"Torrent Pharmaceuticals Limited Q3 FY-22 Earnings Conference Call"

January 25, 2022

MANAGEMENT: **MR. SANJAY GUPTA – EXECUTIVE DIRECTOR, INTERNATIONAL BUSINESS.**
MR. SUDHIR MENON – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER.
MR. AMAN MEHTA – EXECUTIVE DIRECTOR & CHIEF MARKETING OFFICER, INDIA BUSINESS.

Moderator: Ladies and gentlemen, good day and welcome to Torrent Pharmaceuticals Limited Q3 FY22 Earnings Conference Call. 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 Mr. Menon.

Sudhir Menon: Thank you Neerav. Good evening and welcome to Q3 FY22 Earnings Call of Torrent Pharma. Very quickly, the financial performance highlights during the quarter is as follows, the revenues were Rs 2108 crores up by 6% on Y-o-Y basis, EBITDA was at Rs 585 crores down by 5% on a Y-o-Y basis, the profit before tax was at Rs 357 crores, same as corresponding quarter in the previous year. Net Profit After Tax was at 249 crores which is down by 16%, essentially because of the tax change which has happened during the year. Profitability for the quarter was impacted due to higher than anticipated price erosion in the U.S. based business, coupled with under absorption of certain amount of plant overhead and certain one offs which has come during the quarter.

We have rolled out cost optimization initiatives and we are confident to revise the margins in the shortest possible time. Today, the Board of Directors have recommended interim dividend of Rs.25 per equity share. I would now hand over the call to Aman to take us through the India business performance during the quarter.

Aman Mehta: Thanks Sudhir. India revenues were at Rs 1072 crores grew by 15% versus the market growth of 6%. And even as per the AIOCD data Torrent's growth for Q3 was 15%. Growth was driven by robust performance of top brands in all our focused therapies. PCPM for the quarter was 9.9 lakhs with an MR strength of 3600.

Torrent continues to focus on brand building and specialty approach and a 16 brands in the top 500 of the IPM, with 11 brands more than 100 crore sales as of MAT December '21. I'll now hand over to Mr. Sanjay Gupta for the international business.

Sanjay Gupta: So, I'd like to start with Brazil. Brazil Q3 sales were about 135 million BRL up by 8%. Year to date sales in Brazil were about 353 million BRL up by 13%. Growth was aided by market growth together with performance of top brands and new launches. During the quarter Torrent has launched a new division in the CNS segment. Further, Torrent has recently launched Rivaroxaban, which has a market size of about 800 million, which is the largest market in which we would participate in Brazil. With resilience in market growth and launch of a division we expect continued strong momentum in Brazil growth

Moving on to Germany, Germany sales were 28 million down by 6% on year-on-year basis. The market growth in Germany continues to be muted for the calendar year 2021, the market was essentially at 0% growth. The tender segment is also witnessing increased amount of competition. For the U.S., sales were at 31 million down by 21% on a year-on-year basis. Sales were lower due to price erosion in the base business and lack of new approvals, pending re-inspection of facility. The manufacturing facility at Levittown U.S. was inspected by the USFDA during December 2021 and did not give any observations. As of December 31, 2021, 51 ANDAs were pending approval of US FDA and 7 tentative approval were received. 2 ANDAs were approved during the quarter.

I would like to conclude by highlighting that the growth momentum continues in branded generic markets including in our India business. Delay in re-inspection of U.S. facilities together with price erosion with certain one offs have adversely affected the U.S. business. We are confident that the cost optimization measures initiated during the quarter would aid us in reviving margins in the coming quarters. Now we can open the call to questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: You alluded to certain one offs during the quarter, on the U.S. business in specific or on the overall business, can you quantify that?

Sudhir Menon: Yes, so when I said one off Tushar, there are two or three items I would like to highlight. So number one, during the Q3 versus Q3, there has been an increase in the freight expenses, almost by 1%, I would say. This is something which has happened, because of this whole Omicron surge related disruptions which has happened, which we feel should come back in a quarter or two. So that's something which has happened in this quarter around 1% impact. The other 1% impact is, there were certain failure to supply provisions we made again for the U.S. business on one of the products where we had contracts, and we decided to discontinue that particular product. So that is another 1%. And what's actually happened this quarter is that the actual manufacturing volumes were much lower than what was planned, which led to under absorption of overheads which has impacted the margin by almost 1%. So all in all, 3% is something we believe that it's a one off for the quarter, and which should come back in a quarter or two. That's the one of which I was talking about.

Tushar Manudhane: Got it sir. And with respect to this failure to supply basically the product economic viability was much lower, it seemed that it was better off to take provision for failure to supplier rather than supplying the product, is that the logic for this?

Sudhir Menon: No, not really Tushar. Tushar, we had some issues with respect to this product availability. And therefore, we decided to discontinue in that process certain contracts which were there had to be cancelled. And therefore, we've made provisions of failure to supply assuming that this would come and hit the P&L.

Tushar Manudhane: Understood. And just lastly with this run rate and given the lack of accrual basis the inspection not happening, so this can be a sustainable run rate to go by or you see further headwinds from the U.S. business in particular?

Sanjay Gupta: So generally, until we get new approval, we would expect the share of the U.S. business in Torrent revenues to continue to decline. We have a few set of approvals expected in Q4. I would say the biggest among them is Dapsone, which is a dermatology product roughly about $135 million with two players. So if that approval comes through, as expected on February 18th, that would provide a boost to top line. But other than that, the bigger boost we'll have to wait for the plant inspections to happen. Because we have about more than 50 ANDAs waiting for approval out of which about 27 have nothing more pending issues except facility clarity.

Tushar Manudhane: Ok. And can you just rename the product and the name of the product?

Sanjay Gupta: The one we expect on February 18th is the Dapsone, it's a derma product.

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

Prakash Agarwal: My question is, like all the three things that you said which is about percentage, each is part of impact of gross margins would that be correct?

Sudhir Menon: No. All of them are basically middle line, Prakash.

Prakash Agarwal: No, so because I see two things happening. So one is your gross margins have gone down that is one, second is your other expenses is also gone up. So which is sitting where because there's a clearly 200 or 300 basis point miss on the gross margin in about 500 basis point lower in EBITDA. So could you just help us understand, gross margin could be this the under absorption that you spoke about, and provision of U.S. supply so 2% and freight would be part of other expenses?

Sudhir Menon: Absolutely. So freight and failure to supply provision is in the middle line. As far as under absorption of overhead is concerned, again I would say some part would be in the middle line and some part would be in the gross margin because essentially the inventory valuation which happens, happens along with material cost and overheads. So, I would say 2.1% in gross margin is surely because of the price erosion which has happened in the U.S. out of the 2.4% lower gross margin compared to Q2, and rest would be I would say the under absorption of overheads.

Prakash Agarwal: Okay and this other expenses even if we add back this, still it is on the highest side. So, what do you think is a sustainable number for this piece?

Sudhir Menon: So, 2% is what I said. Definitely, let say 2.3 - 2.4 is definitely what we spoke about as one time, which should get corrected over a period of time, there is no problem from that perspective. In addition to that, there's an increase in R&D spend by 10 crores. So, to that extent here and there should be fine. So, definitely 2.2% - 2.3% should get reversed from the other expenses is what I believe. The other is plus minus 10 crores here and there Prakash.

Prakash Agarwal: Okay. And this you are saying would be like Q4 phenomenon, it will take couple of quarters to reverse?

Sudhir Menon: So, definitely Q1, I feel I'm very positive, is what I can say. But Q4, we should see something happening. I'm not too sure about it, but definitely Q1 we should see these things happening.

Prakash Agarwal: Perfect and my second question sir is on the India business, so very strong growth. How are we seeing in terms of new launches, in terms of any big launches that you anticipate for next year, especially in diabetes, etc and where are we in terms of new launches for next year?

Aman Mehta: So in Q3, we've had about 10 new launches, some of those would be combination and extensions, some would be in sizable markets. So the opportunity would be fairly large and Q4 also we plan to launch around 10. Out of that 10, we've already launched two, one of them being Dydrogesterone which is a large opportunity and second is Molnupiravir.

Prakash Agarwal: And any growth expectation for next year?

Aman Mehta: So if we look at Q4 at least right now, what we hope is that the IPM growth which is at 6% in Q3 , that should increase sequentially. So upwards of maybe 9%, -10% is what the IPM hopefully should deliver. And we are confident of maintaining this growth run rate higher in the market. Next year of course there has been a base effect in Q1. So growth reported may not be as high but underlying growth we believe should continue at 10% of the broader market. And our growth should be higher than that as per this quarter.

Moderator: The next question is from the line of Sriraam Rathi from BNP Paribas. Please go ahead.

Sriraam Rathi: So two questions, one on the gross margin. So, gross margin is down by almost 2% to 3% on Q-on-Q or Y-o-Y basis. One reason of course is the U.S. generic pressure, but there is something more to that. So, what exactly would have been the reason for this?

Sudhir Menon: No, Sriraam the net drop versus Q2, if we look at it is around 2.4%. Of which we are saying 2.1% is because of the price erosion, which has happened in the U.S. Almost 19% price erosion, we've seen this quarter happening versus Q2, not on Y-o-Y. So that's the major component and as I said, some portion of the under absorption, which has happened. So that effectively talks about that 2.4%.

Sriraam Rathi: So, how should we look at this number going forward, because if U.S. continues to be into pressure so?

Sudhir Menon: That's a good question actually. So, U.S. price erosion is something which will remain at least for Q4. The way I look at from next year perspective is that the recovery would definitely happen in terms of the price increases which we would be taking on the standard generic field that is something which for sure is going to happen ss far as branded piece is concerned and as a portfolio, the share of the total revenue, 65% is branded generic businesses. So, if you calculate back of the envelope, 1% to 1.2% of this should get offset with the price increases which will come in branded generic prices is what I believe. Plus, what we also expect if the U.S. business the US FDA inspection is happening next year, there are few launches which can start happening next year, not all the products will be giving a better margin or a higher realization, but there will be some products which would give, that's point number two. And point number three is, there's already a few products from the E-R&D, it's the external R&D pipeline which would start coming in actually for the next year. And we don't see problems for those products coming in. And those could also help in pushing up the margin. So all in all, I personally believe that most of this drop which has been in Q3 in the gross margin should come back in the next year.

Sriraam Rathi: Okay, got it. And secondly, on SG&A expenses, there is increase of almost 15% to 20% increase in absolute amount, you explained the reason for that. So, like we were doing 350 to 370 crores kind of expense every quarter. So, from Q1 assuming that credit cost normalizes, so should we be back to that kind of number or it will be on the higher side?

Sudhir Menon: So there are two main impact items Sriraam, so as I said 1% is because of that freight which is let's say 1% of the revenue is 21 crores, so out of 542, 21 is contributed by this incremental freight which has come in so that should normalize is what I said by Q1 at least next year. The other impact which I said 1% is the failure to supply provisions which we made in Q3. So another 1%, that's also 21 that should also come back. That impact should not be there in the future quarters. So all in all, if I put these two items together, then we are talking about a 42 crores, so 542 becomes 500 against an average of 490 which we were clocking in the previous quarters. So 490- 500- 505 that should be the base number on which next year, I believe at least 8% to 9% increase is something I would take on a normal business.

Moderator: Thank you. Next question is from line of the Damayanti from HSBC. Please go ahead.

Damayanti Kerai: Sir, my question is again, on gross margin. So you explained majority of decline is due to the price erosion part. How about decline due to raw material price increase and how do you see this part for next few quarters, the raw material price inflation?

Sudhir Menon: Damayanti you are right actually. So, the drop in margin which was explained was versus Q3. So if you ask me whether the raw material prices has further gone up in Q3 versus Q2 maybe not. I don't see that kind of an impact. But yes, during the year we've seen some increase in prices, both API and inactive raw materials and some of the inactive raw materials, almost 50% price hike. So as the portfolio since we are more focused on the chronic segment, and the dependency on China factor is quite low from that perspective, because most of the price increases we've seen on the acute side, not on the chronic side. But, if I look at from an overall perspective, yes and cost margin could have got impacted by maybe 0.8% to 1%. That's there in Q2 as well as Q3 I would say.

Damayanti Kerai: Sequentially we haven't seen additional impact of this raw material price inflation, you said 0.8% to 1% on a Y-o-Y basis?

Sudhir Menon: For the year.

Damayanti Kerai: Okay, that helps. And my second question is, do you have any visibility on a timeline for FDA inspection of the pending issues at Dahej and Indrad and what about the supply situation from Levittown plant?

Sanjay Gupta: So, actually we don't have any visibility on inspection of Dahej and Indrad. So the supply situation from Levittown is by the March of 2023, we should have about 10 products on the market. And we are on the way to generate about between $6 to $10 million of annual revenue.

Damayanti Kerai: Sorry, sir I just missed. So by fourth quarter we should be going back to this 8 to 10 million kind of run rate from the Levittown plant?

Sanjay Gupta: Correct with about 10 products on the market.

Moderator: Thank you. The next question is from the line of Neha from Bank of America. Please go ahead.

Neha: I have two questions. First, in your opening remarks, you mentioned cost optimization steps that you would plan to take. If you could just give us some color on what these would be. And my second question, if I remember correctly, we had indicated that we could potentially look at investing back in India to increase our sales force, by when should we expect that or do you think we can support growth in the India business with the current sales force. Thank you.

Sudhir Menon: Neha, I'll take the first question and then probably I'll give the second one to Aman to answer. So, when we spoke about cost optimization that was more in terms of the plant overheads, where we've done some amount of work on that, and what we are doing is that we are trying to maximize the volumes at one particular plant. And as far as the other plant is concerned, we are trying to cut down on the shift for that particular plant. And in this whole process also optimizing volumes for different geographies in such a way that at least some part of the plant overheads can be optimized. That's what we said that the cost optimization measures have already been undertaken. So that's something which you would start seeing as far as gross margin is concerned, definitely from Q1 of next year.

Aman Mehta: So, for the India field strength and expansion, so we would be undertaking some level of expansion during this quarter, which has been initiated already, I would say about half of the total plan would be implemented by end of Q4. And the second half would be probably by the end of H1 FY23, looking at something about between 400 to 500 reps, addition to the current field force.

Neha: So, in which case there would be some additional cost pressures that we will see because of this field force addition. So that would be an incremental expense over and above, some of the price increase will be offset by the higher employee costs that we could see, so is that the right way to look at it?

Sudhir Menon: Sorry, Neha can you repeat your question?

Neha: So, the 400- 500 additional people would increase our employee cost, which would be another cost headwind, a margin headwind for next year, and therefore the price increase that we would see in India would partly get offset by this cost increase, is that the right way to look at it?

Sudhir Menon: It's a logical way to think but the other thing which I have been talking about is that on an overall basis, you will feel the operating leverage kicking in, because the top line would be much faster than the middle line. So, yes to a certain extent, it's a logical thing that the price increases will help in offsetting this particular expense, which will not be substantial. It should be less than or maybe 0.5%, I would say. Other expenses also playing out, there will be operating leverage kicking in so on an overall basis it should not be a major impact on the overall margins, which will get offset against the incremental benefit which is going to come.

Aman Mehta: Expenses tend to be more gradual when it comes to Q4 expansion. So over maybe 910 month period would it be really in full implementation rather than upfront.

Moderator: Thank you. The next question is from the line of Abdul Poonawala from Elara Capital PLC. Please go ahead.

Abdulkader Poonawala: So just would you be able to provide the breakup of the 51 ANDAs which are pending with the USFDA as to how much would be filed from Dahej and Indrad and how much would be third party in these?

Sanjay Gupta: So the exact number we won't be able to provide, but majority of them are from Dahej and Indrad. So, I have mentioned, about out of these 27 have nothing pending except for facility. So we should expect those approvals in quick speed after the inspection. So generally, the timeframe for the FDA, if we can assume that the inspection takes place in month one, you would get the EIR if everything goes well, in about four months. And then normal timeframe for FDA is about 90 days after the EIR to start approving an ANDA. So, if the inspection takes place next month, eight months after that you can expect October - November timeframe, products to start getting approved.

Abdulkader Poonawala: And sir in the next question on Germany, we saw last quarter in Q2 as well we put it across 2% decline and in this quarter again, we are facing some headwinds. Going ahead also we knew this business, especially on the tender side, and what is the kind of growth we should build up for next year, if you could help us on that?

Sanjay Gupta: So, last six - seven quarters we've seen sales varying in the range of between €28 to €30 million per quarter. So it's been kind of stagnant, the delta has is very little, it's usually in this range between 28 and 30. And there are two types of factors behind this. One is I would call more market related factors, and one is Torrent specific factors. So market related factor is overall the market has been flat. So usually, German market used to go between 2% and 3%. So that is what happened 2021, we saw zero. Second market related factors is, we've seen new players come in and some kind of price erosion. So over the last one year, we have seen about 7% price erosion so it's not yet to U.S., but it is becoming like more competitive and more price sensitive in Germany. But on a Torrent specific factor, we've noticed two or three things. One is, we've lost a few tenders. So, because of the pricing pressure we lost a few tenders, and also where we have won tenders in two or three player markets, we've not been able to convert our market share effectively. So the steps we are taking is more, we've done a cost optimization exercise so that we can be more aggressive in the forthcoming tenders. And also, we have kind of worked with the channel and the wholesalers and the pharmacists to increase the attractiveness of the Torrent products to them so that we can get better market share where we win tenders. So unfortunately, the next series of tenders will not really come before October. So I don't expect any short term turnaround in the next quarter or two. But as new tenders come up, we would be well placed to win, I would say more share in them as compared to the recent past. So that's how we are planning to validate.

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

Anubhav Aggarwal: First question, just to trying to understand the U.S.price erosion 19%. So we had quarterly sales 35 because of that, so this is a portfolio average. So this implies in some products, we should have seen erosion of 40%, 50% as well and we are not a company where we have very high product concentration. So just trying to understand this 40%, 50% erosion in certain products. Is that permanent or was it like some companies are having inventories they dumped it and this was one of pricing has that become a new pricing and Sanjay sir can you explain the background of very high pricing

Sanjay Gupta: So just to highlight what are the products behind this. So number one product that is responsible is a product called Nebivolol. So, Nebivolol is something that we've had approval since a long time. And we launched it in last quarter and it was essentially a four player market with good pricing. In the end of December, middle of December we had two additional players come into the Nebivolol market. And that actually brought down prices dramatically with some adjusting stock adjustments to be paid to the customers. So as a result of which that was the number one factor. The second factor I would say is, we have also launched one of the Sartan at a decent price. And then again, there were new players that came into the Olmesartan (products because of which there was a dramatic price reduction. So I would say there have been disproportionate price reduction on a few products which has resulted in this happening.

Anubhav Aggarwal: Okay. So this is a new base effectively?

Sudhir Menon: Yes, Anubhav I would say so.

Anubhav Aggarwal: And where have we been gaining volumes because 35 going to 31. So you've been gaining volumes as well, can you also mention products?

Sanjay Gupta: So, on a portfolio basis our volumes last four years have been between 375 and 400 crores. So we are still running at the same one, with mix changes overall the size of the, the volume of the business has been fairly consistent.

Anubhav Aggarwal: Question on the U.S. business, which is Dapsone. So just to understand it, you have tentative approval and you have a settlement date 18th of February, you can launch it without any ifs and buts right?

Sanjay Gupta: No, the GDUFA date is on 18th of February. So we need the FDA approval on the 18th to be able to launch the product.

Anubhav Aggarwal: So, don't you have a tentative approval on this, it is Dapsone?

Sanjay Gupta : Yes, exactly we have tentative approval, we expect the final approval on the GDUFA date.

Anubhav Aggarwal: Understood, okay. And this is back to Sudhir sir, just trying to understand this freight increase, I did not follow this when you said that Omicron surge related disruption can you elaborate on this?

Sudhir Menon: Yes, it's basically on the international freight. In some of the pockets like Europe and Brazil. We saw the prices, the freight cost going up substantially I would say and that's because of the availability of space, the airspace, which was much lower compared to Q2, so there were some disruption we saw during Q3 it terms of the availability of space, and therefore the air freight shoot up like anything.

Anubhav Aggarwal: And what you're seeing now, has that somewhat moderated or still running very high?

Sudhir Menon: No, it will moderate the Anubhav, that is a feedback which I'm getting internally in terms of our procurement guys talking to the agents. And we believe we should come back first to the normative level .

Anubhav Aggarwal: And when you said the manufacturing volumes were lower in this quarter, what led to that lower manufacturing volume?

Sudhir Menon: It basically, the change of product mix, which has been happening for the U.S., I would say so there was some plan which was made in terms of maintaining some level of inventory, and the product mix is changing because of the contracts, the new contracts coming in for some products and some products going off. And that caused a reworking and we saw that Q3, the manufacturing volume really came down and what we had planned in the beginning of the year.

Anubhav Aggarwal: Okay. And just last question for Aman actually, when you talk about 400 - 500 field force expansion in India, can you also give some indication where are you adding this people majority, is it to your star therapist like cardiology, CNS, etc or are you adding them to the newer therapies that you want to grow, etc. With the objective to increase doctor coverage, etc ?,Can you just give some high level idea?

Aman Mehta: Yes, this would be predominantly for the existing focus therapies. So CVD, CNS, Gastro, and so on. And this would per division add up to maybe 30% - 40% increase per division in coverage with this new strength. So the idea is to expand, now that we've reached a fair level of market share within the covered universe, the idea is to go beyond the covered universe, that's where the expansion has been conceptualized.

Anubhav Aggarwal: Okay. So let's say per division you are almost adding 30% - 40% increase. So are these guys, are you really going to launch so many products in this division or how are you going to make this guys' productive?

Aman Mehta: No, it would be a mix of both, there would be new launches as well. And also coverage expansion, it would be for the existing products as well. So let's say in CP coverage, we would be not as high as some of the top players in each therapy. So we're trying to now catch up to that, whereas in specialty coverage, the coverage is 100% in all specialties that we focus on.

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

Shyam Srinivasan: Just the first one on the India business, can you just split out into the growth of 15% into price, volume and new products, just whatever the AIOCD equivalent that you quote?

Aman Mehta: Yes, so the AIOCD growth is 15%, volume is 4.4, price is 8 and new products is 3.

Shyam Srinivasan: Got it. So in the past, we have talked about maintaining this 8% price increase. And earlier in the call we have spoken about similar increase in next year as well. So, is there any impediments that could alter that scenario. Is volume growth sufficient enough for you to think that there is no demand issue?

Aman Mehta: No, this range should continue. Again, every year we will have to look at the competitive scenario. But within this range, plus minus one, one and a half percent, is something that we think should be sustainable.

Shyam Srinivasan: Got it. And just one follow up last on the Indian business as on the trade generics. How is it progressing, what is the contribution in the quarter, what are some of the dynamics you're noticing in this segment?

Aman Mehta: So, we've stabilized at about 2% of total contribution to the Indian business now. This is based on the first phase of SKU launches, and we'll be planning an equal number of SKU launches sometime next year. So this 2% should hopefully increase in contribution as we go along by the end of next year. But this bit is now stabilized and we've reached this level fairly quickly in a sustainable wait.

Shyam Srinivasan: Got it. Second question and I can stop after that, is on the R&D cost. So Q-o-Q they have come off, year-over-year they're up. But how should we look at this and where are we filing some of our newer ANDAs so how do we manage it, given that our two plants in India are like under this one. So how should we look at that and R&D cost?

Sudhir Menon: Shyam R&D costs, at least for the next one or two years should not be more than 6% is what my guess is.

Shyam Srinivasan: Okay. And your filing strategy? where are we filing the next products from?

Sudhir Menon: No, so it will continue from Indrad and Dahej. There's some portion of ER&D which anyway will continue every year. But the majority of in-house development which is happening will be filed from Indrad and Dahej only.

Moderator: Thank you. The next question is from the line of Kunal from Edelweiss Financial Service. Please go ahead.

Kunal: Sir, since you mentioned it is very difficult to pinpoint when the FDA will clear Indrad and Dahej plants. Have you made backup plans for high value launches like Revlimid, how is the pipeline?

Sanjay Gupta: So for this particular product it's not being manufactured at Torrent so, I can tell you that. And then for some of the other products where we have our ultimate sites in a plant. But, I can't say more than that but except that for certain high value products, we have a backup site.

Kunal: Sure. So could you just share your debt numbers at the end of Q3 and how much do you expect to go down in the next few quarters?

Sudhir Menon: So overall in terms of repayments, we've done roughly Rs 750 crores and by March we should be close to Rs 900 crores in terms of repayment.

Kunal: Sure sir. And any sort similar number should we expect in FY23?

Sudhir Menon: Yes, it should be around Rs 900 crores to Rs 1,000 crores.

Moderator: Thank you. The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: Sanjay sir, so you are also experiencing raw material price increase in Brazil as well as American products. So in Brazil, are we able to take price increases to set off the raw material pressure?

Sanjay Gupta: So, other than Brazil we have annual price increases approved by the government in April of each year. So, generally price increases are divided into three categories of products, what we call the most competitive product, moderately competitive and then less competitive areas. So, just to give you an example in April of 2021, the government allowed 10% for I would say, very competitive products, 8.4% from Indian concentrated or Indian competitor and 6.7 for highly concentrated products. So, that is and generally most companies take these price increases. It might vary product-to-product based on the competitive scenario, but you can generally expect 6% to 8% calculation on average depending upon how your portfolio split amongst the concentrated and non-concentrated slabs.

Aditya Khemka: Understood. And for the U.S market, I understand new product introduction will obviously help you to overcome some margin pressures. But is there any scenario in which you envisage passing on the input cost pressure on a given product towards customers, so I'm alluding to price inflation in the U.S. generic market. Is that at all a possibility or that is completely ruled out?

Sanjay Gupta: I will not rule it out, because at some point it becomes unsustainable. So the choice before the manufacturers either to discontinue the products or to pass on some price increases. We have seen that, when faced with uncertainty of supply of high volume products where customers are a little bit flexible, not very but there's some degree of flexibility to secure supplies of high volume, I would say products, so you can actually work with them. And with some back and forth there can be a smallish price increases to offset increasing cost of input materials.

Aditya Khemka: And would that be determined by that competitiveness as well as the volume or just the volume is enough?

Sanjay Gupta: I would say, the competitiveness is always a factor if we can get it cheaper from somewhere else, and some other large reliable suppliers are not willing to pass on the input price increases, that would be a factor in the decision making. But there comes a point when everybody is facing the same pressures. It's not a question of efficiency, in-efficiency, it's just the question of descent material cost and what are you recovering over them. So, I would say that there are several products where we benchmark our costs, and they are in line with the best in class. So if we are facing the pressure, we can be pretty sure that others are facing also.

Aditya Khemka: Got it. Sorry, just a clarification on the Brazil response that you gave. So 6, 8 and 10 was the last time the price increase that they gave to less mild and intensely competitive products. This time around, is the expectation of a similar sort of thing, or do you think given the raw material inflation the ministry will be more conducive to a higher number?

Sanjay Gupta: So honestly we don't know but generally the factors that we constitute in to consideration is the inflation rate and the exchange rate because Brazil imports most of the API's that go into the pharmaceutical manufacturing and the local inflation rate. So our expectation as of today, it would be fairly similar.

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

Anubhav Aggarwal: Question to Aman, Aman basically with this expansion of 400 - 500 reps assuming the portfolio grows by +10% next year. So you think that productivity should be maintained around 10 lakhs level, right?

Aman Mehta: Yes, there may be a temporary dip for maybe a quarter or two, but overall level, this level of productivity should be maintained by the end of next year, I would say.

Anubhav Aggarwal: And how do you think, can this be a more regular phenomenon for you, like for example you can maintain this productivity at this level and keep whenever needed, keep expanding your sales force, or roadmap is very clear for next year, but on a medium period how you're thinking about this? When you would have done your analysis what is the need, have you done analysis that by adding let's say right now you're expanding field force for 10%, but if you were to expand by 20%, 30%, you could get much higher growth, etc?

Aman Mehta: So it's a function of two things essentially, one is the increase in number of doctors every year. So, since we haven't really expanded for quite some time. We were covering a very large amount but that kind of natural expansion need to happen. And second would be part of the portfolio when the new launches coming in. So next couple of years, we anticipate a good number of launches similar to last year as well. So those two will be the key driving factors beyond that expanding may not give the best results and have to dilute PCPM as well.

Anubhav Aggarwal: Okay, very clear Aman. Second question on this is, just understanding question that when you look at your buyers today, for example organized pharmacy chain, as well as including e-pharmacies, what percentage of sales would they account today, rough number?

Aman Mehta: Are we talking in India?

Anubhav Aggarwal: Yes, India.

Aman Mehta: So, the organized change including offline - online would not be more than 5%

Anubhav Aggarwal: But their market share in the overall IPM market is already double digit. So your share is much lower is it?

Aman Mehta: Not really. It would be almost the same particularly in chronic it may be higher, because chronic purchases on e-pharmacies tend to be higher. So, it would be pretty much the same as in the overall IPM.

Anubhav Aggarwal: And then your margin that you offer to the other guys versus that you offer to these guys. Is there any difference in the offer of the margins to this?

Aman Mehta: No, it's all the same throughout for all distributors and retailers. There's no differentiation that we're doing.

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

Nitin Agarwal: Thanks for taking my question. So this is on external R&D projects. Can you just give us a little bit more color on how many such projects are there? Three, or four things, one is, how many such projects have we filed so far, how many of these approvals expecting over the next couple of years and what is the pipeline really looking like over here?

Sanjay Gupta: Are you referring to a particular geography or overall?

Nitin Agarwal: For the U.S.?

Sanjay Gupta: So for the U.S., in fact the number of projects are close to 50, in a diversified back chain of products, so there are products which are in dermatology, there are products which are oncology, and there's a series of potentially CBT products and then there are some oral solid and liquid. So it's a diversified back kick and our goal is, not so much linked to the number of ANDAs, the number of ANDAs are generally we used to do close to 15 to 20 now we are doing somewhere closer to 10 per year, but the complexity and the cost of per ANDAs has gone up. So, we are doing products which for example in oncology we have a new oncocytic which is coming on stream and we'll be filing the first three onco products in the coming years. We are doing products which require in patient service so kind of expensive business to do. So the portfolio mix is evolving continuously and it's more trending towards a more expensive, more risky projects into the smaller number of projects.

Nitin Agarwal: And I was trying to understand on how many of our product filing that we have done so far and are through partners?

Sanjay Gupta: Through partners, I would say as of today, we have about five to six filings. So, we have three products which are approved.

Nitin Agarwal: Okay. And how many do we expect approvals for this year to the extent these approvals can potentially come through without FDA inspection?

Sanjay Gupta: It's about three approvals in the coming year.

Nitin Agarwal: And lastly, you have called out Dapsone launch in Q4. When you look through your potential launch calendar over the next four to six quarters how many more such reasonably high value approvals or rather launches do you foresee?

Sanjay Gupta: So, it's hard to predict right so based on a lot of factors, but generally I would say in a normal year we should expect about low single digit three to four such launch.

Nitin Agarwal: And will FY23 qualify in your estimation to be such a normal year?

Sanjay Gupta: Having no site issues basically, that's what I was referring to.

Nitin Agarwal: Okay. So, going forward how are you looking at this partnership, how important is partnering for incremental R&D filings the pipeline going forward?

Sanjay Gupta: So every year we try to do let say three to five projects and in areas where Torrent doesn't have capability or infrastructure so that is the kind of trend that we would continue.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to Mr. Sudhir Menon for closing comments.

Sudhir Menon: Thank you Neerav and thank you everyone for joining Torrent Q3 FY22 call. If you have any follow up questions, please feel free to contact me or Sapan or drop in a mail in our investor services email. Thank you.

Moderator: Thank you very much. On behalf of Torrent Pharma Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.