



## **“Torrent Pharma Q2FY15 Earnings Call”**

**November 6, 2014**



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**Operator:** Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q2 FY15 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \*, then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anshuman Gupta from Edelweiss Securities. Thank you and over to you, Mr. Gupta.

**Anshuman Gupta:** Thanks, Karuna. Good morning to all of you. On behalf of Edelweiss Securities, I welcome you all on Torrent Pharma Q2 FY15 Earnings Call. We have the Torrent Pharma management team with us today. 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:** Thank you, Mr. Gupta. Good morning, everybody. I am Ashok Modi here. Welcome to our second quarter post-result teleconference of this year 2014-15. From Torrent side, we have Mr. Sanjay Gupta who is the Executive Director in charge of our international operations. Mr. Ruchir Modi, Executive Director, Marketing, looks after our domestic business. And Mr. Sudhir Menon, Vice-President, Marketing Accounts. First of all, I would to take you through the operating highlights for the quarter. During the quarter, the total revenues of the company grew by 25% and the revenues were at 1217 crores versus 972 crores during the same quarter of the previous year. After adjusting for the revenues from the acquired Elder business, shelf stock adjustments in the current year and some licensing income pertaining to the previous year, the revenue growth was at 21%. The Indian formulation business registered a growth of 49% with the total revenues at 442 crores versus 297 crores last year. However, this also includes the revenues from the Elder acquired business and if we discount this, the Indian business revenues grew by 17% for the quarter. As per the AIOCD figures, the max September IPL growth was 9%. The covered market growth i.e. excluding the other portfolios covered market growth was 9% while the Torrent growth on similar platform was at 15%. As far as Elder business is concerned, on a rolling quarter basis, as per AIOCD, the covered market growth was 7% while the Elder portfolio grew at 18%. The international operations registered a growth of 17% with constant currency growth at of 21%.

I would like to share some of the key highlights of the major territories. US business registered revenue growth of 45% with revenues at 167 crores. The constant currency growth was at 49%. The Brazil revenues were at 160 crores with revenue growth of 28% and constant currency growth at 32%. Europe, which includes Heumann UK, Romania registered total revenues of 248 crores with a growth of 5% and constant currency growth of 8%. The rest of the world segment which includes the Russian and CIS operations were at 97 crores with no growth during the current year. This is mainly on account of discontinuation of business in some of the non-



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performing territories by the company. The contract manufacturing operations for the quarter registered a growth of 2% with revenues at 98 crores. The EBITDA margins for the company for the quarter were at 32%. The profit before tax for the quarter was at 235 crores against 152 crores during the same quarter last year recording a growth of 55%. The profit after tax and minority interest was 198 crores against 113 crores during the same quarter last year showing a growth of 75%. However, after adjusting for Forex and one-off which include shelf-stock adjustment, some employees' social security related expenditure and licensing income of the previous year, the profit before tax and the profit after tax would show a growth of 33% and 52% respectively. Thank you all for the patient hearing. Now I hand over you to the coordinator for the question and answer session. Thank you.

- Operator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question from the line of Paresh Dave from Ambit Capital. Please go ahead.
- Aditya Khemka:** Hi, sir. This is Aditya Khemka. Sir, just to understand the discontinuation of some businesses and ROW, specifically which territories were these that we discontinued and was the constant currency growth in ROW excluding the contribution of these revenues in the last quarter?
- Ashok Modi:** What is the question? Constant currency in ROW and if you take out the discontinued territories?
- Aditya Khemka:** Yes sir, that's right.
- Ashok Modi:** I think despite that, the revenue growth in ROW would be less than 10%. The discontinued territories were, Aditya, basically, some of the CIS countries and one or two Gulf countries.
- Aditya Khemka:** Sir, reason for not being able to sort of do well in those countries would be competition, pricing or regulatory environment? What would you say?
- Ashok Modi:** It would be a combination of several factors. And these factors would be different for different territories. For example, CIS, seeing the time & effort investment which is required was disproportionate to the results which we were seeing. So this could have been due to a variety of reasons including regulatory issues, marketing-related issues, product registrations, whatever you have.
- Aditya Khemkar:** Thank you, sir, for that. And sir, the next question is on Brazil. So we have seen some very good growth, 32% in constant currency. Congratulations. What exactly is driving that? Is it new product approvals or ramp-up in the branded segment which is driving that growth or is it product introductions on the unbranded side or the tender business which is driving that?
- Ashok Modi:** Sanjay, can you take that question, please?



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- Sanjay Gupta:** Yes, sure. So there are about three major factors. The first factor is there is an underlying unit growth in three or four of our very major important brands. We made our pricing competitive about a year ago and that has brought very strong dividends. The loss that we made on account of price decrease has more than been made up by the increase in volumes. So we are very pleased with the adjustment we made on a few products. The second reason is in terms of new launches, we just launched one product in the last 12 months which was Nebivolol and which has contributed handsomely. It currently has about a 27% in the branded segment and about 8% in the generic segment share. So we have been fortunate enough to have kind of a semi-exclusive product on the market and that has brought in good results. Thirdly, we focused on the institutional business which is not the doctor-promotion business but more linked to government hospitals and state municipal hospitals. So there, we have been seeing some very strong growth and that business accounts for roughly about 20% of our Brazil business but growing much faster than the rest. And lastly, we introduced the generics divisions, the pure generics business in Brazil which is very modest but since it was not there in the past, it does add to the growth.
- Aditya Khemkar:** Sir, could you also give us the percentage contribution from the unbranded generic business in Brazil?
- Sanjay Gupta:** Less than 5.
- Aditya Khemkar:** Less than 5% for this quarter. How do we see this segment evolving, going forward?
- Sanjay Gupta:** It is long term. The future for pure generics is positive because eventually, there is increasing pressure in terms of cost-savings to move away from branded generics. It's not short term. It's not happening in the short or medium term. It's more like a long-term trend underlying in the Brazilian market. And what is good for us is in terms of branded business, you focus on the therapeutic areas where you want to promote and in terms of generic business, we are agnostic to the products in the therapeutic areas that we sell. So we can add much more wide variety of products to our portfolio and that can have its own independent growth momentum outside of the branded generics business. So that's why we like it because we can pretty much plug in any product from any other partner company into our generic business while that might not be the case in a branded generic segment.
- Aditya Khemkar:** Okay. Sir, last question from my side. If I compare the unbranded generic business as it is rolling out in Brazil and if I look at the branded generic business which has seen some pricing pressure as you've said over the past, as of today, how does the profitability in each of the segment stand? Would they be comparable or would branded generic be more profitable than unbranded?
- Sanjay Gupta:** You know, let's be clear that there are three segments, right? One is the pure 'generic' generic. One is what we call institutional business which is about 20% of our business and the first one is what we call the branded generic business. So the net result in profitability of all these three businesses would be somewhat similar because of varying pricing and costing structures in them.



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So, I mean, for us, the bread and butter is the branded generic business because that is historical strength of company and we have 10 brands doing more than 10 million Reals in sales. So that is obviously, our core focus area. But if you look from purely a financial bottom line perspective, there is no need to discriminate against any one of those.

**Aditya Khemkar:** Sir, just a clarification on this. My sense was that the institutional business perhaps would have been less profitable than the branded or the unbranded generics simply because an institution business is just like the unbranded generic. You would not have any promotion costs but your pricing in the institutional business would be lower than the unbranded generic.

**Sanjay Gupta:** You're right. Per se, you're right. But at the bottom level, it doesn't matter. Sudhir, what do you say?

**Sudhir Menon:** Yes, It's okay.

**Sanjay Gupta:** So we find the same kind of EBIDTA margins at the end of the day. So for Torrent, for example, I mean, just take some absolute numbers. We have six to eight people doing our institutional business while we have about 375 people doing about, you know. So it's a totally different type of business and at the end of the day, the institutional business is a good business to be in. And we don't think it dilutes our ratios in any way.

**Aditya Khemkar:** Right. What is the competitive landscape for the institutional business? How many companies are basically playing in that segment?

**Sanjay Gupta:** I would say that its more than the branded segment because the branded segment kind of scares off a lot of people and if you think about new players coming from India or other countries, they are hesitant and reluctant to do the long marathon which is the branded business where Torrent has been, you know, a pioneer since 2003-04. So I would say, branded business being more difficult, more expensive, more risky, the level of competition is slightly less while most of the newcomers focus only on the institutional business.

**Aditya Khemkar:** Thank you, sir. Thanks for taking my questions. I'll get back into the queue.

**Operator:** Thank you. We have next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

**Nimish Mehta:** Yes, thanks for taking my question. Firstly on the Elder portion of the sales that we have registered, is it fair to understand that, you know, from whatever you have given as Torrent's own sales growth, roughly about 95 crores of sales is what we have registered this quarter from Elder?

**Ruchir Modi:** Yes.



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- Nimish Mehta:** Okay. And what is the growth outlook? I understand it was about 77 crores last quarter i.e., Q1.
- Ruchir Modi:** Yes.
- Nimish Mehta:** So it's a significant increase. So you know, when do you think it will stabilize and then we will have a normalized growth?
- Ruchir Modi:** I think in H2, it will stabilize and we'll have a normalized growth. Just to give you information, we have already started outperforming the market growth. In terms of quantity, we are at 7% versus the market at 5%. So the Elder business has kind of bounced back much faster than we had anticipated.
- Nimish Mehta:** I see. Okay. So any outlook that you can give? I mean, it's about 400 crores annualized at this current quarter numbers. You think it will stabilize at 500 crores and then we'll have a normalized growth?
- Ruchir Modi:** I would say that it would stabilize at 400 crores at its original level and then we'll have much more than normal growth moving forward for at least 3 years.
- Nimish Mehta:** I see. So basically, this quarter number is fairly reflective of what immediate gains you could have made in Elder? Is that a fair assumption?
- Ruchir Modi:** Yes, I mean I would say the business is back to its glory already.
- Nimish Mehta:** Okay. And in terms of margin, it's hard to figure out from the numbers but it guess that it is similar to the Torrent's own margin or it is higher? If you can give some color, that would be helpful.
- Ruchir Modi:** It's higher.
- Nimish Mehta:** It's higher, okay. So then, in that case, why have we seen between Q1 and Q2 a sharp decrease in EBIDTA margin and I see some of that getting corresponded to a sharp decrease in US sales. So is that a right way to look at it? And if yes, why is it?
- Ruchir Modi:** Ashok *bhai* would answer that.
- Ashok Modi:** Yes. Your conjecture is correct that the US sales because of the Cymbalta effects are lower in the quarter and the exclusivity period also got over. So there is a bit of a drop in the EBIDTA margin from Q1 to Q2.
- Nimish Mehta:** I see. But the drop in US sales is very sharp – from almost 45 million in Q1 where I guess our Q1 also did not reflect full quarter Cymbalta numbers. So it was partial - from there to almost 28 million dollars. Did we see any kind of price erosion?



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- Ashok Modi:** See, the exclusivity period ended on 8<sup>th</sup> of June. So it was a significant part of the quarter.
- Nimish Mehta:** Okay. But have we seen any price erosion on our normal products? I mean, we have seen that with other companies like on their matured product portfolio, they have seen some price erosion because of supply chain. That is what I am trying to understand.
- Sanjay Gupta:** So it rubs both ways, right? There are some products where some of the players drop out for any privy reasons or some other reason and then you see some positive pricing momentum as you pick up new customers. And there are some other products where there is excess of supply where you see a downward pricing pressure. So those things can cut each other out in the short run. In the long run, the price trend is negative. You can expect it to keep going down for commodity generics.
- Nimish Mehta:** Okay. But we have not seen across the board, price decrease because of hard bargaining from the retailers and wholesalers.
- Sanjay Gupta:** So the supplier combinations, you know, four, five big combinations of purchasers has led to a downward revision of pricing but it is, I would say, between 0-10% depending upon the product portfolio that you might have with any large buyer but it hasn't particularly happened in this quarter. You take the hit as these mergers come along. So I would say nothing substantial to report during this quarter.
- Nimish Mehta:** But it will happen in the coming quarters?
- Sanjay Gupta:** It's an ongoing phenomenon.
- Nimish Mehta:** Finally, can you throw some light on this product generic 'abilify aripiprazole' where I guess Torrent already has a tentative approval. Three, four companies who have got tentative approvals and what is the kind of competition you expect in the schedule launch that you expect?
- Sanjay Gupta:** Sure. The launch would be for us, sometime in Q1 of next year and the level of competition, I would say that you have an idea from the number of people who have settled the litigation which is, I would say, low single digits. But I won't guess as to how many would be ready on day one because there are some complications in the patent litigation. There are some new patents which have been listed on the Orange Book. So I don't know the situation of each player with respect to the new patents. So I won't guess but our theory is it looks like to be a decent opportunity.
- Nimish Mehta:** I see. And as you mentioned, we also saw that Torrent was also litigated of late, like I think, in May this year. So will that stop you from launching by April 2015 or you are on track to launch it on the scheduled day?



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**Sanjay Gupta:** You know, I don't want to give away our legal strategy. We have a lot of arguments and counter arguments and we have a game plan to best protect the interests of Torrent but I really cannot write on stone as to where we would be at that point in time. Our lawyers are pretty good and I have kind of faith in them because we have had a good track record in Paragraph 4 and settlements. In our strategy, at Torrent, we are a conservative company. We have never done an at-risk launch. So if we launch it, it would be because we have a strong enough belief that it's a low-risk approach for Torrent.

**Nimish Mehta:** Understood. Is it fair to assume that you will be among the first wave of launching company, right?

**Sanjay Gupta:** Yes.

**Nimish Mehta:** Okay. Wonderful. The last question. If you can throw some light on competition in telmisartan and telmisartan/HCTZ, that will be great. I thought it would have contributed handsomely this quarter but given the sharp erosion, it doesn't look like so. Is there any outlook that you can throw in? That will be great.

**Sanjay Gupta:** So for the telmisartan family, the family itself, is showing degrowth. So if you just look at the IMS, it's in the 20% vicinity – the decrease in the overall market for telmisartan. So, even if you might have a decent market share and you might have good pricing because the volumes go down substantially, but for us it's a product that is going to generate the family. Let's take the telmisartan, Telday H and Telday amlo. So cumulatively, it's a family that should generate greater than 10 million dollars in annualized revenue for Torrent.

**Nimish Mehta:** I see. And any outlook on competition there?

**Sanjay Gupta:** I would not expect companies to launch these types of products. You never know, but it's not really a hot area for companies to develop products in the Sartan family going forward. But we don't have visibility. I was just looking at the September figures. You know, MAT September, the HCTZ is degrowing by 32%; the Telmi amlo is degrowing by 11 and the plain telmisartan is also degrowing by 11. So it's a strong trend downwards.

**Nimish Mehta:** Okay, understood. If I squeeze in just one last question on the domestic pharma business where we are expecting improved productivity, you know, if you can share some latest numbers of productivity and whether you are in track of almost getting to 8 lacs per month per person was your target. So if you can just update us on that.

**Ruchir Modi:** Yes. So we are at 4.2 lacs PCPM in Q2 as well. So productivity, like I said, last three years, we have grown at 21% CAGR whereas our topline growth is around 13 to 14%. So 7% is the higher productivity growth which is by a product of rationalization of field force as well. And this will continue until we reach 8 lacs.





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- Nimish Mehta:** Okay. And on Elder we are also at similar levels, right?
- Ruchir Modi:** Elder productivity is a bit lower because their field force have been almost 1000 & business. We are just coming to normalized level that it was in the early glory days. But once it starts growing, it should even cross Torrent productivity in the next three to four years because this business will grow much faster than Torrent.
- Nimish Mehta:** I see. So your target there is even more than 8 lacs PCPM?
- Management:** No, I mean 8 lacs to 9 lacs will be healthy and then typically what happens, once we cross 8 lacs, we would probably launch a new multi-vitamin division or we will expand the field force. That is the right time to make further investments and launch further products or expand the field force.
- Nimish Mehta:** Okay. Fair enough. Thank you very much. Ill join back the queue for any further questions.
- Operator:** Thank you. We have the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Hello. Yes. Sir, one question on the US business. Is there any shelf-stock adjustment that you've taken this quarter? Your number is understated by shelf-stock adjustment?
- Sanjay Gupta:** Yes, that's correct.
- Anubhav Agarwal:** How much will be the quantum there?
- Sanjay Gupta:** I think you know, our disclosure policy, we don't reveal the exact number of shelf-stock adjustment. What Ashok *bhai* had mentioned is that this time, if there is an important shelf-stock adjustment, that's why it was. But shelf-stock adjustment in the US business is an ongoing phenomenon. As the prices go down, that's part of the contracts that you have. This time, for duloxetine, it was, I would say, a follow-up of the big pricing action that took place in the last quarter. That's why it has been mentioned separately because it was material but I don't think we have given out shelf-stock adjustment figures.
- Anubhav Agarwal:** Sanjay, just as an idea, can we just work with a number that will be low single-digit shelf-stock adjustment this quarter?
- Sanjay Gupta:** I'll let Ashok *bhai* judge that but basically, it's just a tail of what we had previously.
- Ashok Modi:** See, Sanjay told that we wouldn't be really able to share the numbers with you and I think we'll have to leave it at that.



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- Anubhav Agrawal:** Okay, Sanjay, the next question on the European market. The high growth phase that we saw last year because mainly given by Germany. Has that normalized now and now are we looking at high single-digit or low double-digit growth rate for the European business?
- Sanjay Gupta:** I think we had an exceptional product launch last year and we had some very good tender wins and going forward, I would think now the rates that we have seen this quarter is probably more in line with underlying growth.
- Anubhav Agrawal:** But this quarter growth is only 8%.
- Sanjay Gupta:** It's a tender business, so if you win lot of tenders, you know, it moves around. But generally for a company with our footprint, you could expect, you know, I would say, a high single-digit between 8-10% growth should be, you know, underlying growth.
- Anubhav Agrawal:** Okay. Last question on the international business, then I'll have one on India business and it is ANDA filing rate this was low across companies and for valid reasons, but do you see Torrent filing lot of ANDAs in the second half of this year or the filing rate is expected to pick up for you from next year onwards?
- Sanjay Gupta:** So the filing rate is expected to pick up from second half of this year onwards. So we had a dull phase in the middle, but we've been picked up by our investments in the pipeline, so you should expect to see a larger number of filing in the second half of this year as well as in the years ahead.
- Anubhav Agrawal:** So would it be fair to assume that number of NH or 1015 ANDAs Torrent filing from FY16 onwards roughly about?
- Sanjay Gupta:** Yes.
- Anubhav Agrawal:** And then just coming back to one question on the India business, Ruchir, have we taken any price increase in Elder since the time we acquired it?
- Ruchir Modi :** No. No, yet.
- Anubhav Agrawal:** Not yet. And, Ashok, sir, why the tax rate for this quarter is very low? Can you throw something on that?
- Ashok Modi:** I'm sorry.
- Anubhav Agrawal:** The tax rate for this quarter is very low at 16%, what was the...?



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- Ashok Modi:** See, the tax rate keeps on getting adjusted between the quarters on account of also the URP unrealized profits which are there on the supply to the countries. But on an annual basis, we don't expect it to be significantly different than the net rate.
- Anubhav Agrawal:** Okay. So about 20-22% should be the tax rate. We accept that?
- Ashok Modi:** Yes. It should be distinct and if you see the actual tax rate again it's in the same range.
- Anubhav Agrawal:** And on the amortization that you are recording on the India business on the Elder portfolio that you acquired, you do get tax benefits, right?
- Ashok Modi:** Yes, we get, definitely.
- Anubhav Agrawal:** Okay. Thank you very much.
- Operator:** Thank you. We have the next question from the line of Manoj Garg from DSP Merrill Lynch. Please go ahead.
- Manoj Garg:** Yes. Good morning and thanks for taking my question, sir. Sir, like, you know, in one of the slides, you have made the comments that you expect this Elder business to be, you know, ET separately from the second year onwards, last quarter of second year, so just want to understand, A, when you are counting the interest cost, are you counting the interest column full 2000 crores which you have paid to Elder Pharma or you are counting on 1400 crores which you have taken to fund this acquisition?
- Ashok Modi:** Yes. We are counting what we are paying, you know. Whatever the funding which we have done for the acquisition, that is what would be the interest cost which would be counted.
- Manoj Garg:** So you are not counting on whatever the internal accruals you are using for paying of this, you know, acquisition, right?
- Ashok Modi:** Yes.
- Manoj Garg:** Okay. And does it mean Ruchir *bhai*, that probably, you know, on the Elder portfolio like while you say that 400 crores could be the normalized level and then you expect, you know, the growth momentum to stabilize, but taking a little backward calculation, you know, even my understanding is that even for the next year we expect the Elder portfolio to grow around 25-30%?
- Ruchir Modi:** You know, I cannot give that forward-looking numbers, but next year growth will be very high on account of couple of reasons because, yes, there will be some base effect. This year, we have sales recorded for 9 months versus next year. Full year sales will be recorded of Elder. Number two is that last two and half years, the Elder has not taken any price increase. And all these



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brands used to always be premium in the market since 1988 of its launch because they have a better USP compared to other brands. However, last two and half years, because of no action in price increase they have become cheaper than most of the brands in the market, so tremendous potential for price increase and, of course, we also see lot of new introductions involved - 20 plus next year in all the Elder portfolio because each of the brands have lot of new SKU, new SKUs to be launched which got missed out in the last two and half years also.

**Manoj Garg:** Okay. And just one question for Mr. Sanjay Gupta, like now with 28% or 30% kind of consequence growth in Brazil, how do you see going forward, you know, in terms of more sustainable kind of growth environment?

**Sanjay Gupta:** So the underlying prescription growth in Brazil for the next five years is forecasted at about 8-10% per year. So our objective is, you know, to keep our unit growth above that, so, you know, something like 15% would be a good result in terms of underlying unit growth. And we are hoping to improve our profitability because what we have been focused on is, you know, good top line growth and better bottom line growth and, you know, so that's something which you should see and expect improvements in the next couple of years.

**Manoj Garg:** Have you started seeing some pick up in terms of approval for the new products or still, you know, the issues are same out there?

**Sanjay Gupta:** No. ANVISA has recently put in place some processes to improve or which I would call industry-friendly, so we've seen higher level of dialogue. We've had meetings instead of getting some of the, you know, so instead of just getting a decision, you would be called in for a discussion and, you know, asked questions that you are given time to respond. So I would say that the worst is behind. I mean, my impression or Torrent's impression is that the worse is behind us and ANVISA, it seems to have turned the corner and I think the Brazilian elections and things like that will probably have some impact on this, although I'm not clever enough to find the exact co-relation, but I find ANVISA to be much more industry-friendly or understanding or supportive.

**Manoj Garg:** And just a last question from my side, sir. Any update on Mexican business and do we have any plan to go in other, you know, LatAm market like Venezuela and all?

**Sanjay Gupta:** No. We don't have times to go into any other markets. We are very happy with our presence in Mexico. So Mexico is roughly, I mean, I would say for us it should become a \$10 million market in the near future. We do specialize branded business only, so we have CNS business there and we are focused on becoming a CNS speciality company in Mexico with about headcount in the country which is about 60 to 70 people.

**Manoj Garg:** Okay. That's all for my side. Wish you all the best, sir.



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**Sanjay Gupta:** Thank you.

**Operator:** Thank you. We have the next question from the line of Kartik Mehta from ICICI Securities. Please go ahead.

**Kartik Mehta:** Hello, sir. Hi. Just one question from Ashok *bhai*. Sir, directionally EBITDA margin should be improving from here assuming that charge-back or actually duloxetine is already there in this quarter and apparently it's quite obvious that your Elder portfolio is at higher EBITDA margins than the other part of the businesses. Is that the right way to look at it from a last year number? I'm asking for a direction, sir?

**Ashok Modi:** See, as we mentioned that we had some one-off adjustment during the quarter. So some impacts of that obviously would be on the EBITDA margins as well. So the sharp drop which you see from the first quarter to second quarter should be seen also considering the one-off adjustments. So going forward, the EBITDA margins should stabilize and do better than what they are currently definitely.

**Kartik Mehta:** Yes. And on the amortization or the impairment for the Elder brands that we acquired, would we be doing an annual test of impairment and have an accelerated depreciation or will we write it off as the way in which we have done for this quarter?

**Ashok Modi:** See, typically, as per the requirement, one requirement is to, you know, the accounting standard mandates that you amortize it over the period you expect the cash flows from this business to be generated. So that is one benchmark. Again, we said that with the impending IFRS coming in, there might be some changes which also might require us to test it for impairment. So if at all there is a situation or traditional charge, it may come in, but by and large, it should be steady as we go along.

**Kartik Mehta:** Yes. Sure. And my last question would be on the tax rate, what should we presume for the next two years tax rate?

**Ashok Modi:** Next two years?

**Kartik Mehta:** Yes. I mean, or FY15?

**Ashok Modi:** Yes. We don't expect to come out of MAT in the next two years, unless something drastically changes. Typically, we should continue to remain within the MAT ambit.

**Kartik Mehta:** Thank you. Thank you, sir. Thanks.

**Operator:** Thank you. We have the next question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.



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**Rahul Sharma:** Sir, I just wanted the clarity on the amount of intangibles which have been taken into account in the balance sheet and what is component amortization which is there in the depreciation, sir?

**Ashok Modi:** That is something, sir, we are not, you know, currently able to share with you. the exact amount of amortization, the intangibles in the books would be the value of the transaction which was 2000 crores.

**Rahul Sharma:** Okay. The entire 2000 crores would be there.

**Ashok Modi:** Yes. Most of it.

**Rahul Sharma:** Okay, sir. Thank you. I'll join back.

**Operator:** Thank you. It's a reminder to all the participants if you wish to ask a question, please press \* and 1 on your touchtone telephone. We have the next question from the line of Ashish Rathi from Emkay Global Financial Services. Please go ahead. Mr. Rathi, your line is unmuted. You may please go ahead.

**Ashish Rathi:** Yes. Am I audible?

**Operator:** Yes, sir. Now you are.

**Ashish Rathi:** Yes. I just wanted to check on the other income is high in this quarter. So what is the component of OS scheme in that and also any colour on the hedge position for it?

**Ashok Modi:** Sir, can you repeat the second part of the question, Ashish?

**Ashish Rathi:** What are the outstanding hedges, what rate and, you know, for how much time?

**Ashok Modi:** Yes. The other income is significantly contributed by ForEx, but we are not currently not able to share the exact components. Just a minute on the second one. \$300 million is the outstanding hedges which we have?

**Ashish Rathi:** What rate that would be approximately?

**Ashok Modi:** Yes. It's approximately Rs. 63 to Rs. 65.

**Ashish Rathi:** Okay. Thank you, sir.

**Operator:** Thank you. We have the next question from the line of Aditya Dave from Ambit Capital. Please go ahead.



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- Aditya Dave:** Hi, sir. This is Aditya Dave. Sir, just a couple of very quick questions. On the Elder acquisition, sir, would you say the sales that we have booked this quarter would also include a relevance of normalizing the inventory in the channel for those brands or would it not include any normalization of inventory?
- Ruchir Modi:** Very little portion because if you look at the secondary sales, we have grown by 18% over Q1, so which is reflected in AIOCD. And usually when you look at secondary sales from stockist to retailer, is not really the inventory push, I mean, the primary to secondary would be the inventory. We see some difference in our primary quarter over quarter rolling quarter growth which is higher versus the secondary one, but it is not significant because in Q1 also we had worked together with Elder team to bounce back the business. So some efforts were done in Q1 and also to fill the inventory and ensure the goods available in the market.
- Aditya Dave:** Thank you, sir. And, sir, my second question is what is your U.S. dollar realization this quarter? How much are you realizing per dollar sales in U.S., so is the rate is 60, 61, 63? What was the rate that you realized because this spot rate & we have some hedges?
- Ashok Modi:** Yes. I mean, the actual realization – What is the question? I am not able to get you. The hedge rate realization or the spot rate realization? What is the question you asked?
- Aditya Dave:** Sir, you would have realized some sales on the hedge rate and you would have realized some sales on the spot rate. So I want the blended number that we realized per dollar for our sales in U.S. this year?
- Ashok Modi:** Just a minute. So it would be about Rs. 64.5 to Rs. 65.
- Aditya Dave:** Rs. 64.5 to Rs. 65? Okay. And, sir, any ForEx gain or losses we have above the EBITDA line item?
- Ashok Modi:** Above the?
- Aditya Dave:** EBITDA line. Above EBITDA, do we have any ForEx gain or loss in other expenses or?
- Ashok Modi:** No. No. Nothing in the other expenses.
- Aditya Dave:** Thank you. Thanks for taking my question.
- Operator:** Thank you. We have the next question from the line of Praful Bohra from Nirmal Bang. Please go ahead.
- Praful Bohra:** Hello? Yes. Thanks for taking my question. Sir, on the Elder portfolio have you seen any sort of attrition post the integration of the field force?



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- Ruchir Modi:** Yes. So, let's say, in Q2, July, August and September if I have to give you a number, the attrition is only 8% in the field which is, you know, by far the lowest from any standards in the industry. So I would say that is also a result. I mean, I would say we are very happy with the, you know, integration status because people are very well settled now and quite interested in working in Torrent and enjoying the work in Torrent. So even, I mean, October I cannot share, but the attrition is very encouraging; it's very low.
- Praful Bohra:** This 8% is only for Torrent as a whole or?
- Ruchir Modi:** Only Elder.
- Praful Bohra:** Only Elder?
- Ruchir Modi:** Yes.
- Praful Bohra:** Okay. And, sir, secondly on the synergies part, you know, given the fact that now we have almost more than four months of Elder with us, so have you started witnessing some synergies from the portfolio or other teams working separately?
- Ruchir Modi:** Right now they are working separately and it's best at this moment and some synergy initiatives that will start later on that I'll keep you updated later.
- Praful Bohra:** Okay. But the plan is to ultimately, you know, start pushing our own product to the Elder's field force side?
- Ruchir Modi:** I will share some, you know, good announcements later.
- Praful Bohra:** Okay. Thank you.
- Operator:** Thank you. We have the next question from the line of Abhishek Sharma from India Infoline. Please go ahead.
- Abhishek Sharma:** Yes. Hi. I just wanted some colour on the Dahej facility as in, you know, where are you in terms of commissioning it. What kind of timelines can we see in terms of regulatory inspections? Thanks.
- Ashok Modi:** The European regulatory inspection first. One part has already taken place and we are expecting that we should get the approval by 1<sup>st</sup> quarter of next year on this Dahej facility. And the U.S. approval obviously it will take longer time because of the regulatory process of stabilization time and all that sort of things.
- Abhishek Sharma:** Yes. So the first part is then fully functional and fully commissioned?





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- Ashok Modi:** No. See, what we did was we have broken down the project in several phases to facilitate the approval process without incurring too much, you know, cost on that. So what we have done is that we have completed part of these facilities for Part 1 of the inspection. By the time the second part of the inspection happens, the first phase of the project would have been completed by first quarter of next year and the second phase of the project would be completed one year after that.
- Abhishek Sharma:** So it's basically broken into two parts?
- Ashok Modi:** Basically broken into two parts. What you say is absolutely right.
- Abhishek Sharma:** Yes. Okay. Thanks.
- Operator:** Thank you. We have the next question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** Yes. Sir, just wanted to know how much of the sales has been captured in Q1 of Elder? 77 crores is what we have done which was there in the quarter sales of Elder per se, but how much was captured in our books?
- Ashok Modi:** See, actually the transaction was consummated on 29<sup>th</sup> of June, so that is only about a crore of sales which was booked in first quarter. So basically you can say there was no sales of Elder booked in Q1 in the Torrent books.
- Rahul Sharma:** Okay. But on the amortization also it is only in this quarter that it is happened. Not in preceding quarter?
- Ashok Modi:** Yes.
- Rahul Sharma:** Okay sir. Thanks for the clarification.
- Operator:** Thank you. We have the next question from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** Yes. Good morning. Question on how do we, you know, look at from a 2 to 3 year perspective on the margins because Elder has just started contributing and, as you said, in terms of price increases, in terms of, you know, a more product introductions, you see more, you know, synergy there and you are already at the base of 22, so would it be fair that in 2 to 3 years as you had also mentioned in the past I think that 25% is our goal?
- Ashok Modi:** I would say that, yes, definitely the margins should improve as we go forward. Ruchir did mention that the Elder's margins are better than Torrent's margins. So that would be one addition to the bottom line. And second is we are generally seeing better efficiencies is coming in both in the domestic business as well as, as Sanjay was mentioning in the Brazilian and the Mexican



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market where with the immediate problems behind us, we are seeing a positive movement going ahead. So all these factors should definitely contribute positively to the margins as we go forward.

- Operator:** Sir, participant has moved out of the queue.
- Ashok Modi:** No problem. No problem.
- Operator:** Sure. We'll move on to the next question that's from the line of Bhavin Shah from Geecee Investments. Please go ahead.
- Bhavin Shah:** Thanks for taking my question. Just wanted a qualitative field on the domestic business. 48/52 is somewhere the split on the Acute/Chronic. Within the next 2-3 years this could move to 35/65 sort of ratio?
- Ruchir Modi:** I would say it would be 50/50. Acute will, in fact, be a bit more than Chronic.
- Bhavin Shah:** Okay. So in the sense when we say the amount of productivity per se would, maybe, double from here on, it's not necessarily, you know, Chronic led can be across the board?
- Ruchir Modi:** Yes. I mean, like I said, Acute portfolio as such of Torrent and Elder is expected to grow much more than our Chronic as well. So both the segments we are looking at 8 lakhs PCPM.
- Bhavin Shah:** Okay. Fair enough. And just a book keeping one. 1400 crores that probably must have been the amount for funding the acquisition, what's the cost of interest on that?
- Ashok Modi:** That could be something which, I'm sorry, we wouldn't be able to share.
- Bhavin Shah:** Fair enough. Thank you so much. Thank you.
- Operator:** Thank you. We have the next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Yes. Thanks for taking my question again. Sir, on the, you know, Elder product portfolio earlier we mentioned that we were to start marketing it to some of the neurologist and cardiologist where Elder was not present, has that started or, you know, if that kind of in the numbers or it has not yet?
- Ruchir Modi:** No. It has not yet started because like I said post the acquisition our aim was to run business as it is in the business which was lost at the core specialty where they were strong at because of, you know, working capital issues or whatever. Our aim was to get back the equity in those clinics like mainly gynecologist and also orthopaedicians and all that and then go for some synergy initiatives, let's say, in Q4 or something, you know. Let the team stabilize, let them feel secure



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and good, you know, working here and then go for some, you know, interesting synergy benefit changes. So right now it is as it is.

**Nimish Mehta:** So the growth that we are reporting almost 18% on Elder portfolio on a Y-o-Y basis that is matching the primary sales growth, right, or is it because of, you know, working capital issues resolving in those channel filling and something like that or?

**Ruchir Modi:** No. It is channel filling or working capital issues were resolved in Q1 itself because we work with Elder together to resolve the business.

**Nimish Mehta:** This is pretty much closer to the primary growth?

**Ruchir Modi:** Yes.

**Nimish Mehta:** Okay. On the U.S. how many launches you expect this year and next year if you can just guide that?

**Sanjay Gupta:** So, I mean, I cannot predict for sure, but essentially we have been doing an average of, you know, 7 to 10 launches a year, so I would keep that run rate in mind.

**Nimish Mehta:** Okay. Fair enough. Thank you very much. That's all from me.

**Operator:** Thank you. We have the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

**Anubhav Agarwal:** Yes. Just a couple of questions. Sanjay, one question for you that you have mentioned previously that you are looking to strengthen your, A, the pipeline because of the hiatus that you foresee for 1/1.5 years and any accuracy that you could point out here in organic opportunity or inorganic opportunities over there for the U.S. market?

**Sanjay Gupta:** So what we have done is organically, we've added a couple of different types of doses forms, so in our pipeline, we've started work on two areas outside of oral solids and it's too premature for me to kind of harp on them, but it is a long-term sustained effort on our part to diversify our portfolio and, you know, as and when we are ready to speak about it, we will start. Inorganically we are always looking at opportunities. There is a pressure on the smaller players in the U.S. because of, I would say all the fees that are coming in place, so if you are not a scale-player and if you are not an industrial, just a virtual company as we saw with some companies like Boka that got acquired and there are few other transactions that have taken place with, you know, pharma or other companies in the U.S. So there is pressure on the companies to kind of cash out because the cost of doing business is going to go up and there are opportunities on the table and we kind of monitor them and that's a quick way for us to diversify our offerings. So we haven't done anything yet, but lot of things, lot of projects to look at.



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- Anubhav Agrawal:** Okay. That's helpful. I got it. And just one, Ashok *bhai*, on the R&D expense, let's say, with Elder acquisition, certainly, R&D's percentage sales will moderate from we would have earlier had a Torrent only. So just as an idea, what do you see R&D's percentage of sales what it is right now at about 4% or between 5%, would that remain as same even you are going into more complex products over the next 2 to 3 years?
- Ashok Modi:** I mean, it might increase a bit considering what Sanjay said that we are ramping up the process pipeline and we can also be looking at some unconventional or more type of dosage form to strengthen our pipeline, so we could see a bit of an increase in R&D spend as we go forward.
- Anubhav Agrawal:** But in the previous comments that you made that's still remains valid that overall benefit of higher margins at Elder with more price increase coming will be higher than the increase in R&D, right, and margin should benefit from there?
- Sanjay Gupta:** The R&D ship is a slow ship, you know, you can't turn it around really fast. sS what we are doing is we've started, I would say, a sustained program to improve our R&D infrastructure both in the equipment part as well as in the people part and in terms of the number of projects. So you would see, we know that our ratios are lower than it appears and over time our objective is not to decrease, but to increase the R&D spend and probably, you know, spend the money wisely, but the ratio should increase.
- Anubhav Agrawal:** Thank you.
- Operator:** Thank you. We have the next question from the line of Ashish Rathi from Emkay Global Financial Services. Please go ahead.
- Ashish Rathi:** Yes. Hi. Thanks. My question is on the contract manufacturing business. Sir, we have seen a very high jump in contract manufacturing income sequentially, what is driving this?
- Ashok Modi:** I'm not able to follow the question. Can you repeat this please? Q1 to Q2, you said?
- Ashish Rathi:** Yes. From Q1 to Q2.
- Ashok Modi:** Yes. There was a bit of, I mean, small maintenance-related shutdown of the plants for a while in the first quarter. So that is why you see this thing, but if you see on a H1 basis, it's back to normal.
- Ashish Rathi:** Okay, sir. Should we assume like a 100 crores kind of a run rate for this business as sustainable because this would broadly be order book devil, right? Do we have any licensing income in this quarter?
- Ashok Modi:** No.



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- Ashish Rathi:** Okay. And, sir, what would be the larger component of this business? Would it still be the insulin business which we do for Novo Nordisk or we have seen a sharp, you know, scale up AstraZeneca Business, any change in the business mix in this contract manufacturing business?
- Ashok Modi:** No. No. No. It is principally the insulin business for Novo.
- Ashish Rathi:** Okay. And colour on CapEx for FY16, we would still look at 250-300 crores kind of a run rate or any changes in that?
- Ashok Modi:** It would be more near to 200 not 250-300.
- Ashish Rathi:** Sorry. Sorry, how much, sir?
- Ashok Modi:** Yes. It should be more near to 200 to 225.
- Ashish Rathi:** Okay. Right. Thank you so much.
- Operator:** Thank you. Anyone who wishes to ask a question may press \* and 1 on their touchtone telephone. As there are no further questions from the participants, I would like to hand over the floor back to the management for their closing remarks. Over to you, sir.
- Ashok Modi:** Thank you all very much for sparing the time and attending the teleconference and thank you for very insightful questions. I hope that we have been able to satisfy your questions except, maybe, some of the things which we traditionally have made a policy not to share. Thank you all very much for sparing the time. Thank you.
- Operator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Edelweiss Securities Limited, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.