Shaping the future

NEULAND LABORATORIES LIMITED 28TH ANNUAL REPORT 2011-12

The Neuland Way all the way

Internalize. Believe. Practice.

CONTENTS

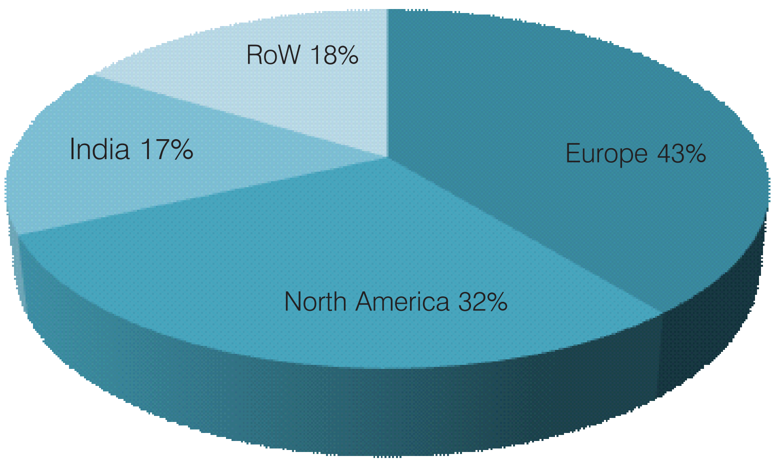
Neuland is a dynamic company. We continue to take focused and determined steps to achieve our goals. Today, we are far stronger than we were a year ago and better prepared to face challenges. We have a clear plan, and we're executing it with confidence. We're transforming ourselves. We're shaping the future.

In the following pages, you'll read about the action we are taking to strengthen our position and how we intend to be successful in 2012-13 and beyond.

This is Neuland.

Neuland is a leading manufacturer of active pharmaceutical ingredients (API) and end-to-end solution provider of chemistry related services for the pharmaceutical industry. We are based out of Hyderabad, India.

Neuland's strength lies in its ability to partner with companies for manufacture of APIs from early stages of drug discovery, where speed and effectiveness are paramount, and continuing that support through the development and commercial launch of the product. We serve some of the largest pharmaceutical companies in the world and export to Europe, North America and Israel among others.



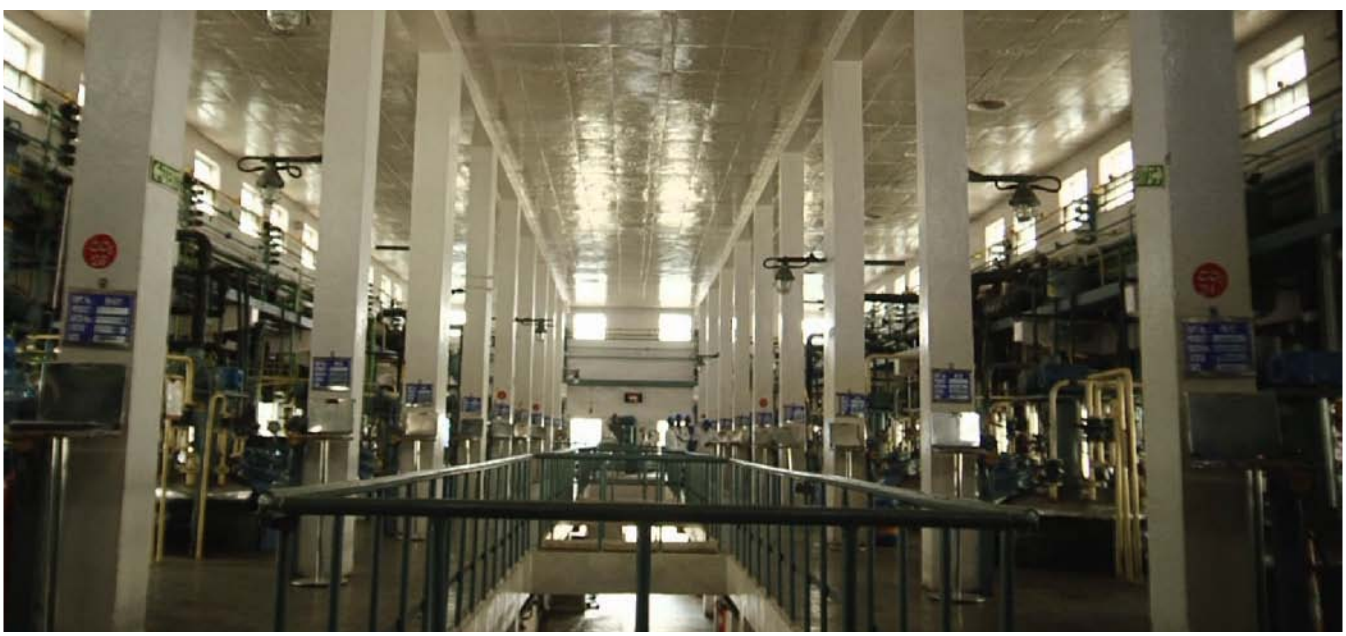
Revenue spread across geographies in 2011-12

OUR VISION

To be a superior and reliable science and technology driven company in manufacturing active pharmaceutical ingredients and providing contract research services to the global pharmaceutical industry.

Neuland operates in the following therapeutic segments:

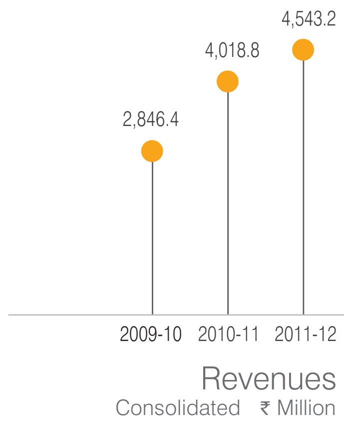
- Anti-Asthmatic
- Anti-Infective
- Cardiovascular
- Anti-Ulcerants
- Anti-Fungals
- Flouroquinolones
- Central Nervous System
  - Anti-Depressants
  - Anti-Parkinson's
  - Anti-Alzheimer's
- Anti-Diabetic



Dr. D.R. RAO
CHAIRMAN & MANAGING DIRECTOR

Under extraordinarily challenging circumstances, and despite being tested on several fronts, we at Neuland performed better. We recognized the trends in the market quickly and adapted ourselves. We launched and stepped up volumes of high-value products; developed new products in line with customer expectations; strengthened our presence in our traditional markets of Europe and North America, and received an encouraging response from our new frontiers such as Japan and Australia. While we initiated the enhancements early in the year, the visibility in order executions improved only in the last quarter.

We emerged stronger, with renewed purpose and intent.



The macroeconomic challenges, tight monetary and fiscal policies, and the dynamics of local political environment only added to the challenges.

Yet, seen in financial terms, we could grow our consolidated revenues by 13% to ₹4543.2 million from ₹4018.8 million achieved in 2010-11. This was commendable given the above background. Throughout the year, due to rising input costs (inflation, currency, financial costs) combined with tight liquidity conditions, we ended with an after tax profit of ₹25.6 million as compared to ₹52.9 million achieved in 2010-11.

At the same time, my team and I draw inspiration from the fact that despite the headwinds, we maintained market share of our products, increased our pipeline, global presence and relationships for future revenue and earnings growth. We have launched 7 new products during this year that have the potential to address the identified needs of the customers.

Our R&D is working on 20 new products that are being scaled up or are in the process of being readied for commercialization. R&D efforts are reaching fruition after several years of efforts. We have manufacturing facilities that comply with global standards with capacities offering headroom for growth.

As Members are aware, we have completed a successful rights issue at an investor-friendly premium. We are also in the process of re-organizing our business, improving our profitability, simplifying operations and focusing on our long-term objectives, while making optimum use of resources. These initiatives will enable us to reduce gearing, improve our working capital management and ensure a strong balance sheet.

I am grateful to our customers and vendors for standing by us during the challenging times. I am proud of our leadership team that is striving to transform the business and to position Neuland for sustainable growth. Our 952 talented people have the resolve to take us to the next level.

I believe that Neuland has been tested and is responding very well. We are much stronger than we were before and I hope this will lead to healthy results the same time next year.

D. SUCHETH RAO
CHIEF EXECUTIVE OFFICER

We are striving to transform the Company where the visibility of the change in quality of business model and its sustainability in the long-term is truly reflected in improved earnings and a sound balance sheet. We owe it to our investors to offer a return commensurate with their expectations and trust in us.

Transforming the business model to target consistent growth.

Operating profit margin % Consolidated		Book value March 31, ₹ Consolidated	
10.88	2011-12	111.3*	2012
12.56	2010-11	134.2	2011
9.98	2009-10	124.4	2010

* on post rights issued capital allotted on April 27, 2012

Q. What were the new initiatives in 2011-12?

A. We saw it early. Saw it coming: cost push inflation, pricing challenges and competitive pressures with customers.

We responded and challenged ourselves to transform the organization, strengthened our core business by consciously moving towards high-value, complex chemistry products; we built a portfolio of products that are on a rising demand curve; we carefully developed a pipeline that meets both customer needs and features niche products with requirement of our expertise in complex chemistry or have high entry barriers; We aligned with our customers on our exposure to low value products; rationalized fixed costs; and positioned ourselves as a knowledge led organization with sustainable long-term profitability.

Q. What made it sustainable?

A. It was a learning experience to cope with the fast changing dynamics of the advanced markets and we used the opportunity to validate our operational efficiencies and institutionalized the same.

Our people set about creating benchmarks, recognized good performances and built a team of professionals. They built the passion to drive a high-quality, high-value business.

Q. Where is Neuland heading?

A. The present transformational process will enable us to create niche products, to serve our customers - both generic formulators as well as innovator pharma, build on facilities complying with global standards and have on-board talented people who have the passion to create a culture that replicates success.

By streamlining the business model and with infusion of funds, we shall remove the last vestige of constraints. Improved working capital cycle and cash flow will enable us to serve our customers better and satisfy our vendors as well.

Our employees and the top management are the key element of the transformation process to make Neuland an admired company.

Q. How will it translate to the balance sheet?

A. We want to be Number One or establish a dominant market share in the addressable markets. We have identified 17 products from our basket that enable us to achieve this objective. The renewed energy in the organization, customer traction and our differentiating strategy of complex chemistry and niche APIs will enable us to build a powerful portfolio of products.

Currently, it is work-in-progress. As we look ahead, we shall continue to be bottom line focused through improved quality of revenue stream, optimized supply chain costs and process improvements.

Infusion of funds post re-organization and improved working capital cycles, would further enable us to de-leverage our balance sheet and post better post-tax profits and per share earnings.

Neuland: Now and in the future.

Throughout 2011-12, Neuland continued the process of transformation, moving towards creating a portfolio of niche products that address a right mix of volume and value, tuned to customer needs.

As a team, we are intensely focused on the emerging opportunities that can deliver results during the current year and beyond. We are engaging with our customers to understand their needs for coming years.

In 2011-12, it was our aim to be better organized as we had the visibility of orders from customers ahead of time. We executed better and reviewed our plans almost on a daily basis.

We changed our product mix and successfully launched high-value products such as Levofloxacin, Olanzapine and Levetiracetam. At the end of the year, we had 5 products contributing to 70% of our revenues.

We believe that our top 10 products can give us traction in the market and continue to accelerate our growth. While some of the products already hold a dominant share of the market, the others are growing. The following chart shows the market share of our top 10 products in regulated markets, on volume terms:

Products	%
Ciprofloxacin Hcl	67
Sotalol Hcl	56
Enalapril	41
Mirtazapine	40
Ranitidine Hcl	32
Levofloxacin	22
Olanzapine	14
Ramipril	8
Levetiracetam	7
Salmeterol	6

(Data source: Internal estimates of the Company)

Our top 7 customers contributed to 60% of our revenues. Except two, all others grew their businesses with us on absolute terms.

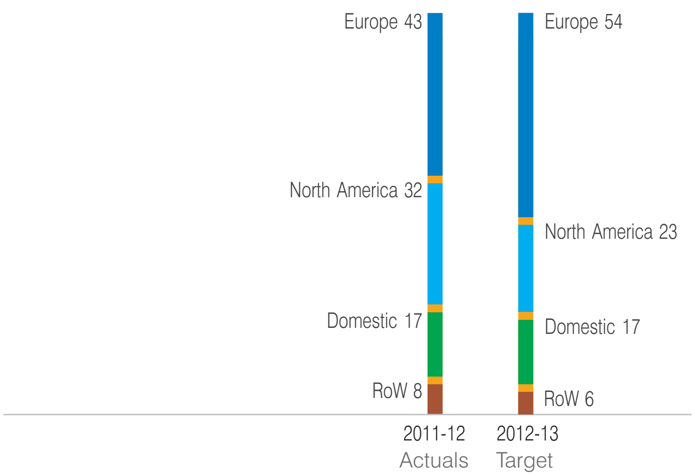
The changing business mix, with focus shifting to niche products due to complex chemistry and infrastructure has started impacting the bottom line, more so, in the last quarter of the financial year.

We also reviewed every aspect of our operations. Improvements were made to systems, processes, cost control and people accountability.

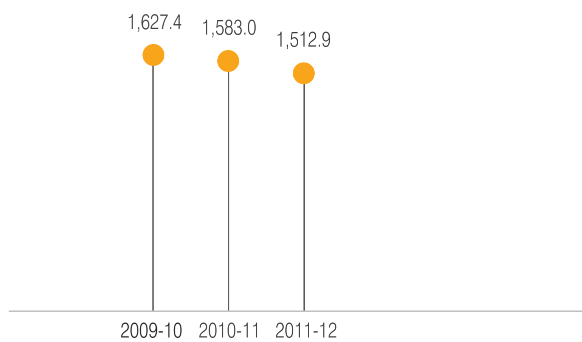
A daily system of review has improved our working capital management, due date performance on delivery to customers, cycle time reductions and waste elimination. This approach enhanced teamwork and provided a 360^0 view which has enabled the managers to streamline processes and costs with a holistic mindset and to stay focused on the bottom line. The Neuland Way (TNW) with its five core values of customer centricity, reliability, accountability, ownership and openness & transparence engaged the employees in being sensitive to the needs of the Company and all those that we deal with.

Neuland is making all efforts to reduce the overall borrowings. It has been able to reduce the long term borrowings by ₹109.9 million (Net) compared to last year; it also reduced the working capital borrowing by ₹37.9 million. Despite the increase in revenue by 13%, primarily on account of close monitoring, debtors were brought down to 78 days as at March 31, 2012 from 91 days, a year ago.

Finance costs for the year under review were ₹332.7 million in 2011-12, as compared to ₹298.4 million in 2010-11. Interest as a percentage of our revenue moved down to 7.4% in 2011-12 from 7.5% in 2010-11 and we shall taper this charge to our Statement of Profit and Loss after the reorganization and infusion of funds.



Revenue Break-up
%



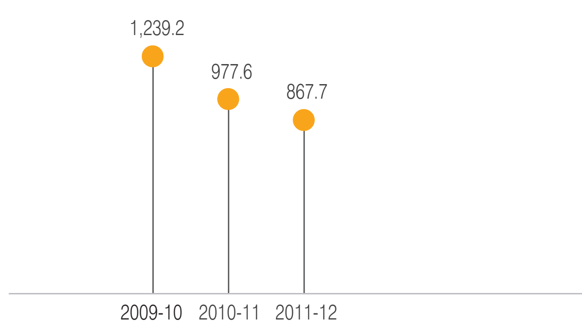
Net fixed assets
Consolidated ₹ Million

While we shall maintain absolute growth in all regions, Europe is expected to grow at a higher trajectory. We also believe that our top 7 customers will continue to account for 60% of revenues in 2012-13. We shall stay engaged with our existing customers to increase the business.

The continued depreciation of the rupee has had its impact on our business, with a mark-to-market provisioning for hedges leading to a foreign exchange loss of ₹48.6 million. Overall, a depreciating rupee is advantageous to Neuland being a net exporter. Additional power costs, both on account of higher coal costs and rising fossil fuel prices, had an adverse impact of 16.2% over the previous year in the Statement of Profit and Loss.

At the year end, Neuland commenced the rights issue of equity shares to the shareholders on March 31, 2012. The issue was successful and the Company could complete the equity raising program as per the plan.

Several initiatives taken during the 2011-12 have started showing results in the new financial year, thanks to the dedication of our people. Today, Neuland is positioned better to deliver sustainable growth in 2012-13 and beyond.



Term loans
Consolidated ₹ Million

Research for profit.

R&D initiatives at Neuland straddle strategy, development and manufacturing of APIs from molecule and route selection, to process development and optimization through to scale-up, technology transfer and product approval. 2011-12 was a rewarding year when we moved ahead on several projects and developed and launched 7 new products. In addition, 9 more are being readied and launched in 2012-13.

A focused approach to product selection has been one of the primary drivers for our developing a healthy product portfolio, keeping a perspective on customer needs and growth potential in the market. Based on patent expiries and emerging opportunities, we have products ready for launch for the near future, as listed below:

Launch period	Products
For 2013-14	7
For 2014-15	7
For 2015-16	3
For 2016-17	3
Total	20

For these 20 products, we have engaged with customers who form about 93% of the estimated market.

During the year, we worked on 8 existing products for process improvements and development. We were able to improve costs on 7 of them; the savings ranged between 11% and 63%. In 2012-13, we are taking up 24 selected existing products for initiating process improvements. Of these, 14 have been selected as a priority considering their potential in the market and specific customer needs.

The R&D team does significant amount of work to offer products for contract manufacture to support innovators. There are several notable innovator pharma companies who are actively in discussion with Neuland to commercially launch new molecules. This is emerging as a thrust area with encouraging response from customers. Carefully crafted plans are to take up contract manufacture as a strategic business and contribute meaningfully to revenues from 2012-13.

Going forward, the R&D team shall continue to contribute by setting itself targeted goals in select focus areas. Each one of these, add value to the Company and shall profit the customers and other stakeholders of Neuland. In brief, the team believes it must stay focused on the following areas:

- Align with marketing requirements: Development priority
- Process development: Cost effective, safer, robust
- Process control & control strategy: Quality by design (QBD)
- Product specification: Based on desired process performance
- Life cycle management: Continuous improvement enabled within design space
- Develop new technologies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DATE

EHS is integral to our work ethos.

Responsible EHS has become integral to the way Neuland works. We believe that environment protection and incident prevention is part of our work ethos and leads us to business excellence. In 2011-12, we stepped up our ongoing EHS initiatives.

Environment

Neuland's manufacturing facilities are certified by the ISO 14001 Environmental Management System. Both manufacturing units are equipped with adequate pollution-control facilities for treating and recycling effluents within the plant.

Periodic analyses continue to be made to determine environmental impact from our manufacturing processes. We have also created a system of checks and balances through regular inter-unit environmental audits.

In 2011-12, we put into action a number of process improvements that resulted in lower raw material consumption, fewer solvents and the saving of water and energy. Our efforts were built on our tested premise that conservative usage lowers the need to process wastage.

Health & safety

Our manufacturing units are certified by the OHSAS 18001 Management System. Both units are provided with fire detection and fire-fighting equipment and people have been specially trained for emergencies. Hazard identification and risk assessment studies are carried out so as to minimize health and safety risks from our manufacturing activities. Inter-unit safety audits take place at regular intervals. We carry out work environment monitoring to ensure that our work life is comfortable, safe and healthy for employees.

Competency, training and awareness

Policy needs people to make it work. Neuland conducted 495 on-the-job internal EHS training programs covering 8,556 man hours of training in 2011-12 to sensitize people to EHS requirements. 108 employees participated in specialized EHS training programs conducted by external experts. Our training is directed at raising the awareness level of our employees to help them actively participate in industrial hygiene, process safety, product safety, ergonomics and fire prevention. Our people have demonstrated a heightened level of awareness of their responsibilities.

Celebrations, campaigns and audits

As an opportunity to reiterate the concepts of safety and protection of environment, Neuland celebrated National Safety Day and World Environment Day across all units. Employees were inspired to maintain and adhere to strict EHS norms. Besides this, we also conducted monthly EHS campaigns with topics ranging from pollution prevention to contractor safety and static electricity.

Neuland's manufacturing facilities have been thoroughly and successfully audited by large pharmaceutical companies from Europe and the USA. We have successfully completed surveillance audits of EHS management systems for continued certification of ISO 14001 and OHSAS 18001 international standards.

We have been awarded 'Zero Accident Special Category Award' by the Department of Factories, Medak Disrict, Government of Andhra Pradesh for our outstanding performance in safety during 2008-2010 in our manufacturing units (received during the financial year 2011-12).

Looking ahead

Neuland has maintained a consistently high level of EHS performance and a zero-incident record. We continue to invest significantly in upgrading our pollution-control and emergency handling facilities. We stand committed to further improve on our EHS performance wherever possible by strengthening our processes, systems and infrastructure and ensure that we do so with active participation of the entire workforce.

Our people stood up to testing times.

Real change begins deep inside a business where strategies are brought to life by people. That's why we go to great lengths each year to motivate, inspire and retain our talent pool. 2011-12 was no different.

Given the challenging external environment, the level of participation of our employees was immensely increased towards making the process changes within the Company. This not only brought us positive impact on the business performance but also tested the organizational strength, sensitivity to the needs of the customers, responsiveness of the people and their agility and accountability.

A few more initiatives were undertaken to upgrade the knowledge and skills of our people:

Neu-Thoughts-2011

In a first-of-its-kind initiative, we created a competition open to all employees, in which they were encouraged to upgrade and use their technology skills. People were asked to present technical papers to a panel of reputed external experts and judged on originality, skill and presentation. This activity resulted in visibility on the scientific web-space for our employees as several international magazines published these papers. Neu-Thoughts will be an annual event.

Akshaya

Akshaya was another first-time initiative being run on the Company's intranet, which enabled all our employees across the locations, to submit their suggestions towards improving the workplace and processes. We received more than 3,000 suggestions and more than 450 have been implemented. Suggestions were reviewed and passed over to an implementation committee for action. Employees across levels were able to make a real contribution and difference without having to navigate organizational hierarchy. What's more, people also received updates on implementation of suggested ideas which kept them involved and engaged.

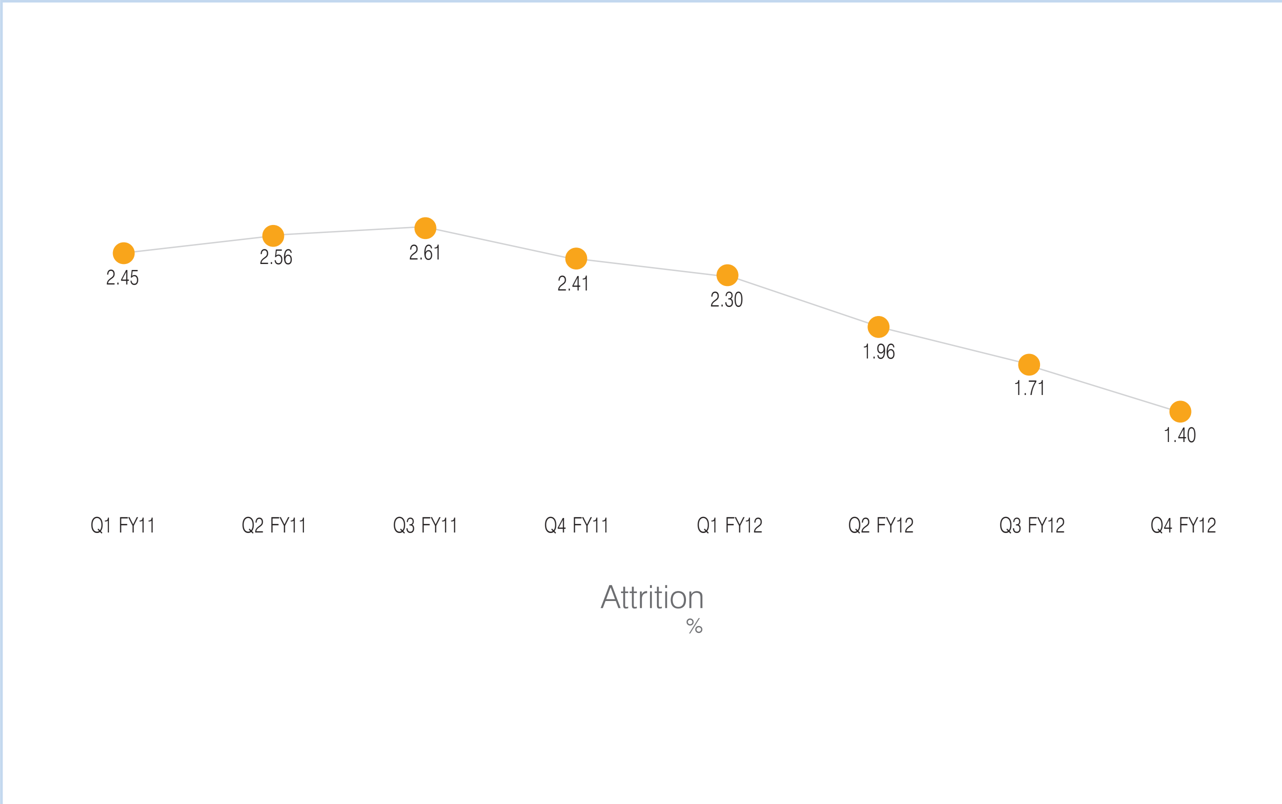
The Neuland Way

All our employee engagement initiatives have their roots in our core philosophy referred as *The Neuland Way (TNW)*. **Customer Centricity, Reliability, Accountability, Openness & Transparency and Ownership** are its basic tenets. In 2011-12, we conducted a series of events spanning five months to celebrate and amplify the concepts of TNW. The emphasis was on interactive, participatory activities so that people came together and saw the benefits of combining their respective talents.

In simple terms, TNW encourages our employees to look to the needs and well-being of the people with whom they deal. It seeks to address the needs of the customers - both internal and external - to ensure that we respond to their satisfaction. Openness and transparency builds reliability and all employees stay accountable.

Significant drop in attrition rate

We also managed to arrest higher rates of attrition (see chart alongside) and bring it down to reasonable levels.


2.45
2.56
2.61
2.41
2.30
1.96
1.71
1.40
Q1 FY11
Q2 FY11
Q3 FY11
Q4 FY11
Q1 FY12
Q2 FY12
Q3 FY12
Q4 FY12
Attrition
%

Board of Directors

Dr. Davuluri Rama Mohan Rao, Chairman and Managing Director, is the Chief Promoter of Neuland. He has a Masters in Science from Andhra University, Post Graduate Diploma in Technology from IIT Kharagpur and a PhD in Organic Chemistry from the University of Notre Dame, U.S.A. Prior to promoting Neuland in 1984, Dr. Rao had held senior positions in R&D, production and quality assurance at Glaxo India for about ten years and was Director, R&D and QA at Unique Chemicals, Mumbai. He is a member of Royal Society of Chemistry.

Mr. Davuluri Sucheth Rao, Whole-time Director and Chief Executive Officer, is a Mechanical Engineer by profession and has an MBA in Corporate Finance and Operations Management from University of Notre Dame, USA. He was Production Group Leader in Cummins Inc. USA and later went on to become a green belt in Six Sigma. His background primarily consists of exposure to various fields of business such as marketing, finance, manufacturing, operations and information technology.

Mr. Davuluri Saharsh Rao, Whole-time Director and President-Contract Research, is an Engineering Graduate and obtained his Masters in MIS from Weatherhhead School of Management, Cleveland, Ohio, USA. He also secured Master of Business Administration from University of North Carolina, USA. He had worked with Sify Limited for a period close to 3 years.

Mr. G.V.K. Rama Rao is a Non-Executive Director and promoter of our Company. He is a LLB by qualification. He is a practicing advocate for 35 years and specialises in civil litigation.

Mr. Nadeem Panjetan is a Nominee Director and represents the Export-Import Bank of India on our Board. He has completed his B.Com and a post graduation in Masters of Arts. He has 24 years of experience in the banking sector and is presently General Manager of EXIM Bank.

Mr. Humayun Dhanrajgir is an Independent Director of our Company. He is a B.Tech, MI, CHEM (E) by qualification. He has an experience of 45 years in the pharmaceutical industry. He has held several senior positions in Glaxo India, including being the Managing Director and Executive Vice-Chairman. He is a past President of Organization of Pharmaceutical Producers of India (OPPI).

Mr. Parampally Vasudeva Maiya is an Independent Director. He is a Master of Arts by qualification. He had a career of 32 years with the SBI where he was a General Manager. He was deputed as the Executive Director of SCICI between 1991 and 1993 and moved to become the Managing Director to set up the ICICI Bank in 1994. He retired as Chairman and CEO of the bank in 1998 post which he was appointed Managing Director of Central Depository Services (India) Limited which he set up till December 1999. He is now a Director of four companies including a nationalized bank.

Mr. Shashi Bhushan Budhiraja is an Independent Director of our Company. He is a B.Tech by qualification. He was the Managing Director (Marketing) of Indian Oil Corporation Limited, the largest corporate in India and was also the President of the Institute of Management Consultants of India. He brings with him 50 years of industrial experience.

Dr. Christopher M. Cimarusti is a Non-Executive Director of our Company. He has completed his PhD in Organic Chemistry from Purdue University, USA and his Postdoctoral Research from Columbia University, USA. He has more than 40 years of experience in the field of drug discovery, development and manufacturing. He was awarded more than 60 patents and published more than 40 papers in referred journals. Dr. Cimarusti held executive leadership positions at Squibb Corporation and Bristol-Myers Squibb (BMS) in discovery and development. His last position with BMS was as Sr. Vice President, Pharmaceutical Development Centre of Excellence.

Dr. Will Gordon Mitchell is an Independent Director of our Company. He has completed his PhD from the School of Business Administration of the University of California, Berkeley. He is presently J. Rex Fuqua Professor of International Management, Fuqua School of Business, Duke University, Durham, NC, USA. Prior to joining Duke University, he was Professor of Corporate Strategy and International Business at University of Michigan, USA. He is on the editorial board of several management journals. His teaching and research interests include corporate strategy, alliance strategy and dynamics of the health care industry.

STATUTORY AUDITORS

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Jubilee Hills, Hyderabad

Bank of India,
Mid Corporate Branch, Hyderabad

Indian Overseas Bank,
Basheerbagh Branch, Hyderabad

SBI Global Factors
Mumbai

DIRECTORS' REPORT

Your Directors are please to present their Twenty Eighth Annual Report of your Company and the audited statement of accounts for the year ended March 31, 2012.

FINANCIAL RESULTS
(Standalone financials)

₹ in Million

	2011-12	2010-11
Profit before Depreciation and Tax	**150.73**	201.06
Less: Depreciation	**148.91**	154.11
Profit/(Loss) before Tax	**1.82**	46.95
Prior period adjustments	**–**	–
Provision for current tax and		
deferred Tax	**(18.5)**	(3.74)
Profit after Tax	**20.32**	50.69
Add: Balance brought forward from		
the previous year	**61.84**	11.15
Profit available for appropriation	**82.16**	61.84
Appropriation		
Balance carried forward to		
Balance Sheet	**82.16**	61.84

Previous year figures have been regrouped wherever necessary as per the Revised Schedule VI.

BUSINESS REVIEW

Despite the challenges of the global and domestic economy, your Company's revenue for the year was the highest ever at ₹4540.5 million, an increase of 13% over the previous year revenue of ₹4017.6 million, a record being achieved for the second consecutive year. Remarkably, the growth is on a base of 41.2% increase in the previous year.

Raw materials as a percentage of income at ₹2898.6 million constituted 64.4% of income, while it was lower at 63.3% in 2010-11. With marginal increases in manufacturing and employee costs, the operating margin was lower at 10.7% as against 12.5% reported in the previous year. The operating profit was hence lower at ₹483.5 million as against ₹499.6 million.

Members would appreciate that the year witnessed inflationary pressures which impacted raw material prices, all of which could not be passed on to the customers. The tight money policy followed by the central bank, tended to firm up the interest rates affecting finance costs. Your Company incurred finance costs of ₹332.7 million, approximately 11.5% higher than the previous year. The higher incidence was despite repayment of ₹368.3 million during the financial year, over and above an amount of ₹259.7 million repaid in the previous year.

The impact of the prevailing external challenging conditions did impact your Company's business, and despite being productivity oriented and raising the level of cost consciousness, the profit after tax was ₹20.3 million for the year, lower than ₹50.7 million reported in 2010-11.

Your Company has taken several systemic initiatives which are favourably impacting the efficiencies, profit margins and overall profitability, most of which were visible from the last quarter of the financial year 2011-12. The focus is on what adds value to the customers and optimize results for Neuland. The management is striving to make the transformation enduring while shaping the future.

DIVIDEND

Members will appreciate that in view of the liquidity situation of your Company, the Board of Directors has decided not to recommend any dividend for the year under review.

OUTLOOK

Neuland has extraordinary assets for growth: your Company's people, products, pipeline and relationship with some of the big pharma companies across the globe. The Company has a common set of values inspired by The Neuland Way and a restructured, streamlined operating model with a commitment to respond to customers, even as it is bottom line focused.

There is a increased emphasis on marketing niche products, keeping costs under control and an organization wide culture that seeks to improve the due date delivery of products and services. The high-value products have already started enhancing the revenue stream, while there is a commitment to shed products that tend to lower the contribution. The order book for API is robust with visibility of healthy earnings for several months ahead.

While growing the business, the teams are working on thoughtful, disciplined actions to streamline and improve on cost structure, realize savings and de-risk the business. There is substantial progress in increasing the strategic focus of the Company. From early 2012, there is perceptible savings from standardization initiatives, which over the ensuing quarters is likely to manifest in rising free cash flow. Higher margins, lower costs, improved cycle-time on the production floor and lowering of debt are estimated to sustainably enhance the bottom line commencing with the financial year 2012-13.

CONSOLIDATED FINANCIAL STATEMENTS

The reports and accounts of the subsidiary companies are not annexed to this Report. The Board of Directors of the Company have approved and passed a resolution in this regard. A statement pursuant to Section 212 of the Companies Act, 1956 is annexed.

The Consolidated Financial Statements for the year ended March 31, 2012 for part of the Annual Report. Annual accounts of the subsidiary companies are kept for inspection by any investor at the Registered Office of the Company as well as at the Registered Office of the respective subsidiary companies. Any investor interested in a copy of the accounts of the subsidiaries may write to the Company Secretary at the Registered Office of the Company.

SUBSIDIARIES

Your Company's subsidiaries, Neuland Laboratories K.K., Japan and Neuland Laboratories Inc. USA, have come into operation and started working aggressively on market development. The efforts have been to build Neuland's business by being close to the customers and market the products as well as respond immediately to their needs. During the year under review, contract manufacturing business was given an additional thrust, with encouraging response in Japan as well as at North America. Your Company sees long term sustainable opportunities in these regions and is further strengthening the organizational resources.

JOINT VENTURE

The outlook is positive for the joint venture, Cato Research Neuland India Private Limited formed in collaboration with Cato Research Israel Limited, a wholly owned subsidiary of Cato Research Limited, a global contract research and development organization based in USA. As already known to Members, your Company's share in the joint venture is 70% as per the Share Subscription and Shareholder Agreement.

The joint venture company commenced operation and your Company is excited with the prospects for the business, primarily in clinical research in India. Global health care companies have been reaching out to competent research-led companies to bring innovative drugs to the market in the shortest possible time span, using high quality and cost-effective resources available in India. Neuland is confident for the long term since it has the best available partner in Cato Research.

RESEARCH & DEVELOPMENT

One of the key priorities of the R&D team during the year under review was to create a portfolio of niche products that are in demand that would facilitate customers to meet their need to launch new products. A focused detailed approach to product selection led to a healthy product development portfolio. The R&D team took care to ensure that each of the products in the portfolio underwent a rigorous test of preliminary analysis, market and customer feedback and fitment with chemistry and technological profile. 20 molecules/APIs were created for launch between 2013 and 2016.

Further, existing eight products were taken up for process improvement involving cycle time reduction, recovery & reuse of solvents, adoption of green chemistry and yield improvement. Of these in seven products, R&D realized savings and enhanced quality in all eight of them. The teams are working on 24 products for such enhancements/savings in 2012-13.

R&D has set for itself a few key focus areas apart from creating new molecules and process improvements with intent on quality and optimization for competitiveness. Significant success was evident in such areas including, designing & developing manufacturing processes, route scouting as per customer requirement, filing of DMF/CMC for the API and patent protection for non-infringing processes.

ENVIRONMENT, HEALTH & SAFETY (EHS)

Your Company has a systemic approach to environment protection and employees' health and safety with rigorous implementation, measurement and reporting, with strong programs in place to maintain a high level of awareness and conformity with best-in class industry standards. Neuland has made significant progress over the past five years in improving the systems, training and participative response from all employees.

Environmental aspect and impact analysis are carried out at both manufacturing units with an aim to minimize environmental impacts from our manufacturing activities. The units are provided with pollution control facilities like stripper, multi effect evaporator, reverse osmosis facilities for treating effluent generated in our processes and recycling the treated effluent within plant premises.

Your Company has undertaken a number of process improvement initiatives, which has helped consume less raw materials, solvents, water and energy in the manufacturing processes, thus making them less consumptive and sustainable. Neuland stands committed to resource usages in environmentally sound, operationally safe and socially responsible manner.

Occupational health surveillance study was carried out with the support of external experts. Quantitative exposure assessment and work place monitoring is carried out to watch over industrial hygiene exposure levels and ensure environments are comfortable, safe and healthy for the employees. Hazard identification and risk assessment studies were carried out in the units targeted to minimize health and safety risks from the manufacturing activities.

The Companies facilities at Bonthapally facility (Unit-I) and Pashamylaram (Unit-II) have been successfully audited and certified for ISO 14001:2004 and OHSAS 18001:2007.

INFORMATION MANAGEMENT SYSTEMS

Your Company is aware that all assets of the Company generate confidential information and hence, information security is viewed with great importance. Neuland appreciates the importance of intellectual property rights and has put in place standard operating procedures to strictly protect intellectual properties.

The initiatives taken to manage risk and institutionalize them Include:

- Employees have been trained through orientation programmes, with refresher training programmes on ISMS standards on a regular basis.
- Neuland signs confidentiality disclosure agreements with all its customers, employees, suppliers and consultants.
- Neuland is certified for ISO 27001:2005 standard and has very recently completed its first surveillance audit successfully.

The IT Infrastructure is on the SAP ERP platform for effective information transfer across functions while ensuring high security standards. A robust web-based intranet application has been developed in-house and used for key business processes to infuse transparency, speedier communication and review.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis as required under the Listing Agreement with the stock exchanges forms part of the Annual Report.

LISTING AT STOCK EXCHANGES

The equity shares of your Company continue to be listed and traded on the BSE Limited and National Stock Exchange of India Limited. The Annual Listing fee for the year 2012-13 has been paid to both the stock exchanges.

CORPORATE GOVERNANCE

The report on Corporate Governance as per Clause 49 of the Listing Agreement with the Stock Exchange forms part of the Annual Report. Certificate from the Statutory Auditors of the Company M/s. K.S. Aiyar & Co., Chartered Accountants confirming the compliance with the Corporate Governance is attached to this report.

DIRECTORS

Mr. G.V.K. Rama Rao and Dr. Christopher M. Cimarusti retire as Directors by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. The profiles of the Directors are included in the Report on Corporate Governance and the Notice of the AGM.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, your Directors confirm that to the best of their knowledge and belief and according to the information and explanation obtained by them,

a. in preparation of the annual accounts for the year ended March 31, 2012 the applicable accounting standards have been followed;

b. such accounting policies as mentioned in the notes to the financial statement have been selected and applied consistently and judgments and estimates that are reasonable and prudent made so as to give a true and fair view of the state of the affairs of the Company for the year ended March 31, 2012 and of the profit of your Company for the year;

c. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

d. the annual accounts for the year ended March 31, 2012 has been prepared on a going concern basis.

EMPLOYEE STOCK OPTION

As per the resolution passed at the Annual General Meeting on July 20, 2007 your Company had granted 34,500 stock options to its employees under the Employee Stock Options Scheme. However 25,500 vested options have been terminated by the Compensation Committee on account of retirement/resignation of the employees from the Company. The fair value as on March 31, 2012 worked out to ₹25.44 per share.

Details of the options granted and terminated are set out in the annexure to this report as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Options Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

AUDITORS

The financial statements have been audited by M/s. K.S. Aiyar & Co., Chartered Accountants, the Statutory Auditors.

The Audit Committee of your Company meets periodically with the Statutory Auditors M/s. K.S. Aiyar & Co. and Internal Auditors, M/s. Grant Thornton & Co., to review the performance of internal audit, to discuss the nature and scope of the statutory auditor's functions, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the statutory auditor and the internal auditor have full and free access to the Members of the Audit Committee to discuss any matter of substance.

Cost Audit under Section 233B of the Companies Act, 1956, is a regular annual audit. The cost audit for the current financial year is under progress.

The Auditors M/s. K. S. Aiyar & Co, Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office for the financial year ended March 31, 2013.

INSURANCE

Your Company has taken reasonable steps to prevent risks and the Board is kept appraised of the risk assessment and minimization procedures.

The assets of the Company have been adequately covered under insurance. The policy values have been enhanced taking into consideration the expanded and upgraded facilities of the Company.

FIXED DEPOSITS

There are no fixed deposits outstanding with the Company as on March 31, 2012. The matured but unclaimed fixed deposits amounting to ₹0.07 million, which have become due for transfer to the Investor Education and Protection Fund (IEPF) have been transferred to IEPF during the year under review.

DISCLOSURE PARTICULARS

As required by your Company (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information and data are given in Form - A & B to this report.

INDUSTRIAL RELATIONS

Your Company's relations with its employees continue to be cordial. Dedicated work by the workmen, supervisors and executives of your Company made it possible to achieve success under trying and difficult circumstances.

PARTICULARS OF EMPLOYEES

As required under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules 1975 as amended, there are no employees drawing remuneration in excess of ₹500,000 per month during the year under review.

ACKNOWLEDGEMENT

Your Directors place on record their deep appreciation for the hard work, commitment and dedication of the employees at all levels. The Company did well on several fronts only because of their enthusiasm and efforts. The Board appreciates the support and co-operation received from the customers, vendors, business partners and others associated with the Company. The Directors take the opportunity to thank the bankers and financial institutions, regulatory and government authorities and the stock exchanges for their continued support.

For and on behalf of the board

Dr. D. R. Rao

Hyderabad, May 3, 2012 — Chairman & Managing Director

Annexure to the Directors' Report

FORM - A

Disclosure of particulars with respect to conservation of energy (to the extent applicable)

A. POWER & FUEL CONSUMPTION

₹ in Million

	Current Year	Previous Year
1. Electricity		
a. Purchased		
Unit in Million (kWh)	**18.95**	18.77
Total Amount (₹ in Million)	**74.10**	70.70
Rate/Unit (₹/kWh)	**3.91**	3.77
b. Own generation (Unit in Million) kWh	**1.88**	1.49
(Through Diesel Generator)		
Units per litre of Diesel Oil	**3.18**	3.16
Cost/Unit (₹/kWh)	**13.91**	12.89
2. Coal		
Quality "C" Grade used in Steam Boiler		
Quantity (Tonnes)	**12,810**	13,916
Total cost (₹ in Million)	**72.60**	60.60
Average rate (₹/Tonne)	**5,666**	4,353

FORM - B

RESEARCH AND DEVELOPMENT

a. Specific areas in which R&D is carried out by your Company:

i. Development of non-infringing patentable processes for active pharmaceutical ingredients in the therapeutic categories of anti-glaucoma, anti-fungal, anti-hyperlipoproteinemic, antihypertensive, anti-asthmatic, anti-psychotic, anti-emetic, anti-parkinson, anti-depressant, benign prostatic hyperplasia, antibacterial, anti-alzheimers.

ii. Development of efficient and cost effective processes to reduce total variable cost and cycle time for existing products.

iii. Customer specific and exclusive process development for manufacture of active pharmaceutical ingredients.

iv. Contract research and services for the innovator companies for their research activities.

v. Custom synthesis and contract manufacturing.

vi. Development of analytical methods, quality improvement and cost optimization studies.

vii. Creation of intellectual property and international regulatory filings.

viii. Study of impurity profiles, synthesis and sale of impurities metabolites standards.

ix. Development of scalable processes for the production of Fmoc building blocks amino acids and dipeptides.

x. Development of scalable processes for the production of protected peptide segments useful in the synthesis of oxytocin and other generic peptide APIs.

b. Benefits derived as a result of the above:

The above research has resulted in commercializing/scaling up of a number of products including,

i. Propofol

ii. Sugammadex

iii. Moxonidine

iv. Armodafinil

v. Lacosamide

vi. Pentosan

vii. Paliperidone

c. Modification of the existing manufacturing processes for APIs (anti-hypertensive, anti bacterial, anti-ulcer) resulted in lower production costs, reduced cycle times, and in customer retention.

d. In the past one year, six Indian patent applications and four PCT applications were made.

e. Drug Master Files (DMF)/CEPs were filed during the year for

a. Ezetimibe (DMF)

b. Montelukast Disodium (DMF and CEP)

c. Pemetrexed Disodium (DMF)

d. Deferasirox (DMF)

e. Brinzolamide (DMF)

f. Itraconazole (CEP)

g. Salmeterol Xenafoate (CEP)

h. Levetiracetam (CEP)

i. Ciprofloxacin (CEP)

f. Future plan of action

i. To develop processes for new bulk drugs of various therapeutic categories identified after an extensive analysis of the market.

ii. Development of cost effective processes for the existing products.

iii. Undertake more of custom manufacturing projects.

iv. Improvements in quality and productivity.

g. The Company has identified 9 new products for development in 2012-13. These are:

i. Dabigataran

ii. Saxagliptin

iii. Asenapine

iv. Indacaterol

v. Alcaftadine

vi. Febuxostat

vii. Lurasidone

viii. Vilazodone

ix. Rufinamide

h. Expenditure on R&D

₹ in Million

	Current Year	Previous Year
Capital	**10.23**	16.31
Recurring	**111.09**	102.45
Total	**121.32**	118.76

R&D expenditure was 2.70% of total revenue, as against 2.97% in the previous year.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. The technologies developed by R&D division of the Company towards the quality and yield improvement of existing products and also development of technology for new bulk drugs have been commercialized and adopted by the manufacturing facility of the Company.

2. In case of improved technology (imported during the last 5 years reckoned from the beginning of the financial year), the following information may be furnished.

   a. Technology imported

   b. Year of import

   c. Has technology fully been absorbed

   d. If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of actions

   NIL

FOREIGN EXCHANGE EARNINGS AND OUTGO

a. Activities relating to exports, initiative taken to increase exports, developments of new exports markets for products and services and export plans:

   i. Your company has had a strong export focus in the past, and expects thrust to continue in the future. In fiscal 2011-12, 81% of revenues were derived from exports.

   ii. Your Company's total exports on FOB basis was ₹3399.95 million against previous year export turnover of ₹2869.53 million.

   iii. Your Company expects considerable export revenue during 2012-13.

b. Foreign exchange earned and used for the year ended March 31, 2012:

   Total foreign exchange earnings used and earned is given in Note 40, of the Notes to Accounts.

For and on behalf of the board

Dr. D. R. Rao
Chairman & Managing Director

Hyderabad, May 3, 2012

ANNEXURE TO THE DIRECTORS REPORT

Disclosure pursuant to the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999

Numbers

Description	Particulars
1. No. of shares available under Neuland ESOS	34,500
2. Total No. of Options granted during the year	Nil
3. Pricing formula	The price was decided by the Board which is not less than the face value per share per option.
4. Options vested during financial year 2011-12	Nil
5. Options exercised during financial year 2011-12	Nil
6. Options lapsed	15,500
7. Variation of terms of Options	Nil
8. Money realized by exercise of Options	Nil
9. Grant Price Plan (on November 20, 2008)	₹104
10. Total No. of Options in force as on March 31, 2012	19,000
11. i. Grant details to members of senior management team:	

Name	No. of Shares	Name	No. of Shares	Name	No. of Shares
Mr. Tom Speace	2,500	Mr. A. Venkataswamy	1,000	Mr. T.K. Mathew	500
Mr. Y. Sudheer	1,500	Mr. D.S. Krishna Mohan	1,000	Mr. T.V. Bangaram	500
Dr. Mike Anwer	1,500	Mr. G. Rama Krishna Rao	1,000	Mr. A.V.L. Narayana	500
Mr. N. Sundar	1,500	Mr. P. Srinivasulu	500	Mr. G. Kalyan Chakravarthy	500
Mr. G.S.N. Murthy	1,500	Mr. S.D.P.L. Narayana	500	Mr. P. Arun Kumar	500
Mr. Shaik Meera Sharif	1,000	Mr. Ravikant Tadinada	500	Mrs. H.S. Tulasi	500
Mr. D. Srinivasa Chary	1,000	Mr. T.V.V.S. Rayudu	500	Mr. K. Ganga Rao	500

Description	Particulars
ii. Any other employee who received a grant in any one year of option amounting to 5% or more of options granted during the year	Nil
iii. Employees who were granted option during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversations) of the Company at the time of grant	Nil
12. Diluted EPS as per Accounting Standard 20	Before Adjustment ₹3.76 Adjusted ₹3.67
13. i. Methods of calculation of employees compensation cost	The Company has calculated the employee compensation cost using the intrinsic value of the stock options. The grant price is the market price prevailing on the grant date. Therefore, there will be no compensation cost as per intrinsic value basis.
ii. Difference between the employee compensation cost so computed at (i) above and the employee compensation cost that shall have been recognized if it had used the fair value of the Options	₹0.48 million

Disclosure pursuant to the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999 (Contd.)

Description		Particulars	
iii. The impact of this difference on profits and on EPS of the Company		Profit after Tax (PAT) Less: Additional employee compensation cost based on fair value Adjusted PAT Adjusted EPS	₹20.32 million ₹0.48 million ₹19.84 million ₹3.68
iv. Weighted average exercise price and fair value of stock options granted		Nil	₹25.44
Stock options granted on	Weighted average exercise price (in ₹)	Weighted average Fair value (₹)	Closing market price at BSE on the date of grant (₹)
November 20, 2008	104	25.44	104.70
v. Description on the methods and significant assumptions used during the year to estimate the fair value of the options, including the following weighted average information		The Black-Scholes option-pricing model was developed for estimating fair value of traded options that have no vesting restrictions and are fully transferable. Since option-pricing models require use of substantive assumptions, changes therein can materially affect fair value of options. The option pricing models do not necessarily provide a reliable measure of fair value of options.	
vi. The main assumptions used in the Black-Scholes option-pricing model during the year were as follows:			
Risk free interest rate (%)		8.19	
Expected life of options from the date(s) of grant		7 years	
Expected volatility (%)		56.0368	
Dividend yield		1.742	

Statement pursuant to Section 212 of the Companies Act, 1956 relating to subsidiary companies

₹ in Million

Particulars	Reporting Currency	Exchange Rate	Capital	Reserves	Total Assets	Total Liabilities	Turnover	Profit before Taxation	Profit after Taxation	Invest-ments Made	Dividend declared	Country
Neuland Laboratories K.K.	¥	0.624	1.54	2.70	7.40	7.40	19.46	1.41	1.14	–	–	Japan
Neuland Laboratories Inc.	US$	51.21	0.04	8.28	22.87	22.87	66.18	4.71	3.98	–	–	U.S.A.
CATO Research Neuland India Private Limited	₹	1.00	5.11	(1.05)	7.52	7.52	2.74	0.39	0.29	–	–	India

For and on behalf of the board

Dr. D. R. Rao
Chairman & Managing Director

Hyderabad, May 3, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL PHARMACEUTICAL INDUSTRY

In spite of difficult market conditions and patent expiry of several blockbuster drugs, the global pharmaceutical markets expanded in recent years. In 2011, the global pharmaceutical market was estimated to have grown by 5-7% year-on-year exceeding USD 880 billion.

According to IMS Health Incorporated ('IMS Health'), a leading industry body, the global pharmaceutical market is expected to grow at a compound annual growth rate ('CAGR') of 5-8% through 2015 to reach market size of USD 1.1 trillion. Going forward, the Asia-Pacific region (primarily comprising India, China, Malaysia and South Korea) is expected to emerge as one of the fastest growing pharmaceutical market globally and also an Active Pharmaceutical Ingredient (API) production hub.

Increased research and development activities in this region has propelled the growth in pharmaceutical industry to achieve an estimated market size of approximately USD 187 billion in 2009 and according to IMS Health, it is also expected that the emerging markets will grow at a CAGR of 14-17% through 2015, while the developed or advanced markets are expected to grow at 3-6% CAGR during the same period.

INDIAN PHARMACEUTICAL INDUSTRY

As per the annual report for 2010-11 released by the Department of Pharmaceuticals, the Indian pharmaceutical industry has grown from a mere USD 0.3 billion (₹237 Crore) turnover in 1980 to about USD 21.73 billion (₹104,209 Crore) in 2009-10. The country now ranks third in terms of volume of production (10% of global share) and 14th largest by value (1.5%). One reason for lower value share is the lower cost of drugs in India ranging from 5% to 50% less, as compared to developed countries.

India is almost self sufficient in case of formulations. The imports are being made on quality and economic considerations and not necessarily non-availability from domestic sources. There is complete freedom to manufacture drugs and pharmaceutical products approved by the drug control authorities.

Indian pharma industry growth has been fuelled by exports and its products are exported to a large number of countries with a sizeable share to the advanced regulated markets of USA and Western Europe. India currently exports drug intermediates, APIs, Finished Dosage Formulations (FDFs), bio-pharmaceuticals, clinical services to various parts of the world. The top 5 destinations for Indian pharmaceutical products are USA, Germany, Russia, UK and China.

Comparatively low cost of APIs, robust manufacturing capabilities, existence of regulatory approved manufacturing facilities for APIs and formulations and abundant skills available, are the main driving factors for healthy growth of the pharmaceutical industry in India. For Indian bulk drug manufacturers, opportunities are present in two forms: export of non-patented bulk drugs to regulated market of US, Europe and Japan and the contract manufacturing of patent-protected bulk drugs for patent/license holders.

OVERVIEW OF NEULAND

Neuland is a manufacturer of APIs and a provider of chemistry related contract manufacturing services. Exports account for over 81% of the revenues of the Company, with a very strong global customer base of around 270 customers. The Company was incorporated on January 7, 1984 in Hyderabad and is listed on the BSE and the NSE.

The Company manufactures 66 products across various therapeutic segments and holds over 400 DMFs worldwide, having scaled up 300 processes from research to manufacturing. Both the manufacturing facilities located near Hyderabad have been inspected by US FDA, EU, TGA, PMDA and ANVISA. The Unit I manufacturing facility located at Bonthapally, which manufactures Ramipril, Mirtazapine, Enalapril Maleate, Sotalol HCl, Levetiracetam, Levofloxacin and any other APIs, commenced operations in the year 1986 and has an installed capacity of 1,51,000 litres. The Unit II manufacturing facility located at Pashamylaram, which manufactures Ciprofloxacin, Ranitidine and Entacapone commenced operations in the year 1994 and has an installed capacity of 3,10,200 litres.

Additionally, while both the manufacturing facilities have in-house R&D centres, the R&D Centre at Unit I is a 40,000 sq. ft state-of-the-art facility, which commenced operations in 2008. The R&D facility is primarily used for process investigation, new products development and contract research and manufacturing services.

The major strengths of Neuland are:

- Focused independent API manufacturer;
- Facilities designed to serve regulated markets;
- Diversified offering portfolio.

The major strategies of Neuland are as follows:

- To grow organically the API business in the export and domestic markets, by entering into new and niche molecules that have higher entry barriers;
- Increase penetration in the contract manufacturing business;
- To continue a strengthen the presence in regulated markets, including Japan.

RESEARCH AND DEVELOPMENT

The 40,000 sq. ft. state-of-the-art R&D facility houses skilled and experienced scientists. Our R&D facility has 11 labs and fully equipped analytical lab with all latest analytical instruments which include NMR, GC, ICPMS, HPLCs. The R&D facility is primarily used for process investigation and development, new products development and contract manufacturing services and has been granted recognition by the DSIR, as an approved R&D Centre valid till March 31, 2016.

ENVIRONMENT, HEALTH AND SAFETY

The mission of our Company is to function without unfavorably impacting the environment or compromising on the health and safety of our employees and the society.

HUMAN RESOURCES

As on March 31, 2012, we have a workforce of 952 full-time employees, of whom over 70% are skilled staff. Our manufacturing process requires an appropriate mix of skilled, semi-skilled and un-skilled workforce. This includes corporate and managerial staff, staff located at manufacturing facilities and 190 employees at the R&D Centre.

CERTAIN FACTORS AFFECTING RESULTS OF OPERATIONS

There are several factors which can affect results of our operations including macro-economic factors specific to our industry, globally and in India, and those that are specific to Neuland. Some of the factors that can affect results of operations are briefly referred below:

Research and Development

Neuland's R&D focus is on increasing the cost competitiveness through improving operational efficiencies, and on developing non-infringing processes. Further, the Company continually invests in R&D to complement the existing product portfolio and develop products in niche therapeutic segments. The Company intends to leverage its R&D capabilities to expand in the contract manufacturing segment. Future growth is dependent on strengthening the existing product portfolio and expanding the presence in contract manufacturing businesses.

Industry competition and consolidation pressures

The API industry is subject to increased competition from the introduction of competing products and new entrants, including international players, to expand/augment existing operations or products and extend/consolidate the scope of their geographical operations. These factors render a significant challenge in expanding the customer base and increase of market shares. Further, adequate availability of key raw materials at manageable price levels is critical and price fluctuations due to competitive pricing pressures may affect Neuland's margins. Such factors may affect significantly the future income and financial condition and ability to expand the product portfolio and customer base.

Client concentration risk

About 60% of Neuland's revenue comes from seven customer groups. The Company is focused on extending these relationships as these partners increasingly seek participation across a wider range of products and services. In the event of any one or more customers cease to continue doing business, the Company will have a material unfavourable impact on the business and revenues. Further, some of the customers are large and established players having better bargaining power, which may adversely affect Neuland's margins and profitability. However technology advantage, cost competitiveness and collaborative effort with customer can mitigate the risk of losing customer.

Foreign exchange fluctuations

Neuland's export earning constitutes 81% of total revenues for the financial year 2010-11 and 2011-12. Further, significant portion of raw materials are imported by the Company.

Exports ₹ in Million

	2011-12		2010-11	
	Value	%	Value	%
India	842.22	19	756.05	19
Other than India	3,640.12	81	3,211.90	81
Total	4,482.34	100	3,967.95	100

Imports

	2011-12		2010-11	
	Value	%	Value	%
Imported	1,539.90	53	1,690.13	67
Indigenous	1,358.73	47	840.67	33
Total	2,898.63	100	2,530.80	100

Most of our exports and imports are denominated in US Dollars. Any fluctuation in the value of the Rupee against foreign currencies can have significant impact on the results of operations.

Neuland follows a hedging policy to mitigate the risks of foreign exchange fluctuation. The Board is being updated at the end of every quarter about the open position. The Company as a policy deals in only open forwards or options and does not have any speculative positions or transactions in currencies where it does not have underlying transactions.

Macro Economic Factors

Macro-economic factors, both in the Indian and international context, such as economic instability, political uncertainty, social upheavals, natural calamities or acts of God could influence our performance, which in turn could influence Neuland's results. In addition to the macro economic situation, inflationary pressures, fluctuations in interest rates and exchange rates would have material effect on key aspects of operations, including the costs of raw materials, the selling prices for the Company's products, the cost of borrowing required to fund the operations and profit margins.

RESULTS OF OPERATIONS

The following table sets out our statement of profit and loss statement based on the standalone financial statements for the year ended March 31, 2012 and March 31, 2011 the components of which are expressed as a percentage of total income for the periods indicated:

₹ in Million

Particulars	For the year ended March 31			
	2012	% of Total Income	2011	% of Total Income
Total sales	4,482.34	99.62	3,967.95	99.38
Other income	17.00	0.38	24.64	0.62
TOTAL INCOME	4,499.34	100.00	3,992.59	100.00
Expenditure				
(Increase)/decrease in finished goods and work in process	(51.63)	(1.15)	(31.71)	(0.79)
Raw material consumed	2,898.63	64.42	2,530.80	63.39
Manufacturing expenses	384.88	8.55	333.51	8.35
Payments and benefits to employees	307.83	6.84	260.60	6.53
Other expenses	476.16	10.58	399.96	10.02
TOTAL EXPENDITURE	4,015.87	89.25	3,493.16	87.49
PROFIT BEFORE INTEREST, DEPRECIATION AND TAX	483.47	10.75	499.43	12.51
Finance costs	332.74	7.40	298.37	7.47
PROFIT BEFORE DEPRECIATION AND TAX	150.73	3.35	201.06	5.04
Depreciation/amortization	148.91	3.31	154.11	3.86
PROFIT BEFORE TAX	1.82	0.04	46.95	1.18
Tax expense	(18.50)	(0.41)	(3.74)	(0.09)
PROFIT AFTER TAX	20.32	0.45	50.69	1.27

REPORT ON CORPORATE GOVERNANCE

A. MANDATORY REQUIREMENTS

1. Company's Philosophy on Code of Corparate Governance

To adhere to the highest standards of quality in its products, processes and dealings with its stakeholders and to generate consistent returns to shareholders on a sustainable and long term basis and to ensure accuracy and transparency in financial reporting.

2. Board of Directors

As of March 31, 2012 the Board of the Company consisted of ten Directors with an optimum combination of Executive and Non-Executive Directors. The Board comprises of three Executive and seven Non-Executive Directors.

The table below provides the information on the Board of Directors required under Clause 49 of the Listing Agreement with the stock exchanges:

Name of the Director	Category	No. of directorships held in other companies#	Number of board/ committee membership held in other companies*	Among the committee memberships held in other companies, number of chairmanships held	No. of Board Meetings attended	Attendance at the last AGM
Dr. D. R. Rao[1] (Promoter)	Chairman & Managing Director	1	–	–	7	Yes
Mr. D. Sucheth Rao[1] (Promoter)	Whole-time Director & CEO	2	–	–	7	Yes
Mr. D. Saharsh Rao[1] (Promoter)	Whole-time Director & President-Contract Research	2	–	–	9	Yes
Mr. G. V. K. Rama Rao (Promoter)	Non-Executive Director	–	–	–	5	Yes
Mr. S. B. Budhiraja	Non-Executive Independent Director	3	3	2	6	Yes
Mr. H. Dhanrajgir	- do -	7	9	1	6	Yes
Mr. P. V. Maiya	- do -	4	5	2	7	Yes
Dr. Will Mitchell	- do -	–	–	–	3	Yes
Dr. Christopher M. Cimarusti	Non-Executive Director	–	–	–	4	Yes
Mr. Nadeem Panjetan	Nominee (EXIM Bank)	2	2	–	6	No

1 Dr. D.R. Rao, Mr. D. Sucheth Rao and Mr. D. Saharsh Rao are related to each other.

Does not include directorship in foreign companies.

* Only membership/chairmanship in Audit and Shareholders' Grievance Committees are considered.

Number of Board Meetings and the dates of Board Meeting

Nine Board Meetings were held during the financial year ended March 31, 2012. The dates on which the said meetings were held are as follows:

April 25, 2011	May 20, 2011	July 7, 2011	August 5, 2011
September 26, 2011	November 3, 2011	February 10, 2012	March 13, 2012 (2 meetings)

3. Committees of the Board

a. Audit Committee

The terms of reference stipulated by the Board of Directors to the Audit Committee as contained in Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956, are as follows:

a. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient & credible;

b. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of statutory auditors, fixation of audit fees and also approval for payment for any other services;

c. Reviewing with management, the quarterly and annual financial statements before submission to the Board, focusing primarily on:

    i. matters required to be included in the Directors' Responsibility Statement to be included in the Directors' Report in terms of clause (2AA) of Section 217 of the Companies Act, 1956;

    ii. changes, if any, in accounting policies and practices and reasons for the same;

    iii. major accounting entries involving estimates based on the exercise of judgement by management;

    iv. qualifications in draft audit report;

    v. significant adjustments made in the financial statements arising out of audit findings;

    vi. the going concern assumption;

    vii. compliance with accounting standards;

    viii. compliance with stock exchange and legal requirements concerning financial statements; and,

    ix. disclosure of any related party transactions i.e. transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.

d. Reviewing with the management, the quarterly financial statements before submission to the Board for approval;

e. Reviewing with the management, performance of statutory and internal auditors, the adequacy and compliance of internal control systems;

f. Reviewing the adequacy of internal audit function, if any including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;

g. Discussing with internal auditors any significant findings and follow up thereon;

h. Reviewing the findings of internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;

i. Discussing with statutory auditors before the audit commences about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;

j. Reviewing the Company's financial and risk management policies;

k. Reviewing of information by Audit Committee:

    i. Management Discussion & Analysis of financial condition and results of operations;

    ii. Statement of significant related party transactions submitted by the management;

    iii. Management letters/letters of internal control weaknesses issued by the statutory auditors;

    iv. Internal audit reports relating to internal control weaknesses;

    v. The appointment, removal and terms of remuneration of the chief internal auditor.

l. Examining the reasons for substantial defaults in the payment to the depositors, Members (in case of non-payment of declared dividends) and creditors.

m. Reviewing the functioning of whistle blower mechanism, in case the same exists.

n. Approving appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc of the candidate.

o. Reviewing with the management, the statement of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc), the statement of funds utilized for purpose other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.

Composition, Names of Members and Chairman

The Audit Committee consists of four Independent Directors

Name of Member of Audit Committee	Position
Mr. P.V. Maiya	Chairman
Mr. H. Dhanrajgir	Member
Mr. S. B. Budhiraja	Member
Mr. Nadeem Panjetan	Member

All the members of the Audit Committee have accounting, financial and management knowledge with one member having financial and management expertise.

Meetings and attendance

During the year, the Committee met five times on the following dates:

May 19, 2011   August 4, 2011   November 2, 2011   February 9, 2012   March 13, 2012

Name of Member of Audit Committee	Meetings attended
Mr. P.V. Maiya, Chairman	4
Mr. H. Dhanrajgir	3
Mr. S. B. Budhiraja	4
Mr. Nadeem Panjetan	5

The Company Secretary acts as the secretary of the Audit Committee. The Chairman & Managing Director, Whole-time Directors, the statutory auditor, the internal auditor and Vice President (Finance) of the Company were also invited to attend the Audit Committee Meetings.

b. Remuneration Committee

The Remuneration Committee consists of the following Non-Executive Directors:

Mr. P. V. Maiya, Chairman

Mr. S. B. Budhiraja

Mr. H. Dhanrajgir[1]

[1] Effective from August 5, 2011 Mr. H. Dhanrajgir was appointed as member of the Remuneration Committee in place of Mr. G.V.K. Rama Rao.

During the year, the Committee met once on May 19, 2011 which was attended by all the Members.

Remuneration Policy

The remuneration policy of the Company for managerial personnel is primarily based on the following:

- Performance of the Company, its divisions and units
- Performance and potential of individual managers, and,
- External competitive environment.

Remuneration of Directors

The remuneration of the Directors is decided by the Board of Directors as per the remuneration policy of the Company within the ceiling fixed by the Members.

Whole-time Directors

In view of the of inadequacy of profits for the financial year ended March 31, 2012; the remuneration to each Whole-time Director for the financial year has, been restricted to the ceiling limit provided in paragraph (1) (B) IV (2) of Section II of Part II of Schedule XIII to Companies Act, 1956 which was duly approved by the Members at the 26th Annual General Meeting held on July 29, 2010.

The disclosure on managerial remuneration as per paragraph (1) (B) IV (2) of Section II of Part II of Schedule XIII to Companies Act, 1956 is mentioned below:

Particulars	Dr. D. R. Rao	Mr. D. Sucheth Rao	Mr. D. Saharsh Rao
Salary (₹)	350,000 p.m.	350,000 p.m.	300,000 p.m.
Perquisites (₹)	50,000 p.m.	50,000 p.m.	50,000 p.m.
Contract period	3 years	3 years	3 years
Notice period	12 months	12 months	12 months
Fixed component and performance linked incentives along with the performance criteria	Nil	Nil	Nil
Stock option with details if any and whether issued at discount as well as the period over which accrued and over which exercisable	Nil	Nil	Nil
Severance fees	Nil	Nil	Nil

Non-Executive Directors

All the fees paid to the Non-Executive Directors with effect from January 1, 2006 was prior approved by Members at the General Meeting.

During the year, Non-Executive Directors were paid sitting fees of ₹10,000 for attending each meeting of the Board, Audit Committee, and Remuneration Committee. Sitting fees for Shareholders/Investors' Grievance Committee meeting was paid at ₹5,000 for each meeting.

The following is the schedule of sitting fees paid:

Name of the Director	₹
Mr. H. Dhanrajgir	90,000
Mr. S. B. Budhiraja	110,000
Mr. P.V. Maiya	130,000
Mr. G. V. K. Rama Rao	60,000
Mr. Nadeem Panjetan	110,000
Dr. Will Mitchell	30,000
Dr. Christopher M. Cimarusti	40,000

Shareholding of Non-Executive Directors as on March 31, 2012

Name of the Director	No. of shares
Mr. H. Dhanrajgir	2,000
Mr. S. B. Budhiraja	6,840
Mr. P.V. Maiya	1,000
Mr. G. V. K. Rama Rao	17,600

c. Share Transfer and Investors'/Shareholders' Grievance Committee

Composition and Attendance

The Share Transfer and Investors'/Shareholders' Grievance Committee was reconstituted on August 5, 2011 and with effect from that date Mr. D. Sucheth Rao was inducted as Member. During the financial year 2011-12, the Committee met thrice on May 19, 2011, August 4, 2011 and November 2, 2011.

Name of Member	Meeting attended
Mr. P.V. Maiya, Chairman	2
Dr. D.R. Rao	3
Mr. D. Sucheth Rao*	1

* Appointed as Member w.e.f. August 5, 2011

The Company attends to the investors' grievances/correspondence expeditiously and usually reply is sent within a period of 15 days of receipt.

The Company received 4 complaints from the share holders/stock exchange/SEBI/Department of Company Affairs/Registrar of Companies which *inter alia* included non-receipt of dividend warrants, annual report, transfer of shares. The complaints were gathered by the Company from Registrar and Transfer Agents and from its own sources, which were duly attended to and the Company has furnished necessary documents/information to the Members. Out of the complaints received during the year, none of the complaints were pending as on March 31, 2012. All have been disposed off to the satisfaction of the Members.

The Share Transfer and Investors'/Shareholders Grievance Committee reviews the following:

- Transfer/transmission of shares/debentures;
- Issue of duplicate share certificate;
- Review of shares dematerialised and all other related matters;
- Monitors expeditious redressal of investors' grievances;
- Non-receipt of Annual Report and declared dividend; and,
- All other matters related to shares/debentures.

The Registrar and Transfer Agents are completing share transfers once in every 15 days.

Requests for share transfer are not pending.

Ms. Sarada Bhamidipati, Company Secretary is the Compliance Officer of the Company with effect from January 3, 2012.

4. General Body Meetings

The last three Annual General Meetings details are given herein below:

Year	Date	Day	Time	Venue
2009	July 18, 2009	Saturday	2.30 p.m.	Emerald, Taj Krishna, Hyderabad
2010	July 29, 2010	Thursday	2.30 p.m.	Anjuman, Taj Banjara, Hyderabad
2011	August 5, 2011	Friday	2.30 p.m.	Grand Ball Room, Taj Krishna, Hyderabad

Special Resolutions passed at the last three AGMs

Year	2008 - 09	2009 - 10	2010 - 11
Item	To appoint Mr. D. Saharsh Rao as Whole-time Director of the Company designated as President-Contract Research for the period of three years with effect from June 1, 2009 and fixation of his remuneration.	a. Approval for payment of minimum remuneration under Schedule XIII of the Companies Act in case of inadequacy of profits to Mr. Dr. Rao, Chairman and Managing Director. b. Approval for payment of minimum remuneration under Schedule XIII of the Companies Act in case of inadequacy of profits to Mr. D. Sucheth Rao, Whole-time Director and Chief Executive Officer. c. Approval for payment of minimum remuneration under Schedule XIII of the Companies Act in case of inadequacy of profits to Mr. D. Saharsh Rao, Whole-time Director and President - Contract Research.	a. Appointment of Dr. Christopher M. Cimarusti, Director of the Company, to hold office or place of profit for a period of five years with effect from August 5, 2011 as per the terms and conditions set out in the letter of agreement and fixation of his remuneration. b. Approval for payment of remuneration by way of Commission to all the Non-Executive Directors of the Company of an amount not exceeding 1% of the net profits of the Company per annum, in addition to the sitting fees.

No Extra-ordinary meeting of the Members was held during the year.

No Postal Ballot was conducted during the year.

5. Information in respect of Directors seeking appointment/re-appointment as required under Clause 49 IV(G) of the Listing Agreement

Mr. G.V.K. Rama Rao

Mr. G.V.K. Rama Rao is a Non-Executive Director and promoter of our Company. He is a Bachelor of Law and is a practicing advocate for 35 years, specialising in civil cases.

Mr. G.V.K. Rama Rao does not hold any other directorships.

Dr. Christopher M. Cimarusti

Dr. Christopher M. Cimarusti is a Non-Executive Director of our Company. He has completed his PhD in Organic Chemistry from Purdue University, USA and his Postdoctoral Research from Columbia University, USA. He has more than 40 years of experience in the field of drug discovery, development and manufacturing. He was awarded more than 60 patents and published more than 40 papers in referred journals. Dr. Cimarusti held executive leadership positions at Squibb Corporation and Bristol-Myers Squibb (BMS) in discovery and development. His last position with BMS was as Sr. Vice President, Pharmaceutical Development Centre of Excellence.

Dr. Christopher M. Cimarusti does not hold any shares of the Company. His other directorships and committee positions are given below:

Name of the company	Name of the committee
New Brunswick Tomorrow	None

6. Disclosures

a. Related Party Transactions

The particulars of transactions between the Company and its related parties as per the accounting standard (AS-18), 'Related Party Disclosures issued by ICAI' are set out at Notes to Accounts. However these transactions are not likely to have any conflict with the Company's interest.

b. Code of Conduct

The Board of Directors has adopted the Code of Business Conduct and Ethics for Directors and senior management. The said Code has been communicated to the Directors and the senior management. The Code has also been posted on the Company's website www.neulandlabs.com.

c. Risk Management

Business risk evaluation and management is an ongoing process within the organization. During the period under review, a detailed exercise on Business Risk Management (BRM) was initiated covering the entire gamut of business operations. The project is under progress.

d. Compliances by the Company

The Company has complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters related to capital markets during the last three years; no penalties or strictures have been imposed on the Company by the stock exchanges or SEBI or by any other statutory authorities relating to the above.

e. Issue of Shares on Rights Basis

During the year the Company had declared issue of 2,248,523 equity shares of a face value of ₹10 each for cash at a price of ₹45 per equity share, including a Share Premium of ₹35 per equity share, aggregating to ₹101.18 million to the existing equity shareholders of the Company on a rights basis in the ratio of 5:12 and Record Date of March 23, 2012. The Issue opened on March 31, 2012 and closed on April 16, 2012.

Subsequently, the Rights Issue has been subscribed fully and 2,248,523 equity shares of a face value of ₹10 each have been allotted on April 27, 2012 to the eligible shareholders as per the basis of allotment approved by the designated stock exchange.

f. Increase in sitting fees

The Board had at its meeting held on May 3, 2012 increased the amount paid to each of the Non-Executive Directors by way of sitting fees amounting to ₹20,000 (Rupees Twenty Thousand only) to each Non-Executive Director including Independent Directors for attending each meeting of the Board or the Audit Committee and ₹10,000 (Rupees Ten Thousand only) for attending each meeting of the Share Transfer and Investors'/Shareholders' Grievance Committee or Remuneration Committee.

7. Means of Communication

a. In compliance with the requirements of Listing Agreement, the Company regularly intimates unaudited as well as audited financial results to the stock exchanges immediately after they are taken on record by the Board. These financial results are normally published in Financial Express or Business Standard & Andhra Jyothi or Prajashakti. This information is also uploaded on the Company's website www.neulandlabs.com.

b. Management Discussion and Analysis Report forms part of the Report of the Directors.

8. General Shareholders Information

Annual General Meeting

Date, Time and Venue

Friday, August 10, 2012 at 2:30 p.m.
at Grand Ball Room, Taj Krishna,
Banjara Hills, Hyderabad

Date of Book Closure

August 7, 2012 to August 10, 2012

Financial Calendar

Adoption of quarterly results for the quarter ending	Tentative Dates
June 30, 2012	August 10, 2012
September 30, 2012	November 9, 2012
December 31, 2012	February 8, 2013
March 31, 2013	May 10, 2013

Listing on Stock Exchanges

The Equity Shares of the Company are presently listed on the following stock exchanges:

BSE Limited (BSE)

Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001

National Stock Exchange of India Limited (NSE)

Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai 400 001

The Company confirms that it has paid the annual listing fees due to the BSE and NSE for the year 2012-13.

The Company has not issued any GDRs/ADRs/warrants or any other convertible instruments.

Stock Code

524558 on BSE
NEULANDLAB on NSE

ISIN No. for NSDL & CDSL

INE794A01010

Registrar and Transfer Agents

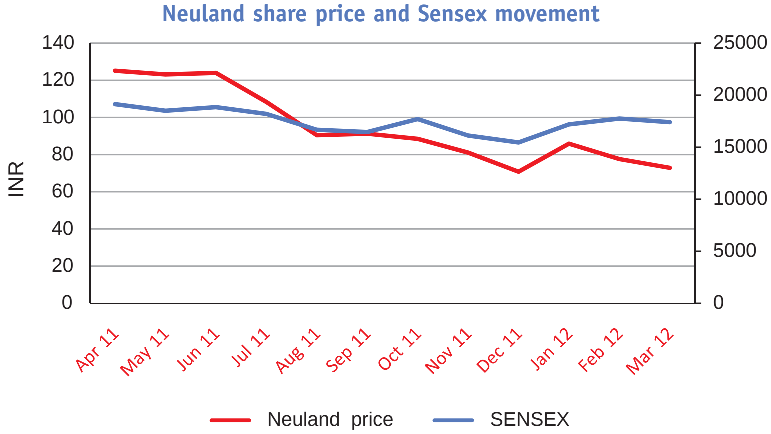
Karvy Computershare Private Limited
Plot No. 17-24, Vittal Rao Nagar
Madhapur, Hyderabad 500081
Tel: +91 40 4465 5000
Toll Free No.: 1-800-3454001

Share price movements 2011-12

₹

		Bombay Stock Exchange Limited			National Stock Exchange of India Limited		
	Month	High	Low	Closing	High	Low	Closing
2011	April	137.90	119.70	125.15	139.75	117.50	127.95
	May	133.80	115.85	123.15	131.80	113.50	124.00
	June	136.70	118.20	124.00	142.00	116.95	125.00
	July	131.00	103.65	108.35	130.00	103.60	108.15
	August	115.50	86.00	90.45	110.95	81.25	91.10
	September	94.90	82.25	91.25	96.95	85.00	90.40
	October	96.70	81.50	88.50	92.00	81.50	89.10
	November	89.90	68.00	81.10	91.70	70.00	81.30
	December	87.85	68.50	70.80	85.00	68.50	70.40
2012	January	88.00	71.00	85.90	87.90	70.30	84.95
	February	89.35	75.45	77.60	88.20	73.00	79.75
	March	84.90	71.10	72.90	88.00	70.25	73.55

Neuland share price and Sensex movement



Share Transfer System

Share transfers are processed by the Registrar and Transfer Agents and are approved by the Share Transfer Committee.

Dematerialisation of shares

The shares of the Company are in compulsory demat segment. The Company's shares are available for trading in the depository system, of both the National Securities Depository Limited and the Central Depository Services (India) Limited. As on 31st March 2012, the total shares dematerialized were 4,942,639 in both depositories accounting for 91.59% of the share capital of the Company.

Rematerialisation of shares

The Company has not received any requests for rematerialisation of shares during the year.

Shareholding pattern as on March 31, 2012

Category	No. of shareholders	% to total	No. of shares held	% of share holding
Promoters and promoter group	16	0.31	2,074,112	38.43
FIs/Banks/MFs/Others	4	0.08	98,900	1.83
Bodies corporate	150	2.95	358,825	6.65
Resident individuals	4,853	95.46	1,691,655	31.35
NRIs/OCBs/FBs/FCs	60	1.18	1,172,563	21.73
Trust	1	0.02	400	0.01
Total	**5,084**	**100.00**	**5,396,455**	**100.00**

Distribution pattern as at March 31, 2012

No. of shares	No. of shareholders	% to Total shareholders	No. of shares	% to Total number of shares held
1 - 500	4,590	90.28	534,214	9.90
501 - 1000	240	4.72	191,634	3.55
1001 - 2000	105	2.07	165,840	3.07
2001 - 3000	41	0.81	103,523	1.92
3001 - 4000	18	0.35	64,228	1.19
4001 - 5000	17	0.33	80,721	1.50
5001 - 10000	28	0.55	202,339	3.75
10001 & above	45	0.89	4,053,956	75.12
Total	**5,084**	**100.00**	**5,396,455**	**100.00**

Plant Locations of the Company

Unit 1: Bonthapally Mandal Jinnaram Medak, Andhra Pradesh	Unit 2: Plot No. 92-94, 257-259 Industrial Development Area Pashamylaram Mandal Patancheru Medak, Andhra Pradesh

Address for correspondence

i. Investor correspondence: For transfer/dematerialisation of shares, payment of dividend on shares and any other query relating to the shares of the Company.

For shares held in physical form	For shares held in demat form
Registrar and Transfer Agents Karvy Computershare Private Limited Plot No. 17-24, Vittal Rao Nagar Madhapur, Hyderabad 500 081 Tel: +91 40 4465 5000 Toll Free No.: 1-800-3454001	To the Depository Participant

ii. Any query on Annual Report

Ms. Sarada Bhamidipati
Company Secretary
Neuland Laboratories Limited
204, Meridian Plaza,
6-3-853/1 Ameerpet, Hyderabad - 500 016
Phone : +91 40 3021 1600,
+91 40 2341 2934/2936
Fax : +91 40 2341 2957
e-mail: ir@neulandlabs.com

iii. For investor grievance

e-mail: ir@neulandlabs.com

Code of Conduct for insider trading

The Company has adopted the code of conduct for insider trading as prescribed under Schedule I and II of the SEBI (Prohibition of Insider Trading) Regulations.

B. NON-MANDATORY REQUIREMENTS

a. The Company has complied with the mandatory requirements of corporate governance Clause 49 of the Listing Agreements with the stock exchanges.

b. The non-mandatory requirements have not been adopted as a formal policy except for Remuneration Committee as set out in item 3 (b) above.

CMD/CFO CERTIFICATION

We, Dr. D.R. Rao, Chairman & Managing Director and Mr. N. S. Viswanathan, Vice-President - Finance to the best of our knowledge and belief, certify that:

a. We have reviewed the financial statements including cash flow statement (standalone and consolidated) for the financial year ended March 31, 2012 and that these statements:

   i. do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

   ii. together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b. There are no transactions entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's code of conduct.

c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to address these deficiencies.

d. We have disclosed, wherever applicable, to the auditors and the Audit Committee:

   i. significant changes in the internal control over financial reporting during the year;

   ii. significant changes in the accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

   iii. that there are no instances of significant fraud of which they have become aware of and involvement therein of the management or an employee having a significant role in the Company's internal control system over financial reporting.

For **Neuland Laboratories Limited**

Dr. D. R. Rao
Chairman & Managing Director
Hyderabad, May 3, 2012.

For **Neuland Laboratories Limited**

N. S. Viswanathan
Vice-President (Finance)

DECLARATION

As provided under Clause 49 of the Listing Agreement with the stock exchanges, the Board Members and the senior management personnel have confirmed compliance with the Code of Conduct and Ethics for the year ended March 31, 2012.

For **Neuland Laboratories Limited**

Dr. D. R. Rao
Chairman & Managing Director

Hyderabad, May 3, 2012.

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

The Members of
Neuland Laboratories Limited

We have examined the compliance of conditions of Corporate Governance by Neuland Laboratories Limited, for the year ended March 31, 2012, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchange(s). The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Raghuvir M. Aiyar
Partner
Membership No.: 38128

Hyderabad, May 3, 2012.

AUDITORS' REPORT

To the Members of
Neuland Laboratories Limited

Report on the accounts for the year ended on March 31, 2012 in compliance with Section 227(2) of the Companies Act, 1956.

1. We have audited the attached Balance Sheet of Neuland Laboratories Limited, as at March 31, 2012 and also the Statement of Profit and Loss for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 as amended by Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

    a. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit;

    b. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;

    c. The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account;

    d. In our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 to the extent applicable;

    e. On the basis of written representations received from the Directors/companies, as on March 31, 2012, and taken on record by the Board of Directors we report that none of the Directors is disqualified as on March 31, 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

    f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

        i. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2012;

        ii. in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

        iii. in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Raghuvir M. Aiyar
Partner
Membership No.: 38128

Hyderabad, May 3, 2012.

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our Report of even date on the accounts for the year ended on March 31, 2012 of Neuland Laboratories Limited)

i. a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

   b. The fixed assets have been physically verified by the management in accordance with regular programme of verification which, in our opinion, is reasonable having regard to the size of the company and nature of its assets. Discrepancies noticed on such verification have been appropriately dealt with in the books of account.

   c. Fixed assets disposed off during the year were not substantial. According to the information and explanations given to us, we are of the opinion that the disposal of fixed assets has not affected the going concern status of the Company.

ii. a. The inventories have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.

   b. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

   c. In our opinion and according to the information and explanation given to us, the Company is maintaining proper records of inventory. The discrepancies noticed on verification between physical stocks and the book records were not material and have been properly dealt with in the books of account.

iii. a. The Company has not granted loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, sub-clauses (b), (c), (d), are not applicable.

   e. The Company has taken unsecured loan from parties listed in the register maintained under Section 301 of the Companies Act, 1956 wherein the balance payable as at the year end is ₹52.50 millions (Maximum balance outstanding during the year ₹52.50 millions).

   f. In our opinion and according to the explanations given to us, the rate of interest and other terms and conditions of the aforesaid loan are not, prima facie prejudicial to the interest of the Company.

   g. In our opinion and according to the explanations given to us, the Company is generally regular in paying the interest as stipulated.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchases of inventory and fixed assets and for the sale of goods and services. During the course of our audit, no other major weakness has been noticed in the internal control system in respect of these areas.

v. a. As per information and explanation and on basis of records maintained by the company we are of the opinion that particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.

   b. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Companies Act, 1956 have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

vi. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A, 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. As informed to us, no order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal.

vii. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

viii. We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained.

ix. a. According to the records of the Company, Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues applicable to it have generally been regularly deposited during the year with the appropriate authorities though there has been a small delay in a few cases.

According to the information and explanations given to us, no undisputed amounts payable in respect of above which were outstanding, as at March 31, 2012 for a period of more than six months from the date on which they became payable.

b. According to the records of the Company, the dues outstanding of Income tax, Sales tax, Wealth tax, Service tax, Custom duty, Excise duty and cess which have not been deposited on account of dispute as on March 31, 2012 are as follows:

Name of the statute	Nature of the dues	₹ in Million	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income tax	36.61	A.Y. 2009-10	Commissioner of Income Tax (Appeals)

x. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

xi. In our opinion and according to the information and explanations given to us, the Company has defaulted in repayment of dues to banks as detailed below:

₹ in Million

Principal	Interest	Period of delay (in days)	
69.93	43.51	1 - 30	Paid during the year
17.29	19.45	31 - 60	Paid during the year
88.54	13.22	61 - 90	Paid during the year
15.80	2.39	Existing as on March 31, 2012	Paid on April 16, 2012

xii. Based on our examination of the records and the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xiv. In our opinion the Company is not dealing in or trading in shares, securities, debentures and other securities. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xv. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

xvi. In our opinion, the term loans have been applied for the purpose for which they were raised.

xvii. According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we report that funds raised on short-term basis aggregating to ₹693.81 million have been utilised for the repayment of long term loans which were taken for creation of long-term investments in fixed assets and capital work-in-progress.

xviii. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956

xix. The Company has not issued any debentures.

xx. The Company concluded its Rights Issue on April 16, 2012, with the allotment of shares on April 27, 2012. As on the reporting date, the Company received nominal amounts towards application for the Rights Issue in escrow accounts with banks and had not utilized the same.

xxi. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Raghuvir M. Aiyar
Partner
Membership No.: 38128

Hyderabad, May 3, 2012.

BALANCE SHEET AS ON MARCH 31, 2012

₹ in Million

Particulars	Notes	As on March 31, 2012	As on March 31, 2011
EQUITY AND LIABILITIES			
SHAREHOLDERS' FUNDS			
Share Capital	3	54.67	54.67
Reserves and Surplus	4	696.11	676.61
		750.78	731.28
SHARE APPLICATION MONEY PENDING ALLOTMENT	5	0.24	–
NON-CURRENT LIABILITIES			
Long-term Borrowings	6	559.00	715.79
Long-term Provisions	7	38.49	26.66
		597.49	742.45
CURRENT LIABILITIES			
Short-term Borrowings	8	1,320.33	1,339.66
Trade Payables	9	1,106.69	1,043.46
Other Current Liabilities	10	424.42	380.70
Short-term Provisions	7	54.35	35.92
		2,905.79	2,799.74
TOTAL		4,254.30	4,273.47
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets			
Tangible Assets	11	1,511.05	1,579.80
Intangible Assets	12	1.89	3.20
Capital Work-in-Progress		271.49	272.57
		1,784.43	1,855.57
Non-current Investments	13	76.67	76.67
Deferred Tax Asset	14	18.50	–
Long-term Loans and Advances	15	56.81	50.90
Other Non-Current Assets	16	105.91	109.51
		2,042.32	2,092.65
CURRENT ASSETS			
Inventories	17	924.18	799.16
Trade Receivables	18	964.12	995.72
Cash and Bank Balances	19	17.82	44.49
Short-term Loans and Advances	15	189.10	212.15
Other Current Assets	16	116.76	129.30
		2,211.98	2,180.82
TOTAL		4,254.30	4,273.47
Significant Accounting Policies	2		

The accompanying notes form an integral part of the Financial Statements.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 3, 2012.

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Sarada Bhamidipati
Company Secretary

Nadeem Panjetan
Director

P.V. Maiya
Director

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2012

₹ in Million

Particulars	Notes	Year ended March 31, 2012	Year ended March 31, 2011
INCOME			
Revenue from Operations (Net)	20	**4,482.34**	3,967.95
Other Income	21	**17.00**	24.64
TOTAL		**4,499.34**	3,992.59
EXPENDITURE			
Cost of Raw Materials Consumed	22	**2,898.63**	2,530.80
Increase in Inventories of Work-in-Process			
and Finished Goods	23	**(51.63)**	(31.71)
Employee Benefits Expense	24	**307.83**	260.60
Manufacturing Expenses	25	**384.88**	333.51
Finance Costs	26	**332.74**	298.37
Depreciation and Amortization Expense	11 & 12	**149.73**	154.92
Less: Adjusted against Revaluation Reserve		**0.82**	0.81
		148.91	154.11
Other Expenses	27	**476.16**	399.96
TOTAL		**4,497.52**	3,945.64
PROFIT BEFORE TAX		**1.82**	46.95
Tax Expense			
Current Tax		**1.25**	9.40
Deferred tax		**(18.50)**	–
MAT credit entitlement		**(1.25)**	(9.40)
Excess provision for income tax no longer required		**–**	(3.74)
		(18.50)	(3.74)
PROFIT AFTER TAX		**20.32**	50.69
Earnings per Share			
Basic Earnings per Share (₹)		**3.77**	9.39
Diluted Earnings per Share (₹)		**3.76**	9.38
Face Value per Share (₹)		**10.00**	10.00
Significant Accounting Policies	2		

The accompanying notes form an integral part of the Financial Statements.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 3, 2012.

For and on behalf of the Board

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Director

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Company Secretary

Nadeem Panjetan
Director

P.V. Maiya
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2012

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Tax	**1.82**	46.95
Adjustments for		
Depreciation/Amortization	**148.91**	154.11
Interest Expenses	**275.78**	240.93
Unrealised Foreign Exchange	**2.14**	0.22
Loss on sale of Fixed Assets	**0.26**	0.09
Provision for Gratuity and Leave Encashment	**11.37**	13.04
Provision for Doubtful Debts	**4.42**	9.19
Operating Profit before Working Capital Changes	**444.70**	464.53
Add/Less: Working Capital Changes		
Trade Receivables	**55.36**	(285.57)
Inventories	**(125.02)**	(79.91)
Loans & Advances	**69.13**	(74.55)
Trade Payables	**52.87**	301.29
Cash flow from operating activities	**497.04**	325.79
Less: Income Tax Paid	**(4.80)**	(3.95)
Net cash from operating activities (A)	**492.24**	321.84
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets including Work-in-Progress	**(53.50)**	(81.88)
Proceeds from sale of Fixed Assets	**1.35**	1.14
Net cash used in investing activities (B)	**(52.15)**	(80.74)
CASH FLOW FROM FINANCING ACTIVITIES		
Share Application Money Received	**0.24**	–
Proceeds from Inter Corporate Deposits	**30.00**	22.50
Increase in Bank Borrowings	**39.01**	224.85
Proceeds from Long-term Loans	**153.75**	–
Repayments of Long-term Borrowings	**(368.27)**	(259.70)
Increase in Unsecured Loans	**(17.94)**	17.94
Interest paid	**(273.75)**	(248.13)
Net cash used in financing activities (C)	**(436.96)**	(242.54)
Net increase/(decrease) in cash & cash equivalents (A+B+C)	**3.13**	(1.44)
Opening balance of cash & cash equivalents	**11.32**	12.76
Closing balance of cash & cash equivalents	**14.45**	11.32
(Refer Note 19 for the details of cash and cash equivalents)		

Per our report attached

For and on behalf of the Board

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 3, 2012.

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Director

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Director

Sarada Bhamidipati
Company Secretary

Nadeem Panjetan
Director

P.V. Maiya
Director

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2012

1. CORPORATE INFORMATION

Neuland Laboratories Limited ('the Company') is a public company domiciled in India and incorporated under the provisions of the Companies Act, 1956. Its shares are listed on two stock exchanges in India. The Company is engaged in the manufacturing and selling of bulk drugs. The Company caters to both domestic and international markets.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of accounting and use of estimates

i. Financial statements are prepared under the historical cost convention, on accrual basis of accounting in accordance with the accounting principles generally accepted in India and in compliance with the provisions of Companies Act, 1956 and comply with the mandatory accounting standards specified in Companies (Accounting Standard) Rules, 2006 prescribed by the central government.

ii. Till the year ended March 31, 2011 the Company was using pre-revised Schedule VI to the Companies Act, 1956 for preparation and presentation of its financial statements. During the year ended March 31, 2012 the revised Schedule VI notified under the Companies Act, 1956, has become applicable to the Company. The Company has reclassified previous year numbers to conform to this year's classification. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of the financial statements. However, it significantly impacts the presentation and disclosure made in the financial statements, particularly presentation of balance sheet.

iii. The preparation of financial statements, in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

B. Revenue recognition

i. Sales are recognized on dispatch of products. Sales are inclusive of insurance, freight and exclusive of sales tax.

ii. The export incentive are accrued and accounted on the basis of the actual exports made during the year.

iii. Income from product development services are recognized when services are rendered or related costs are incurred in accordance with the terms of specific contracts.

C. Excise duty

Excise duty recovered is reduced from sale of products. Excise duty in respect of finished goods is accounted for, as and when goods are cleared from the factory and stocks of finished goods are valued inclusive of excise duty where applicable.

D. Fixed assets

i. Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and impairment losses. Cost of acquisition or construction is inclusive of freight, duties (net of CENVAT and VAT), taxes, incidental expenses relating to acquisition, cost of installation/erection, attributable interest and financial cost till such time assets are ready for its intended use.

ii. Foreign exchange gain/loss on borrowings for acquisition/construction of fixed assets have been reduced from/added to the related costs of assets with effect from April 1, 2007 as per Ministry of Corporate Affairs notification dated March 31, 2009 in amendment of accounting standards.

iii. Certain land, buildings, plant & machinery and fixed assets are shown at re-valued values. Other fixed assets are shown at cost.

iv. Depreciation on fixed assets is provided on Straight Line Method at the rates prescribed by Schedule XIV of the Companies Act, 1956 as amended, and is calculated on a pro-rata basis. Depreciation is charged on pro rata basis for assets purchased/sold during the year. Depreciation on value written up on revalued assets is calculated on SLM basis with reference to the remaining useful life of the asset and the revaluation reserve is charged with the difference between the depreciation calculated on such revalued costs and the historical cost.

v. Borrowing costs that are attributable to the acquisition or construction of fixed assets are capitalized as part of such assets for the period up to the date of put to use. All other borrowing costs are charged to revenue.

vi. Expenses on Research & Development equipment are capitalized.

vii. Intangibles being cost of SAP ERP and software are amortized over a period of three years.

E. Impairment of assets

In accordance with Accounting Standard 28 (AS 28) on 'Impairment of Assets,' where there is an indication of impairment of the Company's assets, the carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any impairment based on internal/external factors. An impairment loss, if any, is recognized in the statement of profit and loss, wherever the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of the assets is estimated at the higher of its net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life. Previously recognized impairment loss is further provided or reversed depending on changes in circumstances.

F. Investments

Long term Investments are carried at cost. However, provision for diminution in value, if any, is made to recognize a decline other than temporary in the value of investments.

G. Foreign currency transactions

i. Transactions in foreign exchange are accounted for at the average exchange rate for the month of transaction. Foreign currency monetary items are reported using exchange rates prevailing at the close of the year and exchange difference arising there from is charged/credited to the Statement of Profit and Loss. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

ii. The premium or discount arising at the inception of forward exchange contracts is amortized as expense or income over the life of the contract. Exchange differences on such contracts are recognized in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the year.

iii. In case of fixed assets, refer D (ii) above.

H. Inventories

Inventories are valued at lower of cost and estimated net realizable value, after providing for cost of obsolescence and other anticipated loss whenever considered necessary. Work-in-process is valued at estimated cost on the basis of stage wise completion of the production. Finished goods and work in process include cost of conversion and other costs incurred in bringing the inventories to their present level of location and condition. Cost is determined by using the weighted average basis. Cost of finished goods includes excise duty, wherever applicable.

I. Taxation

Provision for current tax is made after taking into consideration benefits admissible under the provisions of Income Tax Act, 1961. Deferred tax resulting from 'timing differences' between book and taxable profit is accounted for using the tax rates and laws that have been enacted or substantively enacted as on the balance sheet date. The deferred tax assets pertaining to carried forward losses and unabsorbed depreciation are recognized only to the extent that there is a virtual certainty that these assets are realized. The deferred tax assets pertaining to other items are recognized to the extent that there is a reasonable certainty that the same can be realized.

J. Employee Stock Option Schemes (ESOS)

The Company accounts for compensation expense under the Employee Stock Option Schemes using the intrinsic value method as permitted by the Guidance Note on 'Accounting for Employee Share-based Payments' issued by the Institute of Chartered Accountants of India. The difference between the market price and the exercise price as at the date of the grant is treated as compensation expense and charged over the vesting period.

K. Earnings per Share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

L. Employee Benefits

i. Defined Contribution Plan

The Company's Employee's Provident Fund administered through Government Provident Fund, Employee State Insurance Scheme and Labour Welfare Fund are considered as Defined Contribution Plans. The Company's contributions paid/payable towards these defined contributions plan are recognized as expense in the Statement of Profit and Loss during the period in which the employee renders the related service. The interest rate payable by the said funds to the beneficiaries every year is being notified by the Government. The Company has no obligation to make good the shortfall, if any between the return from the investment and the interest rate.

ii. Defined Benefit Plan

Company's liabilities towards gratuity, long term compensated absences are considered as Defined Benefit Plans. The present value of the obligations under such Defined Benefit Plans are determined based on actuarial valuation using the projected unit credit method, which recognizes each period of service as giving rise to an additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. Actuarial gains and losses are recognized immediately in the statement of profit and loss. The obligation is measured at the present value of estimated future cash flows using a discount rate that is determined by reference to market yields at the balance sheet date on Government securities.

M. Leases

Lease payments under operating lease are recognized as an expense in the Statement of Profit and Loss on a straight-line basis over the lease term.

N. Contingencies and Provisions

A provision is recognized when the Company has a present obligation as a result of past events. Provisions are not discounted to present value and are determined based on the best estimate of the expenditure required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Contingent liabilities are disclosed after careful examination of the facts and legal aspects of the matter involved.

₹ in Million

Particulars		As on March 31, 2012	As on March 31, 2011
3. SHARE CAPITAL			
AUTHORISED			
10,000,000	Equity Shares of ₹10 each	100.00	100.00
300,000	Cumulative Redeemable Preference Shares of ₹100 each	30.00	30.00
300,000	Preference Shares of ₹100 each either cumulative or non-cumulative and redeemable or otherwise	30.00	30.00
		160.00	160.00
ISSUED			
5,590,000	Equity Shares of ₹10 each, fully paid	55.90	55.90
	(March 31, 2011 - 5,590,000 Equity Shares of ₹10 each)		
SUBSCRIBED CAPITAL			
5,499,731	Equity Shares of ₹10 each	55.00	55.00
	(March 31, 2011 - 5,499,731 Equity Shares of ₹10 each)		
PAID UP CAPITAL			
5,396,455	Equity Shares of ₹10 each fully paid up	53.96	53.96
	(March 31, 2011 - 5,396,455 Equity Shares of ₹10 each)		
	Add: Forfeited Shares		
	103,276 Forfeited Equity Shares of ₹10 each	0.71	0.71
	(March 31, 2011 - 103,276 Equity Shares of ₹10 each)		
	(Amount originally paid up)		
TOTAL		54.67	54.67
a. Reconciliation of number of equity shares outstanding at the beginning and at the end of the year			
Number of equity shares outstanding at the beginning of the year		5,396,455	5,396,455
Number of equity shares outstanding at the end of the year		5,396,455	5,396,455

b. Terms/Rights attached to equity shares

The Company has only one class of equity shares having par value of ₹10 per share. Each shareholder of equity shares is entitled to one vote per share. The Company declares and pays dividend in Indian Rupees. The dividend proposed by the Board of Directors is subject to prior consent from the banks and approval of the shareholders in the ensuing Annual General Meeting.

In the event of liquidation of the Company, the holders of the equity shares will be entitled to receive remaining assets of the Company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholder.

c. Details of shareholders holding more than 5% shares in the Company

Name of the Shareholder	As on March 31, 2012		As on March 31, 2011	
	No. of Shares	% of Holding	No. of Shares	% of Holding
Equity Shares of ₹10 each fully paid up				
i. Unipharm Limited	820,000	15.20	820,000	15.20
i. Dr. Davuluri Rama Mohan Rao	704,913	13.06	704,913	13.06
iii. Sucheth and Saharsh Holdings Private Limited	651,011	12.06	392,011	7.26
iv. Permex Investment Holding Company Limited*	–	–	270,000	5.00

* As on March 31, 2012, Permex Investment Holding Company Limited holds less than 5% of the total shareholding in the Company.

SHARE CAPITAL (Contd.)

d. Employee Stock Option Scheme - 2008

Pursuant to the resolution passed by the Board of Directors on July 20, 2007 and members of the Company at the Annual General Meeting held on July 20, 2007, the Company had introduced Employee Stock Option Scheme ('the scheme') for permanent employees and directors of the Company and of its subsidiaries, as may be decided by the Compensation Committee/Board. The scheme provides that the total number of options granted there under will be not more than 3% of the paid up capital. Each option, on exercise, is convertible into one equity share of the company having face value of ₹10. Pursuant to a resolution passed by the Remuneration & Compensation Committee vide Circular Resolution dated November 17, 2008, 34,500 options have been granted at an exercise price of ₹104, which is the market price as on the date of the grant. Accordingly, the Company has not recognized any expense on account of grant of stock options.

Stock options activity under the scheme is as follows:

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Option outstanding at the beginning of the year	23,000	29,000
Options granted	–	–
Options exercised	–	–
Options lapsed	4,000	6,000
Options outstanding at the year end	19,000	23,000

Pursuant to the Rights Issue, the Company is in the process of adjusting the number of options and/or exercise price.

4. RESERVES AND SURPLUS

₹ in Million

Particulars	As on March 31, 2012	As on March 31, 2011
Capital Reserve	0.33	0.33
Securities Premium Account	360.54	360.54
Revaluation Reserve		
Balance as per last financial statements	11.99	12.80
Less: Depreciation on revalued assets	0.82	0.81
	11.17	11.99
General Reserve	241.91	241.91
Surplus		
Balance as per last financial statements	61.84	11.15
Profit for the year	20.32	50.69
Net surplus	82.16	61.84
TOTAL	696.11	676.61

₹ in Million

5. SHARE APPLICATION MONEY

As on March 31, 2012, the Company is in the process of issuing 2,248,523 equity shares of a face value of ₹10 each for cash at a price of ₹45 per equity share, including a Share Premium of ₹35 per equity share, aggregating to ₹101.18 million to the existing equity shareholders of the company on a rights basis in the ratio of 5:12 as on the Record Date i.e. March 23, 2012. The Issue opened on March 31, 2012 and closed on April 16, 2012. The Company has sufficient authorized share capital to cover the share capital amount on allotment of shares out of the Rights Issue.

The Share Application Money represents the collection received from the shareholders as on March 31, 2012. Since the Issue was open on March 31, 2012, the refundable portion of the Share Application Money is not identifiable as on the date of Balance Sheet.

Subsequently, the Rights Issue has been subscribed fully and 2,248,523 equity shares of a face value of ₹10 each have been allotted on April 27, 2012 to the eligible shareholders as per the Basis of Allotment approved by the designated stock exchange.

The Company has incurred the expenses in relation to Rights Issue activity which have been accounted for as 'Rights Issue Expenses' and grouped under Other Current Assets. These expenses will be charged to the securities premium account proposed to be received from the Rights Issue of the equity shares of the Company. The details of expenses incurred as on March 31, 2012 are as below:

Particulars	As on March 31, 2012	As on March 31, 2011
Professional Charges*	3.96	–
Printing Charges	0.25	–
Advertisement	0.30	–
Filing Fees	0.03	–
TOTAL	4.54	–

* Includes auditors' remuneration of ₹0.91 million (March 31, 2011: ₹Nil)

6. LONG-TERM BORROWINGS

Particulars	Non-current Portion		Current Maturities	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
TERM LOANS FROM BANKS				
Foreign Currency Loans (secured)	86.65	147.21	84.12	87.14
Rupee Loans (secured)	469.28	557.09	227.70	186.20
OTHER LOANS				
Hire Purchase Loans (secured)	3.07	11.49	9.50	8.61
TOTAL	559.00	715.79	321.32	281.95
The above amounts include				
Secured Borrowings	559.00	715.79	321.32	281.95
Amount disclosed under other head 'Other Current Liabilities' (Refer Note 10)	–	–	(321.32)	(281.95)

₹ in Million

LONG-TERM BORROWINGS (Contd.)

DETAILS OF LONG-TERM BORROWINGS

a. Term Loans

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
Bank of India	**19.91**	50.71	1% above BPLR	Repayable in 48 equal installments of ₹2.50 million each commencing from one (1) month after disbursement (i.e. from November 2008). Interest to be serviced separately every month, as and when applied.	First *pari passu* charge on fixed assets. Guarantees by Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
Bank of India	**204.50**	270.62	0.050% below BPLR	Repayable in 20 quarterly installments of ₹15.8 million each commencing from twenty four (24) months after first disbursement (i.e. commencing quarter ending June 2010, with last installment payable in March 2015). Interest during moratorium period to be serviced as and when applied.	First *pari passu* charge by way of mortgage and hypothecation over all fixed assets (excluding specifically charged assets) of the Company, both present and future. Second *pari passu* charge on entire current assets of the Company, both present and future. Guarantees by Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
Export-Import Bank of India	**150.00**	214.88	PLR minus 1.5% payable monthly	Repayable in 20 equal quarterly installments of ₹15 million each commencing from the date of first disbursement (i.e. commencing from quarter ended December 2009).	First *pari passu* charge by way of mortgage and hypothecation over all fixed assets (excluding of assets that are specifically charged), both present and future, of the Company. Second *pari passu* charge on entire current assets of the Company, both present and future. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
State Bank of India	**102.42**	131.75	1.50% above SBAR	Monthly installments of • ₹0.15 million each for the period April 2010 till March 2011 • ₹2.65 million each for the period April 2011 till March 2012	*Pari passu* first charge (Hypothecation) on fixed assets and equitable mortgage of land and buildings along with other term lenders situated at Sy. No. 347, 474, 488, 489 and 490 Bonthapally to the extent of 10.48 acres, at Nanakramguda to the extent of 5 acres and at Plot No. 92, 93, 94, 257 and 258 to the extent of 9.17 acres at Pashamylaram.

(Contd.)

₹ in Million

Term Loans (Contd.)

Particulars	**Amount outstanding as on March 31, 2012**	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
				• ₹2.70 million each for the period April 2012 till March 2013 • ₹2.70 million each for the period April 2013 till March 2014 • ₹2.80 million each for the period April 2014 till March 2015	*Pari passu* second charge (Hypothecation) on the current assets of the Company. Second charge on pledge of 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao (first charge for the working capital limits). Lien on fixed deposits of ₹2.50 million. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.
State Bank of India	**73.53**	75.33	1.50% above SBAR	Monthly installments of: • ₹0.15 million each for the period April 2011 till March 2012 • ₹0.40 million each for the period April 2012 till March 2013 • ₹2 million each for the period April 2013 till March 2014 • ₹2.40 million each for the period April 2014 till March 2015 • ₹2.40 million each for the first 11 months of the period April 2015 till March 2016 and ₹2.20 million for the last installment.	*Pari passu* first charge (Hypothecation) on fixed assets and equitable mortgage of land and buildings along with other term lenders situated at Sy. No. 347, 474, 488, 489 and 490 Bonthapally to the extent of 10.48 acres, at Nanakramguda to the extent of 5 acres and at Plot No. 92, 93, 94, 257 and 258 to the extent of 9.17 acres at Pashamylaram. *Pari passu* second charge (Hypothecation) on the current assets of the Company. Second charge on pledge of 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao (first charge for the working capital limits). Lien on fixed deposits of ₹2.50 million. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.

₹ in Million

Term Loans (Contd.)					
Particulars	**Amount outstanding as on March 31, 2012**	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
State Bank of India	**–**	10.09	SBAR at the time of sanction. Interest reset to 7.25% above base rate as per revised sanction letter dated April 20, 2011	Repayable in 16 quarterly installments of ₹5 million each commencing from October 2007	*Pari passu* first charge on present and future fixed assets of the Company. *Pari passu* first charge on lease hold rights on 2 acres of land situated at S.No.490/1, Bonthapally Village, Jinnaram Mandal belonging to M/s. Sucheth & Saharsh Holdings Private Limited. *Pari passu* second charge on Company's current assets. *Pari passu* second charge on pledge of one lakh equity shares of Dr. D.R.Rao (first charge with the working capital bankers on pari passu basis) *Pari passu* charge on 2 acres of land situated at S.No.490/1, Bonthapally Village, Jinnaram Mandal belonging to Sucheth & Saharsh Holdings Private Limited. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.
Export-Import Bank of India	**170.77**	224.26	LIBOR (6 months) + 500 bps	Repayment in 20 quarterly installments of US$ 0.42 million each commencing from April 2009	First *pari passu* charge by way of mortgage and hypothecation over all immoveable properties and moveable fixed assets of the Company, both present and future, excluding assets of approx. ₹12.10 million that are specifically charged to TIFAC. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
State Bank of India	**71.62**	–	7.75% above base rate	Repayable in 36 monthly installments of ₹4.15 million each commencing from January 2012	*Pari passu* first charge on Company's fixed assets. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.

₹ in Million

Term Loans (Contd.)					
Particulars	**Amount outstanding as on March 31, 2012**	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
Export-Import Bank of India	**75.00**	–	LTMLR plus 250 bps and LTMLR will be reset every 3 months	Repayable in 20 quarterly installments of ₹5 million each with 24 months moratorium from the date of first drawal i.e. September 2011	First *pari passu* charge by way of mortgage and hypothecation over all fixed assets (excluding assets that are specifically charged) of the Company, both present and future. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
TOTAL	**867.75**	977.64			

Note: Some of the secured lenders have the right to convert their debt into equity, at a time felt appropriate by the lender, at a mutually acceptable formula.

Details of continuing default in repayment of principal dues on term loans as on March 31, 2012

Name of the Bank	Nature of repayment	₹ (in Million)	Due date	Days of continuing default
Bank of India	Principal	15.80	March 29, 2012	2
Bank of India	Interest	2.39	March 31, 2012	-

b. Hire Purchase Loans

Name of the Bank	**Amount outstanding as on March 31, 2012**	Amount outstanding as on March 31, 2011	Rate of Interest (%)	Repayment terms	Securities offered
Axis Bank Limited, Kotak Mahindra Prime Limited and Bank of India	**6.89**	10.69	4.75 to 12.50	36 equal monthly installments	Hypothecation of the vehicle
First Leasing Company of India Limited	**5.68**	9.41	11.75	36 equal monthly installments commencing from August 2010	Hypothecation of the machinery
TOTAL	**12.57**	20.10			

7. PROVISIONS

Particulars	**Long-term**		Short-term	
	As on March 31, 2012	As on March 31, 2011	**As on March 31, 2012**	As on March 31, 2011
Provision for Income Tax	**–**	–	**25.23**	23.98
Provision for Wealth Tax	**–**	–	**0.25**	0.21
Provision for Gratuity	**36.13**	24.22	**1.51**	2.92
Provision for Leave Encashment	**2.36**	2.44	**8.66**	8.81
Provision for Mark-to-Market losses on Forward Contracts	**–**	–	**18.70**	–
TOTAL	**38.49**	26.66	**54.35**	35.92

₹ in Million

Particulars	As on March 31, 2012	As on March 31, 2011
8. SHORT-TERM BORROWINGS		
Working Capital Finance from Banks (Secured)	**1,176.41**	1,108.60
Working Capital Finance from Non-Banking Financial Company (Secured)	**91.42**	189.58
Inter Corporate Deposit from Related Party (Unsecured)	**52.50**	22.50
Short Term Loans (Unsecured)		
From Banks	**–**	1.04
From Others	**–**	17.94
TOTAL	**1,320.33**	1,339.66
The above amounts includes		
Secured Borrowings	**1,267.83**	1,298.18
Unsecured Borrowings	**52.50**	41.48
	1,320.33	1,339.66

a. Working Capital Finance From Banks

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
State Bank of India - Cash Credit, Packing Credit, Foreign Bill discounting	**817.15**	799.82	6.75% above Base rate for Cash Credit Interest rate as applicable to Export Finance for Packing Credit and Bill Discounting	Repayable on demand	*Pari passu* first charge by way of hypothecation on current assets of the Company (other than receivables with SBI Global Factors Limited) *Pari passu* second charge on Company's fixed assets. *Pari passu* charge on 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao. *Pari passu* second charge on the shares of Andhra Pradesh Gas Power Corporation Limited ('APGCL') subordinate to the first charge created in favour of APGCL. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.
Indian Overseas Bank - Cash Credit, Packing Credit, Foreign Bill Discounting	**84.57**	89.93	Base Rate+4% and SBI rate whichever is higher Interest rate on packing credit and bill discounting as applicable	Repayable on demand	*Pari passu* first charge on all the chargeable current assets including hypothecation of stocks and receivables on pari passu basis. First *pari passu* charge on current assets of the Company including hypothecation of stocks in cash of packing credit and documents of the title of goods/accepted hundies. *Pari passu* second charge on Company's fixed assets. *Pari passu* charge on 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao. *Pari passu* charge on the 402,000 shares of APGCL. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.

₹ in Million

Working Capital Finance From Banks (Contd.)					
Particulars	**Amount outstanding as on March 31, 2012**	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
Bank of India - Cash Credit, Packing Credit, Foreign Bill Discounting	**274.69**	183.22	1% above BPLR Interest rate as applicable for export credit	Repayable on demand	First *pari passu* charge on current assets of the Company. *Pari passu* second charge on fixed assets of the Company. *Pari passu* second charge on the shares of APGCL. Pledge of 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.
Bank of India - Loan against Term Deposits	**–**	35.63	8.75%	Repayable on demand	Lien on the Term Deposits
TOTAL	**1,176.41**	1,108.60			

b. Working Capital Finance From Non-Banking Financial Company

Particulars	**Amount outstanding as on March 31, 2012**	Amount outstanding as on March 31, 2011	Rate of Interest (%)	Repayment terms	Securities offered
SBI Global Factors Limited	**91.42**	189.58	LIBOR + 650 bps	Repayable on due dates of the invoices factored.	*Pari passu* first charge by way of hypothecation on all assets of the Company, present and future.
					Pari passu second charge on fixed assets of the Company.
					Pledge of 100,000 unencumbered equity shares of the Company owned by Dr. D.R. Rao.
TOTAL	**91.42**	189.58			

c. Inter Corporate Deposit from Related Party

Particulars	**Amount outstanding as on March 31, 2012**	Amount outstanding as on March 31, 2011	Rate of Interest (%)	Repayment terms	Securities offered
Sucheth and Saharsh Holdings Private Limited	**52.50**	22.50	16	Repayable on demand	N.A.
TOTAL	**52.50**	22.50			

₹ in Million

Particulars	As on March 31, 2012	As on March 31, 2011
9. TRADE PAYABLES		
Trade Payables	**1,106.69**	1,043.46
TOTAL	**1,106.69**	1,043.46
10. OTHER CURRENT LIABILITIES		
Current Maturities of Long-term Borrowings (Refer Note 6)	**321.32**	281.95
Advance from Customers	**6.17**	45.91
Due to Subsidiaries	**13.78**	4.50
Employee Related Liabilities	**41.85**	21.67
Statutory dues	**13.49**	12.12
Interest accrued but not due	**2.88**	3.72
Interest accrued and due	**2.39**	–
Export Incentive obligation	**2.69**	1.11
Unclaimed Dividends	**0.63**	0.69
Investor Education and Protection Fund	**–**	0.07
Others	**19.22**	8.96
TOTAL	**424.42**	380.70

11. TANGIBLE ASSETS

Particulars	Gross Block					Depreciation/Amortization					Net Block	
	Cost as on 31.03.2011	Additions	Deductions	Adjustments*	Cost as on 31.03.2012	Upto 31.03.2011	For the year	Deductions	Adjustments	Upto 31.03.2012	As on 31.03.2012	As on 31.03.2011
Land	27.99	–	–	–	**27.99**	–	–	–	–	**–**	**27.99**	27.99
Buildings	579.11	3.81	–	4.75	**587.67**	104.64	19.28	–	0.13	**124.05**	**463.62**	474.47
Plant and Equipment	1,573.35	41.88	–	5.42	**1,620.65**	661.87	106.48	–	0.58	**768.93**	**851.72**	911.48
R&D Equipment	134.44	–	–	16.41	**150.85**	40.74	10.13	–	1.71	**52.58**	**98.27**	93.70
Data Processing Machines	30.90	1.92	–	–	**32.82**	18.75	3.07	–	–	**21.82**	**11.00**	12.15
Furniture and Fixtures	34.73	0.30	–	0.12	**35.15**	9.49	2.04	–	–	**11.53**	**23.62**	25.24
Vehicles	53.43	5.44	(2.24)	–	**56.63**	18.66	4.29	(1.15)	–	**21.80**	**34.83**	34.77
TOTAL	2,433.95	53.35	(2.24)	26.70	**2,511.76**	854.15	145.29	(1.15)	2.42	**1,000.71**	**1,511.05**	1,579.80
March 31, 2011	2,328.91	114.05	(4.27)	(4.74)	**2,433.95**	704.66	152.97	(3.05)	(0.43)	**854.15**	**1,579.80**	

*Note: 1. The Company had opted to adopt the amendment to the Companies (Accounting Standards) Rules, 2006 effected by a notification dated March 31, 2009 issued by Ministry of Corporate Affairs, Government of India (applicability extended till March 31, 2020). Pursuant to this adoption, for the year ended March 31, 2012, an amount of (₹26.70 million) (March 31, 2011: ₹4.74 million) being foreign exchange fluctuations gain/(loss) pertaining to foreign currency loan availed for acquisition of depreciable capital assets is adjusted to the cost of such assets.

2. Fixed assets include vehicles and machinery acquired under Hire Purchase Agreement amounting to ₹44.96 million as on March 31, 2012 (March 31, 2011: ₹52.52 million). The hire purchase charges have been charged to Statement of Profit and Loss. The hire purchase installment due within one year is ₹9.50 million (March 31, 2011: ₹12.62 million).

₹ in Million

12. INTANGIBLE ASSETS

Particulars	Gross Block					Depreciation/Amortization					Net Block	
	Cost as on 31.03.2011	Additions for the period	Deductions	Adjustments	Cost as on 31.03.2012	Upto 31.03.2011	For the period	Deductions	Adjustments	Upto 31.03.2012	As on 31.03.2012	As on 31.03.2011
Process Development Cost	16.87	–	–	–	**16.87**	16.87	–	–	–	**16.87**	**–**	–
Computer Software – SAP	11.37	0.71	–	–	**12.08**	8.17	2.02	–	–	**10.19**	**1.89**	3.20
TOTAL	28.24	0.71	–	–	**28.95**	25.04	2.02	–	–	**27.06**	**1.89**	3.20
March 31, 2011	25.77	2.47	–	–	**28.24**	22.66	2.38	–	–	**25.04**	**3.20**	

13. NON-CURRENT INVESTMENTS (UNQUOTED - AT COST)

Particulars	As on March 31, 2012	As on March 31, 2011
A. Trade Investments		
Investments in Shares Debentures & Bonds		
a. Jeedimetla Effluent Treatment Limited	**0.22**	0.22
2,200 Equity Shares of ₹100 each fully paid		
(March 31, 2011 - 2,200 Equity Shares of ₹100 each fully paid)		
b. Pantancheru Enviro-Tech Ltd	**2.09**	2.09
209,136 Equity Shares of ₹10 each fully paid		
(March 31, 2011 - 209,136 Equity Shares of ₹10 each fully paid)		
c. Andhra Pradesh Gas Power Corporation Limited	**70.40**	70.40
402,000 Equity Shares of ₹10 each fully paid		
(March 31, 2011 - 402,000 Equity Shares of ₹10 each fully paid)		
Investment in Subsidiaries		
a. Neuland Laboratories K.K., Japan	**1.54**	1.54
300,000 Equity Shares of Yen 10 each fully paid		
(March 31, 2011 - 300,000 Equity Shares of Yen 10 each fully paid)		
b. Neuland Laboratories Inc., USA	**0.05**	0.05
1,000 Equity shares of US$ 1 each fully paid		
(March 31, 2011 - 1,000 Equity Shares of US$ 1 each fully paid)		
c. CATO Research Neuland India Private Limited	**1.22**	1.22
35,000 Equity Shares of ₹10 each fully paid and		
872,193 Equity Shares of ₹10 each, ₹1 paid up		
(March 31, 2011 - 35,000 Equity Shares of ₹10 each fully paid		
and 872,193 Equity Shares of ₹10 each, ₹1 paid up)		
B. Non-Trade Investments		
Investment in government securities	**0.15**	0.15
SBI Mutual Fund		
100,000 units of ₹10 each	**1.00**	1.00
(March 31, 2011 - 100,000 units of ₹10 each)		
TOTAL	**76.67**	76.67

₹ in Million

14. DEFERRED TAX ASSET

Particulars		As on March 31, 2012	As on March 31, 2011
Deferred Tax Liabilities			
Depreciation difference		46.79	60.13
Capital expenditure		175.48	172.87
	(A)	222.27	233.00
Deferred Tax Assets			
Unabsorbed depreciation and loss		230.36	214.77
Provisions		12.07	14.64
Inventory		18.50	18.95
	(B)	260.93	248.36
Net Deferred Tax Assets	(B-A)	38.66	15.36

As at March 31, 2012 and March 31, 2011, as a result of carried forward losses the deferred tax calculations result into a Deferred Tax Asset (DTA). The Company has recognized the DTA of ₹18.50 million based on virtual certainty of profits in the next quarter backed by profitable binding orders on hand.

15. LOANS AND ADVANCES (Unsecured, Considered Good)

Particulars	Long-term		Short-term	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
Security Deposits	27.54	21.81	–	–
Advances to Related Party - Subsidiaries	1.77	1.54	3.18	1.83
[Refer Note 29 (c)]				
Balances with Central Excise	–	–	19.34	57.55
Advance to Suppliers	–	–	9.13	11.11
Advances recoverable in cash or in kind or for				
value to be received	27.50	27.55	129.45	119.71
Advance Payment against Taxes - Income Tax	–	–	28.00	21.95
TOTAL	56.81	50.90	189.10	212.15

16. OTHER ASSETS

Particulars	Non-current		Current	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
Interest Accrued on Deposits	9.40	9.13	0.67	0.66
Export Benefits Receivable	–	–	103.44	128.64
Unamortized premium on forward contracts	–	–	8.11	–
Rights Issue Expenses (Refer Note 5)	–	–	4.54	–
Cash and Bank Balances (Refer Note 19)	96.51	100.38	–	–
TOTAL	105.91	109.51	116.76	129.30

₹ in Million

17. INVENTORIES

Particulars	As on March 31, 2012	As on March 31, 2011
Raw Materials	300.47	253.83
[Includes Goods-in-Transit of ₹5.85 million (March 31, 2011: ₹2.94 million)]		
Work in process	89.57	82.44
Finished Goods	484.75	424.19
[Includes Goods-in-Transit of ₹16.06 million (March 31, 2011: ₹Nil)]		
Stores and Consumables	49.39	38.70
TOTAL	924.18	799.16

18. TRADE RECEIVABLES

Particulars	As on March 31, 2012	As on March 31, 2011
Trade Receivables (Unsecured unless stated otherwise)		
Outstanding for a period exceeding six months from the date they are due for payment		
Considered Good	81.07	81.07
Considered Doubtful	24.26	24.81
	105.33	105.88
Less: Provision for doubtful receivables	24.26	24.81
	81.07	81.07
Others - Considered Good	883.05	914.65
TOTAL	964.12	995.72

19. CASH AND BANK BALANCES

Particulars	Non-current		Current	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
CASH AND CASH EQUIVALENTS				
Balances with Scheduled Banks				
- On Current Accounts	–	–	14.29	11.11
Cash on Hand	–	–	0.16	0.21
	–	–	14.45	11.32
Other Bank Balances				
- On Unpaid Dividend Account	–	–	0.63	0.67
- Share Application				
- Money in Escrow Account	–	–	0.24	–
- Fixed Deposit Accounts with original maturity of more than 3 months and less than 12 months	–	–	2.50	32.50
- Fixed Deposit Accounts against Margin Money (Lien with banks against Letters of Credit issued)	96.51	100.38	–	–
	96.51	100.38	17.82	44.49
Amount disclosed under other head 'Other Non–Current Assets' (Refer Note 16)	(96.51)	(100.38)	–	–
TOTAL	–	–	17.82	44.49

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
20. REVENUE FROM OPERATIONS		
Sale of Products		
Finished Goods	4,540.50	4,017.64
Revenue from Operations (Gross)	4,540.50	4,017.64
Less: Excise Duty	58.16	49.69
Revenue from Operations (Net)	4,482.34	3,967.95
Details of Revenue		
Sale of Products		
Bulk Drugs	4,073.73	3,692.66
Intermediates	129.96	136.06
Others	278.65	139.23
TOTAL	4,482.34	3,967.95
21. OTHER INCOME		
Interest Income	9.45	9.03
Miscellaneous Income	7.55	1.02
Foreign Exchange Gain (Net)	–	14.59
TOTAL	17.00	24.64
22. COST OF RAW MATERIALS CONSUMPTION		
Inventory at the beginning of the year	250.89	210.24
Add: Purchases	2,942.36	2,571.45
	3,193.25	2,781.69
Less: Inventory at the end of the year	294.62	250.89
TOTAL	2,898.63	2,530.80
Details of Raw Materials Consumed		
Consumption of Raw Materials		
Cipro Q Acid	862.13	1,137.99
Ranitidine (Wet)	77.89	29.24
Piperazine Anhydrous	296.28	371.34
1-Methyl 3-Phenyl Piperazine	63.46	33.17
ECPA	60.76	82.95
(1S, 3S, 5S) Benzyl Ester Hydrochloride	44.57	41.31
(S)+2-Aminobutyramide - HCL	89.05	28.04
Others	1,404.49	806.76
TOTAL	2,898.63	2,530.80

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
23. (INCREASE)/DECREASE IN INVENTORIES OF WORK-IN-PROCESS AND FINISHED GOODS		
Inventory at the beginning of the year		
Finished Goods	424.19	402.58
Work-in-Process	82.44	72.34
	506.63	474.92
Inventory at the end of the year		
Finished Goods	468.69	424.19
Work-in-Process	89.57	82.44
	558.26	506.63
TOTAL	(51.63)	(31.71)
Details of Finished Goods Stock		
Opening Stock		
Bulk Drugs	135.41	145.34
Intermediates	288.78	257.24
Closing Stock		
Bulk Drugs	118.79	135.41
Intermediates	349.90	288.78
24. EMPLOYEE BENEFITS EXPENSE		
Salaries, Wages and Bonus	271.11	224.89
Contribution to Provident and Other Funds	26.60	26.01
Staff Welfare Expenses	10.12	9.70
TOTAL	307.83	260.60
25. MANUFACTURING EXPENSES		
Stores and Consumables	52.37	47.26
Power and Fuel	158.36	136.22
Carriage Inwards	10.13	8.62
Repairs and Maintenance		
- Repairs to Buildings	6.42	6.25
- Repairs to Machinery	8.26	6.21
- Others	87.63	81.43
Effluent Treatment & Transport charges	39.22	26.00
Packing Material	20.79	18.70
Testing Charges	1.73	2.93
Decrease in provision for excise duty on finished goods	(0.03)	(0.11)
TOTAL	384.88	333.51

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
26. FINANCE COSTS		
INTEREST EXPENSE		
Interest on Working Capital	**142.09**	116.61
Interest on Term Loan	**127.11**	124.31
Other Interest	**6.58**	–
OTHER BORROWING COST		
Discounting & Negotiation Charges	**15.70**	18.84
Other Charges	**41.26**	38.61
TOTAL	**332.74**	298.37
27. OTHER EXPENSES		
Rent	**6.25**	8.58
Rates & Taxes	**9.17**	6.07
Travelling Expenses	**44.14**	46.17
Professional Charges	**14.85**	16.74
Remuneration to Auditors		
Statutory Audit	**0.76**	0.76
Tax Audit	**0.24**	0.20
Limited Reviews	**0.75**	0.60
Other Services	**0.34**	0.14
Out-of-pocket expenses	**0.13**	0.18
Insurance	**16.51**	21.71
Advertisement	**0.65**	0.91
Sales Commission	**10.19**	14.48
Selling and Distribution expenses	**107.28**	72.37
Freight and Forwarding charges	**70.80**	72.84
Provision for doubtful debts and advances	**9.00**	13.12
Less: Amount written back on collection	**(4.58)**	(3.93)
Foreign Exchange Loss (Net)	**48.75**	–
Loss on Sale of Assets (Net)	**0.26**	0.09
Sitting Fees	**0.57**	0.39
R&D Charges	**111.09**	102.45
Other Expenses	**29.01**	26.09
TOTAL	**476.16**	399.96

28. SEGMENT REPORTING

a. Company's operations are predominantly related to the manufacture of bulk drugs, as such there is only one primary reportable segment. Secondary reportable segments are identified taking into account the geographical markets available to the products, the differing risks and returns and internal reporting system.

b. As a part of secondary reporting, in view of the management the Indian and export markets represent geographical segments.

Sales by market - The following is the distribution of the Company's sale by geographical market:

₹ in Million

Particular	2011 - 2012		2010 - 2011	
	Revenue	%	Revenue	%
India	842.22	19	756.05	19
Other than India	3,640.12	81	3,211.90	81
TOTAL	4,482.34	100	3,967.95	100

c. The Company does not track its assets and liabilities by geographical area.

29. RELATED PARTY TRANSACTIONS

Disclosure as required by the Accounting Standard - 18 are given below:

a. Name of the related parties and descriptions of relationships

i. Subsidiary Companies

Name	Nature of Relationship
Neuland Laboratories Inc., USA	Wholly Owned Subsidiary
Neuland Laboratories K.K., Japan	Wholly Owned Subsidiary
CATO Research Neuland India Private Limited	Partly Owned Subsidiary

ii. Key Management Personnel

Name	Nature of Relationship
Dr. D. R. Rao	Chairman & Managing Director
Mr. D. Sucheth Rao	Chief Executive Officer, Whole Time Director and son of Chairman & Managing Director
Mr. D. Saharsh Rao	President - Contract Research, Whole Time Director and son of Chairman & Managing Director
Mr. N. S. Viswanathan	Vice-President (Finance)
Ms. Sarada Bhamidipati	Company Secretary

iii. Relatives of Key Managerial Personnel

Name	Nature of Relationship
Mrs. D. Vijaya Rao	Wife of Chairman & Managing Director
Mrs. D. Rohini Niveditha Rao	Wife of Chief Executive Officer
Mrs. D. Deepthi Rao	Wife of President - Contract Research

iv. Others

Name	Nature of Relationship
Sucheth & Saharsh Holdings Private Limited	Enterprise owned or significantly influenced by Key Management Personnel

b. Transactions with related parties

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Subsidiary Companies		
- Services received	85.25	57.36
Key Management Personnel		
- Remuneration	20.39	19.20
- Office maintenance	0.42	0.42
Others		
- Rent paid	0.82	0.75
- Inter-corporate deposit taken	30.00	22.50
- Interest on Inter-corporate deposit	6.58	–

c. Balances outstanding with related parties

Particulars	As on March 31, 2012	As on March 31, 2011
Receivables from		
- Subsidiary Companies	4.95	3.37
- Others	6.43	2.21
Payables		
- Subsidiary Companies	13.78	4.50
- Key Management Personnel	6.48	7.34
- Relatives of Key Management Personnel	0.12	0.03
- Others	52.50	22.71
Investment in Share Capital of Subsidiary Companies	2.81	2.81

30. EARNINGS PER SHARE

Computation of Basic and Diluted Earnings per Share

Particulars		Year ended March 31, 2012	Year ended March 31, 2011
Net Profit		20.32	50.69
Weighted average number of equity shares for computation of Earnings per Share			
- Basic		5,396,455	5,396,455
- Diluted		5,401,643	5,402,735
Earnings per Share			
- Basic	(₹)	3.77	9.39
- Diluted	(₹)	3.76	9.38

Note: On April 27, 2012, the Board of Directors approved the Basis of Allotment and allotted 2,248,523 equity shares of face value of ₹10 each at a premium of ₹35 per equity share. Computation of Basic and Diluted Earnings per Share after considering the rights issue is as below:

₹ in Million

Particulars		Year ended March 31, 2012	Year ended March 31, 2011
Net Profit		20.32	50.69
Weighted average number of equity shares after considering shares issued pursuant to rights issue for computation of Earnings per Share			
- Basic		7,644,978	7,644,978
- Diluted		7,650,166	7,651,258
Earnings per Share			
- Basic	(₹)	3.36	8.37
- Diluted	(₹)	3.35	8.36

31. EMPLOYEE BENEFITS

a. Gratuity (Funded)

	Particulars	Year ended March 31, 2012	Year ended March 31, 2011
i.	**Expense recognized in the Statement of Profit and Loss**		
	Current Service Cost	4.33	6.43
	Interest Cost	2.57	2.07
	Expected Return on Plan Assets	(0.28)	(0.55)
	Net Actuarial (Gains)/Losses	3.87	2.51
	Total Expense	10.49	10.46
ii.	**Net Assets/(Liability) recognized in the Balance Sheet**		
	Present Value of Defined Obligation	39.87	32.17
	Fair Value of Plan Assets	2.24	4.95
	Funded Status [Surplus/(Deficit)] Difference	(37.63)	(27.22)
	Net Asset/(Liability)	(37.63)	(27.22)
iii.	**Change in obligation during the year**		
	Present Value of the Defined Benefit Obligation at the beginning of the year/period	32.17	25.88
	Current Service Cost	4.33	6.43
	Interest Cost	2.57	2.07
	Actuarial (Gains)/Losses	3.72	2.26
	Benefit Payments	(2.92)	(4.47)
	Present Value of the Defined Benefit Obligation at the end of the year	39.87	32.17
iv.	**Change in assets during the year**		
	Fair Value of Plan Assets at the beginning of the year	4.95	9.12
	Difference in Opening Balance	0.08	–
	Expected Return on Plan Assets	0.28	0.55
	Contribution by Employer	–	
	Actual Benefits Paid	(2.92)	(4.47)
	Actuarial Gains/(Losses) on Plan Assets	(0.15)	(0.25)
	Fair Value of Plan Assets at the end of the year	2.24	4.95

₹ in Million

Gratuity (Funded) *Contd.*

	Particulars		Year ended March 31, 2012	Year ended March 31, 2011
v.	**Actuarial assumptions**			
	Discount rate	(%)	**8.6**	8.0
	Rate of Return on Plan Assets	(%)	**8.0**	8.0
	Salary Escalation Rate (Management Staff)	(%)	**4.0**	4.0
	Attrition rate	(%)	**4.0**	4.0
	Mortality		Standard Table	Standard Table
			LIC (1994-96)	LIC (1994-96)
			ultimate	ultimate
	Disability		No explicit	No explicit
			allowance	allowance

The amount of ₹10.49 million being the provision for gratuity is included in Contribution to Provident and Other Funds under Note 24 forming part of the financial statements.

The estimates of future salary increases considered in Actuarial valuation takes into account the inflation rate on long term basis.

b. Leave Encashment

	Particulars	Year ended March 31, 2012	Year ended March 31, 2011
i.	**Expense recognized in the Statement of Profit and Loss**		
	Current Service Cost	**(0.34)**	(0.12)
	Interest Cost	**0.88**	0.89
	Expected Return on Plan Assets	**–**	–
	Net Actuarial (Gains)/Losses	**0.34**	1.99
	Total Expense	**0.88**	2.76
ii.	**Net Assets/(Liability) recognized in the Balance Sheet**		
	Present Value of Defined Obligation	**10.61**	10.96
	Fair Value of Plan Assets	–	–
	Funded Status [Surplus/(Deficit)] Difference	**(10.61)**	(10.96)
	Net Asset/(Liability)	**(10.61)**	(10.96)
iii.	**Change in obligation during the year**		
	Present Value of the Defined Benefit Obligation		
	at the beginning of the year/period	**10.96**	11.08
	Current Service Cost	**(0.34)**	(0.12)
	Interest Cost	**0.88**	0.89
	Actuarial (Gains)/Losses	**0.34**	1.99
	Benefit Payments	**(1.22)**	(2.88)
	Present Value of the Defined Benefit Obligation		
	at the end of the year	**10.61**	10.96

₹ in Million

Leave Encashment *Contd.*

	Particulars		Year ended March 31, 2012	Year ended March 31, 2011
iv.	**Actuarial assumptions**			
	Discount rate	(%)	**8.6**	8.0
	Rate of Return on Plan Assets	(%)	**–**	–
	Salary Escalation Rate (Management Staff)	(%)	**4.0**	4.0
	Attrition rate	(%)	**4.0**	4.0
	Mortality		Standard Table	Standard Table
			LIC (1994-96)	LIC (1994-96)
			ultimate	ultimate
	Disability		No explicit	No explicit
			allowance	allowance

The amount of ₹0.88 million being the provision for leave encashment is included in Contribution to Provident and Other Funds under Note 24 forming part of the financial statements.

The estimates of future salary increases considered in Actuarial valuation takes into account the inflation rate on long term basis.

c. **Contribution to Provident Fund - Defined Contribution Plan**

Amount recognized and included in Note 24 forming part of the financial statements - 'Contribution to Provident and Other Funds' ₹11.91 million (March 31, 2011: ₹11.37 million).

32. In the opinion of the Board, all the assets other than fixed assets and non-current investments have a value on realization in the ordinary course of business at least equal to the amount at which they are stated in the financial statements.

33. DISCLOSURE REQUIRED BY MICRO, SMALL AND MEDIUM ENTERPRISES (DEVELOPMENT) ACT, 2006

As per requirement of Section 22 of Micro, Small and Medium Enterprises Development Act, 2006 following information is disclosed:

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Principal amount remaining unpaid to any supplier as at the end of each accounting year	**0.22**	0.44
Interest due on (i) above remaining unpaid	**–**	–
Amounts paid beyond the appointed day during the accounting year	**–**	–
Interest paid on (iii) above	**–**	–
Interest due and payable on (iii) above	**–**	–
Interest accrued and remaining unpaid at the end of the accounting year	**–**	–
Interest remaining unpaid of the previous years for the purpose of disallowance under the Income Tax Act, 1961	**–**	–

The above information regarding Micro, Small and Medium Enterprises has been determined to the extent such parties have been identified on the basis of information available with the Company. This has been relied upon by the auditors.

₹ in Million

34. The Company has entered into commercial leases on items of machinery. These leases have an average life of three years. Future minimum rental payable under non-cancellable operating leases as follows:

Particulars	As on March 31, 2012	As on March 31, 2011
Within one year	7.51	–
After one year but not more than five years	3.39	–
More than five years	–	–

35. COST OF POWER AND FUEL CONSUMED INCLUDED UNDER VARIOUS HEADS IS AS FOLLOWS:

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Production	158.36	136.22
Effluent Treatment & Transport Charges	3.00	3.00
Research and Development Expenses	11.47	11.26
TOTAL	172.83	150.48

36. R&D EXPENDITURE DEBITED TO THE STATEMENT OF PROFIT AND LOSS CONSISTS OF THE FOLLOWING:

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Material Consumed	14.15	7.94
Power and Fuel	11.47	11.26
Staff Cost	72.53	71.70
Professional Charges	0.01	–
Others	12.93	11.55
TOTAL	111.09	102.45

37. R&D EXPENDITURE CLAIMED UNDER SECTION 35(2AB) OF THE INCOME TAX ACT, 1961

Particulars	For the year ended March 31,						
	2006	2007	2008	2009	2010	2011	2012
Revenue Expenditure	37.61	52.11	44.31	71.99	98.14	102.33	111.09
Capital Expenditure							
Additions							
Fixed Assets*	5.80	14.13	3.28	73.10	15.67	13.24	10.23
Capital Work-in-Progress	–	80.44	169.65	5.70	–	–	–
Less: Sales Proceeds of the Assets and Transfer of Assets	–	–	–	–	–	–	–
Net Additions to Fixed Assets	5.80	94.57	172.93	78.80	15.67	13.24	10.23

*Note: Amount of additions to fixed assets was arrived after reducing capital work-in-progress claimed in previous year.

38. CONTINGENT LIABILITY

a. Claims against the Company not acknowledged as debts

i. Customs duty demand of ₹2.29 million including interest (March 31, 2011: ₹2.29 million). The same was adjusted against the pre-deposit of ₹4.00 million (March 31, 2011: ₹4.00 million) made by the Company. The Company has filed an appeal against the demand before the Appellate Tribunal, Chennai, which is yet to be decided. Simultaneously the Company also filed an appeal before Hon'ble High Court of Madras for refund of balance of pre-deposit together with interest. As the export obligations against the material imported under DEEC scheme have been completed, the Company expects the outcome in its favor.

ii. Andhra Pradesh Gas Power Corporation Limited and its shareholders (including Neuland) have filed writ petition before the Division Bench of Hon'ble High Court of Andhra Pradesh, which has been admitted and favorable interim orders have been granted. The Company has been advised that it has a strong case to succeed in the pending appeal.

iii. Certain disputes, for unascertained amounts, are pending in the Labour Courts, Andhra Pradesh. As the chances of appellants succeeding in their claims being remote, the Company expects no liability on this account.

b. Unexpired Letters of Credit opened on behalf of the Company by bank for the raw material amounting to ₹499.27 million (March 31, 2011: ₹537.79 million).

c. Bank Guarantees given by the Company to Central Excise and Customs and other government authorities amounting to ₹13.10 million (March 31, 2011: ₹13.59 million).

d. A demand of ₹36.61 million was raised by the Income Tax Department for the Assessment Year 2009-10, by the Assessing Officer under Section 143(3) of the Income Tax Act, 1961. The Company filed an appeal with Hon'ble CIT (Appeals) against the Order.

39. CAPITAL AND OTHER COMMITMENTS

a. Estimated amounts of contracts on capital account to be executed and not provided for, net of advance ₹25.78 million (March 31, 2011: ₹1.28 million).

b. Neuland Laboratories Limited in collaboration with Cato Research Israel Limited, (a wholly owned subsidiary of Cato Research Inc., a global contract research and development organization based in USA) formed a joint venture in India styled as Cato Research Neuland India Private Limited on May 14, 2008. Neuland's share in the joint venture is 70%. The commitment towards initial share capital contribution is US $350,000- approximately ₹17.92 million. The Company contributed ₹1.22 million towards share capital as on March 31, 2012. The balance commitment as on March 31, 2012 is ₹16.70 million.

40. OTHER DISCLOSURES

a. Value of imported and Indigenous raw materials consumed and percentage of each to total consumption

Particulars	Year ended March, 2012		Year ended March, 2011	
	₹ in Million	%	₹ in Million	%
Imported	**1,539.90**	**53**	1,690.13	67
Indigenous	**1,358.73**	**47**	840.67	33
TOTAL	**2,898.63**	**100**	2,530.80	100

b. CIF value of imports

₹ in Million

Particulars	Year ended March, 2012	Year ended March, 2011
Raw Materials	**1,375.05**	1,403.23
Capital Goods	**18.68**	23.75

c. Expenditure in foreign currency

Particulars	Year ended March, 2012	Year ended March, 2011
Foreign Travel	**3.16**	3.04
Foreign Agent's Commission	**13.52**	4.05
Professional Charges	**5.16**	8.13
US/Japan Branch Office Expenditure	**66.70**	57.36
Others	**9.27**	3.23

d. Earnings in foreign currency

₹ in Million

Particulars	Year ended March, 2012	Year ended March, 2011
Export of Goods on FOB basis	3,399.95	2,869.53
Product Development Charges	45.00	32.23

e. Amount remitted during the year in foreign currency on account of final dividend to Non-Resident shareholders

Particulars	Year ended March, 2012	Year ended March, 2011
No. of Shares (₹10 each)	820,000	–
No. of shareholders	1	–
Amount of Dividend (Net of Taxes in ₹Million)	2.87	–
Year to which dividend related	2007-08	–

41. a. Particulars of unhedged foreign currency exposure as at Balance Sheet date

Particulars	As on March, 2012		As on March, 2011	
	Foreign Currency	Indian Rupee	Foreign Currency	Indian Rupee
Foreign Currency Loan	US$ 3.33	170.77	US$ 5.02	224.26
Export Trade Receivables	US$ 12.57			
	EUR 0.18	738.84	US$ 17.58	785.79
	GBP 1.01			
Import Trade Payables	US$ 7.15		US$ 5.84	
	EUR 0.005	366.67	EUR 0.11	268.00

b. Details of forward contracts outstanding as at Balance Sheet date

Particulars	As on March, 2012	As on March, 2011
Currency	US$	US$
Number of contracts	30	–
Sell amount	9.69 Million	–
Purpose	To hedge receivables	–

Per our report attached

For and on behalf of the Board

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 3, 2012.

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Sarada Bhamidipati
Company Secretary

Nadeem Panjetan
Director

P.V. Maiya
Director

AUDITORS' REPORT

AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF NEULAND LABORATORIES LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF NEULAND LABORATORIES LIMITED

1. We have audited the attached Consolidated Balance Sheet of Neuland Laboratories Limited and its subsidiaries (the Neuland Group), as at March 31, 2012 and also the Consolidated Statement of Profit and Loss and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Neuland Laboratories Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of two subsidiaries, whose financial statements reflect total assets of ₹30.27 millions as at March 31, 2012 the total revenue of ₹97.39 millions and cash outflows of ₹1.55 millions for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of other auditors.

4. We report that the consolidated financial statements have been prepared by the group's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, notified pursuant to the Companies (Accounting Standards) Rules, 2006 (as amended), and on the basis of the separate audited financial statements of the Neuland Group included in the Consolidated Financial Statements.

5. On the basis of the information and explanation given to us and on the consideration of the separate audit reports on the individual financial statements of the Neuland Group wherever audited and its aforesaid subsidiaries, we are of the opinion that: the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:

    i. the Consolidated Balance Sheet gives a true and fair view of the state of affairs of the Neuland Group as at March 31, 2012;

    ii. the Consolidated Statement of Profit and Loss gives a true and fair view of the profit for the year then ended; and

    iii. the Consolidated Cash Flow Statement gives a true and fair view of the cash flows for the year then ended.

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Raghuvir M. Aiyar
Partner
Membership No.: 38128

Hyderabad, May 3, 2012.

CONSOLIDATED BALANCE SHEET AS ON MARCH 31, 2012

₹ in Million

Particulars	Notes	As on March 31, 2012	As on March 31, 2011
EQUITY AND LIABILITIES			
SHAREHOLDERS' FUNDS			
Share Capital	3	54.67	54.67
Reserves and Surplus	4	706.32	681.53
		760.99	736.20
SHARE APPLICATION MONEY PENDING ALLOTMENT	5	0.24	–
NON-CURRENT LIABILITIES			
Long-term Borrowings	6	559.00	715.79
Long-term Provisions	7	38.49	26.66
		597.49	742.45
MINORITY INTEREST		3.58	3.49
CURRENT LIABILITIES			
Short-term Borrowings	8	1,320.33	1,339.66
Trade Payables	9	1,109.92	1,044.87
Other Current Liabilities	10	411.06	376.58
Short-term Provisions	7	55.39	36.04
		2,896.70	2,797.15
TOTAL		4,259.00	4,279.29
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets			
Tangible Assets	11	1,511.05	1,579.80
Intangible Assets	12	1.89	3.20
Capital Work in Progress		271.49	272.57
		1,784.43	1,855.57
Non-current Investments	13	73.86	73.86
Deferred Tax Assets (Net)	14	18.50	–
Long-term Loans and Advances	15	55.04	49.36
Other Non-current Assets	16	105.91	109.51
		2,037.74	2,088.30
CURRENT ASSETS			
Inventories	17	924.18	799.16
Trade Receivables	18	964.12	997.03
Cash and Bank Balances	19	27.01	52.32
Short-term Loans and Advances	15	188.99	212.93
Other Current Assets	16	116.96	129.55
		2,221.26	2,190.99
TOTAL		4,259.00	4,279.29
Significant Accounting Policies	2		

The accompanying notes form an integral part of the Consolidated Financial Statements.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 3, 2012.

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Sarada Bhamidipati
Company Secretary

Nadeem Panjetan
Director

P.V. Maiya
Director

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2012

₹ in Million

Particulars	Notes	Year ended March 31, 2012	Year ended March 31, 2011
INCOME			
Revenue from Operations (Net)	20	4,485.03	3,969.13
Other Income	21	17.30	25.11
TOTAL		4,502.33	3,994.24
EXPENDITURE			
Cost of Raw Materials Consumed		2,898.63	2,530.80
Increase in Inventories of Work-in-Process and Finished Goods	23	(51.63)	(31.71)
Employee Benefits Expense	24	359.24	297.31
Manufacturing Expenses	25	384.88	333.51
Finance Costs	26	332.74	298.37
Depreciation and Amortization Expense	11 & 12	149.73	154.92
Less: Adjusted against Revaluation Reserve		0.82	0.81
		148.91	154.11
Other Expenses	27	421.25	362.68
TOTAL		4,494.02	3,945.07
PROFIT BEFORE TAX		8.31	49.17
Tax Expense			
Current Tax		2.36	9.63
Deferred tax		(18.50)	–
MAT credit entitlement		(1.25)	(9.40)
Excess provision for Income Tax no longer required		–	(3.74)
		(17.39)	(3.51)
PROFIT AFTER TAX BEFORE MINORITY INTEREST		25.70	52.68
Minority Interest		0.09	(0.21)
PROFIT AFTER TAX		25.61	52.89
Earnings Per Share			
Basic Earnings per Share (₹)		4.75	9.76
Diluted Earnings per Share (₹)		4.74	9.75
Face Value per Share (₹)		10.00	10.00
Significant Accounting Policies	2		

The accompanying notes form an integral part of the Consolidated Financial Statements.

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 3, 2012.

N.S. Viswanathan
Vice President (Finance)

Sarada Bhamidipati
Company Secretary

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Nadeem Panjetan
Director

P.V. Maiya
Director

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2012

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Tax	**8.31**	49.17
Adjusments for		
Depreciation/Amortization	**148.91**	154.11
Interest Expenses	**275.78**	240.93
Minority Interest	**0.09**	0.21
Unrealised Foreign Exchange	**2.14**	0.22
Loss on sale of Fixed Assets	**0.26**	0.09
Provision for Gratuity and Leave Encashment	**11.37**	13.04
Provision for Doubtful Debts	**4.42**	9.19
Operating Profit before Working Capital Changes	**451.28**	466.96
Add/Less: Working Capital Changes		
Trade Receivables	**56.67**	(286.74)
Inventories	**(125.02)**	(79.91)
Loans & Advances	**70.14**	(72.90)
Trade Payables	**45.45**	299.76
Cash flow from operating activities	**498.52**	327.17
Less: Income Tax Paid	**(5.13)**	(3.83)
Net cash from operating activities (A)	**493.39**	323.34
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets including Work-in-Progress	**(53.50)**	(81.88)
Proceeds from sale of Fixed Assets	**1.35**	1.14
Net cash used in investing activities (B)	**(52.15)**	(80.74)
CASH FLOW FROM FINANCING ACTIVITIES		
Share Application Money Received	**0.24**	–
Proceeds from Inter Corporate Deposits	**30.00**	22.50
Increase in Bank Borrowings	**39.01**	224.85
Proceeds from Long-term Loans	**153.75**	–
Repayments of Long-term Borrowings	**(368.27)**	(259.70)
Increase in Unsecured Loans	**(17.94)**	17.94
Interest paid	**(273.75)**	(248.13)
Change in Minority Interest	**(0.09)**	(0.21)
Net cash used in financing activities (C)	**(437.05)**	(242.75)
Net increase/(decrease) in cash & cash equivalents (A+B+C)	**4.19**	(0.15)
Opening Balance of cash & cash equivalents	**15.15**	15.30
Closing Balance of cash & cash equivalents	**19.34**	15.15
(Refer Note 19 for the details of cash and cash equivalents)		

Per our report attached

For and on behalf of the Board

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 3, 2012.

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Sarada Bhamidipati
Company Secretary

Nadeem Panjetan
Director

P.V. Maiya
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2012

1. CORPORATE INFORMATION

Neuland Laboratories Limited ('the Company') is a public company domiciled in India and incorporated under the provisions of the Companies Act, 1956. Its shares are listed on two stock exchanges in India. The Company is engaged in the manufacturing and selling of bulk drugs. The Company caters to both domestic and international markets.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of accounting and use of estimates

i. Financial statements are prepared under the historical cost convention, on accrual basis of accounting in accordance with the accounting principles generally accepted in India and in compliance with the provisions of Companies Act 1956 and comply with the mandatory accounting standards specified in Companies (Accounting Standard) Rules, 2006 prescribed by the central government.

ii. Till the year ended March 31, 2011, the Company was using pre-revised Schedule VI to the Companies Act, 1956 for preparation and presentation of its financial statements. During the year ended March 31, 2012, the revised Schedule VI notified under the Companies Act, 1956, has become applicable to the Company. The Company has reclassified previous year numbers to conform to this year's classification. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of the financial statements. However, it significantly impacts the presentation and disclosure made in the financial statements, particularly presentation of balance sheet.

iii. The preparation of financial statements, in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

B. Principles of consolidation

i. The Consolidated Financial Statements relate to Neuland Laboratories Limited ('the Company') and its wholly owned subsidiaries and the joint venture. The Consolidated Financial Statements have been prepared on the following basis:

The financial statements of the Company, its subsidiaries and the joint venture have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealized profits or losses.

The Consolidated Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate financial statements.

ii. The subsidiaries and joint venture considered in the Consolidated Financial Statements are:

Name of the Company	Country of Incorporation	**% of interest as on March 31, 2012**	% of interest as on March 31, 2011
Subsidiaries			
Neuland Laboratories K.K.	Japan	**100**	100
Neuland Laboratories Inc.	USA	**100**	100
Joint Venture			
Cato Research Neuland India Private Limited	India	**70**	70

C. Revenue recognition

i. Sales are recognized on dispatch of products. Sales are inclusive of insurance, freight and exclusive of sales tax.

ii. The export incentive are accrued and accounted on the basis of the actual exports made during the year.

iii. Income from product development services are recognized when services are rendered or related costs are incurred in accordance with the terms of specific contracts.

D. Excise duty

Excise duty recovered is reduced from sale of products. Excise duty in respect of finished goods is accounted for, as and when goods are cleared from the factory and stocks of finished goods are valued inclusive of excise duty where applicable.

E. Fixed assets

i. Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and impairment losses. Cost of acquisition or construction is inclusive of freight, duties (net of CENVAT and VAT), taxes, incidental expenses relating to acquisition, cost of installation/erection, attributable interest and financial cost till such time assets are ready for its intended use.

ii. Foreign exchange gain/loss on borrowings for acquisition/construction of fixed assets have been reduced from/added to the related costs of assets with effect from April 1, 2007 as per Ministry of Corporate Affairs notification dated March 31, 2009 in amendment of accounting standards.

iii. Certain land, buildings, plant & machinery and fixed assets are shown at re-valued values. Other fixed assets are shown at cost.

iv. Depreciation on fixed assets is provided on Straight Line Method at the rates prescribed by Schedule XIV of the Companies Act, 1956 as amended, and is calculated on a pro-rata basis. Depreciation is charged on pro rata basis for assets purchased/sold during the year. Depreciation on value written up on revalued assets is calculated on SLM basis with reference to the remaining useful life of the asset and the Revaluation Reserve is charged with the difference between the depreciation calculated on such revalued costs and the historical cost.

v. Borrowing costs that are attributable to the acquisition or construction of fixed assets are capitalized as part of such assets for the period up to the date of put to use. All other borrowing costs are charged to revenue.

vi. Expenses on Research & Development equipment are capitalized.

vii. Intangibles being cost of SAP ERP and software are amortized over a period of three years.

F. Impairment of assets

In accordance with Accounting Standard 28 (AS 28) on 'Impairment of Assets,' where there is an indication of impairment of the Company's assets, the carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any impairment based on internal/ external factors. An impairment loss, if any, is recognized in the statement of profit and loss, wherever the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of the assets is estimated at the higher of its net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life. Previously recognized impairment loss is further provided or reversed depending on changes in circumstances.

G. Investments

Long term Investments are carried at cost. However, provision for diminution in value, if any, is made to recognize a decline other than temporary in the value of investments.

H. Foreign currency transactions

i. Transactions in foreign exchange are accounted for at the average exchange rate for the month of transaction. Foreign currency monetary items are reported using exchange rates prevailing at the close of the year and exchange difference arising there from is charged/credited to the Statement of Profit and Loss. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction;

ii. The premium or discount arising at the inception of forward exchange contracts is amortized as expense or income over the life of the contract. Exchange differences on such contracts are recognized in the statement of profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the year.

iii. In case of fixed assets, refer D (ii) above.

I. Inventories

Inventories are valued at lower of cost and estimated net realizable value, after providing for cost of obsolescence and other anticipated loss whenever considered necessary. Work-in-process is valued at estimated cost on the basis of stage wise completion of the production. Finished goods and work in process include cost of conversion and other costs incurred in bringing the inventories to their present level of location and condition. Cost is determined by using the weighted average basis. Cost of finished goods includes excise duty, wherever applicable.

J. Taxation

Provision for current tax is made after taking into consideration benefits admissible under the provisions of Income Tax Act, 1961. Deferred tax resulting from 'timing differences' between book and taxable profit is accounted for using the tax rates and laws that have been enacted or substantively enacted as on the balance sheet date. The deferred tax assets pertaining to carried forward losses and unabsorbed depreciation are recognized only to the extent that there is a virtual certainty that these assets are realized. The deferred tax assets pertaining to other items are recognized to the extent that there is a reasonable certainty that the same can be realized.

K. Employee Stock Option Schemes (ESOS)

The Company accounts for compensation expense under the Employee Stock Option Schemes using the intrinsic value method as permitted by the Guidance Note on 'Accounting for Employee Share-based Payments' issued by the Institute of Chartered Accountants of India. The difference between the market price and the exercise price as at the date of the grant is treated as compensation expense and charged over the vesting period.

L. Earnings per Share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares.

M. Employee Benefits

i. Defined Contribution Plan

The Company's Employee's Provident Fund administered through Government Provident Fund, Employee State Insurance Scheme and Labour Welfare Fund are considered as Defined Contribution Plans. The Company's contributions paid/payable towards these defined contributions plan are recognized as expense in the Statement of Profit and Loss during the period in which the employee renders the related service. The interest rate payable by the said funds to the beneficiaries every year is being notified by the Government. The Company has no obligation to make good the shortfall, if any between the return from the investment and the interest rate.

ii. Defined Benefit Plan

Company's liabilities towards gratuity, long term compensated absences are considered as Defined Benefit Plans. The present value of the obligations under such Defined Benefit Plans are determined based on actuarial valuation using the projected unit credit method, which recognizes each period of service as giving rise to an additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. Actuarial gains and losses are recognized immediately in the statement of profit and loss. The obligation is measured at the present value of estimated future cash flows using a discount rate that is determined by reference to market yields at the balance sheet date on Government securities.

N. Leases

Lease payments under operating lease are recognized as an expense in the Statement of Profit and Loss on a straight-line basis over the lease term.

O. Contingencies and Provisions

A provision is recognized when the Company has a present obligation as a result of past events. Provisions are not discounted to present value and are determined based on the best estimate of the expenditure required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Contingent liabilities are disclosed after careful examination of the facts and legal aspects of the matter involved.

₹ in Million

	Particulars	As on March 31, 2012	As on March 31, 2011
3. SHARE CAPITAL			
AUTHORISED			
10,000,000	Equity Shares of ₹10 each	100.00	100.00
300,000	Cumulative Redeemable Preference Shares of ₹100 each	30.00	30.00
300,000	Preference Shares of ₹100 each either cumulative or non-cumulative and redeemable or otherwise	30.00	30.00
		160.00	160.00
ISSUED			
5,590,000	Equity Shares of ₹10 each, fully paid	55.90	55.90
	(March 31, 2011 - 5,590,000 Equity Shares of ₹10 each)		
SUBSCRIBED CAPITAL			
5,499,731	Equity Shares of ₹10 each	55.00	55.00
	(March 31, 2011 - 5,499,731 Equity Shares of ₹10 each)		
PAID UP CAPITAL			
5,396,455	Equity Shares of ₹10 each fully paid up	53.96	53.96
	(March 31, 2011 - 5,396,455 Equity Shares of ₹10 each)		
	Add: Forfeited Shares		
	103,276 Forfeited Equity Shares of ₹10 each	0.71	0.71
	(March 31, 2011 - 103,276 Equity Shares of ₹10 each)		
	(Amount originally paid up)		
TOTAL		54.67	54.67
a. Reconciliation of number of equity shares outstanding at the beginning and at the end of the year			
Number of equity shares outstanding at the beginning of the year		5,396,455	5,396,455
Number of equity shares outstanding at the end of the year		5,396,455	5,396,455

b. Terms/Rights attached to equity shares

The Company has only one class of equity shares having par value of ₹10 per share. Each shareholder of equity shares is entitled to one vote per share. The Company declares and pays dividend in Indian Rupees. The dividend proposed by the Board of Directors is subject to prior consent from the banks and approval of the shareholders in the ensuing Annual General Meeting.

In the event of liquidation of the Company, the holders of the equity shares will be entitled to receive remaining assets of the Company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholder.

c. Details of Shareholders holding more than 5% shares in the Company

Name of The Shareholder	As on March 31, 2012		As on March 31, 2011	
	No. of Shares	% of Holding	No. of Shares	% of Holding
Equity Shares of ₹10 each fully paid up				
i. Unipharm Limited	820,000	15.20	820,000	15.20
i. Dr. Davuluri Rama Mohan Rao	704,913	13.06	704,913	13.06
iii. Sucheth and Saharsh Holdings Private Limited	651,011	12.06	392,011	7.26
iv. Permex Investment Holding Company Limited*	–	–	270,000	5.00

* As on March 31, 2012, Permex Investment Holding Company Limited holds less than 5% of the total shareholding in the Company.

SHARE CAPITAL (Contd.)

d. Employee Stock Option Scheme - 2008

Pursuant to the resolution passed by the Board of directors on July 20, 2007 and members of the Company at the Annual General Meeting held on July 20, 2007, the Company had introduced Employee Stock Option Scheme ('the scheme') for permanent employees and directors of the Company and of its subsidiaries, as may be decided by the Compensation Committee/Board. The scheme provides that the total number of options granted there under will be not more than 3% of the paid up capital. Each option, on exercise, is convertible into one equity share of the company having face value of ₹10. Pursuant to a resolution passed by the Remuneration & Compensation Committee vide Circular Resolution dated November 17, 2008, 34,500 options have been granted at an exercise price of ₹104, which is the market price as on the date of the grant. Accordingly, the Company has not recognized any expense on account of grant of stock options.

Stock options activity under the scheme is as follows:

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Option outstanding at the beginning of the year	23,000	29,000
Options granted	–	–
Options exercised	–	–
Options lapsed	4,000	6,000
Options outstanding at the year end	19,000	23,000

Pursuant to the Rights Issue, the Company is in the process of adjusting the number of options and/or exercise price.

4. RESERVES AND SURPLUS

₹ in Million

Particulars	As on March 31, 2012	As on March 31, 2011
Capital Reserve	0.33	0.33
Securities Premium Account	360.54	360.54
Revaluation Reserve		
Balance as per last financial statements	11.99	12.80
Less: Depreciation on revalued assets	0.82	0.81
	11.17	11.99
General Reserve	241.91	241.91
Surplus		
Balance as per last financial statements	66.76	13.87
Profit for the year	25.61	52.89
Net surplus	92.37	66.76
TOTAL	706.32	681.53

₹ in Million

5. SHARE APPLICATION MONEY

As on March 31, 2012, the Company is in the process of issuing 2,248,523 equity shares of a face value of ₹10 each for cash at a price of ₹45 per equity share, including a Share Premium of ₹35 per equity share, aggregating to ₹101.18 million to the existing equity shareholders of the company on a rights basis in the ratio of 5:12 as on the Record Date i.e. March 23, 2012. The Issue opened on March 31, 2012 and closed on April 16, 2012. The Company has sufficient authorized share capital to cover the share capital amount on allotment of shares out of the Rights Issue.

The Share Application Money represents the collection received from the shareholders as on March 31, 2012. Since the Issue was open on March 31, 2012, the refundable portion of the Share Application Money is not identifiable as on the date of Balance Sheet.

Subsequently, the Rights Issue has been subscribed fully and 2,248,523 equity shares of a face value of ₹10 each have been allotted on April 27, 2012 to the eligible shareholders as per the Basis of Allotment approved by the designated stock exchange.

The Company has incurred the expenses in relation to Rights Issue activity which have been accounted for as 'Rights Issue Expenses' and grouped under Other Current Assets. These expenses will be charged to the securities premium account proposed to be received from the Rights Issue of the equity shares of the Company. The details of expenses incurred as on March 31, 2012 are as below:

Particulars	As on March 31, 2012	As on March 31, 2011
Professional Charges*	3.96	–
Printing Charges	0.25	–
Advertisement	0.30	–
Filing Fees	0.03	–
TOTAL	4.54	–

* Includes auditors' remuneration of ₹0.91 million (March 31, 2011: ₹Nil)

6. LONG-TERM BORROWINGS

Particulars	Non-current Portion		Current Maturities	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
TERM LOANS FROM BANKS				
Foreign Currency Loans (secured)	86.65	147.21	84.12	87.14
Rupee Loans (secured)	469.28	557.09	227.70	186.20
OTHER LOANS				
Hire Purchase Loans (secured)	3.07	11.49	9.50	8.61
TOTAL	559.00	715.79	321.32	281.95
The above amounts includes				
Secured Borrowings	559.00	715.79	321.32	281.95
Amount disclosed under other head 'Other Current Liabilities' (Refer Note 10)	–	–	(321.32)	(281.95)
	559.00	715.79	–	–

₹ in Million

LONG-TERM BORROWINGS (Contd.)

DETAILS OF LONG-TERM BORROWINGS

a. Term Loans

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
Bank of India	**19.91**	50.71	1% above BPLR	Repayable in 48 equal installments of ₹2.50 million each commencing from one (1) month after disbursement (i.e. from November 2008). Interest to be serviced separately every month, as and when applied.	First *pari passu* charge on fixed assets. Guarantees by Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
Bank of India	**204.50**	270.62	0.050% below BPLR	Repayable in 20 quarterly installments of ₹15.8 million each commencing from twenty four (24) months after first disbursement (i.e. commencing quarter ending June 2010, with last installment payable in March 2015). Interest during moratorium period to be serviced as and when applied.	First *pari passu* charge by way of mortgage and hypothecation over all fixed assets (excluding specifically charged assets) of the Company, both present and future. Second *pari passu* charge on entire current assets of the Company, both present and future. Guarantees by Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
Export-Import Bank of India	**150.00**	214.88	PLR minus 1.5% payable monthly	Repayable in 20 equal quarterly installments of ₹15 million each commencing from the date of first disbursement (i.e. commencing from quarter ended December 2009).	First *pari passu* charge by way of mortgage and hypothecation over all fixed assets (excluding of assets that are specifically charged), both present and future, of the Company. Second *pari passu* charge on entire current assets of the Company, both present and future. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
State Bank of India	**102.42**	131.75	1.50% above SBAR	Monthly installments of • ₹0.15 million each for the period April 2010 till March 2011 • ₹2.65 million each for the period April 2011 till March 2012	*Pari passu* first charge (Hypothecation) on fixed assets and equitable mortgage of land and buildings along with other term lenders situated at Sy. No. 347, 474, 488, 489 and 490 Bonthapally to the extent of 10.48 acres, at Nanakramguda to the extent of 5 acres and at Plot No. 92, 93, 94, 257 and 258 to the extent of 9.17 acres at Pashamylaram.

(Contd.)

₹ in Million

Term Loans (Contd.)

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
				• ₹2.70 million each for the period April 2012 till March 2013 • ₹2.70 million each for the period April 2013 till March 2014 • ₹2.80 million each for the period April 2014 till March 2015	*Pari passu* second charge (Hypothecation) on the current assets of the Company. Second charge on pledge of 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao (first charge for the working capital limits). Lien on fixed deposits of ₹2.50 million. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.
State Bank of India	**73.53**	75.33	1.50% above SBAR	Monthly installments of: • ₹0.15 million each for the period April 2011 till March 2012 • ₹0.40 million each for the period April 2012 till March 2013 • ₹2 million each for the period April 2013 till March 2014 • ₹2.40 million each for the period April 2014 till March 2015 • ₹2.40 million each for the first 11 months of the period April 2015 till March 2016 and ₹2.20 million for the last installment.	*Pari passu* first charge (Hypothecation) on fixed assets and equitable mortgage of land and buildings along with other term lenders situated at Sy. No. 347, 474, 488, 489 and 490 Bonthapally to the extent of 10.48 acres, at Nanakramguda to the extent of 5 acres and at Plot No. 92, 93, 94, 257 and 258 to the extent of 9.17 acres at Pashamylaram. *Pari passu* second charge (Hypothecation) on the current assets of the Company. Second charge on pledge of 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao (first charge for the working capital limits). Lien on fixed deposits of ₹2.50 million. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.

₹ in Million

Term Loans (Contd.)					
Particulars	**Amount outstanding as on March 31, 2012**	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
State Bank of India	**–**	10.09	SBAR at the time of sanction. Interest reset to 7.25% above base rate as per revised sanction letter dated April 20, 2011	Repayable in 16 quarterly installments of ₹5 million each commencing from October 2007	*Pari passu* first charge on present and future fixed assets of the Company. *Pari passu* first charge on lease hold rights on 2 acres of land situated at S.No.490/1, Bonthapally Village, Jinnaram Mandal belonging to M/s. Sucheth & Saharsh Holdings Private Limited. *Pari passu* second charge on Company's current assets. *Pari passu* second charge on pledge of one lakh equity shares of Dr. D.R.Rao (first charge with the working capital bankers on pari passu basis) *Pari passu* charge on 2 acres of land situated at S.No.490/1, Bonthapally Village, Jinnaram Mandal belonging to Sucheth & Saharsh Holdings Private Limited. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.
Export-Import Bank of India	**170.77**	224.26	LIBOR (6 months) + 500 bps	Repayment in 20 quarterly installments of US$ 0.42 million each commencing from April 2009	First *pari passu* charge by way of mortgage and hypothecation over all immoveable properties and moveable fixed assets of the Company, both present and future, excluding assets of approx. ₹12.10 million that are specifically charged to TIFAC. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
State Bank of India	**71.62**	–	7.75% above base rate	Repayable in 36 monthly installments of ₹4.15 million each commencing from January 2012	*Pari passu* first charge on Company's fixed assets. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.

₹ in Million

Term Loans (Contd.)

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
Export-Import Bank of India	75.00	–	LTMLR plus 250 bps and LTMLR will be reset every 3 months	Repayable in 20 quarterly installments of ₹5 million each with 24 months moratorium from the date of first drawal i.e. September 2011	First *pari passu* charge by way of mortgage and hypothecation over all fixed assets (excluding assets that are specifically charged) of the Company, both present and future. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao.
TOTAL	867.75	977.64			

Note: Some of the secured lenders have the right to convert their debt into equity, at a time felt appropriate by the lender, at a mutually acceptable formula.

Details of continuing default in repayment of principal dues on term loans as on March 31, 2012

Name of the Bank	Nature of repayment	₹ (in Million)	Due date	Days of continuing default
Bank of India	Principal	15.80	March 29, 2012	2
Bank of India	Interest	2.39	March 31, 2012	–

b. Hire Purchase Loans

Name of the Bank	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest (%)	Repayment terms	Securities offered
Axis Bank Limited, Kotak Mahindra Prime Limited and Bank of India	6.89	10.69	4.75 To 12.50	36 equal monthly installments	Hypothecation of the vehicle
First Leasing Company of India Limited	5.68	9.41	11.75	36 equal monthly installments commencing from August 2010	Hypothecation of the machinery
TOTAL	12.57	20.10			

7. PROVISIONS

Particulars	Long-term		Short-term	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
Provision for Income Tax	–	–	26.27	24.10
Provision for Wealth Tax	–	–	0.25	0.21
Provision for Gratuity	36.13	24.22	1.51	2.92
Provision for Leave Encashment	2.36	2.44	8.66	8.81
Provision for Mark-to-Market losses on Forward Contracts	–	–	18.70	–
TOTAL	38.49	26.66	55.39	36.04

₹ in Million

Particulars	As on March 31, 2012	As on March 31, 2011
8. SHORT-TERM BORROWINGS		
Working Capital Finance from Banks (Secured)	**1,176.41**	1,108.60
Working Capital Finance from Non-Banking Financial Company (Secured)	**91.42**	189.58
Inter Corporate Deposit from Related Party (Unsecured)	**52.50**	22.50
Short Term Loans (Unsecured)		
From Banks	**–**	1.04
From Others	**–**	17.94
TOTAL	**1,320.33**	1,339.66
The above amounts includes		
Secured Borrowings	**1,267.83**	1,298.18
Unsecured Borrowings	**52.50**	41.48
	1,320.33	1,339.66

a. Working Capital Finance From Banks

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
State Bank of India - Cash Credit, Packing Credit, Foreign Bill discounting	**817.15**	799.82	6.75% above Base rate for Cash Credit Interest rate as applicable to Export Finance for Packing Credit and Bill Discounting	Repayable on demand	*Pari passu* first charge by way of hypothecation on current assets of the Company (other than receivables with SBI Global Factors Limited) *Pari passu* second charge on Company's fixed assets. *Pari passu* charge on 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao. *Pari passu* second charge on the shares of Andhra Pradesh Gas Power Corporation Limited ('APGCL') subordinate to the first charge created in favour of APGCL. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.
Indian Overseas Bank - Cash Credit, Packing Credit, Foreign Bill Discounting	**84.57**	89.93	Base Rate+4% and SBI rate whichever is higher Interest rate on packing credit and bill discounting as applicable	Repayable on demand	*Pari passu* first charge on all the chargeable current assets including hypothecation of stocks and receivables on pari passu basis. First *pari passu* charge on current assets of the Company including hypothecation of stocks in cash of packing credit and documents of the title of goods/accepted hundies. *Pari passu* second charge on Company's fixed assets. *Pari passu* charge on 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao. *Pari passu* charge on the 402,000 shares of APGCL. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.

₹ in Million

Working Capital Finance From Banks (Contd.)

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest	Repayment terms	Securities offered
Bank of India - Cash Credit, Packing Credit, Foreign Bill Discounting	**274.69**	183.22	1% above BPLR Interest rate as applicable for export credit	Repayable on demand	First *pari passu* charge on current assets of the Company. *Pari passu* second charge on fixed assets of the Company. *Pari passu* second charge on the shares of APGCL. Pledge of 100,000 equity shares of the Company in the name of Dr. Davuluri Rama Mohan Rao. Personal guarantee of Dr. Davuluri Rama Mohan Rao and Mr. Davuluri Sucheth Rao. Corporate guarantee of Sucheth and Saharsh Holdings Private Limited.
Bank of India - Loan against Term Deposits	**–**	35.63	8.75%	Repayable on demand	Lien on the Term Deposits
TOTAL	**1,176.41**	1,108.60			

b. Working Capital Finance From Non-Banking Financial Company

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest (%)	Repayment terms	Securities offered
SBI Global Factors Limited	**91.42**	189.58	LIBOR + 650 bps	Repayable on due dates of the invoices factored.	*Pari passu* first charge by way of hypothecation on all assets of the Company, present and future.
					Pari passu second charge on fixed assets of the Company.
					Pledge of 100,000 unencumbered equity shares of the Company owned by Dr. D.R. Rao.
TOTAL	**91.42**	189.58			

c. Inter Corporate Deposit from Related Party

Particulars	Amount outstanding as on March 31, 2012	Amount outstanding as on March 31, 2011	Rate of Interest (%)	Repayment terms	Securities offered
Sucheth and Saharsh Holdings Private Limited	**52.50**	22.50	16	Repayable on demand	N.A.
TOTAL	**52.50**	22.50			

₹ in Million

Particulars	As on March 31, 2012	As on March 31, 2011
9. TRADE PAYABLES		
Trade Payables	**1,109.92**	1,044.87
TOTAL	**1,109.92**	1,044.87
10. OTHER CURRENT LIABILITIES		
Current Maturities of Long Term Borrowings	**321.32**	281.95
Advance from Customers	**6.17**	45.91
Employee Related Liabilities	**41.85**	21.67
Statutory dues	**13.91**	12.50
Interest accrued but not due	**2.88**	3.72
Interest accrued and due	**2.39**	–
Export Incentive obligation	**2.69**	1.11
Unclaimed Dividends	**0.63**	0.69
Investor Education and Protection Fund	**–**	0.07
Others	**19.22**	8.96
TOTAL	**411.06**	376.58

11. TANGIBLE ASSETS

Particulars	GROSS BLOCK					DEPRECIATION/AMORTIZATION					NET BLOCK	
	Cost as on 31.03.2011	Additions	Deductions	Adjustments*	Cost as on 31.03.2012	Upto 31.03.2011	For the year	Deductions	Adjustments	Upto 31.03.2012	As on 31.03.2012	As on 31.03.2011
Land	27.99	–	–	–	**27.99**	–	–	–	–	**–**	**27.99**	27.99
Buildings	579.11	3.81	–	4.75	**587.67**	104.64	19.28	–	0.13	**124.05**	**463.62**	474.47
Plant and Equipment	1,573.35	41.88	–	5.42	**1,620.65**	661.87	106.48	–	0.58	**768.93**	**851.72**	911.48
R&D Equipment	134.44	–	–	16.41	**150.85**	40.74	10.13	–	1.71	**52.58**	**98.27**	93.70
Data Processing Machines	30.90	1.92	–	–	**32.82**	18.75	3.07	–	–	**21.82**	**11.00**	12.15
Furniture and Fixtures	34.73	0.30	–	0.12	**35.15**	9.49	2.04	–	–	**11.53**	**23.62**	25.24
Vehicles	53.43	5.44	(2.24)	–	**56.63**	18.66	4.29	(1.15)	–	**21.80**	**34.83**	34.77
TOTAL	2,433.95	53.35	(2.24)	26.70	**2,511.76**	854.15	145.29	(1.15)	2.42	**1,000.71**	**1,511.05**	1,579.80
March 31, 2011	2,328.91	114.05	(4.27)	(4.74)	**2,433.95**	704.66	152.97	(3.05)	(0.43)	**854.15**	**1,579.80**	

*Note: 1. The Company had opted to adopt the amendment to the Companies (Accounting Standards) Rules, 2006 effected by a notification dated March 31, 2009 issued by Ministry of Corporate Affairs, Government of India (applicability extended till March 31, 2020). Pursuant to this adoption, for the year ended March 31, 2012, an amount of (₹26.70 million) (March 31, 2011: ₹4.74 million) being foreign exchange fluctuations gain/(loss) pertaining to foreign currency loan availed for acquisition of depreciable capital assets is adjusted to the cost of such assets.

2. Fixed assets include vehicles and machinery acquired under Hire Purchase Agreement amounting to ₹44.96 million as on March 31, 2012 (March 31, 2011: ₹52.52 million). The hire purchase charges have been charged to Statement of Profit and Loss. The hire purchase installment due within one year is ₹9.50 million (March 31, 2011: ₹12.62 million).

₹ in Million

12. INTANGIBLE ASSETS

Particulars	Gross Block					Depreciation/Amortization					Net Block	
	Cost as on 31.03.2011	Additions for the period	Deductions	Adjustments	Cost as on 31.03.2012	Upto 31.03.2011	For the period	Deductions	Adjustments	Upto 31.03.2012	As on 31.03.2012	As on 31.03.2011
Process Development Cost	16.87	–	–	–	**16.87**	16.87	–	–	–	**16.87**	**–**	–
Computer Software – SAP	11.37	0.71	–	–	**12.08**	8.17	2.02	–	–	**10.19**	**1.89**	3.20
TOTAL	28.24	0.71	–	–	**28.95**	25.04	2.02	–	–	**27.06**	**1.89**	3.20
March 31, 2011	25.77	2.47	–	–	**28.24**	22.66	2.38	–	–	**25.04**	**3.20**	

13. NON-CURRENT INVESTMENTS (UNQUOTED - AT COST)

Particulars	As on March 31, 2012	As on March 31, 2011
A. Trade Investments		
Investments in Shares Debentures & Bonds		
a. Jeedimetla Effluent Treatment Limited	**0.22**	0.22
2,200 Equity Shares of ₹100 each fully paid		
(March 31, 2011 - 2,200 Equity Shares of ₹100 each fully paid)		
b. Pantancheru Enviro-Tech Ltd	**2.09**	2.09
209,136 Equity Shares of ₹10 each fully paid		
(March 31, 2011 - 209,136 Equity Shares of ₹10 each fully paid)		
c. Andhra Pradesh Gas Power Corporation Limited	**70.40**	70.40
402,000 Equity Shares of ₹10 each fully paid		
(March 31, 2011 - 402,000 Equity Shares of ₹10 each fully paid)		
B. Non-Trade Investments		
Investment in government securities	**0.15**	0.15
SBI Mutual Fund		
100,000 units of ₹10 each	**1.00**	1.00
(March 31, 2011 - 100,000 units of ₹10 each)		
TOTAL	**73.86**	73.86

14. DEFERRED TAX ASSET

Particulars		As on March 31, 2012	As on March 31, 2011
Deferred Tax Liabilities			
Depreciation difference		**46.79**	60.13
Capital expenditure		**175.48**	172.87
	(A)	**222.27**	233.00
Deferred Tax Assets			
Unabsorbed depreciation and loss		**230.36**	214.77
Provisions		**12.07**	14.64
Inventory		**18.50**	18.95
	(B)	**260.93**	248.36
Net Deferred Tax Assets	(B-A)	**38.66**	15.36

As at March 31, 2012 and March 31, 2011, as a result of carried forward losses the deferred tax calculations result into a Deferred Tax Asset (DTA). The Company has recognized the DTA of ₹18.50 million based on virtual certainty of profits in the next quarter backed by profitable binding orders on hand.

₹ in Million

15. LOANS AND ADVANCES (Unsecured, Considered Good)

Particulars	Non-current		Current	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
Security Deposits	27.54	21.81	1.77	1.54
Balances with Central Excise	–	–	19.34	57.55
Advance to Suppliers	–	–	9.13	11.11
Advances recoverable in cash or in kind or for value to be received	27.50	27.55	130.37	120.54
Advance Payment against Taxes - Income Tax	–	–	28.38	22.19
TOTAL	55.04	49.36	188.99	212.93

16. OTHER ASSETS

Particulars	Non-current		Current	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
Interest Accrued on Deposits	9.40	9.13	0.87	0.91
Export Benefits Receivable	–	–	103.44	128.64
Unamortized premium on forward contracts	–	–	8.11	–
Rights Issue Expenses (Refer Note 5)	–	–	4.54	–
Cash and Bank Balances (Refer Note 19)	96.51	100.38	–	–
TOTAL	105.91	109.51	116.96	129.55

17. INVENTORIES

Particulars	As on March 31, 2012	As on March 31, 2011
Raw Materials	300.47	253.83
[Includes Goods-in-Transit of ₹5.85 million (March 31, 2011: ₹2.94 million)]		
Work in process	89.57	82.44
Finished Goods	484.75	424.19
[Includes Goods-in-Transit of ₹16.06 million (March 31, 2011: ₹Nil)]		
Stores and Consumables	49.39	38.70
TOTAL	924.18	799.16

₹ in Million

18. TRADE RECEIVABLES

Particulars	As on March 31, 2012	As on March 31, 2011
Trade Receivables (Unsecured unless stated otherwise)		
Outstanding for a period exceeding six months from the date they are due for payment		
Considered Good	**81.07**	81.07
Considered Doubtful	**24.26**	24.81
	105.33	105.88
Less: Provision for doubtful receivables	**24.26**	24.81
	81.07	81.07
Others - Considered Good	**883.05**	915.96
TOTAL	**964.12**	997.03

19. CASH AND BANK BALANCES

Particulars	Non-current		Current	
	As on March 31, 2012	As on March 31, 2011	As on March 31, 2012	As on March 31, 2011
CASH AND CASH EQUIVALENTS				
Balances with Scheduled Banks				
- On Current Accounts	**–**	–	**19.18**	14.94
Cash on Hand	**–**	–	**0.16**	0.21
	–	–	**19.34**	15.15
Other Bank Balances				
- On Unpaid Dividend Account	**–**	–	**0.63**	0.67
- Share Application				
- Money in Escrow Account	**–**	–	**0.24**	–
- Fixed Deposit Accounts with original maturity of more than 3 months and less than 12 months	**–**	–	**6.80**	36.50
- Fixed Deposit Accounts against Margin Money (Lien with banks against Letters of Credit issued)	**96.51**	100.38	**–**	–
	96.51	100.38	**27.01**	52.32
Amount disclosed under other head 'Other Non-Current Assets' (Refer Note 16)	**(96.51)**	(100.38)	**–**	–
TOTAL	**–**	–	**27.01**	52.32

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
20. REVENUE FROM OPERATIONS		
Sale of Products		
Finished Goods	4,543.19	4,018.82
Revenue from Operations (Gross)	4,543.19	4,018.82
Less: Excise Duty	58.16	49.69
Revenue from Operations (Net)	4,485.03	3,969.13
21. OTHER INCOME		
Interest Income	9.75	9.27
Miscellaneous Income	7.55	1.02
Foreign Exchange Gain (Net)	–	14.82
TOTAL	17.30	25.11
22. COST OF RAW MATERIALS CONSUMPTION		
Inventory at the beginning of the year	250.89	210.24
Add: Purchases	2,942.36	2,571.45
	3,193.25	2,781.69
Less: Inventory at the end of the year	294.62	250.89
TOTAL	2,898.63	2,530.80
23. (INCREASE)/DECREASE IN INVENTORIES OF WORK-IN-PROCESS AND FINISHED GOODS		
Inventory at the beginning of the year		
Finished Goods	424.19	402.58
Work-in-Process	82.44	72.34
	506.63	474.92
Inventory at the end of the year		
Finished Goods	468.69	424.19
Work-in-Process	89.57	82.44
	558.26	506.63
TOTAL	(51.63)	(31.71)
24. EMPLOYEE BENEFITS EXPENSE		
Salaries, Wages and Bonus	322.46	261.49
Contribution to Provident and Other Funds	26.60	26.01
Staff Welfare Expenses	10.18	9.81
	359.24	297.31

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
25. MANUFACTURING EXPENSES		
Stores and Consumables	51.87	47.26
Power and Fuel	158.36	136.22
Carriage Inwards	10.13	8.62
Repairs and Maintenance		
- Repairs to Buildings	6.42	6.25
- Repairs to Machinery	8.26	6.21
- Others	87.63	81.43
Effluent Treatment & Transport charges	39.72	26.00
Packing Material	20.79	18.70
Testing Charges	1.73	2.93
Decrease in provision for Excise duty on Finished goods	(0.03)	(0.11)
TOTAL	384.88	333.51
26. FINANCE COSTS		
INTEREST EXPENSE		
Interest on Working Capital	142.09	116.61
Interest on Term Loan	127.11	124.31
Other Interest	6.58	–
OTHER BORROWING COST		
Discounting & Negotiation Charges	15.70	18.84
Other Charges	41.26	38.61
TOTAL	332.74	298.37
27. OTHER EXPENSES		
Rent	9.54	11.29
Rates & Taxes	9.18	6.08
Travelling Expenses	49.82	52.47
Professional Charges	17.27	18.16
Remuneration to Auditors		
Statutory Audit	0.80	0.79
Tax Audit	0.24	0.20
Limited Reviews	0.75	0.60
Other Services	0.34	0.14
Out-of-pocket expenses	0.13	0.18
Insurance	18.14	22.86
Advertisement	3.70	4.98
Sales Commission	10.25	14.53
Selling and Distribution expenses	29.41	15.65
Freight and Forwarding charges	70.80	72.84
Provision for doubtful debts and advances	9.00	13.12
Less: Amount written back on collection	(4.58)	(3.93)
Foreign Exchange Loss (Net)	48.62	–
Loss on Sale of Assets (Net)	0.26	0.09
Sitting Fees	0.57	0.39
R&D Charges	111.09	102.45
Other Expenses	35.92	29.79
TOTAL	421.25	362.68

28. SEGMENT REPORTING

a. Company's operations are predominantly related to the manufacture of Bulk drugs, as such there is only one primary reportable segment. Secondary reportable segments are identified taking into account the geographical markets available to the products, the differing risks and returns and internal reporting system.

b. As a part of secondary reporting, in view of the management the Indian and export markets represent geographical segments.

Sales by market- The following is the distribution of the Company's sale by geographical market:

₹ in Million

Particular	2011 - 2012		2010 - 2011	
	Revenue	%	Revenue	%
India	842.22	19	756.05	19
Other than India	3,700.97	81	3,262.77	81
TOTAL	4,543.19	100	4,018.82	100

c. The Company does not track its assets and liabilities by geographical area.

29. RELATED PARTY TRANSACTIONS

Disclosure as required by the Accounting Standard - 18 are given below:

a. Name of the Related Parties and descriptions of Relationships

i. Key Management Personnel

Name	Nature of Relationship
Dr. D. R. Rao	Chairman & Managing Director
Mr. D. Sucheth Rao	Chief Executive Officer, Whole Time Director and son of Chairman & Managing Director
Mr. D. Saharsh Rao	President - Contract Research, Whole Time Director and son of Chairman & Managing Director
Mr. N.S. Viswanathan	Vice President (Finance)
Ms. Sarada Bhamidipati	Company Secretary
Mr. Tom Speace	President - Neuland Laboratories Inc., USA
Mr. Y. Kizawa	President - Neuland Laboratories K.K. Japan

ii. Relatives of Key Managerial Personnel

Name	Nature of Relationship
Mrs. D. Vijaya Rao	Wife of Chairman & Managing Director
Mrs. D. Rohini Niveditha Rao	Wife of Chief Executive Officer
Mrs. D. Deepthi Rao	Wife of President - Contract Research

iii. Others

Name	Nature of Relationship
Sucheth & Saharsh Holdings Private Limited	Enterprise owned or significantly influenced by Key Management Personnel

b. Transactions with related parties

₹ in Million

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Key Management Personnel		
- Remuneration	39.74	38.31
- Office maintenance	0.42	0.42
Others		
- Rent paid	0.82	0.75
- Inter-corporate deposit taken	30.00	22.50
- Interest on Inter-corporate deposit	6.58	–

c. Balances outstanding with Related Parties

Particulars	As on March 31, 2012	As on March 31, 2011
Receivables from		
- Others	6.43	2.21
Payables		
- Key Management Personnel	6.48	7.34
- Relatives of Key Management Personnel	0.12	0.03
- Others	52.50	22.71
Investment in Share Capital of Subsidiary Companies	2.81	2.81

30. EARNINGS PER SHARE

Computation of Basic and Diluted Earnings per Share

Particulars		Year ended March 31, 2012	Year ended March 31, 2011
Net Profit		25.61	52.89
Weighted average number of equity shares for computation of Earnings per Share			
- Basic		5,396,455	5,396,455
- Diluted		5,401,643	5,402,735
Earnings per Share			
- Basic	(₹)	4.75	9.76
- Diluted	(₹)	4.74	9.75

Note: On April 27, 2012, the Board of Directors approved the Basis of Allotment and allotted 2,248,523 equity shares of face value of ₹10 each at a premium of ₹35 per equity share. Computation of Basic and Diluted Earnings per Share after considering the rights issue is as below:

Particulars		Year ended March 31, 2012	Year ended March 31, 2011
Net Profit		25.61	52.89
Weighted average number of equity shares after considering shares issued pursuant to rights issue for computation of Earnings per Share			
- Basic		7,644,978	7,644,978
- Diluted		7,650,166	7,651,258
Earnings per Share			
- Basic	(₹)	4.23	8.73
- Diluted	(₹)	4.22	8.72

31. EMPLOYEE BENEFITS

₹ in Million

a. Gratuity (Funded)

	Particulars		Year ended March 31, 2012	Year ended March 31, 2011
i.	**Expense recognized in the Statement of Profit and Loss**			
	Current Service Cost		4.33	6.43
	Interest Cost		2.57	2.07
	Expected Return on Plan Assets		(0.28)	(0.55)
	Net Actuarial (Gains)/Losses		3.87	2.51
	Total Expense		10.49	10.46
ii.	**Net Assets/(Liability) recognized in the Balance Sheet**			
	Present Value of Defined Obligation		39.87	32.17
	Fair Value of Plan Assets		2.24	4.95
	Funded Status [Surplus/(Deficit)] Difference		(37.63)	(27.22)
	Net Asset/(Liability)		(37.63)	(27.22)
iii.	**Change in obligation during the year**			
	Present Value of the Defined Benefit Obligation at the			
	beginning of the year		32.17	25.88
	Current Service Cost		4.33	6.43
	Interest Cost		2.57	2.07
	Actuarial (Gains)/Losses		3.72	2.26
	Benefit Payments		(2.92)	(4.47)
	Present Value of the Defined Benefit Obligation			
	at the end of the year		39.87	32.17
iv.	**Change in assets during the year**			
	Fair Value of Plan Assets at the beginning of the year		4.95	9.12
	Difference in Opening Balance		0.08	–
	Expected Return on Plan Assets		0.28	0.55
	Contribution by Employer		–	
	Actual Benefits Paid		(2.92)	(4.47)
	Actuarial Gains/(Losses) on Plan Assets		(0.15)	(0.25)
	Fair Value of Plan Assets at the end of the year		2.24	4.95
v.	**Actuarial assumptions**			
	Discount rate	(%)	8.6	8.0
	Rate of Return on Plan Assets	(%)	8.0	8.0
	Salary Escalation Rate (Management Staff)	(%)	4.0	4.0
	Attrition rate	(%)	4.0	4.0
	Mortality		Standard Table	Standard Table
			LIC (1994-96)	LIC (1994-96)
			ultimate	ultimate
	Disability		No explicit	No explicit
			allowance	allowance

The amount of ₹10.49 million being the provision for gratuity is included in Contribution to Provident and Other Funds under Note 24 forming part of the financial statements.

The estimates of future salary increases considered in Actuarial valuation takes into account the inflation rate on long term basis.

₹ in Million

b. Leave Encashment

	Particulars	Year ended March 31, 2012	Year ended March 31, 2011
i.	**Expense recognized in the Statement of Profit and Loss**		
	Current Service Cost	(0.34)	(0.12)
	Interest Cost	0.88	0.89
	Expected Return on Plan Assets	–	–
	Net Actuarial (Gains)/Losses	0.34	1.99
	Total Expense	0.88	2.76
ii.	**Net Assets/(Liability) recognized in the Balance Sheet**		
	Present Value of Defined Obligation	10.61	10.96
	Fair Value of Plan Assets	–	–
	Funded Status [Surplus/(Deficit)] Difference	(10.61)	(10.96)
	Net Asset/(Liability)	(10.61)	(10.96)
iii.	**Change in obligation during the year**		
	Present Value of the Defined Benefit Obligation		
	at the beginning of the year/period	10.96	11.08
	Current Service Cost	(0.34)	(0.12)
	Interest Cost	0.88	0.89
	Actuarial (Gains)/Losses	0.34	1.99
	Benefit Payments	(1.22)	(2.88)
	Present Value of the Defined Benefit Obligation		
	at the end of the year	10.61	10.96
iv.	**Actuarial assumptions**		
	Discount rate (%)	8.60	8.00
	Rate of Return on Plan Assets (%)	–	–
	Salary Escalation Rate (Management Staff) (%)	4.00	4.00
	Attrition rate (%)	4.00	4.00
	Mortality	Standard Table	Standard Table
		LIC (1994-96)	LIC (1994-96)
		ultimate	ultimate
	Disability	No explicit	No explicit
		allowance	allowance

The amount of ₹0.88 million being the provision for leave encashment is included in Contribution to Provident and Other Funds under Note 24 forming part of the financial statements.

The estimates of future salary increases considered in Actuarial valuation takes into account the inflation rate on long term basis.

c. Contribution to Provident Fund - Defined Contribution Plan

Amount recognized and included in Note 24 forming part of the financial statements - 'Contribution to Provident and Other Funds' ₹11.91 million (March 31, 2011: ₹11.37 million).

32. In the opinion of the Board, all the assets other than fixed assets and non-current investments have a value on realization in the ordinary course of business at least equal to the amount at which they are stated in the financial statements.

33. CONTINGENT LIABILITY

a. Claims against the Company not acknowledged as debts

   i. Customs duty demand of ₹2.29 million including interest (March 31, 2011: ₹2.29 million). The same was adjusted against the pre-deposit of ₹4.00 million (March 31, 2011: ₹4.00 million) made by the Company. The Company has filed an appeal against the demand before the Appellate Tribunal, Chennai, which is yet to be decided. Simultaneously the Company also filed an appeal before Honorable High Court of Madras for refund of balance of Pre-deposit together with interest. As the export obligations against the material imported under DEEC scheme have been completed, the Company expects the outcome in its favour.

   ii. Andhra Pradesh Gas Power Corporation Limited and its shareholders (including Neuland) have filed writ petition before the Division Bench of High Court of A.P, which has been admitted and favourable interim orders have been granted. The Company has been advised that it has a strong case to succeed in the pending appeal.

   iii. Certain disputes, for unascertained amounts, are pending in the Labour Courts, A.P. As the chances of appellants succeeding in their claims being remote, the Company expects no liability on this account.

b. Unexpired Letters of Credit opened on behalf of the Company by Bank for the raw material amounting to ₹499.27 million (March 31, 2011: ₹537.79 million).

c. Bank Guarantees given by the Company to Central Excise and Customs and other Government authorities amounting to ₹13.10 million (March 31, 2011: ₹13.59 million).

d. A demand of ₹36.61 million was raised by the Income Tax Department for the Assessment Year 2009-10, by the Assessing Officer under section 143(3) of the Income Tax Act, 1961. The Company filed an appeal with Hon'ble CIT (Appeals) against the order.

34. CAPITAL AND OTHER COMMITMENTS

a. Estimated amounts of contracts on capital account to be executed and not provided for, net of advance ₹25.78 million (March 31, 2011: ₹1.28 million).

b. Neuland Laboratories Limited in collaboration with Cato Research Israel Limited, (a wholly owned subsidiary of Cato Research Inc., a global contract research and development organization based in USA) formed a joint venture in India styled as Cato Research Neuland India Private Limited on May 14, 2008. Neuland's share in the joint venture is 70%. The commitment towards initial share capital contribution is US $ 350,000- approximately ₹17.92 million. The Company contributed ₹1.22 million towards share capital as on March 31, 2012. The balance commitment as on March 31, 2012 is ₹16.70 million.

35. a. Particulars of unhedged foreign currency exposure as at Balance Sheet date

₹ in Million

Particulars	As on March, 2012		As on March, 2011	
	Foreign Currency	Indian Rupee	Foreign Currency	Indian Rupee
Foreign Currency Loan	US$ 3.33	170.77	US$ 5.02	224.26
Export Trade Receivables	US$ 12.57			
	EUR 0.18	738.84	US$ 17.58	785.79
	GBP 1.01			
Import Trade Payables	US$ 7.15		US$ 5.84	
	EUR 0.005	366.67	EUR 0.11	268.00

b. Details of forward contracts outstanding as at Balance Sheet date

Particulars	As on March, 2012	As on March, 2011
Currency	US$	US$
Number of contracts	30	–
Sell amount	9.69 Million	–
Purpose	To hedge receivables	–

Per our report attached

For **K. S. Aiyar & Co.**
Chartered Accountants
Registration No. 100186W

RAGHUVIR M. AIYAR
Partner
M.No. 38128

Hyderabad, May 3, 2012.

For and on behalf of the Board

Dr. D.R. Rao
Chairman & Managing Director

D. Sucheth Rao
Whole-time Director

D. Saharsh Rao
Whole-time Director

S.B. Budhiraja
Director

N.S. Viswanathan
Vice President (Finance)

Humayun Dhanrajgir
Director

G.V.K. Rama Rao
Director

Sarada Bhamidipati
Company Secretary

Nadeem Panjetan
Director

P.V. Maiya
Director

Fr. Nieuwland was the inspiration......

We are all inspired by great thoughts, thought leaders and their foot-prints. The impact can be permanent.

Julius Arthur Nieuwland, (1878-1936), PhD, a Belgian born Catholic priest, an alumni of the University of Notre Dame, USA and a Professor of Organic Chemistry, worked with a single-minded devotion on acetylene and ended up being the father of synthetic rubber. He created a formula that works.

He made a great impact with his industrial invention. His creation chloroprene, when polymerized, forms an elastic material very similar to fully vulcanized rubber. The new material is resistant to degradation by oil, sunlight, and air, and chloroprene rubber does not require the addition of sulfur for vulcanization. He had created history.

Father Nieuwland was an unassuming man who stayed mostly in his laboratory, often eating and sleeping there, stretched out on the lab bench, a rolled up lab coat as a pillow. He refused any royalties on his creation due to his vow of poverty as a priest.

His single-minded devotion to organic chemistry and his humble nature has inspired many generations of students at Notre Dame. Dr. D. R. Rao was one of them.

When he formed the Company, he decided to pay his tributes to this path finder. The name was kept Neuland (more easy to spell). The devotion to chemistry, the dedication to find solutions and the humble approach to life has remained the same.

Neuland logo
- what it represents

The one inverted triangle over another is indicative of the hour glass, suggesting that Neuland has found its rightful place in the time slot.

The deep filled in colours to the left of the angles depict Neuland's single-minded philosophy, viz. commitment to customer satisfaction, while the stripes to the right of the angles depict Neuland's expansion of capacities and newer facets of the business.

The oval ring moving across suggests two things:

Dynamism (true to Neuland's performance)

The chemical reaction process (true to Neuland's activities)

The point at which the oval ring meets is also the epicenter, suggesting that this is the point that sparks off Neuland's dynamic activity.

The logo represents the basic philosophy of the Company - dynamism and customer satisfaction.

Forward looking statements

Throughout this report to the share owners, we discuss some of our expectations regarding the Company's future performance. All of these forward looking statements are based on our current views and assumptions. Actual results could differ materially from these current expectations and from historical performance.

Our future results could also be affected by a variety of factors such as competitive dynamics in the market place, the impact of competitive products and pricing, product development, actions of competitors, changes in capital structure, changes in laws and regulations including changes in accounting standards, customer demand, effectiveness of marketing programs, consumer perception of health related issues, economic conditions including changes in interest rates, fluctuations in the cost and availability of supply-chain resources, and foreign economic conditions including currency rate fluctuations.

The Company undertakes no obligation to publicly revise any forward looking statements to reflect future events or circumstances.

Concept, Research, Design & Production
Capricorn Associates
Hyderabad

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