

DIRECTORS' REPORT

Dear Members,

We hereby present the 29th Annual Report of your Company along with the Audited Financial Statements for the financial year ended 31 March 2014.

1. FINANCIAL RESULTS

The Financial Performance of the Company (Standalone) for the Financial Year ended 31 March 2014 is given below:

Particulars	₹ In Million)	
	2013-14	2012-13
	Total operations	
Total revenue	4,450.84	3,140.50
Other Income	52.52	24.90
Profit/ (Loss) before Interest, Depreciation, Tax & Exceptional Items	125.26	(40.23)
Less : Interest	387.39	320.45
: Depreciation and amortisation expenses	271.26	267.43
Profit/ (Loss) Before Tax & Exceptional Items	(533.39)	(628.11)
Exceptional Items	(610.77)	-
Profit/(Loss) Before Tax	(1,144.16)	(628.11)
Provision for - Current Tax	-	-
- Deferred [Net] Charge (Credit)	-	(83.10)
Profit after Tax	(1,144.16)	(545.01)
Add: Balance brought forward from Previous Year	(159.77)	385.24
Surplus/ (Deficit) carried to Balance Sheet	(1,303.93)	(159.77)

THE COMPANY POSTED AN EBITDA OF ₹ 125.26 MILLION IN THE YEAR AS AGAINST ₹ (40.23) MILLION IN 2012-13.

THE COMPANY INITIATED A SET OF CORPORATE ACTIONS WITH A LONG-TERM VISION OF BECOMING A POWER-HOUSE IN GLOBAL ANIMAL HEALTH BUSINESS WITH A PORTFOLIO OF NICHE HUMAN APIS.

2. BUSINESS PERFORMANCE REVIEW

During the financial year 2013-14, on a standalone basis, your Company's revenues stood at ₹ 4,503.36 Million as against ₹ 3,165.40 Million in 2012-13. The Company posted an EBITDA of ₹ 125.26 Million in the year as against ₹ (40.23) Million in 2012-13. The Company made a loss of ₹ 1,144.16 Million.

On a consolidated basis, your Company's revenue for the financial year 2013-14 stood at ₹ 4,593.06 Million as against ₹ 3,294.26 Million in 2012-13. The Company posted an EBITDA of ₹ 206.30 Million as against ₹ (106.97) Million in 2012-13. On a consolidated level, the Company made a loss of ₹ 1,104.93 Million.

While the consolidated Revenue and EBITDA grew substantially, Profit after Tax was impacted by exceptional/ non-recurring items to the tune of ₹ 589.11 Million resulting

in a loss of ₹ 1,104.93 Million for the year (against ₹ 646.94 Million in the previous year). The Exceptional items are predominately on account of strategic decisions to discontinue Penems project and exiting Africa/ Vietnam operations.

The Company had decided to discontinue the penems project due to delays in environmental approval from Government of India and the additional investment requirements to complete the project. Pursuant to this, the Company has written off the related investments and cost of ₹ 482.01 Million which is included in exceptional items for the year ended 31 March 2014 of standalone results and ₹ 539.11 Million in consolidated results.

The Company exited Africa / Vietnam operations which were started for backward integration of a key product of the Company, which is no longer viable.

A detailed analysis on the Company's operational and financial performance for the year is covered under 'Management's Discussion and Analysis Report' which forms part of the Annual Report.

Business Outlook

During the year, the Company initiated a set of corporate actions with a long-term vision of becoming a power-house in global animal health business with a portfolio of niche human APIs.

ANIMAL HEALTH BUSINESS - Create a valuable, independent, integrated, global Animal Health Business

- Set up a Joint Venture with Shasun Pharmaceuticals Limited named 'Alivira Animal Health Limited' with a vision to create a Best-In-Class, Integrated Platform from APIs to Formulations in the Hugely Attractive Global Animal Health Market.
- To create a global brand under the name 'Alivira', the name derived out of Elvira, Latin word for 'white, pure, clean' and Alleviare, Latin word for 'relief.'
- Launched 18 new products in formulations business and 4 new APIs.

HUMAN API BUSINESS - Accelerate growth in Human API with focus on profitability

- Investments made to enhance capacities and achieve critical mass in business with increased focus on regulated markets.
- 6 new filings and 6 new approvals in the regulated markets.
- Entered into an agreement to acquire the manufacturing assets and business of Arvee Synthesis Private Limited. Arvee would serve as a site for key intermediates for the Company's Human API business. The site has all necessary approvals and infrastructure with space for future expansion of Company's rapidly expanding business.
- The Company also acquired a land admeasuring approx. 3 acres, adjacent to its existing FDA approved facility in Mangalore.

- The facility at Mysore and land at Mangalore to be used for meeting the growing demand for the Company's key products in the USFDA and WHO regulated markets.

3. DIVIDEND

The Board of Directors of the Company has not recommended any Dividend for the financial year ended 31 March 2014.

4. SHARE CAPITAL

As on date, the authorised capital of the Company is ₹ 500,000,000/- divided into 50,000,000 equity shares of ₹ 10/- each.

The issued, subscribed and paid up equity capital of the Company as on date is ₹ 273,351,910/- divided into 27,335,191 equity shares of ₹ 10/- each.

During the period, the Company allotted 2,750,000 equity shares of ₹ 10/- each at a premium of ₹ 162/- per equity share and 550,000 equity shares of ₹ 10/- each at a premium of ₹ 125.25 per equity share upon conversion of equal number of warrants which were allotted to Promoter Group Companies on preferential basis.

Pursuant to this, the issued, subscribed and paid up equity capital of the Company increased from ₹ 240,351,910/- to ₹ 273,351,910/- during the year.

Issue of Warrants on preferential basis

On 28 January 2014, the Company allotted 3,700,000 warrants convertible into equivalent number of equity shares at a price of ₹ 135.25 per warrant (including a premium of ₹ 125.25 per warrant) to promoter group entities. Out of which 550,000 warrants were converted into equal number of equity shares of ₹ 10 each at a premium of ₹ 125.25 per equity share. Company also issued 2,000,000 warrants at a price of ₹ 222.15 per warrant (including a premium of ₹ 212.15 per warrant) and 3,000,000 warrants at a price of ₹ 236/- per warrant (including a premium of ₹ 226/- per warrant) on 28 May 2014 and 11 July

2014 respectively to promoter group entities.

As on date, 8,150,000 warrants are outstanding.

5. SUBSIDIARIES

As at 31 March 2014, the Company had 10 subsidiaries, out of which 8 companies are wholly owned Subsidiaries.

On 30 September 2013, M/s. Alivira Animal Health Limited ("Alivira") was incorporated as a wholly owned Subsidiary of the Company to develop, manufacture and sell veterinary products inclusive of both Active Pharmaceutical Ingredients (APIs) and formulations in the global market.

The Company has entered into a Joint Venture Agreement with Shasun Pharmaceuticals Limited ("Shasun") on 07 March 2014. Subsequently, on 11 April 2014 Alivira became a Joint venture of the Company and Shasun.

6. CONSOLIDATED ACCOUNTS

In accordance with Accounting Standard 21 on Consolidated financial statements, the audited consolidated financial statements are provided in this Annual report.

In terms of the General Circular 2 of 2011 dated 8 February 2011 issued by the Ministry of Corporate affairs, the audited Financial Statements of the Company's subsidiaries have not been attached to this Report. The Financial Statements of the said subsidiaries will be kept for inspection by any investor at the registered office of the Company during business hours.

7. STRATEGIC/ OPERATIONAL INITIATIVES

a. Joint Venture with Shasun Pharmaceuticals Limited

The Company has set up a Joint Venture with Shasun Pharmaceuticals Limited named 'Alivira Animal Health Limited' with a vision to create a Best-In-Class, Integrated Platform from APIs to Formulations in the Hugely Attractive Global Animal Health Market.

b. **Hiving off of Specialty Chemicals Division**

In order to focus the Company's efforts and resources towards expansion of the Active Pharmaceuticals Ingredients and Veterinary Formulations Business, the Company decided to hive off the specialty chemicals division of the Company and the Company has obtained members' approval through postal ballot. On 15 April 2014, the Company entered into an agreement with Songwon Industrial Group, Korea to sell the Company's specialty chemicals division. On 01 August 2014 the Company completed the sale of this division for a total cash consideration of ₹ 1,200 Million.

c. **Acquisition of Business of Arvee Synththesis Private Limited**

The Company has entered into a definitive agreement to acquire the manufacturing assets and business of Arvee Synththesis Private Limited, Mysore ("Arvee") on 22 May 2014 and completed the acquisition on 9 June 2014. The Company will be using the facility of Arvee for key intermediates for the Company's Human API business. This will help for future expansion of Company's rapidly expanding business.

d. **Hiving off of Veterinary Formulations Division**

The Company has obtained the approval of members of the Company to hive off the Veterinary Formulations Division including the manufacturing facility located at Additional Ambarnath to Alivira Animal Health Limited ("Alivira"), a Joint Venture Company between the Company and Shasun Pharmaceuticals Limited. This will help the Company to focus independently on high growth potential animal health market and to become a significant player in the market.

8. **PUBLIC DEPOSIT**

The Company has not accepted or renewed any public deposits under section 58A of the Companies Act, 1956.

9. **DIRECTORS**

Dr. Gautam Kumar Das, Joint Managing Director retires by rotation at the ensuing Annual General Meeting and being eligible, offers

himself for re-appointment. A brief profile of Dr. Gautam Kumar Das is given in the corporate governance report which forms part of this report.

Mr. K R Ravishankar, Chairman of the Company who is liable to retire by rotation at the ensuing Annual General Meeting and is not seeking re-appointment.

The Company had, pursuant to the provisions of clause 49 of the Listing Agreement as entered with the Stock Exchange, appointed Dr. Gopakumar G Nair as an Independent Director on the Board of the Company.

As per the provisions of Section 149 (4) of the Companies Act, 2013 (the Act), which came in to effect from 1 April 2014, every listed public company is required to have at least one-third of the total number of directors as independent directors, who are not liable to retire by rotation.

As per Section 149 (4) of the Act read with amended Clause 49 of the Listing Agreement, the Company proposes to appoint Dr. Gopakumar G Nair as an Independent Director to hold the office for a term upto 5 consecutive years from the date of his appointment i.e., ensuing Annual General Meeting.

Board is of the opinion that Dr. Nair fulfills the criteria of independence as provided under section 149(6) of the Act and the Rules framed thereunder and is independent of the management. The Company has received a declaration from him that he meets the criteria of independence as prescribed under sub-section (6) of Section 149 of the Act.

A proposal will be placed before the members at the ensuing Annual General Meeting for their appointment/re-appointment.

10. **DIRECTOR'S RESPONSIBILITY STATEMENT**

Pursuant to Section 217(2AA) of the Companies Act, 1956 as amended by the Companies (Amendment) Act, 2000, the director confirms that:

1. In the preparation of annual accounts, the applicable

accounting standards have been followed along with proper explanation relating to the material departures.

2. Appropriate Accounting Policies have been selected and applied consistently and have made adjustments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company as on 31 March 2014 and of the loss of the Company for the year ended 31 March 2014.
3. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. The Annual Accounts have been prepared on a going concern basis.

11. **AUDITORS**

The Statutory Auditors viz., M/s. Deloitte Haskins & Sells, Chartered Accountants, Bangalore (Registration No. 008072S) ("DHS") retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Pursuant to provisions of section 139 of the Companies Act, 2013 and the rules framed thereunder, the company proposes to re-appoint DHS from the conclusion of ensuing Annual General Meeting of the Company for a term of 5 years which is subject to ratification by members at every Annual General Meeting of the Company. Your directors recommend their re-appointment.

Pursuant to Companies (cost records and audit) Rules, 2014, Mr. Girish Kambadaraya, Cost Accountant, has been appointed as the Cost Auditor for the financial year 2014-15. The due date for filing the Cost Audit Reports in XBRL mode for the financial year ended 31 March 2013 was 30 September 2013 and the Cost Audit reports were filed by the Cost Auditor on 25 September 2013. The due date for filing the Cost Audit Reports for the financial year ended 31 March 2014 is 30 September 2014.

12. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS / OUTGO

The particulars as prescribed under 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 are set out in the Annexure to the Directors' Report.

13. CORPORATE GOVERNANCE

The Company has complied with all mandatory requirements of Corporate Governance specified by the Securities and Exchange Board of India through Clause 49 of the Listing Agreement. As required by the said clause, a separate Report on Corporate Governance forms part of the Annual Report of the Company. A certificate from the Statutory Auditors of the Company regarding compliance with Corporate Governance requirements as stipulated in Clause 49 of the Listing Agreement entered with Stock Exchange also forms part of the Annual Report.

Board also confirms that the Company has devised proper systems to ensure compliance of all laws applicable to the Company.

14. MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to Clause 49 of the Listing Agreement entered into with the Stock Exchanges, Management Discussion and Analysis Report forms part of this Report.

15. RESEARCH AND DEVELOPMENT

Detailed write-up on Research and Development activity forms part of the annexure to the Directors' Report.

16. EMPLOYEE STOCK OPTION SCHEME

The Company has formulated an Employee Stock Option Plan titled 'SSL ESOP Scheme 2010' and the scheme is administered through a trust. As on date 700,000 shares have been issued to the trust. During the year the Compensation Committee has granted 640,000 options to identified employees, out of which 70,000 options were lapsed due to resignation of employees. As at 31 March 2014, 570,000 Stock options are outstanding.

Further, Statement giving additional information in terms of Regulation 12 of Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 is annexed to this report.

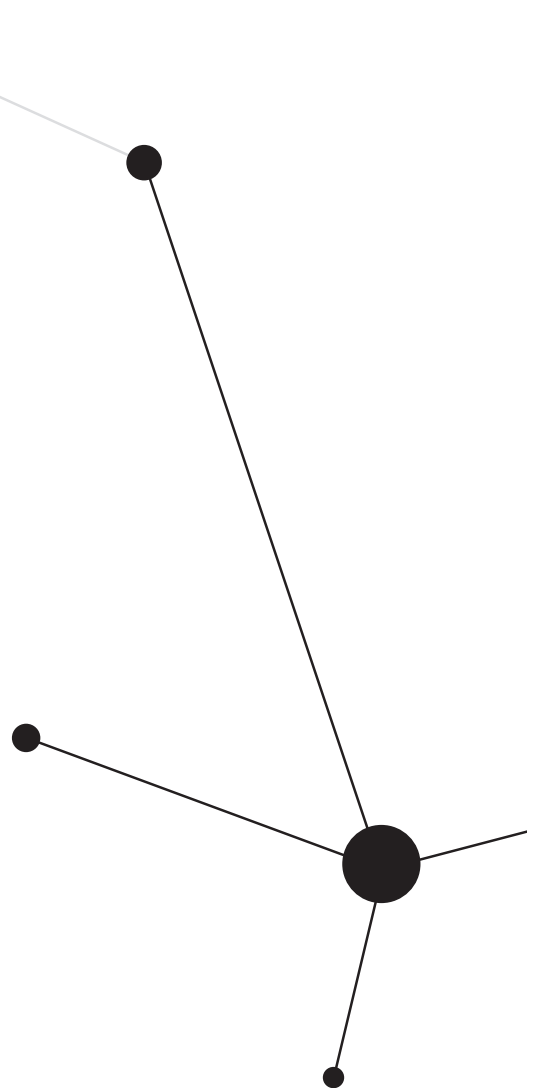
17. PARTICULARS OF EMPLOYEES U/S 217 OF THE COMPANIES ACT, 1956

Any shareholder interested in obtaining a copy of the statement of particulars of employees referred to in section 217 (2A) of the Companies Act, 1956, may write to the Company Secretary at the Registered Office of the Company.

18. APPRECIATION

Your Directors would like to express their grateful appreciation for the excellent support and co-operation received from the Shareholders, Customers, Financial Institutions, Banks, Government Authorities, Reserve Bank of India, Securities and Exchange Board of India, Stock Exchanges, Manufacturers and Suppliers to the Company.

At this point, we would like to place on record our sincere appreciation for the total commitment, dedication, untiring efforts and hard work put in by the employee members at all levels of the Company in realisation of the corporate goals in the years ahead.



IN ORDER TO FOCUS THE COMPANY'S EFFORTS AND RESOURCES TOWARDS EXPANSION OF THE ACTIVE PHARMACEUTICALS INGREDIENTS AND VETERINARY FORMULATIONS BUSINESS, THE COMPANY DECIDED TO HIVE OFF THE SPECIALTY CHEMICALS DIVISION OF THE COMPANY

For and on behalf of the Board of Directors

Dr. Gautam Kumar Das **Dr. Gopakumar G Nair**
 Joint Managing Director Director

ANNEXURE TO DIRECTORS' REPORT

Particulars Required by the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 forming part of the Directors Report for the year ended 31 March 2014

RESEARCH AND DEVELOPMENT:

Core areas of R&D:

Process chemistry aspects of Active Pharmaceuticals Ingredients (APIs) and intermediates which includes:

- Development of new products for different regulatory filings.
- Development of non-infringing processes through innovative synthetic routes.
- Development of green technology to minimise hazardous operations and reagents.
- Improvement of product life cycle management through alternate approaches.
- Identification and implementation of cost reduction measures in the commercial scales.

Benefits derived as a result of R&D:

- Cutting edge technology for niche products.
- Speedy commercialisation of new products.
- Tapping potential market through new filing of Drug Master Files (DMFs) using non-infringing processes.
- Creation of Intellectual Property wealth.

Future plan of Action:

- In the animal health segment, the company will continue to focus on therapeutic segments of anthelmintic and anti parasiticide.
- Continued focus on improving quality, cost and operation through process modification as per regulatory norms.

Foreign exchange earnings and outgo:

	(₹ In Million)	
	2013-14	2012-13
Earnings	1,950.20	1,345.01
Outgo	1,143.50	923.20

Expenditure on R&D:

	(₹ In Million)	
	2013-14	2012-13
Capital	0.11	10.03
Recurring	115.37	65.82
TOTAL	115.48	75.85

For and on behalf of the Board of Directors

Dr. Gautam Kumar Das **Dr. Gopakumar G Nair**

Joint Managing Director Director

Place : Bangalore

Date : 13 August 2014

FORM A

Form for Disclosure of Particulars with respect to Conservation of Energy

	2013-14	2012-13
A. POWER AND FUEL CONSUMPTION:		
1 Electricity:		
(a) PURCHASED	23,253,759	20,142,135
Total amount (₹ In Million)	154.40	131.89
Rate / Unit (₹)	6.64	6.55
(b) OWN GENERATION - THROUGH DIESEL		
Generator Set :		
Unit	591,569	489,339
Units per-litre of diesel oil	3.48	2.95
Cost / Unit (₹)	16.15	15.07
2 Coal:		
Quantity (tonnes)	NIL	NIL
Total Cost (₹ In Million)	NIL	NIL
Average rate (₹)	NIL	NIL
3 Furnace Oil / Light Diesel Oil:		
(a) LIGHT DIESEL OIL:		
Quantity (litres)	130,012	114,062
Total amount (₹ In Million)	8.41	7.14
Rate / Litre (₹)	64.66	62.58
(b) FURNACE OIL:		
Quantity (litres)	1,135,412	1,278,058
Total amount (₹ In Million)	47.49	51.37
Rate / Litre (₹)	41.82	40.19
(c) DIESEL :		
Quantity (litres)	223,853	NIL
Total amount (₹ In Million)	12.85	NIL
Rate / Litre (₹)	57.40	NIL
4 Others / Internal Generation:		
(a) NATURAL GAS		
Quantity (scm)	1,013,607	713,176
Total Cost (₹ In Million)	37.04	21.78
Rate / Unit (₹)	36.55	30.54
(b) BRIQUETTES		
Quantity (Kg)	3,224,461	2,451,958
Total Cost (₹ In Million)	19.30	12.70
Rate / Unit (₹)	5.99	5.18
(c) KRR-BLAZE		
Quantity (Kg)	33,060	NIL
Total Cost (₹ In Million)	1.44	NIL
Rate / Unit (₹)	43.50	NIL

For and on behalf of the Board of Directors

Dr. Gautam Kumar Das
Joint Managing Director

Dr. Gopakumar G Nair
Director

Place : Bangalore
Date : 13 August 2014

FORM B

Measures taken during the period 2013-14 for Conservation of Energy

- a. Oil fired Thermo pack unit was replaced with Briquette fired Thermo pack at Mahad. This has eliminated the fossil fuel and reduces operating cost.
- b. Additional Multiple Effective Evaporator ("MEE") was commissioned at Mahad. High Chemical oxygen Demand ("COD") effluent treatment capacity enhanced with the additional MEE installation.
- c. Solar operated LED street lights provided in Ambernath Unit.
- d. Oil ring Vacuum pumps are replaced with Water Jet ejectors at Mahad. This has eliminated the usage of oil in the vacuum pump and reduced the operating cost.
- e. Thermodynamics steam traps provided to heat transfer equipment for reducing steam consumption across the units.
- f. Automatic Solvent distribution System commissioned at Mangalore. This has resulted in direct dispensing of solvents in to the reactor- a closed system. Usage of vacuum systems, drums, contaminations are avoided.
- g. Energy efficient corrugated condensers have been used instead of normal shell & tube condensers. It is compact and has improved the efficiency in the process.
- h. Fuel for boiler changed from Coal to Biomass briquettes at Mysore, resulted in reduction of fuel cost by 20%.
- i. Electrical power procured through power banking system from Eco friendly, non-fossil fuel, private power generating units, resulted in efficient economical power supply.
- j. Street lights replaced with LEDs at Mangalore saves about 50% of power compared to conventional lighting system.

PLANS FOR FUTURE/ ONGOING (2014-15) FOR CONSERVATION OF ENERGY

- a. Temperature controller for cooling tower fans, which is expected to minimise the electrical consumption during the less ambient temperatures (Winter season)
- b. Automation of Utility Pumps (higher capacity) by providing Variable Frequency drives ("VFD") and pressure switch which will switch off the pumps automatically during no requirement at Plant. This will reduce the electrical consumption.
- c. Improving the solvent condensation / recovery for the distillation reactors by enhancing the condenser capacity and / or enhancing the condenser cooling capacity. This will increase the solvent recovery as well reduce the fresh solvent consumption.
- d. Briquette fired thermo pack planned at Mangalore location will reduce operating cost and eliminate usage of fossil fuel (FO).
- e. Replacement of Starters of Air Handling Units ("AHUs") & Ventilation systems at Mangalore by suitable VFDs. This may lead to an estimated saving of 120 units of energy per day.
- f. At Mysore, shifting existing transformer from the boundary to PCC area to reduce line losses, improve power factor, voltage regulations and to save Electricity.

DETAILS AS PER SEBI (EMPLOYEE STOCK OPTION SCHEME AND EMPLOYEE STOCK PURCHASE SCHEME) GUIDELINES, 1999 FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2014

Sl. No	Description	SSL ESOP Scheme 2010
A	OPTIONS AVAILABLE UNDER THE SCHEME	700,000
B	The pricing formula	Decided by the Compensation Committee from time to time
C	Outstanding options as at 1 April 2013	-
D	Options granted during year ended 31 March 2014	640,000
E	Options vested	-
F	Options exercised	-
G	The total number of shares arising as a result of exercise of options	-
H	Options lapsed	70,000
I	Variation of terms of options	None
J	Money realised by exercise of options (₹)	-
K	Total number of options in force at the end of the year	570,000
L	Available for further grant	130,000
M	Employee-wise details of options granted during the year	
	i) Senior managerial personnel	350,000
	ii) Other identified employees	None
	iii) Any other employees who received a grant in any one year of option amount to 5% or more of options granted during that year	None
	iv) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversion) of the Company at the time of grant	None
N	Diluted Earnings Per Share (DEPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard 20 'Earnings Per Share'	₹ (44.28)
O	Where the Company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognised if it had used the fair value of the options, shall be disclosed. The impact of the difference on profits and EPS of the Company shall be disclosed	₹ (44.79)
P	Weighted average exercise price of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock	₹ 65

DETAILS AS PER SEBI (EMPLOYEE STOCK OPTION SCHEME AND EMPLOYEE STOCK PURCHASE SCHEME) GUIDELINES, 1999 FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2014

Sl. No	Description	SSL ESOP Scheme 2010
Q	Weighted average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock	₹ 142.48
R	A description of the method and significant assumptions used during the year to estimate the fair value of options, including the following weighted average information:	
	i) risk free interest rate	8.75%
	ii) expected life	4 years
	iii) expected annual volatility of shares	48.53%
	iv) expected dividend/yield	Nil
	v) the price of the underlying share in market at the time of option grant	₹ 138.05/₹ 191.50

For and on behalf of the Board of Directors

Dr. Gautam Kumar Das	Dr. Gopakumar G Nair
Joint Managing Director	Director

Place : Bangalore

Date : 13 August 2014