

DIRECTORS' REPORT

To
The Shareholders

The Directors have the pleasure of presenting the Thirty Eighth Annual Report of your Company together with the audited accounts for the year ended 31st March, 2011.

FINANCIAL RESULTS

The summary of consolidated (Company and its subsidiaries) and standalone (Company) operating results for the year and appropriation of divisible profits is given below:

(₹ in Crores except per share data)

	Consolidated		Standalone	
	2010-11	2009-10	2010-11	2009-10
Sales & Operating Income	2226	1916	1778	1449
Profit Before Depreciation, Interest and Tax (PBDIT)	417	430	430	422
Less Depreciation	62	66	58	54
Less Net Interest Expense	12	17	14	17
Profit Before Exceptional Items & Tax	343	347	358	351
Less Exceptional Items	0	0	0	37
Less Tax Expense	73	116	67	107
Net Profit for the Year	270*	231	291	207
Balance brought forward	119	3	178	86
Distributable Profits	389	234	469	293
Appropriated as under:				
Transfer to General Reserve	153	56	153	56
Proposed Equity Dividend	68	51	68	51
Tax on Distributed Profits	11	8	11	8
Balance Carried Forward	157	119	237	178
Earnings Per Share (₹ per share)	31.93	27.32	34.38	24.51

*Consolidated Net Profit for the year is net of minority interest amounting to ₹ (0.41) Lacs

Consolidated Operating Results

The consolidated sales and operating income increased to ₹ 2226.48 crores from ₹ 1916.04 crores in the previous year yielding a growth of 16.20%. The consolidated operating profit for the year was ₹ 417.29 crores as against ₹ 429.81 crores in the previous year registering a decrease of 2.91%. The consolidated net profit increased to ₹ 270.17 crores from ₹ 231.20 crores in the previous year registering a growth of 16.86%. During the previous year, MAT credit entitlement of ₹ 52.86 crores was written off. Adjusting for the same, consolidated net profit has de-grown by 4.89%.

Standalone Operating Results

The sales and operating income increased to ₹ 1778.19 crores from ₹ 1448.96 crores in the previous year yielding a growth of 22.72%. The operating profit for the year under review increased to ₹ 430.52 crores as against ₹ 422.03 crores in the previous year registering a growth of 2.01%. The profits after tax for the year under review increased to ₹ 290.86 crores as against ₹ 207.37 crores in the previous year registering a growth of 40.26%. Growth in the net profit adjusted for the MAT write off as stated above is 11.77%.

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 of Directors has decided that the Company as a policy will endeavour to distribute 30% of its annual consolidated net profit after tax as dividend. The said distribution is expected to be in one or more tranches.

In line with the said policy, the Board has recommended a normal annual dividend of ₹ 6.00 per equity share and a special dividend of ₹ 2.00 per equity share (previous year dividend ₹ 6.00 per equity share) of fully paid up face value of ₹ 5, amounting to ₹ 67.69 crores (previous year ₹ 50.77 crores). The tax on distributed profits payable on this dividend shall be ₹ 10.98 crores (previous year ₹ 8.43 crores) making the aggregate distribution to ₹ 78.67 crores (previous year ₹ 59.20 crores). The distributed profits are 29% (previous year 26%) of the consolidated 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 ₹ 153 crores to the general reserve and an amount of ₹ 237 crores is retained in the profit and loss account of Standalone financials.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements of the Company for the year 2010-11, 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, 2011 and of the profit for the year ended 31st March, 2011;
- 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; and
- iv the financial statements have been prepared on a going concern basis.

SUBSIDIARIES

During the year under review, the Company incorporated three wholly owned subsidiaries, one each at United Kingdom, Romania and Malaysia under the names of Torrent Pharma (UK) Ltd, Torrent Pharma S.R.L. and Laboratories Torrent (Malaysia) Sdn. Bhd. respectively. Torrent Pharma Japan Co., Ltd, a wholly owned subsidiary at Japan, was wound up during the year.

Brief review of the important subsidiaries is given below:

Heumann Pharma GmbH & Co Generica KG (Heumann), Heunet Pharma GmbH and Norispharm GmbH at Germany

Heumann along with Heunet Pharma GmbH and Norispharm GmbH at Germany posted revenues of Euro 48.15 million (₹ 290.65 crores) for the financial year 2010-11 as compared with Euro 40.07 million (₹ 267.87 crores) for the previous year, registering a growth of 8.51% in Rupees. Net profit for the year was Euro 2.07 million (₹ 8.40 crores) as against a net profit of Euro 0.48 million (₹ 4.63 crores) for the previous year. During the year, Heumann was successful in obtaining several tenders announced by the various health insurance funds.

Torrent do Brasil Ltda. (TdBL), Brazil

During the year, TdBL achieved revenues of Reai 131.27 million (₹ 346.28 crores), as compared with Reai 118.04 million (₹ 300.97 crores) in the previous year, registering a growth of 15.06% in Rupees.

TdBL earned a net profit after tax of Reai 2.90 million (₹ 7.83 crores), as compared to a net profit after tax of Reai 4.84 million (₹ 18.38 crores) in the previous year.

ZAO Torrent Pharma (ZAO TP), Russia

During the year, ZAO TP achieved revenue of RRU 238.88 million (₹ 36.02 crores) as compared with RRU 195.27 million (₹ 30.06 crores) in the previous year, registering a growth of 19.83% in Rupees. Net profit after tax for the year was at RRU 92.08 million (₹ 13.05 crores) as against a net loss after tax of RRU 56.88 million (₹ 9.09 crores) for the previous year.

Torrent Pharma Inc. (TPI), USA

During the year, TPI earned revenues of USD 24.47 million (₹ 111.36 crores), as compared with USD 19.66 million (₹ 93.10 crores) in previous year registering a growth of 19.61% in Rupees. Net profit for the year was at USD 0.30 million (₹ 0.12 crores) as against a net profit of USD 0.21 million (₹ 0.14 crores) for the previous year. The Company has 25 ANDA's approvals, 30 pending approvals and 30 filings under development. Steady flow of product approvals from this pipeline is expected to sustain growth momentum.

Laboratorios Torrent S.A. de C.V. (LTSA)

During the year, LTSA earned revenues of Mexican Peso 69.50 million (₹ 25.54 crores) as compared with Mexican Peso 1.68 million (₹ 0.60 crores) for the previous year. Net loss for the year was at Mexican Peso 2 million (₹ 0.66 crores) as against a loss of Mexican Peso 17.23 million (₹ 6.20 crores) for the previous year.

CORPORATE SOCIAL RESPONSIBILITY

The Company is conscious about its social obligations and has been taking various social and community initiative with special focus on health and education. The Company has actively supported the Torrent Group's initiatives to expand the U N Mehta Institute of Cardiology and Research Centre and to take patient care effectively. The Company has contributed ₹ 275 lacs during the year and cumulatively ₹ 675 lacs toward this project.

In education field, your Company has taken up a project to re-build & expand primary & middle school infrastructure & improve the quality of education imparted by the school at village Indrad, Gujarat with an outlay of ₹ 400 lacs. It has also adopted a primary school at village Bhud, Baddi, Himachal Pradesh.

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. The Company has also taken Director's and Officers Liability Policy to provide coverage against the liabilities arising on them.

DIRECTORS

During the year under review, Samir Mehta was appointed as Executive Vice Chairman of the Company with effect from 1st August, 2010 for a period of five years by pre closing his earlier terms of appointment as Managing Director of the Company.

Kiran Karnik has resigned from the directorship of the Company with effect from 23rd October, 2010. The Board places on records its appreciation for the contribution made by Mr. Karnik during his tenure as a Director.

Shailesh Haribhakti and Renu Sud Karnad were appointed as Additional Directors of the Company with effect from 23rd October, 2010 and 18th April, 2011 respectively. It is proposed to appoint them as directors of the Company, liable to retire by rotation, at the ensuing Annual General Meeting.

Markand Bhatt and Sanjay Lalbhai are liable to retire by rotation at the ensuing Annual General Meeting and being eligible have been proposed for re-appointment.

Brief resumes of the directors being appointed/ re-appointed together with other relevant details form part of the Notice of the ensuing Annual General Meeting. The Board recommends their appointment/ reappointment.

CORPORATE GOVERNANCE

As required by Clause 49 of the listing agreement, a separate report on corporate governance forms part of the Annual Report. A certificate 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 term of appointment of Deloitte Haskins & Sells, Ahmedabad (Firm Registration No. 117365W), statutory auditors of the Company will expire at the ensuing Annual General Meeting. The Company has received a certificate from them about their eligibility for appointment as statutory auditors as per Section 224(1B) of the Companies Act, 1956. The Audit Committee in their meeting held on 28th May, 2011 has recommended the appointment of Deloitte Haskins & Sells, Ahmedabad (Firm Registration No. 117365W) as statutory auditors of the Company for the year 2011-12.

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 as amended, forms part of this report as Annex 2. Having regards to the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, this Annual Report is being sent to all shareholders excluding the said Annexure. 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, Government of Sikkim, Gujarat Urja Vikas Nigam Limited, Himachal Pradesh State Electricity Board, other Central and State Government Bodies and Authorities, 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
28th May, 2011

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) Major energy conservation measures taken during the year:

1. Installed Dual fired burner (Gas / FO) in 10 MT FO-operated Boiler at Indrad Plant resulting into saving in fuel cost of ₹ 34 lacs during the year with cleaner fuel.
2. Installed heat recovery system for 6 and 10 Ton Boiler at Indrad Plant by installing condensing economizer with an investment of ₹ 30 lacs. Payback period for the investment is less than 2 years.
3. Refurbishment of 4 Nos. 600 TR Cooling Towers was carried out at Indrad Plant to reduce cooling water inlet temperature of chillers & power consumption per TR in chillers with expected saving of ₹ 27 lacs per annum.

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

Instead of using pretreated Narmada water in combination with RO treated water for feeding the Cooling Towers, it is proposed to use 100% pretreated Narmada water in Cooling Towers at Indrad Plant, which will help in saving of nearly ₹ 10 lacs per annum.

(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 with cleaner fuel. 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		2010-11	2009-10
a	Purchased Units (KWH in lacs)		393.99	327.09
	Total Amount (₹ in lacs)		2235.32	1857.09
	Average Rate (₹)		5.67	5.68
b	Own generation through DG sets (KWH in lac Units)		21.21	20.64
	Units generated per litre of diesel		3.69	3.69
	Cost of fuel per Unit (₹ / KWH)		9.59	8.19
c	Own generation through CPP (KWH in lac Units)		39.27	-
	Natural Gas consumed (in Lac SCM)		10.38	-
	Units generated per SCM of Gas		3.78	-
	Cost of gas per Unit (₹ / KWH)		5.34	-
2	Fuel Consumption			
a	Furnace Oil (in lac litres)		16.08	13.75
	Total Amount (₹ in lacs)		521.25	363.41
	Average Rate (₹ / litre)		32.41	26.43
b	Natural Gas Steam Generation			
	Purchased Gas in SCM		2417684	1738613
	Total Amount (₹ in lacs)		428.24	266.34
	Average Rate (₹ / SCM)		17.71	15.32

* For plants at Indrad, Gujarat and Baddi, Himachal Pradesh

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. Lately, Company also forayed into development of injectable formulations.

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

- At the end of the year under review, 58 ANDAs and 22 DMFs filed in US and 41 new product Dossiers & 21 DMF submitted in the EU.
- Five processes for APIs were developed and transferred to plant during the year.
- 729 patents filed for NDDS technology, drug discovery projects and innovative process of API & formulations for various markets and 278 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 cost effective, eco friendly & safe processes for APIs. Efforts would also continue to explore novel technologies for formulation development.

4. Expenditure on R & D

Particulars	2010-11 (₹ in crores)
a. Capital expenses	11.88
b. Revenue expenses	121.77
Total (a+b)	133.65
c. Total R&D expenditure as a percentage of turnover	7.95%

Technology absorption, adaptation and innovation

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

API technologies were developed based on green chemistry principles. Scalable processes for both API & formulation were transferred at plant scale for both domestic and international markets.

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

Development of single API and formulation processes helped in unifying and broadening 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
Advanced modeling tools such as TOPKAT, Hypo Refine software module Millar Pressure-Volume Systems (MPVS)	2006-07	Yes

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company used foreign exchange amounting to ₹ 166.97 crores and earned foreign exchange amounting to ₹ 608.06 crores during the year 2010-11 as compared to last year's ₹ 122.22 crores and ₹ 464.25 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, 2011, 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 Managements, 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 Deloitte Haskins & Sells
Chartered Accountants
(Registration No. 117365W)

Gaurav J. Shah
Partner
Membership No. 35701

Ahmedabad
28th May, 2011