



**“Torrent Pharma Limited Q3 FY’ 18 Earnings Conference  
Call”**

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Torrent Pharma Limited Q3 FY'18 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 Third Quarter Earnings Conference Call. From Torrent Pharma's management, today we have on the call Mr. Ashok Modi – Executive Director(Finance) & CFO; Mr. Sanjay Gupta – Executive Director, International business; Mr. Dhruv Gulati – Executive Director, India Business and ROW business and Mr. Sudhir Menon – Investor Relations.

I would like to hand over the conference to Sanjay now for the opening remarks. Over to you, Sanjay.

**Sanjay Gupta:** Thank you, Deepak. Good Evening, everybody. Let us begin by talking about some of the highlights of the quarter. For this quarter, Torrent's revenues were Rs.1,477 crores Vs Rs.1,443 crores in the previous year same quarter with the growth rate of 2%. EBITDA for the quarter was at 29% Vs 25% in the previous year. For the nine months ending December, revenue was Rs.4,280 crores Vs Rs.4,423 crores in the previous year while EBITDA for the nine months ending December is at 29%.

The company has declared an interim equity dividend of Rs.9 per equity share of Rs.5/- fully paid up share for the year '17-18.

We will not take you through the major geographies where we operate, starting with the biggest country which is India. It is the largest market for Torrent and accounts for about 40% of Q3 revenue. Year-to-date revenue contribution of India is around 39%. The revenue growth for the quarter and nine months period is at 17% and 10% respectively.

Unichem acquisition was completed on 14<sup>th</sup> December 2017. Sale for the Unichem business have been integrated from 14<sup>th</sup> December itself. Torrent now has the field force in India of about 5,000 medical representatives including about 2,000 plus medical representatives from the acquired business.

On the brands acquired from Sandoz earlier, Regestrone for the quarter, brand growth is 50% compared to 18% for the covered market as per AIOCD quarter December '17. Shelcal and Chymoral brand continue to outperform the market with Shelcal sales of Rs.330 crores with the 9% brand growth vis-à-vis 4% of the representative market. As regards to Chymoral, its sales have touched Rs.144 crores with 19% brand growth vis-à-vis 9% of the covered market.

Talking a few minutes about our International Business: Let us begin with the US; US business recorded revenues of USD40 million in Q3 compared to 37.5 million in Q2 and 40 million in Q1. The US margins continue to be under pressure; however, the company is commercially on the sound footing; we have over 20-products where we are in the top-three players in the US market, last year at the same time we had about 14-products in the competitive lineup. During the quarter the company has filed three ANDAs and for the nine months seven ANDAs have been filed so far.

We also completed the acquisition of Bio-Pharm on the 18<sup>th</sup> of January as has been communicated to you earlier.

Torrent's market share now in Germany in value terms stands at 7.2% as per IMS. We are the fourth largest company in Germany after Teva, Sandoz and Stada. During the quarter, we had net sales of €1 million which is a growth rate of 13% for the quarter. So year-to-date revenues in Germany are about €89 million with a growth rate of 16%.

Lastly is the Brazil business: We recorded revenues of 95 million Reas in Q3 compared to 77 million for the same period last year, showing 22% growth. Close-up which is equivalent to IMS in business is showing MAT growth of 13.7% in volumes compared to a market growth of 6.4%. So the business development is on track and I think we are on a path to recovery from the previous quarters.

On taxes, for this quarter which you might have seen in the press release; the tax expenses during the quarter are higher by Rs.185 crores compared to the same quarter in the previous year. We wish to provide some clarity on the same just to aid in your understanding. So there are two types of tax

Current tax is the tax paid by the company in accordance with enacted tax rates in respective countries including MAT provisions in India.

Deferred tax is tax arising from timing differences and MAT credit entitlements which was reversed/utilized in due course.

During this current quarter, there is no significant movement in current tax.

Acquisition of branded business of Unichem resulted in higher deferred tax liability of Rs.99 crores.

Significant inventory liquidation in the overseas subsidiaries led to reduction in MAT credit entitlement and reduction in deferred tax asset amounting to Rs.70 crores.

Re-measurement on deferred tax on account of change in corporate tax rate in the US amounted to Rs.15 crores.

We can now open the call to question-and-answer.

- 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 Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** Would it be possible to give the Domestic Formulations growth number without the impact of the 15-days consolidation of Unichem portfolio?
- Dhruv Gulati:** As Sanjay bhai has informed you that we had taken over from 14<sup>th</sup> December and then we started integrating, and in fact, it was hardly for sixteen days that we had done the billing, it was a very small amount because we were in the process of setting up systems and connecting to large number of channel partners. But let me tell you overall as you have seen that the Torrent domestic business has grown 17% and accordingly plus GST adjusted growth, you see is about 23%. So it is a very small amount of the Unichem. If you add that also ULC alone Torrent also, it is in double-digit growth with the GST impact.
- Anmol Ganjoo:** So on a like-to-like basis, what would the growth number be like?
- Dhruv Gulati:** Torrent alone if you see the growth would be about 13% with GST impact.
- Anmol Ganjoo:** My second question is around the Bio-Pharm acquisition. If you could just help us understand the thought process behind it in terms of things that we are looking from that would be helpful? We do not have a lot of details on it and as much as you can share at this point in time with respect to the deal contours that would be helpful?
- Sanjay Gupta:** Essentially, we do not disclose the deal size, because it is not very-very material at the scale of Torrent. It is a small contract manufacturing organization which has started its journey towards becoming a front-end entity. So we operate in the overall solid space, this is our \$45 billion market in the US in Generics. The liquid space is much smaller; it is a \$2 billion market. So quantitatively much smaller area. But also what is interesting is the level of competition is much lower. So what we have done with this acquisition is essentially put our foot in the liquids market, it comes with the US manufacturing and US R&D, so it should be the first in terms of having R&D and manufacturing outside India. The company so far has about 10 approved ANDAs and 10 ANDAs under review at the FDA. With business model before our acquisition was to partner and to license this product or to act as a CMO. What we would be doing is converting and selling our own product. So that is basically the thought process behind.
- Anmol Ganjoo:** Obviously, the big story of the quarter is margins expanding. Considering that you consolidated Unichem even for 10-days and the fact that a lot of growth has been driven by strong domestic volumes, is it not surprising that the staff costs are down sequentially in absolute terms and what explains that?
- Sudhir Menon:** There is a six-monthly valuation in terms of the leave and gratuity which is carried out. So typically, what has happened in September is, there was increase in the overall liability and

therefore when you see the September quarter, it has the impact of the previous quarter also. December number is more representative I would say.

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

**Anubhav Agarwal:** One question on US approvals. While we are filing, I am not able to see Torrent getting many approvals in the US. So I do not even remember we got any approval in the last six months in the US. Can you just help, Sanjay sir over there?

**Sanjay Gupta:** So we have not received approvals, because we have 29 filings, they are much more recent and so some of them have query, so this is the reason why we have not obtained approval. But in terms of launch, this year we launched about five products so far and we would launch two more before the end of March, so we had seven launches. But you are right, absolutely, in terms of approval, we do not have a large number getting through. So next year I would guide you towards about ten approvals and launches.

**Anubhav Agarwal:** But I clearly remember you are guiding about getting over six to eight approvals as well. So it should not be so much of aging problem?

**Sanjay Gupta:** We have about seven launches this year, so those are happening. We are sitting on a couple of approvals which we have not launched so far and they will be coming onstream little later. I mentioned that we had some manufacturing issues. Those are mostly been resolved except for three products, two of them would get launched in March and one would be later down the line.

**Anubhav Agarwal:** So when are you planning to launch Lamotrogine ER?

**Sanjay Gupta:** It has already launched in December.

**Anubhav Agarwal:** Because if we have a lower sales in Brazil in 2Q'18 quarter, if I assume that sales would have been shipped now, then Brazil has not grown if I look at businesses two quarters as a whole?

**Sanjay Gupta:** I would tell you to go by the MAT figures in terms of Close-Up representative of the Brazilian reality. So in reality if you see on MAT basis, our volumes have grown by about 13.7% compared to a market growth of 6.4%. So, the best metrics I have is actually using, on a quarter basis the market has slowed down, so if you want to compare it last three months, the market has grown at about 3.8% and we have grown at about 4.5%. So we will remain ahead but the market is slowing down. That is actually I would say a better measure in primary sales because what happens is the inventory plays a very large impact on primary sales. So we tend to focus on secondary sales as well as prescription data and IMS data what we can collect and over a period of the year you should see it balance out.

**Anubhav Agarwal:** Gross margins have expanded in this quarter. Clearly India was weak but Brazil was strong, but still the total gross margin expansion is 280 basis points to 300 basis points. Mix in my

calculation cannot explain more than 50-60 basis points. So what is helping this gross margin significant expansion?

**Sudhir Menon:** Mix is playing important role because if you look at the India piece and the Brazil piece compared to the previous quarter, there is a swing of almost 10% and that would explain I would think 50% of the margin improvement which you are seeing. Last quarter there was some provisioning which was done related to slow moving inventory because of which the margins were looking lower last quarter, this time that thing is not there. So I would say balance part of the difference would be because of that.

**Moderator:** Thank you. We will take the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

**Nitin Gosar:** This is more of a strategic question. Just wanted to understand your thoughts on European profitability ROIs versus US business profitability and ROI. Given the choice of capital allocation between the two territories, what would be the priorities for Torrent?

**Sudhir Menon:** I think as far as the ROI is concerned, we have never spoken about territory wise ROI. All along what we have been discussing is four important market which we look at – the first one is India, the second is of course US, followed by Germany and Brazil. So these are the important territories which we look at. So US continues to be focus geography for us. That is the reason why we have now started filing more ANDAs last year, we did some 16 filings and this year till December there is almost seven filings which has been done. So yes, it would still continue to be focus geography for us.

**Nitin Gosar:** Any inorganic opportunities and any size that you could communicate that you would be looking forward to?

**Sanjay Gupta:** We just finished our Unichem in December and we finished Biopharm in January. The company needs to first fully integrate these. So while it is ongoing priorities, there is not a rush from the Torrent side to get into inorganic growth because we still have to finish digesting what we recently acquired and turning it around. So it is ongoing routine effort on behalf of the company, there is nothing to highlight right now.

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

**Karthik Mehta:** In terms of the total net debt after Unichem, could you share the gross debt and the net debt number as on 31<sup>st</sup> of December and how should we look at overall interest cost on that debt post Unichem?

**Sudhir Menon:** If you look at 30<sup>th</sup> September where the financials were given, gross debt was close to Rs.2200 crores and there is an additional debt of around 3500 which came in for Unichem acquisition. So on a gross basis, it would be roughly around Rs.5800 crores kind and on a net debt basis it

should be lower by another 1800 crores, so net debt would be around Rs.4000 crores. The cost is reasonable I would say. We have not been talking about the cost so far.

**Karthik Mehta:** If I have to look at your India business, I know it is actually well and you have just consolidated Unichem now. So how should we look at synergies... will there be anything which will be in lower marketing cost first or procurement or higher sales? I do not want a number but I just want a direction that if we have to look at it on a quarterly or a half yearly basis, is there any milestone that we should be looking at?

**Sudhir Menon:** It is better to wait for one more quarter to see how the numbers comes out, that will give us more clarity. It is too early for us to comment how it will span out. But yes, the pieces which was spoken about on the improvement in margins through synergies which are going to come in, the work has started.

**Karthik Mehta:** At least for depreciation in that sense are you amortizing, is there an asset, it was Rs.94 crores in this quarter because if you have to amortize it, so how should we look at this expense post the acquisition?

**Sudhir Menon:** Basically this whole process of the intangibles coming in the balance sheet, there is a purchase price allocation which is being done by a third-party consultant which is in process but in the meantime what we have done is we have taken a sort of estimate based on what we did in case of Elder and therefore a jump of 84-94 which you are seeing is basically amortization impact of Rs.10 crores for 15-days.

**Moderator:** Thank you. We will take the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

**Neha Manpuria:** First on the India business. The ex-Unichem growth of about 13%. Just wanted to understand, how should we look at ex-Unichem growth going forward and have the inventory levels in India gone back to our historical levels or should we expect more ramp up in sales slowly?

**Dhruv Gulati:** As far as inventory is concerned for the industry if you look, it was almost 20-days in September and it has become 21-days by the end of December and for us inventory is again at 18-days only. So we are almost in line and our inventory is less than the overall inventory levels of the industry. As far as Unichem is concerned, yes, we are working, and we will ensure that the growth of Unichem definitely pick up and they are above the market growth.

**Neha Manpuria:** Do we have a timeframe as to when you think Unichem growth will catch up with market growth based on what you have seen etc., -- would it take six months, nine months?

**Dhruv Gulati:** We have already started working on it and it will happen soon, I can say only that.

**Neha Manpuria:** My second question is on the other expenses. If I look at the number on a quarter-on-quarter basis, it seems to have increased and I know R&D has increased a little bit and there is about

10-days of additional cost related to Unichem. But is there any other one-off in the other expenses number?

**Sudhir Menon:** No, Neha, the expenses have gone up; one is because of the Unichem acquisition for the 15-days and certain expenses pertaining to acquisition. Typically if you see the Q3 expenses are little higher than the previous quarters if you look at the previous years as well. So that has been the trend as far as Torrent is concerned, but on YTD basis if you see the other expenses have not gone up so substantially. So there is a mismatch between the quarters.

**Neha Manpuria:** Just understanding our R&D strategy. Based on the filings that are there in the US, we had said we are focusing on Derma and now with this Biopharm acquisition liquid market, how are we allocating R&D in the US, which areas are we filing in, in the next 12-18-months?

**Sanjay Gupta:** The bulk of the filings will be in oral solid and then that would be followed by topical. Liquids filings are much less expensive. So even if you look at filings of 5 or 10 products the financial impact would be much lower. So these are the three areas. As we highlighted previously, we are starting to build a pipeline in Oral Oncology products. So it has been some way of.

**Neha Manpuria:** But that would not be anytime soon?

**Sanjay Gupta:** No.

**Moderator:** Thank you. We will take the next question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

**Anmol Ganjoo:** So during the last call you alluded to certain factors like CB-30 or some manufacturing hitches preventing more robust launch calendar. How do we stand on that and have we been able to resolve some of those glitches?

**Sanjay Gupta:** We just today have three products which are left to be launched and two of them would get launched in March and one of them we will have to send for reformulation, so essentially we have launched five so far this year and three are pending, two would get resolved by March and one would be a long drawn process. The answer is that we have been able to resolve almost all of the pending products which were not launched.

**Anmol Ganjoo:** My second question is again on the US, a bit more directional. So basically we are tracking on an annualized run rate of around \$160-170 million and the strategy articulated is that the pricing erosion would be offset by some volume increases and a robust launch calendar. When we look three years out, what kind of confidence given the quality and breadth of our filings, do we see US number stabilizing here, so this \$170 on an organic basis two, three years out, I know it cannot be an exact number but directionally...?

**Sanjay Gupta:** Firstly, we are hoping that the price erosion becomes less than it was, right. I would just cross my fingers and tell you that I do not see further consolidation once we have three major buyers in the market controlling 90% of the value of purchases, right. It is hard for me to imagine



further consolidation. So consolidation has onetime big impact which we have been facing last two years and then it also has an ongoing impact, but the ongoing impact is something we learn to live with but the one-time impact is what really gets you in. So we are hoping that the pricing decline would moderate. Secondly, what we are hoping for is that as Torrent, we would be getting a new launches which would give us the bump up. So increasing volumes and shares in older products can only take you so far, right. So in terms of new launches, we will be having the Torrent pipeline, so the 15 filings that we have been doing for the last year and this year and then we would also be taking advantage of the Bio-Pharm pipeline which is 10 products would be API and 17 more in the works. So those factors put together would help us grow the top line. But is it going to help us reach \$500 million in sales? The answer is 'no.' So I would say in the \$200-300 million range would be a good place for us to be on a sustainable basis without impact of one-time pricing and things like that.

- Annol Ganjoo:** During earlier period of the call, you said that the plate is pretty much full with work cut out in terms of integration of the recently acquired assets. So does that mean also from an organic standpoint and given the deterioration in the market, the sharp jump that we see in R&D expenses in absolute terms at least we are tracking around close to Rs.430 crores which is significantly higher than what our run rate has been. There will be some pullback on that until the US market stabilizes?
- Sanjay Gupta:** In fact, we guided that we would be spending about 8-10% of our revenues on R&D and we are tracking at 8% and we will continue to be in that ballpark.
- Moderator:** Thank you. We will take the next question from the line of Abhishek Sharma from India Infoline. Please go ahead.
- Abhishek Sharma:** Sir, if I remember there was inspection on Dahej which resulted in 483. Have we received the EIR on that?
- Sanjay Gupta:** Yes, we received the EIR.
- Abhishek Sharma:** What would be the capacity utilization of Dahej presently?
- Sanjay Gupta:** We successfully manage to transfer quite a few products to Dahej and the capacity utilization is edging up. So from Dahej we have 11 approved products, 7 have been filed with the FDA and should get approved soon and 11 more are in progress. So very soon, in all our existing portfolio, we would have approvals at Dahej for the same. So the capacity utilization is going up but today it remains still below 50% and we are hoping to increase it as we pick up more approvals and as we pick up more volume and we can unlock our Indrad facility for European and Brazilian markets.
- Abhishek Sharma:** So Indrad for Europe and Brazil and Dahej would be for US, is that how...?

- Sanjay Gupta:** Our endeavor is that to have a product approved from two plants, so the US products will continue to be approved from Indrad and Dahej and European products would be more from Indrad and from Baddi.
- Abhishek Sharma:** On Unichem integration, now that you have been running the acquired asset more than a month. What kind of prescriber overlap have you seen between your existing portfolio and the acquired asset?
- Dhruv Gulati:** The acquired portfolio and the current overlap would be almost 60-65%, doctor overlap would be almost 90%.
- Abhishek Sharma:** Would then post combination result in reduction of the total number of divisions that you are running right now?
- Dhruv Gulati:** We are still evaluating the overall portfolio and once we are able to evaluate, we will see how can we bring the synergy, how can we ensure that each product gets the proper coverage and also the exposure, all these things will have to see, we will have to see the potential, we will have to see the prescribers, the specialists and then we will be able to decide that how can we integrate into the different divisions.
- Abhishek Sharma:** Just one more last question on that which is how many divisions combined we have now?
- Dhruv Gulati:** We have 17 divisions in Torrent and there are 11 divisions on ULL acquired portfolio, so total 28 divisions are there.
- Moderator:** Thank you. We will take the next question from the line of Gagan Thareja from Kotak Investments. Please go ahead.
- Gagan Thareja:** Your CRAM sales for the quarter have gone down quite abruptly, any explanations, even year-to-date, the Contract Manufacturing India related sales are down drastically?
- Sudhir Menon:** One of the bigger piece we have on the Contract Manufacturing is the manufacturing which we do for Novo Nordisk on the Human Insulin. And there have been some expansions related work which has been going on and therefore the plant was shut for some period of time. That is the reason why we see much lower sales in the Contract Manufacturing piece.
- Gagan Thareja:** When does this get back to the normalized rate?
- Sudhir Menon:** I think another one quarter it should come back.
- Gagan Thareja:** You indicated that the Unichem and the other smaller acquisitions that you have done, as a corporate you take some time to digest that, you also are at the same time in fray for another international acquisition which is fairly sizeable. How do I reconcile the two? Also, are you considering an QIP, the equity raise being considered contingent to the acquisition, the rebate

for the acquisition or is it independent of that altogether and if it is independent what is the rationale behind that?

**Sanjay Gupta:**

On the acquisition front right, the first thing is the fact that we acquired two companies recently and one of them at least on the Unichem side is fairly sizeable, right, it is sizeable, it is 3,000 people and eleven divisions as Mr. Gulati alluded to. So it is a lot of work and it has consumer management bandwidth. Then on the US side, it is the first international manufacturing and R&D set up. So it also requires a little bit of focus. But that said, since about four years we have created a business development group in Torrent which has been running all these deals and which has been successfully kind of doing what we think is in the long-term interest of the company and we have dedicated people who are always evaluating deals be it in our four major geographies. So we want to be aware about what are the opportunities out there, we want to evaluate then and take a conscious decision on them. So that's a process, which never stop, so that is an ongoing routine activity for a company and I think it is our obligation to study always organic and inorganic growth but as we very well know that the attrition rate and inorganic growth rates are fairly high, right. So to concretize one activity, you are probably studying five or ten potential opportunities. So it is hard for us to comment upon potential opportunities that you might be looking at because we are always looking at them.

**Sudhir Menon:**

On your second question, I think you are referring to the resolution which came out where we had taken approval for some amount, right. That was more of enabling resolution which was taken.

**Sanjay Gupta:**

It is a part of our ongoing process whereby we keep this resolution and this is not the first, this is the third time as Ashok bhai said, it is an enabling resolution it does not mean it is happening.

**Moderator:**

Thank you. We will take the next question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

**Aditya Khemka:**

Firstly, on the R&D spend, I was just alluding to your previous participant's comment. When you said that you are tracking at 8% of sales, but this is 8% of sales on the base including the Unichem sales, that is your guidance go-forward, right. So when you acquired Unichem, you did not acquire 8% R&D on that sales base. So actually you are doing higher than 8% than what you had guided earlier. So just to that extent, to sort of understand and I know your guidance is 8-10%, so even if you are 8.5%, 8.7% is fine, but just to understand on this capital allocation perspective, because everybody has been talking about US being a difficult market, pricing erosion, competition, we hear a lot of that and then we see the R&D spends going through the roof. So I do not understand how to correlate the two. So can you please help me there?

**Sanjay Gupta:** First thing is that US is 50% of the world's market, right, you have to decide whether you want to play in it or not and whether you have to find a right formula to succeed in it or not. So while time is really tough today, we have taken the choice that we want to continue playing in that ballpark, right, so we do not want to kind of give up on the US or take a pessimistic long-term view. So that is not where we are. We are in fact building our strength. We might be improved the quality of our ANDAs, but we definitely want to stay in the game. In terms of R&D spend, actually when we are flashing R&D budgets and I have the R&D plan for the next five years, we are not planning as a percentage of sales, I am planning in terms of absolute spend and projects and things like that. The percentage of sales really literally comes out when you are actually doing at the end of the process, right, then you are pulling together the P&L of the company, of the budget or we are running a reported quarterly sales, how much have we spent in R&D. So that is why it is a little challenging, but what I would guide to you is the current level of R&D spend is adequate for the company to carry its burden in the next few years. So between Rs.400-450 crores is a very sizeable amount of money and to get productivity out of that, amount of resources is important. Now Mr. Gulati pulls on Unichem, then obviously the percentages will change, but that will be a consequence, and that is not a driving factor.

**Aditya Khemka:** Okay, I get that. On the European business, I understand our business in Germany, understand the lucrateness of the business given the capital situation. There are speculations of European business being on the block and several companies looking at it. My question to you is at whatever price that seller is willing to sell the business, what is the ROI or ROE that a potential buyer could actually make on that business – can we have any clue on such numbers as to what rate of interest if such acquisition present to the potential buyer?

**Sanjay Gupta:** We do not even discuss the rate of return on our own business, How can we comment on other business .

**Aditya Khemka:** Lastly on Unichem acquisition, the integration perspective. There is a huge prescriber base overlap as I heard Mr. Gulati said. So does that also imply that just make good common sense to sort of take the natural attrition take its course and not replaced the MR just the least?

**Dhruv Gulati:** As you know that there was a very high attrition in Unichem and we have taken this Unichem portfolio on 14<sup>th</sup> December and let me share, the attrition in the month of January has become just half and as I have been emphasizing that when you are in a specialty business, the face of the person who is there in the marketplace is very important, the continuity of the person is very important. I think what we did as I told you that from 17 to 27<sup>th</sup> December we met all their field staff, we talked to them and we shared our value system and the way we are going to do business, the business model what we will have. I think they have taken that in the right spirit and they have understood that how we are going to work, what will be the business model. This reduction in attrition is I think is because of that. So people have understood as how we are going to do business and they have accepted and they are confident that they can do better with us. That is what I feel.

- Aditya Khemka:** On the debt levels, right, so 5800 crores of gross debt and 1800 crores of cash with net debt of about 4000 crores, so I understand you like to have some cash on the balance sheet for being opportunities when opportunities present themselves. So what is the threshold beyond which you would look to repay debt – is that threshold like Rs.1800 crores of cash, is it Rs.2000 crores, is it Rs.1500 crores, what is the number with which you are comfortable and beyond which if you generate more cash flow you would be better at?
- Sudhir Menon:** The business is growing, right. I think in the earlier call also, it was explained that there is a liquidity policy which the company has and there are certain bolt-on opportunities which keep on coming, for which this cash is very handy at that point in time. But having said that, at some point in time, if we see that the cash which is lying with us is more than a certain threshold , we will of course use it for repaying.
- Moderator:** Thank you. We will take the next question from the line of Karthik Mehta from Deutsche Bank. Please go ahead.
- Karthik Mehta:** On the tax rate, how do you budget on that? Is there any additional CAPEX required after the acquisition of Unichem asset in terms of manufacturing, I know it is only an India asset, could you help me with these questions?
- Sudhir Menon:** Answering your question on the second piece which is CAPEX, I would say for the next couple of years we do not see major CAPEX happening from capacity requirement perspective. This piece of Unichem manufacturing facility at Sikkim which has come, It is in a good shape and there is no incremental CAPEX which actually would get into this facility, On your question on the tax, so there are two important pieces as far as Torrent is concerned -- So one is of course the deferred tax liability which is getting created because of the timing difference on the intangibles, right. So it would continue for some more quarters and should even out thereafter, when the amortization numbers and what you typically get under the tax starts matching & then you start seeing a reversal of the deferred tax liability happening. The second piece is a one-time which is the reversal of the deferred tax asset which was created in the US at a higher rate and since the rate has come down and this factor remains I think common for all the companies which have businesses in US. So that would be a one-time impact for this year. So only the high impact which you would see is the deferred tax liability on the intangibles of Unichem.
- Karthik Mehta:** Would it be fair to assume 25% tax rate for the overall business?
- Sudhir Menon:** That should be around that number, but as such it will be a function of the profits of each year because you take out an effective tax rate and see how it has to be applied.
- Moderator:** Thank you. We will take the next question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** I just missed the clarity on the gross margins which you said, it has moved on almost 200 bps on QoQ. So could you please run me through that again? On the R&D front, what should be

pencilled for FY'19 considering that even Unichem is also going to be added because 8% was what we are looking at earlier?

**Sudhir Menon:** On the margin what I explained typically was in this quarter there is a swing towards branded business by almost 10% and that typically improve the margin to that extent which is almost 50% of what improvements be there. As far as the balance is concerned, we said the last quarter there is some provisioning made in terms of slow moving inventory which is not there this quarter. On the R&D front, the thing which we have been talking about is it will be in the range of 6-8% and as Sanjay explained that percentage is a consequence of what you are getting in the top line. So whether it will be 8% or lower than that, is something which cannot be judged at this point in time but as we said the absolute value of R&D is more or less fixed for the next five years. So I think we should be between these ranges going forward.

**Sanjay Gupta:** The only caveat, Sudhir, which I would add to it is that we are continuously evaluating new R&D projects. So right now I have visibility that we should be in this ballpark but opportunities do come up in terms of partnership, external collaborations, and it might vary as we go along. But this is the amount we are comfortable because it is not being about the money, it is about the infrastructure behind the money also, right, how many people you have, what kind of facility, equipment you have, so all of that is designed for this level of operations and unless we decide to go in for a major expansion the system has its limits.

**Rahul Sharma:** Another question just probably missed out on the deferred tax liability on Unichem, which you mentioned just earlier, so that will be a recurring thing going ahead?

**Sudhir Menon:** It will start reversing, Rahul. So there is an initial impact which comes and sits and then as you go to the subsequent years it will start reversing to certain extent.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

**Sanjay Gupta:** Sure, thanks very much for participating in today's call. If there are any further questions, our investor relations group will be there to answer. Bye-bye.

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