



“Torrent Pharmaceuticals Limited Conference Call”

May 31, 2013



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Torrent Pharmaceuticals Limited
May 31, 2013

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'13 earnings conference call of Torrent Pharma, hosted by Edelweiss Securities Limited. As a reminder, all participants' 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. Should you need assistance during the conference call, please signal for an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand over the conference to Ms. Perin Ali. Thank you and over to you Madam.

Perin Ali: Thanks. Good morning and a warm welcome to all of you on briefing of Q4 FY'13 results of Torrent Pharmaceuticals. We at Edelweiss welcome the Torrent Pharmaceutical team. Today, we have Mr. Ashok Modi, Executive Director, Mr. R. Srinivasan, Vice President, Finance and CFO, Mr. Ruchir Modi, Chief Marketing Officer, and Mr. H. Balakrishna, Executive Director, Marketing and Mr. Rishi Shah, Manager, Finance on the call. Now I would like to handover the conference to Mr. Srinivasan for opening remarks. Over to you Sir.

R. Srinivasan: Thank you, Perin. Good morning everybody. This is Srinivasan here. Welcome to our post results teleconference for the Q4 of the year 2012-13. As you have already been told, we have with us Mr. Ashok Modi, Executive Director, Mr. Ruchir Modi, Chief Marketing Officer, H. Balakrishna, Executive Director, Marketing and Mr. Rishi Shah. Let me first take you through the highlights of the operations for the quarter.

During this quarter total revenues of the Company grew by 29%, posting revenues of Rs.871 Crores versus Rs.674 Crores in the previous year. India Formulations business registered a growth of 9%, posting revenues of Rs.218Crores versus Rs.200 Crores in the previous year. International Operations grew by 34% with revenues at Rs.526 Crores.

Key highlights of major territories are as under:

US business registered a revenue growth of 43%, and on constant currency growth was 33%. The total revenues of US were at 92 Crores. Brazil operations recorded revenues of Rs.133 Crores, registering a growth of 7% and on constant currency basis the growth was 11%. Excluding Lorsartan and Metformin covered market growth is growing at 4% versus Torrent growth of 6% as per IMS.

Europe including Heumann, UK and Romania operations registered revenues of 211 Crores showing growth of 59% and on constant currency basis 48%. Rest of the World including Russia and CIS operations registered revenue growth of 23%, registering revenues of Rs.82 Crores. The constant currency growth is 14%.



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Contract Manufacturing Operations for the quarter registered a growth of 18% posting revenues of Rs.94 Crores. During the quarter Company received one-off patent assignment income of Rs. 30 Crores. EBITDA margins of the Company for the quarter stood at 27% improvement in margin is mainly on account of production and material cost on account of better product mix and favorable currency movement.

Exceptional items of Rs.37 Crores relate to diminution in value of long-term investments in GPC Cayman Investor Limited based on our assessment and provided for the entire 100% of the value of the investment.

Profit before tax stood at 159 Crores compared to 1 Crores in lieu of exceptional items during the last quarter, adjusting for exceptional items in both the years, the profit before tax showed a healthy growth of 197%. For FY'12-13 total revenues grew by 19%, posting revenues of Rs.3212 Crores. India Formulations business grew by 13%, posting revenues of 1024 Crores with international operations registering revenue of 1834 Crores, which grew by 24% and on constant currency by 18% during FY'12-13.

Contract Manufacturing Operations for the year, registered a growth of 1% posting revenue of 300 Crores. Net profit after tax, minority interest and exceptional items stood at 433 Crores showing a growth of 52%. Coming to the dividend declaration based on the Company's policy of distributing 30% of the annual consolidated profits as dividend so it declared a dividend of Rs.7 per share. Apart from this for commemorating four decades of its business operations, TPL has declared a special dividend of Rs.10 per share. So, the total dividend for the year considering this is Rs.23 per share.

The Company has decided to issue also bonus shares in the ratio of 1:1 considering that they accumulated reserves are more than 1500 Crores. This would increase the number of issued shares is expected to improve liquidity. Thank you very much. That is all from my side. We shall now start Q&A session. Over to the coordinator. Thank you.

Moderator: Thank you Sir. We will now begin with the question and answer session. We are going to take our first question from the line of Mr. Anupam Agarwal from Credit Suisse. Please go ahead.

Anupam Agarwal: Good morning to all. Mr. Srinivasan, a question on Brazil. Can you give us your outlook of growth in Brazil for the next year and also of your pending approvals in Brazil, what is the size they are targeting in Brazil? What is the market size that those products target?

R. Srinivasan: The Brazilian business as we have said in the initial briefing that it is growing as far as the market growth is concerned, it is growing much better than the market, slightly better than the market. The market growth itself has fallen and it should pickup as we go along. As far



as the new product introductions are concerned, we still have a healthy pipeline of new products coming in. Next year we will see about three to four new introductions, and overall pipeline, Rishi, do you have the number?

Rishi Shah: We will give it offline.

Anupam Agarwal: But can you give some idea about this three to four new introduction that we are expecting next year? What is the market size they are addressing? Are these really large products or they are mid-sized products or small products?

R. Srinivasan: They are not blockbuster products.

Anupam Agarwal: Sir, have the patents already expired on them? These are generic products, which we will be introducing in Brazil market?

R. Srinivasan: Yes. These would not be the first generic.

Anupam Agarwal: Just Mr. Modi, just an idea on the Indian market. Can you give some idea that of your new launches, which are the therapies most of the new launches have been targeted at? Is it more towards the GYN and Derma part or is it like the older therapies, which are chronic therapies, which are more stronger? Where are most of the new products, which are going?

Ruchir Modi: New products obviously because Derma, Gynec and Oncology course pain are the divisions we have launched recently, so the priority is to fill therapy gap there, because few years back we had nil presence. So, new product launches are more targeted in those areas whereas existing we have a certain combinations and noble idea's client in existing, existing, but more number if you have to look at it will be in these therapies.

Anupam Agarwal: What could be let us say of your growth of almost 13% in FY'13, how much would you say was the growth which came from new launches?

Ruchir Modi: New launches it was around let us say total 13, new was 2.1%.

Anupam Agarwal: That is helpful. I had one more question on US pipeline. How many Para IVs are pending in the US pipeline?

Rishi Shah: Para IVs meaning you are taking on the molecule side?

Anupam Agarwal: Of the total pending ANDAs in US, how many of them are Para IVs? Let us say molecules like Seroquel, which in the past you have challenged on those molecules. How many of such products you have in the pipeline?



- H. Balkrishna:** The point is most of the pending approvals would be on Para IVs, and they would all be on non-infringement. They would not be on invalidation.
- Anupam Agarwal:** What are your expectations over the next three years? You are at revenue based today, so do you think in the next three years this could from here onwards, it could be 2.5 times of what you are or three times or it could be even larger?
- H. Balkrishna:** We have a healthy pipeline. So, we have good launches planned for the future, but it all depends on how the market is going to shape up and how the prices could act there. We have products like clopidogrel coming for launches where the prices crash, then obviously this kind of price or the presence would not be there. So, it depends on the market situation.
- Anupam Agarwal:** Thank you. I will join back the queue.
- Moderator:** Thank you. We are going to take the next question from the line of Sonaal Gupta from UBS Securities. Please go ahead.
- Sonaal Gupta:** Thanks for taking my question. Good morning everyone. Just on the India business, when you have been in terms of growth does seem like it is still sort of probably now in line with market, but it is sort of benefiting, if I look at it on a quarterly basis from the first three quarters you had a low base and this quarter, I mean, last year you grew at 10% and this quarter you have grown at 9%. So, I just want to understand why is the India business so sluggish and when do you think that these things will sort of improve faster and what is your current field force strategy and how many people do you have?
- Ruchir Modi:** If you look at our domestic business performance in 2011-12 per se annually was 9% growth and 2012-13 is 13%. So, let us say there is an improvement by 4% last year. Q4 particularly if you really ask me there was a market slowdown, almost every company relative comparison if you have to see Q1, Q2, Q3, Q4 is relatively lesser due to the market slowdown, but yes moving forward, we do not give any estimates or outlook, but there is an improvement and we will continue to improve. Field force is around 3000 medical reps and around 700 to 800 managers. Our focus is on productivity. I told that earlier also, we do not want to increase field force size. We will be trying to get most out of the existing people that we have.
- Sonaal Gupta:** According to you, should the growth rate improve? What sort of been holding you back? Are you still seeing weak growth in Acute was the reason last year? So, should not you be growing faster given your size?
- Ruchir Modi:** You are right. Chronic we are at 15.3% growth compared to Acute, which is a 10% growth. So, Acute we need to do better.



- Sonaal Gupta:** One more question on the US business. How many ANDAs do you have pending? How do you plan to file this year?
- Rishi Shah:** That you will get from the presentation which will be uploaded after the concall.
- Rishi Shah:** Basically the update for the revised position will be in the new upload, which you will get in the next half an hour after the call.
- Sonaal Gupta:** But what sort of filings do you plan for FY'14 and what is going to be your R&D spends?
- R. Srinivasan:** You want to know the absolute R&D spends?
- Sonaal Gupta:** Yes Sir.
- R. Srinivasan:** Absolute R&D spends will actually increase over what we spent last year. Last year was abnormally low. So we will be increasing the R&D spend, and more particularly in the US as well for the US products.
- Sonaal Gupta:** But can you give some numbers on that?
- Rishi Shah:** Sonaal what we can give a range on let us say 5% to 6% of our total revenues. This year was an exceptional year wherein we had 4%. We are not taking any absolute numbers per se.
- Sonaal Gupta:** I will join back the queue. Thank you.
- Moderator:** Thank you. We are going to take our next question from the line of Bino Pathiparampil from IIFL. Please go ahead.
- Bino Pathiparampil:** Good morning and congrats on a great set of numbers. Just couple of questions; the margin for this quarter looks particularly strong. Was there any reason for that or is this something, which we can look at sustainable?
- R. Srinivasan:** One is that we had this one-off patent income of about 30 Crores, which we assigned to party that resulted in one expansion in margins, but otherwise overall there has been improvement in material cost, partly coming out of better product mix and coming out of better GC in some of the territories like US, and of course movement in forex. Forex movement it is about 1% margin expansion. So that is the broad scene.
- Bino Pathiparampil:** This 30 Crores one-off when you report the revenue breakup where will be that recognized under others?



- Rishi Shah:** Other operating income.
- Bino Pathiparampil:** Another question on the domestic price control policy. Have you made any assessment of the impact on your products?
- R. Srinivasan:** For us particularly there would not be any impact on margins.
- Bino Pathiparampil:** Net impact on margin or topline at the EBITDA level?
- R. Srinivasan:** Yes.
- Bino Pathiparampil:** Finally a question on Brazil. We had this ANVISA strike sometime back and we lost some market share because of stock outs. Have we seen some improvement in market share of those products?
- H. Balkrishna:** There has been an increase but then it is not that we have reached back to the old levels, because any loss in market at the secondary state will take sometime, but it is on the recovery trend.
- Bino Pathiparampil:** The tax rate for the year is at 25%. Is that something what we should look forward to next year as well at the consolidated level?
- Rishi Shah:** Tax rate this year is particularly higher because of two counts. One is that we had this exceptional item of provisions, and along with the tax deductible item and the second thing is that on a standalone basis, we had shipped some large number of materials from India to the subsidiaries, which are lying as inventories, wherein we have recognized profits on a standalone basis, but on a consolidated basis, those profits have still not come. It is still under inventory. So that is affecting our standalone tax and that is why it is increasing the consolidated tax as a percentage of PBT on a consolidated basis.
- Bino Pathiparampil:** I will join back the queue. Thank you.
- Moderator:** Thank you. We are going to take our next question is from the line of Jesal Shah from JM Financials. Please go ahead.
- Jesal Shah:** My question actually pertains to Brazilian market. If you can just help us understand how the market is changing with respect to the generic versus brands? What is the outlook for the next year?
- H. Balkrishna:** If one were to look at 2012-13, two things have been seen. One is there has been a general slowdown in the market with respect to the molecules that we are present in. If we exclude the Farmacia popular molecules that are the Lorsartan and metformin. Like for example,



what happened is because Lonsartan is growing so much all the other sartans they are all going down. So that kind of a behavior we have seen in that. In terms of generic penetration, yes, the penetration is definitely increasing. It will increase may be and the share of generics could become as 1% or 2% points more in 2013-14 that it was in 2012-13.

Jesal Shah: Sir, is your strategy in there not to also look at launching your own generics, or you want to still restrict yourself only to brands?

H. Balkrishna: We are evaluating the possibility of launching our own generics.

Jesal Shah: Any outlook for next year in terms of how you feel about growth in Brazil?

H. Balkrishna: We hope to do better than the market.

Jesal Shah: Thank you.

Moderator: Thank you. We are going to take our next question from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Just following on Brazil, actually if you look at the trend approval timelines for players who are entering in the second wave of launch. Suppose there is a product which is already generic with four or five players, general sense is that the six or seven player would probably get approval as late as within four or five years. So, considering the pipeline that - year-old have in Brazil, are these products already heavily generic or they do not have many players right now?

H. Balkrishna: If you look at the pipeline, there has been a mix. We have products where we could be the first generic and there are some where we could be the third or fourth. So there is a mix and again till such time, as we get our approvals who else is going to come one does not know.

Girish Bakhru: Generally on the local player side, where do you see or how much share have they taken like companies like Medley and Europharma, if you can give a broader sense and how have they impacted the trade if there is any color that you can give on that side?

H. Balkrishna: One is that yes, definitely if one were to look at the top Brazilian companies that they would really be Ashe, Europharma, these are all the companies. Earlier the situation was that they did not have much of a development pipeline, let us say 10 years back, but now they have created their own, and so they are also putting in their dossiers and it all depends upon who is able to get the approval earlier.



- Girish Bakhru:** I was under the understanding also that money local players are favored by the government then government is specifically tying up with them for certain product development programs. Is that kind of thing impacting foreign manufacturers in Brazil?
- H. Balkrishna:** I do not think that perception would be entirely correct, because we have not seen that kind of an impact on our business. Yes, there has been talk about the government supporting the local companies and getting the local companies together, but that is more for development of biosimilars, not for the normal oral solids.
- Girish Bakhru:** Second on the US side, given that lot of products in Para IV of nature, there have been incidence in the past where you have probably not entered the market to where you solve the competition was either too intense or you did not make it economic sense. Just where do you look forward? I mean now that you have gained some scale in the US, are you going to launch every product or you will still take a call where it makes sense for you?
- H. Balkrishna:** At the end of the day, we have to necessarily take a call, whether it makes commercial sense for us to launch even if we have not just Para IV, even if we have a FTF status. Because let us say five years back if you were the first to file, and maybe there would be only one person and today we have Duloxetine, which is where we have first to file status, we expect at least seven first to files. So, the kind of aura, which was there earlier, no longer exists. So, each case has to be evaluated and seen whether it makes commercial sense or not.
- Girish Bakhru:** Thank you.
- Moderator:** Thank you. We are going to take our next question from the line of Krishna Prasad from Kotak Securities. Please go ahead.
- Krishna Prasad:** Good morning everyone. Just a question on US, is there any out licensing fee as part of the US sales in the current quarter?
- R. Srinivasan:** Not on the current. We got some one time licensing fees in the previous three quarters.
- Krishna Prasad:** Thanks. My second question is with respect to some of the recent launches in US particularly Pioglitazone and metformin combination; how has the market been and if you could share some thoughts on what our market share has been and how do you see that playing out?
- H. Balkrishna:** So, far we have done reasonably well on the Pioglitazone and metformin combination and it is still, I would say early days to talk in terms of market share because it is just three months now. So, I think next quarter we will be in a better position to talk about the market shares,



but we feel that we are doing reasonably well on that. Prices have been holding and it looks good.

Krishna Prasad: What would be the market size currently for this opportunity?

Rishi Shah: We will get back to you on this.

Krishna Prasad: Finally one last question on some of the newer markets that we have entered over the last couple of years, if you could give us a sense on how these efforts have progressed, whether it is Mexico, or Romania or UK, you could talk about which are these markets where we have seen our plans being in line with our expectations. Maybe we could talk a bit about that?

H. Balkrishna: Of the three markets, Mexico, will be the oldest one, and yes today we are there only in the CNS segment and we will continue to be in the CNS segment, and the performance so far has been good and it has been I would say in line with the expectations that we had and that would also be true for UK and Romania both these markets. Now UK and Romania we would be waiting for newer product introductions, which should happen this year. So by and large they are in line with our expectations.

Krishna Prasad: What about Thailand?

H. Balkrishna: Thailand we have still not launched. As I had mentioned earlier in one of the calls, in the case we need to do the bioequivalent studies locally. So we are doing those studies. We have started getting some approvals. Once we have a basket of about seven or eight products, then we would be going into the market.

Krishna Prasad: So, that would be in FY'15 really?

R. Srinivasan: Yes.

Krishna Prasad: Thank you and good luck.

Moderator: Thank you. We are going to take our next question from the line of Ashish Rathi from Equirus Securities. Please go ahead.

Ashish Rathi: Many thanks for the opportunity. Sir, just wanted to understand at the Company level, with the year gone by we have grown the topline by around 19%. Firstly what is the outlook do you think is it sustainable as in 18% to 20% is the growth we can achieve in FY'14 or FY'15?



R. Srinivasan: Some of the expansion in margins on account of one of items coming as we have been giving you information on quarter-to-quarter basis, so, I mean going forward one of the important factors which will improve the margins this year by about say 1% is on account of forex movements. So, that would depend on that. Rest of it we had some improvements in material cost and efficiencies, which will probably continue to remain, but otherwise the margins, we feel the margins should remain at this level.

Ashish Rathi: Sir, just on the topline, I wanted to understand, is this kind of a growth achievable in the next year as well because we have some lower growth in Brazil and Indian operations, which is lower than the Company level growth we have achieved this year and 50% is still I think Brazil and India. So, what are the kinds of topline growth we can reasonably achieve?

R. Srinivasan: We do not give any specific estimates. Like when we talked about the domestic marketing we said we wanted to be higher than the market growth and for Brazil, we gave a reasonable on outlook where it is going to be. It is all moving around how the market growth is going to be and that we would like to exceed the market growth. So, that is the overall and we do not have any specific numbers.

Ashish Rathi: Sir, this inventory day in this particular year has taken a sharp jump. Is it the right way to look at it 110 days compared to close to 70 to 72 days last year and if it is what explains this?

R. Srinivasan: See the inventory days in this year we saw a sharp increase in inventories, particularly in US and Brazil, we have built up some inventories, and Brazil inventories were very low last year, lower than normal. So, we had to bring it up to the normal levels, but as far as US is concerned, we built up some inventories in anticipation of success in new products, so some of it has materialized and some of it has not materialized so that has resulted into increase in the holding days in the US.

Ashish Rathi: So, this would be already booked into sales as Rishi pointed out earlier?

Rishi Shah: Not on a consolidated basis, on a standalone basis, yes.

Ashish Rathi: What was the forex loss again in this quarter quantified?

Rishi Shah: We have a forex gain in this quarter of about 23 Crores.

Ashish Rathi: The average realization for the quarter would be how much?

Rishi Shah: Average realization for this quarter would be around 57 to 58 because we had booked some forwards. We had hedge those receivables.



- Ashish Rathi:** If I just push in one more last, is there any plans for any fund raising going ahead or any acquisition or expansion, we are planning out of any fund raising plans?
- R. Srinivasan:** Fund raising plan will be decided as and how the capital expenditure moves. So, we will have some fund raising plans as we go forward.
- Ashish Rathi:** Any quantitative numbers?
- Rishi Shah:** As I said, it would depend on the capex plans, which we have for Dahej and other plants, so it would be a normal fund raising plan, which we will have.
- Ashish Rathi:** What is the capex guidance for FY'14?
- R. Srinivasan:** We would be spending around 400 Crores.
- Ashish Rathi:** Fine thanks. I will join back the queue.
- Moderator:** Thank you. We are going to take our next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Thanks for taking my question. If you can on the dossier business in Europe, which seems to be growing reasonably well, can you throw some light in terms of what has been driving the growth and what is the outlook for this business?
- H. Balkrishna:** The business growth that you are seeing is essentially driven by UK and Romania. See what has happened is in the grouping the dossier business is combined with UK and Romania, which is our Greenfield operation. The dossier business per se is not going at that kind of a pace.
- Nitin Agarwal:** On the ROW markets, how do we see that market? Actually we have been growing fairly consistently in that space and how should we see the growth in this space, the ROW piece?
- H. Balkrishna:** The growth will be in line with what we have been seeing in the past.
- Nitin Agarwal:** So, in terms of the profitability ROW market are they in line with your overall profitability or are they are still at the stage where they still have had a critical mass as far as profitability is concerned?
- Rishi Shah:** Nitin, we are not sharing any margins on geography-by-geography basis.
- Nitin Agarwal:** Just wanted to get a qualitative feel, not exact margins or anything?



- Rishi Shah:** We cannot comment on that.
- Nitin Agarwal:** Thanks very much.
- Moderator:** Thank you. We are going to take our next question from the line of Vivek Kumar Gujarati from Anand Rathi Securities. Please go ahead.
- Vivek Kumar Gujarati:** Just wanted to know a few things like overall picture for the next two to three years, how do you see the Company's growth panning out?
- R. Srinivasan:** That is what I said in an earlier question that if you look at each of the segment like domestic in the major territory, so we actually are looking at achieving market growth and a little more than that. So that is the kind of outlook we have.
- Vivek Kumar Gujarati:** Any number can you comment like?
- R. Srinivasan:** We do not give any.
- Vivek Kumar Gujarati:** That is clear and understandable. But I am looking about three to four year's kind of perspective. I am not talking about next one year or next one quarter. I am saying longer picture how you see the bigger picture?
- R. Srinivasan:** The growth has been good if you see across all the territories and generally we have been seeing a growth of an excess of 20%. So it actually depends on how the market shapes up in each of these territories. So we do not have any specific guidance number for this.
- Vivek Kumar Gujarati:** How do you see the market shaping up over the next three to four years?
- R. Srinivasan:** We have discussed each of these in specific territories, in domestic as well as international. So do you want me to repeat this again, because this is the same question, which you have already asked?
- Vivek Kumar Gujarati:** Just wanted your domestic industry and domestic market and US market if you can?
- H. Balkrishna:** US market growth would be dependent on the number of new launches that are made. So we have about 8 to 10 products, about 7 to 8 products coming in the next year. We have seven products already approved and these are all tentative approvals and our pipeline consists of around 24 ANDAs, which are pending approvals, and then again we have around 20-odd products, which are under development. So, we have a healthy pipeline. It all depends on what kind of competition, which we will get in the US market. So it depends on how each of these products shape in pricing and if prices crash for some of the products in terms of the products, where the prices are healthy, so that would depend on how and



what kind of market share we would be targeting and the growth in turn, but in terms of product pipeline, we have a good product pipeline, so that should lay a good base for the growth.

Vivek Kumar Gujarati: Sir, can you throw some light on the recurring R&D expenditure for the current year?

Rishi Shah: As I said, R&D expense for the current year would be around 4% of our consolidated sales.

Vivek Kumar Gujarati: This is total R&D? How much is capitalized, if you can?

Rishi Shah: We do not capitalize.

Vivek Kumar Gujarati: Thank you.

Moderator: Thank you. We are going to take our next question from the line of Anupam Agarwal from Credit Suisse. Please go ahead.

Anupam Agarwal: Sir, just a clarification. You mentioned about forex gains of 23 Crores, which line item have you record that. Is it in other operating income or other expenses?

R. Srinivasan: Other expenses.

Anupam Agarwal: Second question just wanted to understand; I am not very clear what happened in the second quarter in Brazil when the ANVISA strike. So it was a problem of importing, right. So on the prescription market share it was business as usual right? Your prescription market share would not have been impacted. It was just that the supply was not there, so the drugs were getting substituted at the pharmacies? How would once the supply is restored why should it impact your market share?

H. Balkrishna: If one is not able to clear the goods from the customs and you are not able to supply to the market, even if you get a prescription when the patient goes to the pharmacy and does not get the product, he goes back to the doctor and tells him that the particular brand is not available and the doctor switches.

Anupam Agarwal: So, your prescription market share was also impacted basically?

H. Balkrishna: Yes, both will get impacted.

Anupam Agarwal: Third, just clarity that when I see the sales mix this quarter the highest growing region is Europe and still our gross margins are favorable. How is that possible because Europe is not a high gross margin business?



- Rishi Shah:** The share of Europe on to the total sales would be lower compared to let us say US or domestic.
- Anupam Agarwal:** My question is my impression is that the high gross margin business you are in are Brazil, Russia and India, and I do not see them growing very fast, so I am slightly perplexed why gross margins should improve for you in this quarter other than currency impact?
- Rishi Shah:** As Mr. Srinivasan said, that Europe the growth which you are looking is majorly coming out of our Greenfield operations in UK and Romania. Now we have higher gross margins in Romania because it is a product generic model, which we follow.
- Anupam Agarwal:** Can you just slightly quantify how much UK and Romania sales put together are for you in absolute numbers?
- Rishi Shah:** We are not sharing those numbers.
- Anupam Agarwal:** But would it be very large number. I have no context here.
- Rishi Shah:** It would not be very large. They are just startups but the growth which you are looking I will simply recall there may be that kind of a sales in the last quarter, corresponding quarter last year.
- Anupam Agarwal:** Thank you Rishi.
- Moderator:** Thank you. We are going to take our next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Sir, I have a couple of clarifications and a couple of questions. First of all when we look at the US business, we have reached a steady 90 to 92 Crores per quarter kind of a runrate from the earlier years that we have seen. So, when do we see based on the pipeline of launches, etc., for the next year or year to come or the next step up in the revenue runrate?
- H. Balkrishna:** The growth should be there. For example in a particular quarter, we are able to launch or get some good launches at good prices, and then we will see a quantum jump at that time. Otherwise it would be a steady growth.
- Sangam Iyer:** Because if I look at the runrate for the last three quarters, it has been in the same around 90 to 92-odd Crores level, so that is why I just wanted to understand whether that is a kind of products that is already launched are maturing to a certain extent and waiting for the next leg for the next launch that is expected?



- H. Balkrishna:** I think you are perhaps aware even if it is a product, which we had in marketing for few years, we could lose some customers depending upon who is going and talking to the wholesaler and giving a better price. So, one needs to compensate that with newer introductions and then perhaps get back over the products in the next round of tendering or purchasing that the groups do, so it is not happening like that. If it happens in a particular quarter, we have launches and we have not lost any of the old customers for the old products, you will see a quantum jump. But it could go down the next time. So that is right, what you will see is a steady business. It is something that we lose we are getting compensated by something that we gain.
- Sangam Iyer:** Sir, a clarification regarding the Brazilian growth. You said the Brazil market is growing at a low single digit? Did you say that the Brazilian markets are growing actually at a low single digit?
- R. Srinivasan:** Yes, covered market is growing at single digit, not low single digit, but it is in single digit.
- Sangam Iyer:** Sir, on the CRAMS business could you give us some outlook in terms of how on the contract manufacturing what is the kind of runrate that we are expecting for the next financial year? What is the kind of growth that we are expecting?
- R. Srinivasan:** As far as the CRAMS business there are two parts, one is the insulin business, which we have with Novo Nordisk that will continue the way it has been growing in the past and we really have no control on what they sell in the market. So, the market has been fluctuating. In the last year we had a growth of not a significant growth as far as insulin is concerned. Other part the business is on account of contract, which we had made with four parties, out of which there has been some development during the quarter as far as AstraZeneca is concerned. AstraZeneca has actually decided not to pursue the generic strategy, which they had given, so they disclosed it during the quarter. So, now whatever sales supply projections, which we had that would not materialize. It is not a very significant portion of our total business. So, the rest of the business is the supplies have commenced in a small basis, but is yet to pickup.
- Sangam Iyer:** Because I was just looking at the 30 Crores one-off that you had mentioned earlier during the call, if I adjust for that, we are actually looking at a kind of degrowth on a YOY basis in this segment. So, that is why I just wanted to understand on how the ramp ups are happening on that front with the various partners?
- R. Srinivasan:** I did not your question. Where is the degrowth coming from?
- Sangam Iyer:** If I adjust for the 30 Crores one-off which you said is part of the I think CRAMS that you mentioned during the contract manufacturing you mentioned in earlier part of the call?



- Rishi Shah:** Yes. That was one-time patent assignment that I meant, which we have got, in contract. It is not CRAMS.
- Sangam Iyer:** Sir, finally on the margin front, you have adjusted for the forex gains, benefits, etc., if we have to increase the R&D expenditure by 200-basis points or 100 to 200 basis points for the next financial year still we are guiding for a flattish kind of a margin, is there some operational benefits or etc., that will actually help in offsetting this increasing the R&D expenditure?
- R. Srinivasan:** What I said in the initial, I want to clarify that is kind of margin is subject to adjusting for the one-off gains, which we have had in terms of one-time, you will have to adjust for that and also you have to adjust for the economic forex economic gains which we have brought during the year. We do not know going forward it depends on how the forex movement takes place. So, we will have to adjust for these items and then look at flattish margins.
- Sangam Iyer:** Finally the last question from my end would be the tax rate for the financial year; you mentioned it could be around 22%?
- R. Srinivasan:** Around 22% is what we are estimating it.
- Sangam Iyer:** Great. Thanks a lot and all the best.
- Moderator:** Thank you. We are going to take our next question from the line of Shalabh Agarwal from Franklin Templeton. Please go ahead.
- Shalabh Agarwal:** Good afternoon everyone. Sir, just wanted to get more details on this the provision of 37 Crores that we have made this quarter on which investment and which subsidiary is this?
- R. Srinivasan:** It is not an investment in subsidiary. It is an investment in one of the companies, which it was made in 2007, and this company had a business plan, which was to manufacture goods and sell in US and so we had invested as a strategic investor, this being a Pharma business that we may be probably interested in this kind of a business would really shape up very well. So, we have taken a small stake of about 6% in this business and it was of course subject to a lot of risk factors and we knew at that time it was a quite a risky investment, so the original strategy of the promoters were actually not materializing and they have not been very successful in implementing their plan on new product developments and hence they could not actually achieve the sales, which they originally targeted.
- Shalabh Agarwal:** Which Company was this? Can you name the Company?



- R. Srinivasan:** We invested in the Company called GPC Cayman Investor, which is a special purpose vehicle and below this I think we are not allowed to disclose the name because of confidentiality reason.
- Shalabh Agarwal:** So, is the entire been written off or is there any further investment in that Company?
- R. Srinivasan:** There is no further investment in the company. We have provided for 100%. We have not written it off. This investment is still with us. So, if it is going to get us some realizable value, we would always benefit from that.
- Shalabh Agarwal:** Is the company still operating in which we had invested the operating company, is that still manufacturing selling something or is that the ramp up has not been up to the expectation?
- R. Srinivasan:** It is very much operating. They have a plant, which is approved by the USFDA and they have the strategies. So, they are now putting into action what is required for implementing the new strategies, so they still expect the company to generate a lot of profits in the future, but in near term it will run into losses. So that is the status.
- Shalabh Agarwal:** But can it require more investment, because we have 6% equity stake in the Company?
- R. Srinivasan:** We need not invest any further thing. We have no obligation to invest any further amount. So, if at all there is an investment required, the majority probably the largest investor who will be the most concerned, he will probably bring in some money for running the operations.
- Shalabh Agarwal:** Do we have any other such investments in the balance sheet?
- R. Srinivasan:** Not as of now nothing.
- Shalabh Agarwal:** This other income of the patent assignment, can you also elaborate a bit on this? What has led to this?
- R. Srinivasan:** It is a patent we had registered sometime back and we could actually generate some value of this patent registration, so we assigned this patent to a third party, which we generated some income in this quarter.
- Shalabh Agarwal:** Is there anything else apart from this that can be expected in subsequent quarters or is this just a one-off it has happened because of this assignment?
- R. Srinivasan:** We should expect some more in the next quarter.
- Shalabh Agarwal:** This is for which market Sir?



- R. Srinivasan:** This is for US market.
- Shalabh Agarwal:** Thank you Sir for taking my question. All the very best to you.
- Moderator:** Thank you. We are going to take our next question from the line of Rahul Baijal from Bharti Axa Life Insurance. Please go ahead.
- Rahul Baijal:** Just wanted to understand in terms of as you are gaining scale of operations in the US business and even in Brazil, how has your profitability improved in these markets, if you can give a flavor as we stand today versus one year back and how do you see it going forward two years down the line?
- R. Srinivasan:** When I talk of Brazilian market, the margins are fairly stable and of course in terms of we had increased the field force somewhere in the first quarter of this year, and which is yet to be productive. So as of now we had a hit on account of that in this year. So going forward when start giving productive we will benefit from that. As far as US is concerned, it is a fluctuating margin business. It depends on product pricing varies from product-to-product and it depends on how the market reacts and there are some product launches where we thought we will get good price realizations but actually it ended up the other way, and so this year the margins have been good.
- Rahul Baijal:** But the margins will be still single digit margins right, if you look at the segmental EBITDA level?
- R. Srinivasan:** We do not share any segmental EBITDA percentages.
- Rahul Baijal:** As you get more and more scale in the US business clearly your overheads over there get really absorbed and margins will only improve? That would be a key driver for margin expansion for you going forward, right?
- R. Srinivasan:** Yes.
- Rahul Baijal:** Thank you.
- Moderator:** Thank you. We are going to take our next question from the line of Monica Joshi from Avendus Securities. Please go ahead.
- Monica Joshi:** Good afternoon. Just two questions one is on AstraZeneca, if you could throw some light on what really were the discussions with AstraZeneca and is this a part of their global strategy to pull out of branded generic segment? More particularly for you had you invested anything in terms of product development specific to AstraZeneca? That is the first



question. Secondly, on Cayman, I believe the investments in that subsidiary were increased by about 18 Crores last year. So what really went wrong, because if you did not think it was viable, then what really led to the increase in the first place?

H. Balkrishna:

I will address your AstraZeneca question. Basically AstraZeneca they have a new CEO and there has been a change in their management, and they decided that they will pull out of their earlier strategy of getting into emerging markets with the branded generics proposition. From our side, we had not done any specific development activity for this particular project of theirs. These were essentially dossiers that we had already developed for our own purposes be it US or Europe or Brazil or Mexico, which we had shared with them. So there was no specific activity taken up for this and whatever we had done yes, they have the dossiers, they even got some approvals but now they have decided to pull out. They have disbanded the whole outfit that they had for this purpose. So, it is one of their corporate strategies. It had nothing to do with and that does not mean that we are pulling out of that kind of a strategy. We are still open. We are still talking to some other multinationals which is specific to AstraZeneca.

Monica Joshi:

Great. That is helpful. If you could clarify on the Cayman Investment please?

R. Srinivasan:

The investment was made in 2007 and at that time, we had several investors coming in and one was actually was the prime promoter investor who had relatively medium kind of size of share and was basically a private equity based project and this promoter investor had the knowledge of pharmaceutical market and how to go about, but along with it he decided to quit and he moved out and so it was left to the private equity investors to manage the business and the management was more run by professionals and there have also been changes in CEOs happening from time to time. So these are all the reasons, which we could not have foreseen at the time of original investment, but we laid our faith on who are the private equity investors, what is their credibility, who are the other investors who are coming in and so based on all these factors, we went ahead with the investment.

Monica Joshi:

Mr. Srinivasan, I appreciate that. What I was asking you is between FY'11 and FY'12 there was an additional investment. Is it that you bought the stake of the original promoter? Is that how we should look at it?

R. Srinivasan:

The second investment was more of a contractual obligation, and we could not get out of it.

Monica Joshi:

So, it was a commitment by you right in 2007?

R. Srinivasan:

Yes at the time of original investment.

Monica Joshi:

That is helpful. Thank you Sir.



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- Moderator:** Thank you. We are going to take our last question from the line of Praful Vora from Nirmal Bang Securities. Please go ahead.
- Praful Vora:** Thanks. Just had a housekeeping question on the other operating income, I think, even barring the 29 Crores of Milestone income this income is still at 39 Crores. I think which is pretty higher if you compare the quarterly runrate? What is the component of that?
- Rishi Shah:** Can you give it offline? We will send it you offline.
- Praful Vora:** Okay. No problem.
- Moderator:** Thank you. I would now like to hand the floor back to Ms. Perin Ali for closing comments. Over to you Madam.
- Perin Ali:** Thanks everyone and on behalf of Edelweiss, I thank the management for out taking time out. Mr. Srinivasan, if you have any closing comments. Please go ahead Sir.
- R. Srinivasan:** It was quite an interesting session, and we thank all the participants.
- Moderator:** Thank you Sir. On behalf of Edelweiss Securities Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.