"Torrent Pharmaceuticals Limited's Q1 FY'23 Earnings Conference Call"

July 29, 2022

MANAGEMENT: MR. AMAN MEHTA – EXECUTIVE DIRECTOR & CHIEF MARKETING OFFICER, INDIA BUSINESS, TORRENT PHARMACEUTICALS LIMITED

MR. SANJAY GUPTA – EXECUTIVE DIRECTOR (INTERNATIONAL BUSINESS), TORRENT PHARMACEUTICALS LIMITED

MR. SUDHIR MENON – EXECUTIVE DIRECTOR (FINANCE) & CHIEF FINANCIAL OFFICER, TORRENT PHARMACEUTICALS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q1 FY'23 Earnings Conference Call. We have with us today, Mr. Aman Mehta – Executive Director and Chief Marketing Officer, India business; Mr. Sanjay Gupta – Executive Director, International business; Mr. Sudhir Menon – Executive Director, (Finance) and Chief Financial Officer. 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. Sudhir Menon. Thank you. And over to you, sir.

Sudhir Menon: Yes, thank you, Faizal. Good evening and welcome everyone to Q1 FY'23 Earnings Call. Q1 continued to witness strong growth momentum in the branded generic markets, led by robust India performance. The branded generic markets constituted 70% of our total revenue and on an overall basis grew by 15% on YoY basis, aided by market share gain, performance of top brands and new launches. Sequentially, there is an improvement in EBITDA margin, mainly led by the cost initiatives, which we had guided earlier in the previous quarter.

In terms of the financial performance during the quarter, revenues were Rs.2,347 crores, up by 10% on a YoY basis. Gross margins at 71.9%, improved by 1.1% on a sequential basis. EBITDA was Rs.742 crores, up by 3% on a YoY basis and up by 21% on a sequential basis. EBITDA margins at 31.6%, improved by 2.9% on sequential basis. The other operating income includes a one-off of Rs.38 crores towards a settlement income in the US. Adjusted for this, the EBITDA is Rs.704 crores and the EBITDA margin is 30.5%.

Now, I request Aman to take us through the India performance.

Aman Mehta: Thanks, Sudhir. India revenues at Rs.1,245 crores, grew by 14%. As per AIOCD data, Torrent's Q1 FY'23 growth was 17% versus the IPM growth of 2%. Growth was aided by new launch momentum, robust performance of top brands and market share gains across our focus therapies.

During the quarter, Torrent added 300 MRs, bringing the total field force strength to 4,200. At the end of the quarter, Torrent has 18 brands in the top-500 of the IPM, with 11 brands more than Rs.100 crores sales.

I'll now hand over to Mr. Sanjay Gupta for the international business.

Sanjay Gupta: Thanks, Aman. Let's start with Brazil, our largest branded generics market outside of India. So, Brazil revenue was at Rs.184 crores, up by 20%. Constant currency revenue for Brazilian Real was 170 million up by 8%. Adjusted for the discontinued tender business in the previous year, the growth rate is 10%.

Our generic business in Brazil now accounts for 12% of our overall Brazilian sales and growing at a fast pace.

For a branded generic business, Q1 growth came primarily from a new product launches, as well as strong price increases from April onwards. IQVIA June data is indicating that Torrent's Q1 growth rate is 13% which is in line with the overall BGx market growth.

With the market growth of high single digit to double digit, we expect Brazil to continue its growth momentum backed by performance of top brand, new launches and a new second field force in the CNS therapeutic area.

Going on to Germany, Germany revenues were Rs.214 crores, were down by 18%. Constant currency revenue were €26 million. Growth was adversely impacted due to the loss of high value tenders that started in February of 2022. The German generics market has become a lot more competitive due to entrance of new players.

Future growth for Torrent will come from new tender wins and new launches. We have incremental tender wins on hand which will start adding sales progressively from Q3 onwards.

We have launched four products in Q1, of which one them was the day one launch and we will be further launching four products in Q2, of which we expect three of them to be day one launches. We are also taking measures to become more cost competitive to be more successful in future tenders.

Lastly, for the US, US revenues were at Rs.299 crores, were up by 13%. Constant currency revenue was at $39 million, up by 7%.

Revenue was as indicated by Sudhir, positively impacted by the settlement amount received from an innovator. This was complemented by the strong performance that we are seeing from Dapsone, our anti-acne medicine. We continue to await the US FDA's reinspection of our facilities.

To conclude, our BGx market, particularly the two largest ones, India and Brazil, remain on a strong footing, and we expect the strong growth momentum to continue. We are optimistic that the initiatives undertaken should progressively revive growth in Germany from Q3 onwards.

Faizal, we can open the call to questions now.

Moderator: We will now begin the question-and-answer session. First question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir, just on Germany market, while recently there has been certain media news flow about shortage of medicines in that country, so is this kind of a temporary shortage or you think that there's a good opportunity out here?

Sanjay Gupta: Honestly, we have not seen any impact of any shortages in Germany. So, from our side, we've been adequately supplied and we've not experienced a one-time bump in sales. On the contrary, we've seen the German government reduce reference prices. As you know, in Germany, a good chunk of our business is not tender sales of pharmaceuticals and the German government's new reduction in reference prices had a negative impact on non-tender sales. So, that is what we are seeing.

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

Prakash Agarwal: The first question is on this clarification, this Rs.38 crores settlement income, where is this sitting, is it other operating income? and what is this related to?

Sudhir Menon: Yes, it is other operating income, Prakash. So, it basically is related to some patent settlement, which we've done with one of the innovators. So, that income is sitting in other operating income.

Prakash Agarwal: But this is non-recurring, right?

Sudhir Menon: Yes, Non-recurring

Prakash Agarwal: Just trying to understand this R&D that we are doing every quarter, every year and I understand a large part of it is for the US. So, what is the filing run rate here from these existing plants or you are already doing some sites visit, if you could update on the R&D utilization, as you know, these two plants are stuck without any much from the US. So, correct our understanding and more color would be appreciated.

Sanjay Gupta: So, in a normal year, we file about 10 to 13 ANDAs. Last year, our filing rate was just five. So, this year we expect the rate to pick up. And given what is happening with the inspections, we have started filing some products from alternate sites. But the impact will be down the road, not right now, because these filings will be get reviewed and then whenever we're supposed to launch them. So, I would say that we've taken steps for future filings, but the past filings are from the facilities at Indrad and Dahej.

Prakash Agarwal: Is there any update in terms of US FDA inspection?

Sanjay Gupta: Unfortunately no. So, honestly, we have not heard anything.

Prakash Agarwal: Fiscal '23 onwards, you are expecting double digit filing again or similar to FY22?

Sanjay Gupta: Either double digit or close to double digit.

Prakash Agarwal: Lastly, what is our current capacity utilization? As I understand, US capacity utilization from these two facilities will be low. So, what are our capacity utilization and asset turns and how do you anticipate that to improve?

Sudhir Menon: All the facilities put together we should be around 54%, Prakash.

Prakash Agarwal: Is there an expectation of US FDA resolution by end of this year, any broad plans or thoughts you have?

Sudhir Menon: Probably, internal understanding which we are carrying is that it should happen over the next three to four months, but can't say for sure. That's the minimum expectation, I think internally we are guessing

Sanjay Gupta: Prakash, as you probably have seen, and we are seeing also the pace of inspections since September 2021 has been quite robust. So, we kind of keep track of how many and how much they are doing. So, since the pace has picked up, our expectations also risen as to that they would be here sooner rather than later, but we have no direct indicator to share.

Prakash Agarwal: Lastly, in terms of the breakup of the India growth, a very strong growth in India, volume of late was very low, but I think June, for you, I think April-May is also rebounded. So, what is the broad breakup here for volume and price for you?

Aman Mehta: So, our AIOCD growth reflection is 17%, breakup is volume at 5%, price at 9% and new products at 3%, but the price reflection is a bit of an over-reflection because of product mix change from last year, so there's a bit of a base effect. So, maybe it would be close to 8%. So, that's where there's also a bit of a gap between the AIOCD reflection and the internal growth.

Moderator: The next question is from the line of Dheeresh Pathak from White Oak Capital. Please go ahead.

Dheeresh Pathak: For the Brazil business, 12% is generic, there is new tender now and balance is branded generic. Is that the correct understanding?

Sanjay Gupta: Yes, that's correct about 88% is branded generics and 12% is generic.

Dheeresh Pathak: Can you share something like what are the share of top brands like you give, for India 11 brands and more than 100 crores, so can you share something on Brazil like the skewness towards the top brands?

Sanjay Gupta: Firstly, it's a very specialty business. We do only CNS, diabetic and cardio brands. So, about 83% of our prescriptions are generated from specialists. And how we look at it as brands above BRL20 million. So, roughly close to $4 million. So, I would say, 88% of our business is coming from brands above BRL20 million and the number of brands that we have over BRL20 million is 10.

Dheeresh Pathak: In Germany, what is the tender cycle? What do you mean by being more cost competitive because the manufacturing would be done in India.

Sanjay Gupta: So, for the tender market in Germany, let's say, there are 10 insurance state owned or private, which issue tenders. And the duration of a tender is two years. But each large insurance company will issue tenders three or four times a year for different sets of products. So, it's a perpetual activity. Like the largest insurance company is AOK, that might issue four tenders in the year. And each tender will have a set of products. But also they will divide Germany into 25 sectors. And you can choose which product and which sectors you want to bid for.

Dheeresh Pathak: What do you mean by being more cost competitive?

Sanjay Gupta: So, in the generic-generic markets of Germany and the US, one key, I would say, feature to be successful is continuous cost improvement and cost reduction. So, you have to keep working on improving your costs because the competition is increasing and everybody's doing the same thing. So, that's what I mean. So, essentially, there are ways in pharmaceuticals to improve costs, which either come from buying a cheaper API, developing a better route of synthesis or increasing your batch size in your plants, or finding shorter manufacturing cycles or doing something where you minimize change over timing. So, there are various ways and it's a continuous process. So, for Germany, we need to accelerate this cost improvement process so that we can be more competitive in this market where there are more players than ever before.

Dheeresh Pathak: So, what I meant was the competitive positioning is deteriorated for us because somebody else with better cost structure more vertically integrated is beating us or the margins in general because the market is more competitive, you might win more tenders, but your margins will be lower versus what they were in the past. So, what is the case?

Sanjay Gupta: So, your second statement is correct, because any market which has more players, there is obviously higher competition on price which leads to some kind of margin compression.

Dheeresh Pathak: This Rs.38 crores settlement income, is this part of the US revenue?

Sanjay Gupta: Correct.

Moderator: The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My first question is, what are your observation on some of the macro headwinds which is impacting the sector such as like raw material prices, freight costs, etc., So, any moderation from last quarter number… any update from your perspective?

Sudhir Menon: Damayanti, I think you are asking on general cost inflation seen on raw material prices?

Damayanti Kerai: Yes, broad basis.

Sudhir Menon: So, we are not seeing higher cost inflation impact quarter-on-quarter. So, there has been an in fact general increase we are seeing across the raw material prices, but not very significant, I would say.

Damayanti Kerai: From your portfolio or from market perspective, quarter-on-quarter there has been no notable changes?

Sudhir Menon: Correct.

Damayanti Kerai: What will be key margin driver from current levels because you have already I guess reverted back to the normal levels after disruption in the previous quarter?

Sudhir Menon: It's a difficult question actually, because I think all the levers are more or less there, right, from April, that's what we had guided. I think from here, what can really happen, Damayanti is that the top line growth is better than Q1 that could enable some operating leverage benefit to play out. That's one. And then some amount of cost efficiency which is continuously happening. But that won't be significant I would say.

Damayanti Kerai: It's mostly the top line growth, which will be driving?

Sudhir Menon: Absolutely and some amount of cost efficiency may come in quarter-on-quarter, which may not be that significant.

Damayanti Kerai: My second question is on Brazil market. So, can you update us on your new launches? And MR addition plans there? And how should we look at growth perspective in the Brazilian segment?

Sanjay Gupta: So, in the last six months, we've launched five products in Brazil. And that is a result of the large number of filings and approvals that we've been able to get in Brazil. So, just to give you a background, last year, we got eight approvals and in this year already we've received two approvals in Brazil. So, currently, we have about 11 products, which are under approval. And we will be making a double-digit number of filings in the current fiscal year in Brazil. So, all of that results in a good new product momentum. And we've launched five products in the last six months. Just to share with you, two of them are in very fairly large market. So, one is Rivaroxaban, which is about $150 million market, but the level of competition is quite high. We have 11 branded generic players that we are competing with. So, we'll see how that goes. And secondly, we launched in CNS, a very large product called, Desvenlafaxine. Again, the number of players is 11, which is a fairly large number going by historical trends, but given our past track record in these areas, I would not be pessimistic. So, we generally target our market share in branded generics close to double-digits at the end of the 12-months period. It's a kind of a generic statement I am making. As the quarters go by, we will communicate on market share as to how they're progressing. Right now, it's too early. So, most of the new launches have been between November and April and our market shares are less than 5%. So, it's kind of too early to comment, but we'll see how it goes from there.

Damayanti Kerai: In new launches, which you have done in last six months, you said market share is currently around 5% or lesser and here you expect pickup to happen in coming quarters. But in the established product, market share is in the double digits?

Sanjay Gupta: In the core products, like the products where we are, our market shares are actually pretty, I mean, we have to look at product-by-product. But the minimum threshold to be a lead build brand in our company is at least 15% market share. And so we have that threshold in quite a few products. And I was mentioning that earlier in the call that one way we measure products is how many of them do more than BRL20 million, which is close to $4 million of revenue in a year. And now we have a very large number of our brands close to 10.

Damayanti Kerai: In terms of growth, any indication?

Sanjay Gupta: I think the IMS reflects fairly well the growth of Torrent., It's a little hard if you look at primary sales quarter-on-quarter because the stocking, destocking impacted. But like I mentioned, IMS is showing a 13% growth for Torrent branded generic business which is I would say a reasonable expectation you can have.

Moderator: The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Just continuing on Brazil, in the branded market, you're focusing on the specialty of CNS, diabetes, cardio. So, how large is this market and how are you positioned in this market, and how much of the market you currently cover?

Sanjay Gupta: So, our coverage in this market is currently around 22%- 23% and we are aiming to double it in the next three years. That's where we are targeting and that's where the new launches come in. So, we are playing in a narrow space in this market. But we are playing in, let's say, more recent products and we have a good track record of doctor relationships in prescriptions here. So, I'm sorry, you said something else you wanted to know.

Saion Mukherjee: Sanjay, what's the size of the market, I mean, these three therapy segments, and what would be your position in the market in the branded generics in these three segments, like what would be your rank in the market?

Sanjay Gupta: So, if I take the, overall therapeutic area of cardio, diabetes and CNS, I would say the overall market size… I don't have the figure with me, so we will revert to you. The overall branded generic market is roughly $20 billion. And a good portion of it, I just don't have the data in front of me. This covered market is growing currently at about 5% and Torrent's growth in this area is about 13.7% in the last quarter. So, we're growing pretty fast. Give me a few minutes, I'll come back later in the call about what is the exact size of these areas.

Saion Mukherjee: And would you know the rank like who would be the top 10 players or what would be your rank based on these areas?

Sanjay Gupta: So, currently our rank in the therapeutic area of cardio, diabetes and CNS is 10. Our overall rank in Brazil is 20.

Saion Mukherjee: Sudhir, on this Rs.38 crores of other operating income that you mentioned about settlement, can you give some color because typically we don't see this kind of, is it like some kind of payment you received or some kind of a litigation, if you can give some color?

Sudhir Menon: These are not litigation related settlement income, because basically one of the patent assignment which we had done earlier somewhere in 2010-2011, so there were certain milestones which were defined based on certain event and that event happened and therefore the milestone got triggered.

Saion Mukherjee: Aman, there's been this news of Torrent group entering into the diagnostic space. We have seen other pharma companies getting there, leveraging their pharmaceutical franchise. So, why it's not being done through the domestic formulations business, if you see synergies for a diagnostic role out there?

Aman Mehta: Firstly, as you said, you're right, that this is a group level venture and not a Torrent Pharma venture. And the kind of overall skill set required for this business, only a small part of it has to do with the field force and existing customer relations. A large part of the activity is operations and back end, processing, which requires a whole different kind of team and investment mindset. So, that's why we haven't really considered having it part of the pharma company.

Saion Mukherjee: But at a later stage, do you think it will make sense to integrate because you already have a large presence on the pharma side and you have the doctor connect?

Aman Mehta: No, that's not the plan as of now.

Sanjay Gupta: So, just to complete what I was saying earlier, the size of the CNS market is BRL8 billion, diabetes is about BRL8billion and cardio is also between BRL7billion and BRL8billion

Moderator: The next question is from the line of Kartik Mehta from ICICI Securities. Please go ahead.

Kartik Mehta: I'm from Klay Capital. This is Kartik here. This is on India business. This is a slightly longer-term question. You acquired a few products from a pharma company in India very recently. So, if we have to look at it from your perspective for India business, two, three years and beyond, do you feel that there are so lesser opportunities of larger size or due to issues of let's say valuation or product mix, etc., wherein which you have to acquire smaller businesses and must scale them up?

Aman Mehta: So, inorganic remains the kind of core focus for us as we go along now that we've successfully integrated the Unichem acquisition and have also taken over four of the from Dr. Reddy's in the previous quarter. So, it's not about size, it's really about the strategic fit, and any kind of small to mid-size or mid-size acquisition is something that will be open for in the next couple of years.

Kartik Mehta: Yes, so which I understand, yes, all the assets that you acquired in the past been very well integrated. We're not talking about the ability to do that again. With the India business topline that you have now, acquiring smaller assets will take a fair amount of time, effort from the top management and there will be a lot of investments required on the ground. In the past when you have acquired inefficient businesses or businesses which had lower investment from erstwhile owners, where you were able to turn around. So, we're talking about the different thing here. If you do this, is it fair to assume that you will acquire a lot of these assets and in the interim, your profitability, I mean, you will be acquiring it and you will be building it at your cost, but the ROI, ROE, whichever matrix you use, will take some amount of time for us to see?

Sudhir Menon: Kartik, if these are brands which are being acquired and goes and sits in existing division, then I think the return profile would be much better, right, I mean, because we are taking some brands and gross margin is driving your overall profitability, right. So, that's something which plays out and same thing is happening as far as those DRL brands are concerned, where it's the new division, it goes and sits in some existing division. So, that way these kinds of acquisition which fills up the product portfolio gaps and certain things which we are looking at in terms of smaller therapies we want to enter, so on and so forth, this should be bottom line positive, Kartik.

Kartik Mehta: Which I understand. So, again, just to repeat my question in case I was not clear. Is this something we are looking at, because the larger or the more attractive assets are still not available at the right value or probably here you see some amount of opportunity?

Aman Mehta: It's too speculative and difficult to comment on. But at least the only kind of guidance we can give on this point is that an acquisition size, something that was of the size of Unichem relative to a market share four years ago. Opportunities of that scale, if they come up, we will certainly be evaluating them.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Sudhir, you mentioned that the US plants are currently operating at 54% capacity utilization. So, can you give us a sense of maybe if there is any element of under-recovery in these plants at this point of time?

Sudhir Menon: So, just a correction to be made; I said all the facilities in India put together the capacity utilization at 54%. So, it's not only for the US facilities, which we are talking about, right. What we try and do, Nitin, is on a continuous basis, we evaluate and try and trim the capacities which are there so that wherever possible, wherever there are pockets of cost optimization, we keep on doing that. So, for me to say they're still under-absorbed overhead, which are still there in the P&L, maybe no at this point in time after we've done all those things, starting Q4 of last year.

Nitin Agarwal: And so from increasing the capacity utilization, the drivers would be what, US and the German business or any other businesses also can meaningfully impact this?

Sudhir Menon: Absolutely. I'm with you on that. The volumes can come only from the generic side, which is Germany and US.

Nitin Agarwal: And secondly, Aman, on the India business outlook, can you give us some sense of your new product launch plans for the year?

Aman Mehta: So, Q1 new products have contributed 3% growth overall. Some of the bigger contributors here have been from the CNS and gastro brands, which were launched in probably the latter half of the last year or January this year. Going ahead, of course, there's the wave of launches, one of them has already happened in first week of July, Sitagliptin. There is a few more cardiac launches coming up in the second and third quarters. And additionally, we have some product extensions coming up for the rest of the year. So, about seven to eight products per quarter is what we're looking at in India.

Nitin Agarwal: On the Sitagliptin market, I mean, in your assessment, how has that played out, and does it give us a sense of how some of these incremental oral diabetic patent expiration is going to play out?

Aman Mehta: So, obviously, this is a competitive market. So, it's hard to say how quickly the share is shifting to the new launched brands. But our recent launches in diabetes have been fairly positive indicators of our performance, Vildagliptin to name one example. So, we hope that at least our market share should be somewhat in the range of those recent diabetes launches, and similar for cardiac going ahead.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just the first one on the medical representatives. I think we have added 300 for the quarter, last quarter, we added 300, it was 600. So, are we done in terms of the MR additions, I remember you said is for the new launches that are coming in the pipeline, so are we right-sized if I can use the word? And if you can talk about how some of these MRs at least the previous quarter months, how are they integrating?

Aman Mehta: Yes, so the integration has been completed now. 600 reps in the last two quarters, and our new divisions are all in place and the new products have also been launched in these divisions. So, early to say right now, but in terms of the launch plan, and MR integration plan, things are on track. Going ahead from here, it'll only be incremental expansion that we see for the rest of the year, if at all needed, which we'll be reviewing probably every quarter or so, but that would be small numbers compared to what we've done so far.

Shyam Srinivasan: In terms of the cost of the MRs, when I look at 1Q do you think most of those expenses, or that is like maybe they got added later half of the quarter, how should we think of the cost bit of it?

Sudhir Menon: I think substantially in the quarter.

Shyam Srinivasan: Just going back to your previous quarter guidance of the 300 basis points of margin expansion from 26, I am just trying to see what has played through and what has not? I remember, we had the 150 basis points that was coming from the Levittown shutdown, right, the fixed cost there, we also have higher MRs, we have had this 5 million payment that has come through. So, if you could kind of help us understand how much of that organic has come through, Sudhir and maybe what is pending or we think the 30.5 is the level that we need to kind of keep in mind.?

Sudhir Menon: No-no, Shyam, all those factors which have been talked about, which is what the price increase benefit, starting from April for the branded businesses, that started playing out. The other what we have said is, we had carried out a cost optimization at our plants in India, t maximizing at one side and bringing down the shift working on the other side, that's implemented, so that's playing out. The Levittown cash burn out, which was there, has already started coming into the margins. I would say largely everything playing together except for the freight expenses, where the impact in Q3 and Q4 was also around 1% - 1.2%, there's some amount of recovery, which is seen in Q1. But still, there's a good amount of room to improve on that.

Shyam Srinivasan: So, there is still upside you are saying, I think just from that particular last bit that you just called out?

Sudhir Menon: Yes, but Shyam, I would still wait for that to happen before we really start talking about it, but yes, we've seen a small recovery happening in the freight expenses.

Shyam Srinivasan: Just going back to the German tenders, you done again some kind of restructuring, you looked at cost options. So, what gives us the confidence that from Q3, I think you've got everything right. And also, can you comment on the competitors, are these like large Indian manufacturers that you're competing against, so what gives us the right to win against them now versus say non-Indian manufacturers?

Sanjay Gupta: No, I won't say that everything is behind us. Cost optimization is a permanent exercise. Maybe we are falling a little bit behind. But what I was telling is that we would be caught up on a set of products, where we expect to win the tenders. In terms of competitors in Germany, the biggest competitors are the large local companies, so Sandoz through Hexal, Teva, who is German affiliate and Zentiva. Those are the three big I would say gorillas in the German market. What we are seeing is the influx of players from India. So, legacy players are Aurobindo and Dr. Reddy's from the acquisitions that they made in the European space, and then you have a newer crop of companies who are coming. But so far, I would say, the highest market share that I've seen in Indian companies achieve close to 3%. Torrent's reference market share has been usually between 6% and 7% and the larger key players have a market share in Germany is closer to 10% to 12%. Torrent is ranked #5 in Germany with a 6% to 7% market share. So, we have won a few tenders whose impact will start to come in October onwards. So, that was the guidance I was giving, because these tenders get renewed every two years. So, in the last round for these particular tenders, we had incremental wins as compared to what was the run rate in the past. And this incremental wins would start to show in our numbers from Q3 onwards.

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

Prakash Agarwal: Just a couple of clarifications. So, the US business QoQ has actually come down, right, if we remove that Rs.38 crores, which is about $6 million - $7 million, so it would have come down a bit versus the last quarter?

Sanjay Gupta: Correct.

Prakash Agarwal: So, the Dapsone is coming down. So, the base business would be what, $30 billion to $32 billion?

Sanjay Gupta: I would not say that, I would say that the business has come down a little bit to a large extent from price erosion and compensated handsomely by Dapsone.

Prakash Agarwal: And moving into margin levers, if we exclude that Rs.38 crores, again, it's 29.2, just 300 basis points improvement, and we are there, but in the past, we were at 31% also. So, a little bit on the freight, but operating leverage is something which can clearly kick in. So, what is the time period you're talking about moving to 30% first and then 31% have seen in the past?

Sudhir Menon: Prakash, I would be able to respond to that question maybe one quarter down the line.

Prakash Agarwal: And lastly, on the M&A side, in the past, you've talked about net debt-to-EBITDA around one, you usually get comfortable looking at assets, you've done smaller deals. How's the environment or the M&A side or are the assets available, the stretch, That's why you are waiting and seeing for the right opportunity or you already have a few assets which you're looking at?

Sudhir Menon: No, I think, Prakash, as far as the leverage is concerned, I think on 30th June we should be around 1.2x, right. And that gives us enough room from a balance sheet perspective to look at good assets. So, all the assets which are there in the market, we do have a look at those assets, no doubt about it. But if something is going to play out, only time can tell us that.

Prakash Agarwal: Lastly, for Aman, Vilda is fairly successful in the top three, top five generic players in that molecule. How is Sita, is the market competition playing out, is it more competitive or is it similar to Vilda, and you expect some cannibalization in Vilda as well?

Aman Mehta: So, it's very early days, only 20 days since launch. So, let's wait for the AIOCD data to be out in August. But at first glance, it does seem that it's probably a bit more competitive than the Vilda launch. So, probably better to see how our performance has been in the end of the July data set.

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

Anubhav Agarwal: A question on the Brazil market. When we see this quarter, let's say, excluding the tender business, we have grown about 10%. Would you just break it up between volume and price?

Sanjay Gupta: So, essentially in April of this year, the government as usual announced the price increases. So, this year, we had inflation adjusted price increase. The pharmaceutical market is divided into three categories in terms of the level of competition that exists in Brazil. For the first time, we saw the price increases allotted by the government was 10.83% for all the three categories. So, there is a strong recognition on part of the authorities about the inflation component in our business and it was reflected in the price increase that was granted. So, price is playing an important factor in our business in Brazil. And then the second component which has played out for us is the new product launches. And volume in this particular quarter, I would say, is not growing much. And the reason for that is usually when we look at sales in Q1 get impacted, particularly in April from the high stocking the wholesalers do in anticipation of price increases. So, the business model of wholesalers is usually takes into account this type of a trading profit and they try to buy as much as they can in March so that they can take the price increase on the inventory. And we control that. But to some extent, it's part of the partnership that we have with wholesalers as to react to let them buy some more in March and agree to sell less in April. So, far in Q1, we also don't see the full benefit of the price increase that we've taken on the majority of our portfolio. So, as we go forward, you will see the growth trend in volume and new products normalize, come to reflect more closely what you've seen in IMS. So, that's why I think it's hard to judge one quarter's performance based on primary sales in Brazil. It's better to use secondary sales for general evaluation of the trend of business.

Anubhav Agarwal: So, Sanjay, for the rest of the year, what kind of price increase at a portfolio level you have taken? You are talking about close to 10% or close to 5%, 6%.

Sanjay Gupta: So, I would say that, generally, it's similar to in India, in the sense that what you do is, you evaluate the competitive scenario for each molecule. So, I give you an example. So, we launched Rivaroxaban, right, which is a big market, it used to be BRL800 billion. But what happened is that we saw the new competitors come in, until they reach 11 in terms of branded generic, and the competitors would have their own pricing strategy. So, we have to remain cognizant of it while we're doing pricing actions. So, we don't necessarily take the price increase allotted by the government on all our products. Generally, our price increase across the portfolio will be between 5% to 10%.

Anubhav Agarwal: And in the past, with the new product momentum, volume growth, you will expect to be high single digit to double digit here?

Sanjay Gupta: In terms of overall growth?

Anubhav Agarwal: For the full year, just a volume growth.

Sanjay Gupta: No, I would not give you guidance on volume and the split, but our volume growth would be in line with the market or greater than the market and overall our growth would be in the double digit figure.

Anubhav Agarwal: You mentioned about doubling your coverage in next two, three years. So, are you thinking of going beyond these three areas you present in right now; cardiac, CNS, and diabetes to introduce some more therapies or only within these three areas you want to double the coverage?

Sanjay Gupta: Actually, I'm following Aman's footsteps. So, essentially, what we will do is, we will expand our coverage over a period of time. So, I'll give you an example. We set up a brand new oncology facility in India. So, ideally, I would like to leverage this facility for our business in Brazil also. So, it's a progressive journey, but we would be expanding, but remaining very close to specialty therapeutic areas, which require a letter of footfall, but it also allows us to expand in institutional business.

Anubhav Agarwal: But largely, it looks like from the current areas, what's your MR field force in Brazil right now?

Sanjay Gupta: Right now, we have two teams. Size of a team is generally between 110 - 120 people. So, over a period of time, without going into specifics, we will need to add additional field forces in Brazil, but we do it in a conservative way, so we will do partial increases and get some results and then expand into other parts of the country. So, I would say in our three to five year objective would be to have full double teams in CNS and cardio.

Anubhav Agarwal: Just a last question on the India business, Aman. The 600 people you added, you started a new division. How many divisions you put in place here, and are they largely promoting new products or a combination, there will be some mix, but largely new products or largely existing products?

Aman Mehta: You mean, how many new divisions?

Anubhav Agarwal: Yes.

Aman Mehta: Two new divisions and it's a mix of both. We have shifted some of our existing brands into the new divisions as well. So, it's kind of spread across existing plus new divisions.

Anubhav Agarwal: And these divisions are targeting which therapy areas largely?

Aman Mehta: Across CVD and CNS.

Moderator: The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sudhir, on the PLI scheme, the incentive which starts from FY'23, so how should we think about the incentive, will it be front-loaded, evenly spread over five years, and has that started already kicking in, in the numbers?

Sudhir Menon: Yes, but the number is quite insignificant in Q1. So, as we go quarter-on-quarter, I think the numbers will keep on increasing.

Saion Mukherjee: On an average is around Rs.150 -160 crores, right?

Sudhir Menon: That's the potential, Saion, but we'll have to see how much you're eligible for based on the incremental sales on the approved products which you can get. So, it's just started, it's too early to talk about it. Maybe one or two quarters down the line, we can try and give you a color around it.

Saion Mukherjee: So, first year, it will not be significant?

Sudhir Menon: Very small number, Saion.

Saion Mukherjee: On the trade generics part, so what's the contribution now in the overall numbers for India?

Aman Mehta: The contribution would be around 2.5%, so as the base has gone up for the overall India business, it's around this range of 2.5%, but the trade generics business itself is growing quite substantially. So, we expect that over the next few quarters, it should increase in contribution a little bit more from here.

Saion Mukherjee: Aman, have you shared any number in terms of what is the expectation like where this number would be eventually?

Aman Mehta: No, we haven't shared anything and I believe that it's a bit still premature to say on what kind of ambition we have yet. But as of now, we are quite confident of maintaining this level of contribution and increasing probably incrementally from here.

Moderator: The next question is from the line of Dheeresh Pathak from White Oak Capital. Please go ahead.

Dheeresh Pathak: On other countries, I have an understanding that UK and Philippines are a large part of that. But outside of that, which are the other bigger countries just giving a better understanding of some of those?

Sanjay Gupta: So, of course, in terms of revenue, UK, and Philippines, but also Mexico is on the same type of size. So, you're talking about countries with revenues of flipping pipe a little bigger, but mostly between $10 million to $20 million.

Dheeresh Pathak: So, then there'll be like a long good enough tail of countries because UK, Philippines like Rs.150 crores each and the total size of other countries is close to like Rs.1,000 crores, and Mexico is only I think 70-80 crores. And these will be largely distributed or you have your branded presence in this country?

Sanjay Gupta: We are present outside of our four major geographies is fairly concentrated. So, let's say that in the rest of the world countries, we focus on seven major markets which are all branded generic, and we have boots on the ground. And usually these boots on the ground are either Torrent employees or through distributors. In countries like UK, Mexico, we built up our own subsidiaries, for example, I can share with you, in Mexico, we have close to 50 reps in the CNS space and we're building a specialty company in CNS, which is going quite well, but it is still, let's say, between $10 million to $15 million a year. We are trying to build a future Brazil for Torrent in Mexico, and ballpark Mexican market is 50% of the Brazilian market. So, there's no reason why in a few years' time down the road, we cannot have a $50 million business in Mexico, at least that's the type of ambition that we fixed for ourselves. So, we're working on it behind the scenes. And I think as it grows in visibility, we will communicate more about these markets, but it's a focused effort, it's not a 50-market effort, it's a focused effort in RoW around a few key strategic markets where we are making investments, and the rest of it is just incremental, where we partner or a distributor.

Dheeresh Pathak: So, UK, Philippines, Russia, Mexico, Malaysia, these are the five. Which would be the other two, sorry?

Sanjay Gupta: There used to be Sri Lanka until very recently. So, I won't comment about that. But for us, like Malaysia, Thailand, even Nepal is an important market for us, which we progress in this area, Sri Lanka, and a couple of others.

Dheeresh Pathak: Brazil, like you said, for you it is 12% generic and 88% branded and zero tender. But for the market, let's say your covered market, which is seen as diabetes cardio, what would that mix be, roughly similar or will be more tender and more generic and branded?

Sanjay Gupta: It's kind of a little bit. What happens is that the volume in branded generics and generics are fairly similar. But the values are very different. So, I'll give you an idea about the size of the overall Brazilian market. So, in terms of branded generics, the size of the market is roughly BRL42 billion. So, in terms of the generic market in Brazil, it's about BRL12 billion. But also the marketing structures are very different. So, in branded generics, we have reps and all kinds of marketing expenses. In generics, we have a very small team. So, when you're looking at these businesses, the bottom line might be the same, because you're operating different businesses with different economies and you have to learn to operate them in an efficient way.

Dheeresh Pathak: Size of the tender market or that is included in the generic BRL12 billion that you told?

Sanjay Gupta: So, tender market is a separate market, which is classified under hospitals and tenders. And it's roughly BRL40 billion and the retail market is about BRL90 billion.

Dheeresh Pathak: This is for the overall market, but like your targeted therapies would have a similar mix I'm assuming like or tender would be lesser in that?

Sanjay Gupta: No, the tender is a separate component which I put you in the tender and also market. The tender is for government, hospitals, private hospitals, municipal district level, state government hospitals. So, usually, that is the business -

Dheeresh Pathak: The reason I'm asking is, some years back there was this thing, right, where government had run a program and they were giving certain medicines…I am forgetting the name of the program. What happened to that and has it gained more popularity or something like that or?

Sanjay Gupta: No, that became a victim of government budgetary constraints. So, it still exists. And with their portfolio of products, which are in it are fairly limited, and it is subject to the vagaries of government budget allocation.

Moderator: Ladies and gentleman, that was the last question for today. I now hand the conference over to Mr. Sanjay Gupta for closing comments.

Sanjay Gupta: I just like to close today's conference call by thanking all of you for your interest in Torrent for the insightful questions and we hope to keep the dialogue going and we will be available through our investor relations team. Thank you. Good night.

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