



“Torrent Pharmaceuticals Limited  
Conference Call”

October 29, 2012



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**MR. RUCHIR MODI**



**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY'13 results conference call of Torrent Pharma, hosted by Edelweiss Securities Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manoj Garg of Edelweiss. Thank you and over to you Sir.

**Manoj Garg:** Good morning and a warm welcome to all of you. We at Edelweiss Securities are pleased to hold this call and welcome you all for the briefing of Q2 FY'13 results of Torrent Pharma Limited. On behalf of all the participants and Edelweiss, we welcome Torrent management team to discuss the results and on the outlook of the company going forward. Today, we have Mr. H. Balakrishna, Executive Director Marketing, Mr. Ruchir Modi, Chief Marketing Officer, Domestic Market, Mr. P.C. Gandhi, V.P. Finance, Mr. R. Srinivasan, V.P. Finance and Mr. Rishi Shah Manager Finance in charge of Investor Relations. Now I would like to thank the management of Torrent Pharma for once again taking time out for this call and over to you Mr. Srinivasan, please Sir.

**R. Srinivasan:** Thank you Manoj. Good morning everybody. Welcome to our post results teleconference for the second quarter for the year 2012 - 13. As Manoj said, we have Mr. P.C. Gandhi, V.P. Finance, and Mr. H. Balakrishna, E. D Marketing, Mr. Ruchir Modi, Chief Marketing Officer, Domestic Marketing and Rishi Shah, Manager Finance. Let me take you through the highlights of the operations for the quarter.

During the quarter total revenues of the company grew by 13%, posting total revenues of Rs.7.7 billion. India formulations business grew by 15% posting revenues of Rs.2710 million compared to Rs.2362 million in the previous year. International operations grew by 14% during the quarter with revenues at Rs 4362 million. US business registered a growth of 80%, posting revenues of Rs.924 million. Brazil market recorded revenues of Rs.1161 million, registered de-growth of 7%. Strike by Regulatory Authorities ANVISA affected clearance of goods from the ports, which affected the sales in Brazil. Company has expanded its field force in Brazil by 65 people during the quarter taking the total number of people on field to 360. German market registered revenue of Rs.905 million registering de-growth of 3%. Europe, other than Germany, registered revenues of Rs.619 million showing a growth of 22%, while rest of the world operations grew at 24%, registering revenues of Rs.508 million.



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Russia and CIS markets grew at 8% with revenues at Rs.180 million. Contract manufacturing operations for the quarter registered a marginal growth of 1% posting revenues of Rs.663 million mainly on account of lower sales coming from insulin business with Novo Nordisk.

In terms of EBITDA margins for the company for the quarter stood at 20% compared to 21% in the previous year. There is a slight fall. Profit before tax stood at Rs.1394 million compared to Rs.1219 million, registering a growth of 14% for the quarter. Tax for the quarter is higher compared to corresponding quarter last year. Tax rate is higher, mainly because of the tax benefit we had availed in the previous years from the Sikkim Unit. We now have the alternate minimum tax extended to partnership firms and that is the result of slightly higher tax charge. Thank you very much and that is the summary and we shall now start the Q&A session. Over to the coordinator please.

**Moderator:** Thank you Sir. Participants we will begin the question and answer session. Our first question is from the line of Mr. Ashish Rathi from Equirus. Please go ahead.

**Ashish Rathi:** Thanks for taking my question. My question pertains to the Brazil market, just wanted to understand what exactly is the issue that happened and how much of the sales were impacted and do we see any spill over sales in the next quarter because of this?

**H Balakrishna:** Basically, there are two factors, which affected the Brazil performance in the quarter; one is the ANVISA strike, which went on from June 15 to practically August 15, which meant that one could not clear the materials from the ports, though which really affected the market share of three, four products because even the pipeline stocks had got dried up. Now the strike is over, but then it is not that immediately you will start getting the sales, we are in the promotional model business, so which means that something would be lost, something would be recovered. Now to what extent it will be recovered we will have to see during the quarter but another thing that has happened in the market is a general market slow down with respect to the molecules that we are in. what we see is that the molecules which are in the government Farmacia Popular program, they have been showing a phenomenal growth whereas the other molecules, especially in the cardio and the CNS area have been growing much less than what we had anticipated. In fact, the growth in Q2 has been less than the growth in Q1. So, whether this will get recovered in the next quarter we need to see. So, two factors; one is the general market slow down which could have a medium term effect, the ANVISA strike which I would say is a short-term effect.

**Ashish Rathi:** In that case, just also we were reading that there are some concerted efforts by the Brazilian government to cut down on dependence on exports etc., is that also impacting Torrent, how do we see that shaping for us in the future in this particular market? Do we also stand by our guidance of 18%-20% growth or we look at a lower number this time?



- H Balakrishna:** One is, we have not been affected by any of the initiatives taken by the government, in that sense of the term. This was in fact along with the ANVISA most of the government offices were on strike during that period. So, it was a common phenomenon, it has nothing to do specifically with respect to the Health Ministry. Nothing untoward this is going to happen from the government side, which is going to be affecting our performance. Yes, the growth rates could be, if the current trend of this market slow down continues, yes, the growth rate would be less than what we had earlier anticipated.
- Ashish Rathi:** Just on the numbers of how many launch products and final products are pending for approval in Brazil?
- H Balakrishna:** In Brazil, we have launched three products, and we should be launching another two during the year.
- Ashish Rathi:** So we stand at 34 products launched?
- H Balakrishna:** Yes, we stand at that.
- Ashish Rathi:** Sir on the insulin supplies, we have been seeing some slow down. Last quarter also we saw a lower off-take and are we seeing this as a trend or is it one off-tender, which we are losing, and we might pick up again. How do you wish to guide us in this business in particular?
- H Balakrishna:** Which territory are you talking about?
- Ashish Rathi:** Insulin supplies in the contract manufacturing side?
- H Balakrishna:** Insulin, it really depends upon how Novo Nordisk performs in the market. So, they had lost some tenders but now they have gained some tenders. So, if those supplies start, then things should be fine.
- Ashish Rathi:** Okay and what is the licensing income in this quarter Sir?
- H Balakrishna:** 30 Crores.
- Ashish Rathi:** I will join back the queue. Thank you.
- Moderator:** Thank you. Our next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** Good morning Sir. Just one question on the personal cost; our personal cost has increased especially in the last three quarters, March quarter we recorded around 144 Crores which



was sharp increase on the previous runrate of around 110 – 115 Crores and now this quarter we have 155 Crores. As a result our personal cost of sales ratio has increased around 21%. Can you help, year-on-year, which divisions have mainly contributed this increase in personal cost and how much further it can increase?

**R. Srinivasan:** The increase in personal cost, compared to the previous years, some part of it is due to the number of people increasing. We increased 65 people in Brazil during the quarter and we also added some people in Domestic Marketing business as we discussed in last quarter that because of formation of one of the new divisions. So, that is one cause for increase, the third reason is due to the exchange rate movements also there has been an increased impact on the overall, in terms of rupees there is an increase. So, apart from that it is all the normal routine salary increases. It is not specifically attributed to any other specific region.

**Anubhav Aggarwal:** Just one question on the Brazil comment that you made, about this ANVISA strike. If you see, the strike ended on August 15, and good part of opportunity was there to recover. Would there be still part of the sales, which is still possible for you to recover in the quarter ending December quarter?

**H Balakrishna:** Yes some part of it would be recovered but some would be lost because, if our product is not available, it will get substituted by some other brand or a particular generic. So, as long as you have material sufficient quantity in the pipeline, both at the wholesaler and the pharmacy level, then these kinds of ups and downs do not affect you, but if that goes dry, then you definitely suffer a permanent loss to some extent.

**Anubhav Aggarwal:** Basically, when you said that some parts were lost, you essentially are implying that it is a market share loss or do you think that the market shares will be...

**H Balakrishna:** Yes.

**Anubhav Aggarwal:** Okay got it. I was just confusing that partly if you lost part of sales, partly you can reverse, so that is not going to happen.

**H Balakrishna:** Yes, if you take a basket of 20 products, may be we lost market share in four or five, we did not in 15 of them, now which means the loss that we have had in the five would be semi permanent, whereas the other ones have not been affected by the strike.

**Anubhav Aggarwal:** Just one question to Mr. Modi. Since you took over the charge of the India business, it has been almost six months now, what has been the changes done on the product side or on the marketing side to increase growth from the India business because specifically we have seen the growth has indeed picked up in the last two quarters in the India business?



- Ruchir Modi:** Fundamentally we have not made many changes. The changes, which were done in February 2012, I think, by decongesting our acute division, we had two large divisions, which we decongested and made three divisions. So, then there is enhanced brand focus or therapy focus, even though it resulted into increase in cost in field force, which is a short-term phenomena. I think, that is paying results today because every change or any change takes its own time to adapt or recover and I think Q2 is a time that we are seeing stabilization in the field force and getting the results of the strategy we decided in February. I think it is more of that than anything else here.
- Anubhav Aggarwal:** So anything over two to three period any change that you are trying to maintain the portfolio of the company or portfolio remains the same? Most of the efforts are on the restructuring ledger, internally how the divisions are done or how you promote?
- Ruchir Modi:** Not yet because consistency and repeatability, I think, is something which we need to now follow and after a long time we are seeing good results in the acute segments. Q2 has been very good for the acute segments, which were much lower in the last two years. So, we do not want to reshuffle or make any changes right now, the going is good, so let it go the way it is going right now.
- Anubhav Aggarwal:** Just one last question is on working capital cycle that account payable days have sharply reduced, from 120 levels they have reduced to 94 days of sales right now. I know you guys used to enjoy lot of working capital advantages in the European operations, any impact over there?
- Rishi Shah:** It is because we have paid some discounts, which were there in Heumann so those got liquidated in this quarter so days has gone down mainly because of that.
- Moderator:** Our next question is from the line of Mr. Bhavin Shah from Dolat Capital. Please go ahead.
- Bhavin Shah:** Thanks for taking my question. Respect to Brazil really some slow down that you have been talking about, is this specific to CBR for broadly chronic or this is across territory we see some revival happening in the next few months or too mature to talk about?
- H Balakrishna:** We are saying that is a chronic. We are in chronic we are not in acute.
- Bhavin Shah:** I just trying to understand, the broad trend this is mainly CV and CNS, where you are seeing some sort of slow down?
- H Balakrishna:** Yes.



- Bhavin shah:** Just two questions more in India business mainly the antiinfective perhaps gastro now picking up in growth may be on a low base, but is this trend probably going to be sustainable going forward we see 12%-14% growth clocking for the year as well?
- Ruchir Modi:** I would say definitely this is a sustainable performance.
- Bhavin Shah:** This should be largely driven by the main brands or the guys below Top 5 Top 6 also to bring for decent growth?
- Ruchir Modi:** I would say that the entire product basket which is showing revival.
- Bhavin Shah:** Just lastly in the working capital cycle that you follow in Brazil typically inventory or something that you could share on that?
- R. Srinivasan:** Inventories have gone up during the quarter.
- Bhavin Shah:** This is specific to Brazil.
- R. Srinivasan:** Brazil is probably one of the areas where the inventories have gone up. US as well we have increase in inventory.
- Bhavin Shah:** Specific to US is there any reason behind that. Why it could have possibly gone up or just a post strategy that you probably following?
- H. Balakrishna:** It is not the push strategy in that sense, basically when we have a new launch obviously the inventories will go up. We launched Montelukast and a couple of launches which we are expecting in Q3 again the material has been produced only the during launch times the inventories will go up.
- Bhavin Shah:** How many launches do you foresee in the second half in US?
- Rishi Shah:** Around 7 to 8 products.
- Bhavin Shah:** Thanks and wish you all the best.
- Moderator:** Our next question from the line of Mr. Nitin Goser from Religare Asset Management. Please go ahead.
- Nitin:** Just wanted to understand the way you explained the cost of employee, which is going up the similar, is the impact on your gross margins? You have benefited out in last three quarters or last two quarters on your gross margins? I was just trying to correlate the things like your employee cost already has gone up in last two quarter the same is true with the



gross margin, which has gone up in last two quarters so just trying to understand the gross margin expansion that has taken place is it more to do with the currency benefit that you are seeing because you replied the same for the employee cost also?

**R Srinivasan:** The gross margin improvement, certainly the higher exchange realizations have certainly resulted into an increase in gross margin. So the overall margins have been affected by about 1% compared to the previous year because of the SG&A expenses going up. The net currency impact has been positive of about 1% during the quarter but the employee cost increase has been offset and that has resulted into an overall decline in margins by about 1%. So the employee cost increase is yet to result into a corresponding sales growth basically because for Brazil the field force is yet to settle down, the increase is due to Brazilian increase in field force and also the new division launch in domestic last quarter, which will take time to result into actual topline increase corresponding topline increase.

**Nitin:** So the point is that you have also seen the revenue mix improvement, which has helped you for the gross margin expansion plus your currency benefit?

**R Srinivasan:** Yes. Correct.

**Nitin:** Further if you can give some kind of highlight like where does this R&D cost you will like to settle with for the year FY'13?

**R Srinivasan:** The current year R&D cost is roughly in terms of percentage of sales it has dropped for the first half year compared to previous year but we feel that this R&D expenses would be somewhat in absolute terms it is likely to be around last year's number.

**Nitin:** As a percentage it might drop but as an absolute it might remain segment?

**H. Balakrishna:** The point is the R&D cost would really depend upon which phase of development the various projects are on so there could be a timing issue where may be this quarter the phase that we were working on where not dispensed, whereas the next quarter could be the spend phase so R&D projects move in that direction.

**Nitin:** The second last question is with regard to US business are you seeing PAT positive or are you still trying to relive the R&D cost yet to recur?

**Rishi Shah:** No we have broken even in the US business as said earlier in Q1 also.

**Nitin:** The final question is on domestic market if you can give some sense on chronic growth and acute growth?



- Ruchir Modi:** Chronic growth and acute growth in Q2 have been almost same. 14.5% to 15% for acute and Cardiology and Diabetology also growing at 15% and Neuro-Psychiatry also growing at 14.5%. So, it is like a balanced growth. I mean it is not that one division or one is SBU is driving the growth of domestic business, which is a very positive sign. Initially just I would like to say our newly launched divisions Oncology and Gynecology they are also doing alright. They should clock 10 Crores this year and Gynecology should clock around 10 Crores also which was negligible three years back.
- Nitin:** One last question about the Brazilian business based on accounting terms I wanted to understand when such kind of scenario happens there is a strike you happen to sit on a finished good inventories, so you really book those cost in the given quarter and the revenue gets only booked when the material reaches to the distributor or the revenue also get booked when you start the shipment?
- R. Srinivasan:** I think the question is whether the consolidated revenues reflect the same amount of revenues as what the standalone books have so we make the adjustment. I mean, the revenue, which is booked in consolidated books, are the actual sales to the customers and it excludes all the intercompany transactions between the parent and the subsidiary. Having said that, it has an impact only on the for the tax reason that you will have to book the tax as per India GAAP you need to book taxes on all this transactions that cannot be offset but otherwise all other transactions are eliminated when you consolidate.
- Nitin:** Thanks a lot Sir.
- Moderator:** Our next question is from the line of Ashi Anand from Kotak. Please go ahead.
- Ashi Anand:** Just wanted to understand in the Brazilian market over the last few quarters we have actually seen quite decent growth in our forward market. Any understanding behind why there has been a slowdown? Is there lot of pipeline building inventory buildup pipeline or any other reasons that you would actually provide which leads to slow down would be helpful?
- H. Balakrishna:** Even in this quarter if you look at the total covered market that growth is still good it is around 26% or so but the growth in the covered market is driven by two molecules Losartan and metformin, which are in the Farmacia Popular program of the government where we do not participate much essentially because the pricing is not attractive as far as we are concerned, so if you take these two out then we are talking about a covered market growth of something like 7% in this quarter which was 11% in the previous quarter.
- Ashi Anand:** How much would this have been last year if you are looking at our kind of covered market?



- H. Balakrishna:** It would have been around 15%-16%.
- Ashi Anand:** Any kind of sense to understanding behind why this kind of growth this is showing because given that the Brazilian market similar to India a chronic is core segment, which should see a decent growth?
- H. Balakrishna:** There what happens is again sometime especially during these months let us say our second quarter is the time when the acute therapy does very well there. So we do see a drop at that time so there is a general slowdown but we do not know.
- Ashi Anand:** But you believe that is something which is longer term slow down or this is just something seasonality which is setting?
- H. Balakrishna:** Longer term it should not happen, essentially because it is not that these molecules have been replaced by some of the molecules as far as the treatment is concerned. Population is growing disease incident is increasing. So, the consumption of medicine has to go up. There is no doubt about that. If some new molecule had come in for example one can explain why valsartan or a telmisartan is not doing well that's because Losartan is doing extremely well because of the government program so that has an effect on other molecules in the same therapeutic class. But otherwise nothing else has happened in the market, which would call for such a drastic slowdown.
- Ashi Anand:** Anything similar to what we have been seeing in India where the government is actually trying to expand the DPCO or move to a generic etc., are we seeing something similar in Brazil where they are trying to get more and more molecules under the government program and this could actually impact a longer term group are you seeing any such trends?
- H. Balakrishna:** You see the thing is this is a very expensive game for the government. They did not expect so much of offtake of these molecules when they started the whole program, as such they are feeling the pinch but then they cannot retract so it is unlikely that more molecules will get added. Essentially what they have done is they have picked up few indications whether its hypertension or diabetes or Parkinson and Alzheimer's and all that and they have picked up some few molecule let us say the basic molecule in each of this therapies which are in the government program so at least the current feeling is it is unlikely that more molecules will get added.
- Ashi Anand:** Thank you so much.
- Moderator:** Our next question is from the line of Jasil Shah from JM Financial. Please go ahead.

**Jesal Shah:** Thanks for taking my question. Just again on Brazil, just wanted to understand in the first quarter anyway there was a very good growth of 45% adjusting for last year's base in by rupee terms at least and 28% in Reai terms so I just wanted to understand the effect of government programs that you are referring to, was it not felt in the first quarter or really happening only in the second quarter so that is one. Second question again on Brazil is just with respect to the impact of ANVISA strike, it was almost for two months out of three months in this quarter so despite that you are seeing this marginal decline so just wanted to understand if you had any view on what is the impact in the second quarter for you?

**H. Balakrishna:** Jesal it is like this, now in Q1 even the covered market excluding Losartan and metformin the growth was 11%, which has come down to 7% in this quarter. Now, Q1 we did reasonably well both in terms of primary and secondary, now which obviously means that more material has gone into the system than what the system could take when you look at it from a macro perspective. So to that extent there has been an impact in Q2. One might use the term that more let us say primary sale was higher in Q1 than the actual secondary during that period. So that will get adjusted in Q2. Definitely to that extent there would be an impact. Now coming to your second question as to why the decline is not that significant? It is essentially because of the inventory holding mainly at the distributor level. They typically hold about 60 days of inventory, 45 to 60 days of inventory they hold. That has been used up during that period of two months when ANVISA on strike. Few products were particularly affected few SKUs of some products where affected because it was sufficient quantities were not there in the system. So to that extent we have seen that impact in the market performance in market share.

**Jesal Shah:** Right, and as regards to government program what percentage of your turnover would you see is getting impacted because of that and with respect to new launches if you can talk a bit about what type of market shares you are able to get and how the pricing is behaving both in the existing as well as in the new launches?

**H. Balakrishna:** We have had three launches one was Pioglitazone then Valsartan and Valsartan Hydrochlorothiazide. First thing is all these three molecules is not that large They are relatively small molecules. Valsartan and Valsartan hydrochlorothiazide they are not growing essentially because of Losartan being in the government program whereas Losartan is growing at some 50%, 60% whereas Valsartan is practically flat or even de-growing. So these are not big molecules that we had banking on. Pioglitazone, yes it has had its own issues especially after the Rosiglitazone incidence so but still Pioglitazone is still picking up but it is not a big molecule. These are not big molecules, which we could be banking on for let say propelling the growth in that sense of the term. Because if you look at our product mix it is still the good hold, lamotrigine, the Venlafaxine, the Sertraline and the citalopram, which are doing extremely well, still the Indapamide and the glipizides these are all the old launches which are still showing a good growth. In fact that is the reason why we added that



special team of 65 people essentially to promote these old molecules because they are showing a much better growth opportunity than the newer molecules.

**Jesal Shah:** What about the pricing situation there with respect to the existing and the new launches?

**H. Balakrishna :** Pricing is yes, we normally start off with 35% below the innovator but then the local companies come in and so we are essentially talking about somewhere like 60% below the innovator.

**Jesal Shah:** That has not changed in the last?

**H. Balakrishna:** That has not changed. The competition has remain the same it is the good hold strong Brazilian companies the EMS, Europa, Mobilabs and those so competition has remained the same if anything it has become stronger.

**Jesal Shah:** As regards domestic markets if you can talk a bit about what will really drive and I understand you are saying that acute and chronic both are driving but that seems to be more like the market growth rates. Traditionally, I guess you I am sure would have wanted to grow faster than the market. So I just want to understand one is with respect to your existing big products what is your market share position and as regards future growth rates if you can share with us what molecules and what plans are you really banking on the growth?

**Ruchir Modi:** We usually do not comment on our future, but I can tell you that there is a lot of potential within our existing portfolio and our aim would be to increase the PCPM, the productivity of the field force, which will drive the bottomline on a long-term so I think as far as expansion or divisionalization or portfolio optimization I think it has been done in February now our single focus is to increase the productivity.

**Jesal Shah:** Just lastly on the US front, how many ANDAs have we signed this quarter?

**Rishi Shah:** Jesal, we have right now 38 ANDAs and out of that 19 are actively marketed. We had filed around 3 ANDAs for the quarter.

**Jesal Shah:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Venu from IIFL. Please go ahead.

**Venu:** First, Rishi did you say the US constant currency growth was 23%?

**Rishi Shah:** Yes.

**Venu:** So the rupee growth rate is 80%.



- Rishi Shah:** Venu, I will come back to you on the exact number on that.
- Venu:** Okay, because the rupee this rupee depreciation is only 20% so it should be around 60%. Second the US revenue of about \$17-\$18 million which we did in this quarter, is that a sustainable runrate or did you benefit from the last product launches and it maybe these may come down in the subsequent quarters?
- R. Srinivasan:** The US revenues has some one of items during the quarter, it is about a couple of million dollars of income we have booked on account of licensing revenue which may not repeat during the subsequent quarters.
- Venu:** Finally in Brazil the addition of 65 people on a base of 295, so 20% plus addition in just one-quarter sounds rather unusual. So, is there some strategic thought behind why you did such a product jump in number of people?
- H. Balakrishna:** Obviously there is a strategic thought are you saying the 65 is Small are 65 is large?
- Venu:** It is large it is more than 20% addition in just one-quarter?
- H. Balakrishna:** We cannot keep adding five people every day or every quarter. That is not the way you create a division in our business. So either we need to figure out what that particular team is going to do, which doctors they are going to meet, which products they are going to promote and accordingly we have to decide the number. So, if it is specialty then the number would be small, if it is more GP focus then the number would be much larger so it is based on that. It is just that we have added after maybe some four years or so.
- Venu:** Okay, so if the 65 forming a new division?
- H. Balakrishna:** It is a new team, either a division or team, whatever you want to call it. They have a set of products and they have a set of doctors that they visit.
- Venu:** What is the forex loss or gain above the EBITDA line?
- R. Srinivasan:** See the forex loss recorded in the books is 14 Crores but we normally look at how much is the total addition to revenues and the middleline and the net impact of that on the overall gross margins so if you net that of there is a gain of about 7 Crores during the quarter.
- Venu:** Which line that this 14 Crores go to?
- Rishi Shah:** Other expenses.
- Venu:** Thank you I will join back the queue.



- Moderator:** Thank you. Our next question is from the line of Karthik Mehta from ICICI Securities. Please go ahead.
- Karthik Mehta:** Any comment that you would want to give on the Pharma pricing policy in India? How it impacts, if it has implemented in this form and on the India business, can you actually give up the volume and the value increase for the Q2 and chronic in this quarter? Thank you.
- R. Srinivasan:** See the Pharma policy it is all subjudice. So, at this point in time I do not think we have much to add and there have been anyway lot of news items going around so there is nothing specific we have to add, but as far as chronic therapy, Rishi will give you the numbers.
- R. Srinivasan:** We will give it to you off line.
- Karthik Mehta:** If I may just ask you on the licensing income we had 30 Crores in this quarter I think it was about 15 Crores in the sequential, what is this on account of and is this anywhere linked to sales actually starting for contract manufacturing for our export business and is there any way in which you could tell us what could be the number be around for the year?
- R. Srinivasan:** As I said we had \$2 million of licensing revenue booked on account of an out licensing, which we did in US.
- Karthik Mehta:** Sir, but is that in the total sales or the other operational income?
- Rishi Shah:** Other operating income.
- Karthik Mehta:** So the US sales growth of 80% that does not include that?
- Rishi Shah:** That includes this revenues.
- Karthik Mehta:** So, the 30 cores include with that 2 million US and was there any licensing in the sequential also for the US operations?
- R. Srinivasan:** No.
- Karthik Mehta:** So if you remove this 2 million then what is the color that you can actually help us based on the total license elegant?
- R. Srinivasan:** See if we remove the 2 million then current quarter is 20 Crores versus 15 Crores of last year's corresponding quarter.
- Karthik Mehta:** Correct, but then is this on account of anticipated revenues, which will start on contract manufacturing for our export from our new plans or is it something other than that?



- R. Srinivasan:** It is a combination of both one is on account of contract-manufacturing business the other thing is the European Tokyo business revenue is also booked at part of that.
- Karthik Mehta:** Okay, it is also booked at part of that. Thank you.
- Moderator:** Thank you. Our next question is from the line of Mr. Rahul Sharma from Karvi Stock Broking. Please go ahead.
- Rahul Sharma:** Just coming back on the licensing income part during the corresponding quarter previous year it was at 100 million and this year the entire thing is 30 Crores it is on account of your milestone payments and out licensing which is there the 20 Crores and 10 Crores?
- R. Srinivasan:** 10 Crores is a one of item which pertains to the US market where we did some out licensing so if you remove that the balance is 20 Crores which is on account of the past contract which we have been discussing on account of what we have made with three or four parties which we have been discussing.
- Rahul Sharma:** What type of runrate you are looking at for other operating income sir for the current year basically licensing income that you are looking at?
- R. Srinivasan:** Do you want to have some projection is it for this?
- Rahul Sharma:** No, I just wanted to understand whatever licensing income you are looking at for the year sir?
- R. Srinivasan:** See it is not clearly predictable. It depends on the work completion and what kind of dossiers would be taken, so we right now do not have any specific guidance on that
- Rahul Sharma:** Sir, on the domestic front just had a query your anti-infectives according to AIOCD is yet degrowing so where is that we have got the additional there is huge discrepancy in the growth numbers. Can you address that?
- Ruchir Modi:** I think AIOCD if you look at particularly September has shown 18.1% growth in antiinfective. There were delayed monsoons so yes July, August was down but September was quite up. Even Torrent Pharma is showing recovery as far as the particular month is concerned. So, antiinfective as a market has been showing growth in the AIOCD numbers.
- Rahul Sharma:** But any reason why the discrepancy is so big in AIOCD and yours is there a push from our end?
- Ruchir Modi:** I think it is probably whether it is AIOCD or ORG usually it is always best to see the trend of six months to one year, which gives the right pattern monthly sometimes there is a



discrepancy. They are not able to capture all these right figures because of the sample size itself. If my sample is supposed to be smaller than the actual so I would say the internal numbers speak the real story than the external numbers. The external numbers are just indicators.

**Rahul Sharma:** Sir anyhow much do you do in Russia CIS for the quarter revenues?

**R. Srinivasan:** Russia CIS Rs.180 million.

**Rahul Sharma:** Thank you.

**Moderator:** Our next question is from the line of Mr. Ravi Agarwal from Standard Chartered. Please go ahead.

**Ravi Agarwal:** Thanks for taking my question. First question was on gross margin and clearly we have been seeing a very strong uptake on this margins from last year specifically. I just wanted to understand how much of this is coming, because of currency benefits and how much do you think is structured for the company?

**R. Srinivasan:** The currency benefit has resulted into a broadly 1% improvement in margin. The rest of it see there is some one of the items one what we discussed for the US, we had 2 million revenues flowing in due to some out licensing revenue. That is about 10 Crores and some of it is offset also last year in the corresponding quarter, we had DEPB benefits which we do not have in this quarter. So that would be about 8-9 Crores so these are the broad movements as far as one of is concerned and the margin changes.

**Ravi Agarwal:** If I look at you were mentioning have a net positive impact of 7 Crores in the quarter because of forex including a forex loss of around 14 Crores in other income in other expenditure that is roughly a positive thing of around 21 Crores. Essentially that 3% of your revenues, I wondering how much of that is flowing to your across margins and how much would actually. The question is if you look at the gross margins they also up by around 300 to 400 basis points?

**R. Srinivasan:** I do not have a specific comment to make on that, because the currency impact is both in the topline, it is not in COGS, in fact it is mainly in the top-line as and you have a middle-line where the marketing expenses are risk at overseas then and these are converted in different exchange rate compared to last year. For instance in US, the cost would be converted at much higher rate and Brazil, of course it depends on how the overall movement has taken place between Reai's and Rupees so it is a mix of various currencies which is impacting, but partly we go to top-line and partly in the middle-line so it is not necessarily everything is in the gross margin.



- Ravi Agarwal:** Second question is on Brazil, what is our plan now for in terms of new product launches beyond FY'13 and for the two to three years. We understand that we have a significant large pipeline of products, which are there for registration business, any clarity in terms of launches in FY'14 and 15?
- H. Balakrishna:** Essentially we are waiting for the approval from the various agencies from US, Brazil, Europe everywhere. So, some of them are linked to in case of US it is linked to Patent whereas in Brazil it is link to the ANVISA's efficiency.
- Ravi Agarwal:** Just some color on launches if it is possible in 14 and 15 in Brazil?
- H. Balakrishna:** I can only say "Insha Allah" it could be five or six in 2014 and maybe 3 or 4 in 2015. We have sufficient number with ANVISA for approval it depends on when we get it.
- Ravi Agarwal:** Rishi, we have 924 million of revenues as reported upfront in the call of which we need to reduce 100 million for the license income to do like-to-like comparison?
- Rishi Shah:** Yes.
- Ravi Agarwal:** That is why 824 have grown at 23% in constant currency?
- Rishi Shah:** 27% to be precise if you look at only product supply.
- Ravi Agarwal:** So 824 has grown at 27% on constant currency. Thanks so much.
- Moderator:** Our next question from the line of Monica Joshi from Avendus Securities. Please go ahead.
- Monica Joshi:** Just understanding on the Brazil market a little more, you said that excluding Losartan and metformin your market growth is about 7% and that comes down from 11%. Now what I want to understand is the volume in those products other than Losartan and metformin actually shrinking or is it a price driven deceleration so to say?
- H. Balakrishna:** First is when I talked about the growth numbers they are all in volumes they are not in value terms so price does not come in at all.
- Monica Joshi:** The volume itself has shrunk and are you seeing further shrinkage to the overall market because of value too?
- H. Balakrishna:** Yes, value also will go down because if anything there will be a price pressure downwards so if the volumes go down prices will definitely go down to hence the values will go down. Values will go down more than the volumes in Reai terms but then if you are looking at



IMS numbers which is projected in dollars it could be different because of the real/dollar rate so that would not be the right indicator. The right indicator would be the volumes.

**Monica Joshi:** Right, sir if you have a similar number in local currency terms in real terms for the 7% and 11% as the value of the market?

**H. Balakrishna:** It will be close to that. Again what happens is the market consists of three types' products one is a branded generics, then you have the generic, generic and you also have something called a Bonificado which is let say about 15% of the market. Now we know the list price for the generic generics but we do not know at what price they have been actually sold because the discounts could vary from 60% to 90% so studying the IMS or any of the published data one will not be able to figure out what exactly has been the value growth.

**Monica Joshi:** Our participation in these markets is largely generic, generic?

**H. Balakrishna:** We are only in branded generic.

**Monica Joshi:** You do not have any presence on the generic, generic side?

**H. Balakrishna:** Not yet.

**Monica Joshi:** Secondly on the discrepancy in the standalone and the consolidated numbers, I think, this question was asked so when you have the strike like situation that you had in Brazil you have not booked the revenue from Brazil but have you booked the cost in the standalone operations so is your material and manufacturing cost reflect in this expense?

**R. Srinivasan:** All the costs, which are actually incurred at a group level, is booked in the consolidated. So, whatever intercompany transactions are knocked off totally, so if I sell to Brazil that transaction is knocked off and consolidated. Similarly, if I buy from Brazil it is knocked off. Any intercompany expenses are also knocked off. So, it is the actual outflow as if it were one company together actual revenues and expenses or as if everything is one company together.

**Monica Joshi:** But when you are manufacturing something you are paying to third parties too, you are paying for you materials you are paying for labour?

**R. Srinivasan:** That goes into the stock. So, it does not come under expense until it is sold.

**Monica Joshi:** So, if we see a recovery in Q3 or Q4 even if it is marginal it would not have a direct impact in terms of expanding your operating margin?

**Rishi Shah:** That will not have an impact.



- Monica Joshi:** Lastly on the Indian market if I remember last year you had said you expanding field force on the acute segment is that correct?
- Ruchir Modi:** Yes.
- Monica Joshi:** Can you share some developments on that how many people have we added and what is the current strength in both in acute and your overall at the company level?
- Ruchir Modi:** We had added a net 140 to 150 people in February and we had added one more division, which was focused on certain acute therapies like Derma and pediatrician. As a company right now our field force is 2900, so let us say there were overall addition was around 5% to 6% in February.
- Monica Joshi:** Are there any more plans to expand in acute?
- R. Srinivasan:** As of now like I said our single focus is on improving productivity and productivity. We do not want to increase any field for until we get the desired returns.
- Monica Joshi:** Thank you so much.
- Moderator:** Thank you. Participants' we will take our last question from the line of Mr. Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Thanks for taking my question. A couple of questions one is on hedging bit how are we what is our outstanding hedges right now?
- R. Srinivasan:** As far as the receivables are concerned we have fully hedged and our loans are hedged up to 80%. There is a small amount of unhedged portion in the loans but we have also hedge the revenues the revenues for the current year are fully hedged as far as US dollar is concerned.
- Nitin Agarwal:** At what rate would there be go and so you were to mark-to-market there at the end of the quarter?
- R. Srinivasan:** Yes, correct. The market difference is as far as the revenue hedges are concerned it goes to the balance sheet and gets drawn into the balance sheet when the actual revenues are recorded.
- Nitin Agarwal:** What will be the rate that you would have hedged up for the current year the revenues?
- R. Srinivasan:** Average would be about 53 per US dollar.



- Nitin Agarwal:** I guess if rupee stays around this 54 odd levels it probably have some more forex losses as we go a long way here on an average?
- R. Srinivasan:** It may not be because it depends on the average is 53 so it would be more in the second half and less in the first half kind of thing so we may have some gains in the second half.
- Nitin Agarwal:** Secondly on the outsourcing contracts that we have sort of signed with Astra, a generic company as well as some product that we have signed up, are we close to commercialization of any of these contracts, initiation of any of these contracts and when do you see that they playing out?
- R. Srinivasan:** As I had mentioned in one of those earlier calls it really depends upon when these companies will get the approvals from the regulatory authorities in the respective countries. Now let us say a couple of approvals have come and we have started the sales of -course, but then that is nothing so essentially it will start flowing in more let us say towards the end of 2013, because typically one will have to give to two and a half years for approvals in the major territories.
- Nitin Agarwal:** The US product that we had signed up with a large company?
- R. Srinivasan:** That is not a large company it was one of those special deals that we had done and yes we had done the supplies for that. That is going on.
- Nitin Agarwal:** So that is already started.
- R. Srinivasan:** US one has started.
- Nitin Agarwal:** On the US how many of ANDAs have been filed so far total, how many ANDAs are outstanding so far in terms of for which you have not got approval so far?
- Rishi Shah:** Nitin that information you will get from the presentation, which will upload.
- Nitin Agarwal:** Thanks very much.
- Moderator:** Thank you Sir. I would now like to hand the conference over to Mr. Manoj Garg for closing comments.
- Manoj Garg:** Thank you once again on behalf of Edelweiss. We thank the management for taking time out despite their busy schedule and thank you once again to all of you thank you very much for being on the call. Mr. Srinivasan, would you like to add anything on this?
- R. Srinivasan:** Nothing more from my side. Thank you very much.



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