



“Torrent Pharma Q4 FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Torrent Pharma Q4 FY17 earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant 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. Deepak Malik from Edelweiss Securities. Thank you and over to you Sir!

Deepak Malik: Thank you on behalf of Edelweiss I welcome you all for the Torrent Pharma post quarter earnings conference call. From Torrent Pharma’s management today we have on call Mr. Ashok Modi Executive Director, Mr. Sanjay Gupta Executive Director (International Business), Mr. Dhruv Gulati Executive Director (India & ROW business) and Mr. Sudhir Menon VP Finance. I would like to hand over the conference to Mr. Gupta now for the opening remarks. Over to you Sir!

Sanjay Gupta: Thank you Deepak. Good morning everybody and thanks for accepting to spend a portion of your Saturday morning result. Just want to highlight our performance for the quarter in the year in four key markets of the company before we open up the call to questions. For the year revenues were Rs. 5857 Crores versus Rs. 6687 Crores in the previous year. The de-growth was due to the impact of limited competition product that we have launched in US in the previous year. The EBITDA for the quarter and the year is at 28% and 27% respectively. One third of our revenue comes from India. Revenue growth in India for the quarter is at 4% and at 8% for the 12-month period. MAT AIOCD reports indicate three important data points, growth for Torrent of 12% against our overall market growth of 9% for the quarter and growth for Torrent of 12.5% against an overall market growth of 10% for the year. Chronic, subchronic products account for 77% of Torrent’s revenue and five brands have sales of over 100 Crores compared to two brands in the previous year. So, our top five brands are Shelcal, Chymoral, Nexpro, Deplatt and Nebicard and there were only two of these in the 100 Crores club in the previous year. So we continue to strengthen our core franchises in India through external and internal growth initiatives. Gynecology, which is anchored by our 100 Crores brand Shelcal got strengthened with the addition of brands that we acquired and partnered with Novartis. The three brands are Regestrone, Pregachieve and Evalon and in GI - which is anchored by Nexpro we strengthened the GI franchise with the launch of Prucalopride, which is for chronic constipation. So, going forward in India we continue to focus on brand building, productivity and speciality focus for the company. In the US the revenues for the quarter were down by 45% and 50% respectively, which is again mainly because of the limited impact of the product base. We continue to face pricing pressure from the US due to structural changes in the market. We have also had a disappointing new launch performance during the last fiscal year with only two launches and several approved products which have not been brought to the market. On the R&D side the total number of ANDAs filed during the fiscal year was 16, which includes two derma ANDAs as well as 6 FTS. So as of March 31, 2017 we have 25 ANDAs under review at the FDA along with three ANDAs for which we have received tentative approvals. During the year we had recently an inspection of a formulation facility at

Indrad and we had four minor observations. Revenue growth in Brazil in INR terms is at 81% and 38% for the quarter and for the year. Constant currency growth in Q4 was at 49% and for the full year at 25%. Close Up, which is equivalent to IMS in Brazil, is reflecting revenue growth for Torrent for the entire year at 24% compared to overall ethical market growth in Brazil of 14%. You recall that last year government had allowed a onetime exceptional price increase of 12.5% in April 2016. The corresponding figure for the current fiscal year going to be 3%.. The early indications are that two of our newly launched products Olmesartan and Trazodone are on track to meet their objective. Moving on to fourth largest market Germany revenues have grown 43% for the quarter and for the entire year by 25%. Deepak we can open the call for questions now.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Neha Manpuria from J. P. Morgan. Please go ahead.

Neha Manpuria: Thanks for taking my question Sir! First on the India business what in your view could be the impact from GST, was that the reason partly why this quarter was weak and how do you see that playing out for FY18 growth?

Dhruv Gulati: The GST is going to bring up a paradigm shift in the business and economy in India. It will be or it is one of the biggest and the most extensive policy initiative of the government covering the entire economic activities within the country. Well, any such major initiative when it is taken generally faces teething trouble, which is also likely for GST particularly considering the scale complexity, significant IT dependency of the plan, It may lead to some disruption in business in the short run. However, this is a general issue and not anything very specific to us.

Neha Manpuria: So you do not expect more than one or two quarter impact?

Dhruv Gulati: Yes, it will be for one or two quarter and then it will be streamlined because the tertiary or the secondary sales will continue, patients will continue to take the medicine. What will happen is that the inventory level at retailers, stockist initially might go down, they will keep lesser stock, but overall the tertiary sale will continue and that should get compensated in coming quarters.

Neha Manpuria: Was that the reason for the muted sales in this quarter would that be correct?

Sudhir Menon: I think Neha some part of that yes, since the government is very eager to implement this on July 1, 2017. There is already some movement which was seen in the market, but it is very difficult to estimate whether how much has really impacted because of this. So we will have to wait and watch. If it is July 1, 2017, the GST roll out is happening then closer to that may be in June it is likely that all the companies will be understanding what could be the potential impact of GST. There are lot of

things which are dependent on as far as the system readiness is concerned that is how the channel partners are ready with the same.

Neha Manpuria: Got it and Sir on the US business what is the base business pricing pressure that we have seen and how do you anticipate that changing given the recent news flow, also given this several ANDAs that you mentioned you have not launched, what is the plan launch by applying for FY2018?

Sanjay Gupta: Starting with the second question first, we have about 5 to 6 interesting ANDAs that have not been able to bring to market, so we would be launching them plus we expect another 5 to 6 additional approvals at least in the current fiscal year. So, you should expect 8 to 10 launches in the next 12 months, and pricing pressure is of course that it is at the highest level what we have seen so far in the years that we have been operating in the US. So I would like to guide you to our mid- teens to kind of pricing pressure on the base.

Neha Manpuria: Got it Sir! Thanks so much for taking my question.

Moderator: Thank you. We take the next question from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Just on the US business trying to understand this sequential impact on our business. I have not seen any incremental competition in Nexium and Detrol for us & Tolterodine, when you talk about this pricing pressure. Is it on products other than this Aripiprazole, Nexium, Detrol, or was it a portfolio pressure and these products too were impacted?

Sanjay Gupta: In terms of overall like market shares Esomeprazole has become a super competitive product, so we have actually preferred giving us some share on this product rather than kind of take the prices, which are currently prevailing in the market. On Tolterodine you would see that Torrent is now the second biggest player so our share has risen up to almost 25% to 26%, so we are right behind Mylan and we have overtaken Teva. So, our performance in market share has been commendable like a year ago it was at 15% to 16%, so we have been picking up shares, but overall I would say the impact is across the portfolio if I am not specifically to any particular product.

Anubhav Aggarwal: Just getting some clarity on like for example on Esomeprazole no new player has entered so what would have created this incremental price erosion in the market?

Sanjay Gupta: I think the desire of certain players to may be privilege share over profits.

Anubhav Aggarwal: Another question on Brazil market. Why would you have such a high growth before the quarter when you can take extra price increase, I know from a stockist perspective they would want to stock as much as in March, but why would you want to supply as much in March?

- Sudhir Menon:** I think Anubhav the general understanding what you are saying is correct, but as far as Torrent is concerned we have been strictly following our policy of not overstocking as far as March month is concerned. So, for us the business is as usual.
- Sanjay Gupta:** I think a good reference point is to look at the Close-Up data for Brazil and which pretty much aligns with our MAT data or with our 12-month data, so if you look at Close-Up the year ending March 2017 the volume growth in the market has been about 2.7% and for Torrent the volume growth has been 9% and the overall value growth for the market has been 14% and our growth has been 24.3%. I think the full year figures are more representative of our performance and they tie in pretty closely with the Close-Up figure.
- Anubhav Aggarwal:** So this quarter is more of an exception?
- Sanjay Gupta:** Also, I will just remind you again what I mentioned earlier that last year the government had allowed an exceptional price increase of 12.3% and this year the price increase that has been allowed is 3%.
- Anubhav Aggarwal:** Yes. One more question on the US. Now with the structure change is happening and the market is really shifting fast do you think we need to reconsider your R&D intensity for the US, which you have increased now may be not the quantum. I am not saying that it is the quantum you need to bring down, but the product that you focusing on or something, what are you thinking on the R&D intensity?
- Sanjay Gupta:** I totally agree with you that the structural changes in the market call for a re-looking of R&D strategy and portfolio strategy, so we are engaged in that exercise and that has not required much higher degree of smartness and what worked in the past is not going to work in the future, so we are in the process of re-orienting our R&D. I think better to do may be some lesser products, but more expensive and probably I would say higher cost project with some degree of clinical trials or barriers to entry. We are in the process of rejigging our R&D portfolio strategy.
- Anubhav Aggarwal:** Thank you. I will join later.
- Moderator:** Thank you. We take the next question from the line of Aditya Gupta from Narnolia Securities. Please go ahead.
- Aditya Gupta:** Thank you for taking my question. Sir you have mentioned that 8 to 10 launches are scheduled in FY2018, so how many of these launches are major launches?
- Sanjay Gupta:** We do not individually actually know, none of these are going to be in the Aripiprazole category, but there could be interesting launches and I think it will be premature for us to comment on the sales

potential, but we would expect that few of them to be successful for success in the US and non-generic product anywhere between \$5 million to \$20 million is a good product.

Aditya Gupta: All these launches are in the US?

Sanjay Gupta: Yes, we spoke only about the US launches.

Aditya Gupta: Thank you for taking my question.

Moderator: Thank you. We take the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

Kartik Mehta: On the tax rate it keeps fluctuating so what should we assume and any reason for the lower tax rate in the second half?

Sudhir Menon: Kartik, even in the previous quarters what we had indicated is, this year there are lot of deductions, which are available as far as the normal tax computation is concerned. So major factors, one is the R&D expenses going up where you get a 200% deduction, and the other is because of Dahej commercialization depreciation benefit. So the tax rate for the current year has come down. Going forward depending on certain expansion projects in other areas also, I think it should be around 20% for the next year as per the current understanding.

Kartik Mehta: The other one was on your capital allocation, I wanted to ask is it fair to assume that looking at what is happening in the US you would not do any inorganic growth in the US as of now and perhaps have even more focus on India or other emerging markets?

Sanjay Gupta: In terms of external growth our priority is we have explained a few times so it is essentially focus on our top three or four markets. So number one priority is India, so we have demonstrated with the Novartis transaction. There are fewer transactions available in India, but we continue to study and both reactively and proactively. Our second priority remains I would say the US market, it is just the size of the market and the possibilities that are available, so we are not shying away from the US and you have noticed that we have not actively executed any M&A in the last two years because we felt that we accessed to overprice and I think looking back we are happy that we did not overpay for any assets, but if assets are available at a correct valuation, which reflects the future profit potential in the market structure as it again exists I do not think we should shy away from it. So objective for external growth in the US will be diversification of doses form and technology platforms because we have concentrated around oral solids and topicals and if you can move into other dosage forms or other technology platforms that would be a welcome addition and then the third priority remains Brazil where we have a very strong organization we are ahead of everybody else and as and when

opportunities or brands become available from changes in MNC or local company strategy we should be ready to act.

- Kartik Mehta:** Thank you. I have some more questions I will join back with you. Thank you.
- Moderator:** Thank you. We take the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Hi team. Sir just wanted to know on the launches that we did for the year, which are lower and you highlighted, I think you did not highlight any specific reason for the business?
- Sanjay Gupta:** It is not a good thing when we have approvals in our pocket and we have not been able to launch these products, so the reasons are mostly linked not to of course the approval part, but more to the manufacturing or the machine or tech transfer type of issues. So I think we have learnt some valuable lessons as to how to be prepared for launching products on the day of approval. Without going to specificities of products or the detailed technical reasons these are more I would say manufacturing related or machine specific issues.
- Nitin Gosar:** The recent observations they do not become any hindrances for those kind of manufacturing activity?
- Sanjay Gupta:** No, I think it is something, which could have been avoided and should be avoided with better preparation in brands.
- Nitin Gosar:** Sir on GST the indirect tax rate has moved up for the industry and same would be applicable for you. I just wanted to get a sense on this how are you placed in terms of pricing it out to the customer do we have to do any kind of representation to the government that X number of price hikes is required to match up since the product from start of the DPCO. How should one go about it?
- Sudhir Menon:** Most of the industry associations including the IPA are trying to make representation to the government, but there is nothing, which can be talked about at this point in time.
- Nitin Gosar:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** Question on material cost and other expenses in both line items are there any one of there?
- Sudhir Menon:** No, Anubhav if you recollect the last year Q4, what we had said is generally the promotional expenses are lower in Q4 because most of the expenses are being incurred in the first three quarters. So this year also the promotional expenses are lower and so there is no one off as far as other

expenses are concerned. As far as the gross margin is concerned the factor which has driven for it to go down by another 2% is the price erosion, which is seen in US.

Anubhav Aggarwal: Cannot be so much. Just tell me one thing in Brazil, your Brazil gross margins are higher than corporate average or lower than corporate average?

Sudhir Menon Branded generics are normally higher than the generics.

Anubhav Aggarwal: Then gross margin cannot go down essentially because portion of India and Brazil has the proportion of their sales in Q4 versus Q3 increases significantly no price erosion in US can offset it?

Sudhir Menon: No, the reduction in US sales has happened because of the price erosion.

Anubhav Aggarwal: I can understand that, but if you do the math it is not that the US sales are down 40% they are down 10%, so I do not think the 200% basis point gross margin reduction is very significant given the show in Brazil?

Sudhir Menon: This 10% reduction in US sales, which you are seeing is on the reduced value because of the price erosion and is what I am indicating that in Q4 there has been further price erosion as far as US is concerned.

Anubhav Aggarwal: I agree. Sir I am asking that yes so let us take the number, \$46 million sales down to 42 you are losing \$4 million let us say all of that is price erosion impact?

Sudhir Menon: Anubhav, another way of looking at is that if the price erosion had not happened it could have been little higher than Q3 as well right. So the total impact we are saying is because of the US price erosion and if you are comparing it with Q3 there could have been a potential of additional sales coming in for US and because of the price erosion that is not seen.

Anubhav Aggarwal: There is no FX gain in other expense right that is what I was trying to check?

Sudhir Menon: No, FX gain is part of other income.

Anubhav Aggarwal: On depreciation this 97 Crores this quarter versus 73 Crores that we were doing so far, this 97 Crores now is a base for fiscal 2018?

Sudhir Menon: Not really Anubhav we have taken impairment on certain marketing authorization, so the major increase is because of that.

Anubhav Aggarwal: So what is the right base 97 will be what if you excluded that impairment?

- Sudhir Menon:** It should be around 80-81.
- Anubhav Aggarwal:** I have one more question on India business. The acquired products from Novartis can you just roughly indicate what is the kind of sales that you are getting from that, secondly I am sure that these are not high growth brands, how do you plan to change it, can you give some clarity on that?
- Dhruv Gulati:** The reflection of these two brands Avalon and Regestrone in AIOCD up to March 2017 is about 35 Crores and there has been a decline reason being this was the last year it has come in the million and because of that there was 13% price reduction that is the reason you do not see the growth of this market. However, if you see the volume growth there is almost 15% growth in the volume of these molecules especially of Regestrone.
- Anubhav Aggarwal:** This volume growth is coming from where are they gaining market share in the category of somebody the patient growth cannot be so much?
- Dhruv Gulati:** The patient growth will not be there, but definitely one can take the share from the others and it is a strong brand in fact it is almost 30-35 years old brand, it is called the textbook brand. Regestrone is very strong, only thing is it was not very aggressively promoted, but there is a market, which exists for this brand.
- Anubhav Aggarwal:** Your existing space for Shelcal can promote this or do you need to put extra sales force?
- Dhruv Gulati:** That is because we are already present and we have a dedicated division for Gynecology, so what will happen is this will add further and there was a gap in our Hormone preparation market. If you look at the Hormone, in Gynecology the biggest market is Hormone and Haematinic and we were not strong, we have been strong in the VMN market especially with Shelcal. This will add and fill up the gap what was there in our portfolio so it will further strengthen our rank in Gynecology. If you look at the total prescription we were ninth on prescription in Gynecology, with these two brands will come to the sixth position, so this will further strengthen our position in this Gynecology segment.
- Anubhav Aggarwal:** Just one clarity on your response Sir! You only bought the brands you did not take the field force with that right?
- Dhruv Gulati:** Yes, we have taken only the brands.
- Anubhav Aggarwal:** Would there be any additional fixed cost in terms of people here?
- Dhruv Gulati:** No.
- Anubhav Aggarwal:** Thank you.

- Moderator:** Thank you. We take the next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Thanks putting in question. First on the Dahej capacity utilization you have been expecting this to come up and have you seen that to that extent has there been a volume increase in sales and what will be the outlook going for us on that facility?
- Sudhir Menon:** Nimish, Dahej we commercialized it in 2016-17 and there are some pieces, which are getting capitalized typically in every quarter. The priority being US as Sanjay has been saying that this year around 10-12 products approval we have received from this facility and the manufacturing has started for these products, so over a period of time when the new product approvals come in, the volume will pick up, but as on date if you are looking at a capacity utilization trend, I think it is too early to talk about it and better thing would be to talk about it later during the second half of next year.
- Nimish Mehta:** We were expecting some kind of products to be shifted to Dahej facilities, which were earlier constrained because of the capacity?
- Sudhir Menon:** Yes, you need to get an approval in Dahej for those products, so when these products are getting shifted to Dahej, in the process what is happening is there is a capacity release at the existing facility which is being used for other territories.
- Nimish Mehta:** We are talking about approvals in Dahej facility for those products, which are already approved from other facility right?
- Sanjay Gupta:** Yes.
- Nimish Mehta:** So that has yet not happened, so do we expect like what kind of rate we expect of approvals for those kinds of products from Dahej?
- Sanjay Gupta:** We have about 10 products already approved and we should get about 10 products further approved in the next I would say 8 to 9 months.
- Nimish Mehta:** Understood. Just wanted to know your launch timeline for sevelamer extended release?
- Sanjay Gupta:** Quetiapine Extended Release is a little later, so I think we will have to look at it as time of approval because the market is on a fairly downward spiral right now on quetiapine if the Torrent has filed and we would be re-filing soon.
- Nimish Mehta:** So this will take what another one year from now?
- Sanjay Gupta:** At least yes.

- Nimish Mehta:** At least understood. Finally on your focus on Derma a kind of a repeat question from what earlier participant would have asked, are we re-looking at even getting our focus on topicals given the kind of price erosion or just still remains?
- Sanjay Gupta:** Our focus in topical remains, so we are one of the largest facilities in India for topical, the facilities that we have endorsed and we are currently manufacturing some very, very large brands for MNC companies for the domestic market in US FDA approved plant, so we think our manufacturing abilities are cost competitive to sustain us in this new pricing environment and we have about 35 products in our Derma pipeline, so two of them are final this year and about five to seven will be filed in upcoming year, so we have no change in Derma strategy, but may be a product mix a little further down the time will be more oriented towards the clinical trial products.
- Nimish Mehta:** Which anyway the case as far as the Derma products will come up right like you were always focused on products in Derma, which requires clinical trials so that does not change right?
- Sudhir Menon:** Combination of I would say quick steroidal type product, which require only 1 & 2 type of studies and clinical trial products.
- Nimish Mehta:** Fine. Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Jatin Kotian from Emkay Global. Please go ahead.
- Jatin Kotian:** Yes Thanks for taking my question. Most of my questions have been answered just a one clarification. How would you peg your capex for FY2018 and FY2019, if you can just quantify it?
- Sudhir Menon:** So told earlier we are looking at a capex of around 400 Crores per annum.
- Jatin Kotian:** This would be towards what injectables and in some expansion in Derma or anything specific here?
- Sudhir Menon:** There are certain expansion which are happening in the existing facility which is at Sikkim, the second is the Onco facility, and third would be Dahej phase 2, which would start.
- Jatin Kotian:** Thank you very much.
- Moderator:** Thank you. We take the next question from line of Abhishek Sharma form IIFL. Please go ahead.
- Abhishek Sharma:** Sir over the past few years you have built or acquired considerable manufacturing capacity including Zyg, Blow Chem and our own in Dahej and I guess it was designed with some R&D strategy in mind, so with the change in your R&D strategy, do you think some of that manufacturing acquisition, etc., may have been accessed or may become redundant, that is number one and secondly, going forward,

would you continue to have a similar manufacturing strategy or would you rather rely on partners before your projects come to crucial?

Sanjay Gupta:

Let me just spend a minute on this because it is a fairly important question. Just to highlight that for a very long time we have been dependent only upon the Indrad plant for selling OSD products in the US, so the Indrad plant was running at full capacity for a period of three years and generally we were selling between 240 to 275 Crores of tablets a year in the US at max capacity, so that was one of the constraints we are facing today. So now we have commissioned the Dahej plant and phase 1 of Dahej plant is entirely oral products, so the capacity there is, eventually in phase 1 would be 500 to 550 Crores of tablets and going up to 700, so it gives us enough room to expand in our OSD space and Dahej plant as you know approved already for the US, Brazil and Germany and Europe actually, it gives us a little headroom to expand further in OSD and all our core markets. I think that is as far as regulated markets OSD capacity, which is available to us on these two facilities. We also have the Zyg plant the Indore Derma plant, which is currently actually just acting as a CMO for large MNCs in India and for Apotex for the US business, so we have capacity available, so no need to expand further. The new facilities that we are coming up that we sometimes refer to actually the Onco facility, it is more I would say a high potent substance containment facility and it can do things in areas, which require complete isolation so it is a class five facility and there would be like I would say between 4 to 6 manufacturing lines and which can be used for potent substances and one of them would be used for oral oncology products, but there are five others for which we have other uses, which we are kind of building the pipeline for. So that is a current manufacturing strategy and we do not see a need to change it right now. I would just not expand further into OSDs at this point in time beyond what we have.

Abhishek Sharma:

But in terms of future R&D areas that you intend to get in and for which you do not have captive capacity, would you again sort of start building capacities or would you rely on your outsource partner?

Sanjay Gupta:

We do rely on outsource partners and we would increasingly rely on outsource partners. So, like I was mentioning in earlier calls that we had in license products in diversified dosage forms of specifically for example, as of today we have four products in soft gelatin capsules and those are not going to be made at Torrent, so they will be made at third parties.

Abhishek Sharma:

Right. Thanks.

Moderator:

Thank you. We take the next question from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

Kartik Mehta:

On your India business, if you have to look back after you acquired Elder and if you have to put a number to it on a scale of 1 to 10, 10 being the best, where would you think you are in terms of

integration and realizing the synergies and in terms of your MR where is the total MR strength now and any plans to add or is it at optimum level? Thank you.

Dhruv Gulati: If you want to know about the Elder portfolio integration, that integration is completed long back and it is almost now three years we have acquired the Elder portfolio and if you look at the numbers of the major brands like Shelcal has crossed 300 Crores, when we had taken over this brand, which was around 178 Crores, it has crossed 300 Crores mark. Chymoral, which is of the next biggest brand was somewhere around 64 Crores, it has crossed about 128 Crores now, so as far as products are concerned they are doing well and of course with this Regestrone and Avalon coming in, it will further strengthen our Gynecology portfolio, which I have explained earlier also that it will help us to improve our position and as far as number of MRs are concerned, we are not increasing because especially the focus model we have the right strength for each specialty, therefore we are not planning any increase in number of MRs.

Kartik Mehta: Yes and on the MR strength, could you ?

Dhruv Gulati: We have about 2800 MRs, the total filed force is something like 3400.

Kartik Mehta: Thank you.

Moderator: Thank you. We take the next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Thanks for giving me another opportunity. Some questions from India market. We were likely to launch products and on such markets have we started that and if at all what was that rate this year on this quarter and what do you think that the rate going forward? First of all, just let me know how many new products we have launched in this year and in this quarter?

Dhruv Gulati: This year we have launched about 21 products.

Nimish Mehta: Of that how many would be kind of new to the market, may not be completely new, but not more than 5-7 players would have entered the market at the time you launched, where there any kind of those products?

Dhruv Gulati: Recently, last month only we have launched one brand called Prucalopride, which is first time in the country. It is for chronic constipation patient and is overall market of that is something like about 740 Crores of constipation. We are the first in launching that. We are also launching one more MAB very soon, so these are the two brands, which we are launching. Last year also we launched Atlura (lurasidone) then, we have launched that and that is it and plus we have launched two brands of Teneligliptin so we have entered into the DPP-4 market.

- Nimish Mehta:** What I am trying to understand is that you start going to be more of focus in terms of new launches and if yes, what is the number that you are looking for those kind of launches in FY2018?
- Dhruv Gulati:** Introduction is we have taken aggressively, as we said we are focusing on building brands, increasing productivity and specialty focus and all these brands, which we are launching are in the areas where there is gap in our portfolio, so obviously the new introduction will be on the top priority and we would like to build them big like we have very aggressive plan for this Prucalopride also the new MAb, which we are going to launch biosimilar, which we are going to launch very soon. So, these are going to be the on top priorities in domestic market.
- Nimish Mehta:** I am sorry, which is the MAb you are talking about?
- Dhruv Gulati:** It is the Trastuzumab.
- Nimish Mehta:** This will be manufactured by Torrent itself?
- Dhruv Gulati:** This will not be manufactured by Torrent.
- Nimish Mehta:** Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Rajendra Shah an Individual Investor. Please go ahead.
- Rajendra Shah:** Good morning Sir! Regarding other operating income from 26 Crores to 53 Crores and deciding the other income from 24 Crores to 104 Crores, can you give us breakup of this and what is the sustainability going ahead?
- Sudhir Menon:** As a policy we do not give a breakup during the call, but as far as the other income is concerned a major factor is the forex income.
- Rajendra Shah:** Forex income, how much it may be?
- Sudhir Menon:** As a policy we do not speak over that during the call. When the annual accounts come you will be able to have a look at this.
- Rajendra Shah:** And other operating income, what is the particularly nature of this?
- Sudhir Menon:** This is normal business. We had some additional income, which came in.
- Rajendra Shah:** But whether it will be a sustainable other operating income for the future?

- Sudhir Menon:** I think it will be difficult for me to comment whether the income levels could continue at the same level going forward.
- Sanjay Gupta:** ... Is there any other questions?
- Moderator:** Yes Sir! We take the next question from the line of Gagan Thareja from Kotak Investment. Please go ahead.
- Gagan Thareja:** Sir, is it possible to give some sort of an outlook for your European especially the German market and your ROW markets and your contract manufacturing business?
- Sudhir Menon:** Germany, the substantial position of the business is tender driven and if you look at the past five years we have been growing at an average of 15% and this year on constant currency we have grown by around 23%. So, I think a long-term view on Germany would be an average of 15% to 16%. The contract manufacturing piece, substantial portion is the contract manufacturing arrangement which we have with Novo. As the market shapes for insulin and since the entire sourcing is done through us and they being the market leaders for this product, it will depend on how the volumes are taking off. But I think it should be more or less in the same region.
- Gagan Thareja:** Some of your other promising markets like Mexico and the other markets in ROW and Europe?
- Sanjay Gupta:** I think it is basically a new setup with hardly being three-and-a-half to four years, so, I think it is building up and shaping up, but it is too small for looking at it, but these growth rates would not mean anything.
- Gagan Thareja:** Apart from Germany, what is the outlook for the other markets in Europe?
- Sanjay Gupta:** The only other market where we currently have a frontline presence is the UK and that is in the region of \$8 million to \$10 million a year so there is room to expand further in Europe, but our focus right now is building up the UK business.
- Gagan Thareja:** Germany if I recall correctly in the past indicated that once you shift manufacturing to Dahej and it releases capacity in Indrad you could go for national tenders in Germany and may be the growth there could be propped up. So, just trying to tie up your current commentary with that, is it potentially possible to see higher growths in German then what you have pointed out as a long-term sustainable average?
- Sanjay Gupta:** We have incremental capacity available for Germany, so we are increasing our presence in the bidding processes, but I think in the past we do not have so much additional capacity and as our base becomes larger and larger we should be able to meet the requirements. Yes, what your assumption is correct, so we are increasing the allocation of volumes to Germany and may be during the next

quarterly call we will speak to you about the volumes that are going to Germany from Torrent and you will see a noticeable rise.

Gagan Thareja: On date for the capex going forward would we require to leverage further or you feel from here on you would be in a position to actually maintain or reduce that?

Sudhir Menon: I think, it will all depends upon how the cash flows are getting generated, but having said that I think there may be some amount of borrowing still happening.

Gagan Thareja: That would be to find the acquisition?

Sanjay Gupta: No, it is basically for the expansions.

Gagan Thareja: Thank you Sir!

Moderator: Thank you. We take the next question from the line of Aishwarya Agarwal from Reliance Mutual Fund. Please go ahead.

Aishwarya Agarwal: Sir I am saying that the cash generation is roughly 1100 Crores and the capex is 400 Crores, so why do we need to borrow?

Sudhir Menon: We will have to look at the cash flow and also from our liquidity policy perspective to ensure that certain amount of cash is lying at any point in time. Hence the borrowing would be dependent on these factors.

Aishwarya Agarwal: Sir, how we should see the Brazil business?

Sanjay Gupta: Brazil business, you should see double digit growth because the market itself even though the GDP has been zero to negative has been growing at 8% to 10% unit terms, so, we should be growing faster to it then the market.

Aishwarya Agarwal: How you would work on the currency or entered issues?

Sudhir Menon: I think the currency more or less is stabilized, so we are not seeing that much movement, which we saw two years back, and there is no indication so far that there could be a major currency depreciation, which is happening, but tomorrow if certain things are happening then as a policy, on the hedging part we are hedging 100% and at least for that period the actual loss or gain impact on P&L will not flow.

Aishwarya Agarwal: Last thing when we talk about growth in Brazil, it is coming from the market share gain or the new introduction?

- Sanjay Gupta:** So, most of it is coming from market share gain because new introductions we recently in the last six months launched two products and then still early for them to contribute, so if you take the fiscal year 2016-2017 only 1% of the growth is coming from new product because the products were launched in the later part of the year.
- Aishwarya Agarwal:** So, the market share gain is good enough to give double digit?
- Sanjay Gupta:** It is a combination of market growth and market share growth.
- Aishwarya Agarwal:** Sure. Thank you Sir! It was very helpful.
- Sanjay Gupta:** Since there are no further questions we can stop at this point now.
- Moderator:** Sure Sir! Participants as there are no further questions from you I now hand the conference over to the management for closing comments.
- Sanjay Gupta:** Again thank you very much for attending our call. If there are any further questions please reach out to Sudhir. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.