



“Torrent Pharmaceuticals Limited  
Q3 FY-14 Earnings Conference Call”

January 22, 2014



**ANALYST:**                      **MR. PERIN ALI**

**MANAGEMENT:**              **MR. ASHOK MODI**  
**MR. SANJAY GUPTA**  
**MR. RUCHIR MODI**  
**MR. SUDHIR MENON**  
**MR. RISHI SHAH**

**Moderator:** Ladies and gentlemen good day and welcome to the Q3 FY'14 Results Earnings conference call of Torrent Pharma, hosted by Edelweiss Securities Limited. As a reminder all participants' line will be in the listen only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference to Ms. Perin Ali of Edelweiss Securities. Thank you and over to you Madam!

**Perin Ali:** Thanks Karuna. Good morning and a warm welcome to all of you on briefing of Q3 FY'14 Results of Torrent Pharma. We at Edelweiss welcome the management Team of Torrent. Today we have from management Mr. Ashok Modi – Executive Director, Mr. Sanjay Gupta – Executive Director, International Business, Mr. Ruchir Modi – Chief Marketing Officer and Mr. Rishi Shah – AGM Finance. I hand over the call to Mr. Ashok Modi for opening comments. Over to you sir!

**Ashok Modi:** Good morning everybody. Welcome to our post results teleconference for the Q3 FY'13-14. I have with me Mr. Ruchir Modi, who is Chief Marketing Officer, Mr. Sanjay Gupta is the one the line from US. He is our Executive Director of International Operations and I have my colleague Mr. Sudhir Menon who is General Manager in Finance and Rishi Shah. I will first take you all through the highlights of the operations of the quarter.

During the first quarter the total revenues of the company grew by 27% with total revenue at 1015 Crores versus 797 Crores in the previous year. The Indian formulations business grew at 15% with revenue at 396 Crores versus 258 Crores in the last year. As per AIOCD Torrent grew at 12% while the covered market growth was at 5%.

The International operations registered growth of 42% with revenues of 637 Crores. The constant currency growth for the quarter was at 25%. The key highlights of the major international territories are as under:

The US business registered revenue growth of 61% with revenues at 148 Crores, constant currency growth at 41%. During the quarter the company launched Duloxetine, which is the delayed release generic version under FTF status which was granted to six companies simultaneously. The company registered sales of more than \$6 Million for the quarter for Cymbalta. Europe including Heumann and Greenfield operations registered revenues of 248 Crores to 59% growth and constant currency growth of 32%.

The major contributor to the growth was Heumann. Rest of World including RCIS, Mexico, Canada etc., registered a revenue growth of 10% with revenues at 95 Crores. The constant currency level there was degrowth of 1%. Brazil operations recorded revenues of 147

Crores with growth of 26% and a constant currency growth at 22%. The contract manufacturing operations were almost flat with growth of 1%. Total revenues from this operation contributed 76 Crores.

The EBITDA margins of the company for the quarter stood at 23%. The forex loss during the quarter was 20 Crores, which compared to the previous year's same quarter which showed a profit of 11 Crores from forex account.

The company profit before tax for the quarter was 188 Crores as compared to 143 Crores during the last year same quarter showing the growth of 31%. The profit after tax and minority interest was 158 Crores versus 112 Crores showing the growth of 41%.

On year-to-date basis the company's revenue were at 2950 Crores as compared to 2350 Crores, showing growth of 26%. The PBT for the period was 527 compared to 423 Crores during the last year showing the growth of 25%, while profit after tax showed growth of 30%, the figures being 420 Crores for the current year versus 322 Crores for the last year.

The Board of Directors has also declared an interim dividend at 100% which is Rs.5 per equity share.

Thank you very much all for the patient listening and now we can start the question and answer session. Thank you very much.

**Moderator:**

Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Mr. Chirag from HDFC Mutual Fund. Please go ahead.

**Chirag Dhagali:**

Thank you for taking my question. Sir can you give us a sense of what kind of price erosion has Cymbalta seen in the first wave and how should we think about it as we go forward?

**Sanjay Gupta:**

I would not like to go into the specifics of the price but what I can say is that at this initial stage so we are at day 1 when the companies have settled their litigation have launched, there is not enough products in the market so there are lot of customers who have not been able to source adequate amount of products so with the six players that are currently in the market there is somewhat of a shortage of Cymbalta generics. As a result the pricing has held up quite well, but we expect the pricing to hold up until new players come to the market. There are still quite a few companies who are eligible to come to the market during the Day 1 to Day 181 period and they have not come from various reasons either they do not have supplied so they have not got approval so there would be price erosion as new players come into the market and then ultimately Day 181 is June 10, 2014 then we would

expect a lot more companies to come in the market and willing to substantially lower pricing.

**Chirag Dhagali:** Is there any specific reason for us to believe that there is fundamentally new players who will come in will face a supply shortage or something like that you know may be API shortage or something like that?

**Sanjay Gupta:** As of now there are at least six more players who are eligible to come in. Eligible meaning that they are also kind of somewhat settled their litigation with Eli Lilly and I do not know about their individual situation but you can expect them to be on the market at some time during the course of this current calendar year.

**Chirag Dhagali:** Second question was on the Elder acquisition insofar as Torrent Gynecology portfolio is concerned do we have all the products in terms of the portfolio breadth? Do we have the hormones we have all the products that typically get into a Gynecology portfolio?

**Ruchir Modi:** Yes, in our company we have all the products hormones are the products that we are looking as a pipeline to launch because we believe in even though we are in acute segment we believe in the chronic kind of therapies. Elder does not have hormones but we have you know in our sensor division, Gynec division so like I said the product that we have in Gynec is not there with Elder and the product that Elder has the Torrent does not have so that is how it is.

**Chirag Dhagali:** Thank you so much.

**Moderator:** Thank you. Next question is from the line of Mr. Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**Sudarshan P:** Congratulations on very good set of numbers. Sir looking at your Brazil operation it has seen a very good uptake this quarter so I just wanted to know whether you are seeing a structural change in Brazil or is it just a restocking phenomenon that might be a short term kind of an impact.

**Sanjay Gupta:** I think there is a chain in Brazil in market per side effects. I would not necessarily call it favourable change in the overall Brazilian market. What we are seeing is the local company is a big player four or five players will be coming increasingly aggressive in terms of price competition, in terms of marketing investments so we have kind of adjusted the a model little bit. We have reorganized the field force to be more effective, we had reconfigured the territories and we were trying to with the 325 field reps that we have we are trying to do a better job so some of that is bringing results, we have seen uptake in market share for some products, I would tell we have adjusted pricing of some products on the lower side to be

more competitive so we are seeing some impact of these marketing actions but it is too early to say that this would be kind of a sustained, it is early in the day I mean we put these actions in the last six months and I have seen some uptakes in market share in the IMF but I would not like to cry hurray right away.

**Sudarshan P:** As I am looking at your balance sheet we have seen an increase in your noncurrent liability so if you can quantify what is the jump in your long-term debt? Second is that I also seen that your receivables and payable days have moved up quite substantially so if you can elaborate on that?

**Ashok Modi:** As far as the receivables are concerned basically this figure is appearing to jump if you compare over the previous year on two accounts, one thing is that there is a sharp erosion in forex and that has made it go up that impact is substantial in this part and the second is that because of the pricing structure particularly in the US and the German market the excess are typically booked in a gross sales levels while the company sales are at different price level so you would see a higher sales to debtors ratio in general, which is aggregated in this quarter on account of a sharp erosion in forex. As far noncurrent liabilities are concerned can you repeat on the noncurrent liabilities please?

**Sudarshan P:** How much is your increase in long term debt which is classified in your noncurrent liabilities?

**Ashok Modi:** Rs.200 Crores.

**Sudarshan P:** Sir can you also give some clarity on the tax rate this quarter which has been a bit low?

**Ashok Modi:** It is I would say a quarterly phenomenon overall which was the period issues the still be in the range of 20% to 22% on annual basis.

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

**Moderator:** Thank you. Next question is from the line of Mr. Anubhav Aggarwal from Credit Suisse. Please go ahead.

**Anubhav Aggarwal:** Good morning. Sanjay, couple of questions for you, one is on Cymbalta. You have recorded \$6 million sales for this quarter is this so let us say for the March quarter when you report would that be higher than this or what I am trying to ask is, is this sales of \$6 million represented of your 7% market share which you have in the market today or for a quarter?

**Sanjay Gupta:** Cymbalta I would say that I would not use this number to forecast because there are quite a few dynamics in the market. Firstly I had mentioned that there is not enough products on

the market so everybody is trying to ramp up production to bring more tablets into the US so depending upon this rapidity of the supply chain and the responsiveness of the manufacturing units and the team the card would get reshuffled but then in the US.

**Anubhav Aggarwal:** If I just say \$6 million annualized, \$25 million at 7% market share that is \$350 million generic market size that almost speaks about almost 85%-90% price erosion. So from that perspective I was checking that is \$6 million underrepresented number for a quarter potential what you have reported?

**Sanjay Gupta:** The 7% market share where you have seen is very early IMS data. I would not rely on it too much.

**Anubhav Aggarwal:** Sir you are saying that your market share is effectively lower than 7% or high?

**Sanjay Gupta:** No. I would say that the market share data that we have right now is very early and it would not be the correct data because IMS has barely had less than a month of data, some folks by IMS shares and those are not reliable. I would wait for sometime before making those kinds of calculations and projecting forward because you know in the US when you launch the product customers asking for price guarantee so you are basically price protect customers are anywhere between 30 and 90 days depending upon the product and the circumstances. So if there are new players are come on and there is a price erosion you are contractually obliged to price protect some important customers so I do not know its I would use the \$6 or \$7 million to project fourth quarter sales. It could be higher if you are able to ramp up our production. It could be lower as there are new players in the market or the others are more successful in increasing production before us.

**Anubhav Aggarwal:** Thanks Sanjay. The second question on the Brazil market, did you launch any new product? Did you get any approval in the last six months in Brazil or did you launch any new products which you got approval earlier and you launched in the last six months?

**Sanjay Gupta:** So recently we launched a product which is Nebivolol, which is a beta blocker, fourth generation beta blocker, we launched it in the last six months. It has been doing reasonably well. It was launched in the September timeframe and we have attained about 13% market share. We are first to come to the markets so we have ambitious goals for Nebivolol and then what the other business that have got launched and which is reflected in the slides is actually we started the Generic Division in the Brazil and the Generic Division has generated initially we have some product which are semi exclusive; semi exclusive means like there are three or four competitors for those generics and we are seeing some good traction there so these are two new parts of business in Brazil, Nebivolol and the Generics Division.

- Anubhav Aggarwal:** I have one question to Mr. Modi, do you have any clarity now on the Elder India business acquisition. How effectively your interest cost could be for funding that acquisition of 2000 Crores of 10% or more than 10%?
- Ashok Modi:** The transaction should take another couple of months before all the regulatory and further approvals are in place and that the way the interest rate market and the financial things are moving about particularly now with the elections in the offing, the uncertainty in this period is substantial so to make any guess would be quite hazardous at this stage.
- Anubhav Aggarwal:** Just one last question on the gross margin your gross margins were very flattish let us say year on year fall sequentially despite Cymbalta contribution in India and Brazil sales being very good. Was Europe sales, which is low margin the only reason or anything else which contributed gross margin being flattish despite such a good mix?
- Ashok Modi:** If you see like we said the Duloxetine was about \$6 million now if you consider the impact on the total 1000 Crores sales it cannot significantly change anything either side. So the product mix is by and large similar and this small 6 million cannot affect the gross margins on the total basis in any significant manner.
- Anubhav Aggarwal:** But Sir India and Brazil also were good and the gross margins there are higher than your company average so considering the impact of all three together I was thinking that at least we should see some margin improvement in the gross margin?
- Ashok Modi:** Basically the Heumann sales have jumped up in this quarter significantly so that would have taken away the margin improvement which might have been seen from the US and Brazil operations.
- Anubhav Aggarwal:** Then it is only the impact of Heumann sales?
- Ashok Modi:** Yes.
- Anubhav Aggarwal:** Thank you very much.
- Moderator:** Thank you Sir. The next question is from the line of Mr. Koushik Pal from Kotak Mutual Fund. Please go ahead.
- Koushik Pal:** Congratulations on the good set of numbers this quarter. One question on Cymbalta, would it be fair to say that at the current pricing that is available in the market I mean of course you booked a little sales this quarter but your EBITDA margin on Cymbalta would be probably double or triple of the current company average or it is not that much, some clarity on that?

- Ashok Modi:** We normally do not share product wise or country wise margins in that manner.
- Koushik Pal:** I mean I am not asking for a number. I am basically saying obviously it is higher. I mean that is understood for a para-IV product, but is it a lot higher or is it not that significant to something that you will need to impact on margins?
- Ashok Modi:** Best I can say it is higher.
- Koushik Pal:** Secondly on when I think about margins about next year as a whole I mean I know that you mentioned that you do not want to extrapolate the Brazilian growth this quarter in a hurry but given the fact that you may be having a low base of FY'14 to grow on Brazil and the fact that your US business is also scaling up beyond a point you might be looking at better profitability there. I mean conceptually the margins should be higher on a year-on-year basis, so should that be a fair assumption?
- Ashok Modi:** I am sorry but we would not like to give anything as far as the next year is concerned.
- Koushik Pal:** Finally on the Elder acquisition funding is there any clarity whether you will be going for a domestic versus domestic debt or foreign debt to fund this?
- Ashok Modi:** What I can say is the debt which we would be kinds of would be by and large domestic debt.
- Koushik Pal:** Thank you Sir. That is all from my side.
- Moderator** Thank you. The question is from the line of Mr. Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** Would be possible to give the absolute R&D numbers for the quarter?
- Ashok Modi:** Sir we do not share individual expense items. I am sorry.
- Girish Bakhru:** But as a percentage to say that would be broadly around 4% or would be higher than that?
- Ashok Modi:** The broad trend is what it was last year there is a marginal improvement possibly.
- Girish Bakhru:** I am asking in context of some of the initiatives that you have been taking for the US market as you mentioned the last call certain entities opportunities so is it increasing significantly or just still about more it was last year?
- Ashok Modi:** In terms of percentage it is likely to be in the same range.



**Girish Bakhr:** The second question was on the US launches last quarter you mentioned, you have about 14-odd launches from the last quarter to end of 2014 and given that I mean pending approvals are about 22 so is that the correct numbers still to look at like 14 launches, I mean some of them may be to one or two you would have launched in last quarter including Cymbalta so about 10-12 launches from 22 pending approvals?

**Sanjay Gupta:** Yes, I think you should consider about 10 more launches to go and about 25 pending approvals.

**Girish Bakhr:** Any color particularly on debt roll. I mean you do not have a tentative there but seems like it is an opportunity where there might be very limited number of players any color on what kind of competition you will get in that in the US market?

**Sanjay Gupta:** It is a difficult product so we do not underestimate a lot of competition for that but we have not been kind of approved yet, so it is difficult to say whether we will be on the starting line or not. Obviously we aim to be there but I cannot predict the timelines but the way the US market works is either you are there on Day 1 and if you are not there then you wait for a few months because the customers had just signed on contract you do not want go back 15 days later or 30 days later you want to wait for a few months before you go back to the same customers and they are reevaluating their strategies.

**Girish Bakhr:** On Brazil I just wanted some clarity I mean you said that Nebivolol is launched and you have gained good market share but any volume pickup that you have seen from the price reductions that you did in the two brands, or what is the volume pricing mix in Brazil if you can give some color on that?

**Sanjay Gupta:** I would not be able to tell you in terms of tablets but like for example for first we halted the decline in market shares if you look at the IMS data, products which were on the downward slope have stabilized and they started doing fees in terms of market share. Two of our big molecules are lamotrigine and indapamide and for both of this products indapamide we have actually seen an increase market share. I can share with you the market share right now, if you look at the last IMS our market share for indapamide it was in the price reduction products, on Lamitor we had a very high market share a market share and used to be in the 55% range and now its seems to have stabilized at 54% and the other products where we have seen an uptake is Venlift where we been a declining and now our market share has started to increase and now we have seen that go up from a low of about 8.7% to 11% currently. So we are seeing this kind of stability to an increasing trend for the key products for which we took our pricing actions.

**Girish Bakhr:** The average price reduction in these two was in the order of what extent?

- Ashok Modi:** 30% to 50%.
- Girish Bakhru:** Thank you.
- Moderator** Thank you. Next question is from the line of Mr. Manoj Garg from Merrill Lynch. Please go ahead.
- Manoj Garg:** Good morning to all of you and thanks for taking my question. I would like to understand through Elder's portfolio which we have acquired into nutraceuticals and pain management how do you see the scope of cross selling of some of our existing products and you know what kind of incremental revenue which we can generate because of the anchor brands now having with us like Shelcal and other products from Elder's portfolio?
- Ruchir Modi:** We launched a Gynec has a Greenfield project in 2010 second half and absolutely low access to the clinic. We did not even visit them. So recently we have you know after two and half years of effort able to garner almost 22 Crores internal sale in Gynec portfolio alone from almost zero two and half year back so another aspect is that we have been focusing on the chronic portfolio in the Gynec segment whereas Elder is focusing on the Women HealthCare they call which is like a add on portfolio for Gynecology. So that is the Shelcal, which is a multivitamin plus calcium. I mean plus calcium and or let us say the other brands that they have. They are more as an add on therapy rather than the main therapy whereas we have the main therapy and hormones which are long term so even while the portfolio is complementing what we are getting with the Elder is the immediate access in the clinic what we understood is that their relationship with all the 30,000 Gynec across India is so good starting from a postgraduate or a student in college who passes out to the top doctor I think they have programs for all the doctors and they are very close to them, which I think currently we have may be relationship with let say 10% of the entire population of Gynecology so that as a access that they have can enhance the portfolio I mean the growth it can multiply you know that we have in our products because we are slowly you know customer access is always expensive and then you repeat business is not that expensive so that kind of would help us in our existing portfolio a lot. Let us say currently we are growing at 36% last year-on-year how much that 36% will go up that I am not, but it will definitely go up than what it is currently.
- Manoj Garg:** Do you see the similar kind of synergies with any other speciality also apart from Gynecology?
- Ashok Modi:** Orthopedician and Chymoral Forte some of the other add on products that because Shelcal, Vitamin D3 is extremely relevant to Orthopedicans also and they are very strong there and even Chymoral, Chymoral Forte would have been 85% market share with 85 Crores sales they have very good equity with surgeons and orthopedicians. Again we launched our Ortho

division called Unovista in January 2013 just one year back and we have a sale of almost 45 Crores because we had some Ortho products in our multispecialty division, which we carved out into a Rheumatology and Ortho division and so from that angle again that division gets a complete booster with their division and which is also focused.

**Manoj Garg:** So is it fair to say like may be over the next three to five years because of this three anchor specialty, which we get into through these brands can give us incrementally may be 150 to 200 Crores kind of incremental sales?

**Ashok Modi:** We do not give guidance of this.

**Manoj Garg:** No I am not asking about guidance Sir.

**Ashok Modi:** Sorry Manoj.

**Manoj Garg:** The last question for Mr. Modi before I get into the queue. Sir like this 2000 Crores kind of goodwill, which will come on the balance sheet sorry if you have taken this question earlier because I did not attend the call how are going to account this goodwill Sir. Like are we going to impair every year?

**Ashok Modi:** See the process for this is that along with our auditors and an external agency we will have to evolve a process of allocation of this entire value under various heads, which is required by the accounting standard and that process we will be undertaking closer to the closing dates, which is likely to be let us say March or something so based on that exercise with the external help we would be doing that.

**Manoj Garg:** That is all from my side. Wish you all the best Sir.

**Moderator:** Thank you. Next question is from the line of Mr. Bino P from IIFL. Please go ahead.

**Bino Pathiparampil:** Good morning all and congrats for a great set of numbers. Just a couple of questions, #1 in Brazil, we had target of three to four product launches a year, so is that still a viable target or we looking to launch more this year, next year, etc.?

**Sanjay Gupta:** You are talking about the domestic market?

**Bino Pathiparampil:** Brazil market, three to four products launches a year was our original target?

**Sanjay Gupta:** The target remains still valid, but obviously it just depends upon ANVISA and we have seen quite a few changes in regulations, or changes in the implementation of current regulation, so it is a little bit flux as to how approvals would come through and vis-à-vis facing a very severe backlog, they put some drastic measures which were not necessarily

when we do at the industry, so it is hard to predict. Our pipeline has strong, so we are quite a few I would say this is on the stove, but when they would get relieved from ANVISA I would not be able to predict it.

**Bino Pathiparampil:** So this financial year you have launched only one right?

**Sanjay Gupta:** Actually even the generic products they require separate registration of generics because it is almost a parallel process so you cannot automatically make a generic, so we had quite a few generic approvals. We have received some other approvals for products that we will see later, which we have not launched right away, but Nebivolol is the only branded generic that we have launched in the last six months.

**Bino Pathiparampil:** In the domestic market, the issues related to trade channel margins, etc., are they behind us, or we starting to grow another period of stable growth?

**Sanjay Gupta:** Yes.

**Bino Pathiparampil:** So all those issues are sorted out. Finally coming to the US filings, you have just about 22 or so ANDAs awaiting approval, which has been coming down significantly over the last few quarters. Does that concern you because if you launch another 10 to 12 over the next 12 months, then there are not many too give us a comfort of growth over the next three to four years?

**Sanjay Gupta:** Are you referring to the generic patent?

**Bino Pathiparampil:** I am asking about your ANDA filings. You have only about 22, 23 pending approvals, ANDA filings in the US, which has actually down from 30 plus a year back, so typically what we have seen in companies in your stage of growth in the US market is that the number of ANDAs pending approval goes up because people keep on filing more and more whereas in your case after the initial ramp up we see the number of filings coming down, is that something which concerns you or is that just a temporary period?

**Sanjay Gupta:** Right now the number speak to kind of slowdown in launches from far end in the 2016 timeframe, if you just do the mathematic calculation you will see that launches that we will have a couple of years down the line, might not be that high, so we are in the process of correcting that and the way to correct it is essentially first we have increased our investments on our projects announce, so we are going to be even more and then we have also aggressively built up a scheme for in licensing and partnering with other company to act as their front end and the US to try to kind of cover up with this temporary lull in launches and then the pace would pick up again when our product starts showing up in the 2017-2018 timeframe.

- Bino Pathiparampil:** You have already started investing and correcting that?
- Sanjay Gupta:** We are very conscious about it that there is a period about year and half and two years when we will not have the same numbers, for given our scale we would be have fewer launches and you will need to maintain the momentum and the way to correct it as to increase your own investments and to partner with other companies. We have a very strong front end in the US now, so we are well known to the customers and there are plenty of companies and development projects who are looking for a strong front end partner in the US.
- Bino Pathiparampil:** Thank you and best of luck I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Amit Shah from ENAM Asset Management. Please go ahead.
- Amit Shah:** Great set of numbers, congratulation, just two questions one on the US business. Sir we have seen in the last few years, the growth was very high, constant currency terms in the US business partially because of a lower base; however, last two years what we have seen in that now for this quarter if you exclude the contribution of Cymbalta, the growth is roughly 23% to 24% for the last two quarters and if we further exclude the currency contribution, then the constant currency growth would been the single digit. So what is the reason really on this low base should not you been growing at least in double digits for the US market?
- Sanjay Gupta:** I think one quarter there can be a lot of factors that go into the topline and the bottomline during the course of the quarter, there could be some accounting adjustments, there could be some charge back, there are various movements when you get some charges from the customers, so I would say our trend in the US clearly is strong double digit growth and I think I would see that should continue given the number of launches that we have, even with the price erosion with the enhanced volumes that their capacities that they are building up in India for the US market, I would say, double digit growth is the minimum we should expect from the US.
- Amit Shah:** My second question is on European operations. Sir we have seen in this first nine months, your topline growth is primarily led by European business, Heumann particularly as you have said in the past because of few tender wins, just want to understand does the numbers correctly reflect your sales for the quarter in the sense is this number high may be because of the initial supplies to tender and later on we will taper off or this is the true reflection of the quarterly based which you have formed now and we can except some growth on this base?
- Ashok Modi:** You see the tenders are for ongoing projects, so even when new tender is launched there is no certain spurt in sales because of let us say typical issues of pipeline filling or any testing,

so ongoing sale which happened, so from a particular days from which you win the tender you will start supplying the product. So there is no spurt in the lifetime of the tender.

**Amit Shah:** Sir typically these tenders are for two years, right if I am not wrong in Germany?

**Ashok Modi:** Yes two years is the general term correct.

**Amit Shah:** So if we are seeing such a strong growth in this year, we hope to continue this kind of strong revenue even for the next year, is that a fair assumption?

**Ashok Modi:** The revenues from tenders are coming from two things, one is that there are ongoing tenders which we are supplying and if there is a market pickup of demand that would also increase the supplies against the existing tender, so the overall supply situation in that is significantly dependent on the market demand of these products as well, but yes there is a reasonable level of base which we have built in, so we do not see things going wrong, going forward.

**Amit Shah:** That is it from my side. Wish you all the best.

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

**Nitin Agarwal:** Thanks for taking my question. Sanjay on the US business we talked about 10 to 15 launches in the current year, is there are way to sort of characterize these filings in terms of the kind of niche competition opportunity that which form a proposition of these launches rather for the current year?

**Sanjay Gupta:** I would say it is mixed bag, so we have some blockbuster type products and some more niche products. What is difficult to predict and which results in the greatest economic performance is the number of competitors. We can have a much more lucrative small product and quite a disastrous large product. It just depends upon the market dynamics, From what Torrent has, I would say a hedged portfolio, which has some very large products where there is a strong market demand and we think at our scale we can make a dent in the market and so we play in markets like Duloxetine, we play in clopidogrel, we play in losartan, so some very big markets like that at the same time we are very comfortable playing in smaller markets whereas we are very enough we have integrated and which does result in good economic returns to the company. So we kind of balance it out. What we have is I would say oral solids, so oral solids vertically integrated oral solids some of them we source API from others, so I would say heterogeneous mix, which results in good results, sometimes from one side of the portfolio, sometimes from the other side.

- Nitin Agarwal:** When you sort of look out for these launches without getting these specific details of them, are there specific three to four products, where you feel extremely comfortable or very reasonably positive about in terms of where they can contribute in a disproportionate manner compared the size where we are?
- Sanjay Gupta:** It is a little bit like taking ten short with the goal, you know there are three or four you would score, but you do not which ones.
- Nitin Agarwal:** We have talked, so the US especially is playing out nicely now, and we have this large capex plan in Dahej, over the last few quarters when you look at this capex plant in the way the visibility of the business has changed, is it more comfort on this ability to utilize the capex because one does not, which are specific geographies which is businesses which would be the primary drivers for this capex that is going to come through?
- Ashok Modi:** If I understand your question you are saying that whether this investment would be utilized properly or not?
- Nitin Agarwal:** In terms of your own comfort on the visibility that you see for which you putting up this capex change over the next few quarters?
- Ashok Modi:** The capex was planned. Typically projects take two to three years to execute and the capacities, etc., are already taking into account longer time horizon. Now it so happens that during the process there might be one or two years sort of lag or lead to their extent it is fine, otherwise this capex is very well sort out and all these things which are now falling in place where they anticipated and accordingly the capacities for this was flat.
- Nitin Agarwal:** What were the capex that we will do for this year and next year?
- Ashok Modi:** This year Dahej will be doing around 250 to 275 Crores, next year would be roughly 225 to 250 Crores similarly.
- Nitin Agarwal:** So that will pretty much finish up the capex in Dahej the next year?
- Ashok Modi:** There might be a bit left to us for the year after that, these are all regulatory approvals could be required for this plant, so some of the capex is scheduled to coincide with the regulatory approvals, so we are not left with sort of capacity built up, which cannot be utilized because the plant is not approved.
- Nitin Agarwal:** Sanjay, on Cymbalta you talked about manufacturing constraints for different players, how do we see our sort of position there in terms of ability to cope up with supply issues?
- Sanjay Gupta:** Right now we do not see any issues.

- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Thanks. Good morning everyone. Quick question Cymbalta I think quite a few people have asked. This product was approved on December 11, 2013, so exactly how many weeks of sales does 6 million dollar represents?
- Ashok Modi:** It is December 11, 2013 to December 31, 2013.
- Sameer Baisiwala:** That is fair enough, but there would be some inventory that you would have supplied additionally?
- Ashok Modi:** Inventory to customers. This might have taken couple of weeks external.
- Sanjay Gupta:** You can imagine that I think mentioned there is a shortage for this product, so what we have been doing is, we have been allocating this product to customers and essentially it has been kind of hand to mark situation, so I do not think there are large customer inventories on this product in the US market.
- Sameer Baisiwala:** Roughly about, I know it is very hard for to put any number, so 6 million actually represents one of month sales not a one quarter of sales assuming the same pricing, same market share whatever that we have?
- Ashok Modi:** That is the correct inference.
- Sameer Baisiwala:** So that makes it a \$70 million per annum at whatever market share that there is almost close by billion dollar on manufacture pricing as things stand today. The other question is, is there any manufacturing challenge, I know many players are there and it is a large volume product but is there any manufacturing challenge entry-coating etc., in this product?
- Ashok Modi:** Each product has different requirement in terms of manufacturing processes, but like I said currently I do not see any challenge in terms of supply, being able to supply with product as per the market requirements.
- Sanjay Gupta:** It is a large product, so essentially it is have a lot of machine time and you have to essentially balance between different product as to which one you will prioritize at what time.
- Sameer Baisiwala:** Large machine time, just because of large volumes that needs to be done?
- Sanjay Gupta:** That was the 4 to 5 billion dollar product.



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

**Chirag Dhagali:** Sir on the Brazilian market last time around we had unbranded generic approvals about 13 products and 24 were pending as that number changed, how many have we launched for this quarter?

**Sanjay Gupta:** Right now, I think we are marketing about 7 to 8 generic-generic products in Brazil. So you would be adding products, but we have a very small team, so that team in Brazil for generics is five or six people, It is a very I would say more like a guerrilla operation we have, where we do not cover all the distributors, we are learning as we go along because we again have some very large local generic players companies like Medley so we have been I would say cautious, I am trying to take more niche strategy going towards smaller, medium size regional distributors, so it still is early days for our generics business.

**Chirag Dhagali:** But is there a case that as our portfolio sort of expands in terms of number of products that we offer to the market, the momentum can actually improve significantly from even these levels?

**Sanjay Gupta:** It can, but the two things are bothering here right now is the portfolio impact, so companies like Medley have hundreds of products so to what extent does that play with distributor and to what extent are they doing cross subsidizing, so that is one thing that bothers. We have the second thing which bothers me is we are very good in retailing brands, we have a small sales force selling generics and we have some people who call up on pharmacies and we feel these are called point of sales people, they do not go to physicians, they go to pharmacies and try to prevent sutures, so we have a contracted team that does that for us, but some of the larger players have hundreds of people doing point of sales calls, so we are learning this, the importance of point of sales people, the importance of having a large portfolio of products, so I am not 100% certain to what extent we would need to modify our categories as we are learning in the months ahead.

**Chirag Dhagali:** In terms of field force for Brazil, the number still remains at 315?

**Sanjay Gupta:** Yes, it is in the 300 range.

**Chirag Dhagali:** Second question was on the Indian market, can the Elder Pharma field force which currently does the doctors for the acute segment of the gynecology portfolio, can they also detail doctors on the hormones, etc?

**Ruchir Modi:** Absolutely, basically I would say hormones and other products are very difficult to make and they need a strong R&D center backup and the other products that they have are not

that difficult to make, so I think our R&D capability could achieve that and launch these products, they work in a different environment and so have success is the key. What I am trying to say is that the products that Torrent has in the basket are actually difficult to make products, and you need a strong R&D backup to launch these products which we have. The portfolio with Elder are products which are not difficult to make and you can launch it easily and hence the most important thing is customer access and equity and relationship with that customer which is of extreme high level with them, what they did not have is the R&D backup and the difficult to make products which now with our portfolio they get it, so it is very easy for them to promote these products because they have great access to the customers because the products are relevant to the same customer. So yes, I do think it is difficult to promote our products by their field force it is very easy in fact it is much better, they have much better time share in the clinic of the doctors because of access.

- Chirag Dhagali:** Sir what will be the field force size for gynecology focused portfolio for Elder?
- Ashok Modi:** Total field forces you are taking for this entire business is about 1100 people and let us say 50% would be for gynecology and 50% would be focused on ortho and surgeon division, so there are two divisions basically.
- Chirag Dhagali:** Thank you so much Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Mr. Vivek Agrawal from Research Delta Advisors. Please go ahead.
- Nimesh Mehta:** Thanks for taking my question. This is Nimesh Mehta. Sir one question on the trade margin issue in India, there had been some hue and cry of increasing the trade margin on the NLEM products, where do we stand now and where do we see the impact on the domestic performance?
- Ashok Modi:** Right now majority of the industry is not agreeing to or not giving into the trade demand of the increased margin. Torrent has also are not yet given into that, so let us see how the whole thing unfolds.
- Nimesh Mehta:** Suffice to say that we kind of can expect 15% to 17% of kind of growth in domestic market going ahead?
- Ashok Modi:** We would not be able to help you on that.
- Nimesh Mehta:** Just one simply question, we see gross margin not increasing or remaining flattish for QoQ, YoY, but EBITDA margin has increased to what could be the reason behind that because we understand that Cymbalta also not a big contributor and Brazil also has not improved in

pricing is what I understand, what has really led to the improvement in margin even on a QoQ basis?

**Ashok Modi:** The basic reason is typically this fixed expenses in sales and marketing both in the Indian market as well as across all the territories, they have remained flat and with the improved topline growth the EBITDA margins have improved.

**Nimesh Mehta:** They are likely to remain at the same level at least for the next let say three, four, five quarters?

**Ashok Modi:** Which on the EBITDA or the expenses?

**Nimesh Mehta:** The sales and marketing expenses?

**Ruchir Modi:** Sales and marketing expenses may not remain same as we go forward. I would just add the data you might have Mr. Rishi would have given about a year back we have the field force of around 3800 a year back we had and I kept on maintaining every quarter that we have focused on productivity and hence the current field force of Torrent is 3600, so we have rationalized 200 people, so while the topline growth has grown by 15% in Q3 our productivity has grown by 21% because we have rationalized 6% field force and that trend will continue at least two years down the line.

**Nimesh Mehta:** Thank you very much.

**Moderator:** The next question is from the line of Ashish Rathi from Emkay Global Financial Services. Please go ahead.

**Ashish Rathi:** If you could throw more color on the ANVISA side, you said the issues pertain, is there any pickup on the approval side because this has been a lingering issue for us in terms of hindering growth for quite sometime now, two years or more?

**Sanjay Gupta:** No we have not seen any acceleration on ANVISA approvals we had.

**Ashish Rathi:** On average how much months if you could quantify does it take just on an average ballpark figure post filing and approvals?

**Sanjay Gupta:** Average around 36 months.

**Ashish Rathi:** You also mentioned that there has been some measures we have taken which have been adverse could you throw more color on that?

- Sanjay Gupta:** Simply there used to be a process at ANVISA, where there was very active dialog with the industry and which was time consuming for ANVISA, but it resulted in multiple opportunities for the industry to answer queries and to respond to their needs before they will reach a decision, but what we are seeing is that the opportunity for the interaction have shrunk in the dramatic way as they try to accelerate their decision making or they are under pressure to clear the backlog.
- Ashish Rathi:** So does that imply that the approval as a percentage of filing also comes lower because of lack of interactions?
- Sanjay Gupta:** I would say you can infer that because it basically means that discussion element it is being squeezed out or the opportunity to go back with remedies or with alternate proposals, it is getting very difficult to interact with ANVISA on similar to what we do in countries like US for example.
- Ashish Rathi:** In that scenario today we have in this quarter say achieved 20 plus percent constant currency growth in Brazil and that is very healthy compared to the last five to six quarters, can we assume a similar kind of at least momentum would be there for the next year or so in your visibility?
- Sanjay Gupta:** I would just caution you that I mentioned that in lot of generic division in the last four to five months, so you on the slides we have mentioned the figure that, the part of though that comes in the generic business, that is because of the launch in this new division and that is obviously something that we hope to develop, but the first time there during the first 12 months and after that we will see where that goes.
- Ashish Rathi:** Thank you. That is helpful. Thank you.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question from the participants. I would now like to hand the conference over back to Ms. Perin Ali for closing remarks. Thank you and over to you madam!
- Perin Ali:** Thanks everyone for joining the call and on behalf of Edelweiss Securities Limited, I thank Torrent management team for taking off time. Mr. Ashok Modi if you have any closing comments please go ahead.
- Ashok Modi:** Thank you for the response and I understand the number of people on the call in the excess of 150 so thank you for showing and evincing such keen interest on Torrent and the corporation. Thank you all very much.



*Torrent Pharmaceuticals Limited*  
*January 22, 2014*

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