Granules India Limited

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Granules India Limited | Annual Report 2006-07

Deliver more >

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Contents

A TRISYS PRODUCT
info@trisyscom.com

Vision >

To become a large-scale consumer healthcare-focused service provider with a global presence and infrastructure to support strong partnerships with industry leaders.

Deliver more >

More is the keyword for success at Granules India Limited.

It applies to customers, suppliers, employees and stock holders, and extends beyond mere satisfaction. Towards delight.

To address growing global outsourcing opportunities, the Company responded with urgency and sensitivity: it restructured its business model in line with the ongoing industry evolution from process to value-added research outsourcing.

The result is that Granules, which was commissioned in 1991 to merely trade in APIs, is today an integrated pharmaceutical outsourcing group with a presence across the complete industry value chain, which extends from the manufacture of APIs to PFIs to finished dosages at one level, and towards providing R&D and regulatory services at the other.

What makes the Granules story relevant is that having made progressive investments in service and product expansions, the Company is now at the cusp of sustainable growth.

It is with this perspective that the Company's performance in 2006-07 must be appraised. In short, the investments have taken place and the results will begin to transpire.

The Company also extended its integration strategy and forged relationships with its business partners. The result was a year of appreciable volume, revenue and profit growth.

Strengthening its potential to deliver more.

Deliver more

06
billion tablets per annum capacity in October 2007

12
billion tablets per annum capacity under commissioning

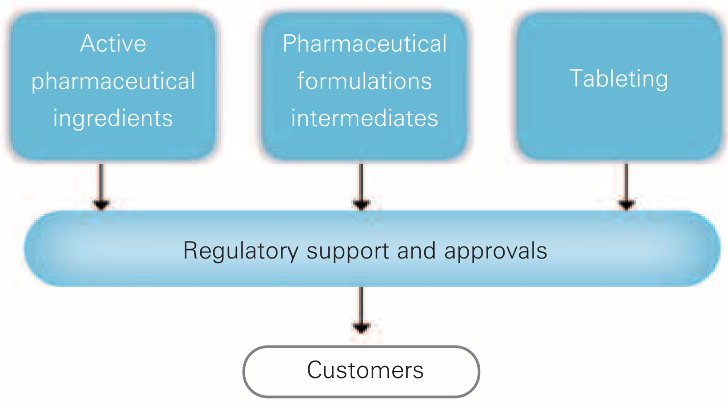
18
billion tablets per annum capacity expansion potential

Convenience>

Granules continues to strengthen its presence across the pharmaceutical value chain.

The Company is reinforcing its positioning as a one-stop solutions provider. It possesses an in-built flexibility in sourcing from multiple points and economies of scale that are translating into lower costs and a faster time-to-market.

Integrated outsourcing chain



Plant

The Company strengthened its forward integration into the manufacture of formulations through the commissioning of a 6-billion-tablet per annum facility, a part of the proposed 18-billion-tablet per annum manufacturing plant. The product mix at the plant and corresponding scale have evolved Granules from a mere process outsourcing company into an integrated outsourcing partner.

Granules strengthens the businesses of its customers through a value-added outsourcing provision at competitive costs. This helps its customers liberate their precious resources for onward investment in research and marketing. Granules also provides customers with the convenience of sourcing multiple products – API, PFI or formulations – from a single source. The combination of these customer conveniences has evolved the Company from a peripheral to a central role in the business plan of its customers.

Once fully operational, Granules' tablet manufacturing facility will translate into increased topline, bottomline and margins. The tablets and other oral solid dosage forms will be manufactured at Gagillapur, derived from APIs and PFIs manufactured by the Company. The Company's tablet manufacturing plant is equipped with a facility to transfer PFIs through automated conveyor belts (as opposed to the conventional manual process), shortening the transfer time and protecting quality.

The plant's versatility enables Granules to address demand across various delivery forms – effervescent, sachet, pressfit, rapid release and controlled release dosage – as well as capsules. Besides, the Company's formulations plant has been audited successfully by the European Union Good Manufacturing Practices (EUGMP) a formal approval expected shortly.

Scale

Granules is among a handful of global companies to enjoy the benefit of scale across its entire value chain. The Company possesses an API capacity of 13,550 TPA, a PFI capacity of 8,400 TPA and a tableting capacity of six billion units per annum (to be scaled to 18 billion). Besides, the Company has invested in the world's largest PFI batch size of 6,000 kg and is one of the few global companies to provide granulation services beyond paracetamol.

The Company has invested in scale not merely to service existing customers smoothly; it has done so to reduce operational costs, leading to enhanced customer value as well. Over time, this consistent approach has also helped the Company attract large brand-enhancing pharmaceutical customers, a volume-value implication.

Deliver more

8000
TPA of paracetamol API

3800
TPA of ibuprofen API

03
new APIs in pipeline

Capability>

Granules has progressively strengthened its business model through proactive investments in forward integration on the one hand, while consistently strengthening its backward integration. The result is a robust supply chain that protects quality and accelerates delivery.

As a conscious strategy, the Company has reduced dependence on third-party suppliers by setting up captive API facilities. This decision has translated into visible advantages: a high quality standard and a progressive de-risking from market price fluctuations and delivery variations.

Alliances

At Granules, we invested in business-enhancing relationships with credible partners. For one, the Company entered into a joint venture with Hubei Biocause Heilen Pharmaceutical Co. Ltd – China's largest and the world's fourth largest manufacturer and exporter of ibuprofen – to manufacture and sell pharmaceutical APIs.

The arrangement provides Granules with an API manufacturing base (3,800-TPA) in China, the global API manufacturing hub. The plant enjoys a high GMP compliance in the manufacture of ibuprofen for the regulated markets in Europe and the US.

This joint venture helped the Company integrate backwards into the manufacture of ibuprofen APIs in China, securing the supply of major raw materials at acceptable quality and prices. A manufacturing base in India and China will enable Granules to cash in on the respective geographic strengths in two of the fastest growing economies. More importantly, it has paved the way for the Company to enter into more business-expanding joint ventures.

Expansion

In line with its strategy to offer end-to-end solutions in consumer healthcare products, Granules commissioned a fully automated paracetamol API plant (8,000 TPA) in Bonthapally in March 2006. This helps the Company meet 10% of the 80,000-TPA global paracetamol market. Once the formulations plant goes on stream, it will help the Company meet its entire captive requirement of paracetamol APIs, besides making merchant sales.

The Bonthapally plant was audited and approved by the US Food and Drug Administration (US FDA) in May 2007. Granules also proactively increased the capacities of its metformin, methocarbomal and guaifenesin APIs to meet the growing demand. Going ahead, the Company will strengthen its supply chain through capacity expansions, strategic acquisitions and alliances, providing the benefits of bulk purchase and scale economies to customers at one end, while protecting margins at the other.

Deliver more

3500

sq ft Class 100,000 R&D facility

37

products under development

06

ANDAs in pipeline

Efficiency >

Over the years, Granules has evolved from a process outsourcing company into a value-added research outsourcing partner. In doing so, the Company has evolved from piecemeal products to the delivery of end-to-end solutions. The expertise to offer research outsourcing services across product development and regulatory approvals provides its customers with the dual benefits of reduced costs and a faster time-to-market.

At Granules, the R&D focus is on the development and technology transfer of various consumer healthcare products for upstream utilisation in the upcoming tablet manufacturing facility. The team is also initiating product development for filing ANDAs and a timely entry into the regulated markets of the US, Canada and Australia.

Research and development

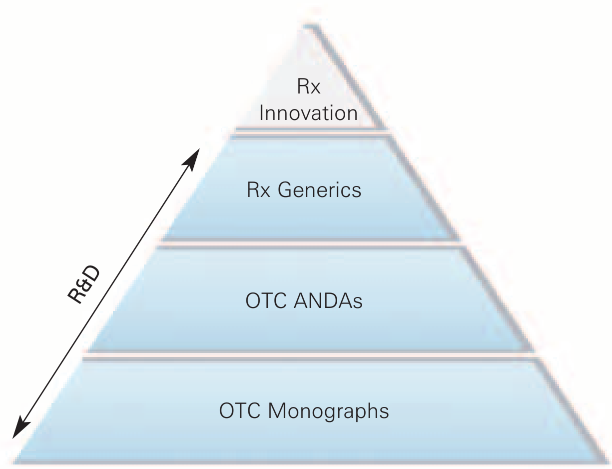
Granules' Class 100,000 R&D facility is supported by 10X scale up. Located in Gagillapur, the facility enjoys an approval from GSK (US) and is registered with Canada TPD, while its pilot facility is approved by TGA, Australia. The R&D team enjoys requisite qualifications and experience.

The intellectual capital and world-class manufacturing facilities enable Granules to develop prescription products for specific customers or countries, an effective de-risking. Currently, six research contracts are being executed with major multinational pharma companies.

Products

Granules, after building a credible foundation in the consumer healthcare segment, intends to graduate to the next level in the pharma value chain through the manufacture of value-added, high-margin prescription products. The Company is reinforcing its expertise to extend its services from product development to research as well.

The Company is already engaged in the manufacture of metformin API. A number of prescription APIs in the pipeline hold the potential to enhance the Company's revenues and margins over time.



Value Pyramid

Moving beyond OTC monographs, Granules is investing resources in value-added paracetamol and ibuprofen products in the prescription space. Concurrently, its research is climbing the value chain through improved delivery systems – from immediate release dosage forms to sustained release dosage forms, sachet products, easily administrable pressfit dosage forms like gelatine encapsulated tablets and disintegrating effervescent tablets. This niche is margin accretive, de-risking the Company from dependence on a handful of products.

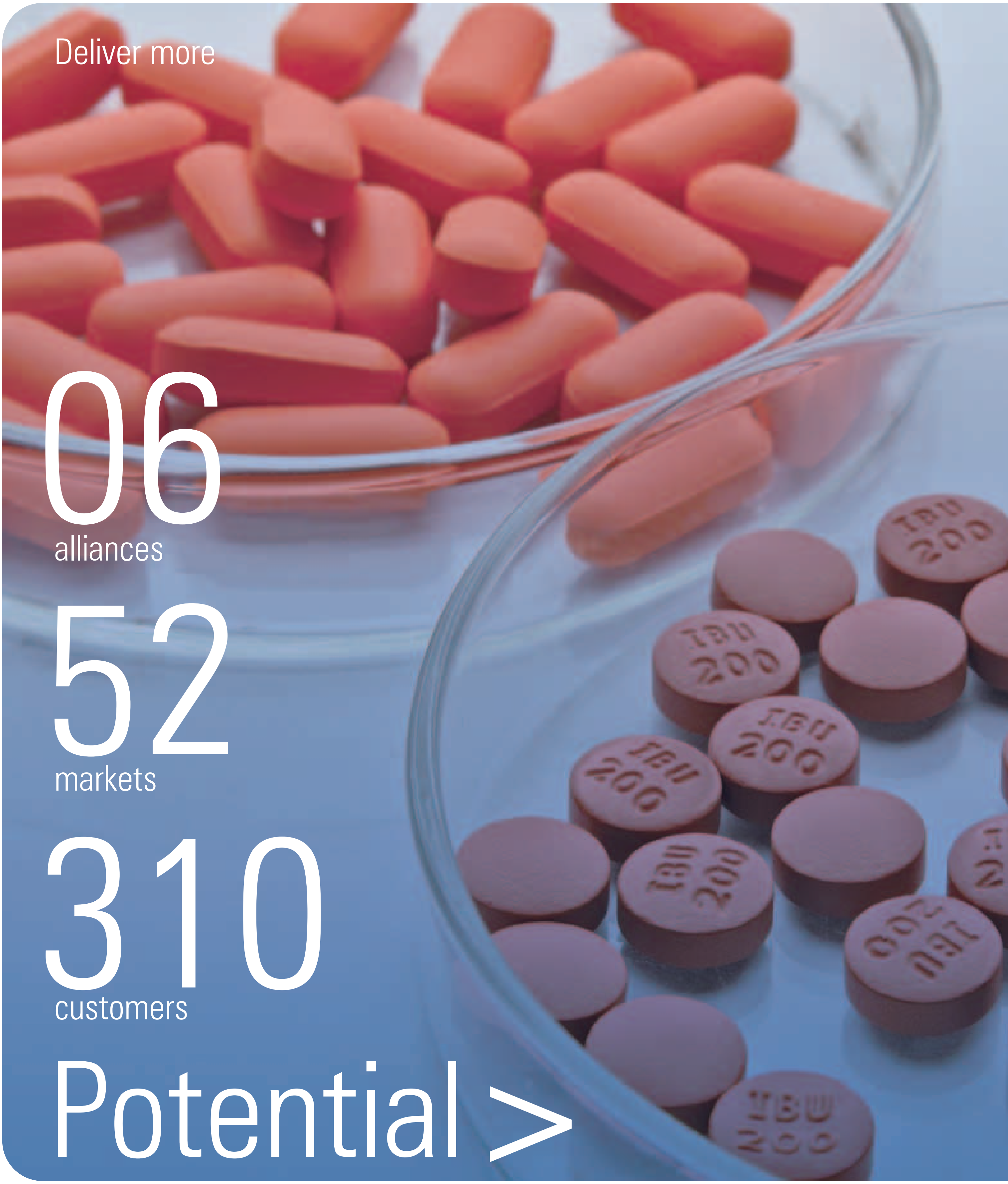
At Granules, around 20 projects are currently in the development phase, a few nearing completion. In its desire to graduate to the high-margin prescription segment, the Company intends to increase the share of prescription products in the revenue mix from the prevailing 70:30 portfolio proportion (consumer healthcare to prescription products) to an equitable 50:50. This evolution will establish the Company as a leading diversified outsourcing pharmaceutical player with attractive topline and bottomline implications.

Regulatory services

Granules is competently placed in the challenging domain of regulatory documentation. The Company has conducted extensive research and documentation on parameters like dissolution, disintegration, forced degradation stability and bio-studies, enabling it to prepare ANDA/dossier filings for various products, apart from creating a compressed set of documents to serve as a template for all regulated markets like the US, Canada, Europe and Australia.

This documentation capability ensures competitive and efficient services to customers in a relatively short tenure, liberating them of the regulatory rigours of various process validations on the one hand, and benefiting them through cost reductions on the other.

Granules expects to submit six ANDAs before March 2008 among which two have already been submitted. Going ahead, the Company intends to file at least four ANDAs annually, establishing itself as a regulatory partner for a number of its customers.



Deliver more

06
alliances

52
markets

310
customers

Potential >

Granules products are available in 52 countries. The high quality levels at the Company, an efficient logistics management and internationally benchmarked and approved manufacturing plants have resulted in a presence in semi-regulated markets like Latin America as well as in the highly regulated markets of the US, Europe, Australia and Canada.

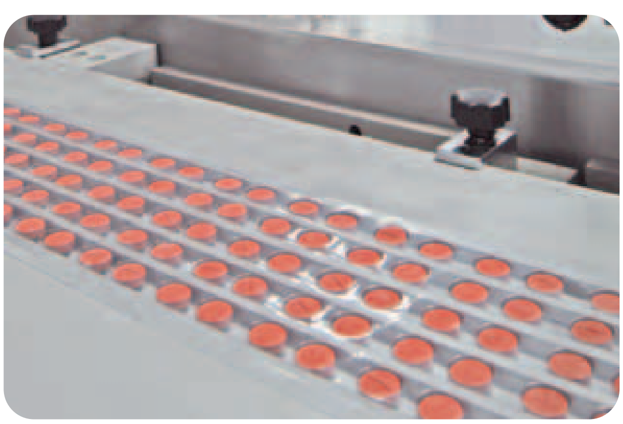
Markets

During the year under review the Company adopted a differentiated approach for each market.

To strengthen its presence in regulated markets (Europe, Australia and the US) the Company entered into various strategic alliances. Some of these are as follows:

- **MatchLand:** To cater to their finished dosage manufacturing requirements for the Australian market. This will enhance the Company's presence in the relatively under-explored markets of Australia and New Zealand.
- **PharmaMatch:** Intended to strengthen Granules' presence in Europe through an arrangement with this prominent EU finished dosage player.
- **Heritage Pharmaceuticals Inc.:** To develop, supply and market generic pharmaceutical products to establish itself in the US prescription drug market.

These alliances will help the Company de-risk its business through prudent and timely capacity addition; they will bring the Company closer to customers and facilitate a better understanding of the markets. In turn, the alliance partners will benefit through a faster time-to-market and assured product supply.



The Latin American market estimated at US$41 billion is marked by significant growth but sparse capacities. Driven by Mexico, Brazil, Colombia, Argentina and Venezuela, these markets are expected to cumulatively represent a market value of US$63 billion (retail prices) by 2012.

Granules is aggressively promoting PFI products in this continent. With additional capacities now being set up, the PFI concept has been well accepted, reducing costs and time-to-market. Granules addressed the market through six new PFI products marketed across 17 countries to more than 150 customers.

Customers

At Granules, an ongoing reinforcement of the business model has significantly enhanced its industry perception.

Over time, the Company has enhanced customer confidence through the following: an extensive presence across the pharmaceutical outsourcing chain (including formulations and regulatory approvals), consistent investment in scale, manufacturing presence in India and China, wide product range, strong research focus and continuous growth in net worth. A combination of these has reinforced customer confidence in the Company's ability to service pharmaceutical giants in a sustainable way.

As a result, Granules is now attracting global pharma players interested in expanding capacities through alliances. These arrangements will not merely ensure sustained capacity utilisation, higher revenues and improved profits; they will enhance the Company's industry position, attracting more and bigger customers as well.

MD's message

C. Krishna Prasad

"At Granules, we are currently at a point of inflection importance..."

Dear Shareholders,

At Granules, we would prefer to appraise the financial year 2006-07 as one of consolidation, wherein we strengthened our business model and emerged as a completely integrated outsourcing partner within the pharmaceutical value chain.

At Granules, we strengthened our ability to offer end-to-end solutions through the following initiatives:

- We extended into formulations through a 6-billion-tablets-a-year facility (Phase I), commissioned in October 2007.
- We strengthened our API presence through an agreement with Hubei Biocause (China), the fourth largest ibuprofen exporter in the world.
- We invested in the research and development of value-added combination products of paracetamol and ibuprofen.
- We created an ANDA pipeline of six ANDAs (two already filed).
- We entered into several alliances to penetrate the regulated markets with our formulation products.

At Granules, all these initiatives are expected to drive growth, generating a more than proportionate increase in revenues, profits and margins, indicating that we are at a point of inflection importance.

The first inflection point in our existence was in 2002-03, when we embarked on an initiative to increase our PFI capacity seven-fold through the world's largest 7,200-TPA standalone, completely automated, granulation plant in Gagillapur, with the world's largest batch size of 6,000 kg. At the time, India, a low-cost destination with high quality assets and requisite skill sets, was on the threshold of evolving into a product-patent respecting country, recognised as a probable destination for process outsourcing of APIs and granulation manufacturing by large pharma multinationals. This investment enabled us to capitalise on the emerging process outsourcing opportunities and emerge as a preferred outsourcing partner for global pharmaceutical companies.

As the industry opportunities evolved considerably, we reinforced our business model through the following investments:

- Expanded our granulation capacity from 1,200 TPA to 8,400 TPA.
- Increased our API capacity from 3,936 TPA to 13,550 TPA.
- Entrenched our formulations presence to six billion units a year with the potential to touch 18 billion units a year.

The growth is evident: Our revenues increased from Rs. 64.11 cr in 2002-03 to Rs. 188.16 cr in 2006-07, a CAGR of 30.89%. During the period, net profit recorded a CAGR of 27.41%, rising from Rs. 3.84 cr to Rs. 10.12 cr. The capital employed in the business increased from Rs. 59.25 cr as on 31st March 2003 to Rs. 285.19 cr as on 30th June 2007, while EBIDTA return on employed capital strengthened from 13.24% to 14.90% across the period.

Over the last few years, the dynamics of the global pharma industry have turned increasingly favourable for the outsourcing of research and manufacturing, with India emerging as a preferred destination. Granules is adequately equipped to address this opportunity. The Company possesses internationally approved/ benchmarked manufacturing facilities, a qualified and experienced R&D team and a global vision.

Tableting: The commissioning of our state-of-the-art 6-billion-units-a-year formulations plant has strengthened our vertical integration as well as our revenue proposition through a wider product basket (API, PFI and formulations). With margins covering the conversion of PFIs into formulations being higher than that of API to PFI, this extension will strengthen our bottomline considerably, graduating us into a higher league within the pharmaceutical industry.

API: This integration is being strengthened through progressive investments in scale. Our new 8,000-TPA paracetamol plant at Bonthapally will help us address the entire requirement of paracetamol API once our formulation plant is completely operational. Similarly, the joint venture in China assures us of ibuprofen API supply while opening up opportunities in penetrating the regulated markets of Europe and the US. These initiatives make us one of the few companies in the world to enjoy scale across the entire value chain, significantly enhancing our topline and bottomline.

The Chinese alliance is exciting for yet another reason. With China being increasingly favoured as an API outsourcing destination and India being preferred for formulations, a manufacturing presence in both the countries will generate a win-win proposition for the moment and prospective partnerships across the future.

Value addition: As we graduate up the value chain, we are continuously evolving our product portfolio towards value-added products. We have gradually evolved from the development of products to research and development. Our strengthened research and regulatory capabilities are reflected in our current pipeline of ANDAs. Henceforth, we intend to file at least four ANDAs a year. We have identified two more prescription products, besides metformin, which are currently under development and are expected to be commercialised by 2008. We are also focussing on developing around 15 value-added paracetamol and ibuprofen combination products. We have also invested our R&D resources in developing products across higher margin, value-added and controlled release forms. Our formulations facility is versatile enough to handle the production of these extended release forms when commercialised.

The scale of our operations and the product pipeline is gradually enriching our industry reputation, positioning us among leading outsourcing players and attracting the attention of larger players keen to enter into win-win partnerships with us.

De-risked growth: As we grow aggressively, we recognise the importance of de-risked growth. So even as we develop products and invest in scale, we seek alliances and joint ventures to enhance volumes and load our capacities, enter new markets and scale our operations to leverage the benefits of scale. We entered into three such alliances that will tie up our formulation capacities to a large extent while extending our formulation products into the markets of the US, Europe and Australia.

Funding: To support our vertical integration strategy and acquisition of 50% stake in a joint venture with China's Hubei Biocause Heilen Pharmaceuticals, we mobilised funds through a succession of equity placements. While the US-based ISP Investco LLC picked up around 11.03% stake in our equity, Ridgeback Capital Asia Ltd acquired 10.88%. More recently, we mobilised US$6 million through the divestment of 10.27% to the International Finance Corporation (IFC), the private equity arm of the World Bank, an endorsement of our emphasis on world-class infrastructure and global vision.

Senior management: To sustain growth, we strengthened our management through recruitment of professionals with relevant qualifications and experience, supported by a motivated team, both endeavouring collectively towards our global vision.

As these initiatives transform into reality, our topline and bottomline are expected to grow. Meanwhile, we will seek opportunities to enhance our scale either through the greenfield or acquisition routes; our formulations plant will lead to a more than proportionate increase in our revenues and profits.

We are confident that our strengthened balance sheet will help us mobilise additional resources, creating a virtuous cycle of investments, higher revenues, increased profits and improved margins. In turn, this will translate into enhanced value in the hands of those who own shares in our Company.

Yours sincerely,

C. Krishna Prasad
Managing Director

Management Discussion and Analysis>

Industry review

Global review

Driven by growth in emerging markets, global pharmaceutical sales rose 7% to US$643 billion during 2006 (source: IMS Health). Shifts in growth were witnessed from mature markets to emerging ones and from primary care classes to biotech and specialist-driven therapies. Industry growth was fuelled by population longevity, strong economies and product innovation. In 2006, some 31 new molecular entities were launched in key markets. Overall, the contribution from products launched between 2001 and 2005 reached US$13.5 billion in 2006. Besides, specialist-driven products contributed 62% to the market's total growth, compared with 35% in 2000.

A number of primary care classes experienced declining or sub-market average growth due to the entry of lower-cost, high-quality generics and switches to over-the-counter products. These classes comprised proton pump inhibitors (PPIs), anti-histamines, platelet aggregation inhibitors and anti-depressants. Generics represented more than half of the volume of pharmaceutical products sold in seven key global markets – the US, Canada, France, Germany, Italy, Spain, and the UK – in 2006. This trend reflects the changing balance between new and old products and the growing 'genericisation' of a number of primary care categories.

Global pharmaceutical sales in 2006: Region-wise performance

- **The US:** In 2006, North America, which accounts for 45% of global pharmaceutical sales, grew by 8.3% to US$290.1 billion, up from 5.4% in the previous year.
- **Europe:** The five major European markets (France, Germany, Italy, Spain and the UK) experienced 4.4% growth to US$123.2 billion, down from 4.8% in 2005, the third year of declining growth.
- **Japan:** Japan experienced a 0.4% decline from the previous year to US$64.0 billion, result of the government's biennial price cuts.
- **China:** Pharmaceutical sales in China grew 12.3% to US$13.4 billion in 2006, compared with 20.5% in the previous year. This slowdown was due to the government's campaign to limit the physician promotion of pharmaceuticals.
- **Others:** Sales in Latin America grew 12.7% to US$33.6 billion, while Asia Pacific (outside of Japan) and Africa grew 10.5% to US$66 billion.
- **India:** It was one of the fastest growing markets in 2006, with pharmaceutical sales increasing 17.5% to US$7.3 billion. The Indian pharma industry is one of the world's largest and most developed, ranking fourth globally in terms of production volume and 13th in domestic consumption. Exports constituted nearly 40% of the production with formulations contributing 55% and bulk drugs 45%. The industry ranks 17th in terms of the export value of bulk actives and dosages. Over the last 30 years, India's pharmaceutical industry has evolved from almost a non-existence to a world leader in the production of quality generic drugs. India now enjoys a globally respected reputation in the production of quality, low-cost generic drugs *(Source: IMS Health Report).*

India as a preferred pharma partner

The emerging trend of global partnerships in the pharmaceutical industry is critical on account of cost pressures, globalisation, complex pricing and regulatory environment. These factors are forcing pharmaceutical and biopharmaceutical companies to focus on operational efficiency. In view of this, India is emerging as an alliance and outsourcing destination of choice for global pharma companies. It is estimated

Global pharmaceutical sales, 1999-2006

Global sales US$bn	1999	2000	2001	2002	2003	2004	2005	2006
Total world market (current US$)	334	362	387	427	498	559	601	643
Growth over previous year (% constant US$ growth)	14.5	11.7	11.8	10.6	10.4	8.0	6.8	7.0

**Source: IMS Health Market Prognosis (includes IMS audited and unaudited markets)*

All information current as of 2nd March 2007.

that the total outsourcing market for pharmaceutical and biotechnology drugs will reach around US$60 billion by 2010. The pharmaceutical manufacturing service outsourcing alone would cross US$25 billion by 2011, out of which, India and China are likely to contribute 10%.

One of the emerging trends is the long-term relationship between Indian pharma companies and pharma MNCs, leading to a preferred vendor status for the former. In 2006, significant deals were entered into across the CRAMS segment, including custom synthesis, intermediates, APIs (active pharma ingredients) and formulations. The manufacture of raw materials for medicines (APIs) and oral solid formulations (tablets and capsules) continue to be prime revenue sources for India's contract manufacturing industry. The domestic pharma companies are increasingly acquiring overseas plants to provide contract research and manufacturing services (CRAMS), as well as drug outsourcing to large pharmaceutical companies. As a result, there is a marked increase in deal flows and inorganic initiatives by Indian companies, entrenching positioning the country as a preferred outsourcing destination.

Increasing investments in research and development have extended India's established presence from contract manufacturer to drug discovery as well. The Indian pharmaceutical sector is now focusing on R&D, especially in the area of new chemical entities and dosage forms. About a dozen companies are developing 60 new compounds; the average R&D spend in the pharmaceutical sector has increased from around 8% prior to patent legislation to 10-12% now. The domestic industry in India invests over US$250 million a year in R&D; this is expected to rise to US$500 million by 2010 and US$1.2 billion by 2015.

Emerging global R&D outsourcing opportunities have driven several Indian companies to redefine their business models and extend to contract research services. A number of niche service providers have emerged, bringing a spectrum of offerings to cover gaps in capacity, optimise costs, widen skills and reinforce the drug development pipeline. Quite a few Indian contract research organisations (CROs) have expanded the width of their service portfolio for innovator companies in drug discovery and development. Several CROs have emerged as preferred partners for international companies to pursue R&D projects.

Drivers of India's emergence as a global pharma partner

- **Introduction of the product patent regime:** This has enhanced the confidence of international companies in India's outsourcing industry. Although many Indian companies have been working as sourcing partners for large MNC pharma players, the recently introduced regime is expected to strengthen IPR compliances on an industry-wide basis.

- **Cost advantage:** The comparative cost advantage in India can be gauged from the fact that Indian companies can manufacture pharmaceuticals for less than half of what it costs in the US, conduct clinical trials at less than one-tenth of the US costs, and conduct research at less than one eighth of what it costs in the US. A multinational company moving its R&D to India can potentially save as much as 30-50% of the costs incurred in its home country.

- **Capital efficiency:** Indian companies are able to reduce the upfront capital cost of setting up a project by as much as 25-50%, due to an access to locally fabricated equipment and high quality indigenous technology/engineering skills. Indian companies have been able to establish USFDA standard plants at approximately 50% lower capital costs compared with the US or Europe-based manufacturing units.

- **Process engineering:** A competitive local market and a lack of adequate pricing power compel Indian companies to continuously work on the molecule even after a product is launched. This often generates gains through improved yields and/or cost-effective manufacturing processes. The customer and supplier generally share such benefits in a pre-determined ratio, leading to continuous cost reduction.

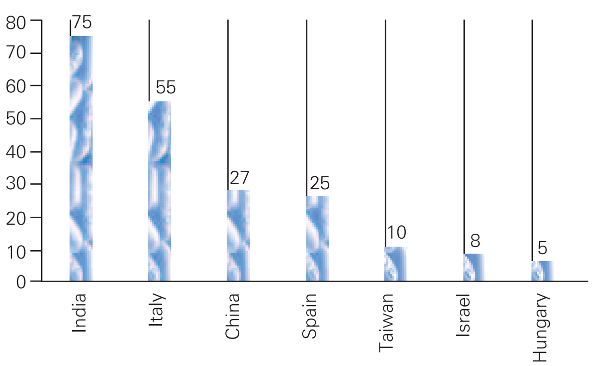
- **Significant capacity in industry to meet the demand for manufacturing services:** There has been a significant capacity build-up in the global generics industry. The most aggressive increase in capacity has transpired in India: aggregate capital expenditures of the 15 largest generics companies more than trebled between 2000 and 2004. Not only did large companies enhance their investments, but second and third tier companies also made heavy investments to service planned forays into regulated markets.

- **Rich pool of talent:** India is home to quality research and talent development at a cost substantially lower than in the regulated markets, making it an ideal destination for multinational companies to set up their research base in this geography. India also enjoys a vast pool of professionals; nearly 125,000 chemical engineering graduates and chemists pass out of its universities every year. There are about half a million pharmaceutical scientists and pharmacists working in India's hospitals, R&D units and manufacturing and retail sectors.

- **Patent expiries of top-selling drugs:** Many existing top-selling drugs face patent challenges and competition from generics players. This will put an immense pressure on their operating performance, forcing them to outsource non-core and high cost activities to protect their profitability. Drugs worth US$40 billion are expected to lose their patent protection in three years; this will lead to enhanced outsourcing by innovators as well as generics players to arrest declining profitability.

- **Highest number of manufacturing plants approved by the USFDA, second only to the US:** Most of the capex incurred by Indian pharmaceutical companies has been invested in USFDA-approved plants in anticipation of the large wave of patent expiries. There has also been a surge in the number of plants receiving USFDA approval in India.

India has the most USFDA-approved manufacturing sites outside the US



Source: USFDA

- **Business environment in Europe and the US:** Global pharma players are facing challenging times. High cost pressures on the back of rapid asset creation, emergence of high quality and low-cost destinations (India and China) and intense price competition among generics players represent challenges. Innovator pharma companies are looking at alternative sourcing destinations like India and China to shift businesses from high cost regions like Europe and the US.

Over-the-counter pharmaceutical industry

Global OTC pharmaceuticals grew at a CAGR of 5.1% across 2002 and 2006 to US$88.7 billion. At a global level, pharma giants are leveraging the power of OTC to address these challenges. Globalisation, a shrinking new product pipeline, increasing cost of new drug discovery, shrinking PLC of existing products, increasing demand by managed healthcare organisations, public and government to cut the prices of patent-protected drugs, stringent safety rules of the USFDA and the entry of new players in the market are putting a tremendous pressure on all pharma companies. A recent decision of Pfizer Inc's – the world's largest drug maker – to cut its US sales force by 20% clearly reflects this pressure.

For a drug to be eligible for the over-the-counter status requires an appraisal by the Food and Drug Administration (FDA) that it is safe and effective. Under current regulations, a new drug can be exempted from prescription-only status by the FDA approval of a new drug application, supporting the use of the product on an over-the-counter basis. Alternatively, a drug can be marketed as over-the-counter if its ingredients are included in previously published regulations defining the requirements for over-the-counter status and if the labelling of the product complies with these regulations.

The US OTC pharmaceuticals market generated revenues of US$21.2 billion in 2006, representing a CAGR of 4.3% for the five-year period from 2002 and 2006. In comparison, the Chinese and Japanese OTC pharmaceutical markets registered CAGRs of 7% and 2.9% over the same period to reach respective values of US$11.9 billion and US$4.8 billion in 2006. The trend in the US market is to convert prescription drugs into OTC at the end of patent protection (switch) to ensure a continued revenue flow from the product.

The European OTC pharmaceuticals market generated revenues of $23.6 billion in 2006, representing a CAGR of 2.5% between 2002 and 2006. In comparison, the Global and Asia-Pacific OTC pharmaceuticals markets clocked a CAGR of 5.1% and 6.9% over the same period, to reach respective values of US$88.7 billion and US$39.1 billion in 2006.

Indian OTC pharmaceuticals market: The Indian market faces the problem of a 'deemed OTC market' where ethical drugs are marketed without a prescription due to poor FDA monitoring and control. A self-medication tendency is high due to wide availability, awareness and acceptance of traditional medicines. The Indian OTC pharmaceuticals market generated total revenues of US$2.5 billion in 2006, representing a CAGR of 8.3% between 2002 and 2006. Traditional medicines proved the most lucrative for the Indian OTC pharmaceuticals market in 2006, generating revenues of US$679.3 million. In comparison, sales of cough and cold preparations generated revenues of US$492.6 million in 2006.

OTC pharmaceuticals market segmentation:
(% share, by value, 2006)

Category	United States	Europe	India
Cough and cold preparations	22.30	18.70	19.80
Vitamins and minerals	18.70	16.00	11.60
Analgesics	15.20	15.00	11.40
Medicated skin products	12.60	8.90	2.60
Traditional medicines	5.30	16.70	27.30
Other	25.90	24.60	27.30

Opportunities and challenges

- The global pharma outsourcing market is worth US$37 billion and growing at almost 11% *(Source: Frost & Sullivan)*. Cost and time pressures are forcing customers to turn to China and India.

- By 2012, the global R&D spend is estimated to touch US$100 billion (10% of the pharma market). Indian companies are hoping that between 1% and 3% of the total R&D budget will be outsourced to India, or US$1-3 billion of business, which is between one-sixth and half the size of India's total pharma industry today.

- In 2006, the offshoring of drug discovery services was at US$4-5 billion from the US and Europe. The demand for offshoring from these countries is projected to reach US$11-12 billion by 2015, a CAGR of more than 10%. India's established presence in the contract manufacturing space and an increasing acceptance as a clinical research hub is extending to drug discovery as well. The drug discovery industry in India was estimated to be around US$600 million in 2006, accounting for almost 13% of the global offshore discovery research market. The sector is poised to grow to US$6 billion by 2015.

The challenge before Indian companies will be to focus on not only product access, sales and marketing, but

The Indian OTC pharmaceuticals market generated total revenues of US$2.5 billion in 2006, representing a CAGR of 8.3% between 2002 and 2006.

also on creating new markets and strategies to service these markets. Multinationals need to raise their presence in India through fresh investments. The policy makers need to create an encouraging industry environment.

Granules' presence

The Company, headquartered in Hyderabad – the pharmaceutical city of India – is an integrated pharmaceutical player enjoying manufacturing capabilities across API, PFI and formulations. It has also developed expertise in regulatory services enabling it to offer end-to-end outsourcing solutions to its customers, including some leading players within the global pharma space.

Granules enjoys a marketing presence across more than 50 countries. It has a wholly owned marketing subsidiary in the US. Its manufacturing plants are located in Jeedimetla, Bonthapally and Gagillapur on the outskirts of Hyderabad. It has now extended its manufacturing presence to China through a joint venture with Hubei Biocause Heilen Pharmaceutical Co. Ltd - the largest manufacturer and exporter of ibuprofen in China.

Facility	Location	Capacity	Approvals
TAPI	Jeedimetla	1000 TPA	USFDA, WHO cGMP compliant
API	Bonthapally	8000 TPA	USFDA
API	China	3800 TPA	USFDA, Russia, EDQM, Canadian TPD
PFI	Jeedimetla	1200 TPA	USFDA, Australian TGA, German HA
PFI	Gagillapur	7200 TPA	USFDA, Australian TGA, German HA
Formulations	Gagillapur	Phase 1 - 6 billion tablets per annum Phase 2 - 6 billion tablets per annum	Phase 1 commissioned. Has been successfully audited by EUGMP, approval awaited
Research and development	Gagillapur	3500 sq feet	Canadian TPD

Operations review

API division

The Company's API facilities are located in Jeedimetla and Bonthapally with a total installed capacity of 9,400 TPA. APIs like guaifenesin and metformin are manufactured at the Jeedimetla unit (capacity 1,000 TPA) whereas APIs like paracetamol/ acetaminophen are manufactured in the Bonthapally unit (capacity 8,400 TPA).

Highlights, 2006-07

The division reported a robust performance, which is reflected in the following numbers:

- 16.62% increase in overall production to 5,966 TPA.
- 14.78% increase in sales to Rs. 70.02 cr.
- 85% capacity utilisation at the Jeedimetla plant.
- Development of an intermediate required for the manufacturing of Iso-Metheptene Mucate (IMM).

Initiatives

The initiatives to enhance operational efficiency comprised the following:

- Addition of two new reactors and a fluid bed dryer (FBD); upgradation of facilities at Block I resulted in an increased production of Metformin HCl from 24 MT to 75 MT.
- Addition of new FBD and centrifuge leading to the increased production of PPHCl from 2.5 MT to 4.5 MT.
- Replacement of IPA solvent with ethyle acetate in the manufacture of IMM leading to improved product quality, reduced cycle time and lower raw material cost.
- Increasing R&D role in studying existing products to reduce the overall cost of manufacture.

Results

The aforesaid initiatives translated into the following benefits:

- Increase in the production of Metformin HCl (by 46%) and PPHCl (by 12%), meeting captive, domestic and export requirements.
- New quality certifications from national and international agencies (ANDA approved by Amneal Pharmaceuticals, USA, for Metformin HCl; WHO GMP Certification issued by the DCA and the renewal of drug license for five years).

PFI division

The Company's PFI facilities are located in Jeedimetla (capacity 1,200 TPA) and Gagillapur (capacity 7,200 TPA). The Gagillapur plant enjoys the distinction of being the world's largest standalone PFI manufacturing unit with the world's largest batch size of 6,000 kg. The Company's plant enjoys regulatory approvals from all four major regulatory agencies (USFDA, TGA, Canadian TPD and German HA). Pioneers in the manufacture of combination PFIs (using multiple APIs), the Company is among the few in the world to commercially manufacture PFI beyond high-volume products like paracetamol, into low-volume, high value products like guaifenesin and metformin.

Highlights, 2006-07

The healthy performance of the division is reflected in the following figures:

- Production of 4730.94 TPA.
- Sales of Rs. 114.60 cr.
- 60% capacity utilisation of the Gagillapur PFI facility (54% in the previous year).
- Addition of a new product, COMPRESSO PAP CPK.

Initiatives

The following process improvements enhanced product quality, reduced cycle time and manufacturing costs:

- Installation of 72 inches single deck sifter in Module A.
- Introduction of a barcoding system in both modules for product labels.
- Enhancing the sifting efficiency in manufacturing CPF and a reduction in the granulation time of CPL.
- Improving the automation at the facility using innovative techniques, apart from process improvement across all products.
- Providing regular training to all employees, improving their skills and reducing wastage.

Results

The ongoing upgradation has translated into the following benefits:

- Increase in productivity by one lot per shift of CPL and one lot per day of CPF.
- Received quality certification from Australian TGA and customer approvals and validations from Interpharm USA, GSK, P&G, Sanofi Aventis, US Pharmasia, Metrics and Rephine.

Formulation division

The Company set up a tableting facility at Gagillapur with an annual capacity of producing six billion tablets (commissioned in October 2007). This state-of-the-art facility is equipped with innovative dosage form products like pressfits, expressfits, sachets/stick packs and effervescent tablets. The technology in use possesses automated loading systems with directly compressible grade (drum to hopper), coating, blister packing, bottle packing and bulk packing. The robust infrastructure and the quality system in place received approvals from TEVA and Portuguese auditors in October 2007 and were also audited by EUGMP (approval expected).

As a future-focused company, the facility can accommodate production capacity of up to 12 billion tablets in the same vicinity, feeding the increased outsourcing needs from clients as well as the contracted development of finished dosages.

Raw material management

The Company's raw material procurement is managed around volumes. Across some products, the Company is the largest buyer in Asia. Its consistent sourcing, coupled with growing operations, assures its suppliers of continued business. In view of this, the Company enjoys a preference in terms of competitive pricing and delivery schedules.

Since the Company is a 100% export-oriented unit and enjoys benefits of zero customs duty on its imports, it prefers to import the major supply of its raw material from competitive and quality-driven suppliers in China. Almost 70% of the Company's imported raw material requirement is sourced from China, the rest from countries like France, Korea Taiwan, the US, Italy, etc.

The Company uses nearly 100 different types of materials comprising raw material, active pharmaceutical ingredients, excipients and packing materials etc. Competitive procurement is challenging at Granules. To ensure quality, raw materials are sourced only from internationally accredited vendors. The quality of materials is protected by its QC and QA teams through regular technical and commercial audits of vendor facilities. To ensure uninterrupted production, the Company maintains an inventory of 15 days.

Environment, health and safety management

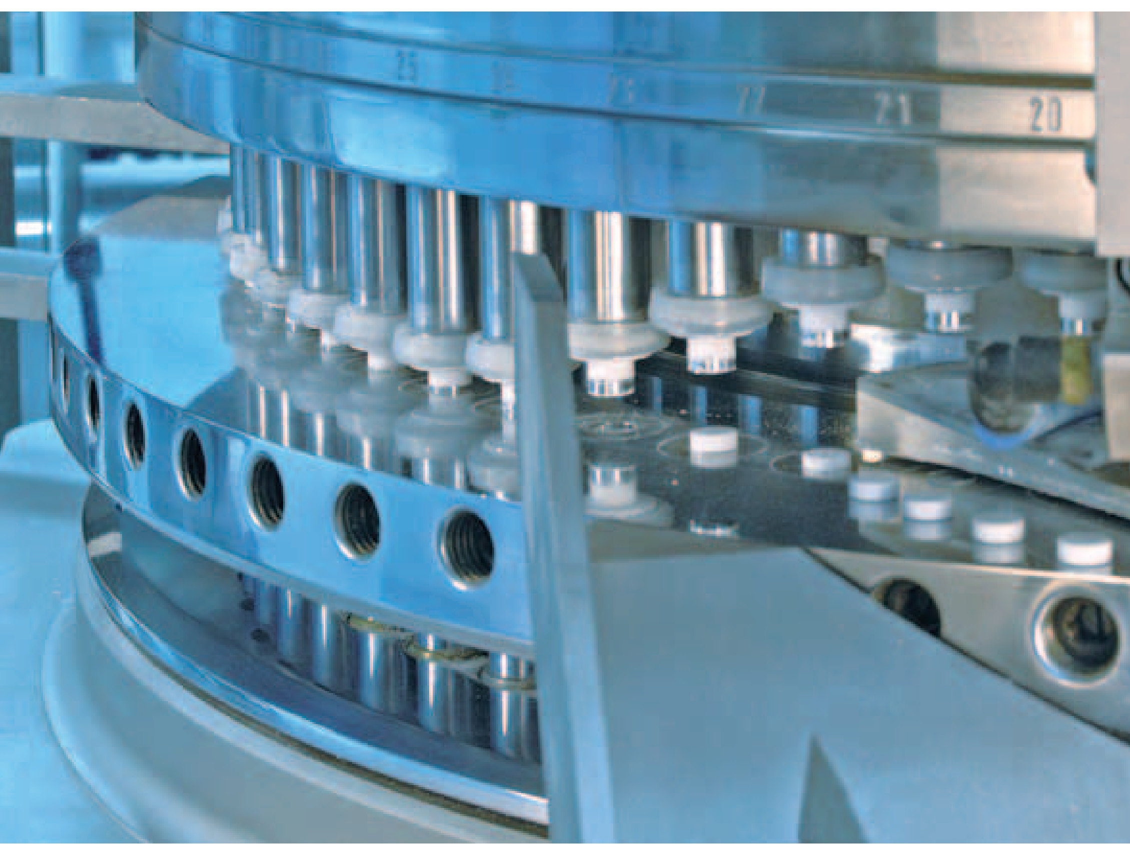
At Granules, it is not just important to be profitable for the moment, but to be so sustainably. This is no longer an economic requirement, but an environmental one as well.

This priority is reflected in the Company's environment, health and safety policies. The Company's plants are designed to minimise environmental and health hazards. For instance, its class 100,000 R&D facility addresses needs well beyond statutory requirements, ensuring completely dust-free air within the facility.

The success of the Company's environment protection measures is evident from the fact the Company increased its capacity without any increase in effluent generation. Moreover, the PFI plant in Gagillapur is now a zero-discharge plant with the entire water recycled and used for gardening. This has also reduced the Company's in-plant water consumption.

Some of the environment-management initiatives adopted by the Company comprise following:

- Implementation of Environmental Best Practices at the Company's Gagillapur plant (recognised by the CII).
- Responsible delegation of eco-friendly initiatives to employees.
- The use of sophisticated equipment to collect dust generated during process activities and material transfer.
- Conversion of the entire plant into a non-smoking zone.
- Frequent test and monitoring of ground water, soil, ambient air, stacks and noise levels.
- Scrubbing, cleaning and neutralisation of gaseous emissions with suitable chemical reagents.
- Institution of an on-site reverse osmosis (RO) plant to pre-treat water for use in the processing plant and drinking sources; commissioning of adequate storage capacity to ensure adequate water supply for operations. Daily in-house and independent testing of RO water supplies.
- Investment of sewage treatment and process wastewater effluent treatment plants with processing plants.
- Proposed installation of a common effluent treatment



The state-of-the-art formulation facility is equipped with innovative dosage form products like pressfits, expressfits, sachets/stick packs and effervescent tablets.

plant reinforced by a cleaner technology to minimise liquid effluents, gaseous emissions and solid wastes.

Green belt development

The creation of a green belt around the plant area has helped neutralise pollution. The Company plans to construct a green building, comprising natural light and natural cooling through a roof garden on the terrace and the use of environment-friendly fly ash cement and solar energy.

Health and safety initiatives

The Company has instituted policies and procedures to ensure workplace hygiene and occupational health and safety (OHS) conditions across all facilities in line with international standards. The initiatives comprise the following:

- A detailed on-site emergency plan at each facility for responding to fires, chemical related explosions and the accidental releases of hazardous substances. The Company conducts regular drills according to an emergency plan in collaboration with the local fire brigade.
- Completely automated in-plant handling and movement of solvents. Liquid materials are handled through a pumping system using flame-proof pump sets, stored in underground tanks and used through closed pipelines. Solid materials are handled by trained staff and kept in a ventilated area. A regular preventive maintenance programme is adhered to for all equipment; mock emergency drills are conducted on a regular schedule at all facilities.
- A provision is made of 'personnel protective' equipment including safety helmets, respiratory masks, goggles and gloves, ensuring the use of the same through daily monitoring by EHS staff.
- The conduct of regular induction training and refresher courses for all employees in each plant, monitored by the EHS staff on health and safety topics (first aid, fire fighting, emergency preparedness, hazardous chemical handling and waste disposal management).
- Institution of all equipment with appropriate safety guards, using anti-vibrating pads for diesel generator sets and fluid bed processors to reduce noise levels to accepted safe levels, installed dust collection systems and centralised HVAC systems in all working areas to maintain adequate ventilation and prevent cross-contamination.

The success of the Company's environment protection measures is evident from the fact the Company increased its capacity without any increase in effluent generation.

Going ahead, the Company is in the process of preparing for ISO 14000 certification for all its plants.

Community engagement

The Company has a strong commitment to community engagement and social development in the areas where its facilities are located. It works with local resident welfare associations and other non-government organisations (NGOs) at each facility to identify community needs and determine which of these the Company is able to support. Granules has provided assistance through the development of schools, hospitals and sanitary facilities (constructing water tanks for providing safe drinking water), development of roads and construction of temples. Resources for these activities are included in the Company's annual budgeting exercise and the Company expects that these initiatives will benefit nearly 2,000 residents.

Human resource management

The Company employed 525 people across its plants and offices as on 30th June 2007. Its human resource policy encompassed assessing individual employee performance, imparting regular and need-based training and providing opportunities for growth and development. Active worker-management committees at all plants included mechanisms for identifying, investigating and addressing employee grievances.

The Company instituted a salary and benefits package for its technical staff, including a medical reimbursement policy as part of its compensation package and Employee Stock Option Plan (ESOP). Subsidised meals and transportation was provided at the Gagillapur facility.

Internal controls

The Company has proper and adequate systems of internal control implemented within the organisation commensurate with the size and nature of business, ensuring protection of assets against loss from unauthorised use or disposition. Regular internal audits and checks are carried out to ensure that all internal control procedures are carried out as per guidelines and that the responsibilities are discharged effectively at various levels.

Financial review

Accounting policy

Granules India Limited prepared its accounts based on the historical cost convention and the accounting principles of a going concern, complying in all material aspects with the applicable accounting standards issued by the Institute of Chartered Accountants of India.

2006-07 vs. 2005-06

The improved performance of the Company during the year under review was reflected in an increase in topline, bottomline and profitability.

- 6.92% increase in total income from Rs. 175.98 cr to Rs. 188.16 cr.
- 17.98% rise in EBIDTA from Rs. 26.74 cr to Rs. 31.54 cr.
- 9.45% growth in PAT from Rs. 9.25 cr to Rs. 10.12 cr.
- 175-basis point increase in EBIDTA margin from 15.24% to 16.99%.
- 1.87% rise in EPS from Rs. 7.49 to Rs. 7.63.
- 28.92% enhancement in cash profit from Rs. 16.63 cr to Rs. 21.45 cr.

Revenue analysis

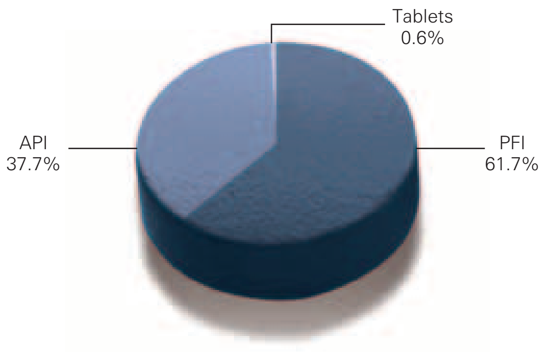
The Company's gross sales surged 7.49% from Rs. 181.59 cr to Rs. 195.19 cr in 2006-07, due to widening market presence, penetration and customer base. Domestic sales grew 57.38% to Rs. 59.59 cr during the year under review (as a proportion of gross sales, from 20.85% to 30.53%). Although export revenues continued to be the major contributor to total revenues (72.71% of net sales in 2006-07), a strengthened rupee pulled down exports in value terms marginally – from Rs. 143.28 cr to Rs. 135.02 cr.

Revenue break-up based on geography (Rs. cr)

Component	2005-06	2006-07
Domestic	38.30	60.17
Exports	143.28	135.02
North America	76.68	68.29
Latin America	40.51	42.91
Europe	10.89	9.91
Others	15.21	13.33

In terms of products, PFI (61.71%) was the major contributor to net sales, accounting for Rs. 114.60 cr in 2006-07. An increase in API capacity resulted in increased API volumes. Subsequently, API sales increased from Rs. 52.24 cr in 2005-06 to Rs. 70.02 cr in 2006-07. Sales from finished dosages were at a marginal Rs. 1.08 cr.

Product-wise contribution to gross sales



Other income: The Company's other incomes, comprising interest, insurance claims received and earnings from foreign exchange fluctuations, increased 383.25% to Rs. 2.46 cr in 2006-07. The proportion of other income in the total income was a mere 1.31%, indicating that the Company's income was primarily derived from its core business.

Cost analysis

The total cost, excluding interest, depreciation and amortisation, increased 3.65% from Rs. 148.74 cr in 2005-06 to Rs. 154.16 cr in 2006-07. Although the Company's absolute costs increased on account of business growth, inflation was checked through operational efficiency and economies of scale. This was reflected in a 259-basis point decline in the Company's total costs (excluding interest, depreciation and amortisation) as a proportion of the total income from 84.52% in the previous year to 81.93% in 2006-07.

Segmental break-up of key expenses

	Absolute costs (Rs. cr)		% of total income	
Segment	2005-06	2006-07	2005-06	2006-07
Raw material cost	111.49	107.34	63.35	57.05
Employee cost	6.30	9.65	3.58	5.13
Manufacturing expenses (other)	11.45	15.89	6.50	8.44
Marketing and selling expenses	12.87	12.94	7.32	6.88

Raw material costs: The Company's raw material costs declined 3.72% in 2006-07 on account of a strengthening rupee, though the volume of raw materials consumed increased to 13,962.72 MT in line with increasing production.

Manufacturing expenses: The Company's manufacturing expenses (excluding employee cost) increased 38.77% from Rs. 11.45 cr to Rs. 15.89 cr in 2006-07 in line with an increase in scale. Moreover, with the principal component of manufacturing expenses being power and fuel (comprised 30.30% of the total manufacturing expense in 2006-07), the increase in crude oil prices also resulted in an increase in manufacturing expenses.

Employee costs: The Company's employee costs increased 53.17% from Rs. 6.30 cr to Rs. 9.65 cr in 2006-07 with an increase in the workforce.

Marketing and selling expenses: Despite an increasing presence across various geographies, marketing and selling expenses as a proportion of the company's income declined 44 basis points to 6.88% in 2006-07, reflecting the effectiveness of its marketing strategy.

Margins

The Company's improved margins were a result of a more than proportionate increase in revenues compared with manufacturing costs. An increase in PFI and finished dosage realisations also strengthened the margins.

(in %)

Component	2005-06	2006-07
EBIDTA margin	15.24	16.99
Pre-tax profit margin	6.44	7.17
Net margin	5.25	5.38

Capital employed

The total capital invested in the business increased from Rs. 170.27 cr to Rs. 285.19 cr in 2006-07. The increase was contributed by way of an increase in shareholders' funds and borrowings. Net worth comprised 61.13% of the total capital employed.

Shareholders' funds

Shareholders' funds comprised equity capital and reserves. Reserves constituted the major portion of the shareholders' funds at 87.55% (83.61% in the previous year). The net worth of the Company (share capital, reserves and surplus) stood at Rs. 174.33 cr as on 30 June 2007. The management of Granules proposed a dividend of Rs. 1.25 per share during the year under review.

	2005-06	2006-07
Net worth (Rs. cr)	83.96	174.33
RONW (%)	11.24	5.86

Despite an increase in net profit, the return on net worth of the Company declined due to a significant increase in its share capital that increased from Rs. 12.36 cr in 2005-06 to Rs. 20.20 cr. Share capital increased on account of private placement of equity to foreign body corporates, worth Rs. 6.45 cr. Correspondingly, share premium increased from Rs. 42.52 cr in 2005-06 to Rs. 117.75 cr in 2006-07. The proceeds will finance the Company's aggressive growth plans, including its acquisition in China.

The Company's total reserves of Rs. 152.62 cr comprised general reserve and central subsidy reserve. Free reserves (general reserve and balance from the profit and loss account transferred to reserves) accounted for 22.85% of the Company's reserves and increased 26.98% over the previous year, indicating improved ability to deploy reserves as required. The Company did not have any revaluation reserves at the close of the financial year under review.

In spite of an increase in its share capital, the Company's basic EPS grew from Rs. 7.49 to Rs. 7.63 in 2006-07, an increase of 1.93% over the previous year. The Company increased its authorised share capital from Rs. 20 cr (2,00,00,000 shares of Rs. 10 each) to Rs. 30 cr (3,00,00,000 shares of Rs. 10 each).

External funds

Debt on the Company's books increased from Rs. 80.70 cr to Rs. 102.41 cr in 2006-07 to fund aggressive growth and capital expansion. Secured loans claimed 82.56% of the total loans, the balance being unsecured loans. In spite of increasing debt, the Company's debt-equity ratio declined from 0.98 to 0.59 due to a corresponding increase in equity funds. Interest, including finance charges, increased from Rs. 10.25 cr to Rs. 12.03 cr in 2006-07. Despite the increase in interest outflow, interest cover strengthened from 2.66 to 2.83 in 2006-07, indicating the company's growing comfort in servicing debt.

Gross block

The Company increased its gross block from Rs. 141.44 cr in 2005-06 to Rs. 158.78 cr in 2006-07. Fixed assets constituted 46.32% of the capital employed in the Company. The capital work in progress more than doubled to Rs. 71.34 cr, reflecting an increase in ongoing capital projects, which will soon go on line. The Company provided Rs. 8.18 cr for depreciation under the written down value method at the rates specified in Schedule XIV of the Companies Act, 1956, during the year under review.

Investments

The Company stated its investments at cost during the year under review with a provision for dimunition in value to be made whenever necessary and in accordance with the accounting standards in force. Investments increased substantially by Rs. 18.19 cr to Rs. 18.72 cr with the Company entering into a 50:50

The Company increased its gross block from Rs. 141.44 cr in 2005-06 to Rs. 158.78 cr in 2006-07. Fixed assets constituted 46.32% of the capital employed in the Company.

joint venture with China's Hubei Biocause Heilen Pharmaceutical Co. Ltd.

Working capital

Working capital outlay increased from Rs. 25.60 cr to Rs. 65.43 cr in 2006-07. The Company availed of working capital loans of about Rs. 27.28 cr to fund the increased working capital requirements. Correspondingly, working capital as a proportion of capital employed increased by 791 basis points to 23.64 per cent in 2006-07.

Inventories: Despite an increase in the operations, inventories declined from Rs. 20.90 cr on 30th June 2006 to Rs. 19.89 cr on 30th June 2007, reflecting efficient inventory management. Correspondingly, inventories (equivalent to days of turnover) declined from 41 days to 38 days in 2006-07.

Sundry debtors: The Company's receivables increased from Rs. 15.20 cr to Rs. 22.70 cr in 2006-07. Correspondingly, in terms of equivalent days of turnover, the Company's debtors' cycle increased marginally from 34 days in 2005-06 to 35 days in 2006-07.

Cash and bank balances: The Company maintained a sufficient cash and bank balance to counter contingencies. The Company's cash and bank balance increased substantially from Rs. 4.7 cr to Rs. 27.10 cr as a result of unutilised issue proceeds parked with scheduled banks.

Loans and advances: Loans and advances constituted 18.08% of the total current assets at the end of the financial year under review. They increased by Rs. 4.87 cr to Rs. 15.52 cr in line with increased operations.

Current liabilities and provisions: The Company's current liabilities declined from Rs. 24.06 cr to Rs. 17.17 cr in 2006-07, attributed to a decline in creditors. The Company's provisions (for taxation, dividend and dividend tax) increased from Rs. 1.90 cr to Rs. 3.17 cr in 2006-07.

Taxation

The Company's tax burden (current tax, fringe benefit tax and deferred tax) increased from Rs. 2.08 cr to Rs. 3.37 cr in 2006-07. Current tax increased from Rs. 28.64 lakh to Rs. 43.93 lakh due to rising profits. The effective tax rate (current tax/PBT x 100) paid by the Company during the year under review was 3.26%, a result of the various fiscal benefits enjoyed by the Company's 100% export-oriented units.

Forex management

The Company derived 69.17% of its sales from exports (78.90% in the previous year), made principally in US dollars. Some 62.37% of the Company's raw material requirement was imported, a natural hedge against currency fluctuations. As the rupee strengthened, the Company's liabilities towards foreign currency loans declined, again providing a natural hedge to the fall in value of exports. Moreover, to protect itself from any major loss due to fluctuations in foreign exchange, the Company also covers its position through forward contracts.

Risks and concerns

Risk is an expression of the uncertainty about events and their possible outcomes that could have a material impact on the performance and prospects of a company. As a risk-mitigating organisation, Granules is committed to proactive awareness, appraisal and counter-action.

1. Industry risk

The industry opportunities may not be in line with the Company's desired growth.

Risk mitigation

- The global pharmaceutical market is expected to more than double in value to US$1.3 trillion by 2020 *(Source: Pricewaterhouse Coopers)*. The global manufacturing outsourcing opportunity in India, currently estimated at US$20 billion, is expected to reach US$31 billion by 2010. Granules offers end-to-end outsourcing services to its global customers.

- The Company will benefit as India emerges as a global R&D hot spot for innovator pharma companies and contract research opportunities. The global contract research opportunity was pegged at US$14 billion in 2006 and is expected to reach US$24 billion by 2010.

- In APIs, India and China hold a market share of approximately 57% in the West European generic API market, expected to rise to approximately 67% by 2010. To capitalise on this opportunity, the Company has established a manufacturing base in both these geographies.

2. Regulatory risk

The inability of the Company to meet regulatory requirements might impact growth plans.

Risk mitigation

The Company's objective in emerging as a global outsourcing partner requires it to get approvals from international regulatory bodies, facilitating its entry in regulated markets.

- The Company received necessary regulatory and quality certifications for all its plants from recognised international regulatory agencies such as the USFDA, German Health Authority, Canadian TPD and Australian TGA.
- The recently commissioned tableting facility received approvals from TEVA and Portuguese auditors in October 2007. The approval following its audit by the EUGMP is awaited.
- The Company proactively received the USFDA approval for its paracetamol API, foreseeing its use in multi-PFI products.

3. Product portfolio risk

Dependence on few products or one segment could hamper business sustainability.

Risk mitigation

- Although the Company's major product is paracetamol, it produces a range of other products within the consumer healthcare segment like guaifenesin and ibuprofen. It also has a presence in the high-margin prescription product segment through metformin. The Company has therefore gradually reduced its exposure to a single segment or product by diversifying into the volume-based consumer healthcare as well as the value-based prescription segments.
- The Company continued its focus on the development of new products comprising regular and combination products. During the year under review, the Company introduced two new PFI products, generating revenues of Rs. 3.88 cr.
- A presence across the value chain – APIs, PFIs and formulations – provides the Company with a competitive advantage. While the finished dosage products are targeted at the high-margin regulated markets, the PFIs are being promoted in semi-regulated markets, enabling the Company to capitalise on growth opportunities from both markets.

4. Market penetration risk

The inability of the Company to enter regulated markets could affect its growth.

Risk mitigation

- To penetrate regulated markets, the Company identified an effective alliance strategy, entering into alliances with major pharmaceutical companies for the regulated markets of the US, Australia and Europe with formulation products. This will provide the Company a ready market and a low-cost outsourcing opportunity for its alliance partners, a win-win proposition.
- The Company enjoys customer approvals and validations from some of the leading international pharmaceutical companies with a global presence (Interpharm USA, GSK, P&G, Sanofi Aventis, US Pharmasia, Metrics and Rephine).

5. Geographical risk

Concentrated sales in a particular geography could be detrimental to growth in the event of a downturn in that region.

Risk measurement

- The major market for the Company's products is the US, which is highly relevant since the US is also the largest pharmaceutical market in the world with a 45% share in the global pharmaceutical sales in 2006.
- Besides the US, the Company has a presence in 51 other countries with the individual revenue contribution not exceeding 5.33%.

The Company is also taking initiatives to increase its presence across other regions; it entered new markets like Algeria, Honduras, Iran and Zimbabwe during 2006-07.

6. Customer attrition risk

The Company may not be able to retain customers due to its inability to meet their increasingly complex requirements and expectations.

Risk mitigation

- The Company enjoys robust long-term relationships with large pharmaceutical companies. This is the outcome of the efficient outsourcing services provided by Granules at attractive price-value, meeting international standards.

- The presence of the Company across the value chain from APIs to PFIs and finished dosages makes it a preferred outsourcing partner creating room for orders from existing and new clients.
- Granules' ability to develop new products is reflected in that it is the only company in the world to successfully produce combination PFI products commercially.
- A strong R&D focus, attractive prices, world-class infrastructure and a consistent investment in scale provides an unbeatable value proposition to customers. Besides, these initiatives have improved the perception of the Company, attracting outsourcing enquiries from not just mid-sized pharmaceutical companies but also industry giants (who are assured of volume supply at international quality standards).

In 2006-07, the Company added 33 customers, generating additional sales of Rs. 8.76 cr. The Company was able to achieve additional revenues of Rs. 3.16 cr by increasing the number of products marketed to existing customers.

7. Raw material risk

The irregular availability of critical raw materials at uncompetitive prices could affect profitability.

Risk mitigation

- The Company integrated backwards, manufacturing critical APIs for upstream applications. It established a manufacturing presence in China, the global API manufacturing hub, through a joint venture for assured supply of a major raw material.
- It entered into long-term contracts with approved vendors, sharing a preferred buyer relationship with them.
- It continuously undertakes initiatives to reduce raw material cost through the prudent substitution of expensive material with easily available economical alternatives without compromising end-product quality.
- The Company prefers importing raw material at zero customs duty as its plants are 100% EOU. The recent strengthening of rupee has made it more economical for the Company to import raw material.

8. Environment risk

The Company's failure to adhere to environmental regulations could enforce stringent action from regulatory agencies.

Risk mitigation

- The proactive initiatives taken by the Company to protect the environment are reflected in the fact that with an increase in the scale of operations there has been no corresponding increase in the effluents discharged.
- The Company installed a modern effluent treatment plant at its Gagillapur facility, making it zero-effluent

generating; the recycled water is used for gardening and landscaping.

- The other facilities of the Company are also equipped with ETP and pollution prevention infrastructure to treat effluents, meeting regulatory guidelines.
- The Company undertook green belt development around its plant.

9. Currency fluctuation risk

Adverse exchange fluctuations could impact profitability.

Risk mitigation

- The Company imports raw material and exports its products to a number of countries, a natural hedge against fluctuations.
- 60% of the loans taken by the Company are denominated in foreign currency; the strengthening of the rupee has reduced the loan exposure and interest outflow, a hedge against loss in revenues due to a strengthening rupee.

10. Funding risk

The inability of the Company to raise low-cost funds at the appropriate time could stall expansion plans.

Risk mitigation

- During the year under review, the Company was successful in raising almost Rs. 70.62 cr for its expansion plans through successful equity placements with reputed international financial institutions like ISP Investco LLC, Ridgeback Capital Asia Ltd and International Finance Corporation (IFC), the private equity arm of the World Bank, reflecting the confidence of the investor community in its business plans.
- A low debt-equity ratio of 0.59 and a high interest cover of 2.80 will help the Company raise funds as and when required.

Outlook

The Company expects to capitalise on the growing industry opportunities through capacity expansion and efficient manufacturing processes benchmarked in line with stringent international regulatory approvals.

Having created a place for itself in the outsourcing segment of the pharmaceutical industry - also the fastest growing segment - its integrated presence across all verticals provides it with a distinctive competitive edge.

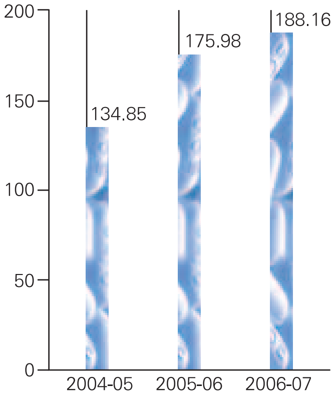
The Company's consistent focus on scale across all its verticals will help it capitalise on emerging opportunities. The plan to increase the capacity of its formulations facility from the present 6 billion tablets per annum to 18 billion tablets per annum in two years will more than proportionately increase its revenues and profits.

Financial Summary

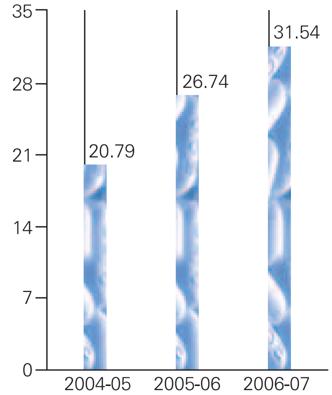
(Rs. cr)

Particulars	2004-05	2005-06	2006-07
Sales	134.00	175.47	185.70
Non-manufacturing income	0.85	0.51	2.46
Total income	134.85	175.98	188.16
Raw materials	86.47	111.49	107.34
Manufacturing expenses	12.72	17.75	25.54
Gross profit	35.66	46.74	55.28
Overheads and all other expenses	15.28	19.95	21.59
PBDIT	20.38	26.79	33.69
Interest	8.88	10.25	12.03
PBDT	11.50	16.54	21.66
Depreciation	3.22	5.21	8.18
Pre-tax profit	8.28	11.33	13.48
Tax	0.27	0.29	0.44
Deferred tax	1.32	1.72	2.83
Fringe benefit tax	0.02	0.08	0.09
Post-tax profit	6.67	9.24	10.12
Equity capital	12.33	12.37	20.20
Reserves	62.70	70.20	152.62

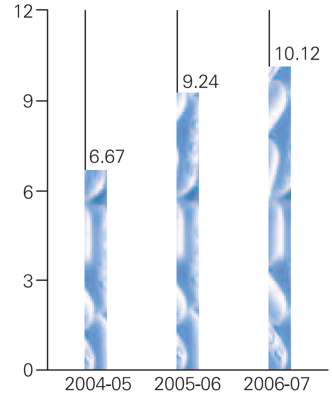
Revenues (Rs. cr)



EBIDTA (Rs. cr)



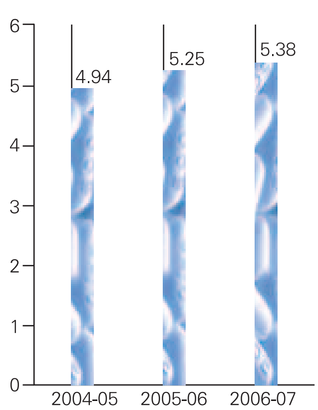
PAT (Rs. cr)



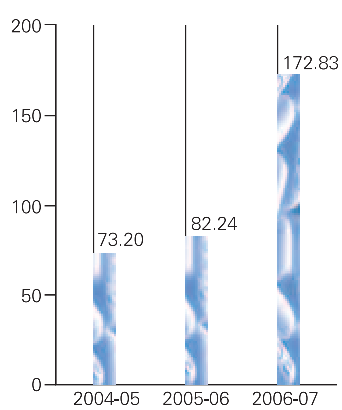
(Rs. cr)

Particulars	2004-05	2005-06	2006-07
Sources of funds			
Equity share capital and share application money	12.33	13.76	21.71
Reserves and surplus	63.00	70.20	152.62
Net worth	75.33	83.96	174.33
Secured loans	61.76	69.86	84.55
Unsecured loans	5.59	10.85	17.86
Deferred tax liability	3.89	5.60	8.45
Total liabilities	146.57	170.27	285.19
Application of funds			
Gross block	70.61	141.45	158.79
Less: Depreciation	17.29	22.72	30.59
Net block	53.32	118.73	128.20
CWIP	36.57	23.69	71.34
Net block + CWIP	89.89	142.42	199.54
Investments	0.44	0.53	18.72
Total current assets	71.90	51.56	85.79
Less: Total current liabilities	17.78	25.96	20.36
Net current assets	54.12	25.60	65.43
Deferred expenditure	2.12	1.72	1.50
Total assets	146.57	170.27	285.19

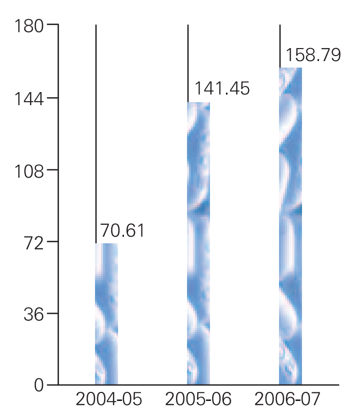
PAT margin (%)



Net worth (Rs. cr)



Gross block (Rs. cr)



Board of Directors >

Dr. C. Nageswara Rao, *Chairman*

Shri C. Krishna Prasad, *Managing Director*

Shri A.P. Kurian, *Director*

Shri N.R. Ganti, *Director*

Shri L.S. Sarma, *Director*

Shri Stephen R. Olsen, *Director*

Corporate Information >

Board of Directors

Dr. C. Nageswara Rao	*Chairman*
L.S. Sarma	*Director*
A.P. Kurian	*Director*
N.R. Ganti	*Director*
Stephen R. Olsen	*Director*
C. Krishna Prasad	*Managing Director*

Chief Financial Officer

Pranesh Raj Mathur

Company Secretary

N. Madhavi

Registered Office

Second Floor, Block III
My Home Hub, Madhapur
Hyderabad - 500 081
Ph: 91-40-66760000; Fax: 91-40-23115145
E-mail: investorrelations@granulesindia.com

Auditors

M/s. Kumar & Giri
Chartered Accountants
D.No. 1-11-126/D
Opp. Aeroview Towers
Begumpet
Hyderabad - 500 016

Bankers

Andhra Bank
ING Vysya Bank
IndusInd Bank
Bank of Baroda
Union Bank of India
Export-Import Bank of India
State Bank of Travancore
International Finance Corporation

Share Transfer Agents

CIL Securities Limited
214, Raghava Ratna Towers, Chirag
Ali Lane, Abids, Hyderabad - 500001
Ph: 91-40-66661267, 91-40-66661276

Plant Locations

Plot No. 15/A/1, Phase-III
I.D.A. Jeedimetla, Hyderabad - 500 055

Temple Road, Bonthapally
Medak District, A.P. - 502 313

Gagillapur, Qutubullapur Mandal
R.R. District, A.P. - 500 043

R & D Centre

Gagillapur, Qutubullapur Mandal
R.R. District, A.P. - 500 043.

Directors' Report >

Dear members

The Directors submit the Annual Report of the Company together with the audited statements of accounts for the year ended 30th June 2007.

1. Financial results

Particulars	2006-07 (Rs. lakhs)	2005-06 (Rs. lakhs)
Sales	18570.10	17547.17
Other income	246.31	50.97
Total income	18816.41	17598.14
Expenditure before depreciation, interest and tax	15447.16	14919.89
Interest and finance charges	1202.85	1024.53
Depreciation and amortisation	817.73	521.07
Profit before tax	1348.67	1132.65
Provision for taxes, including deferred tax and FBT	336.70	208.05
Profit after tax	1011.97	924.60
Add: surplus brought forward	2630.90	1906.48
Surplus available	3642.87	2831.08
Appropriations		
Dividend	250.29	154.51
Tax on distributed profits	42.54	21.67
Transfer to general reserve	26.00	24.00
Balance carried to balance sheet	3324.04	2630.90

2. Changes in share capital

During the financial year 2006-07,

(i) 19,620 equity shares were issued and allotted to the employees, consequent to the exercise of the stock options issued by the Company.

(ii) In accordance with the resolution passed by the shareholders at the Extraordinary General Meeting held on 21st March, 2007, the Committee of the Board allotted 21,80,067 equity shares on a preferential basis to M/s. Ridgeback Capital Asia Limited at Rs.105.50 each.

(iii) In accordance with the resolution passed by the shareholders at the Extraordinary General Meeting held on 30th April, 2007, the Committee of the Board allotted 22,11,200 equity shares on a preferential basis to M/s. ISP Investco LLC at Rs. 105.50 each.

(iv) In accordance with the resolution passed by the shareholders at the Extraordinary General Meeting held on 2nd June 2007, the Board of Directors allotted 20,57,578 equity shares on a preferential basis to International Finance Corporation at Rs. 118.10 each.

(v) Out of the 13,55,000 warrants convertible into equity shares of the face value of Rs. 10 each allotted to Mr. C. Krishna Prasad, 1,94,037 equity shares were allotted on 19th January, 2007 and 10,00,180 equity shares were allotted on 19th June 2007. The balance of the unexercised warrants being 1,60,783 have lapsed and Rs. 16,48,026 being the application money on such warrants has been forfeited.

The above allotments resulted in an increase in the paid-up equity share capital of the Company from Rs.12,36,94,020 to Rs. 20,19,68,866 (Rs.16,48,026 forfeited on warrants is also included).

In accordance with the resolution passed by the shareholders at the Extraordinary General Meeting held on 17th February, 2007, the Committee of the Board allotted 16,00,000 warrants at Rs. 94.50 per warrant convertible into equity shares of Rs.10 each to the promoters of the Company. Rs.1,51,20,000 was received as application money on the said warrants, which is 10% of its value. As on 30th June 2007, the entire 16,00,000 warrants were outstanding. The said warrants will be converted into equity shares by September 2008.

3. Dividend

In view of the Company's profitable performance, the Directors are pleased to recommend for approval of the shareholders, a dividend of 12.5% on 2,00,41,134 equity shares (face value of Rs. 10 each) of the Company, in the financial year 2006-07. The dividend, if declared as above, would involve an outflow of Rs. 250.51 lakhs towards dividend and Rs. 42.57 lakhs towards dividend tax, resulting in a total outflow of Rs. 293.08 lakhs. Under the Income Tax Act, 1961, the dividend will be tax free in the hands of the shareholders.

4. Transfer to reserves

The Company proposes to transfer Rs. 26 lakhs to the General Reserve out of the amount available for appropriations. After appropriations, it is proposed to retain Rs. 693 lakhs from the current year's profits.

5. Operating results and business

The Company has achieved a turnover of Rs. 18,570 lakhs, showing a modest growth of 5.8% compared with the previous year. The operating profit during the year is Rs. 5,282.15 lakhs, an increase of 14.25%. Profit after tax has also increased to Rs. 1,011.97 lakhs, an increase of 9.5%.

The paracetamol facility that commenced production during the later part of the previous year has stabilised production in the last quarter of the current year and should be able to deliver a substantial increase in capacity utilisation in the next year. The implementation of the 'tablet project' progressed well in the current year and the plant was commissioned in October 2007.

6. Funding

Your Company had raised resources by private placement of equity for implementation of the tablet project, a joint venture in China, new API projects and certain other corporate requirements. It has received an amount of Rs. 8,286.85 lakhs by way of equity during the year under review. Your Company has also obtained sanction from International Finance Corporation (IFC) for a debt of US$9 million, and from ABN Amro bank for a debt of US$10 million. The Company continued to service repayment and interest obligations to banks and financial institutions from the funds generated from operations.

7. Research and development

R&D at Granules India, a service organisation, is catering to our in-house product development requirements for both PFI and Finished dosage. Our in-house development philosophy aims to collaborate and offer a business model of delivering end-to-end solutions for OTC – monograph, OTC ANDA and prescription products.

Granules provides comprehensive drug development resources and solutions for Pre-formulation, Formulation Development, Analytical Development, cGMP Scale-up, Stability and also coordinate for conducting Bioavailability, Bioequivalence studies for regulated and emerging markets.

During the year, the Company's R&D developed many new products with novel formulations that deliver superior customer value and better consumer appeal; R&D related to chemical synthesis was focused on developing process technology to launch new APIs and cost reduction of APIs that are currently produced by the Company.

8. Directors

Notice has been received from a member of the Company under Section 257 of the Companies Act, 1956, proposing the candidature of Mr. Stephen R. Olsen for appointment as Director of the Company. A resolution seeking your approval to his appointment appears in the Notice convening the 16th Annual General Meeting of the Company.

Pursuant to Article 51 of the Articles of Association of the Company, Dr. C. Nageswara Rao and Shri N.R. Ganti will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment as Directors. Your Board of Directors recommends their re-appointment.

Brief profiles of Dr. C. Nageswara Rao and Shri N.R. Ganti, the nature of their expertise in specific functional areas and the number of companies in which they hold directorships and memberships/chairmanships of Committees of the Board, as stipulated under Clause 49 of the Listing Agreement with the stock exchanges, have been provided in the section on Corporate Governance in this Annual Report.

9. Corporate Governance Report and Management Discussion and Analysis statement

A report on Corporate Governance is attached to this report as also a Management discussion and analysis statement.

10. Directors' responsibility statement

Pursuant to the requirement of Section 217 (2AA) of the Companies Act, 1956, (Act) and based on representations received from the operating management, the Directors hereby confirm that:

i. the applicable accounting standards issued by the Institute of Chartered Accountants of India have been followed;

ii. appropriate accounting policies have been applied consistently. Judgments and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year, and of the profits of the Company for the year.

iii. 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.

iv. the annual accounts have been prepared on a 'going concern' basis.

11. Subsidiary Company, Granules USA Inc.,

Granules USA Inc., a wholly owned subsidiary company, caters to the marketing requirements of the Company in USA. The turnover of the subsidiary company has increased from Rs. 5,585 lakhs to Rs. 5,663 lakhs, showing a growth of 1.4%.

The relevant particulars of Granules USA Inc. and the consolidated final accounts for the year ended 30th June 2007, in accordance with the Accounting Standard AS-21 on consolidated financial statements, read with Accounting Standard AS-23 on accounting for investment in associates, are appended to this report.

12. Joint Venture Company: Granules-Biocause Pharmaceutical Co. Ltd.

The Company during the financial year 2006-07, has in collaboration with Hubei Biocause Heilen Pharmaceutical Co. Ltd., a Chinese Pharmaceutical company, formed a joint venture in China namely, Granules-Biocause Pharmaceutical Co. Ltd. Your Company's share in the Joint venture is 50%. The joint venture company was granted all permissions to begin its operations from 28th June 2007. Therefore, operations in the joint venture will begin in the next financial year and hence, there was no turnover in the current year.

13. Auditors

M/s. Kumar & Giri, Chartered Accountants, who are the statutory auditors of the Company, hold office in accordance with the provisions of the Companies Act, 1956, up to the conclusion of the forthcoming Annual General Meeting, and have confirmed their eligibility and willingness for re-appointment.

14. Cost Auditors

Mr. E. Vidya Sagar, Cost Accountant, was appointed as Cost Auditor of the Company subject to the consent of the Government of India to conduct cost audit of the bulk-drugs division of the Company for 2007-08.

15. Fixed deposits

Your Company has not accepted any public deposits and, as such, no amount on account of principal or interest on public deposits was outstanding on the date of balance sheet.

16. Conservation of energy, technology absorption, etc.

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 Annexure I to this report.

17. Human resources

Your Company enjoys cordial employee relations, marked by empowerment and delegation. In view of this need, it approved an Employee Stock Option Plan and implemented the Granules India Equity Option Plan 2002, framed and implemented in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Regulations, 1999.

18. Particulars of employees

Information as required under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, are given in Annexure II to this report.

19. Employee Stock Option Plan

Your Company implemented the Granules India Equity Option Plan 2002 for enhanced employee commitment.

The details of the stock options granted under the Granules India Equity Option Plan 2002, including grants to senior management (comprising all Independent Directors), are given below:

	Description	Details
A	Total number of shares	3,91,082 one share represents one option
B	Pricing formula	At the fair market value as on the date of the grant
C	Options granted during the year	1,70,000
D	Options vested during the year	19,620
E	Options exercised during the year	19,620
F	Total number of shares arising as a result of exercise of options	19,620
G	Options lapsed during the year	400
H	Variation of terms of options	Not Applicable
I	Money realised by exercise of options during the year	Rs. 2,74,680
J	Total number of options in force	1,17,320
K	Options granted to Independent Director during the year	10,000 options were granted to Shri A.P. Kurian
L	Employees who were granted options amounting to 5% or more of the options granted during the year	Enclosed as Annexure III to this report
M	Employees who were granted options in any one year equal to or exceeding 1% of the issued capital of the Company at the time of granting	Not Applicable

20. Transfer of unpaid / unclaimed dividend to Investor Education and Protection Fund (IEPF)

Pursuant to the provisions of Section 205A (5) of the Companies Act, 1956, the dividends declared for the year 1999-2000 and which remained unpaid / unclaimed for seven years, has been transferred to the credit of the Investor Education and Protection Fund (IEPF) established by the Central Government, pursuant to Section 205C of the said Act.

21. Related party transactions

As a matter of policy, your Company carries out transactions with related parties on arm's-length basis. Statement of these transactions is given in the Notes to Accounts in compliance with Accounting Standard AS – 18.

22. Acknowledgements

The Directors thank the Company's customers, vendors, investors, business associates, bankers and financial institutions for their support to the Company.

The Directors also thank the Government of India and the governments of various countries, the concerned state governments as well as other government departments and agencies for their cooperation.

The Directors place on record their appreciation of the contributions made by every member of the Granules family.

On behalf of the Board of Directors

Place: Hyderabad
Date: 28th November 2007

Dr. C. Nageswara Rao
Chairman

Annexure - I to Directors' Report >

Particulars under Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, for the year ended 30th June 2007.

Form A – Particulars of conservation of energy

A. Power and fuel consumption

Particulars	For the year ended 30th June 2007	For the year ended 30th June 2006
1. Electricity		
Unit (KWH)	96,77,163.00	63,10,483.00
Total amount (Rs. in lakhs)	354.29	228.71
Rate/unit (Rs.)	3.66	3.62
Rate/kg. of production (Rs.)	3.31	2.22
2. Own generation from diesel generator		
Unit (KWH)	5,89,626.00	3,45,232.70
Total amount (Rs. in lakhs)	92.00	57.37
Rate/unit (Rs.)	15.60	16.62
Unit/kg. of production (Rs.)	0.06	0.03
Rate/kg of production (Rs.)	0.86	0.56
3. Coal		
Qty. (MT)	4,263.03	5124.00
Total cost (Rs. in lakhs)	158.78	120.33
Rate/unit (Rs.)	3.72	2.35
Rate/kg of production (Rs.)	4.06	2.20
4. Furnace oil, LSHS and LD oil		
Qty. (K. ltr.)	1,303.32	912.78
Total cost (Rs. in lakhs)	168.81	172.60
Average/K. ltr. (Rs.)	12.95	18.91
Rate/kg of production (Rs.)	2.48	3.58

B. Consumption per unit of production

Particulars	Standards	Current year	Previous year
Products (with details) unit Electricity Furnace oil Coal	Since the Company manufactures a wide range of bulk drugs and granulations, it is not practicable to give consumption per unit of production.		

Form B – Particulars of absorption

Research and development (R&D)

1. Specific areas in which R&D work has been carried out by the Company

During the year under review, R&D at Granules focused on the development and transfer of technology for various OTC products to occupy upcoming tablet-manufacturing facilities. The Company's R&D department has also initiated development of ANDA products to enter regulatory markets like the US, Canada and Australia. Development of bi-layer tablets was completed for three extended release products.

2. Benefits derived as a result of the above R&D

About 30 projects were taken for development, of which development has been completed for 19 projects and others are in various stages of development. As a result of the R&D, 2 ANDAs have been submitted and 4 ANDAs are in the pipeline to be submitted before March 2008.

3. Future plan of action

Formulations R&D will continue to emphasize the launch of innovative finished dosage forms, increasing productivity in PFI and Finished Dosage manufacturing, and lowering productions costs. API R&D will continue to emphasize cost reduction and developing cost advantaged technology to commercialize new APIs. Supporting captive consumption for new PFIs and Finished Dosage forms will be a key criteria for choosing new API targets.

4. Expenditure on R&D

The expenditure on R&D during the year 2006-07 is Rs.105.49 lakhs.

Technology absorption, adoption and innovation

1. Efforts, in brief, made towards technology absorption, adoption and innovation

- Improved performance and capacity of key unit operations in the granulation facility
- Introduction of bar coding system for product labels to improve material management
- Replacement of IPA solvent with Ethyl Acetate in the manufacture of IMM leading to improved product quality, reduced cycle time and lower raw material cost.
- Introduced energy-efficient triple-effect evaporators to recover paracetamol from mother liquors to improve yield and reduce waste.

Improved PPHCl product consistency through better manufacturing techniques.

2. Benefits derived as a result of the above efforts

- Increase in the production of Metformin HCl and PPHCl, meeting captive, domestic and export requirements.
- Increase in productivity of CPL and CPF.

3. Imported technology

There is no import of technology.

Form C – Foreign exchange earnings and outgo

(Rs. in lakhs)

Particulars	2006-07	2005-06
Foreign exchange earnings	12,773.98	13,338.11
Foreign exchange outgo	9,965.15	8,017.51

On behalf of the Board of Directors

Place: Hyderabad
Date: 28th November 2007

Dr. C. Nageswara Rao
Chairman

Annexure - II to Directors' Report >

Information pursuant to Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975

Name	Age (yrs)	Qualification	Designation	Date of commencement of employment	Experience (yrs)	Gross remuneration (Rs. lakhs)	Last employment
Dr. K. R. Kumar	43	M.S., Ph. D.	Chief Scientific Officer	1st February 2006	14	36.96	Perrigo Laboratories India Pvt. Ltd., Hyderabad
Mr. Vaidyanathan Nateshan #	28	B.A., C.A. (Final)	Chief Marketing Officer	2nd June 2006	7	19.96	Shasun Chemicals & Drugs Limited
Mr.Bhaskar Krishna Arumugam *	36	B. Tech (Chemical), MBA, Ph. D	Chief Operating Officer	4th April 2007	12	8.17	Eastman Chemical Co. Kingsport

Notes:

1. Remuneration includes salary, allowances, Company's contribution to provident fund and perquisites.
2. The nature of employment of the above employees is permanent.
3. None of the above employees is related to any Director of the Company.

Drawn remuneration exceeding Rs. 2 lakhs per month only for part of the year.

* Employed for part of the year.

On behalf of the Board of Directors

Place: Hyderabad
Date: 28th November 2007

Dr. C. Nageswara Rao
Chairman

Annexure - III to Directors' Report >

Employees who were granted options amounting to 5% or more of the options granted during the year

Sl. no.	Name of the employee	Designation	No. of options granted
1.	Ashok Kumar Hegde	AGM – Production	10,000
2.	Y. Madhu Murthy	AGM – Warehouse	10,000
3.	R. B. Muralidhar	DGM – Plant Operations	10,000
4.	G. Raghavaiah	Senior Manager – Formulations	10,000
5.	V.V.L. Subrahmanyam	AGM – QC	10,000
6.	N. Vaidyanathan	GM – Business Development	15,000
7.	Pranesh R. Mathur	Chief Finance Officer	15,000
8.	Dr. K. R. Kumar	Director – R&D	15,000
9.	Dr. B. R Reddy	Director – Operations	15,000
10.	G.V.R. Nagesh	Sr. General Manager – Operations	15,000
11.	Stephan Lohle Corredor	Manager – Business Development	15,000
12.	Sandeep G. Vajjapurkar	GM – Operations	10,000
13.	S. Bhavani	Head – Supply Chain Management	10,000

Declaration regarding compliance with the Code of Conduct of the Company by Board members and senior management personnel >

This is to confirm that the Company has adopted a Code of Conduct for the Board of Directors and senior management personnel of the Company, which is available at www.granulesindia.com.

I declare that the Board of Directors and senior management personnel have affirmed compliance with the Code of Conduct of the Company.

Place: Hyderabad
Date: 28th November 2007

C. Krishna Prasad
Managing Director

Corporate Governance >

I. Company's philosophy on Corporate Governance

The Company believes that good Corporate Governance practices should be enshrined in all activities of the Company. This would ensure efficient conduct of the affairs of the Company and help the Company achieve its goal of maximising value for all its stakeholders. The Company will continue to focus its resources, strengths and strategies to achieve its vision, while upholding the core values of transparency, integrity, honesty and accountability, fundamental to the Company.

The Company has a strong legacy of fair, transparent and ethical governance practices. The Company's Corporate Governance philosophy has been further strengthened through the Code of Conduct and the Code of Conduct for prevention of Insider Trading.

The Company is in compliance with the requirements of the revised guidelines on Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the stock exchanges, and with the adoption of a Code of Conduct for Directors and senior management personnel this year, it has moved further in its pursuit of excellence in Corporate Governance.

II. Board of Directors

i) The Company has a Non-Executive Chairman and the number of Independent Directors at 66% is more than one-third of the total number of Directors. The number of Non-Executive Directors (NEDs) at 83% is more than 50% of the total number of Directors. The composition of the Board is in conformity with Clause 49 of the Listing Agreement entered into with the stock exchanges.

ii) None of the Directors on the Board is a Member of more than 10 committees or Chairman of more than five committees as specified in Clause 49, across all the companies in which he is a Director. The Directors have made necessary disclosures regarding committee positions in other public companies as at 31st March 2007.

iii) The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and the number of directorships and committee chairmanships / memberships held by them in other companies are given below. Other directorships do not include alternate directorships, directorships of private limited companies and of companies incorporated outside India. Chairmanship/membership of Board committees include only Audit and Shareholders'/ Investors' Grievance Committees.

Name	Category	No. of Board Meetings during the year 2006-07		Whether attended last AGM	No. of Directorships in other public companies	No. of Committee positions held in public companies	
		Held	Attended			Chairman	Member
Dr. C. Nageswara Rao (Chairman)	Non-Independent, Non-Executive	15	13	Yes	–	1	–
Shri C. Krishna Prasad (Managing Director)	Non-Independent, Executive	15	13	Yes	–	–	4
Shri L.S. Sarma	Independent, Non-Executive	15	14	Yes	4	4	7
Shri A.P. Kurian	Independent, Non-Executive	15	8	Yes	5	–	6
Shri N.R. Ganti	Independent, Non-Executive	15	12	Yes	2	4	5
Mr. Stephen R. Olsen*	Independent, Non-Executive	3	0	NA	–	–	–

* Mr. Stephen R Olsen was appointed as an Additional Director at the Board Meeting held on 2nd June 2007.

ii) Fifteen Board Meetings were held during the year and the gap between two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows:

22nd July, 28th September, 16th October, 9th November and 4th December, in 2006; and 19th January, 17th February, 25th February, 21st Mach, 3rd April, 30th April, 9th May, 2nd June, 14th June and 29th June in 2007.

III. Audit Committee

i) The composition, procedures, powers and role of the Audit Committee constituted by the Board comply with the requirements of Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956.

ii) The terms of reference of the Audit Committee are broadly as follows:

a. Overview of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements reflect a true and fair position and that sufficient and credible information is disclosed.

b. Recommending the appointment and removal of external auditors, fixation of audit fee and also approval of payment for any other services.

c. Reviewing the financial statements and draft Audit Report, including quarterly / half yearly financial information.

d. Reviewing with the management the annual financial statements before submission to the Board, focusing primarily on:

- the changes in accounting policies and practices;
- major accounting entries based on exercise of judgment by the management;
- qualifications in draft Audit Report;
- significant adjustment arising out of audit;
- the 'going concern' assumption;
- compliance with accounting standards;
- compliance with stock exchange and legal requirements concerning financial statements;
- any related party transactions as per Accounting Standard 18.

e. Reviewing with the management, external and internal auditors, the adequacy and compliance of internal control systems.

f. Reviewing the adequacy of internal audit functions.

g. Discussion with internal auditors any significant findings and follow-up thereon.

h. Reviewing the findings of internal investigations by the internal auditors into matters where there is suspected fraud or irregularity, or a failure of internal control systems of a material nature and reporting the matter to the Board.

i. Discussion with external auditors before the audit commences, nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

j. Reviewing the Company's financial and risk management policy.

iii) The Company's Audit Committee comprises three Non-Executive, Independent Directors and one Executive Director. Shri L.S. Sarma is the Chairman of the Committee and is a Non-Executive Independent Director and has expertise in accounting and financial management. The Audit Committee meetings are usually held at the corporate office of the Company and are usually attended by the Chief Finance Officer and representatives of the Statutory Auditors and representatives of the Internal Auditors. The Cost Auditor is invited to the meetings whenever matters relating to cost audit are considered. The Company Secretary acts as Secretary of the Audit Committee.

iv) The previous Annual General Meeting of the Company was held on December 28, 2006 and it was attended by Shri L.S. Sarma, the Chairman of the Audit Committee.

v) Five Audit Committee meetings were held during the year. The dates on which the said meetings were held are 22nd July, 16th October and 28th December in 2006; and 19th January and 30th April in 2007.

vi) The composition of the Audit Committee and particulars of meetings attended by the members of the Audit Committee are given below:

Name	Category	No. of meetings during the year 2006-07	
		Held	Attended
Shri L.S. Sarma, Chairman	Independent, Non-Executive	5	5
Shri N.R. Ganti	Independent, Non-Executive	5	4
Shri C. Krishna Prasad	Non-Independent, Executive	5	5
Shri A.P. Kurian	Independent, Non-Executive	5	5

IV. Remuneration Committee

i) The Remuneration Committee determines and recommends to the Board of Directors, a suitable remuneration package payable to Executive Directors. The Board of Directors may approve the same subject to the consents as may be required.

ii) The Remuneration Committee comprises three Independent, Non-Executive Directors namely Shri L.S. Sarma, Shri A.P. Kurian and Shri N.R. Ganti. The Committee deals with all elements of remuneration package, stock options, service contracts and other terms and conditions of the Executive Directors and senior management. No meetings were held during the year 2006-07.

iii) The remuneration policy is directed towards rewarding performance, based on the review of achievements on a periodical basis. The remuneration policy is in consonance with the existing industry practice.

iv) Details of remuneration to Directors during financial year 2006-07:

a) Executive Director (Rs.)

Name	Salary	Perquisites	Commission	Total
Shri C. Krishna Prasad	30,00,000	32,19,000	8,91,000	71,10,000

b) Non-Executive Directors: The Company paid a sitting fee of Rs. 5,000 for attending each meeting of the Board of Directors and other committee meetings except Share Transfer and Shareholders'/Investors' Grievance Committee, for which a sitting fee of Rs. 2,500 per meeting was paid .

Name	Sitting fees (Rs.)
Dr. C. Nageswara Rao	87,500
Shri L.S. Sarma	1,05,000
Shri A.P. Kurian	65,000
Shri N.R. Ganti	1,42,500

V. Share Transfer and Shareholders'/ Investors' Grievance Committee

i) A Share Transfer and Shareholders'/Investors' Grievance Committee of Directors was constituted to specifically look into the matters relating to investors' grievances such as transfer, transmission, split and consolidation of investors' holding, replacement of lost/mutilated/stolen share certificates, dematerialisation of shares, non-receipt of dividends / notices / annual reports, change of addresses, etc. The main object of the Committee is to strengthen relations among investors.

ii) The Committee meets every fortnight and during the year 2006-07, 25 meetings were held. During the year, one complaint was received from a shareholder and the same was resolved to the satisfaction of the shareholder.

iii) The composition of the Committee and the details of meetings attended by its members are given below:

Name	Category	No. of meetings during the year 2006-07	
		Held	Attended
Shri N.R. Ganti, Chairman	Independent, Non-Executive	25	21
Dr. C. Nageswara Rao	Non-Independent, Non-Executive	25	9
Shri C. Krishna Prasad	Non-Independent, Executive	25	22

iv) Mrs. N. Madhavi, Company Secretary, is the Compliance Officer of the Company.

VI. Other committees

i) Compensation Committee

The Compensation Committee was constituted in 2002 to administer the Company's Employee Stock Option Scheme (ESOS).

Two meetings of the Committee were held during the year 2006-07 on 25th July and 4th December 2006. The composition of the Committee and details of meetings attended by its members are given below:

Name	Category	No. of meetings during the year 2006-07	
		Held	Attended
Shri L.S. Sarma, Chairman	Independent, Non-Executive	2	2
Shri N.R. Ganti	Independent, Non-Executive	2	2
Shri C. Krishna Prasad	Non-Independent, Executive	2	1

ii) Management Committee

The Board has constituted a Management Committee to advice on all matters related to the management of the Company.

Two meetings of the Committee were held during 2006-07 on 12th September 2006 and 19th January, 2007. The composition of the Committee and the details of meetings attended by its members are given below:

Name	Category	No. of meetings during the year 2006-07	
		Held	Attended
Shri N.R. Ganti, Chairman	Independent, Non-Executive	2	2
Shri L.S. Sarma	Independent, Non-Executive	2	2
Shri C. Krishna Prasad	Non-Independent, Executive	2	2

VII. General body meetings

Particulars of last three Annual General Meetings

AGM	Year	Location	Date	Time	No. of special resolutions passed
15th	2006	West Minister Hall, Hotel Central Court, Lakdi Ka Pool, Hyderabad	28th December 2006	4 pm	None
14th	2005	West Minister Hall, Hotel Central Court, Lakdi Ka Pool, Hyderabad	5th December 2005	4 pm	Three
13th	2004	West Minister Hall, Hotel Central Court, Lakdi Ka Pool, Hyderabad	20th December 2004	4 pm	One

For the year ended 30th June 2007, there have been no resolutions passed through postal ballot. At the ensuing Annual General Meeting, there is no resolution proposed to be passed through postal ballot.

VIII. Disclosures

i) There are no materially significant related party transactions, which have potential conflict with the interests of the Company at large.

ii) The Company has complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters related to capital markets; no penalties or strictures have been imposed on the Company by the stock exchanges or SEBI, or any other statutory authorities relating to the above.

iii) The Company has fulfilled the following non-mandatory requirements as prescribed in Annexure ID to Clause 49 of the Listing Agreement with the stock exchanges:

(a) The Company has set up a Remuneration Committee. [Please see the para on Remuneration Committee for details].

(b) The statutory financial statements of the Company are unqualified.

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

IX. Means of communication

The quarterly, half-yearly and annual financial results of the Company are communicated to the stock exchanges immediately after the same are approved by the Board and are published in prominent English and Telugu newspapers namely *Economic Times, Navbharat Times, Mumbai Times, Times of India, Business Standard* and *Andhra Bhoomi*. The results are also displayed on the Company's website viz. *www.granulesindia.com,* besides the website of SEBI, *www.sebiedifar.nic.in.* Press releases made by the Company from time to time are also displayed on the website. The Management discussion and analysis report forms part of this report and is provided elsewhere.

X. General shareholders' information

i) Annual General Meeting

Date : 29th December 2007
Time : 4.00 pm
Venue : Chancery Hall, Hotel Green Park
Ameerpet, Hyderabad.

ii) Financial year

1st July 2006 to 30th June 2007

iii) Date of Book closure

27th December 2007 to 29th December 2007 (both days inclusive)

iv) Dividend payment

The final dividend, if declared, shall be paid/credited on or before 28th January 2008.

v) Listing on stock exchanges

Bombay Stock Exchange Limited (BSE)
National Stock Exchange of India Limited (NSE)

vi) Stock codes/symbol

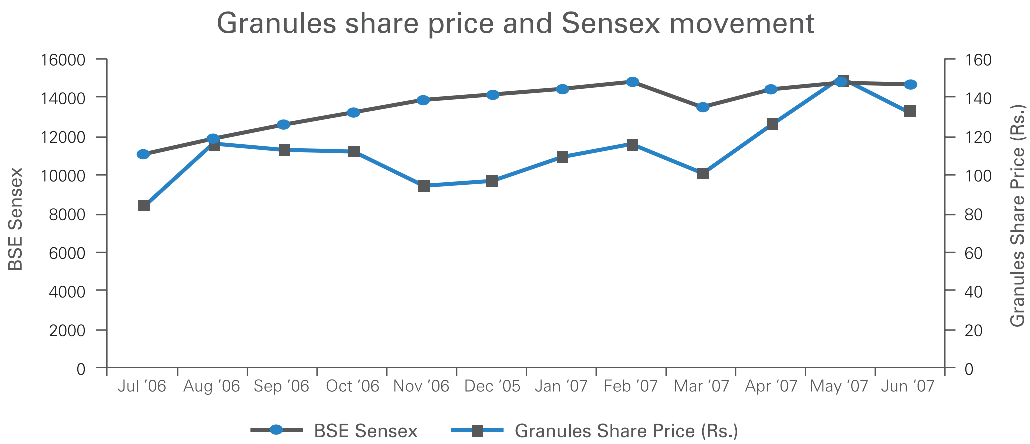
At BSE : 532482
At NSE : GRANULES

vii) Market price data

High, low (based on the closing prices) and number of shares traded during each month in the last financial year on BSE and NSE are as follows:

Month	BSE			NSE		
	High	Low	Volume	High	Low	Volume
July 2006	84.00	71.10	164278	84.00	71.55	160925
August 2006	115.50	73.20	3350750	115.40	73.00	3826556
September 2006	112.50	93.25	1725250	112.95	92.60	1583593
October 2006	110.50	91.90	1323158	110.35	91.30	1304628
November 2006	94.15	85.10	603348	98.00	84.90	679487
December 2006	96.20	83.75	447596	96.00	84.00	512595
January 2007	107.55	85.50	1663101	107.00	85.65	1435391
February 2007	116.45	91.35	2256955	116.50	82.10	1554541
March 2007	99.80	86.10	481434	99.50	86.00	421729
April 2007	125.00	91.10	2679002	124.80	92.00	3140061
May 2007	150.00	119.35	1840796	134.00	119.00	1786702
June 2007	131.80	116.55	432542	132.00	111.00	449030

viii) Performance of share price of the Company in comparison with BSE Sensex



ix) Registrar and Transfer Agents

M/s. CIL Securities Limited has been appointed as Registrars & Transfer Agents and Depository Transfer Agents of the Company. Any request pertaining to investors' relations may be addressed to the following address:

CIL Securities Limited
214, Raghava Ratna Towers
Chirag Ali Lane, Abids
Hyderabad 500 001
Phone No: 91-40-23202465 / 66661276
Fax No: 91-40-23203028 / 66661267
Email: advisors@cilsecurities.com
Website: www.cilsecurities.com

Investors' correspondence may also be addressed to:
The Company Secretary
Granules India Limited
Second Floor, Block III, My Home Hub,
Madhapur, Hyderabad 500081
Phone: 91-40-66760000 Fax: 91-40-23115145
E-mail: companysec@granulesindia.com

x) Share Transfer System

Share transfers are processed by the Registrar and Share Transfer Agents and approved by the Share Transfer Committee depending on the volume of transfers.

Presently, the share transfers received in physical form are processed and the share certificates returned within 15 days from the date of receipt, subject to the documents being valid and complete in all respects.

xi) Shareholding

a) Distribution of shareholding as on

Shareholding of nominal value	30th June 2007				30th June 2006			
	No. of shareholders		No. of shares		No. of shareholders		No. of shares	
	Total	%	Total	%	Total	%	Total	%
1 – 5000	13418	99.27	3307023	16.51	11202	99.12	3461035	28.00
5001 – 10000	39	0.29	280062	1.40	40	0.35	285906	2.31
10001 – 20000	20	0.15	307856	1.54	26	0.23	375726	3.04
20001 – 30000	10	0.07	243508	1.22	8	0.07	198519	1.61
30001 – 40000	2	0.01	69754	0.35	5	0.04	175070	1.42
40001 – 50000	4	0.03	183602	0.92	5	0.04	235979	1.91
50001 – 100000	7	0.05	547360	2.73	5	0.04	387251	3.13
100000 and above	17	0.13	15084469	75.33	11	0.10	7241466	58.58
Total	13517	100.00	20023634	100.00	11302	100.00	12360952	100.00

b) Distribution pattern as on 30th June 2007

Category	No. of shares held	% to capital	No. of Members
Promoters/associates	57,79,991	28.87	17
Mutual funds, banks & FIIs	21,30,128	10.63	6
Bodies corporate	73,04,303	36.48	462
Individual shareholders	42,36,172	21.16	13031
GDRs	5,73,040	2.86	1
Total	2,00,23,634	100.00	13,517

xii) Dematerialisation of shares and liquidity

The Company's shares are compulsorily traded in dematerialised form and are available for trading on both, National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Equity shares of the Company representing 60.72% of its share capital are dematerialised as on 30th June 2007.

The Company's shares are regularly traded on The National Stock Exchange of India Limited and the Bombay Stock Exchange Limited, in electronic form.

Under the depository system, the International Securities Identification Number (ISIN), allotted to the Company's shares is INE101D01012.

xiii) Outstanding GDRs/ADRs/ warrants

Out of 37,61,007 GDRs issued during the year 2004-05, 573,040 were outstanding as on 30th June 2007.

The shareholders of the Company at the Extraordinary General Meeting held on 17th February 2007, have approved the issue of warrants convertible into equity shares on a preferential basis to Mrs. C. Uma Devi, Mr. C. Harsha, Ms. C. Pragnya and Ms. C. Priyanka, all belonging to the promoter group. Consequently, the Committee of the Board at its meeting held on 28th March 2007, had allotted 16,00,000 warrants convertible into 16,00,000 equity shares. As on 30th June 2007, 16,00,000 warrants were outstanding.

xiv) Plant locations

a. Plot no. 15/A/1, Phase III, I.D.A. Jeedimetla, Hyderabad 500 055

b. Temple Road, Bonthapally, P.O. Jinnaram (M), Medak 502 313

c. Plot no. 160/A & 161/E, Gagillapur Village, Qutubullapur Mandal, R.R. District - 500 043

R&D centre

Plot no. 160/A & 161/E, Gagillapur Village, Qutubullapur Mandal, R.R. District - 500 043

xv) Address for correspondence

Members may please note that the registered office of the Company has been shifted to the following address w.e.f. 1st November 2007:

Granules India Limited
Second Floor, Block III, My Home Hub
Madhapur, Hyderabad 500081, India
Tel: 91-40-66760000, Fax: 91-40-23115145
E-mail: mail@granulesindia.com
Website: www.granulesindia.com

Brief profile of Director(s) seeking reappointment / appointment at the ensuing Annual General Meeting

Dr. C. Nageswara Rao

Dr. C. Nageswara Rao is one of the promoters of Granules India Limited. He is an M.S. (Surgery & Urology) and a leading practicing surgeon in Guntur for the last four decades. Besides his own practice, he is an active member of the medical fraternity and presently the Chairman of Andhra Pradesh Medical Council. He was a member of All India Medical Council, syndicate member of Nagarjuna University and Director of Hindustan Antibiotic Limited.

Shri N.R. Ganti

Shri N. R. Ganti, is a Post Graduate in Business Administration from the Osmania University with specialisation in strategy and corporate finance. He started his career in banking with the State Bank of India. He is a financial and management consultant as well as the Chairman & Managing Director of SQL Star International Limited. He has to his credit over thirty years of experience in finance and management. He has held positions on the Board and management committees of several reputed companies. Mr. Ganti has played a proactive role in the development and growth of Granules India Limited.

Mr. Stephen R. Olsen

Mr. Olsen has been the Senior Vice President of Sales (America), Global Marketing and Research & Development of International Specialty Products Inc. (ISP), which is the indirect parent company of ISP Investco LLC, and some of its subsidiaries, including ISP Chemco LLC (Chemco), the holding company for ISP's operating subsidiaries, since January 2006, and has been a director of Chemco since June 2005. He was previously the Senior Vice President — North America Sales and Marketing of ISP and Chemco and some of its subsidiaries from September 2004 to January 2006. Mr. Olsen was also the Senior Vice President of corporate development and General Manager of Biocides and Food Ingredients of ISP and Chemco, and a number of its subsidiaries from January 2004 to September 2004; and Senior Vice President of corporate development and strategy of ISP, Chemco and some of its subsidiaries from September 2000 to January 2004. Mr. Olsen was also a director of Chemco from June 2001 to September 2002.

Auditors' Certificate >

To
The Members of
Granules India Limited

We have examined the compliance of corporate governance by Granules India Limited, for the year ended on 30th June 2007, as stipulated in clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The Compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Share Transfer and Shareholders'/Investors' Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No.25480

Place: Hyderabad
Date: 28-11-2007

Auditors' Report >

To
The Members of
M/s GRANULES INDIA LIMITED
Hyderabad - 500 081.

1. We have audited the attached Balance Sheet of M/s Granules India Limited, Hyderabad as on 30th June 2007 and the Profit and Loss Account and Cash Flow Statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. Audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to the above, our comments are as under:
   a) Reference is invited to Note No. B (3) under Schedule No. Q regarding dues to micro, small and medium enterprises,
   b) Reference is invited to Note No. B (4) under Schedule No. Q regarding dues to small scale industries,
   c) Reference is invited to Note No. B (22) under Schedule No. Q regarding confirmation of balances.
5. Further to our comments in the Annexure referred to in paragraph (3) & (4) above:
   a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
   b) In our opinion, proper books of account as required by the Law have been kept by the Company so far as it appears from our examination of such books.
   c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement referred to in this report are in agreement with the Books of Account.
   d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement comply with the requirements of the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
   e) On the basis of the written representations received from the directors, and taken on record by the Board of Directors, we report that none of the Directors are disqualified as on 30th June 2007, from being appointed as directors in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
   f) In our opinion, and to the best of our information and according to the explanations given to us, the said Balance Sheet, Profit & Loss Account and Cash Flow Statement read together with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.
      i) in so far as it relates to the Balance Sheet, of the state of affairs of the Company as on 30th June 2007.
      ii) in so far as it relates to the Profit & Loss Account, of the Profit of the company for the year ended on that date.
      iii) in case of the Cash Flow Statement, of the cash flows for the period ended on that date.

For M/s Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: 28th November, 2007

Annexure referred to in paragraph (3) of our report of even date

I) Fixed Assets

a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets of the company.

b) The Physical verification of fixed assets is being carried out as per the program drawn up and to the extent the physical verification is carried out, no material discrepancies were noticed on such verification.

c) According to the information and explanations given to us, the company has not disposed off any substantial part of fixed assets during the year.

II) Inventory

a) The stocks of raw materials, consumables, stores, work-in-progress and finished goods have been physically verified during the year at regular intervals by the management.

b) The procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business. In respect of finished goods lying with the consignees, the certificate given by the management is relied upon.

c) The discrepancies noticed on verification of stocks as compared to books were not material and it has been properly dealt with in the books of account.

III) Loans taken / granted

According to the information and explanations given to us, the company has neither taken nor granted any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

IV) Internal control

a) In our opinion and according to the information and explanations given to us, the internal control procedures are being strengthened on a continuous basis so as to be commensurate with the size of the company and the nature of its business for the purchase of inventory keeping in view of the expansion.

b) There are no major weaknesses in the internal control procedures.

V) Section 301

In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered into with parties entered in the register maintained under section 301 of the Companies Act, 1956 aggregating during the year to a value exceeding Rs. 5,00,000/- in respect of such party during the year.

VI) Public deposits

The Company has not accepted any deposits from the public.

VII) Internal audit

The company has an internal audit system so as to be commensurate with its size and the nature of its business.

VIII) Cost records

The Central Government has prescribed maintenance of cost records in respect of manufacture of API products and formulations. The company has made and maintained account and records of such activities.

IX) Statutory dues

The Company is generally regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income tax, Customs Duty, Wealth Tax, Sales Tax, Excise Duty, Cess and other statutory dues with the appropriate authorities. There are no arrears of outstanding statutory dues as at the last day of the year ending 30th June 2007 for period exceeding 6 months from the date they became payable, excepting an amount of Rs. 8.78 lakhs representing unpaid dividend.

X) Accumulated losses / cash losses
The company has no accumulated losses.

XI) Repayment of dues
There are minor delays in repayment of dues to banks.

XII) Loans & advances
The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

XIII) Chit - Fund companies / Nidhi / Mutual benefit societies
The provisions of special statute relating to chit fund companies and the provisions of Nidhi or mutual benefit fund/ societies are not applicable to the company.

XIV) Financing companies
The Company is not dealing or trading in shares, securities and other investments.

XV) Guarantee for loans
The company has not given any guarantee for loans taken by others to banks or financial institutions.

XVI) Term loans
The term loans are applied for the purpose for which the loans were obtained.

XVII) Usage of funds
According to the information and explanations given to us and on an overall examination of Balance Sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except permanent working capital.

XVIII) Preferential allotments
The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956, excepting preferential allotments as under:

i. 16,00,000 share warrants issued to promoters of the Company, convertible into 16,00,000 equity shares of Rs. 10/- each at a price of Rs. 94.50 per share; and

ii. 19,620 equity shares of Rs. 10/- each at a premium of Rs. 4/- per equity share to various employees under an approved ESOP scheme.

The said allotments have been made as per the guidelines of the appropriate authorities.

The preferential shares so issued are not prejudicial to the interests of the company.

XIX) Creation of securities
The company has not issued any debentures during the year, hence, the question of creation of securities does not arise.

XX) Public issue
The company has raised Rs. 7,062.78 lakhs money from the public during the year by way of preferential allotment of 64,48,845 equity shares of Rs. 10 each at a premium to Foreign Body Corporates.

(XXI) Frauds
According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the year.

For M/s Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: 28th November, 2007

Balance Sheet as at 30th June, 2007

(Amount in Rs)

	Schedules	As at 30th June, 2007	As at 30th June, 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	201,968,866	123,694,020
Share Application Money		15,120,032	13,888,750
Reserves & Surplus	B	1,526,242,050	701,994,248
Loan Funds			
Secured Loans	C	845,517,590	698,573,315
Unsecured Loans	D	178,592,961	108,473,098
Deferred Tax Liability		84,453,604	56,088,406
Total Sources of Funds		**2,851,895,102**	**1,702,711,836**
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	1,587,878,379	1,414,450,208
Less: Accumulated Depreciation		305,856,342	227,180,149
Net Block		1,282,022,037	1,187,270,059
Add: Capital Work in Progress including advances (Net)		713,385,397	236,930,815
		1,995,407,434	1,424,200,874
Investments	F	187,203,807	5,301,000
Current Assets, Loans & Advances	G		
Inventories		198,921,399	208,989,662
Sundry Debtors		227,011,038	151,981,533
Cash & Bank Balances		270,966,230	47,166,562
Other Current Assets		5,880,254	928,241
Loans and Advances		155,157,528	106,490,060
		857,936,449	515,556,058
Less: Current Liabilities & Provisions	H		
Current Liabilities		172,021,787	240,620,705
Provisions		31,652,857	18,968,239
Net Current Assets		654,261,805	255,967,114
Miscellaneous Expenditure (to the extent not written off or adjusted)	I	15,022,056	17,242,848
Total Application of Funds		**2,851,895,102**	**1,702,711,836**
Significant accounting policies and notes to accounts	Q		

As per our report of even date
For **Kumar & Giri**
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Profit & Loss Account for the year ended 30th June, 2007

(Amount in Rs)

	Schedules	Year ended 30th June, 2007	Year ended 30th June, 2006
INCOME			
Gross Sales		1,951,933,234	1,815,919,698
Less: Excise duty & Sales Tax		94,923,113	61,203,120
Net Sales	J	1,857,010,121	1,754,716,578
Other Income	K	24,630,877	5,097,454
		1,881,640,998	**1,759,814,033**
EXPENDITURE			
Cost of Materials consumed	L	1,073,396,190	1,114,914,902
Manufacturing Expenses	M	255,398,419	177,464,362
Marketing & Selling Expenses	N	129,376,000	128,745,195
Administrative Expenses	O	83,403,811	66,226,660
Interest and Finance Charges	P	120,284,926	102,452,733
Depreciation		81,772,815	52,107,457
Misc. Expenditure written off		3,142,042	4,637,676
Total Expenses		**1,746,774,203**	**1,646,548,986**
Profit before tax		**134,866,795**	**113,265,046**
Less: Current Tax Expense		4,393,124	2,863,937
Deferred Tax Expense		28,365,198	17,159,572
Fringe Benefit Tax		911,092	781,291
Net Profit after Taxes		**101,197,381**	**92,460,247**
Balance available for appropriation		**101,197,381**	**92,460,247**
Less: Provision for dividend		25,029,543	15,451,190
Provision for dividend tax		4,253,771	2,167,029
Transfer to General Reserve		2,600,000	2,400,000
Balance transferred to Balance Sheet		69,314,067	72,442,028
Add: Profit brought forward from previous year		263,089,573	190,647,545
Surplus carried forward to Balance Sheet		**332,403,641**	**263,089,573**
Weighted average No. of shares		14,855,357	13,692,841
Basic Earnings per share		7.63	7.49
Diluted Earnings per share		6.81	6.75
Significant accounting policies and notes to accounts	Q		

As per our report of even date
For **Kumar & Giri**
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
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Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Schedules forming part of Balance Sheet as at 30th June, 2007

(Amount in Rs)

	As at 30th June, 2007	As at 30th June, 2006
Schedule – A SHARE CAPITAL		
Authorised Capital		
3,00,00,000 Equity Shares of Rs.10/- each (Previous year 2,00,00,000 Equity Shares of Rs. 10/- each)	300,000,000	200,000,000
	300,000,000	**200,000,000**
Issued, Subscribed and Paid up Capital		
2,00,23,634 Equity Shares of Rs. 10/- each. (Previous year : 1,23,60,952 equity shares of Rs. 10/- each) (Of the above 24,12,134 equity shares of Rs. 10/- each issued for consideration otherwise than cash, of which 16,67,334 equity shares are issued as per the Scheme of Amalgamation)	200,236,340	123,609,520
Add: Shares forfeited (39,000 equity shares and 1,60,783 warrants have been forfeited)	1,732,526	84,500
	201,968,866	**123,694,020**

	Opening Balance	Additions	Withdrawals	Closing Balance
Schedule – B RESERVES & SURPLUS				
General Reserve	12,503,369	2,600,000	–	15,103,369
Central Subsidy	1,214,159	–	–	1,214,159
Share Premium	425,187,147	752,333,734	–	1,177,520,881
Profit & loss Account	263,089,573	69,314,068	–	332,403,641
	701,994,248	**824,247,802**	–	**1,526,242,050**

	As at 30th June, 2007	As at 30th June, 2006
Schedule – C SECURED LOANS		
I) Term loans		
from Banks	569,413,133	616,182,183
Interest accrued and due	1,336,029	610,667
II) Hire purchase loans	1,919,082	3,208,115
III) Working Capital Borrowings from banks	272,849,346	78,572,350
Total (I+II+III)	**845,517,590**	**698,573,315**

Schedule – D UNSECURED LOANS		
From Banks	170,000,000	100,000,000
Interest accrued and due	1,068,493	948,630
Sales Tax Deferment Loan	7,524,468	7,524,468
	178,592,961	**108,473,098**

Schedules forming part of Balance Sheet as at 30th June, 2007

(Amount in Rs)

Schedule – E FIXED ASSETS

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 1-July 2006	Additions	Deletions	Total as on 30-June-2007	As on 1-July 2006	For the Period	On Deletions	As on 30-June-2007	As on 30-June-2007	As on 30-June-2006
Land	52,593,430	1,686,190	–	54,279,620	–	–	–	–	54,279,620	52,593,430
Buildings	364,249,467	2,420,147	–	366,669,614	38,052,886	12,171,746	–	50,224,632	316,444,982	326,196,581
Plant & Machinery	677,648,935	23,519,393	3,159,303	698,009,025	140,177,380	44,160,011	2,098,794	182,238,597	515,770,428	537,471,555
Lab equipment	62,326,465	6,175,443	697,311	67,804,597	7,534,256	3,207,665	414,665	10,327,256	57,477,341	54,792,209
Material Handling equipment	21,171,199	2,134,929	–	23,306,128	2,091,619	1,097,097	–	3,188,716	20,117,412	19,079,580
Electrical Installations	40,609,746	4,768,027	–	45,377,773	9,456,199	2,003,589	–	11,459,788	33,917,985	31,153,547
Office equipment	15,715,588	1,554,039	12,051	17,257,576	5,937,413	798,050	9,084	6,726,379	10,531,197	9,778,175
Furniture & Fixtures	9,841,950	2,285,169	–	12,127,119	2,569,273	766,980	–	3,336,253	8,790,866	7,272,677
Computers	8,261,593	1,074,100	43,260	9,292,433	2,973,149	1,416,861	13,232	4,376,778	4,915,655	5,288,444
Vehicles	14,507,648	503,051	1,699,285	13,311,414	9,546,494	1,303,781	560,847	10,289,428	3,021,986	4,961,154
Technical knowhow	147,524,187	132,918,893	–	280,443,080	8,841,480	14,847,035	–	23,688,515	256,754,565	138,682,707
Total	**1,414,450,208**	**179,039,382**	**5,611,210**	**1,587,878,379**	**227,180,149**	**81,772,815**	**3,096,622**	**305,856,342**	**1,282,022,037**	**1,187,270,059**
Previous year totals	706,057,381	709,835,610	1,442,783	1,414,450,208	172,880,717	55,121,763	822,331	227,180,149	1,187,270,059	533,176,664

Notes:

1) Depreciation for the period includes Rs. Nil (Previous Year Rs.30,14,306) pertaining to depreciation on revalued assets, which is transferred to Revaluation Reserve Account

2) Gross block of Vehicles includes Rs.51,35,628 (Previous Year Rs.85,56,277) acquired on hire-purchase basis

	As at 30th June, 2007	As at 30th June, 2006
Schedule – F INVESTMENTS		
(At Cost less provision for dimunition in value)		
Quoted		
Long term - non-trade		
Andhra Bank (11277 shares of Rs.10/- each)	1,014,930	1,014,930
	1,014,930	1,014,930
Unquoted		
Trade long term		
M/s. Jeedimetla Effluent Treatment Ltd. (15,142 Equity shares of Rs.100/- each)	1,566,200	1,566,200
M/s. Pattancheru Envirotech Ltd. (34,040 Equity shares of Rs. 10/- each)	340,400	340,400
	1,906,600	1,906,600
Subsidiaries		
(Unquoted Shares)		
Granules USA Inc - 100% subsidiary	2,379,470	2,379,470
500 fully paid equity shares of US$100 each		
Joint Ventures		
(Unquoted Shares)		
Granules Biocause Pharmaceutical Co. Ltd.	181,902,807	–
(50% Joint-venture in equity)		
	187,203,807	**5,301,000**
Schedule – G CURRENT ASSETS, LOANS & ADVANCES		
i) Stock in hand		
Raw Materials	95,792,396	109,673,686
Finished Goods	53,280,664	56,526,544
Work In Process	31,020,976	29,098,499
Consumable and packing materials	4,178,647	3,537,704
Stores and Spares	14,648,716	10,153,229
	198,921,399	**208,989,662**

Schedules forming part of Balance Sheet as at 30th June, 2007

(Amount in Rs)

	As at 30th June, 2007	As at 30th June, 2006
Schedule – G CURRENT ASSETS, LOANS & ADVANCES *(CONTD.)*		
ii) **Sundry Debtors** (Unsecured, considered good)		
a) For more than six months	24,480,479	1,565,738
b) Others	202,530,559	150,415,795
	227,011,038	**151,981,533**
iii) **Cash & bank balances**		
Cash on hand	184,077	221,057
Bank Balances:		
With scheduled banks:		
- in current account	4,123,113	4,555,875
- in deposit accounts (including margin money)	37,312,562	40,740,553
Unutilised issue proceeds		
With scheduled banks:		
- in current account	29,346,478	1,649,077
- in deposit accounts	200,000,000	–
	270,966,230	**47,166,562**
iv) **Other current assets**		
Interest receivable	5,880,254	928,241
	5,880,254	**928,241**
v) **Loans & Advances**		
Advances to suppliers	7,186,991	5,591,943
Deposits	17,136,104	7,617,395
Excise duty	34,518,469	15,383,977
Prepaid expenses	11,599,367	8,265,737
Sales tax refund	26,646,318	12,745,849
Import entitlements	39,831,574	41,298,764
Loan to Granules USA	6,084,000	6,879,001
Other advances	12,154,705	8,707,395
	155,157,528	**106,490,060**

Schedule – H CURRENT LIABILITIES & PROVISIONS		
Current liabilities		
Due to Small Scale Industrial Undertakings	9,069,485	11,650,405
Due to Others		
- for goods & services	121,784,423	190,722,867
- for Capital goods	30,948,530	31,185,671
Advances from Customers	–	14,423
Unpaid dividends	878,494	492,755
Other Liabilities	9,340,855	6,554,584
	172,021,787	**240,620,705**
Provisions		
Provision for taxation (net of advances)	2,369,543	1,350,020
Provision for dividend	25,029,543	15,451,190
Provision for dividend tax	4,253,771	2,167,029
	31,652,857	**18,968,239**

Schedules forming part of Balance Sheet as at 30th June, 2007

(Amount in Rs)

	As at 30th June, 2007	As at 30th June, 2006
Schedule – I MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
i) Public Issue Expenses		
Opening Balance	14,317,737	15,188,652
Less: Written off during the year	870,912	870,915
	13,446,825	14,317,737
ii) Deferred Revenue Expenses		
Opening Balance	1,679,382	5,005,624
Less: Written off during the year	1,679,382	3,326,242
	–	1,679,382
iii) VRS Expenses		
Opening Balance	1,245,729	1,067,415
Additions during the year	921,251	618,833
Less: Written off during the year	591,749	440,519
	1,575,231	1,245,729
Total (i+ii+iii)	**15,022,056**	**17,242,848**

Schedules forming part of Profit and Loss Account for the year ended 30th June, 2007

(Amount in Rs)

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – J SALES		
Export Sales	1,350,174,465	1,432,842,041
Domestic Sales	595,907,278	378,649,934
By products	5,823,700	4,328,228
Export benefits	27,791	99,496
Gross Sales	**1,951,933,234**	**1,815,919,698**
Less: Excise duty & sales tax	94,923,113	61,203,120
Net Sales	**1,857,010,121**	**1,754,716,578**

Schedule – K OTHER INCOME		
Interest	4,068,564	3,135,584
Incentive	–	28,316
Dividends received	22,619	39,525
Sale of Scrap	1,728,325	1,850,574
Insurance Claims received	183,606	43,456
Foreign Exchange Fluctuations	18,627,763	–
	24,630,877	**5,097,454**

Schedules forming part of Profit and Loss Account for the year ended 30th June, 2007

(Amount in Rs)

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – L COST OF MATERIALS CONSUMED		
a) Consumption of Raw material	1,027,783,121	1,029,230,105
b) Consumption of Packing Materials	44,289,666	41,973,772
c) (Increase)/Decrease in Stocks		
i) (Increase)/Decrease in WIP		
Opening stock	29,098,499	37,436,189
Closing Stock	31,020,976	29,098,499
	(1,922,477)	8,337,690
ii) (Increase)/Decrease in FG		
Opening stock	56,526,544	91,899,879
Closing Stock	53,280,664	56,526,544
	3,245,880	35,373,335
Total (Increase)/Decrease in stocks	**1,323,403**	**43,711,025**
Total cost of material consumed (a+b+c)	**1,073,396,190**	**1,114,914,902**

Schedule – M MANUFACTURING EXPENSES		
Salaries, Wages	88,013,843	56,470,089
Contribution to PF/ESI	5,252,284	3,983,819
Employee welfare expenses	3,238,373	2,510,902
Conversion charges	1,515,883	1,339,619
Power & Fuel	77,387,831	57,901,088
Effluent Treatment expenses	17,040,747	13,252,610
Repairs & Maintenance - Factory Building	5,248,788	2,788,671
Repairs & Maintenance - Plant & Machinery	29,487,938	20,402,840
Repairs & Maintenance - Others	5,807,395	2,968,103
Consumables & Lab Chemicals	18,879,681	12,725,315
Analytical Fees	613,359	630,162
Others	2,912,297	2,491,144
	255,398,419	**177,464,362**

Schedule – N MARKETING & SELLING EXPENSES		
Business Promotion expenses	11,034,482	8,866,650
Sales Commission	24,599,084	22,942,011
Freight & Clearing charges	81,910,468	89,919,643
Discount	357,571	–
Travelling expenses	11,474,395	7,016,891
	129,376,000	**128,745,195**

Schedules forming part of Profit and Loss Account for the year ended 30th June, 2007

(Amount in Rs)

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – O ADMINISTRATIVE EXPENSES		
Salaries, Wages & Bonus	21,934,792	11,725,009
Contribution to PF/ESI	670,680	514,950
Employee welfare expenses	986,967	932,229
Directors remuneration	3,000,000	3,000,000
Managerial Commission	3,218,500	2,153,410
Repairs & Maintenance - Others	747,409	626,505
Rent	3,869,551	3,541,452
Rates & Taxes	4,281,450	4,755,211
Auditors' remuneration	380,210	362,250
Insurance	6,430,389	5,049,910
Consultancy & Professional Charges	9,303,149	5,654,771
Communication expenses	5,392,628	4,531,467
Printing & stationery	3,606,355	2,593,967
Travelling & Conveyance	9,970,619	9,586,063
Directors sitting fees	400,000	234,550
Foreign Exchange Fluctuations	–	3,321,353
Advertisement Charges	447,620	441,920
Garden Maintenance	1,670,895	1,521,101
Income-tax	–	103,799
Donations	1,203,245	865,240
Loss on sale of assets	713,005	155,655
Sundry expenses	5,176,347	4,555,849
	83,403,811	**66,226,661**
Schedule – P INTEREST AND FINANCE CHARGES		
Interest on Term loans	36,121,106	30,573,361
Interest on Working Capital	48,150,914	49,585,747
Interest Others	19,109,491	7,719,698
Bank Charges	16,903,415	14,573,928
	120,284,926	**102,452,733**

Notes forming part of Balance Sheet and Profit & Loss Account

Schedule – Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

1) **System of accounting:** The accounts have been prepared and presented under the historical cost convention method on the accrual basis of accounting in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI) to the extent applicable.

2) **Fixed Assets:** Fixed Assets are stated at cost less accumulated depreciation. Cost is inclusive of duties & taxes (net of CENVAT / VAT), incidental expenses and erection / commissioning expenses.

3) **Depreciation:** Depreciation on fixed assets is provided on straight-line method at the rates specified in Schedule XIV of the Companies Act, 1956. The depreciation on incremental value arising from the revaluation of the fixed assets is charged to Revaluation Reserve Account.

4) **Expenditure during construction period:** Expenditure (including finance cost relating to borrowed funds for construction or acquisition of fixed assets) incurred on projects under implementation are treated as Preoperative expenses pending allocation to the assets and are shown under “Capital Work in Progress” and

Notes forming part of Balance Sheet and Profit & Loss Account

the same are apportioned to fixed assets on commencement of commercial production.

5) **Investments:** Long-term investments and investments in subsidiary companies are carried at cost. Provision for diminution in value is made whenever necessary in accordance with the Accounting Standards in force.

6) **Valuation of Inventories:**
   a) Inventories are valued at the lower of cost or net realisable value.
   b) Inventories of raw material, consumables and stores and spares are valued at cost as per FIFO method. Cost does not include duties and taxes that are subsequently recoverable.
   c) Cost for the purpose of finished goods and material in process is computed on the basis of cost of material, labour and other related overheads.
   d) Goods in transit are stated at costs accrued up to the date of Balance Sheet.
   e) Stocks with consignment agents are stated at costs accrued up to the date of the Balance sheet.

7) **Government grants:** Government grants received in the nature of promoter's contribution and where no repayment is ordinarily expected, are treated as capital reserve.

8) **Foreign Exchange:** Foreign exchange transactions are recorded at the exchange rates prevailing at the time of transactions or at contracted rates. Current assets and current liabilities are translated at values prevailing at the Balance Sheet date. Gains/Losses, if any, arising thereby are recognized in the Profit and Loss account.

9) **Revenue Recognition:**
   a) Revenue from sales is recognized when significant risk and rewards in respect of ownership of the products are transferred.
   b) Revenue from domestic sales is recognized on dispatch of products from the factory of the company and in case of consignment sale, on further sale made by the agents.
   c) Revenue from export sales is recognized on the basis of dates of Bill of Lading.

10) **Export Benefits:** Advance licenses are issued to the company under the Advance License Scheme [Duty Exemption Entitlement Certificate (DEEC Scheme)] / duty entitlement credited under the Duty Entitlement Pass Book Scheme (DEPB Scheme) on the export of the goods manufactured by it. Whenever export sales are made by the company, pending receipt of imported duty-paid raw materials under the DEEC / DEPB Schemes, the cost of domestic raw materials actually consumed for the purpose of such exports is compensated and / or matched by accruing the value of the benefit under the DEEC / DEPB Scheme.

11) **Research and development expenses:**
   a) Research costs not resulting in any tangible property/equipment are charged to revenue as and when incurred.
   b) Know-how / product development costs incurred on an individual project are carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized over the period of expected future benefits from the related project, not exceeding ten years.
   c) The carrying value of know-how / product development costs are reviewed for impairment annually when the asset is not yet in use and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

12) **Employee Retirement Benefits:**
   a) Provident fund: These expenses are accounted on accrual basis and charged to Profit and Loss account of the year.
   b) Gratuity: Payment for present liability of future payment of gratuity is made to an approved Gratuity Fund that fully covers the same.
   c) Provision for accrued leave encashment is made on the basis of actuarial valuation.

13) **Borrowing costs:** Borrowing costs incurred in relation to the acquisition and construction of assets are capitalized as part of the cost of such assets up to the date when such assets are ready for intended use. Other borrowing costs are charged as an expense in the year in which they are incurred.

14) **Income tax expense:**
   a) Current Tax Expense
      The Current charge for income tax is calculated in accordance with the tax regulations.

Schedule – Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(CONTD.)*

b) Deferred Tax Expense
Deferred income tax reflects the impact of timing difference between accounting income and tax income for the year / period. Deferred tax is measured based on the tax rates and the tax laws enacted at the Balance Sheet date. Deferred tax asset is recognized only to the extent of certainty of realization of such asset.

c) Fringe Benefit Tax:
Fringe Benefit Tax is calculated in accordance with the tax regulations.

B) NOTES TO ACCOUNTS :

1) **Contingent liabilities not provided for in respect of:** (Rs. in lakhs)

	As at 30th June, 2007	As at 30th June, 2006
a) Claims against the company not acknowledged as debts:		
Income tax	33.80	33.80
Customs duty	43.47	43.47
b) Estimated amount of contracts remaining to be executed on Capital account and not provided for (net of advances)	412.97	2026.52
c) Letters of credit and Bank Guarantees issued by Bank	2756.94	3158.18
d) Bills discounted with banks	4680.28	4644.76

2) **Secured loans:**

a) Term loans: Term loans from Banks are secured by equitable mortgage of Land and buildings and hypothecation of plant and machinery located at Jeedimetla, Gagillapur and Bonthapally on pari passu basis.

Term loans are further secured by second charge on hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables.

In addition, pledge of 12.50 lakhs shares belonging to Managing Director in Granules India Limited were given as collateral security on pari passu basis to Andhra Bank, Bank of Baroda, IndusInd Bank and ING Vysya Bank. The Company has requested for release of the above shares which is agreed upon by the bankers and awaiting approval.

b) Working capital facilities: The working capital facilities from Banks are secured by hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables on pari passu basis. The working capital facilities are further secured by a second charge on the fixed assets of the company.

The working capital loans were further secured by a collateral security by way of equitable mortgage of house property belonging to the Managing Director. This collateral security has been released by all the working capital bankers subsequent to the Balance Sheet date.

c) All the above loans are further secured by personal guarantee of the Managing Director. The Company has requested for waiver of personal guarantee, which is under consideration by the bankers.

d) Hire purchase loans are secured by hypothecation of the asset purchased.

3) The Company is in the process of updating data on micro, small and medium enterprises from Suppliers/ Vendors.

4) Sundry Creditors include a sum of Rs. 90.69 lakhs due to Small Scale Industrial Undertakings. Total outstanding dues of small scale industrial undertakings have been determined to the extent such parties have been identified on the basis of the information available with the company. The parties to whom the company owes sums outstanding for more than 30 days as at the Balance Sheet date are:

AR Enterprises	Durga Industries	Kats Organics (P) Ltd.
Lakshmi Engg. Works	Perfect Engineering	Pragati Switches (P) Ltd.
Super Olefins (P) Ltd.	Sidharth Canisters Pvt. Ltd.	Technic Sales Corporation
Technic Containers	Unnati Stickers	

Notes forming part of Balance Sheet and Profit & Loss Account

Schedule – Q | SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(CONTD.)*

5) Particulars of Production, Sales and Stock of Finished Goods (Previous year figures in brackets).

(Qty is in M.Tons and Value Rs. in lakhs)

Product	Opening stock		Production	Closing Stock		Sales	
	Qty	Value	Qty	Qty	Value	Qty	Value
API's	130.23	223.81	5965.67	84.07	303.38	3438.59	7002.38
	(37.91)	(125.32)	(5111.06)	(130.23)	(223.81)	(2308.90)	(5224.64)
PFI' s	173.26	335.73	4730.94	128.54	222.52	4775.66	11459.87
	(292.71)	(758.55)	(5059.51)	(173.26)	(335.73)	(5178.96)	(12171.19)
Formulations	6771.16	5.73	25342.51	7935.25	6.91	24178.41	107.85
(Tablets) (in 000')	(24325.00)	(35.13)	(25909.14)	(6771.16)	(5.73)	(43463.99)	(151.33)
Total							**18570.10**
							(17547.16)

Note: Captive consumption of API's is 2573.24 MT (Previous year 2709.84 MT) included in Production.

6) Consumption of Raw materials during the year:

(Qty is in M.Ts, Value Rs. in lakhs)

Name of the material	2006-07		2005-06	
	Qty	Value	Qty	Value
Para Amino Phenol	3423.23	3041.64	3060.00	3391.87
Acetic Anhydride	3855.76	1806.04	3211.35	1539.82
Guaicol	447.04	1042.68	391.60	893.90
Ibuprofen	260.40	944.87	297.12	1027.11
Paracetamol	419.65	587.41	728.54	1086.18
Epichlorohydrin	413.92	450.43	379.79	317.89
1 Aminocyclohexane Acetic Acid	6.61	229.37	–	–
PVPK	38.29	224.39	69.14	416.74
Ciprofloxacin	15.35	167.96	–	–
PG Starch	275.03	165.67	267.57	148.73
Ephedrine HCL	–	–	0.92	11.04
2,6 Diamino Pyridine	–	–	19.20	155.05
Others		1617.37		1303.97
Total		**10277.83**		**10292.30**

7) Remuneration to Managing Director

(Rs. in lakhs)

	2006–07	2005-06
Salary	30.00	30.00
Commission	32.19	21.53
Perquisites	8.91	7.87
Total	**71.10**	**59.40**

8) Computation of net profit u/s 198 read with Section 309 (5) of Companies Act, 1956

(Rs. in lakhs)

	Period ended 30th June, 2007	Period ended 30th June, 2006
Profit before Income tax as per Profit & Loss account	1348.67	1132.65
Add: Directors remuneration	30.00	30.00
Directors' commission	32.19	21.53
Directors sitting fees	4.00	2.35
Loss / (Profit) on assets sold / written off (Net)	7.13	1.56
Total	**1421.98**	**1188.09**
Total remuneration payable including commission @5%	71.10	59.40
Less: Remuneration & perquisites paid	38.91	37.87
Balance being commission payable	32.19	21.53

Schedule – Q | SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(CONTD.)*

9) Remuneration to Statutory Auditors (Rs. in lakhs)

	2006–07	2005-06
As Auditor	3.50	3.50
As adviser, or in any other capacity, in respect of:		
Taxation services	Nil	Nil
Company Law matters	Nil	Nil
Management services	Nil	Nil
Certification	0.30	0.13
Out of pocket expenses	Nil	Nil
Total	**3.80**	**3.63**

10) Licensed, Installed capacity and actual production of Active Pharmaceutical Ingredients (APIs), Pharmaceutical Formulation Intermediates (PFIs) (As certified by the Management) (Rs. in lakhs)

	2006–07	2005-06
Capacity and Production		
i) Licensed Capacity (Metric tones per annum)	NA	NA
ii) Installed Capacity (Metric tones per annum)		
APIs	13351.00	13755.10
PFIs	8400.00	8400.00
Tablets (in 1000 Nos)	172800.00	172800.00
iii) Production (Metric tones)		
APIs	5965.67	5111.06
PFIs	4730.94	5059.51
Tablets (in 1000 Nos)	25342.51	25909.14

11) Foreign Exchange outgo/earnings towards: (Rs. in lakhs)

Expenditure/Earnings in Foreign Currency	2006–07	2005-06
Import of goods	6446.96	7070.72
Foreign travel	15.30	27.25
Sales commission	208.33	126.05
Consultancy charges	39.22	0.46
Capital assets	1383.78	772.36
Investments	1819.03	–
Other expenditure	55.60	20.67
Foreign exchange earnings – Export sales realized	12773.98	13338.11

12) Details of Imported and Indigenous Raw Materials:

Raw materials consumed - Imported/ Indigenous (Rs. in lakhs)

	2006-07		2005-06	
	%	Value	%	Value
Imported	62.37	6686.16	67.40	7219.70
Indigenous	37.63	4034.57	32.60	3492.34
Total	**100.00**	**10720.73**	**100.00**	**10712.04**

13) During the year, the company has capitalized borrowing costs of Rs.256.97 lakhs towards Tablet facility at Gagillapur (Previous year Rs.130.57 lakhs for API facility at Bonthapally, grouped under Capital Work in Progress) incurred during the year.

14) The Company has, during the year invested Rs.1819.02 lakhs in a joint-venture “Granules Biocause Pharmaceutical Co. Ltd., ” China, with a 50% share. The company has commenced operations from 28th June, 2007 only. There is no production or other normal operations during this date and the year ending, i.e., 30th June, 2007.

Notes forming part of Balance Sheet and Profit & Loss Account

Schedule – Q | SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(CONTD.)*

15) Segment reporting: The Company has only one business segment of "Pharmaceuticals". Therefore, the disclosure requirements of "Segment reporting" are not applicable.

16) Related party disclosures required as per Accounting Standard (AS-18) on "Related party disclosures" issued by the Institute of Chartered Accountants of India, are as below:

a) Names of related parties and the nature of relationships:

Name	Relationship
i) Granules USA Inc.	Wholly owned subsidiary company
ii) Granules-Biocause Pharmaceutical Co. Ltd.	Joint – Venture
iii) Key management personnel: Shri C. Krishna Prasad	Managing Director
iii) Others: Dr. C. Nageswara Rao	Non-Executive Chairman

b) Transactions with Subsidiary company: (Rs. in lakhs)

	30th June, 2007	30th June, 2006
Sale of goods	5205.78	5738.70
Unsecured loan	–	–
Interest on unsecured loan	3.27	3.78
Equity participation	–	–
Amounts outstanding at Balance sheet date:	**30th June, 2007**	**30th June, 2006**
Loan granted	60.84	68.79
Interest on loan	11.79	8.52
Equity subscribed	23.79	23.79
Amounts receivable for sales made	3251.20	3183.46
c) Transactions with Joint-Venture	**30th June, 2007**	**30th June, 2006**
a) Equity Participation	1819.03	–
Amounts outstanding at Balance sheet date:		
a) Equity	1819.03	–
d) Transactions with other related parties:		
Mr. C. Krishna Prasad, Managing Director:		
Remuneration	71.10	59.40
Dr. C. Nageswara Rao, Chairman:		
Sitting fee paid	0.65	0.45

17) **Details of Loans and advances given to Subsidiary company:**
Unsecured loan to Granules USA Inc. (Rs. in lakhs)

	30th June, 2007	30th June, 2006
Balance as at 30th June, 2006	60.84	68.79
Maximum balance during the period	69.32	68.79
Rate of interest charged	7% p.a.	5%p.a.

18) **Earnings Per Share – Basic & Diluted**

	2006–07	2005-06
Net profit for the year (Rs. in lakhs)	1011.97	924.60
Weighted average number of shares outstanding during the year	1,48,55,357	1,36,92,841
Basic earnings per share (Rs.)	7.63	7.49
Diluted earnings per share (Rs.)	6.81	6.75
Nominal value of shares (Rs.)	10.00	10.00

19) Deferred tax has been accounted for in accordance with the Accounting Standard – 22, "Accounting for taxes on income", issued by the Institute of Chartered Accountants of India. The components of Deferred Tax Assets

Schedule – Q | SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS *(CONTD.)*

and Liabilities recognized in these accounts are as follows:

(Rs. in lakhs)

	Opening balance as on 1.7.2006	Charge/(Credit) during the period	Closing balance as on 30.6.2007
Deferred tax liability			
Depreciation	709.28	204.25	913.53
Deferred revenue expenses	2.55	–	2.55
Total	**711.83**	**204.25**	**916.08**
Deferred tax asset			
Leave encashment	8.29	15.17	23.46
Bonus	6.43	1.82	8.25
Carry forward Business Losses	96.38	(96.38)	–
MAT Credit	39.83	–	39.83
Total	**150.93**	**79.39**	**71.54**
Net Deferred tax liability	**560.90**	**283.64**	**844.54**

20) Sundry Debtors are shown net of bill discounting under Current Assets. Sundry debtors outstanding as on 30th June, 2007 is Rs. 6950.39 lakhs.

21) Sundry debtors include a sum of Rs.3251.20 lakhs (Previous year: Rs.3183.46 lakhs) due from a subsidiary company.

22) Balances appearing under Sundry creditors, Capital WIP, Loans and advances and debtors are subject to confirmation and / or reconciliation, if any.

23) Amortization of Miscellaneous Expenditure:

a) GDR issue expenses of Rs.151.89 lakhs carried forward from earlier years are amortized over a period of 5 years commencing from the year in which the Projects commence commercial production. Paracetamol Project at Bonthapally had commenced commercial production during March 2006, hence the issue expenses are proportionately amortized.

b) The company has implemented a Voluntary Retirement Scheme (VRS). The total cost of separation of Rs.9.21 lakhs excluding Gratuity under the Gratuity scheme applicable to the employees is amortized over a period of 5 years.

24) The company has implemented an Employees Stock Option Scheme and 19,620 Equity shares of Rs.10 each were issued at a premium of Rs.4/- under the said Scheme.

25) The Government of Andhra Pradesh, Commissionerate of Industries has vide its Letter No.20/2/9/0444/ID dated 11th October, 1999 and its clarification vide Letter dated 4th August, 2001 determined an eligibility of Rs.184.12 lakhs towards Sales tax deferment on the sale of Paracetamol and the Sales tax payable by the company for a period of 14 years commencing from 30th June, 1998 to 29th June, 2012 is deferred. The liability of Rs.75.24 lakhs as at 30th June, 2007 (Previous year Rs.75.24 lakhs) for the deferred Sales tax is shown under unsecured loans.

26) In terms of accounting policy 10 for the accrual of export benefits, estimated benefits of Rs.398.31 lakhs (Previous year Rs.513.54 lakhs) have been taken into account under the DEEC/DEPB Schemes.

27) Previous years figures have been regrouped/rearranged/re-classified wherever necessary.

28) Figures in Balance Sheet and Profit & Loss account have been rounded off to the nearest Rupee and figures in Notes have been rounded off to the nearest thousand and have been expressed in terms of decimals of thousands.

As per our report of even date
For **Kumar & Giri**
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Cash Flow Statement for the year ended 30th June, 2007

(Amount in Rs.)

Particulars		Year ended 30th June, 2007		Year ended 30th June, 2006
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		134,866,795		113,265,047
Adjustments for:				
Depreciation	81,772,815		52,107,457	
Misc. Expenditure written off	3,142,042		4,637,676	
Profit / (Loss) on sale of assets	713,005		155,655	
Interest & dividend income	(4,091,183)		(3,175,108)	
Interest & finance charges	103,381,511	184,918,190	87,878,806	141,604,486
Operating profit before working capital changes		**319,784,985**		**254,869,533**
Increase in Trade and other receivables		(123,696,973)		(163,842,803)
Increase in inventories		10,068,264		(7,479,247)
Increase/(decrease) in Trade Payable		(68,886,670)		54,384,583
Cash generated from operations		**137,269,606**		**137,932,066**
Interest paid	102,536,287		88,985,304	
Direct Taxes paid	4,382,680		858,654	
Dividends paid	17,232,480		17,387,457	
		124,151,447		107,231,415
Net Cash from operating activities		**13,118,159**		**30,700,650**
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	655,493,961		555,454,773	
Increase in Miscellaneous expenditure	921,251		618,833	
Purchase/(sale) of investments	181,902,807		1,014,930	
Sale of Fixed Assets	(1,801,583)		(464,797)	
Interest/dividends received	860,830		(4,109,231)	
Net Cash used in investing activities		**837,377,266**		**552,514,508**
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital including premium	831,839,862		14,488,230	
Increase in Working Capital Loans	194,276,996		28,133,786	
Proceeds from Long Term & Other Borrowings	132,769,250		328,849,904	
Repayment of long term loans	(180,827,331)		(76,247,405)	
Proceeds from Unsecured Loans	370,000,000		101,598,550	
Repayment of unsecured loans	(300,000,000)		(50,000,000)	
Net Cash used in Financing Activities		**1,048,058,777**		**346,823,065**
Net Increase/(decrease) in cash & cash equivalents (A+B+C)		223,799,668		(174,990,793)
Cash equivalents (Opening Balance as at 1-7-2006)		47,166,562		222,157,355
Cash equivalents (Closing Balance as at 30-6-2007)		**270,966,230**		**47,166,562**

Notes:
Cash flow statement has been prepared following the indirect method. Interest paid, direct taxes paid, dividend paid are on the basis of actual movement of cash.

As per our report of even date
For **Kumar & Giri**
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: 28th November, 2007

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No.	01-12471	State Code	01
Balance Sheet Date	30 (Date) 06 (Month) 2007 (Year)		

II. Capital Raised during the year *(Amount in Thousand of Rupees)*

Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	76626

III. Position of Mobilization and Deployment of Funds *(Amount in Thousand of Rupees)*

Total Liabilities	2851895	Total Assets	2851895
Sources of Funds			
Paid-up Capital	207088	Reserves & Surplus	1526242
Secured Loans	845518	Unsecured Loans	698573
		Deferred tax liability	84454
Application of Funds			
Net Fixed Assets	1995407	Investments	187204
Net Current Assets	654262	Misc. Expenditure	15022

IV. Performance of Company *(Amount in Thousand of Rupees)*

Turnover	1881641	Total Expenditure	1746774
Profit before Tax	134867	Profit/ Loss after Tax	101197
Earnings Per Share	7.63	Dividend	12.5%

V. Generic Names of Three Principal Products / Services of Company *(as per monetary terms)*

Item code No. 2942000

Product Description Bulk drugs
Formulations & Granulations

As per our report of even date
For **Kumar & Giri**
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Granules India Limited

Section 212

Statement pursuant to Section 212 of the Companies Act, 1956.

1.	Name of the subsidiary	Granules USA Inc.
2.	Financial period ended	30th June, 2007
3.	Date from which it become a subsidiary.	5th March, 2003
4.	Holding company's interest	100% (500 shares of USD 100 each fully paid up)
5.	The net aggregate amount of the profits or losses for the current period of the subsidiary so far as it concerns the members of the holding company.	
	a. dealt with or provided for in the accounts of the holding company.	Nil
	b. not dealt with or provided for in the accounts of the holding company.	Loss of Rs. 205.75 lakhs
6.	The net aggregate amount of the profits or losses for the previous financial years of the subsidiary so far as it concerns the members of the holding company.	
	a. dealt with or provided for in the accounts of the holding company.	–
	b. not dealt with or provided for in the accounts of the holding company.	Loss of Rs. 196.94 lakhs

For and on behalf of the Board

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Consolidated Auditors' Report

To

The Board of Directors,
M/s GRANULES INDIA LIMITED
Hyderabad – 500081.

1. We have audited the attached consolidated Balance Sheet of M/s Granules India Limited, its subsidiary M/s Granules USA Inc. and joint-venture with M/s. Granules-Biocause Pharmaceutical Co. Ltd., as on 30th June, 2007 and the consolidated Profit and Loss Account and the consolidated Cash Flow Statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. Audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the subsidiary and Joint venture, whose financial statements reflect total assets of Rs. 4537.14 lakhs as at 30th June, 2007, the total revenue of Rs. 5663.00 lakhs for the year ended on that date. These financial statements and other financial information have been audited by other auditors whose report has been furnished to us, and our opinion is based solely on the report of other auditors.
4. We report that the consolidated financial statements have been prepared by the company's management in accordance with the requirements of Accounting Standards (AS) 21, Consolidated Financial Statements, and accounting standard (AS) 27, Financial Reporting of Interest in Joint Venture, issued by the Institute of Chartered Accounts of India and on the basis of separate Audited Financial Statements of the group and Unaudited Financial Statement of a Consolidated entity.
5. Further to the above, our comments are as under:
   a. Reference is invited to Note No. B (3) Schedule No. Q regarding dues to micro, small and medium enterprises,
   b. Reference is invited to Note No. B (4) Schedule No. Q regarding dues to small scale industries,
   c. Reference is invited to Note No. B (14) under Schedule No. Q regarding confirmation of balances.
6. In our opinion, and to the best of our information and according to the explanations given to us, the said consolidated Balance Sheet, consolidated Profit & Loss Account and consolidated Cash Flow Statement read together with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.
   i. in so far as it relates to the consolidated Balance Sheet, of the state of affairs of the Company as on 30th June, 2007.
   ii. in so far as it relates to the consolidated Profit & Loss Account, of the Profit of the company for the year ended on that date.
   iii. in case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For M/s Kumar & Giri
Chartered Accountants

J. Bhadra Kumar
Partner
Membership No. 25480

Place: Hyderabad
Date: 28th November, 2007

Consolidated Balance Sheet as at 30th June, 2007

(Amount in Rs)

	Schedules	As at 30th June, 2007	As at 30th June, 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	201,968,866	123,694,020
Share Application Money		15,120,032	13,888,750
Reserves & Surplus	B	1,457,135,042	657,846,166
Loan Funds			
Secured Loans	C	1,157,791,973	973,845,389
Unsecured Loans	D	178,592,961	108,473,098
Deferred Tax Liability		84,453,604	56,088,406
Total Sources of Funds		**3,095,062,478**	**1,933,835,829**
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	1,678,112,687	1,416,092,443
Less: Accumulated Depreciation		306,584,928	227,593,712
Net Block		1,371,527,759	1,188,498,731
Add: Capital Work in Progress including advances (Net)		713,385,397	236,930,811
		2,084,913,156	1,425,429,542
Investments	F	2,921,530	2,921,530
Current Assets, Loans & Advances	G		
Inventories		295,998,222	347,956,927
Sundry Debtors		371,291,595	240,751,169
Cash & Bank Balances		364,201,270	60,064,596
Other Current Assets		4,689,688	63,642
Loans and Advances		163,139,727	99,679,300
		1,199,320,502	748,515,634
Less: Current Liabilities & Provisions	H		
Current Liabilities		175,461,909	241,305,486
Provisions		31,652,857	18,968,239
Net Current Assets		992,205,736	488,241,909
Miscellaneous Expenditure (to the extent not written off or adjusted)	I	15,022,056	17,242,848
Total Application of Funds		**3,095,062,478**	**1,933,835,829**

As per our report of even date
For **Kumar & Giri**
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Consolidated Profit & Loss Account for the year ended 30th June, 2007

(Amount in Rs)

	Schedules	Year ended 30th June, 2007	Year ended 30th June, 2006
INCOME			
Gross Sales		1,976,279,073	1,852,054,349
Less: Excise duty		94,923,113	61,203,120
Net Sales	J	1,881,355,960	1,790,851,229
Other Income	K	22,181,122	4,762,917
		1,903,537,082	**1,795,614,146**
EXPENDITURE			
Cost of Materials consumed	L	1,080,989,643	1,136,810,975
Manufacturing Expenses	M	255,878,142	177,464,362
Marketing & Selling Expenses	N	143,980,912	137,925,091
Administrative Expenses	O	106,199,983	88,000,078
Interest and Finance Charges	P	121,626,236	103,925,546
Depreciation		82,087,859	52,353,409
Misc. Expenditure written off		3,142,042	4,637,678
Total Expenses		**1,793,904,817**	**1,701,117,139**
Profit before tax		**109,632,265**	**94,497,007**
Less: Current Tax Expense		4,393,124	2,863,937
Deferred Tax Expense		28,365,198	17,159,572
Fringe Benefit Tax		911,092	781,291
Net Profit after Taxes		**75,962,851**	**73,692,207**
Balance available for appropriation		**75,962,851**	**73,692,207**
Less: Provision for dividend		25,029,543	15,451,190
Provision for dividend tax		4,253,771	2,167,029
Transfer to General Reserve		2,600,000	2,400,000
Balance transferred to Balance Sheet		**44,079,537**	**53,673,988**
Add profit brought forward from previous year		218,941,491	165,267,503
Surplus carried forward to Balance Sheet		**263,021,028**	**218,941,491**
Weighted average No. of Shares		14,855,357	13,692,841
Earnings per share		5.11	5.38
Significant accounting policies and notes to accounts	Q		

As per our report of even date
For **Kumar & Giri**
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Schedules forming part of Consolidated Balance Sheet as at 30th June, 2007

(Amount in Rs)

	As at 30th June, 2007	As at 30th June, 2006
Schedule – A SHARE CAPITAL		
Authorised Capital		
3,00,00,000 Equity Shares of Rs.10 each	300,000,000	200,000,000
(Previous year 2,00,00,000 Equity Shares of Rs. 10 each)		
	300,000,000	**200,000,000**
Issued, Subscribed and Paid up Capital		
2,00,23,634 Equity Shares of Rs.10/- each. (Previous year : 1,23,60,952 equity shares of Rs.10 each) (Of the above 24,12,134 equity shares of Rs.10/- each issued for consideration otherwise than cash ,of which 16,67,334 equity shares are issued as per the Scheme of Amalgamation)	200,236,340	123,609,520
Add: Shares forfeited (39,000 equity shares and 1,60,783 warrants have been forfeited)	1,732,526	84,500
	201,968,866	**123,694,020**

	Opening Balance	Additions	Withdrawals	Closing Balance
Schedule – B RESERVES & SURPLUS				
General Reserve	12,503,369	2,600,000	–	15,103,369
Central Subsidy	1,214,159	–	–	1,214,159
Share Premium	425,187,147	752,609,339	–	1,177,796,486
Profit & loss Account	218,941,491	44079537	–	263021028
	657,846,166	**799288875**	–	**1,457135042**

	As at 30th June, 2007	As at 30th June, 2006
Schedule – C SECURED LOANS		
I) Term loans		
from Banks	569,413,133	616,182,183
Interest accrued and due	1,336,029	610,667
II) Hire purchase loans	1,919,082	3,208,114
III) Working Capital Borrowings from banks	585,123,729	353,844,425
Total (I+II+III)	**1,157,791,973**	**973,845,389**

Schedule – D UNSECURED LOANS		
From Banks	170,000,000	100,000,000
Interest accrued and due	1,068,493	948,630
Sales Tax Deferment Loan	7,524,468	7,524,468
	178,592,961	**108,473,098**

Schedules forming part of Consolidated Balance Sheet as at 30th June, 2007

(Amount in Rs)

Schedule – E FIXED ASSETS

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 1 July, 2006	Additions	Deletions	Total as on 30 June, 2007	As on 1 July, 2006	For the Period	On Deletions	As on 30 June, 2007	As on 30 June, 2007	As on 30 June, 2006
Land	52,593,430	1,686,190	–	54,279,620	–	–	–	–	54,279,620	52,593,430
Buildings	364,249,467	44,908,108	–	409,157,575	38,052,886	12,171,746	–	50,224,632	358,932,943	326,196,581
Plant & Machinery	677,648,935	34,459,287	3,159,303	708,948,919	140,177,380	44,160,011	2,098,794	182,238,597	526,710,322	537,471,555
Lab equipment	62,326,465	6,175,443	697,311	67,804,597	7,534,256	3,207,665	414,665	10,327,256	57,477,341	54,792,209
Material Handling equipment	21,171,199	2,134,929	–	23,306,128	2,091,619	1,097,097	–	3,188,716	20,117,412	19,079,580
Electrical Installations	40,609,746	4,768,027	–	45,377,773	9,456,199	2,003,589	–	11,459,788	33,917,985	31,153,547
Office equipment	16,700,794	1,554,040	12,051	18,242,783	6,293,844	1,100,218	9,084	7,384,977	10,857,806	10,406,950
Furniture & Fixtures	10,293,812	2,326,635	–	12,620,447	2,599,864	766,980	–	3,366,844	9,253,603	7,693,948
Computers	8,261,593	1,074,100	43,260	9,292,433	2,973,149	1,416,861	13,232	4,376,778	4,915,655	5,288,444
Vehicles	14,507,647	503,051	1,699,285	13,311,414	9,546,494	1,303,781	560,847	10,289,429	3,021,985	4,961,154
Technical knowhow	147,729,355	168,041,643	–	315,770,998	8,868,021	14,859,890	–	23,727,911	292,043,087	138,861,333
Total	**1,416,092,443**	**267,631,453**	**5,611,210**	**1,678,112,687**	**227,593,712**	**82,087,838**	**3,096,622**	**306,584,928**	**1,371,527,759**	**1,188,498,731**
Previous year totals										

Notes:

a) Depreciation for the period includes Rs. Nil (Previous Year Rs. 30,14,306) pertaining to depreciation on revalued assets, which is transferred to Revaluation Reserve Account

b) Gross Block of Vehicles includes Rs. 51,35,628 (Previous Year Rs. 85,56,277) acquired on hire-purchase basis.

	As at 30th June, 2007	As at 30th June, 2006
Schedule – F INVESTMENTS		
(At Cost less provision for dimunition in value)		
Quoted		
Long term - non-trade		
Andhra Bank (11,277 shares of Rs. 10/- each)	1,014,930	1,014,930
	1,014,930	**1,143,930**
Unquoted		
Trade long term		
M/s. Jeedimetla Effluent Treatment Ltd. (15,142 Equity shares of Rs. 100/- each)	1,566,200	1,566,200
Pattancheru Envirotech Ltd. (34040 equity shares of Rs. 10/- each)	340,400	340,400
	1,906,600	**1,906,600**
Total	**2,921,530**	**2,921,530**

Schedule – G CURRENT ASSETS, LOANS & ADVANCES

i) Stock in hand		
Raw Materials	95,792,396	109,673,686
Finished Goods	150,357,487	195,493,809
Work In Process	31,020,976	29,098,499
Consumable and packing materials	4,178,647	3,537,704
Stores and Spares	14,648,716	10,153,229
	295998222	**347,956,927**

Schedules forming part of Consolidated Balance Sheet as at 30th June, 2007

(Amount in Rs)

	As at 30th June, 2007	As at 30th June, 2006
Schedule – G CURRENT ASSETS, LOANS & ADVANCES *(CONTD.)*		
ii) **Sundry Debtors** (Unsecured, considered good)		
a) For more than six months	28,579,270	32,380,278
b) Others	342,712,325	208,370,891
	371,291,594	**240,751,169**
iii) **Cash & bank balances**		
Cash on hand	184,077	221,057
Bank Balances:		
With scheduled banks:		
- in current account	97,358,153	19,102,985
- in deposit accounts (including margin money)	37,312,562	40,740,553
Unutilised issue proceeds		
With scheduled banks:		
- in current account	29,346,478	–
- in deposit accounts	200,000,000	–
	364,201,270	**60,064,596**
iv) **Other current assets**		
Interest receivable	4,689,688	63,642
	4,689,688	**63,642**
v) **Loans & Advances**		
Advances to suppliers	7,186,991	5,591,943
Deposits	17,136,104	7,488,395
Excise duty	34,518,469	15,383,977
Prepaid expenses	11,599,367	8,333,977
Sales tax refund	26,646,318	12,745,849
Import entitlements	39,831,574	41,298,764
Other advances	26220904	8,836,395
	163,139,727	**99,679,301**

Schedule – H CURRENT LIABILITIES & PROVISIONS		
Current liabilities		
Due to Small Scale Industrial Undertakings	9,069,485	11,650,405
Due to Others		
- for goods & services	125,211,170	191,407,648
- for Capital goods	30,948,530	31,185,671
Unpaid dividends	878,494	492,755
Other Liabilities	9,354,230	6,569,007
	175,461,909	**241,305,486**
Provisions		
Provision for taxation (net of advances)	2,369,543	1,350,020
Provision for dividend	25,029,543	15,451,190
Provision for dividend tax	4,253,771	2,167,029
	31,652,857	**18,968,239**

Schedules forming part of Consolidated Balance Sheet as at 30th June, 2007

(Amount in Rs)

	As at 30th June, 2007	As at 30th June, 2006
Schedule – I MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
i) **Public Issue Expenses**		
Opening Balance	14,317,737	15,188,652
Less: Written off during the year	870,912	870,915
	13,446,825	14,317,737
ii) **Deferred Revenue Expenses**		
Opening Balance	1,679,382	5,005,624
Less: Written off during the year	1,679,382	3,326,242
	–	1,679,382
iii) **VRS Expenses**		
Opening Balance	1,245,729	1,067,415
Additions during the year	921,251	618,833
Less: Written off during the year	591,749	440,519
	1,575,231	1,245,729
Total (i+ii+iii)	**15,022,056**	**17,242,848**

Schedules forming part of Consolidated Profit and Loss Account for the year ended 30th June, 2007

(Amount in Rs)

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – J SALES		
Export Sales	1,374,520,304	1,468,976,691
Domestic Sales	595,907,278	378,649,934
By products	5,823,700	4,328,228
Export benefits	27,791	99,496
Gross Sales	**1,976,279,073**	**1,852,054,349**
Less: Excise duty & Sales Tax	94,923,113	61,203,120
Net Sales	**1,881,355,960**	**1,790,851,229**
Schedule – K OTHER INCOME		
Interest	3,599,836	2,801,046
Incentive	–	28,316
Dividends received	22,619	39,525
Sale of Scrap	1,728,325	1,850,574
Insurance Claims received	183,606	43,456
Foreign Exchange Fluctuations	16,646,736	–
	22,181,122	**4,762,917**

Schedules forming part of Consolidated Profit and Loss Account for the year ended 30th June, 2007

(Amount in Rs)

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – L COST OF MATERIALS CONSUMED		
a) Consumption of Raw material	993,486,132	1,118,393,853
b) Consumption of Packing Materials	44,289,666	41,973,772
c) (Increase)/Decrease in Stocks		
i) (Increase)/Decrease in WIP		
Opening stock	29,098,499	37,436,189
Closing Stock	31,020,976	29,098,499
	(1,922,477)	8,337,690
ii) (Increase)/Decrease in FG		
Opening stock	195,493,809	163,599,469
Closing Stock	150,357,487	195,493,809
	45,136,322	(31,894,340)
Total (Increase)/Decrease in stocks	**43,213,845**	**(23,556,650)**
Total cost of material consumed (a+b+c)	**1,080,989,643**	**1,136,810,975**

Schedule – M MANUFACTURING EXPENSES		
Salaries, Wages	88,013,843	56,470,089
Contribution to PF/ESI	5,252,284	3,983,819
Employee welfare expenses	3,238,373	2,510,902
Conversion charges	1,515,883	1,339,619
Power & Fuel	77,387,831	57,901,088
Effluent Treatment expenses	17,040,747	13,252,610
Repairs & Maintenance - Factory Building	5,248,788	2,788,671
Repairs & Maintenance - Plant & Machinery	29,487,938	20,402,840
Repairs & Maintenance - Others	5,807,395	2,968,103
Consumables & Lab Chemicals	18,879,681	12,725,315
Analytical Fees	1,093,082	630,162
Others	2,912,297	2,491,144
	255,878,142	**177,464,362**

Schedule – N MARKETING & SELLING EXPENSES		
Business Promotion expenses	11,034,482	8,866,650
Sales Commission	26,103,397	23,320,351
Freight & Clearing Charges	92,604,958	97,041,420
Discount	357,571	–
Travelling expenses	13,880,504	8,696,671
	143,980,912	**137,925,091**

(Amount in Rs)

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – O ADMINISTRATIVE EXPENSES		
Salaries, Wages & bonus	38,203,058	25,368,073
Contribution to Provident Fund	670,680	514,950
Employee welfare expenses	986,967	932,229
Directors remuneration	3,000,000	3,000,000
Managerial Commission	3,218,500	2,153,410
Repairs & Maintenance - Others	938,608	672,047
Rent	4,706,867	4,349,382
Rates & Taxes	4,568,216	5,095,458
Auditors' remuneration	380,210	362,250
Insurance	10,219,172	10,639,363
Consultancy & Professional Charges	9,767,438	6,060,543
Communication expenses	5,916,533	5,156,070
Printing & stationery	3,606,355	3,151,262
Travelling & Conveyance	9,970,617	9,586,063
Directors sitting fees	400,000	234,550
Foreign Exchange Fluctuations	–	2,560,369
Advertisement Charges	447,620	441,920
Garden Maintenance	1,670,895	1,521,101
Income-tax	–	103,799
Donations	1,203,245	865,240
Loss on sale of assets	713,005	155,655
Sundry expenses	5,611987	5,076,345
	106,199,983	**88,000,078**

Schedule – P INTEREST AND FINANCE CHARGES		
Interest on Term loans	36,121,106	30,573,361
Interest on Working Capital	48,150,914	49,211,286
Interest Others	19,109,491	8,094,159
Bank Charges	18,244,725	16,046,740
	121,626,236	**103,925,546**

Notes forming part of Consolidated Balance Sheet and Profit & Loss Account

Schedule – Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

1) **System of accounting:** The accounts have been prepared and presented under the historical cost convention method on the accrual basis of accounting in accordance with the accounting principles generally accepted in India and comply with the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI) to the extent applicable.

2) **Principles of consolidation:** The financial statements are prepared in accordance with the principles and procedures required for the preparation and presentation of consolidated financial statements as laid down on the accounting standards on Consolidated Financial Statements by the ICAI. The financial statements of the parent company, Granules India Limited, Granules USA, Inc., and Granules Biocause Pharmaceutical Co. Ltd (50% joint-venture) have been combined on a line-by-line basis by adding together book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealized gains / losses. Exchange differences resulting from the difference due to transactions of foreign currency assets and liabilities in subsidiary company is disclosed as foreign currency translation adjustment. The consolidated financial statements are prepared applying uniform accounting policies for like transactions

Notes forming part of Consolidated Balance Sheet and Profit & Loss Account

Schedule – Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS *(CONTD.)*

and other events in similar circumstances in use at the parent and subsidiary company.

3) **Fixed Assets:** Fixed Assets are stated at cost less accumulated depreciation. Cost is inclusive of duties & taxes (net of CENVAT / VAT), incidental expenses and erection / commissioning expenses.

4) **Depreciation:** Depreciation on fixed assets is provided on straight-line method at the rates specified in Schedule XIV of the Companies Act, 1956. The depreciation on incremental value arising from the revaluation of the fixed assets is charged to Revaluation Reserve Account.

5) **Expenditure during construction period:** Expenditure (including finance cost relating to borrowed funds for construction or acquisition of fixed assets) incurred on projects under implementation are treated as Preoperative expenses pending allocation to the assets and are shown under "Capital Work in Progress" and the same are apportioned to fixed assets on commencement of commercial production.

6) **Investments:** Long-term investments and investments in subsidiary companies are carried at cost. Provision for diminution in value is made whenever necessary in accordance with the Accounting Standards in force.

7) **Valuation of Inventories:**
   a) Inventories are valued at the lower of cost or net realisable value.
   b) Inventories of raw material, consumables and stores and spares are valued at cost as per FIFO method. Cost does not include duties and taxes that are subsequently recoverable.
   c) Cost for the purpose of finished goods and material in process is computed on the basis of cost of material, labour and other related overheads.
   d) Goods in transit are stated at costs accrued up to the date of Balance Sheet.
   e) Stocks with consignment agents are stated at costs accrued up to the date of the Balance sheet.

8) **Government grants:** Government grants received in the nature of promoter's contribution and where no repayment is ordinarily expected, are treated as capital reserve.

9) **Foreign Exchange:** Foreign exchange transactions are recorded at the exchange rates prevailing at the time of transactions or at contracted rates. Current assets and current liabilities are translated at values prevailing at the Balance Sheet date. Gains/Losses, if any, arising thereby are recognized in the Profit and Loss account.

10) **Revenue Recognition:**
   a) Revenue from sales is recognized when significant risk and rewards in respect of ownership of the products are transferred.
   b) Revenue from domestic sales is recognized on dispatch of products from the factory of the company and in case of consignment sale, on further sale made by the agents.
   c) Revenue from export sales is recognized on the basis of dates of Bill of Lading.

11) **Export Benefits:** Advance licenses are issued to the company under the Advance License Scheme [Duty Exemption Entitlement Certificate (DEEC Scheme)] / duty entitlement credited under the Duty Entitlement Pass Book Scheme (DEPB Scheme) on the export of the goods manufactured by it. Whenever export sales are made by the company, pending receipt of imported duty-paid raw materials under the DEEC / DEPB Schemes, the cost of domestic raw materials actually consumed for the purpose of such exports is compensated and / or matched by accruing the value of the benefit under the DEEC / DEPB Scheme.

12) **Research and development expenses:**
   a) Research costs not resulting in any tangible property/equipment are charged to revenue as and when incurred.
   b) Know-how / product development costs incurred on an individual project are carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized over the period of expected future benefits from the related project, not exceeding ten years.
   c) The carrying value of know-how / product development costs are reviewed for impairment annually when the asset is not yet in use and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

13) **Employee Retirement Benefits:**
   a) **Provident fund:** These expenses are accounted on accrual basis and charged to Profit and Loss account of the year.
   b) **Gratuity:** Payment for present liability of future payment of gratuity is made to an approved Gratuity Fund

that fully covers the same.

c) Provision for accrued leave encashment is made on the basis of actuarial valuation.

14) **Borrowing costs:** Borrowing costs incurred in relation to the acquisition and construction of assets are capitalized as part of the cost of such assets up to the date when such assets are ready for intended use. Other borrowing costs are charged as an expense in the year in which they are incurred.

15) Income tax expense:

a) Current Tax Expense
The Current charge for income tax is calculated in accordance with the tax regulations.

b) Deferred Tax Expense
Deferred income tax reflects the impact of timing difference between accounting income and tax income for the year / period. Deferred tax is measured based on the tax rates and the tax laws enacted at the Balance Sheet date. Deferred tax asset is recognized only to the extent of certainty of realization of such asset.

c) Fringe Benefit tax:
Fringe Benefit tax is calculated in accordance with the tax regulations.

B) NOTES TO ACCOUNTS :

1) Contingent liabilities not provided for in respect of: (Rs. in lakhs)

	As at 30th June, 2007	As at 30th June, 2006
a) Claims against the company not acknowledged as debts:		
Income tax	33.80	33.80
Customs duty	43.47	43.47
b) Estimated amount of contracts remaining to be executed on Capital account and not provided for (net of advances)	412.97	2026.52
c) Letters of credit and Bank Guarantees issued by Bank	2756.94	3158.18
d) Bills discounted with banks-Subsidiary Company bills	3122.74	2752.72
e) Bills discounted with banks-Others	1557.53	1892.04

2) Secured loans:

a) **Term loans:** Term loans from Banks are secured by equitable mortgage of Land and buildings and hypothecation of plant and machinery located at Jeedimetla, Gagillapur and Bonthapally on pari passu basis.

Term loans are further secured by second charge on hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables.

In addition, pledge of 12.50 lakhs shares belonging to Managing Director in Granules India Limited were given as collateral security on pari passu basis to Andhra Bank, Bank of Baroda, IndusInd Bank and ING Vysya Bank . The Company has requested for release of the above shares which is agreed upon by the bankers and awaiting approval.

b) **Working capital facilities:** The working capital facilities from Banks are secured by hypothecation of stocks of raw materials, finished goods, semi finished goods and receivables on pari passu basis. The working capital facilities are further secured by a second charge on the fixed assets of the company.

The working capital loans were further secured by a collateral security by way of equitable mortgage of house property belonging to the Managing Director. This collateral security has been released by all the working capital Bankers subsequent to the Balance Sheet date.

c) All the above loans are further secured by personal guarantee of the Managing Director. The Company has requested for waiver of personal guarantee, which is under consideration by the bankers.

d) Hire purchase loans are secured by hypothecation of the asset purchased.

3) The Company is in the process of updating data on micro, small and medium enterprises from Suppliers/Vendors.

Notes forming part of Consolidated Balance Sheet and Profit & Loss Account

Schedule – Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS *(CONTD.)*

4) Sundry creditors include a sum of Rs.90.69 lakhs due to Small Scale Industrial Undertakings. Total outstanding dues of small scale industrial undertakings have been determined to the extent such parties have been identified on the basis of the information available with the company. The parties to whom the company owes sums outstanding for more than 30 days as at the Balance Sheet date are:

AR Enterprises	Durga Industries	Kats Organics (P) Ltd.
Lakshmi Engg. Works	Perfect Engineering	Pragati Switches (P) Ltd.
Super Olefins (P) Ltd.	Sidharth Canisters Pvt. Ltd.	Technic Sales Corporation
Technic Containers	Unnati Stickers	

5) **Remuneration to Managing Director** (Rs. in lakhs)

	2006–07	2005-06
Salary	30.00	30.00
Commission	32.19	21.53
Perquisites	8.91	7.87
Total	**71.10**	**59.40**

6) **Remuneration to Statutory Auditors**

	2006–07	2005-06
As Auditor	3.50	3.50
As adviser, or in any other capacity, in respect of:		
Taxation services	Nil	Nil
Company Law matters	Nil	Nil
Management services	Nil	Nil
Certification	0.30	0.13
Out of pocket expenses	Nil	Nil
Total	**3.80**	**3.63**

7) During the year, the company has capitalized borrowing costs of Rs.256.97 lakhs towards Tablet facility at Gagillapur (Previous year Rs.130.57 lakhs for API facility at Bonthapally, grouped under Capital Work in Progress) incurred during the year.

8) **Segment reporting:** The Company has only one business segment of "Pharmaceuticals". Therefore, the disclosure requirements of "Segment reporting" are not applicable.

9) **Related party disclosures:** required as per Accounting Standard (AS-18) on "Related party disclosures" issued by the Institute of Chartered Accountants of India, are as below:

a) **Names of related parties and the nature of relationships:**

Name	Relationship
i) Granules USA Inc.	Wholly owned subsidiary company
ii) Granules-Biocause Pharmaceutical Co. Ltd.	Joint – Venture
iii) Key management personnel: Shri C. Krishna Prasad	Managing Director
iii) Others: Dr. C. Nageswara Rao	Non-Executive Chairman

b) **Transactions with Subsidiary company:** (Rs. in Lakhs)

	30th June, 2007	30th June, 2006
Sale of goods	5205.78	5738.70
Unsecured loan	–	–
Interest on unsecured loan	3.27	3.78
Equity participation	–	–
Amounts outstanding at Balance sheet date:	**30th June, 2007**	**30th June, 2006**
Loan granted	60.84	68.79
Interest on loan	11.79	8.52
Equity subscribed	23.79	23.79
Amounts receivable for sales made	3251.20	3183.46

Schedule – Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS *(CONTD.)*

c) **Transactions with Joint-Venture:** (Rs. in Lakhs)

	30th June, 2007	30th June, 2006
a) Equity participation	1819.03	–
Amounts outstanding at Balance Sheet date:		
a) Equity	1819.03	–
d) Transactions with other related parties:		
Mr. C. Krishna Prasad, Managing Director:		
Remuneration	71.10	59.40
Dr. C. Nageswara Rao, Chairman:		
Sitting fee paid	0.65	0.45

10) **Details of Loans and advances given to Subsidiary company:**
Unsecured loan to Granules USA Inc., (Rs. in lakhs)

	30th June, 2007	30th June, 2006
Balance as at 30th June, 2007	60.84	68.79
Maximum balance during the period	69.32	68.79
Rate of interest charged	7% p.a.	5%p.a.

11) **Earnings per share – Basic and Diluted:**

	2006–07	2005-06
Net profit for the year (Rs. in lakhs)	759.63	736.92
Weighted average number of shares outstanding during the year	14,855,357	13,692,841
Earnings per share (Rs.)	5.11	5.38
Nominal value of shares (Rs.)	10.00	10.00

12) Deferred tax has been accounted for in accordance with the Accounting Standard – 22, "Accounting for taxes on income", issued by the Institute of Chartered Accountants of India. The components of Deferred Tax Assets and Liabilities recognized in these accounts are as follows: (Rs. in lakhs)

	Opening balance as on 1.7.2006	Charge/(Credit) during the period	Closing balance as on 30.6.2007
Deferred tax liability			
Depreciation	709.28	204.25	913.53
Deferred revenue expenses	2.55	–	2.55
Total	**711.83**	**204.25**	**916.08**
Deferred tax asset			
Leave encashment	8.29	15.17	23.46
Bonus	6.43	1.82	8.25
Carry forward business losses	96.38	(96.38)	–
MAT Credit	39.83	–	39.83
Total	**150.93**	**79.39**	**71.54**
Net Deferred tax liability	**560.90**	**283.64**	**844.54**

13) The Company has, during the year invested Rs.1819.02 lakhs in a joint-venture "Granules Biocause Pharmaceutical Co. Ltd., China, with a 50% share. The company has commenced operations from 28th June, 2007 only. There is no production or other normal operations during this date and the year ending, i.e., 30th June, 07.

14) Balances appearing under Sundry creditors, Capital WIP, Loans and advances and debtors are subject to confirmation and / or reconciliation, if any.

Notes forming part of Consolidated Balance Sheet and Profit & Loss Account

Schedule – Q SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED ACCOUNTS *(CONTD.)*

15) Amortization of Miscellaneous Expenditure:

a) GDR issue expenses of Rs.151.89 lakhs carried forward from earlier years are amortized over a period of 5 years commencing from the year in which the Projects commence commercial production. Paracetamol Project at Bonthapally had commenced production during March 2006, hence the issue expenses are proportionately amortized.

b) The company has implemented a Voluntary Retirement Scheme (VRS). The total cost of separation of Rs.9.21 lakhs excluding Gratuity under the Gratuity scheme applicable to the employees is amortized over a period of 5 years.

16) The company has implemented an Employees Stock Option Scheme and 19,620 Equity shares of Rs.10 each were issued at a premium of Rs.4/- under the said Scheme.

17) The Government of Andhra Pradesh, Commissionerate of Industries has vide its Letter No.20/2/9/0444/ID dated 11th October, 1999 and its clarification vide Letter dated 4th August, 2001 determined an eligibility of Rs.184.12 lakhs towards Sales tax deferment on the sale of Paracetamol and the Sales tax payable by the company for a period of 14 years commencing from 30th June, 1998 to 29th June, 2012 is deferred. The liability of Rs.75.24 lakhs as at 30th June, 2007 (Previous year Rs.75.24 lakhs) for the deferred Sales tax is shown under unsecured loans.

18) In terms of accounting policy 10 for the accrual of export benefits, estimated benefits of Rs.398.31 lakhs (Previous year Rs.513.54 lakhs) have been taken into account under the DEEC / DEPB Schemes.

19) Previous years figures have been regrouped/rearranged/re-classified wherever necessary.

20) Figures in Balance Sheet and Profit & Loss account have been rounded off to the nearest Rupee and figures in Notes have been rounded off to the nearest thousand and have been expressed in terms of decimals of thousands.

As per our report of even date
For Kumar & Giri
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Consolidated Cash Flow Statement for the year ended 30th June, 2007

(Amount in Rs.)

Particulars	For the year ended 30th June, 2007		For the year ended 30th June, 2006	
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		109,632,265		94,497,007
Adjustments for:				
Depreciation	82,087,859		52,353,409	
Misc. Expenditure written off	3,142,042		4,637,676	
Profit / (Loss) on sale of assets	713,005		155,655	
Provision for doubtful debts	–		–	
Interest & dividend income	(3,622,455)		(2,840,571)	
Profit on sale of investments	–		–	
Interest & finance charges	103,381,511	185,701,961	87,878,806	142,184,975
Operating profit before working capital changes		**295,334,226**		**236,681,982**
Increase in Trade and other receivables		(194,000,852)		(70,835,795)
Increase in inventories		51,958,705		(74,746,922)
Increase/(decrease) in Trade Payable		(65,894,188)		54,384,525
Cash generated from operations		**87,397,891**		**145,483,790**
Interest paid	102,536,287		88,985,304	
Direct Taxes paid	4,382,698		858,654	
Dividends paid	17,232,480		17,387,457	
Prior period expenditure /(income)	–	124,151,466	–	107,231,415
Net Cash from operating activities		**36,753,575**		**38,252,375**
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	744,323,181		556,447,902	
Increase in Miscellaneous expenditure	921,251		618,833	
Purchase/(sale) of investments	–		1,014,930	
Sale of Fixed Assets	(1,801,583)		(464,797)	
Interest/dividends received	1,003,591		(4,147,130)	
Net Cash used in investing activities		**744,446,440**		**553,469,738**
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital including premium	832,115,467		14,488,230	
Increase in Working Capital Loans	231,279,304		28,133,786	
Proceeds from Long Term & Other Borrowings	132,769,249		328,849,904	
Repayment of long term loans	(180,827,331)		(76,247,405)	
Proceeds from Unsecured Loans	370,000,000		101,598,550	
Repayment of unsecured loans	(300,000,000)		(50,000,000)	
Net Cash used in Financing Activities		**1,085,336,689**		**346,823,065**
Net Increase/(decrease) in cash & cash equivalents (A+B+C)		304,136,674		(168,394,300)
Cash equivalents (Opening Balance as at 1-7-2006)		60,064,596		228,458,896
Cash equivalents (Closing Balance as at 30-6-2007)		**364,201,270**		**60,064,596**

Notes:

Cash flow statement has been prepared following the indirect method. Interest paid, direct taxes paid, dividend paid are on the basis of actual movement of cash.

As per our report of even date
For **Kumar & Giri**
Chartered Accountants

For and on behalf of the Board

J. Bhadra Kumar
Partner
Membership No. 25480

Dr. C. Nageswara Rao
Chairman

C. Krishna Prasad
Managing Director

Place: Hyderabad
Date: 28th November, 2007

N. Madhavi
Company Secretary

Pranesh Raj Mathur
Chief Financial Officer

Directors' Report

To
The members of
Granules USA Inc.

The Directors submit their report together with the accounts of the Company for the year ended 30 June 2007.

The year under review has been a year of consolidation where the company has reaped the benefits of the exemplary customer service that it has been providing to the customers resulting in maintaining the turnover. The company has also taken the opportunity to look deeply into its internal operations and streamline the business philosophy with the overall strategy of the group.

Business Review

The concept of the PFIs which was popularized by the Company has seen wider acceptance in the US market and customers are now looking at PFIs for products other than Acetaminophen also, giving the company a strong standpoint in the market.

Our growth has been fueled by the increase in our customers' offtakes for existing products like PAP 90 CPP and 80 DPL. New products have also contributed significantly to the toplines and have provided the Company with the required platform for accelerated growth in the years to come.

Operations Review

The company has focused on key elements of working capital management and has undertaken aggressive efforts with customers to manage receivables. Consequently, the company has brought down receivables from 29% of sales to 24% of sales, in spite of the marginal increase in turnover.

Future Outlook

The US business is rapidly growing as a nerve center for Granules worldwide operations and the future direction of the company would be to focus on developing structured relationships with our customers.

We are looking forward to a strong entry into the prescription drug market, leveraging on our PFI model, which we expect to be one of a kind in this industry. This will open up a huge opportunity space for Granules in the US and would endorse the vision that has been pursued from inception of this Company.

With the enhanced offering of Granules, venturing into finished dosages, the focus would be to support the increased regulatory support requirements of our parent company to drive the creation of enhanced product offerings to the customer. We would also look to create contractual relationships with customers for our finished dosage offerings and expect to have a significant proportion of our capacity to be reserved by customers, by the time the facility is operational.

Results and Dividend

The Company achieved a turnover of Rs.5663 lakhs and has incurred a loss of Rs.201.23 lakhs.

The directors have not recommended any dividend.

Auditors

The accounts for the period have been audited by M/s. Professional Accountant Associates.

Sincerely,

Place: New Jersey
Date: 28th November, 2007

Gary Selander
President

Report of the Independent Accountant

The Board of Directors:
Granules USA Inc.
101, Howard Blvd.,
Mt. Arlington,
New Jersey, 07856

We have reviewed the accompanying balance sheet of Granules USA Inc., as of June 30, 2007, and the related statements of income, retained earnings, and cash flows for the period then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All of the information included in the financial statements is the representation of the management of Granules USA, Inc.

Review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Date: 28th November, 2007 **Anjali Patel, CPA**

Granules USA Inc.

Balance Sheet as at 30th June, 2007

(Amount in Rs.)

	Schedule	As at 30th June, 2007	As at 30th June, 2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	2,379,470	2,379,470
Loan Funds			
Unsecured Loans	B	7,274,565	7,743,599
Total Sources of Funds		**9,654,035**	**10,123,069**
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	C	1,683,702	1,642,235
Less: Accumulated Depreciation		728,586	413,563
Net Block		955,116	1,228,672
Current Assets, Loans & Advances	D		
Inventories		121,346,029	163,490,900
Sundry Debtors		135,561,356	161,621,509
Cash & Bank Balances		5,113,651	12,898,033
Loans and Advances		13,912,587	68,240
		275,933,623	338,078,682
Less: Current Liabilities & Provisions			
Current Liabilities	E	306,981,929	348,808,730
Net Current Assets		(31,048,306)	(10,730,048)
Miscellaneous Expenditure			
(to the extent not written off or adjusted)			
Profit & Loss Account		39,747,225	19,624,445
Total Application of Funds		**9,654,035**	**10,123,069**
Significant accounting policies and notes to accounts			

As per our report of even date
For Professional Accountant Associates

For and on behalf of the Board

Anjali Patel
CPA

Gary Selender
President

Place: New Jersy
Date: 28th November, 2007

Profit & Loss Account for the year ended 30th June, 2007

(Amount in Rs.)

	Schedule	Year ended 30th June, 2007	Year ended 30th June, 2006
INCOME			
Sales (net)		566,300,220	558,470,124
Other Income	F	3,371,296	760,983
		569,671,516	**559,231,107**
EXPENDITURE			
Cost of goods sold	G	549,802,263	530,421,642
Marketing & Selling Expenses	H	14,566,792	9,179,897
Administrative Expenses	I	23,300,160	22,534,402
Interest and Finance Charges	J	1,810,038	1,807,350
Depreciation		315,045	245,952
		589,794,296	**564,189,243**
Profit before tax		**(20,122,780)**	**(4,958,136)**
Less: Current Tax Expense		–	–
Net Profit after Taxes		**(20,122,780)**	**(4,958,136)**
Balance transferred to Balance Sheet		(20,122,780)	(4,958,136)
Add profit brought forward from previous year		(19,624,445)	(14,666,309)
Surplus carried forward to Balance Sheet		**(39,747,225)**	**(19,624,445)**

As per our report of even date
For Professional Accountant Associates

Anjali Patel
CPA

Place: New Jersy
Date: 28th November, 2007

For and on behalf of the Board

Gary Selender
President

Schedules forming part of Balance Sheet as at 30th June, 2007

(Amount in Rs.)

	As at 30th June, 2007	As at 30th June, 2006
Schedule – A SHARE CAPITAL		
Authorised Capital		
Common stock, 1500 shares of $100 par value	6,675,000	6,675,000
(Previous year Common stock, 1500 shares of $100 par value)		
	6,675,000	6,675,000
Issued, Subscribed and Paid up Capital		
500 Shares of $ 100 each	2,379,470	2,379,470
(Previous year : 500 shares of $100 each)		
	2,379,470	2,379,470

Schedule – B UNSECURED LOANS		
From Companies / Banks	7,274,565	7,743,599
Sales Tax Deferment		
	7,274,565	7,743,599

Schedule – C FIXED ASSETS

	GROSS BLOCK				DEPRECIATION				NET BLOCK	
Particulars	As on 1.7.2006	Additions	Deletions	Total as on 30.6.2007	As on 1.7.2006	For the year	On Deletions	As on 30.6.2007	As on 30.6.2007	As on 30.6.2006
Office equipment	985,205	–	–	985,205	341,208	302,167	–	643,375	341,830	643,997
Furniture & Fixtures	451,861	41,467	–	493,328	45,814	–	–	45,814	447,514	406,047
Trade marks	205,169	–	–	205,169	26,541	12,855	–	39,396	165,773	178,628
Total	**1,642,235**	**41,467**	**–**	**1,683,702**	**413,563**	**315,023**	**–**	**728,586**	**955,116**	**1,228,672**
Previous year totals	649,104	993,131	–	1,642,235	167,611	245,952		413,563	1,228,672	481,493

	As at 30th June, 2007	As at 30th June, 2006
Schedule – D CURRENT ASSETS, LOANS AND ADVANCES		
i) Stock in hand		
Finished Goods	121,346,029	163,490,900
	121,346,029	163,490,900
ii) Sundry Debtors (Unsecured, considered good)		
Receivables	135,561,356	161,621,509
	135,561,356	161,621,509
iii) Cash & bank balances		
- in current account	5,113,651	12,898,033
	5,113,651	12,898,033
iv) Loans & Advances		
Other current assets	13,912,587	–
Prepaid expenses	–	68,240
	13,912,587	68,240

Schedule – E CURRENT LIABILITIES AND PROVISIONS		
Due to creditors for goods & services	306,616,808	348,123,948
Other liabilities	365,121	684,782
	306,981,929	348,808,730

Schedules forming part of Profit and Loss Account for the year ended 30th June, 2007

(Amount in Rs.)

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – F OTHER INCOME		
Foreign Exchange Fluctuations	3,371296	760,983
	3,371296	**760,983**

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – G COST OF GOODS SOLD		
I) Purchases	521,072,560	609,417,499
ii) (Increase)/Decrease in Finished goods		
Opening stock	163,490,900	84,495,043
Closing Stock	134,761,197	163,490,900
Total (Increase)/Decrease in stocks	**28,729,703**	**(78,995,857)**
Cost of goods sold	**549,802,263**	**530,421,642**

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – H MARKETING AND SELLING EXPENSES		
Sales Commission	1,504,313	378,340
Distribution expenses	10,656,369	7,121,777
Travelling expenses	2,406,109	1,679,780
	14,566,792	**9,179,897**

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – I ADMINISTRATIVE EXPENSES		
Salaries, Wages & bonus	16,254,407	13,626,203
Repairs & maintenance - Others	191,199	45,542
Rent	837,316	807,930
Rates & Taxes	286,767	340,247
Insurance	3,788,783	5,589,453
Consultancy & Professional Charges	464,289	405,772
Communication expenses	523,905	624,604
Printing & stationery	396,660	557,295
Foreign Exchange Fluctuations	–	–
Advertisement Charges	–	–
Sundry expenses	556,833	537,356
	23,300,160	**22,534,401**

	Year ended 30th June, 2007	Year ended 30th June, 2006
Schedule – J INTEREST AND FINANCE CHARGES		
Interest on Working Capital	468,727	334,538
Bank Charges	1,341,310	1,472,812
	1,810,038	**1,807,350**

Notes forming part of Balance Sheet and Profit & Loss Account

Schedule – K | SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

1. Business

   Granules USA Inc. ("Granules and the "Company") was incorporated on March 5, 2003 in New Jersey. Granules is a wholly owned subsidiary of Granules India Limited ("GIL"), a company incorporated in India.

   Granules acts as an exclusive front-end value chain for GIL and develop markets for the products manufactured by GIL. The business of GIL comprises of manufacture and sale of pharmaceutical products.

2. Basis of presentation

   a. The accompanying financial statements for the period July 1, 2006 to June 30, 2007 are prepared in accordance with the accounting principles generally accepted in the United States of America ('US GAAP')

   b. In preparing the Company's financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period, the important estimates made by the Company in preparing these financial statements include those on the useful life of property and equipment, the valuation of deferred taxes and allowance for doubtful debts and actual results could differ from those estimates.

3. Cash and cash equivalents

   The Company considers all highly liquid investments and deposits with an original maturity of ninety days or less to be cash equivalents. Cash and cash equivalents comprise cash on hand and balance with banks.

4. Inventories

   Inventories consist of products purchased from GIL, and are stated at cost. The cost of the products is determined using the first in first out ('FIFO') method.

5. Accounts receivables

   The Company provides allowance for doubtful accounts equal to the estimated uncollectable amounts in the aggregate, based on the present and prospective financial condition of customers and ageing of accounts receivables after considering historical experience and economic environment.

6. Property and equipment

   Property and equipment are stated at cost less accumulated depreciation. Depreciation provided over the estimated useful economic life of the assets using the straight-line method. Depreciation of an asset commences when the asset is put to use. The estimated useful lives used to determine depreciation are:

Furniture and fixture	7 years
Computers	5 years

7. Intangible assets

   Purchased trademarks are capitalized at cost; intangible assets with finite useful life are amortized over the useful or economic life of the intangible.

8. Impairment of long-lived assets

   In August 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets' that replaced SFAS 121 "Accounting for Impairment of Long-lived Assets and for Long-Lived Assets to be disposed off". SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or the fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The provisions of SFAS 144 are effective for financial statements issued for the fiscal year beginning after December 15, 2001 and the Company has adopted the same.

9. Revenue

   Customers of the Company consist primarily of large pharmaceutical companies. Revenue from product sales is recognized when the merchandise is shipped to customers and all the four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products has occurred; (iii) the selling price is both fixed and determinable and; (iv)collectibles is reasonably probable.

   Provisions for sales discount, damaged product returns, exchanges for expired products are established as a reduction of product sales revenue at the time such revenues are recognized. Certain charge backs and rebate programs extended to customers pursuant to the industry standards, are recognized as a reduction from product sales revenues at the time of shipment.

10. Research and development
    Research and development costs are expensed when incurred. Expenditure for obtaining regulatory approvals and registration of products is charged to revenue when incurred. During the period July 1, 2006 to June 30, 2007, the Company incurred Rs.4,79,717 on research and development.

NOTE B – CASH AND EQUIVALENTS

The cash and cash equivalents of the Company comprise of:

(Amount in Rs.)

	As of 30th June, 2007
Checking account the PNC Bank	4,682,490
Bank balance only to $ 100,000 is FDIC insured.	

NOTE C – INVENTORIES

Inventories comprise of:

(Amount in Rs.)

	As of 30th June, 2007
Traded goods	108,414,933
Goods-in-transit	12,931,096
Total	**121,346,029**

NOTE D – ACCOUNTS RECEIVABLES

Granules accounts receivables are primarily related to sale of granules to pharmaceutical companies. Credit is extended based on prior experience with the customer and evaluation of customers' financial condition. Granules had gross receivables from outside customers of Rs. 139,589,511 as of June 30, 2007. The Company provides for doubtful allowance as and when they are identified.

NOTE E – OTHER CURRENT ASSETS

Other current assets comprise of:

(Amount in Rs.)

	As of 30th June, 2007
Advances	13,901,616
Prepaid expenses	10,951
Total	**13,912,567**

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment comprise of the following:

(Amount in Rs.)

	As of 30th June, 2007
Furniture and fixtures	443,605
Computer equipment	889,765
Less: Accumulated depreciation	(630,059)
Total	**703,310**

NOTE G – INTANGIBLES

Intangibles comprise of:

(Amount in Rs.)

	As of 30th June, 2007
Trade marks	181,465
Less: Accumulated amortization	(24,093)
Total	**157,372**

Notes forming part of Balance Sheet and Profit & Loss Account

Schedule – K | SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

NOTE H – OTHER CURRENT LIABILITIES

Other current liabilities comprise of the following:

(Amount in Rs.)

	As of 30th June, 2007
Accrued expenses	365,121
Loan from Granules India Limited	7,274,558
Total	**7,639,679**

The Company received a loan of Rs.6,084,000 from its parent company GIL. This loan carries 7% simple interest. Interest accrued for the period is Rs.453,705

NOTE I – COMMITMENTS AND CONTINGENCIES

There are no commitments of contingencies as on June 30, 2007.

NOTE J – NET OPERATING LOSSES CARRIED FORWARD

As at June 30, 2007, the Company had Rs.29,760,129 in Federal net operating loss and Rs.30,895,323 New Jersey State operating loss carry forwards which can be carried forward for future utilization within 15-20 years.

NOTE K – RELATED PARTY transactions

The company had following transactions and balances with its parent, GIL:

(Amount in Rs.)

	Period ending 30th June, 2007
Purchases by the Company from GIL	556,351,695
Short-term loan by the Company from GIL	6,084,000
Interest due on short term loan	1,190,558
Related party balances at the year end:	
Accounts payable by the Company to GIL	307,583,312
Short-term loan payable by the Company to GIL	7,274,558
Accounts Receivable from GIL to the Company	4,028,176

NOTE L – SEGMENT INFORMATION

The Company's main business is marketing of pharmaceutical products of the parent company. The management views the Company's operations as a single reportable segment.

NOTE M – CONCENTRATION

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect future operating results and cause actual results to vary materially from expectations include but are not limited to government regulations, competition, reliance on certain customers and credit risk.

The Company has concentration in respect of region in which it operates, which is the USA. The Company has concentration in receivables and revenue. Contract Pharmacal, Amneal, LNK, Leiner and Perrigo constitute approximately 4%, 5%, 43% , 8% and 4% of the accounts receivables and approximately 7%, 6%, 32%, 16% and 7% of the revenue respectively.

NOTE N – STOCKHOLDERS' EQUITY

The authorized share capital of the Company is 1,500 equity shares of no par value. The company has issued 500 equity shares of $ 100 each. Each share carries an equal voting right and is entitled to an equal share in the assets of the Company at liquidation.

Cash Flow Statement for the year ended 30th June, 2007

(Amount in Rs.)

Particulars	For the year ended 30th June, 2007		For the year ended 30th June, 2006	
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax and extraordinary items		(20,122780)		(4,958,136)
Adjustments for:				
Depreciation	315,045		245,952	
Interest & finance charges	–	315,045	334,538	580,490
Operating profit before working capital changes		**(19807735)**		**(4,377,646)**
Increase in Trade and other receivables		12,215784		(46,963,136)
Increase in inventories		42144871		(81,077,578)
Increase/(decrease) in Trade Payable		(41826801)		139,593,583
Cash generated from operations		**(7,273,881)**		**7,175,223**
Interest paid		–		–
Net Cash from operating activities		**(7,273,881)**		**7,175,223**
B CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of fixed assets	41,467		993,131	
Interest/dividends received		–		–
Net Cash used in investing activities		**41,467**		**993,131**
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from Long Term & Other Borrowings	(469,034)		414,400	
Net Cash used in Financing Activities		**(469,034)**		**414,400**
Net Increase/(decrease) in cash & cash equivalents (A+B+C)		(7,784,382)		6,596,491
Cash equivalents (Opening Balance as at 1-7-2006)		12,898,033		6,301,542
Cash equivalents (Closing Balance as at 30-6-2007)		5,113,651		12,898,033

As per our report of even date
For Professional Accountant Associates

For and on behalf of the Board

Anjali Patel
CPA

Gary Selender
President

Place: New Jersy
Date: 28th November, 2007

Granules India Limited

Regd. Office: Second Floor, Block III, My Home Hub, Madhapur, Hyderabad - 500081

Notice

Notice is hereby given that the Sixteenth Annual General Meeting of the members of Granules India Limited will be held on Saturday, the 29th day of December, 2007 at 4.00 p.m. at Chancery Hall, Hotel Green Park, Ameerpet, Hyderabad to transact the following business:

Ordinary Business:

1. To consider and adopt the Audited Balance Sheet as at 30th June, 2007 and the Profit and Loss Account for the year ended as on that date along with schedules and notes appended thereto and the reports of Directors and Auditors thereon.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Dr.C.Nageswara Rao, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Shri N.R.Ganti, who retires by rotation and being eligible offers himself for reappointment.
5. To appoint M/s. Kumar & Giri, Chartered Accountants, Hyderabad as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

Special Business:

6. Appointment of Mr. Stephen R Olsen as a Director
   To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

   "RESOLVED that Mr. Stephen R Olsen, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

By order of the Board
for **Granules India limited**

Place: Hyderabad
Date : 28th November, 2007

N. Madhavi
Company Secretary

NOTES:

1. A Member entitled to attend and vote is entitled to appoint Proxy to attend and vote instead of himself and the Proxy need not be the Member of the Company. The Proxies in order to be effective should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
2. Members/proxies are requested to duly fill the attendance slips for attending the meeting and bring their copies of the Annual Report to the meeting.
3. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
4. Members who hold shares in dematerialization form are requested to write their client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.

5. Members are requested to notify immediately any change in their address to the Share Transfer Agents.

6. Those members who have so far not encashed their dividend warrants for the below mentioned financial years, may claim or approach the Company for the payment thereof as the same will be transferred to the Investor Education and Protection Fund (IEPF) of the Central Government, pursuant to Section 205C of the Companies Act, 1956 on the respective dates mentioned there against. Kindly note that after the said dates, the members will lose their right to claim such dividend.

Financial year ended	Due date of transfer
30/06/2004	18/01/2012
30/06/2005	03/01/2013
30/06/2006	26/01/2014

7. **Closure of Register of Members and Dividend payment:**
   a) The Company has already notified closure of Register of Members and Transfer Books thereof from Thursday, 27th December, 2007 to Saturday, 29th December, 2007 (both days inclusive) for determining the names of Members eligible for dividend, if approved, on equity shares. In respect of shares held in electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.

   b) The dividend on equity shares, as recommended by the Board of Directors, if declared at the Annual General Meeting, will be paid on or before 28th January, 2008.

   c) Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank printed on reverse of the Dividend Warrant for an initial period of 3 months only. Thereafter, the Dividend Warrant on revalidation is payable only at limited centers/branches. The members are, therefore, advised to encash Dividend Warrants within the initial validity period.

8. **Payment of Dividend through ECS:**
   The Company offers the facility of electronic credit of Dividend directly to the respective bank accounts of shareholders, through Electronic Clearing Service (ECS). This facility is currently available at the locations specified in the Mandate form enclosed in this Annual Report.

   i) Members holding shares in physical form are advised to submit the Bank mandate particulars of their bank account viz., name and address of the branch of the bank, 9 digit MICR code of the branch, type of account and account number latest by 20th December, 2007 to the Company's Registrar and Share Transfer Agent.

   ii) In respect of shareholders holding shares in electronic form, the Company will make payment through ECS if the bank account details been furnished by the shareholder to the concerned depository participant with whom the shareholder is maintaining his demat account. In case, so far the bank details have not been furnished to the depository participant or change in the bank particulars already furnished, advised to submit the same to the depository participant.

9. Non-Resident Indian Shareholders are requested to inform M/s.CIL Securities Limited immediately of:

   a) the change in the Residential status on return to India for permanent settlement.

   b) the particulars of the Bank Account maintained in India with complete name, branch, account number and address of the Bank, if not furnished earlier.

10. Corporate Members intending to depute their authorised representatives are requested to send a duly certified copy of the Board resolution authorizing their representatives to attend and vote at the Annual General Meeting.

11. M/s.CIL Securities Limited, (214, RAGHAVA RATNA TOWERS, CHIRAG ALI LANE, HYDERABAD - 500 001) acts as the Company's Registrar and Share Transfer Agent for both manual and electronic form of shareholding. All communication relating to shares should be addressed directly to them.

12. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their request in Form 2B (which will be made available on request) to the Registrar and Share Transfer Agent i.e., M/s.CIL Securities Limited.

13. Members desiring to seek any information on the Annual Accounts are requested to write to the Company at an early date to enable compilation of information.

EXPLANATORY STATEMENT

[Pursuant to Section 173(2) of the Companies Act 1956]

ITEM NO. 5

Mr. Stephen R Olsen was appointed as an Additional Director of the Company at the Board Meeting held on 2nd June, 2007. Mr. Stephen holds office upto the ensuing Annual General Meeting.

In terms of Section 257 of the Companies Act, 1956, the Company has received notice in writing from a member along with the requisite deposit of Rs.500/- proposing the candidature of Mr.Stephen R Olsen for appointment as Director of the Company liable to retire by rotation.

In terms of Clause 49 of the Listing Agreement on Corporate Governance, he is an Independent Director.

Approval of the shareholders is required by way of Ordinary resolution in the Annual General Meeting for his appointment as Director.

The Board recommends passing of the proposed resolution.

None of the Directors of the Company except Mr. Stephen R Olsen is interested in the Resolution.

By order of the Board
for Granules India limited

Place: Hyderabad
Date : 28th November, 2007

N. Madhavi
Company Secretary

Granules India Limited

Regd. Office: Second Floor, Block III, My Home Hub, Madhapur, Hyderabad - 500081

PROXY FORM

16th Annual General Meeting

Regd. Folio No.	
*Demat A/c No.	

DP ID No.	

I/We .... of .... in the district of .... being a member/members of the Company, hereby appoint .... of ....or failing him/her of .... in the district of .... as my / our Proxy to vote for me / us on my / our behalf at the 16th Annual General Meeting of the Company to be held at Chancery Hall, Hotel Green Park, Ameerpet, Hyderabad, on Saturday, the 29th day of December 2007 at 4.00 p.m. and at any adjournment (s) thereof.

Signed this .... day of 2007

Affix
Re. 15 paisa
Revenue
Stamp

Signature..

Note: This form, in order to be valid and effective, should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting.

* Those who hold shares in demat form must quote their Demat A/c No. and Depository Participant (DP) ID. No.

Granules India Limited

Regd. Office: Second Floor, Block III, My Home Hub, Madhapur, Hyderabad - 500081

ATTENDANCE SLIP

16th Annual General Meeting

Regd. Folio No.	
*Demat A/c No.	

DP ID No.	
No. of Shares held	

I certify that I am a Member/Proxy for the Member of the Company.

I hereby record my presence at the 16th Annual General Meeting of the Company at Chancery Hall, Hotel Green Park, Ameerpet, Hyderabad, on Saturday, the 29th day of December, 2007 at 4.00 p.m.

Member's/Proxy's Name

Signature of Member/Proxy

Granules India Limited

Second Floor, Block III, My Home Hub, Madhapur, Hyderabad – 500 081

ELECTRONIC CLEARING SERVICE (CREDIT CLEARING) MANDATE FORM

Shareholder's authorization to receive dividends through Electronic Credit Clearing Mechanism.

1. Name of the sole/first Shareholder (IN BLOCK LETTERS) : ....
2. Folio No./DP ID No. & Client ID No. : ....
3. Particulars of Bank Account
   - a Name of the Bank : ....
   - b Branch, Address & Telephone No. of the Branch : ....
   - c Account No. (as appearing on the cheque book/pass book) : ....
   - d Account Type (Saving/Current/Cash Credit Account) : ....
   - e Ledger No./ Ledger Folio No. (if appearing on the cheque book/pass book) : ....
   - f 9 Digit Code No. of the Bank & Branch appearing on the MICR Cheque issued by the bank. : ....

I hereby declare that the particulars given above are correct and complete. If the transaction is delayed or not effected at all for reasons of incomplete or incorrect information, I will not hold Granules India Limited responsible.

Place:

Date :

Signature of the Sole/First Shareholder

Notes:

1. Please fill in the Mandate Form and send it to:
   - i) the Depository Participant who is maintaining your Demat Account in case you hold shares electronically with a copy to the company, in case there are any changes in your bank particulars.
   - ii) the Registrar and Share Transfer Agent of the Company, M/s.CIL Securities Limited, 214, Raghava Ratna Towers, Chirag Ali Lane, Hyderabad – 500 001, in case you hold shares in physical form.
2. Please attach a blank cancelled cheque or photocopy of a cheque. Alternatively, the above particulars may be attested by your bank manager.
3. In case of more than one folio/demat account please complete details on separate sheets.
4. The information provided by you will be treated confidential and would be utilized only for the purpose of effecting the payments meant for you. You also have a right to withdraw from this mode of payment by providing the company with an advance notice of 3 weeks.

At present the Reserve Bank of India at the following centres makes the ECS facility available at Ahmedabad, Bangalore, Bhubhaneshwar, Chennai, Chandigarh, Guwahati, Hyderabad, Jaipur, Kolkata, Kanpur, Mumbai, New Delhi, Nagpur, Patna and Trivandrum.

The members located at other than the above list of centers will continue to receive the dividend warrants with bank particulars, if any, despite ECS mandate.