



“Torrent Pharmaceuticals Limited Q1 FY-20 Earnings
Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Torrent Pharmaceuticals Limited Q1 FY 2019-20 Earnings Conference Call.

We have with us today Mr. Aman Mehta – Chief Marketing Officer for India business; Mr. Sanjay Gupta – Executive Director for International Business and Mr. Sudhir Menon – Chief Financial Officer.

The duration of this call is for 60 minutes. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Sanjay Gupta. Thank you and over to you, sir.

Sanjay Gupta: Good evening everyone and welcome to the Q1 FY20 Earnings Call.

I would like to begin by introducing to you Mr. Aman Mehta. He has been with the Torrent Group for a period of close to 5 years and has recently taken over as Chief Marketing Officer for our India business and you will be hearing more from him this quarter and in the quarters going forward.

So, coming back to our results. In Q1, our revenues were Rs. 2,022 crores, up by 8% on a year-over-year basis. Q1 EBITDA was Rs. 558 crores, up by 11% on a year-on-year basis.

Let us look at trends in some of our key markets. India revenue was up at Rs. 907 crores, up by 9% on a year-on-year basis. During the quarter, we discontinued low-value, low-margin products and changed the sales cycle to advance the financial closing process. Adjusted for these two factors, sales growth for Q1 stands at 12.6%.

From the exterior indicator perspective, growth stands at 9.3% for the quarter against an IPM growth of 7.9% for the quarter as per AIOCD. Adjusted for discontinued products growth stands at 10.6% as per AIOCD.

On the productivity front, Q1 productivity has surpassed the 7 lakhs mark and currently stands at 7.2 lakhs compared to 6.2 lakhs for the financial year '18-'19. As per AIOCD, quarterly ranking without bonus units Torrent stands at the sixth position in the Indian pharma market.

During the quarter, we have entered into an in-licensing agreement with Glenmark for Remogliflozin. This drug is from the SGLT2 class, which is an important growth driver in the diabetes market. The SGLT2 market currently in India stands at Rs. 817 crores and has a growth rate of 55%.

On brand building, Torrent's current count of brands more than Rs. 100 crores stand at 9 with the addition this quarter of Veloz as per AIOCD.

In addition, Shelcal has also surpassed Rs. 450 crores mark. In sync with our specialty-driven business model, 72% of our prescriptions are from specialists and on an overall basis Torrent stands at sixth position across specialties as per the prescription dataset from SMSRC.

On the integration front, we have been further able to optimize in Q1 and current field force strength at Torrent stands at 4,200 sales reps.

Moving on to the U.S. Q1 sales are \$51.4 million, up by 6% on a year-on-year basis and flat when compared to Q4 '18-'19. During the quarter, three ANDAs were filed and we expect to file about close to 15 more ANDAs this fiscal year.

At the end of Q1, we currently have 11 tentative approvals and 34 ANDAs pending approval with the FDA.

During last week, our Dahej facility received an OAI classification from the U.S. FDA. While we have fulfilled the commitments provided in our initial response to the FDA, we shall now be engaging with them to know further about their concerns. We are committed to resolving the issues at the earliest.

Needless to mention, it does not disrupt our current revenues and supplies from the Dahej facility. We are yet to listen from the FDA on the Indrad facility classification.

On Brazil, our sales this quarter were BRL 96 million, which were up at 7% on a year-on-year basis. As per secondary sales trends Torrent's MAT May growth is 9.6% versus our current growth of covered market growth of 7.3%. Growth is primarily driven through volumes and full year impact of new launches. Brazil continues to be a fundamental attractive market for us, and we expect to continue the current trend of growing better than the market.

Lastly, on Germany, our sales were €33.2 million, up by 6%. Sales for the quarter were softened due to certain difficulties with serialization and tamper-proof packaging. Going forward, our expectation would be to return to a normal growth rate. In Q1, R&D spend was Rs. 136 crores against Rs. 128 crores in Q1 of last year. Current ratio of R&D to sales stands at 6.7%.

To conclude, India, U.S., Brazil and Germany continues to be the focus markets for us. Our strategic priority continues to be the specialty-driven business, productivity improvement, brand building, maintaining high-quality manufacturing practices and investments into R&D for a robust future pipeline.

We can now open the call for Q&A. Thank you.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session.

The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

- Prakash Agarwal:** Sir, first question on just a clarification on the 12.6% growth you mentioned. So, you explained 9%, 10.6% driven by the low volume. The third piece, I missed, you said, adjusted for what, sorry?
- Sanjay Gupta:** So, if you remember the last quarter we had mentioned that we had advanced sales closing process. So, that impact is another around 2%.
- Prakash Agarwal:** Could you explain what you have really done? I mean, in terms of closing what dates you are using?
- Sudhir Menon:** Well, so Prakash, in order to close the month much faster than what we used to do, so we have preponed it by couple of days. So, what typically happens is the orders which are not serviced during the month gets on to the next month. And quarter 1 typically being the highest among all the quarters there is an impact of 2%, which means that this 2% will get neutralized in quarter 2.
- Prakash Agarwal:** So, net impact is 2% for the change in sorry, adjustment in the policy basically, 2, 3 days whatever it is?
- Sudhir Menon:** That is right.
- Prakash Agarwal:** Okay. And in general, if you were to break the volume and price and new product introduction, how would you break it up? And do you think that there has been a significant impact on volume? And what are the things that we are doing to improve the same?
- Aman Mehta:** As per AIOCD, our volume growth adjusted for discontinued products is 1%, price growth is 8% and 2% is NI.
- Prakash Agarwal:** And would you think this is the new normal or there is a specific thing happening in the industry where volume has come off quite a bit and what are we doing to improve the same?
- Aman Mehta:** So, these last two months, and it is too early to comment on the future quarters. I think, we will probably have to wait another quarter or two to comment, if this is a short-medium term trend, because we are pretty confident that we will maintain this level of growth.
- Prakash Agarwal:** Okay. And second question on the U.S., if you could just help understand. Last quarter, we mentioned that we are temporarily shutting down the Bio-Pharm facility and also there is some discontinuation of Losartan and Losartan HCTZ. So, we still managed to do QoQ flattish. Has Losartan already started? And is it also covered by new launches? Any color would help.
- Sanjay Gupta:** Sure. So, we have started sales of Losartan. So, that is our first point. And second point is that we have actually seen full quarter impact on some launches which were made in the tail end of last year. And thirdly, we also have our usual volume of onetime sales. So, the market is there and there is a lot of disruption in the market where other companies discontinuing products. So, these three factors combined have led to a stability in sales.

- Prakash Agarwal:** And Losartan is as usual as per you? I mean, what you used to do in Q4, would it be similar?
- Sanjay Gupta:** No. We are launching in a very cautious manner. We are not immediately targeting to reach back to the shares and the sales that we had in the previous year. We would build it up as the quarters go along.
- Prakash Agarwal:** So, it is largely the new launches and small onetime sales, which is covered up QoQ?
- Sanjay Gupta:** And Losartan relaunch as well.
- Moderator:** Thank you. Next question is from the line of Neha Manpuria from JPMorgan. Please go ahead.
- Neha Manpuria:** My first question is on Dahej facility. Sir, you mentioned that we have to engage with the FDA to understand what additionally is required. Any timeline that you could mention as to when this could happen? And also, what were the sort of approvals that you were expecting this year from the U.S. which could potentially get impacted?
- Sanjay Gupta:** So, Neha, just to be clear and transparent, we have not received any approvals during quarter 1. We continue to ship the existing products. We are not getting new approvals. So, as we file between 15 to 20 products per year, we expect to receive about close to 15 to 20 approvals per year. So, that is our annual run rate. So, right now, one quarter is gone, so you can include a fair percentage on quarter 1.
- So, those are impacted. And in terms of timeline for getting back to a normal status from the OAI status, currently we cannot give any specific guidance. Our experience from our peers and from the experiences that our colleagues have had in previous life is that it can take anywhere from 6 to 12 months. So, given that there are no data integrity issues and, et cetera, our internal expectations would be it should be on the shorter side.
- Neha Manpuria:** Sir, I mentioned that have you got any communication from the FDA as to when they would probably get back to you on additionally what needs to be done to get a sense of how much more remediation is required?
- Sanjay Gupta:** No, not as yet, Neha. We had just initiated contact. We would get clarity in the coming days. This is very recent, right. We just got the OAI status last week.
- Neha Manpuria:** Understood. And Sudhir, on the gross margins, it seems to have seem a very strong improvement from what we did last year, close to about 72%. Is this number sustainable? And at the same time, we have seen a very sharp increase in both employee cost and other expenses. So, if you could just give some color there?
- Sudhir Menon:** I think, Neha, I have been carrying one version which I said, the normal gross margin should be between 71% and 72%, right?
- Neha Manpuria:** Yes.

- Sudhir Menon:** So, quarter 1, 72% looks sustainable other things being constant, I would say, because if something is happening in some other geographies or depreciation of currencies happening, then probably 72% would not be 72%. But as on date if you ask me whether it is sustainable, it is sustainable.
- And I think the employee cost has not gone up, Neha. I mean, if you look at the quarter 4 number which is 347, is gone up by 9% to 381. So, that is normal increment number which is being looked at, right.
- Neha Manpuria:** And the other expenses that are also up about 11%, 12%? So, there is no one-off in the other expenses number?
- Sudhir Menon:** No, not at all. So, I mean, what I have seen is that when the year changes, the other expenses and employee cost go up by 8% to 10%.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.
- Tushar Manudhane:** Sir, just would like to understand on the quantum of R&D spend on the discovery part for FY '20?
- Sudhir Menon:** So, FY '20, we cannot share the number with you but FY '19, it was roughly Rs. 100 crores.
- Tushar Manudhane:** Rs. 90 crores, Rs. 95 crores. Yes, so will that meaningfully change this year or it is going to be more or less similar number?
- Sudhir Menon:** No, it should be more or less similar number.
- Tushar Manudhane:** Okay. And secondly, just from the investment on the overall oncology, when will we start leveraging? How much more investment is there for the next what period?
- Sudhir Menon:** So, the investment is still going on, Tushar. And hopefully by the year end, we should have the number as to what kind of CAPEX is gone into Onco. So, I think we should wait for couple of quarters more.
- Tushar Manudhane:** So, till date how much has been spent?
- Sudhir Menon:** Yes, I think till date roughly Rs. 180 crores to Rs. 200 crores.
- Moderator:** Thank you very much. The next question is from the line of Anubhav Agarwal from Crédit Suisse. Please go ahead.
- Anubhav Agarwal:** Sudhir, one clarity. You mentioned that this quarter in India was also impacted by preponement of quarter closing that was from March quarter. Was it additionally done this quarter?

- Sudhir Menon:** No, so Anubhav, Q4 is the lowest in terms of India business. And therefore, the impact in Q4 was not that high, and Q1 is always the highest in terms of sales. So, this 2% impact we are talking about has come in quarter 1, quarter 4 was not that high.
- Anubhav Agarwal:** So, you are saying impact, which was 2 days of that quarter 4 sales which normally is low has just gone to quarter 1, that is what you mean to say?
- Sudhir Menon:** So, that has come to quarter 1, and quarter 1 closing will go to quarter 2. So, from quarter 2, it should get neutralized.
- Anubhav Agarwal:** And can you also share the net debt number now?
- Sudhir Menon:** There was a repayment of roughly Rs. 330 crores.
- Anubhav Agarwal:** So, what is the net outstanding net debt for you?
- Sudhir Menon:** So, if you look at financials of '18-'19, I think the total borrowing was around Rs. 6,000 crores. It is come down by about Rs. 333 crores.
- Anubhav Agarwal:** But that will not be all deletion like in fiscal '19 your net debt was about Rs. 4,820 crores?
- Sudhir Menon:** No, I am talking about gross debt. So, the gross debt as at 31st March 2019 was around Rs. 6,000 crores. So, that is gone down by Rs. 333 crores. The cash balances more or less have remained the same at March level.
- Anubhav Agarwal:** Okay. So, but, is there any working capital release because then you seem to have generated a lot of cash in this just 1 quarter?
- Sudhir Menon:** Yes. So, there is an improvement in terms of receivable days and inventory days. So, yes, I mean, there has been some release in terms of working capital.
- Anubhav Agarwal:** And just one comment on the India business. Can you guys talk about the channel destocking right now? I mean, if you divide it into 2 levels, let us say, at the chemist level and at the distributor level, what kind of destocking you are seeing at these two levels?
- Sudhir Menon:** So, I think, Anubhav, as far as we are concerned there is no major change which has happened. So, the kind of inventory which we have in these channels is more or less very comfortable.
- Anubhav Agarwal:** Okay. So, this volume impact for the industry and for you guys is nothing to do with the destocking?
- Aman Mehta:** Yes. At least for us, no.

- Anubhav Agarwal:** One more clarity on this, and that is for the U.S. May be Sanjay can help. When FDA gives OAI to a company, is this very typical for FDA to meet the companies or to entertain all request to get a one-to-one meeting with the FDA, or this is only for some special cases does this happen?
- Sanjay Gupta:** Fortunately, Torrent does not have a lot of experience with OAIs. So, this is one of the I think in 10 years, this probably is the first one that we have received. So, there is very little first-hand experience in our organization. Generally, what I feel is that what I learned from our regulatory colleagues is, once things are clearer, FDA is a little bit more communicative in their initial letter with the status. So, in our case, we have not got that clarity. So, we are reaching out to get that clarity, but I cannot give you the statistical as to what is the norm.
- Anubhav Agarwal:** Is this quite a normal for us year-on-year growth sales growth is about 8%, EBITDA growth is about 8%, 9%? Does this represent more steady state for us? What is missing in this quarter? Maybe U.S. could have been better for us, but India was still good?
- Sudhir Menon** Yes. So, I think the way to look at is the key geographies, right. One is India, which has grown at 9%, but adjusted for the cutoff we are talking about a 11% growth and for the adjusted for the discontinued products base impact is another 2%. So, 13% is real growth as far as India is concerned. While the base impact on the discontinued products would continue up till quarter 3. Quarter 4 onwards, I think, it should get neutralized.
- As far as the cutoff impact is concerned, as I said, it should get neutralized in quarter 2. So, India, we feel, that double-digit should be there for the full year. As far as U.S. is concerned, then typically the base is the same, right, as Q4. So, 51 run rate in quarter 1, but still we would like to wait for one more quarter to see what could be the base for U.S. business. As far as Germany is concerned, Sanjay you want to talk about.
- Sanjay Gupta:** I mentioned that we had some issues with serialization and we also had some issues with tamper-proof packaging because of which the growth rate of 6%. From next quarter onwards it should be back to its normal 9% to 12% trend.
- Sudhir Menon:** And Anubhav, Brazil also, from a market perspective, we are growing at double-digit. So, I think for the full year, we still feel that we should be able do double-digit in Brazil as well. I mean that is the way to look at it. From EBITDA margin perspective, yes, it is a sustainable margin which we believe what we have delivered in quarter 1.
- Anubhav Agarwal:** Was some one-off there in Brazil because the 8% was the constant currency growth this quarter?
- Sudhir Menon:** Yes, I mean, so typically you know, right? Quarter 4 is the highest, and then there is an impact which passes on to quarter 1. So, the same thing has happened this year. So, that is why we feel that quarter 2 should be much better.
- Moderator:** Thank you. The next question is from the line of Ranbir Singh from IDBI Capital. Please go ahead.

- Ranbir Singh:** My question relates to U.S. business. In Losartan, we see market share earlier used to be at 30%. Just if you would give some more light what is the market share currently? And were there other players some of who have started supplying it or resume supply after initial disturbances?
- Sanjay Gupta:** Firstly, we used to have quite high market share. So, we were close to 30% market share. And for Losartan and Losartan H was about close to 20%. So, we are nowhere near that. So, we started sales, but like I mentioned this that we are taking a slow and cautious approach in terms of making sure that the products that we sell and the API that we buy are impurity free.
- So, we do not expect to get back to the original market shares, I would say, at least in the next couple of quarters. So, our shares, you would see in the IMS as they are reflected, but our expectation is that it will be much more modest than it was in the past.
- As far as other players, yes, people are coming back, but there is still a lot of demands which is exceeding supply in the Sartan market in general, across the board.
- Ranbir Singh:** Okay. Secondly, on India business, I see that volume growth for most and not only Torrent, but at industry level also is declining for last 2 months. Secondary sales data is showing this. So, what maybe the reason for decline in volume?
- Aman Mehta/dg:** As we mentioned earlier, the two months trend is difficult to pinpoint exactly, but as far as we are concerned, we have seen a net positive growth adjusted for discontinued products. Probably by next quarter there will be better picture of the industry volumes as well.
- Ranbir Singh:** Yes. So, historically, volume growth has been in the range of 4% to 5% and then your price growth has been 2% to 3% and some net new product launches in the similar range. But now trend are the reverse trend. Now volume has gone down, in fact, it degrowing and price is decent 4%, 5%. So, this reversal in trend, just I wanted to understand that, is there any structural changes happening because this may be the Torrent's strategy to discontinue older products, but this is across companies; I see similar trend in at industry level also. So, if you could give some more light on it?
- Sudhir Menon:** I think that is what we are trying to understand. So, that is what Aman said, May and June showing a decline in volume. It is something which is not understood. So, it is better to wait for a couple of months more to have a better grip of what is happening in the market.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC AMC. Please go ahead.
- Chirag Dagli:** On this SGLT2 products what sort of margins are there? How should we think about margins on such products? And will we see more of these in-licensing?
- Sudhir Menon:** This is one opportunity which had come to us and we have signed the deal, right. And as Sanjay explained in the call, it is Rs. 800 crores market growing at 50%. So, it is a next wave in the

antidiabetic market. In terms of gross margin, I think it is a little competition sensitive. So, we would not be able to disclose that with you.

Chirag Dagli: But such effort is not margin dilutive Sudhir, that understanding is correct?

Sudhir Menon: Yes, absolutely.

Chirag Dagli: The effort itself is not margin dilutive. Okay.

Sudhir Menon: Yes.

Chirag Dagli: And on the Unichem profitability have we sort of achieved whatever we set out, and is there scope to improve margins further?

Sudhir Menon: That is what we have said in the last quarter, right. I mean, as far as the integration objectives are concerned, we substantially achieved, but there would be some pockets of more cost synergies walking in as we go along. But from our overall company perspective, that would not stand out, I would say, but still margin improvement is a possibility.

Chirag Dagli: Okay. And what could be tax rate for full year?

Sudhir Menon: So, quarter 1, we are looking at a 23% rate. So, for the full year, we should be around the 23% to 25%.

Chirag Dagli: And I missed out on the pending total ANDA number?

Sanjay Gupta: So, we have about 11 tentative approvals and 34 ANDA pending approvals. So, this gives a total of 45 with the FDA.

Chirag Dagli: And of these, how many are from Dahej?

Sanjay Gupta: So, we do not disclose by facilities, but essentially, our ANDAs come from five sources. So, Dahej, Indrad, Pithampur, which is our Derma plant, Levittown which is our liquid plant and some external partners.

Moderator: Thank you. The next question is from the line of Shashank Krishnakumar from JM Financial. Please go ahead.

Anmol Ganjoo: This is Anmol Ganjoo. So, my first question is on the domestic market. This whole process of rationalization of what you would perceive to be an extended tale or discontinuation of products, is this largely done or is it a continuous exercise where we expect some incremental impact in the quarters to come?

- Aman Mehta:** This discontinuation was carried out in the previous financial year. We have not discontinued any further products this year from either of the portfolios. So, since the discontinuation has begun in the first quarter last year, the impact will be neutralized by the end of the year.
- Anmol Ganjoo:** That is helpful. Second, in terms of synergies and some of the operating metrics which you have done a great job in trying to get up. PCPM moving to Rs. 7.2 lakhs, is there some more room to go or this is largely done in terms of improvement
- Aman Mehta:** During this quarter, we have been able to optimize our strength further by about 100 REPS, so that's brought down the total strength to 4,200. We do not have any plan right now to further take a call, but this is something, as we mentioned in the previous quarters also that it is a constant process that we keep evaluating.
- Anmol Ganjoo:** Yes, sir, but just trying to understand that incrementally the drivers will be total topline in terms of productivity or the reduction in denominator or how are you looking at that moving.
- Aman Mehta:** From here on, it will be topline focus. The first phase of cost synergies we have pretty much settled now.
- Anmol Ganjoo:** My second question is related to the U.S. to the current situation both at Dahej as well as Indrad. If you could just share slightly more comprehensive risk assessment of what the situation is? And any mitigation strategies you have in mind, how do we kind of assess the current situation and what could be the impact in terms of, say, for example, what is the number of approvals that for the full year could be at risk and so on and so forth? Any clarity there would help?
- Sanjay Gupta:** So, firstly, current business continues as usual, right. That is an important point because that is very important for our customers that we maintain continuity of supply, and we do not see any risk to that. Where we are going to feel the pinch is in terms of new approvals. And in terms of new approvals, as I mentioned that will be filed between 15 to 20 per year. We expect up to 15 to 20 approvals per year.
- You can spread it out over the quarters. Now most of our product filings without disclosing life side, historically and legacy some of our filings were done from Indrad, then Dahej came along. Later on, we started filing from our Pithampur and Levittown facilities and as well as some external partners. But if you were to kind of order it in terms of importance, it would be Indrad, Dahej, Levittown, Pithampur and external partners.
- That would be the sequence. And also, given that, I mean that certainly would have an impact on our revenues and the sooner we can resolve this OAI situation the faster we can get back to growth.
- Anmol Ganjoo:** So, the last question on the domestic market, once again, before I get back in the queue. I know that you said that it is too early, we should wait for a couple of months to see whether the volume trends that have been recorded by external parties seem to be an aberration or whatever, but any hints that you have picked in the marketplace of anything changing structurally with respect to

either distribution or pricing or replacement impact of Jan Aushadhi. There is a lot of noise, so your thoughts around it? I know that it is early, but any thoughts around that would be helpful for us to map out growth going forward.

Aman mehta: Yes. So, in terms of the exact reason, rather not speculate at this point, but specifically touching on Jan Aushadhi. We feel Jan Aushadhi would definitely help expand the market reach, but we do not see a significant impact on branded volumes and that is how we see it in the long-term as well.

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

Prakash Agarwal: Just couple of clarifications. One is on the net debt reduction. So, you mentioned cash remaining same and gross debt reduced by Rs. 333 crores. So, that is the net debt reduction also, the same number, right?

Sudhir Menon: That is correct, yes.

Prakash Agarwal: And what is the outlook for the year, sir?

Sudhir Menon: I mean, let's wait, Prakash.

Prakash Agarwal: Okay. I mean, last call you said about Rs. 800 crores to Rs. 900 crores, just wanted reiteration on this, sir?

Sudhir Menon: Yes.

Prakash Agarwal: So, we are on track to do that?

Sudhir Menon: Yes, that is a good number to take.

Prakash Agarwal: Okay. And just one more clarification on the U.S. sales. You mentioned there is Losartan comeback little bit, launches and the third one you mentioned was onetime sales. So, is this like a couple of quarter onetime or is it like a one quarter one time?

Sanjay Gupta: Onetime basically means one time. So, it is not a couple of quarters. So, every quarter we get onetime sales. It is nothing new. It is a standard for Torrent and we have been doing it for a while. So, I said that, we do not give you the breakup of our sales every quarter. But since we are always in stock, we are usually the go-to company for people who run out of or who fall short on products. And so we get the benefit of that. And I do not remember any quarter where we did not have it. The volumes can and values can vary quarter-to-quarter, but it is a consistent feature.

And it has gone up in the last 2 years actually as other companies have discontinued for a bad quality issue.

- Prakash Agarwal:** Yes. So, what I am trying to understand and what other companies also disclose as a NBO, New Business Opportunity, which usually runs 2, 3, 4 quarters. So, is the life of this onetime sale is one quarter or it is more extended is what I was trying to understand?
- Sanjay Gupta:** Usually, it is one quarter. So, for us, it is a spot business.
- Prakash Agarwal:** And thoughts around if you are sharing any outlook for the U.S. business, I know there is one event still pending, but assuming no new approvals coming from these two plants, would the business be flattish or given there is some price erosion and the business could see some kind of a little bit decline as well?
- Sudhir Menon:** I think we will get better visibility after the next quarter. But if you want to take the worst-case scenario where the site issues are not resolved, then best-case scenario in that case would be to have kind of flattish revenues. And the price erosion in the U.S. continues to be in the high single digits. So, if you are able to compensate for that with enhanced market share that would be a good thing.
- Prakash Agarwal:** You said best case is flattish?
- Sudhir Menon:** Yes. If the facility issues are not resolved.
- Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** My question is regarding resumption of Losartan supplies in the U.S. So, two questions there. First, are we sourcing API from multiple partners? And are you facing any issues in availability of the API?
- Sanjay Gupta:** So, we have two approved API vendors for Losartan for the U.S. One is Hetero and one is Zydus. So, essentially, we source API from both our partners.
- Damayanti Kerai:** In terms of availability of APIs, are not you seeing any issues there or it is normal the way you wanted?
- Sanjay Gupta:** Actually, so everybody is little, let us say, burned in the Losartan market. So, we are also cautious as to how much we want to purchase. And I think even the manufacturers are a little bit cautious as to how much they produce. But right now, we do not I mean, whatever we have decided in our risk management perspective we are getting.
- Damayanti Kerai:** Sure. And can you quantify the onetime supply sales which you mentioned for U.S.?
- Sanjay Gupta:** So, we do not provide granularity in our sales. We generally just give you our overall country-wise sales, but we do not provide further granularity either in terms of product-wise sales or so I would suggest that you just take the IMS figures and try to figure out on that basis.

- Moderator:** Thank you. Next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.
- Manoj Garg:** Just want to understand about other countries where even the growth for the quarter was also 7%. While we had a pretty strong last year anything you would like to highlight here?
- Sudhir Menon:** Yes. So, I think for the full year we should be good, Manoj. There have been some hiccups during the quarter. So, would say quarter 1 is not reflective of the full year. So, we should be getting back on the track from next quarter.
- Manoj Garg:** Sure. And well, I think there are a lot of questions already been asked in the domestic market. Aman, just one question for you like, so you have one external party, that is showing the volume growth going down to maybe minus 4% to 0% kind of thing. Are your internal numbers also facing the same? Forget about the third-party or the outside, but for your internal numbers, like, if you can give some light maybe more qualitatively and less quantitatively?
- Aman Mehta:** Yes, we would not be able to share the internal breakup, but it is similar to our previous quarters in terms of the breakup.
- Manoj Garg:** Okay. So, you are not seeing any slowdown at least internally in terms of volume growth?
- Aman Mehta:** That is correct.
- Manoj Garg:** And last, Sanjay, just from the U.S. if I recall around maybe a year ago, so you clearly have indicated that you are looking a lot of business development kind of activities with regard to U.S. market. Would be helpful if you can take us through what could be your further thoughts in around that area?
- Sanjay Gupta:** So, currently we have 4 products filed from external partners, which is a part of the 45 products that I had mentioned. So, I have not launched any external project as yet, but this year, we would expect to launch at least two products from third parties, and we would expect to file a further four projects this year.
- Manoj Garg:** Okay. And any specific area in terms of like therapeutic area or in terms of delivery system you would like to highlight?
- Sanjay Gupta:** So, these are necessarily mostly areas where Torrent does not have internal capability. So, we have generally chosen projects where either we do not have the research capability and/or the manufacturing ability. So, it helps us to diversify our business with the help of third parties. So, other than that, I think you will see, as we launch the products, you will see how the selection was made. And hopefully, before the end of this fiscal year, we would have one to two projects from third parties on the market.

- Manoj Garg:** Sure. So, given that these two projects at least are not dependent on your current facilities, which obviously have some pending regulatory outcomes, and still we think that U.S. business at best can remain or can be at similar level?
- Sanjay Gupta:** Yes.
- Moderator:** Thank you. Next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Sanjay, on the U.S. market you talked about supply shortage opportunities which you have begun to become normal frequent over the last 2 years. I mean, if you can probably help us understand a little bit more in terms of fundamentally is it there a structural change which you are seeing happening in the market in terms of these shortages becoming more of a permanent feature or this guide the growing products or this is any of assessment just a temporary aberration? And per se, does it I mean, what does it really imply for product pricing in the U.S. as we look through the next say, 12 to 18 months?
- Sanjay Gupta:** So, I think the pendulum had swung too far in one direction so you see it swinging back little bit. So, what you are seeing is, there are a lot of companies discontinuing products. You are also seeing a record number of companies with FDA related issues. So, both of these combined lead to, let us say, the supply situation is a little tight even on areas like OSDs or chronic used medication or so there is a concern about supply of pharmaceutical products in the U.S. because of these two reasons.
- So, I think it is just getting back to a situation where the days of oversupply would be over. So, my expectation is that things are coming back to a little bit more normal than they were in the past.
- Nitin Agarwal:** And what does it mean for people like us who probably started out a little late in the U.S., are still in the process of building up the U.S. business? I mean, does it really imply a relook in terms of the way you do business or does it impact the product selection strategies or in any ways in terms of the recent developments or none of their changes?
- Sanjay Gupta:** So, from where we sit, right, with about \$200 million annual business with about 45, 50 ANDAs we see more upside in the U.S. than downside. So, literally, for us, given the footprint that we have, if we launch 20 ANDAs a year, we think our business would have sufficient momentum. So, we look at the U.S. as a bright opportunity for Torrent in terms of growth potential, given our small size and small footprint.
- Nitin Agarwal:** If you were to just probably push that point. I mean the way you have seen things, you have seen the market sort of playing out, is it I mean, is it counterintuitive? But to explain that you probably plain vanilla OSDs may end up becoming a much better option than they were earlier and the so called complex products may have given all the challenges they carry may not be that lucrative an option as they optically were primarily believed to be?

- Sanjay Gupta:** I will give you a story from the frontline. So, last week I met with a couple of important customers in the U.S., and I can tell you that they pressed us to continue and not follow the path chosen by a few other companies where they are discontinuing their OSD products. And we get a lot of benefit from the fact that we have just bottom-lined our Dahej facility which has a capacity of 7 million pills. So, I think customers feel secure in dealing with Torrent because of our commitment to the OSD space and because of the Dahej facility and because of the supply track record that we have established over a long period of time.
- Moderator:** Thank you. The next question is from the line of C. Srihari from PCS Securities. Please go ahead.
- Srihari Chintalapudy:** Firstly, on the domestic market, you said that for the quarter the price hike was 8% across the portfolio. So, will you please give the split in terms of OTC and Rx and what is the outlook for the same? And secondly, this onetime sales basket that you are talking about for the U.S. market, can you give some outlook for that as well?
- Sudhir Menon:** So, I think from the India business perspective, we are not there in OTC business except for one product which is Unienzyme, which is both under OTC and prescription. Sanjay, you want to comment on U.S.?
- Sanjay Gupta:** No, I already said that we cannot provide more granularity on our sales.
- Sudhir Menon:** Yes. So, the only thing about U.S. is that we still do not have any product approvals because of the pending EIR status for both these facilities, which is Dahej and Indrad, and it all depends upon how fast we can resolve the issues.
- Srihari Chintalapudy:** By OTC, I meant, even quasi products like, let us say, Shelcal?
- Sudhir Menon:** So, currently we have not taken those products into OTC. But yes, there is a potential which going forward we will think about it because Shelcal as a brand is still growing very strong as far as the prescription platform is concerned. And therefore, going forward, we will see how to take it to the OTC segment.
- Aman Mehta:** And just to add a bit further on Shelcal, we are focusing a lot more on the extensions of Shelcal. So, some introductions that were made in the last year rather two years have done well in the launches. So, the combinations for Shelcal by themselves are growing at 17% for this quarter versus the covered market growth of 9%.
- Srihari Chintalapudy:** So, I mean for this 8% growth figure, how do you see it panning up?
- Aman Mehta:** 8%, which growth are you referring to?
- Srihari Chintalapudy:** Price hikes.

- Sudhir Menon:** I think that is something which is constant, right. I mean, the whole issue is that the price increases are taken periodically when the cycle of one year gets over, right? So, every year after 12 months we start taking a price hike wherever it is feasible.
- Srihari Chintalapudy:** Yes. But I mean, if you correlate that with the WPI, this seems to be a bit significantly higher than that, so that is why I am asking?
- Sudhir Menon:** No. So, I think WPI is something which is relevant more from the control drug perspective. But as far as the DPPO policy states, the products which are not under controlled category the price increases can be up to 10%, right? So, there would be few products which are where the price increases are in the range of, let us say, 8% or 9%, some would be in the range of 2%, 3%. So, all this depends upon the competition landscape, right, where we are versus the competition and what is the scope of taking price increases.
- Srihari Chintalapudy:** So, would this 8% or thereabouts be a sustainable number?
- Sudhir Menon:** For this year, it looks okay. There is nothing which should indicate that it will be lower than that.
- Aman Mehta:** Obviously going forward, our focus will be more often volume growth.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC AMC. Please go ahead.
- Chirag Dagli:** Sudhir, would it be fair to say that most of our working capital resides in the U.S.?
- Sudhir Menon:** And why do you say that?
- Chirag Dagli:** Because in India there will be limited working capital. So, Germany you have said in the past does not have a lot of working capital?
- Sudhir Menon:** So, that is right, because Germany is the only unique territory which I would say the working capital is negative. But as far as India is concerned, there is a normative inventory level which you carry, right, including the receivable cycle, which is shorter compared to the other geographies. So, all other geographies, be it Brazil or ROW markets or U.S., the receivable cycle is between 90 to 100 days.
- The only additional thing, Chirag, would be that in terms of U.S. we keep a little higher inventory so that these onetime opportunities which keep on coming because of shortages happening in the market, at least we can tap those markets.
- Chirag Dagli:** This change has happened over the last maybe 12 months, Sudhir? That understanding is correct?
- Sudhir Menon:** No, not really. I think this policy was built in almost 2 years back actually.

- Chirag Dagli:** Okay. And these onetime supplies, do they happen at substantially higher prices versus what are say prevailing in the market at that point versus the previous contracts? Any color and what it does to future contract pricing?
- Sudhir Menon:** You are right. I mean, if we are saying it is a onetime buy, so the prices are much higher than the normal contract prices, and that is the reason why we say it is a onetime buy.
- Chirag Dagli:** So, what does it do to future prices? Next time when that product comes for RFP, what does it do in your assessment or in your experience, have you seen prices change for the better in such products or do you think it goes back to previous levels?
- Sudhir Menon:** No. So, Chirag, when we talk about onetime buys, these are buys where you do not have contracts with customers or running contracts with customers, and then suddenly shortages which happen in the market, and therefore since you have a relation with the customer, the customer comes and checks with you whether you can deliver those products in the market or not. And since we have inventories on certain other products which we keep, these opportunities are tapped.
- Chirag Dagli:** So, this has no bearing on the future contracts at all, that is what you are?
- Sudhir Menon:** No, absolutely.
- Moderator:** Thank you. Sir, there are no further questions in queue.
- Sanjay Gupta:** So, then we can end the call on this note. I thank you all for your participation and we look forward to being in touch with all of you.
- Moderator:** Thank you very much, members of management. Ladies and gentlemen, on behalf of Torrent Pharmaceuticals Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.