



“Torrent Pharmaceuticals Limited Q4 FY18 Earnings Conference Call”

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MANAGEMENT: **MR. ASHOK MODI – EXECUTIVE DIRECTOR & CFO,
TORRENT PHARMACEUTICALS LIMITED
MR. SANJAY GUPTA – EXECUTIVE DIRECTOR
(INTERNATIONAL BUSINESS), TORRENT
PHARMACEUTICALS LIMITED
MR. DHRUV GULATI – EXECUTIVE DIRECTOR (INDIA
& ROW BUSINESS), TORRENT PHARMACEUTICALS
LIMITED
MR. SUDHIR MENON – VICE PRESIDENT (FINANCE &
INVESTOR RELATIONS), TORRENT PHARMACEUTICALS
LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q4 FY18 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Deepak Malik from Edelweiss Securities Limited. Thank you and over to you, sir.

Deepak Malik: Thank you. On behalf of Edelweiss, I welcome you all for the Torrent Pharma Fourth Quarter FY18 Earnings Conference Call. From Torrent Pharma's management, today we have on call Mr. Ashok Modi – Executive Director & CFO, Mr. Sanjay Gupta – Executive Director, International business, Mr. Dhruv Gulati – Executive Director, India and ROW business and Mr. Sudhir Menon – Vice President Finance and Investor Relations.

I would like to hand over the conference to Sanjay now for the opening remarks. Over to you, Sanjay.

Sanjay Gupta: Thank you, Deepak. Thank you for joining us this evening. I would like to begin the call by sharing with you how we delivered on our key priorities in 2017-2018. So, as a company we have remained focused on 4 key priorities during the past 12 months. These are firstly organic growth, value enhancing M&A, improvements in our manufacturing as well as in our R&D delivery. So, let us start with the organic growth in our 4 key geographies. So, India is the largest market for Torrent and comes to about 39% of our 2017-2018 revenue. Even if we exclude the Unichem portfolio for a moment, our growth for the quarter and for the 12 months comes out at 11% and 8% respectively. If we adjust these numbers for GST, Torrents growth in India and this is excluding Unichem portfolio and if adjusted with the GST comes at 17% and 12%. Including Unichem from which was acquired on 14th of December 2017, the revenue growth for the quarter and 12 months period is at 48% and 19% respectively. Normalizing for the GST transition related adjustments growth rates are much higher and stand at 54% for the quarter and 23% on an annual basis.

Two notable features of our India business remain it focused on the specialist as well as focused on chronic care. India business continues to be speciality driven with over 70% of the prescription contribution coming to Torrent from the specialist segment. Chronic and sub-chronic segment contribute 75% Torrent's portfolio compared to 52% contribution to the Indian pharma market. Some of our key brands continue to outperform the market. Shelcal reach 355 crores with 15% brand growth vis-à-vis 7% of the representative market. Chymoral sales have touched 149 crores with 17% brand growth vis-à-vis 8% of the covered market. Two of the new launches in the FY17-2018 viz. Shelcal XT and Pruvict have feature amongst that top 10 new launches in IPM and are the number one new introductions in the respective therapies. Regestrone which we acquired from Novartis in May 2017 has registered a growth of 22% compared to a molecule growth of 8%.

Moving on to our second market in the US, the market conditions have been tough that Torrent has reached a level of USD 161 million. We experienced severe price erosion but we are able to compensate for it with an increase in volume. Today, we are about 10 products which are in number one in terms of unit share and another 12 which are number two position in the US market. We have also launched 5 products during the year and I have also re-launched one product from the Bio-Pharma acquisition. In Germany, Torrent continues to build on its strength since the last 5 years our revenue CAGR has been 17% on a constant currency basis and about 19% on an INR basis. During the past year we overtook Zentiva to become the fourth largest player in Germany after Sandoz Teva and Stada. Our market shares, generic market share in value terms now stands at 7.1%. Our track record of winning tenders continue and our non-tender sales are a key contributor to the bottom-line of the company.

In 2017-2018 we launched 16 products. So, the key to success for Torrent in Germany lies in about 15 new product introductions each year including several day one launches. As well as our focus on remaining cost competitive both in high volume and high GC products. In Brazil, the close-up data is showing our covered market growing at about 4% MAT in unit and Torrent growing at about 8%. Our internal sales data, so the reported sales do not show the same growth trends. And our sales for the full year has been at a level of 348 million Reai compared to 339 million Reai in the previous year. A few reasons why we are not grown in line with what the close-up data is showing is specific sales in 2016 - 17 where we grew at 38% INR terms and a one-time adjustment to compensate for return and charges from wholesalers.

Our second key priority in the year gone up by has been external growth. So, we successfully completed two acquisitions Unichem and Bio-Pharma. So, Unichem acquisition, I am happy to report it is off to a strong start with a focus being on brand building and sales for productivity. Losar H, Losar, Unienzyme and Ampoxin, has started growth, showing growth as per AIOCD, April 2018 data. PCPM figures for the ex Unichem business is also continued to improve and we will report on it as the quarters go by. And we are planning to have a fully integrated the business by the end of the current fiscal year. So, by March 2019 the two businesses should be totally streamline and integrated. As far as Bio-Pharma is concerned, it continues to commercialize its OTC portfolio, and has recently we launched one of its Rx product which is a suppository product. Currently we are in the process of re-launching 4 additional Rx products on Bio-Pharma that have returned to Torrent from previous partnering deals set by Bio-Pharma.

As far as external growth is concerned, Torrent will continue to remain discipline and is pursuit of this opportunity. While we remain interested and building up scale and diversifying our portfolio in our chosen market it has to come at a value enhancing side. Our sweet spot for acquisition remains in the USD \$300 million to \$500 million range. Just to remind you Elder was about 310 and Unichem was in the \$500 million to \$550 million during the acquisitions and those of the ones that we think as on most value enhancing and where we are various level of comfort.

Industrial operations during the year.

Torrent has FDA inspections of both Indrad and Dahej plants. Both EIRs have now been received. So, far we are successfully transfer about 16 products with Dahej and another 3 are under approval. As our volumes has increased they are successfully brought down conversion cost and help us remain competitive in the market in which we operate.

As far as R&D is concerned during 2017-2018 we invested about 460 crores on R&D which is equivalent to 7.6% of our revenue. for second year in a row Torrent maintained double digit filings in the US. We have filed 16 in 2016-2017 and we filed 13 ANDAs in 2017-2018. We currently have 46 ANDAs under review at the FDA. 40 of these products will be launched at Torrent while six will be sold by our partners which are joined us as a result of the Bio-Pharma acquisition and in these, partnering deals Torrent will receive a share of the profits. In addition to this 46 we have 5 products that we have received tentative approvals. For 2018-2019 going forward, we expect to file between 15 to 20 ANDAs and we also expect to receive about 8 to 10 approval. And we expect to launch all these products on time. So, far this year we have streamline our portfolio and have made efforts to adjusted to the change US market conditions. Today in its meeting the Board of Directors of Torrent have declared a final equity dividend of Rs. 5 per equity share of Rs. 5 each fully paid up for the year 2017-2018.

We can open the call now for Q&A.

Moderator: Sure sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Just couple of questions. One clarity that, when you mentioned India sales growth 4Q is 11% ex-Unichem. That implies a very low number for Unichem almost like 175 crores this quarter. This fourth quarter is seasonally weak but we all were under impression that Unichem sales were about 900 crores annually. This seems to be a much lower number. Some comment here will be very helpful.

Dhruv Gulati: Q4 numbers overall, if you look at are low. But if you look at the overall growth of the portfolio of Unichem you will see there is a positive sign about that. Overall if you look at the growth on MAT basis Unichem portfolio was minus 2%, quarter it has come to minus 1 and for the month of April it is showing a growth of almost 5% in AIOCD. Second thing is, if you look at the major brands of Unichem which were heavily de-growing like Losar-H, which is the number one brand which is about 100 crores it was de-growing by minus 9, minus 17, minus 6 March month it was 8 and now it has become 33%. Similarly, Losar also heavily de-growing but in April it could register a growth of 5%. Unienzyme also which was de-growing has registered a growth of about 20%. Ampoxin also from negative it has become positive. So overall, if you look at the numbers, overall as a company as well as important brands have started showing very positive sign and we are quite hopeful that from this quarter onwards you will see there is lot of improvement in the Unichem portfolio.

- Sudhir Menon:** And Anubhav, just to add what Mr. Gulati has said is this is the first quarter of the Unichem portfolio. And basically, what we are trying to do is integrate into our business and practices, for making it align to what we have been doing. So, I think quarter 1 of this year 2018-2019 would be more reflective.
- Anubhav Agarwal:** So, I do not have doubts about that. I was just trying to understand as you guys are not shared the base of Unichem sales. Quarter 4, let us say typically is how much towards Unichem sales? So, I am just trying to understand sir, I do completely agree with you guys that you will be do a great job in growing the business. I am just trying to understand the base business of Unichem I was working in 900 crores base sales and this quarter seems to suggest that no, is not 900 crores it is more like 800 crores with 175 crores reported in quarter 4. Can you just help with is this understanding whether it is broadly correct the base and there after we will get benefit of the work that you guys are doing?
- Dhruv Gulati:** Yes, this is the base right now what we have got.
- Anubhav Agarwal:** And Gulati sir, can you also give some qualitative comments about you have seen this almost now 5-6 months have gone by since Unichem portfolio has been with you guys. In terms of us say procurement benefits what you have seen over there? Sales force integration benefits what you have seen over there? You have given a 2 year target but in 6 months what you have, 5 to 6 months how it has panned out so far?
- Dhruv Gulati:** No, it has been very nice and good experience for us. In fact we had met as I shared last time with you that we had gone all over the country. We met the field staff, one of the major concerns in Unichem was that their attrition was very high which was almost ranging from 35% to 40% and Q4 if you look at the number is something like 18%. So, it has become half and the stability in the field force is very important, especially when you are working in speciality segment. So, that is a very important thing. And second thing is the brands revival like Losar, Unienzyme or even Vizylac they have tremendous potential to grow. And we have already initiated the activities as our business model is to build big brand, high productivity and speciality focus. We have already started on this and as Sudhir said correctly. There were lots of hygiene factors which were required to be taken and in line with Torrent philosophy we have initiated that and if you see, so that the things will be very positive for us.
- Sudhir Menon:** So, just to add what Mr. Gulati said is your question on two pieces. One is the, the improvement in the gross margins in terms of procurement prices which you mentioned. I think most of it has already happened and implemented that is number one. The number two, in terms of the restructuring of business divisions for both the Torrent divisions as well as the Unichem acquired division. The process has started and initially what we had indicated is that it would take 12 to 18 months' time. But looking into the progress that with the restructuring is happening we feel that by the end of this year we should be through with integration of both the business.

- Anubhav Agarwal:** Just one data point on this, sir mentioned that 18% is attrition now. So, when you acquired the business you acquired about 3,000 rep how many reps are there in Unichem now?
- Sudhir Menon:** So, the number of reps, Anubhav was around 2,200.
- Anubhav Agarwal:** 3,000 number was including entire hierarchy?
- Sudhir Menon:** Yes, absolutely. Including the entire hierarchy as well as the facility, manufacturing facility which we have taken over, everything put together the total number was 3,000 plus.
- Anubhav Agarwal:** So, Sudhir sir, that number 2,200 that time is what is it now?
- Sudhir Menon:** So, some of the divisions have already got integrated and whatever objectives we had in terms of the integration benefit which would come in is what we are trying to say that by end of this year we should be substantially be there.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead
- Nitin Agarwal:** Sir, on the U.S. business, how should we look at this Q-o-Q growth in the U.S. business? Is this entirely on account of the acquisition consolidation? Or is there some growth in the Torrent business also?
- Sanjay Gupta:** So, the Torrent business has been more or less stable at the \$40 million per quarter range. So, it has grown a little bit and then there is also the impact of the Bio-Pharma. So, we have not given the split, but the Torrent business has grown and have contributed to this delta.
- Nitin Agarwal:** And Bio-Pharma you talked about launching few more products going forward. Can you give us some qualitative sense of what this business is all about and where, I mean what kind of contribution it will make to your business going forward?
- Sanjay Gupta:** So, the business is quite small, the company that we acquired and last products that we just recently launched there is a hydro photon acetate suppository product. So, that is the potential to be a few million Dollars, in terms the sales it is still early we have been selling it for about 2 months and so all in all I think good product in the liquid suppository stake is about \$2 million-\$2.5. That will be a good, I would say performing product and very large product would be in the range of \$5 million and then most products would do between half a million to 1 million.
- Nitin Agarwal:** And secondly on Brazil, any particular reason for the flat Y-o-Y number?
- Sanjay Gupta:** the main reasons are what we had, what I had mentioned is firstly is that we had an exceptional level of sales in the year ending March 2017 when we had grown by 38% in INR terms and about, I think, 28% in Brazilian reals terms. And then the second reason is that we during the course of the year, I think I believe it was on the second quarter. We had taken an

exceptional charge to compensate for returns that was coming from wholesalers as well as to compensate for currencies that accumulated over a period of time, which we had not paid to them. So, those 2 reasons are the reasons why you see year-on-year flat growth. But in terms of close-up data, we continue to, the market has slowed down now. Just for your information, Brazil is going to turmoil again. There is a slowdown in terms of units from 8% to about 4%. So, the slowdown in the market it is going to impact us and there is also currently a very big strike ongoing, about 10 days old whereby the entire company is blocked by strike of the truck drivers. So, there will be some impact of that on the business. So, all in all, I mean we will continue to grow faster than the market. And the invoice sales would come back to a normal trend this year. But for last year, it is 2 new factors, which have contributed to this.

Nitin Agarwal: And lastly, Sudhir on, in the operating numbers on SG&A staff cost is there any one-off in those numbers or these are the recurring sort of base numbers we should model going forward?

Sudhir Menon: Yes, so during quarter 4 there is a one-off to the extent of 50 crores which is basically the expenses which we had incurred on certain acquisitions which we were looking at. So, that is the one-off and the rest is largely because of the Unichem expenses also flowing in quarter 4.

Nitin Agarwal: So, this entire 50 odd crores would be in the SG&A expenses?

Sudhir Menon: SG&A expenses and which is only one-off.

Nitin Agarwal: 50 odd crores?

Sudhir Menon: Yes.

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

Anmol Ganjoo: Sir, I have two questions. One is that you spoke about certain hygiene factors leading to this quarter's number not being representative especially on the Unichem side, if you were to kind of quantify any of such hygiene factors on the cost side, what would those be? Because this is the first full quarter of consolidation, so I expect there will be some one kind of, one-time kind of elements on the cost side also? And if yes, where are they captured outside of the 50 crores you just mentioned.

Sudhir Menon: No, so I think except for this one-off which I just mentioned about 50 crores there are no major upsides which has come, right. Because the integration process has just started, so I think, going forward you will start seeing those numbers coming in.

Anmol Ganjoo: And my second question is, so from F19 stand point on the domestic side I expect you guys are hands pretty much full. What are the key strategic objectives? And in the US we have not seen meaningful launches off late, so to that extent volume growth off setting any pricing decline is commendable but does this dynamic also hold from an F19 perspective or there are other plans?

Sanjay Gupta: So, on the US side we filed 13 ANDAs last year. So, this year we should be about filing about 20. So, all in all I do not think Torrent ever had a larger number of ANDAS pending with the FDA. So, 46 ANDAS right now and we hope to expect to receive about 8 to 10 approvals in 2018-2019 and we expect to launch all of these products on time on the pretext at which we get approval. So, that should help our dynamic and obviously in terms of market share we already quite high because I mentioned there about 10 products where we are number one and another 12 where we are number two. So, in terms of market share it is hard to push any further. So, the growth will have to come from new products and new launches and what we can do on the Bio-Pharm side.

Anmol Ganjoo: But I also had another question. It was around the key strategic priorities for F19 on the international side, outside of the US.

Sanjay Gupta: So, the key priorities for us internationally is, I mean outside of the US is firstly Germany, so we are about 16 launches lined up in Germany from next year. So, again our growth we would expect the current growth trend to continue. As I mentioned that we have grown CAGR about 17% in Euro terms over the last 5 years. So, expect that kind of trend to continue, so that is an important market for us. Brazil it should be back on track. Hopefully, the macro level turmoil from the truckers strike and the elections are coming on October will not impact our business. If that is, in those macro factors that set aside we have at least two launches on the calendar for this coming year and Brazil market we should grow at least 5% to 7% and we should grow over rate higher than that. And along with the new launches we can expect to grow a double digit in this year and increasing contribution from profitability. And for the other markets on the international area, the 2 markets which I would speak about and Mr. Gulati will talk about his super 7 markets. Tier 2 markets are UK and Mexico. So, UK we are off to a good start we close the year we have taken to 50% growth compared to last year and we are planning to launch about close to 20 products in the coming year. And you recall as few years ago we have acquired a company named Aptl in the UK which brought to us a large number of registrations and we are in the process of switching them to our plants and into other third-party plants. So, that has come about and we have gained momentum in this country. And in Mexico we are building our focus in CNS business which is also growing quite nicely. Gulati sir would talk about super 7 countries.

Dhruv Gulati: Yes, in ROW you see we are active in 35 markets encompassing different geographies of Africa, Middle East, South East Asian countries, Latam but our major focus is on super 7 countries which comprises of Sri Lanka, Myanmar, Philippines, Malaysia, Russia and Nepal. And we have the number one country in these markets is our Philippines which is about \$2 million market and we are the 18th company overall ranking and in a covered market we are the second biggest company. And our major focus in this market is CNS and CND. These are the 2 segment where we are focusing and we have a big field force in this country with almost 137 MRs and about 43 people in our office. So, overall we are doing well in Philippines, Sri Lanka we are among the top 2 in the covered market and among the top 5 in the overall market. So, the focus is they are on majorly on these 7 countries.

- Moderator:** Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Just 2-3 questions to Sanjay, sir. One in Brazil, now we are starting a new year. What is the price increase allowed to us or to the market in general for the next year?
- Sanjay Gupta:** No, for this year it is, I mean for the coming year it is almost negligible. So, it will be above 1%.
- Anubhav Agarwal:** And with your comments on, lower volume growth as well. So, should we expect it just mid-single digit or high single-digit kind of growth in Brazil? Constant currency this year?
- Sanjay Gupta:** Yes, with the decline, slowdown in the market growth and currently the Brazil has completely stopped from the last 10 days. So, I do not know where it is going so, I think, high single digit would be a good result.
- Anubhav Agarwal:** And in the US this quarter, is there any one-off milestone or license income which is there in this sales of \$48 million as well? Or this, large part of it should be Bio-Pharma, right?
- Sanjay Gupta:** No milestone income. No, we aren't doing any split but let say that it shared between Torrent and Bio-Pharma.
- Anubhav Agarwal:** Because I remember on your portfolio you launch lamotrigine as well, right? So, that would be the only significant delta sequentially for you guys, right?
- Sanjay Gupta:** No, we launched quite a few products in this last quarter actually. So, we have launched, I think 3 products this last quarter. So, we launched, LAM ER, Anagleride and Olmesartan-Amlodipine-Hydrochlorothiazide. So, there were 3 products which we launched in Q4.
- Anubhav Agarwal:** One question on this 450 crores R&D that you are doing now for on the overall business, especially with the US. What kind of returns are you working with? I mean rough idea like more than 30% just 20% to 30% range thereabout some idea will be helpful. What kind of returns are you working with?
- Sanjay Gupta:** No, we do model all our portfolio project in on the basis of the NPV and we try to meet the service ratio. Again, it has very subjective approach, so we are trying to hypothesize as to how many people would be on the market? When will they come on the market and what would be the pricing dynamics at that point in time and what share. So, I would just say that we have our internal models. So, we do not always get it right, but the goal remains again to get it right on the aggregate basis. So, on an individual product basis, it can be pretty much off. So, right now we are allocating a substantial part of our resources on R&D. So, that exercise gets careful attention. But Sudhir, I do not think we publicly disclosed our metric for R&D products.
- Sudhir Menon:** Yes. We have not.

- Anubhav Agarwal:** But this return will be typically company's when they go for acquisition they have a return metric for about 15% IRR at least. This return, what you are baking in from your R&D, at least will be more than this, right?
- Sanjay Gupta:** Yes.
- Moderator:** Thank you. The next question is from the line of Kartik Mehtav from Deutsche Bank. Please go ahead.
- Kartik Mehta:** In terms of the depreciation and amortization. How should we consider this amount for the quarter? Is it fair representation to emerging the Unichem assets? And how will we looked at impairment and entire goodwill in this amount which we have this quarter?
- Sudhir Menon:** Yes, so as far as depreciation amortization is concerned, I think there should be representative for the full year during the current year 2018-2019. Except for a little increase in the depreciation if there is a capitalization on account of the fixed assets happening. But that will not be major. So, you can take this as representative for 2018-2019. And as far as finance cost is concerned by enlarge I think it should be an indicative thing. The only thing which we used to be considered is whatever repayment is happening during 2018-2019 to that extent the interest cost would be little lower.
- Kartik Mehta:** Is there an amount of goodwill impairment or any of those types which is like a non-recurring which is also there in the depreciation number of about 151 crores?
- Sudhir Menon:** No, there are no impairments in 151.
- Kartik Mehta:** And in terms of the tax rates, could you explain what is the normalized tax rate for this quarter and so, what should we run for FY19 and FY20?
- Sudhir Menon:** Yes, so typically if you look at the full year number is around 27%, I think that is the way to look rather than on a quarter basis. So, going forward at least for 2018-2019, we should be around the same number.
- Kartik Mehta:** The tax rates should have been lower, right because of the acquisition-related depreciation, etc., which we may have?
- Sudhir Menon:** Yes, what typically happens is because of acquisition there are deferred tax liabilities which gets created, right. So, based on those movements is what I was trying to say the expectation is that we should be around this number for 2018-2019 as well.
- Kartik Mehta:** And my last question is on the India business. If we have to see what we have achieved for Elder brands and if you have to match and if we have to map that for maybe what we have acquired. I know we have acquired significantly larger business. What are the milestones that we should look at in terms of employee productivity MRs in terms of anything on the cost side that we can say? So, if we have to look at milestones, you mentioned earlier that by the end of

FY19 substantially cost part of the benefits we will be able to see but on the topline in terms of the integration of the MRs, how should we look at it in terms of the per MR productivity. Any color on this will be helpful. Thank you.

Sudhir Menon: In terms of the productivity per MR we should see improvements happening quarter-on-quarter. And that is reason why I said since quarter 4 is the first quarter where actually the integration process has started would not be representative. So, come quarter 1 we should be able to start talking about the improvements which are happening in terms of the productivity.

Kartik Mehta: So, you mean quarter 1 FY19, right?

Sudhir Menon: That is right, yes.

Kartik Mehta: And in terms of other things on the cost side, any input synergies we have or a common distributor or in any particular region where we may have a very higher market share. Is there anything because it is not easy to model all these things, I can understand you will be sharing this gradually. But it is a large business which has been acquired and in terms of cost, etc. I am sure you will have some benefits, right?

Sudhir Menon: Yes, I mean definitely. Because compared to the kind of cost which Unichem had and the kind of scale of business which Torrent had, of course, I means in terms of the distribution costs, there would be some improvements which would be seen on an overall basis. But it is too early to talk about all those things. Because that will not be substantial that can be talked about but definitely, I mean all this places the cost efficiency would be seen.

Moderator: Thank you. The next question is from the line of Shrikant Akolkar from IIFL. Please go ahead.

Shrikant Akolkar: Can you please share Unichem and Torrent combined MR productivity at the moment? And how would it look by end of FY19?

Dhruv Gulati: See, the combined productivity right now for the Torrent, I would say is around 4.8 or 4.9 and moving forward we should be able to have a good PCPM increase because the integration process, as Sudhir just said has just started and we should be able to complete this process by the end of this financial year. In fact right now our priority was to ensure that the team gets stabilizes and which as I said attrition has come down. Also, to build our culture, values and where we do business that was our immediate priority which I feel has been completed. Now, it is more on the productivity, brand building which we are going to start. So, by the end of this year you will see a significant improvement in the overall productivity.

Shrikant Akolkar: I also wanted to know about the EBITDA margin. How they look after the Unichem acquisition in the domestic market?

Sudhir Menon: Yes, so we have not been sharing geography wise EBITDA but if you see on an overall basis the operating EBITDA is more or less come in the same as the previous quarter. So, that is an indication that things are in line with our objectives.

- Shrikant Akolkar:** But if we compare to the last year same quarter and post-acquisition the EBITDA margin. Have they increased or they are flat or they have declined?
- Sudhir Menon:** So, if you look at the operating EBITDA of last year it was around 22% for the full year and this year full year is around 24%. This is without the other income.
- Shrikant Akolkar:** And the last question is what will be the CAPEX next year?
- Sudhir Menon:** Most of the expansion related CAPEX has been done, so we expect our normal CAPEX to happen for 2018-2019 which should be in the range of, I think max 200 crores.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** On the US business, what kind of opportunities do you see for volume expands, volume growth in your existing portfolio, already commercialized portfolio?
- Sanjay Gupta:** I would say that we do not think volume growth targets per say. But what we have is, we have the benefit of having our new manufacturing facility, which provides us with plenty of spare capacity. So, right now our run rate in the US is about 340 crores units per year and we have capacity to ramp it up because of the Dhaej and as we are seeing that some of the larger players, if we look at the top 3 players, they have started discontinuing certain SKUs and therefore, the rationalization is coming in the US pharma industry. So, there might be, I would say, opportunities that pop up. And because of our, let us say, quick reactivity and availability of competitively manufacturing capacity, we will be able to pick up share. But I would hesitate to give you a volume target for next year.
- Nitin Agarwal:** No, what I meant is in terms of qualitatively, are you beginning to see some of these opportunities coming your way in terms of maybe be tenders or offers for increased volumes on some of these products, some of your existing products?
- Sanjay Gupta:** Yes, because what people have seen is that we remain committed to the US business and we are continuously commercializing our product. And as some of the other players are moving out or rationalizing their portfolios we find the customers more focused on guaranteeing continuity of supply as compared to price in the previous year. So, we are able to pick up some new business at a reasonable margin.
- Nitin Agarwal:** Sir and in terms of the new launches that you have sort of outlined for this year, I mean, how should we qualitatively look at these launches? I mean, these are more of the same like or the kind more plain vanilla or from whatever that you see, there could be some limited competition opportunities in there also?
- Sanjay Gupta:** So, there are quite a few, I would say, first to file where the litigation stories in the public domain. So, I think you can pretty much identify them and follow the story on the litigation product. We have a couple of derma products which are scheduled for launch which should be

our first derma commercialization and I would say the rest, I more expect them to be, let us say multimillion dollar products. So, the first one will be launching is sildenafil which would come in June. That will be a fairly competitive space. And then going on from there, I would expect maybe out of 10 may be 2 products would surprise us on the positive side. But I would say we have to identify which one of them to be because I think it is reasonable to expect at least 2 of them to come with a limited set of competitors.

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

Purvi Shah: Sir, regarding the debt repayment schedule if you could highlight something on how do we see that going down in the next 2 years? That is one. And the second is that adjusting for the one-off expense that you have said it that sits in the other expenditure line item this year. The margins have been maintained in comparison to what they were in FY17. So, do we see any scope of improvement coming up in the FY19 year itself?

Sudhir Menon: What was your first question? We were not able to hear properly.

Purvi Shah: Sir, that is regarding the debt repayment schedule that you guys have for because, so basically because we have done the Unichem acquisition, so the most of debt was required for that, so what are the repayment schedule and when do we see the interest cost going down?

Sudhir Menon: I mean as far as the interest cost is concerned, so I mean the total debt is a combination of the Unichem acquisition and certain other debts which we have taken prior to Unichem acquisitions as well, right. And if you look at Unichem acquisition typical the period of repayment is basically 7 years amortization and there are certain loans which have been taken which have different amortization period. So, based on that whatever repayments are going to happen in 2018-2019 to that extent the interest cost is start falling down.

Purvi Shah: Sir, can you quantify the number that we are looking at reducing say from FY19?

Sudhir Menon: I mean at this point in time it is little difficult for me to get that number.

Purvi Shah: But if you could just help me with average cost of debt at the moment?

Sudhir Menon: So, we have not spoken about it because different loans are at different costs. So, that is the reason I said this 121 crores which is there in quarter 4, it should be a good indication for the full year of 2018-2019 minus repayments which will happen.

Purvi Shah: And the other question was in regards to the EBITDA margin that we have for the entire year, which is at around 21.5 adjusting for the one-off ...

Sudhir Menon: Yes, adjusting for the one-off it will be around 24%.

- Purvi Shah:** So, what is the EBITDA margin outlook that to we are having for the next 2 years since we have talking about the synergies and better integration and all these things coming up. So, is there anything that you would like to guide?
- Sudhir Menon:** In a very logical way if I think because of this integration process which would get over let us say by the end of this year. We should see improvement in EBITDA margin happening. So, that is point number one. So, I would rather wait for one quarter, two quarter before I start talking as to how much it has contributed to the EBITDA improvement. So and the other thing is that since we have been taking price increases actually is on our branded portfolio. That should help us to improve the margins on an overall basis. So, we should see a positive movement in EBITDA for 2018-2019. But I think let us come to a representative quarter before we start talking about it.
- Purvi Shah:** And sir, just one clarification again on the tax rate front, I mean if you could just elaborate as to, you have said it should be in the range 26% to 27% for FY19 and 2020, right?
- Sudhir Menon:** No, I said FY19 it should be around the same number. I think, FY20 it is a long call.
- Purvi Shah:** Sir, because I think so, if you see the balance sheet numbers also for this year. Our deferred tax liabilities which was 101 crores last year has come down to nil.
- Sudhir Menon:** Yes, so typically what happens is the let us say based on the various jurisdictions as far as the balance sheet grouping is concern it is netted-off again certain deferred tax asset. So, in some jurisdiction possibly the deferred tax asset is more than the deferred tax liability compared to what was there previously, and in some jurisdictions, there is deferred tax liability. And that is why you see a drop in that number but essentially when we go forward, the deferred tax liability can again go up based on what deferred tax asset you are having for 2018-2019. So, it is a function of a both deferred tax asset as well as the liability.
- Moderator:** Thank you. The next question is from the line of Chirag Talati from Kotak Securities. Please go ahead.
- Chirag Talati:** Just one question on the Unichem sales. Going forward in Q1, is it fair to assume that barring any unforeseen events the Q1 versus Q4 jump should be similar to what we have kind of seen historically. So, in other words the seasonality should remain?
- Dhruv Gulati:** Yes, hopefully yes.
- Chirag Talati:** I am not really able to understand the seasonality aspect of Unichem. Why should there be so much seasonality in the Unichem portfolio? Is there anything related to hygiene factors in that portfolio which you would want to change or what is the reason?
- Sudhir Menon:** So, no Chirag, I think what we was saying is generally for the domestic business, Q4 is the lowest compared to the other quarters. Whether it is an acute business or the chronic business because typically what happens is Q4 the channel starts managing their working capital and

quarter 1 there is a renewed purchases which we see as far as the domestic business is concerned, that is one. Second, the second factor is since this business has come as it is and there are certain differences as far as the business practices are concerned. For example, if you remember we had worked on the discontinuing the free goods bonus offer schemes and high discounted business. Now, this business has certain components which relate to free goods schemes and high discounted business, which we are trying to realign as per our policy. So, I think once that is done you will see a normal growth curve coming in for this business as well.

Chirag Talati:

And secondly, I did not quite understand the comment on tax rate being in your 26%-27% because I was under the assumption that you are under MAT. So, whatever our depreciation you are taking on books should translate into an immediate tax benefit on reported P&L as well.

Sudhir Menon:

No, absolutely. You are right, I mean, so there are 2 ways of looking at it. So, as far as the current tax is concerned it should be around 21% I am with you on that, right. The other thing what is happening as far as the India is concerned you are right. We continued to be under MAT. So, there is a MAT credit creation to a certain extent. What the income tax law also states is that since you are getting a higher depreciation under income tax versus the amortization which you do in the books, there is a deferred tax liability which you have to create in the books. In terms of charge in the P&L, which typically indicates that future when, your books depreciation goes above the income tax depreciation, you start reversing the deferred tax liability.

Moderator:

Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria:

First on the Unichem acquisition. We had mentioned that we would start seeing the benefits on the gross margin almost immediately from the sourcing benefits with the integration. Is that reflective in the fourth quarter? And is it fair to assume now the benefits should more be driven, like you said, PCPM, improvement in PCPM and all of the other reasons?

Sudhir Menon:

Yes, so as far as the margins are concerned, what was indicated is that the new purchases have started happening at better prices. So, that is number one. So, there was a big amount of inventory which we took over as closing process, right. So, I would say Q4 has a mix of that but substantially I think as far as that improvement in gross margins are concerned the negotiated price has been rolled out. So, I think quarter one we should see a better picture.

Neha Manpuria:

And my second question is on the R&D front. In the past, you have spoken about external collaboration and seeing more filings around that and even derma filing probably towards the end of FY18 peaking up. Are we on track with that? Or, any color on the R&D front?

Sanjay Gupta:

Yes, we would see external filings and derma filings in next year. So, given you indicated number of about 20. So, I would say that the Torrent run rate has been, right now, you have

seen it between 15 and 17. 16 filings last year, 13 filings this year that just ended. So, plus that we should be and I would say above 20 filings in 2018-2019.

Neha Manpuria: And my last question is on your M&A sweet spot of 300 to 500, given that we already have our hands full on the India side with Unichem, is it fair to assume that most of the evaluation would probably be more for international assets either in Europe, US or other markets? If yes, what would be your top 2 or 3 priority markets?

Sanjay Gupta: So, it is true that we have quite a lot of work here at Torrent with Unichem acquisition. So, it is not that we are actively, let say pursuing external growth opportunities in an aggressive manner but we do evaluate what comes up and while it is not our top most priority right now it is the top most priority remains to deliver on Unichem and Bio-Pharm acquisitions. We will evaluate these. Our priorities in terms of external growth are the same as before which is the first priority remains India. So, this is the home market. So, anything, any suitable opportunities here we would definitely take a look at them and try to see what can be done with them. After India, I would say our priorities are three other core markets which are in US, Brazil and Germany in that order.

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

Kartik Mehtav: I know you do not own to share the interest rate on the debt. But is that affects interest rate debt or is it a floating rate debt which we have predominantly on Unichem?

Sudhir Menon: So, it is a combination of both fixed and floating.

Kartik Mehtav: And other question is again on the Unichem business. So, in terms of the payback and the synergies would you assume that in the next 3-4 years we would have been able to realize all the synergies that you could have anticipated now that you have integrated this at least for one quarter?

Sudhir Menon: Yes, I think so. I think it is a reasonable period of time to think of.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: You mentioned that, you all have launched 3 products in the current quarter, Celecoxib, Anagrelide and which is third one which has been, which you have mentioned?

Sanjay Gupta: Let me repeat it, so we launched 3 products in the current quarter, which was LAM ER, Olmesartan- Amlodipine-Hydrochlorothiazide combo, as well as Anagrelide. So, those are the 3 products which were launched in this quarter.

Rahul Sharma: Olmesartan, what combination is it?

- Sanjay Gupta:** Triple combo. Olmesartan-Amlodipine-Hydrochlorothiazide. So the other products which were launch in the year are Celecoxib and Darifenacin.
- Rahul Sharma:** Celecoxib and?
- Sanjay Gupta:** Darifenacin and then in addition to that we launched these hydrocortisone acetate suppository from Bio-Pharm.
- Rahul Sharma:** Just wanted your thoughts on Brazil because first 2 quarters were quite flat. Third quarter we did, we showed that jump in revenues. And then again, you have seen a tepid quarter on this quarter. So, what you said was that probably there was a, was there an inventory buildup in the third quarter? Or how do we ...
- Sanjay Gupta:** No, I think it is kind of little difficult to if you evaluate Brazil sales in terms of your invoice sales is about quarter-on-quarter basis. Because I mentioned that there are some extraneous factors. So one is of course, we are suffering from the impact of excessive sales or pull through from a wholesaler customers in Q4 of 2016-2017. Secondly, in Q2 we have an artificially depleted level of sales because of one-time charges and provisions that we had taken. So, if you remember ...
- Rahul Sharma:** Q4 2017, right?
- Sudhir Menon:** Yes, I think Q4 2017 was quarter where there was a built up of sales which had happened and therefore 2017-2018 for the first 2 quarters we were trying to normalize the inventory channel in the market. Second what we have done was since there was an excessive inventory sold we had taken a stock of the possible returns which can come in and there was a charge which was created in quarter 2.
- Moderator:** Thank you. The next question is from the line of Abhishek Sharma from IIFL. Please go ahead.
- Abhishek Sharma:** Just one question. Sir, is there any plan to raise fresh equity in FY19?
- Sudhir Menon:** No, as of now there is no plan, Abhishek.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.
- Sanjay Gupta:** So, we thank you for joining us today and we look forward to seeing you on the road soon. Thank you. Bye-bye.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Edelweiss Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.