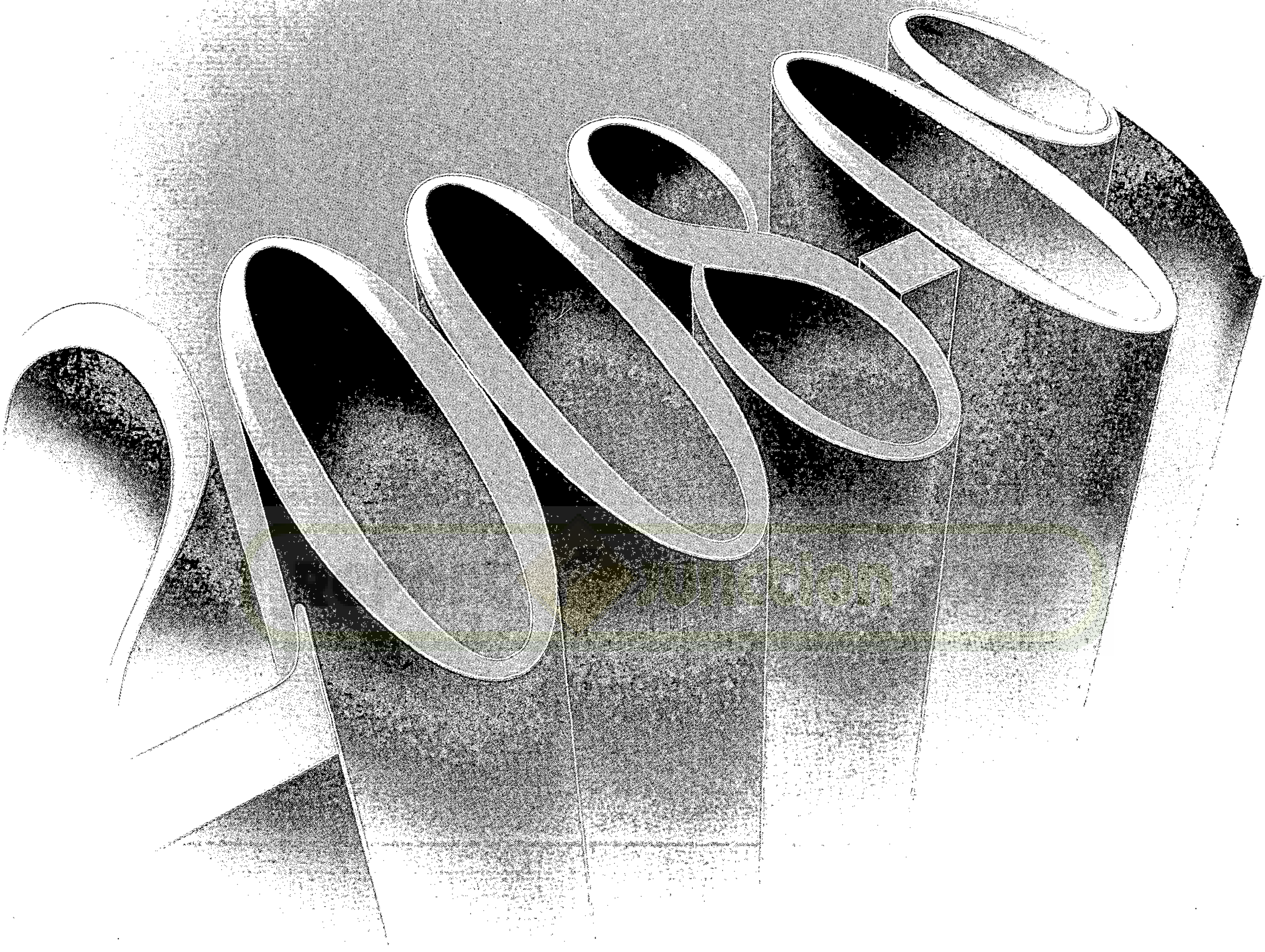
36TH ANNUAL REPORT



Torrent Pharmaceuticals Ltd.

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Sudhir Mehta
Chairman

Markand Bhatt

S. H. Bhojani

Dr. Prasanna Chandra

Kiran Karnik

Sanjay Lalbhai

Dr. C. Dutt
Director (Research & Development)

Samir Mehta
Managing Director

AUDIT COMMITTEE

Dr. Prassana Chandra
Chairman

S. H. Bhojani

Kiran Karnik

SECURITIES TRANSFER & INVESTORS' GRIEVANCE COMMITTEE

Sudhir Mehta
Chairman

Markand Bhatt

Samir Mehta

VP (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

REGISTRARS & TRANSFER AGENTS

Karvy Computershare Private Ltd.,
Unit : Torrent Pharmaceuticals Ltd.

Plot No. 17 to 24,
Vittalrao Nagar, Madhapur,
Hyderabad 500 081
Telephone: 040-23420816 - 24
Fax: 040- 23420814
Email: 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 Sixth Annual Report of your Company together with the audited accounts for the year ended 31st March, 2009.

FINANCIAL RESULTS

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

(Rs. in Crores except per share data)

	Consolidated		Standalone	
	2008-09	**2007-08**	**2008-09**	**2007-08**
Sales & Operating Income	**1631**	1355	**1185**	996
Operating Profits (PBDIT)	**262**	208	**257**	217
Less Depreciation	**42**	39	**37**	33
Less Net Interest Expense	**19**	20	**20**	18
Profit Before Exceptional Items & Tax	**201**	149	**200**	166
Less Exceptional Items	**9**	-	**9**	-
Less Tax Expense	**7**	14	**4**	10
Net Profit for the Year	**185**	135	**187**	156
Balance brought forward	**3**	2	**84**	62
Distributable Profits	**188**	137	**271**	218
Appropriated as under:				
Transfer to General Reserve	**145**	99	**145**	99
Proposed Equity Dividend	**34**	30	**34**	30
Tax on Distributed Profits	**6**	5	**6**	5
Balance Carried Forward	**3**	3	**86**	84
Earnings Per Share (Rs. per share)	**21.79**	15.92	**22.07**	18.38

Consolidated Operating Results

The consolidated sales and operating income increased to Rs. 1630.66 crores from Rs. 1354.85 crores in the previous year yielding a growth of 20.36%. The consolidated operating profit for the year increased to Rs. 262.24 crores as against Rs. 207.57 crores in the previous year registering a growth of 26.34%. The consolidated net profit increased to Rs. 184.37 crores from Rs. 134.68 crores in the previous year registering a growth of 36.89%.

Standalone Operating Results

The sales and operating income increased to Rs. 1184.89 crores from Rs. 995.90 crores in the previous year yielding a growth of 18.98%. The operating profit for the year under review increased to Rs. 256.75 crores as against Rs. 216.98 crores in the previous year registering a growth of 18.33%. The profits after tax for the year under review increased to Rs. 186.73 crores as against Rs. 155.52 crores in the previous year registering a growth of 20.07%.

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. 4.00 per equity share (previous year dividend Rs. 3.50 per equity share), of fully paid up face value of Rs. 5, amounting to Rs. 33.84 crores (previous year dividend Rs. 29.61 crores). The tax on distributed profits payable on this dividend is Rs. 5.75 crores (previous year Rs. 5.03 crores) making the aggregate distribution to Rs. 39.59 crores (previous year Rs. 34.64 crores). The distributed profits are 21% (previous year 22%) 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. 145 crores to the general reserve and an amount of Rs. 86 crores is retained in the profit and loss account of Standalone financials.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements of the Company for the year 2008-09, 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 31-Mar-09 and of the profit for the year ended 31-Mar-09;

iii proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

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

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 31-Mar-09 is Rs. 407.06 crores (previous year Rs. 303.17 crores). The Net worth stands at Rs. 732.68 crores as at 31-Mar-09 representing an increase of Rs. 147.43 crores.

The Gross Fixed Assets increased by Rs. 35.61 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.

The Company had cash and cash equivalents aggregating to Rs. 303.75 crores as on 31-Mar-09, as against Rs. 133.17 crores as on 31-Mar-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 cash and cash equivalents and 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 :

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

Heumann posted revenues of Euro 40.24 million (Rs. 261.68 crores) for the financial year 2008-09 as compared with Euro 38.15 million (Rs. 217.74 crores) for the previous year, registering a growth of 20.18% in terms of rupees. Net profit for the year was Euro 2.22 million (Rs. 18.84 crores) as against a net loss of Euro 3.48 million (Rs. 20.14 crores) for the previous year. The turn-around was enabled through a combination of various measures including proper market positioning, cost reduction through field force restructuring and lowering cost of goods by successful shift of product manufacturing to India.

Torrent do Brasil Ltda. (TdBL), Brazil

During the year, TdBL achieved revenue of Reais 108.60 million (Rs. 256.79 crores) as compared with Reais 81.39 million (Rs. 177.11 crores) in the previous year, registering a growth of 45% in terms of rupees.

TdBL earned a net profit after tax of Reais 2.48 million (Rs. 6.25 crores) as compared to a net profit after tax of Reais 3.69 million (Rs. 8.68 crores) in the previous year. The decrease in the profit is primarily due to higher research and development cost and bad debts.

ZAO Torrent Pharma (ZAO TP), Russia

During the year, ZAO TP achieved revenue of RRU 312.83 million (Rs. 52.69 crores) as compared with RRU 304.58 (Rs. 49.04 crores) in the previous year, registering a growth of 7.44% in terms of rupees. Net loss after tax for the year was at RRU 113.79 million (Rs. 19.52 crores) as against a net loss after tax of RRU 4.23 million (Rs. 0.97 crores) for the previous year. The increase in the losses is due to substantial mark to market losses on dues to parent company arising due to adverse exchange rate movement of Rouble.

Torrent Pharma Inc. (TPI), USA

During the year, TPI earned revenues of USD 7.13 million (Rs. 33.59 crores) as compared with USD 1.38 million (Rs. 5.56 crores) in previous year. Net profit for the year was at USD 0.22 million (Rs. 2.20 crores) as against a net loss of USD 0.39 million (Rs. 1.58 crores) for the previous year. The U.S operations was successful in laying a strong foundation during the year through an impressive sales ramp up.

Torrent Pharma GmbH (TPG), Germany

During the year, TPG earned revenues of Euro 2.94 million (Rs. 19.09 crores) as compared with Euro 2.83 million (Rs. 16.17 crores) for the previous year. Net profit for the year was at Euro 0.63 million (Rs. 4.09 crores) as against a profit of Euro 0.67 million (Rs. 3.84 crores) for the previous year.

Torrent Pharma Philippines Inc. (TPPI), Philippines

During the year, TPPI earned revenues of Pesos 172.23 million (Rs. 17.18 crores) as compared with Pesos 100.84 million (Rs. 9.18 crores) for the previous year. Net profit for the year was at Pesos 5.81 million (Rs. 0.88 crores) as against a profit of Pesos 4.85 million (Rs. 0.52 crores) for the previous year.

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

Mihir Thakore has resigned from the directorship of the Company with effect from 06-May-09. The Board places on record its appreciation for the contribution made by Mr. Thakore during his tenure as a Director.

Kiran Karnik and Sudhir Mehta 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 certificate from the statutory auditors of the Company regarding compliance of conditions of corporate governance forms a part of this report as Annex 3.

AUDITORS

The Auditors, C. C. Chokshi & Co., Chartered Accountants retire at the ensuing Annual General Meeting and are eligible for re-appointment as Auditors. The Audit Committee in their meeting held on 15th May, 2009 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 Annexure. Any shareholder interested in obtaining the particulars may obtain it by writing to the Company Secretary at the registered office of the Company.

APPRECIATION AND ACKNOWLEDGEMENTS

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

For and on behalf of the Board

Ahmedabad
15th May, 2009

Sudhir Mehta
Chairman

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 a dual fuel burner in 6 ton Boiler with an investment of Rs. 45 lacs has resulted into approximate saving of Rs. 20 lacs during the year under review. Substantial saving is expected in future too, though it will depend upon the price differential between natural gas & furnace oil.
2. Two Thyristor based automatic power factor correction panels installed to maintain power factor near to unit. This is expected to yield annual rebate of Rs. 22 lacs from UGVCL.
3. Installation of 42 numbers of VFDs in AHUs with a cost of Rs. 28 lacs have resulted into approximate saving of Rs. 25 lacs and same is expected to continue on annual basis.
4. Heat Recovery Wheels were installed in various Air Handling Systems resulting into annual saving of approximately Rs. 4 lacs.

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

1. Installation of energy efficient Centrifugal Chiller Machine of 600 ton with an outlay of Rs. 70 lacs is proposed to meet existing and new refrigeration requirement of the plant and expected to yield annual saving of Rs. 13 lacs.
2. Three units of ED 2000 Antifouling Systems is being procured to be installed in Centrifugal Chiller & Screw Chiller with an investment of Rs. 10 lacs and expected to give annual saving of Rs. 4 lacs.
3. Feasibility study is proposed to be conducted during the year for implementation of renewable energy projects. Based on such study, further action plan will be decided.

(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*:

I	**Electricity**		**2008-2009**	2007-08
	a	Purchased Units (KWH in lacs)	**263.54**	219.73
		Total Amount (Rs. in lacs)	**1478.40**	1093.50
		Average Rate (Rs.)	**5.61**	4.98
	b	Own generation through DG sets (KWH in lac Units)	**26.81**	34.09
		Units generated per liter of diesel	**3.68**	3.65
		Cost of fuel per Unit	**8.91**	7.90
2	**Fuel Consumption**			
	a	Furnace Oil (in lac liters)	**22.54**	23.12
		Total Amount (Rs. in lacs)	**539.72**	509.17
		Average Rate (Rs. / liter)	**23.95**	22.02
	b	Natural Gas		
		Gas Purchased (in SCM)	**484044**	–
		Total Amount (Rs. in lacs)	**120.75**	–
		Average Rate (Rs. / SCM)	**24.95**	–

* 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 09, 32 ANDAs and 15 DMFs filed in US and 28 new product Dossiers completed for the European Union.
   - Six processes for APIs were developed and transferred to plant during the year.
   - 733 patents filed for NDDS technology, drug discovery projects and innovative process of API & formulations for various markets and 204 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**

		2008-09 (Rs. in crores)
a.	Capital expenses	9.21
b.	Revenue expenses	105.82
	Total (a+b)	115.03
c.	Total R&D expenditure as a percentage of turnover	**10.02**

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.