"Torrent Pharmaceuticals Limited Q3 FY2020 Earnings Conference Call"

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MANAGEMENT: MR. SUDHIR MENON- CHIEF FINANCIAL OFFICER – MR. AMAN MEHTA- CHIEF MARKETING OFFICER (INDIA BUSINESS) - MR. SANJAY GUPTA- EXECUTIVE DIRECTOR INTERNATIONAL BUSINESS

Moderator: Ladies and gentlemen, good day and welcome to Torrent Pharmaceuticals Limited Q3 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 call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Gupta. Thank you and over to you sir!

Sanjay Gupta: Thank you Stanford. Good evening, everyone, and welcome to our Q3 FY2020 earnings call. I will take you through some of our key financial highlights of Q3 and make some comments on our key markets.

Q3 revenues were 1,966 Crores down by 4% on a year-on-year basis. Q3 revenues of previous year included onetime patent related settlement income, adjusted for this Q3 was down by 1%. EBITDA was at Rs. 591 Crores up by 6% on a year-on-year basis, again adjusted for one time impact of patent related settlement and litigation cost in the previous year, EBITDA growth stands at 13%.

Now some comments on our key geographies. India contributed about 44% of our total revenue in this quarter compared to 42% in the previous year. India revenues stood at Rs.871 Crores, up by 5% on a year-on-year basis. Adjusted for one-off, the growth is at 8.5%. The one-off pertains to the integration of stockist of Torrent and Unichem in Q3 FY2019 and the base impact of discontinued products.

As per AIOCD, Q3 growth is at 11.9% versus IP growth of 9.5%. Data is quite similar on a MAT basis. Torrent is showing a growth of 11.7% versus an IPM growth of 9.8%. Q3 has also witnessed the launch of high potential new products from Torrent, such as Ticagrelor, Vildagliptin and Remogliflozin. These products are off to an encouraging start, and we will share data on these products in the quarters that come.

The number of Torrent brands with revenue of more than Rs.100 Crores today stands at 9, of which 3 brands are at above Rs.200 Crores as per AIOCD MAT December 2019. These are Shelcal at Rs.451 Crores, Nexpro at Rs.221 Crores and Losar at Rs.208 Crores. Specialist prescriptions contribute to almost 73% of overall Torrent prescriptions, and Torrent stands at the sixth rank amongst specialists as per the SMSRC prescription data set. As of December 31, 2019, Torrent PCPM in India stands at Rs.7.2 lakhs with a MR strength of approximately 4,000.

Moving on to the United States, the U.S., Q3 sales were at $51.5 million for the quarter. At the end of Q3, we also had 45 ANDAs pending approval with the FDA and also 6 tentative approvals. Regarding our manufacturing facilities, Dahej continues to be under OAI. We have submitted our CAPA action plan and are currently in its implementation phase. We expect an FDA re-inspection of Dahej in the middle of 2020. For Indrad and Levittown, you will recall that we had received warning letters in October 2019, and we expect to take about 15 to 18 months from the date of the warning letter for resolution of these matters.

In Germany, our sales were EUR 27 million, down by about 16%. The number of existing and new tender wins has not been impacted. What has been impacted are the product releases from our German warehouse where we have a significant backlog. Torrent has recruited additional qualified personnel to help us accelerate this process, and we expect to return to a regular supply situation by the end of March 2020. Fundamentally, I would like to highlight there is no change in the strength of our German business.

In Brazil, our Q3 sales were BRL 108 million, up by 23% on a year-on-year basis. On a MAT basis close up, which is the equivalent to IMS in Brazil, is showing a Torrent growth of 13.4% versus a covered market growth of 8.6%. Growth is primarily driven by market share gains in branded generics and generic-generic segment. We expect, over a longer period, our internal growth will be in line with the secondary growth rate as reflected in close up. We had also launched a new product in April 2019, Aripiprazole, which has shown good growth and is currently reflecting a market share of 14%. Q3 R&D spend at Torrent was Rs.110 Crores versus Rs.135 Crores in the last year.

I would like to conclude by saying while Q3 revenues were soft due to certain temporary issues, margin improvement continues. For the U.S., the site resolution work is progressing as per plan, and we continue to ramp up our ANDA pipeline at a steady pace. We expect Germany to be back on track by the end of March 2020.

Stanford, we can open the call for Q&A now.

Moderator: Sure thank you Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity good evening to all. First question is on the India growth, if you could split it by price volume and new introductions?

Aman Mehta: The India growth volume has been 1.8%, price has been 8% and new introduction has been 2%.

Prakash Agarwal: So this adds up to around 12% growth, this is as per AIOCD?

Aman Mehta: Yes as per AIOCD.

Prakash Agarwal: Why do you think the company's growth is lagging the AIOCD growth, why the mismatch?

Aman Mehta: If you look at it on a MAT basis the growth is more or less in line. This quarter what we are seeing is that just you can recap from the opening speech we have completed our final leg of integration from Unichem portfolio. We have now stabilized the strength of MR's of 4000 so during this process certain brands that were shifted or de-focused would have had some loss of momentum and these are not going to be future focus brands, so that is one of the key reasons and we expect that the key focused brands should over the next few quarters neutralize this impact.

Prakash Agarwal: Okay but would not like to call anything specific for the quarter which has led towards single digit growth, I mean would the base be the only reason or like there are so many events around which could have been impacted?

Aman Mehta: If you look at the top brands even the top 20 brands, the external indicators are more or less same as the earlier quarters. So brand wise and growth lever-wise, there has been no fundamental change except some regional impact which we did see in Q3 but that was more of a onetime impact particularly in the North and East.

Prakash Agarwal: Understood. Secondly on the new launches which you talked about Ticagrelor, Vildagliptin and Remogliflozin, So I understand these are just been launched but what are internal expectations and would that help us going forward for double-digit growth, I mean, how big these brands could be going forward?

Aman Mehta: Again it is quite early to comment on how large or how big the market of these brands would but this beginning of month or few weeks have been encouraging for all three of these, particularly for Ticagrelor and Vildagliptin, Remogliflozin obviously there is only three players. So let us wait a few months or by next quarter we will have a better idea.

Prakash Agarwal: Lastly on the free cash flow generation and debt reduction if you could just update this?

Sudhir Menon: I think Prakash we are on track, so I think by March 31 , 2020 we should be in terms of net debt to EBITDA, we should be below 2, what we had indicated earlier as well. So that is pretty on track.

Prakash Agarwal: Okay which means net debt of how much are we assuming?

Sudhir Menon: I do not have the numbers right now, I think in terms of number we should be around 1.8x kind of a number.

Prakash Agarwal: Okay, you had given some number in last call about 900 Crores to 1000 Crores net debt deductionthat is also on track?

Sudhir Menon: Yes sure.

Prakash Agarwal: Thank you. I will join in the queue.

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

Damayanti Kerai: Sir I did not understand what has led to our issue in Germany, can you please elaborate that?

Sanjay Gupta: Sure, in Germany we have upgraded the SOPs to release products from our warehouse. So we have our Quality Control Lab in Germany as well we had two qualified personnel to release products. But as a result of these upgradation of these procedures for release of products we have had a backlog so while we have product lying in the warehouse due to the new process we have not been able to release it. So it is supply related difficulty. What we have done is we have hired additional 3 or 4 QPs to accelerate this process and we expect this to be normalised by March.

Damayanti Kerai: Okay so just due to new SOPs we are seeing this backlog and as you said there is no change in the fundamental per se?

Sanjay Gupta: Yes no change in the number of tender wins that we have on our hand as well on the new tenders that we have won during the quarter so, nothing on the demand side but problem on the supply side which has been resolved by hiring of additional personals which are in place today.

Damayanti Kerai: This is regarding your Brazil business so last quarter I remember you mentioned that now we are taking less of said tender and gradually we will reduce that, so that continues, right?

Sanjay Gupta: Correct. This quarter’s tender business is less than 3% of our business, so the major I would say if you would look at the split the trade business is about 92% this quarter, the generics business is about 6% and the tender business is at 2%. On a year-to-date basis the trade business is at 88%, the generics are at 6% and the tender is at 6%.

Damayanti Kerai: That is broadly from my side. Thank you.

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

Anubhav Agarwal: Good evening. Sanjay Sir some more clarity on Germany side, what was the trigger which required change is SOP?

Sanjay Gupta: So essentially, there is audit process which is done by us internally. So these SOPs has not been updated and as a result of what we have experienced in other geographies has been on an internal mission to upgrade everywhere. Unfortunately it leads to a lot of additional work in the country and we had some difficulties in recruiting additional personnel and we felt the full brunt of that in this quarter. We have new people in place since January and we expect backlog to be cleared up. I would say it is mostly an internal vigilance and also in consultation with the authorities in Europe we felt that there was need to upgrade ourselves.

Anubhav Agarwal: Just to understand this, you have upgraded the SOPs and now you require more personnel because it requires that whatever inventory you have that needs to checked against your new SOP, that is why you require more people?

Sanjay Gupta: There is an enhanced burden of documentation and there is a higher threshold of documents that we require from all our suppliers so Torrent is just one of the major suppliers for German business. We also have a lot of third party contracts where we represent more than 15 companies in Germany for their products. Overall, there is a higher level of requirement to release products in Germany. I think we are at the forefront of this and we have taken this bull by the horns and we are tackling with it. Other companies are experiencing or would experience necessity to upgrade the European procedures in the quarters that come.

Anubhav Agarwal: Okay but this has nothing to do with the serialization?

Sanjay Gupta: Yes I think we have resolved that issue but unfortunately we were working on this and this came to the forefront in Q3.

Anubhav Agarwal: I have another question on Indian Market Sir. Just wanted to understand the comment on the press release where it talks about the adjusted growth is higher because of the base was higher because of the integration of Torrent and Unichem stockiest in Q3 FY2019, just some more qualitative commentary will be helpful here?

Sudhir Menon: Anubhav last year Q3 when we had done the stockist integration there was the first time billing which was done let us say for TPL products to ULL stockist which were not common and for ULL products to TPL stockists and therefore, the sales were little higher than the historical trend which we had between Q2 and Q3. So that impact is what we are talking about the impact of stockist integrations because what typically happens is Q3 you do a first time billing and that gets neutralised in the subsequent quarters.

Anubhav Agarwal: Okay. Thank you very much.

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

Neha Manpuria: Thank you for taking my question. Sir, on the India growth. If I were to look at the 8.5%, there was a comment in the previous quarter that the one-offs that we are seeing because of discontinued product will start coming off gradually, which would imply the growth rate should improve, adjusted for all one-offs. When do we go back to a normalized Quarter in the India business? Would it be fourth quarter? Or would it take a couple of more quarters to go back to the double-digit growth momentum?

Aman Mehta: The discontinued impact should be much smaller in Q4 and then from Q1 it will be all like-to-like growth.

Neha Manpuria: Okay Sir and is it right to assume that we go back to double digit in starting FY2021?

Sudhir Menon: Yes that is what we hope, Neha.

Neha Manpuria: Sir in terms of the underlying business is there any part of Unichem portfolio that you think requires additional work by the way of improving growth?

Aman Mehta: So far what we have seen is that out of the top 10 brands almost all of them have turned to a positive growth trajectory and that is with much more concentrated field force. So it is a matter of time that the customer base is aligned and that should then start showing of our market growth rates. So we are doing pretty much replicating the exact Torrent base model in the Unichem portfolio's as well.

Neha Manpuria: By when do you think you will be able to higher than market growth, would this be a couple of quarters or it would be more gradual?

Aman Mehta: It would be few quarters but many products we are seeing very strong traction like Unienzyme, Vizylac. Unienzyme is almost Rs 100 Crores brand, Vizylac is a Rs 50 Crores brand now. So as these brands pick up more momentum that should add to the overall portfolio as well.

Neha Manpuria: Understood. Thank you so much.

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

Hari Belawat: Good afternoon Sir. This is regarding U.S. FDA inspections. You said the Dahej unit, you have OAI. And then in November, notice was issued for this Levittown unit in Pennsylvania. There are also some water problems. CGMP problems that is also a problem. And Indrad unit also, in October, there's a letter for that and that the same unit was issued OAI in August 2019. Sir, what is the status on, I think, U.S. FDA observations in all the manufacturing units?

Sanjay Gupta: So we have observations in three units and overall Torrent has five units which are approved by the U.S. FDA, so as indicated that we expect Dahej OAI re-inspection to be in the middle of 2020. For Indrad, the two event you mentioned is actually a part of the same so the OAI led to the warning letter in October 2019 and same for Levittown also there was a warning letter in October 2019 and now what we expect is from the warning letter for about 15 months to months before the facilities come back to a normal status.

Hari Belawat: Does it affect our exports to US? Or only new approval may be affected?

Sanjay Gupta: You are right only new approvals get affected - Current products are not impacted.

Hari Belawat: Thank you from my side.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capitals. Please go ahead.

Manoj Garg: Good evening to all of you and thanks for taking my question. Aman, so this is largely on the domestic market. Again, if you look at over the last 2 quarters, our volume growth has been in the range of around 3% to 4% while, historically, I think volume growth all used to be high single-digit kind of thing. So is there anything structurally changed in the domestic market? Or how do you see this volume growth coming back to historical levels?

Aman Mehta: No, we do not see any structural change in fact if we compare our volume growth to the IPM, our volume growth is at 1.8% versus the IPM growth of 1.4% and again further adjusted for discontinued products our volume growth is 2.8% and sequentially this has been in the same range so that double digit IPM growth is seeming to be stable.

Manoj Garg: Yes, but even for the industry also if you think that the volume growth has been around at least single digit or 1% to 2% kind of range which is far lower than what it used to be in the past?

Aman Mehta: Yes, but no structural change at least for our portfolio that we are seeing.

Manoj Garg: Second thing Sanjay regarding Sartan which we started supplying few quarters back, how are you seeing the ramp up of there and are we now still doing the restricted supply or we have gone full on that?

Sanjay Gupta: No, we are continuing with the restricted supply so we are not planning to ramp these up currently.

Manoj Garg: Is it like we are still not comfortable with the API or what could be reason for that?

Sanjay Gupta: I mean the essential reason is that we are going through our remediation processes on our facilities and so we have decided that it is not worth increasing our exposure to this sartan market, at least until we get two things. One is further clarity from the FDA, what their expectations are, whether they require a higher level of, I would say, dedicated equipment or cleaning requirements for sartan. And also, we would like to focus on our remediation efforts. So in the big scheme of things, we are not focused on sartan right now.

Manoj Garg: Okay. And when are you going to offer our U.S. facility for the re-inspection post the remediation? Any timeline on that?

Sanjay Gupta: Yes, just Dahej sometime in the middle of 2020 and the others would be more towards the end of 2020.

Manoj Garg: Okay. That is all from my side and Wish you all the best.

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

Nitin Agarwal: Thanks. On the US given where the plants are what are their expectations on new products launches for FY 2021?

Sanjay Gupta: Very modest so we would have just I would say a single digit launches. Few coming from our Derma facility from Pithampur and you know if get liquid facility back on track we would expect one or two launches from there so yes not much expected from new launches in FY 2021.

Nitin Agarwal: How should we look at the base now from here on over the next few quarters?

Sanjay Gupta: So, generally stable to declining. We do not expect growth.

Nitin Agarwal: On the India business, when we look at the business in terms of the next year, 2 to 3-year view of the business, how should we look at that business 100, 150 basis point, 200 basis point higher than the market, in line with the market? What is the broad structure view on our portfolio growth?

Aman Mehta: Yes it should be a few basis points above the market as has been in H1 and as we are able to ramp up the new launches from this quarter and Q4 that should further act as a momentum.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Fatima Pasha from ICICI Prudential. Please go ahead.

Fatima Pacha: I have a question on the India piece. I know we would not give the split. But because we have done the defocused piece, can we say that the ex Unichem business has grown at some X rate and Unichem is flattish or something like that? Is that how it is?

Aman Mehta: No, there has been no difference like that it has been about the same.

Fatima Pacha: Okay, you said about the Unichem stockists I am assuming the entire hit would have come on the Unichem piece right? The trial portfolio of Elder and Torrent should have not got impacted because of this change?

Sudhir Menon: Which change you are talking about?

Fatima Pacha: The stockist - You spoke about the rationalisation of stockists?

Sudhir Menon: It is more of integrations of the stockist rather than rationalisation so TPL stockist would be more who would be getting the ULL products.

Fatima Pacha: You are saying that even Elder portfolio at the margin would have got impacted because of this change?

Sudhir Menon: Yes I would say the base business.

Fatima Pacha: Our base business would have got impacted. Okay, fine. And Sir, second question is you have taken an 8% price hike. Would that be a norm as we work for next year's double-digit revenue growth? Because I am unable to understand that if this year - if I see the first 9 months reported numbers, it is around this 7%, 8% and, on average, an 8% price hike volume growth, so practically 0 for next year. And if we do 5% volume growth in absence of a good high single-digit price hike, we do not reach the double-digit number. So are you seeing any price volume equation on the market right now, like we are hearing about the generalization in general causing that headwind on the branded drugs?

Aman Mehta: We have not seen any impact of price related or price sensitivity in almost entire portfolio so the IPM average price growth has been in the range of 5% so that is what the industry norm is anywhere prevailing -So next year it is difficult to say what the number would be but we do not see the price rather the reason for slow down in volumes or reduction in volumes from the previous year.

Fatima Pacha: So you hope that next year you can recover the volume so that you can report a double digit revenue growth with the 5% price hike is that the math?

Sudhir Menon: Yes, basically there are three components right, we are talking about the base volumes going up. The second factor is the new product introduction playing out and the third is the price, so all put together there should be a double digit.

Fatima Pacha: Fair enough. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Sir, on the U.S. market, so Sanjay, so you mentioned that you are going very cautiously on sartans, yet sequentially, I think, we gained about Rs.35-odd Crores in revenue from the second quarter to the third quarter. So what is driven that? I do not think we launched anything materially new this quarter?

Sanjay Gupta: I would say we have not launched anything new. It is just I would say increased share of existing basket of products. So as of today we have 15 products in the US where we are number 1 in terms of share and other 15 products where we are number 2. So I would say that commercial performance on the existing portfolio continues to deliver and that is the main reason behind 50 million plus base of sales that we have.

Aditya Khemka: Okay, so given that it is driven by market shares and better volume so this number in the absence of any major disruption in terms of pricing should be sustainable?

Sanjay Gupta: Minus the price erosion which we see every year.

Aditya Khemka: Minus the base business price erosion and which you are saying is what MSD (Mid Single Digit) every year?

Sanjay Gupta: Yes.

Aditya Khemka: That is your expectation, right? Secondly, on the gross margin side - So about 72.7 being our average of the last 3 quarters or the 9 months for FY2020, anything one-off in this that you would like to call out? Or is this like a run rate? Because we have gained almost about 100 basis points year-over-year, first 9 months of FY2019 versus first 9 months of FY2020. Anything you think is a one-off in here to call out? Or you think this is sustainable run rate as far as gross margins are concerned?

Sudhir Menon: I think it is sustainable Aditya if you remember in Q1 – we had indicated that the new normal looks like between 72 to 73 and yes we have been doing between 72 to 73 so this I would say is quite normal unless something else comes up later on.

Aditya Khemka: Sure, also if I look at the other cost items this particular quarter so I am looking at employee expense, I am looking at R & D, even other expense, so employee was down year-over –year, R&D was down year-over-year and that to 20% down and then your other expenses was low single digit growth, so lot of cost control it seems, so is it permanent cost saving programme that you are seeing which is leading to efficiencies or is it just like lumpiness of the expenses being incurred in this quarter and the next quarter will be sort of back to a normal growth?

Sudhir Menon: So you are right, I mean the employee cost have come down by 4 Crores compared to previous quarter and that I think we carried out from rationalization as what Aman said is right, I think the last leg of rationalization so that is contributing to that. The second is on the other expenses there is some reduction because of the variability of the revenues being lower and the R&D expenses being lower compared to the previous quarters so this is contributed to the lower expenses.

Aditya Khemka: So your R&D therefore would go back up because your full year budget I think we remember discussing about 500 Crores so would that sort of R&D go back to that sort of budget?

Sudhir Menon: Yes, what we are seeing is actually some amount of efficiency is coming in and in terms of what we have estimated in terms of R&D cost but there are cases where there is slight delay or push back which is getting into the subsequent quarters so I would say both put together should be 50-50 what we are seeing now.

Aditya Khemka: Okay and therefore from what you said in employee cost in terms of the negative growth or decline I assume it is structural because you have laid off few people so the cost decline is structural but your other expenses seems to be more linked to the revenue and therefore whenever the revenue picks up the other expenses will probably go up as well?

Sudhir Menon: That is right.

Aditya Khemka: Any guidance on capex for next fiscal FY2021?

Sudhir Menon: So FY2021 I think it should be only maintenance capex to the tune of 300 Crores.

Aditya Khemka: Maintenance capex and what is our first nine months capex in FY 2020 please?

Sudhir Menon: It should be roughly 200 Crores.

Aditya Khemka: 200 Crores Okay. Thank you.

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

Chirag Dagli: Thank you for the opportunity. Sir, there has been some talk about trade margin gaps and that this will likely be therapy-by-therapy so any broad thoughts on how this will plan out, is there any discussion with the industry, what are your broad thoughts around this?

Aman Mehta: As if now it is still unclear how and when it will be rolled out but we did see the Oncology pilot so we will not be surprised if it would be similar to that.

Chirag Dagli: So it will be by therapy Sir that is the clear understanding?

Aman Mehta: Hard to say but overall again this to clarify that the trade margin rationalization would not impact us because we are not present in the trade generic space.

Chirag Dagli: I understand but there should be some rub off effect on the branded companies?

Aman Mehta: So, overall branded volumes should end up gaining from the trade margin rationalization.

Chirag Dagli: Okay and when do you think you will get clarity around this Sir?

Aman Mehta: Not certain yet.

Chirag Dagli: Okay and on R&D Sir with all these facilities having issues, how does this change our R&D effort if at all?

Sudhir Menon: So it does not change at all, whatever R&D is happening is happening for the future right, so we are on the track as far the projects concerned, so there is push back as far as R&D is concerned.

Chirag Dagli: So what is the reason for this first nine months if one sees this is broadly been tracking lower than your typical guidance of 7% to 8%?

Sudhir Menon: Yes.

Sudhir Menon: So as I said there is some amount of efficiency which we are seeing in terms of better cost coming in and there is certain push back in projects which is likely to get spend in Q4 or Q1.

Chirag Dagli: So as we go along should we assume 7% to 8% or should we assume a lower number?

Sudhir Menon: No, I think it should around 7% Chirag.

Chirag Dagli: 7% for FY2021 as well?

Sudhir Menon Yes that is what we hope.

Chirag Dagli: Okay. Thank you so much.

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

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

Nitin Agarwal: This is the house keeping question, on these other income; this would be largely hedging gain for us?

Sudhir Menon: That is right.

Nitin Agarwal: Why would there be so meaningful different in this quarter because there has not been much movement in the currency, right?

Sudhir Menon: No, it is not between the quarters. We do twelve months forward and considering the credit period, the contract period would be between 12 months to 18 months. If you go back 18 months, you will find the differences in the rates the spot rates which were existing. The premium basically is around let us say 4% to 4.4% for the last one and a half years as what I have seen and therefore if you consider for 18 months it should be roughly 6% over and above the spot rate when we have taken those hedges.

Nitin Agarwal: Likewise, if we introduce guidance to the tax rate for this year and next year?

Sudhir Menon: Yes, this year it should be roughly between 20% to 21%, next year also I believe it should be roughly may be 23% to 24% as what we expect.

Nitin Agarwal: Thank you.

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

Prakash Agarwal: Thanks for the opportunity again. Just one clarification, you spoke about the MRs being rationalize even in this quarter and you mentioned 4,000, the last number was 4,200 for 200 people?

Aman Mehta: That is correct.

Prakash Agarwal: Okay. This would be the margin we are going forward right I mean as you pick up 10% plus growth with a similar MRs is it fair to expect a 50 to 75 basis points margin improvement next year?

Sudhir Menon: Not in terms of number but logically what you say make sense here.

Prakash Agarwal: I mean to make sense. I mean would it be fair to assume that in the models? Or how do you think about it?

Sudhir Menon: I think from a overall perspective Prakash, what we are saying is since 60% of our businesses is branded generic, there are two important livers for margin improvement and considering, the 60% of the business is branded generic, from an overall company perspective other things remaining constant 75 to 100 basis points should be possible.

Prakash Agarwal: Okay great, I had this one question, thank you.

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

Hari Belawat: Thanks for taking the question again. Is the Company planning to raise funds through QIP?

Sudhir Menon: No. No. So there is no plan for raising funds through QIP. It is an enabling resolution, which we have been taking every year. So the approval is basically for 1 year. So when it expires, we just take enabling resolution so that we can keep active at any point in time.

Hari Belawat: Okay but there should be firm planning during one year at least prior that you want this much of funds, when you draw fund flow for the whole company at least things are well known, we need 1,000 Crores or 500 Crores or whatever figure, why it takes for large amount of 5,000 Crores raising funds?

Sudhir Menon: Correct, as I said, as far as the cash flow plans are concern, it is very clear. We are not going to raise it at this point in time because nothing is there in pipeline and as I said it is an enabling resolution so that if some opportunity is coming in and we need to look at it, this becomes a lever available for us.

Hari Belawat: Okay I understand and Sir one more clarification, in the month of September some promoter shares to the extent of 36.5% are pledged, earlier in June 2019 it was not there, how and where it is done this pledging of shares of promoters share?

Sudhir Menon: Again I think it is a wrong information because there is a clarification which was given to stock exchange also because of some media coverage, so what has happened is under the takeover regulation, there is a change in the definition of encumbrance which has been brought in and which says that even a non-disposable undertaking, if it is given by the way of covenant also, you need to mention it, so most of the lending agreements have this change of control covenant which says that the holding will not go below 26%. So, there is no actual pledge of share, it is only a covenant because it comes under ambit of the definition of encumbrance.

Hari Belawat: Okay but still in December 2019 shareholding pattern, BSE India also showing same 36.5% of pledge?

Sudhir Menon: I request you to open the table - there are certain explanation which have been given under the table. So, if you read it, it says that there is no pledge as far as the shares of promoters are concerned it is because of this non-disposable undertaking directly or indirectly, it has been shown as under that.

Hari Belawat: I think in future they will remove it with the note, anyway thank you for the clarification.

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

Nikhil Mathur: Good evening everyone. My question is related to e-pharmacies which are finding a bit of traction in the Indian market, now what I understand is that most of the e-pharmacies are still procuring from the traditional stockist and traditional distribution root, do you think that e-pharmacy uptake has kind of unsettled trade in anyways and what do you think is the larger picture impact on the Pharmacompanies, is it likely to impact in anyways the pharma company in the next couple of years?

Aman Mehta: No, there has been no impact as of yet and even going forward the same channel will have to be followed. So, we do not see that structurally changing.

Nikhil Mathur: But have you seen any e-pharmacies directly approaching you or any other companies for direct procurement or something of that sort which can give them the scale and kind of retain the distribution margins that are there in the channel?

Aman Mehta: No, we have not.

Nikhil Mathur: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: So any in direction of the business in Brazil for the coming quarters?

Sanjay Gupta: It will be in line with close up data like as you have mentioned only opening comment, we are seeing double digit growth in secondary market data, so we expect the primary fields to catch up, so currently our covered market is growing on a MAT basis at 8.6 and Torrent is showing about is 13.4% growth. So, I expect a double digit growth to continue to reflect their internal sales.

Kunal Mehta: Just a question on the India business, by observing the pricing trends which we have had in our portfolio since a last few years, what I have observed is that to be able to take the pricing increases more than the IPM and what enables us to take this pricing increases so that it is a quality of the portfolio where we can have better price increase and the IPM or would you attribute that to any other reason?

Aman Mehta: No, it is again market specific and brand specific wherever we feel that the competition scenario enables us to take the price increase we do so and again going forward, it is difficult to say what it would be like the next year.

Kunal Mehta: Thank you. That is it from my side.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand a conference over to Mr. Sanjay Gupta for closing comments.

Sanjay Gupta: Thank you everyone for your interest in our results and if we are not able to answer any further questions, please contact our investor relations, Sapan and Sudhir. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Torrent Pharmaceuticals Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.