

18th
Annual Report
2005-2006

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GODAVARI DRUGS LIMITED

Regd. Office : May Fair
Sardar Patel Road, Secunderabad - 500 003.

**BOARD OF DIRECTORS :**

SHRI GHANSHYAM JAJU	-	CHAIRMAN
SHRI MUKUND KAKANI	-	MANAGING DIRECTOR
SHRI KIRTI KUMAR JAIN	-	EXECUTIVE DIRECTOR
SHRI PRAKASH CHANDRA SHRIMAL	-	DIRECTOR
DR.C.G.KARANJGAONKAR(UPTO 31-12-05)-		DIRECTOR
SHRI DILIP PATEL (FROM 31-12-05)	-	DIRECTOR
SHRI S.A.HUSSIAN (FROM 31-12-05)	-	DIRECTOR

Bankers

State Bank of Hyderabad
State Bank of Bikaner & Jaipur

Annual General Meeting
Wednesday, 27th September, 2006
at 2:30 p.m.
at J.S. Krishnamurthy Hall
Red Hills, Hyderabad.

Auditors

M/s. S.DAGA & CO.
Hyderabad

Registered Office

"Mayfair"
Sardar Patel Road,
Secunderabad - 500 003. India.
Phones : (040) 27849700, 27819624.
FAX : (040) 27849859
Email : hyd1_godavari@sancharnet.in

Factory

A6/2, M.I.D.C.
Nanded - 431 603
Maharashtra

Registrars

CIL Securities Ltd.
214, Raghavaratna Towers, Chiragallilane
Abids, Hyderabad - 500 001.



GODAVARI DRUGS LIMITED

NOTICE

Notice is hereby given that the Eighteenth Annual General Meeting of Members of Godavari Drugs Limited will be held on Wednesday, 27th September 2006 at 2.30 P.M. at J.S. Krishna Murthy Hall, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad - 500 004 (A.P) to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Profit & Loss Account for the year ended 31st March, 2006, Balance Sheet as on that date, and Reports of Directors' and Auditors' thereon.
2. To appoint a Director in place of Mr. Ghanshyam Jaju who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr. Kirti Kumar Jain who retires by rotation and being eligible offers himself for re-appointment.
4. To consider and if thought fit to pass, with or without modification, the following resolutions as ordinary resolutions:
5. Resolved that Mr. Dilip Patel is hereby appointed as Director of the Company liable to retire by rotation.
6. Resolved that Mr. S A Hussain is hereby appointed as Director of the Company liable to retire by rotation.
7. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.



By order of the Board

Place: SECUNDERABAD
Date: 29th August 2006

MUKUND KAKANI
MANAGING DIRECTOR

NOTES:

1. A member is entitled to attend and vote, is also entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.
2. The instruments of proxy duly stamped and executed should be deposited at the Registered office of the company at least forty-eight hours before the time fixed for commencement of the meeting.
3. The register of members and share transfer books will remain closed from 25th of September 2006 to 27th of September 2006 (both days inclusive).
4. Members are requested to intimate immediately any change in their address to the company.



GODAVARI DRUGS LIMITED

DIRECTORS' REPORT

TO THE SHARE HOLDERS: Your Directors have pleasure in presenting their Eighteenth Annual Report and the Audited Accounts of the Company for the year ended 31st March 2006.

FINANCIAL RESULTS:	(Rs. in Lacs)	
Particulars	2005-06	2004-05
Sales and other Income	333.90	647.81
Extra ordinary Items	377.81	—
Profit before interest and Depreciation	517.82	21.56
Interest	37.17	178.10
Depreciation	83.69	83.43
Profit/(Loss) before tax	396.96	(283.09)
Provision for tax	-	-
Fringe Benefit tax	0.26	-
Deferred tax	(65.85)	22.83
Profit/(Loss) after tax	330.85	(260.26)
Adjustment pertaining to previous year	(1.23)	(1.57)
Net Profit / (Loss)	329.62	(261.83)
Balance brought forward from last year	(1275.23)	(1013.40)
Balance Carried to Balance Sheet	(945.61)	(1275.23)

REVIEW OF OPERATIONS: The Sales during the year was Rs. 261.87 lacs as against Rs. 406.93 lacs in the previous year, which includes contract manufacturing. The drop in turnover was mainly due to very low level of product manufacturing.

YEAR UNDER REVIEW: During the year under review the company suspended production of SMX have taken up contract manufacturing from reputed companies and has started making small quantities of Ethambutol, which the company plans to increase during the present years.

CAPITAL: The authorized capital of the company was increased from Rs. 750,00,000 to Rs. 1000,00,000 during the year.

ISSUE OF SHARES AND WARRANTS ON PREFERENTIAL BASIS: The company has issued preferential allotment of 17.5 Lacs shares @ Rs. 18/ per share and 7.5 Lacs Share warrants to the promoters to be converted in to equity shares in 18 months out of the 7.5 Lacs share warrants 3.75 lacs have been converted during the year in review. The amount raised has been utilized for payments to OTS to Banks Institutions and for the Capital works.

OTS SETTLEMENT: The company after incurring huge losses due to discontinuation of its main products have opted for one time settlement with the leading Institution and Banks. The company was successful in arriving at settlement with institutions and Banks resulting in benefit of Rs. 648.00 Lacs reflected in the financial figures.

FUTURE OUT LOOK: The company proposes to continue undertaking contract manufacturing for reputed company and also develop new products for there own production to steadily by utilize the capacity and improve operations of the unit.

DIRECTORS' RESPONSIBILITY STATEMENT: In pursuance of the provision of Section 217(2AA) of the Companies Act, 1956, the Directors of your company hereby furnish the following responsibility statement with regard to annual accounts, accounting policies, maintenance of adequate accounting records etc. of the company.

- That in preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any, there from;
- That the Directors had selected such accounting policies and

applied them consistently and made judgements and estimates that 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 ended 31st March, 2006.

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 and detecting fraud and other irregularities;

That the Directors had prepared the annual accounts on a going concern basis.

AUDIT REPORT: The observation made by statutory auditors are self explanatory.

INDUSTRIAL SAFETY AND POLLUTION CONTROL: The company continues to follow its policy of maintaining highest standards of safety. Regular plantation of trees taken around the plant ensures friendly environment and reduction in pollution.

INDUSTRIAL RELATIONS: Industrial relation between the management and the employees during the year under review remained cordial. The welfare activities continued as before.

PARTICULARS OF EMPLOYEES: There is no employee drawing remuneration in excess of the limits prescribed under section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

PARTICULARS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO: As required 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 the information is given in the annexures forming part of this Report.

DIRECTORS : Dr. C. G. Karanjaonkar, Director has resigned form the directorship on 31st December 2005 due to personal reasons. The company has accepted and have recorded his valuable guidance rendered during his tenure. Two additional directors were inducted on the board, 1. Mr. Dilip Patel 2. S.A. Hussain effective 31st December 2005. In terms of Article 115 of the Articles of Association of the Company, read with section 260 of the Companies Act, 1956, Mr. Dilip Patel and Mr. S A Hussain hold office up to the ensuing Annual General Meeting. The Company has received notices from members in terms of section 257 of the Companies Act, 1956 signifying their intention to propose the appointment of Mr. Dilip Patel and Mr. S A Hussain as Directors at the forthcoming Annual General Meeting.

AUDITORS: M/s. S. Daga & Company, Chartered Accountants, the present Auditors of the Company retire and being eligible, offer themselves for re-appointment.

ACKNOWLEDGEMENTS: Your Directors convey their deep gratitude to Industrial Development Bank of India, SICOM Ltd, Maharashtra State Finance Corporation, State Bank of Hyderabad, and State Bank of Bikaner & Jaipur for their continuous support and co-operation. Your Directors also acknowledge with deep sense of appreciation, the continued support from Employees, Shareholders/Investors, Customers and Suppliers.

For and on behalf of the Board

Place : Secunderabad
Date: 29.08.2006

GHANSHYAM JAJU
CHAIRMAN



GODAVARI DRUGS LIMITED

ANNEXURE TO DIRECTORS' REPORT: Particulars as required under section 217 (1)(e) of the Companies Act, 1956 read with Companies' (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. Conservation of Energy: The Company continued its efforts to improve energy consumption through planned and close monitoring of manufacturing methods and processes. The details of total energy consumption are set out in Form 'A' enclosed.

B. Technology Absorption: Efforts made in technology absorption are as per Form 'B' enclosed.

C. Foreign Exchange Earnings and Outgo: Nil

Total foreign exchange used and earned:

Used	: Rs.43.52 Lacs
Earned	: Nil

FORM - A

(Form for disclosure of particulars with respect to Conservation of Energy)

Particulars Unit 2005-06 2004-05

A. Power & Fuel Consumption

1. Electricity

a) Purchased

Units	000KWH	1139	1299
Total Amount	Rs. in Lacs	42.54	35.66
Average cost	Rs./KWH	3.73	2.75

b) Own Generation

i. Through Diesel Generator	—	—
ii. Through Steam Turbine Generator	—	—

2. Coal

("C" Grade for Steam Generation)

Quantity	Tons	1594	840
Total Cost	Rs. in Lacs	45.35	17.58
Average cost	Rs./Ton	2845	2094

3. Furnace Oil

(For Steam Generation)

Quantity	K.L	—	—
Total Cost	Rs. in Lacs	—	—
Average cost	Rs./KL	—	—

4. Agro /Ind. Waste

Quantity	Tons	—	Nil
Total Cost	Rs. in Lacs	—	Nil
Average cost	Rs./Ton	—	Nil

5 Others/Internal Generation — —

B. Consumption per unit of production: Since the company manufactures different types of bulk drugs and drug intermediates, it is not practicable to give consumption per unit of production.

FORM - B

Research and development (R & D)

1. Specific areas in which R & D was carried out by the Company: Development of technology for advanced bulk drugs and intermediates

2. Benefits derived as a result of the above R&D : Development of process and identification of new drug intermediates

3. Future plan of action: The company has plans to upgrade process Technology through its own R&D efforts to improve quality and reduce costs.

4. Expenditure on R&D:

a) Capital Rs.:	NIL
b) Recurring:	Rs.371813
c) Total:	Rs.371813
d) Total R&D expenditure as a percentage of total turnovers:	1.42 %

5. Technology absorption, adoption and innovation:

a. Efforts made towards technology : In-house developments towards backward Integration, absorption, adoption, both on technology and engineering fronts, innovation.

b. Benefits derived as a result of in the above efforts : Resulted in reduction of manufacturing costs

c. Particulars of technology imported : NIL during the last five years reckoned from the beginning of the financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

India with a billion populations is second largest pharmaceutical market in terms of volume consumed over the past decade the drug consumption is steadily increasing by more than 15%.

OUTLOOK: According to reliable estimates the market for API's is more than US\$ 14 billion India with its vast population alongwith China jointly account for about 20% of the world generic market and branded active pharmaceuticals ingredients (API's). India API's is expected to grow by 20% per year taking in to account severe competition in the world generic API's business.

OPPORTUNITIES AND THREATS: Since 2005 after the patent regime in place there is encouraging atmosphere for out sourcing by big pharma companies resulting in mutual strategic benefits to Indian pharma companies. The Global pharmaceuticals market consider India increasingly as an important base to source bulk drugs active and intermediate pharmaceutical ingredients since it has advantage of low cost manufacturing infrastructure and equipments facility in the country with proven technological and processes engineering. The company presently is undertaking contract manufacturing from reputed organisation apart from their own products restarted in a small way. The company is sure to increase the productions of the on going products and add some new products in near future, which are under advance stage of developments.

MANAGEMENT OF RISK AND CONCERN: The company has initiated a number of steps to ensure financial discipline. The company was successful in getting favourable one time settlements from Institutions and Banks resulting in benefits by way of concessions. The company proposes to add further clients of repute for contract manufacturing to ensure steady progress and utilization of facilities, which will add to the profitability. With various approvals for its manufacturing facilities its track records of commitment to quality and capability to handle diverse product portfolio the company has an advantage of de-risked business.



CODAVARI DRUGS LIMITED

COMPLIANCE REPORT ON CORPORATE GOVERNANCE (Pursuant to Clause 49 of the Listing Agreement)

1 COMPANY'S PHILOSOPHY : The company's philosophy on Corporate Governance is concerned with how the company is run and the manner in which the Board of Directors discharges its mission and responsibilities to ensure proper management, with accountability in the best interests of shareholders and other stakeholders in addition, the issue of transparency and disclosure of information about the affairs of the company assumes greater importance.

2. BOARD OF DIRECTORS: The Board of Directors comprises of Managing Director, one Executive Director and four Non-Executive Directors. The four Non-Executive Directors includes the Chairman who alongwith the Managing Director and another Non-Executive Director represent promoter group while the other two are independent Directors.

During the financial year 2005-2006 the Board met Nine times on 28th April, 27th July, 30th July, 19th August, 26th September, 4th October, 31st October 2005, 31st December and 30th January, 2006.

The details of attendance of Directors at the Board Meetings and at the last Annual General Meeting with particulars of their Directorship and Committee Memberships are given in the following table.

Name of the Director	Category of Directorship	Board of Meetings Attended	Last AGM	No. of Outside Directorship	No. of other Committee Membership
Shri. Ghanshyam Jaju	NED	9	Yes	1	2
Shri. Mukund Kakani	MD	9	Yes	1	Nil
Shri. Kirti Kumar Jain	ED	9	Yes	Nil	Nil
Shri. P. C. Shrimal	NED	9	Yes	2	2
Dr.C.G. Karanjgaonkar*	NED	3	Yes	1	2
Mr.Dilip Patel*	ID	0	No	3	1
Mr.S A Hussain*	ID	0	No	3	2

* Dr C. G. Karanjgaonkar has resigned from the board with effect from 31st December 2005.

* Mr. Dilip Patel has been appointed as an additional Director with effect from 31st December 2005.

* Mr. S A Hussain has been appointed as an additional Director with effect from 31st December 2005.

Outside Directorships do not include Directorship in private limited companies.

3. AUDIT COMMITTEE: Adhering to the principles envisaged in clause 49 of the listing agreement the audit committee was formed which has met six times on 28th April '05, 30th July, '05, 19th August '05, 26th September '05, 31st October '05 and 30th January '06. The terms of reference of Audit Committee is as contained in the section II of Corporate Governance code as per the Listing Agreement.

The Audit Committee comprises of all the Non- Executive Directors namely Shri. Ghanshyam Jaju, Shri. P. C. Shrimal and Dr.C.G.Karanjgaonkar. Dr C. G. Karanjgaonkar has resigned from the committee with effect from 31st December 2005. The Statutory Auditors is invitee to the meetings.

4. REMUNERATION OF DIRECTORS: The Non-Executive Directors do not receive any remuneration from the company apart from sitting fees for attending the meetings of Board which is decided by Board of Directors. The details of remuneration paid to the Directors during the financial year 2005-06 are given below.

Name of the Director	Salary (In Rs.)
Shri. Mukund Kakani	24,000 P.M.
Shri. Kirti Kumar Jain	15,000 P.M.

The tenure of appointment of each of the above Managing Director and Executive Director is for a Period of 5 years.

Notice period, severance fees and stock options are not applicable.

5.SHAREHOLDERS COMMITTEE: The Board has constituted a Shareholders and Investors Grievance Committee which comprises of Mr. P C Shrimal, Chairman, Mr. Ghanshyam Jaju and Dr.. C. G. Karanjgaonkar as members resigned from the committee with effect from 31st December 2005. During the year, the committee met-six times on 28th April '05, 30th July, '05, 19th August '05, 26th September '05, 31st October '05 and 30th January '06. The committee oversees the performance of the Registrar and Share Transfer Agent and recommends measures for overall improvement in the quality of investor service. Given below and all of them have been resolved to date. There were no share transfers pending for registration for more than 30 days.

The status of shareholder's complaints/request during the financial year 2005 -06 is as under

Sl.No.	Nature of Complaint/request	Received	Cleared
1	Change / Correction of Address	16	16
2.	No. Of transfers	210	210
3.	Others (Loss of shares)	11	11

The Complaints from the shareholders are given top priority and have been attended to on day to day basis.

6. CODE OF CONDUCT: The Company has adopted a Code of Conduct for its employees including the Managing Director and the Executive Directors. In addition the Company has adopted a code of conduct for its Non-Executive Directors and the senior management personnel.

7.GENERAL BODY MEETINGS: The details of last three Annual General / Extra Ordinary General Meetings are as follows:

Year	Location	Date	Time
2005-2006 (E.G.M)	J. S. Krishnamurthy Hall, FAPCCI Premises, Red Hills, Hyderabad	19-8-2005	11.30am
2004-2005	J. S. Krishnamurthy Hall, FAPCCI Premises, Red Hills, Hyderabad	26-09-2005	2.30pm
2003-2004	J. S. Krishnamurthy Hall, FAPCCI Premises, Red Hills, Hyderabad	30-09-2004	2.30pm
2002-2003	J. S. Krishnamurthy Hall, FAPCCI Premises, Red Hills, Hyderabad	27-09-2003	2.30pm

In some of the above AGMs the shareholders passed certain special resolutions as set out in the respective notices.

No special resolutions were passed through postal ballot during the previous year. At the forthcoming AGM there is no item on the agenda that needs approval by means of postal ballot.

8. DISCLOSURES: The Company complied with all the regulations of the Stock Exchanges, Securities and Exchange Board of India and other Statutory bodies regulating the capital markets. No Strichers or penalties were imposed on the company. There are no transactions with related parties having potential conflict with the interest of the company at large. Other transactions are adequately disclosed in the notes to Annual accounts.



GODAVARI DRUGS LIMITED

9. MEANS OF COMMUNICATION: The company shares are listed on Bombay Stock Exchange and financial results on quarterly basis are being submitted to the Stock Exchange and have been published in the news papers. The quarterly financial results of the company are generally published in the following newspapers. **Business Standard (English Daily) Andhra Bhoomi (Telugu Daily)** There has been no display of official news releases and there have been no presentations made to institutional investors or to the analysts.

10. GENERAL SHAREHOLDERS INFORMATION

S.No.	Item	Details
a.	AGM Date	On 27 th September, 2006
	Time	at 2.30 P.M
	Venue	at J. S. Krishnamurthy hall, FAPCCI Premises, Red Hills, Hyderabad. (to be held)
b.	Financial Calendar	First Quarter Results – 31 st July, 2006
	2006-2007 (Tentative)	Second Quarter /Half year Results - End October 2006.
		Third Quarter/Nine Months Results -End January 2007
		Fourth Quarter/Year end Results - End April 2007.
c.	Dates of book closure	25.09.2006 to 27.09.2006 (both days inclusive)
d.	Listing on Stock Exchanges	Bomay Stock Exchange
e.	Stock Code	530317 (BSE)
f.	Demat ISIN No. For NSDL & CDSL	INE362C01012
g.	Market Price Data	Bombay Stock Exchange Ltd.

Months	High (Rs.)	Low (Rs.)
April'05	16.80	13.35
May'05	20.65	14.35
June'05	18.25	15.00
July'05	27.75	16.05
August'05	26.50	23.65
September'05	29.70	21.45
October'05	20.40	14.50
November'05	20.40	15.05
December'05	26.10	17.95
January'06	26.85	22.60
February'06	26.60	22.50
March'06	24.70	18.40

h. Registrars and Transfer Agents: CIL Securities Ltd.
(For both physical and electronic) 214, Raghava Ratna Towers
Abids, Hyderabad-500 001

i. Share transfer system: Share transfers are registered and returned with in a Period of thirty days from the date of receipt, if the documents are in order in all respects.

j. Shareholding Pattern as on 31st March 2006

Category	No. of Shares	Percentage
Promoter	2691200	37.61
Financial Institution and Banks	225000	3.14
Bodies Corporate	274360	3.83
Indian Public	3701036	51.73
NRI's / OCB's	263904	3.69
TOTAL	7155500	100.00

k. Distribution of shareholding as on 31st March 2006

RANGE		No. of	%	Shares	%
From	To	Holders	Held	Held	Holders
1	500	3562	87.82	563151	7.87
501	1000	268	6.61	234660	3.28
1001	2000	72	1.78	113136	1.58
2001	3000	28	0.69	70990	0.99
3001	4000	18	0.44	66608	0.93
4001	5000	20	0.49	95440	1.33
5001	10000	19	0.47	149718	2.09
10001	ABOVE	69	1.70	5861797	81.93
TOTAL		4056	100.00	7155000	100.00

l. Dematerialisation of shares and liquidity: The trading in Company's shares is permitted only in dematerialized form. In order to enable to shareholders to hold their shares in electronic form and to facilitate scrip-less trading, the Company has enlisted its shares with NSDL and CDSL

m. Outstanding ADRs / GDRs: The Company has not issued any GDRs / ADRs / Warrants or any convertible instruments.

n. Plant Location: A-6/2, MIDC, Nanded, - 431 603, Maharashtra.

o. Address for correspondence 1-8-303/34, Mayfair,
Registered office: Sardar Patel Road,
Secunderabad – 500 003,
Phone: 91-40-2784 9700,
Fax: 91-40-2784 9859

E-mail: hyd1_godavari@sancharnet.in

Shareholders holding shares in electronic form should address all their correspondence to their respective depository participants.

DECLARATION OF MANAGING DIRECTOR ON THE COMPANY'S CODE OF CONDUCT

In terms of Clause 49 of the Listing Agreement, I hereby confirm that all the Board members and Senior Management personnel of the Company have affirmed compliance with their respective Codes of Conduct, as applicable to them for the year ended 31st March 2006.

Secunderabad
29-08-2006

Mukund Kakani
Managing Director