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**GRANULES INDIA LIMITED**  
ANNUAL REPORT 2002-03

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## FORWARD-LOOKING STATEMENT

In our report we have disclosed forward-looking information so that investors can comprehend the company's prospects and make informed investment decisions. This annual report and other written and oral statements that we make periodically contains such forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried, wherever possible, to qualify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes' and words and terms of similar substance in connection with any discussion of future operating or financial performance. We do not guarantee that any

forward-looking statement will be realised, although we believe we have been diligent and prudent in our plans and assumptions. The achievement of future results is subject to risks, uncertainties and validity of inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, our actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.



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# CORPORATE

## information

### BOARD OF DIRECTORS

**Dr. C. Nageswara Rao** : Chairman

**Shri L. S. Sarma** : Director

**Shri A. P. Kurian** : Director

**Shri N. R. Ganti** : Director

**Shri C. Krishna Prasad** : Managing Director

**Registered Office** : 8-2-293/A/A/2, Road No.2,  
Banjara Hills, Hyderabad- 500 033

**Auditors** : M/s. V. Amarnath & Associates  
Chartered Accountants  
204, Santhoshima Complex, R.T.C. 'X' Roads,  
Musheerabad, Hyderabad - 500 020

**Bankers** : Andhra Bank  
Punjab National Bank  
State Bank of Indore  
Lord Krishna Bank  
Uco Bank

**Share Transfer Agents** : CIL Securities Limited  
214, Chirag Ali Lane,  
Abids, Hyderabad  
Ph: 55661267, 55661276

**Plant Location** : Plot No.-15/A/1, Phase-III  
I.D.A. Jeedimetla, Hyderabad - 55

Temple Road, Bonthapally  
Medak District, A.P.-502 313

Survey Nos. 160/A, 161/E, 162, 163/A & 17/4  
Gagillapuram, Qutubullapur Mandal  
R. R. District - 500 043

**Compliance Officer** : Shri G. B. Sheshavataram  
General Manager (Finance)

# NOTICE

Notice is hereby given that the Twelfth Annual General Meeting of the Members of Granules India Limited will be held on Thursday, the 25th September, 2003 at 3.00 P.M. at House of Lords, Viceroy Hotel, Tank Bund Road, Hyderabad-500 080, to transact the following business:

## ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2003 and the Profit and Loss Account for the year ended on that date along with schedules and notes appended thereto and the reports of Directors' and Auditors' thereon.
2. To declare dividend on equity shares for the year ended 31st March, 2003.
3. To appoint a Director in place of Dr. C. Nageswara Rao, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint M/s. V. Amarnath & Associates, Chartered Accountants as auditors, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and to fix their remuneration.

## SPECIAL BUSINESS :

5. To consider and if thought fit, to pass with or without modification(s), the following resolution as an ordinary resolution:-

**"RESOLVED THAT** Mr. A. P. Kurian who was appointed as an additional Director of the company with effect from 7th June, 2003 under article 36 of the Articles of Association of the Company and who holds office up to the date of the ensuing Annual General Meeting be and is hereby appointed as a Director of the Company liable to retire by rotation."

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

**"RESOLVED THAT** in accordance with the provisions of Section 198, 309 and 310 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956, or any amendment or modification thereof, consent be and is hereby accorded to the modification in the terms of the remuneration paid/payable to the Managing Director, Shri C. Krishna Prasad effective from 1st April, 2003, as set out in the Explanatory Statement attached to the notice convening this meeting."

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

**"RESOLVED THAT** subject to the provisions of the Companies Act, 1956, (including any statutory modification(s) or re-enactments thereof for the time being in force), Securities Contracts (Regulation) Act, 1956, and the Rules framed there-under, Listing Agreements, Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and all other applicable laws, rules, regulations and guidelines and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any authority while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board", which terms shall be deemed to include any committee thereof for the time being exercising the powers conferred on the Board by resolution), the consent of the Company be and is hereby accorded to the Board to delist the equity shares of the Company from the Stock Exchanges at Chennai and Hyderabad."

**By order of the Board  
For Granules India Limited**

**(C. Krishna Prasad)**  
Managing Director

Place: Hyderabad

Date : 7th June, 2003

**NOTES:**

1. A Member entitled to attend and vote is entitled to appoint Proxy to attend and vote instead of himself and the Proxy need not be the Member of the Company. The Proxies in order to be effective should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, relating to the Special Business to be transacted at the meeting is annexed hereto.
3. Members/proxies are requested to fill the attendance slips duly filled in for attending the meeting and bring their copies of the Annual Report to the meeting.
4. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
5. Members who hold shares in dematerialisation form are requested to write their client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.
6. Members are requested to notify immediately any change in their address to the Share Transfer Agents.
7. Closure of register of Members and Dividend payment:
  - a) The Company has already notified closure of Register of Members and Transfer Books thereof from Monday, 22nd September, 2003 to Thursday, 25th September, 2003 (both days inclusive) for determining the names of Members eligible for dividend, if approved, on equity shares. In respect of shares held in electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
  - b) The dividend on equity shares, as recommended by the Board of Directors, if declared at the Annual General Meeting, will be paid on or after 25th September, 2003.
  - c) Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank printed on reverse of the Dividend Warrant for an initial period of 3 months only. Thereafter, the Dividend Warrant on revalidation is payable only at limited centres/branches. The members are, therefore, advised to encash Dividend Warrants within the initial validity period.
8. Bank Particulars
  - a) *In order to provide protection against fraudulent encashment of the warrant, shareholders holding shares in physical form are requested to intimate the Company under the signature of sole/first joint holder, the following information to be incorporated on the Dividend warrants:*

Particular of Bank account, viz:

    - (a) Name of the Bank
    - (b) Name of the Branch
    - (c) Complete address of the Bank with Pin Code Number
    - (d) Account type, whether Savings (SB) or Current Account (CA)
  - b) Shareholders holding shares in electronic form may kindly note that their Bank Account details as furnished by their depositories to the Company will be printed on their Dividend Warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such shareholders for deletion of / change in such Bank details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. **Shareholders who wish to change such Bank account details are therefore requested to advise their Depository Participants about such change, with complete details of Bank Account.**

9. Non-Resident Indian Shareholders are requested to inform M/s. CIL Securities Limited immediately of:
  - a) the change in the Residential status on return to India for permanent settlement.
  - b) the particulars of the Bank Account maintained in India with complete name, branch, account number and address of the Bank, if not furnished earlier.
10. Corporate Members intending to depute their authorized representatives are requested to send a duly certified copy of the Board resolution authorising their representatives to attend and vote at the Annual General Meeting.
11. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their request in Form 2B (which will be made available on request) to the Registrar and Share Transfer Agent M/s. CIL Securities Limited.
12. M/s. CIL Securities Limited, acts as the Company's Registrar and Share Transfer Agent for both manual and electronic form of shareholding. All communication relating to shares should be addressed directly to them at :

CIL SECURITIES LIMITED  
 214, RAGHAVA RATNA TOWERS,  
 CHIRAG ALI LANE,  
 HYDERABAD-500 001

We have been informed that the Depository Participants are not aware that M/s CIL Securities Limited is the Company's Share Transfer Agents. Members are requested, therefore, to inform their respective Depositories Participants about the details of Company's Share Transfer Agents.

13. Members desiring to seek any information on the annual accounts are requested to write to the Company at an early date to enable compilation of information.

#### 14. Re-appointment of Directors

The information pertaining to the Director who is proposed to be re-appointed at the ensuing Annual General Meeting is furnished below in terms of Clause 49 of the Listing Agreement with the Stock Exchanges:

##### **Dr. C. Nageswara Rao**

Dr. C. Nageswara Rao is one of the promoters of Granules India Limited. By profession he is an M.S. (Surgery and Urology). He is a leading practicing surgeon in Guntur for the last four decades. Besides his own practice he has been a very active member of the medical fraternity and presently he is the Chairman of Andhra Pradesh Medical Council. He was a member of All India Medical Council, Syndicate Member of Nagarjuna University and Director of Hindustan Antibiotic Ltd. He is the Chairman of the Shareholders / Investors Grievance Committee of the Company.

# EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.

In order to broaden the Board Shri A. P. Kurian was inducted as Additional Director on the Board of your Company with effect from 7th June, 2003 and he holds office up to the date of ensuing Annual General Meeting.

Shri A. P. Kurian is a distinguished personality in the financial service industry with over three decades of experience and has held senior positions in the Reserve Bank of India and Unit Trust of India. Presently Shri Kurian is the Executive Chairman of Association of Mutual Funds in India, Chairman of SEBI Certification Committee of Capital Markets Intermediaries, Chairman of Advisory Council of Association of Financial Planners, Chairman of Geojit Securities Limited. Besides these he is a member on the Board of National Stock Exchange of India, Executive Committee of the National Securities Depositories Limited, SEBI Working Group on Dematerialization to name a few. The Board felt that your Company would greatly benefit from the rich experiences of Shri Kurian and recommend his appointment as Director.

Notice under Section 257 of the Companies Act, 1956 with the requisite deposit has been received proposing Shri. A. P. Kurian as a Director of the Company.

None of the Directors of the Company is in any way concerned or interested in this resolution.

The Board of Directors recommends the resolution for Member's approval.

## ITEM NO. 6

The Board of Directors of your Company ("the Board") at its meeting held on 7th June, 2003, on the recommendation of the Remuneration Committee, revised the terms of remuneration paid or payable to the Managing Director of the Company, Shri C. Krishna Prasad in the following manner:

### 1. Salary:

Salary of Rs. 1,25,000 per month.

### 2. Perquisites

In addition to the aforesaid salary, the Managing Director shall be entitled to perquisites as given below:

Perquisites like furnished accommodation or house rent allowance in lieu thereof, together with reimbursement of expenses for gas, electricity, water, reimbursement of medical expenses and leave travel concession for self and his family including dependents, club fees, premiums towards personal accident insurance and mediclaim and all other payments in the nature of perquisites and allowances as agreed by the Board of Directors, from time to time, subject, however, that the aggregate monetary value of the perquisites shall not exceed Rs. 25,000 per month, for the purpose of which limit perquisites shall be evaluated as per Income Tax Rules, wherever applicable and in absence of any such Rule, perquisites shall be evaluated at actual cost.

However, the following shall not be included in the aforesaid perquisites limit.

- The Company's contribution towards pension scheme or superannuation fund together with provident fund not exceeding 25% of the salary wherein contribution towards provident fund shall not exceed 12% of the salary.
- Gratuity payable as per the Rules of the Company and encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites to the extent the same are not taxable under the Income Tax Act.
- Use of company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- Encashment of unavailed leave as per the rules of the Company at the time of retirement/cessation of service.



### 3. Commission

Shri C. Krishna Prasad shall be entitled to such commission which together with the remuneration shall not exceed 5% of the net profits of the Company computed in the manner laid down in Section 309(5) of the Companies Act, 1956.

### 4. Aggregate Remuneration

The aggregate remuneration, commission and perquisites/benefits including contribution towards provident fund, superannuation fund, annuity fund, gratuity fund payable to Managing Director of the Company shall not exceed 5% of profits of the Company calculated in accordance with the provisions of section 198 and 309 of the Companies Act, 1956.

Shri C. Krishna Prasad is interested in the resolution as the same relates to the variation in the remuneration. Shri C. Nageswara Rao being a relative of Shri C. Krishna Prasad is deemed to be interested in the resolution.

The Board of Directors recommends the resolution for Member's approval.

### ITEM NO. 7

Presently the Company's Equity Shares are listed at the following Stock Exchanges:

- i) The Stock Exchange, Mumbai.
- ii) Chennai Stock Exchange Limited.
- iii) The Hyderabad Stock Exchange Limited.

With the extensive networking of the Stock Exchange, Mumbai (BSE), and the extension of the BSE terminals to other cities as well, investors have access to online dealings in the Company's securities across the country. The bulk of the Company's securities are being traded on the BSE terminals with virtually no trading on the Hyderabad and Chennai Stock Exchanges.

The Company's Equity Shares are one of the scrips which the Securities and Exchange Board of India (SEBI) has specified for settlement only in dematerialised form by all investors.

In line with SEBI regulations and guidelines stated above, the required member's approval is being sought by a Special Resolution for enabling the voluntary delisting of its Securities from the said other Stock Exchanges. The delisting of shares from Chennai Stock Exchange Limited, The Hyderabad Stock Exchange Limited as and when the same take place, will not adversely affect the investors. When the delisting takes effect the same will be notified as per the requirements of SEBI.

Your Directors recommend the Special Resolution for approval of members.

None of the Directors of the Company are, in any way, concerned or interested in the resolution.

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

**(C. Krishna Prasad)**

Managing Director

Place: Hyderabad

Date : 7th June, 2003



THERE COMES A TIME IN  
THE LIFE OF AN  
INDIVIDUAL - AND EVEN  
AN ORGANISATION -  
WHEN IT MUST DECIDE  
WHICH FORK IN THE  
ROAD TO PURSUE.  
THE ONE FREQUENTLY  
TAKEN.

OR SIMPLY THE ROAD  
LESS TRAVELLED.

IT IS PRECISELY THIS  
FORK THAT WE  
ADDRESSED DURING  
2002-03.

AND DECIDED THAT IN  
THE INTERESTS OF  
STABILITY, SUCCESS AND  
SUSTAINABILITY, IT  
WOULD BE  
PARTICULARLY  
REWARDING SELECTING  
THE LATTER OPTION.

# CHAIRMAN'S

## strategy audit

*Dear Shareholders*

Permit me to welcome you to the prospects of our reinforced organisation.

The last time you received this report from our company, we were a 5136 mta organisation (3936 mta APIs and 1200 mta PFIs). During the interim, we have seven-folded our installed capacity of the PFIs and increased the capital employed in our business from Rs 39.26 cr (as on 31 March 2002) to Rs 59.25 cr (as on 31 March 2003) through debt and an increased contribution from the promoters.

### THE 2005 OPPORTUNITY

At Granules, we are convinced that the reinforced capacity and the urgency were not only advisable; they were absolutely necessary.

From 2005 onwards, when India begins to respect international patents, pharmaceutical companies will need to discontinue the reverse-engineering of patented products; they will need to invest their businesses with research, state-of-the-art assets and regulatory approvals to either manufacture generics (products gone off patent) through non-infringing routes or create a capability to develop original products.

As an opportunity-focused organisation seeking to create a global presence, Granules has embarked on the latter strategy. It possesses an excellent track record in this respect: it is the only Indian company to have innovated the concept of Pharmaceutical Formulation Intermediates (PFIs), which makes it different from other pharmaceutical companies; it enjoys more than a decade's experience in the manufacture of PFIs, testifying to the success of its business concept; it is the only company in the world to manufacture a number of multi-product PFIs and combination PFIs; its customers comprise some large and visible names in the international pharmaceutical industry; its quality systems and product dependability have been comprehensively established.

### INFLECTION POINT

It would be pertinent to note that there is an evolving industry trend, which makes it relevant for a company like Granules to not just continue its presence in the PFI business, but to significantly increase it.

We like to term this juncture as an inflection point where the fundamentals driving the business begin to show a visible change, creating some remarkable opportunities in the process. For decades, for instance, the value chain in the Indian pharmaceutical industry progressed from intermediates to APIs to granulations to formulations. Over the last couple of years, we are beginning to notice an interesting evolution: there is an increasing segregation of the last two functions for reasons of cost and convenience. As a result, there is a greater role for merchant granulators in low cost geographies with high quality assets and strong regulatory approvals to emerge as dependable back-end suppliers for large multinational formulation companies.

As a value-driven organisation, it was not only important for us to encash this inflection point but deter other intending merchant granulators from doing so as well.

### SCALE

For years, the company was an innovator of the merchant granulation concept. It has now embarked on its most decisive business-enhancing initiative: a seven-fold increase in its installed capacity – from 1200 tpa to 8400 tpa – through the greenfield commissioning of a 7200 tpa plant, the largest multi-product PFI facility in the world.

This operational scale is going to be particularly relevant: at Granules, we see a huge increase in outsourcing from 2005 onwards as large international manufacturers begin to strengthen their business through outsourcing-from-India-driven cost reduction.