



“Torrent Pharmaceuticals Limited
Conference Call”

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MR. RISHI SHAH**



Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q2 FY'14 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 this conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Perin Ali from Edelweiss Securities. Thank you and over to you Ms. Ali.

Perin Ali: Thanks Mallika. Good morning and a warm welcome to all of you on briefing of Q2 FY'14 results of Torrent Pharma. We had Edelweiss welcome the management team. Today, we have from management Mr. Ashok Modi, Executive Director, Mr. Ruchir Modi, Chief Marketing Officer, Mr. Sanjay Gupta, Executive Director International Operation 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. I am Ashok Modi here. I welcome you all to the post result teleconference for the second quarter results of Torrent Pharma. I have with me Mr. Sanjay Gupta who is the Executive Director in charge of international operation, Mr. Ruchir Modi, Chief Marketing Officer, in charge of our domestic marketing operations and Mr. Rishi Shah, AGM Finance. I will first take you through the highlights of the second quarter. During the quarter, the total revenues grew by 25% with revenues at 972 growth versus 777 in the previous year. The company received a one time settlement income of 13 Crores during the quarter. The Indian formulation business registered subdued growth of 10% posting revenues of 297 Crores versus 275 Crores in the previous year; however, some of you might be aware that the trade disruption which was there during the quarter post the notification of the DPCO 2013, the trade body which is the AIOCD has been demanding certain concessions from the industry which has led to stand off between trade and industry and some of the companies were also periodically bifurcated by AIOCD which led to the subdued growth not only for the company, but overall market. In fact, the covered market grew only 13% while Torrent could register a growth of 12% as per the AIOCD figures at 3%. The international operations registered a growth of 32% with revenues at 573 Crores while the constant currency growth for the quarter was at 18%. The key highlights of the major international territories are, the US business was growing at 34% with revenues at

115 Crores. The constant currency growth was at 10%. During the previous year, the same quarter there was an one time licensing fee received by the company amounting to 11 Crores. Adjusting to this the revenue growth is at 40% and the constant currency at 24%. Europe, which includes Heumann and green field operation registered revenues of 235 Crores with a growth of 54% and the constant currency at 31%. The rest of the world including CIS, Mexico, Canada, Philippines registered revenue growth of 31% and constant currency growth of 15%. The Brazil operations recorded revenue of 125 Crores to the growth of 8% and the constant currency growth of 10%. Because contract manufacturing operations showed a growth of 49% with revenues at 100 Crores and adjusting for a one time settlement income revenue growth was at 30%. The EBITDA margins of the company for the quarter were at 22%. During the quarter, there was a forex loss which was taken in the books amounting to 36 Crores which in the comparable quarter last year was at 14 Crores. The profit before tax was 152 Crores and compared to 139 Crores during the last year, the growth is 9%, however, we need to adjust these figures for incremental provisions of about 7 Crores for slow moving inventory, forex loss of 36 Crores compared to 14 Crores during Q2 of financial year 2013. The PBT growth then is at 27%. The profit after tax is at 113 Crores showing a nominal growth of 6%. Adjusting for the earlier mentioned one off the PAT growth is 23%. This is for the quarter, if you look at the half year, the revenue was 1944 Crores compared to 1544 Crores with a growth of 26%, adjusting for the one time patent assignment income which we received during the first quarter of 42 Crores and the settlement income of 13 Crores during the second quarter as well as the previous year one time licensing income of 11 Crores, the revenue growth was at 23%. The PBT for H1 was at 339 Crores is a growth of 22% and after adjusting for one-off the PBT was growing at 18%. Thank you very much. We can now start the question and answer session.

Moderator: Thank you sir. Ladies and gentleman, we will now begin the question and answer session. First question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Good evening sir. Just doubt on this slow moving inventory provision of 7 Crores, what is this, is this sales return, product return, what kind of slow moving inventory is it?

Ashok Modi: Actually what we do is, Tech-reach which means that we evaluate our inventories on a quarterly basis and considering the expected sales moving forward all inventories which are



likely to become non-salable or likely to expire, we take the provision. So, this is the provision relating to Tech-reach.

Anubhav Agarwal: So this inventory is lying with you, this is not yet shifted to the channel, this is not product return.

Ashok Modi: No, no this is not product return.

Anubhav Agarwal: Okay, because we have taken this provision first quarter also, is this recurring phenomenon or is the really one-off that is what I am trying to ask, because we had same provision in June quarter as well?

Ashok Modi: No what has happened is that this Tech-reach, the mechanism we have slowly rolling out to all our territory, so most of the territories were earlier covered by this Tech-reach provision, at this time we have added the final frontier which was the US market and considering that now it is going to be recurring moving forward, but for this quarter it was an one-off item.

Anubhav Agarwal: Okay and can you just provide couple of more figures and what is R&D to sales ratio for this quarter?

Ruchir Modi: 4%.

Anubhav Agarwal: 4%, isn't that lower than what would you guided earlier start of the year for about much higher about 5% to 6% and now you have been for the last one-half you have been about 4.2?

Ashok Modi: It is almost in the same range, it would not be really correct to sort of compare it on a quarter-on-quarter basis, but annually perhaps the percentage would be similar to higher than what was last year.

Anubhav Agarwal: So, last year if I am not wrong it was about 4%, right.

Ashok Modi: Yes, right.

Anubhav Agarwal: Okay, sir this forex loss of 36 Crores, how much of this is because of the hedges?



- Ashok Modi:** What is happening is that good amount of that is already captured as a income in the revenues and the hedges have been marked to the market and this is basically if you consider it all on account of hedging losses, but good amount of hedge is already counter balanced by the revenue which are taken at a higher rate.
- Anubhav Agarwal:** Okay got it and what the amount of hedges are remaining and what rate do you have it now going forward?
- Ashok Modi:** We cover the hedges month-on-month basis, so the hedges could be varying between Rs. 56, 57 to may be Rs.66, Rs.67.
- Anubhav Agarwal:** What is the quantum you are carrying?
- Ashok Modi:** We do it on a monthly basis almost a year in advance.
- Moderator:** Thank you. Next question is from the line of Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** First question was on the US side, not sure why we have not received Diovan HCT approval despite having tentative approval and many companies have already got that, any color on that and where do you see US overall revenues reaching for the end of the year from 64 what we did last year, what it could be for this year, if can you give some color on that?
- Ashok Modi:** We do not provide any forward looking projections for any territory or for the company, but Sanjay will answer that product registration part.
- Sanjay Gupta:** So, the Diovan HCTZ is already generic in the US, Torrent's approval has been pending because of the API manufacturer has some issues, so we have been kind of left out to hang based on this what happens to our API supplier, this is not an in house API for Torrent, so we expect it to get cleared up sometime in the next calendar year.
- Girish Bakhru:** Can you give some color on the 31 products that you have under development, what kind of products they are for the US market?
- Sanjay Gupta:** I would say the underlying theme in Torrent Pharma's US business remains oral solids, so it is not in I would say new dosage forms, besides oral solids these are in the pipeline we

have some which are I would say generics of coming blockbusters, some more niche products where we expect there to be better margins or lesser number of competitors, but beyond that I would not like to provide color on the product that we will be launching.

Girish Bakhru: Right and just lastly on Brazil, you have taken those price reductions in Venlafaxine and lamotrigine, has that not really started has been in the volume pick up I mean given that the growth in the quarter has been again low.

Sanjay Gupta: It is like tale of two cities. The price reduction that we took on Lamitor, so Lamitor is the product where Torrent has market share in excess of 55% to 56%, so I would say hence the decline, but share increase is not to come, so I have been seeing IMS for the last three months and it has a flat share of Lamitor, on Venlift we took a price reduction what we have seen is Torrent share increased by between 1% to 2% point, so it used to be 8.2, now it is closer to 10.2 in the venlafaxine market. So we have managed to turn around in the IMS extended unit survey, I am that is the lead indicator and we would see that as the inventories get liquidated and as we start selling new merchandise.

Girish Bakhru: Right and there are no new products right which have seen price reductions in Brazil?

Sanjay Gupta: No, it is a market which is fairly competitive, so we are quickly monitoring our pricing and it is a constant vigilance I would say. We do not have any price reductions on the horizon today but it is something which is driven by competition and some of the family owned large generic companies in Brazil have been quite aggressive and you might have heard of companies like Ache which is was rumored to be seeking a transaction. So there was aggressive marketing push from some of these companies.

Moderator: Next question is from the line of Priyank Singhal from Bajaj Allianz. Please go ahead.

Priyank Singhal: Actually congratulations on good results I had a question on gross margins. Optically even on reported basis gross margins have seen a drop compared to last year Q2 whereas actually given currency may be some improvement was expected so I just wanted to understand is it primarily because of one-off which is a 7 Crores inventory write-off in this quarter and 11 Crores one time license income which would have straight away flown into gross margin in Q2 last year adjusting for which gross margins are actually flat but still the improvement is not there so is the reason higher share of Europe or price cuts that you have



taken in Brazil so I just wanted your comment on gross margin and going forward what do you see as this gross margin is concerned.

Ashok Modi: Actually what you are saying is true it is a combination of all the factors which you have mentioned the one off, which we have taken the price reductions in Brazil there is also an element of some product mix, which is happening particularly in the ROW market. So on an overall basis the gross margins do seem to show a little decline in trend but it is coming primarily from the product mix and the one off, which you actually captured in your question.

Priyank Singhal: But what is the outlook is there any color you can give that the Brazilian market would continue to see some gross margin pressure or you think that whatever is there is already there in these quarters numbers going forward outlook should be stable.

Ashok Modi: I am sorry but we would not be able to give you any forward prediction of this.

Priyank Singhal: My second question is on the India business in your opening remarks you mentioned market grew at 13% in domestic...

Ashok Modi: It grew at 3%.

Priyank Singhal: So your covered market grew at 3% whereas you grew at 10.5% percent.

Ashok Modi: No, we grew at 12% as far as the AOCD was concerned I just give it to Ruchir to comment in detail on that.

Ruchir Modi: Hi, the Indian pharma market grew at 2.8% Torrent covered market grew at 3.1% and Torrent grew at 11.9%.

Priyank Singhal: So once again in this quarter despite all the problems we have been able to grow much better in the market.

Ruchir Modi: Yes.

Priyank Singhal: But are the problems related to strike and all these boycotting of companies et cetera is it behind so is next quarter going to be a normal quarter.



Ruchir Modi: Yes I feel so.

Priyank Singhal: And lastly on Europe this quarter has seen a very good growth in Europe so if you can just explain what resulted in this growth and going forward any comment on not necessarily specific guidance but just a qualitative outlook of Europe.

Ashok Modi: No, two things resulted in better growth in this thing there were higher supplies against tenders in the German market and higher growth in the dossier business for the supply business, which we have for the rest of Europe.

Priyank Singhal: And any comment so is it one off for the quarter and cannot be extrapolate going forward.

Ashok Modi: I really would not be able to say anything on that part.

Moderator: Thank you. Next question is from the lien of Shalabh Agarwal from Franklin Templeton. Please go ahead.

Shalabh Agarwal: Good morning gentlemen. Sir my question relates to the R&D spend and I am not looking at the quarterly numbers if I look at last three years our total R&D spend has actually been coming down both on an absolute number as well as a percentage of sales obviously and together with that if we see the staff count that we report under R&D center the number of scientists they are also coming down. So I just wanted to get your sense of are there any project from which we are withdrawing or what is the reason for this kind of a decrease over the last two years.

Ashok Modi: The numbers are correct but I would like to put it in the correct perspective actually you see the R&D work is primarily driven by the requirements coming from the Indian as well as the overseas market and a lot of things keep on getting sort of reorganized or optimized along the way, your analytics over last two three years it does show that the spend as well as the number of people might have shown that they have come down however there is no standing down of any activity or any thrust on the development part which we are undertaking and which we have been undertaking. The product pipeline requirements of all the markets are being more than fully complied with. So I would now put it that this is more of a sort of a numbers analytics rather than an activity indication.



Shalabh Agarwal: If I were to ask you in terms of number of ANDAs that you are filing every year the incremental number of ANDAs that has been filed every year last two three years how does that stand and whether that has gone up remained stable or gone down.

Ashok Modi: It has remained stable it has not gone down but it has not gone up as well it remains more or less in the same range.

Shalabh Agarwal: No, which is where the question was coming from because given our size in the US market one would expect company to be on a little aggressive space to have more filing in the US to catch up on the lost ground earlier so together with that if we see what is happening on the spend on R&D that does not lead to a very good picture which is what I wanted your comments on.

Sanjay Gupta: I will share a little color on that. We are midsize company and our objective is to file between 10 to 20 files a year with healthy mix between first two files and me-too generics, what we have been trying to do is to complement in house R&D with some kind of external development, partnerships like products, I would say from a single launch for every thing in the company and killer approach to a broad partnership oriented approach where we would do certain activities and certain activities will be performed by other companies, that has not really been reflected in our numbers or it has not been reflected in the presentations that we have been making to the outside world but going forward I would say much more collaborative and externally focused on our R&D efforts and secondly what we have been trying to do is to figure out before we would see the investments in this is what are the right niche speciality areas that we want to go because we pretty much kind of understood the general practitioner drugs that we have been selling, so we have had a bit of thinking process over the last 12 months as to which are the right areas for Torrent to invest and I think we have reached some level of consolidation or consensus in and that would really result in an enhanced effort because the company is confident about its business in the US and we certainly need to invest and we recognize that in order to maintain the growth rate we would need an incremental number of ANDAs.

Shalabh Agarwal: Sanjay, you mentioned that the aim is to file around and you have been filing 10-20 odd products but is that the run rate we have been able to maintain last couple of years because



I think from the numbers that we share if we work out the number of filings it seems to be little lower, that is where I was coming from?

Sanjay Gupta: I don't think Torrent has given out the number of filings, what I can tell you is that, since I am new to the company Ashok inform me about that but what I am looking is that we have about close to 14 launches coming up between now and the end of 2014, I think for the next few years I have more than enough on my plate in terms of launches from foreign and that gives me some time to build up a pipeline which I guess is kind of a little below a sustainable rate sometime in the past.

Shalabh Agarwal: So you are seeing around 14 or 15, more than 10 launches this calendar year or financial year.

Sanjay Gupta: I would say between now and December 2014 we should have about 14 launches.

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

Bino P.: Hi, congratulations on a good set of numbers, first question on Brazil, the current price reductions after settling in are we looking at going back to the original growth rate of 15-20%, are there more product launches planned or are we looking at a new growth level of around 10% or so?

Sanjay Gupta: I know Torrent doesn't give forward looking guidance but we should be growing I would say pretty much in line with the market with our existing portfolio and then new product launches is always I would say is a risky proposal. We have recently launched, I would say, we are second to launch nebivolol in Brazil and neb lock, it is a product which has been fairly successful, it is called Bystolic in the US, it is a beta-blocker and we have launched it with aggressive sales and marketing push, so I cannot make projections or forecast. We had the second branded Neblock, nebivolol in the Brazilian market, but for the existing portfolio I would say that we should grow at ease in line with the market.

Bino P.: Okay, I got it, so basically you are saying that with existing products you should grow in line with the market which is around 10-12% and any new product would be additional to that.



- Sanjay Gupta:** Yes.
- Bino P.:** Okay, second question on forex hedges Rishi, if I heard it right from an earlier question the entire amount comes from forward hedges is that right, 36 Crores.
- Rishi Shah:** Yes.
- Bino P.:** So if I calculate the rupee depreciated from end to end last quarter to this quarter by about Rs. 3, so if I back calculate it should be about \$110 million of contracts, is that correct?
- Rishi Shah:** No Bino, what has happened is the contracts we would have taken last year, so the average rate on those contracts would have been much lower compared to the current spot.
- Bino P.:** Okay and these contracts are all related to US business or businesses across?
- Rishi Shah:** It is businesses across.
- Bino P.:** Finally, on the US business front following up an earlier question it would be great if you could give the actual number of ANDA filed last year and this year first half?
- Sanjay Gupta:** I will give it to you offline.
- Moderator:** Next question is from the line of Krishna Prasad from Kotak. Please go ahead.
- Krishna Prasad:** Hi, good morning and thanks for taking my question, on the US business we have obviously been a bit late in entering the market but also just given our natural strength, not too much presence in API and so on, wouldn't it have been a more natural sort of strategy to move niche very early in to our existence in the US market because you spoke about looking at niche areas now but is there a sense that maybe we are late maybe by a couple of years in to doing that?
- Sanjay Gupta:** I think our current portfolio right now we are fairly competitive, Torrent commercializes in the US between 25 and 30 ANDAs. As of few months ago, for 10 of those molecules we were in the top 3, so some of them had competitors which were in the 5 range, somewhere in the 10 range, so one way to look at is the molecules that we commercialize in the US for a good chunk of our portfolio 10/25, roughly were in the top 3 players and I think by the

end of this fiscal year it will be about 15 per molecule where we would be in the top 3 players and the reason is that we being a small company we are very focused on our molecules, so we are able to take on the big boys like Teva and Mylan for the molecules in which we compete and as far as the API is concerned Torrent is vertically integrated for about half of its API consumption and we have been very successful where we are vertically integrated, those are products which do not require a large quantity of API and then we have some very good partnership with large API manufacturers in India who sometimes have their own US affiliates, sometimes they don't have US affiliates, but I would say that there are genuine good partners for us and they treat us fairly as far as helping us build US business with competitive API pricing, so I think the balance between 50% in house and 50% coming from outside from companies who have an interest in building an API business is a good mix for us and that should not preclude us competing in any particular area and being small and focused and with a good track record with customers our current portfolio or the type of products that we have should not be a problem. The problem comes in terms of enhancing the profitability of the company where you are always looking for new areas where there would be fewer competitors or where you could get premium pricing, so that is the direction which we are moving as more of our existing products would eventually get commercialized with newer players coming maybe from China or some of the smaller Indian companies, so idea is to build on what we have but what we have we are confident of being able to grow that defend it right now.

Krishna Prasad: Sir I broadly sort of take that point but my question was a bit different, given that we entered the market a bit late was there an opportunity to do a nonlinear growth there instead of taking the same path and today when we talk about niche generics is that somewhat following the trend that what you are seeing maybe started in other companies maybe three, four years back, I mean to that extent is there a different way of doing this?

Sanjay Gupta: I mean, are we behind some of the lead players in the US, yes, so there is no doubt that we have been a little late to this to try to move our business I would say up the value chain, we are a little late there. Unlike in India in US we are little behind in the value upgradation but with the way you do it, is essentially two or three ways, right, you can do everything in house, you can do partnership licensing agreement or you can do acquisition, so I don't think the Torrent management is against doing all three, what our job as operational managers is to come up with good options to propose to management and to convince them

that this makes sense, so we have been diligent in monitoring what has been happening in the US, so over the last two years we have been aware about most transactions and we have taken a deliberate view on many of the transactions and on what we thought about them and what we were prepared to do in that scenario, so going forward we are active in the space but again the attrition rate in business development is quite high as you must be knowing but we are certainly looking at all pathways to accelerate the movement towards higher value products.

Krishna Prasad: The reason I am saying this because in sort of conjunction with what was asked earlier is your R&D staying flat because you are really looking at inorganic route to growing US, is that the reason or if you choose to do it organically would your numbers start to move up going forward, that is the limited point I was trying to understand?

Ashok Modi: The R&D like I mentioned earlier it is a mix of opportunity and optimization, part of it what you say would be correct that yes, we have been looking at partnering not only in US but in other places as well, that is not the reason for the flat R&D expenditure, there has been an optimization in terms of harmonization of product pipelines, so the rate of growth or let us say lack of it is not really reflective of its ability to meet the market requirement.

Moderator: Next question is from the line of Rahul Baijal from Bharti AXA. Please go ahead.

Rahul Baijal: I just wanted to seek some clarification on forex hedging; these forex losses and sometimes income you show on quarterly basis regularly are these mark-to-market for all the outstanding hedges or only for that particular quarter or for six months?

Ashok Modi: The accounting standards mandate that it has to be for all outstanding hedges.

Rishi Shah: I will just like to elaborate on that. What we do is we hedge for one year forward, all those classify under Accounting Standard 30, for those contracts we take those MTM to balance sheet and not to P&L, only those contracts MTM comes to P&L which has already been sold or the revenues have already been taken in the P&L.

Rahul Baijal: So, the remaining actual is sitting on the balance sheet.

Rishi Shah: Yes.



- Rahul Bajjal:** To that extent whatever you show is operational losses or operational gains for the quarter, right.
- Rishi Shah:** Correct.
- Moderator:** Next question is from the line of Alok Dalal from Motilal Oswal. Please go ahead.
- Alok Dalal:** Good morning everyone, just a few questions on Brazil. One is have we launched any generic-generic product in Brazil so far?
- Sanjay Gupta:** Yes, we just started that business in the last quarter and it is an interesting business because essentially we are trying to leverage the molecules we already got approvals for and it is a business with low fixed cost, essentially Torrent has a team of 6 to 10 people doing generic but we have a team of 500 people doing branded generic so while the prices might be low in the generic market on the margin side I think we would be and that would lead to an improved profit outlook for the company.
- Alok Dalal:** Can you talk a little bit about scalability of this business, how many products you think you will need in order to scale this up and what you think is critical mass and by when could you achieve that?
- Sanjay Gupta:** There is couple of models in the generic space in Brazil, we are the large medley model whereby companies have hundreds of products and they have a mass approach towards pharmacists and they give kind of bulk discounts on big basket of products, that is not the approach that Torrent will be taking and I don't think that is the right approach for us. The approach we are trying to take is more is coming up with generic products which would be slightly differentiated whereby even with the smaller market we would get support from the retail chains and the retail pharmacies, so we have started with a basket approach to 15 products and we would be enhancing it, we already have approvals in hand because over the last few years we have been accumulating approvals even though we haven't launched a generic division and we have a few distribution partners in Brazil, we have I would say a much larger footprint and entries in to some very large customers, so we have tied up for some of our products with one large generic player in Brazil to help us distribute to a specified group of customers.



- Alok Dalal:** Okay, next two, three years you think this could be \$30-40 million kind of business?
- Ashok Modi:** It would be a good business but whether it would be 30-40 million or what is something which we would not be able to tell.
- Sanjay Gupta:** I can give you a little color not in terms put numbers on chart, we have three business essentially, we have the branded generic business which is the historical business which we started. Over the last four, five years we built a fairly successful branded generic tender business whereby we are able to get shares in the government municipal hospitals and that business has been fairly successful to the extent that it today accounts for a material part of our sales. What that business does is it actually has lower cost again because we don't have large team forces promoting to government hospitals, we have a small team and then the third pillar that we have to our Brazil strategy is generic business, so the generic business and tender business would be supportive in enhancing the growth rate and profitability of our Brazilian business.
- Alok Dalal:** You mentioned about some problems with the old team, the team that came in last year, so what are those problems and what steps are you taking to solve these problems?
- Sanjay Gupta:** As competition was going up Torrent decided to recruit a third team of sales reps in Brazil and Brazilian nationwide sales team in Brazil can be anywhere between 125 to 150 people, what we have done was we recruited a third team which was focused on I would say CNS specialists of about 50 persons and they were promoting the same products as those being promoted by the other two teams, so the CNS products were sometimes Team A and Team B and Team C which is 50 people was calling on a select group of physicians with same basket of CNS products as in the other field forces. What we have kind of evaluated after about 18 months or 24 months of this effort that it wasn't bringing us the requisite returns and the returns are little bit complicated to measure because you had two sales forces promoting the same product. Going forward from November onwards we will be realigning the field forces in to two teams which I would say have much better footprint that allows us to cover more physician and also hold teams to a greater level of accountability. I would say that we have not finalized the numbers in the sales team but certainly we don't anticipate an increase in the sales efforts beyond what we have today.



- Alok Dalal:** How many medical reps we have today?
- Sanjay Gupta:** 350.
- Moderator:** Next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar:** Good morning gentleman, just wanted to know broader theme from three-year perspective little color on the roadmap for Torrent going forward on three pointers one is on territory, technology and therapy, what is the roadmap for Torrent from hereon on these three parameters?
- Sanjay Gupta:** Let us look at the Indian business first because India is where we are the most diversified basket of products.
- Ruchir Modi:** Like I had mentioned last quarter also we have plans to launch at least two products in chronic segment and acute segment of existing business and try to be first in India to launch those products. The new businesses like derma, gynec, and pain segment, we plan to launch at least eight to nine products a year to fill the therapy basket because even existing molecules that are prevalent in the market we are not completely covering, so we need to launch a lot of molecules there to fill the basket plus new molecules, so we will be intensifying new launches as we have recently entered in to new therapy areas, so for next five years you will see at least 15 new product launches in domestic market.
- Nitin Gosar:** 50?
- Ruchir Modi:** No 15 every year over the next five years.
- Sanjay Gupta:** On the international side in terms of territory we kind of laid our focus on few territories, let me just say that the big international territories that Torrent has is essentially Germany, that is because of the legacy we have from acquisition of Pfizer generic business and now United States and Brazil, those are the three big international businesses along with the licensing business for which Torrent is very strong for licensing at pipeline especially in the Scandinavian and southern European countries where we do not have a direct presence and I do not see ourselves putting boots on the ground in the next short term, so those are the big territories. In terms of mid sized territories we have a very strong presence in countries

like Mexico; Mexico we currently have about 50 or 60 sales reps with focus CNS business. We have good size presence in the Philippines where we have over 150 sales reps promoting branded generics. The third midsize country I would highlight is Romania where we have been able to build a sizable business in the last 3 years and then UK is the newest baby on the block and we are quite bullish on UK because the business model in the UK is somewhat closer to what we are used to dealing with in the US. So, again that would be the major direct presence footprint and besides that we have business which is Ahmedabad which is the rest of the world which is more like export type business or skeletal local presence business where essentially we are leveraging R&D spend for the regulated markets to come up with products for these rest of the world emerging markets, South East Asia, Africa and rest of Latin America and that business I would say profitable business because it is just essentially monetizing the assets that you already have, so that is the direction in which we are taking the international business.

Nitin Gosar: Technology and therapy if one were to see we are largely focused on CVS and CNS, can we envisage or are you investing behind other therapies also?

Ashok Modi: Ruchir did answer about the Indian market and if you see market such as US, UK or Germany, there is no specific therapy focus in those markets, it is mainly driven by products going off patent and building up a pipeline around those products.

Sanjay Gupta: Let us just look at it in two ways, since we are going generic business in Germany and in the US and the new generic business that we have started in Brazil, there is no limit or limitation of the products that we can sell in these businesses. As far as promoted branded generics are concerned we are in the CV, CNS space in Brazil and CNS space in Mexico and would we be adding another platform, another kind of therapeutic areas to those markets I think it is a little bit premature for us to comment on that.

Nitin Gosar: Predominantly from three-year perspective international market will be still revolving around CVS and CNS largely but will have something that is also to fill in.

Ashok Modi: The markets where it is branded generic sort of presence that would be the main focus but the pure generic business such as US like Sanjay says there is no description on either side.



Nitin Gosar: Second would be on the Capex front that we have lined up, 1000 Crores over a period of time, the scaling up of these Capex or utilization of this 1000 Crores asset would be largely to do with the existing business or we are also lining up this CapEx to bring in new business which is right now we are not present in to.

Ashok Modi: Can you elaborate on what you mean by new business?

Nitin Gosar: Could be for lining up yourself the new therapies or new technologies or new territories which right now is not on your book?

Ashok Modi: The Capex primarily is committed for the Dahej SEZ plant which is going to cater to international markets. The therapy focus will be decided as per the market which Sanjay has already covered, the US market the way it works, the German market or the Brazilian market, so it is an investment made to take care of growth requirement which comes from all these markets. Just to give an update on that the initial small vac manufacturing area in Dahej is almost completed, right now it is undergoing validation for the purpose of pre-check for regulatory audit, the first audit is scheduled in the month of December probably January and that process is already started and we are getting to commercial production sometime in the middle of 2014-2015.

Nitin Gosar: Okay, this would be purely the regulated markets.

Ashok Modi: No it will be international market, regulated and unregulated both.

Nitin Gosar: Last question would be just to get an understanding of what is the thought process of yours on monetizing or acquiring assets domestically and internationally if you were required to scale up your business from hereon?

Ashok Modi: We have been looking at various opportunities both internationally and within the country, so that is definitely one of the areas where we have been looking for in lateral expansion, however there is nothing which is fructified as of now.

Nitin Gosar: Anything on the block to monetize within the company?

Ashok Modi: That will be a difficult question to answer.



- Sanjay Gupta:** Just to add as you look at external growth opportunities, there are couple of reasons why Torrent would be interested in them, one obviously is scale but also to join the other part we would be looking at diversification of our product offering, so there are two or three priorities while we look for external growth and it is not only scale.
- Ruchir Modi:** I am sorry I forgot to mention one important development with respect to technology, new product technology. We have invested in novel drug delivery system platforms, what it essentially means is that developing the same product in a novel delivery platform like cream to be developed in a foam delivery system and those platforms we invested three years back and we expect at least two to three novel drug delivery system products from H2 2014-2015 and every year we will have three products which will be first time in the world. So as far as domestic is concerned this could be prove a serious inflection point for Torrent and probably we will take it to international markets if we are successful.
- Nitin Gosar:** You are expecting every year three products.
- Ruchir Modi:** Three products from H2 next year.
- Moderator:** Thank you. Next question is from the line of Nimesh Mehta from Research Delta. Please go ahead.
- Nimesh Mehta:** Thanks for taking my question. Can you mention about the likelihood of trade margin increase in the India business. We read in certain news items that Torrent has increased the trade margins post the standoff between the traders and companies?
- Ashok Modi:** This issue has been hanging fire ever since this new DPCO 13 was notified. There have been various discussions all across and all sorts and news items.
- Nimesh Mehta:** What is the outlook there, are you likely to increase, any idea?
- Ashok Modi:** It is an industry decision and not an individual company decision.
- Nimesh Mehta:** Can you reflect on other companies, I understand some of the companies have already accepted that to increase the margins namely Cipla, Lupin, is it fair to say that would kind of trigger margin increase for most of the companies?



- Ashok Modi:** Actually one or two major companies have already increased the margins, one is Cipla, one is Mankind, these are the two large companies which have increased the margins, I don't think that is reflection either way on what the ultimate industry decision is going to be.
- Nimesh Mehta:** Secondly can you comment on outlook of contract manufacturing income we have seen a robust growth, is it lumpy, how is it going to be because we had been seeing pricing pressure on imported insulin, is it likely to materialize that way?
- Ashok Modi:** If you are asking me what is going to happen in future unfortunately that is not what I can answer?
- Nimesh Mehta:** Okay, what would be the reason for the robust increase year-on-year increase in contract manufacturing income this time?
- Ashok Modi:** That depends primarily on the Novo's marketing plans and marketing strategy, so we basically fulfill the requirement as sort.
- Nimesh Mehta:** Is it, I mean, I know you cannot comment, but can it be as high as what we have seen this quarter or it can be moderating?
- Ashok Modi:** Okay, I will take that question to say that it is not a steady state sort of growth number.
- Nimesh Mehta:** Lastly if you can comment on the one time incomes that we have been receiving 13 Crores this year this quarter last quarter 42 Crores, so how do we look at it, we don't have any outlook anything to fall back upon, if you can give some color it will be helpful.
- Ashok Modi:** These are by definition we have classified them as one-off income, so these are not sort of things which are repetitive in nature and most of them are also unpredictable both in terms of quantum and in terms of timeframe, that is why we sort of segregate that for you to look at the performance independent of this sort of income and charges.
- Nimesh Mehta:** How is this generated, is there a proper business activity aiming at this income or is it more like opportunistic thing that is coming our way?
- Sanjay Gupta:** What we did was that last year we had a product approval as we were facing what was the best way to launch that product and we kind of decided that the best way to launch that



product in the US was in partnership with another company and in order to kind of use our ANDA we asked for some kind of upfront payment which resulted in the one time charges and those kind of decisions come as and when we get options, so if we get new product approval we always evaluate what is the best way to get the maximum market share, sometimes it is only by ourselves, sometimes it might be in partnership with another company and that would result in this one time kind of payments. The second source on these one time payments is that we have intellectual property that has been generated inside the company and then we can find opportunities to kind of partner some of them with specific people who might be interested in licensing either products, patents or things of that nature and again that is not predictable, so it is more on a case to case basis and as you know most of these deals they sometimes happen with contingencies, if this happens then you get this money or if that happens and that is why it is difficult to predict.

Nimesh Mehta: Okay, the one time income that we have received this quarter for the product that we kind of licensed to other company will it recur, is that something that we can estimate.

Ruchir Modi: As we said we cannot predict anything on this front.

Moderator: Next question is from the line of Shalabh Agarwal from Franklin Templeton. Please go ahead.

Shalabh Agarwal: Thank you for taking my question. Firstly on Brazil if you can highlight how many products we have today and how many we have already filed awaiting approval?

Sanjay Gupta: Can I give it to you offline?

Shalabh Agarwal: Sure, if you can also tell, is there a significant part of our sales from branded generics comes from similar?

Sanjay Gupta: Yes, that is basically the same thing.

Ruchir Modi: Similar is the terminology for branded generics.

Shalabh Agarwal: Please correct me if I am wrong but similars are the ones where bioequivalence was not done and by 2014 will have to be phased out or refilling needs to be done with



bioequivalence, so wanted to understand how much of our sales come from bioequivalent if that is any portion of our business under branded generics?

Sanjay Gupta: What we have been doing is since Torrent has already had for those products which are like in our case almost 10 years old we have already kind of filed for two renewals on those products and as and when we file for renewals we file with updated data files and I think some of those products still require upgradation but dose upgradation happens at every renewal cycle and we have been vigilant to do that and we have been continuing to do that to bring those old without bioequivalence product up to the new watermark which has been established by ANVISA.

Shalabh Agarwal: Currently, do we have a good portion of our sales under branded generics coming from such non renewed products?

Sanjay Gupta: It is the minority of products. It is low single digit number of products which are in that category compared to our portfolio which should be quite a few products.

Shalabh Agarwal: Has there been any improvement from ANVISA to expedite the approval process from the long queue which we had seen earlier, are there any movements on that side, anything happening?

Sanjay Gupta: There is a lot of pressure on ANVISA to kind of dispose off the files in rapid expeditious manner. We are seeing a much quicker interaction with them compared to in the past, so the pace of back and forth has increased and I would expect it would lead to accelerated approvals or at least questions.

Shalabh Agarwal: The other question I think it was touched by one of our earlier speakers, how much capex is yet to be done on Dahej and how much has already been incurred so far?

Rishi Shah: Can we do it offline, I will give you the numbers.

Shalabh Agarwal: Okay, quickly the last one, on the contract manufacturing for Novo are we only doing plains or we are also doing some analogs?

Sanjay Gupta: Plains.



- Shalabh Agarwal:** In case now, since the pricing gets determined on a market basis, does that mean there can be some opportunity for us to explore further business potential on analogs or that is farfetched as of now?
- Ashok Modi:** Actually it will move dependent on low strategy for manufacturing, we would have let us say limited part in the decision making.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Perin Ali for her closing comments.
- Perin Ali:** Thanks everyone for joining the conference call and on behalf of Edelweiss I thank Torrent Management Team for taking off time and for a good discussion. Mr. Ashok Modi, if you have any closing comments please go ahead.
- Ashok Modi:** No closing comments. Thank you all for attending the conference and showing interest in Torrent Pharma and the way it operates. Thank you very much.
- Moderator:** Thank you, Ladies and gentlemen, on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.