Directors Report

Dear Members,

We take pleasure in presenting the 27th Annual Report together with the Audited Statement of Accounts of the Company for the financial year ended March 31, 2012.

1. FINANCIAL RESULTS

The Highlights of the Performance of the Company during the Financial Year ended March 31, 2012 are appended below:-

(` In Mn)

Particulars	2011-2012	2010-11
Revenue from operations	3,324.30	2,779.80
Other Income	113.27	114.10
Earnings before Interest, Depreciation & Tax	467.97	583.78
Less : Finance Costs	(282.65)	(200.35)
: Depreciation	(210.28)	(171.81)
Profit/(Loss) Before Tax & Exceptional Items	(24.96)	211.62
Exceptional Items	-	(10.53)
Profit/(Loss) Before Tax	(24.96)	222.15
Tax Expenses - Current Tax	0.86	36.50
- Deferred Tax	(40.50)	42.59
- MAT Credit	-	(16.26)
Profit after Tax	14.68	159.32
Add: Balance brought forward from Previous Year	370.56	296.42
Included on Amalgamation	-	(38.85)
Profit available for appropriation	385.24	416.89
Which we recommend to appropriate as follows:		
Transfer to General Reserve	-	7.97
Proposed Dividend	-	32.90
Tax on Dividend	-	5.46
Surplus carried to Balance Sheet	385.24	370.56

Note:
Previous year figures have been regrouped/restated wherever necessary to make them comparable with those of the current year.

2. BUSINESS PERFORMANCE REVIEW

On standalone basis, the company posted 18.8 per cent growth in the total revenues, from `2,893.90 mn in 2010-11 to `3,437.57 mn in 2011-12. The company posted an EBIDTA of `467.97 mn as against `583.78 mn in 2010-11. On a standalone level, the Company registered a net profit of `14.68 mn.

On consolidated basis, the company posted 11.8 per cent growth in the total revenues, from `3,185.81 mn in 2010-11 to `3,562.93 mn in 2011-12. The company posted an EBIDTA of `475.58 mn as against `521.86 mn in 2010-11. On a consolidated level, the Company made a loss of `14.59 mn.

Detailed analysis of the operational and financial performance for the year is covered under the 'Management Discussion & Analysis' as well as other sections in this Annual Report.

3. DIVIDEND

The Board of Directors of the Company has not recommended any Dividend for the financial year.

4. SHARE CAPITAL

As at March 31, 2012, the authorized capital of the Company stood at `320 mn divided into 32,000,000 equity shares of ` 10/- each.

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

5. MERGER OF FRAXIS LIFE SCIENCES LIMITED WITH THE COMPANY

Fraxis Life Sciences Limited, a promoter group Company merged with the Company consequent to the scheme of amalgamation ('Scheme') approved by the Hon'ble High Court of Bombay vide its order dated August 20, 2011. Pursuant to the Scheme, the Company on November 21, 2011 allotted 14,865,000 fully paid up New Equity Shares of ` 10/- to the shareholders of Fraxis Life Sciences Limited. There would be no change in the paid up capital of the Company as in terms of the scheme, the said shares were issued against the cancellation of equivalent number of shares held by Fraxis Life Sciences Limited in the Company.

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 February 8, 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 subsidiaries shall be made available to the shareholders of the Company / its subsidiaries seeking such information at any point of time and such Financial Statements will also be kept for inspection by any shareholder during business hours at the registered office and the corporate office of your Company.

7. PUBLIC DEPOSIT

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

8. DIRECTOR

Mr. Kannan Ramanujam retires by rotation at the ensuing Annual General Meeting and is proposed for re-appointment. The Board recommends his re-appointment at the ensuing Annual General Meeting.

Further during the financial year Mr. K R N Moorthy, Dy. Managing Director and Mr. Joe Thomas Director of the Company, has resigned from the directorship of the company.

9. DIRECTOR'S RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the act, 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 related 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 March 31, 2012 and profit of the Company for the year ended March 31, 2012.

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.

10. 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.

11. 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.

12. 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.

13. MANAGEMENT DISCUSSION AND ANALYSIS

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

14. RESEARCH AND DEVELOPMENT

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

15. 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. 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.

16. PARTICULARS FOR 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.

17. 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 employee members 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: Bengaluru

Date: August 14, 2012

Annexures 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, 2012

RESEARCH AND DEVELOPMENT:

Core areas of R&D

Process chemistry aspects of API and intermediates which includes

a. Development of processes using green technology to minimize wastage and to achieve eco friendliness

b. Reverse engineering of the process to have cost advantages through improvement in quality of throughput

Benefits derived as a result of R&D

a. Tapping potential market through new filing of DMF's using non-infringing processes

b. Resolve complex processes/ chemistry, challenges to produce difficult product to have market advantages

c. Developing intellectual property to protect product market potential

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 Penicillin

c. Focus on new projects for contract research

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

Foreign exchange earnings and outgo:

(` In Mn)

	2011-12	2010-11
Earnings	1,381.65	1,147.84
Outgo	1,042.96	468.10

Expenditure on R&D:

(` In Mn)

	2011-12	2010-11
Capital	19.57	4.58
Recurring	56.76	52.32
Total	**76.33**	**56.90**

Form A

Form for Disclosure of Particulars with respect to Conservation of Energy.

(` In Mn)

		2011-12	2010-11
A.	**POWER & FUEL CONSUMPTION :**		
	1 ELECTRICITY :		
	(a) Purchased	19,318,280	15,122,375
	Total amount (` in mn)	115.57	83.10
	Rate / Unit (`)	5.98	5.50
	(b) Own Generation - through Diesel		
	Generator Set :		
	Unit	823,553	837,963
	Units per-litre of diesel oil	3.20	3.24
	Cost / Unit (`)	12.87	12.06
	2 COAL :		
	Quantity (tonnes)	NIL	NIL
	Total Cost (` in mn)	NIL	NIL
	Average rate (`)	NIL	NIL
	3 FURNACE OIL / LIGHT DIESEL OIL:		
	(a) Light Diesel Oil:		
	Quantity (litres)	135,356	460,787
	Total amount (` in mn)	7.29	18.90
	Rate / Litre (`)	53.83	41.02
	(b) Furnace Oil :		
	Quantity (litres)	1,053,327	832,939
	Total amount (` in mn)	38.84	20.77
	Rate / Litre (`)	36.87	24.94
	4 OTHERS / INTERNAL GENERATION :		
	(a) Natural Gas		
	Quantity (scm)	828,508	683,501
	Total Cost (` in mn)	17.71	11.95
	Rate / Unit (`)	21.37	17.48
	(b) Briquettes		
	Quantity (Kg)	2,157,577	1,486,493
	Total Cost (` in mn)	10.50	7.39
	Rate / Unit (`)	4.87	4.97

Form B

Form for Disclosure of Particulars with respect to Absorption.

In continuation with our focus on saving / conserving Electrical Energy, Fuel & Water, a number of measures have been implemented across all our sites during year 2011 – 12 also resulting in a cumulative saving of approximately 571,000 units of Electrical Energy per year besides saving Fuel & Water. Important ones are:

MEASURES TAKEN DURING THE PERIOD FOR CONSERVETION OF ENERGY

1. Replacement of Incandescent lamps & Mercury vapour bulbs is being done in a phased manner across all sites. At Mangalore, where already 80 per cent of these lamps have been replaced by CFL lamps, an estimated saving of 217,000 units per annum of electrical energy has already been achieved. At Tarapur, similar replacement has resulted in an annual saving of 3,600 units of electrical energy.
2. Rationalization / optimization of HVAC (Heating Ventilation and Air Conditioning) system at Mangalore by interconnecting AHUs (Air Handling Unit) in Powder processing zone in Plant 2 is estimated to lead to a saving of 30,000 units of electrical energy per annum.
3. At Mangalore, the old inefficient cooling tower having 10 HP fan motor used for Brine & Chilling units has been replaced by a new Induced draft cooling tower which has a 5 HP fan motor. This would result in an annual saving of approximately 31,000 units of electrical energy.
4. By use of rain water for Cooling tanks, Flushing / cleaning etc. during the monsoon period of approximately 4 month at Mangalore, an estimated 8000 KL of water has been saved.
5. After installation of a new SRU (Solvent Requivery Unit) at Mahad, we have started using the entire condensate coming out of system as a part of Boiler feed water. This has resulted in a saving of 210 kg of Briquettes per day amounting to an approximate annual saving of 75 tons of Briquette. Additionally, this has also resulted in a monthly saving of 420 KL fresh water for Boiler.
6. Installed an energy efficient modern Brine chilling unit in place of old one resulting in an annual saving of approx 130,000 units of electrical energy.
7. After carrying out ETP up gradation at Mahad by installing an RO system, we have started using the entire permeate (approx 15 KL / day) as make up water for cooling tower. This has resulted in an monthly saving of approximately 450 KL of water.
8. At our Ambernath site, we have recently installed a new energy efficient modern MICRONISER. This is designed to consume approximately 930 units of electrical energy per ton of micronisation as against approximately 1860 units consumed by old set up. This is estimated to result in an annual saving of approximately 110,000 units based on 10Tons micronisation per month.
9. At Tarapur, we have installed a new 1500 Kg / Hr FO fired boiler in place of old 3 Nos. 600 Kg / hr LDO fired boilers. This has not only resulted in a reduction of almost 100,000 Kcal of energy consumed per ton of steam earlier but also given an estimated electrical energy saving of approximately 50,000 units per annum.
10. By providing adequate capacitor banks near load centres at Mahad & Mangalore it has been possible to maintain Power Factor < 0.985 thereby reducing transmission losses within the premises.

PLANS FOR ENERGY CONSERVATION IN FUTURE

1. A Project is already under execution at Mangalore to significantly reduce Energy consumption at our R & D centre by completely revamping the existing Air conditioning system and by selectively providing split ACs or fans wherever required. This step alone is estimated to save substantial electrical energy now being consumed at R & D centre.
2. Replacement of starters of AHUs (Air Handling Unit) & Ventilation system at Mangalore by suitable VFDs (Veriable Frequency Drive).
3. By providing additional Capacitor Banks wherever required efforts are being made to improve Power Factor to a level of ≥ 0.995 at all our sites.
4. Replacement of existing FO fired boiler at Mangalore by Briquette fired one. This would not only reduce our steam cost but also substantially reduce our carbon foot print.
5. Explore the possibility of replacing all electrically operated Process cooling / chilling system by Vapour Absorption Machines (VAM) as and when adequate steam becomes available. This would also result in reducing our carbon foot print by avoiding the use of non – eco friendly refrigerants.
6. Application of special coating internally to 4 pumps used for operation of cooling towers & effluent disposal at Panoli is estimated to save approximately 680 units of energy per month.
7. Installation of Energy saving Transformer & Panel to reduce power consumption in lighting load at Panoli. This is estimated to save 2500 units of energy per month.
8. There is also a proposal to replace vessel lamps by LED lamps wherever possible to reduce energy consumption.
9. We propose to collect the entire rain water from the roof top of the new warehouse at Mahad and thus bring about further reduction in use of fresh water.
10. Plans are afoot to expedite the process of replacing old conventional lighting system at all our sites by energy efficient CFL lamps.
11. A project has already been initiated at Tarapur to install an energy efficient higher capacity Brine unit to replace existing old one which is estimated to result in substantial energy saving.
12. Possibility is being explored to reuse a part of treated water at Panoli to reduce consumption of fresh water.

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, 2012.

S.No	Description	SSL ESOP Scheme 2010
A	Options granted as on March 31, 2012	None
B	The pricing formula	Decided by the Compensation Committee from timeto 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	100,000
G	Variation of terms of options	None
H	Money realised by exercise of options (`)	None
I	Total number of options in force at the end of the year	None
J	Employee-wise details of options granted during the year	
	i) Senior managerial personnel	None
	ii) Other identified employees	None
	iii) Any other employees who received a grant in any one year of option amount to 5 per cent 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 per cent 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'	Not Applicable
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	Not Applicable
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	Not Applicable
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	Not Applicable
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:	
	i) risk free interest rate	-
	ii) expected life	-
	iii) expected annual volatility of shares	-
	iv) expected dividend/yield	-
	v) the price of the underlying share in market at the time of option grant	-

Management discussion and Analysis

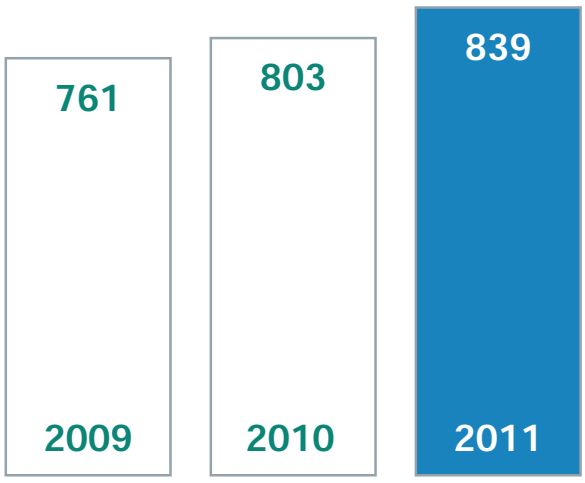
INDUSTRY OVERVIEW

Global overview

The global pharmaceutical market registered a growth of 4.5 per cent to US$ 839 bn, largely driven by a double digit (12 per cent) growth in Emerging markets. Average revenue growth in Established Markets was 2.8 per cent while that in Emerging Markets was over four times higher at 12 per cent. The top five pharmaceutical markets in the world remained the US, Japan, Germany, France and China, with the US representing 38.1 per cent of global prescription pharmaceutical sales (2010: 38.5 per cent)

WORLD PHARMACEUTICAL MARKET

World Sales (US$ bn)



Growth in 2011

4.5%

Market value in 2011

100%

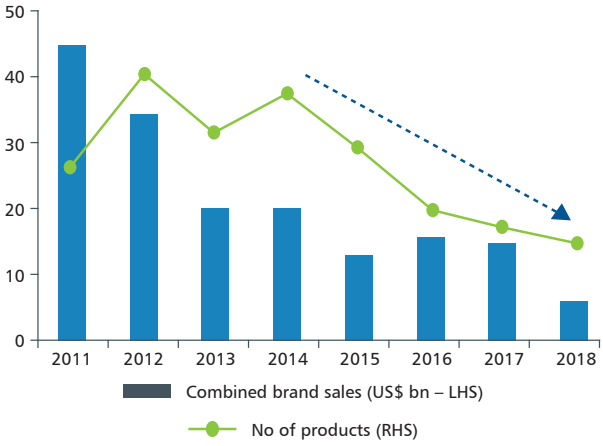
The world population is estimated to have passed seven billion in 2011, increasing from six billion in 1998, and is expected to reach nine billion by 2050. In addition, the number of people who can access healthcare continues to increase, particularly among the elderly. Globally, it is estimated that the number of people over 65 will be almost one billion by 2030, double of what it was in 2005. Emerging markets is the key growth avenue for global pharma companies, owing to the large population (emerging markets account for 85 per cent of the global population), under-penetration of medical infrastructure resulting in greater government spending on healthcare.

In addition, the prevalence of chronic disease is increasing in middle-income countries and is also beginning to have an impact in low-income countries. It is estimated that nearly 33 per cent of the world's diabetes patients will come from India and China by 2030, by which date its prevalence in Brazil is expected to have increased by two-thirds.

US MARKET – A DRYING PATENT EXPIRATION PIPELINE IMPLIES FEWER GROWTH AVENUES

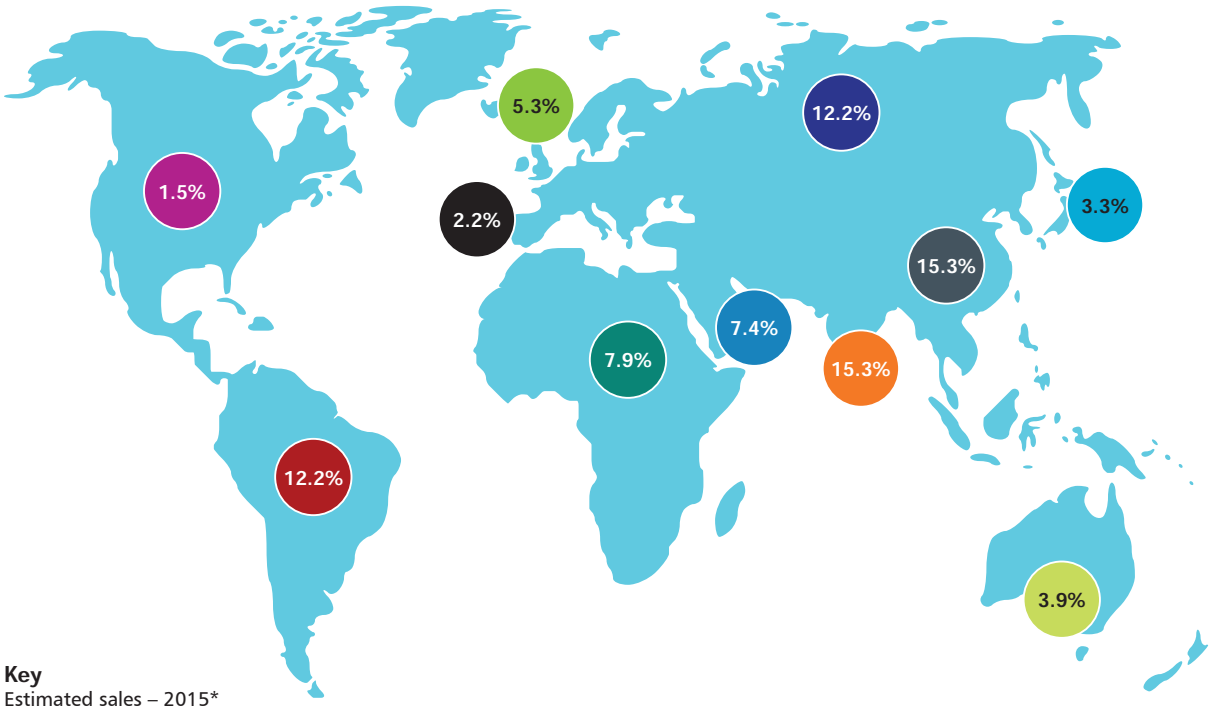
According to Reuters estimates, patent expiries in the US are likely to peak by 2014 and start declining from 2015.

Patent expiries in US to slow from 2015



Source: *Thomson Reuters estimates, Company, IDFC Securities Research*

ESTIMATED PHARMACEUTICAL MARKET GROWTH 2010-2015

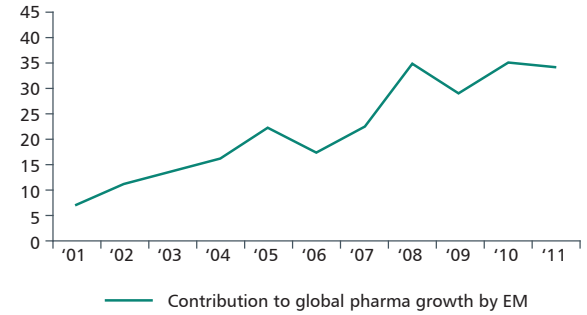


Key
Estimated sales – 2015*
Estimated growth – 2010-2015 CAGR

North America Sales $357.4bn Growth 1.5 per cent	Latin America Sales $100.9bn Growth 12.2 per cent	Africa Sales $25.0bn Growth 7.9 per cent
Europe (EU countries) Sales $237.4bn Growth 2.2 per cent	CIS Sales $33.5bn Growth 12.2 per cent	Oceania Sales $16.7bn Growth 3.9 per cent
South East & East Asia Sales $147.1bn Growth 15.3 per cent	Indian Subcontinent Sales $32.1bn Growth 15.3 per cent	Middle East Sales $15.4bn Growth 7.4 per cent
Japan Sales $120.6bn Growth 3.3 per cent	Europe (Non EU countries) Sales $27.6bn Growth 5.3 per cent	

Emerging markets are a strong growth opportunity for the global pharma sector. These markets are estimated to be worth about US$ 150 bn combined, growing 15 per cent annually.

EM's the main driver of global pharma growth



List of Pharmerging Countries

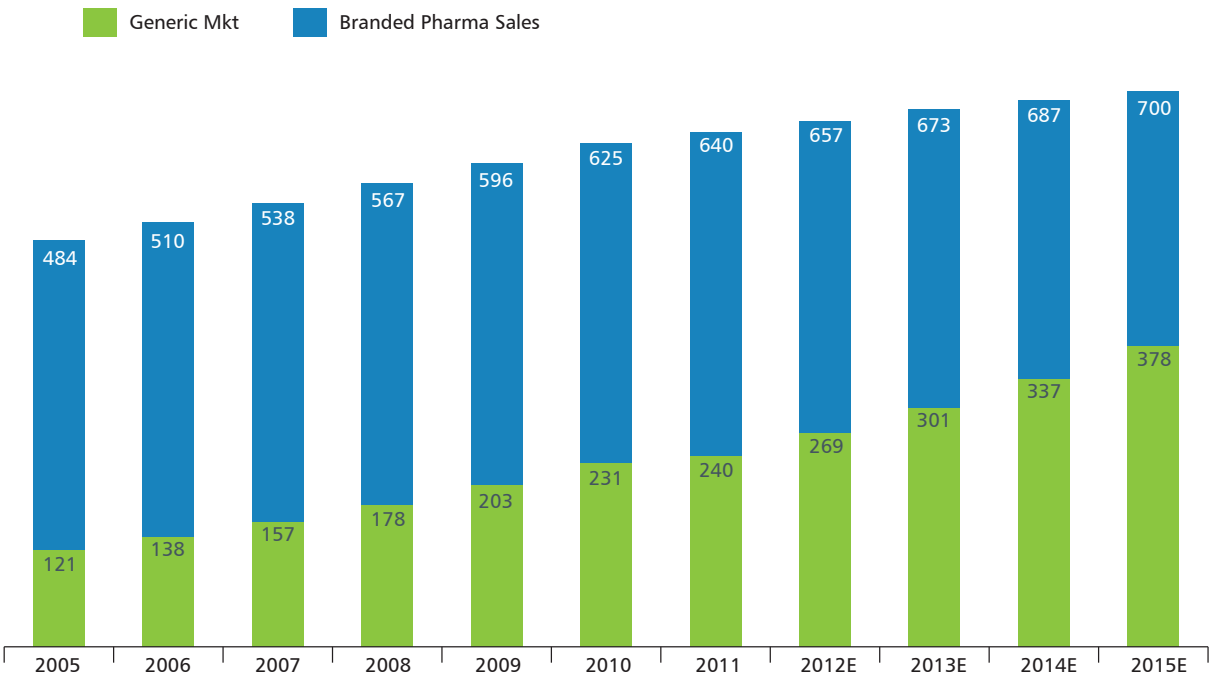
Tiers	Countries		2009 GDP based on PPP valuation (trillion US$)	Incremental Pharma Market Growth from 2009-13 (billion US$)
Tier 1	1 : China		9	40B+
Tier 2	2 : Brazail		2-4	5-15B
	3 : Russia			
	4 : India			
Tier 3	5 : Venezuela	12 : Thailand	<2	1-5B
	6 : Poland	13 : Indonesia		
	7 : Argentina	14 : Romania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

Source: *IMS Health, IMAP*

Generics

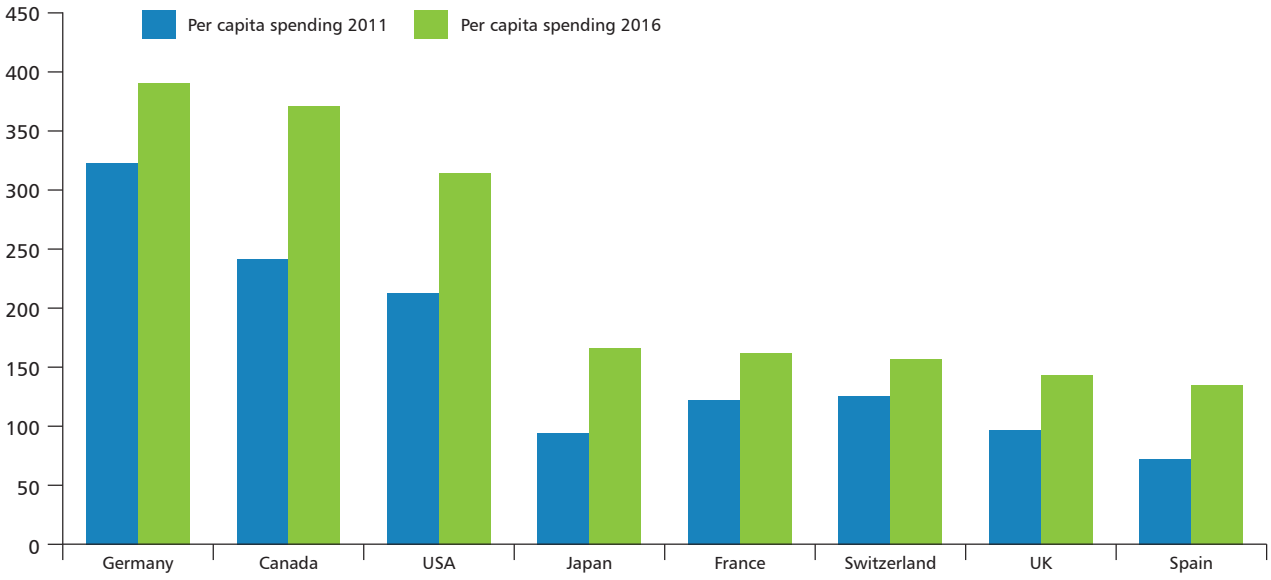
The generics market is expected to reach US$ 231 bn by 2017 compared to US$ 124 bn in 2010, with a compound annual growth rate of 9.3 per cent. The increase is mainly attributed to patent expiries, but the effect of increasingly ageing populations and chronic diseases are also expected to contribute to growth in generics.

Global pharma and global generics sales



Source: *IMS Health, Research*

Spending on generics per capita (US$) in 2011 and 2016



The global markets for generic drugs will continue to grow despite cost reduction measures from governments and healthcare players in many markets. As per the The World Generic Market Report, despite pressure on prices in many markets, the generics sector continues to thrive with increased sales across the globe in 2011.

The generics market is experiencing two opposing trends driven by the global recession. On the one hand, the use of generics is increasing due to their cost-effectiveness and adoption has accelerated in markets where brand-name prescribing was dominant. On the other hand, the squeeze on government spending has not left generics untouched with many countries lowering generics prices through cuts in reimbursement rates or contract tendering with a resultant pressure on margins.

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).

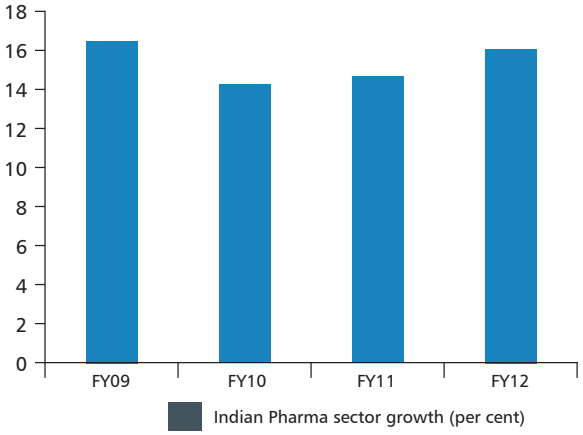
Global pharmaceutical markets

	US	Germany	Japan	Romania	Russia	India	Brazil	China	S. Africa	Mexico
Mkt Size (in USD bn)	300	38	54	1.5	14	14	26	46	4	8.5
Addressable Mkt size (in USD bn)	76	10	5.4	0.6	9	14	5.5	39	2	4.3
Growth Rate (per cent)	3	3	3	12	14	15	20	20	10	15
Out-of-pocket expenses (per cent)	12	13	30	25	80	80	80	45	50	85
Total healthcare exp per capita (in USD)	7,930	4,683	3,778	427	478	42	371	196	523	510
Total healthcare exp as per cent of GDP	17.4	11.6	9.5	5.6	5.6	4.2	8	4.3		6.5
Chronic share (per cent)	65	55	56			31		37		
Doctors per '000 persons	2.6	3.6	2.1	2.3	4.3	0.7	1.8	1.4		2
Hospital beds per '000 persons	3	8.2	13.7	6.6	9.7	0.9	2.4	1.4		1.6
Price relative to India (x)	6	8			2.7	1	9		2.7	

Source: *Company Data, Jefferies estimates, IMS Health, Pharmaexpert*

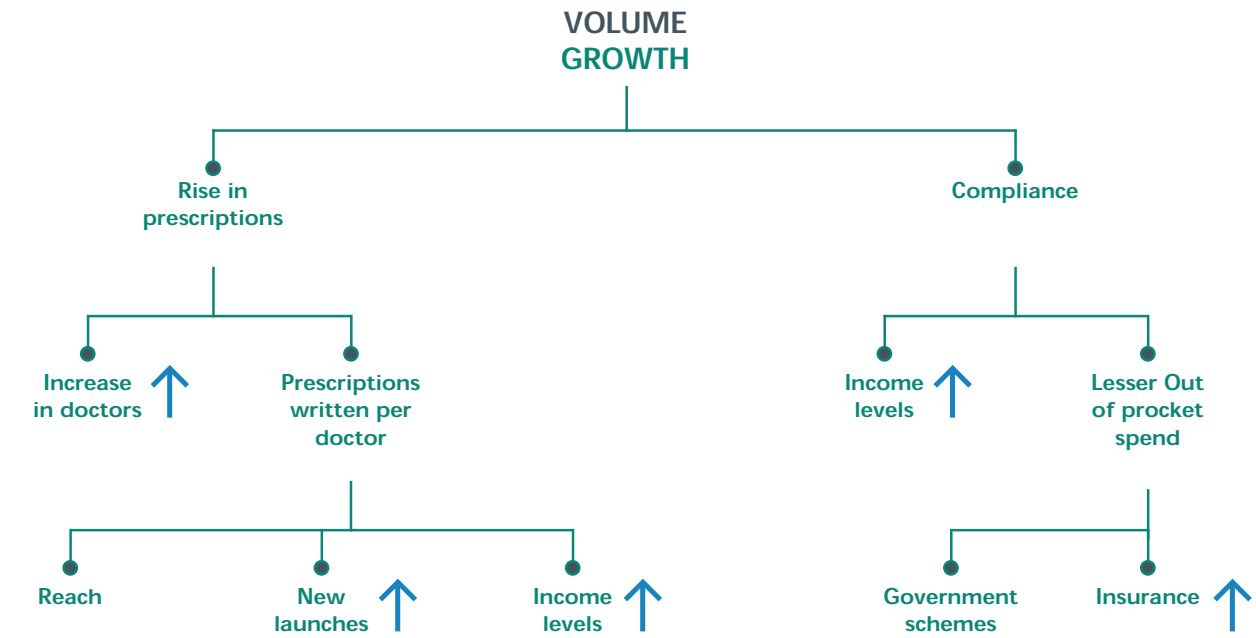
The Indian Pharmaceutical industry is highly fragmented with about 24,000 players (around 330 in the organised sector). The top ten companies make up for more than a third of the market. The Indian pharma sector has grown at 14+ per cent rate for the past four years. The Indian domestic pharma sector is expected to maintain its growth rate of 14-16+ per cent over the next few years. The major drivers for this growth are: 1) rising incomes, 2) increasing reach, 3) insurance, 4) government regulation and 5) expanding products.

Indian pharma sector's positive momentum continues



Source: *Industry data, Jefferies*

Multiple drivers for volume growth in Indian pharma industry



Source: *Jefferies*

Advantage India

- Between 2010 and 2015 patent drugs worth US$ 171 bn are estimated to go off-patent leading to a huge surge in generic products.
- High margin pharma export business is expected to grow at a higher rate than domestic market given increased in outsourcing activities.
- Increased M&A activities is set to consolidate the market which widens geographic reach, strengthens distribution network and venture into new therapeutic segments.
- Indian companies files the highest number of ANDAs with USFDA leading to greater chances of approvals and thereby increasing export to regulated markets especially the US.
- There are currently approximately 175 USFDA and nearly 90 UK-MHRA approved pharma-manufacturing plants in India, which can supply high quality pharma products globally.
- Growth from rural markets will outstrip overall pharma market growth, albeit at lower margins, given lower penetration of 18-19 per cent coupled with rising income level and awareness.
- Biopharmaceuticals is another potential high growth segment for Indian pharma growing at double digit driven by the vaccines market.

INDIAN GENERICS MARKET

India tops the world in exporting generic medicines worth US$ 11 billion. The Indian generic drug market is to grow at a CAGR of around 17 per cent between 2010-11 and 2012-13. Over the next few years, it is expected that the patent laws will provide impetus to the launch of patent-protected products. Such products have the potential to capture upto a 10 per cent share of the market by 2015, implying the market size of US$2 bn.

Both the US and Europe together account for 53 per cent of the global pharmaceutical market, but the US is the more coveted territory for many reasons. It has a favourable regulatory environment compared to the stringent price control norms in key European markets. A depreciating rupee versus the dollar has also helped. Moreover, generic drugs are now a core part of how the US health system cuts its costs today. According to the Generic Pharmaceutical Association, during 1999-2008, generic drugs saved the American healthcare system more than US$ 734 bn (` 41,80,192.49 crore). Expenditure on prescription medicines is one of the fastest-growing components of healthcare costs, and hence, is a prime target for cost reduction.

According to industry estimates, Indian companies are filling an average of 1,000 abbreviated new drug application (ANDAs) every year in the US to tap the opportunity. The bulk drug filings from Indian companies in US have also increased significantly. Of the total bulk drug filings in US, India accounted for 45 per cent in 2009 and 49 per cent in 2010, which further increased to 51 per cent last year.

APIs

In terms of global ranking, India is now the third largest API producers of the world just after China and Italy and by end 2011 was expected to be the second largest producer after China. However, in Drug Master File (DMF) filings India is currently ahead of China. In addition, India scores over China in 'documentation' and 'Environment, Health and Safety (EHS) compliance. All these have contributed to India having around 175 USFDA approved world class manufacturing facilities, which is considered the largest outside the US. India is likely to be the fastest growing API supplier during the next five years.

Japan is the largest market for APIs in the Asia-Pacific region contributing 42.8 per cent of the region's total API market revenues. China is the second largest and the fastest growing API market in Asia-Pacific. China currently holds a share of 20.8 per cent in the region's total API market revenues. India accounts for 10.3 per cent, while South Korea holds an 8.1 per cent share of the market. The top three markets for APIs are the US, Europe and Asia Pacific in which Asia-Pacific is the fastest growing. The region is the third largest regional market for APIs by revenue in the world after North America and Europe.

Different growth engines

	Acute	Chronic
Industry growth driver	Rising Income and reach	Rising middle class
Company growth driver	Increasing sales force	Product launches, brand
Critical factor	Increasing reach	Quality, supply and new launches
Margins	High teens	30 per cent+
Working capital requirement	Low	High
Industry growth	12-14 per cent	18-20 per cent
Cost factors	Manpower cost	R&D spend
Geography	Tier III, IV and Rural	Metros, Tier I & II

CRAMS

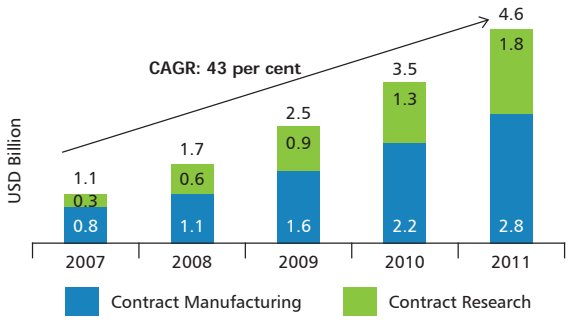
According to industry estimates, India's CRAMS sector is likely to touch US$ 7.6 bn by 2012 end from US$ 3.5 bn in 2010.According to industry sources, outsourcing market is of ~US$80 bn in 2011 and increasing at 15 per cent CAGR. Of this, 35 per cent is R&D outsourcing and remaining is for manufacturing. Considering competitive labor cost (skilled labor in emerging countries cost is as low as 20 per cent of manufacturing cost in US market), many MNCs are shifting their manufacturing and R&D work to emerging countries including India.

Approximately 64 per cent of the estimated US$ 67 bn 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 bn 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.

ADVANTAGE INDIA

- High Number of USFDA and UK MHRA approved plants (250+)
- 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

Indian CRAMS Sector (US$ bn)



VETERINARY OR ANIMAL HEALTH INDUSTRY

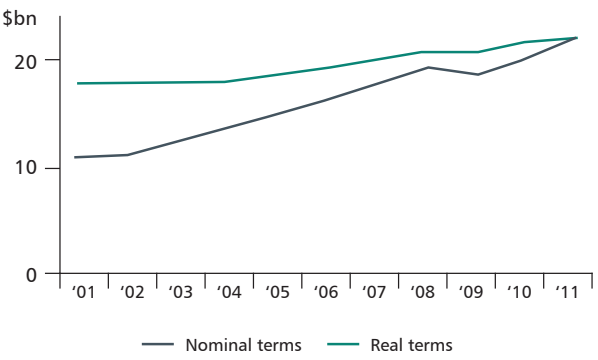
Animal Health Industry in 2011 was valued US$ 22.1 bn

Nominal growth = +9 per cent

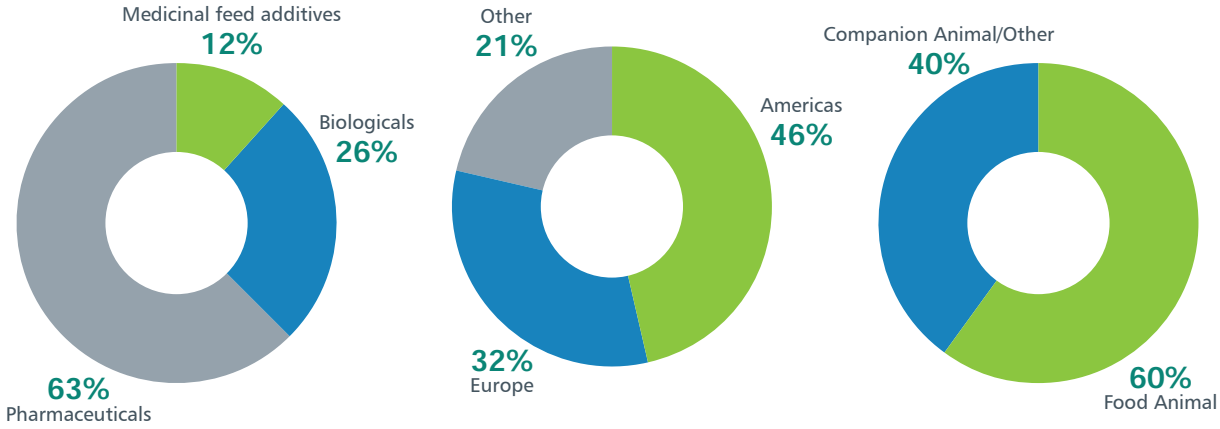
Real growth = +2 per cent

In 2011, the animal healthcare industry registered a growth of 9 per cent to US$ 22.1 bn as compared to US$ 20.1 bn in 2010.

Growth Animal Health Market Evolution



Animal Health Market by Product Group, Region & Species



WORLD ANIMAL POPULATION

Cattle	10 billion
Sheep/goats	1.8 billion

Pigs	1.5 billion
Poultry	68.8 billion

Dogs	223 million (excludes strays)
Cats	220 million (excludes strays)

The 10 largest animal health companies invest an average of 12 per cent of their sales into research and innovation activities, a total amount of about US$ 16 bn every year. Experts estimate 60 per cent of all human diseases can move from human to animal and vice-versa (i.e. zoonotic). In fact, over the past three decades, approximately 75 per cent of new emerging human infectious diseases have been zoonotic.

Key products in Animal Health Industry

Anti-infectives are substances capable of acting against infection by inhibiting the spread of an infectious agent or by killing the infectious agent outright. Anti-infective is a general term that encompasses antimicrobials, antibiotics, antifungals, and antivirals.

Biologicals are products that detect, stimulate or enhance an animal's immunity to infection, and are generally derived from living organisms.

Feed additives are substances added to animal feed to improve its nutritional value, enhance growth or control disease.

KEY DEMAND DRIVERS

Key drivers	Companion animals	Production Animals	Veterinary Public Health
Animal Care	Individualised medicine	Herd Medicine	Public control programs
	Monofactorial diseases	Multifactorial syndromes	Monofactorial infectious diseases
	Longer life (geriatrics)	Short life and high productivity	Herd health/trade/Human health
	Prevention and treatment	Focus on prevention	Prevention and control
Business model	B to C / B to B	B to B	B to G (Governments)
	Decision 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

The Indian market for animal nutrition and health product is highly fragmented, and with a very large number of relatively small players. The top 10 players are estimated to control around 25 per cent of the market, and more than 350 others companies making up the balance.

CATTLE (DAIRY) AND POULTRY – THE KEY PROMISING INDIAN SEGMENTS

Dairy Segment

- No.1 milk producer in the world (106 mn 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

BUDGET 2012

Union Budget 2012-13, as expected, is positive for the pharmaceutical sector. The government has again increased budgetary allocation for healthcare spending, which would be an overall positive for the sector. Indian pharmaceutical companies have been investing on the R&D front to tap opportunities in the domestic and global markets. To encourage the same, the weighted deduction on R&D expenditure to 200 per cent (in-house research) was extended for a further period of five years. R&D sops would continue to be positive for the sector as a whole.

CORPORATE PERFORMANCE REVIEW

Background

About the Company

SeQuent Scientific Limited (hereinafter referred to as '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 also the leading producer of Anthelmentic APIs in the world.

The year 2011-12

2011-12 was a tough year for SeQuent. Even though we crossed `3 bn mark in terms of our revenues, rising input costs resulted in significant erosion in our operating margins. The non-operational capacities (due to Industrial Incidents) coupled with rising finance charges led to a loss in terms of bottomline. In wake of these challenges, we continued to critically identify key avenues that required our attention in order to ensure sustained growth in the coming years. In other words, we utilised a challenging phase to invest in key strengths like people, processes, products and markets; the impact of which is expected to be visible in the coming years.

The Company filed 5 new drug master files, taking the total DMFs filed as on March 31 2012 to 33.

Key manufacturing locations

Facilities	Mangalore	Panoli	Ambernath	Tarapur	Mahad
Products	Niche APIs	Drug intermediate	APIs	APIs	Large volume APIs
	Large volume APIs	Specialty chemicals	Animal Health Formulations		
	Advanced Drug Intermediates				
Regulatory status	cGMPfacility	ISO 9001:2000 certified	cGMP facility	ISO 9001:2000 certified	cGMP facility
	ISO 9001:2000				
	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 from USFDA for its Mangalore unit. During the year under review, the Company completed its expansion programme in all its exiting units. The Company's capacity utilisation registered a decrease during 2011-12 owing to shut down at the Tarapur unit.

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
- 33 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 bn 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 700+ people as on March 31 2012. The Company believes in 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 its business 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

1. INVESTOR PERCEPTION RISK

Being an integrated pharmaceutical player with presence in diversified segments can lead to negative investor perception relating to core business focus of the company.

Mitigation measures

- The company's core business is Pharmaceuticals, while the specialty chemicals business remains to be non-core and generates liquidity for the Company on accounts of its novel products.
- 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.
- A diverse business mix has enabled the company to insulate itself from cyclicality or lower demand in a particular segment

2. REGULATORY RISK

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

- This is an industry-wide risk owing to the highly regulated nature of the sector in high-consumption markets
- 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.
- The Company's Mangalore unit will be inspected by USFDA in 2012.

3. COMPETITION RISK

Competition from global as well as local players can have an adverse impact on the Company's margins.

Mitigation measures

- The global pharmaceuticals industry seeks not only cost arbitrage but also a proven expertise in creating quality products
- Being cost efficient is the key towards sustained growth, given the falling margins and lower R&D spends of the global innovator companies
- Having proven our ability as an agile and efficient player, we have focused on offering niche products across our 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 an inherent trait, we have remained focused on cost reduction on a continuous basis across our units.

4. QUALITY RISK

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.

5. ENVIRONMENT AND SAFETY RISK

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.
- During 2011-12, the company has critically examined and further strengthened its environment and safety practices/equipment/audits across all its units
- Environment Management Systems are in place at each site to continuously monitor progress in this area.