



“Torrent Pharma Q1FY2017
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Torrent Pharma Q1 FY2017 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. I now hand the conference over to Mr. Rahul Solanki from Edelweiss Securities. Thank you and over to you Sir!

Rahul Solanki: Thank you. On behalf of Edelweiss, I welcome you all for the Torrent Pharma Q1 FY2017 earnings conference call. From Torrent Pharma’s management today we have on call Mr. Ashok Modi, Executive Director, Mr. Sanjay Gupta – Executive Director of International Business, Mr. Dhruv Gulati, Executive Director of India and ROW Business. I would like to hand over the conference to Mr. Gupta now for the opening remarks. Over to you Sir!

Sanjay Gupta: Good evening everybody. First of all I would like to apologize for this slight delay as we had board meeting which continued a little bit beyond the scheduled time, so our apologies for this delay. I would like to start by commenting about underlying trends of our business.

Putting aside the issue of comparables and things like that starting with India which is home country the formulation business in India achieved revenues of about Rs.509 Crores compared to Rs.492 Crores during the same period last year with the growth of 3%. The hygiene initiatives that we had initiated in India, they have started in Q2 of last year period.

In order to build a sustainable prescription driven model, we have increased our focus on trade and that will contribute in even greater proportion of revenue going forward. Our business has been impacted to a limited extent by the new measures of NLEM.

Our PCPM in the Indian business continues to increase and has reached a level of Rs.6 lakh during Q1. This is a 24% higher than a year ago. Our focus on brand building continued than top five brands continue to grow it by double digit rate. There are two elder brands Shelcal and Chymoral continued to perform strongly with AIOCD MAT 2016 Shelcal sales of Rs.307 Crores plus 20% and Chymoral sales of Rs.135 Crores plus 19% on a MAT basis. In the Indian market during Q1 Torrent also launched Teneligliptin and metformin combination further strengthening our core focus on diabetes.

Our second largest branded generic business is in Brazil and Torrent Brazil also has turned the corner during this quarter in terms of underlying business growth as well the impact of the foreign exchange fluctuation in Brazil.

As per our close up which is roughly equivalent to the IMS in Brazil, Torrent has experienced underlying growth in BRL of 26% compared to a covered market growth of 22% and overall ethical market growth of 15%.

Revenue growth in INR was 21%. The authorities in Brazil allowed us to take a 12.5% price increase in April and Torrent like most of the industry players has taken all the allowable price increases. Torrent has also recently received approval for three new products launches in Brazil and we would be launching them in the next 12 months and I hope to report then later this year. Our PCPM in Brazil has attained the level of 110,000 compared to one year prior level of about 70,000.

On the generic side moving our focus to the US excluding Aripiprazole our underlying business continues to show low double digit growth rate. We have received recently approval for six products from Dahej plant and we shifted substantial volume during Q1. We are also optimizing the production capacity that Indrad facility to meet the incremental demand in the US as well as in other territories.

The recent US launches of Tolterodine and Esomeprazole continued to perform and are on track with respect to market shares as well as revenue. IMS tends to underestimate our shares and we can discuss that during the call.

As of today Torrent has filed three ANDAs in the US in fiscal year 2017 including one dermatology product. The efforts undertaken so far in ramping up R&D organization as well as resources has started to yield results. Out of the three ANDAs filed, one was filed in Q1 and two were filed in early part of July. We expect a few more ANDAs to be filed in this quarter and provide an updated number during Q2 results

In sum we have today 17 ANDAs pending approval at FDA and on top of the 17 we have six tentatively approved in ANDA. As a reminder we have about 54 approved ANDA as of today.

As far as other territories are concerned, we expect the performance to improve as we are able to increase the availability of product and capacities are available at all our facilities as we ramp up in Dahej. With that we can open the call to questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Nimesh Mehta from Research Delta Advisors. Please go ahead.

Nimesh Mehta:

Thanks for taking my question. You mentioned about India business being impacted by the Indian issues, but in the current growth rate has been much lower than we had seen in the previous quarters soon after when we took this initiative of discontinuing incentives that is one and if you can also let

us know as to what is the IMS growth rate of our India business because that would show the underlying sales growth momentum?

Dhruv Gulati: In fact if you look at the overall market growth, it is basically because of NLEM and FDC market as per the AIOCD data. For the month of June market growth has gone down to 6%, which is among the lowest ever trend in the last three years. Due to this NLEM implementation there was brief hold back of sales in April and thus our growth has been impacted due to the same. The changes like reduction of bonus scheme and discount business was initiated last year in Q2 and their full year impact will be seen going forward in Q2 and Q3 even our inventory level if you look at stands at 14 days as against 19 days as suggested by our relentless our focus on the prescription growth and the initiatives which we have taken, so overall if you look at the prescription growth, I will say the trade growth is much better than the market growth. So the initiatives which we had taken last year actually started giving dividend and the real impact of it we shall be seeing in Q2 and Q3.

Nimesh Mehta: What has been our IMS growth or AIOCD growth for this quarter?

Dhruv Gulati: For this quarter, TPL growth is -1%.

Nimesh Mehta: Why do we think that this April issue of whatever supply constraint has impacted because underlying growth is lower?

Dhruv Gulati: As I said we have taken certain measures like in schemes, discounted business as well as we have not been focusing on AI that is anti-infective. If you remove this to the market I have shown a growth of 9% instead of 6% and our growth is 6% instead of -1% and that is the reason I am saying that since we have started this initiative in Q2 last year, the whole year impact and the real impact of this you will see in Q2 and Q3.

Nimesh Mehta: So what is the growth you expect in India in the rest of the quarters?

Dhruv Gulati: We feel that our growth will be much better than the market growth which will be much better growth, because as I said we took the initiatives in Q2 so the real impact you will see in Q2, Q3 as well as in Q4 and overall our growth will be better than the market growth.

Nimesh Mehta: But on the retail level, we are still not seeing growth being better than because retail should not get impacted by the channel related steps that we have taken, so that is what I am still struggling to understand because how are we are going to change it now even if I take the retail growth as the underlying growth for the company?

- Dhruv Gulati:** As I said our inventory is also down, if you look at the years inventory again the industry average of 19 days of inventories of about 14 days and the initiative, which we have taken. I am sure you will see the change from the month of August.
- Sanjay Gupta:** I think Mr. Gulati is elaborating is that the stoppage of discounted business has also impacted the AIOCD retail figures and what you should expect is the bounce back on those figures in the next quarter and our confidence in the business level is that the underlying growth during this fiscal year should be at above market level. The major impact should wash out during Q1 because the measures started in India during the beginning of Q2.
- Nimesh Mehta:** The other thing I saw the reconciliation that you did between Indian accounting the previous GAAP and the new Accounting Standard. In that according to the previous Accounting Standard, you mentioned the net profit to be 357 Crores, so that looks pretty high given that that has doubled to Rs.92 Crores. So, what would be the resultant EBITDA if you were to go back to the previous Indian GAAP?
- Ashok Modi:** You are talking about which previous reconciliation?
- Nimesh Mehta:** This quarter?
- Ashok Modi:** There is not reconciliation for this quarter that is for the previous quarter. You please see dates. It is March 31, 2016.
- Nimesh Mehta:** I am sorry. Finally on the R&D if you can throw some light because you had guided about 7% and we just had about 4%, 5%. So what is that you should be looking at?
- Sanjay Gupta:** I would say that we would reach 7%, 8% level by the end of the year. It is ramping up and our objective is to reach about 8%, but it is still not there.
- Nimesh Mehta:** So it will happen in the rest of the quarters, the ramp up will go up to almost 8% for the full year?
- Ashok Modi:** The spent obviously when you are ramping, it up it will happen over a period of year over three, four quarters. So if it started pricing should continue to rise. If you see for this quarter-on-quarter basis, there is a substantial rise on an absolute basis. So, the things are happening and obviously it will take sometime for the full thing to become operational.
- Sanjay Gupta:** We are right now at 6% of sale; it has gone up by 62% and to about Rs.91 Crores.
- Nimesh Mehta:** If you lastly can tell us the market share that we have gained in Detrol LA and Nexium and also about probable launch of Renegel Renvela that is Sevelamer/

Sanjay Gupta: I would not be able to tell you precise timing for Sevelamer. We have responded to all the FDA queries and we are just waiting for some feedback, so I cannot give any guidance on as to when that would be available. On Eesomeprazole IMS is showing Torrent share of only 1%. I can confirm to you that our share is in the mid single digit and then for the Tolterodine IMS is showing a share for Torrent on as per May IMS of about 17%. So our share is slightly higher in that and it is a four player market and we feel that we have attained our fair share of that market.

Nimesh Mehta: Thank you very much.

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

Girish Bakhru: Just Sanjay this is on Brazil if you could comment on what are the approval timelines right now and given that you have some new approvals. What is the outlook in the market?

Sanjay Gupta: The approval timelines in Brazil still it will be extent of about two years, so that has come down a little bit, but what has improved with ANVISA is the level of communication. So for a period of time for the last few years, they were just rejecting dossiers and not really engaging in a dialogue or raising queries and the bar was moved higher and higher in a somewhat I would say arbitrary manner. So what we see ANVISA has become much more flexible in terms of initiating and having a dialogue in explaining to us the issues that we might have and giving us an opportunity to address the same issues. Going forward, our objective in Brazil is to file 5 to 10 products a year and eventually a year or two's time our launches would be about five launches a year also so that is the reason why recently we have obtained three approvals and you should expect about them to be launched in the next six months.

Girish Bakhru: This price hike is taken on the overall portfolio or is it few selected products?

Sanjay Gupta: For most of the products, because the price situation is evaluated product by product based on the combination scenario. Most of the Brazilian competitors are also taking the maximum price hike. So Torrent generally speaking for I would say the vast majority of its portfolios has taken the price hike.

Girish Bakhru: On the India side, I am just like still curious last quarter it mentioned you have taken material the price hike in Shelcal, Chymoral is that still yet to show in the quarter numbers or is that impact are visible?

Dhruv Gulati: Impact has already started.

Girish Bakhru: There will be no incremental per se impact from those price hikes?

Dhruv Gulati: What we do is as per the guidelines we take price hike once in 12 months, once 12 months period is over. So accordingly we decide and we take whatever is best possible looking at the competition and

the competitive brand accordingly we decide and we take normally the full advantages of this price increase.

Sanjay Gupta: It has already reflected.

Dhruv Gulati: Yes.

Girish Bakhr: Just again on the US bit if you could throw some color on particularly part with Glochem will exactly help in the overall filings. What kind of API capabilities does that bring in advantage from those facilities particularly?

Sanjay Gupta: So Torrent today has two API plans. One is in Indrad and one is in Dahej. The capacity of these two plants is not so large, so adding Glochem actually increases our capacity overall API capacity by about 35%. So it allows us to be more vertically integrated, it allow us to greater control of supply chain and Glochem was already in the sense approved by Torrent has contract manufacturer of some APIs and it allows us to bring inhouse of facility that is relatively well known to us and it is our long term objective to be more vertically integrated in the US from API perspective, so it is the step in that direction. But it does not change the overall dynamics of the business. It is a nice plus to have and it adds to our capability, but on the whole it is incorporated in a pipeline strategy and we will be doing more inhouse API. So objective is to file roughly 10 to 12 DMFs every year and Glochem will contribute to that.

Girish Bakhr: Just lastly if I can squeeze on the European side, there was particular news that you might be looking for some assets from TEVA. I am not basically looking a description of what it could be but are you looking at Europe has reason where you want to probably acquire something?

Sanjay Gupta: In terms of external growth, our priorities are clearly the four Tier 1 countries that we have. So those I would say in order of priority it is India of course, so India's external growth is few and far between now in terms of opportunities. We have been pursuing for sometime in the US and we are also interested in growing externally in Brazil as well as Germany and UK. So those are all the markets where we are evaluating all the opportunities that arise and we clearly feel that our size in the UK is not appropriate, so we are subscale in that market and that market is very close to the model that we have in the US and it is something that we understand and we would like to grow there.

Girish Bakhr: Thank you so much.

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

- Anubhav Agarwal:** Good evening. Just one question on the R&D; if you see we are at about 6% of sales right now as you progressed about 8% of sales that will roughly amount to increasing R&D further by 40%. The question here is that, can you give rough idea that if we divide R&D into two parts every number of projects that we are working on versus every spend on project where is the large part of the increase going to happen? I understand both will increase, but where were the large increase is happening for us?
- Sanjay Gupta:** Are you asking is cost of project going on more important than the number of projects right?
- Anubhav Agarwal:** Exactly right Sir, spend per ANDA and number of ANDAs. Where is the large increase happening?
- Sanjay Gupta:** Larger increase is in the number of ANDA, so I will give you brief outlook. We are about 140 projects in the pipeline which is more number greater then we never had in the past. Inside these 140 projects, there is a fair chunk of dermatology project which come from Zyg Pharma acquisition and some of these projects are little bit more expensive, because they involve skin launching studies or clinical trials. So the overwhelming cause is the increase in the number of products followed by the cost per project.
- Anubhav Agarwal:** That is helpful and just a related question that perhaps the personal cost has increased by almost 20% year-on-year in this quarter. Where would be have added. My understanding is that normal increments would have been ordered about 6% to 8%, so where are we added people largely is that driven by R&D incremental number of people there or is it driven by Dahej coming in?
- Ashok Modi:** It is the combination of the three factors. One is like you very rightly said which is a normal increment and second is the additional people in R&D as well as Dahej and the third is that we did a bit of rejig with our leave policy for field staff and that has resulted in some one time pay off of leave encashment. So all these factors together have increased this by quantum which you are saying. It is not a normal increase. It is one of sort of an increase.
- Anubhav Agarwal:** How much is the one time payoff is that material?
- Ashok Modi:** It is not material. On annual basis it is not material.
- Anubhav Agarwal:** For this quarter, numbers which is about Rs.252 Crores would you say that number will be less than Rs.10 Crores or more than Rs.10 Crores?
- Ashok Modi:** More than Rs.10 Crores.
- Anubhav Agarwal:** Just a couple of more questions. Sanjay for the US sales that declined that we have seen almost by \$11 million would you attribute that largely would that be driven by Abilify and rest of our base business is largely intact?

- Sanjay Gupta:** Let me catapult as to how we call, so business of Torrent excluding Aripiprazole has grown at I would say low double digits.
- Anubhav Agarwal:** It is largely driven by Aripiprazole and what has changed this decline in this market, because no new competition came up, but IMS also shows very significant erosion in the market as a whole for Abilify?
- Sanjay Gupta:** Anubhav you are referring to Aripiprazole?
- Anubhav Agarwal:** Yes absolutely correct.
- Sanjay Gupta:** There was a new launch about six weeks ago one of my US competitors got approval and that resulted in other round of price approvals.
- Anubhav Agarwal:** I know Amneal got approval, but I was assuming that at the fag end of quarter would not have impacted the quarter so much, because IMS has been showing a decline in this market right from April and May as well?
- Sanjay Gupta:** There is a decline let us say every couple of months and Amneal has just aggravated that decline, so there have been periodic declines in this and not necessarily because of new entrants what happened also was that there were many RSPs issued out by buyers so which basically we set the clock at zero for some buyers.
- Anubhav Agarwal:** Have we lost market share in this process or is it only price erosion for us?
- Sanjay Gupta:** Let us say that I am not unhappy with my market share. I do not want to comment upon individual customers and others but on the whole we have done a good job as a market share.
- Anubhav Agarwal:** Just one question Brazil market as well, so if shipping for price increase we are seeing almost 20% volume growth that is very healthy that does not tie up so much with the Brazilian economy right now. So what is driving this without any getting new approvals such a sharp growth?
- Sanjay Gupta:** The underlying growth in Brazilian market units is about 8%, so our growth is higher than that and essentially what it has driven by the very simple we operate in three areas which is CNS, cardio and diabetes, all three areas grow higher than the pharma market and also we have focussed very narrowly on a small group of 10 brands, so as of today Torrent has about 10 brands with each has sale greater than 15 million. So as a result of which you know focus brand building efforts on some of the larger products and with a dedicated CNS and dedicated cardio-diabetic field force, we have seen good traction in Brazil. I think this trend hopefully should continue in the future.

- Anubhav Agarwal:** One more question, India, what is the impact of NLEM changes and the WPI price increase for us in this quarter, roughly if you can quantify that number, it will help us put 3% growth into context?
- Dhruv Gulati:** Overall NLEM impact for us is about 14% to 15% that is the portfolio that is affected with the NLEM, but if you look at the total IPM, the total industry is about 20%, so as against 20% of IPM, here impacted by about 14% to 15% and FDC component if you look at it is very negligible in fact for the industry if you look at it is about 3% and for us it will be about 0.25%. It is hardly any impact of FDC.
- Anubhav Agarwal:** When you had to cut price about 2.7% on this 15% portfolio that means 3% of sales would have been impacted because of that?
- Dhruv Gulati:** Yes.
- Anubhav Agarwal:** Another impact of NLEM pricing change could have been other one sir, what do you say 4% is there right reflection of growth, if the changes had not happened we could have grown by another 4%?
- Dhruv Gulati:** That you can assume, but also see I am again repeating. There are certain measures which we had taken last year like the discount business, the overall scheme bonus, which we discontinued in the Q2. So it was Q1 where we had the impact of all this. If you take out this AI scheme and bonus, our growth against the market growth of 9% would be something around 6%. Still there is gap, I do not say that we are at par with the industry in Q1, it is less than the market and we are hopeful that the measures which we have taken and like the one full year impact it is going to be more than the market.
- Anubhav Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** In the US when we look at the quarter and we look at using this quarter as the base I mean how comfortable are you with the elements of business which can get materially eroded as we go forward I think it is stabilize base on which you can grow if the new product approvals begin to come through?
- Sanjay Gupta:** This year definitely we will not be a growth year for Torrent in the US. They are now registered and now comparable should catch up with us and we are not few let us say a few jokers in the pack and starting with we launched Tolterodine and Esomeprazole towards at the end of last calendar year then both these products has some one runway ahead of them. We also have increased volumes which are reaching to us from Dahej facility which allows me to build market share for few products and then I have 10 launches. Clearly, none of these launches look like blockbuster type launches, but still some

of them yield surprises. So taken together these three factors would mitigate the impact of Aripiprazole price decline, but clearly I have no illusions that we will not mitigate 100% that would be on negative growth this year.

Nitin Agarwal: What I mentioned in terms of looking at this quarter where Aripiprazole was for this quarter, do you see material declines on going forward also or pretty much like bottom around Aripiprazole contribution in the business now?

Sanjay Gupta: I do not want to bring that, but we have still far from the bottom.

Nitin Agarwal: Secondly in terms of the newer approvals you are talking about when do you see some of these approvals really begin to come through because you have not had much in the first few months?

Sanjay Gupta: We have not had in the first quarter. I am expecting my first launches towards the end of August.

Nitin Agarwal: What is the view on Crestor in terms of when do we see our approval for that?

Sanjay Gupta: In Crestor, Torrent was not first to file, so we would get approval in the October timeframe.

Nitin Agarwal: Secondly on Brazil you mentioned 10 brands, so in Brazil exactly we are selling all of 10 products, is all we have in the market over there?

Sanjay Gupta: No, we are selling 35 products.

Nitin Agarwal: When you say 10 brands, of those 10 brands are more than 15 million?

Sanjay Gupta: Yes.

Nitin Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Kumar Sourabh from Motilal Oswal Securities. Please go ahead.

Kumar Sourabh: Thanks for taking my question. Just a follow up from one of the previous questions so when you say that 15% comes under NLEM and 2.7% kind of decline you would have taken over there, so that explains around 0.4%, 0.5% kind of impact on growth. We have grown at 3% and then 0.25% is because of FDC even if we take the cool impact, so that would be still less than 4%. So when we say 6% growth adjusting for discounting, does it mean that you would account for 2% kind of growth, is just the Math?

- Sanjay Gupta:** It is getting a little tangled up, so I would suggest why do not you give Sudhir Menon a call afterwards tomorrow and if he can work you through the detailed calculation if we can, but the overall portfolio that got impacted as 10% to 15% of Torrent portfolio that is the first figure that we gave out. In terms of the impact on pricing of this 10% to 15%, Gulati Sir what is the impact?
- Dhruv Gulati:** It is WPI which is about 2.7%, so that was the impact plus the most important thing is in the month of April when it was launched we had taken conscious call and it was a strategy to supply only the sticker stock. We did not supply even one strip without these stickering because of that we had lost some sale as I said in the beginning April was somewhat low because of the NLEM full implementation and that we could somewhat adjust in the month of May as well as in the month of June, so there has been some impact of NLEM. It is not that it has been there plus the other major which we had taken last year, so cumulatively it has affected the overall growth in Q1.
- Kumar Sourabh:** Second question is when you say that we should be doing rest of the nine months, we should be doing better than market growth so what is the market growth we are assuming over here. I am assuming that it should be in high single digits. Is this is the right number which you are taking?
- Dhruv Gulati:** The forecast is that as per AIOCD this year it will be somewhere around 9% to 10% growth that is what they have projected for this year.
- Kumar Sourabh:** For the next nine months, we should be doing double digit growth?
- Dhruv Gulati:** We will be better than the market I said.
- Kumar Sourabh:** Fair enough and in terms of margins, how should we look at because in Brazil as well as in India, are productivity has improved quite a bit, so how should we look at this, so the current margins which we are delivering, how much of that is sustainable going forward?
- Dhruv Gulati:** If we look at the India business, although there has been impact of NLEM margin that is 1% to 1.2% if it is not much, but the restructuring what we have done for our various division keeping in mind the specific speciality focus and the kind of brand building what we have done and also the hygienic factors which we have taken up. This will definitely help us to improve the overall operating margin for India business.
- Sanjay Gupta:** So branded generic business, the beauty lies in the commercial modern lines we have sustainable operating leverage, so going forward I would say that for BG business be it India or Brazil we are looking at company improving margins and there is no reason why the margin should not get better in both of these margins.
- Kumar Sourabh:** Fair enough. If I have more questions, I will join back in the queue.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Thanks so much. Just on your comment Sanjay that you mentioned that you expect to be in Rosuvastatin in October, I thought would you not be waiting for 180 days?

Sanjay Gupta: I think the 180 days probably started from Actavis launch actually.

Sameer Baisiwala: As we see the market right now, do you see this is to be attractive enough market?

Sanjay Gupta: It is not as attractive as people thought it would be.

Sameer Baisiwala: If you have starting point of 3 billion dollar branded?

Sanjay Gupta: Good estimate would be 1% to 2%.

Sameer Baisiwala: 30 to 60 million dollar right?

Sanjay Gupta: I am not selling the product, yes it is not appropriate for me to comment, but the kind of feedbacks that you have received is that the prices that some of our peers had been selling would be in that range, might be a little bit higher you should check with the commercializing companies but the market has fairly competitive as of now.

Sameer Baisiwala: I am sure you are now looking forward to October now?

Sanjay Gupta: Yes.

Sameer Baisiwala: Second question is on Nexium, I would guess that at least three people who are waiting for approval and that may happen anytime over the next three, four months and then there is another half a dozen who may come over the next 12 to 24 months. Is that what your assessment of the competitor dynamics be?

Sanjay Gupta: I know from the various sources that there are six in the wings overall what you said is correct.

Sameer Baisiwala: But you are not seeing them active right now in terms of discussions and you are not seeing any eminent price correction?

Sanjay Gupta: No I am not seeing any pre-marketing activities from any of these companies.

Sameer Baisiwala: This is very helpful. Thank you.

- Moderator:** Thank you. The next question is from the line of Abhishek Sharma from IIFL. Please go ahead.
- Abhishek Sharma:** Thanks for taking my question. I had two questions Sir. First is on depreciation and amortization. Is the full impact of Dahej visible in this quarter, how should we look at this number going forward and second one is along the similar line on your tax rate?
- Ashok Modi:** As far as Dahej is concerned, the phase I is not fully capitalized, because it is not fully operational, so the depreciation would go up as we move forward, but together with that the output also will increase once the Torrent's plant gets commercialized. So on the overall basis it should not really adversely impact with the overall working. What was the second question?
- Abhishek Sharma:** Tax.
- Ashok Modi:** Tax this quarter is exceptionally low, so overall I would say it should be higher than this.
- Abhishek Sharma:** In what range if you could guide us?
- Ashok Modi:** It could be close to the MAT rate I would guess.
- Abhishek Sharma:** For the full year?
- Ashok Modi:** Yes that is what it appears as of now.
- Abhishek Sharma:** Thanks.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Blackrock. Please go ahead.
- Aditya Khemka:** Thanks for taking my question. First of all if I look at US revenues, I think you declined almost \$12 million for quarter-over-quarter, this quarter compared to the last quarter or the last fiscal. Would you say that the decline in Abilify revenues has been more than \$12 million and you have seen some growth in revenue from Nexium and Detrol, so should we assume like the Abilify declined \$15 million, \$20 million in revenue quarter-over-quarter?
- Sanjay Gupta:** We do not like to discuss revenues by product, so we provided you with overall numbers I have given you some numbers on underlying growth. Is it your modulation skills, on the whole Abilify of course the prices have gone down, but besides that we have the positive compensatory effect of Nexium and Tolterodine our disclosure policy as such is that we would not like to comment upon revenues by product?

- Aditya Khemka:** No problem. What I just wanted to understand was at the only negative contribution would be from Abilify or other product in your product basket?
- Sanjay Gupta:** There will be underlying base business price impact which is an ongoing factor in the US generic business, which is nothing new for everybody, so what we experience is some companies are giving guidance of double digit and all that our underlying assumption and what our experience is telling as it is more under 5% to 7% range this year. So for several customers for certain products they are declining, but there are other factors which are negative also besides Abilify.
- Aditya Khemka:** Secondly on the Dahej plant, so in the previous question, I think Ashok Sir commented that it has come only to the extent of commercialization in phase. What is the capacity utilization today and where do we expect the capacity utilization to be let us say by the end of year?
- Ashok Modi:** By the end of the year we should be close to 6 billion tablets.
- Aditya Khemka:** Which is 100%?
- Ashok Modi:** I am sorry.
- Aditya Khemka:** It should be 100% capacity?
- Ashok Modi:** It should be about 70%, 80% and then next year we would be doing some degree of debottlenecking, so phase I full capacity is likely to be 750.
- Aditya Khemka:** Currently what is the capacity utilization during the last quarter, what was the capacity utilization?
- Ashok Modi:** Capacity utilization during the last quarter would have been about 50% but what is happening is that we are getting the product approval one by one from US FDA, but the capacity utilization is getting ramped up as and when we keep on receiving the new approvals.
- Sanjay Gupta:** On that point Aditya, we have as of today about six products approved from Dahej and end of the year we expect about 12 products to be approved.
- Aditya Khemka:** As you correctly is it 50% capacity utilization towards last quarter?
- Ashok Modi:** I think it should be that exactly, because by that time we should also see some German approvals in place which will help us to further ramp up the capacity utilization.
- Aditya Khemka:** Basically out of the 6 billion capacities we produced 3 billions for 750 million tablets from Dahej in the first quarter of FY2017?

- Sanjay Gupta:** No, 600 million will be year end, so current capacity is lower than that, current capacity closer to about 350.
- Aditya Khemka:** So 50% of 350?
- Sanjay Gupta:** That is right.
- Aditya Khemka:** If my memory serves me correct, and Ashok Sir you can answer this may be. If my memory serves me correct I think Dahej total capacity which we had initially planned was 6 billion and another 6 or 7 billion capex in second phase from Dahej putting a total of 12 to 13 within tablet capacity in Dahej. So is that plan changed or so why are we at 3.5 half of that right now?
- Ashok Modi:** The plan has not changed. What happens is that we have started commercial operations once they started getting the products approval from US FDA. So some parts of the plant and some of the equipment are still in the process of getting installed, so I would say it is a partial completion of phase I.
- Aditya Khemka:** Got it. By year end you expect to complete phase I and then utilize phase I by 2017?
- Ashok Modi:** Yes.
- Aditya Khemka:** That is helpful. If I can just squeeze one more question on the number and Sanjay this is for you on the number of products Sanjay that you expect to launch in US this fiscal I just missed the number, how many products do you expect?
- Sanjay Gupta:** On the whole I expect about 10 ANDA approvals this year.
- Aditya Khemka:** And you expect all 10 to be commercialized business or would some of these will be for future launches?
- Sanjay Gupta:** I would expect all 10 of them to be commercialized this year subject to of course getting the approval.
- Aditya Khemka:** You also made comment which I could not catch up this line was little disturbing, a couple of these product being high ticket size or something like that. Could you define high ticket I mean what is the range of revenue product that you are assuming to be high ticket and what has been low?
- Sanjay Gupta:** Essentially a lot of these products when we made this comment for example we were not very clear about what was going to happen on Rosuvastatin and there was still few products in the launch plan where we do not have clear vision from the competitor scenario. So we sourced a lot of generics this year so they will become generic in the course of the next few month, so it is a kind of little difficult to project which ones, but for us at the scale of which Torrent operates I would say is where we have

about roughly 15% market share and we have one or two anchor customers with us and the pricing is determined more by the market as to what the market will bear us at that point in time. So I would not like to forecast as to which ones and how big they would be. So I could say that for the 10 our goal is to have at least 1 anchor customers for each one of launches.

Aditya Khemka: All 10 launches in the remainder nine months of this fiscal year.

Sanjay Gupta: Yes.

Moderator: Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: Could you please help me understand the capacity in Dahej, I was a little confused, so the current capacity is 3.5 billion tablets, is that correct?

Ashok Modi: Yes.

Deep Master: And it will be ramped up to 6 billion by the end of the year?

Ashok Modi: Yes.

Deep Master: On the full capacity of 6 billion, you will do 750 million tablets a quarter?

Ashok Modi: I am sorry.

Deep Master: And you said on the full year basis, you will do 750 million tablets that will be per quarter right?

Ashok Modi: No, it will be 6 billion and I guess we are going to initiate some debottlenecking whereby the capacity of phase I is likely to increase to 7.5 billion that would be next year.

Deep Master: If you give any guidance on how many tablets you will do any capacity utilization number?

Ashok Modi: As of now, it is difficult, but we are waiting for the additional product approval to come in, so tentatively I told that it could be about 50%, but it may vary.

Deep Master: So tentatively about 50% on the full year basis on the full capacity?

Ashok Modi: No, the capacity ramp up would happen gradually, so when you say 50% it would not be of the year end capacity, it would be the average capacity.

Deep Master: Sanjay you mentioned 10 launches this year, this is all from new approvals right? This would not include your site transfer to Dahej?

- Sanjay Gupta:** Yes.
- Deep Master:** Just a question on R&D, on a full year basis would you still see at 8%?
- Sanjay Gupta:** I am sorry.
- Deep Master:** On the last call you mentioned R&D to scale could be 8%, so given that it is 6% this quarter, would we still see R&D to sale that 8% for the whole year?
- Sanjay Gupta:** Let say that I have decided to be higher than 6% every quarter I cannot put the provide a precise guidance, but we should be in the 8% range.
- Deep Master:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Talathi from Kotak Securities. Please go ahead.
- Chirag Talati:** Thanks for taking my question. Just further question on Dahej; and if I look at your volume it seems roughly probably doing in the region of 2 to 2.5 billion tablets a year in the US and we are talking about 7.5 billion a year just coming from Dahej. When I compare this to some of your peers who have got a billion dollars odd base in the US, they are doing in the range of 4 to 6 may be 7 billion. So what is the thought process here? I mean you just want to fill capacities or I am really struggling to kind of get to see the match here?
- Sanjay Gupta:** Let us dial back a little bit. Our current volumes in the US are in the range of about 300 Crores a year. So that is what is happening. Dahej is going to be approved for US, for Brazil and for Europe, so that is the objective. So if the phase I capacity of Dahej at the end of phase I would be 7.5 billion. As of now the capacity is only 3.5 billion and during Q1, the amount of product that we have received from Dahej is in the range of 40 to 50 Crores tablets only. So the ramp up is little slow in the capacity utilization, it is following behind the capacity and our plan is to progressively move the US business to Dahej and to free up Indrad for the European German market as well as for some other markets for which it is approved even the Brazilian market. So it is our overall plan and as I mentioned before in previous calls that our target this year is to file about 15 to 20 ANDAs and going forward we are building R&D capacity capable of filing close to 25 to 30 ANDAs per year. So as we ramp up our filing efforts in the US, all these products would be manufactured in-house, so the capacity expansion in Dahej is not like I would say a one-year plan, it is a multiyear project linked to our pipeline build up and ability to ramp up manufacturing. Just another point on Germany so if you look at the German generics market which is roughly about 5.5 billion, Torrent's covered market is only about 3 billion and in those covered market also the tender, which come out we bid for only a fraction of the tenders that come up. So our objective is twofold, one is to increase our amount of bids that we placed in our

covered market and secondly also to expand the overall covered market to cover I would say 80%, 90% of the generics market. So Dahej is part of that scheme also and it is also part of the scheme where Dahej approval we are expecting in Brazil before the end of the year and as we ramp up Brazil there would be more product shift from there. So it is a part of overall long term growth story.

Chirag Talathi: Would it be fair to say that on a full capacity of 7.5 billion it would probably take you three years plus to achieve 80% utilization?

Sanjay Gupta: I am not seeing those projections, so it is hard for me to comment because what we are doing and also we are moving capacities amongst plants and trying to optimize things, so let us see. I can tell you that you can build your projections, so roughly we sell about 300 Crores in US I think about 150 Crores goes to Brazil right now. I do not have the figures for how much tablets shift to Brazil and Germany per year. So I will prefer getting back to you with some exact figures as to what that would be and we can come back to you on that.

Chirag Talathi: Thank you.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity. First one clarification. Did I hear correct that the US business what you have seen is Abilify some decline and some base business erosion and we have seen positives Q-on-Q impact of Detrol and generics?

Sanjay Gupta: That is correct.

Prakash Agarwal: So I was trying to understand how would Detrol being generic couple of quarters back this quarter versus last quarter they would have been some erosion right I mean you can continue to get more customers or how you are gaining Q-on-Q on Detrol and Nexium, if you could highlight that?

Sanjay Gupta: Just to highlight for it. Detrol is essentially a four player market and one of the players was Mylan and TEVA. So we are not seeing any pricing action on Detrol. It is fairly stable market and Esomeprazole also because of what happened to two of my peers. The pricing has declined. It is not at where it was but I would not say the pricing is unstable as of now. So when I was referring to price declines I was more referring to the base business especially in terms of older ANDAs.

Prakash Agarwal: So dollar terms we have improved on Detrol and Nexium is what I can conclude?

Sanjay Gupta: We have improved on overall sales basis yes.

Prakash Agarwal: Thanks for this and secondly on India business, if you could just highlight the fiscal 2016, what was the MR and is there any change in this quarter and for the year expected?

- Dhruv Gulati:** No. There is no change in the number of MRs.
- Prakash Agarwal:** What was the number Sir?
- Dhruv Gulati:** Last year and this year it would be about 2850.
- Prakash Agarwal:** This is at the end of March 2016?
- Dhruv Gulati:** Yes.
- Prakash Agarwal:** Do you expect any increase or decrease over the year Sir?
- Dhruv Gulati:** At least for this full year, we are not having any plans to increase our field force.
- Prakash Agarwal:** Last question, on the acquisition plans we have earlier highlighted that there was something in the injectable side but given evaluation we let it move, so on the injectables especially in the US is the focus still on we are still looking at assets if you could highlight?
- Sanjay Gupta:** Last six to nine months, Torrent has had a dedicated team for business development which looks at all external growth opportunities. I would say the focus will very much there and both in terms of what we call external R&D in terms of in-licensing projects, acquiring products as well as in terms of evaluating M&A opportunities.
- Prakash Agarwal:** So with the prime focus being injectables?
- Sanjay Gupta:** No the prime focus being two. One is to increase the scale of the business and second is to diversify the business away from oral solids be it in dosage form, like injectable, like even the dermatology for that matter. So injectable we spoke about because our business is almost 100% retail which is as we know their customer consolidation is essentially going to be four large customers from next March onwards in that space and by going to injectables, you are allowing our business to add about four or five more anchor customers in terms of the hospital GPOs, so as a result of which I injectable becomes an attractive segment when you are becoming overtly dependent upon a small number of customers, so in that context we had mentioned the injectable space it is not be a only space you are interested in.
- Prakash Agarwal:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse.
- Anubhav Agarwal:** Sanjay Sir just one clarity you mentioned to my question that ex-Abilify base business has grown in double digit. I think looks like that comment was on year-on-year basis. My question was largely on

sequential basis March quarter to June quarter. How would the basis have done, flattish or low single digit would that be a right assessment?

Sanjay Gupta: In terms of quarter-on-quarter, it has gone up but I would not be able to give you the figure because I actually all my competitors have billed in quarter of last year. Quarter-on-quarter, the trend is up. I do not have the figure in my head.

Moderator: Thank you. We will take the last question from the line of Saion Mukharjee from Nomura. Please go ahead.

Saion Mukharjee: Thanks for taking my question. Just on the US business, just to clarification you mentioned excluding Abilify the revenues have increased low double digit year-over-year?

Sanjay Gupta: Yes.

Saion Mukharjee: The thing is on Abilify if I do my rough calculation you would still be having run rate of close to 100 million and the market seems to be very large and you give example of Crestor where the prices have corrected significantly. So what is the risk of a sudden correction here because there are many players already in the market? Is it the litigation or any color you can give on possible direction?

Sanjay Gupta: Firstly I think your calculation Abilify might not be correct and secondly I would say is that there is strong risk of ongoing litigation on this product, because Otsuka is not letting up and this litigation is going to go on for a few years. We took the chance of launching at risk on the advice of our legal advisors, but beyond that I would not like to comment on the litigation because something which will be decided by the court at an appropriate time, but we see fairly confident in our case that is the reason why we chose the launch at risk. So the litigation risk is there, besides the litigation risk there is always risk of new entrants which come and that needs to be additional or irrational or unexpected price erosion so that risk is always there, beyond that there is, beyond the litigation and price reduction everything else is fine.

Saion Mukharjee: It is like the position is materially different for each player or everyone sees similar risks and therefore the price is high, I mean if it is not very high for some they may come and bring down the price?

Sanjay Gupta: Generally, we see that since we are talking about pure generic market it is extremely price sensitive, so you expect a new entrant to come and make the price argument and you know as long as there are attractive margins available there has to be a rational behavior so as new players come in and even look for I would say their entry market share or whatever is the targeted share. Each of the incumbents will have its own strategy, some incumbents you know would let business go depending upon the internal margins have shown and some incumbents would hang on to it. So I would not like

to prejudge to what Torrent would do on what price level, but we have our own metric in terms of evaluating whether we are giving up share or we are matching the price or we are going more aggressive, I would say like his approach.

Saion Mukharjee: Sir my final question you mentioned about to an earlier question about possible launch of Sevelamer products, so is it like, there seems to be a lot of uncertainty on the timing there, do you think FDA can potentially approve generics this fiscal and is that in your 10 product launch that you are expecting?

Sanjay Gupta: I would not like to prejudge on what the FDA might do or might not do. As far as Torrent is concerned we have responded to all the queries, so the response is awaited any day or it could be months or it could be additional queries, so I have kind of tentative schedule of approvals on the basis of which I am guiding to tell and there is possibility that Sevelamer might be on it or might not be on it so that is the reason why I do not like giving specific on which products would come, which product would not come, we expect about 10 approvals this year and if the approvals come we would expect to launch those products in the current year, but I would update you quarter-on-quarter Sir.

Saion Mukharjee: Thanks a lot.

Moderator: Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to the management for their closing comments.

Sanjay Gupta: Thank you very much for staying up this late and bearing with us for the delay in the call. I look forward to speaking to you during the next quarter and have very good night to all of you.

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