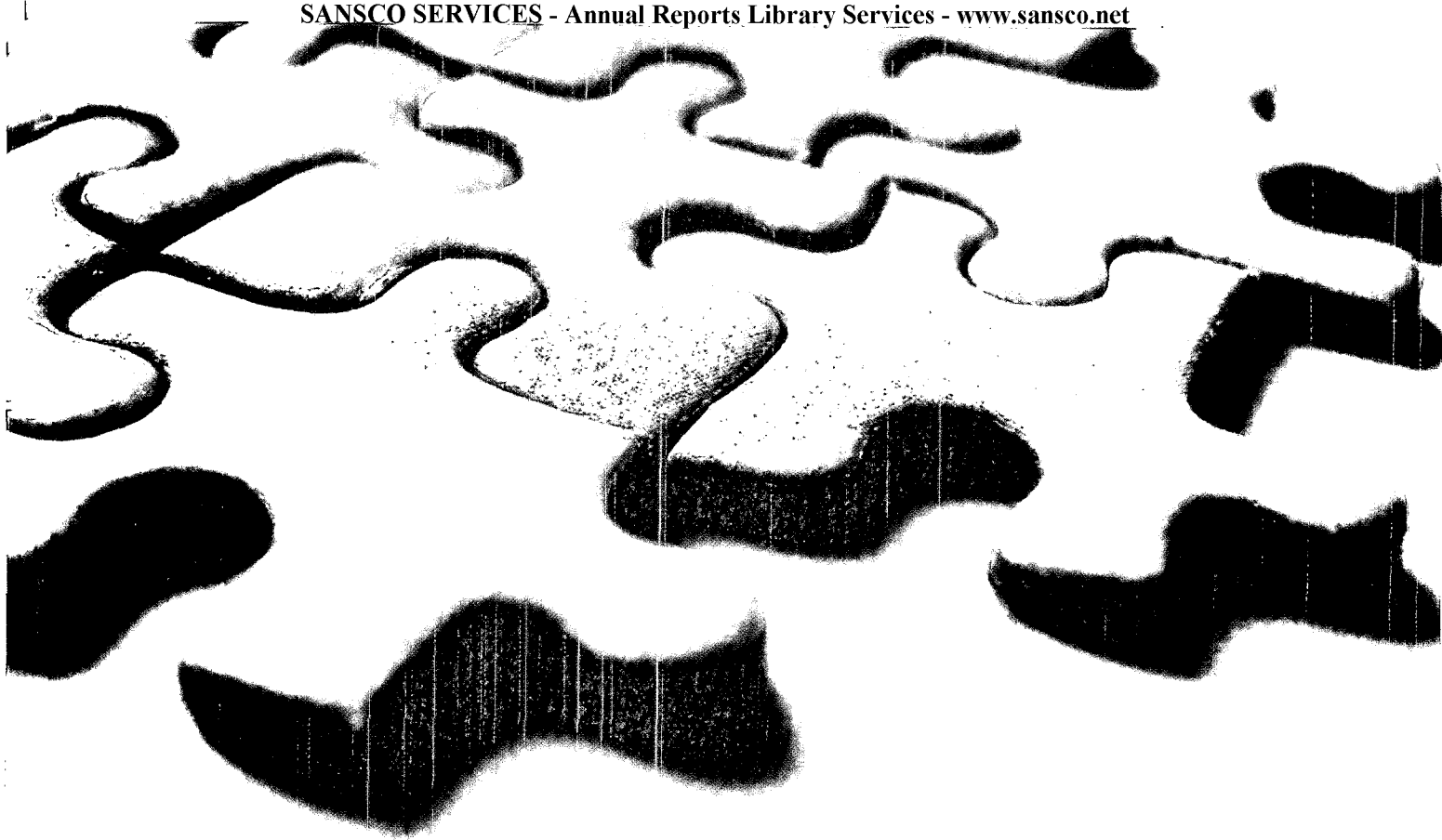


Torrent Pharmaceuticals Limited
35th ANNUAL REPORT 2007-08

CONTENTS



Corporate Information	01
Directors' Report	02
Report on Corporate Governance	09
Auditors' Report	19
Audited Financial Statements	23
Management Discussion and Analysis	48
Consolidated Financial Statements	60



Report  Junction.com

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

CORPORATE INFORMATION

• **DIRECTORS**

Sudhir Mehta
Chairman

Markand Bhatt

S. H. Bhojani

Dr. Prasanna Chandra

Kiran Karnik

Sanjay Lalbhai

Mihir Thakore

Dr. C. Dutt
Director (Research &
Development)

Samir Mehta
Managing Director

• **AUDIT COMMITTEE**

Dr. Prasanna Chandra
Chairman

S. H. Bhojani

Kiran Karnik

Mihir Thakore

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

Sudhir Mehta
Chairman

Markand Bhatt

Samir Mehta

• **GM (LEGAL) & COMPANY SECRETARY**

Mahesh Agrawal

• **AUDITORS**

C.C. Chokshi & Co.
Chartered Accountants

• **REGISTERED OFFICE**

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

• **MANUFACTURING FACILITIES**

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

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

• **R & D FACILITY**

Village Bhat,
Dist. Gandhinagar (Gujarat)

• **WEBSITE**

www.torrentpharma.com

• **REGISTRAR & TRANSFER AGENT**

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

• **INVESTOR SERVICES**

E-MAIL ID :
investorservices@torrentpharma.com



DIRECTORS' REPORT

To
The Shareholders

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

OPERATING RESULTS

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

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

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

Consolidated Numbers

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

Management Discussion and Analysis (MDA)

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

APPROPRIATIONS

Dividend

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

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

Transfer to Reserves

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

DIRECTORS' RESPONSIBILITY STATEMENT

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

- i the applicable accounting standards have been followed in preparation of the financial statements and there are no material departures from the said standards;
- ii reasonable and prudent accounting policies have been used in preparation of the financial statements and that they have been consistently applied and that reasonable and prudent judgments and estimates have been made in respect of items not concluded by the year end, so as to give a true and fair view of the state of affairs of the Company as at 31st March, 08 and of the profit for the year ended 31st March, 08;
- iii proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

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

CAPITAL AND BORROWINGS

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

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

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

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

SUBSIDIARIES

Brief review of the important subsidiaries is given below.

ZAO Torrent Pharma (ZAO TP), Russia

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



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

Torrent Pharma GmbH (TPG), Germany

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

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

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

Torrent do Brasil Ltda. (TdBL), Brazil

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

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

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

INSURANCE

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

DIRECTORS

Markand Bhatt, Sanjay Lalbhai and Prof. S. Ramnarayan¹ are liable to retire by rotation at the ensuing Annual General Meeting and being eligible have been proposed for re-appointment. The details of their re-appointment together with nature of their expertise in specific functional areas and names of the companies in which they hold office of a Director and/or the Chairman/Membership of committees of the Board, are provided in the notice of the ensuing Annual General Meeting.

CORPORATE GOVERNANCE

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

AUDITORS

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

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

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

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, ETC.

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

PARTICULARS OF EMPLOYEES

The information required under section 217(2A) of the Companies Act, 1956, read with Companies (Particular of Employees) Rules, 1975, forms part of this report as Annex 2. However, as permitted by section 219(1)(b) (iv) of the Companies Act, 1956, this Annual Report is being sent to all shareholders excluding the said Annex.

Any shareholder interested in obtaining the particulars may obtain it by writing to the Company Secretary at the registered office of the Company.

APPRECIATION AND ACKNOWLEDGEMENTS

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

Ahmedabad,
6th May, 2008

For and on behalf of the Board

Sudhir Mehta
Chairman

Report  junction.com

ANNEX I TO DIRECTORS' REPORT

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

A. CONSERVATION OF ENERGY

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

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

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

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

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

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

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

I. Power and Fuel Consumption*:

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

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

II. Consumption per unit of production:

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

B. TECHNOLOGY ABSORPTION

Particulars with respect to technology absorption are given below:

Research and Development (R & D)

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

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

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

- As at March 08, 11 ANDA and 6 DMF filed in US and 17 new product Dossiers completed in the European Union.
- Five processes for APIs were developed and transferred to plant during the year.
588 patents filed for NDDS technology, drug discovery projects and innovative process of API & formulations for various markets and 163 have been granted so far.

3. **Future plan of action**

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

4. **Expenditure on R & D**

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

Technology absorption, adaptation and innovation

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

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

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

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

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

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

C FOREIGN EXCHANGE EARNINGS AND OUTGO

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