# SMS PHARMACEUTICALS LIMITED

(Incorporated as S.M.S. Pharmaceuticals Private Limited, on December 14, 1987 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 / 60 / 61, Fax: +91 –40 –5536 4417 / 2373 2709
Website: www.smspharma.com Email: info@smspharma.com

**PUBLIC ISSUE OF EQUITY SHARES COMPRISING FRESH ISSUE OF 1,500,000 EQUITY SHARES OF RS. 10/- EACH AT A PREMIUM OF RS. [·] PER SHARE FOR CASH AGGREGATING RS. 405 MILLION (at the lower band of Issue Price of Rs. 270 per share) and Rs. 486 MILLION (at higher band of the Issue Price of Rs.324 per share) (HEREINAFTER REFERRED TO AS THE "ISSUE").**

**Price Band: Rs.270 to Rs.324 per Equity Share of Rs.10/- each**

## RISK IN RELATION TO THE FIRST ISSUE

This being the first Issue of the Equity Shares of the Company, there has been no formal market for the Equity Shares of the Company. **The face value of the shares of the Company is Rs.10/- per share and the Issue Price is 27 times (at the lower band of Issue Price of Rs. 270 per share) and 32.4 times (at higher band of the Issue Price of Rs.324 per share) of the face value of the shares of the Company.** The Issue price (as has been determined and justified by the Lead Manager and the Company as stated herein under the paragraph on Basis for Issue price) should not be taken to be indicative of the market price of the equity shares after the shares are listed. No assurance can be given regarding an active or sustained trading in the shares of the Company or regarding the price at which the Equity Shares will be traded after listing.

## GENERAL RISKS

Investment 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 offering. 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 offered 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 on **Page No.** ____ **to** ___ of the Prospectus.

## ISSUER'S ABSOLUTE RESPONSIBILITY

SMS Pharmaceuticals Limited, having made all reasonable enquiries, accepts responsibility for, and confirms that this 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 Prospectus is true and correct in all material respects 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.

## LISTING

The Equity Shares offered through this Draft Prospectus are proposed to be listed at The National Stock Exchange of India Limited ("NSE") (the Designated Stock Exchange) and The Stock Exchange, Mumbai ("BSE"). We have received "in-principle" approvals for the listing of our Equity Shares from BSE and NSE by their letters dated **[·]**, and **[·]**, respectively.

| LEAD MANAGER TO THE ISSUE | REGISTRARS TO THE ISSUE |
|---|---|
| **UTI Securities Limited**<br>4th Floor, Merchant Chamber,<br>41, Sir Vithaldas Thackersey Marg,<br>New Marine Lines, Mumbai – 400 020.<br>Tel: +91 22 5667 0606<br>Fax: +91 22 2203 0165<br>Email: smsipo@utisel.com<br>Contact Person : Mr. Jinesh N Mehta | **Aarthi Consultants Private Limited**<br>1-2-285, Domalguda<br>Opposite Citycable office<br>Hyderabad – 500 029,<br>Tel: +91 –40 –2764 2217<br>Fax: +9140 –2763 2184<br>E-mail: aarcons@hd2.dot.net.in<br>Contact Person : Mr. C Bhaskar |

## ISSUE PROGRAMME

| | |
|---|---|
| **ISSUE OPENS ON: ______ 2005** | **ISSUE CLOSES ON: _____ 2005** |

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## DEFINITIONS AND ABBREVIATIONS

**Definitions**

| Term | Description |
|---|---|
| | |
| "SMS Pharmaceuticals", the "Company", "our Company" the "Issuer", "we" and "us" | Refers to SMS Pharmaceuticals Limited, a public limited Company incorporated under the Companies Act |
| **Issue Related Terms and Abbreviations** | |
| Acre | Area equivalent to 43560.17 square feet |
| AP / A.P. | Andhra Pradesh |
| APGST | Andhra Pradesh General Sales Tax |
| APPCB | Andhra Pradesh Pollution Control Board |
| Applicant | Any prospective investor who makes an application for shares in terms of the prospectus. |
| Application Form | The form in terms of which the investors shall apply for the Equity Shares of the Company |
| Articles/ Articles of Association | Articles of Association of SMS Pharmaceuticals Limited |
| Auditors / Joint Auditors | Statutory auditors of the Company being M/s. Rambabu & Co., Chartered Accountants, Hyderabad and M/s. P. Murali & Co., Chartered Accountants, Hyderabad |
| A. Y. /AY | Assessment Year |
| Banker(s) to the Issue | |
| BIFR | Board for Industrial and Financial Reconstruction |
| Board of Directors/ Board | The Board of Directors of the Company or a committee thereof |
| BSE | The Stock Exchange, Mumbai |
| CDSL | Central Depository Services (India) Limited |
| Companies Act/ The Act | The Companies Act, 1956, as amended from time to time |
| Depositories Act | The Depositories Act, 1996, as amended from time to time |
| Depository | A depository registered with SEBI under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time |
| DP | A depository participant as defined under the Depositories Act |
| Designated Stock Exchange | NSE |
| Director(s) | Director(s) of SMS Pharmaceuticals Limited from time to time |
| EGM | Extraordinary General Meeting |
| EEFC a/c | Export Earners Foreign Currency Account |
| EPS | Earnings Per Equity Share |
| Equity Shares | Equity Shares of the Company of face value Rs.10/- each unless otherwise specified in the context thereof |
| FEMA | Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed there under |
| FI | Financial Institution |
| FII/ Foreign Institutional Investor | Foreign Institutional Investor (as defined under FEMA (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000) registered with SEBI under applicable laws in India |
| Financial year/ fiscal/ FY/F.Y. | The period ended March 31/ June 30 of a particular year unless otherwise specified in the context thereof |

| | |
|---|---|
| FIPB | Foreign Investment Promotion Board, Ministry of Finance, Government of India |
| GIR Number | General Index Registry Number |
| GoI/ GOI<br>HUF | The Government of India<br>Hindu Undivided Family |
| Indian GAAP | Generally Accepted Accounting Principles in India |
| IPO<br>Issue/ Fresh Issue | Initial public offering/ Issue<br>The Issue of 1500,000 Equity Shares of Rs. 10/- each at the Issue Price of Rs. **[·]**/- per share by the Company under this Prospectus<br>Price Band: Rs.270 to Rs.324 per Equity Share of Rs.10/- each |
| Issue Closing Date | The date on which the Issue closes for subscription by the public |
| Issue Opening Date | The date on which the Issue opens for subscription by the public |
| Issue Period | The period between the Issue opening date and Issue closing date and includes both these dates. |
| Issue Price | The price at which the Equity shares will be issued by the Company under this Prospectus |
| I.T. Act<br>L/C | The Income-Tax Act, 1961, as amended from time to time, except as stated otherwise<br>Letter of Credit |
| MoA | Memorandum and Articles of Association of SMS Pharmaceuticals Limited |
| Memorandum/ Memorandum of Association | The Memorandum of Association of SMS Pharmaceuticals Limited |
| MNC(s) | Multi-national Companies in the pharmaceutical industry |
| MF<br>NAV | Mutual Fund<br>Net Asset Value |
| NRI<br>NSDL | A person resident outside India, as defined under FEMA and who is a citizen of India or a Person of Indian Origin as defined under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000<br>The National Securities Depository Limited |
| NSE | The National Stock Exchange of India Limited |
| O.S. No. | Original Suit number allotted when a Civil Suit is first filed in an Indian Court having original jurisdiction |
| PAN | Permanent Account Number |
| PAT | Profit After Tax |
| Project | Project is the creation of infrastructure for expansion and growth of the Company's existing business. The present Issue of Equity Shares is being made by the Company for the following purposes:<br><br>i) Setting up of Manufacturing facilities for APIs like Lansoprazole, Rabiprazole, Almotriptan, Naratriptan, Rizatriptan etc.;<br>ii) financing working capital margin;<br>iii) listing the Equity Shares on Stock Exchanges; and<br>iv) meeting the expenses of this Issue.<br><br>The details of the Project including the cost of the Project are provided in the section 'Objects of the Issue' at page [•] of the Draft Prospectus |
| Pharma Business<br>Promoters | Refers to the APIs business of the Company wherever referred to in context of the Company's business<br>Mr. P. Ramesh Babu and Mr. T V V S N Murthy |
| Prospectus | Refers to this document, in terms of which the present Issue of Equity Shares are proposed to be made, to be filed with ROC |

| | |
|---|---|
| RBI | Reserve Bank of India |
| Registered Office of the Company | 417, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad – 500 038 AP India. |
| Registrar or Registrar and Transfer Agent of the Company | Registrar to the Issue, in this case being Aarthi Consultants Private Limited having its office as indicated on the cover page of this Prospectus |
| RoC | Registrar of Companies, Andhra Pradesh located at Hyderabad |
| SEBI SAST Regulations | SEBI (Substantial Acquisition of Shares and Takeover) Regulations 1998 and subsequent amendments thereof |
| SEBI | The Securities and Exchange Board of India constituted under the SEBI Act |
| 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 issued by SEBI on January 27, 2000, as amended, including instructions and clarifications issued by SEBI from time to time |
| Stock Exchanges | NSE and BSE referred to collectively |
| Underwriters | UTI Securities Limited, ----------, ------------, all of who have underwritten this Issue. |
| Underwriting Agreement | The Agreement between the Underwriters and the Company entered into in respect of the Public Issue of Equity Shares proposed to be made under this Prospectus |
| US/ USA/ America | The United States of America |
| UTISEL | UTI Securities Limited |
| WTO | World Trade Organisation |

## GLOSSARY OF TECHNICAL AND INDUSTRY TERMS

| Terms | Description |
|---|---|
| ACE | Angiotension-converting Enzyme |
| ANDA | Abbreviated New Drug Application |
| API | Active Pharmaceutical Ingredients |
| CAGR | Compounded Annual Growth Rate |
| CENVAT | Central Value Added Tax |
| CGMP | Current Good Manufacturing Practices |
| CNS | Central Nervous System |
| CoS | Certificate of Suitability |
| C & F | Clearing and Forwarding |
| DMF | Drug Master File |
| EOU | Export Oriented Unit |
| EP | European Patent |
| EU | European Union |
| FMCG | Fast Moving Consumer Goods |
| GMP | Good Manufacturing Practices |
| HCL | Hydrochloric Acid |
| IPR(s) | Intellectual Property Right(s) |
| LDL | Low Density Lipoprotein |
| MCA – UK | Medicinal Control Agency – UK (Name changed to Medical and Healthcare Products Regulatory Agency “MHRA”) |
| MOEF | Ministry of Environment and Forest |
| MTPA | Metric tonne per annum |
| NCE | New Chemical Entity |
| NDD | New Drug Discovery |
| NRT | Nicotine Replacement Therapy |
| OTC | Over-the-counter |
| PCT | Patent Corporation Treaty |
| PPM | Particles per million |
| R&D | Research and Development |
| TGA | Therapeutic Goods Administrator of Australia |
| TPA | Tonnes per annum |
| US FDA | United States Food and Drug Administration |
| WHO | World Health Organisation |
| WHO GMP | World Health Organisation Good Manufacturing Practice |
| WTO | World Trade Organisation |

## CERTAIN CONVENTIONS; FORWARD -LOOKING STATEMENT; MARKET DATA

In this Draft Prospectus, the terms “we”, “us”, “our” or “the Company”, unless the context otherwise implies, refer to SMS Pharmaceuticals Limited.

We have included statements in this Draft Prospectus which contain words or phrases such as “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”. Actual result may differ materially from those suggested forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, 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 which have an impact on our business activities or investments, the monetary and interest 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, changes in laws and regulations in the pharmaceutical industry and changes in competition in the pharmaceuticals industry. For further discussion of factors that could cause our actual results to differ, refer to the section entitled “Risk factors” beginning on page no. (i) of this 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 we, our Directors, the Lead Manager, nor any of their affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date thereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Company and the Lead Manager will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

Material data used throughout this Draft Prospectus was obtained from internal Company reports, data and industry publications. Industry publication data generally state that the information contained in those publications 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 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.

In this Draft Prospectus, any discrepancies in any table between total and the sums of the amount listed are due to rounding off.

## RISK FACTORS

An investment in equity shares involves a high degree of risk. You should consider carefully all of the information in this Draft 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

***On an average 80-90% of our revenues in the past have been 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, our major revenues were from Ranitidine. Since FY 2001, we have introduced various products like Sumatriptan Succinate, Citalopram, Quinapril and others, thereby broad basing our product portfolio. Notwithstanding, the expansion of our product portfolio our dependence on Ranitidine HCL accounts for 73% of our revenues in the six-month period ended September 30, 2004. Introduction of other drugs or availability of substitutes or an increase in the number of suppliers, may each have an adverse impact on our revenue and profits derived from Ranitidine HCL.

Comment [S1]:

***APPCB had vide its Order no. MDK-74/PCB/TF/BO/2004 dated September 4, 2004, issued "Stop Production Order" in respect of production of Company's products (Ranitidine Hcl, Ranitidine Base and NMSM) at Unit I located at Survey No. 180/2,*** **Khazipally, Jinnaram Mandal, Medak District, Andhra Pradesh.**

This order was based on the complaints received from the villagers and the inspection of the Industrial Area by the pollution board officials.

This Order contained certain direction to be followed by us. On compliance of the directions made by the Pollution Control Board and the representations made by us, the APPCB has revoked its "Stop Production order" vide its Order no. MDK-74/PCB/TF/BO/2004-339 Dated September 22, 2004 and allowed the Company to operate for a period of 3 months by which the next hearing is likely to place. The Pollution Control Board has given certain directions to be complied with by the Company during this period. We have complied with the directions given by the Pollution Control Board.

One of the directions given by the Pollution Control Board includes shifting of "mercaptan" gas generating stages within next 10-12 months. We propose to take effective steps to address the problem.

**The Supreme Court Monitoring Committee (SCMC) on Hazardous Waste (HW) has observed that large quantity of potassium sulphate is being sent for recycling to another unit. This quantity contains more than 10% organic materials and that it can not be sent for recycling. SCMC also found that the Company does not have authorisation under HW Rule 1999 and that the Company continued its operations in violation of apex court order dated October 14, 2003. SCMC had given several directions to APPCB. The Committee is scheduled to visit the area once again in 2005 for further study and directions.**

We have represented to SCMC the following:

1. we have been producing Ranitidine & its Intermediates since 1991 and the HW Rules was introduced only in 1999. We received the permission under this rule in

December 2000 for a period of 2 years. Under which we could manufacture, store, transport and disposed off the solid waste viz. potassium sulphate. On the expiry of the validity of this permission, we have applied for the renewal of the same, however no renewal permission is granted in view of Public Interest Litigation pending before Andhra Pradesh High Court. For details on Public Interest Litigation refer to section on "Outstanding Litigation and Material Developments" in this Prospectus.

2. After the expiry of the permission, we started transporting the solid waste to APPCB approved TSDF (Treatment, Storage and Disposal Facility) Agency.
3. the Potassium Sulphate crude salt contains around 10% (within permissible limits) organic materials and the results of the test proving the same by third party Laboratory has been also sent to SCMC.
4. the recycling process of Potassium Sulphate has been approved by APPCB.

***There are several legal proceedings filed by and against our Company. The brief details of such proceedings filed against our Company are as given below.***

There are four civil suits filed against the Company involving an aggregate amount of Rs. 5,66,25,856 approximately.

There are two labour cases filed against the Company by its employees challenging termination of, / dismissal from, service and reinstatement. All these cases are pending before Labour Court II, Hyderabad.

There are three sales tax cases pending before sales tax authority for different Assessment Years aggregating to Rs. 4,385,403/- due to non-submission of statutory declaration forms like 'C', 'G' and 'H' forms. We are in the process of obtaining the forms from the customers to file with the authorities.

There is one income tax appeal filed by the Company before the Income Tax Appellate Tribunal for the Assessment Year 2000-2001 involving an amount of Rs. 776,472/-.

The Indian Council for Enviro Legal Action has filed a public interest litigation against Union of India and others wherein several pharmaceutical companies are respondents including the Company in respect of Patancheru and Khazipally areas where most of the industrial units of pharmaceutical companies are located in Andhra Pradesh. The Writ Petition No. 19661/02 was originally filed in the Supreme Court of India, but pursuant to the directions of the Supreme Court of India, the said writ petition was transferred to the High Court of Andhra Pradesh. In the said 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 the Company at certain pages of the said Report and there are statements therein *inter alia* that there is concentration of selected heavy metals, which show appreciable levels of total chromium, lead, cadmium, nickel. The Company has filed its affidavit before the High Court of Andhra Pradesh and the same is pending.

For further details on outstanding litigation against the Company, please refer to Section "Outstanding Litigation and Material Developments" of this prospectus.

***We have taken certain properties on leasehold basis, but the Lease Agreements in respect thereof have not been 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 is 3,500 square meters. | The lease agreement is valid from May 1, 2002 to October 30, 2007 | Our Company is in the process of registering this Lease Agreement, and the same is expected to be registered in the week commencing December 12, 2004. |
| 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 is 4,192 square meters. | The Lease Agreement is valid from May 1, 2002 to October 30, 2007. | Our Company is in the process of registering this Lease Agreement, and the same is expected to be registered in the week commencing December 12, 2004. |
| 3. | Flat No. 408, 4th 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. | 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 4th Floor, Nilgiri Block Aditya Enclave, Ameerpet, Hyderabad with Car parking area bearing Nos. 63, 64 and 65 admeasuring 2257 square feet, where our Nutraceutical Division is situated. | Lease Agreement valid for 3 years from June 1, 2003. | 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 5th 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 | This Lease Agreement is not registered, but there is no material financial implication on our Company as the security depost paid to the Lessor, which is refundable by the Lessor to our Company, is Rs. 150,000/-. |
| 6. | Land admeasuring 390 square yards situated at Plot No. 60, M V P Colony, Sector 5, Visakhapatnam – 17, together with the building standing thereon comprising of Ground Floor and First Floor admeasuring 1600 square feet. | Lease Agreement valid for 11 months from November 16, 2004 | 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. 25,200/-. |

***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.

**Comment [JNM2]:** no mention about workers who have come and settled. To update status

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

Our APIs sales 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 sales 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.

***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.

***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. P. Ramesh Babu and Mr. TVVSN Murthy have wide experience in pharmaceuticals business and have been profitably managing our Company since 1990.

***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, development of new products. Failure to retain talented manpower may adversely affect our growth strategy and future profitability.

***The concept of Nutraceuticals is not well known in India and therefore our investment in the introduction of Nutraceuticals may not earn us returns. We could lose our investment and face the risk of consumers not accepting our products.***

We have recently launched Nutraceuticals products like Fenudiet, Alvit and Hearty Salt in India. The market for Nutraceuticals products is at a nascent stage and we cannot estimate the success of this venture. Our failure in this venture may have adverse effect on our business plan and future profitability of this line.

***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.

***The Company has not placed any orders for plant & machinery and Laboratory equipments worth Rs.204.90 million required for the expansion.***

The Company has already received quotations from the proposed suppliers for all major plant and machinery and is in the process of finalizing the placement of orders.

***A conflict of interest may arise between us and Sreenivasa Pharma Private Limited, one of our associate Companies.***

Sreenivasa Pharma Private Limited is a company in which we hold 26% shares and voting rights. Our Company as well as Sreenivasa Pharma Private Limited operate in the same line of business namely APIs. In order to prevent any conflict of interest, Sreenivasa Pharma Private Limited has executed a non-compete Agreement in favour of our Company undertaking not to enter in to the therapeutic segments (Gastro, CNS, Cardiac, Anti Bacterial and Oncology), in which our Company operates. At the end of the period of 20 years of Non-compete Agreement or any extensions thereof, if Sreenivasa Pharma Private Limited starts operations in the restricted segments, such action is likely to cause a conflict of interest resulting in loss of market share and reduction in profitability of our Company at that time.

Independent of the said non-compete agreement, conflict of interest may arise if our Company and Sreenivasa Pharma Private Limited both enter into segments not covered by the non-compete agreement. This may result in loss of market share and reduction in profitability of our Company.

***We are still to obtain the following permissions required for our ongoing business as well as for expansion project:***

**Existing Business operations**

| **Approval / Consent** | **Agency** | **Status** |
|---|---|---|
| Grant of Star Export House Certification | The Joint Director General of Foreign Trade, Hyderabad | Renewal Application is made on October 26, 2004 |
| Licence for use of Boiler No. AP 3464 | Director of Boilers, Hyderabad | Renewal Application is made on August 26, 2004.<br>Inspection is completed and renewal is expected in 2-3 weeks. |
| Licence for use of Boiler No. AP 3316 | Director of Boilers, Hyderabad | Renewal Application is made on September 13, 2004.<br>Inspection is awaited |
| Consent for operations – Unit I | APPCB, Hyderabad | Renewal Application is made on June 30, 2004. Renewal is subject to the outcome of Public Interest Litigation pending with Hyderabad High Court, for details referred to section on "Outstanding Litigations and Material Developments" in this Prospectus. |
| Consent for operations – Unit II | APPCB, Hyderabad | Renewal Application is made on June 19, 2004 and Insepction is completed. Renewal is expected in the month of December 2004. |

***The permissions/approvals, which the Company proposed to apply for at the time indicated below. These permissions/ approvals are in respect of the setting up of manufacturing facility at Vizag as a part of our proposed expansion project:***

**Proposed Expansion Project**

| Approval / Consent | Agency | Status |
|---|---|---|
| Environmental Impact Assessment | MOEF | Appointed consultant viz. M/s. Bhagavati Anna Consultants Pvt. Ltd. to study Environmental Impact Assessment. |
| Additional Power requirement | APSEB | Application will be made in February 2005. Further we also propose to acquire two generators (with an aggregate capacity of 950 KVA) as a back up arrangement. |
| Consent for Establishment / Operations | APPCB | Application will be made in February 2005. |
| Approval of Factory Drawings | Inspector of Factories, Andhra Pradesh | Application will be made after obtaining NOC from APPCB. |
| License under Factories Act | Inspector of Factories, Andhra Pradesh | Application will be made after obtaining NOC from APPCB. |

***Contingent Liabilities not provided for by us as on September 30, 2004.***

Contingent liabilities not provided for by us as on September 30, 2004 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.

**Deleted:** December 31, 2003

**EXTERNAL AND BEYOND OUR CONTROL**

***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.***

**Deleted:** Growing competition in a global business environment may force us to reduce the prices of our products and services, which could reduce our revenues and margins and/or decrease our market share, either of which could have a material adverse effect on our business, financial condition and results of operations.¶

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.

***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.

***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.

***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.

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

**Deleted:** ***Terrorist attacks and other acts of violence or war involving India and other countries could adversely affect our business and may negatively affect the Indian markets where our Equity Shares will trade.*** ¶
¶

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.

**Deleted:** cannot assure you that we will

***Risks arising from changes in taxation policies***

**Deleted:** ***Risk Arising outof Volatility of Capital Markets***¶

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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.

**Notes to Risk Factor**

1. The net worth of our Company (as restated) as of September 30, 2004 is Rs. 386.41 million.

2. The present Issue is a fresh Issue of 1,500,000 Equity Shares at a price of Rs. **[·]**/- per share for cash at premium aggregating Rs. **[·]** million.

3. The average cost of acquisition of Equity Shares held by the Promoters of the Company (including shares held by Mr. TVVSN Murthy as Karta of HUF) is Rs. 2.14.

4. The Book Value per Equity Share as of September 30, 2004 is Rs. 94.25.

5. Related Party Transactions are given at page __ of this Draft Prospectus.

6. Investors are advised to refer the paragraph on "Basis of Issue Price" mentioned in this Draft Prospectus on page ____ before making an investment in the Issue.

7. 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 Draft Prospectus).

8. Investors may contact the Lead Manager or the Compliance Officer for any complaint/ clarification/ information pertaining to the Issue, who will be obliged to attend to the same.

9. All information shall be made available by the Lead Manager 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

## HIGHLIGHTS

1. The Company is a continuously profit making & Dividend paying since 1990, PAT and Dividend paid for last 5 years are given below :

Rs. In millions

| Particulars | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| PAT | 116.61 | 42.32 | 59.20 | 23.28 | 74.93 |
| Dividend (%) | 25 | 20 | 20 | 20 | 20 |

**Deleted:** 0

2. The Company has filed 5 process patents and 1 product patent under PCT.
3. The Company has filed 1 process patent with the Indian Patents Office.
4. The Company has filed 9 DMFs/CoS in CTD format for 3 products; details are listed under section on "Intellectual Property Rights".
5. The Company has ISO 9001: 2000 certifications for Unit I & Unit II from DNV Certifications Ltd.
6. Unit II production facilities of the Company are US FDA approved.
7. The Company has entered into an Agreement with IIT, Guwahati for manufacture of metal acetylacetonates
8. The Company has entered into an Agreement with IICT, Hyderabad for exclusive manufacturing rights of certain APIs like Diltiazem, Taxol Side chain etc
9. The Company has entered in to an Agreement with Ranbaxy for supply of Sumatriptan Succinate, under pars IV of ANDA, who has filed ANDA with US FDA making reference to the Company's DMF.
10. The Company has entered into an Agreement with a Netherlands Company, SPEC for development of 39 molecules
11. The Company has entered into a Memorandum of Understanding with Sochinaz SA for exclusive developmental works for Trandalopril

    **Deleted:** and supply of

12. The Company is the world's largest producer of Ranitidine and its Intermediates (Source : Pharma Capital)
13. The Company has filed non-infringing process patent for Sumatriptan Succinate. It is the first Indian Company to file DMF in USA, Canada and Europe.

**Deleted:** for global marketing by Sochinaz SA. ¶

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## SUMMARY

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

Unless otherwise indicated, all financial and statistical data relating to the pharmaceutical industry in the following discussion is derived from internal Company reports & data, industry publication and estimates collected by major pharmaceutical Companies in their quarterly sales performance review. This data has been reclassified in certain respects for purposes of presentation. For more information, see "Certain Conventions; Forward Looking Statements; Market Data" in this Draft Prospectus.

### Our Business

We have emerged as a leading manufacturer and exporter of API and its intermediates. We are mainly engaged in manufacturing Ranitidine, Ciprofloxacin, Omeprazole, Sumatriptan Succinate, Ramipril, Quinapril, Gemcitabine and their intermediates. One of the keys to our success is talented pool of scientists, close co-operation of scientists and process specialists in cross-functional teams and fully equipped in-house R&D laboratory with state of art technology. We have also established exclusive basic research facilities where the Company is developing new products and process improvements.

We have been operating through four manufacturing units and one basic research facility in and around Hyderabad, manufacturing Ranitidine, Ciprofloxacin, Omeprazole and Gemcitabine in UNIT I, High value & Low volume APIs like Sumatriptan Succinate, Ramipril and Quinapril in UNIT II. UNIT III is for Nutraceuticals. UNIT IV is for scaling up of the APIs and Bulk Bio products.

Our UNIT II facility was approved by USFDA where we filed DMF for manufacturing Sumatriptan Succinate and Ramipril. We are in the process of filing DMF's for manufacturing Quinapril and Ranitidine in the same facility. Further we are in the process of building up another state of art facility for Ranitidine at UNIT II to fulfill the demand in US and other Regulatory markets in Europe.

### 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 during the previous fiscal. 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, 2004.

  *Our Advantage*
  Our facilities, details of whose locations are given in the section entitled 'Locations, Facilities…', given in this Draft Prospectus, have consistently produced high quality APIs which are very cost effective resulting in many of our competitors 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 of various products through process innovation. We have entered into one product development agreement till date and is in the process of entering into 2 more

Agreements under Contract Research activity. 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

- *R & D*

The technologies for the products that we manufacture have been developed in-house and have fared better with regard to quality and costs. Apart from developing new technologies, the R&D efforts are aimed at continuously upgrading existing manufacturing techniques to improve process yields and make world-class quality products.

Our R&D activities, among others, includes the following:

- Process optimization and improvements
- Custom synthesis of molecules
- Filing of Drug Master Files (DMFs) with the US FDA Authorities and other authorities like UK MCA, TGA etc.
- Filing of Patents under the Patent Cooperation Treaty (PCT)
- Development and manufacture of APIs under technology transfer Agreements

*Our Advantage*
We have our own generic development program and based on this program, we have identified certain molecules going off patent between 2004 - 2010. Our R&D team is involved in raw material sourcing, process optimization, in-process control tests, analytical method development, the subsequent activity of test and validation projects, and stability studies of the products.

We have also filed 5 process patents (of which 1 is approved) & 1 Product Patent with PCT.

We have entered into a Multi Party Agreement for development of APIs viz. Diltiazem, Taxolsidechain, Metal Acetyl Acetonates details of which are given in the section entitled 'Intellectual Property'

We have entered into an Agreement with a Pharmaceutical Consultancy Company based in Netherlands for development of 39 molecules on their behalf.

- *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 upcoming manufacturing facilities (refer para on "Our ongoing projects") are made in accordance with the US FDA standards.

- *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.

**Our Strategy**

We intend to increase profitability and improve our market position in the industries 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 manufacturers requirements.
- Strategic alliance with MNC's in R & D.
- Developing new molecules.

**Summary Unconsolidated Financial Data**

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 November 18, 2004 in the section entitled "Financial Information". You should read this financial data in conjunction with our restated unconsolidated financial statements for each of Fiscal 2000, 2001, 2002, 2003 and 2004 and for the six months period ended September 30, 2004, including the Notes thereto and the Reports thereon, which appears under Para on "Auditors Report" in this Prospectus, and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

**Summary of Profit and Loss Account, as restated**

Rs. In million

| | Financial year ended | | | | | |
|---|---|---|---|---|---|---|
| **PARTICULARS** | **June 30, 2000*** | **June, 30, 2001** | **June 30, 2002** | **March 31, 2003**** | **March 31, 2004** | **6 months Period ended September 30, 2004** |
| Total Sales | 1096.24 | 564.90 | 711.18 | 465.37 | 1117.17 | 520.33 |
| Other Income | 5.32 | 3.65 | 5.36 | 2.28 | 2.87 | 1.37 |
| **Total Income** | **1101.57** | **568.55** | **716.55** | **467.66** | **1120.04** | **521.70** |
| Total Expenditure | 978.45 | 523.23 | 654.34 | 417.15 | 1004.82 | 459.44 |
| Net Profit Before Tax & Extra ordinary Items | 123.11 | 45.32 | 62.20 | 50.51 | 115.22 | 62.26 |
| Provision For Taxation | 6.50 | 3.00 | 3.00 | 27.23 | 40.29 | 24.90 |
| Extra-ordinary Items | -- | -- | -- | -- | 2.68 | -- |
| Net Profit After Tax & Extra ordinary Items | 116.61 | 42.32 | 59.20 | 23.28 | 72.25 | 37.36 |

**Summary of Assets and Liabilities, as restated**

| | | | Financial year ended | | | |
|---|---|---|---|---|---|---|
| **PARTICULARS** | **June 30, 2000*** | **June 30, 2001** | **June 30, 2002** | **March 31, 2003**** | **March 31, 2004** | **Period ended September 30, 2004** |
| A. Total Fixed Assets | 294.25 | 405.18 | 443.35 | 505.55 | 564.55 | 644.88 |
| B. Investments | 0.84 | 0.34 | 0.34 | 2.95 | 2.94 | 6.71 |
| C. Total Current Assets, Loans & Advances | 412.20 | 429.16 | 489.49 | 455.58 | 666.63 | 625.38 |
| D. Total Liabilities & Provisions | 410.14 | 499.16 | 541.79 | 644.13 | 875.26 | 890.56 |
| **NET WORTH (A+B+C-D)** | **297.16** | **335.53** | **391.39** | **317.34** | **358.86** | **386.41** |
| **REPRESENTED BY:** | | | | | | |
| A. Share Capital | 20.50 | 20.50 | 20.50 | 20.50 | 41.00 | 41.00 |
| B. Reserves and Surplus | 279.92 | 317.72 | 372.83 | 323.80 | 366.28 | 403.63 |
| C. Miscellaneous Expenditure | 3.26 | 2.69 | 1.94 | 26.96 | 48.42 | 58.22 |
| **NET WORTH (A+B-C)** | **297.16** | **335.53** | **391.39** | **317.34** | **358.86** | **386.41** |

*** for 15 Months period** **** for 9 Months period**

GENERAL INFORMATION

# SMS PHARMACEUTICALS LIMITED

(Incorporated as S.M.S. Pharmaceuticals Private Limited, on December 14, 1987 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 / 60 / 61, Fax: +91 –40 –5536 4417 / 2373 2709
Website: www.smspharma.com Email: info@smspharma.com

**AUTHORITY FOR THE PRESENT ISSUE**

Pursuant to Section 81(1A) of Companies Act, the present Issue of 1,500,000 Equity Shares by the Company has been authorised by a resolution passed by the Board of Directors of the Company at their meeting held on August 30, 2004 and a Special resolution passed at the Annual General Meeting of the shareholders of the Company held on September 29, 2004.

**PROHIBITION BY SEBI**

The Company, its Directors, its Promoter, other Companies promoted by the Promoter of the Company, and Companies with which the Company's Directors are associated as Directors have not been prohibited from accessing the capital markets under any order or direction passed by SEBI. None of the Company's Directors or the persons in control of the Company has been prohibited from accessing the capital markets under any order or direction passed by SEBI.

**ELIGIBILITY FOR THE ISSUE**

The Company is eligible to access the Capital Market through public Issue of Equity Shares as per Clause 2.2.1 of the SEBI (Disclosure & Investor protection) Guidelines 2000 as explained in the following manner:

- The Company has Net Tangible Assets of at least Rs. 30 million in each of the preceding 3 full years of which not more than 50% is held in monetary assets;
- The Company has a track record of distributable profits as per Section 205 of the Companies Act, 1956, for at least 3 of the immediately preceding 5 financial years;
- The Company has a Net Worth of at least Rs. 10 million in each of the preceding 3 full years;
- The aggregate of the proposed Issue and all previous Issues made in the same financial year is not expected to exceed five times the pre-Issue Net worth.

The Net Tangible Assets, Monetary Assets, Net Profit, Dividend paid and Net worth are derived from the Auditors Report included in this Draft Prospectus is set forth below :

| | As at and for the Period/Year (Rs. In million) | | | | |
|---|---|---|---|---|---|
| **Particulars** | **June 30, 2000 (15 months)** | **June 30, 2001 (12 months)** | **June 30, 2002 (12 months)** | **March 31, 2003 (9 months)** | **March 31, 2004 (12 months)** |
| Net tangible assets | 511.90 | 662.24 | 714.34 | 797.44 | 985.24 |
| Monetary Assets | 28.88 | 57.30 | 60.61 | 51.12 | 64.38 |
| Net Profits as restated | 116.61 | 42.32 | 59.20 | 23.28 * | 74.93 |

| | | | | | |
|---|---|---|---|---|---|
| Dividend Paid (%) | 25% | 20% | 20% | 20% | 20% |
| Net worth | 297.16 | 335.53 | 391.40 | 317.35 ** | 358.86 |

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 Balance.

* After Provision of Deferred Tax of Rs. 21.73 million

** After adjustment of Deferred Tax Liability of Rs. 88.52 million

**DISCLAIMER CLAUSE**

**"IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THE PROSPECTUS TO SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. THE 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 PROSPECTUS. THE LEAD MANAGER, UTI SECURITIES LIMITED, HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE PROSPECTUS 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 PROSPECTUS, THE 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 LEAD MANAGER, UTI SECURITIES LIMITED HAS FURNISHED TO THE SEBI, A DUE DILIGENCE CERTIFICATE DATED DECEMBER 8, 2004 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 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 INTHE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY,**

**WE CONFIRM THAT :**

**a. THE PROSPECTUS FORWARDED TO THE 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 PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO INVESTMENT IN THE PROPOSED ISSUE.**

**(III) WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT PROSPECTUS ARE REGISTERED WITH SEBI AND THAT SUCH REGISTRATIONS ARE VALID TILL DATE.**

**(IV) WE HAVE SATISFIED OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFILL THEIR UNDERWRITING COMMITMENTS.**

**(V) WE CERTIFY THAT WRITTEN CONSENT FROM SHAREHOLDERS HAS BEEN OBTAINED FOR INCLUSION OF THEIR SECURITIES AS PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN AND THE SECURITIES PROPOSED TO FORM PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN, WILL NOT BE DISPOSED / SOLD / TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT PROSPECTUS WITH THE BOARD TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE DRAFT PROSPECTUS.**

**THE FILING OF THE 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 LEAD MANAGER ANY IRREGULARITIES OR LAPSES IN THE PROSPECTUS."**

**CAUTION**

Our Company and the Lead Manager accept no responsibility for statements made otherwise than in the Draft Prospectus or in the advertisements or any other material issued by or at our instance and anyone placing reliance on any other source of information would be doing so at his or her own risk.

The Lead Manager accepts no responsibility, save to the limited extent as provided in the Underwriting Agreement to be entered into amongst the Underwriters and the Company and the Memorandum of Understanding amongst the Lead Manager and the Company dated November 25, 2004.

All information shall be made available by our Company and the Lead Manager to the public and investors at large and no selective or additional information will be available for a section of the investors in any manner whatsoever, including at road show presentations, in research or sales reports or elsewhere.

**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, State Industrial Development Corporations, Insurance

Companies registered with the Insurance Regulatory and Development Authority, Provident Funds with minimum corpus of Rs. 250 million, Pension Funds with minimum corpus of Rs. 250 million and to Non-residents including NRIs and FIIs. This Draft 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 offer or invitation in such jurisdiction. Any person into whose possession this Draft 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 Hyderabad.

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 Prospectus has been submitted to SEBI. Accordingly, the equity shares represented therein may not be offered or sold, directly or indirectly, and this Draft 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 Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of SMS since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

**DISCLAIMER CLAUSE OF THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED (the Designated Stock Exchange)**

As required, a copy of this Draft Prospectus has been submitted to NSE. NSE has given vide its letter dated ____________, permission to the Company to use the NSE's name in this Draft Prospectus as one of the Stock Exchanges on which this Company's securities are proposed to be listed subject to the Company fulfilling the various criteria for Listing including the one related to paid up capital and market capitalisation (i.e. the paid up capital shall not be less than Rs.100 million and market capitalisation shall not be less that Rs. 250 million at the time of listing). The NSE has scrutinized this Draft Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Draft Prospectus 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 Draft Prospectus; nor does it warrant that this Company's securities will be listed or will continue to be listed on the NSE; nor does it take any responsibility for the financial or other soundness of this Company, its Promoter, its management or any scheme or project of this Company.

Every person who desires to apply for or otherwise acquires any securities of the Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the NSE 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 any other reason whatsoever.

**DISCLAIMER CLAUSE OF THE STOCK EXCHANGE, MUMBAI**

As required, a copy of this Draft Prospectus has been submitted to the BSE. BSE has given vide its letter dated ________ permission to our Company to use the Exchange's name in this Draft Prospectus as one of the Stock Exchanges on which this Company's securities are proposed to be listed. The BSE has scrutinised this Draft Prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. BSE does not in any manner:

- warrant, certify or endorse the correctness or completeness of any of the contents of this Draft Prospectus, or
- warrant that the Company's securities will be listed or will continue to be listed on the Exchange, or

- take any responsibility for the financial or other soundness of the Company or its promoters, its management or any scheme or project of the Company.

It should not for any reason be deemed or construed that this Draft Prospectus has been cleared or approved by Exchange. Every person who desires to apply for or otherwise acquire any securities of this Company may do so pursuant to independent enquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may 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 any other reason whatsoever.

**FILING**

The Prospectus, having attached thereto, the documents required to be filed under Section 60A and 60B of the Companies Act shall be delivered for registration to the RoC, Andhra Pradesh at Hyderabad. A copy of the Prospectus has been filed with SEBI, Mumbai at Ground Floor, Mittal Court, “A” Wing, Nariman Point, Mumbai – 400 021, NSE and BSE.

**LISTING**

Initial Listing Applications have been made by the Company to The Stock Exchange Mumbai (BSE) and The National Stock Exchange (NSE) for permission to list the Equity Shares and for an official quotation of the Equity Shares of SMS.

In case the permission to deal in and for official quotation of the Equity Shares is not granted by any of the above mentioned Stock Exchanges, the Company shall forthwith repay without interest, all monies received from applicants in pursuance of this Draft Prospectus and if such money is not repaid within eight days after the day from which the Company is liable to repay it, the Company shall pay interest as prescribed under section 73 (2) of the Companies Act 1956.

**UNDERTAKING FROM PROMOTERS AND DIRECTORS**

THE ISSUER ACCEPTS FULL RESPONSIBILITY FOR THE ACCURACY OF THE INFORMATION GIVEN IN THE PROSPECTUS AND CONFIRMS THAT TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THERE ARE NO OTHER FACTS, THEIR OMISSION OF WHICH WOULD MAKE ANY STATEMENT IN THE PROSPECTUS MISLEADING AND THEY FURTHER CONFIRM THAT THEY HAVE MADE ALL REASONABLE ENQUIRIES TO ASCERTAIN SUCH FACTS. THE ISSUER FURTHER DECLARES THAT THE STOCK EXCHANGE TO WHICH AN APPLICATION FOR OFFICIAL QUOTATION IS PROPOSED TO BE MADE DOES NOT TAKE ANY RESPONSIBILITY FOR THE FINANCIAL SOUNDNESS OF THIS OFFER OR FOR THE PRICE AT WHICH THE EQUITY SHARES ARE OFFERED OR FOR THE CORRECTNESS OF THE STATEMENT MADE OR OPINIONS EXPRESSED IN THIS PROSPECTUS.

THE PROMOTERS/DIRECTORS DECLARE AND CONFIRM THAT NO INFORMATION/ MATERIAL LIKELY TO HAVE A BEARING ON THE DECISION OF INVESTORS IN RESPECT OF THE SHARES OFFERED IN TERMS OF THIS PROSPECTUS HAS BEEN SUPPRESSED, WITHHELD AND/OR INCORPORATED IN THE MANNER THAT WOULD AMOUNT TO MIS-STATEMENT, MISREPRESENTATION AND IN THE EVENT OF ITS TRANSPIRING AT ANY POINT OF TIME TILL ALLOTMENT/REFUND, AS THE CASE MAY BE, THAT ANY INFORMATION/MATERIAL HAS BEEN SUPPRESSED /WITH HELD AND/OR AMOUNTS TO A MIS-STATEMENT/ MIS-REPRESENTATION, THE PROMOTERS/ DIRECTORS UNDERTAKE TO REFUND THE ENTIRE APPLICATION MONIES TO ALL THE SUBSCRIBERS WITH IN 7 DAYS THEREAFTER WITH OUT PREJUDICE TO THE PROVISIONS OF SECTION 63 OF THE COMPANIES ACT.

**IMPERSONATION**

**Attention of applicants is specifically drawn to the provisions of sub-section (1) of section 68A of the Companies Act, which is reproduced below:**

**"any person who –**

a) **makes in a fictitious name an application to a Company for acquiring, or subscribing for any Equity Shares therein, or**

b) **otherwise induces a Company to allot, or register any transfer of Equity 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."**

**CORPORATE GOVERNANCE**

The SEBI Guidelines in respect of Corporate Governance shall be applicable to the Company immediately upon listing of its shares on the various Stock Exchanges. The Company undertakes that it shall take the necessary steps to comply with all the requirements of the guidelines on Corporate Governance as would be applicable to it upon listing of its shares. In this regard, the Company has already set up an Audit Committee, Remuneration Committee and Investor Grievance Committee as per the requirements of the revised guidelines.

**MINIMUM SUBSCRIPTION**

If our Company does not receive the minimum subscription of 90% of the Issue amount including devolvement on Underwriters, if any, within 60 days from the date of closure of the Issue, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days after the Company becomes liable to pay the amount, the Company shall pay interest prescribed under Section 73 of the Act.

Further if the number of allottees in the proposed Issue is less than 1000, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 15 days after the Company becomes liable to pay the amount, the Company shall pay interest at the rate of 15% per annum for the delayed period.

**LETTERS OF ALLOTMENT/ REFUND ORDERS**

We shall give credit to the Beneficiary Account with Depository Participants within two (2) working days of finalisation of the basis of allotment of Equity Shares. We will dispatch refund orders, if any, of value up to Rs.1,500, by "Under Certificate of Posting", and will dispatch refund orders above Rs.1,500, if any , by registered post or speed post at the sole or first applicant's sole risk.

In accordance with the Company Act, the requirements of the Stock Exchange and the SEBI Guidelines, we further undertake that:

- Allotment of Equity Shares will be made only in dematerialized form within 30 days from the Issue closing date
- Dispatch of refund orders will be done with 30 days from the Issue closing date
- We shall pay interest at 15 % per annum (for delay beyond 30 day time as mentioned above), if transfer is not made, refund orders are not dispatched and/or demat credit are not made to investors within the 30 day time prescribed above.

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 the Company, as refund banker(s) and payable at par at places where application are received. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centers will be payable by the applicants.

**ISSUE SCHEDULE**

The subscription list will open at the commencement of banking hours and will close at the close of banking hours on the dates as mentioned below:

| | |
|---|---|
| **Issue Opens on** | , 2004 |
| **Issue Closes on** | , 2004 |

| | |
|---|---|
| **LEAD MANAGERS TO THE ISSUE**<br><br>**UTI Securities Limited.**<br>SEBI Regn. No. INM 000007458<br>4th Floor, Merchant Chamber,<br>41, Sir Vithaldas Thackersey Marg,<br>New Marine Lines, Mumbai – 400 020.<br>Tel: (+91-22) 5667 0673 / 5667 0687<br>Fax: (+91-22) 2203 0165<br>Email: smsipo@utisel.com<br>**JOINT AUDITORS TO THE COMPANY**<br><br>**Rambabu & Co.**<br>Chartered Accountants<br>31,Pancom Chambers, Somajiguda,<br>Rajbhavan Road, Hyderabad.<br><br>**P. Murali & Co.**<br>Chartered Accountants<br>Somajiguda, Hyderabad. | **REGISTRAR TO THE ISSUE**<br><br>**Aarthi Consultants Private. Limited.**<br>SEBI Regn. No. INR 0000000379<br>1-2-285, Domalguda<br>Hyderabad – 500 029<br>Tel: 91-40-27642217, 27634445<br>Fax:91-40-27632184<br>E-mail:aarcons@hd2.dot.net.in<br><br>**LEGAL ADVISOR TO THE ISSUE**<br><br>**M/s. Crawford Bayley & Co.**<br>4th Floor, State Bank Buildings,<br>N.G.N. Vaidya Marg,<br>Fort, Mumbai – 400 023.<br><br>**LEGAL ADVISOR TO THE COMPANY**<br><br>**D Srinivas Prasad**<br>Advocate,<br>96/A, Parklane<br>Secunderabad – 500 003 |
| **BANKERS TO THE ISSUE** | **BANKERS TO THE COMPANY**<br><br>**State Bank of India**<br>Balanagar Branch<br>Hyderabad – 500 037. |

**COMPANY SECRETARY AND COMPLIANCE OFFICER**

**Mr. R. Sreenivasa Rao**
417, Nilgiri, Aditya Enclave,
Ameerpet, Hyderabad – 500 038
Phone: +91-040-23746059/60/61
Fax: +91-040-55364417
e-mail : rsrao@smspharma.com

Investors can contact the Compliance Officer in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allotment, non receipt of refund orders / demat credits not made etc.

## CREDIT RATING AND APPOINTMENT OF TRUSTEES

Since the proposed Issue is of Equity Shares, no credit rating or appointment of Trustees is required.

## UNDERWRITERS TO THE ISSUE

The Issue is fully underwritten as follows:

| Sr .No | Name & Address of Underwriter | Date of Agreement | Amount underwritten (Rs. In Million) |
|---|---|---|---|
| 1 | **UTI Securities Limited**<br>4th Floor, Merchant Chambers, Sir Vithaldas Thackersey Marg, New Marine Lines, Churchgate, Mumbai – 400 020 | | |
| 2 | | | |
| 3 | | | |

In the opinion of the Board, on the basis of the declaration given by the Underwriters, the resources of the above mentioned Underwriters are sufficient to enable them to discharge their underwriting obligations in full. The Underwriters referred above have obtained Certificate of Registration from SEBI under the SEBI (Underwriters) Regulations 1993 or the SEBI (Stock Brokers & Sub-brokers) Regulations 1992. The Board at their meeting held on ___________ has accepted the above Underwriting Agreements.

**Comment [v3]:** To confirm and complete

## CAPITAL STRUCTURE OF THE COMPANY

Financial data presented in this Section is derived from our audited Financial Statements as at September 30, 2004 prepared in accordance with Indian GAAP.

Share capital as at the date of filing the Draft Prospectus with SEBI (before and after the Issue) is set forth below:

| No. of Shares | Aggregate Nominal Value (Rs. ) | Aggregate Value at Issue Price (Rs.) |
|---|---|---|
| **A. Authorised capital** | | |
| 12,000,000 equity shares of Rs. 10/- each | 120,000,000 | |
| B. **Issued, Subscribed and Paid-up Capital before the Issue** | | |
| 4,100,000 equity shares of Rs.10/- each fully paid-up | 41,000,000 | |
| **C. Present Issue of** | | |
| 1,500,000 Equity shares of Rs.10/- each at a premium of Rs. **[?]**/- per share | 15,000,000 | **[?]** |
| **Out of Which** | | |
| 100,000 Equity shares of Rs.10/- each at a premium of Rs. **[?]**/- per share is reserved for NRIs / FIIs on a competitive basis | 1,000,000 | **[?]** |
| **D. Net Public Offer in terms of this Draft Prospectus** | | |
| 1,400,000 equity shares of Rs. 10/- each at a premium of Rs. **[?]**/- per share | 14,000,000 | **[?]** |
| **E. Equity Capital after the Issue** | | |
| 5,600,000 equity shares of Rs.10/- each fully paid-up | 56,000,000 | |
| **F. Share premium account** | | |
| - Before the Issue | 67,000,000 | |
| - After the Issue | **[?]** | |

a) A share Consolidation was approved at AGM held on September 29, 2004 resulting in every 2 equity shares of Rs. 5 each being Consolidated into 1 equity share of Rs. 10 each.

b) The shareholders, at EGM held on December 11, 2003 approved the Issue of Bonus Shares aggregating Rs. 20,500,000 in ratio of 1:1 by capitalisation of reserves of the Company.

**Notes to the Capital Structure**

**Details of Authorised Capital Since Incorporation and Increases Thereto**

| S. 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 |

**Share Capital History of the Company**

| Date of Allotment/Fully paid- up | No. of Equity Shares | Face Value (Rs.) | Issue Price (Rs.) | Value (Rs) | Consi de-ration | Reasons for Allotment | Cumulative number of shares | Cumulative Share Premium (Rs. In million) |
|---|---|---|---|---|---|---|---|---|
| December 14,1987 | 40 | 10 | 10 | 400 | Cash | Subscription to Memorandum of Association | 40 | - |
| December 13,1988 | 34960 | 10 | 10 | 349600 | Cash | Allotted to original promoters | 35000 | - |
| December 15,1988 | 15000 | 10 | 10 | 150000 | Cash | Allotted to relatives of original promoters | 50000 | - |
| March 20, 1989 | 25000 | 10 | 10 | 250000 | Cash | Allotted to original promoters and relatives | 75000 | - |
| September 28, 1989 | 25000 | 10 | 10 | 250000 | Cash | Allotted to relatives of original promoters | 100000 | - |
| May 07, 1990 | 22900 | 10 | 10 | 229000 | Cash | Allotted to relatives of original promoters | 122900 | - |
| June 07, 1990 | 27100 | 10 | 10 | 271000 | Cash | Allotted to relatives of original promoters | 150000 | - |
| March 26, 1992 | 150000 | 10 | 10 | 1500000 | Cash | Allotted to present Promoters and relatives and employees | 300000 | - |
| November 01, 1994 | 800000 | 10 | -- | 8000000 | Bonus | Bonus @ 8:3 | 1100000 | - |
| November 21, 1994 | 150000 | 10 | 10 | 1500000 | Cash | Allotted to present Promoters | 1250000 | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| November 30, 1994 | 350000 | 10 | 60 | 21000000 | Cash | Allotted to employees, friends and relatives of present Promotes | 1600000 | 17500000 |
| February 18, 1995 | 450000 | 10 | 120 | 54000000 | Cash | Allotted to Corporate Body. | 2050000 | 67000000 |
| **TOTAL** | 2050000 | | | | | | | |
| **Sub-division in to Rs.5/- per share on March 22, 2004** | | | | | | | | |
| March 22, 2004 | 4100000 | 5 | | | | | 4100000 | 67000000 |
| March 27, 2004 | 4100000 | 5 | -- | -- | Bonus | Bonus shares @ 1: 1 | 8200000 | 67000000 |
| **TOTAL** | 8200000 | | | | | | | |
| **Reconsolidation in to Rs.10/- per share on September 29, 2004** | | | | | | | | |
| September 29 2004 | 4100000 | 10 | | | | | 4100000 | 67000000 |
| | | | | | | | | |

**Promoters' Contribution and lock-in Period:**

The following Equity Shares, representing 20% of the post Issue capital of the Company and forming part of the Promoter's contribution, would be locked-in for 3 years from the date of allotment in the present Issue.

| Sl. No. | Name of Promoter | Date of allotment/ Transfer / Fully paid up | Consideration | No. of Shares | Face Value | Issue Price | % of Post-Issue Paid-up capital | Lock-in Period* (Years) |
|---|---|---|---|---|---|---|---|---|
| 1 | Mr. P Ramesh Babu | October 31,1990 | Cash | 1200 | 10 | 10 | 0.02 | 3 |
| | | November 30,1990 | Cash | 8500 | 10 | 10 | 0.15 | 3 |
| | | December 31,1990 | Cash | 10000 | 10 | 10 | 0.18 | 3 |
| | | January 31,1991 | Cash | 15000 | 10 | 10 | 0.27 | 3 |
| | | March 26,1992 | Cash | 6800 | 10 | 10 | 0.12 | 3 |
| | | August 20,1994 | Cash | 1200 | 10 | 10 | 0.02 | 3 |
| | | November 1,1994 | Bonus | 113867 | 10 | -- | 2.03 | 3 |
| | | November 21,1994 | Cash | 75000 | 10 | 10 | 1.34 | 3 |
| | | March 27,2004 | Bonus | 231567 | 10 | -- | 4.14 | 3 |
| | | **Total** | | **463134** | | | 8.27 | |
| | | | | | | | | |
| 2 | Mr. T V V S N Murthy | November 21,1994 | Cash | 12350 | 10 | 10 | 0.22 | 3 |
| | | November 30,1994 | Cash | 5000 | 10 | 60 | 0.09 | 3 |
| | | February 9,2001 | Cash | 1000 | 10 | 10 | 0.02 | 3 |
| | | December 30,2002 | Cash | 6000 | 10 | 10 | 0.11 | 3 |
| | | January 20,2003 | Cash | 2500 | 10 | 10 | 0.04 | 3 |
| | | December 15,2003 | Cash | 27500 | 10 | 10 | 0.49 | 3 |
| | | March 27,2004 | Bonus | 54350 | 10 | -- | 0.97 | 3 |
| | | **Total** | | **108700** | | | 1.94 | |
| | | | | | | | | |
| 3 | Mr. T V V S N Murthy (HUF) | September 30,1996 | Cash | 199032 | 10 | 10 | 3.55 | 3 |
| | | March 27,2004 | Bonus | 199067 | 10 | -- | 3.56 | 3 |
| | | **Total** | | **398099** | | | 7.11 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| 4 | Mr. Trilok Potluri | December 15,2003 | Cash | 6500 | 10 | 10 | 0.12 | 3 |
| | | 27-Mar-04 | Bonus | 44167 | 10 | - | 0.79 | 3 |
| | | **Total** | | **50667** | | | 0.91 | |
| 5 | Mr. Vamsi Krishna Potluri | May 8,2002 | Cash | 1000 | 10 | 60 | 0.02 | 3 |
| | | March 27,2004 | Bonus | 38400 | 10 | - | 0.68 | 3 |
| | | **Total** | | **39400** | | | 0.70 | |
| 6 | Ms. T Sudeepthi | March 27,2004 | Bonus | 60000 | 10 | - | 1.07 | 3 |
| | | **Total** | | **60000** | | | 1.07 | |
| | | | | | | | | |
| **Grand Total** | | | | **1120000** | | | **20.00** | |

Other than above, the entire pre Issue Equity share capital of the Company would be locked in for the period of 1 year from the date of allotment of equity shares in this Issue.

Under the existing SEBI Guidelines, 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. Under the existing SEBI Guidelines, 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 the Company, subject to the continuation of lock-in with the transferees for the remaining period and compliance with the SAST Regulations as applicable. The Promoters may pledge their Equity Shares with banks or financial institutions as additional security for loans whenever availed by them from Banks or Financial institutions.

The Shareholding of Promoters Group is as under:

| Sr. No. | Name of the Shareholders | No. of shares of Rs.10/- each | % of Outstanding Equity Capital |
|---|---|---|---|
| 1. | P RAMESH BABU | 463134 | 11.30 |
| 2. | T V V S N MURTHY [HUF] | 398134 | 9.71 |
| 3. | T V V S N MURTHY | 108700 | 2.65 |
| 4. | ANNAPURNA TALLURI | 263034 | 6.42 |
| 5. | P HIMA BINDU | 233334 | 5.69 |
| 6. | T V PRAVEEN | 124534 | 3.04 |
| 7. | T SUDEEPTHI | 120000 | 2.93 |
| 8. | RAGHAVENDRA RAO POTLURI | 114666 | 2.80 |
| 9 | TRILOK POTLURI | 88334 | 2.15 |
| 10. | VAMSI KRISHNA POTLURI | 76800 | 1.87 |
| 11. | HARI KISHORE POTLURI | 43000 | 1.05 |
| 12. | SATYAVANI POTLURI | 25666 | 0.63 |
| 13. | KALPANA POTLURI | 23466 | 0.57 |
| 14. | SURESH BABU POTLURI | 13634 | 0.33 |
| 15. | SANDHYA RANI POTLURI | 3000 | 0.07 |
| | **Total** | **2099436** | **51.21** |

None of the Promoters, members of our Promoter group or our Directors have purchased or sold any Equity Shares during a period of six months preceding the date on which this Draft Prospectus is filed with SEBI.

The promoters' contribution has been brought-in in not less than the specified minimum lot of Rs. 25,000/- per application from each individual and Rs. 1,00,000/- from Companies, if any.

The shareholding pattern of SMS before and after the Issue will be as follows:

| **Category** | **Pre-Issue** | | **Post Issue** | |
|---|---|---|---|---|
| | **No. of Shares** | **% holding** | **No. of Shares** | **% holding** |
| Promoters' Group, | 2099436 | 51.21 | 2099436 | 37.49 |
| Friends & Associates | 566064 | 13.81 | 566064 | 10.11 |
| Bodies Corporate | 1083000 | 26.41 | 1083000 | 19.34 |
| Employees | 98550 | 2.40 | 98550 | 1.76 |
| NRIs / FIIs | -- | -- | 100000 | 1.79 |
| Public / Others | 252950 | 6.17 | 1652950 | 29.52 |
| **Total** | **4100000** | **100.00** | **5600000** | **100.00** |

The list of top 10 shareholders of the Company and the number of Equity Shares held by them:

a. The details of the ten largest shareholders as on the date of filing this Draft Prospectus with SEBI, are as under

| **Sr. No.** | **Name of the Shareholders** | **No. of shares of Rs.10/- each** | **% of Outstanding Equity Capital** |
|---|---|---|---|
| 1. | Pothluri Hire Purchase & Finance Private Limited. | 1048000 | 25.56 |
| 2. | P Ramesh Babu | 463134 | 11.30 |
| 3. | T V V S N Murthy (HUF) | 398134 | 9.71 |
| 4. | T Annapurna | 263034 | 6.42 |
| 5 | P Hima Bindu | 233334 | 5.69 |
| 6. | T V Praveen | 124534 | 3.04 |
| 7. | T Sudeepthi | 120000 | 2.93 |
| 8. | Raghavendra Rao Potluri | 114666 | 2.80 |
| 9 | T V V S N Murthy | 108700 | 2.65 |
| 10 | Trilok Potluri | 88334 | 2.15 |

b. The details of the ten largest shareholders 10 days prior to the date of filing this Draft Prospectus with SEBI, are as under

| **Sr. No.** | **Name of the Shareholders** | **No. of shares of Rs.10/- each** | **% of Outstanding Equity Capital** |
|---|---|---|---|
| 1. | Pothluri Hire Purchase & Finance Private Limited. | 1048000 | 25.56 |
| 2. | P Ramesh Babu | 463134 | 11.30 |
| 3. | T V V S N Murthy (HUF) | 398134 | 9.71 |
| 4. | T Annapurna | 263034 | 6.42 |
| 5 | P Hima Bindu | 233334 | 5.69 |
| 6. | T V Praveen | 124534 | 3.04 |

| | | | |
|---|---|---|---|
| 7. | T Sudeepthi | 120000 | 2.93 |
| 8. | Raghavendra Rao Potluri | 114666 | 2.80 |
| 9 | T V V S N Murthy | 108700 | 2.65 |
| 10 | Trilok Potluri | 88334 | 2.15 |

c. The details of the ten largest shareholders 2 years prior to the date of filing (Outstanding Equity capital was 2050000 shares of Rs.10/- each) this Draft Prospectus with SEBI are as under

| Sr. No. | Name of the Shareholders | No. of shares of Rs.10/- each | % of Outstanding Equity Capital |
|---|---|---|---|
| 1. | Potluri Hire Purchase & Finance Private Limited. | 524000 | 25.56 |
| 2. | P Ramesh Babu | 231567 | 11.30 |
| 3. | T V V S N Murthy (HUF) | 199067 | 9.71 |
| 4. | T Annapurna | 131517 | 6.42 |
| 5 | P Hima Bindu | 116667 | 5.69 |
| 6. | T V Praveen | 62267 | 3.04 |
| 7. | T Sudeepthi | 60000 | 2.93 |
| 8. | Raghavendra Rao Potluri | 57333 | 2.80 |
| 9. | Vamsi Krishna Potluri | 38400 | 1.87 |
| 10. | Trilok Potluri | 37667 | 2.65 |

We have not raised any bridge loan against the proceeds of this Issue.

We have not revalued any of our assets since inception. We have not issued any Equity Shares out of revaluation reserves or for consideration other than cash, except for the bonus Equity Shares issued out of free reserves as disclosed in “Share Capital History of the Company” above

The Equity Shares offered through this Prospectus shall be made fully paid up or may be forfeited within 12 months from the date of allotment of shares.

Our Company, our Promoters/Directors and the Lead Manager have not entered into any buy-back and/or standby arrangements for purchase of Equity Shares of the Company from any person.

There are no outstanding warrants, options or rights to convert debentures, loans or other instruments into our Equity Shares.

We have reserved 100,000 equity shares for NRIs/ FIIs on a competitive basis. The unsubscribed portion, if any will be added back to the Net offer to the Public. We have made an application to the RBI on ----------------- for Issue of equity shares to NRIs/ FIIs with repatriation benefits. Allotment to NRIs/FIIs would be subject to such conditions as may be stipulated by RBI while granting such permission.

As per SEBI guidelines, a minimum of 50% of the net offer to the public is reserved for allotment to individual investors applying equity shares of or for a value of not more than Rs. 50,000/-. The remaining 50% of the offer to the public is reserved for individuals applying for equity shares of a value more than Rs.50,000/- and corporate bodies/institutions etc. Unsubscribed portion in either of these categories shall be added to the other category interchangeably.

An over-subscription to the extent of 10% of the net offer to public can be retained for the purpose of rounding off to the nearest integer subject to a minimum allotment being equal to 20 shares, which is the minimum application size in this Issue, while finalizing the allotment.

In the event of over-subscription, Allotment will be on proportionate basis as detailed in Para on "Basis of Allotment"

The shareholders of the Company do not hold any warrant, options, convertible loan or any debenture, which would entitle them to acquire further shares of the Company.

There are no "bridge loans" from any Bank taken by the Company against the proceeds of the Issue.

No single applicant can make an application for number of shares, which exceeds the number of shares offered in the respective category. The maximum allotment to any applicant will be subject to the Investment limits prescribed by the Regulatory or statutory authorities governing them.

There would be no further Issue of Capital whether by way of Issue of Bonus Shares, preferential allotment, rights Issue or in any other manner during the period commencing from submission of the Draft Prospectus with SEBI until the Equity Shares offered through this Draft Prospectus have been Listed.

We presently do not intend or propose to alter our capital structure for a period of six months from the date of opening of the Issue, by way of split or consolidation of the denomination of Equity Shares or further Issue of Equity Shares (including Issue of securities convertible into exchangeable, directly or indirectly for Equity Shares) whether preferential or otherwise, except that we may Issue options to its employees pursuant to any employee stock option plan, or 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.

At any given point of time, there shall be only one denomination for the Equity Shares of our Company, unless otherwise permitted by law. We shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.

Our Company had 342 members as of December 6, 2004.

## PARTICULARS OF THE ISSUE

### OBJECTS OF THE ISSUE

The main object of the Issue is to create new manufacturing facilities for expansion and growth of our existing business. The present Issue of Equity Shares is being made for:

Comment [v4]:

1. Setting up Manufacturing facilities for APIs like Lansoprazole, Rabiprazole, Almotriptan, Naratriptan, Rizatriptan, etc.;
2. To finance working capital margin;
3. To meet the expenses of the Issue;
4. To list the equity shares of the Company on the Stock Exchanges.

Our main object clause of the Memorandum of Association as set out in this Draft Prospectus enables us to undertake the activities for which the funds are being raised and also for the activities, which we have been carrying on till date.

### REQUIREMENT OF FUNDS, PROJECT COST AND MEANS OF FINANCE

The cost of the Project and the Means of Finance as per the appraisal report of UTI Securities Limited dated December 6, 2004 :

### COST OF PROJECT

Rs. in million

| Sl. No. | Particulars | Amount |
|---|---|---|
| 1 | Setting up of manufacturing facilities for APIs | 365.90 |
| 2 | Contingencies | 25.26 |
| 3 | Working Capital margin | 100.00 |
| 4 | IPO Expenses | 33.75 |
| | **Total** | **524.91** |

### MEANS OF FINANCE

Rs. in million

| Sl. No. | Particulars | Amount at the lower price band of Rs.270 per share | Amount at the higher price band of Rs.324 per share |
|---|---|---|---|
| 1 | Public Issue of Equity Shares at Premium | | |
| | Equity Share Capital | 15.00 | 15.00 |
| | Share Premium | 390.00 | 471.00 |
| 2 | Internal Accruals | 119.91 | 38.91 |
| | **Total** | **524.91** | **524.91** |

Pending utilization in the project, the proceeds of the Issue will be invested in Bank Deposits and/or Gilt Edged Government Securities, either directly or through Mutual funds.

The Issue proceeds would be used to meet all or any of the uses of the funds mentioned above. We undertake to meet the shortfall, if any, in the funds raised through the Issue from the internal accruals and/or by availing fresh loans from Banks etc.. If there is any surplus amount, the same will be used to repay the existing loans availed from the Banks/ Financial Institutions.

In case the IPO does not go as planned, the Company will make alternative arrangements like availing of fresh loans from Banks etc. and utilizing its internal accruals.

**APPRAISAL**

The project has been appraised by UTI Securities Limited for the purpose of the IPO of Equity Shares; vide their appraisal report dated December 6, 2004, which forms part of Material documents.

The scope of Appraisal is limited to meet the listing norms of Stock Exchanges for IPO and includes the following:

- The promoter and the Company track record for implementing the projects
- The analysis of the past financial performance of the Company
- The rationale for undertaking capital expenditure programme
- The markets for the products-existing and new
- The assumptions underlying profitability projections on completion of the capital expenditure programme
- The key financial ratios for the Company as a whole on completion of the capital expenditure programme
- Analysis of risk factors associated with project implementation, market size and competition etc.

**DEPLOYMENT OF FUNDS IN THE PROJECTS AS ON NOVEMBER 15, 2004.**

M/s P. Murali & Co., Chartered Accountants vide their certificate dated December 6, 2004 has certified that the Company has incurred following expenditure on the proposed Project till November 15, 2004.

| **Sl. No.** | **Deployment of Funds** | **Amount** (Rs. in million) |
|---|---|---|
| 1 | IPO Expenses | 2.30 |
| | **Total** | **2.30** |

| **Sl. No.** | **Sources of Funds** | **Amount** (Rs. in million) |
|---|---|---|
| 1 | Internal Accruals | 2.30 |
| | **Total** | **2.30** |

**The quarter wise break-up of proposed utilization of Issue proceeds is as under:**

Rs. in million

| **Particulars** | **Already incurred** | **FY 2005** | **FY 2006** | | | | **FY2007** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | |
| Setting up of manufacturing facilities for APIs | - | 11.50 | 69.89 | 99.93 | 143.60 | 40.98 | - | **365.90** |
| Contingencies | - | - | - | - | - | 25.26 | - | **25.26** |
| Working Capital margin | - | - | 0.00 | - | - | 50.00 | 50.00 | **100.00** |
| IPO Expenses | 2.30 | 20.00 | 8.20 | 1.00 | 2.25 | - | - | **33.75** |
| **Total** | **2.30** | **31.50** | **78.09** | **100.93** | **145.85** | **116.24** | **50.00** | **524.91** |

**BRIEF DETAILS ABOUT THE PROJECT**

**SETTING UP OF MANUFACTURING FACILITIES FOR APIs:**

The present Issue of Equity Shares is being made for setting up APIs manufacturing facilities at Poospatirega village, near Vijayanagarm Dist. compliant with Regulatory requirements of USFDA, TGA-Australia and MCA-UK. We are planning to create the facilities for manufacturing new products which have completed Lab scale testing in our Research and Development centre and ready for commercialization. We are planning to set up the production capacities ranging from 50 TPA to 500 TPA based on the market for the product. The major products that we are proposing to manufacture are given below:

- Omeprazole
- Pentaprazole
- Gemcitabine
- Imatinib
- Tramadol
- Lansoprazole
- Almotriptan
- Naratriptan
- Frovatriptan
- Sildinafil

The detailed cost break-up for setting up the Project is provided below:

| **Particulars** | **Amount (Rs. In million)** |
|---|---|
| Land | Already Acquired |
| Building & Civil Works | 131.00 |
| Plant & Machinery | 154.90 |
| Laboratory Equipments | 30.00 |
| Electrical & Installations | 15.00 |
| Setting up of Effluent Treatment Plant | 30.00 |
| Furniture & Fixtures | 5.00 |
| Contingencies | 25.26 |
| Public Issue Expenses | 33.75 |
| Working capital margin | 100.00 |
| **Total** | **524.91** |

**Land**

The Company has already acquired about 70 acres land at Poospatirega village, Vijayanagarm district, Andhra Pradesh.

**Building & Civil Works**

We have appointed M/s. Ravi Raman Consultants as an Architect and consulting engineers for the proposed Building & civil works. We plan to construct 230,000 sq. feet (approx.), which includes manufacturing blocks, Warehouse, an administrative block, security block and internal roads etc. at an estimated cost of Rs. 130 million.

The detailed break-up of cost estimates is as under:

| S. No. | Particulars | Amount (Rs. In million) |
|---|---|---|
| 1 | FDA Production Block-I | 11.50 |
| 2 | Prodution Block-II | 7.40 |
| 3 | Production Block-III | 9.08 |
| 4 | Distillation Columns | 1.28 |
| 5 | Pharma Blocks 4 Nos. | 23.50 |
| 6 | Intermediate and Drying blocks | 12.52 |
| 7 | H V D, Pilot Plant, Hydrogenation Block | 6.50 |
| 8 | Service Block | 4.80 |
| 9 | Boiler, Generator, Fabrication sheds | 6.43 |
| 10. | Ware House facilities | 17.09 |
| 11 | Quality Assurance | 5.18 |
| 12 | Tank bed, Canteen block, Admin block, Elevators | 7.13 |
| 13 | ETP | 4.09 |
| 14 | Compound wall | 5.00 |
| 15 | Site development | 2.50 |
| 16 | Water pumps and overhead tanks | 2.00 |
| 17 | Staff quarters | 2.50 |
| 18 | Pipelines and bridges | 2.50 |
| | **Total** | **131.00** |
| | Add: Provision for contingency | **9.17** |
| | **Total** | **140.17** |

**Plant & Machinery**

We propose to install the following Plant & Machineries in this Unit:

| S. No. | Particulars including Capacity, if any | Qty. | Amount (Rs. In million) | Name of Supplier |
|---|---|---|---|---|
| 1 | SS Reactor 5 kl | 5 | 3.91 | Sai Krishna Engineering Works |
| 2 | SS Reactor 3 kl | 5 | 2.88 | J K Fabrications |
| 3 | SS Reactor 2 kl | 4 | 1.43 | J K Fabrications |
| 4 | GL Reactor 5 kl | 1 | 1.40 | Nile Limited |
| 5 | GL Reactor 3 kl | 3 | 3.00 | Nile Limited |
| 6 | GL Reactor 2 kl | 2 | 1.40 | Nile Limited |
| 7 | Distillation Kettle | 1 | 0.95 | Four's Engineering Works |
| 8 | 20 M2 SS Condenser | 1 | 0.27 | Sri Venkaraya Fabricators |
| 9 | 12 M2 SS Condenser | 4 | 0.82 | Sri Venkaraya Fabricators |
| 10 | 8 M2 SS Condenser | 2 | 0.28 | Sri Venkaraya Fabricators |
| 11 | 6 M2 SS Condenser | 2 | 0.21 | Sri Venkaraya Fabricators |
| 12 | 3 M2 SS Condenser | 2 | 0.12 | Sri Venkaraya Fabricators |
| 13 | 48" Centrifuses | 3 | 1.13 | J K Fabrications |
| 14 | 36" Rubber lined Centrifuses | 1 | 0.20 | J K Fabrications |
| 15 | Polygonal Blender | 1 | 0.95 | J K Fabrications |
| 16 | 96" SS Tray Drier | 2 | 0.83 | J K Fabrications |
| 17 | 48" SS Tray Drier | 2 | 0.67 | J K Fabrications |
| 18 | AHU System Blowers | 1 | 0.50 | Clear Air Systems & Services |
| 19 | RCVD 1KL | 1 | 1.20 | Clear Air Systems & Services |
| 20 | FBD 200 Kgs Capacity | 1 | 1.60 | Four's Engineering Works |

| | | | | |
|---|---|---|---|---|
| 21 | Octogonal Blender | 1 | 1.20 | Four's Engineering Works |
| 22 | Roll Compactor | 1 | 0.70 | Clear Air Systems & Services |
| 23 | Total area AHU System with powder exhausts | 1 | 3.00 | Clear Air Systems & Services |
| 24 | SS Storage Tanks 10 kl | 1 | 0.60 | J K Fabrications |
| 25 | SS Storage Tanks 5 kl | 3 | 1.04 | J K Fabrications |
| 26 | SS Storage Tanks 3 kl | 4 | 1.12 | J K Fabrications |
| 27 | SS Receiver 3 kl | 1 | 0.27 | J K Fabrications |
| 28 | SS Receiver 2 kl | 4 | 0.82 | J K Fabrications |
| 29 | SS Receiver 1 kl | 3 | 0.32 | J K Fabrications |
| 30 | Pipes / Flanges / Valves / Nuts & Bolts etc. | | 2.92 | Various |
| 31 | Erection charges | | 3.00 | Various |
| | **Total cost per Production Block** | | 38.725 | |
| | **Total cost of 4 Production Blocks** | | 154.90 | |
| | Add: Provision for contingency | | **10.84** | |
| | **Total** | | **165.74** | |

**Laboratory Equipments**

We propose to acquire the following Equipments:

| **S. No.** | **Particulars** | **Model** | **Qty.** | **Amount (Rs. In million)** | **Make and Name of Supplier** |
|---|---|---|---|---|---|
| 1 | Analytical balance | CP-225D | 5 | 0.66 | Sartorius |
| 2 | HPLC – PDA | Class-VP | 3 | 5.93 | Shimadzu |
| 3 | HPLC- VWD | Class-VP | 2 | 2.38 | Shimadzu |
| 4 | HPLC-Preparative | LC-8A | 3 | 3.69 | Shimadzu |
| 5 | GC with Headspace | GC2010 | 2 | 4.00 | Shimadzu |
| 6 | FT-IR | Avatar 330 | 2 | 1.88 | Thermo Nicolet |
| 7 | UV/VIS spectrophotometer | Lamda 35 | 3 | 1.89 | Perkin Elmer |
| 8 | Polarimeter | Autopol-IV | 3 | 2.18 | Rudolph research |
| 9 | Vacuum pump | -- | 5 | 0.09 | Millipore |
| 10 | Computers & printers | -- | 10 | 1.80 | # |
| 11 | Stability chambers | GLP400 | 5 | 2.30 | Thermolab |
| 12 | Autotitrator | | 3 | 1.05 | Metrohm |
| 13 | MR Apparatus | FP-90 | 3 | 0.60 | Mettler |
| 14 | Hot air oven | -- | 5 | 0.11 | Toshiba |
| 15 | Vacuum Oven | -- | 20 | 0.40 | # |
| 16 | Muffle furnace | -- | 5 | 0.07 | Toshiba |
| 17 | Gas cylinders& regulators | -- | 10 | 0.18 | # |
| 18 | GC columns | -- | 6 | 0.79 | # |
| | **Total** | | | **30.00** | |
| | Add: Provision for contingency | | | **2.10** | |
| | **Total** | | | **32.10** | |

#: Cost taken as per management's estimates

**Electrical & Installations**

| S. No. | Particulars | Qty. | Amount (Rs. In million) | Name of Supplier |
|---|---|---|---|---|
| 1 | Transformer 1000 KVA | 1 | 3.90 | Jackson Limited |
| 2 | Generator 625 KVA | 1 | 2.44 | Jackson Limited |
| 3 | Generator 325 KVA | 1 | 0.75 | Jackson Limited |
| 4 | Substation 10 KV | 1 | 0.60 | Jackson Limited |
| 5 | Main C.T. Panel | 1 | 0.70 | Essel Tech Pvt. Limited |
| 6 | MCC Panel for Production Blocks | 5 | 0.50 | Essel Tech Pvt. Limited |
| 7 | MCC Panel for Service Block | 1 | 0.49 | Essel Tech Pvt. Limited |
| 8 | H.V.D. Distribution Panel | 1 | 0.40 | Essel Tech Pvt. Limited |
| 9 | Lighting Panel | 1 | 0.10 | Essel Tech Pvt. Limited |
| 10 | Power Cables | | 1.00 | Essel Tech Pvt. Limited |
| 11 | Lighting work | | 1.01 | # |
| 12 | Earthing | | 0.10 | # |
| 13 | Cable Trays | | 1.21 | # |
| 14 | Errection charges | | 1.81 | # |
| | **Total** | | **15.00** | |
| | Add: Provision for contingency | | **1.05** | |
| | **Total** | | **16.05** | |

#: Cost taken as per management's estimates

**Setup of Effluent Treatment Plant**

| S. No. | Particulars | Qty. | Amount (Rs. In million) | Name of Supplier |
|---|---|---|---|---|
| | **Effluent Treatment Plant** | | | |
| 1 | Agitated Thin Film Drier | 4 | 7.14 | J K Fabrications |
| 2 | Gas Incinerator | 4 | 10.00 | J K Fabrications |
| 3 | Forced Evaporation system | 4 | 8.00 | J K Fabrications |
| 4 | Pipelines, Valves & Fittings | | 2.36 | J K Fabrications |
| 5 | Fabrication and erection charges | | 2.50 | Sai Krishna Engineering Works |
| | **Total** | | **30.00** | |
| | Add: Provision for contingency @ 7% | | 2.10 | |
| | **Total** | | **32.10** | |

**CONTINGENCIES:**

The provision for contingencies is kept @ 7% for all major cost in respect of Site Development, Building & Civil works, Plant and Machineries, Electrical Installations and Miscellaneous Fixed Assets.

**Furniture & Fixtures**

We propose to incur Rs.5 million for acquiring various furniture and fixtures required for the Administrative office in this Unit:

| S. No. | Particulars | Amount (Rs. In million) |
|---|---|---|
| 1 | Office Partition | 1.50 |
| 2 | Tables & Chairs | 0.50 |
| 3 | Office Equipment | 0.75 |

| | | |
|---|---|---|
| 4 | Refrigeration | 2.00 |
| 5 | Others | 0.25 |
| | **Total** | **5.00** |

**IPO Expenses**

The Company has estimated that an amount of Rs. 33.75 million would be incurred towards IPO expenses.

The IPO expenses would comprise fees payable to the Lead Manager, Registrar, Legal Advisors, Auditor, bank charges, advertising and marketing expenses, stationery and distribution expenses, underwriting commission and other incidental and miscellaneous expenses as detailed below:

| S. No. | Particulars | Amount (Rs. In million) |
|---|---|---|
| | **Public Issue Expenses :** | |
| 1 | Lead Managers & Registrars fees, Legal & other consultancy fees | 8.00 |
| 2 | Printing & Stationery / Dispatch | 6.00 |
| 3 | Brokerage & Underwriting Commission | 13.50 |
| 4 | Advertisement & Marketing Expenses | 5.75 |
| 5 | Other Expenses (Listing Fees, Depository Charges etc.) | 0.50 |
| | **Total** | **33.75** |

**Present Status:**

We have already acquired about 70 acres land at Poospatirega village, Vijayanagarm district, Andhra Pradesh. Further we have appointed M/s. Ravi Raman Consultants as an Architect and consulting engineers for the proposed Building & civil works, they have completed the drawings. We have not commenced any activity relating civil works, Plant & Machinery, Electrical Installations etc. We are in the process of getting the required approvals. The detailed schedule of implementation is given below.

**Proposed Implementation Schedule**

The proposed schedule for the Project is as follows:

| Sl. No. | Activities | Commencement | Completion |
|---|---|---|---|
| 1 | Acquisition of Land | Already Acquired | - |
| 2 | Civil Works | March 2005 | December 2005 |
| 3 | Plant & Machinery<br>- Order & Delivery<br>- Other assets – Order & Delivery | June 2005 | February 2006 |
| 4 | Electrical installation | July 2005 | February 2006 |
| 5 | Commissioning of P & M | August 2005 | March 2006 |
| 6 | APPCB Consent | February 2005 | March 2005 |
| 7 | APSEB load sanction | February 2005 | March 2005 |
| 8 | Trial runs | November 2005 | April 2006 |
| 9 | Commercial Production | January 2006 | May 2006 |

The Construction of production facilities will be undertaken on a block wise basis. The erection and commissioning of Plant and machinery will be done in phases, as and when construction of production facilities is ready without waiting for completion of entire civil work.

**Working Capital margin**

The requirement of margin for working capital has been computed as under:

| Particulars | Amount (Rs. In million) | Amount (Rs. In million) |
|---|---|---|
| Raw Materials | 149.08 | |
| Stores & Spares | 5.75 | |
| Work In Process | 123.72 | |
| Finished Goods | 41.24 | |
| Total Inventories | 319.79 | 319.79 |
| Receivables | | |
| - Domestic | 169.77 | |
| - Export | 228.86 | |
| Total Receivables | 398.63 | 398.63 |
| Other current assets | | 50.00 |
| Total Current Assets | | 768.42 |
| Less: Creditors | 187.51 | |
| Other Current Liabilities | 57.62 | |
| Total Current Liabilities | 245.13 | 245.13 |
| Total Working Capital requirement | | 523.29 |
| Bank Finance available | | 375.00 |
| **Net Working Capital Gap** | | **148.29** |
| | | |
| Proposed to be funded from Internal Accruals | | 48.29 |
| **Proposed to be funded from IPO** | | **100.00** |

**FOREIGN COLLABORATION**

The Company does not have any technical/financial collaboration for the existing business as well as for the proposed project.

## INDUSTRY DATA

### PHARMACEUTICAL INDUSTRY OVERVIEW

Disclaimer: Pursuant to the requirements of the SEBI Guidelines, the discussion on the business of our Company in this Draft 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 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 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 International Market Survey (IMS), IMS World Review, in 2003 global audited sales of pharmaceuticals rose 9% (at a constant dollar rate) to reach US $466.30 billion. IMS World Review tracks actual sales of approximately 90% of all prescription drugs and certain over-the-counter (OTC) products in more than 70 countries.

Despite economic challenges in the worlds leading markets and a lower-than-normal number of new product introductions, the global pharmaceutical industry experienced good growth in 2002.

Following is the region wise global pharmaceutical sales for 2003:

| Region | 2003 sales (in bn. $) | % Global sales |
|---|---|---|
| North America | 229.50 | 49% |
| EU | 115.4 | 25% |
| Rest of Europe | 14.3 | 3% |
| Japan | 52.4 | 11% |
| Asia, Africa and Australia | 37.3 | 8% |
| Latin America | 17.2 | 4% |
| **Total** | **466.3** | **100%** |

*Source: IMS World Review 2004*

As 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 2003.

### PHARMACEUTICAL INDUSTRY - DOMESTIC SCENARIO

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. The Indian Pharmaceutical Industry is estimated to be worth US $ 6 billion, growing at a CAGR of over 13.7% annually. The global output of the Indian Industry is ranked 4th in terms of volume and13th in terms of value.

Playing a key role in promoting and sustaining development in the vital field of medicines, the Indian Pharmaceutical Industry boasts of quality producers and many units approved by Regulatory Authorities in USA and UK. International Companies associated with this sector have stimulated, assisted and spearheaded this dynamic development in the past 53 years and helped to put India on the pharmaceutical map of the world.

The Indian Pharmaceutical sector has more than 20,000 registered units. It has expanded drastically in the last two decades. The leading 260 pharmaceutical Companies control 70% of the market.

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.

*Source: Federation of Indian Chamber of Commerce and Industry*

**Export of Pharmaceuticals**

The exports constitute almost 40% of the total production of pharmaceuticals in India. In the past 5 years the Pharma export grew by 30% per annum. Indian Pharmaceutical exports were to the tune of Rs.140bn in FY 2003, of which formulations contribute nearly 55% and the rest 45% comes from bulk drugs.

The share of bulk drugs in pharmaceutical exports increased from 24% of pharmaceutical exports in FY1981 to 45% in FY2003. The Indian industry manufactures around 400 bulk drugs belonging to several therapeutic segments. Factors such as the industry's cost competitiveness, the established quality of its products and its internationally approved manufacturing facilities has enabled the industry to make a place for itself in the international market.

The Indian pharmaceutical industry exports to both the developing and developed countries. The US is the largest market for Indian pharmaceutical exports, followed by Germany, Russia, China and Hong Kong. Although bulk drugs are exported to both the developed as well as developing markets, a large proportion of formulations are exported mainly to the developing countries.

Playing a key role in promoting and sustaining development in the vital field of medicines, the Indian Pharmaceutical Industry boasts of quality producers and many units approved by Regulatory authorities in USA and UK. International Companies associated with this sector have stimulated, assisted and spearheaded this dynamic development in the past 53 years and helped to put India on the pharmaceutical map of the world.

*Source: Federation of Indian Chamber of Commerce and Industry*

**Opportunities in the pharmaceutical industry post January 2005:**

- **New Drug Discovery (NDD) / New Chemical Entities (NCEs) related opportunities**

The opportunities in this area are molecular design and modeling, initial synthesis (combinatorial chemistry), screening, toxicological studies, animal studies, clinical trials etc. The large MNCs have core competencies and resources in discovery/ invention of new molecular entities and marketing them worldwide. Typically, these Companies invest a significant part of their income in R & D activities every year. We estimate that the number of NCEs, across all disease categories, introduced during the last decade have been averaging 45 each year spread over several disease categories. According to the IMS estimates, the total R&D spend is around US$ 35 billion with thousands of compounds under investigation at any point of time. The compounds go through several stages of development viz. Phase I (Animal studies), Phase II (Human studies – sample), Phase III (Human studies – population) and then enter the market after approvals by the regulating agencies of individual countries. The NCEs, once introduced, enjoy exclusivity due to patent protection in most of the markets in the developed countries.

- **Manufacture of API/ intermediates for:**

**New Chemical Entities (NCE) under drug discovery by MNCs**

The MNCs, till recently, preferred to manufacture their own API requirements. This was primarily due to the threat of patent infringement in the outsourcing model. However, the changing market dynamics have compelled these MNCs to increasingly focus on their core area viz., discovery/ invention of new molecules. This has led to gradual increase in outsourcing of chemical manufacturing services and the research services for process development for NCEs. Typically, the MNCs commence their search for a vendor for its API requirements for an NCE, 2 to 3 years prior to its introduction in the market. The typical capabilities required to offer services to MNCs would be good R&D capabilities, capability of understanding patents, developing non-infringing processes that are safe, cost efficient and environmentally suitable. It would require the API supplier to have world-class manufacturing facilities, which comply with the CGMP under the US FDA Guidelines, the knowledge of Regulatory requirements in various countries and working on a strict time schedule, as any delay would impact the launch time in the market.

*Generic products*

The expiry of a patent opens opportunity for generic versions to be introduced. Such an opportunity for manufacturing APIs for such generic products typically starts at least 5 years before expiry of patent for sales exclusivity of a product on the market. The key success factor to tap this opportunity is to come up with an efficient, cost effective, patent non-infringing process that can sustain severe price erosion in the dosage forms post patent-expiry. Typically the price erosion can be as high as 90% of the original selling price. Thus it becomes essential for the API producers to be competitive to market products for the generics market. Also, Regulatory compliance such as US FDA, MCA-UK, CoS for Europe etc., are needed for selling drugs in various advanced markets where price realisations can be higher by 10% to 20% as compared to open markets. The generic API products have been traditionally manufactured in Europe and USA, however recently the same is outsourced from India and China due to the quality conscious, cost effective and international Regulatory compliant manufacturers in these countries.

## OUR BUSINESS SEGMENTS

Our Business comprises of the following segments:

- Active Pharmaceutical Ingredients and Intermediates
- Contract Manufacturing/Contract Research
- Nutraceuticals and Bio Products

### ACTIVE PHARMACEUTICAL INGREDIENTS (APIs) AND INTERMEDIATES

We are one of the 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 follow ing therapeutic segments:

| **Therapeutic segment** | **Active Pharmaceutical Ingredients and Intermediates** | **Applications** |
|---|---|---|
| Gastro | *API*<br>• Rantidine<br>• Omeprazole<br>• Pentaprazole<br><br>*Ranitidine Intermediates*<br>• NMSM<br>• RaniBase<br>• Cystopher | • Anti Ulcer and Anti acidity |
| CNS<br><br>Cardiac | *API*<br>• Sumitraptan Succinate<br>*API*<br>• Ramipril<br>• Quinapril<br>• Lisinopril | • Anti Migraine<br><br>• Potent Ace Inhibitor<br>• Treatment of High Blood Pressure and heart failure |
| Anti Bacterial | *API*<br>• Ciprofloxacin | • Anti Bacterial |
| Oncology | *API*<br>• Gemcitabine | • Treatment of pancreatic cancer |

**Product Details**

Details of the major existing products are given below:

**Ranitidine and its Intermediates**

Ranitidine belongs to a class of medications, called H2 –Blockers used for treatment of ulcers. Ranitidine blocks the action of histamine (acid) on stomach cells thus reducing stomach acid production. Ranitidine 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 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 are available at lower cost than the other anti-ulcerents like Omeprazole, Lansaprazole, Pantoprazole etc.

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

**Sumatriptan Succinate**

Sumatriptan Succinate is an anti migraine drug and falls within the family of Triptan drugs. We are the only manufacturers of Sumatriptan Succinate adhering to European pharmacopial standard product (EP grade). We are also the first Company to file the DMF with the US FDA and the Canadian and in the European market for Sumatriptan Succinate for non infringing process. There are 3 other drugs in the Triptan family; however, their patents are expiring after the year 2010.

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 2008.

**Ramipril**

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

The product patent for Ramipril is held by Hoechst Marion Roussel and is marketed under the brand name 'Altace'. The product patent held by Hoechst Marion Roussel expires in the Europe and US in 2004 and 2008 respectively.

**Quinapril**

Quinapril is used to treat high blood pressure and heart failure. It decreases certain chemicals that tighten the blood vessels so that blood flows more smoothly and the heart can pump more efficiently.

The product patent for Quinapril is held by Pfizer and is marketed under the brand name 'Accupril'. The product patent held by Pfizer expires in the US in 2005.

**Lisinopril**

Lisinopril is used for hypertension.

The product patent for Lisinopril is held by Merck and is marketed under the brand name 'Privinil'. The product patent held by Merck expired in the US in 2001.

All the above Ramipril, Quinapril & Lisinopril are used in making formulations for hypertension.

**Ciprofloxacin**

Ciprofloxacin is an anti bacterial and is widely used for upper respiratory tract infection. The product patent for Ciprofloxacin was held by Bayer AG, which expired in 2003. Ciprofloxacin is a very widely used product and is a very effective anti bacterial with good resistance to bacteria.

**Omeprazole**

Omeprazole belongs to the anti ulcer segment and is also known as Proton Pump Inhibitor (PPI). The product patent for Omeprazole is held by AB Hassle. Omeprazole is used to treat gastrointestinal infections.

**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. We have filed a non infringing process patent for Gemcitabine with the PCT Geneva.

The patent for Gemcitabine is held by Eli Lily & Company and is marketed under the brand name 'Gemzar'. The product patent held by Eli Lily expires in the US in 2010.

**NUTRACEUTICALS**

Nutraceuticals are the combination of very rich essential proteins, amino acids, vitamins, minerals, and carbohydrates and different fibers presented as food supplements.

**Products Details**

**Fenudiet**

This is 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). There is no known competitive product in India till date. We have already filed a patent for Fenudiet and have obtained the necessary approvals. We have also registered the product name 'Fenudiet' as our Trademark.

**Alvit**

Alvit is a proprietary nutritional dietary supplement. Alvit is a nourishing nutritional supplement for all ages. It provides extra nutrients compared to other nutritional products. As Alvit is very rich in minerals and vitamins it helps for proper body functions.

**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. We have also applied for the product names: 'Hearty Salt' and 'Hearty Salt Plus' as our trademarks.

**CONTRACT MANUFACTURING/CONTRACT RESEARCH**

Most of the MNCs are looking for a contract research activity in India from 2005 onwards, as the product patent system will come into force in India. MNCs have already commenced enquiries in industry for Companies having good R&D facilities for developing and manufacturing key intermediates for their finished molecules.

We have already established an R&D Center, which is playing a vital role in development of new processes and enhancing the process development of existing products. Our R&D Center presently has a team of four experienced scientists (PhD's) and 20 senior research chemists. We have already filed 6 process patents and 1 product patent of which 1 have already been approved.

We have already signed an Agreement with a Netherlands Company for the development of thirty-nine molecules on the basis of custom synthesis.

We have also entered into a Multi Party Agreement, detailed below in the section entitled 'Intellectual Property' for development of API, API Intermediates and Metal Acetylacetonates.

Our R&D Center is centralized in dedicated premises located at Sanath Nagar, Hyderabad and have full-fledged facilities.

**Our R&D Center plans to do the following activities in the coming years:**

- Develop non infringing synthesizer for the API and intermediates which are of demand
- Conduct basic research for new chemical entities
- Custom/ contract synthesis
- Extraction of natural products to develop standardized extracts.
- Synthesis of specialty chemicals

**INTELLECTUAL PROPERTY**

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

The following table shows the patents for which we have obtained registrations under 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 30 months from the Effective Date as indicated below:

| Sr. No. | API's Generic Name | Effective Date |
|---|---|---|
| 1 | Sumatriptan Succinate – Indole derivatives | May 12, 2003 |
| 2 | Fenugreek containing 4 – Hydroxy Isoleucine | July 28, 2003 |
| 3 | Intermediate for Ramipril | November 24, 2003 |
| 4 | Industrially viable intermediate for Ramipril | November 24, 2003 |
| 5 | Improved process for high pure Gemcitabine hydrochloride | March 31, 2004 |

We have also made an application to Indian Patents Office on September 13, 2004 for protecting "Process for the preparation of Quinapril Hydrochloride of high purity and stability".

We are protecting our trademarks and have made applications for registering some of our trademarks the details of which are provided below:

| Trademark | Therauptic Use |
|---|---|
| Tender Joint | For joint pains |
| Demass | For obesity |
| Setfree | For pre-menstrual tension in women |
| Hearty Salt | For Hypertensives |
| Night Master | An aphrodisiac product |

Our product 'Fenudiet', a product for diabetics and the same is our registered trademark.

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 filings of DMFs/CoS in Common Technical Data (CTD) format:

| S. No. | Regulatory authority/Country | DMF No. | Date of filing |
|---|---|---|---|
| **Sumatriptan Succinate** | | | |
| 1 | USFDA | 16279 | 02.12.2002 |
| 2 | EDMF in CTD Format | EDMF Number 942 | 01.09.2003 |
| 3 | Health Canada | DMF-2003-138 | 08.10.2003 |
| 4 | Ukraine | 572 | 11.12.2003 |
| 5 | CoS in CTD format With European Directorate for the quality of medicines | CEP 2004-175 | 06.07.2004 |
| **Ramipril** | | | |
| 1 | USFDA | 17401 | 20.05.2004 |
| 2 | CoS in CTD format With European Directorate for the quality of medicines | CEP 2004-194 | 28.07.2004 |
| **Ranitidine** | | | |
| 1 | USFDA | 17542 | 13.07.2004 |
| 2 | CoS in CTD format With European Directorate for the quality of medicines | CEP 2004-171 | 05.07.2004 |

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 employees and Consultants.

**PRODUCTS IN PIPELINE**

We have various products in the pipeline for which the lab and pilot scale testing have been completed/is in progress.

**Active Pharmaceutical Ingredients and Intermediates:**

***For the proposed expansion project:***

Details of the products in pipeline and the stage of development is given below:

| Therapeutic segment | API and Intermediates | Applications | Present status of development of proposed API |
|---|---|---|---|
| CNS Stimulants | *API*<br>• Almotriptan<br>• Rizatriptan<br>• Frovatriptan<br>• Naratriptan | • Anti Migraine<br>• Anti Migraine<br>• Anti Migraine<br>• Anti Migraine | • Laboratory scale completed, pilot scale commenced<br>• Laboratory scale completed, pilot scale commenced<br>• Laboratory scale in progress<br>• Laboratory scale in progress |
| Oncology | *API*<br>• Giftinib | • Anti cancer | • Laboratory scale completed, |

| Therapeutic segment | API and Intermediates | Applications | Present status of development of proposed API |
|---|---|---|---|
| | • Imatinib | • Anti cancer | pilot scale commenced<br>• Laboratory scale completed, pilot scale commenced |
| Anti Emitic<br><br>Benign Prostrate Hyperplasia<br>Erectyl Dysfunction | *API*<br>• Ondansetron<br>*API*<br>• Tamsulosin<br><br>*API*<br>• Sildenafil | • Anti nausea<br><br>• Prostrate cancer<br><br>• Anti impotence | • Laboratory scale in progress<br><br>• Laboratory scale in progress<br><br>• Laboratory scale in progress |
| Gastro | *API*<br>• Rabeprazole<br><br>• Lansoprazole | • Anti Ulcer<br><br>• Anti Ulcer | • Laboratory scale completed, pilot scale commenced<br>• Laboratory scale in progress |
| Analgesic | *API*<br>• Tramadol | • Pain relief agent | • Laboratory scale in progress |
| Anti Depressant | *API*<br>• Sertraline | • Anti Depressant | • Laboratory scale in progress |

***Central Nervous System Stimulants***

**Almotriptan**

Almotriptan is used for migraine.

The product patent for Almotriptan is held by Almirall and is marketed under the brand name Axert. The product patent held by Amirall expires in the US in 2015.

**Rizatriptan**

Rizatriptan is used for migraine.

The product patent for Rizatriptan is held by Merck Sharp and is expiring in 2012.

**Frovatriptan**

Frovatriptan is used for migraine

The product patent for Frovatriptan is held by GSK and is marketed under the brand name ‘Frova’. The product patent held by GSK expires in the US in 2012.

**Naratriptan**

Naratriptan is used for migraine

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.

***Oncology***

**Geftinib**

Geftinib is used as an anticancer agent

The product patent for Geftinib 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 2013.

**Imatinib**

Imatinib is used as an anti-tumor agent

The product patent for Imatinib is held by Novartis Pharmaceutical Corporationand is marketed under the brand name 'Gleevec'. The product patent held by Novartis Pharmaceutical Corporation expires in the US in 2013.

***Anti Emitic***

**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.

***Benign Prostrate Hyperplasia***

**Tamsulosin**

Tamsulosin is used for treatment of prostate cancer

The product patent for Tamsulosin is held by Boehringer Ingelheim Pharmaceutical, INC and is marketed under the brand name "Flomax". The product patent held by Boehringer Ingelheim Pharmaceutical, INC expires in the US in 2009.

***Erectyl Dysfunction***

**Sildenafil**

Sildenafil is used for treatment of impotence in men.

The product patent for Sildenafil is held by Eli Lily & Co. and is marketed under the brand name "Viagra'. The product patent held by Eli Lily & Co. expires in 2010.

***Gastro***

**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 has already expired in 2001.

***Analgesic***

**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 held by Grunenthal expired in 1992.

***Anti Depressant***

**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 expires in 2005.

***Other products in pipeline:***

| **Therapeutic segment** | **API and Intermediates** | **Applications** | **Present status of development of proposed API** |
|---|---|---|---|
| CNS Stimulants | *API*<br>• Zolmitriptan<br>• Eletriptan | • Anti Migraine<br>• Anti Migraine | • Scaling up to Pilot scale in progress<br>• Laboratory scale in progress |
| Cardiac | *API*<br>• Perindopril<br>• Amlodipine | • ACE Inhibitors, anti hypertensive<br>• Same as above | • Laboratory scale completed, Pilot scale in progress<br>• Laboratory scale in progress |
| Anti Bacterial | *API*<br>• Moxifloxacin<br>• Gattifloxacin | • Anti bacterial<br>• Anti bacterial | • Laboratory scale in progress<br>• Laboratory scale in progress |

***Central Nervous System Stimulants***

**Zolmitriptan**

Zolmitriptan is used for migraine.

The product patent for Zolmitriptan is held by Astra Zeneca, USA and is marketed under the brand name 'Zomig'. The product patent held by Astra Zeneca expires in the US in 2012.

**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 2013.

***Cardiac***

**Perindopril**

Perindopril is used for hypertension.

The product patent for Prindopril is held by Adir and is marketed under the brand name 'Aceon'. The product patent held by Adir expires in the US in 2006.

**Amlodipine**

Amlodipine is an Anti-anginal Vasodilator. The product patent for Amlodipine is held by Pfizer and is expiring in 2007.

***Anti Bacterial***

**Moxifloxacine**

Moxifloxacine is used as an antibacterial agent.

The product patent for Moxifloxacine 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 2009.

**Gattifloxacin**

Gattifloxacin is used as an antibacterial agent

The product patent for Gattifloxacin 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 2009.

**Nutraceuticals:**

Details of the products in pipeline are given below:

| **Product name** | **Applications** | **Present status of development of proposed product** |
|---|---|---|
| • Tender Joint | • Ointment for joint pains<br>• Overall health drink for rheumatoid arthritis | • Product developed, ready for commercial launch |
| • Set Free | • Soft Gel capsules for pre menstrual syndrome | • Product developed, ready for commercial launch |
| • D – soria cream and shampoo | • Base for Psoriasis | • Product developed, ready for commercial launch |

| Product name | Applications | Present status of development of proposed product |
|---|---|---|
| • Nicotine Polacrilex Gum | • Nicotine replacement therapy product | • Product developed, applied for government approvals |

**NPR (Nicotine Polacrilix Resin):**
Being an active ingredient in nicotine replacement therapy, this product has demand all over the world. The major Companies who are using NPR in their chewing gums and lozenges are Glaxo SmithKline, Pharmacia, Pfizer and Novartis. Apart from these Companies there are some Companies in the field of NRT making transdermal patches, chewing gums and lozenges. In India, the demand for NRT products is as an alternative or substitute for the guthka, jarda and cigarettes. In India alone, the tobacco products market is estimated around Rs. 5,000 million per annum, of which cigarette market is contributing Rs. 2,000 million.

**MARKETING AND SELLING ARRANGEMENTS**

*API's and Bulk Drugs*

In the domestic markets, we market our products directly to the end users. We have also appointed consignment and commission agents at various locations in India for marketing our products.

Internationally, we have appointed agents for marketing our products. We have a practice of directly supplying to the end user. However, we enter into a 'Customer Protection Agreement' (CPA) with the Agent in respect of the specified customers for one year. Subsequent to the expiry of the CPA, we have a right to deal with the customer directly in the event the agent is unable to meet the predefined sale targets.

*Nutraceuticals*

We follow the C& F and Branch model for marketing our Nutraceutical range of products.
Following is our geographical coverage and products marketed:

| Nature of arrangement | Name of C&F agent | Products covered | Region |
|---|---|---|---|
| C&F | Marvel Biotech Pvt. Ltd. | All Nutraceutical products | • Coastal Andhra Pradesh, viz. Nellore district to Srikkakulam district<br>• Rayalaseema and Telengana except Hyderabad, Secunderabad and Rangareddy districts |
| C&F | Kandala Distributors | All Nutraceutical products | • Karnataka |
| Own | N. A. | All Nutraceutical products | • Kerala |

As stated in the Section entitled 'Legal and Regulatory Information' in this Draft Prospectus, we have also obtained sales tax registration for all the above locations.

## LOCATION; FACILITIES AND AREAS OF OPERATION

### Our Production Facilities

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 and total area | Activity | Lease hold/ Freehold | Remarks |
|---|---|---|---|---|
| Unit I Production facility | IDA Khazipally Jinnaram Mandal Medak District, Andhra Pradesh 502319<br><br>Total built up area is 45,000 sq. mrts.<br><br>Total plant area is 62,500 sq. mtrs. | Manufacture of Ranitidine HCL, Ciprofloxacin, Omeprazole, Gemcitabine including their intermediates. | Freehold | This Unit is certified ISO 9001:2000 |
| Unit II Production facility | Plot No. 24 & 24B S.V. Co-operative Industrial Estate Bachipally, IDA Bollaram, Hyderabad – 500082<br><br>Total built up area is 12,200 sq. mtrs.<br><br>Total Plant area is 20,200 sq. mtrs. | Manufacture of Sumatriptan Succinate, Quinapril and Ramipril | Freehold | This Unit is US FDA approved and is equipped with a R & D facility |
| Unit III Production facility (Nutraceuticals) | D-63, Phase 1, IDA. Jeedimetla, Hyderabad – 500055<br><br>Total built up area is 3,500 sq. mtrs. | Manufacture of nutraceutical products such as Fenudiet, Hearty Salt, Hearty Salt Plus, Set free, Demass and Tender Joint. | Lease hold | The Lease Agreement for the said premises is valid from 1st May 2002 to 30th October 2007. |
| Unit IV - Pilot scale production facility | S. No.186,189,190, Gagillapur (Village) Quthbullapur (Mandal Ranga Reddy (Dist).<br><br>Total built up area is 4,192 sq. mtrs. | This facility is set up for the scaling up of the products developed in R&D and commercial sales of the small quantities of high value products. | Lease hold | The Lease Agreement for the said premises is valid from 1st May 2002 to 30th October 2007. |
| Basic Research facility (SMS Pharma Research Center) | Shed bearing No.C-23, together with land situated at Industrial Estate, Sanath Nagar, Hyderabad.<br><br>Total built up area is 1,100 sq. mtrs. | Research and development center | Free hold | Exclusive Research facilities |

**LICENCED AND INSTALLED CAPACITY**

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 the Company there is no Licenced Capacity and Installed capacity.

**Our Registered Office; Other Property; Marketing Locations and C& F Arrangements**

Our registered office is located at Hyderabad. We have also acquired land and buildings for our other Corporate purposes within Andhra Pradesh through Sale Agreements and Lease Agreements, the details of which are provided below:

Details of **Freehold property** of the Company:

| Sr. No. | Location | Description | Area |
|---|---|---|---|
| 1. | Office No. 417 in Fourth Floor, Nilgiri block, Aditya Enclave, Ameerpet, Hyderabad 500 038. | Flat and land<br><br>Registered Office | Office area admeasures 1952 Square feet and the land area is 70 square yards |
| 2. | Shed bearing No.C-23, together with land situated at Industrial Estate, Sanathangar, Hyderabad. | Land and Building<br><br>R&D Centre | Shed admeasuring 2882 square feet and land admeasuring 1201 square yards |
| 3. | Vacant land at Poospatirega Mandal, Vijayanagaram District, Andhra Pradesh. | Land for Proposed Expansion | Total land area admeasures 72.64 acres. |

Details of **Leasehold property** occupied by the Company:

| S. No. | Location and Description of Property | Area | Remarks |
|---|---|---|---|
| 1. | Flat No. 408, 4th Floor, Nilgiri Block, Aditya Enclave, Ameerpet, Hyderabad, together with car parking area bearing Nos. 60<br><br>Administrative office | 1018 square feet | Lease Agreement valid for 3 years from June 1, 2003, with option to extend for further period with mutually agreed terms. |
| 2. | Flat No. 409 situated at 4th Floor, Nilgiri Block Aditya Enclave, Ameerpet, Hyderabad with Car parking area bearing Nos.63, 64 and 65.<br><br>Nutraceutical Division | 2257 square feet | Lease Agreement valid for 3 years from June 1, 2003. |

We conduct operations at the following locations for marketing of nutraceutical products:

| Sr. No | Location |
|---|---|
| 1 | **For Hyderabad and Secunderabad** |
| | #408, Niligiri, Aditya Enclave |
| | Ameerpet, Hyderabad - 500 038, Andhra Pradesh. |

| Sr. No | Location |
|---|---|
| 2 | **Telangana & Rayalseema** |
| | 3-4-871/1Upstairs,<br>Brakatpura, Hyderabad – 27, Andhra Pradesh. |
| | |
| 3 | **Karnataka**<br>No.17/2/4 E Poration, |
| | 1st Floor, 10 A MAIN, |
| | RK.Layout, Kadirenhalli<br>Bangalore - 560 070, Karnataka. |
| | |
| 4 | **Kerala**<br>No 34/2048, F1 |
| | Palathainakal Chambers, |
| | Edapally, Ernakulam – 682024, Kerela. |

**Insurance**

We maintain property insurance with New India Assurance Company Limited to cover our plant and machinery, stocks and buildings and offices at various locations against fire.

We maintain transit insurance policy for marine cargo with New India Assurance Company Limited.

The vehicles we own are covered by motor policies with New India Assurance Company Limited.

All employees are covered by a group personal accident policy maintained with New India Assurance Company Limited and also covered Group Gratuity Scheme with Life Insurance Corporation of India.

Our Insurance policies are for one year and we have been renewing these policies upon expiration.

**Human Resources**

As of September 30, 2004, we had 322 full-time employees, of whom 27 were members of Management. The table below breaks down our full-time employees unit wise and by designation:

| S. No. | Description | Office | Unit I | Unit II | Unit III | R & D | Total |
|---|---|---|---|---|---|---|---|
| 1. | Whole time Directors | 02 | - | - | - | - | 02 |
| 2. | Management | 11 | 06 | 03 | 01 | 04 | 25 |
| 3. | Department in-charge/Scientists | 01 | 36 | 12 | 02 | 07 | 58 |
| 4. | Chemists | 40 | 107 | 41 | 04 | 14 | 206 |
| 5. | Skilled workers | - | 19 | 09 | 03 | - | 31 |
| | **Total** | **54** | **168** | **65** | **10** | **25** | **322** |

In addition to our full-time employees, as of November 15, 2004, we had 368 contract labour, who are not our employees.

We follow our documented Human Resources Policy for effective Human Resources Management in which lies our key strength.

We provide performance based rewards and benefits.

We maintain various personnel welfare measures like group accidental insurance including medical, encashment of leaves, apart from statutory benefits like provident fund, gratuity and Employee State Insurance. All key management personnel are provided for reimbursement of Medical Bills, LTA and Petrol Bills.

We conduct an annual employee satisfaction survey to estimate the satisfaction level of our employees.

Our employees undergo competency enhancement training and we provide corporate learning facilities in technical and non-technical areas for enhancing the competency of our employees.

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). We have not had 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 for the industrial dispute raised by Unit-I Employees Union (Registration No. A-3788) referred for adjudication to the Labour Court II at Hyderabad, the details whereof are provided in the section 'Outstanding Litigation and Material Developments' in this Prospectus.

The required personnel for the proposed projects shall be recruited in due course based on requirements and we do not envisage any problems in obtaining the required skilled and unskilled manpower.

**OUR BUSINESS STRATEGY**

We feel that we are well positioned to expand our business to grow in the fast growing pharmaceutical industry. We are upgrading the manufacturing facilities to meet the international Regulatory Approvals to prepare ourselves to capture the market in US and other Regulatory markets after expiry of patents.

**Ranitidine Hydrochloride**:

We are the largest manufacturer of Ranitidine Hydrochloride globally with an installed capacity of 1,440 MTPA. The sustained process improvements have resulted in a reduction in the number of manufacturing processes from 7-stage process to a 3-stage process. Consequently, our manufacturing process is extremely economical for manufacture of high quality Ranitidine and its intermediates.

Currently, we cater to the non-regulated markets and hold significant leadership position in various markets such as Europe, Latin America, East Europe, former Soviet countries, Far East and West Asia and India.

We intend to continue the existing production facility for the non-regulated markets and are in the process of establishing a new manufacturing facility for Ranitidine meeting the US FDA norms for catering to US and other regulated markets.

There is an already existing regulated market of 1,500 MTPA for Ranitidine, which we intend to cater to on receiving USFDA approval. In this process we have filed DMF in USA and CoS in Europe. We are also in the process of negotiation with a subsidiary of a major European pharmaceutical Company for supply of Ranitidine for their US generic formulations. Besides, various multinational pharmaceutical majors have also identified us as a competitive and quality manufacturer of Ranitidine and its intermediates.

**Sumatriptan Succinate**

We are the only manufacturers of Sumatriptan Succinate with European pharmacopial standard product in India. We are also the first Company to file the US DMF for Sumatriptan Succinate and have also filed DMFs/CoSs in Canada and Europe.

We expect that a market of approximately 100 MTPA will open for generic formulations in the US and the rest of the world for the next 6 years since the product patents are expiring in 2006 in Europe and 2008 in USA. Since early 2006 or 2008, the six months exclusivity period will commence for the Company having non-infringing process and having submitted the DMF in USA. In this regard, Ranbaxy, which has already filed the ANDA for their formulation and has a possible First to File status, and we have entered into an Agreement with Ranbaxy for supply of Sumatriptan Succinate.

We also have an approval under the PCT for Sumatriptan Succinate with non infringing process.

**Ramipril**

A market of approximately 150 MTPA is going to open in non-US Regulatory market in 2004 and another 200 MT market is going to open in US market in the year 2008. In India too, the market is growing rapidly.

We are already manufacturing Ramipril as a low cost and high quality product. We have filed 2 process patents for manufacturing intermediates/Industrially viable intermediates for Ramipril. We have also filed DMFs/CoS in US, Europe and Canada. We are manufacturing Ramipril in Unit II along with Sumatriptan Succinate.

**Quinapril**

The patent for Quinapril has expired in 2003. The product is widely used in US and other regulated markets. Since the patent has expired, the generic formulations are coming up in those areas.

We have already stabilized its manufacturing process and have started selling trial production. We are negotiating with an MNC, which has come forward to sign an Agreement for the supply of intermediate. We have filed a process patent with the Indian Patents Office in September 2004.

**Gemcitabine**

A product of Eli Lilly, the patent is expiring in early 2006 and the earliest generic also starts at the same time. The sale of Gemcitabine aggregated US$ 229 million in US and Europe markets in the year 2000. In 2003 its sales are estimated at US$ 300 million. This product is being prescribed in variety of cancer diseases and having fewer side effects than earlier cancer drugs. There are numerous Companies coming forward with generic formulations and there is intense competition in filing ANDA for availing the Exclusive Marketing Rights for the first 6 months. Being a nucleoside chemical molecule purity of the product is very much important in the manufacture of this product.

We have filed a patent under the PCT for Gemcitabine on March 31, 2004 for a non infringing process. We have sent the samples to few Companies who are interested in the generic formulations and EMR. Since the product is an injectable grade, we are planning to create a new manufacturing facility for Gemcitabine to cater to Regulatory markets.

**Comment [v5]:** Reconfirm facts

## OUR ONGOING PROJECT

As a part of long-term strategy, we plan to enter the US and other regulated markets. The existing manufacturing facilities at UNIT I are not US FDA compliant. Hence, we will be building new production block for Ranitidine at UNIT II as per US FDA standard with an installed capacity of 500MTPA.

Further, we have been manufacturing Sumatriptan Succinate, Ramipril and Quinapril at our UNIT II manufacturing facilities.

We have also envisaged modernization and expansion of Unit II and establish new plant for Ranitidine for supplying to international Regulatory markets at the cost of Rs. 218.71 million. The cost of project and means of finance are as under:

| | | |
|---|---|---|
| **Cost of Project** | | |
| | | Rs. In million |
| 1 | Set up of additional manufacturing facility for Ranitidine and Modernization & Expansion of existing facilities at UNIT II | 194.99 |
| 2 | Working Capital margin | 23.72 |
| | **TOTAL** | **218.71** |
| **Means of finance** | | |
| 1 | Term Loan | 140.00 |
| 2 | Internal Accruals | 78.71 |
| | **TOTAL** | **218.71** |

We have already received sanction for Term Loan for Rs.140million from EXIM Bank Limited Vide their letter No. OIF:EOU:D-486:1418 dated December 01, 2003.

**Current Status**

The Modernization and Expansion at Unit II has been completed and amount aggregating Rs. 47.49 million has been incurred. Further, an amount of about Rs. 27 million has been incurred towards setting up of the additional manufacturing facility for Ranitidine at Unit II.

## OUR HISTORY

We were originally promoted by Mr. K G Suggula, incorporated as S.M.S. Pharmaceuticals Pvt. Ltd. on December 14, 1987 for the manufacture of Bulk Drugs. We had accumulated losses till 1990, when the current promoters viz. Mr. P Ramesh Babu and Mr. TVVSN Murthy acquired the Company.

We started bulk drug business with the product called Ranitidine HCL with a production capacity of 6 metric tonnes per annum and the process consisting 7 major stages, as of today the manufacturing capacity has expanded to 1,440 metric tonnes per annum. We have also upgraded the technology to a 3-stage process, which has enabled us to become a competitive seller in the market. We acquired a second Unit at Bachupally, Miyapur, Rangareddy District, Andhra Pradesh 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. We have filed 6 non-infringing process patents and 1product patent as detailed in the section entitled 'Our Business Segments' in this Draft Prospectus'. We have also filed DMFs/CoSs in US, Europe and Canada for 3 products as listed in the section entitled 'Our Business Segments' mentioned in this Draft Prospectus'. We also started producing ACE inhibitors Ramipril, Quinapril and anti-cancer drug Gemcitabine.

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 300 employees on rolls and 4 facilities. We have also expanded our R&D activities to have 4 PhD's supported by 20 senior chemists. The R&D center is mainly focusing on anti-cancer molecules, anti-migraine molecules, antibacterial, anti-ulcer, important intermediates and natural plant extracts.

We have started a Nutraceuticals and health care division as a part of diversification in the year 2003, by launching an OTC product called Fenudiet and Hearty Salt in consumer market.

**History and Major Events:**

| Year | Events |
|---|---|
| 1987 | • Incorporated by Mr. K G Suggula |
| 1990 | • Acquired by present promoters Mr. P Ramesh Babu & Mr. TVVSN Murthy |
| 1991 | • Commercial production of Ranitidine HCL with 3 MTPA |
| 1992 | • Ranitidine capacity increased to 180MTPA |
| 1995<br>1997 | • Doubled Ranitidine capacity to 360 MTPA<br>• Increased Ranitidine capacity to 720 MTPA |
| 1998 | • We were 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 |
| 2000 | • Ranitidine capacity including intermediates increased to 1,440 MTPA<br>• Acquired plant of high value APIs at Bachupally |
| 2001 | • Commercial production of Sumatriptan Succinate<br>• ISO 9002 certification obtained for Unit I |
| 2002 | • Acquired plant for Nutraceuticals<br>• Setup of R&D laboratory with 30 scientists |
| 2003 | • ISO 9001:2000 certification obtained for Unit II<br>• Filing of Non infringing process patent for Sumatriptan Succinate<br>• Supply Agreement with Ranbaxy under Para IV of ANDA for Sumatriptan Succinate<br>• US DMF filed for Sumatriptan Succinate |

| Year | Events |
|---|---|
| | • 5 process patents and 1 product patent filed under the Patent Co-operation Treaty and 1 process patent filed with Indian Patents Office. |
| 2004 | • USFDA approval obtained for Unit II<br>• Commenced commercial production of Ramipril and Quinapril<br>• Established exclusive basic research facility at Sanath Nagar, Hyderabad<br>• US DMF for Ranitidine and Ramipril filed and CoS filed for Sumatriptan Succinate and Ramipril<br>• Agreement entered into with IICT, Hyderabad for exclusive manufacturing rights of certain APIs<br>• Agreement entered into with IIT, Guwahati for manufacture of metal acetylacetonates<br>• Entered into a Memorandum of Understanding with Sochinaz SA for exclusive development and supply of Trandalopril for global marketing by Sochinaz SA.<br>• Commenced setup of pilot plant facility for APIs at Gagilapur, Hyderabad |

**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 |

**Changes in Name:**

| Previous Name | Changed Name | Date of Change |
|---|---|---|
| S.M.S. Pharmaceuticals Limited | SMS Pharmaceuticals Limited | April 12, 2004 |

## 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, agroceuticals/ naturoceuticals/ 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.

**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 18, 1994 | Conversion from private to public company | 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 amendments were made in the Articles of Association of our Company. |
| September 26, 1994 | Enhancement of the Authorised Share Capital | The Authorised share capital increased from Rs. 4,000,000/- to Rs. 20,000,000/- |

| Date of General Body Meeting | Change | Details of amendment |
|---|---|---|
| September 29, 1994 (EGM) | Enhancement of the Authorised Share Capital | The Authorised Share Capital was increased from Rs. 20,000,000 to Rs. 35,000,000/- |
| September 25, 1997 | Enhancement of the Authorised Share Capital | The Authorised share capital increased from Rs. 35,000,000/- to Rs. 50,000,000/- |
| December 11, 2003 | Addition to the Main Objects of the Company | 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. |
| March 10, 2004 (EGM) | Name change | The name of the Company was changed from S.M.S. Pharmaceuticals Limited to SMS Pharmaceuticals Limited. |

## 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 |
|---|---|
| Mr.Ramesh Babu Potluri<br>Chairman & Managing Director<br>S/o Mr. Raghavendra Rao<br>Plot 265Q, Road 12<br>Jubilee Hills, Hyderabad – 500 033<br><br>Age: 45 years<br>Occupation: Business | Web city Softech Private Limited |
| Mr.T V V S N Murthy<br>Vice Chairman & Jt.Managing Director<br>S/o Mr. Sesha Rao<br>Plot 10-C, Road 8<br>Film Nagar, Hyderabad – 500 033<br><br>Age: 44 years<br>Occupation: Business | Sreenivasa Pharma Private Limited<br>Natco Drugs & Fine Chemicals Limited |
| Mr. A P Rao<br>Director<br>S/o Late Mr. A Kotaiah<br>A-4, Durgabai Deshmuk Colony<br>University Road<br>Hyderabad – 500 007<br><br>Age: 60 years<br>Occupation : Consultant | Soft Pro Systems Limited<br>APR Investments & Leasing Pvt. Limited.<br>Siri Cybertech Private Limited,<br>Vijaya Bhargavi Finance Limited |
| Dr. Rao V. Vallabhaneni<br>Director<br>S/o Mr. V Nagabhushanam<br>968 Crown Pointe Estates<br>Dr.,St.Louis,MO 63021<br><br>Age: 45 years<br>Occupation : Business<br>Dr. Mihir Chaudhury<br>Director<br>S/o Mr. Late Harendra Chaudhury<br>IIT Guwahati, North Guwahati,<br>Guwahati – 781 039<br><br>Age: 57 years<br>Occupation : Research & Teaching | Technosmarts inc |

## PROFILE OF THE DIRECTORS, OTHER THAN PROMOTER DIRECTOR

**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 such as He also has several years of experience in the Banking and Insurance sector. He was the part of Dr. Reddy's group as Chief Executive in one of the group Companies and member of the board of all the 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. as a Corporate Advisor since 1994. He takes care of the policies and growth plans of SMS as a senior member of the Board of Directors.

**Dr. Rao V Vallabhaneni**

Dr. Rao V Vallabhaneni, has a doctorate from Central University of Hyderabad, India in Life Sciences. He has been a fellow at the Harvard Medical School, Boston, Massachusetts during the period 1992 to 1994. He has been a faculty at the Department of Radiology and Department of Molecular Biology and Pharmacology at Washington University School of Medicine, St. Louis, Missouri, USA during the period 1994 to 1999 in fields of Phase I clinical trials of anti cancer drugs, cancer diagnosis, etc. Since 1997, he has been the President of Technosmarts, Inc., St. Louis, Missouri, USA, which provides information technology consulting services.

He has been taken on the Board of Directors of SMS Pharmaceuticals Ltd. as an Additional Director on August 30, 2004 and was later appointed as a Director on September 29, 2004. His presence on the Board would provide an impetus to the Company's international marketing efforts.

**Dr. Mihir Chaudhury**

Dr. Mihir Chaudhury 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.

## COMPENSATION OF MANAGING DIRECTORS / WHOLE TIME DIRECTORS

Our members at Extra Ordinary General Meeting held on December 11, 2003 have re-appointed Mr. P. Ramesh Babu 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. P. Ramesh Babu:**

Salary of Rs. 1,25,000/- 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 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.1,25,000/- 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. P. Ramesh Babu | Chairman & Managing Director | Executive | 10.12.2008 |
| 2 | Mr. TVVSN Murthy | Vice Chairman & Managing Director | Executive | 10.12.2008 |
| 3 | Mr. A P Rao | Director | Non Executive-Independent | Retire by rotation at AGM |
| 4 | Dr. V. Vallabhaneni Rao | Director | Non Executive-Independent | Retire by rotation at AGM |
| 5 | Dr. Mihir Chaudhary | Additional Director | Non executive - Independent | Retire by rotation at AGM |

**Audit Committees**

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-executive as well as Independent Directors.

| Name of Director | Status in Committee | Nature of Directorship |
|---|---|---|
| Mr. A P Rao | Chairman | Non Executive-Independent |
| Dr. V. Vallabhaneni Rao | Member | Non Executive-Independent |
| Dr. Mihir Chaudhary | Member | Non Executive-Independent |
| Mr. R. Sreenivasa Rao | Ex- officio | Company secretary |

**Brief role of Audit Committee**

The Audit Committee provides directions to and reviews functions of the Audit Department. The Committee evaluates internal audit policies, plans, procedures and performance and reviews the other functions through various internal audit reports and other year-end certificates issued by the statutory auditors. Quarterly and Annual Accounts are placed before the Audit Committee, prior to being presented to the Board along with the recommendations of the Audit Committee.

**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 | Chairman | Non Executive-Independent |
| Dr. V. Vallabhaneni Rao | Member | Non Executive-Independent |
| Dr. Mihir Chaudhary | 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.

**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 | Chairman | Non Executive-Independent |
| Mr. P Ramesh Babu | Member | Executive-Promoter Director |
| Dr. Mihir Chaudhary | Member | Non Executive-Independent |

**Shareholding of Directors**

| Name of the Director | Number of Shares | % of outstanding Equity Capital |
|---|---|---|
| Mr.Ramesh Babu Potluri | 463,134 | 11.30 |
| Mr.T V V S N Murthy * | 108,700 | 2.65 |

* Mr. T V V S N Murthy is also holding 398134 (9.71%) 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 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 Prospectus, we have not entered into any Contract, Agreements or arrangements during the preceding two years from the date of this Draft 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.

**CHANGES IN THE BOARD OF DIRECTORS DURING THE LAST THREE YEARS**

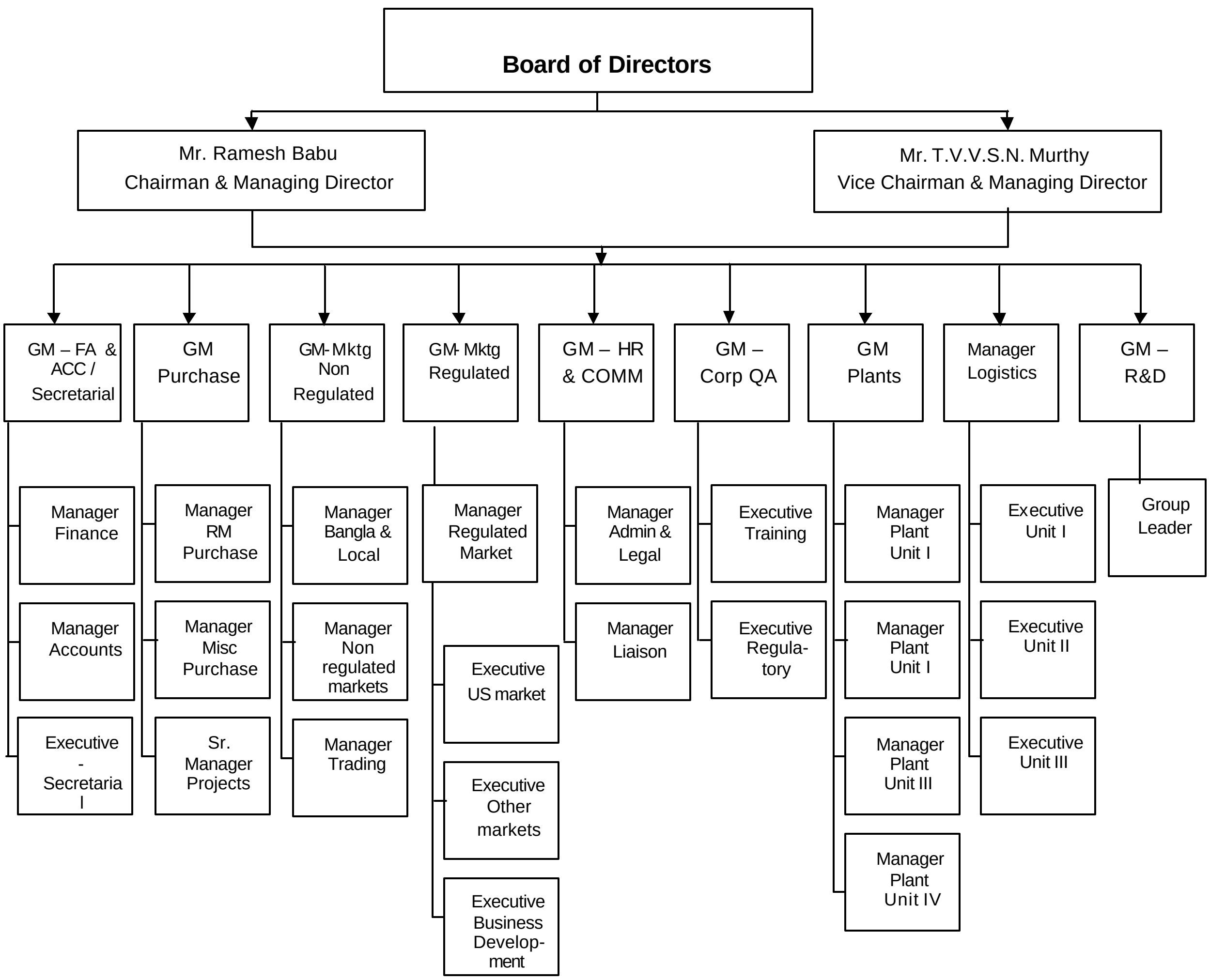
There has been no change in Directors of the Company during last 3 years except following appointments of Directors.

| Name of Director | Date of appointment/ Resignation | Reason |
|---|---|---|
| Dr. V. Vallabhaneni Rao<br>Dr. Mihir Chaudhary | August 30 2004<br>November 18, 2004 | Appointed as Independent Director<br>Appointed as Independent Director |
| Mr. D Radhakrishna Rao | December 6, 2004 | Resigned due to pre-occupation |

**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 | Age | Academic Qualification | Designation & Responsibility | Overall Experience | No of years with SMS | Previously employed |
|---|---|---|---|---|---|---|---|
| 1 | Dr. Hariharakrishnan | 56 | Ph. D. | **General Manager R&D** Responsible for new drug development | 27 | 3 | Indian Drugs and Pharmaceuticals Limited |
| 2 | Mr. P. Ravi Kumar | 42 | M.Com | **SBU Head Unit II & Purchases** | 20 | 9 | Cheminor Drugs Limited |
| 3 | Mr. Y Ravi Kumar | 43 | B.A and Diploma in International Marketing | **General Manager – Marketing – Regulatory Markets** | 18 | 9 | Cheminor Drugs Limited |
| 4 | Mr. A. Hari Babu | 40 | B.A | **General Manager – Marketing & Commercial – Non-Regulatory Markets** | 17 | 12 | Cheminor Drugs Limited |
| 5 | Mr. Hari Kishore | 45 | MSc. Chemistry | **SBU Head Unit III & General Manager - Nutraceuticals** | 20 | 12 | Cheminor Drugs Limited |
| 6 | Mr. T.V. Srihari | 42 | B.E. Chemical Engineering | **General Manager (Technical)** Process designing, scale up for new projects, new products and Patents. | 22 | 2 | Natco Pharma Limited |
| 7 | Dr. A. N. Singh | 52 | M. Sc., Ph. D. | **Asst. General Manager – R & D** | 30 | 1 | Indian Drugs and Pharmaceuticals Limited Research Centre, Hyderabad |
| 8 | Dr. R Giridhar | 52 | M. Pharm., Ph. D. | **Asst. General Manager – QC & QA** | 28 | 1 | Indian Drugs and Pharmaceuticals Limited - Quality Control |
| 9 | Mr. Y Nagarjuna Rao | 40 | B.Com. | **Sr. Manager HR & Legal** | 19 | 9 | Acme Flouro Polymers Limited |
| 10 | Mr. Venkateshwarlu Y | 33 | B. Com., ACA | **Manager – Finance** | 10 | 3 | Allnet Technolgies Ltd. |
| 11 | Mr. R Sreenivasa Rao | 29 | B. Com., ACS | **Company Secretary & Compliance Officer** | 3 | 8 months | V Bhaskar Rao & Co. |

**The details of our key managerial employees are as follows :**

**Dr. Hariharakrishnan- General Manager R&D**

Dr. Hariharakrishnan has a doctorate in Chemistry with 30 years experience in Research and development. Earlier he worked for IDPL (Indian Drugs and Pharmaceuticals Limited). At present our corporate R&D center is headed by Dr. Hariharakrishnan.

**Mr. P. Ravi Kumar-SBU Head Unit-II**

Mr. Ravi Kumar Potluri is a postgraduate in Commerce with 20 years experience in finance. He joined us in 1994. At present Mr. Ravi Kumar is Head for SBU -II and is responsible for centralised Purchases of the Company.

**Mr. Y. Ravi Kumar-General Manager – Marketing (Regulatory Markets)**

Mr. Y. Ravi Kumar is a Bachelor in Arts and holds a Diploma in International marketing. He worked in Cheminor Drugs as Marketing Manager over a period of 9 years and he joined us in 1994. AT present Mr. Ravi Kumar is responsible for Marketing of Companies products in Regulatory markets.

**Mr. A. Hari Babu -General Manager- Marketing & Commercial (Non-Regulatory Markets)**

Mr. Hari Babu Achanta is a Bachelor in Arts and he had experience of 17 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 in Non-Regulatory markets and logistic part of the exports and central excise.

**Mr. Hari Kishore-SBU Head Unit III & General Manager (Nutraceuticals)**

Mr. Hari Kishore is postgraduate in chemistry and has experience of 20 years in various fields. He has been working with us for ten years and looks after Nutraceuticals division of the Company.

**Mr. T.V. Sri Hari - General Manger (Technical)**

Mr. T.V. Sri Hari is a Chemical Engineer, has experience of 22 years in the field of Active Pharmaceutical Ingredients, process engineering and projects. He joined Organization in the year 2000 and is responsible for process designing, scale-up for the new products, new projects and Patents.

**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 has joined us in June 2003 and looks after R & D activities under the guidance of Dr.Hariharakrishnan.

**Dr. R. Giridhar – Assistant General Manger (QC & QA)**

Dr. Giridhar is a M. Pharm from L M College of Pharmacy, Ahmedabad and Ph. D. in Pharmaceutical Science covering analytical chemistry from Kakatiya University, Andhra Pradesh. He has experience of 28 years in the pharmaceutical industry. He has held several senior positions in the areas of Quality control, Development of new analytical methods, imparting training in GMP and other allied subjects. Before joining us he was working with Indian Drugs and

Pharmaceuticals Limited Quality Control department, Hyderabad. He joined us in 2003 and will be responsible for Quality control and Quality Assurance.

**Mr. Y Nagarjuna Rao – Senior Manager – HR & Legal**

Mr. Rao is a Commerce graduate from Nagarjuna University. He has an overall experience of 19 years in Secretarial and HRD. He has worked with various organizations like Nirup Synchrome Limited, Cheminor Drugs Limited, Suvarna Cements Limited and Acme Flouro Polymers Limited. He has joined us 10 years ago and he is working in the areas of Company Secretarial matters, Legal and HRD.

**Mr. Y Venkateshwarlu – Manager - Finance**

Mr. Y Venkateswarlu is Associate Member of Institute of Chartered Accountants of India. He has an overall experience of 10 years in Accounts, Audits, Taxations and Finance. He has joined us in 2001 and looks after day-to-day financial and accounting matters. He has also handled arrangement of finance from Banks and Institutions, credit rating for the Company, Taxation Assessment etc.

**Mr. R Sreenivasa Rao – Company Secretary & Compliance Officer**

Mr. Rao is an Associate Member of Institute of Company Secretaries of India. He has an overall experience of 3 years in Corporate Law and compliances. He has joined us in early 2004 and looks after secretarial matters.

**Shareholding of the Key Managerial Personnel**

| Name of the Director | Designation | Number of Shares as of November 15, 2004 | % of outstanding Equity Capital |
|---|---|---|---|
| Mr. P. Ravi Kumar | SBU Head Unit-II & Purchases | 18,800 | 0.23 |
| Mr. A. Hari Babu | General Manager- Marketing & Commercial (Regulatory Markets) | 1,000 | 0.02 |
| Mr. Hari Kishore | SBU Head Unit III & General Manager- (Nutraceuticals) | 43,000 | 0.52 |

**Changes in the Key Managerial Personnel during last 3 years**

| Name | Date of appointment | Date of Leaving | Remarks |
|---|---|---|---|
| Mr. T.V. Srihari | April 01, 2002 | - | Joined |
| Dr. A. N. Singh | August 01, 2003 | - | Joined |
| Mr. R Sreenivasa Rao | April 15, 2004 | - | Joined |
| Mr. K M K Prasad | - | February 28, 2003 | Resigned |
| Dr. R Giridhar | October 15, 2003 | - | Joined |

**Notes**

1. All the Key managerial personnel are permanent employees of the 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.

## OUR PROMOTERS

**P. RAMESH BABU, CHAIRMAN & MANAGING DIRECTOR:**

Mr. P. Ramesh Babu, 45 years, (Voter ID No. - N.A., Driving Licence No. DLDAP0098652003) is a Post-graduate Technocrat and started his career in the year 1984 with Cheminor Drugs Limited. With his innovative skills and methodological approaches in R & D he worked on cyanide process and developed cost effective Ibuprofen by using cyanide route. Later he had taken active part in commercializing the same and was promoted as assistant production manager and a short while later promoted as the Production Manager for Cheminor Drugs Limited. During his tenure he was responsible for significant reduction in production cost of Ibuprofen. He played key role in getting US FDA approval for Ibuprofen for Cheminor Drugs Limited in 1987.

He became our Managing Director by acquiring an existing sick unit in the year 1990. After taking charge as Managing Director, he changed our product mix and introduced Ranitidine HCL, which gave us a boost in sales and helped us to gear itself in terms of profitability in the first year of operations itself. Under his guidance we introduced many other series of API's. In the year 1995-1996 we introduced Diltiazem HCL, Naproxen, and Ciproflaxin. Mr. Ramesh Babu also concentrates on our Finance, Administration, Purchase and International Marketing operations.

At the time of acquisition by Mr. P. Ramesh Babu, we had a production capacity of 3 MTPA and has now reached 1440 MTPA at Unit-I located at Khazipally and became the world's largest producer of Ranitidine HCL. In the year 2000, Mr. P. Ramesh Babu had taken a decision to increase our product profile 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).

Mr. Ramesh Babu has experience and knowledge in the pharmaceutical Industry and provides the necessary information to the R & D Center and guides 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. Our Company has implemented the CGMP standards and ISO9002 certified under his directorship.

**Other Achievements:**

- Mr. Ramesh Babu was elected as the Joint Secretary of the Bulk Drug Manufacturers Association (BDMA) (A.P) for the year 1999
- Elected as Regional Chairman CHEMIXL for Hyderabad region in the year 2000.
- Member of Pharma Taskforce committee constituted by Chief Minster of Andhra Pradesh in the year 2003

**TVVSN MURTHY, VICE-CHAIRMAN & JOINT MANAGING DIRECTOR.**

Mr. TVVSN Murthy, 44 years, (Voter ID No. - FZZ5516166, Driving Licence No. – 7289/RRD/89 3275/HY/2K1) one of the Co-promoters of the Company is a Graduate in Chemistry and has a vast experience in bulk drug and pharmaceutical industry for a period of 20 years. 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, Mr. Murthy joined as production Manager in Cheminor Drugs Limited (Group of Dr. Reddy's Limited Laboratory), Hyderabad, which was at its establishing stage. He has taken a major role in substantial development of production and turnover. He had achieved highest production of Ibuprofen. During his tenure, Cheminor Drugs Limited got US FDA approved. As a production Manager, his contributions lie in process improvement, cost reduction and procedures to increase labor productivity by motivation.

In the year 1990, Mr. Murthy, along with Mr. P. Ramesh Babu took over the Company. Mr. Murthy looks after the production and Research & Development. During this period, the Ranitidine production Process reduced to 3 stages from 7 stages. He has also designed a state-of-art effluent treatment plant at the Company. During this period, we complied the CGMP norms and awarded with ISO 9002 certificate.

We further confirm that the Permanent Account Number, Bank Account Number and Passport numbers of the Promoters have been submitted to NSE and BSE at the time of filing this Draft Prospectus with them.

## OTHER GROUP COMPANIES/VENTURES OF PROMOTERS:

### BHAGYANAGAR CASTINGS LIMITED:

Bhagyanagar Castings Limited was incorporated under the Companies Act, 1956 on November 8, 1995 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. P Ramesh Babu & Mr. TVVSN 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 Vamshi Mohan | Executive Director |
| PSR Brahmam | Non-Executive & Independent Director |
| TV Satyanarayana | Non-Executive & Independent Director |
| Tammineni Annapurna | Non-Executive Director |
| V. Santhi Kiran | Non-Executive & Independent Director |

**Shareholding pattern:**

| Name of the Shareholder | No. of shares held | % holding |
|---|---|---|
| Acquirers | 3950000 | 69.82 |
| Banks, Fis, MFs etc. | Nil | Nil |
| FIIs / NRIs | Nil | Nil |
| Public | 1707000 | 30.18 |
| **Total** | **5657000** | **100.00** |

**Financial performance:**

Rs. In million

| Particulars | For the Financial Year ended March 31st | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| 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 | 14.54 | 14.42 | 14.27 |
| NAV per Share of Rs.10 (Rs.) | 2.57 | 2.55 | 2.52 |
| 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.

**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.

SMS Pharmaceuticals Limited has taken 26% stake i.e. 377,000 equity shares at Rs.10/- per share in the Company in July 2004 and has also entered into the Non-compete Agreement to avoid conflict of business interest.

**Board of Directors:**

| Name of the Director | Designation |
|---|---|
| Mr. TVVSN Murthy | Director |
| Mrs. P Hima Bindu | Director |

**Shareholding pattern:**

| Name of the Shareholder | No. of shares held | % holding |
|---|---|---|
| SMS Pharmaceuticals Limited | 377000 | 26.00 |
| TVVSN Murthy | 240000 | 16.55 |
| T Annapurna | 160000 | 11.03 |
| T V Praveen | 50000 | 3.45 |
| T Sudeepthi | 50000 | 3.45 |
| P Ramesh Babu | 265600 | 18.32 |
| P Vamsi Krishna | 62400 | 4.31 |
| P Trilok | 68000 | 4.69 |
| P. Himabindu | 104000 | 7.17 |
| M Koteshwara Rao | 73000 | 5.03 |
| **Total** | **1450000** | **100.00** |

**Financial performance:**

Rs. In million

| Particulars | For the Financial Year ended March 31st | | |
|---|---|---|---|
| | 2002 | 2003 | 2004 |
| Sales | 92.94 | 64.05 | 134.38 |
| Other income | 0.13 | 0.15 | 0.31 |
| Total Income | 93.07 | 64.20 | 134.69 |
| PAT | 16.02 | 5.70 | 12.86 |
| Share Capital | 2.50 | 2.50 | 10.00 |
| Share Application money | 2.50 | 2.50 | -- |
| Networth | 20.20 | 20.81 | 22.38 |
| NAV per Share of Rs.10 (Rs.) | 80.80 | 83.24 | 22.38 |
| EPS per Share of Rs.10 (Rs.) | 64.08 | 22.80 | 12.86 |

The Company has availed the following facilities from State Bank of Hyderabad:

| Nature of facility | Limit (Rs. In million) |
|---|---|
| Cash credit | 14.52 |
| Term loan | 13.30 |
| Vehicle finance | 1.61 |
| **Total** | **29.43** |

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

**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. P Ramesh Babu | Director |
| Mrs. P Hima Bindu | Director |

**Shareholding pattern**

| Name of the Shareholder | No. of shares held | % holding |
|---|---|---|
| P. Ramesh Babu | 1000 | 3.03 |
| P. Hima Bindu | 1000 | 3.03 |
| K. Sukumari | 1000 | 3.03 |
| Hima Farms Pvt. Ltd. | 30000 | 90.91 |
| **Total** | **33000** | **100%** |

**Financial performance:**

Rs. In million

| Particulars | For the Financial Year ended March 31st | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Total Income | 43.34 | 11.86 | 19.69 |
| PAT | 6.34 | (3.41) | 0.96 |
| Share Capital | 0.03 | 0.33 | 0.33 |
| Share application | 16.05 | 15.75 | 15.75 |
| Networth | 18.81 | 15.22 | 16.27 |
| NAV per Share of Rs.10 (Rs.) | 627.03 | 46.13 | 493.03 |
| EPS per Share of Rs.10 (Rs.) | 211.44 | (10.33) | 29.09 |

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.

**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, 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. P Hima Bindu | 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 | 1200 | 27.59 |
| K. Sukumari | 650 | 14.94 |
| P. Satyavani | 200 | 4.59 |
| P. Ramesh Babu | 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** | **4350** | **100.00** |

**Financial performance:**

Rs. In million

| Particulars | For the Financial Year ended March 31st | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| Total Income | 0.28 | 0.12 | 0.12 |
| PAT | 0.27 | 0.11 | 0.10 |
| Share Capital | 0.002 | 0.44 | 0.44 |
| Share application | 0.43 | -- | -- |
| Networth | 1.60 | 1.67 | 1.77 |
| NAV per Share of Rs.100 (Rs.) | 8000.00 | 37.95 | 40.23 |
| EPS per Share of Rs.100 (Rs.) | 1350.00 | 2.52 | 2.27 |

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.

None of the above concerns have become sick Company within the meaning of Sick Industrial Companies (Special Provisions) Act, 1995 or is under winding up.

**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. P. Ramesh Babu and Mr. T V V S N Murthy. The Company was incorporated with the main object of manufactur e, import, export, buy, sell, 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.

**Board of Directors:**

| Name of the Director | Designation |
|---|---|
| Mr. P Ramesh Babu | Director |
| Mr. TVVSN Murthy | Director |

**Shareholding pattern**

| Name of the Shareholder | No. of shares held | % holding |
|---|---|---|
| P. Ramesh Babu | 3000 | 30 |
| Atul Dayal | 4000 | 40 |
| TVVSN Murthy | 3000 | 30 |
| Total | 10000 | 100 |

**Financial performance:**

Rs. In million

| Particulars | For the Financial Year ended March 31st | | |
|---|---|---|---|
| | 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 | 0.07610 | 0.10250 | Nil |
| NAV per Share of Rs.10 (Rs.) | 7.61480 | 10.25000 | -- |
| EPS per Share of Rs.10 (Rs.) | - | 0.25060 | -- |

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. P. Ramesh Babu 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. P Ramesh Babu | Director |
| Mr. TVVSN Murthy | Director |

**Shareholding pattern**

| **Name of the Shareholder** | **No. of shares held** | **% holding** |
|---|---|---|
| P. Ramesh Babu | 100 | 0.2 |
| TVVSN Murty | 35000 | 70.0 |
| Hima Bindu P | 12100 | 24.2 |
| Friends & Relatives | 2800 | **5.6** |
| **Total** | **50000** | **100.0** |

**Financial performance:**

Rs. In million

| **Particulars** | **For the Financial Year ended March 31st** | | |
|---|---|---|---|
| | **2002** | **2003** | **29.02.2004** |
| 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 | 0.09933 | 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 $5^{th}$ 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.

There are no other Companies/ firms / entities from which promoters have disassociated themselves during last 3 years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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 and the 6 month period ended September 30, 2004 including the Schedules, annexures and Notes thereto and the Reports thereon, which appear in this 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 Rambabu & Co. and M/s P. Murali & Co. (Joint Auditors) dated November 18, 2004 in the section with the title 'Financial Information'.

The following discussion is based on our audited financial statements for fiscal 2002, 2003, 2004 and the 6 month period ended September 30, 2004, which have been prepared in accordance with Indian GAAP, the Companies Act and the SEBI Guidelines and on information available from other sources.

The Directors confirm that there has been no event or circumstance since the date of the last financial statements, which materially and adversely affect 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.

**Overview**

We are one of the leading manufacturers and exporters of API's and Intermediate formations. 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 and Gemcitabine.

We were incorporated in 1987 by Mr. K. G. Suggula and were subsequently acquired by the current promoters, Mr. P. Ramesh Babu and Mr. TVSSN Murthy in 1990.

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. Our R&D centre is working on other anti cancer molecules Imatinib, Geftinib and Gemcitabine. We have an USFDA approved facility for one of our units, which manufactures Sumatriptan Succinate, Ramipril and other value API's.

The main objectives of our R&D Centre are:

- Process Development for API's 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.

Our total income has grown from Rs. 460.88 million in FY03 (9months period) to 1,141.99 million in FY04 (12 months period). The total profit after taxation for FY04 was Rs. 74.93 million compared with Rs. 23.28 million for FY03. The main reason for the growth witnessed during the year 2004 was the introduction of new products, viz. Ramipril, Quinapril and Gemcitabine.

Our results of operations, financial condition and cash flow have improved significantly over the past three years due to the following factors:

- Introduction of new products, viz. Ramipril, Quinapril, Gemcitabine and Sumatriptan Succinate have resulted in increase of product portfolio and has also led to an increase of sales in value and volume terms and profitability
- Filing of non-infringing process patent for Sumatriptan Succinate, Ramipril, Gemcitabine and Quinapril.
- USFDA approved one of our unit located at Bachupally (Unit-II).
- ISO 9002 certification for two of its four manufacturing facilities, i.e. Unit I and Unit II.
- We have set up the exclusive basic research facility for development of new molecules.
- Commenced Contract Research and Contract Manufacturing activity.
- Increased focus on research and development leading to production of new APIs
- Commencement of manufacture of Nutraceuticals in 2003
- Growing demand for production and research outsourcing in the global pharmaceuticals industry
- Increasing employee compensation in India
- Reducing interest rates
- Strengthening rupee resulting in lower realizations

Our manufacturing facility at Unit II has received US FDA approval. The Unit manufactures Sumatriptan Succinate, Ramipril, Quinapril and other value APIs including its intermediates. We have already filed a DMF for Sumatriptan Succinate in USA, Canada and Europe. Till date, we have been supplying only to domestic and unregulated export markets. Post 2005, we will commence supplying to regulated markets including USA and Canada.

**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 judgments, 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 Prospectus.

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 the following critical accounting policies warrant additional attention:

**Fixed Assets and Depreciation**

Fixed assets are stated at cost of acquisition less depreciation. We capitalize all costs including taxes, duties, freight and other incidental expenses related to the acquisition and installation of respective assets.

Depreciation is charged based on the Straight Line Method and as per the rates prescribed under Schedule XIV of the Companies Act. Assets costing less than Rs. 5,000 are fully depreciated in the year of purchase.

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials is determined on a first-in-first-out basis ("FIFO") while stores and spares are valued based on weighted average cost method. Stocks of work in process and finished goods are valued at cost and includes all applicable overheads in bringing the inventories to their present location and condition on FIFO basis. Excise duty arising on finished goods and customs duty on imported raw materials in stock (excluding stocks in the bonded warehouse) are treated as part of the cost of inventories.

**Revenue Recognition**

With respect to domestic sales, revenue is recognised on despatch of goods to customers and are recorded net of excise duty, sales tax and other levies. For the purpose of disclosure sales are reflected gross of excise duty and sales tax in the consolidated profit and loss account. Export sales are recognised based on when the significant risks and rew ards in respect of ownership of products are transferred to the customer.

**Investments**

Long term investments are stated at cost. Provision, where necessary, is made to recognize a decline, other than temporary, in the value of investments. Current investments are stated at the lower of cost and fair market value.

**Retirement Benefits:**

We have schemes of retirement benefits for provident fund and gratuity, in respect of which, our contributions are charged to the statement of profit and loss. The contributions towards provident fund are made to statutory authorities whereas the gratuity scheme is funded through Life Insurance Corporation of India.

**Foreign Currency Transactions**

Foreign currency transactions during the period are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated loans, current assets and liabilities are translated into rupees at the exchange rate prevailing on the date of the balance sheet. Exchange differences are charged off in the statement of profit and loss, except those relating to the acquisition of fixed assets, which are adjusted to the cost of the assets.

**R & D and miscellaneous expenditure**

Expenditure incurred on research and development of new molecules and process development of existing products is treated as deferred revenue expenditure to be written off over a period of 5 years in equal annual yearly amounts from the year in which the amount was incurred.

Miscellaneous expenditure is written of over a period of 10 years from the year in which the amount was incurred.

**Income Tax**

Provision for tax is made for both current and deferred taxes. Provision for current income tax is made on the current tax rates based on assessable income. We provide for deferred tax based on the tax effect of timing differences resulting from the recognition of items in the financial statements and in estimating its current tax provision. Deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

**Excise duty**

The excise duty in respect of closing inventory of finished goods is included as part of inventory. The amount of CENVAT credits in respect of materials consumed for sales is deducted from cost of materials consumed.

**Business Performance:**

**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 total income and profit after tax for FY04 was Rs. 1141.99 million and Rs. 74.93 million respectively as compared to a total income and profit after tax of Rs. 460.88 million and Rs. 23.28 million in FY03. The trend of net sales (export and domestic) for the past 3 years and the year ended March 31, 2004 is given below:

Rs. in million

| Particulars | Year ended June 30, 2002 | Year ended March 31, 2003 | Year ended March 31, 2004 | Period ended Sept. 30, 2004 |
|---|---|---|---|---|
| | (12 months) | (9 months) | (12 months) | (6 months) |
| **Domestic Sales** | | | | |
| Ranitidine & Intermediates | 200.80 | 135.79 | 512.59 | 159.23 |
| Ramipril & Intermediates | - | - | 50.77 | 50.24 |
| Sumatriptan & intermediates | 22.19 | 2.61 | 27.26 | 32.52 |
| Gemcitabine & Intermediates | - | - | - | 23.20 |
| Others (including traded products) | 59.60 | 28.74 | 154.24 | 61.44 |
| **Export Sales** | | | | |
| Ranitidine & Intermediates | 402.48 | 273.86 | 350.82 | 163.16 |
| Ramipril & Intermediates | - | - | 1.63 | 0.90 |
| Sumatriptan & intermediates | 18.49 | 23.43 | 14.52 | 12.79 |
| Others | 7.62 | 0.94 | 5.35 | 16.84 |
| **Total Sales** | **711.19** | **465.38** | **1,117.18** | **520.33** |

**Sales of manufactured products**

Our sales have witnessed an increasing trend except for the period ended March 31, 2003 where there was a reduction in sales due to consolidation of the manufacturing facilities, organization structure and increased focus on introduction of new products to increase it's product profile. This strategy has resulted in a substantial increase in our turnover for the year ending March 31, 2004. The sales of Ranitidine for the six months period ended September 30, 2004 are 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 post 2005, i.e. 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 FY04 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.

**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, during FY2004 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 production has decreased significantly due to process improvements/developments carried and change in the product mix. The decline is evident from the table given below:

Rs. in million

| Particulars | Year ended June 30, 2002 (12 months) | Year ended March 31, 2003 (9 months) | Year ended March 31, 2004 (12 months) | Period ended Sept. 30, 2004 (6 months) |
|---|---|---|---|---|
| Sales | 711.19 | 465.38 | 1,117.17 | 520.33 |
| Increase (Decrease) in | 29.66 | (6.79) | 21.95 | 14.17 |

| Particulars | Year ended June 30, 2002 | Year ended March 31, 2003 | Year ended March 31, 2004 | Period ended Sept. 30, 2004 |
|---|---|---|---|---|
| Stock | (12 months) | (9 months) | (12 months) | (6 months) |
| Less Excise Duty paid | 67.45 | 43.05 | 61.92 | 34.99 |
| Value of production, after adjustment of excise duty paid | 673.40 | 415.54 | 1,077.20 | 499.51 |
| Raw Material consumed | 368.05 | 189.42 | 654.39 | 270.49 |
| % age of raw material consumed to value of production | 54.66% | 45.58% | 60.75% | 54.15% |

The increase in % of raw materials consumed as a value of production during the year ended March 31, 2004 is due to higher cost of traded products as compared to FY03. The decrease in the period ended September 30, 2004 is due to the change in product mix, viz. introduction of Gemcitabine, higher sales of Sumitraptan Succinate, etc.

**Manufacturing and other expenses:**

The details of manufacturing and other expenditure are as under:

Rs. in million

| Particulars | Year ended June 30, 2002 | Year ended March 31, 2003 | Year ended March 31, 2004 | Year ended Sept 30, 2004 |
|---|---|---|---|---|
| | (12 months) | (9 months) | (12 months) | (6 months) |
| Manufacturing expenses | 156.38 | 104.86 | 159.10 | 85.40 |
| % to sales | 21.99% | 22.53% | 14.24% | 16.41% |
| Salaries, wages and other benefits | 15.90 | 14.88 | 25.19 | 14.40 |
| % to sales | 2.24% | 3.20% | 2.26% | 2.77% |
| Administrative, S& D and other expenses | 79.36 | 63.31 | 116.07 | 66.69 |
| % to sales | 11.16% | 13.60% | 10.39% | 12.82% |
| Finance expenses | 40.61 | 16.89 | 40.61 | 25.57 |
| % to sales | 5.71% | 3.63% | 3.64% | 4.91% |

- Manufacturing expenses as a % of sales have remained at about 22% during FY 02 & FY 03. During FY04 and the six months period ended September 30, 2004, we have introduced products with high realisation and changed product mix, consequently the manufacturing expenses as a % of sales has reduced.
- Salaries and wages as a % of sales have remained at about 2.25% of sales and have grown in the six month period ended to 2.77%. Besides, increasing the manpower, the Company revises its employee remuneration on September 30 each year.
- Administrative, selling and distribution (S & D) and other expenses increased, due to increase in sales commission to the agents for the new products. Hence, as a percentage of sales increased marginally.
- Finance expenses show a decreasing trend up to FY04 due to repayment of high cost debt and and effective management of working capital. The increase in Finance expenses during the six months period ended September 30, 2004 is due to new rupee term loans taken modernization and setting up of exclusive basic R & D facilities at Sanath Nagar.

**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. Deferred Tax Liability as on April 2002, estimated at Rs. 66.79 million, has been appropriated below the line in the balance sheet.

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 after adjustment of excise duty paid for the past periods is as under:

Rs. in million

| **Particulars** | **Year ended June 30, 2002 (12 months)** | **Year ended March 31, 2003 (9 months)** | **Year ended March 31, 2004 (12 months)** | **Period ended Sept. 30, 2004 (6 months)** |
|---|---|---|---|---|
| Value of production, after adjustment of excise duty paid | 673.40 | 415.54 | 1,077.20 | 505.51 |
| Profit after tax | 58.20 | 23.28 | 74.93 | 37.36 |
| Add: Finance Expenses | 40.09 | 16.89 | 40.61 | 25.57 |
| Depreciation | 24.23 | 21.00 | 31.41 | 17.06 |
| Tax | 4.00 | 27.20 | 40.30 | 24.90 |
| EBIDTA | 126.52 | 88.38 | 187.24 | 104.89 |
| % of value of production | 18.79% | 21.27% | 17.38 | 20.75 |

EBIDTA as a % of value of production decreased in FY04 due to higher cost of traded products as against in FY03. The EBIDTA margin has increased during the six months period ended September 30, 2004 due to change in product mix and introduction of new products like Gemcitabine, higher production and sales of Sumatriptan Succinate, etc.

**Profit after Tax**

The profit after tax was Rs. 37.36 million for the 6 month period ended September 30, 2004, Rs. Rs. 74.93 million for the year ended March 31, 2004, 23.28 million in the 9 months period ended March 31, 2003, and Rs. 58.20 million for the year ended June 30, 2002 Our profit after tax margins to sales have been 8.18%, 5%, 6.71% and 7.08 % for the fiscal years 2002, 2003, 2004 and for the 6 month period ended September 30, 2004, respectively.

**Sundry Debtors**

The following table presents the details of our debtors:

Rs. in million

| Particulars | Year ended June 30, 2002 | Year ended March 31, 2003 | Year ended March 31, 2004 | Period ended Sept. 30, 2004 |
|---|---|---|---|---|
| | **(12 months)** | **(9 months)** | **(12 months)** | **(6 months)** |
| Sales | 643.73 | 422.32 | 1,117.17 | 520.33 |
| Outstanding debtors at period end | 191.47 | 151.61 | 315.90 | 227.91 |
| Debtors < 180 days | 148.92 | 108.05 | 272.19 | 184.04 |
| Debtors > 180 days | 42.55 | 43.56 | 43.71 | 43.87 |
| Debtors < 180 days as % to total debtors | 77.78% | 71.27% | 86.16 | 80.75 |
| Debtors > 180 days as % to total debtors | 22.22% | 28.73% | 13.84 | 19.25 |
| Bad debts | Nil | Nil | Nil | Nil |

We do not have any irrecoverable debts, as mentioned in the above table since we have been supplying to Companies such as, Ranbaxy Laboratories Limited, Cadila Pharmaceuticals Limited, Torrent Pharmaceuticals Limited, Shasun Chemicals & Drugs Ltd., J. B. Chemicals, etc. Of the receivables exceeding 180 days, Rs. 39.7 million 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.

We have continuously focused our R&D efforts towards development of molecules and advanced products and have simultaneously worked on achieving process improvements and cost efficiencies in the existing products. This has enabled us to offer latest products at competitive rates and have also helped in partly offsetting any adverse price movements in these products. The expenditure incurred on R&D during the past 3 years is as under:

Rs. in million

| Particulars | Year ended March 31, 2003 | Year ended March 31, 2004 | Period ended Sept. 30, 2004 |
|---|---|---|---|
| | **(9 months)** | **(12 months)** | **(6 months)** |
| Expenditure incurred (treated as Deferred Revenue Expenditure) | 31.20 | 26.99 | 16.12 |

The Company has been following the policy of treating the expenditure incurred on R&D as deferred revenue expenditure and writing off the same each year after review.

**OUR RESULTS OF OPERATIONS**

The table below sets forth various line items from our audited financial statements for fiscal 2002, 2003, 2004 and 6 month period ended September 30, 2004, as a percentage of net value of production, which is defined as total net sales excluding excise duty and increase / decrease in stock.

Rs. in million

| Particulars | Year ended June 30, 2002 | Year ended March 31, 2003 | Year ended March 31, 2004 | Period ended Sept. 30, 2004 |
|---|---|---|---|---|
| | (12 months) | (9 months) | (12 months) | (6 months) |
| **INCOME:** | | | | |
| Sales | 711.18 | 465.37 | 1,117.17 | 520.33 |
| Less: Excise duty | 67.44 | 43.05 | 61.92 | 34.99 |
| Sub total | 643.73 | 422.32 | 1,055.25 | 485.34 |
| Increase/ (Decrease in stock) | 29.66 | (6.78) | 21.95 | 20.17 |
| Net value of production (NvoP) | 673.40 | 415.53 | 1,077.20 | 505.51 |
| Raw material cost to NvoP | 54.66% | 45.58% | 60.75% | 53.51% |
| Cost of raw materials | 368.05 | 189.41 | 654.39 | 270.49 |
| Operating and other expenses to NvoP | 37.37% | 44.05% | 27.89% | 32.02% |
| Operating and other expenses | 251.63 | 183.04 | 300.39 | 161.86 |
| Depreciation to NvoP | 3.60% | 5.05% | 2.92% | 3.37% |
| Depreciation | 24.23 | 21.00 | 31.41 | 17.06 |
| Finance charges to NvoP | 5.95% | 4.07% | 3.77% | 5.06% |
| Finance charges | 40.09 | 16.90 | 40.61 | 25.57 |
| Profit Before Tax to NvoP | 9.24% | 12.16% | 10.70% | 12.32% |
| Profit Before Tax | 62.20 | 50.51 | 115.22 | 62.26 |
| Profit after tax to NvoP | 8.64% | 10.83% | 6.96% | 7.39% |
| Profit after tax | 58.20 | 45.01 | 74.93 | 37.36 |

**COMPARISON OF FISCAL 2003 WITH 2002**

**MAJOR EVENTS**

We consolidated our organization by employing more professionals and focused on setting up of corporate level R&D center. We started sales of Sumatriptan Succinate and its intermediates on commercial scale. We also acquired a manufacturing facility at Jeedimetla to manufacture Nutraceutical products on pilot scale.

**REVENUE:**

***Turnover***

During the year 2003, our accounting period was for 9 months and we achieved a turnover of Rs.465.37 million.

***Other Income***

During the period, other income reduced from Rs. 5.36 million to Rs. 2.28 million. The decrease is mainly on account of reduction in interest rates on margin money and foreign exchange fluctuations.

**EXPENDITURE:**

Raw materials as a percentage to value of production decreased by 9.07% as compared to the previous fiscal, the reduction being mainly due to process improvements in existing products.

Operating expenses have reduced from Rs. 251.63 million to Rs. 183.04 million (annualized Rs.244.06) in the financial year 2003.

***Earnings before Interest depreciation tax and Amortization ("EBIDTA")***

EBIDTA Increased by 4.10% as a percentage to value of production after adjustment of excise duty paid.

***Finance charges***

Finance charges have reduced by 137.23% from Rs. 40.09 million to Rs. 16.9 million in the fiscal 2003.The drastic reduction in finance charge is due to repayment of high cost debt and conversion of a portion of the working capital in to foreign currency loan.

***Depreciation***

Depreciation increased by 17.95% from Rs. 24.23 million in fiscal 2002 to Rs.21million (annualized Rs. 28 million) in fiscal 2003. Gross block of fixed assets (excluding capital work in progress) increased by Rs. 86.45 million in the fiscal 2003.

***Profit after tax***

Profit after tax as percentage of value of production has increased by 2.19%.

**COMPARISON OF FISCAL 2004 WITH 2003**

**MAJOR EVENTS**

In the current FY,04 we obtained US FDA approval for one of our facilities located at Bachupally, Ranga Reddy district, Andhra Pradesh (Unit-II) and we have set up a exclusive basic research facility at Sanath Nagar, Industrial Development Area, Hyderabad, and Andhra Pradesh. During this period, we have commercially produced high value drugs like Ramipril, Quinapril and increased the product profile of Nutraceuticals division by introducing Alvit, Hearty salt, etc.

**REVENUE:**

***Turnover***

During the year 2004, we achieved a turnover of Rs.1,117.17 million registering a growth of over 80% as compared to FY03 (on annualized basis). The major reason for the substantial growth in turnover was due to introduction of new products like Ramipril, Quinapril and increased sales of Ranitidine intermediates and Sumatriptan Succinate.

***Other Income***

During the year, other income was stagnant and stood at Rs. 2.87 million as against Rs. 2.28 million in the previous period.

**EXPENDITURE:**

Raw materials as a percentage to value of production increased to account for 60.75% of NvoP, the increase being due to higher cost of traded materials.

Operating expenses as a % to NvoP reduced to 27.89% in the current year as against 45.58% in the previous period primarily due to significant change in product mix.

***Earnings before Interest depreciation tax and Amortization ("EBIDTA")***

EBIDTA as a % to NvoP declined to 17.38% in the current year as against 21.27% due to higher cost of traded products.

***Finance charges***

Finance charges as a % to NvoP have reduced by to 3.77% as against 4.07% in the previous period due to repayment of high cost debt from IDBI.

***Depreciation***

Depreciation increased by over 12% (on annualized basis for 2003) to Rs. 31.41 million as against Rs. 21 million in the previous period.

***Profit after tax***

Profit after tax as percentage of value of production has decreased to 6.96% mainly due to significant increase in provisioning of current tax during the current period as compared to preceding period.

**COMPARISON OF SIX MONTHS PERIOD ENDED SEPTEMBER 30, 2004 WITH YEAR ENDED MARCH 31, 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, 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.

We also filed DMF for Ranitidine in July 2004 in USA and Certificate of Suitability (CTD format) in Europe. We also filed a Certificate of Suitability (CTD format) for Sumatriptan Succinate in Europe in July 2004. We also filed DMF in USA for Ramipril and Certificate of Suitability (CTD format) in Europe. We also filed patents under the PCT for Gemcitabine and Quinapril during the above period.

During the period, we entered into an Agreement with IICT, Hyderabad for exclusive manufacturing rights of Diltizam, 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 six months period ended on September 30, 2004, we registered a turnover of Rs. 520.33 million and had a Profit after tax of Rs. 37.36 million.

**EXPEN DITURE:**

The expenditure on raw materials consumption as percentage to the value of production declined to 53.51% to Rs. 270.49 million. The decrease is due to change in product mix due to introduction of new products such as Gemcitabine, Ciprofloxacin, Omeprazole, Sildinal, etc.

***Earnings before Interest depreciation tax and Amortization "(EBIDTA")***

EBIDTA % increased from 17.38% in FY04 to 20.75% for six months period ended September 30, 2004 due to change in product mix.

***Profit after tax***

Profit after tax amounted to Rs. 36.84 million for the six-month period ended September 30, 2004.

**Information regarding:**

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. The threat from excessive dependence on a single customer is not significant as the customer base is well diversified.

**7. Total turnover of the Industry:**

The size of the global pharmaceutical industry is estimat ed at about US$ 397.42 billion and is growing at 9.8% per annum (approx) (source: Scrip magazine – February 2002)

**8. Competitive conditions:**

As per International Market Survey (IMS), IMS World Review, in 2003 global audited sales of pharmaceuticals rose 9% (at a constant dollar rate) to reach US $466.30 billion. IMS World Review tracks actual sales of approximately 90% of all prescription drugs and certain over-the-counter (OTC) products in more than 70 countries.

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.

**9. New products introduced last year:**

As a part of its long term strategy and to increase the product profile, we have commercialized the products like, Ramipril, Quinapril, Gemcitabine, Ciprofloxacin, omeprazole and pantaprazole for API segment and Hearty Salt and Alvit from Nutraceutical segment side. In addition to these many APIs are in various stages of R&D.

**DETAILS OF ANY ENCUM BRANCES 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:**

There have been no material developments after the date of last Audited Balance sheet i.e. September 30, 2004.

## OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

Except as stated herein, there is no outstanding or pending litigation, suit, criminal or civil prosecution, proceeding initiated for offence (irrespective of whether specified in paragraph (I) of Part I of Schedule XIII of the Companies Act) or litigation for tax liabilities against the Company, [its Subsidiaries], its Directors or its Promoter or Companies promoted by its Promoters and there are no defaults, non-payment or overdues of statutory dues, institutional/ bank dues or dues towards holders of any debentures, bonds and fixed deposits and arrears of preference shares, other than unclaimed liabilities of the Company or its Subsidiaries and no disciplinary action has been taken by SEBI or any stock exchanges against the Company, its [Subsidiaries], Promoters or Directors.

**Litigation relating to the Company**

**Claims against the Company:**

**1. Civil Disputes**

1.1 Natco Pharma Limited ("**Natco**") has filed a suit against the 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. The Company had entered into an agreement with Natco on September 10, 1998 for conversion of raw materials supplied by the Company to Natco into, *inter alia*, ciprofloxacin base or enrofloxacin base. Natco is claiming the claim amount from the Company for job work undertaken by them for the said conversion and on the ground that the Company has utilised their facilities for storage of the Company's raw materials. The Company has filed a written statement on December 30, 2003 refuting all the contentions made by Natco. The suit is pending.

1.2 The Company placed an inter corporate deposit in the sum of Rs. 20,000,000/- bearing interest of 25% per annum, 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, wherein Mr. Sachdeva was a guarantor to secure the payments under the Agreement. . In this Agreement, it was agreed between the Company, DFIL and Mr. Pavan Sachdeva that DFIL would pay to the Company Rs. 8,000,000/- in four equal installments of Rs. 2,000,000/- each, after which, the Company agreed to file an application in Secunderabad Court, for withdrawal the case filed by the Company against DFIL. Mr. Sachdeva, however, on payment of the third installment, called upon the 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 the 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 in the High Court of Delhi. The 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. Both the suits are pending. For details on the status of the suit being OS No. 1723/1997, please refer to paragraph 6.2 below.

1.3 A civil suit being Suit No. 4027 of 2004 was filed in II Senior Civil Judge, City Civil Court, Hyderabad by Arvind Cans Limited against the Company for recovery of Rs. 185,422/- on the allegation that it had supplied containers to the Company, for which the Company has not paid the purchase price. The Company has filed its counter affidavit to the suit explaining its contention, and the suit is pending.

1.4 A civil suit being Suit No. 2068 of 2004 was filed in II Senior Civil Judge, City Civil Court, Hyderabad by AMP Containers Private Limited against the Company for recovery of a sum of Rs. 160,905/- on the allegation that it had supplied containers to the Company, for which the Company has not paid the purchase price. The 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 and counter claim are pending.

**2. Labour Disputes**

2.1 Mr. T. Lakshmaiah, an employee of the Company, was dismissed from service by the Company after issuing final show cause notice for misconduct vide Company's order dated April 24, 2003. A case is filed by the said employee against the 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. The case is pending.

2.2 A reference being I.A. No. 268 of 2004 (in I. D. No. 67 of 2003) was made by the Government of Andhra Pradesh against the Company's management before the Labour Court II at Hyderabad with regard to the dispute raised by the Company's Unit I Employees Union for alleged termination of 108 casual labourers from service of the management. Since there was no representation on behalf of the Union, the Court passed a nil award on November 21, 2003. Subsequently, in September, 2004, the aggrieved Union filed an interlocutory application, after delay of 257 days, before Labour Court II at Hyderabad for setting aside the said Order dated November 21, 2003. The matter is pending.

**3. Sales Tax**

3.1 For Financial Year 2001 - 2002, the Company has received show cause notice from Government of Andhra Pradesh Commercial Tax Department vide their letter dated February 10, 2003 (under Central Sales Tax Act, 1956) for non-furnishing of the statutory forms to be filed with the concerned authorities. The Company has replied to the above show cause notice by letter dated August 12, 2003. The Company is in the process of recovering final C forms to the extent of Rs. 411,305/-, which, if the Company fails to do, the liability would be to the extent of Rs. 24,678/-.

3.2 For Financial Year 2002- 2003, the Company has received show cause notices from Government of Andhra Pradesh Commercial Tax Department vide their letters both dated 3rd April 2004 (under Andhra Pradesh Government Sales Tax Act, 1957 and Central Sales Tax Act, 1956) for non-furnishing of the statutory forms to be filed with the concerned authorities. The Company has replied to the above show cause notices by letters both dated May 6, 2004. The amount that would be payable by the Company in the event the relevant forms are not procured by them from the concerned parties would be:

(i) Rs. 785,806/- towards (differential tax at the rate of 6 percent on Rs. 13,096,769/-) due under Andhra Pradesh Government Sales Tax Act, 1957.

(ii) Rs. 3,574,919/- (differential tax at the rate of 6 percent on Rs. 59,581,980/-) towards due under Central Sales Tax Act, 1956.

However, the Company is in the process of obtaining the forms to submit the same to the concerned authorities.

**4. Income Tax**

4.1 The Company has one income tax case relating to the assessment year 2000-2001 pending before the Income Tax Appellate Tribunal, challenging the Order of the Commissioner of Income Tax (Appeals) on various grounds, including that the interest income is not considered as business income for the purpose of calculation of benefit under section 80HHC of the Income Tax Act, 1961, higher rate of depreciation is not considered on computers on opening written down value in which such rate is eligible and interest levied under sections 234A, 234 B and 234 C of the Income Tax Act, 1961 before setting of MAT credit. The original amount demanded was Rs. 12,926,818/-, out of which Rs. 11,078,855/- was paid, while Rs. 10,71,491 was rectified on account of mistake committed by the Income Tax Department while levying interest under section 234A and 234B of the Income Tax Act, 1961, leaving a balance of Rs. 776,472/- to be paid by the Company.

**5. Public Interest Litigation**

5.1 The Indian Council for Enviro Legal Action has filed a public interest litigation against Union of India and others wherein several pharmaceutical companies are respondents including the Company in respect of Patancheru and Khazipally areas where most of the industrial units of pharmaceutical companies are located in Andhra Pradesh. The Writ Petition No. 19661/02 was originally filed in the Supreme Court of India, but pursuant to the directions of the Supreme Court of India, the said writ petition was transferred to the High Court of Andhra Pradesh. In the said 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 the Company at certain pages of the said Report and there are statements therein *inter alia* that there is concentration of selected heavy metals, which show appreciable levels of total chromium, lead, cadmium, nickel. The Company has filed its affidavit before the High Court of Andhra Pradesh and the same is pending.

**Claims made by the Company:**

**6. Civil Disputes**

6.1 The Company has filed a suit being suit no. OS No. 323/2002 before the Chief Judge, City Civil Court, Hyderabad (now transferred to XIV Additional Chief Judge cum Fast Track Court, City Civil Court, Hyderabad) against Natco Pharma Limited ("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 the Company, illegally selling the said raw materials, failing to pay to the Company the sale proceeds received by such sale of raw materials, failing to return Duty Entitlement Pass Book (DEPB) benefits to the Company and failing to repay to the Company all the amounts paid by the Company on behalf of Natco to its creditors. The suit is pending at the stage of framing of issues.

6.2 The Company has filed a suit being suit No. OS No. 1723/1997 in the 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. 2,8,976,945/- 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 the 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 of 163 days in filing the application to set aside the decree. The delay petition has been allowed and the Company has preferred a Civil Revision Petition (No. 2622/2001) before the High Court of Andhra Pradesh at Hyderabad to set aside the application made by the defendants. Prior to the defendants' filing of the said application, the Company had filed an execution petition before the High Court of Delhi to execute the said decree passed (O.S. No. 1723/1997) on March 10, 2000. The decree passed (O.S. No.1723/1997) on March 10, 2000 is not set aside till date. The Company's Civil Revision Petition is pending before the High Court of Andhra Pradesh at Hyderabad.

**7. Criminal Cases**

7.1 The Company has filed a criminal complaint being CC No. 52/2001 before the XXI Metropolitan Magistrate, Hyderabad against Natco Pharma Limited, 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 criminal misappropriation and sale of material belonging to the Company, for breach of trust, for causing wrongful loss to the Company and cheating the Company. The case is pending.

7.2 The Company has filed a private criminal complaint being C.C.No.121/1997 before the X Metropolitan Magistrate, Secunderabad against Direct Finance Investment Limited and its Directors Mr. Rajiv Anand, Mrs. Vandana Anand and Mrs. Neeta Bhalla (Accused No. 4) for alleged offence under Section 138 of the Negotiable Instruments Act, 1881 for dishonour of cheques given by Direct Finance Investment Limited for discharge of its liability pursuant to the inter corporate deposit placed by the Company on February 28, 1995 for a short period of fifteen days repayable on March 15, 1995 with interest at the rate of 25% per annum. The proceedings against Mrs. Neeta Bhalla (Accused No. 4) was quashed by High Court of Andhra Pradesh, Hyderabad, against which the Company preferred a Special Leave Petition before the Supreme Court of India. The Supreme Court of India has granted the Company, leave to prefer the Special Leave Petition and the matter has been referred to a larger bench of the Supreme Court of India. The Special Leave Petition has not yet been posted for hearing. The Company's criminal complaint (C.C.No. 121/1997) is pending for trial.

**Claims by the Company's Directors or Promoters**

8. Mr. T.V.V.S.N. Murthy, Vice Chairman and Joint Managing Director of the Company has filed a private criminal complaint being C.C.No.132/2002 before the V Metropolitan Magistrate, Hyderabad under Section 138 of Negotiable Instruments Act, 1881 for dishonour of a cheque for an amount of Rs. 60,000/- against Mr. V. Shyam Sunder Rao. The criminal complaint is pending.

**Claims against the Company's Directors or Promoters**

9. There are no claims against the Company's Directors or Promoters.

**Claims involving the Company's group companies and other ventures of the Company's Promoters**

10. There are no claims involving subsidiaries of the Company.

11. There are no claims involving group companies of the Company.

12. There are no claims involving the other ventures of the Company's Promoters.

## GOVERNMENT APPROVALS

We have received all the necessary consents, licences, permissions and approvals from the Government and various Government agencies required for its present business and no further approvals are required for carrying on the present as well as the proposed business except as stated elsewhere in this Draft Prospectus. We will take steps in compliance with applicable laws to obtain any other governmental licences or permissions required to undertake any of our proposed activities. .

We have received the following Government approvals/licenses/permissions:

**Corporate / Industrial / Labour:**

- Certificate of Incorporation No.01-8066 dated December 14, 1987 and converted into Limited on November 2, 1994 by the Registrar of Companies, Department of Companies Affairs, Andhra Pradesh, Hyderabad.
- Fresh Certificate of Incorporation consequent on the conversion of S.M.S. Pharmaceuticals Limited into S.M.S. Pharmaceuticals Limited issued by Registrar of Companies, Andhra Pradesh at Hyderabad pursuant to S. 31(1)/44 of the Act dated November 2, 1994.
- Fresh Certificate of Incorporation consequent on change of name from S.M.S. Pharmaceuticals Limited to SMS Pharmaceuticals Limited issued by Registrar of Companies, Andhra Pradesh at Hyderabad pursuant to S. 21, 22(1)(e) and 22 (1)(b) of the Act dated April 12, 2004.
- Registration under Employee State Insurance Act, No: 52-9099-34.
- Registration from the office of the Regional Provident Fund Commissioner, Hyderabad, No: AP/24017.
- 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.
- ISO 9001:2000 Certification No. 00168-2003-AQ-HYD-UKAS dated January 10, 2004 valid up to December 21, 2004 and (2) ISO 9001:2000 Certification No.00072-2003-AQ-HYD-UKAS dated July 10, 2003 valid upto June 11, 2006 both issued by Det Narskey Veritas (DNV) Certification Limited, Delhi.
- IEM Acknowledgements received for products vide Nos.3831/SIA/IMO/95, dated July 28, 1995, No.5065/SIA/IMO/95, dated October 5, 1995, No.2388/SIA/IMO/98, dated November 16, 1998 and No. No.1327/SIA/IMO/03, dated May 22, 2003 (2) No.288/SIA/IMO/2002 dated January 31, 2002 and No. 464/SIA/IMO/2003 dated February 17, 2003.
- License for the possession and use of rectified spirit in the manufacture of Industrial preparations of "RAMIPRIL", issued by the Commissioner of Prohibition and Excise, Andhra Pradesh pursuant to Andhra Pradesh Excise Act, 1968 and Andhra Pradesh Rectified Spirit Rules, 1971 bearing reference Cr. No. 6744/2004/CPE/B1 dated April 7, 2004 valid upto March 31, 2005.

**Tax:**

- Registration vide *APGST* No.HYR/03/1/3903/1990-91 valid from April 01, 1990 issued by the Commercial Tax Department, Jeedimetla, Rangareddy District AP.
- Registration vide CST No.HYR/03/1/2521/1990-1991 valid from April 01, 1990 issued by the Commercial Tax Department, Jeedimetla, Ranga reddy District AP.
- Central Excise Registration No: 11/92, dated July 27, 1992 amended as (1) AADCS2221DXM001, (2) No: AADCS2221DXM002 dated June 9, 2003 and (3) No:

AADCS2221DXM003 dated September 16, 2002 from the Commissioner of Customs and Central Excise, Hyderabad.

- Permanent Account Number AADCS2221D allotted by the Office of the Commissioner of Income Tax (Computer Operations), Hyderabad, dated December 14, 1987.

**Environment:**

- License No.60494 and Reg. No. 43988, (2) License No. 44023 Registration No.67124 and (3) License No.42316 Registration No.67683 issued under Factories Act, by Director of Factories, Government of Andhra Pradesh.
- License for use of boilers from the Andhra Pradesh Boilers Inspections Department, vide (1) Boiler No. AP 3220 valid up to March 1, 2005, (2) Boiler No. AP 2690 valid up to May 1, 2005, (3) Boiler No. AP 3082 valid up to July 1, 2005
- License No.P12-(4) 2155/A dated September 11, 2000 issued by Department of Explosives, Chennai to import and Store Petroleum Products, vide Letter No: AP-5686 dated May 20, 2002, valid till 31st December 2004 and (2) 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.
- 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.
- No Objection Certificate from Fire Service Department, Danger and Offensive Traders (1) RC No.109/SFO/JDM valid upto October 27, 2005 (2) RC No.432/SFO/JDM/03 valid upto October 27, 2005 and (3) RC No.318/SFO/JDM/03 valid upto October 27, 2005.
- Registration No.CH/BGL/S-42/P.I/SSM/2004-05 dated April 7, 2004 renewed up to March 31, 2009 issued by Basic Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council, Bangalore for Manufacturer Exporter.
- License No. 425/HD/AP/98-RW, renewed from January 1, 2002 to December 31, 2006, issued by the Asst. Director Drugs Control Administration under the Drugs Rules, 1945 for inter alia sale/ stock / exhibit or distribution of Drugs.
- License to manufacture for sale of drugs other then those specified in Schedule X granted vide (1) License No. : 161/MD/AP/96/B, dated February 27, 1990 and renewed till December 31, 2006, (2) License No.: 63/RR/AP/2000/R, dated November 4, 2000 renewed till December 31, 2006 and (3) License No.44/RR/AP/2002/F/G, dated October 17, 2002 valid upto October 16, 2007.
- Some of our drugs have been awarded the WHO-GMP Certification. The certification has been issued and renewed from September 3, 2003 and June 5, 2003. These certifications are valid for 2 years, awarded by the Drugs and Copyright, Drugs Control Administration, Government of Andhra Pradesh, Hyderabad.
- Consent under section 25 and 26 of the Water (Prevention & Control of Pollution) Act, 1974 and section 21 of the Air (Prevention & Control of Pollution) Act, 1981 from the Andhra Pradesh Pollution Control Board, Hyderabad, No: APPCB/HYD/JDM/646/RO/W/ 2004/100-2388 and APPCB/HYD/JDM/646/RO/A/2004/A/100 valid till March 31, 2007.
- Food License No.3829/RRD/D2/M/2004-05 dated August 23, 2004 valid upto March 31, 2005 issued by Government of Andhra Pradesh by the Gazetted Food Inspector and Local (Health) Authority, R R District.

**Status of other approvals which are required for the existing/ proposed project are as under:**

**Existing Business operations**

| Approval / Consent | Agency | Status |
|---|---|---|
| Grant of Star Export House Certification | The Joint Director General of Foreign Trade, Hyderabad | Renewal Application is made on October 26, 2004 |
| Licence for use of Boiler No. AP 3464 | Director of Boilers, Hyderabad | Renewal Application is made on August 26, 2004. Inspection is completed and renewal is expected in 2-3 weeks. |
| Licence for use of Boiler No. AP 3316 | Director of Boilers, Hyderabad | Renewal Application is made on September 13, 2004. Inspection is awaited |
| Consent for operations – Unit I | APPCB, Hyderabad | Renewal Application is made on June 30, 2004. Renewal is subject to the outcome of Public Interest Litigation pending with Hyderabad High Court, for details referred to section on "Outstanding Litigations and Material Developments" in this Prospectus. |
| Consent for operations – Unit II | APPCB, Hyderabad | Renewal Application is made on June 19, 2004 and Insepction is completed. Renewal is expected in the month of December 2004. |

**Proposed Expansion Project**

| Approval / Consent | Agency | Status |
|---|---|---|
| Environmental Impact Assessment | MOEF | Appointed consultant viz. M/s. Bhagavati Anna Consultants Pvt. Ltd. to study Environmental Impact Assessment. |
| Additional Power requirement | APSEB | Application will be made in February 2005. Further we also propose to acquire two generators (with an aggregate capacity of 950 KVA ) as a back up arrangement. |
| Consent for Establishment / Operations | APPCB | Application will be made in February 2005. |
| Approval of Factory Drawings | Inspector of Factories, Andhra Pradesh | Application will be made after obtaining NOC from APPCB. |
| License under Factories Act | Inspector of Factories, Andhra Pradesh | Application will be made after obtaining NOC from APPCB. |

## OTHER REGULATORY DISCLOSURES

**Stock market Data for our shares**

This being the initial public offering of our Company, our Equity shares are not listed on any stock exchanges.

**Previous Public or Rights Issues (During the last five years)**

This is the first public Issue of our Company. We have not made any public Issue previously.

**Companies under the same Management**

There are no Companies under the same management within the meaning of Section 370 (1B) of the Companies Act, other than the ones disclosed elsewhere in this Draft Prospectus.

**Promise vis-a-vis Performance**

1. Issuer Company
   This being our Initial Public Offering, the Equity Shares of our Company are not listed on any stock exchange.

2. Listed ventures of Promoter
   Out of the ventures promoted by the Promoter, only Bhagyanagar Castings Limited is a listed Company acquired by our promoters in May 2000, since then it has not made any public issues.

**Mechanism evolved for Redressal of Investor Grievances**

Our Company will settle investor grievances expeditiously and satisfactorily. The Agreement between our Company and the Registrar will provide for retention of records with the Registrar for a period of one year from the last date of dispatch of Letters of Allotment/Share Certificates / Refund Orders to enable the investors to approach the Registrar for redressal of their grievances.

All grievances relating to the Issue may be addressed to the Registrar to the Issue, Aarthi Consultants Private Limited, giving full details such as name, address of the applicant, number of Shares applied for, amount paid on application and the bank branch/collection center where the application was submitted.

**Redressal of Investor Grievances**

The average time required by our Company/Registrar for the redressal of routine investor grievances shall be seven working days from the date of receipt of the complaint. In case of non-routine complaints and where external agencies are involved, our Company/Registrar would strive to redress these complaints as expeditiously as possible.

Further, the Company has appointed Mr. R Sreenivasa Rao as Compliance Officer who would directly deal with SEBI officer 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. The Compliance officer will be available at the Registered Office of the Company

**Dividend Policy**

Dividends are/will 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 our 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.

## 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 30 June 2000, 2001, 2002 and 31st March 2003, 2004 and the period ended September 30, 2004 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 II 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 2000, 2001, 2002 and 31st March 2003, 2004 and for the six months ended September 30, 2004 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 Accountin g Policies and Notes on Account appearing in Annexure III and IV respectively to this report.

b. The restated assets and liabilities of the Company as at 30th June 2000, 2001, 2002, and 31st March 2003, 2004 and as at September 30, 2004 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 for the year ended 31st March 2004 and the period ended September 30, 2004 appearing in Annexure V to this report.

d. The rates of dividends paid by the Company in respect of the financial years ended 30th June 2000, 2001, 2002, and 31st March 2003, 2004 and as at September 30, 2004 are as shown in Annexure VI to this report.

e. 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 as at 30th September 2004 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 expenditure incurred on the project as appearing in Annexure XVII to this report
12. Details of qualifications appearing in the audit Report as given in Annexure XVIII to this report
13. Details of changes in Significant Accounting Policies as given in Annexure XIX 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 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**

**RAVI RAMBABU**
**Partner**
Membership No. 18541
Date: November 18, 2004
Place: Hyderabad

**For P.MURALI & Co.,**
**Chartered Accountants**

**P. MURALI MOHANA RAO**
**Partner**
Membership No.23412
Date: November 18, 2004
Place: Hyderabad

**Annexure - I**

# Statement of Profit & Loss Account

Rs. in million

| Particulars | | For the year ended | | | | | Period ended |
|---|---|---|---|---|---|---|---|
| | | **June 30, 2000** | **June 30, 2001** | **June 30, 2002** | **March 31, 2003** | **March 31, 2004** | **Sept. 30, 2004** |
| | | (15 mths) | (12 mths) | (12 mths) | (9 mths) | (12 mths) | (6 mths) |
| **INCOME** | | | | | | | |
| **SALES** | | 1,096.25 | 564.90 | 711.19 | 465.38 | 1,117.17 | 520.33 |
| Of Products Manufactured by the Company | | 1,096.25 | 564.90 | 711.19 | 465.38 | 916.43 | 475.44 |
| Of products Traded by the Company | | - | - | - | - | 200.74 | 44.89 |
| Increase/ (Decrease) in stocks | | (41.33) | 33.37 | 29.66 | (6.79) | 21.95 | 20.17 |
| Other Income | | 5.33 | 3.65 | 5.37 | 2.29 | 2.87 | 1.37 |
| **Total** | | 1,060.25 | 601.92 | 746.22 | 460.88 | 1,141.99 | 541.87 |
| **EXPENDITURE** | | | | | | | |
| Raw Material Consumed | | 475.46 | 281.29 | 368.05 | 189.42 | 654.39 | 270.49 |
| Manufacturing Expenses | | 232.40 | 135.03 | 156.38 | 104.86 | 159.10 | 85.40 |
| Expenses on Employees | | 14.14 | 14.11 | 15.90 | 14.88 | 25.19 | 14.40 |
| Administrative & Other Expenses | | 148.67 | 61.35 | 79.36 | 63.31 | 116.07 | 66.69 |
| **Total** | | 870.67 | 491.78 | 619.69 | 372.47 | 954.75 | 436.98 |
| Profit before Interest, Depreciation and Tax | | 189.58 | 110.14 | 126.53 | 88.41 | 187.24 | 104.89 |
| Interest & Finance Charges | | 49.78 | 45.66 | 40.09 | 16.90 | 40.61 | 25.57 |
| Depreciation | | 16.67 | 19.16 | 24.23 | 21.00 | 31.41 | 17.06 |
| Net Profit Before Tax | | 123.13 | 45.32 | 62.21 | 50.51 | 115.22 | 62.26 |
| Provision For Taxation | | | | | | | |
| Current Tax | | 6.50 | 3.00 | 3.00 | 5.50 | 20.00 | 13.34 |
| Deferred Tax | | - | - | - | 21.73 | 20.29 | 11.56 |
| Net Profit After Tax | | 116.63 | 42.32 | 59.21 | 23.28 | 74.93 | 37.36 |
| Tax relating to prior period | | 0 | 0 | 0 | 0 | 2.68 | 0 |
| Net profit after tax after adjusting prior period item | | 116.63 | 42.32 | 59.21 | 23.28 | 72.25 | 37.36 |

Annexure – II

## Statement of Assets and Liabilities

Rs. in million

| | Particulars | June 30, 2000 | June 30, 2001 | June 30, 2002 | March 31, 2003 | March 31, 2004 | Sept. 30, 2004 |
|---|---|---|---|---|---|---|---|
| | | As at | | | | | |
| | | (15 mths) | (12 mths) | (12 mths) | (9 mths) | (12 mths) | (6 mths) |
| **A** | **FIXED ASSETS** | | | | | | |
| | Gross Block | 313.75 | 456.06 | 506.70 | 593.16 | 658.60 | 740.58 |
| | Less: Depreciation | 44.70 | 63.61 | 87.84 | 108.84 | 140.25 | 157.32 |
| | Net Block | 269.05 | 392.45 | 418.86 | 484.32 | 518.35 | 583.26 |
| | Less : Revaluation Reserve | - | - | - | - | - | - |
| | Net Block after adjustment for Revaluation Reserve | 269.05 | 392.45 | 418.86 | 484.32 | 518.35 | 583.26 |
| | Capital Work in Progress | 25.21 | 12.73 | 24.49 | 21.24 | 46.20 | 61.62 |
| | **Total Fixed Assets (A)** | 294.26 | 405.18 | 443.35 | 505.56 | 564.55 | 644.88 |
| B | INVESTMENTS (B) | 0.85 | 0.35 | 3.45 | 2.95 | 2.94 | 6.71 |
| C | CURRENT ASSETS, LOANS AND ADVANCES | | | | | | |
| | Inventories | 102.16 | 127.40 | 159.41 | 164.18 | 183.08 | 235.93 |
| | Sundry Debtors | 192.14 | 152.51 | 191.48 | 151.62 | 315.90 | 227.91 |
| | Cash and bank Balance | 28.88 | 57.31 | 60.62 | 51.12 | 64.38 | 43.65 |
| | Loans and Advance | 89.02 | 91.95 | 74.88 | 86.07 | 103.27 | 117.89 |
| | Other current Assets | - | - | - | - | - | - |
| | **Total (C )** | 412.20 | 429.17 | 486.39 | 452.99 | 666.63 | 625.38 |
| D | LIABILITIES ANDPROVISIONS | | | | | | |
| | Secured Loans | 201.19 | 307.13 | 297.78 | 361.43 | 481.00 | 521.31 |
| | Unsecured Loans | 13.56 | 19.59 | 25.17 | 30.13 | 36.56 | 39.08 |
| | Current Liabilities | 179.49 | 154.81 | 199.98 | 136.73 | 203.61 | 151.18 |
| | Provisions | 15.91 | 17.64 | 18.86 | 27.31 | 45.27 | 58.61 |
| | Deferred Tax liability | - | - | - | 88.52 | 108.82 | 120.38 |
| | Total (D) | 410.15 | 499.17 | 541.79 | 644.14 | 875.26 | 890.56 |
| E | NET WORTH(A+B+C-D) | 297.16 | 335.53 | 391.40 | 317.35 | 358.86 | 386.41 |
| F | REPRESENTED BY: | | | | | | |
| | Share Capital | 20.50 | 20.50 | 20.50 | 20.50 | 41.00 | 41.00 |
| | Reserves and Surplus( Net of Revaluation Reserves) | 279.93 | 317.73 | 372.84 | 323.81 | 366.28 | 403.63 |
| | Miscellaneous Expenditure | 3.27 | 2.70 | 1.94 | 26.96 | 48.42 | 58.22 |
| | **NET WORTH (A+B-C)** | 297.16 | 335.53 | 391.40 | 317.35 | 358.86 | 386.41 |

**Annexure - III**

**Significant Accounting Policies:**

## 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:

Fixed Assets are stated at cost of acquisition. The cost of fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Cost of fixed assets also includes the exchange difference arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction.

Assets under installation or under construction as on balance sheet date are shown as Capital work in progress. Advances paid towards acquisition of assets are also included under Capital work in progress.

3. DEPRECIATION:
Depreciation on Fixed Assets is provided using the Straight Line Method as per the rates prescribed under Schedule XIV of the Companies Act 1956.

4. INVESTMENTS:
Investments are stated at cost.

5. INVENTORIES:
Inventories are valued at the lower of the cost or net realizable value. Cost of inventories comprises all 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 Progress | - At cost and an appropriate share of overheads. |
| Finished Goods | - Lower of cost or Net realizable value. |

6. RESEARCH AND DEVELOPMENT:
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.

7. RETIREMENT BENEFITS:

a. Provident Fund: The Company is contributing to the funds maintainedbytheGovernment towards Provident Fund to employees.

b. Gratuity: Gratuity liability is accounted with the scheme maintained by Life Insurance Corporation of India, which are charged to the profit and loss account.

c. Earned Leave encashment: The Company accounting earned leave liability accumulated to the credit of employees at the time of resignation of the employee.

8 EXCISE DUTY:

The Excise duty in respect of closing inventory of Finished Goods is included as part of Inventory. The amount of CENVAT credits in respect of materials consumed for sales is deducted from Cost of materials consumed.

9 SALES AND 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. Revenue from domestic sales is recognized on dispatch of products from the factories of the Company.

10 FOREIGN EXCHANGE TRANSACTIONS

Transactions in foreign currencies are translated at the exchange rates prevailing on the dates of transactions in case of purchase of materials and sale of goods, the exchange gains/losses on settlements during the year, are adjusted to profit and loss account.

Current assets, loans and other liabilities denominated in foreign currencies are translated at the rates prevailing on the date of Balance sheet. Exchange gains/loss other than those relating to fixed assets are dealt with in the profit and loss account and the exchange differences related to the acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.

11 TAXES ON INCOME:

Current income tax is determined as the amount of tax payable in respect of taxable income for the period. Deferred tax is recognized, subject to the consideration of prudence in respect of deferred tax assets / liabilities, on timing differences, being difference between taxable income and accounting income that originate in one period and or capable of reversal in one or more subsequent periods.

12.EXPORT INCENTIVES:

Export benefits arising out of Export sales under DEPB scheme are adjusted against Imported raw materials.

13. MISC. EXPENDITURE:

A) Trial run and shares Issue expenses has been written off over a period of Ten Years.
b) Expenditure incurred on promotional and Development Expenditure has been deferred and treated as business development expenditure and written off over a period of 5 years from the year in which it is incurred.

**Annexure - IV**

**Notes On Account:**

**1. Contingent Liabilities:**

(Rs in Millions)

| | Particulars | As on Sept. 30, 2004 | As on March 31, 2004 |
|---|---|---|---|
| (a) | Guarantees given by banks | 1.53 | 2.72 |
| (b) | Foreign Letter of credits opened in favour of customer for which good are yet to be received | 22.41 | 16.71 |
| (c) | Inland Letter of credits opened in favour of customer for which good are yet to be received | NIL | 2.82 |
| (d) | Claims not acknowledged as debts by the Company. | 56.27 | 56.27 |
| (e) | Income tax Appeal filed by the Company before the Appellate Tribunal. | 0.77 | 1.85 |

2 (a) The Company entered into an Agreement with Natco Pharma Ltd. ('Natco') on September 10, 1998 for conversion of raw materials supplied to Natco. Subsequently, due to a dispute on the payment terms, Natco filed a suit on October 9, 2002 before the Chief Judge, City Civil Court, Hyderabad for recovery of Rs. 56.27 Million and interest thereon. The Company has filed a written statement refuting all the contentions made by Natco. Now the case transferred to 14th Addl. Chief Judge cum Fast track court for hearing.

(b) The Company filed a suit on October 12, 2002 under the contract mentioned in the preceding para for recovery of Rs.156.29 Million together with interest at the rate of 15.5% alleging Natco's unauthorized misappropriation and failure to return raw materials belonging to the Company, unauthorized 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 to amounts paid by the Company to creditors on behalf of Natco. Now the case transferred to 14th Addl. Chief Judge cum Fast track court for hearing.
The Company considers that no provision is required.

(c) Sundry debtors exceeding six months include Rs.39.49 Million receivable towards sales (net of conversion charges payable) from Natco Pharma Limited as the Company has filed a suit for recovery for such amount. The legal proceedings are pending before 14th Addl. Chief Judge cum Fast track court. Hence provision is not created.

3 In the year 2001, the Company made an investment in SMS International Ltd., UK (SMS, UK) of an amount aggregating Rs.26,11,356 which made SMS UK a wholly owned subsidiary of the Company. SMS UK has not commenced commercial operations since inception and an application for striking off of its name( in form 652a) was made with Registrar of Companies for England and wales UK in May 2004 and the order to strike off the name of SMS International Limited, U.K yet to be received from Company Law house UK. In view of which the accounts of the said subsidiary has not been made on the balance sheet date hence the audited financial statements of Subsidiary are not annexed hereto as per the requirement U/s 212 of Company's Act 1956. Hence no consolidation has done in the Companies Accounts.

**4 Secured Loans:**

a) Term Loans taken from IDBI, Export – Import Bank of India and UTI Bank Limited 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 a ***pari-passu*** basis with other terms and conditions and un-conditional and irrevocable personal guarantees of managing Directors of the Company.

b) Working Capital Facilities availed from State Bank of India Balanagar Branch is secured by hypothecation of outward Bills/book debts, raw materials, finished goods and semi Finished goods, packing materials lying at factory premises and also secured by way of second charge on the Fixed assets of the Company

c) Unsecured Loan represents Deferred Sales Tax loan of Rs.39.07 Million (Previous Year Rs. 36.56 Million).

5 Sundry Creditors includes Rs.0.50 Million (Previous year Rs. 0.15 ) due to suppliers covered under the small scale and ancillary under takings 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 |
| ii. | Diu Pharma |
| ii. | Sun Chemicals |

And there are no dues exceeding of Rs.0.10 Million to a single party.

6 Managerial Remuneration

(Rs in Millions)

| Particulars | 30.09.2004 | 31 March 2004 |
|---|---|---|
| Salaries & Allowances | 1.68 | 2.91 |
| Commission on Profits | 4.82 | 8.91 |
| Perquisi tes | 0.17 | 0.22 |
| **Total** | **6.67** | **12.04** |

**Calculation of commission:**

(Rs in Millions.)

| Particulars | 30.09.2004 | 31.03.2004 |
|---|---|---|
| Net profit before tax | 62.24 | 115.22 |
| Add: Remuneration and Commission | 6.67 | 12.04 |
| Net profit as per Sec.349 | **68.91** | **127.26** |
| Entitlement of Managerial remuneration @10% for two whole time Directors | 6.89 | 12.72 |
| Managerial Remuneration incl. Commission | **6.67** | **12.04** |

7 **Auditors' Remuneration**

(Rs in Millions)

| Particulars | Period ended Sept. 30, 2004 | Year ended March 31, 2004 |
|---|---|---|
| Statutory Audit fee | 0.150 | 0.225 |
| Taxation and other Representations | NIL | 0.075 |
| **TOTAL** | **0.150** | **0.300** |

**8 Segment Reporting:**

As the Company's business 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 Millions)**

| **Particulars** | **30-09-04** | | **2003-04** | |
|---|---|---|---|---|
| | Revenue | % | Revenue | % |
| Exports | 190.58 | 36.63% | 372.31 | 33.33% |
| Domestic | 329.74 | 63.37% | 744.85 | 66.67% |
| Total | **520.32** | **100.00%** | **1117.16** | **100.00** |

**9. Related party Disclosures:**

Related Parties and Nature of Relationship:

| **Nature of Relation ship** | **Name of the Company** |
|---|---|
| I. Subsidiary Company | SMS International Ltd UK |
| II. Companies in which Directors are substa Interested. | 1.Sreenivasa Pharma Private Limited<br>2.Webcity Softech Private Limited<br>3.SMS Exim Ltd*<br>4.SMS Bio Pharma Ltd* |
| III. Associate Company | NIL |
| IV. Key Managerial Personnel | 1.Mr.P.Ramesh Babu |
| | 2.Mr.T.V.V.S.N.Murthy |
| V. Relative of Key Managerial Personnel | 1.P.Hari Kishore |

***** Application for striking off of name has been made to ROC, Andhra Pradesh.

**Details of Transactions with Related Parties:**

**Rs. in Millions**

| **Particulars** | **Subsidiary Company** | | **Companies in which Directors are substantially Interested.** | | **Key Management personnel and their relatives.** | |
|---|---|---|---|---|---|---|
| **Transaction details** | **Period ended Sept. 30, 2004** | **Year ended March 31, 2004** | **Period ended Sept. 30, 2004** | **Year ended March 31, 2004** | **Period ended Sept. 30, 2004** | **Year ended March 31, 2004** |
| Investment | | 2.61 | 3.77 | | | |
| Purchases | | | 0.1336 | 3.29 | | |
| Sales | | | 0.355 | 0.28 | | |
| Remuneration | | | | | 0.214 | 0.43 |
| Loans and Advances | | | | | | |
| Balance Outstanding/ Receivable/Payable as On balance sheet date | | | **0.233** | **0.0124** | | **-** |

**9 Accounting for Taxes on Income:**

The deferred tax liability as at 30.09.2004 comprises the following:

**( Rs.in Millions)**

| **Particulars** | **Period ended Sept. 30, 2004** | **Year ended March 31, 2004** |
|---|---|---|
| **Deferred tax liability** | | |
| On account of depreciation | 994.96 | 914.49 |
| On account of R&D expenses | 208.86 | 173.71 |
| **Net Deferred tax liability** | **120.38** | **108.82** |

10 The Company has sent the confirmation letter to the sundry debtors / creditors and Loans and advances, hence, the period ending balances are subject to confirmation.

11. Balance of sundry debtors / creditors and Loans and advances to the extent confirmed are reconciled. In respect of others are subject to confirmation.

12 Previous Year figures have been regrouped/reclassified wherever necessary.

**Annexure – V**

**Cash Flow Statement:**

(Rs. in million)

| **Particulars** | **September 30, 2004** | **March 31, 2004** |
|---|---|---|
| | **(6 months)** | **(12 months)** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **Net Profit Before Tax** | **62.24** | **115.22** |
| **Adjustments for:** | | |
| Depreciation | 17.06 | 31.41 |
| Sales tax deferment | 2.52 | 6.42 |
| Interest Expenses | 25.57 | 40.61 |
| Miscellaneous expenses written off | 8.87 | 14.36 |
| **Operating profits before working capital changes** | **116.26** | **208.02** |
| **Adjustments for:** | | |
| Inventories | (52.85) | (18.91) |
| Trade Receivables | 87.99 | (164.29) |
| Other advances and Receivables | (14.62) | (17.20) |
| Trade Payables | (51.56) | 62.10 |
| **Cash generated from operations** | **85.22** | **69.72** |
| Income tax paid | 0 | (2.68) |
| Interest Paid | 25.57 | (40.61) |
| **Net cash from Operating Activities (A)** | **59.65** | **26.43** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Capital work in progress | (15.41) | (24.97) |
| Purchase of fixed assets (net) | (75.95) | (75.10) |
| Investments | (3.77) | 0.02 |
| Deferred revenue expenditure | (18.67) | (35.82) |
| **Net cash used for Investing Activities (B)** | **(113.80)** | **(135.87)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Proceeds from term loans | - | 132.04 |
| Repayment of term loans | 83.80 | (71.32) |
| Working capital loan | (29.80) | 66.49 |
| Dividend including dividend tax | (20.59) | (4.52) |
| **Net cash from Financing Activities (C)** | **33.41** | **122.69** |
| **Net Increase in cash and cash equivalents (A+B+C)** | **(20.73)** | **13.25** |
| **Cash and Cash equivalents at beginning of the year** | **64.38** | **51.12** |
| **Cash and Cash equivalents at end of the year** | **43.64** | **64.38** |

**Note: Figures in ( ) denotes cash outflow**

**Annexure – V I**

**Statement of dividend paid:**

Rs. in million

| Particulars | For the year ended | | | | | Period ended |
|---|---|---|---|---|---|---|
| | **June 30, 2000** | **June 30, 2001** | **June 30, 2002** | **March 31, 2003** | **March 31, 2004** | **Sept. 30, 2004** |
| | (15 mths) | (12 mths) | (12 mths) | (9 mths) | (12 mths) | (6 mths) |
| **On Equity share capital** | | | | | | |
| Paid up share capital | 20.50 | 20.50 | 20.50 | 20.50 | 41.00 | 41.00 |
| Face value (Rs.) | 10/- | 10/- | 10/- | 10/- | 5/- | 10/- |
| Rate of Dividend | 25% | 20% | 20% | 20% | 20% | - |
| Amount of Dividend | 5.13 | 4.10 | 4.10 | 4.10 | 8.20 | - |
| Corporate Dividend tax | 0.68 | 0.42 | - | 0.42 | 1.07 | - |

**Annexure – VII**

**Performance Ratios:**

| Particulars | For the year ended | | | | | Period ended |
|---|---|---|---|---|---|---|
| | **June 30, 2000** | **June 30, 2001** | **June 30, 2002** | **March 31, 2003** | **March 31, 2004** | **Sept. 30, 2004** |
| | (15 mths) | (12 mths) | (12 mths) | (9 mths) | (12 mths) | (6 mths) |
| Earnings per share (Rs.) | 56.88* | 20.64 | 28.88 | 11.36* | 9.14** | 9.11* |
| Return On Net Worth (%) | 39.24% | 12.61% | 15.13% | 7.34%* | 20.88%** | 9.67%* |
| Net Asset Value/Book value Per share (Rs.) | 144.96 | 163.67 | 190.92 | 154.80 | 43.76** | 94.25 |

* 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

| | Pre Issue | | Post Issue |
|---|---|---|---|
| **Particulars** | **As at March 31, 2004** | **As at Sept. 30, 2004** | |
| **Total Debt:** | | | |
| Short Term Debt | 221.21 | 200.62 | 200.62 |
| Long Term Debt | 296.35 | 359.77 | 359.77 |
| **Shareholders Funds:** | | | |
| Share Capital | 41.00 | 41.00 | 56.00 |
| Reserves & surplus | 366.28 | 403.63 | 838.63 |
| Less: Misc. expenditure | 48.42 | 58.22 | 61.22 |
| Total Shareholders Funds | 358.86 | 386.41 | 833.41 |
| **Long Term Debt/ Shareholders funds** | 0.83 | 0.93 | 0.43 |

**Note: Post Issue figures are estimated and given by the Management.**

**Annexure – IX**

**Statement of Tax Shelters**

**Rs. in Million**

| **Particulars** | **For the year ended** | | | | | **Period ended** |
|---|---|---|---|---|---|---|
| | **31.3.2000** | **31.03.2001** | **31.03.2002** | **31.03.2003** | **March 31, 2004** | **Sept. 30, 2004** |
| Profit before current and deferred taxes, as restated (A) | 86.36 | 58.84 | 50.27 | 85.71 | 115.22 | 62.24 |
| Tax rate, % (E) | 38.50% | 39.55% | 35.70% | 36.75% | 35.875% | 36.5925% |
| Tax impact | 33.25 | 23.27 | 17.95 | 31.50 | 41.34 | 22.78 |
| **Adjustments** | | | | | | |
| **Permanent differences** | | | | | | |
| Deduction u/s 80HHC of the Income Tax Act | 37.97 | 4.76 | 7.67 | 7.48 | 5.25 | - |
| Deduction u/s 80HH of the Income Tax Act | 0.10 | 0.08 | - | - | - | - |
| Deduction u/s 80IB of the Income Tax Act | - | - | - | 2.83 | - | - |
| Other adjustments | 1.30 | (0.71) | (0.32) | - | - | - |
| **Total (B)** | 39.37 | 4.12 | 7.35 | 10.30 | 5.25 | - |
| **Temporary differences** | | | | | | |
| Difference between book depreciation and tax depreciation | 21.97 | 47.17 | 29.16 | 35.61 | 38.75 | 15.88 |
| Research & Development expenditure | - | - | - | 24.97 | 20.66 | 9.92 |
| **Total (C)** | 21.97 | 47.17 | 29.16 | 60.58 | 59.42 | 25.80 |
| **Net Adjustment (B+C)** | 61.34 | 51.29 | 36.51 | 70.88 | 64.67 | 25.80 |
| Tax saving thereon | 23.62 | 20.29 | 13.04 | 26.05 | 23.20 | 9.44 |
| **Net tax payable as per income tax returns (D=A-B-C)** | **9.63** | **2.98** | **4.91** | **5.45** | **18.14** | **13.34** |

Notes:

1. The figures for all the above years are as per the Returns of Income filed and for the period ending 30.09.2004 as per the audited accounts.

**Annexure – X**

**Details of Other income**

***Rs. In Million***

| Particulars | For the year ended | | | | | Period ended Sept 30, 2004 |
|---|---|---|---|---|---|---|
| | **June 30, 2000** | **June 30, 2001** | **June 30, 2002** | **March 31, 2003** | **March 31, 2004** | |
| Interest income (net) | 5.29 | 3.55 | 4.08 | 0.14 | 1.52 | 1.37 |
| Miscellaneous income | 0.04 | 0.10 | 1.29 | 0.99 | | |
| Exchange fluctuation (net) | - | - | - | 1.16 | 1.36 | - |
| **Total** | **5.33** | **3.65** | **5.37** | **2.29** | **2.88** | **1.37** |

**Annexure – XI**

**Sundry Debtors:**

Rs. in Million

| Particulars | As at | | | | | As at Sept. 30, 2004 |
|---|---|---|---|---|---|---|
| | **June 30, 2000** | **June 30, 2001** | **June 30, 2002** | **March 31, 2003** | **March 31, 2004** | |
| Debtors outstanding for a period exceeding six months | 40.44 | 41.74 | 42.55 | 43.56 | 43.71 | 43.87 |
| Others | 151.70 | 110.77 | 148.93 | 108.05 | 272.19 | 184.04 |
| **Total** | **192.14** | **152.51** | **191.48** | **151.61** | **315.90** | **227.91** |

**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 | | | | | As at Sept. 30, 2004 |
|---|---|---|---|---|---|---|
| | **June 30, 2000** | **June 30, 2001** | **June 30, 2002** | **March 31, 2003** | **March 31, 2004** | |
| Loans from promoters/ Directors | - | - | - | - | - | - |
| Sales tax deferment | 13.56 | 19.59 | 25.17 | 30.14 | 36.56 | 39.07 |
| **Total** | **13.56** | **19.59** | **25.17** | **30.14** | **36.56** | **39.07** |

**Annexure – XIV**

**Secured Loans:**

Rs. In Million

| Particulars | As at | | | | | As at Sept. 30, 2004 |
|---|---|---|---|---|---|---|
| | June 30, 2000 | June 30, 2001 | June 30, 2002 | March 31, 2003 | March 31, 2004 | |
| Term loan | 96.48 | 197.20 | 189.25 | 206.71 | 259.79 | 320.69 |
| Working Capital Loan | 104.71 | 109.93 | 108.53 | 154.72 | 221.21 | 200.62 |
| **Total** | **201.19** | **307.13** | **297.78** | **361.43** | **481.00** | **521.31** |

**Principal Terms of Sanctioned Loans and Assets Charged as Security**

Rs. In Million

| Sr. No. | Lender & Type of Facility / Sanction letter no. and date/ Terms of repayment | Rate of interest | Amt. Out-standing as on Sept. 30, 2004 | Details of Security |
|---|---|---|---|---|
| **1** | **Working capital** | | | |
| | **State Bank of India, Balanagar Branch Hyderabad-Sole banker for working capital.**<br>Fund Based Rs. 210.00<br><br>Non Fund Based 107.50<br><br>Sanction letter no.ADR-- dated 12.11.2003<br><br>**Repayment terms:**<br><br>Repayable on demand and are available for one year. | CC:12.25 %<br>WCDL:12.75 %<br>EPC:7.35%<br>CL:12.75%<br>FBD:7.25% | 43.09<br>18.57<br>42.41<br>41.60<br>54.95<br><br>89.58 | • Outward Bills/book debts (receivables in the course of collection), Raw materials, Finished Goods and semi-finished goods and Goods-in-process, packing materials lying at factory premises and other immovable properties as per **Note I**<br>• And also secured by way of second charge on immovable properties which were already charged to Export-Import Bank of India, IDBI and UTI Bank Ltd on the basis of first charge. (All immovable properties as per **Note – II & III**<br>• Personal guarantees of promoter Directors. viz; Mr.P.Ramesh Babu and Sri. T.V.V.S.N.Murthy |
| **2** | **Term Loans** | | | |
| | **I D B I**<br><br>Rs. 80.00 Rupee Term loan<br><br>Sanction letter no. IDBI(H)No.3286/CFD.SMS PL dated 21st,September,1998<br><br>**Repayment terms**<br><br>**Quarterly repayable till 30.09.2004** | 16.875% | 40.00 | • First *pari-passu* charges on whole of the movable fixed properties of Company including its movable plant and machinery, machinery spares, tools and accessories and other movables, both present and future (save and except book debts) in pari passu with other term lenders.<br>• First Charges on all immovable fixed properties, as per **Note – II & III**<br>• Personal guarantees of promoter Directors.viz; Mr.P.Ramesh Babu and Sri. T.V.V.S.N.Murthy |

| | | | |
|---|---|---|---|
| **Export – Import Bank of India**<br><br>1)USD.1.545 Million-FCL<br><br>Sanction letter no. OIF:EOU:D-375:435 Dated June,08,2000<br><br>2) Rs.745.00 – Rupee term loanOIF:EOU:D-375:25 dated Januvary 17,2001<br>**Repayment terms (1&2)**<br>8 Equal semi annual installments.<br><br>3)USD.1.88 Million-FCL<br>Sanction letter no. OIF:EOU:D-422:166 dated February 25,2002<br><br>4) USD 3.10* Million FCL<br><br>Sanction letter no. OIF:EOU:D-486:1418 dated December1,2003<br><br>**Repayment terms(3&4)**<br>10 Equal semi annual installments.<br><br>*Disbursement taken only USD1.084 Million | LIBOR (6Months)+ 250 bPS%<br><br>LIBOR (6Months)+ 250 bps<br><br>LIBOR (yearly)+350 bps | USD0.193 Million<br><br>NIL<br><br>USD1.128 Million<br><br>USD1.084 Million | • First *pari -passu* charges on whole of the movable fixed properties of Company including its movable plant and machinery, machinery spares, tools and accessories and other movables, both present and future (save and except book debts) in pari passu with other term lenders.<br>• First Charges on all immovable fixed properties, as per **Note – II & III.**<br>• Personal guarantees of promoter Directors.viz; Mr.P.Ramesh Babu and Sri. T.V.V.S.N.Murthy |
| **UTI Bank Limited**<br><br>Rs.50.00 Rupee Term loan<br><br>Sanction letter no. UTIB/HYD/CR/622 dated 21st march,2003<br><br>**Repayment terms**<br>Ten Half yearly installments. | 12.5% | Rs.40.00Million | • First *pari -passu* charges on whole of the movable fixed properties of Company including its movable plant and machinery, machinery spares, tools and accessories and other movables, both present and future (save and except book debts) in pari passu with other term lenders.<br>• First Charges on all immovable fixed properties, as per **Note – II & III.**<br>• Second charge on the current assets of the Company on *pari passu* basis with IDBI and Exim Bank of India.<br>• Personal guarantees of promoter Directors.viz; Mr.P.Ramesh Babu and Sri. T.V.V.S.N.Murthy. |
| **UTI Bank Limited**<br><br>Rs.150.00 Rupee term loan<br><br>Sanction letter no. UTIB/HYD/CR/655 dated December 23, 2003 | 9.65% | Rs.150.00 | • First *pari -passu* charges on whole of the movable fixed properties of Company including its movable plant and machinery, machinery spares, tools and accessories and other movables, both present and future (save and except book debts) in pari passu with other term lenders.<br>• First Charges on all immovable fixed properties, as per **Note – II & III.**<br>• Personal guarantees of promoter |

| | | | |
|---|---|---|---|
| **Repayment terms**<br>a) Two Half yearly installments Rs.10 Million in each in 2nd year.<br>b) Two Half yearly installments Rs.1.5 Million in each in 3rd year.<br>c) Four Half yearly installments Rs.2.5 Million in each in 4th and 5th year. | | | Directors.viz; Mr.P.Ramesh Babu 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.

**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 AG3.00 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 AG2.00 Guntas | Sr.No.180, Sub-divided 180/1 to 180/15 |
| AC-1-09 Guntas out of AG2.00 Guntas | Sr.No.180, Sub-divided 180/1 to 180/15 |
| AC-1-00 Guntas out of AG2.20 Guntas | Sr.No.180, Sub-divided 180/1 to 180/15 |
| AC-1-20 Guntas out of AG2.20 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 the 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 pat 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 pat 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 pat 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 pat of survey no.334,335,336 and 337 Bachipally 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** | | |
|---|---|---|
| **Name of the Related Party** | | **Relationship** |
| | | |
| **Key Managerial Personnel** | | |
| 1 | P. Ramesh Babu | 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 | SMS Bio Pharma Private Limited* | Director interested |
| 4 | SMS EXIM Private Limited* | Director interested |
| **Relative of Key Managerial Personnel** | | |
| 1 | P. Hari Kishore | - |
| | | |

*: Application for striking off of name has been made to the ROC, Andhra Pradesh

Rs. in Million

| Name of related party | Nature of Transaction | For the year ended June 30, 2000 | June 30, 2001 | June 30, 2002 | March 31, 2003 | March 31, 2004 | Period ended Sept. 30, 2004 |
|---|---|---|---|---|---|---|---|
| Mr. P. Ramesh Babu | Remuneration & commission | 2.64 | 1.32 | 1.34 | 1.06 | 5.98 | 3.33 |
| Mr. T.V.V.S.N. Murthy | Remuneration & commission | 2.64 | 1.32 | 1.49 | 1.13 | 6.05 | 3.34 |
| SMS International, UK | Investment | - | - | 2.61 | 2.61 | 2.61 | 2.61 |
| Sreenivasa Pharma Private Limited | • Purchase | - | - | - | 0.82 | 3.29 | 0.35 |
| | • Sales | - | - | - | 2.44 | 0.29 | 0.13 |
| | • Investment | - | - | - | - | - | 3.77 |

**Annexure – XVI**

**Investments:**

The Company does not hold any quoted investments.

**Annexure – XVII**

The Company had not incurred the any expenditure on the Proposed Project up to September 30, 2004.

## Annexure – XVII

There have been no qualifications in the Audit report for the preceding five years.

**Annexure - XIX**

**Changes in the Significant Accounting Policies**

There have been no changes in accounting polices during the preceding five years.

**For RAMBABU & Co.,**
**Chartered Accountants**

**RAVI RAMBABU**
**Partner**
Membership No. 18541
Date: November 18, 2004
Place: Hyderabad

**For P.MURALI & Co.,**
**Chartered Accountants**

**P. MURALI MOHANA RAO**
**Partner**
Membership No.23412
Date: November 18, 2004
Place: Hyderabad

## TERMS OF THE ISSUE

The Equity Shares being offered are subject to the provisions of the Companies Act, the Memorandum and Articles of the Company, FIPB and RBI approvals, the terms of this Draft Prospectus, Application Form and other terms and conditions as may be incorporated in the 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, Government of India, Stock Exchanges, RBI, RoC and/ or other authorities, as in force on the date of the Issue and to the extent applicable.

### AUTHORITY FOR THE PRESENT ISSUE

Pursuant to Section 81(1A) of Companies Act, the present Issue of 1,500,000 Equity Shares by the Company has been authorised by a resolution passed by the Board of Directors of the Company at their meeting held on August 30,2004 and a special resolution passed at the Annual General Meeting of the shareholders of the Company held on 29th September, 2004.

### TERMS OF PAYMENT:

Applications should be for minimum of 20 equity shares and in multiples of 20 equity shares thereafter.

The entire Issue price of Rs. **[·]**/- per share is payable as under:

| Category | Towards Share Capital (Rs.) | Towards Share Premium (Rs.) | Total (Rs.) |
|---|---|---|---|
| On Application | 5.00 | **[·]** | **[·]** |
| On Allotment | 5.00 | **[·]** | **[·]** |
| **Total** | **10.00** | **[·]** | **[·]** |

Where an applicant is allotted lesser number of equity shares than he / she has applied for, the excess amount paid on application shall be refunded to applicant after adjusting amount due on allotment.

The Equity Shares offered through this Prospectus shall be made fully paid up or may be forfeited within 12 months from the date of allotment of shares.

### INTEREST IN CASE OF DELAY IN DISPATCH OF ALLOTMENT LETTERS / REFUND ORDERS:

We agree that as far as possible, allotment of securities offered to the public shall be made within 30 days of the closure of public Issue. We further agree that we shall pay interest @ 15% per annum if the Demat shares are not credited or/and refund orders have not been dispatched to the applicants within 30 days from the date of the closure of the Issue.

### Face Value and Issue Price

The Equity Shares with a face value of Rs.10/- each are being offered in terms of this Prospectus at a total price of Rs. **[·]**/- per share. At any given point of time there shall be only one denomination for our Equity Shares, subject to the applicable laws.

**Market Lot**

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

Since trading of Company's Equity Shares is in dematerialised form, the tradable lot is one equity share.

**ARRANGEMENTS FOR DISPOSAL OF ODD LOTS:**

Our shares will be traded in dematerialized form only and therefore the marketable lot is 1 (ONE) share. Therefore, there is no possibility of any odd lots.

**Rights of the Equity Shareholder**

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- The right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed public Company under the Companies Act and Memorandum and Articles of Association of the Company.

**Ranking of Equity Shares**

The Equity Shares being offered shall be subject to the provisions of the Memorandum and Articles of Association of the Company and shall rank pari passu in all respects with the existing Equity Shares of the Company including rights in respect of dividend except the lock-in provisions applicable as per SEBI Guidelines in respect of existing Equity Shares as mentioned in the "Notes to Capital structure". The allottees will be entitled to Dividend or any other corporate benefits, if any, declared by the Company after the date of Allotment.

**Compliance with SEBI Guidelines**

The Company shall comply with all disclosures and accounting norms as specified by SEBI from time to time.

**Jurisdiction**

Exclusive jurisdiction for the purpose of this Issue is with competent courts/ authorities in Hyderabad, Andhra Pradesh, India.

**Nomination Facility to Investor**

In accordance with Section 109A of the Companies Act, the sole or first applicant, along with other joint applicants, may nominate any one person in whom, in the event of the death of sole applicant or in case of joint applicants, death of all the applicants, 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 the Registered Office of the Company or to the registrar and transfer agents of the 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:

- to register himself or herself as the holder of the equity shares; or
- to make such transfer of the equity shares, as the deceased holder could have made.

Further, the Board of Directors 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 us. Nominations registered with respective depository participant of the applicant would prevail, if the investors want to change the nomination, they are requested to inform their respective depository participant.**

## PROCEDURE FOR APPLICATION AND MODE OF PAYMENT

### Availability of Prospectus and Application Forms

The Memorandum Form 2A containing the salient features of the Prospectus together with Application Forms and copies of the Prospectus may be obtained from the Registered Office of the Company, Lead Managers to the Issue, Registrar to the Issue, Underwriters to the Issue and at the collection centres of the Bankers to the Issue, as mentioned on the Application Form.

**Application may be made by**

| | |
|---|---|
| (a) | Indian Nationals resident of India who are Adult Individuals in single name or joint names (not more than three) |
| (b) | Hindu Undivided Families through the Karta of the Hindu Undivided Family |
| (c) | Companies, Bodies Corporate and Societies registered under the applicable laws in India and authorised to invest in the Shares |
| (d) | Indian Mutual Funds registered with SEBI |
| (e) | Indian Financial Institutions & Banks |
| (f) | Venture Capital Funds / Foreign Venture Capital investors registered with SEBI |
| (g) | State Industrial Development Corporation |
| (h) | Insurance Companies registered with Insurance Regulatory and Development Authority; |
| (i) | Provident Funds with minimum corpus of Rs.25 Crore; |
| (l) | Pension Funds with minimum corpus of Rs.25 Crore; |
| (m) | Trusts who are registered under the Societies Registration Act, 1860 or any other trust law and are authorised under its constitution to hold and invest in shares |
| (n) | Commercial Banks and Regional Rural Banks. Co-operative Banks may also apply subject to permission from Reserve Bank of India |

| | |
|---|---|
| (o) | Permanent and Regular employees of the Company |
| (p) | Non-Resident Indians (NRIs) on a repatriable/ non-repatriable basis |
| (q) | Foreign Institutional Investors (FIIs) on a repatriable/non repatriable basis |

**Applications cannot be made by**

a) Minors
b) Foreign Nationals (except NRIs)
c) Overseas Corporate Bodies (OCBs)
d) Partnership firms or their nominees

**Subscription by NRIs/ FIIs**

The Company proposes to make an application to the RBI for the Fresh Issue of Equity Shares to NRIs/FIIs on a repatriation basis. Subject to the Company obtaining such approvals, it will not be necessary for the investors to seek separate permission from the RBI for this specific purpose. However it is to be distinctly understood that there is no reservation for NRIs and FIIs and all NRI, and FII applicants will be treated on the same basis with other categories for the purpose of allotment.

The allotment of the Equity Shares to Non-Residents shall be subject to the FIPB/ RBI approval or any requisite permission as may be necessary.

## A. GENERAL INSTRUCTIONS

1. Applications must be made in the prescribed Application Form and completed in Full in **BLOCK LETTERS** in English as per the instructions contained herein and in the Application Form and are liable to be rejected if not so made.

2. The application for equity shares should be for a minimum of 20 equity shares and in multiples of 20 shares thereafter. An applicant can make an application only for a maximum number of equity shares that are offered in the respective category; however the maximum allotment will be subject to the investment limits prescribed by the Regulatory or Statutory Authorities governing them.

3. Thumb impressions and signatures other than in English/ Hindi/ Marathi or any other language specified in the 8$^{th}$ Schedule to the Constitution of India, must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under his/ her official seal.

**4. Bank Account Details of Applicant:**

The name of the Applicant, Depository Participant's name, Depository Participant's Identification (DPID) number and the Beneficiary number provided by the Depository participant must be correctly mentioned in the Application Form at the appropriate place. The Registrars will obtain the Demographic details such as Address, Bank account details and occupation from the depository participants. The refunds, if any, will be printed with the Bank details as given by the Depository participant.

**5. Applications under Power of Attorney:**

In case of applications under Powers of Attorney or by Companies, Bodies Corporate, Societies registered under the applicable laws, trustees of trusts, Provident Funds, Superannuation Funds, Gratuity Funds a certified copy of the Power of Attorney or the relevant authority, as the case may be, must be lodged separately at the office of the Registrars to the Issue simultaneously with the submission of the application form, indicating the serial number of the application form and the name of the Bank and the branch office where the application is submitted.

The Company in its absolute discretion reserves the right to relax the above condition of simultaneous lodging of the Power of Attorney along with the Application Form subject to such terms and conditions as it may deem fit.

**6. PAN/ GIR Number**

Where an application is for a total value of Rs. 50,000/- or more, the applicant or in case of applications in joint names, each of the applicants should mention his/ her/ their Permanent Account number (PAN) allotted under Income Tax Act, 1961 or where the same has not been allotted, the GIR Number and the IT Circle/ Ward/ District should be mentioned. In case where neither the PAN nor the GIR Number has been allotted, or the applicant is not assessed to Income Tax, the appropriate box provided for the purpose in the application form must be ticked. Applications without this will be considered incomplete and are liable to be rejected.

**7. Joint Applications in the case of individuals**

Applications can be in single or joint names (not more than three). In the case of joint applications, all payments will be made out in favour of the first applicant. All communications will be addressed to the first named applicant whose name appears in the Application form at the address mentioned therein.

8. Applications may be made by Hindu Undivided Families (HUF) through the Karta of the (HUF) and will be treated at par with individual applications.

**9. Multiple Applications**

An applicant should submit only one Application Form (and not more than one) for the total number of equity shares applied for. Two or more applications in single or joint names will be deemed to be multiple applications if the sole and/ or first applicant is one and the same.

In case of application by Mutual Funds, a separate application can be made in respect of each scheme of an Indian Mutual Fund registered with SEBI and such applications will not be treated as multiple applications provided that the application made by the Asset Management Company/ Trustees/ Custodian clearly indicate their intention as to the scheme for which the application has been made.

The Company reserves the right to accept or reject, in its absolute discretion, any or all-multiple applications.

A separate single cheque/draft must accompany each application form.

**10. Stockinvest**

Investors will not have the facility of applying through Stockinvest instrument, as RBI has withdrawn the Stockinvest schemes vide notification No.DBOD.NO.FSC.BC.42/24.47.001/ 2003-04 dated 5.11.2003.

**11. Investment Limits for Mutual Funds / Venture Capital Funds**

No Mutual Fund scheme shall invest more than 10% of it's Net Asset Value in the Equity Shares or Equity related instrument of any company provided that the limit of 10% shall not be applicable for Investments in Index Funds or Sector or Industry specific Fund. No Mutual fund all its schemes should own more than 10% of any Company's paid up capital carrying voting rights.

The SEBI (Venture Capital) Regulations 1996 and the SEBI (Foreign Venture Capital) Regulations 2000 prescribe Investment restriction on Venture Capital Fund and Foreign Venture Capital Investors registered with SEBI. Accordingly holding by any Venture Capital Funds or Foreign Venture Capital Investor should not exceed 25% of the corpus of Venture Capital Fund and Foreign Venture Capital Investor. Equity shares allotted to Venture Capital Funds and Foreign Venture Capital Investor through this Issue shall be locked in for a period of 1 year.

**Note:**

Applicants are requested to write their names and application serial number on the reverse of the instruments by which the payments are being made to avoid misuse of instruments submitted along with the applications for equity shares.

Applications by NRIs on non-repatriation basis can be made using the Form meant for Public out of the funds held in Non Resident (Ordinary) Account (NRO). The relevant bank certificate must accompany such forms. Such applications will be treated on par with the applications made by the public.

**For further instructions, please read the Application Form carefully.**

**B. PAYMENT INSTRUCTIONS (For Resident investors)**

1. Payment may be made by way of cash or cheque/ demand draft/ (money/ postal orders will not be accepted) drawn on any Bank, including a co-operative Bank which is situated at and is a member or sub-member of the Banker's clearing-house located at the place where the application form is submitted, i.e. at designated collection centers.

2. Outstation cheques/demand drafts drawn on Banks not participating in the clearing process will not be accepted.

3. All cheques/ demand drafts accompanying the Application Form should be marked as follows: Cheque/ bank draft must be made payable to the bankers to the Issue and marked "_____________A/c SMS Pharmaceuticals Limited – Public Issue" and crossed "A/C payee only". For e.g. "HDFC Bank – A/c SMS Pharmaceuticals Limited – Public Issue"

4. The applications shall be made only by way of cash/ cheque/ demand draft. However, if the amount payable on application is Rs. 20,000/- or more, such payment must be effected only by way of an account payee cheque/ or Bank draft in terms of section 269SS of the Income-Tax Act, 1961. Otherwise the applications may be rejected and application money refunded without any interest.

**PAYMENT INSTRUCTIONS (For NRIs/FIIs on a repatriable basis)**

**APPLICATION BY NRIs / FIIs**

1. Application should be made only
   (a) In the prescribed application form (**BLUE** in colour) and completed in full block letters in English in accordance with the instructions contained herein and in the application form. Applications not so made are liable to be rejected;
   (b) For a minimum of 20 shares and in multiples of 20 thereof, subject to maximum of 1,00,000 equity shares;

(c) In single or joint names (not more than three);
(d) In the names of individuals, (not in the names of minors or nominees) of Indian nationality/origin or FIIs registered with SEBI.
(e) with remittances from abroad for the amount payable on application per share through approved banking channels or out of funds held in Non-Resident External (NRE) / Foreign Currency Non Resident (FCNR) accounts maintained with banks authorised to deal in foreign exchange in India, along with the certificate from the bank issuing the draft confirming that the draft has been issued by debit to NRE / FCNR account.

2. Application forms properly completed together with cheques/bank drafts for the amount payable on application @ Indian Rs. **[·]**/- per share or equivalent of Indian Rs. **[·]**/- per share remitted through normal banking channels or funds held in Non-Resident External (NRE) Accounts/Foreign Currency Non resident (FCNR) Accounts maintained with banks authorised to deal in foreign exchange in India along with documentary evidence in support of remittance, must be delivered before the close of subscription list to those branches of the Bankers to the issue at places mentioned against their names in the application forms.
3. Applicants are requested to mention the application form number on the reverse of the instrument to avoid misuse of instrument submitted along with application for shares. Applicants are advised in their own interest, to indicate the name of the Bank and the savings or current a/c number in the application form. In case of refund, the refund order will indicate these details after the name of the payee. The refund order will be sent directly to the payee's address.
4. The allotment of equity shares to NRIs shall be subject to RBI approval or any other requisite authority as may be necessary under the existing Exchange Control Regulation. The sale proceeds of such investment in equity shares by NRIs will be allowed to be repatriated along with the income thereon, subject to instructions from RBI then in force and subject to Indian Tax Laws, provided that the investments are made by inward remittance from abroad through approved banking channels or out of funds held in NRE / FCNR accounts maintained with a bank in India.
5. Refunds/dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges / commission. In case of applicants who remit their application money from funds held in NRE / FCNR accounts, such payments shall be credited to their respective NRE / FCNR accounts (details of which shall be furnished in the space provided for this purpose in the Application Form), under intimation to them. In case of applicants who remit their money through Indian Rupee Drafts from abroad, such payments in Indian Rupees will be converted into US Dollars or any other freely convertible currency as maybe permitted by RBI at the exchange rate prevailing at the time of remittance and will be dispatched by registered post, or if the applicants so desire, will be credited to their NRE / FCNR accounts, details of which are to be furnished in the space provided for this purpose in the Application Form. The Company will not be responsible for loss, if any, incurred by the applicant on account of conversion of Foreign Currency into Indian Rupees and vice versa.
6. Applications in this category cannot be made out of NRO accounts and such applications would be rejected. Applications out of NRO accounts can, however, be made in the category of Resident Indian public.
7. All cheques / bank drafts accompanying the Application Form must be made payable to the Bankers to the Issue with whom the Application Forms are lodged and be marked "SMS Pharmaceuticals Limited - Public Issue- NRI" and crossed "Account Payee only".
8. In accordance with the current regulations, the Issue of Equity shares to a single FII should not exceed 10% of the post-Issue capital of the Company. In respect of an FII investing in 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 in case such sub-account is a foreign corporate or an individual.
9. NRI/FII application forms can be obtained on request, from the registered office of the Company.

**FOR FURTHER INSTRUCTIONS REGARDING APPLICATIONS FOR THE EQUITY SHARES, INVESTORS ARE REQUESTED TO READ THE APPLICATION FORM CAREFULLY.**

**SUBMISSION OF COMPLETED APPLICATION FORMS:**

All applications duly completed and accompanied by cash/ cheques/ demand drafts shall be submitted at the branches of the Bankers to the Issue (listed in the Application Form) before the closure of the Issue. Applications should NOT be sent to the Office of the Company, the Lead Managers to the Issue.

Application Forms along with Bank Drafts payable at Hyderabad can also be sent by registered post with acknowledgement due to the Registrars to the Issue, Aarthi Consultants Pvt. Ltd. so that the same can be received before the closure of the subscription list. Such envelopes should be superscribed with “SMS Pharmaceuticals Limited”

No separate receipts will be issued for the application money. However, the Bankers to the Issue or their approved collecting branches receiving the duly completed application form will acknowledge receipt of the application by stamping and returning to the applicant the acknowledgement slip at the bottom of each application form.

Applications shall be deemed to have been received by the Company only when submitted to the Bankers to the Issue at their designated branches or on receipt by the Registrars as detailed above and not otherwise.

For further instructions, please read the application form carefully.

**ACCEPTANCE OF APPLICATIONS**

The Company reserves the right to accept or reject, any application, in whole or in part, without assigning any reason thereof. If the application is rejected in full, the whole of the application money received will be refunded by Registered Post to the applicant. If the application is accepted in part, the excess application money after adjusting for the amount payable on allotment will be refunded to the applicant. Such refund, if any, will carry interest @ 15% p.a. after 30 days from the closure of the Issue for the period of delay beyond 30 days.

**BASIS OF ALLOTMENT:**

In the event of public Issue of equity shares being over-subscribed, the allotment will be on a proportionate basis subject to market lots as explained below:

1. A minimum 50% of the net Issue to the Indian public will be made available for allotment in favour of those individual applicants who have applied for Equity Shares of or for a value of not more than Rs.50,000/-. This percentage may be increased in consultation with the Designated Stock Exchange depending on the extent of response to the Issue from investors in this category. In case allotments are made to a lesser extent than 50% because of lower subscription in the above category, the balance Equity Shares would be added to the higher category and allotment made on a proportionate basis as per relevant SEBI Guidelines. The Executive Director/Managing Director of the Designated Stock Exchange along with the post Issue Lead Manager and the Registrars to the Issue shall be responsible to ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the guidelines.
2. The balance of the Net Issue to Indian Public shall be made available to investors including corporate bodies/institutions and individual applicants who have applied for allotment of Equity Shares for a value of more than Rs.50,000/-.
3. The Unsubscribed portion of the net Issue to any of the categories specified in (1) or (2) shall be made available for allotment to applicants in the other category, if so required.
4. Applicants will be categorized according to the number of equity shares applied for.
5. The total number of shares to be allotted to each category as a whole shall be arrived at on a proportionate basis i.e. the total number of shares applied for in that category (number of

applicants in the category multiplied by the number of shares applied for) multiplied by the inverse of the over subscription ratio.

6. Number of the shares to be allotted to the successful allottees shall be arrived at on a proportionate basis i.e. total number of shares applied for by each applicant in that category multiplied by the inverse of the over subscription ratio.
7. All the applications where the proportionate allotment works out to less than 20 shares per applicant, the allotment shall be made as follows:
   i. Each successful applicant shall be allotted a minimum of 20 shares; and
   ii. The successful applicants out of the total applicants for that category shall be determined by draw of lots in such a manner that the total number of shares allotted in that category is equal to the number of shares worked out as per (5) above.
8. If the proportionate allotment to an Applicant works out to a number that is more than 20 shares but is a fraction, then the fraction equal to or higher than 0.50 shall be rounded off to the next integer and If that fraction is lower than 0.50, the fraction shall be ignored.
9. All applicants in such categories shall be allotted shares arrived at after such rounding off.
10. If the shares allocated on a proportionate basis to any category is more than the shares allotted to the applicants in that category, the balance available shares for allotment shall be first adjusted against any other category, where the allocated shares are not sufficient for proportionate allotment to the successful applicants in that category.
11. The balance shares if any, remaining after such adjustment shall be added to the category comprising applicants applying for minimum number of shares.
12. The process of rounding off to the nearest integer subject to a minimum allotment being equal to 20 shares, which is the minimum application size in this Issue, may result in the actual allotment being higher than the shares offered. However, it shall not exceed 10 % of the net offer to public.
13. Allotment to FIIs / MFs / Venture Capital Funds / Foreign Venture Capital Investors / Insurance Companies would be subject to the limits / restrictions / regulations prescribed by respective Regulatory Authorities governing them.

**DESPA TCH OF REFUND ORDERS**

We shall ensure dispatch of Refund Orders of value up to Rs.1500/- Under Certificate of Posting and refund order over the value of Rs.1500/- by Registered Post only. We would also make available adequate funds to the Registrars to the Issue for this purpose.

**Grounds for Technical Rejections**

Applicants are advised to note that Applications are liable to be rejected among others on the following technical grounds:

1. Amount paid doesn't tally with the number of Equity Shares applied for;
2. Age of First applicant is not given;
3. Application by minor;
4. PAN or GIR Number not given if application is for Rs. 50,000 or more;
5. Applications for number of Equity Shares, which are not in multiples of 20;
6. Multiple applications as defined elsewhere;
7. In case of application under power of attorney or by limited Companies, corporate, trust etc., relevant documents are not submitted;
8. Signature of sole and / or joint applicants missing;
9. Applicant's depository account details;
10. Applications by OCBs.

## EQUITY SHARE IN DEMATERIALISED FORM WITH NSDL OR CDSL

As per the provisions of Section 68B of the Companies Act, the Equity Share of the Company can be held in a dematerialised form, (i.e. not in the form of physical certificates but be fungible and be represent ed by the statement issued through electronic mode).

Successful allottees in this Issue will be compulsorily allotted Equity Shares in dematerialised form. In this context, two tripartite agreements have been signed between the Company, the Registrar and the Depositories:

1. an Agreement dated __________, 2004 between the Company, NSDL and Aarthi Consultants Private Limited; and

2. an Agreement dated ____ between the Company, CDSL and Aarthi Consultants Private Limited.

All investors can seek allotment only in dematerialised mode. However an investor will have an option to hold the shares in Physical form or demat form. After the allotment in the proposed Issue allottees may request their respective DP for rematerialization of shares if they wish to hold shares in physical form. Applications without relevant details of his or her depository account are liable to be rejected.

1. An applicant applying for shares must have at least one beneficiary account with any of the Depository Participants (DPs) of NSDL or of CDSL, registered with SEBI, prior to making the application.

2. The applicant must necessarily fill in the details (including the beneficiary account no. and Depository Participant's ID no.) in the application form.

3. Equity Shares allotted to an applicant in the electronic account will be credited directly to the respective beneficiary accounts (with the DP)

4. Names in the share application 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 account details in the depository

5. The Registrar to this Issue will directly send non-transferable allotment letters/ refund orders to the applicant.

6. If incomplete/ incorrect details are given under the heading 'Request for shares in electronic form' in the application form, it is liable to rejected.

7. The applicant is responsible for the correctness of the applicant's demographic details given in the application form vis-à-vis those with his/ her Depository Participant.

8. It may be noted that Equity Shares in electronic form can be traded only on the Stock Exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where the Equity Shares of the Company are proposed to be listed are connected to NSDL and CDSL.

9. Trading in the Equity shares of the Company would be in dematerialised form only for all investors.

10. **Investors are advised to instruct their Depository Participants to accept the Equity Shares that may be allocated to them pursuant to this Issue.**

**Communications**

All future communications in connection with applications made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Applicant, Application Form number, number of Equity Shares applied for, date, bank and branch where the application was submitted and cheque or draft number and issuing bank thereof.

**Undertaking by the Company**

The Company undertakes as follows:

- That the complaints received in respect of this Issue shall be attended to expeditiously and satisfactorily;
- That all steps will be taken for the 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 within seven working days of finalisation of the basis of allotment;
- That the funds required for despatch of refund orders or allotment advice by registered post or speed post shall be made available to the Registrar to the Issue;
- That the refund orders to the NRIs or FIIs shall be dispatched within specified time; and
- That no further Issue of Equity Shares shall be made till the Equity Shares issued through this Draft Prospectus are listed or until the application monies are refunded on account of non-listing, under-subscription etc.

**Utilisation of Issue proceeds**

The Board of Directors of the Company certify that:

- all monies received out of the Issue shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Companies Act;
- details of all monies utilised out of Issue referred above shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such monies have been utilised; and
- details of all unutilised monies out of the Issue, if any shall be disclosed under the appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised monies have been invested.

## BASIS OF ISSUE PRICE

**Qualitative Factors:**

1. The Company is a continuously profit making & Dividend paying since 1990, PAT and Dividend paid for last 5 years are given below :

(Rs. In millions)

| Particulars | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| PAT | 116.61 | 42.32 | 59.20 | 23.28 | 74.93 |
| Dividend (%) | 25 | 20 | 20 | 20 | 20 |

2. The Company has filed 5 process patents and 1 product patent under PCT.
3. The Company has filed 1 process patent with the Indian Patents Office.
4. The Company has filed 9 DMFs/CoS in CTD format for 3 products; details are listed under section on "Intellectual Property Rights".
5. The Company has ISO 9001: 2000 certifications for Unit I & Unit II from DNV Certifications Ltd.
6. Unit II production facilities of the Company are US FDA approved.
7. The Company has entered into an Agreement with IIT, Guwahati for manufacture of metal acetylacetonates
8. The Company has entered into an Agreement with IICT, Hyderabad for exclusive manufacturing rights of certain APIs
9. The Company has entered in to an Agreement with Ranbaxy for supply of Sumatriptan Succinate, who has filed ANDA with US FDA making reference to the Company's DMF.
10. The Company has entered into an Agreement with a Netherlands Company for development of 39 molecules
11. The Company has entered into a Memorandum of Understanding with Sochinaz SA for exclusive development and supply of Trandalopril for global marketing by Sochinaz SA.

**Quantitative Factors:**

**1. Adjusted Earnings Per Share**

| | EPS (Rs.) | Weight |
|---|---|---|
| a) 2001-02 | 28.88 | 1 |
| b) 2002-03 | 11.36 | 2 |
| c) 2003-04 | 18.28* | 3 |
| **d) Weighted Average EPS** | **17.74** | |

* EPS of Rs.9.14 on face value of Rs.5 per share for FY 2004 is converted to maintain uniformity with FY 2002 & FY 2003, when face value of share was Rs.10 per share.

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

| Particulars | At the lower band of Rs. 270 per share | At the higher band of Rs. 324 per share |
|---|---|---|
| a) Based on 2003-04 EPS | 14.77 | 17.72 |
| b) Based on weighted average EPS | 15.22 | 18.26 |
| c) Pharmaceutical (Indian Bulk drugs) Industry P/E * | | |
| i) Highest – Suven Lifesciences | 47.70 | 47.70 |
| ii) Lowest – NGL Finechem | 3.80 | 3.80 |
| iii) Average | 19.80 | 19.80 |

*Source: Capital Markets Volume XIX/18, November 8-21, 2004.

**Accounting Ratios of some of the Companies in the same Industry group:**

| | EPS (Rs.) | P/E | RONW (%) | NAV (Rs.) |
|---|---|---|---|---|
| Aarti Drugs | 9.9 | 12.4 | 19.3 | 56.8 |
| Lupin | 35.7 | 24.0 | 35.3 | 111.6 |
| Orchid Chemicals | 9.4 | 26.3 | 7.6 | 129.3 |
| Neuland Labs | 21.2 | 9.3 | - | 73.7 |
| Shasun Chemicals | 25.5 | 14.5 | 25.6 | 124.7 |

Source: Capital Markets Volume XIX/18, November 8-21, 2004.

**3. Return on Net Worth**

| | RONW % | Weight |
|---|---|---|
| a) 2001-02 | 15.13 | 1 |
| b) 2002-03 | 7.34 | 2 |
| c) 2003-04 | 20.88 | 3 |
| **Weighted Average** | **15.41** | |

Minimum Return on Total Net Worth needed after the Issue to maintain pre-Issue EPS of Rs.18.28 is 12.24%

**4. Net Asset Value**

| Particulars | At the lower band of Rs. 270 per share | At the higher band of Rs. 324 per share |
|---|---|---|
| a) As at March 31, 2004 * | 87.52 | 87.52 |
| b) After Issue | 141.32 | 155.79 |
| c) Issue Price | 270.00 | 324.00 |

* Net Asset Value of Rs.43.76 on face value of Rs.5 per share is converted to maintain uniformity wth post issue face value of Rs.10 per share.

**5.** The face value of the shares of the Company is Rs.10/- per share and the Issue Price is 27 times (at the lower band of Issue Price of Rs. 270 per share) and 32.4 times (at higher band of the Issue Price of Rs.324 per share) of the face value of the shares of the Company.

**6.** The 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 the financials of the Company as set out in the Auditors Report in the Prospectus to have a more informed view about the investment proposition.

## TAX BENEFITS

We, M/s Ram Babu & Co. and M/s. P MURALI & CO., Chartered Accountants certified that under the current provisions of the Income Tax Act and other applicable direct tax laws for the time being in force as amended up to Finance Act 2004), the following benefits and deductions are available to the Company i.e. SMS Pharmaceuticals Limited and its members:

### A. TO THE COMPANY

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).

1. Under Section 32 of the Act, the Company is entitled to claim depreciation on tangible and intangible assets as explained in the said section.
2. Subject to compliance of certain conditions laid down in section 35 (1) (iv) of the Act, in respect of any capital expenditure incurred other than the expenditure incurred on the acquisi tion of any land, on scientific research related to the business of the Company, to the extent of expenditure incurred.
3. The Company is presently liable to pay Income Tax on the Book profits Computed as per Section 115 JB of the Act.
4. The Company is eligible for amortisation of preliminary expenses being the expenditure on public Issue of share under Section 35D (2) (c) (iv) of the Act, subject to limits specified in sub section (3).

### B. TO THE MEMBERS OF THE COMPANY

1. As per the provisions of section 112 of the Act, long term capital gains that are not exempt under the proposed section 10(38) of the Act, would be subject to tax at a rate of 20 percent (plus applicable surcharge). The Finance Act, 2004 propose to levy an additional surcharge ('Education Cess') at the rate of 2 percent of such tax and surcharge. However, as per the proviso to Section 112(1), if the tax on long term capital gains resulting on transfer of listed securities or units, calculated at the rate of 20 percent with indexation benefit exceeds the tax on long term gains computed at the rate of 10 percent without indexation benefit, then such gains are chargeable to tax at a concessional rate of 10% (plus applicable surcharge and Cess) as per the Finance Act 2004.

a. Finance Act 2004 has proposed to exempt long term capital gains tax w.e.f.1st April 2004, in case of securities listed on recognized stock exchange and held for more than 12 months. In case of short term capital gains, the tax rate has been proposed to be reduced to 10%

b. As per the provisions of section 54ED of the Act and subject to the conditions specified therein, capital gains not exempt under the proposed section 10(38) and arising from transfer of long term assets, being listed securities or units shall not be chargeable to tax, to the extent such gains are invested in acquiring Equity Shares forming part of an "eligible Issue of share capital" within six months form the date of transfer of the long term assets (provided they are not transferred within one year of acquisition). Eligible Issue of share capital has been defined as an Issue of Equity Shares which satisfies the following conditions:

   - the Issue is made by a public Company formed and registered in India; and
   - the shares forming part of the offer for subscription to the public.

   The Issue of shares by the Company being an eligible Issue of share capital, the subscribers thereto would be eligible to claim the exemption granted under section 54ED. However, there is a legal uncertainly over whether the benefit under this section can be extended to shares forming part of the offer for the sale by the existing shareholders.

c. As per the provisions of Section 54F of the Act and subject to the conditions specified therein, in the case of an individual or a Hindu Undivided Family (HUF"), gains arising on transfer of a long term capital asset (not being a residential house) are not chargeable to tax, if the entire net consideration received on such transfer is invested within the prescribed period in a residential house. If part of such 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. For this purpose, net consideration means full value of the consideration received or accruing as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.

d. Under Section 115AD of the Act, income received by Foreign Institutional Investor in respect of securities shall be taxed @ 20%. Income by way of Short Term Capital Gains arising from the transfer of such securities shall be taxed @ 30%. Income by way of Long Term Capital Gains arising from the transfer of such securities shall be taxed @ 10%

e. Section 10(34) provides that any income by way of dividends referred to in section 115 O i.e. dividend declared, distributed or paid by a domestic Company, on or after 1st April,2003 is exempt in the case of all categories of assesses.

**C. ADDITIONAL BENEFITS AVAILABLE TO NON-RESIDENTS INDIANS**

Non-resident Indians have an option to be governed by the special provisions of Chapter XIIA of the Act according to which:

1. Under Section 115 G of the Act, it shall not be necessary for the Non-resident Indians to furnish their return of Income, under section 139(1) of the Act, if their source of income is only investment income or income by way of long term capital gains or both, provided income tax deductible at source under the provisions of chapter XVII B has been deducted from such income.
2. The benefit conferred on a Non-resident Indian assessee will be available even after the assessee becomes a resident if declaration in writing is filed along with the return of income under Section 139(1) of the IT Act, to the effect that the provisions of Chapter XII A shall continue to apply to him in respect of investment income derived from foreign exchange asset vide Section 115 H of the Act, until the Transfer or conversion (otherwise than by transfer) into money of such assets.
3. Under Section 115-I of the Act, a Non-resident Indian, if he elects by so declaring in the return of his income for that assessment year, not be governed by the above mentioned special provisions of chapter XII-A, then he will be entitle to tax benefits available to resident individuals.

**D. MUTUAL Funds**

Under Section 10 (23D) of the Act, all Mutual Funds registered under the Securities and Exchange Board of India Act, 1992 or regulations made there under, mutual funds set up by public sector Bank or public Financial Institutions, or authorized by the Reserve Bank of India and subject to such conditions as may be notified by the Central Government will be exempt from income tax on any income.

**E. Wealth Tax**

The Shares held in a Company are not liable to Wealth Tax under the Wealth Tax Act, 1957.

**F. Gift Tax**

The Gift Tax Act 1958, ceases to apply to gifts made on or after 1st October 1998. Gifts of shares of the Company would therefore, be exempt from Gift Tax.

**NOTES:**

1. All the above benefits are as per the Current Tax Law as amended by the Finance Act, 2004.
2. The stated benefits will be available only to the sole/first named holder in case the shares are held by joint holders.
3. In respect if Non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Agreements, if any, between India and the Country in which the Non Resident has fiscal domicle.
4. 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.

# STATUTORY AND OTHER INFORMATION

## CONSENTS

The written consents of Directors, Company Secretary, Bankers to the Company, Auditors, Legal Advisor to the Company, Lead Manager to the Issue, Underwriters to the Issue, Registrars to the Issue, Legal Advisor to the Issue and Bankers to the Issue to act in their respective capacities, have been obtained and filed along with a copy of the Prospectus with the Registrar of Companies, Hyderabad, Andhra Pradesh as required under Section 60 of the Act and such consents have not been withdrawn up to the time of delivery of the Prospectus for registration.

M/s. Rambabu & Co., Chartered Accountants and M/s. P. Murali & Co., Chartered Accountants, both jointly our statutory Auditors have given their written consent to the inclusion of their Report and Tax benefits accruing to us and our members in the form and context in which it appears in the Prospectus and such consent and report/certificate has not been withdrawn up to the time of delivery of the Prospectus for registration with the Registrar of Companies, Hyderabad, Andhra Pradesh.

## EXPERT OPINION

The Company has not obtained any expert opinions related to the present Issue, except that of Crawford Bayley & Co. as Legal Advisor to the Issue and the opinion of the Company's Auditors, on the tax benefits available to the investors.

## CHANGES IN AUDITORS DURING THE LAST THREE YEARS AND REASONS THEREOF

In Extra-ordinary General Meeting held on 11th December 2003, M/s P. Murali & Co., Chartered Accountants have been appointed as Joint Auditors of the Company along with M/s. Rambabu & Co., Chartered Accountants. There is no other change in Auditors during last 3 years.

## INTEREST ON EXCESS APPLICATION MONEY

Payment of interest at rate of 15% per annum on the excess application money, after adjusting the amount due on allotment and unpaid calls will be made to the applicants, if the refund orders are not dispatched within 30 days from the date of closure of the subscription list as per the Guidelines issued by the Government of India, Ministry of Finance vide their letter No.F-8/6/SE/79 dated July 21, 1983 and as amended vide their letter No. F/14/SE/85 dated September 27, 1985 addressed to the Stock Exchanges and as further modified by SEBI's circular SMD/RCG/33/1819/96 dated May 15, 1996.

## APPLICATION OF SECTION 269SS OF THE INCOME TAX ACT, 1961.

In respect of the provisions of Section 269SS of the Income Tax Act, 1961, the subscription against the equity shares should be effected only by an account payee cheque or an account payee draft /stock invest, if the amount payable is Rs.20,000/- or more. In case the payment is made in contravention of this provision, the application money will be refunded and no interest will be paid.

## DENOMINATION OF SHARE CERTIFICATES

As the trading of the Company's shares will be undertaken in dematerialized form only, the Company shall Issue the shares to all applicants who provide their demat account details in dematerialized form only. However an investor will have an option to hold the shares in Physical form or demat form. The Registrar to the Issue will Issue to the said Allottee a single certificate for all the shares allotted to the said applicant in case an investor requests for rematerialization of his shares. This will save dematerialization costs for the applicant.

**BROKERS TO THE ISSUE**

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

**MINIMUM SUBSCRIPFTION:**

"If the Company does not receive the minimum subscription of 90% of the net offer to public including devolvement of Underwriters within 60 days from the date of closure of the Issue, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days after the Company becomes liable to pay the amount, the Company shall pay interest prescribed under Section 73 of the Companies Act 1956."

**EXPENSES OF THE ISSUE**

The expenses of the Issue payable by us inclusive of brokerage, fees payable to the Lead Manager, fees of Legal Advisors, stamp duty, printing, publication, advertising and distribution expenses, bank charges, fees payable to the Registrars to the Issue, listing fees and other miscellaneous expenses is estimated to be approximately ____% of the Issue size, and will be met out of the proceeds of the Issue.

**Fees Payable to the Lead Manager**

The total fees payable to the Lead Manager will be as per the Memorandum of Understanding signed amongst us and the Lead Manager, a copy of which is available for inspection at our Registered Office.

**Fees Payable to the Registrar to the Issue**

The fees payable to the Registrar to the Issue will be as per the Memorandum of Understanding signed with the Company, a copy of which is available for inspection at our Registered Office.

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**

An underwriting commission not exceeding 1.50 % of the total amount underwritten is payable to the underwriters on the offer price of the Equity Shares offered by this Prospectus to the Public (including reservation portion, if any) for subscription and underwritten in the manner mentioned in this Prospectus.

**Brokerage**

Brokerage for the Issue not exceeding 1.50 % of the Issue price of the Equity Shares would be paid by the 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 stamps in the Broker column. In case of tampering or over-stamping of Brokers'/ Agents' codes on the application form, the Company's decision to pay brokerage in this respect will be final and no further correspondence will be entertained in this matter.

**Previous Rights and Public Issues**

We have not made any rights or public Issue since our inception.

**Commission and Brokerage on Previous Issues**

We have not made any public or rights Issue since our inception and has not paid any commission or brokerage.

**Outstanding Debenture or Bond Issues**

We do not have any outstanding Debenture or Bond Issue.

**Outstanding Preference Shares**

We do not have any outstanding preference shares.

**Capitalisation of Reserves or Profits**

We have not capitalised our reserves or profits at any time since inception except for the Issue of bonus shares mentioned in "Notes to Capital Structure".

**Issues otherwise than for Cash**

We have not issued any Equity Shares for a consideration otherwise than for cash except the Issue of bonus shares mentioned in "Notes to Capital Structure".

**Option to Subscribe**

We have not given any options for any of our Equity Shares in the Issue.

**Purchase of Property**

Except as stated in "Objects of the Issue" in this Draft Prospectus and save in respect of the property purchased or acquired or to be purchased or acquired in connection with the business or activities contemplated by the Objects of the Issue, there is no property which we have purchased or acquired or propose to purchase or acquire which is to be paid for wholly or partly out of the proceeds of the present Issue or the purchase or acquisition of which has not been completed on the date of this Draft Prospectus, other than property in respect of which:

- the contracts for the purchase or acquisition were entered into in the ordinary course of the business, and the contracts were not entered into in contemplation of the Issue nor is the Issue contemplated in consequence of the contracts; or
- the amount of the purchase money is not material.

We have not purchased any property in which any of its promoters and/or Directors, have any direct or indirect interest in any payment made thereof.

**Revaluation of Assets**

We have not revalued any of our assets since our inception.

**Classes of Shares**

Our authorised capital is Rs.120 million divided into 12,000,000 Equity Shares of Rs.10/- each.

## 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 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 TO 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) Not withstanding 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 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 a 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 trans fer 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 provis ions 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 form 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.

**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 requ isitionists.

***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 f 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 giv es 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 of 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 a 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 of 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 not withstanding 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, not withstanding 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 app oint 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 exceedings 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 pf 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 if 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 me mber 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 wit h 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 otherw ise 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 pepetual 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 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 sha ll 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 Gov ernment.

**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, very 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 present 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 form 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 rooting 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 1of 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 form 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 form 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 dividen d 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 personto 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.

**REVALUATION OF ASSETS**

The Company has not revalued any of its assets since its inception.

## MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts not being contracts entered in the ordinary course of business carried on by SMS Pharmaceuticals Limited which are or may be deemed material contracts have been attached to the copy of this Prospectus delivered to the Registrar of Companies, Andhra Pradesh at Hyderabad for registration and also the documents for inspection refereed to hereunder, may be inspected at the Registered Office of SMS Pharmaceuticals Limited at 417, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad – 500 038, Andhra Pradesh, India between 11.00 a.m. to 3.00 p.m. on any working day, excluding Saturday and Sunday, from the date of the Prospectus to until the date of closing of the Issue.

### MATERIAL CONTRACTS

1. Memorandum of Understanding dated November 25, 2004 with UTI Securities Limited, appointing them as Lead Managers to the Issue.
2. Memorandum of Understanding dated January 22, 2004 signed with Aarthi Consultants Private Limited, appointing them as Registrar to the Issue.
3. Tripartite Agreement dated ------- between the Company, Aarthi Consultants Pvt. Ltd. and NSDL.
4. Tripartite Agreement dated ------- 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. Resolution passed under Section 81(1A) of the Act, at the Annual General Meeting of the Company held on September 29, 2004.
4. Resolution Passed by the Board of Directors at their meeting held on August 30, 2004 for the proposed Public Issue.
5. Consent from the Directors, Compliance Officer, Auditor, Lead Managers, Registrars to the Issue, Bankers to the Issue, Bankers to the Company, Underwriters, Legal Advisor and Tax consultant to act in their respective capacities.
6. Certificate dated November 18, 2004 from M/s. Rambabu &Co, Chartered Accountants & M/s. P Murali & Co., Chartered Accountants, Joint Auditors of the Company detailing the tax benefits.
7. Auditor's report dated November 18, 2004 from M/s. Rambabu &Co, Chartered Accountants & M/s. P Murali & Co., Chartered Accountants, Joint Auditors of the Company as included in the Prospectus.
8. Copy of the Auditors Certificate dated December 6, 2004 regarding the sources and deployment of funds as on November 15, 2004.
9. Copies of Annual Reports of the Company for FY 2000, FY 2001, FY 2002, FY 2003, FY 2004 and Audited Accounts for the period ended September 30, 2004.
10. Copies of Initial Listing Application dated ___________ and ________ made to the National Stock Exchange and The Stock Exchange, Mumbai respectively.
11. Copies of In-principal approval dated _________ & _________ from NSE and BSE respectively.

12. Copies of the Resolution dated December 11, 2003 appointing Mr. P Ramesh Babu as Chairman & Managing Director and Mr. TVVSN Murthy as Vice Chairman & Jt. Managing Director.
13. Copies of Power of Attorneys from Directors in favour of Mr. R Sreenivasa Rao to sign the draft prospectus on their behalf.
14. SEBI Acknowledgement Card dated_______
15. Copy of Appraisal Report of UTI Securities Limited dated December 6, 2004

## DECLARATION

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 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 Draft Prospectus are true and fair.

We, the Directors of SMS Pharmaceuticals Limited, hereby declare and confirm that no information / material likely to have a bearing on the decision of the investors in respect of the equity shares issued in terms of the Prospectus has been suppressed / withheld and / or incorporated in the manner that would amount to misstatement / misrepresentation.

SMS Pharmaceuticals Limited accepts no responsibility for statements made otherwise than in the Prospectus or in the advertisements or any other material issued by or at the instance of the Company and that anyone placing reliance on any other source of information would be doing so at his/her own risk.

**SIGNED BY THE DIRECTORS**

**Mr. P. Ramesh Babu**

**Mr. T V V S N Murthy**

**Mr. A P Rao**

**Dr. Rao V Vallabhaneni**

**Dr. Mihir Chaudhury**

Place: Hyderabad

Date: ____________