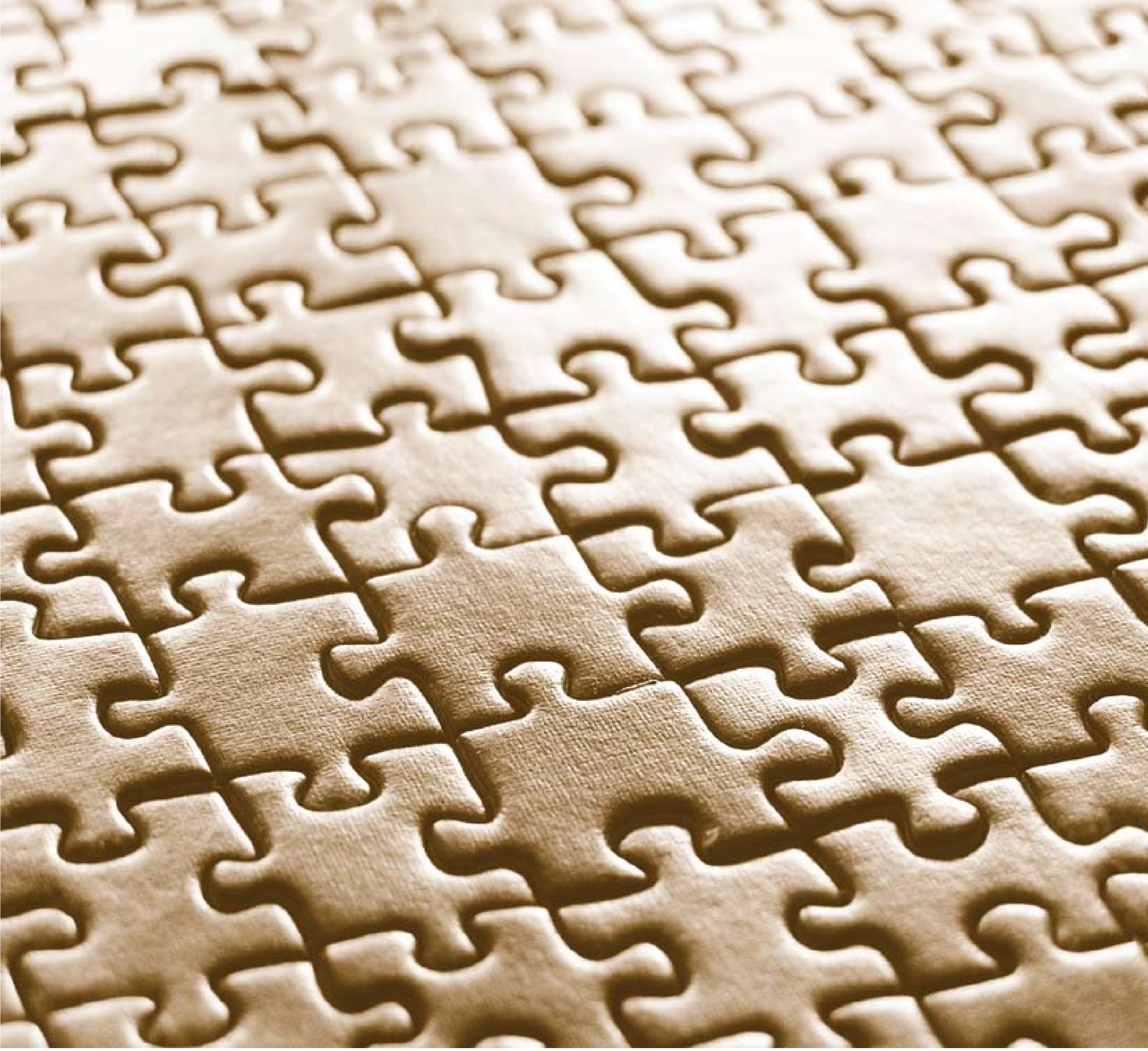


# Torrent Pharmaceuticals Limited

35th ANNUAL REPORT 2007-08

# CONTENTS

Each block of a jigsaw puzzle looks different from the others; yet it essentially forms the part of a single seamless whole. Just like our diverse operations, dispersed across a vast geographical territory, that operates as a cohesive force in a highly competitive and dynamic environment. A Research Centre dedicated to developing breakthrough products, manufacturing facilities committed to high quality at the most economical price, multinational presence with a strong global sales force in more than 50 countries, nine wholly owned subsidiaries in major markets of Europe, USA, Latin America and Asia Pacific. Together all of these guide us towards our single objective. Maximizing the returns of our stakeholders.

# CORPORATE INFORMATION

- **DIRECTORS**

  Sudhir Mehta
  Chairman

  Markand Bhatt

  S. H. Bhojani

  Dr. Prasanna Chandra

  Kiran Karnik

  Sanjay Lalbhai

  Mihir Thakore

  Dr. C. Dutt
  Director (Research & Development)

  Samir Mehta
  Managing Director

- **AUDIT COMMITTEE**

  Dr. Prasanna Chandra
  Chairman

  S. H. Bhojani

  Kiran Karnik

  Mihir Thakore

- **SECURITIES TRANSFER & INVESTORS' GRIEVANCE COMMITTEE**

  Sudhir Mehta
  Chairman

  Markand Bhatt

  Samir Mehta

- **GM (LEGAL) & COMPANY SECRETARY**

  Mahesh Agrawal

- **AUDITORS**

  C.C. Chokshi & Co.
  Chartered Accountants

- **REGISTERED OFFICE**

  Torrent House,
  Off Ashram Road,
  Ahmedabad 380 009
  Telephone: 079-26585090
  Fax: 079-26582100

- **MANUFACTURING FACILITIES**

  1) Village Indrad,
     Taluka Kadi,
     Dist. Mehsana (Gujarat)

  2) Village Bhud,
     Baddi, Teh. Nalagarh,
     Dist. Solan
     (Himachal Pradesh)

- **R & D FACILITY**

  Village Bhat,
  Dist. Gandhinagar (Gujarat)

- **WEBSITE**

  www.torrentpharma.com

- **REGISTRAR & TRANSFER AGENT**

  Karvy Computershare Private Ltd.,
  Unit: Torrent Pharmaceuticals Ltd.
  Plot No. 17 to 24,
  Vittalrao Nagar, Madhapur,
  Hyderabad 500 081
  Telephone: 040-23420818 - 24
  Fax: 040-23420814
  E-MAIL : einward.ris@karvy.com

- **INVESTOR SERVICES E-MAIL ID :**

  investorservices@torrentpharma.com

# DIRECTORS' REPORT

To

The Shareholders

The Directors have the pleasure of presenting the Thirty Fifth Annual Report of your Company together with the audited accounts for the year ended 31st March 2008.

## OPERATING RESULTS

The summary of standalone operating results for the year and appropriation of divisible profits is given below:

Rs. in Crores

| | 2007-08 | 2006-07 |
|---|---|---|
| Sales & Operating Income | **995.90** | 882.90 |
| Operating Profits (PBDIT) | **216.98** | 167.49 |
| Less Depreciation | **32.74** | 30.24 |
| Less Net Interest Expense | **18.40** | 13.15 |
| Profit Before Tax & Exceptional Items | **165.84** | 124.10 |
| Less Net Income Tax Expense | **10.32** | 11.14 |
| Net Profit for the Period | **155.52** | 112.96 |
| Balance brought forward from Last Year | **62.02** | 48.39 |
| Distributable Profits | **217.53** | 161.35 |
| Appropriated as under: | | |
| Transfer to General Reserve | **99.00** | 70.39 |
| Proposed Equity Dividend | **29.61** | — |
| Interim Dividend | — | 25.38 |
| Tax on Distributed Profits | **5.03** | 3.56 |
| Balance Carried Forward | **83.89** | 62.02 |
| Earnings Per Share | **18.38** | 13.35 |

The sales and operating income increased to Rs. 995.90 crores from Rs. 882.90 crores in the previous year yielding a growth of 12.80%. The export turnover aggregated to Rs. 235.91 crores registering a growth rate of 16.97%. The operating profit for the year under review increased to Rs. 216.48 crores as against Rs. 167.49 crores in the previous year registering a growth of 29.25%. The profits after tax for the year under review increased to Rs. 155.52 crores as against Rs. 112.96 crores in the previous year registering a growth of 37.70%. The earnings per share for the year was Rs. 18.38 as against Rs. 13.35 in the previous year.

### Consolidated Numbers

The consolidated sales of the Company and its subsidiaries was Rs. 1312.30 crores for 2007-08 (previous year Rs. 1263.33 crores). The consolidated net profit was Rs. 134.68 crores (previous year Rs. 93.51 crores) registering a growth of 44%. The consolidated profit was less than the stand-alone profit of the Company mainly due to unrealized profits in inventories supplied to subsidiaries and losses in Heumann.

### Management Discussion and Analysis (MDA)

The detailed analysis of the operating performance of the Company for the year, the state of affairs and the key changes in the operating environment has been included in the Management Discussion and Analysis section which forms a part of the Annual Report.

## APPROPRIATIONS

### Dividend

The Board has recommended a dividend of Rs. 3.50 per equity share (previous year dividend Rs. 3 per equity share), 70% on fully paid up face value of Rs. 5, amounting to Rs. 29.61 crores (previous year dividend Rs. 25.38 crores). The tax on distributed profits payable on this dividend is Rs. 5.03 crores (previous year Rs. 3.56 crores) making the aggregate distribution to Rs. 34.64 crores (previous year Rs. 28.94 crores). The distributed profits are 22% (previous year 26%) of the net profits for the year.

The proposed dividend would be tax free in the hands of the shareholders.

### Transfer to Reserves

The Board has recommended a transfer of Rs. 99 crores to the general reserve and an amount of Rs. 83.89 crores is retained in the profit and loss account.

## DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements for the year 2007-08, the Board of Directors state that:

i the applicable accounting standards have been followed in preparation of the financial statements and there are no material departures from the said standards;

ii reasonable and prudent accounting policies have been used in preparation of the financial statements and that they have been consistently applied and that reasonable and prudent judgments and estimates have been made in respect of items not concluded by the year end, so as to give a true and fair view of the state of affairs of the Company as at 31st March, 08 and of the profit for the year ended 31st March, 08;

iii proper and sufficient care has been taken for 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;

iv the financial statements have been prepared on a going concern basis.

## CAPITAL AND BORROWINGS

During the year, there was no change in the equity share capital of the Company.

The total outstanding long term loans from banks/ financial institution/others as on 31st March, 08 is Rs. 303.17 crores (previous year Rs. 245.90 crores). The Net worth stands at Rs. 585.25 crores as at 31st March, 08 representing an increase of Rs. 120.87 crores on account of retained earnings.

The Gross Fixed Assets increased by Rs. 107.80 crores representing capital expenditure on land acquisition for new projects, expansion of formulation manufacturing facility, expansion of Research & Development facility and other maintenance capital expenditure. Long term investments increased by Rs. 27.58 crores mainly on account of increase in investments in subsidiaries and strategic investment to get a foothold in identified markets. The above activities were funded mainly from the term loans and internal accruals.

The Company had cash and cash equivalents aggregating to Rs. 133.17 crores as on 31st March, 08 as against Rs. 10.25 crores as on 31st March, 08. This increase is largely on account of significant increase in cash generated from operating activities. The Company has sufficient financial flexibility, in terms of available committed facilities from banks / financial institution to finance the future growth plans and capitalize on emerging opportunities.

## SUBSIDIARIES

Brief review of the important subsidiaries is given below.

### ZAO Torrent Pharma (ZAO TP), Russia

ZAO Torrent Pharma, the wholly owned subsidiary of the Company in Russia, is essentially an importing and distributing company, sourcing its entire requirement from the Company. For the year 2007-08 ZAO TP achieved revenue of RRU 304.58 million (Rs. 49.04 crores), an increase of 11.60% from RRU 258.51 million (Rs. 43.95

crores) for the previous year. Net loss after tax for the year was at RRU 4.23 million (Rs. 0.97 crores) as against a net loss after tax of RRU 40.58 million (Rs. 7.00 crores) for the previous year. At consolidated level, for the year 2007-08, the Russia & CIS operations of the Company registered revenue of Rs. 61.87 crores (previous year Rs. 58.91 crores).

**Torrent Pharma GmbH (TPG), Germany**

During the year, TPG earned revenues of euro 2.98 million (Rs. 17.02 crores) as compared with euro 2.46 million (Rs. 14.38 crores) for the previous year. Net profit for the year was at euro 0.67 million (Rs. 3.84 crores) as against a profit of euro 0.12 million (Rs. 1.11 crores) for the previous year. At a consolidated level, for the year 2007-08, the European operations (other than Heumann) earned revenue of Rs. 82.14 crores as against revenue in the previous year of Rs. 54.12 crores.

### Heumann Pharma GmbH & Co Generica KG (Heumann), Germany

Heumann posted revenues of euro 38.15 million (Rs. 217.74 crores) for the financial year 2007-08 as compared with euro 46.56 million (Rs. 271.82 crores) for the previous year. Net loss for the year was euro 3.48 million (Rs. 20.14 crores) as against a net loss of euro 3.86 million (Rs. 20.34 crores) for the previous year. At a consolidated level for the year 2007-08, Heumann earned revenue of Rs. 222.98 crores as against Rs. 276.10 crores in the previous year.

### Torrent do Brasil Ltda. (TdBL), Brazil

During the year, TdBL achieved revenues of Reais 81.39 million (Rs. 177.11 crores), as compared with Reais 79.51 million (Rs. 166.89 crores) in the previous year, registering a growth of 6.10%.

TdBL earned a net profit after tax of Reais 3.69 million (Rs. 8.68 crores), as compared to a net profit after tax of Reais 3.43 million (Rs. 8.55 crores) in the previous year. At a consolidated level, the Brazilian operations earned revenue of Rs. 178.97 crores compared with Rs. 167.74 crores in the previous year.

Torrent Pharma Philippines Inc. (TPPI) and Torrent Pharma Inc. (TPI) were formed to develop business in Philippines and North America. These companies have commenced selling operations and are likely to have significant business potential. Torrent Australasia Pty. Ltd, Laboratorios Torrent S.A. de C.V. and Torrent Pharma Japan Co. Ltd. are at their formative stages and have not commenced any revenue generating activities.

## INSURANCE

The Company's plant, property, equipments and stocks are adequately insured against major risks. After taking into account all the relevant factors, including the risk benefit trade-off, the Company has consciously decided not to take insurance cover for loss of profit under the Consequential Loss (Fire) Policy. The Company also has appropriate liability insurance covers particularly for product liability and clinical trials.

## DIRECTORS

Markand Bhatt, Sanjay Lalbhai and Prof. S. Ramnarayan[1] are liable to retire by rotation at the ensuing Annual General Meeting and being eligible have been proposed for re-appointment. The details of their re-appointment together with nature of their expertise in specific functional areas and names of the companies in which they hold office of a Director and/or the Chairman/Membership of committees of the Board, are provided in the notice of the ensuing Annual General Meeting.

## CORPORATE GOVERNANCE

As required by clause 49 of the listing agreement, a separate report on corporate governance forms part of the Annual Report. A report from the statutory auditors of the Company regarding compliance of conditions of corporate governance forms a part of this report as Annex 3.

## AUDITORS

The Auditors, C. C. Chokshi & Co., Chartered Accountants retire at the ensuing Annual General Meeting and are eligible for re-appointment as Auditors.

[1] Prof. S. Ramnarayan resigned from the Board w.e.f. 7th May, 08 after the date of this report.

The Audit Committee in their meeting held on 6th May 2008 has recommended the re-appointment of C. C. Chokshi & Co.

## CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, ETC.

A statement containing the necessary information required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed to this report as Annex 1.

## PARTICULARS OF EMPLOYEES

The information required under section 217(2A) of the Companies Act, 1956, read with Companies (Particular of Employees) Rules, 1975, forms part of this report as Annex 2. However, as permitted by section 219(1)(b)(iv) of the Companies Act, 1956, this Annual Report is being sent to all shareholders excluding the said Annex. Any shareholder interested in obtaining the particulars may obtain it by writing to the Company Secretary at the registered office of the Company.

## APPRECIATION AND ACKNOWLEDGEMENTS

Your Directors appreciate the trust reposed by the medical fraternity and patients in the Company and look forward to their continued patronage. The Directors are also grateful and pleased to place on record their appreciation for the excellent support, guidance and cooperation extended by the Government of India, Government of Gujarat, Government of Himachal Pradesh, Gujarat Urja Vikas Nigam Ltd, Himachal Pradesh State Electricity Board, other Central and State government bodies, Financial Institutions and Banks. The Board also expresses its appreciation of the understanding and support extended by the shareholders and employees of the Company.

For and on behalf of the Board

Ahmedabad,
6th May, 2008

**Sudhir Mehta**
Chairman

# ANNEX 1 TO DIRECTORS' REPORT

Particulars required under The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

## A. CONSERVATION OF ENERGY

(a) **Energy conservation measures taken during the year**

1. Installation of two centrifugal chillers has resulted in saving of Rs. 140 lacs during the current financial year.
2. Three energy saving units installed for formulation lighting is expected to result in energy saving of more than 15%.
3. One screw chiller was installed resulting in annual savings of Rs. 11 lacs.
4. Installing a bypass ducting of all dehumidifiers is expected to result in savings of Rs. 10 lacs annually.

(b) **Additional investment and proposals, if any, being implemented for reduction of consumption of energy**

1. Installation of solar water system is proposed for hot water calorifier. Proposed investment being Rs. 1.05 crores and savings expected during the current financial year would be Rs. 20 lacs.
2. Installation of 42 Nos of VFDs in AHUs with proposed savings of Rs. 15 lac/year.
3. Three units of ED2000 are planned to be installed in centrifugal chiller & screw chiller with an investment of Rs. 9 lacs. The estimated annual savings would be Rs 8 lacs.

(c) **Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods**

The above measures have helped the Company in effective and economic consumption of electricity, fuel and reduced the energy expenses. The specific benefits have been mentioned in the respective heads under clauses (a) and (b) above.

(d) **Particulars with respect to the conservation of energy are given below.**

**I. Power and Fuel Consumption*:**

| 1 | | **Electricity** | **2007-2008** | 2006-2007 |
|---|---|---|---|---|
| | a | Purchased Units (KWH in lacs)<br>Total Amount (Rs. in lacs)<br>Average Rate (Rs.) | **219.73**<br>**1093.50**<br>**4.98** | 193.28<br>943.92<br>4.88 |
| | b | Own generation through DG sets (KWH in lac units)<br>Units Generated per liter of diesel<br>Cost of Fuel per Unit | **34.09**<br>**3.65**<br>**7.90** | 29.15<br>3.64<br>8.39 |
| 2 | | **Fuel Consumption** | | |
| | a | Furnace Oil (in lac liters)<br>Total Amount (Rs. in lacs)<br>Average Rate (Rs. / liter) | **23.12**<br>**509.17**<br>**22.02** | 30.08<br>600.66<br>19.97 |

* For plants at Indrad, Gujarat and Baddi, H P

**II. Consumption per unit of production:**

The Company manufactures several drug formulations in different pack sizes and bulk drugs. It is, therefore, impractical to apportion the consumption and cost of utilities to each formulation and bulk drug.

## B. TECHNOLOGY ABSORPTION

Particulars with respect to technology absorption are given below:

### Research and Development (R & D)

**1. Specific areas in which R&D is carried out by the Company**

The Company's R&D Centre is engaged in the discovery of New Chemical Entities (NCEs) and is also developing new processes and suitable formulations for known Active Pharmaceutical Ingredients (APIs) and value-added & differentiated formulations on NDDS platforms.

2. **Benefits derived as a result of the above R & D**

- As at March 08, 11 ANDA and 6 DMF filed in US and 17 new product Dossiers completed in the European Union.
- Five processes for APIs were developed and transferred to plant during the year.

  588 patents filed for NDDS technology, drug discovery projects and innovative process of API & formulations for various markets and 163 have been granted so far.

3. **Future plan of action**

- Drug discovery projects would be continued in focused therapeutic areas. Building capabilities and infrastructure for Preclinical development and clinical trials required for NCEs is being pursued aggressively.
- Efforts would continue for development of new, value added and differentiated formulations and new innovative processes for APIs. Efforts would also continue to explore novel technologies for formulation development.

4. **Expenditure on R & D**

| | **2007-08 (Rs. in crores)** |
|---|---|
| a. Capital expenses | 21.76 |
| b. Revenue expenses | 91.41 |
| Total (a+b) | 113.17 |
| c. Total R&D expenditure as a percentage of turnover | **11.67** |

**Technology absorption, adaptation and innovation**

1. **Efforts, in brief, made towards technology absorption, adaptation and innovation.**

   The developed technologies and the processes were used to manufacture APIs and formulations for commercial purpose for domestic as well as international markets.

2. **Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution etc.**

   New products broadened the product basket of the Company and further strengthened the Company's image as research-based organization.

3. **Information in case of imported technology (imported during the last five years reckoned from the beginning of the financial year)**

| **Technology Imported** | **Year of Import** | **Whether fully absorbed** |
|---|---|---|
| Real Time PCR Technology and Telemetry techonology for drug discovery | 2002-03 | Yes |
| Silicon Graphic Workstation Octane, Parallel Organic Synthesizer, Microwave Synthesize & Robotic Liquid Handling System for drug discovery Programs | 2003-04 | Yes |
| Biotransformation & Metabolism Database, ACD-PK & LogD software, ADME capabilities, Multiplexing apparatus with Mass Spectrometer, low-density gene expression array technology | 2005-06 | Yes |
| Advanced modeling tools such as TOPKAT, HypoRefine software module Millar Pressure-Volume Systems (MPVS) | 2006-07 | Yes |

## C FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company used foreign exchange amounting to Rs. 98.14 crores and earned foreign exchange amounting to Rs. 232.74 crores during the year 2007-08 as compared to last year's Rs. 95.30 crores and Rs. 173.67 crores respectively.

## Auditors' Certificate on Corporate Governance

**To the Members of**
**Torrent Pharmaceuticals Limited**

We have examined the compliance of conditions of corporate governance by **Torrent Pharmaceuticals Limited,** for the year ended on 31st March, 2008, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the Management. Our examination was limited to a review of the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of an 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 based on the representations made by the Directors and the Management, we certify that the Company has complied with the conditions of the corporate governance as stipulated in Clause 49 of 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 C.C.Chokshi & Co.,**
Chartered Accountants

(**Gaurav J.Shah)**
Partner
Membership No.35701

Ahmedabad,
6th May, 2008

# REPORT ON CORPORATE GOVERNANCE

The Securities and Exchange Board of India (SEBI) ushered in a formal code of corporate governance (hereafter the Code) through Clause 49 in the listing agreement executed by the Company with stock exchanges. Clause 49 lays down several corporate governance practices which listed companies are required to adopt. The Code has been periodically upgraded to ensure the adoption of best corporate governance practices by the corporates. While most of the practices laid down in clause 49 require mandatory compliance, few are recommendatory in nature. This report sets out the compliance status of the Company with the requirements of corporate governance, as set out in Clause 49, for the financial year 2007-08.

### Company's Philosophy on Corporate Governance

The Company believes that the Code prescribes only a minimum framework for governance of a business in corporate framework. The Company's philosophy is to develop this desired minimum framework and institutionalise the spirit it entails. This will lay the foundation for further development of superior governance practices, which are vital for growing a successful business. The Company recognises that transparency, disclosure, financial controls and accountability are the pillars of any good system of corporate governance.

## 1. BOARD OF DIRECTORS

The Board comprises of 10 directors of which 8 are non-executive directors (80% of the Board strength) and 6 are independent directors (60% of the Board strength). The composition of the Board complies with the requirements of the Code.

The Board of Directors of the Company met four times during the year on 23-May-07, 31-Jul-07, 30-Oct-07 and 31-Jan-08.

Composition of Board and other related matters:

| Name of the Director | Category | No. of other Directorships held[1] | No. of other Board Committees of which Member / Chairman[1] | Board meetings attended | Attendance at the last AGM |
|---|---|---|---|---|---|
| Sudhir Mehta, Chairman | NED | 5 | 1 (as Member) | 4 | Yes |
| Markand Bhatt | NED | 3 | 1 (as Member) | 4 | Yes |
| S. H. Bhojani | NED (I) | 2 | 1 (as Member) | 4 | Yes |
| Dr. Prasanna Chandra | NED (I) | Nil | Nil | 4 | Yes |
| Kiran Karnik | NED (I) | 1 | Nil | 3 | Yes |
| Sanjay Lalbhai | NED (I) | 2 | 1 (as Member) | - | No |
| Prof. S. Ramnarayan | NED (I) | 1 | Nil | 3 | Yes |
| Mihir Thakore | NED (I) | Nil | Nil | 2 | Yes |
| Dr. C. Dutt, Director (Research & Development) | WTD | Nil | Nil | 4 | Yes |
| Samir Mehta, Managing Director | WTD | 3 | 1 (as Member) | 4 | Yes |

**Notes:**

1 This number excludes the directorships / committee memberships held in private limited companies, foreign companies, companies registered under Section 25 of the Companies Act, 1956 and that of the Company. Also it includes the Chairmanship/Membership only in the Audit Committee and Shareholders' Grievance Committee.

2 NED – Non-executive Director; NED (I) – Non-executive & Independent Director; WTD – Whole Time Director.

3 Sudhir Mehta and Samir Mehta are brothers, none of the other Directors have any *inter se* relation-ship.

Markand Bhatt, Sanjay Lalbhai and Prof. S. Ramnarayan [1] are liable to retire by rotation at the forthcoming Annual General Meeting and being eligible, have offered themselves for re-appointment. Relevant details pertaining to

[1] Prof. S. Ramnarayan resigned from the Board w.e.f. 7th May, 08 after the date of this report.

them are provided in the Notice of the Annual General Meeting. Dr. C. Dutt, Director (Research & Development) has been re-appointed for a period upto 31st December 11, w.e.f. 1st July, 08 subject to Shareholders approval.

## 2. AUDIT COMMITTEE

During the year under review, four meetings of the Committee were held on 23-May-07, 31-Jul-07, 30-Oct-07 and 31-Jan-08.

The composition of the Committee as on 31-Mar-08 as well as the particulars of attendance at the Committee during the year are given in the table below:

| Name | Category of Directorship | Qualification / Competence | No. of meetings attended |
|---|---|---|---|
| Dr. Prasanna Chandra, Chairman | Independent non-executive | MBA, Ph.D. in Finance | 4 |
| S. H. Bhojani | -- do -- | B.Sc., LL.M. | 4 |
| Kiran Karnik | -- do -- | B.Sc. (Hons.), PGDBM-IIM-A | 3 |
| Mihir Thakore | -- do -- | B.Com, LL.B., Senior Advocate | 2 |
| Samir Mehta* | Managing Director | B.Com, M.B.A. | 1 |

* cease to be a member of the Committee with effect from 23rd May, 07

The composition of the Committee complied with the requirements of Clause 49 of listing agreement and Section 292A of the Companies Act, 1956.

The Chairman of the Audit Committee attended the Annual General Meeting of the Company.

The Company Secretary acts as the Secretary to the Audit Committee. In addition to the above, the Committee meetings were also attended by the General Manager (Accounts), Vice President (Finance), Executive Director (Finance), Statutory Auditors and Internal Auditors. Cost Auditor and other executives of the Company also attended the meeting as and when required.

The broad terms of reference of the Committee are to review and recommend the financial statements and to review the adequacy of internal control systems and internal audit function. The detailed terms of reference of the Committee as approved by the Board are given below:

- i Reviewing internal controls and internal audit function and their adequacy with the management / internal auditors.
- ii Reviewing with the management, performance of statutory and internal auditors.
- iii Oversight of the financial reporting process / disclosures and review of interim and annual financial statements before Board approval.
- iv Appointment/ re-appointment/ replacement/ removal of statutory auditors and fixation of their audit fees and fees for other services.
- v Periodic discussions with the statutory auditors of the Company (whether before, during or after the audit) on internal control systems, nature and scope of audit, audit observations and areas of concern, if any.
- vi Investigate any matter referred to it by the Board or within its terms of reference.
- vii Review the outcome of internal investigations of material fraud, irregularity and failure of internal control system.
- viii To look into substantial defaults, if any, in payments to depositors, debenture-holders, creditors and shareholders.
- ix Discussion with the internal auditors any significant findings and follow up thereon.
- x Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  - a Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956.
  - b Changes, if any, in accounting policies and practices and reasons for the same.
  - c Major accounting entries involving estimates based on the exercise of judgment by management.

- d Significant adjustments made in the financial statements arising out of audit findings.
- e Compliance with listing and other legal requirements relating to financial statements.
- f Disclosure of any related party transactions.
- g Qualifications in audit report, if any.

xi To review the following information:

- a Management Discussion and Analysis of financial conditions and results of operations;
- b Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
- c Management letters / letters of internal control weaknesses issued by the Statutory Auditors;
- d Internal audit reports relating to internal control weaknesses; and
- e The appointment, removal and terms of remuneration of the chief internal auditor.

In addition to the above, the Committee shall have such functions / role / powers as may be specified in the Companies Act, Listing Agreement with stock exchanges or any other applicable law.

## 3. SHAREHOLDERS COMMITTEE

The Securities Transfer & Investors' Grievance Committee, as a sub-committee of the Board, *inter alia,* reviews shareholder / investor grievances. The Committee met 9 times during the year. The constitution and functioning of the Committee is given in the table below:

| Name of Director | Category | No. of meetings attended |
|---|---|---|
| Sudhir Mehta, Chairman | Non-Executive Director | 9 |
| Markand Bhatt | Non-Executive Director | 9 |
| Samir Mehta | Managing Director | 9 |

Mahesh Agrawal, General Manager (Legal) & Company Secretary, provided secretarial support to the Committee and was also the designated Compliance Officer for such matters.

The equity shares of the Company are compulsorily traded in electronic form on the stock exchanges and hence the handling of physical transfer of shares is minimal. The table below sets out details of pending transfers of equity shares as at 31st March 2008:

| Duration | Transfers pending | Nature / Reason |
|---|---|---|
| 0 – 15 days | Nil | --- |
| 16 – 30 days | Nil | --- |
| > 30 days | 9 cases (4400 equity shares) | Legal cases |

During the year the Company received 22 complaints from the shareholders and the same were attended within a reasonable period of time. No compliant was pending as on 31st March 2008.

## 4. MANAGERIAL REMUNERATION

**Remuneration Committee**

This is a non-mandatory requirement of Clause 49 of the listing agreement. The Board has not formed a remuneration committee and all decisions on appointment and remuneration of directors are taken by the Board of Directors and approved by the shareholders in general meeting.

**Managing Director / Whole Time Director**

The remuneration of Samir Mehta, Managing Director was fixed by the Board and approved by the shareholders at the Annual General Meeting held on 21st July, 2006. His remuneration has been revised with effect from 1st April, 2008 subject to Shareholders approval. Appointment and remuneration of Dr. C. Dutt, Whole Time Director (Research & Development) was approved for a period of 5 years with effect from 1st July, 2003. Dr. Dutt has been re-appointed for a period upto 31st December, 11 w.e.f. 1st July, 2008 subject to Shareholders approval.

**Independent Non Executive Directors (INEDs)**

1. INEDs are compensated for their services to the Company by way of commission. Shareholders have approved a ceiling of 0.50% of net profits as the ceiling of aggregate of such commission.
2. Within the ceiling Chairman of the Board has power to decide the commission amount for each of the INED. The commission was determined on basis of duration of appointment during the year and participation at Board and Committee meetings.
3. In case of inadequacy of profits, commission upto Rs. 3 lacs shall be payable as minimum remuneration to each INED who is also member of any committee of the directors and upto Rs. 2 lacs to each INED who is not a member of any such committee of the directors subject to approval of shareholders.
4. The commission for any financial year shall become due on approval by the Board of financial statements for that year.

Details of remuneration of Directors for the year 2007-08 are as under: Rs in lacs

| Names of Directors[$] | Sitting Fees | Salary & Perquisites[#] | Commission | Total |
|---|---|---|---|---|
| Sudhir Mehta, Chairman | Nil | Nil | Nil | Nil |
| Markand Bhatt | Nil | Nil | Nil | Nil |
| S. H. Bhojani | Nil | Nil | 3.20 | 3.20 |
| Dr. Prasanna Chandra | Nil | Nil | 3.20 | 3.20 |
| Kiran Karnik | Nil | Nil | 2.40 | 2.40 |
| Sanjay Lalbhai | Nil | Nil | Nil | Nil |
| Prof. S. Ramnarayan | Nil | Nil | 1.50 | 1.50 |
| Mihir Thakore | Nil | Nil | 1.60 | 1.60 |
| Dr. C. Dutt, Director (Research & Development) | Nil | 124.83 | Nil | 124.83 |
| Samir Mehta, Managing Director | Nil | 111.42 | 200.00[##] | 311.42 |
| **Total** | **Nil** | **236.25** | **211.90** | **448.15** |

**Notes:**

$ The terms of appointment of all whole time directors are governed by the resolutions of the shareholders and applicable rules of the Company. None of the directors are entitled to a severance fees.

# Includes salary, house rent allowance, contribution to provident / gratuity / superannuation funds and approved perquisites. Directors have not been granted any stock options during the year.

## Commission as approved by the Board subject to a maximum of 3% of eligible net profits amounting to Rs. 489.66 lacs.

Amarchand Mangaldas & Suresh A Shroff & Co., a law firm in which Mr. S. H. Bhojani, an Independent Non-executive Director, is a partner, were paid Rs. 0.91 lacs as professional fees for legal services provided during the year. Apart from above, there were no other pecuniary relationship / transactions with the non-executive Directors.

**Shareholding of Non-executive Directors**

Markand Bhatt, Non-executive Director holds 400 equity shares of the Company. Sudhir Mehta, Non-executive Director holds 55,20,876 shares of the Company. None of the other Non-executive Directors hold any shares / convertible instruments of the Company.

## 5. GENERAL BODY MEETINGS

Details of the Annual General Meetings (AGM) and Extra Ordinary General Meetings (EGM) during last three years are as under:

| AGM / EGM | Date | Time | Venue | No. of special resolutions passed |
|---|---|---|---|---|
| 32nd AGM | 26-Jul-05 | 10:00 AM | Sheth M.G. Memorial Town Hall, Ellisbridge, Ahmedabad – 380 006. | 2 |
| EGM | 25-Jan-06 | 10:00 AM | -- do -- | 1 |
| 33rd AGM | 21-Jul-06 | 9:30 AM | H.T.Parekh Convention Center, Ahmedabad Management Association, Vastrapur, Ahmedabad – 380 015 | 1 |
| 34th AGM | 31-Jul-07 | 9:30 AM | -- do -- | – |

All the special resolutions indicated above were passed by show of hands. The Company has not passed any shareholder resolution through postal ballot during the year under reference. During the current year no resolution is proposed to be passed through postal ballot.

## 6. DISCLOSURES

### a. Legal Compliances

The Company follows a formal management policy and system of legal compliance and reporting to facilitate periodical review by the Board of compliance status of laws applicable to the Company and steps taken to rectify non-compliances, if any.

There were no instances of material non-compliance and no strictures or penalties were imposed on the Company either by SEBI, Stock Exchanges or any statutory authorities on any matter related to capital markets during the last three years.

### b. Code of Business Conduct

The Code of Business Conduct adopted by the Company has been posted on the web site of the Company. The members of the Board and senior management of the Company have submitted their affirmation on compliance with the Code of Business Conduct for the effective period. The declaration by the Managing Director to that effect forms part of this report as Annex 1.

### c. Related Party Transactions

Transactions with related parties are disclosed in detail in Note 21 of Schedule 22 annexed to the financial statements for the year. Adequate care was taken to ensure that the potential conflict of interest did not harm the interests of the Company at large.

### d. Mandatory & Non-Mandatory Clauses

The Company has complied with all mandatory requirements laid down by the Clause 49. The non-mandatory requirements complied with have been disclosed at the relevant places.

## 7. COMMUNICATION TO SHAREHOLDERS

During the year, audited quarterly, half-yearly and annual financial results on the standalone basis and un-audited quarterly & half-yearly and audited annual financial results on the consolidated basis of the Company were submitted to the stock exchanges soon after the Board meeting approved these and were accordingly published for first quarter and with effect from second quarter, considering amendment in Clause 41 of Listing Agreement, un-audited consolidated financial results were published in two leading newspapers – The Business Standard (English) & Jaihind (Gujarati). These were also promptly put on the Company's website www.torrentpharma.com. All official news release of relevance to the investors are also made available on the website for a reasonable period of time.

## 8. GENERAL SHAREHOLDER INFORMATION

### a 35th Annual General Meeting

| | |
|---|---|
| Date & Time | Tuesday, 29th July, 2008 at 9:30 AM |
| Venue | H. T. Parekh Convention Center, Torrent AMA Center, 1st Floor, Ahmedabad Management Association, Vastrapur, Ahmedabad – 380 015 |

### b Tentative Financial Calendar for the year 2008-09

| | |
|---|---|
| Financial year | 1-April to 31-March |
| First Quarter results | Fourth week of July 2008 |
| Half Yearly results | Fourth week of October 2008 |
| Third Quarter results | Fourth week of January 2009 |
| Results for year-end | Third week of May 2009 |

### c Date of Book Closure

23rd June, 2008 to 25th June, 2008 (both days inclusive).

### d Dividend payment date

The proposed dividend, if approved at the ensuing AGM will be distributed on or around 2nd August, 2008.

### e Listing on Stock Exchanges and Security Codes

| Name of Stock Exchange | Security Code |
|---|---|
| Bombay Stock Exchange Ltd., Mumbai (BSE) | 500420 |
| The National Stock Exchange of India Ltd., Mumbai (NSE) | TORNTPHARM |

The Company has paid the annual listing fees for the year 2008-09 to both of the above stock exchanges.

### f Market Price Data

The closing market price of equity share on 31st March, 2008 (last trading day of the year) was Rs.141.40 on BSE and Rs. 140.80 on NSE.

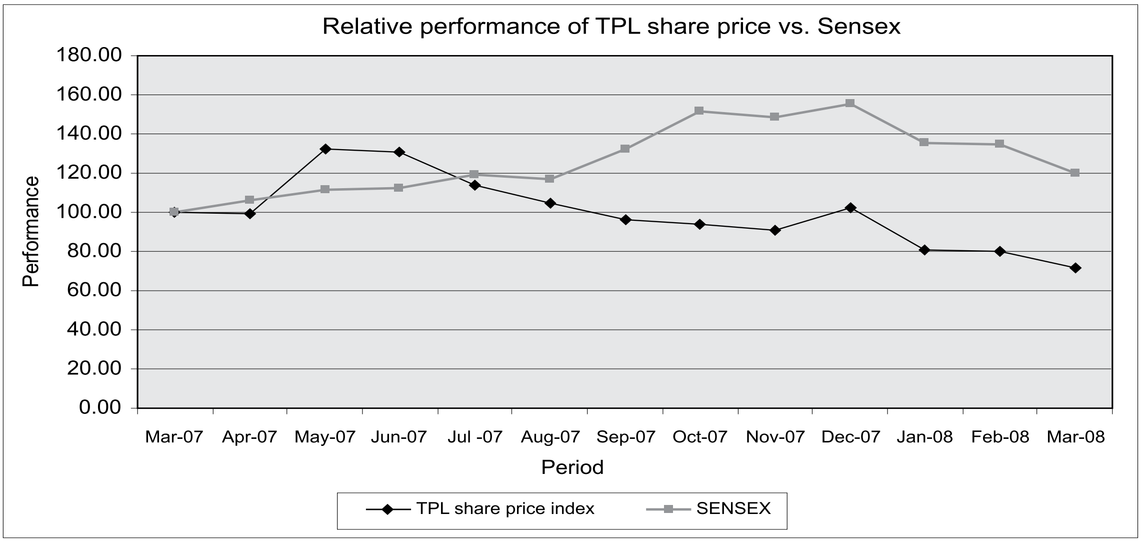
The monthly movement of equity share prices during the year at BSE & NSE are summarized as herein below:

| **Monthly Share Price movement during 2007-08 at BSE & NSE** | | | | | | |
|---|---|---|---|---|---|---|
| **Month** | **BSE** | | | **NSE** | | |
| | **High** | **Low** | **Volume** | **High** | **Low** | **Volume** |
| Apr – 07 | 204.00 | 191.70 | 205,342 | 209.00 | 190.00 | 143,654 |
| May – 07 | 270.00 | 190.00 | 1,312,879 | 269.00 | 180.00 | 1,684,573 |
| Jun – 07 | 265.00 | 232.50 | 455,596 | 264.90 | 229.30 | 615,230 |
| Jul – 07 | 272.15 | 217.50 | 397,281 | 290.00 | 211.00 | 436,281 |
| Aug– 07 | 225.05 | 198.90 | 221,199 | 235.00 | 199.90 | 426,876 |
| Sep – 07 | 219.00 | 180.65 | 801,428 | 221.00 | 180.00 | 798,875 |
| Oct – 07 | 197.00 | 173.05 | 3,991,504 | 195.00 | 166.30 | 1,951,941 |
| Nov – 07 | 202.00 | 176.65 | 1,245,158 | 201.90 | 176.10 | 965,990 |
| Dec – 07 | 209.70 | 177.55 | 1,599,225 | 209.50 | 177.65 | 1,515,890 |
| Jan – 08 | 219.85 | 125.05 | 1,312,453 | 219.90 | 123.00 | 1,470,966 |
| Feb – 08 | 164.00 | 137.55 | 344,006 | 180.80 | 137.35 | 449,028 |
| Mar – 08 | 163.55 | 122.00 | 429,866 | 163.00 | 123.00 | 356,520 |
| **Total** | | | **12,315,937** | | | **10,815,824** |
| **% of volume traded to outstanding shares** | | | **14.56%** | | | **12.78%** |

The performance of the equity share price of the Company vis-à-vis the SENSEX at BSE is as under:

| Month | TPL Share Price at BSE** | SENSEX ** | Relative Index for comparison purpose | |
|---|---|---|---|---|
| | | | TPL share price index | SENSEX |
| Mar-07 | 197.20 | 13072.10 | 100.00 | 100.00 |
| Apr-07 | 195.05 | 13872.37 | 98.91 | 106.12 |
| May-07 | 261.60 | 14544.46 | 132.66 | 111.26 |
| Jun-07 | 257.95 | 14650.51 | 130.81 | 112.07 |
| Jul -07 | 224.40 | 15550.99 | 113.79 | 118.96 |
| Aug-07 | 206.00 | 15318.60 | 104.46 | 117.19 |
| Sep-07 | 189.25 | 17291.10 | 95.97 | 132.27 |
| Oct-07 | 184.90 | 19837.99 | 93.76 | 151.76 |
| Nov-07 | 178.30 | 19363.19 | 90.42 | 148.13 |
| Dec-07 | 201.20 | 20286.99 | 102.03 | 155.19 |
| Jan-08 | 159.65 | 17648.71 | 80.96 | 135.01 |
| Feb-08 | 157.70 | 17578.72 | 79.97 | 134.48 |
| Mar-08 | 141.40 | 15644.44 | 71.70 | 119.68 |

** closing data on the last day of the month




g **Distribution of Shareholding as at 31st March 2008**

By size of shareholding:

| From – To | Mode of holding | Shares held | | No. of Shareholders | |
|---|---|---|---|---|---|
| | | Number | % Total | Number | % Total |
| 1-1000 | Electronic | 42,61,522 | 5.04 | 26,629 | 88.97 |
| | Physical | 7,23,961 | 0.85 | 2,459 | 8.21 |
| 1001-5000 | Electronic | 13,90,894 | 1.64 | 681 | 2.27 |
| | Physical | 47,000 | 0.06 | 26 | 0.09 |
| 5001-10000 | Electronic | 3,85,302 | 0.46 | 54 | 0.18 |
| | Physical | -- | 0.00 | -- | 0.00 |
| 10001-50000 | Electronic | 8,12,963 | 0.96 | 42 | 0.14 |
| | Physical | -- | 0.00 | -- | 0.00 |
| 50001-100000 | Electronic | 4,42,293 | 0.52 | 5 | 0.02 |
| | Physical | -- | 0.00 | -- | 0.00 |
| Above 100000 | Electronic | 7,65,47,425 | 90.47 | 35 | 0.12 |
| | Physical | -- | 0.00 | -- | 0.00 |
| **Total** | **Electronic** | **8,38,40,399** | **99.09** | **27446** | **91.70** |
| | **Physical** | **7,70,961** | **0.91** | **2485** | **8.30** |
| | **Total** | **8,46,11,360** | **100.00** | **29,931** | **100.00** |

By category of shareholders:

| Category | No. of Shares | | Total Shares | % of holding |
|---|---|---|---|---|
| | Electronic | Physical | | |
| Promoters' group | 6,26,88,528 | -- | 6,26,88,528 | 74.09 |
| Mutual Funds and UTI | 24,01,812 | 1,600 | 24,03,412 | 2.84 |
| Banks, FIs & Insurance Companies | 11,56,956 | 1,200 | 11,58,156 | 1.37 |
| Foreign Institutional Investors / NRIs/ OCBs | 1,06, 00,400 | -- | 1,06,00,400 | 12.53 |
| Other Bodies Corporate | 10,91,154 | 9,460 | 11,00,614 | 1.30 |
| Indian Public | 59,01,549 | 7,58,701 | 66,60,250 | 7.87 |
| **Total** | **8,38,40,399** | **7,70,961** | **8,46,11,360** | **100.00** |

**h Dematerialisation of securities**

The Equity shares of the Company are traded compulsorily in the dematerialized segment of all the stock exchanges and are under rolling settlement. Approximately 99.09% of the shares have been dematerialised. The demat security (ISIN) code for the equity share is INE685A01028.

**i Share transfer system**

To expedite the transfer of shares held in physical mode the powers to authorise transfers have been delegated to specified officials of the Company. The transfers which are complete in all respects are taken up for approval generally every ten days and the transferred securities dispatched to the transferor within 21 days. The details of transfers / transmission approved by the delegates are noted by the Securities Transfer & Investors' Grievance Committee meeting at its next meeting.

The Company has signed necessary agreements with two depositories currently functional in India viz. National Securities Depository Ltd. and Central Depository Services (India) Ltd. The transfer of shares in depository mode need not be approved by the Company.

**j Outstanding GDRs / ADRs / Warrants / any other convertible instruments**

The Company does not have any outstanding instruments of the captioned type.

**k Registered Office**

Torrent House, Off Ashram Road, Ahmedabad – 380009
Telephone # 91-79-2658 5090
Fax # 91-79-2658 2100

**l Plant Locations**

1. Village Indrad, Taluka Kadi, Dist. Mehsana, Gujarat.
2. Village Bhud, Baddi, Teh. Nalagarh, Dist. Solan (H. P.)

**m Research & Development Facility**

Near Kanoria Hospital, Village Bhat, Dist. Gandhinagar, Pin 382428, Gujarat.

n **Compliance Officer**

Mahesh Agrawal,
GM (Legal) & Company Secretary,
Torrent Pharmaceuticals Limited,
Torrent House, Off Ashram Road, Ahmedabad – 380 009
Telephone # 91-79-2658 5090; Fax # 91-79-2658 2100
E-mail: maheshagrawal@torrentpharma.com

o **Investor services**

E-mail: investorservices@torrentpharma.com

p **Registrar & Transfer Agent**

KARVY COMPUTERSHARE PRIVATE LIMITED
Unit: Torrent Pharmaceuticals Ltd.,
Plot No. 17 to 24, Vittalrao Nagar,
Madhapur,
HYDERABAD - 500 081
Tel No: 040-23420818 - 24
Fax: 040-23420814
E-mail: einward.ris@karvy.com

**For & on behalf of the Board**

**Ahmedabad**
**6th May, 2008**

**Sudhir Mehta**
**Chairman**

# ANNEX 1 TO CORPORATE GOVERNANCE REPORT

To

The Shareholders,

**Affirmation of Compliance with Code of Business Conduct**

I, Samir Mehta, Managing Director, declare that the Board of Directors of the Company has received affirmation on compliance with the Code of Business Conduct for the period from 1st April, 2007 or the date of their joining the Company, whichever is later to 31st March 2008 from all members of the Board and employees under Senior Management Cadre comprising CEO / Executive Directors (not a member of the Board), Vice Presidents and General Managers.

| | |
|---|---|
| **Ahmedabad** | **Samir Mehta** |
| **6th May, 2008** | **Managing Director** |

# AUDITORS' REPORT

**To the Shareholders of**
**Torrent Pharmaceuticals Limited**

1. We have audited the attached Balance Sheet of **Torrent Pharmaceuticals Limited** as at 31st March, 2008 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. 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 the Companies (Auditor's Report) (Amendment) Order, 2004 (together 'Order') issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 & 5 of the said Order.

4. Further to our comments in the annexure referred to in Paragraph 3 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 it appears from our examination of the books;

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

    d. In our opinion, the Balance Sheet, Profit and Loss Account 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;

    e. On the basis of written representation received from the directors as on 31st March, 2008 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2008 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 read with significant accounting policies and other notes thereon, 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 the affairs of the Company as at 31st March, 2008;

        (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

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

**For C. C. Chokshi & Co.**
Chartered Accountants

**(Gaurav J. Shah)**
Partner
Membership No. 35701

Ahmedabad
6th May, 2008

# ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

1. The nature of the Company's business / activities during the year is such that the requirements of clause (xiii) and (xiv) of paragraph 4 of the Order are not applicable to the Company.

2. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   (b) The Company has a programme of physical verification of its fixed assets over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, certain fixed assets have been physically verified by the management during the year and according to the information and explanations given to us, discrepancies noticed on such verification have been properly dealt with in the books of account.

   (c) The Company has not disposed off a substantial part of fixed assets during the year.

3. (a) As explained to us, inventories were physically verified during the year by the management at reasonable intervals.

   (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were 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 explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on such physical verification.

4. The Company has neither granted nor taken any loans secured / unsecured to or from Companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

5. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal controls.

6. In respect of transactions that need to be entered in the register maintained in pursuance of Section 301 of the Companies Act, 1956:

   (a) The particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956, have been so entered;

   (b) The transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

7. 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 Companies Act, 1956 and the rules framed there under, where applicable. The Company has not accepted public deposits as defined under Section 58A of the Companies Act, 1956 during the year under review. 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.

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

9. We have broadly reviewed the books of account maintained by the Company pursuant to the rules made by the Central Government for maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 for the Company's products to which the said rules are made applicable and are of the opinion that *prima facie* the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the said records.

10. (a) According to the information and explanations given to us, the Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, custom duty, excise-duty, cess and other material statutory dues applicable to it.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, as at 31st March, 2008 for a period of more than six months from the date they became payable.

(c) According to the information and explanations given to us, details of disputed amounts in respect of the income tax, sales tax / VAT, excise duty, service tax and employees' state insurance which have not been deposited as on 31st March, 2008 on account of any dispute are given below:

| Name of Statute | Nature of Dues | Amount (Rs. in Lacs) | Period to which the amount relates | Forum where the dispute is pending |
|---|---|---|---|---|
| Central Sales Tax Act, 1956 | Disallowance of Central Forms – FD-CST | 58.30 | 2003-04 | Joint Commissioner of Commercial Tax Appeal 1- Gujarat |
| West Bengal Commercial Tax Act & Central Sales Tax, 1956 | Demand of Tax | 16.09 | 2005-06 | Additional Commissioner of Commercial Tax WB |
| UP Trade Tax Act | Demand of Tax | 2.22 | 1993-94 | Deputy Commissioner of Commercial Tax (Appeal) UP |
| Central Excise Act, 1944 | Service Tax | 6.09 | 2001-02 | Commissioner (Appeals) |
| Central Excise Act, 1944 | Input Service Credit | 0.69 | 2006-07 | Commissioner (Appeals) Ahmedabad |
| Central Excise Act,1944 | Secondary and Higher Education Cess | 0.33 | 2007-08 | Deputy Commissioner (Kalol) |
| Central Excise Act, 1944 | Demand of Duty | 0.35 | 2005-2006 and 2006-2007 | Commissioner Appeal (Jaipur) |
| Central Excise Act, 1944 | Demand of Duty | 0.63 | 2005-2006 and 2006-2007 | Assistant Commissioner (Ankleshwar) |
| E.S.I. Act, 1948 | E.S.I. Contribution | 218.05 | 1993-2007 | Gujarat High Court |

11. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the financial year under report and the immediately preceding financial year.

12. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to financial institutions, banks and debenture holders.

13. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

14. In our opinion, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the Company.

15. In our opinion, the term loans have been applied for the purpose for which they were raised except to the extent the funds deployed temporarily elsewhere pending application.

16. According to the information and explanations given to us, and on an overall examination of the balance sheet

of the Company, funds raised on short term basis have, *prima facie,* not been used during the year for long term investment.

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

18. The Company has not issued any debentures during the year.

19. The Company has not raised money by public issue during the year.

20. To the best of our knowledge and belief and according to the information and explanations given to us, no material fraud on or by the Company was noticed or reported during the year.

**For C.C. Chokshi & Co.**
Chartered Accountants

**(Gaurav J. Shah)**
Partner
Membership No. 35701

Ahmedabad
6th May, 2008

# BALANCE SHEET

(Rs. in lacs)

| | SCHEDULE | As at 31-Mar-2008 | As at 31-Mar-2007 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **SHAREHOLDERS' FUNDS** | | | |
| Share Capital | 1 | **4,230.92** | 4,230.92 |
| Reserves and Surplus | 2 | **54,294.41** | 42,207.24 |
| | | **58,525.33** | 46,438.16 |
| **LOAN FUNDS** | | | |
| Secured Loans | 3 | **33,664.60** | 26,397.51 |
| Unsecured Loans | 4 | **496.00** | 1,500.00 |
| | | **34,160.60** | 27,897.51 |
| **Net Deferred Tax Liability (see note 10)** | | **6,946.92** | 6,330.59 |
| | | **99,632.85** | 80,666.26 |
| **APPLICATION OF FUNDS** | | | |
| **FIXED ASSETS** | | | |
| Gross Block | 5 | **61,229.80** | 54,331.48 |
| Less : Depreciation & Amortisation | | **16,478.38** | 14,019.57 |
| Net Block | | **44,751.42** | 40,311.91 |
| Capital Work in Progress | | **5,496.24** | 2,877.22 |
| Advances for Capital Expenditure | | **2,363.46** | 1,101.22 |
| | | **52,611.12** | 44,290.35 |
| **INVESTMENTS** | 6 | **15,804.74** | 9,496.86 |
| **CURRENT ASSETS, LOANS AND ADVANCES** | | | |
| Inventories | 7 | **16,653.02** | 18,588.55 |
| Sundry Debtors | 8 | **19,847.72** | 16,561.18 |
| Cash and Bank Balances | 9 | **9,767.14** | 1,024.63 |
| Other Current Assets | 10 | **1,898.20** | 1,462.85 |
| Loans and Advances | 11 | **7,013.77** | 4,927.24 |
| | | **55,179.85** | 42,564.45 |
| **Less: CURRENT LIABILITIES AND PROVISIONS** | | | |
| Current Liabilities | 12 | **18,972.79** | 14,143.05 |
| Provisions | 13 | **4,990.07** | 1,542.35 |
| | | **23,962.86** | 15,685.40 |
| **Net Current Assets** | | **31,216.99** | 26,879.05 |
| | | **99,632.85** | 80,666.26 |
| **Significant Accounting Policies** | 21 | | |
| **Notes forming part of the Accounts** | 22 | | |

As per our attached report of even date

**For C.C. CHOKSHI & CO.**
Chartered Accountants

Signatures to the Balance Sheet

**Sudhir Mehta**
Chairman

**Gaurav J. Shah**
Partner

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

**Samir Mehta**
Managing Director

Ahmedabad
6th May, 2008

Ahmedabad
6th May, 2008

# PROFIT AND LOSS ACCOUNT

| | SCHEDULE | Year ended 31-Mar-2008 | (Rs. in lacs) Year ended 31-Mar-2007 |
|---|---|---|---|
| **INCOME** | | | |
| Sales & Operating Income | 14 | **99,590.49** | 88,290.07 |
| Other Income | 15 | **464.69** | 237.14 |
| | | **100,055.18** | 88,527.21 |
| **EXPENDITURE** | | | |
| Materials Consumed | 16 | **28,487.01** | 26,801.61 |
| Purchase of Traded Goods | | **5,083.71** | 7,620.12 |
| (Increase)/Decrease in Stock | 17 | **2,044.79** | (3,078.15) |
| Employees Cost | 18 | **11,482.32** | 11,066.67 |
| Manufacturing and Other Expenses | 19 | **22,118.80** | 21,971.73 |
| Research and Development Expenses (see note 6) | | **9,140.51** | 7,395.76 |
| Depreciation & Amortisation | | **3,274.49** | 3,024.25 |
| | | **81,631.63** | 74,801.99 |
| **PROFIT BEFORE INTEREST AND TAX** | | **18,423.55** | 13,725.22 |
| Net Borrowing Costs | 20 | **1,840.07** | 1,314.86 |
| **PROFIT BEFORE TAX** | | **16,583.48** | 12,410.36 |
| **PROVISION FOR TAXATION** | | | |
| Current Tax | | **1,860.04** | 1,375.89 |
| MAT Credit Entitlement | | **(1,698.51)** | (1,366.27) |
| Deferred Tax Charge | | **616.33** | 871.51 |
| Fringe Benefit Tax | | **253.76** | 233.29 |
| | | **1,031.62** | 1,114.42 |
| **NET PROFIT FOR THE YEAR** | | **15,551.86** | 11,295.94 |
| Balance Brought forward from Previous Year | | **6,201.57** | 4,838.61 |
| **PROFIT AVAILABLE FOR APPROPRIATION** | | **21,753.43** | 16,134.55 |
| **APPROPRIATIONS** | | | |
| General Reserve | | **9,900.00** | 7,038.64 |
| Interim Dividend | | – | 2,538.34 |
| Proposed Dividend | | **2,961.40** | – |
| Tax on distributed profits | | **503.29** | 356.00 |
| | | **13,364.69** | 9,932.98 |
| **Balance Carried to Balance Sheet** | | **8,388.74** | 6,201.57 |
| Basic and Diluted EPS for the year (see note 11) | | **18.38** | 13.35 |
| **Significant Accounting Policies** | 21 | | |
| **Notes forming part of the Accounts** | 22 | | |

As per our attached report of even date
**For C.C. CHOKSHI & CO.**
Chartered Accountants

Signatures to the Profit and Loss Account
**Sudhir Mehta**
Chairman

**Gaurav J. Shah**
Partner

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

**Samir Mehta**
Managing Director

Ahmedabad
6th May, 2008

Ahmedabad
6th May, 2008

# CASH FLOW STATEMENT

| | | (Rs. in lacs) |
|---|---|---|
| | **Year ended 31-Mar-2008** | Year ended 31-Mar-2007 |
| **A CASH FLOW FROM OPERATING ACTIVITIES :** | | |
| **PROFIT BEFORE TAX** | **16,583.48** | 12,410.36 |
| Adjustments for : | | |
| Depreciation & Amortisation | **3,274.49** | 3,024.25 |
| Loss on sale of assets | **262.37** | 202.02 |
| Profit on sale of Long Term Investments | **–** | (0.15) |
| Net interest expense | **1,840.07** | 1,314.86 |
| **OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES** | **21,960.41** | 16,951.34 |
| Adjustments for : | | |
| Debtors, Loans & Advances and Other Current Assets | **(4,138.53)** | (5,610.42) |
| Inventories | **1,935.53** | (2,252.10) |
| Current Liabilities and Provisions | **5,410.03** | 1,712.79 |
| **CASH GENERATED FROM OPERATIONS** | **25,167.44** | 10,801.61 |
| Direct Taxes Paid | **(2,043.83)** | (1,704.07) |
| **NET CASH FROM OPERATING ACTIVITIES** | **23,123.61** | 9,097.54 |
| **B CASH FLOW FROM INVESTING ACTIVITIES :** | | |
| Purchase of Fixed Assets | **(12,115.01)** | (9,162.72) |
| Sale Proceeds from Fixed Assets sold | **311.87** | 194.24 |
| Long Term Investments in subsidiaries | **(864.90)** | (2,081.47) |
| Long Term Trade Investment | **(1,901.49)** | – |
| Sale Proceeds from Long Term Investments sold | **10.50** | 2.51 |
| Interest Received | **205.24** | 684.51 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(14,353.79)** | (10,362.93) |
| **C CASH FLOW FROM FINANCING ACTIVITIES :** | | |
| Net Long Term debt taken | **5,085.37** | 316.44 |
| Net Short Term debt taken | **493.07** | 3,350.22 |
| Dividend Paid | **(10.83)** | (5,316.86) |
| Interest Paid | **(2,045.21)** | (2,155.91) |
| **NET CASH FROM FINANCING ACTIVITIES** | **3,522.40** | (3,806.11) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **12,292.22** | (5,071.50) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,024.63** | 6,096.13 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **13,316.85** | 1,024.63 |
| **Note: Cash and Cash Equivalents as at end of the year :** | | |
| Cash and Bank balances | **9,767.14** | 1,024.63 |
| Current Investments (Investments in Mutual Funds) | **3,549.71** | – |
| | **13,316.85** | 1,024.63 |

As per our attached report of even date
**For C.C. CHOKSHI & CO.**
Chartered Accountants

Signatures to the Cash Flow Statement
**Sudhir Mehta**
Chairman

**Gaurav J. Shah**
Partner

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

**Samir Mehta**
Managing Director

Ahmedabad
6th May, 2008

Ahmedabad
6th May, 2008

annexed to and forming part of the financial statements

| | As at 31-Mar-2008 | As at 31-Mar-2007 |
|---|---|---|
| | | (Rs. in lacs) |
| **SCHEDULE - 1 : SHARE CAPITAL** | | |
| **Authorised** | | |
| 1500,00,000 Equity Shares of Rs. 5 each | **7,500.00** | 7,500.00 |
| 25,00,000 Preference Shares of Rs. 100 each | **2,500.00** | 2,500.00 |
| | **10,000.00** | 10,000.00 |
| **Issued and Subscribed** | | |
| 846,25,360 Equity Shares of Rs. 5 each | **4,231.27** | 4,231.27 |
| **Paid-up** | | |
| 846,11,360 Equity Shares of Rs. 5 each | **4,230.57** | 4,230.57 |
| Amount originally paid up on 14,000 Equity Shares forfeited | **0.35** | 0.35 |
| | **4,230.92** | 4,230.92 |

**Notes:**

(1) 709,80,592 Equity Shares of Rs. 5 each were allotted as fully paid up bonus shares; out of which 423,05,680 shares were allotted by way of capitalisation from Capital Redemption Reserve and 286,74,912 Equity Shares were allotted by way of capitalisation from General Reserve.

(2) 12,44,768 Equity Shares of Rs. 5 each were allotted without payment being received in cash pursuant to the schemes of amalgamation.

| | | |
|---|---|---|
| **SCHEDULE - 2 : RESERVES AND SURPLUS** | | |
| **Capital Reserve** | | |
| Balance as per last Balance Sheet | **41.08** | 41.08 |
| **Capital Redemption Reserve** | | |
| Balance as per last Balance Sheet | **384.71** | 384.71 |
| **Share Premium Account** | | |
| Balance as per last Balance Sheet | **4,279.88** | 4,279.88 |
| **General Reserve** | | |
| Balance as per last Balance Sheet | **31,300.00** | 24,477.20 |
| Less : Earlier years' liability for employee benefits | – | 215.84 |
| Add : Transfers from-Profit and Loss Account | **9,900.00** | 7,038.64 |
| | **41,200.00** | 31,300.00 |
| **Balance in Profit and Loss Account** | **8,388.74** | 6,201.57 |
| | **54,294.41** | 42,207.24 |

| | As at 31-Mar-2008 | (Rs. in lacs) As at 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 3 : SECURED LOANS** | | |
| Long Term Loans | | |
| from Banks (Note : 1(a)) | **21,471.31** | 15,614.81 |
| from a Financial Institution (Note : 1(b)) | **8,350.00** | 8,975.00 |
| Short Term Loans from Banks (Note : 1(c)) | **3,843.29** | 1,807.70 |
| | **33,664.60** | 26,397.51 |

**Notes:**

(1) The Loans are secured by :

(a) First equitable mortgage of immovable fixed assets & hypothecation of moveable fixed assets, present and future, located at formulation manufacturing facilities, Village Indrad; research facilities, Village Bhat; and corporate office, Ahmedabad, all in Gujarat, on pari passu basis.

(b) First equitable mortgage of immovable fixed assets & hypothecation of moveable fixed assets, present and future, located at formulation manufacturing facilities in Baddi, Himachal Pradesh.

(c) Hypothecation of inventories and book debts.

(2) The future annual repayment obligations on principal amount, for the above long term loans are as under:

| | | |
|---|---|---|
| 2008-09 | Rs. | 7,092 lacs |
| 2009-10 | Rs. | 6,310 lacs |
| 2010-11 | Rs. | 2,790 lacs |
| 2011-12 | Rs. | 8,243 lacs |
| 2012-13 | Rs. | 2,693 lacs |
| 2013-14 | Rs. | 2,693 lacs |
| **Total :** | **Rs.** | **29,821 lacs** |

| | | |
|---|---|---|
| **SCHEDULE - 4 : UNSECURED LOANS** | | |
| Long Term Loan from Department of Science and Technology | **496.00** | – |
| Short Term Loan from a Financial Institution | – | 1,500.00 |
| | **496.00** | 1,500.00 |

(Rs in lacs)

## SCHEDULE - 5 : FIXED ASSETS

| Particulars | Gross Block (At Cost) | | | | Depreciation & Amortisation | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1-Apr-07 | Additions during the year | Deductions during the year | As at 31-Mar-08 | As at 1-Apr-07 | For the year 2007-08 | On deduction during the year | As at 31-Mar-08 | As at 31-Mar-08 | As at 31-Mar-07 |
| Free Hold Land | 1,761.89 | 2,594.88 | 16.38 | 4,340.39 | – | – | – | – | 4,340.39 | 1,761.89 |
| Lease Hold Land | 17.56 | 497.97 | – | 515.53 | 0.10 | 0.18 | – | 0.28 | 515.25 | 17.46 |
| Buildings | 15,442.72 | 1,229.26 | 47.86 | 16,624.12 | 2,382.80 | 469.68 | 24.92 | 2,827.56 | 13,796.56 | 13,059.92 |
| Plant and Machineries | 24,084.52 | 2,771.60 | 523.91 | 26,332.21 | 6,416.55 | 1,718.01 | 269.83 | 7,864.73 | 18,467.48 | 17,667.97 |
| Electric Installation and Air conditioned Plant | 5,780.47 | 241.33 | 154.49 | 5,867.31 | 1,741.12 | 353.39 | 58.99 | 2,035.52 | 3,831.79 | 4,039.35 |
| Furniture and Fixtures | 2,190.01 | 439.18 | 114.21 | 2,514.98 | 767.24 | 144.97 | 94.26 | 817.95 | 1,697.03 | 1,422.77 |
| Office and Factory Appliances | 2,943.83 | 243.31 | 349.50 | 2,837.64 | 1,969.24 | 301.96 | 292.09 | 1,979.11 | 858.53 | 974.59 |
| Vehicles | 1,371.72 | 263.49 | 185.57 | 1,449.64 | 371.72 | 131.38 | 75.59 | 427.51 | 1,022.13 | 1,000.00 |
| Intangibles being computer softwares | 738.76 | 9.22 | – | 747.98 | 370.80 | 154.92 | – | 525.72 | 222.26 | 367.96 |
| **TOTAL** | **54,331.48** | **8,290.24** | **1,391.92** | **61,229.80** | **14,019.57** | **3,274.49** | **815.68** | **16,478.38** | **44,751.42** | **40,311.91** |
| Previous Year | 46,474.09 | 8,575.40 | 718.01 | 54,331.48 | 11,317.08 | 3,024.25 | 321.76 | 14,019.57 | 40,311.91 | |

a) Additions during the year include Research and Development assets as under :

| **Particulars** | **2007-08** | **2006-07** |
|---|---|---|
| Free Hold Land | – | 107.22 |
| Buildings | 136.15 | 2,357.26 |
| Plant and Machineries | 1,376.74 | 1,401.22 |
| Electric Installation and Air conditioned Plant | 39.91 | 291.26 |
| Furniture and Fixtures | 375.16 | 105.92 |
| Office and Factory Appliances | 84.62 | 125.05 |
| Vehicles | 30.46 | 16.40 |
| **Total** | **2,043.04** | **4,404.33** |

b) Capital work in progress and advances for capital expenditure on Research and Development assets are as under :

| **Particulars** | **As at 31-Mar-08** | **As at 31-Mar-07** |
|---|---|---|
| Capital work in progress | 1,173.63 | 725.51 |
| Advances for Capital expenditure | 145.73 | 460.66 |
| **Total** | **1,319.36** | **1,186.17** |

(Rs. in lacs)

| | No. of Units | As at 31-Mar-2008 | As at 31-Mar-2007 |
|---|---|---|---|
| **SCHEDULE - 6 : INVESTMENTS** | | | |
| **LONG TERM INVESTMENTS** | | | |
| (Unquoted) | | | |
| **Investment in subsidiaries** | | | |
| ZAO Torrent Pharma | 5400 | **2,308.49** | 2,308.49 |
| Fully paid up Equity Shares of Russian Roubles 100 each | | | |
| Torrent Do Brasil Ltda. | 19144418 | **3,111.04** | 3,111.04 |
| Fully paid up Equity Shares (Quotas) of Brazilian Real (R$) 1 each | | | |
| Torrent Pharma GmbH | – | **3,645.29** | 3,645.29 |
| Equity Capital | | | |
| Torrent Pharma Inc. | 12000 | **498.78** | 45.24 |
| Fully paid up Common Stock of USD 100 each (previous year - no. of units : 1000) | | | |
| Torrent Pharma Philippines Inc. | 55852 | **91.64** | 91.64 |
| Fully paid up Equity Shares of Philippines Pesos 200 each | | | |
| Laboratorios Torrent, S.A. De C.V. | 15894 | **618.21** | 206.57 |
| Fully paid up Equity Shares of Mexican Pesos (M$) 1000 each (previous year - no. of units : 5005) | | | |
| Torrent Pharma Japan Co. Ltd | 200 | **38.30** | 38.30 |
| Fully paid up Equity Shares of Japanese Yen (¥) 50000 each | | | |
| Torrent Australasia Pty Ltd. | 675000 | **29.94** | 29.94 |
| Partly paid up Common Stock of Australian Dollar (A$) 1 each, A$ 0.1282 paid each | | | |
| | | **10,341.69** | 9,476.51 |
| **Trade** | | | |
| Charterhouse Therapeutics Ltd.- Fully paid up Equity Shares of GBP 0.01 each | 445000 | **155.60** | 155.60 |
| Less: Provision for diminution in value | | **155.60** | 155.60 |
| | | – | – |
| GPC Cayman Investors I Ltd. - Fully paid up Equity Shares of USD 10 each | 442918 | **1,901.49** | – |
| Shivalik Solid Waste Limited - Fully paid up Equity Shares of Rs. 10 each | 20000 | **2.00** | – |
| | | **1,903.49** | – |
| **Non - Trade** | | | |
| National Savings Certificates | | **1.10** | 1.10 |
| (Lodged with Excise and Sales Tax Authorities) | | | |
| Contribution to Gujarat Venture Capital Fund, 1990 & 1995. | | **8.75** | 19.25 |
| | | **9.85** | 20.35 |
| Aggregate Long Term Investments | | **12,255.03** | 9,496.86 |

| | No. of Units | As at 31-Mar-2008 | ( Rs. in lacs ) As at 31-Mar-2007 |
|---|---|---|---|
| **CURRENT INVESTMENTS** | | | |
| **Units of Mutual Fund Schemes - Debt Fund** | | | |
| Prudential ICICI Liquid Plan - Inst. Plus - Growth | 6435599 | **759.77** | – |
| Birla Cash Plus - Inst. Premium - Growth | 5322894 | **681.43** | – |
| Principal Floating Rate Fund - SMP - Growth | 6032664 | **761.24** | – |
| Principal Floating Rate - FMP - Growth | 4277521 | **536.72** | – |
| Birla Sunlife Liquid Plus - Growth | 5353002 | **810.55** | – |
| Aggregate Current Investments | | **3,549.71** | – |
| Aggregate Investments | | **15,804.74** | 9,496.86 |

**Note:**

(1) Aggregate NAV of investment in Mutual Funds as on 31-Mar-08 is Rs. 3,581 lacs. (previous year Nil.)

(2) Details of current investments bought and sold during the year are as under :

(Rs. in lacs)

| Name of Mutual Fund Scheme | Purchase | | Sale | |
|---|---|---|---|---|
| | Nos. | Amount | Nos. | Amount |
| Prudential ICICI Liquid Plan – Inst. Plus – Growth | 108,918,295 | 12,445.00 | 102,482,696 | 11,757.41 |
| Birla Cash Plus – Inst. Premium – Growth | 80,489,543 | 9,980.00 | 75,166,649 | 9,363.87 |
| DSP ML Liquid Plus Fund – Inst. Plus – Growth | 21,418 | 225.00 | 21,418 | 225.09 |
| Principal Floating Rate Fund – SMP – Growth | 157,560,667 | 19,125.00 | 151,528,003 | 18,455.00 |
| HSBC Liquid Plus Fund – Inst. Plus – Growth | 19,565,790 | 2,080.00 | 19,565,790 | 2,197.55 |
| Principal Floating Rate – FMP – Growth | 56,202,983 | 6,895.00 | 51,925,462 | 6,440.00 |
| Birla Sunlife Liquid Plus – Growth | 13,890,805 | 2,100.00 | 8,537,803 | 1,300.00 |
| JM Money Manager Fund – Super Plus Plan – Growth | 8,071,407 | 905.00 | 8,071,407 | 912.51 |
| **Total** | | **53,755.00** | | **50,651.43** |

| | As at 31-Mar-2008 | (Rs. in lacs) As at 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 7 : INVENTORIES** | | |
| Raw Materials | **5,636.06** | 5,217.48 |
| Packing Materials | **1,131.52** | 1,440.84 |
| Goods in Process | **3,524.34** | 3,135.94 |
| Finished Goods | **5,152.82** | 5,728.84 |
| Traded Goods | **1,208.28** | 3,065.45 |
| | **16,653.02** | 18,588.55 |

| | As at 31-Mar-2008 | (Rs. in lacs) As at 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 8 : SUNDRY DEBTORS** | | |
| (Unsecured) | | |
| Debts over six months | | |
| Considered Good | **4,789.66** | 4,028.68 |
| Considered Doubtful | **172.34** | 379.92 |
| Less : Provision | **172.34** | 379.92 |
| | **4,789.66** | 4,028.68 |
| Other Debts - Considered Good (see note 7) | **15,058.06** | 12,532.50 |
| | **19,847.72** | 16,561.18 |
| **SCHEDULE - 9 : CASH AND BANK BALANCES** | | |
| Cash on hand | **11.63** | 10.24 |
| With Scheduled Banks in: | | |
| a) Current Accounts | **997.61** | 892.35 |
| b) Term Deposit Accounts | **8,704.00** | 5.00 |
| (Rs. 3 lacs lodged with banks as securities for LC and other facilities (previous year Rs. 4 lacs)) | | |
| | **9,701.61** | 897.35 |
| With Non-Scheduled Banks in current accounts : | | |
| – Vneshtorg Bank - Moscow (USD) (Maximum amount outstanding during the year Rs. 167.70 lacs, previous year Rs. 227.76 lacs) | **–** | 65.69 |
| – Vneshtorg Bank - Moscow (Rouble) (Maximum amount outstanding during the year Rs. 85.39 lacs, previous year Rs. 62.32 lacs) | **5.22** | 29.22 |
| – Bank for Foreign of Vietnam - Vietnam (USD) (Maximum amount outstanding during the year Rs. 142.94 lacs, previous year Rs. 119.29 lacs) | **42.98** | 15.47 |
| – OTP Bank - Ukraine (UAH) (Maximum amount outstanding during the year Rs. 4.19 lacs, previous year Rs. 4.30 lacs) | **0.41** | 0.46 |
| – HSBC - Singapore (USD) (Maximum amount outstanding during the year Rs. 5.24 lacs, previous year Rs. 6.02 lacs) | **5.24** | 1.34 |
| – Taib Kazakh Bank - Kazakisthan (KZT) (Maximum amount outstanding during the year Rs. 5.05 lacs, previous year Rs. 4.86 lacs) | **0.05** | 4.86 |
| | **53.90** | 117.04 |
| | **9,767.14** | 1,024.63 |

| | As at 31-Mar-08 | ( Rs. in lacs ) As at 31-Mar-07 |
|---|---|---|
| **SCHEDULE - 10 : OTHER CURRENT ASSETS** | | |
| (Unsecured and considered good, unless otherwise stated) | | |
| Export benefits receivable | **1,427.41** | 793.46 |
| Customs, Excise & Insurance Claims receivable | | |
| Considered Good | **415.56** | 655.75 |
| Considered Doubtful | **1.42** | 1.42 |
| Less :- Provision | **1.42** | 1.42 |
| | **415.56** | 655.75 |
| Interest accrued on loans and deposits | **54.09** | 12.46 |
| Others | **1.14** | 1.18 |
| | **1,898.20** | 1,462.85 |
| **SCHEDULE - 11: LOANS AND ADVANCES** | | |
| (Unsecured and considered good) | | |
| Loans & Advances to a Subsidiary Company (see note 8) | **199.91** | 229.66 |
| Advances recoverable in cash or in kind or for value to be received | **2,572.87** | 2,084.90 |
| Share Application Money Pending Allotment - Subsidiary Company | – | 0.28 |
| Balance with the Excise Department | **0.49** | 0.44 |
| Advance Tax Paid net of Provisions | **875.56** | 945.53 |
| MAT Credit Entitlement | **3,364.94** | 1,666.43 |
| | **7,013.77** | 4,927.24 |
| **SCHEDULE - 12 : CURRENT LIABILITIES** | | |
| Sundry Creditors (see note 12) | **16,383.15** | 13,395.40 |
| Due to Subsidiary Companies | **272.91** | 122.50 |
| Book Overdraft | **463.82** | – |
| Investor Education and Protection Fund (not due) : | | |
| Unclaimed Dividend | **42.21** | 53.04 |
| Unclaimed Share Application Money | **0.45** | 0.45 |
| Unclaimed Matured Fixed Deposits | **1.52** | 2.08 |
| Unclaimed Matured Debentures | **12.24** | 24.05 |
| Unclaimed Debenture Interest | **1.91** | 5.78 |
| | **58.33** | 85.40 |
| Other Liabilities | **515.31** | 470.65 |
| Advances from Customers | **1,211.28** | 42.84 |
| Interest accrued but not due | **67.99** | 26.26 |
| | **18,972.79** | 14,143.05 |

Note: The Investor Education and Protection Fund is credited by the amounts unclaimed and outstanding on the relevant due date.

| | | |
|---|---|---|
| **SCHEDULE - 13 : PROVISIONS** | | |
| Proposed Dividend | **2,961.40** | – |
| Add : Tax on Distributed Profits | **503.29** | – |
| | **3,464.69** | – |
| Accrued Employee Benefits (Gratuity, Long term compensation, leave benefits) (see note 5) | **1,525.38** | 1,542.35 |
| | **4,990.07** | 1,542.35 |

| | Year ended 31-Mar-08 | (Rs. in lacs) Year ended 31-Mar-07 |
|---|---|---|
| **SCHEDULE - 14 : SALES & OPERATING INCOME** | | |
| **Sales** | | |
| Domestic | **73,958.05** | 67,683.57 |
| Less : Excise Duty collected (see note 3) | **599.15** | 1,226.15 |
| Net Domestic Sales | **73,358.90** | 66,457.42 |
| Exports | **23,591.41** | 20,167.48 |
| | **96,950.31** | 86,624.90 |
| **Operating Income** | | |
| Export Benefits | **1,165.89** | 474.22 |
| Income from Contract Research | – | 498.56 |
| Income from Product Registration Dossiers | **1,044.77** | 391.84 |
| Other Operating Income | **429.52** | 300.55 |
| | **2,640.18** | 1,665.17 |
| | **99,590.49** | 88,290.07 |
| **SCHEDULE - 15 : OTHER INCOME** | | |
| Profit on Sale of Investments | **446.14** | 222.65 |
| Miscellaneous Income | **18.55** | 14.49 |
| | **464.69** | 237.14 |
| **SCHEDULE - 16 : MATERIALS CONSUMED** | | |
| Raw Materials | **24,721.50** | 23,313.07 |
| Packing Materials | **3,765.51** | 3,488.54 |
| | **28,487.01** | 26,801.61 |
| **SCHEDULE - 17 : (INCREASE)/DECREASE IN STOCK** | | |
| Opening Stocks | | |
| Finished Goods | **5,728.84** | 4,401.08 |
| Traded Goods | **3,065.45** | 1,184.97 |
| Work in Process | **3,135.94** | 3,266.03 |
| | **11,930.23** | 8,852.08 |
| Less : Closing Stocks | | |
| Finished Goods | **5,152.82** | 5,728.84 |
| Traded Goods | **1,208.28** | 3,065.45 |
| Work in Process | **3,524.34** | 3,135.94 |
| | **9,885.44** | 11,930.23 |
| | **2,044.79** | (3,078.15) |
| **SCHEDULE - 18 : EMPLOYEES COST** | | |
| (Other than those included in Research & Development Expenses) | | |
| Salaries, Wages and Bonus | **10,347.15** | 9,801.69 |
| Contribution to Provident, Gratuity and other Funds (see note 5) | **879.55** | 1,039.09 |
| Welfare Expenses | **255.62** | 225.89 |
| | **11,482.32** | 11,066.67 |

| | Year ended 31-Mar-08 | (Rs. in lacs) Year ended 31-Mar-07 |
|---|---|---|
| **SCHEDULE - 19 : MANUFACTURING & OTHER EXPENSES** | | |
| Power & Fuel | **1,988.85** | 1,875.87 |
| Stores & Spares Consumed | **1,049.01** | 1,111.81 |
| Laboratory Goods & Testing Expenses | **282.69** | 217.20 |
| Labour and Job Work Charges | **1,260.62** | 1,378.09 |
| Excise Duty (see note 3) | **(34.75)** | (344.28) |
| Repairs & Maintenance : | | |
| Machinery | **216.13** | 181.98 |
| Buildings | **165.39** | 143.73 |
| Others | **84.65** | 92.89 |
| | **466.17** | 418.60 |
| Selling, Publicity & Medical Literature Expenses | **6,919.92** | 7,344.67 |
| Commission on sales | **1,061.25** | 1,028.90 |
| Sales and Turnover Taxes | **60.39** | 83.33 |
| Provision for Doubtful Debts | **157.50** | 377.02 |
| Bad Debts written off | **12.03** | 1.43 |
| Traveling, Conveyance & Vehicle Expenses | **3,842.65** | 3,753.47 |
| Printing & Stationery Expenses | **199.80** | 217.65 |
| Communication Expenses | **574.85** | 666.00 |
| Insurance | **216.75** | 279.47 |
| Rent | **290.24** | 432.05 |
| Rates & Taxes | **21.44** | 19.80 |
| Lease Rent | **2.30** | 11.19 |
| Auditors Remuneration & Expenses | | |
| Audit Fees | **6.74** | 5.05 |
| Other Services | **11.80** | 4.88 |
| Out of Pocket Expenses | **1.60** | 0.37 |
| | **20.14** | 10.30 |
| Cost Audit Fees | **2.39** | 2.73 |
| Commission to Non Executive Directors | **11.90** | 14.70 |
| Net Foreign Exchange Loss | **1,106.75** | 265.56 |
| General Charges | **2,223.13** | 2,524.15 |
| Loss on sale / discard / write-off of fixed assets | **262.37** | 202.02 |
| Donation | **120.41** | 80.00 |
| | **22,118.80** | 21,971.73 |
| **SCHEDULE - 20 : NET BORROWING COST** | | |
| Expenses | | |
| Fixed Period Loans | **2,028.16** | 1,989.53 |
| Others | **58.78** | 44.37 |
| | **2,086.94** | 2,033.90 |
| Income (Tax deducted at source Rs. 42.15 lacs, (previous year Rs. 91.86 lacs)) | **246.87** | 719.04 |
| | **1,840.07** | 1,314.86 |

**SCHEDULE 21**

**Significant Accounting Policies**

1. **Basis for preparation of Financial Statements**

   The financial statements are prepared and presented under the historical cost convention on accrual basis of accounting, in accordance with the accounting principles generally accepted in India and comply with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. Except where otherwise stated, the accounting principles are consistently applied.

2. **Use of Estimates**

   The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates, which it believes are reasonable under the circumstances that affect the reported amounts of assets, liabilities and contingent liabilities on the date of financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Difference between the actual results and estimates are recognised in the period in which the results are known / materialised.

3. **Fixed Assets**

   a) Tangible fixed assets are stated at cost of acquisition or construction less accumulated depreciation. The cost of fixed asset includes non-refundable taxes & levies, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing cost attributable to acquisition or construction of qualifying fixed assets are capitalised to respective assets when the time taken to put the assets to use is substantial.

   b) Pre-operative expenditure comprising of revenue expenses incurred in connection with project implementation during the period up to commencement of commercial production are treated as part of project costs and are capitalised. Such expenses are capitalised only if the project to which they relate involve substantial expansion of capacity or upgradation.

   c) Certain computer software costs are capitalised and recognised as intangible assets in terms of Accounting Standard 26 on Intangible Assets based on materiality, accounting prudence and significant economic benefits expected to flow there from for a period longer than 1 year. Capitalised costs include direct costs of implementation and expenses directly attributable to the development of software where it is developed in-house.

   d) Fixed Assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is then recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

4. **Depreciation and Amortisation**

   a) Depreciation on fixed assets (except leasehold land and information technology assets) is provided on straight line method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956.

   b) (i) Cost of leasehold land (except for lease of long tenure) is amortised over the period of the lease.

      (ii) Cost of leasehold land where lease period is of long tenure and substantial rights of ownership are with lessee, is not amortised.

   c) Information technology assets other than computer software are depreciated on straight line method over estimated useful life of 3 years.

   d) Computer software costs capitalised is amortised using the straight-line method over estimated useful life of 3 to 5 years, as estimated at the time of capitalisation.

5. **Investments**

   a) Long Term Investments are stated at cost. Provision is made to recognise any diminution in value, other than that of a temporary nature.

   b) Current investments are carried at lower of cost and fair value. Diminution in value is charged to the profit and loss account.

6. **Inventories**

Inventories are valued at the lower of cost and net realisable value. Provision for impairment is made when there is high uncertainty in saleability of an item. Cost of inventories is determined on the following basis:

a) Cost of raw material and packing material is determined on moving average basis.

b) Work in process is determined on weighted average basis.

c) Cost of finished goods produced is determined on weighted average basis.

d) Cost of finished goods (traded) is determined on moving average basis.

7. **Revenue Recognition**

a) Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods are transferred to the customer. Income from services are recognised when the services are rendered or when contracted milestones have been achieved. Sales are net of discounts, sales tax and returns; excise duty collected on sales is shown by way of deduction from sales.

b) Dividend income is recognised when the right to receive dividend is established.

c) Revenue in respect of other income is recognised when a reasonable certainty as to its realisation exists.

8. **Employees Retirement and Other Benefits**

a) The accruing liability on account of gratuity (retirement benefit in the nature of defined benefits plan) is actuarially valued every year at or around 28-February. The current service cost, interest cost, expected return on plan assets and the actuarial gain/loss are expensed to the profit and loss account of the year as Employees Cost.

b) Long term compensation plan to employees (being deferred compensation paid 12 months or more after the end of the period in which it is earned) are expensed out in the year to which the costs relate at present value of the nominal benefits under the plan.

c) Annual contribution for superannuation benefit (retirement benefit in the nature of defined contribution plan) to employees, based on their annual basic salary, is paid to Life Insurance Corporation of India to maintain a fund for payment of superannuation benefits to employees on their retirement or separation. Such contribution is expensed to the profit and loss account for the year as Employees Cost.

d) Cost of earned leave of the employees is estimated at the end of every year and expensed to the profit and loss account of the year in which such leave were earned as Employees Cost.

9. **Cenvat Credit**

Cenvat (Central value added tax) credit in respect of Excise, Custom and Service tax is accounted on accrual basis on purchase of eligible inputs, capital goods and services. The balance of cenvat credit is reviewed at the end of each year and amount estimated to be un-utilisable is charged to the profit and loss account for the year.

10. **Stores and Spares**

Stores and spares (other than spares acquired with fixed assets) are charged to the profit and loss account as and when purchased.

11. **Computer Software Costs**

Expenditure incurred for procuring, developing, improving and maintaining computer software programs are charged to the profit and loss account as and when incurred, except when capitalised in accordance with note 3 (c) above.

12. **Research and Development**

Research and Development expenses are charged to revenue. Capital expenditure on research and development is reported as fixed assets under the relevant head. Depreciation on research and development fixed assets is included under depreciation expense.

13. **Leases**

Lease rentals in respect of assets taken on operating lease are charged to the profit and loss account on accrual and on straight line basis over the lease term.

**14. Accounting for Tax**

a) Current Tax and Fringe Benefit Tax are accounted on the basis of estimated taxable income for the current accounting period and in accordance with the provisions of Income Tax Act, 1961.

b) Deferred Tax resulting from "timing differences" between accounting and taxable profit for the period is accounted by using tax rates and laws that have been enacted or substantially enacted as at the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realized in future. Net deferred tax liability is arrived at after setting off deferred tax assets.

c) In terms of the Guidance Note on Accounting for credit available in respect of Minimum Alternate Tax under the Income tax Act, 1961 issued by the Institute of Chartered Accountants of India, the excess of Minimum Alternate Tax (MAT) over normal current tax payable has been accounted as an asset by credit to the profit and loss account as MAT Credit Entitlement.

**15. Foreign Currency Transactions and Balances**

a) Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction.

b) The net gain or loss on account of exchange differences arising on settlement of foreign currency transactions are recognised as income or expense of the period in which they arise.

c) In case of forward contracts, to which AS 11, the Effects of Changes in Foreign Exchange Rate applies, the difference between the forward rate and the exchange rate on the date of the contract is recognised as income or expense over the life of the contract. Exchange differences on such a contract are recognised in the profit and loss account in the period in which the exchange rates change. Derivatives not covered under AS 11 are marked to market at balance sheet date and resulting loss, if any, is recognised in the profit and loss account in view of the principle of prudence as per Announcement on Accounting of Derivatives by Institute of Chartered Accountants of India dated 29-Mar-08.

d) Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are reported using the rate prevailing as on that date. The resultant exchange differences are recognised in the profit and loss account.

e) Investments in shares of foreign subsidiaries and other companies are expressed in reporting currency at the rates of exchange prevailing at the time when the original investments were made.

**16. Provisions, Contingent Liabilities and Contingent Assets**

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Liabilities which are of contingent nature are not provided but are disclosed at their estimated amount in the notes forming part of the accounts. Contingent assets are neither recognised nor disclosed in the financial statements.

## SCHEDULE - 22

## NOTES FORMING PART OF THE ACCOUNTS

| | As at 31-Mar-08 | (Rs. in lacs) As at 31-Mar-07 |
|---|---|---|
| 1. Estimated amount of unexecuted capital contracts (net of advances) not provided for : | **1,624.75** | 1,035.47 |
| 2. **Contingent Liabilities not provided for in respect of :** | | |
| (a) Claims against the Company not acknowledged as debts | | |
| Disputed demand of Income Tax for which an appeal has been preferred | **712.20** | 1,239.86 |
| Disputed ESI Liability | **218.05** | 186.72 |
| Disputed legal cases for supply of goods and services | **1.78** | 1.78 |
| Disputed Demand of Excise & Service Tax | **8.44** | 26.33 |
| Disputed Demand of Local Sales Tax & C.S.T. | **18.31** | – |
| | **958.78** | 1,454.69 |
| (b) The Company has issued guarantees aggregating USD 8.1 million (previous year USD 9 million) and EURO 7.5 million (previous year EURO 5 million) to secure lines of credit to its wholly owned subsidiaries. The outstanding amount of borrowing by the subsidiaries as on balance sheet date, converted at closing exchange rate, is | **1,819.75** | 696.31 |
| (c) Uncalled liability on partly paid shares of Torrent Australasia Pty. Limited, a wholly owned subsidiary. | **206.90** | 206.90 |

3. Excise Duty shown as deduction from Domestic Sales represents the amount of excise duty collected on sales. Excise duty expenses under Schedule – 19, "Manufacturing & Other Expenses", represents the difference between excise duty element in amounts of closing stocks and opening stocks, excise duty paid on samples and on inventory write-off, which is not recoverable from sales.

4. (a) The Profit & Loss Account includes remuneration paid to Managerial Personnel:

| | 2007-08 | (Rs. in lacs) 2006-07 |
|---|---|---|
| Salary and allowances | **208.70** | 268.18 |
| Contribution to Provident & Other funds | **20.89** | 30.58 |
| Perquisites | **6.66** | 12.26 |
| Commission to Managerial Personnel | **211.90** | 164.70 |
| | **448.15** | 475.72 |
| (b) Computation of Net Profit in accordance with Section 198 of the Companies Act, 1956 and commission payable : | | |
| Net profit for the Year | **15,551.86** | 11,295.94 |
| Add: Provision for taxation as per the profit and loss account | **1,031.62** | 1,114.42 |
| Depreciation as per financial statements | **3,274.49** | 3,024.25 |
| Directors' remuneration (including commission) | **448.15** | 475.72 |
| | **20,306.12** | 15,910.33 |
| Less: Profit on sale of Investment (net) | **446.14** | 222.65 |
| Capital gains on sale of Asset | **133.84** | 8.66 |
| Depreciation under Section 350 of the Companies Act, 1956 | **3,404.46** | 2,867.01 |
| **Net Profit** | **16,321.68** | 12,812.01 |
| Commission entitlement of Managerial Personnel as per terms of appointment | **489.65** | 576.54 |
| Commission to Managerial Personnel | **200.00** | 150.00 |
| Commission entitlement of Non-Executive Directors | **81.61** | 64.06 |
| Commission paid to Non-Executive Directors | **11.90** | 14.70 |

5. The accruing liability on account of gratuity (retirement benefit in the nature of defined benefits plan) is accounted as per Accounting Standard 15 (revised 2005) "Employee Benefits".

**General Description of the Plan :**

The Company operates a defined benefit plan (the Gratuity Plan) covering eligible employees, which provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employees salary and the tenure of employment.

**Status of gratuity plan as required under AS 15 (Revised) :**

(Rs. in lacs)

| Particulars | 2007-08 | 2006-07 |
|---|---|---|
| **a. Reconciliation of opening and closing balances of the present value of the defined benefit obligation:** | | |
| Obligations at the beginning of the year | **1,219.00** | 875.19 |
| Current service cost | **129.64** | 199.00 |
| Interest cost | **94.48** | 66.00 |
| Actuarial (gain) / loss | **(0.47)** | 140.56 |
| Benefits paid | **(75.98)** | (61.75) |
| **Obligations at the end of the year** | **1,366.67** | 1,219.00 |
| **b. Reconciliation of opening and closing balances of the fair value of plan assets:** | | |
| Plan assets at the beginning of the year, at fair value | **779.48** | 608.76 |
| Expected return on plan assets | **69.50** | 46.00 |
| Actuarial gain / (loss) | **9.09** | (1.09) |
| Contributions | **399.93** | 187.56 |
| Benefits paid | **(75.98)** | (61.75) |
| **Plan assets at the end of the year, at fair value** | **1,182.02** | 779.48 |
| **c. Reconciliation of the present value of the defined benefit obligation & fair value of plan assets:** | | |
| Obligations at the end of the year | **1,366.67** | 1,219.00 |
| Plan assets at the end of the year, at fair value | **1,182.02** | 779.48 |
| **Liability recognised in Balance sheet** | **184.65** | 439.52 |
| **d. Gratuity cost for the year:** | | |
| Current service cost | **129.64** | 199.00 |
| Interest cost | **94.48** | 66.00 |
| Expected return on plan assets | **(69.50)** | (46.00) |
| Net Actuarial gain / (loss) | **(9.56)** | 141.65 |
| **Net gratuity cost** | **145.06** | 360.65 |

**e. Investment details of plan assets:**

To fund the obligations under the gratuity plan, contributions are made to Life Insurance Corporation of India and ICICI Prudential Life Insurance Company Limited, who has invested the funds substantially as under :

| | |
|---|---|
| – Life Insurance Corporation of India: | Government Securities |
| – ICICI Prudential Life Insurance Company Limited : | Equity and Debt Instruments |

| | 2007-08 | 2006-07 |
|---|---|---|
| **f. Assumptions** | | |
| Interest rate | **8.00%** | 8.00% |
| Expected rate of return on plan assets | **8.00%** | 8.00% |

Future salary increases are based on long term average salary rise expected taking into account inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employee market.

Future separation & mortality rates are obtained from relevant data of Life Insurance Corporation of India.

**g. Past four years data for defined benefit obligation and fair value of plan assets are as under:**

(Rs in lacs)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|
| Present value of defined benefit obligations at the end of the year (independent actuary) | 288.69 | 385.02 | 875.19 | 1,219.00 |
| Fair value of plan assets at the end of the year | 365.13 | 447.49 | 608.76 | 779.48 |
| **Net assets / (liability) at the end of year** | **76.44** | **62.47** | **(266.43)** | **(439.52)** |

**6.** (a) Research and Development expenses comprise :

(Rs. in lacs)

| | 2007-08 | 2006-07 |
|---|---|---|
| Employees cost : | | |
| Salaries, wages and bonus | **3,172.25** | 2,312.71 |
| Contribution to Provident, Gratuity and other funds | **336.60** | 249.50 |
| Welfare expenses | **75.29** | 61.62 |
| | **3,584.14** | 2,623.83 |
| Power and Fuel | **419.02** | 361.95 |
| Stores and Spares Consumed | **724.17** | 593.86 |
| Laboratory Goods and Testing Expenses | **2,336.92** | 1,681.24 |
| Clinical Research Expenses | **791.12** | 961.75 |
| Labour and Job Work Charges | **110.68** | 97.39 |
| Repairs and Maintenance | **141.39** | 105.72 |
| Traveling, Conveyance and Vehicle Expenses | **214.32** | 182.67 |
| Printing and Stationery Expenses | **48.84** | 52.75 |
| Communication Expenses | **53.04** | 42.23 |
| Insurance | **25.95** | 23.26 |
| Rent | **7.33** | 1.89 |
| Rates and Taxes | **3.35** | 4.59 |
| General Charges | **680.24** | 662.63 |
| | **9,140.51** | 7,395.76 |

(b) Depreciation includes Rs. 830.56 lacs (previous year Rs. 711.68 lacs) pertaining to Research & Development assets.

7. Sundry debtors in Schedule - 8 include debts due from Torrent Power Limited, a company under the same management as per Section 370(1B) of the Companies Act, 1956 amounting to Rs. 3.49 lacs (previous year Rs. 1.93 lacs).

8. The details of loan given by the Company to its wholly owned subsidiary are as under :

(Rs. in lacs)

| Name of Subsidiary | Loan Given | | Maximum amount outstanding during the year | Balance as on | |
|---|---|---|---|---|---|
| | **2007-08** | 2006-07 | | **31-Mar-08** | 31-Mar-07 |
| Torrent Pharma Philippines Inc | – | 138.59 | 217.95 | **199.85** | 217.95 |

Other than above, the Company has not given any loans or advances in the nature of loan to any of its subsidiaries and associates or firms / companies, in which Directors are interested.

There are no loans or advances in the nature of loan where :

(i) Either repayment schedule is not prescribed or repayment is scheduled beyond seven years; or

(ii) Either no interest is charged or interest is below the rate specified in Section 372A of the Companies Act, 1956.

9. Net foreign currency positions outstanding as at 31-Mar-08 under derivatives contracts for hedging are summarised below.

(Amount in lacs)

| Hedged Item / Nature of Derivatives Contract | Net position under Derivatives Contracts | | | | Unhedged foreign currency exposures | |
|---|---|---|---|---|---|---|
| | Long Position | | Short Position | | | |
| | Currency | Amount | Currency | Amount | Currency | Amount |
| **Foreign Currency Loans - Payable** | | | | | USD | 31.92 |
| Forward Exchange Contracts | JPY | 19,762.50 | INR | 10,034.44 | | |
| | USD | 23.13 | | | | |
| Currency cum Interest Rate Swap | JPY | 24,730.00 | INR | 8,080.00 | | |
| Currency Swap | USD | 37.50 | INR | 1,639.13 | | |
| **Trade Payables** | – | – | – | – | USD | 4.70 |
| | | | | | JPY | 57.51 |
| | | | | | AUD | 0.17 |
| **Trade Receivables** | | | | | USD | 2.52 |
| Forward Exchange Contracts | INR | 17,742.73 | USD | 338.97 | EUR | (22.99) |
| | | | EUR | 67.00 | | |
| **Foreign Currency Loan - Receivable** | – | – | – | – | USD | 5.53 |

**Notes :**

I INR = Indian Rupee, reporting currency
USD = United States Dollar
EUR = Euro
JPY = Japanese Yen
AUD = Australian Dollar

II Foreign currency loan - payable, outstanding on 31-Mar-08, JPY 19,762.50 lacs bears a floating rate of interest linked to JPY Libor. The floating rate basis is unhedged.

10. The components of the deferred tax adjustment balance are set out below:

(Rs. in lacs)

| | **As at 31-Mar-08** | As at 31-Mar-07 |
|---|---|---|
| **Deferred Tax Liabilities** | | |
| Excess of depreciation claimed under the income tax law over that debited to profit and loss accounts | **7,618.37** | 6,948.16 |
| **Deferred Tax Assets** | | |
| Provision for Leave Salary | **(422.52)** | (284.51) |
| Bonus Payable | **(127.58)** | (54.38) |
| Provision for Gratuity | **(62.76)** | (149.39) |
| Provision for Doubtful Debts | **(58.58)** | (129.29) |
| | **6,946.93** | 6,330.59 |

11. The basic & diluted Earnings Per Share (EPS) are :

| | | | 2007-08 | 2006-07 |
|---|---|---|---|---|
| Net profit for the period | (a) | (Rs. in lacs) | **15,551.86** | 11,295.94 |
| Weighted average number of equity shares | (b) | (Nos. in lacs) | **846.11** | 846.11 |
| EPS (basic & diluted) | (a) / (b) | (Rs.) | **18.38** | 13.35 |
| Nominal value per equity share | | (Rs.) | **5.00** | 5.00 |

12. The Company has initiated the process of obtaining information from suppliers who have registered themselves under the Micro Small Medium Enterprise Development Act, 2006 (MSMED Act, 2006). Based on information available with the Company the balance due to Micro & Small Enterprise as defined under the MSMED Act, 2006 is Nil. No interest during the year has been paid under the terms of the MSMED Act, 2006.

13. **Quantitative Information**

| | 2007-08 | 2006-07 |
|---|---|---|
| **A. Licensed Capacity** | **Not Applicable** | Not Applicable |
| **B. Installed Capacity** | | |
| I : Formulation | | |
| 1. Tablets | **9,400 Million** | 9,400 Million |
| 2. Capsules | **480 Million** | 480 Million |
| 3. Injection/Vials | **26 Million** | 26 Million |
| 4. Suspension / Liquid (Ltr.) | **1 Million** | 1 Million |
| II : Bulk Drugs | **18,000 Kg.** | 18,000 Kg. |

**C. Production and Stocks**

| Item | Unit | Production* | Opening Stock | | Closing Stock | |
|---|---|---|---|---|---|---|
| | | | Quantity | Rs. in lacs | Quantity | Rs. in lacs |
| **1. Formulation** | | | | | | |
| Tablets | ' 000 Nos. | **2,871,922** | **639,843** | **4,070.13** | **530,772** | **3,739.93** |
| | | (2,928,507) | (585,899) | (3,207.15) | (639,843) | (4,070.13) |
| Capsules | ' 000 Nos. | **207,877** | **39,029** | **566.19** | **36,668** | **488.32** |
| | | (245,464) | (51,614) | (504.24) | (39,029) | (566.19) |
| Suspension/Liquid | Ltr. | **488,632** | **125,545** | **314.39** | **114,804** | **239.93** |
| | | (560,104) | (126,268) | (238.45) | (125,545) | (314.39) |
| Injections | Ltr. | **36,623** | **13,007** | **211.67** | **10,907** | **137.68** |
| | | (71,943) | (20,994) | (231.33) | (13,007) | (211.67) |
| Vials/Cartridges | Nos. | **17,725,163** | **946,516** | **383.73** | **574,304** | **371.46** |
| | | (16,462,776) | (371,875) | (96.20) | (946,516) | (383.73) |
| Ointment | Kg. | **8,172** | **1,852** | **15.05** | **1,473** | **13.14** |
| | | (4,921) | (4,878) | (23.79) | (1,852) | (15.05) |
| Others | | | | **15.55** | | **10.48** |
| | | | | – | | (15.55) |
| **2. Bulk Drugs** | Kg. | **9,638** | **557** | **152.13** | **515** | **151.87** |
| | | (7,262) | (393) | (99.92) | (557) | (152.13) |
| **Total** | | | | **5,728.84** | | **5,152.82** |
| | | | | (4,401.08) | | (5,728.84) |

* **Notes:**

I Includes production in factories of third parties on loan license.

II Bulk Drug includes production for captive consumption.

**D. Purchase and Stocks of Traded Goods**

| Item | Unit | Purchase | Opening Stock | | Closing Stock | |
|---|---|---|---|---|---|---|
| | | | Quantity | Rs. in lacs | Quantity | Rs. in lacs |
| **1. Formulation** | | | | | | |
| Tablets | ' 000 Nos. | 92,131 | 65,095 | 1,565.84 | 36,381 | 676.25 |
| Capsules | ' 000 Nos. | 60,397 | 25,474 | 1,055.76 | 12,756 | 311.94 |
| Suspension / Liquid | Ltr. | 11,254 | 16,028 | 96.70 | 29,647 | 77.47 |
| Injections | Ltr. | 85 | 577 | 123.92 | 150 | 41.38 |
| Vials/Cartridges | Nos. | 75,086 | 67,771 | 113.26 | 27,804 | 39.93 |
| Ointment | Kg. | 11,261 | 11,534 | 70.29 | 4,272 | 40.11 |
| Others | | | | 35.77 | | 17.30 |
| **2. Bulk Drugs** | Kg. | 36,741 | 75 | 3.91 | 75 | 3.91 |

**E. Sales by class of goods**

| | Unit | Quantity | Rs. in lacs |
|---|---|---|---|
| **1. Formulation** | | | |
| Tablets | ' 000 Nos. | **3,101,838**<br>(3,007,767) | **64,723.84**<br>(57,674.29) |
| Capsules | ' 000 Nos. | **283,352**<br>(309,514) | **10,062.20**<br>(9,449.51) |
| Suspension / Liquid | Ltr. | **497,008**<br>(573,201) | **2,260.50**<br>(2,118.54) |
| Injections | Ltr. | **39,235**<br>(79,959) | **456.43**<br>(1,035.78) |
| Vials / Cartridges | Nos. | **18,212,428**<br>(16,101,151) | **17,378.37**<br>(14,666.68) |
| Ointment | Kg. | **27,073**<br>(13,298) | **548.92**<br>(328.55) |
| Others | | | **486.08**<br>(402.71) |
| **2. Bulk Drugs** | Kg. | **46,420**<br>(43,224) | **1,033.95**<br>(948.84) |
| Total | | | **96,950.31**<br>(86,624.90) |

**14. Consumption of Raw Materials**

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | **Quantity** | **Rs. in lacs** | Quantity | Rs. in lacs |
| Dry Insulin MU | **6852** | **11,940.73** | 5360 | 8,941.25 |
| Others | | **12,780.77** | | 14,371.82 |
| | | **24,721.50** | | 23,313.07 |

**15. Break-up of Imported & Indigenous Materials Consumed**

| | 2007-08 | | 2006-07 | |
|---|---|---|---|---|
| | **Rs. in lacs** | **% to Total Consumption** | Rs. in lacs | % to Total Consumption |
| (a) Raw Materials | | | | |
| Imported | **12,505.33** | **50.58** | 9,616.94 | 41.25 |
| Indigenous | **12,216.17** | **49.42** | 13,696.13 | 58.75 |
| | **24,721.50** | **100.00** | 23,313.07 | 100.00 |
| (b) Stores & Spares | | | | |
| Imported | **31.11** | **2.97** | 47.55 | 4.28 |
| Indigenous | **1,017.90** | **97.03** | 1,064.26 | 95.72 |
| | **1,049.01** | **100.00** | 1,111.81 | 100.00 |

| | 2007-08 | (Rs. in lacs) 2006-07 |
|---|---|---|
| **16. Value of Imports on CIF basis in respect of** | | |
| (a) Raw Materials and Packing Material | **13,836.85** | 10,436.84 |
| (b) Consumable Stores | **485.01** | 506.90 |
| (c) Capital Goods | **1,515.51** | 1,009.23 |
| **17. Expenditure in Foreign Currency** | | |
| (a) Books and Periodicals | **25.62** | 93.76 |
| (b) Traveling | **594.92** | 279.80 |
| (c) Professional Fees | **82.95** | 333.59 |
| (d) Interest Expenses | **126.44** | 574.88 |
| (e) Others | **5,087.14** | 5,236.03 |
| **18. Earnings in Foreign Exchange** | | |
| F.O.B. value of exports | **22,217.53** | 16,455.53 |
| Other income (from Contract Research & Product registration dossiers & Interest) | **1,057.19** | 911.48 |

19. Accounting Standard 17 requires segment information to be presented on the basis of consolidated financial statements. Accordingly segment information is disclosed in consolidated financial statements.

20. Previous year figures have been regrouped wherever necessary so as to make them comparable with those of the current year.

21. The disclosures pertaining to related parties and transactions therewith are set out in the table below :

(Rs. in lacs)

| Particulars | Subsidiaries | | Controlling Company/ Enterprises Controlled by the Controlling Company | | Enterprises Controlled by Key Management Personnel/Relatives of Key Management Personnel | | Enterprises controlled by the Company | | Key Management Personnel | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **(A) Nature of Transactions** | 2007-08 | 2006-07 | 2007-08 | 2006-07 | 2007-08 | 2006-07 | 2007-08 | 2006-07 | 2007-08 | 2006-07 | **2007-08** | 2006-07 |
| Sale of Finished Goods | 9,961.74 | 8,539.85 | 34.96 | 31.56 | 361.83 | – | – | – | – | – | **10,358.53** | 8,571.41 |
| Sale of Dossiers | 1,021.66 | 338.99 | – | – | – | – | – | – | – | – | **1,021.66** | 338.99 |
| Purchase of Material, Consumables etc | 97.30 | 83.20 | 69.58 | 39.18 | 6.02 | – | – | – | – | – | **172.90** | 122.38 |
| Remuneration to Key Management Personnel | – | – | – | – | – | – | – | – | 436.25 | 461.02 | **436.25** | 461.02 |
| Contribution to Gratuity / Superannuation Funds | – | – | – | – | – | – | 389.70 | 441.24 | – | – | **389.70** | 441.24 |
| Lease Rent Paid | – | – | 2.00 | 9.49 | – | – | – | – | – | – | **2.00** | 9.49 |
| Services received | 494.83 | 417.40 | 434.60 | 421.81 | 689.36 | 643.67 | – | – | – | – | **1,618.79** | 1,482.88 |
| Commission & Interest paid to carrying & forwarding agents | – | – | – | – | 141.10 | 156.08 | – | – | – | – | **141.10** | 156.08 |
| Donation | – | – | – | – | 105.00 | 30.00 | – | – | – | – | **105.00** | 30.00 |
| Interest on loan | 12.21 | 21.08 | – | – | – | – | – | – | – | – | **12.21** | 21.08 |
| Expenses Reimbursement | 0.38 | 20.85 | – | – | 24.20 | 25.03 | – | – | – | – | **24.58** | 45.88 |
| Purchase of Fixed Assets | – | – | 107.40 | 165.68 | – | – | – | – | – | – | **107.40** | 165.68 |
| Sale of Fixed Assets | – | – | – | 40.13 | – | – | – | – | – | – | **–** | 40.13 |
| Equity Contribution | 865.17 | 2,121.74 | – | – | – | – | – | – | – | – | **865.17** | 2,121.74 |
| Loans given | – | 1,386.72 | – | – | – | – | – | – | – | – | **–** | 1,386.72 |
| Repayment of Loan | – | 1,248.13 | – | – | – | – | – | – | – | – | **–** | 1,248.13 |
| Deposits given | – | – | – | 6.56 | – | – | – | – | – | – | **–** | 6.56 |
| Share Application Money - pending allotment | – | 0.28 | – | – | – | – | – | – | – | – | **–** | 0.28 |
| Recovery of Expenses | 24.89 | – | – | – | – | – | – | – | – | – | **24.89** | – |
| **(B) Balances at the end of the year** | 31-Mar-08 | 31-Mar-07 | 31-Mar-08 | 31-Mar-07 | 31-Mar-08 | 31-Mar-07 | 31-Mar-08 | 31-Mar-07 | 31-Mar-08 | 31-Mar-07 | **31-Mar-08** | 31-Mar-07 |
| Sundry Debtors | 10,923.13 | 7,880.13 | 3.49 | 1.93 | 284.33 | – | – | – | – | – | **11,210.95** | 7,882.07 |
| Loan to Subsidiary | 199.85 | 217.95 | – | – | – | – | – | – | – | – | **199.85** | 217.95 |
| Advances Recoverable in Cash or Kind | 51.84 | 12.05 | – | – | – | – | 19.77 | 19.71 | – | – | **71.61** | 31.76 |
| Investments in Equities | 10,341.68 | 9,476.51 | – | – | – | – | – | – | – | – | **10,341.68** | 9,476.51 |
| Sundry Creditors | 271.57 | 121.76 | 2.69 | 5.75 | 16.33 | 262.95 | – | – | – | – | **290.59** | 390.46 |
| Guarantees given | 7,969.32 | 6,830.10 | – | – | – | – | – | – | – | – | **7,969.32** | 6,830.10 |
| Zao Torrent Pharma (3 Million USD) | 1,199.10 | 1,307.70 | – | – | – | – | – | – | – | – | **1,199.10** | 1,307.70 |
| Torrent Pharma GmbH (7.5 Million Euro) | 4,731.75 | 2,907.00 | – | – | – | – | – | – | – | – | **4,731.75** | 2,907.00 |
| Torrent Do Brasil Ltda. (5 Million USD) | 1,998.50 | 2,615.40 | – | – | – | – | – | – | – | – | **1,998.50** | 2,615.40 |
| Torrent Pharma Inc. (0.10 Million USD) | 39.97 | – | – | – | – | – | – | – | – | – | **39.97** | – |

**Names of related parties and description of relationship :**

| | | | | |
|---|---|---|---|---|
| 1 | Subsidiaries and Step Down Subsidiaries | Heumann Pharma Gmbh & Co. Generica KG, Torrent Do Brasil Ltda, Zao Torrent Pharma, Torrent Pharma GmbH., Torrent Pharma Inc., Torrent Pharma Philippines Inc., Torrent Australasia Pty Ltd, Laborotrios Torrent SA de CV, Torrent Pharma Japan Co. Ltd. | | |
| 2 | Enterprises controlled by the Company | TPL Employee Group Gratuity Trust, TPL Employee Superannuation Trust. | | |
| 3 | Controlling Company / Enterprises Controlled by the Controlling Company | Torrent Private Ltd., Torrent Power Ltd., Torrent Cables Ltd., Gujarat Lease Financing Ltd., Torrent Gujarat Biotech Ltd., Ahmedabad Royal Garden Hotels Pvt. Ltd., Gujarat Chlor Alkalies Industries Pvt. Ltd., Torrent Power Services Pvt. Ltd. | | |
| 4 | Key Management Personnel | Sudhir Mehta<br>Chairman | Samir Mehta<br>Managing Director | Dr. C. Dutt<br>Whole Time Director |
| 5 | Relatives of Key Management Personnel | Anita Mehta, wife<br>Shardaben Mehta, mother<br>Varun Mehta, son<br>Jinal Mehta, son<br>Meena Modi, sister<br>Nayna Shah, sister | Sapna Mehta, wife<br>Shardaben Mehta, mother<br>Aman Mehta, son<br>Shaan Mehta, son<br>Meena Modi, sister<br>Nayna Shah, sister | Shobha Dutt, wife<br>Umang Dutt, son<br>Uttang Dutt, son |
| 6 | Enterprises Controlled by Key Management Personnel / Relatives of Key Management Personnel | Torrent Scitech India Pvt. Ltd., U N Mehta Charitable Trust, D N Modi Charitable Trust, Shardaben Mehta Charitable Trust, Tsunami Tours & Travels Pvt. Ltd., Tsunami Pharmaceuticals Pvt. Ltd., Torrel Cosmetics Pvt. Ltd., Zeal Drugs & Chemicals, Zeal Pharmachem India Pvt. Ltd., Shruti Plastic Industries Pvt Ltd. | | |

As per our attached report of even date
**For C.C. CHOKSHI & CO.**
Chartered Accountants

Signatures to Schedule 1 to 22
**Sudhir Mehta**
Chairman

**Gaurav J. Shah**
Partner

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

**Samir Mehta**
Managing Director

Ahmedabad
6th May, 2008

Ahmedabad
6th May, 2008

## BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE:

**I**

| | | | | | |
|---|---|---|---|---|---|
| Registration No. | : | 2126 | State Code | : | 04 |
| Balance Sheet Date | : | 31032008 | | | |

**II Capital raised during the year (Rs. in thousands)**

| | | | | | |
|---|---|---|---|---|---|
| Public Issue | : | NIL | Right Issue | : | NIL |
| Bonus Issue | : | NIL | Private Placement | : | NIL |

**III Position of Mobilisation and Deployment of Funds (Rs. in thousands)**

| | | | | | |
|---|---|---|---|---|---|
| Total Liabilities | : | 12359571 | Total Assets | : | 12359571 |
| **Sources of Funds** | | | | | |
| Paid-up Capital | : | 423092 | Reserves & Surplus | | 5429441 |
| Secured Loans | : | 3366460 | Unsecured Loans | : | 49600 |
| Net Deferred Tax Liability | | 694692 | | | |
| **Application of Funds** | | | | | |
| Net Fixed Assets | : | 5261112 | Investments | : | 1580474 |
| Net Current Assets | : | 3121699 | Misc. Expenditure | : | NIL |
| Accumulated Losses | : | NIL | | | |

**IV Performance of Company** (Rs. in thousands)

| | | | | | |
|---|---|---|---|---|---|
| Turnover | : | 9695031 | Total Expenditure | : | 8347170 |
| Profit Before Tax | : | 1658348 | Profit After Tax | : | 1555186 |
| Earning per Share (in Rs.) | : | 18.38 | Dividend rate % | : | 70.00% |

**V Generic Names of Three Principal Products / Services of Company (as per monetary terms)**

| | | |
|---|---|---|
| Item Code No. (ITC Code) | : | 300431.01 |
| Product Description | : | Insulin |
| Item Code No. (ITC Code) | : | 300490.81 |
| Product Description | : | Lamotrigine |
| Item Code No. (ITC Code) | : | 300490.49 |
| Product Description | : | Domperidone |

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**Sudhir Mehta**
Chairman

**Samir Mehta**
Managing Director

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

Ahmedabad
6th May, 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

**To The Shareholders**

**Caveat**

*Shareholders are cautioned that certain data and information external to the Company is included in this section. Though these data and information are based on sources believed to be reliable, no representation is made on their accuracy or comprehensiveness. Further, though utmost care has been taken to ensure that the opinions expressed by the management herein contain their perceptions on most of the important trends having a material impact on the Company's operations, no representation is made that the following presents an exhaustive coverage on and of all issues related to the same. The opinions expressed by the management may contain certain forward-looking statements in the current scenario, which is extremely dynamic and increasingly fraught with risks and uncertainties. Actual results, performances, achievements or sequence of events may be materially different from the views expressed herein. Shareholders are hence cautioned not to place undue reliance on these statements, and are advised to conduct their own investigation and analysis of the information contained or referred to in this section before taking any action with regard to their own specific objectives. Further, the discussion following herein reflects the perceptions on major issues as on date and the opinions expressed here are subject to change without notice. The Company undertakes no obligation to publicly update or revise any of the opinions or forward-looking statements expressed in this section, consequent to new information, future events, or otherwise.*

**NOTE**

Except stated otherwise, all figures, percentages, analysis, views and opinions are on consolidated financials of Torrent Pharmaceuticals Ltd. and its wholly owned subsidiaries and their businesses (jointly referred as Torrent or Company, hereinafter).

**OVERVIEW**

Torrent is one of the leading pharmaceutical companies having presence in Indian and global markets. The Company's revenues are mainly from manufacture and sale of branded as well as unbranded generic pharmaceutical products. A further break down of pharmaceutical sales can be done as Domestic formulations (comprising branded pharmaceutical formulations sold in the domestic market), Contract manufacturing (mainly comprising of sourcing, manufacturing and supplying insulin formulations under the third-party brand name) and International operations (comprising sales outside India of branded and unbranded-generic pharmaceutical formulations).

The operating costs primarily comprise raw and packing materials, purchase of finished goods, staff cost, selling and marketing expenses, manufacturing overheads, research & development expenses and general overheads. The Company undertakes new drug discovery research, the expenses of which are included as part of research & development expenses.

**PERFORMANCE SNAPSHOT**

The year was marked by consolidation of Company's operations to have profitable revenue streams sustainable over the future years. Selling and manufacturing efficiencies led to a healthy profit growth of 44%.

Total operating revenues for the year reported a growth of 4%. The sales growth was weighed by a de-growth in Heumann business (Germany) due to severe price erosions and shift of volumes to segment in which Company was not present. Excluding Heumann, the Company's consolidated revenues grew by 11%.

***Domestic Branded Formulation***

The Domestic Branded Formulations turnover for the year was Rs. 581 crores, registering a growth of 7% over the previous year. The revenue growth was mainly driven by Cardio Vascular, Anti Diabetic, Neuro-Psychiatry and Gastro management portfolios. Top 10 brands contributed to 41% of the total domestic formulation sales as against 44% during previous year.

As per ORG IMS data set for the financial year 2007-08, the Company registered a growth of 22.60% (previous year 13.20%) against a market growth of 14.80%. The table below sets forth the growth rates in therapeutic segments in which the Company has presence:

| Therapeutic Segment | Company's Growth | Segment Growth |
|---|---|---|
| Cardiovascular | 35.4% | 23.1% |
| Gastrointestinal | 13.0% | 13.8% |
| CNS | 24.6% | 16.4% |
| Anti-infective | 0.1% | 14.0% |
| Pain management | 10.0% | 7.9% |
| Anti-diabetics | 50.7% | 27.3% |

*Source: ORG-IMS March 2008 MAT*

The Company is ranked 16th by turnover in the domestic market, has 6 brands in top 300 brands and has 31 brands in leadership positions in their respective molecule segments. The Company achieved leadership position in the Cardiovascular segment as a whole and improved its ranking in the CNS segment.

***New Products***

New products have been a consistent growth driver of the market. The year witnessed introduction of a slew of new molecules and new combinations of existing products The Company continued its prominent position in various segments by introducing new molecules and also line extensions of existing brands. During the year, 52 (as compared to 49 in the previous year) new products were launched in the market. Your Company continues to build market shares in new products launched in the previous years. The Company will continue to strengthen existing therapies through new product introductions with sharper focus as also expand into new therapies.

***International Operations***

International generic opportunity is the future growth engine. Blockbuster drugs going off patent continue to offer significant opportunity over the next few years. Introduction of generics has been a significant factor in helping Governments in developed markets, to control the healthcare costs. This trend is also picking up in new geographies throwing up increasing opportunities for generics. Semi-regulated markets also offer an attractive opportunity, with higher margins. The size of the semi-regulated markets across Latin America, Asia, Eastern Europe and Africa is expected to expand at attractive rates as economic growth drives a boom in healthcare spend. Most of these markets are branded generics markets, thus, offering better margins. Over the last few years, the Company has, therefore, developed a strategy and built infrastructure and capabilities focused on tapping these lucrative opportunities. The manufacturing facilities are upgraded to meet stringent quality assurance standards of the highly regulated developed countries; at the same time maintaining the competitive cost advantage. Torrent Research Center (TRC), the research & development facility, is upgraded to develop international generic versions of selected molecules in the required time frame and prepare the necessary regulatory dossiers for obtaining timely marketing approval in regulated markets. Going forward these processes will be further strengthened to sustain the growth.

Guided by the above-mentioned overall strategy, the current international operations are focused on five thrust areas: Brazil & Latin America, Russia & CIS countries, Europe, North America and Rest of the World comprising of less regulated countries of Africa and Asia. The Company's position in Brazil has considerably strengthened over the years with the region having reached a turnover of Rs 177.11 crores growing at 6.20%. The Company consolidated its operations in Brazil by streamlining trade channel inventory and credit norms to its distributors. While the above measures resulted in a temporary dip in primary sales growth, the secondary sales grew at a healthy 19.10% *(Source IMS Feb 08)*. Sales in Russia & CIS market reached Rs 59.02 crores, growing by 3%.

Europe registered a growth of 63% and with the sales at Rs 63.51 crores. This market has started providing the growth momentum to the international business. 3 new products were introduced during the year and the Company has a strong pipeline of 40 molecules for launch in the coming years. During the year your Company successfully entered the highly competitive US market with launch of Citalopram and recording a sales of Rs 1.84 crores. As at March 08, the product portfolio comprises of 4 approved ANDAs, 11 ANDAs under approval and 35 ANDAs under development. Considerable investments have been made in product development for US market and the healthy product pipeline is expected to yield significant revenue growth in the coming years.

Heumann Pharma GmbH & Co Generica KG (Heumann), the wholly owned subsidiary operating in Germany posted sales of Rs. 204.25 crores (Euro 35.8 million) and incurred a net loss of Rs. 20.14 crores (euro 3.5 million). The German market witnessed significant changes owing to the ongoing healthcare reforms in the Country. Prescription of doctors is fast losing relevance and relationship building with pharmacies and entering into contracts with insurance companies is gaining importance. In response to these changes, Heumann did away with its doctor field force, restructured the head office set up in tune with this and has positioned itself in line with the new growth drivers. The restructuring has resulted into significant reduction of fixed costs with leading to a low breakeven sales level. Successful shifting of product manufacture to India will result in reduction in cost of goods sold in the second half of this year leading to margin expansion.

## MANUFACTURING

To cater to the growing needs of the domestic markets, a capacity expansion of 30% in tablet formulations was undertaken at Baddi plant. The project is nearing completion and would be ready for commercial production early next year.

The project execution for the new vial-filled injectible formulation manufacturing facility with a capacity of 290 lacs vials per annum at Chatral is progressing as per schedule and is expected to commence commercial production during financial year 2009-10.

With a view to augment the manufacturing capability for its international operations, the Company has acquired lease hold land at Pharmez SEZ, at taluka Sanand; district Ahmedabad. The Company has received permission of the Kandla SEZ authority to set up a facility at the SEZ.

During the year the Company effected site transfer of 48 products of Heumann, Germany from various high cost European manufacturing locations. This will help to reduce the manufacturing cost and improve margins in German operations. The Company commenced manufacturing activities for production for US market at its USFDA approved facilities at Chatral.

Both the manufacturing facilities at Baddi and Chatral, undertake cost reduction initiatives on an ongoing basis. In this regard, measures are being taken to continuously upgrade the manufacturing facilities. An important cost reduction program undertaken during the year was in the area of solvent recovery wherein significant savings are expected in solvent usage in the manufacturing process of the API Plant.

## RESEARCH AND DEVELOPMENT

### *Discovery Research*

Your Company is currently working on 7 in-house New Chemical Entities (NCE) projects within the areas of Diabetes and its related complications, obesity and cardiovascular disorders. The Company has cumulatively filed 307 patents for NCEs from these and earlier projects in all major markets of which 139 patents have been granted /accepted so far.

The Advanced Glycosylation End-Products (AGE) program has completed Phase-I clinical trial in UK and India. Company believes that its AGE Program has attractive development potential in diabetic heart failure and certain long-term complications arising out of AGE formation, accordingly the clinical developments have been initiated. Out of the other 6 projects, 3 projects are in advanced pre-clinical stage and rest 3 are in discovery stage.

A soft loan of Rs. 9.92 crores has been sanctioned by the Department of Science and Technology, Government of India, under Drug and Pharmaceuticals Research Program of which an amount of Rs. 4.96 crores was received.

***Developmental Research***

The Company is having a healthy product pipeline for development for offering in European and U.S. markets on their patent expiry. During the year, the company completed development for 9 molecules for the EU market and 9 molecules for U. S. market.

Substantial new product development is being conducted for other regulated and semi-regulated international generic markets and also for the Indian market.

Your Company continues to invest significant resources in R&D, the R&D expenditure during the year was up by 26% to Rs. 97.16 crores from Rs. 77.01 crores in the previous year.

## INDUSTRY STRUCTURE AND DEVELOPMENTS

### *Indian Pharmaceutical Market:*

***Overview:***

The domestic formulations market has been witnessing double digit growth in recent years with Indian companies continuing to dominate the market. Population growth, increased healthcare access, increasing affordability and other epidemiology factors are some of the key factors which point to continuing record growth levels. Manufacturing operations are largely concentrated in excise free zones and compete with low cost of manufacture.

During the financial year, the domestic pharmaceutical market experienced a growth rate of 14.80% (previous year 14.30%), largely driven by volume and new product introductions. As per ORG-IMS data base, the estimated size of the domestic market for FY 2007-08 was Rs. 32,095 crores.

Despite the implementation of patent regime new drugs essentially patented prior to 1995 continue to be launched at the same pace as the preceding years. New products continue to be the key revenue driver. Over the coming years, patented products are expected to constitute about 10% of the overall pharmaceutical market.

Anti-diabetic, anti-infectives, Neuro / CNS, gastrointestinal and cardiology are some of the therapeutic categories which grew faster than the rest. Over the next few years, the therapy mix will gradually move in favour of specialty and super specialty therapies, however, mass therapies such as anti-infective and gastro intestinal drugs will continue with their share of the mark.

Currently the Tier II cities (population less than 1 lac) and rural markets contribute to about 40% of the total market size. Demand in these markets is expected to grow much faster than the rest of the market.

Given the above developments, the critical success factors for the pharma companies would be differentiated product introductions, expanding the geographical reach by expanded sales and marketing network and aggressive sales promotion.

***Regulatory Scenario :***

*DPCO* : Currently, the prices of 74 drugs are controlled as per the mandate issued by the Drug Price Control Order, 1995. The draft of the National Pharmaceutical Policy is under discussion between the Industry and the government.

*Patent Law :* India recognized product patents from 1$^{st}$ January 2005. The new patent law does not permit introduction of new molecules patented after 1$^{st}$ January, 1995 by adopting a re-engineered process. The law has provided for a reasonable transition to generic companies in respect of products already in the domestic market before 1$^{st}$ January, 2005. Generic companies may continue manufacture and marketing of such products by paying reasonable royalty to the patent-holder after patent is granted. In the longer term, generic companies will not be able to introduce new molecules before expiry of the patent. This is expected to prolong the life of existing brands and slow down the pace of new drugs introductions.

*Drug Law :* During the year, the Central Drug Regulatory Authority (Drug Controller General of India) reviewed the rationality of fixed dose combinations (FDCs) available in the market. Based on the review the DCGI issued directives for withdrawal of certain FDCs. These and other factors indicate towards a more stringent drug regulatory environment leading to increased compliance costs and facility up-gradation costs for the industry in general.

### *International Market:*

Key global generic markets approximately grew by 4%. USA is the largest generic market which put together with Europe account for 78% of the total global pharma market. Generic business is growing in these markets owing to the Governments encouraging genericisation. Generic substitution is actively encouraged in many countries in European markets as it helps bring down the prices of medicines. Generic penetration in European markets is still low indicating significant opportunities for generic players in the future. Over the horizon of 3-5 years a sizeable amount of molecules in the above regulated markets are going off patent. They offer a substantial opportunity for generic players, especially those with low cost development and manufacturing capabilities.

Emerging markets like Latin America, Russia, CIS, Eastern European countries are growing at double digit rates. These markets offer attractive pricing whereas competition is less intensive. Indian companies have been increasingly focusing on Global markets with a view to expand their geographical reach and their exports have been growing in excess of 20% in the past few years.

## OPPORTUNITIES AND OUTLOOK

The Indian pharmaceutical industry is going through major structural changes as seen above. These changes pose many challenges and opportunities to companies operating in this environment. In this context, the Company has identified the following growth initiatives:

#### *Domestic*

- Accelerate growth through increasing doctor coverage, product exposure to new medical specialties, increased product focus, territorial expansion, new product introductions, new therapeutic areas and building strong sales operations systems.
- Growth from emerging market segments like organized buyer groups, pharmacy chains and corporate hospitals.
- Leverage on the strong franchise, specialised sales force and distribution built in the domestic market by in-licensing of molecules.
- Product and assets acquisition opportunities.
- Use of information technology for efficient customer servicing and improved sales productivity.

#### *International Operations*

- Expiry of patents on a large number of products in developed countries coupled with government support for generics opens up a large market opportunity suitable to Company's current competence. The Company continues to make significant investments in developed markets to tap the huge business potential in these markets.
- Aggressive expansion in doctor and territorial coverage coupled with new products launch in Brazil and Russia / CIS to build on the current base. Higher healthcare funding promised by the Governments to increase the current per-capita spends on healthcare is expected to drive the growth in these markets.
- Build on the success of Brazil and expand Latin American operations by entering into new markets like Mexico.

- Aggressively tap unexploited opportunities in the rest of the world markets by extending the domestic market product portfolio in semi-regulated markets and by extending the EU and US market product portfolio in regulated markets of Asia & Africa.
- Select new markets, new therapeutic areas and acquisitions for future growth.

***Research & Development***

- Collaborative research.
- Development of New Drug Delivery Systems (NDDS) to create differentiated products and market exclusivity in commodity generics market.
- Selective New Chemical Entity (NCE) research, primarily with respect to metabolic complications.

**THREATS, RISKS AND CONCERNS**

***Discovery research :***

The key risks are high rate of failure and long duration of a discovery project coupled with significant upfront costs to be incurred before results are known. The Company today may not have resources to carry through a discovery project to final commercial stage. These risks are sought to be mitigated by seeking suitable alliances with partners at appropriate stage to share the risks and rewards of the project.

The expanded bio-equivalence facility will be used for safety and efficacy studies for the generic products meant for the regulated markets and the facility has to undergo the regulatory approvals. There may be a risk associated with studies conducted if the regulatory approvals are delayed.

Torrent's premier discovery molecule AGE Breaker has shown positive results in pre-clinical toxicity studies and in Phase-I clinical trials, showing good safety margins in human volunteers. The positive results have built confidence to take the risk associated with Phase-II clinical trials aimed towards showing efficacy in diabetic patients.

***Product liability risks:***

These risks are sought to be managed by appropriate laboratory and clinical studies for each new product, compliance with Good Manufacturing Practices and independent quality assurance system. The Company also has an insurance cover for product liability.

***Attrition rate:***

The Company faces high attrition levels, particularly in sales force, R&D technical staff and production technical staff. This disrupts the smooth working of the Company, *inter-alia,* leading to disruption and delays in projects, loss of customers and sales, and increase in the cost of recruitment and training. The Company pro-actively manages this phenomenon through various measures including aggressive and timely recruitments, industry compatible remuneration / incentive system and strengthening of the human resources function.

***New product risk:***

New product development and launch involves substantial expenditure, which may not be recovered due to several factors including development uncertainties, increased competition, regulatory delays, lower than anticipated price realizations, delay in market launch and marketing failure. The Company manages the risk through careful market research for selection of new products, detailed project planning and monitoring.

***Domestic Market:***

***Price control:***

The domestic market is subject to price control under DPCO, 1995. In the event Government reduces the prices of Company's products under DPCO or introduces price control on products currently not subject to such control, the profit margins could be significantly affected. The Company manages its product portfolio so as to move away, reduce and minimize the product weightage of drugs under price control.

***Intellectual Property Rights (IPR) regime:***

Patent laws in respect of pharmaceutical products have been changed w.e.f. 1st January, 2005. This would mean that pharmaceutical products patented after 1st January, 1995 can no longer be copied through process re-engineering. This will narrow the choice of new products which the Company can introduce in the market. The change in product patent regime will also offer certain new opportunities viz. outsourcing opportunities in manufacturing and R&D value chain and product licensing arrangements with patent-holders. Indian market being price sensitive is unlikely to see significant penetration of patented molecules. Generic versions of out-of-patent products will experience an extended life cycle.

### *Other Market risks:*

Regulatory changes may bring about de-branding of drugs in domestic market. Generic competition, could lead to fall in sales in branded products accompanied by price erosion. Increased coverage of healthcare spend through Insurance can lead to structural changes in the Industry. However the Company does not anticipate changes in these areas in the immediate horizon.

***Litigation risks:***

The Company faces the risk of high costs of litigation with the patent-holder, in its business of international generic products. This risk is sought to be managed by a careful patent analysis prior to launch of the generic product.

***New capital investments:***

The Company plans to build a new manufacturing facility for contract manufacture of vial-filled formulations. The Company faces risks arising out of delay in implementation, cost overrun, inappropriate implementation and exposure to single customer which may significantly affect the future profitability and financial position. The risks are sought to be mitigated by forming appropriate project management team, corporate management oversight and suitable protection clauses in contractual arrangement with the customer.

***Overseas Markets:***

The Company has expanded operations into select overseas markets of Latin America, Russia & CIS, European Union and North America. Such expansion involves substantial business set up expenses, product pipeline development expenses and a gestation time before revenues begin to accrue. The Company faces the risk arising out of a failed or delayed market entry which may significantly affect the future profitability and financial position.

In Brazil where the Company sells branded generics, the pure generic competition could adversely affect development of branded business. Price erosions continue in the German generic market leading to shrinking operating margins. The Company quickly adapted by restructuring the operation into a low fixed cost model. The present operating model in Germany could be challenged by fresh healthcare reforms expected in the near future. Likewise in other European markets, regulatory changes could affect price realizations. The risks are sought to be mitigated through careful market analysis, improved management bandwidth, marketing alliances and corporate management oversight.

On supply side, for products made out of outsourced API, wherever the API supply is from a single supply source the Company carries the risk of probable supply disruption. The Company has a policy to actively develop alternate supply sources for key products subject to economic justification.

## HUMAN RESOURCES

The total employee strength of the Company at the end of FY 2007-08 was 5,519 against 5,699 as at the end of FY 2006-07, a decrease of 184. The field force decreased by 193 from 2,954 at the end of FY 2006-07 to 2,761 at the end of FY 2007-08. The R&D centre had 787 employees (of which 676 were scientists) at the end of FY 2007-08 compared with 733 (of which 635 were scientists) as at the end of FY 2006-07, an increase of 54 mainly reflecting expansion of product development facility for regulated markets. The worker strength at plant was 454 at the end of FY 2007-08 compared with 480 at the end of FY 2006-07. The remaining employee strength comprising mainly of head office staff, non-worker staff at Chhatral and Baddi Plant, branch and overseas offices staff decreased to 1,513 at the end of FY 2007-08 from 1,532 at the end of FY 2006-07.

## INTERNAL CONTROL SYSTEM

The Company has a reasonable system of internal control comprising authority levels and powers, supervision, checks and balances, policies and procedures. The system is reviewed and updated on an on-going basis. The Company continuously upgrades its internal control systems by measures such as strengthening of IT infrastructure and use of external management assurance services. The Company has in place a well defined internal audit system whereby an internal audit is performed across locations of the Company and the results of the audit findings are reviewed by the Audit Committee.

## RESULTS OF OPERATIONS OF FY 2007-08 COMPARED WITH FY 2006-07

***Net Sales and other operating income***

Consolidated net sales for the year was Rs.1312.30 crores compared with previous year's net sales of Rs.1263.33 crores showing a growth of 4%. The break down of sales is given below:

**Rs. in crores**

| Segment | FY 2007-08 | | FY 2006-07 | | Growth |
|---|---|---|---|---|---|
| | Amount | Share | Amount | Share | % |
| Domestic formulations (net of excise duty) | 581.33 | 45% | 544.39 | 44% | 7% |
| Sales outside India | 578.71 | 44% | 598.76 | 47% | -3% |
| Contract manufacturing | 149.02 | 11% | 118.50 | 9% | 26% |
| Others | 3.24 | 0% | 1.68 | 0% | 93% |
| **Consolidated net sales** | **1312.30** | **100%** | **1263.33** | **100%** | **4%** |

The Company's domestic formulation sales (sales in India) showed a growth of 7% during the year (previous year 39%) compared with the domestic pharmaceutical market growth rate of approximately 14.80% (previous year 14.30%). The growth in domestic formulations sales based on age of the portfolio is given below:

| Portfolio | Growth | |
|---|---|---|
| | FY 2007-08 | FY 2006-07 |
| Existing Products (other than those mentioned below) | -1% | 24% |
| New Products introduced in the previous year | 3% | 8% |
| New Products introduced in the current year | 5% | 7% |
| **Total** | **7%** | **39%** |

The growth rates of respective portfolios are also given as under:

| Portfolio | Growth | |
|---|---|---|
| | FY 2007-08 | FY 2006-07 |
| Existing Products (other than those mentioned below) | -1% | 26% |
| New Products introduced in the previous year | 28% | 123% |
| New Products introduced in the current year | - | - |

The therapeutic area weightage in the domestic formulations sales is set out in the following table:

| Therapeutic Area wise Sales | FY 2007-08 | FY 2006-07 |
|---|---|---|
| Cardiovascular | 35% | 33% |
| CNS | 21% | 22% |
| Gastro Intestinal | 19% | 19% |
| Anti Infectives | 10% | 13% |
| Pain Management | 4% | 5% |
| Oral Antidiabetics | 6% | 4% |
| Others | 5% | 5% |
| **Total** | **100%** | **100%** |

Approximately 10% (previous year 10%) of the domestic formulations sales of the Company were subject to price control under the Drug Price Control Order, 1995. The Company introduced 52 new products (including line extensions) during FY 2007-08 as compared to 49 in FY 2006-07. International sales (sales outside India) comprised branded-generic and unbranded generic formulations. For the year international sales constituted 44% (previous year 47%) of consolidated sales and registered a degrowth of 3% (previous year growth 43%), primarily due to heavy degrowth in sales of the German subsidiary, Heumann. Adjusted for this, the International sales grew by 12%. Region-wise international sales are given below:

**Rs. in crores**

| Regions | FY 2007-08 | | FY 2006-07 | | Growth |
|---|---|---|---|---|---|
| | Sales | % | Sales | % | % |
| Brazil | 177.11 | 31% | 166.8 | 28% | 6% |
| Russia/ CIS | 59.02 | 10% | 57.35 | 10% | 3% |
| Europe/CEE | 63.51 | 11% | 38.86 | 6% | 63% |
| Heumann (Germany) | 209.53 | 36% | 268.07 | 45% | -22% |
| Rest of World | 66.92 | 12% | 67.68 | 11% | -1% |
| US | 1.84 | 0% | - | 0% | 0% |
| Others | 0.78 | 0% | - | 0% | 0% |
| **Total** | **578.71** | **100%** | **598.76** | **100%** | **-3%** |

Other operating income in FY 2007-08 was Rs.42.55 crores compared with Rs.35.45 crores in FY 2006-07 indicating 20% increase. Product licensing income was Rs.15.13 crores compared with Rs. 14.88 crores in the previous year.

***Operation costs (excluding depreciation and interest) and operating profit (PBDIT)***

The total operating costs, excluding depreciation and interest, was Rs.1152.52 crores for FY 2007-08 compared with Rs.1143.05 crores for FY 2006-07. The ratio of operation costs to total sales and operating income was 85.10% for FY 2007-08 compared with 88% for FY 2006-07.

The PBDIT, excluding other income was Rs.202.83 crores for FY 2007-08 compared with Rs.155.73 crores for FY 2006-07, an increase of 30.20%. The ratio of PBDIT to sales and operating income was 15% for FY 2007-08 compared with 12% for FY 2006-07, indicating a margin gain of 3%.

The raw material and packing material cost (including purchase of traded goods) was Rs.444.65 crores for FY 2007-08 compared with Rs.489.39 crores for FY 2006-07, reflecting an decrease of 9%. The raw material and packing material cost to total sales and operating income ratio was 32.80 % for FY 2007-08 compared with 37.70% for FY 2006-07, indicating a margin gain of 4.90%.

The manufacturing cost was Rs. 50.17 crores for FY 2007-08 compared with Rs. 48.08 crores for FY 2006-07 reflecting an increase of 4.30%. The manufacturing cost to total sales and operating income ratio was 3.70% for FY 2007-08 compared with 3.70% for FY 2006-07, indicating no margin impact.

The staff cost (does not include R&D staff) was Rs.232.50 crores for FY 2007-08 compared with Rs.248.84 crores for FY 2006-07, a decrease of 6.60%. Staff cost at Heumann, German Subsidiary decreased during the year on account of restructuring of operations. The staff cost to total sales and operating income ratio was 17.20% for FY 2007-08 compared with 19.20% for FY 2006-07, indicating a margin gain of 2%.

The decrease in stock-in-trade (comprising finished goods, work-in-progress and traded goods) was Rs. 29.48 crores for FY 2007-08 against an increase of Rs. 40.89 crores for FY 2006-07. The decrease in stock-in-trade to total sales and operating income ratio was 2.20% for FY 2007-08 compared with (3.10%) for FY 2006-07, indicating a margin loss of 5.30%. However, since the stock-in-trade comprises of elements of raw and packing materials, manufacturing costs and excise duty, this margin loss is off-setting the margin gain indicated for those heads.

The selling cost was Rs.147.29 crores for FY 2007-08 compared with Rs. 161.78 crores for FY 2006-07, a decrease of 9%. The decrease in selling cost is mainly attributable to reduction of expenses at Heumann, Germany due to restructuring of operations. The selling cost to total sales and operating income ratio was 10.90% for FY 2007-08 compared with 12.50% for FY 2006-07, indicating a margin gain of 1.60%.

The R&D cost was Rs. 97.16 crores for FY 2007-08 compared with Rs. 77.01 crores for FY 2007-08, an increase of 26%. Product development costs accounted for 67.50% (previous year 67.50%) and discovery research costs accounted for 32.50% (previous year 32.50%) of the total R&D cost. The increase in R&D cost is mainly attributable to continuing build up of product pipeline for regulated markets of US & EU. The R&D cost to total sales and operating income ratio was 7.20% for FY 2007-08 compared with 5.90% for FY 2006-07, indicating a margin loss of 1.30%.

The general and administration cost was Rs.150.78 crores for FY 2007-08 compared with Rs. 158.83 crores for FY 2006-07, a decrease of 5.10%. The general and administration cost to total sales and operating income ratio was 11.10% for FY 2007-08 compared with 12.20% for FY 2006-07, indicating margin gain of 1.10%.

The summary of reported operating profit margin movement for the year is as under.:

| **Operating profit margin for FY 2006-07** | **12%** |
|---|---|
| **(Loss) / Gain in margin on account of:** | |
| Raw, packing material & traded goods consumed | 4.9% |
| Manufacturing cost | 0.0% |
| Staff cost | 2.0% |
| Increase in stock-in-trade | -5.3% |
| Selling cost | 1.6% |
| R&D cost | -1.3% |
| General and administration cost | 1.1% |
| **Operating profit margin for FY 2007-08** | **15.0%** |

***Other Income***

Other income for FY 2007-08 was Rs.4. 74 crores compared with Rs. 2.37 crores for FY 2006-07, increase of 100%. The other income to total sales and operating income ratio was 0.30% for FY 2007-08 compared with 0.20% for FY 2006-07, indicating a PAT margin gain of 0.20%.

***Depreciation and amortisation***

Depreciation was Rs. 38.83 crores for FY 2007-08 compared with Rs. 32.87 crores for FY 2006-07, an increase of 18.10%. The depreciation to total sales and operating income ratio was 2.90% for FY 2007-08 compared with 2.50% for FY 2007-08, causing a PAT margin loss of 0.40%.

***Net interest expense***

Net interest expense was Rs.19.64 crores for FY 2007-08 compared with net interest expense of Rs. 16.20 crores for FY 2006-07. The ratio of net interest expense to total sales and operating income was 1.40% for FY 2007-08 compared with 1.20% for FY 2006-07, causing a PAT margin loss of 0.20%.

***Provision for Taxation***

The current tax charge (including MAT credit entitlement & Fringe benefit Tax) for FY 2007-08 was Rs. 7.89 crores (0.60 % of sales and operating income), compared with Rs. 5.92 crores (0.50% of sales and operating income) for FY 2006-07. Average current tax rate as a percentage of profit before tax and exceptional items was 5.30% for FY 2007-08 compared with 5.40% for FY 2006-07.

The total tax expense (adjusted for deferred tax and tax of earlier years) to total sales and operating income ratio for FY 2007-08 was 1.10% compared with 1.20% for FY 2006-07, indicating a PAT margin gain of 0.10%.

***Prior period adjustment and exceptional item***

There was no prior period adjustment and exceptional item for FY 2007-08 as well as 2006-07.

***Net profit after taxes***

The net profit after taxes & exceptional items (PAT) for the FY 2007-08 was Rs.134.2 crores compared with Rs. 93.5 crores for FY 2006-07, an increase of 43%. The summary of movement in PAT margin for the year is as under:

| **PAT margin for FY 2006-07** | **7.2%** |
|---|---|
| (Loss) / Gain in PAT margin on account of: | |
| Operating profit | 3.0% |
| Other income | 0.2% |
| Depreciation | -0.4% |
| Net interest expense | -0.2% |
| Provision for taxation | 0.1% |
| **PAT margin for FY 2007-08** | **9.9%** |

## CAPITAL & DEBT

There was no change in the equity share capital during the year.

Out of the divisible profits of Rs. 136.92 crores (previous year Rs. 101.57 crores), a sum of Rs.99 crores (previous year Rs. 70.39 crores) was transferred to General Reserve Account. Dividend of Rs. 29.61 crores (Rs. 3.5 per share which is 70% of face value of each share) is proposed during the year, Previous year Rs. 25.38 crores (Rs. 3 per share which is 60% of face value of each share) was distributed. This represents an increase of Rs. 0.5 in dividend per share and 10% in the dividend rate. This distribution (including tax thereon) is approximately 26% of profit after tax for the year (previous year 31%).

The Company borrowed Rs. 80.80 crores by way of long-term loans during the year (previous year Rs. 36 crores) to finance its capital expenditure projects under implementation. Outstanding working capital loans as on 31st March, 08 was Rs. 56.62 crores (previous year Rs. 53.03 crores). The total debt to net worth (including deferred tax liability) ratio as at the end of FY 2007-08 was 0.63 (previous year 0.64).

**FIXED ASSETS**

The net investment in fixed assets during the year was Rs. 84.09 crores, comprising addition of new assets Rs. 126.31 crores, depreciation Rs. 38.83 crores and net assets disposal Rs. 6.81 crores. Addition to fixed assets mainly include acquisition of land for new projects, capital expenditure incurred for new manufacturing facility in Baddi, Himachal Pradesh, expansion of research & development facility at Bhat and normal capital expenditure. This capital expenditure was funded by long term loans drawn during the year and cash generated from operating activities. As at 31st March, 08 the Company had contractual commitments for capital expenditure of Rs. 16.25 crores, which are expected to be primarily met out of liquidity available as at the end of FY 2007-08.

**WORKING CAPITAL AND LIQUIDITY**

The working capital investment (net current assets and including current investments) increased by Rs. 63.25 crores from Rs. 297.25 crores at the end of FY 2006-07 to Rs. 360.51 crores at the end of FY 2007-08, increase of 21.30%. As a percent of sales and operating income, the working capital investment was 26.60% at the end of FY 2007-08 and 22.90% at the end of FY 2006-07. The increase in working capital was a result of gross current assets (including loans, advances and current investments) increasing by Rs. 82.35 crores, from Rs. 576.87 crores at the end of FY 2006-07 to Rs. 659.21 crores at the end of FY 2007-08, and increase in gross current liabilities (including provisions) by Rs. 54.59 crores, from Rs. 279.61 crores at the end of FY 2006-07 to Rs. 334.20 crores at the end of FY 2007-08.

The liquidity of the Company as reflected by cash and bank balances and current investments increased by Rs. 133.07 crores, from Rs. 20.77 crores at the end of FY 2006-07 to Rs. 153.84 crores at the end of FY 2007-08.

The Company generated net cash of Rs. 241.72 crores from operations (after working capital changes) during FY 2007-08 while it spent a net amount of Rs. 119.61 crores on new fixed assets, Rs. 18.91 crores on long term investment in Joint Ventures, received interest and dividend of Rs.2 .91 crores, paid interest of Rs. 22.42 crores and distributed Rs. 0.11 crores as dividends. The Company drew long term loans of Rs. 80.80 crores and short term loans of Rs. 3.16 crores and repaid long term and short term loans of Rs. 29.95 crores.

For and on behalf of the Board

Ahmedabad
6th May, 2008

**Samir Mehta**
Managing Director

# Consolidated Financial Statements 2007-08

# AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

**Consolidated Auditors' Report**
**To the Board of Directors**
**Torrent Pharmaceuticals Limited**

We have audited the attached Consolidated Balance Sheet of Torrent Pharmaceuticals Limited (the Company) and its Subsidiaries (collectively referred to as "the Group"), as at 31$^{st}$ March 2008 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company'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.

We conducted our audit in accordance with the 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of subsidiary companies Zao Torrent Pharma, Torrent Pharma Gmbh, Heumann Pharma Gmbh & Co. Generica KG, Torrent Do Brasil Ltda, Torrent Pharma Philippines Inc., Torrent Pharma Inc., Torrent Pharma Japan Co. Ltd., Laboratories Torrent S.A. de C.V and Torrent Australasia Pty Ltd. whose financial statements reflect total assets of Rs. 30151.46 lacs as at 31$^{st}$ March 2008 and total revenues of Rs. 47758.96 lacs and net cash in flows amounting to Rs. 1125.05 lacs for the year then ended. These financial statements and other financial information have been audited by other auditors whose report has been furnished to us, and our opinion is based solely on the reports of the other auditors.

We report that the consolidated financial statements have been prepared by the Torrent Pharmaceuticals Limited's management in accordance with the requirements of Accounting Standard (AS) 21 Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

Based on our audit and on consideration of report of other auditors on separate financial statements and on the other financial information of the components, and to the best of the information and according to the explanations given to us, 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:

(a) in the case of Consolidated Balance Sheet, of the state of affairs of the Group as at 31$^{st}$ March, 2008;

(b) in the case of Consolidated Profit and Loss Account, of the profit of the Group for the year ended on that date; and

(c) in the case of Consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

**For C.C. Chokshi & Co.**
Chartered Accountants

**(Gaurav J. Shah)**
Partner
Membership No. 35701

Ahmedabad
6$^{th}$ May, 2008

# CONSOLIDATED BALANCE SHEET

Torrent Pharmaceuticals Limited and its Subsidiary Companies

| | SCHEDULE | **As at 31-Mar-2008** | (Rs. in lacs) As at 31-Mar-2007 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **SHAREHOLDERS' FUNDS** | | | |
| Share Capital | 1 | **4,230.92** | 4,230.92 |
| Reserves and Surplus | 2 | **46,725.18** | 36,794.25 |
| | | **50,956.10** | 41,025.17 |
| **LOAN FUNDS** | | | |
| Secured Loans | 3 | **33,664.60** | 27,696.12 |
| Unsecured Loans | 4 | **2,314.26** | 2,196.31 |
| | | **35,978.86** | 29,892.43 |
| **Net Deferred Tax Liability (see note 7)** | | **6,230.31** | 5,619.89 |
| | | **93,165.27** | 76,537.49 |
| **APPLICATION OF FUNDS** | | | |
| **FIXED ASSETS** | | | |
| Gross Block | 5 | **64,610.77** | 56,949.72 |
| Less : Depreciation & Amortisation | | **17,619.33** | 14,463.90 |
| Net Block | | **46,991.44** | 42,485.82 |
| Capital Work in Progress | | **5,496.24** | 2,890.95 |
| Advances for Capital Expenditure | | **2,713.25** | 1,414.72 |
| | | **55,200.93** | 46,791.49 |
| **INVESTMENTS** | 6 | **5,463.05** | 20.35 |
| **CURRENT ASSETS, LOANS AND ADVANCES** | | | |
| Inventories | 7 | **23,097.05** | 25,812.15 |
| Sundry Debtors | 8 | **21,114.12** | 22,803.64 |
| Cash and Bank Balances | 9 | **11,834.34** | 2,076.91 |
| Other Current Assets | 10 | **2,265.70** | 1,658.33 |
| Loans and Advances | 11 | **7,609.86** | 5,335.47 |
| | | **65,921.07** | 57,686.50 |
| **Less : CURRENT LIABILITIES AND PROVISIONS** | | | |
| Current Liabilities | 12 | **28,050.69** | 26,134.09 |
| Provisions | 13 | **5,369.09** | 1,826.76 |
| | | **33,419.78** | 27,960.85 |
| **Net Current Assets** | | **32,501.29** | 29,725.65 |
| | | **93,165.27** | 76,537.49 |
| **Significant Accounting Policies** | 21 | | |
| **Notes forming part of the Consolidated Financial Statements** | 22 | | |

As per our attached report of even date

Signatures to the Consolidated Balance Sheet

**For C.C. CHOKSHI & CO.**
Chartered Accountants

**Sudhir Mehta**
Chairman

**Gaurav J. Shah**
Partner

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

**Samir Mehta**
Managing Director

Ahmedabad
6th May, 2008

Ahmedabad
6th May, 2008

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Torrent Pharmaceuticals Limited and its Subsidiary Companies

(Rs. in lacs)

| | SCHEDULE | **Year ended 31-Mar-2008** | Year ended 31-Mar-2007 |
|---|---|---|---|
| **INCOME** | | | |
| Sales and Operating Income | 14 | **135,484.83** | 129,878.54 |
| Other Income | 15 | **474.01** | 237.17 |
| | | **135,958.84** | 130,115.71 |
| **EXPENDITURE** | | | |
| Materials Consumed | 16 | **29,085.26** | 27,406.91 |
| Purchase of Traded Goods | | **15,379.69** | 21,532.08 |
| (Increase)/Decrease in Stock | 17 | **2,947.65** | (4,089.10) |
| Employees Cost | 18 | **23,250.17** | 24,884.45 |
| Manufacturing and Other Expenses | 19 | **34,823.12** | 36,868.83 |
| Research and Development Expenses (see note 6) | | **9,715.71** | 7,701.48 |
| Depreciation & Amortisation | | **3,883.12** | 3,287.13 |
| | | **119,084.72** | 117,591.78 |
| **PROFIT BEFORE INTEREST AND TAX** | | **16,874.12** | 12,523.93 |
| Net Borrowing Costs | 20 | **1,964.25** | 1,620.24 |
| **PROFIT BEFORE TAX** | | **14,909.87** | 10,903.69 |
| **PROVISION FOR TAXATION** | | | |
| Current Tax | | **2,234.21** | 1,725.13 |
| MAT Credit Entitlement | | **(1,698.51)** | (1,366.27) |
| Deferred Tax Charge | | **652.74** | 960.22 |
| Fringe Benefit Tax | | **253.76** | 233.29 |
| | | **1,442.20** | 1,552.37 |
| **NET PROFIT FOR THE YEAR** | | **13,467.67** | 9,351.32 |
| Balance Brought forward from Previous Year | | **224.13** | 805.79 |
| **PROFIT AVAILABLE FOR APPROPRIATION** | | **13,691.80** | 10,157.11 |
| **APPROPRIATIONS** | | | |
| General Reserve | | **9,900.00** | 7,038.64 |
| Interim Dividend | | **–** | 2,538.34 |
| Proposed Dividend | | **2,961.40** | – |
| Tax on distributed profits | | **503.29** | 356.00 |
| | | **13,364.69** | 9,932.98 |
| **Balance Carried to Balance Sheet** | | **327.11** | 224.13 |
| Basic and Diluted EPS for the year (see note 8) | | **15.92** | 11.05 |
| **Significant Accounting Policies** | 21 | | |
| **Notes forming part of the Consolidated Financial Statements** | 22 | | |

As per our attached report of even date

**For C.C. CHOKSHI & CO.**
Chartered Accountants

**Gaurav J. Shah**
Partner

Ahmedabad
6th May, 2008

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

Signatures to the Consolidated Profit and Loss Account

**Sudhir Mehta**
Chairman

**Samir Mehta**
Managing Director

Ahmedabad
6th May, 2008

# CONSOLIDATED CASH FLOW STATEMENT

Torrent Pharmaceuticals Limited and its Subsidiary Companies

(Rs. in lacs)

| | Year ended 31-Mar-2008 | Year ended 31-Mar-2007 |
|---|---|---|
| **A. CASH FLOW FROM OPERATING ACTIVITIES :** | | |
| **PROFIT BEFORE TAX** | **14,909.87** | 10,903.69 |
| Adjustments for : | | |
| Depreciation & Amortisation | **3,883.12** | 3,287.13 |
| Loss on sale of assets | **141.15** | 219.10 |
| Profit on sale of Long Term Investments | **–** | (0.15) |
| Loss/(Gain) on Foreign Currency Translation | **–** | 263.91 |
| Net interest expense | **1,964.25** | 1,620.24 |
| **OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES** | **20,898.39** | 16,293.92 |
| Adjustments for : | | |
| Debtors, Loans & Advances and Other Current Assets | **566.75** | (5,866.25) |
| Inventories | **2,715.10** | (3,278.89) |
| Current Liabilities and Provisions | **2,514.47** | 2,072.94 |
| **CASH GENERATED FROM OPERATIONS** | **26,694.71** | 9,221.73 |
| Direct Taxes Paid | **(2,522.69)** | (2,039.68) |
| **NET CASH FROM OPERATING ACTIVITIES** | **24,172.02** | 7,182.05 |
| **B. CASH FLOW FROM INVESTING ACTIVITIES :** | | |
| Purchase of Fixed Assets | **(12,841.05)** | (9,988.52) |
| Sale Proceeds from Fixed Assets sold | **537.38** | 198.67 |
| Long Term Trade Investments | **(1,901.49)** | – |
| Sale Proceeds from Long Term Investments sold | **10.50** | 2.51 |
| Interest Received | **291.35** | 718.56 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(13,903.31)** | (9,068.78) |
| **C. CASH FLOW FROM FINANCING ACTIVITIES :** | | |
| Net Long Term debt taken | **5,085.37** | 315.93 |
| Net Short Term debt taken | **316.41** | 3,211.09 |
| Dividend Paid | **(10.83)** | (5,316.86) |
| Interest Paid | **(2,242.39)** | (2,486.40) |
| **NET CASH FROM FINANCING ACTIVITIES** | **3,148.56** | (4,276.24) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **13,417.27** | (6,162.97) |
| Unrealised gain/ (loss) on Foreign Currency Cash and Cash Equivalents | **(110.13)** | (261.19) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **2,076.91** | 8,501.07 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **15,384.05** | 2,076.91 |
| **Note: Cash and Cash Equivalents as at end of the year** | | |
| Cash and Bank balances | **11,834.34** | 2,076.91 |
| Current Investments ( Investments in Mutual Funds ) | **3,549.71** | – |
| | **15,384.05** | 2,076.91 |

As per our attached report of even date

**For C.C. CHOKSHI & CO.**
Chartered Accountants

**Gaurav J. Shah**
Partner

Ahmedabad
6th May, 2008

Signatures to the Consolidated Cash Flow Statement

**Sudhir Mehta**
Chairman

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

**Samir Mehta**
Managing Director

Ahmedabad
6th May, 2008

annexed to and forming part of the financial statements

| | As at 31-Mar-2008 | (Rs. in lacs) As at 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 1 : SHARE CAPITAL** | | |
| **Authorised** | | |
| 1500,00,000 Equity Shares of Rs.5 each | **7,500.00** | 7,500.00 |
| 25,00,000 Preference Shares of Rs.100 each | **2,500.00** | 2,500.00 |
| | **10,000.00** | 10,000.00 |
| **Issued and Subscribed** | | |
| 846,25,360 Equity Shares of Rs.5 each | **4,231.27** | 4,231.27 |
| **Paid-up** | | |
| 846,11,360 Equity Shares of Rs.5 each | **4,230.57** | 4,230.57 |
| Amount originally paid up on 14,000 Equity Shares forfeited | **0.35** | 0.35 |
| | **4,230.92** | 4,230.92 |

**Notes :**

(1) 709,80,592 Equity Shares of Rs. 5 each were allotted as fully paid up bonus shares; out of which 423,05,680 shares were allotted by way of capitalisation from Capital Redemption Reserve and 286,74,912 Equity shares were allotted by way of capitalisation from General Reserve.

(2) 12,44,768 Equity Shares of Rs. 5 each were allotted without payment being received in cash pursuant to the schemes of amalgamation.

| | | |
|---|---|---|
| **SCHEDULE - 2 : RESERVES AND SURPLUS** | | |
| **Capital Reserve** | | |
| Balance as per last Balance Sheet | **596.54** | 596.54 |
| **Capital Redemption Reserve** | | |
| Balance as per last Balance Sheet | **384.71** | 384.71 |
| **Share Premium Account** | | |
| Balance as per last Balance Sheet | **4,279.88** | 4,279.88 |
| **General Reserve** | | |
| Balance as per last Balance Sheet | **31,308.99** | 24,486.19 |
| Less : Earlier years' liability for employee benefits | **–** | 215.84 |
| Add : Transfer from Profit and Loss Account | **9,900.00** | 7,038.64 |
| | **41,208.99** | 31,308.99 |
| **Foreign Currency Translation Reserve (see note 2)** | **(72.05)** | – |
| **Balance in Profit and Loss Account** | **327.11** | 224.13 |
| | **46,725.18** | 36,794.25 |

| | As at 31-Mar-2008 | (Rs. in lacs) As at 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 3 : SECURED LOANS** | | |
| Long Term Loans | | |
| from Banks (Note : 1(a)) | **21,471.31** | 15,614.81 |
| from a Financial Institution (Note : 1(b)) | **8,350.00** | 8,975.00 |
| Short Term Loans from Banks (Note : 1(c)) | **3,843.29** | 3,106.31 |
| | **33,664.60** | 27,696.12 |

**Notes :**

(1) The Loans are secured by :

(a) First equitable mortgage of immovable fixed assets & hypothecation of moveable fixed assets, present and future, located at formulation manufacturing facilities, Village Indrad; research facilities, Village Bhat; and corporate office, Ahmedabad, all in Gujarat, on pari passu basis.

(b) First equitable mortgage of immovable fixed assets & hypothecation of moveable fixed assets, present and future, located at formulation manufacturing facilities in Baddi, Himachal Pradesh.

(c) Hypothecation of inventories and book debts.

(2) The future annual repayment obligations on principal amount, for the above long term loans are as under :

| | |
|---|---|
| 2008-09 | Rs. 7,092 lacs |
| 2009-10 | Rs. 6,310 lacs |
| 2010-11 | Rs. 2,790 lacs |
| 2011-12 | Rs. 8,243 lacs |
| 2012-13 | Rs. 2,693 lacs |
| 2013-14 | Rs. 2,693 lacs |
| **Total :** | **Rs. 29,821 lacs** |

| | As at 31-Mar-2008 | As at 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 4 : UNSECURED LOANS** | | |
| Long Term Loan from Department of Science and Technology | **496.00** | – |
| Short Term Loans | | |
| from Banks | **1,818.26** | – |
| from Financial Institution | – | 2,196.31 |
| | **2,314.26** | 2,196.31 |

## SCHEDULE - 5 : FIXED ASSETS

(Rs. in lacs)

| Particulars | Gross Block (At Cost) | | | | | | Depreciation & Amortisation | | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1-Apr-07 | Additions during the year | Deductions during the year | As at 31-Mar-08 | Foreign Exchange Translation | As at 31-Mar-08 | As at 1-Apr-07 | For the year 2007-08 | On deduction during the year | As at 31-Mar-08 | Foreign Exchange Translation | As at 31-Mar-08 | As at 31-Mar-08 | As at 31-Mar-07 |
| **I. TANGIBLES :** | | | | | | | | | | | | | | |
| Free Hold Land | 1,761.89 | 2,594.88 | 16.38 | 4,340.39 | – | 4,340.39 | – | – | – | – | – | – | 4,340.39 | 1,761.89 |
| Lease Hold Land | 17.56 | 497.97 | – | 515.53 | – | 515.53 | 0.10 | 0.18 | – | 0.28 | – | 0.28 | 515.25 | 17.46 |
| Buildings | 15,485.08 | 1,232.56 | 48.65 | 16,668.99 | 3.91 | 16,672.90 | 2,423.48 | 470.85 | 25.60 | 2,868.73 | 3.55 | 2,872.28 | 13,800.62 | 13,061.65 |
| Plant and Machineries | 24,256.19 | 2,781.02 | 525.07 | 26,512.14 | 13.86 | 26,526.00 | 6,450.86 | 1,737.04 | 270.47 | 7,917.43 | 3.87 | 7,921.30 | 18,604.70 | 17,772.47 |
| Electric Installation and Air conditioned Plant | 5,780.47 | 241.33 | 154.49 | 5,867.31 | – | 5,867.31 | 1,741.12 | 353.39 | 58.99 | 2,035.52 | – | 2,035.52 | 3,831.79 | 4,039.35 |
| Furniture and Fixtures, Office and Factory Appliances | 5,640.39 | 731.04 | 498.33 | 5,873.10 | 38.20 | 5,911.30 | 2,921.22 | 537.48 | 409.15 | 3,049.55 | 19.44 | 3,068.99 | 2,842.31 | 2,692.53 |
| Vehicles | 1,429.16 | 263.49 | 193.04 | 1,499.61 | 3.69 | 1,503.30 | 407.38 | 142.01 | 82.23 | 467.16 | 2.65 | 469.81 | 1,033.49 | 1,016.45 |
| **II. INTANGIBLES :** | | | | | | | | | | | | | | |
| Computer Software | 884.15 | 15.56 | – | 899.71 | 13.05 | 912.76 | 407.56 | 184.92 | – | 592.48 | 6.29 | 598.77 | 313.99 | 465.12 |
| Product Licenses | 1,928.54 | 369.03 | 126.11 | 2,171.46 | 189.82 | 2,361.28 | 171.14 | 457.25 | 35.10 | 593.29 | 59.09 | 652.38 | 1,708.90 | 1,658.90 |
| **TOTAL** | **57,183.43** | **8,726.88** | **1,562.07** | **64,348.24** | **262.53** | **64,610.77** | **14,522.86** | **3,883.12** | **881.54** | **17,524.44** | **94.89** | **17,619.33** | **46,991.44** | **42,485.82** |
| Previous Year | 48,235.64 | 9,472.50 | 758.42 | 56,949.72 | – | 56,949.72 | 11,517.43 | 3,287.13 | 340.66 | 14,463.90 | – | 14,463.90 | 42,485.82 | |

Note :

1) Foreign Exchange Translation represents foreign exchange difference arising due to translation of all foreign subsidiaries' fixed assets at closing exchange rate.

2) Due to reclassification of all foreign subsidiaries operations as "non-integral" with effect from 01-Apr-07, Opening Gross Block of Fixed Assets and Depreciation & Amortisation pertaining to all foreign subsidiaries, have been retranslated to the exchange rate of 01-Apr-07.

(Rs. in lacs)

| | No. of Units | As at 31-Mar-2008 | As at 31-Mar-2007 |
|---|---|---|---|
| **SCHEDULE - 6 : INVESTMENTS** | | | |
| **LONG TERM INVESTMENTS** | **No. of Units** | | |
| (Unquoted) | | | |
| **Trade** | | | |
| Charterhouse Therapeutics Ltd.- Fully paid up | | | |
| Equity Shares of GBP 0.01 each | 445000 | **155.60** | 155.60 |
| Less: Provision for diminution in value | | **155.60** | 155.60 |
| | | **–** | – |
| GPC Cayman Investors I Ltd. - Fully paid up | | | |
| Equity Shares of USD 10 each | 442918 | **1,901.49** | – |
| Shivalik Solid Waste Limited - Fully paid up | | | |
| Equity Shares of Rs. 10 each | 20000 | **2.00** | – |
| **Non-Trade** | | | |
| National Savings Certificates | | **1.10** | 1.10 |
| (Lodged with Excise and Sales Tax Authorities) | | | |
| Contribution to Gujarat Venture Capital Fund, 1990 and 1995. | | **8.75** | 19.25 |
| | | **9.85** | 20.35 |
| Aggregate Long Term Investments | | **1,913.34** | 20.35 |
| **CURRENT INVESTMENTS** | **No. of Units** | | |
| **Units of Mutual Fund schemes - Debt Fund** | | | |
| Prudential ICICI Liquid Plan - Inst Plus - Growth | 6435599 | **759.77** | – |
| Birla Cash Plus - Inst. Premium - Growth | 5322894 | **681.43** | – |
| Principal Floating Rate Fund - SMP - Growth | 6032664 | **761.24** | – |
| Prinicipal Floating Rate - FMP - Growth | 4277521 | **536.72** | |
| Birla Sunlife Liquid Plus - Growth | 5353002 | **810.55** | |
| Aggregate Current Investments | | **3,549.71** | – |
| Aggregate Investments | | **5,463.05** | 20.35 |

Note :

(1) Aggregate NAV of investment in Mutual Funds as on 31-Mar-08 is Rs. 3581 lacs. (previous year Nil)

(2) Details of current investments bought and sold during the year are as under :

(Rs. in lacs)

| | Purchase | | Sale | |
|---|---|---|---|---|
| **Name of Mutual Fund Scheme** | **Nos.** | **Amount** | **Nos.** | **Amount** |
| Prudential ICICI Liquid Plan – Inst. Plus – Growth | 108,918,295 | 12,445.00 | 102,482,696 | 11,757.41 |
| Birla Cash Plus – Inst. Premium – Growth | 80,489,543 | 9,980.00 | 75,166,649 | 9,363.87 |
| DSP ML Liquid Plus Fund – Inst. Plus – Growth | 21,418 | 225.00 | 21,418 | 225.09 |
| Principal Floating Rate Fund – SMP – Growth | 157,560,667 | 19,125.00 | 151,528,003 | 18,455.00 |
| HSBC Liquid Plus Fund – Inst. Plus – Growth | 19,565,790 | 2,080.00 | 19,565,790 | 2,197.55 |
| Principal Floating Rate – FMP – Growth | 56,202,983 | 6,895.00 | 51,925,462 | 6,440.00 |
| Birla Sunlife Liquid Plus – Growth | 13,890,805 | 2,100.00 | 8,537,803 | 1,300.00 |
| JM Money Manager Fund – Super Plus Plan – Growth | 8,071,407 | 905.00 | 8,071,407 | 912.51 |
| **Total** | | **53,755.00** | | **50,651.43** |

| | As at 31-Mar-2008 | (Rs. in lacs) As at 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 7 : INVENTORIES** | | |
| Raw Materials | **5,775.19** | 5,233.32 |
| Packing Materials | **1,131.52** | 1,440.84 |
| Goods in Process | **3,524.34** | 3,135.94 |
| Finished Goods | **7,649.94** | 7,489.51 |
| Traded Goods | **5,016.06** | 8,512.54 |
| | **23,097.05** | 25,812.15 |
| **SCHEDULE - 8 : SUNDRY DEBTORS** | | |
| (Unsecured) | | |
| Debts over six months | | |
| Considered Good | **3,288.23** | 3,221.79 |
| Considered Doubtful | **605.42** | 491.86 |
| Less: Provision | **605.42** | 491.86 |
| | **3,288.23** | 3,221.79 |
| Other Debts - Considered Good | **17,825.89** | 19,581.85 |
| | **21,114.12** | 22,803.64 |
| **SCHEDULE - 9 : CASH AND BANK BALANCES** | | |
| Cash on hand | **36.30** | 14.77 |
| With Scheduled Banks in : | | |
| a) Current Accounts | **997.61** | 1,013.75 |
| b) Term Deposit Accounts | **8,704.00** | 5.00 |
| (Rs. 3 lacs lodged with Banks as securities for LC and other facilities (previous year Rs. 4 lacs)) | | |
| | **9,701.61** | 1,018.75 |
| With Non-Scheduled Banks in : | | |
| a) Current Accounts | **2,068.99** | 851.53 |
| b) Fixed Deposit Accounts | **27.44** | 191.86 |
| | **2,096.43** | 1,043.39 |
| | **11,834.34** | 2,076.91 |
| **SCHEDULE - 10 : OTHER CURRENT ASSETS** | | |
| (Unsecured and considered good, unless otherwise stated) | | |
| Export benefits receivable | **1,427.41** | 793.46 |
| Customs, Excise and Insurance Claims receivable | | |
| Considered Good | **419.78** | 655.75 |
| Considered Doubtful | **1.42** | 1.42 |
| Less : Provision | **1.42** | 1.42 |
| | **419.78** | 655.75 |
| Interest accrued on loans and deposits | **32.86** | 2.86 |
| Others | **385.65** | 206.26 |
| | **2,265.70** | 1,658.33 |

(Rs. in lacs)

| | As at 31-Mar-2008 | As at 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 11 : LOANS AND ADVANCES** | | |
| (Unsecured and considered good) | | |
| Advances recoverable in cash or in kind or for value to be received | | |
| Considered Good | **3,141.58** | 2,669.92 |
| Considered Doubtful | **–** | 6.12 |
| Less : Provision for Doubtful Advances | **–** | 6.12 |
| | **3,141.58** | 2,669.92 |
| Balance with the Excise and Customs Department / VAT | **186.24** | 112.50 |
| Advance Tax Paid net of Provisions | **917.10** | 886.62 |
| MAT Credit Entitlement | **3,364.94** | 1,666.43 |
| | **7,609.86** | 5,335.47 |

| | | |
|---|---|---|
| **SCHEDULE - 12 : CURRENT LIABILITIES** | | |
| Sundry Creditors | **25,155.28** | 24,935.46 |
| Book Overdraft | **463.82** | – |
| Investor Education and Protection Fund (not due) : | | |
| Unclaimed Dividend | **42.21** | 53.04 |
| Unclaimed Share Application Money | **0.45** | 0.45 |
| Unclaimed Matured Fixed Deposits | **1.52** | 2.08 |
| Unclaimed Matured Debentures | **12.24** | 24.05 |
| Unclaimed Debenture Interest | **1.91** | 5.78 |
| | **58.33** | 85.40 |
| Other Liabilities | **1,083.21** | 1,042.94 |
| Advances from Customers | **1,220.58** | 44.03 |
| Interest accrued but not due | **69.47** | 26.26 |
| | **28,050.69** | 26,134.09 |

Note : The Investor Education and Protection Fund is credited by the amounts unclaimed and outstanding on the relevant due date.

| | | |
|---|---|---|
| **SCHEDULE - 13 : PROVISIONS** | | |
| Proposed Dividend | **2,961.40** | – |
| Add : Tax on Distributed Profits | **503.29** | – |
| | **3,464.69** | – |
| Accrued Employee Benefit (Gratuity, Long term compensation, leave benefits) | **1,904.40** | 1,826.76 |
| | **5,369.09** | 1,826.76 |

| | Year ended 31-Mar-2008 | (Rs. in lacs) Year ended 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 14 : SALES AND OPERATING INCOME** | | |
| **Sales** | | |
| Sales in India | **73,958.05** | 67,683.57 |
| Sales outside India | **59,672.64** | 61,474.18 |
| | **133,630.69** | 129,157.75 |
| Less: Excise Duty / ICMS collected (see note 5) | **2,400.90** | 2,824.62 |
| | **131,229.79** | 126,333.13 |
| **Operating Income** | | |
| Export Benefits | **1,165.89** | 474.22 |
| Income from Contract Research | **–** | 498.56 |
| Income from Product Registration Dossiers | **1,512.95** | 1,487.91 |
| Other Operating Income | **1,576.20** | 1,084.72 |
| | **4,255.04** | 3,545.41 |
| | **135,484.83** | 129,878.54 |
| **SCHEDULE - 15 : OTHER INCOME** | | |
| Profit on Sale of Investments | **446.14** | 222.65 |
| Miscellaneous Income | **27.87** | 14.52 |
| | **474.01** | 237.17 |
| **SCHEDULE - 16 : MATERIALS CONSUMED** | | |
| Raw Materials | **25,319.75** | 23,918.37 |
| Packing Materials | **3,765.51** | 3,488.54 |
| | **29,085.26** | 27,406.91 |
| **SCHEDULE - 17 : (INCREASE)/DECREASE IN STOCK** | | |
| Opening Stocks | | |
| Finished Goods | **7,489.51** | 5,229.62 |
| Traded Goods | **8,512.54** | 6,553.24 |
| Work in Process | **3,135.94** | 3,266.03 |
| | **19,137.99** | 15,048.89 |
| Less: Closing Stocks | | |
| Finished Goods | **7,649.94** | 7,489.51 |
| Traded Goods | **5,016.06** | 8,512.54 |
| Work in Process | **3,524.34** | 3,135.94 |
| | **16,190.34** | 19,137.99 |
| | **2,947.65** | (4,089.10) |

| | Year ended 31-Mar-2008 | (Rs. in lacs) Year ended 31-Mar-2007 |
|---|---|---|
| **SCHEDULE - 18 : EMPLOYEES COST** | | |
| (Other than those included in Research and Development Expenses) | | |
| Salaries, Wages and Bonus | **19,422.70** | 20,447.64 |
| Contribution to Provident, Gratuity and other Funds | **3,103.12** | 3,677.68 |
| Welfare Expenses | **724.35** | 759.13 |
| | **23,250.17** | 24,884.45 |
| **SCHEDULE - 19 : MANUFACTURING AND OTHER EXPENSES** | | |
| Power and Fuel | **2,113.44** | 2,048.24 |
| Stores and Spares Consumed | **1,049.01** | 1,111.81 |
| Laboratory Goods and Testing Expenses | **281.21** | 218.68 |
| Labour and Job Work Charges | **1,391.55** | 1,591.85 |
| Excise Duty (see note 5) | **(34.75)** | (344.28) |
| Repairs and Maintenance : | | |
| Machinery | **216.13** | 181.98 |
| Buildings | **165.39** | 143.73 |
| Others | **242.45** | 173.73 |
| | **623.97** | 499.44 |
| Selling, Publicity and Medical Literature Expenses | **13,652.21** | 15,139.72 |
| Commission on sales | **1,076.30** | 1,037.98 |
| Sales and Turnover Taxes | **60.39** | 83.33 |
| Provision for Doubtful Debts | **448.32** | 498.34 |
| Bad Debts written off | **47.95** | 34.02 |
| Traveling, Conveyance and Vehicle Expenses | **5,878.41** | 5,757.82 |
| Printing and Stationery Expenses | **251.33** | 250.52 |
| Communication Expenses | **891.02** | 1,017.38 |
| Insurance | **460.18** | 502.11 |
| Rent | **1,368.48** | 1,595.96 |
| Rates and Taxes | **23.81** | 22.91 |
| Lease Rent | **2.30** | 11.19 |
| Auditors Remuneration and Expenses | **74.32** | 42.70 |
| Cost Audit Fees | **2.39** | 2.73 |
| Commission to Non Executive Directors | **11.90** | 14.70 |
| General Charges | **4,265.06** | 4,966.21 |
| Net Foreign Exchange Loss on Translation (see note 2) | **–** | 263.91 |
| Net Foreign Exchange Loss | **622.75** | 200.54 |
| Loss on sale / discard / write-off of fixed assets | **141.15** | 219.10 |
| Donation | **120.42** | 81.92 |
| | **34,823.12** | 36,868.83 |
| **SCHEDULE - 20 : NET BORROWING COSTS** | | |
| Expense : | | |
| Fixed Period Loans | **2,028.16** | 1,989.53 |
| Others | **257.44** | 374.86 |
| | **2,285.60** | 2,364.39 |
| Income | **321.35** | 744.15 |
| | **1,964.25** | 1,620.24 |

## SCHEDULE - 21

### Significant Accounting Policies of the group

**1. Basis for preparation of Financial Statements**

The consolidated financial statements are prepared by consolidating the accounts of Torrent Pharmaceuticals Limited with those of its subsidiaries in accordance with generally accepted accounting principles and in consonance with Accounting Standard 21 - "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India. The financial statements have been prepared under the historical cost convention on accrual basis. These statements are prepared to meet the requirement of Clause 32 of the listing agreement with the stock exchange.

**2. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates, which it believes are reasonable under the circumstances that affect the reported amounts of assets, liabilities and contingent liabilities on the date of financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Difference between the actual results and estimates are recognised in the period in which the results are known / materialised.

**3. Principles of Consolidation**

The consolidated financial statements comprise the financial statements of Torrent Pharmaceuticals Ltd. and its wholly owned subsidiaries.

The consolidated financial statements have been combined on a line-by-line basis by adding the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances/transactions and resulting unrealized profits/losses in full. The amounts shown in respect of reserves comprise the amount of the relevant reserves as per the balance sheet of the parent company and its share in the post-acquisition increase in the relevant reserves of the consolidated entities.

These consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.

**4. Fixed Assets**

a) Tangible fixed assets are stated at cost of acquisition or construction less accumulated depreciation. The cost of fixed asset includes non-refundable taxes & levies, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing cost attributable to acquisition or construction of qualifying fixed assets are capitalised to respective assets when the time taken to put the assets to use is substantial.

b) Pre-operative expenditure comprising of revenue expenses incurred in connection with project implementation during the period upto commencement of commercial production are treated as part of project costs and are capitalised. Such expenses are capitalised only if the project to which they relate, involve substantial expansion of capacity or upgradation.

c) Acquired Product Licenses costs are capitalised. Cost includes direct costs of purchase and expenses directly attributable to the purchase of Product Licenses.

d) Certain Computer software costs are capitalised and recognised as intangible assets based on materiality, accounting prudence and significant economic benefits expected to flow there from for a period longer than 1 year. Capitalised costs include direct costs of purchase/implementation and expenses directly attributable to the development of software where it is developed in-house.

e) Fixed Assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is then recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**5. Depreciation and Amortisation**

a) Depreciation on fixed assets (except leasehold land, information technology assets and product licenses) is provided on straight line method on the basis of the depreciation rates prescribed under the respective domestic laws or on the basis of useful life estimated by the management.

b) (i) Cost of leasehold land (except for lease of long tenure) is amortised over the period of the lease.

(ii) Cost of lease hold land where lease period is of long tenure and substantial rights of ownership are with lessee, is not amortised.

c) Information technology assets other than computer software are depreciated on straight line method over estimated useful life of 3 years.

d) The Capitalised Computer software costs are amortised using the straight-line method over estimated useful life of 3 to 5 years, as estimated at the time of capitalisation.

e) Product Licenses costs are amortised using the straight-line method over estimated useful life of 10 years, as estimated at the time of capitalisation.

**6. Investments**

a) Long Term Investments are stated at cost. Provision is made to recognise any diminution in value, other than that of a temporary nature.

b) Current investments are carried at lower of cost and fair value. Diminution in value is charged to the profit and loss account.

**7. Inventories**

Inventories are valued at the lower of cost and net realisable value. Provision for impairment is made when there is high uncertainty in saleability of an item. Cost of inventories are determined on the following basis:

a) Cost of raw material and packing material is determined on moving average basis.

b) Work in process is determined on weighted average basis.

c) Cost of finished goods produced is determined on weighted average basis.

d) Cost of finished goods (traded) is determined on moving average basis.

**8. Revenue Recognition**

a) Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods are transferred to the customer. Income from services are recognized when the services are rendered or when contracted milestones have been achieved. Sales are net of discounts, sales tax, Value Added Tax and returns; excise duty and ICMS collected on sales is shown by way of deduction from sales.

b) Dividend income is recognised when the right to receive dividend is established.

c) Revenue in respect of other income is recognised when a reasonable certainty as to its realisation exists.

**9. Employees Retirement and Other Benefits**

a) The accruing liability on account of gratuity (retirement benefit in the nature of defined benefits plan) is actuarially valued every year at or around 28-February. The current service cost, interest cost, expected return on plan assets and the actuarial gain/ loss are expensed to the profit and loss account of the year as Personnel Costs.

b) Long term compensation plan to employees (being deferred compensation paid 12 months or more after the end of the period in which it is earned) are expensed out in the year to which the costs relate at present value of the nominal benefits under the plan.

c) Annual contribution for superannuation benefit (retirement benefit in the nature of defined contribution plan) to employees, based on their annual basic salary, is paid to Life Insurance Corporation of India to maintain a fund for payment of superannuation benefits to employees on their retirement or separation. Such contribution is expensed to the profit and loss account for the year as Personnel Costs.

d) Cost of earned leave of the employees is estimated at the end of every year and expensed to the profit and loss account of the year in which such leave were earned as Personnel Costs.

e) Contributions payable to provident funds, super annuation schemes, employee pension and social security schemes in certain overseas subsidiaries are charged to the profit and loss account.

**10. Research and Development**

Research and Development expenses are charged to revenue. Capital expenditure on research and development is reported as fixed assets under the relevant head. Depreciation on research and development fixed assets are not classified as research and development expenses and instead included under depreciation expenses.

**11. Leases**

Lease rentals in respect of assets taken on operating lease are charged to the profit and loss account on accrual and on straight line basis over the lease term.

**12. Accounting for Taxes**

a) Current tax and Fringe Benefit tax charge are the simple aggregation of the tax charge appearing in the group companies.

b) Deferred Tax resulting from "timing differences" between accounting and taxable profit for the period is accounted by using tax rates and laws that have been enacted or substantially enacted as at the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realized in future. Net deferred tax liability is arrived at after setting off deferred tax assets.

c) In terms of the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, 1961 issued by the Institute of Chartered Accountants of India, the excess of Minimum Alternate Tax (MAT) over normal current tax payable has been accounted as an asset by credit to the profit & loss account as MAT Credit Entitlement.

**13. Foreign Currency Transactions and Balances**

a) Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction.

b) The net gain or loss on account of exchange differences arising on settlement of foreign currency transactions are recognised as income or expense of the period in which they arise.

c) In case of forward contracts, to which AS11, The Effects of Changes in Foreign Exchange Rate applies, the difference between the forward rate and the exchange rate on the date of the contract is recognised as income or expense over the life of the contract. Exchange differences on such a contract are recognised in the profit and loss account in the period in which the exchange rates change. Derivatives not covered under AS11 are marked to market at balance sheet date and resulting loss, if any, is recognised in the profit and loss account in view of the principle of prudence as per Announcement on Accounting of Derivatives by Institute of Chartered Accountants of India dated 29-Mar-08.

d) Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are reported using the rate prevailing as on that date. The resultant exchange differences are recognised in the profit and loss account.

e) Investments in shares of foreign entities are expressed in reporting currency at the rates of exchange prevailing at the time when the original investments were made.

**14. Translation of Financial Statements of Foreign Subsidiaries**

The Company classifies its foreign operations considering the way in which they are financed and operate in relation to the Company. On a review of the status of the Company's foreign operations in accordance thereto, effective from 01-Apr-07, the classification of all foreign subsidiaries has been changed from "Integral Foreign Operation" to "Non-Integral Foreign Operation". Consequently, translation of their respective financial statements is effected as under :

a) Revenues and expenses are translated at the average annual exchange rates based on the daily closing rates for the year. Inventories are translated at the average exchange rates based on the daily closing rates for the period of six months to the date of balance sheet.

b) All assets and liabilities, both monetary and non-monetary, are translated at the exchange rate prevalent at the date of the balance sheet.

c) The resulting net exchange differences are recognized as foreign currency translation reserve as part of Shareholders' Funds.

**15. Provisions, Contingent Liabilities and Contingent Assets**

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Liabilities which are of contingent nature are not provided but are disclosed at their estimated amount in the notes forming part of the accounts. Contingent assets are neither recognised nor disclosed in the financial statements.

**16. Acquisition and Goodwill**

The excess / shortfall of cost to the parent company of its investment over its portion of equity in the consolidated entities at the respective dates on which the investment in such entities was made is recognised in the financial statements as goodwill/capital reserve.

## SCHEDULE - 22

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. **Details of Subsidiaries :**

The consolidated financial statements comprise the financial statements of the parent company, Torrent Pharmaceuticals Ltd. (TPL) and the following wholly owned subsidiaries / step-down subsidiaries (together referred to as Group) :

| Name of Subsidiary | Country of Incorporation |
|---|---|
| Zao Torrent Pharma | Russia |
| Torrent Do Brasil Ltda | Brazil |
| Torrent Pharma GmbH (TPG) | Germany |
| Torrent Pharma Inc. | USA |
| Torrent Pharma Philippines Inc. | Philippines |
| Heumann Pharma GmbH & Co. Generica KG<br>(Wholly owned subsidiary of TPG) | Germany |
| Laboratorios Torrent, S.A. de C.V. | Mexico |
| Torrent Pharma Japan Co. Ltd | Japan |
| Torrent Australasia Pty Ltd. | Australia |

2. Further to para 14 of Schedule 21 Significant Accounting Policies, the Shareholders' Funds as at 31-Mar-08 is lower by Rs.72 lacs due to the change in classification of all foreign subsidiaries from "integral foreign operation" to "non-integral foreign operation" wef 01-Apr-07. The profit after tax for the previous year would have been higher by Rs.237 lacs, had this change been effected at the beginning of that year.

(Rs. in lacs)

| | | **As at 31-Mar-2008** | As at 31-Mar-2007 |
|---|---|---|---|
| 3. | Estimated amount of unexecuted capital contracts (net of advances) not provided for | **1624.75** | 1035.47 |
| 4. | **Contingent Liabilities not provided for in respect of :** | | |
| | Claims against the Company not acknowledged as debts : | | |
| | Disputed demand of Income Tax for which an appeal has been preferred | **712.20** | 1,239.86 |
| | Disputed ESI Liability | **218.05** | 186.72 |
| | Disputed legal cases for supply of goods and services | **1.78** | 1.78 |
| | Disputed Demand of Excise & Service Tax | **8.44** | 26.33 |
| | Disputed Demand of Local Sales Tax & C.S.T | **18.31** | – |
| | | **958.78** | 1,454.69 |

5. Excise Duty / ICMS shown as deduction from Sales represents the amount of excise duty collected on sales. Excise duty expensed under Schedule-19, "Manufacturing & Other Expenses", represents the difference between excise duty element in the amounts of closing stocks & opening stocks, excise duty paid on samples and on inventory write-off which is not recoverable from sales.

6. (a) Research and Development expenses comprise :

(Rs. in lacs)

| | 2007-08 | 2006-07 |
|---|---|---|
| Employees cost : | | |
| Salaries, wages and bonus | **3,172.25** | 2312.71 |
| Contribution to Provident, Gratuity and other funds | **336.60** | 249.50 |
| Welfare expenses | **75.29** | 61.62 |
| | **3,584.14** | 2623.83 |
| Power and fuel | **419.02** | 361.95 |
| Stores and spares consumed | **724.17** | 628.61 |
| Laboratory goods and testing expenses | **2,421.95** | 1,757.90 |
| Clinical research expenses | **791.12** | 1,045.87 |
| Labour and Job Work Charges | **110.68** | 97.39 |
| Repairs and Maintenance | **147.64** | 117.99 |
| Traveling, conveyance and vehicle expenses | **214.32** | 182.67 |
| Printing and Stationery Expenses | **49.38** | 52.75 |
| Communication Expenses | **53.04** | 42.23 |
| Insurance | **25.95** | 23.26 |
| Rent | **7.33** | 1.89 |
| Rates and Taxes | **3.35** | 4.59 |
| General charges | **1,163.61** | 760.55 |
| | **9715.71** | 7701.48 |

(b) Depreciation includes Rs. 830.56 lacs (previous year Rs. 711.68 lacs) pertaining to Research & Development assets.

7. The components of the deferred tax balance are set out below :

(Rs. in lacs)

| | As at 31-Mar-2008 | As at 31-Mar-2007 |
|---|---|---|
| **Deferred Tax Liabilities** | | |
| Excess of depreciation claimed under the income tax law over that debited to profit and loss account in the earlier years | **7,618.37** | 6,948.16 |
| **Deferred Tax Assets** | | |
| Provision for Leave Salary | **(422.52)** | (284.51) |
| Provision for Gratuity | **(62.76)** | (149.39) |
| Provision for Doubtful Debts | **(58.58)** | (129.29) |
| Bonus Payable | **(127.58)** | (54.38) |
| Accumulated losses of Subsidiaries | **(716.62)** | (710.70) |
| | **6,230.31** | 5,619.89 |

8. The basic & diluted Earnings Per Share (EPS) are :

| | | | 2007-08 | 2006-07 |
|---|---|---|---|---|
| Net profit for the period | (a) | (Rs. in lacs) | **13467.67** | 9351.32 |
| Weighted average number of equity shares | (b) | (Nos. in lacs) | **846.11** | 846.11 |
| EPS (basic & diluted) | (a) / (b) | (Rs.) | **15.92** | 11.05 |
| Nominal value per equity share | | (Rs.) | **5.00** | 5.00 |

9. **Segment Reporting**

The primary and secondary reportable segments considered are Business Segments and Geographical Segments respectively. The group operates in a solitary business segment i.e. pharmaceuticals, comprising mainly manufacture of branded formulations. Accordingly, no further financial information for Business Segments is given.

Reportable Geographical Segments have been identified based on location of customers. Sales are made in various geographical areas with production based in India. The reportable Geographical Segments and Segment revenue (external net sales) for the year is as under:

(Rs.in lacs)

| | | **2007-08** | 2006-07 |
|---|---|---|---|
| a) | India | **73,359.00** | 66,457.42 |
| b) | Europe | **27,304.40** | 30,689.44 |
| c) | Brazil | **17,711.18** | 16,679.77 |
| d) | Rest of the world | **12,855.21** | 12,506.50 |
| | **Total** | **131,229.79** | 126,333.13 |

Segment assets are not directly identifiable / properly allocable against each of the above reportable segments. Fixed assets, forming a substantial portion of the total assets of the Company, are interchangeably used between all the segments and cannot be identified against a specific segment. Significant portion of current assets are interchangeable between all the segments and not identifiable against any individual segment. Hence no meaningful disclosure of segment assets and results is possible.

10. Previous year figures have been regrouped wherever necessary so as to make them comparable with those of the current year.

11. The disclosures pertaining to related parties and transactions therewith are set out in the table below :

(Rs.in lacs)

| Particulars | Controlling Company / Enterprises Controlled by the Controlling Company | | Enterprises Controlled by Key Management Personnel/Relatives of Key Management Personnel | | Enterprises controlled by the Company | | Key Management Personnel | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(A) Nature of Transactions** | 2007-08 | 2006-07 | 2007-08 | 2006-07 | 2007-08 | 2006-07 | 2007-08 | 2006-07 | **2007-08** | 2006-07 |
| Sale of Finished Goods | 34.96 | 31.56 | 361.83 | – | – | – | – | – | **396.79** | 31.56 |
| Purchase of Material, Consumables etc | 69.58 | 39.18 | 6.02 | – | – | – | – | – | **75.60** | 39.18 |
| Remuneration to Key Management Personnel | – | – | – | – | – | – | 436.25 | 461.02 | **436.25** | 461.02 |
| Contribution to Gratuity / Superannuation Funds | – | – | – | – | 389.70 | 441.24 | – | – | **389.70** | 441.24 |
| Lease Rent Paid | 2.00 | 9.49 | | | – | – | – | – | **2.00** | 9.49 |
| Services received | 434.60 | 421.81 | 689.36 | 643.67 | – | – | – | – | **1123.96** | 1065.48 |
| Commission & Interest paid to carrying & forwarding agents | – | – | 141.10 | 156.08 | – | – | – | – | **141.10** | 156.08 |
| Donation | – | – | 105.00 | 30.00 | – | – | – | – | **105.00** | 30.00 |
| Expenses Reimbursement | – | – | 24.20 | 25.03 | – | – | – | – | **24.20** | 25.03 |
| Purchase of Fixed Assets | 107.40 | 165.68 | – | – | – | – | – | – | **107.40** | 165.68 |
| Sale of Fixed Assets | – | 40.13 | – | – | – | – | – | – | **–** | 40.13 |
| Deposits given | – | 6.56 | – | – | – | – | – | – | **–** | 6.56 |
| **(B) Balances at the end of the year** | 31-Mar-08 | 31-Mar-07 | 31-Mar-08 | 31-Mar-07 | 31-Mar-08 | 31-Mar-07 | 31-Mar-08 | 31-Mar-07 | **31-Mar-08** | 31-Mar-07 |
| Sundry Debtors | 3.49 | 1.93 | 284.33 | – | – | – | – | – | **287.82** | 1.93 |
| Advances Recoverable in Cash or Kind | – | – | – | – | 19.77 | 19.71 | – | – | **19.77** | 19.71 |
| Sundry Creditors | 2.69 | 5.75 | 16.33 | 262.95 | – | – | – | – | **19.02** | 268.70 |

**Names of related parties and description of relationship :**

| | | | | |
|---|---|---|---|---|
| 1. | Enterprises controlled by the Company | TPL Employee Group Gratuity Trust, TPL Employee Superannuation Trust | | |
| 2. | Controlling Company / Enterprises Controlled by the Controlling Company | Torrent Private Ltd., Torrent Power Ltd., Torrent Cables Ltd., Gujarat Lease Financing Ltd., Torrent Gujarat Biotech Ltd., Ahmedabad Royal Garden Hotels Pvt. Ltd., Gujarat Chlor Alkalies Industries Pvt. Ltd., Torrent Power Services Pvt. Ltd. | | |
| 3. | Key Management Personnel | Sudhir Mehta<br>Chairman | Samir Mehta<br>Managing Director | Dr. C. Dutt<br>Whole Time Director |
| 4. | Relatives of Key Management Personnel | Anita Mehta, wife<br>Shardaben Mehta, mother<br>Varun Mehta, son<br>Jinal Mehta, son<br>Meena Modi, sister<br>Nayna Shah, sister | Sapna Mehta, wife<br>Shardaben Mehta, mother<br>Aman Mehta, son<br>Shaan Mehta, son<br>Meena Modi, sister<br>Nayna Shah, sister | Shobha Dutt, wife<br>Umang Dutt, son<br>Uttang Dutt, son |
| 5. | Enterprises Controlled by Key Management Personnel/Relatives of Key Management Personnel | Torrent Scitech India Pvt. Ltd., U. N. Mehta Charitable Trust, D. N. Modi Charitable Trust, Shardaben Mehta Charitable Trust, Tsunami Tours & Travels Pvt. Ltd., Tsunami Pharmaceuticals Pvt. Ltd., Torrel Cosmetics Pvt. Ltd., Zeal Drugs & Chemicals, Zeal Pharmachem India Pvt. Ltd., Shruti Plastic Industries Pvt. Ltd. | | |

As per our attached report of even date

Signatures to Schedule 1 to 22

**For C.C. CHOKSHI & CO.**
Chartered Accountants

**Sudhir Mehta**
Chairman

**Gaurav J. Shah**
Partner

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

**Samir Mehta**
Managing Director

Ahmedabad
6th May, 2008

Ahmedabad
6th May, 2008

Note: The Department of Company Affairs has, for the financial year 2007-08, exempted the Company from the applicability of the provisions contained in sub-section (1) of Section 212 of the Companies Act, 1956, relating to the statements to be attached in respect of the subsidiary companies, with the financial statements of the Company. The Department of Company Affairs has informed whilst granting exemption to provide the summarised financial details of each subsidiary. The details required are provided herewith.

Shareholders interested in obtaining the statement of Company's interest in the subsidiaries or stand-alone financial statements of the subsidiaries may obtain it by writing to the Company Secretary.

The annual accounts of subsidiary companies are available for inspection by any investor at the registered office of the Company.

**Statement Pursuant to reqirement of Department of Company Affairs for granting approval under Section 212(8) of the Companies Act, 1956 Related to Subsidiary Companies**

| | Name of the Subsidiary Company | ZAO Torrent Pharma | | Torrent Pharma GmbH | | Torrent Do Brasil Ltda. | | Torrent Pharma Inc. | | Torrent Pharma Philippines Inc. | | Heumann Pharma GmbH & Co. Generica KG | | Torrent Australasia Pty. Ltd. | | Laboratorios Torrent S.A. de C.V. | | Torrent Pharma Japan Co. Ltd. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Year Ended on | 31st March 2008 | | 31st March 2008 | | 31st March 2008 | | 31st March 2008 | | 31st March 2008 | | 31st March 2008 | | 31st March 2008 | | 31st March 2008 | | 31st March 2008 | |
| | | Rouble Million | Rupees Lac | Euro Million | Rupees Lac | Reais Million | Rupees Lac | USD Million | Rupees Lac | Peso Million | Rupees Lac | Euro Million | Rupees Lac | Au$ Million | Rupees Lac | Mxn$ Million | Rupees Lac | Yen Million | Rupees Lac |
| 1 | Capital | 0.54 | 9.18 | 6.97 | 4397.37 | 19.14 | 4374.50 | 1.20 | 479.64 | 11.17 | 106.12 | 2.51 | 1584.19 | 0.09 | 31.76 | 15.89 | 594.44 | 10.00 | 40.00 |
| 2 | Reserves | 68.11 | 1157.95 | (0.01) | (7.25) | (2.87) | (655.56) | (0.30) | (121.76) | (0.36) | (3.39) | (3.67) | (2314.73) | (0.06) | (23.50) | (13.01) | (486.72) | 1.51 | 6.06 |
| 3 | Total assets | 444.95 | 7564.18 | 10.46 | 6599.55 | 27.22 | 6219.79 | 1.43 | 569.78 | 81.53 | 774.52 | 15.81 | 9975.40 | 0.04 | 14.33 | 3.29 | 123.15 | 11.96 | 47.86 |
| 4 | Total liabilities | 376.30 | 6397.05 | 3.51 | 2211.49 | 10.94 | 2500.85 | 0.53 | 211.89 | 70.71 | 671.79 | 16.97 | 10705.93 | 0.02 | 6.07 | 0.41 | 15.43 | 0.45 | 1.80 |
| 5 | Details of investment (except in case of investment in subsidiaries) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 6 | Turnover | 304.58 | 5177.86 | 0.18 | 113.11 | 81.39 | 18598.34 | 0.45 | 179.83 | 100.84 | 957.97 | 35.79 | 22580.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 7 | Profit before taxation | (1.34) | (22.72) | 0.67 | 424.54 | 5.15 | 1177.69 | (0.40) | (159.60) | 8.02 | 76.16 | (3.48) | (2195.85) | 0.02 | 7.41 | (9.72) | (363.46) | 1.22 | 4.89 |
| 8 | Provision for taxation/ Deferred Tax | 2.89 | 49.14 | 0.00 | 0.00 | 1.46 | 334.41 | (0.01) | (4.82) | 3.16 | 30.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.45 | 1.80 |
| 9 | Profit after taxation | (4.23) | (71.02) | 0.67 | 424.54 | 3.69 | 843.28 | (0.39) | (154.78) | 4.85 | 46.11 | (3.48) | (2195.85) | 0.02 | 7.41 | (9.72) | (363.46) | 0.77 | 3.09 |
| 10 | Proposed dividend | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| | Exchange Rate as on 31.3.2008 | 1 Rouble = 1.70 INR | | 1 Euro = 63.09 INR | | 1 Reais = 22.85 INR | | 1 USD = 39.97 INR | | 1 Peso = 0.95 INR | | 1 Euro = 63.09 INR | | 1 Au$ = 36.69 INR | | 1 Mxn$ = 3.74 INR | | 1 Yen = 0.40 INR | |

**Sudhir Mehta**
Chairman

**Samir Mehta**
Managing Director

**Mahesh Agrawal**
GM (Legal) &
Company Secretary

Ahmedabad
6th May, 2008

# NOTES

# NOTES

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