

Draft Red Herring Prospectus

Dated [•], 2006

Please read Section 60B of the Companies Act, 1956

(The Draft Red Herring Prospectus will be updated and become Red Herring Prospectus upon RoC filing)

100% Book Building Issue

SMS PHARMACEUTICALS LIMITED

(Our Company was incorporated as S.M.S. Pharmaceuticals Private Limited, on December 14, 1987 under the Companies Act, 1956. Subsequently our company became a public limited Company and the name was changed to S.M.S. Pharmaceuticals Limited on November 2, 1994. Subsequently on April 12, 2004 our Company was renamed as SMS Pharmaceuticals Limited.)

Registered Office: 417, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad – 500 038 Andhra Pradesh, India.

(Registered office of our Company was shifted from Flat No. 4, Plot No. 24, Gayatri Nagar, Srinivasa Colony, Hyderabad to 7-1-616/T31, Rahmat Commercial Complex, Ameerpet, Hyderabad on October 16, 1989 and to MIG 33, APIIC Colony, Jeedimetla, Hyderabad on November 2, 1990 and to 7-1-77/E/1/303, Divi Towers, Dharam Karan Road, Ameerpet, Hyderabad on January 1, 1993 and to 115/2RT, S. R. Nagar, Hyderabad on November 1, 1993 and to our present address on January 1, 1998)

Tel: +91 – 40 – 2374 6059 / 6469/ 8154, **Fax:** +91 – 40 – 6636 4417 / 2373 2709 • **Website:** www.smspharma.com **Email:** ipo@smspharma.com

Contact Person: Mr. Y. Nagarjuna Rao, Assistant General Manager, HR & Legal, Compliance Officer

ISSUE OF 2,977,000 EQUITY SHARES OF RS. 10/- EACH FOR CASH AT A PRICE OF RS. [•] PER EQUITY SHARE (INCLUDING SHARE PREMIUM OF RS. [•] PER SHARE) AGGREGATING RS. [•] MILLION BY SMS PHARMACEUTICALS LIMITED (“SMS” OR “THE COMPANY” OR “THE ISSUER”). THE ISSUE COMPRISES OF “NET ISSUE TO THE PUBLIC” OF 2,977,000 EQUITY SHARES AGGREGATING RS. [•] MILLION. THE NET ISSUE TO THE PUBLIC WOULD CONSTITUTE 29.77% OF THE FULLY DILUTED POST ISSUE PAID UP CAPITAL OF THE COMPANY.

Price Band: Rs. [•] To Rs. [•] Per Equity Share of Face Value of Rs. 10 Each

The Issue Price is [•] times of the Face Value at the Lower End of the Price Band and [•] times of the Face Value at the Higher End of the Price Band

In case of revision in the Price Band, the Bidding Period shall be extended for three additional working days after such revision, subject to the Bidding Period not exceeding 10 working days. Any revision in the Price Band, and the revised Bidding Period, if applicable, shall be widely disseminated by notification to the Bombay Stock Exchange Limited (“BSE”) and The National Stock Exchange of India Limited (“NSE”), whose online IPO system will be available for bidding, by issuing a press release and by indicating the change on the website of the Book Running Lead Manager (“BRLM”) and the terminals of the members of the Syndicate.

This Issue is being made through a 100% Book Building Process wherein up to 50% of the Net Issue to the Public will be allocated to Qualified Institutional Buyers (QIBs) on a proportionate basis, subject to valid bids being received at or above the Issue Price. Out of the portion available for allocation to the QIBs, 5% will be available for allocation to Mutual Funds. Mutual Fund applicants shall also be eligible for proportionate allocation under the balance available for the QIBs. Further, not less than 15% of the Net Issue shall be available for allocation on a proportionate basis to Non Institutional Bidders and not less than 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price.

RISKS IN RELATION TO THE FIRST ISSUE

This being the first issue of the Equity Shares of SMS Pharmaceuticals Limited (the “Company”), there has been no formal market for the Equity Shares of the Company. **The face value of shares is Rs.10/- and the Issue Price of Rs. [•] per share is [•] times of the Face Value at the lower end of the Price Band and [•] times of the Face Value at the higher end of the Price Band.** The Issue Price (as determined and justified by the Book Running Lead Manager in consultation with the Company as stated herein under the paragraph titled “Basis for Issue Price” on Page [•] of this Draft Red Herring Prospectus on the basis of the assessment of market demand for the Equity Shares issued by way of Book Building) should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active and/or sustained trading in the Equity Shares of our Company or regarding the price at which the Equity Shares will be traded after listing.

GENERAL RISK

Investments in equity and equity related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Issuer and the Issue including the risk involved. The Equity Shares issued in the Issue have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does the SEBI guarantee the accuracy or adequacy of this document. Specific attention of the investors is invited to the statement of Risk Factors beginning on Page [•] of this Draft Red Herring Prospectus.

ISSUER’S ABSOLUTE RESPONSIBILITY

SMS Pharmaceuticals Limited, having made all reasonable enquiries, accepts responsibility for, and confirms that this Draft Red Herring Prospectus contains all information with regard to the Company and the Issue, which is material in the context of the Issue; that the information contained in this Draft Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect; that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

OUR COMPANY HAS NOT OPTED FOR IPO GRADING

LISTING

The Equity Shares issued through this Draft Red Herring Prospectus are proposed to be listed on Bombay Stock Exchange Limited (“BSE”) (the Designated Stock Exchange) and The National Stock Exchange of India Limited (“NSE”), Mumbai. The in-principle approval for listing from these stock exchanges have been received vide letters dated [•] and [•] respectively.

BOOK RUNNING LEAD MANAGER



UTI Securities Limited

(Subsidiary of Securities Trading Corporation of India Limited)

AMBI Reg No: AMBI / 083

1st Floor, Dheeraj Arma, Anant Kanekar Marg, Station Road, Bandra (East), Mumbai – 400 051.

Tel: +91 - 22 - 67515828/826 • Fax: +91 - 22 - 67023194

Website: www.utisel.com

Email: smsipo@utisel.com

Contact Person: Mr. Sumeet Lath/Ms. Neetu Ranka

REGISTRAR TO THE ISSUE



Aarthi Consultants Private Limited

SEBI Regn. No. INR 00000003791-2-285,

Domalguda Hyderabad – 500 029

Tel: +91 – 40 - 2763811/4445

Fax: +91 – 40 - 27632184

Website: www.aarthiconsultants.com

E-mail: smspharma@aarthiconsultants.com

Contact Person: C Bhaskar

ISSUE PROGRAMME

BID / ISSUE OPENS ON: [•]

BID / ISSUE CLOSES ON: [•]

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SECTION I - DEFINITIONS AND ABBREVIATIONS

DEFINITIONS

Term	Description
“The Issuer” or “The Company” or “Our Company” or “SMS” or “SMS Pharmaceuticals Limited”	SMS Pharmaceuticals Limited, a public limited company incorporated under the Companies Act, 1956
“We” or “us” or “our”	Unless otherwise specified, these references mean SMS Pharmaceuticals Limited

ISSUE RELATED TERMS

Term	Description
Allotment	Issue of Equity Shares pursuant to the Issue to the successful bidders as the context requires
Allottee	The successful bidder to whom the Equity Shares are being/have been issued
Banker(s) to this Issue/Escrow collection bank	[•]
Bid	An indication to make an offer made during the Bidding Period by a prospective investor to subscribe to the Equity Shares of our Company at a price within the Price Band, including all revisions and modifications thereto
Bid Amount/Bid Price	The amount equal to highest value of the optional Bids indicated in the Bid cum Application Form and payable by the Bidder on submission of the Bid for this Issue
Bid/ Issue Opening Date	The date on which the members of the Syndicate shall start accepting Bids for this Issue, which shall be notified in widely circulated English national newspaper, a Hindi national newspaper and a Telugu regional newspaper in the same place where the registered office of our Company is situated
Bid/ Issue Closing Date	The date after which the members of the Syndicate will not accept any Bids for this Issue, which shall be notified in widely circulated English national newspaper, a Hindi national newspaper and a Telugu regional newspaper in the same place where the registered office of our Company is situated
Bid-cum-Application Form	The form in terms of which the Bidder shall make an offer to purchase the Equity Shares of our Company and which will be considered as the application for allotment of the Equity Shares in terms of this Draft Red Herring Prospectus
Bidder	Any prospective investor who makes a Bid pursuant to the terms of this Draft Red Herring Prospectus
Bidding/ Issue Period	The period between the Bid/Issue Opening Date and the Bid/Issue Closing Date inclusive of both days and during which prospective Bidders can submit their Bids
Book Building Process	Guidelines on book building as explained under Chapter XI of the SEBI Guidelines
BRLM	Book Running Lead Manager to this Issue, in this case being UTI Securities Limited



Term	Description
CAN/ Confirmation of Allocation Note	The note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares in the Book Building Process
Cap Price	The highest end of the Price Band, above which the Issue Price will not be finalized and above which no Bids will be accepted
Cut-off/ Cut-off price	This refers to any price within the price band. A bid submitted at cut-off is a valid bid at all price levels within the price band
Designated Stock Exchange	Bombay Stock Exchange Limited
Designated Date	The date on which the funds are transferred from the Escrow Account of our Company to the Public Issue Account after the Prospectus is filed with the RoC, following which the Board of Directors shall allot Equity Shares to successful bidders
Escrow Account	Account opened with the Escrow Collection Bank(s) and in whose favor the Bidder will issue cheques or drafts in respect of the Bid Amount
Escrow Agreement	Agreement entered into amongst our Company , the Registrar to this Issue, the Escrow Collection Bank(s), and the BRLM for collection of the Bid amounts and refunds (if any) of the amounts collected, to the Bidders
First Bidder	The Bidder whose name appears first in the Bid cum Application Form or Revision Form
Floor Price	The lowest end of the Price Band, below which the Issue Price will not be finalized and below which no Bids will be accepted
Issue/Public Issue/IPO/Offer	Issue of 2,977,000 equity shares of Rs. 10/- each for cash at a price of Rs. [•] per Equity Share aggregating Rs. [•] million by SMS Pharmaceuticals Limited ("SMS" or "our Company " or "the issuer"). The issue comprises "Net Issue to Public" of 2,977,000 Equity Shares aggregating Rs. [•] million. The Issue would constitute 29.77% of the fully diluted Post Issue Paid up capital of our Company.
Issue Price	The final price at which Equity Shares will be issued and allotted in terms of this Draft Red Herring Prospectus, as determined by our Company in consultation with the BRLM, on the Pricing Date
Margin Amount	The amount paid by the Bidder at the time of submission of Bid, being 10% to 100% of the Bid Amount
Minimum Bid/allotment lot	[•] Equity Shares and in multiples of [•] Equity Shares thereof
Net Issue to public	2,977,000 Equity Shares of Rs. 10/- each, aggregating Rs. [•] million
Non Institutional Bidders	All Bidders that are not Qualified Institutional Buyers or Retail Individual Bidders and who have Bid for Equity Shares for an amount more than Rs.100,000
Non Institutional Portion	The portion of the Issue being not less than 15% of this Net Issue i.e. 446,550 Equity Shares of Rs.10/- each available for allocation to Non Institutional Bidders
Pay-in Date	Bid/Issue Closing Date or the last date specified in the CAN sent to Bidders receiving allocation who pay less than 100% Margin Amount at the time of bidding, as applicable
Pay-in-Period	This term means (i) with respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid/Issue Opening Date and extending until the Bid/Issue Closing Date, and (ii) with respect to Bidders whose Margin Amount is less than 100% of the Bid Amount, the period commencing on the Bid/Issue Opening Date and extending until the closure of the Pay-in Date
Price Band	Being the price band of a minimum price (Floor Price) of Rs. [•] and the



Term	Description
	maximum price (Cap Price) of Rs. [●] and includes revisions thereof
Pricing Date	The date on which our Company in consultation with the BRLM finalizes the Issue Price
Promoters	Following mentioned below are the Promoters for our Company ▪ Ramesh Babu Potluri ▪ T V V S N Murthy ▪ T V V S N Murthy HUF ▪ Hima Bindu Potluri ▪ Annapurna Talluri ▪ Potluri Hire Purchase & Finance Private Limited
Prospectus	The Prospectus, filed with the RoC containing, <i>inter alia</i> , the Issue Price that is determined at the end of the Book Building Process, the number of Equity shares being issued through this Issue and certain other information.
Public Issue Account	In accordance with section 73 of the Companies Act, 1956, an account opened with the Banker(s) to this Issue to receive monies from the Escrow account for this Issue on the Designated Date
Qualified Institutional Buyers or QIBs	Public financial institutions as specified in Section 4A of the Companies Act, FIIs registered with SEBI, Scheduled Commercial banks, Mutual Funds registered with SEBI, Multilateral and Bilateral Development Financial Institutions, Indian Venture Capital Funds registered with SEBI, Foreign Venture Capital Investors registered with SEBI, State Industrial Development Corporations, Insurance Companies registered with Insurance Regulatory and Development Authority (IRDA), Provident Funds with minimum corpus of Rs. 250 Million and Pension Funds with minimum corpus of Rs. 250 Million
QIB Portion	The portion of this Issue being up to 50% of the Net Issue, i.e. 1,488,500 Equity Shares of Rs. 10 each available for allocation on proportionate basis to QIB,s of which 5% shall be proportionately allocated to Mutual Funds registered with SEBI
Draft Red Herring Prospectus/Draft Offer Document	Means the Draft Red Herring Prospectus issued in accordance with Section 60B of the Companies Act, which does not have complete particulars of the price at which the Equity Shares are being issued and number of Equity shares being issued through this Issue. Upon filling with RoC at least three days before the Bid/Issue opening date it will become the Red herring Prospectus. It will become a Prospectus after filing with the RoC after determination of Issue Price and Equity Shares to be allotted through this issue
Registrar/Registrars to the issue	Aarthi Consultants Private Limited
Retail Individual Bidders	Individual Bidders (including HUFs) who have not Bid for an amount in excess of Rs. 100,000/- in any of the bidding options in this Issue
Retail Portion	The portion of this Issue being not less than 35% of this Net Issue i.e. 1,041,950 Equity Shares of Rs. 10 each available for allocation to Retail Individual Bidder(s)
Revision Form	The form used by the Bidders to modify the quantity of Equity Shares or the Bid Price in any of their Bid cum Application Forms or any previous Revision Form(s)
Syndicate/Members of the Syndicate	BRLM and the Syndicate Members collectively
Syndicate Agreement	The agreement to be entered into among our Company and the members of the Syndicate, in relation to the collection of Bids in this Issue
Syndicate Member	Intermediaries registered with SEBI and Stock Exchanges and eligible to



Term	Description
	act as underwriters. Syndicate Member is appointed by the BRLM
TRS or Transaction Registration Slip	The slip or document issued by the Syndicate Members to the Bidder as a proof of registration of the Bid on the online system of BSE/NSE
Underwriters	Members of the Syndicate who are signatories to the Underwriting agreement
Underwriting Agreement	The Agreement among the Underwriters and our Company to be entered into on or after the Pricing Date

CONVENTIONAL / GENERAL TERMS

Term	Description
Act or Companies Act	The Companies Act, 1956, as amended from time to time
Articles/ Articles of Association/ AoA	Articles of Association of SMS Pharmaceuticals Limited
DP/Depository Participant	A depository participant as defined under the Depositories Act, 1996
Depository	A depository registered with SEBI under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time being NSDL and CDSL
Depository Act	Depositories Act, 1996 as amended from time to time
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time and the rules and regulations framed there under
FIIs	Foreign Institutional Investors as defined under SEBI (Foreign Institutional Investors) Regulations, 1995 and registered with SEBI and as required under FEMA (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 and under other applicable laws in India.
F.Y. / FY / Fiscal / Financial Year	Period of twelve months ended March 31 of that particular year unless otherwise specified in the context thereof
FIPB	Foreign Investment Promotion Board
Government/GOI	Government of India
Indian GAAP	Generally Accepted Accounting Policies in India
IT Act/Income Tax Act	The Income Tax Act, 1961, as amended from time to time
Memorandum/ Memorandum of Association/MOA	The Memorandum of Association of SMS Pharmaceuticals Limited
NRI/ Non-Resident Indian	A person resident outside India, as defined under FEMA and who is a citizen of India or a Person of Indian Origin under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000
Non Resident	A person who is not an NRI, an FII and is not a person resident in India
SEBI Act	Securities and Exchange Board of India Act, 1992 as amended from time to time.
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines 2000, as amended from time to time
Stock Exchange	BSE and NSE



COMPANY / INDUSTRY RELATED TERMS

Term	Description
Auditors	The Statutory Auditors of our Company namely, M/s Rambabu & Co. and M/s P.Murali & Co.
Board / Board of Directors	Board of Directors of SMS Pharmaceuticals Limited unless otherwise specified
Project	The issue is being made to raise the funds for the following purposes: 1. Setting up of facilities for manufacturing Active Pharmaceuticals Ingredients (APIs) at Vizianagaram, Andhra Pradesh. 2. To meet the requirement for Additional Working Capital 3. To meet the Public Issue Expenses 4. To list the Equity Shares offered through this Issue on BSE and NSE
Registrar of Companies/ROC	Registrar of Companies, Andhra Pradesh located at Hyderabad unless otherwise specified
Registered Office of our Company	417, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad - 500 038 Andhra Pradesh India.
Unit I	Manufacturing unit of our Company located at IDA Khazipally, Jinnaram Mandal, Medak District, Hyderabad - 502319, Andhra Pradesh
Unit II	Manufacturing unit of our Company located at Plot No. 24 & 24B, S.V. Co-operative Industrial Estate, Bachipally, IDA Bollaram, Hyderabad - 502325
Unit III	Manufacturing unit of our Company located at D-63, Phase 1, IDA. Jeedimetla, Hyderabad - 500055
Unit IV	Manufacturing unit of our Company located at S. No. 186, 189, 190, Gagillapur (Village) Quthbullapur (Mandal) Ranga Reddy District

ABBREVIATIONS

Term	Description
ACE	Angiotension-converting Enzyme
Amt	Amount
AGM	Annual General Meeting of our Company
AS	Accounting Standards issued by the Institute of Chartered Accountants of India
A/c	Account
ANDA	Abbreviated New Drug Application
API	Active Pharmaceutical Ingredients
APPCB	Andhra Pradesh Pollution Control Board
AZT	Azidothymidine (also called ZDV)
A.Y./ AY	Assessment Year
BMI	Body Mass Index
BMS	Bristol Myers Squibb
BRLM	Book Running Lead Manager
BSE	Bombay Stock Exchange Limited
CAGR	Compounded Annual Growth Rate
CAN	Confirmation of Allocation Note
CC	Cash Credit
Co.	Company
CENVAT	Central Value Added Tax
CFE	Consent for Establishment



Term	Description
CFO	Consent for Operation
CGMP	Current Good Manufacturing Practices
CNS	Central Nervous System
CoS	Certificate of Suitability
CL	Corporate Loan/ Current Liability
CLB	Company Law Board
CDSL	Central Depository Services (India) Limited
CML	Chronic Myeloid Leukemia
C & F	Clearing and Forwarding
CPHI	International Conference on Pharmaceuticals & Intermediates
CSIR	Council of Scientific and Industrial Research
CTD	Common Technical Data
DAT	Direct Antiglobulin Test
DCA	Department of Company Affairs
D-CAT	Drugs Chemicals and Associated Technologies
DEPB	Duty Entitlement Pass Book
DG	Diesel Generator
DIN	Director Identification Number
DIP	Disclosure of Investors' Protection
DMA	Dimethyl Amine
DMF	Drug Master File
DMS	Dimethyl sulfate
DMSO	Di-Methyl-Sulfoxide
DP	Depository Participant
DPCO	Drug Price Control Order
DRHP	Draft Red Herring Prospectus
DSIR	Department of Scientific and Industrial Research
EBITDA	Earning before Interest, Tax, Depreciation and Amortization
ED	Erectile Dysfunction
EDQM	European Directorate for the Quality of Medicine
EGM	Extra-ordinary General Meeting of our Company
EMR	Exclusive Marketing Right
EP	European Patent
EOU	Export Oriented Unit
EPC	Export Packing Credit
EPCG	Export Promotion of Capital Goods
EPS	Earnings Per Share
ESOS/ ESPP	Employee Stock Option Scheme/ Employee Stock Purchase Plan
ETP	Effluent Treatment Plant
EU	European Union
EXIM Bank	Export Import Bank of India
FBD	Foreign Bill Discounting
FCNR	Foreign Currency Non-Resident
FCPC	Foreign Currency Pre - Shipment Credit
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time and the rules and regulations framed there under.
FIIIs	Foreign Institutional Investors as defined under SEBI (Foreign Institutional Investors) Regulations, 1995 and registered with SEBI and as required under FEMA (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 and under other applicable laws in India.
FIPB	Foreign Investment Promotion Board, Ministry of Finance, Government of



Term	Description
	India
FMCG	Fast Moving Consumer Goods
FI	Financial Institution
GAAP	Generally Accepted Accounting Principles
GC	Gas Chromatographs
GDP	Gross Domestic Product
GMP	Good Manufacturing Practices
GOI	Government of India
GSK	Glaxo Smithkline Beecham
HCL	Hydrochloric Acid
HRD	Human Resource Development
HIV	Human Immunodeficiency Viral
HUF	Hindu Undivided Family
HWMP	Hyderabad Waste Management Project
ICAI	Institute of Chartered Accountant of India
IICT	Indian Institute of Chemical Technology
IDPL	Indian Drugs and Pharmaceuticals Limited
IITG	Indian Institute of Technology Guwahati
IMS	Inter – Continental Marketing Services
IPA	Iso Propyl Alcohol
IPR(s)	Intellectual Property Right(s)
IPO	Initial Public Offer
IR Gas	Infrared Gas
ISO	International Standards Organization
KF Appratus	Karl Fisher Appratus
KW	Kilo Watt
L/C	Letter of Credit
LDL	Low Density Lipoprotein
LIBOR	London Interbank Offered Rate
LIFO	Last In First Out
LTRA	Leukotriene Receptor Antagonist
MBA	Masters of Business Administration
MF	Mutual Fund
MCA - UK	Medicinal Control Agency - UK (Name changed to Medical and Healthcare Products Regulatory Agency “MHRA”)
MIBK	Methyl Iso Butyl Ketone
MITC	Methyl Iso Thio Cyanate
MNC	Multi National Company
MOEF	Ministry of Environment and Forest
MRP	Maximum Retail Price
MT	Metric Tonne
MTPA	Metric Tonne Per Annum
MD	Managing Director
N.A.	Not Applicable
NCE	New Chemical Entity
NARTI	Nucleoside Analog Reverse Transcriptase Inhibitor
NDA	New Drug Application
NDD	New Drug Discovery
NOC	No Objection Certificate
NAV	Net Asset Value



Term	Description
NPPA	National Pharmaceuticals Pricing Authority
NRDC	National Research Development Corporation
NRE	Non-Resident External
NRIs	Non Resident Indians as defined under FEMA
NRO	Non-Resident Ordinary
NRT	Nicotine Replacement Therapy
NSAID	Non – Steroidal Anti Inflammatory Drug
NSDL	National Securities Depository Limited.
NSE	The National Stock Exchange of India Limited
OTC	Over-the-counter
P.A./pa	Per Annum
PAN	Permanent Account Number
PAT	Profit After Tax
PE Ratio	Price earning Ratio
PBT	Profit Before Tax
PBDIT	Profit Before Depreciation, Interest and Tax
PBIT	Profit Before Interest and Tax
PCT	Patent Corporation Treaty
Ph.D	Doctor of Philosophy
PIL	Public Interest Litigation
PLR	Prime Lending Rate
PPM	Particles per million
QC/QA	Quality Control /Quality Assurance
QIB	Qualified Institutional Buyers
R&D	Research and Development
Rs.	Indian Rupees
RBI	Reserve Bank of India
ROC	Registrar of Companies
RONW	Return on Net Wealth
SAST	Substantial Acquisition of Shares & Takeover
Sq. Ft.	Square Feet
SEBI	The Securities and Exchange Board of India
SME	Small & Medium Enterprises
SMBS	Sodium Meta Bio Sulphate
SSP	Semi Synthetic Penicillin
TGA	Therapeutic Goods Administrator (Australia)
TLC Chambers	Thin Layer Chromatography Chambers
TPA	Tonnes per annum
TPDU	Technology Promotion Development and Utilisation Programmes
TRIPs	Trade Related Aspects Intellectual Property Rights
TNW	Tangible Net Worth
US/ USA/ America	The United States of America
UTI	UTI Securities Limited
USD or \$ or US\$	United States Dollar
US FDA	United States Food and Drug Administration
VAT	Value Added Tax
WCDL	Working Capital Demand Loan
WCTL	Working Capital Term Loan
WHO	World Health Organisation



Term	Description
WHO GMP	World Health Organisation Good Manufacturing Practice
WIPO	World Intellectual Property Organization
WTO	World Trade Organisation
w.e.f	With Effect From



SECTION II - GENERAL

CERTAIN CONVENTIONS; USE OF MARKET DATA

In this Draft Red Herring Prospectus, the terms “we”, “us”, “our”, the “Company”, “our Company”, “SMS Pharmaceuticals Limited”, “SMS” unless the context otherwise indicates or implies, refers to SMS Pharmaceuticals Limited. In this Draft Red Herring Prospectus, unless the context otherwise requires, all references to one gender also refers to another gender and the word “Lac” means “one hundred thousand”, the word “million (million)” means “ten lac”, the word “Crore” means “ten million” and the word “billion (bn)” means “one hundred crore”. In this Draft Red Herring Prospectus, any discrepancies in any table between total and the sum of the amounts listed are due to rounding-off. Throughout this Draft Red Herring Prospectus, all figures have been expressed in millions.

Unless indicated otherwise, the financial data in this Draft Red Herring Prospectus is derived from our restated unconsolidated financial statements prepared in accordance with Indian GAAP and included in this Draft Red Herring Prospectus. Unless indicated otherwise, the operational data in this Draft Red Herring Prospectus is presented on an unconsolidated basis and refers to the operations of our Company. Our fiscal year commences on 01st April and ends on March 31 so all references to a particular fiscal year are to the twelve-month period ended March 31 of that year.

There are significant differences between Indian GAAP and U.S. GAAP; accordingly, the degree to which the Indian GAAP financial statements included in this Draft Red Herring Prospectus will provide meaningful information is entirely dependent on the reader’s level of familiarity with Indian accounting practice and Indian GAAP. Any reliance by persons not familiar with Indian accounting practices on the financial disclosures presented in this Draft Red Herring Prospectus should accordingly be limited. We have not attempted to explain those differences or quantify their impact on the financial data included herein, and we urge you to consult your own advisors regarding such differences and their impact on our financial data.

For additional definitions used in this Draft Red Herring Prospectus, see the section Definitions and Abbreviations on page [•] of this Draft Red Herring Prospectus. In the section entitled “Main Provisions of Articles of Association”, defined terms have the meaning given to such terms in the Articles of Association of our Company.

Market Data

Unless stated otherwise, market data used throughout this Draft Red Herring Prospectus was obtained from internal Company reports, data, websites and industry publications. Industry publication data and Website data generally state that the information contained therein has been obtained from sources believed to be reliable, but that their accuracy and completeness and underlying assumptions are not guaranteed and their reliability cannot be assured. Although, we believe market data used in this Draft Red Herring Prospectus is reliable, it has not been independently verified. Similarly, internal Company reports and data, while believed by us to be reliable, have not been verified by any independent source.



FORWARD LOOKING STATEMENTS

This Draft Red Herring Prospectus contains certain forward-looking statements. These forward-looking statements generally can be identified by words or phrases like “will”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions, that are “forward looking statements”. Similarly, the statements that describe our objectives, plans or goals are also forward-looking statements.

Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, regulatory changes pertaining to the pharmaceutical industry in India and our ability to respond to them, our ability to successfully implement our strategy, our growth and expansion, technological changes, our exposure to market risks, general economic and political conditions in India and our overseas markets which have an impact on our business activities or investments, the monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in our industry.

For further discussion of factors that could cause our actual results to differ, see “Risk Factors” beginning on page [●] of this Draft Red Herring Prospectus. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither our Company nor the BRLM, nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, our Company and the BRLM will ensure that investors in India are informed of material developments until such time as the grant of trading permission by the Stock Exchange for the Equity Shares allotted pursuant to the Issue.



SECTION III – RISK FACTORS

An investment in equity shares involves a high degree of risk. You should consider carefully all of the information in this Draft Red Herring Prospectus, the risks and uncertainties described below, before you make an investment decision. Risks have been quantified, wherever possible. If any of the following risks actually occur, our business, financial condition and results of operations could suffer, the trading price of our Equity Shares could decline and you may lose all or part of your investment.

Internal Risk Factors

1. *During the last two financial years, APPCB had issued “STOP PRODUCTION” Order and “CLOSURE ORDER” in Unit I and production had to be stopped till the revocation of the same.*

Manufacturing of Ranitidine HCl, the product generating maximum revenues for our company, is a four-stage process. Mercaptan Gas is an effluent generated in Stage III of production. Stop order were issued to all the units manufacturing Ranitidine and generating the Mercaptan gases in the Kazipally industrial area based on the general complaints of smell nuisance from the public, without any specific reference to our Unit I. Temporary revocation was issued after the commitment was given by the industry to shift the Mercaptan gas generation stage outside the Kazipally Industrial Area. Since we have complied with all the directions issued by APPCB including the shifting of Stage III from Unit I, we have received the CFO and we have now applied for permanent revocation of closure order. We are permitted to continue production without any problems and have taken all measures to prevent recurrence of such kind of incidences. However due to the very nature of operations in a bulk drug industry and the location of the industrial area, we cannot completely rule out that such issues will not arise in the future. In case of such eventuality, our operations revenue and profitability are likely to be affected.

2. *We have outsourced the stage III process of manufacturing Ranitidine to R. Chem with whom we have entered into an exclusive MOU. We depend on them for stage III process of manufacturing Ranitidine. Our Unit I, where we manufacture Ranitidine, was affected by Orders (for details kindly refer to Risk Factor 1 above) from APPCB due to production of Mercaptan gas during Stage III of the manufacturing process of Ranitidine.*

As per the directions given by the APPCB (for details kindly refer to Risk Factor 1 above) we have stopped this stage of manufacturing at Unit I and the same has now been outsourced to R.Chem Limited (hereinafter referred to as “R.Chem”), which has its production facilities in Karnataka. Any differences, disputes etc. between R.Chem and ourselves and/or any other problem (including pollution related issues, labour/quality related issues etc) that may be faced by R.Chem affecting delivery schedules and/or the quality of the product may hamper our production of Ranitidine and this may impact our operations and profitability. Also, our agreement with R. Chem does not prescribe any penalties for non-delivery or delayed delivery, nor does it provide for specific relief. Therefore, we may not have sufficient legal remedies in the event of delay or default by R. Chem. For details regarding this agreement, please refer section titled “History and other corporate matters” beginning on page [•] of this Draft Red Herring Prospectus. However it is also to be noted that there are many industries, from whom we can buy the stage III product in case any problem arises between R.Chem and ourselves.



3. All our manufacturing facilities are located in one geographical area.

All our manufacturing units (existing and proposed) are based in and around Hyderabad in the state of Andhra Pradesh. As a result, any localized social unrest, natural disaster or breakdown of services and utilities in such areas could have material adverse effect on the business, financial position and results of operations of our Company. Further, continuous addition of industries in and around the areas where our manufacturing facilities are located without commensurate growth of its infrastructural facilities may put pressure on the existing infrastructure in those areas, which may affect our business. Further, rise in cost of living in the areas where our manufacturing facilities are located may push our manpower cost in the upward direction, which may reduce our margin and cost competitiveness.

4. There are certain licenses and approvals that we have applied for but not yet received and there are certain licenses and approvals that we have not applied for

- Renewal Application made vide letter dated April 10, 2006 made to the Chief Inspector of Boilers for Boiler No. AP2690. The boiler is a stand-by boiler.
- Renewal Application made vide letter dated August 19, 2005 made to the Chief Inspector of Boilers for Boiler No. AP3464
- Application made vide letter dated July 27, 2006 requesting additional drug license to License No. 44/RR/AP/2002/F/G (Unit III) for additional products (pellets) and for inclusion of Rebeprazole Sodium Pellets, Penetaprazole Pellets, Lansoprazole Pellets, and Omeprazole Pellets in chemist list.
- ISO 9001:2000 Certification No.00072-2003-AQ-HYD-UKAS dated July 10, 2003 valid upto June 11, 2006 was issued by DNV Certification Limited, Delhi for Unit II for manufacture and sale of bulk drugs and drug intermediates. The Unit is scheduled to be inspected by DNV on September 6 and 7, 2006, subsequent to which renewal certification, is expected.
- Application made vide letter dated August 23, 2006 to Andhra Pradesh Pollution Control Board for Permanent Revocation of Closure Order in respect of Unit I.
- We are in the process of making an application for the Factory License and Consent for Operations for our Unit IV to the respective authorities.

5. We have applied and not received/not applied for certain approvals in relation to the Objects of our Issue

The following are the material permissions/ approvals in respect of the setting up of our proposed manufacturing facility at Vizianagaram:

Approval/ Consent	Agency	Status
Consent for Establishment (CFE)	APPCB	Application made vide letter dated March 22, 2006.
Industry License	SIA, Ministry of Industry, Government of India	We are yet to make application in respect of some of the products proposed to be manufactured by us at Vizianagaram.
Environmental Clearance	MOEF	Will be applied after receiving CFE
Approval of Factory Drawings	Inspector of Factories, Andhra Pradesh	Application will be made after obtaining CFE from APPCB.
License under Factories Act	Inspector of Factories, Andhra Pradesh	Application will be made after drawings approval.
Power requirement	APSEB	Application will be made at the



Approval / Consent	Agency	Status
		appropriate time.
Consent for operations	APPCB	Application will be made at the appropriate time.
Drug License	Director of Drug Control Administration Govt. of A.P	To be applied after completion of the Project
License for Storage of Solvents	Govt. of India Ministry of Commerce & Industry (Dept. of Explosives)	To be applied after erection of Storage Tanks
License for Boilers	Director of Boilers A.P	To be applied after installation of Boilers
Drawing Approval	Government of Andhra Pradesh (Electrical Inspectorate)	To be applied after completion of Electrical erections
Approval	Government of Andhra Pradesh (Fire Services Department)	To be applied after completion of the Project
Drawing Approvals	Gram Panchayat	To be applied after getting the CFE

6. We are a party to several outstanding litigations, which if decided against us, could have a material adverse effect on our operations and profitability

The following is a summary of the outstanding litigations that our Company is involved in as on the date of filing this Draft Red Herring Prospectus with SEBI:

Sr. No	Nature of Case	Number of Cases	Amount Involved (Rs.)*
1.	Income Tax Cases – We have 4 income tax cases out of which 1 is not quantifiable	4	45,803,198
2.	Criminal Cases: There are 3 criminal cases (out of which only one is quantifiable) filed by our Company	3	500,000
3.	Civil Cases: 3 civil cases pending against our Company (out of which only 2 are quantifiable) and 2 civil cases filed by our Company	5	185,267,559.87 in respect of claims by our Company and 56,440,434 in respect of claims against our Company
4.	Labour cases	1	Not quantifiable
5.	Public Interest Litigations	2	Not quantifiable
6.	Motor accident	1	250,000

* The amount involved is the amount expressly claimed, being the liability and financial impact which may be incurred if it/they are unsuccessful in legal proceedings. However, it does not include those penalties, interests and costs, if any, which may be imposed which may have been pleaded but not quantified in the course of legal proceedings, or which the Court/Tribunal otherwise has the discretion to impose. The imposition and amount of such penalties/interest/costs are at the discretion of the Court/Tribunal where the case is



pending. Such liability, if any, would crystallize only on the order of the Court / Tribunal where the case is pending.

7. Our Group company, Webcity Softech Pvt. Ltd and our Subsidiary, Sreenivasa Pharma Private Limited, are involved in certain litigations

Sr. No	Nature of Case	Number of Cases	Amount Involved (Rs.)*
1	Arbitration cases - two arbitration cases filed by Webcity Softech Pvt. Ltd.	2	84,365,188/-
2	Criminal Cases: One criminal case filed by Sreenivasa Pharma Pvt. Ltd. under Section 138 of Negotiable Instruments Act	1	1,201,441/-
3	Income Tax Matter related to Sreenivasa Pharma Private Limited	2	2,618,531/-

*The amount involved is the amount expressly claimed, being the liability and financial impact which may be incurred if it/they are unsuccessful in legal proceedings. However, it does not include those penalties, interests and costs, if any, which may be imposed which may have been pleaded but not quantified in the course of legal proceedings, or which the Court/Tribunal otherwise has the discretion to impose. The imposition and amount of such penalties/interest/costs are at the discretion of the Court/Tribunal where the case is pending. Such liability, if any, would crystallize only on the order of the Court / Tribunal where the case is pending.

8. We had received in principle approvals from BSE and NSE and also received the observation letter from SEBI in 2005 for launch of an IPO, which our Company decided not to go through.

By the time we received the observation letter from SEBI our plans underwent some change since we perceived better opportunity in implementing a bigger project with larger capacities and for the manufacture of few more products. Hence we decided not to go ahead with the IPO.

9. More than 45% of our revenue is from the sale of one product namely Ranitidine HCl. We are thus highly susceptible to volatility of prices of Ranitidine HCl and from potential substitute and competitive products. Any decline in sales of Ranitidine HCl would reduce our profitability.

Till FY 2000, a majority of our revenues were from Ranitidine HCl. Since FY 2001, we have introduced various products like Sumatriptan Succinate, Quinapril and others, thereby broad basing our product portfolio. Notwithstanding, the expansion of our product portfolio, we are still dependent on Ranitidine HCl, which accounted for 45% of our revenues in FY 2006. In case we are not successful in our attempts to launch new products, our dependence on Ranitidine will increase.

As of now, we believe that there is no direct substitute for Ranitidine HCl because of difficulty in producing the product and therefore are few manufacturers of Ranitidine in India. However, if substitutes for Ranitidine HCl become available or if the number of manufacturers/suppliers increases, it may have a material adverse impact on our revenue and profits.



10. Our top ten domestic and export customers account for a significant percentage of our domestic and export sales respectively

In FY 2006, our top ten domestic customers like Ranbaxy Laboratories, Cadila Pharmaceuticals and Dabur Pharma accounted for approximately 40% of our total domestic sales while our top ten export customers like Scino Pharma Kunshan Biochemical Ltd. and Spanchem S.L accounted for approximately 46.6% of our export sales. For details regarding our major customers, please refer section titled "Our Business" beginning on page [•] of this Draft Red Herring Prospectus. We cannot assure you that we shall generate the same quantum of business, or any business at all, from these customers, and loss of business from one or more of them may adversely affect our operations and profitability.

11. Volatility in the average price realisations in regulated market could adversely affect our future profitability.

Sale of our APIs into regulated markets would occur only after expiration or invalidation of product patents. Typically, when the products go off-patent, prices decline significantly and often rapidly, resulting in lower profit margins with respect to sale of these APIs in the regulated markets over time. In order to reduce the impact of lower profitability, our Company is planning to get our cost effective non-infringing process patented and also enter into supply agreements with those companies which have filed/planning to file ANDA applications and are likely to get EMR for six months before the product goes off patent.

12. API product segment is very competitive.

Prices of APIs can fluctuate drastically, depending on, among other factors, the number of producers and their production volumes and changes in demand, none of which are under our control. Volatility in price realization and loss of customers may adversely affect our profitability.

13. We have taken certain properties being our production units/office premises/guest house, on leasehold basis/oral understanding, but the lease agreements in respect thereof remain to be adequately stamped and/or registered.

We have taken the following properties on leasehold basis; the particulars of the registration of the Lease Deeds are as follows:

Sr. No	Particulars of the property	Details of the Lease Agreement / Deed	Status with regard to registration
1.	Unit III, where the Production facility for Nutraceuticals is being undertaken, at D-63, Phase 1, IDA. Jeedimetla, Hyderabad - 500055, and having a total built up area of 3,500 square meters.	The lease agreement is valid from May 1, 2002 to October 30, 2007	We intend to purchase the property and hence the Lease Agreement has not been registered. We have initiated steps to purchase these properties. In case our efforts fail to materialize we will be forced to relocate these units the process for which may have an adverse impact on our operations and profitability

2.	Unit IV, where the Pilot Scale Production facility is situated, bearing S. No. 186, 189, 190, Gagillapur (Village) Quthbullapur (Mandal) Ranga Reddy District, and having a total build up area of 4,192 square meters.	The lease agreement is for the period from April 1, 2006 till the date of execution of sale deed in favour of our Company.	We intend to purchase the property and hence the Lease Agreement has not been registered. We have initiated steps to purchase these properties. In case our efforts fail to materialize we will be forced to relocate these units the process for which may have an adverse impact on our operations and profitability
3.	Flat No. 408, 4 th Floor, Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad, together with car parking area bearing Nos. 60 admeasuring 1018 square feet, where the administrative office of our Company is situated.	Lease Agreement valid for 3 years from June 1, 2003, with option to extend for further period with mutually agreed terms. The lease has been renewed by a letter dated June 1, 2006	This Lease Agreement is not registered, but there is no material financial implication on our Company as the security deposit paid to the Lessor, which is refundable by the Lessor to our Company, is Rs. 30,500/-.
4.	Flat No. 409 situated at 4 th Floor, Nilgiri Block Aditya Enclave, Ameerpet, Hyderabad with Car parking area bearing Nos. 63, 64 and 65 admeasuring 2257 square feet,	Lease Agreement valid for 3 years from June 1, 2003. The lease has been renewed by a letter dated June 1, 2006.	This Lease Agreement is not registered, but there is no material financial implication on our Company as the security deposit paid to the Lessor, which is refundable by the Lessor to our Company, is Rs. - 68,000/-.
5.	Flat No. 507-B situated at 5 th Floor, Nilgiri Block Aditya Enclave, Ameerpet, Hyderabad with Car parking area bearing Nos. 17 and 27 admeasuring 2065 square feet.	Lease Agreement valid for 11 months from December 1, 2004. The lease has expired on November 30, 2005.	Our Company is in the process of vacating this premises and has hence not renewed the lease, and the same is currently being occupied pursuant to an oral understanding
6.	Guest House M/G-95, MVP Colony, Sector II, Visakhapatnam	Lease Agreement valid for June 2005 from May 1, 2006. The lease has been renewed by a letter dated June 18, 2006	This Lease Agreement is not registered, but there is no material financial implication on our Company as the security deposit paid to the Lessor, which is refundable by the Lessor to our Company, is Rs. 96,000/-.



7.	Office Premises Flat No. 506 A, 5th Floor Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad along with the furniture and fixtures admeasuring 1000 sft.	Lease is valid from April 1, 2006 till March 31, 2007, with option to extend for further period at mutually agreed terms	This Lease Agreement is not registered, but there is no material financial implication on our Company as it is an administrative office.
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Loss of these premises may entail search for alternative premises to relocate, and may have an adverse effect on our operations.

- 14. We have filed applications, for registration of non-infringing process patents for some of our new products in the developed markets. The processing of such applications is a lengthy process and the outcome is unascertainable.***

In addition to patents on pharmaceutical products, many drug innovators and others make proprietary claims with respect to the processes for the manufacture of the pharmaceutical products. In order to sell our APIs into regulated markets where process patents have been issued or sought, we must develop non-infringing processes for their manufacture or an existing process must come off patent or be determined to be non-patentable. Non-infringing process patent applications are time consuming and we are not assured of being granted such a patent. Failure to get non-infringing process patent registered will prevent us from selling those target APIs in the regulated markets, which may have a material adverse effect on our business prospects.

- 15. We are promoted by first generation entrepreneurs and the Investors will be subjected to all consequential risks associated with such ventures.***

Though our Company is promoted by first generation entrepreneurs, our promoters Mr. Ramesh Babu Potluri and Mr. T V V S N Murthy have wide experience in pharmaceuticals business and have been profitably managing our Company since 1990.

- 16. Our sustained growth depends on our ability to attract and retain skilled manpower as research and development is a key component of our business model. Failure to attract and retain skilled manpower could adversely affect our growth strategy.***

We recruit and train talented personnel in the areas of technology, process improvements, and development of new products. Failure to retain talented manpower may adversely affect our growth strategy and future profitability.

- 17. We are not covered by business interruption policy.***

We are not covered by business interruption policy. Interruption of our business operations for any reasons including on account of fire, flood, any natural calamities etc. may have a material and adverse impact on our business operations and profitability.

- 18. Our Company has not placed orders for plant & machinery worth Rs.478.71 million required for the expansion.***

As per means of finance (as indicated on page [•] of this DRHP) more than 70% of the funds required for the Project are proposed to be raised from this IPO. We have received quotations from vendors for all major plant and machinery. As per the implementation schedule (given on page [•] of this DRHP) we will start placing the orders from the month of December this year. The gestation period for delivery of plant machinery is more than 6



months. We would endeavor to start implementing the project as soon as we have access to the funds raised through this IPO. However, inordinate delay, if any, in placing the orders, completion of civil construction or any delay at the vendors' end in dispatching the machineries could result lower profitability for FY 2008-2009.

19. *Pending utilization for the purposes described IN Section "Objects of the Issue", we intend to temporarily invest the funds in high quality interest/dividend bearing liquid instruments including money market mutual funds, deposit with banks for necessary duration. GILT edged securities and other 'AAA+' rated interest bearing securities as may be approved the Board of Directors or a Committee thereof. Such transactions would be at the prevailing commercial rates at the time of investment. This deployment may not result in adequate returns for our Company.*
20. *We are subject to restrictive covenants in certain debt facilities provided to us by our lenders.*

There are restrictive covenants in agreements we have entered into with certain banks and financial institutions for short-term loans, including fund-based and non-fund-based loans, and long-term borrowings. These restrictive covenants provide, amongst other things, that the Company cannot alter its capital structure, make any corporate investments or investments by way of issuance of share capital or debentures, or lend or advance funds to third parties except in the ordinary course of business. Though we have received approvals from all our lenders for this Issue, these restrictive covenants may also affect some of the rights of our shareholders, including the payment of the dividends. For details of these restrictive covenants, see the section titled "Capital Structure" beginning on page [•] of this Draft Red Herring Prospectus.

21. *Contingent Liabilities not provided for by us as on March 31, 2006.*

We have not provided for Contingent liabilities as on March 31, 2006 as stated herein below. These contingent liabilities are in the normal course of business. To the extent these contingent liabilities become our actual liabilities, these will adversely affect our results of operations and financial condition in future. Details of these contingent liabilities are as follows:

Particulars	(Rs. In Millions)	
	As at March 31, 2006	As at March 31, 2005
Guarantees given by banks	3.54	4.04
Foreign letter of credits opened in favour of customer for which goods are yet to be received	56.17	25.28
Claims not acknowledged as debts by the Company	56.48	56.28
Disputed Income Tax demands against which Company is in Appeals	45.80	16.87

22. *We may not be sufficiently protected or insured for certain losses that we may incur or claims that we may face against us.*

Although we attempt to limit and mitigate our liability for damages arising from negligent acts, errors or omissions through insurance policies, the limitations of liability set forth in our insurance policies may not be enforceable in all instances or may not protect us from liability for damages.

A successful assertion of one or more large claims against us could adversely affect the results of our operations. We have not insured ourselves against exposure to certain risks and events such as loss of profit, etc. These may lead to financial liability/adverse consequences for us. Further, even where we have availed of insurance cover, we may not be



able to successfully assert our claims for any liability or loss under the said insurance policies.

23. *We have appointed several agents both, in the domestic and international market for marketing of our products. However we have not entered into any written agreements in respect of the same.*
24. *We took over one of our group companies Bhagyanagar Castings Limited in May 2000. But even after taking over this company we have not yet started any commercial production in that company.*
25. *One of our group companies Bhagyanagar Castings Limited is listed on Hyderabad Stock Exchange and The Ahmedabad Stock Exchange Limited. However there has been no trading in the shares of the company.*

EXTERNAL AND BEYOND OUR CONTROL

1. *Any change in Regulatory environment in relation to manufacturing within the country or for marketing our products within and outside the country will significantly impact the business of the Company.*

Any material change in the laws and Regulatory environment in relation to the pharmaceutical industry and our markets within and outside the country will significantly impact the business of the Company.

2. *Any change in policies by the countries, in terms of tariff and non-tariff barriers, from which we import our raw material and/or export products to, will have an impact on our profitability.*

Our exports and imports are spread to many countries. In the event there are significant change in policies in terms of tariff and non-tariff barriers, from which we import our raw material and/or export products to, the policy changes will have an impact on our profitability and affect our business.

3. *Our future export market will depend on the economic and political conditions of the countries to which we export.*

Our products are currently sold in international non-regulated markets. Despite, the market for our products being spread out across Far East, Middle East, Latin America and Eastern Europe, global and/or regional economic and political conditions and disturbances will seriously impact our business plan and profitability.

4. *Non- availability/gradual elimination of income tax benefits on exports will increase our future tax liabilities and decrease profits that we might have in future.*

We currently benefit from the various income-tax exemptions and deductions in terms of the Income Tax Act, which are applicable for Companies having export income. The Government of India has announced the gradual elimination of some of these benefits. Non- availability of these tax exemptions will increase our future tax liabilities and decrease the net profits that we might have in future.

5. *We are subject to risks arising from exchange rate fluctuations.*

The exchange rate between the Rupee and the U.S. dollar has changed substantially in the recent years and may continue to fluctuate in the near future. We expect that substantial part of our export revenue will continue to be generated in U. S. Dollars in the foreseeable future



and that a significant portion of our expenses will continue to be in Rupees. While we enter into forward contracts to minimize the impact of the fluctuating exchange rates, we may not be able to effectively mitigate the adverse impact of currency fluctuations on our results of operations.

6. *Risks arising from changes in taxation policies*

Statutory taxes and other levies affect the cost of production and prices of our products. Any increase in any of these taxes or levies in the future, may have a material adverse impact on our business results and financial condition.

7. *Terrorist attacks and other acts of violence or war involving India, the United States, and other countries could adversely affect the financial markets, result in a loss of business confidence and adversely affect our business, results of operations and financial condition.*

Terrorist attacks and other acts of violence or war, including those involving India, the United States or other countries, may adversely affect Indian and worldwide financial markets. These acts may also result in a loss of business confidence and have other consequences that could adversely affect our business, results of operations and financial condition. Increased volatility in the financial markets can have an adverse impact on the economies of India and other countries, including economic recession.

8. *Our performance is linked to the stability of policies and political situation in India as well as the countries with which we have business relations.*

The role of the Indian Central and State Governments in the Indian economy on producers, consumers and regulators has remained significant over the years. Since 1991, the Government of India has pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. However, any adverse move could slowdown the pace of liberalization and deregulation. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalization and deregulation policies could disrupt business and economic conditions in India and thereby affect our business.

9. *Disruptions or lack of basic infrastructure such as our electricity supply and water supply could result in an increase of manufacturing costs.*

There have never been any frequent disruptions in supply of power & water. However, in case of any disruption, these are arranged from own parallel sources and in such events there are no material impact on manufacturing costs.

10. *The pharmaceutical industry in India is highly regulated by the Government of India under its Drug Price Control Order (DPCO).*

Any adverse change in the Government Policy in terms of margins or prices of the products would affect our Company's performance. In case Government regulations impose restrictions on our Company's ability to sell products at certain price, it may result in a loss of revenue and profits.

11. *There is no assurance or guarantee that the Government or Statutory authority will not ban a bulk drug that is used by our Company in their formulations or for trading. In such an event the business and profitability of our Company may be affected.*



12. Volatility of share prices on listing

After this Issue, the price of our Equity Shares may be highly volatile, or an active trading market for our Equity Shares may not develop. The prices of our Equity Shares on the Stock Exchanges may fluctuate as a result of several factors, including:

- Volatility in the Indian and global securities market;
- Our results of operations and performance, in terms of market share;
- Performance of the Indian economy;
- Changes in Government policies;
- Changes in the estimates of our performance or recommendations by financial analysts;
- Perceptions about our future performance or the performance of Indian pharmaceutical companies generally;
- Significant developments in the regulation of pharmaceuticals in our key markets;
- Adverse media reports on our Company or the Indian pharmaceuticals industry;
- Significant developments in India's economic liberalization and deregulation policies; and
- Significant developments in India's fiscal and environmental regulations.

13. No public market for the shares of our Company

There has been no public market for the Equity Shares of our Company and the prices of the Equity Shares may fluctuate after this issue. There can be no assurance that an active trading market for the Equity Shares will develop or be sustained after this Issue or that the prices at which the Equity Shares are sold in this Issue will correspond to the prices at which the Equity Shares will trade in the market subsequent to this Issue.

14. The Issue price of our Equity Shares may not be indicative of the market price of our Equity Shares after the Issue.

The Issue Price of our Equity Shares will be determined by the Book Building Process. This price will be based on numerous factors (discussed in the section "Basis of Issue Price" on page [●] and may not be indicative of the market price of our Equity Shares after the Issue. The market price of our Equity Shares could be subject to significant fluctuations after the Issue, and may decline below the Issue Price. We cannot assure you that you will be able to resell your Equity Shares at or above the Issue Price. Among the factors that could affect our share price are:

- (a) Quarterly variations in the rate of growth of our financial indicators, such as earnings per share, net income and revenues;
- (b) Changes in revenue or earnings estimates or publication of research reports by analysts;
- (c) Speculation in the press or investment community;
- (d) General market conditions; and
- (e) Domestic and international economic, legal and regulatory factors unrelated to our performance.

Notes to Risk Factors

1. Pre-Issue Net Worth of our Company (as restated) as on March 31, 2006 is Rs. 488.52 million.
2. Size of the Present Issue – Issue of 2,977,000 Equity Shares of Rs. 10/- each issued at a premium of Rs. [●] for cash, aggregating Rs. [●] million. The face value of the Equity Shares is Rs. 10/- and the issue price is [●] times the face value at the lower price band and [●] times of



the face value at the upper price band. The issue would constitute 29.77% of the fully diluted post issue paid up capital of our Company.

3. The average cost of acquisition of Equity Shares of the promoters is given below

Sr. No.	Name of the Promoter	Average Cost of Acquisition (Rs.)
1.	Mr. Ramesh Babu Potluri	6.96
2.	Mr. T V V S N Murthy	7.36
3.	T V V S N Murthy HUF	5.00
4.	Mrs. Hima Bindu Potluri	8.62
5.	Mrs. Annapurna Talluri	5.22
6.	Potluri Hire Purchase & Finance Private Limited	37.18

4. Book value of the Equity Shares of our Company as on March 31, 2006 is Rs. 119.15
5. Investors are advised to refer the paragraph on "Basis of Issue Price" mentioned in this Prospectus on page [•] before making an investment in the Issue.
6. Investors may please note that in the event of over-subscription, allotment shall be made on a proportionate basis in consultation with the Designated Stock Exchange. (Refer to the paragraph entitled "Basis of Allotment" on page [•] of this DRHP).
7. Investors may contact the BRLM or the Compliance Officer for any complaint/ clarification/ information pertaining to the Issue, who will be obliged to attend to the same. For contact details of the BRLM please refer to the front cover page.
8. All information shall be made available by the BRLM and the Company to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever.
9. There are no contingent liabilities as on March 31 2006, except as mentioned in the Auditor's report.
10. Investors are advised to refer to the paragraph 'Basis for Issue Price' on page [•] of this DRHP before making an investment in this issue.
11. Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation. Hence, Bidders should carefully fill in their Depository Account details in the Bid-cum-Application Form and also update their demographic details with their respective depository participant.
12. For details of liens and encumbrances on the properties and assets of our Company, please see Section on Financial Statements on page [•] of this Draft Red Herring Prospectus.
13. For details of related party transactions, please refer to the Auditors Report.
14. This Issue is being made through a 100% Book Building Process wherein up to 50% of the Net Issue shall be allocated on a proportionate basis to Qualified Institutional Buyers, of which 5% shall be reserved for Mutual Funds. Further, not less than 15% of the Net Issue shall be



available for allocation on a proportionate basis to Non Institutional Bidders and not less than 35% of the Net Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price.

15. No part of the Issue proceeds will be paid as consideration to promoters, directors, key managerial personnel, associate or Group Companies.



SECTION IV - INTRODUCTION

SUMMARY

You should read the following summary together with the risk factors and the more detailed information about us and our financial data included in this Draft Red Herring Prospectus.

Note:

Unless otherwise indicated, all financial and statistical data relating to the industry in the following discussion is derived from internal Company reports & data, industry publication and estimates. This data has been reclassified in certain respects for purposes of presentation. For more information, see “Forward Looking Statements and Market Data” on page no. [●] in this DRHP.

INDUSTRY AND BUSINESS OF OUR COMPANY

1. Industry:

The Indian Pharmaceutical Sector has come a long way, being almost non - existing during 1970, to a prominent provider of health care products, meeting almost 90% of country's pharmaceutical needs. The domestic pharmaceutical output has increased at a compound growth rate (CAGR) of 14.11% per annum in last ten years.

(Source: Bulk Drug Manufacturers Association)

The **Indian Pharmaceutical Industry** today is in the front rank of India's science-based industries with wide ranging capabilities in the complex field of drug manufacture and technology. A highly organized sector, the Indian Pharmaceutical Industry is estimated to be worth \$ 6.4 billion, growing at about 8 to 9 percent annually. It ranks very high in the world, in terms of technology, quality and range of medicines manufactured. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made indigenously.

The pharmaceutical industry is one of the fast growing sectors of the Indian economy and has made rapid strides over the years. From being an import dependent industry in the 1950s, the industry has achieved self-sufficiency and gained global recognition as a producer of low cost high quality bulk drugs and formulations. Leading Indian companies have developed infrastructure in over 60 countries including developed markets like USA and Europe. In the last few years, several pharmaceutical companies, including MNCs, have demonstrated that they possess the ability to engage in commercially viable research and development activities and become significant players in the international market.

The Indian Pharmaceutical sector is highly fragmented with more than 20,000 registered units. It has expanded drastically in the last two decades. The leading 250 pharmaceutical companies control 70% of the market with market leader holding nearly 7% of the market share. It is an extremely fragmented market with severe price competition and government price control.

The Indian Industry produces around 500 APIs, meeting 90% of the domestic requirements of the needy Public at the affordable prices. These include latest drugs like Anti cancer, Cardio Vascular, HIV Drugs etc. The total Indian market at present is about US\$6.4 billions and is expected to grow to US\$ 25 billions by 2010. (Source: Bulk Drugs Manufacturers Association (India))



Although India accounts for 16% of the world population, the sales of pharmaceuticals, is just 1.8% of the global sales in terms of value and 8% in terms of volume. However, globally it ranks 4th in volume and 14th in value terms. (Source: www.indiaoppi.com)

Following the de-licensing of the pharmaceutical industry, industrial licensing for most of the drugs and pharmaceutical products has been done away with. Manufacturers are free to produce any drug duly approved by the Drug Control Authority. Technologically strong and totally self-reliant, the pharmaceutical industry in India has low costs of production, low R&D costs, innovative scientific manpower, strength of national laboratories and an increasing balance of trade. The Indian Pharmaceutical Industry, with its rich scientific talents and research capabilities, supported by Intellectual Property Protection regime is well set to take on the international market.

BULK DRUG INDUSTRY

The Indian pharmaceutical industry manufactures over 400 bulk drugs belonging to several therapeutic segments. Bulk drug production in the country recorded a CAGR of 19.5% during the period FY1994- 2004, which is higher than the growth in the overall production of pharmaceuticals (CAGR of 15.8%) during the same period. Ability of the Indian manufacturers in chemical synthesis and reverse engineering, cost competitiveness of Indian producers, established quality of products, and approval of manufacturing facilities by international regulatory authorities like the USFDA and UKMHRA) have resulted in export orders coming from both developed and developing markets.

2. Our Business:

We are in the business of manufacturing of Active Pharma Ingredients and pharmaceutical intermediates. We believe we are one of the leading manufacturers and exporters of Active Pharma Ingredients and pharmaceutical intermediates in India, commonly known as Bulk Drug Manufacturer. We are mainly engaged in manufacturing bulk drugs like Ranitidine HCl, Sumatriptan Succinate, Sildenafil Citrate, Omeprazole Magnesium, Ramipril, Almotriptan maleate, Gemcitabine HCl, Imatinib Mesilate and their intermediates. We have also started producing ACE Inhibitors like Perindopril Erubamine and Imidapril and anti-cancer drug Capecitabine and Bicalutamide. We believe we are one of the largest producers of Ranitidine HCl in the world.

We have an integrated manufacturing facility, professional skilled workforce, R&D expertise and an ever-expanding array of API's and Bulk Intermediates. We have also established exclusive basic research facility where we develop new products and carry on process improvements.

We have been operating through three manufacturing units, one pilot plant and one basic research facility in and around Hyderabad.

Location

Existing:

We have four manufacturing facilities and one basic research facility, all situated in and around Hyderabad, Andhra Pradesh. The details of our manufacturing facilities are provided below:



Type of Facility	Location	Total Area
Unit I Production facility	IDA Khazipally Jinnaram Mandal Medak District, Andhra Pradesh 502319	Total built up area is 45,000 sq. mtrs. Total plant area is 62,500 sq. mtrs.
Unit II Production facility (FDA Approved Unit)	Plot No. 24 & 24B S.V. Co-operative Industrial Estate Bachipally, IDA Bollaram, Hyderabad - 502325	Total built up area is 12,200 sq. mtrs. Total Plant area is 20,200 sq. mtrs.
Unit III Production facility (Nutraceuticals)	D-63, Phase 1, IDA. Jeedimetla, Hyderabad - 500055	Total built up area is 3,500 sq. mtrs.
Unit IV - Pilot scale production facility	S. No.186, 189,190, Gagillapur (Village) Quthbullapur (Mandal) Ranga Reddy Dist.	Total built up area is 4,192 sq. mtrs.
Basic Research facility (SMS Pharma Research Center)	Shed bearing No.C-23, together with land situated at Industrial Estate, Sanath Nagar, Hyderabad. - 500018	Total built up area is 1,100 sq. mtrs.

Proposed:

A bulk drug facility with FDA and Non FDA blocks proposed at Vizianagaram	Kandhivalasa Village, Poosapatyrega Mandal, Vizianagaram Dist., Andhra Pradesh.	Total land area is 72.64 Acres
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Our Competitive Strengths

- **APIs and Intermediates**

We manufacture a wide range of APIs and intermediates, our focus being on products going off patent and which offer higher realisations. We have consistently strengthened our R&D, resulting in introduction of new products. We have reduced the number of processes involved in the manufacture of Ranitidine HCl from 7 stages to 3 stages. We have also developed cost effective processes for manufacture of products which are going off patent which is evidenced by the spurt in turnover and profitability and a diverse product range during the last fiscal, i.e. the year ended March 31, 2006.

Our Advantage

Our facilities, details of whose locations are given in the paragraph titled "Property" beginning on page [•] of this Draft Red Herring Prospectus have consistently produced high quality APIs which are very cost effective resulting in many of our competitors like Orchieve Pharma Private Limited, Neuland Laboratories Limited, Ranbaxy Laboratories Limited, Dabur Pharma Limited etc. sourcing their requirements of intermediates from us.



- **Contract Manufacturing/Contract Research**

As stated in the previous paragraph, we have developed cost effective processes to manufacture various products through process innovation. We have entered into product development agreement with Sochinaz S/A in which we have developed and validated all analytical methods and process technology for Trandolapril. We have also undertaken a contract research project wherein we have entered into an agreement with a Netherlands based company viz SPEC wherein we will develop building blocks for SPECS and SPECS will have exclusive rights to market those blocks under the brand name of SPECS. We envisage a significant potential for supply of our products to the pharmaceutical MNCs holding the product patents.

Our Advantage

We believe that focus on the key drivers listed below would enable us to attain significant business from several MNCs in terms of process development and supply of intermediates for APIs for their products:

- Adherence to Intellectual Property Rights
 - R&D capabilities to develop efficient and cost effective processes at short notice
 - Complete infrastructure for “process research” laboratories, scale up pilot plant and validation block and scaling up of production facilities.
 - Manufacturing facilities approved by the US FDA
- **Manufacturing Facilities**
The production equipments employed at our production facilities are multipurpose and multi-product. These equipments allow us to produce a variety of APIs and their intermediates by changing the process parameters, input mix and following cleaning validations procedures. Our production facilities are cost competitive because of process efficiency, optimized manpower deployment, and ability to recover reaction inputs and reuse it. We are capable of meeting the requirements of our customers from laboratory scale research to commercial production, on the strength of our existing infrastructure consisting of R&D laboratories, pilot facilities and production units.

Our Unit II facility is also approved by the US FDA and our proposed plant to be set up will also be as per US FDA approved standard.

- **Customer Relationship Management Skills**

We constantly try to address customer needs around a spectrum of products and services. Our strengths in production (approved and dedicated facilities that can provide from laboratory scale to commercial production) and research (process innovation so as to optimize cost containment) helps us to get repeat business from our customers. This has helped us maintain a long term working relationship with our customers and improve our customer retention strategy.



THE ISSUE

Equity Shares offered: Fresh Issue by our Company	2,977,000 Equity Shares
Issue Price	Rs. [●] per Equity Share
Net Issue to the Public	2,977,000 Equity Shares
Of which: (A) Qualified Institutional Buyers portion (QIBs)	1,488,500 Equity Shares (Allocation on a proportionate basis) Of the above 1,488,500 Equity Shares, 74,425 shall be available for allocation to Mutual Funds The balance 1,414,075 Equity Shares shall be available to all QIBs, including Mutual Funds
(B) Non-Institutional Portion	446,550 Equity Shares (Allocation on a proportionate basis)
(C) Retail Portion	1,041,950 Equity Shares (Allocation on a proportionate basis)
Note: Under-subscription, if any, in any of the categories would be allowed to be met with spillover from the other categories, at the sole discretion of our Company and the BRLM.	
Equity Shares outstanding prior to the Issue	7,023,000 Equity Shares of face value of Rs.10/- each
Equity Shares outstanding after the Issue	10,000,000 Equity Shares of face value of Rs.10/- each
Use of Issue proceeds	Please see section titled “Objects of the Issue” on page no. [●] of this Draft Red Herring Prospectus for additional information.



SUMMARY OF FINANCIAL INFORMATION

The following summary unconsolidated financial data has been prepared in accordance with Indian GAAP, the Companies Act and the SEBI Guidelines and restated as described in the Joint Auditor's Report of M/s Rambabu & Co. and M/s. P. Murali & Co. dated June 16 2006 in the section entitled "Financial Information". You should read this financial data in conjunction with our restated unconsolidated financial statements for each of Fiscal 2002, 2003, 2004, 2005 and 2006 including the Notes thereto and the Reports thereon, which appears under Para on "Auditors Report" in this DRHP, and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Statement of Profit & Loss Account

Particulars	Rs. in Million				
	Year ended				
	June 30 2002	March 31 2003	March 31 2004	March 31 2005	March 31 2006
	(12 mths)	(9 mths)	(12 mths)	(12 mths)	(12 mths)
<u>INCOME</u>					
SALES	761.91	523.97	1,158.73	1,186.53	1,290.32
Of Products Manufactured by the Company	761.91	523.97	957.99	1,014.18	851.50
Of products Traded by the Company	-	-	200.74	172.35	438.82
Increase/ (Decrease) in stocks	29.66	(6.79)	21.95	15.99	40.14
Other Income	5.37	2.29	2.87	9.53	4.31
Total	796.94	519.47	1,183.55	1,212.05	1,334.77
<u>EXPENDITURE</u>					
Raw Materials Consumed	418.77	248.01	695.95	663.60	737.12
Manufacturing Expenses	156.38	104.86	159.10	185.39	175.85
Expenses on Employees	15.90	14.88	25.19	42.39	43.91
Administrative & Other Expenses	79.36	63.31	116.07	122.95	136.52
Total	670.41	431.06	996.31	1,014.33	1,093.39
Profit before Interest, Depreciation and Tax	126.53	88.41	187.24	197.72	241.38
Interest & Finance Charges	40.09	16.90	40.61	44.83	66.40
Depreciation	24.23	21.00	31.41	35.15	44.00
Net Profit Before Tax	62.21	50.51	115.22	117.74	130.98
Provision For Taxation:					
Current Tax	3.00	5.50	20.00	15.00	45.46
Deferred Tax	-	21.73	20.29	18.27	0.45
Net Profit After Tax	59.21	23.28	74.93	84.47	85.07
Tax relating to prior period	-	-	2.68	1.89	-
Net Profit after tax and after adjusting prior period items	59.21	23.28	72.25	82.58	85.07



Statement of Assets and Liabilities

Rs. in Million

Particulars		As at	As at	As at	As at	As at
		June 30 2002	March 31 2003	March 31 2004	March 31 2005	March 31 2006
A	FIXED ASSETS					
	Gross Block	506.70	593.16	658.60	794.57	835.74
	Less: Depreciation	87.84	108.84	140.25	175.84	216.24
	Net Block	418.86	484.32	518.35	618.73	619.50
	Less : Revaluation Reserve	-	-	-	-	-
	Net Block after adjustment for Revaluation Reserve	418.86	484.32	518.35	618.73	619.50
	Capital Work in Progress	24.49	21.23	46.20	28.01	17.06
	Total Fixed Assets (A)	443.35	505.55	564.55	646.74	636.56
B	INVESTMENTS (B)	3.45	2.95	2.94	4.09	4.05
C	CURRENT ASSETS, LOANS AND ADVANCES					
	Inventories	159.41	164.17	183.08	229.94	266.02
	Sundry Debtors	191.48	151.62	315.90	386.04	451.70
	Cash and bank Balance	60.62	51.12	64.38	42.64	49.86
	Loans and Advance	74.88	86.07	103.27	165.01	184.38
	Other current Assets	-	-	-	-	-
	Total (C)	486.39	452.98	666.63	823.63	951.96
D	LIABILITIES AND PROVISIONS					
	Secured Loans	297.78	361.43	481.00	577.34	591.58
	Unsecured Loans	25.17	30.14	36.56	50.90	62.50
	Current Liabilities	199.98	136.73	203.61	246.62	223.12
	Provisions	18.86	27.31	45.27	54.90	99.31
	Deferred Tax liability	-	88.52	108.82	127.09	127.54
	Total (D)	541.79	644.13	875.26	1,056.85	1,104.05
E	NET WORTH(A+B+C-D)	391.40	317.35	358.86	417.61	488.52
F	REPRESENTED BY:					
	Share Capital	20.50	20.50	41.00	41.00	41.00
	Reserves and Surplus (Net of Revaluation Reserves)	372.84	323.81	366.28	439.53	515.25
	Miscellaneous Expenditure	1.94	26.96	48.42	62.92	67.73
	NET WORTH	391.40	317.35	358.86	417.61	488.52



GENERAL INFORMATION



SMS PHARMACEUTICALS LIMITED

(Incorporated as S.M.S. Pharmaceuticals Private Limited, on December 14, 1987 vide Registration No. 01-8066 under the Companies Act, 1956 and became a public limited Company by name S.M.S. Pharmaceuticals Limited on November 2, 1994. Our Company has been subsequently renamed as SMS Pharmaceuticals Limited on April 12, 2004.)

Registered Office: 417, Nilgiri, Aditya Enclave, Ameerpet,
Hyderabad – 500 038 Andhra Pradesh, India.

Tel: +91 –40 –2374 6059 / 6469 / 8154, Fax: +91 –40 –6636 4417 / 2373 2709

Website: www.smspharma.com Email: ipo@smspharma.com

Contact Person: Mr. Y Nagarjuna Rao, Assistant General Manager, HR & Legal, Compliance Officer

Company Registration No: 01-8066

Our Company is registered with the Registrar of Companies, Hyderabad Andhra Pradesh at: Sultan Bazar, Hyderabad

Our Board of Directors

Name of Director	Designation
Mr. Ramesh Babu Potluri	Chairman & Managing Director
Mr. T V V S N Murthy	Vice Chairman and Joint Managing Director
Mr. A. P. Rao	Non Executive & Independent Director
Dr. Mihir K. Chaudhuri	Non Executive & Independent Director
Dr. B. Manoranjan Choudary	Non Executive & Independent Director
Mr.K. Subramanyeswar Rao	Non Executive & Independent Director
Mr. Vinod Goel	Nominee Director (EXIM Bank)

For detailed profile of our Directors please refer to the section titled 'Our Management' on page [●] of this Draft Red Herring Prospectus.

Issue Management Team

BOOK RUNNING LEAD MANAGER

UTI Securities Limited

(A Subsidiary of Securities Trading Corporation of India Limited)

AMBI Reg. No.: AMBI / 083

1st Floor, Dheeraj Arma,

Anant Kanekar Marg, Station Road,

Bandra (East), Mumbai – 400 051.

Tel No: 91 – 22 - 67515828/826

Fax No: 91 – 22 - 67023194

Website: www.utisel.com

Email: smsipo@utisel.com

Contact Person: Mr. Sumeet Lath/ Ms. Neetu Ranka



REGISTRAR TO THE ISSUE

Aarthi Consultants Private Limited

SEBI Regn. No. INR 0000000379
1-2-285, Domalguda
Hyderabad – 500 029
Tel: 91-40-27638111/4445
Fax: 91-40-27632184
Website: www.aarthiconsultants.com
E-mail: smspharma@arthiconsultants.com
Contact Person: C Bhaskar

JOINT STATUTORY AUDITORS TO THE COMPANY

M/s Rambabu & Co.

Chartered Accountants
31, Pancom Chambers,
Rajbhavan Road, Hyderabad – 500 082
Tel No: 91-40-23311587/18152
Fax No: 91-40-23387182
Email: rambabuandco@yahoo.com
Contact person: Mr. Ravi Rambabu / Mr. G.V.L.Prasad

M/s P. Murali & Co.

Chartered Accountants,
6-3-655/2/3, Somajiguda,
Hyderabad – 500 004
Tel No: 91-40-23326666
Fax No: 91-40-23392474
Email: info@pmurali.com
Contact person: Mr. P Murali Mohan

LEGAL ADVISOR TO THE ISSUE

M/s. Crawford Bayley & Co.

4th Floor, State Bank Buildings,
N.G.N. Vaidya Marg,
Fort, Mumbai – 400 023.
Tel : 91 – 22 - 22663713
Fax : 91 – 22 - 22660355
Email: sanjay.asher@crawfordbayley.com
Contact person: Mr. Sanjay Asher

LEGAL ADVISOR TO THE COMPANY

D Srinivas Prasad
Advocate,
96/A, Parklane, 2nd Floor
Opp. Parsi School
Secunderabad – 500 003
Tel: 91 – 40 - 27849035
Fax: 91 – 40 - 27849035
Email: D_srinivasprasad@yahoo.com
Contact person: D Srinivas Prasad



BANKERS TO THE COMPANY

State Bank of India
Balanagar Branch
Hyderabad – 500 018
Tel No: 91- 40 - 23878707/9331
Fax No: 91- 40 - 23879110
Website: statebankofindia.com
Email: sa.06854@sbi.co.in
Contact Person: Mr. B.R Prasad AGM

Bankers to the Issue and Escrow Collection Banks

The Bankers to the Issue and Escrow Collection Banks shall be finalized before filing the RHP with RoC.

Brokers to the Issue

All members of the recognized Stock Exchanges would be eligible to act as Brokers to the Issue

Syndicate Member(s)

The Syndicate member(s) shall be finalized before filing the RHP with RoC.

COMPANY SECRETARY

Mr. G Someshwar Rao
417, Nilgiri, Aditya Enclave,
Ameerpet, Hyderabad – 500 038
Phone: +91 – 40 - 23746059/6469/8154
Fax: +91 - 40 - 66364417
Email: Gsrao@smspharma.com

COMPLIANCE OFFICER

Mr. Y Nagarjuna Rao
417, Nilgiri, Aditya Enclave,
Ameerpet, Hyderabad – 500 038
Phone: +91- 40 - 23746059/6469/8154
Fax: +91- 40 - 66364417
Website : www.smspharma.com
Email: ipo@smspharma.com

Investors can contact the Compliance Officer or the Registrar in case of any pre-issue or post-issue related problems, such as non-receipt of letters of allocation, credit of allotted Equity Shares in the respective beneficiary accounts or refund orders etc.

Credit Rating

This being an issue of Equity Shares, credit rating is not required.



Trustees

This being an issue of Equity Shares, appointment of trustees is not required.

Project Appraisal

The project has been appraised by EXIM Bank vide its letter dated August 18, 2006.

Export Import Bank of India
Centre One Building, Floor No 21
World Trade Centre Complex
Cuffe Parade, Mumbai: 400005
Tel: 91 - 22 - 22185272
Fax: 91 - 22 - 22188076

Monitoring Agency

There is no monitoring agency appointed to monitor the use of proceeds of the Issue, as on the date of filing this Draft Red Herring Prospectus.

Grading Of the Issue

The securities offered pursuant to this issue are not graded.

Withdrawal of the Issue

Our Company, in consultation with the BRLM, reserves the right not to proceed with the Issue anytime after the Bid/Issue Opening Date without assigning any reason therefore.

In the event of withdrawal of the Issue anytime after the Bid/Issue Opening Date, our Company will forthwith repay, without interest, all monies received from the applicants in pursuance of the Red Herring Prospectus. If such money is not repaid within 8 days after our Company become liable to repay it, i.e. from the date of withdrawal, then our Company, and every Director of our Company who is an officer in default shall, on and from such expiry of 8 days, be liable to repay the money, with interest at the rate of 15% per annum on application money.

Book Building Process

Book building refers to the collection of Bids from investors, which is based on the Price Band, with the Issue Price being finalized after the Bid/Issue Closing Date. The principal parties involved in the Book Building Process are:

1. Our Company
2. The Book Running Lead Manager; and
3. The Syndicate Members who are intermediaries registered with SEBI or registered as brokers with the Stock Exchange(s) and eligible to act as underwriters. The BRLM appoints the Syndicate Members.

The SEBI DIP Guidelines has permitted an issue of securities to the public through the 100% Book Building Process, wherein up to 50% of the Issue shall be available for allocation to QIBs on a proportionate basis out of which 5% shall be available for allocation on a proportionate basis to Mutual Funds only, and the remainder of the Qualified Institutional Buyers Portion



shall be available for allocation on a proportionate basis to all Qualified Institutional Buyers, including Mutual Funds, subject to valid Bids being received at or above Issue price. Further, not less than 15% of the Issue shall be available for allotment to Non Institutional Bidders and not less than 35% of the Issue shall be available for allotment to Retail Individual Bidders on a proportionate basis, subject to valid Bids being received at or above the Issue Price. We will comply with the SEBI DIP Guidelines for this Issue. In this regard, we have appointed the BRLM to procure subscriptions to the Issue.

The process of book building, under SEBI DIP Guidelines, is relatively new and the investors are advised to make their own judgment about investment through this process prior to making a Bid in the Issue. Pursuant to recent amendments to SEBI DIP Guidelines, QIBs are not allowed to withdraw their Bid after the Bid/Issue Closing Date. Please refer to the section entitled “Terms of the Issue” on page [•] of this Draft Red Herring Prospectus for more details.

Illustration of Book Building and Price Discovery Process

(Investors should note that the following is solely for the purpose of illustration and is not specific to the Issue)

The Bidders can bid at any price within the Price Band. For instance, assume a Price Band of Rs.60 to Rs.72 per Equity Share, Issue size of 5,400 Equity Shares and receipt of five Bids from the Bidders. A graphical representation of the consolidated demand and price would be made available at the website of the BSE (www.bseindia.com) and NSE (www.nseindia.com) during the bidding period. The illustrative book as set forth below shows the demand for the Equity Shares of our Company at various prices and is collated from Bids from various investors.

Bid Quantity	Bid Price (Rs.)	Cumulative Quantity	Subscription
1,500	72	1,500	27.78%
3,000	69	4,500	83.33%
4,500	66	9,000	166.67%
6,000	63	15,000	277.78%
7,500	60	22,500	416.67%

The price discovery is a function of demand at various prices. The highest price at which our Company is able to issue the desired quantity of Equity Shares is the price at which the book cuts off, i.e., Rs.66 in the above example. Our Company, in consultation with the BRLM will finalize the Issue Price at or below such cut off price, i.e., at or below Rs.66. All Bids at or above this Issue Price and cut-off Bids are valid Bids and are considered for allocation in the respective categories.

Steps to be taken for bidding:

1. Check eligibility for bidding (see the section titled “Issue Procedure - Who Can Bid” on page [•] of this Draft Red Herring Prospectus);
2. Ensure that the Bidder has a demat account and the demat account details are correctly mentioned in the Bid-cum-Application Form;
3. If your Bid is for Rs. 50,000 or more, ensure that you have mentioned your PAN and attach copies of your PAN card or PAN allotment letter to the Bid-cum-Application Form (see the section titled “Issue Procedure” on page [•] of this Draft Red Herring Prospectus);
4. Ensure that the Bid-cum-Application Form is duly completed as per instructions given in this Draft Red Herring Prospectus and in the Bid-cum-Application Form.
5. The Bidder should ensure the correctness of his or her Demographic Details (as defined in the section Issue Procedure-Bidder’s Depository Account Details” on page [•] given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.



Bid/Issue Programme

Bid/Issue opens on: _____	Bid/Issue closes on: _____
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Bids and any revision in Bids shall be accepted **only between 1000 hrs and 1500 hrs** (Indian Standard Time) during the Bidding Period as mentioned above at the bidding centers mentioned on the Bid cum Application Form except that on the Bid/Issue Closing Date, the Bids shall be accepted **only between 1000 hrs and 1300 hrs** (Indian Standard Time) and uploaded till such time as permitted by the BSE and the NSE on the Bid/Issue Closing Date.

Investors please note that as per letter no. List/smd/sm/2006 dated July 3, 2006 and letter no. NSE/IPO/25101-6 dated July 6, 2006 issued by BSE and NSE respectively, bids and any revision in Bids shall not be accepted on Saturdays and holidays as declared by the Exchanges.

The Price Band will be decided by us in consultation with the BRLM. The announcement on the Price Band shall also be made available on the websites of the BRLM and at the terminals of the Syndicate.

We reserve the right to revise the Price Band during the Bidding Period in accordance with SEBI Guidelines. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price and can move up or down to the extent of 20%.

In case of revision in the Price Band, the Bidding/Issue Period will be extended for three additional days after revision of Price Band subject to the Bidding/Issue Period not exceeding 10 working days. Any revision in the Price Band and the revised Bidding/Issue Period, if applicable, will be widely disseminated by notification to the BSE and the NSE, by issuing a press release, and also by indicating the change on the web sites of the BRLM and at the terminals of the Syndicate.

Underwriting Agreement

After the determination of the Issue Price and prior to filing of the Prospectus with RoC, we will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be issued through the Issue. It is proposed that pursuant to the terms of the Underwriting Agreement, the BRLM shall be responsible for bringing in the amount devolved in the event that the Syndicate Members do not fulfill their underwriting obligations.

The Underwriters have indicated their intention to underwrite the following number of Equity Shares:



(This portion has been intentionally left blank and will be completed prior to filing of the Prospectus with RoC)

Name and Address of the Underwriters	Indicative Number of Equity shares to be Underwritten	Amount Underwritten (Rupees In Milliomm)
UTI Securities Limited <i>(A Subsidiary of Securities Trading Corporation of India Limited)</i> 1 st Floor, Dheeraj Arma, Anant Kanekar Marg, Station Road, Bandra (East), Mumbai – 400 051. Tel No: 91 – 22 - 67515828/826 Fax No: 91 – 22 - 67023194 Website: www.utisel.com Email: smsipo@utisel.com Contact Person: Mr. Sumeet Lath / Ms. Neetu Ranka	[•]	[•]
[•]	[•]	[•]
Total	[•]	[•]

The above-mentioned amount is indicative underwriting and would be finalized after pricing and actual allocation. The above Underwriting Agreement is dated [•].

In the opinion of our Board of Directors (based on a certificate given by the Underwriters), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act or registered as brokers with the stock exchange(s).

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the BRLM and the Syndicate Member(s) shall be responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default in payment, the respective Underwriter, in addition to other obligations defined in the Underwriting Agreement, will also be required to procure/subscribe to the extent of the defaulted amount as specified in the Underwriting Agreement.



CAPITAL STRUCTURE

The share capital of our Company as on the date of filing of this Draft Red Herring Prospectus with SEBI is as set forth below:

No. Of Shares	Nominal Value (Rs.)	Aggregate Value (Rs.)
A. AUTHORISED CAPITAL 12,000,000 Equity Shares of Rs. 10/- each	120,000,000	
B. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL 7,023,000 Equity shares of Rs. 10/- each	70,230,000	
C. ISSUE IN TERMS OF THIS DRAFT RED HERRING PROSPECTUS* 2,977,000 Equity Shares of Rs. 10/- each at a premium of Rs. [•]/- per share	29,770,000	[•]
D. NET ISSUE TO THE PUBLIC 2,977,000 Equity Shares of Rs. 10/- each at a premium of Rs. [•]/- per share	29,770,000	[•]
E. PAID UP CAPITAL AFTER THE PRESENT ISSUE 10,000,000 Equity shares of Rs. 10/- each	100,000,000	[•]
F. SHARE PREMIUM ACCOUNT Before the issue After the issue		67,000,000 [•]

* Note: In line with clause 8.7.1 our company is exploring the possibility of placing [•] Equity Shares with certain investors. In case of company placing the said shares, the size of the Issue to the public will stand reduced to the extent of such placements.

Notes to Capital Structure:

1. Details of Increase in Authorized Capital

Sr. No.	Particulars Of Increase	Date of Meeting	AGM/EGM
1.	Rs. 500,000	Incorporation	-
2.	From Rs 500,000 to Rs.1,000,000	July 30, 1988	AGM
3.	From Rs. 1,000,000 to Rs. 1,500,000	October 12, 1989	AGM
4.	From Rs. 1,500,000 to Rs. 4,000,000	February 25, 1992	AGM
5.	From Rs. 4,000,000 to Rs. 20,000,000	September 26, 1994	AGM
6.	From Rs. 20,000,000 to Rs. 35,000,000	September 29, 1994	EGM
7.	From Rs. 35,000,000 to Rs. 50,000,000	September 25, 1997	AGM
8.	From Rs. 50,000,000 to Rs. 120,000,000	December 11, 2003	EGM



2. Capital Build-up: Our existing Equity Share capital has been subscribed and allotted as under:

Date on which Equity Shares were allotted/ made fully paid-up	Number of Equity Shares	Cumulative Share Capital (In Rs.)	Face Value (In Rs.)	Issue Price (In Rs.)	Nature of payment of consideration	Reason of Allotment	Share premium (In Rs.)	Cumulative Share Premium (In Rs.)
December 14, 1987	40	400	10	10	Cash	Subscription to Memorandum of Association	-	-
December 13, 1988	34,960	350,000	10	10	Cash	Further Allotment	-	-
December 15, 1988	15,000	500,000	10	10	Cash	Allotted to relatives, friends of promoters	-	-
March 20, 1989	25,000	750,000	10	10	Cash	Allotted to promoters, relatives, friends	-	-
September 28, 1989	25,000	1,000,000	10	10	Cash	Allotted to relatives, friends of promoters	-	-
May 7, 1990	22,900	1,229,000	10	10	Cash	Allotted to relatives, friends of promoters	-	-
June 7, 1990	27,100	1,500,000	10	10	Cash	Allotted to relatives, friends of promoters	-	-
March 26, 1992	150,000	3,000,000	10	10	Cash	Allotted to Promoters, relatives and employees	-	-
November 1, 1994	800,000	11,000,000	10	--	Bonus	Bonus @ 8:3	-	-
November 21, 1994	150,000	12,500,000	10	10	Cash	Allotted to Promoters	-	-



November 30, 1994	350,000	16,000,000	10	60	Cash	Allotted to employees, friends and relatives of Promotes and Promoters	17,500,000	17,500,000
February 18, 1995	450,000	20,500,000	10	120	Cash	Allotted to Corporate Body.	49,500,000	67,000,000
TOTAL	2,050,000							
Sub - Division into Rs. 5/- per share on March 22, 2004								
March 22, 2004	4,100,000	20,500,000	5				-	67,000,000
March 27, 2004	4,100,000	41,000,000	5	--	Bonus	Bonus shares @ 1: 1	-	67,000,000
TOTAL	8,200,000							
Re-Consolidation into Rs. 10/- per share on September 29, 2004								
September 29, 2004	4,100,000	41,000,000	10				-	67,000,000
April 28, 2006	2,923,000	70,230,000	10	10	Issued for consideration Other than cash	Allotted to Shareholders of Sreenivasa Pharma Pvt. Limited after Sreenivasa Pharma Pvt Ltd. became a subsidiary of SMS Pharma Limited.	-	67,000,000

3. Shares issued for consideration other than cash

Except as mentioned in the table above, we have not issued any shares for consideration, other than cash.

The above shares were allotted to shareholders of Sreenivasa Pharma Pvt. Limited. Shareholders of SMS Pharmaceuticals Limited at the EGM held on April 28, 2006 approved the resolution making Sreenivasa Pharma Pvt. Limited a wholly owned subsidiary of SMS Pharmaceuticals Limited. Shareholders of Sreenivasa Pharma Pvt. Limited were issued One Share of SMS Pharmaceuticals Limited for every one share held by them in Sreenivasa Pharma Pvt. Limited.

4. Promoters' Contribution and Lock-in details in respect of Promoters, whose names figure in the Draft Red Herring Prospectus as Promoters in the paragraph on "Promoters and their Background" is as under:



a. Capital built up of the promoters is detailed below:

Sr. No	Name of Promoter	Date of allotment/ Transfer and made Fully paid-up	Consideration	No. of Shares	Face Value (Rs.)	Issue / Transfer Price (Rs.)	% of post issue paid up capital	Lock in period
1	Ramesh Babu Potluri	August 30,1990	Cash (Transfer)	45,000	10	10		#
		October 31,1990	Cash (Transfer)	10,000	10	10		#
		November 30,1990	Cash (Transfer)	8,500	10	10		#
		Dcemeber 31,1990	Cash (Transfer)	10,000	10	10		#
		January 31,1991	Cash (Transfer)	15,000	10	10		#
		March 30,1991	Cash (Transfer)	(33,600)	10	10		#
		March 26,1992	Cash (Allotment)	6,800	10	10		#
		August 20,1994	Cash (Transfer)	1,200	10	10		#
		August 20,1994	Cash (Transfer)	(20,200)	10	10		#
		November 1,1994	Bonus	113,867	10	-		#
		November 21,1994	Cash (Allotment)	75,000	10	10		#
		Sub Total		231,567				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	463,134	5	-		#
		March 27,2004	Bonus	463,134	5	-		#
		Sub Total		926,268	5			
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	463,134	10			#
		April 28,2006	Cash (Allotment)	672,560	10	Consideration other than cash		#
		Total (A)		1,135,694			11.36	

2	TVVSN Murthy	August 30,1990	Cash (Transfer)	45,000	10	10		#
		October 31,1990	Cash (Transfer)	5,000	10	10		#
		November 30,1990	Cash (Transfer)	6,800	10	10		#
		Dcemeber 31,1990	Cash (Transfer)	4,700	10	10		#
		March 30,1991	Cash (Transfer)	(25,950)	10	10		#
		March 26,1992	Cash (Allotment)	3,800	10	10		#
		September 01,1993	Cash (Transfer)	7,200	10	10		#
		August 20,1994	Cash (Transfer)	24,000	10	10		#
		November 1,1994	Bonus	188,134	10	-		#
		November 21,1994	Cash (Allotment)	75,000	10	10		#
		November 30,1994	Cash (Allotment)	5,000	10	60		#
		August 30,1997	Cash (Transfer)	(199,067)	10	10		#
		January 10,2000	Cash (Transfer)	(122,267)	10	10		#
		February 9,2001	Cash (Transfer)	1,000	10	10		#
		December 30,2002	Cash (Transfer)	6,000	10	10		#
		January 20,2003	Cash (Transfer)	2,500	10	10		#
		December 15,2003	Cash (Transfer)	27,500	10	10		#
		Sub Total		54,350	10	10		
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	108,700	5			#
		March 27,2004	Bonus	108,700	5	-		#
		Sub Total		217,399	5			
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	108,700	10			#
		April 28,2006	Cash (Allotment)	714,000	10	Consideration other than cash		#
		Total (B)		822,700			8.23	



3	T V V S N Murthy (HUF)	September 30,1996	Cash	199,067	10	10		#
		Sub Total		199,067				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	398,134	5	-		#
		March 27,2004	Bonus	398,134	5	-		#
		Sub Total		796,268				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	398,134	10	--		#
		Total (C)		398,134			3.98	
4	Annapurna Talluri	March 30,1991	Cash (Transfer)	3,600	10	10		#
		March 26,1992	Cash (Allotment)	16,000	10	10		#
		September 01,1993	Cash (Transfer)	4,350	10	10		#
		August 20,1994	Cash (Transfer)	11,100	10	10		#
		November 01,1994	Bonus	93,467	10	-		#
		November 30,1994	Cash (Allotment)	3,000	10	60		#
		Sub Total		131,517				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	263,034	5			#
		March 27,2004	Bonus	263,034	5	-		#
		Sub Total		526,069				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	263,034	10			#
		April 28,2006	Cash (Allotment)	176,000	10	Consideration other than cash		#
		Total (D)		439,034			4.39	

5	Hima Bindu Potluri	March 30,1991	Cash (Transfer)	7,000	10	10		#
		March 26,1992	Cash (Allotment)	17,000	10	10		#
		November 01,1994	Bonus	64,000	10	-		#
		November 30,1994	Cash (Allotment)	2,000	10	60		#
		May 22,1999	Cash (Transfer)	26,667	10	10		#
		Sub Total		116,667				#
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	233,334	5			#
		March 27,2004	Bonus	233,334	5	-		#
		Sub Total		466,668				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	233,334	10			#
		April 28,2006	Cash (Allotment)	1,004,000	10	Consideration other than cash		#
		Total (E)		1,237,334			12.37	
6	Potluri Hire Purchase & Finance Private Limited	December 22,1997	Cash (Transfer)	450,000	10	75		#
		September 28,1998	Cash (Transfer)	2,500	10	60		#
		October 28,1998	Cash (Transfer)	39,000	10	60		#
		December 27,1998	Cash (Transfer)	4,500	10	60		#
		February 28,1999	Cash (Transfer)	4,000	10	60		#
		March 15,1999	Cash (Transfer)	3,300	10	60		#
		May 15,1999	Cash (Transfer)	10,500	10	60		#
		July 14,1999	Cash (Transfer)	2,500	10	60		#
		August 19,1999	Cash (Transfer)	1,700	10	46		#
		September 27,1999	Cash (Transfer)	1,000	10	60		#
		November 27,1999	Cash (Transfer)	2,000	10	60		#



	November 30,1999	Cash (Transfer)	500	10	60	#
	August 02,2001	Cash (Transfer)	2,500	10	10	#
	Sub-Total		524,000			
	Sub Division in to Rs. 5/- per share on March 22, 2004					
	March 22,2004	Split	1,048,000	5	-	#
	March 27,2004	Bonus	1,048,000	5	-	#
	Sub Total		2,096,000	5		
	September 23,2004	Cash (Transfer)	(24,000)	5	150	#
	Sub-Total		2,072,000			
	Reconsolidation into Rs. 10 per share on September 29, 2004					
	September 29,2004	Consolidation	1,036,000	10	-	#
	July 15,2005	Cash (Transfer)	(150,000)	10	10	#
	Total (F)		886,000		8.86	
	Grand Total (A+B+C+D+E+F)		4,918,896		49.19	

as per table given below

- b. Promoters are not participating in the issue. #As per clause 4.13.1 of the SEBI DIP Guidelines the below mentioned shares of the promoters (eligible for lock-in) shall be locked-in on LIFO basis (i.e. shares that have been issued last shall be locked in first) for a period of 3 years from the date of allotment in the public issue:

Sr. No	Name of Promoter	Date of allotment/ Transfer and made Fully paid-up	Consideration	No. of Shares	Face Value (Rs.)	Issue / Transfer Price (Rs.)	% of post issue paid up capital	Lock in period
1	Ramesh Babu Potluri	October 31,1990	Cash (Transfer)	1,200	10	10		3
		November 30,1990	Cash (Transfer)	8,500	10	10		3
		Dcemeber 31,1990	Cash (Transfer)	10,000	10	10		3
		January 31,1991	Cash (Transfer)	15,000	10	10		3
		March 26,1992	Cash (Allotment)	6,800	10	10		3
		August 20,1994	Cash (Transfer)	1,200	10	10		3
		November 1,1994	Bonus	113,867	10	--		3
		November 21,1994	Cash (Allotment)	75,000	10	10		3
		March 27,2004	Bonus*	231,567	10	-		3
		Total (A)		463,134			4.63	

2	T V V S N Murthy	November 21,1994	Cash (Allotment)	12,350	10	10		3
		November 30,1994	Cash (Allotment)	5,000	10	60		3
		February 9,2001	Cash (Transfer)	1,000	10	10		3
		December 30,2002	Cash (Transfer)	6,000	10	10		3
		January 20,2003	Cash (Transfer)	2,500	10	10		3
		December 15,2003	Cash (Transfer)	27,500	10	10		3
		March 27,2004	Bonus*	54,350	10	-		3
		Total (B)		108,700			1.09	
3	T V V S N Murthy (HUF)	September 30,1996	Cash	199,067	10	10		3
		March 27,2004	Bonus*	199,067	10	-		3
		Total (C)		398,134			3.98	
4	Annapurna Talluri	March 30,1991	Cash (Transfer)	3,600	10	10		3
		March 26,1992	Cash (Allotment)	16,000	10	10		3
		September 01,1993	Cash (Transfer)	4,350	10	10		3
		August 20,1994	Cash (Transfer)	11,100	10	10		3
		November 01,1994	Bonus	93,467	10	-		3
		November 30,1994	Cash (Allotment)	3,000	10	60		3
		March 27,2004	Bonus*	131,517	10	-		3
		Total (D)		263,034			2.63	
5	Hima Bindu Potluri	March 30,1991	Cash (Transfer)	7,000	10	10		3
		March 26,1992	Cash (Allotment)	17,000	10	10		3
		November 01,1994	Bonus	64,000	10	-		3
		November 30,1994	Cash (Allotment)	2,000	10	60		3
		May 22,1999	Cash (Transfer)	26,667	10	10		3
		March 27,2004	Bonus*	116,667	10	-		3
		Total (E)		233,334			2.33	



6	Potluri Hire Purchase & Finance Private Limited	July 14,1999	Cash (Transfer)	1,964	10	60		3
		August 19,1999	Cash (Transfer)	1,700	10	46		3
		September 27,1999	Cash (Transfer)	1,000	10	60		3
		November 27,1999	Cash (Transfer)	2,000	10	60		3
		November 30,1999	Cash (Transfer)	500	10	60		3
		August 02,2001	Cash (Transfer)	2,500	10	10		3
		March 27,2004	Bonus*	524,000	5	-		3
		Total (F)		533,664			5.34	
	Grand Total (A+B+C+D+E+f)			2,000,000			20.00	

* Calculations for bonus shares for 20% lock-in purpose have been done assuming face value per equity share as Rs. 10. These Equity shares of Rs. 5/- each were allotted pursuant to a resolution passed on March 27, 2004. The face value of the equity shares was changed from Rs. 5/- to Rs. 10/-, and the number of equity shares were reduced to 50%

Specific written consents have been received from the above mentioned promoters to lock - in their shares for a period of 3 years to ensure minimum Promoters' contribution to the extent of 20% of Post-Issue Paid-up Capital.

Other than the above the entire pre-issue capital of our Company shall be locked in for a period of 1 year from the date of allotment of Equity Shares in the public issue.

The lock-in period shall commence from the date of allotment of Equity Shares in the public issue.

c. Capital built up of the persons who form part of the promoter group is detailed below:

Sr. No	Name of Person in Promoter Group	Date of allotment/ Transfer and made Fully paid-up	Consideration	No. of Shares	Face Value (Rs.)	Issue / Transfer Price (Rs.)	% of post issue paid up capital*	Lock in period
1	P Suresh Babu	August 20,1994	Cash (Transfer)	850	10	10		
		November 1,1994	Bonus	2,267	10	--		
		May 8,2002	Cash (Transfer)	1,000	10	10		
		November 16,2002	Cash (Transfer)	1,200	10	10		
		September 26,2003	Cash (Transfer)	1,500	10	10		
		Sub Total		6,817				

		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	13,634	5	-		
		March 27,2004	Bonus	13,634	5	-		
		Sub Total		27,269	5			
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	13,634	10			
		Total		13,634				1
2	K Sukumari							
		November 30,1994	Cash Allotment	1,500	10	60		
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	3,000	5	-		
		March 27,2004	Bonus	3,000	5	-		
		Sub Total		6,000	5			
		Reconsolidation into Rs. 10 per share on September 29, 2004						
3	G. Sesharatnam	September 29,2004	Consolidation	3,000	10			
		Total		3,000				1
		November 30,1994	Cash Allotment	1,000	10	60		
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	2,000	5	-		
		March 27,2004	Bonus	2,000	5	-		
4	G Madan Gopal Swamy	Sub Total		4,000	5			
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	2,000	10			
		Total		2,000				1
		November 30,1994	Cash Allotment	2,000	10	60		
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	4,000	5	-		
		March 27,2004	Bonus	4,000	5	-		
		Sub Total		8,000	5			
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	4,000	10			
		Total		4,000				1



5	Raghavendra Rao Potluri	March 30,1991	Cash (Transfer)	5,000	10	10		
		March 26,1992	Cash (Allotment)	6,500	10	10		
		September 01,1993	Cash (Transfer)	4,000	10	10		
		November 01,1994	Bonus	41,333	10	-		
		November 30,1994	Cash (Allotment)	500	10	60		
		Sub Total		57,333				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	114,666	5			
		March 27,2004	Bonus	114,666	5	-		
		Sub Total		229,331				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	114,666	10			
		Total		114,666				1
6	Satyavani Potluri	August 20,1994	Cash (Transfer)	3,500	10	10		
		November 01,1994	Bonus	9,333	10	-		
		Sub Total		12,833				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	25,666	5			
		March 27,2004	Bonus	25,666	5	-		
		Sub Total		51,331				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	25,666	10			
		April 28,2006	Cash (Allotment)	50,000	10	Consider ation other than cash		
		Total		75,666				1

7	Hari Kishore Potluri	March 30,1991	Cash (Transfer)	1,500	10	10		
		August 14,1992	Cash (Transfer)	1,200	10	10		
		November 01,1994	Bonus	7,200	10	-		
		November 30,1994	Cash (Allotment)	1,000	10	60		
		September 28,1998	Cash (Transfer)	5,000	10	20		
		February 28,1999	Cash (Transfer)	3,600	10	25		
		April 20,2000	Cash (Transfer)	2,000	10	30		
		Sub Total		21,500				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	43,000	5			
		March 27,2004	Bonus	43,000	5	-		
		Sub Total		86,000				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	43,000	10			
		Total		43,000				1
8	Mr. Trilok Potluri	August 20,1994	Cash (Transfer)	10,000	10	10		
		November 1,1994	Bonus	26,667	10	-		
		December 27,1998	Cash (Transfer)	1,000	10	10		
		December 15,2003	Cash (Transfer)	6,500	10	10		
		Sub Total		44,167				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	88,334	5			
		March 27,2004	Bonus	88,334	5	-		
		Sub Total		176,668				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	88,334	10			
		April 28,2006	Cash (Allotment)	104,800	10	Consideration other than cash		
		Total		193,134				1



9	Mr. Vamsi Krishna Potluri	August 20,1994	Cash (Transfer)	10,200	10	10		
		November 1,1994	Bonus	27,200	10	-		
		May 8,2002	Cash (Transfer)	1,000	10	10		
		Sub Total		38,400				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	76,800	5			
		March 27,2004	Bonus	76,800	5	-		
		Sub Total		153,600				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	76,800	10			
		April 28,2006	Cash (Allotment)	68,640	10	Consideration other than cash		
		Total		145,440				1
10	T V Praveen	January 10,2000	Cash (Transfer)	62,267	10	10		
		Sub Total		62,267				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	124,534	5			
		March 27,2004	Bonus	124,534	5	-		
		Sub Total		249,068				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	124,534	10			
		April 28,2006	Cash (Allotment)	55,000	10	Consideration other than cash		
		Total		179,534				1



11	T Sudeepthi	January 10,2000	Cash (Transfer)	60,000	10	10		
		Sub Total		60,000				
		Sub Division in to Rs. 5/- per share on March 22, 2004						
		March 22,2004	Split	120,000	5			
		March 27,2004	Bonus	120,000	5	-		
		Sub Total		240,000				
		Reconsolidation into Rs. 10 per share on September 29, 2004						
		September 29,2004	Consolidation	120,000	10			
		April 28,2006	Cash (Allotment)	55,000	10	Cnsiderat ion other than cash		
		Total		175,000				1
	Grand Total			949,074				

*The post issue share holding pattern will be determined after the book – building process

- For the purpose of calculating Promoters contribution, the same has been considered for the specified minimum lot of Rs. 25,000/- per application from each individual and Rs. 100,000/- from companies.
- The Equity Shares forming part of promoter's contribution do not consist of any private placement made by solicitation of subscription from unrelated persons, either directly or through any intermediary.
- The Equity Shares held by persons other than Promoters may be transferred to any other person holding shares prior to the Issue, subject to continuation of lock-in with transferees for the remaining period and compliance with the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable.

The Equity Shares to be held by the Promoters under lock-in period shall not be sold/hypothecated/transferred during the lock-in period. However, in terms of Clause 4.16(b) of the SEBI Guidelines the Equity Shares held by Promoters, which are locked in, may be transferred to and among Promoter/Promoter Group or to a new promoter or persons in control of our Company, subject to the continuation of lock-in in the hands of the transferees for the remaining period and compliance with the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 as applicable. The Promoters may pledge their Equity Shares with banks or financial institutions as additional security for loans whenever availed by them form banks or financial institutions.

- The details of sale/ purchase/ financing of shares by Promoters/Directors of the issuer company/Directors of promoters/Promoters' Group:**

The Promoters/Directors of the issuer company/Directors of promoters/Promoters' Group have not purchased and/or sold/financed any securities of our Company during the past 6 months.



9. Shareholding Pattern of our Company before and after the Issue is as under:

Category	Pre-Issue		Post Issue*	
	No. of Equity Shares	% holding	No. of Equity Shares	% holding
Promoters	4,918,896	70.04		
Promoter Group	949,074	13.51		
Employees	89,150	1.27		
Employees, Friends, Associates & Others	1,065,880	15.17		
GRAND TOTAL	7,023,000	100.00		100.00

*The post issue share holding pattern will be determined after the book - building process

10. Promoters and Promoter Group Shareholding

Sr. No.	Particulars	Pre-Issue		Post-Issue*	
		No. of Shares @ Rs. 10/- Each	% Holding	No. of Shares @ Rs. 10/- Each	% Holding
a.	Promoters				
	Ramesh Babu Potluri	1,135,694	16.17		
	T V V S N Murthy	822,700	11.71		
	T V V S N Murthy HUF	398,134	5.67		
	Annapurna Talluri	439,034	6.25		
	Hima Bindu Potluri	1,237,334	17.62		
	Potluri Hire Purchase & Finance Private Ltd	886,000	12.62		
	Sub-total	4,918,896	70.04		
b.	Immediate Relatives of the Promoters				
	T V Praveen	179,534	2.56		
	T Sudeepti	175,000	2.49		
	Trilok Potluri	193,134	2.75		
	Vamsi Krishna Potluri	145,440	2.07		
	Hari Kishore Potluri	43,000	0.61		
	Raghvendra Rao Potluri	114,666	1.63		
	Satyavani Potluri	75,666	1.08		
	P Suresh Babu	13,634	0.19		
	Sukumari	3,000	0.04		
	Sesharatnam	2,000	0.03		
	Madan Gopal Swamy G	4,000	0.06		
	Sub-total	949,074	13.51		
c.	Companies in which 10% or more of the share capital is held by the Promoters / an immediate relative of the Promoters / a firm or HUF in which the Promoters or any one or more of their immediate relatives is a member	-	-		
	Sub-total	-	-		



d.	Companies in which Company mentioned in c. above holds 10% or more of the share capital	-	-		
e.	HUF or firm in which the aggregate share of the promoters and his immediate relatives is equal to or more than 10% of the total	-	-		
f.	All persons whose shareholding is aggregated for the purpose of disclosing in the prospectus as "Shareholding of the Promoter's Group".	-	-		
	Total	5,867,970	83.55		

*The post issue share holding pattern will be determined after the book - building process

11. Particulars of top 10 shareholders:

- a. 2 years prior to the date of filing this Draft Red Herring Prospectus with SEBI i.e. August 23, 2004 (will be updated before filing with RoC)

Sr. No	Name of Shareholder	No. of Shares
1.	Potluri Hire Purchase & Finance P.Ltd	2,096,000
2.	Ramesh Babu Potluri	926,268
3.	T V V S N Murthy [HUF]	796,268
4.	Annapurna Talluri	526,068
5.	Hima Bindu Potluri	466,668
6.	T V Praveen	249,068
7.	T Sudeepthi	240,000
8.	Raghavendra Rao Potluri	229,332
9.	T V V S N Murthy	217,400
10.	Trilok Potluri	176,668
	Total	5,923,740

- b. 10 days prior to the date of filing this Draft Red Herring Prospectus with SEBI i.e. August 13, 2006 (will be updated before filing with RoC)

Sr. No	Name of Shareholder	No. of Shares
1.	Hima Bindu Potluri	1,237,334
2.	Ramesh Babu Potluri	1,135,694
3.	Potluri Hire Purchase & Finance P.Ltd	886,000
4.	T V V S N Murthy	822,700
5.	Annapurna Talluri	439,034
6.	T V V S N Murthy [HUF]	398,134
7.	Trilok Potluri	193,134
8.	T V Praveen	179,534
9.	T Sudeepthi	175,000
10.	Vamsi Krishna Potluri	145,440
	Total	5,612,004



- c. As on the date of filing this Draft Red Herring Prospectus with SEBI i.e. August 23, 2006 (will be updated before filing with RoC)

Sr. No	Name of shareholder	No. of Shares
1	Hima Bindu Potluri	1,237,334
2	Ramesh Babu Potluri	1,135,694
3	Potluri Hire Purchase & Finance P.Ltd	886,000
4	T V V S N Murthy	822,700
5	Annapurna Talluri	439,034
6	T V V S N Murthy [HUF]	398,134
7	Trilok Potluri	193,134
8	T V Praveen	179,534
9	T Sudeepthi	175,000
10	Vamsi Krishna Potluri	145,440
	Total	5,612,004

12. Details of capitalization of reserves by our Company in the past

Company has capitalised its free reserves by way of issuing bonus shares as stated below:

Date of Allotment	Number of Equity Shares	Face Value Per Share (In Rs.)	Ratio
November 1, 1994	800,000	10	8:3
March 27, 2004	4,100,000	5	1:1

13. Our Company, our Promoters, Directors and the Book Running Lead Manager to this Issue have not entered into any buy-back, standby or similar arrangements for purchase of Equity Shares from any person.
14. Our Company has not raised any bridge loan against the proceeds of this Issue.
15. A bidder cannot make a bid for more than the number of Equity Shares offered through this Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.
16. An over-subscription to the extent of 10% of the Net Issue to public can be retained for the purpose of rounding off to the nearest integer during finalizing the allotment, subject to minimum allotment being equal to [●] Equity Shares, which is the minimum application size in this issue.
17. In case of over-subscription in all categories, up to 50% of the Net Issue to the Public shall be available for allocation on a proportionate basis to Qualified Institutional Buyers (including specific allocation of 5% within the category of QIBs for Indian Mutual Funds). Further a minimum of 15% of the Net Issue to the Public shall be available for allocation on a proportionate basis to Non-Institutional Bidders and a minimum of 35% of the Issue shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. Under subscription, if any, in any portion would be met with spill over from other categories at the sole discretion of our Company in consultation with the BRLM.
18. We presently do not have any intention or proposal to alter our capital structure for a period of six months from the date of opening of this Issue, by way of split/



consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into exchangeable, directly or indirectly, for our Equity Shares) whether preferential or otherwise, except that if we enter into acquisitions or joint ventures, we may consider raising additional capital to fund such activity or use Equity Shares as currency for acquisition or participation in such joint ventures.

19. At any given time, there shall be only one denomination for the Equity shares of our Company and our Company shall comply with such disclosure norms as specified by SEBI from time to time.
20. As on the date of filing of this Draft Red Herring Prospectus, there are no outstanding warrants, options or rights to convert debentures, loans or other financial instruments into our Equity Shares. The shares locked in by the Promoters are not pledged to any party. The Promoters may pledge the Equity Shares with banks or Financial Institutions as additional security for loan whenever availed by them from banks/Financial Institutions, provided the pledge of shares is one of the terms of sanction of loan.
21. Since the entire money of Rs. [●]/- per share (Rs. 10/- face value + Rs. [●]/- premium) is being called on application, all the successful applicants will be issued fully paid-up shares. The securities offered through this public issue shall be made fully paid-up or may be forfeited within 12 months from the date of allotment of securities, if not made fully paid-up, in the manner specified in clause 8.6.2 of the SEBI DIP guidelines.
22. The Equity Shares of our Company are fully paid up and there are no partly paid up shares as on date.
23. No payment, direct or indirect in the nature of discount, commission, and allowance or otherwise shall be made either by us or our promoters to the persons who receive allotments, if any, in this Issue.
24. We have not revalued our assets since inception.
25. Our Company does not have any ESOS/ESPS scheme for our employees and we do not intend to allot any shares to our employees under ESOS/ESPS scheme from the proposed issue. As and when, options are granted to our employees under the ESOP scheme, our Company shall comply with the SEBI (Employee Stock Option Scheme and Employees Stock Purchase Plan) Guidelines 1999.
26. The securities which are subject to lock-in shall carry the inscription “non-transferable” and the non-transferability details shall be informed to the depositories. The details of lock-in shall also be provided to the stock exchanges, where the shares are to be listed, before the listing of the securities.
27. Our Company has 366 members as on the date of filing this Draft Red Herring Prospectus.
28. In respect of various agreements entered into by our Company with the lenders and sanction letters issued by our lenders to us, we are bound by certain restrictive covenants regarding capital structure and other restrictive covenants.
As per the loan agreements and sanction letters, we require written consent from the lenders, for certain restrictive covenants, amongst others, including formulation of any scheme of amalgamation or reconstruction, effecting any change in our capital structure, undertaking any new project, implementation of any scheme of expansion or acquisition of fixed assets except those indicated in the funds flow statements submitted to the lender



from time to time and approved by the lender, investing by way of share capital in or lend or advance funds to or place deposits with any other concern (including group companies), invest/deposit/lend funds to any other concern, change in remuneration payable to Directors either in the form of sitting fees or otherwise, entering into borrowing arrangements either secured or unsecured with any other bank, financial institution, company or otherwise or accept deposits apart from the arrangements approved by our lender, undertaking guarantee obligation on behalf of any other concerns (including group companies) , declaration of dividend for any year except out of profits relating to that year after making all due and necessary provisions and subject to no default in repayment obligations, sale, assignment, mortgage or other disposal of any of our fixed assets charged to the lenders, permitting any transfer of controlling interest or make any drastic change in the management set-up, undertake any trading activity other than the sale of products arising out of its manufacturing operations. We have obtained from all our lenders for the proposed issue.



SECTION V - OBJECTS OF THE ISSUE

OBJECTS OF THE ISSUE

The issue is being made to raise the funds for the following purposes:

1. Setting up of facilities for manufacturing Active Pharmaceuticals Ingredients (APIs) at Kandivalsa Village, Vizianagaram District, Andhra Pradesh.
2. To meet the requirement for Additional Working Capital
3. To meet the Public Issue Expenses
4. To list the Equity Shares offered through this Issue on BSE and NSE.

The objects clause of the Memorandum of Association of our Company enables us to undertake the existing activities and the activities for which the funds are being raised by us through the present Public Issue.

Cost of Project and Means of Finance

The cost of the project to be set up at Vizianagaram as mentioned in point no. 1 above and means of finance for that project is appraised by EXIM Bank, whereas the additional working capital requirement and public issue expenses have been estimated by management. The total cost of project is given below:

Cost of Project

(Rs. In Millions)

Sr. No.	Particulars	Amount
1	Land Development	50.60
2	Buildings	260.00
3	Plant & Machinery	478.70
4	Other Equipments (Incl. Pollution Control/Lab Equipment/Electrical/Warehouse)	205.20
5	Furniture & Fixtures	10.90
6	In-House R&D Facilities	28.30
7	FDA & Other Consultation Fee	13.30
8	Contingencies	53.00
9	Deposits	13.00
10	Pre-Operative Expenses	17.00
	Sub - Total	1,130.00
11	Public Issue Expenses & Others	[•]
12	Net Working Capital	[•]
	Sub - Total	[•]
	TOTAL PROJECT COST	[•]

Means of Finance	Rs. In Million
Initial Public Offering	[•]
Internal Accrual*	[•]
Term Loan	300.00
Total Means Of Finance	[•]

[•] - the relevant figure will be updated on finalization of the issue price.



*As on March 31, 2006 our company has Cash & Balance of Rs. 49.86 million, Debtors worth Rs. 451.70 million and total reserves and surplus of Rs. 515.25 million which will form part of internal accrual.

Proceeds from the Initial Public Offer would be crystallized on finalization of the Issue Price on conclusion of the book building process. Any shortfall in the cost of the project would be met from internal accruals and/or debt. Further, the amount that is in excess of the funds required for the proposed project and issue expenses will be utilized for General Corporate Purposes, which would be in accordance with the policies of our Board made from time to time.

In case the IPO does not go as planned, our Company will make alternative arrangements like availing of fresh loans from bank(s) and/or utilizing internal accruals.

DETAILS ABOUT THE TERM LOAN SANCTIONED BY EXIM BANK:

EXIM Bank has already sanctioned the term loan of Rs. 300.00 Million vide its sanction letter no. CBG : EOU-D-611 : 290 dated August 10, 2006.

I - Broad Terms and Conditions of Sanction of Loan from EXIM Bank

1	Amount	:	Rs. 300.00 Million
2	Currency of Loan	:	Indian Rupees
3	Purpose	:	To part finance expansion by setting up facilities for manufacturing active pharmaceuticals ingredients (APIs) at Vizianagaram, Andhra Pradesh.
4	Rate of Interest	:	Bank's PLR minus 2% p.a. subject to minimum of 9.50% p.a. payable with monthly rests on 20th of every month
5	Interest Reset	:	The rate of interest shall be reset at the end of 3 years from the date of first disbursement. Subsequent reset frequency will be advised at the time of first reset. In case reset interest rate is not acceptable to SMS, SMS shall have the option to prepay the outstanding loan on the interest reset date along with accrued interest thereon. Without paying any prepayment premium, subject to prior notice of 7 business days.
6	Service Fees	:	0.50% of the sanctioned amount, i.e., Rs. 1.50 Million plus service tax as applicable, payable upfront and non-refundable.
7	Documentation Fees	:	Rs. 15,000/- plus service tax as applicable, payable upfront and non-refundable.
8	Processing Fees	:	Rs. 10,000/- plus service tax as applicable, payable upfront and non-refundable.
Fees as at 6 to 8 above are payable upfront and are non-refundable, even if the financial assistance is not availed or cancelled for any reason whatsoever.			
9	Repayment Schedule (tentative)	:	To be repaid in 20 equal quarterly installments commencing after 2 years from the date of first disbursement, exact repayment schedule will be advised at the time of first disbursement.
10	Availability Period	:	December 31, 2007
11	Security	:	1. First pari passu charges on the entire immoveable properties and moveable fixed assets of the company, both present and future. 2. Personal Guarantees of promoter Directors, viz., Mr. Ramesh Babu Potluri, CMD and Mr. T V V S N Murthy, VC & JMD



12	Additional Interest by way of liquidated damages (in case of default)	:	Defaulted amounts of principal, interest and any other monies payable, if any, will attract liquidated damages at the rate of 2% p.a. over and above the applicable interest rate.
13	Expenses	:	All out of pockets expenses, including but not restricted to legal fees, stamp duties, travel expenses, documentation expenses, incurred in connection with project appraisal, monitoring and supervision will be borne by SMS.
14	Pre-disbursement Conditions	:	Prior to seeking disbursement under the loan, SMS shall: - Achieve financial closure including raising capital through IPO/ private placement. - Complete documentation up to hypothecation and execution of personal Guarantees. - Execute undertaking to obtain NOCs from all existing charges holders within a period of 6 months from the date of first disbursement failing which additional interest of 1% p.a. will be payable with retrospective effect from the date(s) of disbursement(s) till submission of all NOCs. - Execute undertaking to create mortgage security within a period of 6 months from the date of first disbursement, failing which additional interest @ 1% p.a. will be applicable with retrospective effect from the date(s) of disbursement(s) upto the date of completion of mortgage formalities to the satisfaction of Exim Bank. The total additional interest payable under clause (iv) & (v) above shall not exceed 1% p.a.
15	Interim Disbursement	:	Exim Bank may, at its absolute discretion, at the request of SMS, may consider interim disbursement upto 75% of loan amount pending abstention of NOCs and creation of mortgage on immovable properties subject to compliance with other terms and conditions including pre-disbursement conditions at para 14 above. Exim Bank shall have the right to recall the loan in case NOCs are not furnished and/or mortgage security is not created within the stipulated periods.

Appraisal

The project has been appraised by Export Import Bank of India vide its appraisal report dated August 18, 2006.

Brief details about the Project

The present Issue of Equity Shares is being made for setting up APIs manufacturing facilities at Kandhivalasa Village, Poosapatyregga Mandal, Vizianagaram Dist., Andhra Pradesh. We are planning to create the facilities for manufacturing new products which presently are in Lab scale testing stage in our Research and Development centre. We are planning to set up different production capacities based on the market for the product. The major products that we are proposing to manufacture are given below:

- Almotriptan
- Rizatriptan
- Frovatriptan
- Naratriptan
- Giftinib



- Imatinib
- Sildenafil
- Meloxicam
- Imidapril HCl
- Galantamine
- Anti Viral APIs

The detailed cost break-up for setting up the Project as provided in the Appraisal Report given by EXIM Bank is as follows:

1. LAND DEVELOPMENT: (RS. 50.60 MILLION)

We have already acquired the land measuring 72.64 acres in Vizianagram for the purpose of proposed expansion. The site development cost for the entire land would be around Rs. 50.60 Million comprising of elevations, compound walls, road, bore wells, gardens, lightings, labour charges etc. The detailed break up of cost estimates is as below:

Sr. No	Particulars	Rs. In Millions
1	Elevations, Granite Walls, Greenary & Gates	1.00
2	Compound Wall	12.60
3	Site Development	8.70
4	Roads	23.10
5	Drainage & canal	1.00
6	Coal yard development	0.50
7	HT Yard development	0.50
8	Borewells including pipes & fitting	0.50
9	Painting Estimation for Roads, garden lips, Compound Wall, Overhead taks, finishings etc.,	1.50
10	Electrical Material & Labor charges (compound wall lightings, security)	0.50
11	MS Angle for compound wall	0.50
12	Fabrication labor charges for MS Angles of Compound Wall	0.20
	Total	50.60

2. BUILDING (RS. 260.00 MILLION)

SMS has appointed M/s Arjun Consultants as the architect and consulting engineer for the proposed Buildings & Civil Works. The project envisages construction of 36,262 sq. mts (approx) which include production/laboratory/utilities blocks, ETP, etc. The cost estimates of different facilities are as below:

Area	Total Area in Sq.m	Total Rs. In Millions
Production blocks buildup area	23,779	178.30
Laboratory buildup area	1,608	11.30
Utilities buildup area	4,656	30.00
Warehouse buildup area	3,420	22.10
Effluent treatment facility area	1,200	8.40
Administration & canteen buildup area	1,054	6.80



Area	Total Area in Sq.m	Total Rs. In Millions
Security room	120	0.80
Undergroud Water Shumps	150	0.70
Overhead Tanks for Water	75	0.40
Toilets (10 nos)	200	1.10
Total	36,262	260.00

3. PLANT & MACHINERY (RS. 478.70 MILLION)

Plant and Machinery required for the project will be procured from indigenous sources as well as imported. The detailed cost estimate on the basis of the quotations received from suppliers is given as below:

Sr. No.	Type of Machinery	Supplier Name	Amount Rs. In Millions
1	Coal Conveyor, Crusher & Elevator, Chimney, Platform Sturctures & Ladders, Ducting, Boiler Feed Water Tank, Refractories and Insulation	Bevcon Wayors Pvt Ltd., J K Fabrications, Rao & Rao / Thermocare Enterprises	7.00
2	1 KL SS Roto Cone Vacuum Drier, Tray Driers	Mellenium Equipments Pvt Ltd., Four 'S' Engineering Works	14.60
3	Water hydrant system to total plant 348 X522, Siren System, Emergency Systems, Breathing Apparatus, Fire Suits, Fire Control, Helmets, Ladders etc	Ekta Udyoge	5.40
4	Mechanical Seals For Distillation Reactors 5 KL and 3 KL	Rolon Seals	5.10
5	RO Plant with high purity system 10M3/HR, 600 TDS, RO Plant Pipelines, Flanges & Valves Cost (without distribution line), High pure RO water distribution line to FDA & Non FDA production blocks	Revolve Engineers Pvt Ltd	8.20
6	10 Ton Boiler, 100TR and 170TR Vapour Absorption Heat Pump	Thermax Limited	14.80
7	Poly Propylene Pallets (1.2M X 1.2M)	Gayathri Marketing Enterprises	3.70
8	AHU System/Blowers	SRP Enviro Systems Pvt Ltd.,	17.90
9	5 LTRS Capacity Line Filters, 20 Lts SS Candy filter, 100 Lts Leaf Filter, 10 litres capacity line Filters, Centrifuge (24" to 48"), Blenders	Four 'S' Engineering Works	41.40
10	Condenser (6 M2 SS Condenser to 20M2 SS Condenser)	Raghavendra Engineering Industries	26.10
11	Distillation Kettle with Reboilers	Raghavendra Engineering	



Sr. No.	Type of Machinery	Supplier Name	Amount Rs. In Millions
		Industries	12.90
12	Drier -100 and 200 Kg FBD	Mellenium Equipments Pvt Ltd.,	3.80
13	Cooling towers	Sai Industrial Techno- Services	3.30
14	Glass Lined Reactors (0.5 KL to 5KL)	Nile Limited	43.90
15	1.5 KL to 10 KL SS Horizontal Tanks and Horizontal Tanks	Raghavendra Engineering Industries	19.10
16	2 KL SS Measuring Receiver, 0.3 KL to 3KL SS Receiver with MS Jacket and Vaccum Trap	Raghavendra Engineering Industries	13.10
17	54 and 40 Tor Brine compressor	Voltas Limited	4.20
18	1 KL to 30 KL MS Tanks, 0.2 KL to 3 KL MS Receiver and MS Vaccum Trap	Sai Krishna Engg.Works	6.30
19	2 KL Hydrogenator with Mechanical seal	Raghavendra Engineering Industries	6.10
20	S S Reactors (0.5 KL to 5KL)	Raghavendra Engineering Industries	70.80
21	Pipes and Fittings		43.10
22	Spare parts and Other Miscellaneous Items		30.20
23	Miscellaneous Plant and Machinery		54.40
24	Fabrication Charges		23.30
	TOTAL		478.70

None of the plant and machineries, described above are used/second hand in nature, and we do not propose to purchase any used/second-hand machinery for the proposed project.

4. OTHER EQUIPMENTS (INCLUDING POLLUTION CONTROL / LAB EQUIPMENT / ELECTRICAL / WAREHOUSE (RS. 205.20 MILLION))

Our Company proposes to purchase various equipments including Pollution Control Equipments, Lab Equipments, Electrical Equipment, Warehouse Equipments aggregating 205.20 Millions. The detailed break-up of expenditure on each of these equipments is given below:

• **Pollution Control: (Rs. 30.80 Million)**

S. No.	Equipment Name	Rs. in million
		Amount
1	Primary & SecondAry flocculator & Accessories, Ducting for Incineration system, Diffusers, Aereators & Tank accessories, , Reactors	12.40
2	Sedimentation tank, Final filtration tank, Gas Incinerator, Gas Incinerator, Quencher, Scrubber, Air Blowers	4.00



3	Water recovery system, 2 to 20 KL Tanks and Tubs	4.50
4	Drum Pyrolyzer, MS Nutch Filter, Solid waste ms collection tub 15 kl	2.10
5	Treated Effluent Disposal (Marine Disposial) including Oceanology research fee & others	1.90
6	Chimney	1.00
7	Others including tanks, circulation and recirculation pumps, scrappers, Anemometer, Fuel Gas Analyser, Nutch Filter, Air Compressor etc.	4.90
	Total	30.80

- **Electrical Equipments: (Rs. 87.40 Million)**

Rs. in million		
S.No.	Equipment	Amount
1	1000 KVA Generator and 625 KVA Generator	9.90
2	Cables (180, 240 & 400 Sq. MM), 2.5 Sq. MM and 1.5 Sq. MM	19.50
3	Distribution Boards to all blocks (light), Earthing Equipments and Electrical Labour Charge	11.50
4	Main control panel & Accessories (main), Panel Board, MS Cable Tray & Labor charges	14.80
5	Miscellaneous	31.70
	Total	87.40

- **Warehouse Equipments: (Rs. 22.20 Million)**

Rs. in million		
S.No.	Equipment Name	Amount
1	Vertical Tanks of Various Capacities and Types	10.80
2	Hydraulic lifter	0.70
3	2 KL SS Receiver	1.60
4	AHU in sampling room and dispensing room	1.20
5	Hydroulic drum truck	1.10
6	Others including Accessories	6.80
	Total	22.20

- **Lab Equipments: (Rs. 64.80 million)**

Our company proposes to purchase Laboratory Equipments worth Rs. 64.80 millions which will include Chromatography equipments, gas chamber with head space, stability chamber, ovens, humidifiers, spectrophotometers and other miscellaneous equipments.



5. FURNITURE & FIXTURES: (RS. 10.90 MILLION)

Our company proposes to purchase Furniture & Fixture worth Rs. 10.90 million which includes Filing Cabinets, Tables, Air conditioners, Computers, telephones and other miscellaneous items.

6. IN HOUSE R&D FACILITIES: (RS. 28.30 MILLION)

Our company propose to set up in house R&D Facilities worth Rs. 28.30 million for the proposed project. Various equipments required to set up the facilities include gas station for GC, Water purification system, UV/VIS Spectrometer, Polarimeter, Wet lab instruments, stability chambers and other miscellaneous equipments

7. FDA & OTHER CONSULTANCY CHARGES (RS. 13.30 MILLION)

FDA & Other consultancy fees includes expenses incurred on Approvals of plant layouts as per regulatory norms, Consultancy charges for Preparation of Drug Master Files and Filling of the same in to different drug authorities in different Countries, Equipment Commissioning Charges and Other Consultancy Fees

8. CONTINGENCIES (RS. 53.20 MILLION)

Our management does not expect any material change in the cost of project as detailed above. In the event of any cost overruns due to any adverse change in asset prices for which agreements have not yet been entered, time variation, unexpected price rise due to factors beyond our control, we have made a contingency provision of Rs. 53.20 millions, to take care of any such eventuality which may occur.

Contingencies have been estimated as under:

Rs in millions	
Particulars	Amount
Land Development	50.60
Buildings	259.80
Plant & Machinery	478.70
Other Equipments (Incl. Pollution Control/Lab Equipment/Electrical/Warehouse Etc.)	205.20
Furniture & Fixtures	10.90
In-House R & D Facilities	28.30
FDA & Other Consultation Fee	13.30
Preoperative Expenses	17.00
Total	1063.80
Contingencies (approx @ 5%)	53.20

9. DEPOSITS: (RS.13.00 MILLION)

Deposit Includes amount to be paid to AP Transo for Power Permission

10. PRE-OPERATIVE EXPENSES (RS. 17.00 MILLION)

Preoperative expenses (Rs. 17.00 millions) are estimated for six to eight months upto the date of commencement of commercial production. The pre-operative expenses include:

(Rs. In millions)		
SR. No	Particulars	Amount
1	Plant License (Deposit) amount	1.40



2	Site preparation for project implementation	2.70
3	Manpower cost	7.00
4	Office establishment cost	4.90
5	Miscellaneous amount	1.00
	Total	17.00

Disclaimer As given by EXIM Bank: EXIM Bank does not guarantee success of the project or its timely completion.

11. REQUIREMENT OF ADDITIONAL WORKING CAPITAL

We have existing banking relationships with sanctioned working capital limits as provided in the section "Financial Information" on page [•] of this Draft Red Herring Prospectus. These limits and our internal accruals are adequate to meet our existing requirements. However, the Company will utilise a part of the net proceeds of the Issue to augment its long-term working capital requirements. As a matter of practice, we submit the data giving the detailed assessment of working capital on an annual basis to these banks. In this manner we will tie up the annual limits for working capital, including the enhancement if needed to meet further working capital needs, if any arising out of the implementation of the activities on a regular basis.

The business of our Company has grown manifold during last 5 years. Considering the existing growth rate and the proposed expansion, the total working capital needs of our company, as assessed based on the internal working of the Company is expected to reach Rs.918.23 Million by fiscal 2008.

Our Working Capital Requirement as on March 31, 2006 is as given below:

Year Ended March 31, 2006	Holding Period in days	Amount Rs. In Million	Amount Rs. In Million
Raw Materials	48	91.68	
Stores & Spares	47	1.69	
Work In Process	69	170.61	
Finished Goods	2	4.18	
Total Inventories			268.16
- Domestic	131	274.97	
- Export	101	133.96	
Total Receivables			408.93
Other current assets		134.08	134.08
Total Current Assets			811.18
Less: Creditors	97	189.99	
Other Current Liabilities		70.06	
Total Current Liabilities			260.05
Total Working Capital requirement			551.13
Funding Pattern			
Bank Facilities Availed			251.29
Own Source			299.84
Total			551.13



Our Company's optimal requirement for working capital including this new project is estimated at about Rs. 918.23 millions. A detailed working for the same is mentioned below:

(Rs. In Millions)			
Year Ended March 31, 2008	Holding Period in days	Amount	Amount
Raw Materials	75	261.58	
Stores & Spares	60	8.27	
Work In Process	45	209.40	
Finished Goods	15	69.80	
Total Inventories			549.05
Receivables			
- Domestic	120	378.44	
- Export	90	408.59	
Total Receivables			787.03
Other current assets		80.00	80.00
Total Current Assets			1,416.09
Less: Creditors	90	326.30	
Other Current Liabilities		171.56	
Total Current Liabilities			497.86
Total Working Capital requirement			918.23
Bank Finance available			517.50
Proposed to be funded from Internal Accruals			[•]
Proposed to be funded from Public Issue			[•]

12. PUBLIC ISSUE EXPENSES

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertising expenses and listing fees. The estimated Issue expenses are as follows:

Rs. in Million		
Sr. No.	Particulars	Amount
1	Book Running Lead Manager fees	[•]
2	Registrars fees	[•]
3	Underwriting commission @ [•]%	[•]
4	Legal Advisors fees	[•]
5	Advertisement and Marketing expenses	[•]
6	Brokerage and selling expenses	[•]
7	Stock Exchange fees for providing bidding terminals	[•]
8	Other Miscellaneous expenses	[•]
	Total	[•]



Schedule of Implementation

Project Implementation Schedule for Proposed Plant as mentioned in the Appraisal report read along with the letter dated August 23, 2006 sent by our Company to EXIM bank is as follows:

Sl. No.	Activities	Commencement	Completion
1	Acquisition of Land	Completed - Already acquired 72.64 acres of land	
2	Land Development	October 2006	December 2006
3	Civil Construction	November 2006	August 2007
4	Order & Delivery of Plant & Machinery and Other Assets	December 2006	September 2007
5	Electrical installation	February 2007	October 2007
6	Erection & Commissioning of P & M	May 2007	December 2007
7	APSEB load sanction	October 2007	December 2007
8	Commencement of Trial runs	December 2007	January 2008
9	Validation Batches	January 2008	March 2008
10	Commencement of Commercial Production	March 2008	Continue

Deployment of Funds in the Project

We have incurred the following expenditure on the project till August 22, 2006. The same has been certified by M/s P. Murali & Co., Chartered Accountants vide their certificate dated August 22, 2006.

Deployment of Funds	Rs. in Millions
Public Issue Expenses	6.67
Total	6.67

Sources of Funds	Rs. In Millions
Internal Accruals	6.67
Total	6.67

Details of Balance Fund Deployment

The overall cost of the proposed project and the proposed year wise break up of deployment of funds are as under:

Particulars	Already Incurred	FY 2006-07		FY2007-08				Total Cost
		Q3	Q4	Q1	Q2	Q3	Q4	
Land Development	-	10.00	10.00	10.00	10.00	5.00	5.60	50.60
Buildings	-	70.00	130.00	30.00	30.00	-	-	260.00
Plant & Machinery	-	100.00	120.00	120.00	100.00	38.70	-	478.70



Particulars	Already Incurred	FY 2006-07		FY2007-08				Total Cost
		Q3	Q4	Q1	Q2	Q3	Q4	
Other Equipments (Incl. Pollution Control/Lab Equipment/Electrical/Warehouse Etc.)	-	35.00	35.00	50.00	40.00	38.05	7.15	204.44
Furniture & Fixtures	-	2.00	3.00	2.82	3.08	-	-	10.90
In-house R & D Facilities	-	8.00	8.00	4.00	4.00	4.30	-	28.30
Pre-Operative Expenses	-	1.00	1.00	4.00	4.00	4.00	3.00	17.00
FDA & Other Consultation Fee	-	2.00	3.80	2.00	2.00	2.00	1.50	13.30
Contingencies	-	-	-	-	-	-	53.00	53.00
Deposits	-	3.00	10.00	-	-	-	-	13.00
Additional Working Capital Requirement	-	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Public Issue Expenses	6.67	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Total	6.67	231.00	320.80	222.82	193.08	92.05	70.25	[•]

Interim Use of Funds

Pending utilization for the purposes described above, we intend to temporarily invest the funds in high quality interest/dividend bearing liquid instruments including money market mutual funds, deposit with banks for necessary duration. GILT edged securities and other 'AAA+' rated interest bearing securities as may be approved the Board of Directors or a Committee thereof. Such transactions would be at the prevailing commercial rates at the time of investment. We also intend to apply part of the proceeds of the Issue, pending utilization for the purposes described above, to temporarily reduce our working capital borrowings from banks and financial institutions. Should we utilise the funds towards temporary reduction in utilization of short-term working capital facilities, we undertake that we would ensure consistent and timely availability of the issue proceeds so temporarily deposited in the working capital facilities to timely meet the fund requirement of the project.

Our Company has not appointed any Monitoring Agency for monitoring the utilization of Issue Proceeds.

No part of the proceeds of this issue will be paid as consideration to our promoters, directors, key managerial employees or companies promoted by our promoters.



BASIC TERMS OF THE ISSUE

Principal Terms and Conditions of the Issue

The Equity Shares being offered are subject to the provisions of the Companies Act, our Memorandum and Articles of Association, the terms of this Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus, the Bid cum Application Form, the Revision Form, the Confirmation of Allocation Note (CAN) and other terms and conditions as may be incorporated in the Allotment advices and other documents/ certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, the Government of India, the Stock Exchanges, the RBI, ROC and/ or other authorities, as in force on the date of the Issue and to the extent applicable.

Ranking of Equity Shares

The Equity Shares being offered shall be subject to the provisions of the Companies Act, our Memorandum and Articles of Association and shall rank *pari passu* in all respects with the existing Equity Shares including in respect of the rights to receive dividend. The allottees will be entitled to dividend, voting rights or any other corporate benefits, if any, declared by us after the date of Allotment.

Face Value and Issue Price

The Equity Shares having a face value of Rs. 10/- each are being offered in terms of this Draft Red Herring Prospectus at the Price of Rs. [•] per Equity Share. The issue price will be determined by our Company in consultation with the BRLMs on the basis of assessment of market demand for the equity shares offered by way of book building. At any given point of time there shall be only one denomination of the Equity Shares of our Company, subject to applicable laws.

Rights of the Equity Shareholders

Subject to applicable laws, rules, regulations and guidelines and the Articles of Association, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting rights, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offer for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed Public Limited Company under the Companies Act, terms of the listing agreements with the Stock Exchanges(s) and the Memorandum and Articles of Association of our Company.

For a detailed description of the main provision of the Articles of Association of our Company relating to voting rights, dividend, forfeiture and lien and/or consolidation/splitting, etc., see the section entitled 'Main Provisions of Articles of Association' beginning on page [•] of this Draft Red Herring Prospectus.

**Market Lot and Trading Lot**

In terms of Section 68B of the Companies Act, the Equity Shares shall be allotted only in dematerialised form. In terms of existing SEBI Guidelines, the trading in the Equity Shares shall only be in dematerialised form for all investors.

Since trading of the Equity Shares will be in dematerialised mode, the tradable lot is one Equity Share. Allocation and allotment of Equity Shares through this Offer will be done only in electronic form in multiples of 1 Equity Share subject to a minimum allotment of [●] Equity Shares to the successful bidders.

Minimum Subscription

If our Company does not receive the minimum subscription of 90% of the Net Issue to the Public including devolvement of the members of the Syndicate within 60 days from the Bid/Issue Closing Date, our Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days after we become liable to pay the amount, our Company shall pay interest prescribed under Section 73 of the Companies Act 1956.



BASIS FOR ISSUE PRICE

The issue price will be determined by our Company in consultation with the BRLM on the basis of assessment of market demand for the equity shares offered by way of book building.

Investors should read the following summary with the Risk Factors included from page number [●] to [●] and the details about our Company and its financial statements included in the Draft Red Herring Prospectus. The trading price of the equity shares of our Company could decline due to these risks and you may lose all or part of your investments.

Qualitative Factors:

1. Our Company is a profit making & Dividend paying Company, PAT and Dividend paid for last 5 years are given below:

Particulars	Rs. In millions				
	2001-02	2002-03**	2003-04	2004-05	2005-2006
PAT	59.20	23.28	74.93	84.47	85.07
Dividend (%)	20	20	20	20	20*

* proposed; ** 9 months period

2. Our Company has filed 6 process patents and 1 product patent under PCT.
3. Our Company has filed 10 process patent with the Indian Patents Office.
4. Our Company has filed 28 DMFs/CoS in CTD format for 4 products; details are listed under section on "Intellectual Property Rights".
5. Our Company has ISO 9001: 2000 certifications for Unit I from DNV Certifications Ltd.
6. Unit II production facilities of our Company is US FDA approved.
7. Our Company has entered in to an Agreement with Ranbaxy for supply of Sumatriptan Succinate, under Para IV of ANDA, who has filed ANDA with US FDA making reference to the Company's DMF.
8. Our Company has entered into an Agreement with a Netherlands Company, SPEC for development of building blocks.
9. Our Company has successfully completed the agreement with Sochinaz SA for exclusive developmental works for Trandalopril.
10. The Company has filed non-infringing process patent for Sumatriptan Succinate. We believe we are the first Indian Company to file DMF in USA, Canada and Europe for the said product.
11. We have a multi product capability and proven Research & Development capabilities.
12. We believe that with our good technical base, lower overheads, international standard manufacturing facilities and effective marketing network we have shown consistent growth in revenues and profits.
13. Our Company was awarded the prestigious "Pandit Jawaharlal Nehru Silver Rolling Trophy" for its excellence as "Best Industrial Productivity effort in the State" in the year 1998.



Quantitative Factors

1. Adjusted Earnings Per Share

Particulars	PAT (in Rs. Million)	No. of Shares (In Rs. Million)	EPS (Rs.)
2003-04*	74.93	4.1	18.28
2004-05	84.47	4.1	20.60
2005-06	85.07	4.1	20.75
Weighted Average EPS			20.29

* - Share Capital consisting of 8,200,000 shares of Rs. 5/- has been converted into 4,100,000 shares of Rs. 10/- each for calculation of EPS to have consistency in all the years.

* - No. of shares have been adjusted on the basis of bonus shares issued during the period.

2. Price/Earning Ratio (P/E) in relation to Issue Price of Rs. [●]/- per share

Particulars	P/E at the lower end of the price band	P/E at the higher end of the price band
Based on 2005-06 EPS of Rs. 20.75	[●]	[●]
Based on weighted average EPS of Rs. 20.29	[●]	[●]

Industry P/E: Pharmaceuticals – Indian – Bulk Drugs	P/E Ratio
Highest - Shilpa Medicare	30.10
Lowest - Godavari Drugs	2.30
Average	17.00

*Source: Capital Market, July 17 -30, 2006

3. Return on Net Worth

Particulars	RONW %	Weight
2003-04	20.88	1
2004-05	20.23	2
2005-06	17.41	3
Weighted Average	18.93	6.00

Minimum Return on Total Net Worth needed after the Issue to maintain pre-Issue EPS of Rs. 20.75 is [●]%

4. Net Asset Value (Rs.)

	Particulars	At the lower end of the price band (Rs. [●])	At the higher end of the price band (Rs. [●])
a)	As on March 31, 2006	119.15	119.15
b)	After Issue	[●]	[●]
c)	Issue Price	[●]	[●]



5. Comparison of Accounting Ratios with Peer Group Companies

Based on the Products portfolio and turnover, given below is the comparison of Accounting Ratios with Peer Group Companies

Particulars	EPS (Rs.)	P/E Ratio	RONW (%)	NAV (Rs.)
Dishman Pharmaceuticals Limited	6.50	24.40	29.40	25.00
Hiran Orgochem	17.30	3.90	11.80	61.00
Neuland Labs.	11.60	9.50	10.50	93.60
Wanbury	8.40	10.30	49.20	55.70
SMS Pharmaceuticals Limited	20.75	-	17.41	119.15

Source: Capital Market, July 17 -30, 2006

6. The face value of our shares is Rs.10/- per share and the Issue Price of Rs. [●]/- is [●] times of the face value of our Equity Shares. The final price would be determined on the basis of the demand from the investors.
7. The Book Running Lead Manager believes that the Issue Price of Rs. [●]/- per share is justified in view of the above qualitative and quantitative parameters. The investors may also want to peruse the risk factors and our financials as set out in the Auditors Report in the Draft Red Herring Prospectus to have a more informed view about the investment proposition.
8. The final issue price would be determined based on the demand from the investors.



TAX BENEFITS CERTIFICATE

M/s Rambabu & Co., and M/s. P. Murali & co, Chartered Accountants and the Joint Auditors of the Company, have certified vide their letter dated August 22, 2006 that under the current provisions of the Income Tax Act, 1961 and the existing laws for the time being in force, the following benefits, inter-alia, will be available to the Company and the members.

(A) BENEFITS TO THE COMPANY UNDER INCOME TAX ACT, 1961:

The Company will be entitled for the following tax benefits in computing the Taxable Income under the Provisions of the Income Tax Act, 1961 (The Act):

Deduction U/s 35 of the Act:

In accordance with and subject to the provisions of Section 35, the company would be entitled to deduction in respect of expenditure laid out are expended on scientific research related to the business.

Dividend exempt U/s 10(34) of the Act:

Under section 10(34) of the Act., dividend income referred to in section 115 -O of the Act., will be exempt from tax in the hands of the company.

Capital Gains exempt U/s 10(38) of the Act:

In terms of Section 10(38) of the Act, any long term capital gains arising to a company from transfer of long term capital asset being equity shares in a company or a unit of any equity oriented fund would not be liable to tax if the following conditions are satisfied.

- i) The transaction of sale of such equity share is entered into on or after 1st October, 2004.
- ii) The transaction is chargeable to securities transaction tax.

Income from specified mutual fund exempt U/s 10(35):

In accordance with and subject to the provisions of Section 10(35) of the Act., the following income shall be exempt in the hands of the company.

- i) Income received in respect of the units of a mutual fund specified under clause (23 D) of section 10; or
- ii) Income received in respect of units from the Administrator ("Administrator" means the administrator as referred to in clause (a) of Section 2 of the Unit Trust of India (transfer of undertaking and Repeal) Act., 2002 of the specified undertaking ; or income received in respect of units from the specified company ("specified company" means a company as referred to in clause (h) of section 2 of the Unit Trust of India transfer of undertaking and Repeal) Act., 2002.

(B) BENEFITS TO THE MEMBERS:

I. UNDER THE INCOME TAX ACT, 1961:

(a) RESIDENT MEMBERS:

- 1. By virtue of Section 10(34) of the Income Tax Act, income earned by way of dividend income from domestic company referred to in section 115 - O of the Income Tax Act., are exempt from tax in the hands of share holders.



2. As per the provisions of Section 10(38) of the Income Tax Act, as inserted by Finance (No.2) Act, 2004, any income arising from the transfer of a long term capital asset being an equity share in a Company or a Unit of an Equity Oriented Fund (held for more than 12 months) where the sale transaction is chargeable to securities transaction tax, is exempt from tax.
3. Under the Provisions of Section 48 of the Income Tax Act, 1961, read with Section 2(29B) of the Act, if the company's shares are sold after being held for not less than twelve months, the gains, (in cases not covered under section 10(38) of the Act), if any, will be treated as long term capital gains and the gains shall be calculated by deducting from the gross consideration, the indexed cost of acquisition/improvement and expenditure incurred wholly and exclusively in connection with the transfer. However, in terms of the fifth proviso to Section 48, no deduction of amount paid on account of securities transaction tax will be allowed in computing the income chargeable to tax as capital gains.
4. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Income Tax Act, 1961, the Shareholders (in case the capital gain is not exempt under Section 10(38) of the Income Tax Act, 1961) would be entitled to exemption from tax on long Term Capital Gains on sale of their shares in the company, if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long term specified asset is transferred are converted into money at any time within a period of three years from the date of its acquisition, the amount of Capital Gains exempted earlier would become chargeable to tax as long term capital gain in the year in which the long term specified asset is transferred or converted into money.
5. In case of shareholder, being an individual or Hindu Undivided Family, in accordance with and subject to the conditions and to the extent specified in Section 54F of the Income Tax Act, 1961, would be entitled to exemption from Long Term Capital Gains on sale of their shares in the company upon investment of Net consideration in purchase/ construction of a residential house. If part of net consideration is invested within the prescribed period in a residential house, then such gains would not be chargeable to tax on a proportionate basis. Further, if the residential house in which the investment has been made is transferred within a period of three years from the date of its purchase / construction the amount of capital gains tax exempted earlier would become chargeable to tax as long term capital gain in the year in which such residential house is transferred.
6. Under Section 111A of the Income Tax Act 1961 and other relevant provisions of the Act, any short term capital gains, (in cases not covered under section 10(38) of the Act and if such shares are held for a period of less than 12 months), arising on transfer of shares of the company shall be taxed at a rate of 10% (plus applicable surcharge plus education cess) if the following conditions are satisfied.
 - i. The transaction of sale of such equity share or unit is entered into on or after October 1, 2004 ; and
 - ii. Such transaction is chargeable to Securities Transaction Tax.

Provided that in the case of Individual or HUF being a resident, where the total income as reduced by such short term capital gain is below the maximum amount which is not chargeable to income tax then such short term capital gain shall be reduced by the amount by which the total income as so reduced falls short of the



maximum amount which is not chargeable to income tax and the tax on the balance short term capital gains shall be computed @ 10%.

7. Under Section 112 of the Income Tax Act, 1961 and other relevant provisions of the Act, Long Term Capital Gains (in cases not covered under section 10(38) of the Act) arising on transfer of shares in the company held for more than 12 months, shall be taxed at a rate of 20% (plus applicable surcharge and education cess). The amount of such tax should however, be limited to 10% (plus applicable surcharge and education cess) with out indexation, at the option of the shareholder, if the transfer is made after listing of shares.

(C) NON-RESIDENT INDIANS / MEMBERS (OTHER THAN FIIS AND FOREIGN VENTURE CAPITAL INVESTORS]:

1. In terms of section 10(34) of the Income Tax Act, 1961, any income by way of dividends referred to in section 115-O (i.e. dividends declared, distributed or paid on or after April 1, 2003) received on the shares of the domestic company is exempted from the tax.
2. In terms of Section 10(38) of the Act, any long term capital gains arising to an investor from transfer of long term capital asset being equity shares in a company or a unit of any equity oriented fund would not be liable to tax if the following conditions are satisfied.
 - (a) The transaction of sale of such equity share is entered into on or after 1st October, 2004.
 - (b) The transaction is chargeable to securities transaction tax.
3. Under the provisions of Section 48 of the Income Tax Act, 1961, Capital Gains arising to a Non-Resident from the transfer of Capital Asset being shares in the company shall be computed by converting the cost of acquisition, expenditure in connection with such transfer and full value of the consideration received or accruing as a result of the transfer of the capital asset into the same foreign currency as was initially utilized in the purchase of the shares and the capital gains computed in terms of such foreign currency shall be reconverted into Indian currency, such that the aforesaid manner of computation of capital gains shall be applicable in respect of capital gains accruing/arising from every reinvestment thereafter and sale of shares of the Company.
4. Under Section 54EC of the Income Tax Act, 1961, and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act), arising on the transfer of shares of the Company will be exempt from Capital gains tax if the capital gain are invested within a period of 6 months after the date of such transfer for a period of at least 3 years in bonds issued by
 - (a) National Highway Authority of India constituted under section 3 of the National Highway Authority of India Act, 1988.
 - (b) Rural Electrification Corporation Limited, the company formed and registered under the Companies Act, 1956.



5. Under Section 54F of the Income Tax Act, 1961 long term capital gains (in cases not covered under section 10(38) of The Act,) arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the company will be exempt from capital gains tax subject to other conditions, if the net consideration from such shares are used for purchase of residential house property in India within a period of one year before and two years after the date on which the transfer took place or for construction of residential house property in India within a period of three years after the date of transfer.
6. Under Section 111A of the Income Tax Act 1961 and other relevant provisions of the Act, any short term capital gains, (in cases not covered under section 10(38) of the Act and if such shares are held for a period of less than 12 months), arising on transfer of shares of the company shall be taxed at a rate of 10% (plus applicable surcharge plus education cess) if the following conditions are satisfied.
 - i. The transaction of sale of such equity share or unit is entered into on or after October 1, 2004 ; and
 - ii. Such transaction is chargeable to Securities Transaction Tax
7. Under Section 112 of the Income Tax Act, 1961 and other relevant provisions of the Act, Long Term Capital Gains (in cases not covered under section 10(38) of the Act) arising on transfer of shares in the company held for more than 12 months, shall be taxed at a rate of 20% (plus applicable surcharge and education cess). The amount of such tax should however, be limited to 10% (plus applicable surcharge and education cess) with out indexation, at the option of the shareholder, if the transfer is made after listing of shares.
8. Under Section 115-I of the Income Tax Act, a non-resident Indian (i.e. an individual being a citizen of India or a person of Indian Origin who is not a “resident”) share holder has an option to be governed by the provisions of Chapter XII-A (Sections 115-C to 115-I) of the Income Tax Act, 1961 viz. “Special provisions Relating to Certain incomes for Non-Residents” which are as follows:-
 - i. Under section 115E of the Act, where shares in the company are acquired or subscribed for in convertible foreign exchange by a Non-resident Indian, capital gains arising to the Non-resident Indian on transfer of shares held for a period exceeding 12 months, shall, in cases not covered under section 10(38) of the Act, be concessionally taxed at the rate of 10% (plus applicable surcharge and education cess). (Investors may also refer to the provisions of section 115D)
 - ii. Under the provisions of section 115F of the act, long term capital gains (in cases not covered under section 10(38) of the Act) arising to a Non-resident Indian from transfer of shares of the company subscribed to in convertible foreign exchange shall not chargeable to Income Tax, if the net consideration is reinvested in specified assets within six months from the date of transfer. If only part of net consideration is reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted into money within three years from the date of their acquisition.
9. Under the provisions of Section 115G of the Income Tax Act, 1961, it shall not be necessary for a Non-resident Indian to furnish his return of Income if his only source of income is investment income or long-term capital gains or both arising out of



assets acquired, purchased or subscribed in convertible foreign exchange and tax deducted at source has been deducted there from.

10. Under Section 115H of the Income Tax Act, where a Non-Resident Indian becomes assessable to tax in India, in relation to any previous year, as resident in India in respect of his total income of any subsequent year, he may furnish to the Assessing Officer a declaration in writing along with his Return of Income under Section 139 for the assessment year for which he is so assessable, to the effect that the provisions of Chapter XII-A shall continue to apply to him in relation to the investment income derived from any foreign exchange asset, being asset of the nature referred to in sub clause (ii) to sub clause (v) of the clause (f) of Section 115C of the Income Tax Act, in which case the provisions of Chapter XII A shall continue to apply to him in relation to such income for that assessment year and for every subsequent assessment year until the transfer or conversion (otherwise than by transfer) into money of such assets.
11. As per the provisions of 90(2) of the Act., the provisions of the Act., would prevail over the provisions of the tax treaty to the extent they are more beneficial to the non resident.

(D) FOREIGN INSTITUTIONAL INVESTORS:

1. In terms of section 10(34) of the Income Tax Act, 1961, any income by way of dividends referred to in section 115-O (i.e. dividends declared, distributed or paid on or after 1 April, 2003) received on the shares of the company is exempted from the tax.
2. In terms of Section 10(38) of the Act, any long term capital gains arising to an investor from transfer of long term capital asset being equity shares in a company or a unit of any equity oriented fund would not be liable to tax if the following conditions are satisfied.
 - i. The transaction of sale of such equity share or unit is entered into on or after October 1, 2004 ; and
 - ii. Such transaction is chargeable to Securities Transaction Tax.
3. Under Section 54EC of the Income Tax Act, 1961, and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under section 10(38) of the Act), arising on the transfer of shares of the Company will be exempt from Capital gains tax if the capital gain are invested within a period of 6 months after the date of such transfer for a period of at least 3 years in bonds issued by
 - a. National Highway Authority of India constituted under section 3 of the National Highway Authority of India Act, 1988.
 - b. Rural Electrification Corporation Limited, the company formed and registered under the Companies Act, 1956.
4. Under Section 111A of the Income Tax Act 1961 and other relevant provisions of the Act, any short term capital gains, (in cases not covered under section 10(38) of the Act and if such shares are held for a period of less than 12 months), arising on transfer of



shares of the company shall be taxed at a rate of 10% (plus applicable surcharge plus education cess) if the following conditions are satisfied.

- i. The transaction of sale of such equity share or unit is entered into on or after October 1, 2004 ; and
 - ii. Such transaction is chargeable to Securities Transaction Tax.
5. Under section 115AD of the Act, where the total income of a Foreign Institutional Investor ("Foreign Institutional Investor" means such investor as the Central Government may, by notification in the Official Gazette, specify in this behalf) includes dividend (other than dividends referred to in section 115-O) received in respect of shares of the company, or income by way of Short-Term or Long-Term Capital Gains arising from the transfer of such securities, the income tax payable shall be the aggregate of :
- a. The amount of income tax calculated on dividends at the rate of twenty percent;
 - b. The amount of income tax calculated on the income by way of short-term capital gains at the rate of thirty percent. However, the amount of income tax calculated on the income by way of short-term capital gains referred to in section 111A shall be at the rate of ten percent; and
 - c. The amount income tax calculated on the income (calculated in the specified manner) by way of Long-term capital gains included in the total income, at the rate of ten percent.

Further, as per section 196D of the Act, where any dividend income (other than dividends referred to in section 115-O) is payable to a Foreign Institutional Investor, the person responsible for making the payment shall, at the time of payment thereof deduct income tax thereon at the rate of twenty percent. However, no deduction of tax shall be made from any income, by way of capital gains arising from the transfer of securities referred to in section 115AD, payable to a Foreign Institutional Investor.

The above provisions will be further subject to benefits under the Double Taxation Avoidance Agreements, if any, between India and country in which the non-resident has fiscal domicile.

6. As per the provisions of 90(2) of the Act., the provisions of the Act., would prevail over the provisions of the tax treaty to the extent they are more beneficial to the non resident.

(E) BENEFITS AVAILABLE TO MUTUAL FUNDS:

In case of share holder being a mutual fund, as per the provisions of section 10(23D) of the Act., any income of mutual funds registered under the Securities and Exchange Board of India Act., 1992 are regulations made there under, mutual funds setup by public sector banks or public financial institutions are mutual funds authorized by the Reserve Bank of India would be exempt from Income Tax, subject to the conditions as the Central Government may by notification in the official Gazette specify in this behalf.



(F) BENEFITS AVAILABLE TO VENTURE CAPITAL COMPANIES / FUNDS:

In terms of section 10(23FB) of the Act., all venture capital companies / funds registered with Securities and Exchange Board of India, subject to the conditions specified, are eligible to exemption from Income Tax on their entire income including income from investment in the shares of the company.

II. UNDER WEALTH TAX ACT, 1957:

The member of the company will not be liable to pay any Wealth Tax in respect of Shares held by them since the same are not covered under the definition of "ASSETS" under section 2(EA) of the Wealth Tax Act, 1957.

III. III. UNDER GIFT TAX ACT, 1958:

With effect from October 1, 1998 no gift tax shall be levied on gift of shares of the Company.

NOTES:

1. All the above benefits are as per the Current Tax Law as amended by the Finance Act, 2006.
2. The stated benefits will be available only to the sole/first named holder in case joint holders hold the shares.
3. The above statement of Possible Direct Tax Benefits sets out the provisions of law in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of ordinary shares. The statements made above are based on the tax laws in force as also under the finance Bill, 2006 and as interpreted by relevant taxation authorities as of date. Investors are advised to consult their tax advisers with respect to the tax consequences of their holdings based on their residential status.
4. In respect of Non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the Country in which the Non Resident has fiscal domicile.
5. In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his / her participation in the scheme.
6. The Tax Benefits listed above or not exhaustive.

For RAMBABU & Co., Chartered Accountants	For P.MURALI & Co., Chartered Accountants
RAVI RAMBABU Partner Membership No. 18541 Date: August 22, 2006 Place: Hyderabad	P. MURALI MOHANA RAO Partner Membership No.23412 Date: August 22, 2006 Place: Hyderabad



SECTION VI - ABOUT US

INDUSTRY OVERVIEW

Disclaimer: Pursuant to the requirements of the SEBI Guidelines, the discussion on the business of our Company in this Draft Red Herring Prospectus consists of disclosures pertaining to industry grouping and classification. The industry grouping and classification is based on our Company's own understanding and perception and such understanding and perception could be substantially different or at variance from the views and understanding of third parties. Our Company acknowledges that certain products described in the Draft Red Herring Prospectus could be trademarks, brand names and/ or generic names of products owned by third parties and the reference to such trademarks, brand names and/or generic names in the Draft Red Herring Prospectus is only for the purpose of describing the products. The industry data has been collated from various industry and / or research publications and from information available from the World Wide Web.

PHARMACEUTICAL INDUSTRY - GLOBAL SCENARIO

As per IMS Health Global Pharma Forecast there has been 7% growth in Global Pharmaceutical Sales. The Total World Market has grown from US\$493 billion in 2003 to US\$550 billion in 2004. Due to various regulations implemented worldwide there has been slow down in the growth of Pharmaceutical industry. Given below is the table showing growth of Pharmaceutical Industry during the period of 8 years.

Global Pharmaceutical Sales, 1997 - 2004

Global Sales US\$ Billion	1997	1998	1999	2000	2001	2002	2003	2004
Total World Market (current US\$)	\$289	\$297	\$332	\$357	\$387	\$426	\$493	\$550*
Growth Over Previous Year (Constant US\$)		7%	11%	10%	12%	9%	10%	7%

(i) *Source: IMS Health Global Pharma Forecast (includes IMS Audited and Unaudited Markets)

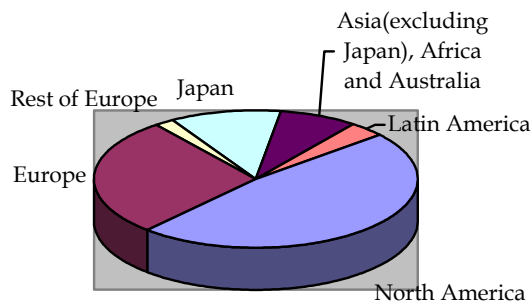
Given below is the Regionwise Sales , 2004

World Audited Market	2004 Sales (US\$B)	% Global Sales	% Growth Year-over-Year (Constant \$)
North America	248	47.8%	7.8%
Europe (EU)	144	27.8%	5.7%
Rest of Europe	9	1.8%	12.4%
Japan	58	11.1%	1.5%
Asia (excluding Japan), Africa and Australia	40	7.7%	13.0%
Latin America	19	3.8%	13.4%
Total IMS Audited	\$518	100%	7.1%

(ii) Source: IMS MIDAS®, MAT Dec 2004



Regionwise Sales 2004



As can be seen from the above table, global pharmaceutical sales are highly stratified by region, with North America, the EU and Japan accounting for 88% of global pharmaceutical sales in 2004.

IMS Health is forecasting 6 - 7 percent growth in global pharmaceutical industry in 2006, with total market size reaching U.S. \$640 - 650 billion even under Government pressure on pricing and a number of widely used drugs going off patent.

(Source: www.imshealth.com)

The global pharmaceuticals market can be classified into two categories i.e. Regulated and unregulated/semi-regulated. The regulated markets are more governed by Government Regulations like intellectual property protection, including product patent recognition. As a result they have greater stability for both volumes and prices like the United States. The unregulated/semi-regulated markets, have lower entry barriers in terms of regulatory requirements hence they are highly competitive. Few characteristics of Global Pharma Industry are as follows:

- The pharmaceutical sector is the second largest global industry (banking is the largest).
- The US Federal Drug Administration (FDA) is the most powerful national regulatory body, driving the regulatory framework in which the sector operates globally.
- Global pharmaceutical players are facing expiry of patents on more than 75 percent of the drugs already in the streamline and their manipulation in getting these patents extended are facing with lot of resistance in the wake of hosts of drugs going off patent in the U.S.

Indian Pharma companies can seize this opportunity and increase the market share in the global market.

PHARMACEUTICAL INDUSTRY - DOMESTIC SCENARIO

The Indian Pharmaceutical Sector has come a long way, being almost non - existing during 1970, to a prominent provider of health care products, meeting almost 90% of country's pharmaceutical needs. The domestic pharmaceutical output has increased at a compound growth rate (CAGR) of 14.11% per annum in last ten years.

(Source: Bulk Drug Manufacturers Association)



The **Indian Pharmaceutical Industry** today is in the front rank of India's science-based industries with wide ranging capabilities in the complex field of drug manufacture and technology. A highly organized sector, the Indian Pharmaceutical Industry is estimated to be worth \$ 6.4 billion, growing at about 8 to 9 percent annually. It ranks very high in the world, in terms of technology, quality and range of medicines manufactured. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made indigenously.

The pharmaceutical industry is one of the fast growing sectors of the Indian economy and has made rapid strides over the years. From being an import dependent industry in the 1950s, the industry has achieved self-sufficiency and gained global recognition as a producer of low cost high quality bulk drugs and formulations. Leading Indian companies have developed infrastructure in over 60 countries including developed markets like USA and Europe. In the last few years, several pharmaceutical companies, including MNCs, have demonstrated that they possess the ability to engage in commercially viable research and development activities and become significant players in the international market.

The Indian Pharmaceutical sector is highly fragmented with more than 20,000 registered units. It has expanded drastically in the last two decades. The leading 250 pharmaceutical companies control 70% of the market with market leader holding nearly 7% of the market share. It is an extremely fragmented market with severe price competition and government price control.

The Indian Industry produces around 500 APIs, meeting 90% of the domestic requirements of the needy Public at the affordable prices. These include latest drugs like Anti cancer, Cardio Vascular, HIV Drugs etc. The total Indian market at present is about US\$6.4 billions and is expected to grow to US\$ 25 billions by 2010. (Source: *Bulk Drugs Manufacturers Association (India)*)

Although India accounts for 16% of the world population, the sales of pharmaceuticals, is just 1.8% of the global sales in terms of value and 8% in terms of volume. However, globally it ranks 4th in volume and 14th in value terms. (Source: www.indiaoppi.com)

Following the de-licensing of the pharmaceutical industry, industrial licensing for most of the drugs and pharmaceutical products has been done away with. Manufacturers are free to produce any drug duly approved by the Drug Control Authority. Technologically strong and totally self-reliant, the pharmaceutical industry in India has low costs of production, low R&D costs, innovative scientific manpower, strength of national laboratories and an increasing balance of trade. The Indian Pharmaceutical Industry, with its rich scientific talents and research capabilities, supported by Intellectual Property Protection regime is well set to take on the international market.

PROGRESS OF THE PHARMA INDUSTRY

Year	Status	
1950s	Formulations	Mostly imported MNC dominance
1960s	Formulations	Domestic endeavor on imported bulk drugs
1970s	Formulations Bulk Drugs	Some imports Indigenous manufacture by domestic companies
1980s	Formulations Bulk Drugs	Marginal Imports (<5%) Significant indigenous manufacture (based on Domestic R&D)



1990s	Formulations Bulk drugs	Significant exports, minimal imports (2%) Self reliant (exports > imports)
2000s	Formulations Bulk Drugs	Signatory to WTO and patent protection act Contract Manufacture, launching of generics in International markets Significant tie-ups in contract, research, drug Discovery and drug development, and biotechnology

The Indian pharmaceutical industry is a success story providing employment for millions and ensuring that essential drugs at affordable prices are available to the vast population of this sub- continent.

ADVANTAGE INDIA

- **Competent workforce:** India has a pool of personnel with high managerial and technical competence and also skilled workforce. It has an educated work force and English is commonly used. Professional services are easily available.
- **Cost-effective chemical synthesis:** Its track record of development, particularly in the area of improved cost-beneficial chemical synthesis for various drug molecules is excellent. It provides a wide variety of bulk drugs and exports sophisticated bulk drugs.
- **Legal & Financial Framework:** India is a 59-year-old democracy and hence has a solid legal framework and strong financial markets. There is already an established international industry and business community.
- **Information & Technology:** It has a good network of world-class educational institutions and established strengths in Information Technology.
- **Globalisation:** The country is committed to a free market economy and globalization. Above all, it has a 70 million middle class market, which is continuously growing.
- **Highest US FDA Approvals & DMF Filing:** The Indian pharmaceutical industry has the highest number of plants approved by the US Food and Drug Administration (FDA) outside the US. It also has the largest number of Drug Master Files (DMFs) filed which gives it access to the high growth generic bulk drugs market.
- The industry now produces bulk drugs belonging to all major therapeutic groups requiring complicated manufacturing processes and has also developed excellent 'good manufacturing practices' (GMP) compliant facilities for the production of different dosage forms.
- **Government Support:** To facilitate the sector's growth, the Indian government has announced exemptions from import licences to foreign pharmaceutical units setting up their manufacturing units in Special Economic Zones.
- **Cost Effective Technologies:** Setting up a plant is 40 percent cheaper in India compared to developed countries and the cost of bulk drug production is 60-70 percent less. The strength of the industry is in developing cost-effective technologies in the shortest possible time for drug intermediates and bulk actives without compromising on quality.



EXPORTS

The Indian pharmaceutical industry ranks 17th in terms of export value of bulk actives and dosage forms. The exports constitute almost 40% of the total production of pharmaceuticals in India.

India's pharmaceutical exports are to the tune of \$3.5bn currently, of which formulations contribute nearly 55% and the rest 45% comes from bulk drugs.

Exports of Drugs, Pharmaceuticals and fine chemicals

1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Rs.7230.16cr (\$1.60 bn)	Rs.8757.47cr (\$1.95 bn)	Rs.9834.7cr (\$2.18 bn)	Rs.11925.4cr (\$ 2.65 bn)	Rs.14100.00cr (\$3.13 bn)

Growth of Pharmaceutical Exports:

1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
15.57%	20.73%	11.13%	21.2%	18.24%

Source: FICCI Report

The pharmaceutical exports increased at a CAGR of 22.6% during the period FY1994-FY2004. Factors such as the industry's cost competitiveness, the established quality of its products and its internationally approved manufacturing facilities have enabled the industry to make a place for itself in the international market. During the year 2004 exports stood at Rs. 1668114 lacs (source: www.indiaoppi.com). Indian exports are destined to more than 200 countries around the globe including highly regulated markets of US, Europe, Japan and Australia.

An Export Promotion Cell in the Pharmaceutical Division has also been functioning with the objective of boosting pharmaceutical exports and to act as a nodal center for all queries/issues regarding pharmaceutical exports. The cell also undertakes promotional activities for acceleration of pharmaceutical exports and considers suggestions for modifications in EXIM POLICY (now known as Foreign Trade Policy) from the industry. The cell has also been entrusted with the organization of seminars and workshops on standards, quality control requirements of important countries so as to prepare the domestic companies for exporting their products.

BULK DRUG INDUSTRY

The Indian pharmaceutical industry manufactures over 400 bulk drugs belonging to several therapeutic segments. Bulk drug production in the country recorded a CAGR of 19.5% during the period FY1994- 2004, which is higher than the growth in the overall production of pharmaceuticals (CAGR of 15.8%) during the same period. Ability of the Indian manufacturers in chemical synthesis and reverse engineering, cost competitiveness of Indian producers, established quality of products, and approval of manufacturing facilities by international regulatory authorities like the USFDA and UKMHRA) have resulted in export orders coming from both developed and developing markets.



The growth in Bulk Drug Industry in India can be depicted through the following table:

(Rs. In Millions)

Year	Production	(%)
1994-95	15180	15
1995-96	18220	20
1996-97	21860	20
1997-98	26230	20
1998-99	31480	20
1999-00	37770	20
2000-01	45330	20
2001-02	54390	20
2002-03	65290	20
2003-04*	77290	20
2004-05*	90340	20

* Estimates

(Source: Bulk Drug Manufacturers Association (India))

RESEARCH AND DEVELOPMENT

The R&D expenditure by the Indian pharmaceutical industry is around 1.9% of the industry's turnover. This is low when compared to the investment on R&D by foreign research based Pharmaceutical companies, which is around 10-16% of the turnover. However, now that India has entered into the Patent protection area, many companies are spending relatively more on R&D.

There is considerable scope for collaborative R&D in India. India can offer several strengths to the international R&D community. These strengths relate to availability of excellent scientific talents who can develop combinatorial chemistry, new synthetic molecules and plant derived candidate drugs. Also Indian Pharmaceutical Industry, with its rich scientific talents, provides cost-effective clinical trial research. It has an excellent record of development of improved, cost-beneficial chemical syntheses for various drug molecules. Some MNCs are already sourcing these services from their Indian affiliates.

Considering the financial aspect the Pharmaceutical and Biotechnology Industry is eligible for weight deduction for R&D expense up to 150%. These R&D companies will also enjoy tax holiday for 10 years.

TECHNOLOGICAL STRENGTHS

The following form the basis of the technological strengths of the Indian Pharmaceutical industry:

1. Self-reliance displayed by the production of 90% of the drugs requirement of the country
2. Low cost of production
3. Low R&D costs
4. Innovative Scientific manpower
5. Excellent and world-class national laboratories specialising in process development and development of cost effective technologies



6. Increasing balance of trade in pharma sector
7. An efficient and cost effective source for procuring generic drugs especially the drugs going off patent in the next few years
8. An excellent centre for clinical trials in view of the diversity in population

INITIATIVES IN THE RECENT PAST TO GRANT IMPETUS TO THE INDIAN PHARMACEUTICAL INDUSTRY

Licensing & FDI Policy

Industrial Licensing: Industrial licensing for all bulk drugs cleared by Drug Controller General (India), all their intermediates and formulations has been abolished, subject to stipulations laid down from time to time in the Industrial Policy, except in the cases of:

- a) bulk drugs produced by the use of recombinant DNA technology,
- b) bulk drugs requiring in-vivo use of nucleic acids as the active principles, and
- c) specific cell/tissue targeted formulations

Foreign Direct Investment: Foreign Direct Investment up to 100% is permitted, subject to stipulations laid down from time to time in the Industrial Policy, through the automatic route in the case of all bulk drugs cleared by Drug Controller General (India), all their intermediates and formulations, except those, referred to in para above, kept under industrial licensing.

Foreign Technology Agreements: Automatic approval for Foreign Technology Agreements is available in the case of all bulk drugs cleared by Drug Controller General (India), all their intermediates and formulations, except those, referred to in Para above, kept under industrial licensing for which a special procedure prescribed by the Government is to be followed.

INCENTIVES FOR PHARMA INDUSTRY IN UNION BUDGET 2005-06

Following are the incentives proposed by the Government to Pharmaceutical Industry in Union Budget 2005-06:

- The government has increased its focus on healthcare by increasing the allocation from Rs 84.2 billion to Rs 102.8 billion under the National Rural Health Mission. The focus is on increasing the supply of medicines and training medical personnel.
- The last date to avail of 150 per cent tax deductions for research companies as well as 100 per cent deduction of profits of companies carrying on scientific research and development and approved by the Department of Scientific and Industrial Research has been extended to March 31, 2007.
- The government has announced reduction in imports duty on a list of nine capital goods.
- It has announced formation of a corpus fund of Rs 5 billion called the SME Growth Fund through the Small Industries Development Bank of India (SIDBI) to provide equity support for small and medium units in pharmaceuticals and biotech firms.

UNION BUDGET 2006-07- IMPACT ON INDIAN PHARMACEUTICAL INDUSTRY

The Union Budget 2006-07 provided only marginal relief to the Indian drugs and pharmaceuticals industry leaving most of their direct demands unmet. It reduced customs duty on 10 anti-AIDS and 14 anti-cancer drugs to five per cent. The duty cuts, according to



media reports, are unlikely to result in any revision in their domestic prices. Besides, the prices of these are under the control of the DPCO. Market share of these products is also negligible at present. Multinationals selling oncology products in the country include Aventis Pharma, Novartis, and Roche while those planning to enter India in this area include Bristol-Myers Squibb (BMS), Merck Sharpe & Dohme, GSK and PPzer. The budget reduced customs duty on certain life saving drugs, kits and equipment from 15 per cent to five per cent and also exempted them from excise duty and countervailing duty (CVD). Reduction in peak customs duty to 12.5 per cent (peak rate) from 15 per cent will reduce cost of some imported raw materials. So will the lower duties on chemical intermediates. Removal of fringe benefit tax on free samples given to doctors is another positive though it will not make any material impact on the industry. The sector will also indirectly benefit from the 22 percent increase in healthcare spending by the government. Technical testing and analysis services including clinical testing of drugs and formulations have been brought within the ambit of service tax.

(Source: CMIE Quarterly Industry Review March 2006)

SWOT ANALYSIS OF INDIAN PHARMACEUTICAL INDUSTRY

Strengths:

- Cost Competitiveness
- Well Developed Industry with Strong Manufacturing Base
- Access to pool of highly trained scientists, both in India and abroad.
- Strong marketing and distribution network
- Rich Biodiversity
- Competencies in Chemistry and process development.

Weaknesses:

- Low investments in innovative R&D and lack of resources to compete with MNCs for New Drug Discovery Research and to commercialize molecules on a worldwide basis.
- Lack of strong linkages between industry and academia.
- Low medical expenditure and healthcare spend in the country
- Production of spurious and low quality drugs tarnishes the image of industry at home and abroad.
- Shortage of medicines containing psychotropic substances. There are 4000 such brands of medicines that fall under the Narcotics Drugs and Psychotropic Substances (NDPS) Act, 1985. Under a clause of this Act, the retailer has to sign the consignment note provided by the stockist. The police check this note regularly to prevent these medicines getting diverted to the drug mafia and they can arrest the retailer if the signatures are under suspect. To protest against this clause, the retailers have stopped stocking these medicines, some of which is life saving.

**Opportunities:**

- Significant export potential.
- Licensing deals with MNCs for NCEs and NDDS.
- Marketing alliances to sell MNC products in domestic market.
- Contract manufacturing arrangements with MNCs
- Potential for developing India as a centre for international clinical trials
- Niche player in global pharmaceutical R&D.
- Supply of generic drugs to developed markets.

Threats:

- Product patent regime poses serious challenge to domestic industry unless it invests in research and development
- R&D efforts of Indian pharmaceutical companies hampered by lack of enabling regulatory requirement. For instance, restrictions on animal testing outdated patent office.
- Drug Price Control Order puts unrealistic ceilings on product prices and profitability and prevents pharmaceutical companies from generating investible surplus.
- Lowering of tariff protection
- The new MRP based excise duty regime threatens the existence of many small scale pharma units, especially in the states of Andhra Pradesh and Maharashtra, that were involved in contract manufacturing for the larger, established players.

(Source: FICCI report)

IMPACT OF THE NEW PATENT REGIME

The Patent Law, which came into force from 1.1.2005, implies that, the products which are patented before 1995 can be manufactured by anybody. However, the products patented after 1995, cannot be manufactured by any Indian manufacturer till the patent expires. There are about 90 products, which will go off patent between 2006 to 2009. Most of the products, planned by our company fall into this category. Few life saving products, which go off patent up to 2015 are also manufactured by us using Non-infringing process. A Non-infringing process refers to a process that does not infringe the process, which is patented. The product manufactured using the Non-infringing process is sold in the “non-regulated” market like Far East, Middle East, Latin America and Eastern Europe.

Further, on December 26, 2004, the Government has issued an ordinance to amend the Patents Act to include the above and implement the product patents from January 1, 2005.



WTO IMPLICATIONS

Small pharma companies will continue to manufacture and market popular generics and also pre-WTO products, which may still be under patent overseas. They will seek franchise manufacturing and marketing for overseas MNCs.

Medium sized companies may also enter into research tie-ups with MNCs by promoting their relatively low cost, efficient skill base of trained pharmacists as an economic alternative to reducing MNC product development costs.

The larger Indian companies are expanding their therapeutic reach through new product launches in the high margin segments, thus enhancing their product portfolio and increasing their critical mass. Their medium term objective would be to focus on process engineering of products going off patent in the next 5-10 years. The long term objective will be to enter into the sunrise knowledge areas of biotechnology and drug delivery system.

WTO Implication on Indian Industry would be as under:

- **Inceased focus on R&D:** Major pharma companies are increasing investment in R&D for discovering New Chemical Entities (NCEs) and launching Novel Drug Discovery Systems. They are tying up with MNC majors for developing new molecules.
- **Marketing tie-ups with MNCs:** Domestic players and MNCs have entered into marketing arrangements to increase market penetration and further strengthen their position in respective therapeutic segments.
- **Products rationalization/ brand acquisition /company acquisition:** Most of the top pharmaceutical companies are consolidating their position in the domestic market either through product rationalization or brand or company acquisitions.



OUR BUSINESS

OVERVIEW

We believe we are one of the leading manufacturers and exporters of Active Pharma Ingredients and pharmaceutical intermediates in India, commonly known as Bulk Drug Manufacturer. We are mainly engaged in manufacturing bulk drugs like Ranitidine HCl, Sumatriptan Succinate, Sildenafil Citrate, Omeprazole Magnesium, Ramipril, Almotriptan maleate, Gemcitabine HCl, Imatinib Mesilate and their intermediates. We have also started producing ACE Inhibitors like Perindopril Erubamine and Imidapril and anti- cancer drug Capecitabine and Bicalutamide. We believe we are one of the largest producers of Ranitidine HCl in the world.

We have an integrated manufacturing facility, professional skilled workforce, R&D expertise and an ever-expanding array of API's and Bulk Intermediates. We have also established exclusive basic research facility where we develop new products and carry on process improvements.

We have been operating through three manufacturing units, one pilot plant and one basic research facility in and around Hyderabad.

UNIT I is used for manufacturing Ranitidine HCl, Sildenafil Citrate, Diltiazem HCl, Omeprazole Magnesium, and Gemcitabine. This is our main plant and is the major contributor majorly to the revenues of our company. The infrastructure at this plant provides opportunities to manufacture established products and also new products on campaign basis. We have filed DMF for Ranitidine HCl in U.S.A, Europe and Russia and are in the process of filing the same for Omeprazole Magnesium, Sildenafil Citrate and Gemcitabine HCl.

Unit II is used to manufacture high value & low volume APIs like Sumatriptan Succinate, Ramipril, Almotriptan, Zolmitriptan and Trandolapril. The facility of this unit is approved by USFDA. We also undertake contract manufacturing in this unit for APIs like Ropivacine, Sodium Phenyl and Defroxamine especially for a US based Company named Navinta LLC. We have filed DMF with various countries for manufacturing Sumatriptan Succinate, Almotriptan and Ramipril.

UNIT III is used for manufacturing Nutraceuticals like Fenudiet and Hearty Salt, which can be consumed directly by the end users. We have also established infrastructure facilities for pelletisation of few products like Omeprazole Magnesium (manufactured at Unit I), Itraconazole and Ketoconazole (manufactured by our subsidiary M/s Sreenivasa Pharma Private Limited). Pelletisation is basically the process by which the API is converted into 7.5%, 8.5% and 9.5% finished dosage pellets to be used in capsules. In a Pelletisation process an API is coated on tiny granules and these granules are again coated with different coating materials as per its intended use. The dummy granules that are used on the pelletisation process are usually cellulose, starch or sugar based which are inert materials and are commercially available. This process is widely used in the manufacture of iron capsules; iron with vitamin capsules and in the formulation of acid labile drugs.

UNIT IV is basically developed to be used as a pilot plant for scaling up the new products developed by our research center. The same facility is also used for the purpose of validation of the new products before filing the DMF.

We have also undertaken a contract research project wherein we have entered into an agreement with a Netherlands based company viz SPEC wherein we will develop building



blocks for SPECS and SPECS will have exclusive rights to market those blocks under the brand name of SPECS.

BRIEF DETAILS ABOUT THE PROJECT

A. Location

Existing:

We have four manufacturing facilities and one basic research facility, all situated in and around Hyderabad, Andhra Pradesh. The details of our manufacturing facilities are provided below:

Type of Facility	Location	Total Area
Unit I Production facility	IDA Khazipally Jinnaram Mandal Medak District, Andhra Pradesh 502319	Total built up area is 45,000 sq. mtrs. Total plant area is 62,500 sq. mtrs.
Unit II Production facility (FDA Approved Unit)	Plot No. 24 & 24B S.V. Co-operative Industrial Estate Bachipally, IDA Bollaram, Hyderabad - 502325	Total built up area is 12,200 sq. mtrs. Total Plant area is 20,200 sq. mtrs.
Unit III Production facility (Nutraceuticals)	D-63, Phase 1, IDA. Jeedimetla, Hyderabad - 500055	Total built up area is 3,500 sq. mtrs.
Unit IV - Pilot scale production facility	S. No.186, 189,190, Gagillapur (Village) Quthbullapur (Mandal) Ranga Reddy Dist.	Total built up area is 4,192 sq. mtrs.
Basic Research facility (SMS Pharma Research Center)	Shed bearing No.C-23, together with land situated at Industrial Estate, Sanath Nagar, Hyderabad - 500018	Total built up area is 1,100 sq. mtrs.

Proposed:

A bulk drug facility with FDA and Non FDA blocks proposed at Vizianagaram	Kandhivalasa Village, Poosapatyrega Mandal, Vizianagaram Dist., Andhra Pradesh.	Total land area is 72.64 Acres
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For other details about the Project, please refer section titled “Brief Details about the Project” beginning from page [•] of this Draft red Herring Prospectus.

B. Plant & Machinery, Technology and Process

Plant & Machinery:

For details about the Plant & machinery, Please refer section titled “Our Project” on page [•] of this Draft Red Herring Prospectus.



Technology & Manufacturing Process:

The manufacturing process of bulk drugs/intermediates involves a series of reaction steps under controlled conditions of temperature and pressure. An API or intermediate can be produced by a number of alternative methods from different starting points and under a variety of controlled operations. For each product, our Company identifies several alternative methods of manufacture and chooses the one which is most appropriate for the situation viz., economic, patent non-infringing, achieving a desired quality standard, environment impact etc. Depending on the requirements of the customers, the finished products can be either in powder or liquid form. It is then suitably packed in different packaging material.

Brief manufacturing processes of some of our major products

- **Ranitidine HCl**

Furfuryl alcohol, Para-formaldehyde and DMA HCl are reacted at reflux temperature and Cystamine Hydrochloride is added and refluxed for Cystofer formation. Nitromethane, MITC and Potassium hydroxide are reacted in the presence of Di-Methyl-Sulfoxide (DMSO). The reaction mass is further reacted with Dimethyl sulfate (DMS) and purified to get NMSM. NMSM and Cystofer are coupled to form Ranitidine Base and then treated with IPA HCl to form Ranitidine HCl.

- **Sildenafil citrate**

1-methyl-4-nitro-3-propyl-1H-pyrazole-5-carboxamide (Nitro compound) is reduced using iron powder in water and sulfuric acid and then reacted with thionyl chloride. The reaction mass is further reacted with the 4-amino-1-methyl-3-propyl-1H-pyrazole-5-carboxamide below 10°C to form carboxamide compound.

The carboxamide compound is cyclised using potassium butoxide in tert-butanol and then treated with charcoal and filtered to form Sildenafil base. The base is treated with citric acid in water medium at 85 °C. On cooling to room temperature the Sildenafil citrate formed in centrifuged and washed with water.

- **Omeprazole Magnesium**

Sulfide compound is prepared by reacting Benzimidazole with chloro compound. Omeprazole tech is formed while oxidizing the sulfide compound with Hydrogen peroxide. Omeprazole tech is purified with acetone using Hydrosol, ETDA and CS Flakes to produce Omeprazole. Magnesium is then added to form Omeprazole magnesium

- **Sumatriptan Succinate**

1-(4-hydrazinophenyl)-N-methyl methane sulfonamide hydrochloride is reacted with 4, 4-diethoxy-N, N-dimethyl butan-1-amine to form 1-(4-{2-[4-(dimethyl amino) butylidene] hydrazino} phenyl)-N-methyl methane sulfonamide. It is further reacted with polyphosphoric acid and potassium carbonate to form Sumatriptan. Sumatriptan base is reacted with Succinic acid to form Sumatriptan Succinate.



- **Ramipril**

Ramipril is manufactured using N-benzyloxycarbonyl-L-phenylalanine salt of phenylmethoxy octahydrocyclopenta-[b]-pyrrole carboxylate as starting material via two stage process. The N-benzyloxycarbonyl-L-phenylalanine salt of phenylmethoxy octahydrocyclopenta-[b]-pyrrole carboxylate is neutralized and reacted with N-[(S)-(+)-1-(Ethoxycarbonyl)-3-phenylpropyl]-L-alanine in the presence of dicyclohexylcarbodiimide and 1-hydroxybenzotriazole and subsequently debenzylated to get the Ramipril crude. The Ramipril crude is re-crystallized in a mixture of ethanol and diethyl ether to get Ramipril Pharma grade product.

- **Almotriptan Malate**

4-Nitro benzene methane sulfonyl chloride on reaction with pyrrolidine gives 1- [(4-Nitro phenyl) sulfonyl] pyrrolidine. This is reduced by hydrogen to form 4-[(pyrrolidin-1-ylsulfonyl) methyl] aniline. 4-[(pyrrolidin-1-yl-sulfonyl) methyl] aniline on reaction with sodium nitrite, hydrochloride and stannous chloride gives 1-[(4-hydrazinobenzyl) sulfonyl] pyrrolidine Hydrochloride, which is cyclized by 4, 4-diethoxy-N, N-dimethylbutan-1-amine to get Almotriptan crude. Crude is purified and reacted with malic acid to get Almotriptan Malate

- **Gemicitabine HCl**

Treatment of D-mannitol with 2,2-dimethoxy propane in dimethyl sulfoxide produce 1,2; 5,6-Bis-(O)-(1-methyl ethylidene) D-mannitol, which is further treated with sodium meta periodate producing (R)-2,3-O-(Isopropylidene)-D-glyceraldehyde. This is reacted with ethyl bromo di fluoro acetate to produce diastereomeric isomers of ethyl (3RS)-3-hydroxy-2,2-difluoro-3-(2,2-dimethyldioxolan-4-yl) propionate. It is then carried through hydrolysis, cyclisation and benzylation operations and then reduced. On treatment with sulfonyl methane chloride produces the 2-Deoxy-2,2-difluoro-D-ribofuranose-3,5-dibenzoate-1-methane sulfonate. Cytosine is reacted with acetic anhydride to produce acetyl cytosine.

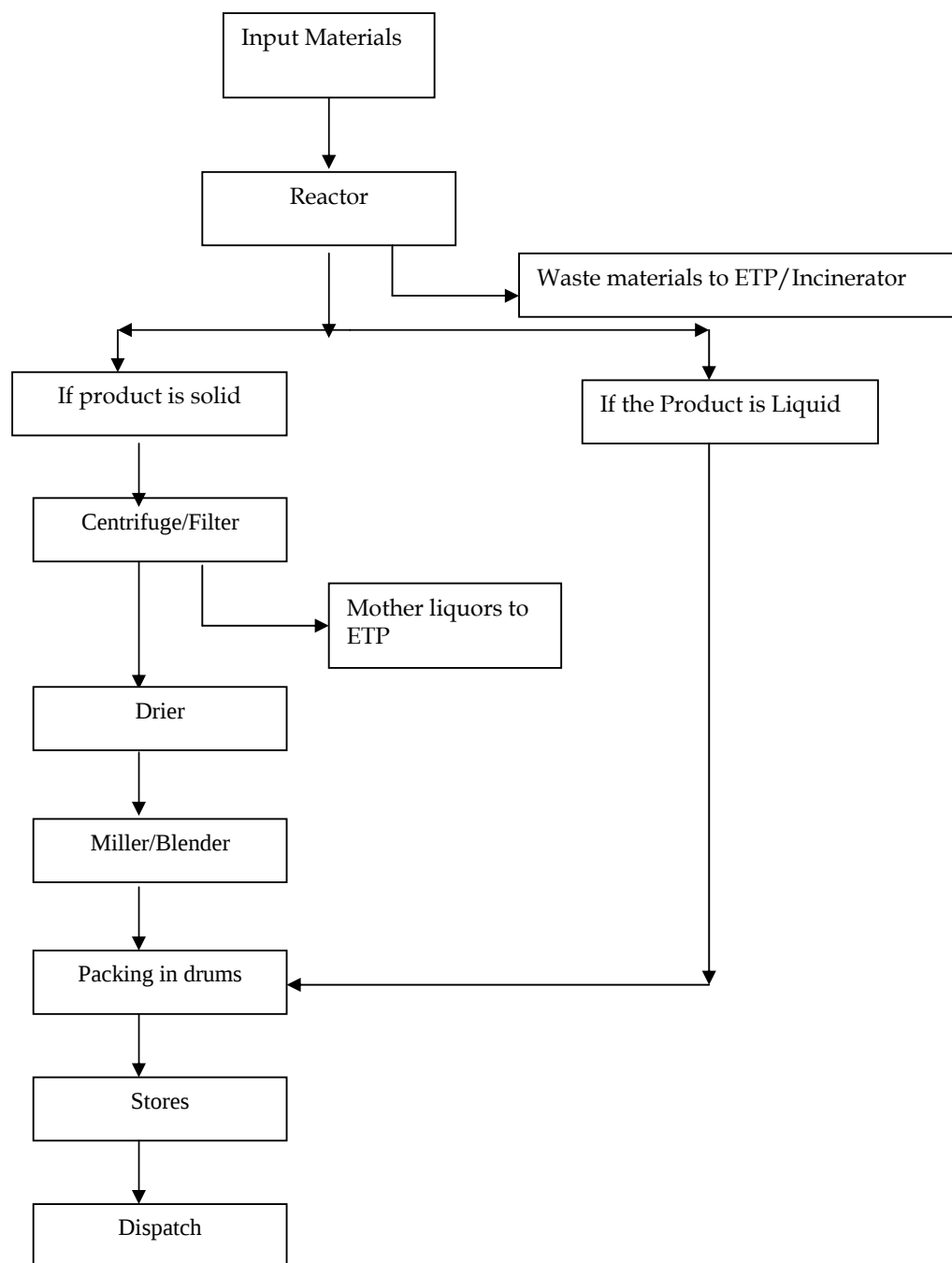
Mesylate on treatment with bis(trimethyl silyl)-N-acetyl cytosine in the presence of Triflate (Trifluoromethane-sulfonyloxytrimethylsilane) and deprotection with ammonia gas produces 2'-Deoxy-2,2'-difluorocytidine known as Gemicitabine Base. Base is then treated with Hydrochloric acid & on purification of the above Gemicitabine hydrochloride is produced

- **Imatinib Mesilate**

N-(5-amino-2-methylphenyl)-4-(3-pyridyl)-2-pyrimidine-amine is reacted with 4-(4-methyl piperazin-ylmethyl) benzoic acid in the presence of dicyclohexylcarbodiimide and hydroxybenzotriazole to get imatinib base, which is further reacted with methane sulfonic acid to get the imatinib mesilate.

The general manufacturing process flow for the products of our Company is as follows:

General Manufacturing Process Flow





C. Collaborations

We have not entered into any collaboration.

D. Infrastructure Facilities

1. Raw Material

Existing Products

The basic raw materials used for manufacturing drugs by our company are DMA HCl, Cystamine HCl, Paraformaldehyde, furfuryl Alcohol, Nitromethene, DMSO, Dimethyl Sulphate, Methyl Iso Butyl Ketone, Dimethyl formamide, Thionyl chloride, Potassium tertiary Butoxide, Ammonium Molybdate, D Mannitol, Trifluoroacetic Acid, Benzoyl chloride, Acetyl Cytosine etc. Apart from these Raw Materials, various solvents are also used in the manufacture of the bulk drugs and intermediates. These raw materials are procured from both domestic as well as international market at very competitive prices. Approximately 72% of the total raw material consumed in FY 2005 - 06 was purchased from domestic market. We generally maintain adequate stock of raw material to cover the existing order book position, which mitigates any adverse effect due to price fluctuation. Other steps taken by us to ensure continuous flow of raw material include maintaining a daily raw material stock statement, approved vendor list, obtaining quotations and comparative statements etc. on a regular basis.

Proposed Products

5-Fluoro cytosine, Hexamethyldisilazane, Trimethyl silylchloride, Dichloromethane, Stannic chloride, Pyridine, n-Pentylchloroformate, SMBS, 4-Fluorophenol, Tetrahydrofuran, m-Chloroperbenzoic acid, Indole-2-carboxylic acid, (+)-Phenylethylamine, p-toluene sulfonic acid, Dicyclohexylcarbodiimide, Tertiary butyl amine, L-asparagine, Dicyclohexylcarbodiimide, Potassium tertiary butoxide etc. are some of the major raw materials required for the manufacture of proposed products.

With the addition of new upcoming products, our Company expects that there would not be any problem in procurement of raw material; instead it will get the best deals by way of bulk quantity discounts and credits benefits.

2. Land

Our Company has manufacturing facilities at four plants apart from one research facility and corporate office. Unit I, located at IDA Khazipally Jinnaram Mandal Medak District, Andhra Pradesh having a total area of 8.64 Acres and Unit II, located at S.V. Co-operative Industrial Estate Bachipally, IDA Bollaram, Hyderabad consisting of total plant area of 4.84 Acres are company owned manufacturing facilities whereas Unit III at Jeedimetla and Unit IV at Gagillapur are leasehold properties located near Hyderabad. We also have a Research center located at IESanath Nagar IDA which is also a company owned property. All the manufacturing facilities and the offices are in and around Hyderabad and hence are well connected by transportation facilities to all the major cities of India. The land taken on lease is not from any person / company with whom/which the promoters / directors of the company are related.

Our Company has also blocked 40 acres of land in the proposed Pharma city near Visakhapatnam for future expansion plans. Our company will draw out an expansion plan once all the facilities are provided by the Pharma City authorities.



For proposed expansion plan as mentioned in the section “Objects of the Issue”, our Company has already acquired 72.64 acres of land in Vizianagaram Dist. Andhra Pradesh. For details, please refer paragraph titled “Properties” beginning on page [•] of this Draft Red Herring Prospectus.

3. Utilities

- **Power**

Existing

The manufacturing facilities have excellent power supply position from the public supply more than sufficient

The connected load at Unit I is 1480 KW and Unit II is 400 KW. At Unit IV we have a sanctioned load of 150 KW by Andhra Pradesh Transco. For Unit III we have Low transmission (LT Load) which is sufficient for that unit. Power supply at all the above locations is more than sufficient to carry out the manufacturing activities without any problems. In case of power failure or Company has good back up facilities in the form of DG sets.

Proposed

To take care of the future requirements for proposed project at **Vizianagaram** Dist., application will be made to the concerned authorities at appropriate time based on the load requirements and future expansion proposals. Appropriate backup power facilities will also be proposed to deal with any power failures. Construction of a co-generation power plant is also in consideration for this unit, but is yet to be finalized.

- **Water**

We are dependent on water suppliers, who supply water through tankers to meet the requirements of unit I, while we have our own water source, i.e. tapping of ground water in unit II. Unit III requirements are met through Government water supply. Unit IV has a bore wells which meets the required water demand. We draw water from the Government supplies for the requirement of water at our Research center and also to the corporate office.

Water is readily available in the industrial area and we do not see any problem on this account.

For the proposed facility at Vizianagaram we can tap the ground water to meet the requirements.

- **Steam & cooling arrangements**

Utilities like the Boilers, Cooling towers, brine compressors, and water chilling units are required to maintain the designed process conditions during the reactions and play vital role in the production. All the units have required quantity of steam generation capacity, compressors, chilling units and cooling towers to meet the process requirements. All the manufacturing facilities have a standby equipment to meet any eventuality of a breakdown or failures.



4. Manpower

The manufacturing process requires an appropriate mix of skilled, semi-skilled and Unskilled labour, which is readily available. As on August 22 2006 our company has 627 employees. Of this 310 employees are on permanent rolls of the company, 110 employees are on contract basis and remaining 207 employees are on daily wages.

Few of our workmen are represented by two registered unions, i.e. SMS Pharmaceuticals Limited, Unit - I Employees Union (Registration Number A-3788) and SMS Workers union (Registration Number A-3997). Till date we have not experienced any strike, lockout or go-slow at any of our Company's premises. Our Management has no pending disputes with any of our workmen, except as mentioned in the section 'Outstanding Litigation and Material Developments' in this Draft Red Herring Prospectus.

Proposed:

We have estimated the additional manpower requirements for the new project which is as under:

Particulars	Vizianagaram Plant
	No. of Employees
Skilled	260
Semi Skilled	70
Unskilled	340
Total	670

We will be recruiting the additional manpower as listed above in due course for which we do not envisage any difficulty as the same is easily available in and around our plant locations.

5. Environmental Aspects

Our unit 1 was issued stop production order and closure order in the previous two years by the APPCB in respect of Stage III process of manufacturing of Ranitidine HCl. However on complying with the conditions as specified by the APPCB both the orders were temporarily revoked. We have completely outsourced stage III process of manufacturing Ranitidine HCl to R-Chem.

We are now complying with the requisite conditions under the Environmental Protection Laws. We have received the CFO for Unit I and have made an application to APPCB for a permanent revocation of closure order.

Our Unit I and Unit II have also received environmental clearance from Ministry of Environment and Forests, Government of India as is required under the environment protection act for a bulk drug-manufacturing unit. However unit III being a facility for manufacture of Neutraceuticals does not require clearance as per the relevant sections of the EP Act.

The manufacturing of drugs and intermediates involves generation of material, which may lead to pollution of Air, Water and Land if not treated and disposed in an appropriate manner. We have a full fledged environment protection team at unit I and II to take care of the generation of any waste material on day to day basis.



The process emissions are let-out into atmosphere after the pollutants are scrubbed in well-designed scrubbers. The solvent used in the process as a medium is recovered and recycled back into the process. We have full fledged water treatment systems like equalization and neutralization facility and the forced evaporation system, where the effluent is evaporated, which is condensed and used back as cooling towers makeup water, while the solids separated by evaporation are sent for disposal to the Hyderabad Waste Management Project (HWMP) being operated by Ramky Enviro Engineers Limited.

We have entered into an agreement with HWMP since February 11, 2002, for reception of waste sent by our unit for treatment and disposal.

We do not envisage any difficulty in meeting the required parameters to maintain a clean and healthy environment for our proposed project at Vizianagaram District. We have already carried out Environmental Impact Assessment Study, which is required for the issue of Environmental Clearance from State Pollution Control Board and Ministry of Environment and Protection. We have made applications to the concerned departments and a public hearing as required under the EP act is scheduled to be held at Vizianagaram on September 4, 2006. Once the project is cleared at the public hearing, the same would be reviewed by APPCB and MoEF for the issue of Clearances.

E. Products

Note: There would be several references in this section to products being manufactured by other companies/corporations under various brand names worldwide. These brand names may be registered / applied for registration by their respective owners, and are the properties of their respective owners.

Our Products & the business operations

The business of our Company comprises of the following segments:

- Manufacturing and Sale of Active Pharmaceutical Ingredients and Intermediates
- Contract Manufacturing/Contract Research
- Neutraceutical

The bulk drugs (APIs) manufactured by us are purchased by pharmaceutical companies carrying out formulations and are converted into the tablets and capsules forms and sold under their brand names through the medical halls. Some of the intermediates manufactured at our facilities are purchased by bulk drug units for further processing and conversion into bulk drugs.

Our Neutraceutical products like Fenudiet and Hearty Salt are designed to be consumed directly by the end user.

Existing

Active Pharmaceutical Ingredients (APIs) and Intermediates

We believe we are one of the leading manufacturers and exporters of Active Pharmaceutical Ingredients and Intermediates in India. We have been engaged in the manufacture of APIs, which are going off-patent and have developed non-infringing processes for manufacture of APIs. We are focused on the following therapeutic segments:

Therapeutic segment	Active Pharmaceutical Ingredients and Intermediates	Applications
Gastro	<u>API</u> - Ranitidine HCl - Omeprazole Magnesium <u>Ranitidine Intermediates</u> - NMSM - Ranitidine Base - Cystopher	Anti Ulcer and Anti acidity
CNS and CNS Stimulants	<u>API</u> - Sumatriptan Succinate - Almotriptan Malate - Zolmitriptan	Anti Migraine
ACE Inhibitors	<u>API</u> - Diltiazem HCl - Ramipril - Trandolapril - Imidapril - Perindopril Erubamine	Potent Ace Inhibitors and for blood pressure regulation
Oncology	<u>API</u> - Gemcitabine HCl - Capecitabine - Imatinib Mesilate	Treatment of pancreatic cancer
Erectyl Dysfunction	<u>API</u> Sildenafil Citrate	Anti impotence
Anesthetic	<u>API</u> Ropivacine	Used as local anesthetic



Therapeutic segment	Active Pharmaceutical Ingredients and Intermediates	Applications
Iron complex former	<i>API</i> Defroxamine	Complex former

Product Details

Details of our existing products are given below:

1) Ranitidine HCl and its Intermediates

Ranitidine HCl belongs to a class of medications, called H₂-Blockers used for treatment of ulcers. Ranitidine HCl blocks the action of histamine (acid) on stomach cells thus reducing stomach acid production. Ranitidine HCl is useful in healing of stomach ulcers and reducing ulcer pain and has been effective in preventing ulcer recurrence when given in low doses for prolonged period of time. In doses higher than that used in ulcer treatment, Ranitidine HCl has been helpful in treating heartburn and in healing ulcer and inflammation of the throat resulting from the acid reflects. Preparations are available in tablets, capsules, syrup and injections. The drugs using Ranitidine HCl are available at lower cost than the other anti-ulcerents like Omeprazole, Lansoprazole, Pantoprazole etc.

The product patent for Ranitidine HCl was held by Glaxo Smithkline Beecham (GSK) and was marketed under the brand name 'Zantac'. The product patent for Ranitidine HCl (Form II) held by GSK expired in 2002. We believe that we are one of the largest manufacturers and exporters of Ranitidine and its intermediates in India with an installed capacity of approximately 1440 MTPA.

2) Omeprazole Magnesium

Omeprazole Magnesium belongs to the anti ulcer segment and is also known as Proton Pump Inhibitor (PPI). The product patent for Omeprazole was held by AB Hassle. Omeprazole is used to treat gastrointestinal infections. The patent for this product has already expired in US in 2001. (Source: US Patent No. 4,255,431 website: www.uspto.gov)

3) Sumatriptan Succinate

Sumatriptan Succinate is an anti migraine drug and falls within the family of Triptan drugs. We are one of the few Indian manufacturers of Sumatriptan Succinate adhering to European pharmacopial standard product (EP grade). We have also filed DMF with US FDA, Canadian and European market for non-infringing process of Sumatriptan Succinate.

The product patent for Sumatriptan Succinate is held by GSK and is marketed under the brand name 'Imitrex'. The product patent held by GSK expires in 2009 in US. (Source: US Patent No. 4,816,470 website: www.uspto.gov).

We are presently selling this product in non-regulatory market and also the regulatory market as this is manufactured through non-infringing process.



4) Almotriptan Malate

Almotriptan Malate is another Triptan in the Anti migraine sector. Almotriptan Malate is a selective 5-hydroxytryptamine (5-HT) receptor agonist. It is FDA approved for the treatment of acute of migraines with or without aura in adults. Almotriptan Malate is not intended for prophylactic migraine therapy. It is contraindicated for the management of hemiplegic or basilar migraines. Its therapeutic activities include cranial blood vessel constriction, neuropeptide-release inhibition, and reduced trigeminal pain pathway transmission.

The product patent for Almotriptan Malate is held by Almirall and is marketed under the brand name Axert. The product patent held by Almirall expires in the US in 2015. (Source: US Patent No. 5,565,447 website: www.uspto.gov). We are selling the product in non-regulatory market and would be ready to sell the same in the regulatory market once it is off patent.

5) Zolmitriptan

Zolmitriptan is used for treating migraine along with Sumatriptan Succinate and Almotriptan Malate. Zolmitriptan is used to treat the symptoms of migraine headache (severe throbbing headache that sometimes is experienced with other symptoms such as upset stomach and sensitivity to sound and light). Zolmitriptan is in a class of medications called selective serotonin (5-HT) receptor agonists. It works by reducing swelling of blood vessels around the brain and blocking the release of certain natural substances that cause pain, upset stomach, and other symptoms of migraine. Zolmitriptan does not prevent migraine attacks.

The product patent for Zolmitriptan is held by Wellcome and is marketed under the brand name Zomig. The product patent held by Wellcome expires in US 2015. (Source: US Patent No. 5,466,699 website: www.uspto.gov). Since this product is not yet off patent is sold in the non-regulatory market.

6) Diltiazem HCl

Diltiazem interferes with the movement of calcium into heart muscle cells and the smooth muscle cells in the walls of the arteries. This action relaxes blood vessels (causing them to widen), which lowers blood pressure, increases the blood supply to the heart, and decreases the hearts overall workload. According to the American Heart Association, high blood pressure in adults defined as a blood pressure greater than or equal to 140 mm Hg systolic pressure or greater than or equal to 90 mm Hg diastolic pressure. High blood pressure has been directly linked to increases in the risk of various heart and brain conditions such as coronary heart disease and stroke. While high blood pressure can occur in anyone, high risk groups include blacks, middle-aged and elderly adults, obese people, heavy drinkers, and women taking oral contraceptives.

7) Ramipril

Ramipril is an Anti-hypertensive. We have filed 2 non-infringing process patents and have filed a US DMF for Ramipril.

Ramipril is an angiotensin-converting enzyme (ACE) inhibitor, used to treat high blood pressure and congestive heart failure. ACE inhibitors lower the production of Angiotensin II, therefore relaxing arterial muscles while at the same time enlarging the arteries, allowing the heart to pump blood easier, and increasing blood flow due to more blood being pumped into and through bigger passageways. Ramipril is a prodrug and is converted to the active metabolite ramiprilat by liver esterase enzymes. Ramiprilat is mostly excreted by the kidneys.



The half-life of ramiprilat is variable (3 - 16 hours), and is prolonged by heart and liver failure, as well as kidney failure.

The product patent for Ramipril is held by Schering and is marketed under the brand name 'Altace'. The product patent held by Schering expires in US in 2006. (Source: US Patent No. 4,587,258 website: www.uspto.gov)

8) Trandolapril

Trandolapril is an API used in anti-hypertensive formulations. The product patent for Trandolapril is held by Hoechst and is marketed under the brand name Mavik. The product patent held by Hoechst expires in US 2010. (Source: US Patent No. 4,933,361 www.uspto.gov) Presently the Trandolapril is aimed at the non-regulatory market.

9) Imidapril

Imidapril is also used as an anti hypertensive drug like Trandolapril. The product patent held by Tanabe Seiyaku Co expired in 2005 in US. (Source: US Patent No. 4,508,727 website: www.uspto.gov)

10) Perindopril Erubumine

Perindopril Erubumine is used alone or in combination with other medications to treat high blood pressure. Perindopril is in a class of medications called Angiotensin-Converting Enzyme (ACE) inhibitors. It makes blood flow more smoothly by preventing the production of certain natural chemicals that tighten the blood vessels.

11) Gemcitabine

Gemcitabine is used to treat cancer of the pancreas. Gemcitabine is in a class of drugs known as pyrimidine analogs; it slows or stops the growth of cancer cells. It is administered intravenously. We have filed a non infringing process patent for Gemcitabine under the PCT in Geneva.

The patent for Gemcitabine is held by Eli Lilly & Company and is marketed under the brand name 'Gemzar'. The product patent held by Eli Lilly expires in the US in 2009. (Source: US Patent No. 4,808,614 website: www.uspto.gov)

12) Imatinib Mesilate

Imatinib Mesilate is a novel therapy for the treatment of chronic myeloid leukemia (CML). Used for the treatment of patients in advanced stages of CML (accelerated phase and blast crisis) against conventional therapies of combination chemotherapy (DAT) and palliative care in hospital or at home. We conclude that treatment of CML with Imatinib confers considerably greater survival and quality of life than conventional treatments.

13) Capecitabine

Capecitabine is a chemotherapy drug that is given as a treatment for some types of cancer, including advanced bowel cancer or breast cancer. This medication is used to treat metastatic colorectal cancer and metastatic breast cancer. Capecitabine is in a class of drugs known as



antimetabolites. Capecitabine resembles a normal cell nutrient needed by cancer cells to grow. The cancer cells take up the Capecitabine, which then interferes with their growth. The length of treatment depends on the types of drugs you are taking, how well your body responds to them, and the type of cancer you have. The patent for Capecitabine is held by Roche and expires in US in 2010. (Source: US Patent No. 4,966,891 website: www.uspto.gov)

14) Sildenafil Citrate

Sildenafil Citrate is used for treatment of impotence in men.

Sildenafil citrate (Viagra) is a medication used to treat erectile dysfunction (ED), or impotence, in men. Erectile dysfunction can be caused by a number of physical and psychological conditions, including diabetes, depression, prostate cancer, spinal cord injury, multiple sclerosis, atherosclerosis, and heart disease. It is also a common side effect of some prescription medications, including antihistamines, antidepressants, antihypertensive, antipsychotics, beta blockers, diuretics, tranquilizers, appetite suppressants, cimetidine (Tagamet), and finasteride (Propecia).

A study of African American and Hispanic men published in 2002 reported that Viagra appears to be equally safe and equally effective across different racial and ethnic groups in the United States.

The product patent held by Warner-Lambert expires in 2007 in US. (Source: US Patent No. 4,666,908 website: www.uspto.gov) Since this product is not yet off patent, we are selling this product in non-regulatory markets, which does not come under the patent control.

15) Fenudiet

This was the first product from the Nutraceuticals division and targets the diabetic segment. Fenudiet is made from fiber extract of fenugreek seeds having good anti-diabetic properties, reducing LDL cholesterol and BMI (Body Mass Index). We believe that there is no known competitive product in India till date. We have already filed a patent application for Fenudiet in India. We have also filed an application for registering the product name 'Fenudiet' as our Trademark.

16) Hearty Salt/Hearty Salt Plus

Hearty Salt and Hearty Salt Plus are specially designed and licensed as proprietary salt products for prevention of hypertension and cardiac problems by reducing the sodium intake.

Products manufactured under contract manufacturing:

17) Ropivacaine

Ropivacaine is used as a local anesthetic. Ropivacaine is used as an Antihyperammonemic.

Ropivacaine is a 'long acting' amido-amine local anesthetic which, because it has mild local vasoconstrictive properties, does not require the addition of adrenaline. At low concentration, it produces sensory analgesia without profound motor blockade because of its diminished (dose-related) effect on motor fibres (A-fibres). Ropivacaine is enantiomerically homogeneous



and is more than 99% pure S-(-) enantiomer (unlike bupivacaine, which is a racemate). Its lipid solubility lies somewhere between that of lignocaine and bupivacaine. It is highly plasma protein binding (94%). The duration of action and onset time are similar to those of bupivacaine. The drug has no affinity for histaminic, serotoninic, alpha- or beta-adrenergic or muscarinic receptors. It is rapidly cleared from plasma and is extensively metabolised by cytochrome P450 to PPX, 3'-OH Ropivacaine and 4'-OH Ropivacaine. It has a greater margin of safety (higher therapeutic ratio) than bupivacaine.

18) Defroxamine

Defroxamine is an iron complex former used for therapy of iron storage diseases. The product patent was held by Ciba with brand name is Desferal. The product patent has already expired in 1980. (Source: US Patent No. 3153621 website:www.espacenet.com).

Proposed expansion project which is part of Objects of the Issue:

Details of the products proposed and the stage of development is given below:

Therapeutic segment	API and Intermediates	Applications	Present status of development of proposed API
CNS Stimulants	<u>API</u> • Rizatriptan • Frovatriptan • Naratriptan	Anti Migraine Anti Migraine Anti Migraine	Laboratory scale-up completed Laboratory work in progress Laboratory work in progress
Oncology	<u>API</u> • Gefitinib	Anti cancer	Laboratory work completed
Anti Emitic	<u>API</u> • Ondansetron	Anti nausea	Laboratory scale completed
Gastro	<u>API</u> • Rabeprazole • Lansoprazole • Pentaprazole	Anti Ulcer Anti Ulcer Anti Ulcer	Laboratory work in progress Laboratory work in progress Laboratory work completed
Analgesic & NSAID	<u>API</u> • Meloxicam	Pain relief agent NSAID	Laboratory work completed
Anti Depressant	<u>API</u> • Sertraline	Anti Depressant	Laboratory scale in progress
Anti Alzheimer	<u>API</u> • Galantamine	Anti Alzheimer's	Laboratory scale in progress
Anti-asthma	<u>API</u> • Montelukast	Anti Asthma	Laboratory Scale in Process
Antiviral	<u>API</u> • Lamivudine • Stavudine • Zidovudine • Didanosine • Nevirapine • Ritonavir • Abacavir • Lopiniavir	Anti – Aids and retroviral drug	Laboratory scale in progress



1) Rizatriptan

Rizatriptan is used in anti-migraine formulations. The product patent for Rizatriptan is held by Merck Sharp and is expiring in 2014. (Source: US Patent No. 5,298,520 website: www.uspto.gov).

2) Frovatriptan

Frovatriptan is used in anti-migraine formulations. The product patent for Frovatriptan is held by Pfizer and is marketed under the brand name 'Frova'. The product patent held by GSK expires in the US in 2016. (Source: US Patent No. 5,545,644 website: www.uspto.gov).

3) Naratriptan

Naratriptan is used in anti-migraine formulations. The product patent for Naratriptan is held by GSK and is marketed under the brand name 'Amerge'. The product patent held by GSK expires in 2011. (Source: US Patent No. 4,997,841 website: www.uspto.gov).

4) Gefitinib

Gefitinib is used as an anti-cancer agent. The product patent for Gefitinib is held by Astra Zeneca and is marketed under the brand name 'Iressa'. The product patent held by Astra Zeneca expires in the US in 2015. (Source: US Patent No. 5,457,105 website: www.uspto.gov).

5) Ondansetron

Ondansetron is used to prevent nausea caused by cancer chemotherapy, radiation therapy, anesthesia and surgery. The product patent for Ondansetron is held by Glaxo and is marketed under the brand name 'Zofran'. The product patent held by Glaxo expires in 2007. (Source: US Patent No. 4,695,578 website: www.uspto.gov).

6) Rabeprazole

Rabeprazole is an anti ulcer drug. The product patent for Rabeprazole is held by Eisai and is marketed under the brand name "Aciphex". The product patent will expire in 2011. (Source: US Patent No. 5,045,552 website: www.uspto.gov).

7) Lansoprazole

Lansoprazole (lan-SOE-pra-zole) is a proton pump inhibitor which prevents the stomach from producing acid. Its product patent held by Takeda Chemical Industries expires in 2006 in US. (Source: US Patent No. 4,628,098 website: www.uspto.gov).

8) Pentaprazole

Pentaprazole (marketed under the brand names Protonix and Pantoloc) is a proton pump inhibitor drug used for short-term treatment of erosion and ulceration of the esophagus caused by gastroesophageal reflux disease. Patent for the same is held by Gulden and will expire in 2008. (Source: US Patent No. 4,758,579 website: www.uspto.gov)



9) Meloxicam

Meloxicam is a nonsteroidal anti-inflammatory drug used to relieve the symptoms of arthritis, primary dysmenorrhoea, pyrexia; and as an analgesic, especially where there is an inflammatory component. It is closely related to piroxicam. In Europe it is marketed under the names of Movalis, Melox, and Recoxa. The US patent held by Boehringer has already expired in 2000. (Source: US Patent No. 4,233,299 website: uspto.gov)

10) Sertraline

Sertraline is an anti depressant. The product patent for Sertraline is held by Pfizer and is marketed under the brand name "Zoloft". The product patent held by Pfizer expired in 2005 in US. (Source: US Patent No. 4,536,518 website: www.uspto.gov).

11) Galantamine

Galantamine (trade name Razadyne, Reminyl) (2, 3) or galanthamine is a drug used for the treatment of mild to moderate Alzheimer's disease (1, 2, 3, 4, 5, 6). It is usually used as its hydrobromide. Galantamine in its pure form is a white powder. It is an alkaloid that has been obtained from the bulbs and flowers of Caucasian snowdrop (Voronov'snowdrop), *Galanthus woronowii* (Amaryllidaceae) and related species. This active ingredient was discovered accidentally by a Bulgarian pharmacologist in 1950s.

12) Montelukast

Montelukast is an oral leukotriene receptor antagonist (LTRA) for the maintenance treatment of asthma and to relieve symptoms of seasonal allergies. It is not useful for the treatment of acute asthma attacks, so patients should also be supplied with rescue medication, such as an albuterol inhaler. Montelukast blocks the action of leukotriene D4 on the cysteinyl leukotriene receptor CysLT1, thus inhibiting bronchoconstriction. The medication is categorised in the FDA pregnancy category B. Montelukast is marketed by Merck & Co. with the brand name Singulair. It is available as oral tablets, chewable tablets, and oral granules. The product patent held by Merck expires in 2016 (Source: US Patent No. 5,565,473 website: www.uspto.gov)

13) Lamivudine

Lamivudine (2',3'-dideoxy-3'-thiacytidine, 3TC) is a potent reverse transcriptase inhibitor of the class nucleoside analog reverse transcriptase inhibitor (NRTI). It is marketed by Glaxo Smithkline with the brand names Epivir and Epivir-HBV. It is also called 3TC.

14) Stavudine

Stavudine (2'-3'-didehydro-2'-3'-dideoxythymidine, d4T, brand name Zerit®) is a nucleoside analog reverse transcriptase inhibitor (NRTI) active against HIV. The product patent held by Bristol Myers Squibb expires in 2012 (Source: US Patent No. 5,130,421 website: www.uspto.gov)



15) Zidovudine

Zidovudine (INN) or azidothymidine (AZT) (also called ZDV) is an antiretroviral drug, the first one approved for treatment of HIV. It is also sold under the names Retrovir and Retrovis, and as an ingredient in Combivir and Trizivir. It is an analog of thymidine. The product patent held by Wellcome expires in in US in 2008 (Source: US Patent No. 4,724,232 website: www.uspto.gov)

16) Didanosine

The product patent for Didanosine is held by Wellcome foundation and is marketed under the brand name VIDEX. The product patent held by Glaxo expires in 2006. (Source: EP Patent No. 206497 website: www.espacenet.com)

17) Nevirapine

The product patent for Nevirapine is held by BHORINGER and is marketed under the brand name Viramune. The product patent held by BHORINGER expires in 2014. (Source: US Patent No. 5,366,972 website: www.espacenet.com)

18) Nelfinavir

The product patent for is held by Agouron and is marketed under the brand name Viracept.

19) Ritonavir

The product patent for is held by Abbott and is marketed under the brand name Norvir. The product patent held by Abbott expires in 2016. (Source: US Patent No. 5,541,206 website: www.uspto.gov)

20) Abacavir

The product patent for is held by Wellcome and is marketed under the brand name Ziagen. The product patent held by Glaxo expired in 2011. (Source: US Patent No. 5,034,394 website: www.uspto.gov)

Other products in pipeline:

Therapeutic segment	API and Intermediates	Applications	Present status of development of proposed API
CNS Stimulants	API • Eletriptan	• Anti Migraine	• Laboratory scale in progress
Cardiac & anti-hypertensives	API • Amlodipine • Lisinopril	ACE Inhibitors, anti hypertensive	• Laboratory scale in progress • Laboratory scale in progress



Therapeutic segment	API and Intermediates	Applications	Present status of development of proposed API
Anti Bacterial	API • Moxifloxacin • Gattifloxacin	• Anti bacterial • Anti bacterial	• Pilot Scale up Completed • Pilot Scale up Completed
Anti Diabetic	API • Rosiglitazone • Pioglitazone	• Anti diabetic • Anti diabetic	• Pilot Scale up Completed • Pilot Scale up Completed
Anti Psychotic	API • Aripiprazole	• Anti psychotic	• Laboratory scale in progress
Benign Prostrate Hyperplasia	API • Tamsulosin	• Prostrate cancer	• Laboratory scale in progress
Analgesic & NSAID	API • Tramadol	• Pain relief agent	• Laboratory scale in progress

1) Eletriptan

Eletriptan is used for migraine. The product patent for Eletriptan is held by Pfizer Inc. and is marketed under the brand name 'Replax'. The product patent held by Pfizer expires in the US in 2016. (Source: US Patent No. 5,565,447 website: www.uspto.gov)

2) Perindopril Erbumine

` is used for hypertension. The product patent for Perindopril is held by Adir and is marketed under the brand name 'Aceon'. The product patent held by Adir expired in US in 2005. (Source: US Patent No. 4,508,729 website: uspto.gov)

3) Amlodipine

Amlodipine is an Anti-anginal Vasodilator. The product patent for Amlodipine is held by Pfizer and is expiring in 2006. (Source: US Patent No. 4,572,909 website: www.uspto.gov)

4) Lisinopril

Lisinopril is used for hypertension. The product patent for Lisinopril is held by Merck and is marketed under the brand name 'Privilinil'. The product patent held by Merck expired in the US in 2003. (Source: US Patent No. 4,374,829 website: www.uspto.gov)

5) Moxifloxacin

Moxifloxacin is used as an antibacterial agent. The product patent for Moxifloxacin is held by Bayer and is marketed under the brand name 'Avalex'. The product patent held by Bayer



Pharmaceutical Corporation expires in the US in 2011. (Source: US Patent No. 4,990,517 website: www.uspto.gov)

6) Gatifloxacin

Gatifloxacin is used as an antibacterial agent. The product patent for Gatifloxacin is held by Kyorin Pharmaceutical Company Limited and is marketed under the brand name 'Zymar'. The product patent held by Kyorin Pharmaceutical Company Limited expires in the US in 2010. (Source: US Patent No. 4,980,470 website: www.uspto.gov)

7) Rosiglitazone

Rosiglitazone is used as an anti-diabetic. The product patent for Rosiglitazone is held by Beechem and is marketed under the brand name 'Avandia', and the product patent expires in US in 2011. (Source: US Patent No. 5,002,953 website: www.uspto.gov)

8) Pioglitazone

Pioglitazone is used as an anti-diabetic. The product patent for Pioglitazone is held by Takeda. The product was marketed by Takeda under the brand name Actos and the product patent expires in 2007 in US. (Source: US Patent No. 4,687,777 website: www.espacenet.com.)

9) Aripiprazole

Aripiprazole is used as an anti-psychotic. The product patent for Aripiprazole is held by Otsuka. The brand name for Aripiprazole was Abilify, which was marketed by Otsuka. The product patent is going to expire in 2011. (Source: US Patent No. 5,006,528 website: www.uspto.gov)

10) Tamsulosin

Tamsulosin is used for treatment of prostate cancer. The product patent for Tamsulosin is held by Yamanouchi Pharmaceutical, and is marketed under the brand name "Flomax". (Source: US Patent No. 4,703,063 website: www.uspto.gov)

11) Tramadol

Tramadol is a pain relief agent and is used to treat pain caused by surgery and chronic conditions such as cancer or joint pain. The product patent for Tramadol is held by Grunenthal and is marketed under the brand name "Ultram". The product patent for the same has already expired.

COMPETITORS FOR OUR MAJOR PRODUCTS

We believe that the following, among others, are the major competitors of our Company in the respective product segments:

Product	Company Name
Ranitidine	Saraca Laboratories, Dr. Reddy's Laboratories, Neuland Laboratories
Sumatriptan Succinate	Natco Pharma Ltd, Dr. Reddy's Laboratories.
Ramipril	Neuland Laboratories, Dr. Reddy's Laboratories, Aarthi Drugs
Gemcitabine	Hetero Drugs, Shilpa Medicare, Benzochem.



Product	Company Name
Sildenafil Citrate	Rakshit Drugs, DSM, Shilpa Medicare, Matrix
Imatinib Mesilate	Hetero Drugs, Natco Pharma Ltd
Almotriptan	Natco Pharma Ltd
Zolmitriptan	Cipla
Omeprazole	Dr.Reddy, Hetero Drugs, Cadila Pharma, Ranbaxy.

MAJOR CUSTOMERS

Exports:

- Scino Pharma Kunshan Biochemical Ltd
- Spanchem S.L
- Helm De Mexico S.A
- Chemo SA
- Tektrade Ltd
- Albion Laboratories Ltd
- Beximco Pharmaceuticals Ltd
- Mione Trading Ltd-Bulgaria
- Ap Dept Teva Pharm USA
- PKK Chemical Marketing WLL

Domestic

- Ranbaxy Laboratories Ltd
- Cadila Pharmaceuticals Ltd
- Orchev Pharma Pvt Ltd
- Disha Enterprises
- Dabur Pharma Ltd
- Nueland Laboratories Ltd
- Torrent Pharmaceuticals Ltd
- Shilpa Medicare Ltd
- Unimed Technologies Ltd
- Unique Pharmaceuticals Labs

Geographical Distribution of Sales for FY 2005 – 06

Sr. No	Particulars	% of total sales
1	Asia (other than India)	20.66%
2	Europe	10.68%
3	North America	3.88%
4	Latin America	3.68%
5	Other Countries - Exports	0.12%
6	Domestic	60.98%
	Total	100.00%



APPROACH TO MARKETING AND PROPOSED MARKETING SET-UP

Marketing and distribution are the major activities for pharmaceuticals companies and the overall success of a pharmaceutical company is dependent to a great extent on the efficiency of its marketing & distribution function. The marketing operations of our Company have grown both quantitatively and qualitatively over the last few years. We believe that our Company has carved out a name for itself in domestic as well as international market.

Our approach to marketing has been direct to the customers as well as through agent network in the local as well as global markets. Agents & traders (both domestic and overseas) primarily identify the customers, negotiate with the customers, submit our samples along with suitable documentation like DMF's, WHO-GMP Certificates, ISO certification and get approval and also follow for finalizing and organize for placing the orders directly to our Company.

Product approval is an important part in our selling process and once the product is approved as per the customers specification, the customers generally do not entertain any more changes of the approved suppliers as changing the vendors is an extremely time consuming and expensive process which also involves approval from their respective regulatory bodies and in some cases approval from their respective Ministry of Health is also required. Thus agents play a very important role in marketing our products.

Currently, we are focusing more on the regulated markets which can be evidenced from the DMF's filed by us in US and other European countries. We are suppliers to many of the leading pharmaceutical companies in India and have a fair exposure in the export segment with substantial revenue being contributed by exports. For Financial Year 2005 - 06 our domestic sales constitute 60.98% of total sales whereas export sale constitutes 39.02% of the total sales. We have already penetrated the East Asian, European, Mexican, Brazilian and other Latin American Markets. The export market is sought to be further strengthened by induction of more overseas agents in our Company's marketing set up.

Business Promotional activities:

As a part of our regular sales promotional measure we also participate in various exhibitions / seminars / conferences and pharma-related events. Contacts made during the sales conferences and trade fairs are closely followed up by organizing our detailed product offers samples and specifications. We also locate and identify companies whose formulations have usage for our API's.

We also look for opportunities for supplying our advanced intermediates to large companies which would be a beneficial proposition for both the companies. Exhibitions / seminars / conferences and pharma-related events also helps us in getting information on various potential products which are doing extremely well in regulatory markets like US, Canada, Europe and Japan. We in turn inform the same to our R & D for working on the development of these API's.

Some of the important events are as follows:

- **CpHI - World wide [International Conference on Pharmaceuticals & Intermediates]:**

By far this is the biggest and largest pharmaceutical exhibition held annually in Europe wherein more than 1500 Companies world wide participate as Exhibitors and attended by well over 25,000 Visitors. This is the most important show for any Company seeking business opportunities within the pharmaceutical industry.



- **D-CAT [Drugs Chemicals and Associated Technologies]- USA:**
This is a premier business development association of Companies involved in the manufacturing or distribution of pharmaceutical, chemical and allied industries. Through meetings, seminars and other events DCAT offers a variety of benefits and business development opportunities and also provides us a chance to learn new industry information and trends as well as make important contacts.
- **INFORMEX – USA & CANADA:**
Informex is the meeting place for companies to grow their businesses in speciality chemical and pharmaceutical markets and to find new suppliers, maintain existing relationships and also be aware of latest trends, technologies and new developments. This fair focuses on contract manufacturing and contract research opportunities with big multinational companies of US and also greatly helps us in identifying suitable partners for growth.
- **CHEMSPEC – EUROPE & INDIA:**
This expo is the biggest congregation of the suppliers of fine & speciality chemicals. Major Industry sectors covered are API Intermediates, contract manufacturing and custom synthesis, Organic chemicals among others. Participation in this Expo helps us to identify and explore the opportunities and prospects in the Global, National and Regional level. Chemspec will also showcase some of the leading contract research and custom synthesis companies worldwide which will help in identifying the potential of our intermediates wherein we can work for possible tie-ups with leading API Manufacturers. In addition to this we also participate in the CHEMSPEC India event which also gives good mileage to our Company.
- **FCE PHARMA -LATIN AMERICA:**
FCE Pharma is Latin America's largest trade show of Pharmaceutical Industry which helps in bringing together world renowned companies and growing companies on one platform.

The following are the critical elements of our strategy for enhancing our domestic and export sales:

Domestic Markets:

- **Focus on Existing Markets for increased sales :-**

With increased marketing efforts and with special focus on leading domestic formulators and API manufacturers like Ranbaxy, Dr.Reddy's, Cadila Pharma, Torrent Pharma, Dabur Pharma, we would be in a position to increase the sale of existing products. We identify their regular requirements for the API's and Intermediates as well as requirements for their launch of new formulations. Sale to these few customers constitutes major part of our revenue.

- **Focus on existing markets for new products :-**

Continuous efforts are being made to make use of our contacts with the above major customers for promoting new product lines of our Company like Sumatriptan Succinate, Almotriptan, Zolmitriptan, Rizatriptan, Ramipril, Imidapril, Perindopril as well as Gemcitabine, Imatinib Mesylate and others.

Efforts are being made to increase the sales of products like Sildenafil Citrate, Omeprazole pellets through the trading channels in addition to the regular customers.



We believe that regular contacts with these leading companies will help us identify their new product launches and work on the process viability and feasibility of supplying our API / Intermediates to them which is beneficial to both.

Export Markets:

Special focus to enter into regulatory markets.

Having a Unit with US FDA approval (Unit II) and also with the receipt of Certificate of Suitability [COS] for our main line products like Ranitidine, Sumatriptan Succinate and Ramipril we will be in a position to promote these products in the lucrative regulatory market segments.

We have done business with major pharma companies / channels through out the world like Teva, Ranbaxy, Welding, Helm, Par Labs, Apotex, Chemagis, Zentiva, Selectchemie, Ratiopharm, S&D Chemicals etc.

We are also focusing on the new age products like Imatinib Mesylate, Gemcitabine, Perindopril, Imidapril, Trandolapril, Rizatriptan, Almotriptan and Zolmitriptan among others with specific customer groups in the regulatory markets for each of these products.

We are also actively promoting our saleable intermediates to major potential customers like Teva, Chemagis, Zentiva, FIS Italy, Scino Pharma, Quimica Sintetica, Apotex to name a few for a long term sales arrangement so as to be an active and continuous supplier of these Intermediates. Also, we are offering our intermediates for products which are likely to be off-patent in the next 2-3 years time.

We are also working to identify suitable partners for technology transfer by way of giving the process of the API on Price and Royalty terms along with supplying advance Intermediates for a period of 3-5 years at an agreed price.

We are focusing special attention to ensure product registrations in major European and Latin American Countries.

Export obligations

Our Company has obtained an EPCG License for import of Capital Goods i.e. UV/SPEC, Avatar, Spectrometer & accessories and HPLC System vide License No. 0930000370 dated January 31, 2002, License No. 09300001066 dated August 12, 2004 and License No. 09300002204 dated May 2, 2006 respectively. As on August 18, 2006 our Company has pending export obligations of Rs. 46.93 Million (approx.)

In Million						
License Number	Name of the Material	Export Obligation		Status		Validity date
		Period	Amt in \$	Exported \$	Pending \$	
0930000370 dated 31-01-2002	UV / SPECTROMETER	8 Years	0.579	0.290	0.290	January 30, 2010



In Million						
License Number	Name of the Material	Export Obligation		Status		Validity date
		Period	Amt in \$	Exported \$	Pending \$	
0930001066 dated 12.08.2004	AVATAR SPECTORMETER	8 Years	0.522	-	0.522	August 11, 2012
0930002204 dated 02-05-2006	2 NUMBERS OF HPLC SYSTEMS AND ACCESSORIES	8 Years	0.187	-	0.187	May 1, 2014
			1.288	0.289	0.9985	

Note: It is assumed that conversion rate is Rs. 47. On this basis, our pending export obligation comes to Rs 47* 0.9985= 46.930 million.

Our Company has also obtained four Advance Licenses for import of Raw material vide License No.. 0910025027 dated December 28, 2005 and License no. 0910026632 dated June 21, 2006. As on August 18, 2006 our Company has export obligation of 19.146 million (approx.)

In Million							
ADVANCE LICENCE NO & DATE	Name of the Material	Exports to be made		Exported		Obligation of Export	
		Qty	Value Rs.	Qty	Value Rs.	Qty	Value Rs.
0910025027 DATED:28.12.2005	*D-ERYTHRO, D+-THREO)	500	31.671	350.00	22.170	150	9.501
0910026632 DATED:21.06.2006	Cystofer Base	36,000	14.467	12,000	4.822	24,000	9.645
			46.139		26.992		19.146

*NORMS YET TO BE FIXED BY THE DGFT AUTHORITIES, NEW DELHI.

Since our Exports for the year 2005- 06 were 503.52 million; we do not see any problem in honouring the above obligation in due course.

We have to honour the above mentioned export obligations in following manner:

0 to 2 Years	Monitoring period
3 to 4 Years	15%
5 to 6 Years	35%
7 to 8 Years	50%
	100%



OUR BUSINESS STRATEGY

In addition to the marketing and sales strategies detailed on page [•] of this Draft Red Herring Prospectus, we intend to increase profitability and improve our market position in the industries/sectors in which we operate by pursuing the following business strategies:

- Upgrading existing manufacturing facilities to make them compliant with international Regulatory Authorities like US FDA.
- Establishing new facilities, compliant with international regulatory authorities like US FDA, MCA-UK and TGA, AUSTRALIA.
- Capitalise the gap occurring after the patent expiry of the products in US and other regulatory markets.
- Developing non-infringing methods of preparation for the products whose patents are expiring and tapping the international generic manufacturer's requirements.
- Developing new molecules.

- **Reduction of Operational cost**

We want to remain as a cost competitive Company. Our focus shall be to reduce the operational cost to increase our competitiveness.

- **Improving manufacturing technology**

Major emphasis is given to the manufacturing technology. The process technology is developed in-house which will meet quality norms of various Pharmacopoeia and special stringent requirements of discerning customers. We strive to achieve best productivity, energy efficiency and cost effectiveness through our processes.

- **Enhancing employees skills & efficiencies**

We have periodic training for all our technical staff to update and hone their skills.

All employees are given good working environment, which has helped in building a good teamwork. Innovative ideas identified and suggested by employees are implemented, which gives them a sense of belonging and spurs them to excel in their area of working.

- **Reducing environmental pollution**

SMS is committed to provide a safe, clean and healthy environment. We will continuously strive to minimize the generation of waste water and air emissions, thereby preventing pollution at source and that can be achieved by adopting cleaner technologies, reducing the use of natural resources and reusing & recycling wastes. We will continue complying with all local and national environmental laws and regulations, at all the times. We have also entered into an agreement with Ramky Enterprises for treatment of Waste discharged from our Units.



▪ **More focus on Research & Development**

Research and development is the key to the future of pharmaceutical industry. Improvement in life expectancy and health all over the world are the result of a steadily increasing investment in research.

To meet R & D challenges of this industry, we have set up a modern laboratory at Sanathnagar, Hyderabad to support the manufacturing facilities. It is playing a vital role in development of new processes and enhancing the process development of existing products.

The laboratory is well equipped with the latest equipments like electronic balances, KF apparatus, reaction assemblies, rota vapours, ovens, stability chambers, vacuum ovens with pumps, mechanical stirres, filtration assemblies, various glass assemblies, computers, TLC Chambers with kit and all types of glassware to carryout various reactions in the laboratory. The laboratory is also equipped with the analytical instruments viz. HPLC, IR, Gas Chromatographs(GC), UV visible Spectrophotometers, etc.

Presently our laboratory has a team of four experienced scientists (PhD's) and 30 senior research chemists working round the clock to achieve cost reduction of the existing products as well as products in pipeline. Apart from this we are also working on the development of new molecules.

Except the above R & D centre, we have also developed in-house Research and Development centres in Unit I and Unit II for the process development. These centres are also well equipped.

We have already filed a total of 17 patents in which 6 are process patents and 1 is product patent filed with PCT and 10 are process patent under the Indian patent laws. We have also signed an Agreement with a Netherlands company 'SPECS' wherein we will develop building blocks for SPECS and SPECS will have exclusive rights to market those blocks under the brand name of SPECS. We have also entered into a Multi Party Agreement, detailed below in the section entitled 'Other Agreements' for development of API, API Intermediates and Metal Acetylacetonates.

We plan to do the following activities in the coming years at our R&D Center:

- Develop non infringing synthesizer for the API and intermediates which are of demand
- Conduct basic research for new chemical entities
- Custom synthesis where the synthesis route is developed by us and contract synthesis, where the product is developed based on the synthesis provided by the party.
- Synthesis of specialty chemicals.

Our Competitive Strengths

• **APIs and Intermediates**

We manufacture a wide range of APIs and intermediates, our focus being on products going off patent and which offer higher realisations. We have consistently strengthened our R&D, resulting in introduction of new products. We have reduced the number of processes involved in the manufacture of Ranitidine HCl from 7 stages to 4 stages. We have also developed cost effective processes for manufacture of products which are going off patent which is evidenced by the spurt in turnover and



profitability and a diverse product range during the last fiscal, i.e. the year ended March 31, 2006.

Our Advantage

Our facilities, details of whose locations are given in the paragraph titled "Property" beginning on page [•] of this Draft Red Herring Prospectus have consistently produced high quality APIs which are very cost effective resulting in many of our competitors like Orchieve Pharma Private Limited, Neuland Laboratories Limited, Ranbaxy Laboratories Limited, Dabur Pharma Limited etc. sourcing their requirements of intermediates from us.

- **Contract Manufacturing/Contract Research**

As stated in the previous paragraph, we have developed cost effective processes to manufacture various products through process innovation. We have entered into product development agreement with Sochinaz S/A in which we have developed and validated all analytical methods and process technology for Trandolapril. We have also undertaken a contract research project wherein we have entered into an agreement with a Netherlands based company viz SPEC wherein we will develop building blocks for SPECS and SPECS will have exclusive rights to market those blocks under the brand name of SPECS. We envisage a significant potential for supply of our products to the pharmaceutical MNCs holding the product patents.

Our Advantage

We believe that focus on the key drivers listed below would enable us to attain significant business from several MNCs in terms of process development and supply of intermediates for APIs for their products:

- Adherence to Intellectual Property Rights
- R&D capabilities to develop efficient and cost effective processes at short notice
- Complete infrastructure for "process research" laboratories, scale up pilot plant and validation block and scaling up of production facilities.
- Manufacturing facilities approved by the US FDA

- **Manufacturing Facilities**

The production equipments employed at our production facilities are multipurpose and multi-product. These equipments allow us to produce a variety of APIs and their intermediates by changing the process parameters, input mix and following cleaning validations procedures. Our production facilities are cost competitive because of process efficiency, optimized manpower deployment, and ability to recover reaction inputs and reuse it. We are capable of meeting the requirements of our customers from laboratory scale research to commercial production, on the strength of our existing infrastructure consisting of R&D laboratories, pilot facilities and production units.

Our Unit II facility is also approved by the US FDA and our proposed plant to be set up will also be as per US FDA approved standard.

- **Customer Relationship Management Skills**

We constantly try to address customer needs around a spectrum of products and services. Our strengths in production (approved and dedicated facilities that can provide from laboratory scale to commercial production) and research (process innovation so as to optimize cost containment) helps us to get repeat business from our customers. This has helped us maintain a long term working relationship with our customers and improve our customer retention strategy.



Capacity & Capacity Utilization

Typically in Pharmaceutical Industry, the production facility is multipurpose in nature and can be used to manufacture any of the bulk drugs/API. As can be seen from the Annual Report of our Company there is no Licensed Capacity and Installed capacity.

Since beginning we have been working in three shifts for all 365 days a year, except for few months when the stop production / closure order was issued on us.

PROPERTY

I. Details of immovable property occupied by our Company:

Our Company has four manufacturing facilities, which are situated in and around Hyderabad, Andhra Pradesh. The details of the manufacturing facilities are provided below:

Unit No.	Location and description and total area	Activity	Leasehold/ Freehold	Status of stamping and registration	Remarks
Unit I Production facility	IDA Khazipally Jinnaram Mandal Medak District, Andhra Pradesh 502319 The Unit comprises of survey numbers 180/1 to 180/15 Total built up area is 45,000 square meters. Total plant area is 62,500 square meters.	Manufacture of Ranitidine HCl at a capacity of 1440 MT per annum.	Freehold	Yes	This Unit is ISO 9001 certified.
Unit II Production facility	Plot No. 24 & 24B S.V. Co-operative Industrial Estate Bachipally, IDA Bollaram, Hyderabad - 502325 The Unit comprises of land bearing numbers 22, 23, 24, 24-B, 36 & 37 forming part of survey nos. 334, 335, 336 and 337 Total built up area is 12,200 square meters. Total plant area is	Manufacture of Sumatriptan Succinate, Quinapril, Gemcitabine and Ramipril	Freehold	Yes	This Unit is US FDA approved and is equipped with a Research and development facility.



	20,200 square meters.				
Unit III Production facility (Nutraceuticals)	D-63, Phase 1, IDA. Jeedimetla, Hyderabad – 500055 Total area is 9881.27 square feet.	Manufacturing of Nutraceutical products being Fenudiet and Hearty Salt. Planning to begin Pelletization.	Leasehold	Not registered.	The lease agreement is for the period from May 1, 2002 to October 30, 2007
Unit IV	S. No. 186, 189, 190, Gagillapur (Village) Quthbullapur (Mandal) Ranga Reddy District Total build up area is 4,192 square meters.	Pilot plant.	Leasehold	Not registered.	The lease agreement is for the period from April 1, 2006 till the date of execution of sale deed in favour of the Company.

- II. **Our Company's Registered Office and Other Property;** Our Company's registered office is located at Hyderabad. Our Company has also acquired land and buildings for other corporate purposes within Andhra Pradesh on sale/lease, the details of which are provided below:

II.1 Details of freehold property of the Company:

Sr. No.	Nature of Activities and Location	Description	Status of Stamping and Registration	Area
1.	Registered Office Office No. 417 in Fourth Floor, Nilgiri block, Aditya Enclave, Ameerpet, Hyderabad 500 038.	Flat and land	Yes	Office area admeasures 1952 square feet and the land area is 70 square yards
2.	Basic Research facility (SMS Pharma Research Center) Shed bearing No.C-23, together with land situated at Industrial Estate Sanathangar, Hyderabad.	Land and Building	Yes	Shed admeasuring 2882 square feet and land admeasuring 1201 square yards
3.	Vacant land at Posaoatirega Mandal, Vizianagaram District, Andhra Pradesh.	Land for proposed expansion	Yes	Total land area admeasures 72.64 acres.



II.2 Details of leasehold property occupied by the Company:

S.No.	Location and Description of Property	Area	Status of Stamping and Registration	Remarks
1.	Administrative office (Technical Department) Flat No. 408, 4 th Floor, Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad, together with car parking area bearing Nos. 60	1018 square feet	No	Lease Agreement valid for 3 years from June 1, 2003, with option to extend for further period at mutually agreed terms. The lease has been renewed by a letter dated June 1, 2006 but the same is not stamped and registered. The lease has been renewed for a period from June 1, 2006 to May 31, 2008.
2.	Administrative office Flat No. 409 situated at 4 th Floor, Nilgiri Block Aditya Enclave, Ameerpet, Hyderabad with Car parking area bearing Nos.63, 64 and 65.	2257 square feet	No	Lease Agreement valid for 3 years from June 1, 2003. The lease has been renewed by a letter dated June 1, 2006 but the same is not stamped and registered. The lease has been renewed for a period from June 1, 2006 to May 31, 2008.
3.	Purchase Department Flat No. 507 B, 5 th Floor Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad.	2,065 square feet		The lease has expired on November 30, 2005. Our Company is in the process of vacating this premises and has hence not renewed the lease, and the same is currently being occupied pursuant to an oral understanding
4.	Office Premises Flat No. 506 A, 5 th Floor Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad along with the furniture and fixtures in it.	1000 sq. ft.	Stamped but not registered	This lease is from April 1, 2006 till March 31, 2007, with option to extend for further period at mutually agreed terms
5	Guest House M/G-95, MVP Colony, Sector II, Visakhapatnam	2,200 sq. ft.	No	Lease Agreement valid for 11 months from June 1, 2005 till May 1, 2006. The lease has been



				renewed by a letter dated June 18, 2006 but the same is not stamped and registered. The lease has been renewed for a period from June 1, 2006 to May 31, 2008.
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Our Company has made an advance payment of Rs.14,250,000 to Ramky Pharma City (India) Ltd towards allotment of 40 acres of land at Jawaharlal Nehru Pharma City at Parawada, Visakhapatnam. The Company has received letters dated July 13, 2005 and July 29, 2005 from Bulk Drug Manufacturers Association (India) requesting Ramky Pharma City (India) Ltd to hand over the possession of 21 acres and 19 acres of Pharma City land to our Company.

INTELLECTUAL PROPERTY

We have sought to develop and protect significant intellectual property, being primarily patents, with respect to our manufacturing processes and with respect to our products.

The patents which have been published under the Patent Co-operation Treaty (PCT) and where we have the option to enter into the national phase and obtain grants in the jurisdictions of our choice within thirty months of the effective date include the following:

S. No	Title	Number	Status
1	A Novel Process For The Preparation Of Indole Derivatives (Sumatriptan)	PCT/IN03 /00183	PUBLISHED ON 18.11.2004 WO 2004/099141 A1
2	One-Pot Preparation Of S-(Guinidino-4-Yl-Methyl)-Isothiourea Dihydrochloride (Famotidine)	PCT/IN 03/00252	PUBLISHED ON 03.02.2005 WO2005/009986 A1
3	A Process For The Preparation Of Debitterised And Defatted Trigonella Foenum Graecum Containing 4-Hydroxy Isoleucine .	PCT/IN 03/00253	PUBLISHED ON 03.02.2005 WO 2005/009453 A1
4	A Novel Synthesis Of 2-Azabicyclic-3-Carboxylic Acids, Useful As Important Drug Intermediates.(Ramipril)	PCT/IN 03/00367	PUBLISHED ON 02.06.2005 WO2005/049567 A1
5	A Process For Industrially Viable Preparation Of (S,S,S) Phenylmethyl-2-Azabicyclo-(3,3,0)-Octane-3-Carboxylate Tosylate. (Ramipril - Intermediate)	PCT/IN 03/00369	PUBLISHED ON 02.06.2005 WO2005/049568 A1
6	An Improved Process For The Manufacture Of High Pure Gemcitabine Hydrochloride (Gemcitabine - Purification)	PCT/IN 04/00084	PUBLISHED ON 13.10.2005 WO 2005/095430 A1
7	An Improved Process For The Manufacture Of High Pure Gemcitabine Hydrochloride (Gemcitabine - Purification)	PCT/IN 04/00084	PUBLISHED ON 13.10.2005 WO 2005/095430 A1



We have also made applications to Indian patents office as follows:

S. No	Title	Number	Status
8	A Process For The Preparation Of Quinapril Hydrochloride Of High Purity And Stability.	917/CHE/2004	13.09.2004
9	A Low Sodium Dietetic Mineral Salt (Fenudiet)	1430/CHE/2004	24.12.2004
10	Synthesis For Quinoxalinones And Its Conversion To An Anticancer Product Gefitinib, 4-(3-Chloro-4-Fluorophenylamino)-7-Methoxy-6-[3-(4-Orpholinyl)Propoxy] (Gefitinib)	219/CHE/2005	07.03.2005 Complete Spec
11	Synthesis Of 6-Hydroxy-7-Methoxy Quinazoline-4-(3h)-One Or Quinoxalinone (Gefitinib-Intermediate)	218/CHE/2005	07.03.2005 Complete Spec
12	Synthesis Of 2-Deoxy -2,2-Di Fluoro-D-Ribo Furanose-3, 5-Di(4-Methyl/4-Nitro-Chloro) Benzoate And Its Conversion To Gemcitabine Hydrochloride. (Gemcitabine-Intermediate)	240/CHE/2005	10.03.2005 Complete Spec
13	Process For Industrially Viable Preparation Of Perindopril Erbumine. (Perindopril)	783/CHE/2005	23.06.2005 Complete Spec
14	Process For Industrially Viable Preparation Of Esters Of (S,S,S) Octahydroindole-2-Carboxylic Acid (Perindopril-Intermediate)	784/CHE/2005	23.06.2005 Complete Spec
15	Process For Industrially Viable Preparation Of Imidapril Hydrochloride (Imidapril)	1247/CHE/2005	06.09.2005 Complete Spec
16	Synthesis Of 2-Arylthio-2-Methylamino-1-Nitroethene – A Useful Intermediate For The Manufacture Of Anti-Ulcerative (Ranitidine New Intermediate)	1756/CHE/2005	01-12-05 Complete Spec
17	A Novel Process For The Manufacture Of Pharmaceutical Grade Anti-Ulceratives Like Ranitidine And Nizatidine, By Using A New Intermediate And Generating A Useful By-Product	1755/CHE/2005	01-12-05 Complete Spec

We have entered into an agreement to supply Sumatriptan Succinate to Ranbaxy Laboratories Limited under Para IV who has filed Abbreviated New Drug Application (ANDA) with the US FDA using reference to our DMF.

The following are details of some of the filings of DMFs/CoS in Common Technical Data (CTD) format:

Sumatriptan Succinate:

Sr. No.	Name of Country	Date of filing	Reg.No and/or Mktg.App.No
1.	Portugal	15/03/2005	43/2005
2.	Romania	18/05/2005	2498/09 03 2005
3.	Germany	06/08/03	EDMF 942
4.	U.K	25/07/2005	DMF/24748-A7344
5.	Sweden	12/05/2005	Dnr:116:2005/26901
6.	Poland	31/05/2005	PL/ODC-460-309/05
7.	Norway	09/05/2005	05/6379
8.	The Netherlands	14/06/05	1229
9.	Italy	21/12/2005	AIN/2005/3303



Sr. No.	Name of Country	Date of filing	Reg.No and/or Mktg.App.No
10.	Iceland	20/07/2005	DMF-IS-435
11.	Spain	23/05/2005	SS/1450/05
12.	Greece	24/05/05	1379
13.	Denmark	04/07/2005	2215-830
14.	Belgium	13/06/2005	1043
15.	France/EDQM/COS	06/07/2004	CEP2004-175
16.	USA Sumatriptan Succinate	02/12/2002	16279
17.	USA Sumatriptan ESP	19/04/2005	18287
18.	Canada	08/10/2003	DMF-2003-138
19.	Ukraine	11/12/2003	1422

Almotriptan:

Sr. No.	Name of Country	Date of Submission	Reg.No and/or Mktg.App.No
1.	USA	18/11/2005	18962

Ramipril:

Sr. No.	Name of Country	Date of Submission	Reg.No and/or Mktg.App.No
1.	USA	20/05/05	17401
2.	Europe, France	28/07/2004	CEP2004-194

Ranitidine HCl:

Sr. No.	Name of Country	Date of Submission	Reg. No and/or Mktg.App.No
1.	USA/FDA	13/07/2004	17542
2.	USA/FDA	03/03/2005	18129
3.	France/EDQM	22/03/06	CEP2004 -171
4.	France/EDQM	08/03/2005	CEP 2005-058
5.	UK/MHRA	20/07/2005	DMF/24748-A5678
6.	Russia	27/07/2000	42-10951-00

We have entered into an agreement with the Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, National Research Development Corporation, Indian Institute of Chemical Technology, Hyderabad and Indian Institute of Technology, Guwahati for development of API, API Intermediates and Metal Acetylacetonates.

We rely on continuing technological innovation that we seek to protect by confidentiality agreements with certain employees and consultants.

With the above filings, we believe that our Company will be able to sell its product at a premium in the international regulated market rather than the non regulated market, thereby getting more profits from the same products which are now being sold in non regulated market.



We further believe that these filings also go a long way in improving our image in the international market and help us to build a reputation enjoyed by the big pharmaceutical companies.

INSURANCE

We maintain insurance cover for our Unit I, Unit II, Unit III and Unit IV with Standard Fire and Special Perils Policy for the plant and machinery, building and stocks situated at those respective Units. Further, we maintain insurance cover for our Unit I and Unit II with Public Liability Industrial Risk. We maintain insurance cover for our boilers at Unit I and Unit II with Boiler and Pressure Plant Insurance. We have insured the building, plant and machinery situated at our research center at C-23 Industrial Estate, Sanathnagar, Hyderabad. We also maintain insurance cover for our office premises (except for one premise which is to be vacated by us shortly) along with the furniture and fixtures with Standard Fire and Special Perils Policy. We maintain marine policies for incoming and outgoing materials where deemed necessary. Our vehicles have been insured with Private Car Policy and Package. All our insurance policies are with the New India Assurance Company Limited that is renewed on a regular basis.

We do not have public liability industrial risk for Unit III and Unit IV as the same are not required.

We have not insured ourselves against exposure to certain risks and events such as loss of profit, etc.



KEY INDUSTRY REGULATIONS AND POLICIES

- **Drugs And Cosmetics Act, 1940**

Drugs and Cosmetics Act, 1940 governs and regulates the manufacture, sale, stock, import, export, distribution of drugs. This legislation requires a company inter alia engaged in any of the above activities to obtain licenses for the manufacture, sale, distribution, and import of drugs, as the case may be, from the Drugs Controller General of India and to maintain records of the same. In order to obtain a License for a particular drug, the approval of the Central Drugs Laboratory certifying the standards of quality is required for which the product is subjected to series of tests involving different stages and procedures. In case of APIs, the Drug Controller General of India issues manufacturing licenses. These manufacturing and marketing Licenses are submitted by the company seeking to produce the drug to the state level authority, the Drug Control Administration which clears the drug for manufacturing and marketing. The Drug Control Administration also provides the approval for the technical staff as per the drugs and Cosmetics Act and rules framed under the legislation abiding by WHO inspection norms.

- **Drugs and Cosmetics Rules, 1945**

These Rules have been framed under the Drugs and Cosmetics Act, 1940. These Rules, inter alia, provide that for the purpose of importing drugs import license and registration certificate is required from the Licensing Authority. The authorization by a manufacturer to his agent in India is documented by a Power of Attorney executed and authenticated in India before a 1st class Magistrate or in the country of origin before such equivalent authority. The Rules also provides for the approval of the Technical staff as per the Drugs and Cosmetics Act and rules framed under the legislation abiding by the World Health Organization.

- **The Drugs (Prices Control) Order, 1995**

The Drugs (Prices Control) Order 1995 was promulgated under the Essential Commodities Act, 1955. Under this Order, the Government of India regulates the equitable distribution and increase in supply of a bulk drugs, and regulates the availability and fair price mechanism at which bulk drugs are sold. A manufacturer has to submit a list of all the Scheduled and Non-Scheduled drugs produced by it and also the cost of each of the bulk drugs. This Order is to be read in consonance with the Drugs and Cosmetics Act, 1940.

The Government of India also fixes the ceiling price of scheduled formulations, keeping in view the cost or efficiency, or both of major manufacturers of such formulations. Such price consequently operates as the ceiling sale price for all packs including those sold under generic name. The authority appointed under the Order for regulation and fixation of drug prices is the “National Pharmaceuticals Pricing Authority” (NPPA). Upon the recommendation of the NPPA, the Ministry of Chemicals and Fertilizers fixes a ceiling price of the API and issues notifications in respect of drugs which are scheduled drugs and formulations.

The Government of India has the power under the Order to recover charges charged by companies in excess to the notified prices. A Gazetted Officer of the Central Government or State Government so appointed for the purposes of this Act is empowered to enter and search any place, seize any drug to ensure compliance with this order. Contravention of any provisions of this Order is punishable in accordance with the provisions of the Essential Commodities Act.



- **Drugs and Magic Remedies Act, 1954**

The legislation prohibits the advertising of a drug in such a way that the advertisement contains any matter which directly or indirectly misrepresents the true character of the drug or makes a false claim or a claim which is false or misleading in any material particulars. The legislation also expressly prohibits the import or export of any document containing an advertisement relating to the same. The contravention of any provisions of this Act has been made subject to punishments as specified therein.

- **Patent Regulation**

The protection and enforcement of patent rights in India are essentially governed by the Patents Act, 1970 (including the rules framed thereunder), as amended from time to time, , the Patent Co-operation Treaty (PCT) and related international conventions to which India is a signatory. A patent unlike a trademark or copyright is territorial in nature meaning that an invention (be it product or process) that is patented in one country does not enjoy protection as a patented invention in any other country.

The PCT is an international treaty between more than 125 Paris Convention countries, administered by the World Intellectual Property Organization (WIPO). The PCT makes it possible to seek patent protection for an invention simultaneously in each of a large number of countries by filing a single “international” patent application instead of filing several separate national or regional patent applications. The granting of patents remains under the control of the national or regional patent Offices called the “national phase”. In keeping with its commitment as a signatory of Trade Related Aspects Intellectual Property Rights (TRIPs) in 1995, India is required to recognise product patents in addition to process patents in respect of pharmaceutical products. Under the amended Patents Act 1970, patents in India can be granted for a product or a process. Under the new Indian patent regime, patent protection has been increased from seven years to twenty years.

- **Environmental Regulations**

In India, regulation and enforcement of environment protection and safety is governed by three major central regulations namely Water (Prevention and Control of Pollution) Act, 1974, the Air (Prevention and Control (Prevention and Control of Pollution) Act, 1981, and the Environment Protection Act, 1986. The main purpose of these legislations is to regulate prevent and control pollution, by the setting up, inter alia of national and regional Pollution Control Boards (PCBs) which monitor and enforce standards and norms in relation to air, water pollution and other kinds of wastes causing environmental damage.

In addition, the Environment (Protection) Act, 1986 also prescribes rules for the management and disposal of hazardous industrial wastes as governed by Hazardous Wastes (Management and Handling) Rules, 1989 and Bio- Medical Waste (Management and Handling) Rules, 1998.

Further all proposals for setting up, expansion or modernization are evaluated in terms of environment assessment impact, by the Ministry of Environment and Forests, which accords the necessary clearance for projects after evaluation of Environment Impact Assessment.



OUR HISTORY AND CERTAIN CORPORATE MATTERS

We were originally incorporated as S.M.S. Pharmaceuticals Pvt. Ltd. on December 14, 1987 for the manufacture of Bulk Drugs. Mr. K G Suggula was our original promoter of our company. We had accumulated losses till 1990, when our current promoter's viz. Mr. Ramesh Babu Potluri and Mr. T V V S N Murthy acquired the Company. The reason behind acquiring a loss making company was to avoid all the regulatory formalities to be fulfilled in case of starting up a new unit.

On November 2, 1994 our company was converted to Public Limited Company from private limited and the name was changed to S.M.S. Pharmaceuticals Limited. Subsequently on April 12, 2004 for operational purpose our name was changed to SMS Pharmaceuticals Limited from S.M.S. Pharmaceuticals Limited.

We started with 20 employees as a single unit and single product Company in 1990 and have now grown into a multi-location, multi-product Company with 4 units and 310 employees on rolls and four Units.

In the year 1991 we started the manufacturing of bulk drug business with the product called Ranitidine HCL at Unit I situated at IDA Khazipally, Jinnaram Mandal, Medak District, Andhra Pradesh with a production capacity of 3 metric tonnes per annum and the process consisting of 7 major stages. As of today the installed manufacturing capacity has expanded to 1,440 metric tonnes per annum and the technology has also been upgraded to a 4-stage process, which has enabled us to become a competitive seller in the market.

We acquired a second Unit at Bachipally, Miyapur, Rangareddy District, Andhra Pradesh in the year 2000 as part of the expansion programme, and started producing Sumatriptan Succinate for which a non-infringing root of synthesis was developed through in-house R&D. Currently Unit II is used to manufacture high value & Low volume APIs like Sumatriptan Succinate, Ramipril and Quinapril.

We started a Nutraceuticals and health care division (Unit III) as a part of diversification in the year 2003, by launching an OTC product called Fenudiet and Hearty Salt in consumer market. 'Fenudiet' is a product for diabetics and we have made an application with the Trade Mark Authority to get our brand "Fenudiet" registered.. Subsequently we started manufacturing many other products like Alvit, Set Free, De- Mass, and others. However, apart from Fenudiet & Hearty Salt, manufacturing of products like Alvit, Set Free, De- Mass, and others have been discontinued because of high overheads cost on distribution and low margins.

We have also started UNIT IV at Gagillapur (Village) Quthbullapur (Mandal Ranga Reddy (Dist). in the year 2004 for scaling up of the APIs. This unit is to be used as a pilot plant.

We have also expanded our R&D activities to have 4 PhD's supported by more than 30 senior chemists. In the year 2004 we started an exclusive basic research facility at Sanath Nagar, Hyderabad. The R&D center mainly focuses on anti-cancer molecules, anti-migraine molecules, anti-bacterial, anti-ulcer, important intermediates and natural plant extracts. We are also having 2 more PhD's which are looking after our production facilities at Unit I and & Unit II.

We have filed 6 non-infringing process patents and 1 product patent under PCT and 10 process patent under Indian Patent Laws as detailed in the section entitled 'Our Business Segments' in this Draft Red Herring Prospectus'. We have also filed DMFs/CoSs in US,



Europe and Canada for 4 products as listed in the section entitled 'Our Business Segments' mentioned in this Draft Red Herring Prospectus'. We also started producing ACE inhibitors Ramipril, Quinapril and anti- cancer drug Gemcitabine.

We had received in principle approvals from BSE vide letter dated December 21, 2004 and NSE vide letters dated January 11, 2005, May 31, 2005 and July 12, 2005 and had also received the observation letter from SEBI dated May 11, 2005 for launch of an IPO for financing the same project envisaged in this DRHP. However we did not proceed with the IPO. By the time we received the observation letter from SEBI our plans underwent some change since we perceived better opportunity in implementing a bigger project with larger capacities and for the manufacture of few more products. Hence we decided not to go ahead with the IPO.

Our Milestones

History and Major Events:

Year	Events
1987	Incorporated by Mr. K G Suggula
1988	Issued 49,960 equity shares at the price of Rs. 10 per share
1989	Issued 50,000 equity shares at the price of Rs. 10 per share
1990	- Acquired by present promoters Mr. Ramesh Babu Potluri & Mr. T V V S N Murthy - Issued 50,000 equity shares at the price of Rs. 10 per share
1991	Commercial production of Ranitidine HCL with 3 MTPA at Unit I
1992	- Ranitidine capacity increased to 180 MTPA - Issues 150,000 equity shares at the price of Rs. 10 per share
1994	- Issued Bonus Shares in the ratio of 8:3 i.e.800,000 equity shares of Rs. 10/- each - Issues 150,000 equity shares at the price of Rs. 10 per share and 350,000 equity shares at the price of Rs. 60 per share - Setup of in-house R&D laboratory in Unit I
1995	- Doubled Ranitidine capacity to 360 MTPA - Issues 450,000 equity shares at the price of Rs. 120 per share
1997	Increased Ranitidine capacity to 720 MTPA
1998	Awarded the prestigious "Pandit Jawaharlal Nehru Silver Rolling Trophy" for its excellence as "Best Industrial Productivity effort in the State"
1999	Additional APIs Naproxen, Ciprofloxacin at Unit I
2000	- Ranitidine capacity including intermediates increased to 1,440 MTPA - Acquired plant of high value APIs at Bachupally (Unit II)
2001	- Commercial production of Sumatriptan Succinate at Unit II - ISO 9001:2000 certification obtained for Unit I - Recognised as export house by Ministry of Commerce
2002	- Setup of in-house R&D laboratory in Unit II - US DMF filed for Sumatriptan Succinate
2003	- ISO 9001:2000 certification obtained for Unit II - Supply Agreement with Ranbaxy under Para IV of ANDA for Sumatriptan Succinate 4 process patents and 1 product patent filed under the Patent Co-operation Treaty 1 Process Patent filed for Sumatriptan Succinate under European Patents. - Set up of Nutraceutical plants in Unit III
2004	USFDA approval obtained for Unit II



Year	Events
	- Commenced commercial production of Ramipril and Quinapril at Unit II - Established exclusive basic research facility at Sanath Nagar, Hyderabad - US DMF for Ranitidine HCL and CoS filed for Sumatriptan Succinate and Ramipril - Agreement entered into with IICT, Hyderabad for development of process knowhow for Diltiazem HCL and Taxol C-13 - Agreement entered into with IIT, Guwahati for development of process knowhow for metal acetylacetonates - Entered into a Memorandum of Understanding with Sochinaz SA for exclusive development and supply of Trandalopril for global marketing by Sochinaz SA. - Setup of pilot plant facility for APIs at Gagilapur, Hyderabad (Unit IV) 1 process patents filed under the Patent Co-operation Treaty and 2 process patents filed with Indian Patents Office - Issued Bonus Shares in the ratio of 1:1 i.e.4,100,000 equity shares of Rs. 5/- each
2005	8 process patents filed with Indian Patents Office - Commenced commercial production of Almotriptan in Unit II - US DMF filed for Ranitidine USP, Almotriptan and Ramipril. - Commencement of development of Trandlopril product under Contact Research for a European Company Sochinaz S/A.
2006	- Published European Patent for Sumatriptan Succinate - Issued 2,923,000 equity shares to the shareholders of Sreenivasa Pharma Private Limited in exchange of shares of Sreenivasa Pharma Pvt. Limited. - Completion of contract research assignment of Tandropiril exclusively executed for Sochinaz SA - CoS for Ranitidine HCL obtained from EDQM.

Changes in Registered office:

Place of Registered Office	Shifted to	Date of Change	Reasons for change
Flat No. 4, Plot No. 24, Gayatri Nagar, Srinivasa Colony, Hyderabad	7-1-616/131, Rahmat Commercial Complex, Ameerpet, Hyderabad - 500 873.	October 16, 1989	Due to change in management
7-1-616/131, Rahmat Commercial Complex, Ameerpet, Hyderabad - 500 873.	MIG 33, APIIC Colony, Jeedimetla, Hyderabad - 500855.	November 02, 1990	Shifting to bigger premises
MIG 33, APIIC Colony, Jeedimetla, Hyderabad - 500855.	7-1-77/E/1/303, Divi Towers, Dharam Karan Road, Ameerpet, Hyderabad-500016.	January 01,1993	Shifted to commercial area
7-1-77/E/1/303, Devi Towers, Dharam Karan Road, Ameerpet, Hyderabad-500016.	115/2RT, S. R. Nagar, Hyderabad - 500038.	November 01,1993	Shifting due to expiry of lease Agreement
115/2RT, S. R. Nagar, Hyderabad - 500038.	417, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad.	January 01,1998	Shifted to commercial area



OUR MAIN OBJECTS

The main objects of the Company as per its Memorandum of Association are as follows:

1. To manufacture buy, sell, offer consultancy import & export, act as commission agents and generally deal with all types of Organic & Inorganic Chemicals, Pharmaceuticals, Drugs and Intermediates.
2. To undertake research work in developing, marketing newer indigenous technologies for various medicines and also newer medicines for various therapeutics uses.
3. To fabricate, manufacture, buy, sell, import, export and generally deal in all types of chemicals, surgical, medical, pharmaceutical and scientific equipment, appliances and accessories.
4. To carry on the business of manufacturer, trader, exporter, importer, wholesale and retail sellers, dealers in all types of herbal products, bio-chemicals, bio-technology products, active pharmaceutical intermediates and ingredients, herbal extracts, phyto-pharmaceuticals, botanical extracts, amino-acids, herbal formulations, agrochemicals/ naturochemicals/ Nutraceuticals and alternate medicines and also to do research and development in these areas.
5. To undertake, promote, assist, engage, and deal in research, development and manufacturing and distribution of bio-technology products and services related to clinical diagnostic kits, biological products, therapeutics and genomics and to setup laboratories, purchase and acquire any equipment and instruments required for carrying out research in the fields of biotechnology, medical research.

Our activities are carried out and in the past have been carried out in accordance with the objects as specified in our Memorandum of Association. The main objects of the company permit us to carry on the proposed project.

Amendments in the Memorandum of Association:

Date of General Body Meeting	Change	Details of amendment
July 30, 1988	Enhancement of the Authorised Share Capital	The Authorised Share Capital was increased from Rs. 500,000/- to Rs. 1,000,000/-
October 12, 1989	Enhancement of the Authorised Share Capital	The Authorised Share Capital was increased from Rs. 1,000,000/- to Rs.1,500,000/-
February 25, 1992	Enhancement of the Authorised Share Capital	The Authorised Shared Capital was increased from Rs.1,500,000/- to Rs. 4,000,000/-
September 26, 1994	Enhancement of the Authorised Share Capital	The Authorised share capital increased from Rs. 4,000,000/- to Rs. 20,000,000/-
September 29, 1994 (EGM)	Enhancement of the Authorised Share Capital Conversion from private to public company	The Authorised Share Capital was increased from Rs. 20,000,000 to Rs. 35,000,000/- Our Company was converted from a private company to a public company. Consequently, the word "private" was deleted from the name of our Company, and suitable



Date of General Body Meeting	Change	Details of amendment
		amendments were made in the Articles of Association of our Company.
September 25, 1997	Enhancement of the Authorised Share Capital	The Authorised share capital increased from Rs. 35,000,000/- to Rs. 50,000,000/- Amendment in clause IV (iii), The Company has power from time to time to issue shares, Hybrids, Derivatives, Options, Quasi Equity instruments etc.
May 22, 2001	Addition to the Main Objects of the Company	Inserted Main Object as III (A) 4 to carry on business as exporters and dealers in all kind of electronic and electrical equipments etc. Inserted Main Object as III (A) 54 to carry on the business of manufacturer, trading, exporter, importer, whole sale, and retail sellers, dealers in all types of herbal products, bio-chemicals, bio-technology products etc.
December 11, 2003 (EGM)	Addition to the Main Objects of the Company Sub Division of Shares	The Authorised share capital increased from Rs. 50,000,000/- to Rs. 120,000,000/- Insertion of clauses number 4 and 5 to the clause III (A) of the Main Object, enabling the Company to engage in the business of Nutraceuticals. Sub- Division of Equity Shares into two shares of Rs. 5/- each fully paid up from Rs 10/- fully paid up.
March 10, 2004 (EGM)	Name change	The name of the Company was changed from S.M.S. Pharmaceuticals Limited to SMS Pharmaceuticals Limited.
September 29, 2004 (AGM)	Consolidation of shares in Rs 10 each	The Authorised capital of company is consolidated into 12,000,000 shares of Rs 10 each fully paid up from 24,000,000 shares of Rs. 5/- each fully paid up

SUBSIDIARIES OF OUR COMPANY

SREENIVASA PHARMA PRIVATE LIMITED:

Sreenivasa Pharma Private Limited was incorporated under the Companies Act, 1956 vide Certificate of Incorporation 01-20182 of 1995-96 dated May 01, 1995 having its Registered Office and Factory at 66/B-2, Phase-I, IDA Jeedimetla, Hyderabad - 500 055. The Company was incorporated with the main objects to manufacture, import, export, buy, sell, distribute and deal in bulk drugs, pharmaceuticals and other related activities.

In July 2004 our Company was allotted 377,000 equity shares at Rs.10/- per share in the Company thereby becoming the single largest shareholder of the company. Subsequently on March 21, 2006, shareholders of Sreenivasa Pharma Private Limited, our company & Sreenivasa Pharma Private Limited entered into a tripartite agreement wherein shareholders of Sreenivasa Pharma Private Limited agreed to offer their shares to our company in exchange of allotment of shares of our company in the ratio based on the valuation certificate of the auditor. M/s P.Murali & Co., Chartered Accountants vide their letter dated March 21, 2006 certified that on the basis of the valuation done by them, exchange ratio of one share of our company for every one share held by the shareholder in Sreenivasa Pharma Private Limited is fair. In April, 2006 our company acquired all the shares from the shareholders of Sreenivas Pharma Private Limited and allotted 2,923,000 shares of our company to the shareholders of Sreenivasa Pharma Private Limited thereby making Sreenivasa Pharma Pvt Ltd., our wholly owned subsidiary.



Board of Directors:

Name of the Director	Designation
Mr. T V V S N Murthy	Director
Mrs. Hima Bindu Potluri	Director
Mr. D Radhakrishnarao	Director
Mrs. P Neelima	Director
Mr. M Koteswara Rao	Director

Shareholding pattern:

Name of the Shareholder	No. of shares held	% holding
SMS Pharmaceuticals Limited	3,299,999	99.99
M Koteswara Rao	1	0.01
Total	3,300,000	100.00

Financial performance:

Particulars	Rs. In million		
	For the Financial Year ended March 31st		
	2004	2005	2006
Sales	134.38	194.22	240.42
Other income	0.31	0.11	0.29
Total Income	134.69	194.33	240.71
PAT	12.86	12.57	24.93
Share Capital	10.00	14.50	33.00
Share Application money	-	2.50	-
Networth	22.38	40.3	81.24
NAV per Share of Rs.10 (Rs.)	22.38	27.79	24.62
EPS per Share of Rs.10 (Rs.)	12.86	9.67	17.20



The Company has availed the following facilities

Working Capital:

Limit	Sanctioned Limits Rs. In Million	Outstanding 31-03-06 Rs. In Million	Interest Charged %	Security Offered
State Bank of India				
Fund Based:				
Cash Credit	10.00	10.81	12.25	First Charge on Current Assets and Second Charge on Fixed Assets. Personal Guarantees of Mr. T V V S N Murthy, Mrs. Hima Bindu Potluri, Mr. Ramesh Babu Potluri and Mrs. Annapurna Talluri.
Stand-by-loan	5.00	5.02	13.25	
EPC/FBD(Sub Limit of CC)	15.00	8.95	7.50	
Corporate Loan	7.00	3.45	12.25	
Total	37.00	28.23		
Non Fund Based:				
Letters of Credit	14.00	12.20		
Bank Guarantee	1.00	00.00		
Total	15.00	12.20		
TOTAL LIMITS	52.00	40.43		
Export Import Bank of India FCPC Loan	50.00	43.41	LIBOR (6 Months) + 100 BPS	Paripassu First Charge on Current Assets & Second Charge on Fixed Assets. Personal Guarantees of Mr. T V V S N Murthy, Mrs. Hima Bindu Potluri, Mr. Ramesh Babu Potluri



Term Loans

Bank	Sanctioned Amount In Million	Outstanding In Million	Rate of Interest	Security Offered
UTI Bank Ltd	20.00	9.50	12%	First Charge on Fixed Assets on paripassu basis with SBI & Second Charge on Current Assets. Personal Guarantees of Mr. T V V S N Murthy, Mrs. Hima Bindu Potluri

Note: There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.

Products Manufactured:

Product	Application	Brand	Innovator	Patent expire	Competitors
Famotidine	Anti Ulcer	Pepsid	Merck	2006	1.Cadila Pharma, 2.Toonira Pharma 3.Dr Reddys Labs
Itraconazole	Anti Fungal	Sporonox	Janssen & Janssen	May 2001	1.Lee Pharma, 2.Glenmark, 3.Sharon Bio Medicine, 4.Neuland Labs
Ketoconazole	Anti Fungal	Nizoral	Janssen& Janssen	Septemebr 2000	1.Mantena Drugs, 2.Nicholas, 3.Gufic Bio Sciences, 4.Sharon Bio Medicine Ltd
Fluconazole	Anti Fungal	Diflucan	Pfizer	2003	1.Neo Med Labs, 2.Mantena Drugs, 3.FDC Ltd
Sibutramine	Anti Obesity	Meridia	Boots Co.	May 2010	1.Symed Labs, 2.Dr Reddys
Doxazosin	Anti Hypertensive	Cardura	Pfizer	Feb 2000	1.Lee Pharma, 2.Dr Reddy's

- **Famotidine:** Anti Ulcer Drug patented by Yamanouchi and Merck. Patents held by both the companies have expired, one in 2001 and the second in 2006. We have already tied up with Yamanouchi for the supply of one of the intermediate.

Itraconazole Pellets: Itraconazole is an anti fungal drug patented by Janssen & Janssen expired in May 2001. (US Patent Number: 4267179, www.uspto.gov)



- **Ketoconazole:** An anti fungal drug widely used in shampoos patented by Janssen & Janssen in the year 1980. The patent expired in the year 2000 (US Patent Number: 4223036, www.uspto.gov)
- **Fluconazole:** This is also an anti fungal drug patented by Pfizer in the year 1983. The patent expired in 2003 (US Patent Number: 4404216, www.uspto.gov)
- **Sibutramine:** Anti Obesity Drug patented by Boots Co. expires in May 2010. (US Patent Number: 4929629, www.uspto.gov)
- **Doxazosin Mesylate:** Anti Hypertense patented by Pfizer expired in February 2000 (Patent Number 4,188,390, www.uspto.gov)

The above drugs are not manufactured by SMS Pharmaceuticals Ltd.

REGULATORY FILINGS

S No	Product Name	Origin	DMF No	Date
1	Famotidine	USFDA	DMF15246	January 17, 2001
2	Famotidine	Canada	DMF-2003-004	January 15, 2003

Shareholders' Agreement

Our Company does not have any subsisting shareholder's agreement as on the date of filing this Draft Red Herring Prospectus.

Other Agreements

1. Supply agreement for supply of API -Sumatriptan Succinate

Our Company has entered into an agreement dated October 10, 2003 ("hereinafter referred to as **Agreement**") with Ranbaxy Laboratories Limited (hereinafter referred to as "**Ranbaxy**") whereby our Company has agreed to supply to Ranbaxy the Active Pharmaceutical Ingredient Sumatriptan Succinate (hereinafter referred to as "**API**") for the manufacture of Tablets 25/50/100 mg (hereinafter referred to as "**Finished Product**") by Ranbaxy.

The Agreement is in pursuance of Abbreviated New Drug Application (hereinafter referred to as "**ANDAs**") and/ or New Drug Application (hereinafter referred to as "**NDA**") / Marketing Authorisation (hereinafter referred to as "**Autorisation**") sought to be filed by Ranbaxy in United States of America, it's territories and possessions, Australia, New Zealand, Austria, Belgium, France, Denmark, Finland, Norway, Sweden, Germany, Ireland, Luxembourg, Netherlands, Switzerland, U.K., Hungary and other countries as suggested by Ranbaxy from time to time (hereinafter referred to as "**Territory**").

As per the Agreement, our Company is to file Drug Master File (hereinafter referred to as "**DMF**") for the API with the USFDA, and thereafter grant access to Ranbaxy to the DMF for production, sale and distribution of the finished product in the USA.

Our Company is also required to file DMF in CTD format in the European territories as provided above, where Ranbaxy is desirous of producing the finished product. Our Company is required to grant necessary letter of access to Ranbaxy in the agreed territories.



This Agreement shall expire upon the expiration of three years from the commercial purchase date of API and shall be extended upon the same terms and conditions, unless modified by the parties mutually, for successive two year period. Either party to give not less than one year prior written notice to terminate this Agreement before the expiration of this Agreement as mentioned above.

2. Agreement for the development of API, API Intermediates and Metal Acetylacetonates

Our Company has entered into an agreement dated March 26, 2004 ("hereinafter referred to as **Agreement**") with the Department of Scientific & Industrial Research, Ministry of Science & Technology (hereinafter referred to as the "**DSIR**"), National Research Development Corporation (hereinafter referred to as the "**NRDC**"), Indian Institute of Chemical Technology (hereinafter referred to as the "**IICT**") and the Indian Institute of Technology Guwahati (hereinafter referred to as the "**IITG**") for the technology development of the process of manufacture of API, API Intermediates and Metal Acetylacetonates by our Company.

This Agreement is in pursuance to the project proposal for the technology development of process for manufacture of API, API Intermediates and Metal Acetylacetonates (hereinafter referred to as the "**Project**") submitted by our Company in furtherance of the Technology Promotion Development and Utilisation Programmes (hereinafter referred to as the "**TPDU Programme**") undertaken by DSIR to partially fund the activities of Indian industry for research and development and upgradation of technology.

As per Agreement, NRDC has agreed to license the technology(ies) developed through the Project to third parties as per the terms mentioned in this Agreement.

IITG has developed processes for preparation of Metal Acetylacetonates at kilogram levels.

Under the Agreement the main responsibilities of our Company include:

- i. To provide the necessary infrastructure and other facilities for the development of the technology and for the manufacture of the Zolmitriptan Oxalate (hereinafter referred to as the "**Product**").
- ii. To develop and achieve the specifications of the Product
- iii. To prepare and finalize the complete design, documentation, material specifications and other details of the pilot plant.
- iv. To erect and commission the pilot plant
- v. To provide Rs. 34.00 Million for the Project
- vi. To receive from DSIR the grant for the project and to disburse the same for meeting the cost of the Project.
- vii. To pay NRDC, who will receive the same on behalf of DSIR, annual royalty @ 6% on the ex-factory price of the Product for commercial sale to domestic and export markets from the date of start of commercial sale till the date of start of payment of annual lumpsum royalty of 1.3 times the amounts disbursed by DSIR for the Project to be paid in 5 equal installments payable at the end of each financial year for a period of 5 years commencing from the date of start of commercial sale of the Product(s) produced by our Company in any of the commercial plants.

Under the Agreement the responsibilities of IICT include:

- i. To demonstrate the process of Diltiazem and Taxol side chain at lab level (upto 20 grms) in the premises of IICT
- ii. To scale up the process of Diltiazem and Taxol side chain to bench scale level (200grms) at our Company's premises
- iii. To scale up the process of pilot plant for manufacture of Diltiazem (from 25 to 50 Kgs) and Taxol side chain (from 5 to 10 Kgs) in the pilot plant.

Under the Agreement the responsibilities of IITG include:

- i. To demonstrate the process of Metal Acetyl Acetonates at lab level in it's premises.



- ii. To scale up the process of Metal Acetyl Acetonates to bench scale level at our Company's premises.
- iii. To scale up the process of pilot plant for the manufacture of Metal Acetyl Acetonates in the pilot plant.

Under the Agreement the responsibilities of NRDC include:

- i. To deal with all legal matters concerned with the Agreement/ terms and conditions including collection of royalty/ lumpsum payments.
- ii. To periodically receive on behalf of DSIR from our Company royalty payments as described hereinabove.
- iii. To license to third parties, with the prior license of our Company to use the intellectual property rights belonging to our Company, the technology developed through the Project or any improvement to the technology as per the terms in this Agreement.
- iv. To periodically receive royalty/ lumpsum payments from third party licensee on the production of the products from the commercial sale by the said third party.

Under the Agreement the responsibilities of DSIR include:

- i. To appoint a Project Review Committee to periodically review and monitor the project and to give necessary directions for the completion of the Project.
- ii. To provide Rs. 13.50 Million to our Company for the Project
- iii. To assist in expediting issues related to progress of the Project including co-ordination with relevant government departments.

The duration of this Agreement will be for a period of 14 years from the date of it's signing i.e till March 25, 2018.

The agreement for payment of royalty, agreement for sponsored research and the agreement for technology transfer as described herein below, are in furtherance of the agreement dated March 26, 2004 for the development of API, API Intermediates and Metal Acetylacetonates.

3. Agreement for payment of royalty

Our Company has entered into an agreement dated March 26, 2004 (hereinafter referred to as the "**Agreement**") with National Research Development Corporation (hereinafter referred to as "**NRDC**") in pursuance of the agreement dated March 26, 2004 as mentioned above. As per this Agreement, our Company and/or it's subsidiaries shall pay to NRDC on behalf of DSIR the following payments for part funding the Project as mentioned in the agreement dated March 26, 2004 herein above:

- i. Annual Lumpsum Royalty of Rs 3,500,000
- ii. 6% on ex-factory sale price of the product for commercial sale to domestic and export markets from the date of start of commercial sale in the pilot plant till the date of start of payment of annual lumpsum royalty on the first day of April every year in respect of the products sold and/ or manufactured for own use by our Company during the preceding year ending March 31 provided the liability of our Company to pay royalty as mentioned herein shall accrue upon the start of commercial sale of the product by our Company and shall continue for a minimum period of 5 years from the date of start of commercial sale of the product by our Company

4. Agreement for sponsored research

Our Company has entered into an agreement dated June 22, 2004 (hereinafter referred to as the "**Agreement**") with the Council of Scientific and Industrial Research (hereinafter referred to as "**CSIR**") in pursuance of the agreement dated March 26, 2004 as mentioned



above. This Agreement has been entered by our Company for sponsoring work of CSIR for development of process knowhow for Diltiazem HCl by asymmetric synthesis and Taxol C-13 side chain on lab scale (20g batch) at Indian Institute of Chemical Technology (hereinafter referred to as the "IICT") and seeking assistance for upscaling of these processes on bench scale and pilot scale in the proposed pilot plant in our Company's premises.

In consideration of the work to be carried out and the grant of license to our Company by CSIR/IICT for using the intellectual property generated and for providing the assistance for upscaling as mentioned hereinabove, our Company shall pay Rs. 1,100,000 towards the sponsorship charges. Our Company shall also pay royalty at the rate of 1% of the ex-factory sale price/unit quantity of the product made, used and sold by our Company for a period of 5 years from the date of commercial production.

This Agreement has expired on June 21, 2006 and there has been no formal renewal thereof. However, as on date of filing this DRHP with SEBI, both parties continue to act in terms of this Agreement pursuant to an informal understanding, since the Project is still under implementation.

5. Agreement for Technology Transfer

Our Company has entered into an agreement dated June 28, 2004 (hereinafter referred to as the "Agreement") with Indian Institute of Technology Guwahati (hereinafter referred to as "IITG") in pursuance of the agreement dated March 26, 2004 as mentioned above. This Agreement has entered into by our Company for sponsoring the work with IITG for development of process know-how for Metal Acetylacetonates on lab scale at IITG and seeking assistance for upscaling of these processes on bench scale and pilot scale in the proposed pilot scale plant in our Company's premises.

In consideration of the work to be carried out and the grant of license to our Company by IITG for using the intellectual property generated and for providing the assistance for upscaling as mentioned hereinabove, our Company shall pay Rs.1,200,000 towards the sponsorship charges. Our Company shall also pay royalty at the rate of 3.5% of the ex-factory sale price/unit quantity of the product made, used and sold by our Company for a period of 5 years computed from the date of certification of completion of activity or three years from the date of commercial production.

This Agreement shall be effective from the date of signing and shall remain in force for the entire period of payments as mentioned hereinabove.

6. Consignment agreement building blocks

Our Company has entered into a Consignment Agreement Building Blocks (hereinafter referred to as the "Agreement") with a Dutch company -Compound Handling B.V (hereinafter referred to as "SPECS"), granting SPECS exclusive marketing rights to SMS Building Blocks (hereinafter referred to as "Blocks"). Our Company has agreed to provide SPECS with a minimum of 100 blocks within 2 months of the order of such Blocks, together with analytical data in respect of the Blocks so delivered. The Blocks supplied by our Company will be sold under SPECS brand name, and the total turnover generated by SPECS from the sale of blocks under this Agreement shall be shared equally between both parties. The turnover generated at the end of every quarter is to be calculated and paid along with the requisite fees by SPECS to our Company. The Agreement has been entered into for a period of one year from date of signing, and stands automatically renewed for an indefinite period of time thereafter. This Agreement is governed by Dutch law and any dispute in relation to this Agreement between our Company and SPECS will be settled by the District Court in the Hague, the Netherlands. However, SPECS has reserved its right to apply to the court in place or our Company's place of business.



7. Agreement for treatment, storage and disposal of hazardous waste.

Our Company has entered into agreement dated February 11, 2002 (hereinafter referred to as “**Agreement**”) with M/s Hyderabad Waste Management Project (hereinafter referred to as “**HWMP**”), a Unit of M/s Ramky Enviro Engineers whereby HWMP is to extend an engineered facility for the treatment, storage and disposal of hazardous waste generated in our Company’s Unit I, in pursuance of the APPCB Consent for Establishment Order: 44094/PCB/C-Estt/ROH-11/EE-N/99-4329 dated February 22, 1999 issued to Unit I. Under the Agreement our Company is required to become a registered member of HWMP in order to avail its services. Our Company is further required to provide comprehensive and periodical details and reports about the waste generated including its characteristics regarding presence of explosive/ ignitable/ corrosive/ toxic/ odour compounds etc. HWMP is to provide containers to the Unit I to help segregate the waste and shall arrange for transportation of such containers from the Unit I to HWMP.

Unit I will have to pay an amount of Rs. 3,000 to HWMP as minimum service charges per month, in addition to stabilization charges where the waste needs to be stabilized before a landfill, and transportation charges at the rate of Rs.2.25 per km per MT (metric ton) of waste.

8. Agreement of conversion work.

Our Company has entered into agreement dated February 10, 2005 (hereinafter referred to as the “**Agreement**”) with M/s R.Chem (Somanahalli) Private Limited (hereinafter referred to as the “**RChem**”) whereby R. chem will carry out the conversion process for an intermediate Ranitidine Base (hereinafter referred to as the “**Intermediate**”) on job work basis for our Company. Our Company will pay conversion charges Rs. 50 per Kg of the Intermediate converted at R. chem.

Strategic Partners

Presently, our Company does not have any strategic partners.

Financial Partners

Presently, our Company does not have any financial partners.



OUR MANAGEMENT

BOARD OF DIRECTORS

Our Company is currently managed by a Board of Directors comprising of 7 Directors. Mr. Ramesh Babu Potluri is currently our Company's Chairman & Managing Director. He is in-charge of the overall management of our Company subject to the supervision and control of the Board. He is ably supported by professional and technically qualified team of executives specified in operations, finance, marketing, Legal and Human Resource Department.

MANAGEMENT

The following table sets forth details regarding our Board of Directors:

BOARD OF DIRECTORS

Name, Designation, Father's Name Address, Age and Occupation	Other Directorships	Date of Appointment
Mr. Ramesh Babu Potluri Chairman & Managing Director S/o Mr. Raghavendra Rao Plot 265Q, Road 10 Jubilee Hills, Hyderabad - 500 033 Age: 47 years Occupation: Business	- Web City Softech Private Limited - Potluri Builders Private Limited	Reappointed as Chairman & Managing Director for a period of five years on December 11, 2003
Mr. T V V S N Murthy Vice Chairman & Jt. Managing Director S/o Mr. Sessa Rao Plot 10-C, Road 8 Film Nagar, Hyderabad - 500 033 Age: 46 years Occupation: Business	Sreenivasa Pharma Private Limited	Reappointed as Vice Chairman & Joint Managing Director for a period of five years on December 11, 2003
Mr. A. P. Rao Director S/o Late Mr. A Kotaiah A-4, Durgabai Deshmuk Colony University Road Hyderabad - 500 007 Age: 62 years Occupation : Business	- Soft Pro Systems Limited - Siri Cybertech Private Limited,	Reappointed on September 29, 2004
Dr. Mihir K. Chaudhuri Director S/o Mr. Late Harendra Chaudhury IIT Guwahati, North Guwahati, Guwahati - 781 039 Age: 58 years Occupation : Research & Teaching	Nil	Appointed as Additional Director on November 18, 2004 and then as a Director on September 30, 2005



Dr. B. Manoranjan Choudary Director S/o Mr. Boyapati Ramaswamy 312, New MLA and MP's Colony Road No. 10C, Jubilee Hills, Hyderabad-33 Age: 60 years Occupation : Business	Ogene systems(I) Pvt Ltd	Appointed as Additional Director on May 29, 2005 and then as a Director on September 30, 2005
Mr. K. Subramanyeswar Rao Director S/o Sreeramulu Rao H No. 7-1-636-26 Model Colony SR Nagar, Hyderabad Age: 64 Years Occupation: Professional	CMH Tools Limited	Appointed as Additional Director on May 29, 2005 and then as a Director on September 30, 2005
Mr. Vinod Goel Nominee Director (EXIM Bank) S/o Vishnu Bhagavan Flat no. 102, Le-mond exim Doongersey road, Walkeshwar Mumbai - 400 006. Age: 52 Years Occupation: Service	Nil	Appointed as a Nominee Director on behalf of EXIM Bank on June 22, 2005

PROFILE OF THE DIRECTORS, OTHER THAN EXECUTIVE DIRECTOR

Mr. Ramesh Babu Potluri, Chairman & Managing Director

Mr. Ramesh Babu Potluri, aged 47 years, is a Post-graduate Technocrat. He started his career in the year 1984 with Cheminor Drugs Limited (Group of Dr. Reddy's Limited Laboratory), Hyderabad. With his innovative skills and methodological approaches in R & D he developed cost effective Ibuprofen by using cyanide route. Later he took active part in commercializing the same. He was first promoted as Assistant Production Manager and then in a short span was promoted as the Production Manager in Cheminor Drugs Limited. During his tenure he was responsible for significant reduction in production cost of Ibuprofen. He played a key role in getting US FDA approval for Ibuprofen for Cheminor Drugs Limited in 1987.

In 1990 he acquired our Company which at that point of time was a sick unit and became the Managing Director of our Company. After taking charge as Managing Director, he changed the product mix of our Company and introduced Ranitidine HCl, which gave our Company a boost in sales and helped our Company in achieving profitability in the first year of operations itself. Under his guidance our Company introduced many other series of APIs. He helped our company in reaching a level wherein we became one of the largest producers of Ranitidine HCl.



T V V S N Murthy, Vice-Chairman & Joint Managing Director

Mr. T V V S N Murthy, aged 46 years, is a Graduate in Chemistry and has an experience of over 20 years in bulk drug and pharmaceutical industry. He started his career in 1981 with Standard Organics Limited, Hyderabad, as a chemist in R & D. During this period he was instrumental in developing technologies and processes for several bulk drugs. He was actively involved in commercialization of products by scaling up the laboratory-scale process to pilot plant and up to commercial scales.

In 1984, he joined Cheminor Drugs Limited (Group of Dr. Reddy's Limited Laboratory), Hyderabad as Production Manager. He played a major role in substantial development of production and turnover. During his tenure as production manager he achieved highest production of Ibuprofen. He played a key role in getting US FDA approval for Cheminor Drugs Limited. As a production Manager, he contributed a lot in process improvement and cost reduction procedures and to increase labor productivity by motivation.

In the year 1990, he, along with Mr. Ramesh Babu Potluri took over our Company. He looks after the production and R& D activities of our company. He also played a major part in reducing the Ranitidine production Process from 7 stages to 3 stages. He was responsible in designing a state-of-art effluent treatment plant for our Company.

Mr. A.P. Rao, Director & Corporate Advisor

Mr. A.P. Rao, an MBA and Cost Accountant by qualification, is a senior management expert in the financial sector. Besides he is also qualified as Associate of other professional bodies. He also has over 35 years of experience in the finance sector. He was part of Dr. Reddy's group as Chief Executive in one of the group Companies and member of the board of other group Companies. He played a key role in the capital structuring and resource mobilization during the growth phase of Dr. Reddy's Group. He has been on the Board of Directors of SMS Pharmaceuticals Ltd. since 1994.

Dr. Mihir K. Chaudhuri

Dr. Mihir K. Chaudhuri has a doctorate from IIT, Kharagpur, India and Ruhr University, Bochum, West Germany in fields of organometallic and inorganic chemistry. He has been a Fellow of various academic bodies and has been recognised as one of the best Chemists & Chemical Engineers by ISI, USA in 1997-98. He has been serving in various capacities in different academic committees, councils and boards of organisations such as CSIR, UGC, MHRD, etc. He has also been involved at National level policy making bodies in India since 1982. He has been serving as the Dean – Research & Development at IIT, Guwahati from 2003 onwards. He has over 120 publications and 4 patents to his credit.

He has been taken on the Board of Directors of SMS Pharmaceuticals Ltd. as an Additional Director since November 18, 2004 as an advisor on the Research & Development activities.

Dr. B. Manoranjan Choudary

Dr. B. Manoranjan Choudary is postgraduate in science from Vikram University. He did his PhD in inorganic chemistry from Gujarat University. He has worked for Indian Institute of Chemical technology for a period of 30 years. Presently, he has his own research setup at Hyderabad. Dr Choudary has been honored with the 'Andhra Pradesh Scientist Award-2004', SANTISWARUP BHATNAKAR AWARD by the State Council of Science & Technology AND



GOVERNMENT OF INDIA, CSIR ON 1990 in recognition of his contributions in the field of Chemistry.

He has various scientific articles and patents to his credit. He is one of the technical members in international technical committee formed for Nano technology in 2005. He is a fellow member in Indian academy of Sciences.

Mr. K. Subramanyeswar Rao

Mr. K. Subramanyeswar Rao is a Commerce graduate from Osmania University. He did his Chartered Accountancy in 1972 and became a member Of ICAI. Currently he is a partner in Brahmayya & Co., a renowned Chartered Accountants firm in southern India.

He has more than 30 years of extensive experience in the area of income tax, Auditing, Accountancy, corporate governance and finance. He has worked for various organizations at senior positions. He was inducted into our board on May 29, 2005.

Mr. Vinod Goel

Mr. Vinod Goel is Post Graduate in Commerce. He is also having degree of B. Com (Hons.), LL.B and CAIIB (Certified Associate of Indian Institute of Bankers). He is appointed as a Nominee Director (EXIM Bank) on June 22, 2005.

Borrowing Powers of the Board:

The Board of Directors of our Company has power to borrow upto Rs. 1,250.00 Million as per the members' resolution passed in the EGM of our Company held on March 10, 2004. The extract of the latest resolution of our Company authorizing the Board's borrowing powers is reproduced:

Extracts of Resolution of borrowing powers passed in the Extra-ordinary General Meeting held on March 10, 2004.

"Resolved that in supersession of the resolution passed by the Company at the Extra-ordinary General Meeting of the Company held on February 25, 2000, and pursuant to section 293 (1) (d) of the Companies Act, 1956, all other enabling provisions, if any, the consent of the Company be and is hereby accorded to the Board of Directors of the Company for borrowing from time to time any sum or sums of monies, which, together with the monies already borrowed by the Company (apart from temporary loans obtained or to be obtained from the Company's Bankers in the ordinary course of business) may exceed the aggregate for the time being of the paid up capital of the Company and its free reserves, that is to say, reserve not set apart for any specific purpose, provided that the total amount of money / monies so borrowed by the board shall not at any time exceed the limit of Rs. 1,250.00 Million (Rupees One Thousand Two Hundred and Fifty Million Only)."

COMPENSATION OF MANAGING DIRECTORS / WHOLE TIME DIRECTORS

Our members at Extra Ordinary General Meeting held on December 11, 2003 have re-appointed Mr. Ramesh Babu Potluri as the Chairman & Managing Director of the Company and Mr. T V V S N Murthy as the Vice Chairman & Joint Managing Director of the Company for a period of 5 years with effect from December 01, 2003 on the following terms and conditions:



Mr. Ramesh Babu Potluri:

Salary of Rs. 125,000/- per month. This includes dearness allowance and all other allowances not otherwise specified herein.

In addition, the Chairman & Managing Director will be entitled to the following:

- i. Commission: Such percentage of commission (in addition to salary and perquisites hereafter stated) calculated with reference to the net profit of the Company in accordance with Section 349 and Section 350 of the Companies Act 1956 for each financial year as may be fixed by the Board of Directors which together with salary and monetary value of perquisites shall not exceed the ceiling laid down under section 309 of the Companies Act.
- ii. Perquisites as under:
 - Housing: Rent-free accommodation will be provided to the appointee for whom 10 per cent of the appointee's salary shall be recovered. In case the Company provides no accommodation, house rent allowance at 60% of the salary shall be paid. In addition, the appointee shall be allowed free use of the Company owned furniture and other consumable durables if required.
 - The expenditure incurred by the appointee on gas, electricity, water and furnishings shall be reimbursed by the Company.
 - All medical expenses incurred by the appointee for self and family shall be reimbursed.
 - Leave travel concession for the appointee and his family will be allowed once in a year as may be decided by the Board of Directors.
 - Fees of clubs subject to maximum of two clubs this will not include the admission and life membership fees.
 - Personal accident insurance, the premium of which shall not exceed Rs.10000/- per annum.
 - Contribution to the Provident fund, Superannuation fund, and Annuity fund to the extent the same are not taxable under the Income Tax Act.
 - Provision of car with driver for use of the Company's business and telephone at the residence.

Mr. T V V S N Murthy:

Salary of Rs.125,000/- per month. This includes dearness allowance and all other allowances not otherwise specified herein.

In addition, the Vice Chairman & Joint Managing Director will be entitled to the following:

- i. Commission: Such percentage of commission (in addition to salary and perquisites hereafter stated) calculated with reference to the net profit of the Company in accordance with Section 349 and Section 350 of the Companies Act for each financial year as may be fixed by the Board of Directors which together with salary and monetary value of



perquisites shall not exceed the ceiling laid down under section 309 of the Companies Act.

ii. Perquisites as under:

- Housing: Rent-free accommodation will be provided to the appointee for whom 10 per cent of the appointee's salary shall be recovered. In case the Company provides no accommodation, house rent allowance at 60% of the salary shall be paid. In addition, the appointee shall be allowed free use of the Company owned furniture and other consumable durables, if required.
- The expenditure incurred by the appointee on gas, electricity, water and furnishings shall be reimbursed by the Company.
- All medical expenses incurred by the appointee for self and family shall be reimbursed.
- Leave travel concession for the appointee and his family will be allowed once in a year as may be decided by the Board.
- Fees of clubs subject to maximum of two clubs this will not include the admission and life membership fees.
- Personal accident insurance, the premium of which shall not exceed Rs.10000/- per annum.
- Contribution to the Provident fund, Superannuation fund, Annuity fund to the extent the same are not taxable under the Income Tax Act.
- Provision of car with driver for use of the Company's business and telephone at the residence.

Corporate Governance

The provisions of the Listing Agreement to be entered into with Stock Exchanges with respect to Corporate Governance shall be applicable to us immediately upon listing of our shares on the Stock Exchanges. We intend to comply with the provisions including with respect to appointment of Independent Directors to our Board. We have already complied with SEBI guidelines in respect of Corporate Governance specially with respect to broad basing of Board, constituting committees such as Audit Committee, Investor grievance committee, etc.

We undertake to adopt the Corporate Governance code as per Clause 49 of the listing Agreement to be entered into with the Stock Exchanges prior to listing.

Composition of Board of Directors:

The Board of Directors of the Company has an optimum combination of executive and non-executive Directors as envisaged in Clause 49 of the Listing Agreement. Accordingly not less than 50% of the Board of Directors comprises of non-executive as well as independent Directors.



Board Structure:

Sl. No.	Name of the Director	Designation	Nature of Directorship	Date of Expiry of Terms
1	Mr. Ramesh Babu Potluri	Chairman & Managing Director	Executive	December 20, 2008
2	Mr. T V V S N Murthy	Vice Chairman & Managing Director	Executive	December 20, 2008
3	Mr. A. P. Rao	Director	Non Executive-Independent	To be Retired by rotation at AGM
4	Dr. Mihir K. Chaudhuri	Director	Non executive – Independent	To be Retired by rotation at AGM
5	Mr. K. Subramanyeswar Rao	Director	Non executive – Independent	To be Retired by rotation at AGM
6	Dr. B. Manoranjan Choudary	Director	Non executive – Independent	To be Retired by rotation at AGM
7	Mr. Vinod Goel	Nominee Director (EXIM Bank)	Non executive – Independent	To be Retired by rotation at AGM

Audit Committee:

The terms of reference of Audit Committee complies with the requirements of Clause 49 of the listing Agreement to be entered into with the Stock Exchanges. The committee consists of all non-executives as well as Independent Directors.

Name of Director	Status in Committee	Nature of Directorship
Mr. A. P. Rao	Member	Non Executive-Independent
Mr. K. Subramanyeswar Rao	Chairman	Non Executive-Independent
Dr. B. Manoranjan Choudary	Member	Non Executive-Independent

Brief role of Audit Committee

The Audit Committee shall review the following aspects of the business of the Company:

- i) Review the unaudited quarterly results, halfyearly and annual accounts of the Company.
- ii) Oversee the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- iii) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- iv) Reviewing with the management the annual financial statements before submission to the Board, focusing primarily on:
 - a. Any changes in accounting policies and practices
 - b. Major accounting entries based on exercise of judgement by management
 - c. Qualification in draft audit report
 - d. Significant adjustments arising out of audit
 - e. The going concern assumptions
 - f. Compliance with accounting standards



- g. Any related party transactions i.e., transactions of the company of material nature, with promoters or the management, their subsidiaries or relative etc., that may have potential conflict with the interests of company at large.
- v) Reviewing with Management, external and internal auditors, the adequacy of internal control systems.
- vi) Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- vii) Discussions with internal auditors any significant findings and follow-up thereon.
- viii) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- ix) Discussion with external auditors before the audit commences, on the nature and scope of audit as well as have post-audit discussion to ascertain any areas of concern.
- x) Reviewing the company's financial and risk management policies.
- xi) To look into and review the reasons for substantial defaults, if any, in payments to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- xii) The Chairman of the Audit Committee shall be present at the Annual General Meeting of the company to provide any clarification on queries from the shareholders.

Remuneration Committee

The Remuneration Committee consists of all Non-Executive Directors. The Chairman and all other members of the Committee are independent Directors. The Committee currently comprises

Name of Director	Status in Committee	Nature of Directorship
Mr. A. P. Rao	Member	Non Executive-Independent
Mr. K. Subramanyeswar Rao	Chairman	Non Executive-Independent
Dr. B. Manoranjan Choudary	Member	Non Executive-Independent

The Committee performs the functions of Remuneration Committee as recommended in the Listing Agreement to be entered into with the Stock Exchanges. It will determine the Company's policy on specific packages for Executive Directors. Along with the abovementioned role, the committee will also perform the following functions:

- i) Review and recommend the company's policy on specific remuneration packages for whole-time/executive directors of the company including pension rights and any compensation payment .
- ii) Any other matter as may be referred by the Board.
- iii) The Chairman of the Remuneration Committee shall be present at the Annual General Meeting of the company. The chairman of the committee may answer the shareholders' queries at the AGM.

Investors Grievances Committee

The Investors Grievances Committee looks into redressal of shareholder and investor complaints, Issue of duplicate/split/consolidated share certificates, allotment and listing of shares and review of cases for refusal of transfer/transmission of shares and debentures and reference to statutory and Regulatory authorities.



The Investors Grievances Committee comprises of:

Name of Director	Status in Committee	Nature of Directorship
Mr. A. P. Rao	Member	Non Executive-Independent
Mr. K. Subramanyeswar Rao	Chairman	Non Executive-Independent
Dr. B. Manoranjan Choudary	Member	Non Executive-Independent

Policy on Disclosures and Internal Procedure for Prevention of Insider Trading

We will comply with the provisions of the SEBI (Prohibition of Insider Trading) Regulations, 1992 after listing of company's shares on BSE & NSE.

Mr. Someshwara Rao, the Company Secretary is responsible for setting forth policies, procedures, monitoring and adherence to the rules for the preservation of price sensitive information and the implementation of the code of conduct under the overall supervision of the board.

Shareholding of the Directors in our Company

As per the Article of Association of our Company, a Director is not required to hold any shares in our Company to qualify him for the office of Director of our Company.

Name of the Director	Number of Shares	% of outstanding Equity Capital
Mr.Ramesh Babu Potluri	1,135,694	16.17
Mr.T V V S N Murthy *	822,700	11.71

* Mr. T V V S N Murthy is also holding 398,134 (5.67%) equity shares in his capacity as Karta of T V V S N Murthy (HUF).

Interest of the Promoters and Directors

All our Directors may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board of Directors or Committees thereof as well as to the extent of other remuneration and/or reimbursement of expenses payable to them under the Articles.

The Directors may also be regarded as interested in the shares, if any, held by or that may be subscribed by and allotted/transferred to the Companies, firms and trust, in which they are interested as Directors, Members, partners and/or trustees. All Directors may be deemed to be interested in the contracts, agreements/arrangements entered into or to be entered into by us with any Company in which they hold Directorships or any partnership firm in which they are partners as declared in their respective declarations.

The Managing Director is interested to the extent of remuneration paid to him for services rendered to us. Further, the Managing Director is interested to the extent of equity shares that he is holding and or allotted to him out of the present Offer in terms of the Draft Red Herring Prospectus and also to the extent of any dividend payable to him and other distributions in respect of the said Equity Shares.

Except as stated otherwise in this Draft Red Herring Prospectus, we have not entered into any Contract, Agreements or arrangements during the preceding two years from the date of this Draft Red Herring Prospectus in which the Directors are interested directly or indirectly and



no payments have been made to them in respect of these contracts, agreements or arrangements which are proposed to be made to them.

Directors Remuneration for the year ended March 31, 2006

(Rs. in Million)

Sr. No	Name of Director	Sitting Fees per meeting (Rs.)#	Salaries / Perquisites	Commission		Total Fees (for 2006)
				31-03-2005	31-03-2006*	
1.	Mr. Ramesh Babu Potluri	0	1.83	4.71	5.42	5.42
2.	Mr. T V V S N Murthy	0	1.83	4.71	5.42	5.42
3.	Mr. A. P. Rao	500	-	-	-	0.0015
4.	Dr. Mihir K. Chaudhuri	500	-	-	-	-
5.	Mr. K. Subramanyeswar Rao	500	-	-	-	0.0015
6.	Dr. B. Manoranjan Choudhary	500	-	-	-	0.0015
7.	Mr. Vinod Goel	500	-	-	-	0.0010
	Total		3.66	9.42	10.84	

Note

*Provisional figures subject to approval of share holders in AGM

#Apart from sitting fees every director is eligible for Rs. 1,000/- towards incidental expenses per meeting. Also the company started paying sitting fees to the directors from September 2005.

CHANGES IN THE BOARD OF DIRECTORS DURING THE LAST THREE YEARS

There has been no change in Directors of the Company during last 3 years except following appointments / resignations of Directors.

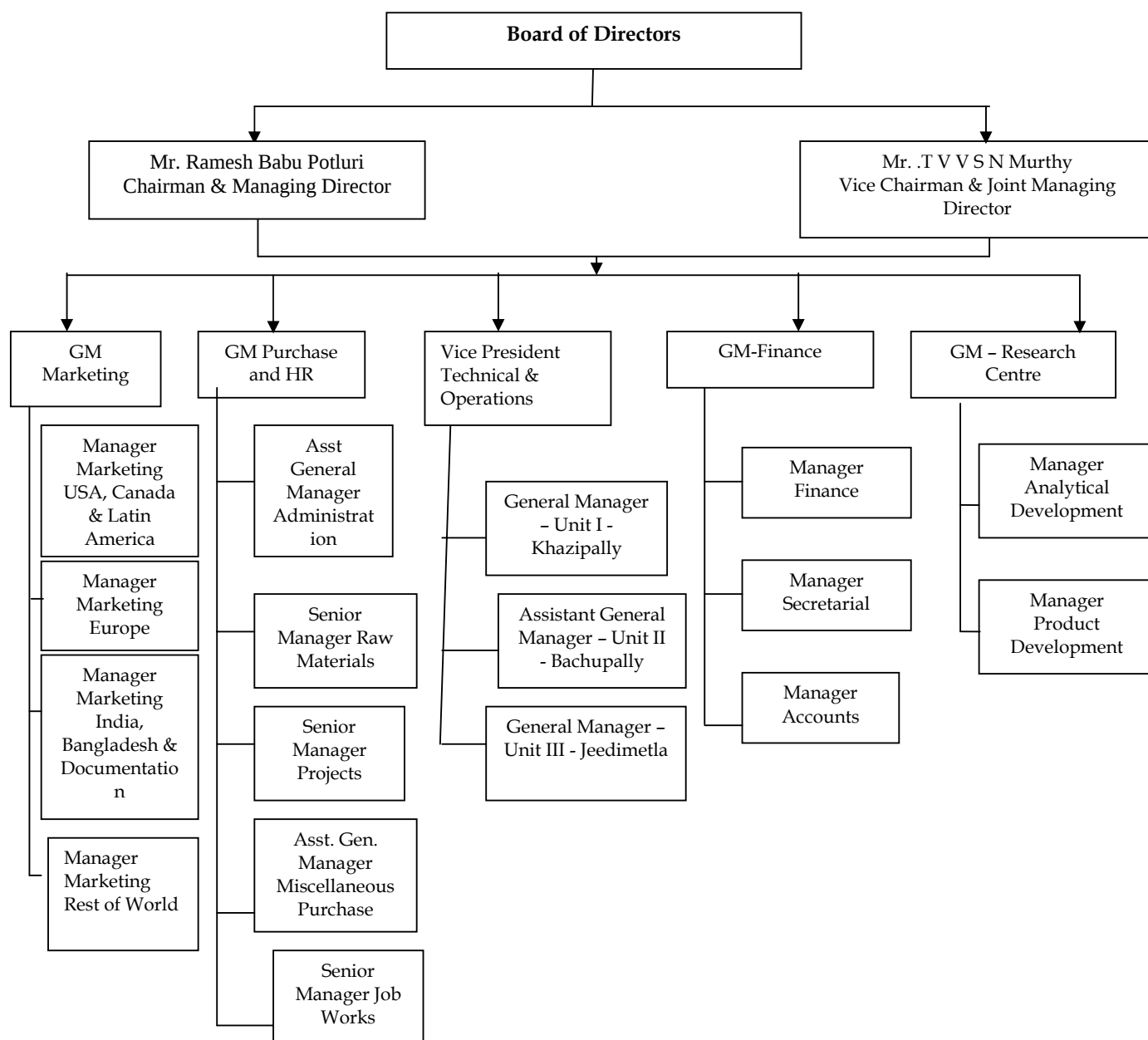
Name of Director	Date of appointment/ Resignation	Reason
Dr. Rao V. Vallabhaneni	August 30 2004	Appointed as Additional Director
Dr. Mihir K. Chaudhuri	November 18, 2004	Appointed as Additional Director
Mr. D Radhakrishna Rao	December 6, 2004	Resigned due to pre-occupation
Mr. K. Subramanyeswar Rao	May 29,2005	Appointed as Additional Director
Dr. B. Manoranjan Choudary	May 29,2005	Appointed as Additional Director
Mr.T.Gopikrishna	May 29,2005	Appointed as Additional Director
Mr. Vinod Goel	June 22,2005	Appointed as Nominee Director (EXIM Bank)
Mr.T.Gopikrishna	September 05, 2005	Resigned due to personal reasons
Dr. Rao V. Vallabhaneni	September 30, 2005	Retired by rotation (Not opted for reappointment)
Dr. Mihir K. Chaudhuri	September 30, 2005	Appointed as a director in AGM
Dr. B. Manoranjan Choudary	September 30, 2005	Appointed as a director in AGM
Mr. K. Subramanyeswar Rao	September 30, 2005	Appointed as a director in AGM



OUR ORGANISATION STRUCTURE

Our overall management is vested with the Board of Directors. The Directors are assisted by a group of senior managers, who are professionals having vast experience in research and manufacturing of pharmaceutical chemicals and diverse management functions. They are our permanent employees

ORGANISATION CHART





Key Management Personnel

Sl. No.	Name, Date of Joining	Age	Academic Qualification	Designation & Responsibility	Overall Experience (In Years)	No of years with our Company	Previously employed	Compensation paid in 05 - 06 (Rs. In Million)
1	Dr. Hariharakrishnan , January 1, 2003	57	Ph. D. M.Sc.	General Manager R&D	35	3	Indian Drugs and Pharmaceuticals Limited	0.43
2	Mr. P. Ravi Kumar, May 28, 1991	44	M.Com	General Manager-Purchases & Head HRD	22	15	Cheminor Drugs Limited	0.47
3	Mr. V S Rao, March 17, 2006	55	MBA, M. Phil, M. Sc.	General Manager - Operations (Unit I)	28	-	Kerbs Biochemical & Industries Ltd.	(Joined on March 17, 2006)
4	Mr. A. Hari Babu, September 1, 1990	42	B.A	General Manager - Marketing	19	16	Cheminor Drugs Limited	0.44
5	Mr. P Hari Kishore, September 1, 1990	48	MSc. Chemistry	General Manager (Unit III)	21	16	Cheminor Drugs Limited	0.43
6	Mr. T.V. Srihari, April 1, 2002	46	B.E. Chemical Engineering	Vice President - Technical	20	4	Natco Pharma Limited	0.45
7	Dr. A. N. Singh, July 28, 2003	54	M. Sc., Ph. D.	Asst. General Manager - R & D	30	3	Indian Drugs and Pharmaceuticals Limited Research Centre, Hyderabad	0.35
8	Mr. G Yuva Kishore, September 1, 1990	41	M.Com.	Deputy General Manager - Purchase	17	16	Cheminor Drugs Limited	0.34
9	Mr. N Rajendra Prasad, March 17, 2006	49	C.A., B. Com	General Manager - Finance	23	-	M/s Vensa Biotech Ltd.	Joined on March 17, 2006
10	Dr. R Girdhar, March 17, 2006	54	M. Pharma Ph. D.	Deputy General Manager - Quality Control & Quality Assurance	30	-	Indian Drugs & Pharmaceuticals Ltd., Hyderabad.	Joined on March 17, 2006
11	Mr. N Ramesh, June 1, 2001	40	B. Sc.	Deputy General Manager - Operations	13	5	Natco Pharma Limited	0.37



Sl. No.	Name, Date of Joining	Age	Academic Qualification	Designation & Responsibility	Overall Experience (In Years)	No of years with our Company	Previously employed	Compensation paid in 05 - 06 (Rs. In Million)
12	Mr. G Someshwara Rao, May 22, 2006	53	M.Com, ACS, BL	Company Secretary	15	-	Madhucon Projects Limited	Joined on May 22, 2006
13	Mr. Y Nagarjuna Rao, October 19, 1994	42	B.Com	Assistant General Manager- HR & Legal	21	12	Acme Fluoro Polymers Ltd.	0.25

Brief Profile of our Key Managerial Personnel

Dr. Hariharakrishnan- General Manager - R&D

Dr. Hariharakrishnan has a doctorate in Chemistry from IIT, Madras with 35 years experience in Research and development. Earlier he worked for IDPL (Indian Drugs and Pharmaceuticals Limited) and presently, our corporate R&D center is headed by him. He joined our Organisation on January 1, 2003.

Mr. P. Ravi Kumar-General Manager- Purchase Department

Mr. Ravi Kumar Potluri is a postgraduate in Commerce from Andhra University having 22 years experience in Pharmaceutical Industry. He joined us in 1991 and presently he is heading our Purchase and HRD Department.

Mr. V S Rao - General Manager - Operations

Mr. V S Rao is a MBA in technology management from Deakins University, Australia. He has also done M. Phil from University of Hyderabad & M. Sc. from Banaras Hindu University. He has vast experience of 28 years in pharmaceutical industry and has worked with various organisations. He joined us in year 2006 as a General Manager - Operations.

Mr. A. Hari Babu -General Manager- Marketing

Mr. Hari Babu Achanta is a Bachelor in Arts and he had experience of 19 years in the field of central excise, liaison and administration. He worked for Cheminor Drugs Limited. At present Mr. Hari Babu is looking after Marketing of Companies products.

Mr. Hari Kishore General Manager - Unit III

Mr. Hari Kishore is postgraduate in chemistry and has experience of 21 years in various fields. He has been working with us since last 16 years and looks after Nutraceuticals division of the Company.



Mr. T.V. Sri Hari – Vice President -Technical

Mr. T.V. Sri Hari is a Chemical Engineer, Post Graduate in Economics and member of Nano Science and Technology Consortium. He has vast experience of 20 years in the field of Active Pharmaceutical Ingredients, manufacturing, process engineering, process scale up, designs, techno commercial aspects and projects. He joined the organization in the year 2002.

Dr. A. N. Singh – Assistant General Manger (R & D)

Dr. Singh is a postgraduate in Science and Ph. D. He has experience of 30 years in the field of Research & Developments. Before joining SMS he was working with IDPL Research Centre (Indian Drugs and Pharmaceuticals Limited), Hyderabad as Deputy Research Manager. He joined our Company in July 2003 and looks after R & D activities under the guidance of Dr.Hariharakrishnan.

Mr. G Yuva Kishore – Deputy General Manager - Purchase

Mr. Kishore is a post graduate in commerce from Andhra University. He has experience of 17 years in Pharmaceutical Industry. He joined our Company 16 years ago. Before joining SMS Pharmaceuticals Limited, he was working with Cheminor Drugs Limited as a Purchase Officer.

Mr. N Rajendra Prasad - General Manager- Finance

Mr. Rajendra Prasad is a Chartered Accountant & a B. Com from Andhra University. He has experience of 23 years in finance. He has joined us recently and is heading our Finance & Accounts department. Before joining us he has worked with many organisations like Deccan Sugars (a division of Navabharat Ferro Alloys Ltd.), Nubic Foods (P) Ltd., Brahmaiah & Co. Previously he was employed with M/s Vensa Biotech Limted and held the position of Finance Manager.

Dr. R Girdhar - Deputy General Manager (QC & QA)

Mr. Giridhar is M. Pharma, Ph. D. from Kakatiya University. He has total experience of 30 years in pharma industry. Before joining us, he worked for Indian Drugs & Pharmaceuticals Limited at various positions. He joined our Company recently and is handling QC / QA Department as a Deputy General Manager.

Mr. N Ramesh - Deputy General Manager - Operations

Mr. Ramesh is a Bachelor in Science from Nagarjuna University. He has held position of Production Manager with Natco Pharma Limited. He has a total experience of 13 years in Pharma Industry. He joined our Company in the year 2001 and is presently working as Deputy General Manager in the area of Operations.

Mr. G Someshwara Rao – Company Secretary

Mr. Someshwara is a qualified Company Secretary and has a Bachelor degree in Law and Masters Degree in Commerce. He has served many organizations in the Government Sector for 12 years looking after secretarial, legal, arbitration, insurance.



Mr. Y Nagarjuna Rao – Asst. General Manager – HR & Legal & Compliance Officer

Mr. Rao is a Commerce graduate from Nagarjuna University. He has an overall experience of 21 years in Secretarial and HRD. He has worked with various organizations like Nirup Synchome Limited, Cheminor Drugs Limited (now merged with Dr. Reddy's Laboratories Limited), Suvarna Cements Limited and Acme Flouro Polymers Limited. He has joined us 12 years ago and he is working in the areas of Company Secretarial matters, Legal and HRD.

Shareholding of Key Managerial Personnel

None of the Key Managerial Personnel in our Company hold any shares of our Company as on the date of filing of this Draft Red Herring Prospectus except as stated below:

Name of the Director	Designation	Number of Shares as of April 30, 2006	% of outstanding Equity Capital
Mr. P. Ravi Kumar	General Manager- Purchases	17,050	0.24
Mr. A. Hari Babu	General Manager- Marketing	1,000	0.01
Mr. Hari Kishore	General Manager- Unit III	43,000	0.61
Mr. Yuva Kishore	Deputy General Manager – Purchase	2000	0.03

Bonus or Profit Sharing Plan for the Key Managerial Personnel

Our Company does not have any bonus/profit sharing plan for any of the directors and key managerial personnel.

Changes in the Key Managerial Personnel during last one year

Name	Date of appointment	Date of Leaving	Remarks
Mr. Y. Ravi Kumar	March 13, 1995	November 4, 2005	Resigned
Mr. Y. Venkateswarlu	March 19, 2001	December 23, 2005	Resigned
Dr. R Giridhar	October 15, 2003	April 1, 2005	Resigned
Mr. R Srinivasa Rao	April 15, 2004	August 17, 2005	Resigned
Mr. E V P S Krishna	January 19, 2006	March 22, 2006	Resigned
Mr. N Rajendra Prasad	March 17, 2006	-	Joined
Dr. R Girdhar	March 17, 2006	-	Re Joined
Mr. V S Rao	March 17, 2006	-	Joined
Mr. Someshwar Rao	May 22, 2006	-	Joined

Notes

1. All the Key Managerial Personnel are permanent employees of our Company.
2. There is no understanding with major shareholders, customers, suppliers or any others pursuant to which any of the above mentioned personnel have been recruited.

Employees

As on August 22, 2006, we have 310 permanent employees, which comprise of managers, office staff, skilled, semi-skilled & unskilled labourers. For contract labour requirement, our Company uses the services of labour contractors, who provide labour, as per our



requirement. Further details regarding the employees are given under the head “Manpower” appearing on page [•] of this Draft Red Herring Prospectus.

ESOP/ESPS Scheme to Employees

Presently, we do not have ESOP/ESPS scheme for employees.

Payment or Benefit to Our Officers

Except for the payment of salaries and yearly bonus, we do not provide any other benefit to our employees.



PROMOTERS AND THEIR BACKGROUND

The Details of the Promoters of our Company are given below:

1. Mr. Ramesh Babu Potluri, Chairman & Managing Director



Voter ID No.	N.A
Driving License No.	DLDAP0098652003
DIN (Provisional)	00166381
PAN Number	ADFP2514L
Passport Number	F0176980

Mr. Ramesh Babu Potluri, aged 47 years, is a Post-graduate Technocrat. He started his career in the year 1984 with Cheminor Drugs Limited (Group of Dr. Reddy's Limited Laboratory), Hyderabad. With his innovative skills and methodological approaches in R & D he developed cost effective Ibuprofen by using cyanide route. Later he took active part in commercializing the same. He was first promoted as Assistant Production Manager and then in a short span was promoted as the Production Manager in Cheminor Drugs Limited. During his tenure he was responsible for significant reduction in production cost of Ibuprofen. He played a key role in getting US FDA approval for Ibuprofen for Cheminor Drugs Limited in 1987.

In 1990 he acquired our Company which at that point of time was a sick unit and became the Managing Director of our Company. After taking charge as Managing Director, he changed the product mix of our Company and introduced Ranitidine HCl, which gave our Company a boost in sales and helped our Company in achieving profitability in the first year of operations itself. Under his guidance our Company introduced many other series of API's. He helped our company in reaching a level wherein we became one of the largest producers of Ranitidine HCl.

In the year 2000, he took a decision to increase the product profile of our company by manufacturing High value and Low Volume API's for which we had acquired ready manufacturing facilities at Bachupally (Unit-II). We commenced manufacturing Sumatriptan Succinate (An anti Migraine Drug), Quinapril, Ramipril (An Anti Blood Pressure), Citalopram (An Anti Depressant) and Gemcitabine (An Anti Cancer drug) etc. at that unit.

His experience and knowledge in the pharmaceutical industry is a great help to our R&D centre. He guides our R & D centre in developing cost effective processes for production and development of New API's. At present he is acting as Chairman for Corporate Level R & D committee constituted by us.

Other Achievements:

- Mr. Ramesh Babu was elected as the Joint Secretary of the Bulk Drug Manufacturers Association (BDMA) (A.P) for the year 1999
- He was elected as Regional Chairman CHEMIXL for Hyderabad region in the year 2000.
- He was a member of Pharma Taskforce committee constituted by Chief Minister of Andhra Pradesh in the year 2003.



2. T V V S N Murthy, Vice-Chairman & Joint Managing Director



Voter ID No.	FZZ5516166
Driving License No.	72389/RRD/89 3275/HY/2K1
DIN (Provisional)	00465198
PAN Number	ABKPT0255F
Passport Number	Z1462362

Mr. T V V S N Murthy, aged 46 years, is one of the Co-promoters of our Company. He is a Graduate in Chemistry and has an experience of over 20 years in bulk drug and pharmaceutical industry. He started his career in 1981 with Standard Organics Limited, Hyderabad, as a chemist in R & D. During this period he was instrumental in developing technologies and processes for several bulk drugs. He was actively involved in commercialization of products by scaling up the laboratory-scale process to pilot plant and up to commercial scales.

In 1984, he joined Cheminor Drugs Limited (Group of Dr. Reddy's Limited Laboratory), Hyderabad as Production Manager. He played a major role in substantial development of production and turnover. During his tenure as production manager he achieved highest production of Ibuprofen. He played a key role in getting US FDA approval for Cheminor Drugs Limited. As a production Manager, he contributed a lot in process improvement and cost reduction procedures and to increase labor productivity by motivation.

In the year 1990, he, along with Mr. Ramesh Babu Potluri took over our Company. He looks after the production and R& D activities of our company. He also played a major part in reducing the Ranitidine production Process from 7 stages to 3 stages. He was responsible in designing a state-of-art effluent treatment plant for our Company.

3. Hima Bindu Potluri



Voter ID No.	Not Applied
Driving License No.	Not Applied
DIN (Provisional)	00166445
PAN Number	AAOPP2408H
Passport Number	F4055550

Hima Bindu Potluri, aged 43 years, is the wife of Mr. Ramesh Babu Potluri. She is a graduate in Science from Nagarjuna University, Andhra Pradesh. She is a director in Hima Farms Private Limited, Sreenivasa Pharma Private Limited, Webcity Softech Private Limited, Potluri Builders Private Limited and Potluri Real Estate Private Limited.



4. Annapurna Talluri



Voter ID No.	Not Applied
Driving License No.	Not Applied
DIN (Provisional)	00477457
PAN Number	ABIPT9230C
Passport Number	B3798084

Mrs. Annapurna Talluri, aged 45 years, is wife of Mr. T V V S N Murthy. She is a Housewife.

5. T V V S N Murthy HUF

T V V S N MURTHY HUF is represented by Mr. T V V S N MURTHY, who is the Karta of the HUF. The HUF was established on December 27, 1993. Other members of the HUF are Mrs. Annapurna Talluri, Ms. Sudeepti & Mr. T V Praveen.

PAN Number: AAAHT 5377D

PROMOTER COMPANIES:

1. Potluri Hire Purchase & Finance Private Limited

PAN	AABCP2521P
Registration Number	01-17053 of 1993-94

The company was incorporated under the provisions of the Companies Act, 1956 on February 18, 1994 as a private limited company vide Certificate of Incorporation No. 01-17053 of 1993-94 as Potluri Hire Purchase & Finance Private Limited issued by the Registrar of the Companies, Andhra Pradesh. The promoter of the company is Mr. Raghavendra Rao. The company carries on the activity of investing in other companies. Majority of the investments made by the company are in the group companies.

Board of Directors:

The board comprises of the following:

Name of the Director	Designation
P Raghavendra Rao	Director
A Radha Krishna	Director
A Anuradha	Director

Shareholding Pattern:

Name of the Shareholder	No. of shares held	% holding
Promoter		
Mr. Raghavendra Rao	2,830	20.95
Others	10,680	79.05
TOTAL	13,510	100.00



Financial performance:

Rs. In million

Particulars	For the Financial Year ended March 31		
	2004	2005	2006
Total Income	1.05	4.98	1.78
PAT	1.03	4.96	1.75
Issued & Subscribed Share Capital	1.35	1.35	1.35
Share Application Money	0.01	0.01	0.01
Paid-up Share Capital	1.35	1.35	1.35
Net worth	6.93	11.89	12.95
NAV per Share of Rs.100 (Rs.)	512.93	880.05	958.81
EPS per Share of Rs.100 (Rs.)	76.31	367.23	129.29

Note: Potluri Hire Purchase & Finance Private Limited had received a notice from the Reserve Bank of India dated June 14, 2006 in respect of alleged non- application for registration as a non-banking financial company ("NBFC") u/s 45 - IA of the Reserve Bank of India (Amendment) Act, 1997. Adusumilli & Associates, the auditors of Potluri Hire Purchase and Finance Private Limited vide its letter dated June 6, 2006 has certified that the company is not carrying on any Non Banking Financial Activities. Apart from this, Adusumilli & Associates, the auditors vide their letter dated August 1, 2006 to RBI have stated that the company is not falling under NBFC norms.

There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.

There are no pending litigations, defaults, etc against above Companies, its promoters and/or its Directors.

The above company is neither a sick Company within the meaning of Sick Industrial Companies (Special Provisions) Act, 1995 nor under winding up.

We further confirm that the Permanent Account Number, Bank Account Number and Passport numbers of the individual Promoters, registration number of the corporate promoter have been submitted to BSE & NSE at the time of filing this Draft Red Herring Prospectus with them.

Common Pursuits

The promoters / directors of SMS Pharmaceuticals Limited do not have any other business which has common pursuits to those of SMS Pharmaceuticals Limited.

Interest of Promoters

All our Promoters are interested in the Promotion of our Company and are also interested to the extent of their shareholding, for which they are entitled to receive the dividend declared, if any, by our Company. Some of our Promoters may also be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board or committee thereof as well as to the extent of other remuneration and/or reimbursement of expenses payable to them under the Articles.



The Chairman and Wholetime Directors are interested to the extent of remuneration paid to them for services rendered to us. Further, the Promoters are interested to the extent of equity shares that they are holding and or allotted to them out of the present Issue, if any, in terms of the Draft Red Herring Prospectus and also to the extent of any dividend payable to them and other distributions in respect of the said Equity Shares.

Except as stated otherwise in this Draft Red Herring Prospectus, we have not entered into any contract, agreements or arrangements during the preceding two years from the date of this Draft Red Herring Prospectus in which the Directors are directly or indirectly interested and no payments have been made to them in respect of these contracts, agreements or arrangements which are proposed to be made to them.

Payment or Benefit to Our Promoters

For details of payments or benefits paid to the promoters, please refer to the paragraph “Compensation to Managing Directors/Whole time Directors” in the section titled ‘Our Management’ in this Draft Red Herring Prospectus.

Sales or Purchase between companies in the Promoter Group

There have been no sales or purchases between companies in the Promoter Group of our Company exceeding in value in the aggregate 10% of the total sales or purchases of the Company.

Related Party Transactions

The details of related party transactions have been disclosed as a part of the Auditors Report. For details, please refer page [●] of this Draft Red Herring Prospectus.



CURRENCY OF PRESENTATION

In this Draft Red Herring Prospectus, unless the context otherwise requires, all references to the word “Lakh” or “Lac”, means “One hundred thousand” and the word “million” means “Ten Lacs” and the word “Crore” means “ten million” and the word “billion” means “One thousand million and the word “trillion” means “One thousand billion”. In this Draft Red Herring Prospectus, any discrepancies in any table between total and the sum of the amounts listed are due to rounding off.

Throughout this Draft Red Herring Prospectus, all the figures have been expressed in Million of Rupees, except when stated otherwise. All references to “Rupees” and “Rs.” in this Draft Red Herring Prospectus are to the legal currency of India.

DIVIDEND POLICY

Dividends may be declared at the Annual General Meeting of the Shareholders based on a recommendation by the Board of Directors. The Board of Directors may recommend dividends, at its discretion, to be paid to the members. Generally the factors that may be considered by the Board, but not limited to, before making any recommendations for the dividend include future expansion plans and capital requirements, profits earned during the financial year, cost of raising funds from alternate sources, liquidity, applicable taxes including tax on dividend, as well as exemptions under tax laws available to various categories of investors from time to time and money market conditions.

Dividend paid by our company during the last five years is as follows:

Year	2005 – 06	2004 – 05	2003 – 04	2002 – 03	2001 - 02
Dividend Paid (%)	20%*	20%	20%	20%	20%

* Pending approval of Shareholders at the AGM



SECTION VII - FINANCIAL INFORMATION

Auditors Report

The Board of Directors
SMS Pharmaceuticals Limited,
417, Aditya Enclave, Ameerpet
Hyderabad.

We have examined and found correct the Audited Accounts of M/s SMS Pharmaceuticals Limited for the past five financial years ended on June 30, 2002 and March 31, 2003, 2004 & 2005 and the year ended March 31, 2006 being the last date up to which the accounts of the Company have been made up and audited by us. At the date of signing this report, we are not aware of any material adjustment which would affect the result shown by these accounts drawn up in accordance with the requirements of Part II of Schedule VI to the Companies Act, 1956.

In accordance with the requirements of Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 (the Act), and the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (SEBI Guidelines) for the purpose of the Offering Memorandum as aforesaid, we report that:

- a. The restated profits of the Company for the financial years ended June 2002 and March 31, 2003, 2004, 2005 and for the year ended March 31, 2006 are as set out in Annexure I to this report. These profits have been arrived at after charging all expenses including depreciation and after making such adjustment and regroupings as in our opinion are appropriate and more fully described in the Significant Accounting Policies and Notes on Accounts appearing in Annexure III and IV respectively to this report.
- b. The restated assets and liabilities of the Company as at June 30 2002, and March 31 2003, 2004, 2005 and as at year ended March 31, 2006 are as set out in Annexure II to this report after making such adjustments and regroupings as in our opinion are appropriate and more fully described in the Notes on Accounts appearing in Annexure IV to this report.
- c. We have examined the cash flow statement relating to the Company, which is appearing in Annexure V to this report.
- d. The rates of dividends paid by the Company in respect of the financial years ended June 30, 2002, and March 31, 2003, 2004, 2005 and for the year ended March 31, 2006 are as shown in Annexure VI to this report.
- e. Previous Year figures have been regrouped / reclassified wherever necessary
- f. We have examined the following financial information relating to the Company and as approved by the Board of Directors for the purpose of inclusion in the Offer document:
 1. Performance Ratios as appearing in Annexure VII to this report
 2. Capitalization Statement for the year ended March 31, 2006 as appearing in Annexure VIII to this report
 3. Statement of tax shelters as appearing in Annexure IX to this report
 4. Details of other income as appearing in Annexure X to this report
 5. Details of sundry debtors as appearing in Annexure XI to this report



6. Details of loans and advances made to persons or Companies in whom/in which Directors are interested as appearing in Annexure XII to this report
7. Details of unsecured loans as appearing in Annexure XIII to this report
8. Details of secured loans as appearing in Annexure XIV to this report
9. Details of transactions with related parties as appearing in Annexure XV to this report
10. Details of aggregate value and market value of quoted investments as appearing in Annexure XVI to this report
11. Details of qualifications appearing in the audit Report as given in Annexure XVII to this report
12. Details of changes in Significant Accounting Policies as given in Annexure VIII to this report

In our opinion the above financial information of the Company read with Significant Accounting Policies and Notes on Account attached in Annexure III & IV respectively to this report, after making adjustments, reclassification and regroupings as considered appropriate has been prepared in accordance with paragraph B (1) Part II of Schedule II of the Act and the SEBI Guidelines.

This report is intended solely for your information and for inclusion in the Offer document in connection with the specific Public Offer of equity shares of the Company and is not to be used, referred to or distributed for any other purpose without our written consent.

**For RAMBABU & Co.,
Chartered Accountants**

**For P.MURALI & Co.,
Chartered Accountants**

RAVI RAMBABU
Partner
Membership No. 18541
Date : June 16, 2006
Place: Hyderabad

P. MURALI MOHANA RAO
Partner
Membership No.23412
Date: June 16, 2006
Place: Hyderabad



Annexure - I

Statement of Profit & Loss Account

Rs. in Million

Particulars	Year ended				
	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
	(12 mths)	(9 mths)	(12 mths)	(12 mths)	(12 mths)
<u>INCOME</u>					
SALES	761.91	523.97	1,158.73	1,186.53	1,290.32
Of Products Manufactured by the Company	761.91	523.97	957.99	1,014.18	851.50
Of products Traded by the Company	-	-	200.74	172.35	438.82
Increase/ (Decrease) in stocks	29.66	(6.79)	21.95	15.99	40.14
Other Income	5.37	2.29	2.87	9.53	4.31
Total	796.94	519.47	1,183.55	1,212.05	1,334.77
<u>EXPENDITURE</u>					
Raw Materials Consumed	418.77	248.01	695.95	663.60	737.12
Manufacturing Expenses	156.38	104.86	159.10	185.39	175.85
Expenses on Employees	15.90	14.88	25.19	42.39	43.91
Administrative & Other Expenses	79.36	63.31	116.07	122.95	136.52
Total	670.41	431.06	996.31	1,014.33	1,093.39
Profit before Interest, Depreciation and Tax	126.53	88.41	187.24	197.72	241.38
Interest & Finance Charges	40.09	16.90	40.61	44.83	66.40
Depreciation	24.23	21.00	31.41	35.15	44.00
Net Profit Before Tax	62.21	50.51	115.22	117.74	130.98
Provision For Taxation:					
Current Tax	3.00	5.50	20.00	15.00	45.46
Deferred Tax	-	21.73	20.29	18.27	0.45
Net Profit After Tax	59.21	23.28	74.93	84.47	85.07
Tax relating to prior period	-	-	2.68	1.89	-
Net Profit after tax and after adjusting prior period items	59.21	23.28	72.25	82.58	85.07



Annexure – II

Statement of Assets and Liabilities

Rs. in Million

Particulars		As at	As at	As at	As at	As at
		June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
A	FIXED ASSETS					
	Gross Block	506.70	593.16	658.60	794.57	835.74
	Less: Depreciation	87.84	108.84	140.25	175.84	216.24
	Net Block	418.86	484.32	518.35	618.73	619.50
	Less : Revaluation Reserve	-	-	-	-	-
	Net Block after adjustment for Revaluation Reserve	418.86	484.32	518.35	618.73	619.50
	Capital Work in Progress	24.49	21.23	46.20	28.01	17.06
	Total Fixed Assets (A)	443.35	505.55	564.55	646.74	636.56
B	INVESTMENTS (B)	3.45	2.95	2.94	4.09	4.05
C	CURRENT ASSETS, LOANS AND ADVANCES					
	Inventories	159.41	164.17	183.08	229.94	266.02
	Sundry Debtors	191.48	151.62	315.90	386.04	451.70
	Cash and bank Balance	60.62	51.12	64.38	42.64	49.86
	Loans and Advance	74.88	86.07	103.27	165.01	184.38
	Other current Assets	-	-	-	-	-
	Total (C)	486.39	452.98	666.63	823.63	951.96
D	LIABILITIES AND PROVISIONS					
	Secured Loans	297.78	361.43	481.00	577.34	591.58
	Unsecured Loans	25.17	30.14	36.56	50.90	62.50
	Current Liabilities	199.98	136.73	203.61	246.62	223.12
	Provisions	18.86	27.31	45.27	54.90	99.31
	Deferred Tax liability	-	88.52	108.82	127.09	127.54
	Total (D)	541.79	644.13	875.26	1,056.85	1,104.05
E	NET WORTH(A+B+C-D)	391.40	317.35	358.86	417.61	488.52
F	REPRESENTED BY:					
	Share Capital	20.50	20.50	41.00	41.00	41.00
	Reserves and Surplus (Net of Revaluation Reserves)	372.84	323.81	366.28	439.53	515.25
	Miscellaneous Expenditure	1.94	26.96	48.42	62.92	67.73
	NET WORTH	391.40	317.35	358.86	417.61	488.52

SIGNIFICANT ACCOUNTING POLICIES & NOTES ON ACCOUNTS:

I. ACCOUNTING POLICIES:

1. ACCOUNTING ASSUMPTIONS:

The Financial Statements have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the accounting policies generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") issued by the Institute of Chartered Accountants of India ("ICAI") to the extent applicable and the relevant provisions of the Companies Act, 1956.

2. FIXED ASSETS:

- a. Fixed Assets are stated at cost of acquisition as reduced by accumulated depreciation. All costs including financial costs up to the date of commissioning and attributable to the fixed assets are capitalized apart from taxes, freight and other incidental expenses related to the acquisition and installation of the respective assets.
- b. Assets acquired on Hire Purchase arrangements are accounted for as assets in accordance with AS-19 issued by the Institute of Chartered Accountants of India.

3. CAPITAL WORK IN PROGRESS:

Assets under installation or under construction as on the date of balance sheet are shown as Capital work in progress. Advances given towards acquisition of assets are also included in Capital work in progress.

4. DEPRECIATION:

Depreciation on Fixed Assets is provided on Straight Line Basis at the rates prescribed In Schedule - XIV of the Companies Act, 1956.

Depreciation on addition to/deletion from fixed assets made during the year is provided on pro-rata basis from/up to the date of such addition/deletion as the case may be. In case of assets costing less than Rs.5,000/- purchased during the year also depreciation has been provided at normal rates on pro-rata basis from the date of purchase, instead of providing 100% Depreciation.

5. INVESTMENTS:

Long term Investments are carried at cost. Provision for diminution in the value of long-term investments is made if such diminution is other than temporary in nature in the opinion of the management.

6. INVENTORIES:

Inventories are valued at the lower of the cost or net realizable value. Cost of inventories comprises cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.



The methods of determining cost of various categories of inventories are as follows:

Raw Materials	- At cost
Stores and spares	- At cost
Work in Process	- At cost and an appropriate share of overheads
Finished Goods	- At cost or realizable value, whichever is lower

7. SALES:

Sales include sale value of goods, Excise Duty, Export Benefits, Sales Tax and Transport charges wherever applicable.

8. RESEARCH AND DEVELOPMENT:

- i) Expenditure incurred on research and development of new molecules and process development of existing products has been treated as deferred revenue expenditure and the same has been written off in Five (5) equal yearly installments from the year in which it is incurred
- ii) The Expenditure on capital assets in respect of R&D activity are capitalized and amortized at the rates specified in Schedule – XIV of the Companies Act, 1956.
- iii) Depreciation on R&D Assets is included in depreciation.

9. BUSINESS DEVELOPMENT EXPENDITURE:

Expenditure incurred on Product Promotion and brand establishment has been treated as deferred revenue expenditure and the same has been written off in Five (5) equal yearly installments from the year in which it is incurred.

10. RETIREMENT BENEFITS:

- i) Company's contribution to Provident Fund and Pension Fund are charged to profit and Loss account.
- ii) Gratuity liability to employees is covered by Group Gratuity Scheme of Life Insurance Corporation of India. The amount paid to the LIC being charged to the profit and loss account.
- iii) Leave encashment is accounted on payment basis and charged to profit and loss account.

11. EXCISE DUTY:

Excise Duty is accounted for at the time of despatch. Duty realisable from customers is Credited to sales Account and shows it as an expenditure in Profit and loss account. Unutilised amount of Excise Duty is shown under Loans and Advances.

In respect of closing stock of Finished Goods at the end of the year Excise Duty payable is Accounted for and considered for valuation. A corresponding liability is created for the same amount.



12. CENVAT / VAT CREDIT:

Cenvat / Vat credit claimed on capital goods (Plant and Machinery) is credited to relevant Plant and Machinery Account.

Cenvat / Vat credit on purchase of raw materials, packing materials, consumables, spares and components are deducted from the cost of respective materials.

13. REVENUE RECOGNITION:

Revenue from sale of goods is recognized when significant risks and rewards in respect of ownership of the products are transferred to the customer. Export Benefits are recognized on accrual basis.

14. FOREIGN EXCHANGE TRANSACTIONS

Transactions in foreign currency are recorded at the exchange rate prevailing at the time of transaction. Current assets loans and advances are translated at the rates prevailing on the date of the balance sheet. The exchange difference arising on such transactions are recognized as income or expenditure in the Profit and Loss Account as per revised AS11 issued by the Institute of Chartered Accountants of India.

15. INCOME TAX:

Income tax liability for the current year is calculated in accordance with relevant tax regulations applicable to the company.

The deferred tax for the timing differences between books and tax profit for the year is accounted for, using the tax rates and Laws that have been substantially enacted as of the Balance Sheet date

Deferred tax assets arising from timing differences are recognised and carried forwarded only if there is reasonable certainty that they will be realised in future and reviewed for the appropriateness of their respective carrying value at each balance sheet date.

16. BORROWING COSTS:

- i) Borrowing costs that are attributable to the acquisition of Fixed Assets are capitalized as part of the cost of the asset till the date the asset is ready for commercial use.
- ii) Other borrowing costs are treated as expenses in the period, in which they are incurred, except bank charges for processing / renewal of working capital.
- iii) The bank charges for processing of working capital application are charged to expenses on prorata basis.

17. MISC. EXPENDITURE:

Preliminary and Pre-operative expenses have been written off over a period of Five Years. Differed Revenue Expenditure has been written off over a period of Five Years.

18. CONTINGENT LIABILITIES:

Contingent Liabilities are generally not provided for and are disclosed by way of Notes on Accounts.



Annexure – IV

NOTES ON ACCOUNTS

Notes on accounts forming part of Balance Sheet as at March 31, 2006 and Profit and Loss account for the year ended on that date.

1. Contingent Liabilities not provided for

		Rs. in Million	
Particulars		2005-06	2004-05
(a)	Guarantees given by banks	3.54	4.04
(b)	Foreign Letter of credits opened in favour of customer for which goods are yet to be received	56.17	25.28
(c)	Claims not acknowledged as debts by the company.	56.48	56.28
(d)	Disputed Income Tax demands against which Company is in Appeals.	45.80	16.87

2. Secured Loans:

- a) Term Loans availed from Export - Import Bank of India and UTI Bank Limited and also Working Capital Term Loan availed from Exim Bank are secured by First charge by way of equitable mortgage of company's immovable properties and hypothecation of all movable fixed assets both present and future on **pari-passu** basis apart from un-conditional and irrevocable personal guarantees of promoters of the company.
 - b) Working Capital Facilities availed from State Bank of India are secured by hypothecation of all chargeable current assets of the company, both present and future, and also second charge on fixed assets of the Company, on **pari-passu** basis with Export -Import Bank of India, apart from un-conditional and irrevocable personal guarantees of promoters and their relatives. These facilities are also covered by collateral security by way of Equitable Mortgage of agricultural land and buildings belonging to the company, promoters and their relatives.
 - c) Working Capital Facilities availed from Export - Import Bank of India are secured by hypothecation of all chargeable current assets of the company, both present and future, and also second charge on fixed assets of the Company, on **pari-passu** basis with State Bank of India, apart from un-conditional and irrevocable personal guarantees of the promoters.
 - d) Hire purchase loans are secured by hypothecation / lien on the respective assets acquired with the loan amounts
3. The Company entered into an agreement with Natco Pharma Ltd. ('Natco' on September 10, 1998 for conversion of raw materials supplied to Natco into finished products. Subsequently, due to a dispute in respect of payment terms, Natco filed a suit on October 9, 2002 before the Chief Judge, City Civil Court, Hyderabad for recovery of Rs.56.28 millions and interest thereon. The Company has filed a written statement refusing all the contentions made by Natco. The suit is pending in the aforesaid court for hearing.
- The Company filed a suit on October 12, 2002 under the contract mentioned in the preceding para for recovery of Rs.156.29 millions together with interest at the rate of



15.5% alleging Natco's illegal misappropriation and failure to return raw materials belonging to the Company, illegal sale of raw materials of the Company, non payment of amounts received by Natco on the sale of the said raw materials, failure to return Duty Entitlement Pass Book (DEPB) benefits to the Company and failure to repay the amounts paid by the Company on behalf of Natco to their creditors. The suit is also pending in the aforesaid court for hearing.

The Company has considered that no provision is required.

4. In the year 2001, the Company has made an investment in SMS International Ltd., UK (SMS, UK) of an amount aggregating Rs.2.61 millions. With this SMS UK has become a wholly owned subsidiary of the Company. But, SMS UK has not commenced commercial operations since inception. Hence the company has written off this investment. An application for striking off of its name was made in the Companies House, UK in May 2004. in view of the above, financial statements of the subsidiary as required U/s 212 of Company's Act, 1956 and also consolidated accounts as per AS-21 are not prepared. Order to strike off the name of SMS International Limited, U.K is yet to be received from Company Law House U.K.
5. The company has entered in to agreements for purchase of 3.35 acres land situated at Gagillapur village Quatbullapur Mandal, Ranga Reddy District along with buildings and structures situated there in for a consideration of Rs 140.00 lakhs and for purchase of 918 sqm industrial plot and buildings and structures situated at D-63. Phase - I, Jeedimetla, for a consideration of Rs. 60.00 lakhs. The company has paid the above amounts to the vendor and has taken the possession of both the properties.

The company has constructed/modified buildings and structures to suit the requirement for carrying out its manufacturing activity in the said premises. The said assets were capitalized and the company is claiming depreciation. The said properties were not yet registered in the name of the Company due to pending clearances from the Financial Institutions/Banks of the Vendor.

6. Unsecured Loan represents Deferred Sales Tax loan of Rs.50.50 millions (Previous Year Rs.43.90 millions) and Financial assistance received from Department of Industrial Science and Research (DSIR) of Rs.12.00 millions (Previous Year Rs.7.00 millions) sanctioned under TPDU program.
7. Excise Duty amounting to Rs.1.78 millions on closing stock of finished Goods has been provided during the year to comply with 'Guidance Note on Accounting treatment for Excise Duty' issued by the Institute of Chartered Accountants of India.
8. The Export Incentives included in the Sales consists of Rs.17.56 millions (previous year Rs.25.59 millions) represents refund of Excise Duty paid on Export Sales. The Balance amount of Rs.26.31 millions (previous year Rs.42.12 millions) represents value of DEPB licenses availed for payment of Customs Duty on raw materials imported.
9. Sundry Creditors includes Rs.0.12 millions (Previous year Rs. 0.19 millions) due to suppliers covered under the small scale and ancillary undertakings act, 1993, to the extent such parties have been identified from the available information and dues to said parties are as follows:

i. Shobita Labs	Rs.0.09 millions
ii. Diu Pharma	Rs.0.01 millions
iii. Sun Chemicals	Rs.0.09 millions



There are no dues exceeding of Rs.0.10 millions to a single party and there are no specific claims on the Company from Small Scale Industry suppliers under the "Interest on delayed payment to Small Scale Ancillary Undertakings Act, 1993."

10. **Managerial Remuneration:**

Rs. in Million

Particulars	March 31, 2006	March 31, 2005
Salaries & Provident fund	3.36	3.36
Commission on Profits	10.84	9.43
Perquisites	0.30	0.30
Directors Sitting Fee	0.01	-
Total	14.51	13.09

Calculation of commission:

Rs. in Million

Particulars	March 31, 2006	March 31, 2005
Net profit before tax	130.97	117.74
Add: Remuneration incl Commission	14.51	13.08
Less: Profit on sale of assets	0.42	-
Net profit as per Sec.349	14.51	13.08
Entitlement of Managerial remuneration @10% for two whole time directors	14.51	13.08
Managerial Remuneration incl. Commission	14.51	13.08

11. **Auditors' Remuneration:**

Rs. in Million

Particulars	March 31, 2006	March 31, 2005
Statutory Audit fee	0.22	0.22
Taxation and other Representations	0.08	0.08
TOTAL	0.30	0.30

12. **Segment Reporting:**

As the company's business during the reporting period consists of one reportable business segment of manufacturing and sale of Active Pharmaceutical Ingredients and intermediates, no separate disclosure pertaining to segmental reporting is given.

As part of secondary reporting, revenues are attributed to geographical areas based on the location of the customers as detailed below:

Rs. in Million

Particulars	2005-06		2004-05	
	Revenue	%	Revenue	%
Exports	459.66	35.62%	404.96	34.13%
Domestic	786.83	60.98%	713.87	60.16%
Export Incentives	43.87	3.40%	67.70	5.71%
Total	1290.36	100.00	1186.53	100.00



13. **Related party Disclosures:**

Nature of Relation ship	Name of the Company
I. Subsidiary Company	SMS International Ltd UK
II. Companies in which directors are substantially Interested.	1.Sreenivasa Pharma Private Limited 2.Webcity Softech Private Limited 3.APR Investment Private Limited
III. Associate company	NIL
IV. Key Management Personnel	1.Mr. Ramesh Babu Potluri 2.Mr.T V V S N Murthy
V. Relative of Key Management Personnel	1.Mr.P.Hari Kishore 2.Mrs. Hima Bindu Potluri

Related Parties and Nature of Relation Ship:

Particulars	Subsidiary Company		Companies in which Directors are substantially Interested		Key Management Personnel and their relatives	
	31.03.06	31.03.05	31.03.06	31.03.05	31.03.06	31.03.05
Transaction Value						
Investments	-	2.61	3.77	3.77		
Purchases			1.20	3.04		
Sales			0.91	1.06		
Remuneration					14.97	13.51
Loan & Advances			2.00		-	4.50
Sale of property					12.00	
Balance outstanding/ receivable/ payable as on Balance Sheet date	-	-	(0.13)	(0.53)		

14. **Deferred Tax Liability:**

Rs. in Million

The deferred tax liability as at March 31, 2006 comprises the following:

	31.03.2006	31.03.2005
a) <u>Deferred Tax liability</u>		
On account of Depreciation	105.62	106.29
On account of R&D Expenditure	22.80	20.80
	-----	-----
Net Deferred Tax Liability	128.42	127.09
b) <u>Deferred Tax Asset</u>		
Expenditure to be claimed for Income Tax	0.88	-
	-----	-----
Net Deferred Tax Liability	127.54	127.09
	-----	-----

15. Balances of sundry debtors / creditors and Loans and advances to the extent confirmed are reconciled. In respect of others are subject to confirmation.

16.

a. Furniture & Fixtures includes an amount of Rs.0.64 millions at U.S.Branch Office.



- b. Admin, Selling & Other Expenses includes an amount of Rs.0.45 millions and Salaries, Wages & Benefits to Employees includes an amount of Rs.0.72 millions, Incurred in U.S. Branch Office.
- c. The Accounts of the U.S.Branch Office is Audited by the Branch Auditors M/s.P.Murali & Co., Hyderabad, the above figures are extracted from the audited books of accounts.

17. Additional information pursuant to the provisions of Paragraph 3, 4C and 4D of Part II of Schedule VI to the Companies Act.

a) Capacities & Production 2005-06 2004-05

Licensed Capacity N.A N.A
Installed Capacity N.A N.A

b) Sales, Opening and Closing Stocks:

Rs. In Million				
Particulars	March 31, 2006		March 31, 2005	
Sales;	Qty in M.T's	Rs.	Qty in M.T's	Rs.
Bulk Drugs	748.83	586.00	902.87	649.43
Intermediates & Others	973.85	660.44	1966.53	494.98
Total	1,722.68	1246.44	2869.40	1,144.41
Opening Stock;				
Bulk drugs, inter & others	19.02	7.89	282.23	6.65
Closing Stock;				
Bulk Drugs and Intermediates	8.69	14.15	19.02	7.89

c) Consumption of Raw materials:

Particulars	2005-06		2004-05	
	Consumption	%	Consumption	%
Imported	198.10	26.87	193.14	29.10
Indigenous	539.02	73.13	470.46	70.90
Total	737.12	100.00	663.60	100.00

Details of Raw-material consumption:

Material Name	2005-06		2004-05	
	Consumption		Consumption	
	Qty in MT's	Value in Million	Qty in MT's	Value in Million
Caustic Potash Flakes	504.30	16.05	621.82	17.91
Cysteamine	460.92	52.21	513.88	47.31
DMA Hcl	364.60	17.78	466.13	22.30
DMSO	274.40	17.86	395.29	16.52
DMS	835.74	13.99	1062.20	19.90
Furfuryl Alcohol	428.80	22.02	517.79	27.55
IPA	268.55	15.28	295.84	16.97
Methonol	431.11	11.00	639.61	11.52
MITC	441.89	57.26	546.87	74.06
MIBK	187.95	14.10	226.59	13.70
Nitromethene	396.00	22.20	478.43	24.36
Others	-	477.37	-	371.50
Total		737.12		663.60



d) CIF Value of Imports

Rs. in Million

	31.03.2006	31.03.2005
Raw Materials	187.12	204.68
Capital Goods	0.02	8.95
TOTAL	187.14	213.63

e) Expenditure in Foreign Currency

Rs. in Million

	31.03.2006	31.03.2005
Sales Commission	7.56	10.62
Travelling expenses	Nil	0.05
U.S.Branch Revenue Expenses	1.17	4.75
U.S.Branch Capital Expenditure	Nil	0.64
TOTAL	8.73	16.06

f) Earnings in Foreign Currency

Rs. in Million

	31.03.2006	31.03.2005
FOB Value of Exports	373.85	396.32
TOTAL	373.85	396.32

18. Previous Year figures have been regrouped / reclassified wherever necessary.

19. Figures have been rounded off to the nearest Rupee.

Annexure – V

Cash Flow Statement:

Rs. in Million

Particulars	For the year ended				
	30-Jun-02	31-Mar-03	31-Mar-04	31-Mar-05	31-Mar-06
	(12 months)	(9 months)	(12 months)	(12 months)	(12 months)
CASH FLOW FROM OPERATING ACTIVITIES					
Net Profit Before Tax	62.61	50.51	115.22	117.74	130.97
Adjustments for:					
Depreciation	24.23	21.00	31.41	35.15	40.40
Sales tax deferment	5.58	4.96	6.42	7.34	6.60
Interest Expenses	45.66	16.90	40.61	44.83	66.40
Misc. expenses written off	0.76	7.20	14.37	21.18	27.13
Operating profits before working capital changes	138.44	100.57	208.03	226.24	271.50
Adjustments for:					
Inventories	(32.01)	(4.76)	(18.91)	(46.86)	(36.08)
Trade Receivables	(38.97)	39.86	(164.29)	(70.14)	(65.66)
Other advances and Receivables	19.68	(10.61)	(13.77)	(19.76)	(0.40)
Trade Payables	45.18	(63.25)	62.10	43.19	(24.57)
Cash generated from operations	132.32	61.81	73.16	132.67	144.79
Income tax paid	(2.61)	(2.65)	(2.68)	(15.95)	(18.97)
Interest Paid	(45.66)	(16.90)	(40.61)	(44.83)	(66.40)



Particulars	For the year ended				
	30-Jun-02	31-Mar-03	31-Mar-04	31-Mar-05	31-Mar-06
	(12 months)	(9 months)	(12 months)	(12 months)	(12 months)
Net cash from Operating Activities (A)	84.05	42.26	29.87	71.89	59.42
CASH FLOW FROM INVESTING ACTIVITIES					
Capital work in progress	(11.77)	3.26	(24.97)	(13.15)	10.95
Purchase of fixed assets (net)	(50.63)	(86.46)	(75.10)	(135.98)	(49.95)
Investments	(3.10)	-	0.02	(1.16)	0.05
Sale of Fixed Assets	-	-	-	-	8.78
Deferred revenue expenditure	-	(32.22)	(35.82)	(35.68)	(31.94)
Net cash used for Investing Activities (B)	(65.50)	(115.42)	(135.87)	(185.97)	(62.11)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from term loans	49.98	79.21	132.03	154.20	60.70
Repayment of term loans	(59.30)	(57.64)	(71.32)	(94.05)	(87.47)
Working capital loan	(1.40)	46.19	66.50	31.02	41.02
Assistance from DSIR	-	-	-	7.00	5.00
Dividend including dividend tax	(4.52)	(4.10)	(4.52)	(9.27)	(9.33)
Net cash from Financing Activities (C)	(15.24)	63.66	122.69	88.90	9.92
Net Increase in cash and cash equivalents (A+B+C)	3.31	(9.50)	16.69	(25.18)	7.23
Cash and Cash equivalents at beginning of the year	57.31	60.62	51.12	67.81	42.63
Cash and Cash equivalents at end of the year	60.62	51.12	67.81	42.63	49.86

ANNEXURE - VI

Statement of dividend paid:

Rs. in Million

Particulars	For the year ended				
	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
	(12 mths)	(9 mths)	(12 mths)	(12 mths)	(12 mths)
On Equity share capital					
Paid up share capital	20.50	20.50	41.00	41.00	41.00
Face value (Rs.)	10/-	10/-	5/-	10/-	10/-
Rate of Dividend	20%	20%	20%	20%	20%*
Amount of Dividend	4.10	4.10	8.20	8.20	8.20
Corporate Dividend tax	-	0.42	1.07	1.13	1.15

*PROPOSED



ANNEXURE - VII

Performance Ratios:

Rs. in Million

Particulars	For the year ended				
	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
	(12 mths)	(9 mths)	(12 mths)	(12 mths)	(12 mths)
Earnings per share (Rs.)	28.88	11.36*	9.14**	20.60	20.75
Return On Net Worth (%)	15.13%	7.34%*	20.88%**	20.23%	17.41%
Net Asset Value/Book value Per share (Rs.)	190.93	154.80	43.76**	101.86	119.15

* Not Annualized.

**On face value of Rs.5/- per share (Except this all data is based on Face value of Rs.10/- per share)

1. Earnings per share (Rs.) = Profit available to equity shareholders/No. of equity shares
2. Return on Net worth (%) = Profit after taxation/Net worth * 100
3. Net asset value/Book value per share (Rs.) = Net worth /No. of equity shares

ANNEXURE - VIII

Capitalization Statement:

Rs. in Million

Particulars	Pre Issue		Post Issue
	As at March 31, 2005	As at March 31, 2006	
Total Debt:			
Short Term Debt	212.23	253.25	[•]
Long Term Debt	365.11	338.33	[•]
Shareholders Funds:			
Share Capital	41.00	41.00	[•]
Reserves & surplus	439.53	515.25	[•]
Less: Misc. expenditure	62.92	67.73	[•]
Total Shareholders Funds	417.61	488.52	[•]
Long Term Debt/ Shareholders funds	0.87	0.69	[•]

Note: 1) Post Issue figures will be inserted at the time of filling the Prospectus with ROC.

Note: 2) 2,923,000 Equity Shares face value of Rs.10/- each were allotted to the shareholders of M/s Sreenivasa Pharma Private Limited to become a fully holding Company in the month of April 2006.

Annexure - IX

Statement of Tax Shelters

Rs. in Million

Particulars	For the year ended				
	30.06.2002 12 Months	31.03.2003 9 Months	31.03.2004 12 Months	31.03.2005 12 Months	31.03.2006 12 Months
Profit before current and deferred taxes, as restated (A)	62.21	50.51	115.22	117.74	130.98
Tax rate, % (E)	35.70%	36.75%	35.87%	36.59%	33.66%
Tax impact	22.21	18.56	41.34	43.08	44.09
Adjustments					



Particulars	For the year ended				
	30.06.2002 12 Months	31.03.2003 9 Months	31.03.2004 12 Months	31.03.2005 12 Months	31.03.2006 12 Months
Permanent differences					
Deduction u/s 80HHC of the Income Tax Act	7.67	7.48	5.25	-	-
Deduction u/s 80IB of the Income Tax Act	-	2.83	-	-	-
Other adjustments	(0.32)	-	-	-	-
Total (B)	7.35	10.30	5.25	-	-
Temporary differences					
Difference between book depreciation and tax depreciation	28.05	40.81	38.75	38.75	(2.94)
Research & Development expenditure	-	24.97	20.67	39.60	18.65
Total (C)	28.05	65.78	59.42	78.35	15.71
Net Adjustment (B+C)	35.40	70.88	64.67	78.35	15.71
Tax saving thereon	12.64	26.05	23.20	28.67	5.29
Net tax payable as per income tax returns (D=A-B-C)	4.91	5.45	18.14	15.37	40.75

Notes:

1. The figures for all the above years except 2005-06 are as per the Returns of Income filed and for the period ending 31-03-2006 as per the audited accounts.

Annexure - X

Details of Other income

Rs. In Million

Particulars	For the year ended				
	June 30, 2002 12 Months	March 31, 2003 9 Months	March 31, 2004 12 Months	March 31, 2005 12 Months	March 31, 2006 12 Months
Interest income (net)	4.08	0.14	1.52	2.47	1.38
Income from contract research				4.78	0.93
Profit on Sale of Assets					1.34
Miscellaneous income	1.29	0.99		0.65	0.66
Exchange fluctuation (net)	-	1.16	1.36	1.63	-
Total	5.37	2.29	2.88	9.53	4.31



Annexure – XI

Sundry Debtors:

Rs. in Million

Particulars	As at				
	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Debtors outstanding for a period exceeding six months	42.55	43.56	43.71	41.72	39.88
Others	148.93	108.05	272.19	344.31	411.82
Total	191.48	151.61	315.90	386.03	451.70

Annexure – XII

Loans & Advances:

There are no loans to Companies in which Directors are interested.

ANNEXURE – XIII

Unsecured Loans:

Rs. in Million

Particulars	As at				
	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Loans from promoters/ Directors	-	-	-	-	-
Financial AID from DSIR				7.00	12.00
Sales tax deferment	25.17	30.14	36.56	43.89	50.50
Total	25.17	30.14	36.56	50.89	62.50

ANNEXURE – XIV

Secured Loans:

Rs. In Million

Particulars	As at				
	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Term loan	189.25	206.71	259.79	365.11	338.33
Working Capital Loan	108.53	154.72	221.21	212.23	253.25
Total	297.78	361.43	481.00	577.34	591.58



Principal Terms of Sanctioned Loans and Assets Charged as Security

Amount in Million

S. No.	Lender & Type of Facility / Sanction letter no. and date/ Terms of repayment	Rate of interest	Amt. Out- standing as on March 31, 2006	Details of Security
1	Working capital			
	State Bank of India, Balanagar Branch Hyderabad- working capital. Fund Based Rs. 193.20 Non Fund Based 197.50 Sanction letter dated 12.08.05 Read with letter dated 16-08-06	CC:12.25 % WCDL:12.7 5% EPC:* CL:12.75% FBD:8.25% *Upto 180 days 7.10% & beyond 180 days and upto 270 days 8.75%	Rs. 0.09 40.72 62.78 16.40 49.58 53.10	First Charge on Current Assets, viz, Raw Materials, Stock in process, Finished Goods, Consumable stores, spares, Book Debts, on <i>pari-passu</i> basis with Exim Bank for its FCPC Loan.
				- Second charge on fixed assets (first charge to Export-Import Bank of India, and UTI Bank Ltd) details of immovable properties as per Note - II & III. - Collateral security by way of Equitable Mortgage of properties described in Note-I. - Personal guarantees of promoter Directors. viz; Mr. Ramesh Babu Potluri and Sri. T V V S N Murthy and their spouses.
	Export - Import Bank of India FCPC Repayment terms: Repayable on demand and are available for one year. Sanction letter no. OIF:EOU:FCPC:-71-227 Dated February 23, 2006	PCFC:LIBO R+75 bps	USD 2.25 Million	- First charge by way of hypothecation of entire current assets (including receivables) both present and future on <i>pari-passu</i> basis with SBI for its Working Capital Loans. - Second charge on all the moveable fixed assets both present and future on <i>pari-passu</i> basis with SBI for its Working Capital Loans

S. No.	Lender & Type of Facility / Sanction letter no. and date/ Terms of repayment	Rate of interest	Amt. Out- standing as on March 31, 2006	Details of Security
	Export - Import Bank of India WCTL Repayment terms: Bullet repayment at the end of one year from the date of disbursement and may also be renewed for a further period of one year. Sanction letter no. OIF:EOU:WCTL:183-109 Dated March 29, 2006	10%	Rs.60 Million	- First charge on the entire Fixed Assets of the Company including its movable plant and machinery, machinery spares, tools and accessories and other movables, both present and future (save and except book debts) on <i>pari-passu</i> basis with other term lenders. Details of immovable properties charged are as per Note - II & III. - Personal guarantees of promoter Directors. viz; Sri Ramesh Babu Potluri and Sri. T V V S N Murthy
2	Term Loans			
	Export - Import Bank of India 1)USD.1.88 Million-FCL Sanction letter no. OIF:EOU:D-422:166 dated February 25,2002 2)USD 3.10 Million-FCL Sanction letter no. OIF:EOU:D-486:1418 dated December1,2003 Repayment terms(1&2) 10 Equal semi annual installments.	LIBOR (6Months)+ 250 bps LIBOR (12Months) +350 bps	USD 0.56 Million USD1.688 Million	- First charge on the entire Fixed Assets of the Company including its movable plant and machinery, machinery spares, tools and accessories and other movables, both present and future (save and except book debts) on <i>pari-passu</i> basis with other term lenders. Details of immovable properties charged are as per Note - II & III. - Personal guarantees of promoter Directors.viz; Mr. Ramesh Babu Potluri and Sri. T V V S N Murthy
	UTI Bank Limited Rs.50.00 Million- Rupee Term loan Sanction letter no. UTIB/HYD/CR/622 dated 21 st march,2003 Repayment terms Ten Half yearly installments.	12.5%	Rs.30.00Million	- First charge on the entire Fixed Assets of the Company including its movable plant and machinery, machinery spares, tools and accessories and other movables, both present and future (save and except book debts) on <i>pari-passu</i> basis with other term lenders. Details of immovable properties charged are as per Note - II & III. - Second charge on all the current assets of the Company on <i>pari-passu</i> basis with other term lenders. - Personal guarantees of promoter



S. No.	Lender & Type of Facility / Sanction letter no. and date/ Terms of repayment	Rate of interest	Amt. Out- standing as on March 31, 2006	Details of Security
				Directors.viz; Mr. Ramesh Babu Potluri and Sri. T V V S N Murthy.
	UTI Bank Limited Rs.150.00 million Rupee term loan Sanction letter no. UTIB/HYD/CR/655 dated December 23, 2003 Repayment terms a) Two Half yearly installments Rs.10 Million each in 2 nd year. b) Two Half yearly installments Rs.15 Million each in 3 rd year. c) Four Half yearly installments Rs.25 Million each in 4 th and 5 th year.	9.65%	Rs.130.00 million	- First charge on the entire Fixed Assets of the Company including its movable plant and machinery, machinery spares, tools and accessories and other movables, both present and future (save and except book debts) on <i>pari-passu</i> basis with other term lenders. Details of immovable properties charged are as per Note - II & III. - Personal guarantees of promoter Directors.viz; Mr. Ramesh Babu Potluri and Sri. T V V S N Murthy

NOTE - I

- Office Flat No.417 on 4th Floor, Situated at Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad under Survey No.11,13,14,15,16,236,243,247 and 66 admeasuring 1952 Sq. fts. Vide Sale deed No.300 of 94.
- Agriculture Land admeasuring Acres 10.10 Cents situated at Kovvada village, Pusapatirega Mandal, Vijayanagaram District under Survey No.72-2, document No.890/97.
- Agriculture Land admeasuring Acres 16.44 Cents situated at Kandivalasa village, Pusapatirega Mandal, Vijayanagaram District under Survey No.167-1,168-1,171-53.
- Agriculture Land admeasuring Acres 21.53 Cents in survey No.160 to 166 situated at Kandivalasa village, Poosapatirega Mandal, Vijayanagaram District belonging to the Company.
- House property admeasuring 723 Sft, belonging to Smt. Annapurna Talluri and Sri T V V S N Murthy situated at Survey No.79, door No.SFA-II-93, IDA Jeedimetla, Gajularamaram Village, Qutbullapur Mandal, Ranga Reddy District.
- House property admeasuring 723 Sft, belonging to Smt. Hima Bindu Potluri situated at Survey No.79, door No.SFA-II-70, IDA Jeedimetla, Gajularamaram Village Qutbullapur Mandal, Ranga Reddy District.



- Agriculture Land admeasuring 3.65 acres situated at Yelamanchili Village, West Godavari District belonging to Sri T V V S N Murthy.

NOTE - II

Description of the entire immovable properties situated at Khazipally is given below. The pieces or parcels of land are known as:

AC-1-93 Guntas out of AC-3.00 Guntas	Sr.No.180, Sub-divided 180/1 to 180/15
AC-1-07 Guntas out of AC-3.00 Guntas	Sr.No.180, Sub-divided 180/1 to 180/15
AC-1-00 Guntas out of AC-2.00 Guntas	Sr.No.180, Sub-divided 180/1 to 180/15
AC-1-09 Guntas out of AC-2.00 Guntas	Sr.No.180, Sub-divided 180/1 to 180/15
AC-1-00 Guntas out of AC-2.20 Guntas	Sr.No.180, Sub-divided 180/1 to 180/15
AC-1-20 Guntas out of AC-2.20 Guntas	Sr.No.180, Sub-divided 180/1 to 180/15
AC-1-35 Guntas	Sr.No.180, Sub-divided 180/1 to 180/15

In Khazipally village, Jinnaram Mandal, Medak District in Andhra Pradesh; together with all buildings and structures thereon and all plant and machinery attached to earth or permanently fastened to anything attached to the earth, both present and future.

NOTE - III

Description of the entire immovable properties situated at Bachipally Village, Medchal Taluk, Ranga Reddy District.

All the pieces or parcels of land known as:

- All that part and parcel of the land being part of Plot No.22 admeasuring 1160 sq. yards, forming part of survey no.336, Bachipally village, Medchal taluk, R.R. District.
- All that part and parcel of the land being part of Plot No.23 admeasuring 1160 sq. yards, forming part of survey no.336, Bachipally village, Medchal taluk, R.R. District.
- All that part and parcel of the land being part of Plot No.24 admeasuring AC 1.00 Gts. forming part of survey no.336, Bachipally village, Medchal taluk, R.R. District.
- All that part and parcel of the land being part of Plot No.24-B admeasuring AC 1.00 Gts. Together with structures admeasuring 25,953.74 sft. forming part of survey no.334,335,336 and 337 Bachupally village, Medchal taluk, R.R. District.
- All that part and parcel of the vacant land admeasuring Ac.1.00 cents forming part of survey No.334, Plot No.37 situated at S.V. Co-operative Industrial Estate Bachepally Village, R.R District, Andhra Pradesh.
- All that part and parcel of the vacant land admeasuring Ac.1.25 cents forming part of survey No.334, 335, 336 and 337 Plot No.36 situated at S.V. Co-operative Industrial Estate Bachepally Village, R.R District, Andhra Pradesh.

together with all buildings and structures thereon and all plant and machinery attached to the earth or fastened to anything attached to the earth, both present and future.



ANNEXURE - XV

Related Party Transactions:

(I) List of Related Parties		
Key Managerial Personnel		
1	Ramesh Babu Potluri	Chairman & Managing Director
2	T V V S N Murthy	Vice Chairman & Managing Director
Subsidiary Company		
1	SMS International UK *	-
Companies in which Directors are substantially interested		
1	Sreenivasa Pharma Private Limited **	Director interested
2	Webcity Softech Private Limited	Director interested
3	APR Investment Private Limited	Director interested
Relative of Key Managerial Personnel		
1	P. Hari Kishore	
2	Hima Bindu Potluri	

* Application for striking off name has been made with the Companies House, U.K

** This company became 100% subsidiary in the month of April, 2006.

Particulars	Subsidiary Company		Companies in which Directors are substantially Interested		Key Management Personnel and their relatives	
	31.03.06	31.03.05	31.03.06	31.03.05	31.03.06	31.03.05
Investments	-	2.61	3.77	3.77		
Purchases	-	-	1.20	3.04		
Sales	-	-	0.91	1.06		
Remuneration					14.97	13.51
Loan & Advances			2.00	-	Nil	4.50
Sale of property					12.00	-
Balance outstanding/ receivable/ payable as on Balance Sheet date	-	-	(0.13)	(0.53)		

Rs. in Million

ANNEXURE - XVI

Investments:

The Company does not hold any quoted investments.

Annexure - XVII

There have been no qualifications in the Audit Report for the preceding five years.



ANNEXURE - XVIII

Changes in the Significant Accounting Policies

There have been no changes in significant accounting policies during the preceding five years.

For RAMBABU & Co., Chartered Accountants	For P.MURALI & Co., Chartered Accountants
RAVI RAMBABU Partner Membership No. 18541 Date: June 16, 2006 Place: Hyderabad	P. MURALI MOHANA RAO Partner Membership No.23412 Date: June 16, 2006 Place: Hyderabad



OTHER GROUP COMPANIES/VENTURES OF PROMOTERS

1. BHAGYANAGAR CASTINGS LIMITED:

Bhagyanagar Castings Limited was incorporated under the Companies Act, 1956 on November 8, 1995 vide certificate no 01-22190 and obtained commencement of business certification on November 29, 1995, having its Registered Office at 416, Nilgiri, Aditya enclave, Ameerpet Hyderabad. The Company is formed with an objective to manufacture and deal in castings of all related materials and to carry on the business of foundry of ferrous and non-ferrous metals sheet works etc. However, the Company has not commenced its commercial operations. Mr. Ramesh Babu Potluri & Mr. T V V S N Murthy (collectively referred as “Acquirers”) took over the major shareholding in the Company in May 2000 and made an open offer in compliance of SEBI (SAST) Regulations to the shareholders of the Company. As of date their shareholding in the Company is 69.82%

The Board comprises of:

Name of the Director	Designation
V Vamsi Mohan	Executive Director
PSR Brahmam	Non-Executive & Independent Director
T. V. Satyanarayana	Non-Executive
T. Annapurna	Non-Executive Director
V. Santhi Kiran	Non-Executive & Independent Director

Shareholding pattern:

Name of the Shareholder	No. of shares held	% holding
Acquirers	3,950,000	69.82
Banks, Fis, MFs etc.	Nil	Nil
FIIIs / NRIs	Nil	Nil
Public	1,707,000	30.18
Total	5,657,000	100.00

Financial performance:

Particulars	Rs. In million		
	For the Financial Year ended March 31		
	2004	2005	2006
Total Income	NA*	NA*	NA*
PAT	NA*	NA*	NA*
Issued & Subscribed Share Capital	56.57	56.57	56.57
Less : Calls in Arrears	24.40	24.40	24.40
Paid-up Share Capital	32.17	32.17	32.17
Net worth	14.27	13.99	13.88
NAV per Share of Rs.10 (Rs.)	2.52	2.47	2.45
EPS per Share of Rs.10 (Rs.)	NA*	NA*	NA*

* No Profit & Loss account is prepared, as the Company has not commenced Commercial operations

The Company has not availed any loans. There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.



There are no pending litigations, defaults, etc against above Companies, its promoters and/or its Directors.

There are no transactions with any of the group companies as disclosed above except those which have already been disclosed under the heading "Auditors Report".

The Company has not made any public/right issue in the preceding three years.

The above company is neither a sick Company within the meaning of Sick Industrial Companies (Special Provisions) Act, 1995 nor under winding up.

The Company is listed at The Hyderabad Stock Exchange Limited and Ahmedabad Stock Exchange.

Stock Market Data for last six months

There has been no trading in the shares of the company during the last six months. (Source: Certificate from The Hyderabad Stock Exchange Limited and Ahmedabad Stock Exchange)

2. WEBCITY SOFTECH PRIVATE LIMITED:

Web City Softech Private Limited was incorporated under the Companies Act, 1956 vide Certificate of Incorporation 01-29864 of 1998-99 dated July 31, 1998, having its Registered Office at 10-3-189, 190, Flat 507, Archana Arcade, Secunderabad - 500 025. The Company was incorporated with the main objects to imparting training, conduct seminars, workshops, short term and long term courses on computers, computer maintenance, software development, software exports and related activities.

Board of Directors:

Name of the Director	Designation
Mr. Ramesh Babu Potluri	Director
Mrs. Hima Bindu Potluri	Director

Shareholding pattern

Name of the Shareholder	No. of shares held	% holding
Ramesh Babu Potluri	1,000	3.03
Hima Bindu Potluri	1,000	3.03
K. Sukumari	1,000	3.03
Hima Farms Pvt. Ltd.	30,000	90.91
Total	33,000	100%

Financial performance:

Rs. In Millions

Particulars	For the Financial Year ended March 31			
	2003	2004	2005	2006
Total Income	1.28	9.25	1.04	5.40
PAT	(3.41)	0.97	(0.86)	3.56
Share Capital	0.33	0.33	0.33	0.33
Share application	15.75	15.75	15.75	15.75
Networth	15.23	16.27	15.46	19.07
NAV per Share of Rs.10 (Rs.)*	-	15.76	-	100.60
EPS per Share of Rs.10 (Rs.)	-	29.39	-	107.88

* NAV has been calculated excluding Share Application Money.



The Company has not availed any loans. There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.

There are no pending litigations, defaults, etc against above Companies, its promoters and/or its Directors.

There are no transactions with any of the group companies as disclosed above except those which have already been disclosed under the heading "Auditors Report".

The above company is neither a sick Company within the meaning of Sick Industrial Companies (Special Provisions) Act, 1995 nor under winding up.

3. HIMA FARMS PRIVATE LIMITED:

Hima Farms Private Limited. was incorporated under the Companies Act, 1956 vide Certificate of Incorporation 01-15678 of 1993- 94 dated April 23, 1993, having its Registered Office at 416 Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad. The Company is incorporated with the main objects to own, establish and manage agricultural farms, Livestock farms, dairy poultry and fish farms and to develop land for the purpose of integrated farming, developing agricultural products of all kinds and related activities.

Board of Directors:

Name of the Director	Designation
Mrs. Hima Bindu Potluri	Director
Mr. P Raghavendra Rao	Director

Shareholding pattern:

Name of the Shareholder	No. of shares held	% holding
P. Hima Bindu	350	8.05
P. Raghavendra Rao	1,200	27.59
K. Sukumari	650	14.94
P. Satyavani	200	4.59
P. Ramesh Babu HUF	200	4.59
K. Uma Maheswara Rao	150	3.45
K. Satyanarayana	450	10.34
P. Jaya Lakshmi	190	4.37
D. Sreedevi	150	3.45
G. Ramaiah	330	7.59
P. Rama Mohan Rao	180	4.14
D. Chandra Shekar	150	3.45
P Srinivasa Rao	150	3.45
Total	4,350	100.00

Financial performance:

Rs. In millions

Particulars	For the Financial Year ended March 31			
	2003	2004	2005	2006
Total Income	0.12	0.12	0.11	0.12
PAT	0.11	0.10	0.10	0.10
Share Capital	0.44	0.44	0.44	0.44
Networth	1.67	1.78	1.88	1.98
NAV per Share of Rs.100 (Rs.)	383.91	409.20	432.18	454.72
EPS per Share of Rs.100 (Rs.)	25.29	22.99	24.00	22.70



The Company has not availed any loans. There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.

There are no pending litigations, defaults, etc against above Companies, its promoters and/or its Directors.

There are no transactions with any of the group companies as disclosed above except those, which have already been disclosed under the heading "Auditors Report".

The above company is neither a sick Company within the meaning of Sick Industrial Companies (Special Provisions) Act, 1995 nor under winding up.

4. POTLURI REAL ESTATE PVT LTD.

Potluri Real Estate Private Limited. was incorporated under the Companies Act, 1956 vide Certificate of Incorporation U45201AP2006PTC050223 of 2006-07 dated May 31, 2006, having its Registered Office at Plot no. 186, Road No. 10, Jubilee Hills, Hyderabad. The Company is incorporated with the main objects to carry on the business of Builders, construction, real estates and developers.

Board of Directors:

Name of the Director	Designation
Mrs. Hima Bindu Potluri	Director
Mr. P Hari Kishore	Director

Shareholding pattern:

Name of the Shareholder	No. of shares held	% holding
Mrs. Hima Bindu Potluri	5,000	50.00
Mr. P Hari Kishore	5,000	50.00
Total	10,000	100.00

Financial performance:

Since the company has been incorporated recently, it has not yet started its commercial operations.

Company has not availed any loans. There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.

There are no pending litigations, defaults, etc against above Companies, its promoters and/or its Directors.

5. POTLURI BUILDERS PRIVATE LIMITED

Potluri Builders Private Limited. was incorporated under the Companies Act, 1956 vide Certificate of Incorporation U45201AP2006PTC050221 of 2006-07 dated May 31, 2006, having its Registered Office at Plot no. 186, Road No. 10, Jubilee Hills, Hyderabad. The Company is incorporated with the main objects to carry on the business of Builders, Constructions, Real Estates and Developers.



Board of Directors:

Name of the Director	Designation
Mrs. Hima Bindu Potluri	Director
Mr. Ramesh Babu Potluri	Director

Shareholding pattern:

Name of the Shareholder	No. of shares held	% holding
Mrs. Hima Bindu Potluri	5,000	50.00
Mr. Ramesh Babu Potluri	5,000	50.00
Total	10,000	100.00

Financial performance:

Since the company has been incorporated recently, it has not yet started its commercial operations.

Company has not availed any loans. There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.

There are no pending litigations, defaults, etc against above Companies, its promoters and/or its Directors.

DETAILS ABOUT COMPANIES/FIRMS FROM WHICH PROMOTERS HAVE DISASSOCIATED DURING THE LAST THREE YEARS:

1. TALLURI LABORATORIES PRIVATE LIMITED

Talluri Laboratories Private Limited. was incorporated under the Companies Act, 1956 vide Certificate of Incorporation 01-47299 of 2005-06 dated August 31,2005 having its Registered Office at Plot No 10-C Type- C road no 8, Film Nagar, Hyderabad. It was promoted by Mr. T V S S N Murthy and Mrs. Annapurna Talluri. The Company was incorporated with the main objects to manufacture, import, export, buy, sell, distribute and deal in bulk drugs, medicines, finished drugs, formulation, compounds and pharmaceuticals and related activities. The Company had not yet commenced the commercial operations. To avoid conflict of interest our promoters have dissociated themselves from this Company and the shares held by them have been transferred to the new directors of the Company. Mr. Murthy and Ms. Annapurna Talluri have also resigned from the Board of the Company.

COMPANIES FOR WHICH AN APPLICATION HAS BEEN MADE FOR STRIKING OFF NAME

(A) To the Registrar of Companies, Hyderabad, Andhra Pradesh under the Simplified Exit Scheme

(i) SMS Bio Pharma Private Limited ("SMS Bio Pharma")

SMS Bio Pharma Private Limited was incorporated under the Companies Act vide Certificate of Incorporation on May 23, 2001 having its Registered Office at plot No186, Jubilee Hills, Road No.15, Hyderabad. SMS Biopharma was promoted by Mr. Ramesh Babu Potluri and Mr. T V V S N Murthy. The Company was incorporated with the main object of manufacture, import, export,



buy, sell, act as a commission agent, distribute and deal with all types of herbal plant extracts, natural products extracts, various concentrates, herbal medical plant products and other related activities. On March 31, 2004, the Board of Directors of SMS Bio Pharma decided and resolved to strike off the name of SMS Bio Pharma from register maintained in the office of the Registrar of Companies, Andhra Pradesh by making an application under section 560 of the Act. M/s Adusumilli & Associates, Chartered Accountants, vide their Report dated March 31, 2004 have certified that SMS Bio Pharma has no assets and liabilities as at March 31, 2004. In terms of the above resolution, SMS Biopharma filed necessary documents on March 31, 2004 with the RoC for striking off its name from the Register maintained by them. The same is listed on the website of the RoC, Andhra Pradesh in the second fortnight of February 2005 for inviting any objection to the striking off of the name.

Board of Directors:

Name of the Director	Designation
Mr. Ramesh Babu Potluri	Director
Mr. T V V S N Murthy	Director

Shareholding pattern

Name of the Shareholder	No. of shares held	% holding
Ramesh Babu Potluri	3,000	30.00
Atul Dayal	4,000	40.00
T V V S N Murthy	3,000	30.00
Total	10,000	100.00

Financial performance:

Rs. In Million

Particulars	For the Financial Year ended March 31 st		
	2002	2003	2004
Total Income	--	0.12385	--
PAT	--	0.00250	(1.60250)
Share Capital	0.10000	0.10000	0.10000
Share application	2.20000	2.20000	1.50000
Net worth	2.27610	2.28100	Nil
NAV per Share of Rs.10 (Rs.)*	7.61480	8.10000	--
EPS per Share of Rs.10 (Rs.)	-	0.25060	--

* NAV per Share has been calculated excluding Share Application money.

The Company has not availed any loans. There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.

(ii) SMS EXIM Limited ("SMS EXIM")

SMS EXIM, having its Registered Office at 416, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad – 500 038, was incorporated under the Companies Act, on April 24, 1996 and obtained commencement of business certificate on May 01, 1996. The Company was promoted by Mr. Ramesh Babu Potluri and Mr. T V V S N Murthy. SMS EXIM was incorporated with the main object of import, export, buy, sell, distribute and deal in bulk drugs, pharmaceuticals and other related activities. On February 24, 2004, the Board of Directors of SMS EXIM decided and resolved to strike off its name from register maintained in the office of the Registrar of Companies, Andhra Pradesh by making an application under section 560 of the Act. M/s Rambabu & Co., Chartered Accountants, have vide their Report dated March 03, 2004 certified



that SMS EXIM has no assets and liabilities as at February 29, 2004. In terms of the above resolution, SMS EXIM filed necessary documents on March 31, 2004 with the Registrar of Companies, Andhra Pradesh for striking off its name from the Register maintained by them.

Board of Directors:

Name of the Director	Designation
Mr. Ramesh Babu Potluri	Director
Mr. T V V S N Murthy	Director

Shareholding pattern

Name of the Shareholder	No. of shares held	% holding
Ramesh Babu Potluri	100	0.20
T V V S N Murty	35,000	70.00
Hima Bindu Potluri	12,100	24.20
Friends & Relatives	2,800	5.60
Total	50,000	100.00

Financial performance:

Rs. In Million

Particulars	For the Financial Year ended March 31		February 29, 2004
	2002	2003	
Total Income	0.03513	0.03080	-
PAT	0.00234	0.00322	(0.55820)
Share Capital	0.05100	0.50000	0.50000
Share application	-	-	-
Net worth	0.098328	0.55321	Nil
NAV per Share of Rs.10 (Rs.)	19.4764	11.0642	-
EPS per Share of Rs.10 (Rs.)	0.45000	0.06432	-

The Company has not availed any loans. There are no defaults in meeting any statutory/bank/institutional dues/obligations. No proceedings have been initiated for economic offences against the Company.

(B) To the Companies House, London, for Application of striking off under Section 652a

SMS International Limited ("SMS International")

SMS International, having its Registered Office at 5th Floor, Charles House, 108-110 Finchley Road, London NW3 5JJ, was incorporated under the Companies Act, 1985 vide certificate of incorporation no. 4229647 issued by the Registrar of Companies, England and Wales on June 6, 2001. SMS International was promoted by SMS Pharmaceuticals as a wholly owned subsidiary. SMS International was incorporated with the main object of handling the international business of SMS Pharmaceuticals and engaging in the business of trading of pharmaceutical products, APIs, intermediates and similar products. The Board of Directors of SMS International resolved and filed an application for striking off its name with the Registrar of Companies, England and Wales and under section 652a of the Companies Act, 1985 and the same is acknowledged by The Companies House, London vide their letter dated May 26, 2004.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION AS REFLECTED IN THE RECASTED FINANCIAL STATEMENTS

You should read the following discussion of our financial condition and results of operations together with our audited financial statements for the FY 2002, 2003, 2004, 2005 and 2006, including the Schedules, Annexures and Notes thereto and the Reports thereon, which appear in this Draft Red Herring Prospectus. These financial statements are prepared in accordance with Indian GAAP, the Companies Act, and the SEBI Guidelines as described in the Auditor's Report of M/s Rambabu & Co. and M/s P. Murali & Co. (Joint Auditors) dated June 16, 2006 in the section with the title 'Financial Information'.

Overview

We believe we are one of the leading manufacturers and exporters of APIs and Intermediate formulations. We are currently one of the manufacturers and exporters of Ranitidine and its Intermediates in the domestic and in unregulated markets. Apart from Ranitidine and Sumatriptan Succinate, we also manufacture Ramipril, Quinapril, Gemcitabine etc.

One of our keys to success is in-house continuous development of new products through our R&D Centre, which is fully equipped with state of art technology and latest precision equipments. We have fortified our in-house R&D strengths by adding experienced scientists to cater to the needs of the organization in the fields of research, process development, development of molecules and to create intellectual property rights. Our R&D Centre is presently working on other anti cancer molecules Imatinib, Gefitinib. We have an USFDA approved facility for our Unit II, which manufactures Sumatriptan Succinate, Ramipril and other valuable APIs.

The main objectives of our R&D Centre are:

- Process Development for APIs and Intermediates.
- To develop non-infringing synthesis for the APIs/ Intermediates which have high demand potential
- Basic Research for NCE's
- Contract Research/ Custom Synthesis
- Extraction of natural products to develop standardized extracts
- Isolation of active Ingredients from natural source.
- Patenting Non-infringing processes.
- Intellectual property rights compliances.

After the date of last Financial Statements the following material developments have taken place:

1. Sreenivasa Pharma Private Limited, which was our Group Company became a wholly owned subsidiary on April 28, 2006.
2. Export-Import Bank of India has sanctioned a term loan of Rs.300 millions vide their letter date August 10, 2006 to part finance the funds required for our proposed Project as detailed in this DRHP.

The Directors confirm that, other than what is stated above there has been no event or circumstance, since the date of the last financial statements, which materially and adversely affects or are likely to affect the profitability of the Company or the value of its assets or its ability to pay its liabilities within the next twelve months.



Significant Accounting Policies

Preparation of financial statements in accordance with Indian Generally Accepted Accounting Principles, the applicable accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, require our management to make judgements, estimates and assumptions regarding uncertainties that affect the reported amounts of our assets and liabilities, disclosures of contingent liabilities and the reported amounts of revenues and expenses. These judgements, assumptions and estimates are reflected in our accounting policies, which are more fully described in the Auditor's Report in this DRHP.

Certain of our accounting policies are particularly important for the portrayal of our financial position and results of operations and require the application of significant assumptions and estimates of our management. We refer to these accounting policies as our "significant accounting policies". Our management uses its historical experience and analyses, the terms of existing contracts, historical cost convention, industry trends, information provided by our agents and information available from other outside sources, as appropriate, when forming its assumptions and estimates. However, this task is inexact because our management is making assumptions and providing estimates on matters that are inherently uncertain.

While we believe that all aspects of our financial statements should be studied and understood in assessing our current and expected financial condition and results, we believe that there are certain critical accounting policies that warrant additional attention. For details of these accounting policies kindly refer Annexure III of the Auditors' Report on Page [•] of this DRHP.

Business Performance:

Our total income has grown from 1186.53 million in FY 05 to 1290.32 million in FY 06. The total profit after taxation for FY 06 is Rs. 85.07 million compared with Rs. 84.47 million for FY.05. During FY 06 our operations in Unit I were stopped for nearly 2 months, due to a "Closure Order" issued by the Pollution Control Board and the Nutraceuticals products launched by us did not take off as expected. Despite this our income grew by 8.75% and maintain the profitability marginally above the previous year.

Income:

We have been mainly engaged in the manufacture and sale of Ranitidine till the year 2000, and since then we added several other products viz. Sumatriptan Succinate, Ramipril, Quinapril etc. The trend of net sales (export and domestic) for the past 3 years is given below:

Rs. in Million

Particulars	Year ended March 31, 2004		Year ended March 31, 2005		Year ended March 31, 2006	
	Sales Amount	As % to Total Sales	Sales Amount	As % to Total Sales	Sales Amount	As % to Total Sales
Ranitidine & Intermediates	512.59	44.24%	239.00	20.14%	273.84	21.22%
Ramipril & Intermediates	50.77	4.38%	40.07	3.38%	26.18	2.03%
Sumatriptan & intermediates	27.26	2.35%	37.26	3.14%	83.66	6.48%



Gemcitabine & Intermediates	-		40.94	3.45%	82.42	6.39%
Ciprofloxacin	-		43.97	3.71%	-	
Omeprazole	-		36.00	3.03%	33.11	2.57%
Sildenafil Citrate	-		-		21.15	1.64%
Almotriptan Malate	-		-		0.75	0.06%
Others products	154.24	13.31%	276.44	23.30%	265.72	20.59%
Export Sales						
Ranitidine & Intermediates	350.82	30.28%	324.92	27.38%	312.08	24.19%
Ramipril & Intermediates	1.63	0.14%	2.25	0.19%	1.69	0.13%
Sumatriptan & intermediates	14.52	1.25%	29.23	2.46%	70.94	5.50%
Gemcitabine & Intermediates	-		-		47.11	3.65%
Omeprazole	-		-		12.23	0.95%
Sildenafil Citrate	-		-		2.08	0.16%
Almotriptan Malate	-		-		13.96	1.08%
Trandolapril	-		-		3.52	0.27%
Others	46.90	4.05%	116.45	9.81%	39.88	3.09%
Total Sales	1,158.73	100.00%	1,186.53	100.00%	1,290.32	100.00%

Sales of manufactured products

During FY 2002-2003, our Management undertook major initiatives in the consolidation of the manufacturing facilities, organization structure and increased focus on introduction of new products to increase our product profile. This strategy has resulted in a substantial increase in our turnover for the years ended March 31, 2004 and 2005. However during FY2006 our operations in Unit I were stopped for nearly 2 months, due to a "Closure Order" issued by the Pollution Control Board and the Nutraceuticals products launched by us did not take off as expected hence the sales of manufactured products has decreased. The sales of Ranitidine for the years ended March 31, 2005 and 2006 is on the lower side since we had diverted capacities to other products like Ciprofloxacin, Omeprazole, etc.

We are currently exporting to unregulated markets and would export the products in regulated markets. After the product goes off patent, since unregulated markets are generally the most competitive, the average realisation of our products will increase once we are able to introduce the products in the regulated markets.

The prices of products in regulated markets tend to decline significantly and rapidly after expiry or invalidation of patent. Also, the prices of APIs are susceptible to drastic fluctuations due to



various factors such as the number of manufacturers, production volumes, changes in demand in major markets, etc.

Sales of traded products

Sales of traded products comprise income from intermediates, which are sourced from third party suppliers and then resold to customers without alteration of the product. The increase in sales of other products in FY05 and FY06 as depicted above is due to higher volume of traded products. We engage in trading of products, in order to supply the entire range of products required by our customers. In FY 06 income from traded goods is on the higher side since during the two month period when our Company received Unit closure order, our Company used to source the product from third party and sell it to our customers so as to maintain our existing customer base.

Excise Duty

Excise Duty is levied on the products produced and sold by us. The prevailing rate is 16% ad-valorem, payable at the time of removal of the products for domestic sales, after adjustments of the credits of Central Value Added Tax available on inputs procured by the Company, as per the Central Excise Rules and Regulations. We do not claim CENVAT credit on capital goods acquired, instead, depreciation is claimed on the entire cost of the assets

Price trends

We do not foresee further decline in the sale price of Ranitidine, which constitutes the major portion of the total sales since the sale price of Ranitidine has already bottomed out. However, the new products introduced, Ramipril, Quinapril, Gemcitabine and Sumatriptan Succinate, Ciproflaxacine, Omeprazole during FY2005 are likely to witness a fall in sale prices in the subsequent years in line with the industry trend.

Expenditure:

Raw materials

The raw material consumed as a % to turnover has decreased marginally during the past three financial years with slight variations each year. The fact is evident from the table given below:

Rs. in million			
Particulars	March 31, 2004	March 31, 2005	March 31, 2006
Sales	1158.73	1186.53	1290.32
Raw Material Consumed	695.95	663.6	737.12
%age to sales	60.06%	55.93%	57.13%

The raw material consumed as a % to total operating expenses has decreased marginally during the past three financial years with slight variations each year.. The fact is evident from the table given below:

Particulars	March 31, 2004	March 31, 2005	March 31, 2006
Operating Expenses	996.31	1014.33	1093.39
Raw Material Consumed	695.95	663.6	737.12
%age	69.85%	65.42%	67.42%



Manufacturing and other expenses:

The details of manufacturing and other expenditure are as under:

Particulars	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31,2006
Sales	1,158.73	1,186.53	1,290.32
Manufacturing expenses	159.1	185.39	175.85
% to sales	13.73%	15.62%	13.63%
Salaries, wages and other benefits	25.19	42.39	43.91
% to sales	2.17%	3.57%	3.40%
Administrative, S& D and other expenses	116.07	122.95	136.52
% to sales	10.02%	10.36%	10.58%
Finance expenses	40.61	44.83	66.4
% to sales	3.50%	3.78%	5.15%

- Manufacturing expenses as a % of sales were about 13.73% during FY04. During FY05 manufacturing expenses have increased to 15.62%, mainly due to rise in maintenance expenses of factory. In FY 06 the percentage has again gone down to 13.63%.
- Salaries and wages as a % of sales were at about 2.17% of sales in FY 04 and have grown in FY05 to 3.57%. Besides, increasing the manpower, the Company revises its employee remuneration every year. In FY 06 the percentage of Salaries and wages as a % of sales is 3.40%.
- Administrative, selling and distribution (S & D) and other expenses have remained more or less stagnant in all the financial years.
- Finance expenses have increased from 3.50% in FY04 to 3.78% in FY05. It has increased to 5.15% in the FY 06 as we have taken fresh term loans for the modernization of Unit I and Unit II for setting up of exclusive facilities of R&D.

Depreciation and Amortization

Our Depreciation policy is as under:

- Depreciation on Fixed Assets has been provided on straight-line method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956.
- Additions to fixed assets on account of transaction of foreign currency liabilities for acquisition of fixed assets is depreciated over the residual life of the respective assets.
- Expenditure incurred on development of the process improvement of existing manufacturing process and development of molecules and significant updation/modification to the existing production process of various products are capitalized as intangible assets and are amortized over a period of five years from the year in which the expenditure is incurred.

Taxation / Deferred Tax:

We include the tax expense for the year, comprising current tax and deferred tax, to determine the net profit / (loss) for such year.



We make provision for the current tax based on tax liability computed in accordance with relevant tax rates and tax laws.

We changed our accounting policy for taxes on income in the period ended March 31, 2003, to comply with the provisions of new accounting standard relating to accounting for taxes on income, issued by the Institute of Chartered Accountants of India and as applicable to us. We make provision for deferred tax for all timing differences arising between taxable incomes and accounting income at currently enacted tax rates. As prescribed in the Accounting Standard AS-22, Deferred Tax is provided in the books with effect from FY 2003.

We recognize deferred tax assets only if there is reasonable certainty that they will be realized and we review our deferred tax assets for the appropriateness of their respective carrying values at each balance sheet date.

Earnings before Interest, Depreciation, Tax and Amortization ("EBIDTA")

A comparison of EBIDTA and as percentage to value of production is as under:

Particulars	Rs. in million		
	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31,2006
Value of Production	1,180.68	1,202.52	1,330.46
Profit after tax	74.93	84.47	85.07
Add: Finance Expenses	40.61	44.83	66.4
Depreciation	31.41	35.15	44
Tax	40.29	33.27	45.91
EBIDTA	187.24	197.72	241.38
% of value of production	15.86%	16.44%	18.14%

The EBIDTA margin has increased during the FY 05 and FY 06 due to change in product mix and introduction of new products like Almotriptan, Gemcitabine and its intermediates, higher production and sales of Sumatriptan Succinate, etc.

Profit after Tax

The profit after tax was Rs. 85.07 million for the year ended March 31, 2006 and Rs. 84.47 million for the year ended March 31, 2005. Our profit after tax to sales has been 6.47%, 7.12% and 6.59% for the fiscal years 2004, 2005 and 2006. The slight decrease in the PAT margin is due to higher provision of income tax due to decrease in the depreciation rates as per income tax.

Sundry Debtors

The following table presents the details of our debtors:

Particulars	Rs. in Million		
	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Sales	1,158.73	1,186.53	1,290.32
Total Debtors	315.90	386.04	451.70
%age to Sales	27.26%	32.54%	35.01%
Debtors More than 6 Months Old	43.71	41.72	39.88
%age to Sales	3.77%	3.52%	3.09%
Other Debtors	272.19	344.31	411.82
%age to Sales	23.49%	29.02%	31.92%



The amount of Rs. 39.88 million, for debtors more than 6 months old, pertains to a debt from Natco Pharmaceuticals Limited against whom a suit is filed by us. Details of the suit filed and the status thereof in the section entitled 'Outstanding Litigation' in this Prospectus.

OUR RESULTS OF OPERATIONS

The table below sets forth various line items from our audited financial statements for fiscal 2004, 2005 and 2006, as a percentage of total income.

Particulars	Rs. In Million		
	March 31, 2004	March 31, 2005	March 31, 2006
INCOME			
SALES	1,158.73	1,186.53	1,290.32
Increase/ (Decrease) in stocks	21.95	15.99	40.14
Other Income	2.87	9.53	4.31
Total Income	1,183.55	1,212.05	1,334.77
Raw Materials Consumed	695.95	663.60	737.12
As %age to Total Income	58.80%	54.75%	55.22%
Manufacturing Expenses	159.10	185.39	175.85
As %age to Total Income	13.44%	15.30%	13.17%
Expenses on Employees	25.19	42.39	43.91
As %age to Total Income	2.13%	3.50%	3.29%
Administrative & Other Expenses	116.07	122.95	136.52
As %age to Total Income	9.81%	10.14%	10.23%
Profit before Interest, Depreciation and Tax	187.24	197.72	241.38
As %age to Total Income	15.82%	16.31%	18.08%
Depreciation	31.41	35.15	44.00
As %age to Total Income	2.65%	2.90%	3.30%
Net Profit Before Tax	115.22	117.74	130.98
As %age to Total Income	9.74%	9.71%	9.81%
Net Profit After Tax	74.93	84.47	85.07
As %age to Total Income	6.33%	6.97%	6.37%



COMPARISON OF FISCAL 2005 WITH 2004

MAJOR EVENTS

During the period, we completed major modernization of Unit I to comply with Regulatory norms and scaling up of capacities for the products mentioned below. We commenced commercial production of Gemcitabine, Ciprofloxacin, Omeprazole, Sildinal, Almotriptan etc. We also commenced the process for setting up of a pilot scale plant at Gagilapur for the APIs developed in our R & D laboratory.

During the period, we entered into an Agreement with IICT, Hyderabad for exclusive manufacturing rights of Diltiazem, Taxol C-13 side chain and also entered into Agreement with IIT, Guwahati for manufacture of metal acetylacetonates. We also entered into a Memorandum of Understanding with Sochinaz SA for exclusive development and supply of Trandalopril for global marketing by Sochinaz SA.

REVENUE:

Turnover

During the FY 2005 we registered a turnover of Rs. 1,186.53 million as compared to 1158.73 million during FY 2004 and had a Profit after tax of Rs. 84.47 million during FY 05 as compared to 74.93 million during FY 2004.

EXPENDITURE:

The expenditure on raw materials consumption as percentage to the turnover declined to 55.93% to Rs. 663.60 million in the FY 2005. In the FY 2004 the expenditure on raw materials consumption as percentage to the turnover was 60.06% at Rs. 695.95 million. The decrease was due to change in product mix due to introduction of new products such as Gemcitabine, Ciprofloxacin, Omeprazole, Sildinal, Almotriptan etc.

Earnings before Interest depreciation tax and Amortization “(EBIDTA)”

Our EBIDTA % to sales has increased marginally from 16.16% in FY 04 to 16.66% for the year ended March 2005 due to change in product mix.

Profit after tax

Profit after tax amounted to Rs. 84.47 million at Profit to sales margin of 7.12% for the year ended March 31, 2005 as compared to 74.93 million at Profit to sales margin of 6.47 % for the year ended March 31, 2004.

COMPARISON OF FISCAL 2006 WITH 2005

MAJOR EVENTS

REVENUE:

Turnover

In the current fiscal we registered a turnover of Rs. 1290.32 million and a PAT of Rs. 85.07 million as compared Rs. 1186.53 million and Rs.84.47 respectively for the previous fiscal. This increase of 8.75% in turnover can be attributed increase in the realization of Ranitidine coupled with the



execution of export orders for Gemcitabine, Omeprazole, Almotriptan Malate, Sildenafil Citrate and Trandolapril

EXPENDITURE:

The expenditure on raw materials consumption as percentage to the turnover increased to 57.13% (Rs. 737.12 million) in the FY 2006. In the FY 2005 the expenditure on raw materials consumption as percentage to the turnover was 55.93% at Rs. 663.60 million. The increase was due to increase in the sales of traded products which have low margins as compared to manufactured products.

Earnings before Interest depreciation tax and Amortization “(EBIDTA)”

Our EBIDTA % to sales has increased from 16.66% in FY 05 to 18.71% for the year ended March 2006 due to increase in sale of high margin products..

Profit after tax

Profit after tax amounted to Rs. 85.07 million at Profit to sales margin of 6.59% for the year ended March 31, 2006 as compared to 84.47 million at Profit to sales margin of 7.12% for the year ended March 31, 2005. The slight decrease in the PAT margin is due to higher provision of income tax due to decrease in the depreciation rates as per income tax.

Factors that may affect the results of the operations:

1. Unusual or infrequent events or transactions:

There have been no unusual or infrequent transactions that have taken place.

2. Significant economic changes that materially affect or are likely to affect income from continuing operations:

Volatility in Foreign exchange rates may have an inflationary effect on cost of imports. However, since we export a substantial proportion of our turnover, any inflationary effect on imports will be more than offset by higher realization on exports. Barring these factors, there are no significant economic changes that materially affect or likely to affect income from continuing operations.

3. Known trends or uncertainties:

Some of the raw materials, which are imported, have shown a volatile trend in the last 3 to 5 years. The cyclical movements in the prices of these materials seem to be on account of the changes in demand and supply position. As a sequel to the volatility in the price of raw materials, the end product prices tend to move up or come down in the same direction if not in the same proportion.

4. Future relationship between costs and revenue:

Our R&D Center has been successful in developing various new APIs which have higher realisations and have developed innovative and efficient processes resulting in cost reduction. The R&D Center is also working on various custom synthesis and is involved in contract research and contract manufacturing. This is expected to gain momentum and benefit us in the coming years.

5. Seasonability of business:

There are no products sold which are seasonal in nature.



6. Over dependence on Single supplier/ Customer:

We source our raw materials from a number of suppliers and do not have excessive dependence on any single supplier. We do depend on few customers for selling our products since our top ten customers in domestic market account for approximately 40% of our domestic revenues and our International customers account for approximately 46% of our export revenues..

7. Competitive conditions:

The pharmaceutical industry in India meets around 70% of the country's demand for bulk drugs, drug intermediates, pharmaceutical formulations, chemicals, tablets, capsules, orals and injectibles. There are about 250 large units and about 8000 Small Scale Units, which form the core of the pharmaceutical industry in India (including 5 Central Public Sector Units). These units produce the complete range of pharmaceutical formulations, i.e., medicines ready for consumption by patients and about 350 bulk drugs, i.e., chemicals having therapeutic value and used for production of pharmaceutical formulations.

8. New products introduced last year:

As a part of the long term strategy and to increase the product profile, we have commercialised the products like, Almotriptan Malate, Trandolapril and Sildenafil Citrate. In addition to these many APIs are in various stages of R&D.

DETAILS OF ANY ENCUMBRANCES OVER THE PROPERTY OF THE COMPANY AND GUARANTEES GIVEN BY THE COMPANY TO ANY OTHER PARTY:

There are no other encumbrances over the property of the Company, except those mentioned in the Auditors report.

DETAILS OF MATERIAL DEVELOPMENTS AFTER THE DATE OF LAST BALANCE SHEET:

After the date of last Financial Statements the following material developments have taken place:

1. Sreenivasa Pharma Private Limited, which was our Group Company became a wholly owned subsidiary on April 28, 2006
2. Export-Import Bank of India has sanctioned a term loan of Rs.300 millions vide their letter date August 10, 2006 to part finance the funds required for our proposed Project as detailed in this DRHP



SECTION VIII - LEGAL AND OTHER REGULATORY INFORMATION

OUTSTANDING LITIGATIONS

There are no outstanding litigations against our Company, our Subsidiary, our Directors, our Promoters and our group companies or any disputes, tax liabilities, non payment of statutory dues, overdues to banks/ financial institutions, defaults against banks/ financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits and arrears on cumulative preference shares issued by our Company, defaults in creation of full security as per terms of issue/ other liabilities, proceedings initiated for economic/ civil/ any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of Part 1 of Schedule XIII of the Companies Act) against our Company, our Subsidiary, our Directors and our Promoters, except the following:

(A) OUTSTANDING LITIGATIONS AND CONTINGENT LIABILITIES OF OUR COMPANY

Contingent liabilities as on March 31, 2006

Particulars	(In Rs)	
	As at March 31, 2006	As at March 31, 2005
Guarantees given by banks	3,539,019	4,039,019
Foreign letter of credits opened in favour of customer for which goods are yet to be received	56,167,318	25,280,281
Claims not acknowledged as debts by the Company	56,479,529	56,279,529
Disputed Income Tax demnds against which Company is in Appeals	45,803,198	16,866,291

Claims against our Company:

1. Civil Disputes

- 1.1. Natco Pharma Limited ("Natco") has filed a suit against our Company being OS No.304/2002, before the Chief Judge, City Civil Court, Hyderabad (now transferred to XIV Additional Chief Judge cum Fast Track Court, City Civil Court, Hyderabad) for recovery of Rs. 56,279,529/- with interest at the rate of 19.50% per annum from the date of filing of the suit till realisation of the amount. Our Company had entered into an agreement with Natco dated September 10, 1998 for conversion of raw materials supplied by our Company to Natco into, *inter alia*, ciprofloxacin base or enrofloxacin base and **subsequently for other products.**

Natco's claim against our Company is on the following grounds:

- 1) Job work undertaken by them for the said conversion,
- 2) Our Company had allegedly utilised their facilities for storage of our Company's raw materials.
- 3) Interest, Payment against supply of materials, and rental charges

Our Company has filed its written statement on December 30, 2003 refuting all the contentions made by Natco. The suit is pending.



The OS 304/02 and O.S 323/02 were clubbed into one case by the said Fast Track Court. However, Natco had preferred a revision petition against the clubbing of cases in the High Court of Andhra Pradesh. While allowing the said revision petition directed joint trail of matters on a joint memo filed by the parties. No joint memo was filed since Natco was not interested in joint trail also

Note: Our Company has filed OS No. 323/02 against Natco in the Court of XIV Additional Chief Judge cum Fast Track Court, City Civil Court, Hyderabad for recovery of Rs. 156,290,614.87 along with interest thereon. For details regarding the same, please refer to paragraph 7.1 below.

1.2. O S 194/2000, High Court of Delhi, filed by Pavan Sachdeva.

Our Company had placed an inter-corporate deposit ("ICD") for a sum of Rs. 20,000,000/- with Direct Finance and Investment Limited ("DFIL"), for which one Mr. Pavan Sachdeva and one M. S. Shoes East Limited stood guarantors for its due repayment on its due date. DFIL failed to repay the said inter corporate deposit on its due date, and thus, through negotiations, a settlement was recorded in an Agreement dated January 22, 1997 ("**said Agreement**"), wherein Mr. Sachdeva was a guarantor to secure the payments under the Agreement. In this Agreement, it was agreed between our Company, DFIL and Mr. Pavan Sachdeva that DFIL would pay to our Company Rs. 8,000,000/- in four equal installments of Rs. 2,000,000/- each, after which, our Company agreed to file an application in Secunderabad Court, for withdrawal of the criminal case filed by our Company against DFIL being Cr C.No 121 of 1997 ("**criminal proceedings**"). Mr. Sachdeva, however, on payment of the third installment, called upon our Company to file the said withdrawal application on the alleged ground that such application was to be filed after receipt of the third installment. Since our Company had agreed to file the said withdrawal application only after receipt of the fourth installment, Mr. Sachdeva filed a suit being OS No. 194/2000 for specific performance of the terms of the said Agreement in the High Court of Delhi and for an injunction against our Company from proceeding with the criminal proceedings. Our Company has filed its counter and written statement. The matter is pending for further evidence.

Note: Our Company, prior to the said suit OS No. 194/2000, had filed a suit being OS No. 1723/1997 before IV Senior Civil Judge, City Civil Court, Hyderabad for recovery of total amount of Rs. 20,000,000/- due under the inter corporate deposit after adjusting the payment of Rs. 6,000,000/- towards part of interest. The C C.No 121 of 1997 is pending. For details on the status of the suit being OS No. 1723/1997 and the criminal proceedings, please refer to paragraphs 6.2 and 7.2 below.

1.3. A civil suit being Suit No. 2068 of 2004 was filed in the Court of II Senior Civil Judge, City Civil Court, Hyderabad by AMP Containers Private Limited against our Company for recovery of a sum of Rs. 160,905/- on the allegation that it had supplied containers to our Company, for which our Company has not paid the purchase price. Our Company has filed its written statement and counter claim for recovery of a sum of Rs. 123,795/- with future interest at the rate of 18% per annum. The counter claim is filed for the refund of advance amount of Rs. 100,000/-, together with value of films of Rs. 3,265/- and Rs. 20,530/- towards interest. The suit is pending and is at the stage of evidence.

2. Labour Disputes

2.1 Mr. T. Lakshmaiah, who was an employee of our Company, was dismissed from service by our Company after issuing final show cause notice for misconduct *vide* our Company's order dated April 24, 2003. A case has been filed by him against our Company being I. D. No. 108 of 2004 before the Labour Court II at Hyderabad challenging the said order of dismissal and seeking direction for reinstatement and other benefits. Our Company has filed its rejoinder. The case is pending.



3. Income Tax

3.1 Our Company has one income tax case for the assessment year 2001-2002 pending before the Commissioner of Income Tax (Appeals)- IV ("CIT"), appealing against assessment order dated January 30, 2006, for payment of Rs.9,620,556/- on account of:

- 1) Holding central excise refund received by the Company is taxable as "income from business or profession"
- 2) Excise duty and sales tax are a part of total turnover for purpose of calculating deductions under section 80HHC.

Our Company has also made necessary applications to the Deputy Commissioner of Income Tax for stay of demand pending decision in the appeal pending before the CIT.

3.2 Our Company has one income tax case for the assessment year 2002-03 pending before the Commissioner of Income Tax (Appeals)-IV (CIT), appealing against the assessment order dated December 27, 2004 for payment of Rs. 1,6866,291/- , on account of:-

- 1) holding that central excise duty refunded on the export sales are chargeable to profits of business or profession,
- 2) disallowing exemption of proportionate interest on investment made on subsidiary and
- 3) levy of interest under section 234B, 234C

Our Company has also made an application to the Assistant Commissioner of Income Tax for stay of demand pending decision in the appeal pending before the CIT.

3.3 Our Company has one income tax case relating to the assessment year 2003-2004 pending before the Commissioner of Income Tax (Appeals) -IV against assessment order dated January 30, 2006 for payment of Rs. 19,316,351 as tax liability on the ground that interest income forms part of total turnover. Our Company has also made an application to the Assessing Officer for stay of demand, pending decision by the Commissioner of Income Tax. The matter is still pending for decision of the Commissioner of Income Tax.

3.4 For the assessment year 2005-2006 our Company has received Intimation issued under Section 143(1) of the Income Tax Act, 1961, by the Andhra Pradesh Income Tax Department for assessment, for an amount of Rs, 16,636,272/-. Our Company in turn vide its letter dated March 27, 2006 has pointed out that the Department has not taken into consideration the following amounts already paid by our Company:

- 1) Advance Tax- Rs 4,000,000/-
- 2) Tax Deducted at Source- Rs 623,242/-

Our Company is therefore liable to pay only Rs. 12,013,030 as compared to Rs 16,636,272/-. Our Company has paid Rs. 5,000,000 on February 15 2006 and the balance amount of Rs. 7,628,277/- on March 27, 2006. The final assessment order is still to be received.

4. Public Interest Litigation - WP No.19661 of 2002, High Court of Andhra Pradesh

4.1 The Indian Council for Enviro Legal Action has filed a public interest litigation ("PIL") against Union of India and others wherein several pharmaceutical companies are respondents including our Company in respect of Patancheru and Khazipally areas where most of the industrial units of pharmaceutical companies are located in Andhra Pradesh. Prior to this PIL Writ Petitions were originally filed in the Supreme Court of India, but pursuant to the directions of the Supreme Court of India, the batch of writ petitions were transferred to the High Court of Andhra Pradesh. Thereafter the said Writ Petition No. 19661/02, was filed in which a number of industries (228) were made



respondents. In the writ petition a Fact Finding Committee was appointed by the Andhra Pradesh High Court to inspect the industrial units located in the said areas and the Fact Finding Committee has submitted its Report. There are references to our Company at certain pages of the said Report. Our Company has filed its affidavit and also further affidavit before the High Court of Andhra Pradesh and the same is pending.

- 4.2 Goa Foundation has filed a PIL being Writ Petition (C) 460/ 2004 against Union of India and Others for closure of Industries and Mines which have not obtained clearances under Environment (Protection) 1996 before the Supreme Court of India. An order directing closure of Industries and Mines which had not obtained the clearance under the EPA was passed by the Supreme Court on March 2, 2005. The order affected the entire Bulk Drug Manufacturing industries. Thereafter the Bulk Drug Manufacturing Association ('BDMA'), Hyderabad filed an intervention application along with few other industries including our Company, in pursuance of which the Supreme Court issued stay on the closure of industries. Vide the said order, the Supreme Court also clarified that MoEF/ PCBs were entitled to process ex-post facto clearances of various industries. Various other industries also moved similar intervention applications. Thereafter our Company has been granted clearance certificates by the MoEF which were filed in the Supreme Court. The matter is still pending.

5. Others

- 5.1 Mr. B. Suba Rao, has filed a claim petition against our Company and Another being O.P No 398 of 2006 in the Court of Motor Vehicle Accident Claim Tribunal cum IInd Additional District Judge, for compensation of Rs. 250,000 along with interest at 12% as and by way of damages for alleged injury sustained by the said Mr. Suba Rao as a result of an alleged accident caused by our Company's driver on February 27, 2006. Our Company has filed its Counter refuting the said charges and claims. The matter is still pending.

Claims made by Our Company:

6. Civil Disputes

- 6.1 Our Company has filed suit being OS No. 323/2002 before the Chief Judge, City Civil Court, Hyderabad (now transferred to IV Additional Chief Judge cum Fast Track Court, City Civil Court, Hyderabad) against Natco for recovery of Rs. 156,290,614.87 together with interest at the rate of 15.5% per annum from the date of suit till realisation. The said suit has been filed, *inter alia*, on the grounds that Natco failed to return raw materials belonging to our Company misappropriated and illegally sold raw materials of our company to an extent of 2.42 crors failed to return remaining raw materials, failed to pay our company in respect of goods sold to Natco by us, failed to pay our company in respect of amounts paid by us to creditors of natco, etc. The suit is pending at the stage of evidence

The OS 304/02 and 323/02 were clubbed into one case by the said Fast Track Court. Natco had preferred a revision petition against the order in the honorable High Court of AP. The Court allowing the said revision petition has held that there should be joint trail on a memo filed by both parties. Natco was however not agreeable to joint trail. The suits are being proceeded independently

Note: For details of OS 304/2002 please refer to paragraph 1.1 above.

- 6.2 Our Company has filed a suit being OS No. 1723/1997 in the Court of IV Senior Civil Judge, City Civil Court, Hyderabad against Direct Finance and Investment Limited, Mr.



Pavan Sachdeva and M. S. Shoes East Limited (jointly “**defendants**”) for recovery of Rs. 28,976,945/- together with interest at the rate of 25% per annum from the date of suit till realisation. For more details on the background of this case, please refer to paragraph 1.2 above. This suit has been filed by our Company under Order 37 of the Civil Procedure Code, 1908. The suit has been decreed on March 10, 2000 on account of failure of defendants to file application for leave to defend the suit within the stipulated time. The defendants made an application to set aside the decree, along with a delay petition to condone the delay in filing the application to set aside the decree. The delay petition has been allowed and our Company has preferred a Civil Revision Petition (No. 2622/2001) before the High Court of Andhra Pradesh at Hyderabad to set aside the application for condonation of delay made by the defendants. The High Court of Andhra Pradesh has allowed our Company’s application and remanded the matter back to lower court.. We are yet to receive copy of order. The matter is still pending

7. Criminal Cases

7.1 Our Company has filed criminal complaint being CC No. 52/2001 before the XIth Metropolitan Magistrate, Hyderabad against Natco , its Managing Director Mr. V.C. Nannapaneni and its Executive Director K.V. Ranga Rao for alleged offences under Sections 403, 408, 418 and 420 of the Indian Penal Code, 1860 for alleged criminal misappropriation and sale of material belonging to our Company, alleged breach of trust, for allegedly causing wrongful loss to our Company, and allegedly cheating our Company. The criminal liability against the accused stated hereinabove was The above persons were discharged by the said Metropolitan Magistrate, on an application filed by them. Our Company filed a Revision Petition in the Court of IInd Additional Metropolitan Sessions Judge against the order of discharge. The Sessions Court has set aside the order of discharge against the Accused Nos 1-3 and has remanded the matter back to the Metropolitan Magistrate with directions. Natco has in turn filed Criminal Petition No.1471 of 2006, High Court of Andhra Pradesh, Hyderabad against the order of the IInd Addl. Metropolitan Sessions Judge, Hyderabad. Notice was served on company but the petition and material papers have not been served, and the case is pending.

The matter is still pending.

7.2 Our Company has filed a private criminal complaint being C.C.No.121/1996 before the Xth Metropolitan Magistrate, Secunderabad against Direct Finance Investment Limited(“**DFIL**”) and its Directors Mr. Rajiv Anand, Mrs. Vandana Anand and Mrs. Neeta Bhalla (“**Accused No. 4**”) under Section 138 of the Negotiable Instruments Act, 1881 for dishonour of cheques issued by DFIL pursuant to the ICD placed by our Company in 1995 with DFIL. The proceedings against Mrs. Neeta Bhalla (Accused No. 4) was quashed by High Court of Andhra Pradesh, Hyderabad, against which our Company preferred a Special Leave Petition before the Supreme Court of India (Numbered as CrI.A 664 of 2002). The Supreme Court has granted our Company, leave to prefer the Special Leave Petition. Since a Substantial question of law was raised in our Special Leave Petition the same was referred to a larger bench of the Supreme Court of India for determination, which was decided on September 20, 2005 and our SLP against DFIL was separately referred to a regular bench for disposal on merits and the same is pending and is. Our Company’s criminal complaint (C.C.No. 121/1997) is pending for trial.

7.3 Our Company has filed a private criminal complaint being C.C. No. 134/05 before XXIII Metropolitan Magistrate, Hyderabad against Seamless Communications and its Managing partner Mr. Venkat Raman, for alleged offence under section 138 of the Negotiable Instruments Act, 1881, for dishonour of cheques for an amount of



Rs.500,000/- given by Seamless Communications for discharge of its liability pursuant to deposit given for business promotion. The matter is still pending.

(B) OUTSTANDING LITIGATIONS AND CONTINGENT LIABILITIES OF OUR GROUP COMPANIES

Contingent liabilities of Group companies

Contingent liabilities of Webcity Softech Pvt. Ltd. as on March 31, 2006 - Nil

Cases by our Group Companies

1. Civil Cases

1.1 Our Promoter Group Company, Webcity Softech Pvt. Ltd. ("Webcity") has instituted proceedings against M/s. National Ship Design & Research Centre ("NSDRC") for appointment of Arbitrator, under arbitration application No. 68 of 2005 in the High Court of Andhra Pradesh under Section-11(5) of the Arbitration and Conciliation Act, 1996 read with Clause 3(i)(d) of Scheme for appointment of Arbitrators, 1996 for appointment of Sole arbitrator to adjudicate the claims and the disputes between Webcity and NSDRC relating to manufacture and marketing of Currency Counting and Detective System (CCDS) designed and developed by NSDRC. The disputed claim is valued at Rs. 46,627,735.35/- (Rupees Forty Six Million Six Hundred Twenty Seven Thousand Seven Hundred Thirty Five Rupees Thirty Five paise). The arbitration is currently pending.

1.2 Webcity has also initiated arbitration proceedings by way of arbitration application No. 69 of 2005, against NSDRC in the High Court of Andhra Pradesh, under Section-11(5) of the Arbitration and Conciliation Act, 1996 read with Clause 3(i)(d) of Scheme for appointment of Arbitrators, 1996 for appointment of Sole arbitrator for adjudication of disputes in relation to procurement of materials, assembly and manufacture of PCBS/ modules and supplying the same to NSDRC. The claim is on various counts such as supply of defective test jigs and fixtures, illegal cancellation of order for 2500 cash modules, denial of liability after admitting and agreeing to pay the amounts due to Webcity by NSDRC amounting to Rs37,737,452.80. The arbitration is currently pending before the Andhra Pradesh High Court at Hyderabad.

Cases against Group Companies

There are no cases against our Group companies

(C) OUTSTANDING LITIGATIONS AND CONTINGENT LIABILITIES OF OUR SUBSIDIARY

Contingent liabilities of Subsidiary

Contingent liabilities of Sreenivasa Pharma Pvt. Ltd. as on March 31, 2006

Particulars	As at March 31, 2006	As at March 31, 2005
On account of Letter of Credit given by Banker	13,494,513	12,202,701
On account of Foreign Bill Discounting	3,298,919	9,155,376
On account of Bank Guarantees	-	200,000
Income Tax Appeal filed by the Company before the CIT Appeals	2,618,531	-



Claims made by Sreenivasa Pharma Private Limited

1. Criminal Cases

- 1.1 Our Subsidiary, Sreenivasa Pharma Pvt. Ltd ("**Sreenivasa Pharma**") has filed a criminal complaint in the Court of the Additional Metropolitan Magistrate at Hyderabad against one Mr Sunil Kumar Jain and M/s Mala Impex Pharma under Section-138 of the Negotiable Instruments Act, 1881, in respect of dishonour of cheques amounting to Rs. 1,201,441/- (One Million Two Hundred One Thousand Four Hundred Forty One Rupees) issued in favour of Sreenivas Pharma. The case is currently pending before the Additional Metropolitan Magistrate, Hyderabad.

Claims against Sreenivasa Pharma Private Limited

For the Assessment Years 2002-2003, and 2003-2004 our subsidiary Sreenivasa Pharma Pvt Ltd is liable to pay tax amount of Rs. 2,618,531 towards satisfaction of income tax demand made under orders of Commissioner of Income Tax (Appeals). The amount is still to be paid by the Company. The Company is also in the process of preferring appeals to the Income Tax Appellate Tribunal against the orders of CIT (Appeals).

Amount Owed to Small Scale Undertaking and Other Creditors:

The name of the small scale undertaking and other creditors to whom our company owes a sum exceeding Rs. 1 lac which is outstanding more than 30 days, as on March 31, 2006 are as follows:
Nil



GOVERNMENT/STATUTORY AND BUSINESS APPROVALS

Except for pending approvals mentioned under this heading, our Company has received the necessary consents, licenses, permissions and approvals from the Government/RBI and various Government agencies required for our present business. Further, except for pending approvals as detailed herein, our Company can undertake all our present activities and activities as proposed in the objects of the Issue, in view of the present approvals and no further material approvals from any statutory body are required by our Company to undertake the present/proposed activities as stated hereinabove.

We have received the following material Government approvals/licenses/permissions:

Corporate/ Labour / Industrial / Land:

- Certificate of Incorporation No. 8066 of 1987-88 dated December 14, 1987 for S.M.S.Pharmaceuticals Private Limited issued by the RoC .
- Fresh Certificate of Incorporation consequent on the conversion of S.M.S. Pharmaceuticals Private Limited into S.M.S. Pharmaceuticals Limited issued by RoC pursuant to Section 31/44 of the Companies Act dated November 2, 1994.
- Fresh Certificate of Incorporation consequent on change of name of S.M.S. Pharmaceuticals Limited to SMS Pharmaceuticals Limited issued by RoC dated April 12, 2004.
- Registration of the Company under Employee State Insurance Act, No: AP/PICI/52-9099-34
- Registration of the Company with the office of the Regional Provident Fund Commissioner, Hyderabad, No: AP/24017 under Employees Provident Fund and Miscellaneous Provisions Act, 1952.
- Certificate of "Recognition of In- House R&D" Unit(s) dated January 18, 2005 issued by Government of India, Ministry of Science & Technology.
- Certificate of Importer.-Exporter Code ("IEC") No. 0989005321 from the Office of the Joint Director General of Foreign Trade, Ministry of Commerce, Hyderabad, vide letter No.ITC/IEC/S-93/AM.90/Hyd./741 dated January 12, 1990
- Our Company is a member of the Bulk Drug Manufacturers Association of India. It has been awarded One Star Export House Status No. 11114 renewed upto March 31, 2009 from the Office of the Joint Director General of Foreign Trade, Ministry of Commerce, Government of India.
- ISO 9001- 2000 Certification No. 01602-2005-AQ-BOM-UKAS dated February 17, 2005 valid upto December 21, 2007 for our Unit I for the manufacture and sale of bulk drugs and drug intermediates
- Our Unit II has been accorded USFDA Approval vide letter dated February 11, 2004 by the Department of Health & Human Services, Food and Drug Administration, Centre for Drug Evaluation and Research, USA.
- Industrial Entrepreneurs Memorandum acknowledgements issued by the Government of India, Ministry of Industry, Secretariat for Industrial Approvals Entrepreneurial Assistance Unit for certain products details whereof are provided below:
 - (1) Item Code 2942: RANITIDINE HCL, NMSM, FAMOTIDINE, DILTIAZEM, D+ACID, CIS-LACTUM, NAPROXINE, DL NAPROXENE, METHYLDOPA, Nos. 3831/SIA/IMO/95, dated July 28, 1995;



- (2) Item Code 2942: CYSTOFER, N-SULPHANYL 3 CHLORO PROPION AMIDE, TPN BASE, DIMETHOXY PHENYL ACETONE, D-L-AMINO-NITRILE, META CHLORO PHENOL(No.5065/SIA/IMO/95), dated October 5, 1995;
 - (3) Item Code 3041: CIPROFLOXACIN HCL, ENROFLOXACIN, ACETAZOLAMIDE (No.2388/SIA/IMO/98) , dated November 16, 1998;
 - (4) Item Code 3041: RANITIDINE HCL, NMSM, (No.1650/SIA/IMO/2000), dated August 7, 2000;
 - (5) Item Code 3041: SUMATRIPTAN SUCCINATE, QUINAPRIL HYDROCHLORIDE, ENALAPRIC MALEATE, NICOTINE POLACRILEX, FENU GREEK POWDER, N- ETHOXY CORBONYL PHENYL PROPYL ALANINE (No.288/SIA/IMO/2002) dated January 31, 2002;
 - (6) Item Code 3041: RANITIDINE HOL(No.1327/SIA/IMO/03), dated May 22, 2003; and
 - (7) Item Code 3041: RAMIPRIL, ZOLMITRIPTAN OXALATE, GEMCITABINE HYDROCHLORIDE, CITALOPRAM HYDRO BROMIDE, RIZATRIPTAN BENZOATE, CYANOPHTHALIDE, CYANO THALANE, PHENY METHOXY OCTAHYDROCYCLOPENTA (B) PYRROLE of CARBOXYLATE HYDROCHLORIDE (No. 464/SIA/IMO/2003) dated February 17, 2003.
 - (8) Item Code: 29420006, RANITIDINE, Item Code: 29420024 FAMOTIDINE, Item Code: 29420029 NEBUMETONE, OMEPRAZOLE ((No. 3161/SIA/IMO/97) dated November, 11 1997
 - (9) Item Code: 20006 RANITIDINE, Item Code: 20024 FAMOTIDINE, Item Code: 20029 NEBUMETONE, OMEPRAZOLE, NMSM, DIMETHOXY PHENYL ACETONE dated November 28, 1997.
 - (10)Item Code:29420006, RANITIDINE HCL, Item Code:29420024 RANITIDINE, Item Code:29420029 NEBUMETONE, OMEPRAZOLE, NMSM, CYSTOFER NSULFANYL 3 CHLORO PROPION AMIDE, TPN BASE.
- License for the possession and use of rectified spirit in the manufacture of Industrial Preparations of "RAMIPRIL" issued by Commissioner of Prohibition and Excise, Andhra Pradesh pursuant to Andhra Pradesh Excise Act, 1968 and Andhra Pradesh Rectified Spirit Rules, 1971 bearing reference No. Cr. No. 6744/2004/CPE/B1 dated April 7, 2004. The license is valid upto March 31, 2007.
 - RS III License bearing No- Cr No. 4487/2006/CPE/B1 issued by the office of the Commissioner of Prohibition and Excise, Hyderabad, for the possession and use of rectified spirit in the manufacture of Ramipril and Tradolapril, on April 1 2006, and renewed upto March 31, 2007.
 - Licenses to work factory granted pursuant to the Factories Act, 1948, by Director of Factories, Government of Andhra Pradesh vide the following licenses:
 1. Reg. No. 60494 and License. No. 43988, factory location at Unit I;
 2. License No. 44023 Registration No.67124 factory location at Unit II; and
 3. License No. 42316 Registration No.67683 factory location at Unit III.
 - Registration-cum-Membership-Certificate No. PXL/LSH/ V--/3070/ 2005-06 as Manufacturer Exporter dated April 14, 2005 and valid upto March 31, 2010 issued by the Pharmexcil (ie Pharmaceutical Export Promotion Council), Hyderabad for export of Ranitidine.
 - Licenses to manufacture for sale of drugs other then those specified in Schedule X of Drugs and Cosmetics Rules, 1945, the details whereof are provided below:
 1. License No.3829/RRD/DII/M/2006-2007 dated June 1, 2006 to Unit III for the manufacture for sale / storage for sale/ distribution of Nutritional Foods and Beverages issued by the Food Inspector and Licensing Authority, Division- II,



Ranga Reddy District under Andhra Pradesh P.F.A.Rules, 1993 valid upto March 31, 2007.

2. Drug Manufacturing License granted for Kazipally Unit (Unit I), bearing No.161/MD/AP/96/B/R dated February 27, 1990 renewed for the period from January 1, 2002 to December 31, 2006. Additional License- L. Dis No. 3136/M2B/2004 dated March 29, 2004 issued by the Drugs control Administration, Government. A.P, approving production of Gemcitabine Hydrochloride and Lisinopril Dihydrate
 3. Drug Manufacturing License granted for the Bachipally Unit (Unit II) bearing No. 63/RR/AP/2000/B/R renewed for the period from January 1, 2002 to December 31, 2006 issued by the Drug Control Administration, Government. AP, approving production of Diltiazem HCL, Acyclovir, Omeprazole, Enalapril, Sumatriptan Succinate, Ramipril, Zidovudine and Nicotine Polacrilex.
 4. Drug Manufacturing License granted to Rangareddy Unit (Unit III) bearing No. 44/RR/AP/2002/F/G dated October 17, 2002 and valid upto October 16, 2007, issued by the Drug Control Administration, Government. AP, approving production of Paracetamol Tablets, Trimethoprim Tablets, and Sulphamethaxazole, Alprozolam Tablets, Ibuprofine, Diclofenac Sodium and Paracetamol Tablets.
 5. Drug License No. 79/RR/AP/2004/W for sale or distribution of wholesale drugs issued to Bachipally Unit ,Rangareddy District (Unit II) Drugs and Cosmetics Licensing Authority, valid from March 19, 2004 upto March 17, 2009.
 6. License No. 425/HD/AP/98-RW renewed from January 1, 2002 to December 31, 2006 issued by the Assistant Director Drugs Control Administration under the Drugs Rules 1945 for *inter alia* sale, stock, exhibit or distribution of drugs.
 7. License No. T-1649/AYUR for manufacture and sale of ayurvedic medicines issued under Drugs and Cosmetics Act, 1940, valid from April 2005 upto December 31, 2006.
 8. Our Company's drugs have been awarded the WHO-GMP (World Health Organisation Good Manufacturing Practice) Certification by the Drugs and Copyright, Drugs Control Administration, Government of Andhra Pradesh, Hyderabad, namely
 - (1) WHO GMP Certificate dated October 7,2005 vide L. Did. No. 6110/B1M/2005 for Sumatriptan Succinate and Ramipril., valid upto October 6, 2007.
 - (2) WHO GMP Certificate dated January 4, 2006 vide L Dis No. 8837/M2B/2005 valid upto January 4, 2008 for export purposes inrespect of Ranitidine HCL, Diltiazem HCL, Famotidine, Omeprazole, Omeprazole Sodium, Sildenafil Citrate
- Certificate of Registration M163 under Section 7 (2) of the Contract Labour (Regulation And Abolition) Act, 1970 and Rule 18 (1) dated August 20, 2006 issued by Registering Officer, Patancheru, Andhra Pradesh to Unit I, Kazipally for 400 workmen.
 - Certificate of Registration A-418-(CR) under Section 7 (2) of the Contract Labour (Regulation And Abolition) Act, 1970 and Rule 18 (1), dated December 31,2002 issued by Licensing Officer, Andhra Pradesh to Unit II, Bachipally for 100 workmen.
 - Labour License No.D/CL/DCL-RRZ/1300/06 issued under section 12(1) of the Contract Labour (R&A) Act 1970 by Licensing Officer, DCL,RR Zone, Hyderabad to Contractor Teshma Dignified Enterprises, for forty workmen for Unit I, valid upto March 31, 2007.
 - Labour License No.D/CL/DCL-RRZ/1301/06 issued under section 12(1) of the Contract Labour (R&A) Act 1970 by Licensing Officer, DCL,RR Zone, Hyderabad to Contractor



M/s Naga Sree Harsha Enterprises, for forty workmen for Unit II, valid upto March 31, 2007

- Labour License No.D/CL/DCL-RRZ/483/04 issued under section 12(1) of the Contract Labour (R&A) Act 1970 by Licensing Officer, DCL,RR Zone, Hyderabad to Contractor Sri A. Radhkrishna, for thirty five workmen for Unit I renewed upto March 31, 2007.

Tax:

- Registration vide Andhra Pradesh General Sales Tax Act, 1957 No.HYR/03/1/3903/1990-91 by the Commercial Tax Officer, Jeedimetla, Ranga Reddy District Andhra Pradesh valid from April 1, 1990 until cancellation.
- VAT Registration No (TIN) 28810119930 with effect from April 1, 2005 issued by the Commercial Tax Department, Andhra Pradesh under the Andhra Pradesh Value Added Tax Act, 2005 vide Value Added Tax Registration Certificate dated April 12, 2005.
- Registration vide Central Sales Tax (Registration and Turnover) Rules, 1957, No. HYR/03/1/2521/1990-1991 issued on April 1, 1990 by the Commercial Tax Department, Jeedimetla, Ranga Reddy District, Andhra Pradesh.
- Registration Certificate No 11/92 to *inter alia* cure, produce, manufacture, carry on wholesale trade, pursuant to Central Excise Rules, 1944 issued by the Central Excise Department.
- Additional Central Excise Registration Certificates for Unit I, Unit II and Unit III
 - (1) AADCS2221DXM001 for Unit I,
 - (2) No: AADCS2221DXM002 dated June 9, 2003 for Unit II and
 - (3) No: AADCS2221DXM003 dated September 16, 2002 for Unit IIIfrom the Commissioner of Customs and Central Excise, Hyderabad.
- Our Company's Permanent Account Number is AADCS2221D

Environment:

- Licenses for use of boilers issued by the Andhra Pradesh Boiler Inspection Department, pursuant to Indian Boilers Act, 1923 details of which are provided below:
 - (1) Boiler No. AP3082 valid upto July 1, 2007.
 - (2) Boiler No. AP3316 valid upto June 1, 2007
 - (3) Boiler No. AP4001 valid upto January 1, 2007
 - (4) Boiler No. AP3220 valid upto March 1, 2007.
- Licenses issued by Department of Explosives, Chennai pursuant to Petroleum Rules, 1976:
 - (1) License No.P/HQ/AP/15/1328(P4783) dated December 29, 2003 valid up to December 31, 2006 issued by Department of Explosives, AP to import and Store Petroleum Products for Unit III.
 - (2) License No.P/HQ/AP/15/1131(P4591) dated September 11, 2000 duly renewed upto December 31 2007, for import and stock of petroleum for Unit I.
- License No.5551/94/Ex/A1 dated March 11, 1995 issued by Prohibition and Excise Department, Medak District, Andhra Pradesh for use and storage of Methanol for Unit I
- License No E7/8823/2003 dated September 19, 2003 issued by Prohibition and Excise Department, Ranga Reddy District, Andhra Pradesh for use and storage of Methanol for Unit II.



- Inspection Report bearing RC No.109/SFO/JDM/ 06 issued by the Station Fire Officer, Fire Station, Jeedimetla (Andhra Pradesh Fire and Emergency Services Department) valid upto April 23 2007 for Unit I;
- Inspection Report bearing RC No. 432/SFO/JDM/06 issued by the Station Fire Officer, Fire Station, Jeedimetla (Andhra Pradesh Fire and Emergency Services Department) as renewed upto April 24, 2007 for Unit II; and
- Inspection Report bearing RC No. 318/SFO/JDM/06 issued by the Station Fire Officer, Fire Station, Jeedimetla (Andhra Pradesh Fire and Emergency Services Department) valid upto April 23 2007 for factory location for Unit III.

For Unit I we have obtained:

1. Consent for Operation & Hazardous Waste Authorisation Order No.APPCBPTN/BLM/202/HO/W&A/2006-929 issued by the Andhra Pradesh Pollution Control Board under Section 25/26 of the Water (Prevention & Control of Pollution) Act, 1974 section 21 of Air (Prevention & Control of Pollution) Act 1981 and Hazardous Waste (Management & Handling) Rules, 1989, dated August 14, 2006 and valid upto December 31, 2006.

On account of complaints of alleged release of mercaptin gas (during stage III of the manufacture of Raniditine), APPCB, vide its "Closure Order" dated August 23, 2005, directed stoppage of all industrial activities in Unit I. The said Closure Order stipulated certain conditions on compliance of which APPCB, vide its letter dated October 27, 2005 revoked the said Order temporarily for a period of three months up to Decemebre 31, 2005. On compliance of conditions stipulated in the revocation Order the Company has received the Consent for Operation and has now applied for permanent revocation of the closure Order.

2. Consent under Sections 25 and 26 of the Water (Prevention and Control of Pollution) Act, 1974 and Section 21 of the Air (Prevention and Control of Pollution) Act, 1981 from the Andhra Pradesh Pollution Control Board, Hyderabad being No: APPCB/HYD/JDM/646/RO/W/2004/100-2388 and APPCB /HYD/JDM/646/RO/A/2004/A/100 respectively valid till March 31, 2007
3. The Ministry of Environment and Forests, has vide its Letter No. J-11011/152/2005-IA II(I) dated July 7, 2005 accorded its environmental clearance under the Environment Impact Assessment Notification.

For Unit II we have obtained:

1. Consent for Operation Order No. APPCB/HYD/JDM/186/HO/W&A/2006/666 issued under Sections 25 and 26 of the Water (Prevention and Control of Pollution) Act, 1974 and Section 21 of the Air (Prevention and Control of Pollution) Act, 1981 from the Andhra Pradesh Pollution Control Board, Hyderabad dated July 15,2006 and valid upto March 31,2007.
2. Consent Order for Establishment No. 25/PCB/C.Estt/RO-RR-II/AEE-N/2001-1179 issued by the Andhra Pradesh Pollution Control Board under Section 25 of Water (Prevention & Control of Pollution)Act 1874, and under Section 21 of Air (Prevention & Control of Pollution) Act 1981, dated September 18, 2001 for setting up of establishment within period of five years ie. by September 17, 2006.
3. Authorisation for Occupier or Operator Handling Hazardous Wastes bearing No. APPCB/HYD/JDM/186/HWM issued by Andhra Pradesh Pollution Control Board under the Environment Protection Act, 1986, dated July 31, 2003 and valid upto July 30, 2008



4. The Ministry of Environment and Forests, has vide its Letter No. J-11011/123/2005-IA II(I) dated July 7, 2005 accorded its environmental clearance under the Environment Impact Assessment Notification, 1994.

For Unit III we have obtained:

1. Consent Order for Establishment No. 68/JDM/CFE/PCB/ROR.II/2002-1520 issued by the Andhra Pradesh Pollution Control Board under Section 25 of Water (Prevention & Control of Pollution) Act 1874, and under Section 21 of Air (Prevention & Control of Pollution) Act 1981, dated October 16, 2002 and valid upto cancellation.

For Unit IV we have obtained:

1. Consent Order No. PCB/ ZOH/CFE/2004-3115 dated November 29, 2004 for Establishment of our Company's Unit IV (Neutraceuticals and Catalyst) situated at Quthubullapur (M), Rangareddy District has been issued by Andhra Pradesh Pollution Control Board under section 25 of Water (Prevention and Control of Pollution) Act, 1974 and under section 21 of Air (Prevention and Control of Pollution) Act, 1981.

License applied for but yet to be renewed / received and certain licenses not applied for:

1. Renewal Application made vide letter dated April 10, 2006 to the Chief Inspector of Boilers for Boiler No. AP2690. The boiler is a stand-by boiler.
2. Renewal Application made vide letter dated August 19, 2005 to the Chief Inspector of Boilers for Boiler No. AP3464.
3. Application made vide letter dated July 27, 2006 requesting additional drug license to License No. 44/RR/AP/2002/F/G (Unit III) for additional products (pellets) and for inclusion of Rebeprazole Sodium Pellets, Penetaprazole Pellets, Lansoprazole Pellets, Omeprazole Pellets in chemist list.
4. ISO 9001:2000 Certification No.00072-2003-AQ-HYD-UKAS dated July 10, 2003 valid upto June 11, 2006 was issued by DNV Certification Limited, Delhi for Unit II for manufacture and sale of bulk drugs and drug intermediates. The Unit is scheduled to be inspected by DNV on September 6 and 7, 2006, subsequent to which renewal certification, if any, is expected.
5. Application made vide letter dated August 23, 2006 to Andhra Pradesh Pollution Control Board for Permanent Revocation of Closure Order in respect of Unit I
6. We are in the process of making an application for the Factory License and Consent For Operations for our Unit IV to the respective authorities.

Licenses in relation to the Objects of the Issue

The following are the material permissions/ approvals in respect of the setting up of our proposed manufacturing facility at Vizianagaram:

Approval / Consent	Agency	Status
Consent for Establishment (CFE)	APPCB	Application made vide letter dated March 22, 2006.
Industry License	SIA, Ministry of Industry, Government of India	We are yet to make application in respect of some of the products proposed to be manufactured by us at Vizianagaram
Environmental Clearance	MOEF	Will be applied after receiving CFE



Approval / Consent	Agency	Status
Approval of Factory Drawings	Inspector of Factories, Andhra Pradesh	Application will be made after obtaining CFE from APPCB.
License under Factories Act	Inspector of Factories, Andhra Pradesh	Application will be made after drawings approval.
Power requirement	APSEB	Application will be made at the appropriate time.
Consent for operations	APPCB	Application will be made at the appropriate time.
Drug License	Director of Drug Control Administration Govt. of A.P	To be applied after completion of the Project
License for Storage of Solvents	Govt. of India Ministry of Commerce & Industry (Dept. of Explosive)	To be applied after erection of Storage Tanks
License For Boilers	Director of Boilers A.P	To be applied after installation of Boilers
Drawing Approval	Government of Andhra Pradesh (Electrical Inspectorate)	To be applied after completion of Electrical erections
Approval	Government of Andhra Pradesh (Fire Services Department)	To be applied after completion of the Project
Drawing Approvals	Grama Panchayat	To be applied after getting the CFE



OTHER REGULATORY AND STATUTORY DISCLOSURES

Authority for the Issue

The shareholders of our Company have approved this Issue under section 81 (1A) of the Act by a Special Resolution at our Extra Ordinary General Meeting held on April 28, 2006.

Prohibition by SEBI

Our Company, our Directors, our Promoters, the Directors of our Promoter Companies or persons in control of our Promoter Companies, the group companies, companies promoted by or Promoters and companies or entities with which our Company's Directors are associated as directors / promoters / partners have not been prohibited from accessing or operating in the capital markets or restrained from buying, selling or dealing in securities under any order or direction passed by SEBI. The listing of any securities of our Company has never been refused at anytime by any of the stock exchanges in India. Our Company, our Promoters, their relatives, group companies and associate companies has, not been detained as willful defaulters by RBI/government authorities and there are no violations of securities laws committed by them in the past or pending against them.

Eligibility for the Issue

Our Company is eligible for the Issue in accordance with Clause 2.2.1 of the SEBI DIP Guidelines as explained under, with the eligibility criteria calculated in accordance with Restated Financial Statements:

- a) Our Company has net tangible assets of at least Rs. 30 Million in each of the preceding 3 full years

(Rs. In Millions)					
Particulars	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
	(12 Months)	(9 Months)	(12 Months)	(12 Months)	(12 Months)
Fixed Assets (Net)	418.86	484.32	518.35	618.73	619.5
Capital WIP	24.49	21.23	46.2	28.01	17.06
Current Assets, Loans & Advances	486.39	452.98	666.63	823.63	951.96
Trade Investments	3.45	2.95	2.94	4.09	4.05
Less: Current Liabilities & provisions	218.84	164.04	248.88	301.52	322.43
Net Tangible Assets	714.35	797.44	985.24	1172.94	1270.14
Monetary Assets	60.62	51.12	64.38	42.64	49.86

Net tangible assets are defined as the sum of fixed assets (including capital work in progress and excluding revaluation reserves, if any), trade investments, current assets (excluding deferred tax assets) less current liabilities (excluding deferred tax liabilities and secured as well as unsecured long term liabilities).

Monetary assets include cash on hand and bank balances.

- b) Our Company has a track record of distributable profits in terms of section 205 of the Companies Act, 1956, for at least three (3) out of immediately preceding five (5) years.



(Rs. In Millions)

Particulars	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
	(12 Months)	(9 Months)	(12 Months)	(12 Months)	(12 Months)
Net Profit after tax	59.21	23.28	72.25	82.58	85.07

- c) Our Company has a net worth of at least Rs. 10 Million in each of the preceding 3 full years (of 12 months each).

(Rs. In Millions)

Particulars	June 30, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
	(12 Months)	(9 Months)	(12 Months)	(12 Months)	(12 Months)
Equity Share Capital	20.50	20.50	41.00	41.00	41.00
Reserves & Surplus	372.84	323.81	366.28	439.53	515.25
Less: Misc. Exp	1.94	26.96	48.42	62.92	67.73
Net worth	391.40	317.35	358.86	417.61	488.52

- d) Our Company has not changed its name within the last one year. We have changed the constitution of our Company from a Private Limited Company to a Public Limited Company, vide fresh certificate of incorporation from the Registrar of Companies, Hyderabad, Andhra Pradesh dated November 2, 1994.
- e) Our Company shall ensure that the aggregate of the proposed issue and all previous issues made in the same financial year in terms of size (i.e. public issue by way of offer document + firm allotment + promoters' contribution through the offer document) does not exceed five (5) times our pre- issue net worth as per the audited balance sheet of the last financial year.

Further, if the number of allottees in the proposed Issue is less than 1,000 allottees, our Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 15 days after our Company becomes liable to pay the amount, our Company shall pay interest at the rate of 15% per annum for the delayed period.

Disclaimer Clauses

SEBI Disclaimer Clause

"IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THE OFFER DOCUMENT TO SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE OFFER DOCUMENT. THE BOOK RUNNING LEAD MANAGER, UTI SECURITIES LIMITED, HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE OFFER DOCUMENT ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH THE SEBI (DISCLOSURES AND INVESTOR PROTECTION) GUIDELINES IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.



IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE OFFER DOCUMENT, THE BOOK RUNNING LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGER, UTI SECURITIES LIMITED HAS FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED AUGUST 24, 2006 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992, WHICH READS AS FOLLOWS:

- I. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC., AND OTHER MATERIALS IN CONNECTION WITH THE FINALIZATION OF THE DRAFT RED HERRING PROSPECTUS PERTAINING TO THE SAID ISSUE.
- II. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY,

WE CONFIRM THAT:

- A. THE DRAFT RED HERRING PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;
- B. ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE, AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY THE SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND
- C. THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO INVESTMENT IN THE PROPOSED ISSUE.
- D. BESIDE US, ALL THE INTERMEDIARIES NAMED IN THE DRAFT RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT SUCH REGISTRATIONS ARE VALID TILL DATE.
- E. WE SHALL SATISFY OURSELVES ABOUT THE NET WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS.

THE FILING OF THE DRAFT RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 OR 68 OF THE COMPANIES ACT, 1956 OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI, FURTHER RESERVES THE RIGHT TO TAKE UP, AT ANY POINT OF TIME, WITH THE BOOK RUNNING LEAD MANAGER ANY IRREGULARITIES OR LAPSES IN THE OFFER DOCUMENT."

Disclaimer from the Issuer and the Book Running Lead Manager

Investors may note that SMS Pharamaceuticals Limited and UTI Securities Limited accept no responsibility for statements made other than in this Draft Red Herring Prospectus or in the



advertisement or any other material issued by or at the instance of the Issuer Company or Book Running Lead Manager and that any one, placing reliance on any other source of information would do so at their own risk.

The BRLM, UTI Securities Limited, do not accept any responsibility save to the limited extent as provided in terms of the Memorandum of Understanding entered into between our Company and the BRLM and the Underwriting Agreement to be entered into between our Company and the Underwriters.

All information will be made available by the Book Running Lead Manager, Underwriters, Syndicate members and our Company to the public and investors at large and no selective or additional information would be available for any section of the investors in any manner whatsoever including at road shows, presentations, in research or sales reports etc. We shall not be liable to the Bidders for any failure in downloading the Bids due to faults in any software/hardware system or otherwise.

The BRLM accepts no responsibility, save to the limited extent as provided in the Memorandum of Understanding dated August 24, 2006 entered into between the BRLM and our Company and the Underwriting Agreement to be entered into between the Underwriters and our Company.

Disclaimer in respect of Jurisdiction

This Issue is being made in India to persons resident in India (including Indian nationals resident in India who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorized to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), Trusts registered under the Societies Registration Act, 1860, as amended from time to time, or any other Trust law and who are authorized under their constitution to hold and invest in shares) and to NRIs, FIIs and Foreign Venture Capital Funds Registered with SEBI. This Draft Red Herring Prospectus does not, however, constitute an invitation to subscribe to shares issued hereby in any other jurisdiction to any person to whom it is unlawful to make an Issue or invitation in such jurisdiction. Any person into whose possession this Draft Red Herring Prospectus comes is required to inform himself or herself about, and to observe any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of appropriate court(s) in Andhra Pradesh only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Draft Red Herring Prospectus has been submitted for approval and has been filed with SEBI. Accordingly, the Equity Shares represented thereby may not be offered or sold, directly or indirectly, and this Draft Red Herring Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Draft Red Herring Prospectus nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of our Company since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

Disclaimer Clause of the Bombay Stock Exchange Limited

Bombay Stock Exchange Limited ("the Exchange") has given vide its letter dated [●] 2006 given permission to this Company to use the Exchange's name in this offer document as one of the stock exchanges on which this Company's securities are proposed to be listed. The Exchange has scrutinized this offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner:



- i. warrant, certify or endorse the correctness or completeness of any of the contents of this offer document; or
- ii. warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or
- iii. take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this Company;

And it should not for any reason be deemed or construed to mean that this offer document has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

Disclaimer Clause of National Stock Exchange of India Limited

As required, a copy of the Draft Red Herring Prospectus has been submitted to the National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has given vide its letter ref: [•] dated [•] 2006 permission to the Issuer to use the Exchange's name in this Offer Document as one of the stock exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinized the Offer Document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Offer Document has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Offer Document; nor does it warrant that Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Issuer, its promoters, its management or any scheme or project of the Issuer.

Every person who desires to apply for or otherwise acquire any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against NSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription or acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

Filing

A copy of this Draft Red Herring Prospectus has been filed with the Corporate Finance Department of SEBI at World Trade Center, 29th floor, Cuffe Parade, Mumbai - 400 005. A copy of the Red Herring Prospectus along with the documents required to be filed under section 60B of the Companies Act would be delivered for registration to the RoC, Hyderabad, Andhra Pradesh at Sultan Bazar atleast 3 (three) days before the issue opening date. The final Prospectus would be filed with the Corporate Finance Department of SEBI and the ROC at the respective aforesaid addresses upon closure of the issue and on finalization of the issue price.

Listing

Application has been made to the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited for permission to deal in and for an official quotation of our Equity Shares. Our existing Equity Shares are not listed on any Stock Exchanges in India.

BSE shall be the Designated Stock Exchange with which the basis of allotment will be finalized for the QIB, Non Institutional and Retail portion.



If the permission to deal in and for an official quotation of the Equity Shares is not granted by any of the stock exchanges, we shall forthwith repay, without interest, all moneys received from the applicants in pursuance of this Draft Red Herring Prospectus. If such money is not repaid within eight days after we become liable to repay it, i.e., from the date of refusal or within 70 days from the date of Bid/ Issue Closing Date, whichever is earlier, then we and all our directors jointly and severally shall, on and from expiry of eight days, be liable to repay the money, with interest at the rate of 15% per annum on application money, as prescribed under Section 73 of the Companies Act.

We shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at BSE and NSE are taken within seven working days of finalization of Basis of Allotment for the Issue.

Consents

Necessary Consents for the issue have been obtained from the following

1. Directors of our Company
2. Promoters of the Company
3. Bankers to our Company
4. Auditors to our Company
5. Book Running Lead Manager to the Issue
6. Legal Advisor to the Issue
7. Registrar to the Issue
8. Company Secretary
9. Compliance Officer
10. Syndicate Members
11. Underwriters
12. Escrow Collection Bankers to the Issue

The said consents would be filed along with a copy of this Draft Red Herring Prospectus with the RoC, Hyderabad, Andhra Pradesh as required under Sections 60 and 60B of the Companies Act, 1956 and such consents have not been withdrawn up to the time of delivery of this Draft Red Herring Prospectus, for registration with the RoC, Hyderabad, Andhra Pradesh.

Expert Opinion

Except as stated otherwise in this Draft Red Herring Prospectus, we have not obtained any expert opinion.

Public Issue Expenses

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertising expenses and listing fees. The estimated Issue expenses are as follows:

Rs. in Millions				
Sr. No	Particulars	Amount	% of total Issue Expenses	% of total Issue size
a)	Book Running Lead Manager fees	[●]	[●]	[●]
b)	Registrars fees	[●]	[●]	[●]
c)	Underwriting commission @ [●] %	[●]	[●]	[●]
d)	Legal Advisors fees	[●]	[●]	[●]
e)	Advertisement and Marketing expenses	[●]	[●]	[●]
f)	Brokerage and selling expenses	[●]	[●]	[●]
g)	Stock Exchange fees for providing bidding terminals	[●]	[●]	[●]
h)	Other Miscellaneous expenses	[●]	[●]	[●]
	Total	[●]	[●]	[●]



Fees Payable to the BRLM

The total fees payable to the BRLM will be as per the Memorandum of Understanding signed between us and the BRLM, UTI Securities Limited, a copy of which is available for inspection at our Registered Office and forms part of Material Contracts & Documents.

Fees Payable to the Registrar to the Issue

The fees payable to the Registrar to the Issue, Aarthi Consultants Private Limited, will be as per the Memorandum of Understanding signed with our Company, a copy of which is available for inspection at our Registered Office and forms part of Material Contracts & Documents.

The Registrar will be reimbursed for all relevant out-of-pocket expenses including such as cost of stationery, postage, stamp duty, communication expenses. Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allocation advice by registered post/ Speed Post. Refund Orders up to Rs. 1,500/- would be send under certificate of posting.

Underwriting Commission, Brokerage and Selling Commission

An underwriting commission not exceeding [●]% of the total amount underwritten is payable to the underwriters on the offer price of the Equity Shares offered through this Draft Red Herring Prospectus to the public for subscription and underwritten in the manner mentioned in this Draft Red Herring Prospectus.

Brokerage for the issue will be upto [●]% of the issue price of the Equity Shares, which would be paid by our Company on the basis of the allotments made against the applications bearing the stamp of a member of any recognized Stock Exchange in India in the 'Broker' column. Brokerage at the same rate will also be payable to the Bankers to the Issue in respect of the allotments made against applications procured by them provided the respective forms of application bear their respective stamp in the Broker column. In case of tampering or over-stamping of Brokers' / Agents' codes on the application form, our Company's decision to pay brokerage in this respect will be final and no further correspondence will be entertained in this matter.

Previous Public or Rights Issues in the last 5 years

Our Company has not made any public or rights issue of Equity Shares/Debentures in the last 5 years.

Previous Issue of Shares otherwise than for Cash

Our Company has not issued any Equity Shares for consideration other than cash except as detailed in the section entitled 'Capital Structure' in this Draft Red Herring Prospectus.

Commission or Brokerage on Previous Issues

Since this is the initial public offering of the Equity Shares, no sum has been paid or is payable as commission or brokerage for subscribing to or procuring for, or agreeing to procure subscription for any of the Equity Shares of our Company since its inception.

Details of capital issue made during last three years in regard to the issuer company and other listed companies under the same management within the meaning of section 370(1)(B) of the Companies Act, 1956.



There have been no capital issues during last 3 years by us and other listed companies under the same management within the meaning of S. 370(1)(B) of the Act at present or during the last three years.

Promise vis-à-vis Performance – Last Three issues

Our Company has not made any Public Issue.

Promise vis-à-vis Performance – Last One Issue of Group Companies

Bhagyanagar Castings Limited:

The company came out with a public issue in year 1997. Details on future projections were not given in these documents, hence information on promise vis a vis performance as far as projections is concerned is not available.

Outstanding debentures or bonds and redeemable preference shares and other instruments issued and outstanding as on the date of the Draft Red Herring Prospectus and terms of Issue

There are no outstanding debentures or bonds or redeemable preference shares and other instruments outstanding as on the date of filing of this Draft Red Herring Prospectus.

Stock Market Data

This being an initial public offering of our Company, the Equity Shares of our Company are not listed on any stock exchange.

Mechanism for redressal of Investor's grievance

Our Company has constituted a Shareholders Grievance Committee to look into the redressal of shareholder/ investor complaints such as Issue of duplicate/split/consolidated share certificates, allotment and listing of shares and review of cases for refusal of transfer/transmission of shares and debentures, complaints for non receipt of dividends etc. For further details on this committee, please refer under the head 'Corporate Governance' on page [●] of this Draft Red Herring Prospectus. To expedite the process of share transfer, our Company has appointed Aarthi Consultants Private Limited as the Registrar and Share Transfer Agents of our Company vide MoU dated August 22, 2006

Disposal of Investors' Grievances and Redressal Mechanism

We have appointed Aarthi Consultants Private Limited as the Registrar to the Issue, to handle the investor grievances in co-ordination with our Compliance officer. All grievances relating to the present issue may be addressed to the Registrar with a copy to the Compliance officer, giving full details such as name, address of the applicant, number of equity shares applied for, amount paid on application and bank and Branch. We will monitor the work of the Registrar to ensure that the investor grievances are settled expeditiously and satisfactorily.

A fortnightly status report of the complaints received and redressed by the Registrar to the Issue would be forwarded to us. We would also coordinate with the Registrar to the Issue in attending to the investors' grievances.



We assure that any complaints received, shall be disposed off as per the following schedule:

Sr. No	Nature of the Complaint	Time Taken
1.	Non-receipt of the refund	Within 7 days of receipt of complaint, subject to production of satisfactory evidence.
2.	Change of Address	Within 7 days of receipt of information.
3.	Any other complaint in relation to Public Issue	Within 7 days of receipt of complaint with all relevant details.

We have appointed Mr. Y Nagarjuna Rao, as the Compliance Officer who would directly liaise with SEBI with respect to implementation/compliance of various laws, rules, regulations and other directives issued by SEBI and matters related to investor complaints. The investors may contact the compliance officer in case of any pre issue/post issue related problems at the following address:

Mr. Y Nagarjuna Rao
SMS Pharmaceuticals Limited,
417, Nilgiri, Aditya Enclave,
Ameerpet, Hyderabad – 500 038
Phone: +91- 40 - 23746059/6469/8154
Fax: +91- 40 - 66364417
e-mail : ipo@smspharma.com

Changes in Auditors during the last three years and reasons thereof

We have appointed M/s P. Murali and Co. as Joint Statutory Auditors of our company along with our existing Auditors M/s Rambabu and Co. with effect from 11th December 2003.

Capitalization of Reserves or Profits during last five years

There has been no capitalization of reserves or profits during the last five years, except as stated in section titled “Capital Structure” on page no. [●] of this Draft Red Herring Prospectus.

Revaluation of Assets during the last five years

There has not been any revaluation of Assets during the last five years.



SECTION IX – ISSUE RELATED INFORMATION

TERMS OF THE ISSUE

The Equity Shares being offered are subject to the provisions of the Companies Act, SEBI (DIP) Guidelines, our Memorandum and Articles of Association, the terms of the Draft Red Herring Prospectus, the Red Herring Prospectus, the Prospectus, Bid cum Application Form, the Revision Form, the Confirmation of Allocation Note and other terms and conditions as may be incorporated in the allotment advices and other documents/certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, the Government of India, the Stock Exchanges, the RBI, RoC and/or other authorities, as in force on the date of the Issue and to the extent applicable.

Ranking of Equity Shares

The Equity Shares being offered shall be subject to the provisions of the Companies Act, our Memorandum and Articles of Association and shall rank pari-passu in all respects with the existing Equity Shares including in respect of the rights to receive dividend. The allottees will be entitled to dividend (including dividend), voting rights or any other corporate benefits, if any, declared by us after the date of Allotment.

Mode of Payment of Dividend

The declaration and payment of dividends will be recommended by our Board of Directors and our shareholders, in their discretion, and will depend on a number of factors, including but not limited to our earnings, capital requirements and overall financial condition. We shall pay dividends in cheque.

Face Value and Issue Price per Share

The Equity Shares having a face value of Rs. 10/- each are being offered in terms of this Draft Red Herring Prospectus at a price of Rs. [●]/- per Equity Share. The issue price will be determined by our Company in consultation with the BRLM on the basis of assessment of market demand for the equity shares offered by way of book building. At any given point of time there shall be only one denomination of the Equity Shares of our Company, subject to applicable laws.

Rights of the Equity Shareholders

Subject to applicable laws, rules, regulations and guidelines and the Articles of Association, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting rights, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offer for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed Public Limited Company under the Companies Act, the terms of the listing agreements with the Stock Exchange(s) and the Memorandum and Articles of Association our Company.

For a detailed description of the main provisions of the Articles of Association of our Company relating to voting rights, dividend, forfeiture and lien and/or consolidation/splitting, etc., see the



section entitled 'Description of Equity Shares and Terms of Articles of Association' beginning on page [●].

Market Lot and Trading Lot

In terms of Section 68B of the Companies Act, the Equity Shares shall be allotted only in dematerialized form. In terms of existing SEBI Guidelines, the trading in the Equity Shares shall only be in dematerialized form for all investors.

Since trading of the Equity Shares will be in dematerialized mode, the tradable lot is one Equity Share. Allocation and allotment of Equity Shares through this Offer will be done only in electronic form in multiples of 1 Equity Share subject to a minimum allotment of [●] Equity Shares to the successful bidders.

Nomination Facility to Investor

In accordance with Section 109A of the Companies Act, the sole or first Bidder, along with other joint Bidders, may nominate any one person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the equity share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to equity share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale of equity share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at our Registered Office or to the registrar and transfer agents of our Company.

In accordance with Section 109B of the Companies Act, any person who becomes a nominee by virtue of the provisions of Section 109A of the Companies Act, shall upon the production of such evidence as may be required by the Board, elect either:

- a) to register himself or herself as the holder of the equity shares; or
- b) to make such transfer of the equity shares, as the deceased holder could have made.

Further, the Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the equity shares, and if the notice is not complied with within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the equity shares, until the requirements of the notice have been complied with.

Since the allotment of Equity Shares in the Issue will be made only in dematerialized mode there is no need to make a separate nomination with our Company. Nominations registered with respective depository participant of the applicant would prevail. If the investor wants to change the nomination, they are requested to inform their respective depository participant.

Minimum Subscription

If our Company does not receive the minimum subscription of 90% of the Net Issue to the Public including devolvement of underwriters, if any, within 60 days from the Bid/Issue Closing Date, we shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days, we and every director of our Company who is an officer in default, becomes liable to repay the amount with interest as per Section 73 of the Companies Act. If the number of allottees



in the proposed Issue is less than 1,000 allottees, we shall forthwith refund the entire subscription amount received. If there is a delay beyond 15 days after we become liable to pay the amount, we shall pay interest at the rate of 15% per annum for the delayed period.

Arrangements for Disposal of Odd Lots

Since, our Equity Shares will be traded in dematerialized form only; the marketable lot is one (1) Equity Share. Therefore, there is no possibility of any odd lots.

Restrictions, if any on Transfer and Transmission of Equity Shares

The restrictions, if any, on the Transfer and Transmission of our Equity Shares are contained in the section titled 'Description of Equity Shares and Terms of Articles of Association' beginning on page [•]

Compliance with SEBI Guidelines

Our Company shall comply with all requirements of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 as amended from time to time. Our Company shall comply with all disclosure norms as specified by SEBI from time to time.

Withdrawal of the Issue

Our Company in consultation with the BRLM reserves the right not to proceed with the issue any time after the Bid/Issue opening date but before allotment without assigning any reason thereof.



ISSUE STRUCTURE

This Issue is being made through a 100% Book Building Process. The present Issue of 2,977,000 Equity Shares of Rs.10/- each to the public at a price of Rs. [●] for cash aggregates to Rs. [●] millions. The issue would constitute 29.77% of the fully diluted post issue paid up capital of SMS Pharmaceuticals Limited. The details of the issue structure are as follows:

	QIBs	Non Institutional Bidders	Retail Individual Bidders
Number of Equity Shares*	Not more than 1,488,500 Equity Shares	Not less than 446,550 Equity Shares	Not less than 1,041,950 Equity Shares
Percentage of Issue Size available for allocation	Not more than 50% of the Net Issue to the public (of which 5% shall be reserved for Mutual Funds) or Net Issue to the public less allocation to Non-Institutional Bidders and Retail Individual Bidders.* Mutual Funds participating in the 5% reservation in the QIB Portion will also be eligible for allocation in the remaining QIB Portion. The Unsubscribed portion, if any, in the Mutual Fund reservation will be available to QIBs.	Not less than 15% of the Net issue to the public or Net Issue size less allocation to QIBs and retail individual bidders.*	Not less than 35% of the Net issue to the public or Net Issue size less allocation to QIBs and non institutional bidders.*
Basis of Allocation if respective category is oversubscribed	Proportionate	Proportionate	Proportionate
Minimum Bid	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000/- and in multiples of [●] Equity Shares.	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000/- and in multiples of [●] Equity Shares.	[●] Equity Shares and in multiples of [●] Equity Shares.
Maximum Bid	Not exceeding the size of the issue, subject to regulations as applicable to the Bidder	Not exceeding the size of the issue, subject to regulations as applicable to the Bidder	Such number of Equity Shares per retail individual investor so as to ensure that the Bid amount does not exceed Rs. 100,000/- which has to be in multiples of [●] Equity Shares.
Mode of Allotment	Dematerialized mode	Dematerialized mode	Dematerialized mode
Trading Lot/ Market lot	One (1) Equity Share	One (1) Equity Share	One (1) Equity Share



Who can apply**	Public financial institutions, as specified in Section 4A of the Companies Act, scheduled commercial banks, mutual funds, foreign institutional investor registered with SEBI, multilateral and bilateral development financial institutions, Venture Capital Funds registered with SEBI, foreign Venture capital investors registered with SEBI, State Industrial Development Corporations, insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million in accordance with applicable law.	Companies, Corporate Bodies, Scientific Institutions, Societies, Trusts, Resident Indian individuals, HUF (in the name of Karta), and NRIs (applying for an amount exceeding Rs. 100,000/-)	Individuals (including NRIs and HUFs in the name of Karta) applying for Equity Shares such that the Bid Amount does not exceed Rs. 100,000 in value.
Terms of payment	Margin Amount applicable to QIB Bidders at the time of submission of Bid cum Application form to the members of the syndicate	Margin Amount applicable to Non Institutional Bidders at the time of submission of Bid cum Application form to the members of the syndicate	Margin Amount applicable to Retail Individual Bidders at the time of submission of Bid cum Application form to the members of the syndicate
Margin Amount	10% of the Bid amount in respect of bids placed by QIB bidder on bidding	Full amount on bidding	Full amount on bidding

* Subject to valid bids being received at or above the Issue Price. Under-subscription, if any, in any category, would be allowed to be met with spill over inter-se from any other categories, at the discretion of our Company in consultation with the BRLM subject to applicable provisions of SEBI Guidelines.

** In case the Bid Cum Application Form is submitted in joint names, the investors should ensure that the demat account is also held in the same joint names and in the same sequence in which they appear in the Bid Cum Application Form.

Note: Equity Shares being offered through this Draft Red Herring Prospectus can be applied for in dematerialized form only.



ISSUE PROCEDURE

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein not more than 50% of the Net Issue to the Public shall be available for allocation to Qualified Institutional Buyers on a proportionate basis (of which 5% shall be allocated for Mutual Funds). Further, not less than 15% of the Net Issue to the Public shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Issue to the Public shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price.

Bidders are required to submit their Bids through the Syndicate. We, in consultation with the BRLM, reserve the right to reject any Bid procured from QIBs, by any or all members of the Syndicate, for reasons to be recorded in writing provided that such rejection shall be made at the time of acceptance of the Bid and the reasons thereof shall be disclosed to the bidders. In case of Non-Institutional Bidders and Retail Individual Bidders, our Company would have a right to reject the Bids only on technical grounds.

Investors should note that Equity Shares would be allotted to all successful Bidders only in dematerialized form. Bidders will not have the option of getting Allotment of the Equity Shares in physical form. The Equity Shares on Allotment shall be traded only in the dematerialized segment of the Stock Exchanges.

Illustration of Book Building and Price Discovery Process (Investors should note that this illustration is solely for the purpose of illustration and is not specific to the Issue)

The Bidders can bid at any price within the Price Band. For instance, assume a Price Band of Rs. 60/- to Rs. 72/- per Equity Share, Issue size of 5,400 Equity Shares and receipt of five Bids from the Bidders. A graphical representation of the consolidated demand and price would be made available at the bidding centres during the Bidding/Issue Period. The illustrative book as set forth below shows the demand for the Equity Shares of the Company at various prices and is collated from Bids from various investors.

Bid Quantity	Bid Price (Rs.)	Cumulative Quantity	Subscription
1,500	72	1,500	27.78%
3,000	69	4,500	83.33%
4,500	66	9,000	166.67%
6,000	63	15,000	277.78%
7,500	60	22,500	416.67%

The price discovery is a function of demand at various prices. The highest price at which our Company is able to issue the desired quantity of Equity Shares is the price at which the book cuts off, i.e., Rs.66 in the above example. Our Company, in consultation with the BRLM, will finalize the Issue Price at or below such cut off price, i.e., at or below Rs.66. All Bids at or above this Issue Price and cut-off Bids are valid Bids and are considered for allocation in the respective category.

Bid-cum-Application Form

Bidders shall only use the specified Bid-cum-Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Draft Red Herring Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid-cum-Application Form and such options shall not be considered as multiple Bids. Upon the allotment of Equity Shares, dispatch of the CAN and filing of the Prospectus with the RoC, the Bid-cum-Application Form



shall be considered as the Application Form. Upon completing and submitting the Bid-cum-Application Form to a member of the Syndicate, the Bidder is deemed to have authorized us to make the necessary changes in this Draft Red Herring Prospectus and the Bid-cum-Application Form as would be required for filing the Prospectus with the RoC and as would be required by the RoC after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed colour of the Bid-cum-Application Form for various categories is as follows:

<u>Category</u>	<u>Colour of Bid-cum-Application Form</u>
Indian Public including QIBs, Non-Institutional Bidders or : NRIs applying on a non-repatriation basis	White
Non-residents, NRIs or FIIs applying on a repatriation basis :	Blue

Who Can Bid?

1. Persons eligible to invest under all applicable laws, rules, regulations and guidelines;
2. Indian nationals resident in India who are majors, in single or joint names (not more than three);
3. HUFs, in the individual name of the Karta. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: "Name of Sole or First Bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the Karta". Bids by HUFs would be considered at par with those from individuals;
4. Companies, corporate bodies and societies registered under the applicable laws in India and authorized to invest in Equity shares;
5. Indian mutual funds registered with SEBI;
6. Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI regulations and SEBI Guidelines and Regulations, as applicable);
7. Venture capital funds registered with SEBI;
8. Foreign venture capital investors registered with SEBI;
9. State Industrial Development Corporations;
10. Insurance companies registered with the Insurance Regulatory and Development Authority;
11. Provident funds with minimum corpus of Rs. 25 crores and who are authorized under their constitution to invest in Equity Shares;
12. Pension funds with minimum corpus of Rs. 25 crores and who are authorized under their constitution to invest in Equity Shares;
13. Multilateral and bilateral development financial institutions;
14. Trusts/Societies registered under the Societies Registration Act, 1860, as amended, or under any other law relating to Trusts/Societies and who are authorized under their constitution to hold and invest in equity shares;
15. Eligible Non-residents including NRIs and FIIs on a repatriation/non- repatriation basis subject to applicable local laws; and
16. Scientific and/or industrial research organizations authorized under their constitution to invest in equity shares.

As per existing regulations, Overseas Corporate Bodies (OCBs) cannot bid/participate in this issue.



Note: The BRLM and the Syndicate Members shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligation.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law, rules, regulations, guidelines and approvals.

Application by Mutual Funds

In accordance with the current regulations, no mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments by index funds or sector or industry specific funds. No mutual fund under all its schemes should own more than 10% of any company's paid-up capital carrying voting rights.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

Application by FIIs

In accordance with the current regulations, the Issue of Equity Shares to a single FII should not exceed 10% of the post-Issue paid-up capital of our Company. In respect of an FII investing in the Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital or 5% of the total issued capital of our Company in case such sub-account is a foreign corporate or an individual.

Application by SEBI registered Venture Capital Funds and Foreign Venture Capital Funds

The SEBI (Venture Capital Funds) Regulations, 1996 and the SEBI (Foreign Venture Capital Investors) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed 33.33% of the corpus of the venture capital fund/foreign venture capital investor. The aggregate holdings of venture capital funds and foreign venture capital investors registered with SEBI could, however, go up to 100% of our Company's paid-up equity capital.

Application by NRI

- Individual NRI Bidders can obtain the Bid-cum-Application Forms from our registered office or from members of the Syndicate or the Registrars to the Issue.
- NRI Bidders may please note that only such Bids as are accompanied by payment in free foreign exchange shall be considered for allotment. NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the Bid cum Application form meant for Resident Indians (white in colour)

The above information is given for the benefit of the Bidders. The Bidders are advised to make to their own enquiries about the limits applicable to them. Our Company and the BRLM do not accept any responsibility for the completeness and accuracy of the information stated hereinabove. Our Company and the BRLM are not liable for any amendments or modification or changes in applicable laws or regulations, which may happen after the date of the Draft Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that the number of Equity Shares bid for do not exceed the applicable limits under laws or regulations.



Maximum and Minimum Bid size

- a) **For Retail Individual Bidders:** The Bid must be for minimum [●] Equity Shares and in multiples of [●] Equity Shares thereafter subject to maximum bid amount of Rs. 100,000/-. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs. 100,000/-. In case the Bid Amount is over Rs. 100,000/- due to revision in bid or revision of the Price Band or on exercise of Cut-off option, the Bid would be considered for allotment under the Non-Institutional Bidders category. The Cut-off option is an option given only to the Retail Individual Bidders indicating their agreement to bid and purchase at the final Issue Price as determined at the end of the Book Building Process.
- b) **For Non-Institutional Bidders and QIB Bidders:** The Bid must be for a minimum of such number of Equity Shares such that the Bid Amount payable by the Bidder exceeds Rs. 100,000/- and in multiples of [●] Equity Shares thereafter. A Bid cannot be submitted for more than the size of the Issue. However, the maximum Bid by a QIB should not exceed the investment limits prescribed for them by applicable laws. **Under existing SEBI guidelines, a QIB Bidder cannot withdraw its Bid after the Bid/Issue Closing Date.**

In case of revision in Bids, the Non-Institutional Bidders who are individuals have to ensure that the Bid Amount is greater than Rs. 100,000/- for being considered for allocation in the Non Institutional Portion. In case the Bid Amount reduces to Rs. 100,000/- or less due to a revision in Bids or revision of Price Band, the same would be considered for allocation under the Retail Portion. Non Institutional Bidders and QIBs are not allowed to Bid at 'Cut-off'.

Information for the Bidders

1. We will file the Red Herring Prospectus with the Registrar of Companies, at least 3 (three) days before the Bid/Issue Opening Date.
2. The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid-cum-Application Form to their potential investors.
3. Any investor (who is eligible to invest in the Equity Shares) desirous of obtaining a copy of the Red Herring Prospectus along with the Bid-cum- Application Form can obtain the same from our registered office or from the BRLM, or from a member of the Syndicate.
4. Investors who are interested in subscribing for our Company's Equity Shares should approach any of the BRLM or Syndicate Member or their authorized agent(s) to register their Bid.
5. The Bids should be submitted on the prescribed Bid-cum-Application Form only. Bid-cum-Application Forms should bear the stamp of the members of the Syndicate. Bid-cum-Application Forms, which do not bear the stamp of the members of the Syndicate, will be rejected.

Method and Process of bidding

- a) We, with the BRLM, shall declare the Bid/Issue Opening Date, Bid/Issue Closing Date and the Price Band at the time of filing of the Red Herring Prospectus with RoC and also publish the same in three widely circulated newspapers (one each in English, Hindi and Telugu, which is also the regional newspaper). This advertisement, subject to the provisions of Section 66 of the Companies Act shall be in the format prescribed in Schedule XX-A of the SEBI DIP Guidelines, as amended vide SEBI Circular No. SEBI/CFD/DIL/DIP/14/2005/25/1 dated January 25, 2005. The Members of the Syndicate



shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement.

- b) Investors who are interested in subscribing for our Equity Shares should approach any of the members of the Syndicate or their authorized agent(s) to register their Bid.
- c) The Bidding Period shall be a minimum of 3 working (three) days and not exceed 7 working (seven) days. In case the Price Band is revised, the revised Price Band and the Bidding Period will be informed to the Stock Exchanges and published in two national newspapers (one each in English and Hindi) and one regional newspaper and the Bidding Period may be extended, if required, by an additional 3 working (three) days, subject to the total Bidding Period not exceeding 10 working (ten) days.
- d) During the Bidding Period, the Bidders may approach the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients/investors who place orders through them and shall have the right to vet the Bids.
- e) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details refer to the paragraph entitled 'Bids at Different Price Levels' on page [●]) within the Price Band and specify the demand (i.e., the number of Equity Shares bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid price, will become automatically invalid.
- f) The Bidder cannot bid on another Bid cum Application Form after Bids on one Bid cum Application Form have been submitted to any member of the Syndicate. Submission of a second Bid cum Application Form to either the same or to another member of the Syndicate will be treated as multiple bidding and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed in the paragraph 'Build up of the Book and Revision of Bids' on page [●].
- g) The members of the Syndicate will enter each option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, ("TRS"), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRS's for each Bid cum application Form. **It is the responsibility of the bidder to obtain the TRS from the Syndicate Member.**
- h) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the paragraph 'Terms of Payment and Payment into the Escrow Collection Account' on page [●].

Bids at Different Price Levels

- a) The Price Band has been fixed at Rs. [●] to Rs. [●] per Equity Share of Rs. 10 each, Rs. [●] being the Floor Price and Rs. [●] being the Cap Price. The Bidders can bid at any price within the Price Band, in multiples of Re 1.
- b) In accordance with SEBI Guidelines, our Company in consultation with the BRLM in accordance with this clause, without the prior approval of, or intimation, to the Bidders, can revise the Price Band. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of



the Price Band can move up or down to the extent of 20% of the floor of the Price Band. In case of a revision in the Price Band, the Issue will be kept open for a further period of three working days after the revision of the Price Band, subject to the total Bidding Period not exceeding ten working days.

- c) In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall be suitable revised, if necessary such that the minimum application is in the range of Rs. 5,000/- to Rs. 7,000/-.
- d) Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by informing the Stock Exchanges, by issuing a public notice in two national newspapers (one each in English and Hindi) and one regional newspaper in Telugu, and also indicating the change on the relevant websites of the BRLM and the terminals of the members of the Syndicate.
- e) We, in consultation with the BRLM, can finalize the Issue Price within the Price Band without the prior approval of, or intimation to, the Bidders.
- f) The Bidders can bid at any price within the Price Band. The Bidder has to bid for the desired number of Equity Shares at a specific price. **Retail Individual Bidders applying for a maximum bid in any of the bidding options not exceeding Rs. 100,000/- may bid at 'Cut-off'. However, bidding at 'Cut-off' is prohibited for QIB or Non Institutional Bidders and such Bids from QIBs and Non-Institutional Bidders shall be rejected.**
- g) Retail Individual Bidders, who bid at the 'Cut-Off' agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders bidding at 'cut-off' shall deposit the Bid Amount based on the Cap Price in the Escrow Account. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders (i.e. the total number of Equity Shares allocated in the Issue multiplied by the Issue Price), Retail Individual Bidders shall receive the refund of the excess amounts from the Refund Account.
- h) In case of an upward revision in the Price Band announced as above, Retail Individual Bidders, who had bid at 'cut-off' Price could either
 - i) revise their Bid
 - ii) make additional payment based on the cap of the revised Price Band, with the members of the Syndicate to whom the original Bid was submitted. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs. 100,000/-, the Bid will be considered for allocation under the Non Institutional category in terms of this Draft Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to revision, the number of Equity Shares bid for shall be adjusted for the purpose of allocation, such that no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut off
- i) In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders who have bid at Cut Off price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the Refund Account

Option to Subscribe

Equity Shares being offered through the Draft Red Herring Prospectus can be applied for in dematerialized form only.



Escrow Mechanism

Our Company and members of the Syndicate shall open Escrow Accounts with one or more Escrow Collection Banks in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the bid. Cheques or demand drafts received for the full Bid amount from Bidders in a certain category would be deposited in the Escrow Account for the Issue. The Escrow Collection Banks will act in terms of the Draft Red Herring Prospectus and an Escrow Agreement. The monies in the Escrow Account of our Company shall be maintained by the Escrow Collection Bank(s) for and on behalf of the Bidders. The Escrow Collection Bank(s) shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Banks shall transfer an amount equivalent to Issue proceeds (Final Issue price multiplied by the number of Equity Shares allotted through this issue) from the Escrow Account to the Public Issue Account with the Bankers to the Issue as per the terms of the Escrow Agreement with our Company and the balance amount shall be transferred to the Refund Account, from where payment of refund to the Bidders shall be made.

The Bidders may note that the Escrow Mechanism is not prescribed by SEBI and the same has been established as an arrangement between our Company, the Syndicate, Escrow Collection Bank(s) and the Registrars to the Issue to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Collection Account

In case of Non-institutional Bidders and Retail Individual Bidders, each Bidder shall, with the submission of the Bid-cum- Application Form draw a cheque or demand draft for the maximum amount of his/ her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (For further details, see 'Issue Procedure - Payment Instructions' on page [●]) and submit the same to the members of the Syndicate to whom the Bid is being submitted. In case of QIB Bidders, the Margin Amount has to be submitted along with the Bid to the members of the Syndicate. Bid-cum-Application Forms accompanied by cash and stock invests shall not be accepted. The maximum Bid price has to be paid at the time of submission of the Bid-cum-Application Form based on the highest bidding option of the Bidder.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders till the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds from the Escrow Account, as per the terms of the Escrow Agreement, into the Public Issue Account and Refund Account. Not later than 15 days from the Bid / Issue Closing Date, our Company will instruct the Refund Banker to refund all amount payable to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for allocation to the Bidders, failing which our Company shall pay interest @15% per annum for any delay beyond the period mentioned above.

Each category of Bidders i.e. QIBs, Non-Institutional Bidders and Retail Individual Bidders would be required to pay their Margin Amount at the time of the submission of the Bid-cum-Application Form. The Margin Amount payable by each category of Bidders is mentioned under the heading 'Issue Structure' on page [●] and shall be uniform across all the bidders in the same category. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Issue Price and the Margin amount paid at the time of Bidding, shall be payable by the Bidder no later than the Pay-in-Date, which shall be a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the Registrar to the Issue. If the payment is not made favouring the Escrow Account within the time stipulated above, the



Bid of the Bidder is liable to be cancelled. However, if the members of the Syndicate do not waive such payment, the full amount of payment has to be made at the time of submission of the Bid-Cum-Application Form.

Electronic Registration of Bids

- a) The members of the Syndicate will register the Bids using the on-line facilities of NSE and BSE. There will be at least one BSE / NSE on-line connectivity to each city where a Stock Exchange is located in India and the Bids are accepted.
- b) NSE and BSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the members of the Syndicate and their authorized agents during the Bidding Period. Members of the Syndicate can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for book building on a regular basis. On the Bid/Issue Closing Date, the Syndicate Member shall upload the Bids till such time as may be permitted by the BSE and NSE.
- c) BSE and NSE will aggregate demand and price for Bids registered on their electronic facilities on a regular basis and display graphically the consolidated demand at various price levels. This information can be assessed on BSE's website at www.bseindia.com or on NSE's website at www.nseindia.com.
- d) At the time of registering each Bid, the members of the Syndicate shall enter the following details of the investor in the on-line system:
 - Name of the investor (Investors should ensure that the name given in the bid cum application form is exactly the same as the Name in which the Depository Account is held. In case the Bid cum Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form.)
 - Investor Category – Individual, Corporate, NRI, FII, Mutual Fund, etc
 - Numbers of Equity Shares bid for
 - Bid price
 - Bid Amount
 - Bid-cum-Application Form number
 - Whether payment is made upon submission of Bid-cum-Application Form
 - Margin Amount and
 - Depository Participant Identification Number and Client Identification Number of the demat account of the Bidder.
- e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. It is the Bidder's responsibility to obtain the TRS from the members of the Syndicate. The registration of the Bid by the members of the Syndicate does not guarantee that the Equity Shares shall be allocated either by the members of the Syndicate or our Company.
- f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.
- g) Consequently, all or any of the members of the Syndicate may reject QIB Bids provided the rejection is at the time of receipt of such Bids and the reason for rejection of the Bid is communicated to the Bidder at the time of such rejection. In case of Non-Institutional Bidders, Retail Individual Bidders, Bids would not be rejected except on the technical grounds listed on Page [●].



- h) It is to be distinctly understood that the permission given by BSE and NSE to use their network and software of the online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by our Company or BRLM are cleared or approved by BSE and NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of our Company, its promoters, its management or any scheme or project of our Company.
- i) It is also to be distinctly understood that the approval given by BSE and NSE for the use of their online IPO system should not in any way be deemed or construed that this Draft Red Herring Prospectus has been cleared or approved by the BSE and NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Draft Red Herring Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the BSE and NSE.

Build Up of the Book and Revision of Bids

- a) Bids registered by various Bidders through the members of the Syndicate shall be electronically transmitted to the NSE or BSE mainframe on a regular basis.
- b) The book gets build up at various price levels. This information will be available with the BRLM on a regular basis.
- c) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the price band using the printed Revision Form, which is a part of the Bid-cum-Application Form.
- d) Revisions can be made in both the desired numbers of Equity Shares and the bid price by using the Revision Form. Apart from mentioning the revised options in the revision form, the Bidder must also mention the details of all the options in his or her Bid-cum-Application Form or earlier Revision Form. For example, if a Bidder has bid for three options in the Bid-cum-Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate.
- e) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) of the Bid, the Bidders will have to use the services of the same members of the Syndicate through whom he or she had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- f) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Draft Red Herring Prospectus. In case of QIBs, the members of the Syndicate shall collect the payments in the form of cheque or demand draft for the incremental amount in the QIB Margin Amount, if any, to be paid on account of the upward revision of the Bid at the time of one or more revisions by the QIB Bidders.
- g) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate. It is the responsibility of the Bidder to



request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.

- h) Only Bids that are uploaded on the online IPO system of the NSE and BSE shall be considered for allocation/allotment. In case of discrepancy of data between NSE or BSE and members of the Syndicate, the decision of the BRLM based on the physical records of Bid cum Application forms shall be final and binding to all concerned.

Price Discovery and Allocation

- a) After the Bid/Issue Closing Date, the BRLM will analyze the demand generated at various price levels and discuss pricing strategy with us.
- b) Our Company, in consultation with the BRLM shall finalise the “Issue Price”, the number of Equity Shares to be allotted in each category of Bidders.
- c) The allocation for QIBs for up to 50% of the Net Issue to public, of which 5% shall be reserved for Mutual Funds, would be on a proportionate basis, subject to valid bids being received at or above the Issue Price in the manner as described in the section titled ‘Basis of Allotment’. The allocation to Non-Institutional Bidders and Retail Individual Bidders of not less than 15% and 35% of the Net Issue to public, respectively, would be on proportionate basis, in the manner specified in the SEBI Guidelines, in consultation with Designated Stock Exchange, subject to valid Bids being received at or above the Issue Price.
- d) Under subscription, if any, in QIBs, Non-Institutional and Retail categories would be allowed to be met with spill over from any of the other categories at the discretion of our Company and the BRLM. However, if the aggregate demand by Mutual Funds is less than 74,425 Equity Shares, the balance Equity Shares from the portion specifically available for allocation to Mutual Funds in the QIB Portion will first be added to the QIB Portion and be allocated proportionately to the QIB Bidders in proportion to their Bids.
- e) Allocation to NRIs, FIIs, Foreign Venture Capital Funds registered with SEBI applying on repatriation basis will be subject to the terms and conditions stipulated by the FIPB and RBI while granting permission for Issue/ Allocation of Equity Shares to them.
- f) The BRLM, in consultation with us, shall notify the Syndicate Members of the Issue Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.
- g) **Our Company in consultation with the BRLM, reserves the right to cancel the Issue any time after the Bid/Issue Opening Date but before allocation, without assigning reasons whatsoever.**
- h) In terms of SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bid after Bid/Issue closing date.
- i) The allotment details shall be uploaded on the website of the Registrar to the Issue.

Signing of Underwriting Agreement and RoC Filing

1. Our Company, the BRLM and the Syndicate Members shall enter into an Underwriting Agreement on finalization of the Issue Price and allocation(s) to the Bidders.



2. After signing the Underwriting Agreement, we will update and file the updated Red Herring Prospectus with RoC, which then would be termed 'Prospectus'. The Prospectus would have details of the Issue Price, Issue Size, underwriting arrangements and would be complete in all material respects.

Filing of the Prospectus with the RoC

A copy of the Red Herring Prospectus, along with the documents required to be filed under Section 60B of the Companies Act, would be delivered for registration to the RoC, Hyderabad, Andhra Pradesh. A copy of the Prospectus required to be filed under Section 60 of the Companies Act would be delivered for registration to the RoC, Hyderabad, Andhra Pradesh

Announcement of Pre-Issue Advertisement

Subject to Section 66 of the Companies Act, our Company shall after receiving final observations, if any, on the Draft Red Herring Prospectus from SEBI, publish an advertisement, in the form prescribed by the SEBI DIP Guidelines in an English national daily with wide circulation, one Hindi National newspaper, and a regional language newspaper in Telugu with wide circulation at Andhra Pradesh.

Advertisement regarding Issue Price and Prospectus

We will issue a statutory advertisement at the time of/after filing of Prospectus with RoC. This advertisement, in addition to the information that has to be set out in the statutory advertisement, shall indicate the Issue Price. Any material updates between the date of Red Herring Prospectus and the date of Prospectus will be included in such statutory advertisement.

Issuance of Intimation Note and Confirmation of Allocation Note to bidders, other than QIBs

The Registrar to the Issue shall send Confirmation of Allocation Note/Allotment Advice-cum-Refund Orders to all the Bidders intimating the number of shares allotted and the amount refunded.

Issuance of Intimation Note and Confirmation of Allocation Note to QIB bidders

After the Bid/Issue Closing Date, an electronic book will be prepared by the Registrar on the basis of Bids uploaded on the BSE/ NSE system. Based on the electronic book, if so required, QIBs may be sent an Intimation Note, indicating the number of Equity Shares that may be allocated to them and the additional margin required which shall be payable by the QIBs within the pay-in date specified therein. This Intimation Note is subject to the Basis of Allotment, which will be approved by the Designated Stock Exchange and reflected in the reconciled book prepared by the Registrar. Subject to SEBI Guidelines, certain Bid applications may be rejected due to technical reasons, non-receipt of funds, cancellation of cheques, cheque bouncing, incorrect details, etc., and these rejected applications will be reflected in the reconciled book and basis of allotment as approved by the Designated Stock Exchange. In addition, there are foreign investment limitations applicable to our Company, which may result in a change (including a potential decrease) in the number of Equity Shares being finally allotted to non-resident investors (including FIIs). As a result, a CAN may be sent to QIBs and the allocation of Equity Shares in such CAN may be different from that specified in the earlier Intimation Note. QIBs should note that they may be required to pay additional amounts, if any, by the Pay-in Date specified in the CAN, for any increased allocation of Equity Shares. The CAN will constitute the valid, binding and irrevocable contract for the QIB for all the Equity Shares allocated to such QIB



Designated Date and Transfer of Funds to Public Issue Account

- a) Our Company will ensure that the allotment of Equity Shares is done within 15 days of the Bid/Issue Closing Date. After the funds are transferred from the Escrow Account to the Public Issue Account on the Designated Date, we would allot the Equity Shares to the allottees and would ensure the credit to the successful Bidders depository account within two working days from the date of finalization of the basis of allotment with the Designated Stock Exchange. In case, our Company fails to make allotment or transfer within 15 days of the Bid/Issue Closing Date, interest would be paid to the investors at the rate of 15% per annum.
- b) In accordance with the SEBI DIP Guidelines, Equity Shares will be issued and allotment shall be made only in the dematerialized form to the allottees. Allottees will have the option to re-materialize the Equity Shares, if they so desire, as per the provisions of the Companies Act and the Depositories Act.

Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be allocated to them pursuant to this Issue.

General Instructions

Do's:

- a) Check if you are eligible to apply;
- b) Complete the bid-cum-application form after reading all the instructions carefully;
- c) Ensure that the details about Depository Participant and beneficiary account are correct as Equity Shares will be allotted in the dematerialized form only;
- d) Ensure that the Demographic Details (as defined herein below) are updated, true and correct in all respects.
- e) Ensure that the Bids are submitted at the Bidding Centres only on forms bearing stamp of the Syndicate Member;
- f) Ensure that you have been given a TRS for all your Bid options;
- g) Submit Revised Bids to the same Syndicate Member through whom the original Bid was placed and obtain a revised TRS;
- h) Ensure that the Bid is within the Price Band;
- i) Investors must ensure that the name given in the bid cum application form is exactly the same as the name in which the Depository Account is held. In case, the Bid cum Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form.
- j) Ensure that you mention your Permanent Account Number (PAN) allotted under the I.T. Act where the maximum Bid for Equity Shares by a Bidder is for a total value of Rs. 50,000/- or more. The copy of the PAN card or the PAN allotment letter should be submitted with the application form; and



- k) If you have mentioned “Applied For” or “Not Applicable” in the Bid cum Application Form in the section dealing with PAN number, ensure that you submit Form 60 or 61, as the case may be, together with permissible documents as address proof.

Don'ts:

- a) Do not Bid if you are prohibited from doing so under the law of your local jurisdiction;
- b) Do not Bid for lower than minimum Bid size;
- c) Do not Bid or revise the Bid to less than the lower end of the Price Band or higher than the higher end of the Price Band;
- d) Do not Bid on another Bid cum Application Form after you have submitted a Bid to the members of the Syndicate;
- e) Do not pay bid amount in cash, through stock invest, by money order or by postal order.
- f) Do not provide your GIR number instead of PAN number;
- g) Do not Bid at cut off price (for QIB Bidders and Non-Institutional Bidders for whom the Bid Amount exceeds Rs. 100,000/-);
- h) Do not fill up the Bid cum Application Form for an amount that exceeds the investment limit or maximum number of Equity Shares that can be held by a Bidder under the applicable law.
- i) Do not send Bid cum Application Form by post; instead submit the same to a member of the Syndicate only.
- j) Do not submit the Bid without the QIB Margin Amount, in case of a Bid by a QIB.

Instructions for completing the Bid-Cum-Application Form

Bidders can obtain Bid-cum-Application Forms and / or Revision Forms from our corporate office, or from the Syndicate Members or from the BRLM.

Bids and Revisions of Bids

Bids and revisions of Bids must be:

- (a) Made only in the prescribed Bid-cum-Application Form or Revision Form, as applicable (white colour for Resident Indians and blue colour for NRI or FII or foreign venture capital fund registered with SEBI applying on repatriation basis).
- (b) Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid-cum-Application Form or in the Revision Form. Incomplete Bid-cum-Application Forms or Revision Forms are liable to be rejected.
- (c) The Bids from the Retail Individual Bidders must be for a minimum of [●] Equity Shares and in multiples of [●] thereafter subject to a maximum of Rs. 100,000/-.



- (d) For non-institutional and QIB Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid amount exceeds Rs. 100,000/- and in multiples of [•] Equity Shares thereafter. Bids cannot be made for more than the size of the Issue. Bidders are advised to ensure that a single bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable laws or regulations.
- (e) In single name or in joint names (not more than three and in the same order as their Depository Participant details).
- (f) Thumb impressions and signatures other than in the languages specified in the Eighth Schedule in the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

Bidder's Bank Account Details

Bidders should note that on the basis of name of the Bidders, Depository Participants Name, Depository Participants Identification Number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository, the Bidder's bank account details. **These bank account details would be printed on the Refund Orders/Refund Advices, if any, to be sent to the Bidders and for giving refund through any of the mode namely ECS or Direct Credit or RTGS or NEFT. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the Depository Participant.** Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidder's sole risk and neither the BRLM nor our Company shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN THE DEMATERIALIZED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT'S IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID-CUM-APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID-CUM-APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, occupation, bank account details for printing on refund orders / refund advices or and for giving refund through any of the mode namely ECS or Direct Credit or RTGS or NEFT (hereinafter referred to as Demographic Details). Hence, Bidders should carefully fill in their Depository Account details in the Bid-cum-Application Form.

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ refund advice / ECS credit for refunds/ Direct Credit of refund/CANs/Allocation Advice and printing of Bank particulars on the refund order / refund advice, and the Registrar would not use the Demographic Details given by Bidders in the Bid-cum-Application Form for these purposes.



Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants.

By signing the Bid-cum-Application Form, Bidder would have deemed to authorize the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic details as available on its records.

Refund Advice / Refund Orders/ Allocation Advice/ CANs would be mailed at address of the first Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/ refund advice/ allocation advice/ CANs may get delayed if the same once sent to the address obtained from the depositories are returned undelivered. In such an event, the address and other details given by the Bidders in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk.

In case no corresponding record is available with the Depositories that match three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected. Investors should note that the refund cheques/allocation advice/refund advice would be overprinted with details of bank account as per the details received from the depository.

Bids under Power of Attorney

In case of bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the Power of Attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the Memorandum & Article of Association and/or Bye Laws must be lodged along with the Bid cum Application Form. Failing this, our Company reserves the right to accept or reject any bid in whole or in part.

In case of Bids made pursuant to a Power of Attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be submitted with the Bid-cum-Application Form. Failing this, our Company reserves the right to accept or reject any Bid in whole or in part.

Bid by Mutual Funds

In case of Bids made by mutual fund registered with SEBI, Venture Capital Fund registered with SEBI and Foreign Venture Capital investor registered with SEBI, a certified copy of their SEBI registration certificate must be submitted with the Bid cum Application Form. Failing this, our Company reserves the right to accept or reject any Bid in whole or in part.

Bids by Insurance Companies

In case of Bids made by insurance companies registered with Insurance Regulatory and Development Authority, a certified copy of the certificate of registration issued by Insurance Regulatory and Development Authority must be submitted with the Bid-cum-Application Form. Failing this, our Company reserves the right to accept or reject any Bid in whole or in part.

Bids by Provident Funds

In case of Bids made by provident fund with the minimum corpus of Rs. 250 millions and pension fund with the minimum corpus of Rs. 250 millions, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged with the Bid-cum-Application Form. Failing this, our Company reserves the right to accept or reject any Bid in whole or in part.



We, in our absolute discretion, reserve the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid-cum-Application Form, subject to such terms and conditions as our Company/BRLM may deem fit.

Bids by NRIs, FIIs, Foreign Venture Capital Funds registered with SEBI on a repatriation basis

NRI, FIIs and Foreign Venture Capital funds Bidders to comply with the following:

- Individual NRI Bidders can obtain the Bid-cum-Application Forms from our registered office or from members of the Syndicate or the Registrars to the Issue.
- NRI Bidders may please note that only such Bids as are accompanied by payment in free foreign exchange shall be considered for allotment. NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the Bid cum Application form meant for Resident Indians (white in colour).

Bids and Revision to Bids must be made:

- On the Bid cum Application Form or Revision Form, as applicable and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- In a single name or joint names (not more than three)
- **By NRIs:** For a minimum of [•] Equity Shares and in multiples of [•] thereafter subject to a maximum Bid amount of Rs. 100,000/- for the Bid to be considered as part of the Retail Portion. Bids for Bid Amount more than Rs. 100,000/- would be considered under Non Institutional Category for the purposes of allocation. For further details see 'Maximum and Minimum Bid Size' on page [•].
- **By FIIs:** For a minimum of [•] Equity Shares and in multiples of [•] Equity Shares thereafter so that the Bid Amount exceeds Rs. 100,000/-. For further details see section titled 'Maximum and Minimum Bid Size' on page [•].
- In the names of individuals, or in the names of FIIs but not in the names of minors, OCBs, firms or partnerships, foreign nationals (excluding NRIs) or their nominees.
- Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and/or commission. In case of Bidders who remit money through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post/speed post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid-cum-Application Form. We will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

It is to be distinctly understood that there is no reservation for Non Residents, NRIs, FIIs and Foreign Venture Capital Funds and all Non Residents, NRI, FII and Foreign Venture Capital Funds applicants will be treated on the same basis with other categories for the purpose of allocation.



Payment Instructions

We along with BRLM and Syndicate Member(s) shall open an Escrow Account of our Company with the Escrow Collection Banks for the collection of the Bid Amounts payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

Payment into Escrow Account to the Issue

1. The applicable Margin Amount for Non Institutional Bidders and Retail Individual Bidders is equal to 100% whereas for QIBs it is 10% and while submitting the Bid cum Application Form, shall be drawn as a payment instrument for the Bid Amount in favour of the Escrow Account and submitted to the members of the Syndicate.
2. In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the Equity Shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account of our Company within the period specified in the Intimation Note/CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLM.
3. The payment instruments for payment into the Escrow Account of our Company should be drawn in favour of:
 - i. In case of Resident Bidders : **Escrow Account – SMS Pharma Public Issue**
 - ii. In case of Non Resident Bidders : **Escrow Account – SMS Pharma Public Issue – NR**
 - iii. In case of Resident QIB Bidders : **Escrow Account – SMS Pharma Public Issue – QIB – R**
 - iv. In case of Non Resident QIB Bidders : **Escrow Account – SMS Pharma Public Issue – QIB – NR**
4. In case of Bids by NRIs applying on repatriation basis, the payments must be made through Indian Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) accounts, maintained with banks authorized to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of a Non-Resident Ordinary (NRO) Account of a Non-Resident bidder bidding on a repatriation basis. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting an NRE or FCNR Account.
5. Payment will not be accepted out of a Non Resident Ordinary (NRO) Account of a Non Resident bidder bidding on a repatriation basis.
6. In case of Bids by FIIs, the payment should be made out of funds held in a Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting the Special Rupee Account.



7. Where a Bidder has been allocated a lesser number of Equity Shares than what the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Refund Account of our Company.
8. The monies deposited in the Escrow Account of our Company will be held for the benefit of the Bidders till the Designated Date.
9. On the Designated Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account of our Company as per the terms of the Escrow Agreement into the Public Issue Account with the Bankers to the Issue and Refund Account with the Refund Bankers.
10. On the Designated Date and no later than 15 days from the Bid/Issue Closing Date, the Refund Banker shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding, if any, after adjusting for allocation to the Bidders.

Payments should be made by cheque, or demand drafts drawn on any Bank (including a Co-operative Bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheque/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/Stockinvest/ Money Orders/ Postal Orders will not be accepted.

Payment by Stockinvest

In terms of Reserve Bank of India Circular No. DBOD No. FSC BC 42/24.47.00/2003-2004 dated November 05, 2003, the option to use the stockinvest instrument in lieu of cheques or bank drafts for payment of Bid money has been withdrawn. Hence, payment through stockinvest will not be accepted.

Submission of Bid-cum-Application Form

All Bid-cum-Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the members of the Syndicate at the time of submission of the Bid. Each member of the Syndicate may at its sole discretion waive the requirement of payment at the time of submission of the Bid-cum-Application Form and Revision Form. However, for QIB Bidders, the members of the Syndicate member shall collect the Margin Amount.

No separate receipts shall be issued for the money payable on the submission of Bid-cum-Application Form or Revision Form. However, the collection centre of the members of the Syndicate will acknowledge the receipt of the Bid cum Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid-cum-Application Form for the records of the Bidder.

Other Instructions

Joint Bids in the case of Individuals

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the Bidder whose name appears first in the Bid-cum-Application Form or Revision Form ("First Bidder"). All communications will be addressed to the First Bidder and will be dispatched to his or her address.



Multiple Bids

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids in single or joint names will be deemed to be multiple bids if the sole and/or first bidder is one and the same.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made. The applications made by the asset management companies or custodians of a Mutual Fund shall clearly indicate the name of the concerned scheme for which application is being made.

We reserve the right to reject, in their absolute discretion, all or any multiple Bids in any or all categories.

Permanent Account Number (PAN)

Where Bid(s) is/are for Rs. 50,000 or more, the Bidder or in the case of a Bid in joint names, each of the Bidders, should mention his/her Permanent Account Number (PAN) allotted under the I.T. Act. The copy of the PAN card or PAN allotment letter is required to be submitted with the application form. Applications without this information and documents will be considered incomplete and are liable to be rejected. **It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground.** In case the Sole/First Bidder and Joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention "Not Applicable" and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should mention "Applied for" in the Bid cum Application Form. Further, where the Bidder(s) has mentioned "Applied for" or "Not Applicable", the Sole/First Bidder and each of the Joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) Ration Card (b) Passport (c) Driving License (d) Identity Card issued by any institution (e) Copy of the electricity bill or telephone bill showing residential address (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g) Any other documentary evidence in support of address given in the declaration.

It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 01, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61 as the case may be.

Unique Identification Number – MAPIN

With effect from July 1, 2005, SEBI has decided to suspend all fresh registrations for obtaining Unique Identification Number (MAPIN) and the requirement to quote MAPIN under MAPIN Regulations/Circulars vide its circular MAPIN/Circular-13/2005.



However, in a recent press release dated December 30, 2005, SEBI has approved certain policy decisions and has now decided to resume registrations for obtaining UINs in a phased manner. The press release states that the cut off limit for obtaining UIN has been raised from the existing limit of trade order value of Rs. 100,000/- to Rs. 500,000/- or more. The limit will be reduced progressively. For trade order value of less than Rs. 500,000/- an option will be available to investors to obtain either the PAN or UIN. These changes are, however, not effective as of the date of the Draft Red Herring Prospectus as SEBI has stated in the press release that the changes will be implemented only after necessary amendments are made to the SEBI MAPIN regulations.

Right to Reject Bids

Our Company, in consultation with the BRLM, reserves the right to reject any Bid procured from QIBs, by any or all members of the Syndicate for reasons to be recorded in writing provided that such rejection shall be made at the time of acceptance of the Bid and the reasons thereof shall be disclosed to the Bidders. In case of Non-Institutional Bidders and Retail Individual Bidders our Company, we would have a right to reject the Bids only on technical grounds. Consequent refunds shall be made by Cheque/Pay Order/Demand Draft/ECS/Direct Credit/RTGS/NEFT, as the case may be, and will be sent to the bidder's address at the bidder's risk.

Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected on technical grounds, including the following:-

1. Amount paid doesn't tally with the amount payable for the highest value of Equity Shares bid for;
2. Age of First Bidder not given;
3. In case of partnership firms Equity Shares may be registered in the names of the individual partners and no firm as such shall be entitled to apply;
4. Bids by persons not competent to contract under the Indian Contract Act, 1872, including minors, insane persons
5. PAN photocopy/PAN communication/ Form 60 or Form 61 declaration along with documentary evidence in support of address given in the declaration, not given if Bid is for Rs. 50,000 or more;
6. GIR Number given instead of PAN Number;
7. Bids for lower number of Equity Shares than specified for that category of investors;
8. Bids at a price less than the lower end of the Price Band;
9. Bids at a price more than the higher end of the Price Band;
10. Bids at cut-off price by Non-Institutional and QIB Bidders;
11. Bids for number of Equity Shares, which are not in multiples of [●];
12. Category not ticked;
13. Multiple bids as defined in this Draft Red Herring Prospectus;
14. In case of Bid under power of attorney or by limited companies, corporate, trust etc., relevant documents are not submitted;
15. Bids accompanied by Stockinvest/money order/ postal order/ cash;
16. Bids not duly signed by the sole /joint Bidders;
17. Bid-cum-Application Form does not have the stamp of the BRLM/Syndicate Member;
18. Bid-cum-Application Form does not have Bidder's depository account details;
19. Bid-cum-Application Forms are not submitted by the Bidders within the time prescribed as per the Bid-cum-Application Form, Bid/Issue Opening Date advertisement and this Draft



Red Herring Prospectus and as per the instructions in this Draft Red Herring Prospectus and the Bid-cum-Application Form; or

20. Bids for amounts greater than the maximum permissible amounts prescribed by the regulations;
21. In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the depository participant's identity (DP ID) and the beneficiary's identity;
22. Bids by OCBs;
23. Bids by US persons other than "qualified institutional buyers" as defined in Rule 144A of the Securities Act;
24. Bids by NRIs not disclosing their residential status;
25. Any other reason which the BRLM or our Company deem necessary.

Equity Shares in Dematerialized Form with NSDL or CDSL

As per the provisions of Section 68B of the Companies Act, the Equity Shares in this Issue shall be allotted only in a dematerialized form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two tripartite agreements have been signed among our Company, the Depositories and the Registrar:

1. An Agreement dated February 1, 2005 among NSDL, our Company and Aarthi Consultants Private Limited;
2. An Agreement dated June 6, 2005 among CDSL, our Company and Aarthi Consultants Private Limited.

All bidders can seek allotment only in dematerialized mode. Bids from any investor without relevant details of his or her depository account are liable to be rejected. All Bids from any Bidder without the following details of his or her depository account are liable to be rejected:

1. A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of NSDL or CDSL prior to making the Bid.
2. The Bidder must necessarily fill in the details (including the beneficiary account number and Depository Participant's Identification number) appearing in the Bid cum Application Form or Revision Form.
3. Equity Shares allotted to a Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder.
4. Names in the Bid-cum-Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the depository account of the Bidder(s).
5. Non-transferable allocation advice or refund orders will be directly sent to the Bidder by the Registrar to the Issue.
6. If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid-cum-Application Form or Revision Form, it is liable to be rejected.
7. The Bidder is responsible for the correctness of his or her demographic details given in the Bid-cum-Application Form vis-à-vis those with his/her Depository Participant.



8. Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL or CDSL. BSE and NSE, where Equity Shares are proposed to be listed are connected to NSDL and CDSL.
9. The trading of our Equity Shares would only be in dematerialized form for all investors in the demat segment of BSE and NSE.
10. Investors are advised to instruct their Depository Participants to accept the Equity Shares that may be allocated to them, pursuant to the issue.

Communications

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid-cum-Application Form number, Bidders Depository account details, number of Equity Shares applied for, date of Bid-cum-Application Form, name and address of the member of the Syndicate where the Bid was submitted and cheque or draft number and issuing bank thereof.

Our Company has appointed Mr. Y. Nagarjuna Rao as the Compliance Officer for the purpose of this IPO. The Compliance Officer can be contacted at **SMS PHARMACEUTICALS LIMITED**, 417, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad – 500 038, Tel: +91-040-23746059/6469/8154 Fax: +91-040-66364417, e-mail : ipo@smspharma.com

The Investors can contact the Compliance Officer or the Registrar to the Issue in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary account, refund orders, etc.

Disposal of Applications and Application Money

We shall ensure dispatch of allotment advice and/or refund orders/refund advice (in case refunds made through ECS/ Direct Credit, RTGS, NEFT) as the case may be giving credit to the Beneficiary Account of the bidders with their respective Depository Participant and submission of the allotment and listing documents to the Stock Exchanges within two working days of finalization of the basis of allotment of Equity Shares.

The mode of dispatch of refunds shall be as under:

- a) In case of applicants residing at any of the centers specified by SEBI viz. Ahmedabad, Bangalore, Bhuvaneshwar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram – refunds shall be credited through electronic transfer of funds by using ECS (Electronic Clearing Service), Direct Credit, RTGS (Real Time Gross Settlement) or NEFT (National Electronic Funds Transfer);
- b) In case of applicants residing at places other than those specified in (a) above and where the value of refund order is Rs.1,500/- or more, refund orders will be dispatched to the applicants by registered post or speed post and where the value is less than Rs. 1,500/- refund orders will be dispatched under certificate of posting at the sole or First Bidder's sole risk(subject however to postal rules);
- c) In case of any category of applicants specified by the SEBI – crediting of refunds to the applicants in any other electronic manner permissible under the banking laws for the time being in force which is permitted by the Board from time to time.



We shall use our best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges, where the Equity Shares are proposed to be listed are taken within seven working days of finalization of the basis of allotment.

In accordance with the Companies Act, the requirements of the stock exchanges and SEBI Guidelines, our Company, further undertakes that:

- Allotment of Equity Shares shall be made only in dematerialized form within 15 days of the Bid/Issue Closing Date;
- Our Company shall, within 15 days of the Bid/Issue Closing Date, ensure giving instruction in respect of refunds to the clearing system or dispatch the refund orders as the case may be; and
- Our Company shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment/transfer is not made, refund orders are not dispatched or refund instructions have not been given to the clearing system in the manner disclosed above and/or demat credits are not made to bidders within the 15 day time prescribed above.

Our Company will provide adequate funds required to the Registrar to the Issue for refunds to unsuccessful applicants or allotment advice. Refunds if, not made by ECS, Direct Credit, RTGS, NEFT will be made through cheques, pay orders or demand drafts drawn on a bank appointed by us as a refund banker and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.

Where refunds are made through electronic transfer of funds, a suitable communication will be sent to the bidders within 15 days of closure of the issue, giving details of the Bank where refund will be credited along with amount and expected date of electronic credit of refund.

The bank account details for ECS, Direct Credit, RTGS, National Electronic Funds Transfer (NEFT) credit will be directly taken from the depositories' database and hence bidders are required to ensure that bank details including the nine digit MICR code (Magnetic Ink Character Recognition) maintained at the depository level are updated and correct.

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68(A) of the Companies Act, 1956, which is reproduced below:

"Any person who:

- a) makes in a fictitious name, an application to a Company for acquiring or subscribing for, any shares therein, or
- b) otherwise induces a Company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name; shall be punishable with imprisonment for a term which may extend to five years."

Interest on Refund of Excess Bid Amount

We shall pay interest at the rate of 15% per annum on the excess Bid Amount received by us if refund orders are not dispatched within 15 days from the Bid/Issue Closing Date as per the Guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No.



F/8/S/79 dated July 31, 1983, as amended by their letter No. F/14/SE/85 dated September 27, 1985, addressed to the stock exchanges, and as further modified by SEBI's Clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.

BASIS OF ALLOTMENT

I) For Retail Individual Bidders

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all the successful Retail individual Bidders will be made at the Issue Price.
- The Net Issue size less allocation to Non-Institutional Bidders and QIBs shall be available for allocation to Retail Individual Bidders who have bid in the Issue at a price, which is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 1,041,950 Equity Shares at or above the Issue Price, full allocation shall be made to the Retail Individual Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than 1,041,950 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares (being the minimum bid quantity) or in multiples of one Equity Share. For the method of proportionate basis of allocation, refer below.

II) For Non Institutional Bidders

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Net Issue size less allocation to QIBs and Retail Portion shall be available for allocation to Non-Institutional Bidders who have bid in the Issue at a price, which is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 446,550 Equity Shares at or above the Issue Price, full allocation shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 446,550 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares (being the minimum bid quantity) or in multiples of one Equity Share. For the method of proportionate basis of allotment refer below.

III) For QIB Bidders

- Bids received from the QIB bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all the QIB Bidders will be made at the issue price.
- The QIB portion shall be available for allocation to QIB bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- Allotment shall be undertaken in the following manner:



- (a) In the first instance allocation to Mutual Funds for 5% of the QIB Portion shall be determined as follows:
 - i. In the event that Mutual Fund Bids exceed 5% of the QIB portion, allocation to Mutual Funds shall be done on a proportionate basis for 5% of the QIB portion.
 - ii. In the event that the aggregate demand for Mutual Funds is less than 5% of the QIB portion then all Mutual Funds shall get full allotment to the extent of valid bids received above the Issue Price.
 - iii. Equity shares remaining unsubscribed, if any, not allocated to Mutual Funds shall be available to all QIB Bidders as set out in (b) below;
- (b) In the second instance allocation to all QIB's shall be determined as follows:
 - i. In the event that the oversubscription in the QIB portion, all QIB bidders who have submitted bids above the Issue Price shall be allotted Equity Shares on a proportionate basis for up to 95% of the QIB portion.
 - ii. Mutual Funds, who have received allocation as per (a) above, for less than the number of Equity Shares Bid for by them, are eligible to receive Equity Share on a proportionate basis along with other QIB Bidders.
 - iii. Under-subscription below 5% of the QIB portion, if any, from Mutual Funds, would be included for allocation to the remaining QIB bidders on a proportionate basis.
- (c) The aggregate allocation to QIB Bidders shall be up to 1,488,500 Equity Shares.

Procedure and Time Schedule for Allotment and Issue of Certificates

The Issue will be conducted through a "100% book building process" pursuant to which the Underwriters will accept bids for the Equity Shares during the Bidding Period. The Bidding Period will commence on [●] and expire on [●]. Following the expiration of the Bidding Period, our Company, in consultation with the BRLM, will determine the issue price, and, in consultation with the BRLM, the basis of allocation and entitlement to allotment based on the bids received and subject to the confirmation by the Stock Exchanges. Successful bidders will be provided with a confirmation of their allocation and will be required to pay any unpaid amount for the Equity Shares within a prescribed time. The Prospectus will be filed with Registrar of Companies, Hyderabad, Andhra Pradesh and SEBI, Mumbai. SEBI Guidelines require our Company to complete the allotment to successful bidders within 15 days from the Bid/Issue Closing Date. The Equity Shares will then be credited and allotted to the investors' demat accounts maintained with the relevant depository participant. Upon approval by the Stock Exchanges, the Equity Shares will be listed and traded on BSE and NSE.

Method of Proportionate Allotment

In the event of the Issue being over-subscribed, we shall finalize the basis of allotment to Retail Individual Bidders and Non-Institutional Bidders and QIBs in consultation with the Designated Stock Exchange. The Executive Director/Managing Director of the Bombay Stock Exchange Limited (Designated Stock Exchange) along with the post Issue Lead Merchant Banker and the Registrars to the Issue shall be responsible to ensure that the basis of allotment is finalized in a fair and proper manner.

The allotment shall be made in marketable lots, on a proportional basis as explained below:

- (a) Bidders will be categorized according to the number of Equity Shares applied for,



- (b) The total number of Equity Shares to be allotted to each category as a whole shall be arrived at on a proportionate basis, which is the total number of Equity Shares applied for in that category (number of Bidders in the category multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.
- (c) Number of Equity Shares to be Allotted to the successful Bidders will be arrived at on a proportionate basis, which is total number of Equity Shares applied for by each Bidder in that category multiplied by the inverse of the over-subscription ratio, in that category subject to a minimum allotment of [•] Equity Shares. The allotment lot shall be the same as the minimum application lot irrespective of any revisions to the price band.
- (d) In all Bids where the proportionate allotment is less than [•] Equity Shares per Bidder, the Allotment shall be made as follows:
- Each successful Bidder shall be allotted a minimum of [•] Equity Shares; and
 - The successful Bidders out of the total Bidders for a category shall be determined by draw of lots in a manner such that the total number of Equity Shares allotted in that category is equal to the number of Equity Shares calculated in accordance with (b) above.
- (e) If the proportionate Allotment to a Bidder is a number that is more than [•] but is not a multiple of one (which is the marketable lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If the decimal is less than 0.5, it would be rounded off to the lower whole number. All Bidders in such categories would be allotted Equity Shares arrived at after such rounding off.
- (f) If the Equity Shares allocated on a proportionate basis to any category are more than the Equity Shares allotted to the Bidders in that category, the remaining Equity Shares available for allotment shall be first adjusted against any other category, where the allotted Equity Shares are not sufficient for proportionate allotment to the successful Bidders in that category. The balance Equity Shares, if any, remaining after such adjustment will be added to the category comprising Bidders applying for minimum number of Equity Shares.

Letters of Allotment or Refund Orders

We shall give credit to the beneficiary account with Depository Participants and submit the documents pertaining to the allotment to the Stock Exchanges within two working days of finalization of the basis of allotment of Equity Shares. Applicants residing at 15 centers where clearing houses are managed by the Reserve Bank of India (RBI) will get refunds through Direct Credit or RTGS or NEFT, or ECS as applicable (subject to availability of all information for crediting through electronic mode). In case of other applicants, the Bank shall ensure dispatch of refund orders, if any, of value up to Rs. 1,500/- by 'Under Certificate of Posting', and shall dispatch refund orders above Rs. 1,500/-, if any, by registered post or speed post, except for Bidders who have opted to receive refunds through the electronic facility. Applicants to whom refunds are made through Electronic transfer of funds will be send a letter through ordinary post intimating them about the mode of credit of refund within 15 working days of closure of Issue. We shall ensure dispatch of refund orders, if any, by 'Under Certificate of Posting' or registered post or speed post or Electronic Clearing Service or Direct Credit or RTGS or NEFT, as applicable, only at the sole or First Bidder's sole risk within 15 days of the Bid Closing Date/Issue Closing Date, and adequate funds for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the Issue by the issuer.



In accordance with the Companies Act, the requirements of the Stock Exchange and the SEBI DIP Guidelines, we undertake that:

- Allotment of Equity Shares will be made only in dematerialized form within 15 days from the Bid/Issue Closing Date;
- Dispatch of refund orders will be done within 15 days from the Bid/Issue Closing Date;
- We shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment is not made, refund orders are not despatched and/or demat credits are not made to investors within the 15 day time prescribed above as per the guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No.F/8/S/79 dated July 31, 1983, as amended by their letter No.F/14/SE/85 dated September 27, 1985, addressed to the Stock Exchanges and as further modified by SEBI's clarification XXI dated October 27, 1997, with respect to the SEBI DIP Guidelines.

We will provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Issue. Refunds will be made by cheques, pay-orders or demand drafts drawn on a bank appointed by us, as a Refund Bank and payable at par at places where Bids are received, except for Bidders who have opted to receive refunds through the Direct Credit/RTGS/NEFT/ECS facility. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

Dispatch of Refund Orders

Please refer to the heading 'Disposal of Applications and Application Money' on page [●].

Interest in case of delay in Dispatch of Allotment Letters/Refund Orders or delay in Refund instructions

Our Company agrees that allotment of securities offered to the public shall be made not later than 15 days of the closure of public issue. Our Company further agrees that it shall pay interest @15% per annum if the allotment letters/ refund orders have not been dispatched to the applicants or if, in a case where the refund or portion thereof is made in electronic manner, the refund instructions have not been given to the clearing system in the disclosed manner within 15 days from the Bid/Issue closing date.

Bid/Issue Program

Bid/Issue opens on: _____	Bid/Issue closes on: _____
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Bids and any revision in Bids shall be accepted **only between 10.00 a.m. and 3.00 p.m.** (Indian Standard Time) during the Bidding Period as mentioned above at the bidding centres mentioned on the Bid cum Application Form except that on the Bid/Issue Closing Date, the Bids shall be accepted **only between 10 a.m. and 1 p.m.** (Indian Standard Time) or such time as may be extended by us in consultation with BRLM and uploaded till such time as permitted by the BSE and the NSE on the Bid/Issue Closing Date.

Investors please note that as per letter no. List/smd/sm/2006 dated July 3, 2006 and letter no. NSE/IPO/25101-6 dated July 6, 2006 issued by BSE and NSE respectively, bids and any revision in Bids shall not be accepted on Saturdays and holidays as declared by the Exchanges.



We reserve the right to revise the Price Band during the Bidding Period in accordance with SEBI Guidelines. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price and can move up or down to the extent of 20% of the floor of the price band.

In case of revision in the Price Band, the Bidding/Issue Period will be extended for three additional days after revision of Price Band subject to the Bidding/Issue Period not exceeding 10 working days. Any revision in the Price Band and the revised Bidding/Issue Period, if applicable, will be widely disseminated by notification to the BSE and the NSE, by issuing a public notice in two national newspapers one in English and other in Hindi, being the regional newspaper and also by indicating the change on the web sites and at the terminals of the members of the Syndicate.

Undertaking by our Company

We undertake as follows:

1. That the complaints received in respect of the Issue shall be attended to by our Company expeditiously and satisfactorily;
2. That all steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the Equity Shares are to be listed are taken within 7 working days of finalization of the basis of allotment;
3. That funds required for making refunds to unsuccessful applicants as per the mode(s) disclosed shall be made available to the Registrar to the issue by our Company.
 - a. that where refunds are made through electronic transfer of funds, a suitable communication shall be sent to the applicant within 15 days of closure of the issue, as the case may be, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund.)
4. that refund orders to the non-resident Indians shall be dispatched within specified time.

Utilization of Issue Proceeds

The Board of Directors of our Company certifies that:

- a. All monies received out of this issue of shares to public shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of section 73 of the Act;
- b. Details of all monies utilized out of the issue referred to in sub-item (a) shall be disclosed under an appropriate separate head in the Balance Sheet of our Company indicating the purpose for which such monies had been utilized;
- c. Details of all unutilized monies out of the issue of shares, if any, referred to in sub-item (a) shall be disclosed under an appropriate separate head in the Balance Sheet of our Company indicating the form in which such unutilized monies have been invested;



RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in Indian securities is regulated through the industrial policy of Government of India, or the Industrial Policy and FEMA. While the Industrial Policy prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made.

Under the Industrial Policy, unless specifically restricted, foreign investment is freely permitted in all sectors of Indian economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. The government bodies responsible for granting foreign investment approvals are the Foreign Investment Promotion Board of Government of India (FIPB) and the RBI. **As per current foreign investment policies, FDI in the Pharmaceutical sector is allowed up to 100% under the automatic route.**

RBI, vide its circular A.P.(DIR Series) Circular No. 53 dated December 17, 2003, permitted FIIs to subscribe to shares of an Indian Company in the public issue without prior approval of RBI, so long as the price of equity shares to be issued is not less than the price at which the equity shares are issued to residents.

Investment by Non-Resident Indians

A variety of special facilities for making investments in India in shares of Indian Companies is available to individuals of Indian nationality or origin residing outside India ("NRIs"). These facilities permit NRIs to make portfolio investments in shares and other securities of Indian companies on a basis not generally available to other foreign investors. Under the portfolio investment scheme, NRIs are permitted to purchase and sell equity shares of our Company through a registered broker on the stock exchanges. NRIs collectively should not own more than 10% of the post-issue paid up capital of our Company. No single NRI may own more than 5% of the post-issue paid up capital of our Company. NRI investment in foreign exchange is now fully repatriable whereas investments made in Indian Rupees through rupee accounts remains non repatriable.

Investment by Foreign Institutional Investors

Foreign Institutional Investors ("FIIs") including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated, institutional portfolio managers can invest in all the securities traded on the primary and secondary markets in India. FIIs are required to obtain an initial registration from the SEBI and a general permission from the RBI to engage in transactions regulated under FEMA. FIIs must also comply with the provisions of the SEBI (Foreign Institutional Investors) Regulations, 1995, as amended from time to time. The initial registration and the RBI's general permission together enable the registered FII to buy (subject to the ownership restrictions discussed below) and sell freely securities issued by Indian companies, to realise capital gains or investments made through the initial amount invested in India, to subscribe or renounce rights issues for shares, to appoint a domestic custodian for custody of investments held and to repatriate the capital, capital gains, dividends, income received by way of interest and any compensation received towards sale or renunciation of rights issues of shares.

Ownership restrictions of FIIs

Under the portfolio investment scheme, the overall issue of equity shares to FIIs on a repatriation basis should not exceed 24% of post-issue paid-up capital of our Company. However, the limit of 24% can be raised up to the permitted sectoral cap for that Company after approval of the board



of directors and shareholders of our Company. The issue of equity shares to a single FII should not exceed 10% of the post-issue paid-up capital of our Company. In respect of an FII investing in equity shares of a Company on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital of that Company.

Registration of Equity Shares under US Laws

The Equity Shares have not been and will not be registered under the U.S. Securities Act 1933, as amended or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. persons" (as defined in Regulation S of the U.S. Securities Act, 1933), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares will be offered and sold only (i) in the United States to "qualified institutional buyers", as defined in Rule 144A of the Securities Act, and (ii) outside the United States in compliance with Regulation S and the applicable laws of the jurisdiction where those offers and sales occur.

The above information is given for the benefit of the Bidders and neither our Company nor the BRLM are liable for any changes in the regulations after the date of this Draft Red Herring Prospectus.



SECTION X - DESCRIPTION OF EQUITY SHARES AND TERMS OF ARTICLES OF ASSOCIATION

MAIN PROVISIONS OF ARTICLES OF ASSOCIATION

Capitalised terms used in this section have the meaning that has been given to such terms in the Articles of Association of the Company.

Pursuant to Schedule II of the Companies Act and the SEBI Guidelines, the main provisions of the Articles of Association of the Company are detailed below:

PROHIBITION OF INVESTMENT OF FUNDS IN COMPANY'S OWN SHARES

Article 3.: Except as provided by Section 77 of the Act, no part of funds of the Company shall be employed in the purchase of shares of the Company and the Company shall, not give, whether directly or indirectly and whether by means of a loan guarantee, the provision of security or otherwise any financial assistance for purpose of or in connection with the purchase of subscription made or to be made by any person for any shares in the Company.

BOARD'S RIGHT IN CONVERT UN-ISSUED SHARES, IF ANY

Article 5.A): The Board may, at its discretion to convert the un-issued equity shares and Issue into preference shares or Redeemable Preference Shares vice versa and the Company may Issue any part or parts of the un-issued shares upon such terms and conditions and with such rights and privileges annexed thereto as the Company subject to the provisions of section 86 of the Act, things fit, and in particular may such shares with such preferential or qualified right to dividends and in the distribution of the assets of the Company as the Company may subject to the aforesaid section determine in its general meetings.

Article 5.B): The Board as its discretion to Issue any portion of the Preference shares not already issued as redeemable preference shares which are the option of the Company liable to be redeemed and subject to the provisions of Section 80 of the Act on such terms as to dividends, preferential payment of return of the amount paid up thereon and as to conditions and terms of redemption as the Company may determine in its general meeting.

DEMATERIALISATION OF SECURITIES

Article 8A: Definitions: A for the purpose of this Article:

1) "Beneficial Owner" means a person whose name(s) is recorded as such with a Depository.

"Depository" means a Company formed and registered under the Companies Act, 1956, and which has been granted a certificate of registration under sub-section (1A) of Section 12 of the Securities and Exchange Board of India Act, 1992.

"Security" means such security as may be specified by the SEBI from time to time.

Dematerialisation of Securities

2) Notwithstanding anything contained in these Articles, the Company shall be entitled to dematerialise its securities in a dematerialised form pursuant to the Depositories Act, 1996.



Options for Investors

- 3) Every person subscribing to securities offered by the Company shall have the option to receive security certificates or to hold the securities with a depository. Such a person who is the beneficial owner of the securities can at any time opt out of a depository, if permitted by the law, in respect of any security in the manner provided by the Depositories Act, and the Company shall, in the manner and within the time prescribed, Issue to the beneficial owner the required Certificates of Securities. If a person opts to hold his security with a depository, the Company shall intimate such depository the details of allotment of the security, and on receipt of the information, the depository shall enter in its record the name of the allottee as the beneficial owner of the security.

Securities in depositories to be in fungible form

- 4) All securities held by a depository shall be dematerialised and be in fungible form. Nothing contained in Sections 153, 153A, 153B, 187B, 187C and 372A of the Act shall apply to a depository in respect of the securities held by it on behalf of the beneficial owners.

Rights of Depositories and Beneficial Owners

- 5) Notwithstanding anything to the contrary contained in the Act or these Articles, a depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of the beneficial owner.

Save as otherwise provided above, the depository as the registered owner of the securities shall not have any voting rights or any other rights in respect of the securities held by it.

Every person holding securities of the Company and whose name is entered as the beneficial owner in the records of the depository shall be deemed to be a member of the Company. The beneficial owner of securities shall be entitled to all the rights and benefits and be subject to all the liabilities in respect of his securities, which are held by a depository.

Service of documents

- 6) Notwithstanding anything in the Act, or these articles to the contrary, where securities are held in a depository, the records of the beneficial ownership may be served by such depository on the Company by means of electronic mode or by delivery of floppies or discs

Transfer of Securities

- 7) Nothing contained in Section 108 of the Act or these Articles shall apply to a transfer of securities effected by a transferor and transferee both of whom are entered as beneficial owners in the records of a depository.

Allotment of Securities dealt with in a depository

- 8) Notwithstanding anything in the Act, or these articles, where securities are dealt with by a depository, the Company shall intimate the details thereof to the depository immediately on allotment of such securities.



Distinctive numbers of Securities held in a depository

- 9) Nothing contained in the Act or these Articles regarding the necessity of having distinctive numbers for securities issued by the Company shall apply to securities held with a depository.

Register and Index of beneficial owners

- 10) The Register and Index of beneficial owners maintained by a depository under Depositories Act, 1996, shall be deemed to be the Register and Index of Members and Security holders for the purposes of these Articles

NOMINATION OF SHARES

Article 8A 11): Every holder of shares in, or holder of debenture of, the Company, may at anytime, subject to the provision of the Section 109A of the Companies Act, 1956 nominate in the manner prescribed by the board of Directors, a person in whom shares or debentures of the Company shall vest in the event of his death. Any person who become a nominee by virtue of the provision of Section 109A may upon the production of such Evidence and no such application may be required by the board and subject to the provision of Section 109B of the Companies Act, 1956, elect, either to be registered himself as holder of share or debenture, as the case may be or to make such transfer of the share or debenture, as the case may be, as the deceased shareholder or debenture holder, as the case may be, could have made.

ISSUE OF SWEAT EQUITY SHARES/EMPLOYEES STOCK OPTION SCHEMES:

Article 8A 12): Subject to the provision of these Articles and in accordance with the provision of section 79A of the Companies Act, 1956 and of various other laws governing the Issue, the Board may Issue and allot Sweat Equity Shares under Employees Stock Option Schemes to the person entitled thereto".

ISSUE OF FURTHER SHARES PARI PASSU SHALL NOT AFFECT THE RIGHT OF SHARES ALREADY ISSUED

Article 10: The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not unless otherwise expressly provided for by the terms of Issue of the shares of that class, be deemed to be varied by the creation or Issue of further shares ranking pari passu therewith.

Article 11: The Company shall not Issue any shares, not being preference shares, which carry voting rights or right in the Company as to dividend, capital or otherwise which are disproportionate to the rights attached to the holders of other shares not being preference shares.

JOINT HOLDERS

Article 17.: Whether two or more persons are registered as the holders of any shares they shall be deemed to hold the same as joint-tenants with benefit of survivor ship subject to the provisions of following and to the other m provisions of these Articles relating to joint holders.



Maximum number

- a) The Company shall not be bound to register more than four persons as joint holders of any share.
- b) The joint holders of a share be liable severally as well as jointly in respect of all payments which ought to be made in respect of such share.
- c) On the death of any one of such joint holders the survivor or survivors shall be the only person or persons recognized by the Company as having any title to or interest in such share but the Board may require such evidence of death as it may deem fit.
- d) Only one person whose name stands first in the Register as one of the joint holders of any Shares shall be entitled to delivery of the certificate relating to such share.

COMPANY'S LIEN ON SHARES

Article 20.: The Company shall have a first and paramount lien upon all the shares (other than fully paid shares) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for his debts, liabilities and engagements solely or jointly with any other person due to or made with the Company whether the period for the payment, fulfillment or discharge thereof shall have actually arrived at or not and such lien shall extend to all dividend from time to time declared or accrued in respect of such shares, the Directors may however, at time declare any share to be wholly or partly exempt from the provisions of this article.

Enforcing of lien by sale

Article 21.: For the purpose of enforcing such lien, the Board may sell the shares subject thereto in such manner as they think fit but no seal shall be made until the expiration of 14 days after a notice in writing stating and demanding payment of such amount in respect of which the lien exists has been given to the registered holder of the shares for the time being or to the person entitled or the shares by reasons of the death, or insolvency of the registered holder.

Authority to transfer

Article 22.: To give effect to such sale, the Board of Directors may authorize some person to transfer the shares sold to the purchaser thereof and the purchaser shall be registered as holder of the shares comprised in any such transfer, the purchaser shall not be found to see to the application of the purchase money nor shall his title to the shares affected by any irregularity or invalidity in the proceedings in reference to the sale.

Application of proceeds of Sales

Article 23. 1): The net proceeds of any such sale shall be received by the Company and applied in payment, of such part of the amount in respect of which the lien exists as is presently payable.

Article 23. 2): The residue, if any, shall subjects to like lien for sums not presently payable as existed upon the shares before the sale be paid to the person entitled to the shares at the date of sale.



APPLICATION OF ANY MONEY DUE TO A SHARE HOLDER

Article 24.: Any moneys due from the Company to a share holder, may without the consent of such shareholder be applied by the Company in or towards payment of any money due from him, either alone or jointly with any other person to the Company in respect of calls or otherwise.

PARTIAL PAYMENT NOT TO PRECLUDE FORFEITURE

Article 31.: Neither a judgment for a decree in favour of the Company, for calls or other moneys due in respect of any share, not an part payment or satisfaction there under, not the receipt by the Company of a portion of any money which shall from time to time be due from any member in respect of any share either by way of principal or interest, not any indulgence granted by the Company in respect of the payment of any such money shall preclude the Company from thereafter proceeding to enforce a forfeiture of such shares as herein under provided.

TRANSFER AND TRANSMISSION OF SHARES

Procedure as to transfer of shares

Article 33. 1): The instrument of transfer of any shares in the Company shall be executed both by the transferor and the transferee and the transferor shall be deemed to remain holder of the shares until the name of the transferee is entered in the register of members in respect thereof. The instrument of transfer shall be in respect of only one class of shares and should be in the form prescribed under Section 108 of the Act, The instrument of transfer shall be in writing and all the provisions of Section 108 of the Companies Act, 1956 or any of any statutory modification thereof for the time being shall be duly complied with in respect of all transfer of shares and registration thereof.

Article 33. 2): The Board of Directors shall not register any transfer of shares unless a proper instrument of transfer duly stamped and executed by the transferor and transferee has been delivered to the Company along with the certificate relating to the shares and such other evidence as the Company may require to prove the title of transferor of this right to transfer the shares.

Provided that where it is proved to the satisfaction of the Board of Directors that an instrument of transfer signed by transferor and transferee has been lost the Company may if the Board of Directors think fit, or an application in writing made by the transferee and bearing the stamp required on an instrument of transfer, register the transfer on such terms as to indemnity as the Board of Directors may think fit,

Article 33. 3): An application for the registration of the transfer of any share or may be made either by the transferor or by the transferee, provided that where such application is made by the transferor no registration shall the case of partly paid shares be effected unless the Company gives notice of the application to the transferee and the Company shall unless objection is made by the transferee within two weeks from the date of receipt of the notice enter in the register the name of the transferee in the same manner subject to the same conditions as if the application for registration where made by the transferee.



- Article 33. 4):* For the purpose of clause (3) notice to the transferee shall be deemed to have been duly given if dispatched by prepaid registered post to the transferee and shall be deemed to have been delivered in the ordinary course of post.
- Article 33. 5):* Nothing in clause (4) shall prejudice any power of the board to register as a shareholder any person to whom the right to any share has been transmitted by operation of law.
- Article 33. 6):* Nothing in this Article shall prejudice the power of the Board of Directors to refuse to register the transfer of any shares to transferee whether a member or not.

Board's right to refuse to register

- Article 34.:* The shares in the Company shall be transferred by an instrument in writing in the prescribed form duly stamped and in the manner provided under the provisions of Section 108 of the Act and any modification thereof and the rules prescribed thereof.
- Article 35.1):* Subject to the provisions of Section 111 & 22A of the Securities Contract and Regulation Act, 1956 the Board may at any time in its absolute discretion and without assigning any reasons decline to register any transfer or transmission by operation of law of the right to a share whether fully paid up or not and whether the transferee is member of the Company or not and may also decline to register any transfer of share on which the Company has a lien.
- Provided further that the registration of transfer shall not to be refused and on the ground of the transferor being alone or either jointly with any other person or persons indebted to the Company on any account excepted a lien on the shares.
- Article 35.2):* If the Board refuses to register any transfer or transmission of right they shall within one month from the date on which the installment of transfer or the intimation of such transmission was delivered to the Company send notice of the refusal to the transferee and transferor or to the person giving intimation of such transmission as the case may be.
- Article 35.3):* In case of such refusal by the board the decision of the board shall be subject to the right of apply conferred by section 111 of the Act.

Further Right Of Board Of Directors to register

- Article 36.:* The Board of Directors may also decline to recognize any instrument of transfer unless:
- a) The instrument of transfer is accompanied by the certificate of shares to which it relates and such other evidence as the Board Of Directors may reasonably require to show the right of the transferor to make the transfer; and
 - b) The instrument of transfer is in respect of only one class of shares.

Transmission of Registered Shares

- Article 41.1):* The executors or administrators of a deceased member (not being one of several joint holders) shall be the only person recognized by the Company as having any title to the shares registered in the name of such member and in the case of death of any one or more of the joint holders of any registered shares the survivors



shall be the only persons registered by the Company as having any title to or interest in such shares.

Provided that if the member should have been a members of a joint Hindu family the Board on being satisfied to the effect that the standing in his name in fact belonged to the joint family may recognize the survivors or the Karta thereof as having title to the shares registered in the name of the such member. Provided further in any case it shall be lawful for the Board in their absolute discretion to dispense with the production of probate or letters of administration or other legal representation upon such terms as to identity of or otherwise as the Board may deem fit.

Article 41.2): Nothing in clause (1) shall release the estate of a deceased joint holder from any liability in respect of any shares which were jointly held by him with other persons.

Rights and Liabilities of Legal representative

Article 42.1): Any person becoming entitled to a shares in consequence of the death or insolvency of a member may upon such evidence being produced as many from time to time be required by the Board and subject as hereinafter provided, elect either;

- a) to be registered himself as holder of the shares or
- b) to make such transfer of the shares as the deceased or insolvent member could have made.

Article 42.2): The board shall, in either case have the some right to decline or suspend registration, as they would have had if the deceased or insolvent member had transferred the shares before his death or insolvency.

FORM OF NOTICE OF FORFEITURE

Article 46.: The notice shall name a further day (not earlier than the expiration of fourteenth day from the date of service of the notice) on or before which the payment required by the notice is to be made and shall state that in the event of non-payment on or before the day name the shares in respect of which the call was made be liable to be forfeited.

BOARD'S RIGHTS TO FORFEIT IF REQUIREMENTS OF NOTICE ARE NOT COMPLIED WITH

Article 47.: If the requirements of any such notice as aforementioned are not complied with any share in respect of which the notice has been given may at any time thereafter before the payment required by the notice has been made be forfeited by a resolution of the Board of Directors to that effect such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.

SALE OF FORFEITED SHARES

Article 48.: A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Board of Directors may think fit and at any time before a sale or disposition the forfeiture may be canceled on such terms as the Board of Directors may think fit.



LIABILITY AFTER FORFEITURE

Article 49.: A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall notwithstanding remain liable to pay and shall forthwith pay the Company all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the shares but his liability shall cease if and when the Company received payment in full of the nominal amount of shares whether legal proceeding for the recovery of the same had been barred by limitation or not.

DECLARATION OF FORFEITURE

Article 50.: A duly certified declaration in writing that the declarant is a Director of Company and that a share in the Company has been duly forfeited on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled of the fact and that declaration and receipt of the Company for the considerations given for the shares on the sales or disposition thereof, shall constitute a good title to the share and the person to whom the share is sold or disposed of shall be registered as the holder of the share not be bound to see to the application of the purchase money not shall his title to the shares be affected by any way of irregularity or invalidity in the proceedings in reference to the forfeiture sale or disposal of the share.

NO-PAYMENT OF SUMS PAYABLE AT FIXED TIMES

Article 51: The provisions of these regulations as to forfeiture shall apply in the case of non payment of any sum which by the terms of Issue of share; become payable at a fixed time, whether on amount of the share or by way of premium or otherwise as if the same had been payable by virtue of a call duly made and notified.

ALTERATION OF CAPITAL

Alteration & Consolidation of capital

Article 56.: The Company may from time to time but subject to the provisions of section 94 of the Act, alter the conditions of its Memorandum as follows:

- a) Increase its share capital by such amount as it thinks expedient by issuing new shares.
- b) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares.
- c) Convert all or any of its fully paid up shares into stock and reconvert that stock into fully paid up shares of any denominations.
- d) Sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum, so however, that in sub-division the proportion between the amount if any, unpaid on each reduced share shall be the same as it was in the case of share from which the reduced share is derived.
- e) Cancel any shares which, at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled.



- f) The resolution whereby any share is sub-divided may determine that as between the holder of the shares resulting from such sub-division, one or more of such shares shall have some preference or special advantage as regards dividend, capital or otherwise over or as compared with others.

Application of provision to new shares

Article 57.: The new shares shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the shares in the original share capital.

Reduction of capital etc. by Company

Article 58.: The Company may by special resolution, reduce in any manner and with subject to, any incident, authorized and consent required by law:

- a) Its share capital
- b) Any capital redemption reserve account or
- b) Any share premium account
- d) The Company may from time to time allocate funds from the free reserves or share premium account or any other means of finance or Issue debt instruments for raising funds for buy-back of its shares and the same is not be considered as redemption of capital. The Company may also exchange voting shares for non-voting shares or for any other securities.

GENERAL MEETINGS

Annual General Meeting

Article 63.: The Company shall in addition to other meeting hold a General Meeting which shall be styled as its Annual General Meeting at intervals and in accordance with the provisions specified below:

- a) The First Annual General meeting of the Company shall be held within 18 months of its incorporation.
- b) Thereafter an Annual General meeting of the Company shall be held once in every calendar year within 6 months after the expire of each financial year subject however to the power of the registrar of Companies to extend the time within which a meeting can held for a period not exceeding 3 months and subject thereto not more than 15 months shall laps from the date of one Annual General Meeting and that of the next.
- c) Every Annual General Meeting shall be called for at a time during the business hours on day that is not a public holiday and shall be held either at the Registered Office of the Company or at some other place within the city, town or village in which the Registered Office of the Company is situated.



- d) Notice calling such meetings shall specify them as the Annual General Meetings.
- e) All other general meetings shall be referred to as extra-ordinary general meetings.

Extra-Ordinary General Meeting

Article 64.: The Board of Directors may, whenever they think fit, convene an extra-ordinary general meeting at such time and such place as they deem fit, subject to such direction, if any, given by the Board, the Managing Director or the Secretary may convene an Extra-ordinary General Meeting.

Article 65. a): The Board of Directors shall on the requisition of such members of the Company as is specified below proceed duly to call an extra-ordinary General Meeting of the Company and comply with the provisions of the Act in relations to Meetings on requisition.

Article 65. b): The requisition shall set out matters for consideration which the meeting to be called shall be signed by the requisitionists, and shall be deposited at the Registered Office of the Company or sent to the Company by registered post addressed to the Company at its registered office.

Article 65. c): The number of members entitled to requisition a meeting with regard to any matter shall be such number of them holding at the date of the deposit or dispatch to the Registered Office of the requisition, not less than 1/10th of the paid-up capital of such of the Company as at that date carries the right of voting in regard to the matter set out in the requisition.

Article 65. d): The requisition may consist of several documents in like forms each signed by one or more requisitionists.

Article 65. e): If the Board of Directors do not, within 21 days from the date of deposit of requisition with regard to all matters proceed dully to call a meeting for the consideration of those matters on a date not later than 45 days from the date of deposit of the requisition the meeting may be called by the requisitionists themselves or such of the requisitionists as represent either majority in value of the paid up share capital held by all of them or of not less than 1/10th of such paid up capital of the Company as is referred to in sub-clause (d) above.

Article 66.: A General Meeting of the Company may be called by giving not less than 21 days notice in writing provided that a General Meeting may be called after giving shorter notice if consent thereto is accorded, in the case of the Annual General Meeting by all the members entitled to vote there at and in the case of any other meeting, by members of the Company holding not less than 95% of that part the paid up share capital which gives that right to vote on the members to be considered at the meeting provided that where any member of the Company are entitled to vote only on some resolution or resolutions to be moved at a meeting and not on the others those members shall be taken into account for the purpose of this Article in respect of the former resolution or resolutions and not in respect of the latter.



Accidental commission to give notice not to invalidate meeting

Article 67.: The accidental commission to give notice of any meeting or the non-receipt of any such notice by any such notice by any of the members shall not invalidate the proceedings of, any resolution passed at such meeting.

Special Business

Article 68. a): All businesses shall be deemed special that is transacted at an Extra-Ordinary General Meeting and also that it is transacted at the Annual General Meeting with the exception of business relation to:

- (i) The consideration of the accounts, balance sheet, reports of the Directors and auditors.
- (ii) The declaration of Dividend.
- (iii) The appointment of Directors in the place of those retiring, and
- (iv) The appointment and the remuneration of the Auditors.

Article 68. b): Where any items of business to be transacted at the meeting are deemed to be special as aforesaid, there shall be annexed to the notice of the meeting a statement setting out all material facts concerning each such item of business, including in particular the nature of the concern or interest, if any, therein of every Director, and the Managing Director, if any, Where any item of business consists of the according of approval to any document by the meeting, the time and place where such document can be inspected shall be special business statement aforesaid provided treat where any item of special business as aforesaid is to be transacted at the meeting of the Company relates to or effects any other Company, the relevant of the share holding interest in that other Company of every Director and the Company shall also be set out in the statement if the extent of such share holding interest is not less than 20% of the paid up share capital of the other Company.

PROCEEDINGS AT GENERAL MEETINGS

Quorum

Article 69.: Five members personally present shall be quorum for a General Meeting and no business shall be transacted at any General Meeting unless the requisite quorum is present at the commencement of the business.

If quorum not present when meeting to be dissolved and when to be adjourned

Article 70.: If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if called upon by the requisition of members shall be dissolved; in any other case, it shall stand adjourned to the same day in the next week at the same time and place or such other day and at such other time and place as the Board may determine and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members present shall be a quorum.

Chairman of General Meeting

Article 71.: The chairman, if any, of the Board of Directors shall preside over as Chairman at every General Meeting of the Company.



When Chairman absent choice of another to take the Chair

Article 72.: If there is not such Chairman, or if at any meeting he is not present within 15 minutes after the time appointed for holding the meeting or is unwilling to act as Chairman, the Directors present shall choose another Director as Chairman and if no Directors be present or if all the Directors decline to take the Chair, then the members present shall choose some one of their member to be the Chairman.

Adjournment of Meeting

Article 73.: The Chairman may, with the consent of any meeting at which a quorum is present (and shall, if so directed by the Meeting), adjourn that meeting from time to time and from place to place, but no business be transacted at any adjourned meeting other of the meeting from which the adjournment took place. When a meeting is adjourned for 30 days or more, notice of the adjourned meeting shall be given as nearly as may be in the case original meeting, save aforesaid, it shall not be necessary to give any notice of any adjournment of the business to be transacted at an adjourned meeting.

Question at General Meeting how decided

Article 74.: At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded in accordance with the provisions of Section 179 of the Act. Unless a poll is so demanded, a declaration by the Chairman, that resolution on a show of hands, been carried unanimously or by a particular majority or last and an entry to the effect in the book of the proceedings of the Company shall be conclusive evidence of the fact without proof on the number or proportion of the votes recorded in favour of, or against that resolution on which the poll was taken.

Taking on Poll

Article 75.: If a poll is duly demanded in accordance with the provision of section 179 of the Act, it shall be taken in such a manner as the Chairman in accordance with the provisions of the Act and Section 184 and 185 of the Act direct and the results of the poll be deemed to be the decision of the meeting on the resolution on which the poll was taken.

Chairman to have casting vote

Article 76.: In the case of an equality of votes, the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition the vote or votes to which he may be entitled to as a member.

In what case poll taken without adjournment

Article 77.: A poll demanded on the election of Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time being not later than 48 hours from the time when demand was made, as the Chairman may direct.



VOTE OF MEMBERS

Voting right of Members

Article 78. 1): Every member holding any equity shares shall have a right to vote in respect of such shares on every resolution placed before the meeting. On a show of hands every such member present in person shall have one vote. On a poll his voting right in respect of his equity shares shall be in proportion to his shares of the paid up share capital in respect of the equity shares.

Article 78. 2): In the event of the Company issuing any preference shares the holders of such preference shares shall have the voting rights set out in that behalf of Section 87 of the Act.

Business may proceed notwithstanding demand for poll

Article 79.: A demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than on which a poll has been demanded. The demand for a poll may be withdrawn at any time by the person who made the demand.

Voting rights of joint holders

Article 80.: In case of joint holders, the vote of the first named of such joint holders who tenders a vote whether in person or by proxy; shall be accepted to the exclusion of the votes of the other joint holders.

Voting by a members of unsound mind

Article 81.: A member of unsound mind or in respect of whom an order has been made by any Court having jurisdiction lunacy may vote, whether on a show of hands or on a poll by his committee or other legal guardian and any such committee or guardian may on a poll vote by proxy.

No member entitled to vote while call due to Company

Article 82.: No member shall be entitled to vote in any General Meeting unless in call or other sums presently payable by him in respect of his shares of all the Company have been paid.

Article 83.: On a poll, votes may be given either personally or by proxy.

Proxies Permitted on Poll

Article 84.: Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint any person whether a member or not as his proxy to attend and vote instead of himself, but the proxy so appointed shall not unless he be a member have any right to speak, at the meeting and shall not be entitled to vote except on a poll.

Validity of vote by proxy

Article 87.: A vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the previous death of the principal or the revocation of



the proxy, or the transfer of the share in respect of which the proxy is given provided that no intimation in writing of the death, revocation of transfer shall have been received at the Registered Office of the Company before the commencement of the meeting adjourned at with the proxy is used.

Article 88.: Every instrument appointing a proxy shall be retained by the Company and shall be in either of the forms specified in schedule IX of the Act or a form as nearly thereto as circumstances will admit.

Article 89.: Subject to the provisions of the Companies Act, 1956 the Chairman of the General Meeting shall be the sole and absolute judge of the validity of every vote rendered at such meeting, or at a poll demanded at such meeting and may allow or disallow any vote tendered, according as he shall be of opinion that the same is or is not valid.

DIRECTORS

Number of Directors

Article 90.: Unless otherwise determined by a General Meeting the number of Directors shall not be less than three and not more than twelve including all kinds of Directors.

Share qualification not necessary

Article 92.: Any person whether a member of the Company or not may be appointed as Director and no qualifications by way of shares shall be required for any Directors.

Director's powers to fill up casual vacancy

Article 93.: Any casual vacancy occurring in the Board of Directors may be filled up by Board of Directors but the person so appointed shall hold office up to the date which the Director in whose place he is appointed would have held office if it had not been vacated aforesaid.

Additional Directors

Article 94.: The Board of Director's shall have power at any time, and from time to time to appoint one or more persons as Additional Directors, provided that the number of Directors and Additional Directors together shall not exceed the maximum number fixed. Any additional Directors so appointed shall hold office up to the date of the next Annual General Meeting, but he shall be eligible for appointment by the Company at the meeting.

Alternate Directors

Article 95.: The Board of Directors may appoint an alternate Director to act for a Director (herein after called the original Director) during the absence of the original Director for a period of not less than three months from the state in which the meetings of the Board are ordinarily held. An alternate appointed shall vacate office on and when the original Director, Director so to the state in which meetings of the Board are ordinarily held. If the terms of office of the original Director is determined before he so returns to the state aforesaid any provision for the another appointment shall apply to the original and not to the Alternate Director.



Equal Powers to Director

Article 102.: Except as otherwise provided in these Articles all the Directors of the Company shall have in all matters equal rights and privileges and be subject to equal obligations and duties in respect of the affairs to the Company.

Rotation of Directors

Article 103.: Not less than two-third of the total Number of Directors of the Company for the time being holding office shall be the Director whose period of office is liable to be determined by retirement by rotation and who shall be appointed by the Company in General Meeting.

Article 104.: At the first Annual Meeting of the Company the whole of the Board of Directors except nominated or ex-office Director (if their number is not more than one-third of the total strength) shall retire from office and at any Annual General Meeting in every subsequent year one-third of such of the Directors as are liable to retire by rotation for the time being or if the number is not three or multiple of three, then the number nearest to one-third shall retire from office.

Retiring Directors eligible for re-election

Article 105.: A retiring Director shall be eligible for re-election and the Company at the Annual General Meeting at which a Director retires in the manner aforesaid may fill up the vacated office by electing a person thereto.

Which Director to retire

Article 106.: The Directors to retire in every year shall be those who have been longest in office since their election, but as between persons who became Directors on the same day, those to retire shall unless they otherwise agree among themselves, be determined by lot.

Retiring Directors to remain in office till successors are appointed

Article 107.: Subject to the provision of Section 256 of the Act, if at any meeting at which an election of Directors ought to take place the place of the vacating Directors is not filled up and the meeting has not expressly resolved not to fill up and the vacancy, the meeting shall stand public holiday till next succeeding day which is not a public holiday at the same time and place and if at the adjourned meeting has not expressly resolved not to fill up the vacancy then the retiring Director or such of them as have not had their places filled up shall be deemed to have been reappointed at the adjourned Meeting.

Power to General Meeting

Article 108.: Subject to the provisions of section 252, 255 and 259 of the Act, the Company in General Meeting may by ordinary resolution increase or reduce the number of its Directors which the limit fixed by Article 92.



Power to remove Director by ordinary resolution

Article 109.: Subject to the provision of Section 284 of the Act, the Company may, by an ordinary resolution, in General Meeting remove any Director before the expiration of Office, and may by an ordinary resolution appoint another person in stead, the person so appointed shall be subject to retirements at the same time as if he had become a Director on the day on which the Directors in whose place he is appointed was last elected as Director.

Rights of persons other than retiring Directors to stand for Directorship

Article 110.: A person not being a retiring Director shall be eligible for appointment to the office of a Director as any General Meeting if he or some other member intending to propose him as a Director not less than 14 days before the meeting has left at the office of the Company a notice in writing under his hand signifying his candidate for the office of the Director or the intention of such member to propose him as a candidate for that office as the case may be.

PROCEEDINGS OF THE DIRECTORS

Meeting of the Board

Article 111.: The Board of Directors shall meet At least once in every three calendar months for the dispatch of business, adjourn and otherwise regulate its meeting and proceedings as it thinks fit provided that at least four such meetings shall be held in every year.

Article 112.: The Managing Director may at any time summon a meeting of the Board and the managing Director or a Secretary on the requisition of a Director shall at any time summon a meeting of the Board Notice in writing of every meeting of the Board shall be given to every Director for the time being in India, and at his usual address in India to every other Director.

Quorum

Article 113.: The quorum for a meeting of the Board shall be one-third of the total strength (any fraction contained in that one-third being rounded off as one) or two Directors whichever is higher provided that where at any time the number of interested Director is equal to or exceeds two-third of total strength the number of remaining Directors that is to say the number of Directors who are not interested present at the meeting being not less than two shall be the quorum during such time. The total strength of the Board shall mean the number of Directors holding office as Directors on the date of the resolution or meeting, that is to say, the total strength of the Board after deducting, there from the number of Directors, if any, whose places are vacant at the time.

Questions how decided

Article 114.1): Save as otherwise expressly provided in the Act, a meeting of the Board for the time being at which quorum is present shall be competent to exercise all or any of the authorities, powers and directions be or under the regulations of the Company for the time being vested in or exercisable by the Directors generally



and all questions arising at any meeting of the Board shall be decided by a majority of the votes.

Article 114.2): In case of an equality of votes, the Chairman shall have a second or casting vote in addition to his vote as a Director.

Election of Chairman of Board

Article 115.1): The Board as may elect a Chairman at its meeting and determine the period for which he is to hold office.

Article 115.2): If no such Chairman is elected, or it at any meeting the Chairman is not present within 5 minutes after the time appointed for holding the meeting, Directors present may choose one of their member to be the Chairman of the meeting.

Delegation of Powers

Article 116.1): The Board may subject to the provisions of the Act, delegate any of its powers to committees consisting of such members of its body as it thinks fit.

Article 116.2): Any Committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the Board.

Election of Chairman of Committee

Article 117.1): If the Chairman of the Board is a member of the Committee, he shall preside over all meetings of the Committee, If the Chairman is not a member thereof the Committee may elect a Chairman of its meeting. If no such Chairman is elected, or if at any meeting the Chairman is elected, or if at any meeting the Chairman is not present within five minutes after the time appointed for holding the meeting the members present may choose one of their members to be Chairman of the meeting.

Article 117.2): The quorum of a Committee may be fixed by the Board of Directors and until so fixed if the Committee is of a single member or two members shall be one and if more than two members shall be two.

Article 118.1): A committee may meet and adjourn as it thinks proper.

Questions how determine

Article 118.2): Questions arising at any meeting of a Committee shall be determined by the sole member of the Committee or by a majority of votes of the members present as the case may be and in case of an equality of vote Chairman shall have a second or casting vote in addition to his vote as a member of the Committee.

VALIDITY OF ACTS DONE BY BOARD OR A COMMITTEE

Article 119.: All acts done by any meeting of the Board of a Committee thereof or any person acting as a Directors shall notwithstanding that it may be afterwards be discovered that there was some defect in the appointment of any one or more of such Directors or of any person acting as aforesaid or of that they or any of them were disqualified be a valid as if every such Director or such person had been duly appointed and was qualified to be Director.



Resolution by Circulation

Article 120.: Save as otherwise expressly provided in the act, a resolution in writing circulated in draft with the necessary, papers, if any, to all the Directors to all the members of the Committee then in India not being less in number than the quorum fixed for the meeting of the Board of the Committee as the case may be and approved by such of the Directors or members at their usual address in India as are then in India or by a majority of such of them as are entitled to vote on the resolution shall be a valid effectual as if it had been passed at a meeting of the Board or Committee.

POWERS & DUTIES OF DIRECTORS

General Powers of Company vested in Directors

Article 121.: The business of the Company shall be managed by the Board of Directors, who may exercise all such powers of the Company as are authorized by the Act or any statutory modifications thereof for the time being in force except those by these presents are required to be exercised by the Company in General Meeting. Provided in exercising any power or doing such act or thing the Board shall be subjected to the provisions contained in that behalf in the Act or any other provision of Law or the Memorandum of Association of the Company or these Articles or in any regulation not in consistent therewith any duly made there under including regulation made in General Meeting shall invalidate no regulation made by the Company in General Meeting, any prior Act of the Board which would have been valid if that regulation had not been made.

Further Powers of Directors

Article 122.: Without prejudice to the generality of the foregoing it is hereby expressly declared that the Directors shall have the following powers, that is to say,

Article 122.1): To carry on and transact the several kinds of business specified in clause III of the Memorandum of Association of the Company, subject to the provisions of law in that behalf.

Article 122.2): To draw, accept endorse, discount negotiate and discharge on behalf of the Company all bills of exchange, promissory notes, cheques, hundies, drafts railway receipts, dock warrants delivery orders Government promissory notes, other Government instruments, bonds, debentures or debenture stocks of Corporation local bodies, port trusts, improvement trusts or other Corporate Bodies and to execute transfer deeds for transferring stocks shares or stock certifies of the Govt. and other local or corporate bodies in connection with any subject of the Company.

Article 122.3): At their discretion, to pay for any property rights or privileges acquired by or services rendered to the Company either wholly or partially in cash or in shares bonds, debentures or other securities of the Company and such shares may be issued either as fully paid up or with such amount credited as paid up thereon as may be agreed upon, and any such bonds debentures or other securities may be either specifically charged upon all or any of the property of the Company or not so charged.



- Article 122.4):** To engage and in their discretion to remove, suspend, dismiss and remunerate banker, legal advisers, accountants cashiers, agents dealers brokers, men servants, employees of every description and to employee such professional or technical or skilled assistants as from time to time may in their option be necessary or advisable in the interest of the Company and upon such terms as to durations of employment, remuneration or otherwise as may be required and security in such instances and to such amounts as the Directors think fit.
- Article 122.5):** Subject to the provisions at Section 100 to 105 to accept from any member, on such terms and conditions as shall agreed, a surrender of his shares of stock or any part thereof.
- Article 122.6):** To secure the fulfillment of any contracts or agreements entered into by the Company, by mortgage on all or any of the Company or in such other manner as they think fit.
- Article 122.7):** To institute, conduct, defend, compound or abandon any actions, suits and legal proceeding by or against the Company or its officers or otherwise concerning the affairs of the Company and also to against the Company or its officers or otherwise concerning the affairs of the Company and also to compound or compromise or submit to arbitration the same actions, suits and legal proceedings.
- Article 122.8):** To make and give receipts, releases and other discharges or money payable to the Company and for the claims and demands of the Company.
- Article 122.9):** To determine who shall be entitled to sign on the Company's behalf bills of exchange promoters dividend warrants, cheques and other negotiable instruments, receipts endorsement, releases, contracts, deeds and documents.
- Article 122.10):** From time to regulate the affairs of the Company in such manner as they think fit and in particular to appoint any person to be the attorneys or agents for the Company either abroad or in India with such terms as may be thought fit.
- Article 122.11):** To invest and deal with any moneys of the Company not immediately required for the purpose of the business of the Company upon such securities as they think fit.
- Article 122.12):** To execute in the name and on behalf of the Company in favor of any Director on other person who may incur or be about to incur any personal liability for the Company's property (present and future) as they think fit.
- Article 122.13):** To give to any person employed by the Company commission on the profits, or any particular business or transactions, or share in the general profits of the Company, and such commission, or shares of profits shall be treated as part of the working expenses of the Company.
- Article 122.14):** From time to time, to make, very and reveal by-laws for the regulation of the business of the Company its officers and servants.
- Article 122.15):** To enter into all such negotiations and contracts and such rescind and very all such contracts and execute and do all such acts, deeds and things in the name and on behalf of the Company as they may consider expedient for or in relation to any of the matters aforesaid or otherwise for the purpose of the Company.
- Article 122.16):** To pay gratuities, bonus, rewards, presents and gifts to employees or dependents of any deceased employees to charitable institutions or purposes, to subscribe for provident funds and other associations for the benefit of the employees.



POWER TO DELEGATE TO COMMITTEE

Article 123.: Subject to the provisions of Section 292 of the Act, and other provisions of the Act, the Board may delegate from time to time and at any time to a committee formed out of the Directors all or any of the powers authorities and descriptions for the time being vested in the Board and any such delegations may be made on such terms and subject to such conditions as Board may think fit.

BORROWING POWERS OF DIRECTORS

Article 130.1) The Board of Directors may from time to time but with such consent of the Company in General Meetings as may be required under Section 293 raise any moneys or sums of money for the purpose of the Company provided that the moneys to be borrowed by the Company apart from temporary loans obtained from the Company's bankers in the ordinary course of business shall not without the sanction of the Company at a General Meeting exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say reserves not set apart for any specific purpose and in particular, but subject to the provisions of Section 292 of the Act the Board may from time to time at their discretion raise or borrow or secure the payment of any such sum money for the purpose of the Company by the Issue of debentures, perpetual or otherwise including debentures convertible into shares of this or any other Company or perpetual annuities and in security of any money so borrowed, raised or received, mortgages, pledge or charge, the whole or any part of the property, assets or revenue of the Company present or future including its uncalled capital by special assignment or to otherwise or to transfer or convey the same absolute in trust and give the tenders powers of sale and other powers as may be expedient and to purchase, redeem or pay of any such securities.

Provided that every resolution passed by the Company in general meeting in relation to the exercise of the power to borrow as stated above shall specify the total amount up to which moneys may be borrowed by the Board of Directors.

Article 130.2) The Directors may by a resolution at a meeting of the Board delegate the above power to borrow money otherwise than on debentures to a Committee of Directors or the managing Director, within the limits prescribed.

Article 130.3) Subject to the provisions of the above clause, the Directors may from time to time, at their discretion, raise or borrow or secure the payment of any sum of money for the purpose of the Company at such time and in such manner and upon such terms and conditions in all respects as they think fit, and in particular, by promissory notes or by opening current account or by receiving deposits and advances with or without security or by the Issue of bonds, perpetual or redeemable debentures or debenture stock of the Company (both present and future) including its un called capital for the time being, or by mortgaging or charging or pledging and lands, buildings goods or other properties and securities of Company, or by such other means as they may seem expedient.

ASSIGNMENT OF DEBENTURES

Article 131.: Such debentures stock, bonds or other securities may be made assignable free from any equities between the Company and the person to whom the same be issued.



Article 132.a): Any such debentures, debenture stock, bonds or other securities may be issued at a discount, premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotments of shares of the Company appointment of Director or otherwise, debentures, debenture stocks, bonds or other securities, with a right of conversion into or allotment of shares shall be issued only with the sanction of the Company in General Meeting.

Article 132.b): Any trust deed for the securing of any debenture stock and or any mortgage deed and or other bond for securing payment of moneys borrowed by or due by the Company and or any contract or any Agreement made by the Company with any person, firm body corporate, government or authority who may render or agree to render any financial assistance to the Company by way of loans advanced or by guaranting of any loan borrowed or other obligations of the Company or by subscription to the share capital of the Company or provide assistance any other manner, may provide for the appointment from time to time by any such mortgage, lender trustees or holders of debentures or contracting part as aforesaid of one or more persons to be a Director of Directors of the Company.

Such trust deed, mortgage deed, bond or contract may provide that the person appointing a Director as aforesaid may from time to time remove any Director so appointed by him and appoint any other persons in his place and provide for filling up of any causal vacancy created by such person vacating office as such Director. Such power shall determine and terminate on the discharge of repayment of the respective mortgage loan or debit debentures or on the termination of such contract and any person so appointed as Director under mortgage or bond or debenture transfer deed or under such contract shall cause to hold office as such Director on the discharge of the same. Such appointment and provision in such document as aforesaid shall be valid and effective as it is contained in these presents.

Article 133.: The Director or Directors so appointed by or under a mortgage deed, debenture trust deed or other bond or contract as aforesaid shall be called "nominated Directors". The words, "Nominate Director" shall mean the Director appointed as aforesaid and for the time being holding such office. The nominated Director shall not be required to hold any qualification shares and shall not be liable to retire by rotation or be removed from office of the Company. Such mortgage deed or bond or trust deed or contract may contain such auxiliary provisions as may be arranged between the Company and mortgage, lender, trustee or contracting party as the case may be and all such provisions shall have effect notwithstanding and of the other provisions herein contained but subject to the provisions of the Act.

POWERS TO BE EXERCISED BY BOARD ONLY AT THE MEETING

Article 137.1): The Board of Directors shall exercise the following powers on behalf of the Company and the said powers shall be exercised only by resolutions passed at the meeting of the board.

- a) Power to make calls on Share Holders in respect of money unpaid on their shares.
- b) Power to Issue debentures.



- c) Power to borrow moneys otherwise than on debentures.
- d) Power to invest the funds of the Company.
- e) Power to make loans.

Article 137.2): The Board of Directors may in its meeting resolve to delegate to any committee of the Directors or Managing Director, the powers specified in sub-clauses (c) (d) and (e) above.

Article 137.3): Every resolution delegating the power set out in sub-clause (c) above shall specify the total amount up to which money may be borrowed by the said delegatee.

Article 137.4): Every resolution delegating the power referred in sub-clause (d) above shall specify the total amount up to which the funds may be invested and the nature of the investment which may be made by the delegatee.

Article 137.5): Every resolution delegating the power referred to in sub-clause (e) above shall specify the total amount upon which the loans may be made by the delegate, the purpose for which the loans may be made and the maximum amount of loans which may be made for each such purpose in individual cases.

MANAGING DIRECTORS/WHOLE TIME DIRECTORS

Article 138.a): The Board may from time to time with such sanction of the Central Government as may be required by law appoint one or more from their body to the office of Managing Director or Managing Directors or whole time Directors.

Article 138.b): The Directors may from time to time resolve that there shall be either one or more Managing Directors or whole time Directors.

Article 138.c): In the event of any vacancy arising in the office of a Managing Director or whole time Director and if the Directors resolve to increase the number of Managing Directors or whole time Directors the vacancy shall be filled up by the Board of Directors and the Managing Director or whole time Director so appointed shall hold the office for such period as the board of Directors may fix subject to the approval of the Central Government.

Article 138.d): If a Managing Director or whole time Director ceases to hold office as Director or whole time Director ceases to hold office as Director shall if so facto and immediately cease to be a Managing Director or whole time Director.

Article 138.e): The managing Director or whole time Director shall not be liable to retirement by rotation as long as he holds office as Managing Director or whole time Director.

Power and duties of Managing Director or whole time Director

Article 139.: Managing Director or whole time Director shall subject to supervision, control and direction of the Board and subject to the provisions of the Act, exercise such powers as are exercisable under these presents by the Board of Directors as they may think fit and confer such powers for such time and to be exercised for such object, purpose and upon such terms and conditions and with such restrictions as they may think expedient and from time to time revoke, withdraw, alter, vary all or any of such powers. The Managing Directors or whole time Directors may exercise all the powers entrusted to them by the Board of Directors in accordance with the Directions of the Board.



Remuneration of Managing Director/whole time Director

- Article 140.: Subject to the provisions of the Act and subject to such sanction of the Central Government as may be required for the purpose, the Managing Director or whole time Director shall receive such remuneration (whether by way of salary, commission or participation profits, or partly in one way and partly in another) as the Company in general meeting may from time to time determine.
- Article 141.: The Managing Director or whole time Director shall be entitled to charge and be paid for all actual expenses if any, which they may incur for or in connection with the business of the Company. They shall be entitled to appoint part time employees in connection with the management of the affairs of the Company and pay remuneration to such part time employees.

Business to be carried on by Managing Director/Whole time Director

- Article 142.1): The Managing Director or whole time Director shall have subject to the supervision control and discretion of the Board, the management of the whole of the business of the Company and all of its affairs and shall exercise all powers and perform all duties in relation to the management of the affairs and transactions of the Company, except such powers and such duties as are required by law or by these presents to be exercised or done by the Company in General Meeting. The Board of Directors or by the and also subject to such conditions of restrictions, imposed by the Companies Act by these presents.
- Article 142.2):* Without prejudice to the generality of the foregoing and subject to supervision and control of the Board of Directors the business of the Company shall be carried on by the Managing Director or whole time Director and he shall and exercise all the powers set out in Article 123 above, except those which are by law or by these presents or by any resolution of the Board required to be done by the Company in General Meeting or by the Board.
- Article 142.3):* The Board may from time to time delegate to the Managing Director or whole time Directors such of its powers and duties and subject to such limitations and conditions as they may deem fit. The Board may from time to time revoke, withdraw, alter or vary all or any of the powers conferred on the Managing Director or whole time Director by the Board or by these presents.

RIGHT TO DIVIDEND

- Article 145.a):* The profits of the Company subject to any special relation there to created to authorize to be created by these presents and subjects to the provisions of the presents, as to the reserve fund, shall to divisible among the member in proportion to the amount of capital paid up the shares held by them respectively.
- Article 145.b):* Where capital is paid on an/share in advance of calls, upon the footing that the same shall carry interest, such capital shall not whilst carrying interest, confer a right to participate in profits.

Declaration of Dividends

- Article 146.:* The Company in General Meeting may declare dividend but no dividend shall exceed the amount recommended by the Board.



Interim Dividend

Article 147.: The Board may from time to time pay to the members such interim dividends as appear to them to be justified by the profits of the Company.

Dividends to be paid out of profits only

Article 148.: No dividend shall be payable except out of the profits except as provided by Section 205 of the Act.

Reserve Funds

Article 149.1): The Board may, before recommending any dividends set aside out of the profits of the Company such sums as it thinks proper as a reserve or reserves which shall at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied, including provisions for meeting contingencies or for equalizing dividends and pending such application, may at the like discretion either be employed in the business of the Company or as the board may from time to time think fit.

Article 149.2): The Board may also carry forward any profits wherein it may think prudent not to divide, without setting them aside as reserve.

Deduction of Arrears

Article 150.: The Board may deduct from any dividend payable to any members all sums of money, if any presently payable by him to the Company on account of calls for otherwise in relation to the shares of the Company.

Adjustments of Dividends

Article 151.: Any General Meeting declaring a dividend or bonus may make a call on the members of such amounts as the meeting fixed, but so that the call on each member shall not exceed the dividend payable to him and so that the call may be made payable at the same time as the dividend and the dividend and the dividend may, if so arranged between the Company and the members be set off against the call.

Payment by cheque or warrant

Article 152.1): Any dividend interest or other moneys payable in case in respect shares may be paid by cheque warrant sent through post direct to registered address of the holder or in case of joint holder the address of that one of that of the joint holders who is first name of the register of the members or to such persons and to such address as the holder or joint holders may in writing direct.

Article 152.2): Every such cheque or warrant shall be made payable to the order of the person to whom it is sent.

Article 152.3): Every such cheque or warrant shall be posted within forty-two days from the date of declaration of dividend.



Receipt of Joint holders

Article 153.: Any one or two or more joint holders of a share may give effectual receipts for any dividends bonuses or other moneys payable in receipt of such shares.

Notice of Dividends

Article 154.: Notice of any dividend that may have been declared shall be given to the persons entitled to share thereto in the manner mentioned in the Act.

Article 155.: No dividend shall bear interest against the Company No unclaimed dividend shall be forfeited by the Board unless the claim thereto becomes barred by law and the Company shall comply with all the provisions of Section 205 A of the Companies Act, 1956 in respect of unclaimed dividends.

INTEREST UNPAID OR UNCLAIMED DIVIDEND

Article 156.1): Where dividend has been declared by the Company but has not been paid or the warrant in respect thereof has not been posted within forty two days from the date of declaration to any share holder entitled for the payment of dividend the Company shall with 7 days from the date of expiry of the said period of 42 days transfer the total amount of dividend which remains unpaid or relation to which no dividend warrant has been posted within the same period of forty two days to a special account to be opened by the Company in that behalf in any scheduled bank to be called unpaid dividend account.

Article 156.2): Any money transferred to the unpaid dividend account that remains unpaid or unclaimed for a period of 3 years from the date of such transfer shall be transferred by the Company to the General Revenue Account of the Central Government but a claim to any money so transferred to the General Revenue Account may be preferred to the Central Government by the person to whom the money is due and shall be dealt with as if such transfer to the General Revenue Account had not been made, the order if any payment of the claims being treated as an order refund of revenue.

Article 156.3): The Company shall when making any transfer under clause (2) to the General Revenue Account of the Central Government of any unpaid or unclaimed dividend furnish to such officer as the central Government, may appoint in this behalf, a statement in the prescribed form setting forth in respect of all sums included in such transfer the nature of the sums, the names and last known addresses of the person entitled to receive the sum, the amount to which such person is entitled to and the nature of his claim thereto and such other particular as may be prescribed.

Article 156.4): The Company shall be entitled to a receipt from the Reserve Bank of the General Revenue Account of the Central Government and such receipt shall be effectual discharge of the Company in receipt thereof.

Transfer of shares not be pass prior to dividends

Article 157.: Any transfer of shares shall pass the right to any dividend declared there on before the registration of the transfer.



Capitalization of profits

Article 158.1): The Company in General Meeting may on recommendation of the Board, resolve,

- (a) That it is desirable to capitalize any part of the amounts for the time being standing to the credit of the Company's reserve accounts or to the credit of the profit and loss accounts or dividend otherwise available for distribution and
- (b) That such some be accordingly set free for distribution in the manner specified in clause (2) amongst the members who would have been entitled thereto if distributed by way of such dividend and in the same proportion.

Article 158.2): That sum aforesaid shall not be paid in cash but shall be applied, subject to the provisions contained in clause (3) either in or towards.

- (i) Paying up any among for the time being unpaid on share held by such members respectively.
- (ii) Paying in the way specified in sub clause (1) and partly in that specified in the proportion aforesaid; or

Article 158.3): A share premium account and a capital redemption fund may for the purpose of this regulation only, be applied in the paying up of un issued purpose shares to be issued to members of the Company as fully paid bonus shares.

Article 158.4): The Board shall give effect to the resolution passed by the Company in pursuance of this regulation.

WINDING UP

Application of Assets

Article 186.: Subject to the provisions of the Act as to preferential payments the assets of the Company shall on its winding up be applied in satisfaction of its liabilities *pari passu* and subject to such application, shall be distributed among the members according to their rights and interests in the Company.

Division of Assets of the Company special among members

Article 187.: If the Company shall be wound up whether voluntarily or otherwise, liquidators may, with the sanction or a special resolution, decide among the contributories in special or kind, any part of the assets of the Company and may with the like sanction vest any part of the assets of the Company in trustees upon such trusts for the benefit of the contributories or any of them as liquidators with the like sanction shall think fit in case any shares to be divided as aforesaid involve a liability to calls or otherwise any persons entitled under such division to any of the said shares may within 10 days after the passing of the special resolution by notice in writing direct the liquidators shall if practicable, act accordingly.



SECTION XI - OTHER INFORMATION

MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following Contracts (not being contracts entered into in the ordinary course of business carried on by our Company or entered into more than two years before the date of this Draft Red Herring Prospectus) which are or may be deemed material have been entered or to be entered into by our Company. These Contracts, copies of which have been attached to the copy of the Red Herring Prospectus, delivered to the RoC for registration and also the documents for inspection referred to hereunder, may be inspected at the registered office of our Company situated at 417, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad - 500 038, Andhra Pradesh, India from 11.00 hours to 15.00 hours on any working day, excluding Saturday and Sunday from the date of this Draft Red Herring Prospectus until the Bid/Issue closing date.

I. MATERIAL CONTRACTS

1. Memorandum of Understanding dated August 24, 2006 with UTI Securities Limited, appointing them as Book Running Lead Manager to the Issue.
2. Memorandum of Understanding August 22, 2006 signed with Aarthi Consultants Private Limited, appointing them as Registrar to the Issue.
3. Tripartite Agreement dated February 1, 2005 between the Company, Aarthi Consultants Pvt. Ltd. and NSDL.
4. Tripartite Agreement dated June 6, 2005 between the Company, Aarthi Consultants Pvt. Ltd. and CDSL.

II. DOCUMENTS FOR INSPECTION

1. Memorandum and Articles of Association of SMS Pharmaceuticals Limited.
2. Certificate of Incorporation of the Company dated December 14, 1987.
3. Fresh Certificate of Incorporation consequent on change of name.
4. Resolution passed under Section 81(1A) of the Act, at the Extra Ordinary General Meeting of the Company held on April 28, 2006.
5. Resolution Passed by the Board of Directors at their meeting held on October 1, 2005 for the proposed Public Issue.
6. Consent from the Directors, Company Secretary, Compliance Officer, Auditor, Book Running Lead Manager, Registrars to the Issue, Bankers to the Issue, Bankers to the Company, Underwriters, Legal Advisor to the issue, Legal Advisor to the company to act in their respective capacities.
7. Certificate dated August 22, 2006 from M/s. Rambabu & Co, Chartered Accountants & M/s. P Murali & Co., Chartered Accountants, Joint Statutory Auditors of our Company detailing the tax benefits.
8. Auditor's report dated June 16, 2006 from M/s. Rambabu & Co, Chartered Accountants & M/s. P Murali & Co., Chartered Accountants, Joint Statutory Auditors of our Company as included in the Draft Red Herring Prospectus.
9. Copy of the Auditors Certificate dated August 22, 2006 regarding the sources and deployment of funds as on August 22, 2006.
10. Consent from the auditor to include to the auditor's report and tax benefit certificate in the Draft Red Herring Prospectus.



11. Copies of Annual Reports of the Company for, FY 2002, FY 2003, FY 2004, FY 2005 and FY2006.
12. Copies of Initial Listing Application made to the Bombay Stock Exchange Limited and National Stock Exchange Limited.
13. Copy of in-principal approval received from Bombay Stock Exchange Limited and National Stock Exchange Limited dated [•] and [•] respectively.
14. SEBI observation letter no. [•] dated [•].
15. Copies of the Resolution dated December 11, 2003 appointing Mr. Ramesh Babu Potluri as Chairman & Managing Director and Mr. T V V S N Murthy as Vice Chairman & Jt. Managing Director.
16. Copy of Appraisal Report of EXIM Bank Limited dated August 18, 2006.
17. Copy of the Term Loan sanction letter from EXIM Bank vide their sanction letter number CBG:EOU-D611:290 dated August 10, 2006.
18. Consent from EXIM bank to include the appraisal report in the Draft Red Herring Prospectus.
19. Copies of the agreements entered by the company as detailed in the Section "Other Agreements".

Any of the contracts or documents mentioned in this Draft Red Herring Prospectus may be amended or modified at any time if so required in the interest of our Company or if required by the other parties, without reference to the shareholders subject to compliance of the provisions contained in the Companies Act and other relevant statutes.



SECTION XII - DECLARATION

We, hereby declare that all the relevant provisions of the Companies Act, 1956 and the guidelines issued by the government or the guidelines issued by the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 1956 or the Securities and Exchange Board of India Act, 1992 or rules made there under or guidelines issued, as the case may be. We further certify that all statements in this Prospectus are true and correct.

SIGNED BY THE DIRECTORS

Mr. Ramesh Babu Potluri

Mr. T V V S N Murthy

Mr. A.P. Rao

Dr. Mihir K. Chaudhuri

Dr. B.Manoranjan Choudary

Mr. K. Subramanyeswar Rao

Mr. Viond Goel

SIGNED BY THE GENERAL MANAGER - FINANCE

Mr. N. Rajendra Prasad

SIGNED BY THE COMPLIANCE OFFICER

Mr.Y. Nagarjuna Rao

Date : August 24, 2006.

Place : Hyderabad



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