



# “Torrent Pharmaceuticals Limited Q1 FY2019 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Torrent Pharmaceuticals Limited Q1 FY2019 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. Please note that this conference is being recorded. 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 first quarter FY2019 earnings conference call. From Torrent Pharma's management, today we have on call Mr. Sanjay Gupta, Executive Director - International Business; Mr. Dhruv Gulati, Executive Director - India & 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, and thanks to everybody for joining us this evening. We will begin by providing you with an update on the integration of Unichem and Bio-Pharm, and I will follow up that with a short summary on our Q1 performance.

We are pleased to say that substantial progress has been made with respect to the Unichem integration in four key focus areas. Firstly, the integration of the Unichem field force into the Torrent culture and the Torrent systems. This phase is almost over, and it can be seen in the significant reduction in their attrition levels. As you remember, historically Unichem had a much higher attrition level to Torrent's field force, and the two are now getting closer to the Torrent level.

Brand building is the key focus we have for Torrent and Losar, which is the second largest antihypertensives brand in the Indian pharmaceutical market has shown a substantial turnaround and is currently growing at 1% compared to 2% growth in its covered market for the quarter ending June 2018. Unienzyme, which had a negative growth rate, is now showing a positive growth rate of 25%.

In terms of field force productivity, in 2017-2018, on a full-year basis, the PCPM of Torrent and Unichem together was 4.4 lakhs. The combined entry PCPM today is already close to Torrent's pre-acquisition PCPM days and currently stands at 5.6 lakhs for the current quarter.

Moreover the activities to obtain planned level of synergies around cost, procurement have been concluded, and we expect the integration to be fully done by the end of the current fiscal year. In terms of Bio-Pharm, the integration of preceding well. The company has 12 OTC products at the time of the acquisition. Since then, they have launched its first two Rx products and about four more will be launched in the coming months.

Coming to the overall financial performance of Torrent, the sales growth was 37% on a year-on-year basis excluding Unichem and Bio-Pharm topline growth was 20% on a year-on-year basis. We had sales of 1834 Crores and we generated an EBITDA of 501 Crores that is 26.8%. This was achieved while increasing our R&D investment to 128 Crores, compared to 101 Crores in the same period last year.

I would like to conclude my remark by making some comments on our four largest strategic markets. India contributes about 44% to our overall consolidated revenues in the current quarter. The revenue growth for the quarter is 79%, adjusted for reductions in channel inventory during transition to GST last year and the lower realizations this year due to GST. Growth for Q1 FY2019 is 52%. This includes the acquired portfolio from Unichem with effect from December 14, 2017. Growth without the acquired portfolio for the quarter is at 33%. Torrent's India business continues to be specialty driven and focused on chronic/sub-chronic segments. 70% of prescriptions are contributed from specialists, and 75% of our sales come from the chronic/sub-chronic segment. I would just like to remind you for the Indian Pharmaceutical market about 50% to 52% of the sales come from the chronic/sub-chronic segment, so we are much higher than the benchmark.

Our key brands in India Shelcal and Chymoral continue to outperform. Shelcal sales were 385 Crores as per MAT June 2018, AIOCD data set with 24% brand growth as compared to 12% growth in the emerging markets. As regards to Chymoral sales were 158 Crores with 20% brand growth vis-à-vis 10% growth in the covered market. Regestrone, which you might remember we have acquired from Novartis in May 2017, has registered a growth in the quarter of 59% compared to a molecule growth of 27%

Moving on to the US, US seems reached a level of USD \$48.4 million, which is 22% growth in the USD terms over the same period last year. Growth without the Biopharm portfolio is again at about 12%. During Q1, we launched one product, which was Sildenafil where we attained our targeted market share. As you may know that only five generic players received the 181 approvals on this product.

In Q1 we also relaunched one product from BP and we expect the launch momentum to pickup during the course of this year to about two to four products every quarter going forward from Torrent and Biopharm.

In Germany, Torrent sales were at €1.4 million up 17% from Q1 last year. We launched two products during the current quarter Ezetimibe and Ivabradine and our goal remains for this year to launch about 12 products in Germany during the course of the remaining months of this fiscal year.

In Brazil our sales were 89.4 million Real while internal sales were flat from Q1 last year the close up, which is the equivalent to IMS in Brazil. The data shows that the ethical market more values terms at 7.7% and Torrent grew at 9.6%.

Our sales were also impacted due to the discontinuation of one product in Brazil, which is Risperidone as well as increased competition in another large brand called Azukon; however, the growth has been supported by three new launched Lamotrigine Controlled Release, Olmesartan and Trazodone.

Coming to our industrial operations we have ramped up our manufacturing capacity utilization at Dahej significantly and it is currently close to 50%. So far we have successfully transferred 16 US products to Dahej and five more will be filed in the remaining months of this fiscal year and this year we also plan to file at least two high volume products for Germany from Dahej.

During Q1, we invested Rs.128 Crores in R&D as against Rs.101 Crores in Q1 of last year. Current ratio of R&D to sales is about 6.8%. This year we are to file about 15 ANDAs. Q1 is off to a slow start in terms of filings with only two filings, but we are still confident about meeting our filing targets during this current fiscal year.

We currently have 41 ANDAs at the review at the FDA. Of these 30 are from Torrent and 11 from Biopharm. Of the Biopharm 11, we have included five, which are commercialized by our partners and where Torrent receives a share of profits.

To conclude my opening comments, Torrent remains focused on its near term priorities starting with the successful integration of Unichem and Biopharm, continued growth in our four largest markets, execution on US new product launches, cost improvement and manufacturing and improving our R&D productivity.

We can now open the call for question and answer, Deepak.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Neha Manpuria from JP Morgan. Please go ahead.

**Neha Manpuria:** Thank you for taking my question. Two questions: First, on gross margins, Sanjay, you mentioned in the opening remark that you already started seeing most of the synergies related to cost and procurement on the Unichem side is done. What is the reason for the moderation in the gross margin versus last year, the full-year number for last year?

**Sudhir Menon:** So if you look on a standalone basis, the gross margins have not gone down, I mean, if you look at the gross margins for this quarter versus the previous quarter, it has gone up by 1% so as far as the integration synergy values getting realized is concerned, it is been seen as far as the standalone results are concerned, but the, consolidated results, you are right. I mean, compared to, let us say June 2017, where the gross margin was 71%, it has come down to 70%, and versus Q4, it has come down by 3%.

The reason, basically, is three. So one is there is an additional inventory provision, which has been taken this quarter, where the impact is close to 1.1%. And there is an impact of the BRL currency depreciation. That is, when you translate the constant currency into the reporting currency, there is an impact of that the BRL on the P&L to the extent of 0.4%. There is another impact in case of the European subsidiary, which we have, so there is a sales mix impact on the gross margin to the extent of 0.5%. And another 0.4% is the impact which is seen in the U.S., because although there is a rupee depreciation to the extent of 4%, the price erosion is a little higher than 4%, so that impacts us 0.30. Everything put together, the explanation is there for roughly 2.2% to 2.3%.

**Neha Manpuria:** In that case the only thing that will probably not continue going forward is the inventory provision right because the pricing pressure on the base would continue BRL is not too much changing there, so it is fair to assume and is that the right way to look at gross margin?

**Sudhir Menon:** Yes, one is the inventory provision, which is a one-off for this quarter. The other is a mix impact, which I just spoke about, 0.5%. Going forward, my take is that should also improve on the positive side.

**Neha Manpuria:** Okay, the gross margin includes full benefit of the procurement synergies from Unichem, or that should to some extent offset the other impacts?

**Sudhir Menon:** No that is what Sanjay said right, I mean, most of the things have been done now and so what I pointed out to you is that if you want to really see whether the synergy benefits have come in or not you look the standalone accounts where you will find the gross margins have not gone down. It has gone up by 1%.

**Neha Manpuria:** Okay. My second question is on the other expenses. You know, that also has been, on a quarter-on-quarter basis, given that we have full-quarter contribution in last two quarters from Unichem, the other expense have declined, is there any one-off in that number?

**Sudhir Menon:** So, Neha, I do not know if you recall, last quarter we said that there is a one-off expenses charged on account of, certain inorganic opportunities we were evaluating, and the number we talked about was 50 gross. So that was one-off in Q4.

**Neha Manpuria:** Yes, but even if exclude that, it still seems significantly lower.

- Sudhir Menon:** So 564 was the number, so if you remove the 50 Crores then we are talking about a 514, right?
- Neha Manpuria:** Sure.
- Sudhir Menon:** But it is 491, and therefore, I think the other expenses should remain in the range of 490 to 500, I would think.
- Neha Manpuria:** Thank you so much.
- Moderator:** Thank you. The next question is Anubhav Aggrawal from Credit Suisse. Please go ahead.
- Anubhav Aggrawal:** One question for Unichem. Can you just take us through that procurement benefits now or synergies now from now until the end of the year? Because our guidance is that Unichem should turn cash break even by end of this year? Other than the sales growth, what kind of cost savings can you guys can. achieve to get there, or the cash break even guidance largely on sales growth from now onwards?
- Sudhir Menon:** There are three pieces in terms of cost synergies that we spoke about, so one was the procurement synergies, which we said is now has been done right so nothing additional going to come out of it. The second thing what we said is since the business integration process is being done where the divisions are merging with each other there would be savings coming in terms of rationalization of field force, we have achieved 50% of that so far and the rest 50% we would expect to achieve by the year end. The third component, which we spoke about is that in terms of promotional spend on a relative basis, we could see a drop in spend because of the business similarities in both the portfolio. That is already implemented, so going forward the main thing to be looked at is the cost saving coming from the rationalization of field force.
- Anubhav Aggrawal:** That is helpful, so you still maintain that acquired business from Unichem will become cash break even by the end of this year or can it be little earlier because I think I remember last call you were saying that you could achieve that number much earlier as well?
- Sudhir Menon:** No we did not say cash accretive before one year, so we would still maintain that by the end of the year. I think we should be cash accretive.
- Anubhav Aggrawal:** That is helpful and secondly on the personal cost there is a sharp increase quarter-on-quarter? What is the reason? Is that annual increment fully implemented in this quarter is that the reason?
- Sudhir Menon:** Yes. You take a provision for that. On a consolidated basis if you look at the last quarter the employee benefit expenses we are talking about is 317 and this quarter we are talking about 346. The way I would look at it would be on a broad basis generally the increment range between 12% and 15%. Let us say even hypothetically if you talk 12% and then you compare it with the actual numbers,

which is happening now that is the savings, which has come because of the rationalization piece, which has already happened broadly.

**Anubhav Aggrawal:** That is helpful. Thank you very much.

**Moderator:** Thank you. We have the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead. Mr. Sudarshan Padmanabhan from Sundaram Mutual Fund you may go ahead with your question.

**Sudarshan P:** Thank you for taking my question. Sir, my question is largely on, you know, the Dahej facility where we have invested fair amount of resources. I mean, I do understand that we are trying to, you know, transfer more high-volume product. But as we stand, what is the utilization there, and how do we see the utilization getting improved over the next few quarters? And if you can also throw some light on, you know, as the utilization or the operating leverage plays, what could be the kind of benefits that one can look at from this side?

**Sanjay Gupta:** There are a few things here. Firstly in the current utilization I mentioned it is close to 50% so if you recall that last year it was less than 30% or around 30% so we have gone up. It is almost 50% right now. We have been currently selling product exclusively for the U.S. and has 16 products approved for the U.S. market. Another five are ready for filing this year and should be filed before the fiscal year. What Dahej has is very high batch size and it is one of the most cost competitive plants that you will see in our industry in terms of making high batches products with high batches sizes and large volume products and we are also filing I mentioned two products for Germany, which would allow us to increase our coverage of the German market, so currently Torrent covers about 63% of the generic market in Germany and our aim is to increase that progressively and to leverage the Dahej to help us increase the coverage of the German market, so that is the plan for the Dahej first for US and then subsequently for Germany.

**Sudarshan P:** Sir my second question is on the integration with respect to Unichem. With respect to number one what we have laid in terms of targets and with respect to your own internal assessment means are we probably crossing the line with the expectations or do you think that things can actually ramp up faster than expected as we move to the Q2, Q3 and Q4?

**Sudhir Menon:** No, I think even in the last quarter's call what we said is that the only piece, which will take a longer time was the rationalization of field force, which what we had communicated is that initially we thought that the whole process would take around 18 months time, but looking through the progress of whatever is done so far we had indicated that we should be substantially be done with that also by the end of the year. The rest of the pieces have already been done.

**Sudarshan P:** Sure Sir. Thanks a lot. I will join back in the queue.

- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** Thanks for taking my question again. On the Brazilian business, I think you mentioned we discontinued one product and seen competition, we seemed to have been struggling there partly because of market conditions and now because of the changes in the portfolio, how should we look at growth in this market while I know you mentioned if you look at the close-up data we are outperforming the market, but is there any more portfolio changes that are required and are these based on profitability in those markets etc., reason for discontinuing products?
- Sanjay Gupta:** No, these were based on regulatory reasons. In fact the Risperidone which we discontinued, we will be re-launching later in the year with the new formulation so that should be coming back to the market and so it is more of a one time impact for Risperidone, just to remind you here in the previous year we also had discontinued another product Lamotrigine, which was the very largest Lamitor and we replaced it with Lamitor controlled release so currently we are selling Lamitor series, so there is a little bit of hiccup in terms of transitioning, Lamitor was one of the top three products in the brand and it had lot of generic competition Lamitor CD by ourselves so we are seeing good traction and long term we will benefit, but it does result in a short-term hiccup in sales when you transition from one formulation or one product to the other.
- Neha Manpuria:** Then how should we look at the Brazilian market growth on a more two to three year perspective can this business on a steady state grow like or other branded formulation market?
- Sanjay Gupta:** I would say Brazilian intrinsically in terms of at least value growth, it is the high single-digit market and Torrent should grow slightly higher than the market, so there is a lag factor in the pharma marketing business. So last two years the economy was growing at 0 GDP, the market seemed to be doing well, now the economy is growing at 3% but the market seems to have slowed down, slowdown from close to 14% - 15% to about 7% right now. I think, the lag factor if the economy keeps doing well, the pharma growth will pickup, Torrent growth should easily be 2% to 3% point higher than the market growth rate. I would guide you to like thing right now the market growth rate is 7%, so in terms of invoice sales for the current year you can easily expect a sales to continue to be in the 9% - 10% range over a period of time, quarter-to-quarter it might vary, but on an annualized basis it should be fine.
- Neha Manpuria:** We should see the impact of the product launches finally coming through over the next three quarters?
- Sanjay Gupta:** Yes.
- Neha Manpuria:** Okay and second in the US, on a constant currency despite the Biopharm launches I think we have seen very marginal increased quarter-on-quarter, so where the launches from the Biopharm portfolio



done towards the lag end of the quarter and therefore at the moment picks up should that business see improvement and is the worse of price erosion from the base portfolio done for us?

**Sanjay Gupta:** Yes, I would say the worst of the price erosion is done for us quarter-on-quarter or even it compared to the previous period, the price erosion I would say low single digit, so it is back to where it used to be before the consolidation started in full earnest so we expect and hope that the price erosion stays in the low to mid single digit type of range. Biopharm products are liquid products and we have launched one suppository and one liquid product so far. The suppository product was launched in January and the other one was launched in June. And these are I would say relatively smaller products and liquid space are good products is the one which does \$1 to \$2 million is the large product.

**Neha Manpuria:** Thank you so much.

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

**Purvi Shah:** Thanks for taking my question and congratulations for the good set of number. Sir if you could just help us understand on the U.S. front you said that the pricing pressure for the quarter was again a little higher so would that if you could just quantify that Q-o-Q how has it that been?

**Sanjay Gupta:** It has been in the low single digit.

**Purvi Shah:** For this quarter and it would be higher than the previous quarter Q4 you mean?

**Sanjay Gupta:** There is no ongoing pricing pressure so compared to Q4, I would say also in the low single digit and compared to a same period last year, so quarter-on-quarter I can tell you that it is in the 2% to 3% range when compared to last year in the 5% to 6% range.

**Purvi Shah:** It is there, but it is reduced actually compared to what it was in the previous year FY2018?

**Sanjay Gupta:** Yes.

**Purvi Shah:** And the other thing was on the tax rate front, like for the current quarter it was again around 29.5% odd, so should this be the run rate going forward as well?

**Sudhir Menon:** I think so, yes.

**Purvi Shah:** Thank you so much and all the best.

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

**Prakash Agarwal:** Thanks for the opportunity. Just trying to understand the six months kind of growth that we would see Q1 is clearly an aberration in terms of growth given the low pace impacted by GST, how should we look at six months and full year number especially the Torrent and Unichem portfolio?

**Dhruv Gulati:** Sanjay has already shared with you the Q1 number overall, but you are right that there was GST impact and therefore the growth numbers are quite high and that you would be seen for most of the companies. I think if you look at on a H1 basis Q1 plus Q2 cumulatively that would be on an average base, so it will be the normalization, so what we will have to see is how this H1 performs and what will be the growth on H1 basis.

**Prakash Agarwal:** Historically we have grown above the industry growth rate and industry is coming back to 10%- 12% growth rate itself. So excluding Unichem fair to understand you will be back to 15% to 20% kind of growth plus Unichem addition is that fair way to think about it?

**Dhruv Gulati:** In fact if we normalized the GST impact was the last year Q1, our growth is around 15% to 16% for the TPL based business so it is almost there, on industry also you are right, it is coming closer to the double-digit, if you see the last two quarter it is around 9% so if once the GST impact gets nullified, this should go up to 12% to 13%.

**Prakash Agarwal:** Understood and would it be fair to say that Unichem is clocking now better in terms of what we acquired like around 800 to 900 by Q4 and now for the quarter is doing better?

**Dhruv Gulati:** I will just share with you the trend. If you see the trend on last year June-July, April-June if you see the numbers, Unichem has clocked about Rs.250 Crores, next quarter it came to Rs.251 Crores then went down to Rs.246 Crores. Jan-March quarter it was Rs.238 Crores, now the current quarter April-June it has registered Rs.258 Crores so if you see it is now progressing even on the growth front and the molecules brand growth if you look at, the growth quarter wise last was about 12 months back about June quarter 2017, the growth was about 4% and the next quarter was -5, October-December it was -4, from March quarter it was -2, but if you look at the June quarter it is registered 3%, so it is improving and second thing if you look at the top five brands of Unichem, they have clocked almost growth of about 11% against the market growth of 10%.

**Prakash Agarwal:** AIOCD number Sir?

**Dhruv Gulati:** I told you all AIOCD numbers and even if you look at the major brands of Unichem for example Losar, which is one of the biggest brand, the current quarter growth is about 12% what Sanjay also has shared with you, Unienzyme, which was degrowing has started growing and has registered growth of about 25% even if you see the other brand like Vizylac, which was degrowing has registered growth of about 8%. So overall in nutshell I can say this brands are reviving and that has been our policy or strategy as we had shared in the previous call also that specialty focused,

increasing productivity and brand building are our major strategy and we are working on all these three fronts.

**Prakash Agarwal:** Okay just a followup here so the growth in the brands, which were declining in the past, would it be largely because of larger geographical touch points and doctor points would that be right way?

**Dhruv Gulati:** Yes both in fact they also have been covering all India and we are also covering all India. What I had shared in my previous call also that it is specialty focus what we are bringing in this business and focusing on the right specialty for the right brand. As I shared in the previous call that for example if I have to grow on Losar, I have to focus on nephrologist because they write almost 92% - 93% of them they use Losartan and it is still growing with that. Our share was about 46%, which has improved to 56% now. I am just giving you an example that how we are building the brands.

**Prakash Agarwal:** Sure thanks and second one for Sanjay on the U.S., aspiration that we had and we continue to evaluate acquisition opportunity even the pricing has come down quite a bit, what is the current status are we still on look out?

**Sanjay Gupta:** I would say we are fortunate that so far in the previous last few years, we have not made large acquisitions because of the pricing pressure that followed the previous set of deals that happened so I mentioned in the last call that our sweet spots would remain in the \$300 to \$500 and that is true for our priority geographies and in terms of priority in India, number two is U.S., and then followed by Brazil and Germany so that has not changed, but I would say that public market as well as transaction multiples in the U.S., has come down while the sellers expectations are not necessarily there so we have vigilant, we are monitoring opportunities, but it does not obvious in the short plan to do transaction in the U.S.

**Prakash Agarwal:** Thanks. All the best.

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

**Anmol Ganjoo:** Thanks for taking my question. Apologies if I missed the data point, but have you shared the domestic growth number X of Unichem quarter?

**Dhruv Gulati:** We have shared in the opening talk itself.

**Anmol Ganjoo:** Do you mind repeating it?

**Dhruv Gulati:** It is 33%.

**Anmol Ganjoo:** Unichem portfolio would be how much?

- Dhruv Gulati:** I can tell you the combined, I have told you 33% is Torrent base and the overall growth is 79%.
- Dhruv Gulati:** GST impact is 52% ?
- Anmol Ganjoo:** My second question have we seen any pricing action in Unichem portfolio from the quarter with respect to pricing?
- Dhruv Gulati:** We are taking normal price increase.
- Anmol Ganjoo:** You shared certain numbers around brand 25% growth in Losar, how much of that is the volume and how much of that would be the value, are you comfortable sharing those numbers? How much that would be realization?
- Dhruv Gulati:** Right now I do not have the breakup of volume and the price growth. I can share with you later.
- Anmol Ganjoo:** Thanks and in the context of Brazil and Germany what would be the constant currency growth in the market been on year-on-year growth?
- Sanjay Gupta:** In fact Germany has last few years, it has been in the 15% range and for this quarter we see Germany growth about 17%, Brazil is more haphazard so we have seen impact destocking so the growth last year in terms of invoice sales was about 3% in this quarter, it is -1%.
- Anmol Ganjoo:** My last question is on U.S., pricing and we have seen 3% sequential drop, how does this compare with Q4 over Q3, are you seen any change in direction there?
- Sanjay Gupta:** It is hard for me to compare because actually what happens is the product wise impact so depends upon the competitive scenario for a product right so it is not that you are taking price across the portfolio. It is post facto that you are trying to measure the impact on the portfolio. During the quarter one competitor arrives on one product and that that has impacted so I would not like to say that this is the trend that was or it is going to be. It is particular quarter given what has changed in term of the customers and competitors during that quarter but it is my general expectations that customers in the US has come lot of focus on supply and a lot less on squeezing suppliers in terms of large number of product discontinuation that we are seeing from the larger companies. You might have read that larger companies are discontinuing hundreds of products, which makes the buyers very nervous and that has an impact in terms of people who are in the market and are more concerned about supply reliability and price optimisation.
- Anmol Ganjoo:** So it would be fair to assume that pricing scenario from end market standpoint has not worsened for this quarter?

- Sanjay Gupta:** Correct. I think generally you see hopefully in comments from peers also that the pricing pressure in the U.S. is back to what we would consider and normalize the pricing pressure, which used to be in the old days and I would say 2% to 5% range every year.
- Anmol Ganjoo:** Thank you so much. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Chirag Talati from Kotak Securities. Please go ahead.
- Chirag Talati:** Thanks for taking my question. Just one question, if I back calculate your Torrent domestic growth at 33% then it implies Unichem growth like roughly 2.2 billion for the quarter, which still seen low compared to where it should have been, so can you throw some more light and firstly is the number correct?
- Dhruv Gulati:** Numbers are correct.
- Chirag Talati:** Rs.2.2 billion for the quarter it annualizes into less than Rs.9 billion of revenues this year for Unichem, which seems low to me, so can you throw some more light on this?
- Sudhir Menon:** Chirag, I think this whole Rs.900 Crores number, which is being spoken about even in the past. I think that was from the prospective of the market numbers, which was AIOCD numbers so the internal numbers much lower than what you are indicating so I think even the previous communications where this Rs.900 Crores number was being talked about, we have always talked about from the market perspective so if you say that this time Unichem sale has been around 2.2 billion, the number is okay.
- Chirag Talati:** You are on track essentially we are looking 9 billion for the full year so you would say you are on track to achieve that 9 billion for full year?
- Sudhir Menon:** I think we should be there.
- Chirag Talati:** Thank you.
- 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. How has the quarterly seasonality for the combined India business, post Elder, post Unichem, how has it changed for the whole business across Q1, Q2, Q3, Q4?

- Dhruv Gulati:** We have not be much affected by the overall seasonality factor as Sanjay said very clearly that our focused 75% business come from specialist and acute component as such is very low in our portfolio so since we are more stronger in the chronic and the subchronic segment the fluctuation is not much.
- Chirag Dagli:** So this Rs.830 Crores sales for the India business is broadly kind of run rate on a sustainable basis once should expect?
- Dhruv Gulati:** Overall, IPM if you look at chronic and subchronic contributes about 52% while for Torrent combined it is about 75% so our business is more long-term, more sustainable because it is more of chronic and subchronic, our dependency on the acute business is quite low.
- Chirag Dagli:** Fair point and Sir this Unichem growth that we have seen is there any element of low hanging fruit, which has already been picked in this growth or do you think this growth is fairly sustainable whatever numbers you gave out on these specific brands for the larger one?
- Dhruv Gulati:** It is just six months we have taken over. We are putting the things and place and some of the low hanging fruits like Unienzyme will become quite aggressive in the OTC segment also specialty focus what we are trying to bring in the Unichem although it will take little time because specialist prescription does not come so fast as general practitioner so you will see that in the subsequent quarters the growth rate and the returns would definitely improve.
- Chirag Dagli:** Is there a budget on the promotion spend on OTC products?
- Dhruv Gulati:** We have promotion budget for OTC. we are advertising it last month you must have seen on Sony Sab as well as on &TV our ads.
- Chirag Dagli:** So, is there a number that you can share on the promotions?
- Dhruv Gulati:** No, I cannot share the internal numbers with you, but you can judge from the media exposure we are having in offer Unienzyme.
- Chirag Dagli:** Last question, can you split the depreciation and amortization number between the two, the 150 Crores?
- Sudhir Menon:** The amortization should be roughly 103 Crores and depreciation should be roughly 47 Crores that makes it 150 Crores.
- Chirag Dagli:** Thank you so much. Best of luck.
- 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. Sir, with prices stabilizing in the U.S., how should we look a Torrent U.S. business in next two to three years like what are the kind of product we are targeting to file and launch say two to three years down the line and going ahead should we see improvement from current quarter's sales run rate?
- Sanjay Gupta:** I think, we are currently doing about 49 million in the U.S. market, What I would say is that we are on the positive trend because of moderate pricing erosion as well as new launches, so we aim to launch about 10 products this year, some of them could have an impact, it depends upon the competition dynamic, so I would not know we guidance for you on future product launches because it is really very uncertain, but some of them could be good product for us, but what I would say is that this is only uptight in the U.S. business from the current low base that we have of less than 50 million, so 200 million annualized and the efforts that we are making in R&D to make this into a much larger business, so while not giving you a specific number I would say that our trend in the U.S., is going to be positive most of the time going forward from here.
- Damyanti Kerai:** And Sir, going ahead what are the key areas, which we are focusing for filing new products say like apart from the plain and oral products?
- Sanjay Gupta:** We have the oral products of course and now we have the derma products from the zyg acquisition that we have made, so we have filed three so far and we will file about three to five again this year. We have the suppositories and the liquid suspensions and we also have powder for suspension and what we are working right now is a bunch of products for ophthalmic as well as oncology.
- Damyanti Kerai:** Sir, derma you said you have already five products, right?
- Sanjay Gupta:** We have filed three so far and we have three to five more what we will file this year.
- Damyanti Kerai:** Thank you, Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.
- Saion Mukherjee:** Thanks for taking my question. Sir, on Unichem your commentary has focused on two or three big brands like Losar and Ampoxin and Unienzyme, so when we think forward will these be the key growth drivers for the Unichem portfolio and how should we think about whatever 800 Crores to 850 Crores revenue that we are doing currently from a two to three year perspective can you share it will be a very strong double-digit growth or any guidance you can give there?
- Dhruv Gulati:** Yes, currently what you said is right that Losar, Ampoxin, Unienzyme, Telsar that is our brand of Telmisartan then Pregaba, Pregabalin these are the major molecules where we are working on plus at

the same time we are also working on the new introduction what we can launch, the brand extensions, which will give boost to these major molecules like Vizylac. We have already planned our brand extension similarly Unienzyme also we have planned our new introduction, which will give boost to this parent brand, so we have our policy in place and we are working on it, but definitely right now these are the brands, which will be the growth driver for us.

**Saion Mukherjee:** So, you think overall Unichem would grow faster than x-Unichem Torrent growth?

**Dhruv Gulati:** Yes, we are working on that only.

**Saion Mukherjee:** Sir, one of the remarks you have mentioned about acquisition priority remains India you have done two large deals, what is the broader thought process here like acquiring and successfully turning around the brands from therapy area focus. I was just wondering strategically what kind of potential targets would be something, which you have been looking India?

**Sanjay Gupta:** In terms of our management, let us say bandwidth availability right now, the team is focused on delivering in India is strongly on the Unichem. It is a \$0.5 billion acquisition, which is very material for a company of our size, so I think before we actively pursue other opportunities in India it is important for us to deliver on this one and Mr. Gulati and his team in India are focused on this. As far as outside India is concerned it is the same with Biopharm, although it is not a very large acquisition it is our first manufacturing plant away from our shores so we need to make sure we integrate and launch and convert this OTC manufacturer into Rx manufacturer, so it not a very top priority item for Torrent today to go for external growth, so while we are always monitoring and mentioning I would say there is a little bit of secondary priority in the current context of our priority.

**Saion Mukherjee:** Sir, one question on the U.S., commentary you talked about Sildenafil being a five play market typically we find price is coming down, but your comment suggested that probably this product has not seen that level erosion as typically seen is that a right assessment and going forward if you can share what are the key products, which are in public domain and can be interesting for Torrent? Thanks.

**Sanjay Gupta:** I can tell you for Sildenafil, there was a first TEVA, which had a day one launch and then there were about 12 to 13 other players, which were expected to have a Day 181 launch out of those 12, 13 players only five got approval, so I do not why, but about six of them they did not get approvals and as a result of which there are not enough suppliers in the market and the prices are little better than what we had anticipated. More importantly what happens here is that the volumes increased dramatically so most of our customers had given us forecast and their demand far exceeded the forecast and this market as you know it is a lifestyle drug in the U.S., and it is not reimbursed so pricing plays a very material impact on the demand for this product and what you will see in the quarters ahead is the I would say not so much pricing action, but more in terms of just a sustained



increase in the demand for the product and we would not comment on specific molecules in the future you can find out you fair bit yourself from the public litigation information that is out there so we have quite a few important packing litigations going on, so I would not like to comment on them beyond what is available in the court dockets and things like that.

**Saion Mukherjee:**

Thanks a lot, Sir.

**Moderator:**

Thank you. The next question is from Nitin Agarwal from IDFC. Please go ahead.

**Nitin Agarwal:**

Thanks for taking my Sir. Just in reference to annual report you mentioned references to the NDDS programs and all that you guys are working on can you throw some light on at what time horizon some of these initiatives really planned and there is some discussion around the NCE projects also in the annual report so if you can give me some highlights also in terms of how do we see these programs going through?

**Sanjay Gupta:**

I think NDD's programs are mostly focused on the India market and we are actually just in the preliminary stages of making prioritizing for the US market. In the India market we have launched some innovative combination and there will be more on the way. I think for competitive reasons we do not want to disclose these products we are working on for the NDDS site for the Indian market because it is I would sensitive information. On the NCEs it is a fairly public information as to the molecules that we are working on and we have published some papers and we have project in phase 3 for the emerging market, so we are doing NCEs for the developed ones, we are working on NCEs for the emerging market and our first product is in phase 3 right now in India and Brazil and I think we would have to do a specific communication on it when some data or some material development is there, so we can say anything beyond this right now at this point in time it is in phase 3 and there is nothing more to say.

**Nitin Agarwal:**

Just to summarize the NDDS program that you talked about and largely for India we are not talking about U.S. programs right now in the terms of some meaningful progress as far as U.S. market in those areas?

**Sanjay Gupta:**

Correct, our NDDS programme was initiated initially for the Indian market and we have launched a few products and we will launch a lot more products in the domestic market and I would say in the preliminary stages we are working on 505 (B)(2)s in the U.S. market.

**Nitin Agarwal:**

Sir a linked question to that, when you used to look at the market what kind of a opportunities do we see for the NDDS projects do are they like gain changers in the market, from a strategic perspective how valuable are these NDDS projects, what kind of role they play in the growth for the companies like ours?

- Sanjay Gupta:** Lifecycle extensions play a very key role in the Indian market so these are incremental innovation products, they are not revolutionary products and I give you one concrete example. So Mr. Gulati's team launched Shelcal and Shelcal, which has become one of the top brands in India today with almost sales much higher than what it was at the time of the acquisition and the credit to that of course go to the marketing and sales team but more importantly towards slew of line extensions that are being launched. I think Shelcal today is the umbrella brand with about 10 sub-brands under it and that is all the different types of incremental innovations, we have done some products, which are the first in India and first in the world and this has come about from talking to physicians, understanding their needs and responding to it using our Torrent infrastructure, so those are type of things, which we will continue doing and we will a lot more of them, so when we review our pipeline we review it either as let us say a branded product for India or we review it as first time in India or first time in the world so our portfolio is divided into three categories for the Indian market and first in India or first in the world product you would see a lot more of them in the years ahead.
- Nitin Agarwal:** Lastly on the gross margin discussion we had earlier we have had some bit of variation in the gross margins over the last few quarters, so in a sustained basis, it is 70%, how should we visualize gross margins because are they reasonably stable business from a composition perspective so where should we see gross margins are settling down at a more steady number?
- Sudhir Menon:** If you look at the last year full year number it was around 72%, and this did not have any impact of the adverse currency impact, which we are seeing in Brazil, although there is rupee currency depreciaton which has happened to the extent of 4%, but that is not substantial for us because there is a big component of Euro and Real sales for us, so I would say that my expectation would be the gross margin should be in the similar range, which means 71% to 72%, but if things are changing in terms of currency it can improve as well, but I think immediate the next quarter basis I should think that it should be around 71% to 72%.
- Nitin Agarwal:** Fine and lastly on the forex, you still follow the policy of hedging yourself for the full year going forward?
- Sudhir Menon:** That is right.
- Nitin Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from Abhishek Sharma from IIFL. Please go ahead.
- Abhishek Sharma:** Thanks for taking my question. Just one given the fact that Unichem integration seems to be on track or as you anticipated as it would go just wanted to understand what is your comfort on the debt side of the balance sheet and would you be looking to raise capitals even in absence of any acquisition?

- Sudhir Menon:** As of now there are no plans for raising fresh equity and what we typically see based on the projected cash flows, I think, we are quite comfortable one-and-a-half year, two years down the line, so unless there is some other acquisition opportunity happening, we do not see any reason why we should be looking for a fresh capital raise.
- Abhishek Sharma:** Thank you.
- Moderator:** Thank you. The next question is from C. Srihari from PCS Securities. Please go ahead.
- C. Srihari:** Thanks for the opportunity. I had three questions, you had mentioned that the top five brands of Unichem grew about 100-basis points above the market, so if you take let us say two years perspective what is the kind of gradient you would aspire for? Secondly BOE has increased the interest rate by 25-basis points is that like little impact of Germany business in any manner and what is the forex loss that you reported in the quarter? Thank you.
- Sudhir Menon:** Sorry, the last part can you repeat again on the interest rates Germany; I did not understand the question?
- C. Srihari:** It may be a bit hawkish, but Bank of England has increased the interest rate by 25-basis points, so wondering from the region perspective that would have any impact?
- Sudhir Menon:** No, if you typically look at our subsidiary structure none of the subsidiaries we borrow actually, so there is no interest impact as far as subsidiaries are concerned.
- C. Srihari:** I mean just to understand the fund flows perspective or whatever?
- Sudhir Menon:** There is no impact.
- C. Srihari:** Fine.
- Dhruv Gulati:** And your other question was on Unichem, regarding the growth of the top five brands of Unichem that is what you asked know?
- Dhruv Gulati:** As I said right now these are five brands, which are going to be the growth driver for us in the Unichem portfolio, so definitely we will like to ensure that they grow faster than the market growth.
- C. Srihari:** So, I was just wondering what the gradient would be it is around 100 basis points right now, 11% vis-à-vis 10%, so what is the kind of gradient?
- Sanjay Gupta:** We have never made the budgets projects for next year. Right now we are focused on delivering our budgets to our management. I think when we work on next year's budgeting exercise we will take the

market conditions and trends at that point in time, I can just tell you that our management expect us to grow at faster rates than the market.

**C. Srihari:** Just trying to get feel, I mean, would the gradient be much significantly higher than the 100 basis points you have right now?

**Sanjay Gupta:** I think you should look at the PCPM targets that we have setup for ourselves, for Torrent we set our targets to be amongst the highest PCPM in the industry, we are not there, today six months after Unichem, we have reached a level of 5.6 lakhs and what you would notice is that there are players in the industry with the PCPM of 7 to 8 lakhs, so our objective is to be amongst the best of them and just to make your life smoother I would say that we are not looking at increasing the field force coverage.

**C. Srihari:** Final, the forex, did you have a forex loss during the quarter?

**Sudhir Menon:** When we say forex loss in what terms are you taking, in terms of the item, which goes in expenses, other income.

**C. Srihari:** That is right.

**Sudhir Menon:** There is no forex loss this year, although the forex gain has come down, if you look at the other income, so Q1 of last year was around 105, which had a major component of forex gain, this year it has come down to 27, so the forex gain has reduced substantially.

**C. Srihari:** Are you quantifying the figure?

**Sudhir Menon:** No, we are not quantifying the numbers.

**C. Srihari:** Fine, thank you.

**Moderator:** Thank you very much. We will take that as a last question. I would now like to hand the conference back to the management for any closing comments.

**Sanjay Gupta:** I just like to finish by thanking you all for joining us today and we look forward to seeing you in recent months ahead. Thank you.

**Moderator:** Thank you very much. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.