



# “Torrent Pharmaceuticals Limited Conference Call”

July 31, 2014



**ANALYST:** **MR. ANSHUMAN GUPTA - LEAD ANALYST - PHARMACEUTICALS - EDELWEISS FINANCIALS SECURITIES**

**MANAGEMENT:** **MR. ASHOK MODI - EXECUTIVE DIRECTOR FINANCE – TORRENT PHARMACEUTICALS LIMITED**

**MR. SANJAY GUPTA - EXECUTIVE DIRECTOR, INTERNATIONAL BUSINESS - TORRENT PHARMACEUTICALS LIMITED**

**MR. RUCHIR MODI – CHIEF MARKETING OFFICER - TORRENT PHARMACEUTICALS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q1 FY 2015 earnings conference call, hosted by Edelweiss Securities Limited. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal for an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anshuman Gupta of Edelweiss Securities. Thank you and over to you Mr. Gupta!

**Anshuman Gupta:** Thanks Karuna. Good morning to all of you. On behalf of Edelweiss I welcome you all on Torrent Pharma Q1 first quarter 2015 earnings call. I am Anshuman Gupta and I lead the Pharma and Healthcare Research at Edelweiss. We have the Torrent Pharma management team with us, Mr. Ashok Modi, Executive Director, Mr. Sanjay Gupta, Executive Director for the International Business, Mr. Ruchir Modi, Chief Marketing Officer, and Mr. Sudhir Menon, General Manager, Finance and Mr. Rishi Shah, AGM, Finance. I would like to hand over the conference to Mr. Ashok Modi for opening remarks. Over to you Sir!

**Ashok Modi:** Good morning everybody. I am Ashok Modi here. Welcome to our post result teleconference for FY 2015 Q1 results. I have with me, Mr. Sanjay Gupta, who is the Executive Director, looking after international operations, Mr. Ruchir Modi, Chief Marketing Officer. Mr. Sudhir Menon, my colleague at General Manager, Finance and Rishi Shah, AGM, Finance.

Let me first take you through the operating highlights of the quarter. During the quarter the revenues from our domestic and international core business grew at 27%; however, adjusting for revenues from contract manufacturing operations and the one off income which we had in the last year the actual growth of the company was 15% and the revenues increased from 972 Crores to 1114 Crores.

The Indian formulation business registered a growth of 30% with revenues at 352 against 312 Crores last year. As per the AIOCD, the IPM growth was 7%, the covered market was 6%, while the Torrent growth as per AIOCD was 16%.

International operations registered a growth of 36%, while on constant currency basis it was 27%. The highlights of the major international territories are as follows:

The US business registered revenue growth of 138% with revenue is at 269 Crores. The constant currency growth was 118%. During the quarter the company filed one ANDA and one DMF. The European operations including the German operations, UK and Romania

etc., registered revenues of 230 Crores with growth of 17%. The constant currency growth was 3%.

Rest of the World including RCIS operations registered degrowth of 12% with revenues at 86 Crores. The revenue degrowth was majorly attributable to the market inventory correction, discontinuation of sales in some nonperforming countries and overall lower performance than anticipated.

The Brazilian operations recorded revenues of 141 Crores with growth of 12% and constant currency growth of 13%. The contract manufacturing operation for the quarter had degrowth of 61% with revenues at 26 Crores. This was majorly on account of production disruption due to some technical reason; however, the production resumed in the last week of May. So we expect that this degrowth, which has happened would be substantially regrouped by the end of the year.

The EBITDA margin for the company for the quarter where at 31%. During the quarter the company had a product gain of 34 Crores against loss of 13 Crores on account of forex during the last year same quarter. The profit before tax was at 349 Crores compared to 187 Crores during the last year and showing the growth of 87%.

The profit after tax stood at 256 Crores versus 149 Crores showing the growth of 72%. The tax rate was higher at 27% compared to 21% during the last year, which was principally on account of the unrealized profits in the subsidiary.

I am also happy to say that during the quarter we consummated the Elder deal on June 29 which was for the acquisition of the identified domestic branded formulation business. So during the quarter the Elder business has contributed Rs.1 Crores to the company's topline.

Thank you very much for the question this patient listening and now I can start the question and answer session. Over to the coordinator!

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Chintan Sheth from SKS Capital and Research. Please go ahead.

**Dimple Sheth:** This is Dimple here. Congrats on a good set of numbers. Sir I would like to know that the Elder deal is completed, so have we transferred the entire cash of Rs.2000 to Elder Pharma?

**Ashok Modi:** Yes the entire consideration has been paid.

- Dimple Sheth:** Is it 2000 only or is it anything less or more than that?
- Ashok Modi:** Actually the transaction is also inclusive of working capital, so there has been a small adjustment on account of actual working capital vis-à-vis the anticipated working capital of about 40 Crores.
- Dimple Sheth:** Sir, if you can give me the quantum that on what amount of cash is exactly transferred to Elder Pharma?
- Ashok Modi:** I could not follow your question.
- Dimple Sheth:** My question is that what is the total amount of cash consideration which is actually transferred from Torrent Pharma to Elder Pharma?
- Ashok Modi:** We will send that details to you in offline.
- Dimple Sheth:** Thank you so much sir. That was all from my end.
- Moderator:** Thank you. The next question is from the line of Ashish Rathi from Emkay Global Financial Services. Please go ahead.
- Ashish Rathi:** Thanks for taking my question. Wanted to check on Brazil business we have seen some growth this quarter coming back at a good highlight what caused this bounce and what will be the outlook for the geography going ahead? Sir on Brazil business we have seen some growth in this quarter, could you tell me what causes growth, we were maintaining at tepid outlook and what is the outlook if there is any change going ahead for FY 2015 for Brazil?
- Sanjay Gupta:** Essentially we had a unique growth in the Brazil market of about 17% for the Torrent products and this you can compare with the overall branded market growth of about 8% and about 12% for the molecule that we call the covered market. So in unit terms it was substantially higher than the market and this can directly be attributed to one major factor, last year we had three big price adjustments and we brought down the price in line with our competitors and so I will give you an example one of the products before the price reduction our share used to be 3.6% and today it is up to 9% and same for venlafaxine the price went down on June 2013 and before that our share was 9.4% and today is 17.3% and it is the same for lamotrigine where the share is stabilized close to 50% and we were in declining share situation earlier. So it is essentially the price adjustments that we took and the consequent I would say increase in share and increase in units that is contributing to faster rate of growth and it would during the course of the year compensate for the revenue loss because of the price by enhanced volumes.

**Ashish Rathi:** So will it be fair to assume that will be able to maintain this 10% to 12% growth in Brazil market for this year?

**Sanjay Gupta:** Just we would be growing our market or covered market close to that, so right now our covered market growth rate for this quarter was 12%, so you can expect the market to grow at around 10% to 12% for the relevant market for our products and we should at least stay on par with that.

**Ashish Rathi:** Have we launched any new products in Brazil?

**Sanjay Gupta:** The last product, we launched was neбиволол. So we have not launched any products this year.

**Ashish Rathi:** I just wanted to check we reported very strong margin this quarter, what has contributed to the sharp increase in margins and on a longer term period what could be the sustainable margins for Torrent? We have seen a sharp jump from say earlier margins from 22% to 23% type margins, we used to report in the last two quarters you report a 28.5% and this quarter around 30+% margins what would you like to help us understand with in terms of sustainable margins for the company going ahead?

**Ashok Modi:** There were two major reasons for the improvement in margins. One of course I told the forex growth which was helping us to improve the margin, which I really cannot say whether it will be sustainable or not because that would be dependent on how the market moves. The second is that yes there have been some efficiency in the selling and marketing expenses and you can see a drop on that account and third there is improvement in COGS that would be perhaps not sustainable in the long run because this was also coming from the duloxetine related realizations which were happening in the previous quarter as well as this quarter.

**Ashish Rathi:** On forex gain you said, forex gain would be built in other income below the EBITDA margin if I am calculating it correctly?

**Ashok Modi:** Primarily it is selling and general expenses and the COGS. Selling and general expenses I would say I can safely expect that yes our efforts are now bearing fruits and we should be able to control cost going forward. The COGS I would say is more of special effect and it may not continue in the future.

**Ashish Rathi:** Will we come back to the previous margins of around 20% to 21% for the company going ahead as a sustainable margin?

- Ashok Modi:** Generally we do not speak of any forward-looking statement but I would say that it should be better than what it was earlier.
- Ashish Rathi:** Thank you Sir. I will join back the queue.
- Moderator:** Thank you. We have next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- Sudarshan P:** Congrats for good set of numbers. What I specifically want to understand is if you are looking at the US business quarter-to-quarter there has been a substantial drop, if you are looking at it I think this quarter we have moved out of the exclusivity of Cymbalta. Was this drop primarily on account of that or do we see probably products x of Cymbalta remaining a bit kind of flattish and second is going forward what is the outlook that you are looking at for the US business?
- Sanjay Gupta:** I would not be able to give you guidance going forward, but essentially there is not much change in the business outside of Cymbalta, so the Cymbalta figure I can share with you for this quarter was roughly about 110 Crores and we have close to about 10% market share on Cymbalta and the price of course is lower than where it was and it has dropped considerably, there are 10 players on the market right now, so I would say Cymbalta is more like a normal generic product in the US and going forward we would be having what I would call usual margins on Cymbalta, but nothing exception but leaving aside Cymbalta the business continues than before.
- Sudarshan P:** Sir can you also explain the drop in your ROW growth, we have shown a decline in the ROW markets what specifically contributed to that and how do we see things?
- Ashok Modi:** ROW was basically two reasons, one was the general sluggishness in the market of which this segment comprises of and secondly discontinuation in a couple of CIS countries and that are also contributed a bit to the drop. Going forward I would say this is more of a one time because the discontinuation is a significant contribution to degrowth.
- Sudarshan P:** Just one more thing if you are looking at the interest I am sure that it has gone up primarily on taking the debt for Elder acquisition. Now do we see this interest component increasing or have we taken the entire debt on to the books or do we still have looking at more debt on the books, how do we see this?
- Ashok Modi:** This is substantially, from the debt taken for Elder. Don't foresee any further debt likely to come on the books on account of Elder.
- Sudarshan P:** How much would that be Sir?

- Ashok Modi:** Its 1400 Crores.
- Sudarshan P:** So that should be coming from the second quarter?
- Ashok Modi:** No, no it is already there.
- Sudarshan P:** The interest cost is being taken on that?
- Ashok Modi:** Interest cost obviously in this quarter would be for a very small period.
- Sudarshan P:** That is from my side. I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Kaushik Pal from Kotak Mutual Fund. Please go ahead.
- Kaushik Pal:** Congrats on a great set of numbers. Just to understand the margins a little bit in Q-o-Q obviously your Cymbalta topline and US dropped and still we have had 100 BPS expansion in core margin and so just want take the point is there and also between the quarters your other expenditure on absolute terms have dropped by almost about I think from 350 Crores, 345 Crores to about 85 Crores which is a very sharp drop which is probably set of expenditure. So if there any charge back which was extra growth from last quarter which lesser charger provided for this quarter is there something related to Cymbalta which is going on there can you please elaborate it?
- Ashok Modi:** You are talking about the USA or you are talking about the entire business?
- Kaushik Pal:** The entire business has seen a margin expansion. What I am referring to despite the fact that in US topline drop in Q-o-Q which has largely drop in Cymbalta and I imagine Cymbalta would have made much more money than the company corporate average. I am just trying to understand how your margin can expand when your most affordable product would have declined on Q-o-Q basis?
- Ashok Modi:** What I was telling you is that the improvement in margins had come on the account of let us say the COGS coming down, which I told you may not be sustainable because like you rightly say there is Cymbalta effect coming in that, but there has been a definite improvement in efficiency on account of other spend and we are hopeful that we would be able to continue to be more efficient on the expenditure part.
- Kaushik Pal:** So on other expenditure part this 60 Crores drop that you have seen on a Q-o-Q basis that is from Q4 to Q1, so this should we take the current base of other expenditure as a sustainable number?

- Ashok Modi:** If you compare it with Q4 of FY 2014, there would be some year end provisions coming into that effect, so it would not be very correct comparison between the two quarters, but if you compare with last year same quarter that would be a better comparison, so despite the overall growth of business we are almost flattish at the other expenditure and that would be a better comparison on Brazil whether we have been efficient in our expenditure or not.
- Kaushik Pal:** Finally my apologies, if I am repeating this question, I joined the call five minutes late, on the India business was there any effect of the latest round of NLEM price cuts into the numbers and what will be your outlook if there was not in the last quarter what would be your outlook regarding that for the rest of the year, are we facing any cut in revenues from the profit because of that? Can you elaborate?
- Ruchir Modi:** Yes we have negligible impact on this.
- Kaushik Pal:** You would expect a sort of mid teen's growth should be sustainable for the full year of FY 2015 for India business? I am saying mid teen's growth for the India business for the full year is sustainable?
- Ashok Modi:** Really we do not actually give out these numbers, but yes we have built up a base and we are hopeful that we will continue to do well.
- Ruchir Modi:** I would just like to add typically if you last three years I have been talking about almost this is the ninth or tenth quarter now. We continue to remain focus on the volume and brand building. So if you typically see the AIOCD figures we are the second fastest in terms of volume growth. We do not really take price increase as a growth driver for us, so typically when such announcements come the impact to us is negligible because we are at par or below the premium price products in the market. So moving forward also these products for us we have negligible impact and we hope to grow as we are growing in the past.
- Kaushik Pal:** Thank you Sir. Great that is all from my side. Good luck.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** Thanks. Congrats for good set of numbers. Just trying and the understanding the US piece again. I am not sure whether this has been discussed. On the sequential piece have we taken any price rebating or any discounts as we see a sequential drop because I understand June 2014 was the month were some competition came in leading to price erosion?



**Sanjay Gupta:** The impact is not for 15 days. The impact is for a longer period of time depending upon the contracts you have with customers, you keep them hold for certain period preceding the drop in price.

**Prakash Agarwal:** Now as you say it is in the size now so would it be fair to assume on 98% kind of price erosion which is usually seen, 98% to 99%?

**Sanjay Gupta:** 98% to 99% when you compare it to brand pricing that is the essential criteria. So, it is still relatively I would say decent pricing. The product is not less profitable than other products that we have.

**Prakash Agarwal:** So it would still be \$150 odd million kind of generic sales put together?

**Sanjay Gupta:** \$150 million for Torrent?

**Prakash Agarwal:** For the whole generic market?

**Sanjay Gupta:** That is ballpark number.

**Prakash Agarwal:** I just wanted to get a sense you had couple of good launches, Telmisartan in the last quarter is it not fair to assume that they would have been ramp up given its limited competition opportunity for us?

**Sanjay Gupta:** Essentially the decent launch in the recent past was Telmisartan plus hydrochlorothiazide, so that is where they were basically right now there four competitors, the fifth one has just come on the market, so if you look at IMS in June it shows you a Torrent Pharma share of about 10%, Mylan share of about 6% and the bulk of it about 85% is still with innovator plus Roxane which is their generic subsidiary. I think the IMS is not yet reflecting the shares of the generic players. So we would expect our share to increase substantially or actually to reflect substantially it is essentially four player market right now, so innovator plus Roxane put them in one bucket, this Torrent, Mylan and Qualitest which just entered. Qualitest is the Endo Pharmaceutical. So four player market good guess could be our target would be between 20% to 25% market shares.

**Prakash Agarwal:** So we are getting towards there but does not seem to reflect in the financials, so would it be fair to assume that this product has seen some higher than expected price provision?

**Sanjay Gupta:** I do not think so, I think the Telmisartan family itself is not growing and it is a declining family, so the volumes are not increasing of the whole pie, but as far as I concerned we have not been adjusting the pricing since the launch.

- Prakash Agarwal:** So price is healthy post the indigenization?
- Sanjay Gupta:** Yes exactly because we will see this Endo Pharmaceutical has just come in June, so that is a new player, it depend upon what approach they take.
- Prakash Agarwal:** Any comment you can give on Lamictal which we got approval sometime back?
- Sanjay Gupta:** We have not launched it yet. It is a five-player market already in the US.
- Prakash Agarwal:** On the margin front, I just wanted to get a sense you talked about forex impact, so where is this forex impact sitting?
- Ashok Modi:** Actually I made an error that the forex impact is after the margin so that is the additional impact which is there.
- Prakash Agarwal:** Just a question on the followup that one participant ask, so we saw the US sales declining Q-o-Q, but we saw EBITDA margins accretion even having a high Q4, so 31% which is upwards of 240 BPS Q-o-Q while our other businesses have also done okay, so the cost control and operating leverage are the only beneficiary because of leading to operating margin improvement?
- Ashok Modi:** Yes principal is that.
- Prakash Agarwal:** Thanks. I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Just one clarification on Cymbalta. You mentioned that the market now is about \$150 million odd, the total market size for the generic players versus what it was in the previous quarter roughly 650 million dollar would that be the comparison and that is the sharpness of price decline what you say?
- Sanjay Gupta:** These numbers are not hard and fast because IMS value is not really a reliable indicator about the pricing or the value of the market is, so it is a best I guesstimate, but I would say that the price declines depend a lot on the customer, so some larger customers they have better pricing then the smaller customer is also depends upon of class of train, but if you take ratio between say average of between 60% and 80% price decline that would be okay.
- Sameer Baisiwala:** 60% to 80% price decline sequentially from the previous quarter to this quarter?

**Sanjay Gupta:** From the launch time to the June 10, 2014 to be 181, post day 181. What has happened is that there have been two recent competitors that have come in, that have also impacted the price negatively, so you may now followed in the Alembic and Alembic has got approvals not such a long time ago.

**Sameer Baisiwala:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Ashwini Desai from Bajaj Allianz. Please go ahead.

**Ashwini Desai:** Good morning Sir. Congratulations on a good set of numbers. I have just one question. On the US sales if I were to exclude Cymbalta in Q4 and Q1 as the US sales sequentially declined x Cymbalta?

S

**Ashok Modi:** There is no reduction if you remove Cymbalta.

**Ashwini Desai:** Because this quarter you did roughly \$45 million of sales in the US and you said \$20 million was Cymbalta?

**Ruchir Modi:** I cannot tell you the numbers, but as far as the core business is concerned it is still growing.

**Ashwini Desai:** That is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC mutual fund. Please go ahead.

**Chirag Dagli:** Have we taken a view on what period will be amortized to Elder goodwill?

**Ashok Modi:** We will send you the details offline.

**Chirag Dagli:** What will be the cost of funding this debt?

**Ashok Modi:** I do not think that is the information which you would able to share with you.

**Chirag Dagli:** What I am trying to understand is what is the kind of interest cost we should build in going forward?

**Ashok Modi:** It is the same question.

- Chirag Dagli:** Can I get the March quarter Cymbalta sales. You have given December quarter you have given the June quarter, can I get the March quarter sales?
- Ashok Modi:** I am sorry we would not be able to share you the product wise sales data.
- Chirag Dagli:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Thanks for taking my question. Have I been like a month since taking over the Elder business, although it is a little early in the day, but anymore insights you will probably like to share in terms of are you see the combination really progressing over the next few years?
- Ashok Modi:** We have paid 2000 Crores for this portfolio, so it will be better earn the money to repay the debt and satisfy the investors. We are working hard at it, do not worry, we will be able to do good.
- Nitin Agarwal:** I am completely confident Sir that you will do it, but I think more from a strategic perspective qualitatively we are seeing some positive robust to the business how do you see expectation on the quality the business how it is going to change for going forward?
- Ruchir Modi:** We find a lot of synergies in this business like I had shared with you and rarely you will find an acquisition which has so much benefit like it give a scale with brands like Shelcal and Chymoral coming to us. It gives the focus to therapies where we were not strong like gynecology, women healthcare and multivitamins. Now balances our portfolio now that we have present in all top 10 ITM therapies which we were not earlier before this acquisition and also it gives us tremendous access in specialities like orthopedician surgeon and of course gynecologist. So typically we are looking at entering top 15 very soon and while the business is such that it can be on much higher growth than what Torrent existing business is because brands and business has much more forward potentials and much more group to be leveraged, so that is all I can say.
- Nitin Agarwal:** But you said portfolio adding to growth of the Torrent existing business will that help you in that?
- Ruchir Modi:** It will, it will because typically if you see that we started our Gynecology division two years back with division called Sensa and we have started our orthopedic division about one and half years back with the division called Uno Vista. Now Uno Vista is 42 Crores and Sensa is around 20 Crores. Now these divisions are focused on the core pain products and the gynec hormonal products whereas Elder is a nutraceutical products focused on Women

healthcare and wound management products especially Chymoral. So there is tremendous synergy in terms of products. There is no overlap but customer access is what we want for our existing basket, they already have, so we can leverage that for our brands and make them much bigger as well.

**Nitin Agarwal:** Thanks very much and last one, on the US business how many launches are we looking at for this year?

**Sanjay Gupta:** Generally, we are between I would say five and 10 launches that is what we are aiming for this fiscal year.

**Nitin Agarwal:** Any from niche launches, competition launches do you expect from whatever the assessment you have with the market right now?

**Sanjay Gupta:** It depends upon what the competition is up to and what happens to them, so out of this 6 or 7 we would expect at least the law of averages to pay out in our favor so one third of them should have above average, good profitability, but I really cannot identify which ones because it depends upon the number of players for which we have very limited visibility.

**Nitin Agarwal:** Thanks very much. Best of luck.

**Moderator:** Thank you. The next question is from the line of Manoj Garg from Merrill Lynch. Please go ahead.

**Manoj Garg:** Very good morning to all of you and thanks for taking my question. Sanjay, like talking about Brazil market, now it seems some growth momentum coming back, how do you see the broader outlook for the next two or three years from the Brazil market per se?

**Sanjay Gupta:** Torrent is in a very good position there because of our 10-year investment and straight equity as well as financial equity in the market. What we see is also the ANVISA problems that look like finally we know we will get them behind us and we will move to a more normal new product approval, so I mean for this fiscal year I am not too sure but from next fiscal year onwards we should expect 5 to 6 products approval in a year, so the new product should be on track, the market remains an attractive market, so we are seeing some pricing erosion, but it is still quite manageable and we are committed to the branded generic business, we see that is the space such as one disappearing any time soon, you know about close to 80% of our sales come from there from promoted products and then we are also focused on two other businesses one is relatively 15% to 17% of our business, which will be called the government institutional business and then the last is the business that we started recently in the last fiscal year which is the pure generics line so all three lines are I would say are pillars of growth for our company and we could not invest in them, we are

building pipeline for each one of them and Brazil business has a large potential I think we are just coming out of I would say bad phase and we are strengthening the team where some new recruits and we are trying to get some problems of the legacy behind us, so I am optimistic, I already said that we should grow at least on line with the market that is the minimum expectation that we have, our market is close to 10% overall.

**Manoj Garg:** There are two things which have happened in Brazil one you have taken the price cut and obviously got into generic generics and at the same time you have also rationalized in the past your field force out there, so is it fair to assume that the profitability in Brazil market is still the same what it used to be or it has gone up or gone down?

**Sanjay Gupta:** If I compare this quarter with the previous quarter, it is better and without violating Ashok Bhai's rule, I would expect it to get better from him. Ashok, Bhai you can comment on that?

**Ashok Modi:** The profitability also has been seen sluggish, the volume growth as Sanjay was rightly saying that we have seen positive hopefully we are out of it and that the volumes build up, obviously the profit margin should improve.

**Sanjay Gupta:** I can share with you some IMS figures, so if you look at the IMS unit growth which I was referring to for Torrent it is 17%, but if you look at the IMS value growth for us, right now it is showing only 9% and the reason for that is because of their price reductions, which have not been annualized yet, so you see a value impact in IMS, but as we go forward that those things will be behind us and you would see a more positive impact of the volume increases on top and bottomline.

**Manoj Garg:** Ruchir for you like the recent move of NPP where even they have come out with a non-schedule kind of price care, how do you see the broader trend and may be a perspective on the domestic market because of that?

**Ruchir Modi:** Definitely, this move taken everybody by surprise because they picked up a list out of NLEM and they decided a formula on that so definitely not a very positive news moving forward that is all I can say.

**Manoj Garg:** Will it have at some point of time like just now we have seen the domestic companies have not impacted much but if you look at now from a longer term perspective, will it have some impact on the profitability of the market per se?

**Ruchir Modi:** The brands, which are priced very high I think they are going to get if you see typically Torrent we have not priced high so for us the impact is negligible but there are companies which are really priced high and they are going to get impacted very highly I mean Indian

companies I do not see much but MNCs are the one who are going to bear the price the most.

**Manoj Garg:** I am done. Thank you.

**Moderator:** Thank you. We have next question from the line of Ranveer Singh from Sharekhan. Please go ahead.

**Ranveer Singh:** Thanks for taking my question. This is related to CRAMS business, we said that some technical problems were there so can you elaborate what type of technical problem actually disturb this Sir?

**Ashok Modi:** There was manufacturing depression I said due to some technical issues, so the depreciation was there in this quarter but last week of May all these things got sorted out and the manufacturing is back to normal but obviously the quarter numbers were impacted because of that.

**Ranveer Singh:** So we can expect normalization in subsequent quarter by end of this year and you also commented that roughly Rs.40 Crores adjustment towards working capital related to Elder product, so whether that Rs.40 Crores adjustment is above Rs.2000 Crores or below Rs.2000 Crores, how is that?

**Ashok Modi:** That is a figure which I think it is approximately that much, but the Elder acquisition was based on some normative working capital and actual working capital when we close the transaction was on an estimated basis because obviously on the closing day you do not get the actual working capital so there would be a second working capital adjustment to be completed now which would be based on the closing date, so the initial adjustment was there, which was on an estimated basis and which will get corrected for the actual numbers from closing, so there is nothing above 2000 that I can tell you but how much it is below will depend on what are the final working.

**Ranveer Singh:** One more thing related to that Elder deal I think one crore topline contribution in this quarter, so subsequent quarter we see the full impact coming in?

**Ashok Modi:** Typically, it is only for two days because transaction happens on 29<sup>th</sup>, transaction happened on 29.

**Ranveer Singh:** Thank you.

**Moderator:** Thank you. We have next question from the line of Arpit Kapoor from UTI Mutual Fund. Please go ahead.

- Arpit Kapoor:** Thanks for taking my question. My question is pertaining to other expenses so your R&D expenses will be captured in another expenses, so if you can give me some trend as to how that has moved on YOY basis and how that will move?
- Ashok Modi:** Will send R&D expenses as a percentage to sales offline.
- Arpit Kapoor:** So basically if I remove the R&D expenses from other expenses then the quantum of decline in other expenses on YOY basis will be higher than what is being reported in the quarterly numbers?
- Ashok Modi:** Percentage wise maybe yes.
- Arpit Kapoor:** What is the trend, what is the spend of spend that you foresee going forward for the next 12 to 18 months?
- Ashok Modi:** R&D, we have been steady at about 4% to 5% over last two to three years.
- Arpit Kapoor:** Will continue to foresee that we will continue spend on that amount?
- Ashok Modi:** May be in that line.
- Moderator:** Thank you. The next question is from the line of Alok Dalal from Motilal Oswal. Please go ahead.
- Alok Dalal:** Good morning everybody. A couple of questions one is Ruchir Bhai, can you just walk us through what kind of milestones you expect from the Elder deal in the first year?
- Ruchir Modi:** Milestones in terms of topline and other thing.
- Alok Dalal:** In terms of what plans you have with Elder and where you think Elder will be one year from now? The same thing what is the likely solicit to that, not the number but say what kind of changes you think can happen on the marketing front, what kind of changes can happen on the brand, etc?
- Ruchir Modi:** Typically see we are trying to marry the Torrent philosophy versus their portfolio, so we are focused on speciality, we are focused on the hygiene of the business and we are focused on a typically science driven business model, so we are like I have been sharing last two years that we are spending disproportionate investment and focus on two brands and then building them big and we are seeing results in Torrent at least two brands got added last quarter in the top ended of Torrent, so we have selected Shelcal, Deviry and B-long three brands from the gynec division of Elder and Chymoral and Carnisure from the ortho



division of Elder as a big focused brands, these are the brands which will at least double the sale in the next four to five years and we are going to focus on these brands disproportionately. Number two our standing in Cardiology and Diabetology is extremely strong and we find huge potential of Shelcal and Carnisure in these specialities where Elder has been typically very weak, so these specialities can give a big boost because we have very good access in these specialities. We are looking at typically making bigger brands even bigger, we are looking at better hygiene of business because if you see Torrent was at 2% as far as state bonus offer is concerned last year and this year this quarter one, we are at 1.6% bonus offer which is the lowest in the top 20 companies. So we have also been trying to focus on prescription and reduce the schemes in all this business so typically we see that potential also in Elder that hygiene to be brought in Elder which will improve margins and bring better predictability and business.

**Alok Dalal:** The other question was Ashok Bhai you mentioned about lower SG&A because of the rationalization effort. Can you walk us through what these rationalization efforts have been?

**Ashok Modi:** It is general cost cutting and building up efficiencies across the organization in all fronts and second improving like Ruchir was mentioning improving the productivity of the marketing field force, improving the hygiene and all that is definitely contributing to keeping the cost well under control and we are trying to build up on that to improve our margins.

**Ashok Dalal:** Thank you. That is all from my side.

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

**Rahul Sharma:** I just wanted clarification on the other income which is actually moved up considerably in the quarter, is that element of forex gain or what is it, can you please give a clarity?

**Ashok Modi:** There is a forex gain of Rs.34 Crores vis-à-vis a loss of on account of forex are Rs.13 Crores during the same quarter last year.

**Rahul Sharma:** 13 Crores is another expenses?

**Ashok Modi:** It is a loss in other expenses, clubbed in other expenses and the gain is in other income.

**Rahul Sharma:** How much milestone did we get in this quarter, Sir?

**Ashok Modi:** No milestone.

- Rahul Sharma:** Thank you.
- Moderator:** Thank you. The next question is from the line of Karthik Mehta from ICICI Securities. Please go ahead.
- Karthik Mehta:** What should we assume as the income tax rate for FY 2015?
- Ashok Modi:** FY 2015 probably we may be not much above MAT, it should be in that range.
- Karthik Mehta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nimesh Mehta from Research Delta Advisors. Please go ahead.
- Nimesh Mehta:** Thanks for taking my question. I want to know the sales and margin of Elder brands in the last quarter, what have it been if you can share that will be great?
- Ashok Modi:** I can share with you AIOCD numbers typically reflects that April, May, June quarter, Elder is Rs.77 Crores acquired portfolio of Torrent and the previous quarter it was Rs.65 Crores so there is a sequential growth and improvement in the business.
- Nimesh Mehta:** You may not be able to share the margin but any color has it improved or whatever?
- Ashok Modi:** I would say I mean basically it was in Elder's books not in Torrent books but our general sense is that in terms of gross margins there has not been any deterioration.
- Nimesh Mehta:** When you say this is Rs.77 Crores, it is like I am sure there must be some penalty but without that annualized it is close to just about Rs.300 Crores versus Rs.400 plus Crores that looking at while we acquire the brand?
- Ruchir Modi:** I will just share with you something. Last year, the sales had dropped from Rs.400 Crores to Rs.300 Crores on an annualized basis. If I have to look at June to June mainly due to the working capital issues and inventory going down at the trade because they just did not have the goods available at that time. Now, obviously business has been improving last six months because we have been working together and their situation has been improving a lot. So I would say that if I were to look at just two brands which are really important Shelcal, which was on a MAT basis degrowing by -22% as per AIOCD on a quarter basis it is degrowing by -14 and on the month basis -3. It is almost back to the original levels. Chymoral which is the second largest brand on a MAT basis it was degrowing by -7 on a quarter 3.4% growth and on the month basis 20% growth, June month and this is all AIOCD numbers I am telling you and also the database we get in terms of what is the

number of days inventory lying at the trade, I think it is around 19 days, ideal is 25 days, so we are working on that also.

**Nimesh Mehta:** So basically I am trying to understand how the Elder portfolio will work out. Will it be fair to say that most of the growth that will come for Torrent will come from Elder portfolio in the next year and I am just assuming that let us say I mean Torrent in FY 2014 also had Elder brand for example and then we compare will it be still that Elder brands will grow faster than any other divisions? Will that be a correct assumption?

**Ashok Modi:** It may not happen on FY 2015 basis. I think it is right. I know yes it will be like that because of the base effect last year.

**Nimesh Mehta:** Finally, if you can also share what has been the difference between sales force productivity in Elder portfolio that we acquired in Torrent's own business and how do you expect to club that?

**Ruchir Modi:** I would like to just recap 2012-2013 our topline grew at 13% whereas our PCPM growth was 19%. In 2013-2014, Torrent business topline was 13% again and PCPM growth of 21% so basically this had come out because of rationalization of field force of Torrent existing field force. This quarter our PCPM is 4.2 lakhs Torrent Q1, so again while we have grown at 13% our PCPM growth is much higher because we continue to work on productivity and rationalize where required. Same Elder acquired portfolio, our productivity is around 4 lakhs right now with Elder field force and the last two years trend we plan to continue so let us say typically whatever our topline growth would be, there would be higher productivity growth in various measures like field force optimization and bringing better hygiene.

**Nimesh Mehta:** That will also be a part of Elder portfolio you mean to say like the productivity improvements will also happen in Elder portfolio?

**Ruchir Modi:** Definitely. We are targeting 8 lakhs PCPM as fast as possible.

**Nimesh Mehta:** That is for both Torrent as well as Elder?

**Ruchir Modi:** Yes.

**Nimesh Mehta:** Finally if I can squeeze in one more question is you mentioned about the key five to six products in Elder portfolio to almost double in next four to five years and then you also mentioned that you could also take Chymoral and Shelcal to those doctors where Elder was never present, so I mean this will be an add on effect or you just expect that all this put together will help Shelcal and three, four other brands double in next four to five years/

- Ruchir Modi:** All this put together will help it double, so typically it is Shelcal and Carnisure which I mentioned which will help in getting access in the doctors that we have equity, not Chymoral, Carnisure. The 30 brands that we acquired we are looking at focusing on five brands, Shelcal, Deviry, B-long, Chymoral, Carnisure and we feel they have immense potential I mean forward potential and we will be making them huge brands.
- Nimesh Mehta:** The other synergy aspect of Elder acquisition is also a fact that you will be able to grow your Gynec division and the pain division?
- Ruchir Modi:** Yes. What we have typically started is that we have let us say national conference participation or scientific activities now suddenly has started on a very large scale on the same specialities which we started in a very small scale last two years because the division size was small. Now the existing divisions of Torrent are also part of bigger participation because we have bigger access and bigger money to invest in this area, so typically our existing portfolio Torrent will also accelerate in gynec and ortho areas.
- Nimesh Mehta:** Thanks very much. This was helpful.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Funds. Please go ahead.
- Chirag Dagli:** Sir, can I get pending ANDA's number for the US market?
- Sanjay Gupta:** It is there in our investor presentation which we have uploaded on our site.
- Chirag Dagli:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.
- Deep Master:** Great set of numbers. I just had a question on the interest cost I know you cannot share absolute amount, but could you share the saving that you can get from refinancing the Elder debt?
- Ashok Modi:** I have just taken the debt.
- Deep Master:** Any interest cost saving you can get from refinancing the debt?
- Ashok Modi:** Right now there is no such plan going forward we may look at that because it is a long-term debt and not a short-term debt.

- Deep Master:** Thank you.
- Moderator:** Thank you. The next question is from the line of Meeta Shetty from HDFC Securities. Please go ahead.
- Meeta Shetty:** Thanks for the opportunity. Firstly on the debt part for Torrent, can you please explain whether it is an Indian currency or foreign currency debt?
- Ashok Modi:** Indian currency debt.
- Meeta Shetty:** Second thing on the employee cost, if I see your employee cost it has come down quarter-on-quarter, so I know that Q4 was higher but that is usually the case for us and we grow on that in the following years but this has not been the case at this time, so can you please specify?
- Ashok Modi:** In the Q4 last year of FY 2014, there were some one off employee related cost pertaining to Brazil and that is why it has gone up.
- Meeta Shetty:** Can you quantify what was that one-off cost?
- Ashok Modi:** I do not think, I will be able to help you on that.
- Meeta Shetty:** Q1 will be the current base to work on the numbers henceforth?
- Ruchir Modi:** Absolutely, so typically I would just like to add if you see 2012-2013 company as a whole, the employee cost to revenue was around 19% and 2013-2014 it came down to 18% and Q1 2014-2015 we are looking at 17%, so typically this is coming out of lot of initiatives like I just told you that we have been working on productivity a lot and we feel that as there is still a lot of scope in reducing this ratio of employee cost to turnover, so I would typically 14% to 15% is the healthier one and we are aiming for that.
- Meeta Shetty:** Do you think that you should be reaching that kind of number in the next two years?
- Ruchir Modi:** I cannot say that but I expect to reach there as fast as we can, typically you see last three years we have been reducing by 1%.
- Meeta Shetty:** Thank you.
- Moderator:** Ladies and gentlemen, due to time constraint, we will take the last two questions. So we have a question from the line of Bhavin Shah from DC Investments. Please go ahead.

- Bhavin Shah:** Thanks for taking my question. How many filings in US do you all anticipate for this year?
- Sanjay Gupta:** Right now I will give you the statistics we have about 49 approved products in the US. There are five tentative approvals and we have 21 which should be in filed, so in the normal year we file between 10 and 20 ANDAs a year.
- Bhavin Shah:** That is fair and with all your focus be on employee productivity increasing from here on and as you have commented on doubling the PCPM, would that imply no major field force addition given your focus on top five brands on the Elder deal and all of that?
- Ruchir Modi:** I would say that employee rationalization is not actually the focus, the main thing would be top line first of all to reach that 8 lakhs milestone that I am talking of and realization comes as a byproduct of certain decisions we made today assuming that headquarter has a potential and I have started that headquarter with a rep typically after two years I realized that it is not required, and I can club with existing headquarters somewhere else, so it is ongoing exercise and last two years we have been working on that exercise that where we do not find potential, we have been just clubbing headquarters where there is potential. Typically last year also there is reduction because our focus on antibiotics and GP has considerably reduced, so we are meeting less and less GPs and that is why our coverage in the interiors has gone down ad we focused on specialist only I mean that is our main focus.
- Bhavin Shah:** Question was really on the base of the number of people on the ground, would that increase or are you done pretty much?
- Ashok Modi:** I have done pretty much.
- Bhavin Shah:** Thanks so much. All the best.
- Moderator:** Thank you. We have last question from the line of Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** Thanks for taking my questions. Just again on staff when you are adding 1100 people from Elder, would staff cost still stay in the range of 17% or do you see it increasing by end of the year? Just on the staff cost again with full impact of Elder coming from next quarter, how would staff cost as percentage of sales move, can you give some color?
- Ashok Modi:** It will not increase for sure because what we have acquired is typically in line with the PCPM that we have currently as well, so employee cost is not very high than what is existing in Torrent currently.

- Girish Bakhru:** Just on the US side Sanjay, where are the launch of tolterodine I thought we have settled on that product, is that not true?
- Sanjay Gupta:** It is in leader product this calendar year.
- Girish Bakhru:** Would you say market would still be interesting given the players are not too many?
- Sanjay Gupta:** It is interesting right now at present there are only two or three players of that and **L**, Mylan has 25% roughly, so there is room for additional care and we should be in a position to launch that product over the next few months and depending upon what happens with other competitors that could be an interesting market.
- Girish Bakhru:** On aripiprazole where you have been recently sued, do you see coming much later in the queue or when lot of people will enter next year post patent expiry?
- Sanjay Gupta:** It is complicated pattern litigation so I would not read much into the fact that we have been sued it is scheduled for the next fiscal year, it is not so much.
- Girish Bakhru:** You have a good chance to enter next year?
- Sanjay Gupta:** Yes, I am sorry to talk, but not before March.
- Girish Bakhru:** Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand over the floor back to Mr. Gupta for his closing remarks. Over to you Mr. Gupta!
- Anshuman Gupta:** On behalf of Edelweiss, we thank all the participants and the Torrent Pharma management for this interaction. I will hand it over to Mr. Ashok Modi for any closing comments. Over to you Sir!
- Ashok Modi:** Thank you all for a very patient hearing and thank you for finding the time for attending to this conference. Thank you.
- Moderator:** Thank you Sir. On behalf of Edelweiss Securities that concludes today conference. Thank you for joining us and you may now disconnect your lines.