"Torrent Pharmaceuticals Q4 FY'21 Earnings Conference Call"

May 18, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q4 FY'21 Earnings Conference Call. We have with us today, Mr. Sanjay Gupta, Executive Director, International Business; Mr. Sudhir Menon, Executive Director and Chief Financial Officer and Mr. Aman Mehta, Chief Marketing Officer, India Business. 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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the over call to Sudhir Menon. Thank you and over to you, sir.

Sudhir Menon: Thank you. Good evening, everyone and welcome to Q4 FY'21 Earnings Call. We hope you and your families are keeping safe and healthy.

Q4 continue to witness mixed trends of COVID recovery across the markets. In the midst of the second wave of pandemic in certain geographies we operate and particularly in India, we continue to give highest priority to the health and safety of all our employees and their families while ensuring continuity of supplies to fulfill patient needs.

In terms of financial performance during the quarter, revenues were flat at Rs.1,937 crores, operating EBITDA was Rs.582 crores, up by 6% on YoY basis, the net profits were Rs.324 crores, up by 3% on YoY basis, adjusted for one-time tax benefit in the base year, the net profit grew by 24%. This adjustment was towards one-time tax benefit of Rs.53 crores which we got under the CARES Act which was enacted by the US government in March '20 in response to the COVID-19 pandemic. So during the quarter, the revenue was flat at Rs.1937 crores, operating EBITDA was Rs.582 crores, up by 6%, net profit was Rs.324 crores, up by 3% but adjusted for one-time tax benefit which we received last year same quarter in the US, the net profit grew at 24%. In terms of leverage, the net debt-to-EBITDA has come down to 1.6x as of 31st March 2021 versus 2.2x as at 31st March 2020. The board of directors has recommended final dividend of Rs.15 per equity share.

I now request Aman to share India performance for the quarter.

Aman Mehta: Thanks, Sudhir. India revenues were Rs.922 crores, up by 10% on a year-on-year basis versus IPM growth of 5%. Growth was driven by continued recovery in top brands in chronic, sub-chronic and acute therapies and aided by new launches. Torrent continues to outperform the market in high potential launches from last year. We further launched three new products in Q4 including Brivaracetam and the CNS therapy. Our Vildagliptin is ranked first in terms of volumes among the branded generic players and continues to gain strong traction. All other launches in the CVD therapy continue to gain market share in leadership positions.

We have completed the field force restructuring announced in the previous quarter and MR strength now stands at 3,600 with the PCPM of 8.5 lakhs. This portfolio is now fully integrated.

Torrent has entered into a voluntary licensing agreement with Lilly for manufacturing and distribution of Baricitinib in India. We're currently in talks with several other companies for similar partnerships and plan to strengthen our COVID portfolio.

Our existing Gastro, Vitamin and Anti-Coagulant portfolio has played an important role in the second wave of COVID as co-prescriptions.

Torrent continues to focus on brand building and specialty approach and has 16 brands in the top-500 of the IPM with 10 brands more than 100 crores sales.

I'll now hand to Mr. Sanjay Gupta for the international business.

Sanjay Gupta: Thanks, Aman. Starting with our branded generic business in Brazil, Q4 revenues were R$141 million, up by 19%, on a full year basis our revenues were R$454 million as compared to R$409 million in the previous year, a growth of 11%. For reference purposes, the overall market growth in Brazil for the pharma market is close to 9% and a substantial piece of it is coming from COVID-related therapies, an area where we are not present in Brazil. Despite the pandemic challenge, we are able to grow at rates that is **superior** to the market. The growth has been driven by market share gain in our largest brand. New launches made in the preceding quarters, especially Mirtazapine in C&D and Bisoprolol in CNS and uptick in our generics business.

Moving on to Germany, revenues were at €30 million, up by 14%. Overall German market growth has been affected due to an extension of lockdown. In Q4, Torrent has regained its market share to 7.1% which is at par with its level prior to quality issues arising in Q3 of 2019.

In the US, Q4 revenues were 37 million, they were down by 29%. US growth continues to be impacted due to continuation of our sartan products, absence of new launches and price erosion of portfolio. As of March 31st 2021, 54 ANDAs were pending approval and six tentative approvals were received. Eight ANDAs were filed during the last quarter

To conclude Q4, Torrent continues to witness strong growth in India, Germany and Brazil despite the mixed trends in market recovery and we are backed by market share gains and new launches. Our focus continues to be in deepening our presence in our core markets and then returning our US business back to growth.

Operator, we can open the call to questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: My first question is comments on the free cash flow generation for the year and the debt deduction, what has been the number and what is the outlook for the next year '22?

Sudhir Menon: I think in terms of debt reduction this year net we would have repaid around Rs.900 crores. I think a similar number can be looked at for the next year, that's what looks like as on date. In terms of free cash flows, I think we should be close to 1,750 to 1,800 this year.

Prakash Agarwal: In terms of India outlook, so clearly 10% growth has been better than peers, but as we move to '22, I understand uncertainties remain but how do you see the outlook for the rest of the year given last year, a), the base was low and we are seeing uptick in volume now, and despite the lockdown continuing how do you see the growth for '22?

Aman Mehta: So the full year would be hard to say as of now but if we look at maybe the next one or two quarters going by the April secondary data that has been released. On a base adjusted basis for last year the IPM growth in the month of April is around 21% and predominantly driven by COVID-related prescriptions and treatments. So, as the situation improves through the next few weeks and months, this should start tapering down, but on a normalized for the corrected days basis last year, we should expect the IPM to grow at 15% for Q1 and maybe something similar for Q2.

Prakash Agarwal: Lastly on the US business side, two things here; one is from USFDA, have you heard anything, they have released guidelines on desktop inspection, that's one. And secondly, are we on track to start seeing some recovery from second half onwards, would that be correct understanding?

Sanjay Gupta: So from the USFDA we have no particular guidance to share, so we have not heard anything in terms of either desktop audit or in terms of travel to India specific to Torrent. As far as the date for turnaround is concerned, it's quite dependent upon getting some approvals from the 54 ANDAs that we have pending with the USFDA. So it's hard to pinpoint the date for us, Prakash.

Prakash Agarwal: Okay, but as a matter of precaution have we started to transfer out or any large chunky product that we might be expecting or start filing from other sources, is there a Plan-B which we are working on?

Sanjay Gupta: Yeah, so we started transferring products to a couple of CMOs in India, so that process has been initiated but it is a little time-consuming process, so it's hard for me to tell you when we have an impact. The other things which are of a little slight positive for the US market is our Levittown plant started manufacturing GMP matches in April and we would start commercializing them in June. So that is all I would say has started. Our sartan portfolio is re-launching also in the June timeframe, so by the end of the year we'll be back in consideration for four to five sartans. And lastly, we've got some derma approvals, specifically, one product called Tapsan where we received a tentative approval. So, the few things here and there are working out fine, but the big Indrad and Dahej plants are the ones which can substantially move but seem to be stuck with the FDA for now.

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

Neha Manpuria: My first question is on the Germany business. That business, despite the quality issue being resolved, and now about €30 for the last few quarters, I think you mentioned some impact from extension of lockdown but now that things are normalizing in Europe, are we seeing an uptick in that business and how should we look at the growth potential going forward, can we expect more tender wins, higher volumes that we can break up there?

Sanjay Gupta: So generally, the German market suffered quite dramatically. The latest IMS figure show a quarterly decline of 3.5% as compared to a normal growth rate of 3%, 4%. So the margin had suffered. We also had some issues in the supply chain like with the warehouses and the wholesalers had some COVID related issues because of which the uptick was a little slow. Assuming that the German market normalizes soon to its low single digit growth rate, we can expect Torrent to reach high single digits that we've seen. We have no issues in terms of participating in tenders in terms of demand, we continue to launch new products and I think also to supply-related constraints and the quality issues are being resolved, we should be back on track for high single digit growth rates.

Neha Manpuria: What is your expectation in terms of the market normalizing in Germany, will it be in a couple of months or do you think could take longer, what would be the factors for that marketplace normalization?

Sanjay Gupta: The key factor is vaccination. So Germany is a little bit lagging behind the highest rates that we've seen in the UK and the US where it's close to 50%, Germany is close to about 35% vaccinations but it's ramping up quite fast. So I think as soon as they cross the 50%, we should expect life and markets to normalize to a greater extent. So our expectation is that come Q3 of this current calendar year we will be looking up in Germany.

Neha Manpuria: My second question is on the operating cost. The operating cost seems to have stuck particularly if I adjust it even for the R&D spend. Is this full normalization of our costs in India or is there any one-off element in this operating cost number?

Sudhir Menon: I don't know whether to call it as a one-time. So as you said there is a normalization of R&D activities which are happening which has caused increase in R&D expenses, those numbers are there with you. So the increase in R&D expenses versus the previous quarter is roughly 36 crores, so that's one component. The second component is there's some additional activities which we are carrying out at Germany. So there's outsourced manpower which we have taken, so it can be three months, five months, six months based on the amount of work which is involved in Germany. So I think this would remain for let's say the next six months on a very conservative side I can say and then probably it should normalize.

Neha Manpuria: The SG&A cost currently does not factor in a normalization of the India business, is that correct?

Sudhir Menon: No, the expenses have started growing up in India but not in a major way I would say.

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

Damayanti Kerai: My question is on gross margin front. So this quarter we have seen around 74%, higher than usual rate seen in previous quarter. So how should we look at gross margin trends ahead?

Sudhir Menon: I think Q1 was also 74% something out of the way I would say and I think the guidance which I had provided earlier is that know 72 to 73 looks a normal kind of thing, but yes, to specifically answer your question on this quarter, the share of branded business has gone up compared to Q3 almost I think by 5%, so that's bringing an incremental margin significantly, I would say out of the 2% and there would be some change because of the product mixes across the geography, so that's how the 2% is coming in Q4.

Damayanti Kerai: Broadly, as you indicated 72% to 73% is the normal rate which we should be looking ahead?

Sudhir Menon: Yeah and I would say more towards 73% now because if you look at the last four quarters, by and large we are moving towards 73%.

Damayanti Kerai: Second question is on Brazil market. Apologies, I missed your initial commentary. So can you talk a little bit more about what kind of recovery you are seeing in the market and how Torrent is placed in both the branded as well as generic part of the market for next few quarters?

Sanjay Gupta: On a macro economic front, there are a couple of good pieces of news; firstly, on the vaccination side it's close to about 20% of the population vaccinated and about a million people being vaccinated every day, so it's speeding up. The latest forecast for the economy last year was GDP of (-4) and this year the expectation is (+4) and on the exchange rate side also the the Rial has strengthened in the last one month. So overall the picture for the country despite all the political turmoil and the things that we are, is looking bright from an economic point of view. Pharma market reflects that and pharma market is going strong. So this year's about 8.8% growth in the year 2020. In 2021 the expectation is similar; 9% to 10% growth in the pharma market and our expectation is that we'll be doing better than that basically on the fact that as we got large brands and the focus is on specialists. So it continues to perform going forward with the new launches and the focus is on generics business. In fact, if we continue to perform well, we would be 100% discontinuing the tender business from October of the current year. So that was one factor which led to variability in our performance from quarter-to-quarter, so that should be a thing of the past soon.

Damayanti Kerai: So branded generic part should be 80-85% of the business and then remaining 15-20% from the generic business, right?

Sanjay Gupta: No, About 90% would be branded generics and about 10% would be generics.

Damayanti Kerai: Though it's COVID times, but any improvement on the approval cycles for Brazilian market?

Sanjay Gupta: Approvals are mostly grown in one and half year, so things are on track, so we haven't seen slowdown in terms of the regulatory agencies continues to work well and overall I would say the environment for doing business in Brazil from the regulator side, from the tax side, everything will become better over time. So no major I would say holding us back and the level of transparency and the ease of organizing meetings and asking questions is becoming something which is on par with what we see in other developed countries. And I think we expect generally at least on the branded generic side, three to four launches every year which would be good enough for us to maintain the momentum. And our next project as the plants get approved, we would see later as to how and when we expand our presence in terms of field force, but for now, we are pretty optimistic about growth aspects of the business.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: First one on the entire branded generic portfolio across geography. Just want to understand how is the pricing environment now, while COVID kind of normalizes we have historically taken some bit of inflation in terms of prices, so could you just share the outlook for the India and other places as well on the branded generics and the pricing perspective?

Aman Mehta: For the India market, the price component of growth has been in the range of 6% to 7% which we believe should be sustainable for the next few years. No real change in that that we anticipate.

Sanjay Gupta: On the Brazilian side also, the price increase like every year, we get a price increase in April timeframe, pricing increases as we mentioned in the range of 4% to 5% and this continues to be the case in most of our products. For certain products based on the competitive dynamics, we might choose to take lower amount, is something that we should expect in the current macroeconomic scenario.

Shyam Srinivasan: Just a related question, from a competitive standpoint, do you think it is 6% to 7% in India or 5% in Brazil

Sanjay Gupta: More or less similar I would say, a little bit less rigid but in countries like Mexico, etc., you can also take prices even on annualized basis based on what your competitors are doing. So, I would say it's very different in Gx and BGx

Shyam Srinivasan: No-no, just curious to know from a competitive dynamic 6% to 7% in India, you think you are still within where the competitors are from a prescription perspective and there is no leeway that from an affordability point missing out on…?

Aman Mehta: Absolutely not, we would be well within the comparative range of all the top, near our ranking, all would be within a similar price range.

Shyam Srinivasan: Second question is on the EBITDA margins. How should we look at say fiscal '22, several moving parts I understand? And also, the linking question is on R&D. Are we now going back to the fourth quarter run rate of about 7.5%, is that what we should look forward from here?

Sudhir Menon: I think it's a difficult question because the whole second wave has started and a lot of restrictions, partial restrictions and lockdowns which we are seeing. So, I think we'll have to wait for Q1 to really start talking about these two parameters.

Shyam Srinivasan: But R&D is something that you control, so do you think that is something that disturbs us or…?

Sudhir menon: No, R&D I think on a normal year, should be anywhere between 6% or 6.5%.

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

Sriram Rathi: My question was basically on the US sales like our own rate has come down from $50 to $37 million now. How should we look at this number going forward, I mean, from here on should we expect some derma launches to bring up the sales or the price erosion can continue to impact the sales?

Sanjay Gupta: We have a few launches coming from the sources which we had identified, so we would be starting with the Levittown sales from June onwards. We have currently a court case going on, on a major product called Tapsan, so we expect a judgment from the courts any time. And depending upon the legal outcomes we might decide to launch that product. It could be an important launch for this year. I would say that we have some approvals pending for our external partners products. So my guidance going forward would be that in a good environment, we should expect at least stability if not a slight positive momentum but hard to predict how the price erosion takes place, how the competition impacts our current portfolio because majority, 98% of our sales is base business so this business gets impacted just like that for other companies. So there are a few positive rings and they can help us compensate for normal price erosion but beyond that it's hard to for me to predict.

Sriram Rathi: On the tax rate, our guidance for that I mean it should be around 22% to 25% which seems to be lower at around 18%. So how should we expect going forward?

Sudhir Menon: I think that's the number you should work; 22% to 25% for the next year.

Moderator: Thank you. The next question is from the line of Vibha Ravi from Srip Capital. Please go ahead.

Vibha Ravi: So I just wanted to know, in the beginning you said that there was some talk on for strengthening the COVID portfolio. Could you elaborate on that a little bit please?

Aman Mehta: We've already entered into an agreement with Lilly for Baricitinib and similar talks are ongoing. So hopefully over the next few weeks, we should be able to have a few more products with us which would be for COVID treatments. So that's all we can share at this point.

Vibha Ravi: No names or anything concrete that you can discuss right now?

Aman Mehta: It would be confidential, hence unfortunately not.

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

Prakash Agarwal: Just on this **CRAMS** business that all seem to have declined more so, quarter-on-quarter also, year-on-year also. Is there any specific reason and do you expect it to come back to that…?

Sudhir Menon: Prakash, I think it will come back this quarter is low basically because there was some revalidation which Novo Nordisk had advised us, so it's WIP. So anyway, the stocks are there, the sales will start coming in Q1, so the sales is not lost from that perspective. For the full year there was some maintenance activity which had happened earlier. That's the reason why you see a low number. So I think anywhere around 85 to 90 per quarter should be the run rate which we should be looking at for this year.

Prakash Agarwal: How much of the Novo business is there, I mean, it is 80%, 85% of the total reported others?

Sudhir Menon: Yeah, I think this quarter it's lower by almost Rs.25 crores I would say.

Prakash Agarwal: I think Sanjay spoke about stability coming back for the year. So again the previous participant question of 50 going to 37, are we saying that second half onward we'll be able to see around $50 million run rate again or are we saying that this 30, 35 will stop eroding?

Sanjay Gupta: What we are saying is that it's hard to predict the US business. We have negative drivers in terms of price erosion but we also have a few positive drivers in terms of restart of Levittown in terms of new launches from external partners in terms of our derma portfolio which is coming onstream. So, net-net, hopefully there is a slight stability or positive momentum from 37.

Prakash Agarwal: Levittown was about $9, $10 million sales if I'm not wrong, annualized?

Sanjay Gupta: Yeah, prior to cessation of production it was about 14.

Prakash Agarwal: Do you expect it to revise?

Sanjay Gupta: Yeah, over a period of time.

Prakash Agarwal: On the cost side, just one clarification. So as you mentioned cost has started to come back but not to that extent. Would we say that moving into Q1, Q2 where we had a full lockdown scenario and since the activities have come back much more than what it was despite the current lockdown, cost will be marginally higher or it would be substantially higher on the upcoming quarters?

Sudhir Menon: I think it's better to wait for Q1 and start talking about it because I think it's too premature to start talking about the expenditure level.

Prakash Agarwal: If you see the ground level, there are pockets of lockdowns that we saw the country last year, so I'm just trying to get a sense on the activity levels today versus what it was last year?

Aman Mehta: In terms of activity levels, our all India field force has been working from home. So obviously for this month and for however long this would continue, the travel expenses would not be there and some of the physical activity spends will not be there. So that part could be a permanent saving for the year but apart from that how it turns out is still too early to say.

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

Anmol: So my first question is slight detailing on some of the cost drivers. So, as you said that it's too early to talk about them in Q1, but directionally in a post-COVID world how do you see these cost structures evolve given that some activities are now clearly going to be less off and some things like digital, etc., you do not have to do more of, so if you can just give us some directional color on some of the cost drivers that evolve in a post-COVID world and how you're looking about forecasting them, that'll be helpful?

Sudhir Menon: No, no, Anmol, I think what we are saying is that if COVID was not there, then all the costs would come back., what we are saying is Q1 is also getting impacted because of certain restrictions, lockdowns, partial lockdowns and it will not be right for me to give you any guidance. So I think the correct way to look at is that pre-COVID what was the level of expenses which was there and consider a kind of an inflation on those expenses and that could be the basis if 100% COVID is not there.

Anmol: I get that, Sudhir. What I'm trying to understand is that in a post-COVID world the things which could probably see a more permanent change

Sudhir Menon: Anmol, really speaking, there would be some cost efficiency but that would not be very significant. So our expectation is that if COVID is not there, most of the physical meetings will start happening again and I think a significant part of the cost will come back.

Anmol: My question is around the US business. First is obviously have we heard anything from the regulator during the quarter which is significant which you'd like to kind of flag off?

Sanjay Gupta: We have not heard anything, so we have no updates to provide in terms of guidance from the regulator as to when they would do either a virtual inspection or an in-person inspection.

Anmol: But any sense on the fact that now virtual inspection guidelines, etc., what time could be?

Sanjay Gupta: We have been pushing but it's more from our side. I don't know where we fit into the FDA's current priorities in the COVID environment. So it's hard for us to kind of speak for them.

Anmol: My last question on the US business. So obviously 37 million is the bottom end of the range and we do expect it to kind of revert, but even at around $200 million give or take $5 million, $10 million it is not really a scale business given our size of profitability and ambition and aspirations. So over a two three year time frame how are we looking at the business, are we kind of happy having it, we need to augment it inorganically, what are some of the thoughts around that and you spoke about some positive catalyst in the US business, but anything material to kind of over a two, three year timeframe to move this number materially higher from where we are?

Sanjay Gupta: The number is very sub-optimal, right, for Torrent, the US business presents 15% or lower of overall revenue which is clearly not where it needs to be in terms of an overall company profile. The US market is more than 50% of the world market. So potentially we are below index by any standards. There are at least five Indian companies or six that are doing more than a billion dollars in US revenue and it's clear to say, we would aspire to be amongst them rather than where we are right now. So directionally, we are clear with what ambitions we have and how do we want to go about building this business. We seem to be caught in a negative spiral right now but it's not going to last, so when you say two to three years, we expect to break out of it, I mean, just a simple indication, last year again we filed our 12 ANDAS which is in line with the previous year where we filed about 11. So the filings continue, these filings are complex filings, they're good filings, we expect to get approvals, if not for site issues. I would say medium term the ambition would be to grow on that last base that we had about 200 million and to try to grow with launching 10 ANDAs and 15 ANDAs every year which would compensate for the price declines but also lead to a positive momentum. But hard to pinpoint a number in the current situation where we seem to be stuck in the log jam and even if we take our products with CMOs where the timing of launch, the first wave you miss, right, because you're not able to launch on the date the market opens and then later on you will come with a CMO product where probably the cost which is a little higher than what you would have it in-house. So I would not like to go to numbers but directionally I agree with you that this is not where we need to be and this is not where we are happy to be and we're doing everything in our power to try to change it quickly, but I cannot give you a number for two, three years down the line.

Moderator: Thank you. The next question is from the line of Rajakumar V, an individual investor. Please go ahead.

Rajakumar V: I have two questions. The first one is I heard that kind of the vitamin sales because of the COVID situation in India has kind of gone up because of the people wanting to improve the immunity and all that. Is it something which is just related to COVID that we will see structurally this sales becoming sticky as the awareness among the public will kind of increase and I want to know how much is the portfolio of vitamins and OTC as a percentage of your total India sales?

Aman Mehta: So the first question the vitamins and immunity related demand has certainly gone up either as a result of COVID or as a preventive. So that has been observed in the April industry numbers as well. I think this should continue for at least a year or so, if not more. And in terms of Torrent the largest exposure we have to this segment is through Shelcal and the extensions of Shelcal. Apart from that we have some smaller brands, but that could be the main part of the portfolio.

Rajakumar V: Given the current quarter the sales are also skewed towards the COVID portfolio where Torrent doesn't have much with some first lead standpoint. Is it fair to assume that the September, December quarters for the India sales numbers will be better than the June quarters?

Aman Mehta: Hard to say at this point exactly. It'll all depend on the external situation and COVID environment over the next few quarters.

Rajakumar V: No, my question is if things stabilize in this quarter, if we come out of COVID successfully, so is it fair to assume that September-December quarters because given the portfolio is skewed towards the non-COVID?

Aman Mehta: Okay, okay, so in that sense, yes, because obviously as of now there has been more attention of the healthcare system diverted to COVID and COVID treatments. So in that process the regular treatments would have been on hold or postponed. So by that time particularly in the chronic space the demand should have picked up assuming that everything is normalized by H2.

Rajakumar V: Given that we have a significant MR strength and given the low penetration of healthcare in rural areas, I just want to know would Torrent be using this opportunity to create more awareness and also kind of leverage the sales potential?

Aman Mehta: Our bulk of our portfolio is focused on specialists which has 100% coverage. So it's essentially the sub-chronic and acute part of a portfolio which would be relevant for this type of expansion. As of now we feel that there is significant scope within our coverage to grow further from here, increase awareness. But at some point in the future, this would certainly be an important priority for us as well.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: In India business that MR productivity is currently 8.5 lakhs. Do we see this productivity going to increase from here or after that integration of portfolio this should mature here?

Aman Mehta: We had mentioned our goal of reaching 10 lakhs productivity which should be possible in the near future and that should be the base so to say. So we would possibly look at expansion, after that based on the portfolio and not from any other objective. So as the breadth of our portfolio increases that's when we would be looking at expansion.

Ranvir Singh: Secondly on working capital front, we see overall working capital cycle has increased. Do you see going forward that that will increase further or we should assume this model at this level of working capital?

Sudhir Menon: So that was a conscious decision taken when the whole COVID situation started last year, to ramp up the inventory. So there's no disruption as far as supply is concerned. So it will start normalizing from this quarter. So maybe by 31st December of this year, you'll see a normalized level of working capital.

Ranvir Singh: And normalized would be like 100-days of inventory, how is the normal?

Sudhir Menon: Between 90 to 100.

Ranvir Singh: What was the CAPEX in FY'21 and if you guide for FY'22?

Sudhir Menon: For FY'22, I think we are looking at a normal CAPEX between 250 to 300 which is maintenance CAPEX there's no expansion CAPEX which is going to happen and for FY'21 we've incurred Rs.300 crores.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: My question is on the absolute cost number over the last three years, FY'19, '20 and '21. Not on actual basis, this number hasn't moved, it has kind of remained put at around 1,400 crores. So can you help please understand how much of this flat cost based on the employee cost front has been achieved by a headcount reduction and what has been the blended average annual compensation hike rate across the company?

Sudhir Menon: So I think the annual compensation increase year-on-year will vary, because there are a lot of factors which are being considered. But I think if you look at a long-term period, maybe five years, six years, the employee cost would have gone up by. maybe 8% to 10% on a consolidated basis I would say, more in the range of 8% I would say on a consolidated basis. I think the other expenses that you're referring to, the normal growth rate over a long period of time maybe five years, it should be around 7% to 8%. That's the normal way of looking at it.

Nikhil Mathur: So just a clarification here; over the last two years whatever control has happened, it has happened more from headcount reduction and less from lower compensation hike, would it be fair to assume?

Sudhir Menon: So you're talking only with respect to the employee cost, is it? Yes, for the last two years good amount of rationalization has happened so that could be one of the major reasons why it's remaining same.

Nikhil Mathur: Going forward while MR count would not go up till the time PCPM of 10 lakhs is achieved, but ex of medical drugs, would there be a head count increasing any other business line whether manufacturing, whether international operations, whether sales, anything else?

Sudhir Menon: I think it's a very wide question. As far as international businesses are concerned, I would say there's no manufacturing facility except what is there in the US, so there's no addition, major addition which we see across the international geographies in terms of manpower ex of the field. As far as India is concerned I mean yes, over the next three years possibly there's an expansion CAPEX happening, there would be increase in manpower, right.

Nikhil Mathur: Okay but not imminently in FY'22, given that the CAPEX is largely maintenance CAPEX?

Sudhir Menon: Absolutely.

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

Alok Dalal: So one question on OTC. In the last few quarters you mentioned about revisiting your OTC strategy for Unienzyme. Any update on that?

Aman Mehta: I don't think we had mentioned anything of this sort, but certainly in this current situation many of these brands which have OTC potential, have gained significantly due to either preventive or co-prescriptions that includes Unienzyme, Shelcal, Vyzilac.

Alok Dalal: Okay, but specifically on OTC, Unienzyme is currently the key OTC product in the portfolio?

Aman Mehta: We don't have any OTC promotion at the moment. If you recall, we had discontinued OTC promotions about two or three years ago. Unienzyme was moved completely into RX.

Alok Dalal: So historically if you see, Torrent has been focused on protecting margin. Now is there a case where you can let go of some of these high margins, but that should help you accelerate your top line growth, is there such a thought process and if yes then how do you achieve that?

Aman Mehta: As of now we are still yet to fully utilize the potential of the field force so to say. Coverage is still quite high in that sense. But I would imagine that it would be more focused on the sub-chronic and acute therapies where we would be able to expand our reach significantly, but still it doesn't require it immediately, we feel there is enough scope for market share increase with the current coverage.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.

Sudhir Menon: Thank you all for joining Torrent's Q4 Earnings Call. And if any incremental questions are there, please get back to me or Sapan. Thank you.

Moderator: Thank you. On behalf of Torrent Pharmaceuticals Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.