DIRECTORS' REPORT

Dear Members,

We take pleasure in presenting the 26th Annual Report together with the Audited Statement of Accounts of the Company for the financial year ended March 31, 2011.

1. FINANCIAL RESULTS

The Highlights of the Performance of the Company during the Financial Year ended March 31, 2011 are appended below:-

(₹ In Million)

Particulars	2010-11	2009-10
Total revenues	**2,778**	**2,463**
Other Income	116	73
Earnings before Interest, Depreciation & Tax	**596**	**673**
Less : Interest	(213)	(187)
: Depreciation	(172)	(125)
Profit Before Tax & Exceptional Items	**211**	**361**
Exceptional Items	11	(58)
Profit Before Tax	**222**	**303**
Provision for - Current Tax	(37)	(65)
- Deferred Tax	(42)	(87)
- MAT Credit Entitlement	16	57
Profit after Tax	**159**	**208**
Add: - Balance brought forward from Previous Year	296	129
Included on Amalgamation	(38)	25
Profit available for appropriation	**417**	**362**
Which we recommend to appropriate as follows:		
Transfer to General Reserve	8	16
Proposed Dividend	33	43
Tax on Dividend	5	7
Surplus carried to Balance Sheet	**371**	**296**

2. BUSINESS PERFORMANCE REVIEW

On standalone basis, the company posted a 12.8% growth in the total revenues, from ₹2,463.35 Million in 2009-10 to ₹2,777.56 Million in 2010-11. The company posted an EBIDTA of ₹596 Million as against ₹673 Million in 2009-10. On a standalone level, the Company made a PAT of ₹159.33 Million.

On consolidated basis, the company posted a 9.6% growth in the total revenues, from ₹2,844.48 Million in 2009-10 to ₹3,116.65 Million in 2010-11. The company posted an EBIDTA of ₹522 Million as against ₹849 Million in 2009-10. On a consolidated level, the Company made a loss of ₹40.24 Million.

The company caters to two major segments – Pharmaceuticals Division (consisting of API, CRAMS and Veterinary Formulations businesses) accounted for 85.6 per cent of the company's revenues while the Specialty chemicals divisions accounted for 14.4 per cent.

During the year, the Company forayed in to four new therapeutic segments – Penems, Penicillin, Oncology and Phy to-Pharmaceutical/Herbal Extracts. The company signed a Memorandum of Understanding with Government of Karnataka to set up three new Greenfield facilities in Bangalore, for which it will invest ₹1500 Million.

Detailed analysis of the operational and financial performance for the year is covered under the 'Management Discussion & Analysis' section.

3. DIVIDEND

The Board of Directors of the Company has recommended a final dividend of ₹1.50 (15 per cent) per equity share for the year 2010-11. This, if approved by the shareholders, would result in a cash outflow of ₹32.90 Million.

4. SHARE CAPITAL

Pursuant to the approval of the Scheme of Amalgamation for merger of Vedic Elements Private Limited, which was a wholly owned subsidiary of the Company with the Company, the Authorised Share Capital of the Company enhanced by ₹70 Million during the year. As at March 31, 2011, the authorized capital of the Company stood at ₹320 Million as against ₹250 Million as at March 31, 2010.

There was no change in the Issued, subscribed and paid up equity capital which stood at ₹219.35 Million.

5. SUBSIDIARIES

The Company has a total of 11 subsidiaries as at March 31, 2011. They are:

1. SeQuent Global Holdings Limited, Mauritius
2. SeQuent European Holdings Limited, Cyprus
3. SeQuent Research Limited
4. Sanved Research Labs Private Limited
5. Vedic Fanxipang Pharma Chemic Company Limited, Vietnam
6. Galenica B.V., Netherlands
7. Codifar N.V., Belgium
8. SeQuent Anti Biotics Private Limited
9. SeQuent Oncolytics Private Limited
10. Elysian Life Sciences Private Limited
11. Elysian Health Care Private Limited

6. MERGER OF FRAXIS LIFE SCIENCES LIMITED WITH THE COMPANY

The Company is in the process of merging Fraxis Life Sciences Limited, a promoter group Company with that of the Company. The merger was approved by the shareholders at their meeting held on March 15, 2011 and final order from the Hon'ble High Court of Judicature at Bombay is awaited.

On approval, Company will allot 14,865,000 equity shares to the shareholders of Fraxis Life Sciences Limited and the shares held by Fraxis Life Sciences Limited in the Company will stand cancelled.

7. 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 Central Government approval under Section 212(8) of the Companies Act, 1956, 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 during business hours by any investor at the registered office and at the corporate office of your Company. The Company will also make available the audited annual accounts and related information of the subsidiary companies, upon request by any investor of the Company.

8. PUBLIC DEPOSIT

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

9. DIRECTOR

Dr. Gopakumar Gopalan Nair & Dr. Gautam Kumar Das retire by rotation at the ensuing Annual General Meeting and are proposed for re-appointment. The Board recommends their re-appointment at the ensuing Annual General Meeting.

Mr. Moorthy was appointed as a Deputy Managing Director w.e.f 8th day of September, 2010.

10. DIRECTOR'S RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the act, as amended by the companies (amendment) Act, 2000, the Directors confirms that:

1. In the preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation related to the material departures.

   However, the deviation on the accounting standard has been with reference to the scheme of amalgamation sanctioned by the Hon'ble High Court of Karnataka for amalgamation of the company's wholly owned subsidiary, Vedic Elements Private Limited (the Transferor Company) with SeQuent Scientific Limited (the Transferee Company). Refer notes to account for details on the same.

2. Appropriate Accounting Policies have been 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 31st March 2011 and profit of the Company for the year ended 31st March 2011.

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

M/s Deloitte Haskins & Sells retire as Statutory Auditors of the Company at the ensuing Annual General Meeting and are eligible for re-appointment.

12. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING / 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 the 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 the conditions of Corporate Governance also forms part of this Report.

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

A 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 a 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 and 1,00,000 options has been granted to the Deputy Managing Director. The Company is in the process of expanding the coverage to other employees. Details of the ESOPs issued are provided in the corporate governance report.

Further, Statement giving additional information in terms of Regulation 12 of Securities and Exchange Board of India (Employee Stock Guidelines, 1999) is annexed to this Directors' Report.

17. PARTICULARS OF EMPLOYEES U/S 217 OF THE COMPANIES ACT OF, 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 Financial Institutions, Banks, Government Authorities, Reserve Bank of India, Securities and Exchange Board of India, Stock Exchanges, Customers, Manufacturers, Suppliers, Directors and Shareholders during the year under review.

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 employees at all levels of the Company in realisation of the corporate goals in the years ahead.

For and on behalf of the Board of Directors

KR Ravishankar

Chairman & Managing Director

Place: Bangalore

Date: August 12, 2011

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 March 31, 2011

RESEARCH & DEVELOPMENT

1. Specific Areas in which R&D is carried out by the company

a) Development of new API's and Intermediates

b) Development of cost effective process for API's and intermediates

c) Development of green processes for all products

2. Benefits derived as a result of R&D

a) Filing of DMF's increases the possibilities to tap the potential market.

b) Development of difficult to make niche products gives an edge over competition

c) Cost effective new process helps us to withstand pricing and inflationary pressures from the market

d) New process also helps us to de-bottleneck and increase production capacities

3. Future Plan of Action

a) In the animal health segment, the company will continue to focus on therapeutic segments of anthelmentic and anti parasiticide.

b) New research activity on Phyto-Pharmaceuticals, Penems and Penicillins

c) Focus on new projects for contract research

d) Continued focus on new cost effective process for existing products

4. Expenditure in R&D

(₹ In Million)

	2010-11	2009-10
(a) Capital	4.58	Nil
(b) Recurring	52.32	62.15
Total	56.90	62.15
Total as % of Turnover	2.05%	2.52%

FOREIGN CURRENCY EARNINGS AND OUTGO

(₹ In Million)

	2010-11	2009-10
(a) Earnings	1,147.84	1,059.86
(b) Outgo	468.10	368.39

FORM A

Form of Disclosure of Particulars with respect to Conversation of Energy

Particulars			2010-11	2009-10
A.	**POWER AND FUEL CONSUMPTION**			
1.	**Electricity:**			
	(a)	Purchased:		
		Units	15,122,375	16,049,183
		Total amount (₹ In Million)	83.10	84.53
		Rate / Unit (₹)	5.50	5.27
	(b)	Own Generation – through Diesel Generator Set:		
		Units	837,963	645,454
		Units per litre of Diesel Oil	3.24	3.06
		Cost / Unit (₹)	12.06	12.07
2.	**Coal:**			
	Quantity (Tonnes)		NIL	NIL
	Total Cost (₹ In Millions)		NIL	NIL
	Average Rate (₹)		NIL	NIL
3.	**Furnace Oil / Light Diesel Oil**			
	(a)	Light Diesel Oil		
		Quantity (litres)	460,787	501,680
		Total Amount (₹ In Million)	18.90	18.30
		Rate / Litre (₹)	41.02	36.49
	(b)	Furnace Oil		
		Quantity (litres)	832,939	1,214,639
		Total Amount (₹ In Million)	20.77	27.80
		Rate / Litre (₹)	24.94	22.87
4.	**Others / Internal Generation:**			
	(a)	Natural Gas		
		Quantity (scm)	683,501	739,213
		Total Cost (₹ In Million)	11.95	10.10
		Rate / Unit (₹)	17.48	14.00
	(b)	Briquettes		
		Quantity (Kgs)	1,486,493	NIL
		Total Cost (₹ In Million)	7.39	NIL
		Rate / Unit (₹)	4.97	NIL

FORM B

Form of Disclosure of Particulars with respect to absorption

SeQuent Scientific Ltd. is committed to seek & implement all possible measures to minimise its environmental foot-print by following good practices and continuously reviewing / upgrading its operations to ensure Effective Energy Management which ultimately lead to lower emissions. In keeping with this commitment, a number of Energy Conservation measures have been implemented during the year across various sites which cumulatively are estimated to result in a saving of approx. 389,000 units of electrical energy annually.

MEASURES TAKEN DURING THE PERIOD FOR CONSERVATION OF ENERGY

1. Rationalisation of Compressor operation for Compressed Air & Nitrogen Plant at Panoli is expected to lead to a saving of 233,280 units of energy per year.
2. Rationalisation of Pump operation in Ejector & Chilled Water systems, again at Panoli, is estimated to save 60,000 units p. a.
3. Provision of VFDs (Variable Frequency Drives) on key equipment in Plant 3 at Mangalore have resulted in a saving of 39,000 kWH of energy annually.
4. By providing vertical barriers above false ceiling & closing the dampers of AHU ducts of corridor and lobby area in the R&D. Building at Mangalore, load on air-conditioning system has been considerably reduced resulting in an annual saving of 38,000 kWH of energy.
5. Application of a special coating internally in 5 Cooling tower pumps at Panoli to reduce friction is estimated to reduce power consumption by 17,000 units annually.
6. Our relentless focus on maintaining a high level of "Power Factor (p. f.)" in our Electrical Systems - most of the time at the level of 0.99 – at all our sites has not only resulted in substantial reduction in wastage of energy but has also earned us handsome revenue by way of "incentives" offered by distribution authorities.
7. At Mahad, all small-capacity F. O. fired boilers have been replaced by one Briquette (bio-fuel) fired boiler leading to significant reduction in our "Carbon Foot-print".
8. Another important step taken towards Environmental protection at Mahad again is commissioning of a modern "Multiple Effect Evaporator" system to treat the entire quantity of high COD effluent in-house and use the condensate generated thereof as make-up water in Cooling Towers thereby saving approx. 35 – 40 KL of water per day.
9. At Ambernath, water used in Water Ring Vacuum Pumps is being reused / recycled by providing a small Cooling Tower which has resulted in a saving of approx. 30 KL of water per day."

PLANS FOR FUTURE CONSERVATION OF ENERGY

1. Recovery of Condensate & Flash Steam from blow-down of IBR boilers at Mahad, Mangalore & Panoli.
2. Optimisation of operation of HVAC systems at all our sites to reduce energy consumption.
3. Replacement of Incandescent lamps & mercury vapour bulbs by energy efficient CFL / LED lamps / lights. This is estimated to save almost 500 units of energy per day at Mangalore alone.
4. Rationalisation of the entire Cooling Water, Chilled Water & Chilled Brine systems & piping network thereof at Mahad & Tarapur to reduce energy loss and make the operations more productive.
5. Replacement of inefficient Process Cooling Tower at Mangalore.
6. Improving the efficiency of Solvent Recovery Unit at Mahad by redesigning the Heat Exchanger system.
7. Use of Rain Water for Cooling Tower, Boiler, Flushing / Cleaning, etc. during the monsoon period (4 months, approx.) at Mangalore. Potential saving of 7,500 KL of water annually.
8. Replacement of Starters of AHUs & Ventilation systems at Mangalore by VFDs. This may lead to an estimated saving of 120 units of energy per day.
9. Provision of Capacitor banks near load centres to reduce transmission loss within the premises at Ambernath, Mahad & Mangalore.
10. Provision of additional Capacitor banks at all our sites to attain Power Factor close to "UNITY" as far as possible.
11. Carry out Energy Audit at Ambernath, Mahad & Tarapur.
12. Explore the possibility of replacing the existing electrically operated Process Chillers, AHU Chillers & Brine Chillers by Vapour Absorption Machines (VAM) at Mangalore. These machines operate on steam and do not require the use of non-eco-friendly refrigerants.
13. Installation of Energy Saver Transformer & Panel to reduce power consumption in lighting load at Panoli.
14. Installation of full-fledged Effluent Treatment Plants at Mahad & Panoli to treat the entire quantity of effluent in-house.
15. Explore the feasibility of converting Mahad & Panoli as "Zero Discharge" sites.

ANNEXURE TO DIRECTOR'S REPORT

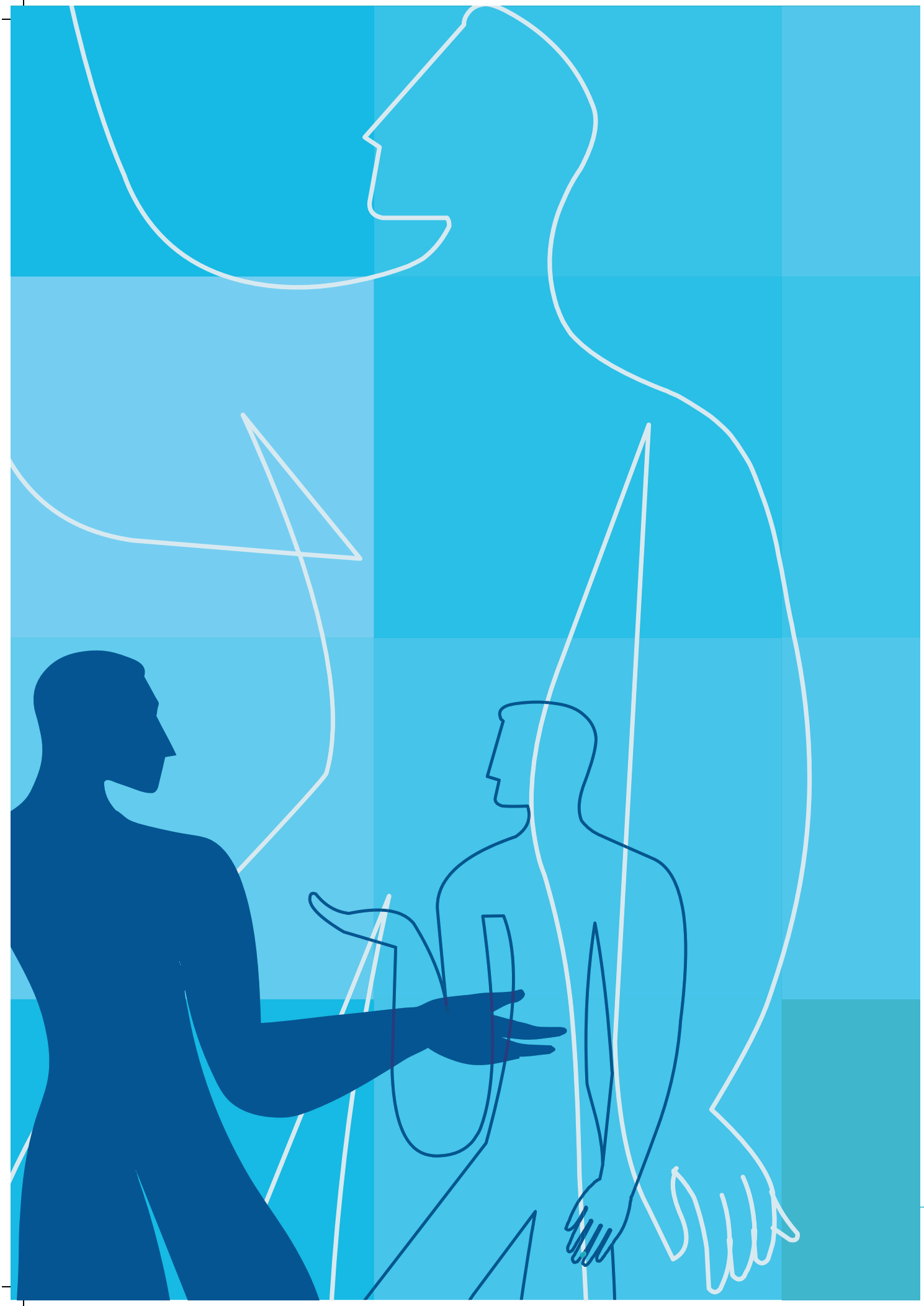
Details as per SEBI (Employees Stock Options Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 forming part of the Directors' Report for the year ended March 31, 2011.

(₹ In Million)

Sl. No	Description	SSL ESOP Scheme 2010
A	Options granted as on March 31, 2011	100,000
B	The pricing formula	Decided by the Compensation Committee from time to time
C	Options vested	None
D	Options exercised	None
E	The total number of shares arising as a result of exercise of options	None
F	Options lapsed/surrendered	None
G	Variation of terms of options	None
H	Money realised by exercise of options (Rs.)	None
I	Total number of options in force at the end of the year	100,000
J	Employee-wise details of options granted during the year	
	i) Senior managerial personnel	100,000
	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
K	Diluted Earnings Per Share (DEPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard 20 'Earnings Per Share'	₹7.26
L	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	Refer Note below
M	Weighted average exercise prices 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	₹75
N	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	₹19
O	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:	Base: Black Scholes Model
	i) risk free interest rate	8%
	ii) expected life	3 Years
	iii) expected annual volatility of shares	70%
	iv) expected dividend/yield	15.52%
	v) the price of the underlying share in market at the time of option grant	₹77.30

Note: The impact of Earning per share if the 'fair value' of the options (on the date of the grant) were considered instead of the 'intrinsic value' is as under:

Particulars	**Year ended March 31, 2011**
Net Profit (as reported) – ₹ In Million	159.32
Add: Stock based employee compensation (intrinsic value) – ₹ In Million	0.07
Less:Stock based compensation expenses determined under fair value method for the grants issued – ₹ In Million	0.58
Net Profit (proforma) – ₹ In Million	158.81
Basic Earnings per share (as reported)	7.26
Basic Earnings per share (as proforma)	7.24



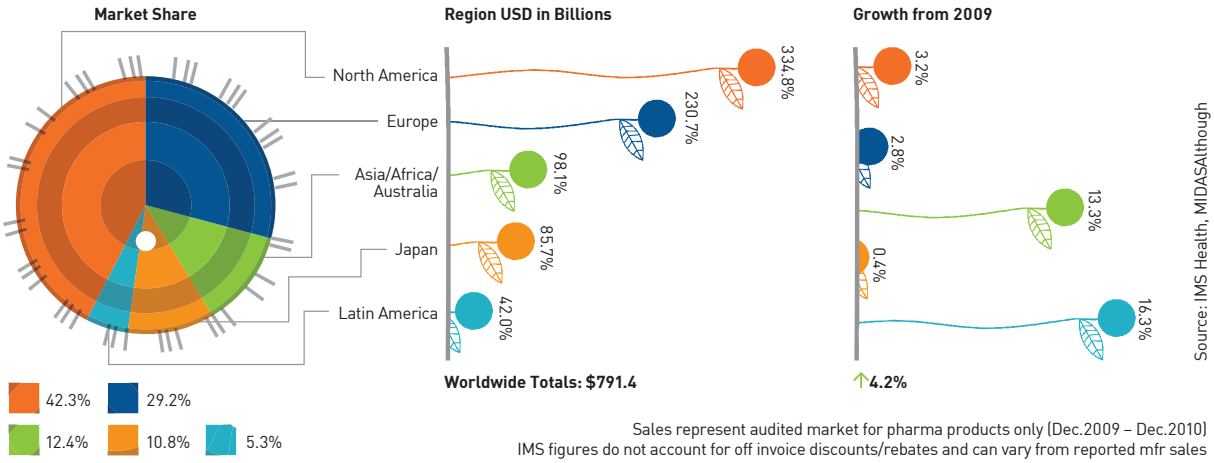
MANAGEMENT DISCUSSION & ANALYSIS

INDUSTRY OVERVIEW

Global overview

The global pharmaceutical market in 2010 registered a growth of 4.3 per cent to US$ 791.4 billion (Billion), driven by low-cost factors, increasing prevalence of diseases, rising per capita income and stronger near-term growth in pharmerging markets like Asia and Latin America. North America continued to dominate with a share of 42.3 per cent followed by Europe with a share of 29.2 per cent. Latin America accounted for 5.3 per cent of the total global revenues but registered a 16.3 per cent growth during 2010, making it the fastest growing market region.

GLOBAL PHARMA SALES BY REGION



Sales represent audited market for pharma products only (Dec.2009 – Dec.2010)
IMS figures do not account for off invoice discounts/rebates and can vary from reported mfr sales

Although patent expirations and limits on drug spending can hamper growth of drug sales in developed countries, global pharmaceutical sales are nonetheless expected to grow 5–7 per cent in 2011 to reach a market value of US$ 880 Billion.

Most of this growth is expected to come from the 'pharmerging'* markets, which are expected to grow at 15–17 per cent to US$ 170–180 Billion, boosted by greater government spending on healthcare. A great majority of the expansion is driven by explosive growth in China, the world's third-largest market for pharmaceutical sales. A great slowdown is expected in the five major European markets (France, Germany, Italy, Spain and the UK), along with Canada, with minimal growth of 1–3 per cent. The US will continue to remain the single largest pharmaceutical market, with sales of US$ 320–330 Billion, up 3–5 per cent.

LIST OF PHARMERGING COUNTRIES

Tiers	Countries		2009 GDP based on PPP valuation (Trillion USD)	Incremental Pharma Market Growth from 2009-13 (Billion USD)
Tier 1	1: China		9	40B+
Tier 2	2: Brazil 3: Russia 4: India		2-4	5-15B
Tier 3	5: Venezuela 6: Poland 7: Argentina 8: Turkey 9: Mexico 10: Vietnam 11: S. Africa	12: Thailand 13: Indonesia 14: Romania 15: Egypt 16: Pakistan 17: Ukraine	< 2	1-5B

Source: IMS Health, IMAP

Generics

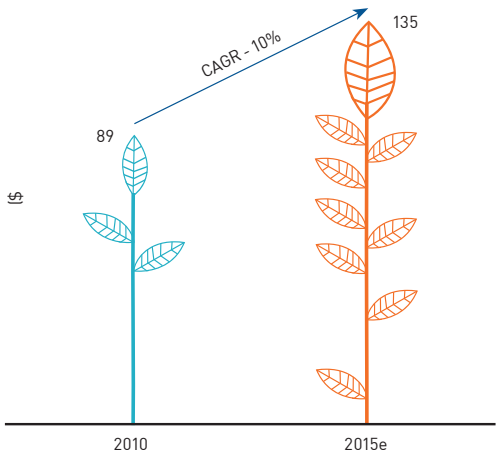
In FY10, global generic market was estimated to be worth US$ 89 Billion; of which, US accounted ~42 per cent (US$ 37.4 Billion) of market. According to industry estimates, the total global generics market is projected to expand to US$ 135-150 Billion, with CAGR of ~10 per cent by 2015. (Refer Graph **1 & 2**)

From FY05 to FY10, export of drugs from India has increased at a CAGR 18.7 per cent to US$ 9 Billion. Out of this India exported 23.5 per cent (US$ 2 Billion) of total pharma exports to North America in FY10.

The US administration's healthcare bill provides affordable healthcare to about 32 Million people of hitherto uninsured Americans, which means increased use of generic drugs due to the cost and viability factor, accelerating generic growth in the coming years.

The Indian companies account for 15.4 per cent (November 2010 IMS data) of the US generics market. Indian companies continue to gain market share, and the incremental prescription market share for Indian companies is 33.7 per cent.

GRAPH - 1



Source: Teva Pharmaceuticals

INDIAN OVERVIEW

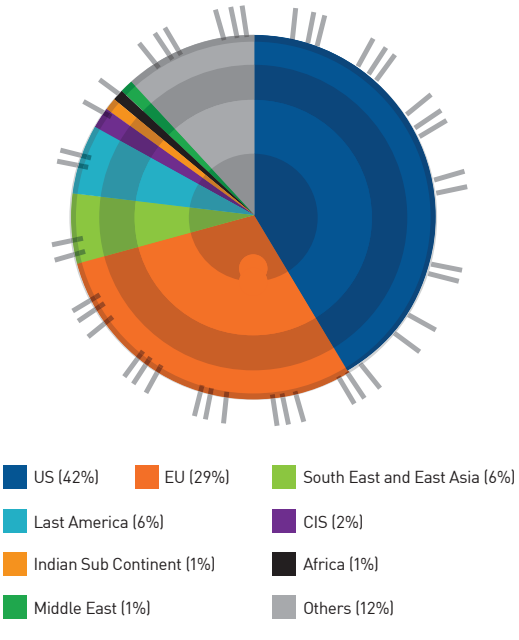
India's pharmaceutical sector can be classified into three broad market segments namely Contract Research And Manufacturing Services (CRAMS), Formulations, and Active Pharmaceutical Ingredients (APIs).

The Indian pharmaceutical Industry has witnessed robust growth, being valued at around ₹550 Billion in 2005 to over ₹1 Trillion in 2010-11. The growth has stemmed from various factors - knowledge, skills, low cost, improved quality and huge demand from both domestic as well as international markets. During 2010-11, exports accounted for nearly 42 per cent of the total industry size at ₹420 Billion. For the seven-year period (2003-2010), the domestic sale has grown at compound annual growth rate (CAGR) of 10.7 per cent, whereas exports have grown faster at CAGR of 19.0 per cent. (Refer Graph **3**)

The Indian Pharmaceutical sector has more than 10,000 manufacturers in the country. It has expanded drastically in the last two decades. The leading 250 pharmaceutical companies control 70 per cent of the market with market leader holding nearly 7.0 per cent of the market share. In the Asia-Pacific pharmaceuticals market, India holds a share of 6.6 per cent.

GRAPH - 2

REGIONAL SHARE OF GLOBAL GENERICS MARKET



Source: IMS Health, Sun Pharma

The pharmaceutical industry in India meets around 70 per cent of the country's demand for bulk drugs, drug intermediates and 95 per cent of the demand of pharmaceutical formulations, chemicals, tablets, capsules, orals and injectibles. There are about 250 large units and about 8,000 Small Scale Units, which form the core of the pharmaceutical industry in India (including 5 Central Public Sector Units). These units produce the complete range of pharmaceutical formulations, i.e., medicines ready for consumption by patients and about 350 bulk drugs, i.e., chemicals having therapeutic value and used for production of pharmaceutical formulations.

INDIAN GENERICS MARKET

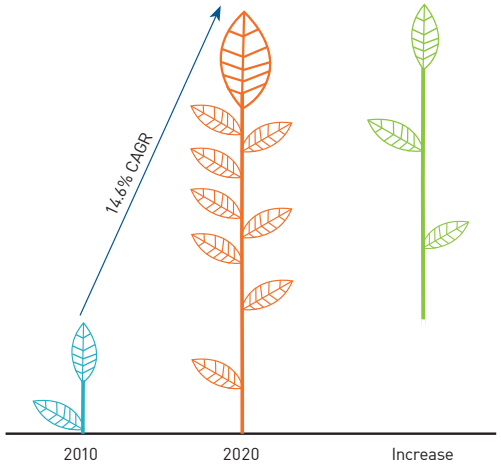
In the part five years, the Indian pharmaceutical industry has emerged among the world's key markets. Generics have played a key role in this evolution. India – with a contribution of ~22 per cent in terms of value towards the global generic drug market, also is the leading exporter of generic medicines in the world, valued around US$ 11 Billion. Indian firms manufacture about 60,000 generic brands across 60 therapeutic categories. The branded generics market will continue to dominate the Indian pharmaceutical industry. 61 drugs worth US$80 Billion will go off patent at the US Patent and Trademark Office between 2011 and 2013. Indian pharmaceutical industry is all set to gain from the patent expiry of some blockbuster drugs by producing their generic equivalents. The Indian generic drug market is expected to grow at a CAGR of around 17 per cent between 2010-11 and 2012-13.

THE INDIAN REPUTATION

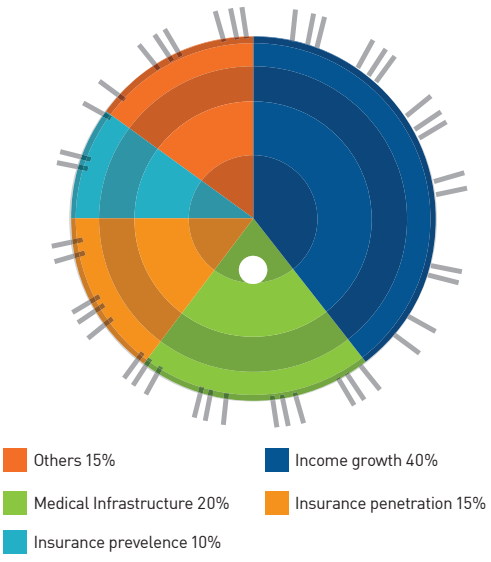
- HOLDS 3rd POSITION IN TERMS OF VOLUME OF PRODUCTION
- HOLDS 13th POSITION IN TERMS OF VALUE OF PRODUCTION
- OVER 30 PER CENT OF DMFS, ANDAS, TENTATIVE APPROVALS IN USA ARE FROM INDIA
- HAS AROUND 461 CERTIFICATE OF SUITABILITY OR 19.8 PER CENT OF THE TOTAL GRANTED BY EUROPEAN DIRECTORATE OF QUALITY MEDICINE (EDQM)
- HAS AROUND 800 WHO CGMP APPROVED PHARMACEUTICAL PLANTS
- INDIA IS ALSO AMONG THE FIRST FIVE LEADING API MANUFACTURERS
- POSSESSES THE LARGEST NUMBER OF US FOOD & DRUG ADMINISTRATION (USFDA) APPROVED MANUFACTURING FACILITIES OUTSIDE THE US
- HAS FILED MORE NUMBER OF DRUG MASTER FILES (DMFS) WITH THE USFDA FOR DRUG EXPORTS TO THE US THAN THAT FILED BY SPAIN, ITALY, CHINA AND ISRAEL TAKEN TOGETHER.

GRAPH - 3

GROWTH IN INDIAN PHARMA MARKET (US$ Billion)



DRIVERS OF GROWTH



Source: IMS Halth, McKinsey stydy, CLSA Asia-Pracific Markets

APIs

Bulk drugs are the active pharmaceutical ingredients (APIs), which are used for the manufacture of formulations. According to estimates, the proportion of formulations and bulk drugs is in the ratio of 75:25. More than 85 per cent of the formulations produced in the country are sold in the domestic market. India is largely self-sufficient in case of formulations, though some life saving, new-generation-technology-barrier formulations continue to be imported.

The bulk drug industry meets the domestic requirement to an extent of about 70 per cent. Indian companies are leveraging their strength in organic synthesis, process engineering and commercially viable manufacturing technologies to produce new range of bulk drugs. It has been partially in developing cost, partially successful in developing cost effective technology for Drug Intermediates, although the industry continues to depend on China and other developed countries to an extent of 30 per cent of their requirement of Drug Intermediates.

The generics push being witnessed by the global pharmaceutical industry due to patent expiries as well as Government pressure to reduce healthcare costs is aiding the growth of the Bulk Drug exports industry in India. In addition, price erosion of generics and decreasing R&D productivity is causing global companies to cut costs and outsource manufacturing of Bulk Drugs to cost effective destinations such as India.

Lifestyle diseases – to increase in India

By 2015, the specialty and super-specialty therapies will account for 45 per cent of the pharma market. The growing lifestyle disorders, particularly metabolic disorders like diabetes and obesity as well as coronary heart disease and hypertension, cardiovascular, neuropsychiatry and oncology drugs will gain considerable significance.

India is key market

Global pharma players continue to penetrate the burgeoning emerging markets by acquisition of domestic generics and manufacturing companies, which accounted for nearly 50 percent of M&A targets for deals made during 2008 to 2010 in the emerging markets (compared to 21 percent of targets in North America, Europe, Australia and Japan). The importance of India as a key market as well as a preferred manufacturing destination was cemented with global pharma companies acquiring Indian pharma giants during 2010-11.

CRAMS (Refer Graph 4)

Approximately 64 per cent of the estimated US$ 67 Billion global CRAMS market in 2010 is dominated by contract manufacturing, which includes manufacturing of intermediates for new chemical entities (NCEs) or manufacturing of APIs.Contract Research predominantly consists of drug discovery, preclinical and clinical research and represent US$ 25 Billion opportunity globally It is estimated that currently only ~20 per cent of global Pharma R&D spend is being outsourced. This represents a huge opportunity for the Indian Companies. (Refer Graph 5)

INDIAN CRAMS SECTOR (Refer Graph 6)

Out of the estimated US$ 3.8 Billion market in 2010, approximately US$ 2.3 Billion pertains to contract manufacturing. Indian CRO market has witnessed huge growth in the number of players leading to higher competitive intensity.

Contract Manufacturing Outsourcing (CMO)

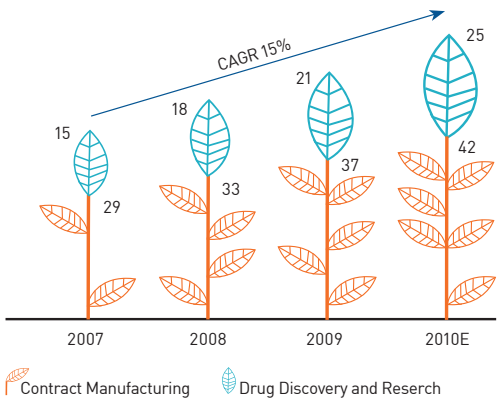
- Approximately 60 per cent of the total US$ 2.3 Billion Indian CMO market relates to chemical synthesis followed by formulation and packaging, which constitutes about 40 per cent. The market has grown at a CAGR of 51 per cent over 2007-10 reflecting upon the strong potential it has to offer
- Contract Manufacturing requires upfront investments for building up requisite facilities and is capital intensive in nature, thereby requiring long term assured supply contracts in order to recoup investments or 'take or pay' type of contracts
- Indian players have taken in-organic route of acquisition to gain access to customers, regulated markets of America and Europe and niche technologies like sterile injectables, cytotoxics to build strong franchise for themselves

Contract Research Outsourcing (CRO)

- Contract Research Organisations (CROs) provide services including drug discovery, new product development, formulation, pre-clinical trial management spanning till phase IIA

GRAPH - 4

GLOBAL CRAMS MARKETT (US$Billion)



- The global contract research market reached at US$ 25 Billion in 2010 growing at a CAGR of 19 per cent during 2007-10. The Indian contract research industry has been growing tremendously over the past few years and reached approximately US$ 1.5 Billion in 2010, a CAGR of 65 per cent from 2007-10, albeit on a small base
- The Indian Pharmaceutical outsourcing providers have capabilities to provide late stage discovery (research chemistry) and drug development services.

Advantage India

- High Number of USFDA and UK MHRA approved plants (200+)
- Well-developed chemistry skills
- Robust talent pool
- Low production & R&D cost
- Quality Infrastructure & established track record of IPR compliance
- Sufficient product filing track record: Indian companies have been on the fore-front, both in terms of filing DMFs and ANDA. (Refer Graph **7**)

Veterinary or Animal health industry

Animal Health Industry in 2010 was valued US$ 20.1 Billion

Nominal growth = +7.8 per cent

Real growth = +4.0 per cent

In 2010, the animal healthcare industry regained its average long-term trend, with growth in the mid-single digits. (Refer Graph **8 & 9**)

The total spend towards healthcare of feed/production animals account for 59 per cent of the total industry size. However, the market for companion animals has been growing at a faster pace. Of the total health care spends for feed/production animal, cattle and pigs account for 75 per cent; poultry and sheep account for 25 per cent.

The Indian Animal Health market is estimated to be around US$ 400 Million, dominated by spends towards production/ feed animals – mainly dairy and poultry.

Cattle (Dairy) and Poultry – the key promising Indian segments

Dairy Segment

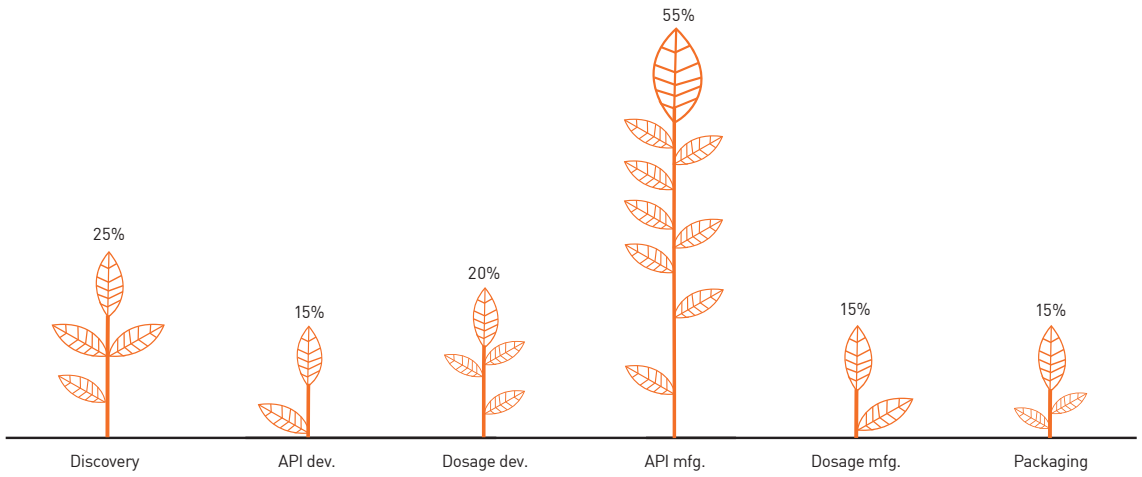
- No.1 milk producer in the world (106 Million tonnes per year)
- Meat products (Pork/Beef/Mutton) have a growth rate of 10 per cent (CII &Mckinsey)
- Increasing urbanisation leading to greater consumerism (Packed milk & meat products)
- All Poultry & Livestock related industries establishing base to encash from one of world largest growing economy

Poultry Segment

- 5th largest Egg Producer Growth rate of eggs & broilers are 16 per cent and 20 per cent respectively (CII &Mckinsey)
- Productivity of hens equivalent to USA (300 - 305 eggs/ year/hen)
- Indian eggs cheapest in the world (75 cents/kg)
- Production of egg powder for export greater than China

GRAPH - 5

EXTENT OF OUSSOURCING IN EACH AREA OF THE VALUE CHAIN

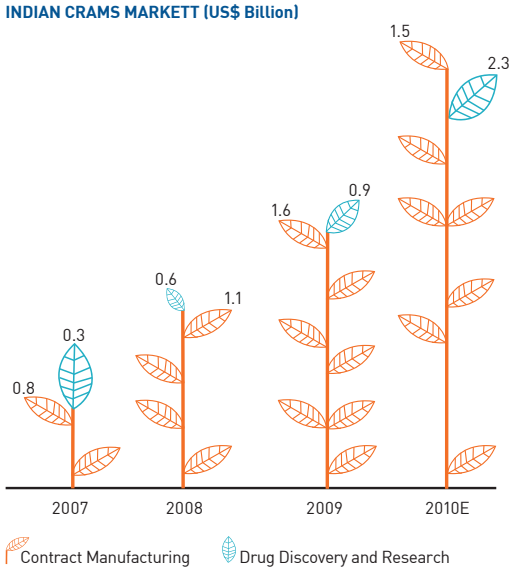


KEY DEMAND DRIVERS

KEY DRIVERS	COMPANION AN AIMALS	PRODUCTION ANIMALS	VETERINARY PUBLIC HEALTH
ANIMAL CARE	INDIVIDUALIZED MEDICINE	HERD MEDICINE	PUBLIC CONTROL PROGRAMS
	MONOFACTORIAL DISEASES	MULTIFACTORIEL SYNDROMES	MONOFACTORIAL INFECTIOUS DISEASES
	LONGER LIFE (GERIATRICS)	SHORT LIFE AND HIGH PRODUCTIVITY	HERD HEALTH/TRADE/ HUMAN HEALTH
	PREVENTION & TREATMENT	FOCUS ON PREVENTION	PREVENTION AND CONTROL
BUSINESS MODEL	B to C / B to B	B to B	B to G (GOVERNMENTS)
	DICISION DRIVERS INCLUDE EMOTION	DECISION DRIVERS ARE ECONOMIC	DECISION DRIVERS ARE ECONOMIC/POLITICAL
	HIGH SPENDING PER ANIMAL	LOW SPENDING PER ANIMAL	SPENDING IS INFLUENCED BY GOV. POLICIES (COST/BENEFITS)
	LARGE NUMBER OF SMALL ACCOUNTS	SMALL NUMBER OF LARGE ACCOUNTS	GOVERNMENT ACCOUNTS

GRAPH - 6

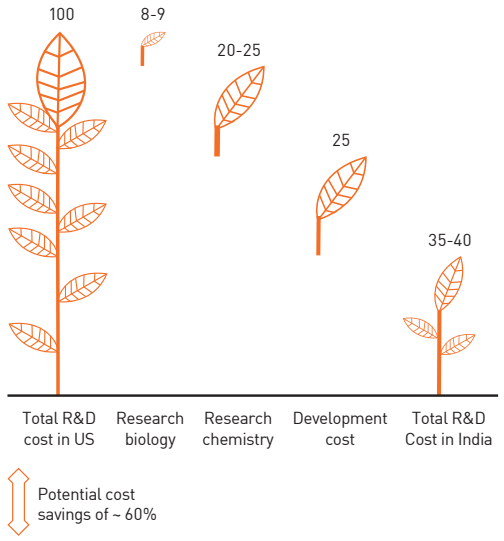
INDIAN CRAMS MARKETT (US$ Billion)



Source: Industry reports, ICRA estimates, texcludes Clinical Trials

GRAPH - 7

POTENTIAL SAVINGS IN OUTSOURCING END-TO-END RESEARCH AND DEVELOPMENT TO INDIA



CORPORATE PERFORMANCE REVIEW

Background

About the Company

SeQuent Scientific Limited ('SeQuent') is a fast growing pharmaceuticals company having presence in Human and Veterinary segments. In 2007, first generation entrepreneurs, each having more than a decade's experience, acquired SeQuent Scientific Limited. The Company has evolved into an integrated player in the pharmaceuticals segment, with footprints in API (Human and Veterinary), Formulations (Veterinary) and CRAMS. Besides, the Company is also a leading producer of specialty chemicals. The Company has seven units across the country, including two state-of-the-art R&D centres – in Mangalore and Bengaluru. SeQuent is the leading producer of Anthelmentic APIs in the world.

The year 2010-11

During the year 2010-11, the Company continued to build upon its robust foundation laid over the years. The Company focused on building key strengths that would define its competitive advantage across each vertical of presence. Being a diverse Company, it was important to define its core businesses that would drive the future growth. As a result, the Company continued to build its pharmaceutical business in terms of people, products, processes and presence. The Company's new R&D centre also commenced operations in Bengaluru during the year.

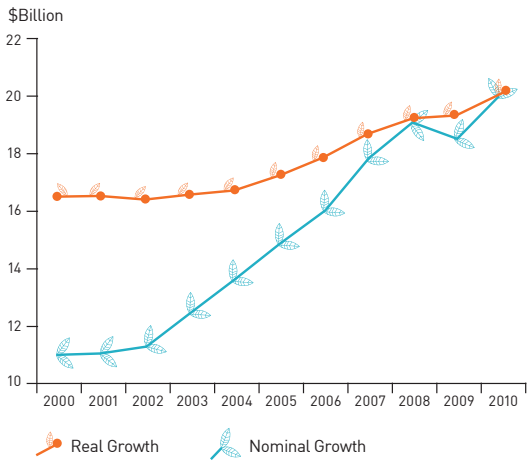
The Company filed 7 new drug master files, taking the total DMFs filed as on 31st March, 2011 to 28.

The Company's edge on chemistry and research skills backed with its world-class infrastructure enabled it to increase its client base and forge product specific partnerships. The Company's clientele include the global pharma companies, highlighting its value-proposition and abilities as a niche player.

2010-11 also witnessed a dip in the Company's financial performance for the first time since its incorporation. While the Company's net sales increased by 12.8 per cent to ₹2,778 Million; EBIDTA declined by 11.6 per cent to ₹596 Million. The Company's net profit also declined by 23.4 per cent to ₹159 Million. The dip in the numbers was largely on account of absence of Oseltavimir sales during the year. In 2009-10, in the wake of Swine Flu, the Company produced and sold Oseltavimir, an API that commanded decent margins. In absence of such an opportunity during 2010-11, the margins as well as the profit of the Company witnessed a decline. However, on an apple-to-apple comparison, the Company's revenues increased by 43 per cent and EBITDA registered a 54 per cent increase (non-Oseltavimir revenues).

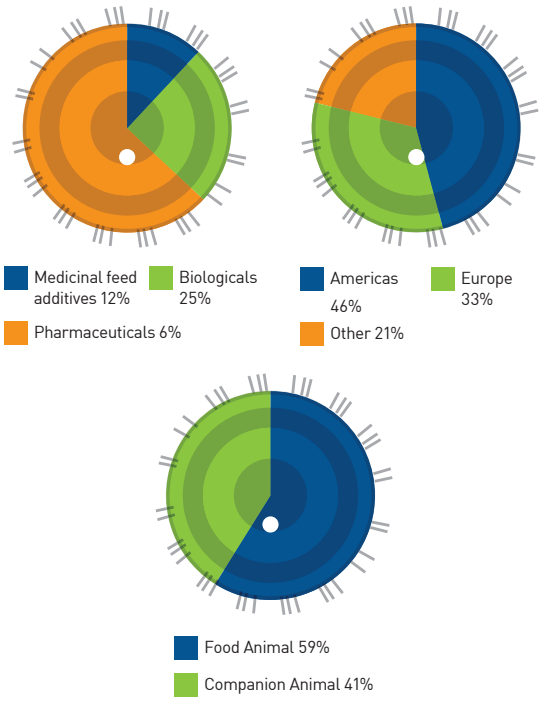
GRAPH - 8

GLOBAL ANIMAL HEALTH MARKET EVOLUTION



GRAPH - 9

ANIMAL HEALTH MARKET BY PRODUCT GROUP, REGION & SPECIES



KEY MANUFACTURING LOCATIONS

Facilities	Mangalore	Panoli	Ambernath	Tarapur	Mahad
Products	Niche APIs	Drug intermediate	APIs		
	Large volume APIs	Specialty chemicals	Animal Health Formulations	APIs	Large volume APIs
	Advanced Drug Intermediates				
Regulatory status	cGMP facility	ISO 9001:2008 certified	cGMP facility	cGMP facility	cGMP facility
	ISO 9001:2008				
	ISO 14001 certified				
	WHO pre-qualified		Certificate of Suitability from EU		Certificate of Suitability from EU
Salient features	Hydrogenation facility			Large volume catalytic hydrogenation facility	

The Company has been awaiting the inspection for USFDA for its Mangalore unit. During the year under review, the Company completed its expansion programme in all its exiting units. The Company's units functioned at optimal capacities during 2010-11.

SWOT ANALYSIS

Strengths

- Presence in growth driven verticals – APIs, Formulations and CRAMS
- Each vertical has attained a respectable size
- Presence in human as well as veterinary pharmaceuticals segment
- 28 DMFs filed and more than 55 APIs under development
- Strong research, development and chemistry skills
- Qualified and experienced team of professionals and management
- State-of-the-art units having flexible production capacity
- World-class R&D centres at Mangalore and Bengaluru
- Continuous innovation and quality control
- Financially stable
- Preferred supplier to a world-class clientele

Weakness

- Multiple non-global scale plants

Opportunities

- Huge outsourcing opportunity in Indian APIs industry
- One of the few Indian players in a fast growing Veterinary segment
- Increased thrust on product partnerships by global pharma companies
- In the next two years, patent worth US$ 68 Billion are expiring, resulting in a huge potential opportunity

Threats

- Higher competition from Chinese players in the under-regulated markets
- Dependence on China for raw material procurement

Human Resources

The Company employed more than 600 people as on 31st March, 2011. The Company believes in the highest standards of people management and personal growth. It instills in each of the members of the SeQuent family, a feeling of ownership, responsibility and performance across ourbusiness divisions. The Company aspires to set the highest standards of internationally benchmarked human resource practices, which would be exemplary for other manufacturers. The industrial relations were cordial and the management thoroughly acknowledges the support from the employees at all levels.

Internal Control System

The Company has an adequate system of internal controls to safeguard and protect from loss, unauthorised use or disposition of its assets. All transactions are properly authorised, recorded and reported to the management. The Company is following all the Accounting Standards for properly maintaining the books of accounts and reporting of financial statements. The Company has also appointed independent Internal Auditors to review various areas of the operations of the Company. The management and the Audit Committee of the Board review the audit reports periodically.

RISK MANAGEMENT

Risk category: Strategic

1 INVESTOR PERCEPTION RISK

What does it mean?

Since the Company has presence in diverse businesses; it may lead to a negative perception relating to core business focus in the minds of the investors.

Mitigation measures

Pharmaceuticals segment is the Company's core business, comprising of growth-ready verticals in Human and Veterinary segments. Each business vertical is headed by core sector specialists and dedicated professionals, bringing the requisite expertise and focus. Over the years, the Company has invested in each of its core verticals and has attained a critical mass in each of them. The specialty chemicals business remains to be non-core and generates liquidity for the Company on accounts of its novel products.

2 REGULATORY RISK

What does it mean?

Getting approval on facilities and products from various authorities is a time-taking exercise. The delay caused can lead to loss of potential revenues in wake of opportunity.

Mitigation measures

The Company's Mangalore unit has been awaiting inspection from the USFDA authorities. Of the Company's six manufacturing facilities, four plants are cGMP certified and one is ISO certified, reflecting the state-of-the-art processes and equipment. The risk of delay in regulatory inspection is non-controllable; however, the Company has invested in highest standards of quality practices and control to be confident of clearing inspections.

Risk category: Operational

1 ATTRITION RISK

What does it mean?

For a company whose business model is entirely dependent on intellectual capital, any attrition at the key levels can result in an adverse impact for the business.

Mitigation measures

The Company follows a principle of 'merit above all'. Every employee sans level is appraised and rewarded in view of their ability to add value to the workplace. The Company ensures a progressive career path for each of its employees. High levels of interdepartmental and intra-departmental transparency allow speedy resolution of the employees' concerns. Performance linked remuneration coupled with ESOPs help in retaining talent. The attrition rate in the Company is amongst the lowest in the industry.

2 COMPETITION RISK

What does it mean?

Competition from global as well as local players can hit the Company's margins.

Mitigation measures

Being a relatively new player in the segments ruled by global pharma companies, the Company has focused on offering niche products across all its business verticals. These products require dedicated expertise and specialisation that the global players are not willing to impart on account of their scale and cost-benefit parameters. The Company's ability to offer products has elevated it among the favoured producers of niche molecules and APIs in Human and Veterinary segments. As a result, the Company has emerged as a partner to the MNCs.

RISK MANAGEMENT

3

QUALITY RISK

What does it mean?

Any quality defect in the Company's products can lead to huge losses at client's end as well as its own loss of reputation.

Mitigation measures

The Company has a 'zero tolerance' policy on quality. Each of its units is certified by credible authorities and has successfully passed key client audits. A dedicated department in each unit takes care of stringent quality control and quality assurance practices at every product/process level.

4

ENVIRONMENT AND SAFETY RISK

What does it mean?

Non-compliance with environment protection policies or safety related issues could dent operation and can also impair quality standards.

Mitigation measures

The Company lays a great emphasis on the proactive environment and health safety compliance. A dedicated EHS Policy is formulated and strictly adhered to protect its employees, the environment and the public at every stage of its business activity. Environment Management Systems are in place at each site to continuously monitor progress in this area.

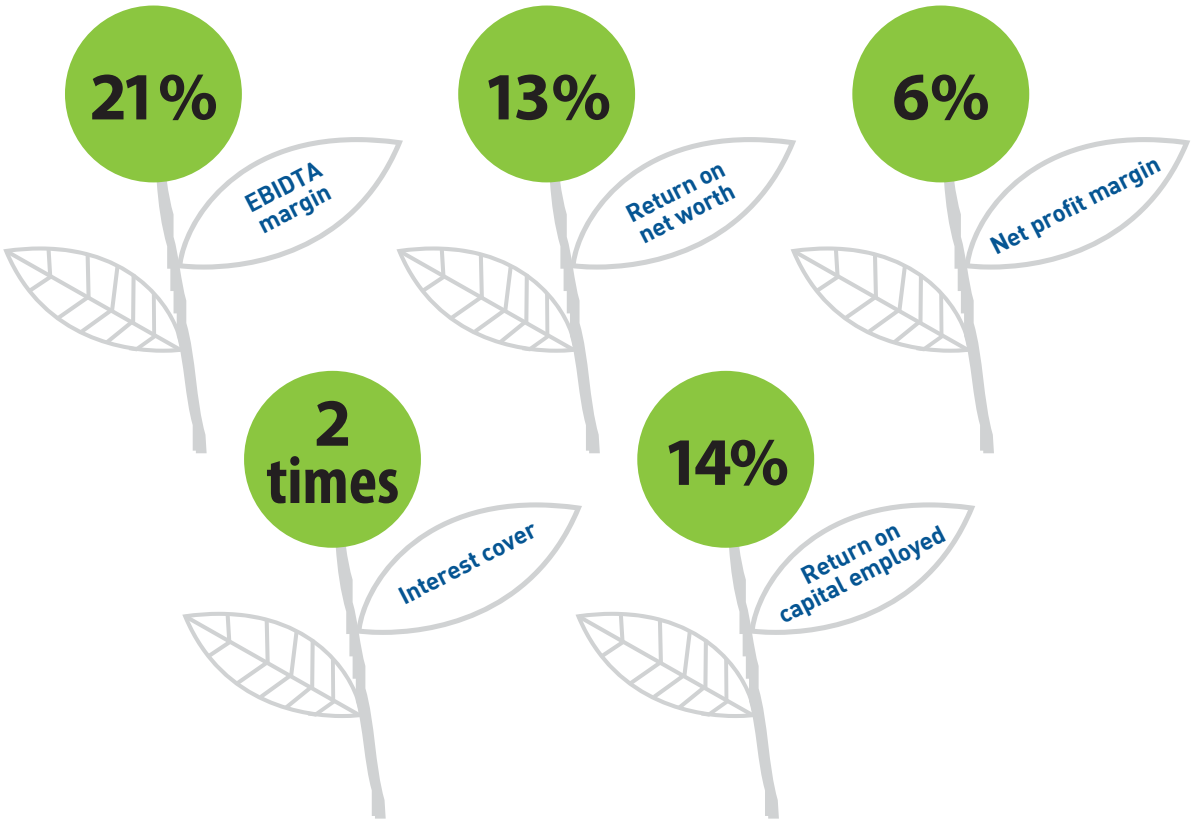
FINANCIAL REVIEW

The financial performance of the Company is being reviewed on the basis of standalone numbers.

	2010-11	2009-10	growth (%)
Total revenues (₹ Million)	2,778	2,463	13
EBIDTA (₹ Million)	596	674	(12)
Profit after tax (₹ Million)	159	208	(23)
Cash profit (₹ Million)	331	333	(0.6)
E.P.S. (₹)	7.26	9.79	(25.8)
Net worth (₹ Million)	1,256	1,159	8
Capital employed (₹ Million)	3,014	2,526	19
Fixed assets (Gross Block) (₹ Million)	2,359	1,504	57
Net current assets (₹ Million)	819	770	6

The Company has been awaiting the inspection for USFDA for its Mangalore unit. During the year under review, the Company completed its expansion programme in all its exiting units. The Company's units functioned at optimal capacities during 2010-11.

KEY RATIOS



Revenue

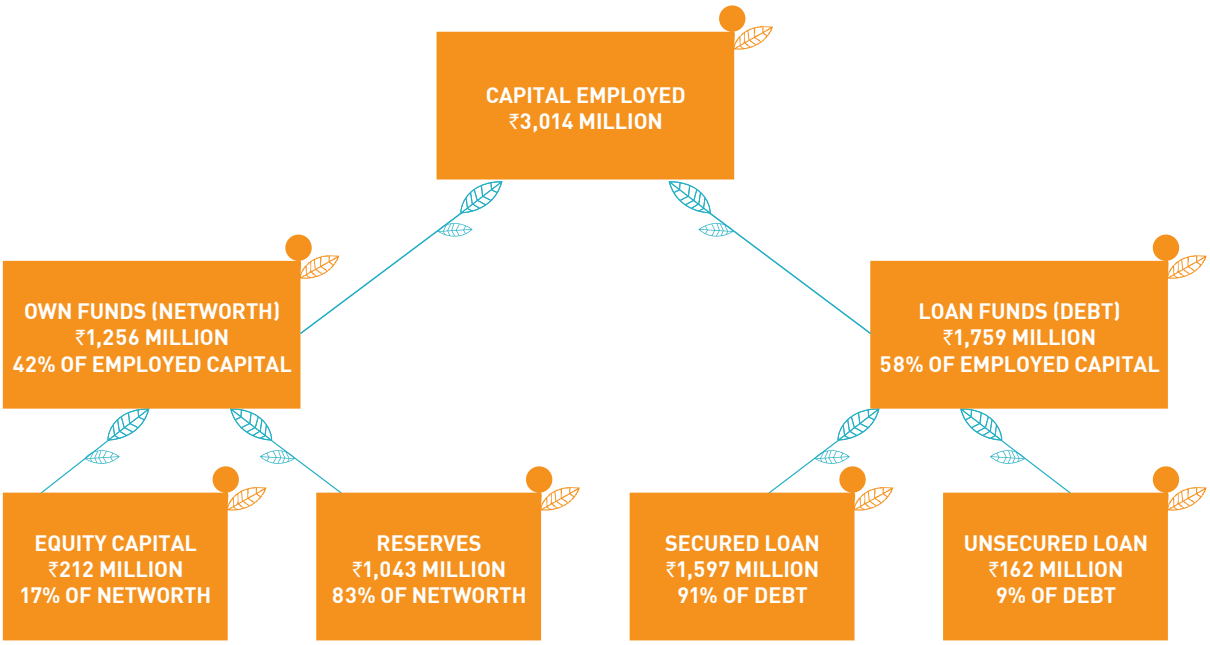
The Company's total revenues increased by 12.8 per cent from ₹2,463 Million in 2009-10 to ₹2,778 Million in 2010-11. The Company's revenue was derived from domestic and exports operations. During 2010-11, the Company's domestic sales accounted for 60 per cent of the topline (56 per cent in 2009-10) and exports accounted for 40 per cent (44 per cent in 2009-10). The exports revenues increased marginally from ₹1,084 Million in 2009-10 to ₹1,109 Millionin 2010-11. The domestic turnover increased by 21 per cent, from ₹1,379 Millionin 2009-10 to ₹1,668 Million in 2010-11.

During 2010-11, the Company successfully strengthened its presence in the unregulated markets like Africa as well as semi-regulated markets like CIS and India. The Company has also set foot in few regulated markets in Europe, a tangible impact of which would be visible in the coming years.

Margins

The Company's EBIDTA margin for 2010-11 stood at 21 per cent in 2010-11 as compared to 27 per cent in 2009-10. On account of outbreak of Swine Flu during 2009-10, the Company was among the first movers to produce API for Swine Flu formulation. The margins from Oseltavimir sales stood at 77 per cent during 2009-10 on revenues of ₹525 Million from the product in 2009-10. During 2010-11, the sales for Oseltavimir were nil, resulting in fall in the total margins. Similarly, the impact of margin decline in EBIDTA reflected on the net profit margin of the Company during 2010-11, with the same stood at 6 per cent as compared to 8 per cent during 2009-10.

Sources of Funds



Share Capital and reserves

The Company's share capital of ₹219 Million comprised 21,935,191 fully paid equity shares of a face value of ₹10 each, of which the Company has allotted 700,000 equity shares of ₹10 each to SeQuent Scientific Employee Stock Option Scheme Trust.

At the end of year 2010-11, the Company's reserves accounted for ₹1,043 Million; a 10 per cent increase from the previous year. The Company's reserve comprised a mix of share premium reserve, general reserve and profit & loss account. Free reserves accounted for 49 per cent of the Company's reserves indicating an aggressive plough back of profits in the business. The size of the Company's reserves translated into healthy book value towards the close of 2010-11.

Loan Profile and funding cost

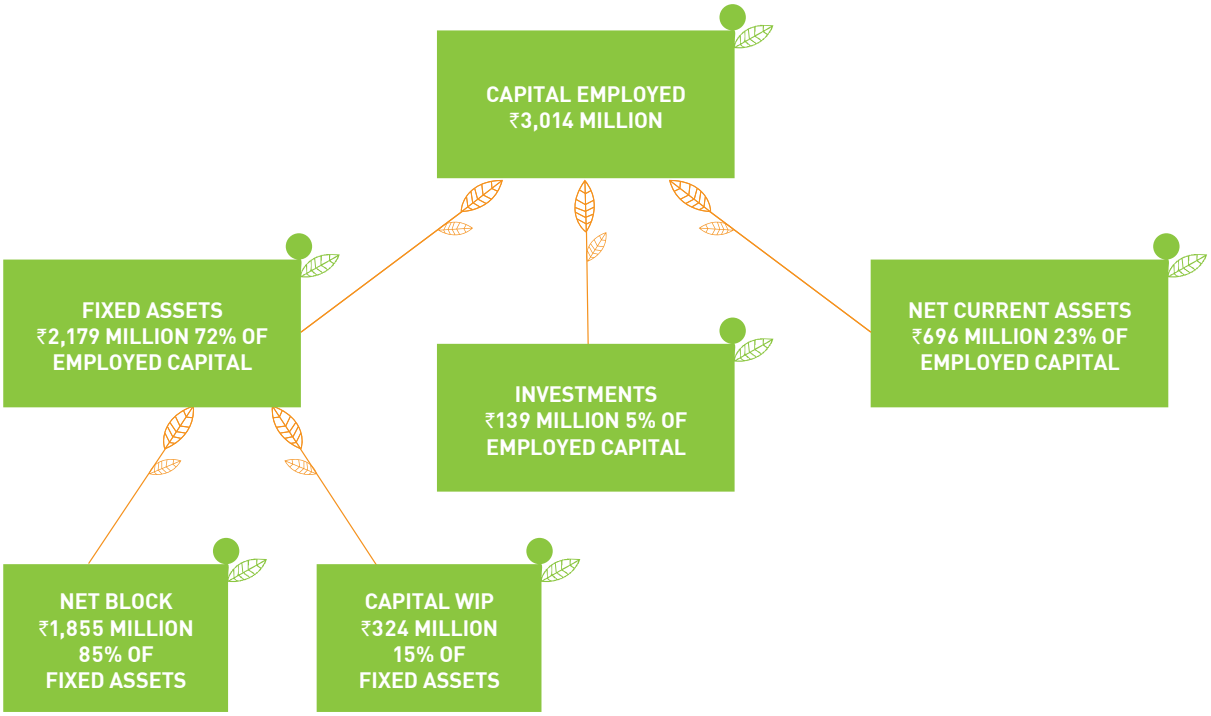
The total debt on the Company's books increased from ₹1,367 Million as on 31st March, 2010 to ₹1,759 Million as on 31st March, 2011. 34 per cent of the secured loans consisted of

working capital loans. The Company repaid ₹269 Million worth of debts during the year. The Company's average cost of debt remained at the same levels as the previous year at 12 per cent. Despite increasing interest rates, the Company was able to hold on to the average cost of debt of the previous year by converting some of the Rupee Term Loans into Foreign Currency Term Loans. The Company's debt-equity ratio as on 31st March, 2011 stood at 1.30, representing significant leveraging opportunity to fund future growth.

Capital Expenditure

During 2010-11, the Company invested ₹335 Million in debottlenecking capacities and improving process efficiencies in the existing units. The Company's second R&D centre commenced operations in Bengaluru during the year. The total outlay for the same stood at ₹15.93 Million.

Application of Funds



Gross Block

As on 31st March, 2011 the Company had a gross block of ₹2,359 Million as compared to ₹1,504 Million as on 31st March, 2010. The Company's assets are technologically sound and do not require frequent replacement. Net block represented 79 per cent of the gross block, highlighting the lower age of the Company's assets.

Depreciation

The Company made a depreciation provision of ₹172 Million in 2010-11. Depreciation is provided under the straight-line method at the rates and in the manner prescribed under Schedule XIV of the Companies Act, 1956, based on technical estimates that indicate the useful lives would be comparable with or higher than those arrived at using these rates

Non-business investments

The Scheme of Amalgamation of Vedic Elements Private Limited (Transferor Company) with the Company with an Appointed Date of 1st October, 2009 (the Scheme) has been sanctioned by the High Court of Karnataka and came into effect on 7th September, 2010. Accordingly, the carrying value of investments in the shares of Vedic Elements held by the Company had to be written back, leading to a reduction of ₹278 Million from the Company's investments during the year. The Company's total investments as on 31st March, 2011 stood at ₹139 Million as compared to ₹454 Million as on 31st March, 2010.