

**FINANCIAL YEAR
2018 - 19**

BAFNA
PHARMACEUTICALS LTD.,

24th ANNUAL REPORT





BAFNA PHARMACEUTICALS LIMITED

24TH ANNUAL REPORT FINANCIAL YEAR 2018-19

CONTENTS

Company Snapshot	3
Key Message from CMD	4
Director's Report	6
Annexure to Director's Report	17
Corporate Governance	35
Auditor's certificate on Compliance	50
Management Discussion and Analysis	52
Standalone Financial Statements as at 31 st March, 2019	56
Standalone – Auditor's Report	57
Standalone – Balance Sheet	66
Standalone – Statement of Profit & Loss	68
Standalone – Cash Flow Statement	69
Standalone – Notes	70
Standalone – Related Party Disclosures	83
Consolidated Financial Statements as at 31 st March, 2019	101
Consolidated – Auditor's Report	102
Consolidated – Balance Sheet	108
Consolidated – Statement of Profit & Loss	110
Consolidated – Cash Flow Statement	111
Consolidated – Notes	112
Consolidated – Related Party Disclosures	126
Notice	143
AGM Route Map	151
Attendance Slip	153

Cautionary Statement

Statements in this Report, including those relating to Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could influence the Company's performance include economic developments within & outside the country, demand and supply conditions in the industry, changes in input prices, changes in Government regulations, tax laws and other factors such as litigation and industrial relations. Bafna Pharma undertakes no obligation to publicly revise any forward looking statements to reflect future / likely events or circumstances.

COMPANY SNAPSHOT

Name of Company	:	Bafna Pharmaceuticals Limited
CIN	:	L24294TN1995PLC030698
Incorporation	:	1995
Initial Public Offering	:	2008
Listing	:	(i) BSE & (ii) NSE

Registered Office

Bafna Towers
New No. 68, Old No.299,
Thambu Chetty Street
Chennai – 600 001

Bankers

SBI, IDBI, DBS, DCB, BOC

Share Transfer Agents

Cameo Corporate Services Limited
No.1, Club House Road
Chennai – 600 002

Auditors

M/s. R. SATHYANARAYANAN & CO.,
Chartered Accountants, Chennai

Factories

(i) No.13, S.V. Koil Street
Madhavaram, Chennai – 600 060

(ii) 147, Madhavaram Redhills High Road
Grantlyon, Redhills
Chennai – 600 052

Internal Auditors

M/s. Soleti Associates,
Chartered Accountants,
Chennai

Board of Directors

Shri Bafna Mahaveer Chand
Chairman & Managing Director
Shri Paras Bafna
Whole time Director
Shri V. Rajamani
Non-Executive Independent Director
Shri R. Dwarakanathan (upto 21-08-2018)
Non-Executive Independent Director
Shri Babulal Kamlesh Kumar (w.e.f. 08-02-2019)
Non-Executive Independent Director
Shri Sunil Bafna
Non-Executive Independent Director
Smt K. Sabitha
Executive Non-Independent Director

Audit Committee

Shri V. Rajamani
Shri R. Dwarakanathan
Shri B. Kamlesh Kumar
Shri Bafna Mahaveer Chand

Stakeholders Relationship Committee (Investor Grievance and Share Transfer Committee)

Shri Sunil Bafna
Shri Bafna Mahaveer Chand
Shri Paras Bafna

Nomination and Remuneration Committee

Shri Sunil Bafna
Shri V Rajamani
Shri Babulal Kamlesh Kumar

KEY MESSAGE FROM CMD

Dear Shareholders,

The global pharmaceutical industry offers significant opportunities to service the healthcare needs of a growing and ageing global population. The industry has witnessed major investments in developing innovative medicines like monoclonal anti-bodies, immunotherapy drugs and gene therapies. Many of these medicines have seen significant success as they are serving the unmet medical needs of patients, resulting in improved medical outcomes and thus changing the lives of patients.



The industry will have to adapt to this changed scenario, although it also offers significant learning opportunities. These changing dynamics are also likely to have an impact on competition since return ratios on investments in the European and emerging generics business are growing up and down and not every generics company will be able to remain economically viable at the current rate of price .

As a result, companies will have to optimize their future R&D investments. The European and emerging generics market has been an important driver of growth and profitability for Indian pharmaceutical companies between a decade. However, now with the changed dynamics, the importance of other markets has increased. It has also become imperative for companies to identify new engines of growth and invest more in innovation.

It is in this context that Bafna Pharma has been investing in building its global specialty business since the last few years. Through this initiative we are trying to gradually move up in the pharmaceutical value chain. The other key focus area for us will be cost control and product rationalisation, with these efforts spread across R&D projects, manufacturing footprint and other areas. These steps will ensure that we continue to earn reasonable returns on our investments.

Highlights of FY19

As guided at the start of the fiscal, FY19 was a tough year. While we witnessed a decline in our financial performance for the year, the challenges also offer us an opportunity to improve our processes and hence emerge as a much stronger company.

Our FY19 revenues has increased by 46% from Rs. 29.70 Crs to Rs. 43.35 Crs on sale of Manufactured goods which mainly due to the increase in the UK and emerging market sales. We have recorded steady growth in all other markets except the Emerging market.

Operational Performance

Also the operational performance was also hindered as one of the Operational Creditors a case under IBC 2016 and subsequently the case was admitted on 16.07.2018. The entire details have been broadly explained in the Directors' Report vide Page No: 7 to 10 under the heading details of significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future.

Policy Decision

Your management decided to go slow on the domestic and institutional sales due to low margins.

R&D

R&D is the backbone of our business and a key determinant of our future growth and profitability. Our efforts to move up the pharmaceutical value chain mandate that we keep investing in R&D. Our R&D targeted mainly at developing complex generics and specialty products.

We continue to be disciplined in identifying future R&D projects for the generics market while simultaneously investing in developing a global specialty portfolio. We are also investing in enhancing our product pipeline for emerging markets and other regulated markets.

Nurturing specialty growth

Our journey of building a global specialty business commenced a few years ago, and over the years, we have nurtured this evolving business through increased focus and investments. We have allocated significant resources in building the specialty business. Our specialty initiatives are directed at achieving two main objectives – to build an additional engine of future growth and secondly to move up the pharmaceutical value chain through development and commercialization of branded patented products. While we intend to target the global market with Some specialty products, developed markets are likely to be key contributors to this strategy.

Our specialty portfolio targets Potent Drugs, oncology and Lifestyles segments. We are developing our specialty products pipeline with a focus on improving patient outcomes either by addressing unmet medical needs or by enhancing patient convenience through differentiated dosage forms. Over the past two years, we have also focused on establishing the requisite front-end capabilities for our specialty business.

Commercialization of key specialty products FY19 was a busy year for our specialty business and we crossed many important milestones. The Audit of UK- MHRA was successful and With this clearance, new approvals from this facility for the regulated and emerging Markets are likely to start coming through gradually.

Restructuring and rationalization

Given the tough pricing conditions in the generics market, we continue to make efforts towards optimising our costs. It mandates an unwavering focus on cost control across the organisation. We are trying to achieve better results with lower resources as we try to make the organisation more efficient. Our efforts in this direction will cover multiple operational aspects. The focus will be on optimising our manufacturing footprint as well as generics R&D investments, to ensure a reasonable return on investment as well as overall cost management.

Overall outlook

We are gradually ramping up our global generic specialty business. We plan to increase its contribution to our consolidated revenues in the long term. This will entail significant front-ended investments, with commensurate revenue streams accruing only over a period of time. We are also expecting reasonable growth in our emerging markets business however, as always currency fluctuations continue to be a risk. Given these factors, we expect a low double-digit top line growth in our consolidated revenues for FY19 over FY18.

We are also grateful to our Board of Directors for their guidance and support.

We are thankful for your support as a shareholder.

You have continuously supported our endeavors over the past many years and we hope that you will continue to repose your confidence in us.

Warm Regards

Sd/-

Mahaveer Chand Bafna

Chairman & Managing Director

DIN: 01458211

DIRECTOR'S REPORT

To

The Shareholders

Your Directors have pleasure in presenting the Twenty Fourth Annual Report of your Company together with Audited Accounts for the Financial Year ended 31st March, 2019.

Financial Performance

The summarized Audited Financial Results for the year ended 31st March, 2019 along with comparative figures for the previous year is as under:

(Rs. in Lakhs)

Particulars	Standalone		consolidated	
	31 st March 2019	31 st March 2018	31 st March 2019	31 st March 2018
Total Income	4401.25	7843.51	4401.25	7850.15
Total Expenditure	6224.22	9271.08	6230.53	9321.82
Profit /(loss) before exceptional items and tax	(1822.97)	(1427.56)	(1829.28)	(1471.66)
Tax expenses (Deferred Tax)	150.07	217.52	106.74	219.27
Profit/ (Loss) for the period	(1973.04)	(1645.09)	(1936.02)	(1690.93)
Profit of Non controlling Interest/ Minority interes	-	-	(52.01)	17.28
Exceptional items	-	-	100.99	-
Total Comprehensive Income for the year	(1973.04)	(1645.09)	(1887.05)	(1673.65)

Consolidated Operating Results

The consolidated revenue from operation was Rs. 4401.26 lakhs in comparison to Rs.7850.15 Lakhs of the previous year. The consolidated net loss for the year 2019 was Rs. 1887.05 Lakhs as against FY 2018 of Rs.1673.65 Lakhs.

Standalone Operating Results

The sales and operating income was Rs.4401.25 in comparison to Rs.7843.51 Lakhs in the previous year. The operating Loss for the year under review is Rs.1973.04 Lakhs as against Rs.1645.09 Lakhs for the previous year.

Our FY19 revenues has increased by 46% from Rs.29.70 Crs to Rs.43.35 Crs on sale of Manufactured goods which mainly due to the increase in the UK and emerging market. We have recorded steady growth in all other markets except the Emerging Markets

Subsidiary Company & Consolidated Financial Results

The consolidated financial results comprise of M/s. Bafna Pharmaceuticals Limited and its subsidiary M/s. Bafna Life styles Remedies Limited. Consolidated Financial Statements for the year ended 31st March, 2019 forms part of the Annual Report.

As required under the SEBI (Listing Obligations and Disclosure Requirement) Regulation, 2015, the consolidated financial statements of the Company and its subsidiary are attached. The consolidated financial statements have been prepared in accordance with the relevant accounting standards as prescribed under Section 133 of the Companies Act, 2013. The consolidated financial statements disclose the assets, liabilities, income, expenses and other details of the Company and its subsidiaries.

Material/significant changes in subsidiary:

Until four years back, the Company's subsidiary Company M/s. Bafna Lifestyle Remedies Limited (BLRL) was manufacturing Raricap tablets for strides shasun. The company had to close down operations owing to certain technical audit issues raised by them, and since then, the company has not been a going concern. As a process of initiating the closure process, during the year, all items of PPE (Fixed assets) have been disposed off, and outstanding balance of loan with Holding company has been written back.

A statement pursuant to Section 129 of the Companies Act, 2013, relating to subsidiary companies is attached and forms part of the report.

Change in Capital Structure

(Rs. In Lakhs)

Particulars	31st March, 2019	31st March, 2018
Authorized Capital	4000.00	4000.00
Issued, Subscribed & Paid up Capital	2365.63	2365.63

There is no change in share capital structure during the period.

Fixed Deposits

The company has not accepted / invited any deposits from the public in terms of Section 73 of the Companies Act, 2013

Dividend

Due to losses, the Company has not declared any dividend for the Financial Year.

Reserves

The Company has not transferred any amount to the general reserves during the year.

Material changes and commitments affecting the financial position of the Company:

There have been no material changes and commitments, if any, affecting the financial position of the Company which have occurred between the end of the financial year of the Company to which the financial statements relate and the date of the report.

Details of significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future;

ARIES an Operational Creditor has filed under Section 9 of The Insolvency and Bankruptcy Code 2016 a Petition with The National Company Law Tribunal (NCLT), Single Bench, Chennai which has been admitted as CP/682/IB/2017 against the Company. The National Company Law Tribunal, Single Bench, Chennai has passed an order on 16th July 2018 for initiation of Corporate Insolvency Resolution Process (CIRP) against the Company and declared moratorium and appointed Mr. Gopalsamy Ganesh Babu as an Interim Resolution Professional (IRP). IRP Constituted Committee of Creditors (COC) and subsequently Mr. Radhakrishnan Dharmarajan was appointed as Resolution Professional (RP).

Information Memorandum was presented to COC members after obtaining non disclosure agreement.

UK MHRA audit was expected to happen by January 2019. COC in various meeting dealt on getting through the audit . since UK MHRA is lifeline for the Company , Company presented 12A withdrawn Plan which did not garner requisite voting from COC.

Accordingly, Mr. Mahaveer Chand Bafna (Resolution Applicant) who is also the promoter and is not prohibited u/s. 29(A) of the IBC 2016 submitted resolution plan which was approved by the COC.

The resolution Plan , approved by COC was submitted to the Honorable NCLT, Chennai for approval. Honourable NCLT, Chennai had approved the resolution plan vide its order dated 01st February 2019 and copy of the said order was received by the company on 04th February 2019. The same was intimated to the Stock exchanges on 05th February 2019.

The salient features of Resolution Plan:-

Payments as per resolution plan:

Financial creditors-

70% of admitted claims of all financial creditors i.e SBI, IDBI, DCB, DBS, BOC will be payable.

Total claims admitted Rs.49.23 Crs

(payment proposed Rs.34.46 Crs.)

Operational Creditors- proposes to side an amount of Rs. 6.53 Crs towards operational Creditors. The Operational Creditors shall be paid 100% of the Net Claims amount subject to a maximum aggregate pay- out of Rs 6.53 Crs. In case, Net claim amount exceeds aggregate of Rs 6.53. Crs , the operational creditors shall be paid such Rs.6.53 Crs on pro-rata basis of the net claim amount.

The company had also Allowed window period of 30 days from the date of approval (01 st Feb 2019) of the Plan by the Honorable NCLT, Chennai till 04th March 2019 for the operational creditors to file their claims

ESI and PF dues- Rs.1.94Crs

Workmen dues- Rs.0.24 Crs

Employees dues- Rs.0.32 Crs

Statutory liabilities- Rs.0.13 Crs

Other liabilities- Rs.0.01 Crs

Contingent liabilities- Rs. NIL

For the purpose of resolution plan, the liability arising out of the said case, if any, is being considered as deemed crystallised as on the Resolution Plan approval date. Hence the Resolution Applicant is not disputing the above liabilities any further and instead considering them as deemed crystallised and admitted. Simultaneously, the Resolution Applicant is proposing to pay NIL value against all the contingent liabilities and legal cases pending against the Company.

Further any liability crystallising out of the contingent liabilities or disputed legal cases of the Corporate Debtor or any other unknown or unclaimed liability pertaining to a transaction or incident dating to a period prior to the Insolvency Commencement date or during the CIRP which does not find a place in the approved Resolution Plan, shall be deemed to have lapsed on the approval of the plan; and the Corporate Debtor shall be deemed to have been duly discharged from all legal liability arising from such antecedent claims.

The approved Resolution Plan also covers the writing off Slow Moving Inventories, and Debtors , any Recovery from such current assets shall be written back in the year of Recovery. Any Long pending dues from suppliers of the earlier years which could not be recovered in cash or kind shall also be written off, any Recovery from such current assets shall be written back in the year of Recovery.

Equity shareholders- the capital of existing equity shareholders shall be reduced to 10% of the current holding i.e 2.36 crores shall be reduced to 0.236 crores.

Investment in working capital- The additional need based working capital of Rs.10 Crores shall be invested in the Corporate Debtor for revival of the organization.

Investment in fixed assets- The Resolution Applicant and his investors shall invest in Capex which shall amount to Rs.3.5 Crores in year 1.

Management and control of business- the Management of Corporate Debtor shall vest in the re-constituted Board of Directors and Resolution Applicant and his investors shall jointly appoint the Directors on the Board.

Resolution Plan will be monitored by monitoring committee.

A monitoring committee was set up vide Meeting on 13.02.2019, wherein Radhakrishnan Dharmarajan (RP), S David (SBI representative), Nagabhusanam (IDBI representative), Sridhar and Hema (Corporate debtor representatives) were appointed as the members of Monitoring Committee

A second monitoring committee was conducted on 07.03.2019 and the matter of M/s Saravana Global Holdings who filed an appeal in the NCLAT Delhi, was discussed and Committee appraised COC members about the same. The matter was discussed and committee was advised for further course of action .

A third monitoring committee was held on 04.04.2019 and discussed on the updates on the appeal and committee advised COC to be represented and file their Written submissions through the Lead Bank M/s. STATE BANK OF INDIA.

The Resolution Applicant Mr. Bafna Mahaveer Chand also informed that the MHRA Audit is scheduled on 13.05.2019 .

As time again discussed in various COC Meetings during the CIRP process of Bafna, where in the COC members discussed and deliberated at length regarding the importance of MHRA audit which is paramount and value enhancement for the company. Any failure on MHRA accreditation, the value of the company will be eroded and may not be kept as a going concern. The members of the COC had deferred the publication of expressions of interest citing, criticality of MHRA accreditation as one of the major reasons and the fact that any delay in MHRA accreditation would impact the going concern and viability of the company and this was also one of the key agenda in the First COC minutes (dated 10.8.2018) .

To keep the company as Going Concern and to conduct the UK-MHRA audit successfully , upon the request from the Monitoring Committee, the resolution applicant came forward to arrange an unsecured loan ,which would help to complete the MHRA audit in time, and to enhance value of the assets of the company to all the stake holders

Appeal with NCLAT

Aggrieved by the Order of NCLT, Chennai Saravana Global Holdings Limited and P Shobha (minority shareholders) filed an appeal to National Company Law Appellate Tribunal, New Delhi (NCLAT). NCLAT vide its order dated 28th February 2019 has passed the following Order:-

Until further order the monitoring committee will not handover the possession of corporate debtor to the Resolution Applicant if not yet handed over. In case the possession of the corporate debtor has been handed over the resolution applicant will maintain the status quo and will not alienate, transfer or create third party encumbrance of movable or immovable property of the corporate debtor. The concerned person will ensure that the company remains a going concern.

The case was posted to further hearing on 02nd April 2019

The case was posted to further hearing on various dated namely 25th April 2019, 02nd May 2019 and 07th May 2019 , the Honourable NCLAT instructed the respondents to file their written submission not more than 3 pages and the judgement was reserved on 09th May 2019 by NCLAT.

Conclusion

In view of the pending proceedings against implementation of approved Resolution Plan . No Revision in the Financial statement is considered . However, the financial statement will be restated based on the outcome of the order to be passed by Honorable NCLAT , Delhi as per the plan approved by Honorable NCLT, Chennai .

Hence, The process of Assessment of fair values of assets and liabilities detailed in the Resolution Plan and restatement thereof in the accounts is being deferred to be carried out in the ensuing Financial Year on account of the above mentioned