

**Torrent Pharma Inc.**

Financial Statements  
Together with the  
Independent Auditors' Report  
For the year ended 31 March 2020

Torrent Pharma Inc.

**Financial statements together with the Independent Auditors' Report**  
*for the year ended 31 March 2020*

***Contents***

- Independent Auditors' Report
- Balance Sheet
- Statement of profit and loss (including other comprehensive income)
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial statements

# B S R & Co. LLP

Chartered Accountants

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## Independent Auditors' Report

### To the Board of Directors of Torrent Pharmaceuticals Limited

#### Report on the Financial Statements

#### Opinion

At the request of the Torrent Pharmaceuticals Limited, the Holding Company of Torrent Pharma Inc. ('TPI' or 'the Company'), registered in the state of Delaware, United States of America, we have audited the accompanying financial statements of the Company, which comprise the Balance sheet as at 31 March 2020, the Statement of Profit and Loss (including other comprehensive income), the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the financial statements"), prepared and presented solely to facilitate the preparation of the financial statements of the Holding Company – Torrent Pharmaceuticals Limited, in terms of section 129(3) of the Companies Act, 2013 (the "Act") and in accordance with the requirement of the Schedule III of the Act.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give a true and fair view in conformity with the basis of preparation as set out in note 2 (i) of the financial statements and Group Accounting Policies of Torrent Pharmaceuticals Limited, of the state of affairs of the TPI as on 31 March 2020 and its losses (including other comprehensive income), the changes in equity and cash flow for the year ended on that date.

#### Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SA) issued by the Institute of Chartered Accountants of India ('ICAI') and in particular SA 800 "Special Considerations – Audit of Financial Statements prepared in accordance with Special Purpose Frameworks. Our responsibilities under those SAs are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India and have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Management Responsibility for the Financial Statements

The Holding Company, TPI's management and their Board of Directors are responsible for the preparation of these financial statements that give a true and fair view of the state of affairs, losses and other comprehensive income, changes in equity and cash flows of the Company in accordance with the accounting policies followed by the Holding Company – Torrent Pharmaceuticals Limited, in preparing its financial statements ("Group Accounting policies").

## **Independent Auditors' Report (*Continued*)**

### **Torrent Pharmaceuticals Limited**

#### **Management Responsibility for the Financial Statements (*Continued*)**

This responsibility also includes maintenance of adequate accounting records for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, Holding Company, TPI's management and the Board of Directors of Holding Company and TPI are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The respective Board of Directors is also responsible for overseeing the Company's financial reporting process.

#### **Auditors' Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

## Independent Auditors' Report (*Continued*)

### Torrent Pharmaceuticals Limited

#### Auditors' Responsibility for the Audit of the Financial Statements (*Continued*)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves presentation in accordance with the basis of preparation as set out in Note 2(i) to the financial statements.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### Other matter

Without modifying our opinion, we draw attention to Note 2(i) to the financial statements, which describes the basis of preparation. These financial statements do not constitute a set of statutory financial statements in accordance with the local laws in which the Company is incorporated and are prepared for the sole purpose of consolidation of the financial statements of TPI with the Holding Company – Torrent Pharmaceuticals Limited.

For **B S R & Co. LLP**  
*Chartered Accountants*  
Firm's Registration No: 101248W/W-100022

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**Nirav Patel**  
*Partner*  
Membership No: 113327  
ICAI UDIN: 20113327AAAAAO5675

Mumbai  
19 May 2020

# Torrent Pharma Inc.

## Balance sheet as at 31 March 2020

(Currency : USD)

	Note	31 March 2020	31 March 2019
<b>Assets</b>			
<b>Non-current assets</b>			
(a) Property, plant and equipment	4	<b>12,127,980</b>	14,218,305
(b) Capital work-in-progress	4	<b>8,283,396</b>	890,103
(c) Right of use assets	4A	<b>419,084</b>	-
(d) Goodwill	5	<b>11,091,874</b>	11,091,874
(e) Other intangible assets	6	<b>7,894,371</b>	9,646,856
(f) Intangible assets under development	6	<b>9,900,000</b>	9,900,000
(g) Financial assets			
(i) Security deposits		-	1,375
(h) Income tax assets	18	<b>14,358,106</b>	4,948,244
(i) Deferred tax assets (net)		<b>27,300,495</b>	28,623,377
(j) Other non-current assets	10	<b>1,630,509</b>	545,641
<b>Total Non- current assets</b>		<b>93,005,815</b>	79,865,775
<b>Current assets</b>			
(a) Inventories	7	<b>31,295,665</b>	35,183,091
(b) Financial assets			
(i) Trade receivables	8	<b>95,442,095</b>	86,648,682
(ii) Cash and cash equivalents	9	<b>7,279,370</b>	9,352,342
(c) Other current assets	10	<b>3,210,728</b>	1,808,275
(d) Assets held for sale		<b>23,550</b>	-
<b>Total current assets</b>		<b>137,251,408</b>	132,992,390
<b>Total assets</b>		<b>230,257,223</b>	212,858,165
<b>Equity and liabilities</b>			
<b>Equity</b>			
(a) Equity share capital	11	<b>1,200,000</b>	1,200,000
(b) Other equity	12	<b>(33,128,947)</b>	(28,446,621)
<b>Total equity</b>		<b>(31,928,947)</b>	(27,246,621)
<b>Non-current liabilities</b>			
(a) Financial liabilities			
(i) Borrowings	13	<b>60,132,894</b>	65,000,000
(ii) Other financial liabilities	17	<b>570,000</b>	854,909
(b) Provisions	14	<b>5,558,266</b>	3,729,317
<b>Total non-current liabilities</b>		<b>66,261,160</b>	69,584,226
<b>Current liabilities</b>			
(a) Financial liabilities			
(i) Borrowings	13	<b>40,000,000</b>	30,000,000
(ii) Trade payables	16	<b>129,445,960</b>	105,661,419
(iii) Other financial liabilities	17	<b>8,295,747</b>	7,916,258
(b) Provisions	14	<b>17,941,972</b>	26,693,161
(c) Other current liabilities	15	<b>241,331</b>	249,722
<b>Total current liabilities</b>		<b>195,925,010</b>	170,520,560
<b>Total liabilities</b>		<b>262,186,170</b>	240,104,786
<b>Total equity and liabilities</b>		<b>230,257,223</b>	212,858,165

The accompanying notes form an integral part of the financial statements.

As per our report of even date attached.

For B S R & Co. LLP

Chartered Accountants

Firm's Registration No: 101248W/W-100022

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Nirav Patel

Partner

Membership No: 113327

Mumbai

19 May 2020

For and on behalf of the Board of Directors of

Torrent Pharma Inc.

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Date: 2020.05.19 09:38:38

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Sanjay Gupta  
Director

New Jersey, USA

19 May 2020

# Torrent Pharma Inc.

## Statement of profit and loss for the year ended 31 March 2020

(Currency : USD)

	Note	For the Year ended 31 March 2020	31 March 2019
<b>REVENUE</b>			
Revenue from operations			
Sale of products	19	<b>206,974,786</b>	211,996,221
Other operating revenue	19	<b>3,049,727</b>	7,299,867
<b>Revenue from operations (net)</b>		<b>210,024,513</b>	219,296,088
Other income	20	<b>131,788</b>	262,015
<b>Total revenue</b>		<b>210,156,301</b>	219,558,103
<b>EXPENSES</b>			
Cost of materials consumed	21	<b>3,464,980</b>	16,573,713
Purchase of traded goods		<b>165,093,779</b>	144,558,235
Change in inventories of finished goods, work-in-progress and traded goods	22	<b>1,914,144</b>	6,080,299
Employee benefits expense	23	<b>11,734,560</b>	15,210,896
Finance costs	24	<b>6,075,843</b>	5,399,435
Depreciation and amortization expense	30	<b>2,991,611</b>	3,161,738
Other expenses	25	<b>33,835,158</b>	25,653,153
<b>Total expenditure</b>		<b>225,110,076</b>	216,637,469
<b>(Loss) / Profit before exceptional items and tax</b>		<b>(14,953,775)</b>	2,920,634
Exceptional items (impairment of intangible assets and goodwill)	36	-	51,323,401
<b>(Loss) before tax</b>		<b>(14,953,775)</b>	(48,402,767)
<b>Tax expense</b>			
Current tax	32	-	645,430
Deferred tax credit	32	<b>(5,512,297)</b>	(10,765,731)
Short / (excess) provision for tax of earlier years	32	<b>2,269,957</b>	(5,978)
One time impact on current and deferred tax due to change in law	32(b)	<b>(7,105,857)</b>	-
		<b>(10,348,197)</b>	(10,126,279)
<b>(Loss) for the year</b>		<b>(4,605,578)</b>	(38,276,488)
Other comprehensive income			
Items that will be reclassified to profit or loss			
Effective portion of loss on hedging instruments in a cash flow hedge		<b>(103,022)</b>	(360,933)
Income tax relating to items that will be reclassified to profit or loss			
Effective portion of loss on hedging instruments in a cash flow hedge		<b>26,274</b>	75,796
Other comprehensive income for the year, net of tax		<b>(76,748)</b>	(285,137)
<b>Total comprehensive income for the year</b>		<b>(4,682,326)</b>	<b>(38,561,625)</b>
<b>(Loss) per equity share [nominal value of share USD 100 (previous year : USD 100)]</b>			
Basic and diluted	26	<b>(383.80)</b>	(3,189.71)

The accompanying notes form an integral part of the financial statements.

As per our report of even date attached.

For B S R & Co. LLP  
*Chartered Accountants*  
Firm's Registration No: 101248W/W-100022  
NIRAV DEEPAK PATEL  
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Nirav Patel  
*Partner*  
Membership No: 113327

Mumbai  
19 May 2020

For and on behalf of the Board of Directors of  
Torrent Pharma Inc.  
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Sanjay Gupta  
*Director*

New Jersey, USA  
19 May 2020

# Torrent Pharma Inc.

## Statement of changes in equity for the year ended 31 March 2020

(Currency : USD)

### A. Equity share capital

Particulars	Note	Amount
Balance as at 31 March 2018	11	1,200,000
Changes in equity share capital during FY 2018-19		-
Balance as at 31 March 2019	11	1,200,000
Changes in equity share capital during FY 2019-20		-
<b>Balance as at 31 March 2020</b>	<b>11</b>	<b>1,200,000</b>

### B. Other equity

Particulars	Retained Earnings	Cash flow Hedge reserve
<b>As at 1 April 2018</b>	<b>10,115,004</b>	-
(Loss) for the year	(38,276,488)	-
Cashflow hedge reserve (net of tax)	-	(285,137)
<b>Total comprehensive loss</b>	<b>(38,276,488)</b>	<b>(285,137)</b>
<b>As at 31 March 2019</b>	<b>(28,161,484)</b>	<b>(285,137)</b>
(Loss) for the year	(4,605,578)	-
Cashflow hedge reserve (net of tax)	-	(76,748)
<b>Total comprehensive loss</b>	<b>(4,605,578)</b>	<b>(76,748)</b>
	<b>(32,767,062)</b>	<b>(361,885)</b>
<b>As at 31 March 2020</b>	<b>(33,128,947)</b>	

The accompanying notes form an integral part of the financial statements.

As per our report of even date attached.

For B S R & Co. LLP

Chartered Accountants

Firm's Registration No: 101248W/W-100022

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Nirav Patel  
Partner  
Membership No: 113327

Mumbai  
19 May 2020

For and on behalf of the Board of Directors of  
Torrent Pharma Inc.



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Date: 2020.05.19 09:39:36 -04'00'

Sanjay Gupta  
Director

New Jersey, USA  
19 May 2020

# Torrent Pharma Inc.

## Cash Flow Statement for the year ended 31 March 2020

(Currency : USD)

	31 March 2020	31 March 2019
<b>A Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>(14,953,775)</b>	(48,402,767)
Adjustments for :		
Depreciation and amortization	2,991,611	3,161,738
Impairment of intangible assets / intangible assets under development & goodwill	-	31,263,995
Bad debts written off	-	12,752
Provision for doubtful debts	125,972	64,885
Loss on sale of property, plant and equipment	763,445	13,113.00
Write down of assets as held for sale	927,365	-
Finance costs	6,075,843	5,399,435
	<b>(4,069,539)</b>	(8,486,849)
Adjustments for changes in working capital :		
(Increase) in trade receivables and other financial assets	(9,043,982)	(26,857,457)
(Increase) /decrease in other assets	(1,402,453)	656,831
Decrease in inventories	3,887,426	7,039,818
Increase in trade payables and other financial liabilities	23,551,247	23,718,314
(Decrease) / increase in other liabilities	(8,391)	58,889
(Decrease) / increase in provisions	(6,922,240)	10,050,428
<b>Cash generated from operations</b>	<b>5,992,068</b>	6,179,974
Income taxes paid / (refunded) net	2,287,491	(176,138)
<b>Net cash generated from operating activities</b>	<b>8,279,559</b>	6,003,836
<b>B Cash flows from investing activities</b>		
Purchase of property, plant and equipment (including capital work in progress)	(9,435,571)	(2,486,256)
Purchase of intangible assets	-	(5,000)
Sale of property, plant and equipments	792,722	-
<b>Net cash (used in) investing activities</b>	<b>(8,642,850)</b>	(2,491,256)
<b>C Cash flows from financing activities</b>		
Proceeds from long term borrowings	-	70,000,000
Repayment of long-term borrowings	(5,000,000)	(4,976,182)
Proceeds from short term borrowings	10,000,000	-
Repayment of short term borrowings	-	(60,000,000)
Payment of lease obligations	(293,112)	-
Finance cost paid	(6,416,570)	(4,745,288)
<b>Net cash (used in) / generated from financing activities</b>	<b>(1,709,682)</b>	278,530
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(2,072,972)</b>	3,791,110
<b>Cash and cash equivalents at the beginning of the year</b>	<b>9,352,342</b>	5,561,232
<b>Cash and cash equivalents at the end of the year</b>	<b>7,279,370</b>	9,352,342

**Torrent Pharma Inc.**

**Cash Flow Statement (*Continued*)**  
for the year ended 31 March 2020

(Currency : USD)

**31 March 2020**

31 March 2019

**Notes :**

**1. Component of cash and cash equivalents comprise of :**

Balance with bank:		
- Bank balances (in current accounts)	7,279,370	9,352,342
<b>Cash and cash equivalents at the end of the year (refer note 9)</b>	<b>7,279,370</b>	<b>9,352,342</b>

**2. Changes in liabilities arising from financing activities :**

<b>Long-term borrowings (Refer note 13) :</b>		
Opening balance	70,000,000	4,976,182
Proceeds from long term borrowings	-	70,000,000
Amount repaid during the year	(5,000,000)	(4,976,182)
<b>Closing balance</b>	<b>65,000,000</b>	<b>70,000,000</b>

<b>Lease obligations (Refer note 13) :</b>		
Recognised on adoption of Ind AS 116	698,473	-
Interest accrued during the year	20,645	-
Amount paid during the year	(293,112)	-
<b>Closing balance</b>	<b>426,006</b>	<b>-</b>

<b>Short-term borrowings (Refer note 13) :</b>		
Opening balance	30,000,000	90,000,000
Proceeds from short term borrowings	10,000,000	-
Amount repaid during the year	-	(60,000,000)
<b>Closing balance</b>	<b>40,000,000</b>	<b>30,000,000</b>

The accompanying notes form an integral part of the financial statements.

As per our report of even date attached.

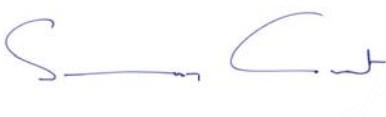
For **B S R & Co. LLP**  
*Chartered Accountants*  
Firm's Registration No: 101248W/W-100022

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Nirav Patel  
*Partner*  
Membership No: 113327

Mumbai  
19 May 2020

For and on behalf of the Board of Directors of  
**Torrent Pharma Inc.**

  
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Date: 2020.05.19 09:40:02  
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Sanjay Gupta  
*Director*

New Jersey, USA  
19 May 2020

# Torrent Pharma Inc.

## Notes to the financial statements

for the year ended 31 March 2020

(Currency : USD)

### 1. Company Overview

Torrent Pharma Inc. ('the Company') is a wholly-owned subsidiary of Torrent Pharmaceuticals Limited ("Torrent"), India. The Company was incorporated in the State of Delaware, United States of America in January 2004 to provide liaison, logistical, marketing, regulatory, and other support to Torrent in the United States of America.

In 2007, the Company began selling the generic drug products of Torrent. The Company's main office is located in Baskin Ridge, New Jersey. The regulatory function is managed out of Kalamazoo, Michigan.

### 2. Basis of preparation

#### (i) Statement of compliance

These financial statements are prepared in accordance with the group accounting policies as adopted by its Holding Company, Torrent Pharmaceuticals Limited ('Torrent') which is primarily as per the Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules, 2015 notified under Section 133 of the Indian Companies Act, 2013 ("the Act").

These financial statements are "special purpose financial statements" and do not constitute a set of statutory financial statements in accordance with the local laws in which the Company is incorporated and are prepared for the sole purpose of Consolidation of Ind AS financial statements of the Company with Torrent.

All assets and liabilities have been classified as current or non-current as set out in the group accounting policy as adopted by its Holding Company, Torrent.

The financial statements were authorised for issue by the Company's Board of Directors on date 19 May 2020.

Details of accounting policies are included in the Note 3.

#### (ii) Functional and presentation currency

These financial statements are presented in United States Dollar (USD), which is also the functional currency. All the amounts have been rounded off to the nearest USD, unless otherwise indicated.

#### (iii) Basis of measurement

The financial statements have/ been prepared on the historical cost basis.

#### (iv) Use of estimates and judgements

In preparing these financial statements, management has made estimates and assumptions that affect the reported amounts of assets, liabilities, incomes and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised prospectively.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 2. Basis of preparation (*Continued*)

#### (iv) Use of estimates and judgements (*Continued*)

##### **Judgements:**

There are no significant judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements.

##### **Assumptions and estimation uncertainties:**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3(h) - amounts deducted from revenue for the projected chargeback, sales returns, rebates, shelf stock adjustments and medicaid

Note 3(d) - the amount of inventory obsolescence reserve

Note 29(b) - the amount of provision for failure to supply

#### (v) Measurement of fair values

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- A. Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- B. Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices).
- C. Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*)

for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies

#### (a) Financial instruments

##### Financial Assets

###### **(i) Classification of financial assets:**

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and
- those measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

###### **(ii) Initial measurement:**

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

###### **(iii) Subsequent measurement:**

###### **▪ Amortised Cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

###### **▪ Fair value through other comprehensive income (FVOCI)**

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains and losses and impairment expenses in other expenses.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (a) Financial instruments (*Continued*)

##### Financial Assets (Continued)

###### (iii) Subsequent measurement: (*Continued*)

###### ▪ Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit and loss within other gains / (losses) in the period in which it arises. Interest income from these financial assets is included in other income.

###### (iv) Derecognition of financial assets:

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's balance sheet) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset

When the Company has transferred an asset, the Company evaluates whether it has transferred substantially all risks and rewards of ownership of the financial asset. In such cases, the financial asset is derecognised. Where the Company has not transferred substantially all risks and rewards of ownership of the financial asset, the financial asset is not derecognised.

Where the Company has neither transferred a financial asset nor retains substantially all risks and rewards of ownership of financial asset, the financial asset is derecognised if the Company has not retained control over the financial asset. Where the Company retains control of the financial asset, the asset is continued to be recognised to the extent of continuing involvement in the financial asset

###### (v) Income recognition:

Dividend is accounted when the right to receive payment is established. Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

###### (vi) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand, short demand deposits and highly liquid investments, that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Short term means investments with original maturities / holding period of three months or less from the date of investments. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalent for the purpose of statement of cash flow.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*)

for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (a) Financial instruments (*Continued*)

##### Financial Assets (Continued)

###### **(vii) Trade receivables**

Trade receivables are amounts due from customers for sale of goods or services performed in the ordinary course of business. Trade receivables are initially recognized at its transaction price which is considered to be its fair value and are classified as current assets as it is expected to be received within the normal operating cycle of the business.

##### Financial liabilities

The Company's financial liabilities include trade payables, loans and borrowing and derivative financial instruments.

###### **(i) Classification:**

All the Company's financial liabilities, except for financial liabilities at fair value through profit or loss, are measured at amortized cost.

###### **(ii) Initial measurement:**

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

###### **(iii) Subsequent measurement:**

Financial liabilities are subsequently measured at amortised cost using the Effective Interest Rate Method. The Effective Interest Rate Method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

###### **(iv) De-recognition of financial liabilities**

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or waived off or have expired. An exchange between the Company and the lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*)

for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (a) Financial instruments (*Continued*)

##### Financial liabilities (*Continued*)

###### (v) Borrowings

Borrowings are initially recorded at fair value and subsequently measured at amortized costs using effective interest method. Transaction costs are charged to statement of profit and loss as financial expenses over the term of borrowing.

###### (vi) Trade payables

Trade payables are amounts due to vendors for purchase of goods or services acquired in the ordinary course of business and are classified as current liabilities to the extent it is expected to be paid within the normal operating cycle of the business.

###### (vii) Other financial liabilities

Other non-derivative financial instruments are initially recognized at fair value and subsequently measured at amortized costs using the effective interest method.

##### Derivative financial instruments and hedge accounting

The Company enters into derivative financial instruments to manage its foreign exchange rate risk. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in the statement of profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in statement of profit and loss depends on the nature of the hedging relationship and nature of hedged items.

Derivative financial instruments that hedges foreign currency risk associated with highly probable forecasted transactions are designated as cash flow hedges and measured at fair value. The effective portion of such hedges is recorded in cash flow hedge reserve, as a component of equity, and re-classified to the statement of profit and loss in the period corresponding to the occurrence of the forecasted transactions. The ineffective portion of such hedges is recorded in the statement of profit and loss immediately.

Hedge effectiveness is tested both at the inception of the hedge relationship as well as on an ongoing basis. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting.

#### (b) Property, plant and equipment

##### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation, and accumulated impairment losses, if any.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (b) Property, plant and equipment (*Continued*)

##### (i) Recognition and measurement (*Continued*)

Cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any directly attributable cost of bringing the item to its working condition for its intended use and estimated costs of dismantling and removing the item and restoring the site on which it is located.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Capital work in progress are those which are not ready for intended use are carried at cost less impairment loss, if any.

##### (ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

##### (iii) Depreciation

Freehold land is carried at historical cost and not depreciated. Depreciation is calculated on cost of items of property, plant and equipment less their estimated residual values over their estimated useful lives using the straight-line method, and is generally recognised in the statement of profit and loss.

The estimated useful lives of items of property, plant and equipment for the current and comparative periods are as follows:

Leasehold improvements	7 years
Vehicles	5 years
Plant and machinery	5-15 years
Furniture and fixtures	5 to 7 years
Office equipment	5 years
Building	5-40 years

Depreciation method, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Based on technical evaluation and consequent advice, the management believes that its estimates of useful lives as given above best represent the period over which management expects to use these assets.

Depreciation on additions (disposals) is provided on a pro-rata basis i.e. from (up to) the date on which asset is ready for use (disposed of).

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (c) Intangible assets

##### (i) *Other intangible assets*

Other intangible assets including those acquired by the Company are initially measured at cost. Such intangible assets are subsequently measured at cost less accumulated amortisation and any accumulated impairment losses.

##### (ii) *Intangible assets under development*

Acquired research and development intangible assets that are under development are recognised as Intangible assets under development. These assets are not amortised but evaluated for potential impairment on an annual basis or when there are indications that the carrying value may not be recoverable. Any impairment is recognised as an expense in the statement of profit and loss.

##### (iii) *Amortisation*

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values over the estimated useful lives using the straight line method, and is included in depreciation and amortisation in statement of profit and loss.

The estimated useful lives of intangible assets are as follows:

Product licenses	10-15 years
Non-compete fees	5 years
Software	3 years

Amortisation method, useful lives and residual values are reviewed at the end of each financial year and adjusted if appropriate.

##### (iv) *Goodwill*

Goodwill represents the excess of the consideration paid to acquire a business over underlying fair value of the identified assets acquired. Goodwill is carried at cost less accumulated impairment losses, if any. Goodwill is deemed to have an indefinite useful life and is tested for impairment annually or when events or circumstances indicate that the implied fair value of goodwill is less than its carrying amount.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (CGUs) that is expected to benefit from the synergies of the combination. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (c) Intangible assets (*Continued*)

##### (v) *Product development expense*

Product development costs including regulatory cost and legal expenses leading to registration and market authorization of the product are expensed as incurred unless technical and commercial feasibility of the project is demonstrated, future economic benefits are probable, the company has an intention and ability to complete and use or sell the product and the costs can be measured reliably.

#### (d) Business combinations

Business Combinations are accounted for using the acquisition method of accounting. Transaction costs incurred in connection with business combination are expensed in the statement of profit and loss. The identifiable assets and liabilities that meet the condition for recognition are recognized at their fair values at the acquisition date.

In case of bargain purchase where the fair value of identifiable assets and liabilities exceed the cost of acquisition, the excess is recognised in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve after reassessing the fair values of the net identifiable assets and contingent liabilities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the statement of profit and loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted through goodwill during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date. These adjustments are called as measurement period adjustments. The measurement period does not exceed one year from the acquisition date.

The interest of non-controlling shareholders is initially measured either at fair value or at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity of subsidiaries.

Business combinations arising from transfers of interests in entities that are under the common control are accounted for using the pooling of interests method. The assets and liabilities of the combining entities are reflected at their carrying amounts and no adjustments are made to reflect their fair values or recognise any new assets or liabilities.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (d) Business combinations (*Continued*)

The difference between any consideration given and the aggregate historical carrying amounts of assets and liabilities of the acquired entity are recorded in capital reserve and presented separately from other capital reserves with disclosure of its nature and purpose. The financial statement of prior period is restated as if the business combination had occurred from the beginning of the preceding period, irrespective of the actual date of combination.

#### (e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the moving average basis, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

The comparison of cost and net realisable value is made on an item-by-item basis.

The Company considers various factors like shelf life, ageing of inventories, product discontinuation, price changes and other factors which impact the company's business in determining the allowance for obsolete, non-saleable and slow moving inventories. The company considers the above factor and adjusts the inventory provision to reflect its actual performance on periodic basis.

#### (f) Impairment

##### Financial assets

At each balance sheet date, the Company assesses whether a financial asset is to be impaired. Ind AS 109 requires the Company to apply expected credit loss model for recognition and measurement of impairment loss. In determining the allowances for doubtful trade receivables, the Company has used a practical expedient by computing the expected credit loss allowance for trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for forward looking information. The impairment loss is based on the ageing of the receivables that are due and allowance rates used in the provision matrix. For all other financial assets, expected credit losses are measured at an amount equal to the 12-months expected credit losses or at an amount equal to the life time expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (f) Impairment (*Continued*)

##### Non-financial Assets

###### (i) *Tangible and intangible assets*

Property, plant and equipment and intangible assets with finite life are evaluated for recoverability whenever there is any indication that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount (i.e. higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized in the statement of profit and loss to such extent. When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increase in the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in statement of profit and loss.

###### (ii) *Goodwill*

CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is indication for impairment. If the recoverable amount of a CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Determination of recoverable amount of CGU requires the management to estimate the future cash flows expected to arise and a suitable discount rate in order to calculate the present value. An impairment loss recognised for goodwill is not reversed in subsequent periods.

#### (g) Employee benefits

###### (i) *Short term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid e.g., under short-term cash bonus, if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the amount of obligation can be estimated reliably.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (g) Employee benefits (*Continued*)

##### (ii) *Defined contribution plan*

Contribution in case of social security schemes is charged to the statement of profit and loss as and when it is incurred as employee benefits. The Company has an Internal Revenue Code Section 401 (k) retirement plan whereby the Company contributes 3% of all eligible employees' compensation.

#### (h) Provisions (other than employee benefits)

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows (representing the best estimate of the expenditure required to settle the present obligation at the balance sheet date) at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost. Expected future operating losses are not provided for.

#### (i) Revenue

Revenue is measured based on the transaction price adjusted for chargeback, discounts, shelf stock adjustments due to price revision and rebates, which is specified in a contract with customer. Revenue are net of estimated returns, medicaid payments and taxes collected from customers.

Revenue from sale of goods is recognized at point in time when control are transferred to the customer and it is probable that consideration will be collected. Control of goods is transferred upon the shipment of the goods to the customer or when goods is made available to the customer.

The transaction price is documented on the sales invoice and payment is generally due as per agreed credit terms with customer.

The consideration can be fixed or variable. Variable consideration is only recognised when it is highly probable that a significant reversal will not occur.

A chargeback is a claim made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be procured from the company. Chargeback, rebates, returns, shelf stock adjustments due to price revision and medicaid payments are variable consideration that is recognised and recorded based on historical experience, market conditions and specific contractual terms. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in line with contractual and legal obligations, trade practices historical trends, past experience and projected market conditions.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (i) Revenue (*Continued*)

##### *Other income*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income is recognized when the Company's right to receive the payment is established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of dividend can be measured reliably.

#### (j) Income tax

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or to an item recognised directly in equity or in other comprehensive income.

##### (i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax reflects the best estimate of the tax amount expected to be paid or received after considering the uncertainty, if any, related to income taxes. It is measured using tax rates (and tax laws) enacted or substantively enacted by the reporting date.

Current tax assets and current tax liabilities are offset only if there is a legally enforceable right to set off the recognised amounts, and it is intended to realise the asset and settle the liability on a net basis or simultaneously.

##### (ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for taxation purposes. Deferred tax is also recognised in respect of carried forward tax losses and tax credits.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets - unrecognised or recognised, are reviewed at each reporting date and are recognised/reduced to the extent that it is probable/no longer probable respectively that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (j) Income tax (*Continued*)

##### (ii) Deferred tax (*Continued*)

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets or liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on net basis or their tax assists and liabilities will be realised simultaneously.

#### (k) Borrowing cost

Borrowing cost are interest and other costs (including exchange differences relating to foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost) incurred in connection with the borrowing of funds. Borrowing costs directly attributable to acquisition or construction of asset which necessarily take a substantial period of time to get ready for their intended use are capitalised as part of cost of asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

#### (l) Leases

Leases in which a significant portion of the risks and rewards incidental to ownership is not transferred to the Company as lessee are classified as operating leases. Lease rentals in respect of assets taken on operating lease are charged to the statement of profit and loss on a straight line basis over the lease term unless the payments are structured to increase in line with the expected general inflation so as to compensate for the lessor's expected inflationary cost increase.

Effective 1 April 2019, the Group has adopted Ind AS 116 Leases which introduces single accounting model and requires a lessee to recognise assets and liabilities for all leases subject to recognition exemptions.

The Company adopted Ind AS 116 Leases using modified retrospective approach and practical expedients. Accordingly, the comparative information presented for the year ended 31 March 2019 is presented as previously reported under Ind AS 17.

At inception of a contract, the Group assesses whether a contract is lease or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified assets for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset the Group assesses whether contract involves the use of an identified asset, the Group has a right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use and the Group has the right to direct the use of the asset.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*)

for the year ended 31 March 2020

(Currency : USD)

### 3. Significant accounting policies (*Continued*)

#### (I) Leases (*Continued*)

At the inception date, right-of-use asset is recognised at cost which includes present value of lease payments adjusted for any payments made on or before the commencement of lease and initial direct cost, if any. It is subsequently measured at cost less accumulated depreciation, accumulated impairment losses, if any and adjusted for any remeasurement of the lease liability. Right-of-use asset is depreciated using the straight-line method from the commencement date over the earlier of useful life of the asset or the lease term. When the Company has purchase option available under lease and cost of right-of-use assets reflects that purchase option will be exercised, right-of-use asset is depreciated over the useful life of underlying asset. Right-of-use assets are tested for impairment whenever there is any indication that their carrying amounts may not be recoverable. Impairment loss, if any, is recognised in the statement of profit and loss.

At the inception date, lease liability is recognised at present value of lease payments that are not made at the commencement of lease. Lease liability is subsequently measured by adjusting carrying amount to reflect interest, lease payments and remeasurement, if any.

Lease payments are discounted using the incremental borrowing rate or interest rate implicit in the lease, if the rate can be determined.

The Company has elected not to apply requirements of Ind AS 116 to leases that has a term of 12 months or less and leases for which the underlying asset is of low value. Lease payments of such lease are recognised as an expense on straight line basis over the lease term.

#### 3B. Recent Ind AS

Ministry of Corporate Affairs notifies amendments to the existing Ind AS or new Ind AS. There is no such amendment to the existing Ind AS or new Ind AS which are notified and applicable from April 1, 2020.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*)

as at 31 March 2020

(Currency : USD)

### 4 Property, plant and equipments

	Plant and machineries	Furniture and fixtures	Office equipments	Leasehold improvements	Land	Buildings	Vehicles	Total
<b>Cost</b>								
As at 1 April, 2018	3,602,009	388,887	342,739	181,476	4,317,701	4,688,530	44,000	13,565,342
Additions	2,340,827	-	99,430	-	-	46,000	-	2,486,257
Deletions	(52,400)	-	(5,276)	-	-	(60,000)	(44,000)	(161,676)
<b>As at 31 March 2019</b>	<b>5,890,436</b>	<b>388,887</b>	<b>436,893</b>	<b>181,476</b>	<b>4,317,701</b>	<b>4,674,530</b>	<b>-</b>	<b>15,889,923</b>
As at 1 April, 2019	5,890,436	388,887	436,893	181,476	4,317,701	4,674,530	-	15,889,923
Additions	2,967	1,420	34,380	-	-	-	-	38,767
Deletions	(646,730)	-	-	-	-	(406,100)	-	(1,052,830)
Asset reclassified to held for sale	(110,591)	-	(40,509)	-	-	(195,030)	-	(346,130)
<b>As at 31 March 2020</b>	<b>5,136,082</b>	<b>390,307</b>	<b>430,764</b>	<b>181,476</b>	<b>4,317,701</b>	<b>4,073,400</b>	<b>-</b>	<b>14,529,730</b>
<b>Accumulated depreciation</b>								
As at 1 April 2018	141,287	229,738	235,164	103,319	-	40,562	1,257	751,327
Additions	604,223	57,847	50,048	26,089	-	201,424	2,101	941,732
Deletions	(14,320)	-	(2,132)	-	-	(1,632)	(3,358)	(21,442)
<b>As at 31 March 2019</b>	<b>731,190</b>	<b>287,585</b>	<b>283,080</b>	<b>129,408</b>	<b>-</b>	<b>240,354</b>	<b>-</b>	<b>1,671,617</b>
As at 1 April 2019	731,190	287,585	283,080	129,408	-	240,354	-	1,671,617
Additions	694,679	52,190	56,146	21,228	-	135,494	-	959,737
Deletions	(129,995)	-	-	-	-	(23,757)	-	(153,751)
Asset reclassified to held for sale	(35,042)	-	(29,159)	-	-	(11,652)	-	(75,853)
<b>As at 31 March 2020</b>	<b>1,260,832</b>	<b>339,775</b>	<b>310,066</b>	<b>150,636</b>	<b>-</b>	<b>340,439</b>	<b>-</b>	<b>2,401,750</b>
<b>Carrying amount (net)</b>								
<b>As at 31 March 2019</b>	<b>5,159,246</b>	<b>101,302</b>	<b>153,814</b>	<b>52,068</b>	<b>4,317,701</b>	<b>4,434,176</b>	<b>-</b>	<b>14,218,305</b>
<b>As at 31 March 2020</b>	<b>3,875,250</b>	<b>50,532</b>	<b>120,697</b>	<b>30,840</b>	<b>4,317,701</b>	<b>3,732,961</b>	<b>-</b>	<b>12,127,980</b>
<b>Capital work-in-progress</b>								
<b>As at 31 March 2019</b>								<b>890,103</b>
Additions								8,073,929
Deletions								-
Asset reclassified to held for sale								(680,637)
<b>As at 31 March 2020</b>								<b>8,283,396</b>

(i) Capital work-in-progress includes expenditure of USD 2,633,394 (previous year : NIL) incurred in the course of construction.

(ii) The amount of capital commitments is disclosed in note 27.

### 4A Right of use assets

	<b>Building</b>
Gross carrying amount as at 01-Apr-2019	
(On adoption of Ind AS 116)	698,473
Additions during the year	-
Gross carrying amount as at 31-Mar-2020	698,473
Accumulated depreciation as at 01-Apr-2019	-
Depreciation for the year	279,389
Accumulated depreciation as at 31-Mar-2020	279,389
<b>Net carrying amount as at 31-Mar-2020</b>	<b>419,084</b>

(i) Lease contracts entered by the Company pertains to buildings taken on lease to conduct its business in the ordinary course.

(ii) Lease expenses of USD 73,215 recognised in statement of profit and loss for the year ended 31-Mar-2020 towards short-term leases, lease of low value assets and variable lease rental not included in measurement of lease liability.

(iii) Extension and termination options are included in the lease contracts. These are used to maximise operational flexibility in terms of managing assets used in Company's operations.

(iv) Lease obligations, interest expense on lease, maturity profile of lease obligation and payment of lease obligations are disclosed respectively in notes of borrowings (refer note 13), finance cost (refer note 24), liquidity risk (refer note 35) and cash flow statement.

(v) Refer Note 30 on Operating Lease in the Audited financials of the Company for the year ended March 31, 2019 for disclosures as per erstwhile Ind AS 17.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) as at 31 March 2020

(Currency : USD)

31 March 2020      31 March 2019

### 5 Goodwill

#### Cost:

Balance at beginning of year	<b>11,091,874</b>	21,550,079
Add : Measurement period adjustments	-	541,795
Less : Impairment (Refer note 37)	-	11,000,000
<b>Balance at end of year</b>	<b>11,091,874</b>	<b>11,091,874</b>

The Company tests goodwill for impairment annually or based on an indicator and provides for impairment if the carrying amount of goodwill exceeds its recoverable amount. The recoverable amount is determined based on "value in use" calculations which is calculated as the net present value of forecasted cash flows of cash generating unit (CGU) to which the goodwill relates.

Key assumptions for CGUs with significant amount of goodwill are as follows :

- a) Projected cash flows for five years based on financial budgets / forecasts in line with the past experience and new product introduction expected. The perpetuity value is taken based on the long term growth rate depending on macro economic growth factors
- b) Discount rate applied to projected cash flow is 12%.

### 6 Other intangible assets

	Computer software	Product license	Non-compete fees	Total
<b>Cost</b>				
As at 1 April 2018	654,558	21,700,000	700,000	23,054,558
Additions	5,000	-	-	5,000
Deletions	-	-	-	-
<b>As at 31 March 2019</b>	<b>659,558</b>	<b>21,700,000</b>	<b>700,000</b>	<b>23,059,558</b>
As at 1 April 2019	659,558	15,000,000	700,000	16,359,558
Additions	-	-	-	-
Deletions	-	-	-	-
<b>As at 31 March 2020</b>	<b>659,558</b>	<b>15,000,000</b>	<b>700,000</b>	<b>16,359,558</b>
<b>Accumulated amortization and impairment</b>				
As at 1 April 2018	411,368	4,589,333	28,000	5,028,701
Additions	133,336	1,946,672	139,998	2,220,006
Impairment*	-	6,163,995	-	6,163,995
Deletions	-	-	-	-
<b>As at 31 March 2019</b>	<b>544,704</b>	<b>12,700,000</b>	<b>167,998</b>	<b>13,412,702</b>
As at 1 April 2019	544,704	6,000,000	167,998	6,712,702
Additions	112,104	1,500,000	140,381	1,752,485
Deletions	-	-	-	-
<b>As at 31 March 2020</b>	<b>656,808</b>	<b>7,500,000</b>	<b>308,379</b>	<b>8,465,187</b>
<b>Carrying amount (net)</b>				
<b>As at 31 March 2019</b>	<b>114,854</b>	<b>9,000,000</b>	<b>532,002</b>	<b>9,646,856</b>
<b>As at 31 March 2020</b>	<b>2,750</b>	<b>7,500,000</b>	<b>391,621</b>	<b>7,894,371</b>
<b>Intangible assets under development</b>				
As at 31 March 2019* (Net of impairment USD 14,100,000)				9,900,000
<b>As at 31 March 2020* (Net of impairment USD 14,100,000)</b>				<b>9,900,000</b>

\* Impairment (Refer note 36)

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) as at 31 March 2020

(Currency : USD)

	31 March 2020	31 March 2019
<b>7 Inventories</b>		
Raw materials	833,501	2,950,232
Packing materials	406,075	262,626
Work in progress	-	8,248
Traded goods	<b>30,056,089</b>	31,961,985
	<b>31,295,665</b>	35,183,091
The write-down of inventories to net realisable value and write off of inventories during the year amounted to USD 6,530,225 (31 March 2019 : USD 2,652,262). The write-down and write off are included in cost of material consumed or changes in inventories of traded goods.		
<b>8 Trade receivables</b>		
a) Considered good	95,442,095	86,648,682
b) Significant increase in credit risk	290,454	310,626
Less : Allowance for doubtful trade receivables	(290,454)	(310,626)
	<b>95,442,095</b>	86,648,682
(i) The Company's exposure to credit risk and allowance for doubtful trade receivables related to trade receivables are disclosed in note 35		
(ii) Movements in allowance for doubtful trade receivable :		
Opening balance	310,626	240,636
Add : Provision made during the year (net of reversal)	172,147	102,306
Less: Provision utilised during the year	(192,318)	(32,316)
Closing balance	<b>290,455</b>	310,626
<b>9 Cash and cash equivalents</b>		
Balances with banks		
- Current accounts	7,279,370	9,352,342
	<b>7,279,370</b>	9,352,342
<b>10 Other assets</b>		
<b>Non-current</b>		
Capital advances	1,630,509	545,641
	<b>1,630,509</b>	545,641
<b>Current</b>		
Prepaid expenses	1,600,860	909,286
Advances to supplier	544,718	133,343
Other receivables	1,065,150	765,646
	<b>3,210,728</b>	1,808,275

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) as at 31 March 2020

(Currency : USD)

	31 March 2020	31 March 2019
<b>11 Equity share capital</b>		
<b>Authorized</b>		
100,000 (31 March 2019 : 100,000) equity shares of USD 100 each	<b>10,000,000</b>	10,000,000
<b>Issued, subscribed and paid up</b>		
12,000 (31 March 2019 : 12,000) equity shares of USD 100 each fully paid up	<b>1,200,000</b>	1,200,000
There is no movement in number of equity shares and amount of equity share capital for the year ended 31 March 2020 and 31 March 2019. All the equity shares are held by Torrent Pharmaceuticals Limited (Parent company).		
<b>Rights, preferences and restrictions attached to equity shares</b>		
The Company has single class of equity shares having a par value of USD 100 each. Every holder of equity share is entitled to one vote per share. The equity shares are entitled to receive dividends as declared from time to time.		
<b>12 Other equity</b>		
At the end of the year	<b>(32,767,062)</b>	(28,161,484)
Other comprehensive income		
Cashflow hedge reserve (net of tax)	<b>(361,885)</b>	(285,137)
At the end of the year	<b>(33,128,947)</b>	<b>(28,446,621)</b>
<b>Retained earnings</b> : Retained earnings are the profits earned/ losses incurred till date, less any transfers to other reserves or dividends distributed.		
<b>Cash flow hedges</b> : This represents the cumulative effective portion of gains or losses arising on changes in fair value of designated portion of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the designated portion of the hedging instruments that are recognised and accumulated under the heading of effective portion of cash flow hedges will be reclassified to statement of profit and loss only when the hedged items affect the profit or loss.		
<b>13 Borrowings</b>		
<b>Non current</b>		
Loan from bank (Secured)*	<b>20,000,000</b>	25,000,000
Loan from related party (Unsecured)	<b>40,000,000</b>	40,000,000
Lease obligations	<b>132,894</b>	-
	<b>60,132,894</b>	<b>65,000,000</b>
Current maturities of long-term debt (Refer note 17)		
Loan from bank (Secured)*	<b>5,000,000</b>	5,000,000
Lease obligations	<b>293,112</b>	-
	<b>5,293,112</b>	<b>5,000,000</b>
<b>Current</b>		
Loan from bank (Unsecured)	<b>40,000,000</b>	30,000,000
<b>Total current borrowings</b>	<b>40,000,000</b>	<b>30,000,000</b>

\*Secured term loan from bank carries variable interest rate. The said loan is secured by a continuing security interest in, and a lien upon the inventory, account receivables (including without limitation health-care-insurance receivables) and all proceeds of such inventory and accounts receivable as per section 2 of the Security Agreement. The term loan is guaranteed by Torrent Pharmaceuticals Limited (Parent company).

Average interest rate on borrowings is 4.44% for the year ended 31-Mar-2020 (previous year 4.37%).

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) as at 31 March 2020

(Currency : USD)

31 March 2020                    31 March 2019

### 14 Provisions

#### **Non-current**

Provision for sales returns (refer note 29a)	<b>5,558,266</b>	3,729,317
	<b>5,558,266</b>	<b>3,729,317</b>

#### **Current**

Provision for sales returns (refer note 29a)	9,433,452	9,534,962
Provision for failure to supply (refer note 29b)	6,351,486	7,643,455
Provision for medicaid rebate (refer note 29c)	1,577,097	3,514,744
Provision for expenses (refer note 29d)	579,937	6,000,000
	<b>17,941,972</b>	<b>26,693,161</b>

### 15 Other liabilities

#### **Current**

Advances from customers	233,748	205,724
Other current liabilities	7,583	43,998
	<b>241,331</b>	<b>249,722</b>

### 16 Trade payables

Dues to related parties (refer note 33)	120,227,452	88,982,291
Dues to others	9,218,508	16,679,128
	<b>129,445,960</b>	<b>105,661,419</b>

### 17 Other financial liabilities

#### **Non-current**

Contingent consideration payable (refer note 34)	570,000	570,000
Rent equalisation	-	70,921
Derivative financial instruments (refer note 34)	-	213,988
	<b>570,000</b>	<b>854,909</b>

#### **Current**

Current maturities of long term debt (refer note 13)	5,293,112	5,000,000
Rent equalisation	-	47,543
Interest accrued but not due on borrowings	732,875	1,094,247
Derivative financial instruments	530,415	169,672
Bonus payable	1,739,021	1,604,727
Other payables	324	69
	<b>8,295,747</b>	<b>7,916,258</b>

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) as at 31 March 2020

(Currency : USD)

	31 March 2020	31 March 2019
<b>18 Deferred tax assets (net)</b>		
Deferred tax assets:		
Provision for chargebacks, sales returns and rebates	<b>15,528,661</b>	15,261,662
Provision for inventory	<b>3,835,755</b>	2,057,799
Provision for bonus	<b>399,507</b>	362,667
Excess of depreciation allowable in tax law over books	<b>5,523,646</b>	5,213,254
Provision for failure to supply	<b>1,091,129</b>	3,029,693
Derivative financial instruments	<b>102,071</b>	75,796
Rent equalisation and others	<b>64,184</b>	26,773
State NOLs and federal R&D credit carryforward	<b>755,542</b>	189,852
Federal tax losses carried forward	<b>-</b>	2,405,881
	<b>27,300,495</b>	28,623,377

In assessing the realization of deferred tax assets, management considers that ultimate realization of deferred tax is depends on the generation of future taxable income during the period in which deferred tax assets become deductible. Based on the trend of historical taxable income and projection for future taxable income over the period in which the deferred tax assets are deductible, management believes that the Company will realize the benefits of those deductible differences. Accordingly, amount of deferred tax assets are considered realizable.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

	Year ended 31 March 2020	Year ended 31 March 2019
<b>19 Revenue from operations (net)</b>		
Sale of products	<b>206,974,786</b>	211,996,221
Other operating revenue		
Liasioning & support service	1,161,863	1,867,677
Miscellaneous operating income	1,774,749	4,845,305
Insurance income	113,115	586,885
	<b>3,049,727</b>	7,299,867
	<b>210,024,513</b>	219,296,088
Reconciliation of revenue from operations with the contracted price :		
Contracted price	824,807,781	810,038,837
Adjustments :		
Chargeback, rebates and discounts	(602,004,457)	(580,414,616)
Sales return	(12,026,406)	(14,169,548)
Others	(3,802,132)	(3,458,452)
	<b>206,974,786</b>	211,996,221
	<b>3,049,727</b>	7,299,867
	<b>210,024,513</b>	219,296,088
<b>20 Other income</b>		
Rent income	118,289	218,544
Other income	13,499	43,471
	<b>131,788</b>	262,015
<b>21 Cost of materials consumed</b>		
Inventory of raw materials and packing materials at the beginning of the year	3,212,858	4,949,357
Add : purchases of raw materials and packing materials	1,491,698	14,837,214
Less : inventory of raw materials and packing materials at the end of the year	1,239,576	3,212,858
	<b>3,464,980</b>	16,573,713
<b>22 Change in inventories of finished goods, work-in-progress and traded goods</b>		
Opening inventory:		
Finished goods	-	575,114
Work-in-progress	8,248	61,505
Traded goods	<b>31,961,985</b>	37,777,443
	<b>31,970,233</b>	38,414,062
Closing inventory:		
Finished goods	-	-
Work-in-progress	-	8,248
Traded goods	<b>30,056,089</b>	31,961,985
	<b>30,056,089</b>	31,970,233
Less : Exceptional items (Refer note 36)	-	363,529
Net decrease in inventory	<b>1,914,144</b>	6,080,299

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

	Year ended 31 March 2020	Year ended 31 March 2019
<b>23 Employee benefits expense</b>		
Salaries and bonus	11,422,354	14,863,771
Contribution to statutory funds (refer note 28)	312,206	347,125
	<b>11,734,560</b>	<b>15,210,896</b>
<b>24 Finance costs</b>		
Interest expenses	4,405,198	3,878,742
Interest expense on lease	20,645	-
Other borrowing cost*	1,650,000	1,520,693
	<b>6,075,843</b>	<b>5,399,435</b>
* Guarantee commission amount of USD 1,650,000 (previous year : USD 1,496,875)		
<b>25 Other expenses</b>		
Product recall expenses	10,583,564	-
Freight, clearing, handling and forwarding charges	4,596,705	5,675,762
Product development expenses	3,961,588	5,284,416
Legal and professional fees	3,456,031	3,964,368
Failure to supply charges (refer note 29b)	3,235,514	3,929,949
Insurance	1,419,696	981,097
Registration expenses	930,130	17,455
Write down of assets as held for sale	927,365	-
Loss on sale of fixed assets	763,445	13,113
Rates and taxes	608,207	314,799
Repairs and maintenance	415,032	751,834
Labour charges	403,129	914,374
Travelling, conveyance and vehicle expenses	346,426	473,284
Selling, publicity and medical literature expenses	176,392	222,828
Provision for doubtful debts	172,147	64,885
Communication expenses	111,076	172,080
Payment made to auditors		
-Audit fees	75,000	84,000
-Reimbursement of expenses	2,820	1,107
Product process and testing expenses	60,025	746,652
Rent (Refer note 4A)	53,919	727,185
Power and fuel	39,179	9,485
Printing and stationery expenses	7,690	15,170
Bad debts written-off	-	12,752
Miscellaneous expenses	1,490,079	1,276,558
	<b>33,835,158</b>	<b>25,653,153</b>

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

	Year ended 31 March 2020	Year ended 31 March 2019
<b>26 Loss per share</b>		
Net loss for the year (a)	(USD) (4,605,578)	(38,276,488)
Weighted average number of equity shares (b)	(Nos.) 12,000	12,000
Loss per share (basic and diluted) (a) / (b)	(USD) (383.80)	(3,189.71)
Nominal value per equity share	(USD) 100	100
<b>27 Capital commitments (to the extent not provided for)</b>		
Estimated amount of contracts remaining to be executed on capital account and not provided for	<b>6,892,884</b>	3,012,366
<b>28 Retirement plan</b>		
The Company has an Internal Revenue Code Section 401(k) retirement plan whereby the Company contributes 3% of all eligible employees compensation. Company's contribution to the plan totalled USD 312,206 for the year ended 31 March 2020 (previous year : USD 347,125).		
<b>29 (a) Provision for sales returns</b>		
The Company, as a trade practice accepts returns from market for formulations which are primarily in the nature of expired, damaged or near expiry products. Provision for such returns is estimated on the basis of historical experience, market conditions and specific contractual terms are provided for. Details of the provision is as under :		
	As at 31 March 2020	As at 31 March 2019
Opening provision	13,264,279	14,102,181
Add: Additional provision (net of reversal)	12,026,405	14,169,548
Less: Utilization during the year	10,298,966	15,007,450
Closing provision	<b>14,991,718</b>	<b>13,264,279</b>
<b>29 (b) Provision for failure to supply</b>		
The Company has a contractual obligation towards its customers to pay compensation for item substitution by them in case of failure to supply products by the Company with the stipulated time. Provision for such claims from customers estimated on the basis of quantities non/short delivered by Company against orders from customers and on specific contractual terms are provided for. Details of the provision is as under :		
	As at 31 March 2020	As at 31 March 2019
Opening provision	7,643,455	1,652,507
Add: Addition / (reversal) net	3,235,514	6,980,251
Less: Utilization during the year	4,527,483	989,303
Closing provision	<b>6,351,486</b>	<b>7,643,455</b>

## Torrent Pharma Inc.

### **Notes to the financial statements (*Continued*)**

*for the year ended 31 March 2020*

(Currency : USD)

#### **29 (c) Provision for Medicaid rebate**

Pharmaceutical Companies whose products are covered by the Medicaid program are required to give rebate to each state in the form of a percentage of their average manufacturer's price for the products dispensed. Medicaid rebates are estimated based on historical trends of rebates paid. Details of the provision is as under :

	As at 31 March 2020	As at 31 March 2019
Opening provision	<b>3,514,744</b>	3,864,916
Add: Additional provision (net of reversal)	<b>3,802,132</b>	3,458,452
Less: Utilization during the year	<b>5,739,779</b>	3,808,624
 Closing provision	<b>1,577,097</b>	3,514,744

#### **29 (d) Provision for expenses**

Provision is made for expenses towards product recall:

	As at 31 March 2020	As at 31 March 2019
Opening provision	<b>6,000,000</b>	-
Add: Additional provision	<b>7,729,889</b>	6,000,000
Less: Utilization during the year	<b>13,149,952</b>	-
 Closing provision	<b>579,937</b>	6,000,000

#### **30 Depreciation and amortization expense**

Depreciation on Property, plant and equipment	959,737	941,732
Amortisation of right of use assets	279,389	-
Amortization of Intangible assets	1,752,485	2,220,006
 <b>Total</b>	<b>2,991,611</b>	3,161,738

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 31 Segment reporting

The board of directors of the Company allocate resources and assess the performance of the Company, thus are the Chief Operating Decision Makers (CODM) . The CODM, considering the nature of Company's business and operations, monitors the operating results of the Company as a one, hence there are no separate reportable segments (business and / or geographical) in accordance with the requirement of Indian Accounting Standard 108- "Operating Segments".

#### A. Information about products and services

The operations of the Company are limited to one segment viz. Pharmaceutical and related products. The products being sold under this segment are of similar nature and relate to the pharmaceutical products only.

#### B. Information about geographical areas

The Company has operations in the United States of America. The Company does not have geographical distribution of revenue and assets, hence, secondary segmental reporting based on geographical locations of its customers and assets is not applicable to the Company.

#### C. Information about major customers

The Company has 4 customers for the year ended 31-Mar-2020 and had 4 customers for the year ended 31-Mar-2019 which accounts for more than 10% of the total revenue.

### 32 Income tax expenses

	Year ended 31 March 2020	Year ended 31 March 2019
<b>(a) Income tax expenses</b>		
<b>Current tax</b>		
Current tax on profits for the year	-	645,430
Adjustment for the current tax of prior period	<b>(11,697,353)</b>	<b>(5,978)</b>
<b>Total current tax expenses</b>	<b>(11,697,353)</b>	639,452
<b>Deferred Tax</b>		
(Increase) in deferred tax assets (net)	<b>1,349,156</b>	<b>(10,765,731)</b>
<b>Total deferred tax expenses</b>	<b>1,349,156</b>	<b>(10,765,731)</b>
<b>Income tax expenses</b>	<b>(10,348,197)</b>	(10,126,279)
<b>(b) Reconciliation of effective tax rate</b>		
(Loss) before income taxes	(14,953,775)	(48,402,767)
Enacted tax rate in USA	21.00%	21.00%
Expected income tax expenses	(3,140,293)	(10,164,581)
<b>Adjustments to reconcile expected income tax expense to reported income tax expense:</b>		
State tax expense, net of federal benefit	(509,684)	(177,503)
Federal research and development credit carryforward	-	17,064
Deferred tax on short provision for tax of earlier years	-	(5,978)
Deferred tax impact on state taxes due to rate change	(772,236)	208,282
One time impact on current and deferred tax due to change in law*	(7,105,857)	-
Tax impact of prior years	883,027	-
Others	296,846	(3,563)
<b>Adjusted income tax expenses</b>	<b>(10,348,197)</b>	(10,126,279)

\*The US Government enacted Coronavirus Aids, Relief and Economic Security Act (CARES Act) on March 27, 2020 in response to COVID-19 pandemic. The Company elected to carry back NOLs of current and preceding financial years to set off against taxable profits of earlier years. Accordingly, the Company has recognized one time tax benefit of USD 7,105,857 in its provision for tax for the year ended 31 March 2020.

Torrent Pharma Inc.

**Notes to the financial statements (*Continued*)**  
*for the year ended 31 March 2020*

(Currency : USD)

**32 Income tax expenses (*Continued*)**

	<b>Year ended 31 March 2020</b>	Year ended 31 March 2019
<b>(c) Recognised deferred tax assets and liabilities</b>		
<b>Deferred tax liabilities:</b>		
Excess of depreciation allowed in tax law over books	-	-
<b>Deferred tax assets:</b>		
Provision for chargebacks, sales returns and rebates	<b>15,528,661</b>	15,261,662
Provision for inventory	<b>3,835,755</b>	2,057,799
Provision for bonus	<b>399,507</b>	362,667
Excess of depreciation allowable in tax law over books	<b>5,523,646</b>	5,213,254
Provision for failure to supply	<b>1,091,129</b>	3,029,693
Derivative financial instruments	<b>102,071</b>	75,796
Rent equalisation and others	<b>64,184</b>	26,773
State NOLs and federal R&D credit carryforward	<b>755,542</b>	189,852
Federal tax losses carried forward	<b>-</b>	2,405,881
	<b><u>27,300,495</u></b>	<b><u>28,623,377</u></b>

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 32 Income tax expenses (*Continued*)

#### (d) Recognised deferred tax assets

##### Movement in temporary differences - 31 March 2020

Particulars	Balance as at 1 April 2019	Recognised in profit or loss during 2019-20	Recognised in OCI during 2019-20	Balance as at 31 March 2020
Provision for chargebacks, sales returns and rebates	15,261,662	266,999	-	15,528,661
Provision for inventory	2,057,799	1,777,957	-	3,835,755
Provision for bonus	362,667	36,840	-	399,507
Excess of depreciation allowable in tax law over books	5,213,254	310,392	-	5,523,646
Provision for failure to supply	3,029,693	(1,938,564)	-	1,091,129
Derivative financial instruments	75,796	-	26,274	102,071
Rent equalisation and others	26,773	37,411	-	64,184
State NOLs and federal R&D credit carryforward	189,852	565,690	-	755,542
Federal tax losses carried forward	2,405,881	(2,405,881)	-	-
	28,623,377	(1,349,156)	26,274	27,300,495

##### Movement in temporary differences - 31 March 2019

Particulars	Balance as at 1 April 2018	Recognised in profit or loss during 2018-19	Recognised in OCI during 2018-19	Balance as at 31 March 2019
Provision for chargebacks, sales returns, shelf stock adjustment	11,885,853	3,375,809	-	15,261,662
Provision for inventory	2,206,977	(149,178)	-	2,057,799
Provision for bonus	510,909	(148,242)	-	362,667
Excess of depreciation allowable in tax law over books	264,429	4,948,825	-	5,213,254
Provision for failure to supply	337,396	2,692,297	-	3,029,693
Derivative financial instruments	-	-	75,796	75,796
Rent equalisation and others	36,537	(9,764)	-	26,773
State NOLs and federal R&D credit carryforward	-	189,852	-	189,852
Federal tax losses carried forward	2,539,748	(133,867)	-	2,405,881
	17,781,849	10,765,732	75,796	28,623,377

# Torrent Pharma Inc.

## Notes to the Financial Statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 33 Related party disclosures

The disclosures pertaining to related parties and transactions therewith are set out in the table below :

#### (A) Nature of transactions

Particulars	Holding Company		Other related parties		Total	
	2020	2019	2020	2019	2020	2019
Purchase of traded goods	<b>162,208,010</b>	140,503,525	-	-	<b>162,208,010</b>	140,503,525
Liaison support service income	<b>1,161,863</b>	1,867,677	-	-	<b>1,161,863</b>	1,867,677
Interest expense			<b>1,905,206</b>	766,507	<b>1,905,206</b>	766,507
Guarantee commission expense	<b>1,650,000</b>	1,496,875	-	-	<b>1,650,000</b>	1,496,875
Purchase of capital goods	-	46,825	-	-	-	46,825
Expenses reimbursement - paid	<b>172,474</b>	522,244	<b>5,601</b>	1,932	<b>178,075</b>	524,176
Receipt of loan	-	-	-	40,000,000	-	40,000,000
Expenses reimbursement - received	-	2,522	-	-	-	2,522
Sales of material and consumables	<b>1,512</b>	4,965,009	-	-	<b>1,512</b>	4,965,009
Corporate guarantee obtained	-	60,000,000	-	-	-	60,000,000

#### (B) Balances at the end of the year

	2020	2019	2020	2019	2020	2019
Trade payables	<b>120,227,452</b>	88,982,291	-	-	<b>120,227,452</b>	88,982,291
Borrowings	-	-	<b>40,473,699</b>	40,766,507	<b>40,473,699</b>	40,766,507
Outstanding corporate guarantee obtained at the year end	<b>110,000,000</b>	155,000,000	-	-	<b>110,000,000</b>	155,000,000

Name of Holding Company

Torrent Pharmaceuticals Limited

All transaction with this related parties are priced on an arm's length basis.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 34 Financial Instruments

#### (i) Financial assets and liabilities

The following tables shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy as of 31 March 2020.

Particulars	Fair Value through P&L	Fair Value through OCI	Amortised Cost	Total carrying value
<b>Financial Assets:</b>				
Cash and Cash Equivalents	-	-	7,279,370	7,279,370
Trade Receivables	-	-	95,442,095	95,442,095
Other Financial Assets	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>102,721,465</b>	<b>102,721,465</b>
<b>Financial Liabilities</b>				
Borrowings	-	-	100,132,894	100,132,894
Trade Payables	-	-	129,445,960	129,445,960
Other Financial Liabilities	570,000	530,415	7,765,332	8,865,747
<b>Total</b>	<b>570,000</b>	<b>530,415</b>	<b>237,344,186</b>	<b>238,444,601</b>

Particulars	Total carrying value	Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>					
Cash and Cash Equivalents	7,279,370	-	-	-	-
Trade Receivables	95,442,095	-	-	-	-
Other Financial Assets	-	-	-	-	-
<b>Total</b>	<b>102,721,465</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>					
Borrowings	100,132,894	-	-	-	-
Trade Payables	129,445,960	-	-	-	-
Other Financial Liabilities**	8,865,747	-	530,415	570,000	1,100,415
<b>Total</b>	<b>238,444,601</b>	<b>-</b>	<b>530,415</b>	<b>570,000</b>	<b>1,100,415</b>

\*\* Management does not expect any significant change in liability on settlement.

The following tables shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy as of 31 March 2019.

Particulars	Fair Value through P&L	Fair Value through OCI	Amortised Cost	Total carrying value
<b>Financial Assets:</b>				
Cash and Cash Equivalents	-	-	9,352,342	9,352,342
Trade Receivables	-	-	86,648,682	86,648,682
Other Financial Assets	-	-	1,375	1,375
<b>Total</b>	<b>-</b>	<b>-</b>	<b>96,002,399</b>	<b>96,002,399</b>
<b>Financial Liabilities</b>				
Borrowings	-	-	95,000,000	95,000,000
Trade Payables	-	-	105,661,419	105,661,419
Other Financial Liabilities	570,000	383,660	7,817,507	8,771,167
<b>Total</b>	<b>570,000</b>	<b>383,660.00</b>	<b>208,478,926</b>	<b>209,432,586</b>

Torrent Pharma Inc.

**Notes to the financial statements (*Continued*)**  
*for the year ended 31 March 2020*

(Currency : USD)

**34 Financial Instruments (*Continued*)**

Particulars	Total carrying value	Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>					
Cash and Cash Equivalents	9,352,342	-	-	-	-
Trade Receivables	86,648,682	-	-	-	-
Other Financial Assets	1,375	-	-	-	-
Investments	-				
<b>Total</b>	<b>96,002,399</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>					
Borrowings	95,000,000	-	-	-	-
Trade Payables	105,661,419	-	-	-	-
Other Financial Liabilities	8,771,167	-	383,660.00	570,000	953,660
<b>Total</b>	<b>209,432,586</b>	<b>-</b>	<b>383,660.00</b>	<b>570,000</b>	<b>953,660</b>

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 34 Financial Instruments (*Continued*)

#### (i) Financial assets and liabilities (*Continued*) :

##### Determination of fair values:

The following are the basis of assumptions used to estimate the fair value of financial assets and liabilities that are measured at fair value on recurring basis :

**Contingent consideration :** The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast revenue and Earnings before interest tax depreciation and amortisation (EBITDA), the amount to be paid under each scenario and the probability of each scenario.

**Interest rate swaps :** The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimates is subject to a credit risk adjustment that reflects the credit risk of the respective group entity and of the counterparty; this calculated based on credit spreads derived from current credit default swap or bond prices.

#### (ii) Derivative financial instruments

##### Cash flow hedges :

Derivatives are taken to cover risk of variability in the interest rate, of the borrowings made at a floating rate of interest. The following are outstanding derivative contracts designated as cash flow hedges :

The foreign exchange forward contracts are denominated in the same currency as the forecast transactions, therefore the hedge ratio is 1:1 based on management's current assessment.

Nature of derivative contracts	Currency	Buy/Sell	Net Position		Fair value Gain / (Loss)	
			31 March 2020	31 March 2019	31 March 2020	31 March 2019
Interest rate swaps	USD	Buy	25,000,000	30,000,000	(463,955)	(360,933)
Less : Deferred tax			-	-	102,070	75,796
Balance in cash flow hedge reserve			25,000,000	30,000,000	(361,885)	(285,137)

The movement of cash flow hedge in other comprehensive income is as follow :

Particulars	Year ended 31 March 2020	Year ended 31 March 2019
Balance at the beginning of the year	(285,137)	-
Losses reclassified to profit or loss	277,792	22,727
Deferred tax on (gains) / losses reclassified to profit or loss	-	-
Change in the fair value of effective portion of cash flow hedges	(380,814)	(383,660)
Deferred tax on fair value of effective portion of cash flow hedges	26,274	75,796
<b>Balance at the end of the year</b>	<b>(361,885)</b>	<b>(285,137)</b>

# Torrent Pharma Inc.

## **Notes to the financial statements (*Continued*)** *for the year ended 31 March 2020*

(Currency : USD)

### **35 Financial Risk Management**

The group has exposure to the following risks arising from financial instruments

- Credit Risk
- Liquidity Risk
- Market Risk

#### i. **Risk Management Framework**

The Company's activities are exposed to financial risks. These risks include market risk, credit risks and liquidity risk. The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company through established policies and processes which are laid down to ascertain the extent of risks, setting appropriate limits and controls and continuous monitoring and compliance of the same.

#### ii. **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

##### **Other financial assets**

The Company maintains its cash and cash equivalents with banks having good reputation, good past track record and high quality credit rating and also reviews their credit-worthiness on an on-going basis.

##### **Trade receivables**

Trade receivables of the Company are typically unsecured. Credit risk is managed through credit approvals and periodic monitoring of the creditworthiness of customers to which company grants credit terms in the normal course of business. The Company performs ongoing credit evaluations of its customers' financial condition and monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. The allowance for provision for doubtful debts of trade receivables is created to the extent and as and when required, based upon the expected collectability of accounts receivables.

The maximum exposure to credit risk was USD 102,721,465 (31 March 2019 USD 96,001,024) being the total of the carrying amount of trade receivables and balances with banks.

## Torrent Pharma Inc.

### Notes to the financial statements (*Continued*)

for the year ended 31 March 2020

(Currency : USD)

### 35 Financial Risk Management (*Continued*)

#### iii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The parent Company has guaranteed the debt of the Company as well as agreed to support the subsidiary in case of any liquidity requirement of the Company.

##### Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

As at 31-Mar-20	Due in Year 1	Due in Year 2	Due in Year 3 to 5	Total
<b>Liabilities :</b>				
Trade and other payables*	129,445,960	-	-	129,445,960
<b>Borrowings</b>				
Lease obligation	293,112	132,894	-	426,006
Other borrowings	45,000,000	20,000,000	40,000,000	105,000,000
Other Liabilities	8,295,747	-	570,000	8,865,747
<b>Total</b>	<b>183,034,819</b>	<b>20,132,894</b>	<b>40,570,000</b>	<b>243,737,713</b>

As at 31-Mar-19	Due in Year 1	Due in Year 2	Due in Year 3 to 5	Total
<b>Liabilities :</b>				
Trade and other payables	105,661,419	-	-	105,661,419
Borrowings	5,000,000	5,000,000	85,000,000	95,000,000
Other Liabilities	8,201,167	-	570,000	8,771,167
<b>Total</b>	<b>118,862,586</b>	<b>5,000,000</b>	<b>85,570,000</b>	<b>209,432,586</b>

\*Includes USD 120,227,452 payable to parent Company.

#### iv. Market risk

Market risk refers to risk of fluctuation in fair values or future cash flows because of changes in market rates or prices. The Company's exposure from market risks is primarily on account of interest rate risk.

##### Interest rate risk

The company's 62% of interest rate risk exposure is at a fixed rate. This is achieved partly by entering into fixed-rate instruments and partly by borrowing at a floating rate and using interest swaps as hedges of the variability in cash flows attributable to interest rate risk. Borrowings amounting to USD 65 million are at floating interest rate, of which for USD 25 million the Company has used interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

##### Sensitivity analysis for floating rate of interest loans

In respect of borrowings, the outstanding loan with variable rate of interest is not significant as compared to total amount of borrowings and hence interest rate sensitivity has not been performed.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*) for the year ended 31 March 2020

(Currency : USD)

### 36 Exceptional items

#### a) Impairment of intangible assets

Impairment loss in the statement of profit and loss pertains to goodwill, certain intangible assets and intangible assets under development recognised as part of acquisition of Bio-Pharm, Inc. summarised as under:

	Year ended 31/Mar/2020	Year ended 31/Mar/2019	USD Million
Intangible assets	-	6.16	
Intangible assets under development	-	14.10	
Goodwill	-	11.00	
<b>Total</b>	<b>-</b>	<b>31.26</b>	

The above assets and the related goodwill formed part of the acquisition of Bio Pharm Inc., a Pennsylvania based manufacturing entity (merged with Torrent Pharma Inc. w.e.f. 1 January 2019), and was impaired primarily on account of:

- Up-gradation of the facility due to regulatory developments causing temporary disruption and cancellation of customer contracts.
- Change in product development strategy.

The impairment loss was determined by considering each individual intangible asset group (product under development, customer contracts etc.) as a cash generating unit (CGU). Goodwill which arose upon acquisition was apportioned to groups of CGU's for the purpose of carrying out impairment test. Recoverable amount (i.e. higher of value in use and fair value less cost to sell) of each individual CGU was compared to carrying value and impairment amount was arrived as follows:

- CGUs where carrying value was higher than recoverable amount were impaired.
- Goodwill was apportioned to remaining CGUs. The recoverable value was then compared with carrying value of Group of CGUs and impairment loss was recognised against goodwill.
- CGUs where recoverable amount was higher than carrying value were carried at carrying value.

Value in use is calculated using a discounted expected cash flow approach, with a post-tax discount rate applied to the projected risk adjusted post-tax cash flows and terminal value. The discount rate is the weighted average cost of capital of the group of cash-generating units relating to erstwhile Bio Pharm Inc. For assessing value in use, the cash flow projections are based on the most recent long-term forecasts approved by management. The long-term forecasts include management's latest estimates on sales volume and pricing as well as production and other operating costs.

Other key assumptions used in the calculations are the period of cash flow projections included in the long-term forecasts, the terminal value growth rate and the discount rate.

Key assumptions for CGUs are as follows:

- Projected cash flows for five years based on financial budgets / forecasts in line with the past experience. The perpetuity value is taken based on the long term growth rate depending on macro economic growth factors.
- Discount rate applied is disclosed in note 5.

#### b) Recall expense

The Company had charged USD 20.06 million to the statement of profit and loss in relation to product recalls made during the previous year. These expenses included write down of inventory, certain contractual obligations and recall expenses.

# Torrent Pharma Inc.

## Notes to the financial statements (*Continued*)

for the year ended 31 March 2020

(Currency : USD)

### 37 Capital management

The capital structure of the Company consists of equity, debt, cash and cash equivalents. The Company's objective for capital management is to maintain the capital structure which will support the Company's strategy to maximize shareholder's value, safeguarding the business continuity and help in supporting the growth of the Company. The Company's parent Company is committed to support the Company in order to achieve an optimum capital management.

### 38 Business Combination

The Company had acquired 100 % shares of Bio Pharm Inc. (BPI) on 17 January 2018 and in the previous year BPI had been merged with the Company with effect from 01 January 2019.

### 39 Going Concern

The negative net worth is mainly on account of impairment of acquired assets in the year ended 31 March 2019. Management has prepared financial statements for year ended 31 March 2020 on a going concern basis and the management is confident of future growth of the business. The Company has been able to meet its obligations in the ordinary course of the business in the current year.

**40** In March 2020, the World Health Organisation declared COVID-19 to be a pandemic. Due to exponential growth of this pandemic, many countries have put in place regional or complete lockdown to contain the virus. Although temporary disruptions were experienced in the supply chain, the Company has not seen any significant decrease in demand and expects situation to gradually improve with easing of restrictions. The Company has considered the possible effects that may result from COVID-19 on the carrying amounts of tangible and intangible assets, financial assets, inventory, receivables etc. as well as borrowings and liabilities accrued. Having reviewed the underlying data and based on current estimates the Company expects the carrying amount of these assets will be recovered and there is no significant impact on the Company's ability to discharge its borrowings and liabilities.

The actual impact of the global health pandemic may be different from that which has been estimated, as the COVID -19 situation evolves in the US and globally. The Company will continue to closely monitor any material changes to future economic conditions.

**41** Previous period figures have been regrouped / reclassified wherever necessary, so as to make them comparable with those of the current year.

For B S R & Co. LLP

Chartered Accountants

Firm's Registration No: 101248W/W-100022

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Nirav Patel

Partner

Membership No: 113327

Mumbai

19 May 2020

For and on behalf of the Board of Directors of

Torrent Pharma Inc.

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Sanjay Gupta

Date: 2020.05.19

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Sanjay Gupta

Director

New Jersey, USA

19 May 2020