



“Torrent Pharmaceuticals Limited's Q4 FY'22 Earnings
Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to Q4 FY'22 Earnings Call of Torrent Pharmaceuticals 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. Sudhir Menon. Thank you. And over to you, sir.

Sudhir Menon: Yes, thank you, Faizal. Good evening and welcome everyone to Q4 FY'22 Earnings Call.

Q4 witnessed strong growth in the branded generic market, aided by market share gain, performance of our top brands and new launches. The branded generic markets revenue constituted 70% of our total revenue in Q4, which grew by around 15%.

Financial highlights for the quarter are as follows:

Revenues were Rs.2,131 crores, up by 10% on YoY basis. The gross margins were at 71%, improved by 1% on sequential basis. The EBITDA was Rs.612 crores, up by 1% on a YoY basis. The operating EBITDA margins are at 26.3%.

This quarter, we have taken a difficult decision of discontinuation of our liquid business in the US, which we had acquired in 2018. The exceptional item of Rs.485 crores in the income statement relates to the impairment provisions and costs related to discontinuation of liquid business in the US.

The Board of Directors today have recommended a final dividend of Rs.8 per equity share. Additionally, the company is completing 50-years this year of its incorporation. To commemorate the same, the board has additionally approved a special dividend of Rs.15 per equity share and a bonus issue of 1:1.

I would now request Aman to share his insights on the India Business Performance.

Aman Mehta: Thanks Sudhir. Revenue at Rs.1,034 crores, grew by 12%. As per AIOCD data, Torrent's Q4 growth was 11% versus the IPM growth of 4%. Growth was aided by new launch momentum, robust performance of top brands and continued market outperformance across our focused therapies, particularly in CNS, Gastro and VMN.

We have expanded our field force during the quarter to 3,900 compared to 3,600 in Q3.

We expect the India business to continue the above market growth momentum as our April AIOCD numbers look encouraging and we have a good new launch pipeline coming up in the next few quarters.

I'll now hand over to Sanjay Gupta for the International Business.

Sanjay Gupta:

So let's start with Brazil. So Brazil revenues were at Rs.251 crores, up by 33%. Constant currency revenues were at R\$172 million.

As per secondary market data in Q4, Torrent's growth was at 15.4% as compared to a market growth of 10.1%.

The quarter witnessed good initial traction from launch of five new products since Nov 2021 – Memantine, Rosuvastatin 5, Rivaroxaban, Desvenlafaxine and Ticagrelor.

With strong underlying growth of the market, we expect Brazil to continue growth momentum, aided by the new launches, performance of our top brands and the new division in the CNS segment.

Moving on to Germany, the Germany revenue was Rs. 218 crores, they were down by 18%. Constant currency revenue were €26 million. Growth was impacted by loss of products in the recent tender and price erosion. We have already initiated cost measures to improve competitiveness and are confident to revive growth in the coming quarters.

US revenue was at Rs.282 crores, up by 5%. Constant currency revenue was \$37 million. Revenue grew sequentially by 20%, aided by the launch of Dapsone, a new Derma product. We continue to await USFDA reinspection of our facilities.

Torrent has decided to discontinue the liquid facility operations. The operational costs of the facility was Rs.135 crores per annum. The decision was made by taking into account incremental investments required for bringing pipeline products into the market and the increased competition intensity in the liquid space.

As of March 31, 2022, 57 ANDAs are pending approval with the USFDA and five tentative approvals were received. During the quarter, six ANDAs were filed and one ANDA was approved.

To conclude, our branded generics markets, including India, remain on strong footing. We expect the current growth momentum in these markets to continue and are optimistic to revive growth trajectory for Germany in the coming quarters.

The cost optimization measures initiated in the previous quarter shall lead to steady margin improvement in the coming months and quarters ahead.

Thank you. Operator, we can open the call to questions now please.

Moderator:

We will now begin the question-and-answer session. First question is from the line of Sriram Rathi from BNP Paribas. Please go ahead.

Sriram Rathi: So, one question, particularly on the gross margin. Of course it has improved because there was certain one-off in this quarter. How was the raw material cost scenario now for Torrent Pharma, earlier, you were expecting that in Q1, we should be back to the normal level, so where do we stand now?

Sudhir Menon: So Sriraam, did you say on the raw material prices, the price increase?

Sriram Rathi: **So basically, is the impact still continuing for Torrent Pharma and earlier we were expecting that by Q1, we should be back to the normal levels of gross margins. So is that still stand true for us?**

Sudhir Menon: I think, the thing which we spoke about on cost optimization to start in Q1 was more on the plant overheads, which I had said, right. I mean, for example, we were looking at optimizing our costs at the API facilities basically, which is part of the raw material costs, right I mean, impacting the gross margin. That should start from Q1. So that's something which has not come in Q4.

Sriram Rathi: In terms of raw material cost inflation, which we are seeing, what is your view on that, because earlier, we were doing gross margins of around 73%, 74%, and right now, we are at 70% to 71%.

Sudhir Menon: The greatest impact on the gross margin has been by the generic businesses, which are there right, which is essentially, US and Germany, right. And that's the reason why there is a dip in gross margin. Over the previous quarters, which you're looking at, we used to be 73 kind of a number., right? What we also said during the last quarter is that come Q1, since we'll be taking price increases in the branded generic segment, we should start seeing improvement in the gross margin coming. That's point number one. Point number two, what we said is once the USFDA reinspection is happening next year, which anytime we are expecting now. looking at the others having the reinspection of USFDA, the US new product approvals will start coming in. And what we had indicated was that should start happening somewhere in Q4 of this year. So that should play out in a positive way to the overall margins. So probably, let's say Q4 of next year, you should start seeing those margins coming back is what is my understanding. But having said that, I think let's wait for Q1 performance, which could give a better direction to the overall gross margin progression during the year.

Sriram Rathi: Just one question on the US generics. Of course, we've seen decent pick up in this quarter. This \$37 million sales coming from here on, how should we look at it, I mean, assuming that FDA inspection happens at its own time, but without that, can we expect this revenue run rate to sustain and maybe grow from here on?

Sanjay Gupta: On a quarter-on-quarter basis, our price decline is I would say, a low single digit. On a year-on-year basis, it is in mid-teens. So that is what is happening. So we are seeing some relief compared to the previous year in terms of pricing erosion. My guess would be that we would see modest strength in price erosion, especially given the announcement by several companies that they're discontinuing products. I think our customers will be a little bit careful about asking for further

price decreases. So, on that basis, I would say, without the inspections and without new launches, the chances of having fairly stable sales data is higher.

- Moderator:** The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Sanjay, question for you. Just continuing with the previous question on US market, so Dapsone Gel looks like from your comments that was the largest contributor in terms of delta to this quarter. So quarterly sales of \$5 million to \$7 million per quarter looks very high from Dapsone Gel. Would you say that this was just driven by some extra inventory filling, which would normalize next quarter to a lower number.
- Sanjay Gupta:** I will not comment about sales by product, because it's something which is sensitive information. We had good sales from Dapsone this quarter. We know there are other competitors on the horizon. I've not seen their product as yet, but we don't know what is their supply chain connectivity looking like. So I would not go into venturing to make forecasts for Dapsone for subsequent quarters. We have some anchor customers and some smaller distributor customers. So we will do what we can to retain them. And pricing to be sustained, as long as there are no new entrants that come to the market, right? Because it's still a three-player market; the originator, one generic and us. So it's a fairly, I would say, stable situation as of today. But in the US generic space, as you know, a new entrant can shuffle the cards. So, I will not tell you what it would be next quarter, it will only depend on if there is a new entrant and how that plays out.
- Anubhav Agarwal:** Second question is on the Brazil market. Of those five launches you have done, how much would they have contributed roughly as a percentage of sales in this quarter?
- Sanjay Gupta:** So we showed a growth of about 21% and I would say, roughly about 13% to 14% of that is the contribution from new launches.
- Anubhav Agarwal:** Very substantial contribution. How are you expecting Brazil sales growth next year, do you think double digit is doable in constant currency?
- Aman Mehta:** If you look at the Brazilian starting with the GDP right, this year, the '21 GDP growth is about 4%, 4.5%, next year forecast is looking at less than 1%, especially with the elections having in October. So generally, from our past 20-years' experience in Brazil, we've seen the pharma market to be sustained, irrespective of these macroeconomic fluctuations. So assuming that the market grows at another, like 8% to 10%, we should be well above that.
- Anubhav Agarwal:** Just a last clarity from Sudhir. Close down of this liquid facility in the US, would it help you reduce cost in subsequent quarters?
- Sudhir Menon:** Yes Anubhav. So the operating expenses on a on a full year basis is Rs.135 crores. Most of the activities have actually stopped there. And as part of the impairment, which we've taken on 31st

March, we've also included the cost related to the closure. So, we should see both benefits coming from Q1 itself, Anubhav.

Anubhav Agarwal: So how should we see, should we just divide Rs.135 crores and that will be the quarterly savings that will just come through?

Sudhir Menon: Logically, yes, Anubhav. I mean, 10% to 15% here and there in the first quarter, other than that, I don't think the numbers should change drastically.

Anubhav Agarwal: Which is a big number. Already talking almost like Rs.30-35 crores which is like 7%- 8% of the EBITDA of the company.

Sudhir Menon: Rs.30 crores is 1.5%, I mean Rs.2,000 crores run rate on a quarterly.

Anubhav Agarwal: Yes, quarterly EBITDA is about Rs.500 - 600 crores, right.?

Sudhir Menon: Of the EBITDA you're saying. Yes, absolutely. I mean, it was a cash burn, which was happening for the last two- three years. So I think finally the call taken, and they should start rolling up into the EBITDA.

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

Damayanti Kerai: My question is on the Germany market. How should we look at sales in coming years because you mentioned loss of one tender led to Q4 performance. So, when will the next tenders open up there? And also, can you specify what is the split between tender and retail market in Germany?

Sanjay Gupta: So, essentially, in the current Q1 and Q2, we did not expect many new tenders to start, and we would expect most new tenders to come on stream that we either won or we'll start from September, October onwards. So, we would expect sales in the second half to be better than the sales in the first half in terms of growth momentum. We also have 10 to 15 launches planned for this year, bulk of it coming after September, October also. So, that should provide us with some growth momentum. And in terms of tender – non tender sales, tender sales is roughly 60% of our business.

Damayanti Kerai: My second question is on India business. How should we look at FY'23 growth over FY'22 and if you split growth contribution coming from volume, price, and new launches?

Aman Mehta: So for Q4, AIOCD reflection of growth was 11%. Breaking that up into new products is 3%, price is 8%, and volume is 0%. But that's against the market volume of minus 3%. And additionally, maybe 1%, 1.5% upward adjustment on volume reflection, because of this field force expansion, we've had a bit of reshuffling of some of our brands in our divisions. So, volume is about 3% to 4% above the market growth currently. I think in terms of the upcoming year, of course, last year base because of COVID would be much higher. So on a quarterly basis, hard

to say what the growth would look like, but on a CAGR basis, I think double-digit growth should be doable for the market and we expect to grow above the market as well.

- Damayanti Kerai:** So CAGR, you mean to pre-COVID or CAGR was what period?
- Aman Mehta:** Over a two-to-three-year period. So roughly speaking, double-digit growth of the market without COVID should continue, where our base is predominantly chronic-driven. So we would not have that impact in our base. So we expect that double digit growth should be possible for the year.
- Damayanti Kerai:** Just to clarify on India business. The price hike which was for NLEM portfolio, although it's a small part of your business, that's all included in your assumption?
- Aman Mehta:** No, that would not be included, because that would have been effective from April.
- Damayanti Kerai:** Ok, so most likely after first quarter onwards, we can assume those prices to be incorporated.
- Aman Mehta:** That's right, absolutely.
- Damayanti Kerai:** What about the non-NLEM part? That's a normal 7% to 8% price hike, which you generally take on a regular basis, right?
- Aman Mehta:** Yes, the same price range that has been seen over the past few quarters has continued, so this quarter was 8%.
- Moderator:** The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.
- Neha Manpuria:** Aman, on the field force addition, is all of our planned addition done or do we expect some more in the coming quarters?
- Aman Mehta:** No, there would be some additional expansion happening by end of Q1, which is when we expect the entire exercise to be complete. So this quarter ended at 3,900, and probably another 200 - 300 reps by the end of Q1.
- Neha Manpuria:** These were all for existing divisions, or are we planning to add new divisions?
- Aman Mehta:** So we have launched a new division in CVD. And most of the field force for the new launches that are coming up in the coming year.
- Neha Manpuria:** Sudhir, on the margins, I think Sanjay mentioned in his opening remark about steady margin improvement. Sudhir, but if I were to look at, everything that has been discussed in terms of gross margin improvement, the overheads coming down, price increases, and the fact that we have cost saving from divestment, shouldn't there be a significant step up in margins from the first quarter itself?

- Sudhir Menon:** We do expect it, Neha. From 26.3% which is in Q4, we should see at least 300 basis points upside, starting from Q1. But having said that, let's wait for the results to come, but we are positive.
- Moderator:** The next question is from the line of Venu Pathipirambil from InCred Capital. Please go ahead.
- V Pathipirambil:** Hi, just a follow up question on the US. You mentioned that there are companies that are discontinuing products, etc. Could you please elaborate a little bit on this, what are you exactly seeing in the market?
- Sanjay Gupta:** So we are seeing a lot of pressure on companies, especially for legacy older products. So what we've seen is some companies are willing to give up products if the pricing goes below a certain threshold. So, I am hoping that reduces the level of competition for the older legacy products. So especially for oral solids, lot of prices are becoming non-sustainable. So I think it's a wise thing on behalf of generic company to maintain some minimum profitability so that they can continue in business. So that's what we are seeing.
- V Pathipirambil:** Are you seeing this for the last, say 30-days or two months, three months?
- Sanjay Gupta:** Yes, it's a theme, right, because during COVID, things were stable. After COVID, we started very severe price erosion, and I would say for the last two, three months, especially since 2022 began, we see companies taking into account this market reality and adjusting their strategies.
- V Pathipirambil:** Just a question on Revlimid. You still maintain that you will be able to launch with the next wave of generic entry?
- Sanjay Gupta:** No, we are much later actually. So without giving you a precise date, we are not in the initial two phases or plus.
- Moderator:** The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** First, on capital allocation. There has been some speculation around M&A for you. So just want to get some clarity around what are some of the therapy areas, like you said, you're doing probably 2,000 to 2,500 crores of EBITDA. So just the usage of this, maybe if you want to use it before R&D also, you can add, but just the capital allocation priorities?
- Sudhir Menon:** Frankly, I didn't get your question.
- Shyam Srinivasan:** So let me slowly repeat. capital allocation, what are the priorities for Torrent Pharma? There is a fresh speculation around M&A where you are in the advanced stages of one of the assets.
- Sudhir Menon:** Let's come straight to the point, right. I mean, M&A happens when it has to happen. That's what I personally believe. I mean, given that we keep on looking at all the assets, which are there in the market, right, I mean, so all the deals which have happened, whether we have looked at, yes,

we've looked at, right, but having said, yes, there are a few other assets, which we have been looking at. I think from a capital allocation perspective, it's quite simple for us to think that over the next two years, I think most of my existing debt would be repaid, right, I mean, which is basically outstanding from the Unichem acquisition. And from the third year onwards, the kind of cash flow generation, which will happen with the US and Germany also coming back on track hopefully, I think there's good amount of capital allocation, which is possible for any acquisition, which we are doing. So, basically, it is a good asset, which we find today, advancing that by one year or two year does not really change the needle. Because as I said, two years down the line, I think, most of our debts would be repaid.

Shyam Srinivasan: So if I were to probe further, so what will be the likely order or rank order of what assets you're looking for? Maybe it's over a two-to-three-year timeframe as well, we don't need to be in near term. Is it going to be India or you are looking at assets elsewhere in the world, which therapy areas will it be complementary, how should we look at that?

Sudhir Menon: Currently, Shyam, it's only in India we are looking at. In US, I think in the near term, we don't think so. Germany, we are already number five in the market, right, and there's still enough room to expand into the 50% balance generic market where we are not present. So I think the growth story for Germany should be good over a long term. So whether something immediately is happening in Germany, the answer is no. In Brazil, we've not seen any asset coming up for the last so many years. So definitely, it would be India compared to the other geographies.

Shyam Srinivasan: Last question is on the field force. I think you said another quarter of field force addition. So if you can just help us understand, I think you give some details last quarter, you talked about a new department as well. If you can just give us color on what are the new field force, which therapy areas, again, just refresh us, where are the new areas, what is the field force productivity at this point of time and where can this go?

Aman Mehta: Yes, the expansion is essentially to help us mainly cater to the new launches as the existing divisions would not have the space remaining. So we have to expand the divisions as well. So given that there are important launches coming up in the next one, two years, that's where the need for this was established. In terms of PCPM, roughly speaking, since our top line has remained the same and 10% field force has been added, from that 9.5- 10 lakh level, it would have come down by 10%. But with next year's growth that should get back up to the same level. So we think the range of 9- 10 lakhs of PCPM should continue. So essentially keeping in mind the new launches that are coming up in high size markets, particularly in CVD, that's where this majority of the new expansion should cater to.

Shyam Srinivasan: Last question, just an extension of this, where do you think the PCPM go before you again need to start thinking about expansion of the field? So is this like a two-to-three-year window, so PCPM can go beyond this 10 lakhs, how should we think about that?

Aman Mehta: It can, but that's not the objective. I think 10 lakhs would be a reasonable number and as the pipeline keeps on, increasing in new launches, we will have to expand to a certain level. So I

think 10 lakhs is something that we are quite comfortable with, and not looking at increasing beyond that, especially given that we'd have to be aggressive and competitive in the new launches in the next two - three years.

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

Nitin Agarwal: Sudhir, on the other expenses for the quarter, so the sequential increase is just Q4 impact or anything else you read in that?

Sudhir Menon: No, there's some bunching of expenses which have happened in Q4. I mean, just to name one or two of them. So most of the US filings have happened in Q4. So we filed five ANDAs and I think one or two DMF also. So there is a piling up which happened in Q4. So there's a lump in terms of the US filing phase which has come in, which ideally should have gotten distributed over the quarter. The second item is there's a big lump sum, which has come in terms of the donations actually. So it's almost Rs.18 crores which we paid in Q4, which could have been paid in previous quarters, but the need arose in Q4. Plus, the freight expenses have gone up little bit more than Q3, so around Rs.8 crores of that. So the three put together is around Rs.40 crores. So I would say it's bunching of expenses, which have happened in Q4, which otherwise would have been evenly spread out.

Nitin Agarwal: Right, but if you have to sort of look through the year, there's not much one off in those numbers per se, if you analyze?

Sudhir Menon: Absolutely, for the year there is no one.

Nitin Agarwal: And likewise, for the employee expenses, there's a sharpish reduction on QoQ basis. Anything specific there?

Sudhir Menon: So two things basically. So one is the reworking of annual incentives, there was a reversal of provisions, which had happened, which were taken in the previous quarter and gotten reversed in Q4. Plus, this time, the chairman emeritus commission was forgone by the chairman emeritus. So there's a reversal of his commission in this as well.

Nitin Agarwal: Aman, on the India business, in your comments in the call, a lot of talk about new product launches. And you're sort of making the business prepared for higher intensity new product launches. Can you give us a little more color on how things are changing on this front versus what they've been say over the last three, four years?

Aman Mehta: Yes, this is more driven by a patent expiration pipeline. So if you recall, not last year, but the year before, there was a big wave of launches in cardiac and diabetes, to name a few examples, Dapagliflozin, Vildagliptin. So again, this year onwards and possibly next year, similar intensity of launches is anticipated where we are preparing for. So we have to create the portfolio which is kind of future ready as well and hence, ensuring that we do the absolute best we can in these

new launches. In terms of competitive intensity, I think there probably is a slight increase in the chronic space compared to maybe two years ago. But we remain confident of maintaining or even gaining our market share as we have been compared to last year as well, for example, at a company level, our market share is increased from 3.2% to 3.5% at an overall level. So we remain confident of consistently gaining market share.

Nitin Agarwal: If I were to look at the break up of your growth in terms of new product launches, pricing, and volumes in the existing portfolio, clearly there is this component of new product growth, which should increase going forward with the new launches, how should we look at the other two components, they should largely remain in line with what they've been or you see changes on those accounts also?

Aman Mehta: So it will predominantly depend on the market growth trajectory, and assuming that the similar range of market growth continues, we think the delta between the market growth and our growth in volumes in particular is around 3%-odd, we think that should continue. The performance of new launches should add maybe another percent to that. And as we mentioned, the price growth range is within the 7% to 8%. So hard to really anticipate exactly what is likely to be each breakup, but that's the kind of broad direction that we believe should be doable.

Moderator: The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: I just wanted to confirm about this write off that you've taken in the US business. The write-off is Rs.439 crores and plus the expenses. From what I recall, please correct me if I'm wrong here, you had already taken write-off of about half of that investment in some prior year and this amount seems much larger than that. What am I missing here?

Sudhir Menon: Prashant, you're right. In 2018, we made the acquisition and I think the acquisition was around 70 million-odd. In 2019 when we had to take a temporary closure, we had taken an impairment of I think roughly around 25-26 million. So the whole focus was to upgrade the facility, right, I mean, so the last two years we've spent money on upgrading the facility. So there's a lot of construction cost and new plant and machinery which has come into the plant. So, essentially the CAPEX was much higher, I would say, for the upgradation, which we have taken over the last two years. So all put together, this is impairment of assets which have happened, because most of the intangibles we had written-off, as you rightly said, in 2019. This impairment, there is a major share of the tangible assets, which was spent as part of the upgradation process.

Prashant Kothari: We spend many in upgradation and you have decided that it's actually not worth doing that business, we are shutting it down?

Sudhir Menon: The entire building was brought down and the new construction was undertaken.

Prashant Kothari: I'm just surprised that we spent money and now we are cutting a sorry figure that is actually not worth, and all that additional money is behind us?

Sudhir Menon: That's a hard call we've taken, Prashant. Looking to the fixed costs, which this facility has been incurring, and this facility being in US, the fixed costs was really high. It got delayed in putting this facility together because of COVID also, right, because we saw a lot of delays happening in terms of the whole upgradation process. And today, as we stand, when we look at the potential of the pipeline products, because there's a lot of new competition, which has really walked into the market. And the market itself is very small, right. And when we look at the loss of exclusivity in this space, it doesn't make sense in actually loss funding for the next three years, which is incremental investments, and without seeing any major incremental economic benefits flowing out of this investment. So we thought it's prudent basically to take this call and shut it down.

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

Saion Mukherjee: Sanjay, on the US, can you share what is your strategy now, because we have seen a lot of flow issues over the last two, three years, there are market issues, there are plant issues and you've now taken a decision to close down liquid facility. What are your longer term plans now to sort of differentiate, it's a very subscale business at the moment, and do you think it makes sense to sort of sustain this business, what are your sort of a three- five year thoughts on the US business and how are you like making the decisions on investments on US now, incrementally, given whatever is happening in the market?

Sanjay Gupta: Roughly, at some point, the market has to stabilize, but it's still the largest generic market in the world. So we have, I would say, a smallish presence in this market. And from the small base, I would say that it's easier for us to grow. We need to do a few things right. Some of the steps we've taken today in terms of reducing our costs based on the US. We've also taken steps to reduce the number of products that we are developing only for the US. So, most of our pipeline now we are developing across the globe, and we plan to leverage the R&D expenditures around all our geographies. We've also taken steps to reduce the overheads in the plant. And as Sudhir mentioned that we have allocated capacity that we are using for the US business, and we generally will not be doing business below a certain margin threshold. So, I will say that, while top line growth is important, we are more focused on making sure that the growth we have is profitable, and the investments in capital are not required. Our plants are all new plants, we have enough capacity, so we don't see any investment in infrastructure. So our focus is in optimizing our R&D investment, keeping our costs low, and generally improving the productivity of our research which is I would say that there are some areas of improvement in terms of what bang for the buck we are getting for the dollars, we are putting into R&D. Once we get a quality piece right, that should start on the growth momentum. So, from \$35 million a quarter, I don't see any downside. And if we invest wisely, as I mentioned in R&D and in CAPEX we should be on a sustained growth trajectory from this low base.

Saion Mukherjee: With the current level of operation, how profitable is the US business after you sort of factoring R&D expense and other overheads that you carry?

- Sanjay Gupta:** We don't discuss profitability by geography, but generally in the US business, if we are gross margins in the 25%-50% range on any product, that is a general range now. I am just giving you a broad range as to what happens on a per product basis.
- Saion Mukherjee:** One question on India. In terms of new launches, can you just throw some light, any partnerships with the MNCs or with other companies that you have done, is that something which you focus on to launch some patented drugs like some of the other larger peers do in India?
- Aman Mehta:** The near-term pipeline is mostly the patent expiration launches but we are in talks for certain licensing deals in our core therapies. Early to say how they'll pan out but that's an important part of our growth strategy going ahead.
- Moderator:** The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.
- Rajesh Kothari:** Actually, I missed one of your comments whereby you said that margins can move up by 300 bps from 26% to 29%. That you're talking about for which entity, consol, standalone, which entity?
- Sudhir Menon:** No, conso.
- Rajesh Kothari:** This the margin improvement of 300 bps is primarily would be driven by a price increase which has been taken recently?
- Sudhir Menon:** So, there's 2-3 factors. One is this fixed cost of the liquid facility would roll back to EBITDA. I think during the call we have said the impact is roughly 1.5%. So, there is an improvement already coming in by 1.5% because of the fixed cost of the liquid business going away. So that's point number one. Point number two also, what we had said in Quarter 3 is that there's some cost optimization which we are carrying out at all our facilities, basically, trying to maximize the manufacturing or volumes at one particular facility and bringing down the shift working in the other manufacturing facility, including the formulation and API facilities and that we had guided that we should start seeing that coming in from Quarter 1 because already the steps have been taken. That's point number two. Point number three; what we said is the price increases in all the branded generic market should start from Quarter 1 and that should typically help us in getting a margin improvement by at least 75 to 100 basis points on a per annum basis. Add to that the operating leverage should start playing out with better growth coming in. The fourth is, there was one factor in Quarter 3 which we had said that the freight expenses are impacted the margins almost by 1.2%-1.3% and Quarter 4, we are seeing that the cost has further gone up. We personally believe that maybe in two quarters' time it should start normalizing. These are the levers which are there for margin improvement for the next year and therefore, I said at least Quarter 1 we should be minimum 300 basis point improvement, of which 50% is because of the fixed expenses of liquid business going away.

- Rajesh Kothari:** I'm not having presentation in front of me. What is your fourth quarter EBITDA margin and your FY22 EBITDA margin before other income?
- Sudhir Menon:** Quarter 4 is 26.3% and this year should be around 28.3%.
- Rajesh Kothari:** You are saying, on full year basis if I look at it then from 28.3% you are saying maybe about 29%- 30% that's what basically you're targeting on full year basis, am I right?
- Sudhir Menon:** Correct.
- Rajesh Kothari:** Because you are saying on fourth quarter basis it will go up by 300 bps from 26% to 29%?
- Sudhir Menon:** A minimum 300 basis point it should go up. That's what we believe. Therefore, what I said is, let's wait per Quarter 1 results and there should be a clear direction for the full year.
- Rajesh Kothari:** I understand. One just follow-up question on US business, whereby in last particularly 1-2 months, you mentioned that on generic side, the players are maintaining price discipline because it has gone so much down, I didn't get that point. Can you clarify on that?
- Sanjay Gupta:** I think I was just talking in general about what we are seeing in the marketplace is that if you recall, I mentioned that quarter-on-quarter the price erosion is in low-single digits, while you compare year-on-year it is in the mid-teens. Obviously, the pricing pressure in the recent months has been a lot lower than it has been over a 12-month period of time. That is coming from I would say more rational behavior from suppliers as well as to some extent from buyers. That is what I was referring to.
- Rajesh Kothari:** From here on how do you see the pricing, do expect the pressure to continue or do you expect it to stabilize from here on? What is your internal guess?
- Sanjay Gupta:** I would say that specially for older legacy products, it would probably slow down because there is nothing left to squeeze, without squeezing the manufacturers out of the market.
- Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital Advisors. Please go ahead.
- Nitin Agarwal:** Sudhir, what will be the closing net debt number for us?
- Sudhir Menon:** Our net-debt to EBITDA should be 1.3x and net-debt should be roughly Rs 3,400 Cr.
- Nitin Agarwal:** I got that. On hedging given the fact that the currency has depreciated a bit during the last few days, in the past you used to policy of hedging the entire almost like 1 year forward earnings, do we still continue with that?
- Sudhir Menon:** Yes Nitin.

- Nitin Agarwal:** I guess presumably so that should play out in one form or the other for us in these forthcoming quarters now.
- Sudhir Menon:** Yes absolutely.
- Nitin Agarwal:** The last bit on the gross margins, you said the incremental addition of the US business with the expected approval for the plants and all coming through, will it have any impact on the mix for the gross margins?
- Sudhir Menon:** Absolutely Nitin. I think the new product launches happening will push up the margin. So far US has been quite negative on the overall gross margins. I think that should stop. At least it should start pushing up the gross margin or US should start contributing to the upside of gross margin I would say.
- Moderator:** The next question is from the line of Bharat Celly from Equirus. Please go ahead.
- Bharat Celly:** I just wanted to understand on the cost optimization part. You said that 300 bps will be realized in the next quarter. So just wanted to understand will it be the most optimization or we can further realize in the upcoming quarters as well and what will be the avenues after looking at the plants, after the plant optimization, where will be these benefits come?
- Sudhir Menon:** After the plan optimization?
- Bharat Celly:** You said that 300 bps benefit will be there in the first quarter. Are we going to realize even after first quarter or it is going to be just initial period?
- Sudhir Menon:** No. I mean it's something which is already done as at 31st March. Basically optimizing the capacities which we have in all our facilities. If you're bringing down the ship it means that it cannot be brought up immediately back again. So that's already initiated and should happen in Quarter 1 I said and therefore that benefit should continue throughout the year. I mean there's no going back on the costs later.
- Bharat Celly:** Could this benefit scale up to 400 bps or 500 bps in the upcoming quarters also, like from second quarter?
- Sudhir Menon:** No, that's not the way to look at it.
- Bharat Celly:** That is the maximum benefit which we can realize by just having this?
- Sudhir Menon:** Yes. From the cost optimization at the plant.
- Bharat Celly:** Are there any other avenues also to optimize the cost which you are looking at?
- Sudhir Menon:** It's a continuous process. The only thing what we said is given the way the US business is behaving for us with no new product launches coming in, we thought of optimizing the cost to

a certain extent. That benefit should flow in '22-23. Now if you ask me whether further plant optimization is possible, the answer is no, we are not looking at it at least for '22-23.

Bharat Celly: In the last couple of quarters, you mentioned that you are getting into trade generics. Can you talk a bit how that business is behaving, whether we have got some traction there and what sort of size we have achieved so far?

Aman Mehta: Yes, it remains within that kind of 1.5%-2% contribution range to the to the overall India business as of Q4 as well and we expect that our second wave of SKU launches should happen maybe around end of Q1 or Q2 and that should help the contribution increase from here.

Bharat Celly: Just wanted to understand what are the timelines for the Revlimid launch, whether you are going to be among the second wave of launch or it will be falling after that?

Sanjay Gupta I think I already said that we will not be in the second wave so we'll be launching much later.

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

Saion Mukherjee: I am just following up on trades generics question. So, when you come with the entire basket that you plan, so first what's the timeline and how much will this contribute eventually in your view whatever timeframe you want to share from 2% currently?

Aman Mehta: It could be identical to the first wave of launches that we did last year. The idea is that these new SKUs should double our base. What we have mentioned earlier is also that we don't anticipate this to be more than kind of 3% to 4% of the total India business in the near-term. Long-term we'll have to see how the overall trajectory and profitability turns out, but near-term I think 3% to 4% contribution is something that we would be okay with.

Saion Mukherjee: And Aman, do you see trade generics in general cannibalizing the prescription business for the industry because we have seen some good growth from some of your peers?

Aman Mehta: No not really. Because trade generics is mainly in the acute segment and very few kind of rather very little chronic contribution and also the regional skew is quite significant. Wherever there is an overlap between the branded and trade generics there's minimum kind of substitution that we're seeing. Of course, it does happen but it doesn't really impact the trajectory of branded business that much. Particularly in our case, our portfolio is completely complimentary. The branded business and trade generics don't have any overlap whatsoever. There's no chance of cannibalization happening there at all.

Saion Mukherjee: Just one last one on field force addition. So, we are seeing many companies adding people for new launches and for expansion. Is that having an issue in terms of wage cost, inflation and attrition which has historically been quite low for Torrent? Are you seeing any challenges with respect to attrition and wage inflation there?

- Aman Mehta:** No, as of now not really. Our attrition and cost structure remains fairly identical to how it has been and not really expecting it to change much from here in this financial year.
- Moderator:** Ladies and gentlemen we'll take the last question from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.
- Tushar Manudhane:** Just on the US generic business per se, strategically this piece has not kind of given required economic benefit may it be in terms of the liquid facility or even in terms of the Indrad-Dahej facility. So subsequent to this discontinuation of liquid facility at the strategic level and not may be at plant optimization level, but at a strategic level what further can be expected?
- Sanjay Gupta:** Essentially, we are not by any such an imagination quitting the US business or anything like that. We are adjusting our investments so we would continue. We have actually if you look backwards every year, we filed a close to 10 ANDAs unfortunately, those ANDAs have not brought us much benefit because of the facility quality issues. Once the quality issues are resolved we will continue with about 8 to 12 filings per year. Usually, the number of filings will become less important as we were moving towards more complex filings. Again, these products would be in common with other two geographies and we are not looking at any further industrial investments for the US market. All in all, I would say making R&D investments and hoping to grow the US business from this current low base is what our strategy is going to be. You would see more products like Dapsone. So Dapsone is an expensive product to develop. It required a clinical trial in acne patients. And it is bearing good fruits. In the future you should see similar products to that rather than I would say white pills.
- Tushar Manudhane:** Any products which are under shortage, which have been filed or which are already filed which can trigger faster or prioritize your regular inspection?
- Sanjay Gupta:** We have a few CGT exclusivities already enhanced and we have a portfolio of products for which we hope to get the Competitive Generic Therapy Designation from the FDA. Usually, you get that if you are the first generic for a non-patented product. Yes, we are making efforts to get that designation and we already have received it for a couple of products, so we would see more of that. These are limited competition in first generics for a non-patented products that is launched by a generic company.
- Tushar Manudhane:** Just lastly if you could help us with the effective tax rate for FY23-24?
- Sanjay Gupta:** I didn't get the question.
- Tushar Manudhane:** Effective tax rate for FY23-24?
- Sudhir Menon:** Yes, it should be around 32-33, Tushar.
- Tushar Manudhane:** There is good reduction in the trade payables as well. Any specific to highlight there?

Sudhir Menon: The Germany business is coming down. If you see sequentially there has been a degrowth in German business right? That's a major chunk of the trade payables actually, Tushar. As a business come down the trade payables also keep on coming down. It correlates to each other.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Sanjay Gupta for closing comments.

Sanjay Gupta: Thank you. Just like to conclude by saying that we are seeing good traction in our branded generics portfolio. This currently accounts for 70% of our top line. We are doing our best to remediate the US business. We are optimistic that post the quality inspection from the FDA, we would be on a growth path in the US. For Germany again, after Q2 in the second half of this year we expect that it will be positive momentum from new tender wins as well as new launches. Hopefully, we would be able to show good results at the end of this fiscal year. Thank you very much for your interest in Torrent and our team of Investor Relations is available for any further questions. Thank you and bye-bye.

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