

Chairman's Statement – 2016-17

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 the 44th Annual General Meeting of our Company. I trust by now, you would have reviewed the Annual Report for the year 2016-17.

This is the time of the year when we take a look back at the period gone by and also discuss the way forward.

Financial Performance

2016-17 was a watershed year in the momentous journey of the company. After the boost from significant growth from low competition products in the US market and post the major overhauling of India business practices relating to institutional and discounted business, free goods etc, we saw a consolidation of activities on all fronts.

This year witnessed a subdued growth in both India and international markets. At the same time, the enhanced outlay on research and development, critical to ensure survival in ever changing market conditions, has resulted in a moderate bottom-line growth for the year.

Considering the higher base of 2015-16, the figures show degrowth during the year. Some of the key highlights of the financial performance are:

- The revenues were at Rs. 5857 crores registering degrowth of about 12%.
- Operating Profit and Profit was at Rs. 1601 crores and Rs 934 crores registering degrowth of about 46%.

Some of the other highlights of the company performance for the year are ;

- Indrad Plant was approved by USFDA and European regulatory authorities; Establishment Inspection Report (EIR) was received from USFDA for Pithampur plant; Dahej plant was approved by all major markets like US, EU & Brazil.
- Acquired a USFDA approved API manufacturing facility at Vizag, Andhra Pradesh.
- India Business registered 13% growth as compared to 11% growth of the market.
- The US market witnessed sharp price erosion due to increased competition and customer consolidation. This is expected to continue in the near term.
- We also commenced commercial dispatches from expansion of existing as well as the new facility at Sikkim during March 2017.

Total capacity enhancement of the facility will be of 400 crore tablets when fully completed.

Industry Scenario

Indian 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, MCI's directives to the doctors to prescribe medicine in generic names. 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 industry is expected to register strong growth over the next few years. 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

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, significant unmet medical needs and higher government healthcare spending in Pharmamerging markets. Other growth drivers would be the use of generic medicine and patent expiries coupled with ageing population and improvements in medical technologies. However, slowing macroeconomic growth along with delay in healthcare access expansion programs is impacting medicine usage in pharmmerging markets.

Marketing

India

The Indian business grew by 13% and has been outgrowing the market consistently over the last 5 years. The focus continued on building a speciality driven business, scientific promotional practices and improvement in MR productivity. During the year, the Company has continued to consolidate its position on the key therapeutic areas like Cardiac, Anti-Diabetic, CNS, VMN, GI, Derma and Pain management.

The Company has recently completed the acquisition of Regestrone and Pregachieve brands for India from Novartis AG, Switzerland. This acquisition reaffirms Torrent's commitment towards the key important therapy of Women Healthcare.

USA

The world's largest pharmaceutical market, the USA, remains our prime focus. Your company is ranked 10th amongst all US generic Indian companies. Revenues from US operations were Rs. 1346 crores during the financial year showing the degrowth of 50% compared to previous financial year on account of exceptional revenues in the previous year arising from launch of a new product in the US market, which had limited competition.

Your company received 5 ANDA approvals in the year under review. The new product pipeline consists of 28 pending approvals and 150 products under development. Torrent is significantly ramping up its pipeline with products like Ointments, and Specialty Oral solids in Oncology. The US business is expected to keep contributing significantly towards the growth of your company's business.

Brazil

Torrent continues to be the No. 1 Indian company in terms of market share. After the down turn of the business during 2015-16 due to major depreciation of the Brazilian currency, there is a healthy bounce back and the Company has registered a growth of 37%. After a gap of several years, due to the issues in approvals by Brazilian regulatory agency, we recently received approvals for 3 products and 2 new products were launched in the market. The Company has 9 products under approval and a development basket of 38 products.

Europe

The European business is primarily led by Germany. Germany is the 4th largest pharmaceutical market in the world and the largest in Western Europe. In Germany, Torrent holds 4th position with a generic market share of 7% and is ranked no. 1 amongst all Indian players. Revenues from Germany operations during 2016-17 were Rs. 811 crores with a growth of 25% over previous year.

Research & Development

R&D is the backbone of the future growth aspirations and the Company is committed to invest significantly for new product pipeline and Novel Drug Delivery Systems. Your Company's consistent investments in Research and Development (R&D) are the core reasons behind our success in India and international markets. The company has 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, reflected in increased expenditure from Rs. 246 crores to Rs. 432 crores showing an increase of 76%.

Manufacturing

Your Company has commenced the commercial dispatches from its formulation manufacturing facility at Dahej during the year which enables the company to ramp up its product offerings in regulated markets such as US and Europe. The plant has received regulatory approvals from various regulatory authorities viz . USFDA, EU-Germany, ANVISA – Brazil etc.

Your company has expanded its existing unit and created a new facilities at Sikkim. The capacity will be increased to 750 crores tablets from existing 350 cores tablets once the expansion is completed.

During the year, your Company has acquired API manufacturing unit located at Vizag duly approved by USFDA and the European Regulatory authorities. This acquisition will help the Company in vertically integrating its ANDA filings in the future.

People – Our Strength

At Torrent, we believe that adapting to change is quintessential to a growing organization's longevity. Over time, Torrent has changed to adapt and evolve with the changing economic landscape, while keeping its core values firmly entrenched. Within organisation, Human Resource Department has active engagement with employee issues, listening to their concerns, and building a professional and stable relation between employees and employers.

Way Forward

Going forward, your company will continue emphasising on the product differentiation in form of dosage form, NDDS & leverage the differentiation with in our existing portfolio. Building up differentiated portfolio along with strengthening the corporate image will address the challenges arising from new regulatory requirements as well as the increasing market competition. The Company has been able to maintain highest compliance levels for regulated markets like US, Germany and Brazil. The continued focus on quality systems coupled with focus on new product pipeline aligned to the needs of the international markets, would be the key strategy.

As planned, the Company has significantly increased its R&D spend from the 4% of revenues to 7% of revenues. We are confident that our R&D team will deliver the targeted new product pipeline in the next five years.

Board

Diversity to encourage the emergence of full, frank and comprehensive discussions in the guiding principles in selecting the DNA of the Board. The Company has always targeted to achieve the best practices in Corporate Governance. I also take this opportunity to express my gratitude to all my colleagues on the Board for their invaluable contribution and guidance.

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.