

ANU'S

ANU'S LABORATORIES LIMITED

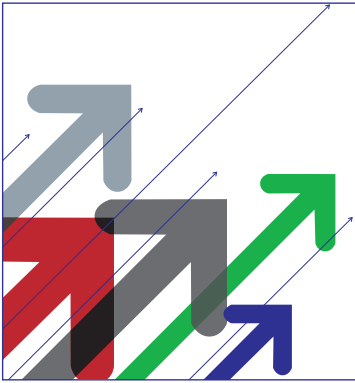
MAKING THE RIGHT MOVES

Annual Report 2009-2010

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ANNUAL REPORT 2009-2010

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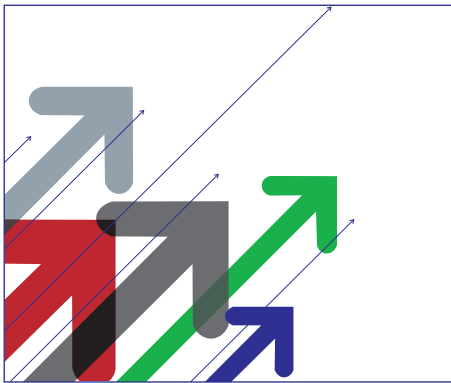


We are at a key inflection point.

We have created a solid foundation for the new Anu Labs to build upon, one that is well positioned to deliver significant future value.

We are building huge capacity and are climbing the value chain to be a vertically integrated manufacturer, from fine chemicals to active pharmaceutical ingredients. We have made progress in transforming Anu Labs into a focused pharma player with a steady growth trajectory.

We have made the right moves. The results will be visible soon.



From the Desk of the Managing Director

Making the right moves

Dear friends,

The year under review saw us delivering higher volumes, increasing our export earnings and improving capacity utilization with a gratifying climb in revenues. In the context of high raw material prices, the margins were under pressure. Yet, as we look back, 2009-10 was a significant period as we managed to do well under daunting external challenging and competitive environment.

We achieved a turnover of Rs.2179.83 million for the year, an increase of approximately 23.7% over Rs.1761.16 million in 2008-09. We have reported a net profit of Rs.211.65 million which was higher by 29.7%, when compared to Rs.163.19 million in the previous year. Our fully diluted EPS for the year was Rs.0.88.

The performance is a reflection of our conviction to accomplish objectives we set out to achieve. Anu Labs has a track record of steady growth and we wish to accomplish initially a 30% to 35 % improvement in the top line in 2010-11. Members will appreciate that Anu Labs has had a top line growth at a compounded annual growth rate (CAGR) of 40.6% over the past 6 years from FY04 to FY10. We believe that we shall gather momentum when all our assets perform to the targeted capacity in 2011-12.

In addition to above performance, we focused on capacity building for future growth and deployed funds to initiate some strategic measures such as acquiring Nitya Laboratories, purchase from IFCI led consortium of banks and institutions of assets formerly belonging to Stilbene Chemicals at Pydhibhimavaram, near Visakhapatnam, expansion in capacity at our Shadnagar facility and a green field project for a large active pharmaceutical ingredients (API) manufacturing facility at JNPC, Visakhapatnam.

We are confident that these major initiatives will enhance

the Company's performance and growth prospects in the near future.

We believe that capacity building and imparting training to staff are crucial and shall fuel the future growth of the Company. We have now people who are ready for future challenges. We have added more capacity in Q-acid, SMO and other chemicals. R&D division of the Company has been strengthened and is focused on results. This division is working hard to develop new products to meet the market demands which shall ensure Company's higher rate of growth.

We are gearing up with greater preparedness for intensified long term marketing and partnership programs with many key customers for both drug intermediates and APIs. In line with these strategic initiatives, we are further enhancing our R&D efforts and focus to generate added value for our long term business relationship with customers, to support their product demand through our cost and quality competitiveness coupled with timely deliveries. In the process, we intend to spread business risks and enhance durable relationships to improve our earnings etc.

I feel reassured that we have what it takes. We have a well-defined plan and with our proven capability to deliver improved results through competencies, built over the past several years viz:

- ✓ Broad based leading-edge product range and service offering;
- ✓ Presence in wider markets and products with reliable long-term demand growth;
- ✓ Sizeable market share for our existing products and a diversified customer base;
- ✓ Focus on continuous improvement of key business processes, especially quality product standards;
- ✓ Commitment to invest in product and process development programs;



- ✓ Sustainable relationship with our key customers;
- ✓ Attracting and managing talent pool of well-trained and motivated technical and other professional managers and employees;
- ✓ Experienced set of professional management teams committed to the sustainable success of Anu Labs.

While the past has been rewarding, we believe that our best is yet to come. One point illustrates our confidence. As is well known, India holds a major advantage in pharmaceutical product manufacturing over several Asian and European countries with its cost competitiveness, quality consciousness, transparency, predictability and adherence to regulatory norms. Manufacturers such as Anu Labs would be able to demonstrate this strength and convert opportunities into good business. Indeed, Anu Labs with its vertically integrated manufacturing systems is confident of producing on par with the best-in-class across the world at prices that will be cost competitive. This is an enormous advantage that will be encashed in the best interests of all its stakeholders.

We have several growth drivers and adequate management bandwidth to execute the plans on hand. We have reasonably good visibility of our revenues with fine tuned and confirmed working plans to actualize them.

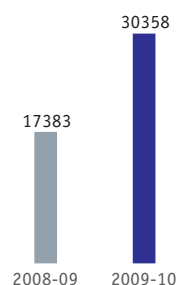
I would like to thank all my colleagues for extending their persistent efforts with dedication and commitment to further develop Anu Labs. I would also extend warm thanks to our discerning customers with whom we have the privilege to collaborate and with whose trust we keep improving our performance. Whether tapping of new markets or for introducing new products or in generating fresh marketing ideas, Anu Labs is on a secure path to the future.

Warm regards

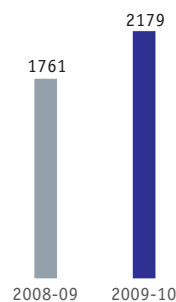
K. Hari Babu

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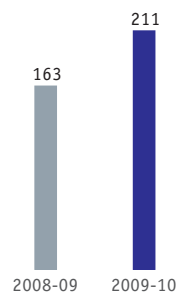
Sales Volume MT

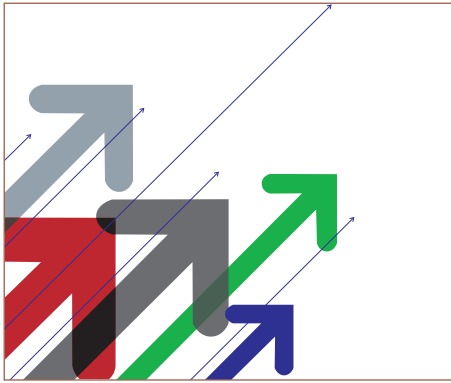


Revenue ₹ Million



Net profit ₹ Million





Review of operations

Growth in Revenue

Year-on-year 2009-10

23.7 %

Growth in Net Profit

Year-on-year 2009-10

29.7 %

Return on Equity

2009-10

13.4%

Success for Anu Labs is ensuring that the customers are totally satisfied with our products and services while at the same time, improving our profitability. Achieving these two interrelated objectives requires nothing less than flawless execution.

Our customers, some of the best names in the pharma industry in India and across the globe, have been always stringent in their demand for quality products and service level. Despite the complexity of manufacturing products that ultimately become a key ingredient in producing drugs, our customers expect us to deliver on time, a quality product with the highest reliability standards.

The final product is a reflection of how we execute all phases of the manufacturing processes. We recognize that our ability to understand and properly respond to the needs of our customers enhances their overall positive experience. Our strength is to deliver high quality products and services to the customer and to continually make the things that we are good at, even better.

In 2009-10, we have performed and achieved the objectives that we set out to do. We have increased the production capacity of many of our key fine chemicals and intermediates, besides introduction of new products. Most of the enhancements were stabilized and reflected in the fourth quarter of the financial year.

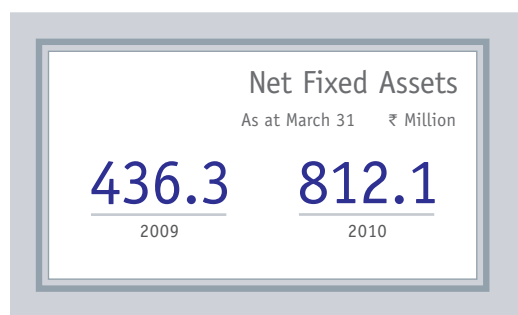
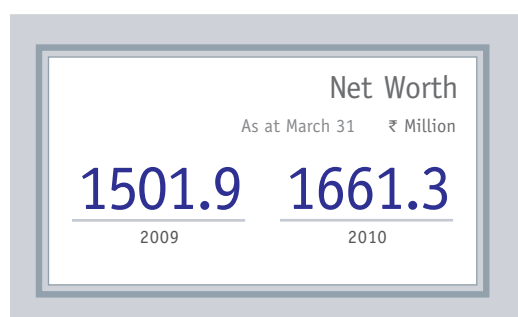


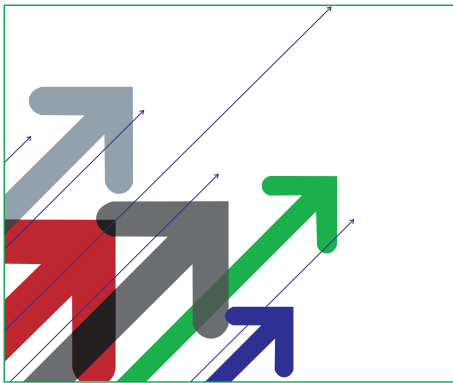
The capacity utilization was approximately 70%. The constraint during the year was the timely availability of certain key raw materials from China. Going forward this issue is planned to be resolved by expanding the vendor list and by a backward integration project to be implemented at the Pydibheemavaram unit. When these projects are completed in early 2011 as planned, Anu Labs would minimize dependence on external sourcing and improve the certainty of supply pipelines.

As one of our focus areas in 2009-10 was improvement in quality of products, the Company improved its quality for the largest selling products, in consultation with all the large customers.

Certain core changes were made in processes to improve product yields, including recycling of solvents. Similarly usage of production unit based services and utilities were consistently reviewed to identify shortcomings and measurable improvements were made from time to time.

Overall, Anu Labs recognized challenges in the external environment and initiated concrete steps to create new vistas of growth. In fact, our actions and results demonstrate our total commitment to deliver better shareholder value.





Added engines of growth



At every step, we at Anu Labs plan and execute diligently. Understand and estimate market needs. Establish state-of-the-art production facilities. Introduce several new products. Streamline supply chain. Be cost effective in manufacture. Closely work with the existing customers. Widen the market reach. Build excellent relationships with vendors. Deliver improved results. Generate higher revenue. Increase cash flow. We do it all. We promise, we deliver. Visions become reality.

As we leap ahead, nothing in this approach shall change. They are part of the organizational DNA at Anu Labs.

The Company sees opportunities in climbing the value chain and has taken several initiatives to scale up the business mix and improve its revenue streams. While backward integration into basic chemicals and amalgamation with Nitya Laboratories would enable Anu Labs to strengthen its positioning in the intermediates market, the commissioning of the JNPC and Pydhibheemavaram facilities would power the Company into the API segment of the pharma industry.

The strength of the Company is its competitiveness and the cornerstones of the business approach, which are built on well-crafted methods and processes which can be better summarized as:



- ✓ Customer aligned approach being the foundation for our current and future success in business;
- ✓ Result oriented culture and professional team;
- ✓ Leveraged on product offerings to achieve strong earnings growth;
- ✓ State-of-the-art technologies and robust business model set the stage for long term operational success.

The changing dynamics at Anu Labs are transformational. Value creating expansions and 'perfect fit' acquisitions would increase volumes and revenues in both the intermediates and API market, foster and strengthen relationships with customers, and contribute to stability, competitive differentiation and long term value.

As we complete the integration of each project and scale them up commercially, we will have a global footprint, an extensive product portfolio, enhanced R&D capabilities, expanded manufacturing capacity and

operations that are integrated both vertically and horizontally.

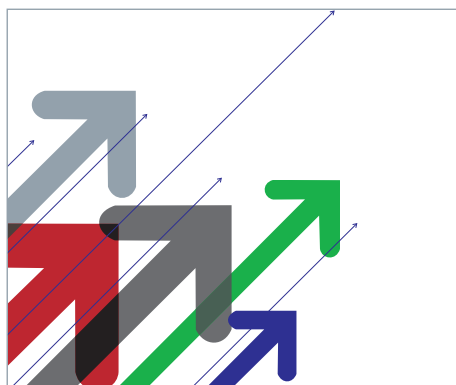
Every production facility would be a powerful engine of growth and change the foundation of the Company's growth equation. As a result of these strategic moves, Anu Labs will have the scale and resources needed for maintaining the present traction.

More significant, Anu Labs would be able to spread the risk while improving earnings.

We continue to pave the way for growth through the steadfast execution of our strategy with dedicated timelines. We are vigorously investing in building competencies such that assets and capacities are made to sweat in the best interest of Anu Labs and its stakeholders.

Revenue and earnings visibility from the new initiatives would be better in 2010-11, while significant traction in top and bottom line can be anticipated in 2011-12.





R&D is the game changer

We stay focused on our R&D efforts to remain competitive over the long term as we continually invest in adding to our pipelines and refine existing ones.

Over the past few years, we have been opening new possibilities for chemical engineering, process chemistry, and more selectivity, small, inexpensive, independent, and versatile devices to ensure efficient reactions, achieve maximum selectivity, produce with shorter lead time, minimize waste, have a better control of the processes and ensure safe manufacturing. Research is a game changer for the Company and offers value adding products to the customers.

Anu Labs has recently developed computational chemistry and new derivatives as intermediates. This strengthens the efforts of the in-house R&D team to design and modify new synthetic routes and processes for existing compounds and to analyze potential compounds before beginning laboratory work.

During 2009-10, process validation was completed for 12 intermediates and also for 4 APIs that are part of the backward and forward integration projects. Validation batches were also completed at the pilot level for commercialization on plant scale.

Going forward, in 2010-11, the R&D team plans to scale up 15 APIs to the pilot level and commercialize 5 of them. The year is also likely to witness commercialization of a few APIs some of which are low-volume high-value products.

The R&D process is a time consuming and value adding exercise where the benefits often follow in subsequent time scales. For instance, the efforts of 2008 and 2009 are now enabling the Company to commercialize 8 new intermediates and 5 APIs. This trend will ensure that the present efforts create a robust pipeline of products for 2011 and 2012.

