

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 financial statements of Torrent Pharmaceuticals Ltd. and its wholly owned subsidiaries and their businesses (jointly referred as Torrent or Company, hereinafter). Financial information presented in various sections of the Management Discussion and Analysis is classified under suitable heads which may be different from the classification reported under the Consolidated Financial Statements. Some additional financial information is also included in this section which may not be readily available from the Consolidated Financial Statements.

PERFORMANCE SNAPSHOT

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 the revenues can be done as India formulations (comprising branded pharmaceutical formulations sold in the Indian market), International formulations (comprising sales outside India of branded and unbranded-generic pharmaceutical formulations) and Contract manufacturing. Company's current international operations are focused on five thrust areas: Brazil & Latin America, Europe, Russia & CIS countries, North America and Rest of the World comprising, inter alia, of less regulated markets of Africa and Asia.

During the financial year 2010-11, the Company reported revenues of ₹ 2205 crores (excluding foreign exchange gains of ₹ 22 crores), a growth of 16% compared with ₹ 1904 crores in the previous financial year.

The break up of Revenues under key segments is under:

(₹ in crores)

Segment	2010-11		2009-10		Growth %
	Amount	Share	Amount	Share	
India formulations (net of excise duty)	838	38%	726	38%	15%
International Operations	1,125	51%	970	51%	16%
Contract Manufacturing	238	11%	205	11%	16%
Others	4	0%	2	0%	101%
Total	2,205	100%	1,904	100%	16%

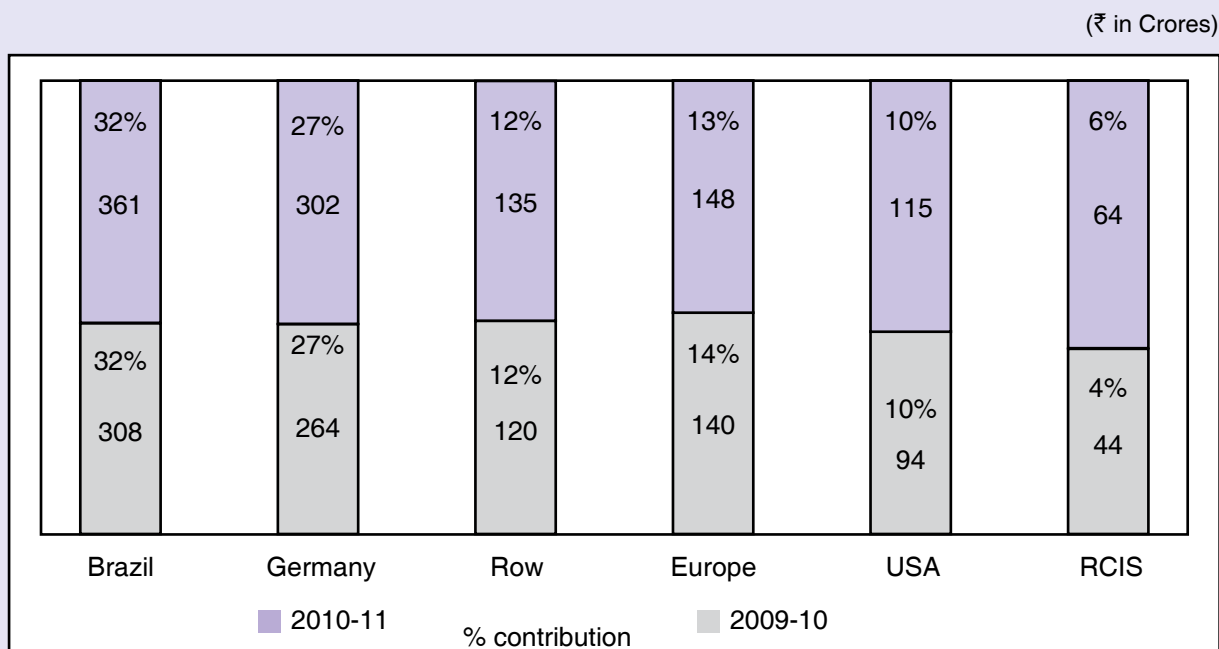
The India formulations segment registered growth of 15% over the previous year on the back of improved performance in Anti Infective and Gastro portfolios.

Revenues from International Operations grew 16% (21% in constant currency terms) on the back of growth in Brazil growing at 15% (11% in constant currency terms) and U.S sales growing at 21% (27% in constant currency terms). Generic business in Germany registered a strong growth of 14% (28% in constant currency terms) on account of increased volumes from tenders won during the year inspite of difficult market environment. Revenues from Rest of the World registered a growth of 12% (17% in constant currency terms) on the back of healthy growth from the markets of Srilanka, Africa and Philippines. European operations

registered revenue growth of 5% (19% in constant currency terms). Stabilisation of operations in Russia and CIS countries helped this segment to register strong growth of 50% (in constant currency terms it grew by 51%), partly due to lower base in the previous year.

Contract manufacturing income includes one time license fee and dossier upgradation income of ₹ 24 crores from multi-product, multi-market out licensing contracts signed during financial years 2009-10 and 2010-11.

Region-wise revenue contribution to total revenues from International Operations was as under:



(Source: Internal Data)

A. INDIA FORMULATIONS

1. Indian Pharmaceutical Market

The India formulations market valued at ₹ 482 billion has grown at CAGR of 15% (Source: ORG - IMS) over last 4 years. New product introductions contributed to 10% of the sales growth while volume growth contributed to 82% of the sales growth. Growing population, improving medical infrastructure, rising income levels and increasing government spend on healthcare are driving the market growth.

Indian market is witnessing gradual transition from acute diseases to lifestyle diseases and chronic therapies like Cardiology, Neurology, Psychiatry, and Diabetes. With current demographic profile and growth prospects of the economy, Indian Pharmaceutical market could see continuing trend of transition towards chronic and super specialty therapies, with acute therapies like Anti - Infection retaining their market size.

Over the coming years, patent laws will provide an impetus to the launch of patent protected products. The market for patented products is likely to be concentrated in therapeutic segments like Neuro-Psychiatry, Oncology, Anti-Infective, Gastro-Intestinal, and Cardiovascular. Such products have the potential to capture 10% of the overall market in the coming years.

However outlook for generics products looks positive due to several factors. The current pipeline of the generics products that are either undergoing new process development or have been recently launched is strong. In addition, domestic players have the opportunity to develop new combinations and formulations of the products that are already in the market. Generics players continue to have a wide range of options for new generics launches from the basket of pre 1995 products.

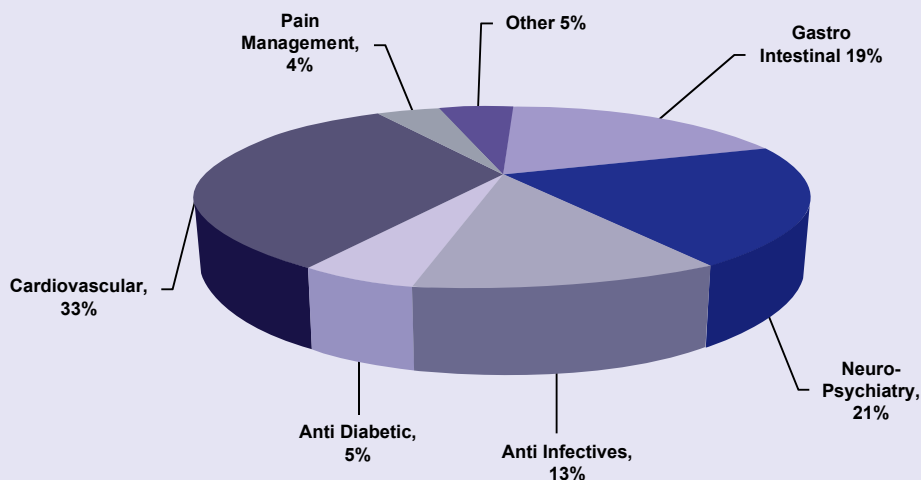
Currently, the prices of 75 drugs are controlled as per the mandate issued by the Drug Price Control Order, 1995 (DPCO). Currently 9% of company's revenues are from products covered by DPCO.

Given the above developments, companies need to focus on brand building and customize marketing approach to suit different customer segments. Medium term growth would be driven by therapy expansion, expanding geographical reach and new product introductions.

2. Operating Highlights

India formulations segment registered a growth of 15% over the previous year. The revenue growth was mainly driven by Anti Infective and Gastro portfolios. Top 10 brands contributed to 41% of the total India formulation sales as against 42% during previous year. Cardiology continues to remain the main therapeutic segment for the company with a contribution of about 33% of the total sales. Neuro-psychiatry and gastroenterology are other key segments. The three therapeutic segments put together contribute to over 73% of the total sales.

Break up of the Net Sales under key therapeutic segments is as under:



The Company introduced 38 new products during financial year 2010-11 as compared to 55 in financial year 2009-10. The growth in India Formulations revenues based on age of the portfolio is given below:

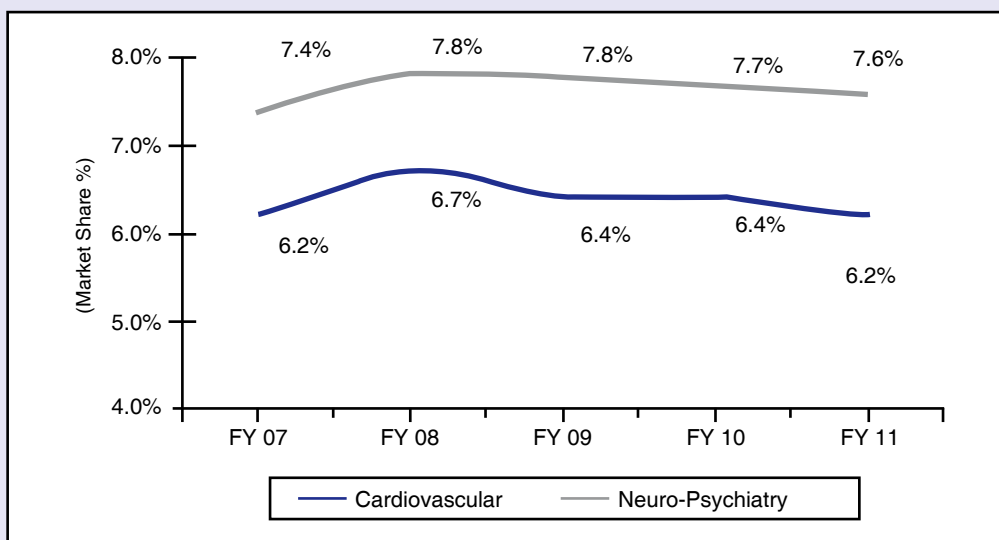
Portfolio	Growth	
	2010-11	2009-10
Existing Products (other than those mentioned below)	9%	11%
New Products introduced in the previous year	3%	1%
New Products introduced in the current year	3%	4%
Total	15%	16%

During the year, the company has expanded its reach in Tier II to VI cities & rural markets and now it has pan-India presence. In 2011-12, company would consolidate its operations in these markets.

The company has further expanded its therapeutic reach into Gynecology segment having a market size of ₹ 2740 crore growing at 14% (Source: ORG - IMS Mat Mar 11). The company has already launched 19 products and is planning to expand the portfolio by another 6 products in 2011-12. With total 25 products in basket, the company would cater to 46% of the regular obstetrics and gynecology market. Future plans include entry into infertility market.

3. Positioning of Torrent in Indian Pharmaceutical market

Torrent is one of the significant players in Indian Pharmaceuticals industry maintaining leadership position in some of the key chronic therapies of Cardiovascular and Neuro - Psychiatry. The Company is ranked No. 2 in Cardiovascular segment and No. 3 in Neuro – Psychiatry therapies. The graph below sets forth the market share movement of the Company in the key therapeutic segments of Cardiovascular and Neuro-Psychiatry over a period of 5 years.



(Source: ORG IMS)

As per ORG IMS data set for the financial year 2010-11, the Company registered a growth of 16.8% (previous year 17.2 %) against a market growth of 15.3% (previous year 17.7%). The Company is ranked 18th by turnover in the domestic market, has 6 brands in top 300 brands and has 36 brands in leadership positions in their respective molecule segments.

4. Opportunities and Outlook

The Indian pharmaceutical industry is going through structural change with lesser number of products available for introduction due to patent regime effective from 2005 and increased focus of MNCs in Indian Pharmaceutical Market on account of block buster products going off patent in developed markets. The business environment will continue to remain challenging characterized by intense competition, margin pressures and regulatory interventions. These changes pose many challenges and opportunities to companies operating in this environment. In this context, the Company has identified several growth initiatives, part of which has since been rolled out as detailed below:

Following are the areas where action has been initiated, the results of which are expected to flow in the foreseeable future:

- Geographical expansion to cover Tier II to VI cities
- Increasing sales force to expand doctor coverage in Metros
- Consolidating recent entry in Gynecology.
- 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.

Further growth areas are:

- Emerging market segments like organized buyer groups, pharmacy chains and corporate hospitals.
- Leverage on the strong franchise, specialized 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.

B. INTERNATIONAL FORMULATIONS

Global Pharmaceutical market grew 4-5% in 2010 to US\$ 880 billion and is expected to grow at 5% to 7% in 2011. Global Generic pharmaceutical market is valued at approximately US\$ 108 billion in 2009 and is expected to reach US\$ 130 billion by 2014 with a CAGR of 9%. At present, U.S is the largest generic market with market share of 28% followed by EU 15% and Japan 12%. Growth in these markets is driven by patent expiries, increase in generic penetration and government support to genericisation.

Global generics market continues to present a positive outlook and growth opportunities based on i) increasing health cost burden in developed economies compelling governments to encourage genericisation ii) approximately US\$ 156 billion drugs to lose patent protections between 2010 to 2019 iii) rising income levels and improving healthcare coverage in the emerging economies to provide significant growth opportunities. Much of the rise in global pharmaceutical market will come from pharmerging markets,

where sales are forecasted to grow at 13%-16% over the period of next 5 years. Growth in emerging markets is driven by increasing domestic consumptions on the back of high economic growth, strengthening of healthcare infrastructure and greater healthcare awareness. Emerging markets like Latin America, Eastern European countries, China, India and Russia are growing at double digit rates. These markets, predominantly in the nature of Branded Generic Formulations, 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.

International generic opportunity continues to be a growth engine for the company. The Company is well positioned to capitalize on these growth opportunities with strong development pipeline, low R&D and manufacturing costs and sound marketing reach and capabilities built over a period of time. Blockbuster drugs going off patent continue to offer significant opportunity.

1. Brazilian Branded Formulation

Brazilian Pharmaceutical market is the largest market in Latin America and one of the biggest markets in emerging economies with a market size of US\$ 15 billion with total healthcare spending of US\$ 74.6 billion. The market is growing at a 5 year CAGR of 15% wherein half of the market is being controlled by Innovators. (Source: IMS).

Torrent is one of the leading Indian branded generic players in Brazilian market covering a market of US\$ 1.50 billion (Source: IMS) enjoying a market share of 6.80% in the covered market. During the year, the Brazil operations registered revenues of ₹ 361 crores growing at 17%. Growth in Real terms is 11%. The covered market growing at 14% is indicative of the growth potential out of the existing portfolio. The Company has 31 products under approval and 6 products are expected to be approved during the coming year. The Company has a basket of 27 products with 11 products in the Cardio Vascular (CV) segment, 11 products in the Central Nervous System (CNS) segment and 5 products in the Oral Anti Diabetic segment. The Company also has a strong pipeline in the above therapies to augment future growth.

2. US

The US is the largest pharmaceutical markets in the world (US\$ 300 billion). Driven by factors, such as large healthcare spending, high per-capita income, and strong investments, the pharmaceutical market in the US has been witnessing an upward surge. Despite the dull economic outlook, the pharmaceutical market continued to grow at 5%. Generics (US\$ 65 billion) has also increased its share in the overall pharmaceutical market in terms of both revenue and prescriptions on the back of factors such as demand for cost-effective medications, patent expiration of blockbuster drugs, and government support.

The Company has started to realize the benefits of its investments in the US market. Revenues from its US operations were ₹ 114 crores during the financial year 2010-11 as compared with ₹ 94 crores during the previous financial year. Although Torrent was a late entrant in the US generics market, it has been successful in building a decent market share in existing products. Torrent is the largest supplier of Citalopram and second largest supplier of Zolpidem in the US market. The company received 10 ANDA approvals in 2010-11. In the future it plans to launch 8 to 10 products every year. The Company has 26 ANDA approvals, and its pipeline consists of 32 pending approvals and 16 products under development. The US business is expected to contribute to the growth of international business in a significant way.

3. Germany

German pharmaceutical market is the largest generic market in Europe with generic market size of US\$ 6 billion de-growing by 2.1% on account of government reforms on pricing and on reimbursement. The pharmaceutical market is expected to grow at low CAGR between 2011 to 2016.

Revenues from our Germany operations (Heumann) grew by 14% at ₹ 302 crores during the financial year 2010-11, as compared with ₹ 264 crores during previous year. 2010-11 was company's third consecutive year of profitable operations. Heumann was successful in obtaining tender awards announced by various health insurance funds during the year, which constituted 55% of total sales.

15 new products are proposed to be launched in the coming year. Heumann growth plans include filling portfolio gaps in the existing therapies and expanding into new therapy areas. Focus of the Company is to successfully service the increased demand from the tender business, garner incremental share in the market by aggressively bidding for upcoming tenders and launch of new products.

4. Other Markets

Dossier outlicensing and product supply business (Europe) continues to provide growth momentum in international business, registering growth of 5%, with revenues of ₹ 148 crores during the financial year 2010-11 as compared with ₹ 140 crores during the previous financial year. In Euro terms, the sales grew by 19%. The company has a strong pipeline for launch in the coming years. Rest of World segment registered growth of 12% with revenues of ₹ 135 crores during the financial year 2010-11, as compared with ₹ 120 crores during the previous financial year.

5. Opportunities and Outlook

Mexico: The Company had identified Mexico as a promising market offering potential for branded generic business and having a market size of US\$9 billion. The company commenced operations in branded generic market with 4 molecules in the neuropsychiatry segment. The company has a robust pipeline of 12 molecules and has received 3 new registrations taking total product portfolio of 11 molecules (6 mols in CNS & 5 in CVS) & 18 under registration.

Thailand: The Company has identified Thailand as an important market for its operations in Asia Pacific. Thailand will be the 8th largest economy in the Asia Pacific region by 2016 with the real GDP growth projected to reach 7.1% by 2016. The company has established a subsidiary and identified molecules in Cardiovascular, Neuro-Psychiatry and Anti-Diabetic segment for potential launch in the market.

The Company plans to complete the registration filings for the 1st phase of 7 products within the next financial year.

UK / Romania: The Company has commenced operations in UK & Romania.

C. CONTRACT MANUFACTURING SEGMENT

This segment registered revenues of ₹ 238 crores during the year, a major portion of which is from manufacture of human insulin. The company has been a stable partner for manufacture of human insulin for Novo Nordisk, Denmark, for their India market needs.

Global innovator companies have shown increasing proclivity to outsource their supply needs by entering into contract manufacturing arrangements. Years of product development experience, cost effective manufacturing capabilities and providing stable partnering abilities have placed the company in a good position to take advantage of the significant opportunity offered by this emerging segment.

The company has entered into product out-licensing and supply contracts with two global pharma players to exploit its product portfolio developed for regulated/semi regulated markets. As part of these agreements companies would source their product requirements and market them worldwide as part of their emerging market strategy. Supplies under these contracts are expected to commence soon with sales ramping up in 12-18 months' horizon.

MANUFACTURING

During the financial year 2010-11, the Company has expanded its facilities for tablets / capsule manufacturing and packing facilities at Indrad, Mehasana. The company has also partly completed expansion of API manufacturing capacities at Indrad. Recently, the Company commissioned a oral solid dosage manufacturing facility at Sikkim.

New capital investments:

In order to meet the increasing requirements of the international markets, Company has commenced building a new formulation and API manufacturing facility at Dahej SEZ in Gujarat. Its final module of API expansion at Indrad is also nearing completion, and shall commence production in the second quarter of the current year. The Company is also undertaking a substantial expansion in its Effluent Management Facility.

RESEARCH AND DEVELOPMENT

Discovery Research

The Company is currently working on several in-house New Chemical Entities (NCE) projects within the areas of diabetes and its related complications, metabolic and cardiovascular disorders, ischemic diseases and neuropathic pain. The Company has cumulatively filed 426 patents for NCEs from these and earlier projects in all major markets of which, 199 patents have been granted /accepted so far.

Most advanced discovery program of the company is Advanced Glycation End-Products (AGE) Breaker, which is now more than half way through the recruitment of Phase-II clinical trial in India and Europe for the indication of diabetes associated heart failure. The Company believes that its AGE Breaker Program has attractive development potential in the poorly served diabetic heart failure segment and other long-term complications arising out of AGE formation. The company has so far published 4 research papers in peer reviewed international journals describing various findings of the lead molecule.

During the financial year 2010-11, the company has advanced its second NCE to Phase-I clinical trial targeting cardio metabolic risks. The first part of Phase-I has been successfully completed in Europe and second part is currently in progress in India. The company intends to initiate further clinical studies in near future to ascertain safety and efficacy of the lead molecule. The company believes that this program is uniquely positioned to address the consequences of relative chronic over-nutrition which are assuming alarming proportions of health hazard in India, other emerging economies and also in the developed countries.

The company's published research papers in peer reviewed international journals describing various effects of the lead molecule have been well received.

THREATS, RISKS AND CONCERNS

Discovery research:

The key risks are high rate of failure and long gestation period 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.

Company undertakes clinical trials on ongoing basis as part of its discovery research programme. Insurance is obtained to cover the risks associated with testing in human volunteers and the company may be subject to claims that are not covered by the policy

The bio-equivalence facility is used for safety & efficacy studies for the generic products meant for the regulated markets. The facility has received approvals from the Brazilian, Denmark, France authorities and USFDA during the year. The regulatory authorities from Austria have also inspected the BE facility and their approvals are awaited.

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 minimize the product weightage of drugs under price control.

Intellectual Property Rights (IPR) regime:

Patent laws in respect of pharmaceutical products have been changed effective 1st January, 2005. This would mean that pharmaceutical products patented after 1st January, 1995 can no longer be copied through process re-engineering. This has narrowed the choice of new products which the Company can introduce in the market. Indian market being price sensitive is less likely 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.

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 insurance companies have been empowered to enter into rebate contracts and float tenders. Aggressive bidding by competitors could lead to unsuccessful bids in tenders exposing the company to loss of existing sales. Likewise in other European markets, regulatory changes could affect price realizations. The risks are sought to be mitigated through careful market analyses, 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.

Product liability risks:

The business is exposed to potential claims for product liability. 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.

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.

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.

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 development & launch of the generic products and strategy of early settlement with the patent holders on case-to-case basis, particularly in the US market.

New capital investments:

The Company plans to build a new manufacturing facility at Dahej for manufacture of API & oral solid dosage formulations. The Company faces risks arising out of delay in implementation, cost overrun and inappropriate implementation. The capacities are built in anticipation of demand and the company runs the risk of under utilization of capacities resulting in high manufacturing cost. The risks are sought to be mitigated by forming appropriate project management team and corporate management oversight.

Exchange fluctuation risks:

Currency risks mainly arise out of overseas operations and financing activities. Exchange rate fluctuations could significantly impact earnings and net equity because of invoicing in foreign currencies, expenditures in foreign currencies, foreign currencies borrowing and translation of financial statements of overseas subsidiaries into Indian rupees. The Company has a defined foreign exchange risk management framework to manage these risks, excluding translation risks.

HUMAN RESOURCES

The total employee strength of the Company at the end of financial year 2010-11 was 9003 against 6964 as at the end of financial year 2009-10, an increase of 2039 employees. The field force increased by 695 from 3364 at the end of financial year 2009-10 to 4059 at the end of financial year 2010-11. The R&D centre had 907 employees (of which 773 were scientists) at the end of financial year 2010-11 compared with 804 (of which 683 were scientists) as at the end of financial year 2009-10, an increase of 103 employees. The worker strength at plant was 1354 at the end of financial year 2010-11 compared with 796 at the end of financial year 2009-10. The remaining employee strength comprising mainly of head office personnel, non-worker employees at Chhatral, Baddi and Sikkim plants, branch & overseas offices employees increased to 2683 at the end of financial year 2010-11 from 2000 at the end of financial year 2009-10.

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 FOR FINANCIAL YEAR 2010-11 COMPARED WITH FINANCIAL YEAR 2009-10

Summary Financial Information:

Particulars	2010-11		2009-10		% Increase/ (Decrease)
	₹ Crores	%to Revenues	₹ Crores	%to Revenues	
Net Sales and Operating Income (Revenues)	2,205	100%	1,904	100%	16%
Cogs	862	39%	677	36%	27%
Gross Profit	1,343	61%	1,227	64%	9%
Selling, general and administrative expenses (SG&A)	816	37%	698	37%	17%
Research and development spend	139	6%	120	6%	15%
Forex Gain / (Loss)	22	1%	12	1%	
Operating profit before depreciation/amortization, tax and interest	409	19%	421	22%	-3%
Depreciation/Amortization	63	3%	66	3%	-5%
Net Interest expense	4	0%	8	0%	-45%
Profit before tax (PBT)	343	16%	347	18%	-1%
Income Tax	73	3%	116	6%	
Profit after Tax (PAT)	270	12%	231	12%	17%

Net Sales and other operating income

Consolidated net sales stood at ₹ 2122 crores compared with net sales of ₹ 1833 crores during the previous financial year, registering growth of 16%.

Other operating income was ₹ 83 crores compared with ₹ 71 crores in previous financial year, indicating an increase of 17%. Income includes ₹ 23 crores in financial year 2010-11 (₹ 16 crores booked in financial year 2009-10) from multi-product/market out licensing contracts. This along with increased export benefits were the major items contributing to the increase.

Gross Profit

Company's Gross Profit margin declined by 3% as compared to the previous financial year. Lower realizations in Heumann on account of tender business during the year, one time provisioning on account of chargebacks in US business during the financial year 2010-11, are the major factors contributing to reduction in Gross Profit margins.

Operating Profit before depreciation / amortization, tax and interest (PBDIT)

SG&A expenses increased by 17% to ₹ 816 crores as compared to ₹ 698 crores during the previous financial year. Significant spend was incurred in market development activities both in India and overseas market. Entry into Gynecology segment, geographical expansion in tier II to VI markets were some of the significant activities in Indian market. Mexico launch and preparatory spend for Canada entry were the significant activities in the overseas markets.

As a result of investments in Indian and overseas markets as discussed above, PBDIT margins of the company stood at 19% in financial year 2010-11 compared to 22% in financial year 2009-10, decline of by 3%.

Research & Development expenses increased by 15% to ₹ 139 crores, as compared to ₹ 120 crores during the previous financial year. Product development costs account for 72% (previous year 70%) and discovery research costs account for 28% (previous year 30%) of the total R&D cost.

Foreign exchange gains were ₹ 22 crores against of ₹ 12 crores during the previous year.

Depreciation and amortization

Depreciation and amortization charge during the financial year 2010-11 was ₹ 63 crores as compared with ₹ 66 crore during the previous financial year. During previous financial year 2009-10, company had revised useful lives of plant & machinery, laboratory equipments, furniture & fixtures and office equipments, which resulted into an additional depreciation charge of ₹ 6 crores in financial year 2010-11 compared to ₹ 11 crores in financial year 2009-10.

Net interest expense

Net Interest expenses (net of income from investments made in debt and money market instruments) were ₹ 4 crores compared with ₹ 8 crores during the previous financial year.

Income Tax

During the financial year 2009-10, in view of amendments made in Income Tax Act 1961 by the Finance Act, 2009 and other relevant factors, the Company reviewed realisability of MAT credit entitlement, based on which, the MAT credit entitlement asset of ₹ 53 crores, recognized in earlier years, has been written off.

The income tax charge for the financial year 2010-11 stood at ₹ 73 crores compared to ₹ 63 crores in financial year 2009-10 excluding MAT credit write-off effected in previous year. Average income tax rate as a percentage of profit before tax is 21% for the year 2010-11 as compared to 18% for the year 2009-10. Increase in income tax charge for the year 2010-11 is mainly on account of increase in MAT rate from 17% for the year 2009-10 to 20% for the year 2010-11.

Net profit after taxes

The net profit after taxes for the financial year 2010-11 was ₹ 270 crores compared with ₹ 231 crores during the previous financial year, an increase of 17%.

CAPITAL & DEBT

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

Out of the divisible profits of ₹ 389 crores (previous year ₹ 234 crores), a sum of ₹ 153 crores (previous year ₹ 56 crores) was transferred to General Reserve Account. Dividend of ₹ 68 crores (₹ 6 per share as normal dividend and ₹ 2 per share as special dividend) is proposed during the year, Previous year ₹ 50.8 crores (₹ 6 per share) was distributed. This represents an increase of ₹ 2 in dividend per share. This distribution (including tax thereon) is approximately 29% of profit after tax for the year (previous year 26%).

The net long-term borrowing increased by ₹ 76 crores during the year (previous year decrease was ₹ 10 crores) to ₹ 473 crores at the end of Financial Year 2010-11 from ₹ 397 crores at the end of Financial Year 2009-10. Outstanding working capital loans as on 31st March, 2011 were ₹ 100 crores (previous year ₹ 126 crores). The total debt to net worth (including deferred tax liability) ratio as at the end of Financial Year 2010-11 was 0.50 (previous year 0.59).

FIXED ASSETS

The net investment in fixed assets during the year was ₹ 203 crores; comprising addition in gross assets, capital advances and capital work in progress of ₹ 260 crores reduced by increase in accumulated depreciation of ₹ 57 crores. Addition to fixed assets mainly include capital expenditure incurred for setting up of new manufacturing facility at Sikkim dedicated to Indian operations and capacity expansion at manufacturing facility located at Indrad.

WORKING CAPITAL AND LIQUIDITY

The working capital investment (net current assets excluding cash and bank balances and proposed dividends) increased by ₹ 21 crores from ₹ 223 crores at the end of financial year 2009-10 to ₹ 244 crores at the end of financial year 2010-11, increase of 9.0%. As a percent of revenues, the working capital investment was 11% at the end of financial year 2010-11 and 12% at the end of financial year 2009-10. The increase in working capital was a result of gross current assets (excluding cash and bank balance) increasing by ₹ 283 crores, from ₹ 772 crores at the end of financial year 2009-10 to ₹ 1055 crores at the end of financial year 2010-11, and increase in gross current liabilities (including provisions and excluding proposed dividends) by ₹ 262 crores, from ₹ 550 crores at the end of financial year 2009-10 to ₹ 812 crores at the end of financial year 2010-11.

The liquidity of the Company as reflected by cash and bank balances and current investments increased by ₹ 94 crores, from ₹ 510 crores at the end of financial year 2009-10 to ₹ 605 crores at the end of financial year 2010-11.

The Company generated net cash of ₹ 395 crores from operations (after working capital changes) during financial year 2010-11 while it spent a net amount of ₹ 263 crores on new fixed assets, received income from investments and interest of ₹ 31 crores. Net cash flow used in financing activities comprising dividend and interest paid and net debts taken, was ₹ 67 crores during financial year 2010-11.

For and on behalf of the Board

Ahmedabad
28th May, 2011

Samir Mehta
Executive Vice Chairman