"Torrent Pharma Q2FY25 Earnings Conference Call"

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY25 Earnings Conference Call of Torrent Pharma.

As a reminder, all participant' 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 this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sudhir Menon – Chief Financial Officer & Executive Director, Finance. Thank you and over to you, sir.

Sudhir Menon: Thank you. Good evening and welcome to the 2nd Quarter Earnings Call for FY25.

We continue to see strong performance in our branded businesses, which accounted for 74% of the overall revenue this quarter. India business grew by 13% this quarter. Brazil grew by 17% in constant currency terms. And in terms of INR, it was 4% due to the currency depreciation. Germany grew at 8% in the quarter. And we continue to win additional tenders quarter-on-quarter. US grew by 8% and was flat on rolling quarter basis. This quarter, insulin revenues were impacted due to the shutdown taken in the month of August for maintenance activities. The facility will be released for manufacturing in December. Shortfall is planned to be significantly recovered in quarter four of this year and consequently there will not be any impact on a full year basis.

Broad Financial Highlights for the Quarter:

Revenues were at Rs. 2,889 crores, up by 9% and operating EBITDA at Rs. 939 crores, up by 14%. The operating EBITDA margins for the quarter stood at 32.5%. This margin accounts for the cost of 300 reps, which we have added so far this year. Adjusted for insulin revenue impact this quarter, the underlying revenue growth is 10% and operating EBITDA growth is 16%. Other income includes forex loss. Net debt to EBITDA stands less than 0.5x as at end of Quarter 2.

I now hand over the call to Aman for India Business.

Aman Mehta: Thanks, Sudhir. India revenue at Rs. 1,632 crores registered a growth of 13%. As per the AIOCD secondary market data, the IPM growth for the quarter stands at 8%. Torrent's chronic business grew at 14% versus the IPM growth of 9%, driven by continued traction in our cardiac divisions and OAD new launches. The cardiac business, which is our largest contributor, has grown by 15% during the quarter versus the market growth of 12% due to the restructuring that was undertaken last year, along with divisional expansion.

We continue to see positive traction in our Consumer Health business. We have expanded our coverage to 72,000 outlets from 68,000 outlets in Q1. Our key brands, Shelcal 500 and Tedibar in particular, continue to benefit from focused marketing campaigns across various channels, national and regional. On a MAT basis, Torrent has 21 brands in the top 500 of the IPM with 13 brands more than Rs. 100 crore sales as of MAT March 2024.

Field force strength at the end of the quarter stands at 6,000 compared to 5,700 in the previous quarter. We are encouraged by the performance in the recently expanded divisions and headquarters. This expansion is not only helping us gain regional market share in previously untapped areas, but will also provide a platform for new launches in the near future. We expect the India business to continue outperforming the market growth. Our focus during the year will be on continuing to improve our market share in focused chronic therapies, new launches, improving field force productivity in the expanded divisions and regions and continuing the scale up of the Consumer Health business.

I will now hand over to Mr. Sanjay Gupta for the International business.

Sanjay Gupta: Thanks, Aman.

We will start with the branded generic business of Brazil:

Q2 constant currency revenue was at 174 million BRL, registering a 17% year-on-year growth. As per IQVIA, market growth was at 8% for Q2. Secondary sales for Torrent as per IQVIA also grew at 8%. During Q2, we launched lisdexampthetamine for ADHD. It's a 800 million BRL market, and we are one of the two branded generic players. Our goal is to make this into a large brand, which in Brazil would mean annual sales above 75 million BRL. We have a rich pipeline of 21 molecules filed and waiting ANVISA approval. In Germany, our German business registered a constant currency revenue of 31 million euros, up by 6%. During the quarter, we once again won incremental new tenders, which will start delivering incremental sales from Q1 of 2025-26. For the last six quarters, we have increased our overall value of wins in tenders.

Moving on to the US,We have registered constant currency revenues of USD 32 million, up by 7%. Sequentially, US businesses have delivered stable revenues. During the quarter, the USFDA has issued an EIR with a VAI classification for the manufacturing facility at Indrad and the inspection has now been successfully closed by the USFDA. The FDA also inspected our manufacturing facility at Pithampur and issued a Form 483 with one observation. Torrent will respond to the FDA observation within the prescribed timeframe.

I would like to conclude the comments here and open the call up for question and answer.

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

Tushar Manudhane: Sir, just on the insulin front, this issue is more of a temporary thing and you think that this will get resolved soon or it might take longer?

Sudhir Menon: No, so I think the plan is to release the manufacturing in the month of December. And then what we've said is quarter four, whatever shortfall has happened for the four months would be recovered. So, it's a temporary disruption. And therefore, on a full year basis, we should recover the revenue.

Tushar Manudhane: Understood. And sir if you could throw some light, let's say in terms of this GLP-1 set of products as far as India markets, how are we preparing, let's sa,y to launch in the Indian market as and when sort of the regulatory approvals comes through. Will the manufacturing per se will be a constraint in terms of having this product available?

Aman Mehta: No,we are evaluating all options. Early days right now, but we are certainly working on possibilities whenever the launch is possible.

Tushar Manudhane: But just as a clarification like, unlike say other products as far as domestic formulation market is concerned, outsourcing is not that difficult. But do you think that these products particularly Liraglutide, Semaglutide will have the manufacturing constraint?

Aman Mehta: We are not manufacturing or planning to manufacture any GLP-1 at the moment, if that's what you're referring to. This is a CMO business that we are, the old business that we've had with Novo Nordisk for insulin, human insulin.

Tushar Manudhane: I meant to say, as and when we launch, will not having a manufacturing facility or maybe outsourcing ,will that be a constraint even if the demand is there. So, that was the thought process.

Aman Mehta: No, don't think so, but again, early days, we don't have any specific updates as of now.

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

Damayanti Kerai: My first question is on gross margin. So, we continue to see, I guess, positive surprise on gross margin. So, if you can comment what is leading to consistent improvement in gross margins and what kind of further levers are available from here on and where do you see this margin settling in?

Sudhir Menon: So, Damayanti, if you look at last year, full year, the gross margins were maintained at 75 and quarter one of this year we were a little higher, 75.7% and this quarter is even higher and that's because the branded mix in the overall revenue base is higher compared to last year as well as quarter one and that has pushed up the gross margins for Quarter 2. So, it's basically a function I would say, of the branded mix in the overall revenue base. But looking to the last year's base of 75 and quarter one base of 75.7, I think that should hold.

Damayanti Kerai: So, you think current level can be sustained or like can be further improved?

Sudhir Menon: Yes, as of now, it looks so. Because the branded mix will not be changing substantially, I would say, at least for the next quarter.

Damayanti Kerai: My second question is on your efforts or initiatives towards the Consumer Health business. So, if you can share like what kind of incremental initiatives are ongoing and what kind of spend you are incurring to really step up the consumer business in India?

Aman Mehta: So, spends are two-pronged. One is on the ground through the retail activation and our field force. We keep increasing the number of covered retailers across the country, that helps the drive greater coverage and visibility and second is on the advertising, which is both traditional media and digital, depending on the quarter and seasonality and offtake. The spends keep varying from quarter-to-quarter but we can indicate that our spends this year so far have been higher than last year, because we do see that the consistency of the advertising is helping further sales traction, especially in Shelcal 500 and Tedibar.

Damayanti Kerai: So, very broadly, what percentage of sales is currently going towards the ANP for consumer business?

Sudhir Menon: So, Damyanti, it's difficult to segregate and tell you the revenue numbers because these products are already there on the prescription platform. So, we know what we are spending. The only thing what we monitor is that wherever we are doing these programs, what has been the growth, historical growth in these pockets versus the pockets where we are not doing these programs. And we see a good positive outcome happening because of CHC programs that are carried on.

Damayanti Kerai: My last question is on the US business. So, I guess we continue to see a very gradual step up there despite now all the plants, all the key plants being cleared by the USFDA. So, how do you see US sales moving up from here on? And if you can also update in terms of the launches which you are planning for next 2 years or so?

Sanjay Gupta: So, US we don't expect a ramp up in the short term because most of our filed ANDAs are very old, right? Because of the lapse of time since the plants got into trouble. We expect low single digit approval of newer ANDAs and could largely compensate for the price erosions and things of that sort. So, I don't expect the US to ramp up anywhere very fast in the next 2 years. So, it'd be a slow ramp up, unless we get lucky with one or the other opportunities. So, we do have a few which might be a unique product, but we cannot predict because it depends upon the number of competitors that show up and if we get CGT or not. So, I would generally guide towards stable to slightly increasing revenues, but nothing more than that.

Moderator: Thank you. We have the next question from the line of Amey Chalke from JM Financial. Please go ahead.

Amey Chalke: Our first question on the India business. So, in India business, we have been growing well for the last few years. We have gained market share in value, which we could see the data provided by IQVIA and AIOCD**.** However, is it possible for us to give some clarity on the prescription market share again in our top 10 to 15 products over last one or two year? How has been the trend there in some of our key products?

Aman Mehta: Prescription share is also gained. I don't remember the exact numbers offhand, but most of our focused brands in our chronic divisions and sub-chronic divisions have gained higher market share compared to the relative market, or the covered market. So, obviously the prescription growth has to be followed by the market share growth, otherwise it's not possible.

Amey Chalke: And the second question I have, is it possible to provide the margin drivers for the next 3 years? So, far, we have reached around 32% plus now. So, going ahead, what will be the key drivers from here? Is there any geography where you think if the ramp-up happens, the margins could improve? Or anything, any margin drivers you could highlight, please?

Sudhir Menon: So Amey, 2-3 things. I think as far as branded businesses are concerned, some amount of reinvestment keeps on happening every year. And that's something which I said in the opening call, where the quarter 2 P&L has already absorbed the full cost of 300 medical reps, which we have added this year. To that extent, the reinvestment from margins will keep on happening. But in spite of that, I think the general guidance which I have been giving is that we should see anywhere between 50 basis point to 100 basis point improvement happening every year. At least the way I look at for the next 3 years, as of today, I don't see some major investments happening in the branded business. As far as Germany is concerned, Germany is good, I would say, in terms of winning tenders. And there's a good amount of visibility for the next two years. So, I don't see any additional incremental spend happening in Germany as well. US as Sanjay talked about, right, I mean it's a slow ramp up which would happen for the next 2-3 years, which is only going to be positive on the overall performance of the company. So, nothing negative from there as well.

Amey Chalke: So, the way I understand it is the investment space is coming down. So, that's why the operating leverage will play out and that's how the 50 to 100 bps margin improvement will happen.

Sudhir Menon: So, there are two inherent levers, which we've always talked about. So, one is branded businesses' price increases, which we take every year. That's one lever. And the second is the operating leverage which plays out every year for us.

Amey Chalke: The third question I have is on the R&D spend. We have been doing, 5% of our topline on the R&D. Is it possible to give clarity on in what areas we have been spending? Because this has been quite consistent even during the time when we had issues with the US.

Sanjay Gupta: Correct, when we had issues with the US, what we did is we actually diverted a decent piece of the R&D budget towards the markets of Brazil, Mexico and Germany. And so we maintained the R&D spend and we cut down the part of the R&D devoted towards the US. So, hence, we don't intend at least as of today to substantially change the ratio of R&D to sales.

Sudhir Menon: Amey, 2-3 things actually. So, in terms of absolute value, if you see the R&D spend has been going up. On the other hand, the branded businesses share has been going up, right? I mean, for example, Curatio acquisition, which we did in 2022, increases the revenue base. And therefore, as percentage to revenue, it's around 5%. If you look at an absolute value, it's been going up. The only thing which is why it is not going up on relative basis is that the spend on the US, we had lowered, right? Because of the internal issues which we've had. So, I don't see substantial increase in R&D at least over the next one year. But if everything is starting to go right for US, we will see how to incrementally allocate the R&D for US.

Amey Chalke: And in terms of formulation, what all types of products are we putting this spend on, like in terms of injectables or anything else which we are trying at this point?

Aman Mehta: I think most of the R&D spend which is done in house is on oral solids. The other types of platforms are partnered.

Sanjay Gupta: Inside oral solids are oncology, dermatology and classic oral solids.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Could you please explain the insulin issue in a bit detail? What exactly happened, and how it will get fixed?

Sudhir Menon: So, as I said, there is a shutdown taken for some upgradation and maintenance activities. This was something, which was scheduled earlier, right? And what we said is, it's getting released in December. And we should recover the shortfall in quarter four, most of it.

Bino Pathiparampil: So, it was just a shutdown for a plant upgrade. That's it.

Sudhir Menon: Upgrade and maintenance activities, right? It happens once in two years or three years.

Moderator: Thank you. The next question is from the line of Sumit Gupta from Centrum. Please go ahead.

Sumit Gupta: Sir, I have three question, first from the India side. So, now that 300 MRs are added, so what's the plan ahead? Do you plan to add more towards it? And what kind of MR productivity can be seen over the next two to three years?

Aman Mehta: 300 have been added this quarter compared to 5,700 previous quarter, which is what we had also shared last time. I think given how we are encouraged by the performance, we will be looking to add incrementally from here. So, maybe 100- 200 more end of this financial year and potentially a similar number next year.

Sumit Gupta: And the kind of MR productivity that we can target is?

Aman Mehta: More or less should touch, I mean anyway currently it's around 9 lakhs if I am not wrong between 8.5 lakhs to 9 lakhs. Within the next 18 months, possibly it should be between 9.5 lakhs to 10 lakhs. It's a broad range.

Sumit Gupta: Second question on the US sales, so like what is the profitability, the US is not profitable post R&D?

Sanjay Gupta: So, we don't disclose profitability by territory. What we've said is that the US is at a breakeven pre-R&D.

Sumit Gupta: Post R&D, like by when can we expect the profitability to breakeven?

Sudhir Menon: So, the expectation is at least over the next three years, we want to make it a profitable business.

Sumit Gupta: And sir last question is on the CAPEX, so how much of CAPEX we plan to incur over the next two to three years?

Sudhir Menon: Around 250 to 300 per annum.

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

Saion Mukherjee: Just one question. This insulin, can you share what's the revenue for that on an annual basis and is it fair to assume there was no revenue this quarter?

Sudhir Menon: Yes, so ideally per quarter revenue ranges between Rs. 75 crores to Rs. 80 crores and this quarter has a shortfall of almost Rs. 40 crores.

Saion Mukherjee: And just one last question on Brazil. You had good growth. But if I look at the first half, I think the growth is around 12 odd percentage. Is that the right thing to look at? Because I understand, there was some disruption in Q1 and there was a spillover of sales etc. We just want to understand the underlying trajectory because you mentioned IQVIA is indicating a 8% growth.

Sanjay Gupta: Correct. I would say that it's somewhere between 8 and 12 but closer to 12.

Moderator: Thank you. The next question is from the line of Alok Dalal from Jefferies India Private Limited. Please go ahead.

Alok Dalal: Aman, can you provide split of volume, price and new products for India?

Aman Mehta: Yes, so as per the AIOCD data set, our growth for the quarter is 12%. Breakup of that is 1% of volume versus 0.2% of the market, 8% price versus 5.5% of the market and 3% new products versus 2.4% of the market.

Alok Dalal: Sanjay bhai, what will be the guidance for Brazil for the full year? You expect grow to remain in this range only?

Sanjay Gupta: Correct. So I would stick with the double-digit topline growth, I mean, in Brazil, traditionally, historically, the second half is a little better in invoiced sale. So, just the way the wholesalers work**.** So, yes, I think the market should continue to be 8%-9% and we should be higher than the market growth rate.

Alok Dalal: And what is the plan for new launches in Brazil?

Sanjay Gupta: We have an aggressive plan. So, we have three teams in Brazil, two CNS teams and one CND team. And then on top of it, we have a generics division. So, ideally we would like to launch at least one to two products a year for each division. And for generics about at least five products a year, 5 to 10.

Moderator: Thank you. We have the next question from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Coming back on India, so I guess we continue to see very muted contribution from the volume expansion, low single digit. What is the outlook here? Should we assume going ahead also volume contribution will remain muted in low single digit and majority will be contributed by price and new launches? How do you see volume moving up in the broader market?

Aman Mehta: So, Compared to the AIOCD data, our reported growth is higher by, I think, about 1%. So, that we attribute to volume. And we have to look at it from a combination of volume and new products growth, because in our case, its some of our mature products which are now being the share is now shifting to the newer products. So, once the new product growth normalizes into volume growth, it should all be volume. So, if we look at right now, the break up is about 4% between new products and volume. So, our estimate is somewhere around 3% is what the volume growth should be, and that should continue.

Damayanti Kerai: But what are your thoughts like? In the India market, obviously, we are seeing this low contribution overall for last couple of quarters. So, what is attributing mainly for this kind of muted, I guess, contribution from the volume?

Aman Mehta: No, we still believe that the market growth cannot be as low as 8% and volume growth cannot be this low because we simply cannot grow volumes at that rate as we are reporting if the market growth was that slow. So, our estimate of the market growth is higher than what's in the data sets by at least maybe 2%.

Moderator: Thank you. The next question is from the line of Rahul Jeevani from IIFL Securities. Please go ahead.

Rahul Jeevani: Can you quantify the quantum of forex losses which is sitting in other income for this quarter?

Sudhir Menon: Yes, it's around 22 crores, Rahul.

Rahul Jeevani: And sir, on the debt position, at least if I see the 1H number, our net debt is largely flat versus FY24. So, what kind of repayment have we seen in 1H?

Sudhir Menon: So, if I correctly remember, Rahul, the gross debt was roughly Rs. 3,900 crores as at March 24, which has come down to 3,000. So, the gross debt is 3000, on a net debt basis it's become 1800. We've repaid actually 900 crores in H1.

Moderator: Thank you. We have the next question from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Just to follow up on gross debt. Rs. 900 crores we have repaid in H1. Any more quantum repayment expected in H2?

Sudhir Menon: Yes. I think we should be repaying around 500 to 600 at least.

Rashmi Shetty: What about FY26 similar annual number?

Sudhir Menon: I think FY26 we should be net cash.

Rashmi Shetty: And just one on US business. With the Indrad also now coming out and receiving the EIR, how many new launches are planned, at the company level from the facilities as well as your partner products put together?

Sanjay Gupta: It would be single digit number of launches.

Rashmi Shetty: And this would be high single digit launches?

Sanjay Gupta: I actually cannot say because we got the EIR. but it takes several months post EIR for the FDA to approve the product. So, we think at least mid-single digits should get approved in a 12-month period post EIR.

Rashmi Shetty: But otherwise this base price of $32 million quarterly run rate, it would be maintained in the subsequent quarters also?

Sanjay Gupta: Yes, our endeavor is to maintain and to enhance the new product.

Moderator: Thank you. We have the next question from the line of Anubhav Agarwal from UBS. Please go ahead.

Anubhav Agarwal: Just one question from me on the India business. So, the expansion of field force by high single digit percentage on annual level, what is the primary dominant factors there for example are you increasing your doctor coverage share predominantly or this is largely for the new launches in the same divisions or you increasing more divisions?

Aman Mehta: It's a combination of all three, more divisions, more coverage, more territorial reach all three together and we have seen pretty good results in the expansion done in the last 18 months as a result. So, wherever we see, which ever division of brands are yielding results within a certain period of time, we decide to take further expansion actions if required as well.

Anubhav Agarwal: First point on the doctor coverage, do you think that there is a potential to cover significantly more number of doctors that you're covering right now and is there a merit, first of all instead of growing this field force by 7%-8% versus growing at 12%-13% or thereabouts for example and covering more doctors taking more market share from the smaller companies?

Aman Mehta: Yes, because we are just not adequately present in some non-metro towns where we believe that there is justifiable reason for us to enter.

Anubhav Agarwal: Aman, can you give us an example just to understand a little better, for example, when you say non-metro towns, for example, I am in Mumbai, so just take Nasik as an example what do you quote?

Aman Mehta: So, if I look at Ahmedabad, for example, then nearby towns would have been covered from Ahmedabad historically, and that kind of compromises your frequency and coverage and total kind of extent of coverage. But if you have a full base in a nearby town which now has adequate population, population who is never a concern, adequate doctor presence, that's where you can increase and it justifies the need for your presence full time in that region or headquarter. And that is where we are seeing that that addition is really helping some of the chronic divisions, the sub-chronic divisions particularly in gastro where we are seeing a significant uptake.

Moderator: Thank you. We have no further questions at this point. Ladies and gentlemen, I would now like to hand the conference over to Mr. Sanjay Gupta, Executive Director of International Business for closing comments. Over to you, sir.

Sanjay Gupta: Thank you. We would like to thank you for your participation today. We continue to remain focused to grow the company in our branded generic market and to remediate and start growth in the US market as soon as possible. And thank you.

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