“Torrent Pharmaceuticals Limited Conference Call”

August 1, 2011

Moderator: Ladies and gentlemen good day and welcome to the Torrent Pharma Q1 FY'12 Results Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Ms. Manoj Garg from Edelweiss; please go ahead Sir.

Manoj Garg: Good afternoon and a warm welcome to all of you. We at Edelweiss Securities are pleased to hold this call and welcome you all to the briefing of Q1 FY'12 results of Torrent Pharma Limited. On behalf of all the participants and Edelweiss, we welcome Torrent management team to discuss the results and on the outlook of the company going forward. I would like to thank the management of Torrent Pharma for taking time out for this call. Over to you Mr. Srinivasan, please.

Srinivasan: Thank you Manoj. Good afternoon everybody. We welcome you all to our post results tele-conference first quarter for the year 2011-2012. We have with us Mr. Balakrishna, Executive Director in charge of international business, Mr. Shivender Agarwal, Executive Director in charge of India formulation business and Mr. Rishi Shah, Manager Finance in charge of investor relations. First I would like to take you through the highlights of the operations for the quarter. During the quarter, total revenue grew by 20%. India formulations business grew by 10% posting revenues of Rs. 2460 million compared to Rs.2235 million last year. During the quarter the company launched 18 new products including line extension. The international operations grew by 20% during the quarter. US business grew at 58%, posting sales of Rs.403 million compared to Rs.281 million last year. The company launched two new products in US, namely donepezil and venlafaxine ER during the quarter. Two ANDAs were filed, taking the cumulative filings to 32 ANDAs and 22 DMFs pending for approval. The Brazilian business grew at 21%, posting revenues of Rs. 1074 million compared to Rs.887 million last year. The Pharma registered growth of 20%, posting revenues of Rs.834 million compared to Rs.697 million last year.

Coming to the last segment which is the contract manufacturing operations that grew at 74% posting revenues of Rs.783 million compared to Rs.451 million. Out of this, Rs.170 million was on account of dossier out licensing income from deals done with some multinational companies compared to Rs.24 million booked in the last year. In terms of the financials on a consolidated basis, the net profit after tax grew by 38%. During the quarter we had high manufacturing overheads primarily coming on account of the new plant, which was commissioned at Sikkim resulting into overall lower capacity utilization of the manufacturing facilities, so these are the highlights. Thank you very much and we should now start the Q&A session.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Mr. Bhavin Shah. Please go ahead sir.

Bhavin Shah: Thanks and congrats for the numbers. Sir, if you could briefly guide on what the domestic formulation business would clock in for the full year, 16 to 18% should be a growth rate?

Shivender Aggarwal: We have grown by 16% in the total value of business of 835 Crores.

Bhavin Shah: Okay, is there some seasonality coming in normally in the first half also and then it ramps up in the third, fourth quarter should that be a trend? Is there seasonality issue in the business in Q1, Q2 or is there going to be a steady growth from your own or is there grown to be some sort of drop?

Shivender Aggarwal: We have predominantly four kinds of businesses; one is CNS, which is by and large uniform growth you will see across the year. Whereas the reason which is acute therapy Prima Vista and gyne you will find that there is a seasonality which predominantly is for six months of the financial year, you will find bigger business as compared to second half of the year; however, the growth factor continues to be by and large same, because the base also has similar effect from the previous year.

Bhavin Shah: Some color in the European side of the operations, how is the CIS market doing for you?

Srinivasan: Actually, the CIS market is not a very significant portion of our business, it is very miniscule. Russia and CIS put together we have business of about annually $10 million, actually we are right now on a mode of consolidation and we are setting right the credit terms so we expect steady growth from that territory.

Bhavin Shah: When will that really start reflecting in the numbers, the change in business strategy there in Russia?

H Balakrishna: They will not be much of a difference in terms of the numbers that you are going to see, but what we are doing in the current year; you will start seeing the effects from next year.

Bhavin Shah: Thank you so much.

Moderator: Thank you Sir. The next question is from the line of Mr. Akshat Vyas from Anvil Stock & Shares. Please go ahead.

Akshat Vyas: Congratulations on good set of numbers. Sir I just had some questions, firstly in terms of your margins, this quarter you had a higher margin, so going ahead do we see the same margins sustainable?

Srinivasan: What we mentioned also in my introduction that we had a dossier outlay income of about 17 Crores in the current quarter. One cannot be sure of whether this kind of revenues will repeat. In the current year, we will have more revenues coming in, but not to the same extent and it may not be to such a large extent in the coming year. So, one is to look at the margins adjusting process. With adjusting process, I think the margins are kind of stable. Adjust for this, another one of items it will be kind of slightly stable.

Akshat Vyas: Is that right to assume that it will be at the range of 20 going ahead, because we had some investments in other geographies which were going to have some pressure on the margins going ahead. The Q4 margins were low, because we had some investments in other regions also, right?

Srinivasan: What I can tell you is, whatever is the last year margin we would expect those margins to be maintained.

Akshat Vyas: FY’11 margins, which you are saying, and that you will be able to sustain. Second thing, in terms of annual report, your creditor days have increased substantially, right?

Srinivasan: Creditor days actually fluctuates. There are a couple of businesses, which falters this even though we do not have any significant variation in the credit terms offered to our customer, the variation in the credit days will come on account of our contract manufacturing business which we have for insulin. So sometimes when the stocking takes place there is an additional creditor, which comes into the Balakrishnance sheet, so that results into some kind of fluctuation.

Akshat Vyas: Sir, your working capital size, as of now is how much could I know that?

Rishi Shah: We will come back to you.

Akshat Vyas: Capex for FY’12 and the tax rate?

Srinivasan: Last year, we had tax rate of about 21%, we expect about 300 basis points improvement in tax rate in the current year. Capex roughly would be in the region of about 200 Crores.

Akshat Vyas: Okay, thank you Sir.

Moderator: Thank you Mr. Vyas. The next question is from the line of Mr. Ravi Agarwal from Standard Chartered Securities, please go ahead.

Ravi Agarwal: Congrats, I hope you continue doing these calls, very useful to have these calls. First thing is on the domestic formulation business, we have added around 300 odd people in Q3 last year and yet we do not see that effect actually showing up in terms of numbers yet, you still grown at around 10%. When do we see this ramp up or the effect of people actually reflect in the numbers?

Shivender Aggarwal: As I said that we have four major areas of operations, one is PND and CNS, 300 people what we have; we have added these people for CNS and PND. When you look at these two segments, one did reasonably well during this quarter, the other segment that is acute therapy where I have not done well is primarily for two reasons, one is that my antibiotic has not done well. Whereas if I look at competition, they have done better than me in this area, so we identified the issue that why my antibiotic has not done well and the corrective steps we have taken, so I expect the results of this correction we will see in Q3 of this year.

Ravi Agarwal: So for the full year I think you have mentioned which should go up 16 to 18%.

Shivender Aggarwal: That is right.

Ravi Agarwal: Secondly, on Brazil, what is the update in terms of new product addition, you have mentioned that there has been some uptakes in terms of Brazil operations coming from that, could you just update us in terms of your products roll out for this year?

H Balakrishna: This year, we have launched two products, and we should be launching another two products in Q4 of this year. One thing you need to understand that we are in the branded generic business, so it is not possible for us to launch products whenever we desire, so we need to have timing gap to make sure that each brand gets the adequate focus and there we are also constrained by the time taken by the regulatory authorities to grant us the approval, so we have several products which are waiting for registration with the ANDA authorities. The timeline, which used to be initially say 12 months became 18 months and today we are talking about 24 months as the time required for getting the approval from the authorities.

Ravi Agarwal: If you look at the real growth as mentioned in your presentation that your sales in real terms have actually declined in Brazil for the quarter, is it a real risk that this year Brazil operations could come under some sort of stress with four product introductions, do you see growth actually coming back in that geography going forward?

H Balakrishna: Even historically, it is not that the growth every year has been because of new products only. New products definitely do contribute, but then the interesting thing there in Brazil is the molecules that we are presenting, each of them is growing on its own. It is not that we have a portfolio where the molecules are degrowing. If the molecules growing one is in a comfortable environment as long as the strategies that we adopt are okay and they are implemented properly. We do not normally consider more than about three or four products launched every year, even this year it would be in that manner. The point is that, the rare degrowth that you see is essentially because of the adjustments in the channel inventory because when do you see what is happening in the market with respect to the covered market which is the basket of products that we are in, and our own growth which has been around 8% and the covered market growth is around 8.7%, so by and large we are in line with the market. The primary sale degrowth that you see is essentially channel inventory adjustments, which will get adjusted in the subsequent quarters.

Ravi Agarwal: So what could be a fair growth assumption for Brazil this year?

Srinivasan: About 13%-14% is the kind of the growth I think we can expect.

Ravi Agarwal: 13-14 in rupee terms?

Srinivasan: In rupee terms it will be slightly higher.

Ravi Agarwal: Just a final question on the fixed cost. We are spending around 185 to 190 Crores excluding staff cost for the last two odd quarters now, is the cost for this quarter a fair representation of the cost going forward or are there some adjustments which we want to take?

Srinivasan: I will get back to you on this.

Ravi Agarwal: Okay thank you so much.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Sangam Iyer from Alfa Advisors. Please go ahead.

Sangam Iyer: Sir this quarter we saw decent numbers from Heumann, can you give us some idea, is this the kind of run rate that one should be looking at, around 80-82 Crores going forward as well?

Srinivasan: Heumann in terms of Euro it has grown by about 8% so for the year it is basically whatever we have got out of tenders in the past those supplies will continue and any new tender, which get awarded as we go along will add to the revenues. The predictability out of new tenders is not there, but to maintain the last year sales is what is predictable at this point in time.

Sangam Iyer: Okay. Can you give some idea on the US sales as well going forward considering that we have a few launches that are coming during the quarter and expecting launches in the coming quarter as well

H Balakrishna: The US business will continue to show good growth in terms of topline, essentially coming out of the new products that we have launched now and what we will be launching during the coming time.

Sangam Iyer: Any number that you would be looking at internally.

Srinivasan: In the current quarter the growth was about 58% so we expect the growth to be quite healthy.

Sangam Iyer: Sir on the tax rate you have mentioned it would negative around 24% if I am not wrong?

Srinivasan: I said that we would have an improvement of 300 basis points in the tax rate.

Sangam Iyer: So it took around 18 odd percent?

Srinivasan: Yes, it is correct.

Sangam Iyer: If we have to adjust for the dossier income during the quarter, our margins would be around 21 odd percent if I am not wrong, but we are guiding for around 18% for the full year, can you just help me on that?

Srinivasan: When we look at it, we look at it on the year as a whole; between the quarters one may have some variations. For instance, if you see last quarter of the last year typically we had a lot of quite a few worn off items, so between the quarters it is not quite uniform, so that is the reason I said that. We should be at least in a position to maintain the last year's margin.

Sangam Iyer: Finally, on the contract manufacturing business, could you throw some more clarity on that and also through innovators for which is working for?

Srinivasan: Contract manufacturing, we have right now contract with three companies apart from what we have been running for insulin with Novo Nordisk for several years, it is the main business right now. The three new contracts we signed quite recently are on the formulation side, where we have actually out-licensed some dossiers to some of these multi-nationals and with the back-to-back supply arrangement, which will be on an exclusive basis for a time period of about five to six years. So these supplies will commence once these multi-nationals obtain marketing authorization from the countries where they intend to launch.

Sangam Iyer: But the dossier incomes do come in as and when they get the approval for a particular geography or how is it?

Srinivasan: It is on milestone basis, there are various milestones that are typically something in advance and then you have something in delivery of dossiers or something at the time of market authorization receipt, so its spread over. We recognize that the revenue depending on the certainty and work completion.

Sangam Iyer: So any outlook on the dossier income for FY'12 or FY'13?

Srinivasan: We may not have such larger revenues as what we have had in this quarter, but we will have some sizable milestone revenues during the current year.

Sangam Iyer: Great Sir. Congratulations and all the best.

Moderator: Thank you Mr. Iyer. Participants are requested to limit their questions to two per participant. The next question is from the line of Mr. Kartik Mehta from Daiwa Capital Markets, please go ahead sir.

Kartik Mehta: If I may ask first thing on Germany, in the current tenders which were announced in early June, where do we stand, in terms of the tenders, which have been given? Have we got any substantial share and what would be the outlook post the new reforms which we see in Germany where they have limited the number of companies which can be awarded tenders in Germany, and on contracts manufacturing is my understanding correct that is this some sort of reimbursement made by our partner, so we would have expensed this in the past by way of filing in A&DA or a dossier as we meet some of the milestones, then we have some sort of a mechanism where we then realize it as an income? If yes, then how many such products are covered in the 17 Crores income that we received?

Srinivasan: On your first point on the tenders, there was a tender awarded in this quarter where we have got some nine molecules. There were two tenders, one was AOK and there was one more company, totally about 9 plus. In terms of the regulatory side, it is not significantly changed as far as Germany is concerned. I think the other question was on the CRAMS business. CRAMS business, as we have informed you in the last quarter that we have signed one deal recently with a multi-national for development and supply of one innovative product so that is based on development to be made, so that part of it is accompanied by expenses, so you need to spend money and then accordingly realize the revenue as and when you complete the development. Some part of the CRAMS revenue is for dossiers, which we had already developed, for instance the contract, which we signed with AstraZeneca, was for dossiers which we had already available with us readymade, which is out licensed and that income is getting realized on a milestone basis.

Kartik Mehta: Actually this is what I was asking you, when you recognize some amount as your milestone income, is there a parallel expense you would have borne in the past two, three, four quarters or would you have taken all of that in this quarter when you reach a milestone?

Srinivasan: No, actually some part of the expenses would have been already booked in the earlier quarter, so it depends. The recognition of revenue would depend on two factors, one is work completion and the second is what milestone we have achieved.

Kartik Mehta: So once we did not receive a milestone for a particular product and you have already booked for those products in the quarter, is it a fair assumption that after that three, four quarters from that point of time you will see some of the revenues that you include in booking because you will be entering in some sort of commercial phase of that product, is that a fair assumption?

H Balakrishna: In this business, please understand that we need to develop the product which by itself could take anywhere from 12-18 months and after the product is developed then the dossier is submitted for approval to the authorities, one needs to wait for another 12- 18 months for that, depending on which territory one is talking about. The supplies can start only after that. So what we stock in terms of commercial supplies can happen perhaps after 24-36 months after we start the work, so there would be a delay in getting the revenue from the supplies on this account.

Kartik Mehta: Sir, I have one more question, I will just actually join back the queue.

Moderator: Thank you Mr. Mehta. The next question is from the line of Mr. Amit Shah from Motilal Oswal Securities limited, please go ahead.

Amit Shah: Congratulations on good set of numbers. I have just a couple of questions. First one is on the CRAMS business, I understand that you have received Rs. 170 million for licensing income, even excluding that the growth has been very less compared to what we have seen from the past. I just want your thoughts on that, and is it something one of them or do we expect the current quarter revenue run rate to continue going forward?

Srinivasan: The CRAMS segment has two parts; the largest revenues are from the contract manufacture of insulin and that grown significantly in the quarter, it actually grew by about 35% that is because of abnormally low sales we had in Q1 of last quarter because we worked on some channel inventory in Q1 of last year. While the present level of revenues would continue, the kind of growth and the number it represents may not be a real growth number.

Amit Shah: The second question is on the Europe market that is ex Germany, in terms of Indian rupees, the growth has been much muted, just 2 Crores rise YOY, but generally in the past we have seen a healthy growth in the segment. So what were the reasons for the muted growth? That was one and what is the growth outlook for quite a while for this particular segment?

Srinivasan: In this segment, we are not expecting to see any high growth as we see in the other segments essentially because it is a tender-driven business. On the dossier business, basically in the current quarter we had some new product launches that has not gotten any significant amount of revenues. Going forward we expect a significant amount of new product launches in the current year, we expect about nine product launches as we go along during the current year, so that should bring in significant amount of revenues. So you will see a healthy growth as we go forward, but between the quarters it is lightly to be a little turbulent because it depends on what kind of products and how the customers look at the market development.

H Balkrishna: The point is here again, in the existing products there would be pricing pressures and so the growth would really come from the new product launches. We are expecting the product launches between Q3 and Q4, because that would start driving the growth.

Amit Shah: But as I understand the overall you expect this segment to underperform the overall international growth rate?

Srinivasan: No, it is not like that. It will not underperform the international growth rate.

Amit Shah: So it will grow in line with the overall international business is it?

Srinivasan: It should be around that that is right.

Amit Shah: Okay, thank you so much and wish you all the best.

Moderator: Thank you Mr. Shah, the next question is from the line of Mr. Ankur Goel from Equirus Securities, please go ahead Sir.

Ankur Goel: Congrats on the good set of numbers. I just wanted to understand that your R&D expense was only 5% of sales this time and we have been doing high R&D because we are probably one of the good R&D spenders, what is the rate which we are going forward, that R&D expense is it a strategic move that we are trying to bring it down or what can we expect going forward?

Srinivasan: In the current quarter it is slightly lower because part of the expenditure is for discovery business, where it depends on how the clinical trials were scheduled and all the recruitments taken for clinical trials. We had a little lower spend on account of that in the current quarter.

Ankur Goel: What can we expect in FY'12 in terms of R&D spends?

Srinivasan: I do not have a specific number, but it should be in line with last year's.

Ankur Goel: You guided for a 300 basis points improvement in the tax rate, is it due to our Sikkim facility that has come up in the last quarter or what is the reason for that?

Srinivasan: We did some tax planning around and that is expected to result in the some improvement in taxes.

Ankur Goel: So we are expecting around 18-19% kind of tax rate for FY'12 is it?

Srinivasan: Correct, that is right.

Ankur Goel: On the domestic side, you have said there were some issues with the acute therapy segment, can we have some clarity on what were the issues and what steps have you taken for that, because last quarter also there was 8-9% kind of growth and this quarter also we have grown by 10% in the domestic business, and this is probably business which provides us the highest kind of margins. Going forward what can we expect and what were the reasons in the acute therapy segment, which led to low growth?

Shivender Aggrawal: This 10% growth is predominantly, the culprit is acute therapy. Now the issue was that in the last couple of months the competitive companies have become very aggressive, their find on the customers and activities were quite high, and we were not in line with that. We have taken corrective steps from June so we can expect that from Q3. The lower growth of acute therapy will reverse and we will grow in line with the market.

Ankur Goel: Sir isn't it the same for the chronic therapy going forward, because competitors and many other players, they are very aggressive in chronic segments also because we are kind of a leader in CV, CNS and diabetes, so what is your outlook on the chronic segments?

Shivender Aggrawal: Fortunately, we were quite aggressive in chronic therapy, so I maintain my growth. Looking forward these two segments are going to grow double digits. Therefore, I see that I will be able to maintain the leader position that I had, predominantly two reasons, one is the new product pipeline where we are able to introduce newer molecules, and secondly, the aggressive activities what we did and we intend to continue to do the aggressive activity.

Ankur Goel: One last question, if we are very aggressive in the market then obviously our expenses, SG&A expenses and other expenses would rise up, then it would be an additional burden to our margin, isn’t it?

Shivender Agarwal: There were two ways to look at. These products are giving good revenue to me - chronic variety. The moment I sell more, even if I spend some kitty out of that it will give me additional output at bottomline

Ankur Goel: So you mean to say the margins will not be affected that much? I just wanted to have your outlook on the Romania business, have we entered into the market and when can we expect the revenues coming from that market?

H Balakrishna: In Romania, we have just launched one product, we are waiting for more approvals to come in, so this year the revenues are unlikely to be significant for any of you to ask any question on that, maybe from next year onwards when we have a market in place we will have some revenues to talk about.

Ankur Goel: Okay Sir, thank you.

Moderator: Thank you Mr. Goel. Participants are requested to please restrict two questions per participant. The next question is from the line of Nalina Kanti from Sundaram Mutual funds, please go ahead.

Nalina Kanti: I just wanted to check on two things. On the domestic business if you could just help us with your growth numbers therapy wise at least in terms of our chronic therapeutic segments as to what was the covered market growth and what was our growth for the quarter? Secondly, on the Brazil, if you could just help us to understand better we had sales postponement in Q4, so has that entirely flown in this quarter and if yes, did we incur the cost in the last quarter, the entire revenue has flown to the bottomline, if you could just help us out in understanding these two things?

Rishi Shah: Nalina on your first question I will come back to you after the concall.

Srinivasan: Let me just see if I had understood your question, what you are saying that in Q4, we had talked about revenue recognition adjustment of about 20 odd Crores in Brazil, whether it was realized in the first quarter that is what is your question?

Nalina Kanti: Correct that was the first question and second thing is have we incurred the cost that pertains to that 20 Crores in Q4 or has there been some cost which has also been taken in this quarter, just want to understand the entire thing?

Srinivasan: The cost did not fluctuate. Whatever cost in respect of that particular sales gets booked as and when the sales get booked as far as the COGS is concerned, but marketing spend obviously is not in relation to the sales getting booked because that is much ahead of the sales actually happen.

Nalina Kanti: So to that extent margins have been very healthy in this quarter for us?

Srinivasan: Yes.

Nalina Kanti: Sir 22 Crores is the sales there that we have booked in this quarter?

Srinivasan: Yes, that is right.

Nalina Kanti: Which means that the current quarter growth has been largely driven by whatever postponement that we saw in last quarter, is that right way?

Srinivasan: That is what you see in the investor presentation which we have uploaded in the website adjusting for that there is a de growth, in Brazil. As Balakrishna had explained earlier we have again channel inventory adjustment taking place in the current quarter as well and that has caused this degrowth, which should recover as we go forward.

Nalina Kanti: Sir if you could just help us understand what was the quantum of inventory adjustment that we took in this quarter?

Srinivasan: The channel inventory adjustment would be about 14 Crores. The secondary market numbers, our growth has been on par with the market growth.

Nalina Kanti: Also on the domestic market if I can just quickly ask you, are we seeing any structural change in terms of competition or why has the growth actually been slower for us, in the last two quarters we have seen lower than market growth, so is there any structural issue that we are faced with or what would you probably like to attribute this slower than market growth to?

Shivender Agarwal: There is no structural change which is done or which we are planning to do, having said that it was marketing issue where my competitors have become more aggressive and I was not in line with the competitor activity which has been recognized in June and corrective steps have been taken, so we can expect that this issue will be over by the third quarter.

Nalina Kanti: So full year growth target remains intact?

Shivender Agarwal: Yes.

Nalina Kanti: Thanks a lot Sir.

Moderator: Thank you madam. The next question is from the line of Mr. Arpit Kapoor from UTI Mutual Fund. Please go ahead.

Arpit Kapoor: Thank you Sir for taking my question. Just continuing from the previous question, on the domestic market, in the acute therapy did we face pricing-led competition or was it generally dependent on the marketing activities that some of our competitors resorted to?

Shivender Agarwal: It was marketing related, not pricing related.

Arpit Kapoor: Pricing remains stable, so we are not facing any pricing pressure in the acute therapy?

Shivender Agarwal: Not as of now.

Arpit Kapoor: In chronic, going forward do we see some pricing correction happening by some of the major competitors or something if you are launching new products or is it again going to be primarily restricted to competitive activity?

Shivender Agarwal: It is primarily competitive activity, which is driving the growth. Government has come up some ideas to reduce the prices, but the industry is not looking at, our competitors are not looking at to reduce the prices.

Arpit Kapoor: Okay both in chronic as well as in acute. Just some of the competitors witnessed a lot of competition in gyne and anti-infectives as well, that was also related to more market making activities or was it related to pricing?

Shivender Agarwal: It was marketing related, as I said that it was competitors who became all of a sudden very active. It was nothing to do with the price.

Arpit Kapoor: Would it mean that they catered to more doctors, hired more sales force?

Shivender Agarwal: It is more on the activities at top level like CME and other kind of marketing strategies

Arpit Kapoor: Bonus offers also one of the reasons why the category would have shrunk for us, the other competitors would have resorted to more bonus?

Shivender Agarwal: The products which we have predominantly they are not driven by bonus offers, it is not driven by the prescription. So I am not seeing the reason for lower sales are because of the bonus offer.

Arpit Kapoor: Are we trying to do some other product launches going forward, what is the strategy for the market, because I believe we were planning to do something for Mexico because again Brazil and Mexico being together?

H Balakrishna: Mexico this year we are planning to launch two more products in the CNS area. We already have four products in the market, now that the team is getting stabilized and we have the systems in place, we are planning to launch two more products this year.

Arpit Kapoor: How much sales force will we be having in Mexico?

H Balakrishna: We have 30.

Arpit Kapoor: How many people will we be having in Brazil?

H Balakrishna: In Brazil, we have total sales force of 300.

Arpit Kapoor: Okay, thanks a lot Sir.

Moderator: The next question is from the line of Koushik Pal from Kotak Mutual Fund. Please go ahead Sir.

Koushik Pal: Congrats on the good set of numbers. Just to understand something on the domestic market, our full year growth of 16%-18% from here would mean for 9 months in the region of about 20% growth, is that something you would be comfortable with?

Shivender Agarwal: Yes there are two reasons for that, as I said that some of the marketing activity selection we have done. #2 some 40-50 products are lined up in next nine months to all the divisions to enter into, and the field force which we have expanded somewhere in January, I explained that the result of that expansion will start coming from Q3. So I feel that the 20% kind of growth will be possible to achieve in the domestic market.

Koushik Pal: I understand that this quarter, in April, May, June quarter was slightly lower on the seasonal divisions front, and you have also mentioned that anti-infectives have not done well, so at least in the market place what is the assessment, is it like that the disease season would be shorter this year or it has got shifted by a month or two months?

Shivender Agarwal: I believe it will be shifted by one month or so.

Koushik Pal: Can you share some rough numbers; is that ex of those seasonal therapy areas what was the underlying growth in the rest of the business?

Shivender Agarwal: You are talking about the growth in chronic therapy?

Koushik Pal: Yes just the chronic therapy?

Shivender Agarwal: We did about 17-18% growth.

Koushik Pal: Lastly, on the market place without going on the specific names is it that MNC companies which were traditionally not very active, is becoming relatively much more active than earlier in the market place, are you seeing that also?

Shivender Agarwal: They are, because they are getting into the generic business which was not seen earlier and they are getting into various generic products, and I am sure this will have some impact on the Indian companies, but the challenge would remain with them buying one or two companies, reach will be an issue. For generic business, they need to have a higher reach which probably many of the companies will not be able to have that kind of muscle power.

Koushik Pal: So in the urban areas at least they are into some sort of marketing-led competition that is merging?

Shivender Agarwal: Yes.

Koushik Pal: Okay that is it from my side, thank you Sir.

Moderator: Thank you Mr. Pal. The next question is from the line of Mr. Dheeresh Pathak from Goldman Sachs. Please go ahead sir.

Dheeresh Pathak: On the Brazil market, can you help me to understand whether we are selling generic or we are selling similar?

H Balakrishna: We are selling similar.

Dheeresh Pathak: Sir then can you split the market, the Brazil pharma industry between what is similar, what is with generic and what is with patented products?

H Balakrishna: Typically in terms of value the innovative would be about 50%, the branded generic would be the similar should be around 30%, and the generic-generic should be the balance 20%.

Dheeresh Pathak: How was the growth rate compared across the three pockets?

H Balakrishna: The highest growth rate would be for the generic-generic, second would be for the branded generics, and third would be for the innovative.

Dheeresh Pathak: Is there any regulatory proposal to face out the similar by 2014?

H Balakrishna: No, there is no such thing, not that we are aware of. Because normally what they would do is in case they are taking up something like that they would even put it up in their website for general public discussions and things like that, so nothing of that kind has come up so far.

Dheeresh Pathak: How much are we selling through, if my understanding is correct a lot of sales in Brazil happen through large distributors in retail chain, so primarily our sales through them or they through small retail outlets?

H Balakrishna: I would say may be 80-85% would be through these distributors and chains. Our focus is on the big distributors and chains.

Dheeresh Pathak: You talked about 17-18% growth in this quarter on the chronic side of the portfolio, assuming that chronic is 70% of our portfolio that would imply we degrew on the acute portfolio?

Shivender Agarwal: There is a very small amount of growth in the other one. There is no degrowth, about 3-4% growth we have got.

Dheeresh Pathak: Okay, thank you so much Sir.

Moderator: Thank you Mr. Pathak. The next question is from the line of Mansi Desai from Mape Securities. Please go ahead.

Mansi Desai: I just wanted a clarification; the number you quoted at 834 million? Could you give me a breakup of global sales? You gave me breakup for Brazil and US, could you do the same for Europe, Russia?

Rishi Shah: We have put a presentation on our website; it contains all the geographical breakup.

Mansi Desai: My another question would be regarding the tie up that we have had, could you give me some timeline or some clarity regarding when the revenues for astraZeneca would start flowing in and how that it is going ahead?

H Balakrishna: It is going as per the agreed schedule, so obviously as I had mentioned earlier it is a long process before we can start talking about commercialization, essentially because now we have given the dossiers which are being submitted by astraZeneca in various countries to the respective authorities and they are waiting for regulatory approvals which could start coming in from 2013 onwards, so the supplies would start after that, otherwise we are on track.

Mansi Desai: So we are not expecting the production issued in the last quarter of 2012?

H Balakrishna: There is nothing significant to talk about. It would be in some small countries, where the regulatory process does not take that long, but the big countries which would really contribute to the volumes, where the regulatory process are longer and they would not be coming in the Q4 or even early part of next year.

Mansi Desai: Could you throw some more light on the other two tie-ups that you had with the MNC, that would be say like say in 2013 or that would be after that?

H Balakrishna: The basic model is similar, so again we are talking about 2013-2014 kind of time line for the supplies to start in a significant manner.

Mansi Desai: Number of products that you have tied up with these MNC would be again in the range of 15-18 products?

H Balakrishna: Yes, it could be around that, it could of the same product, it could be different.

Mansi Desai: Could you again throw some more light on the approval that we got for Euroxetral in US, so how is the competition over there and what kind of pricing we are expecting?

H Balakrishna: The competition has become extremely severe in the US, both on the multinational as well as the Indian companies and all that, so it is a dog-eat-dog kind of situation. Prices are down and so now one could be talking in terms of price of settling to yearly 1.5-2% of the innovator price, which is true for all the generics.

Mansi Desai: So no significant market share we are expecting from the launch of Euroxetral in US?

H Balakrishna: The market share would really depend on how the competition shapes up and what kind of competitive position we can get at the time of launch.

Mansi Desai: When can we expect the launch to happen?

H Balakrishna: It is linked to the patents.

Mansi Desai: All right, thank you so much.

Moderator: Thank you madam. On account of lack of time on this call that was the last question. I would now request the management for any closing comments.

Srinivasan: Yes we had very good call. I think some of the questions we have noted down and we will come back to the participants on the details, which are required. If you still have any clarifications or further details required you are free to call one of us, Rishi and myself are available for any doubt of yours. Thank you all for participating. Thank you very much.

Moderator: Thank you Sir. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.