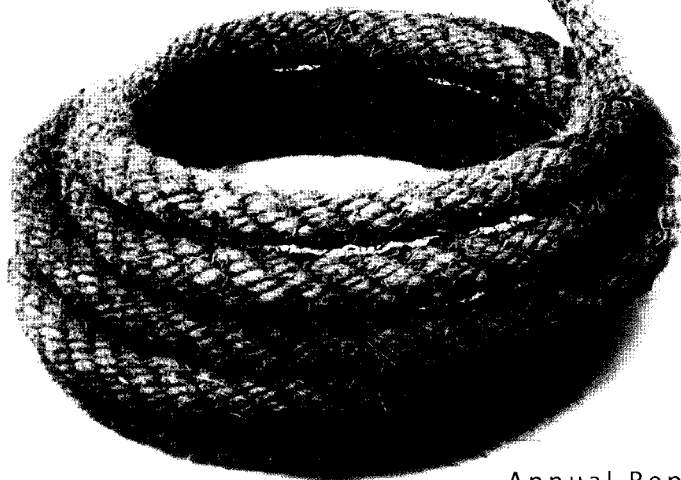


Report  Junction.com

TURNOVER RS. 1292 CRORES, PAT RS. 94 CRORES, PBDIT RS. 156 CRORES



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You can call it the Great Indian Growth Trip.

A journey that we started 3 decades back.

Over the last few years, we worked hard towards strengthening our roots.

Reason why we invested heavily in all the aspects of our business, be it manufacturing, research, marketing or even global operations.

With the foundation and the fundamentals firmly in place,
the only way to grow was up.

And that's exactly what we did.

Grow Up!

Today, every facet of our business, every aspect of our philosophy
is attuned towards creating value for our shareholders.

Your trust, your belief has only strengthened our resolve
to do better each year, every year. In the new financial year,
we promise to add pace to our stride, passion to our souls and
proactivity to our attitude to do what we do best...

Grow and grow in the direction that matters most - Up.

CORPORATE INFORMATION

DIRECTORS

Sudhir Mehta
Chairman

Markand Bhatt

S. H. Bhojani

Dr. Prasanna Chandra

Kiran Karnik

Sanjay Lalbhai

Prof. S. Ramnarayan

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

Samir Mehta

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

REGISTRARS & TRANSFER AGENTS

MCS Limited,
101, Subh Shatdal Complex,
Opp. Bata Show Room,
Ashram Road,
Ahmedabad 380 009
Telephone: 079-26582878
Fax: 079-26581296

INVESTOR SERVICES E-MAIL ID

investorservices@torrentpharma.com

DIRECTORS' REPORT

To
The Shareholders

The Directors have the pleasure of presenting the Thirty Fourth Annual Report of your Company for the Financial Year 2006-07.

FINANCIAL RESULTS, DIVIDEND AND ACCOUNTS

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

The Management Discussion and Analysis, giving a detailed analysis of the operating performance for the year, has been included in the Annual Report.

Interim dividend of Rs. 25.38 crores (Rs. 3 per share which is 60% of face value of each share) was distributed during the year. No further equity dividend distribution for the year 2006-07 is recommended. This represents an increase of Rs. 0.50 in dividend per share & 10 % in the dividend rate. This distribution (including tax thereon) is approximately 26% of profit after tax for the year (previous year 37%).

Such dividends are tax free in the hands of the shareholders.

	Rs. in crore	
	2006-07	2005-06
Sales & Operating Income	882.90	691.97
Operating Profits (PBDIT)	167.49	120.10
Less Depreciation	30.24	23.66
Less Net Interest Expense	13.15	5.46
Profit Before Tax & Exceptional Items	124.10	90.98
Less Exceptional Items	-	8.06
Less Net Income Tax Expense	11.14	17.09
Net Profit for the Period	112.96	65.83
Balance brought forward from Last Year	48.39	38.67
Distributable Profits	161.35	104.51
Appropriated as under :		
Transfer to General Reserve	70.39	32.00
Proposed Equity Dividend	-	21.15
Interim Dividend	25.38	-
Tax on Distributed Profits	3.56	2.97
Balance Carried Forward	62.02	48.39

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements for the year 2006-07, 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, except for the changes in accounting policies mentioned in note no. 5 of schedule 22 "Notes forming part of the accounts" annexed to the financial statements for the year 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-07 and of the profit for the year ended 31-Mar-07;
- 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 capital expenditure programme of Company mainly comprising of formulation manufacturing facilities, environment management project and expansion of research & development and other maintenance capital expenditure were funded mainly from the term loans and internal accruals.

The Company had cash and bank balances aggregating Rs. 10.25 crores as on 31-Mar-07, representing

operating cash requirements. 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.

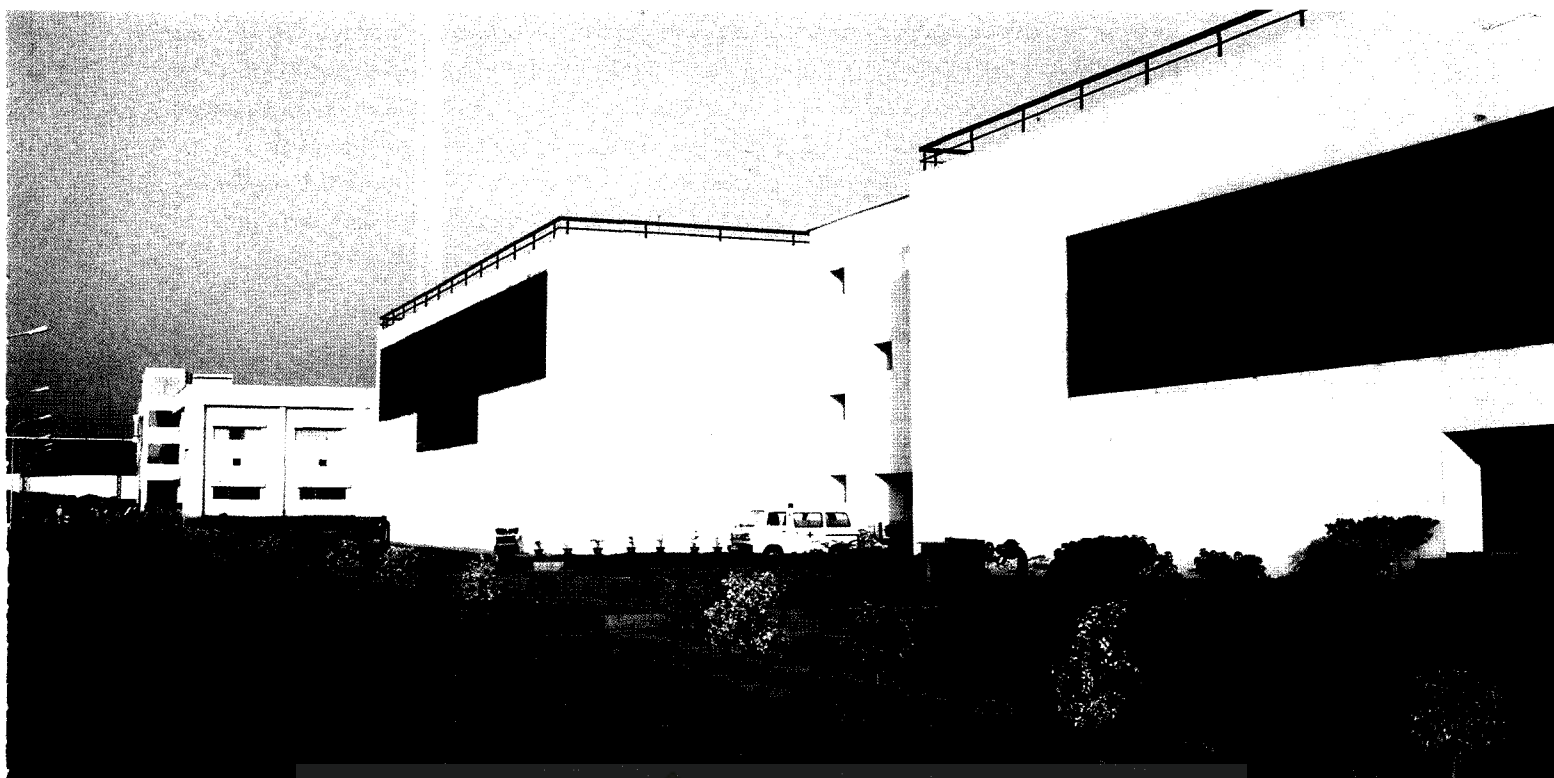
The Net worth stands at Rs. 464.38 crores as at 31-Mar-07 resulting in increase of Rs. 81.86 crores on account of retained earnings. The total outstanding long term loans from banks / financial institution as on 31-Mar-07 is Rs. 245.90 crores (previous year Rs. 244.08 crores).

DOMESTIC BRANDED FORMULATIONS

The year 2006-07 marked the second consecutive year with the domestic pharmaceutical market growing at a double digit rate at 14.3% compared with previous year growth of 15.4%.



Torrent Pharma Corporate Office, Ahmedabad



Manufacturing facility, Baddi, Himachal Pradesh

Turnover

The net turnover for the year was Rs. 544 crores, registering a growth of 39% over the previous year. This growth rate was largely due to buoyant performance of the Diabetology, Neuro - Psychiatry and Pain management portfolios, impact of field force expansion done in previous years, improved doctor coverage and new introductions made during the year. Twenty Seven brands of the Company enjoyed leadership positions in the respective molecule segments and top 10 brands contributed to 44% of the total domestic formulation sales as against 47% during previous year.

New Products

New products have been a consistent growth driver of the market. The year witnessed introduction of a slew of new molecules and new combinations of existing products. The Company continued its prominent position in various segments by introducing new molecules and also line extensions of existing brands. During the year, 49 (as compared to 43 in the previous

year) new products were launched in the market. Your Company continues to build market shares in new products launched in the previous years. The Company will continue its focus on strengthening existing therapies through new product introductions as also expand into new therapies.

INTERNATIONAL OPERATIONS

International generic opportunity is the future growth engine. The opportunity in this market segment is expanding due to many blockbuster drugs going out of patent protection over next few years. An added factor is the mounting health care costs in developed markets, which is paving way for a more favourable regulatory regime for generics in such countries. Generics now get faster approvals and are actively encouraged by the governments. Semi regulated markets also offer an attractive opportunity, with higher margins. The size of the semi-regulated markets across Latin America, Asia, Eastern Europe and Africa are expected to expand at attractive rates as economic growth drives a boom in

DIRECTORS' REPORT

health care spend. Most of these markets are branded generics markets, thus, resulting in better margins. Over the last few years, the Company has, therefore, developed a strategy and built infrastructure and capabilities focused on tapping these lucrative opportunities. The manufacturing facilities are upgraded to meet stringent quality assurance standards of the highly regulated developed countries; at the same time maintaining the competitive cost advantage. Torrent Research Center (TRC), the research & development facility, is upgraded to develop international generic versions of selected molecules in the required time frame and prepare the necessary regulatory dossiers for obtaining timely marketing approval in regulated markets. Going forward these processes will be further strengthened to sustain the growth.

Within the above-mentioned overall strategy, the current international operations are focused on five thrust areas: Brazil & Latin America, Russia & CIS countries, Europe, North America and Rest of the World comprising of less regulated countries of Africa and Asia. Brazil is emerging to be a significant market for the Company, with sales reaching Rs. 166.80 crores in 2006-07 growing by 44%. Russia & CIS market is also becoming a significant market for future growth with sales reaching Rs. 57.35 crores in 2006-07 growing by 52%. With Europe pipeline, ready to deliver new products on a steady basis and the acquired Heumann Pharma business, the regulated Europe market will provide momentum to the international business. Your Company has invested considerable resources in product development for the highly regulated US market. As at March 07, the product portfolio comprises of 3 approved ANDAs, 6 ANDAs under approval and 14 ANDAs under development. During the year, the Company received the USFDA approval for its API and formulations manufacturing facilities located at Chatral. These will start a potentially important revenue stream in the coming years.

The acquired business of Heumann Pharma GmbH & Co Generica KG (Heumann), the wholly owned subsidiary operating in Germany posted revenues of Rs. 271.82 crores (euro 46.6 million) incurring a net

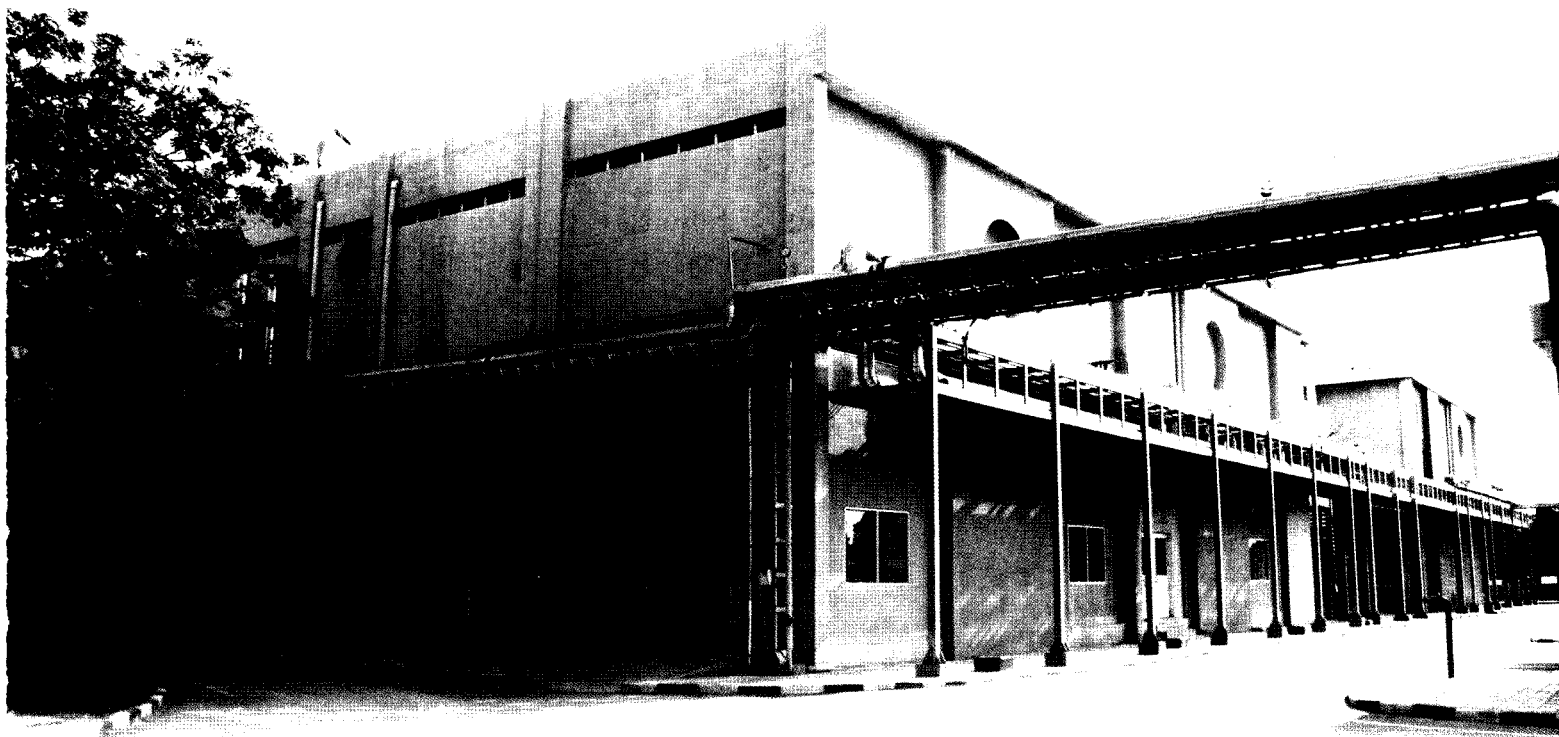
loss of Rs. 20.34 crores (euro 3.9 million). The German market has faced severe price erosions partly off set by curbs on sales promotion spends during the course of the year. This is expected to continue in the coming year which will be partly cushioned by reducing manufacturing costs by shifting product manufacturing to India, thus pushing back the turnaround of the business by a year.

MANUFACTURING

The manufacturing facilities at Chatral received approval from the US Food and Drug Administration for the API (active pharmaceutical ingredient) and oral solid dosage formulations facilities. With this, the plant has geared itself for manufacturing generics for the US market. Another significant activity being carried out at Chatral is the site transfer of products of Heumann, Germany, from high cost European manufacturing



Site for new sterile manufacturing facility at Indrad, Gujarat



Active Pharmaceutical Ingredient (API) manufacturing facility at Indrad, Gujarat

locations to India. This will help reduce manufacturing cost and improve margins in German operations.

Since commencement of commercial production in November 2005 the new manufacturing unit at Baddi has taken up production of most of products for domestic market. Baddi plant has obtained WHO-GMP certification, accreditation from prestigious 'National Accreditation Board for Testing & Calibration Laboratories' (NABL) for its Quality Control Laboratory and ISO 14001 and OHSAS 18001 certification during the last year.

In order to support the robust growth in the domestic and similar markets, your Company has under taken capacity expansion by almost 30% in tablet formulations at the Baddi plant by setting up a new manufacturing unit. Work on the expansion is expected to be completed during the next financial year. Further the company has initiated process of setting up of a new Greenfield manufacturing site in the state of Sikkim to support the growth in domestic market. With the announcement of North East Industrial and

Investment Promotion Policy, 2007 for the North Eastern states (including the state of Sikkim), significant benefits in the form of excise and income tax exemption for 10 year period will be available from the new unit. Company has initiated process for setting up new vial-filled formulation manufacturing facility with a capacity of 260 lacs vials per annum in place of existing capacity of 140 lacs vials per annum.

RESEARCH AND DEVELOPMENT

Your Company has been adopting and updating new and latest technologies for research processes. This has enabled the Company to create a discovery pipeline based on multiple biological targets and also work on collaborative research projects with multinational pharmaceutical companies. Currently, the Company is working on 6 in-house NCE projects –within the areas of Diabetes and its related complications, obesity and cardiovascular disorders. The Company has cumulatively filed 231 patents for NCEs from these and earlier projects in all major markets. The patent

DIRECTORS' REPORT

offices of USA, Japan, Europe, Czech Republic, Australia, Canada, South Africa, Mexico, China, Hong Kong, Russia and India have granted/ accepted 129 patents so far. The Company intends to pursue suitable partnership opportunities with international drug companies at an appropriate stage to share the risks and resources required to take New Chemical Entities to the commercial stage.

In continuum to the last years reported development about AGE program, it has been advanced to clinical trial phase I. Company believes that its AGE Program has attractive development potential in CHF and certain long-term complications arising out of AGE formation, accordingly the clinical developments have been initiated.

The R&D function was strengthened with added laboratory space and equipments, which will propel its drug discovery as well product development programs with newly added capacity as well as upgraded capabilities. The fully functional, state-of-the-art facility has at par technological advancements to match the best industry standards. During the year, new product development activities for international generic markets and also for India market continued at much accelerated pace.

During the year, the total revenue expenditure, including depreciation, on R&D was 9.18% (previous year 9.14%) of sales and operating income.

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 2006-07, ZAO TP achieved revenue of RRU 258.5 million (Rs. 43.95 crores), an increase of 54% from RRU 182.64 million (Rs. 28.49 crores) for the previous year. Net loss after tax for the year was at RRU 40.58 million (Rs. 7.00 crores) as against a net loss after tax of RRU 5.83 million (Rs. 1.06 crores) for the previous year. Though

the subsidiary has lost money during the year, the consolidated Russia & CIS business operations turned positive during the year. At consolidated level, for the year 2006-07, the Russia & CIS operations of the Company registered revenue of Rs. 58.91 crores (previous year Rs. 39.80 crores).

Torrent Pharma GmbH (TPG), Germany

During the year, TPG earned revenues of euro 2.46 million (Rs. 14.38 crores) as compared to euro 1.01 million (Rs. 5.45 crores) for the previous year. Net profit for the year was at euro 0.12 million (Rs. 1.11 crores) as against a net loss of euro 0.77 million (Rs. 3.70 crores) for the previous year. At a consolidated level, for the year 2006-07, the European operations (other than Heumann) earned revenue of Rs. 54.12 crores as against revenue in the previous year of Rs. 55.78 crores.



Heumann Pharma GmbH, Germany