

# MANAGEMENT'S 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 financial statements of Torrent Pharmaceuticals Limited 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 India 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 operations (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 2009-10, the Company reported revenues of Rs. 1,904 crores (excluding foreign exchange gains of Rs. 12 crores), a growth of 17% compared with Rs. 1,631 crores in the previous financial year.

The break up of Revenues under key segments is under:

(Rs. in crores)

Segment	2009-10		2008-09		Growth
	Amount	Share	Amount	Share	%
India formulations (net of excise duty)	726	38%	624	38%	16%
International Operations	970	51%	841	52%	15%
Contract Manufacturing	205	11%	164	10%	25%
Others	2	0%	2	0%	16%
<b>Total</b>	<b>1,904</b>	<b>100%</b>	<b>1,631</b>	<b>100%</b>	<b>17%</b>

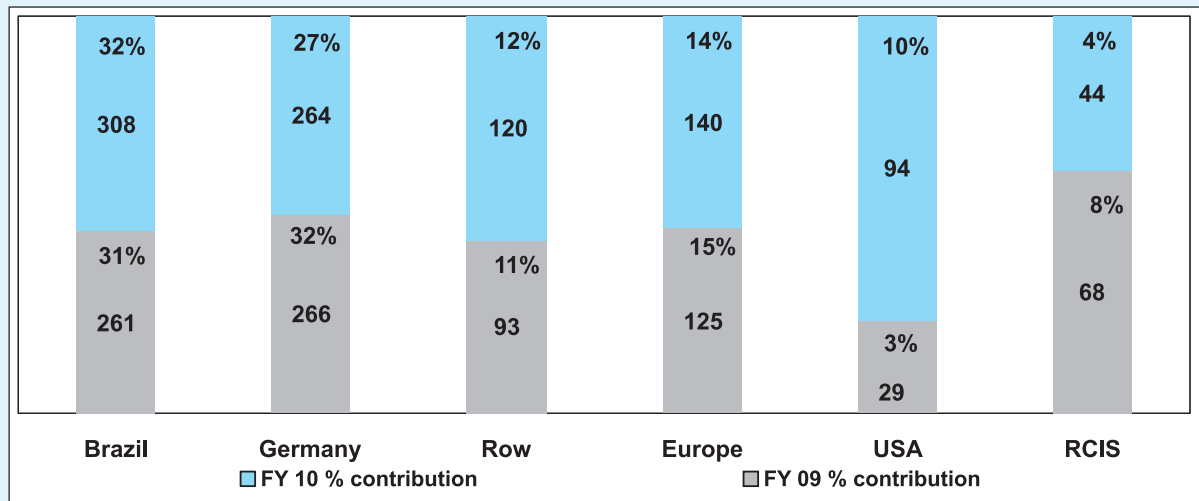
The India formulations segment registered growth of 17% over the previous year on the back of improved performance from Oral Anti Diabetic and Anti Infective portfolios.

Revenues from International Operations grew 15% on the back of growth in Brazil (growing 18%) and ramp up of US sales. Generic business in Germany was affected by difficult market environment with large portion of the market moving to low margin tender based pricing and the revenues remained flat. Revenues from Europe and Rest of the World Markets registered a growth of 9% and 30% respectively benefiting from portfolio expansion and consolidation in existing geographical areas. Operations in Russia & CIS markets were affected by adverse economic conditions and dampened demand resulting in de-growth in revenues by 35%.

Contract manufacturing income includes license fee income of Rs. 16 crores from a multi-product/market out licensing contract signed during the financial year 2009-10.

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

(Amount in Rs. Crores)



(Source: Internal Data)

## A. INDIA FORMULATIONS

### 1. Indian Pharmaceutical Market:

The India formulations market valued at Rs. 417 billion has grown at CAGR of 14% (Source: ORG - IMS) over last 4 years. New product introductions contributed to 44% of the sales growth while volume growth contributed to 51% of the sales growth. Growing population, increasing reach of healthcare, 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 – Infectives 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 generic products looks positive due to several factors. The current pipeline of the generic 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 generic launches from the basket of pre 1995 products.

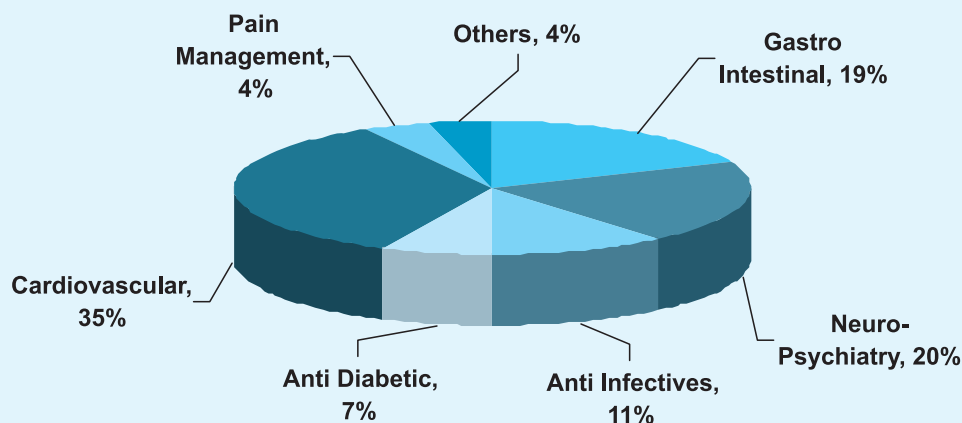
Currently, the prices of 75 drugs are controlled as per the mandate issued by the Drug Price Control Order, 1995 (DPCO). Currently 10% of Company's revenues are from products covered by DPCO.

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

## 2. Operating Highlights

India formulations segment registered a growth of 16% over the previous year. The revenue growth was mainly driven by Anti Diabetic and Anti – Infective portfolios. Top 10 brands contributed to 42% of the total India formulation sales as against 43% during previous year. Cardiology continues to remain the main therapeutic segment for the Company with a contribution of about 35% of the total sales. Neuro-Psychiatry and Gastroenterology are other key segments. The three therapeutic segments put together contribute to over 74% of the total sales.

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



The Company introduced 55 new products during financial year 2009-10 as compared to 15 products in financial year 2008-09. The growth in India Formulations revenues based on age of the portfolio is given below:

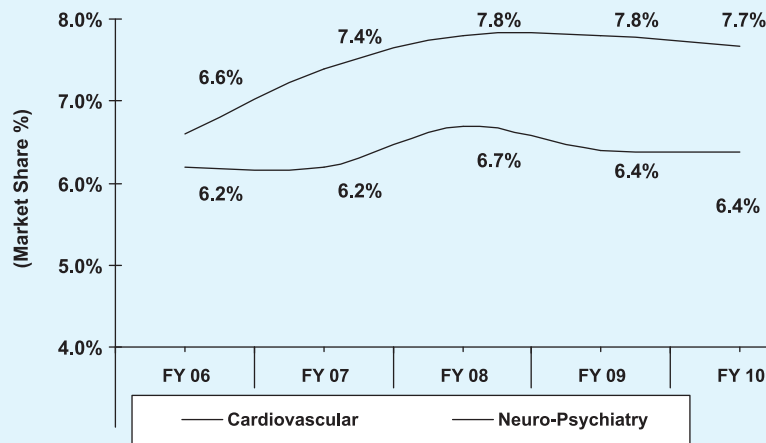
Portfolio	Growth	
	2009-10	2008-09
Existing Products (other than those mentioned below)	11%	5%
New Products introduced in the previous year	1%	1%
New Products introduced in the current year	4%	1%
<b>Total</b>	<b>16%</b>	<b>7%</b>

During the year, as a part of its growth strategy, the Company expanded its reach into the Tier II to VI cities and rural market through launch of a dedicated division. During the first phase of expansion, the Company launched its division in 5 states initially and gradually expanded to 3 more states during the financial year 2009-10. The Company plans to have pan India presence by end of financial year 2010-11.

The Company has moved to expand its therapeutic reach by entering into Gynecology segment having a market size of Rs. 2,404 crores, growing at 18% (Source: ORG - IMS Mat Mar 10). Initially the Company will be mainly focusing on regular Obstetrics and Gynecology market and has plans to penetrate into infertility market. To begin with the Company has launched 8 products and plans to launch another 11 products by financial year 2010-11 in phased manner. With total 19 products in basket, the Company would cover 40% of the regular Obstetrics and Gynecology market.

## 3. Positioning of Torrent in Indian Pharmaceutical Market

Torrent is one of the leading 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 2009-10, the Company registered a growth of 17% (previous year 7%) against a market growth of 18% (previous year 10%). The Company is ranked 16<sup>th</sup> by turnover in the domestic market, has 6 brands in top 300 brands and has 37 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 characterised 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 OPERATIONS

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 \$142 billion drugs to lose patent protections over next 5 years iii) rising income levels and improving health care coverage in the emerging economies to provide significant growth opportunities.

Global Pharmaceutical Market grew 7% in 2009 to US \$ 837 billion and is expected to grow at 5% to 8% over a period of 5 years. Global Generic Pharmaceutical Market is valued at approximately US \$ 90 billion is expected to grow at a faster rate of 8-9% over next 5 years. U.S is the largest Generic Market which put together with Europe and Japan account for 60% of the total global Generic Pharmaceutical Market. The growth of generic in these markets is driven by patent expiries, increase in generic penetration and

Government support to genericisation. Growth in emerging markets is even higher and 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 cost and sound marketing reach and capabilities built over a period of time. Blockbuster drugs going off patent continue to offer significant opportunity.

The Company has witnessed 5 year revenue CAGR of over 47%, in the revenues from its International Operations (including the sales of Heumann Pharma GmbH & Co. Generica KG (Heumann) acquired in 2005) which now accounts for more than 50% of the total revenues. During the year the Company has entered into product out-licensing and supply contracts with global pharma players to exploit its product portfolio developed for regulated/semi regulated markets. The supplies against these contracts are expected to commence over next 2-3 years.

### **1. Brazilian Branded Formulation**

Brazilian market is one of the biggest markets in emerging economies with a market size of USD 12 billion, innovators controlling nearly half of the market and growing at a 5 year CAGR of 15% (Source: IMS).

Torrent is one of the leading Indian branded generic players in Brazilian market covering a market of USD 1 billion (Source: IMS) enjoying a market share of 7% in the covered market. During the year the Brazil operations registered revenues of Rs. 308 crores growing at 18%. Part of this growth is attributable to favorable exchange rates. Growth in Reai terms is 9%. The covered market growing at 14% is indicative of the growth potential out of the existing portfolio. The Company has 43 products under approval and 5 products are expected to be approved by second half of the coming year. The Company has a basket of 27 products with 12 products in the Cardio Vascular (CV) segment, 11 products in the Central Nervous System (CNS) segment and 4 products in the Oral Anti Diabetic segment. The Company also has a strong pipeline of 40 products in the above therapies to augment future growth.

### **2. US**

US market is the largest generic market in the world. The generic market grew by 7% to US \$ 34 billion in 2009. New healthcare reforms recently introduced in the US, are aimed at bringing more Americans under health insurance coverage and promoting use of low cost medicines. These reforms are expected to translate into huge opportunities to the companies sourcing from low cost manufacturing countries like India. Cost competitiveness is the key success factor.

The Company has started to realise the benefits of its investments in the US market. Revenues from its US operations were Rs. 94 crores during the financial year 2009-10 as compared with Rs. 29 crores during the previous financial year 2008-09. 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 second largest supplier of Citalopram and Zolpidem in the US Market. The Company received 2 ANDA approvals and 3 tentative approvals in financial year 2009-10. In the future it plans to launch 4 to 5 products every year. The Company has 16 ANDA approvals (including 3 tentative approvals), and its pipeline consists of 29 pending approvals and 27 filings 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 2<sup>nd</sup> largest generic market. During the year 2009, the generic market grew at 5% and was valued at USD 7 billion. The year 2009 witnessed a major portion of the markets getting covered under tender based buying by Government funded health insurance funds. With approximately 65% market covered under such tender, average price realisations are expected to fall substantially.

Revenues from our German operations (Heumann) remained stagnant at Rs. 264 crores during the financial year 2009-10, as compared to Rs. 266 crores during previous year 2009-10 which was Company's second consecutive year of profitable operations. Heumann was successful in obtaining tender awards announced by various health insurance funds during the year, the revenues from which will start flowing from financial year 2010-11.

12 new products are proposed to be launched in the coming year. Heumann growth plans include filling portfolio gaps in 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 9%, with revenues of Rs. 140 crores during the financial year 2009-10 as compared with Rs. 125 crores during the previous year. The Company has a strong pipeline of 50 molecules for launch in the coming years. Rest of World segment registered growth of 12% with revenues of Rs. 120 crores during the financial year 2009-10, as compared with Rs. 93 crores during the previous 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 USD 9 billion. The Company plans to launch marketing operations during the financial year 2010-11 with a product basket of 6 products in the Neuro-Psychiatry segment. The Company plans to expand the product portfolio in Cardiovascular, Neuro-Psychiatry and Anti Diabetic segments over the course of next 2-3 years.

**Thailand:** In order to expand its footprint in Asia Pacific, the Company has incorporated a subsidiary in Thailand to tap the significant growth opportunity available in this market. Thailand is the second largest pharmaceutical market in South East Asia with a market size of USD 2 billion and is growing at 16%. Generics constitute nearly 60% of the value sales. Due to the universal insurance coverage policy implemented by the Thai Government, the generic segment is rapidly growing in size and the hospitals are increasing supporting purchase of quality generics.

The Company has identified a set of 45 molecules in Cardiovascular, Neuro-Psychiatry and Anti Diabetic segment for potential launch in the market. The key success factors besides product development capabilities, innovative abilities, low cost high quality manufacturing would be the early mover advantage.

The Company is also planning to enter UK, Romania and Canada with direct marketing operation.

### **MANUFACTURING**

During the financial year 2009-10, the Company has successfully commissioned a new injectible formulation manufacturing facility for Human Insulin's with a capacity of 26 million vials per annum at Indrad.

During the previous financial year, the Company had initiated construction of a new formulation manufacturing facility at Sikkim to cater to the growing demand of domestic market. The project is expected to commence commercial production during the third quarter of the financial year 2010-11. This facility will provide fiscal incentives under new industrial policy announced for the region by Central Government in 2007.

During the year, the formulation manufacturing facility at Baddi received cGMP approval from ANVISA of Brazil, and is gearing up for obtaining approvals for the other regulated markets. This facility was approved by the German authorities during the previous financial year 2008-09.

#### **New capital investments**

In order to meet the increasing requirements of the international markets, the Company is planning to build a new formulations and API manufacturing facility at Dahej SEZ in Gujarat. It has also undertaken a substantial expansion of formulation and API manufacturing capacities at US FDA Indrad Plant, which is expected to be completed during the financial year 2010-11.

### **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 374 patents for NCEs from these and earlier projects in all major markets of which 155 patents have been granted /accepted so far.

After successful completion of Phase-I clinical trial of Advanced Glycation End-Products Breaker (AGE) program, the Company has now initiated multi-centered Phase-II trial in India and Europe for the indication of diabetes associated heart failure. The Company believes that its AGE Program has attractive development potential in the poorly served diabetic heart failure segment and certain long-term complications arising out of AGE formation. The Company has published four research papers in peer reviewed international journals describing various findings of consequence to the AGE program.

During the financial year 2009-10, the Company has advanced its second NCE to Phase-I clinical trial targeting increased cardiovascular risks associated with metabolic syndrome. The Company believes that this program is uniquely positioned to address the complications due to relative chronic over-nutrition which are assuming alarming proportions of health hazard in India and in the developed countries.

### **Developmental Research**

The Company continues to have a robust product pipeline for development for offerings in European, US and Brazil markets on their patent expiry. During the financial year 2009-10, the Company completed development for 8 products for the EU market, 12 products for US market and 11 products for Brazil market. The Company also developed and filed DMF for 6 APIs during the year in US & Europe.

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

Development of several New Drug Delivery Systems (NDDS) to create differentiated products and market exclusivity in commodity generics market are also progressing well.

## **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 authorities and USFDA during the year. The regulatory authorities from France and Denmark 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 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 effective 1<sup>st</sup> January, 2005. This would mean that pharmaceutical products patented after 1<sup>st</sup> 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 delay, 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 proactively 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 launch of the generic product.

## New capital investments

The Company plans to build a new manufacturing facility at Sikkim for manufacture of oral solid dosage formulations. The Company faces risks arising out of delay in implementation, cost overrun and inappropriate implementation. 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 2009-10 was 6,964 against 5,636 as at the end of financial year 2008-09, an increase of 1,328 employees. The field force increased by 552 from 2,812 at the end of financial year 2008-09 to 3,364 at the end of financial year 2009-10. The R & D Centre had 804 employees (of which 683 were scientists) at the end of financial year 2009-10 compared with 725 (of which 627 were scientists) as at the end of financial year 2008-09, an increase of 79 employees. The worker strength at plant was 796 at the end of financial year 2009-10 compared with 527 at the end of financial year 2008-09. The remaining employee strength comprising mainly of head office personnel, non-worker employees at Chhatral and Baddi Plant, branch & overseas offices employees increased to 2,000 at the end of financial year 2009-10 from 1,572 at the end of financial year 2008-09.

## 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 2009-10 COMPARED WITH FINANCIAL YEAR 2008-09

### Summary Financial Information:

Particulars	2009-10		2008-09		% Increase/Decrease
	Rs. in Crores	% to Revenues	Rs. in Crores	% to Revenues	
Net Sales and Operating Income (Revenues)	1,904	100.0%	1,631	100.0%	16.8%
Gross Profit	1,227	64.4%	1,016	62.3%	20.8%
Selling, general and administrative expenses (SG&A)	698	36.7%	604	37.0%	15.6%
Research and development spend	120	6.3%	112	6.9%	7.4%
Forex Gain / (Loss)	12	0.6%	-41	-2.5%	
Operating profit before depreciation/amortization, tax, interest and exceptional items	421	22.1%	259	15.9%	62.5%
Depreciation/Amortization	66	3.5%	42	2.6%	56.3%
Net Interest expense	8	0.4%	16	1.0%	-52.0%
Profit before tax and exceptional items (PBT)	347	18.2%	201	12.3%	72.9%
Exceptional Item	0	0.0%	-9	-0.5%	
Income Tax	116	6.1%	8	0.5%	
Profit after Tax (PAT)	231	12.1%	184	11.3%	25.6%

### Net Sales and other operating income

Consolidated net sales stood at Rs. 1,833 crores compared with net sales of Rs.1,587 crores during the previous financial year, registering growth of 16%.

Other operating income was Rs. 71 crores compared with Rs. 44 crores in previous financial year, indicating an increase of 61%. Income of Rs. 16 crores from multi-product/market out licensing contract signed during the financial year 2009-10 is the major item contributing to the increase.

### Gross Profit

Company's Gross Profit increased by 21% indicating a margin gain of 2% as compared to the previous year. Higher income from product registration dossiers (described above) and reduction in the inventory impairments (largely arising out of reduction in non-saleable returns) during the financial year 2009-10, are the major factors contributing to improvement in Gross Profit.

## **Operating Profit before depreciation/amortization, tax, interest and exceptional items (PBDIT)**

SG&A expenses increased by 16% to Rs. 698 crores as compared to Rs. 604 crores during the previous year. Increase in spend related to marketing authorization registration for new territories amounting to Rs. 11 crores was one of the major factors contributing to the increase in SG&A.

Research & Development expenses increased by 7% to Rs. 120 crores, as compared to Rs. 112 crores during the previous financial year. Product development costs account for 70% (previous year 64%) and discovery research costs account for 30% (previous year 36%) of the total R & D cost. Research & Development expenses as % to revenues are at 6% as compared to 7% during the previous year.

Foreign exchange gains were Rs. 12 crores against loss of Rs. 41 crores during the previous year.

Company's PBDIT increased by 62% to Rs. 421 crores as compared to Rs. 259 crores during the previous year, indicating a margin improvement of 6%.

## **Depreciation and amortization**

Depreciation and amortization charge during the financial year 2009-10 was Rs. 66 crores as compared with Rs. 42 crores during the previous financial year. During the financial year 2009-10, the Company revised in useful lives of plant & machinery, laboratory equipments, furniture & fixtures and office equipments, which resulted into an additional depreciation charge of Rs. 11 crores. The Company impaired some of its product license assets in Heumann, which resulted into additional amortization charge of Rs. 7 crores during the financial year 2009-10.

## **Net interest expense**

Net Interest expenses (net of income from investments made in debt and money market instruments) were Rs. 8 crores compared with Rs. 16 crores during the previous year.

## **Income Tax**

During the financial year 2009-10, in view of amendments made in the 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 Rs. 53 crores, recognized in earlier years, has been written off.

Excluding MAT credit entitlement in both the financial years, the income tax charge for the year 2009-10 is Rs. 63 crores compared to Rs. 27 crores during the previous year. Average income tax rate as a percentage of profit before tax is 18% for the year 2009-10 as compared to 14% for the year 2008-09. Increase in income tax charge for the year 2009-10 is mainly on account of increase in MAT rate from 11% for the year 2008-09 to 17% for the year 2009-10.

## **Exceptional item**

Exceptional item of Rs. 9 crores for the year 2008-09 represents settlement of a contract claim and certain related expenses, in respect of a research contract pertaining to new chemical entities, agreed by the Company in an out-of-court settlement through a mediation process.

## **Net profit after taxes**

The net profit after taxes & exceptional items for the financial year 2009-10 was Rs. 231 crores compared with Rs. 184 crores during the previous financial year, an increase of 25%.

## **CAPITAL & DEBT**

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

Out of the divisible profits of Rs. 234 crores (previous year Rs. 188 crores), a sum of Rs. 56 crores (previous year Rs.145 crores) was transferred to General Reserve Account. Dividend of Rs. 51 crores (Rs. 6 per share) is proposed during the year, Previous year Rs. 34 crores (Rs. 4 per share) was distributed. This represents an increase of Rs. 2 in dividend per share. This distribution (including tax thereon) is approximately 26% of profit after tax for the year (previous year 21%).

The net long-term borrowing decreased by Rs. 10 crores during the year (previous year increase was Rs. 104 crores) to Rs. 397 crores at the end of financial year 2009-10 from Rs. 407 crores at the end of

FY 2008-09. Outstanding working capital loans as on 31<sup>st</sup> March, 2010 were Rs. 126 crores (previous year Rs. 76 crores). The total debt to net worth (including deferred tax liability) ratio as at the end of financial year 2009-10 was 0.59 (previous year 0.68).

## **FIXED ASSETS**

The net investment in fixed assets during the year was Rs. 86 crores; comprising net addition in assets Rs. 149 crores reduced by increase in accumulated depreciation of Rs.62 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, current investments and proposed dividends) decreased by Rs. 15 crores from Rs. 297 crores at the end of financial year 2008-09 to Rs. 282 crores at the end of financial year 2009-10, decrease of 5%. Decrease in working capital investments is mainly on account of write off of MAT credit entitlement of Rs. 53 crores, recognised in earlier years. As a percent of revenues, the working capital investment was 15% at the end of financial year 2009-10 and 18% at the end of financial year 2008-09. The decrease in working capital was a result of gross current assets (excluding cash and bank balances, current investments) increasing by Rs. 49 crores, from Rs. 723 crores at the end of financial year 2008-09 to Rs. 772 crores at the end of financial year 2009-10, and increase in gross current liabilities (including provisions and excluding proposed dividends) by Rs. 64 crores, from Rs. 426 crores at the end of financial year 2008-09 to Rs. 490 crores at the end of financial year 2009-10.

The liquidity of the Company as reflected by cash and bank balances and current investments increased by Rs. 160 crores, from Rs. 350 crores at the end of financial year 2008-09 to Rs. 510 crores at the end of financial year 2009-10.

The Company generated net cash of Rs. 287 crores from operations (after working capital changes) during financial year 2009-10 while it spent a net amount of Rs. 149 crores on new fixed assets, received income from investments and interest of Rs. 20 crores. Net cash flow used in financing activities comprising of dividend and interest paid and net debts taken, was Rs. 5 crores during financial year 2009-10.

For and on behalf of the Board

Ahmedabad  
6<sup>th</sup> May, 2010

**Samir Mehta**  
Managing Director