



“Torrent Pharmaceuticals Limited Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharma Q3 FY'13 earnings conference call of, hosted by Edelweiss Securities Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal for an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand over the conference to Mr. Manoj Garg of Edelweiss Securities. Thank you and over to you Sir.

Manoj Garg: Thank you. Good morning to all of you. We at Edelweiss welcome you all to the briefing of Q3 FY'13 results of Torrent Pharmaceuticals. On behalf of all the participants and Edelweiss, we welcome Torrent Pharma team. Today, we have Mr. Ashok Modi, Executive Director Finance, Mr. R. Srinivasan, V.P. Finance and C.F.O., Mr. Ruchir Modi, Chief Marketing Officer, and Mr. Rishi Shah, Manager, Finance from the Torrent management team. Now I would like to handover the conference to Mr. Srinivasan to discuss the results and outlook. Over to you Sir.

R. Srinivasan: Thank you, Manoj. Good morning everyone. This is Srinivasan here. Welcome to our post results teleconference for the Q3 of the year 2012-13. As Manoj said, we have with us Mr. Ashok Modi, Executive Director Finance, Mr. Ruchir Modi, Chief Marketing Officer who led all the domestic market and related issues and Mr. Rishi Shah who coordinates Investor Relations who is also the Manager, Finance. Let me take you through the highlights of the operations for the quarter.

During the quarter total revenues of the company grew by 15%, posting revenues of 798 Crores versus 695 Crores in the previous year. India Formulations business grew by 13%, posting revenues of Rs.258 Crores versus Rs.229 Crores in the corresponding quarter last year. International Operations grew by 17% during the quarter with revenues at Rs.462 Crores.

Key highlights of major territories in international are as under:

US business registered a revenue growth of 44%, posting revenues of Rs.92 Crores. The constant currency growth is 35%. Company has launched one product during the quarter and has got two approvals for two ANDAs and has filed one ANDA during the quarter.

Brazilian Operations recorded revenues of Rs.117 Crores registering degrowth of 3%, adjusting for currency movements Brazilian operations actually in terms of the local currency showed a growth of 4%. Losartan and metformin if you recollect are into government reimbursement program where we do not have percent excluding these cover market is actually growing at 6% versus Torrent growth of 7% as per IMS data.

Europe including Ireland, UK and Romania operations registered revenues of 156 Crores showing growth of 8% and constant currency growth of 6%. Rest of the World including Russia and CIS operations registered revenue growth of 30%, registering revenues of Rs.78 Crores. The constant currency growth is 22%. So we have discussed India International Operations apart from the Contract Manufacturing Operations for the quarter registered a growth of 6% posting revenues of Rs.75 Crores. The lower growth mainly on account of lower sales coming in from insulin business with Novo Nordisk, during the quarter the company received one-time mitigation settlement income of 11 Crores and EBITDA margins of the company for quarter stood at 19% compared to 20% in the previous year.

Profits before tax stood at 143 Crores compared to Rs.104 Crores, registering a growth of 38% for the quarter. PAT for the quarter is higher compared to corresponding quarter last year mainly because of the alternate minimum tax being levied on Sikkim partnership. The company announced an interim dividend of 120% being Rs.6 per share.

That is all about this is summary of the operations. Thank you very much and we shall now start the Q&A session. Over to the coordinator please. Thank you.

Moderator: Thank you Sir. Participants we will now begin with the question and answer session. We have the first question from the line of Mr. Ashish Rathi from Equirus. Please go ahead.

Ashish Rathi: Thanks for taking my question. Good morning people. My question is on the Brazil market. We just saw that last quarter ANVISA strike was there and we were hoping for some kind of a recovery this quarter, but this quarter even in constant currency the growth has come at 4%. Overall year-to-date if we look at Brazil has grown at 4% to 5%, which is much lower than our earlier guidance and expectations. So, what I would like to understand is one are there any spillover sales from last quarter to this quarter and two, is the Farmácia Popular program taking its toll on our sales little more than we had expected?

R. Srinivasan: There is no spillover of sales from last quarter to this quarter. As far as the Farmácia Popular program is concerned the Losartan and metformin we actually are not having a strong presence there because the price realizations in the government program is very less and we still have some sales in the open market, which is at higher price. So overall on a bottomline basis this was not getting significant benefit by participating in the government program and hence we decided not to participate in the government program in a major way.

Ashish Rathi: Actually what is the percentage of losartan of our total sales in Brazil in losartan and metformin for us as on today and what it was at last year?

- R. Srinivasan:** Roughly about 15% in the last year. Current year combined between Losartan. Losartan/HCTZ is only affected. Losartan sales current year is about 5.8 million and previous year it was about 6.6 million. The actual point is that the losartan sales is growing very fast particularly because of the government program and it is also eating away the sartan sale as well.
- Ashish Rathi:** Basically what I am trying to get that is what is the impacted sales from the Farmácia Popular program, which was there for us before this program was launched and now for the applicable molecules?
- R. Srinivasan:** That is that I have told you if you compared the previous year sales versus current year sales in terms of the sales numbers there is no significant variation but the fact is that market is growing at a very rapid pace, on which we are not participating that is the issue. The rapid growth, which is happening, is mainly because of government program and government programs do not fetch a significant margin for us to participate. The margins are so thin that even if you participate or not it is irrelevant.
- Ashish Rathi:** Fair enough. So what would your outlook be for FY'14 for Brazilian market as of today and how do we see at panning out?
- R. Srinivasan:** Brazilian the growth pattern as you see the market growth has fallen to about 6%, the adjusted growth. Normally we used to see about 12% to 14% growth so this quarter the market growth itself is sluggish but on a YTD basis we will still have a growth of about 11% in the cover market and even Torrent has grown by about 11%, so on YTD basis while we do not have major concern but even the current quarter the growth has helped it quite sharply.
- Ashish Rathi:** Any new launches we have done in Brazil market for this quarter?
- R. Srinivasan:** Current quarter we did not have any new launches.
- Ashish Rathi:** Filings?
- R. Srinivasan:** Filings yes, we will get back to you. We do not have data right now. Filings have taken place during the quarter. We will get back to you.
- Ashish Rathi:** Thank you. I will join back in the queue.
- Moderator:** Thank you. We have the next question from the line of Monica Joshi from Avendus Securities. Please go ahead.
- Monica Joshi:** Three questions, one is if there is any forex gain that you have accounted? What is the value and where is it visible? Secondly you mentioned 11 Crores from a settlement income if we heard correctly, so

where these income being recorded? Thirdly just a comment on the balance sheet we have seen sharp rise in inventory in receivables so any comment on that?

R. Srinivasan: As far as product is concerned, we have recorded 11 Crores gain in forex and that is shown under other expenses and the 11 Crores are shown under other operating income. As far as the inventory is concerned one significant thing we have done as far raw material inventory is concerned there has been a sharp rise in the inventory level. We have done it consciously to build up some buffer stocks of raw material inventories for some of the key markets where there is high fluctuation in demand. For instance, say in US there are lot opportunities, which we see it comes in without much of an advance notice because of certain market developments with other competitors and if we have to cash in on the opportunity you need to be in the market at the time when the customer wants you to supply. So we have consciously decided to maintain certain level of buffer inventories in order to be able to capture all these opportunities in time. So that is one conscious decision, which we have taken. But apart from that in terms of the finished goods inventories, I do not know whether your question is with reference the rise in inventory levels compared to last quarter or what is your observation?

Monica Joshi: The rise in inventory obviously we do not know the breakup of raw materials and finished goods. We are comparing the numbers from the September level also from the March level but mainly from September and there is roughly about it looks like there is a sharp rise both on receivables and inventory?

R. Srinivasan: Overall the finished goods inventory has shown an uptrend compared to March 31 levels compared to December 31 now. That is because we carry a very low level of inventory as of March 31 in some of the key territories due to some supply constraints, which we have in Q4 of last year and the inventory levels had actually gone down grow our desired levels like for instance in Brazil we were almost holding only three months of inventory end-to-end whereas normally we hold about five months of inventory. So to that extend the inventory levels have gone up but in terms of the overall position we are holding inventory in line with what is generally maintained.

Monica Joshi: Comments on the receivable side, debtor's side?

R. Srinivasan: Receivables we have no specific issue. It is all in relation to the growth and business it is seems to be all right.

Monica Joshi: We have seen a higher growth from September to December, much higher than in relation to the business. So are you seeing any particular problems on the receivable side may be in Brazil or Russia?

R. Srinivasan: No there are no adverse movements in any of the territories in fact. All are in proportion to the sales increases so there are concerns in this regard.

Monica Joshi: Thank you so much.

Moderator: Thank you. We have the next question from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: I had a doubt on the margin front. We have seen the margins significantly lower this quarter compared to last two quarters of this year. Is that any seasonal or is there something more to it?

R. Srinivasan: Current quarter, we had some one of item so one is to adjust this one of items, one is as I said, we had this 11 Crores one time litigation settlement in the income side as well as in the expenditure side we accounted for the merger of Sikkim firm in to the main company and structuring of the firm was obviously was around objective of tax optimization as well as keeping in mind the tax layer aspects. So that has resulted into a book loss of about 7 Crores. It is not actually a cash of book loss of 7 Crores that has been booked. So that is auctioning part of the normal income, which we received. We do not see any significant margin movement between the quarters. Which margin you are talking about?

Bino Pathiparampil: The EBITDA margin removing the 11 Crores forex?

R. Srinivasan: EBITDA margin between Q2?

Bino Pathiparampil: If you remove forex Q1 and Q2 EBITDA margins were more than 20%. In fact 23.6 and 21.8, which has now come down to 18.8 that are removing the forex gain or loss, so it is a 300-400 basis point difference?

R. Srinivasan: There is no specific reason that is attributed to this. The only thing is that there would be between the quarters there is always a fluctuation in expenditure so one needs to look at the YTD margins and in terms of YTD year is adjusted for all the normalizations in the earlier year and current year the YTD margins have more or less remained constant compared to the earlier year. So I mean in-between the quarter even if you see a fluctuation on YTD level we had more or less maintaining our margins.

Bino Pathiparampil: Coming back to Brazil for a second what has led to this the 13% to 15% covered market growth to suddenly slow down to 6% is that some reason for that can the government program itself could have resulted in this or is there something else?

R. Srinivasan: We are actually adjusting for the government program and looking at the growth, which is at 6% compared to an average of 12% to 14% but on a MAT basis the growth is still at about 11% and so right now we are still trying to find out reasons of why there is a sharp dip in the market growth but

what makes us believe that it may be a one of the item because on a MAT basis we still are having a growth of about 11% so we hope that we should bounce back but we actually have nothing to share with you at this point in time.

Bino Pathiparampil: Your aim of launching four to five new products every year that remains intact?

R. Srinivasan: The phase of new product launches is healthy. Only thing is that there have been delays in the Brazilian approval timelines on a general industry basis. So the approval timelines have been extended compared to what it used to be earlier. So we need to do some adjustment around that in terms of how to go about the R&D pipeline and to ensure that we are in time to the market, so that we take up the developments little bit in advance in order to be in time to the market.

Bino Pathiparampil: Right and all the issues related to that strike in the last quarter that is all behind us?

R. Srinivasan: Yes, that behind us and we do not have any further issues on that.

Bino Pathiparampil: Okay, finally can I get the breakup of Germany and Russia plus CIS, which you use to give earlier Germany alone and Russia and CIS?

R. Srinivasan: What we have done at this time actually the businesses are growing very large so we have reclassified some of the business. So, Europe we are looking at it on a combined basis where we are looking at Heumann, UK and Romania operations on a combined basis. So Heumann is registering a good growth both in terms of constant currency as well as the rupee growth. So what exactly is your question?

Bino Pathiparampil: Yes, I need the Heumann revenue separately if you could give that?

R. Srinivasan: We have now started looking at it on a combined basis so we do is not going to share revenues on a separate basis.

Bino Pathiparampil: Thank you. I will join back with you.

Moderator: Thank you. We have the next question is from the line of Karthik Mehta from ICICI Securities. Please go ahead.

Karthik Mehta: This is on the India business can you share in the 12% - 13% India growth that we had in this quarter where the market grown in the segments where you are and also some thoughts on the pricing policy related activities in the market? Are you seeing any competitors offloading inventory for the areas where you could be affected? Thanks.

R. Srinivasan: In terms of growth overall the growth which we have posted as 13% and in terms of market growth I think we have been uploaded the presentation where we have given the market growth details. So we are in line with market growth as far as all the segments are concerned we are in line with the market growth. Even the acute therapy growth is somewhat closer, the cover market growth is 16% and Torrent has also posted a 16% growth in acute therapy, which was a concern, which we expressed in the previous prior quarters. So we are in line with the market growth.

Karthik Mehta: If we have to look at it from the next two three years from now in terms of the field force on the ground especially for the acute market do you think you will need to add some more numbers on the ground if you have to grow in excess of the market we are equal to the covered market and I think we are also equal to the covered market in the chronic space so if one needs to grow at this rate or maybe at a higher rate on the backdrop of the overall changes that would be happening if the pricing policy is implemented what would be your thoughts in terms of actually maintaining this overall growth rate which is actually picked in the market rate?

R. Srinivasan: I think in the last quarter we commented that we are not going to have any significant increase in the field force and Mr. Ruchir Modi probably can comment on this, but we have reorganized ourselves in order to bring better focus on some of the brands and brand building is going to be one of our key focus areas so around this we have structured our divisions.

Ruchir Modi: So again this was very valid question. Acute therapies the name of the game is reach and like other companies who continuously keep on adding field force and get business I think that is a constant thing because there is always an addition of new doctors and there will be a minimum addition of field force on a yearly basis but yes marked additions at this moment we are not envisaging because our first priority is to increase our productivity and we will be focusing on that unless we have a respectable productivity and then we will definitely increase the field force. So it has to be viable also just by adding fixed costs or increasing field force gets you business is not the thing, the effectiveness of marketing also plays a role and our focus is right now on that. Just recently we have from Jan 2, restructured our acute segment like we have launched a new division in the pain segment. It was part of one of our divisions and we have divided both the divisions without actually adding a single field staff. So we are right now focusing on productivity and only productivity and not adding field force.

Karthik Mehta: So what is the field force that we had as on the end of the quarter which is December 31, 2012?

Ruchir Modi: 3900 December 2012 and it remains 3900 even after launching a new division in the pain segment.

Karthik Mehta: Can you throw some light on the oncology division that you have?

R. Srinivasan: Oncology division we are it has been one year and we are on budgets and I think it has been a good start for us. We have reached a respectable productivity level and this division is on plan on budget. I mean I would say that many companies took seven, eight years to reach the base that we have reached in one year so that is all I can tell you.

Karthik Mehta: Just on that how many products do you have in the market can you share with that number or on the oncology?

R. Srinivasan: We can send it to you.

Karthik Mehta: Sir on the Brazilian part of the business is it fair to assume that the losartan and the metformin sales, which are there under the government program will continue to remain and hence the expectation for companies, which are in these two therapeutic areas for the other products should now be tapered down on the growth front and if yes does that impact the profitability or your profits that you would earn from the operations in Brazil significantly because these products are fairly chronic in nature and they would be growing at a very higher rate so if the government continues with this how does one look at other products that you have and do you contemplate at some point of time that you would be entering the tender program for maybe losartan and metformin just to ensure that you have some market share there?

R. Srinivasan: As far as the government program is concerned we have no indication that it would be discontinued like I think it was one of the elections promise is given by the current president. So that is unlikely to there is no indication that it will be discontinued so it will be continue, but as far as we are concerned out of losartan and metformin you know that metformin we do not have any significant sales at all. So it is only losartan, which is actually affecting us.

Karthik Mehta: Sir my point here is that if one of the important molecules for antidiabetic is under the program why would a doctor not write that product when it is available at a low price or almost absolutely free so then even if one is not in metformin other products in antidiabetic or any others sartans for that matter a little sense to have any higher growth expectations there?

R. Srinivasan: Certainly I mean as far as sartans are concerned the first preference for the doctor would be to treat the patient with losartan because it is going to be free for the patient and so it does have an effect on the sartans, which we had put on development also we are not sure we kind of discounted growth which could come out of these. So all the other sartans are sure to be affected, but in terms of diabetic therapy I mean metformin is of course the first line of treatment but subsequently also followed up with the other treatments as well so we do not see any reason why the other treatment would not continue so it is while in metformin we are not there but the other treatments are still may not get affected.

Karthik Mehta: Sir my last question on Brazil would be that if we have to assume when a 11%-12% YOY growth rate, which would be driven by some new products or some overall volumes in the existing products that we have what is your fair assumption for a breakeven. Do you think that you can sustain a breakeven with the type of products that you have at least a number which is fairly significant and does this restrict in anyway to you adding more field force into Brazil because of the change in the outlook that you would have now?

R. Srinivasan: The Brazilian business I do not why you are talking of breakeven. We are making profits, good amount of profits in the Brazilian business and so there is no question of achieving any breakeven or anything like that. As far as field force is concerned we added about 65-odd field force somewhere towards the beginning of this year and we do not see any further increase in field forces in near term and one of the reasons to probably lower growth as far as Torrent is concerned is that even this field force is taking time to settle down and we should start seeing the growth to come in the coming quarters, so but we do not have any pessimistic view about addition of field force but we do not have any significant plans of increasing the field force. That is what I can say at this moment.

Karthik Mehta: We would have about 200 people on the ground?

R. Srinivasan: 300 People.

Karthik Mehta: Thank you.

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

Rahul Sharma: Sir just wanted to ask the merger fees, which was there on account of the Dahej plant and the litigation income of around 110 million are both included in other expenses or how is it accounted for?

Rishi Shah: The 11 Crores is accounted in other income.

Rahul Sharma: Sir other income is much lower it is at around close to 88 Million for the quarter?

Rishi Shah: Rahul other operating income which we are talking about.

Rahul Sharma: Okay and the milestone payment are how much then? They royalty payment, which is in the other operating income?

Rishi Shah i: 11 Crores.

Rahul Sharma: That is also 11 Crores.

- R. Srinivasan:** No I am not sure what is your exact question. The other milestone for contract manufacturing is that is right.
- Rahul Sharma:** This 7 Crores is included where then it is included?
- Rishi Shah:** The other expenses.
- Rahul Sharma:** So that is total of 22 Crores in other operating income, which is on account of settlement income as well as 11 Crores of other milestone payment, royalty payment right?
- Rishi Shah:** Correct.
- Rahul Sharma:** I just wanted on the policy impact what is the assessment that you all believe that it could have an impact on the revenues domestic the new pricing policy?
- R. Srinivasan:** The pricing policy even though it is announced it is still it is the final parts of the policy are still to be drafted in terms of procedures and other things and anyway it is on the Supreme Court at this point in time for a final call on this. So at this point in time even if we comments it is not going to be a final one. So we would rather comment on it when there is more clarity how we are going to implement it.
- Rahul Sharma:** On the Brazilian sale just wanted how much was losar and metformin last year in terms of total sales was it 6.5 million or was it much more?
- Rishi Shah:** Rahul I give you off line after the call.
- Rahul Sharma:** But do you see the momentum improving in quarter-on-quarter growth numbers going ahead or will it be maintaining the same momentum till new products come in?
- R. Srinivasan:** The new product introduction the base of new product introduction is if at all we will at least certainly maintain the existing trends if at all have some improvement on that. But of course we are getting certainly affected on account of losartan sales so that is not going to be recouped, so to that extent there would be there will have to be an adjustment.
- Rahul Sharma:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Bhavin Shah from Dolat Capital. Please go ahead.
- Bhavin Shah:** Thanks for taking my question. Sir just an observation about two quarters back just in Brazil we reported volume growth 17% which has now fallen off to single digits. Will you help us to understand

what is really going wrong but the catch up there what you feel is the pricing behavior in the volume growth patterns in Brazil now going forward probably a year to two years down the line? Is the growth trajectory more volume driven or will it be some price components added to that?

R. Srinivasan: The pricing part of it is clear as far as Brazilian market is concerned 1) there is an annual price rise equal to the inflation, which is allowed by government and 2) that generally on a broad basis it is for us it is offset by the price decreases we have to take on the other products in order to be in a properly priced vis-à-vis the competition. So the pricing impact is not significant if at all there would be 1% or 2% impact on overall growth but not a significant amount. So it is actually coming out of the volume growth and new introduction growth. Growth we are seeing on account of volume and introduction.

Bhavin Shah: For the domestic market, how has been the performance in the cardiac space specifically for the quarter on chronic areas specifically?

R. Srinivasan: The chronic segment we have been growing at 15%.

Bhavin Shah: Now this is YTD or for the quarter?

R. Srinivasan: For the quarter.

Bhavin Shah: 15% this is led by mainly CVS or any others?

R. Srinivasan: It is a cardio; diabetology and neuropsychiatry both are at 15%.

Bhavin Shah: Thank you so much.

Moderator: Thank you. We have the next question from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Just wanted to follow up on Brazil. I mean given the program is likely to continue can you throw light if there is a possibility of inclusion of other molecules and if at all possible can you share which are the big molecules in the Brazil beside losartan?

R. Srinivasan: The government program started with six molecules out of which two molecules are of relevant for us so these are the only two molecules we are concerned with, but there are no indications of the government adding more molecules and certainly if the government at all intends to add more molecules it will have an impact on their fiscal management. So it is not certainly going to be an easy thing to keep on giving out free medicines for the government. So there are right now no indications but it is anyone's guess that if at all something is going to be added but we do not have any indications to the extent that more molecules will come into the government program.

- Girish Bakhru:** Right beside losartan, which are the other big products that you have in Brazil currently?
- R. Srinivasan:** Only losartan and metformin as far as we are concerned as affected. The others are not concerned for us. We will give you off line.
- Girish Bakhru:** And on the US side if you can tell is there any licensing income that was there like in the last quarter is there anything booked in this quarter Sir?
- R. Srinivasan:** We have about a Million Dollar booked as revenue towards some licensing income in the US so one needs to adjust the growth for that.
- Girish Bakhru:** Okay. Just continuing on the US you have seen like few launches like Cipro, Revatio just getting the sense on where do you think basically margin contribution from US would move say by next one or two years. I know it is pretty to comment on that but you have about 25 products in the US territory already so if you can talk about that bit?
- R. Srinivasan:** See the margins have been quite healthy if at all in the current year we have seen an improvement in margins one is of course on account of the products themselves. The nature of the product introduced and the competition which we had for the product portfolio itself has resulted into an improvement in margin and there is a significant improvement in margin, which has now about due to positive currency movements. So these are the two factors, which affected the current business operations. Going forward out of the product which we keep on introducing there is always likely to be one or two products out of these, which has a significantly different profile to offer better margins so that way we are able to maintain or improve upon the overall average margins.
- Girish Bakhru:** Thank you.
- Moderator:** Thank you Sir. We have the next question from the line of Mr. Anubhav Agarwal from Credit Space. Please go ahead.
- Anubhav Agarwal:** Just one question on India, Mr. Modi you mentioned that you want to increase the productivity of field force, rough idea the current productivity of field force is about 26 lakhs per field staff? What is a target rate here?
- Ruchir Modi:** I mean current is not 26 lakhs.
- Anubhav Agarwal:** It is in the region of around 26, 27 or approximately about there?
- Ruchir Modi:** Per year you are saying?

Anubhav Agarwal: Yes.

Ruchir Modi: At least up to 40 lakhs.

Anubhav Agarwal: So that means you do not want to add field force for at least for one and half years?

Ruchir Modi: Let us see how the performance goes, if we achieve this year why not? But definitely it is important to have a respectable market share headquarter wise. You know there is no point increasing field force when you have not reached a certain respectable base in headquarters so I think that is how we are going to move forward.

Anubhav Agarwal: Just one question on Brazil market, what is your market share in your target market right now would it be close to 10% how was it? What is it and what you are ranked currently?

Ruchir Modi: See in the cover market our market for each of the products will actually on portfolio basis our market share would roughly be about 8%.

Anubhav Agarwal: Sir basically my question was from the perspective that if your covered market is growing at 11% you are still at 8% market share ideally with new product launches you should be growing more than the market except last quarter was let us say a special situation where like because of these are the local guys were at advantage but other than that you ideally should be growing faster in the market?

Ruchir Modi: Why do you say that? I mean if we are maintaining a market share of 7% to 8% and if your covered market is growing at a certain rate and if you are also making (ph) it so the market share would be a maintained?

Anubhav Agarwal: I am saying because I mean I am just assuming that you guys will still be launching many more products then which will be launched or let us say when we talk about an 11% as a growth rate for the industry with the new launches ideally we should be growing faster in the market?

Ruchir Modi: So as and when you launch the new product the size of the new market also gets added. So that way it is a number game only so that would not be an indicative of the overall growth I agree with you that you know it should be more than the market growth. One is that you know it is the way to look at this at the existing itself has a significantly high generic growth pure generic growth compared to branded growth so that itself will have to be adjusted for. Out of the overall margin growth the generic pure generic growth is far higher than the branded growth. The generic is taking away a larger share of each of the molecules and whenever it is growing so it is taking a larger share.

Anubhav Agarwal: So when you gave by 11% market growth number that is the branded generic market growth you gave out right?

Ruchir Modi: It is a combined growth.

Anubhav Agarwal: What would be growth of the branded generic market out of the 11%? You seem to say that should be somewhere between 5% and 10%?

Ruchir Modi: 5% and 10% is what?

Anubhav Agarwal: The branded generic market growth?

R. Srinivasan: We will give it to you offline. We do not have it right now.

Anubhav Agarwal: But the more relevant question I have it here was that let us say assuming just a hypothetical question tomorrow let us say any particular day you decide that you want to go into the generic-generic market as well what is your take? I am assuming that approvals wise you do not have to go for new approvals there the same product you just have to decide that when do you start selling the same product at promoting to pharmacies? Is that the only switch or do you have to do something on the approval side?

R. Srinivasan: We need to get separate approvals for a generic product. We cannot use the branded approvals for generic marketing.

Anubhav Agarwal: Okay so whenever you started to take a decision there will be at least a two year or let us say in the normal approval timeline which in Brazil which is required to make that?

R. Srinivasan: We are also parallelly getting some approvals for the generic market. We have been doing it since last several years so we have a generic marketing authorization available to us and we will have to decide at the right point of time as to how to go about this.

Moderator: Thank you. We have the next question from the line of Ravi Agarwal from Standard Chartered. Please go ahead.

Ravi Agarwal: First a housekeeping question I mean just to get this bit correct your other expenditure of 235 Crores essentially includes a loss of 7Crores from your second facility, a forex gain of 11 Crores is that correct?

R. Srinivasan: Yes that is right.

Ravi Agarwal: And your other operating income of 29 Crores includes a litigation settlement income of 11 Crores and the US revenues includes licensing income of 5 – 5.5 Crores?

R. Srinivasan: The other operating income would include 11 Crores of settlement income and 11 Crores of CRAMs income which include this US income also.

Ravi Agarwal: 29 Crores would include 5.5 Crores of US income plus 11 Crores of our settlement litigation settlement?

R. Srinivasan: Yes and 6 Crores from the deals, which you have done the contract manufacturing deals which we have done. So total 22 Crores out of 29 Crores.

Ravi Agarwal: The second question was more macro question essentially when increased our field force in Brazil by almost 25% - 30% in beginning of FY'13 were we at that time in a position to have loan that the government program is on and in the sense that that in a way potentially... The question was that when we increased our field force in Brazil by almost 25%-30% in beginning of FY-13. I mean what is the thought process in terms of increasing our field force there. I am sure that we would have known that the government program is coming on and it would have some impact on the overall market and yet we chose to actually go and increase our field force? Just to understand our thoughts in terms of what is the strategy and has that changed now from that period of time?

R. Srinivasan: If you see our field force has been constant for quite sometime. The last three to four years we have not had any increase in field force whereas we have been saying constantly five products every year getting added to the portfolio. So there is a limit up to which you can force the existing field or the there is a limit up to which the field force can detail the numbers of products has been field force can detailed to the doctors. So you have to balance the amount of field force required to address all the products properly so that you get the right focus on all the growing products or all the products, which are under focus so and we thought that this was the right time to add the field force and also that you do not keep on adding field force every year that next year I need another product and add another 10 or something like this not done. So we have looked at the product additions over the course of next two to three years and the product conditions, which have taken place in the past and optimize it and that is how we arrived at a field force with an increase of about 60-odd which was done in the beginning of this year.

Ravi Agarwal: It obviously would have factored the fact that the government purchase program is there so I mean you would have factored that in our calculation when we were making the budgets for the Brazilian market right so it is not coming?

R. Srinivasan: Yes, surely it was kept on mind because at that time when we increased the field force this program was already on.

Moderator: We have the next question from the line of Mr. Krishna Prasad from Kotak Securities. Please go ahead.

Krishna Prasad: Just moving away from this quarter for a moment and looking at the portfolio of businesses that we have if we were to take let say our three five year view what sort of businesses do you think would be most exciting at in that timeframe and where do you see from a growth and profitability we have to stack up these businesses how would things look or what are the expectation that we have over the medium term?

R. Srinivasan: See of course we do not any specific guidance but on a broad basis if you look at where the growth is coming from the growth whether it is Brazil or India the new product introductions is one of the primary growth drivers for us and we have enough products in the pipeline, which are yet to be applied for and also enough products in the pipeline, which have already been applied and pending approvals by the relevant regulatory authorities whether it is Brazil, US or India. So we have constant flow of new products, which is going to ensure the growth so that is a primary growth driver. The second thing is I mean in terms of the market which we have opened up we have Mexico, UK and Romania, these three markets which we opened up. Mexico is a market, which is a large market as about \$10 Billion market and which is almost slightly below what the Brazilian market is and it is quite promising so we need to see some growth from the Mexican market. The UK and the Romanian market also which we have opened up recently I think we are finding out ways of how to grow these markets in an accelerated fashion one is of course it will grow out of the natural new product pipeline, which we have and we also are looking at opportunities of how to accelerate the growth in these markets so that that is as far as we should concerned and in terms of the domestic markets we are looking at new therapies like we recently entered into Gynec and we are trying to bring in focus on Dermatology and probably once we are able to consolidate on these two we will also look at adding more a new therapy probably in Respiratory is another promising therapy area, which we are looking at but the plans are not firmed. So broadly these are the areas, which growth is going to come in.

Krishna Prasad: Thanks a lot. That is it.

Moderator: Thank you. We have the next question from the line of DS Rao from Brick Works Ratings. Please go ahead.

DS Rao: Sir if you could tell me a number of capex for the R&D, which you have planned for this year and how much you have done and for the coming quarter?

- R. Srinivasan:** The R&D expenditure on an YTD basis is slightly in terms of the absolute numbers it is more or less same as last year but as a percentage to sale it has fallen because it really has not caught up with the growth in the sales. To that extent the number of products, which we have taken probably was at lower pace two years back that is a reason that it is reflecting on lower spend now, but we are looking at adding more products and to see that how the R&D expense also catches up in line with the growth expectations.
- DS Rao:** So is it safe to assume that from the coming year or in the coming financial year there will be higher R&D expense that percentage of sales?
- R. Srinivasan:** As a percentage to sales I do not have any off-hand number because we are still working on the budgets and the new product strategies are being revisited probably I will be able to give you a clear idea in the next quarter but I mean directionally we are set to increase the percentage of R&D expense.
- DS Rao:** Sir another question with respect to the Brazil the inventory levels, which we have mentioned in the last quarter said that because of the ANVISA strike you are not able to move it and the rise in the inventory levels is it related with the lesser number of sales or is it because of the you mentioned that there have been high demand so you maintained the inventory levels in Brazil, US etc?
- R. Srinivasan:** Compared to the last quarter the Brazilian inventories have changed significantly. It has somewhat changed compared to last quarter but there is no I mean what I was mentioning is that over a period of one year, we have in the March 31 of last year we had significantly low levels of inventory compared to the normal or the ideal level which we would ideally want to have and so to that extent we have been constantly working on increase in the inventory levels over the past nine months and that has resulted into an overall inventory increase. But specifically during the last quarter I mean it is a phenomenal one time adjustment but ANVISA strike also would not create any difference in inventory levels because it is anyway transit inventories is lying somewhere.
- DS Rao:** So it is not dependable upon the performance of the business there right?
- R. Srinivasan:** No it is not.
- Moderator:** Thank you. Participants due to time constraint we will take one last question from the line of Mr. Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Sir I just wanted to check on the capex plans what has been the capex plan for the year so far?
- R. Srinivasan:** So far the capex plan was about around 220 Crores.

Nitin Agarwal: Is what you already spend?

R. Srinivasan: Yes.

Nitin Agarwal: Which are the major blocks where this expenditure is going on?

R. Srinivasan: Mainly it is going on in Dahej.

Nitin Agarwal: So we pretty much hold on to the 600 Crores over three years capex plan that we had outlined about a year, year and half back?

R. Srinivasan: Yes.

Nitin Agarwal: Thanks very much.

Moderator: Thank you. I would now like to hand the floor back to Mr. Manoj Garg for closing comments. Over to you Sir.

Manoj Garg: Thank you everyone and once again on behalf of Edelweiss, we thank the management to taking time out. Thanks to all of you once again for participating this conference.

R. Srinivasan: I would like to thank all the participants for their participation and value added inputs and thank you very much and this call is working out wonderfully for us. Thank you very much.

Moderator: Thank you Sir. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us you may now disconnect your lines.