



## “Torrent Pharmaceuticals Limited Conference Call”

**October 18, 2011**

**Moderator:** Ladies and gentlemen, good day and welcome to the Torrent Pharma Q2 FY'12 earnings conference call hosted by Edelweiss Securities Limited. As a reminder for the duration of this conference all participants' line 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 this conference call, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Manoj Garg. Thank you, and over to you, sir.

**Manoj Garg:** Yes, good afternoon and a warm welcome to all of you. We at Edelweiss Securities are pleased to hold this call. And welcome you all to the briefing of Quarter 2 FY'12 results of Torrent Pharma Limited. On behalf of all the participants and Edelweiss, we welcome Torrent Management Team to discuss the result and on the outlook of the company going forward.

Today we have Mr. Gandhi, VP Finance; Mr. R. Srinivisan, VP Finance; Mr. Shivender Agarwal, Executive Director Marketing Domestic Operations; and Mr. Rishi Shah, Manager Finance. Unfortunately, Mr. Balakrishna, is not able to join us due to personal reasons.

Now, I would like to hand the conference over to Mr. R. Srinivisan. Over to you sir, thank you very much.

**Srinivisan:** Okay anyway let me start the conference call. Good morning everyone, this is Srinivisan here. Welcome to our post results teleconference for the second quarter for 2011-12. As Manoj said, we have Mr. P.C. Gandhi, VP Finance; Shivender Agarwal, In-charge of India formulations business, Rishi Shah, Manager Finance & Investor Relations; and Mr. Balakrishna could not join for personal reasons.

Let me first take you through the highlights of our operations for the quarter. During the quarter total revenues grew by 18%. India formulation business grew by 7%, posting revenues of Rs. 2,353 million compared to Rs. 2,199 million last year.

International operations grew by 32% during the quarter. In terms of the territories performance, US grew by 57%, posting revenues of Rs. 515 million. There were two new products launched in US, ISMN ER and Alfuzosin ER during the quarter. Two ANDAs were filed during the quarter taking the total cumulative filings to 32 ANDAs and 22 DMFs pending for approval.

Brazil grew at 34% posting revenues of 1.2 billion and German operations grew by 28% posting revenues of 938 million. The third segment which is contract manufacturing operations, de-grew by 2% posting revenues of Rs. 647 million, essentially due to buildup of channel inventory in the earlier quarter which resulted into a lower sales in the current quarter.

Coming to H1, during H1 the total revenues grew by 19% and India formulation business grew by 9% posting total revenues of Rs. 4,811 million and international operations grew by 25% during the first half.

In terms of profitability, the net profit after tax grew by 31%, there was a reduction in tax expense essentially coming out of commissioning of Sikkim plant.

Those were the broad highlights. Thanks very much and we shall start with Q&A session. Over to the coordinator please.

**Moderator:** Thank you. We will now begin the question and answers session. The first question is from the line of Karthik Mehta from Daiwa. Please go ahead.

**Karthik Mehta:** Yes, so just two things here. In the case of sales in India, which have been fairly lower than what we would have expected? You know, any key things that you would observe which you think are now predominantly like a recurring trend you know, like 8%, 9% sales growth, is it due to higher competition in the chronic due to competitors introducing very aggressively priced product, we were actually reading some of the events is entering this market or is it due to our performance in the anti-infectives due to the overall delay in the season, what would you attribute this to?

**Shivender Agrawal:** Yes, if you look at that Torrent has got three predominant businesses, one is cardiology and diabetology, CNS and acute therapy. 60% of our business comes from chronic therapy, which has done fairly well. In fact, we are equivalent or little higher than the covered market growth. The issue is our acute therapy where predominantly we have about 30% of our business coming from GI. Looking in to the market scenario where GI performance during the Quarter 2 and H1 was quite low, so there we got the beating. In fact, in Quarter 1 our performance of antibiotic was low but in Quarter 2 the antibiotic performance has improved. So predominantly the business issue is our GI where we have seen a) overall market was slow, at the same time the competition was quite intense. So, the issue of competition intensity we have addressed now, and I believe that in the coming quarter that issue will not exist.

**Karthik Mehta:** Yes, so you know, if I may just ask you that, in case of 60% sales come from three fast growing chronic, and balance is from acute. Do you attribute less than 10% sales growth to extremely high competition from your competitors who have added sales force very aggressively or would you put it on some amount of delay in the monsoon, because I am not able to understand how can you compensate for the loss in sales for GI or anything in an antibiotics which you would not have done in the first six months, if the season is over, how would you make up for your India sales growth for your acute in the remaining six months? Thank you.

**Shivender Agrawal:** The question of the competition has expanded the field force, I would not see that as a challenge because our acute therapy business has got a fairly large field force, we have almost 1100 representatives. So, in terms of the coverage and the geographical expansion that's not a large issue. As I said that the competition intensity in GI has increased a lot, which we have identified and we have worked out an action plan to overcome that competition by aggressive campaigns and promotion, which gives me a confidence that we will be able to correct that.

The loss of business I am not too sure, we will be able to make, but yes the coming quarter our performance will be equivalent or better than the markets.

**Karthik Mehta:** And would you help us with any India sales growth number that you would have as an aspirational number in FY'12 or FY'13, because now in FY'13, we would be on a lower base, FY'11...sorry FY'12 you already have half of the year, which is over. So is there an aspirational number, which you have for India sales growth?

**Shivender Agrawal:** For FY1213 we are expecting a sales growth of about 18%.

**Karthik Mehta:** Sorry sir, you said FY'13 you are expecting 18%.

**Shivender Agrawal:** No, not FY, I am talking about 12 13, when you say that the base will be low for the current year...

**Karthik Mehta:** Yes.

**Shivender Agrawal:** So, for the next year we are aiming a growth of about 18%...

**Karthik Mehta:** Okay.

**Shivender Agrawal:** And in H2, I expect growth of about 15%.

**Karthik Mehta:** Sir, when you say that you will have more of the promotional expenses or you will increase on the promotion, you increase top-line. So, will that come at the cost of your year Indian EBITDA margins?

**Shivender Agrawal:** No, actually what we are looking at that some of the expenses, which we are doing currently, we are going to divert it to some of the campaigns. So, overall, the expenses are not likely to increase.

**Karthik Mehta:** Okay, and just one last thing, on the balance sheet is, overall returns on 31<sup>st</sup> March to this year as compared to 30<sup>th</sup> September, so the last reported number is actually relatively higher. If I assume no change in India and the US and German in your days of trade, have we increased the days of trade in our Latin business which is significantly grown?

**Srinivasan:** You are talking about the margins as of 31<sup>st</sup> March versus September....

**Karthik Mehta:** I am talking about sundry debtor days for the businesses, because assuming that in India, US and Germany, I don't see too much of changes in the days of credit. So, in some of the Latin markets where we have large presence, we have grown more, would it be fair to assume that we have added on to some higher number of days for those markets?

**Srinivasan:** No, I mean, we have a standard credit policy for the stabilized markets, like for instance, Brazil, there is a standard policy where we offer them specific number of days. We don't change it too much. So that was the largest territory we have. US also operates within a narrow band, I mean, we don't increase the number of days of inventory.

**Karthik Mehta:** Yes.

**Srinivasan:** I mean, what do you see, you see the number of days increasing between what and what?

**Karthik Mehta:** I am saying that usually when we talk to maybe industry some companies who is selling in the same type of geographies, as you do sell. I agree with you that in Germany, in US, even in India, the overall trade days operate in a narrow band. The only amount of flexibilities predominantly in the ROW markets, where we seem to have grown far higher than actually Germany and India. Would it be fair to assume that for some of the new launches in actually Brazil or if we have expanded our overall geographical

**Srinivasan:** No, we don't see any increase in number of days.

**Karthik Mehta:** Okay.

**Srinivasan:** There would not be a significant variation there.

**Karthik Mehta:** Okay. Thank you for taking all the questions.

**Moderator:** Thank you for your question. The next question is from the line of Sangam Iyer from Alpha Accurate Advisors. Please go ahead.

**Sangam Iyer:** Yes. Sir, first of all a small clarification, I just wanted to get from you regarding the FOREX gain note that's been presented. Could you just clarify on that 18 crores that was mentioned that you know, current quarter profits are up by around 18 crores because of the treatment. Can you just throw some light on that?

**Srinivasan:** Yes, sure. We adopted the accounting standard 30 in the first quarter of this year. Basically, what it means for us is all highly probable forecast transactions are accounted into the P&L as and when actual transaction takes place. So, the forward contracts MTM is first taken to the balance sheet and then drawn into the P&L when the forecast was meant to be transferred into actual.

**Sangam Iyer:** Okay.

**Srinivasan:** Like for instance, just to explain to you that supposing I have hedged the revenues for the month of October, and let's say...say \$10 million, the MTM losses or gains for this will go to the balance sheet. And then that will come into the P&L in October.

- Sangam Iyer:** Okay. So, when we mention here that you know, further consequent to this net foreign exchange gain and net profit for the current quarter is higher by around 19 crores, this is a balance sheet adjustment that has not been bought out into the P&L or how is it like, exactly? Is this a loss, which was adjusted in the balance sheet and not getting reflected in the P&L anywhere?
- Srinivasan:** No, part of it is in the balance sheet. There is about 15 crores in the balance sheet and part of it is due to difference between the Accounting Standard 11, which we followed earlier, and Accounting Standard 30 we adopted for certain accounting transactions..
- Sangam Iyer:** Right, so how much of the FOREX gain or loss would be there in the current P&L, that you have reported this quarter?
- Srinivasan:** You have to look at it in a slightly different fashion. There is an exchange gain, which is accounted, which is a small amount of gain, correct?
- Sangam Iyer:** Okay.
- Srinivasan:** But, the way you need to look at is as compared to what exchange realizations we had in the corresponding quarter of last year versus what you had in this year. Those realizations are built into the revenue, right?
- Sangam Iyer:** Right.
- Srinivasan:** Revenues and expenses and all those. So, net of all these, there is a foreign exchange gain/loss item, there is a economic gain which has come out of better price realization, better dollars realization. So, all these put together has resulted into a margin gain of about 1.1% during Q2, which is roughly about 7 crores.
- Sangam Iyer:** So, this is because of the realization, right. That's, I mean you know, in terms of the hedges, is there any FOREX gain or loss that has come in?
- Srinivasan:** Okay. So in terms of the hedges, I mean, there would be some losses due to hedges, essentially you know, what is happening is that as of 30<sup>th</sup> September, when you translate all the receivables, the receivables are translated at current rates, which result into a gain.
- Sangam Iyer:** Right.
- Srinivasan:** And that is offset by the hedges, which we have made at different rates, like for instance if we have on an average hedges at say 47, 47.5...
- Sangam Iyer:** Right.

**Srinivasan:** ...the difference between 47.5 and the closing rate of 49 would be the hedging loss, but that will be equivalent gain also due to translational of receivable.

**Sangam Iyer:** Right, but those translational of receivables, they are adjusted in the balance sheet itself, right. Or are they brought at as a translational gain in to the P&L?

**Srinivasan:** Yes, they are all brought into the P&L.

**Sangam Iyer:** Okay, so net-net, all these...all gains put together, we have a gain of around 7 crores, is that what you are saying?

**Srinivasan:** Correct.

**Moderator:** Participants, please restrict your questions to two per participant.

**Sangam Iyer:** Yes, ma'am, it's the same...it's the first question only actually. So, it was just a clarification on the first question only. And sir, on the second question, could you throw some you know, light in terms of what's the growth expectation that we are looking at for our you know, geographies in say in Brazil, US et cetera going forward? And also when do we see US breaking even?

**Srinivasan:** See, we don't give any specific revenue guidance.

**Sangam Iyer:** No, I am just...you know, since you said you know in the domestic market you are looking at these kind of a you know, kind of a revenue growth, similarly I just wanted to get a sense on you know Heumann, Brazil, Russia, etc, how are we looking at those geographies?

**Srinivasan:** Yes, I mean the growth is likely to be good in all these territories. Well, we don't give specific guidance, when we discuss, I mean like for instance you want to go territory-by-territory?

**Sangam Iyer:** Yes that would be...

**Srinivasan:** Okay, if you cover these three territories, US will continue to grow at the current pace, Brazil it is unlikely that this high growth, which we are seeing in the current quarter is going to continue. So Brazil growth is on an average around 15%.

**Sangam Iyer:** Okay.

**Srinivasan:** And Heumann, Heumann right now in the current quarter had a growth of about 29% but it will not be so high.

**Sangam Iyer:** So, because if we look at the first quarter and second quarter put together we have grown pretty strongly...almost 20% kind of 20% plus on a y-o-y basis.

**Srinivasan:** No, I mean if you see on a constant currency basis, Heumann would have grown by about in constant currency by 13%, 14%.

**Sangam Iyer:** Okay, okay and sir, finally on the margins, where do we expect the margins to be?

**Srinivasan:** At PBT level, we don't expect significant changes in the margin. So, it would depend on how the sales mix happens. So, at a territory level the margins are not expected to significantly change. Of course, overall margins may slightly move depending on which territory is contributing to sales.

**Sangam Iyer:** Right, so you know, if I look at it you know, first quarter we had around 24% plus EBITDA, second quarter it's around 21%, so I was just trying to understand you know on a steady state for the full year, how much are we expecting internally?

**Srinivasan:** No I don't have a guidance number for that. But I mean there is no specific update, which I...there is no specific deviation, which we expect in any of these territories. So, the overall final margin would depend on finally how the sales mix comes out to be.

**Sangam Iyer:** Okay, because with improving contribution from domestic business going forward, as you had indicated earlier, in the call. So the margin should be at current levels or in fact better than current levels, right, if I am not wrong?

**Srinivasan:** If you look at it in the first half, the amount of business, which came in from Brazil, was significantly high.

**Sangam Iyer:** Right.

**Srinivasan:** But I am just giving you an example.

**Sangam Iyer:** Right.

**Srinivasan:** So, Brazilian business gives relatively better margin compared to the other international businesses, and can still grow substantially which added to a lot of profits. But, so that is unlikely to happen in the second half. So the composition of profits, which came in from some of these territories will change in the second half. So that is likely to impact. So in terms of the net profit margin is expected to be slightly lower.

**Sangam Iyer:** Okay.

**Moderator:** Thank you for your question.

**Sangam Iyer:** Thank you.

**Moderator:** The next question is from the line of Krishna Prasad from JM Financial. Please go ahead.



**Krishna Prasad:** Hello, Yes thanks for taking my question. Can you help us understand this Brazil growth for the quarter, I mean you've done 35%, can you help us understand what is driving this growth and whether is it sustainable going forward?

**Srinivasan:** Yes, see one is that we had a problem with one of the distributors that we had discussed in the first quarter call. You know, because of which the growth in the first quarter if I recall was less. We had a 10% growth in the first quarter on constant currency terms for Brazil, which was little lower than the normal expectation. And on an adjusted basis it was even less. So, that problem we were able to sort it out during this quarter. So, the depletion of channel inventory with one of the largest distributors that we could make up for in the second quarter. So that is one of the reasons that we see a good spike in the sales. So, while I mean it's actually the secondary sales are also showing a good healthy trend, I mean 34% sales growth is actually quite impressive, in constant currency of course it is about 27%.

**Krishna Prasad:** Right, could you...was there any product approvals in Brazil during this quarter and are you expecting any product approvals through the year?

**Rishi Shah:** No, we have not received any approvals in this quarter, but we expect to launch around three to four products in H2 this year.

**Krishna Prasad:** Right, and would you be able to give what was the underlying growth without this distributor issue?

**Srinivasan:** If you look at the market, for the first half...or for let's say Quarter 2, I'll give you an idea about the market and where we grew and for us the market growth is indicator actually. So, the market grew by about 25%, which also had a pure generic component. And Torrent growth was 17% in terms of secondary sales growth. So that is the indicator I mean for Q2 versus that the growth has to be compared. So the market growth is the indicator going forward.

**Krishna Prasad:** Okay got it. Just one more question on your R&D, I mean for the first half we've seen R&D expense actually being quite low. Would that be sustainable if you can provide us with your guidance on a full year basis?

**Srinivasan:** See, in terms of overall percentage to sales for the whole year, it would be around similar to last year's level. Some part of it we'll catch up during the second half, and this trend is generally less than the first half, and the expenditure we'll catch up for some of the expenditures in the second half.

**Krishna Prasad:** Right, so was there any income from AstraZeneca during the quarter?

**Srinivasan:** There was no supply revenues, we had some licensing revenues coming from the CRAMS business, which was about 10 crores of revenue we booked during the quarter on account of

licensing of dossiers as well as additional development of some additional development work. You know of course, there is some cost also associated with this.

**Krishna Prasad:** Right, also if you can just help us understand this 18 crores of foreign exchange gain for the quarter, it's actually not still very clear in terms of how you are arriving at this number?

**Srinivasan:** In terms of how I am arriving at this number okay.

**Moderator:** Please restrict your questions to two per participant, thank you.

**Srinivasan:** See, as I told you, these are essentially, the way AS11 requires you to account is the AS11 asks you to account for all the losses into the P&L, and the gains are off balance sheet, that's how we used to account. And after the adoption of AS30, which we did in the first quarter of this year, the gains and losses associated out of future forecast transaction, highly probable forecast transaction are taken into the balance sheet and drawn into the P&L as and when the forecast materializes. So, part of it has gone into the balance sheet, part of it is due to accounting differences.

**Krishna Prasad:** Okay.

**Srinivasan:** Right, basically what it says is that had you accounted for it as per AS11 what would have been the number, now that you are accounting as per AS30, what was the number and the difference is what is this So, the difference is coming essentially out of this only that all losses has to be recognized as per AS11, but as AS30 doesn't require you to recognize all losses, particularly on the highly probable forecast transactions.

**Krishna Prasad:** Okay, okay. Thank you.

**Srinivasan:** Yes.

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

**Anubhav Agarwal:** Thank you, sir. So, just one question on the domestic market growth guidance that you gave out 15% for the second half of this year, I just remember in the last conference call you were expecting to grow around at least around 18% for the second half, I just wanted to know that from the last quarter to this quarter, and you mentioned that you are going to step up the marketing activities in the domestic markets, so what has changed in the expectation or which segment has kind of in you expectation underperformed versus last quarter versus now.

**Shivender Agrawal:** See, last time we said that...now since monsoon has come and we were expecting that acute therapy would do well. As I said that though antibiotic has done well, but in GI the performance has not improved. A) The market has not picked up, b) the intensity of the competition. So looking into that, the current growth is very low. So looking at the corrective

action what we are taking, it may not lead to 18% kind of a growth. That's the reason that what we talked last time, we have adjusted looking into the current scenario, right. Chronic therapy in which we are doing well we expect that it will continue to do well in H2 too.

**Anubhav Agarwal:** And one additional question is, when you say you've stepped up your marketing activities, is that...so the doctors and the coverage remains the same, MS remain the same...it's just the promotion activities and/or the frequency of visits of the MR, what exactly do you mean...and because you are saying that overall expense for you remains the same.

**Shivender Agrawal:** Yes.

**Anubhav Agarwal:** You are shifting from one source to the other source, and still I am not clear on the entire thing that how will you step up the sales growth while keeping the overall expense?

**Shivender Agrawal:** So, I only said that there are about few products, which have not done well where the competition has done well. So, intensity in terms of the MR visit is going to increase to enhance the prescription of those products, which will help to bridge this gap.

**Anubhav Agarwal:** Okay, okay and this intensity of MR visit you are specifically targeting the GI therapy which has been a troubled area).

**Shivender Agrawal:** That's right.

**Anubhav Agarwal:** Okay. Thanks.

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

**Bino:** Hi, first of all the margins...the impact of Sikkim Facility coming on line and the expenses coming without getting back to buy revenues, is that issue completely behind us or is it still dragging margins a bit?

**Srinivasan:** Can you repeat your question please.

**Bino:** Yes, I mean, to word it have a way, the Sikkim Facility, is it giving full operating leverage as of now or is it still dragging margins a bit?

**Srinivasan:** No, in terms of capacity utilization it has not reached its full; it is still about 60% level. So, the ramp up has still to take place to a full level.

**Bino:** Overall, what time period would that happen, two quarters, four quarters...

**Srinivasan:** We already have now seen two quarters right, so another...total four quarters, yes.

**Bino:** Okay, right. So that should improve margins right?

- Srinivasan:** Yes, we will have another four quarters over this it will really reach the full capacity utilization.
- Bino:** Right, right. And then second question on Germany, the growth that we are seeing are...what we have seen in the last couple of quarters, is it more coming from the fresh tenders that you have won or is it coming from your branded business there?
- Srinivasan:** See, it's coming on from a mix of all the businesses. The tender portion of the business constitutes about 55% in terms of net sales. And the other part of the business is also growing. The non-tender business is also growing. So, like for instance how many new products we would have launched.
- Srinivasan:** Three new products we launched during the quarter, which also has brought in significant amount of revenues.
- Bino:** Okay, okay. So the best part of the business is that part seeing any kind of pricing pressure or rebates et cetera?
- Srinivasan:** No, I mean the tender business is highly competitive business. But as far as the non-tender is concerned, it starts with a little high price realization in the initial stages and then it falls over a period till it comes into the tender based products of the insurance companies.
- Bino:** Right, right. So, what's the full year tax rate you are looking at, consolidated level?
- Srinivasan:** Full year tax rate, I would say...
- Srinivasan:** Around 18%, is what we are looking at.
- Bino:** Okay, great. Thanks a lot.
- Srinivasan:** Yes.
- Moderator:** Thank you. The next question is from the line of Ravi Agarwal from Standard Chartered. Please go ahead.
- Ravi Agarwal:** Yes, good morning, thanks for taking my call. Just actually one question, this when you mentioned the 1.1% uplift in terms of margins because of FOREX in this quarter, I just wanted to understand assuming that the rupee remains at a 49, 50 kind of a level in the next couple of quarters, do we expect a similar kind of a benefit in the next couple of quarters based on our estimates?
- Srinivasan:** See, what we have done is, before the current year we hedged our exposures up to about say 75% to 80%. So, we have quite a significant amount of revenue already hedged and probably

in second half we should see about only 20% of the revenues would remain open. So, to that extent, there would be a gain, but 80% of the revenues are already hedged and we have...the dollar hedges would have around 47.

**Ravi Agarwal:** So...I mean, the way I understand is that the dollars which have been already hedged, 75% of revenues as you mentioned, on that for every realized hedged position which you unwind, you will be actually booking a loss, right?

**Srinivasan:** Correct.

**Ravi Agarwal:** So, so despite that we've seen a 1% increase in our margins or a positive 1% impact in terms of margins for this quarter.

**Srinivasan:** For this quarter, yes.

**Ravi Agarwal:** And so, going forward, the way the thing is, the gains which would have...which would...we would have got in this quarter because of translation, we would not see that on a rolling q-o-q basis, and we could actually see a negative impact of FOREX because of these hedges which we've already taken.

**Srinivasan:** Yes. See if you look at...if you want to project the revenues for the next half year, the dollar would realize Rs.47, it would not realize 49, 75% of dollars will get you only Rs.47, net of the exchange losses.

**Ravi Agarwal:** Right.

**Srinivasan:** So, while you will probably book the revenues at 49, it will be compensated by an equivalent loss, which would be drawn from the balance sheet to the P&L.

**Ravi Agarwal:** Just a final question, do you have the number for the constant growth in exports...a constant currency growth in exports. You are mentioning a number of 70 odd percent on a rupee basis. Just on a constant basis, how much has been the growth in this quarter?

**Srinivasan:** International growth in rupees amount to about 31%, in constant currency terms it is 24%.

**Ravi Agarwal:** Thank you so much.

**Srinivasan:** Yes, thanks.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please limit your questions to two per participant. Please go ahead.

**Nitin Agarwal:** Thanks. On the contract manufacturing business, the export part of it, when do you see you know, the scale up really beginning to come through on that part of the business?

**Srinivasan:** Okay, you are talking about the...

**Nitin Agarwal:** Product revenues from AstraZeneca and deals that you have signed?

**Srinivasan:** Okay. From '12, '13 onwards, we will start seeing supply revenues.

**Nitin Agarwal:** And by when do you see that becoming a significantly proportion of the overall business?

**Srinivasan:** It will keep growing and the growth out of this business will be, I mean it will be substantial. So, in terms of the proportion of the business it would be about let's say I mean right now it is about 9% of the business total contract manufacturing including the insulin. It could probably move up to let's say 13% or so.

**Nitin Agarwal:** Which is by when?

**Rishi Shah:** Over a period of five years.

**Nitin Agarwal:** 30% okay.

**Rishi Shah:** 13.

**Nitin Agarwal:** 13 okay. And lastly on the...FOREX gain 7 crores that you said you've booked, this is essentially booked in which line items?

**Srinivasan:** Which one you are referring to?

**Nitin Agarwal:** The 7 crore of FOREX gain that you said you booked during the quarter.

**Srinivasan:** Yes, that's why I clarified, that 7 crore is a net gain which has come in.

**Nitin Agarwal:** Okay.

**Srinivasan:** It has two components. One is like for instance sales realizations and expenditures have been translated at different rates compared to what it was during the corresponding quarter of last year.

**Nitin Agarwal:** Right.

**Srinivasan:** But it has gone into all these heads, correct that is one portion of it.

**Nitin Agarwal:** Right

- Srinivasan:** Second portion of it is, there are actual translation losses and translation gains of actual receivables as well as hedges.
- Nitin Agarwal:** Right.
- Srinivasan:** And the transaction gains and losses, all these account for about roughly 2.8 crores, which will appear as a 2.8 crores foreign exchange loss as a specific line item in the accounting.
- Nitin Agarwal:** Okay, okay thanks very much.
- Moderator:** Thank you. The next question is from the line of Kaushik Pal from Kotak Mutual Funds. Please go ahead.
- Kaushik Pal:** Yes, actually how much is the, you know, OCI balance as of now in the balance sheet?
- Rishi Shah:** Pardon.
- Kaushik Pal:** How much is the you know, FOREX you know gain or loss sitting in the balance sheet as of now, right now?
- Srinivasan:** Around roughly 16 crores.
- Kaushik Pal:** 16 crores.
- Srinivasan:** Yes, which is basically the MTM difference.
- Kaushik Pal:** Correct understood, and what was the realized rate this quarter when you reported your numbers from...
- Srinivasan:** No these were translated at closing rates, for instance what was the rate that's prevailing as of 30<sup>th</sup> September.
- Kaushik Pal:** Okay, everything is translated as per the closing numbers?
- Srinivasan:** Yes.
- Kaushik Pal:** Okay. Okay fine and thank you so much.
- Moderator:** Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** Yes, hi just wanted some clarification on the domestic growth, I mean you said that there has been some kind of issue on the gastrointestinal's. But if you look at the data, there are some bigger brand in the chronic segment also like Alprax, Dilzem which have been not growing. So are you seeing any slowdown in the chronic side as well?

- Shivender Agrawal:** No, see Alprax and Domostal if you look at, these are the quite classical products and the market is driven by Torrent. And, but say molecule is not growing. So, we don't expect very high growth in these two products in the coming months or years also. So it is expected that the molecules will remain at slow growth and the market leader...being the market leader, we will protect the current pace.
- Girish Bakhr:** Okay, but if you look at the top 10 or say 15 brands which would form say around 40% of your sales, can you share how much growth rate would be there like on an average?
- Shivender Agrawal:** For 10 top brands?
- Girish Bakhr:** Yes.
- Shivender Agrawal:** Now in 10 top brands, when I say that there are three products which are slow pace, balance 7 products will continue to grow by 15% to 20%.
- Girish Bakhr:** Okay, okay. And is it possible to give a split across the volume growth in the price and the new launches for the domestic?
- Rishi Shah:** I'll give that to you.
- Girish Bakhr:** Okay, and lastly on the US, I understand you said that the pace for the US will continue, you had some significant launches in this quarter. Is it likely to continue because that there are more products or the market share ramp-ups in some big products like donepezil is likely to like remain as what they are right now. Where will the growth basically come from the US?
- Srinivasan:** Yes, we are expecting about four launches in the second half of this year. So that would contribute to the growth and the existing products growth momentum also will continue.
- Girish Bakhr:** Okay, okay that's helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Monica Joshi from Avendus Securities. Please go ahead.
- Monica Joshi:** Thanks for taking my question. So, just sorry for repeating this, so you have 2 crores FOREX loss, is it this quarter?
- Srinivasan:** yes 2.8 crores.
- Monica Joshi:** 2.8 crores, and where is this recorded, in another expenses?
- Srinivasan:** Yes



- Monica Joshi:** Okay. Great, thank you very much.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Religare AMC. Please go ahead.
- Nitin Gosar:** Yes, thanks for taking my question. I wanted to just understand from you the excise as in component quarter-on-quarter it has gone up by 18%, while in your domestic revenue, has been almost like flat. Can one draw any kind of link between your excise and the domestic business?
- Srinivasan:** Excise is a very insignificant portion of the expense right. So we don't pay excise duty on any of our domestic, which line items you are referring to?
- Nitin Gosar:** No, I was just saying excise duty which you are paying, y-o-y it has gone up by 34%, while your domestic growth has been around 8%, so I was just wondering whether the excise duty is applicable.
- Srinivasan:** We are not paying any excise duty on our domestic sales. So there would be probably some excise classification also for Brazil. So because it's classified as excise and ICMS together, so it would be probably because of the Brazilian sales.
- Nitin Gosar:** Okay and another question was related to interest component. It has come down by almost from 34 million it has come down to 29 million y-o-y, any specifications out there?
- Srinivasan:** One is the overall cash balance has gone up. And in terms of the yields on investments also has gone up. So, we are in a positive carry zone as far as overall cash balance is concerned. The positive carry has increased actually.
- Nitin Gosar:** Okay. And it has got nothing to do with any kind of FOREX realization gain or something, which has got adjusted?
- Srinivasan:** FOREX...no...nothing to do with FOREX.
- Nitin Gosar:** Okay, okay and last question sir, on Brazilian market, you have Losartan and Metformin which you know, face the pricing pressure during first quarter FY'12. What's the scenario out there? How is the volume take?
- Srinivasan:** The Losartan, we had talked about it in the earlier quarter that the Losartan was covered under this Farmácia Popular scheme, which was launched by the government where they give free Losartan to the patient. So, we expected a significant ramp up in the free Losartan sales, and our trade sales was expected to go down. But it's not actually proving to be true. So we are still making...our sales have...are still recording at good levels in the normal trade as well. So the price realization which we expected to go down has not actually happened.

**Nitin Gosar:** Okay, and these two molecules together would be contributing how much portion of your Brazil revenue?

**Srinivasan:** Losartan is a large product for us. We'll get back to you on this. I don't have specific numbers on Losartan. Both, these we'll get back

**Nitin Gosar:** Sure, thank you.

**Srinivasan:** Yes.

**Moderator:** Thank you. The next question is from the line of Kaushik Pal from Kotak Mutual Funds. Please go ahead.

**Kaushik Pal:** Hi, just a clarification on my earlier question, I was actually asking about at what rate the revenue was realized, at what average rate. And probably you answered on the you know, the FOREX contracts, which was lying in the balance sheet. So the revenue has been converted at the realized hedge rate, right. So, obviously you are looking at that rate what that was for the quarter.

**Srinivasan:** 47...the hedges.

**Kaushik Pal:** No I am saying the revenue that you've reported in INR numbers for the quarter has been recorded at whatever the rate that they were hedged at. Is my understanding correct, I mean the...okay.

**Srinivasan:** No, no, see normally the revenues are accounted at the spot rates.

**Kaushik Pal:** Okay.

**Srinivasan:** And the hedges are separately used. So as and when they are used, they come into the P&L based on a different line item. So, sales were recorded at the spot rate prevailing on the date on which the sale takes place.

**Kaushik Pal:** Okay, no since your following cash flow hedge accounting now, in effect I mean it may be a different item, but in effect the revenue number that we report will reflect the rate at which the revenue was hedged, that's what you also mentioned during the call...

**Srinivasan:** The revenue numbers are recorded at the spot rates at which it was actually the sales was affected.

**Kaushik Pal:** Okay, I think I will take this off line later with Rishi to understand this. There is another question from Pankaj.

**Moderator:** Please restrict you questions to two per participant. Thank you.

**Pankaj:** Yes. Good afternoon, sir. One on the licensing income last quarter we saw about 17 crores of licensing income, can you quantify what would be the amount this quarter and what would be the visibility going forward on that. And second...

**Srinivasan:** Yes, go ahead.

**Pankaj:** Second, you guys have done excellent job in working capital management over the last so many years. Last year, we saw primarily the working capital management was more efficient because of the rise in creditors, mainly due to the insurers in Germany. Can you give us some sense on a half yearly basis, how is that creditor amount looking like, because we have seen very solid growth in Germany coming along, and that's the merely amount given to insurers. So, two questions, one on your licensing income and second on the cash flow part on the creditors.

**Srinivasan:** Yes, the licensing income we booked about 10 crores in this quarter.

**Pankaj:** 10 crores, okay.

**Srinivasan:** As far as German working capital is concerned, it has grown how much exactly that's grown I cannot quantify now, I have to get back to you. The overall creditors are growing because as the business grows, the discount volume also grows. .

**Pankaj:** Okay, so on the licensing income, is that the visibility on a recurring basis or you are saying that that's just one-off...because 17 and then now 10 what could be the sense we can get on the licensing income going forward?

**Srinivasan:** We don't give any specific guidance, but for the current year we will have licensing income coming in all the quarters.

**Pankaj:** In all the quarters.

**Srinivasan:** Yes.

**Pankaj:** Okay fair. Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Janaki Raman from FT (Finquest). Please go ahead, and please restrict your questions to two per participant. Thank you.

**Janaki Raman:** Yes, Mr. Srinivasan can you tell me whether you have reached breakeven in your US business?

**Srinivasan:** See, in the current year we have not broken even...

- Janaki Raman:** Is it likely that you will reach that in Fiscal '13.
- Srinivasan:** Next year we expect to breakeven.
- Janaki Raman:** Right. And in terms of profitability either at the EBITDA level or at the PBT, how does the Brazilian business compare with that of Indian formulation business?
- Srinivasan:** I mean, it's relatively lower compared to India, the PBT percentage will be lower than India.
- Janaki Raman:** Right, and lastly of late we have been hearing that MNCs have been getting much more aggressive in India in terms of product pricing, are you seeing pressure from that direction particularly in the acute segment?
- Shivender Aggarwal:** Yes, there is a pressure and some of the products which is marketed by MNCs are quite low. However, since they do not have a base, currently the shift of the prescription is not seen, but next couple of quarters it is expected that that shift will happen.
- Janaki Raman:** And despite that, still you think that because of your more focused efforts you will get that 15% growth in that.
- Shivender Aggarwal:** Definitely.
- Janaki Raman:** Okay, thank you.
- Moderator:** Thank you for your questions. The next question is from Sachin Kasera from Lucky Securities. Please limit it to two questions per participant. Thank you.
- Sachin Kasera:** Sure, so my first question is regarding the Indian formulation market how do you see that changing in the next two to three year, could you throw us some light on that, and what is going to be Torrent strategy to grow in line or above market for this?
- Shivender Aggarwal:** See, next two three years we see that the way patent pipeline is drying up most of the business has to be consolidated in terms of increasing the business from the existing products. In addition to that, the new guidelines in the DCGI where product approval is taking longer time, the FDC will also will be slow down, so most of the companies they will be consolidating with the current business.
- Second, one thing which is still to come is the NLEM, NATIONAL-LIST-OF-ESSENTIAL-MEDICINES where government is working and there is a directive of Supreme Court where they are expecting government to respond within two weeks time that how they are addressing the prices. So, it is expected that the pricing is going to be a key issue and there will be directives to companies to reduce the price. So there seems to be the value growth may come down, however volume growth is expected to remain same or a little better.

**Sachin Kasera:** Does it mean that the margins in Indian business over the next two three years could reduce from the existing levels or what we have been enjoying in the last two three years as the industry per se?

**Shivender Agrawal:** It will depend that what route government is going to take on the price reduction!

**Sachin Kasera:** And because of this increased effort by MNCs to get into branded generics, do you see...because they seem to have a...that is the general perception in the market that they seem to have a better relationship with the doctors compared to the Indian companies? So do you see a risk wherein the Indian companies could start losing market share to the MNCs over next two three years?

**Shivender Agrawal** In the contrary that the relationship of MNC is not that great with the larger or mass customers, they have a relationship with the handful of customers, and the products which they are bringing which is more for the past. So I don't see that there is going to be a great issue.

**Sachin Kasera:** Okay. My second question sir is regarding if you could give some idea on what is they type of return on capital employed that we have across our two three key segments which is India, Brazil and you know Germany and rest of the world if you could throw some light on that?

**Srinivasan:** As far as return on capital employed for Brazil segment

**Sachin Kasera:** For India, Brazil, Germany and rest of the world, the three or four key segments, which are there for us?

**Srinivasan:** Now, see the capital employed is common in the sense that you know, you have one manufacturing facility, which caters to all the segments. So, we don't look at it that way as what are the capital employed for each of these businesses. Because, these are all **fungible** plants, you can use the plants for any business. So, it's basically the return on sales or the kind of profitability for these businesses vary. That's what one needs to look at, so if you look at the margins, the best margins are in domestic business then follows Brazil, then US margins are one of the...probably the lowest.

**Sachin Kasera:** What would today be the margin for us in US where would they stand today?

**Srinivasan:** We don't share in a specific segment margin.

**Sachin Kasera:** And sir, what is the invest...in that case can you just tell us what is the type of investments that we have made till date in the US, Brazil and Germany? Will you be able to share that?

**Srinivasan:** Marketing investment

**Sachin Kasera:** Yes, no in terms of, are there any manufacturing set up that we dedicatedly put up for US, Brazil and Germany or as you said it is just all one plant, which is using...which is tangible for every...

**Srinivasan:** Absolutely, it is not...none of the facilities are dedicated to any of these territories it is all intermixed for any of these you can use.

**Moderator:** Thank you. The next question is from the line of Ashish Thavkar from EMK Global. Please go ahead.

**Ashish Thavkar:** Thanks for taking the question. Sir, I just wanted to know whether we have booked any income from Novo Nordisk this quarter.

**Srinivasan:** Novo Nordisk is where we do insulin business.

**Ashish Thavkar:** Yes

**Srinivasan:** Yes I mean every quarter we do business with Novo Nordisk.

**Ashish Thavkar:** All right, have we got any reimbursement in this like R&D reimbursement income this quarter or so have you booked any?

**Srinivasan:** What is that R&D reimbursement, I am not able to understand.

**Ashish Thavkar:** Any form of licensing income from Novo Nordisk this quarter?

**Srinivasan:** I will not be able to answer that.

**Ashish Thavkar:** Okay no issue sir. Sir, as far as the revenues are concerned, can we have revenues for the RoW Rest of Europe and Russia business as well?

**Rishi Shah:** We will share that in our investor presentation, which we will be uploading on the site.

**Ashish Thavkar:** No issues, sir. So all the best for the future.

**Rishi Shah:** Thanks.

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

**Rahul Sharma:** Yes. Had the Sikkim facility cost been fully reflected in this quarter in terms of overheads as well as employee costs?

**Srinivasan:** I mean to the extent of the capacities utilized here all the costs have been booked.

**Rahul Sharma:** Okay, so you will be publishing further increase in costs on quarter-on-quarter basis, right?

**Srinivasan:** Whatever is the variable costs will increase depending on the increase in production. But, these costs are not likely to change significantly, which has already come under the P&L.

**Rahul Sharma:** Okay, come into the P&L this quarter per se.

**Srinivasan:** Yes, it has been there for the last two quarters.

**Rahul Sharma:** Okay, okay. And tax rates for FY'13 also would be at 17%?

**Srinivasan:** We have not looked at that far, but yes, it should be at least 17%,.

**Rahul Sharma:** Okay, thank you.

**Moderator:** Thank you. I would now like to hand the floor over to Mr. Manoj Garg, for closing comments.

**Manoj Garg:** Hello. So, on behalf of Edelweiss, once again we thank the management for taking time out despite the busy schedule. And thank you once again to all of you. Thank you very much.

**Srinivasan:** Thank you.

**Moderator:** Thank you, on behalf of Edelweiss Financial Securities. That concludes this conference. Thank you for joining us, you may now disconnect your lines.