

Torrent Pharmaceuticals Limited

Chairman's Speech 2018

Dear Shareholders,

On behalf of the Board of Directors and on my personal behalf, I extend a very warm welcome to all of you to our 45th Annual General Meeting.

At the outset of this meeting and before taking up the financial performance, I am delighted to inform you that with the acquisition of the branded business of Unichem, we have now become the 8th largest Company in the Indian market. Our earlier rank was 16th. The Unichem acquisition brought to Torrent a portfolio of 120 brands including one brand of ` 200 crores & three brands of more than ` 50 crores and also included a manufacturing facility in Sikkim and Unichem's business in Nepal. The acquisition also facilitated the entry of your company into the OTC segment with the flagship brand 'Unienzyme'.

This acquisition has strengthened our position in key segments of Cardiology, Diabetology, Gastrointestinal and CNS therapies. The Company is on track to achieve the synergy benefits from the acquired business integration which will be driven by combination of revenue synergies, improvement in productivity, manufacturing rationalization & cost synergies. This acquisition is a manifestation of our strategy to continue making significant investments in home market.

In addition, we have also acquired Bio-Pharm, Inc. a generic pharma and OTC Company based in Pennsylvania, USA along with a

manufacturing facility having a proven track record in research & development and manufacturing of oral solutions, suspensions and suppositories. With this acquisition, we now have our first manufacturing and R&D facility outside India.

Financial Performance:

During the year 17-18, our India business growth has been better than Indian Pharma Market. However, overall profits were impacted by the acquisition related interest and amortization of Unichem and Bio-Pharm, while the previous year included exceptional sales and profits on account of launch of new product in US which had limited competition. As you may be aware, the pace of consolidation amongst US customers has accelerated resulting in three large customers accounting for about 90% of US generics purchases. Their increased purchasing power has resulted in strong price erosion for all generic companies including Torrent. Price erosion has a direct negative impact on our profit margins.

Some of the key highlights of the financial performance are:

- The revenues were at Rs. 6002 crores registering growth of about 2%.
- Operating Profit was at Rs. 1641 crores registering growth of about 3% and Profit was at Rs. 678 crores registering degrowth of about 27%. Adjusted for interest and amortisation cost related to acquisitions, the profit growth was 7%.

Now, I shall briefly talk about the performance of key business segments for the year 17-18.

India

India Business registered 9% growth as compared to 6% of the market as per AIOCD data set. The focus continued on building a speciality driven business, scientific promotional practices and improvement in salesforce productivity which has now crossed Rs. 6 lacs for the base business. Consolidation across core specialities / therapies with focus on chronic / sub chronic segment remains the key business driver. During the year, Company's thrust on building big brands continued to deliver with 18 brands now in the top 500 brands of Indian pharma market.

After the Elder investment in 2014-15, the Unichem acquisition in India was accomplished in a record time during the year. Our past acquisitions have shown results of significant turnaround and brands like Shelcal and Chymoral have touched new heights.

Regestrone which was acquired from Novartis AG in May 2017, has registered growth of 22% compared to molecule growth of 8% for MAT March 2018.

Two of the new launches in the 17-18 viz. Shelcal XT and Pruvicit have featured amongst the top 10 new launches in IPM.

USA

The world's largest pharma market, the USA, remains our prime focus. Your company is ranked 10th amongst all US generic Indian companies.

Revenues from US operations were Rs. 1100 crores during the financial year showing the de-growth of 18% compared to previous financial year mainly due to price erosion in the generic market and exceptional sales and profits in previous year on account of launch of new product in US which had limited competition. The US market continued to experience sharp price reductions, however it is compensated partially with higher market shares and volumes.

We received 4 ANDA approvals in the year under review. The new product pipeline consists of 39 pending approvals and 93 products under development. Torrent is significantly ramping up its pipeline with products like Oral liquids, Ophthalmics, topicals and Oncology. The US business is expected to keep contributing significantly towards the growth of our Business.

Bio-Pharm acquisition was an important step for increasing our presence in the United States, consistent with our strategy of dosage form diversification and provides us with new capabilities including manufacturing and R&D presence in the US.

Europe

The European business primarily led by Germany continues to show robust growth. Torrent is the 4th largest generic company and largest Indian company in Germany with a market share of 7%. Revenues from Germany operations during 2017-18 were Rs. 912 crores with a growth of 12% over previous year.

Brazil

Torrent continues to be the No. 1 Indian company in terms of market share. The margins remained flat with the growth of 1% as compared to the previous year. Brazil business registered volume growth of 14% in covered market. The Brazilian government has implemented the task force to reduce the queue related to generics and branded generics submitted in ANVISA. We recently launched three new products in the market. We have 6 products under approval and a development basket of 34 products. We have been building our portfolio in the generics with parallel filings of branded generic products.

Industry Scenario:

I will now briefly talk about the emerging scenario in pharma industry.

Indian Market:

Branded generics dominate the Indian Pharma market, constituting nearly 80% of the market. By 2022, India is likely to be the 9th largest market globally in absolute size. India enjoys an important position in the global pharma market.

Indian pharma industry has been facing several challenges – the constant pricing pressure from increasing coverage of products under NLEM, greater regulatory surveillance, evolving challenges in drug development. During the year, GST implementation has also affected the sales realisation by 4 to 5%. While these issues would definitely have a short term impact, considering the strong economic growth and increasing levels of income of the population as well as Government spending on health, the market is projected to bounce back with normalisation of GST impact. The growth will be primarily led by chronic

and sub-chronic segments like Cardiology, CNS, Gastro-intestinal, VMN, Anti-diabetic, Respiratory, Pain and Dermatology etc.

Global Markets:

India is the largest provider of generic drugs globally with the Indian generics accounting for 20% of the global exports in terms of volume. Despite the instabilities in the global economy, political and social backdrop, the pharma industry continues to show a long term growth trend due to favourable demographic trends and the increased pressure to find quality medicines at affordable prices. The use of generic medicine continues to expand with about 90% of the US prescriptions now being filled by generics.

Research & Development

We foster excellence through innovation supported by robust R&D capabilities. Significant resources have been allocated to strengthen the new product pipeline. Our consistent investments in Research and Development (R&D) are the core reasons behind our success in India and international markets. We have built capabilities to cater to all the markets by developing complex generics, NDDS and speciality products in addition to the base capabilities in oral solids. Its R & D effort has been ramped up significantly.

Manufacturing

Our Dahej manufacturing facility has significantly contributed in meeting the demand of high quality products and in sustaining its growth and business. This facility is designed to cater, the ever increasing global demand adhering to international quality standards. The Dahej plant has

regulatory approvals from various regulatory authorities viz USFDA, EU-Germany, ANVISA – Brazil etc. In the year 2017, the facility was inspected successfully by various regulatory authorities including USFDA and EU-Germany. As a result, scope of manufacturing of additional class of drug products from the formulation facility and commercial manufacturing of API has been extended for US market.

Sikkim manufacturing facility caters to the India market. Manufacturing of major brands like Shelcal have been shifted to this facility. After the recent acquisition of Unichem facility, we now have three units with overall capacity of 800 crore tablets.

People – Our Strength

At Torrent, we believe that Innovation in Human Resource practices is one of the key integral facet of an organization's growth, for it to be ahead of the curve. It is derived from a diverse workforce, an inclusive culture and people-first approach that encourages new perspectives and novel ideas. We have taken several initiatives to help employees maintain a work life balance. Also, continuous efforts have been taken to implement Gender Diversity initiatives, in various areas to ensure enhanced representation of women employees.

Way Forward

Going forward, we will continue to pursue our growth strategy based on a few important pillars:

Firstly, our focus remains to increase our scale and diversity of product offering in our four key markets, India, US, Germany & Brazil. We believe that there are several growth opportunities available to us and a focused approach will yield long term dividends.

Secondly, we will continue to make significant investment in R&D – with our spend increasing from 7% of revenues to 8% during 2017-18. While improving the productivity of investments, our aim is to increase the number of product filings and implement product differentiation strategies. Our pipeline includes several NDDS projects for existing medications, which will give us an edge over competitors. The product portfolio is further strengthened by outsourcing niche therapy products

Thirdly, we continue to build and maintain world class manufacturing infrastructure with highest compliance levels for regulated markets like US, Germany and Brazil providing a key competitive advantage. We have also invested in building large scale manufacturing facilities like Dahej which provide us with a very competitive cost base and the enhanced capacities to increase our sales volumes.

Fourthly, while organic growth is our primary focus, we will complement it with mergers and acquisitions when suitable opportunities arise. The goal here is to find value-creative assets that are a good fit with our strategy and then subsequently integrate them in a rapid fashion.

REACH

One of the core values established by our Founder and my father, late Shri U N Mehta is concern for society and environment. Torrent Group believes not only the businesses have to be conducted in a socially and

environmentally responsible manner, but they should make positive and lasting contribution to the society. I feel very satisfied with the progress of our flagship CSR programme “REaCH”, acronym for “Reach Each Child”. The programme’s coverage is providing free of cost primary, secondary & tertiary healthcare to children & adolescents, and promotion of sanitation & hygiene. The programme is currently being carried out at the 4 prime industrial locations of the Group, with fully functional Paediatric Primary Health Centres, mobile OPD vans to reach far flung areas and a state-of-the-art tertiary hospital under planning. A hallmark of the programme is extensive volunteering of employees for activities of the programme. This has helped build an empathic & compassionate organisation which subscribes to the core value of societal concern. With their enthusiastic support, the programme benefitted more than 1 lac children residing in around 800 villages, who did not have access to basic medical facilities in a short period of 2 years. I am very confident and equally excited that this programme will make a generational change by guaranteeing a healthy childhood and growth, thus providing them an opportunity to lift them & their families out of the vicious cycle of poverty.

Apart from “REaCH”, we have undertaken another important CSR programs viz. Development of Public parks and continues to develop Shiksha Setu – a quality education programme, supporting primary and secondary school for urban slum children and community development work.

Board

Torrent has built its Corporate Governance practices on the three inviolable principles of TRANSPARENCY, INTEGRITY and ACCOUNTABILITY and has always targeted to achieve the best practices. Diversity to encourage the emergence of full, frank and comprehensive discussions is the guiding principles in selecting the DNA of the Board. I also take this opportunity to express my gratitude to all my colleagues on the Board for their invaluable contribution and guidance.

As you are aware, Shri Markandbhai is getting retired from the Board of the Company at this meeting as he has expressed his desire to spend more personal and family time. He has been associated with Torrent group for more than three decades and on the Board of the Company since 2000. The Company has greatly benefitted from his counsel and advice on key business and strategic matters emanating from his considerable wisdom and vast experience.

Smt Renu Challu has completed her tenure as director of the Company on 26th July, 2018.

On behalf of the Board and shareholders, I express my deep appreciation for the guidance and support provided by them for the overall growth of the Company.

Before I conclude, on behalf of Board of Directors and myself, I would like to thank all the stakeholders and partners, including our customers and vendors, who have reposed great trust in us and our products. I also take this opportunity to reiterate Torrent's firm belief in assisting the medical fraternity and paving way for a bright future of medical science. I would also thank various Central and State Government bodies for their

continued support. Above all, I would like to express my gratitude to all the shareholders for their cooperation and continued faith in the Company.

Thank you ladies and gentlemen for your kind attention.
