



Granules India Limited



...And
we have
only just
BEGUN

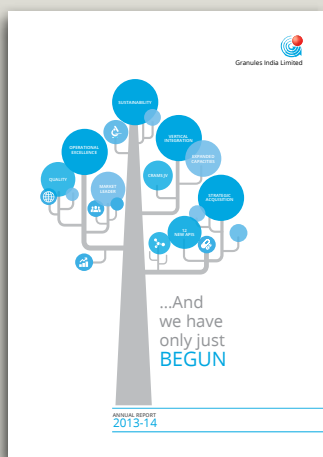
ANNUAL REPORT
2013-14

Forward-looking statement

In this Annual Report, we have disclosed forward looking information to enable investors to comprehend our prospects and take 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 'anticipate', 'estimate', '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 realised, although we believe we have been prudent in our assumptions. The achievements of results are 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 keep this in mind. We undertake no obligation to publicly update any forward looking statement, whether as a result of new information, future events or otherwise.

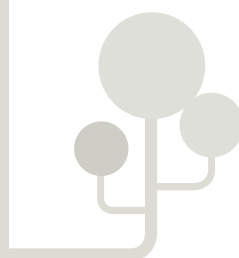
At Granules, our emphasis on vertical integration and process innovation has translated into unparalleled efficiencies that has made us a market leader in the products that we manufacture.

Granules is the preferred supplier for leading brand owners and generics leaders due to our commitment of cost-effective, quality-conscious manufacturing. Market leaders choose to partner with us because we are among the few companies in the world with integrated pharmaceutical manufacturing value chain from APIs to PFIs to Finished Dosages. We have a sustainable competitive advantage due to our expertise in large-scale manufacturing through our dedicated API facilities and our industry leading 6-ton PFI batch size.



For additional information please visit

www.granulesindia.com



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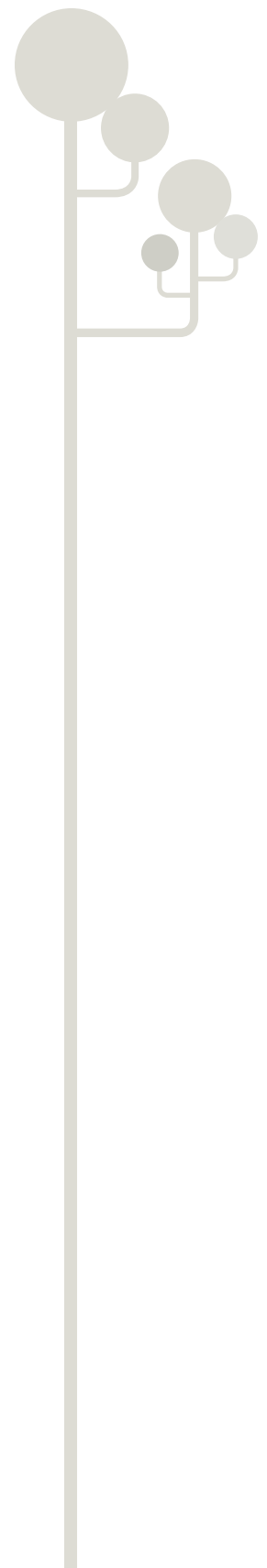
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We are one of the global leaders of vertically-integrated, large-scale pharmaceutical manufacturing.

At Granules, our emphasis on vertical integration and process innovation has translated into unparalleled efficiencies that has made us a market leader in the products that we manufacture.

Granules is the preferred supplier for leading brand owners and generics leaders due to our commitment of cost-effective, quality-conscious manufacturing.

Market leaders choose to partner us because we are among the few companies in the world with an integrated pharmaceutical manufacturing value chain from APIs to PFIs to Finished Dosages. Our expertise in large-scale manufacturing is demonstrated through our dedicated API facilities and industry leading 6-ton PFI batch size which gives us a sustainable competitive advantage.

Our robust foundation is based on our focus on operational excellence. Going forward, we will leverage our strength by forward integrating into several drugs as well as commercialising our CRAMs JV. Our future roadmap will further develop our lasting relationships and will continue to drive value for our shareholders.

KEY NUMBERS, FY14

₹1,096 Cr.

Sales up by 43% over FY13

₹347 Cr.

Finished Dosage revenue, increase of 63% over FY13

₹163 Cr.

EBITDA up by 87% over FY13

₹75 Cr.

Profit after Tax up by 131% over FY13

22.6%

ROCE up by 724 basis points over FY13

REVENUE BY GEOGRAPHY



MOLECULES AS A % OF SALES

PARACETAMOL

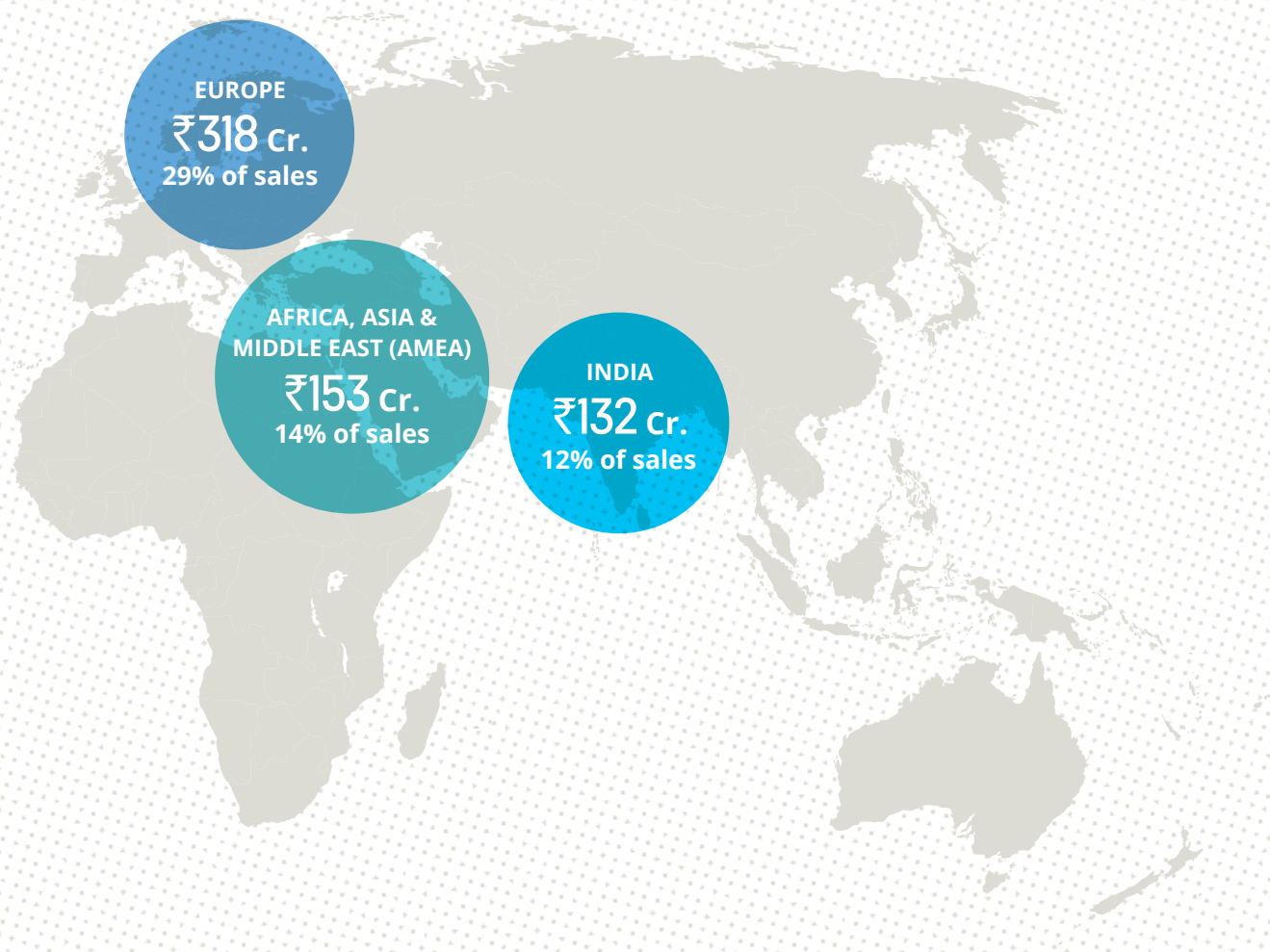
METFORMIN

FY14:
Share of
revenue: 42%

FY14:
Share of
revenue: 24%

FY11:
Share of
revenue: 53%

FY11:
Share of
revenue: 10%



IBUPROFEN

FY14:
Share of
revenue: 22%

FY11:
Share of
revenue: 23%

GUAIFENESIN

FY14:
Share of
revenue: 6%

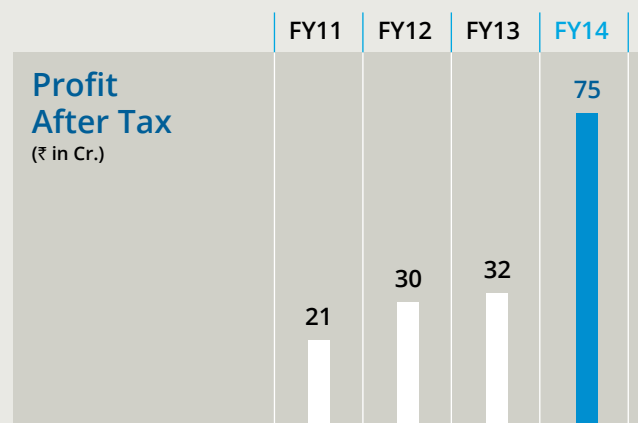
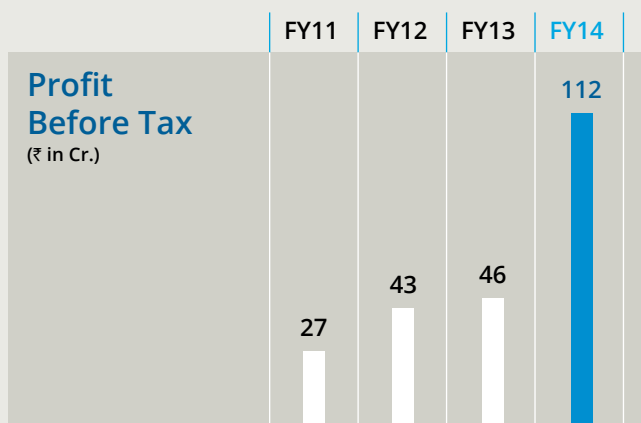
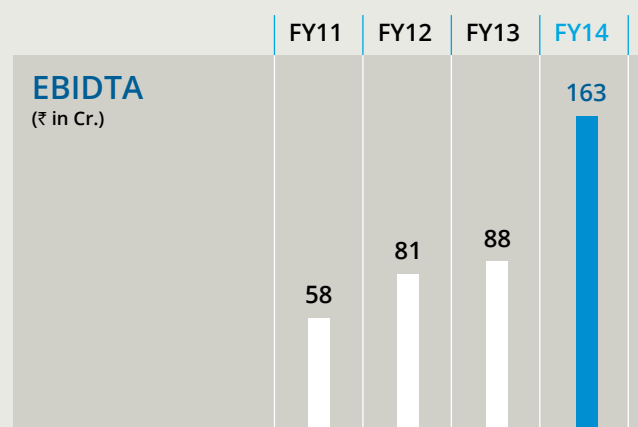
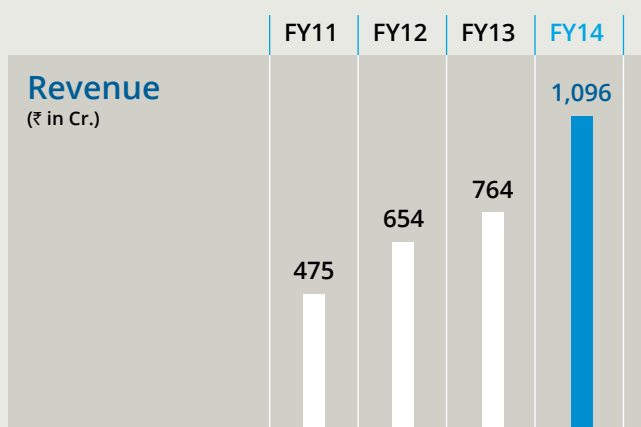
FY11:
Share of
revenue: 4%

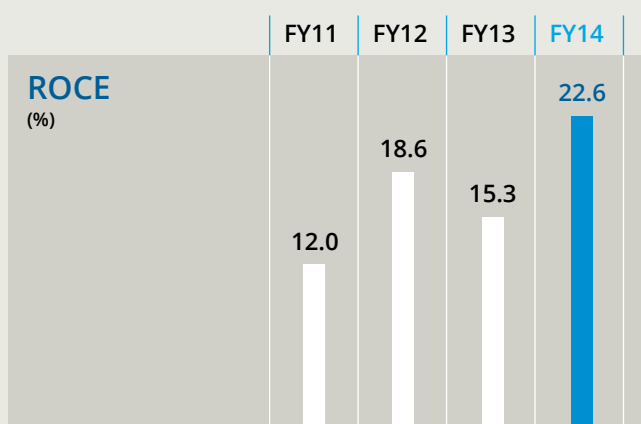
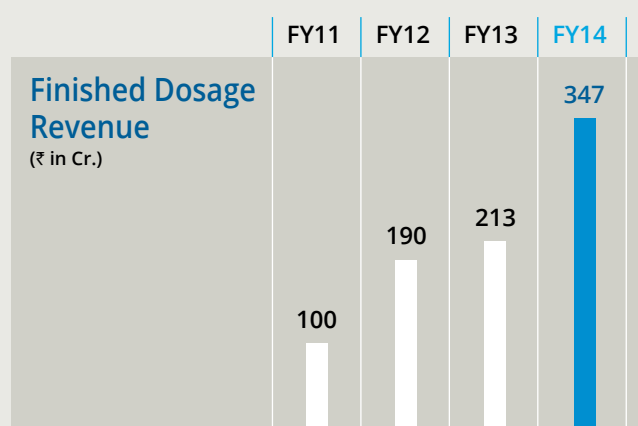
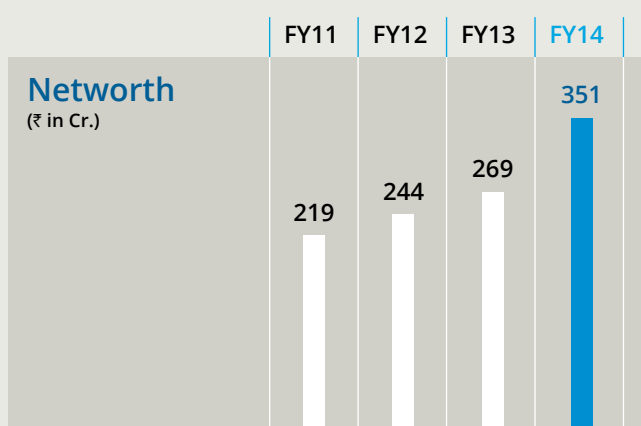
OTHERS

FY14:
Share of
revenue: 6%

FY11:
Share of
revenue: 11%

The journey reflected in numbers





Letter from the Managing Director

In FY14, we grew 43% to ₹1,096 Cr. on a consolidated basis which made us the third fastest growing public pharmaceutical company in India.



C. Krishna Prasad, Managing Director

Dear Shareholders

Our performance in FY14 reaffirmed the business model we laid out nearly ten years ago. At that time, we decided to become the market leader for our products by focusing on improving manufacturing efficiencies across the value chain from APIs through PFIs to Finished Dosages.

Since we focused on operational excellence and process innovation, we have been able to systematically increase capacities at our API facilities without incurring any material capital expenditures. For example, our Paracetamol facility has increased production from 600 tons per month to 1,200 tons while our Metformin facility has improved from 80 tons per month to 165 tons. We have leveraged these efficiencies by using our industry leading 6-ton PFI batch size which enables our finished dosage compression machines to run more efficiently than our competitors. Given that our focus on manufacturing efficiencies cascades through our vertically-integrated facilities, we are able to offer a compelling value proposition which is why brand owners and generics leaders work with us.

While our focus on manufacturing efficiencies is not common in the pharmaceutical industry, our performance speaks for itself. Although our products are growing in the mid-single digits, sales have grown at a compounded five year rate of 24% while net profit has increased at a compounded rate of 68% in the same time frame.

In FY14, we grew 43% to ₹1,096 Cr. on a consolidated basis which made us the third fastest growing public pharmaceutical company in India. Growth was primarily driven by increased capacity utilization at our formulation facility. We

are particularly pleased to see our finished dosage business grow due to robust growth from our ANDAs. Due to strong performance from all our facilities, our profit margin improved. EBITDA grew 344 basis points to 14.8% which helped improve our ROCE to 23%.

More importantly, we have a sustainable competitive advantage and believe that the margins for our existing products have scope for improvement. There are still tremendous opportunities for our products and we remain committed to strengthening our leadership position.

While we have built a strong base for our existing products, we are investing for the future in order to sustain our growth. In FY14, we made our first strategic acquisition by purchasing Auctus Pharma. We are excited about this acquisition because Auctus provides compelling opportunities that can take our Company to the next level. Auctus gives us access to 12 lucrative APIs in a facility that has regulatory approval from leading agencies including the U.S. FDA.

We believe we can leverage our core competency of efficiently manufacturing high-volume products and maximize value at Auctus. While the Auctus APIs offer strong growth in the short-to-midterm, the full value of Auctus will come into fruition when we get approval from the ANDAs we file from select Auctus APIs. We enhanced our R&D capabilities including setting up a dedicated team to file ANDAs and lowering the cost of production through process innovation for the Auctus APIs. Going forward, we will further expand the product basket at the Auctus facility.

While FY14 validated our strategy, we feel our journey has only just begun. We used to be synonymous with Paracetamol API but we have successfully transformed into a vertically-integrated market leader for five molecules. We improved our sales mix by growing finished dosages from ₹37 Cr. in FY10, the first full year of operations to ₹347 Cr. in FY14. In addition, we have diversified our product mix and in FY14, nearly 60% of our sales came from molecules such as Metformin, Ibuprofen and Guaifenesin. While Paracetamol sales will continue to grow on an absolute basis, we expect to see other molecules including those from Auctus, contribute to more of our overall sales mix.

Our core strength of efficient manufacturing is not easily replicable which is why we have been able to create margins in what are viewed as commodity products. We will build on our success by leveraging our technical knowledge and customer relationships as we introduce a broader API basket.

We believe we will be recognized as one of India's premier pharmaceutical companies as the industry begins to recognize the importance of manufacturing efficiencies and process innovation.

Sincerely

Sd/-

C. Krishna Prasad

Managing Director

More importantly, we have a sustainable competitive advantage and believe that the margins for our existing products have scope for improvement. There are still tremendous opportunities for our products and we remain committed to strengthening our leadership position.

We are focusing our energies on things that matter most to our customers, investors and the wider fraternity of stakeholders.

