Laurus Labs is about three things.

Outperformance.
Outperformance.
Outperformance.

LAURUS LABS PRIVATE LIMITED

Annual Report 2013-14

Contents

Disclaimer

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include raw materials' cost or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labour negotiations and fiscal regimes.

The Indian pharmaceutical industry grew by 15 per cent in 2013-14.

LAURUS LABS GREW ITS REVENUES BY 60 PER CENT.

Laurus Labs. Gamechanger.

Leveraging deep capabilities in chemistry. Increasing production volumes. Reducing manufacturing costs. Pricing products attractively. Widening market spaces. Making it possible for dosage form manufacturers to make affordable products. Helping counter diseases like cancer, AIDS, asthma and ophthalmic disorders. Making the world a healthier place.

Laurus Labs' gamechanging capability is derived from the 'Four P's' that govern its business.

PEOPLE.
PRODUCTS.
PLANTS.
PROCESSES.

The first P of success

People

In the pharmaceutical industry, it would be easy to assume that the most valuable investment one can make is an investment in hardware. At Laurus Labs, we have selected to take a different perspective.

Rather than be singularly driven by investments in depreciating material assets, Laurus Labs has selected to be driven by investments in appreciating intellect.

There are some valid reasons for this. The business of pharmaceuticals is marked by complex processes utilising a wide range of technologies. The Company needed to demonstrate the absorption of technologies across various chemistries in the shortest time because any knowledge accretion has corresponding implications on enhanced productivity and profitability.

Over the years, Laurus Labs made extensive investments in its people. One, the Company's team of 576 R&D professionals accounted for 36 percent of the Company's employee roster; the Company invested ₹47 crore in research-centric investments in 2013-14. Two, the Company invested 100 hours for the top 100 employees, per year in training. Three, it encouraged cross-functional teams working in tandem to resolve problems quicker. Four, the Company instituted incentives for senior members to enhance performance. Five, the management developed programmes which helped evolve professionals into entrepreneurs. Six, some of the senior management team were assigned coaches to enhance personal effectiveness. Seven, the Company assigned ESOPs across 9% of the employees; when our major financial investor, Fidelity bought into the Company's equity at ₹243 a share, the employees continued to receive shares at ₹10 each.

The results were evident in the numbers: an employee engagement survey indicated that 97% of the Laurus employees prided themselves for being a part of the Laurus family; 95% of those interviewed felt that their work was more than just another 'job'; the Company retained 90% of its workforce during the year against an industry average of 85%; the annual revenue per employee was considerably higher than the industry average; the Company filed about 90 patents during its eight year existence and 25 patents in 2013-14.

Swimming against the tide, but still home and dry.

The second P of success

Products

In the pharmaceutical business, an increasing number of companies select to manufacture a large number of products to reduce product risks or work in relatively underpopulated spaces to escape competitive pressure. At Laurus Labs, we have selected to take a contrarian approach.

Rather than be driven by external opportunities, Laurus Labs has been inspired by captive capability. Rather than be singularly excited by high margin spaces (which could be fleeting), we have selected to leverage our deep competence in product chemistries that help alter niche market dynamics.

This is how the difference has been manifested. One, we are not positioned as a supermarket wherein we have something for every customer; we have strengthened our reputation as a pharmaceuticals boutique offering niche products addressing the needs of chosen customers. Two, we have leveraged our unique insight into processes, products and prospects to carve out sizeable shares even from populated segments.

These have been the results of this differentiated approach: of our 40 commercialised products, each one contributed positively to the Company's bottomline during the year under review; more than 50 per cent of the Company's product mix generated revenues in excess of ₹10 crore, more than 50 per cent of the Company's product mix reported an annual revenue growth in excess of 20 per cent; the Company's five leading products accounted for substantial global market shares.

So at Laurus Labs, we didn't make as many products as we could in the hope that some would succeed; we rationalised the number of our products, leveraged research to create competitive products, focused deeper and grew these into winners.

Going against the herd helped.

The third P of success

Plants

In the pharmaceutical industry, it is often assumed that the company's job ends with the commissioning of modern plants. At Laurus Labs, we selected to adopt a differentiated strategy.

Over the last few years the Company selected to make proactive investments. The Company purchased 135 acres of land to boost its physical infrastructure. This extensive investment was made with the objective of positioning the Company's manufacturing facilities in line with some of the cutting-edge facilities which belong to a number of its large and prominent global customers.

There were compelling motives for this. Over the last decade, an increasing number of governments have raised the issue of improving the overall standard of public health, making it imperative for vendors to make corresponding investments in plant sophistication and regulatory compliances. Besides, an increasing number of large formulation manufacturers selected to buy raw materials from a smaller community of raw material providers, evolving one-off transactions into enduring partnerships.

These are some of the ways in which the realities have manifested at Laurus Labs: One, the Company doubled its reactor capacity in 2013-14. Two, the Company possessed the foresight to create a state-of-the-art R&D centre (Hyderabad) comprising 50 laboratories supported by its ability to scale a variety of volumes - from gram to multi-tonne quantities. Three, the Company's plants were periodically audited by some of the most stringent regulatory agencies from the world over - FDA (USA), FDA (Korea), MHRA (UK), TGA (Australia) and WHO-cGMP; the research and development centre is recognised by TGA (Australia), FDA (USA) and FDA (Korea). Four, the Company was certified with ISO 9001:2008, NQA, and UK (UKAS, UK), for having stringently complied with the established regulatory norms of research, development, contractual services and manufacturing facilities. Five, the Company invested in waste effluent systems for the responsible treatment of organic and inorganic wastes leading to comprehensive low-cost waste management.

Going ahead, the Company expects to grow from two sites in 2013-14 to three sites in 2015-16, which is expected to translate into a wider product basket that will help generate enhanced revenues and thereby efficiently service the needs of a large global customer community.

Thinking deeper, rising higher.

The fourth P of success

Processes

In the pharmaceutical industry, one would be tempted to become volume-obsessed over all other considerations. At Laurus Labs, we have selected to take a differentiated approach.

Rather than be driven only by output, Laurus Labs has been inspired by a long-term commitment towards procedural excellence. Also, rather than be singularly excited by throughput, we have selected to be driven by a safety priority.

There are pertinent reasons for this. Laurus Labs is required to manage large volumes of raw materials and carry out hazardous reactions safely, any lapse in the latter could have implications on the lives of individuals as well as on the reputation and the sustainability of the Company. Over the years, Laurus Labs has invested in a number of processes that have enhanced organisational safety; the Company has conducted workshops and seminars in related subjects to facilitate knowledge sharing; the Company managed to rake in a number of rigorous international regulatory clearances (second USFDA audit successfully cleared in 2013). The result is that the Company's manufacturing facilities have never had to be compromised for regulatory and safety lapses.

Besides, Laurus Labs invested in manufacturing high-end equipment that minimised downtime. The Company invested in mechanisation (over manual processes) that enhanced operational efficiency and improved safety.

The result – safety and competitiveness, translating into customer confidence and has made it possible for the Company to market products across 60 countries; derive more than 90 per cent of revenues from direct and indirect exports; obtain 30 per cent of revenues from challenging markets marked by stringent regulations.

The Company has thus over the years established best-in-class systems, strengthened its employee commitment, invested in industry-best practices and processes and created a brand around quality rather than one around scale.

Uncommon sense, but this has handsomely worked.

Laurus Labs is an innovation-driven, people-centric and client-focused organisation offering a broad and integrated portfolio of products and services to the global pharmaceutical industry.

Business units

Laurus Generics	Laurus Ingredients	Laurus Synthesis
A leading global manufacturer of anti-retrovirals and oncology APIs. Laurus Labs has developed an in-house range of API and related intermediates offering a diverse portfolio of products to its customers, including innovators and generic formulators.	Develops and manufactures pure, well-characterised specialty ingredients in nutraceutical/dietary supplements and cosmeceutical product segments.	Uniquely positioned to assist customer needs at any stage of the product lifecycle offering phase-appropriate support for the three broad service segments of drug substance, analytical development and product development.
Contribution to revenue: 93%	**Contribution to revenue: 3%**	**Contribution to revenue: 2%**

About us

Incorporated as Laurus Labs Private Limited in 2005, the Company has emerged as a segment-leading manufacturer of high quality APIs, a preferred partner for NCE development and manufacture and a trusted source of specialty ingredients for the nutraceutical industry.

Our products and services

- Manufactures a range of active pharmaceutical ingredients (APIs) and intermediates, catering to therapeutic segments of oncology, ophthalmology, anti-retroviral (ARV) and nutraceuticals.
- Offers various drugs and intermediates across therapeutic segments like oncology, ophthalmology and ARVs
- Provides a varied and integrated portfolio of services ranging from drug development services to life-cycle management
- Positioned as an integrated solutions provider, delivering quality products and services at the lowest costs across geographies
- Focuses on pure and cost-effective synthetic routes for naturally occurring nutritional fine chemicals

Our facilities

Headquartered in Hyderabad, the Company has two manufacturing facilities in India and an office in the UK. Its modern drug substance facility is spread across a 34-acre campus at Jawaharlal Nehru Pharma City, Visakhapatnam. The Company possesses a state-of-the-art R&D centre at IKP Knowledge Park, Hyderabad, with 50 laboratories. Laurus Infosystems is located at Export Promotion Industrial Park, Whitefield, Bengaluru

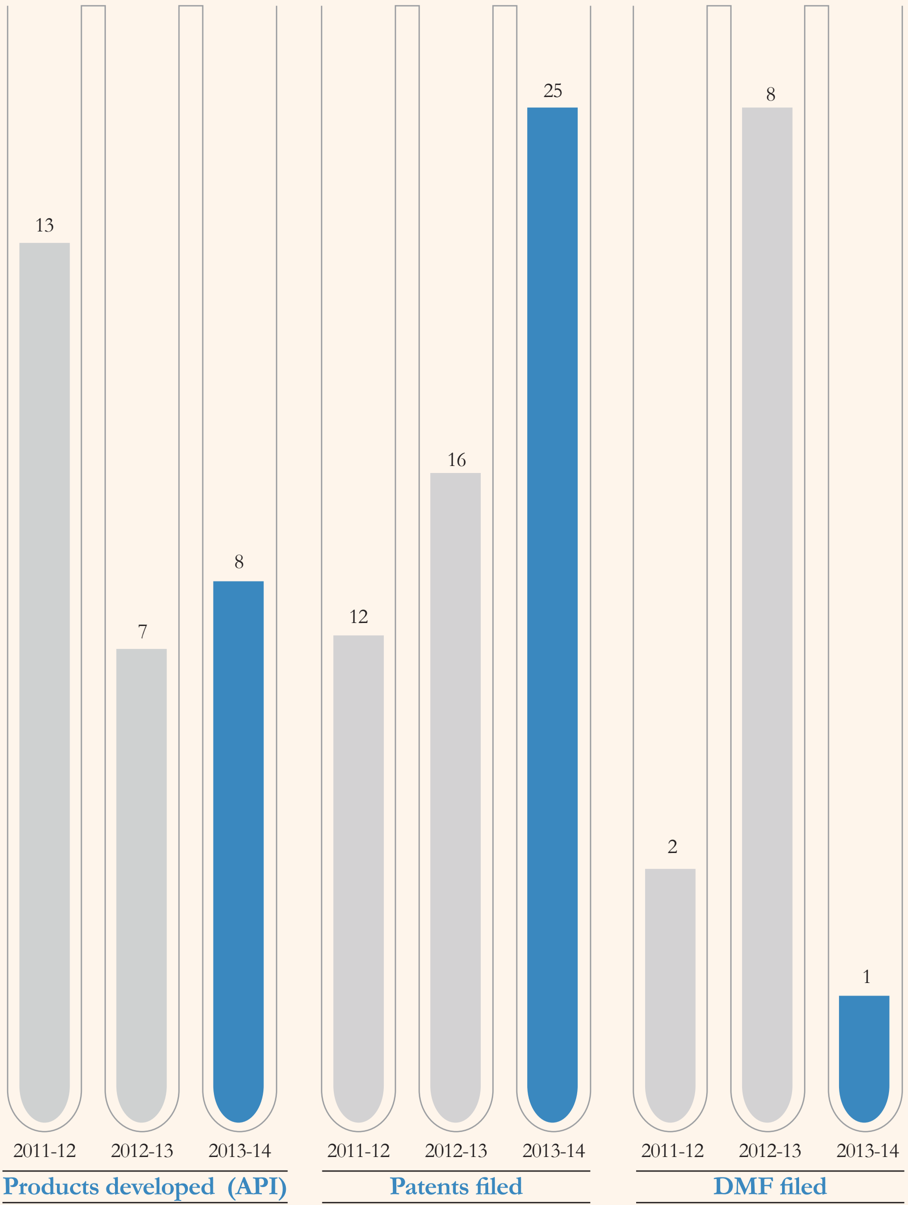
Our recognitions and certifications

- Drug manufacturing facility (Visakhapatnam) approved by the FDA (USA), MHRA (UK), TGA (AUSTRALIA), FDA (KOREA), WHO (GENEVA) and PMDA (JAPAN)
- R&D centre (Hyderabad) recognised by the Department of Scientific and Industrial Research (DSIR) and approved by the FDA (USA), FDA (KOREA), TGA (AUSTRALIA) and PMDA (JAPAN)
- Accredited with ISO 9001:2008 certification for its facilities at Hyderabad and Visakhapatnam

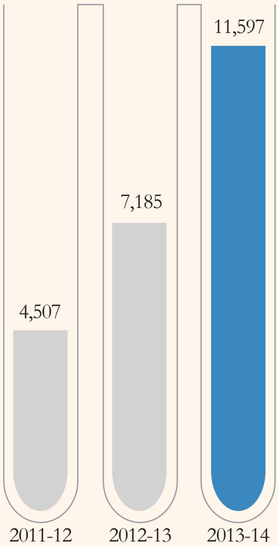
Our human capital

Laurus possesses an experienced and professional managerial team comprising 1575 members of which includes 36 PhD degree holders, 15 finance and other professionals, 806 postgraduates, 574 graduates and 38 technicians, among others, the Company has a combinations on fresh and experienced talent. The average age of the Company's employees stood at 30 years.

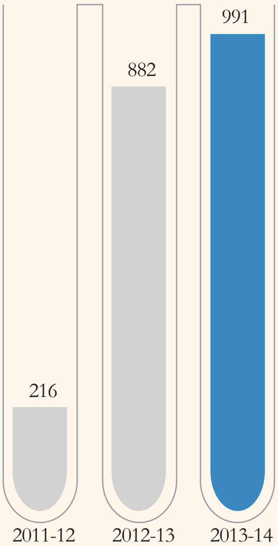
Our business performance



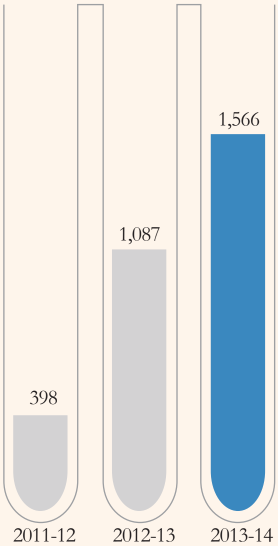
Our results



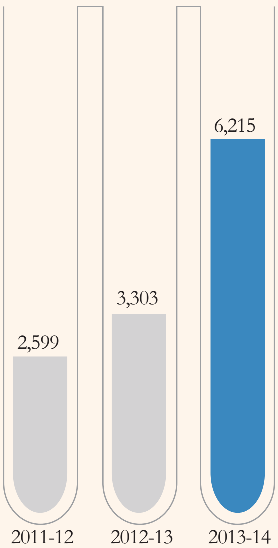
Revenue (net) (₹ million)



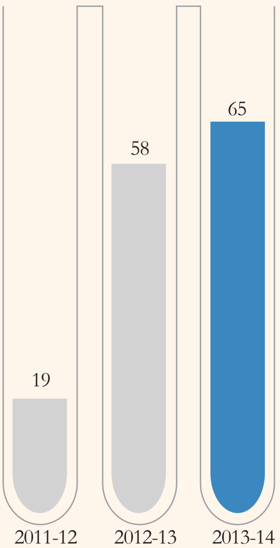
Post-tax profit (₹ million)



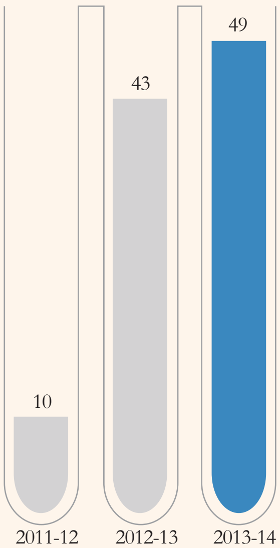
Cash profit (₹ million)



Gross block (₹ million)



EPS (basic) (₹)



EPS (diluted) (₹)

The growth matrix

Profitability

61%

Revenue grew from ₹7,185 million in 2012-13 to ₹11,597 million in 2013-14

47%

EBIDTA grew from ₹1,499 million in 2012-13 to ₹2,206 million in 2013-14

12%

Net profit grew from ₹882 million in 2012-13 to ₹991 million in 2013-14

Balance sheet

1.51:1

Debt-equity ratio in 2013-14 against 1.13 in 2012-13

39%

Net worth grew from ₹2,593 million in 2012-13 to ₹3,603 million in 2013-14

88%

Gross block addition from ₹3,303 million in 2012-13 to ₹6,215 million in 2013-14

145 bps

Average interest rate declined from 13.62% in 2012-13 to 12.17% in 2013-14

Key ratios*

8.5%

Net profit margin; against 12.3% in 2012-13

18.9%

EBIDTA margin; against 20.9% in 2012-13

28%

Return on capital employed (ROCE); against 34% in 2012-13

25%

Return on networth (RONW); against 27% in 2012-13

Productivity matrix

20%

Revenue per employee grew from ₹6.08 million in 2012-13 to ₹7.32 million in 2013-14

9%

EBIDTA per employee grew from ₹1.27 million in 2012-13 to ₹1.39 million in 2013-14

19%

Revenue per reactor grew from ₹38 million in 2012-13 to ₹46 million in 2013-14

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* Reduction in key ratios due to heavy investments in fixed assets.

The journey

2005

Incorporated as Laurus Labs Private Limited

2006

- Received equity infusion of a cumulative ₹489 million by Laurus
- Laid foundation stone for R&D centre at IKP Knowledge Park, Hyderabad
- Signed business agreement with a leading Indian pharmaceutical company for seven oncology APIs

2007

- Laid foundation stone for API manufacturing facility at Visakhapatnam
- Aptuit Inc. invested ₹1,020 million into the Company and changed the name of the Company to Aptuit Laurus
- Signed business agreements with three multinational companies
- Commenced operations at R&D Centre, Hyderabad and manufacturing facility, Visakhapatnam

2011

- Received USFDA certification for the Hyderabad facility
- Received Korean FDA certification for the Visakhapatnam facility
- Supplied the Company's first API product to the US

2012

- Received Korean FDA certification for the Hyderabad facility
- Fidelity Growth Partners India acquired Aptuit's majority stake in the Company
- Fidelity and the promoter invested ₹600 million in the Company
- Changed name to Laurus Labs Private Limited

2008

- Achieved full-scale commercial operations at Visakhapatnam
- Signed business agreements with an Indian and US-based company
- Signed contract research deals with three multi-national companies
- Filed first DMF
- Merged Aptuit Informatics with the Company

2009

- Received DSIR recognition for R&D centre
- Completed USFDA inspection of drug substance facility at Visakhapatnam
- Completed Therapeutic Goods Administration (Australia) inspection
- Commercialised four nutritional fine chemicals
- Completed MHRA (UK) inspection
- Launched first product in Europe

2010

- Received USFDA approval for the Visakhapatnam facility without any deficiencies
- Received Therapeutic Goods Administration (Australia) certification for the Hyderabad and Visakhapatnam facilities
- Received MHRA (UK) certification for the Visakhapatnam facility

2013

- Received USFDA, WHO, EDQM approvals for Visakhapatnam drug substance facility
- Received Scrip award in the 'Best Company in an Emerging Market' category
- Received Pharmexcil award for outstanding exports performance
- Received FAPCCI award for excellence in exports performance
- Investment of ₹1,100 million for expansion of production suits

2014

- Purchased about 135 acres of land at Visakhapatnam for future expansion
- Made downstream investment in Viziphar Biosciences Private Limited, Bangalore for 100% stake to expand in ingredients
- Received Silver certificate of merit at the *Economic Times* Manufacturing Excellence Awards 2013
- Extended ownership interest in the Company to the employees by allotment of ESOP shares

“The Company aspires to extend from the manufacture of APIs to integrated formulations in the near future.”

A review of the financial year 2013-14 by the Chief Executive Officer **Dr. C Satyanarayana**

Dear shareholders,

The focus for any company engaged in the challenging pharmaceuticals industry is to demonstrate a sense of leadership in the product spaces it is present in.

This is more challenging than observers might consider. One, companies need to demonstrate the vision to be present in the right product spaces. Two, such companies need to create a cost structure that is competitive across market cycles. Three, such companies need to invest in plants enjoying regulatory clearances from some of the most demanding global agencies that makes it possible for them to vend their products in some of the largest or most remunerative markets. Four, such companies need a credible balance sheet that makes it possible to grow their scale sustainably.

At Laurus Labs, we are proud to state that we achieved a leadership position across product baskets. This leadership position can be verified by taking a look into our financials; even as the broad pharmaceutical industry grew by 15 per cent in 2013-14, Laurus Labs grew its revenues by 61 per cent; even as the industry reported moderate or flat bottomline growth, Laurus Labs strengthened its profit after tax by 12 per cent. I am pleased to report that as the year under review progressed, we outperformed our revenue guidance for commercial banks of ₹860 crore to reach ₹1,150 crore; we had estimated that we would report an EBIDTA of ₹209.6 crore and eventually delivered ₹220.6 crore; we had estimated a post-tax bottomline of ₹89.3 crore for 2013-14 and eventually posted ₹99.1 crore.

This outperformance was the result of the superior value proposition being offered by Laurus Labs to its customers, reconciling the power of its people, products, plants and processes. The cumulative value of the 'Four Ps' is that we have successfully passed on the benefits of our efficiencies to our customers, strengthening their competitiveness in a challenging marketplace. The result is that we can confidently claim that we have strengthened the viability of our customers and, in doing so, strengthened our own.

The Laurus brand

The principal success of our Company during the year under review is interestingly not evident on our Balance Sheet. Laurus Labs fortified its brand during the year within the global pharmaceutical industry. An increasing number of stakeholders came to relate Laurus Labs with credibility-enhancing words like 'professional', 'long-term', 'serious', 'cutting-edge' and 'global'. This perception strengthened our ability to attract global customers, financial partners and professionals, accelerating our momentum. The result is evident in our numbers: we grew our revenues by 60 per cent in 2011-12, 59 per cent in 2012-13 and 61 per cent in 2013-14 across significantly larger revenue bases. On the other hand, the Company moderated its receivables cycle from 83 days of turnover equivalent in 2012-13 to 60 days in 2013-14.

The Laurus culture

Even as Laurus is in a state of infancy in a mature sector and its culture is only progressively evolving, there is a growing understanding that Laurus stands for a desire to be the best over a compulsion to be the biggest; that Laurus focuses on quality over quantity, on value rather than on volume. The result is that our people within are more likely to ask their colleagues about the quality benchmarks achieved in a specific month before they refer to quantity; there is a greater focus on the cross-functional resolution of targets and problems as opposed to the legacy response of 'It was his department's problem, not mine.'

The Laurus value

At Laurus, even as one would be inclined to measure the performance of our Company by the usual financial metrics available in our Balance Sheet and Statement of Profit and Loss, we have over the years developed other parameters to comprehensively appraise our performance.

Even as a number of people are inclined to dismiss the Company as commodity-based at first glance, the reality is that we report one of the highest value-additions (revenue less raw material cost) within our sector. In 2011-12 our revenues of ₹450 crore corresponded to a value addition of 41 per cent; in 2012-13 our revenue of ₹720 crore corresponded to a value-addition of 43 per cent; in 2013-14, even as we reported a 61 per cent increase in our topline to reach ₹1159.7 crore we succeeded in reporting a value-addition of 38 per cent.

The other metrics that we appraise carefully are revenues and profits per employee. In the country's IT sector, some of the more profitable companies reported revenue amounting to $55,000 per person per year; Laurus Labs reported a per person profit after tax of nearly three times this number with a corresponding EBIDTA per person of $25,000 annually.

As an extension, we appraise our competitiveness on the basis of revenues and profits per reactor and per products in addition to some of the more usual parameters employed by finance professionals, making it possible for us to identify – and hence correct – deviations with speed.

The Laurus future

Normally one would have presumed that the Company would have selected to consolidate after eight years of straight and aggressive growth.

However, at Laurus Labs, we increased our reactor capacity by 100 per cent during the year under review; the Company expects to increase the number of sites from two in 2012-13 to three in 2014-15 and five in 2015-16; the Company expects to grow its employee base from 1,600 in 2013-14 to 2,500 in 2014-15 and 3,000 in 2015-16.

I take pride from the fact that even though Laurus Labs is not even a decade old; it has emerged as a benchmark among its investee companies and was showcased to other companies for the quality of its governance commitment.

Laurus Labs aims to climb to the next level through a conscious evolution from a presence in the oncology and anti-retro viral segments to cardiovascular, diabetic and hormone-based segments. The Company aspires to extend from the manufacture of APIs to formulations in the near future that derives a third of its revenues from key starting materials and intermediates, a third from APIs and a third from formulation, over the foreseeable future.

At Laurus Labs, these expansion and evolution programmes will not only influence scale and scope; they will catalyse the transformation of our organisation into an institution; they will evolve professionals into entrepreneurs, they will decentralise processes with the objective to enhance the role of informed decision-making; they will develop our guidance emphasis into a permanent training centre.

The Laurus sustainability

At Laurus Labs, we possess a robust foundation to grow our revenues.

For one, the Company reported a cash profit of ₹156.6 crore in 2013-14 and an interest cover of 3.45, which helped forge timely financing linkages with a respectable banking consortium (SBI, SBH, PNB, BBK, ICICI, ING, EXIM, CITI Bank) and equity partners.

The Company's financial structure was right-sized with ₹360.3 crore of networth and a debt-equity ratio of 1.51 as on 31st March 2014.

Besides, the Company demonstrated credible conservatism by consistently investing 4% of its revenues in research and development, which was written off completely to its Statement of Profit and Loss in the year in which it was expended even as there was a case for these to be progressively amortised; the Company provides depreciation with the objective to write-off all capital investments in 10 years as against the industry practice of writing them off in 19 years; the Company has not capitalised a single rupee of goodwill or pre-operative expenses.

I take pride from the fact that even though Laurus Labs is not even a decade old; it has emerged as a benchmark among its investee companies and was showcased to other companies for the quality of its governance commitment.

Most importantly, we feel that the increase in capacities and locations will be supported by our existing ERP framework, which has already been expensed, so any corresponding increase in revenue will generate attractive economies-of-scale that will translate into enhanced margins, profits and value at the hands of the stakeholders.

The Laurus valuation

At Laurus Labs, we enjoy the equity support of some of the most credible international partners like WCAS (Aptuit) and Fidelity.

When that happens, we will have enriched a number of people outside the Company and also hundreds of professionals from within.

Sincerely,

Dr. C Satyanarayana
Chief Executive Officer

The competencies behind our outperformance.

At the corporate level

Brand: The Company has created a brand identity for itself based on its efficient decision-making abilities and in-depth domain knowledge. Laurus Labs has succeeded in retaining the faith of its clients through timely delivery and dissemination of accurate information to clients.

Intellectual resources: With a team of more than 1,500 members, the Company employs more than 400 knowledgeable scientists with keen insights into the global pharmaceutical industry, which helps in launching new products and modifying processes for existing ones, seamlessly.

Recognition: The Company's manufacturing unit as well as the research and development centre are globally recognised and certified compliant with the stringent statutory and regulatory norms.

Strong alliances: With over 80% of the order book (as of March 31, 2014) comprising repeat orders from longstanding clients, the Company enjoyed long enduring relationships with domestic and global manufacturing majors.

At the product and service levels

Value chain: Over a period of time the Company has grown its ability to cater to all kinds of customer requirements from discovery and development to post-commercialisation and lifecycle management - from a few grams to multi-tonne consignments.

Diverse portfolio: With a wide array of over 65 APIs developed and 90 patents in different countries, the Company completed the scale up of several NCE molecules and commercialised several nutraceutical products, creating a diverse portfolio of its offerings along with CRAMS.

Cost-effective: The Company, with its enhanced quality and manufacturing methodologies, identified alternative processes and raw material sources, emerging as a low-cost producer of several APIs.

At the global level

Export-oriented: Over 47% of the Company's sales is generated from direct exports and 43% from indirect exports. The Company enjoyed an export house status as its R&D centre and drug manufacturing centres were completely export-oriented units.

Globally compliant: Over the years, the Company has invested in business-strengthening certifications: FDA (USA), FDA (Korea), MHRA (UK), TGA (Australia), WHO-cGMP and PMDA (Japan); the research and development centre is recognised by TGA (Australia), FDA (USA), FDA (Korea) and PMDA (Japan). The Company is also certified with ISO 9001:2008, NQA, and UK (UKAS, UK), for being in compliance with stringent and regulatory norms laid down in terms of research, development, contractual services and manufacturing.

Global presence: The Company has a wide presence across the globe including high growth markets like the US, Europe, Latin America and in emerging markets like Brazil, Russia, India, China and South Africa (BRICs) for its high quality range of oncology, ophthalmology, ARV and nutraceuticals products, along with its contract research and manufacturing capabilities.

At the research level

State-of-the-art R&D centre: The Company possesses a state-of-the-art R&D centre and drug manufacturing facilities with cutting-edge equipment. This unit also received major regulatory approvals, reflecting its competence in providing services in generics, CRAMs and nutraceutical segments, meeting stringent global requirements.

Research-oriented: The Company's strong focus on research is reflected in the fact that the Company invests 4% of its revenues in research. The strong focus on research is reflected in its spending in this segment. During the year, the Company invested ₹424 million on its research, taking the total to ₹2,287 million invested since inception, while reporting a profit of ₹2,793 million since inception. The Company invested 19.54% of its revenues for R&D initiatives, the highest percentage investment over the last six years. The Company focuses on manufacturing APIs with differentiation and enters niche segments.

Infrastructurally strong: With 50 labs spread across an area of 175,000 square feet, the Company's R&D team involves 576 members, of whom 418 are scientists.

Access to medicine is all about finding the right chemistry and making it work at the right scale. A combination of constant innovation and cost-effective processes has ensured that Laurus successfully meets the evolving demands of the marketplace.

Below mentioned are certain crucial products from the Laurus basket that have been successfully developed and commercialised, garnered increasing volumes with moderate prices and thus widened the Company's market presence. This encouraged Laurus to enter multi-year agreements with multiple finished dose manufacturers/pharma conglomerates and global health access organisations.

Efavirenz: Efavirenz is an essential drug in the WHO medicine list and is regarded as one of the leading anti-retroviral (ARV) medications and is used as single dose regimen as well as a part of Fixed Dose Combination (FDC).

Within a short span of five years, the product has emerged as the largest grosser for Laurus Labs, accounting for 50% of revenues. Laurus thus achieved global leadership via the manufacture of Efavirenz API which caters to the needs of more than 60% of HIV patients under drug therapy worldwide and enjoys a global market share of around 50 %.

Tenofovir: Tenofovir is (Tenofovir Disoproxil Fumarate) an essential drug in the WHO medicine list and yet another ARV-API coming out of the Company's large scale API plant. This drug is essentially considered as a key anti-retroviral medication (addressing HIV –AIDS) and used as a single dose regimen as well as a part of FDCs. Laurus Labs' indigenous patented process technology reinforced its identity as one of the most competitive ARV suppliers in the world. As a result, Tenofovir garnered huge volumes along with Efavirenz and accounted for around 16 per cent of the Company's revenues in four years.

Gemcitabine: Gemcitabine is used for treating various cancers including lung cancer, pancreatic cancer, bladder cancer and breast cancer. Gemcitabine, a key growth driver for Laurus Labs, has helped establish its supremacy in the oncology segment. Moreover, Laurus focused on acquiring the necessary raw materials to supersede the supply chain issues and leveraged its chemistry insight to enhance volumes and reduce costs. Within five years, Laurus has emerged as the largest global producer (30 per cent market share) of Gemcitabine with the drug being marketed in regulated markets.

Montelukast: Montelukast, addresses treatment of allergies and asthma and is an anti-histamine drug in the Laurus product basket, indicating the diverse portfolio of Laurus Labs in the pharmaceutical arena. Montelukast from Laurus is being used in regulated markets by various global finished drug manufacturers. Within three years, this API commanded a sizeable global market share.

Business model

The strategy behind our outperformance.

Leadership focus

At Laurus Labs, we offer the best quality at the most competitive prices leading to product leadership.

- The Company selects to manufacture only those products that make it possible to leverage its deep chemistry competencies, address large and growing therapeutic spaces and enhance patient life.
- Over the years, the Company has selected to manufacture relatively few products as opposed to an alternative strategy of manufacturing a vast basket.
- Laurus Labs emerged as the world's largest manufacturer of Efavirenz, one of the world's largest manufacturer of Tenofovir and one of the largest manufacturers of Gemcitabine and Montelukast. The robustness of this approach is reflected in the fact that the Company achieved global prominence in these product spaces within only five years of commercial product launches.

Customer selection

At Laurus Labs, we can either add a significant number of customers to grow our topline or increase sales to existing customers.

- We select to work with some of the largest customers for our products in the world who possess a considerable appetite to consume a significant increase in the products that we manufacture. This, in turn, provides Laurus Labs with the optimism that should we select to expand, we will always have a ready buyer for our products.
- Our customer selection strategy is validated by the fact that bad debts amounted to ₹10 lacs, which accounted for a mere 0.01 per cent of our revenues in 2013-14.
- Over the last few years, there has been a visible trend of large companies selecting to work with fewer vendors. We have correspondingly selected to work with large customers who had enough faith to buy from us a wider range of related products.
- Our strategy makes it possible for us to evolve transactions into enduring relationships and this is reflected in our numbers: even as our revenues increased by 161 per cent between 2011-12 and 2013-14, the shares of the top-five customers in the Company's revenues has stayed identical.

Long-termism

At Laurus Labs, we have realised that we will succeed if we are able to enhance sustainable value for our vendors, customers, employees and ourselves. This can be achieved through a strategic long-term approach reflected in proactive investments in research, people, infrastructure and international approvals.

- Over a foreseeable future, we will integrate backwards by initiating KSM (key starting materials) for select products as well as initiate forward integration measures as far as finished dosage forms are concerned, making Laurus a unique services provider in the pharmaceutical industry. Banking on its API cost advantage and integration, this measure, with a B2B focus, will help bolster revenues.
- Laurus plans to foray into large volume APIs across new therapeutic segments, including diabetic, cardiovascular, anti-asthma and hormonal drugs.
- We further plan to scale the ingredient and synthesis businesses facilitated by the creation of separate business units and strong product pipelines.

Research-driven

At Laurus Labs, the uniqueness of its research and development lies in its process, chemistry, efficiency and innovation along with its ability to do complex process while offering cost-effective and high quality products.

- We believe in ongoing research in planned and pre-decided segments of our areas of competency. The Company successfully developed innovatory molecules and filed more than 90 patents. Our R&D team developed eight APIs during 2013-14 and commercialised five APIs. The year witnessed doubling of Laurus manufacturing capacity to one million litres.
- As an effort towards improving operational efficiency and safety, we initiated towards mechanisation by adopting latest cutting-edge manufacturing equipment in certain areas of our operations.
- Our strong focus on safety is reflected through our full-scale safety lab established during the year to assess the safety of reactions when they move from the lab scale.
- We focus on enhancing our knowledge capital through regular seminars in the field of R&D by renowned experts to increase knowledge sharing among employees.

Enhancing value

At Laurus Labs, we recognise that the key to sustainability lies in creating a value proposition that makes it possible for our stakeholders to succeed in business.

- We offer competencies in the formulation of quality-driven and cost-effective APIs that make it possible for our customers to strengthen their competitiveness.
- We believe in proactive building of capacities and competencies which makes it possible for us to assure our downstream customers that we possess adequate capacity even before they need it; this makes it possible for us to market our products and capabilities more effectively.
- We recognise that high returns represent the foundation of sustainability. In view of this, we select products, markets, customers, processes and terms of trade that helped us achieve 18.9 per cent EBIDTA margin and a 25 per cent ROCE.
- We believe that the best returns are to be derived from investments growing organically growth. In this space we enjoy a familiarity with our people, process; plants (including regulatory compliances) that allow us to maximise returns as opposed to inorganic investments, which could stagger our returns.

Financial strategy

At Laurus Labs, the focus has always remained on enhancing value in the hands of our stakeholders.

- Despite rising operating costs, we sustained our growth over 60% y-o-y over the last three years and plan to grow faster in the next fiscal.
- We believe that the financial strength of our Company is reflected by in its low cost of funds (when compared to the market average) and its ability to raise higher funds from credible partners, including PE investors and banks.
- In order to grow, the Company resorts to internal accruals or funding from banks or a dilution of its equity. With a debt-equity ratio of 1.51:1, the Company is well-placed with an interest cover of 4 adequately covering all debt servicing needs.

De-risking the business

Risk is an expression of the uncertainty about events and their possible outcomes that could have a material impact on performance and prospects. As a responsible corporate, the management endeavours to minimise risks and maximise returns.

1 An inability to cater rising demand could affect growth.

Risk mitigation	Result
○ Laurus Labs' product portfolio is adequately balanced across therapeutic segments. ○ The Company enhanced its focus onto the high margin synthesis business offering contract development and manufacturing services for innovator and specialty pharma companies, as a part of their R&D programmes. ○ The Company invested ₹424 million in strengthening R&D competencies in 2013-14. ○ The Company grew the production capacity of its top-four products nearly five times over the last three years.	Revenue per reactor grew 19% over the previous year.

2 With customers becoming highly demanding, an inability to manage vendor-cum-customer relationships could impact revenues.

Risk mitigation	Result
○ Laurus Labs has retained vendor-cum-customer relationships, leading to organisational stability and predictability, despite stringent business environment. ○ The Company enjoys dependable relationships with major global and Indian pharma majors, ensuring revenue visibility. ○ The Company added four new medium and large customers to its generics business portfolio. ○ Over 93% of the total revenues were derived from customers who have been associated with the Company for more than three years.	Laurus Labs reported higher volumes bought by the customers. Although there has been a substantial increase in revenues over the last four years, the top-five customers have remained the same.

3 In this continuously evolving business, an inability to innovate could impact business growth.

Risk mitigation	Result
○ Laurus Labs has invested ₹424 million on its R&D during the year. ○ Cumulatively 9% of its six-year revenues have been invested in R&D. ○ The Company commercialised a total of 45 products (until 31st March 2014) with over 12 products in the pipeline. ○ Robust chemistry knowledge, efficient process optimization and niche product portfolio have resulted in widespread global presence and market leadership.	A cumulative investment of ₹2,287 million has been made under R&D since inception.

4 Rising market competition could affect market presence.

Risk mitigation	Result
○ Laurus Labs consciously selected to specialise in a niche segment banking on complex chemistry skills and deep process knowledge, leading to relatively low competition. ○ The Company strengthened its competitiveness by investing in low-cost manufacturing practices. ○ Over the years, the Company reinforced its capability in new chemical entity (NCE), analytics and formulation development.	Laurus Labs is the largest producer of Efavirenz, capturing 50% of the global market share within five years of its launch.

5 In a scenario of rising cost of funds, an inability to access rightly-priced funds could affect growth.

Risk mitigation	Result
○ With funding partners like State Bank of India, State Bank of Hyderabad, Punjab National Bank, ICICI, EXIM, BBK and ING Vysya, the Company also received funding approvals from CITI Bank which validates the Company's credibility ○ The Company successfully mobilised ₹5441 million of debt (as on 31st March, 2014). ○ The Company's gearing of 1.0 held out prospects for additional funds mobilisation.	Laurus Labs attracted a cumulative investment of ₹1,615 million by private equity funds which corresponds to a 33% stake in the Company's equity.

Involvement with the community

Distribution of toys for physically and mentally challenged kids, Hidden Sprouts, Vizag

Conducted Menstrual Health Management Awareness camp and distributed kits

Donation of blankets and medicines, Missionaries of Charity, Nirmal Hruday Bhavan

- Donated ₹2 million worth of cancer-related medicines (Gemcitabine) to the King George Hospital, Vizag
- Provided insurance policy, covering accidental death and injury to 46 underprivileged women, registered under the Mutually Aided Cooperative Society, Ramki, Parwada for a period of 3 years.
- Distributed toys and games for physically and mentally challenged kids and also provided aid for fabrication work at the current premises of the Hidden Sprouts, Special School for the Mentally Handicapped in Vizag
- Donated blankets and medicines to the Missionaries of Charity, Nirmal Hruday Bhavan
- Worked towards digging of water borewell at Lemarthi Village
- Conducted Menstrual Health Management (MHM) Awareness camp and distributed kits at government schools at Lankelapalem and Parwada
- Donated ₹50,000 for constructing temple at Borangi, Parawada, Visakhapatnam
- Initiated education support programmes at Turkapalli Primary School, Shameerpet, Hyderabad located near its R&D plant (as majority of our contract employees are from Turkapalli and the nearby areas). Since 2011, Laurus has collaborated with Vidya Volunteer to help this school overcome shortage of teaching staff. Laurus has been working towards inculcating the habit of regular attendance at school and also provides TLM (Teaching & Learning Material) and science kits, among other things.
- Organised Blood Donation camp at the R&D centre in which more than 170 employees donated blood.
- Sponsored ₹3 million to Indian School of Business as partial contribution for Executive Education program on Technology Commercialization and Innovation Management.
- Donated ₹1,50,000 to Make - A - Wish Foundation of India for the children who are suffering with life threatening illness.
- Donated an amount of ₹2.20 million to Help Age India for Uttarakhand Flood Relief Operations. The amount is being utilized under Uttarkhand Disaster Response Project.

Management discussion and analysis

Global pharmaceutical industry

The global pharmaceutical industry grew 3.3% during 2013 (*Source: IMS*) and is expected to have grown to a size of more than US$1 trillion in 2014 (*Source: Urch Publishing*). A low single-digit revenue growth for the global pharmaceutical industry is forecasted. Patent expirations, government cost-containment policies in Europe and a weak employment scenario in the US may only be partially offset by the launch of new products and strong growth emanating from emerging markets.

The USFDA approved 27 novel products in 2013, compared with 39 products in 2012. Despite the moderate headwinds pressuring profitability and cash flows, the global pharmaceutical industry will remain one of the highest-rated industries (*Source: Fitch ratings*).

Indian pharmaceutical industry

The Indian pharmaceutical industry ranks third in terms of drug volumes (10% of the global market) and fourteenth when it comes to sales at over US$25 billion (3% of the global market). The size of the Indian pharmaceutical industry was estimated at US$ 12 billion in 2013, compared with US$10.9 billion in 2012 (US$1=INR 60).

The sector experienced a slowdown in 2013 with growth declining to 9.8% from 16.6% in 2012; the sector grew at a CAGR of 15% between 2010 and 2012. Chronic therapies (cardiovascular, gastrointestinal, CNS and anti-diabetic) outperformed the market for four years and grew at 14%, faster than acute therapies (anti-infectives, analgesics, respiratory and gynaecological medication) which grew at 9.6%.

India is now among the top-five emerging pharmaceutical markets and is expected to grow to US$55 billion by 2020, with the potential to reach US$70 billion. In a pessimistic setting characterised by regulatory controls and economic slowdown, the market could be depressed and reach US$35 billion (*Source: Care Ratings*).

Sectoral growth drivers

Growing population: India's total population stands at 1.21 billion, reporting a 17.7% growth during the 2001-11 period. The population growth rate pegged at around 1.3% every year with a steady rise in disease prevalence will increase the patient pool by nearly 20% by 2020.

Affordability: The affordability of drugs could rise due to sustained growth in incomes and increase in insurance coverage. With real GDP growing at nearly 8% over the next decade, income levels could rise steadily. Rising incomes could drive 73 million households into the middle and upper income segments. In addition to income growth, health insurance coverage could augment affordability. By 2020, nearly 650 million individuals could enjoy health insurance coverage. Private insurance coverage could grow by nearly 15% annually till 2020. However, the largest impact may be seen through government-sponsored programmes that are largely focused on the 'below poverty line' (BPL) segment and are expected to provide coverage to nearly 380 million people by 2020. During the period between 2005 and 2015, rising affordability could account for 60% of the incremental US$14 billion market opportunity.

Infrastructure: Medical infrastructure will experience dramatic growth over the next decade, with over US$200 billion being invested in creating and upgrading medical infrastructure. As a result, over 160,000 beds could be added every year across different segments in hospitals.

Public health segment: This segment involves direct government procurement from pharmaceutical companies. This market is currently estimated at nearly US$1 billion but has the potential to grow to US$4.5 billion by 2020.

Consumer healthcare: The consumer healthcare segment in pharmaceuticals is currently estimated to be above US$3 billion comprising brands that have been built through the prescription route and progressively moved on to under the self-medicated (Crocin or Volini) and direct-to-consumer marketing (Eno or Pudin Hara) categories. It is expected that the consumer healthcare segment could grow by 14-16% to become a US$14 billion market by 2020.

Chronic diseases: Over the next decade, the prevalence of diseases such as cancer and diabetes is likely to increase by 25-40%. India is already experiencing a shift in disease profile with substantial growth in chronic diseases. In 2010, India had the largest number of diabetic patients in the world with more than 41 million sufferers and this is projected to reach to 73.5 million by 2025. It is predicted that 199 million Indians will be over the age of 60 years by 2028, which is already leading to increased demand for medicines to treat CNS and cardiovascular diseases.

Generics

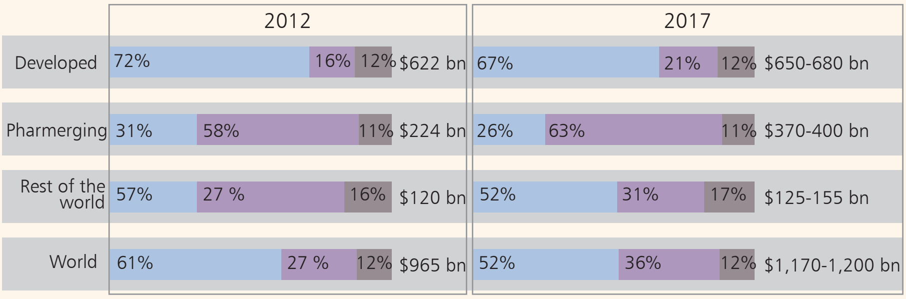
The mix of total global spending on medicines will shift toward generics over the next five years, rising from 27% to 36% of the total by 2017, even as brands will continue to account for more than two-thirds of the spending in the developed markets.

Absolute spending on brands in developed markets will decline by US$113 billion over the next five years due to losses of exclusivity, slower offtake of new medicines and restrictive access approaches. This will be offset by US$40 billion of expected generic spending, resulting in a US$73 billion 'patent dividend' in 2017. In the US, US$83 billion, or 34% of the brand spending that transpired during 2012, will shift to generics at dramatically lower prices. In other developed markets, the average brand expenditure exposed to generic competition will be 22%, except in Canada where it is expected to be 30%.

The use of generics will be at its highest in pharmerging markets where 63% of the spending will go to generic products. Patients in pharmerging markets will have increased access to affordable generics for primary care treatment and total spending on traditional pharmaceuticals in these markets is expected to rise from US$199 billion in 2012 to US$336 billion in 2017.

Generics will represent a larger share of the market in volume and value terms

Global spending 2012 and 2017



(Source: IMS Health Thought Leadership, September 2013)

Obamacare

The Patient Protection and Affordable Care Act (PPACA), commonly called the Affordable Care Act (ACA) or 'Obamacare' in common parlance, was enacted with the goals of enhancing the quality and affordability of health insurance, lowering the uninsured rate by expanding public and private insurance coverage and reducing the cost of healthcare for individuals and the government.

This reform will bring an additional 32 million formerly uninsured citizens becoming potential customers to the pharmaceutical sector after having begun in January 2014, resulting in nearly US$115 billion worth of new business over the next decade. Obamacare is touted to be a harbinger of a tectonic change in the way generic consumption is going to happen in the US and India stands to gain significantly from this landmark legislation.

Experts say generic drugs are pivotal to the success of the new healthcare system. This is because nearly 90% of patients in the US have some kind of co-payment on their insurance, which encourages them to take lower-priced generics rather than branded drugs. Obamacare envisages savings worth US$150billion (£935 million) per year from drug cost reductions, representing a sizeable opportunity.

Contract Research and Manufacturing Services (CRAMS)

Global CRAMS market

The global CRAMS market is estimated to be worth around US$60-70 billion and is projected to reach US$90 billion by 2015. There is an increasing emphasis on generic alternatives by healthcare policymakers from developed countries. Also, global pharmaceutical companies are focusing on marketing and discovery, while outsourcing drug development, clinical trials and manufacturing.

Indian CRAMS market

The domestic market for outsourced pharmaceutical research and manufacturing activities is growing with a high proportion of revenue drawn from contractual manufacturing. The segment is expected to outperform the outsourcing market.

The CRAMS industry has two main segments - Contract Manufacturing Services (CMS), which accounts for 65% of the industry and Contract Research Services (CRS), which accounts for the rest. CMS is expected to dominate in the foreseeable future.

The domestic CRAMS industry is expected to grow at robust rate over the next five years (*Source: CARE Ratings*) and the Indian CRAMS business is estimated to reach US$8 billion by 2015.

Patent expiry: Branded drugs worth US$105 billion in annual sales in the US are expected to become off-patent by 2020. Of these, over US$92 billion (~88%) worth of drugs are expected to go off-patent by 2016. Due to many drugs going off-patent, the topline growth of pharmaceutical companies is expected to come from generic drugs than from patented ones. Hence, pharmaceutical companies would be expected to enhance capital allocation towards R&D to boost their respective drug pipelines.

Rising costs: The costs incurred by the American pharmaceutical companies have increased due to several provisions of the Patient Protection and Affordable Healthcare Act coming into effect. This coupled with declining productivity and rising intellectual costs has led to a steady rise in R&D expenditure. This is likely to increase the

A **Contract Manufacturing Organisation (CMO)** provides clients with comprehensive services from drug development to manufacture. Services offered by CMOs include pre-formulation, formulation development, stability studies, method development, pre-clinical and Phase-I clinical trial materials, late-stage clinical trial materials, formal stability, scale-up, registration batches and commercial production.

A **Contract Research Organisation (CRO)** provides support to the pharmaceutical, biotechnology and medical device industries in the form of research services outsourced on a contractual basis. A CRO may provide services such as biopharmaceutical development, biologic assay development, commercialisation, pre-clinical research, clinical research, clinical trials management and pharmacovigilance.

trend of outsourcing to CRAMS companies.

Regulations: R&D productivity of big pharmaceutical companies is on the decline mainly due to a slowdown in the discovery of path-breaking medicines, increasing cost of research and rising compliance by the USFDA. The USFDA has been taking more time in giving approvals by asking for additional clinical trials/studies, resulting in delays and higher costs. This has boosted the allocation to CRAMS companies for streamlining the drug research process.

Growing preference: Indian companies are increasingly being preferred due to their product mix catering to high-end research services, biologics and complex technology services. Also, India offers a significant pool of professionals in the areas of drug development and research chemistry with a large number of pharmacists and chemistry postgraduates coming to the fore (*Source: Care ratings*).

Nutraceuticals

Global nutraceutical industry

With an estimated growth rate of 6.4% (CAGR), the nutraceuticals market is expected to reach US$204.8 billion by 2017. Growth is being driven by favourable demographics, increasing disposable incomes, rising healthcare costs, ageing population and a burgeoning OTC market. In developing nations, there has been a palpable increase in disposable incomes and developing nations are steadily becoming the preferred source for cheaper raw material supply for many nutraceutical products.

The trend towards personalised healthcare is expected to provide solutions to prevent, manage and treat chronic medical illnesses. The availability and accessibility of healthy foods in developing nations, evolving understanding of the concepts that promote healthy living and the launch of targeted foods and products scientifically formulated to address disease conditions are expected to support the growth of the nutraceuticals market.

Indian nutraceuticals industry

The Indian nutraceuticals market revenues are expected to reach approximately US$4.2 billion in 2017. Divided into three segments – dietary supplements, functional foods and functional beverages – the Indian nutraceutical market is witnessing a shift in consumer buying behaviour. Traditionally, pharma-dominated dietary supplements segment has been dominating the nutraceutical market but changing consumer preferences have paved the way for segments like functional foods and functional beverages capturing a strong 67% market share in India.

The urban-centric nutraceuticals market is gradually gaining ground in rural India with the rural market capturing almost a third of the total nutraceuticals industry in India. However, in terms of penetration, urban India still scores high at 22.51% while rural India stands at 6.32%.

The Indian market currently accounts for a two percent market share of the global nutraceuticals market and is expected to double in the next five years.

Ten things you should know about Laurus Labs

1

Laurus Labs is among the few Indian companies with USFDA approvals and WHO pre-qualifications to supply to the global initiative for HIV prevention.

2

Laurus Labs is the most cost effective producer worldwide for EFV (Efavirenz) and TDF (Tenofovir) through globally patented scalable manufacturing processes.

3

Additional 21 oncology DMFs in the pipeline and projected launch of another three by 2017-18 making it have the widest product basket in the generic oncology segment.

4

Laurus possesses one of the largest capacities for the oncology domain and commercialised 11 DMFs for the regulated markets in one of the fastest growing therapeutic areas.

5

Laurus Labs ingredient segment has a leading position in the development and manufacture of two polyphenol dietary supplements; Pterostilbene and Resveratrol.

6

Laurus is a first source supplier of Montelukast for a 2012 US day one generic launch with a global pharmaceutical major. Its patented process provides global cost leadership for Montelukast.

7

Drugs containing TDF and EFV account for $9 bn in combined regulated market sales; EFV and TDF patents expire in 2015 and 2018, respectively allowing Laurus Labs to foray into regulated markets on patent expiry of these ARV drugs.

8

Laurus foray into large volume APIs across anti-asthma, anti-diabetic and cardiovascular therapeutic areas will open a vast market space for the Company.

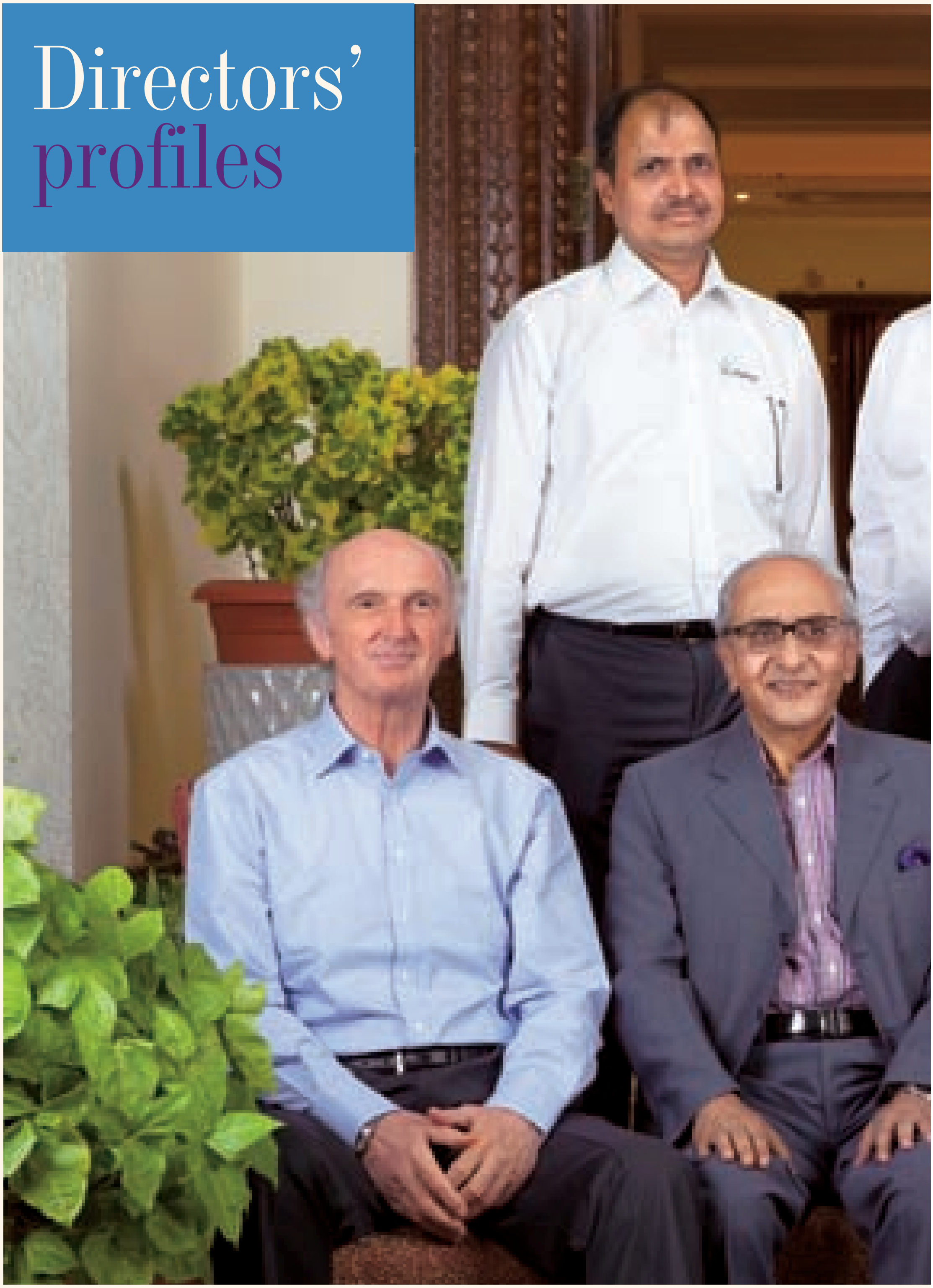
9

Worked on 25+ clinical programmes across various phases, including pre-clinical, Phase-I, Phase-II and Phase-III.

10

Laurus will be amongst the very few in the industry, with its forward integration towards finished dosage forms in select formulation to emerge as an integrated pharma player.

Directors' profiles



1. Dr. C Satyanarayana

Dr. Satyanarayana Chava, Chief Executive Officer (CEO), has been a towering presence for the past 29 years in the pharmaceutical industry, especially under the domains of R&D, manufacturing and business development. Having worked at reputed pharmaceutical companies in various senior roles, Dr. Satyanarayana occupied the key position of Chief Operating Officer at Matrix Laboratories, Hyderabad. Having garnered multiple breakthroughs in the API process development, he has developed a significant knowledge bank in terms of intellectual property-related matters in the pharmaceutical space and has over 75 patents in his name.

2. Dr. Raju S Kalidindi

Dr. Raju S Kalidindi, Executive Director, has 29 years of pharmaceutical research and operational experience behind him. He worked for a couple of years in the US and for 11 years for Mayne Pharma in Australia. At Mayne Pharma, he occupied several key positions including a senior managerial role before bidding adieu in March, 2006. His areas of expertise include R&D in generic formulations, technology transfers, patent strategies, regulatory affairs, API sourcing and business development. Dr. Raju has several patents and research publications in his kitty.

3. Mr. V V Ravi Kumar

V V Ravi Kumar, Executive Director has amassed 26 years of experience in the finance, IT and supply chain management spaces. He is adept in dealing with mergers and acquisitions and joint venture management in the global scheme of things. He is an integral part of the senior management that has been instrumental in transforming M/s Matrix Laboratories into a major pharmaceutical company.

4. Mr. Rajesh Kumar Dugar

Mr. Dugar is the Senior Managing Director at FIL Capital Advisors (India) Private Limited. He has more than a decade-long experience in the Indian private equity industry, especially in investing across multiple stages and industries.

During his private equity career, he boasts having names like The Carlyle Group and Merlion (Temasek-Standard Chartered JV) in his resume as well as being the co-founder and managing director of WestBridge Capital Partners (now Sequoia India).

He started his career as a management consultant with Booz Allen & Hamilton where he worked both in the US and in India. He subsequently worked as an investment banker for Goldman Sachs and served on the board of Goldman's then JV partner Kotak Mahindra Capital.

Raj holds an AB degree from Dartmouth College and an MBA degree from MIT Sloan School of Management. He is a charter member of TiE and a member of the Young Presidents' Organisation (YPO).

5. Dr. Robert Weisskoff

Dr. Robert Weisskoff is a partner at Fidelity Biosciences, USA. He has worked extensively in both the academic as well as the industrial realms for more than two decades. Prior to joining Fidelity in 2004, he held various senior roles in R&D and business development at both pharmaceutical and medical device companies. In his academic career, Dr. Robert Weisskoff was Associate Professor of Radiology at Harvard Medical School, on the faculty of the Harvard-MIT Health Sciences Technology (HST) Programme, and conducted research at Massachusetts General Hospital, where he was Associate Director of the MGH-NMR Centre. There he worked in the crucial areas of basic research, medical technology development, and clinical research. Weiskoff has penned over 100 peer-reviewed scientific papers, and has six US patents to his name.

He holds a Ph.D. in Physics from the Massachusetts Institute of Technology and an M.B.A. from Columbia University. He received his AB degree in Physics from Harvard University, graduating *magna cum laude* and was an illustrious member of Phi Beta Kappa.

He has also served on the Board of Directors for Acorn Cardiovascular, Accuri Cytometers, Bioconnect Systems, Ikano Therapeutics Inc., Tetraphase, Topaz, Transave, ViewRay and Envivo Pharmaceuticals.

6. Mr. Francis Jackson Wright

Mr. Wright has more than 36 years of experience in mergers and acquisitions and executive management in the chemical and pharmaceutical industries. He was the Co-Founder and Vice Chairman of Aptuit Inc, an industry leading pharmaceutical services company with the mission to engineer a better drug development process spread over 15 global locations providing drug development and manufacturing services to pharmaceutical and biotechnology companies.

He was formerly CEO and Executive Vice President, Corporate Development of ChiRex Inc, which was traded on the US NASDAQ exchange and a pioneering figure in the field of API outsourcing. Prior to joining ChiRex Mr. Wright held senior positions with GlaxoWellcome for 12 years in procurement and outsourcing and as site director of several API manufacturing facilities. Mr. Wright served for three years with Transvaal Health Authority, South Africa and for 10 years he was involved with Imperial Chemical Industries in capital project management.

In 2010 Mr. Wright founded the PharmaTrust, a consulting organisation to advise upon and create strategic partnerships within the pharmaceutical industry to make more effective use of development and manufacturing capacities internationally to improve access and reduce the cost of medicines.

7. Mr. Amal Ganguli

He is an Independent Director and is an experienced chartered accountant with rich experience in the profession, corporate business and management. His areas of expertise are statutory audit, internal and management audits, evaluation and strengthening of control systems, Indian and international tax matters, mergers and acquisitions, valuations and corporate restructuring.

Mr. Ganguli is a fellow member of the Institute of Chartered Accountants of India and the Institute of Chartered Accountants of England and Wales. Besides his qualifications in the area of accounting and auditing, Mr. Ganguli is a fellow of the British Institute of Management and alumnus of IMI, Geneva.

With a career spanning over 41 years at Price Waterhouse Coopers, in both the UK and also in India, Mr. Ganguli has donned the role of a Chairman and a senior partner at PWC India, for seven years before hanging up his boots in 2003.

Mr. Ganguli is a member of the Board of Directors as well as the chairman/member of the Audit Committees of several leading Indian companies such as Maruti Suzuki India Limited (formerly Maruti Udyog Limited), Tata Telecommunications Limited, Century Textiles and Industries Limited, ICRA Limited, HCL Technologies Limited, New Delhi Television Limited, Triveni Turbines Limited, AVTEC Limited, Hughes Communications India Limited, Aricent Technologies (Holdings) Limited, AIG Trustee Co. India Limited, ML Infomap Private Limited, Ascendas Property Fund Trustee Private Limited, Tata Teleservices Maharashtra Limited, Veritas Advisors LLP and Thought Arbitrage Research Institute.

8. Mr. Brian T Regan

Mr. Regan is a general partner at Welsh Carson Anderson & Stowe (WCAS). Mr. Regan joined WCAS in 2002 and keeps a keen eye on major investments being floated in the healthcare industry. Before joining WCAS, he worked in the investment banking division of Merrill Lynch. Mr. Brian Regan graduated from Yale College.

Senior Management Team


Dr. C. Satyanarayana


Dr. Srihari Raju Kalidindi


Mr. VV Ravi Kumar


Dr. GSR Anjaneyulu


Mr. Rashmi Ranjan Patra


Dr. C V Lakshmana Rao


Mr. M Bhaskaraiah


Mr. Anil Kumar


Mr. S Srinivasa Rao


Mr. Martyn Oliver James Peck


Mr. C Chandrakanth


Dr. D Sreenivasa Rao

Directors' Report

Dear Shareholders

Your directors have pleasure in presenting the Company's 9th annual report along with the audited financial statements, for the year ended 31 March 2014.

Financials

(₹ in Million)

	2013-14	2012-13
Revenue (Net)	11,597	7,185
EBITDA	2,206	1,499
Interest	639	412
Depreciation	329	226
Profit before tax	1,238	861
Profit after tax	991	882

Business Operations

During the year the Company achieved:

- Growth of 61 % revenue, 47 % EBITDA and 44 % PBT over previous year
- Development of 8 API Products totaling to 45 commercialised Products
- Filing of 1 drug master file totaling to 24 products and validated 3 drug master files owned by customers
- Filing of 25 patents totaling to 93 patents
- Expansion of 3 additional production blocks with a capex of around ₹1.30 Billion in the existing manufacturing facility situated in JNPC, Visakhapatnam
- Construction of another large scale manufacturing facility in JNPC, Visakhapatnam, which will be operational from June 2014
- Acquisition of two pieces of land admeasuring 45.00 and 44.30 acres in Acthuthapuram, Visakhapatnam for future expansion.
- Acquisition of Viziphar Biosciences Private Limited as wholly owned subsidiary in order to enter into natural Ingredients business

Outlook

Business prospects remaining positive because of the growing global demand for generics and opportunities provided by patent expires in developed markets.

The business proportions and synergies forms part of growth prospects detailed in the Management's Discussion and Analysis (MDA), which forms part of this Annual Report.

Human resources

The management believes that the competent and committed human resources are vitally important to attain success in the organization. In line with this philosophy, utmost care is being exercised to attract quality resources and suitable training is imparted on various skill-sets and behavior. Annual sports and games were conducted across the organization to enhance the competitive spirit and encourage bonding teamwork among the employees.

Employee Stock Options

During the year the Company has allotted 139,125 equity shares of ₹10 each to the eligible employees. Further 38,500 stock options were granted to the eligible employees at an exercise price of ₹10 each (Refer Nos.4 and 29 of Notes to financial statements) pursuant to the Employee Stock Option Plan 2011.

Shifting of Registered Office

The registered office of the Company shifted from '2nd Floor, Serene Chambers, Road No.7, Banjara Hills, Hyderabad 500034' to 'Plot No.21, JN Pharma City, Parawada, Visakhapatnam 531021' for operational convenience because most of the manufacturing facilities are located in the region of proposed new state of Andhra Pradesh.

Directors

Mr. Amal Ganguli, Independent Director retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

Auditors

S.R.Batliboi Associates LLP, Chartered Accountants, the auditors of the Company retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if reappointed.

Fixed deposits

The Company did not accept any fixed deposits.

Director's Responsibility Statement

In accordance with the requirements of Section 217(2AA) of the Companies Act, 1956, the Directors of the Company declare that:

- All applicable accounting standards were followed in the preparation of financial statements.
- Such accounting policies were selected and applied consistently and judgments and estimates were made that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2014.
- Proper and sufficient care was taken to maintain adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- The annual accounts have been prepared on a going concern concept.

Particulars of employees

In accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 the list of employees drawing remuneration exceeding ₹5.00 Lakhs per month is given in the Annexure 2 and appended hereto and forms part of this Report.

Conservation of energy, technology absorption and foreign exchange earnings/outgo

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

Acknowledgements

Your Directors would like to place on record their sincere appreciation to customers, business associates, bankers, vendors, government agencies and shareholders for their continued support.

Your Directors are also happy to place on record their sincere appreciation to the co-operation, commitment and contribution extended by all the employees of the Laurus family and look forward to enjoying their continued support and cooperation.

For and on behalf of the Board

Hyderabad	**Dr. C. Satyanarayana**	**V. V. Ravi Kumar**
Date: 29th April 2014	*Chief Executive Officer*	*Executive Director*

ANNEXURE – 1

FORM - A

Particulars with respect to Conservation of Energy

Power and Fuel Consumption

Particulars	2012-13	2011-12
1. Electricity		
a. Purchases:		
Units	27,370,892	15,138,270
Total Amount - (₹ in millions)	180	83.39
Rate/Unit – ₹	6.57	5.51
b. Private Purchases:		
Units	9,579,883	
Total Amount – (₹ in millions)	54	
Rate/Unit – ₹	5.66	
c. Own generation through Diesel Generator		
Units	2,685,538	7,581,347
Total Amount – (₹ in millions)	45.52	96.43
Rate/Unit – ₹	16.95	12.72
2. Coal (D/C grade)		
Quantity (Kgs)	6,638,930	6,824,130
Total Cost - (₹ in millions)	32.66	40.23
Average rate /Kg – ₹	4.92	5.90
3. Steam Bought out		
Quantity (MT)	26,227	19,794
Total Cost - (₹ in millions)	18.78	10.47
Average rate /MT – ₹	716.21	528.93

Expenditure on R&D

Particulars	2013-14	2012-13
a. Capital	34.51	32.96
b. Recurring	389.89	332.54
Total	**424.40**	**365.50**

FORM - B

B Particulars with respect to technology absorption - Research and Development (R&D)

1. Specific areas in which R&D is carried out by the Company	Process Development for Active Pharmaceutical Ingredients and Intermediates.
	Development of Nutraceutical Ingredients and Fine Chemicals.
	Process optimization for new chemical entities, intermediates thereof developed by International Pharma companies as Contract Research and Manufacturing services
	Development of Process for Drug Product as Contract Research Services
2. Benefits derived as a result of the above R&D	Developed novel processes and achieved cost and process efficiencies on existing products.
	Developed the process for new products. Developed Polyphenolic Nutraceutical Ingredients.
	Developed Polyphenolic nutraceutical ingredients.
3. Future plan of action	To develop novel processes for additional Active Pharmaceutical Ingredients and intermediates.
	To develop the processes using alternate technologies for Active Pharmaceutical Ingredients, Nutraceutical Ingredients to reduce the costs by improving the process efficiencies
	Expand the portfolio of Nutraceutical Ingredients and Fine Chemicals Continue to expand Contract Research and Manufacturing Services.

Technology absorption, adaptation and innovation

1. Efforts in brief, made towards technology absorption & adoption	No technology absorption is involved. The Company has its own R&D center which has been developing and improving processes for manufacture of active pharmaceutical ingredients and drug intermediates.
2. Benefits derived as a result of the above efforts	Processes for several active pharmaceutical ingredients have been developed. Process optimisation was achieved in production, which resulted in lower cost of production and substantial exports.
3. Information regards import of technology during the last 5 years	There was no import of technology.

FORM - C

Foreign exchange earnings and outgo	Please refer information given in the Notes to Financial Statements of the Company in item nos. 38 to 40

ANNEXURE – 2

Information as per Section 217 (2A) of the Companies Act, 1956

Name and Designation of the Employee	Qualification	Age	Date of Joining	Experience	Remuneration (₹ in Mn)	Previous Employer
Dr Satyanarayana C	M Sc, Ph D	51	1 Sep 05	28	45.73	Matrix Laboratories, India
Dr Raju S Kalidindi	M Sc, Ph D	50	3 Apr 06	28	14.24	Mayne Pharma, Australia
Ravi Kumar VV	M Com, FCMA	49	30 Nov 06	25	14.24	Matrix Laboratories, India
Martyn Oliver James Peck	B Sc	45	18 Aug 08	25	14.80	Mayne Pharma, Australia
Dr Anjaneyulu GSR	M Sc, Ph D	52	5 Feb 07	29	8.48	Matrix Laboratories, India
Dr Venkata Lakshmana Rao C	M Sc, Ph D	51	7 Feb 07	26	6.45	Mayne Pharma, Australia

Notes: Remuneration includes basic salary, allowances, taxable value of perquisites, etc. The term remuneration has the meaning assigned to it in the Explanation to Section 198 of the Companies Act, 1956.

None of the above employees are relatives to any director of the Company.

None of the above employees own more than 2% of the outstanding shares of the Company as on March 31, 2014 except Dr Satyanarayana, Dr Raju S Kalidindi, Ravi Kumar VV and Dr Venkata Lakshmana Rao C.

The nature of employment is contractual in all the above cases.

Financial Section

Independent Auditor's Report

To
The Members of
Laurus Labs Private Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Laurus Labs Private Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2014, 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.

Management's 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 accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 1956 read with General Circular 8/2014 dated 4 April 2014, issued by the Ministry of Corporate Affairs. 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 but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 Companies Act, 1956 ("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, 2014;

(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

1. 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:
   (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
   (b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
   (c) 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;
   (d) In our opinion, the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards notified under the Companies Act, 1956 read with General Circular 8/2014 dated 4 April 2014, issued by the Ministry of Corporate Affairs;.
   (e) On the basis of written representations received from the directors as on March 31, 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For **S.R. BATLIBOI & ASSOCIATES LLP**
Chartered Accountants
ICAI Firm Registration Number: 101049W

per **Vikas Kumar Pansari**
Partner
Membership Number: 093649

Place : Hyderabad
Date : April 29, 2014

Annexure to the Auditor's Report

Annexure referred to in paragraph 1 of our report of even date
Re: Laurus Labs Private Limited

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) There was no disposal of a substantial part of fixed assets during the year.

(ii) (a) The Management has conducted physical verification of inventory at reasonable intervals during the year.

(b) The procedures of physical verification of inventory followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory. Discrepancies noted on physical verification of inventories were not material, and have been properly dealt with in the books of account.

(iii) (a) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii)(a) to (d) of the Order are not applicable to the Company and hence not commented upon.

(e) According to information and explanations given to us, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii)(e) to (g) of the Order are not applicable to the Company and hence not commented upon.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, we have not observed any major weakness or continuing failure to correct any major weakness in the internal control system of the company in respect of these areas.

(v) (a) According to the information and explanations provided by the Management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 that need to be entered into the register maintained under section 301 have been so entered.

(b) None of the transactions made in pursuance of such contracts or arrangements exceed the value of Rupees five lakh in respect of any one such party in the financial year.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) We have broadly reviewed the books of account maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.

(ix) (a) 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 and other material statutory dues have generally been regularly deposited with the appropriate authorities.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty cess and other material statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

(c) According to the records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty and cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount demanded (₹ in millions)	Amount paid under dispute (₹ in millions)	Period to which the amount relates	Forum where dispute is pending
The Income Tax Act, 1961	Disallowance of deduction under Section 10A of the Income Tax Act, 1961	10.10	7.05	AY 2008-09	Honorable High Court of Karnataka

(x) The Company's has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

(xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.

(xii) According to the information and explanations given to us and based on the documents and records produced before us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

(xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money through public issue.

(xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the year.

For **S.R. BATLIBOI & ASSOCIATES LLP**
Chartered Accountants
ICAI Firm Registration Number: 101049W

per **Vikas Kumar Pansari**
Partner
Membership Number: 093649

Place : Hyderabad
Date : April 29, 2014

Balance Sheet as at March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

	Notes	2013-14	2012-13
EQUITY and LIABILITIES			
Shareholders' Funds			
Share Capital	3	778.40	777.01
Reserves and Surplus	4	2,824.81	1,815.98
		3,603.21	2,592.99
Non Current Liabilities			
Long Term Borrowings	5A	1,881.72	687.03
Deferred Tax Liabilities (Net)	6	128.26	-
Long Term Provisions	7A	39.33	28.01
		2,049.31	715.04
Current Liabilities			
Short Term Borrowings	8	3,121.84	1,778.42
Trade Payables	9	2,274.51	1,322.41
Other Current Liabilities	10	1,641.16	569.01
Short Term Provisions	7B	80.38	57.06
		7,117.89	3,726.90
TOTAL		**12,770.41**	**7,034.93**
ASSETS			
Non Current Assets			
Fixed Assets			
Tangible Assets	11	4,940.13	2,342.64
Intangible Assets	11	46.78	12.89
Capital Work in Progress	11	1,160.99	727.81
Non Current Investments	12	4.55	-
Deferred Tax Assets (Net)	6	-	118.20
Long Term Loans and Advances	13A	694.61	328.50
Other Non Current Assets	14A	230.51	196.24
		7,077.57	3,726.28
Current Assets			
Inventories	15	3,280.97	1,561.90
Trade Receivables	16	1,948.75	1,566.96
Cash and Bank Balances	17	149.66	26.69
Short Term Loans and Advances	13B	252.46	124.18
Other Current Assets	14B	61.00	28.92
		5,692.84	3,308.65
TOTAL		**12,770.41**	**7,034.93**
Summary of significant accounting policies	2.1		

The accompanying notes are an integral part of the financial statements.
This is the Balance Sheet referred to in our report of even date

For S.R.BATLIBOI & ASSOCIATES LLP
Chartered Accountants
ICAI Firm Registration Number : 101049W

per Vikas Kumar Pansari
Partner
Membership No. 093649

Place: Hyderabad
Date: April 29, 2014

For and on behalf of the Board of Directors
LAURUS LABS PRIVATE LIMITED

Dr. C. Satyanarayana
Chief Executive Officer

V. V. Ravi Kumar
Executive Director

Place: Hyderabad
Date: April 29, 2014

A. Nagaraj Kumar
Company Secretary

Statement of Profit and Loss for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

	Notes	2013-14	2012-13
I. INCOME			
Revenue from Operations (Gross)	18	11,656.86	7,225.42
Less: Excise Duty		59.69	40.31
Revenue from Operations (Net)		11,597.17	7,185.11
Other Income	19	91.60	51.52
Total Revenue (I)		**11,688.77**	**7,236.63**
II. EXPENSES			
Cost of Materials Consumed	20	7,882.88	4,431.32
Purchase of Traded Goods	21	79.01	23.24
Increase in Inventories of Finished Goods and Work-in-Progress	22	(702.93)	(331.94)
Other Manufacturing Expenses	23	780.04	537.61
Employee Benefits Expenses	24	1,041.15	763.53
Operating and Selling Expenses	25	402.68	313.98
Total Expenses (II)		**9,482.83**	**5,737.74**
III. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) (I-II)		2,205.94	1,498.89
Depreciation and Amortisation	11	328.80	226.28
Finance Costs	26	639.47	411.62
IV. Profit Before Tax		**1,237.67**	**860.99**
V. Tax Expense			
Current Tax		248.11	172.56
Minimum Alternate Tax credit entitlement		(248.11)	(172.56)
Deferred Tax Charge (Credit)		246.46	(21.20)
Total Tax Expense /(Credit)		**246.46**	**(21.20)**
VI. Profit for the year		**991.21**	**882.19**
Earnings Per Equity Share ₹10 each fully paid (March 31, 2013: ₹10 each fully paid)	27		
Computed on the basis of total profit for the year			
Basic (₹)		64.80	57.88
Diluted (₹)		48.86	43.41
Summary of Significant Accounting Policies	2.1		

The accompanying notes are an integral part of the financial statements.
This is the Statement of Profit and Loss referred to in our report of even date

For S.R.BATLIBOI & ASSOCIATES LLP
Chartered Accountants
ICAI Firm Registration Number : 101049W

per Vikas Kumar Pansari
Partner
Membership No. 093649

Place: Hyderabad
Date: April 29, 2014

For and on behalf of the Board of Directors
LAURUS LABS PRIVATE LIMITED

Dr. C. Satyanarayana
Chief Executive Officer

V. V. Ravi Kumar
Executive Director

Place: Hyderabad
Date: April 29, 2014

A. Nagaraj Kumar
Company Secretary

Cash Flow Statement for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

Particulars	2013-14	2012-13
Cash Flow From Operating Activities		
Profit Before Tax	**1,237.67**	**860.99**
Adjustments for :		
Depreciation and Amortisation	328.80	226.28
Net Loss on Sale of fixed assets	1.35	2.33
Interest Income	(34.89)	(12.71)
Interest Expense	514.56	340.65
Gross compensation for Options granted during the year	17.62	18.94
Net gain on Foreign Exchange Fluctuations (unrealised)	(52.36)	(12.68)
Unclaimed balance Witten back	-	(3.82)
Advances and Bad debts written off	3.29	30.79
Provision for doubtful advance and receivables	2.36	1.49
Gratuity and compensated absences	20.77	18.98
Operating Profit Before Working Capital Changes	**2,039.17**	**1,471.24**
Movement In Working Capital:		
Increase in Inventories	(1,719.07)	(575.58)
Increase in Trade Receivables	(392.96)	(111.11)
Increase in Long Term Loans and Advances	(4.98)	(8.72)
Increase in Short Term Loans and Advances	(130.32)	(45.93)
Increase/ (Decrease) in Other Non Current Assets	19.44	(5.61)
(Decrease) / Increase in Other Current Assets	(32.07)	24.57
Decrease in Other Long Term Liabilities	-	(41.81)
Increase in Trade Payables	1,002.63	364.04
Increase/ (Decrease) in Other Current Liabilities	664.67	(4.61)
Cash Generated From Operations	**1,446.51**	**1,066.48**
Direct Taxes paid	(234.24)	(184.40)
Net Cash Flow From Operating Activities (A)	**1,212.27**	**882.08**
Cash Flow Used In Investing Activities		
Purchase of Fixed Assets, including Intangible assets, Capital work in progress and capital advances	(3,090.85)	(1,186.72)
Proceeds from Sale of Fixed Assets	32.67	0.53
Investments from bank deposits	(56.92)	(57.09)
Purchase of Investment	(4.55)	-
Net Cash Flow Used In Investing Activities (B)	**(3,119.65)**	**(1,243.28)**

Cash Flow Statement *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

Particulars	2013-14	2012-13
Cash Flow From Financing Activities		
Proceeds from Issue of Equity Shares	1.39	-
Repayment of Long - Term Borrowings	(434.12)	(605.98)
Proceeds from Long - Term Borrowings	1,576.27	790.55
Proceeds from Short - Term Borrowings (Net)	1,360.85	489.98
Interest received	38.10	10.19
Interest Paid	(512.14)	(340.29)
Net Cash Flow From Financing Activities (C)	**2,030.35**	**344.45**
Net Increase/ (Decrease) in Cash and Cash Equivalents (A+B+C)	122.97	(16.75)
Cash and Cash Equivalents at the beginning of the year	26.69	43.44
Cash and Cash Equivalents at the end of the year	**149.66**	**26.69**
Notes:		
Components of Cash and Cash Equivalents:		
Cash on hand	0.62	1.81
Balances with banks		
On current accounts	149.04	24.88
Total Cash and Cash Equivalents	**149.66**	**26.69**

The accompanying notes are an integral part of the financial statements.
This is the Cash Flow referred to in our report of even date

For S.R.BATLIBOI & ASSOCIATES LLP
Chartered Accountants
ICAI Firm Registration Number : 101049W

per Vikas Kumar Pansari
Partner
Membership No. 093649

Place: Hyderabad
Date: April 29, 2014

For and on behalf of the Board of Directors
LAURUS LABS PRIVATE LIMITED

Dr. C. Satyanarayana
Chief Executive Officer

V. V. Ravi Kumar
Executive Director

Place: Hyderabad
Date: April 29, 2014

A. Nagaraj Kumar
Company Secretary

Notes to financial statements for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

1. Corporate Information

"Laurus Labs Private Limited offers a broad and integrated portfolio of Active Pharma Ingredients (API) including intermediates, Contract Research services to cater to the needs of the global pharmaceutical industry and renders Software Services (Infosystems) (upto February 28, 2014). The Company is equipped with a Active Pharma Ingredients (API) manufacturing facility situated in Jawaharlal Nehru Pharma City at Visakhapatnam, a Research and Development Centre in IKP Knowledge Park at Hyderabad and a Software solutions centre in White field at Bengaluru (upto February 28, 2014).

2. Basis of Preparation

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Principles in India (Indian GAAP). The Company has prepared these financial statements to comply in all material respects with the accounting standards notified under the Companies (Accounting Standards) Rules, 2006, (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared as a going concern on an accrual basis and under the historical cost convention. The accounting policies have been consistently applied by the Company and except for the change in accounting policy discussed more fully below, are consistent with those used in the previous year.

2a. Change in Accounting Policy:

During the year, the Company has implemented the Enterprise Resource Planning on SAP Application. Accordingly, the Company has changed its method of valuation of Inventory of Stores & Spares from the earlier method i.e. First In First Out Basis (FIFO) to transaction moving weighted average method. This change, however, does not have any material impact on the profit for the current year.

2.1 Summary of significant accounting policies

a. Use of Estimates

The preparation of financial statements in conformity with Indian GAAP requires the Management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting year. Although these estimates are based on the Management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in the outcome requiring a material adjustment to the carrying amounts of assets or liabilities in future years.

b. Tangible Fixed Assets

Tangible Fixed assets are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The cost comprises purchase price, borrowing costs if capitalisation criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

Subsequent expenditure related to an item of fixed asset is added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance or extends its estimated useful life. All other expenses on existing fixed assets, including day-to-day repair and maintenance expenditure and cost of replacing parts, are charged to the statement of profit and loss for the period during which such expenses are incurred.

Gains or losses arising from derecognition of fixed assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit and loss when the asset is derecognised.

c. Depreciation on tangible Fixed Assets

i. Depreciation on tangible fixed assets is provided pro rata to the period of use on the straight-line method based on the useful lives of the assets estimated by Management, or at the rates prescribed under Schedule XIV of the Companies Act, 1956 whichever is higher. The Company has used the following rates to provide depreciation on its tangible fixed assets.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

	Depreciation rates used	Depreciation as per Schedule XIV
- Buildings	3.34%	3.34%
- Plant and Equipments	10.00%	4.75%
(Research and development unit and Corporate office)		
- Plant and Equipments	10.34%	10.34%
(Other than Research and development unit and Corporate office)		
- Furniture and Fixture	10.00%	6.33%
- Computers	20.00%	16.21%
- Vehicles	20.00%	9.50%

ii. Assets costing ₹5,000 or less are depreciated fully in the year of purchase.

iii. Land acquired on lease is amortised over the primary period of lease.

d. Intangible Assets

Computer Softwares

i. Costs relating to software, which is acquired, are capitalised and amortised on a straight-line basis over their estimated useful lives of five years.

ii. Expenditure incurred on development of internally generated assets-software for which future economic benefit will flow over a period of time is amortised over the estimated useful life or 5 years on a straight line basis, which ever is earlier.

Goodwill

Goodwill is amortised using the straight-line method over a period of five years.

e. Lease

Where the Company is a Lessee

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the statement of Profit and Loss.

f. Borrowing Costs

Borrowing costs includes interest, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest cost.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the year they occur.

g. Impairment

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) net selling price and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining net selling price, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

h. Inventories

Raw materials and packing materials are valued at lower of cost and net realisable value. However, materials and other items held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Cost of raw materials and packing materials is determined on weighted average basis.

Work-in-progress and finished goods are valued at lower of cost and net realisable value. Cost includes direct materials and labour and a proportion of manufacturing overheads. Cost of finished goods is determined on a weighted average basis.

Traded goods are valued at lower of cost and net realisable value.

Stores and spares are valued at lower of cost and net realisable value. Cost of stores and spares is determined on weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

i. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Products

Revenue from sale of goods is recognised when all the significant risks and rewards of ownership of the goods have been passed to the buyer, usually on delivery of the goods. The Company collects sales taxes and value added taxes (VAT) on behalf of the government and, therefore, these are not economic benefits flowing to the Company. Hence, they are excluded from revenue. Excise duty deducted from revenue (gross) is the amount that is included in the revenue (gross) and not the entire amount of liability arising during the year.

Sale of Services

i. Revenues from contract research operations are recognised as per the terms of the contract with customers when the related services are performed or the agreed milestones are achieved.

ii. Revenues from software services are recognised and billed as per the terms of specific contract, which is on the basis of cost expended plus an agreed profit margin.

Interest Income

Interest income is recognised on a time proportion basis taking into account the amount outstanding and the applicable interest rate. Interest income is included under the head "other income" in the statement of profit and loss.

Dividend Income

Dividend income is recognised when the Company's right to receive dividend is established by the reporting date.

j. Foreign currency translation

i. Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

ii. Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction. Non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

iii. Exchange Differences

Exchange differences arising on the settlement of monetary items or on reporting Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise.

iv. Forward Exchange Contracts not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contracts is recognised as income or as expense for the year.

k. Retirement and other employee benefits

Retirement benefit in the form of provident fund and superannuation fund is a defined contribution scheme. The contributions to the provident fund and superannuation fund are charged to the statement of profit and loss for the year when the contributions are due. The Company has no obligation, other than the contributions payable to the funds.

Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. Actuarial gains/losses are immediately taken to statement of profit and loss and are not deferred.

The Company treats accumulated leave, as long-term employee benefit for measurement purposes. Such long-term compensated absences are provided for based on the actuarial valuation using the projected unit credit method at the year-end. Actuarial gains/losses are immediately taken to the statement of profit and loss and are not deferred. The Company presents the entire liability in respect of leave as a current liability in the balance sheet, since it does not have an unconditional right to defer its settlement for 12 months after the reporting date.

l. Taxes on Income

Tax expense comprises current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainity that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the Company has unabsorbed depreciation or carry forward tax losses, the entire deferred tax assets are recognised only if there is virtual certainity supported by convincing evidence that such deferred tax assets can be realised against future taxable profits. At each balance sheet date, the Company re-assesses unrecognised deferred tax assets. The company accounted unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date. The Company writes down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax assets can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Minimum alternate tax (MAT) paid in a year is charged to the statement of profit and loss as current tax. The Company recognises MAT credit available as an asset only to the extent that there is convincing evidence that the Company will pay normal income tax during the specified period, i.e., the period for

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

which MAT credit is allowed to be carried forward. In the year in which the Company recognises MAT credit as an asset in accordance with the Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income-tax Act, 1961, the said asset is created by way of credit to the statement of profit and loss and shown as "MAT Credit Entitlement." The Company reviews the "MAT credit entitlement" asset at each reporting date and writes down the asset to the extent the Company does not have convincing evidence that it will pay normal tax during the specified period.

m. Employee stock options

Measurement and disclosure of the employee stock options is made in accordance with the Guidance Note on Accounting for Employee Share Based Payments Plans, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee stock options using the fair value method. Compensation expenses, if any, is amortised over the vesting period of the options on a straight line basis.

n. Segment Reporting Policies

Identification of segments

The Company's operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The analysis of geographical segments is based on the areas in which major operating divisions of the Company operate.

Inter-segment transfers

The Company generally accounts for intersegment sales and transfers at cost plus appropriate margins.

Allocation of common costs

Common allocable costs are allocated to each segment according to the relative contribution of each segment to the total common costs.

Unallocated items

The unallocated items include general corporate income and expense items which are not allocable to any business segment.

Segment accounting policies

The Company prepares its segment information in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Company as a whole.

o. Earnings Per Share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

p. Provisions

A provision is recognised when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not discounted to their present value and are determined based on the best estimate of the amount required to settle the obligation at the reporting date. These estimates are reviewed at each reporting date and adjusted to reflect the current best estimates.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit and loss net of any reimbursement.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

q. Deferred Revenue expenditure/Unamortised expenditure

Costs incurred in raising funds are amortised equally over the period for which the borrowings are acquired.

r. Contingent Liabilities

A contingent liability is a possible obligation that may arise as a result of past events whose existence may be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Company does not recognise a contingent liability but discloses its existence in the financial statements.

s. Cash and Cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

t. Research and development

Revenue expenditure on research and development is charged to revenue in the year in which it is incurred. Capital expenditure on research and development is added to fixed assets and depreciated in accordance with the policies of the Company.

u. Measurement of EBITDA

As permitted by the Guidance Note on the Revised Schedule VI to the Companies Act, 1956, the Company has elected to present earnings before interest, tax, depreciation and amortisation (EBITDA) as a separate line item on the face of the statement of profit and loss. The Company measures EBITDA on the basis of profit/ (loss) from continuing operations. In its measurement, the Company does not include depreciation and amortisation expense, finance costs and tax expense.

3. Share Capital

		March 31, 2014	March 31, 2013
Authorised			
20,899,496	(March 31, 2013 : 20,899,496) Equity shares of ₹10/- each	208.99	208.99
6,900,000	(March 31, 2013: 6,900,000) 0.001% Compulsorily Convertible Participatory Cumulative Preference shares -Series A of ₹10/- each	69.00	69.00
2,477,387	(March 31, 2013 : 2,477,387) 0.001% Compulsorily Convertible Preference shares-Series B of ₹243/- each	602.01	602.01
		880.00	**880.00**
Issued, Subscribed and Paid Up			
15,379,755	(March 31, 2013 : 15,240,630) Equity share of ₹10/- each fully paid up	153.80	152.41
2,259,060	(March 31, 2013: 2,259,060) 0.001% Compulsorily Convertible Participatory Cumulative Preference shares-Series A of ₹10/- each fully paid up	22.59	22.59
2,477,387	(March 31, 2013: 2,477,387) 0.001% Compulsorily Convertible Preference shares-Series B of ₹243/- each	602.01	602.01
Total		**778.40**	**777.01**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

3.1. Reconciliation of the shares outstanding at the beginning and at the end of the reporting period

	March 31, 2014		March 31, 2014	
	No.	₹	No.	₹
Equity Shares of ₹10 Each, Fully paid up				
At the beginning of the year	15,240,630	152.41	15,240,630	152.41
Issued during the year -ESOP	139,125	1.39	-	-
Outstanding at the end of the year	**15,379,755**	**153.80**	**15,240,630**	**152.41**
0.001% Compulsorily Convertible Participatory Cumulative Preference shares-Series A of ₹10/- each				
At the beginning of the year	2,259,060	22.59	2,259,060	22.59
Outstanding at the end of the year	**2,259,060**	**22.59**	**2,259,060**	**22.59**
0.001% Compulsorily Convertible Preference shares-Series B of ₹243/- each				
At the beginning of the year	2,477,387	602.01	2,477,387	602.01
Outstanding at the end of the year	**2,477,387**	**602.01**	**2,477,387**	**602.01**

3.2. Rights attached to Equity Shares

The Company has only one class of equity shares having a par value of ₹10 Per share. Each holder of equity shares is entitled to one vote per share at the general meetings of the Company. For Liquidation terms and preferential rights refer note 3.3a.

3.3. Rights attached to Preference Shares

0.001% Compulsorily Convertible Participatory Cumulative Preference shares - (CCPCPS/Series A) of ₹10/- each

During the year ended March 31, 2008, the Company issued 6,800,000 CCPCPS of ₹10/- each fully paid at a premium of ₹140 per share and also during the year ended March 31, 2009, 88,690 CCPCPS had been issued as part of the scheme of amalgamation of Aptuit Informatics India Private Limited. Each CCPCPS at the option of the holder is convertible into one equity share or will automatically be converted into one equity share on the twentieth anniversary of the initial issuance. For Liquidation terms and preferential rights refer note 3.3a.

During year ended March 31, 2012, the preference share holder converted 4,629,630 CCPCPS into equity shares and the balance 2,259,060 CCPCPS was renamed as “”Series A Preference Shares””. Each “”Series A Preference Shareholder”” is entitled for cumulative preference dividend equal to 0.001% per financial year and to exercise one vote per one share at the general meetings of the Company. For Liquidation terms and preferential rights refer note 3.3a.

0.001% Compulsorily Convertible Preference shares -Series B (Series B) of ₹243/- each

During the year ended March 31, 2012, the Company had issued Series B Preference Shares of ₹243 each fully paid up aggregating 2,477,387 shares to FIL Capital Management (Mauritius) Limited, Fidelity India Principles (Both together named as Fidelity) and Dr. Satyanarayana Chava(Promoter). Each Series B Preference Share at the option of the holder is convertible into one Equity Share or will automatically be converted into one equity share after completion of 19 years and 365 days from the date of issue. Each Series B Preference Shareholder is entitled for cumulative preference dividend equal to 0.001% per financial year and to exercise one vote per share at the general meetings of the Company. For Liquidation terms and preferential rights refer note 3.3a.

3.3a. Liquidation terms and preferential rights

In case of winding up or liquidation, if the liquidation proceeds are adequate to cater to the amount of investment of Fidelity as increased by an Internal Rate of Return (IRR) of 18% per annum computed thereon, then the liquidation proceeds will be shared equally among all the shareholders including preference shareholders proportionate to their holdings.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

In the case of winding up or liquidation or in the event of any merger or amalgamation, or arrangement with the shareholders or creditors, or sale/lease of all or substantially all of the assets, resulting in a change of control of the Company, if the liquidation proceeds are not adequate to cater to the amount of investment of Fidelity as increased by an Internal Rate of Return (IRR) of 18% per annum computed thereon, then the first preference of payment of the proceeds is given to the investment made by Fidelity including investment in Equity shares. Of the remaining proceeds if any, the preference is defined as under:

- Promoter investment amount of Series B Preference Shares
- Contracted investment of Series A preference shareholders
- Promoter contracted investment amount of 465,000 equity shares
- Other shareholders including promoter contracted investment amount of equity shares
- Balance distributed to all shareholders in proportion to their shareholding

3.4. Aggregate number of shares issued for consideration other than cash and shares bought back during the period of five years immediately preceding the reporting date

	March 31, 2014	March 31, 2013
Compulsorily Convertible Participatory Cumulative Preference shares -Series A allotted as part of scheme of amalgamation for consideration other than cash	88,690	88,690
Equity shares bought back by the Company	1,100,000	1,100,000

3.5. Details of Shareholders holding more than 5% shares of the Company:

	March 31, 2014		March 31, 2014	
	No.	% Holding	No.	% Holding
Equity Shares of ₹10 each Held By				
FIL Capital Management (Mauritius) Limited	4,629,630	30.10	4,629,630	30.38
Dr.C.Satyanarayana	4,434,500	28.83	3,884,500	25.49
Mrs.C.Naga Rani	1,560,000	10.14	1,560,000	10.24
Dr. Raju S Kalidindi	1,300,000	8.45	1,300,000	8.53
Yalavarthi Vijaya Lakshmi	825,000	5.36	825,000	5.41
0.001% Compulsorily Convertible Participatory Cumulative Preference shares - (CCPCPS/Series A)of ₹10/- each				
Aptuit (Asia) Private Limited	2,259,060	100.00	2,259,060	100.00
0.001% Compulsorily Convertible Preference shares -Series B (Series B) of ₹243/- each				
FIL Capital Management (Mauritius) Limited	1,973,531	81.00	1,973,531	81.00
Dr.C.Satyanarayana	460,926	19.00	460,926	19.00

3.6. Details of Shares Reserved for issue under Options

For details of shares reserved for issue under Employee Stock Options Scheme plan of the Company, refer Note 29.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

4. Reserves and Surplus

	March 31, 2014	March 31, 2013
Capital Reserve	17.92	17.92
Securities Premium		
Balance as per the last financial statements	1,117.68	1,117.68
Add : transferred from stock option outstanding	13.31	-
Closing balance	**1,130.99**	**1,117.68**
Employee stock option (Note 29)		
Gross employee stock compensation for options granted in earlier years	61.38	58.59
Add: gross compensation for options granted during the year	6.77	4.59
Less: gross compensation for options forfeited during the year	1.34	1.80
Less: deferred employee stock compensation	19.90	32.09
Less: transfer to securities premium on exercise of stock option	13.31	-
Closing balance	**33.60**	**29.29**
Surplus / (deficit) in the Statement of profit and loss		
Balance as per the last financial statements	651.09	(231.10)
Add : Profit for the year	991.21	882.19
Net surplus in the Statement of profit and loss	**1,642.30**	**651.09**
Total Reserves and Surplus	**2,824.81**	**1,815.98**

5. Long Term Borrowings

	March 31, 2014	March 31, 2013
A) Non Current portion		
Term Loans		
Indian Rupee loans from banks (Secured) (a&c)	1,655.42	412.66
Foreign currency loans from banks (Secured) (b)	202.66	256.99
Other Loans and Advances		
Vehicle loans from banks (Secured) (d)	23.64	17.38
Total	**1,881.72**	**687.03**
B) Current Maturities		
Term Loans		
Indian Rupee loans from banks (Secured) (a&c)	342.61	404.03
Indian Rupee loans from Financial Institutions (Secured)	-	12.33
Foreign currency loans from banks (Secured) (b)	81.25	36.71
Other Loans and Advances		
Vehicle loans from banks (Secured) (d)	13.14	9.50
Amount disclosed under the head "other Current liabilities" (Note 10)	**437.00**	**426.57**

(a) Indian rupee loans from banks comprise term loans and Corporate Loan.

The term loan from SBI to the extent of ₹249.32 (₹300 sanctioned amount) is repayable in 19 quarterly instalments commencing from September 2013, ranging from ₹15.00 to ₹22.50, together with interest at Banks Prime Lending Rate (Base rate) plus 3.15% per annum from the date of the loan i.e. December 2012.

The term loan from SBI to the extent of ₹354.41 (₹490 sanctioned amount) is repayable in 23 quarterly instalments commencing from September 2015 ranging from ₹20.00 to ₹22.50, together with interest at Base rate plus 3.20% per annum from the date of loan i.e. December 2013.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

The term loan from EXIM to the extent of ₹369.14 (₹490 sanctioned amount) is repayable in 23 quarterly instalments commencing from July 2015 ranging from ₹20.00 to ₹22.50, together with interest at Base rate plus 3% per annum from the date of loan i.e. December 2013.

The term loan from EXIM Bank to the extent of ₹709.08 (₹1000 sanctioned amount) is repayable in 18 quarterly instalments commencing from a moratorium of 3 months from the date of commercial production or 18 months from the date of first disbursement whichever is earlier, together with interest at Base rate plus 2% per annum from the date of loan i.e. March 2013.

ICICI Term Loan amounting to ₹64.29 (₹225.3 Sanctioned Amount) is repayable in equal quarterly instalments commencing from 3 calendar months from the date of disbursement i.e. November, 2013, together with interest at Base rate plus 2.5% per annum.

The Corporate Loan from SBH amounting to ₹251.79 (₹450 sanctioned amount) is repayable in 9 quarterly instalments commencing from end of the third quarter from the date of disbursement, ranging from ₹45 to ₹60, together with interest at Base rate plus 2.25% per annum from the date of the loan i.e. March 2014.

(b) Foreign currency loan from bank comprise term loan from BBK amounting to ₹283.91 carrying interest at London Inter Bank Offered Rate (LIBOR) plus 3.50% per annum. The loan is repayable in 16 quarterly instalments starting from November 2013, ranging from USD 0.338 to USD 0.330.

(c) All Term loans (except ICICI & SBH Corporate Loan) are secured by pari passu first charge on the fixed assets (both present and future) except to the extent of assets exclusively charged to banks. It is further secured by pari passu second charge on current assets both present and future. Also personal guarantees have been given by the Chief Executive Officer and one of the Executive Directors of the Company.

Corporate Loan from SBH has been secured by pari passu first charge on the current assets (both present and future) and by pari passu second charge on the fixed assets, excluding assets with an exclusive charge to banks. Also personal guarantees have been given by the Chief Executive Officer and one of the Executive Directors of the company.

ICICI Term loan is secured by exclusive charge on the movable machinery/fixed assets procured from the term loan/FCNR/Buyers Credit/LC sanctioned by ICICI Bank and also personal guarantees have been given by the Chief Executive Officer and one of the Executive Directors of the Company.

(d) Vehicle loans from banks are repayable in instalments ranging from 36 to 48 months from the date of the loan and secured by hypothecation of the respective vehicles.

6. Deferred Tax (Liability)/Assets (Net)

	March 31, 2014	March 31, 2013
Deferred Tax Liabilities		
Income tax at the applicable rate on the difference between the aggregate book written down value and tax written down value of fixed assets.	(273.60)	(159.82)
Gross Deferred Tax Liabilities Sub Total (A)	**(273.60)**	**(159.82)**
Deferred Tax Assets		
Income tax at the applicable rate on unabsorbed business loss and depreciation	116.07	256.62
Impact of expenditure charged to the statement of Profit and Loss in the current year but allowed for tax purposes on payment basis	29.27	21.40
Sub Total (B)	**145.34**	**278.02**
Deferred Tax (Liability)/Assets (Net) (A+B)	**(128.26)**	**118.20**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

7. Provision

	March 31, 2014	March 31, 2013
A) Long Term Provisions		
Provision for Gratuity (Note 28)	39.33	28.01
Total	**39.33**	**28.01**
B) Short Term Provisions		
Provision for Gratuity (Note 28)	3.10	3.54
Provision for Compensated absences	37.58	27.69
Provision for Taxation	39.70	25.83
Total	**80.38**	**57.06**

8. Short Term Borrowings

	March 31, 2014	March 31, 2013
Cash Credits and Working Capital Demand Loan		
Indian Rupee loans from banks (Secured)	2,534.41	1,269.21
Buyers Credit from banks (Secured)	587.43	509.21
Total	**3,121.84**	**1,778.42**

Short term borrowings are availed in both Rupee and Foreign currencies. Interest on rupee loans ranges from Base rate plus 0.75% to 2.80%. Buyers credit loan interest ranges from LIBOR plus 0.65% to 2%. These borrowings are secured by pari passu first charge on current assets and pari passu second charge on the fixed assets(both present and future). Also personal guarantees have been given by the Chief Executive Officer and one of the Executive Directors of the Company.

9. Trade Payables

	March 31, 2014	March 31, 2013
Trade Payables (Note 30 for details of the amount due to Micro and Small Enterprises)	2,274.51	1,322.41
Total	**2,274.51**	**1,322.41**

10. Other Current Liabilities

	March 31, 2014	March 31, 2013
Current maturities of long term borrowings (Note 5B)	437.00	462.57
Capital Creditors	531.99	82.44
Interest accrued but not due on borrowings	7.20	4.78
Advances from customers	626.57	5.43
Statutory dues	38.40	13.79
Total	**1,641.16**	**569.01**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

11. Fixed Assets

(All amounts in Million Rupees except for share data as otherwise stated)

Particulars	Tangible Assets								Intangible Assets				Grand Total (A+B)
	Leasehold Land	Freehold Land	Buildings	Plant and Equipment	Furniture and Fixtures	Computers	Vehicles	Total Tangible Assets (A)	Computer Software purchased	Computer Software Internally generated	Goodwill	Total Intangible Assets (B)	
Gross Block													
As at April 01, 2012	130.60	106.53	787.66	1285.67	169.49	61.38	34.76	2576.09	8.52	-	14.54	23.06	2599.15
Additions	-	168.04	69.22	417.36	3.36	21.07	28.19	707.24	7.46	4.57	-	12.03	719.27
Disposals/Adjustments	-	-	-	(2.61)	-	-	(12.72)	(15.33)	-	-	-	-	(15.33)
As at March 31, 2013	130.60	274.57	856.88	1700.42	172.85	82.45	50.23	3268.00	15.98	4.57	14.54	35.09	3303.09
Additions	161.35	493.55	459.14	1770.55	4.13	20.10	24.99	2933.81	47.27	13.12	-	60.39 *	2994.20
Disposals/Adjustments	-	-	-	(6.25)	(0.87)	(35.16)	(7.72)	(50.00)	-	(17.69)	(14.54)	(32.23)	(82.23)
As at March 31, 2014	291.95	768.12	1316.02	3464.72	176.11	67.39	67.50	6151.81	63.25	-	-	63.25	6215.06
Depreciation/Amortisation													
As at April 01, 2012	12.02	-	109.10	443.32	80.47	49.60	19.05	713.56	5.65	-	14.54	20.19	733.75
Charge for the year	3.40	-	28.17	159.07	17.14	8.71	7.78	224.27	1.73	0.28	-	2.01	226.28
Disposals/Adjustments	-	-	-	(0.69)	-	-	(11.78)	(12.47)	-	-	-	-	(12.47)
As at March 31, 2013	15.42	-	137.27	601.70	97.61	58.31	15.05	925.36	7.38	0.28	14.54	22.20	947.56
Charge for the year	6.66	-	33.34	241.46	17.22	8.20	11.05	317.93	9.09	1.78	-	10.87	328.80
Disposals/Adjustments	-	-	-	(1.29)	(0.41)	(24.39)	(5.52)	(31.61)	-	(2.06)	(14.54)	(16.60)	(48.21)
As at March 31, 2014	22.08	-	170.61	841.87	114.42	42.12	20.58	1211.68	16.47	-	-	16.47	1228.15
Net Block													
As at March 31, 2013	115.18	274.57	719.61	1098.72	75.24	24.14	35.18	2342.64	8.60	4.29	-	12.89	2355.53
As at March 31, 2014	269.87	768.12	1145.41	2622.85	61.69	25.27	46.92	4940.13	46.78	-	-	46.78	4986.91

Capital Work in Progress (Note 42) : ₹1,160.99 (March 31, 2013 ₹727.81)

Notes:

i) Goodwill disclosed under fixed assets represents excess of consideration over the net book value of assets acquired as a result of the amalgamation of Aptuit Informatics India Private Limited with the Company.

* includes expenditure during the construction period amounting to ₹17.46 (March 31, 2013 ₹4.57 (Note 42)

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

12. Non Current Investments

	March 31, 2014	March 31, 2013
Equity shares (fully paid-up)		
2,454,059 of Equity Shares of ₹10 each of Viziphar Biosciences Pvt Ltd	4.55	-
	4.55	**-**

13. Loans and Advances

	March 31, 2014	March 31, 2013
A) Long Term (Unsecured, Considered Good unless otherwise stated)		
Capital Advances	191.29	78.26
Security Deposit	27.90	22.93
Advances Recoverable in Cash or Kind		
Advances Recoverable in cash or kind (considered doubtful)	1.38	-
Other Loans and Advances		
Advance Tax	0.97	0.97
Minimum Alternate Tax Credit Entitlement	467.40	219.29
Tax paid under protest	7.05	7.05
	695.99	328.50
Less: Provision for doubtful advances	1.38	-
Total	**694.61**	**328.50**
B) Short Term (Unsecured, Considered Good unless otherwise stated)		
Security Deposit	-	0.48
Advances Recoverable in cash or kind	92.68	13.85
Loans and advances to subsidiary company	3.00	-
Other Loans and Advances		
Loans and Advances to Employees	2.15	1.34
Prepaid Expense	51.99	33.71
Balances with Statutory/Government Authorities	102.64	74.80
Total	**252.46**	**124.18**

14. Other Assets

	March 31, 2014	March 31, 2013
A) Other Non Current Assets		
Non Current Bank Deposits (Note 17)	192.81	135.89
Interest Accrued on Deposits	6.13	9.34
Un amortised expenditure	16.99	14.66
Incentive Receivable	14.58	36.35
Total	**230.51**	**196.24**
B) Other Current Assets		
Insurance Claim Receivable	29.12	7.65
Un amortised expenditure	8.71	3.47
Incentive Receivable	22.46	9.64
Others	0.71	8.16
Total	**61.00**	**28.92**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

15. Inventories

	March 31, 2014	March 31, 2013
(At lower of cost and net realisable value)		
Raw Materials	1,688.16	692.89
[including Stock in transit ₹679.18 (March 31, 2013 : ₹242.88)]		
Work-in-progress	1,062.23	367.61
Finished Goods	472.53	464.22
Stores, spares and packing materials	58.05	37.18
Total	**3,280.97**	**1,561.90**

16. Trade Receivables

	March 31, 2014	March 31, 2013
Outstanding for a period exceeding six months from the date they are due for payment		
Unsecured, Considered Good	9.34	111.09
Doubtful	4.74	3.76
	14.08	114.85
Provision for doubtful receivables	4.74	3.76
	9.34	111.09
Other Receivables		
Unsecured, Considered Good	1,939.41	1,455.87
Total	**1,948.75**	**1,566.96**

17. Cash and Bank Balances

	March 31, 2014	March 31, 2013
Cash and Cash Equivalents		
Balances with Banks		
- On Current Accounts	149.04	24.88
Cash on Hand	0.62	1.81
Other Bank Balances		
On Margin Money Deposit Accounts	192.81	135.89
Less : Amount disclosed under non Current assets (Note 14A)	(192.81)	(135.89)
Total	**149.66**	**26.69**

Margin Money Deposits with a carrying amount of ₹192.81 (March 31, 2013: ₹135.89) are towards letter of credit and bank guarantees.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

18. Revenue from Operations

		March 31, 2014	March 31, 2013
Sale of Products			
Income from Sale of API and Intermediates		11,261.29	6,899.95
Income from Sale of Traded goods		88.51	24.27
	Sub Total (A)	**11,349.80**	**6,924.22**
Sale of Services			
Contract Research Services		154.81	149.62
Software Services		117.14	120.25
	Sub Total (B)	**271.95**	**269.87**
Other Operating Revenue			
Sale of Scrap		5.83	5.29
Sales Incentives		8.47	26.04
Others		20.81	-
	Sub Total (C)	**35.11**	**31.33**
Revenue from Operations (Gross)	**(A+B+C)**	**11,656.86**	**7,225.42**
Less: Excise Duty		59.69	40.31
Net Revenue from Operations (Net)		**11,597.17**	**7,185.11**
Details of Products Sold			
Traded Goods			
Menthol		44.84	-
ADDP-2		22.92	-
Vanillin		11.55	-
Solvents		1.02	14.92
7 chloroquinaldine		-	3.61
2,2,2-Trifluoroethanol		-	2.80
Others		8.18	2.94
Total of Products Sold		**88.51**	**24.27**

19. Other Income

	March 31, 2014	March 31, 2013
Interest Income on		
Deposits and Margin money	14.61	9.73
Others	20.28	2.98
Net Gain on Foreign Exchange Fluctuations	40.65	30.54
Bad debts recovered	2.00	-
Unclaimed balances written back	-	3.82
Profit on sale of informatics division (Note 32)	5.00	-
Miscellaneous Income	9.06	4.45
Total	**91.60**	**51.52**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

20. Cost of Materials Consumed

		March 31, 2014	March 31, 2013
Raw Materials Consumed			
Opening stock at the beginning of the year		692.89	465.05
Add : Purchases		8,823.43	4,633.68
		9,516.32	5,098.73
Less : Closing stock at the end of the year		1,688.16	692.89
	(A)	**7,828.16**	**4,405.84**
Packing Materials Consumed	(B)	54.72	25.48
Total	**(A+B)**	**7,882.88**	**4,431.32**
Details of Materials Consumed			
4-Chloro-2-trifluoro acetyl aniline Hydrochloride Hydrate		1,996.17	1,054.27
Cyclopropyl acetylene		850.16	534.96
(2S,5R) - 5 - Fluorocytosine - 1YL - (1,3) - Oxathiolan		837.56	30.00
6-amino purine		541.39	143.67
Tetrahydro furan		283.69	79.74
n-Butyl magnesium chloride		100.53	250.05
Potassium tetrachloroplatinate		145.47	108.33
Others		3,073.19	2,204.82
Total		**7,828.16**	**4,405.84**
Details of Closing Inventory of Raw Material			
4-Chloro-2-Trifluoro acetyl aniline Hydrochloride Hydrate		58.23	65.33
Cyclopropyl Acetylene		132.63	21.66
(2S,5R) - 5 - Fluorocytosine - 1YL - (1,3) - Oxathiolan		409.07	5.00
6-amino purine		17.12	18.37
Tetrahydro furan		152.34	29.31
n-Butyl magnesium chloride		-	14.34
Potassium tetrachloroplatinate		97.80	10.41
Others		820.97	528.47
Total		**1,688.16**	**692.89**

21. Purchases of Traded Goods

	March 31, 2014	March 31, 2013
Menthol	39.31	-
ADDP-2	20.41	-
Vanillin	11.40	-
Solvents	0.87	14.77
7 chloroquinaldine	-	3.49
2,2,2-Trifluoroethanol	-	2.04
Others	7.02	2.94
Total	**79.01**	**23.24**

22. Increase in Inventories of Finished goods and Work-in-Progress

	March 31, 2014	March 31, 2013
Opening stock of inventories		
Finished goods of APIs and Intermediates	464.22	336.72
Work-in-Progress of APIs and Intermediates	367.61	163.17
	831.83	499.89
Closing stock of inventories		
Finished goods of API's and Intermediates	472.53	464.22
Work-in-Progress of API's and Intermediates	1,062.23	367.61
	1,534.76	831.83
Increase in inventories	**(702.93)**	**(331.94)**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

23. Other Manufacturing Expenses

	March 31, 2014	March 31, 2013
Consumption of stores and spares	53.58	46.77
Conversion charges	122.13	46.09
Factory maintenance	84.03	63.98
Effluent treatment expenses	103.21	40.58
Power and Fuel	353.73	277.23
Repairs & maintenance		
Plant and machinery	36.00	36.02
Buildings	5.73	8.91
Others	6.82	1.33
Product development	10.64	12.76
Others	4.17	3.94
Total	**780.04**	**537.61**

24. Employee Benefits Expenses

	March 31, 2014	March 31, 2013
Salaries, allowances and benefits to employees	792.82	567.22
Contribution to provident fund and other funds	44.48	33.40
Gratuity expense (Note 28)	12.74	14.93
Employee Stock Option Charge	17.62	18.94
Managerial remuneration	79.77	67.21
Recruitment and training	8.63	5.33
Staff welfare expenses	85.09	56.50
Total	**1,041.15**	**763.53**

25. Operating and Selling Expenses

	March 31, 2014	March 31, 2013
Rent	21.30	19.37
Rates and taxes	18.45	22.92
Office maintenance	21.04	14.56
Insurance	29.39	23.72
Printing and stationery	8.96	7.77
Consultancy and other professional charges	98.71	31.03
Membership and subscription	10.42	9.47
Remuneration to auditors		
-Audit Fee	2.70	2.40
-Tax audit fee	0.30	0.20
-Other services	0.12	0.97
-Out of pocket expenses	0.05	0.07
Travelling and conveyance	41.47	35.39
Communication expenses	10.02	7.79
Net Loss on Sale of fixed assets	1.35	2.33
Advances and Bad debts written off	3.29	30.79
(Advances and Bad debts written off during the year ₹3.93 has been adjusted against provision for doubtful advances and receivables)		
Provision for doubtful advance and receivables	2.36	1.49
Marketing and selling expenses	102.76	82.64
Business Promotion & Advertisement	22.68	14.77
Donations	5.09	5.06
Miscellaneous expenses	2.22	1.24
Total	**402.68**	**313.98**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

26. Finance Costs

	March 31, 2014	March 31, 2013
Interest		
- on Term loans	154.10	116.54
- on working capital loans	300.45	196.07
- on others	7.66	7.64
Premium on forward contracts amortised	63.09	15.48
Bank charges	61.82	55.49
Exchange Difference to the extent considered as an adjustment to borrowing costs	52.35	20.40
Total	**639.47**	**411.62**

27. Earnings per share (EPS)

	March 31, 2014	March 31, 2013
The following reflects the profit and share data used in the basic and diluted EPS computations:		
Profit after tax	991.21	882.19
Less: Preference dividend and tax thereon	0.01	0.01
Profit available for Equity shareholders	991.20	882.18
Weighted Average number of Equity Shares outstanding during the year	15,296,107	15,240,630
Weighted Average number of Equity Shares in computing diluted earnings per share	20,286,100	20,320,712
Face value of each Equity Share (₹)	10.00	10.00
Earnings per share - (Not annualised)		
- Basic (₹)	64.80	57.88
- Diluted (₹)	48.86	43.41

28. Gratuity

Defined Benefit Plans

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service is entitled to a gratuity on departure at 15 days salary for each completed year of service. The Scheme is funded with SBI Life Insurance Company Limited. The following tables summarise net benefit expenses recognised in the statement of profit and loss, the status of funding and the amount recognised in the Balance sheet for the gratuity plan:

	March 31, 2014	March 31, 2013
Profit and Loss account		
i. Net employee benefit expense (recognised in Employee benefits expenses)		
Current service cost	4.05	2.85
Interest cost	2.54	1.63
Expected return on plan assets	(0.25)	-
Net actuarial (gain) / loss recognised in the year	6.40	10.45
Benefits paid	-	-
Net employee benefit expenses	**12.74**	**14.93**
Actual return on plan asset	(0.25)	-
Amount recognised in the Balance Sheet		
Defined benefit obligation	43.68	33.34

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

28. Gratuity *(contd.)*

	March 31, 2014	March 31, 2013
Fair value of plan assets	1.25	1.79
	42.43	**31.55**
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**33.34**	**20.37**
Current service cost	4.05	2.85
Interest cost	2.54	1.63
Benefits paid	(0.96)	(1.96)
Transfer on account of slump sale	(1.69)	-
Actuarial (gains) / losses on obligation	6.40	10.45
Closing defined benefit obligation	**43.68**	**33.34**
Change in the fair value of plan assets		
Opening fair value of plan assets	1.79	0.93
Expected return on plan assets	0.25	-
Contributions	-	2.00
Benefits paid	(0.79)	(1.14)
Actuarial gain/(loss) on plan assets	-	-
Closing fair value of plan assets	**1.25**	**1.79**

The Company expects to contribute ₹5.00 to the gratuity fund in the year 2014-15 against the short term liability of ₹3.10 as per the actuarial valuation.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	March 31, 2014	March 31, 2013
Investments with insurer	100%	100%

The overall expected rate of return on assets is determined based on the actual rate of return during the current year.

The principal assumptions used in determining gratuity for the Company's plans are shown below:

	March 31, 2014	March 31, 2013
Discount rate	8.00%	8.00%
Expected rate of return on assets	8.50%	8.50%
Salary rise	15.00%	15.00%
Attrition Rate		
Pharmaceuticals	12.00%	12.00%
Infosystems	15.00%	15.00%

The estimates of future salary increases, considered in the actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Defined Contribution Plan

	March 31, 2014	March 31, 2013
Contribution to Provident Fund	40.18	29.23
Contribution to Superannuation Fund	3.87	4.22

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

29. Employees stock option scheme (ESOP 2011 Plan)

The board of directors has approved the Laurus Employees Stock Option Scheme(ESOP) 2011 for issue of shares to eligible employees of the Company effective from September 19, 2011. According to the Scheme, the options granted shall vest within a period of four years, subject to the terms and conditions specified in the scheme.

Exercise period

Grant	Number of options	Year 1 25%	Year 2 25%	Year 3 50%
Grant I	553,000	20-Sep-13	20-Sep-14	20-Sep-15
Grant II	28,000	31-Dec-14	31-Dec-15	31-Dec-16
Grant III	38,500	19-Sep-15	19-Sep-16	19-Sep-17

Date of Grant	Number of options Granted	Exercise price	Fair value for option at grant date
September 19, 2011	553,000	10	105.96
December 31, 2012	28,000	10	171.22
September 19, 2013	38,500	10	183.10

The details of activity under the Scheme ESOP 2011 are summarised below :

	March 31, 2014 No. of options	March 31, 2013 No. of options
Outstanding at the beginning of the year	564,000	553,000
Granted during the year	38,500	28,000
Forfeited during the year	10,000	17,000
Exercised during the year	139,125	-
Outstanding at the end of the year	453,375	564,000
Exercisable at the end of the year	-	-

The Black Scholes valuation model has been used for computing the weighted average fair value considering the following inputs:

	March 31, 2014			March 31, 2013	
	Grant III	Grant II	Grant I	Grant II	Grant I
Dividend yield	0%	0%	0%	0%	0%
Expected volatility	0%	0%	0%	0%	0%
Risk-free interest rate	8.47%	8.01%	8.34%	8.01%	8.34%
Weighted average share price of ₹	175.94	171.22	113.15	171.22	113.15
Exercise price of ₹	10.00	10.00	10.00	10.00	10.00
Expected life of options granted in years	3.50	3.50	3.51	3.50	3.51

The expected life of the stock is based on the historical data and current expectations and is not necessarily indicative of exercise pattern that may occur.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

30. Trade Payables (Details of dues to Micro, Small and Medium Enterprises as per MSMED Act,2006):

	March 31, 2014	March 31, 2013
The principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year	5.11	0.57
The amount of interest paid by the buyer in terms of section 16, of the Micro Small and Medium Enterprise Development Act, 2006 along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year	-	-
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under Micro Small and Medium Enterprise Development Act, 2006.	-	-
The amount of interest accrued and remaining unpaid at the end of each accounting year; and	-	-
The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise for the purpose of disallowance as a deductible expenditure under section 23 of the Micro Small and Medium Enterprise Development Act, 2006	-	-

31. Segment Reporting

A. Information about Primary segments (by business segment)

The Company has considered business segments as the primary segment for disclosure. The reportable business segments are as under:

a) Pharmaceuticals: Income from sale of API and Contract Research Services.

b) Infosystems: Income from Services for maintenance and up gradation of Clinicopia Suite software.

Business Segment

Particulars	Pharmaceuticals		Infosystems		Eliminations		Total	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
REVENUE								
External sales	11,480.03	7,064.86	117.14	120.25	-	-	11,597.17	7,185.11
Other Incomes	16.06	8.26	-	-	-	-	16.06	8.26
Inter-segment sales	-	-	-	-	-	-	-	-
Total revenue	**11,496.09**	**7,073.12**	**117.14**	**120.25**	**-**	**-**	**11,613.23**	**7,193.37**
RESULT								
Segment result	1,800.01	1,256.13	2.19	5.07	-	-	1,802.20	1,261.20
Unallocated corporate expenses	-	-	-	-			84.86	72.27
Operating profit	**1,800.01**	**1,256.13**	**2.19**	**5.07**	**-**	**-**	**1,717.34**	**1,188.93**
Interest expense							514.56	340.65
Interest income							34.89	12.71
Income taxes expenses/ (credit)							246.46	(21.20)
Net profit							**991.21**	**882.19**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

31. Segment Reporting *(contd.)*

Particulars	Pharmaceuticals		Infosystems		Eliminations		Total	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
OTHER INFORMATION								
Segment assets	12,066.74	6,379.43	-	141.35	-	-	12,066.74	6,520.78
Unallocated corporate assets							703.67	514.15
Total assets	12,066.74	6,379.43	-	141.35	-	-	12,770.41	7,034.93
Segment liabilities	3,512.26	1,449.06	-	8.93	-	-	3,512.26	1,457.99
Unallocated corporate liabilities							5,654.94	2,983.95
Total liabilities	3,512.26	1,449.06	-	8.93	-	-	9,167.20	4,441.94
Capital expenditures	3,524.54	1,164.08	15.84	16.26	-	-	3,540.38	1,180.34
Depreciation & Amortisation	323.44	222.97	5.36	3.31	-	-	328.80	226.28
Other non-cash expenses	29.30	50.34	(2.89)	0.92	-	-	26.41	51.26

B. Segment information for secondary segment reporting (by geographical segment)

The Company has reportable geographical segments based on location of customers:

(i) Revenue from customers within India – Domestic

(ii) Revenue from customers outside India – Exports

Geographical segments

Particulars	2013-14			2012-13		
	Outside India	Within India	Total	Outside India	Within India	Total
Revenue	5,433.18	6,163.99	11,597.17	3,393.70	3,791.41	7,185.11
Carrying amount of assets	-	12,066.74	12,066.74	-	6,520.78	6,520.78
Cost incurred to acquire Capital assets	-	3,540.38	3,540.38	-	1,180.34	1,180.34

Note: The Company has common assets for producing goods for Domestic and Overseas Market. Hence, separate figures for assets/additions to assets cannot be furnished.

32. Sale of Informatics Division:

As approved by the Board on October 18,2013, the informatics division of the Company, not considered to be a part of the core business, was sold on 28 February, 2014 to Laurus Infosystems (India) Private Limited , a related party, on a going concern basis in accordance with an independent valuation, for a total consideration of ₹32.50 Mn., received by way of cash. The transaction resulted in a profit of ₹5 million over the net asset value of the division in the Company's books amounting to ₹27.50 million and this profit is included in Other Income.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

33. Research and development

i) Details of Revenue expenditure :

	March 31, 2014	March 31, 2013
Cost of Materials Consumed		
Raw Materials Consumed	72.14	53.80
Other Manufacturing Expenses		
Factory maintenance	0.55	0.65
Effluent treatment expenses	0.79	0.80
Power and Fuel	16.75	23.90
Product development	10.61	8.90
Others	2.51	2.93
Employee Benefits Expenses		
Salaries, allowances and benefits to employees	187.57	150.20
Contribution to provident fund and other funds	12.16	10.20
Staff welfare expenses	14.80	12.37
Operating and Selling Expenses		
Rates and taxes	8.63	13.41
Insurance	3.33	3.00
Membership and subscription	1.12	1.71
Consultancy and other professional charges	18.91	14.35
Depreciation and Amortisation	40.02	36.32
Total	**389.89**	**332.54**

ii) Details of capital expenditure :

Particulars	Tangible Assets					Intangible Assets		Grand Total (A+B)
	Buildings	Plant and Equipment	Furniture and Fixtures	Computers	Total Tangible Assets (A)	Computer Software purchased	Total Intangible Assets (B)	
Gross Block								
As at April 01, 2012	79.12	227.46	97.76	1.74	406.08	1.45	1.45	407.53
Additions	-	32.78	-	0.18	32.96	-	-	32.96
Disposals/Adjustments	-	-	-	-	-	-	-	-
As at March 31, 2013	79.12	260.24	97.76	1.92	439.04	1.45	1.45	440.49
Additions	-	34.51	-	-	34.51	-	-	34.51
Disposals/Adjustments	-	(0.03)	-	-	(0.03)	-	-	(0.03)
As at March 31, 2014	79.12	294.72	97.76	1.92	473.52	1.45	1.45	474.97
Depreciation/ Amortisation								
As at April 01, 2012	12.47	91.88	47.42	1.62	153.39	1.43	1.43	154.82
Charge for the year	2.64	23.76	9.78	0.12	36.30	0.02	0.02	36.32
Disposals/Adjustments	-	-	-	-	-	-	-	-
As at March 31, 2013	15.11	115.64	57.20	1.74	189.69	1.45	1.45	191.14
Charge for the year	2.64	27.56	9.78	0.04	40.02	-	-	40.02
Disposals/Adjustments	-	(0.02)	-	-	(0.02)	-	-	(0.02)
As at March 31, 2014	17.75	143.18	66.98	1.78	229.69	1.45	1.45	231.14
Net Block								
As at March 31, 2013	64.01	144.60	40.56	0.18	249.35	-	-	249.35
As at March 31, 2014	61.37	151.54	30.78	0.14	243.83	-	-	243.83

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

34. Related party disclosures

Names of related parties and description of relationship

Name of the related party	Relationship
Company which exercises significant influence	
i) FIL Capital Management(Mauritius) Limited	
ii) FIL Capital Advisor Trustee Company Private Limited	
Subisidiary company	
i) Viziphar Biosciences Private Limited #	
Company where control exists	
i) Laurus Infosystems (India) Private Limited	
Key Management Personnel	
i) Dr. C. Satyanarayana	Chief Executive Officer
ii) Dr. Raju S Kalidindi	Executive Director
iii) Mr. V.V. Ravi Kumar	Executive Director
Relatives of Key Management Personnel	
i) Mr. C. Narasimha Rao	Brother of Dr. C. Satyanarayana
ii) Mr. C. Chandrakanth	Son-in-Law of Dr. C. Satyanarayana
iii) Mrs. C. Soumya	Daughter of Dr. C. Satyanarayana

effective from April 26, 2013

Transactions during the year:

	March 31, 2014	March 31, 2013
a) Subisidiary company		
i) Viziphar Biosciences Private Limited		
Investments	4.55	-
Advances	3.00	-
b) Company where control exists		
i) Laurus Infosystems (India) Private Limited		
Sale of Informatics Division	32.50	-
c) Key Management Personnel		
i) Dr. C. Satyanarayana		
Remuneration	45.38	37.01
ii) Dr. Raju S Kalidindi		
Remuneration	13.93	12.55
iii) Mr. V.V. Ravi Kumar		
Remuneration	13.93	12.47
Rent	0.43	
d) Relatives of Key Management Personnel		
i) Mr. C. Narasimha Rao		
Remuneration	2.66	1.92
ii) Mr. C. Chandrakanth		
Remuneration	4.58	3.56
iii) Mrs. C. Soumya		
Rent	0.86	1.05

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

34. Related party disclosures *(contd.)*

Closing Balances - Debit/ (Credit)

	March 31, 2014	March 31, 2013
a) Company which exercises significant influence		
i) Viziphar Biosciences Private Limited		
Advances	3.00	-
b) Key Management Personnel		
i) Dr. C. Satyanarayana*		
Remuneration payable	(27.76)	(18.30)
ii) Dr. Raju S Kalidindi*		
Remuneration payable	(5.52)	(3.51)
iii) Mr. V.V. Ravi Kumar		
Remuneration payable	(5.52)	(3.51)
Rent Payable	(0.04)	-
c) Relatives of Key Management Personnel		
i) Mr. C. Narasimha Rao		
Remuneration payable	(0.41)	(0.36)
ii) Mr. C. Chandrakanth		
Remuneration payable	(0.86)	(0.71)
iii) Mrs. C. Soumya		
Rent Payable	(0.09)	(0.16)

* Key Management personnel have given personal guarantees as collateral security in favour of bankers in connection with term loans, cash credit facilities and buyer's credit whose closing balance in total is ₹5,403.78 (March 31,2013: ₹2,901.14)

As the future liability for gratuity and leave encashment is provided on an actuarial basis for the company as a whole, the amount pertaining to the Key Management personnel and their relatives is not ascertainable and, therefore, not included above.

35. Forward Contracts

a) Forward contract outstanding as at Balance Sheet date

March 31, 2014 Buy US $ 20,088,500	Hedging of loan and creditors
March 31, 2013 Buy US $ 6,937,000	Hedging of loan taken

b) The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are as under:

Details of Unhedged Foreign Currency Exposure

	Currency	March 31, 2014			March 31, 2013		
		Amount in Foreign Currency	Amount in ₹	Conversion Rate	Amount in Foreign Currency	Amount in ₹	Conversion Rate
Secured loans	USD	7,193,343	432.32	60.10	7,825,290	425.61	54.39
Creditors for goods	USD	8,247,554	495.68	60.10	13,219,244	718.99	54.39
	EURO	264,931	21.88	82.58	-	-	-
	GBP	7,730	0.77	99.85	2,811	0.23	82.32
	CHF	22,650	1.53	67.36			
Creditors for capital goods	USD	6,378	0.38	60.10	13,556	0.74	54.39
	GBP	14,355	1.43	99.85	3,364	0.28	82.32

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

35. Forward Contracts *(contd.)*

Details of Unhedged Foreign Currency Exposure

	Currency	March 31, 2014			March 31, 2013		
		Amount in Foreign Currency	Amount in ₹	Conversion Rate	Amount in Foreign Currency	Amount in ₹	Conversion Rate
Creditors for services	USD	20,000	1.20	60.10	95,538	5.20	54.39
	EURO	-	-	82.58	631	0.04	69.54
	GBP	-	-	99.85	1,300	0.11	82.32
Debtors	USD	5,828,970	350.32	60.10	7,071,049	384.59	54.39
	EURO	345,219	28.51	82.58	384,327	26.73	69.54
	GBP	-	-	99.85	30,498	2.51	82.32
Cash & Bank	USD	2,058,537	123.72	60.10	1,341	0.07	54.39
Advance received from customers	USD	10,422,927	626.42	60.10	-	-	-
	EURO	-	-	82.58	78,300	5.45	69.54
Advance paid to parties	USD	772,094	46.40	60.10	53,845	2.93	54.39
	EURO	1,072,181	88.54	82.58	963	0.07	69.54
	CHF	5,800	0.39	67.36	1,700	0.10	57.14
	GBP	505	0.05	99.85	-	-	-
	CNY	3,702	0.04	9.69	-	-	-
	DKK	4,900	0.06	11.23	-	-	-
	JPY	133,000	0.08	0.59	-	-	-
	MYR	300	0.01	19.22	-	-	-
	ZAR	780	0.00*	5.65	-	-	-

* Amount less than Indian Rupees 10,000

36. Capital and Other Commitments

	March 31, 2014	March 31, 2013
Estimated amount of contracts remaining to be executed on capital account and not provided for	1,181.00	357.00
Other commitments	Nil	Nil

37. Contingent Liabilities

	March 31, 2014	March 31, 2013
Outstanding bank guarantees (excluding performance obligations)	46.87	-
Bills Discounted	1,634.50	886.33
Demand for direct taxes under appeal #	10.10	10.10
Demand for indirect taxes under appeal #	-	1.65
Preference Dividend	0.02	0.01
	1,691.49	**898.09**

Based on favourable decisions in similar cases, legal opinion taken by the Company, discussions with the solicitors, etc., the Company believes that there is a fair chance of decisions in its favour with respect to all the items listed above and hence no provision has been considered necessary in these respects.

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

38. CIF Value of Imports

	March 31, 2014	March 31, 2013
Raw Materials	6,788.77	3,169.32
Stores and Spares	5.58	4.47
Capital Goods	147.57	98.89
	6,941.92	**3,272.68**

39. Expenditure in Foreign Currency (Accrual Basis)

	March 31, 2014	March 31, 2013
Legal and professional charges	34.15	14.36
Finance costs	29.40	30.98
Commission on export sales	10.22	16.20
Salaries	18.17	14.61
Business promotion and advertisement	9.55	11.25
Membership and Subscriptions	7.38	6.08
Travelling Expenses	3.77	5.02
Rates and taxes	16.53	13.11
Donations	-	3.98
Others	12.76	4.84
	141.93	**120.43**

40. Imported and Indigenous Raw Materials, Packing Materials and stores and spares consumed

	March 31, 2014		March 31, 2014	
	% of Total consumption	₹ Million	% of Total consumption	₹ Million
Raw Materials				
Imported	76%	5,969.56	68%	2,998.18
Indigenous	24%	1,858.60	32%	1,407.66
	100%	**7,828.16**	**100%**	**4,405.84**
Packing Material				
Imported	-	-	-	-
Indigenous	100%	54.72	100%	25.48
	100%	**54.72**	**100%**	**25.48**
Stores and spares				
Imported	7%	3.71	8%	3.88
Indigenous	93%	49.87	92%	42.89
	100%	**53.58**	**100%**	**46.77**

41. Earnings In Foreign Exchange

	March 31, 2014	March 31, 2013
API and Contract Research Services	5,316.04	3,275.62
Software Services	117.14	118.08
	5,433.18	**3,393.70**

Notes to financial statements *(contd.)* for the year ended March 31, 2014

(All amounts in Million Rupees except for share data as otherwise stated)

42. Expenditure during construction period (pending allocation)

	March 31, 2014	March 31, 2013
Opening Balance	6.89	-
Add:		
Salaries, allowances and benefits to employees	9.18	6.50
Travelling and conveyance	0.10	3.78
Staff welfare expenses	0.22	0.50
Consultancy and other professional charges	-	0.25
Contribution to provident fund and other funds	0.53	0.35
Rates and Taxes	9.58	-
Power and fuel	2.90	-
Rent	2.15	-
Factory maintenance	1.81	-
Insurance	0.36	-
Others	0.57	0.08
Less:		
Capitalised during the year	17.46	4.57
	16.83	**6.89**

43. Figures of the previous year have been regrouped / recast wherever necessary to compare with current year's classification.

As per our report of even date

For S.R.BATLIBOI & ASSOCIATES LLP
Chartered Accountants
ICAI Firm Registration Number : 101049W

per Vikas Kumar Pansari
Partner
Membership No. 093649

Place: Hyderabad
Date: April 29, 2014

For and on behalf of the Board of Directors
LAURUS LABS PRIVATE LIMITED

Dr. C. Satyanarayana
Chief Executive Officer

V. V. Ravi Kumar
Executive Director

Place: Hyderabad
Date: April 29, 2014

A. Nagaraj Kumar
Company Secretary

Corporate Information

Directors
Dr. C Satyanarayana
Dr. Raju S Kalidindi
V V Ravi Kumar
Rajesh Kumar Dugar
Dr Robert Weisskoff
Brian T Regan
Frank J Wright
Amal Ganguli

Company Secretary
A Nagaraj Kumar

Auditors
S R Batliboi & Associates LLP
Chartered Accountants
The Oval Office, 18, iLabs Centre
Hitech City, Madhapur
Hyderabad – 500 081

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State Bank of Hyderabad
Punjab National Bank
ICICI Bank Limited
Bank of Bahrain & Kuwait B.S.C.
ING Vysya Bank Limited
Export Import Bank of India
CITI Bank

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