“Torrent Pharmaceuticals Limited
Q2 FY2020 Earnings Conference Call”

October 23, 2019

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Moderator: Ladies and gentlemen, good day, and welcome to the Torrent Pharmaceuticals Limited Q2 FY2020 Earnings Conference Call. We have with us on the call today Mr. Sanjay Gupta, Executive Director, International Business; Mr. Sudhir Menon, Chief Financial Officer; and Mr. Aman Mehta, Chief Marketing Officer, India Business. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 Mr. Sanjay Gupta. Thank you, and over to you, Sir!

Sanjay Gupta: Thank you, Raymond. Good evening, everyone, and welcome to our Q2 FY2020 earnings call.

Let us start with the financial results. Q2 revenues were 2005 Crores, up by 6% on a year-on-year basis. EBITDA was 573 Crores, up by 20% on a year-on-year basis, and EBITDA margins were at 28.6%, an improvement of 1% on a Q-on-Q basis and 3.3% on a year-on-year basis.

I would now like to take you through some trends in our key markets. India contributed 45% of our total revenue compared to 42% in FY2019. India revenues were at 899 Crores, up by 10% on a year-on-year basis.

Adjusting these revenues for low-margin, low-value product discontinuation in the prior period and change in sales cycle to advance financial closing process, internal sales growth stands at 13.1%.

As per AIOCD, Q2 growth stands at 12.7% against an IPM growth of 11.5%. Adjusted for discontinued products, revised growth stands at 13.9% as per AIOCD.

At the end of H1, Torrent's PCPM stands at 7.2 lakhs with an MR strength of approximately 4200.

Torrent continues to stand at sixth position across specialties as per the prescription data set, with 73% of the prescriptions coming from specialists.

Moving on to the U.S. market; our quarterly run rate of $50 million was maintained, with Q2 sales of $52.4 million. Growth is driven by the momentum in the base business and certain opportunistic market-related opportunities.

At the end of Q2, we had 42 ANDAs pending approval and 6 tentative approvals in hand. As you know, we received the warning letter from our Indrad facility and Dahej continues to be under the OAI status. We are working for resolution in an expeditious manner. Currently commercialized products are not impacted, but new approvals related to these facilities are not being received.

Brazil sales were at BRL 86 million, up 6% on a year-on-year basis. On secondary sales, the company has grown at par with the branded generics market.

In this period, we have launched one new product in Q1 and would be launching one more product towards the end of FY2020.

Germany. Our sales in Germany were €32 million, up by 5%. H1 sales were moderated mainly due to certain supply-related and serialization issues. Going forward, in H2, we expect these issues to be resolved, which would bring back a higher level of growth.

Q2 R&D spend was at 130 Crores versus 136 Crores in the last year. Current ratio of R&D to sales stands at 6.5%.

I would like to conclude by reiterating that we have taken the FDA's observations extremely seriously and are working diligently to ensure that our SOPs and the implementation of the same SOPs meet and exceed the expectations of our regulators.

Torrent shall continue to file ANDAs at a brisk pace, and our commercial teams remains focused on brand building, building relationship with specialists and improving field force productivity.

Raymond, we can open the call for Q&A now. Thank you.

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

Prakash Agarwal: Thanks for the opportunity. Good evening to all. Sir, first question on the India business, if you could help us break down into volume, price and new product introduction?

Aman Mehta: As per the AIOCD numbers for the quarter, our volume growth for the continued products is 3.4% and adjusting that for the discontinued, it comes to 2.2%, and the IPM volume growth was 3.2%. Price growth was 8.4% and new introduction was 2%. So that is the overall growth of 12.7% for continued products and this adjusted for discontinued product there is another 1.2%.

Prakash Agarwal: Just your commentary on the price contribution, 8%, which has historically been around 4% to 5% for peers in the industry. Would you think this would be sustainable? Or how would we, say, talk about our outlook, like if you see one year out or for the full year, how do we see this business shaping up and 8% would still be a price contributor?

Aman Mehta: There are new launches coming up in the second half of this year and in the next year, which should add to our volumes going forward. As for the price

growth, they are going to depend on the competition -only if the competition scenario permits us, it would make sense. But otherwise, the volume growth is what we will be driving at for the next half and the next year.

Prakash Agarwal: If you could throw some light on the key launches?

Aman Mehta: H2 has some important launches from patex. So 2 are in cardio and diabeto. So one is Ticagrelor and the other one is Vildagliptin, and the third, which we mentioned earlier in the previous call is Remogliflozin which is in-license from Glenmark.

Prakash Agarwal: Okay, wonderful. And Sir, second question on the U.S. business, just wanted to check if there are any recalls pending for the Losartan, and we have taken an impact for all the recalls or there are still some pending?

Sanjay Gupta: As far as Losartan is concerned, we have no further recalls. So we provisioned for every recall, which has happened until now and we are adequately provisioned. So we do not expect anything anymore on the Losartan.

Prakash Agarwal: Perfect. But we are still supplying in few batches is what I understand?

Sanjay Gupta: Yes. I mentioned in the last quarter that we had a cautious launch. So we are observing the marketplace now before we try ramping up our market share.

Prakash Agarwal: Thanks and all the best. I will join back the queue.

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

Neha Manpuria: Sir, on the U.S. now that Indrad has warning letter, what is your estimate in terms of the time that would be required to probably resolve this? Second,

based on your conversation with the agency, would Dahej also require a reinspection for the OAI to be cleared? Or what do you expect there?

Sanjay Gupta: So Neha, as you know, Torrent does not have firsthand experience with warning letters before this one. So we just check with our peer companies, and it is our estimate based on these conversations that this would take between 12 and 15 months to resolve. So I am talking about the warning letter for Indrad. As far as our understanding goes, we think OAI would need an inspection. So we are working feverishly, speedily to remediate Dahej and invite the FDA for an inspection and I think that would be a required step before we can get to NAI status.

Neha Manpuria: Would you be ready to invite the FDA before the end of this fiscal?

Sanjay Gupta: I would not like to give guidance there because we are working towards it and when we ready, we will invite them. So maybe we will update you during the next call.

Neha Manpuria: On India, Sir, if you look at the industry growth and even Torrent, the volume growth seems to have slowed to low single digits. Is there some impact that you are seeing from factors such as trade generic, etc., which is leading to this slower growth and what gives you the confidence that this growth will improve? Second question on that, would Torrent evaluate entering the trade generic business?

Aman Mehta So the trade generic volumes are ranging anywhere between 6% and 8% is the estimate from recent reports that we understand and even with this penetration, the branded volumes and branded growth in the IPM has been at double digit for this quarter at 11.5%. So we maintain that while trade generics penetration will increase market reach, along with the new Jan Aushadhi Stores, branded volumes should not be significantly impacted. As far as Torrent entering trade generic is concerned, so far, we have not been in this space, but we have not taken a call on it, and we are hoping to evaluate in the future.

Neha Manpuria: My last question, just a bookkeeping question. The tax rate seemed very low this quarter. Is there any one-off there? How should we look at the tax rate for the full year?

Sudhir Menon: I think, Neha, I think, last quarter, the tax rate was roughly 23%, 22% is what I remember, which has come down to 18% this quarter. The only thing which has happened is because of this new tax ordinance coming in there was a reassessment, which was done on the deferred tax liability, which were outstanding and therefore, based on the estimate, whatever was not getting reversed by the time we get into the new tax regime, to that extent, there was a re-computation done at the new rate because that is the rate at which this year, will have to get reversed. So yes, I mean, this quarter and going forward, there would be an impact of around 3% because of that.

Neha Manpuria: Thank you so much.

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

Anmol Ganjoo: This is Anmol. I have a couple of questions. On the U.S., last time, the assessment that you have shared was that the continuing business should see no or very minimal impact and we will feel a pinch in terms of the withholding of new **approvals** and given the developments during the quarter, I know we do not have a lot of experience with these things, but what is the comprehensive assessment regarding the outlook for the U.S. and any mitigation strategies you might have in mind to mitigate the impact?

Sanjay Gupta: You saw that Q1, revenues were $51.4 million and Q2 was $52.4 million, and you also know that in Q1 and Q2, we have had just one approval, which was for a very small product linked to our Derma line. So essentially, what I would explain to you is that the current business is the normal ongoing business. It has several components, including

opportunistic sales as well as, let us say, increases in market share and volume increases. It does not have any price increases, but it has a routine average price declines factored in. So I would say that this is a normal level of business for us. However, the U.S. market by definition is volatile, right? So I cannot kind of point you to a number for the next two quarters because that will depend upon what opportunities come up for taking price increases or additional market share, but on the whole, H2 should not be very, very different from H1 with a couple of caveats.

Anmol Ganjoo: That is helpful, but the idea being that you will be exposed to the market landscape there in terms of erosion, etc. But what are you trying to do in terms of trying to probably move some of the approvals, etc., things that you have spoken about, are those things on track? And is there a possibility of any meaningful downside on this, God forbid, if we were to kind of, if things were to escalate even from here? Or do you think this $100 million to $200 million is pretty much in the bag on a $200 million dollar annualized impact?

Sanjay Gupta: I would not use that expression, but I think from this point onwards, given that what has happened to Indrad and Dahej we do not expect any further downside. I mean it is an ongoing process with the FDA. We are working on it. We have a good line of sight based on the exchanges that we have had with the agency. And now it is a question of remediating, informing the FDA, inviting them for a reinspection and then expecting to get a No Action Required designation from the agency. So I sincerely do not expect a further adverse development at least on the regulatory side. On the commercial side, we are fairly well entrenched with the products that we are selling. We are cost competitive. We have good market shares on most of our products and so I do not expect, let us say, the needle to move a lot.

Anmol Ganjoo: My second question is on the domestic market. The domestic market, we have a reported number of 10% Y-o-Y growth. Last quarter, we had certain discontinuations and advancement of certain financial closing process

wherein we had adjusted the number came to 12.5% versus the reported 9.3%. This 10%, is this a like-to-like number or are there any adjustments that we should be aware of?

Sudhir Menon: Yes. So this quarter also what we said in the opening call is the reported number is 10%. There is a cutoff impact of 1%. And the impact of discontinued business, which we had done last year, the impact is 2%. So Q1, adjusted for these two factors were 13% and Q2 is also 13%. So that is the way to look at the growth for India business.

Anmol Ganjoo: Sudhir last time, you had said that 71% to 72% is the normalized gross margin that we should work with. I mean, this quarter, we have done even better on that base. Would be 8.4% price increase that you alluded to in the domestic market be the large driver of this or are there any factors that we should be aware of?

Sudhir Menon: No. So I think price increases is one factor, right, for gross margins, and I have been saying that as long as 60% of my business is into branded business, there is a price increase, which we take across all the markets in the branded generic space, right? So of course, that is one factor, which has driven. There is no one-off in terms of gross margins, which have come in this quarter. So I would say between 72 and 73 is now what we feel is sustainable going forward.

Anmol Ganjoo: Thank you.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Sudhir Sir, just one continuing from the last question. So in any particular market like India, etc., or any other market, did we take price increase in this quarter where sequential margin expansion happened, because 100 basis point is a decent margin expansion.

Sudhir Menon: Yes. No, also, Anubhav, so the price increases are taken at one point in time, right? For example, let us say, in India, we would take somewhere in H2. Brazil, we would take 1st of April. So the price increase timing would vary across the branded generic market. But your question whether the incremental 100 basis point which has come in, is because of what pieces, I really do not know how to answer that question. The only thing I can say is that there is no one-off which has come this quarter. And the proportion of the business in terms of the branded generic versus the generic is not going to significantly change in H2. So that is the reason I am saying anywhere between 72 and 73 is something which we feel is sustainable for H2 as well.

Anubhav Agarwal: Yes. But I was just asking because it is such a large number. So, my sense was the same as what you were saying that typically companies take price increase in the first Quarter the India business. And actually, you mentioned second half. So I was wondering there.

Okay, so second question is on the other expenses. Typically, other expenses were high in this quarter. Any reason versus its last three, four quarter's trend?

Sudhir Menon: You are right, Anubhav. So last quarter, I think, when this question was asked, I said, if you look at the historical trend on an annual basis, the other expenses have been going up in the range of 7% to 8%. And that is what we expect for this year also. So going forward, I believe the number for other expenses should remain between 555 Crores to 560 Crores for the remaining quarters. That is a correct number to be looked at.

Anubhav Agarwal: But anything in particular was there for this quarter?

Sudhir Menon: No, not really. I think some of the marketing expenses that showed up in this quarter, which would continue the Q1 versus Q2, Q1 was a little lower, I would say. But the run rate of which I look at now is, it should between 555 Crores to 560 Crores for Q3 and Q4 as well.

Anubhav Agarwal: I had a question on Losartan now. So Sanjay Sir mentioned that we are not expecting any more recalls. But when we track this drug for you on a weekly basis on IMS volumes, we clearly see that volumes are significantly coming down for us. So I just wanted to check that has that effect fully been reflected in second quarter, $52.4 million sales? Or that lower volumes reflected in IMS will reflect in the next quarter?

Sudhir Menon: No, so I think, Anubhav, what we are saying is that, so we had discontinued Losartan, right, after the all event happened. And Q1 towards the end of the quarter, we had relaunched in a very cautious way because we said we want to wait and see how the whole Sartan story spans out. And only if we feel comfortable, we will start taking more API for taking more market share in Losartan H. So we have not incrementally done anything. You are right. I mean, from IMS perspective, the volumes will show a decline. And as far as our actual market share is concerned, it is not that great, I would say, in terms of Losartan.

Anubhav Agarwal: So I got confused in one thing. So when IMS shows a certain volume, we are not able to segregate that. Is this the new volume that you guys have sold? Or this is still reflecting the old volume? So when you relaunched, after getting a relaunch, is your market share what you had is largely stable or that volume is also coming down?

Sanjay Gupta: No. So overall, our business on Losartan and Losartan H has nothing in common with the business that we had before. We do not give information by product, but what I can definitely tell you is that it is a much, much smaller business. And basically we are wetting our feet to see how this thing plays out before we ramp up our share.

So IMS always has a lag effect or whatever you say, it does not correlate very well period-to-period in general numbers, but our ambitions for Losartan are very low.

Anubhav Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Hari Belawat from Techfin Consultants. Please go ahead.

Hari Belawat: This is regarding, a lot has been talked about the U.S. FDA. First, in March, you noted the issue for Dahej facility, then again in October for Indrad facility. What types of observations are there? I mean, is it data integrity or just some hygienic or some cleanliness or what type of observations are there from U.S. FDA?

Sanjay Gupta: So I think the observations, it can be obtained from the FDA in a redacted version, but the observations essentially are not related to data integrity. That is, they are related more to procedural matters linked to process validation as well as investigations, and we are addressing the same. So, there are no data integrity issues in the observation.

Hari Belawat: Well the market always takes some knee-jerk action, any type of observations from U.S. FDA, normally, we see the share prices going down and all these things. And I think company must be taking action now, at least, it should not come and Dahej and these units should be out of this OAI.

Sanjay Gupta: Yes. I think in answer to a previous question, I mentioned the steps that we are taking to get out of this position and then it is our expectation that normal process would take between 12 to 15 months.

Hari Belawat: Okay. Just another linked one is, your revenue from U.S. is reduced by minus 3% in Q2 FY2020 compared to Q2 FY2019. Is it because of these OAI observations? Or any other reason that business in U.S. is reduced?

Sudhir Menon: No. So I think, after the OAI comes in, your new product approvals get stuck. So I think that is one of the reason why you are seeing de-growth happening as far as the existing products are concerned.

Hari Belawat: Thank you Sir.

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

Nitin Agrawal: Sir, two things. One is on the U.S. You talked about, I mean, there has been a ramp-up in filings to NDA this quarter. You talked about acceleration filing going ahead. So what is the strategy here? Are you looking to file from the existing facilities or you are using other facilities largely for the filing?

Sanjay Gupta: So we have 4 formulation facilities in the Torrent universe. So one is, of course, for OSDs, we have Indrad and Dahej. For dermatology, we have the Pithampur facility. And for liquids, we have the U.S. facility. So we will be filing from all 4 facilities in the remaining part of the year, and our targets for annual filings remain between 15 to 20 filings.

Nitin Agrawal: Okay. And in terms of approvals, now after the Indrad warning letter sort of crystallize, I mean, how should we look at new approvals across different facilities, including your partner launches over the next 12 to 18 months in the U.S.?

Sanjay Gupta: So in calendar year 2019, I do not anticipate any approvals. So I think, we will start getting approvals from partner products as well as from the other facilities next year. And as soon as we have some good news on Dahej, initially, we would get approvals that are filed from that site. So that will be the normal, I would say, sequence of events. In terms of timing, yes, you should see, let us say, single-digit approvals in 2020 calendar year.

Nitin Agrawal: Okay. That is helpful. And Sudhir, on the balance sheet side, what has been the reduction in debt you have achieved? What the net debt which is there as of September??

Sudhir Menon: So the reduction as far as debt is concerned is roughly 440 Crores. Some of the major repayments are coming in Q3 and Q4. And in terms of net debt to EBITDA, we stand at 2.07.

Nitin Agrawal: When do you see a meaningful sort of reduction in our interest cost will do reflect in our numbers?

Sudhir Menon: That is what I said. Q3 and Q4, we have a sizable repayment coming up.

Nitin Agrawal: So maybe from Q1 FY2020 onwards is where probably we should see some impact on our interest cost lines going forward?

Sudhir Menon: Yes. So both this year, FY2020 and FY2021, there is good amount of repayments, which are happening, and that is what we have been saying that post FY2021, our net debt to EBITDA should be very close to where we have started before acquiring Unichem.

Nitin Agrawal: Perfect. Lastly, on the India business, while there has been still a lot of ambiguity around why the volume growth in the market has slowed down, given the target for us, I mean, this is a large play for us, right, an important play for us. I mean, how do we look at this whole lot of slowdown in volume growth in the last few quarters? And structurally, do you see any challenges in the market to a sustainable long-term volume growth in this business?

Aman Mehta: If you see sequentially quarter-on-quarter, the IPM, overall growth has come back to double digits. And as far as our base is concerned, which is more specialty driven, chronic and subchronic growth has also come back to double digits. So going forward, we think this growth will continue at similar levels. Trade generics penetration right now is somewhere between 6% and 8%, but branded volume should not be significantly impacted by the trade generic. So we do not see any major structural change going forward.

Nitin Agrawal: If I can squeeze in one last one. So in Germany, there has been some sort of amount of slowdown, which has happened in this year versus the growth that you were achieving sort of in the previous years. Anything we just

changed apart from serialization? And how should we look at this business going forward?

Sanjay Gupta: I think you should look at this business, intrinsically, last 5 years has been double-digit growth. I do not see any changes. It should be a very high single-digit or double-digit business. Unfortunately, first half of the year, we continue to have the supply issues and the supply issues are linked to tamper-proof packaging, serialization and some quality problems and at some of our partners. So I look at it as a, let us say, a temporary setback. And in terms of getting back to normal, I would guide you towards October - November made to everything to be normal again.

Nitin Agrawal: Thank you. Best of luck.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Sir, which quarter did we start this discontinuation of products?

Sudhir Menon: Last year, first quarter.

Aman Mehta: You are referring to the India business, right, yes?

Chirag Dagli: Yes, Sir.

Sanjay Gupta: Yes, Q1 last year.

Chirag Dagli: So after this quarter, Q1 FY2019, you are saying?

Aman Mehta: Yes, that is right.

Chirag Dagli: Okay. So, insofar as Unichem margins are concerned, how far are we in the journey to improve those margins? Are we through? Is there some way to go? I do not know if you can just qualitatively give us some perspective

of how far are we versus the peakish margins that business could have achieved?

Aman Mehta: As far as the integration is concerned, we are largely done with the cost synergies, as we have mentioned last time. Going forward, there will be only incremental improvements in the cost synergies. So we are driving revenue synergies for our key brands, the top 10 brands that were acquired. They have a lot of potential across different specialties, which we are now driving using the Torrent base of specialty. So the next few months will be focused mainly on driving the revenue synergies.

Chirag Dagli: So are we close to the pre-Unichem margins, Sir, for the business as a whole now for the India Business?

Sudhir Menon: So Chirag, we do not talk about margins, please.

Chirag Dagli: But just qualitatively, Sudhir.

Sudhir Menon: No, I think it is better for you to see the margin improvement, which happened in FY2019 versus FY2018. We have said that the significant part of this margin improvement has come primarily because of the Unichem cost synergies. But from a company policy perspective, we will not be able to talk about the margins.

Chirag Dagli: Okay. Fair point. And in this price growth that you mentioned of 8.4%, is there a mix element also to this?

Sudhir Menon: Yes, it is possible. We will have to see, yes.

Chirag Dagli: Okay. I was just looking at the cash flow statement for the first half. It seems like operating cash flow of 716 Crores, capex of 149 Crores, and CF of 567 Crores. Is there anything which is unsustainable in this first half of cash flow?

Sudhir Menon: No, I do not think so, Chirag.

Chirag Dagli: So this run rate pretty much is something that we should expect as maintainable, right?

Sudhir Menon: Yes. The only thing I see is, in H1, there is more release of these creditors, which should not be the case going forward. So I would say the cash flow from operations should only improve in H2.

Chirag Dagli: Perfect, thank you so much.

Moderator: Thank you. The next question is from the line of Sahil Mukherji from Nomura. Please go ahead.

Saion Mukherji: Sudhir, you mentioned that the other expenses would remain largely range bound. Now given the remediation costs, is not it that you would incur some additional cost because of warning letter resolution or…

Sudhir Menon: No, Saion, we are not looking at any significant cost addition because of this all remediation program.

Saion Mukherji: Okay. The second, on your strategy on ANDA filings like your R&D cost is like 130 Crores, 140 Crores - I mean, slightly longer term, how do you see this sustaining, I mean, if you look at next year or the year after - Is it something you think will kind of remain at these levels as you look forward to the portfolio that you are trying to file?

Sanjay Gupta: So I think, in the past, we have mentioned that our goal is to keep our R&D in the range of 7% to 8%. So inside this 7% to 8% of sales, we have internal metrics as to which markets we allocate the R&D.

In terms of priority, we allocate resources to the India market, to the U.S. market, but also we have dedicated pools of resources available for Brazilian and German markets. Besides that, there is a lot of common development across all geographies. So we have, let us say, streamlined our grid last few years, with increasing the focus on the branded generics

and other markets other than the U.S. But at the same time, the U.S. projects have become more complex, so by definition, more expensive.

So all in all, I would say, you should expect R&D to remain between 7% and 8% of sales.

Saion Mukherji: 7% to 8%. So in absolute terms, they are likely to go higher, right?

Sudhir Menon: Yes.

Saion Mukherji: I mean, currently, the numbers are not lower. Okay. Just one question there is a 150 Crores item on Right of Use assets. Can you just explain what is it on the balance sheet?

Sanjay Gupta: 150 Crores. Can you just repeat the question, please?

Sudhir Menon: Saion, Can you repeat the question?

Saion Mukherji: Yes. Under the noncurrent assets, there is a150 Crores right of used assets.

Sanjay Gupta: Can you repeat the question?

Saion Mukherji: Yes. If you see the balance sheet and consolidated statement of assets and liabilities, there is an item called right of use assets.

Sudhir Menon: Yes. So that is a new accounting standard, which got implemented on 1st of April, right, on the lease.

Saion Mukherji: Okay.

Sudhir Menon: So what has happened is, yes. You know that, right?

Saion Mukherji: Yes and just one last one. A few days back, there was a disclosure on the pledged shares by the promoters. Any color you want to give like what is it for and all?

Sudhir Menon: So it is not a pledge, number one. What we are saying is there was a change in this takeover code regulation, wherein the definition of encumbrance has been widened to include, even if there is a non-disposable undertaking, which is given by way of a covenant or negative covenant in your loan agreements that, that should also be considered for a disclosure purposes, so in most of the borrowing agreements, which we have, there is one covenant, which we have agreed with the lender that the promoters will continue to hold at least 26% of the share capital. So that is only an undertaking which has been given, but there is no pledge or lien which is there on the shareholding of the promoters.

Saion Mukherji: Thank you.

Moderator: Thank you. The next question is from the line of Nimesh Mehta from Research Delta Advisors.

Nimesh Mehta: A lot of my questions have been answered. Just one thing about the price increase that we have taken in the domestic business, it will be great if you can let us know whether it has been in the Unichem portfolio or which kind of products have been largely taken the price increase?

Aman Mehta: So we do not look at the 2 portfolios separately. It is the overall the total combined portfolios average, which is coming up to this number, 8.4%.

Nimesh Mehta: But what I am trying to understand is it more opportunistic? Or this was like normal routinized price increase that you take because 8.4% is a large number, which is there.

Sudhir Menon: So Nimesh, I think the price increases what we have been saying is taken based on the competitive landscape, which is there. So as long as we feel that the competition has also been taking price increases similar to us in those products, then we take price increases. However, if the competition landscape does not allow us to take price increases, we do not take price increases.

Nimesh Mehta: So if I were to understand what you said right now, do you mean to say that the industry-wide price increase is also tender or for the covered markets that we are in?

Sudhir Menon: Yes. So it is not necessary, right? I mean we cannot directly compare it with the industry because people have different portfolios and focus on different.**I**t all depends upon the way you look at competition, right? I mean, let us say, if you have leadership in certain products, then you do not mind taking some price increases in those products, right? But if you are, let us say, #3 or #4, you will be more cautious with the relevant competition what they are doing and then take a call on the price increases. So that is the way we look at price increases, Nimesh.

Nimesh Mehta: Okay. I would not believe, but I just wanted to know, is this higher than the covered markets or lower than the covered markets?

Sudhir Menon: We have not analyzed it in that way, Nimesh.

Nimesh Mehta: Just one last thing I wanted to know how many pending approvals are there from the Dahej facility as of now?

Sanjay Gupta: So we do not split the facility, and I do not think we have disclosed it. So I actually gave the overall number. So as of today, we have 42 ANDAs pending approval and 6 tentative approvals and a majority of these are from Indrad and Dahej.

Nimesh Mehta: Fine, thank you very much.

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

Abhishek Sharma: Just two clarifications. Sir, when you say 12 to 15 months to rectification, should we look at it from the date of issuance or from the issuance of warning letter?

Sanjay Gupta: I was quite careful to tell you that Torrent does not know first-hand experience on these issues. We have learned from our consultants and from others that it should take 12 to 15 months. And when I say 12 to 15 months, I mean, as of from the OAI. So the OAIs were obtained in the July, August timeframe.

Abhishek Sharma: And this is the time for you to invite FDA back? Or is it the total time that you anticipate in the rectification and for you to start getting approvals?

Sanjay Gupta: So it is for all the steps involved. That is what is our estimate is. So the steps involved are firstly for us to respond to the FDA's warning letter or the OAI, then for us to execute upon the remediation plan, which is proposed by us. Once the remediation plan is executed, then we would invite the FDA for an inspection and then you have to schedule the inspection and subsequently, the status of the facility can change. So when I was giving you this rough time line, I was including all the steps and I was kind of starting with time line as the date of the OAI.

Abhishek Sharma: The other question was around debt. How much debt is coming up for repayment in second half, Sudhir Sir?

Sudhir Menon: This should be more than 443 Crores, which we have paid in H1, Abhishek.

Abhishek Sharma: Yes. You are quantifying that number?

Sudhir Menon: No. We are not quantifying that number.

Abhishek Sharma: Okay.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir, just on the warning letter with respect to Indrad facility. Now both the 483s more or less have similar observations and definitely, the

presumption is that company would have worked on the 483s in more or less similar manner itself so still one of the facilities gets escalated to warning letter while the other one can get cleared probably through reinspection, so any colour on that?

Sanjay Gupta: Actually, I would not like to speculate on the reasons why the FDA chose to give us a warning letter on Indrad. I can only point out that the Dahej inspection preceded the Indrad inspection by almost close to a month, and the OAI date for Dahej was 12th of July and the OAI date for Indrad August 5. So I think based on the timing and the usual process of the FDA in terms of the number of days they take to respond or to give you a warning letter, we are, I mean, we are noted like everyone that we have not got anything on Dahej and we have got one on Indrad. So I would not like to speculate further as to what their reasons are. Our job is to rectify and remediate, and we are doing that for both facilities and our expectation is that we will be ready with Dahej sooner than what we would be ready for Indrad.

Tushar Manudhane: Okay Sir.

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

Damayanti Kerai: Thank you for the opportunity. A few clarifications, Sir, first of all, can you tell us about the outlook in Brazil? It has been very volatile over the last few quarters. So is there some element of seasonality? How should we look on the full year basis in the years coming?

Sanjay Gupta: I think the close up data, which is equivalent to IMS or AIOCD, is showing right now that the market is growing in the branded generic space about 13% and we are also growing at 13%. However, when you look at our internal sales for the last two quarters, it has been mid-single digit. So the overall H1 growth is coming up to about 7%. So I think there is a delta between the primary sales or primary growth and the secondary growth

that we are seeing. What we would, I mean, I would expect the growth rate to be as higher. What we have done is we have been deemphasizing our tender business in Brazil. So because of which, that kind of impacts the growth rate by, let us say, a couple of percentage points. I do not know if I mentioned in the previous call - that this business is extremely volatile. It accounted for about 10% of our business in Brazil and what we have progressively doing is actually discontinuing this business. If we remove the impact of the tender business, you add a couple of percentage points to the growth rate. Going forward, I would expect the Brazil is, intensively, a double-digit growth market. We have not been on double digit for the last few quarters. While it will remain volatile, on an annual basis, you should see a good growth rate in line with the close-up data.

Damayanti Kerai: In line means kind of double digit which you just mentioned similar to that range?

Sanjay Gupta: Yes. Our objective is to grow, I would say, double-digit in Brazil.

Damayanti Kerai: Second clarification on Germany. So you mentioned there is some impact of serialization but if I understand correctly, the deadline for serialization already passing February, right, so why we are seeing impact now?

Sanjay Gupta: So what is happening is that some of our suppliers are facing challenges. So I give you a concrete example. So Germany passed a law starting in April that we have to have tamper-proof packaging. So tamper-proof packaging essentially involves in our old pack with certain stickers on top, which kind of prevent those boxes from being opened. Unfortunately, when we send out the supplies in the market, the stickers were not sticking properly and so you would have a situation with the boxes where the sticker was kind of unstuck and that was enough for the regulator to kind of not authorize us to sell the products. So it took us a little bit of time to remediate that with the supplier to find better quality, let us say, adhesives that will take care of it. So that is just one example and then some of our

partners were not ready with serialization on time and which resulted in delays for us to get the serialized codes.

Damayanti Kerai: Sure. Lastly, I think, I had missed out the explanation you gave for a 3% kind of volume growth for India. Could you, again, please repeat that?

Aman Mehta: 3% growth is more or less in line with the IPM growth. In fact, it is slightly higher. IPM growth is at 3.2% and Torrent is at 3.4%. So overall, I would say, if we see the growth quarter-on-quarter, there is an improvement. So we expect the full year IPM growth to be at double digit as well. Volume growth should not be impacted by or affected too much by the trade generic in Jan Aushadhi Stores.

Damayanti Kerai: So we should be also seeing where it gets better than market volume growth for the full year?

Aman Mehta: I may not be able to comment for the full year, but the trend so far has been above market. So we should not see any deviation from that.

Damayanti Kerai: Thank you.

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

Rahul Sharma: Just wanted to ask, are there any pending ANDAs which we have got the approval and could be launched in the U.S. market?

Sanjay Gupta: Yes actually. There are few which we have not launched.

Rahul Sharma: Are they meaningful?

Sanjay Gupta: I would say they are not very meaningful otherwise I would have launched already.

Rahul Sharma: Thank you.

Moderator: Thank you. Next we have a follow-up question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the follow-up. Sir, Brazil, just one clarification. You mentioned 10% to 12% is tender business, which consciously you were reducing, and we are expecting double-digit in future. Is it a function of new product launches or I mean, what gives us that confidence?

Sanjay Gupta: So in Brazil, our objective is to launch 2 to 3 products a year. So this year, also, we launched Aripiprazole in the beginning of the year and then we would launch one more towards the end of the year. So new products, combined with just the volume growth of the market and pricing growth that happens every year in April, should put us, I would say, close to double-digit at least so high single-digit, double-digit, and also, we have a small generic business in Brazil, so which we started developing. So the combination of, let us say, new launches, pricing increases, volume increases plus our focus on the generic business should all bring together close to double-digit growth.

Prakash Agarwal: For the full year, you are saying. And first off, we have 4%.

Sanjay Gupta: Sorry?

Prakash Agarwal: We are saying guiding for the full year versus 4% growth in the first half.

Sanjay Gupta: I was telling you only H2.

Prakash Agarwal: Understood. Fair enough. Sir, secondly, I just missed it. If you already said this Levittown facility, is the project on track and in terms of getting back in shape by the end of this year or beginning of next year?

Sanjay Gupta: Yes. It is on track, so some time Q1, maybe mid or end of Q1 next year, we will be starting sales.

Prakash Agarwal: Understood. And in terms of, Sir, volume slowdown, I mean, I think many have spoken about it, but if I see product level data that we get from AIOCD, specifically, Losartan and Carnisure I mean, these are specifically having high single-digit kind of volume loss. And specifically, Losartan, could it be due to the Sartan issue, which is spreading in India also, if you could throw some light there?

Aman Mehta: No, our brand Losartan in India is not affected by the Sartan issue. So the growth for the quarter for Losartan is 7%. And so the covered market growth is 2%. So this is much faster than almost all the other brands. And if you break it down SKU-wise, Losartan and Losartan H, the 2 major SKUs, Losartan is doing much better than Losartan H. And we will also be able to get Losartan H back on track soon as well.

Prakash Agarwal: And Carnisure Sir?

Aman Mehta: Let me get back to you separately on that.

Prakash Agarwal: Thank you.

Moderator: Thank you. Next, you have a follow-up question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Yes, one question on the India business. So the adjusted growth for us is about 13%. If you look at, let us say combined, our top 5 or top 10 products, can you just give us an indication how they are growing right now? I mean what is, if total portfolio is growing 13%, how are they growing, both value and volume?

Aman Mehta: So if I go product-wise, if I just mentioned the top 5, the quarter growth for Shelcal is 10%; Losartan is 7%; NEXPRO is 21%, Chymoral is 5%; Azulix is 18% and Nebicard is 16%.

Anubhav Agarwal: Sir, this is value growth and what about volume growth in this product?

Aman Mehta: We do not look at brand-wise volume growth. We look at it overall.

Anubhav Agarwal: Sir, even if you do not give me product wise, I am just trying to understand, like these are like largest products for us, total as a portfolio, how are they growing when total company is growing at Indian Business at 13%?

Aman Mehta: Yes. So if you break it down therapy-wise, our biggest contributor is cardio. So that is our highest therapeutic contribution overall. So the cardio market is growing at 12% and we are on par at 12%. Our second largest contributor is gastro. Gastro market is growing at 11% and Torrent Gastro portfolio is at 19%. So we mentioned this last time also that the Gastro portfolio is doing much better than the market this year, driven by primarily our 2 major brands, NEXPRO and Veloz. So the momentum should continue for the next few quarters.

Anubhav Agarwal: I have a couple of questions for Sanjay Sir. Sir, On Brazil, you mentioned we are discounting tender business. Can you just elaborate a little bit because we are surplus on capacity. Dahej is underutilized for us.

Is it that the payments are not coming on time? Or, it will be EBITDA positive business, right? So what is the reason of discontinuing the business?

Sanjay Gupta: So essentially, there is a few challenges in that business. The most challenging is actually market related. So the Brazilian government has been facing fiscal issues. And as a result of which, there are intrinsic problems of financing for the municipal, state hospitals. As a result of which, there are market-specific challenges on new business generally contracting this business up for 2 years. And what we are seeing is that the overall size of the market and the tenders has not been that great, and there is increasing pressure on prices.

So we are not stopping it like that, but we are bringing down our sales progressively, and we are also making sure that we do not take any more tenders that do not meet our margin threshold.

Anubhav Aggarwal: Okay. Clear. And second was on the Dahej facility. Now completely followed what you mentioned about the timing that it was inspected before Indrad and where it came earlier, but just the sheer fact that the warning letter of Indrad, FDA on the outer specification observation mentioned that you have a similar observation in Dahej, does that incremental point your discussion with consultant suggest that, let us say, you would parallelly do a rectification in Dahej and parallelly do at Indrad, andFDA may not come for reinspection at Dahej till the time both the facilities happened. So we have seen several other companies who have these outstanding issues. When the observation was similar, they have not come to re-inspect one facility.

Sanjay Gupta: Actually, truthfully, I would not like to speculate what the FDA would do or could do or will be doing. So I think as a company, it is for us to follow the instructions that we received from the regulator. And so far, our view on Dahej is that we should remediate. So we are remediating both facilities in parallel. So there is no difference on that point. Dahej would be remediated earlier, and then we would seek the agency's inspection. When they will come, what can we do? - I think we have to watch out for that, and we will communicate as and when things happen.

Anubhav Aggarwal: Thank you very much.

Moderator: Thank you. We will be able to take one last question. We take the last question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Sorry, one follow-up. Sir, you mentioned that the India product portfolio has been discontinued from first quarter of FY2019?

Aman Mehta: Yes, that is right.

Neha Manpuria: Then, it is still impacting our sales growth, right? In which case, it is already there in our base for the previous year?

Aman Mehta: So the base was discontinued last April, and it is slowly tapered down throughout the year. So that, impact, would get neutralized by the end of the year.

Neha Manpuria: Okay. So this impact will still continue for the next two quarters.

Aman Mehta: It will get lesser and lesser each quarter. So the last impact will be in Q4 of this year.

Neha Manpuria: Thank you so much.

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

Sudhir Menon: Thank you for all the participation for Q2 and if there is any follow-up questions. I think Sapan can be contacted for that. Thank you.

Moderator: Thank you very much. On behalf of Torrent Pharma Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.