

Chairman's Statement – 2015-16

Dear Shareholders,

On behalf of the Board of Directors and on my personal behalf, I extend a very warm welcome to all of you to the 43rd Annual General Meeting of our Company. I trust by now, you would have received and reviewed the Annual Report for the year 2015-16. With your kind permission, I take it as read.

It is a time of the year when we take a look back at the period gone by and also discuss the way forward.

REACH

True to the philosophy - "Think of others also when you think about yourself", corporate entities do have a special and continuing responsibility towards the society.

"Children are the future of our nation. This future must be well preserved".

Therefore, to take care of the health of thousands of children, we have launched 'A Child Health Centric Initiative' - REACH i.e. Reach EAch CHild, under the aegis of Tornascent Care Institute, a Section 8 Company, jointly promoted by Torrent Power Limited and Torrent Pharmaceuticals Limited. This Programme is mainly directed at prevention of child health problems through proactive grassroot interventions and provision of corresponding diagnostic/treatment facilities. Through this programme, we aim to provide intrinsic value to the maximum possible target children of India, in general and Gujarat, in particular.

Paediatric health check-up camps were organised under the banner of "Shaishav" in many villages in the vicinity of the establishments of the Company. 7750 Children between the age of 6 months to 6 years were identified and medically examined in these camps. Post examination, remedial support under the supervision of doctors was provided to the needy anaemic and malnourished children. Support is also being provided to special cases with chronic ailments on need basis through further medical treatment and management. Mobile OPD with qualified doctors / pediatricians and paramedic staff has been started to supplement these activities and create a connect at the village level in the area of child health. We target to reach more than 25000 children in the Financial Year 2016-17.

With Concern for Society and Environment being a deep rooted core value of the Company; we are also making concerted efforts for creating awareness in the fields of Community Healthcare, Sanitation & Hygiene and providing support for Education & Knowledge Enhancement.

Financial Performance

The year 2015-16 has been a landmark in the journey of your company when we crossed the figure of USD 1 bn for our revenues. Some of the key highlights of the performance are-

- The revenues were at Rs. 6676 crores vs. Rs. 4356 crores in the previous year up by 43%.
- Operating Profit was at Rs. 2936 crores vs. Rs. 1306 crores in the previous year up by 125%.
- Profit After Tax was at Rs. 1722 crores vs. Rs. 751 crores in the previous year up by 129%.

The performance for the year was positively impacted by the successful launches of new products in the US market, which on account of low competition yielded exceptional growth in revenues and profit and the performance for the year needs to be seen in that context.

Some of the other highlights of the company performance for the year are ;

- Received Enterprise Inspection Report (EIR) from USFDA for Dahej and Indrad plants – commenced commercial dispatches from Dahej facility from 6th April 2016.
- India business growth at 15% despite impact of hygiene improvement measures and discontinuation of promotional schemes. Successful integration of Elder acquisition. Launched two biosimilars in India, to increase focus on specialty.
- Acquired and amalgamated USFDA approved Derma manufacturing facility of Zyg Pharma Private Limited at Pithampur, Indore.
- Political and economic turmoil leading to major devaluation of currency in Brazil overshadowed the strong growth in that market.

The Board of Directors had recommended the sharing of exceptional performance of the Company with the shareholders and distributed Rs. 35 per equity share by way of two interim dividends, which amount in total to more than 41% of the annual consolidated profits after tax of the Company.

Industry Scenario

Indian Market

Indian pharma industry has been facing several challenges – the constant pricing pressure from increasing coverage of products under NLEM, greater regulatory surveillance and evolving challenges in drug development. Despite these challenges, the industry is expected to emerge stronger and register a growth of more than 11% in the next 5 years which will be among the fastest in the world. The growth is primarily led by chronic segments like Cardiology, CNS, diabetology, GI etc.

Global Markets

Despite the instabilities in the global economy, political and social backdrop, the pharma industry continues to show a long term growth trend due to favourable demographic trends, significant unmet medical needs and higher government healthcare spending in Pharmamerging markets. Other growth drivers would be the use of generic medicine and patent expiries coupled with ageing population and improvements in medical technologies.

Marketing

India

The Indian business grew by 15% and has been outgrowing the market consistently over the last 5 years. This has been achieved despite the initial hiccups of implementation of several measures like discontinuation of promotion schemes of discounted business etc, aimed at long term stability and growth of the business. The focus continued on building a speciality driven business, scientific promotional practices and improvement in MR productivity. Three super speciality divisions - Gastro, Derma and Rheumatology – were launched during the year, in addition to structural alignment of gynec products.

USA

The world's largest pharmaceutical market, the USA, remains our prime focus. Your company is in the eighth position amongst all US generic Indian companies and has a market share of around 10%. During the previous year, the company registered a revenue growth of 221%, largely on account of new product launches in the market which had limited competition.

Your company received 7 ANDA approvals in the year under review. The new product pipeline consists of 14 pending approvals and 119 products under development. Torrent is significantly ramping up its pipeline with products like Ointments, Injectables and Specialty Oral solids in Oncology and is planning to launch 10 new products this year. The US business is expected to keep contributing significantly towards the growth of your company's business.

Brazil

In Brazil, torrent continues to be the no. 1 Indian company in terms of market share, despite de-growth of 17% as compared to the previous year. Such de-growth was mainly due to the political and economic instabilities causing a major devaluation of the currency. On account of significant overhaul in the regulatory process by the Brazilian regulatory agency ANVISA, we had got only four product approvals during the last four years. The situation is improving in and the current year three new product approvals are expected. The Company also has 19 products under approval.

Europe

The European business is primarily led by Germany. In Germany, Torrent holds 6th position with a market share of 4% and is ranked no. 1 amongst all Indian players. During the financial year, your company registered a revenue growth of 5% despite negative currency impact.

Research & Development

The growth potential in the Indian as well as the International markets has received firm and unstinted support from the Research and Development and the manufacturing facilities of the Company. You would be aware of the critical correlation of R&D and pharma marketing. The company has continuously built capabilities to cater to all the markets by developing complex generics, NDDS and speciality products in addition to the base capabilities in oral solids. The company has also recently filed its first derma ANDA, post the take over of Zyg Pharma.

Manufacturing

The initiation of commercial despatches from Dahej manufacturing plant during April 2016 will also enable the company to ramp up its product offerings in regulated markets such as US and Europe. The additional capacity would enable us to participate in larger contracts / tenders, thereby providing additional avenues of growth.

Your company has also undertaken setting up of a Greenfield manufacturing facility for Oncology and expansion of its current manufacturing plant at Sikkim.

People – Our Strength

At Torrent, we believe that Human Resources constitute one of the most important pillars that help in building such a strong foundation. With this strong belief, the Group redefined its employee welfare policies to enrich their personal, professional and social lives. Its gender diversity initiatives, its emphasis on the belief that every employee should effectively balance both - work and personal life, its efforts in encouraging the participation of employees and their family members on various occasions as "Torrent Parivar" which have helped in reshaping the work culture.

Way Forward

Going forward, your company will focus enduringly on specialties, field force productivity and robust pipeline of innovative dosage forms. Similarly, in order to strengthen the specialty driven model and to launch new MAbs, the company will be striving to achieve in-licensing deals with various companies.

In the international market while we will be focusing on harmonizing the marketing model and strengthening the New Product Pipeline, in Brazil the stress will be on building a stronger presence in the CVD & CNS markets.

We are confident that our R&D team will deliver the targeted NI pipeline in the next five years. The Company plans to significantly increase its R&D spend from the current 4% of revenues to 6-8% of revenues.

Board

The Board of your company has a leading Academician, an accomplished Professional, a leading Lawyer, an Accounting Professional and an accomplished Banker as Independent Directors. The sharp entrepreneurial ability, hard core and long years of relevant experience and the research and development focus are represented in the rest of the Board. This not only provide the platform for multifaceted deliberation and reflection for fine tuning company's strategies and decisions, but also enable a solid backdrop of Corporate Governance Practices. I also take this opportunity to express my gratitude to all my colleagues on the Board for their invaluable contribution and guidance.

Before I conclude, on behalf of Board of Directors and myself, I would like to thank all the stake holders and partners, including our customers and vendors, who have reposed great trust in us and our products. I also take this opportunity to reiterate Torrent's firm belief in assisting the medical fraternity and paving way for a bright future of medical science. I would also thank various Central and State Government bodies for their continued support. Above all, I would like to express my gratitude to all the shareholders for their cooperation and continued faith in the Company.

Thank you ladies and gentlemen for your kind attention.