



“Torrent Pharmaceuticals Limited Q2FY19 Earnings
Conference Call”

November 3, 2018



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Moderator:

Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q2 FY'19 Earning Conference Call. From the management team, we have with us today, Shri Sanjay Gupta --- Executive Director, International Business; Shri Dhruv Gulati -- Executive Director, India and ROW Business; Shri Sudhir Menon – CFO. 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. Sanjay Gupta. Thank you and over to you, sir.

Sanjay Gupta:

Good evening, everybody and welcome to the second quarter FY19 conference call. Torrent Pharma had Q2 revenues of Rs.1,894 crores with the top line growth of 34%. Excluding the Unichem and Biopharma acquisitions, our growth rate in Q2 is at 18%. EBITDA margin was at 25%. Adjusted for the product recall in the US, the EBITDA margin worked at 26%. In INR terms, four of our key territories have grown strongly with India up by 34%, US up by 54%, Brazil by 23% and Germany by 20%.

I would like to walk you through some of the underlying trends behind these headline numbers. India, our largest market, contributes about 43% to our overall consolidated revenues in the current quarter. The revenue growth for the quarter for the Indian business is at 34%. Growth without the acquired Unichem portfolio for the quarter adjusted for GST is at 21%. On H1 basis, the revenue growth is at 54% and adjusted for price realization impact after transition to GST, H1 growth is at 58%. TPL growth without Unichem stands at 14% and adjusted for GST at 17%. Integration of the acquired portfolio is proceeding well and we are bringing the focus back to Specialty promotions and field force rationalization. We expect the field force rationalization to be completed by the yearend as guided by us earlier. There is a sequential improvement in the growth of the acquired portfolio as per AIOCD data. Compared to (-2%) growth reported in Q4 ending in March '18, in Q2 September '18 the acquired portfolio has grown at 5% as per the latest AIOCD data. The largest brand Losar is growing better than the covered market. Trend of Ampoxine, Unienzyme and Vizylac is equally positive and continues to grow faster than the covered market with double-digit growth compared to zero growth or degrowth in Q4 March 2018.

As you know, one of the key focus areas for Torrent is per capita, per month productivity. On this front, the combined entity, PCPM is close to Torrent's pre-acquisition PCPM base and currently stands at Rs.5.6 lakhs. Overall business continues to be specialty-driven with 70% of the prescriptions coming from specialists and the chronic/sub-chronic segment constituting 75% of our portfolio.

I would just like to highlight the performance of a few of our key brands. So Shelcal and Chymoral continue to show positive trend with Shelcal sales of Rs.409 crores as per AIOCD MAT September 2018 data set with 27% brand growth vis-à-vis a covered market growth of 10%. Chymoral sales have touched Rs.167 crores with 21% brand growth vis-à-vis 12% covered market growth. Regestrone, a brand that we had acquired from Novartis in May 2017, has

registered growth of 50% compared to a covered market growth of 24% as per the AIOCD MAT data set. Torrent launched brand line extension for Regestrone notably Regestrone CR-10 and 15 which are contributing currently to about 12% of the overall group sales and are trending as per our expectations.

Moving to the International Business, US sales in the quarter were at US\$4.4 million which is a 45% growth over the same period last year. Growth excluding the acquired Biopharma portfolio it is at 37%. The main source of growth is the increase in market share of existing products. We now have 28 products in the top-3 molecule compared to 25 at the end of March 2018. New product contributions have started to improve as we have received several approvals in H1, notably 3 in Q1 and 4 in Q2. In Germany, Torrent sales were at €30.7 million, up 11% from Q2 of last year. In Brazil, our sales were at the level of R\$81 million which show a growth of 40%. However, I would like to remind you we had an exceptionally low level of sales in Q2 of last year due to certain distributor-related provisions. As I have indicated several times, a better indicator of growth would be from the Closeup Data that is the equivalent of IMS data in Brazil which shows that the Brazil market is growing at 6.6% in MAT value terms and Torrent is growing at 9.7%.

During Q2, we invested Rs.136 crores in R&D as against Rs.106 crores in Q2 of last year. Current ratio of R&D to sales is about 7.1%. Our pace of filings and approvals in the US has started to pick up. Torrent filed 7 ANDAs in Q2, bringing total filings for the year to 9 and total number of pending ANDA approvals to 40.

To conclude, our strategy remains focused on our core branded and generic markets. In India and Brazil, our key markets are building larger brands improving field force productivity and continuing to promote to specialists. In the generic market like US, Germany and the UK, we will continue to be cost competitive and set an accelerated pace of new launches.

Operator, we can now open the call for question-and-answer.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** First question is on the penalty that we guys recorded. In which line item is this Rs.25 crores sitting?
- Sudhir Menon:** Anubhav, it is there in three-line items – one is the sales return which has happened, the other is inventory write-off but the significant part of that is sitting in other expenses, basically providing for the contractual commitments which were there.
- Anubhav Agarwal:** So would you say to give that other expenses have almost like Rs.20 crores kind of number there roughly?
- Sudhir Menon:** No, it is around Rs.15 crores.

- Anubhav Agarwal:** Can you guys give some idea about how this penalty was calculated, in the sense that my idea was that sales for this product for us was just around a million dollar and Rs.25 crores penalty. So what period have we calculated this penalty and has most of it already been reflected in this number or more can come?
- Sanjay Gupta:** The penalty is actually an approximate number, it is based on the estimate that we think, for example, we were forced to recall certain batches of the Valsartan combination products. Based on the number of batches that we are supposed to recall, we made an estimate of what would come back in terms of sales return and what would be the price at which we would reimburse it. So it is an estimate and it is an estimate based on our most considered judgment as to what would be the liability for the company for sales return. Inventory write-off is more a solid number, because we know exactly how much inventory we are holding in the US or in India. And then the third part which is actually quite fluid is in terms of what would be the penalties that any of our customers could impose on us because of this product discontinuation. As you know in the various clauses with each customer, you have different degrees of failure to supply penalties and things like that. So, which we have taken a guess estimate as to what time it took then to find an alternate source or how did they manage to solve the problem that arose because of our product discontinuation. So Anubhav, where you are right is this product was not very high contributor to our top line. So that is why we have a kind of limited impact of this discontinuation.
- Sudhir Menon:** The other thing, Anubhav, is that since it is not significant from a net sales perspective, the contract basically gives an option to the customers to buy at any price in the market and then charge it to us, that would be substantial.
- Anubhav Agarwal:** Just a clarity that you are buying this API. So would this entire let us say tomorrow your customer imposes a penalty, are you liable to pay 100% your side or in the contract get reimbursed partly from your API supplier?
- Sanjay Gupta:** We do have contract with our API supplier and we intend to impose it but I am not at liberty to talk to you about our contractual terms with our API supply.
- Anubhav Agarwal:** Second quarter, Sanjay on Germany, for past two quarters, Q1 and Q2, in constant currency, we are not doing too well, it is flattish to down performance YoY. What is happening in Germany?
- Sudhir Menon:** Anubhav, Q2 constant currency growth is around 12% and on H1 basis it is 14% Germany.
- Anubhav Agarwal:** Oh I thought because the exchange rate was favorable?
- Sudhir Menon:** Rupee has also depreciated no. In terms of INR, the growth is higher than the constant currency.
- Sanjay Gupta:** The constant currency growth in H1 is 14 and in terms of rupees the growth is at 26%.
- Anubhav Agarwal:** So this quarter how much growth have we reported in Germany?
- Sanjay Gupta:** 11%.

- Anubhav Agarwal:** And the INR would have benefited by almost like 8-9%, right?
- Sanjay Gupta:** 20% in INR. So there is no change in the German business, it continues as before. As you know that last five years we have grown at double-digit, so that is what is continuing.
- Anubhav Agarwal:** Sudhir is on debt reduction, from the balance sheet it looks like we have reduced debt by about Rs.360 crores in 1H. Can you just help us by end of this year how much debt reduction is possible roughly?
- Sudhir Menon:** H2 another I would say around Rs.300 crores.
- Anubhav Agarwal:** What is the CAPEX you are planning for this year? We have spent so far almost Rs.300 crores in 1H.
- Sudhir Menon:** H1 CAPEX is I think around Rs.100-120 crores.
- Anubhav Agarwal:** And for the full year you are planning how much?
- Sudhir Menon:** Initially the guidance which we had given was around Rs.350 crores.
- Moderator:** Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Just trying to understand this number that you gave, 18% growth in the India business ex of Unichem and Biopharm. So, the India business if you could just break it in terms of volume and price and which are the key therapies apart from the Unichem brands that you mentioned which has led to very strong growth?
- Dhruv Gulati:** Overall, if you look at the growth drivers for the Torrent as a whole against volume of IPM growth of about 4.5, our growth is about 4.1. But if you further break it to TPL-1 and the Unichem separately, Torrent as a company we have grown in volume terms by 5.7%. On the price front against 2.3 of the industry, our overall growth is about 4.2 while for Torrent base business is about 4.4 and for new products or NI if you look at against 2.6 Torrent as a company we have grown by 3.6 and TPL base business has grown by 4.5. So this has been the growth driver overall. On your second question, if you look at the major brands of Torrent, Shelcal which has crossed almost Rs.409 crores is growing by almost 26% against market growth of about 9%, Chymoral which is another big brand for us has become almost Rs.167 crores and growing 22% against market growth of 14%. Regestrone which we have acquired from Novartis has grown by almost 38% against 28% of the market. This has been the overall major three brands and even the other parent brand if you see Deplatt for example growth is 5% against market growth of 4%, Azulix which is our anti-diabetic drug has grown by 18% against market growth of 11%. So you will find that our growth for most of the major brands is in line with the market growth or higher than the market growth.
- Prakash Agarwal:** Ex-Unichem India business grown at 18%?

- Sanjay Gupta:** Yes, H1 18% is correct.
- Prakash Agarwal:** For the quarter sir?
- Sanjay Gupta:** For the Q2 adjusted for the GST impact which was there in the base year then the growth ex-Unichem is around 21%.
- Prakash Agarwal:** Secondly, in the last call you mentioned there are three big buckets to turn around Unichem which is procurement which is largely done rationalization as you said you will be doing it by end of this year, half of it is done, the third one was drop in promotional spend. So where are we in terms of coming to a normalized state?
- Dhruv Gulati:** Overall integration if you see the acquired portfolio including bringing the focus to specialty promotion and field force rationalization is almost on track and as you have correctly said we will be completing by the year end. To further integration, actually there are two phases actually; phase-I largely address that the field optimization which is in accordance with the business priorities. Besides bringing in business hygiene perspective which we have already brought in, in the last nine months and we also have reached a comfortable level in terms of field strength along with the minimal disruption to the business which was very-very important in this phase. Now regarding phase-2 is focused on optimizing the field efficiency. By aligning the acquired portfolio, marketing strategies with Torrent specialty strategy. In fact, significant interventions have been brought in to enhance brand building capabilities and revision on customer coverage front. In fact, we have tried to bring in more a specialty focus so that it is a long-term and a sustainable business. Also, there are some changes which we have made like Unienzyme which was an OTC, now is going to be promoted by the field staff also, at the same time it will be there in OTC. So it is going to be having a double or dual promotion strategy so that we can really encash on this brand. Similarly, for all other brands we have chalked out a strategy and plan so that we can grow faster than the market.
- Prakash Agarwal:** The question I asked is I am trying to understand from this level what is the margin expansion possibility or the target that we do achieve by end of this year?
- Sudhir Menon:** I think what Mr. Gulati said is the three pieces were: One is the procurement as you said, it is largely done. Second is the reduction in the promotion spend which was there, that is also largely done because it is a one-time thing which happens and then it continues, right. The third thing is rationalization and Gulati just spoke about rationalization what has happened.
- Prakash Agarwal:** In terms of margin expansion, so there is a one-off which you said about a percentage point. So where do we land up by the end of this year the exit rate of the quarter because from Unichem side I think the only thing left is the higher growth which will bring in more operating leverage. Would that be right to understand?
- Sudhir Menon:** Largely yes.

- Moderator:** Thank you. We will take the next question from the line of Girish Bakhru from Bank of America. Please go ahead.
- Girish Bakhru:** Sanjay on US side, given the volume is so strong, can you split that between let us say increase in existing business vis-à-vis new launches, what is the ratio like?
- Sanjay Gupta:** Essentially most of it is existing business as I said in my opening statement. We had eight launches but seven of them are already generic, so the contribution is not much, I would say that more than 90% of the sales increase is coming from existing products.
- Girish Bakhru:** Just on Sildenafil, I know we talked about this in the last quarter as well. You said the pricing was not important parameter in the product because the product is not reimbursed. But despite let us say you are getting 16, 17% market share, does not like the value wise that has contributed meaningfully?
- Sanjay Gupta:** As of now, our market share on Sildenafil in September IMS was at 18% and unfortunately let us say that we had a few irrational players in this market.
- Girish Bakhru:** In terms of launches, do you see any material momentum picking up in second half?
- Sanjay Gupta:** We have about five to seven launches planned for the second half until the end of March. Few of them are under litigation. So I would encourage you to look up the Para-IV litigation where Torrent comes up. So it is hard to predict what would happen at the district court level. So we are expecting at least one judgment and one FDA approval which would allow us to launch. Let me say in terms of just the IMS number, in terms of what we would be launching in the second half of the year, they would currently constitute a market of about \$5 billion compared to a first half where we had launches of about a billion dollar market size.
- Girish Bakhru:** But some of the bigger products you would probably be including that would be very crowded, right?
- Sanjay Gupta:** Therein lies the question.
- Girish Bakhru:** On Brazil, actually just wanted to get an update, you had launched some of the products, how have they done in terms of the new launches?
- Sanjay Gupta:** It is a good question. Let me tell you where they are. So we had three launches, starting in October 2016 when we launched Olmesartan, then we had Loredon which was launched in January of 2017 and the new form of Lamotrigine called Lamitor CD which was launched in February of 2018. Two of them have reached approx. 20% market share which is Lamitor CD and Olmecor and one of them is just is about to reach 10% which is Loredon, I am talking about unit market share. So all in all, I would say that at least two of them I am very-very pleased with the performance, one of them is okay with 10% market share which is Trazodone. Just on the same topic, we also would be launching about two more products in Brazil in the remaining parts of this year and then we also expect to make about overall six filings this year in Brazil.

- Girish Bakhru:** I was just trying to get a sense on the overall market, is it improving?
- Sanjay Gupta:** Yes, in terms of the overall market, the market is slowing down, the Brazil used to be traditionally a double-digit market, right now the growth of the market is much lower, 6.6%, we were expecting GDP growth of 3%, now we are at 1.5%. So the growth of the market is not accelerating, it is decelerating, but once growth remains above the market, so in value terms, market is at 6.6%, Torrent is at 9.7% in terms of MAT.
- Girish Bakhru:** I know Valsartan issue was particularly restricted in US, but did it have any impact per se on Indian market?
- Sanjay Gupta:** So Valsartan was actually linked to the API suppliers. In fact, in our case it was in the US, but literally whoever bought that APIs for whichever market was impacted...
- Dhruv Gulati:** It did not have any impact for us.
- Girish Bakhru:** No, I am saying let us say whoever had bigger share in Valsartan in India market, I know it is a molecule, it is not a very prominent molecule sold in monotherapy, did Losartan see any extra benefit of that?
- Sanjay Gupta:** I can speak for the US, all the other sartans saw acceleration in the demand.
- Girish Bakhru:** No, particularly was there any seasonality or one off impact to losar brand in this quarter?
- Dhruv Gulati:** No, in India, it did not have any impact.
- Moderator:** Thank you. We will take the next question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** Just wanted a clarity on Rs.25 crores impact which we have had in the P&L, of which Rs.15 crores is in other expense. So the other is entirely in the material cost sir?
- Sudhir Menon:** As I said, one piece has gone to the sales return, the other has gone into the inventory write-off and the third is what has come in other expenses which is Rs.15 crores which is what I said.
- Rahul Sharma:** How much would be inventory write-off sir approximately?
- Sanjay Gupta:** So the sales returns and inventory write-off together are about Rs.10 crores.
- Rahul Sharma:** You said two products in Brazil have got a market share of 20% , am I right, 20% ?
- Sanjay Gupta:** Lamitor CD, so Lamotrigine Control Relief and Olmesartan.
- Rahul Sharma:** The other one has got 10% market share, right?

- Sanjay Gupta:** Yes, which is called Loredon, the molecule is called Trazodone.
- Rahul Sharma:** What about the new launches which are there?
- Sanjay Gupta:** We have two launches this year. Other launches I will report on them as the quarter go by. So I do not want to announce them in advance. One of them I can share is the relaunch of a molecule that we have for many years, which the contracts carried on, so rest be done in the name of the brand. So we had some regulatory issues there and because of it we had to withdraw, so we will be bringing that molecule back to the market. The other one is scheduled for February, it is a major molecule.
- Rahul Sharma:** At the beginning of the year, you all had a quite a tepid view on Brazil but the numbers are showing much better performance. So any particular reason, the currency is also not holding up?
- Sanjay Gupta:** The currency has depreciated by 13-15% compared to last year, but again Brazil the primary sales number varies a lot. So, I always encourage investors and analysts to look at the secondary sales numbers and the secondary sales numbers have been consistently higher than the market growth rate. Unfortunately, the market itself has slowed down. So our growth rate in the 10% range is a good one from an underlying perspective.
- Moderator:** Thank you. We will take the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** In Germany the last quarter you had indicated that we should expect the launch momentum to pick up in Germany with about 10 or 12 products expected to be launched in the remaining of FY19 but the revenue has pretty much been flat QoQ. Are these launches being done? Should we expect this trend to improve in the second half?
- Sanjay Gupta:** Neha, there are two types of launches in Germany. One is what we call Day One launches that is when the market breaks open and then we are there right on the starting block and the other just in terms of expanding our coverage of the generic market. So this year we had two day one launches in Q1 and we will have about two to three more in Q4 and those are the I would say the big revenue opportunity. On the market coverage side, we have actually most of them lined up in Q3 and Q4.
- Neha Manpuria:** So this would indicate an improvement from the current run rate into third quarter and fourth quarter, right, we do benefit from the market coverage increase also?
- Sanjay Gupta:** Correct, but it is a long-term process. As you know the tenders in Germany last for about two years. So you will see an improvement and this has been an ongoing exercise for us. What you will see is more importantly the impact of new tender wins that we have done.
- Neha Manpuria:** My second question, you mentioned adjusted for the Rs.25 crores impact our margins were close to 26.5% if I am not wrong. Now, this obviously indicates a very sharp improvement. Is bulk of this improvement driven by Unichem, would that be a fair assessment?

- Sudhir Menon:** I would say so, Neha.
- Neha Manpuria:** Because given how strong the US has been I would assume that would have also contributed to better margin?
- Sudhir Menon:** Not really, Neha, because although there is depreciation on the USD/INR part, there is an unfavorable thing which is happening on the BRL/INR part. Overall benefit perspective, because of rupee depreciation it is not that significant.
- Neha Manpuria:** So from the current level, given we are still going to see benefits of MR rationalization in specialty focus, do you see more expansion coming through on the margins from the 26.5% that we have reported in the quarter adjusted margins?
- Sudhir Menon:** Neha, no guidance, but let us wait for one more quarter and see how it is panning out.
- Moderator:** Thank you. We will take the next question from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.
- Mayank Hyanki:** Just one clarity on the penalty. Just wanted to know whether the hit which we have taken this quarter based on the assessment of various things. Is it related to just supplies pertaining to this quarter only or is it related to the supply entirety till the contract probably for this year was there?
- Sanjay Gupta:** It is related to the discontinuation of the product. So we are not selling that product any more. This is an estimate of the liabilities related to the discontinuation. So it is a total estimate linked to the discontinuation liability.
- Mayank Hyanki:** In entirety basically that mean. While the estimate can go little bit up and down but it is with regards to the discontinuation till the time the contract was there, could be two quarters, three quarters or for the full year, right?
- Sanjay Gupta:** Yes, exactly, it is what we estimate to be the liability on the date we stop selling this product.
- Mayank Hyanki:** Secondly, the US seems to have grown pretty decently sequentially. So you would now assume that you have reached a fair level of market share given that there are production constraints which were there before Dahej had had come in, now post Dahej coming in, the supply constraints had gone away. So you would assume that we have reached fair level of market share in most other products or you still believe that market share certainly further ramped up and even the base without new launches can still grow from here on?
- Sanjay Gupta:** Essentially, there are several factors, right. So like I mentioned our share has gone up in several products, that is #1. We did have 10% growth contribution from new products something in that range but more importantly I think we benefited from the supply disruptions in the market. So as you might have learned that there are companies which have discontinued several products or there have been companies which have had issues because of which there certain molecules are not available. So, Torrent is well placed because we are one of the best supply chains in the

business which is the core part of generics competitiveness of a generic business. So because of our good stock positions and our rapid reactivity, we were able to benefit. Now that benefit last for a certain while if the original company come back we will have to see how much of that we can retain and some of that we will have to lose.

Mayank Hyanki: Most of the supply disruptions would be from multinational generic companies who have taken cost rationalization and decided to opt out of portfolios of companies or it is because of the China API supply issues?

Sanjay Gupta: No, I think most of that is two factors: One is like you mentioned the larger companies who are rationalizing the portfolio and secondly, the companies might be small but they have had some technical issue because of which they cannot supply either an FDA audit or a quality problem because of which some issues which are there.

Mayank Hyanki: Some of it will sustain and some probable will wane as competition comes?

Sanjay Gupta: As they come back, we try to win back market share, so you have to be little intelligent what you give up and what you retain.

Mayank Hyanki: Sir, with regards to our hedging position, what is the current status and by when would will start seeing a benefit of rupee at higher than 73, 7.5 in the P&L?

Sudhir Menon: Hedging policy is based on a 12-month forward basis, right. Whatever hedging we are taking today would be for the next year.

Mayank Hyanki: So for next 12-months basically the hedging policy will be benefiting us from current levels right, and margin should expand?

Sudhir Menon: Yes, if rupee does not depreciate further.

Mayank Hyanki: On the API supply issue from China, have we seen any impact from it in the current quarter and how do you see this going forward – the supply from China improving and API cost coming out or is it still the same and do you expect the situation to be like this only?

Sanjay Gupta: So API supply from China is going to get difficult. Main reason is the regulations in that country are evolving, money is becoming tight, so you will have I would say constraints now. So if you are thinking about setting up API unit in India, it is a good time. So I think the days of unlimited cheap supply from China are over, environmental regulations in that country has increased, the cost of key starting materials which a lot of API manufacturers in India import have also gone up. So it is a trend. I do not think it is going to reverse any time.

Mayank Hyanki: What percentage of our portfolio is vertically integrated with our own APIs and key starting materials of our US portfolio?

- Sanjay Gupta:** No, I will be happy to guide you on that, so Torrent is not a large API manufacturer, our combined capacity is in the 100 tons range. So we manufacture low volume, high value APIs which have let us say some technical, scientific component which makes it difficult to source it from outside or we manufacture APIs for which we would like to have security of supply. Our company's strategy is not to be fully integrated with API and we benefit from the synergies of scale that our API suppliers are able to derive by combining the demand of several companies, so no change in that. We are not an API company, we do not sell API, we manufacture low volume, high value API with the capacity across three or four plants of about 100 tons.
- Mayank Hyanki:** But despite that because of our sourcing strength we will not see much of impact this API supply issues, right?
- Sanjay Gupta:** It is a long-term trend. So it is not something that you will see a jump from one time to the other.
- Mayank Hyanki:** Lastly, book-keeping questions on other income and R&D. Any special reason for lower R&D Other income of Rs.10 crores this quarter and the R&D absolute amount spend, is this something we should expect run rate to be going forward?
- Sanjay Gupta:** So for future R&D, we have already guided that our R&D would be in the 7-8% range, right, so there should not be any surprises on that account.
- Sudhir Menon:** As far as R&D expenses are concerned, Q2 is lower than Q1. As far as other income is concerned, as you know, one of the major components is the hedging gains, right and what typically has happened this year is because of rupee depreciating those hedging gains are not visible and that is the reason why it is low.
- Mayank Hyanki:** So this is the normal run rate of Rs.10 crores if there are no hedging gains in a quarter, is that what we should assume?
- Sanjay Gupta:** So as I said, one of the major components is the forex hedging loss. So it all depends upon which way the rupee goes, right.
- Mayank Hyanki:** Is there any FOREX loss in the other income part this time?
- Sanjay Gupta:** No.
- Moderator:** Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Some book-keeping questions. So what is the CAPEX number we are looking at for the year sir and what we have done for the quarter?
- Sanjay Gupta:** So H1 we have done about Rs.100-120 crores and the full year guidance is about Rs.350 crores.
- Prakash Agarwal:** Sir, the tax rate I missed that, the tax rate is lower, any specific reason?

- Sudhir Menon:** There was some credit which we have not brought on to the book actually. So there was a favorable judgment which we got in one of the account and therefore we have recognized a MAT credit to that extent.
- Prakash Agarwal:** Because in the past we have given guidance of 29, 30% tax rate?
- Sudhir Menon:** So this year should be roughly 23, 24% for the full year.
- Prakash Agarwal:** Year after that, should it come back to normalize 29, 30%?
- Sudhir Menon:** I think, Prakash, we will talk about that during Q4, I think the picture would be clearer in Q4.
- Prakash Agarwal:** The MR strength currently we would have is?
- Dhruv Gulati:** Our current MR strength is about 4,500.
- Prakash Agarwal:** Which has slightly come down versus last quarter sir?
- Dhruv Gulati:** Initially when we took over Unichem, it was almost to the tune of 5,400.
- Prakash Agarwal:** Part of it is rationalization, part would have been natural attrition?
- Dhruv Gulati:** It is a combination or balance between natural attrition and rationalization.
- Prakash Agarwal:** Now you think this is a base and then you would work on this or you see this further moving down?
- Dhruv Gulati:** It is a business decision and we keep on looking at the number what we require according to our business model. So difficult to say right now what will be the final number by the end of the year but we keep evaluating our business model and then accordingly we decide.
- Prakash Agarwal:** I know I am repeating this, so Q2 of last year was Rs.607 crores of India sales. I am looking at a number which is ex-Unichem Q2 fiscal '19. I understand it would be flat?
- Dhruv Gulati:** Actually quarter there was a GST factor, so it is almost flat, but if you have to really look at, you must look at the overall H1 which nullify the GST impact. So H1 the internal number for TPL base business is about 14% and GST adjusted rate is about 17%. Overall for the company, it is 54% with the GST adjusted it is 58%.
- Prakash Agarwal:** There are other two items in the revenue breakup; one is others in the generic which is contract manufacturing, now it is stabilized at about Rs.120 crores a quarter, so we had done some manufacturing rejig. So do we see this number moving up going forward or this is the number which is more static?

- Sudhir Menon:** Prakash, the volumes have been lower than what was anticipated. It is better we wait for one more quarter to see how it plays down.
- Prakash Agarwal:** But the capacity supports much larger volume?
- Sudhir Menon:** Yes.
- Prakash Agarwal:** Others in the branded generic, this also seems to be moving quite fast. If you could just break it down what are the big moving parts here, Rs.167 crores sir?
- Sudhir Menon:** Rs.167 crores is in all the markets put together, other than US, Brazil, Germany and India, right.
- Prakash Agarwal:** So this is growing (+30%). So any big markets which is emerging, anything to call out?
- Sudhir Menon:** Markets are the same, but some of the markets have now started doing good, right.
- Prakash Agarwal:** So these are like South Asian countries, Middle East?
- Sudhir Menon:** Yes, so ROW has been doing well and other than that we have business in UK and Mexico.
- Sanjay Gupta:** We have been investing in UK and Mexico for the last five, six years. I think we have turned the corner in both these countries also.
- Prakash Agarwal:** This momentum is doable for the next couple of years?
- Sanjay Gupta:** Yes, we are getting started I would say, these are very small countries, so you are talking about countries where sales in the range of let us say \$10-20 million. So our expectation is for them to become large countries corresponding to the market size, but it is a process, so I think the trends continue, the pace will depend upon good team building, successful launches.
- Prakash Agarwal:** So while they contribute decently I am sure on the EBITDA front, would they be marginally dilutive both the US as well as this others business?
- Sanjay Gupta:** It is not that the branded generic business specifically in India gives higher margin, but that does not mean that we will not try to build our businesses in these markets, right.
- Moderator:** Thank you. We will take the next question from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** Sir, a few clarities on earlier comments. You did mention you are looking for five to six new launches in remaining part of FY19 for US?
- Sanjay Gupta:** Correct.
- Damayanti Kerai:** But you said like some of them are obviously dependent on the litigation outcome, right?

- Sanjay Gupta:** Correct.
- Damayanti Kerai:** So sir, you also mentioned that 2Q we benefited from some supply disruption which the peers have faced. So how should we look at the US business like near to medium-term basis like quarterly how much we should be anticipating?
- Sanjay Gupta:** I do not think we are ready to give future headroom on the US business. I think what you should try to see is what the trend has been, particularly these are B2B business, so things can move from one quarter to the other in either direction. It is not like Mr. Gulati said the India business where the trend is only in one direction. The US business is in a zig-zag business but what we are hoping for is generally we fix the date, we launch new products and we on annualized basis grow but right now the price decline also moderated, right, so we are looking at upon single digit price decline, but all it takes is a few more launches on our key products with the prices to come down. So I do not think we are ready to give forward-looking guidance on the US business except to say that the long-term our objective is to become a much more material company than what we are currently running at about 200 million a year.
- Damayanti Kerai:** Sir, how much we have reached in terms of Dahej plant utilization?
- Sanjay Gupta:** Between 50% and 60%.
- Damayanti Kerai:** Obviously, like we are looking forward to expand from this level also, right, further?
- Sanjay Gupta:** We have scope for expansion. Just to give you an idea, this Dahej has the capacity of about 700 crores tablet. So right now, we are using about half of that, so we have scope for increasing the supplies from Dahej further.
- Damayanti Kerai:** Any plant due for FDA inspection in near-term or we are right now like broadly set?
- Sanjay Gupta:** Correct, so our Pithampur derma plant has been about two years, so we should expect an inspection sometime soon. FDA has kind of occupied with these sartan issue, inspecting a lot of API manufacturers and suppliers, so we do not know, it is a little bit of let us say extra burden for the FDA, but if they want to follow the schedule, we would be due for the derma plant inspection sometime in the next six months.
- Moderator:** Thank you. We will take the next question from the line of Manish Poddar from Reliance. Please go ahead.
- Manish Poddar:** Just wanted a clarity. Did you mention that there will be an incremental 100 basis points odd margin expansion primarily because of the utilization of the Unichem portfolios going ahead?
- Sudhir Menon:** No, we said Unichem has the major contribution for the margin expansion.
- Manish Poddar:** Is this number let us say 80 basis points, how should one look at it? I am just trying to understand let us say this margin trajectory which we have seen from feeding to in the first half '19 has been

sharp, incrementally you are saying that after two buckets are done, how should one see margin visibility for let us say from 12-18-months going ahead?

Sudhir Menon: As a policy we do not provide guidance on the margin piece.

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

Alok Srivastava: There is one small question on the balance sheet. If you see the financial assets part of non-current asset, there has been a jump in other financial assets from Rs.21 crores to Rs.290 crores in September 2018. So what exactly is this other financial assets item?

Sudhir Menon: These are mostly derivative contracts which are there.

Alok Srivastava: So there is nothing material as such?

Sanjay Gupta: That is right.

Alok Srivastava: Secondly, Sanjay sir, on the US pricing scenario, you are saying that price erosion has come down to mid-single digit. Then this would be mostly for our portfolio. So in oral solids we are seeing now price erosion of let us say 5-6%. Is that right?

Sanjay Gupta: Just to spend a minute on telling you about the nature of the price erosion, so it is not as if every product in your portfolio is coming down by 5-6%, right. It is the rough average of what you are seeing across the portfolio. So some products because of enhanced competition might be seeing a much higher decline and some products would be seeing maybe not a decline. So my guidance view is that it does come back to where it has traditionally been, traditionally it used to be 3, 4%, so right now it is somewhere around 5-10%, but on the basis of an average of a portfolio, some products might be lot higher, some products might be lot lower.

Alok Srivastava: Some of the discontinuations that some of the other peers were talking about earlier in the year, discontinuations by certain MNCs or bigger generic companies, is that continuing in the market?

Sanjay Gupta: It is a process by which the new managements are there in several of these companies and they are rationalizing the portfolio. So, they either discontinuing or selling. So I think the process is still ongoing.

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

Rahul Sharma: Just wanted clarity, other income is quite low, I think you said something on FOREX gain, but would it not be benefited because of the rupee depreciation, can you make me understand?

- Sudhir Menon:** No, the forward for this year you would have taken it last year, right when the rupee was around 63, 64, so your forward rate would be much lower than the current spot rate for this year compared to the spot rate which is existing today.
- Rahul Sharma:** Okay, that is the primary reason, but have we exhausted all our spot change cover or is it yet...?
- Sudhir Menon:** No, it is 12-months forward cover which we take every month, right, it is a rolling thing which we do.
- Rahul Sharma:** But this year on an average should we breach 70 as average run rate for the dollar rate?
- Sudhir Menon:** Forward rate will be different, Rahul, it will be very difficult to take out an average for the full year.
- Rahul Sharma:** This Brazil part in the exchange gain it is not there, that is the reason?
- Sudhir Menon:** No, nothing to do with Brazil actually. It is more of the receivable hedging which we do in India, right.
- Moderator:** Thank you. We will take the next question from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.
- Chirag Dagli:** I actually have a few questions. What is the organic growth in India for the first half?
- Sudhir Menon:** Other than Unichem, you mean, right?
- Dhruv Gulati:** H1 GST adjusted base business growth is about 17%, otherwise it is 14%.
- Chirag Dagli:** Secondly, Sudhir, on this revenue booking, the booking of revenues must be happening at the average rate for the quarter, right, and the difference is in the other income, that understanding is right?
- Sudhir Menon:** Yes, that is right.
- Chirag Dagli:** The QoQ improvement in margin excluding this Rs.25 crores charge that we have taken, is this largely Unichem, is that what you meant when you said in the earlier comment that...?
- Sudhir Menon:** I said one of the significant contributors would be Unichem.
- Chirag Dagli:** So 2Q over 1Q, Sudhir, the Unichem profitability has improved?
- Sudhir Menon:** Yes, on a rolling basis, I would say 'yes'.

- Chirag Dagli:** The Brazil growth, this has been fairly volatile across quarters, but generally if you have some sense of what do you think this market can deliver especially now around when the currency has also started doing better?
- Sanjay Gupta:** Hard for us to predict currency, but what I can tell you is that Brazil is intrinsically a double-digit growth market.
- Chirag Dagli:** That still remain?
- Sanjay Gupta:** Yes, it is a large country, 14-15 million people increasing in terms of even in local currency, historically is my experience, the market has grown at about 10% range and Torrent has grown higher than 10%, right now the market is going through low phase with 6-7% growth and we are still growing at 10%. Yes, I would say Brazil is intrinsically a double-digit growth market.
- Chirag Dagli:** The local currency movement does impact profitability, right?
- Sanjay Gupta:** Yes, to an extent.
- Chirag Dagli:** Last question on the API prices. We are hearing a lot from various players that API prices are going up. If you can give us a sense of how this has impacted someone like Torrent who is not vertically integrated, across various markets how have you been able to either pass on these prices?
- Sanjay Gupta:** Like I mentioned, it is not a sudden spurt, it is the long-term trend. So if you are looking at it what is the impact in a quarter or QoQ, it is not that material because mostly the prices go up for the KSM and that impact the API but depending upon which business the API component for our product is different proportion of sales. But it is a long-term, that would be a worry, but right now QoQ it is not a very material impact for me to expose it to you.
- Chirag Dagli:** Even for the US business sir over the last three, four quarters, this factor has not been a very important factor for you to sort of worry about it?
- Sanjay Gupta:** Let us say that as the head of the US business, I am not worried about it, maybe my purchase colleague worry about it, so trying to understand what the impact is, but it has not impacted my marketing strategy as of today.
- Moderator:** Thank you. Ladies and gentlemen, that seems to be the last question for today. I would now like to hand the conference over to Mr. Sanjay Gupta for his closing comments.
- Sanjay Gupta:** I would just like to finish today by thanking you all for joining us on this Saturday and we hope to be in touch with you soon. Thank you and have a good evening.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Torrent Pharmaceuticals Limited, we conclude today's conference. Thank you for joining. You may disconnect your lines now.