

# 19<sup>th</sup> Annual Report

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Aspiration transforms a set of ordinary people  
into extraordinary achievers"*



## Bal Pharma Ltd.



### Board of Directors

Mr. Shailesh Siroya	-	Managing Director
Dr. S. Prasanna	-	Whole-time Director
Mr. Shrenik Siroya	-	Non-executive Director
Dr. G.S.R. Subba Rao	-	Independent Director
Mr. N.D. Prabhu	-	Independent Director
Mr. Arun Bhan	-	Independent Director

### Company Secretary

Mr. K. Mahadevan

### Registered Office

21 & 22, Bommasandra Industrial Area,  
Hosur Road, Bangalore - 560 099

### Corporate Office

5<sup>th</sup> Floor, Lakshmi Narayan Complex,  
10/1, Palace Road, Bangalore - 560052

### Plant Locations

#### Unit I : Formulations

21 & 22, Bommasandra Industrial Area,  
Hosur Road, Bangalore - 560 099

#### Unit II : R & D Centre & Bulk Drugs

61/B, Bommasandra Industrial Area,  
Hosur Road, Bangalore - 560 099

#### Unit III : Parenterals

732/735, Off. National Highway No. 4,  
Village Kenjal, Dist. Bhore, Maharashtra.

#### Formulations plant project at Uttaranchal

Plot no. 1,2,3 & 69, Sector 4, IIE-Pantnagar,  
Rudrapur, Udham Singh Nagar, Uttaranchal - 263 153.

### Bankers

Canara Bank  
Punjab National Bank  
ICICI Bank Ltd.,  
EXIM Bank

### Auditor

Ostawal & Jain

### Registrar & Share Transfer Agent

TSR Darashaw Limited,  
(formerly Tata Share Registry Ltd.,)  
Army & Navy Building, 148, M.G. Road, Fort,  
Mumbai - 400 001.

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## NOTICE

NOTICE IS HEREBY GIVEN THAT the 19<sup>th</sup> (Nineteenth) Annual General Meeting of the members of Bal Pharma Limited will be held at 11.30 a.m. on Wednesday, the 20<sup>th</sup> September, 2006, at Bharatiya Vidya Bhavan, Race Course Road, Bangalore – 560 001, to transact the following business:

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the audited Balance Sheet as on 31<sup>st</sup> March, 2006, and the Profit and Loss Account for the financial year ended on that date and the Reports of the Directors and the Auditors thereon;
2. To declare dividend;
3. To appoint a Director in place of Mr. Shrenik Siroya, who retires by rotation and being eligible, offers himself for re-appointment;
4. To appoint a Director in place of Dr. G.S.R. Subba Rao, who retires by rotation and being eligible, offers himself for re-appointment;
5. To appoint Auditors and to authorise the Board to fix their remuneration;

**SPECIAL BUSINESS:**

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as Special Resolution:

“RESOLVED that subject to all applicable provisions and schedules of the Companies Act, 1956, and the Rules made thereunder and subject to applicable clauses of Memorandum and Articles of Association of the Company, the managerial remuneration payable in terms of Schedule XIII of the Companies Act, 1956, to Mr. Shailesh Siroya, Managing Director, as recommended by the Remuneration Committee and the Board, be and is hereby revised with effect from 01.04.2006 for a period of 3 (three) years or till the close of the present tenure, whichever is earlier, to Rs. 3,00,000 (Rupees three lakhs only) per month inclusive of salary and perquisites but exclusive of the following:

- (i) Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent they, either singly or put together, are not taxable under the Income Tax Act, 1961;
- (ii) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service; and
- (iii) Encashment of leave at the end of the tenure;”

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as Special Resolution:

“RESOLVED that subject to all applicable provisions and Schedules of the Companies Act, 1956, and the Rules made thereunder and subject to applicable clauses of Memorandum and Articles of Association of the Company, the managerial remuneration payable in terms of Schedule XIII of the Companies Act, 1956, to Dr. S. Prasanna, Whole-time Director, as recommended by the Remuneration Committee and the Board, be and is hereby revised with effect from 01.04.2006 for a period of 3 (three) years or till the close of the present tenure, whichever is earlier, to Rs. 1,50,000 (Rupees one lakh fifty thousand only) per month inclusive of salary and perquisites but exclusive of the following:

- (i) Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent they, either singly or put together, are not taxable under the Income Tax Act, 1961;
- (ii) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service; and
- (iii) Encashment of leave at the end of the tenure;”

By order of the Board

Bangalore  
30-06-2006

**K. Mahadevan**  
Company Secretary

**NOTES:**

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING MAY APPOINT A PROXY TO ATTEND AND ON A POLL TO VOTE ON HIS/HER BEHALF. A PROXY NEED NOT BE A MEMBER.**

Proxy, in order to be effective, must be deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting. Proxy Form is forwarded as detachable part of Annual Report;

2. Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of items 6 and 7 are annexed hereto;
3. For the convenience of the Members and for proper conduct of the meeting, entry to the place of meeting will be regulated by an Attendance Slip, which is forwarded as detachable part of Annual Report. Members are requested to affix their signature at the place provided in the Attendance Slip and hand it over at the entrance;
4. The Register of Members and Share Transfer Books of the Company will be closed for 10 days from 11.09.2006 to 20.09.2006 (both days inclusive);
5. Members, who hold shares in dematerialised form, are requested to bring in their Client ID and DP ID nos. for easier identification of attendance at the meeting;
6. A member desirous of getting any information on the accounts or operations of the Company is requested to forward his / her queries to the Company atleast 7 days prior to the meeting, so that the required information can be made available at the meeting;
7. Members may kindly recall their approval in the 17<sup>th</sup> AGM for introduction of ESOP in the Company. The formula for the exercise price under the scheme formulated is 50% of the closing price of the exchange on which highest trade volume took place on a day prior to the date on which the Compensation Committee under the scheme decided to grant the options;
8. Members holding shares in physical form are requested to notify immediately any change in their address to the Company's Registrar and Transfer Agent M/s. TSR Darashaw Ltd. Members hold shares in electronic form may intimate any such changes to their respective Depository Participants (DPs).
9. Members holding more than one share certificate in different folios are requested to kindly apply for consolidation of the folios and send the relative share certificates to the Company's Registrar and Share Transfer Agent;
10. Dividend, if declared, will be paid on or before 19.10.2006, to those members whose names appear on the Company's Register of Members as on the date of 19<sup>th</sup> AGM. In respect



of shares held in electronic form, dividend will be payable on the basis of beneficial ownership, as per details furnished by NSDL and CDSL for this purpose;

11. Members are kindly requested to bring Annual Report along with them to the Annual General Meeting since copies will not be supplied at the meeting;
12. In order to protect the investors from fraudulent encashment of their dividend warrants or Demand Drafts, the Company hereby offers Electronic Clearing Services Facility to the shareholders having Bank Accounts at Centres notified for ECS by RBI. RBI is continuously adding more centres for ECS and Members are kindly requested to check with their banker whether their place has been notified by RBI for the purposes of ECS. ECS mandate form is forwarded as detachable part of Annual Report. The Members from the ECS notified centres desirous of payment of dividend through ECS are requested to forward the ECS mandate form duly signed with the required annexures to Company's present Registrar and Share Transfer Agent, on or before 07.09.2006;
13. Pursuant to Section 205A(5) of the Companies Act, 1956, as amended, any money transferred to Unpaid Dividend Account and remaining unclaimed for a period of 7 years

from the date of such transfer to the Unpaid Dividend Account shall be transferred by the Company to the Investor Education and Protection Fund established by the Central Government and thereafter the shareholders shall not be able to claim any Unpaid Dividend from the said fund or from the Company. The Company has since transferred the amount lying in the credit of Unpaid Dividend Account for the financial year 1994-95 and 1995-96 to Investor Education and Protection Fund established by the Central Government as stipulated under Section 205C of the Companies Act, 1956 read with Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001. The Company did not declare dividend for the financial years 1996-97, 1997-98 and 1998-99. The Members who have not encashed the Dividend Warrants for the financial years 1999-2000 onwards are requested to write to, M/s. TSR Darashaw Limited, the Registrars and Share Transfer Agent of the Company.

14. You may now avail of the facility of nomination by nominating, in the prescribed form, a person to whom your shares in the Company shall vest in the event of death of member. Interested members may write to the Company's Registrar and Share Transfer Agent for the prescribed form.

#### **Explanatory Statement under Section 173(2) of the Companies Act, 1956:**

##### **Item No. 6 & 7:**

Mr. Shailesh Siroya was reappointed as Managing Director in the 17<sup>th</sup> Annual General Meeting held on 23.09.2004 and Dr. S. Prasanna was reappointed as Whole-time Director in the 16th Annual General Meeting held on 17.09.2003 with the following compensation per month, in terms of Schedule XIII of the Companies Act, 1956:

Remuneration	Mr. Shailesh Siroya Managing Director	Dr. S. Prasanna Whole-time Director
Salary per Month	Rs. 2,50,000	Rs. 1,00,000
Provident fund, Superannuation fund	Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent they, either singly or put together, are not taxable under the Income Tax Act, 1961	
Gratuity	Gratuity payable at a rate not exceeding half a month's salary for each completed month of service; and	
Encashment	Encashment of leave at the end of the tenure.	

The above appointment is valid upto 31.09.2009 in the case of Mr. Shailesh Siroya and 30.09.2008 in the case of Dr. S. Prasanna; their respective compensation prior to the above revision was Rs. 15,00,000 per annum and Rs. 4,89,360 per annum;

Keeping in mind the industry norms and remuneration paid to similar appointees in other companies and the active role played by your Managing Director and Whole-time Director in steering the Company to better levels of productivity and profitability, and also consequent to Rights Issue the 'effective capital' as per Schedule XIII of the Companies Act, 1956, has gone up and accordingly, the slab for upper limit under Schedule XIII is now shifted from Rs. 2.50 lakhs to Rs. 3.00 lakhs per month wherein individually Whole-time Directors may be paid remuneration upto Rs. 3.00 lakhs per month, the Remuneration Committee of the Company, in its meeting held on 30.06.2006, and Board in its meeting held on 30.06.2006 considered and recommended the proposal of revising the managerial remuneration of Managing Director and Whole-time Director, with effect from 01.04.2006 as under:

Revision of remuneration of Mr. Shailesh Siroya, Managing Director, from Rs. 2.50 lakhs per month to Rs. 3.00 lakhs per month and revision of remuneration of Dr. S. Prasanna, Whole-time Director, from Rs. 1.00 lakh per month to Rs. 1.50 lakhs per month, excluding:

- (i) contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961;
- (ii) Gratuity payable at a rate not exceeding half month's salary for each completed year of service; and
- (iii) Encashment of Leave at the end of the tenure.

The remuneration recommended may be deemed as the minimum remuneration payable in the event of loss or inadequacy of profits.

The above may be treated as abstract of terms of appointment in terms of Section 302 of the Companies Act, 1956.

The Board recommends the resolution for approval of the members.

Mr. Shrenik Siroya, Director, being related to Mr. Shailesh Siroya, Managing Director and Mr. Shailesh Siroya and Dr. S. Prasanna, themselves, are concerned or interested in the resolution.

By Order of the Board  
For **BAL PHARMA LIMITED**

**K. MAHADEVAN**  
Company Secretary

Bangalore  
30-06-2006





**ADDITIONAL INFORMATION RELEVANT TO  
MR. SHAILESH SIROYA, MANAGING DIRECTOR AND DR. S. PRASANNA, WHOLE-TIME DIRECTOR AS PER CLAUSE B OF PARAGRAPH 1 OF  
SECTION II OF PART II OF SCHEDULE XIII OF THE COMPANIES ACT, 1956.**

**I. GENERAL INFORMATION:**

1. Nature of industry	Pharmaceutical Industry
2. Date or expected date of commencement of commercial production	The Company was incorporated on 19-05-1987 as a Private Limited Company and it commenced commercial production from 1992
3. Financial performance based on given indicators	For the year ended 31-03-2006 (Rs. in Crores) Turnover 76.47 Profit before income tax 3.57 Net worth 27.95
4. Export performance and net foreign exchange collaborations	The Company's export income was Rs. 20.16 crores in 2005-06 and there was no foreign exchange collaboration
5. Foreign investments or collaborations, if any	Nil

**II. INFORMATION ABOUT THE WHOLE-TIME DIRECTORS WHOSE REMUNERATION IS UNDER REVIEW:**

1. Name of the Director	Mr. Shailesh Siroya	Dr. S. Prasanna
2. Background details	Mr. Shailesh Siroya is promoter Director and he holds a Masters degree in Business Administration from the University of Akron, Ohio, USA.	Dr. S. Prasanna has been associated with the Company from the inception. He is Ph.D. in Organic Chemistry and has extensive exposure as a research scientist. He has been heading the Research and Development Centre and Bulk Drug manufacturing unit of the Company.
3. Immediate Past remuneration	Rs. 2,50,000 per month which is in line with the provisions of Schedule XIII of the Companies Act, 1956	Rs. 1,00,000 per month which is in line with the provisions of Schedule XIII of the Companies Act, 1956
4. Job profile and his suitability	Mr. Shailesh Siroya is the Managing Director of the Company. With his rich experience, he is the most appropriate person to be at helm of the affairs of the Company.	Dr. S. Prasanna is heading the Research and Development Centre and Bulk Drug manufacturing unit of the Company. He has been associated with the Company right from the inception. With his extensive experience and knowledge, he is the most appropriate person to guide the original research efforts of the Company.
5. Remuneration proposed	Details of remuneration proposed have been given in the notice. Taking into consideration the size of the Company, profile of the appointee, responsibilities shouldered by them, the remuneration proposed is commensurate with the remuneration packages paid or is comparable to other companies in the industry. Further more, the Company has been steadily achieving enhanced profitability, which is attributed to a great extent to the above 2 Whole-time Directors who are responsible for the day to day affairs of the Company.	
6. Pecuniary relationship / relationship with the managerial personnel, if any	M/s. Desa Marketing International, Bangalore, under an agreement with the Company, provides service support for enhancing and promoting business interests of the Company and also sourcing various products for the Company. Mr. Shailesh Siroya is interested in the said agreement and the said agreement has the approval of the Government. He does not have any pecuniary relationship with the managerial personnel of the Company.	Dr. S. Prasanna, besides the above remuneration, does not have any pecuniary relationship with the Company and its managerial personnel

**III. OTHER INFORMATION:**

1. Reasons for loss or inadequate profits	The Company is earning profits. However, the net profits calculated under certain parameters under Sections 349 and 350 of the Companies Act, 1956, results in inadequacy or insufficiency of profits.
2. Steps taken or proposed to be taken for improvement	The Company has been steadily increasing its bottomline.
3. Expected increase in productivity and profits in measurable terms	The Company does not expect any one time extraordinary change during the financial year 2006-07 and, therefore, the Company's operation should give normal returns barring unforeseen circumstances.

**ADDITIONAL INFORMATION ON DIRECTORS SEEKING APPOINTMENT AT THE ANNUAL GENERAL MEETING**

1. Name of the Director	Mr. Shrenik Siroya	Dr. G.S.R. Subba Rao
2. Date of Birth	10-09-1964	21-08-1937
3. Date of Appointment	30-09-1997	08-07-2000
4. Qualification	B.E., (U.K.)	B.Sc., (Hons.), M.Sc., D.Sc., Ph. D., F.A.Sc., F.N.A.,
5. Experience / Expertise	He has vast experience in managing huge construction contracts and in managing pharmaceutical companies	Formerly Professor and Dean in Indian Institute of Science, Bangalore; is also a Consultant to many Indian and Foreign pharmaceutical companies on synthesis of drugs and drug intermediates, natural products, steroid hormones, combinatorial synthesis.
6. Other Directorships	1. Siroya Exports Pvt. Ltd., Director; 2. Siroya Developers Pvt. Limited (formerly Siroya Trading Co. Pvt. Ltd.) Director; 3. Mokalsar Stone Pvt. Ltd., Director 4. Siroya Fm Constructions Pvt. Ltd., Director 5. Mannat Properties Pvt. Ltd., Director 6. Mannat Developer Pvt. Ltd., Director 7. Siroya Nahar Housing Pvt. Ltd., Director	1. Novosynth Research Labs Private Limited
7. Other Committee Memberships in the Company	A. Bal Pharma Ltd. (a) Audit Committee : Member (b) Remuneration Committee : Member B. Other Companies : NIL	A. Bal Pharma Ltd. (a) Audit Committee : Member; (b) Remuneration Committee : Chairman (c) Shareholders and Investor Grievances Committee : Chairman
8. Number of shares held directly or indirectly	3,74,700	NIL



Your Directors have pleasure in presenting the 19<sup>th</sup> Annual Report together with the Audited Accounts of your Company for the financial year ended 31<sup>st</sup> March, 2006:

## 1. FINANCIAL RESULTS:

(Rs. in Lakhs)

Particulars	2005-06	2004-05 *
1) Turnover	7647.41	6003.73
2) Profits before Depreciation and provision for Taxation	520.73	335.29
<b>Less:</b>		
3) Depreciation	117.79	90.07
4) Provision for Taxation	37.78	32.38
5) Fringe Benefit Tax	22.72	-
6) Deferred Tax	3.96	55.93
7) Extraordinary/ Non recurring items	41.40	25.00
8) Prior year adjustment	4.50	-
	(-) 228.15	(-) 203.38
	292.58	131.91
<b>Add:</b>		
9) Profit & Loss Account balance at the beginning of the year	267.51	266.01
10) Profit made available for appropriation	560.09	397.92
<b>Less:</b>		
11) Dividend on Preference Shares	2.23	33.09
12) Proposed Dividend on Equity Shares	78.34	78.36
13) Transfer to Preference Shares Redemption Reserve	-	4.40
14) Tax on Dividend	11.30	14.56
15) Balance Carried to Balance Sheet	(-) 91.87	(-) 130.41
	468.22	267.51

\*Note: Figures of 2004-05 were regrouped for comparing with figures of 2005-06

## 2. DIVIDEND

Encouraged by the good performance but keeping in view the requirement to ensure resources for expansion which is underway and to pay dividend to the new shares on account of right shares also on par with old shares, the Directors are pleased to recommend payment of Dividend of 7.5% (Re. 0.75 per equity share of Rs. 10/- each) as against 7.5% in the previous year.

In view of the requirement of fund for expansion your Directors did not transfer any profits to General Reserve. Incidentally, the dividend declared of 7.5% does not call for transfer of profits to reserves.

## 3. LISTING AT NSE

Members may kindly recall their approval to list the shares of the Company in the National Stock Exchange (NSE) in their meeting held on 23.09.2004. Your Directors are happy to report that the equity shares of the Company are listed and admitted for trading at the National Stock Exchange (NSE) with effect from 08.05.2006. This has contributed to greater visibility, liquidity and marketability of the shares of your Company.

## 4. MANAGEMENT DISCUSSION AND ANALYSIS:

### Industry Overview, Opportunities, Threats and Outlook

The Indian Pharma Industry has been growing at record levels in recent years. Its share in the world market is increasing at 10% a year compared to 7% annual growth for the world market as a whole. The National Pharmaceuticals Policy, 2006, estimates that India holds 4<sup>th</sup> position in terms of volume and 13<sup>th</sup> position in terms of value of production of world market.

India, today, offers the competitive advantages of an abundance of english speaking scientific and technical staff, globally competitive IT capabilities, a sound judicial system and a vibrant democracy which fosters innovation, creativity and cost competitiveness. This coupled with low operational cost and gradually improving regulatory framework, viz., free from industrial licensing, permission for 100% foreign direct investment, automatic approval for foreign technology agreement, liberalised imports, introduction of product patents, shall facilitate Indian pharmaceutical industry to become a potential hub for research, manufacturing and exporting in the coming decade.

Our long established position as a world leader in production of high quality generic medicines is set to reap significant new benefits as patents on a number of blockbuster drugs are scheduled to expire over next few years and as more and more Governments worldwide are seeking to curb their soaring prescription drug cost through greater use of generics which would promote high volume of exports from India. Further, Indian Generic industry is poised for consolidation and expansion with new players entering the segment and favourable Government policy framework for Generics in the offing.

The market potential of India's population of over one billion is highly promising for Indian pharmaceutical industry. The recent initiative of the Government providing to majority of the population access to the life saving drugs they need, the projected boom in India's health insurance market, the paradigm shift in life style of the Indian consumer, viz., urban, middle class, wealthy and fast paced western life style, resulting in life style related diseases, offer a never been before opportunity for the industry.



The new patent regime led the return of pharmaceutical multinationals, many of whom left India in the seventies and they are back, looking at India not only for its traditional strengths in contract manufacturing but also as a highly attractive location for Research and Development, particularly in the conduct of clinical trials and other services.

## **5. BUSINESS OPERATIONS:**

Your Company achieved an overall gross turnover total of Rs. 76.47 crores during the year under review against Rs. 60.30 crores during the previous year registering a growth of about 27%. Your Management intends to take full advantage of this momentum of growth. The performance should have been still higher had the Government's policy framework towards drug industry been more friendly. The revised MRP based excise regime and downward revision of export incentives retrospectively affected substantially the bottom line of the Company.

Your Company's branded formulations business including focused marketing on cardiac and diabetic products returned a total of more than Rs. 31 crores registering a growth of about 47%. We could successfully overcome the acute price competition in the market by aggressive marketing efforts. Your Management intends to consolidate and escalate this performance to further heights.

The Ayurvedic division registered a growth of about nearly 141% by doubling its turnover from Rs. 49 lakhs in the previous financial year to Rs. 1.19 crores during the financial year under review. Your Management is of the firm view that great business potential lies ahead in Ayurvedic business and has accordingly positioned itself as an aggressive player in this segment.

The performance of API business, both domestic and exports, has been extremely encouraging. Your Management's continued focus on high value, low volume, niche API products business is paying off. The turnover of API business in the domestic market in the financial year under review is Rs. 10 crores against Rs. 5.88 crores in the previous financial year registering a growth of 70%. Your Management strongly believes that in the pharmaceutical industry, API business would grow aggressively in the coming years and accordingly positioned itself to take full advantage of this opportunity. To augment the API production capacity, the Company has embarked on an expansion and the project at Bangalore to install a multi-purpose facility to manufacture APIs is expected to take a good shape with the recent tie up for land very close and adjacent to the existing manufacturing facility for API.

Exports, both APIs and formulations, returned a good growth performance registering an increase of 56%. The turnover was Rs. 20.16 crores against Rs. 12.90 crores in the previous financial year. One of the APIs, 'Ebastine' is now registered with European Drug Authorities and the product has also gone off the patent during the end of the last financial year. Your Company added new markets like Japan and Spain for APIs during the year under review and your Company is in the process of registering its formulations in various

countries. Your Directors are confident that the business from new markets would be very high in the years to come.

Institutional business continued its good performance and returned a turnover of Rs. 5.5 crores against Rs. 4.3 crores in the previous financial year registering a growth of about 28%. Your Management intends to continue this trend of good performance and would be intensifying its marketing efforts in this segment of business.

As reported in the 18<sup>th</sup> Directors' Report to shareholders, the generic industry as a whole has been hit consequent to introduction of MRP based excise regime. MRP based excise regime imposed additional excise liability and consequently, your Company has been hit in this segment. The Generics division returned a turnover Rs. 3.7 crores against Rs. 8.1 crores in the previous financial year, thus registering a negative growth of about 55%. The Company's initiative of setting up a formulations plant in the excise free zone of Uttaranchal is expected to reverse this negative performance.

The domestic business on Parenterals continues to be satisfactory.

Your Company has a dedicated Government approved in-house Research and Development (R&D) facility for discovery of new molecules and improvement of process of Active Pharmaceutical Ingredients (API). Currently, active research is on the APIs in vital therapeutic areas for treatment of cancer, hypertension, allergic disorders and ophthalmic problems. A foray has been made into the development of few very active chiral intermediates. To facilitate this and to augment research capabilities, your Company commissioned state of the art analytical instruments like the Nuclear Magnetic Resonance Spectrometer, High Performance Liquid Chromatography machines, Gas Chromatography - Mass Spectrometric equipments, Digital Polarimeters etc. With the augmented research capabilities, the Company now intends to focus very intensely the segment of Contract Research and Manufacturing (CRAM).

Your Management is glad to inform the Members that one of its R&D projects for pilot scale production of an API intermediary has been approved by the Government for a partial grant and your Management intends to continue similar efforts to promote R&D in the Company in a bigger way taking advantage of fiscal incentives made available by the Government.

The project at Uttaranchal to set up a multipurpose multi product facility for manufacture of formulations is in brisk progress. Besides acquisition of land on leasehold basis, all initial approvals required, including for power and water connections, are tied up. The project is expected to go on stream on or before 31.03.2007.

## **6. CORPORATE GOVERNANCE:**

A report on Corporate Governance including a certificate from a Practising Company Secretary on compliance of Corporate Governance requirements is given separately in the report.



## **7. AUDIT COMMITTEE:**

The Audit Committee, a sub-committee of Board, headed by Mr. N.D. Prabhu, consists of Mr. N.D. Prabhu, Independent Director, Dr. G.S.R. Subba Rao, Independent Director and Mr. Shrenik Siroya, Non-executive Director and the said Committee has been discharging its mandate under the SEBI Guidelines read with the Listing Agreement. The said Committee is also functioning as Audit Committee under Section 292A of the Companies Act, 1956.

## **8. INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY:**

Your Company has an adequate system of internal controls with clearly defined authority limits. They ensure that the Company's assets are protected against loss from unauthorised use or disposition and all transactions are authorised, recorded and reported in conformity with generally accepted accounting principles. These systems are designed to ensure accuracy and reliability of accounting data, promotion of operational efficiency and adherence to the prescribed management policies. These policies are periodically reviewed to meet current business requirements.

Internal Audit during the year under review was carried out by M/s. Shankar, Sridhar & Mukundh, Chartered Accountants. They interacted with the Audit Committee and have reported to the Directors that there were no audit observations of major importance in respect of areas carried out by them.

## **9. DIRECTORS' RESPONSIBILITY STATEMENT:**

In compliance to the provisions of Section 217(2AA) of the Companies Act, 1956, your Directors wish to confirm with reference to Statement of Accounts for the financial year ended 2005-06 :

- (i) that in preparing the Annual Accounts, all applicable Accounting Standards have been followed;
- (ii) that the accounting policies adopted are consistently followed and the judgements or estimates made are reasonable and prudent so as to give a true and fair view of the State of Affairs of the Company at the end of the financial year and of the Profit and Loss Account of the Company for the financial year;
- (iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing/detecting fraud and other irregularities;
- (iv) that the annual accounts of the Company got prepared on 'going concern' basis.

## **10. SUBSIDIARY COMPANY:**

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Company's interest in subsidiary company is given as Annexure forming part of the Directors' Report.

## **11. PARTICULARS OF EMPLOYEES:**

A statement of particulars of employees as required under Section 217(2A) of the Companies Act, 1956, is annexed and forms part of this report.

## **12. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND FOREIGN EXCHANGE OUTGO:**

As per provisions of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, details relating to the Conservation of Energy and Technology Absorption and Foreign Exchange Earnings and Outgoings are given in Annexure forming part of the Directors' Report.

## **13. PUBLIC DEPOSITS:**

As on date of the Report, the Company has not accepted any public deposits.

## **14. DIRECTORS:**

The Board on date consists of 6 Directors, 4 of whom are non-executive Directors and 3 of whom are Independent Directors. Mr. Shrenik Siroya and Dr. G.S.R. Subba Rao retire by rotation at the 19<sup>th</sup> Annual General Meeting of the Company and, being eligible, offer themselves for re-appointment. Your Directors have pleasure in recommending their re-appointment.

## **15. AUDITORS:**

M/s. Ostawal & Jain, Chartered Accountants, Auditors of the Company, retire at the Annual General Meeting and are eligible for re-appointment.

## **16. APPRECIATION:**

The Directors place on record their appreciation of the cooperation and guidance provided by Canara Bank, Punjab National Bank, Exim Bank Ltd., ICICI Bank Ltd., and other Banks and financial institutions, members of the medical profession, customers, suppliers and other business associates. Your Directors also place their appreciation of the good work rendered by all the employees. The Directors express their gratitude to all stakeholders for the confidence reposed in the Management.

**For and on behalf of the Board of Directors**

Bangalore  
30<sup>th</sup> June, 2006

**Dr. S. Prasanna**  
Director

**Shailesh Siroya**  
Managing Director



**ANNEXURE I**

Information 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, and forming part of Directors' Report for the financial year ended 31<sup>st</sup> March 2006:

**1. Conservation of Energy****A. POWER AND FUEL CONSUMPTION**

		2005-06	2004-05
1. Electricity			
(a) Purchased Units	(kwhr)	1,845,520	1,449,055
Total Amount	(Rs.)	7,928,235	6,141,883
Rate/Unit	(Rs.)	4.30	4.24
(b) Own Generation			
(i) Through Diesel Generator Units	(kwhr)	145,355	324,707
Units per ltr of Diesel	(kwhr)	2.82	3.32
Cost/unit	(Rs.)	12.52	8.67
(ii) Through Steam Turbine/Generator		nil	nil

Note : There is no usage of power generated by coal, furnace oil and other internal generation.

**B. CONSUMPTION PER UNIT OF PRODUCTION**

Standards * (if any)	2005-06**	2004-05**
(i) Electricity		
(ii) Furnace Unit		
(iii) Coal		
(iv) Others		

\* Owing to the range of products manufactured and the ever changing product mix, it has not been possible to establish standards relating to consumption of energy per unit of production;

\*\* For the same reasons and as per the Records and Books maintained by the Company under the Companies Act, 1956, the Company is not in a position to furnish the required information in the prescribed format for the current year and the previous year.

**2. Disclosure of particulars with respect to Technology absorption:**

1. Research and Development (R&D)	
(a) Specific areas in which R&D is carried by the Company	The Company's research activities are focused towards developing new molecules / active pharmaceutical ingredients (APIs) as medicines. Improvements in manufacturing processes; alternative synthetic method development etc., are also included in the research activities.
(b) Benefits derived as a result of the above R&D	New projects have been executed in the R&D resulting in the introduction of products of the type LEVOBUNOLOL (Antiglaucoma), TOLTERODINE TARTRATE (Adult urinary incontinence) and LETROZOLE (Anticancer).
(c) Future plan of action	Keeping pace with the development and the opportunities the R&D team has taken up several projects including a project on NCE. Also, the custom synthesis division will be concentrating on the development of compounds of complex structural features under research projects on behalf of Multinational Corporations.

(d) Expenditure on R&D during the financial year ended 31-03-2006:

	(Rs. in Lakhs)
(i) Capital	76.28
(ii) Recurring	66.94
(iii) Total	143.22
(iv) Total R&D expenditure as a percentage of total turnover	1.87

**3. Technology Absorption, Adaptation and Innovation:**

(i) Efforts in brief made towards technology absorption, adaptation and innovation	Continuous efforts are under way to improve quality and yield and add more products.
(ii) Benefits derived as a result of the above efforts e.g., product improvement, cost reduction, product development, import substitution, etc.,	Cost saving, improvement in yield, product development and increased turnover.
(iii) In case of imported technology (imported during the last 5 years from the financial year under review) following information may be furnished:	
(a) Technology imported	Nil
(b) Year of import	Nil
(c) Has the technology been fully absorbed	Not applicable
(d) If not fully absorbed, areas where this has not taken place, reason therefor and future plan of action	Not applicable

**4. Total Foreign Exchange Earnings and Outgo:**

	2005-06 Rs.	2004-05 Rs.
Total Foreign Exchange Earnings	170,429,804	115,765,539
Total Foreign Exchange Outgo		
(a) Raw Materials	118,360,287	73,989,394
(b) Other Foreign currency payments		
(i) Travelling Expenses	797,198	959,591
(ii) Export Promotion Expenses	1,293,505	1,980,951
(iii) Others - Capital import	2,272,632	13,701,123

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

(1) Name of the Company	Novosynth Research Labs Pvt. Ltd.,
(2) The financial year of the subsidiary company ended	31 <sup>st</sup> March, 2006
(3) Date from which it became subsidiary	10.08.2001
(4) Number of shares held by Bal Pharma Ltd., with its nominees in the subsidiary Company at the end of the financial year of the subsidiary company	Rs. 3,46,000/- (346 shares of Rs. 1000/- each)
(5) Extent of interest of holding company at the end of the financial year of the subsidiary company	100%
(6) Net aggregate amount of the subsidiary company's profits (loss) so far it concerns the members of holding company	
(a) Not dealt within the holding company's accounts	
(i) for the financial year ended 31.03.2006	Nil
(ii) for the previous financial years	Nil
(b) Dealt within the holding company's accounts	
(i) for the financial year ended 31.03.2006	Nil
(ii) for the previous financial years	Nil

**ANNEXURE II**

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

Sl.no.	Name & Designation	Qualification	Age	Gross Remuneration (Rs.)	Date of Commencement	Total Experience	Last Employment
1.	Mr. Shailesh Siroya, Managing Director	M.B.A.	39	30,00,000	01.08.1994	14 years	Business

for and on behalf of the Board of Directors

Bangalore  
30<sup>th</sup> June, 2006

Dr. S. Prasanna  
Director

Shallesh Siroya  
Managing Director



**REPORT ON CORPORATE GOVERNANCE FOR THE FINANCIAL YEAR 2005-06**

**1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE:**

The Company is committed to customer satisfaction and enrichment of shareholders' value and strongly believes that good Corporate Governance and best Corporate Practices are the key tools for increasing the value and wealth of the shareholders.

**2. BOARD OF DIRECTORS:**

The Board comprises of 6 (six) Directors with a Managing Director, a Whole-time Director, 4 (four) non-executive Directors, 50% of the Board comprises of Independent Directors. During the financial year under review, 8 (eight) Board meetings were held on 31.05.2005, 30.06.2005, 30.07.2005, 02.08.2005, 23.09.2005, 29.10.2005, 30.01.2006 and 27.03.2006. Composition of the Board, attendance of the members of the Board at the Board meetings and Annual General Meeting along with their chairmanship / membership on Boards / Committees during the financial year 2005-06 are as given below:

SI No	Name of the Director	Category	Attendance at		Total Number of Directorships in Boards of Public Limited Companies on the date of this report	Total Number of memberships in Committees of Public Limited Companies on the date of this report	
			Board Meetings	Last AGM on 23.09.2005		As Chairman	As Member
1	Mr. Shailesh Siroya	Executive	8	Yes	2	-	3
2	Dr. S. Prasanna	Executive	8	Yes	1	-	-
3	Mr. Shrenik Siroya	Non-executive	7	Yes	1	-	2
4	Dr. G.S.R. Subba Rao	Independent	7	Yes	1	2	1
5	Mr. N.D. Prabhu	Independent	7	Yes	6	5	3
6	Mr. Arun Bhan <sup>1</sup>	Independent	2	Yes	1	nil	nil
7	Dr. C.N. Manjunath <sup>2</sup>	Independent	nil	nil	N.A.	nil	nil

<sup>1</sup> Inducted to the Board on 31-05-2005. <sup>2</sup> Resigned from the Board on 31-05-2005

**3. AUDIT COMMITTEE**

3.1 The Audit Committee consists of the following members:

SI No.	Name of the Member	Category
1	Mr. N.D. Prabhu, Chairman	Independent Director
2	Dr. G.S.R. Subba Rao, Member	Independent Director
3	Mr. Shrenik Siroya, Member	Non-executive Director

3.2 The Audit Committee meetings were held during the year 2005-06 on 30.06.2005, 30.07.2005, 02.08.2005, 29.10.2005 and 30.01.2006 and the attendance of the members are as given below:

SI No.	Name of the Member	Number of meetings attended
1	Mr. N.D. Prabhu, Chairman	5
2	Dr. G.S.R. Subba Rao, Member	5
3	Mr. Shrenik Siroya, Member	5

The terms of reference of the Committee also cover the matters specified under Section 292A of the Companies Act, 1956.

**4. REMUNERATION COMMITTEE AND REMUNERATION TO DIRECTORS:**

4.1 Remuneration Policy: The Managerial Remuneration to Executive Directors of the Company is paid in terms of all applicable provisions / schedules of the Companies Act, 1956, and the rules made thereunder;

4.2 Remuneration Committee was constituted on 26.04.2003 and is presently functioning with the following members:

SI No.	Name of the Member	Category
1	Dr. G.S.R. Subba Rao, Chairman	Independent Director
2	Mr. N.D. Prabhu, Member	Independent Director
3	Mr. Shrenik Siroya, Member	Non-Executive Director