

Annual Report 2012 - 13

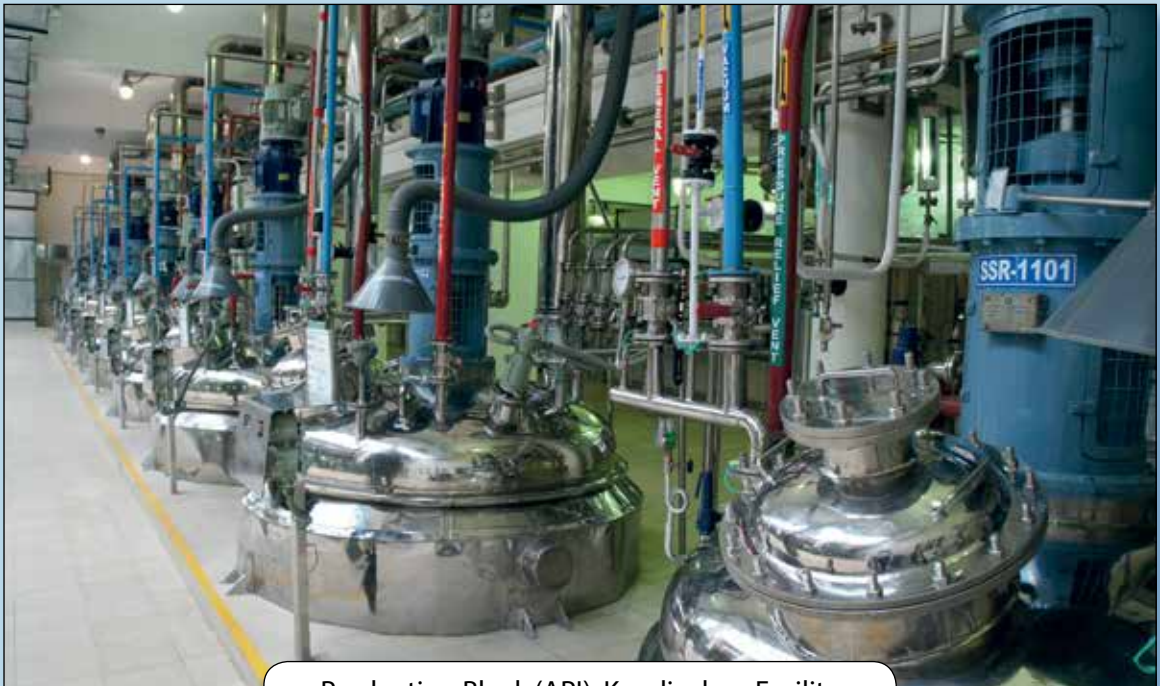


sms

pharmaceuticals ltd.

Contents

Corporate Information	01
Notice	02
Directors' Report	13
Management Discussion and Analysis	19
Corporate Governance	23
Auditors' Report	34
Balance Sheet	39
Statement of Profit and Loss	40
Cash Flow Statement	41
Notes Forming Part of the Financial Statements	43
Proxy Form / Attendance Slip	67



Production Block (API), Kandivalasa Facility



Pharmaceuticals Ltd.

Corporate Information

Board of Directors

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

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 : rambabuanco1982@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

Cost Auditors

Sri K.S.N. Sarma
Cost Accountant
216, Rangadhamamu, HMT Satavahana Nagar
Kukatpally, Hyderabad-500 072

Share Transfer Agents

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

Bankers

State Bank of India
Export Import Bank of India

Plant Locations

Unit-I

IDA Kazipally, Jinnaram Mandal,
Medak Dist. A.P. - 502 319
Phone : 08458-277067
Fax : 08458-277069
Email : admin_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 : admin_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 : warehouse_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-VII

Sy. No. 160, 161, 163 to 167,
Kandivalasa, Poosapatirega (Mandal),
Vijayanagaram Dist.
Phone : 08922-258051 / 53 / 54
Fax : 08922-258052
Email : admin_unit7@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.



NOTICE

Notice is hereby given that the 25th Annual General Meeting of the Company will be held on Monday the 30th day of September, 2013 at 11.00 A.M. at Jubilee Hills International Centre (Jubilee Hills Club), Jubilee Hills, Hyderabad-500 033 to transact the following business :

ORDINARY BUSINESS:

1. To receive, consider and adopt the Statement of Profit & Loss for the year ended 31st March, 2013, Balance Sheet as on that date along with the Reports of the Directors' and Auditors' thereon.
2. To declare dividend for the financial year 2012-13.
3. To appoint a Director in place of Dr. Mihir K. Chaudhuri, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri K.S.Rao, who retires by rotation, and being eligible, offers himself for re-appointment.
5. To appoint M/s. Rambabu & Co., Chartered Accountants and M/s. P. Murali & Co., Chartered Accountants as Joint Auditors of the Company to hold office from the conclusion of this annual General Meeting until the conclusion of next Annual General Meeting and to fix their remuneration for the Financial year ending 31st March, 2014.

SPECIAL BUSINESS:

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

Re-appointment of Sri P. Ramesh Babu as Chairman and Managing Director (CMD) of the Company, for a period of Three years w.e.f. 01.12.2013.

"RESOLVED THAT:

- (a) Pursuant to the provisions of Section 198, 269, 309, 310, 311 and read with Schedule XIII and

other applicable provisions if any of the Companies Act, 1956 and subject to such other approvals as may be required, the consent and approval of the Company be and is hereby accorded for the re-appointment of Sri P. Ramesh Babu as Chairman & Managing Director of the Company for a further period of Three years with effect from 1st December, 2013 on the terms and conditions as set out in the Explanatory Statement annexed hereto.

- (b) Pursuant to the provisions of Sections 198, 310, Schedule XIII and other provisions of the Companies Act, 1956 the remuneration committee of the board, without further approvals, be and is hereby authorized to revise, alter and vary the remuneration package of the CMD as and when necessary during his tenure, provided however the overall remuneration does not exceed the ceiling of 5% of the company's net profits as prescribed by the Companies Act, 1956.
- (c) In the event of absence or inadequacy of profits in any financial year, the remuneration as set out in the Explanatory Statement annexed hereto or the revised remuneration approved by the remuneration committee, as applicable, be paid to Sri P. Ramesh Babu as minimum remuneration subject to such approvals as may be required, notwithstanding that such remuneration is in excess of the limits prescribed by Sections 198, 309 and Schedule XIII of the Companies Act, 1956.

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

Re-appointment of Sri TVVSN Murthy as Vice-Chairman and Joint Managing Director (VC & JMD) of the Company for a period of Three years w.e.f. 01.12.2013.

"RESOLVED THAT:

- (a) Pursuant to the provisions of Section 198, 269,



309, 310, 311 and read with Schedule XIII and other applicable provisions if any of the Companies Act, 1956 and subject to such other approvals as may be required, the consent and approval of the Company be and is hereby accorded for the re-appointment of Sri TVVSN Murthy as Vice-Chairman & Joint Managing Director of the Company for a further period of Three years with effect from 1st December, 2013 on the terms and conditions as set out in the Explanatory Statement annexed hereto."

- (b) Pursuant to the provisions of Sections 198, 310, Schedule XIII and other provisions of the Companies Act, 1956 the remuneration committee of the board, without further approvals, be and is hereby authorized to revise, alter and vary the remuneration package of the VC & JMD as and when necessary during his tenure, provided however the remuneration does not exceed the ceiling of 5% of the company's net profits as prescribed by the Companies Act, 1956.
- (c) In the event of absence or inadequacy of profits in any financial year, the remuneration as set out in the Explanatory Statement annexed hereto or the revised remuneration approved by the remuneration committee, as applicable, be paid to Sri TVVSN Murthy as minimum remuneration subject to such approvals as may be required, notwithstanding that such remuneration is in excess of the limits prescribed by Sections 198, 309 and Schedule XIII of the Companies Act, 1956.

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

Re-appointment of Sri T.V. Praveen as Vice-President (Marketing) of the Company.

"RESOLVED THAT pursuant to the provisions of sub-section (1B) of Section 314 and other applicable provisions, if any, of the

Companies Act, 1956 and subject to the approval of the Central Government and such other approvals as may be required, the consent of the company be and is hereby accorded to the re-appointment of Sri T.V. Praveen as Vice-President (Marketing) of the Company to hold office of profit for a further period of Three years from 1st January, 2014 at a remuneration mentioned as under :-

Salary : ₹ 3,00,000/- (Rupees three lakh only) per month inclusive of all perquisites and allowances with such normal increments as per the general policy of the Company as applicable to the other employees in his grade.

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to effect such modifications in the remuneration or the scale or any other terms of employment to Sri T.V. Praveen (not being more advantageous to Sri T.V. Praveen) as may be approved by the Central Government and as may be agreed to by the Company and Sri T.V. Praveen."

"RESOLVED FURTHER THAT Sri T.V. Praveen shall also be entitled for the reimbursement of actual travelling, boarding and lodging expenses and other amenities as may be incurred by him from time to time, in connection with the Company's business and any other allowances, benefits and perquisites as are provided to the senior executives of the Company and/or which may become applicable in the future and or any other allowance, perquisites as the Board may decide from time to time."

"RESOLVED FURTHER THAT the remuneration payable to Sri T.V. Praveen as aforesaid shall be subject to such modifications as the Central Government may suggest or require which the Board of Directors are hereby authorized to accept on behalf of the Company."



"RESOLVED FURTHER THAT Sri T.V. Praveen shall be in the exclusive employment of the Company and will not hold a place of profit in any other company during his employment in the Company.

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds, matters and things as may be considered necessary, usual or expedient to give effect to the above resolution."

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

Appointment of Sri P. Vamsi Krishna, as Vice-President (Operations) of the Company.

"RESOLVED THAT pursuant to the provisions of sub-section (1B) of Section 314 and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government and such other approvals as may be required, the consent of the company be and is hereby accorded to the re-appointment of Sri P. Vamsi Krishna as Vice-President (Operations) of the Company to hold office of profit for a period of Three years w.e.f. 9th August, 2013 at a remuneration mentioned as under :-

Salary : ₹ 1,50,000/- (Rupees one lakh fifty thousand only) per month inclusive of all perquisites and allowances with such normal increments as per the general policy of the Company as applicable to the other employees in his grade.

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to effect such modifications in the remuneration or the scale or any other terms

of employment to Sri P. Vamsi Krishna (not being more advantageous to Sri P. Vamsi Krishna) as may be approved by the Central Government and as may be agreed to by the Company and Sri P. Vamsi Krishna"

"RESOLVED FURTHER THAT Sri P. Vamsi Krishna shall also be entitled for the reimbursement of actual travelling, boarding and lodging expenses and other amenities as may be incurred by him from time to time, in connection with the Company's business and any other allowances, benefits and perquisites as are provided to the senior executives of the Company and/or which may become applicable in the future and/or any other allowance, perquisites as the Board may decide from time to time."

"RESOLVED FURTHER THAT the remuneration payable to Sri P. Vamsi Krishna as aforesaid shall be subject to such modifications as the Central Government may suggest or require which the Board of Directors are hereby authorized to accept on behalf of the Company."

"RESOLVED FURTHER THAT Sri P. Vamsi Krishna shall be in the exclusive employment of the Company and will not hold a place of profit in any other company during his employment in the Company.

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to do all such acts, deeds, matters and things as may be considered necessary, usual or expedient to give effect to the above resolution."

By Order of the Board

P. Ramesh Babu
Chairman & Managing Director

Place: Hyderabad
Date : 13.08.2013

Notes:

1. A member entitled to attend and vote 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 25.09.2013 to 30.09.2013 (both days inclusive) in connection with the payment of dividend for the financial year 2012-13.
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. Aarthy 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.
6. Shareholders desiring any information relating to the accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready.
7. The additional information on Directors, seeking re-appointment as Directors under Item Nos. 3,4, 6 and 7 above, as required by Clause 49 of the Listing Agreement is given below.

Name of the Director	Sri P. Ramesh Babu	Sri TVVSN Murthy	Dr. Mihir K. Chaudhuri	Sri K.S. Rao
Date of Birth	23.06.1990	10 .02.1990	21.07.1947	10.08.1942
Date of Appointment	30.08.1990	30.08.1990	18.11.2004	29.05.2005
Qualification	M.Sc.,	B.Sc.,	M.Sc., Ph.D.,	FCA
Expertise in specific Functional Area	In the fields of organic chemistry	In the fields of organic chemistry	In the fields of Organometallic and inorganic Chemistry	In the fields of Finance and Auditing
Details of other Directorships	1. Webcity Softech Pvt. Ltd., 2. VKT Pharma Pvt. Ltd., 3. Yeshwant Industrial Infrastructure Projects Pvt. Ltd.	None	None	1) CMH Tools Limited. 2) Auctus Pharma Ltd. 3) Yeshwant Industrial Infrastructure Projects Pvt. Limited
Details of other Committee & Membership status.	None	None	None	1) Chairman-Audit Committee. 2) Chairman - Remuneration Committee and 3) Chairman - Investors Grievances Committee



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

Item No. 6.

At the 20th Annual General Meeting held on 29.12.2008, the members had approved the re-appointment of Sri P. Ramesh Babu as Chairman and Managing Director of the Company for a period Five years w.e.f. 01.12.2008. In consequence to this the Board of Directors at their meeting held on 13.08.2013 approved the re-appointment of Sri P. Ramesh Babu as Chairman and Managing Director of the Company for a further period of Three years w.e.f. 01.12.2013 subject to approval of the members, with a remuneration, as recommended by the remuneration committee, on the following terms and conditions.

1. Salary :

₹ 4,00,000/- (₹ Four lakhs only) per month.

2. Allowances & Perquisites:

(i) Housing:

- (a) Rent Free Accommodation. If no accommodation is provided by the Company, the Chairman and Managing Director shall be entitled to House Rental Allowance for an amount of ₹ 1,50,000/- (₹ One lakh fifty thousand only) per month.
- (b) Actual expenses pertaining to maintenance of accommodation, Gas, Electricity, Water and other utilities will be / reimbursed by the Company.
- (c) The Company shall provide such furniture, furnishings, domestic servants and security guards at his residence as may required.

(ii) Provident Fund, Gratuity:

Company's contribution to the Provident Fund and payment of Gratuity shall be as per the Rules of the Company.

(iii) Medical Reimbursement:

Reimbursement of actual medical

expenses incurred in India and abroad for self and family.

(iv) Medical Insurance :

Premium will be paid by the Company as per the Company's Policy.

(v) Leave Travel Allowance (LTA):

LTA will be paid once in a year for maximum of one month salary, as per Rules of the Company.

(vi) Leave Encashment:

As per rules of the Company.

(vii) Personal Accident Insurance:

The premium shall not exceed ₹ 10,000 per annum.

(viii) Club Membership:

Subscription or reimbursement of membership fees (excluding admission and life membership) for two clubs.

(ix) Benefits if any, assigned under Keyman Insurance Policy.

(x) Other allowances as may be decided by the Board/remuneration committee from time to time, subject to the provisions of the Companies Act, 1956 and Schedule XIII thereto.

Explanation: (1) Perquisites shall be evaluated as per Income-tax Rules, wherever applicable and in the absence of any such rule, Perquisites shall be evaluated at actual costs.

(2) Family mentioned above means the spouse, dependent parents and dependent children of the Chairman and the Managing Director as mentioned in the applicable rules or schemes.

3. Commission: An amount / as percentage of profits as may be decided by the Board of Directors on the recommendation of the remuneration committee, from year to year.



4. Amenities :

- (i) Conveyance facilities: The Company shall provide a Car with Driver.
- (ii) Communication facilities: The Company shall provide Telephone, Cell Phone, Internet, and other communication facilities at the Chairman and Managing Director's residence.
- (iii) Travelling expenses actually incurred on travelling and boarding and lodging for self and also spouse and attendant, if required accompanying him during domestic and overseas business trips.

Explanation : The following shall not be included for the purpose of computation of the Chairman & Managing Directors' remuneration and perquisites as aforesaid.

- (a) Company's contribution to the Provident Fund and Superannuation Fund.
- (b) Gratuity payable pursuant to the rules of the Company.
- (c) Encashment of Leave.
- (d) Amenities as mentioned above.

This may also be considered and treated as Abstract and Memorandum of Interest under Section 302 of the Companies Act, 1956.

The Board commends the passing of Special Resolution at item no.6 of the Notice.

None of the Directors of the company except Sri P. Ramesh Babu is interested or concerned in this Resolution.

Item No. 7.

At the 20th Annual General Meeting held on 29.12.2008, the members had approved the re-appointment of Sri TVVSN Murthy as Vice-Chairman and Joint Managing Director of the Company for a period Five years w.e.f. 01.12.2008. In consequence to this the Board of Directors at their meeting held on 13.08.2013 approved the re-appointment of Sri TVVSN Murthy as Vice-Chairman and Joint Managing Director of the Company for a further period of three years w.e.f. 01.12.2013 subject to the

approval of members, with a remuneration, as recommended by the remuneration committee, on the following terms and conditions.

1. Salary :

₹ 4,00,000/- (₹ Four lakhs only) per month.

2. Allowances & Perquisites:

(i) Housing:

- (a) Rent Free Accommodation. If no accommodation is provided by the Company, the Vice-Chairman and Joint Managing Director shall be entitled to House Rental Allowance for an amount of ₹ 1,50,000/- (₹ One lakh fifty thousand only) per month.
- (b) Actual expenses pertaining to maintenance of accommodation, Gas, Electricity, Water and other utilities will be / reimbursed by the Company.
- (c) The Company shall provide such furniture, furnishings, domestic servants and security guards at his residence as may required.

(ii) Provident Fund, Gratuity:

Company's contribution to the Provident Fund and payment of Gratuity shall be as per the Rules of the Company.

(iii) Medical Reimbursement:

Reimbursement of actual medical expenses incurred in India and abroad for self and family.

(iv) Medical Insurance :

Premium will be paid by the Company as per the Company's Policy.

(v) Leave Travel Allowance(LTA):

LTA will be paid once in a year for one month salary, as per Rules of the Company.

(vi) Leave Encashment:

As per the rules of the Company.



(vii) Personal Accident Insurance:

The premium shall not exceed ₹ 10,000 per annum.

(viii) Club Membership:

Subscription or reimbursement of membership fees (excluding admission and life membership) for two clubs.

(ix) Benefits if any, assigned under Keyman Insurance Policy.

(x) Other allowances as may be decided by the Board / remuneration committee from time to time, subject to the provisions of the Companies Act, 1956 and Schedule XIII thereto.

Explanation: (1) Perquisites shall be evaluated as per Income-tax Rules, wherever applicable and in the absence of any such rule, Perquisites shall be evaluated at actual costs.

(2) Family mentioned above means the spouse, dependent parents and dependent children of the Vice-Chairman and the Joint Managing Director as mentioned in the applicable rules or schemes.

3. Commission: An amount / as percentage of profits as may be decided by the Board of Directors on the recommendation of the remuneration committee, from year to year.

4. Amenities:

(a) Conveyance facilities:

The Company shall provide a Car with Driver.

(b) Communication facilities:

The Company shall provide Telephone, Cell Phone, Internet, and other communication facilities at the Vice - Chairman and Joint Managing Director's residence.

(c) Travelling expenses actually incurred on travelling and boarding and lodging for self

and also spouse and attendant, if required accompanying him during domestic and overseas business trips.

Explanation : The following shall not be included for the purpose of computation of the Vice-Chairman & Joint Managing Directors' remuneration and perquisites as aforesaid.

(a) Company's contribution to the Provident Fund and Superannuation Fund.

(b) Gratuity payable pursuant to the rules of the Company.

(c) Encashment of Leave.

(d) Amenities as mentioned above.

This may also be considered and treated as Abstract and Memorandum of Interest under Section 302 of the Companies Act, 1956.

The Board commends the passing of Special Resolution at item no.7 of the Notice.

None of the Directors of the company except Sri TVVSN Murthy is interested or concerned in this Resolution.

Item No. 8.

Sri T.V. Praveen was appointed as Vice-President (Marketing) of the Company by the Members of the Company in 20th Annual General Meeting held on 29th December, 2008 for a period of 5 years w.e.f. 01.01.2009 with a remuneration of ₹ 1,25,000/- per month. The Central Government approved the appointment. Since then he has been working for the company in his capacity as Vice-President (Marketing) without any increase in his salary. The Board of Directors of the Company has decided in its meeting held on 13th August, 2013 to re-appoint him in the best interest of the company for a further period of Three years with effect from 1st January, 2014 subject to the approval of the Central Government as per the terms and conditions as set out in the Resolution.

In terms of the provisions of Section 314 (1) (B) of the Companies Act, 1956 read with Directors' Relatives (office of place of profit) Rules, 2003, the appointment of relative of a Director of the Company



on a remuneration exceeding ₹ 50,000/- per month requires the approval of the Members by way of Special Resolution and also the Central Government.

The Explanatory Statement together with the accompanying notice is and may be treated as an abstract of the terms of appointment and memorandum of interest under Section 302 of the Companies Act, 1956.

The Board of Directors recommends the resolution for approval.

None of the Directors of the company except Sri TVVSN Murthy is interested or concerned in this Resolution.

Item No. 9.

Sri P. Vamsi Krishna, who has been selected by Selection Committee and considered by the Board of Directors to appoint him as Vice-President - (Operations) of the Company with a salary of ₹ 1,50,000/- p.m. inclusive of perquisites and other allowances as stated in the proposed Resolution.

In terms of the provisions of Section 314 (1) (B) of the Companies Act, 1956 read with Directors'

Relatives (office of place of profit) Rules, 2003, the appointment of relative of a Director of the Company on a remuneration exceeding ₹ 50,000/- per month requires the approval of the Members by way of Special Resolution and also the Central Government.

Sri P. Vamsi Krishna has studied B.Tech. (EEE) in Birla Institute of Technology and Science (BITS) Pilani, Dubai and M.S. (Engineering Management & Finance) in University of Missouri, St. Louis, Rola, U.S.A. He worked in Ranbaxy Laboratories, Jacksonville, Florida, U.S.A. for few months in their Supply Chain Management.

The Board of Directors recommends the resolutions for approval.

None of the Directors of the company except Sri P. Ramesh Babu is interested or concerned in this Resolution.

By Order of the Board

P. Ramesh Babu
Chairman & Managing Director

Place: Hyderabad
Date : 13.08.2013



Statement as required under Section II, Part II of the Schedule XIII of the Companies Act, 1956 with reference to the Resolutions at item No.6 and 7 of the Notice for the 25th Annual General Meeting of SMS Pharmaceuticals Limited.

I. General Information:

1. Nature of Industry:

Manufacturers of the Bulk Drugs and their Intermediates.

2. Date or expected date of commencement of commercial production:

Existing Company and in operation since 1990.

3. In case of new companies, expected date of commencement of activities.

Not Applicable.

4. Financial performance based on given indicators:

(₹ in lakhs)

Sl. No.	Particulars	2012-13	2011-12	2010-11
1	Turnover	23,993.38	20,692.30	22,427.43
2	Profit/(Loss) before tax	2,966.40	141.75	1,048.37
3	Net Profit/(Loss)	2,532.49	113.75	839.27
4	Paid-up share capital	1,001.52	1,001.52	1,001.52
5	Reserves & Surplus	23,404.89	21,106.75	20,993.00

5. Export performance and net foreign exchange collaborations.

The Company has achieved an export turnover of ₹ 13,333.64 Lakhs for the year ended 31st March, 2013 representing 55.57% of total turnover. Foreign exchange earnings were ₹ 11.807.07 lakhs.

6. Foreign investments or collaborators, if any :

The Company has no foreign investments and there are no foreign collaborations.

II. (a) Information about Sri P. Ramesh Babu:

1. Background details: Sri P. Ramesh Babu is a post graduate Technocrat, started his carrier in the year 1984 with Cheminor Drugs Limited. He along with MR TVVSN Murthy has acquired a sick unit in the year 1990 and turned it into a profit making company with sheer technical skills and change of product mix based on the market

demand. Since then he has been successfully managing the Company providing the right direction and leadership in developing technologies, upgrading the facilities, development of export markets etc., Under his supervision the company has developed from single unit and single product to multi locations with multi products.

Sri P. Ramesh Babu also played pivotal role in the development of Pharma Industry in Andhra Pradesh by acting as

- Joint Secretary of the Bulk Drugs Manufacturers' Association during 1999.
- Regional Chairman of CHEMIXL for Hyderabad region in 2000.
- Membership of Pharma Task Force Committee constituted by the Chief Minister of Andhra Pradesh in the year 2003.



2. Past Remuneration:

Financial Year	Amount ₹ in lakhs
2012-13	38.11
2011-12	36.27
2010-11	37.60

*excluding retrial benefits (PF and Gratuity)

3. Job profile and his suitability :

Chairman and Managing Director has an overall responsibility of the company in terms of its strategic growth and business development. Sri P. Ramesh Babu had been on the Board since inception of the Company.

4. Remuneration proposed :

As stated in the Explanatory Statement in item No. 6.

5. Comparative remuneration profile with respect to industry, size of the company, profile of the position.

Sri P. Ramesh Babu and Sri TVVSN Murthy have been on the Board since inception of the Company. They bought out a sick unit and propelled its growth. They have streamlined business operation of the company and has been a strategic managerial persons. Their skills set and experience placed them in corresponding major pharma industry in India. With their efforts the Company has grown from a single unit and a single product to multi unit and multi products. Considering general industry structure and specific company profile, the proposed remuneration is in line with industry standards and that of comparatively placed companies in India.

6. Pecuniary relationship directly with the company, or relationship with the managerial personnel, if any :

Sri P. Ramesh Babu is the Promoter Director in the Company, holding

11,35,696 equity shares of ₹ 10/- each representing 13.07% of the total paid up capital of the Company. His son Sri P. Vamsi Krishna has recently joined the organization as Vice-President (Operations)

II. (b) Information about Sri TVVSN Murthy:

- 1. Background details :** Sri TVVSN Murthy, one of the co-promoters of the company is a graduate in chemistry and has vast experience of over 20 years in bulk drugs and pharmaceutical industry. He started his carrier in 1981 with Standard Organics Limited. He is actively involved in commercialization of products by scaling up the laboratory scale process to pilot plant and up to commercial scale. He is a very dynamic leader and is the force behind the production team capable of finding solutions to any production related issues.

2. Past Remuneration:

Financial Year	Amount ₹ in lakhs
2012-13	36.27
2011-12	36.33
2010-11	36.34

*excluding retrial benefits (PF and Gratuity)

3. Job profile and his suitability :

Vice-Chairman and Joint Managing Director has undertaken overall responsibility of the company for improvement in productivity and cost reduction.

- 4. Remuneration proposed :** As stated in the Explanatory Statement in item No. 7.

5. Comparative remuneration profile with respect to industry, size of the company, profile of the position.

Sri P. Ramesh Babu and Sri TVVSN Murthy have been on the Board since inception of the Company. They bought out a sick unit and propelled its growth. They have



streamlined business operation of the company and has been a strategic managerial persons. Their skills set and experience placed them in corresponding major pharma industry in India. With their efforts the Company has grown from a single unit and a single product to multi unit and multi products. Considering general industry structure and specific company profile, the proposed remuneration is in line with industry standards and that of comparatively placed companies in India.

6. Pecuniary relationship directly with the company, or relationship with the managerial personnel, if any:

Sri TVVSN Murthy is the Promoter Director in the Company, holding 8,22,700 equity shares of ₹ 10/- each representing 9.47% of the total paid up capital of the Company. His son Sri T.V. Praveen is working with the company since last five years as Vice-President (Marketing).

III. Other Information:

I. Reasons of loss or inadequate profits :

The Company do not foresee any loss or inadequacy of profits for the next three years.

2. Steps taken or proposed to be taken for improvement:

Continued business development and expansion projects undertaken by the company are steps taken for the continuous improvement.

3. Expected increase in productivity and profits in measurable terms:

Increased productivity after completion of expansion projects and measures taken for reduction in cost of production will improve the profits.

IV. Disclosures:

The remuneration paid to the Chairman and Managing Director as stated above at point II (a) (2) and the remuneration paid to the Vice-Chairman and Joint Managing Director is as stated above at point II (b) (2). The details of elements of remuneration paid to the Chairman and Managing Director and also Vice-Chairman and Joint Managing Director are also presented in the Report on Corporate Governance which is attached to the Annual Report.

None of the Directors is interested in the Resolution except Sri Ramesh Babu Potluri, Chairman and Managing Director and Sri TVVSN Murthy, Vice-Chairman and Joint Managing Director.

DIRECTOR'S REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the 25th Annual Report and Audited Accounts of your company for the year ended 31st March, 2013.

Financial Results

	(₹ In Lakhs)	
Particulars	2012-13	2011-12
Gross Sales	25,402.97	22,630.57
Net Sales	23,993.38	20,692.30
Other Operating Income	239.28	717.44
Other Income	161.89	56.41
Total Net Income	24,394.55	21,466.15
PBIDT	(3,446.48)	3,818.05
Finance Charges	2,426.34	2,412.34
Depreciation	1,372.15	1,263.97
Profit before		
Extraordinary Items	(7,244.97)	141.75
Extraordinary Items	10,211.37	-
Profit Before Tax	2,966.40	141.75
Taxation	433.91	28.00
Profit After Tax	2,532.49	113.75
Profit brought forward	2,653.72	2,539.98
Total available for		
Appropriations	5,186.21	2,653.73
Appropriations:		
Proposed Dividend	200.30	-
Dividend Tax	34.04	-
General Reserve	300.00	-
Profit carried to		
Balance Sheet	4,651.87	2,653.73
Earning per share		
Basic/Diluted		
Before Extraordinary Items	(72.34)	1.14
After Extraordinary Items	25.29	1.14

Transfer of Undertaking

During the year under review the company has transferred one of its manufacturing facilities situated in Jawaharlal Nehru Pharma City Parawada as a going concern under slump sale basis for a total consideration of ₹ 17,300.00 lakhs and earned profit of ₹ 10,351.37 lakhs. The said profit was reflected in Extraordinary items in Statement of Profit & loss.

Operational performance

During the year 2012-13 your company has produced 9,72,158 M.T. of APIs as against 9,16,922 MT. during the corresponding year. The net sales of the company has reached to ₹ 23,993.38 lakhs as against ₹ 20,692.30 lakhs during the previous year. Your company has earned net profit of ₹ 2,532.49 lakhs as against ₹ 113.75 lakhs during the year 2011-12.

Buy back of Shares of the Company.

Your company has bought back 15,50,000 Equity shares of ₹ 10/- each with an average price of ₹ 261.80 per share with a total outlay of ₹ 4,650.00 lakhs apart from brokerage and other expenses and the same was reflected in reduction of share capital and Securities Premium account.

The present paid up capital of the Company has declined to ₹ 8,46,52,030/- from ₹ 10,01,52,030/-. The buyback is undertaken mainly to enhance the shareholders' value and confidence.

Dividend

Your Directors are pleased to recommend the dividend of ₹ 2.00 per equity share of ₹ 10/- each (Previous year Nil).

Transfer to General Reserve:

Your Company has transferred an amount of ₹ 300.00 lakhs (previous year Nil) to General Reserve out of the amount available for appropriations.



Auditors

The Statutory Auditors of the Company, M/s. Rambabu & Co., Chartered Accountants and M/s. P. Murali & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible for re-appointment have confirmed their eligibility and willingness to accept office for the financial year ended 31st March, 2014.

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

Sri K. S. N Sarma, Cost Accountant, Hyderabad has been reappointed as Cost Auditor of the Company to conduct cost audit of the Company for the year 2013-14. The due date for filing of Cost Audit Report of the Company in XBRL format for the year 2011-12 was 28th February, 2013 and the same was filed with the Ministry of Corporate affairs on 16th January, 2013.

Fixed Deposits

Your Company has not accepted/ invited any deposits from the public during the year under review. As such no amount of principal or interest was outstanding on the date of the Balance Sheet.

Directors

In accordance with the provisions of the Companies Act, 1956 read with the Articles of Association of the Company, Dr. Mihir K. Chaudhuri and Sri K.S. 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 brief profile of the respective Directors are provided in the Report on Corporate Governance forming part of the Annual report.

Contribution to the ex-chequer.

Your Company has contributed ₹ 2,754.61 lakhs to the ex-chequer (Previous year ₹ 2,215.10) by way of taxes.

Directors' Responsibility Statement

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956 as amended, the Board of Directors confirm that in the preparation of the Statement of Profit and Loss for the year ended 31st March, 2013 and the Balance Sheet on that date:

- i. The applicable accounting standards have been followed in the preparation of the Annual Accounts.
- ii. The accounting policies as mentioned in the schedule 29 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, 2013 and its profit for the year ended on that date.
- iii. 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 safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv. The Annual Accounts have been prepared on a 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 Retro Viral and anti-Hypertensive.

Management's Discussion and Analysis

Management's Discussion and Analysis Report for the year under review, as stipulated under clause 49 of the Listing Agreement is presented in a separate section forming part of the Annual Report.

Corporate Governance

A detailed Report on Corporate Governance practices followed by your Company, in terms of clause 49 of the listing agreement with Stock Exchanges, is provided separately in 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 are helpful to 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 : 13.08.2013



Pharmaceuticals Ltd.

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

	(₹ in Lakhs)	
Particulars	2012-13	2011-12
I. Electricity:		
a. Purchased :		
Units (Lakhs)	115.58	115.94
Total Amount (₹ in Lakhs)	1,149.32	556.05
Rate/Unit (₹)	10.30	4.80
b. Own generation		
Through Diesel Generator		
Units (KWH in Lakhs)	41.61	28.31
Unit per Lt. of Diesel	3.21	3.29
Cost/Unit (₹ in Lakhs)	14.35	12.88
2. Coal (D/C Grade):		
Quantity (Mt.)	12,502	13,154
Total cost (₹ in Lakhs)	674.17	600.73
Average Rate per Ton (₹)	5,393	4,567
3. Furnace Oil:		
Quantity (K. Ltrs)	146	257
Total Amount (₹ in Lakhs)	61.24	94.54
Average Rate per Ltr. (₹)	42.04	36.76

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 and also development of cost effective non-infringing process for the products whose patents are due for expiry in the coming years.

(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	(₹ in Lakhs)	
	Current Year	Previous Year
Capital	-	-
Recurring	188.89	156.38
TOTAL	188.89	156.38
Total R & D expenditure to sales	0.79%	0.75%

II. Technology 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 years.



Pharmaceuticals Ltd.

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 55.57% of total turnover for the year 2012-13 as against 58.09% for the previous year.
 - (ii) Total exports on FOB was ₹ 11,807.07 lakhs for the year 2012-13 as against ₹ 10,131.58 lakhs for the year 2011-12.
 - (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 29(B) (n) & (o) of the Notes to Accounts.

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Overview

According to PWC, Pharma industries never had it so good. The tools to develop remarkable new medicines are materializing demand for its products and trade is getting easier.

The Gross Domestic Product (GDP) growth rate for the past two years has successively slowed to 6.2% in 2011-12 and further to 5% in 2012-13. Despite this, the compounded annual growth rate (CAGR) of GDP at factor cost, over the decade ending 2012-13 was 7.9%.

The economy slowed down rapidly despite recovering from the global financial crisis, due to various reasons such as, high inflation, reduced consumption demand, deceleration in corporate and infrastructure investment and tighter monetary policy. The economy was also hit by additional shocks of a slowing global economy, weighed down by the crisis in the Euro area and uncertainties about fiscal policy in the United States.

As growth turned sluggish and government revenues did not keep pace with spending, the fiscal deficit threatened to breach the target. With government savings falling, and private savings also shrinking, the current account deficit, which is the investment that cannot be financed by domestic savings and has to be financed through trade surplus, also widened.

However, India is still in an enviable position with the GDP expected to climb to 6.4% again, in 2013-14. The growth is expected to increase further to 6.7% in 2014-15, according to the World Bank's latest India Development Update, a bi-annual report on the Indian economy. The Prime Minister's Economic Advisory Panel expects the economic growth rate to increase to 6.4% in 2013-14 from 5% during 2012-13, on the back of improvement in the performance of agriculture and manufacturing sectors.

The outlook for the global pharmaceutical industry will remain stable over the next 2 years, reflecting the expectation of the sector returning to earnings growth in 2013. The Global Pharma Industry has enjoyed steady growth despite a number of changes to the industries landscape. Industry revenue has grown on the back of increased access to more comprehensive health care in emerging countries and

demographic shifts necessitating more health care expenditure. The growing number of middle class people around the world has also translated into a dramatic increase in demand for Pharmaceuticals.

Industry Outlook

The Indian Pharma Industry ranks 14th in the World by value and 3rd in volume. With a well-established domestic manufacturing base and cost effective skilled man power India is emerging as global hub for pharma products and the Industry continues to be on a growth trajectory.

India's pharmaceutical sector is poised to grow from the present US\$ 15.6 billion, to US\$ 35.9 billion by 2017. A similar forecast has been published in a Price Waterhouse Coopers (PWC) report which believes that the industry size could possibly touch US\$ 74 billion by 2020. The Indian Government's Pharma Vision 2020 also aims at making India a global leader in end-to-end manufacture by 2020, and hence the Government is planning to set up a US\$ 640 million venture capital fund to boost drug discovery and further strengthen the pharmaceutical sector.

India is now among top five pharmaceutical emerging markets. The Indian Pharma Industry has been growing at a Compounded Annual Growth Rate (CAGR) of more than 15% over the past 5 years and has significant growth opportunities. It is expected that the domestic market could grow between 11% and 13% in 2013-14 and as per the projections of Department of Pharmaceuticals (DoP) the Indian Pharmaceutical sector is expected to grow five times and will reach ₹ 5 lakh crores (USD 91.45 Billion by 2020). The Industry, particularly, has been the front runner in a wide range of specialties involving complex drugs' manufacture, development and technology. With the advantage of being highly organized sector, the number of pharmaceutical companies is increasing.

China market is main competitor for Indian Pharma market due to low employment cost and favourable interest rates. Now this advantage is diminishing apart from this, in order to combat inflation, the Chinese Government has let the RMB appreciate. During the year 2013, the RMB appreciated 1.5% which is slightly lower than the 3% appreciation in the year 2012. Due



to this appreciation the cost advantage from the Chinese manufacturers has been greatly diminished which has added pressure for many manufacturers. In addition, labour and energy cost in China have increased by double-digits, which are adding for further pressure for Pharma companies in China. Apart from this, there is an increasing focus on quality from companies in the emerging markets which is resulting in extra cost for many Chinese manufacturers since they must adjust their process to adhere to more stringent standards. Due to these pressures several Chinese manufacturers have shut down while others have sold their facilities to larger players. Due to the diminishing value proposition from Chinese manufacturers, many customers in the emerging markets are qualifying Indian manufacturers.

The domestic pharma market is expected to register a strong double digit growth of 13% to 14% into 2013-14 on back of increasing sales of generic medicines, continued growth in chronic therapies and a greater penetration in rural markets. The Ministry of Commerce has targeted Indian pharma sector exports at USD 25 Billion by 2014 at an annual growth rate of 25%. FDI, up to 100% under the automatic route would continue to be permitted for green field investments in the Pharma sector.

The Pharmaceutical industry is an extremely fragmented market with severe price competition and Government price control. The Industry meets around 70% of the countries demand for Pharmaceutical products.

According to industry estimates, the Indian pharmaceutical industry produces about 60,000 generic brands in 60 therapeutic categories and manufactures more than 400 different APIs. Presently, generics dominate the market while the expectations are that patent-protected products are likely to constitute 10% of the industry cake by 2015. Both Indian and foreign multinationals are set to launch patented drugs across India.

Rural India is likely to witness a step-up in demand since manufacturers are reaching out to chemists by expanding their distribution network. Pharma industry is likely to see greater vibrancy when the networks start to impact manufacturing by 2015.

In its bid to step up Indian exports from the present tally of US\$ 310 billion and reach a target of US\$ 500

billion by 2014, the government believes that pharma is a major thrust sector growing at 15% annually and generics is a major strength area. Pharma industry is considered a focus area to achieve the overall target. India is expected to double pharmaceutical exports in the next few years, with the Pharmaceutical Export Promotion Council (Pharmexcil) eyeing overseas sales worth US\$ 20 billion by the end of 2014-15. The figure stood at around \$10 billion in 2010-11.

Traditionally India has been exporting to regulated markets, the US and the EU markets accounting for a major share apart from other regulated markets such as Japan and less regulated markets such as Latin America, Africa and parts of Asia. India witnessed a phenomenal growth in the EU and North America, with growth in Africa also being spectacular. In the former markets India has largely been existent in the upper end of the value chain.

Japan offers a fresh opportunity for quality conscious manufacturers. Given the heavy pressure on the health requirements, specially its aging population, Japan which is a US\$ 109 billion market, of which generics constitute 8%, has decided to enlarge its generics portfolio. Japan today represents an opportunity for the Indian pharmaceutical industry. India has also entered into an FTA with Japan, which is a conscious agreement to mutually increase cooperation in the pharma sector. An element of this is the fact that Japan has extended national treatment to Indian Companies.

Company Perspective.

The strategy of the Company is to continuously globalize the intellectual property assets and enhance value to the shareholders and customers. The company is developing a broad portfolio of DMFs/ ANDAs through non-infringing processes and intellectual properties for developing its products in regulated markets. The Company is managing cost efficiency in manufacturing environment approved by USFDA / European Regulatory Authorities

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-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 the 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". Inview 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, most Indian companies, which results in high product concentration and pricing related vulnerabilities.

Risks and Concerns.

Like all businesses, SMSPL business too involves risks. Risk management is an integral part of the company's plan, 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.

The Company has embedded risk management activities in the operational responsibilities of managements and made them an integral part of overall governance, organizational and accountability structure.

SMSPL is in a competitive market and the challenges are both from 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 and cost and has the ability to deliver at short notice.

SMSPL is adopting a broad and strategic to risk management taking in to account both internal and external risks and strengthening the governance process to respond swiftly to challenging dynamics.

The Company has taken cognizance of the compliance and operational risks to be addressed involving the people, the process, technology and outsourcing the products and services.

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 organisational values while managing or mitigating risks that can adversely impact its future performance.

The company constantly reviews its policies and procedures to adhere to 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 as well as products are adequately insured against various risks

Internal Control systems and their adequacy.

The Company has put in place a qualified team ensure that the internal controls are complied with the objectives of the internal control system is to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances.

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 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, who all 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 net sales of ₹ 239.93 crores as against ₹ 206.92 crores during the previous year which consists of export turnover ₹ 133.34 crores and ₹ 120.20 respectively. The Earnings Before Interest, Depreciation and Tax (EBIDT) amounted to ₹ (34.46) crores as against ₹ 38.18 crores.

The company has earned other income of ₹ 4.01 crores during the year 2012-13 as against ₹ 7.74 crores in the previous year 2011-12.

Your company has incurred ₹ 1.89 crores towards R&D expenditure for the year 2012-13 as against ₹ 1.56 crores in the previous year. The said R & D expenditure works out to 0.79% and 0.75% of its turnover respectively.

Your company continues to work towards optimizing the capacities of its manufacturing facilities and also adding additional capacities aimed at the business opportunities available to it 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

Pharmaceutical industry sector is facing global competition and most effected by a high attrition rate in India. Since this industry needs trained manpower who has the requisite experience to meet the compliances with statutory requirements, good manufacturing practices, good laboratory practices, QA and QC personnel along with research personnel,

your company focuses on these aspects in human resources management.

Your company continuously implements its training programmes that help in identifying the potential talent from employees and sharpen their talent skills and motivating them to do right things in the right way.

At the year end the company had 632 employees directly employed apart from indirect employees of 595.

Industrial relations continue to be peaceful and harmonious. The management has initiated various measures. During the period under review there was no incident of work stoppage or loss of production due to IR related issues.

Safety, Health and Environment.

SMSPL is in the business of design, manufacture and supply of Bulk Actives, Drug Intermediates & Fine Chemicals, and is committed to protect its employees, the environment and public in all phases of its business activities.

SMSPL employ's Environment Management System (EMS) to measure its progress in Safety, Health and Environment (SHE) systems, considered an integral part of its business. Under EMS, the policy provides frame work for compliance with applicable laws and regulations and commitment to the continuous improvement of Environment, personnel skills and conservation of natural resources.

Out look:

SMSPL has set ambitious goals for the years through to 2015 in expectation of 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 analysed on continual basis. By implementing these strategies, your company aims to increase its revenues, EBITDA and return on investment higher than the industry average.

CORPORATE GOVERNANCE

Introduction

A report for the financial year ended 31st March, 2013 on the compliance by the Company with the Corporate Governance requirements under Clause 49 of the Listing Agreement, is furnished below :

1. Company's Philosophy on Corporate Governance.

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

2. Board of Directors.

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

The constitution of the Board is given below:

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

Note: ED - Executive Director; ID - Independent Director

*Nominee Director of M/s. Gulf Pharmaceuticals, Ras Al Khaimah, U.A.E.

** Nominee Director of Exim Bank.

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

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

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

10th May, 2012, 10th August, 2012, 18th August, 2012, 16th October, 2012,
12th November, 2012, 12th February, 2013 and 26th February, 2013

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 29th September, 2012 were as under :

Name of the Director	Board Meetings		AGM
	Held during their tenure	Attended	
Sri P. Ramesh Babu	7	7	Yes
Sri TVVSN Murthy	7	6	Yes
Sri A.P. Rao	7	5	Yes
Sri K.S. Rao	7	7	Yes
Dr. B.M. Choudary	7	4	No
Dr. Mihir K. Chaudhuri	7	1	No
Sri Utpal Gokhale	7	6	No
Dr. Ayman Sahli	7	-	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 2012-13, four Audit Committee Meetings were held on the following dates:

10th May, 2012 10th August, 2012 12th November, 2012 and 12th February, 2013.

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

Name of the Director	Designation	Category	Profession	Committee Meetings	
				Held during their tenure	Attended
Sri K.S. Rao	Chairman	Independent Director	Chartered Accountant	4	4
Sri A.P. Rao	Member	Independent Director	Cost Accountant	4	2
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, 2013 are as follows. (₹ 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	–	38.11	–	38.11
Sri TVVSN Murthy	None	Wholetime Director	–	36.27	–	36.27



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

8. Investors' Grievance Committee

The Investors Grievance Committee met four times during the year on 15th June, 2012, 28th August, 2012, 6th November, 2012 and 14th March, 2013. At present the following are the members of this Committee:

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

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

Investors' Grievances

The following table shows the No. of complaints received from shareholders during the year 2012-13.

No. of Complaints received	No. of Complaints resolved	No. of Complaints pending
2	2	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.
22nd AGM	29th September, 2010	03.00 P.M.	Jubilee Hills Club, Jubilee Hills, Hyderabad-500 033.	-
23rd AGM	30th September, 2011	11.00 A.M.		-
24th AGM	29th September, 2012	11.00 A.M.		1

The special resolution was passed unanimously.

10. Postal Ballot :

The Company had obtained the approval of its Members, in September, 2012, under Section 192A of the Companies Act, 1956 for an Ordinary Resolution under Section 293 (1)(a) of the Companies Act, 1956 for transfer of Unit VI of the Company situated at Plot No.28, Jawaharlal Nehru Pharma City, Parawada, Visakhapatnam., A.P. as a going concern.

The Company also had obtained the approval of its Members, in May, 2013, under Section 192A of the Companies Act, 1956 for a Special Resolution under Section 77A of the Companies Act, 1956 for Buy Back of Company's Equity Shares.

11. Note on Directors re-appointment.

Dr. Mihir K. Chaudhuri and Sri K.S. 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. Mihir K. Chaudhuri

Dr. Mihir K. Chaudhuri has a Doctorate from IIT, Kharagpur, India and Ruhr University, Bochum, West Germany in fields of organometallic and inorganic chemistry. He is a fellow of various academic bodies and has been recognized as one of the best chemists and Chemical Engineers by ISI; USA in 1997-98. He has been serving in various capacities in different academic committees, councils and board of organizations such as CSIR, UGC and NHRD, among others. He has also been involved at national level policy-making bodies in India since 1982. He has over 120 publications and four patents to his credit. At present he is the Vice-Chancellor of Tezpur University, Assam-784 028.

Sri K.S. Rao

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

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

12. 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. 29(II) (B) (j) 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.

Reconciliation of Share Capital Audit Report

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

13. 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 : Monday 30th September, 2013 at 11.00 A.M.
Venue : Jubilee Hills Club, Jubilee Hills, Hyderabad-500033

b) Financial Calendar

Financial reporting for
Quarter ending 30th June, 2012 : 10th August, 2012
Half year ending
30th September, 2012 : 12th November, 2012
Quarter ending
31st December, 2012 : 12th February, 2013
Year ending 31st March, 2013 : 29th May, 2013
Annual General Meeting for the
Year ending 31st March, 2013 : 30th September, 2013

c) **Date of Book Closure** : 25th September, 2013 to 30th September, 2013

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 code

Exchange	Scrip Code	Scrip ID
BSE Limited	532815	SMSPHARMA
National Stock Exchange of India Limited	SMSPHARMA-EQ	SMSPHARMA



SMS
Pharmaceuticals Ltd.

The table below shows the monthly high and low price on the National Stock Exchange and Bombay Stock Exchange during the year 2012-13.

	Bombay Stock Exchange			National Stock Exchange		
	High (₹)	Low (₹)	Volume	High (₹)	Low (₹)	Volume
April, 2012	180.00	140.00	27,023	177.80	133.00	55,724
May, 2012	164.00	130.00	5,006	179.95	130.00	11,432
June, 2012	149.95	128.05	6,917	158.00	128.05	20,180
July, 2012	198.00	147.00	13,598	198.20	146.00	51,994
August, 2012	212.00	179.05	56,846	219.80	183.00	98,816
September, 2012	208.00	187.00	10,809	207.00	188.00	21,633
October, 2012	210.75	181.10	27,485	211.00	181.00	27,844
November, 2012	200.00	181.00	18,183	207.80	181.05	13,004
December, 2012	198.50	180.00	31,176	197.45	180.00	40,064
January, 2013	198.95	182.25	24,082	200.00	181.05	40,252
February, 2013	239.95	190.00	53,551	240.00	190.00	1,41,525
March, 2013	224.80	192.00	52,957	236.95	192.00	67,178

g) Share Transfer Agents

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

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, 2013 there were no Equity Shares pending for transfer. Also, there were no demat requests pending as on 31st March, 2013.



SMS
Pharmaceuticals Ltd.

i) **Distribution of Equity Shareholding.**

The table below shows the distribution of shareholding of various groups as on 31st March, 2013.

Slab of shareholdings	Shareholders	%	No. of Shares	%
1 to 5000	10,438	96.15	5,85,197	5.84
5001 to 10000	168	1.53	1,45,666	1.45
10001 to 20000	101	0.93	1,74,439	1.74
20001 to 30000	19	0.18	50,353	0.50
30001 to 40000	28	0.26	1,01,784	1.02
40001 to 50000	11	0.10	50,678	0.51
50001 to 100000	19	0.18	1,48,429	1.48
100001 and above	71	0.67	87,58,657	87.45
TOTAL	10,855	100.00	1,00,15,203	100.00

j) **According to categories of Equity Shareholders as on 31st March, 2013.**

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	137	7,29,317
	(b) Individuals		
	(i) holding nominal share capital up to Rupees one lakh	10,598	11,35,855
	(ii) holding nominal share capital in excess of Rupees one lakh	37	16,52,209
	(c) Any Other (Specify)		
	(i) Non-Resident Individuals	47	62,093
	(ii) Overseas corporate bodies	1	9,00,000
	(iii) Clearing Members	10	13,000
	(iv) Trusts	2	172
	SUB-TOTAL (B) (2)	10,832	44,92,646
	Total Public Shareholding	10,835	46,04,760
	TOTAL (A) + (B)	10,855	1,00,15,203

k) Dematerialisation of Shares

The company has made necessary arrangements with National Securities Depository Limited (NSDL) and Central Depository Services India Limited (CDSL) for dematerialization facility. As on 31st March, 2013, 98.13% of the company's equity shares are in dematerialized form. The ISIN No./code for the company's equity shares is INE812G01017 Shareholders can open an account with any of the depository participants registered with any of these depositories.

l) Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion date and likely impact on equity.

The Company has not issued any GDRs/ADRs/Warrants or any convertible instruments in the past and hence as on 31st March, 2013 the company does not have any outstanding GDRs/ADRs/Warrants or any convertible instruments.

m) Unpaid/un-claimed dividend.

Pursuant to the provisions of Section 205 A of the Companies Act, 1956, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account, is required to be transferred by company to the Investor Education and Protection Fund, established by the Central Government under the provisions of Section 205 C of the Companies Act, 1956.

Shareholder of the Company who have either not received or have not en-cashed their dividend warrants, for the financial years 2007-08, 2008-09, 2009-10, 2010-11 are requested to claim the unpaid/unclaimed dividend from the company before transfer to the fund.

n) Details of shares held in demat suspense account with HSE Securities Ltd. (IN302734-10034023) for the period from 01/04/2012 to 31/03/2013.

(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

o) Disclosures on Materially Significant Related Party Transactions.

There were no materially significant related party transactions compared to the business volume of the Company during the year conflicting with the interest of the Company.

p) Details of non-compliance and penalties.

There was no non-compliance during the last 3 years by the Company on any matter related to capital market. There were no penalties imposed nor strictures passed on the Company by the Stock Exchanges, SEBI and any statutory authority relating to capital markets.

Investors Correspondence

Sri P. Prabhakara Rao

Company Secretary and Compliance Officer

SMS Pharmaceuticals Limited

Plot No.19-III, Road No.71

Opp. Bharatiya Vidya Public School

Jubilee Hills, Hyderabad-500 096.

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, 2013, 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, 2013, 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

C. Sudhir Babu
Proprietor
(M.No. FCS 2724)

Place : Hyderabad
Date : 29.05.2013



Pharmaceuticals Ltd.

Declaraion Regarding Compliance by Board Members and Senior Management Personnel with the Company's Code of Conduct.

To
The Members of
SMS Pharmaceuticals Limited

As required under Clause 49 (1) (D) of the Listing Agreement with the Stock Exchanges, I hereby confirm that the Company has adopted a Code of Conduct for all Board Members and Senior Management and the same has been placed on the Company's website. All Board Members and Senior Management personnel have affirmed compliance with the Code of Coduct in respect of the financial year ended 31st March, 2013.

For SMS Pharmaceuticals Limited

Place: Hyderabad
Date : 29th May, 2013.

P. Ramesh Babu
Chairman and Managing Director

INDEPENDENT AUDITOR'S REPORT

To the Members of
SMS PHARMACEUTICALS LTD

Report on Financial Statements

We have audited the accompanying financial statements of M/s. SMS PHARMACEUTICALS LIMITED, HYDERABAD ("the Company"), which comprise the Balance Sheet as at March 31, 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Managements Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error,

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2013;
- b) In the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
- c) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

- I. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.



2. As required by section 227(3) of the Act, we report that:
- 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;
 - 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.
 - 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.
 - In our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;
 - On the basis of written representations received from the directors as on March 31, 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

for **RAMBABU & Co.,**
Chartered Accountants
Firm Reg. No.002976S

RAVI RAMBABU

Partner
M.No.18541

Place : Hyderabad
Date : 29-05-2013

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

P. MURALI MOHAN RAO

Partner
M.No.23412

The Annexure referred to in paragraph I of the Our Report of even date to the members of SMS PHARMACEUTICALS LIMITED on the accounts of the company for the year ended 31st March, 2013.

1. In respect of Fixed Assets:
- The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets.
 - As explained to us, fixed assets have been physically verified by the management in a phased periodical manner, which in our opinion is reasonable having regard to the size of the company and nature of its assets. No material discrepancies were noticed on such verification.
 - During the year, the Company has disposed off a substantial part of its fixed assets and in our opinion, disposal of fixed assets does not affect the going concern status of the company.
2. In respect of its Inventories
- As explained to us, inventories have been physically verified during the year by the management at regular intervals. In our opinion, the frequency of verification is reasonable.
 - In our opinion and according to the information and explanations given to us, 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 has maintained proper records of inventories. In our opinion and according to the information and explanations given to us, the discrepancies noticed on physical verification as compared to the book records are 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 Section 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 is generally an adequate internal control procedure commensurate with the size of the company and the nature of its business, for the purchase of inventories & fixed assets and payment for expenses & for sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in the internal control system.
5. In respect of contracts or arrangements preferred to in Section 301 of the Companies Act, 1956:
- (a) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements, that needed to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
- (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 and exceeding the value of ₹ 5,00,000/- in respect of each party covered above during the year have been made at prices which appear reasonable as per information available with the Company.
6. According to the information and explanations given to us, the Company has not accepted any deposits from the public covered under section 58A and 58AA of the Companies Act, 1956.
7. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
8. We have broadly reviewed the cost records maintained by the Company pursuant to the Companies (Cost Accounting Records) Rules, 2011 prescribed by the Central Government under Section 209(1) (d) of the Act and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.
9. In respect of statutory dues:
- (a) According to the records of the company, undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess to the extent applicable and any other statutory dues have generally been regularly deposited with the appropriate authorities. According to the information and explanations given to us there were no outstanding statutory dues as on 31st of March, 2013 for a period of more than six months from the date they became payable.
- (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, 2013 for a period of more than six Months from the date they became payable, except the following:



SMS
Pharmaceuticals Ltd.

S.No.	Name of the Statute	Nature of the dues	Year	Amount ₹ 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 ₹ in Lakhs	Amount Deposit ₹ in Lakhs	Amount not Deposit ₹ in Lakhs
1.	Income Tax Act, 1961	Interest	AO	1992-2013	118.11	-	118.11
2.	Central Excise Act 1944	Interest	APHIGH COURT	1992-2010	60.70	-	60.70
3.	Income Tax Act, 1961	Income Tax	ITAT	2000-01	0.69	-	0.69
4.	Income Tax Act, 1961	Income Tax	ITAT	2001-02	54.18	54.43	(0.25)
5.	Income Tax Act, 1961	Income Tax	AO	2001-02	1.22	-	1.22
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	-
10.	Central Excise Act, 1944	Interest	AP High Court	1992-93 to 2010-11	21.74	-	21.74
TOTAL					317.41	69.18	248.23



Pharmaceuticals Ltd.

10. The Company does not have any accumulated losses at the end of the financial year. The Company has not incurred cash losses during the financial year covered by the audit and in the immediately preceding financial year.
11. Based on our audit procedures and according to the information and explanations given by the management, we are of the opinion that, the Company has not defaulted in repayment of dues to financial institutions, banks and debenture holders.
12. In our opinion and according to the explanations given to us and based on the information available, no loans and advances have been granted by the company on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a nidhi /mutual benefit fund/society. Therefore, the provision of this clause of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the Company.
14. In our opinion, the Company is not dealing in or trading in Shares, securities, debentures, mutual funds & other Investments. Accordingly, the provisions of clause 4(xiii) of the companies(Auditor's Report) order, 2003 are not applicable to the company.
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. Based on the information given by the management, we report that the company has not raised any term loans during the year.
17. In our opinion, according to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company as at 31st March, 2013, we report that no funds raised on short-term basis have been used for long-term investment by the Company.
18. Based on the audit procedures performed and the information and explanations given to us by the management, we report that the Company has not made any preferential allotment of shares during the year.
19. According to the information and explanations given to us, the Company has not issued debentures during the period covered by our report. Hence, the Company is not required to create or register or modify any security or charge.
20. The Company has not raised any money by public issue during the year.
21. Based on the audit procedures performed and the information and explanations given to us, we report that no material fraud on or by the Company has been noticed or reported during the year, nor have we been informed of such case by the management.

for **RAMBABU & Co.,**
Chartered Accountants
Firm Reg. No.002976S

RAVI RAMBABU
Partner
M.No.18541

Place : Hyderabad
Date : 29-05-2013

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

P. MURALI MOHAN RAO
Partner
M.No.23412



Pharmaceuticals Ltd.

Balance Sheet as at 31st March, 2013

(Amount : ₹ in Lakhs)

Sl. No.	Particulars	Note No.	As at 31.03.2013	As at 31.03.2012
I.	EQUITY AND LIABILITIES			
1.	Shareholders' Funds			
(a)	Share Capital	1	1,001.52	1,001.52
(b)	Reserves & Surplus	2	23,404.89	21,106.75
			24,406.41	22,108.27
2.	Non-Current Liabilities			
(a)	Long Term Borrowings	3	5,363.54	8,184.24
(b)	Deffered Tax Liability	4	928.92	1,695.01
(c)	Long Term Provisions	5	157.78	133.59
			6,450.24	10,012.84
3.	Current Liabilities			
(a)	Short Term Borrowings	6	7,754.16	9,771.41
(b)	Trade Payables	7	4,532.96	3,548.74
(c)	Other Current Liabilities	8	3,715.98	3,697.75
(d)	Short Term Provisions	9	272.43	41.37
			16,275.53	17,059.27
	TOTAL		47,132.18	49,180.38
II.	ASSETS			
1.	Non Current Assets			
(a)	Fixed Assets	10		
(i)	Tangible Assets		14,641.48	22,416.21
(ii)	Intangible Assets		46.96	69.16
(iii)	Capital Work In Progress [Ref Note No.29 (II) (B) (c)]		9,566.35	4,894.92
(b)	Non Current Investments	11	51.65	51.65
(c)	Other Non Current Assets	12	-	573.98
(d)	Long Term Loans & Advances	13	158.67	303.71
			24,465.11	28,309.63
2.	Current Assets			
(a)	Current Investments	14	2,500.00	-
(b)	Inventories	15	10,503.07	13,808.12
(c)	Trade Receivables	16	3,504.52	3,841.92
(d)	Cash and Bank Balances	17	3,646.38	908.47
(e)	Short Term Loans & Advances	18	302.39	893.19
(f)	Other Current Assets	19	2,210.71	1,419.05
			22,667.07	20,870.75
	TOTAL		47,132.18	49,180.38
	Significant Accounting Policies and Notes on Financial Statements	29		

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

P. PRABHAKAR RAO
Company Secretary

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 29-05-2013



Pharmaceuticals Ltd.

Statement of Profit and Loss for the Year ended 31st March, 2013

(Amount : ₹ in Lakhs)

Sl. No.	Particulars	Note No.	Current Year 2012-13	Previous Year 2011-12
1.	Revenue from operations	20	24,232.66	21,409.74
2.	Other Income	21	161.89	56.41
3.	Total Revenue (1+2)		24,394.55	21,466.15
4.	Expenses :			
	Cost of Materials Consumed	22	17,353.66	13,071.35
	Purchase of Stock in Trade		23.23	35.70
	Changes in Inventories	23	2,562.70	(1,129.11)
	Employee Benefit Expenses	24	1,792.61	1,413.75
	Finance Cost	25	2,426.34	2,412.34
	Depreciation and Amortisation	10	1,372.15	1,263.97
	Other Expenses	26	6,108.83	4,256.40
	TOTAL EXPENSES		31,639.52	21,324.40
5.	Profit/(Loss) before Exceptional and Extraordinary Items and Tax (3-4)		(7,244.97)	141.75
6.	Extraordinary Items	27		
	Profit on Transfer of Unit		10,351.37	-
	Advances Written Off		(140.00)	-
7.	Profit / (Loss) before Tax (7-8)		2,966.40	141.75
8.	Tax Expense			
	(a) Current Tax expenses		1,200.00	28.00
	(b) Deferred Tax		(766.09)	0.00
	Sub Total		433.91	28.00
9.	Profit after Tax (5-6)		2,532.49	113.75
10.	Earnings Per Share			
	(1) Basic and Diluted (Amount in ₹)	28	25.29	1.14
	Significant Accounting Policies and Notes on Financial Statements	29		

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.**
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

P. PRABHAKAR RAO
Company Secretary

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 29-05-2013

**Cash Flow Statement for the Year ended 31st March, 2013**

(Amount : ₹ in Lakhs)

Sl. No.	Particulars	Current Year 2012-13	Previous Year 2011-12
A.	Cash Flows from Operating Activities:		
	Net Profit after tax	(7,244.97)	141.75
	Less: Profit/Loss from sale of assets	14.96	-
	Add: Deferred Revenue Exp written off	762.97	582.12
	Add : Depreciation	1,372.15	1,263.97
	Add : Interest on Term Loans	992.67	1,033.15
	Less: Advances Written Off	(140.00)	-
	Add: Bad Debts written off	68.97	-
	Operating Profit before working capital changes	(4,173.25)	3,020.99
	Adjustment for:		
	Trade receivables	254.42	329.84
	Inventories	3,305.06	(2,366.01)
	Loans and Advances & Other Assets	590.79	770.34
	Trade Payables and Other Payables	984.22	358.30
	Current Investments	(2,500.00)	-
	Other Current Liabilities	169.78	-
	Other Current Assets	(948.93)	-
	Short Term Provisions	(3.28)	-
		1,852.06	(907.53)
	Cash Generated From Operations	(2,321.19)	2,113.46
	Income Tax Paid	(1,114.37)	(131.87)
	Net cash from operating activities "A"	(3,435.56)	1,981.59
B.	Cash Flows from Investing activities :		
	Purchase of Fixed Assets	(5,092.95)	2,297.94
	Proceeds from Sale of Fixed Assets	124.27	-
	Proceeds from Transfer of Unit	17,300.00	-
	Expenses on Transfer of Unit	(279.44)	-
	Deferred R&D Expenditure	(188.99)	156.39
	Net Cash used in Investing Activities "B"	11,862.89	2,454.33



Pharmaceuticals Ltd.

Cash Flow Statement (Contd.)

(Amount : ₹ in Lakhs)

Sl. No.	Particulars	Current Year 2012-13	Previous Year 2011-12
C.	Cash Flows from Financing Activities :		
	Proceeds from Long Term Borrowings	(2,820.70)	2,020.65
	Proceeds from Short Term Borrowings	(2,017.25)	2,155.51
	Provisions	24.19	(2,163.80)
	Repayment of Vehicle Loans	-	(1.68)
	Loans and Advances	145.03	(23.01)
	Interest	(1,020.68)	(1,036.79)
	Dividend Paid	-	(174.60)
	Net Cash used in Financing Activities "C"	(5,689.41)	776.28
	Net (Decrease)/Increase in Cash and Cash Equivalents (A+B+C)	2,737.92	303.54
	Cash and Cash Equivalents at the Beginning of the Year	901.42	597.88
	Cash and Cash Equivalents at the end of the Year	3,639.34	901.42

As per our report of even date.

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

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

for and on behalf of the Board

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

P. PRABHAKAR RAO
Company Secretary

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 29-05-2013



Notes Forming Part of the Financial Statements

Note No. I SHARE CAPITAL

Particulars	As at 31.03.2013		As at 31.03.2012	
	Number	Amount ₹ in lakhs	Number	Amount ₹ in lakhs
Authorised Share Capital				
Equity Shares of ₹ 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 ₹ 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

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

Name of the share holder	As at 31.03.2013		As at 31.03.2012	
	No of Shares	% held	No of Shares	% held
P. Hima Bindu	1,237,336	12.35	1,237,336	12.35
P. Ramesh Babu	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

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

Particulars	No of Shares	
	As at 31.03.2013	As at 31.03.2012
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



Pharmaceuticals Ltd.

Notes Forming Part of the Financial Statements

(Amount : ₹ in Lakhs)

Particulars	As at 31.03.2013	As at 31.03.2012
2 RESERVES AND SURPLUS		
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	7,523.63
(-) Delitions during the year	-	-
(+) Transfer from Profit & Loss statement	300.00	-
At the End of the Year	7,823.63	7,523.63
c. Surplus in the Statement of Profit and Loss		
At the Commencement of the Year	2,653.72	2,539.98
Add : For the Current Year	2,532.49	113.75
	5,186.21	2,653.73
Proposed dividend on Equity Shares	200.30	-
Corporate Dividend Tax	34.04	-
Transfer to General Reserve	300.00	-
At the End of the Year	4,651.87	2,653.73
TOTAL	23,404.89	21,106.75
3. LONG TERM BORROWINGS		
3.1 Secured		
State Bank of India		
Term loan - I	1,000.00	1,800.00
Term loan - II	3,825.00	1,011.06
Export Import Bank of India	-	-
Term Loan - II	-	450.00
Term Loan - III	-	1,050.00
Axis Bank Ltd	-	-
IDBI Bank Ltd	-	2,700.00
ICICI Bank Ltd	-	500.00
	4,825.00	7,511.06
3.2 Unsecured		
Sales Tax Deferment Loan (Refer Note No.3.2.1)	418.54	553.18
D S I R Assistance (Refer Note No. 3.2.2)	120.00	120.00
	538.54	673.18
TOTAL	5,363.54	8,184.24

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



Notes Forming Part of the Financial Statements

- 3.1.1 (a)** Term Loans availed from State Bank of India, Export-Import Bank of India, 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.
- 3.1.2 (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.
- i) 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.
 - ii) Equitable mortgage of Agricultural land admeasuring 3.65 acres belonging to Mr.TVVSN Murthy, a director of the company, situated in Yalamanchili Village of West Godavari district, Andhra Pradesh.
 - iii) Corporate Guarantee by M/s.Hima Farms Pvt Ltd., to the extent of collateral security extened by them.
 - (iv) Personal Guarantee by relative of a Director.

3.1.3 Terms of Repayment.

Particulars	Date of Sanction	Rate of Interest	No. of Instalments (Quarterly)	Amount for each instalment ₹ Lakhs	Repayment comenced from
State Bank of India					
Term Loan - I	13-01-2012	13.10%	15	200.00	February,2012
Term Loan - II	13-01-2012	13.20%	20	212.50	December,2013
Export Import Bank of India					
Term Loan - II	10-08-2006	12.40%	20	150.00	March,2009

3.2.1 Un-Secured Loans

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

Year	Amount ₹ in Lakhs	Year of Repayment
2000-01 (Current Maturity)	71.80	2013-14
2001-02	60.32	2014-15
2002-03	48.27	2015-16
2003-04	65.48	2016-17
2004-05	74.19	2017-18
2005-06	65.64	2018-19
2006-07	69.63	2019-20
2007-08	35.01	2020-21
TOTAL	490.34	



Notes Forming Part of the Financial Statements

3.2.2 Financial assistance received from Department of Scientific and Industrial Research (DSIR) of ₹ 120.00 lakhs (previous year ₹ 120.00 lakhs) sanctioned under PATSER Scheme of TPDU program for development of catalysts or Fine Chemicals apart from Active Pharmaceutical Ingredients (API's), and their intermediates viz. Metal Acetylacetonates, 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.

(Amount : ₹ in Lakhs)

Particulars	As at 31.03.2013	As at 31.03.2012
4. DEFERRED TAX LIABILITY		
Opening Deferred Tax Liability	1,695.01	1,695.01
Add / Less : for the Year	(766.09)	-
Closing Deferred Tax Liability	928.92	1,695.01
Details for the Deferred Tax Liability are as Furnished below :		
Deferred Tax Liability:		
On fiscal allowance on Fixed Assets	2,583.64	2,547.78
Sub Total (A)	2,583.64	2,547.78
Less: Deffered Tax Asset:		
On Un-absorbed Depreciation and R&D expenditure	1,027.88	688.25
On MAT Credit available	544.26	125.31
Other timing differences	82.58	39.21
Sub Total (B)	1,654.72	852.77
Net Deferred Tax Liability (A-B)	928.92	1,695.01
5. LONG TERM PROVISIONS		
(a) Provision for employee benefits		
Provision for Gratuity to the extent of unfunded	108.76	91.46
Provision for leave encashment - Unfunded	49.02	42.13
TOTAL	157.78	133.59



Pharmaceuticals Ltd.

(Amount : ₹ in Lakhs)

Particulars	As at 31.03.2013	As at 31.03.2012
6. SHORT TERM BORROWINGS		
Secured		
State Bank of Inida		
Cash Credit	2,327.44	2,085.86
Stand by Loan	1,811.70	1,916.89
Bills Discounting - Export	751.92	858.10
Export Packing Credit	2,363.10	595.36
FCNR (B) Demand Loan	-	2,015.55
Export - Import Bank of India	-	-
Packing Credit-INR	500.00	-
Packing Credit Foreign Currency	-	2,299.65
TOTAL	7,754.16	9,771.41

- (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.TVVSN 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.

7. TRADE PAYABLES

Creditors for purchases	3,743.07	3,136.50
Creditors for expenses	789.89	412.24
TOTAL	4,532.96	3,548.74



Pharmaceuticals Ltd.

Notes Forming Part of the Financial Statements

Particulars	(Amount : ₹ in Lakhs)	
	As at 31.03.2013	As at 31.03.2012
8. OTHER CURRENT LIABILITIES		
Current Maturities of Long Term Debt		
Secured Loans:		
State Bank of India		
Term Loan - I	799.81	800.00
Term Loan - II	420.61	-
EXIM Bank Ltd		
Term Loan -II	450.00	600.00
Term Loan - III	-	600.00
IDBI Bank	-	300.00
ICICI Bank Ltd	-	400.00
Un-Secured Loans:		
Sales Tax Deferment Loan	71.80	32.51
Sub Total (Current Maturities)	1,742.22	2,732.51
Other Payables-Statutory Dues	129.52	133.19
Creditors for capital goods	1,288.49	788.39
Interest Accrued but not due on Term Loans	8.60	36.62
Unclaimed Dividend	7.03	7.04
Advance received against Claim [Refer Note No.29(II) (B) (b)]	540.12	-
TOTAL	3,715.98	3,697.75
9. SHORT TERM PROVISIONS		
(a) Provision for employee benefits		
Gratuity	21.42	17.30
Leave Encashment	3.84	6.89
Bonus Payable	12.83	17.18
(b) Others	-	-
Provision for Income Tax	-	-
Provision for Equity Dividend	200.30	-
Provision for Dividend Distribution Tax	34.04	-
TOTAL	272.43	41.37

Note - 10 FIXED ASSETS

(Amount : ₹ in lakhs)

Name of the Asset	Gross Block			Depreciation			Net Block			
	As at 01.04.2012	Additions during the year	Deletions during the year	As at 31.03.2013	Up to 31.03.2012	During the period	On Deletions	Up to 31.03.2013	As at 31.03.2013	As at 31.03.2012
a. Tangible Assets										
Land & Land Development	749.86	53.63	199.93	603.56	-	-	-	-	603.56	749.86
Buildings	7,290.02	110.20	1,911.54	5,488.68	984.67	205.31	169.53	1,020.45	4,468.23	6,305.35
Plant & Machinery	20,256.90	210.57	5,578.80	14,888.67	5,834.93	1,036.10	731.21	6,139.82	8,748.85	14,421.97
Pollution Control Equipment	1,056.07	-	-	1,056.07	424.35	55.76	-	480.11	575.96	631.72
Data Processing Equipment	141.75	5.55	13.74	133.56	102.76	11.25	7.65	106.36	27.20	38.99
Furniture & Fixtures	167.99	15.31	32.70	150.60	72.68	10.07	4.17	78.58	72.02	95.31
Office Equipment	107.12	3.92	7.05	103.99	50.27	5.69	1.53	54.43	49.56	56.85
Vehicles	254.06	13.16	9.75	257.47	168.98	19.53	5.79	182.72	74.75	85.08
Improvements on Leased Premises	65.52	-	-	65.52	65.52	-	-	65.52	-	-
Land Scaping	41.09	6.80	19.87	28.02	10.01	3.86	7.20	6.67	21.35	31.08
Sub total	30,130.38	419.14	7,773.38	22,776.14	7,714.17	1,347.57	927.08	8,134.66	14,641.48	22,416.21
(Previous Year)	(27,013.90)	(3,116.48)	-	(30,130.38)	(6,468.77)	(1,245.41)	(-)	(7,714.18)	(22,416.20)	(20,545.13)
b. Intangible Assets :										
Computer Software	93.08	2.16	-	95.24	26.95	23.36	-	50.31	44.93	66.13
Patents	4.85	0.22	-	5.07	1.82	1.22	-	3.04	2.03	3.03
Sub total	97.93	2.38	-	100.31	28.77	24.58	-	53.35	46.96	69.16
(Previous Year)	(66.43)	(31.50)	-	(97.93)	(10.20)	(18.57)	(-)	(28.77)	(69.16)	(56.23)
Total	30,228.31	421.52	7,773.38	22,876.45	7,742.94	1,372.15	927.08	8,188.01	14,688.44	22,485.37
(Previous Year)	(27,080.33)	(3,147.98)	-	(30,228.31)	(6,478.97)	(1,263.98)	(-)	(7,742.95)	(22,485.36)	(20,601.36)
c. Capital Work-in-Progress	4,894.92	4,737.50	66.07	9,566.35	-	-	-	-	9,566.35	4,894.92
(Previous Year)	(5,856.17)	(2,081.66)	(3,042.91)	(4,894.92)	(-)	(-)	(-)	(-)	(4,894.92)	(5,856.17)
Total (a+b+c)	35,123.23	5,159.02	7,839.45	32,442.80	7,742.94	1,372.15	927.08	8,188.01	24,254.79	27,380.29
(Previous Year)	(32,936.50)	(5,229.64)	(3,042.91)	(35,123.23)	(6,478.97)	(1,263.98)	-	(7,742.95)	(27,380.28)	(26,457.53)



Pharmaceuticals Ltd.

Notes Forming Part of the Financial Statements

(Amount : ₹ in Lakhs)

Particulars	As at 31.03.2013	As at 31.03.2012
11. NON CURRENT INVESTMENTS		
At Cost - Non-Trade - Unquoted		
17,538 Equity Shares of ₹ 10/- each in Pattan Cheru Enviro Tech Ltd.	1.75	1.75
2,253 Equity Shares of ₹ 100/- in Jeedimetla Effluent Treatment Limited	2.25	2.25
4,76,476 Redeemable Cumilative Preferecial Shares of ₹ 10/- each in Divya Enterprises Limited (Redeemable in 9th and 10th year i.e 2016-17 and 2017-18)	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	125.63	473.18
Add: During the Year	-	-
Less: Written off during the Year	125.63*	347.55
At the end of the Year	-	125.63
(b) Deferred R & D Expenditure		
At the Commencement of the Year	445.77	516.83
Add: During the Year	188.99**	156.39
Less: Written off during the Year	634.76*	227.45
At the end of the Year	-	445.77
(c) Business Development Expenditure		
At the Commencement of the Year	2.15	8.88
Add: During the Year	-	-
Less: Written off during the Year	2.15*	6.73
At the end of the Year	-	2.15
(d) Patents Filing Fee		
At the Commencement of the Year	0.43	0.82
Add: During the Year	-	-
Less: Written off during the Year	0.43*	0.39
At the end of the Year	-	0.43
TOTAL	-	573.98

* During the year the company has written off entire amount of Deferred Revenue and Deferred R&D Expenditure, as it is considered that there is no enduring benefit accrues.

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

**Notes Forming Part of the Financial Statements**

(Amount : ₹ in Lakhs)

Particulars	As at 31.03.2013	As at 31.03.2012
13. LONG TERM LOANS & ADVANCES		
(a) Deposits Recoverable (Unsecured considered good)	158.67	163.71
(b) ICD with Direct Finance Limited	-	140.00
TOTAL	158.67	303.71

Deposits recoverable consists of ₹ 97.76 lakhs (Previous year ₹ 109.10 lakhs) with Electricity Department, ₹ 23.93 lakhs (Previous year ₹ 24.00 lakhs) Rent Deposit and ₹ 36.98 lakhs (Previous year ₹ 30.60 Laks) with Others.

**14. CURRENT INVESTMENTS
SHORT TERM INVESTMENTS**

In SBI Premier Liquid Fund	2,500.00	-
	2,500.00	-

**15. INVENTORIES
(As Valued and Certified by the Management)**

Raw Material (Valued at cost on weighted average basis)	3,528.56	4,275.75
Stock in Process (Valued at cost)	6,333.36	8,637.89
Finished Goods (Valued at lower of cost or net realisable value)	621.25	879.42
Coal & Fuel (Valued at cost on weighted average basis)	19.90	15.06
TOTAL	10,503.07	13,808.12

Raw materials includes value of materials with NATCO Pharma of ₹ 715.34 lakhs (Previous year ₹ 715.34 lakhs [Refer Note No 29(II)(B)(a)(i)]).

16. TRADE RECEIVABLES

Receivable for a period exceeding 6 months (Unsecured and Considered Good)	505.86	472.88
Receivable for a period less than 6 months (Unsecured and Considered Good)	2,998.66	3,369.04
TOTAL	3,504.52	3,841.92

Debtors outstanding for more than 6 months consists of an amount of ₹ 399.33 lakhs (Previous Year ₹ 399.33 lakhs) represents dues from NATCO Pharma Limited. Please Refer Note No. 29(II)(B)(a)(i))



Pharmaceuticals Ltd.

Notes Forming Part of the Financial Statements

(Amount : ₹ in Lakhs)

Particulars	As at 31.03.2013	As at 31.03.2012
17. CASH AND BANK BALANCES		
(a) Cash and Cash Equivalents:		
(i) Cash on Hand	12.76	26.46
(ii) Balances with Scheduled Banks		
- in current accounts	962.73	201.42
- Balance Against Dividends Payments	7.03	7.04
(b) Other Balances in:		
(i) Deposit against Margin Money	303.06	302.75
(ii) Fixed Deposits	0.80	370.80
(iii) in DSRA	360.00	-
(iv) STDRS	2,000.00	-
TOTAL	3,646.38	908.47
Note: Out of the above amount of cash and cash equivalents was ₹ 3639.34 lakhs (previous year ₹ 901.42 lakhs).		
Deposit against margin money includes an amount of ₹ Nil (Previous Year ₹ 298.00 lakhs) which have maturity period of more than 12 months and an amount of ₹ 303.06 lakhs (Previous Year ₹ 4.75 lakhs) which have maturity period of less than 12 months.		
Fixed Deposits includes an amount of ₹ 0.80 lakhs (Previous year ₹ 370.00 lakhs) which have maturity period of less than 12 months and ₹ Nil (Previous year ₹ 0.80 lakhs) which have maturity period of more than 12 months.		
18. SHORT TERM LOANS & ADVANCES		
Advances for Raw Material	234.40	821.75
Advances to others	67.99	71.44
TOTAL	302.39	893.19
19. OTHER CURRENT ASSETS		
Prepaid Taxes (Net of Provision)	78.94	127.64
Prepaid Expenses	55.33	27.97
Interest Receivable	92.41	110.32
Cenvat & Service Tax Credit Receivable	1,117.53	787.09
VAT Credit Receivable	646.04	240.95
Export Benefits Receivable	220.46	125.08
TOTAL	2,210.71	1,419.05

**Notes Forming Part of the Financial Statements**

(Amount : ₹ in Lakhs)

Particulars	Current Year 2012-13	Previous Year 2011-12
20. REVENUE FROM OPERATIONS		
(a) Sale of Products		
Gross Revenue From Sales		
Sale of Products	25,006.45	22,276.25
Export Incentives	396.52	354.32
	<u>25,402.97</u>	<u>22,630.57</u>
Less: Excise Duty	1,127.87	1,644.38
Sales Tax	281.72	293.89
Total Taxes	<u>1,409.59</u>	<u>1,938.27</u>
Net Revenue from Sales	<u>23,993.38</u>	<u>20,692.30</u>
(b) Other Operating Income		
Sale of Services (Gross)	268.34	552.16
Less : Service Tax	29.06	11.15
Net Revenue from Services	<u>239.28</u>	<u>541.02</u>
Conversion Charges	-	176.42
Sub-Total	<u>239.28</u>	<u>717.44</u>
Net Revenue from Operations and Services	<u>24,232.66</u>	<u>21,409.74</u>
21. Other Income		
(a) Interest Income	83.57	51.96
(b) Miscellaneous Income	78.17	4.45
(c) Profit on Sale of Assets	0.15	-
TOTAL	<u>161.89</u>	<u>56.41</u>
22. MATERIALS CONSUMED		
(a) Raw Materials		
Opening Stock	4,242.83	3,005.73
Add : Purchases	16,427.37	14,153.72
	<u>20,670.20</u>	<u>17,159.45</u>
Less: Closing Stock	3,508.67	4,242.83
	<u>17,161.53</u>	<u>12,916.62</u>
(b) Packing Materials		
Opening Stock	32.92	22.11
Add : Purchases	179.11	165.55
	<u>212.03</u>	<u>187.66</u>
Less: Closing Stock	19.90	32.92
	<u>192.13</u>	<u>154.73</u>
Total Materials Consumed (a+b)	<u>17,353.66</u>	<u>13,071.35</u>



Pharmaceuticals Ltd.

Notes Forming Part of the Financial Statements

(Amount : ₹ in Lakhs)

Particulars	Current Year 2012-13	Previous Year 2011-12
23. CHANGES IN INVENTORIES OF FINISHED GOODS AND STOCK IN PROCESS		
(Increase)/Decrease in Stocks		
At the Commencement of the Year :		
Stock in Process	8,637.89	7,065.53
Finished Goods	879.42	1,322.67
Sub-Total (a)	9,517.31	8,388.20
At the end of the Year :		
Stock in Process	6,333.36	8,637.89
Finished Goods	621.25	879.42
Sub-Total (b)	6,954.61	9,517.31
(Increase)/Decrease in Stocks (a)-(b)	2,562.70	(1,129.11)
24. EMPLOYEE BENEFIT EXPENSES		
Salaries, Wages and Bonus	1,540.54	1,191.28
Contribution to PF & Other Funds	106.57	97.80
Staff Welfare Expenses	145.50	124.67
TOTAL	1,792.61	1,413.75
25. FINANCE COST		
Interest on Term Loans	992.67	1,033.15
Interest on Working Capital	1,029.78	826.73
Interest on Others	3.11	3.56
Bank Charges	185.33	244.00
Exchange Variance	215.45	304.90
TOTAL	2,426.34	2,412.34

**Notes Forming Part of the Financial Statements**

(Amount : ₹ in Lakhs)

Particulars	Current Year 2012-13	Previous Year 2011-12
26. OTHER EXPENSES		
Power & Fuel	2,521.88	1,641.72
Consumable Stores	170.76	174.99
Testing Charges	22.73	16.04
Water Charges	77.74	61.71
Conversion Charges	294.03	-
Effluent Treatment Charges	101.40	185.87
Central Excise Duty	25.47	5.05
Repairs & Maintenance - Plant & Machinery	393.23	286.19
Repairs & Maintenance - Buildings	91.45	32.56
Factory Maintenance	83.04	60.62
Travelling Expenses - Directors	19.27	3.59
Travelling Expenses	39.84	35.62
Postage & Telephones	28.63	23.55
Printing & Stationary	45.05	43.24
Directors Remuneration	74.63	74.04
Rent, Rates & Taxes	128.61	88.28
Insurance	63.01	63.24
Professional Charges	32.01	80.21
General Expenses	183.19	125.35
Loss on Sale of Assets	15.10	-
Cost Audit Fee	0.75	0.50
Payment to Auditors	11.68	11.50
Repairs to other Assets	8.87	11.85
Vehicle Maintenance	25.43	24.47
Carriage Outward	388.62	470.60
Sales Commission	259.64	136.80
Business Promotion Expenses	77.41	3.23
Interest on Indirect Taxes	19.67	-
Exchange Variance	73.75	13.46
Bad Debts Written Off	68.97	-
Deferred Revenue and R&D Expenditure Written Off	762.97	582.12
TOTAL	6,108.83	4,256.40

26.1 Power and Fuel expenses consists of an amount of ₹ 232.57 lakhs towards FSA charges for the period April-2010 to March-2013 out of which an amount of ₹ 46.31 lakhs levied in monthly bills. Remaining amount of ₹ 186.25 lakhs represents provision made based on APERC Orders.



Notes Forming Part of the Financial Statements

27.1 During the year, the oncology facility situated at JN Pharma City Parwada was transferred for a total consideration of ₹ 17,300.00 lakhs as a going concern on slump sale basis.

27.2 The company had advanced an amount of ₹ 200.00 lakhs to M/s Direct Finance and Investment Ltd, New Delhi, during the year 1994-95, based on guarantee given by M/s MS Shoes East Ltd, New Delhi. Out of this an amount of ₹ 60.00 lakhs has been recovered subsequently. During the year 2002-03, the company has recognised an amount of ₹ 70.00 lakhs towards interest on the above said advance and credited to Profit & loss Account.

During the year, the company has entered into a settlement agreement before the Delhi High Court mediation and conciliation centre. The said conciliation centre has passed an order for payment of ₹ 56.00 lakhs by M/s. MS Shoes East India Limited and the company has to withdraw both the civil and criminal suits filed. This amount was appropriated towards interest receivable. Hence balance amount of ₹ 140.00 lakhs towards principal and ₹ 14.00 lakhs towards interest was written off.

(Amount : ₹ in Lakhs)

Particulars	Current Year 2012-13	Previous Year 2011-12
28. EARNINGS PER SHARE		
Net profit for basic EPS	2,532.49	114.54
Weighted Average No. of shares	100.15	100.15
Annualized Basic Earnings per share (Amount in ₹)	25.29	1.14

29. 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 at Kandivalasa in Vijayanagaram Dist and having registered office at Road No. 71, Jublie Hills, Hyderabad.

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 as reduced by taxes to the extent of recoverable.
- ii. Assets acquired on Hire Purchase arrangements, if any, 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 and which are not ready for put to use 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. Incase of assets costing less than ₹ 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 is being 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
Astock-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 wherever applicable. However Excise Duty and Sales Tax to the extent of recoverable from customers are disclosed as reduction from turnover.

h. Deferred Revenue Expenditure:

Hitherto, 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. Hitherto 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:

Hitherto 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. From the year 2010-11 onwards, expenditure incurred for filing of patents and related expenditure being capitalized and showing under the head Intangible Assets and depreciation is provided @25% on straight line 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 the statement of Profit and Loss to the extent recoverable form customers.

p. Cenvat/VAT/Service Tax Credit:

Cenvat/VAT credit claimed on capital goods (Plant and Machinery) is credited to relevant Plant and Machinery Account, except the assets being used in R&D centers. 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 a 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:

All export benefits on exports are recognized on accrual basis.



B. Other Notes on Accounts:

a. Contingent Liabilities not provided for

(Amount : ₹ in Lakhs)

Particulars	2012-13	2011-12
(a) Guarantees given by banks	93.17	51.87
(b) Foreign Letter of credits opened in favour of suppliers for which goods are yet to be received	342.90	1,171.21
(c) Claims not acknowledged as debts by the company.	-	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.	178.81	172.00
(f) Interest on disputed demand of Central Excise (refer Note 29B (e)(iii))	21.74	21.74
(g) Capital Commitments	428.79	-

Note: Claims not acknowledged as debt of ₹ 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, aggrieved with this order M/s. Natco Pharma preferred an appeal before AP High Court.

- b. The Company has made a claim against M/s NATCO Pharma Limited for an amount of ₹ 1,562.91 Lakhs for recovery of materials and receivables and filed a case in the court of Addl. Chief Judge, (Fast Track Court) Hyderabad. The said court has considered the claim and decreed for the same. The Company has filed Executive Petition (EP) for recovery of the said amount. M/s NATCO Pharma Ltd, preferred an appeal before the Hon'ble High Court of AP against the said decree and EP filed by the company. The Hon'ble High Court Stayed the EP proceedings and directed M/s NATCO Pharma Ltd, to deposit an amount of ₹ 1,158.41 Lakhs. Out of this, an amount of ₹ 540.12 Lakhs was paid to the Company towards part of decreed amount and costs. Since the appeal is pending before the High Court of Andhra Pradesh the claim amount received of ₹ 540.12 Lakhs was accounted under Current Liability.

- c. Capital work-in-progress includes expansion project at Unit-7 situated at Kandivalasa village in Vijayanagaram Dist. and incurred an amount of ₹ 8,968.15 Lakhs towards Land, Plant & Machinery and Buildings and ₹ 556.79 Lakhs paid for acquiring land to the extent of Ac. 42 in Jawaharlal Nehru Pharma City Parawada in Viskhapatanm Dist.

Subsequently, during the year 2007-08 M/s Ramkey Pharma City (India) Ltd, the developer, has sent a communication to cancel the allotment to the extent of Ac. 23 and proposed to sell the said land to others. Aggrieved by this, the company filed a Writ Petition with Hon'ble High Court of A P in the year 2010 and obtained orders restraining the alienation of the said land pending further orders. The case is pending before the High Court of Andhra Pradesh.

- d. i. The company has entered into 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 ₹ 60.00 lakhs. Pending registration of the same, the company has paid the entire amount to the vendor 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 ₹ 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 M/s Divya Enterprises Limited has obtained stay from Honourable AP High court. Presently the company is not carrying out any manufacturing activity at this location.

e. 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 ₹ 57.88 Lakhs (Previous year ₹ 57.40 Lakhs)

- iii. Future Lease Rental Payments:

	(Amount : ₹ in Lakhs)	
	2012-13	2011-12
Not more than one year	65.83	58.12
More than one year and not more than five years	-	65.71
More than five years	-	-

f. Remittance in Foreign Currency on Account of Dividend.

	Paid in	
	2012-13	2011-12
i. Year to which the dividend relates	2010-11	2009-10
ii. Number of non-resident shareholders to whom remittances were made	7 (Seven)	7 (Seven)
iii. Number of shares on which remittances were made	9,00,000	9,00,000
iv. Amount remitted ₹ in lakhs	13.50	9.00

g. Research and Development Expenditure:

	(Amount : ₹ in Lakhs)	
Particulars/Year	2012-13	2011-12
Capital Expenditure	-	-
Revenue Expenditure	188.99	156.39
TOTAL	188.99	156.39



SMS
Pharmaceuticals Ltd.

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

(1) Defined Contribution Plans:	(Amount : ₹ in Lakhs)	
	2012-13	2011-12
Contribution to Provident Fund	85.83	74.37
(2) Defined Benefit Plans:		
i. Gratuity (Funded)		
ii. Leave Encashment (Un funded)		
Disclosures (as per actuary certification)		

(Amount : ₹ in Lakhs)

Particulars	2012-13		2011-12	
	Gratuity (Funded)	Leave Encashment (Unfunded)	Gratuity (Funded)	Leave Encashment (Unfunded)

i. STATEMENT OF PROFIT AND LOSS :

Current Service Cost	19.36	16.71	20.18	14.67
Interest cost on benefit obligation	11.07	2.09	9.41	2.02
Net Actuarial (Gain)/Loss recognized in the year	10.77	(7.41)	4.22	(7.92)
Short Term compensated absence liability		(1.45)		7.81
Past service cost	-	-	-	-
Contribution paid	(16.37)	(6.10)	(13.54)	(9.69)
Expected return on planned assets	(3.42)	-	(2.97)	-
Net benefit expenses	21.41	3.84	17.30	6.89

ii. BALANCE SHEET:

Change in the present value of the defined benefit obligation are as follows:

Opening defined benefit obligation	109.30	49.02	92.00	42.13
Interest cost	11.07	2.09	9.41	2.02
Current services cost	19.36	16.71	20.18	22.48
Actuarial (Gain)/Loss on obligation	10.77	(7.41)	4.22	(7.92)
Expected return on planed Assets	(3.42)	-	(2.97)	-
Short Term compensated absence liability		(1.45)		
Contribution paid	(16.37)	(6.10)	(13.54)	(9.69)
Closing defined benefit obligation	130.71	52.86	109.30	49.02
Past Service Cost	-	-	-	-

- Net benefit expenses of ₹ 21.41 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 ₹ 130.71 lakhs as on the balance sheet date.

(iii) The Principal Assumptions Used in Determining Gratuity

Salary rise	3%	5%
Discount rate	8%	8%
Attrition rate	2%	2%

i. Disclosure Required by Micro, Small and Medium Enterprises (Development) Act, 2006.

Disclosure of Sundry Creditors under Current Liabilities is based on the information available with the company regarding the status of the suppliers as defined under the "Micro, Small and Medium Enterprises Development (Act, 2006)" and relied upon by the auditors.

During the year the company has paid no interest in terms of Section 16 of the said Act.

(Amount : ₹ in Lakhs)

Particulars	2012-13	2011-12
Principal amount remaining unpaid as at the end of the year	51.05	52.45
Interest due and payable for the period of delay	2.96	3.56
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

j. 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.	Sri P. Ramesh Babu	Key Management personnel
2.	Sri T.V.V.S.N. Murthy	Key Management personnel
3.	Sri P. Hari Kishore	Relative of the Key Management personnel
4.	Sri 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 Real Estate Private Limited.
3.	Hima Farms Private Limited.
4.	VKT Pharma Pvt. Ltd.
5.	Potluri Hire Purchase & Finance Pvt Ltd



iii. **Transactions** (Amount : ₹ in Lakhs)

Particulars	Subsidiaries & Associates	Key Management Personnel	Relatives of Key Management Personnel	Total
Remuneration	–	80.14	25.53	105.67
(Previous Year)	–	(79.80)	(25.37)	(105.17)
Sale of Equipment	9.45			
(Previous Year)	–			
Balance outstanding of Receivable/(Payable)	(8.60)			
(Previous Year)	(10.30)			

k. **Segment Reporting:**

As the company's business during the reporting period consists of single reportable business segment of manufacturing and sale of Active Pharmaceutical Ingredients and intermediates, no separate disclosure pertaining to segmental reporting is given.

As part of business segment, revenues are attributed to geographical areas based on the location of the customers as detailed below:

(Amount : ₹ in Lakhs)

Particulars	2012-13		2011-12	
	Revenue	%	Revenue	%
Exports	12,937.12	53.92	11,665.56	56.38
Domestic	10,659.74	44.43	8,672.42	41.91
Export Incentives	396.52	1.65	354.32	1.71
TOTAL	23,993.38	100.00	20,692.30	100.00

l. **Consumption of Raw Materials:** (Amount: ₹ in Lakhs)

Particulars	2012-13		2011-12	
	Revenue	%	Revenue	%
Imported	4,728.80	27.55	4,308.77	33.36
Indigenous	12,432.73	72.45	8,607.85	66.64
TOTAL	17,161.53	100.00	12,916.62	100.00



Pharmaceuticals Ltd.

m. CIF Value of Imports:	(Amount : ₹ in Lakhs)	
Particulars	2012-13	2011-12
Raw Materials	4,687.00	4,407.13
Capital Goods	184.75	12.02
TOTAL	4,871.75	4,419.15
n. Expenditure in Foreign Currency:	(Amount : ₹ in Lakhs)	
Particulars	2012-13	2011-12
Sales Commission	237.91	117.78
Travelling expenses	1.67	1.85
TOTAL	239.58	1,19.63
o. Earnings in Foreign Currency:	(Amount : ₹ in Lakhs)	
Particulars	2012-13	2011-12
FOB Value of Exports	11,807.07	10,131.58
p.	Balances of sundry debtors/creditors and Loans and advances are subject to confirmation.	
q.	Previous Year figures have been regrouped/reclassified wherever necessary to corroborate with current year figures.	
r.	Figures have been rounded off to the nearest Rupees.	

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

P. PRABHAKAR RAO
Company Secretary

N. RAJENDRA PRASAD
Chief Financial Officer

Place : Hyderabad
Date : 29-05-2013



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 25th Annual General Meeting of the Company to be held on
Monday, the 30th day of September, 2013 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, 2013.

Affix
Re.1/-
Revenue
Stamp

NOTE:

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



SMS PHARMACEUTICALS LIMITED

Regd. and Corp. Office: Plot No.19-III,
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 25th Annual General Meeting to be held on Monday, the 30th day of September, 2013 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.





QC Block, Kandivalasa, USFDA Qualified Facility

**PRINTED MATTER
BOOK - POST**

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


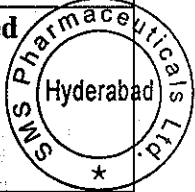


pharmaceuticals ltd.

Regd.&Corporate Office :
Plot No. 19-111, Road No. 71,
Opp. Bharatiya Vidya Bhavan Public School,
Jubilee Hills Hyderabad - 500 096. A.P. INDIA,
Tel : +91-40-6628 8888, Fax : +91-40-2355 1401

FORM A

Format of covering letter of the Annual Audit Report to be filed with the Stock Exchanges.

1.	Name of the Company:	SMS PHARMACEUTICALS LIMITED
2.	Annual financial statements for the year ended.	31 st March, 2013.
3.	Type of Audit observation	NIL
4.	Frequency of observation	Not Applicable
5.	To be signed by :- <ul style="list-style-type: none">- CEO/Managing Director- CFO- Auditor of the Company- Audit Committee Chairman	<p style="text-align: center;">For SMS Pharmaceuticals Limited</p> <p style="text-align: center;"> N. Rajendra Prasad Chief Financial Officer</p> <p style="text-align: right;"></p>