign credit rating rose by a substantial 2.98% during the period 2007-12.
- Cumulative exports recorded during the 2011-12 (April-January) stood at \$242.8 billion, registering a growth of 23.5%.
- Imports in 2011-12 (April-January) at \$391.5 billion registered a growth of 29.4%.
- Forex reserves stood at \$292.6 billion by end of January, 2012. Services sector grew by 9.4%, its share in gross domestic product (GDP) goes upto 59%. Industrial growth is estimated to be at 3.9%, expected to improve as economic recovery resumes.

The year under review was also adversely affected by severe inflationary pressures, raising interest cost, volatile rupee-dollar ratio with a tendency to get weaker and currency concerns in all most all trading partner-countries.

According to a United Nation's annual economic report, despite the macro strains and likely ad wind of double- dip recessions in Europe and the US, India's economic growth is expected to remains robust in 2012 and 2013. They believe Indian economy is expected to grow between 7.7% - 7.9% during the current year.

India is the second most preferred destination for foreign investors, according to the report doing 'business in India' by Ernst & Young. The report explores India's key sectors, investment climate, funding scenario, laws and regulations to aid companies that are doing are plan to do business in India.

Industry Outlook

Pharmaceutical market research firm, IMS Health forecast that the global pharmaceutical market will grow between 3% and 6% annually up to 2015, based on sales of US\$ 856 billion in 2010. In the five preceding years, the market grew by an average of 6.2% per year. According to the data, overall market volume should increase by between US\$ 210 billion and US\$ 240 billion up until 2015, then reaching a total volume of between US\$ 1,065 billion and US\$ 1,095 billion.

While the U.S. market represented 36% of the global market in 2010, this share is expected to decline to 31% by 2015. The United States will still be the world's largest market (US\$ 320 billion to US\$ 350 billion). IMS Health sees Japan remaining in second place in 2015 (11% share, US\$ 110 billion to US\$ 140 billion), followed by China (US\$ 115 billion to US\$ 125 billion) and Germany (US\$ 38 billion to US\$ 43 billion).

Most developed markets continue to move away from branded generics to commoditized unbranded generics and lower margin tender based business. Amongst new frontiers, Japanese generic offers large potential, though there are significant challenges.

In the European markets, while companies may face pressure on profitability, volume growth would continue as health care reforms initiated by Governments would push growth in Generics. Emerging markets, with growing spend on health care and strong branded generic markets offer profitable growth opportunities for pharmaceutical business. Besides emerging markets, the gradually evolving generic opportunities in Japan, the second largest

market in the world (after United States) also offers the generic players and opportunity to pursue long term investments.

Key challenges facing the industry are potential implementation of the new pricing policy in India increasing competitive pressure in the economic segment, aggressive approach such as authorized generics by innovators in the US and health care reforms in European markets are some of the factors that could impede profitability for pharma companies.

Future level of global spending on medicines has implications for healthcare systems and policy makers across developed and emerging economies. Unprecedented dynamics are at play - including historically high levels of patent expiry, rapid expansion of demand for medicines in the world's growing economies, fewer new medicines reaching patients, and more moderate uptake of those that do become available. These dynamics are driving rapid shifts in the mix of spending between branded products and generics; and between spending in the major developed countries and those 17 high growth emerging countries referred to as 'pharma emerging'.

Pharmaceutical industry is presently facing many challenges and uncertainties. The industry continues to grow modestly, while adapting to unparalleled changes. This is putting pressure on the companies to focus on ways to increase the productivity and streamline the significant overheads.

In order to stay competitive vis-a-vis its peers in Europe and US, the company lays great stress on leveraging its inherent strengths of playing a complementary and non-conflict role building strong customer relationships supported by developing cost competitive and faster delivery structure.

Company Perspective

SMSPL has strong presence across the pharmaceutical chain, manufacturing and marketing active pharma ingredients (APIs/Bulk Drugs). The market segment for the products of SMSPL demonstrate growth tends every year with raising volume and value.

SMSPL has robust product portfolio spread over major product areas encompassing

Gastroenterological, Anti Retroviral, Anti-Migraine Anti Fungal, Anti Cancer Anti Hypertensive, and other products. Two manufacturing facilities, (in Hyderabad and Vijayanagarm Districts) are qualified by USFDA. Hyderabad facility also has a successful EUGMP (Germany) inspection. SMSPL is the largest manufacturer of Anti Ulcer products in World. Having forged tie ups with MNCs in Anti Retroviral, Anti Migraine segments, significant revenue potential is envisaged apart from consolidation of existing product revenues where SMSPL is market leader.

Segment-wise or product-wise performance.

The Company's business activity is a single primary business segment of "Bulk Drugs". In view of higher capital investment, bulk drug manufacturers typically generate lower return on capital employed as compared to formulation companies owing to thin margins and high competition. Bulk drug business being completely driven by scale of operations, dominated mostly by Indian companies, which results in high product concentration and pricing related vulnerabilities.

Risks and Concerns.

SMSPL's business naturally involves risks. Risk management is integral part of the company's plans, business strategies, monitoring systems and results. It takes in all organizational processes geared to early risk detection, identification and timely implementation of appropriate counter-measures.

SMSPL is in a competitive market and the challenges are both Indian manufacturers who have similar production facilities, as well as those in China. Human resources with similar skills, talents and experiences in the Industry are mobile between competing companies. Yet, it must be appreciated that Indian manufacturers in general and SMSPL in particular have made an impact on the global stage and have worked hard to get shelf space.

Price sensitivities get tested in crowded market where price tends to sag while volume business gets done. Competing Pharmaceutical companies have several similar bio-equivalent products in the same markets manufactured at facilities that have been approved by regulatory authorities. All of them stay focused

on the same markets with the result that price elasticity is tested and margins get eroded.

This threat however, does not affect SMSPL because of its control over raw-material sourcing. The company is a dominant player in the active ingredients business and has been able to control its quality, control its costs and has the ability to deliver at short notice.

SMS Pharma lays emphasis on risk management and has an enterprise wise approach to risk management, which lays emphasis on identifying and managing key operational and strategic risks. Through this approach, the company strives to identify opportunities that enhance organizational values while managing or mitigating risks that can adversely impact its future performance.

Your company constantly reviews its policies and procedures to adhere to ensure conformity to the various regulatory approvals for its manufacturing facilities.. The company's risk management and control procedures involve prioritization and continuing assessment of these risks and devise appropriate controls, evaluating and reviewing the control mechanism and redesigning it from time to time in the light of its effectiveness.

The company's current and fixed assets are adequately insured against various risks

Internal Control systems and their adequacy.

SMSPL has a well-defined internal control system which is adequately monitored. Checks and balances and control systems have been established to ensure that the Assets are safe guarded, utilized with proper authorization and in recorded in the books of account.

There is a proper definition of rules and responsibilities across the organization to ensure information flow and monitoring. These are supplemented by internal audit carried out by a firm of Chartered Accountants. The company has an Audit committee consisting of Three Directors, all of whom are independent Directors. This Audit Committee reviews the internal audit reports, statutory audit reports, the quarterly and annual financial statements and discusses all

significant audit observations and follow up actions arising from them.

Performance and operations review

During the year under review SMS achieved a Gross Revenue Rs.226.30 Crores as against Rs.249.12 crores during the previous year which consists of export turnover Rs.125.54 crores and Rs.128.64 crores respectively. The export turnover consists of 55.48% out of total turnover as against 52.64% during the previous year. The earnings before interest, depreciation and tax (EBIDT) amounted to Rs. 38.18 crores as against Rs.41 Crores during the last year.

The company has earned other income of Rs.7.60 crores during the year 2011-12 as against Rs.3.86 crores in the previous year 2010-11 which consists of loss on account of exchange fluctuation of Rs. 0.13 crores for the year under review as against gain of Rs.1.67 crores during the previous year.

Your company has incurred Rs.1.56 crores towards R & D expenditure for the year 2011-12 as against Rs.2.15 crores in the previous year. The said R & D expenditure works out to 0.69 % and 0.96% of turnover respectively.

Your company continuous to work towards optimizing the capacities of its manufacturing facilities and also adding additional capacities aimed at the business opportunities available to its in its domain capability in line with its strategy to work with innovators laying complimentary role and a non-compete model with its generic customers.

Human Resources

As your company engaged in a knowledge-driven business its performance is enhanced through selective recruitment, skill enhancement and people retention. The Company recruits professions of high academic achievements, experience and behavioural competencies across the operations, research and marketing functions.

The company's induction, training for new recruits, comprises familiarization visits, orientation on various functions and tailor made to each specific unit. Managers are sent for external orientation to

conferences, seminars, work-shops and training programmes where they are updated with contemporary industry and managerial practices.

At the year end the company had 611 employees directly employed apart from indirect employees of 510.

IR situation by and large continues to be peaceful during the year under review, there were not incidents of work stoppage or loss of production due to IR related issues.

Safety, Health and Environment.

Your Company had adopted comprehensive safety, health and environment (SHE systems.) Occupational, health and safety management system (OHSAS) complies with the requirements as stipulated in the standard: OHSAS 18001 : 2007, for all the units of your company.

Out look

SMSPL has set ambitious goals for the years through to 2015 in expectation of a moderate upward trend in the global economy. The company has world class manufacturing facilities and an enviable basket of approved markets and strong relationship built with some of the best names in the pharma industry. Your company has set in motion a set of strategic initiatives to improve the revenues and profitability of the company.

The focus will be on expanding the markets and the profitability of the portfolio will be analyzed on continual basis. By implementing these strategies, your company aims to increase its revenues, EBITDA and return on investment higher than the industry average. The company is targeting to improve its cash flow position which would lower the leverage as well as reduce interest out go, all of which are expected to translate into growing earning per share.

CORPORATE GOVERNANCE

Introduction

A report for the financial year ended 31st March, 2012 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 shareholders 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
Shri P. Ramesh Babu	ED (Chairman)	–	–	–	–
Shri TVVSN Murthy	ED (Vice-Chairman)	–	–	–	–
Shri A.P. Rao	ID	1	–	3	–
Shri K.S. Rao	ID	1	–	–	3
Shri B.M. Choudary	ID	–	–	3	–
Dr. Mihir K. Chaudhuri	ID	–	–	–	–
Shri K. Umamaheswaram	ID	–	–	–	–
Dr. Ayman Sahli *	ID	–	–	–	–
Shri Utpal Gokhale **	ID	–	–	–	–

Note: ED - Executive Director; ID - Independent Director

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

**Independent Director appointed w.e.f. 18.04.2012 as Nominee Director of Exim Bank in the place of Shri K. Umamaheswaram.

- (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 the 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:

12th May, 2011 5th August, 2011 2nd November, 2011, 18th January, 2012 and 14th February, 2012.

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, 2011 were as under :-

Name of the Director	Board Meetings		AGM
	Held during the year	Attended	
Shri P. Ramesh Babu	5	5	Yes
Shri TVVSN Murthy	5	5	Yes
Shri A.P. Rao	5	4	Yes
Shri K.S. Rao	5	5	Yes
Dr. B.M. Choudary	5	3	No
Dr. Mihir K. Chaudhuri	5	-	No
Shri K. Umamaheswaram	5	4	No
Dr. Ayman Sahli	5	-	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 2011-12, four Audit Committee Meetings were held on the following dates:

11th May, 2011 5th August, 2011 2nd November, 2011 and 14th February, 2012.

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
Shri K.S. Rao	Chairman	Independent Director	Chartered Accountant	4	4
Shri A.P. Rao	Member	Independent Director	Cost Accountant	4	3
Dr. B.M. Choudary	Member	Independent Director	Business	4	3

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 meetings attended
Sri K. S. Rao	Chairman	Independent Director	1
Sri A.P. Rao	Member	Independent Director	1
Sri B.M. Choudary	Member	Independent Director	1

7. Remuneration of Directors

Details of remuneration paid/payable to the directors for the year ended on 31st March, 2012 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	–	37.75	–	37.75
Sri TVVSN Murthy	None	Wholetime Director	–	36.29	–	36.29

- (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 two times during the year on 9th September, 2011 and 23rd September, 2011. At present the followings are the members of this Committee:

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

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

Investors' Grievances

The following table shows the No. of complaints received from shareholders during the year 2011-12.

No. of Complaints received	No. of Complaints resolved	No. of Complaints pending
5	5	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.
21th AGM	30th September, 2009.	11.00 A.M.	Jubilee Hills Club, Jubilee Hills, Hyderabad-500 033.	1
22nd AGM	29th September, 2010	03.00 P.M.		-
23rd AGM	30th September, 2011	11.00 A.M.		-

The special resolution was passed unanimously on show of hands.

10. Note on Directors re-appointment.

Dr. B.M. Choudary and Mr. 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:

Dr. B.M. Choudary

Dr. B. M. Choudary is a Postgraduate in Science from Vikram University. He did his Doctorate in inorganic chemistry from Gujarat University. He worked for Indian Institute of Chemical Technology for a period of 30 years. Currently, he has his own research set up at Hyderabad. Dr. Choudary was honoured with the "Andhra Pradesh Scientist Award-2004", Shantiswarup Bhatnagar Award by Indian National Science Academy in recognition of his contributions in the field of chemistry.

He has various scientific articles over 150 and 100 patents to his credit. He is one of the technical members in international technical committee formed for Nano Technology in 2005. He is a fellow of Indian Academy of Sciences. At present he is the Managing Director of Ogene Systems (I) Private Limited, Hyderabad.

Sri A.P. Rao

Sri A.P. Rao ACMA, MBA 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 the company 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. 27(k) 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 : Saturday 29th September, 2012 at 11.00 A.M.
Venue : Jubilee Hills Club, Jubilee Hills, Hyderabad-500033

b) Financial Calendar

- Financial reporting for : 5th August, 2011
Quarter ending 30th June, 2011
Half year ending : 2nd November, 2011
30th September, 2011
Quarter ending : 18th January, 2012
31st December, 2011
Year ending : 10th August, 2012
31st March, 2012
Annual General Meeting for the : 29th September, 2012
Year ending 31st March, 2012

- c) **Date of book closure** : 24th September, 2012
to 29th September, 2012

- d) **Regd. and Corporate Office** : Plot No.19-III, Opp. Bharatiya Vidya Bhavan Public School,
Road No.71, Jubilee Hills, Hyderabad-500 096.

- e) **Listing of Equity Shares** : The Bombay Stock Exchange Limited (Code: 532815) and
The National Stock Exchange of India Limited
(Symbol: SMSPHARMA)

- f) **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 2011-12.

	Bombay Stock Exchange			National Stock Exchange		
	High (Rs.)	Low (Rs.)	Volume	High (Rs.)	Low (Rs.)	Volume
April, 2011	205.25	181.00	75,733	205.30	171.15	1,27,521
May, 2011	202.80	190.00	8,678	201.00	183.20	26,406
June, 2011	210.90	191.05	77,510	210.00	181.60	1,27,961
July, 2011	207.00	190.00	52,110	207.75	188.50	79,226
August, 2011	195.00	150.00	9,207	194.15	151.00	10,998
September, 2011	180.00	157.10	7,877	175.00	152.25	11,597
October, 2011	200.00	164.05	3,652	189.00	163.05	8,360
November, 2011	193.65	154.00	4,278	187.90	153.00	12,097
December, 2011	188.00	140.00	5,669	169.00	137.20	11,234
January, 2012	178.95	145.00	1,417	155.00	144.00	5,422
February, 2012	185.00	146.00	14,767	169.00	148.95	19,657
March, 2012.	162.00	130.20	35,999	160.00	131.50	55,375

g) Share Transfer Agents

M/s. Aarthi Consultants Private Limited
 1-2-285, Domalguda
 Hyderabad-500 029.
 Tel: 040-27638111/4445
 Fax:040-27632184
 Email: info@arthiconsultants.com

h) 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, 2012 there were no Equity Shares pending for transfer. Also, there were no demat requests pending as on 31st March, 2012.

i) Distribution of Equity Shareholding.

The table below shows the distribution of shareholding of various groups as on 31st March, 2012.

Slab of shareholdings	Shareholders	%	No. of Shares	%
1 to 5000	11394	96	655239	6.54
5001 to 10000	194	2	167621	1.67
10001 to 20000	113	1	194482	1.94
20001 to 30000	23	0	59520	0.59
30001 to 40000	21	0	77848	0.78
40001 to 50000	12	0	55207	0.55
50001 to 100000	16	0	120809	1.21
100001 and above	69	1	8684477	86.71
TOTAL	11842	100.00	1,00,15,203	100.00

j) According to categories of Equity Shareholders as on 31st March, 2012.

SI No.	Category of Shareholders	No. of Shareholders	No. of Shares
(A)	Shareholding of Promoter and Promoter Group	20	54,10,443
(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	145	7,04,622
	(b) Individuals		
	(i) holding nominal share capital up to Rs.1 lakh	11,573	12,28,750
	(ii) holding nominal share capital in excess of Rs.1 lakh.	37	16,20,146
	(c) Any Other (Specify)		
	(i) Non-Resident Individuals	48	37,995
	(ii) Overseas corporate bodies	1	9,00,000
	(iii) Clearing Members	12	761
	(iv) Trusts	3	372
	SUB-TOTAL (B) (2)	11,819	44,92,646
	Total Public Shareholding	11,822	46,04,760
	TOTAL (A) + (B)	11,842	1,00,15,203

k) Dematerialisation of Shares

As on 31st March, 2012, 89,14,683 Equity Shares (89%) of the total number of shares were in dematerialised form.

l) Details of shares held in demat suspense account with HSE Securities Ltd. (IN302734-10034023) for the period from 01/04/2011 to 31/03/2012.

(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: Nil No. of shares: Nil
(iii)	Number of shareholders to whom shares were transferred from suspense account during the year.	No. of shareholders: Nil No. of shares: Nil
(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

m) 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 to 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.

n) 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.

Our 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

Mr. P. Prabhakara Rao

Company Secretary and Compliance Officer
SMS Pharmaceuticals Limited
Plot No. I9-III, Road No.71
Opp. Bharatiya Vidya Public School
Jubilee Hills, Hyderabad-500 096.
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, 2012, 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, 2012, 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.

for **CSB ASSOCIATES**
Company Secretaries

Place : Hyderabad
Date : 10.08.2012

C. Sudhir Babu
Proprietor

AUDITORS' REPORT

To
The Members
SMS PHARMACEUTICALS LIMITED
HYDERABAD.

We have audited the attached Balance Sheet of SMS PHARMACEUTICALS LIMITED, HYDERABAD, as at 31st March, 2012 and the Statement of Profit and Loss 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 1 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, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account.
 - iv) In our opinion, the Balance Sheet, Statement of Profit and Loss 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, 2012 and taken on record by the board of directors, we report that none of the directors is disqualified as on 31st March, 2012 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, 2012.
- b) In so far as it relates to Statement of Profit and Loss, 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
Firm Reg. No.002976S

for **P. Murali & Co.,**
Chartered Accountants
Firm Reg.No.007275S

RAVI RAMBABU
Partner
M.No.18541

P. MURALI MOHAN RAO
Partner
M.No.23412

Place : Hyderabad
Date : 10.08.2012

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 a 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 and services. 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 the 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, 2012 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 in Lakhs
1	Income Tax Act, 1961	Income Tax	1988-89	0.01
2	Income Tax Act, 1961	Income Tax	1991-92	0.09
3	Income Tax Act, 1961	Income Tax	1992-93	15.08
4	Income Tax Act, 1961	Income Tax	1993-94	2.47
5	Income Tax Act, 1961	Income Tax	1994-95	15.27
TOTAL				32.92

(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.

S. No.	Name of the Statute	Nature of the dues	Forum where dispute is pending	Year	Amount Rs. in Lakhs	Amount Deposit Rs. in Lakhs	Amount not Deposit Rs. in Lakhs
1	Income Tax Act, 1961	Interest	AO	1992-2012	111.00	-	111.00
2	Central Excise Act, 1944	Interest	AP HIGH COURT	1992-2010	61.00	-	61.00
3	Income Tax Act, 1961	Income Tax	ITAT	2000-01	0.69	-	0.69
4	Income Tax Act, 1961	Income Tax	ITAT	2001-02	54.17	54.43	(0.26)
5	Income Tax Act, 1961	Income Tax	AO	2001-02	1.21	-	1.21
6	Income Tax Act, 1961	Income Tax	ITAT	2002-03	6.98	7.00	(0.02)
7	Income Tax Act, 1961	Income Tax	AO	2003-04	36.50	-	36.50
8	Income Tax Act, 1961	Income Tax	AO	2005-06	9.54	-	9.54
9	Income Tax Act, 1961	Income Tax	CIT(A)	2007-08	7.75	7.75	-
TOTAL					288.84	69.18	219.66

10. The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in 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 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 company has not raised any money by public issue during the year.
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
Firm Reg. No.002976S

RAVI RAMBABU
Partner
M.No.18541

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

P. MURALI MOHAN RAO
Partner
M.No.23412

Place: Hyderabad
Date : 10-08-2012

Balance Sheet as at 31st March, 2012

(Amount : Rs. in Lakhs)

Particulars	Refer Note No.	As at 31.03.2012	As at 31.03.2011
I EQUITY AND LIABILITIES			
I Shareholders' Funds			
(a) Share Capital	1	1,001.52	1,001.52
(b) Reserves & Surplus	2	21,106.75	20,993.00
		<u>22,108.27</u>	<u>21,994.52</u>
2 Non-Current Liabilities			
(a) Long Term Borrowings	3	8,184.24	9,005.69
(b) Deferred Tax Liability (Net)	4	1,695.01	1,695.01
(c) Long Term Provisions	5	133.59	88.87
		<u>10,012.84</u>	<u>10,789.57</u>
3 Current Liabilities			
(a) Short Term Borrowings	6	9,771.41	7,615.90
(b) Trade Payables	7	3,548.74	3,253.62
(c) Other Current Liabilities	8	3,694.57	3,209.74
(d) Short Term Provisions	9	41.37	247.47
		<u>17,056.09</u>	<u>14,326.73</u>
		<u>49,177.20</u>	<u>47,110.82</u>
II ASSETS			
I Non Current Assets			
(a) Fixed Assets	10		
(i) Tangible Assets		22,416.21	20,545.14
(ii) Intangible Assets		69.16	56.23
(iii) Capital Work In Progress		4,894.92	5,856.18
(b) Non Current Investments	11	51.65	51.65
(c) Other Non Current Assets	12	573.98	999.71
(d) Long Term Loans & Advances	13	303.71	278.41
		<u>28,309.63</u>	<u>27,787.32</u>
2 Current Assets			
(a) Inventories	14	13,808.13	11,442.12
(b) Trade Receivables	15	3,841.92	4,171.76
(c) Cash and Cash Equivalents	16	905.29	610.73
(d) Short Term Loans & Advances	17	893.18	1,223.98
(e) Other Current Assets	18	1,419.05	1,874.91
		<u>20,867.57</u>	<u>19,323.50</u>
		<u>49,177.20</u>	<u>47,110.82</u>
Significant Accounting Policies and Notes on Financial Statements	27		

The notes referred to above, form an integral part of these Financial Statements

As per our report of even date.

for and on behalf of the Board

for **RAMBABU & CO.,**
Chartered Accountants
FRN No. 002976S

for **P. MURALI & CO.**
Chartered Accountants
FRN No. 007257S

P. RAMESH BABU
Chairman and
Managing Director

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

RAVI RAMBABU
Partner
M.No. 18541

P. MURALI MOHAN RAO
Partner
M.No. 23412

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 10-08-2012

Statement of Profit and Loss for the Year ended 31st March, 2012

(Amount : Rs. in Lakhs)

Particulars	Refer Note No.	Current Year 2011-12	Previous Year 2010-11
1 Revenue from Operations	19	21,409.74	22,594.12
2 Other Income	20	42.95	219.08
3 TOTAL REVENUE (1+2)		21,452.69	22,813.20
4 Expenses :			
Cost of Material Consumed	21	13,071.35	16,354.13
Purchase of Stock in Trade		35.70	6.20
Change in Inventory of finished goods and stock in process	22	(1,129.11)	(3,098.51)
Employee Benefit Expenses	23	1,419.21	1,315.40
Finance Cost	24	2,412.34	1,787.17
Depreciation and amortisation expenses	10	1,263.97	1,264.29
Other Expenses	25	4,237.48	4,136.15
TOTAL EXPENSES		21,310.94	21,764.83
5 Profit before Tax (3-4)		141.75	1,048.37
6 Tax Expense			
Current Tax		28.00	210.00
Earlier Year Tax		-	(0.90)
Sub Total		28.00	209.10
7 Profit after Tax (5-6)		113.75	839.27
8 Earnings Per Share (amount in Rs.)			
(1) Basic and Diluted	26	1.14	8.38
Significant Accounting Policies and Notes on Financial Statements	27		

The notes referred to above, form an integral part of these Financial Satatements

As per our report of even date.

for and on behalf of the Board

for **RAMBABU & CO.,**
Chartered Accountants
FRN No. 002976S

for **P. MURALI & CO.**
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FRN No. 007257S

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Chairman and
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Partner
M.No. 23412

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 10-08-2012

Cash Flow Statement for the Year ended 31st March, 2012

(Amount : Rs. in Lakhs)

Sl. No.	Particulars	Current Year 2011-12	Previous Year 2010-11
A	Cash Flows from Operating Activities :		
	Net Profit Before Tax	141.75	1,048.37
	Add: Loss on Sale of Assets	-	0.88
	Add: Deferred Revenue Exp. written off	582.12	738.56
	Add : Depreciation	1,263.97	1,264.29
	Add : Interest on Term Loans	1,033.15	940.96
	Operating profit before working capital changes	3,020.99	3,993.06
	Adjustment for:		
	Trade Receivables	329.84	3,865.08
	Inventories	(2,366.01)	(659.85)
	Loans and Advances & Other Assets	770.34	(49.96)
	Trade Payables and Other Payables	350.55	(632.51)
		(915.28)	2,522.76
	Cash Generated from Operations	2,105.71	1,470.30
	Income Tax Paid	(124.13)	-
	Net Cash from Operating Activities " A "	1,981.58	1,470.30
B	Cash Flows from Investing activities :		
	Purchase of Fixed Assets	2,297.94	2,346.51
	Deferred R&D Expenditure	156.38	209.68
	Net Cash Used in Investing Activities " B "	2,454.32	2,556.19

Cash Flow Statement (Contd.)

(Amount : Rs. in Lakhs)

Sl. No.	Particulars	Current Year 2011-12	Previous Year 2010-11
C	Cash Flows from Financing Activities :		
	Proceeds from Long Term Borrowings	2,020.65	2,861.65
	Proceeds from Short Term Borrowings	2,155.51	1,318.53
	Repayment of Term Loans	(2,163.80)	(1,800.00)
	Repayment of Vehicle Loans	(1.68)	(5.09)
	Repayment of Unsecured Loans	(23.01)	(5.84)
	Interest	(1,036.79)	(976.32)
	Dividend Paid	(174.60)	(234.04)
	Net Cash Used in Financing Activities " C "	776.28	1,158.89
	Net (Decrease) / Increase in Cash and Cash Equivalents (A-B+C)	303.54	73.00
	Cash and Cash Equivalents at the beginning of the Year	597.89	524.89
	Cash and Cash Equivalents at the end of the Year	901.43	597.89

As per our report of even date.

for **RAMBABU & CO.,**
Chartered Accountants
FRN No. 002976S

for **P. MURALI & CO.**
Chartered Accountants
FRN No. 007257S

P. RAMESH BABU
Chairman and
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M.No. 23412

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 10-08-2012

Notes Forming Part of the Financial Statements

Note No. I SHARE CAPITAL

(Amount : Rs. in Lakhs)

Particulars	As at 31.03.2012		As at 31.03.2011	
	Number	Amount	Number	Amount
Authorised Share Capital				
Equity Shares of Rs.10/- each	12,000,000	1,200.00	12,000,000	1,200.00
	12,000,000	1,200.00	12,000,000	1,200.00
Issued, Subscribed & Paid Up				
Equity Shares of Rs.10/- each	10,015,203	1,001.52	10,015,203	1,001.52
TOTAL	10,015,203	1,001.52	10,015,203	1,001.52

Details of share holders holding more than 5% shares in the Company :

Name of the share holder	As at 31.03.2012		As at 31.03.2011	
	No of Shares	% held	No of Shares	% held
Hima Bindu Potluri	1,237,336	12.35	1,237,336	12.35
Ramesh Babu Potluri	1,135,696	11.34	1,135,696	11.34
Gulf Pharmaceutical Industries	900,000	8.99	900,000	8.99
TVVSN Murthy	822,700	8.21	822,700	8.21
Potluri Hire Purchase and Finance Pvt. Ltd.	586,000	5.85	586,000	5.85

Reconciliation of the No. of Shares Outstanding is set out below :

Particulars	No of Shares	
	As at 31.03.2012	As at 31.03.2011
Equity Shares at the beginning of the year	10,015,203	10,015,203
Shares issued during the year	-	-
Shares redeemed / bought back during the year	-	-
Equity Shares at the end of the year	10,015,203	10,015,203

Notes Forming Part of the Financial Statements

2 RESERVES AND SURPLUS (Amount : Rs. in Lakhs)

Particulars	As at 31.03.2012	As at 31.03.2011
a. Securities Premium Account		
At the Commencement of the Year	10,929.39	10,929.39
At the end of the year	10,929.39	10,929.39
b. General Reserve		
At the Commencement of the Year	7,523.63	7,433.81
(-) Delitions during the year	-	(10.18)
(+) Transfer from Profit & Loss statement	-	100.00
At the end of the year	7,523.63	7,523.63
c. Surplus in Profit and Loss		
At the Commencement of the Year	2,539.98	1,975.31
Add : For the Current Year	113.75	839.27
	2,653.73	2,814.58
Proposed dividend on Equity Shares	-	(150.23)
Corporate Dividend Tax	-	(24.37)
Transfer to General Reserve	-	(100.00)
At the end of the year	2,653.73	2,539.98
TOTAL	21,106.75	20,993.00
3. LONG TERM BORROWINGS		
Secured		
State Bank of India		
Term loan - I	1,800.00	-
Term loan - II	1,011.06	-
Export Import Bank of India		
Term Loan - II	450.00	1,050.00
Term Loan - III	1,050.00	1,650.00
Axis Bank Ltd	-	2,600.00
IDBI Bank	2,700.00	3,000.00
ICICI Bank	500.00	-
	7,511.06	8,300.00
Unsecured		
Sales Tax Deferment Loan	553.18	585.69
D S I R Assistance	120.00	120.00
	673.18	705.69
TOTAL	8,184.24	9,005.69

Notes Forming Part of the Financial Statements

- a) Term Loans availed from State Bank of India, Export-Import Bank of India, IDBI Bank Limited, Axis Bank Limited and ICICI Bank Limited are secured by first charge on pari-passu basis of all movable and immovable fixed assets both present and future and second charge on pari-passu basis of all current assets both present and future and guaranteed by two directors of the company in their personal capacities.
- b) Term Loans along with working capital facilities sanctioned by State Bank of India are having the following additional security apart from the details of security mentioned supra.
- Equitable mortgage of commercial flat along with undivided share of land of 25 sq. yds. Belonging to M/s.Hima Farms Pvt Ltd. (related party) in Plot no.416 Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad.
 - Equitable mortgage of Agricultural land admeasuring 3.65 acres belonging to Mr.TVVSN Murthy, a director of the company, situated in Yalamanchili Villege of West Godavari District.
 - Corporate Guarantee by M/s.Hima Farms Pvt Ltd., to the extent of collateral security extened by them.
 - Personal Guarantee of relative of a Director.

Terms of Repayment

Particulars	Date of Sanction	Rate of Interest %	No. of Instalments (Quarterly)	Repayment comenced from
State Bank of India				
Term Loan - I	13-01-2012	13.10	15	February, 2012
Term Loan - II	13-01-2012	13.20	20	December, 2013
Export Import Bank of India				
Term laon - I	28-09-2006	10.00	14	May, 2008
Term laon - II	10-08-2006	12.40	20	March, 2009
Term laon - III	08-02-2008	12.40	20	March, 2010
Axis Bank Ltd				
Term laon	19-02-2009	13.00	20	September, 2011
IDBI Bank				
Term laon	15-07-2010	14.25	20	November, 2012
ICICI Bank				
Term loan	20-05-2011	12.50	10	February, 2012

Current maturities of the above loans have been clasified under other current liabilities

Un-Secured Loans

Sales Tax (deferement) Loan liability is due for repayment as under:

Year	Amount Rs. in Lakhs	Year of Repayment
1999-2000	62.84	2013-14
2000-2001	71.80	2014-15
2001-2002	60.32	2015-16
2002-2003	48.28	2016-17
2003-2004	65.48	2017-18
2004-2005	74.18	2018-19
2005-2006	65.64	2019-20
2006-2007	69.63	2020-21
2007-2008	35.01	2021-22
TOTAL	553.18	

Notes Forming Part of the Financial Statements

Financial assistance received from Department of Scientific and Industrial Research (DSIR) of Rs.120.00 lakhs (previous year Rs. 120.00 lakhs) sanctioned under PATSER Scheme of TPDU program for development of catalysts or Fine Chemicals apart from Active Pharmaceuticals Ingredients (API's), and their intermediates viz. Metal Acetyl Acetonates, Diltiazem Hydrochloride and Taxol C-13 Side Chain.

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 operations of the product(s) developed under PATSER scheme. But the company has not yet commenced commercial operations of the said products.

- 4 During the year Deferred Tax Asset has not been provided considering the unabsorbed depreciation, unabsorbed R & D expenditure and MAT credit available for set off of future tax liability.

5 LONG TERM PROVISIONS (Amount : Rs. in Lakhs)

Particulars	As at 31.03.2012	As at 31.03.2011
Provision for Gratuity to the extent of unfunded	91.46	44.68
Provision for leave encashment - unfunded	42.13	44.19
TOTAL	133.59	88.87

6 SHORT TERM BORROWINGS

Secured

State Bank of India

Cash Credit	2,085.86	1,662.82
Stand by Loan	1,916.89	1,412.56
Bills Discounting - Export	858.10	1,081.45
Export Packing Credit	595.36	1,097.30
FCNR (B) Demand Loan	2,015.55	-

EXIM Bank Ltd

Packing Credit-INR	-	350.00
Packing Credit Foreign Currency	2,299.65	2,011.77
TOTAL	9,771.41	7,615.90

- a) Working capital facilities sanctioned by State Bank of India and Export-Import Bank of India are secured by first charge on pari-passu basis of all current assets both present and future. These facilities are further secured by way of second charge on pari-passu basis of all movable and immovable fixed assets of the company both present and future and also guaranteed by two directors of the company in their personal capacities.
- b) Working Capital Facilities along with term loans extended by State Bank of India are having the following additional security apart from the details of security mentioned supra.
- Equitable mortgage of commercial flat along with undivided share of land of 25 sq. yds. Belonging to M/s.Hima Farms Pvt Ltd. in Plot no.416 Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad.
 - Equitable mortgage of Agricultural land admeasuring 3.65 acres belonging to Mr.TVVS Murthy, a director of the company, situated in Yalamanchili Vilege of West Godavari District.
 - Corporate Guarantee by M/s.Hima Farms Pvt Ltd., (related party) to the extent of collateral security extened by them.
 - Personal Guarantee of relative of a Director.

Notes Forming Part of the Financial Statements

7 TRADE PAYABLES (Amount : Rs. in Lakhs)

Particulars	As at 31.03.2012	As at 31.03.2011
Creditors for purchases	3,136.50	2,858.52
Creditors for expenses	412.24	395.10
TOTAL	3,548.74	3,253.62

8 OTHER CURRENT LIABILITIES

Current Maturities of Long Term Debt

Secured Loans:

Axis Bank Limited

Term Loan - I	-	400.00
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State Bank of India

Term Loan - I	800.00	400.00
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EXIM Bank Ltd

Term Loan - I	-	63.71
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Term Loan - II	600.00	600.00
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Term Loan - III	600.00	600.00
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IDBI Bank

300.00	-
--------	---

ICICI Bank Ltd

400.00	-
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Un-Secured Loans:

Sales Tax Deferment Loan	32.51	23.01
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Sub Total (Current Maturities)	2,732.51	2,086.72
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Hire Purchase Loan - Vehicles	-	1.68
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Other Payables-Statutory Dues	133.19	168.62
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Creditors for capital goods	788.39	899.61
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Interest Accrued but not due on Term Loans	36.62	40.26
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Unclaimed Dividend	3.86	12.85
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TOTAL	3,694.57	3,209.74
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9 SHORT TERM PROVISIONS

(a) Provision for employee benefits

Gratuity	17.30	40.85
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Leave Encashment	6.89	3.97
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Bonus Payable	17.18	28.05
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(b) Others

Provision for Equity Dividend	-	150.23
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Provision for Dividend Distribution Tax	-	24.37
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TOTAL	41.37	247.47
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(Amount : Rs. in lakhs)

Note - 10 FIXED ASSETS

Description	Gross Block			Depreciation				Net Block		
	As at 01.04.2011	Additions during the year	Deletions during the year	As at 31.03.2012	Up to 31.03.2011	During the period	On Deletions	Up to 31.03.2012	As at 31.03.2012	As at 31.03.2011
a Tangible Assets										
Land	749.86	-	-	749.86	-	-	-	-	749.86	749.86
Buildings	6,960.97	329.05	-	7,290.02	782.45	202.22	-	984.67	6,305.35	6,178.52
Plant & Machinery	18,554.10	2,758.88	-	21,312.98	5,268.95	990.33	-	6,259.28	15,053.69	13,285.14
Data Processing Equipment	134.59	7.16	-	141.75	92.43	10.33	-	102.76	38.99	42.17
Furnitures & Fixtures	146.60	21.38	-	167.98	64.06	8.62	-	72.68	95.31	82.54
Office Equipment	107.12	-	-	107.12	44.62	5.65	-	50.27	56.84	62.50
Vehicles	254.06	-	-	254.06	144.84	24.14	-	168.98	85.09	109.22
Improvements on Leased Premises	65.52	-	-	65.52	65.52	-	-	65.52	-	-
Land Scaping	41.09	-	-	41.09	5.90	4.11	-	10.01	31.08	35.19
Sub Total	27,013.91	3,116.47	-	30,130.38	6,468.77	1,245.40	-	7,714.17	22,416.21	20,545.14
(Previous Year)	(26,862.46)	(162.98)	(11.53)	(27,013.91)	(5,213.05)	(1,255.99)	(0.27)	(6,468.77)	(20,545.14)	(21,649.41)
b Intangible Assets										
Computer Software	61.58	31.50	-	93.08	9.60	17.35	-	26.95	66.13	51.99
Patents	4.85	-	-	4.85	0.60	1.22	-	1.82	3.03	4.24
Sub Total	66.43	31.50	-	97.93	10.20	18.57	-	28.77	69.16	56.23
(Previous Year)	(30.79)	(35.64)	-	(66.43)	(1.90)	(8.30)	-	(10.20)	(56.23)	(28.89)
Total	27,080.34	3,147.97	-	30,228.31	6,478.97	1,263.97	-	7,742.94	22,485.37	20,601.37
(Previous Year)	(26,893.25)	(198.62)	(11.53)	(27,080.34)	(5,214.95)	(1,264.29)	(0.27)	(6,478.97)	(20,601.37)	(21,678.30)
c Capital Work-in-Progress										
Capital Work-in-Progress	5,856.18	2,081.66	3,042.92	4,894.92	-	-	-	-	4,894.92	5,856.18
(Previous Year)	(3,697.91)	(2,160.73)	(2.47)	(5,856.17)	-	-	-	-	(5,856.18)	(3,697.91)
Total (a+b+c)	32,936.52	5,229.63	3,042.92	35,123.23	6,478.97	1,263.97	-	7,742.94	27,380.29	26,457.55
(Previous Year)	(30,591.16)	(2,359.35)	(14.00)	(32,936.52)	(5,214.95)	(1,264.29)	(0.27)	(6,478.97)	(26,457.55)	(25,376.21)

Notes Forming Part of the Financial Statements

11 NON CURRENT INVESTMENTS

(Amount : Rs. in Lakhs)

Particulars	As at 31.03.2012	As at 31.03.2011
At Cost - Non-Trade - Unquoted		
17,538 Equity Shares of Rs.10/- each in Pattan Cheru Enviro Tech Ltd.	1.75	1.75
2,253 Equity Shares of Rs.100/- in Jeedimetla Effluent Treatment Limited	2.25	2.25
47,64,768 Redeemable Cumilative Preferecial Shares of Rs.10/- each in Divya Enterprises Limited (Redeemable in 9th and 10th year)	47.65	47.65
TOTAL	51.65	51.65
12 OTHER NON CURRENT ASSETS:		
Deferred Revenue / R & D and Other Expenditure (To the extent not written off / adj.)		
a) Deferred Revenue Expenditure		
At the Commencement of the Year	473.18	978.07
Add: During the year	-	-
Less: Written off during the year	347.55	504.89
At the end of the year	125.63	473.18
b) Deferred R & D Expenditure		
At the Commencement of the Year	516.83	529.26
Add: During the year *	156.39	209.68
Less: Written off during the year	227.45	222.11
At the end of the year	445.77	516.83
c) Business Development Expenditure		
At the Commencement of the Year	8.88	19.03
Add: During the year	-	-
Less: Written off during the year	6.73	10.15
At the end of the year	2.15	8.88
d) Patents Filing Fee		
At the Commencement of the Year	0.82	2.23
Add: During the year	-	-
Less: Written off during the year	0.39	1.41
At the end of the year	0.43	0.82
TOTAL	573.98	999.71

* This amount represents revenue expenditure consists of salaries to the employees, cost of materials consumed for R & D purpose and also Power, machinery maintenance and other expenses relating to R & D activity.

Notes Forming Part of the Financial Statements

13 LONG TERM LOANS & ADVANCES (Amount : Rs. in Lakhs)

Particulars	As at 31.03.2012	As at 31.03.2011
a. Deposits Recoverable (Unsecured considered good)	163.71	138.41
b. ICD with Direct Finance Limited	140.00	140.00
TOTAL	303.71	278.41

Deposits recoverable consists of Rs.109.10 Lakhs with Electricity Department, Rs.24.00 Lakhs Rent Deposit and Rs.30.60 Lakhs with others.

14 INVENTORIES (As Valued and Certified by the Management)

Raw Material (Valued at cost on weighted average basis)	4,275.75	3,027.85
Stock in Process (Valued at cost)	8,637.90	7,065.53
Finished Goods (Valued at lower of cost or net realisable value)	879.42	1,322.67
Coal & Fuel (Valued at cost on weighted average basis)	15.06	26.07
Total (Refer Note No.27 B (b))	13,808.13	11,442.12

15 TRADE RECEIVABLES

Receivable for a period exceeding 6 months (Unsecured and Considered Good)	472.88	466.72
Receivable for a period less than 6 months (Unsecured and Considered Good)	3,369.04	3,705.04
Total (Refer Note No.27 B (b))	3,841.92	4,171.76

16 CASH AND CASH EQUIVALENTS

Cash on hand	26.46	11.90
Balances with Scheduled Banks		
- in Current Accounts	201.43	225.71
- Balance Against Dividend Payments	3.86	12.84
- Balance against Margin Money/Guarantees	303.54	305.28
Fixed Deposits	370.00	55.00
TOTAL	905.29	610.73

Note: Out of the above amount of cash and cash equivalents was Rs.901.43 Lakhs (previous year Rs.597.89 Lakhs).

Out of the margin money deposits, an amount of Rs.298.00 Lakhs (Previous Year Rs.298.00 Lakhs) has maturity period of more than 12 months. This amount consists of Rs.298.35 Lakhs (Previous Year Rs.288.04 Lakhs) given against LC's and Rs.5.18 Lakhs (Previous Year Rs.17.23 Lakhs) given against Bank Guarantees.

Fixed Deposits having maturity period of less than 3 months of Rs.350.00 Lakhs (Previous Year Rs.Nil).

Notes Forming Part of the Financial Statements

17 SHORT TERM LOANS & ADVANCES (Amount : Rs. in Lakhs)

Particulars	As at 31.03.2012	As at 31.03.2011
Advances for Raw Material	821.74	1,093.43
Advances for Capital Goods	-	78.26
Advances to others	71.44	52.29
TOTAL	893.18	1,223.98

18 OTHER CURRENT ASSETS

Prepaid Taxes (Net of Provision)	127.64	(22.21)
Prepaid Expenses	27.97	31.61
Interest Receivable	110.32	83.52
Cenvat & Service Tax Credit Receivable	787.09	1,137.49
VAT Credit Receivable	240.95	402.65
Export Benefits Receivable	125.08	241.85
TOTAL	1,419.05	1,874.91

19 REVENUE FROM OPERATIONS (Amount : Rs. in Lakhs)

Particulars	Current Year 2011-12	Previous Year 2010-11
a. Sale of Products		
Gross Revenue From Sales		
Sale of Products	22,276.25	24,460.14
Export Incentives	354.32	451.46
	22,630.57	24,911.60
Less : Excise Duty	1,644.38	2,111.65
Sales Tax	293.89	372.52
Total Taxes	1,938.27	2,484.17
Net Revenue from Sales	20,692.30	22,427.43
b. Other Operating Income		
Sale of Services (Net of Service Tax)	541.02	166.69
Conversion Charges	176.42	-
	717.44	166.69
Net Revenue form Operations	21,409.74	22,594.12
20 OTHER INCOME		
Interest Income	51.95	32.41
Miscellaneous Income	4.45	19.84
Gain / (Loss) on Exchange Fluctuations	(13.45)	166.83
TOTAL	42.95	219.08

Notes Forming Part of the Financial Statements

21 MATERIALS CONSUMED (Amount : Rs. in Lakhs)

Particulars	Current Year 2011-12	Previous Year 2010-11
a) Raw Materials		
At the Commencement of the Year	3,005.73	2,260.80
Add : Purchases	14,153.72	16,921.84
	<u>17,159.45</u>	<u>19,182.64</u>
Less : At the end of the year	4,242.83	3,005.73
	<u>12,916.62</u>	<u>16,176.91</u>
b) Packing Materials		
At the Commencement of the Year	22.11	19.29
Add : Purchases	165.54	180.04
	<u>187.65</u>	<u>199.33</u>
Less : At the end of the year	32.92	22.11
	<u>154.73</u>	<u>177.22</u>
Total Consumption (a+b)	<u>13,071.35</u>	<u>16,354.13</u>

22 CHANGES IN INVENTORIES OF FINISHED GOODS AND STOCK IN PROCESS

(Increase) / Decrease in Stocks

At the Commencement of the Year:

Stock in Process of API	7,065.53	4,708.96
Finished Goods of API	1,322.67	580.73
Sub-Total (a)	<u>8,388.20</u>	<u>5,289.69</u>

At the end of the year:

Stock in Process of API	8,637.90	7,065.53
Finished Goods of API	879.42	1,322.67
Sub-Total (b)	<u>9,517.32</u>	<u>8,388.20</u>

(Increase) / Decrease in Stocks (a)-(b)

	<u>(1,129.11)</u>	<u>(3,098.51)</u>
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23 EMPLOYEE BENEFITS EXPENSE

Salaries, Wages and Bonus	1,191.28	1,113.66
Contribution to PF & Other Funds	97.80	71.96
Staff Welfare Expenses	130.13	129.78
TOTAL	<u>1,419.21</u>	<u>1,315.40</u>

24 FINANCE COST

Interest on Term Loans	1,033.15	940.96
Interest on Working Capital	826.73	626.32
Interest on Others	3.56	2.61
Bank Charges	244.00	191.61
Exchange Variance	304.90	25.67
TOTAL	<u>2,412.34</u>	<u>1,787.17</u>

Notes Forming Part of the Financial Statements

25 OTHER EXPENSES

(Amount : Rs. in Lakhs)

Particulars	Current Year 2011-12	Previous Year 2010-11
Power & Fuel	1,641.72	1,491.66
Consumable Stores	174.99	136.48
Testing Charges	16.04	8.85
Water Charges	61.71	44.19
Conversion Charges	-	37.15
Effluent Treatment Charges	185.87	68.92
Central Excise Duty	5.05	51.02
Repairs & Maintenance - Plant & Machinery	286.19	328.96
Repairs & Maintenance - Buildings	32.56	64.03
Factory Maintenance	60.62	68.20
Travelling Expenses - Directors	3.59	8.84
Travelling Expenses	35.62	34.17
Postage & Telephones	23.55	24.89
Printing & Stationary	43.24	43.68
Directors Remuneration	74.04	79.69
Rent, Rates & Taxes	88.28	100.05
Insurance	57.78	44.18
Professional Charges	80.21	27.20
General Expenses	125.35	36.19
Cost Audit Fee	0.50	0.50
Payment to Auditors	11.50	11.00
Repairs to Other Assets	11.85	11.82
Vehicle Maintenance	24.47	23.82
Carriage Outward	470.60	443.60
Sales Commission	136.80	175.78
Business Promotion Expenses	3.23	32.72
Deferred Revenue and R&D Expenditure written off	582.12	738.56
TOTAL	4,237.48	4,136.15
Payment to Auditors		
Staturory Audit Fee	3.00	3.00
for Taxation Matters	2.00	2.00
for Certification & Other Services	6.50	6.00
	11.50	11.00
26 EARNINGS PER SHARE		
Net profit for basic EPS	114.54	839.27
Weighted Average No. of Shares	10,015,203	10,015,203
Annualized Basic Earnings per Share (Amount in Rs.)	1.14	8.38

27. Notes Forming Part of the Financial Statements

I. Corporate Information

SMS Pharmaceuticals Limited is a multi-location, multi-product company manufacturing Bulk Drugs and APIs and their intermediates. SMS Pharmaceuticals Limited has manufacturing facilities at IDA Kazipally, Bachupally, IDA Jeedimetla, and Bolaram apart from two R&D centers at Sanatnagar and Gagillpur in and around Hyderabad city and also JNPC Parawada in Vishakapatnam Dist and Kandivalasa in Vijayanagaram Dist and having registred office at Road No. 71, Jublie Hill, Hyderabad. Out of these facilities, Bachupally and Kandivalasa facilities are qualified by USFDA.

II. Significant Accounting Policies and Practices and Other

Notes on Accounts

A. Significant Accounting Policies

a. 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.

b. 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.

c. 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 were shown under short term loans and advances.

d. Depreciation:

Depreciation on Fixed Assets is provided on Straight Line Basis 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 Statement of Profit and Loss during the primary lease period.

Depreciation on landscape being is provided @10% under straight line method.

e. 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.

f. 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 net realizable value, whichever is lower including Cenvat as applicable

g. Sales:

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

h. Deferred Revenue Expenditure:

Deferred Revenue Expenditure has been written off in Five (5) equal yearly installments commencing from the year in which it is incurred.

i. 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 off 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 and amortized at the rate specified in schedule XIV of the Companies Act, 1956.

j. 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.

k. Patents:

Hitherto expenditure incurred for filing of patents being written off in Five (5) equal yearly installments commencing from the year in which it is incurred. Now, expenditure incurred for filing of patents and related expenditure being capitalized and showing under the head Intangible Assets and depreciation is provided @25% on straightline method.

l. 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.

m. Retirement Benefits:

i. 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 statement of profit and loss.

ii. Defined Benefit Plans:

- (1) **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 statement of profit and loss.
- (2) Liability towards gratuity was funded through a policy with Life Insurance Corporation of India. The difference between actuarial valuation of independent valuer and that of LIC being charged to statement of profit and loss. The said difference amount was unfunded.
- (3) **Leave encashment benefit:** The Company records its un availed leave liability based on actuarial valuation using projected unit credit method. This liability was unfunded.

iii. State Plans:

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

n. 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 statement of profit and loss and the remaining amounts were shown as expenditure under the head other expenses as Central Excise Duty and Sales Tax respectively.

o. Service Tax:

Income derived from rendering of services being considered as net off Service Tax and the amount of Service Tax liability in respect of services rendered by the company was not charged to Profit and Loss account.

p. Cenvat / VAT / Service Tax 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.

Service Tax credit availed as service receiver is deducted from the relevant expenditure.

Un-utilised Cenvat / VAT / Service Tax is accounted as asset and carried in the balance sheet under the head Other Current Assets.

q. Revenue Recognition:

- i. 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.
- ii. Interest is recognized on a time proportion basis taking into account the amount outstanding and the rate of interest applicable.
- iii. Service income is recognized as per the terms of the contracts with customers when the related services are performed or agreed milestones are achieved.

r. 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 statement of profit and loss.

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 statement of profit and loss along with underlined transactions.

s. Taxation:

Tax expense or saving is the aggregate of current year tax and Deferred Tax charged or credited as the case may be to the statement of profit and loss 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 when and to the extent that there is convincing evidence that the company will pay normal Income Tax during the specified year.

t. 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.

u. Provisions and Contingent Liabilities:

Provisions are recognized only when there is a present obligation as result of past events and when a reliable estimate of the amount of obligation can be made. Contingent Liabilities are generally not provided for and are disclosed by way of Notes on Accounts.

v. 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.

w. Export Benefits:

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

B. Other Notes on Accounts:

a. Contingent Liabilities not Provided for

(Amount : Rs. in Lakhs)

Particulars	2011-12	2010-11
(a) Guarantees given by banks	51.87	51.87
(b) Foreign Letter of credits opened in favour of suppliers for which goods are yet to be received	1,171.21	1,220.63
(c) Claims not acknowledged as debts by the company.	562.80	562.80
(d) Disputed Income Tax demands against which company is in Appeals.	116.85	116.85
(e) Interest dues in respect of disputed demands of Income Tax and Central Excise.	172.00	165.00
(f) Interest on disputed demand of Central Excise (refer Note 27B (e)(iii))	21.74	-
(g) Capital Commitments	-	109.69

Note : Claims not acknowledged as debt of Rs.562.80 lakhs relating to civil suit filed by M/s Natco Pharma Limited against the company before the Hon'ble City Civil Court Hyderabad in the year 2002. In the month of February 2012 the court was dismissed this suit. However, M/s. Natco Pharma preferred an appeal before A.P. High Court.

- b. The company has filed civil suit against Natco Pharma Limited before the Hon'ble City Civil Court Hyderabad for recovery of Rs.1,562.91 lakhs in the month of October, 2002. The said suit was decreed in the month of February, 2012 for entire suit amount of Rs. 3,350.47 lakhs including interest @15.50% and costs.

The company has filed executive petition before the Hon'ble City Civil Court Hyderabad for implementation of the direction given by the said court. Meanwhile, aggrieved by the said order, M/s Natco Pharma Limited has preferred to file the appeal before Hon'ble AP High Court.

- c. The company has acquired 43 Acres land from APIIC through Ramky Pharma City (India) Limited, in JN Pharma City, Parawada besides to the existing oncology plant is under dispute. For this an amount of Rs.556.79 lakhs was paid and the same was included in Capital Work in Progress.
- d. Land admeasuring 950 Sq Yds for value of Rs.10.84 lakhs purchased in the year 1994-95 in Hyderabad City by the erstwhile Plant Organics Ltd (POL) acquired by the company on amalgamation of said POL vide BIFR order dated 28-08-2008 is under litigation with City Civil Court at Hyderabad. It was considered that either the land or any value for that is not recoverable. Hence the same was deleted from the land in Fixed Assets Schedule (Note 10) and the same amount was reduced from opening balance of the General Reserve (Note 2) during the year 2010-11.
- e. (i) 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.42.93 lakhs for the said property and has taken the possession of property.

- (ii) 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.
- (iii) Central excise department has issued a demand for an amount of Rs.21.74 lakhs towards interest for the period 01-04-1992 to 18-03-2011 jointly in the name of Divya Enterprises Limited and SMS Pharmaceuticals Limited for which the company is contesting.

f. Lease:

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

- i. General description of leasing arrangements:
Office premises - Lease rental are charged on the basis of agreed terms.
- ii. Lease payment recognized in the statement of profit & loss was Rs.57.40 lakhs (previous year Rs.58.03 lakhs)
- iii. Future Lease Rental Payments:

	(Amount : Rs. in Lakhs)	
	2012-13	2011-12
Not more than one year	58.12	57.38
More than one year and not more than five years	123.83	121.55
More than five years	-	-

g. Remittance in Foreign Currency on Account of Dividend.

	Paid in	
	2011-12	2010-11
i) Year to which the dividend relates	2009-10	2006-07, 2007-08, & 2008-09
ii) Number of non resident share holders to whom remittances were made	7(Seven)	1 (One)
iii) Number of shares on which remittances were made	9,00,000	2,00,000
iv) Amount remitted (Rs in lakhs)	9.00	12.00

h. Research and Development Expenditure:

	(Amount : Rs. in Lakhs)	
Particulars / Year	2011-12	2010-11
Capital Expenditure		
Equipment	-	0.20
Intangible Assets	-	4.85
TOTAL	-	5.05
Revenue Expenditure	156.39	209.68
GRAND TOTAL	<u>156.39</u>	<u>214.73</u>

i. Information on Employee benefits required under accounting standard 15 :

(1) Defined Contribution Plans:	(Amount : Rs. in Lakhs)
	2011-12 2010-11
Contribution to Provident Fund	74.37 61.20
(2) Defined Benefit Plans:	
i. Gratuity (Funded)	
ii. Leave Encashment (Un funded)	

Disclosures (as per actuary certification)

(Amount : Rs. in Lakhs)

Particulars	2011-12		2010-11	
	Gratuity (Funded)	Leave Encashment (Unfunded)	Gratuity (Funded)	Leave Encashment (Unfunded)
(i) STATEMENT OF PROFIT AND LOSS :				
Current Service Cost	20.18	14.67	16.92	13.12
Interest cost on benefit obligation	9.41	2.02	6.21	2.06
Net Actuarial (Gain)/Loss recognized in the year	4.22	(7.92)	6.12	(9.09)
Short Term compensated absence liability		7.81		1.34
Past service cost	-		23.96	-
Contribution paid	(13.54)	(9.69)	(9.50)	(3.46)
Expected return on planned assets	(2.97)	-	(2.86)	-
Net benefit expenses	17.30	6.89	40.85	3.97
(ii) BALANCE SHEET:				
Change in the present value of the defined benefit obligation are as follows:				
Opening defined benefit obligation	92.00	42.13	51.15	38.16
Interest cost	9.41	2.02	6.21	2.06
Current services cost	20.18	22.48	16.92	14.45
Actuarial (Gain)/Loss on obligation	4.22	(7.92)	6.12	(9.08)
Expected return on planed Assets	(2.97)		(2.86)	
Contribution paid	(13.54)	(9.69)	(9.50)	(3.46)
Closing defined benefit obligation	109.30	49.02	92.00	42.13
Past Service Cost	-	-	23.96	-
<ul style="list-style-type: none"> ● Net benefit expenses of Rs.17.30 lakhs relating to Gratuity charged to statement of profit & loss being the difference between the independent actuary valuation and that of LIC. This amount was unfunded and total amount of unfunded was Rs.109.30 lakhs as on the balance sheet date. 				
(iii) The Principal Assumptions Used in Determining Gratuity				
Salary rise			5%	4%
Discount rate			8%	8%
Attrition rate			2%	2%

j. 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 : Rs. in Lakhs)

Particulars	2011-12	2010-11
Principal amount remaining unpaid as at the end of the year	52.45	51.09
Interest due and payable for the period of delay	3.56	2.61
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

k. Related Party Disclosures:

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

(i) Key Management personnel and their relatives

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

(ii) 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 Hire Purchase and Finance Pvt. Ltd.
3.	Potluri Real Estate Private Limited.
4.	Hima Farms Private Limited.
5.	VKT Pharma Pvt. Ltd.

(iii) Transactions (Amount : Rs. in Lakhs)

Particulars	Subsidiaries & Associates	Key Management Personnel	Relatives of Key Management Personnel	Total
Remuneration	--	79.80	25.37	105.17
(Previous Year)	--	(79.69)	(25.37)	(105.06)

i. 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 : Rs in Lakhs)

Particulars	2011-12		2010-11	
	Revenue	%	Revenue	%
Exports	11,665.56	56.38	11,798.34	52.61
Domestic	8,672.42	41.91	10,177.62	45.38
Export Incentives	354.32	1.71	451.47	2.01
TOTAL	20,692.30	100.00	22,427.43	100.00

m. Consumption of Raw Materials:

(Amount: Rs in Lakhs)

Particulars	2011-12		2010-11	
	Revenue	%	Revenue	%
Imported	4,308.77	33.36	4,270.70	26.20
Indigenous	8,607.85	66.64	11,912.41	73.80
TOTAL	12,916.62	100.00	16,183.11	100.00

n. CIF Value of Imports:

(Amount : Rs in Lakhs)

Particulars	2011-12	2010-11
Raw Materials	4,407.13	4,094.45
Capital Goods	12.02	81.28
TOTAL	4,419.15	4,175.73

o. Expenditure in Foreign Currency:

(Amount : Rs in Lakhs)

Particulars	2011-12	2010-11
Sales Commission	117.78	138.17
Travelling expenses	1.85	3.17
TOTAL	119.63	141.34

p. Earnings in Foreign Currency: (Amount : Rs in Lakhs)

Particulars	2011-12	2010-11
FOB Value of Exports	10,131.58	10,450.21

- q.** Balances of sundry debtors/ creditors and Loans and advances are subject to confirmation.
- r.** The Revised Schedule VI has become effective from the current year for the presentation of financial statements. This has significantly impacted the disclosure and presentation made in the financial statements. However, it does not impact recognition & measurement principles followed for preparation of financial statements.
- s.** Previous Year figures have been regrouped / reclassified wherever necessary to corroborate with current year figures.
- t.** Figures have been rounded off to the nearest Rupees in Lakhs.

As per our report of even date.

for and on behalf of the Board

for **RAMBABU & CO.,**
Chartered Accountants
FRN No. 002976S

for **P. MURALI & CO.**
Chartered Accountants
FRN No. 007257S

P. RAMESH BABU
Chairman and
Managing Director

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

RAVI RAMBABU
Partner
M.No. 18541
Place : Hyderabad
Date : 10.08.2012

P. MURALI MOHAN RAO
Partner
M.No. 23412

N. RAJENDRA PRASAD
Chief Financial Officer

Green Initiative in Corporate Governance: Go Paper Less

The Ministry of Corporate Affairs has come up with a Green Initiative of permitting the service of documents including Annual Reports to the Shareholders through e-mail or other permissible electronic modes instead of physical mode vide its Circular No. 17/2011 dated 21st April 2011. This is certainly a welcome move for the society at large as this will reduce paper consumption to a great extent and allow all stakeholders to contribute towards a Greener Environment. To support this green initiative, members who have not registered their e-mail addresses, so far, are requested to register their e-mail addresses, in respect of electronic holdings with the Depository through their concerned Depository Participants. Members who hold shares in physical form are requested to fill the appropriate column in the members e-mail registration form and register the same with M/s. Aarthy Consultants Private Limited.

Members e-mail Registration Form

Name: e-mail:

Address:
.....
.....

DP ID : Client ID:

Folio No:

(in case of physical holding)

No. of equity shares held:



Signature

Members are requested to send this e-mail registration form to the Company's Registrar and Transfer Agents i.e., M/s. Aarthy Consultants Private Limited at the below mentioned address.

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



SMS PHARMACEUTICALS LIMITED

Regd. and Corp. Office: Plot No.19-III,
Opp. Bharatiya Vidya Bhavan Public School,
Road No. 71, Jubilee Hills, Hyderabad - 500 096

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 to vote for me/us on my/our behalf at the 24th Annual General Meeting of the Company to be held on Saturday, the 29th day of September, 2012 at 11.00 A.M. at Jubilee Hills International Centre (Jubilee Hills Club), Jubilee Hills, Hyderabad and at any adjournment thereof.

Signed this.....day of September, 2012.

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.



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Regd. and Corp. Office: Plot No.19-III,
Opp. Bharatiya Vidya Bhavan Public School,
Road No. 71, Jubilee Hills, Hyderabad - 500 096.

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 24th Annual General Meeting to be held on Saturday, the 29th day of September, 2012 at 11.00 A.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.





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If undelivered, please return to:



Regd. Off: Plot No. 19-III, Opp. Bharatiya Vidya Bhavan Public School,
Road No. 71, Jubilee Hills, Hyderabad - 500 096.
Phones: 040 - 66288888, Fax: 040 23551401/402
E-mail: info@smspharma.com

www.smspharma.com