



Beating the commodity trap



Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates',

'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or

unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

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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THERE ARE TWO WAYS OF BEING PRESENT IN A COMMODITY BUSINESS.

BY WORKING IN A COMMODITY-LIKE WAY, EXPOSED TO LARGE VOLUMES AT ONE END AND GRADUAL MARGINS EROSION AT THE OTHER.

OR BY GRADUATING TO A NICHE THAT IS RING-FENCED BY SIGNIFICANT COMPETITIVE ADVANTAGES.

AT GRANULES, WE CREATED A BUSINESS MODEL TO BEAT THE COMMODITY TRAP.

THE RESULT IS EVIDENT IN THE NUMBERS: THE GLOBAL ECONOMY DENTED MOST BOTTOMLINES IN FY12, GRANULES' PROFIT AFTER TAX PROFIT INCREASED 43%.

THE SLOWDOWN AFFECTED MARGINS; GRANULES' PBT MARGIN EXPANDED 94 BPS TO 6.6%.

Granules India Limited.

Manufacturing APIs, PFIs and Finished Dosages.

Among the leading GLOBAL manufacturers of high volume drugs.

Grew at 38% while expanding margins.

And now positioned to accelerate growth even further.

Turnover
(₹ crore)
654
FY12

Capital employed
(₹ crore)
460
FY12

Team size
(members)
840
FY12

Global footprint
(nations)
61
FY12

Enterprise value
(₹ crore)
346
FY12

Incorporated in 1984, Hyderabad-based Granules India Limited is a large-scale pharmaceutical manufacturer for quality-conscious customers.

The Company developed global alliances on the back of strong technological expertise, state-of-the-art manufacturing facilities, high product quality and regulatory compliances.

The Company's integrated model makes it possible to provide products

across the pharmaceutical manufacturing value chain, enhancing competitiveness and efficiency.

The Company services the growing needs of more than 300 customers across 60 nations.

The Company is headquartered in

Hyderabad with sales offices in the U.S., the U.K., Colombia and China.

The Company entered into a (50:50) joint venture with Ajinomoto OmniChem, a leading producer of fine chemicals, to offer high-value APIs and intermediates to innovator companies.

Manufacturing Facilities

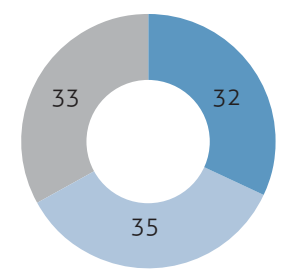
Product category	Facility location	Product	Capacity (MTPA)	Approvals
Active Pharmaceutical Ingredients (APIs)	Bonthapally	Paracetamol	10,000	U.S FDA, EDQM, Infarmed (EU), WHO GMP
	Jeedimetla	Metformin	2,000	U.S. FDA, EDQM, KFDA, HHA (Germany), WHO GMP
		Guaifenesin	1,200	
		Methocarbamol	180	
Pharmaceutical Formulation Intermediates (PFIs)	Jingmen, Hubei	Ibuprofen	4,800	U.S. FDA, MHRA, EDQM, TPD - Canada, MCC, Russian Health Authorities
	Gagillapur	Multiple-PFIs	16,800	U.S. FDA, TGA, Infarmed (EU), WHO GMP
	Jeedimetla	Multiple-PFIs	1,200	HHA (Germany)
Finished Dosages (FDs)	Gagillapur	Tablets, Capsules	18 billion units	U.S. FDA, TGA, Infarmed (EU), WHO GMP

Product Basket

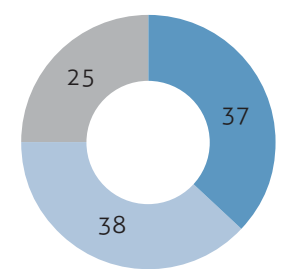
APIs	PFIs		FDs	
	Single active	Multiple active	Single active	Multiple active
Paracetamol	Paracetamol	Paracetamol & Chlorpheniramine Maleate	Paracetamol	Ibuprofen & Methocarbamol
Ibuprofen	Ibuprofen	Paracetamol & Diphenhydramine HCl	Ibuprofen	Ibuprofen & Pseudoephedrine HCl
Metformin HCl	Metformin HCl	Paracetamol, Chlorpheniramine Maleate & Phenylephrine	Metformin HCl	Ibuprofen, Pseudoephedrine HCl & Chlorpheniramine Maleate
Guaifenesin	Guaifenesin	Guaifenesin & Ephedrine HCl	Guaifenesin	Paracetamol & Diphenhydramine HCl
Methocarbamol	Methocarbamol	Ibuprofen & Pseudoephedrine HCl	Naproxen Sodium	Paracetamol & Methocarbamol
	Naproxen	Trimethoprim & Sulphamethoxazole	Diphenhydramine	Paracetamol, Phenylephrine HCl & Chlorpheniramine Maleate
	Naproxen Sodium	Paracetamol, Phenylephrine HCl & Dextromethorphan HBr		Paracetamol & Phenylephrine HCl
	Ciprofloxacin HCl			
	Gemfibrozil			
	Analgin			

The 2011-12 Performance CARD

Revenue basket (FY12) in %

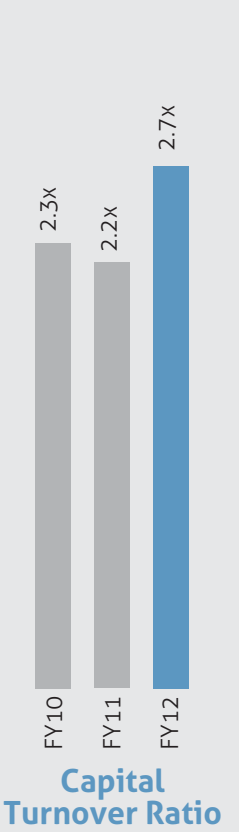
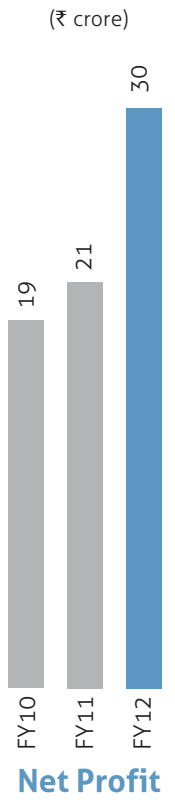
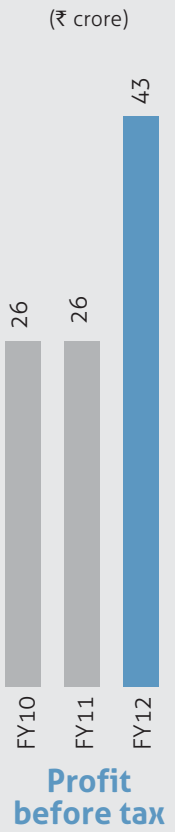
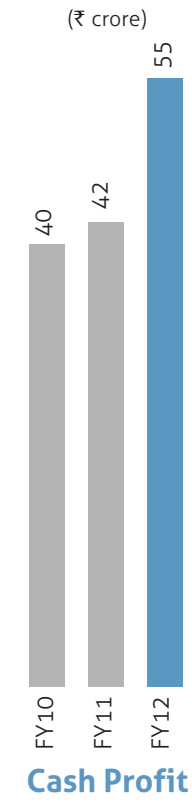
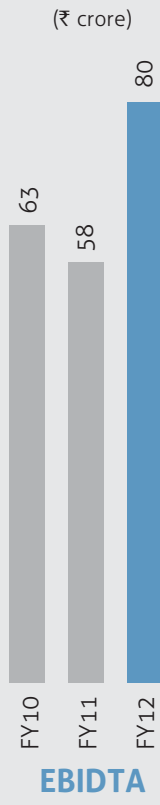


Revenue basket (FY11) in %



■ APIs ■ PFI ■ FD

38% Revenue growth over 2010-11	40% EBIDTA growth over 2010-11	29% Cash profit growth over 2010-11
61% Profit before tax growth over 2010-11	43% Net profit over 2010-11	12% Book value growth over 2010-11



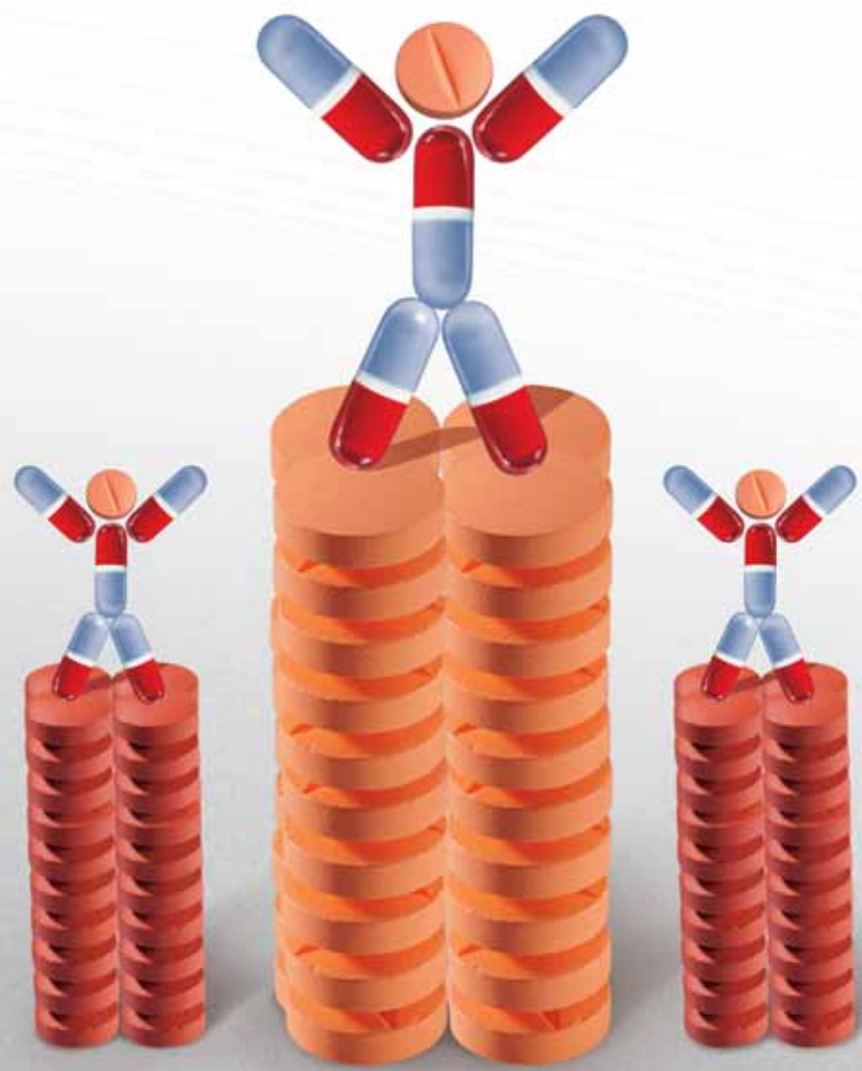
FY10 PBT and Net Profit are according to a recently implemented accounting policy

A number of analysts and shareholders hold a mistaken and discounted view of the Granules business model.

In the following section, we explain how our business model is prudently placed to enhance value over **the foreseeable future.**

MISCONCEPTION

“THIS IS A COMMODITY
SEGMENT OF THE GLOBAL
PHARMACEUTICAL INDUSTRY.”



Most people make the mistake of assuming that Granules is present in the commodity segment of a global pharmaceutical industry marked by low entry barriers.

A more accurate description is that we have progressively graduated to an uncommoditised niche within the commodity segment of the global pharmaceutical industry, adequately ring-fenced from rising competition.

Over the years, we moved to this select end through the following initiatives:

■ We bridged the gap between APIs and Finished Dosages by pioneering the concept of commercialising PFIs. Our primary PFI facility, with its industry-leading 6 tonne batch size, is the largest in the world.

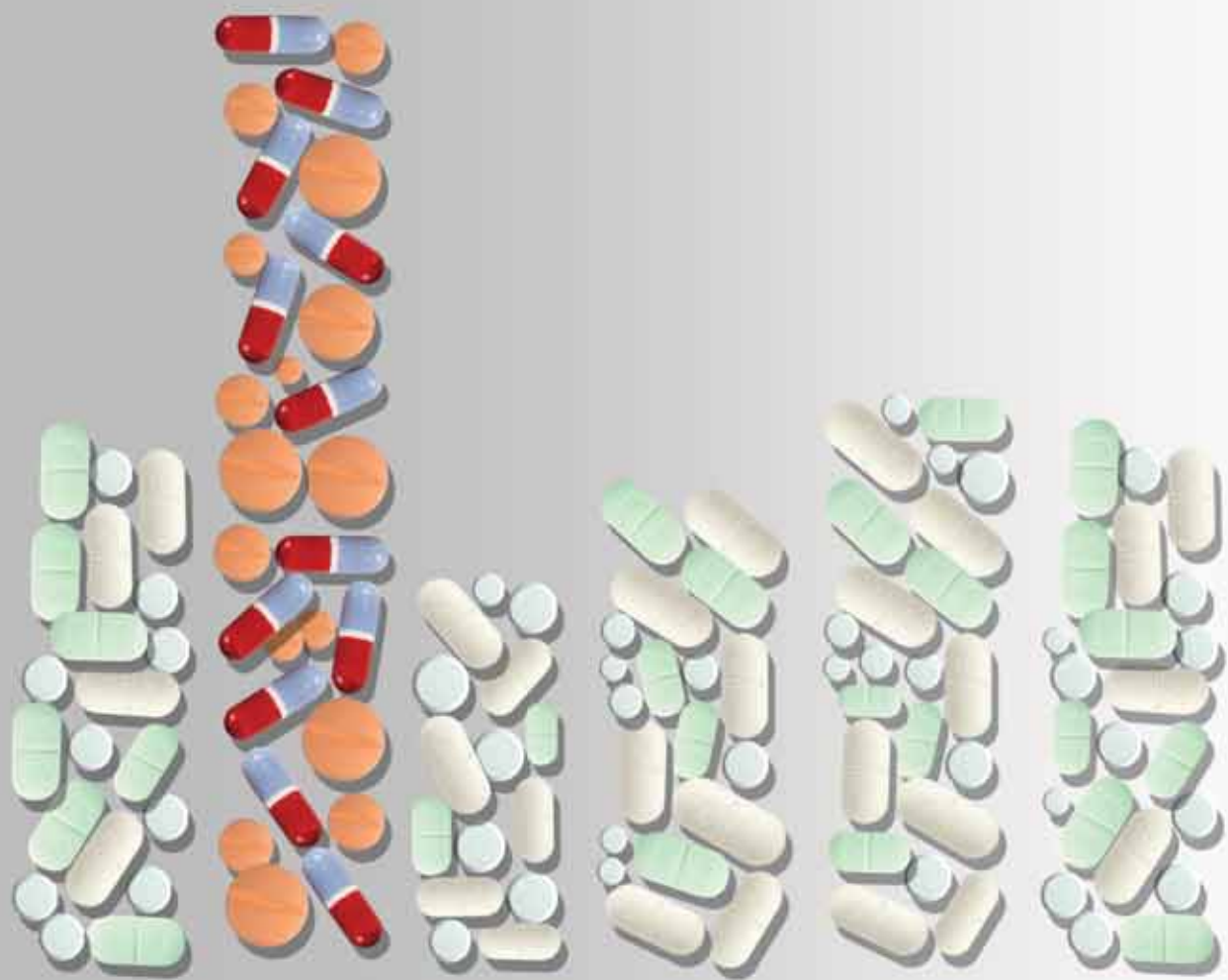
■ We cover all three aspects of the pharmaceutical manufacturing value chain including APIs, PFIs and FDs. Our Finished Dosage facility is among the world’s largest single-site capacity facilities, while our API facilities are among the premier facilities for quality-conscious customers. Our integrated model enables us to offer compelling value to customers.

■ We ensured that our plants were cleared by some of the world’s most demanding regulatory agencies including the U.S. FDA, MHRA, EDQM, Infarmed (EU) and TGA.

The result: The Indian pharmaceutical industry grew at a CAGR of 14% in the five years leading to FY12; our revenues grew at a 28% CAGR during the period. This outperformance was more evident during FY12. The Indian pharmaceutical industry grew 16% while our sales grew 38%.

MISCONCEPTION

“In Granules’ Business Space, All Competition Is Price-Based.”



Most people make the mistake of assuming that Granules is present in a completely price-sensitive segment of the global pharmaceutical industry where any company that quotes a lower price can walk away with business.

The truth is that Granules selected to specialise in a competence-intensive pocket of the global pharmaceutical industry where holistic capability counts above everything else.

Over the years, we deepened this capability through the following initiatives:

■ We addressed the needs of marquee clients, who are brand owners and generics leaders, who seek the best overall price-value proposition as opposed to those only seeking the lowest cost. Marquee customers seek excellent customer service, robust QC support and dependable deliveries.

■ We selected to grow our presence in regulated markets, which prioritise quality; revenues from regulated markets increased from 40% of sales in FY08 to 68% in FY12.

■ We are among the few global companies that can offer APIs, PFIs and Finished Dosages; our offerings provide customers with flexibility that lets them become more efficient with their own resources.

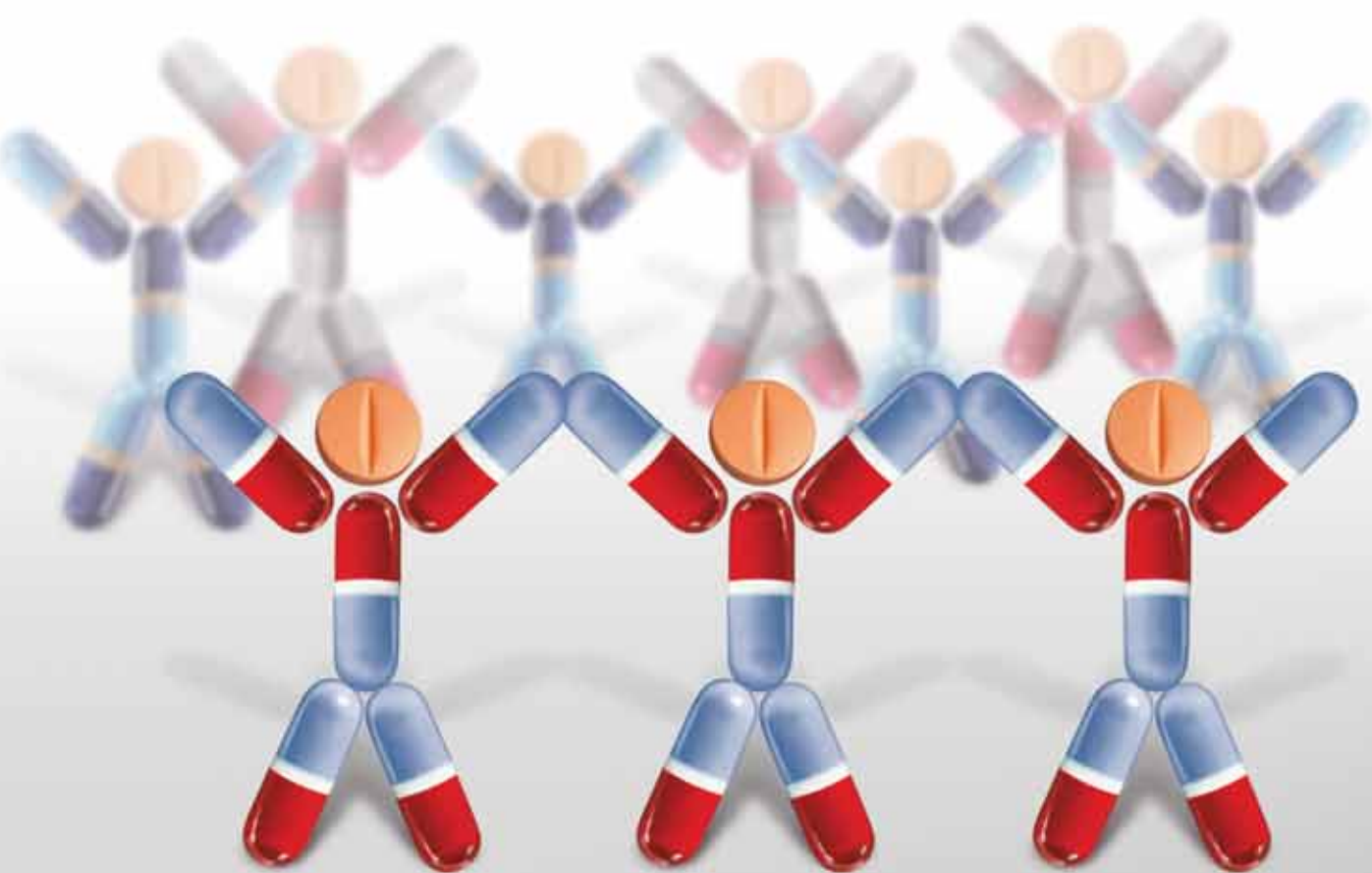
■ We have ANDAs and dossiers which enable customers to access regulated markets with cost-competitive products.

■ We are among select companies globally who can manufacture sophisticated rapid release formulations based on capsule-based tablets.

The result: Revenue from marquee customers increased from 18% in FY10 to 50% in FY12. Longstanding customer relationships of five years or more accounted for 50% of our revenues in FY12. Additionally, we increased business share from these customers by 91% during this short period, indicating strengthening customer traction.

MISCONCEPTION

“Granules is STUCK in a LOW margin, HIGH VOLUME GROOVE.”



Most people make the mistake of assuming that Granules manufactures low margin, high volume products.

A more faithful interpretation is that Granules focuses relentlessly on improving manufacturing efficiencies, leading to some of the highest margins in the products we compete in.

Over the years, we strengthened our ability to enhance margins and revenues through the following initiatives:

- We are among a few companies to have invested in significant scale across the value chain, improving our operating efficiency – API capacities increased 18% over the past three years, PFI capacity is set to increase 2x in FY13 and Finished Dosage capacity is projected to grow 3x in FY13
- We progressively evolved our product mix from APIs to PFIs and FDs; our formulation sales contributed to 68% of our standalone revenue in FY12. Every year, we use more of our APIs for captive consumption to

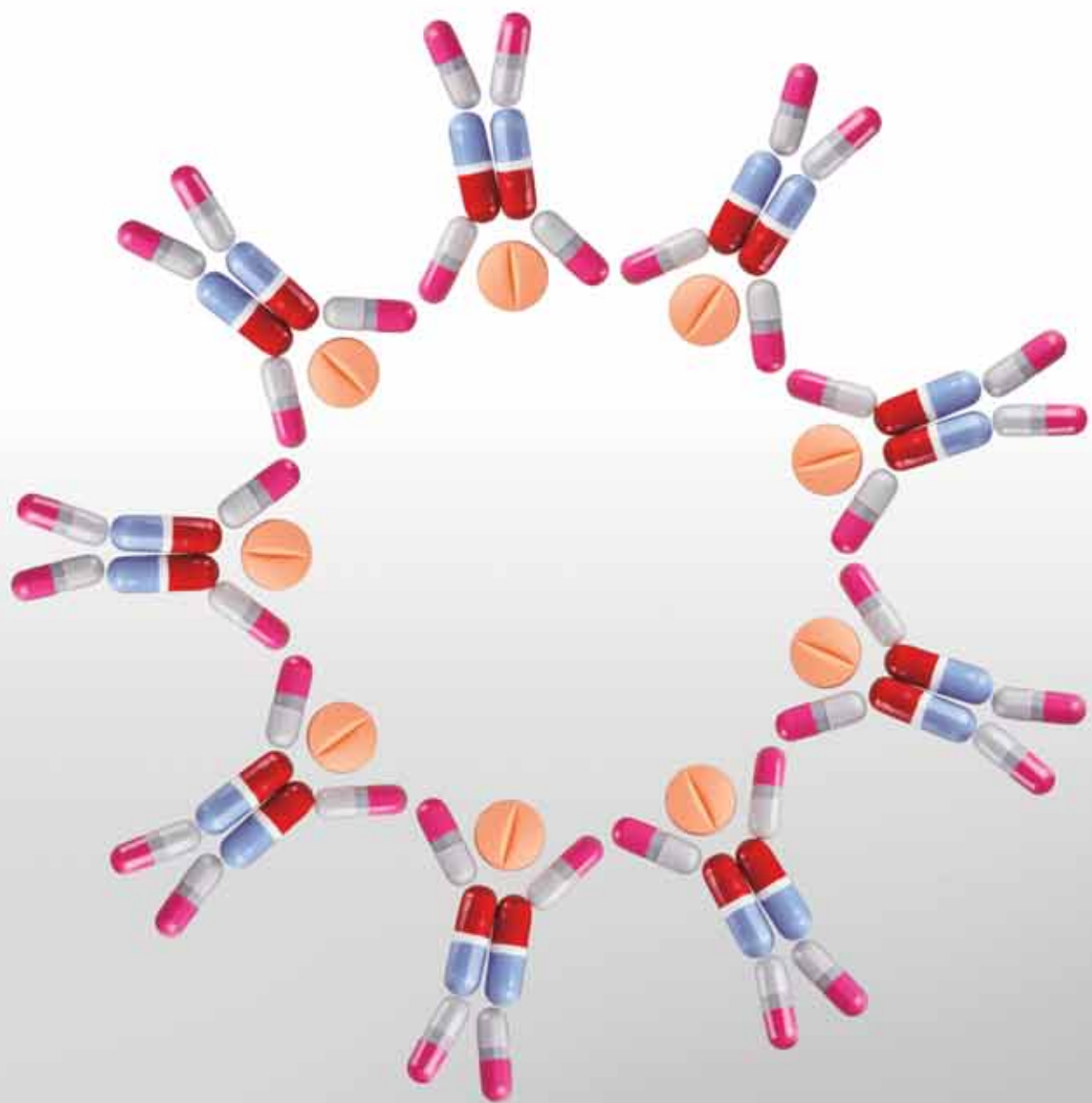
manufacture PFIs and FDs. While we offer all three components of the value chain, an increasing number of our customers are being converted from the purchase of APIs to lucrative formulations.

- We altered our sales mix towards value-added products in the pharma value chain – from a 100% API business in 1994, the sales mix altered to 40:60 between APIs and PFIs in FY08, improving to 32%:35%:33% between APIs, PFIs and FDs in FY12. Our Finished Dosage business, which started in FY09 with ₹9 Cr. in sales, has grown to ₹185 Cr. in just four years.
- We evolved from Paracetamol-dominated revenues, which was nearly 70% in FY08, to less than 50% in FY12. We diversified our sales by increasing Metformin, Ibuprofen and Guaifenesin sales. These products are higher-value products that offer stronger margins.

The result: Due to our focus on diversifying products and increasing capacity utilisation, EBITDA margins are increasing. Within the last financial year, we strengthened EBITDA margins from 10.4% in the first quarter to 14.1% in the fourth.

MISCONCEPTION

“Granules will find it increasingly difficult to counter inflation in a business where costs are rising all the time.”



Most people make the error of assuming that rising costs will eat into Granules’ competitiveness.

A more accurate description is that we mitigated the impact of rising raw material costs through an effective leverage of knowledge and by working closely with our partners.

Over the years, we strengthened our competitiveness through the following initiatives:

- We have an operational excellence (OE) team, which was recognised by The Economic Times in partnership with Frost & Sullivan, that inspects every stage of our manufacturing processes to find efficiencies. In the past year, we implemented several projects that increased API capacities with minimal capital expenditure – Paracetamol increased from 800 TPM to 1,000 TPM

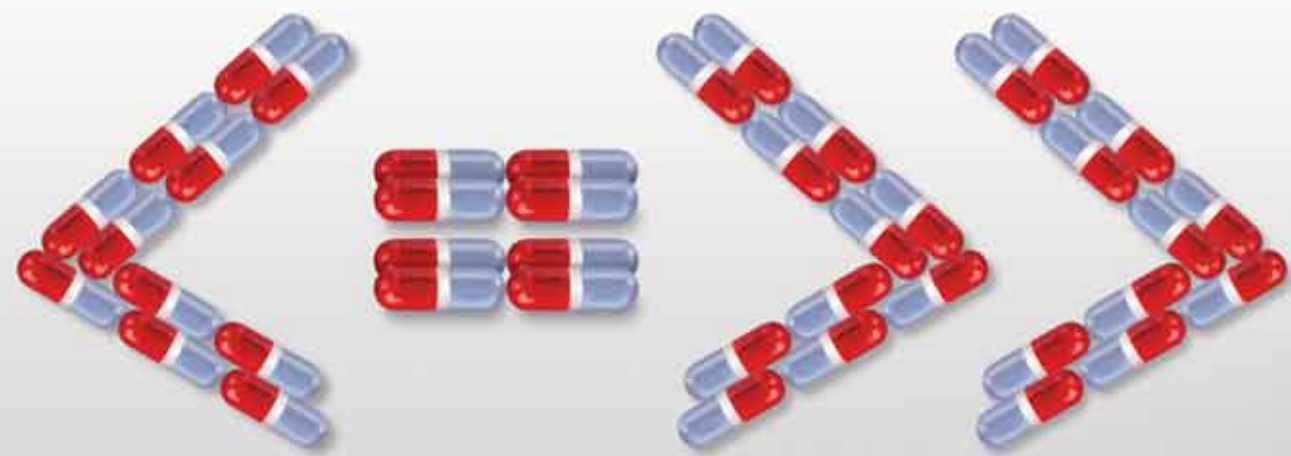
within six months, Metformin from 100 TPM to 150 TPM and Guaifenesin from 60 TPM to 100 TPM. The increase in capacity rationalised the cost of production with overheads distributed across a wider base.

- We entered into formula-based pricing contracts for many customers. These contracts allow us to pass increased raw material costs to customers while passing on savings when prices fall.
- We strengthened PFI capacities through process modifications – certain Ibuprofen-based PFIs improved from 6 TPD to 9 TPD while particular Paracetamol PFIs increased from one batch to two batches per hour while another niche PFI improved from 6 TPD to 10 TPD.

The result: Every rupee invested in the Company’s gross block translated into ₹1.84 of revenue in FY12 compared with ₹1.47 in FY11, an increase of 26%.

MISCONCEPTION

“Granules WILL FIND IT DIFFICULT TO INCREASE REVENUES.”



Most people make the mistake of assuming that pharmaceutical companies such as Granules will grow modestly.

A more accurate assessment is that Granules outperformed the Indian pharmaceutical sector by 100% over the past five years and is poised to increased its revenue growth while expanding margins.

Over the several years, we worked towards creating a foundation for significant growth through the following initiatives:

- We invested in more than doubling our PFI capacity from 8,400 TPA to 18,000 TPA

and tripling our FD capacity to 18 bn units per year effective from the second quarter of FY13. A majority of the new capacity is already pre-sold.

- We invested in new assets with higher throughput per hour without proportionately increasing our space or people investments. We undertook these expansions in existing facilities that do not need additional regulatory clearances, making it possible for the expansions to generate revenues from day one.

The result: A mix of accruals and debt will drive our significant revenue growth across the foreseeable future.