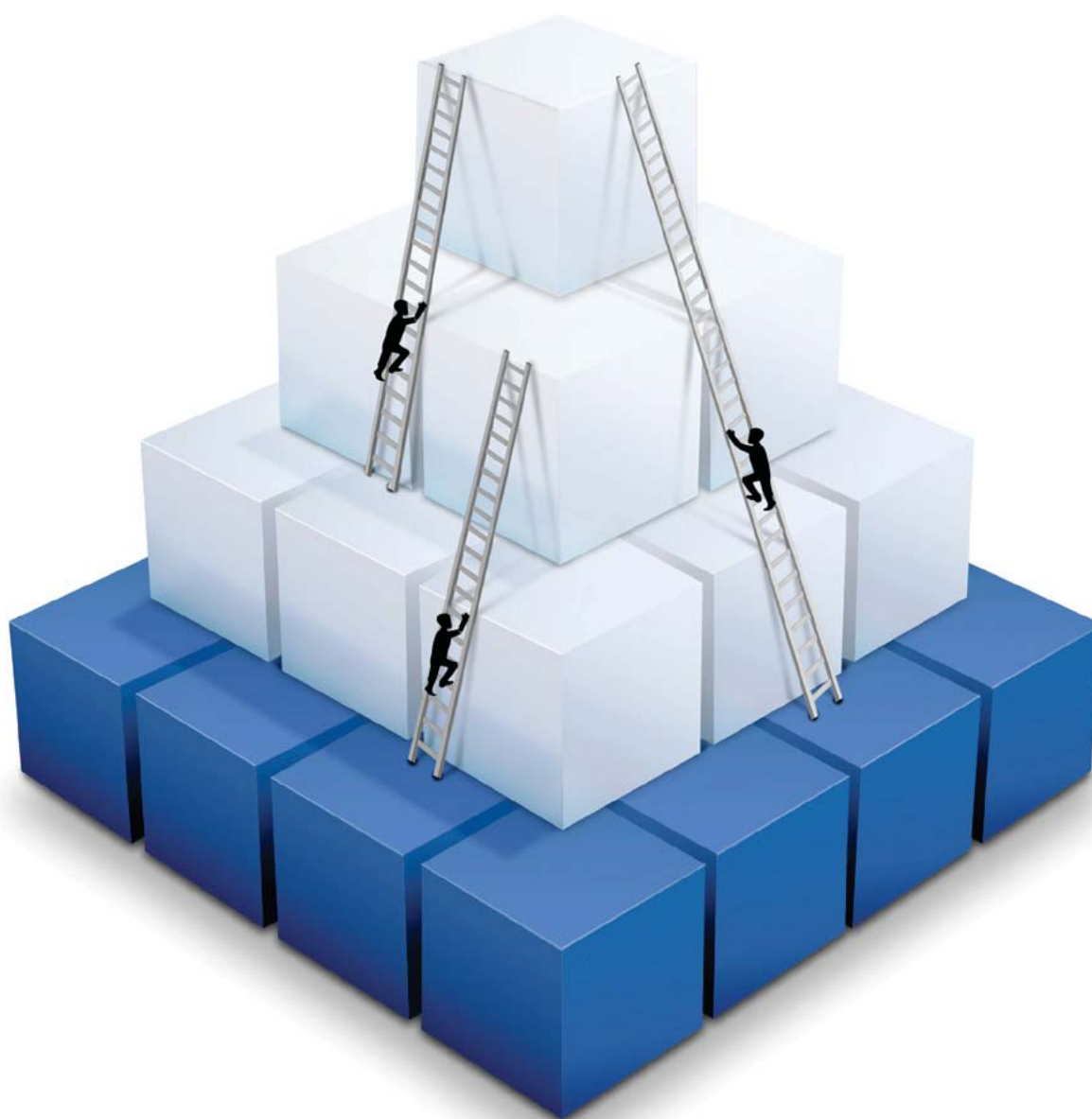




Granules India Limited

Propelling growth while strengthening our core

Annual Report 2015-16



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 realized, although we believe we have been prudent in 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 statements, whether as a result of new information, future events or otherwise.



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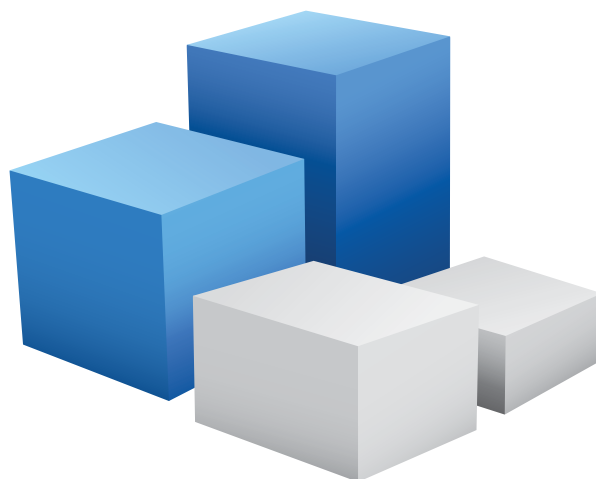


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The growth mindset comes from a willingness to go beyond the prescribed norms and scale higher grounds, along with the capability to keep innovating and expanding strategically. As a Company with inherent strength in vertical integration, our growth strategies have always been Core business centric. We understand the importance of solidifying our key strengths and focus in areas on gaining stronger foothold across a bigger and diverse market. Along with unwavering focus into our Core business, we have also ventured into newer avenues as auxiliary engines for the organizational future growth. In the year 2015-16, we marched along with the strategy of expanding our New business and also having our CRAMS business commercialised. This has helped us create additional platforms to widen our reach and add value to all the stakeholders.

WE BELIEVE THIS WILL ENABLE US TO PROPEL TOWARDS GROWTH WITH OUR STRONG FUNDAMENTALS IN PLACE.



GROWTH - IT'S IN OUR DNA

Today, we stand at an important juncture, with the belief that the next-level of growth for us will be achieved in the coming years.

We shall continue to strengthen leadership in our existing markets for our core business products. Having built our organisation at the backdrop of strong operational efficiency, we shall further leverage it backed by our R&D skill sets. We are swiftly advancing towards new product launches across business divisions, with strategies to gain significant foothold both in OTC and Rx products.



>> GROWING IS ONE PART OF THE SUCCESS STORY, WHILE SUSTAINING THE GROWTH LEVEL IS ANOTHER. >>

At Granules, we have achieved the unique feat of growth and sustenance. While mature and experienced, we continue to be as enthusiastic & competitive as a start-up. Over the years, we have endeavoured to build a stronger pharmaceutical company by focusing on scale, quality, cost-efficiencies and stronger customer-relationships. We continue to invest our resources in new business opportunities. With our increased focus on R&D and product diversification, our business is moving towards achieving next-level growth.

Mr. Krishna Prasad Chigurupati
Chairman & Managing Director

>> WE ARE COMMITTED TO REVITALISING OUR GROWTH ENGINE. >>

We are committed to expand the competitiveness of our existing products with technological improvements, while staying focused to create new products. With multi-disciplinary scientific pool and talented team members, we are committed to revitalising our growth engine aligning to our business strategies and vision.

Dr. V.V.N.K.V. Prasada Raju
President - R&D and Corporate Strategy

>> AT GRANULES OUR FOCUS HAS BEEN ON ENSURING MANUFACTURING EXCELLENCE AND OPERATIONAL EFFICIENCY. >>

We continue to strengthen our focus on introduction of new technologies, people training and regulatory compliances which will ensure sustainable growth of the organisation. Quality has been among our core focus area, and we continue to strengthen it, with modern technology and regular quality checks. We stand committed to deliver safer and quality products to our core business.

Mr. B. Madhusudan Rao
Chief Operating Officer

>> OUR PEOPLE ARE OUR PARTNERS IN PROGRESS, A CRUCIAL FACILITATOR IN DRIVING THE ORGANISATION GROWTH MOMENTUM. >>

We encourage all members of our teams to think innovative and embrace challenges. Our constant focus is not just to build huge talent pool and leadership pipeline to meet the growing need, but also to provide a platform to people to learn and grow both laterally and vertically. We work with an endeavour to deliver superior result without compromising on honesty, integrity and sincerity.

Mr. P.S.N. Murthy
Senior Vice President - Human Resources

>> IN THE LAST FIVE YEARS, OUR TOPLINE HAS GROWN AT 25% CAGR WHILE OUR PROFITABILITY GREW AT 41% CAGR. >>

We constantly strive to achieve growth, encompassing all our stakeholders. We have adapted and evolved to the rapidly changing external environment, making the right moves, which helps us strengthen our foundation for future growth. Our present financial position compliments our future plans and brings stability and confidence while we explore newer areas of growth.

Mr. V.V.S. Murthy
Chief Financial Officer

>> ENHANCED PRODUCTION CAPACITY AND PRODUCT PORTFOLIO RESULTING IN DEEPER CUSTOMER CONFIDENCE WILL DRIVE THE GROWTH FOR US. >>

Over the years we have established ourselves as a reliable source for global pharmaceutical companies. We are confident of achieving greater scales of success by achieving larger market share from our existing customers, adding new customers, introducing new products in our target markets. In addition to this, our renewed focus on OTC products and introduction of complex Rx product will further cement our leadership position.

Mr. Stefan Lohle Corredor
Chief Marketing Officer

GRANULES INDIA LIMITED - KNOW MORE ABOUT US

We are among the few vertically integrated pharmaceutical companies in the world with a strong presence across the entire pharmaceutical manufacturing value chain - from Active Pharmaceutical Ingredients (APIs), Pharmaceutical Formulation Intermediaries (PFIs) to Finished Dosages (FDs).



Over the years we have been serving quality conscious customers across regulated and semi-regulated markets, exporting to 75+ countries. Staying true to our competitiveness, our products are endorsed by leading generic and branded pharmaceutical companies.

Headquartered in Hyderabad, we have eight manufacturing facilities spread over India, China and the USA.

Manufacturing facilities

API	PFI	FD
Bonthapally, Telangana	Gagillapur, Telangana	Gagillapur, Telangana
Jeedimetla, Telangana	Jeedimetla, Telangana	Virginia, USA
Jingmen, China (Biocause JV)		
Visakhapatnam, Andhra Pradesh		
Visakhapatnam SEZ (Omnichem JV - CRAMs), Andhra Pradesh		
Bonthapally, Telangana (API Intermediaries)		

Consolidated revenue by molecules



>> MESSAGE FROM THE CHAIRMAN &
MANAGING DIRECTOR >>

DEAR SHAREHOLDERS,

The Financial Year 2015-16 was an exceptional year for Granules India as we took several strides to enable us to grow in newer avenues, while strengthening our core. In the past three decades, we had built a strong foundation and now we are steadily progressing towards achieving greater scales of success based on our core competencies.

Growth continues to be our driving force as we march ahead with our values and guiding principles. We are pleased with our numbers, where we registered a gentle 11% topline growth over the previous year. Our consolidated revenues stood at ₹14,312 million in FY16, against ₹12,937 million in FY15. We have once again demonstrated excellence in our operational efficiencies by exhibiting an EBITDA growth by 34% to ₹ 2,844 million as against ₹ 2,130 million in the previous year. Our PAT grew by 30% to ₹1185 million against ₹909 million in FY15. Vertical integration in the entire value chain has enabled us to improve on a continuous basis on various parameters. Our shift in product mix also complements our endeavor to continue to expand on our margin profiles. Our EBITDA margin improved by 3.4% and PAT margin improved by 1.3% compared to previous financial year. In terms of geographic concentration, regulated markets of the U.S., Canada and Europe put together, contributed 60% of the sales in the financial year 2016. Our core five molecules put together have contributed around 87% of the sales. Going ahead, we will continue to reinforce our energy on making ourselves more robust by enhancing our capacities, improving our efficiencies, adding new products, moving up the value chain and most importantly, offering better services to our customers.

The business model of Granules is evolving to be future ready. Today, the business is bucketed into three areas. First and foremost is our integrated 'Core Business' model, which has created a leadership position for the Company with regards to the sales of several off-patent volume-based drugs. We have a strong presence in 'first line of defense' products such as Paracetamol, Ibuprofen and Metformin. To supplement the Core Business on a long term basis,

we have also ventured into manufacturing and marketing of private label OTC products to the retail chains in the US market. Secondly, we are ramping up our 'New Business' in line with our strategic intent of enhancing the product portfolio. We have acquired Auctus Pharma, which has given us access to the multi-product manufacturing facility in Vizag. We have set up a dedicated API R&D center in Hyderabad to focus on the development of complex products with limited competitors. We also bought the Virginia facility in the US to focus on formulation R&D. Third, we entered into the 'CRAMS Business', with an equal joint venture with Ajinomoto OmniChem - our partner, with nearly 40 years of experience in CRAMS. We began the commercial production from September 2015.

With this in hindsight, let me now share some of the key business highlights during the last financial year. To de-bottleneck capacity constraint at API level, we have increased the Paracetamol capacity at our Bonthapally plant by 3,000 metric tons per annum. We have also started working towards enhancing our Metformin and Guaifenesin API capacity by 7,000 tons per annum and 2,000 tons per annum to further solidify our global position in these molecules. On the PFI front, we added 4,000 tons capacity last year and with this new addition our total capacity is now 18,400 tons per annum. Presently, we have sufficient capacity in FDs.

In the month of September 2015, the US FDA had approved Ibuprofen ANDA filed by us for 400 mg, 600 mg and 800 mg tablets. This has further strengthened our Core Business and enabled us to increase our product offerings to our customers in the United States. We have started sales of this product and expect the sales to ramp up steadily in future.

We are reinforcing our R&D backbone through prudent investments with an objective to ensure sustainable pipeline of value accretive future opportunities. Our research and development initiatives are strongly determined by market demand and driven by technological

progress. Our R&D team comprising 150 people, continuously focuses on supporting the growth strategy of the organization by introducing new generic products with high value and complexity, striving for constant process improvement and attaining manufacturing cost competence for existing as well as new molecules.

The renovation of our Virginia facility is complete and R&D work has already begun. Presently, this facility is focusing on formulation development. We expect to begin the filing of ANDAs from this facility from the financial year 2016-17.

In conclusion, I would like to reiterate that our team has always played a crucial role in our success over the years. We possess a talented workforce, our partners in progress, and empowering them while creating space for amicable work culture nurtures their true potential. We continue to strengthen our talent base and encourage them to think innovative and embrace challenges to grow both laterally and vertically. Our leadership team has been an important catalyst in this journey and has helped us align the goals of our employees with those of the organization.

Looking into the future, we expect to overcome the short-term challenges and deliver long-term sustainable growth. I would like to thank all the stakeholders for their continued support to the Company and for helping us perform year after year. I also thank every member of the Granules family and believe that an exciting and successful future lies ahead of us.

Regards

Krishna Prasad Chigurupati
Chairman & Managing Director

REVENUE
14,312
₹ in million
in FY 16

EBIDTA
2,844
₹ in million
in FY 16

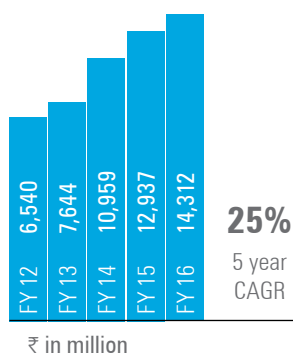
PAT
1,185
₹ in million
in FY 16

OUR FINANCIAL KEY PERFORMANCE INDICATORS



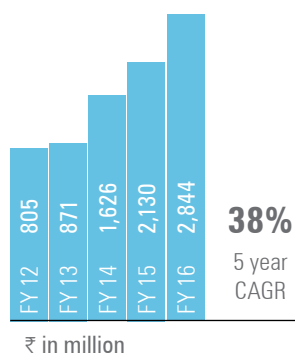
Revenue

Description: Revenue includes total income from various business operations covering both domestic and international sales. Revenue is a key measure of how we have delivered on our strategies to grow business.



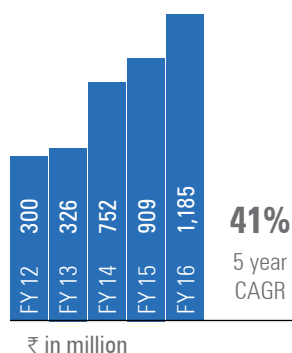
EBIDTA

Description: EBITDA is a measure of the profit generated by the business, excluding interest, depreciation, amortisation and tax. EBITDA is a key measure of profitability.



Profit after tax

Description: Profit after tax is an important financial matrix as it tells the investors the true profitability earned by company, post the taxes paid to the exchequer.



Earnings per share

Description: EPS is the profit after tax for the year, divided by the weighted average number of ordinary shares. Basic EPS provides a measure of shareholder return that is comparable over time.

