“Torrent Pharmaceuticals Limited Q3 FY2019 Earnings Conference Call”

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MANAGEMENT:	**MR. SANJAY GUPTA – EXECUTIVE DIRECTOR (INTERNATIONAL BUSINESS) – TORRENT PHARMACEUTICALS LIMITED** **MR. DHRUV GULATI – EXECUTIVE DIRECTOR (INDIA & ROW BUSINESS) – TORRENT PHARMACEUTICALS LIMITED** **MR. SUDHIR MENON – CHIEF FINANCIAL OFFICER – TORRENT PHARMACEUTICALS LIMITED**

Moderator: Ladies and gentlemen, good evening and welcome to Q3 FY2019 Earnings Conference Call of Torrent Pharmaceuticals Limited. We have with us today Shri. Sanjay Gupta, Executive Director - International Business, Shri. Dhruv Gulati, Executive Director - India & RoW Business, and Shri. Sudhir Menon, CFO who will represent Torrent Pharmaceuticals on the call. This call would run for an hour and for the duration of this conference call, 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 phone. Please note that this conference is being recorded. I now glad to hand the conference over to Shri. Sanjay Gupta for opening remarks. Thank you and over to you Sir!

Sanjay Gupta: Thank you. Good evening everybody and welcome to the Q3 FY2019 conference call. Torrent Pharma had Q3 revenue of Rs.2051 Crores with the topline growth of 40%. Q3 EBITDA margin was 27% and adjusted for the one-time impact of litigation related receipts and provision EBITDA margin will be 26%. The company has declared an interim dividend of Rs.13 per share. So in Q3 amongst our major businesses India, USA and Germany have all grown strongly while Brazil has shown a slight de-growth. I will walk you through the numbers by country and some underlying trends. India, which is largest market, contributes 43% of the overall consolidated revenues in the current quarter.

The revenue growth for the quarter is at 42%. Overall business continues to be specialty driven with 70% of the prescription contribution coming from specialists and the chronic and subchronic therapy that constitutes 75% of the portfolio.

I am pleased to inform you that Torrent has reached PCPM for the quarter of Rs.6.2 lakhs, which is at par with the PCPM prior to the Unichem acquisitions. On the brand-building front, the number of brands about Rs.100 Crores stands at 8 as per the latest AIOCD MAT data. From now onwards, we will not be presenting our performance separately for Unichem business. The simple reason for that is that Unichem acquisition was made more than a year ago. However, I will make a couple of comments on Unichem portfolio today.

Firstly the integration of the acquired portfolio including bringing the focus to specialty promotion and field force rationalization has been substantially achieved. Secondly as per AIOCD, the top 5 brands acquired from Unichem are showing a growth of 21% for the quarter ending December 2018. We would like to point out that Losar which was the largest brand currently stands at Rs.212 Crores and growing at 6% versus 0% growth in the covered market as per AIOCD MAT data and for the latest quarter, the growth is at 13% compared to a growth of 4% in the covered market.

Performance of other key Torrent brands also continued to be higher than their relevant market as per AIOCD MAT December 2018, Shelcal grew at 30% versus 9% of the covered market with sales of

Rs.426 Crores. Similarly Chymoral grew at 27% versus 15% of the covered market with sales of Rs.176 Crores and Regestrone grew at 41% versus 26% growth in the covered market.

Moving to the international market, the US sales during the quarter over that USD $58 million compared to Q3 2017-2018 sales of 40 million. This translates into a growth rate of 45%. Growth without Biopharm portfolio currently stands at 38%. The main drivers behind the growth is a strong volume growth in a significant portion of a portfolio and increased in market share of existing products. The new product contribution at Torrent US started to improve and we launch 11 products in total on a year-to-date December basis of which four were launched in Q3.

In Germany, other major market Torrent is €32 million compared to €29.3 million last year that is up by 10%. Torrent continues to maintain its fourth position in the overall generic market in Germany with a value market share of 7.4% as per the IMS quarter ending November 2018.

In Brazil, our sales were at 88 million Real, also Brazil has degrown by 7% in Q3 compared to last year. On year-to-date basis growth continues to be in line with our trends as shown in close up, which currently shows the annualized profit at 6%. A new product launches in Brazil continued to do well with market share wherein 20% for Olmesartan, for Lamotrigine CD, and market share about 10% for Trazodone. We have relaunched the Risperidone and are preparing to launch some other major product in the coming month.

During Q3 we invested Rs.135 Crores in R&D as against Rs.116 Crores in Q3 of last year. Current ratio of R&D to sales is at 6.8%. Our pace of filing and approvals has started to pick up. Torrent filed 6 ANDAs in Q3 bringing the total number of ANDAs file during this year to 15. As of December 31, 2018 we have six tentative approvals in hand and 42 ANDAs pending approvals including four filings from external research projects.

To conclude Torrent currently remains focus on core branded and generic market. In India and Brazil, our key metrics are building larger brand improving field force productivity and focusing on specialist. In the generic market, we will continue to be cost competitive and set an accelerated pace of new launches. We can now open the call for questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the questions and answer session. The first question is from the line of Prakash Aggarwal from Axis capital. Please go ahead.

Prakash Aggarwal: Thanks for the opportunity. Just wanted to check on the gross margin improvement on the sequential front this is despite higher US sales, so just trying to understand with India share improving could the gross margins really improve from this level or this is the new normal base of 72%?

Sudhir Menon: Prakash, what we have been saying even in the previous calls is that the normal gross margin looks like between 71% and 72% but since the territory mix and product mix keeps on changing, there are variation, which come in between the quarters, but for the sake of giving your number we think anything between 71% and 72% should be the number for gross margin is what we feel at this point in time.

Prakash Aggarwal: Secondly on the employee cost and other expenses I mean with the some rationalization, which would have happened during the last nine months, was thinking this numbers to come down would there be any one of to these numbers?

Sudhir Menon: Yes Prakash. If you see in terms of the employee cost on a consolidated basis has gone up by around Rs.25 Crores. So there are four pieces, which have come in this quarter. So the number one is that there was shortfall of Rs.7 Crores pertaining to contribution with respect to social security contribution in one of the subsidiary, which was pertaining to the previous three years, which has come in this quarter. And the second one is the domestic performance has been very good as far as Q3 is concerned and therefore we keep on providing for our annual incentive every quarter estimating what should be the full year sales; so based on that there is a re-estimation, which has been done and cumulative for all the three quarters, there is an increase incentive of around Rs.7 Crores. Then there is an impact of around Rs.4 Crores because of forex, which is basically translating the functional currency financials into INR financial. And lastly there is re-estimation of long-term benefit again for all three quarters put together the impact which has come in Q3 is around Rs.7 Crores. So that makes the total Rs.24 Crores. Of these, if you really ask me the actual charge for this quarter is around Rs.7 Crores, of which Rs.4 Crores is the forex impact. The others I would say is part of Q1 and Q2 or of the previous years.

Prakash Aggarwal: Okay but would it be fair to see the benefits of rationalization yet to come in?

Sudhir Menon: The second wave of rationalization happened in Q3 and which typically happens in a very phased manner so the entire benefit would not have come in Q3. Going forward I mean some of the benefits, we should see in the coming quarter. On your question on the other expenses so 542 is the number of which I think we have disclosed saying that there is a one time cost pertaining into product litigation, which is around Rs.28 Crores against the income, which we have shown at around Rs.63 Crores. That is one impact which has come in and the second is this time, there is forex loss, which has come in, which is around Rs.14 Crores, which is included in other expenses.

Prakash Aggarwal: Would the rational be correct that if employee cost comes down partly the corresponding promotion travel conveyance and other expenses would corresponding come down going forward?

Sudhir Menon: So that is part of the integration process, which we have already carried out right I mean it would not be in direct proportion to what you are saying, but yes, I mean on a ongoing basis we try to bring in efficiency in these expenses, I think the impact would not be that significant to be seen.

Prakash Aggarwal: Thank you. I will join back the queue.

Moderator: Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: Good evening. I just wanted to understand that in the domestic business if we take out the impact of the Unichem acquisition what has been the core growth on a like-to-like basis, how much has the Unichem portfolio grown by if you could just give that segregation?

Dhruv Gulati: Sanjay has very correctly said that we are now not going to separately talk about the acquired portfolio as well as the base business. The overall growth for the quarter has been reported as 42%.

Sangeeta Purushottam: But the impact of in last year same quarter the full quarter would not have reflected Unichem right it came in the middle of December if I remember?

Dhruv Gulati: Yes it was a very small amount, which was there.

Sangeeta Purushottam: Yes so at least with this quarter I can understand you're not doing it going forward because Unichem will come into the base. But at least this quarter, if you could help us understand how the two components have grown?

Sudhir Menon: So this is a policy, what we have done in the past as well is that once we completed one year and most of the integration processes are substantially done. Let me share the number at least. We will give you some of the numbers which we have spoken till last quarter so on H1 basis, we had said that base business has grown by 14% so that is something which we can talk about right now. But I think from now on we would not be talking in numbers separately for Unichem and base business.

Sangeeta Purushottam: So have you seen healthy growth in both businesses? So this 42%, what I just wanted to get reassured, was that it is coming only because of Unichem, you are seeing healthy growth across all segments?

Sudhir Menon: That is right.

Sangeeta Purushottam: Okay so you are seeing good whatever teen kind of growth even in the non-Unichem portfolio?

Sudhir Menon: Yes that is what we said right?

Sangeeta Purushottam: Thanks.

Moderator: Thank you. The next question is from the line of Neha Manpuria from J.P. Morgan. Please go ahead.

Neha Manpuria: Thank you for taking my question. My first question is on the US business. Sanjay if I heard your opening remarks correctly you said that we have started seeing improvement from a new launches in the quarter. Is it fair to assume that a lot of the quarter-on-quarter improvement that has come has been driven by new launches versus in the last quarter it was more market share gained in the existing portfolio?

Sanjay Gupta: There are four factors, which are resulting in growth. One is new launches but it is lot of launches, which happened in earlier quarters, but you did not see a full impact. So including launches last year. So now you are starting to see as we have been able to ramp up customers and volumes on those. So that I would say, it is full year impact of last year launches as well as some launches that happened in earlier part of the year. But that is one of the four factors. The other factors if you just look at IMS and the market share that Torrent has, it is around 30 of our molecules products, we are in the top three products now. So this number was more in the 22 range about a year ago. So we have added considerably to our market share in a covered market. Now we are at 16.4% with about 11 products that are number one and 15, which are number two. So that has contributed. Then, thirdly another factor, which has helped US business in the categories in which we play, especially -- I would say this Sildenafils, Statins, Sartans & GI products that we have and the whole market has gone up considerably. So these molecules are growing in double digit in the US market in terms of volume, so we are benefiting from that. And then there is a fourth factor, which is only I would say non-sustainable factor, which is sometimes our competitors have problems, we are able to make one time sales. So it is a mix of these four, which has resulted in this growth.

Neha Manpuria: Is it fair to assume that the short-term disruption that you talked about is probably the smallest part of the increase that we have seen in the last quarter? I just want to understand how sustainable is the improvement that we are seeing?

Sanjay Gupta: Three out of four are sustainable and one is less sustainable. We are seeing good traction and I think if you see our share, were we have been benefiting from, I would say discontinuations, which have taken place from other companies and then some supply disruption. The supply disruption is not like a major factor.

Neha Manpuria: Okay, Understood. And my second question is on the Brazilian business. That business seemed to be struggling this year. I know you had indicated sort of muted outlook for the business. What is happening on the ground there? Should we expect things to improve over the next year?

Sanjay Gupta: On the ground actually the Brazilian GDP this year has not been as good as it was imagined to be. There was a forecast of about 3.5% growth and right now we are seeing 1.5% growth. So this year I think base number for 2018 was 1.3% versus a projection of 3%. So the market is going down and even pharma market has been impacted. So the market growth right now stands at 5.9% and Torrent's growth stands at about 7.7%. So I think 7.7% is a more accurate reflection of where we should be and if you look year-to-date we are growing at about 6%. So we were –1% in Q1, 40% in Q2 and –7% in Q3. Putting it all together it comes to about 6% growth rate. So I think slightly higher than the market, I would say mid to high single digits is where we are as the company. And it should get better, because we have like one big launch coming up in Q4 and then that should have impact, but overall I think it will be good, we can stay 2% to 4% points above the market growth.

Neha Manpuria: Understood and one last question if I may? Again if I look at the gross margins 71% to 72% that you have given. Given that lot of Unichem' manufacturing synergies are probably in the gross margin, when will you start seeing improvement from US pipeline and R&D investment that we have made reflect in the gross margins?

Sanjay Gupta: One of the factors is that, most of the products that we've launched we filed 16 products in FY 16-17, I would say we filed 13 products in last year and this year currently we are standing at 15 so many of these products are the products, which were already generic in the market so there have been I would say little of first time generics and are really innovative stuff so as the quality of portfolio is increasing and I can tell you it is because we are filing more and we are filing better products and more product that are likely to have CGP status, more products which are likely to have less than five competitors so gross margin will improve. I cannot give timeline.

Sudhir Menon: It all depends upon the way when you launch the product what kind of competition is existing in the market. So Neha what Sanjay said is the quality seems to improve. Only time can say what kind of improvement in margin can come because of the US business.

Neha Manpuria: Thank you so much.

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

Anubhav Agarwal: Good evening. Sir one question on the US sales. Just talking as a trend, the margins that you would have done in the September quarter and margins that you have done now, would you say just directionally the margin in this quarter, were better than September quarter or lower than September quarter?

Sanjay Gupta: I do not think we split the margins by territory, but directionally it is not worse than where it was before.

Anubhav Agarwal: The reason I asked Sir because you increased sales almost 20% sequentially. What are US sales? You reported Rs.490 Crores right?

Sanjay Gupta: If you look at US these sales last quarter was 54.4 and this quarter is 57.8 so it goes up by about 10.4 million so that is about 7% to 8% quarter-on-quarter, but I would say no major impact in terms of ratio.

Anubhav Agarwal: Is not your US sales reported as Rs.490 Crores for this quarter? How does translate into 58, it will translate to 68 right?

Sudhir Menon: No Rs.490 Crores has this one time income, Anubhav, Rs.63 Crores.

Anubhav Agarwal: Oh, it is included there. That is why I was confused. That is why question was coming. Understood that is clear. And on the interest cost - our interest cost has increased sequentially. Why there is substantial increase in interest cost?

Sudhir Menon: There is an increase in borrowing, which has happened in this quarter. So, we have taken around Rs.250 Crores capex loan.

Anubhav Agarwal: Total capex for this year was supposed to be Rs.300 Crores, Rs.350 Crores right?

Sudhir Menon: That is right.

Anubhav Agarwal: That remains the same?

Sudhir Menon: As of now looks to be that number.

Anubhav Agarwal: Should not we be generating that amount of cash flow already?

Sudhir Menon: We are generating but we are just trying to balance the short-term requirements and the long-term requirements.

Anubhav Agarwal: Okay and what is the net debt if you have that numbers, it was Rs.4,000 Crores in September 2018, what is it now?

Sudhir Menon: That is something Anubhav, At least this quarter I will not be able to give you probably will have to wait for one more quarter.

Anubhav Agarwal: Thank you.

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

Anmol Ganjoo: Just one quick question on domestic formulations. Now, with most of the levers of growth from Unichem having been captured and the new base being set, how should we be looking at FY2020 growth in terms of key levers and drivers for growth? Because a lot of key drivers including PCPM seem to have now converged with the company level averages. So is it fair to assume that significant benefit of the Unichem acquisition and the improvement thereof is now behind us going forward?

Dhruv Gulati: As far as Unichem portfolio is concerned we have done with most of the rationalization. Now we are working on building brands. We are working on ensuring that the brand wise performance improves. We are also working on training the field staff so as to improve there in clinic efficiency. So we are working on it. And the growth what we are expecting from Unichem portfolio is that it should grow at least with the same market rate or it is slightly higher than the market growth.

Anmol Ganjoo: That is helpful. Second question is on the US so obviously I understand you are not going to quantify what is the supply shortage for contribution to the overall growth number. But assuming the supply contracts do come in reasonably higher gross margins, is it fair to assume that this was very, very minuscule part of the overall US sequential growth in this quarter?

Sanjay Gupta: Anmol, I can split it in multiple ways but like I said it is one of the four factors, which has benefited us so I mean we should stop there because otherwise it will lead too much detail, which we will not be able to disclose every quarter. So what I would say is that big chunk of this business has been sustainable because we have actually increased our share on a sustainable basis for most of the products. And if you look at the rolling IMS trends - that is an accurate reflection of our business growth especially the unit part of the IMS data.

Anmol Ganjoo: My last question before I get into queue so FY2020 capex - What would that number be that you guys would be preparing at this point in time?

Sudhir Menon: Anmol most of the expansion capex is already done so it will be largely maintenance capex which will come in, but to give you a number at this point in time will be difficult, but normally the maintenance capex between 300 and 350.

Anmol Ganjoo: Thank you that is helpful. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: On the domestic business, Mr. Gulati have you seen of late, in the overall market level, some softining of in the growth trends in the last few months?

Dhruv Gulati: Overall, market growth if you see that, has now become in double digit. If you see the last two quarters growth of the IPM has been about 10%. From earlier what it was like quarter December 17 was 8%, March quarter was about 9%, June was 9% and then September. December both these quarters growth has become double digit for the market so it is on having improving trend.

Nitin Agarwal: Okay. And between that, what is your sense, how fast - how much will the chronic segment and subchronic segment, where we have larger representation, sort of outpace market growth on a thumb rule basis?

Dhruv Gulati: See, overall the covered market growth for us is at 10% and, our covered market growth is about 11%. And as a company, if you look at in the last quarter against 10% of IPM and 11% of CVM, the TPL growth is about 16%.

Nitin Agarwal: Given our size that we are there currently, our therapy presence especially in CVS and other categories, do we still believe that you can continue to outpace market by this 400 and 500 basis points going on two to three years?

Dhruv Gulati: Yes, it's always endeavors to grow better than the market.

Nitin Agarwal: Sudhir on the expense part of it, these R&D spends at around this Rs.130 Crores, Rs.135 Crores level. I mean this is the level where we should peak out or you see further enhancement in these levels going forward?

Sudhir Menon: We will stick to the guidance, which we had given between 7% to 8%. So that is something, which we are looking at.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Sion Mukherjee from Nomura Securities. Please go ahead.

Sion Mukherjee: Sir on the tax rate it has been low. So can you just explain and how should we think about it going forward?

Sudhir Menon: On YTD basis if you see Sion the tax rate is around 17%. Effectively for the full year we should be around that number. if you look at the H1 number it was around 22% and that has fallen down to 17% on YTD basis. And that is typically because of re-estimation, which has happened in terms of deferred tax liability. So for the full year we should be looking at around 17% to 18%.

Sion Mukherjee: Thank you.

Moderator: Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: I just wanted to check about the debt repayment plan and my understanding was that we have a plan to pay down about Rs.400 odd Crores each year. Are we on track for doing that? And what is the reason that we are taking permission to raise NCDs and also permission to raise potentially equity and is there any specific reason for doing so?

Sudhir Menon: No it is an enabling resolution, which has been renewed. We do it every year because the approval from the shareholders are taken on a one year basis as per the law. Last approval was taken on February 27, 2018. So it is just renewal process that we have done.

Sangeeta Purushottam: Okay and are we on track to paying down debt as cash flows grow?

Sudhir Menon: Yes absolutely.

Sangeeta Purushottam: So that amount should be about in the range of about Rs.400 Crores a year?

Sudhir Menon: That is something which we have not spoken about. So what we said is that two years down the line, after the repayments are considered, we should be back to the level where we were before the Unichem acquisition.

Sangeeta Purushottam: Thank you.

Moderator: Thank you. The next question is from the line of Prakash Aggarwal from Axis Capital. Please go ahead.

Prakash Aggarwal: Thanks for the opportunity again. Just if you could share the MR count as on December and what is the likely target for March?

Dhruv Gulati: As on March 31, 2018 MR count was same, about 4400.

Prakash Aggarwal: As on December Sir?

Dhruv Gulati: As on December 31, 2018, I said.

Prakash Aggarwal: Okay and what are we targeting by March?

Dhruv Gulati: As I said, substantially we have completed the field force rationalization. As we proceed further, based on the incremental opportunity we shall keep evaluating the same, but I cannot give you the right number right now.

Prakash Aggarwal: Secondly on Losar I was just trying to understand the growth better. So the first wave, with increase in distribution coverage and the low hanging fruits are done. So we had indicated about extending the indications. So where are we and when can we see that growth coming from new prescribers?

Dhruv Gulati: I had shared with you that there are 60% of the doctor especially cardiologists, diabetologists, nephrologists who use Losartan, but do not use Losar. So there are only 60% they use Losar, so still there is scope to improve; and the balance 40% of our target doctors. And further if you look at the growth from cardiologists against covered market growth for 3% of the prescription from cardio Losar growth is almost 19%. So our specialty focus has started working. And more focus on the specialties will definitely help us to make this brand grow faster.

Prakash Aggarwal: Would there also be some thought on like a difference in growth from the Tier 1 cities versus Tier 2, Tier 3 in the last 9 months post our-marketing efforts?

Dhruv Gulati: Yes we have started focusing on Tier I or metro especially where TPL has been quite strong. And we have been working with them and TPL guys have been working with Unichem field staff and they are trying to ensure that the same equity is enjoyed by them also.

Prakash Aggarwal: That we have started to see their reflection or that we have already seeing?

Dhruv Gulati: This will not happen overnight. It will take time. We have started working on this since last about two to three months so the results/benefit of the same will come.

Prakash Aggarwal: One more question on the recalls that we saw in January, which is related to other molecules that is the Losartan that talks about 8 to 10 lots. Just trying to understand the value of these in terms of provision that we can take in future just ballpark?

Sudhir Menon: Prakash, around 12 batches were recalled. the provision should not be more than Rs.4 Crores to Rs.5 Crores is what my sense is.

Prakash Aggarwal: Okay Rs.4 Crores to Rs.5 Crores.

Sudhir Menon: Yes for the 12 batches, which were recalled. It is not significant number.

Prakash Aggarwal: Okay and my last question for Sanjay - I mean obviously this is enabling resolution. But we have always maintained that if there is an opportunity we will look at some assets in the US - if you could just talk more about it?

Sanjay Gupta: We mentioned that we remain open for acquisition opportunities in core market right? So India is of course priority number one for us followed by US, Germany and Brazil and more on more the markets where we are gaining a lot of traction like UK and Mexico also, but our sweet spot, I mentioned is in $300 to $500 million range but in the current kind of market situation I would say acquiring generic assets in the US is a little less attractive because all of that we have seen happen in the last two years. So it is not like top priority for the organization.

Prakash Aggarwal: Any thoughts from these specialty assets, which everybody is looking at?

Sanjay Gupta: We will see because we have initiated some programs around, I would say incremental innovation for the US market, but it is early days. I think probably we are not yet ready to make substantial capital allocation to those types of project, but we probably gain some experience from our organic effort first, so it is not on top most of our mindset at present.

Prakash Aggarwal: Perfect great and last one for Sudhir on the tax rate you spoke about 17% to 18% for this year. So this is an adjustment of deferred tax as what I understand but next year how should we think about it?

Sudhir Menon: **L**ast quarter also I gave you range of around 25% that is my initial feel. So I will stick to that.

Prakash Aggarwal: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. Sir this patent income and litigation costs are related to the same product?

Sanjay Gupta: These are currently ongoing litigation so some of it are costs and some of these are provision so as policy we have decided not to comment upon them.

Chirag Dagli: That is it not an issue. I understand. Sir on the US margin now that we are $250 million sort of annualized runrate in sales, about $75 million in R&D - How should we think about margins from this business going forward? As we keep growing we have seen in other cases that operating leverage really kicks in after certain point in time. So how should we think about margins in the US for Torrent?

Sudhir Menon: Chirag from guidance perspective we would not be able to give you any guidance. The only indication which Sanjay was speaking about earlier is that the quality of the product filings are improving, right? So there is an expectation that when the new launches come in, the margin should push up but we will have to wait and see when the launches happen.

Chirag Dagli: That is on the gross margin Sudhir. On the EBITDA - given that front-end cost is all there and manufacturing cost also cannot substantially change?

Sudhir Menon: Chirag from midline perspective, US is very thin. I mean there is no major operating leverage benefit which can flow, it is essentially driven by the gross margins.

Chirag Dagli: Sir I have question on Unichem. Is the Unichem – so if I just break out about Rs.180 Crores to Rs.200 Crores for Unichem on a quarterly basis that seems to be weakish growth ex-Unichem for the last two quarters. That was not the case in the first quarter of this year. But with the second and third quarter that seems to be some weakish growth. Where I am getting the maths wrong? Is Rs.180 Crores to Rs.200 Crores number not right? Or is there something else?

Sudhir Menon: Chirag you will have to relook your numbers. That is the only the thing I can say now because from this quarter we stopped talking separately. But even if you look at the commentary last quarter, I do not see any reason why you are saying base business has not done well because on that H1 basis we had given the number for the base business at 14%.

Chirag Dagli: Okay there is nothing to worry what you said?

Sudhir Menon: We have given the number. Have a relook at your numbers.

Chirag Dagli: Okay. And just the last point on Unichem. Is the Unichem margin now in line with the Torrent India business or this?

Sudhir Menon: Chirag this is something, which we do not talk about actually.

Chirag Dagli: Okay so let me ask other way. Is their more rationalization that will get benefit?

Sudhir Menon: As Mr. Gulati said, wherever opportunity exists going forward and whatever tweaking can happen in terms of further integration, we will keep on doing that. That is number one. Number two I think in terms of the margins the only thing what we talked about will be cash accretive in year one. So we completed one year and we are cash accretive - that is something, which I can tell you.

Chirag Dagli: And for the quarter can you split the depreciation and amortization?

Sudhir Menon: It should be around 50 and the rest would be amortization.

Chirag Dagli: Depreciation is 50 and the rest is amortization.

Sudhir Menon: Yes.

Chirag Dagli: Thank you.

Moderator: Thank you. The next question is from the line of Purvi Shah from BNP Sharekhan. Please go ahead.

Purvi Shah: It is regarding the taxes. FY2020 is at 25% - is that correct?

Sudhir Menon: Yes that is the feel I am getting, Purvi.

Purvi Shah: Sir, in terms of the recalls that we have mentioned we had. One was related to Losar. The other was – and earlier we had in relation to sartans. So are, these recall provided for already into this quarter?

Sanjay Gupta: The losartan recall basically is very fresh. So we will see batches of recall. So firstly we recall three batches on December 20 then we had nine recalls on January 3 and then we had six further recalls of losartan H January 22. So, all of that we have not had really time to analyse all of that fully and I would not like to comment upon that right now. It is too early, very recent.

Sudhir Menon: Purvi, whatever batches have come back, it has all been provided for?

Purvi Shah: Sir, if you could just provide us the debt figure as at the end of the quarter?

Sudhir Menon: This is something, which I said, I will not be able to share because we have not disclosed it as per the requirements of SEBI. So probably we will have to wait for one more quarter.

Purvi Shah: Sir, is it fair to assume that this 25% tax for FY2021 as well?

Sudhir Menon: Yes that is what I said, the initial feeling is that it should be around 25%.

Purvi Shah: That is for FY2020, right? I mean, I am just saying for the next two years, 2020 and 2021 is it fair to assume the same one?

Sudhir Menon: I really do not know. It looks okay, reasonable, yes.

Purvi Shah: No issues. All the best.

Moderator: Thank you. The next question is Paresh Dave from Avendus Capital. Please go ahead.

Paresh Dave: Thank you for taking my question. My question was that the 490 Crores of US revenue you mentioned that includes the impact of patent related settlement. So, I think the press release says that the 63 Crores is actually part of other operating income, so am I understanding it correct?

Sudhir Menon: What is given in the table by us is on a revenue basis, this includes operating income.

Paresh Dave: So, this 63 Crores is part of other operating income, not US revenues.

Sudhir Menon: That is what I said, revenues include sales and operating income. So the 490 Crores number includes 63 Crores.

Paresh Dave: The second question was on the debt reduction, so in H1 if I am correct, we did a 360 Crores debt reduction and the expectation was that H2 will be somewhere around 300 Crores.

Sudhir Menon: That is right.

Paresh Dave: So given that we had raised debt in Q3 and interest cost has increased, so has there been some revision in that estimate?

Sudhir Menon: Revision in what estimate?

Paresh Dave: Sir, are we still on track with 300 Crores of debt reduction in H2?

Sudhir Menon: Yes. So it is as per the terms which we have agreed with the bank, so that will continue. That is not an issue at all.

Paresh Dave: Thanks a lot. Thank you very much.

Moderator: Thank you. The next question is from the line of Damyanti Kerai from HSBC. Please go ahead.

Damyanti Kerai: Thank you for the opportunity. My question is on the US side. So, if we exclude the short-term benefits which we saw how is the pricing scenario in other base products?

Sanjay Gupta: Certainly we are seeing trends consistent with what we have described. So, in the single digit somewhere between 5% to 10% is what is the normal price decline that we have discussed. So it has not evolved from last quarter.

Damyanti Kerai: So, it is broadly stable compared to last quarter? That is what you are saying, right?

Sudhir Menon: I am saying the trend is the same, yes.

Damyanti Kerai: One question on Unienzyme. Last quarter I think, we mentioned, that now the product is both through the Rx and OTC channels, so have we seen significant pickup post we moved product to both the channels or how is the traction there?

Dhruv Gulati: In fact, we started dual promotion of Unienzyme with effect from October and that was to basically leverage the OTX potential. In fact upside potential exists and that will further support for better growth of the brand. In fact moving forward, we are very positive on this brand and if you look at the prescription, let us say, for example, consulting physician against market growth of 4% CP growth for

Unienzyme is about 12% while GP, which is declining by 3% for the enzyme market, Unienzyme, is maintaining the prescription. Also one very important point as per the Nielson Retail Measurement Service data - the product was available with about 2.5 lakhs retailers, which has increased to now to 2.95 lakhs. So there is a substantial increase in the number of retailers where it is available now. So I am sure this dual promotion will certainly help us to grow this brand much faster than the market.

Damyanti Kerai: Sir, if we can get your view on the Germany business. How we are looking at that part of our business?

Sanjay Gupta: The German business is growing at close to 10% in local currency terms and we have got about 7.5% of the German generic market. So overall the business continues to perform well and if you look at the trend over the last five years, they have been fairly consistent on line with this. So I do not see a major change at least on the horizon right now.

Damyanti Kerai: We are having stable kind of outlook for that part of the business?

Sanjay Gupta: Yes. We continue to launch about seven to eight products every year in Germany, at least, and then half of them are day one launches. So that momentum continues as usual and we have had some decent performances in both the tenders and the non-tender businesses. So as far as I can tell you today, I do not expect or anticipate any changes.

Damyanti Kerai: Lastly how much is tender there in Germany? How much is retail?

Sanjay Gupta: The market is 85% tender business and our business kind of reflects the market trends. So it is mostly our tender business and which is smaller. So there are periods when the non-tender business becomes a little greater especially before - when the products go generic. So in certain times the tender business could be about 65% to 70% and the non-tender could be the rest. So there is let us say between 65% to 80%.

Damyanti Kerai: Thank you.

Moderator: The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: Good evening. I believe you mentioned that four ANDAs were filed from external research products. So can you give us some details around them how did it differ from in-house research and filings?

Sanjay Gupta: Over the last two or three years, we kind of become a little less insular in the sense that here we used to do everything from screw to nut in the Torrent Research Centre and now we have setup a series of about 20 to 25 external partnerships where there are third parties who have either the capital equipment or the skill sets or the technology, which we do not have in-house. So we signed up with them for potential US pipeline opportunities and it is a result of that, that the first four have been filed already.

Kunal Randeria: Any particular therapy or dosage forms or anything like that?

Sanjay Gupta: No. I would say that generally the main reasons behind is that we do not have the in-house expertise or the capital equipment or sometimes the partner is so well enough in a particular project – whereby if we start, we would not be able to catch up with him, so it is better to join hands. So I would say it is a mix of dosage forms and actually in US business we do not look at it by therapy and all. Most of external development projects are, I would say a combination of one of those three things, which I mentioned.

Kunal Randeria: My second question is regarding this losartan recall in the US. Do you see this expanding because I think losartan is fairly big for us?

Sanjay Gupta: Yes, we have a pretty high market share in losartan in the US market. I would not like to anticipate as to whether it would expand or not. So we are working with the FDA and as and when they ask us for data, we submit whatever is available and I would say it is an ongoing process. So I actually would not know whether it would expand or not, it is to pre-mature for me to take that position one-way or the other.

Kunal Randeria: Thank you.

Moderator: Thank you. The next question is from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.

Mayank Hyanki: I had a question with regards to US business. Sir, wanted to know that previously we had been talking about that there are some market share gain opportunities with regards to the older products because of the new capacity. So has that been fully captured now and the growth from here on will come from just new launches or even that portion is still a growth driver for us?

Sanjay Gupta: We have still a few dormant ANDAs and we're monitoring the trends on the same. And now I am looking at products, which we have not sold in many years. So it is a little bit more complicated than more recent discontinuations. But because there are products, which I have not sold in five years or seven years, and there are some interests from customers to reset these products. So there were some opportunities but it needs a little bit of freshening up.

Mayank Hyanki: Have we gained from any other supply disruptions in any of our products in this quarter particularly or in the recent past where some of the bigger guys may have exited and we have kind of got those market shares at higher prices?

Sanjay Gupta: So we have gained from bigger guys exiting and from all guys having supply issues and the main reason for that is that Torrent as a policy keeps a several months of finished goods inventory in the US and so usually we have four months of inventory in the US for any particular SKU and we have at least six months of API in India so we are able to react very fast to market events and any disruptions we see in the market. So we have gained on that.

Mayank Hyanki: So we should take this quarter's number as the new base going forward right for US?

Sanjay Gupta: I mentioned there are four factors behind this and one of them is more opportunistic when competitors have short-term supply disruptions, so excluding that the others are more I would say durable.

Mayank Hyanki: Secondly, just wanted to know on India front, two questions. First is that how many new launches have we had in this year and how many of them are like absolute new launches?

Dhruv Gulati: In India we had been continuously evaluating the new introductions, our gaps in the therapies and accordingly we have been launching the brands. For example, overall if you look at against 2.4% of IPM growth from the new introductions we have registered about 3.3%. And also if you look at the two new launches what we have done one is Shelcal XT which is ranked fifth and PRUVICT is ranked 18th amongst the top 20 new launches in India and there are other new launches which we have done in the cardio therapy, and gynaec. So we are continuously launching a new SKU or new molecules.

Mayank Hyanki: From portfolio presence perspective, if we have to talk about next three years because you know now we are in the top 10 companies and we have already have a very diverse portfolio. So will we still have a significant growth coming from the new launches and do we have line for these launches for the next three years.

Dhruv Gulati: We have already shortlisted the new products NI plan for the next five years. We are working on that and also we would like to enter into certain therapies where we are not present right now like ophthalmology is one where we are not present then Dentistary is one where we are not present, so there are certain therapies where we would like to enter.

Mayank Hyanki: Interesting. Lastly on Brazil it seems that this quarter particularly the year-on-year growth in the local currency terms has been about mid single digit of degrowth is that correct?

Sanjay Gupta: I will give you the numbers. In local currency for the nine months for Brazil growth rate comes to about 6%. First quarter was –1% and second quarter was 40% and third quarter is –7%.

Mayank Hyanki: So while there will be quarterly fluctuations in growth rates for the annual outlook for the next two three years, you would feel that this number should be close to 10% types or which was in line with you, I think, the market is kind of growing at 8%, right and we had guided to grow above market rates?

Sanjay Gupta: What I explained is that the current trends in the market is growing at about 5% and we are growing at 7%.

Mayank Hyanki: So that is something which we can take for at least for the next two to three years?

Sanjay Gupta: 2% to 4% is going above the overall pharma market growth rate is a good performance for us.

Mayank Hyanki: Thank you. Thanks a lot. All the best.

Moderator: Thank you. We have the last question in queue from the line of Tushar Manudhane from Motilal Oswal Securities Limited. Please go ahead.

Tushar Manudhane: Just to know the litigation expense for nine months FY2019?

Sudhir Menon: The costs were one-off, Tushar. That is what we have reported as part of Q3.

Tushar Manudhane: So, nine months also it would be more or less in the same like 20 Crores to 30 Crores?

Sudhir Menon: Yes. In terms of legal fees those are not significant. I mean there is nothing to be reported. When a major significant item comes is when we can report it. This is one off for this year.

Tushar Manudhane: Sir, lastly on how big is dentistry market in India?

Dhruv Gulati: Dentistry market I do not remember right now, but my guess is about 400 Crores to 500 Crores, maybe, I do not know. I am not aware.

Tushar Manudhane: Thanks. That is it from me.

Moderator: Thank you. Sir that was the last question in queue. Over to you for any closing comments.

Sanjay Gupta: Thanks a lot for joining us today. We hope we were able to address most of the major queries. Thank you. Bye-bye. Good night.

Moderator: Thank you. Ladies and gentlemen on behalf of Torrent Pharmaceuticals Limited that concludes this conference for today. Thank you for joining us. You may now disconnect your lines.