"Torrent Pharma Q2FY18 Earnings Conference Call"

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MODERATOR: **MR. DEEPAK MALIK – EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharma's Q2 FY'18 Earnings 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Deepak Malik from Edelweiss Securities Limited. Thank you and over to you, sir.

Deepak Malik: Thank you. On behalf of Edelweiss, I welcome you all for the Torrent Pharma Second Quarter FY'18 Earnings Conference Call.

From Torrent Pharma's management today, we have on call Mr. Ashok Modi – Executive Director; Mr. Sanjay Gupta – In-Charge of International Business; Mr. Dhruv Gulati – Executive Director, India business and ROW; Mr. Sudhir Menon – VP, Finance and Investor Relations.

I hand over the call to Mr. Gupta for the opening remarks. Over to you, sir.

Sanjay Gupta: Thank you, Deepak. Good Evening, everybody. I would basically cover certain "Key Aspects of the Performance of the Quarter" and then Mr. Gulati will make "Some Comments on the Unichem-related Acquisition."

Overall revenue growth is flat this quarter. As you are aware, last year Q2 had a substantial impact of Aripiprazole-related revenues and profits. EBITDA margin for this quarter is at 28% Vs 26% in the same quarter previous year. In India, as per AIOCD, our growth both QoQ and MAT basis is higher than the market. So for the quarter against the market growth of 1%, Torrent registered a growth of 5% and on the MAT September 2017 basis Torrent has grown by 10% Vs India market growth of 6%. The brands that we had acquired from Sandoz earlier Regestrone and Evalon are both doing well. In Brazil, for this quarter, the degrowth is on account of one-time compensation that we paid to the channel on account of certain shortage of products and additional discounts settled with the partners. Further update on the US is that we filled two ANDAs during this quarter and the total number of ANDAs filed this year is up to four.

I would now hand over the call to Dhruv Gulati for comments on the Unichem-related acquisition.

Dhruv Gulati: Thanks, Sanjay and good evening, everybody. As all of you are aware, we have entered into Definitive Binding Agreement on 3rd of November with Unichem Laboratories to acquire the identified branded business for the territories of India and Nepal. The total consideration agreed for this transaction is Rs.3,600 crores and is expected that after completion of all the conditions and approval, the transaction should get completed by the end of 2017. This acquisition is expected to take the ranking of Torrent in the Indian Pharmaceuticals Market to fifth position as per IMS database MAT September '17.

Torrent rank in terms of overall prescription in IPM will now move from 14th to 7th with the addition of Unichem brands. The business comprises of 11 divisions of Unichem with the portfolio of about 120-brands across the therapy areas of chronic, sub-chronic and acute. This acquisition will significantly strengthen Torrent's presence in sub-categories such as Anti-Hypertensive in CVD, Digestive Enzymes and Probiotic in GI and Tranquilizer Anti-Depressant in CNS. The deal is strategic fit for Torrent. It will enhance and accelerate our market expansion and is expected to enable good synergies in terms of both revenues and costs. Along with the business, the company would be taking approximately 3,000 employees. Almost 2,100 stockiest which are currently handling this business would also be taken over which will help Torrent to further widen reach across the country for this business as well as for our existing business. As a part of this deal, we have entered into two years Manufacturing arrangement with Unichem Laboratories for manufacturing the identified products. The identified business has a turnover of about Rs.992 crores as per AIOCD. Some of the leading brands in this portfolio are Losar, Ampoxin, Unienzyme, Elsar and Vizylac. The addition of Losar, Elsar and other Anti-Hypertensive brands will get up the Torrent to the Second Position in the Anti-Hypertensive market from the current sixth position. It is proposed to be funded through a mix of internal accruals and bank borrowings. We are expecting based on our current understanding that the business maybe cash accretive in the first year after the takeover and EPS-accretive by the end of third year of operations.

We can now start with the "Question-and-Answer."

Moderator: Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: Just a first question is on the margins of the business that you are acquiring. What is the current EBITDA margin of the business that you are acquiring and where do you see that margin expanding with all the synergies in let us say one year, two year, three year timeframes?

Sudhir Menon: Aditya, as a policy, we have not been talking about the margins.

Aditya Khemka: So when you say that it is cash-accretive in three years, you are accounting for certain synergies I presume. Would you care to quantify the amount of synergies?

Sudhir Menon: We said cash accretive in year one and EPS accretive by the end of the year three.

Aditya Khemka: Sorry, so EPS-accretive by year three, I am presuming that you are accounting for some synergies by year three. Would you care to quantify those synergies?

Sudhir Menon: Not now.

Aditya Khemka: My second question is on the number of employees you mentioned. If I am not mistaken, Unichem had 3,000 MR field force and Mr. Gulati said in his opening remark that you are acquiring 3,000 people. So are you acquiring only the MRs, not zonal manager, area sales manager or this number including the area sales manager, zonal manager, regional manager and so on?

Dhruv Gulati: We are acquiring all the field staff which has MR, TM, Head BM, also the sales and marketing heads who are managing this business and the products, plus Sikkim plant employees also are going to be there.

Aditya Khemka: Just as a follow-up on this then, so if you are acquiring only the Sikkim plant out of this Rs.3600 crores that you pay, how much would be the goodwill, any ballpark number you have arrived at?

Sudhir Menon: We have not broken out segment wise, right, but it is only after the acquisition is closed, from the accounting perspective, there will be a process of doing a purchase price allocation and at that point in time we would come to know, Aditya.

Aditya Khemka: Just to clarify on this, so whatever goodwill number it might be, will you be amortizing the goodwill over a period of time or will you test it for impairment under IND AS which is the correct way of accounting for goodwill under IND AS?

Sudhir Menon: There are two pieces directly – One is the intangibles which would come in other than the goodwill. The residual will be goodwill, right. We will have to see what that number is, but as per the current accounting standard, goodwill cannot be amortized, it can only be tested for impairment.

Aditya Khemka: The intangibles will be amortized?

Sudhir Menon: Yes.

Moderator: Thank you. The next question is from the line of Ashish Rathi from Darsh Capital. Please go ahead.

Ashish Rathi: Just wanted to check on the funding side, what kind of debt would be needed to fund the acquisition and what kind of interest rate can we assume for a loan for Torrent in this case?

Ashok Modi: 70-75% would be the debt component and 25-30% would be funded out of internal accruals. Regarding interest rate, we are in discussion with banker, we have not yet finalized, but the current rate charges anywhere between 8.25% to 8.75%, so we will see what is the best we can do in this whole thing.

Ashish Rathi: Dollar-denominated debt is also a possibility?

Ashok Modi: Dollar-denominated debt may not be feasible by regulatory restriction because there are certain end use requirements which may not be feasible for us to borrow.

Ashish Rathi: I understand. Is there a possibility by the regulatory thing to refinance it later or that option does not arise itself?

Ashok Modi: Same restrictions apply to refinance as well.

Ashish Rathi: In the media interview, Unichem management has commented that the deal is 29 EV/EBITDA for them on the structure. Can you quantify that, it comes around 20%- 21% EBITDA margin for Unichem for FY'17 number they have reported?

Ashok Modi: I am not aware what they have commented. So I cannot really say anything on that comment.

Ashish Rathi: Secondly, do you have to divest some brands for Unichem on this because of overlap and what could be the quantum of that?

Dhruv Gulati: Right now we are not planning for any hive-off.

Ashish Rathi: There will not be overlap of brands in terms of market share which would be created, this might need some divestment because of compliance to anti-trust policy.

Dhruv Gulati: The overlap whatever is there, we are going to take care of it because they are fitting into the basket what we are operating, for example, if there are sartan which are present into the anti-hypertensive market where we are not very strong. Today if you see the overall Cardiology segment, there are three components to that – one is Cardiac Essential, Cardiac Therapy and also the Anti-Hypertensive. Anti-Hypertensive market is the biggest which is 58% of the total Cardio market and here was about 49%. Now with this acquisition of Losar,Tozaar, Alzar, these three brands, our share in the Anti-Hypertensive market, will increase from 49% to 62%. So this will strengthen our portfolio. Similarly, if you look at the GI portfolio, we were strong in the PPI but we were not very strong in Digestive Enzyme and Probiotic. Today, Digestive Enzyme is 4% of the overall GI market and with this we are going to be 16% share in Digestive market and in Probiotic market if you look at which is about 6% of the overall GI market, we were just having 1% share, but Unichem has about 38%, so overall it would be about 9%. So what I am saying is that these products although from outside they look as having an overlap, but they are fitting into our production portfolio and filling in the gap where we were not very strong. So actually they are going to complement our product basket and make us strong specially in Cardiology, Gastroenterology, similarly in CNS.

Ashish Rathi: Also sir, when you do this, we have taken 3,000 employees, so the productivity difference of the two companies are very different and Torrent need to keep as many 3,000 employees acquired because will it not lead to significant reduction in the combined productivity for Torrent or does the company assume there will be a very sharp improvement in the sales basket of Unichem itself?

Dhruv Gulati: One very important thing is if you look at Torrent's productivity from 2012-13 to 2017-18, it started in '12-13 we had a productivity of about 2.9 lakh and it increased to 3.5 lakh, then 4, then 5.6 in '15-16, touched almost 6 lakhs in '16-17 and now in '17-18 in H1 it is almost 6.2 while in Q2 it is about 7.2. So we have been increasing our productivity. I agree with you that Unichem productivity is quite low as compared to us which is about 2.7 and because of our operational efficiency and brand building and specialty focus, we should be able to increase the productivity of this acquired portfolio also.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Again, coming back to the rationale of the acquisition, as you mentioned the productivity of sales force I understand would be one of the major areas, can you highlight what is the current productivity of Unichem and what do you target it to be over the next 1, 2 or 3-years and what would be the way in which you would achieve it either price increase, rationalization, what exactly that will be very helpful?

Dhruv Gulati: The current productivity of Unichem is about 2.7, we are working out the details, which we will share in future discussion. What broadly I can tell you is that we are looking to increase or improve the efficiency level, we will be working on building brands and increasing the productivity with our specialty focus and the kind of equity what we have with the specialists like cardiologist, endocrinologist, CNS, neurologist, psychiatrist, this will help us to improve the overall productivity of the Unichem portfolio also.

Nimish Mehta: But sir, Unichem also would be having presence in those doctors?

Dhruv Gulati: They are present into this but the kind of equity we share with these specialists is much better than the Unichem. So this combined relationship I would say that will further enhance the productivity.

Nimish Mehta: Also, are you basically looking at increasing the prices of any of the major brands that Unichem, have or do you feel pricing differential among those major portfolio of Unichem as of now, is there an opportunity, I am just trying to understand how are we going to generate synergy?

Dhruv Gulati: Whenever we increase our prices, we look at the scope first, second is the competition prices and then we take a call. So once we will look at their prices, if there is scope we will definitely increase the prices.

Nimish Mehta: But we must have studied this before the acquisition, right?

Dhruv Gulati: We are still in the process of studying and comparing it with the competition.

Nimish Mehta: Is there any differential in the compensation structure between Torrent and Unichem? Will there be any kind of scope for improvement or how do you see that?

Dhruv Gulati: Compensation is almost same as like, there would not be any difference.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: One question on the Unichem transaction. Did you consider stock as the currency here or the reason of not using stock as the currency what the seller opposed to it or were you guys opposed to using stock as the currency?

Ashok Modi: They are not divesting this company, Anubhav.

Anubhav Agarwal: But fundamentally were you guys open to using your stock if let us say some structure could have been worked out?

Ashok Modi: Yes, we are open to whatever is the most efficient structure given the circumstances, of course subject to both the sides agreeing to that. In this case, since they were divesting only a part of the business, their reference or their desire was to have a slump sale and that is how we have gone ahead with this.

Anubhav Agarwal: You mentioned about targets on the EPS accretion and cash accretion. Roughly idea about the payback period for this transaction, should we understand it to be less than 7-years or 8-9-years, give us some idea us how are you thinking about this transaction over the long-term?

Ashok Modi: Anubhav, we will get back to you on this question because the way we work out is basically on the cash and EPS accretions and other things, payback we will work out and get back to you.

Anubhav Agarwal: I have two questions for Sanjay sir. Can you explain on the Brazil business what is the quantum that one of you are talking about? I do not understand two things over there – One, was the return of products was significant that you have to mention it because it used to be part of the normal business. Second, what did you mention about additional discount?

Sanjay Gupta: We do not disclose this amount but what I can give you an indication is that our growth is in the positive stage if you have to remove this. Generally speaking, what is in line with what we showed you in the last quarter, if you were to exclude this one-time charge. As per the Brazil close up data, we are showing a substantial growth compared to the markets or in the quarter ending August our growth is coming at 20% compared to a market growth of 8.5%. So the charges come from the excess of shortage in inventory at the wholesalers which got accumulated and which what we preferred is to take a charge at one point rather than to let it be through the system and then we had certain other issues with our wholesalers for which we have provided them compensation in this quarter itself. As a result of this, we begin with the clean slate. But we have decided not to disclose the exact amount but you can actually estimate it from the normalized growth rate.

Anubhav Agarwal: Why was it such a big surprise to you that there was so much excess inventory with the wholesalers, you were not aware of it as a company on their front because the amount of charge you are not disclosing but anyway it appears large?

Sudhir Menon: Typically what happen is there is always access to the inventory which is lying at the wholesalers. What typically happened is that the material which goes from the wholesalers to the retailers there is portion of some schemes which certain pharmacy chain run. What typically we found out is that there was some excess material which had gone into these kinds of pharmacy chain. Because of which we got an access to the inventory at the pharmacy level also and we thought going forward there is a possibility of getting returns because the inventory levels were showing little higher at the retailer level. Since we got also to know that there were certain additional push which had happened to these kinds of retail pharmacies, because we will have to settle those things with the wholesalers, so both put together we have taken a charge in Q2.

Anubhav Agarwal: Just to clarify, these products are not yet returned to you. You assume that at certain point of time they can come back, so you have just taken a provision right now?

Sudhir Menon: Absolutely.

Moderator: Thank you. The next question is from the line of Aishwarya Agarwal from Reliance Mutual Fund. Please go ahead.

Aishwarya Agarwal: Sir, for this Unichem portfolio, what kind of EBITDA margin we should anticipate probably for next year and probably three to four years down the line?

Sudhir Menon: We have not been giving out the margin as a policy of the company. So we would not be able to disclose you that number.

Aishwarya Agarwal: Second sir, the other expenses were low in this quarter. So what exactly has led to this decline?

Sudhir Menon: The other expenses if you look at Q1 was around 413 and this quarter it is around 399. So there is no major movement which has happened.

Aishwarya Agarwal: This movement the R&D has increased…

Sudhir Menon: Some expenses can go up, some expenses can come down but broadly, yes, it should be around this number only.

Aishwarya Agarwal: Any guidance for the US business say for one or two years perspective?

Sanjay Gupta: Like everybody else, we are also suffering from the price erosion in the US market. We are trying to compensate for it by increased volumes and our volumes have gone up substantially. So during this quarter we sold about 30 crores units in the tablets and capsules in the US on a monthly basis, so overall what we saw in Q2 was we had a total of about 82 crores tablets, in the past we had about 60. So our volumes have gone up, our shares for ten products we are No. 1 and for further about five products we are No.2 and No.3. So we are compensating for price erosion through volumes. What we have also done in not in Q2 but in Q1 we launched four products which have gained some traction which can compensate for the price erosion. So going forward, we will expect pricing to remain challenging in the US and we would expect the pace of launches from Torrent to increase because as you are aware, last year we filed about 16 ANDAs and this year we are also looking at 10-15 ANDAs.

Aishwarya Agarwal: Numbers are good that we are some 10-15 or 20 ANDAs. Any meaningful big launches you anticipate which probably can lead to some meaningful growth in the US portfolio in terms of revenue?

Sanjay Gupta: Right now it is hard to forecast because it will really depend upon the number of competitors. We had quite a few launches for which our customers are encouraging us to come to the market as soon as possible. But if we are thinking about Aripiprazole-style opportunity, I do not see those in the near future.

Aishwarya Agarwal: But will it be good if you give some name where you think that could be meaningful, may not be a very big product but just to know?

Sanjay Gupta: Meaningful product is any product let us say between $5 million to $20 million and a very good product is between $10 million to 20 million in the US generic market. So we expect some of the launches to be in this category. Some of the good approvals which we have and are waiting to launch. One is Fluvoxamine which is single player market with Teva. We also have Olme+ Amlodipine + HCTZ which is basically a two player market between Teva and Sun. We are also going to be launching Lamotrigine ER which is a three, four player market. We have approval for Anagrelide which is a single player market with Teva as the sole seller, it is about more than 95% market share. So we have quite a few products there, let us say the competition is limited, market size might not be hundreds of millions of dollars but it is north of 50 and maybe short of 100s. So in the $50 million to $100 million range products, we have a few strides in the goal and we expect that to have a positive impact on the top line of the company. Unfortunately, we have been falling behind our launches. So we had approvals but we have not brought them to the market, so which has resulted in a backlog of today about five products for which we have approval but not launched. But you should expect to see them in the market I would say this fiscal year.

Aishwarya Agarwal: The reason of holding the launches, you do not have any capacity issue after this Dahej facility?

Sanjay Gupta: No, it is not capacity, it is more to link to either some machine change or some need to file for some CD30 or manufacturing-related issue which we have not been able to implement, but we have been working hard to remediate this thing. What I can tell you is that most of them will get launched before the end of this fiscal year.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: My first question is in the past that we have heard you are looking for assets in the US and now the assets in the US given what has been happening with pricing and consolidation has become even more attractive. So at this point in time, you are beefing up the India brand and presence, what kind of management view on two competing geographies you have where we have sizeable presence, do you think US market is still rather an attractive for fairly prolonged periods of time?

Ashok Modi: Yes, for investment purpose we had said that US and India the markets where put our bets on if the significant investments are called for. So this acquisition of Unichem is in line with that thing. US continues to be an attractive market. Of course, it is undergoing currently a turmoil which we do not see as a long-term decrease in interest in that market. We will change our strategy. As far as investment is concerned, the investment also would take into account the change in business strategy so that we can prepare ourselves for the future.

Anmol Ganjoo: The fact that here a lot of regulatory noise around the profitability pool of Indian branded formulations coming under some kind of a stress given the regulatory noises, etc., that does not change your view how attractive the opportunity in India is?

Ashok Modi: Yes, there have been some discussions in the government and regulatory side which may impact the industry if at all they come through. Currently, we do not see any concern arising from that.

Anmol Ganjoo: My third question is now we have a reasonable critical mass as far as Indian domestic formulation is concerned. But just trying to elaborate on something you said around consolidating the cardiac therapy, and the hypertensive has now become 62% of Torrent plus Unichem share, right, which we explained, but when we look at these all segments from a three year standpoint, this dominant leadership position, does it help us gain even further market share or from here on you tend to think because we have dominant position, the chance for further expansion is lower, just trying to model out the Indian domestic piece of Torrent going forward, how should we be looking about it?

Dhruv Gulati: Cardio segment, Cardio CNS, GI, Gynec has been our major focus specialties and we will continue to launch new molecules and strengthen this segment which are high growth segment as well as our focus segments. So the focus will continue, the market share will continue to grow and we will keep working on the selected specialties.

Anmol Ganjoo: I know that you are not sharing the EBITDA profile of the acquired entity. You are also not sharing a lot of input variables which would go into letting us understand how it turns cash-accretive in year-one and EPS-accretive in year-three, but just some of the broad assumptions that you help us either model out or understand that where is the lowest hanging fruit in terms of synergies that would be helpful, is it the growth which now accelerates meaningfully from what has been the case in the past – is it on the cost side and also other things, I am sure you would have some maths in terms of what is the debt we are going to assume and how much of it is going to be internal accruals, all those assumptions which we are comfortable sharing, please if you could just help us to arrive at the fact that it is going to be EPS-accretive in year-three?

Sudhir Menon: We have uploaded a presentation on the website. I do not know if you had a chance to have a look at it. We have a slide on synergy where we have broadly laid down how the synergy value will get created.

Anmol Ganjoo: I have that slide, but that does not share anything more than what you discussed with us in the call, but…

Sudhir Menon: It is too early because there are certain broad assumptions which have been taken by us in executing this whole thing. I think what we will have to do is put all the things together and pull out a number properly. So in due course of time we will start commenting on it.

Anmol Ganjoo: When do you think will be able to consolidate this and when will the transaction get completed?

Sudhir Menon: What we have said is the transaction will probably close by the end of year 2017.

Moderator: Thank you. The next question is from the line of Karthik Mehta from Deutsche Bank. Please go ahead.

Karthik Mehta: Just trying to understand this, so you said that there will be four, five categories where you will continue to focus. Post the Unichem portfolio emerging on a pro forma basis, can you share what percentage of products are under price control?

Dhruv Gulati: If you look at the Unichem portfolio, there about 9% of the portfolio is in NLEM and against the market contribution or share of NLEM is about 19. So their contribution from NLEM is quite low. Even in case of torrent, it is about 13%. So combined entity will have about 11% to 12% of NLEM contribution which is quite low as compared to the IPM.

Karthik Mehta: The second one was you guys have never had your debt ratio very high even you acquired the assets which were from Elder. So what is your opinion on the debt ratio that you would be actually looking at – any equity to be raised to just maybe lower the debt or is it only internal accruals that you are looking at?

Ashok Modi: What happened even at the time of Elder was that when we closed the transaction and when the business was transferred to us, for a year or so, the debt-equity ratio did go a little higher than what it is currently. The cash flows in the business particularly the acquired where it came down pretty fast which is true for the pharma industry as a whole. So if you look at the point in time debt-equity really will not be lower. Over a period of two to three years, the debt-equity ratio will be much more comfortable and which is more in tune with the current equity ratio.

Karthik Mehta: So will this limit your ability to acquire a large scale asset outside India assuming that you do not dilute equity? I am asking this because with this asset you have roughly about 47-50% now as a percentage of your overall sales. Proportionately US business would actually go down. So let us say for example a year down the line you would have an opportunity to acquire something which is reasonably large in the US, not to the tune to which you were bidding earlier, would this actually limit the impact to you and what are your thoughts on that?

Ashok Modi: The second part of your earlier question was would you be able to open up at equity as an option of funding. In this situation that is in the current scenario, we do not foresee there is any specific requirement of equity raise. However, if there is no sort of reason why we would not dilute equity if the acquisition does require any equity funding. So to answer your second question, if there is an investment opportunity which is making the strategic business sense, we would definitely look at it and if it requires equity as a part of the funding, we would not be averse to sort of lowering the current promoter holding.

Karthik Mehta: Yes sir, I ask this because from the year 2004 till now whenever you have acquired any asset, you have properly integrated the asset and only after that you have looked at other assets. So would you as a company feel that you want to entirely integrate the asset and then channel your efforts to anything which is large or you are still open to look at it, without the question of debt or equity in terms of the focus to integrate and take out all the scenarios?

Ashok Modi: So what you say is right, but what has also happened is that it has been coincidence. After Elder, we were very categorical that we are looking at other opportunities of acquisition both in India and outside, of course in the geographies where we have long-term plan. It did not frutify, it is a matter of chance and that is something more which we have no control. So if you see the track record, I would agree with you that this has actually happened that way which is more by chance than by design. So in future also, it will all depend on what sort of opportunities available, what sort of strategic fit and valuations which are acceptable to us, if such opportunity is there. I do not think there would be any limitation in terms of either management bandwidth as you are asking or the equity range if required. So on both the fronts, we would be definitely willing to look at any acquisition provided it makes sense to us.

Moderator: Thank you. We take the next question from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Just two more, particularly from the Unichem integration, what we have noticed in the past is that Unichem's growth rate has been lower than the industry growth rate and the primary reason cited by the management was that the significant portion of the revenues coming from the matured brand like Losar, Ampoxin and all where the growth rate is still lower. So from Torrent's perspective, how do we see those assets, what kind of growth potential can we reach the double digit growth or it could be higher than the industry growth rate, just to take your view?

Dhruv Gulati: Yes, a very interesting question. We also had the similar thinking when we looked at the Unichem portfolio, but if you look at our track record, you see when we took over Elder and Shelcal was a major brand which was not doing well. But we had the launched new SKUs and we had some innovative strategies which helped us to make Shelcal brand grow. Another brand which we had taken over this year was Regestrone which was also a very old and a matured brand and was not doing well, and in the last four months, if you look at the Regestrone performance, even in AIOCD, it has started growing which was heavily degrowing. So we have been analyzing and we have selected this brand. Similarly, if you look at Losar, Losar has started growing, this year till September MAT if you look at their growth is about 21% against 6% market growth and CAGR growth is about 1%. We still feel that there is a lot of potential for Losar. It is our customer equity and the operation efficiency that we have will definitely help us to grow plus also there has been an expansion of the level claim as far as Losartan is concerned, it is one sartan which is the maximum approved indication plus also the Shelcal success has come because of the NI launches, same is the case with Regestrone and that is what we are planning with Losar also which are the combination which will help us to make this brand grow, we will launch. So that is what we are planning.

Sriram Rathi: Losar is now out of price control, right?

Dhruv Gulati: It is out of NLEM. Definitely, all the companies who are marketing Losartan will bring it in focus.

Sriram Rathi: Now the combined portfolio, Torrent plus Unichem, can we expect that to grow higher than the industry growth rate?

Dhruv Gulati: Obviously, that is what we really look at and we will work for.

Sriram Rathi: In the press release and also in your opening comments you mentioned that it will give you footprint in the OTC segment. So just wanted to get an idea, is Torrent now looking to aggressively move into OTC portfolio, how should we look at that opportunity?

Dhruv Gulati: We were looking at OTC profile and we were looking at OTC product, we have been analyzing the OTC market also and with the acquisition of this Unienzyme which has been put into OTC segment last year from July 2016 onwards, they have been put in OTC and it has been doing well. If you look at the overall OTC drug market which is about Rs.20,000 crores and with the change in lifestyle and eating habit, if you look at Digestive Supplement, Vitamins is further set to gain traction. So we shall work on it and we will see that how we can further grow it. So it is a good place from what we are getting.

Moderator: Thank you. We take the next question from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: Are you able to quantify how big that portfolio of Unienzyme is currently for OTC?

Dhruv Gulati: Unienzyme is about Rs.70 crore brand for them.

Runjhun Jain: Growing at what rate?

Dhruv Gulati: Growth rate would be which will be about 15%.

Moderator: Thank you. We take the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Sanjay, if you look at our US business, I am talking about our R&D program with respect to the aspirations that we had let us say two years back or three years back. Roughly, we were looking at about $0.5 billion kind of business in three, four years over there and that is why we are doing about let us say Rs.400, 450 crores R&D. Because you have enough time, we have seen turbulence for almost three, four quarters now, earlier you mentioned about focusing more of clinical trials, those kind of drugs, two questions. Have your aspirations changed now that are you more satisfied with US reaching $250 million or $300 million rather than $500 million? Secondly, how do you think about absolute R&D spend here – do you think that according to those aspirations, is Rs.450 crores too high R&D spend or you think that Rs.250-300 crores is more likely enough?

Sanjay Gupta: So as a company what we guided is that our R&D spends will continue to be in the 7% to 9%. So we will try to be in that benchmark as a percentage of sales. In absolute value, the R&D spend we are doing is focused on key geographies. So the US being of course a bigger chunk and then we are also spending money on Brazil and on Indian market, but the biggest piece is in the US. I do not think we are slowing down on our R&D spend for the US, in fact, we are actually looking at doing more complex and more expensive projects. So we are currently about close to 100 projects in line for the US. What we are finding is that the progress is little slower. So I was hoping to have higher number of ANDA come through little sooner. So it is taking a bit of time, but there is no change in plans either on the investment or the increasing cost of project for the US market and then we subsequently plan to leverage these products for the other markets. So the US comes first in terms of the prioritization of R&D projects. But our R&D spend is not all for the US, it is for a divide set of market, the US being the biggest piece. In terms of our business right now, so we have been hitting roughly about $40, $37, $39 million a quarter. I think we can basically hold steady with the current portfolio of products with the price erosion and the compensation from volume and increase more focus either on high margin products or high volume products. We need to have both basically churning out and increasing because high margin products provide us the bottom line and high-volume products provide us with the overhead absorption for our industrial facilities. If we keep doing that, I do not see the business substantially moving from where it is on the negative side, but the kicker would come a lot from the new products. So from a run rate of about $40 million a quarter, it would give you about $160 million. My first goal would be to stabilize at $250 million. For that, I would need some newer products and then we continue as Ashok bhai mentioned, external growth also continues to be a priority for the US. We have not given up. Fortunately for us we did not acquire some overpriced assets in the last few years, but it provides a good opportunity right now with the valuations where they are due to some external growth in the US both to acquire scale as well as to increase the diversity of our business and our product offerings. So I think our goal in the US having 250 as the first goal and 500 as the medium-term goal,it remains valid, Anubhav. So we are not going to change it,we just may be a little bit behind schedule.

Sudhir Menon: Only a small submission from my side. I think Anubhav, the guidance on R&D which we had given was between 6%-8%. That is what we have been looking at for the next couple of years.

Anubhav Agarwal: I am talking about it because our top line is changing due to Unichem acquisition. That is why I am focusing more on absolute rather than the percentage sales.

Sudhir Menon: I think you should not expect like a material acceleration of R&D spend from where it is right now. Just because we acquired Unichem we are not going to be adding 25 projects to the R&D portfolio besides what Mr. Gulati mentioned in terms of life cycle management of Unichem brands. So it is not because of Unichem that we would increase the R&D spend for the US. We have our own strategic projects for the US that they would continue on the current run rate.

Anubhav Agarwal: When you talk about moving towards more complex generics filings or projects, what have you done from let us say Torrent company as the fact that have you hired more scientists, more talent has already been hired or where is Torrent – is Torrent more in terms of identifying the products which they want to do right now or they have moved beyond identification to hiring the scientists and actually these products have become already part of products under development?

Sanjay Gupta: We have done two things -- one is we have actually revamped the whole portfolio, so that excise is over, so we know exactly which products and where we are going and what is our launch schedule for the next five years. We modified every quarter. So I am not saying that it is going to be cast in stone, but generally our big work is behind us. We axed quite a few projects, typically which were like either the FTF projects or day 181 projects or just making generics of very large blockbusters which has brought us a lot of success in the US but we think the path forward is different from the path so far. So we have axed those projects and we have taken different set of products for the future of Torrent in the US. So that part has been done. We have hired additional scientists, so the hiring part is also over. I think we just need a couple of more I would say senior level hirings, but the bulk of the people who do the work in terms of R&D or project management are already there. Thirdly, we have also accelerated the pace of the external collaborations. So right now, we are about close to 15 external collaborations for the US. You have seen two of them have been filed, but a lot of them would start getting filed from Q1 of next fiscal year. So in April to June timeframe, you should see at least maybe three to four submissions coming from external partners in dosage forms where Torrent is not present. And then you would also see Derma. So by the end of this fiscal year, you should have about four derma submissions and then next year the number should go up. So it is a little slower. Anubhav, one of the key aspects of our organization here is to accelerate that, but you would start seeing fruits I would say by the end of this fiscal year and by Q1 of next year, you would see a broader range of portfolio of products from us.

Moderator: Thank you. We take the next question from the line of Sayan Mukherjee from Nomura. Please go ahead.

Sayan Mukherjee: Just on the Unichem acquisition, was there a bidding process involved, whether other players who are involved or it was just Torrent Pharma?

Ashok Modi: It was a bilateral process between the companies.

Sayan Mukherjee: Just a question on the US market. Sanjay, you mentioned about $250 million in the medium-term, but it looks difficult, right, $160 million you are doing now there is erosion which is happening and incrementally with competition and new launches are not adding much of a value. How realistic is this $250 million or can it be achieved in three years I am just wondering?

Sanjay Gupta: I think it can be achieved. I will also reassure it is not straight forward unless we get some new launches. If we just focus on the organic part, unless at least 8 to 10 launches a year, we are not going to make progress beyond this. So there are no two ways about it. In the US, you have price erosion, you compensate it by a share in volume increase and by new launches, and unless you can become a launch machine, you are not going to move forward.

Sayan Mukherjee: How much is the erosion, Sanjay, YoY if you take out Abilify, I believe for the rest of the portfolio approximately?

Sanjay Gupta: It has been a high double-digit, it has been north of 15%, so it is relatively high on price erosion and it is compensated by some extent, so you do not really see it reflected in the numbers because we do not give you the number of tablets we sell in our financial reporting, but the number of tablets that we sell have gone up substantially. I had mentioned earlier that each quarter now is close to 80 to 90 crore tablets combined to 60 crore tablets in the prior year. So the volumes have gone up substantially and also the mix, we have been very focused on high margin and high volume products because we need to keep our facility running, we need to keep our cost low, but we also need to make money. So we focus where there is fruition left in the market. I expect the price pressures to be there but to diminish, not to remain at the same level of intensity. We are seeing the last big consolidation of buyers settle down now and hopefully there would be no further consolidation.

Sayan Mukherjee: One question on the domestic market. You have reported a very strong growth compared to what we have seen so far by other companies. So if you adjust for GST what should be the growth number like-to-like in Q2?

Dhruv Gulati: Growth, if you look at the GST number, it will be something like almost 27%, 28% for the quarter.

Sayan Mukherjee: I was looking at the balance sheet. There is almost Rs.100 crores increase in other intangible assets. Can you just throw some light on that?

Sudhir Menon: Novartis acquisition which happened in Q1, those have got capitalized.

Moderator: Thank you. We take the next question from the line of Rahul Sharma from Karvy Stock. Please go ahead.

Rahul Sharma: You spoke about a couple of launches which we are going to do in the foreseeable future in the US market. I just missed out on that. Could you please say that again sir?

Sanjay Gupta: We have currently five approvals, which we are pending to launch in the US market. Actually you have access to that on the FDA website as mentioned to you. So first one is the product called Fluvoxamine which is a single player market in the US, Teva actually dominated, but we have approval for it and we have kind of just sorting through our issues to resolve it. The second one is Anagrelide which again is a single player market with Teva which we should be launching it, we had approval for quite some time, we also have approvals for Lamotrigine ER which is a four player market, we have approval for Telmisartan+Amlodipine which we are currently not selling which is a two player market and lastly we have also an approval for Olmesartan+HCTZ +Amlodipine which is currently dominated by two large players – Teva and Sun. So we have about five approvals for which we are kind of behind the clock in terms of launching the product.

Rahul Sharma: How competitive is that space?

Sanjay Gupta: Teva and Sun kind of dominated, there are other two players but they do not have much share. So we think we can be a good third player in this market.

Rahul Sharma: You are expecting these launches in next two quarters or in this quarter?

Sanjay Gupta: Goal is launch all of them by the end of this fiscal year. So I am kind of optimistic. If I get four out of the five, that would be a good thing.

Rahul Sharma: On the Unichem front, just wanted to ask, what would be the staff cost addition which would happen in terms of marketing and in production as 3,000 people joining us?

Sudhir Menon: Not at this point in time.

Rahul Sharma: But normally MR what would be the range, is it more in line with what you all are having or is it different?

Sudhir Menon: One is the MR salary would depend upon the length of service he has in a particular company. So if the length of service is much longer, then the salary cost would be longer. But effectively if you look at Unichem, their attrition rate has been very high.

Rahul Sharma: Just looking at the gross margins of Torrent and Unichem, it is basically almost 70% and they are 60%. What our interaction with the company and getting feedback from the industry also previously was they have gross margin of 55-60% in their domestic formulations. So do you expect it to be in line with the company's gross margins over the next probably two, three years with the possibility?

Ashok Modi: No,their gross margins are much better than these numbers.

Moderator: Thank you. We take the next question from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: Sanjay sir, it seems you have been facing manufacturing related issues for some time now because I think six months or nine months back, it was the same thing. So what is leading to these manufacturing issues and why are you taking so long to resolve?

Sanjay Gupta: We do not have manufacturing-related issues in general. We have been successfully able to increase our volumes, Dahej is churning between 150-200 crore pills already on a per year basis and full capacity at about 250 crore pills for the US. So things are chugging along nicely on a broader manufacturing front. We have some product-specific issues. I think during one of the calls I had given further details on a product basis and we have had some change of equipments, some of the equipments became obsolete because these products were filed a long time ago. We have I would say individual product challenges for these products and we will have to file some I would say some prior approval supplements specifically for we filed PAS, for some of them CB30. So that has extended the timeline and made it a little bit outside of our control, but I think we have learnt quite a bit of lessons from this, it is not something we are very proud of and hopefully this will not repeat itself.

Alok Dalal: Gulati, one question on the OTC market. So what kind of investments are you looking at in this market from a three to five year perspective? What are the other products that you would look to bring in OTC because with Unienzyme alone you may not be able to do a lot of justice to this segment?

Dhruv Gulati: Absolutely correct, we cannot run OTC division alone with Unienzyme, we will definitely have to bring more brands into this. So we will be studying and the investments would be in line with what would be the need of the market. We have to build this brand and I am not giving you the numbers but definitely Unienzyme is a big opportunity in this Unichem basket. So we will do the right investment to make it a big brand and we shall also be bringing some new brands or new introductions we will be doing into this space.

Alok Dalal: Within the current portfolio of Torrent and Unichem, are there brands which can assume a roll of OTC in your view?

Dhruv Gulati: OTC, yes, we are evaluating that and we will decide and we will share with you at the appropriate time.

Alok Dalal: Outside India, what is the priority now between say the international markets – is it still US, Brazil and other emerging markets or would you look to allocate more resources to emerging markets in the future?

Ashok Modi: I think the priorities as I mentioned earlier remain the same. It is US, Brazil and Germany market which are the places which we identify for long-term bets and obviously the investments also would be aligned to the strategic interest. So there is no change in that strategy.

Alok Dalal: Ashok bhai, Torrent strength has been marketing and brand building. So why not incremental investments in branded generic markets?

Ashok Modi: Brazil is a branded generic market. So that is one of our major markets outside of India.

Alok Dalal: But why not look at other geographies?

Ashok Modi: What you say is right, it is possible, but there is no other geography in branded generic phase which has a very large market. So we wanted to conserve our focus on identified markets which we have been working for since quite some time. In future one can take a call as and when required. But just to add to our basket, I would say, we have two more branded generic markets which is Mexico and Philippines.

Moderator: Thank you. We take the next question from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: I had just two questions relating to Unichem acquisition. First one, do we have some overlapping of the products like where there are chances to hive off a certain portfolio of Unichem for example, I think my understanding goes that we are the leader in Alprazolam and Unichem is also owning one brand?

Dhruv Gulati: Yes, there are overlaps and I explained some of the overlap is actually getting complementing our present set of brands, but definitely right now there are no plans to hive off any overlap brands.

Bhagwan Chaudhary: But from the CCI point of view?

Sudhir Menon: There is no CCI requirement.

Bhagwan Chaudhary: So you think there will not be single brand hive off from the regulatory perspective?

Ashok Modi: From CCI perspective, we are fully compliant with that.

Bhagwan Chaudhary: Secondly, do you have certain portfolio of the Unichem like do you think that you can cross-sell the products in terms of your customers or the Torrent or in terms of the geographies do you think where Unichem is not much stronger and in particular where we can cross-sell those products where we can bring much more growth to the existing products of Unichem?

Dhruv Gulati: Yes, like the way we discussed the growth and the brands have not been doing well, for example, Torrent will become the second in Cardiology from the currently third position and

Gastro also our rank is going to improve, and then further is if you look at Unichem's equity today, they have a good equity in anti-infective therapy that is with Ampoxin. So that will bring in lot of synergy for our anti-infective basket and this synergy will be in the form of also with the coverage and the relationship what they have with the pediatrician, ENT, dentist. So that will be a complementary thing and we shall be leveraging the Unichem's equity. From Torrent's point of view, if you look at leveraging Torrent equity, we shall be able to fortify Unichem portfolio with the Torrent's equity with cardiologist, diabetologist, neuro, psychiatrist. So it is going to complement both the company products.

Bhagwan Chaudhary: Can you quantify the number that it will be incrementally 20% of the market for the Unichem products?

Dhruv Gulati: That is not possible.

Bhagwan Chaudhary: You mentioned in the press release that there will be addition of 2,000 stockists. It will be incremental 2,000 stockists?

Dhruv Gulati: Yes,we have removed them, I will not talk to you about the overlap because there are certain stockists who are common for both the companies, what I have told you about addition of 2,000 is the new stockists, so we will total number of stockists which will be about 5,000.

Bhagwan Chaudhary: How much will be the field force number now after combining this Unichem?

Dhruv Gulati: Total field force number would be about 5,000 plus.

Moderator: Thank you. That was the last question for today. I now hand the floor back to the management for the closing comments.

Dhruv Gulati: Thank you all of you for coming online and thank you for the interest shown in the company. Thanks a lot.

Moderator: Ladies and gentlemen, on behalf of Edelweiss Securities we conclude today's conference. Thank you for joining us and you may now disconnect your lines.