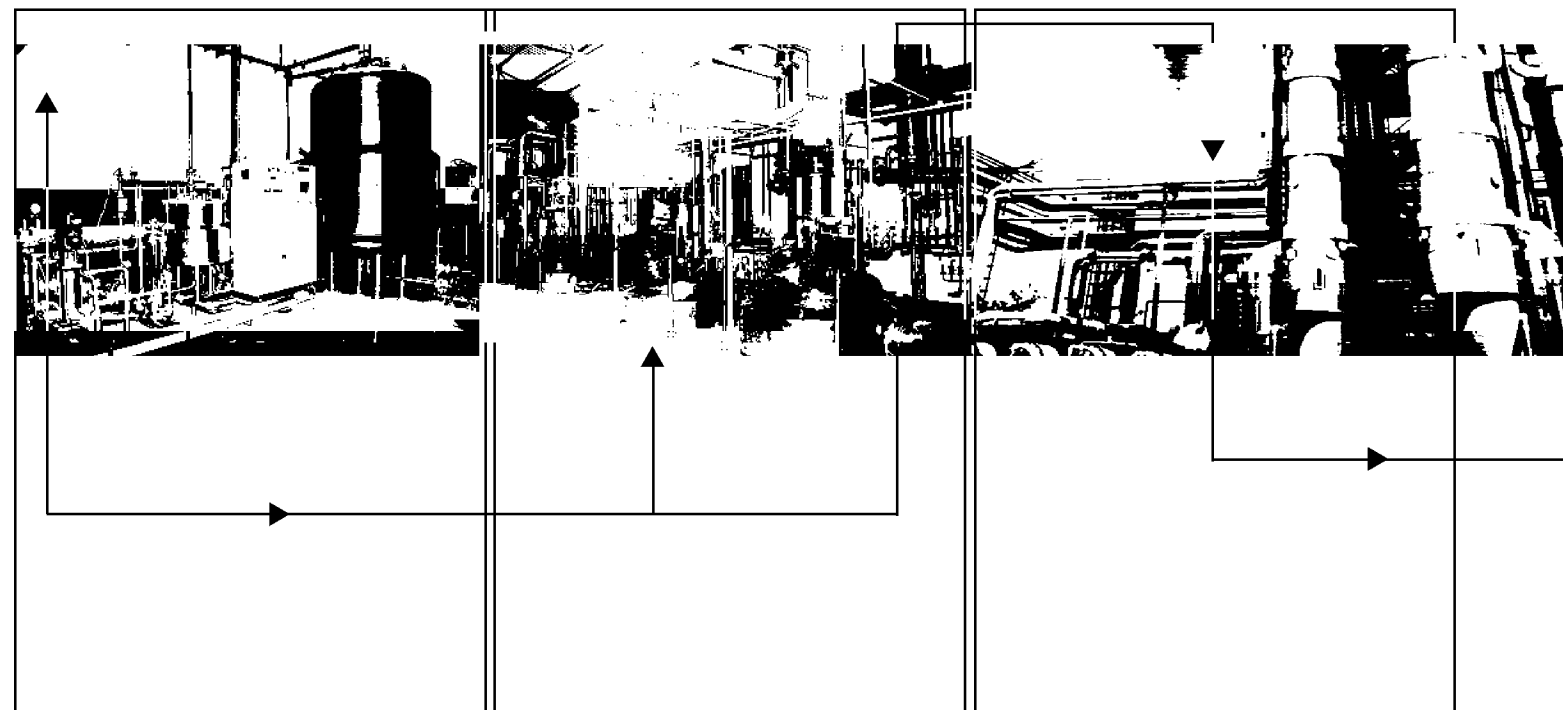


Geared well for the future



ANU'S

ANU'S LABORATORIES LIMITED

Annual Report 2010-11

Corporate goals

CUSTOMER FIRST We understand and focus on the needs of our customers. We work for their success.	DELIVER EXCELLENCE We are passionate about our products and services and are dedicated to deliver excellence.
EMBRACE RESPONSIBILITIES We strive to ensure that all people can work safely and live healthy, now and in the future. We care for our environment and manage our business ethically.	ADD VALUE We will grow faster than industry average in both revenue and earnings. We will earn a higher return on capital every successive year.

ANNUAL REPORT 2010-11

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- We are today significantly different from what we were till yesterday. From one unit, we have progressed to four units, with three of them being operational, and the fourth unit is expected to go commercial in 2012.
- We were present only in intermediates. We have recently achieved backward and forward integration. We now produce fine chemicals, intermediates and active pharmaceutical ingredients.
- Customer orders were large and growing. Our manufacturing capacity was soon to hit the limits. We had reached 85% of our capacity. We have since invested to enhance plant capacity and expanded 150%.
- We have added a large number of products, customers and competent technical staff, all of which has positioned us for continued success.

We have evolved. The Anu Labs of today is geared to demonstrate growth year-on-year.

From the Desk of the Managing Director



We have built a reliable pharmaceutical company that is managed by talented professionals working to ensure sustainable long term growth. In recent months, we have changed the dynamics of the Company with more facilities, increase in capacities and larger number of products.

Geared well for the future

Dear friends,

The financial year was a challenge and looking back, I am gratified that we did well. At the global level there was severe pressure on prices and heightened competitive activity. In the domestic market, high inflation and high cost of funds made it difficult for our customers. While there was increasing demand for our products, the margins were eroded. Taking a long term view, it is a matter of satisfaction that we saw improvements on several fronts, even if our bottom line did not keep pace with our emerging fundamentals.

During 2010-11, we saw very good traction in our volumes and products. Production during the year climbed by 36%; volume sold was higher by a similar 35.4% and the revenues were higher by 31.9%. The challenge was in the cost of funds, which climbed by 55.8% to Rs.165.03 million. Given the pressures in the

market and our own need to fund our expanded operations, we had to work hard to report a net profit of Rs.172.98 million.

We did several things right during the year to gear ourselves better for the years ahead. We expanded our production capacities by almost 150% in our facilities and now look forward to higher utilization in 2011-12. Our API manufacturing facility, the Unit 3 at Jawaharlal Nehru Pharma City, was commissioned and trial batches have started. We have moved up the scale and have commenced manufacturing value added API products at this state-of-the-art facility and are exploring new customer relationships.

We now have three facilities manufacturing demand-led products. The fourth unit at Pydhibhimavaram, near Visakhapatnam purchased from the IFCI-led consortium

of banks and institutions, will be activated after the necessary funds are tied up.

We have done a lot to reach this far. At Anu Labs, we have built a reliable pharmaceutical company that is managed by talented professionals working to ensure sustainable long term growth. In recent months, we have changed the dynamics of the Company with more facilities, increased capacities and larger number of products. My team and I are charged with charting the course, to translate our business strategy into challenging but actionable plans. We have set several ambitious goals.

We shall challenge ourselves to raise the bar in product development, sharpen competitiveness, gain market share, further expand facilities, improve manufacturing processes and quality parameters, meet regulatory and statutory requirements and protect intellectual property. Every move would always be an effort towards sustainable growth and increasing the business cycle.

At the same time, we are aware that the external environment is difficult and uncertain. Nevertheless, we shall better our performance on the back of operational improvements. This is one reason why we are implementing our backward integration processes,

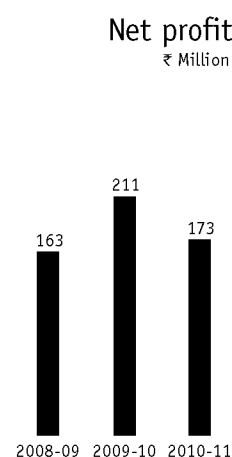
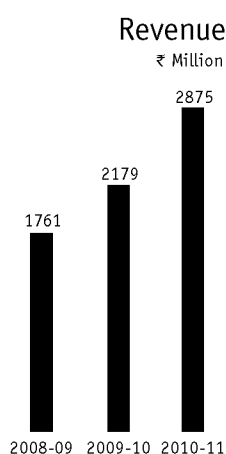
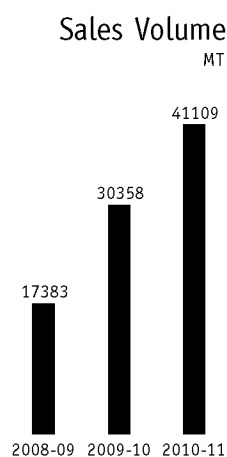
in phases. We would like to reduce our dependence on imported sources and minimize the variables in maintaining manufacturing schedules, improve our utilization and manage the constraints.

We have interlocked all the moving parts and as we keep adding traction, the gains from all units will synchronize with visible impact on our financials. We are working towards reducing our debt and in fact, our Units 1 & 2 are already debt free. With increasing volumes, our productivity would get enhanced through the year and help us to maintain our margins and EBITDA. Higher utilization with increased capacities is a matrix that would help us to become cash flow positive and cushion the start-up days at Unit 3.

My team and I are committed to improving the bottom line in 2011-12 as well as launch the API products. Our performance results will be a function of our excellence in making Unit 3 a key driver of value creation, both for our customers and our investors. We shall remain dedicated towards this mission.

Warm regards

C. Hanu Bala



We have taken several initiatives that have changed the fundamentals of the Company and we are now at an inflection point on our way to climbing to the next level of growth.

Growth in Revenue

Year-on year 2010-11

31.9 %

Building a sturdy business model



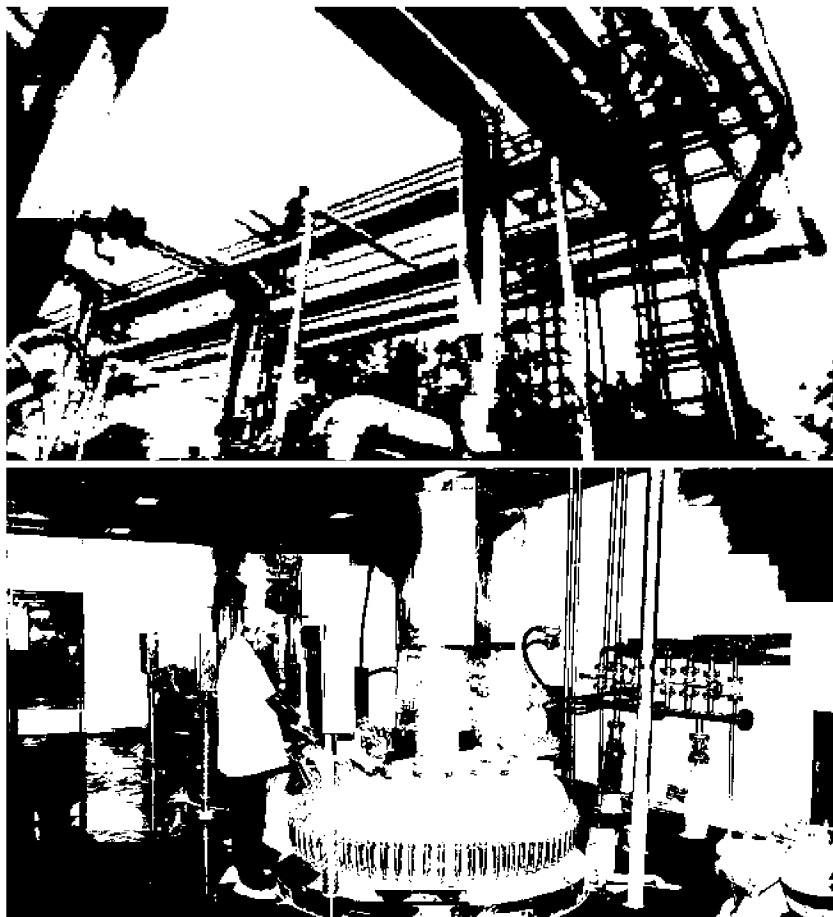
A year ago, we made the right moves. Keeping the long term needs of a growing market and emerging opportunities for the generic formulations manufacturers, we have expanded our

product profile. We have added newer manufacturing facilities and now believe that we have what it takes to be a superior source to the pharmaceutical industry.



We have taken several initiatives that have changed the fundamentals of the Company and we are now at an inflection point on our way to climbing to the next level of growth. A brief background with the changing perspective is given below to help appreciate the current dynamics.

Over the past few years, we have built a sturdy business model with several strong drivers. We have products - intermediates - that are valuable to customers in the pharmaceutical industry. The intermediates that we produce are key raw materials for some of their large volume products.



We have earned the trust of some of the best names in the pharmaceutical industry.

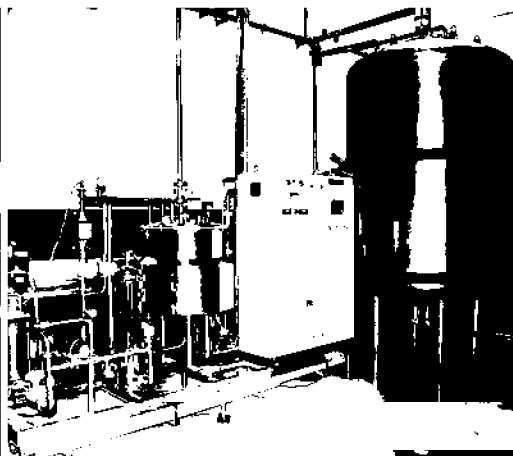
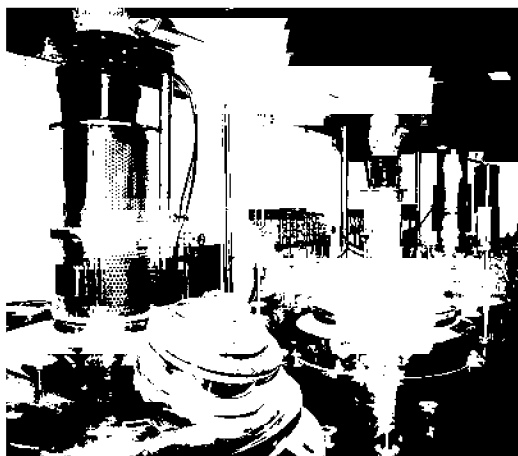
Since we work closely with our customers, and are conscious that we provide them the key ingredients that make their product, we have been successful in delivering rising volumes of all our products.

We have added new products to our basket and spread our dependence on larger number of intermediates. Today, we have six products that account for approximately 50% of our revenues. Two of our products virtually lead and stride their respective markets. Presently, we are striving to further increase the product offerings, add new customers and minimize the risk profile of the Company. We shall continue to choose carefully and focus intensely on a few product candidates with promising opportunities and potential to grow volumes.

For years, we have earned the trust of some of the best names in the pharmaceutical industry and care is being taken to ensure that they get the specifications they need, and the deliveries at the time that they want. As a consequence, we have been increasing our volumes with the existing customers, even as we have been acquiring newer ones.

Return on
Capital Employed
2010-11

15.6 %



The customers get what they want and we are known for being responsive, credible and transparent.

Today, our largest customer accounts for 12% of our revenues and 20% of our revenues are from top three customers. While this is a sign of good sturdy relationship, we are strategically improving the spread, as we keep building further with our existing customers. Customer approval, commercial scale deliveries and invoicing has been a virtuous cycle at Anu Labs, improving our geographic spread both in India and in the emerging countries.

We have the latest in technology that offer the quality that customers need. The technical team is trained to place a premium on quality, both in our processes and products. The concern for quality starts at R&D and in sourcing raw materials. Obviously, the customers get what they want and we are known for being responsive, credible and transparent.

While we are strong in the intermediates market, we have enhanced our offerings with our foray into value added products at Unit 3, where we have launched active pharmaceutical ingredients (APIs). The APIs that we have launched are awaiting customer approvals, both within the country and in emerging markets. The product basket has a potential to gain volume and we believe that shipments will commence in the second half of the financial year 2011-12.

As we look ahead, we shall consolidate all our assets in the financial year 2011-12 with Units 1 & 2 contributing significantly to the bottom line. Unit 3 at Visakhapatnam is expected to be cash and book neutral in 2011-12.

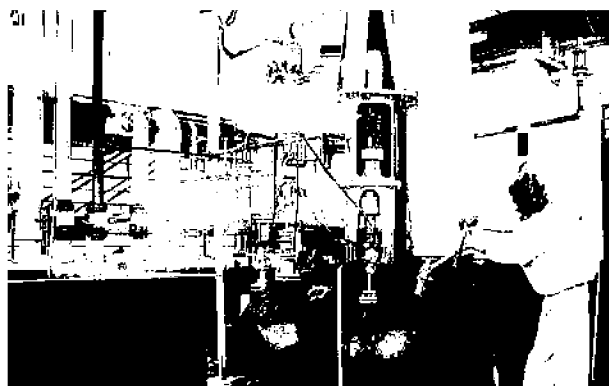
In 2012-13, we are confident that all 3 units would be contributing to volume, revenues and margins and be EPS accretive. More important, we would be ready for regulatory inspection by authorities such as US FDA and EDQM and are confident of making an impact in the API market with our product offers.

Net Fixed Assets	
As at March 31 ₹ Million	
812.1	1158.0
2010	2011

We are prudent not to lose time as regards commencing operations at Unit 4 and expect the civil work and equipment installation to progress in early 2012. Every effort is being made to ensure that manufacturing activity could start in financial year 2012-13. The corporate plan is to reach gross revenues of Rs.10 billion in 2013-14 with Unit 4 providing traction.

The team at Anu Labs believes that it works for all its stakeholders and while the customers would be offered larger number of cost effective products, value addition for other stakeholders, especially the investors, will continue to remain a paramount concern. The team therefore works with discipline to be cash flow positive, keep debt under control, manage interest costs and improve EBITDA and bottom line. It is a challenge to stay focused on cash flow at a time when cost of funds are firm as we meet both capex and working capital demands.

Anu Labs is positioned better with promising products both in intermediates and APIs with volumes trending upwards. The ability to manage costs and protect margins together with strong customer relationship makes the Company far better placed to face the challenges. What we do now has implications for our future. The sooner we execute our plans and activities, we will make it beneficial, sustainable and profitable for our customers and investors, and for that matter for all our stakeholders.



Anu Labs is positioned better with promising products both in intermediates and APIs with volumes trending upwards.

Net Worth	
As at March 31 ₹ Million	
<u>1544.9</u>	<u>1584.6</u>
2010	2011

R&D leads the way

We believe a key factor in our ability to succeed and sustain our business has been our competence in innovating and improving existing products and introducing new products that will meet or create unmet demands.

It has always been the policy at Anu Labs to spearhead growth through R&D. In 2010-11, the R&D Center successfully developed 15 intermediate products and 8 API products. A few more are being commercialized shortly. Existing product processes have been improved to bring in cost and operational efficiencies.

Our in-house Research & Development facility encourages innovation and development of new products. Our R&D team follows structured process chemistry, yield improvement techniques and engineering designs. With continuous focus on results, the team has been able to develop processes for some of the APIs/intermediates in therapeutic segments such as diabetic, hypertensive, inflammatory, diuretic and antibiotics. Four of them have been commercialized and three products are at pilot stage.

The target for the next two years is to commercialize 15 API products, 8 of which are work-in-progress. Additionally, 15 intermediates are in process development stage. We are also piloting to fast track our backward integration project for 3 products.

Simultaneously, we are working on developing and piloting low volume and high value products on commercial scale as well as on producing cost effective and specialized molecules through latest technologies.

The R&D Center takes a leadership role in creating awareness on safety requirements and norms at the manufacturing facilities and assists in planning analytical infrastructure, multipurpose equipments for processing and safety equipment infrastructure. Yield improvement techniques and engineering designs remains one of the focus areas. Fine tuning of all existing molecules at the process level, improving recoveries and effluent reduction studies are actively taken up on a continual basis and improvements effected.

Anu Labs has progressed well because of the efforts made by the R&D team. The talented team has been planning at least three years ahead and monitoring the medium and long range plans. They remain at the vanguard to take the Company forward.

