



pharmaceuticals Ltd.

**Annual Report**  
**2013 - 14**



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Pharmaceuticals Ltd.

## Corporate Information

### Board of Directors:

Sri P. Ramesh Babu	Chairman & Managing Director
Sri T.V.V.S.N. Murthy	Vice-Chairman & Joint Managing Director
Sri A.P. Rao	Director
Dr. Mihir K. Chaudhuri	Director
Dr. B.M. Choudary	Director (upto 05.06.2014)
Sri K.S. Rao	Director
Dr. Ayman Sahli	Nominee Director of Gulf Pharmaceutical Industries, U.A.E.
Sri Utpal Gokhale	Nominee Director of Exim Bank
Sri P. Sharath Kumar	Director (w.e.f. 12.08.2014)
Dr. (Mrs.) T. Neelaveni	Director (w.e.f. 12.08.2014)

### Chief Financial Officer:

Sri N. Rajendra Prasad

### Company Secretary:

Sri P. Prabhakara Rao

### Registered Office:

Plot No. 19-III, Road No. 71,  
Opp. Bharatiya Vidya Bhavan Public School  
Jubilee Hills, Hyderabad, Telangana-500 096, India.  
Phone : 040-66288888,  
Fax : 040-23551401/23551402  
CIN : L24239API987PLC008066  
Website: www.smspharma.com  
Email : info@smspharma.com

### Auditors:

**M/s. Rambabu & Co.**, Chartered Accountants

31, Pancom Chambers, Rajbhavan Road,  
Hyderabad, Telangana-500 082.

Phone : 040-23311587  
Fax : 040-23397182  
Email : rambabuandco1982@yahoo.com

**M/s. P. Murali & Co.**, Chartered Accountants

6-3-655/2/3, Somajiguda, Hyderabad, Telangana-500 082.

Phone : 040-23326666  
Fax : 040-23392474  
Email : pmurali.co@gmail.com

### Cost Auditor:

Sri K.S.N. Sarma

Cost Accountant

216, Rangadhamamu, HMT Satavahana Nagar  
Kukatpally, Hyderabad, Telangana-500 072

### Share Transfer Agents:

**M/s. Aarthi Consultants Private Limited**

1-2-285, Domalguda, Hyderabad, Telangana-500 029

Phone : 040-27638111/27642217-27634445  
Fax : 040-27632184  
Email : info@arthiconsultants.com

### Bankers:

State Bank of India  
Export Import Bank of India

### Plant Locations:

#### Unit-I

Sy.No. 180/2, Kazipally (V), Jinnaram Mandal,  
Medak Dist. Telangana - 502 319, India.

Phone : 08458-277067  
Fax : 08458-277069  
Email : admin\_unit1@smspharma.com

#### Unit-II

Plot No. 24 & 24B and 36 & 37,  
S.V. Co-operative Industrial . Estate  
Bachupally, Ranga Reddy District,  
Hyderabad, Telangana - 500 090, India.

Phone : 040-65986691  
Email : admin\_unit2@smspharma.com

#### Unit-IV

Phase-I, Plot No. 66/B-2,  
IDA Jeedimetla, Ranga Reddy District,  
Hyderabad, Telangana - 500 055, India.

Phone : 040-23095233  
Fax No. : 040-23735639  
Email : warehouse\_unit4@smspharma.com

#### Unit-V

Sy. No. 296/7/4, S.V. Co.op Ind. Estate  
I.D.A., Bollaram, Medak Distric  
Hyderabad, Telangana - 502 325, India.

Phone : 040-64547975  
Email : unit5@smspharma.com

#### Unit-VII

Kandivalasa (V), Poosapatirega (M),  
Vijayanagaram District, Andhra Pradesh - 535 204

Phone : 08922-258051 / 53 / 54  
Fax : 08922-258052  
Email : admin\_unit7@smspharma.com

#### R&D Center

Sy. No. 186, 189 & 190, Gagillapur (V),  
Qutubullapur (M), Ranga Reddy District  
Hyderabad, Telangana - 500 043, India.

Phone : 08418-257337/8  
Fax : 08418-257469  
Email : rnd@smspharma.com



SMS  
Pharmaceuticals Ltd.

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## NOTICE

CIN : L24239AP1987PLC008066 Registered Office : 19-III, Road No.71,  
Opp. Bharatiya Vidya Bhavan Public School, Jubilee Hills, Hyderabad-500 096, Telangana, India.  
Tel. : 040-66288888 • Fax : 040 - 23551401 • www.smspharma.com • E-mail : info@smspharma.com

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Notice is hereby given that the 26th Annual General Meeting of the Company will be held on Tuesday the 30th day of September, 2014 at 11.00 A.M. at the Jubilee Hills International Centre (Jubilee Hills Club), Jubilee Hills, Hyderabad-500 033 to transact the following business :

### ORDINARY BUSINESS:

- (1) To receive, consider and adopt the Audited Statement of Profit & Loss for the year ended 31st March, 2014, the Balance Sheet as on that date along with the Reports of the Directors' and Auditors' thereon.
- (2) To declare dividend for the financial year 2013-14.
- (3) To appoint a Director in place of Dr. Ayman Sahli (DIN: 02680724) who retires by rotation, and being eligible, offers himself for re-appointment.
- (4) To appoint a Director in place of Sri T.V.V.S.N. Murthy (DIN: 00465198) who retires by rotation, and being eligible, offers himself for re-appointment.
- (5) To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

**“RESOLVED THAT** pursuant to the provisions of Section 139, 142 and other applicable provisions, if any, of the Companies Act, 2013, and the Rules framed thereunder, and pursuant to the recommendations of the Audit Committee of the Board, M/s. Rambabu & Co., (Firm Registration No. 002976S) be and are hereby re-appointed as Statutory Auditors of the Company for a period of One year to hold office from the conclusion of this Annual General Meeting (AGM) till the conclusion of the next AGM of the Company to be held in the year 2015, at such remuneration as may be agreed upon by the Board of Directors and the Auditors, in addition to reimbursement of all out of pocket expenses.”

### SPECIAL BUSINESS:

#### (6) Appointment of Sri A.P. Rao, as an Independent Director.

To consider and if thought fit to pass, with or without modification, the following resolution as an Ordinary Resolution:

**“RESOLVED THAT** pursuant to the provisions of Sections 149, 152 and other applicable provisions, if any, of the Companies Act, 2013 (“Act”) and the Rules framed thereunder read with Schedule IV to the Act, as amended from time to time, Sri A.P. Rao (DIN: 00027847), Director of the Company and in respect of whom the Company has received a notice in writing from a member under 160 of the Act proposing his candidature for the office of the Director of the Company and who has submitted a declaration that he meets the criteria for independence as provided in Section 149(6) of the Act and is eligible for appointment, be and is hereby appointed as an Independent Director of the Company for a period of 5 years with effect from 30th September, 2014, not liable to retire by rotation.”

#### (7) Appointment of Dr. Mihir K. Chaudhuri as an Independent Director.

To consider and if thought fit to pass, with or without modification, the following resolution as an Ordinary Resolution:

**“RESOLVED THAT** pursuant to the provisions of Sections 149, 152 and other applicable provisions, if any, of the Companies Act, 2013 (“Act”) and the Rules framed thereunder read with Schedule IV to the Act, as amended from time to time, Dr. Mihir K. Chaudhuri (DIN: 00489843), Director of the Company and in respect of whom the Company has received a notice in writing from a member under 160 of the Act proposing his candidature for the office of the Director of the Company



and who has submitted a declaration that he meets the criteria for independence as provided in Section 149(6) of the Act and is eligible for appointment, be and is hereby appointed as an Independent Director of the Company for a period of 5 years with effect from 30th September, 2014, not liable to retire by rotation.”

**(8) Appointment of Sri K.S.Rao, as an Independent Director.**

To consider and if thought fit to pass, with or without modification, the following resolution as an Ordinary Resolution:

**“RESOLVED THAT** pursuant to the provisions of Sections 149, 152 and other applicable provisions, if any, of the Companies Act, 2013 (“Act”) and the Rules framed thereunder read with Schedule IV to the Act, as amended from time to time, Sri K.S. Rao (DIN: 00038416), Director of the Company and in respect of whom the Company has received a notice in writing from a member under 160 of the Act proposing his candidature for the office of the Director of the Company and who has submitted a declaration that he meets the criteria for independence as provided in Section 149(6) of the Act and is eligible for appointment, be and is hereby appointed as an Independent Director of the Company for a period of 5 years with effect from 30th September, 2014, not liable to retire by rotation.”

**(9) Appointment of Sri P. Sharath Kumar as an Independent Director.**

To consider and if thought fit to pass, with or without modification, the following resolution as an Ordinary Resolution:

**“RESOLVED THAT** pursuant to the provisions of Sections 149, 152, 161 and other applicable provisions, if any, of the Companies Act, 2013 (“Act”) and the Rules framed thereunder read with Schedule IV to the Act, as amended from time to time, Sri P. Sharath Kumar, (DIN:01456746), who was appointed as Additional Director of the Company pursuant to provisions of Section 161 of the Act and in respect of whom the Company has received a notice in writing from

a member under 160 of the Act proposing his candidature for the office of the Director of the Company and who has submitted a declaration that he meets the criteria for independence as provided in Section 149 (6) of the Act and is eligible for appointment, be and is hereby appointed as an Independent Director of the Company for a period of 5 years with effect from 30th September, 2014, not liable to retire by rotation.”

**(10) Appointment of Dr. (Mrs)Thummala Neelaveni as an Independent Director.**

To consider and if thought fit to pass, with or without modification, the following resolution as an Ordinary Resolution:

**“RESOLVED THAT** pursuant to the provisions of Sections 149, 152, 161 and other applicable provisions, if any, of the Companies Act, 2013 (“Act”) and the Rules framed thereunder read with Schedule IV to the Act, as amended from time to time, Dr. (Mrs.) Thummala Neelaveni (DIN: 00065571), who was appointed as Additional Director of the Company pursuant to provisions of Section 161 of the Act and in respect of whom the Company has received a notice in writing from a member under 160 of the Act proposing her candidature for the office of the Director of the Company and who has submitted a declaration that she meets the criteria for independence as provided in Section 149 (6) of the Act and is eligible for appointment, be and is hereby appointed as an Independent Director of the Company for a period of 5 years with effect from 30th September, 2014, not liable to retire by rotation.”

**“RESOLVED FURTHER THAT** the Board of Directors be and are hereby authorised to take all such steps, acts and deeds as may be necessary, proper and expedient to give effect to all the above Resolutions and file necessary forms with Registrar of Companies.”

**(11) Approval of Remuneration of the Cost Auditor for the financial year 2014-15**

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



**“RESOLVED THAT** pursuant to the provisions of Section 148 and all other applicable provisions of the Companies Act, 2013 and the Companies (Audit and Auditors) Rules, 2014 (including any statutory modification(s) of re-enactment thereof, for the time being in force) made there under, Sri K.S.N. Sarma, the Cost Auditor, appointed by the Board of Directors of the company, to conduct the audit of the cost records of the company for the financial year 2014-15 be paid a remuneration of ₹ 75,000/- (₹ Seventy Five Thousand Only) in addition to reimbursement of out of pocket expenses, at actuals.”

**(12) To approve borrowing powers.**

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

**“RESOLVED THAT** in supersession of the Resolutions adopted by the Company in earlier years with respect to the borrowing powers of the Board of Directors, and pursuant to Section 180(1)(c) and other applicable provisions, if any, of the Companies Act, 2013 (hereinafter referred to as the “Act”) read with the Rules made hereunder, or any statutory modification thereof, consent of the Company be and is hereby accorded to the Board of Directors (hereinafter referred to as the “Board”, which expression shall also include a Committee thereof) of the Company to borrow any sum(s) of money or moneys from time to time not withstanding that the moneys to be borrowed, together with the moneys already borrowed by the Company (apart from temporary loans obtained from the Company’s Bankers in the ordinary course of business) may exceed the aggregate of the paid-up share capital of the Company and its free reserves provided that the aggregate of the monies borrowed by the Board and outstanding at any time does not exceed ₹ 750 Crores or the aggregate of paid-up share capital of the Company and its free reserves, whichever is higher.

**RESOLVED FURTHER THAT** the Board be and is hereby authorised to take all such steps as may be necessary, proper and expedient to give effect to this Resolution.”

**(13) Creation of mortgage/Charge.**

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

**“RESOLVED THAT** in supersession of the Resolutions adopted by the Company in previous years with respect to creation of mortgage/charge in favour of Banks/Financial Institutions and others by the Board of Directors for the borrowings of the Company, and pursuant to Section 180(1)(a) and other applicable provisions, if any, of the Companies Act, 2013 (hereinafter referred to as the “Act”), and the rules made thereunder or any statutory modification thereof, consent of the Company be and is hereby accorded to the creation by the Board of Directors of the Company of such mortgages, charges and hypothecation in addition to the existing mortgages, charges and hypothecation created by the Company as the Board may direct, on such assets of the Company, both present and future, in such manner as the Board may direct, together with power to take over the management/undertaking of the Company in certain events to or in favour of all or any of the financial institutions, investment institutions and their subsidiaries, Export Import Bank of India, public sector banks, private sector banks, mutual funds, any other companies or bodies corporate and any other lenders (hereinafter collectively referred to as ‘the lending agencies’) and/or Trustees for the holders of debentures/bonds/other instruments which may be issued on a paripassu basis or otherwise not exceeding ₹ 750-00 Crores or the aggregate of paid-up share capital of the Company and its free reserves, whichever is higher, which have been/are proposed to be obtained from or privately placed with the lending agencies together with interest thereon at the agreed rates, further interest, liquidated damages, premium on prepayment or on redemption, costs, charges, expenses and all other monies payable by the Company to the Trustees under the trust deeds and/or to the lending agencies under the respective agreements / loan agreements / debenture trust deeds entered into/to be



entered into by the Company in respect of the said borrowings.”

**“RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised to finalise with the lending agencies/ trustees or any of them, the documents for creating the mortgages/charges/hypothecation and to accept or make any alterations/changes/ variations to or in the terms and conditions and to do all such acts, deeds, matters and things and to execute all such documents and writings as it may consider necessary for the purpose of giving effect to this resolution.”

By Order of the Board  
**Ramesh Babu Potluri**  
Chairman & Managing Director

Place : Hyderabad  
Date : 26.08.2014

### Notes:

1. The relative Explanatory Statement pursuant to Section 102 of the Companies Act, 2013 in respect of Item Nos. 6 to 13 is annexed hereto. Information under Clause 49 of the listing agreement relating to Directors proposed to be appointed/reappointed is provided as an Annexure to this Notice.
2. The Register of Members and Transfer Books of the Company will be closed from Thursday, 25th September, 2014 to Tuesday 30th September, 2014, both days inclusive.
3. The dividend that may be declared by the Company will be paid on or after 30th September, 2014, to those members of the Company holding shares in physical form whose names appear on the Register of Members as on 30th September, 2014. In respect of shares held in electronic form, the dividend will be paid to the beneficial owners of the shares as per details that may be provided by the Depositories for this purpose.
4. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself/herself and the proxy need not be a Member of the Company. Proxies, in order to be effective must be received at the Company’s registered office not less than 48 hours before the meeting. A person can act as a proxy on behalf of members not exceeding fifty and holding in the aggregate not more than ten percent of the total share capital of the Company carrying voting rights. A member holding more than ten percent of the total share capital of the Company carrying voting rights may appoint a single person as proxy and such person shall not act as a proxy for any other person or shareholder.
5. Corporate members intending to send their authorized representative(s) to attend the meeting are requested to send a certified copy of the Board resolution authorizing their representative(s) to attend and vote on their behalf at the meeting.
6. The shareholders are requested to intimate immediately any change in their address or bank mandates to their depository participants with whom they are maintaining their demat accounts or to the Company’s Share Transfer Agent M/s. Aarthi Consultants Private Limited, if the shares are held in physical form.
7. For the convenience of members and for proper conduct of the meeting, entry to the place of meeting will be regulated by attendance slip, which is part of the annual report. Members are requested to duly fill in and sign at the place provided on the attendance slip and hand it over at the entrance of the venue.
8. Shareholders desiring any information relating to the accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready.
9. The annual report for the 2013-14 is being sent by electronic mode only to the Members whose Email addresses are registered with the Company/Depository Participant(s) for communication purpose unless any member has requested for a hard copy of the same. For members who have not registered their Email addresses physical copies of the annual report 2013-14 are being sent by the permitted mode.



Pharmaceuticals Ltd.

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## Explanatory Statement Pursuant to Section 102 of the Companies Act, 2013 (“the Act”)

As required by Section 102 of the Companies Act, 2013 (“the Act”) the following Explanatory Statement sets out the material facts relating to Item Nos. 6-13 mentioned in the Notice:

### Item Nos. 6 to 8

#### Appointment of Independent Directors

Sri A.P. Rao, Dr. Mihir K. Chaudhuri and Sri K.S. Rao were appointed as non- executive directors from time to time and were considered as independent directors for the purpose of Clause 49 of the listing agreement and also as per the provisions of Companies Act, 1956.

As per the provisions of Section 149 of the Companies Act, 2013 (“Act”) which has come into force with effect from 1st April, 2014, an Independent Director shall hold office for a term upto five consecutive years on the Board of a company and they are not liable to retire by rotation.

Sri A.P. Rao, Dr. Mihir K. Chaudhuri and Sri K.S. Rao have given a separate declaration to the Board that they will meet the criteria of independence as provided under Section 149(6) of the Act.

The Company has received a notice in writing from a member along with the deposit of requisite amount under Section 160 of the Act proposing the candidature of Sri A. P. Rao, Dr. Mihir K. Chaudhuri and Sri K. S. Rao for the office of Director of the Company.

The Nomination & Remuneration Committee has recommended their appointment as Independent Directors for a period of five years with effect from 30th September, 2014. The Board has also considered and recommended their appointment. In the opinion of the Board, the Independent Directors proposed to be appointed fulfills the conditions specified in the Companies Act, 2013 and the Rules made there under and the proposed Directors are independent of the management.

In compliance with the provisions of Sections 161(1) and 149 read with Schedule IV of the Act, the appointment of Sri A. P. Rao, Dr. Mihir K. Choudhari and Sri K. S. Rao as Independent Directors, being proposed before the Members in general meeting for approval.

The terms and conditions of appointment of the above Independent Directors shall be open for inspection by the members at the Registered Office during normal business hours on any working day of the Company.

None of the Directors, key managerial personnel or their relatives, except Sri A. P. Rao, Dr. Mihir K. Choudhari and Sri K. S. Rao, is concerned or interested in these Resolutions.

A brief profile of the independent directors is given below:

#### Sri A.P. Rao

Sri A.P. Rao, aged 71 years an MBA and Cost Accountant by qualification, is a senior management expert in the financial sector. He has been on the Board of Directors of the Company since 1994. He is on the Board of M/s. Sri Cybertech Private Limited, M/s. APR Investments and Leasing Private Limited, M/s. Vision Financial Services Private Limited and M/s. Pioneer Spinning & Weaving Mills Limited.

#### Dr. Mihir K. Chaudhuri

Dr. Mihir K. Chaudhuri aged 68 years has a Doctorate from IIT, Kharagpur, India and Ruhr University, Bochum, West Germany. He has been a fellow of various academic bodies and has been recognized as one of the best Chemists & Chemical Engineers by ISI, USA. Presently he is the Vice-Chancellor of Tezpur University, Tezpur (Assam). He has been on the Board of the Company since 2004.

#### Sri K.S. Rao

Sri K.S. Rao aged 70 years is a Chartered Accountant and he is a partner in M/s. Brahmaya & Co., a renowned Chartered Accountants firm in Southern India. He has been on the Board of the Company since 2005. He is on the Board of M/s. CMH Tools Limited and M/s. Thermal Systems (Hyderabad) Private Limited.

#### Item No. 09

Appointment of Sri P. Sharath Kumar, as an Independent Director.

Sri P. Sharath Kumar aged 58 years is a Chartered Accountant and is the senior partner of M/s. Sharath & Associates, Chartered Accountants. He has





about 32 years of professional experience, has a Degree in Law, is a Certified fraud examiner. He specializes in Financial Strategy, Restructuring, personal Financial Management, Red Flag Studies, Forensic investigations and preventive Fraud Risk Management.

The Board of Directors of the Company had appointed him as an Additional Director of the Company with effect from 12th August, 2014.

In terms of the provisions of Section 161(1) of the Act, Sri P. Sharath Kumar would hold office up to the date of ensuing Annual General Meeting.

The Company has received a notice in writing from a member along with the deposit of requisite amount under Section 160 of the Act proposing the candidature of Sri P. Sharath Kumar for the office of Director of the Company.

As per the provisions of Section 149 of the Companies Act, 2013 an Independent Director shall hold office for a term upto five consecutive years on the Board of a company and is not liable to retire by rotation. Sri P. Sharath Kumar has given a declaration to the Board that he meets the criteria of independence as provided under Section 149(6) of the Act.

The matter regarding appointment of Sri P. Sharath Kumar as an Independent Director was placed before the Nomination & Remuneration Committee, which commends his appointment as an Independent Director for a term of 5 years with effect from 30th September, 2014. The Board has also considered and recommended his appointment. In the opinion of the Board, the Independent Directors proposed to be appointed fulfills the conditions specified in the Companies Act, 2013 and the Rules made there under and the proposed Directors are independent of the management.

In compliance with the provisions of Sections 161(1) and 149 read with Schedule IV of the Act, the appointment of Sri P. Sharath Kumar as an Independent Director is now being placed before the Members in general meeting for approval.

The terms and conditions of appointment of Sri P. Sharath Kumar shall be open for inspection by the members at the Registered Office during normal business hours on any working day of the Company.

None of the Directors, key managerial personnel or their relatives, except Sri P. Sharath Kumar, are concerned or interested in the Resolution.

#### **Item No. 10**

Appointment of Dr. (Mrs.) Thummala Neelaveni, as an Independent Director.

Dr. (Mrs.) Thummala Neelaveni aged 50 years is a medical doctor by profession. The Board of Directors of the Company had appointed her as an Additional Director with effect from 12th August, 2014.

In terms of the provisions of Section 161(1) of the Act, Dr. (Mrs.) Thummala Neelaveni would hold office up to the date of ensuing Annual General Meeting.

The Company has received a notice in writing from a member along with the deposit of requisite amount under Section 160 of the Act proposing the candidature of Dr. (Mrs.) Thummala Neelaveni for the office of Director of the Company.

As per the provisions of Section 149 of the Companies Act, 2013 an Independent Director shall hold office for a term upto five consecutive years on the Board of a company and is not liable to retire by rotation. Dr. (Mrs.) Thummala Neelaveni has given a declaration to the Board that she meets the criteria of independence as provided under Section 149 (6) of the Act.

The matter regarding appointment of Dr. (Mrs.) Thummala Neelaveni as Independent Director was placed before the Nomination & Remuneration Committee, which commends her appointment. In the opinion of the Board, the Independent Director proposed to be appointed fulfills the conditions specified in the Companies Act, 2013 and the Rules made there under and the proposed Director is independent of the management.

In compliance with the provisions of Sections 161(1) and 149 read with Schedule IV of the Act, the appointment of Dr. (Mrs.) Thummala Neelaveni as an Independent Director is now being placed before the Members in general meeting for approval.

The terms and conditions of appointment of Dr. (Mrs.) Thummala Neelaveni shall be open for inspection by the members at the Registered Office during normal business hours on any working day of the Company.

None of the Directors, key managerial personnel or their relatives, except Dr. (Mrs.) Thummala



Neelaveni, is concerned or interested in the Resolution.

**Item No. 11**

The Board of Directors on the recommendation of the Audit Committee has approved the appointment and remuneration of the Cost Auditors to conduct the audit of the cost records of the company for the financial year 2014-15.

In accordance with the provisions of Section 148 of the Act read with the Companies (Audit and Auditors) Rules, 2014, the remuneration payable to the Cost Auditors has to be ratified by the shareholders of the company. Accordingly, consent of the members is sought for passing an Ordinary Resolution for ratification of the remuneration payable to the Cost Auditors for the financial year 2014-15.

None of the directors, key managerial personnel or their relatives is interested or concerned in the Resolution.

The Board recommends the Resolution for approval of the Members.

**Item No. 12**

The Company at its Annual General Meeting held on 29th September 2012, authorised the Board of Directors of the Company by way of Ordinary Resolution under Section 293(1)(d) of the Companies Act, 1956 to borrow for the purpose of the Company moneys in excess of the paid-up capital of the Company and its free reserves provided the sum or sums so borrowed and remaining outstanding at any point of time shall not exceed ₹ 500 Crores.

As per the provisions of Section 180(1)(c) of the Companies Act, 2013 the above powers can be exercised by the Board only with the consent of the shareholders obtained by a Special Resolution. Further, as per a clarification dated 25th March, 2014 issued by the Ministry of Corporate Affairs, the Ordinary Resolution earlier passed under Section 293(1)(d) of the Companies Act, 1956 will remain valid for a period of one year from the date of notification of Section 180 of the Act, i.e. upto 11th September, 2014. As such, it is necessary to obtain fresh approval of the shareholders by means of a Special Resolution, to enable the Board of Directors of the Company to borrow moneys, apart from temporary loans obtained from the Company's Bankers in the ordinary course of business, in excess

of the aggregate of paid-up share capital and free reserves of the Company.

Whilst with an increase in the said limits is currently being proposed, members' approval is being sought pursuant to Section 180 of the Act by way of a Special Resolution.

None of the Directors / key Managerial Personnel of the Company / their relatives are concerned or interested, in the resolution.

The Board recommends the Resolution.

**Item No. 13**

The Company at its Extra-Ordinary General Meeting held on 25th February 2000, authorised the Board of Directors of the Company by way of Ordinary Resolution under Section 293(1)(a) of the Companies Act, 1956, to create mortgage and / or charge on the immovable and movable properties of the Company in favour of the lenders to secure their financial assistance as mentioned in the said Resolution.

However, pursuant to the provisions of Section 180(1)(a) of the Companies Act, 2013 the above powers can be exercised by the Board only with the consent of the shareholders obtained by a Special Resolution. Further, as per a clarification dated 25th March, 2014 issued by the Ministry of Corporate Affairs, the Ordinary Resolution earlier passed under Section 293(1)(a) of the Companies Act, 1956 will remain valid for a period of one year from the date of notification of Section 180 of the Act, i.e. upto 11th September, 2014. As such, it is required to obtain fresh approval of the shareholders by means of a Special Resolution, to enable the Board of Directors of the Company to create charge / mortgage on the Company's assets as indicated in Resolution.

None of the Directors / key Managerial Personnel of the Company / their relatives are concerned or interested in the resolution.

The Board recommends the Resolution for the approval of the Members.

By Order of the Board  
**Ramesh Babu Potluri**  
Chairman & Managing Director

Place : Hyderabad  
Date : 26.08.2014

## INSTRUCTIONS FOR E-VOTING

Pursuant to provisions of Section 108 of the Companies Act, 2013, read with the Companies (Management and Administration) Rules, 2014, the Company is pleased to offer e-voting facility to the members to cast their votes electronically on all resolutions set forth in the Notice for convening the 26th Annual General Meeting to be held on Tuesday, 30th September, 2014 at 11.00 A.M. The Company has engaged the services of Central Depository Services (India) Limited (CDSL) to provide the E-Voting facility.

### Voting through electronic means:

#### Instructions for e-voting:

The instructions for members for voting electronically are as under:-

In case of members receiving e-mail:

Log on to the e-voting website [www.evotingindia.com](http://www.evotingindia.com)

Click on "Shareholders" tab.

Now, select the "COMPANY NAME" from the drop down menu and click on "SUBMIT"

Now Enter your User ID

For CDSL: 16 digits beneficiary ID,

For NSDL: 8 Character DP ID followed by 8 Digits Client ID,

Members holding shares in Physical Form should enter Folio Number registered with the Company.

Next enter the Image Verification as displayed and Click on Login.

If you are holding shares in demat form and had logged on to [www.evotingindia.com](http://www.evotingindia.com) and voted on an earlier voting of any company, then your existing password is to be used.

If you are a first time user follow the steps given below:

<b>For Members holding shares in Demat Form and Physical Form</b>	
PAN	<p>Enter your 10 digit alpha-numeric *PAN issued by Income Tax Department (Applicable for both demat shareholders as well as physical shareholders)</p> <p>Members who have not updated their PAN with the Company/Depository Participant are requested to use the first two letters of their name and the 8 digits of the sequence number (Available in the Address label pasted in the cover and/or in the e-mail sent to the members) in the PAN field. In case the sequence number is less than 8 digits enter the applicable number of 0's before the number after the first two characters of the name in CAPITAL letters. Eg. If your name is Ramesh Kumar with sequence number 1 then enter RA00000001 in the PAN field.</p>
DOB	<p>Enter the Date of Birth as recorded in your demat account or in the company records for the said demat account or folio in dd/mm/yyyy format.</p>
Dividend Bank Details	<p>Enter the Dividend Bank Details as recorded in your demat account or in the company records for the said demat account or folio.</p> <p>Please enter the DOB or Dividend Bank Details in order to login. If the details are not recorded with the depository or company please enter the member id / folio number in the Dividend Bank details field.</p>

After entering these details appropriately, click on "SUBMIT" tab.

Members holding shares in physical form will then reach directly the Company selection screen. However, members holding shares in demat form will now reach 'Password Creation' menu wherein they are required



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to mandatorily enter their login password in the new password field. Kindly note that this password is to be also used by the demat holders for voting for resolutions of any other company on which they are eligible to vote, provided that company opts for e-voting through CDSL platform. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.

For Members holding shares in physical form, the details can be used only for e-voting on the resolutions contained in this Notice.

Click on the EVSN for the relevant <Company Name> on which you choose to vote.

On the voting page, you will see “RESOLUTION DESCRIPTION” and against the same the option “YES/NO” for voting. Select the option YES or NO as desired. The option YES implies that you assent to the Resolution and option NO implies that you dissent to the Resolution.

Click on the “RESOLUTIONS FILE LINK” if you wish to view the entire Resolution details.

After selecting the resolution you have decided to vote on, click on “SUBMIT”. A confirmation box will be displayed. If you wish to confirm your vote, click on “OK”, else to change your vote, click on “CANCEL” and accordingly modify your vote.

Once you “CONFIRM” your vote on the resolution, you will not be allowed to modify your vote.

You can also take out print of the voting done by you by clicking on “Click here to print” option on the Voting page.

If demat account holder has forgotten the changed password then Enter the User ID and the image verification code and click on Forgot Password & enter the details as prompted by the system.

Institutional shareholders (i.e. other than Individuals, HUF, NRI etc.) are required to log on to <https://www.evotingindia.co.in> and register themselves as Corporates.

**Other Information:**

- (1) The e-voting period commences on Tuesday, 23rd September, 2014 (9:00 a.m. IST) and ends on Wednesday, 24th September, 2014 (6:00 p.m. IST). During this period, members of the company holding shares in either physical form or in dematerialised form, as on 29th August, 2014 may cast their votes electronically.
- (2) The e-voting module shall be disabled by CDSL for voting thereafter. Once a vote on a resolution is cast by a member, he shall not be allowed to change subsequently.
- (3) The voting rights of the member shall be in proportion to their shares in the paid-up share capital of the Company.
- (4) Sri C. Sudhir Babu, Practicing Company Secretary (Membership No. F2724) has been appointed as the Scrutinizer to scrutinise the e-voting process in a fair and transparent manner.
- (5) The Scrutinizer shall, within a period of not exceeding 3 working days from the conclusion of the e-voting period, unblock the votes in the presence of at least two witnesses not in the employment of the Company and make a Scrutinizer’s Report of the votes cast in favour or against, if any, forthwith to the Chairman.
- (6) The results shall be declared by the Chairman on the date of the Annual General Meeting of the Company. The results declared along with the Scrutinizer’s Report shall be placed on the Company’s website and on the website of the CDSL within 48 hours of the AGM and communicated to the BSE Limited and National Stock Exchange of India Limited, where the shares of the Company are listed.



## DIRECTORS' REPORT

### Dear Shareholders,

Your Directors have pleasure in presenting the 26th Annual Report and Audited Accounts of your company for the year ended 31st March, 2014.

### Financial Results:

Particulars	(Amount : ₹ In Lakhs)	
	2013-14	2012-13
Gross Sales	<b>50,098.33</b>	25,402.97
Net Sales	<b>48,197.76</b>	23,993.38
Other Operating Income	<b>3,606.04</b>	526.01
Other Income	<b>152.41</b>	161.90
Total Net Income	<b>51,956.21</b>	24,681.29
PBIDT	<b>5,869.15</b>	(3,446.46)
Finance Charges	<b>1,381.88</b>	2,426.34
Depreciation	<b>1,285.46</b>	1,372.16
Profit before Extra-Ordinary Items	<b>3,201.81</b>	(7,244.96)
Extra-Ordinary Items	-	10,211.36
Profit before Tax	<b>3,201.81</b>	2,966.40
Taxation	<b>1,163.36</b>	433.91
Profit After Tax	<b>2,038.45</b>	2,532.49
Profit brought forward	<b>4,651.87</b>	2,653.72
Total available for Appropriations.	<b>6,690.32</b>	5,186.21
<b>Appropriations:</b>		
Transfer to Capital Redemption Reserve	<b>155.00</b>	-
Proposed Dividend	<b>169.30</b>	200.30
Dividend Tax	<b>28.77</b>	34.04
General Reserve	<b>300.00</b>	300.00
Profit carried to Balance Sheet	<b>6,073.31</b>	4,651.87
<b>Earning per share</b>		
Basic/Diluted		
Before Extra-Ordinary items	<b>23.06</b>	(76.67)
After Extra-Ordinary items	<b>23.06</b>	25.29

### Operational performance:

During the year 2013-14 your company has produced 1,791 M.T. of APIs and their intermediates as against 1,439 M.T. during the corresponding year. The net sales of the company has reached to ₹ 48,197.76 Lakhs as against ₹ 23,993.38 Lakhs during the previous year. Apart from this, Other Operating Income has reached to ₹ 3,606.04 Lakhs as against ₹ 526.01 Lakhs during the previous year. With this, your company has earned net profit of ₹ 2,038.45 Lakhs as against ₹ 2,532.49 Lakhs during the previous year. The main reason for increase in tax expenditure is increase in deferred tax liability.

### Dividend:

Your Directors are pleased to recommend the dividend of 20% i.e. ₹ 2-00 per equity share of ₹ 10/- each for the year ended 31-03-2014. The Dividend, if approved by the shareholders at the AGM, will be paid to the equity shareholders whose names appear in the Register of Members as on 30-09-2014. Expenditure on the proposed dividend will be ₹ 198.07 lakhs, inclusive of taxes.

### Share Capital:

The Authorised Share Capital of the Company is ₹ 12,00,00,000 (Rupees Twelve Crores only) divided into 1,20,00,000 (One Crore Twenty Lakhs only) equity shares of ₹ 10/- each. The paid up share capital of the Company has decreased to ₹ 8,46,52,030 (Rupees Eight Crore Forty Six Lakhs Fifty Two Thousand and Thirty only) divided into 84,65,203 (Eighty Four Lakhs Sixty Five Thousand Two Hundred and Three only) equity shares of ₹ 10/- each from ₹ 10,01,52,030 Lakhs (Rupees Ten Crore One Lakh Fifty Two Thousand and Thirty only) divided into 1,00,15,203 (One Crore Fifteen Thousand Two Hundred and Three only) equity shares of ₹ 10/- each. During the financial year under review the company has bought back of 15,50,000 (Fifteen Lakhs Fifty Thousand only) equity shares of ₹ 10/- each.

### Transfer to Reserves:

Your Company has transferred an amount of ₹ 155.00 Lakhs (Previous year Nil) to Capital Redemption Reserve and ₹ 300.00 lakhs (previous year ₹ 300.00 lakhs) to General Reserve out of the amount available for appropriations.



**Auditors:**

**(a) Statutory Auditors**

The Statutory Auditors of the Company M/s. Rambabu & Co., Chartered Accountants and M/s. P. Murali & Co., Chartered Accountants as Joint Auditors of the Company, retired at the ensuing Annual General Meeting. The Audit Committee and the Board of Directors recommend the appointment of M/s. Rambabu & Co., Chartered Accountants as Statutory Auditors of the Company from the conclusion of the forthcoming Annual General Meeting of the Company till the conclusion of the 27th Annual General Meeting to be held in the year 2015.

**(b) Cost Auditors:**

Sri K.S.N. Sarma, Cost Accountant has been reappointed as Cost Auditor of the Company with the consent of the Central Government of India to conduct Cost Audit of the Company for the year 2013-14. The due date for filing of the cost audit report of the company in XBRL format for the year 2012-13 was 30th September, 2013 and the same was filed with the Ministry of Corporate Affairs.

Based on the recommendations of the Audit Committee the Board of Directors appointed Sri K.S.N. Sarma as Cost Auditor of the Company for the year 2014-15. As per the provisions of the Companies Act, 2013 the remuneration of the Cost Auditor as approved by the Board is to be ratified by the Members.

**Fixed Deposits:**

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

**Contribution to the ex-chequer:**

Your Company has contributed ₹ 2,306.28 lakhs to the ex-chequer (Previous year ₹ 2,748.18 lakhs) by way of taxes.

**Directors:**

During the year 2013-14, Dr. B.M. Choudary has resigned as Director from the Board of your Company due to his pre-occupied business activities. The Board places on record its deep appreciation to Dr. B.M. Choudary for the excellent contributions made by him as Director.

Dr. (Mrs.) Thummala Neelaveni and Sri P. Sharath Kumar have joined on the Board as Additional Directors with effect from 12th August, 2014.

Dr. Ayman Sahli and Sri T.V.V.S.N. Murthy retire by rotation at the ensuing Annual General Meeting and being eligible, offers themselves for re-appointment.

As per Section 149 (4) of the Companies Act, 2013, Sri A. P. Rao, Dr. Mihir K. Choudhari, Sri K. S. Rao, Sri P. Sharath Kumar and Dr. (Mrs.) Thummala Neelaveni are being appointed as independent directors to hold office for a period of five years with effect from 30th September, 2014. Brief particulars and expertise of these directors and their other directorships and committee memberships have been given in the annexure to the Notice of the Annual General Meeting in accordance with the requirements of listing agreement with Stock Exchanges.

**Directors' Responsibility Statement:**

Pursuant to the provisions of Section 134 (3) (c) of the Companies Act, 2013, with reference to Directors' Responsibility Statement, it is hereby confirmed:

1. That the applicable accounting standards have been followed in the preparation of the Annual Accounts.
2. That the selected accounting policies were applied consistently and judgments and estimates made are reasonable and prudent were made so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that year.
3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safe guarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. That the Annual Accounts have been prepared on going concern basis.

**Research and Development (R&D):**

Your Company is committed to building a sound base for sustained growth in API and Key starting



materials business through the development of new products, innovative technology, process improvement, cost optimization and strengthening the compliance standards leveraging our collective R&D expertise resulting in value of all stakeholders.

SMS Pharma's R&D delivers on both fronts of profitability and growth giving us a head start in the competitive industry. Scientists at your research laboratories are hard at work developing cost effective process for new generic APIs, meticulously documenting and testing new and improved processes to manufacture quality drug substances and drug intermediates.

#### Management's Discussion and Analysis:

Management Discussion and Analysis Report for the year under review, as stipulated under Clause 49 of the listing agreement is presented in a separate section forming part of the Annual Report.

As required by the Listing Agreement, a Certificate on Corporate Governance by a Practicing Company Secretary and a declaration by the Chairman & Managing Director with regard to Code of Conduct are attached to the report on Corporate Governance.

#### Corporate Governance:

A detailed Report on Corporate Governance practices followed by your company, in terms of clause 49 of the Listing Agreement with Stock Exchanges, is provided separately in this Annual Report.

#### Human Resources:

During the year, Industrial relations continued to be cordial throughout the year. Your Company firmly believes that a dedicated workforce constitute the primary source of sustainable competitive advantage. Accordingly, human resource development continues to receive focused attention. Your Directors wish to place on record their appreciation of the dedicated and commendable services rendered by the staff and workforce of the company, without whose efforts, such an impressive performance may not have been possible.

#### Particulars of Employees:

Statement of particulars of employees pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Rules, 1975 as amended.

Name	Age	Designation/ Nature of Duties	Gross Remuneration ₹ in lakhs	Qualifi- cation	Experience in years	Date of Commence- ment	Particulars of last employment
Sri Ramesh Babu Potluri	56	CMD & CEO	143.82	M.Sc.	30	30.08.1990	Globe Organics Ltd
Sri T.V.V.S.N. Murthy	54	VC & JMD	139.61	B.Sc.	32	30.08.1990	Chemisor Durgs Limited

- Notes:**
- Remuneration includes salary, allowances, company contribution to provident fund and commission on profits.
  - The above appointments are contractual.
  - None of the above employees are relatives to any director of the Company.

#### Corporate Social Responsibility:

In terms of Section 135 of the Companies Act, 2013, the company is required to constitute Corporate Social Responsibility Committee to monitor the CSR activities. The Company has formed CSR Committee out of its Board of Directors to recommend (a) the policy on Corporate Social Responsibility (CSR) and (b) implementation of the CSR Projects or Programs

to be undertaken by the Company as per CSR Policy for consideration and approval by the Board of Directors.

#### 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 Rule 2 of the Companies (Disclosure of Particulars in the Report



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of Board of Directors) Rules, 1988 is enclosed herewith and forms part of this report.

**Dematerialization:**

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

**Vigil Mechanism:**

In pursuant to the provisions of section 177 (9) & (10) of the Companies Act, 2013, a vigil mechanism for directors and employees to report genuine concerns has been established. A dedicated Email ID: whistleblowing@smspharma.com was established for this purpose and Phone number 040-66288888 Extn: 902 was allotted for this purpose.

**Environment:**

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

**Related party transactions:**

As a matter of policy, your company carried out transactions with related parties on an arms-length

basis. Statement of these transactions is given in Notes on Accounts in compliance with accounting standards issued by ICAI.

**CEO/CFO Certification:**

As required by the Clause 49 of the Listing Agreement, a certificate on the financial statements and cash flow statement of the Company for the year ended 31st March, 2014 duly signed by the Chairman and Managing Director and Chief Financial Officer was submitted to the Board of Directors.

**Acknowledgements:**

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

for and on behalf of the Board

**Ramesh Babu Potluri**  
Chairman and Managing Director

Place : Hyderabad

Date : 26.08.2014





## ANNEXURE TO THE DIRECTORS' REPORT

Information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

### FORM-A

#### Disclosure of particulars with respect to Conservation of Energy

#### A. POWER & FUEL CONSUMPTION

(Amount : ₹ in Lakhs)

Particulars	2013-14	2012-13
<b>I. ELECTRICITY:</b>		
a. Purchased : Grid Power		
Units (Lakhs)	191.19	111.58
Total Amount (₹ In Lakhs)	1,044.46	1,149.32
Rate/Unit (₹)	5.46	10.30
b. Purchased : Private Power		
Units (Lakhs)	67.55	-
Total Amount (₹ In Lakhs)	384.54	-
Rate/Unit (₹)	5.69	-
c. Own generation		
Throuh Diesel Generator		
Units (KWH in Lakhs)	19.75	41.61
Unit per Lt. Of Diesel	3.37	3.21
Cost/Unit (₹ in Lakhs)	16.79	14.35
<b>2. COAL(D/C Grade):</b>		
Quantity (MT)	14,032	12,502
Total cost (₹ in Lakhs)	726.52	674.17
Average Rate per Ton (₹)	5,178	5,393
<b>3. FURNACE OIL:</b>		
Quantity (K.Ltrs)	90	146
Total cost (₹ in Lakhs)	39.50	61.24
Average Rate per Ltr. (₹)	43.87	42.04

#### B. CONSUMPTION PER UNIT OF PRODUCTION:

Products

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

Electricity

Coal (D/C Grade)

Others (specify)

**FORM-B**

**Disclosure of particulars with respect to Technology Absorption**

**I. Research and Development (R&D):**

**(a) Specific areas in which R&D is carried out by the company:**

Active Pharmaceutical Ingredients and Key Starting Materials, where our R&D concentrate on development of synthetic process for the manufacturing of APIs for sale in the emerging and developed markets. Our Research and Development activities also support process development of key Starting Materials and crucial intermediates which will be used as the inputs for the API synthesis.

**(b) Benefits derived as a result of the above:**

- Development of new products.
- Modification of existing manufacturing processes to achieve savings in production cost.
- Modification of existing manufacturing processes to reduce the time cycle.
- Protection of intellectual property generated during research by filing Indian, US & EP patents.

**(c) Future Plan of action:**

- Technology Transfer of new products, which are under trails at development stage.
- Several new products have been identified after a thorough study of the marketing and feasibility of the processes to take-up for the development in the R&D.

**(d) Expenditure on R&D:**

**(Amount : ₹ In Lakhs)**

Particulars	Current Year	Previous Year
Capital	-	-
Recurring	140.27	188.99
Total	140.27	188.99
Total R & D expenditure to sales	0.29%	0.79%

**II. TECHNOLOGY ABSORPTION, ADOPTATION AND INNOVATION:**

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

The company has a full-fledged R&D division continuously engaged in the research on process development of new and existing products. In most cases, the company has developed indigenous technology in respect of the products manufactured. As soon as the development of technology, the same shall be transferred to the manufacturing sites for commercial production. We believe in continuous improvement of the process throughout the life cycle of the product.

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

The benefits derived as results of the above efforts are the product quality improvements, cost reduction, reduction of manufacturing time cycle which leads to cost effective production processes, improved yield and highest quality of the products manufactured.

**(c) Details of technology imported during the last 5 years:**

Technology imported.

Year of Import.

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

} No technology has been imported during past five years.



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**FORM – C**

**FOREIGN EXCHANGE EARNINGS AND OUTGO**

- (a) Activities relating to exports, initiative taken to increase exports, developments of new export markets for products and services and export plans.
- (i) The export turnover consists of 37.70% of total turnover for the year 2013-14 as against 55.57% for the previous year.
  - (ii) Total exports on FOB was ₹ 16,333.13 Lakhs for the year 2013-14 as against ₹ 11,807.07 Lakhs for the year 2012-13.
  - (iii) Your Company expects considerable export revenue for the forthcoming years.
- (b) Foreign Exchange Earned and Used.
- Total Foreign Exchange earnings and used is given in note 30B (l), (m) & (n) of the Notes to Accounts.



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## MANAGEMENT DISCUSSION AND ANALYSIS

### **Economic Overview:**

Despite a number of reform announcements by the UPA II government at the fag end of its tenure, India's growth story remained muted throughout the financial year 2013-14. While all economic indicators showed a dismal performance, the major challenge before the new government is to kick-start the growth rate cycle, which is sluggish under 5 percent.

India started the fiscal year 2014-15 on a buoyant note but it was merely a show of market which was driven by foreign investors (FIIs) triggered by the Narendra Modi euphoria. But the main concern is the sustainability of the current market rally, which will finally be guided by the fundamentals of our economy that is yet to get back on track. Short term excitement will not be able to fuel the steam in the long run.

Nonetheless, with Budget 2014-15, India faces major challenges. Some of them are implementation of structural reforms like GST, DTC, further relaxation in FDI norms, government's stand on retrospective tax and passing of insurance bill.

### **Industry Outlook:**

India is among the top five emerging pharma markets and has grown at an estimated compound annual growth rate (CAGR) of 13 percent during the period FY 2009-2013. The Indian pharmaceutical market is poised to grow to US\$ 55 billion by 2020 from the 2009 levels of US\$ 12.6 billion, according to the report titled 'India Pharma 2020' by McKinsey & Co.

A new cluster of countries is contributing to the growth of the pharma industry, resulting in a robust jump in exports of drugs. The country's pharma industry accounts for about 1.4 percent of the global pharma industry in value terms and 10 percent in volume terms. Both domestic and export demand contributed towards the robust performance of the sector.

An increase in insurance coverage, an ageing population, rising income, greater awareness of personal health and hygiene, easy access to high-quality healthcare facilities and favourable

government initiatives are some of the important factors expected to drive the pharma industry in India. The Government of India has unveiled 'Pharma Vision 2020' aimed at making India a global leader in end-to-end drug manufacturing.

### **Market Size:**

On improved utilisation of manufacturing facilities, the domestic pharmaceutical market is likely to see high revenue growth and profit margins. Pharmaceutical sales in India are expected to grow by 14.4 percent to US\$ 27 billion in 2016 from US\$ 22.6 billion in 2012, according to a report by Deloitte called '2014 Global Life Sciences Outlook'.

India's pharmaceutical exports stood at US\$ 14.84 billion in FY 2013-14. The United States (US) is the country's biggest market for pharma exports accounting for about 25 percent, followed by the United Kingdom (UK). "India has been able to make its name as a quality supplier of affordable medicines across the globe. We are expecting around 12 percent growth this fiscal (2014-15)," said Sri P. V. Appaji, Executive Director, Pharmaceutical Export Promotion Council of India (Pharmexcil).

Pharma exports from India will be more than the size of the domestic sales by FY 2015, according to a report by India Ratings & Research. The country provides generic medicines to almost 200 countries. It is responsible for about 40 percent of the generic and over-the-counter drugs consumed in the US. Indian generics market is expected to grow to US\$ 26.1 billion by 2016 from US\$ 11.3 billion in 2011.

### **Investments:**

The allowance of foreign direct investment (FDI) in India's pharma sector was well received by foreign investors. The cumulative drugs and pharmaceuticals sector attracted FDI worth US\$ 11,588.42 million in the period April 2000-February 2014, according to data published by Department of Industrial Policy and Promotion (DIPP). Some of the major investments and developments in the Indian pharmaceutical sector.



### **Government Initiatives:**

As per extant policy, FDI up to 100 percent, under the automatic route, is permitted in the pharmaceuticals sector for Greenfield investment. Hundred percent FDI is also permitted for investments in existing companies under the government approval route. Further, the Government of India has also put in place mechanisms such as the Drug Price Control Order and the National Pharmaceutical Pricing Authority to address the issue of affordability and availability of medicines.

The government plans to create a special entity in partnership with private firms for a 'Brand India Pharma' campaign with the objective of improving the image of drug exporters. The special purpose vehicle (SPV) will be in operation in the next few weeks, said Sri Rajeev Kher, Commerce Secretary, Government of India.

The Andhra Pradesh government has announced a new life sciences policy for the state at the 11th edition of BioAsia 2014 in Hyderabad. According to the new policy, the state will provide subsidies in power, water and provide land for setting up of new life science industries in the state. The state government is planning to attract an investment of ₹ 20,000 crore (US\$ 3.33 billion) by encouraging more industries in the segment.

In a move to simplify the barcode procedures for pharmaceutical companies and to ensure quality, the Government of India has decided to treat mono cartons containing medicines as primary level packaging, as per the Directorate General of Foreign Trade (DGFT).

The Ministry of Chemicals and Fertilisers has unveiled a scheme that will enable pharma units in different clusters across the country to set up common infrastructure facilities with substantial financial assistance from the government.

### **Road Ahead:**

India Ratings and Research has revised its outlook on the pharmaceuticals sector for FY 2014–15 to positive from stable on the back of increased exports. With the support of Pharmexcil and the government in the form of Brand India Pharma project iPHEX, the sector would continue to

grow and meet the healthcare requirements of the developing world. The country will also see the largest number of mergers and acquisitions (M&A) in the pharmaceutical and healthcare sector, according to consulting firm Grant Thornton.

With 70 percent of India's population residing in rural areas, pharma companies have immense opportunities to tap this market. Demand for generic medicines in rural markets has seen a sharp growth.

The non-small cell lung cancer (NSCLC) therapeutics market value in the Asia-Pacific region is expected to grow at a CAGR of 6.3 percent to touch US\$ 2.9 billion by 2019 from US\$ 1.8 billion in 2012, according to GBI Research. An aging population and increasing number of NSCLC incident cases will be the main drivers behind this anticipated growth in India.

Exchange rate used INR 1 = US\$ 0.01667 as on May 08, 2014

References: Consolidated FDI Policy, Department of Industrial Policy & Promotion (DIPP), Press Information Bureau (PIB), Media Reports, Pharmaceuticals Export Promotion Council

### **Company Perspective:**

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

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

SMSPL has robust product portfolio spread over major product areas encompassing Gastroenterological, Anti-Retroviral, Anti-Migraine, Anti-Fungal, Anti-Hypertensive and other products. Two manufacturing facilities, (in Hyderabad and



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

#### **Segment-wise or Product-wise Performance:**

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

#### **Risks and Concerns:**

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

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

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

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

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

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

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

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

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

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

The company's current and fixed assets as well as products are adequately insured against various risks.

#### **Internal Control systems and their adequacy:**

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

SMSPL has a well-defined internal control system which is adequately monitored. Checks and balances



and control systems have been established to ensure that the Assets are safe guarded, utilized with proper authorization and recorded in the books of account.

There is a proper definition of rules and responsibilities across the organization to ensure information flow and monitoring. These are supplemented by internal audit carried out by a firm of Chartered Accountants. The Company has an Audit Committee consisting of Three Directors, who all are independent Directors. This Audit Committee reviews the internal audit reports, statutory audit reports, the quarterly and annual financial statements and discusses all significant audit observations and follow up actions arising from them.

#### **Performance and operations review:**

During the year under review SMS achieved a net sales of ₹ 48,197.76 Lakhs as against ₹ 23,993.38 Lakhs during the previous year.

The company has earned other operating income of ₹ 3,606.04 lakhs during the year 2013-14 as against ₹ 526.01 lakhs in the previous year 2012-13. Your company has incurred ₹ 140.27 lakhs towards R&D expenditure for the year 2013-14 as against ₹ 188.99 lakhs in the previous year. The said R & D expenditure works out to 0.29% and 0.75% of its turnover respectively.

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

#### **Human Resources:**

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

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

At the year end the company had 850 employees directly employed apart from indirect employees of 600.

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

#### **Safety, Health and Environment:**

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

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

#### **Out look:**

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

The focus will be on expanding the markets and the profitability of the portfolio will be analysed on continual basis. By implementing these strategies, your company aims to increase its revenues, EBITDA and return on investment higher than the industry average.

## CORPORATE GOVERNANCE

### Introduction:

A report for the financial year ended 31st March, 2014 on the compliance by the Company with the Corporate Governance requirements under Clause 49 of the Listing Agreement, is furnished below : -

#### 1. Company's Philosophy on Corporate Governance:

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

#### 2. Board of Directors:

##### (a) Composition of Board:

The Company's Board as on 31st March, 2014 consists of 8 members, of which 50% are independent directors, who are leading professionals in their respective fields. The Board comprises of Two (2) Executive Directors and two (2) Non-Executive directors apart from four (4) independent directors.

As per clause 49 of the Listing Agreement, where the Chairman of the Board is an Executive Director, at least half of the Board should comprise of Independent Directors. The Company complied with the provisions of Clause 49 of the Listing Agreement.

The constitution of the Board is given below:

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

Note : ED – Executive Director; ID – Independent Director; NED – Nominee Director;

\*Nominee Director of M/s. Gulf Pharmaceutical Industries, RAK, U.A.E.

\*\* Nominee Director of Exim Bank

# Resigned w.e.f. 05.06.2014.

Sri P. Sharath Kumar and Dr. (Mrs.) T. Neelaveni have been appointed as Additional Directors w.e.f. 12.08.2014.



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

**(b) Board's Functioning and Procedure:**

The Board plays a pivotal role in ensuing good governance. In addition to the primary role of setting corporate goals and monitoring the Company's performance, it directs and guides the activities of the Management towards creating long-term sustainable growth that benefits all stakeholders.

The Board also sets standards of behavior and ethical conduct for all the employees.

It also ensures strict compliance with the law and all regulations by the Company.

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

The Board of Directors met four times during the financial year on 29th May, 2013, 13th August, 2013, 11th November, 2013 and 11th February, 2014.

The attendance of Directors at the Board Meetings and the last Annual General Meeting held on 30th September, 2013 were as under :-

Name of the Director	Board Meetings		AGM
	Held during their tenure	Attended	
Sri Ramesh Babu Potluri	4	4	Yes
Sri T.V.V.S.N. Murthy	4	3	Yes
Sri A.P. Rao	4	3	No
Sri K.S. Rao	4	3	Yes
Dr. B.M. Choudary	4	-	No
Dr. Mihir K. Chaudhuri	4	-	No
Sri Utpal Gokhale	4	4	No
Dr. Ayman Sahli	4	-	No

**4. Information Placed before the Board of Directors:**

The Board has complete access to all information relating to the Company. The following information is regularly provided to the Board:

- (a) Minutes of the meetings of the Board, the Audit Committee and other committees constituted by the Board;
- (b) Quarterly, half yearly and annual financial results of the Company;
- (c) Annual operating plans and future perspective plans;
- (d) Capital budgets;
- (e) Cost Audit report;



- (f) Appointment of Statutory Auditor, Cost Auditor and Internal Auditor;
- (g) Certificate on Compliances;
- (h) Fatal or serious accidents, dangerous occurrences any material effluent or pollution problems, if any;
- (i) Any material default in financial obligations and receipt of show cause, demand, prosecution and penalty notices;
- (j) Significant developments in Human resources/industrial relations ;
- (k) Non-compliance of any regulatory and statutory nature;
- (l) Contract with directors deemed to be interested;
- (m) Details of investment of surplus funds;
- (n) General disclosure of interest.

**5. Recording Minutes of Proceedings of Board Meeting:**

The Company Secretary records the minutes of the proceedings of each Board and Committee Meetings. Draft Minutes are circulated to all the members of the Board / Committee for their comments.

**6. Compliance:**

The Company Secretary while preparing the Agenda, Notes on Agenda, Minutes, etc. of the meeting(s), is responsible for and is required to ensure adherence to the applicable laws and regulations including the Companies Act, 1956 read with the Rules and Regulations issued there under, Listing Agreement with the Stock Exchanges, SEBI rules & regulations and the Secretarial Standards recommended by the Institute of Company Secretaries of India.

**7. Code of Conduct:**

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

**8. Whistleblower Policy:**

Your Company has established a mechanism called 'Whistleblower Policy' for employees to report to the management instances of unethical behavior, actual or suspected, fraud or violation of the Company's code of conduct or ethics policy and provides safeguards against victimization of employees who avail the mechanism. The policy permits all the employees to report their concerns directly to the Chairman of the Audit Committee of the Company. The policy with the name and address of the Chairman of the Audit Committee has been communicated to the employees by uploading the same on the website of the Company. The employees can directly contact the Chairman of the Audit Committee on the email address as mentioned in the 'Whistleblower Policy' uploaded at the website of the Company.

**9. Audit Committee:**

**(a) Composition:**

During the financial year 2013-14, four Audit Committee Meetings were held on 29th May, 2013, 13th August, 2013, 11th November, 2013 and 11th February, 2014.

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

Name of the Director	Designation	Category	Profession	Committee Meetings	
				Held during their tenure	Attended
Sri K.S. Rao	Chairman	Independent Director	Chartered Accountant	4	4
Sri A.P. Rao	Member	Independent Director	Cost Accountant	4	3
Dr. B.M. Choudary*	Member	Independent Director	Business	4	-

\* Dr. B.M. Choudary Resigned as director form 05.06.2014 and Sri P. Sharath Kumar was appointed as additional Director by the Board w.e.f. 12.08.2014 has been appointed as member of the Audit Committee.

**(b) Terms of Reference:**

The terms of reference of the Audit Committee include inter-alia:

- a) Periodic discussions with the Statutory Auditors and Internal Auditors of the Company concerning the accounts of the Company, internal control systems, scope of audit and observations of the Auditors/Internal Auditors.
- b) Review compliance with internal control systems.
- c) Review the quarterly, half-yearly and annual financial results of the Company before submission to the Board.
- d) To investigate into any matter in relation to items specified under the provisions of the Companies Act or as may be referred to it by the Board and for this purpose, to seek any relevant information contained in the records of the Company and also seek external professional advice, if necessary.
- e) To make recommendations to the Board on any matter relating to the financial management of the Company, including the Audit Report.
- f) Recommending to the Board the appointment and re-appointment of Statutory Auditors.
- g) Reviewing the Company's financial and risk management policies.
- h) Review of Cost Audit Report.
- i) Reviewing the major accounting policies and practices and adoption of applicable accounting standards.
- j) Reviewing the compliance with the Listing Agreement and various other legal requirements concerning financial statements and related party transactions.
- k) Reviewing compliance with respect to the Company's Whistleblower Policy.

**10. Remuneration Committee:**

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



executive Directors for the relevant year measured against specific Key Results Areas, which are aligned to the Company's objectives.

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

The members of the Committee are:

Name of the Director	Designation	Category	No. of meeting attended
Sri K. S. Rao	Chairman	Independent Director	1
Sri A.P. Rao	Member	Independent Director	1
Sri B.M. Choudary*	Member	Independent Director	1

Remuneration Committee has renamed as Nomination and Remuneration Committee in compliance with provisions of the Companies Act, 2013.

\* Dr. B.M. Choudary Resigned as director from 05.06.2014 and Dr. (Mrs.) T. Neelaveni was appointed as Additional Director by the Board w.e.f. 12.08.2014 has been appointed as member of the Nomination and Remuneration Committee.

#### 11. Remuneration of Directors:

Details of remuneration paid/payable to the directors for the year ended on 31st March, 2014 are as follows.

(Amount : ₹ In Lakhs)

Name	Salary	Perquisites	Contribution to PF	Commission on Profits	Total
Sri Ramesh Babu Potluri	46.00	5.63	3.84	88.35	143.82
Sri T.V.V.S.N. Murthy	46.00	1.41	3.84	88.35	139.60
Total	92.00	7.04	7.68	176.70	283.42

(a) Non-Executive Directors are only entitled to sitting fees for attending the Board and Committee Meetings.

(b) No loans and advances have been given to any Director of the Company.

#### 12. Investors Grievance Committee:

The Investors Grievance Committee met five times during the year on 02.04.2013, 05.07.2013, 02.09.2013, 20.01.2014 and 18.03.2014. At present the followings are the members of this Committee:

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

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

The Investors Grievance Committee was renamed as Stakeholders Relationship Committee. This Committee was reconstituted as mentioned below w.e.f. 12.08.2014

Name of the Director	Designation	Category
Sri A.P. Rao	Chairman	Independent Director
Sri T.V.V.S.N. Murthy	Member	Whole Time Director
Sri P. Sharath Kumar	Member	Independent Director

### Investor Grievances:

The following table shows the No. of complaints received from shareholders during the year 2013-14.

No. of Complaints received.	No. of Complaints resolved.	No. of Complaints pending
7	7	Nil

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

The Company has designated the email id [cs@smspharma.com](mailto:cs@smspharma.com) exclusively for the purpose of registering complaints by investors electronically. The email id has been displayed on the Company's website i.e., [www.smspharma.com](http://www.smspharma.com)

### 13. General Body Meetings:

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

Annual General Meeting (AGM)	Date	Time	Venue	No. of Special Resolutions passed
23rd AGM	30th September, 2011	11.00 A.M.	Jubilee Hills Club Jubilee Hills Hyderabad-500 033.	-
24th AGM	29th September, 2012	11.00 A.M.		1
25th AGM	30th September, 2013	11.00 A.M.		4

The special resolutions were passed thereat by show of hands.

### 14. Postal Ballot:

A special resolution was passed through postal ballot during the financial year 2013-14 for buy-back of shares.

Details of the voting pattern of the Postal Ballots are as follows:

Particulars	No. of Postal Ballot Forms	No. of Votes	%
Total postal ballot forms received	318	27,94,445	-
Less: Invalid Postal ballot forms (as per register)	28	7,589	-
Net valid postal ballot forms	290	27,86,856	100
Postal ballot forms with assent for the Resolution	268	27,84,652	99.92
Postal ballot forms with dissent for Resolution	22	2,204	0.08

The special resolution was carried with requisite majority. Sri C. Sudhir Babu, Practicing Company Secretary was appointed as the Scrutinizer for the postal ballot.

### 15. Disclosures:

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

Transactions with related parties are disclosed in Note No. 30 II(B)(i) to the Accounts in the Annual Report.



**Compliance with Mandatory/Non-mandatory Requirements:**

- The Company has complied with all the applicable mandatory requirements of Clause 49 of the Listing Agreement.
- The Company is also in compliance with the non-mandatory requirements as specified in Annexure 1D to Clause 49 of the Listing Agreement regarding tenure of Directors, constitution of remuneration committee, unqualified financial statements, training of Board Members, and establishment of mechanism for evaluating non-executive directors.

**Reconciliation of Share Capital Audit Report:**

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

**16. Means of Communication:**

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

**17. General Shareholders Information:**

**a) 26th Annual General Meeting**

Financial Year	:	2013-2014
Day and Date	:	Tuesday, 30th September, 2014
Time	:	11.00 A.M.
Venue	:	Jubilee Hills International Center (Jubilee Hills Club), Jubilee Hills, Hyderabad-500 033

**b) Quarterly Results**

Financial Calendar (tentative and subject to change) of the Financial year 2014-15 is as follows.

<b>Unaudited Financial Results for</b>	<b>:</b>	<b>On or before</b>
1st Quarter	:	12th August, 2014
2nd Quarter	:	14th November, 2014
3rd Quarter	:	14th February, 2015
4th Quarter	:	30th May, 2015

- c) Date of book closure** : 25th September, 2014  
to 30th September, 2014
- d) Regd. and Corporate Office** : Plot No.19-III, Road No.71  
Opp. Bharatiya Vidya Bhavan  
Public School, Jubilee Hills, Hyderabad-500 096.
- e) Listing of Equity Shares** : BSE Limited (Code: 532815) and  
National Stock Exchange of  
India Limited (Code: SMSPHARMA)

- f) **Stock market data** : The Stock of the Company  
has listed in the Month of February, 2007.

The table below shows the monthly high and low price on the National Stock Exchange and Bombay Stock Exchange during the year 2013-14.

Month	BSE			NSE		
	High (₹)	Low (₹)	Volume	High (₹)	Low (₹)	Volume
April, 2013	224.00	201.50	4,075	238.00	202.00	17,338
May, 2013	257.95	215.05	65,816	255.00	213.00	1,49,930
June, 2013	270.50	217.00	6,09,834	271.00	215.00	6,69,500
July, 2013	244.00	200.00	2,14,709	240.00	194.00	18,157
August, 2013	210.00	152.00	2,126	214.95	152.00	6,208
September, 2013	189.95	155.00	2,187	188.20	157.00	2,994
October, 2013	194.00	155.30	2,330	180.00	155.00	1,654
November, 2013	175.00	155.00	1,242	--	--	--
December, 2013	202.00	181.00	10,253	--	--	--
January, 2014	202.00	181.00	5,121	199.30	182.05	4,811
February, 2014	250.00	188.95	14,963	245.00	190.00	14,394
March, 2014.	277.80	231.00	39,272	277.80	234.00	37,204

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

h) **Share Transfer System**

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

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

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

In case of shares held in physical form, all transfers are completed within 12 days from the date of receipt of complete documents. As at 31st March, 2014 there were no Equity Shares pending for transfer. Also, there were no demat requests pending as on 31st March, 2014.



Pharmaceuticals Ltd.

**i) Distribution of Equity Shareholding**

The table below shows the distribution of shareholding of various groups as on 31st March, 2014.

Slab of shareholdings	Shareholders	%	No. of Shares	%
1 to 5,000	9,824	96.81	5,30,127	6.26
5001 to 10,000	148	1.46	1,27,841	1.51
10001 to 20,000	76	0.75	1,30,355	1.54
20001 to 30,000	19	0.19	49,693	0.59
30001 to 40,000	15	0.15	55,386	0.65
40001 to 50,000	4	0.04	19,232	0.23
50001 to 1,00,000	17	0.17	1,34,355	1.59
100001 and above	45	0.44	74,18,214	87.63
<b>Total</b>	<b>10,148</b>	<b>100.00</b>	<b>84,65,203</b>	<b>100.00</b>

**j) According to categories of Equity Shareholders as on 31st March, 2014**

Sl. No.	Category of Shareholders	No. of Shareholders	No. of Shares
(A)	<b>Shareholding of Promoter and Promoter Group</b>	16	54,10,443
(B)	<b>Public shareholding</b>		
	<b>1 Institutions</b>		
	(a) Mutual Funds/UTI	-	-
	(b) Financial Institutions/Banks	2	42,114
	(c) Insurance Companies	-	-
	(d) Foreign Institutional Investors	1	45,000
	<b>Sub-Total</b>	<b>3</b>	<b>87,114</b>
	<b>2 Non-Institutions</b>		
	(a) <b>Bodies Corporate</b>	126	3,83,956
	(b) <b>Individuals</b>		
	(i) holding nominal share capital up to ₹ 1 lakh	9,888	9,58,456
	(ii) holding nominal share capital in excess of ₹1 lakh.	21	8,48,362
	(c) <b>Any Other (Specify)</b>		
	(i) Non-Resident Individuals	58	45,228
	(ii) Overseas corporate bodies	1	7,21,409
	(iii) Clearing Members	33	10,063
	(iv) Trusts	2	172
	<b>SUB-TOTAL (B) (2)</b>	<b>10,129</b>	<b>29,67,646</b>
	<b>Total Public Shareholding</b>	<b>10,132</b>	<b>30,54,760</b>
	<b>TOTAL (A) + (B)</b>	<b>10,148</b>	<b>84,65,203</b>

**k) Dematerialisation of Shares**

The company has made necessary arrangements with National Securities Depository Limited (NSDL) and Central Depository Services India Limited (CDSL) for dematerialization facility. As on 31st March, 2014, 83,06,056 Equity Shares (98.12%) of the company's equity shares are in dematerialized form.





The ISIN No./code for the company's equity shares is INE812G01017. Shareholders can open an account with any of the depository participants registered with any of these depositories.

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

The Company has not issued any GDRs/ADRs/Warrants or any convertible instruments in the past and hence as on 31st March, 2014 the company does not have any outstanding GDRs/ADRs/Warrants or any convertible instruments.

**m) Unpaid/un-claimed dividend**

Pursuant to the provisions of Section 124 of the Companies Act, 2013, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account, is required to be transferred by the Company to the Investor Education and Protection Fund, established by the Central Government under the provisions of Section 125 of the Companies Act, 2013.

Shareholders of the Company who have either not received or have not en-cashed their dividend warrants, for the financial years 2008-09, 2009-10, 2010-11 and 2012-13 are requested to claim the unpaid/ unclaimed dividend from the company before transfer to the fund.

**n) Details of shares held in demat suspense account with HSE Securities Ltd. (IN302734-10034023) for the period from 01/04/2013 to 31/03/2014**

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

**o) Disclosures on Materially Significant Related Transactions**

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

**p) Details of non-compliance and penalties**

There is no non-compliance by the Company and no penalties strictures imposed on the Company by Stock Exchanges or SEBI or any statutory authority on any matter related to capital market during the last three years.

**Investors Correspondence**

**Sri P. Prabhakara Rao**

Company Secretary and Compliance Officer

SMS Pharmaceuticals Limited

Plot No.19-III, Road No.71, Opp. Bharatiya Vidya Public School

Jubilee Hills, Hyderabad, Telangana - 500 096.

E-mail : cs@smspharma.com; www.smspharma.com



Pharmaceuticals Ltd.

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### **Certificate By CEO and CFO Pursuant to Clause 49 of the Listing Agreement**

1. We have reviewed the financial statements and the cash flow statement for the year ended 31st March, 2014 and that to the best of our knowledge and belief:
  - (a) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading
  - (b) These statements together present a true and fair view of the Company's affairs and in compliance with existing accounting standards, applicable laws and regulations
2. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's Code of Conduct
3. We accept responsibility for establishing and maintaining internal controls for financial reporting and we have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting and we have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps have been taken to rectify these deficiencies
4. We have indicated to the Auditors and the Audit Committee that:
  - (a) there are no significant changes in internal control over financial reporting during the year
  - (b) there are no significant changes in accounting policies during the year and
  - (c) there are no instances of significant fraud of which we have become aware.

for SMS Pharmaceuticals Limited

Place: Hyderabad  
Date: 26.08.2014

**Ramesh Babu Potluri**  
Chairman & Managing Director

**N. Rajendra Prasad**  
Chief Financial Officer



Pharmaceuticals Ltd.

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## Certificate on Corporate Governance

To  
The Members of  
SMS Pharmaceuticals Limited

1. We have examined the compliance of conditions of Corporate Governance by M/s. SMS Pharmaceuticals Limited (“the Company”), for the year ended 31st March, 2014, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the Financial Statements of the Company.
3. In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.
4. We state that as per the records maintained and certified by the Registrars of the Company, there were no investor grievances remaining unattended or pending for more than 30 days as on 31st March, 2014.
5. We further state that such compliance is neither an assurance as to the further viability of the Company nor the efficiency of effectiveness with which management has conducted the affairs of the Company.

for **CSB ASSOCIATES**  
Company Secretaries

**C. Sudhir Babu**  
Proprietor

Membership No. F2724

Place : Hyderabad  
Date : 26.08.2014

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## Declaration Regarding Compliance by Board Members and Senior Management Personnel with the Company’s Code of Conduct

To  
The Members of  
SMS Pharmaceuticals Limited

As required under Clause 49 (1) (D) of the Listing Agreement with the Stock Exchanges, I hereby confirm that the Company has adopted a Code of Conduct for all Board Members and Senior Management and the same has been placed on the Company’s website. All Board Members and Senior Management personnel have affirmed compliance with the Code of Conduct in respect of the financial year ended 31st March, 2014.

for SMS Pharmaceuticals Limited  
**Ramesh Babu Potluri**  
Chairman and Managing Director

Place : Hyderabad  
Date : 26.08.2014



Pharmaceuticals Ltd.

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## Independent Auditors Report

To the Members of  
SMS PHARMACEUTICALS LIMITED

### Report on Financial Statements:

We have audited the accompanying financial statements of M/s. SMS PHARMACEUTICALS LIMITED, HYDERABAD (“the Company”), which comprise the Balance Sheet as at March 31, 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.

### Managements Responsibility for the Financial Statements:

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 (“the Act”), read with the General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013 and in accordance with the accounting principles generally accepted in India. 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.

### Auditors 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 Company’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 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.



Pharmaceuticals Ltd.

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**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, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 read with the General Circular 15/2013 dated 13th September, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013.
  - 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 **P. MURALI & CO.,**  
Chartered Accountants  
Firm Reg.No.007275S

**P. MURALI MOHAN RAO**  
Partner  
M. No. 23412

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

**RAVI RAMBABU**  
Partner  
M No. 018541

Place : Hyderabad  
Date : 30-05-2014



**The Annexure referred to in paragraph I of the Our Report of even date to the members of SMS PHARMACEUTICALS LIMITED on the accounts of the company for the year ended 31st March, 2014.**

**1. In respect of Fixed Assets:**

- (a) The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets.
- (b) As explained to us, fixed assets have been physically verified by the management in a phased periodical manner, which in our opinion is reasonable having regard to the size of the company and nature of its assets. No material discrepancies were noticed on such verification.
- (c) As per the information and explanations given to us, during the year the company has not disposed off any substantial part of the fixed assets that would affect the going concern status of the company.

**2. In respect of its Inventories**

- (a) As explained to us, inventories have been physically verified during the year by the management at regular intervals. In our opinion, the frequency of verification is reasonable.
  - (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
  - (c) The company has maintained proper records of inventories. In our opinion and according to the information and explanations given to us, the discrepancies noticed on physical verification as compared to the book records are not material.
3. According to the information and explanations given to us, that the company has not granted / not taken any loans secured or unsecured from/to the companies, firms or other parties to whom the provisions of Sec.301 of the Companies Act 1956 apply. Accordingly paragraph 4(iii) of the order is not applicable.
  4. In our opinion and according to the information and explanations given to us, there is generally an adequate internal control procedure commensurate with the size of the company and the nature of its business, for the purchase of inventories and fixed assets and payment for expenses and for sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in the internal control system.
  5. In respect of contracts or arrangements preferred to in Section 301 of the Companies Act, 1956:
    - (a) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements, that needed to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
    - (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of ₹ 5,00,000/- in respect of each party covered above during the year have been made at prices which appear reasonable as per information available with the Company.
  6. According to the information and explanations given to us, the Company has not accepted any deposits from the public covered under section 58A and 58AA of the Companies Act, 1956.
  7. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.



8. We have broadly reviewed the cost records maintained by the Company pursuant to the Companies (Cost Accounting Records) Rules, 2011 prescribed by the Central Government under Section 209(1)(d) of the Act and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.
9. In respect of statutory dues:
- (a) According to the records of the company, undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess to the extent applicable and any other statutory dues have generally been regularly deposited with the appropriate authorities. According to the information and explanations given to us there were no outstanding statutory dues as on 31st of March, 2014 for a period of more than six months from the date they became payable.
- (c) According to the information and explanation given to us, the following amounts have not been deposited with the appropriate authorities on account of dispute.

S. No.	Name of the Statute	Nature of the dues	Forum where dispute is pending	Year	Amount ₹ in Lakhs	Amount Deposited ₹ in Lakhs	Amount not Deposited ₹ in Lakhs
1	Central Excise Act, 1944	Central Excise	AP High Court		38.91	38.91	-
2	Income Tax Act, 1961	Income Tax	BIFR	1988-89	0.01	-	0.01
3	Income Tax Act, 1961	Income Tax	BIFR	1991-92	0.09	-	0.09
4	Income Tax Act, 1961	Income Tax	BIFR	1992-93	11.19	-	11.19
5	Income Tax Act, 1961	Income Tax	BIFR	1993-94	2.47	-	2.47
6	Income Tax Act, 1961	Income Tax	BIFR	1994-95	14.25	-	14.25
7	Income Tax Act, 1961	Income Tax	BIFR	1994-95	1.02	-	1.02
8	Income Tax Act, 1961	Income Tax	BIFR	2003-04	36.50	-	36.50
9	Income Tax Act, 1961	Income Tax	BIFR	2005-06	9.54	-	9.54
10	Income Tax Act, 1961	Interest on IT	BIFR	1992-2011	125.14	-	125.14
11	Central Excise Act, 1944	Interest on CEX	AP High Court	1992-2010	60.73	-	60.73
12	Central Excise Act, 1944	Interest on CEX	AP High Court	1995-2011	16.40	-	16.40
<b>Total</b>					<b>316.25</b>	<b>38.91</b>	<b>277.34</b>



Pharmaceuticals Ltd.

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10. The Company does not have any accumulated losses at the end of the financial year. The Company has not incurred cash losses during the financial year covered by the audit and in the immediately preceding financial year.
11. Based on our audit procedures and according to the information and explanations given by the management, we are of the opinion that, the Company has not defaulted in repayment of dues to financial institutions, bank and debenture holders.
12. In our opinion and according to the explanations given to us and based on the information available, no loans and advances have been granted by the company on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a nidhi /mutual benefit fund/society. Therefore, the provision of this clause of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the Company.
14. In our opinion, the Company is not dealing in or trading in Shares, securities, debentures, mutual funds & other Investments. Accordingly, the provisions of clause 4(xiii) of the companies (Auditor's Report) order, 2003 are not applicable to the company.
15. In our opinion, according to the information and explanations given to us, the company has not given guarantees for loans taken by the others from banks or financial institutions.
16. Based on our audit procedures and on the information given by the management, we report that during the year Export Import Bank of India sanctioned term loan for an amount of ₹ 3,000.00 Lakhs and the same were applied for the purpose for which they were obtained.
17. In our opinion, according to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company as at 31st March, 2014, we report that no funds raised on short-term basis have been used for long-term investment by the Company.
18. Based on the audit procedures performed and the information and explanations given to us by the management, we report that the Company has not made any preferential allotment of shares during the year.
19. According to the information and explanations given to us, the Company has not issued debentures during the period covered by our report. Hence, the Company is not required to create or register or modify any security or charge.
20. The Company has not raised any money by public issue during the year.
21. Based on the audit procedures performed and the information and explanations given by the management, we report that no material fraud on or by the Company has been noticed or reported during the year.

for **P. MURALI & CO.,**  
Chartered Accountants  
Firm Reg.No.007275S

**P. MURALI MOHAN RAO**  
Partner  
M. No. 23412

Place : Hyderabad  
Date : 30-05-2014

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

**RAVI RAMBABU**  
Partner  
M No. 018541





Pharmaceuticals Ltd.

**Balance Sheet as at 31st March, 2014**

(Amount: ₹ in Lakhs)

Sl. No.	Particulars	Note No.	As at 31.03.2014	As at 31.03.2013
<b>I</b>	<b>EQUITY AND LIABILITIES</b>			
	<b>I Shareholders' Funds</b>			
	(a) Share Capital	1	846.52	1,001.52
	(b) Reserves & Surplus	2	21,333.78	23,404.89
			<u>22,180.30</u>	<u>24,406.41</u>
	<b>2 Non-Current Liabilities</b>			
	(a) Long Term Borrowings	3	6,936.99	5,363.54
	(b) Deferred Tax Liability Reserve	4	1,928.92	928.92
	(c) Other Long Term Liabilities	5	540.12	540.12
	(d) Long Term Provisions	6	221.55	183.03
			<u>9,627.58</u>	<u>7,015.61</u>
	<b>3 Current Liabilities</b>			
	(a) Short Term Borrowings	7	8,048.81	7,754.16
	(b) Trade Payables	8	5,896.64	4,532.96
	(c) Other Current Liabilities	9	3,686.53	3,175.86
	(d) Short Term Provisions	10	1,487.09	247.18
			<u>19,119.07</u>	<u>15,710.16</u>
	<b>TOTAL</b>		<u><u>50,926.95</u></u>	<u><u>47,132.18</u></u>
<b>II</b>	<b>ASSETS</b>			
	<b>I Non Current Assets</b>			
	(a) Fixed Assets	11		
	(i) Tangible Assets		24,638.46	14,641.48
	(ii) Intangible Assets		22.08	46.96
	(iii) Capital Work In Progress [Ref Note No.30 (II) (B) (c)]		3,932.31	9,566.35
	(b) Non Current Investments	12	587.26	51.65
	(c) Other Non Current Assets	13	-	-
	(d) Long Term Loans & Advances	14	192.62	158.67
			<u>29,372.73</u>	<u>24,465.11</u>
	<b>2 Current Assets</b>			
	(a) Current Investments	15	-	2,500.00
	(b) Inventories	16	9,047.38	10,503.07
	(c) Trade Receivables	17	5,559.00	3,504.52
	(d) Cash and Bank Balances	18	1,205.02	3,646.38
	(e) Short Term Loans & Advances	19	2,163.28	302.39
	(f) Other Current Assets	20	3,579.54	2,210.71
			<u>21,554.22</u>	<u>22,667.07</u>
	<b>TOTAL</b>		<u><u>50,926.95</u></u>	<u><u>47,132.18</u></u>
	Significant Accounting Policies and Notes on Financial Statements	30		

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

as per our report of even date

for and on behalf of the Board

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

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

**RAMESH BABU POTLURI**  
Chairman and  
Managing Director

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

**RAVI RAMBABU**  
Partner  
M.No.18541

**P. MURALI MOHAN RAO**  
Partner  
M.No.23412

**P. PRABHAKARA RAO**  
Company Secretary

**N. RAJENDRA PRASAD**  
Chief Financial Officer

Place : Hyderabad  
Date : 30-05-2014

26<sup>th</sup> Annual Report 2013-14



Pharmaceuticals Ltd.

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

(Amount: ₹ in Lakhs)

Sl. No.	Particulars	Note No.	Current Year 2013-14	Previous Year 2012-13
1	Revenue from operations	21	51,803.80	24,519.39
2	Other Income	22	152.41	161.90
3	<b>Total Revenue (1+2)</b>		<b>51,956.21</b>	<b>24,681.29</b>
4	<b>Expenses :</b>			
	Cost of Materials Consumed	23	34,665.71	17,353.66
	Purchase of Stock in Trade		4.42	23.23
	Changes in Inventories	24	2,087.02	2,562.70
	Employee Benefit Expenses	25	2,563.93	1,786.85
	Finance Cost	26	1,381.88	2,426.34
	Depreciation and Amortisation	11	1,285.46	1,372.16
	Other Expenses	27	6,765.98	6,401.31
	<b>TOTAL EXPENSES</b>		<b>48,754.40</b>	<b>31,926.25</b>
5	<b>Profit / (Loss) before Exceptional and Extraordinary Items and Tax (3-4)</b>		<b>3,201.81</b>	<b>(7,244.96)</b>
6	<b>Extraordinary Items</b>		-	-
	Profit on Transfer of Unit		-	10,351.36
	Advances Written Off		-	(140.00)
7	<b>Profit / (Loss) before Tax (7-8)</b>		<b>3,201.81</b>	<b>2,966.40</b>
8	<b>Tax Expenses</b>		-	-
	(a) Current Tax Expenses		700.00	1,200.00
	(b) Tax Expenses for Earlier Years	28	850.00	-
	(c) Deferred Tax		1,000.00	(766.09)
	(d) MAT Credit Entitlement		(645.27)	-
	(e) MAT Credit Entitlement for Earlier Years		(741.37)	-
	<b>Sub Total</b>		<b>1,163.36</b>	<b>433.91</b>
9	<b>Profit after Tax (5-6)</b>		<b>2,038.45</b>	<b>2,532.49</b>
10	<b>Earnings Per Share</b>			
	(I) Basic and Diluted	29		
	Before Extraordinary Items (₹)		23.06	(76.67)
	After Extraordinary Items (₹)		23.06	25.29
	Significant Accounting Policies and Notes on Financial Statements	30		

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

as per our report of even date

for and on behalf of the Board

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

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

**RAMESH BABU POTLURI**  
Chairman and  
Managing Director

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

**RAVI RAMBABU**  
Partner  
M.No.18541

**P. MURALI MOHAN RAO**  
Partner  
M.No.23412

**P. PRABHAKARA RAO**  
Company Secretary

**N. RAJENDRA PRASAD**  
Chief Financial Officer

Place : Hyderabad  
Date : 30-05-2014

**Cash Flow Statement for the Year ended 31st March, 2014**

(Amount: ₹ in Lakhs)

Sl. No.	Particulars	Current Year 2013-14	Previous Year 2012-13
<b>A</b>	<b>Cash Flows from operating activities :</b>		
	Net Profit Before Tax	3,201.81	(7,244.97)
	Add: Loss from sale of assets	1.36	14.94
	Add: Deferred Revenue Exp written off	-	762.97
	Add : Depreciation	1,285.46	1,372.16
	Add : Interest on Term Loans	479.38	992.67
	Less: Advances Written off	-	(140.00)
	Add: Bad Debts written off	90.62	68.97
	Diminution in value of Investments	47.65	
	<b>Operating Profit before working capital changes</b>	<b>5,106.28</b>	<b>(4,173.25)</b>
	Adjustment for:		
	Trade receivables	(1,963.86)	254.43
	Inventories	1,455.69	3,305.06
	Loans and Advances & Other Assets	(1,894.84)	735.82
	Trade payables and Other Payables	1,050.58	984.22
	Current Investments	2,500.00	(2,500.00)
	Other Current Liabilities	510.66	169.78
	Other current assets	(1,368.83)	(948.93)
	Short term provisions	1,222.83	20.91
		<b>1,512.23</b>	<b>2,021.29</b>
	<b>Cash Generated From Operating activities</b>	<b>6,618.51</b>	<b>(2,151.96)</b>
	Income Tax Paid	(110.00)	(1,114.37)
	<b>Net cash from operating activities " A "</b>	<b>6,508.51</b>	<b>(3,266.33)</b>
<b>B</b>	<b>Cash Flows from Investing activities :</b>		
	Purchase of fixed assets	(5,364.92)	(5,092.95)
	Proceeds from sale of fixed assets	2.10	124.27
	Proceeds from transfer of unit	-	17,300.00
	Expenses on transfer of unit	-	(279.44)
	Deferred R&D Expenditure	-	(188.99)
	Margin Money Deposits Made	(70.31)	(0.31)
	Deposits of Debt Service Reserve Account (DSRA)	-	(360.00)
	Deposits of Special Term Deposit (STDRS)	-	(2,000.00)
	Proceeds from Fixed Deposits	-	370.00
	Proceeds from Debt Service Reserve Account (DSRA)	360.00	-
	Proceeds from Special Term Deposit (STDRS)	2,000.00	-
	Investment in Equity Shares	(583.26)	-
	<b>Net cash used in investing activities "B"</b>	<b>(3,656.39)</b>	<b>9,872.58</b>



Pharmaceuticals Ltd.

## Cash Flow Statement (Contd...)

(Amount: ₹ in Lakhs)

Sl. No.	Particulars	Current Year 2013-14	Previous Year 2012-13
<b>C</b>	<b>Cash Flows from Financing activities :</b>		
	Proceeds from long term borrowings	<b>3,003.39</b>	(2,820.70)
	Proceeds from Short term borrowings	<b>294.65</b>	(2,017.25)
	Repayment of Long Term borrowings	<b>(1,458.11)</b>	-
	Repayment of Unsecured Loans	<b>(71.80)</b>	-
	Interest Paid	<b>(470.08)</b>	(1,020.69)
	Dividend paid	<b>(198.28)</b>	-
	Buyback of Equity Shares	<b>(4,102.55)</b>	-
	<b>Net Cash used in financing activities " C "</b>	<b>(3,002.78)</b>	(5,858.64)
	<b>Net ( Decrease ) / Increase in Cash and Cash Equivalents (A+B+C)</b>	<b>(150.66)</b>	747.61
	<b>Cash and Cash Equivalentents at the beginning of the Year</b>	<b>975.49</b>	227.88
	<b>Cash and Cash Equivalentents at the end of the Year</b>	<b>824.83</b>	975.49

as per our report of even date

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

**RAVI RAMBABU**  
Partner  
M.No.18541  
Place : Hyderabad  
Date : 30-05-2014

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

**P. MURALI MOHAN RAO**  
Partner  
M.No.23412

for and on behalf of the Board

**RAMESH BABU POTLURI**  
Chairman and  
Managing Director

**P. PRABHAKARA RAO**  
Company Secretary

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

**N. RAJENDRA PRASAD**  
Chief Financial Officer



## Notes Forming Part of the Financial Statements

### Note No. I SHARE CAPITAL

Particulars	As at 31.03.2014		As at 31.03.2013	
	No. of Shares	Amount ₹ in Lakhs	No. of Shares	Amount ₹ in Lakhs
<b>Authorised Share Capital</b> Equity Shares of ₹ 10/- each	<b>12,000,000</b>	<b>1,200.00</b>	12,000,000	1,200.00
	<b>12,000,000</b>	<b>1,200.00</b>	12,000,000	1,200.00
<b>Issued, Subscribed &amp; Paid Up</b> Equity Shares of ₹ 10/- each	<b>10,015,203</b>	<b>1,001.52</b>	10,015,203	1,001.52
Less: Buy back of 15,50,000 (equity shares of ₹ 10/- each)	<b>1,550,000</b>	<b>155.00</b>	-	-
<b>TOTAL</b>	<b>8,465,203</b>	<b>846.52</b>	10,015,203	1,001.52

#### I.1 Details of share holders holding more than 5% shares in the Company :

Name of the share holder	As at 31.03.2014		As at 31.03.2013	
	No of Shares	% held	No of Shares	% held
Hima Bindu Potluri	<b>1,237,336</b>	<b>14.62</b>	1,237,336	12.35
Ramesh Babu Potluri	<b>1,135,696</b>	<b>13.42</b>	1,135,696	11.34
Gulf Pharmaceutical Industries	<b>721,409</b>	<b>8.52</b>	900,000	8.99
T.V.V.S.N. Murthy	<b>822,700</b>	<b>9.72</b>	822,700	8.21
Potluri Infra Projects (P) Ltd (formally known as M/s. Potluri Hire Purchase and Finance (P) Ltd)	<b>586,000</b>	<b>6.92</b>	586,000	5.85
T. Annapurna	<b>439,034</b>	<b>5.19</b>	439,034	4.38

#### I.2 Reconciliation of the No. of Shares Outstanding is set out below :

Particulars	No of shares	
	As at 31.03.2014	As at 31.03.2013
Equity Shares at the beginning of the year	<b>10,015,203</b>	10,015,203
Shares issued during the year	-	-
Shares bought back during the year	<b>1,550,000</b>	-
Equity Shares at the end of the year	<b>8,465,203</b>	10,015,203



Pharmaceuticals Ltd.

## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>2 RESERVES AND SURPLUS</b>		
<b>a. Securities Premium Account</b>		
At the Commencement of the Year	10,929.39	10,929.39
Less: Utilised for buy back of Shares*	3,947.55	-
At the end of the year	6,981.84	10,929.39
<b>b. Capital Redemption Reserve</b>	155.00	-
<b>c. General Reserve</b>		
At the Commencement of the Year	7,823.63	7,523.63
(-) Deletions during the year	-	-
(+) Transfer from Profit and Loss statement	300.00	300.00
At the end of the year	8,123.63	7,823.63
<b>d. Surplus Balance in Profit and Loss Statement</b>		
At the Commencement of the Year	4,651.87	2,653.72
Add : For the Current Year	2,038.45	2,532.49
	6,690.32	5,186.21
Transfer to Capital Redemption Reserve*	155.00	
Proposed dividend on Equity Shares	169.30	200.30
Corporate Dividend Tax	28.77	34.04
Provision for excess Dividend and Tax thereon for FY 2012-13 written back	(36.06)	-
Transfer to General Reserve	300.00	300.00
At the end of the year	6,073.31	4,651.87
<b>TOTAL</b>	<b>21,333.78</b>	<b>23,404.89</b>

### \* Buy Back of Equity Shares

Pursuant to the Board of Directors approval for buy back of equity shares under section 77A of the Companies Act, 1956, the company has bought back 15,50,000 equity shares of ₹ 10/- each through open market transactions for an aggregate amount of ₹ 4,102.55 Lakhs. out of this an amount of ₹ 3,947.55 Lakhs has been debited to share premium account and the balance amount of ₹ 155.00 Lakhs has been reduced from share capital account.

The Capital Redemption Reserve has been created out of current year profits for ₹ 155.00 Lakhs being the nominal value of shares bought back in terms of section 77 AA of the Companies Act, 1956.



## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>3 LONG TERM BORROWINGS</b>		
<b>3.1 i) Secured</b>		
<b>a) State Bank of India</b>		
Term loan - I	213.78	1,000.00
Term loan - II	3,236.61	3,825.00
<b>b) Export Import Bank of India</b>		
Term Loan - II	3,000.00	-
<b>c) ICICI Bank Ltd - Vehicle Loan</b>	8.38	-
	<b>6,458.77</b>	<b>4,825.00</b>
<b>3.2 ii) Unsecured</b>		
Sales Tax Deferment Loan (Refer Note No.3.2.1)	358.22	418.54
D S I R Assistance(Refer Note No. 3.2.2)	120.00	120.00
	<b>478.22</b>	<b>538.54</b>
<b>TOTAL</b>	<b>6,936.99</b>	<b>5,363.54</b>

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

- 3.1.1 a)** Term Loans availed from State Bank of India, Export-Import Bank of India, are secured by first charge on pari-passu basis of all movable and immovable fixed assets both present and future and second charge on pari-passu basis of all current assets both present and future and guaranteed by two directors of the company in their personal capacities.
- 3.1.2 b)** Term Loans along with working capital facilities sanctioned by State Bank of India are having the following additional security apart from the details of security mentioned supra.
- i) Equitable mortgage of commercial flat along with undivided share of land of 25 sq. yds. Belonging to M/s.Potluri Laboratories Pvt Ltd (formally Known as Hima Farms Pvt Ltd). (related party) in Plot no.416 Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad.
  - ii) Equitable mortgage of Agricultural land admeasuring 3.65 acres belonging to Sri T.V.V.S.N. Murthy, a director of the company, situated in Yalamanchili Village of West Godavari district, Andhra Pradesh
  - iii) Corporate Guarantee by M/s.Potluri Laboratories Pvt Ltd (formally Known as Hima Farms Pvt Ltd)., to the extent of collateral security extened by them.
  - iv) Personal Guarantee by relative of a Director.
- 3.1.3 Terms of Repayment**
- a) Term Loan I availed from State Bank of India for an amount of ₹ 3,000.00 Lakhs is repayable in 15 Quarterly Instalments commensed from February, 2012. The loan carries the interest rate of 13.10% p.a



## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

- b) Term Loan II availed from State Bank of India for an amount of ₹ 4250.00 Lakhs is repayable in 20 Quarterly Instalments commensed from December, 2013. The loan carries the interest rate of 13.20% p.a
- c) During the year company has taken a term loan from Export Import Bank of India amounting to ₹ 3,000.00 Lakhs Loan for the funding the Expansion Project of Kazipally unit. The loan is repayable in 20 Quarterly Instalments commencing from October, 2015. The loan carries the interest rate of 12.90% p.a

### 3.2.1 Un-Secured Loans

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

Year	Amount ₹ in Lakhs	Year of Repayment
2002-03	48.28	2015-16
2003-04	65.48	2016-17
2004-05	74.19	2017-18
2005-06	65.64	2018-19
2006-07	69.63	2019-20
2007-08	35.00	2020-21
<b>TOTAL</b>	<b>358.22</b>	-

- 3.2.2 Financial assistance received from Department of Scientific and Industrial Research (DSIR) of ₹ 120.00 Lakhs (previous year ₹ 120.00 Lakhs) sanctioned under PATSER Scheme of TPDU program for development of catalysts or Fine Chemicals apart from Active Pharmaceutical Ingredients (API's), and their intermediates viz. Metal Acetylacetonates, Diltiazem Hydrochloride and Taxol C-13 side chain.

As per the terms of agreement entered with DSIR, 1.3 times of the above amount is payable in 5 equal annual installments after commencement of commercial operations of the product(s) developed under PATSER scheme. But the company has not yet commensed commercial operations of the said products.



**Notes Forming Part of the Financial Statements**

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>4 DEFERRED TAX LIABILITY</b>		
Opening Deferred Tax Liability	928.92	1,695.01
Add / Less : for the Year	1,000.00	(766.09)
Closing Deferred Tax Liability	1,928.92	928.92
Details for the deferred tax liability are as furnished below :		
<b>(A) Deferred Tax Liability:</b>		
On fiscal allowance on Fixed Assets	3,120.96	2,583.64
<b>Sub Total</b>	3,120.96	2,583.64
<b>(B) Less: Deferred Tax Asset:</b>		
On Un-absorbed Depreciation and R&D expenditure	1,080.42	1,027.89
Other timing differences	111.62	626.83
<b>Sub Total</b>	1,192.04	1,654.72
<b>Net Deferred Tax Liability (A-B)</b>	1,928.92	928.92
<b>5 OTHER LONG TERM LIABILITIES</b>		
a) Trade Payables	-	-
b) Others	540.12	540.12
[Refer Note No.30(II) (B) (b)]		
<b>TOTAL</b>	540.12	540.12
<b>6. LONG TERM PROVISIONS</b>		
<b>Provision for employee benefits</b>		
Provision for Gratuity to the extent of unfunded	147.20	130.17
Provision for leave encashment - Unfunded	74.35	52.86
<b>TOTAL</b>	221.55	183.03



Pharmaceuticals Ltd.

## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>7. SHORT TERM BORROWINGS</b>		
<b>i) Secured</b>		
<b>a) State Bank of India</b>		
Cash Credit	1,516.62	2,327.44
Stand by Loan	1,801.24	1,811.70
Bills Discounting - Export	506.52	751.92
Export Packing Credit	3,082.45	2,363.10
Packing Credit Foreign Currency	381.98	-
<b>b) Export - Import Bank of India</b>		
Packing Credit-INR	760.00	500.00
<b>TOTAL</b>	<b>8,048.81</b>	<b>7,754.16</b>
a) Working capital facilities sanctioned by State Bank of India and Export-Import Bank of India are secured by first charge on pari-passu basis of all current assets both present and future. These facilities are further secured by way of second charge on pari-passu basis of all movable and immovable fixed assets of the company both present and future and also guaranteed by two directors of the company in their personal capacities.		
b) Working Capital Facilities along with term loans extended by State Bank of India are having the following additional security apart from the details of security mentioned supra.		
i) Equitable mortgage of commercial flat along with undivided share of land of 25 sq. yds. Belonging to M/s.Potluri Laboratories Pvt Ltd (formally Known as Hima Farms Pvt Ltd). in Plot No.416 Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad.		
ii) Equitable mortgage of Agricultural land admeasuring 3.65 Acres belonging to Sri T.V.V.S.N. Murthy, a director of the company, situated in Yalamanchili Vilege of West Godavari District.		
iii) Corporate Guarantee by M/s.Potluri Laboratories Pvt Ltd (formally Known as Hima Farms Pvt Ltd)., (related party) to the extent of collateral security extened by them.		
iv) Personal Guarantee of relative of a Director.		
<b>8. TRADE PAYABLES</b>		
Creditors for purchases	5,048.74	3,743.07
Creditors for expenses	847.90	789.89
<b>TOTAL</b>	<b>5,896.64</b>	<b>4,532.96</b>



## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>9. OTHER CURRENT LIABILITIES</b>		
<b>Current Maturities of Long Term Debt</b>		
<b>i) Secured Loans:</b>		
<b>a) State Bank of India</b>		
Term Loan - I (Refer Note No.3.1.1&3.1.2)	800.00	799.81
Term Loan - II (Refer Note No.3.1.1&3.1.2)	850.00	420.61
<b>b) EXIM Bank Ltd</b>		
Term Loan -II (Refer Note No.3.1.1&3.1.2)	-	450.00
<b>c) ICICI Bank Ltd</b>		
Vehicle Loan	3.74	-
<b>ii) Un-Secured Loans:</b>		
Sales Tax Deferment Loan (Refer Note No. 3.2.1)	60.32	71.80
<b>Sub Total (Current Maturities)</b>	<b>1,714.06</b>	1,742.22
Other Payables-Statutory Dues	144.50	129.52
Advance received from Customers	273.50	-
Creditors for capital goods	1,530.54	1,288.49
Interest Accrued but not due on Term Loans	17.91	8.60
Unclaimed Dividend	6.02	7.03
<b>TOTAL</b>	<b>3,686.53</b>	3,175.86
<b>10 SHORT TERM PROVISIONS</b>		
<b>(a) Provision for employee benefits</b>		
Bonus Payable	19.40	12.83
<b>(b) Others</b>		
Provision for Income Tax (Net off of Prepaid Taxes of ₹ 15,13,26,994/-)	1,269.62	-
Provision for Equity Dividend	169.30	200.31
Provision for Dividend Distribution Tax	28.77	34.04
<b>TOTAL</b>	<b>1,487.09</b>	247.18



Pharmaceuticals Ltd.

(Amount: ₹ in Lakhs)

**NOTE - II FIXED ASSETS**

Name of the Asset	Gross Block			Depreciation			Net Block			
	As at 01.04.2013	Additions During The Year	Delitions During The Year	As at 31.03.2014	Up to 31.03.2013	For The Year	on Delitions	Up to 31.03.2014	WDV as at 31.03.2014	WDV as at 31.03.2013
<b>a</b>										
<b>Tangible Assets :</b>										
Land & Land Development	603.56	-	-	603.56	-	-	-	-	603.56	603.56
Buildings	5,488.68	1,944.64	-	7,433.32	1,020.45	183.77	-	1,204.21	6,229.11	4,468.23
Plant & Machinery	14,888.67	9,223.13	-	24,111.78	6,139.81	977.19	-	7,117.00	16,994.80	8,748.86
Pollution Control Equipment	1,056.07	-	-	1,056.07	480.12	55.76	-	535.88	520.19	575.95
Data Processing Equipment	133.57	31.08	-	164.65	106.36	8.57	-	114.94	49.71	27.21
Furnitures & Fixtures	150.60	4.75	-	155.36	78.58	8.82	-	87.40	67.96	72.02
Office Equipment	103.99	9.02	9.15	103.86	54.43	5.58	3.83	56.18	47.68	49.55
Vehicles	257.47	47.26	19.63	285.10	182.72	17.85	16.17	184.40	100.70	74.75
Improvements on Leased Premises	65.52	-	-	65.52	65.52	-	-	65.52	-	-
Land Scaping	28.02	6.20	-	34.22	6.67	2.80	-	9.47	24.75	21.35
<b>Sub Total</b>	<b>22,776.15</b>	<b>11,266.08</b>	<b>28.77</b>	<b>34,013.46</b>	<b>8,134.67</b>	<b>1,260.34</b>	<b>20.00</b>	<b>9,375.01</b>	<b>24,638.46</b>	<b>14,641.48</b>
<b>(Previous Year)</b>	<b>(30,130.38)</b>	<b>(419.14)</b>	<b>(7,773.38)</b>	<b>(22,776.15)</b>	<b>(7,714.17)</b>	<b>(1,347.57)</b>	<b>(927.08)</b>	<b>(8,134.67)</b>	<b>(14,641.48)</b>	<b>(22,416.21)</b>
<b>b</b>										
<b>Intangible As-</b>										
<b>sets :</b>										
Computer Software	95.24	0.24	-	95.49	50.31	23.86	-	74.16	21.32	44.94
Patents	5.06	-	-	5.06	3.04	1.27	-	4.31	0.76	2.02
<b>Sub Total</b>	<b>100.31</b>	<b>0.24</b>	<b>-</b>	<b>100.55</b>	<b>53.35</b>	<b>25.12</b>	<b>-</b>	<b>78.47</b>	<b>22.08</b>	<b>46.96</b>
<b>(Previous Year)</b>	<b>(97.93)</b>	<b>(2.38)</b>	<b>-</b>	<b>(100.31)</b>	<b>(28.76)</b>	<b>(24.58)</b>	<b>-</b>	<b>(53.35)</b>	<b>(46.96)</b>	<b>(69.16)</b>
<b>Total</b>	<b>22,876.45</b>	<b>11,266.32</b>	<b>28.77</b>	<b>34,114.00</b>	<b>8,188.02</b>	<b>1,285.46</b>	<b>20.00</b>	<b>9,453.48</b>	<b>24,660.53</b>	<b>14,688.44</b>
<b>(Previous Year)</b>	<b>(30,228.31)</b>	<b>(421.52)</b>	<b>(7,773.38)</b>	<b>(22,876.45)</b>	<b>(7,742.94)</b>	<b>(1,372.16)</b>	<b>(927.08)</b>	<b>(8,188.02)</b>	<b>(14,688.44)</b>	<b>(22,485.37)</b>
<b>c</b>										
<b>Capital Work-in-Progress</b>	9,566.35	5,521.29	11,155.33	3,932.31	-	-	-	-	3,932.31	9,566.35
<b>(Previous Year)</b>	<b>(4,894.92)</b>	<b>(4,737.50)</b>	<b>(66.07)</b>	<b>(9,566.35)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,566.35)</b>	<b>(4,894.92)</b>
<b>Total ( a + b + c)</b>	<b>32,442.80</b>	<b>16,787.62</b>	<b>11,184.11</b>	<b>38,046.31</b>	<b>8,188.02</b>	<b>1,285.46</b>	<b>20.00</b>	<b>9,453.48</b>	<b>28,592.85</b>	<b>24,254.78</b>
<b>(Previous Year)</b>	<b>(35,123.23)</b>	<b>(5,159.02)</b>	<b>(7,839.44)</b>	<b>(32,442.80)</b>	<b>(7,742.94)</b>	<b>(1,372.16)</b>	<b>(927.08)</b>	<b>(8,188.02)</b>	<b>(24,254.78)</b>	<b>(27,380.29)</b>



## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>12. NON CURRENT INVESTMENTS</b>		
<b>At Cost - Non-Trade - Unquoted</b>		
17,538 Equity Shares of ₹ 10/- each in Pattan Cheru Enviro Tech Ltd.	1.75	1.75
2,253 Equity Shares of ₹ 100/- in Jeedimetla Effluent Treatment Ltd.	2.25	2.25
9,72,100 Equity Shares of ₹ 10/- each in VKT Pharma (P) Ltd.	583.26	-
4,76,476 ,8% Redeemable Cumulative Preference Shares of ₹ 10/- each in Divya Enterprises Ltd.	47.65	47.65
Less: Diminution in value of investments	(47.65)	-
Net Realisable Value		
<b>TOTAL</b>	<b>587.26</b>	<b>51.65</b>
12.1. During the year, the company has invested in 9,72,100 equity Shares of ₹ 10/- each with a premium of ₹ 50/- (total cost per share ₹ 60/-) in M/s. VKT Pharma (P) Ltd, a related Party.		
12.2. It was considered that amount realisable was Nil for 4,76,476 redeemable preference shares in M/s. Divya Enterprises Ltd		
<b>13. OTHER NON CURRENT ASSET:</b>		
<b>Deferred Revenue / R&amp;D and Other Expenditure</b> (To the extent not written off / adj.)		
<b>(a) Deferred Revenue Expenditure</b>		
At the Commencement of the Year	-	125.63
Add: During the year	-	-
Less: Written off during the year	-	125.63*
At the end of the year	-	-
<b>(b) Deferred R&amp;D Expenditure</b>		
At the Commencement of the Year	-	445.77
Add: During the year	-	188.99**
Less: Written off during the year	-	634.76*
At the end of the year	-	-
<b>(c) Business Development Expenditure</b>		
At the Commencement of the Year	-	2.15
Add: During the year	-	-
Less: Written off during the year	-	2.15*
At the end of the year	-	-
<b>(d) Patents Filing Fee</b>		
At the Commencement of the Year	-	0.43
Add: During the year	-	-
Less: Written off during the year	-	0.43*
At the end of the year	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>



## Notes Forming Part of the Financial Statements

\*During the previous year i.e 2012-13 the company has written off entire amount of Deffered Revenue and Deferred R&D Expenditure , as it is considred that there is no enduring benfit accrues.

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

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>14 LONG TERM LOANS &amp; ADVANCES</b>		
a) Deposits Recoverable (Unsecured cosidered good)	192.62	158.67
<b>TOTAL</b>	<b>192.62</b>	<b>158.67</b>

Deposits recoverable consists of ₹ 123.86 lakhs (Previous year ₹ 97.76 lakhs) with Electricity Department, ₹ 23.93 lakhs (Previous year ₹ 23.93 lakhs) Rent Deposit and ₹ 44.83 lakhs (Previous year ₹ 36.98 Laks) with Others.

## 15. CURRENT INVESTMENTS

### Short Term Investments

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

## 16. INVENTORIES

(As Valued and Certified by the Management)

Raw Material (Valued at cost on weighted average basis)	4,130.43	3,528.56
Stock in Process (Valued at cost)	4,335.31	6,333.36
Finished Goods (Valued at lower of cost or net realisable value)	532.29	621.25
Coal & Fuel (Valued at cost on weighted average basis)	49.35	19.90
<b>TOTAL</b>	<b>9,047.38</b>	<b>10,503.07</b>

Raw materials includes value of materials with NATCO Pharma Ltd of ₹ 715.34 Lakhs (Previous year ₹ 715.34 Lakhs (Refer Note No 30(II)(B)(b)).



## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>17. TRADE RECEIVABLES (UN SECURED, CONSIDERED GOOD)</b>		
Receivables for a period exceeding 6 months	574.18	505.86
Receivables for a period less than 6 months	4,984.82	2,998.66
<b>TOTAL</b>	<b>5,559.00</b>	<b>3,504.52</b>

Debtors outstanding for more than 6 months includes of an amount of ₹ 399.33 Lakhs (Previous Year ₹ 399.33 Lakhs) represents dues from NATCO Pharma Limited. (Please Refer Note No. 30(II)(B)(b))

### 18. CASH AND BANK BALANCES

#### (a) Cash and Cash Equivalents :

(i) Cash on Hand	22.04	12.76
(ii) Balances with Scheduled Banks		
- in current accounts	802.79	962.73
- Balance Against Dividends Payments	6.02	7.03

#### (b) Other Balances in :

(i) Deposit against Margin Money	373.37	303.06
(ii) Fixed Deposits	0.80	0.80
(iii) In Debt Service Reserve Account (DSRA)	-	360.00
(iv) Special Term Deposit (STDRs)	-	2,000.00
<b>TOTAL</b>	<b>1,205.02</b>	<b>3,646.38</b>

**Note:** Out of the above amount of cash and cash equivalents was ₹ 824.83 Lakhs (previous year ₹ 975.49 Lakhs)

Deposit against margin money includes an amount of ₹ 373.37 Lakhs (Previous Year ₹ Nil) which have maturity period of more than 12 months and an amount of ₹ Nil (Previous Year ₹ 303.86 Lakhs) which have maturity period of less than 12 months.

Fixed Deposits includes an amount of ₹ 0.80 Lakhs which have maturity period of less than 12 months.

### 19. SHORT TERM LOANS & ADVANCES

Advances for Raw Material	288.44	234.40
Advances to others	488.20	67.99
MAT Credit	1,386.64	-
<b>TOTAL</b>	<b>2,163.28</b>	<b>302.39</b>

**Note:** Advances to Others Consists of ₹ 379.70 Lakhs (Previous Year ₹ Nil) Paid to M/s. VKT Pharma (P) Ltd, a related party.



Pharmaceuticals Ltd.

## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	As at 31.03.2014	As at 31.03.2013
<b>20. OTHER CURRENT ASSETS</b>		
Prepaid Taxes (Net off of Provision)	-	78.94
Prepaid Expenses	48.58	55.33
Interest Receivable	44.01	92.41
Cenvat & Service Tax Credit Receivable	1,834.99	1,117.53
VAT Credit Receivable	1,515.71	646.04
Export Benefits Receivable	136.25	220.46
<b>TOTAL</b>	<b>3,579.54</b>	<b>2,210.71</b>

Particulars	Current Year 2013-14	Previous Year 2012-13
<b>21. REVENUE FROM OPERATIONS</b>		
<b>(a) Sale of Products</b>		
Gross Revenue From Sales		
Sale of Products	50,047.25	25,006.45
Export Incentives	51.08	396.52
	50,098.33	25,402.97
Less : Excise Duty	1,260.91	1,127.87
Sales Tax	639.66	281.72
<b>Total Taxes</b>	<b>1,900.57</b>	<b>1,409.59</b>
<b>Net Revenue from Sales</b>	<b>48,197.76</b>	<b>23,993.38</b>
<b>(b) Other Operating Income</b>		
Sale of Services (Gross)	301.12	268.35
Less : Service Tax	32.55	29.06
Net Revenue from Services	268.57	239.29
Conversion Charges	3,337.47	286.72
<b>Sub-Total</b>	<b>3,606.04</b>	<b>526.01</b>
<b>Net Revenue from Operations and services</b>	<b>51,803.80</b>	<b>24,519.39</b>





## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	Current Year 2013-14	Previous Year 2012-13
<b>22. OTHER INCOME</b>		
(a) Interest Income	127.33	83.57
(b) Miscellaneous Income	-	78.17
(c) Exchange Fluctuation	25.08	-
(d) Profit on Sale of Assets	-	0.16
<b>TOTAL</b>	<b>152.41</b>	<b>161.90</b>
<b>23. MATERIALS CONSUMED</b>		
<b>(a) Raw Materials</b>		
Opening Stock	3,508.67	4,242.83
Add : Purchases	34,886.79	16,427.37
	<b>38,395.46</b>	<b>20,670.20</b>
Less: Closing Stock	4,091.00	3,508.67
	<b>34,304.46</b>	<b>17,161.53</b>
<b>(b) Packing Materials</b>		
Opening Stock	19.90	32.92
Add : Purchases	380.79	179.11
	<b>400.69</b>	<b>212.03</b>
Less : Closing Stock	39.44	19.90
	<b>361.25</b>	<b>192.13</b>
<b>Total Materials Consumed (a+b)</b>	<b>34,665.71</b>	<b>17,353.66</b>
<b>24 CHANGES IN INVENTORIES OF FINISHED GOODS AND STOCK IN PROCESS</b>		
(Increase) / Decrease in Stocks		
<b>At the Commencement of the Year :</b>		
Stock in Process	6,333.36	8,637.89
Finished Goods	621.25	879.42
<b>Sub-Total (a)</b>	<b>6,954.61</b>	<b>9,517.31</b>
<b>At the end of the Year :</b>		
Stock in Process	4,335.30	6,333.36
Finished Goods	532.29	621.25
<b>Sub-Total (b)</b>	<b>4,867.59</b>	<b>6,954.61</b>
<b>(Increase) / Decrease in Stocks (a)-(b)</b>	<b>2,087.02</b>	<b>2,562.70</b>



Pharmaceuticals Ltd.

## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	Current Year 2013-14	Previous Year 2012-13
<b>25. EMPLOYEE BENEFIT EXPENSES</b>		
Salaries, Wages and Bonus	2,239.15	1,540.54
Contribution to PF & Other Funds	138.20	100.81
Staff Welfare Expenses	186.58	145.50
<b>TOTAL</b>	<b>2,563.93</b>	<b>1,786.85</b>
<b>26. FINANCE COST</b>		
Interest on Term Loans	479.38	992.67
Interest on Working Capital	754.98	1,029.78
Interest on Direct Taxes	2.00	3.11
Interest on Others	0.91	-
Bank Charges	144.61	185.33
Exchange Variance		215.45
<b>TOTAL</b>	<b>1,381.88</b>	<b>2,426.34</b>
<b>27. OTHER EXPENSES</b>		
Power & Fuel	2,533.50	2,521.88
Consumable Stores	281.67	170.76
Testing Charges	31.56	22.73
Water Charges	72.01	77.74
Conversion Charges	789.51	580.75
Effluent Treatment Charges	155.59	101.40
Central Excise Duty	38.59	25.47
Repairs & Maintenance - Plant & Machinery	624.96	393.23
Repairs & Maintenance - Buildings	35.45	91.45
Factory Maintenance	105.82	83.04
Travelling Expenses - Directors	20.94	19.27
Travelling Expenses	53.74	39.84
Postage & Telephones	23.65	28.63
Printing & Stationary	60.82	45.05
Directors Remuneration	283.43	80.39
Rent, Rates & Taxes	148.47	128.61
Insurance	80.14	63.01
Professional Charges	51.64	72.29
General Expenses	152.42	142.91



## Notes Forming Part of the Financial Statements

(Amount: ₹ in Lakhs)

Particulars	Current Year 2013-14	Previous Year 2012-13
Loss on Sale of assets	1.36	15.10
Cost Audit Fee	0.75	0.75
Payment to Auditors	11.52	11.68
Repairs to other assets	20.21	8.87
Vehicle Maintenance	31.23	25.43
Carriage Outward	446.04	388.62
Sales Commission	320.28	259.64
Business Promotion Expenses	245.96	77.41
Interest on Indirect Taxes	6.45	19.67
Exchange Fluctuation	-	73.75
Bad Debts Written Off	90.62	68.97
Provision for Diminution In Investments (Refer Note No.12.2)	47.65	-
Deferred Revenue and R&D Expenditure written off	-	762.97
<b>TOTAL</b>	<b>6,765.98</b>	<b>6,401.31</b>

28. During the financial year 2012-13 search operations were conducted by the income tax department. In view of this additional income tax liability of ₹ 823.50 Lakhs has arisen.

### 29. Earnings Per Share (Basic and Diluted)

#### Before Extraordinary Items

Net profit for basic EPS (₹ in Lakhs)	2,038.45	(7,678.88)
Annualized Basic Earnings per share (Amount in ₹)	23.06	(76.67)

#### After Extraordinary Items

Net profit for basic EPS	2,038.45	2,532.49
Annualized Basic Earnings per share (Amount in ₹)	23.06	25.29



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## 30. Notes Forming Part of the Financial Statements

### I. Corporate Information:

SMS Pharmaceuticals Limited is a multi-location, multi-product company manufacturing Bulk Drugs and APIs and their intermediates. SMS Pharmaceuticals Limited has manufacturing facilities at IDA Kazipally, Bachupally, IDA Jeedimetla, and Bolaram apart from R&D center at Gagillpur in and around Hyderabad city and also at Kandivalasa in Vijayanagaram Dist and having registered office at Plot No. 19-III, Road No. 71, Jublie Hills, Hyderabad.

### II. Significant Accounting Policies and Practices and Other Notes on Accounts:

#### A. Significant Accounting Policies:

##### a. Accounting Assumptions:

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

##### b. Fixed Assets:

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

##### c. Capital Work In progress:

Assets under installation or under construction and which are not ready for put to use as on the date of balance sheet are shown as Capital work in progress. Advances given towards acquisition of assets were shown under short term loans and advances.

##### d. Depreciation:

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

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

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

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

##### e. Investments:

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



**f. Inventories:**

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

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

Raw Materials	- At cost
Stores and spares	- At cost
Stock-in- Process	- At cost and an appropriate share of overheads
Finished Goods	- At cost or net realizable value, whichever is lower including Cenvat as applicable

**g. Sales:**

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

**h. Research & Development Expenses:**

- i. Revenue expenditure on research and development activities is expensed as and when incurred.
- ii. The expenditure on capital assets having alternative use either in R & D activity or otherwise are capitalized and amortized at the rate specified in schedule XIV of the Companies Act, 1956.

**i. Patents:**

Hitherto expenditure incurred for filing of patents being written off in Five (5) equal yearly installments commencing from the year in which it is incurred. From the year 2010-11 onwards, expenditure incurred for filing of patents and related expenditure being capitalized and showing under the head Intangible Assets and depreciation is provided @25% on straight line method.

**j. Operating Leases:**

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

**k. Retirement Benefits:**

**i. Defined Contribution Plans:**

Provident Fund:

Contribution to Provident Fund is made at the prescribed rates to the Employees Provident Fund Scheme by the Central Government and is charged to statement of profit and loss.

**ii. Defined Benefit Plans:**

- (1) Gratuity: Accounting liability towards gratuity is provided on the basis of actuarial valuation made by an independent actuary. The actuarial valuation is done as per projected unit credit method. Actuarial gain /loss immediately taken to statement of profit and loss.
- (2) Liability towards gratuity was funded through a policy with Life Insurance Corporation of India. The difference between actuarial valuation of independent valuer and that of LIC being charged to statement of profit and loss. The said difference amount was unfunded.



- (3) Leave encashment benefit: The Company records its un-availed leave liability based on actuarial valuation using projected unit credit method. This liability was unfunded.

**iii. State Plans:**

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

**I. Excise Duty / Sales Tax:**

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

**m. Service Tax:**

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

**n. Cenvat / VAT / Service Tax Credit:**

Cenvat / VAT credit claimed on capital goods (Plant and Machinery) is credited to relevant Plant and Machinery Account, except the assets being used in R&D centers. Cenvat / Vat credit on purchase of raw materials, packing materials, consumables, spares and components are deducted from the cost of respective materials.

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

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

**o. Revenue Recognition:**

- i. Revenue from sale of goods is recognized when significant risks and rewards in respect of ownership of the products are transferred to the customer. Export Benefits are recognized on accrual basis.
- ii. Interest is recognized on a time proportion basis taking into account the amount outstanding and the rate of interest applicable.
- iii. Service income is recognized as per the terms of the contracts with customers when the related services are performed or agreed milestones are achieved.

**p. Foreign Currency Transactions:**

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



**q. Taxation:**

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

i. Current year charge:

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

ii. Deferred Tax:

Deferred Income Tax is recognized for the future tax consequences attributable to timing differences between the financial statements determination of income and their recognition for tax purposes. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income using the tax rate that have been enacted by the balance sheet date. Deferred tax assets are recognized and carried forward only to the extent that there is a virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. MAT credit is recognized, as an asset only when and to the extent that there is convincing evidence that the company will pay normal Income Tax during the specified year.

**r. Borrowing Costs:**

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

**s. Provisions and Contingent Liabilities:**

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

**t. Impairment of Assets:**

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

**u. Export Benefits:**

All export benefits on exports are recognized on accrual basis.



## B. Other Notes on Accounts

### a. Contingent Liabilities not provided for (Amount: ₹ in Lakhs)

	Particulars	2013-14	2012-13
(a)	Guarantees given by banks	35.50	93.17
(b)	Foreign Letter of credits opened in favour of suppliers for which goods are yet to be received	501.18	1,171.21
(c)	Disputed Income Tax demands against Which company is in Appeals.	40.20	109.79
(d)	Interest dues in respect of disputed demands of Income Tax and Central Excise.	185.87	178.81
(e)	Interest on disputed demand of Central Excise (refer Note 30 B (d))	16.40	21.74
(f)	Capital Commitments	704.84	428.79
	<b>TOTAL</b>	<b>1,483.99</b>	<b>2,003.51</b>

- b. The Company has made a claim against M/s NATCO Pharma Limited for an amount of ₹ 1,562.91 Lakhs for recovery of materials and receivables and filed a case in the court of Addl. Chief Judge, (Fast Track Court) Hyderabad. The Honorable court has considered the claim and decreed for the said amount of ₹ 1,562.91 Lakhs. The Company has filed Executive Petition (EP) for recovery of decreed amount. M/s NATCO Pharma Ltd, preferred an appeal before the Hon'ble High Court of AP against the said decree and EP filed by the company. The Hon'ble High Court Stayed the EP proceedings and directed M/s NATCO Pharma Ltd, to deposit an amount of ₹ 1,158.41 Lakhs. Out of this, an amount of ₹ 540.12 Lakhs was paid to the Company towards part of decreed amount apart from costs. Since the appeal is pending before the High Court of Andhra Pradesh the claim amount received of ₹ 540.12 Lakhs was accounted as other long term liability.
- c. Capital work-in-progress includes expansion project at Unit-7 situated at Kandivalasa village in Vijayanagaram Dist. and incurred an amount of ₹ 1,746.46 Lakhs towards Land, Plant & Machinery and Buildings.
- Out of the above amount of ₹ 1,746.46 Lakhs an amount of ₹ 556.79 Lakhs was paid for acquiring land to the extent of Ac. 42 in Jawaharlal Nehru Pharma City Parawada in Viskhapatanm Dist.
- Subsequently, during the year 2007-08 M/s RamkeyPharma City (India) Ltd, the developer, has sent a communication to cancel the allotment to the extent of Ac. 23 and proposed to sell the said land to others. Aggrieved by this, the company filed a Writ Petition with Hon'ble High Court of A P in the year 2010 and obtained orders restraining the alienation of the said land till the pending of further orders. The case is pending before the High Court of Andhra Pradesh.
- d. The company has entered in to an agreement with M/s. Divya Enterprises Limited for purchase of 918 sqm industrial plot and buildings and structures situated at D-63,Phase – I, Jeedimetla, for a consideration of ₹ 60.00 lakhs. Pending registration of the same, the company has paid the entire amount to the vendor for the said property and has taken the possession of property.
- The company has constructed/modified buildings and structures to suit the requirement for carrying out its manufacturing activity in the said premises. The said assets were capitalized and the company is claiming depreciation. The said property was not yet registered in the name of the company as on the Balance Sheet date.





Central excise department has issued a demand for an amount of ₹ 16.40 Lakhs towards interest for the period from 01-04-1995 to 18-03-2011 jointly in the name of Divya Enterprises Limited and SMS Pharmaceuticals Limited for which M/s Divya Enterprises Limited has obtained stay from Honourable AP High court. Presently the company is not carrying out any manufacturing activity at this location.

**e. Remittance in Foreign Currency on Account of Dividend:**

Particulars	Paid in	
	2013-14	2012-13
i) Year to which the dividend relates	2011-12	2010-11
ii) Number of non-resident shareholders to whom remittances were made	1 (One)	1 (One)
iii) Number of shares on which remittances were made	7,21,409	9,00,000
iv) Amount remitted in Lakhs	14.42	13.50

**f. Research and Development Expenditure: (Amount: ₹ in Lakhs)**

Particulars	2013-14	2012-13
Capital Expenditure	-	-
Revenue Expenditure	140.27	188.99
<b>TOTAL</b>	<b>140.27</b>	<b>188.99</b>

**g. Information on Employee benefits required under accounting standard 15:**

(Amount: ₹ in Lakhs)

**(1) Defined Contribution Plans:**

	2013-14	2012-13
Contribution to Provident Fund	118.73	85.83

**(2) Defined Benefit Plans:**

- ii. Leave Encashment (Un funded)
- i. Gratuity (Funded)



**Disclosures (as per actuary certification)**

**(Amount: ₹ in Lakhs)**

Particulars	2013-14		2012-13	
	Gratuity (Funded)	Leave Encashment (Unfunded)	Gratuity (Funded)	Leave Encashment (Unfunded)
<b>(i) Statement of Profit and Loss:</b>				
Current Service Cost	20.34	18.50	19.36	16.71
Interest cost on benefit obligation	11.50	2.36	11.07	2.09
Net Actuarial (Gain)/Loss recognized in the year	28.30	(3.57)	10.77	(7.41)
Short Term compensated absence Liability	-	14.23	-	(1.45)
Past service cost	-	-	-	-
Contribution paid	(37.62)	(10.03)	(16.37)	(6.10)
Expected return on planned Assets	(3.14)	-	(3.42)	-
Adjustment to Opening Balance	(2.89)	-	-	-
Net benefit expenses	16.49	21.49	21.41	3.84
<b>(ii) Balance Sheet:</b>				
Change in the present value of the defined benefit obligation are as follows:				
Opening defined benefit obligation	130.71	52.86	109.30	49.02
Interest cost	11.50	2.36	11.07	2.09
Current services cost	20.34	18.50	19.36	16.71
Actuarial (Gain)/Loss on obligation	28.30	(3.57)	10.77	(7.41)
Expected return on planed Assets	(3.14)	-	(3.42)	-
Short Term compensated absence liability	-	14.23	-	(1.45)
Contribution paid	(37.62)	(10.03)	(16.37)	(6.10)
Adjustment to Opening Balance	(2.89)	-	-	-
Closing defined benefit obligation	147.20	74.35	130.71	52.86
Past Service Cost	-	-	-	-

- Net benefit expenses of ₹ 16.49 lakhs relating to Gratuity charged to Statement of Profit & Loss being the difference between the independent actuary valuation and that of LIC. This amount was unfunded and total amount of unfunded was ₹ 147.20 lakhs as on the balance sheet date.

**(iii) The Principal Assumptions Used in Determining Gratuity:**

Salary rise	3%	3%
Discount rate	9%	8%
Attrition rate	3%	2%



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

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

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

(Amount: ₹ in Lakhs)

Particulars	2013-14	2012-13
Principal amount remaining unpaid as at the end of the year	274.76	51.05
Interest due and payable for the period of delay	3.26	2.96
Interest paid on above	Nil	Nil

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

**i. Related Party Disclosures:**

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

**(i) Key Management personnel and their relatives**

S.No.	Name	Relationship
1.	Sri Ramesh Babu Potluri	Key Management personnel
2.	Sri T.V.V.S.N. Murthy	Key Management personnel
3.	Sri T.V. Praveen	Relative of the Key Management personnel
4.	Sri Vamsikrishna Potluri	Relative of the Key Management personnel

**(ii) Associated Companies.**

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

S.No.	Name of the associated Company
1.	Potluri Packing Industries Private Limited (formerly Known as Potluri Real Estate Private Limited.)
2.	Potluri Laboratories Private Limited. (formerly Known as Hima Farms Private Limited.)
3.	VKT Pharma Pvt. Ltd.
4.	Potluri Infra Projects Private Limited (formerly Known as Potluri Hire Purchase and Finance Private Ltd)
5.	Rchem (Somanahalli)Pvt Ltd.



Pharmaceuticals Ltd.

**(iii) Transactions:**

**(Amount: ₹ in Lakhs)**

<b>Particulars</b>	<b>Subsidiaries &amp; Associates</b>	<b>Key Management Personnel</b>	<b>Relatives of Key Management Personnel</b>	<b>Total</b>
Remuneration & Commission		283.43	28.43	311.86
(Previous Year)		(80.14)	(25.53)	(105.67)
Sale of Equipment	-			-
(Previous Year)	(9.45)			(9.45)
Purchases	107.45			107.45
(Previous Year)	(28.05)			(28.05)
Sales	153.15			153.15
(Previous Year)	(74.71)			(74.71)
Conversion Charges Paid	560.46			560.46
(Previous Year)	(523.20)			(523.20)
Investments	583.26			583.26
(Previous Year)	-			-
Advances	379.70			379.70
(Previous Year)	-			-
Balance outstanding of Receivable / (Payable)	(103.88)			(103.88)
(Previous Year)	(69.59)			(69.59)

**j. Segment Reporting:**

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

**(Amount: ₹ in Lakhs)**

<b>Particulars</b>	<b>2013-14</b>		<b>2012-13</b>	
	<b>Revenue</b>	<b>%</b>	<b>Revenue</b>	<b>%</b>
Exports	<b>18,117.16</b>	<b>37.59</b>	12,937.12	53.92
Domestic	<b>30,029.52</b>	<b>62.30</b>	10,659.74	44.43
Export Incentives	<b>51.08</b>	<b>0.11</b>	396.52	1.65
<b>Total</b>	<b>481,97.76</b>	<b>100.00</b>	23,993.38	100.00



Pharmaceuticals Ltd.

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

Particulars	2013-14		2012-13	
	Value	%	Value	%
Imported	4,442.57	12.95	4,728.80	27.55
Indigenous	29,866.31	87.05	12,432.73	72.45
<b>Total</b>	<b>34,308.88</b>	<b>100.00</b>	17,161.53	100.00

**l. CIF Value of Imports: (Amount: ₹ in Lakhs)**

Particulars	2013-14	2012-13
Raw Materials	4,945.71	4,687.00
Capital Goods	68.40	184.75
<b>Total</b>	<b>5,014.11</b>	4,871.75

**m. Expenditure in Foreign Currency: (Amount: ₹ in Lakhs)**

Particulars	2013-14	2012-13
Sales Commission	294.81	237.90
Travelling Expenses	2.12	1.68
<b>Total</b>	<b>296.93</b>	239.58

**n. Earnings in Foreign Currency: (Amount: ₹ in Lakhs)**

Particulars	2013-14	2012-13
FOB Value of Exports	16,333.13	11,807.07

- o.** Balances of sundry debtors/ creditors and Loans and advances are subject to confirmation
- p.** Previous Year figures have been regrouped / reclassified wherever necessary to Corroborate with current year figures.
- q.** Figures have been rounded off to the nearest Rupee.

as per our report of even date

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

**RAVI RAMBABU**  
Partner  
M.No.18541

Place : Hyderabad  
Date : 30-05-2014

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

**P. MURALI MOHAN RAO**  
Partner  
M.No.23412

for and on behalf of the Board

**RAMESH BABU POTLURI**  
Chairman and  
Managing Director

**P. PRABHAKARA RAO**  
Company Secretary

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

**N. RAJENDRA PRASAD**  
Chief Financial Officer





Pharmaceuticals Ltd.

# SMS PHARMACEUTICALS LIMITED

CIN : L24239AP1987PLC008066

Registered Office : 19-III, Road No.71,

Opp. Bharatiya Vidya Bhavan Public School,

Jubilee Hills, Hyderabad-500 096, Telangana, India.

Tel. : 040-66288888 • Fax : 040 - 23551401 • www.smspharma.com

• E-mail : info@smspharma.com

## PROXY FORM

Name of the Member (s) :

Registered Address :

Email-Id :

Folio No./Client ID :

DP ID :

I/We, being the member(s) of ..... shares of the above named company, hereby appoint -

1. Name: .....

Address:.....

..... E-mail Id :.....

Signature:..... or failing him

2. Name: .....

Address:.....

..... E-mail Id :.....

Signature:..... or failing him

3. Name: .....

Address:.....

..... E-mail Id :.....

Signature:..... or failing him

as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the 26th Annual General Meeting, SMS Pharmaceuticals Limited to be held on the 30th day of September, 2014 At 11.00 a.m. at Jubilee Hills International Centre (Jubilee Hills Club), Jubilee Hills, Hyderabad -500 033 and at any adjournment thereof in respect of such resolutions as are indicated below:





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### ATTENDANCE SLIP

Name of the Member(s)/ Proxy :  
(In Block Letters)

Folio No. :

DP ID - Client ID :

No. of Shares Held :

I hereby record my presence at the 26th Annual General Meeting of the company at Jubilee Hills International Centre (Jubilee Hills Club), Jubilee Hills, Hyderabad -500 033 on the 30th day of September, 2014 at 11.00 a.m.

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Signature of the Member(s) / Proxy

#### Notes:

1. Members are requested to bring their copies of Annual Report at the AGM.
2. Please strike off whichever is not applicable.





SMS  
Pharmaceuticals Ltd.

Res. No.	Resolution	Vote for	Vote against
<b>Ordinary Business</b>			
01.	Adoption of Financial Statements for the year ended 31st March, 2014.		
02.	Declaration of dividend on Equity Shares.		
03.	Reappointment of Dr. Ayman Sahli, who retires by rotation.		
04.	Reappointment of Sri T.V.V.S.N. Murthy, who retires by rotation.		
05.	Appointment of M/s. Rambabu & Co., Chartered Accountants as Statutory Auditors and fixing their remuneration.		
<b>Special Business</b>			
06.	Appointment of Sri A.P. Rao as an Independent Director.		
07.	Appointment of Dr. Mihir K. Chaudhuri as an Independent Director.		
08.	Appointment of Sri K.S. Rao as an Independent Director.		
09.	Appointment of Sri P. Sharath Kumar as an Independent Director.		
10.	Appointment of Dr. (Mrs) Thummala Neelaveni as an Independent Director.		
11.	Approval of remuneration of the Cost Auditor for the year 2014-15.		
12.	Approve borrowing powers of the Company.		
13.	To give consent for creation of mortgage / charge.		

Signed this..... day of..... 2014.

Signature of shareholder(s)

Signature of Proxy holder(s)

Please Affix  
Re. 1/-  
Revenue  
Stamp

**Notes:**

1. This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the Meeting.
2. Please complete all details including details of member(s) before submission.

(To be handed over at the entrance of the Meeting Hall)





*If undelivered, please return to:*



Regd. Off: Plot No. 19-III, Road No: 71  
Opp. Bharatiya Vidya Bhavan Public School  
Jubilee Hills, Hyderabad, Talangana - 500 096.  
Phone: 040 - 66288888, Fax: 040 23551401/402  
CIN: L24239AP1987PLC008066  
E-mail: [info@smspharma.com](mailto:info@smspharma.com)

[www.smspharma.com](http://www.smspharma.com)

**FORM A**

**(Pursuant to Clause 31(a) of the Listing Agreement)**

1.	Name of the Company	SMS Pharmaceuticals Limited
2.	Annual Financial Statements for the year ended	31 <sup>st</sup> March, 2014.
3.	Type of Audit Observation	Un-qualified
4.	Frequency of Observation	N.A.
5.	To be signed by :	
	*CEO/Managing Director	<p>For SMS Pharmaceuticals Limited</p> <p><i>Ramesh Babu Potluri</i></p> <p><b>Ramesh Babu Potluri</b> Chairman and Managing Director</p>
	*CFO	<p>For SMS Pharmaceuticals Limited</p> <p><i>N. Rajendra Prasad</i></p> <p><b>N. Rajendra Prasad</b> Chief Financial Officer</p>

