



“Torrent Pharmaceuticals Q3FY23 Earnings Conference Call”

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MANAGEMENT: MR. SUDHIR MENON – TORRENT PHARMACEUTICALS LIMITED
MR. AMAN MEHTA – TORRENT PHARMACEUTICALS LIMITED
MR. SANJAY GUPTA – TORRENT PHARMACEUTICALS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Q3 FY23 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 ‘*’ and then ‘0’ on your touchtone telephone. 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: Thank you. Good evening and welcome to Q3 FY'23 Earnings Call.

Q3 registered revenue growth of 18%, led by strong growth in the branded generics markets and steady performance of the generic markets. Branded generics markets constituted 70% of the total revenue base. The growth in the branded generics markets were primarily driven by new launch momentum, performance of the top brands and integration of acquired portfolio.

In terms of financial performance during the quarter, the revenues were Rs.2,491 crores, up by 18% on a YoY basis. Operating EBITDA was Rs.724 crores, with operating EBITDA margins at 29.1%. There is a one-off impact on gross margins by around 0.6% for the quarter due to under absorption of manufacturing cost, as there was a temporary stoppage of manufacturing in the month of October for around 15-to-20 days for carrying out cleaning validation of certain equipments as a follow up to the USFDA audit.

Today, the board of directors have approved an interim dividend of Rs.14 per share.

With this, I would request Aman to give his Insights on India Business.

Aman Mehta: Thanks, Sudhir. India revenues at Rs.1,259 crores, grew by 17% and included revenues from the integration of Curatio Healthcare. As per the AIOCD data set, Torrent's growth in Q3 was at 12% in line with the IPM growth of 12%. Our growth was aided by new launch performance particularly in the chronic segment, performance of our top brands and strong growth of the Curatio portfolio. At the end of the quarter, Torrent has 19 brands in the top-500 of the IPM with 13 brands now more than 100 crores sales as of MAT December 2022.

Our field force has been further expanded and MR strength now stands at 5,300; this is inclusive of the Curatio divisions. Our base business, MR strength stands at 4,700 which has also been expanded in the current quarter.

For YTD December FY'23, revenues were Rs.3,782 crores, up by 15%. We expect the India business to continue its growth momentum, backed by new launch performance, top brand performance, increase in field force productivity of the expanded field force and continued performance of the acquired portfolio of Curatio Healthcare.

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

Sanjay Gupta:

Thanks, Aman. Let's start with our biggest branded generics business outside of India which is Brazil. So, Brazil revenue was at Rs.248 crores, up by 36% on a YoY basis. Constant currency revenue was in BRL was 159 million, was up by 17%. As per secondary data set, Torrent's growth is 19% versus a branded generic market growth of 13% for the quarter-ended November '22. On a MAT December '22 basis, Torrent's growth is at 15% versus a BGX market growth of 12%. Strong contribution to growth has come from a CNS franchise and the generics business, which now contributes about 14% to our Brazilian revenues.

We have launched six products in the last 12 months. The two biggest markets are Desvenlafaxine and Rivaroxaban, where our market share in prescriptions in the month of December is at 8% for Desvenlafaxine and 9% for Rivaroxaban.

Our plans to increase our coverage of CNS and Cardio markets from the current 19% to 35% by 2025 are on track. This year, we have received seven approvals. There are 10 products pending approval with ANVISA, and we would be filing an additional 10-plus products before the end of this fiscal year. IQVIA projects retail market growth of 11% in 2023 and 2024, and we should be growing at a rate higher than this.

Moving on to Germany, our German revenues were Rs.241 crores, up by 1% on a YoY basis. Constant currency revenue were at EURO 29 million, up by 4%.

We have started growing again, thanks to the start of business have some new tenders that were won earlier in the year, as well as four new launches in Q3. For the coming year, we anticipate single-digit growth coming from tender wins, some of which have been realized already. In 2022-23, we would have launched more than 10 new products in Germany. The new products help us compensate the pricing pressures due to increased competition in the market.

On the US side, US revenues were at Rs.291 crores were up by 24%. Constant currency revenue was at 35 million, up by 13%. We have received OAI classification for our Indrad facility. For Dahej and the oncology facility, we continue to wait for the USFDA inspection. Future outlook of the US business is linked to our ability to get new products on the market. We expect to file about five to six products in the current fiscal year. As of December 31, 2022, 48 ANDAs were pending approval with the US FDA.

To conclude, while the BGX markets shall continue to lead the growth, Germany shall continue to witness steady sequential recovery. For the Indrad facility, we are actively engaged with the regulator for resolution of issues at the earliest.

Operator, we can now open the call for Q&A please.

Moderator:

Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Saion Mukherjee from the Nomura Securities. Please go ahead.

- Saion Mukherjee:** Sir, can you indicate the growth without Curatio, what is the organic growth for India in this quarter?
- Aman Mehta:** Base business growth is 12%, and the reported growth that we have is 17%, so the remainder 5% is coming from Curatio.
- Saion Mukherjee:** In Indrad facility, is there any communication that you received from the FDA, and what's your outlook there in terms of timeline, and if you can indicate what's the level of contribution from that site to the overall revenues?
- Sanjay Gupta :** So, what we have received is a letter, stating the status of the facility as OAI. So, obviously, the agency kind of will take some official action in a time period of 45 to 90 days from the date of the letter, which was day before yesterday. And the official action ranges from a regulatory meeting or a warning letter or something of that sort. So, we shall wait for them to decide before communicating further. We haven't disclosed the revenues by plant so far.
- Sudhir Menon :** Saion, Maybe I can come back to you on that.
- Moderator:** We'll take our next question from the line of Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** First on India, can you split the base of India growth into volume, price and new launches contribution? And a related question is what I understand is price increase has been the significant driver for India sales this year. So, from this high base of price increase, how should we see growth scenario in coming year?
- Aman Mehta :** The AIOCD growth is 12% for Torrent in Q3; out of that volume is 0.2%, price is 8.1% and new products is 3.5%. So, this 8.1% is against 7% of the market price growth. So, it's pretty much in line with the market growth and we think this range will continue. This has been pretty much a MAT range of price increase and we think next few quarters also this should continue.
- Damayanti Kerai:** In the coming quarters also, 7% to 8% price increase is doable, right?
- Aman Mehta :** That's right.
- Damayanti Kerai:** On the new launches, can you comment on some of the key launches which has supported the 3.5% contribution, because I think in the past we have mostly in 2-2.5% contribution from new products.
- Aman Mehta :** Yes, the new launch contribution is calculated on a trailing 24-months basis. So, in this period, we have launched a relatively high number of brands in the chronic segment. Recently, the launch has been of Sitagliptin as shared last quarter, where we continue to be the #1 franchise of the newly launched brands. We should be doing roughly around Rs.4.8 crores to Rs.5 a month based on AIOCD. So, this is strengthening our market share in diabetes. Similarly, in CNS, we had launches this time last year in the Pregabalin franchise, which continue to do quite well and

remain the #1 market share. So, these are the key three, four launches that are adding the incremental new product growth.

Damayanti Kerai: Secondly, on Curatio integration, can you talk about the progress which you have done since integrating the portfolio to India business, you mentioned you have a separate team and then you have added on people, etc., so a few more color would be helpful?

Aman Mehta : The business is on track. It's been two and a half months, in the quarter that we've got the sales from Curatio. October 14th is when we had integrated, so two and a half months of sales in Q3. Pretty much continuing the same division, same strength in the business. We have started realizing synergies on the cost front in distribution where there were overlapping costs, let's say, distribution and CFA warehouse setup, which has all been merged, and some back end functions which were overlapping. So, this synergy has started playing out. I think about 3% to 4% margin improvement is already seen in the first quarter. Top line delivery continues as per the ongoing performance, and we think they should sustain. So, I would say, better to wait another quarter, at least Q4, once we have the entire quarter under our performance, we can share further insights into the performance of Curatio.

Damayanti Kerai: My second question is on Germany. So, you mentioned, now the supply has started for the new tender. So, this tender is for what period, and do you anticipate any more tender coming in the next two or three quarters?

Sanjay Gupta : In Germany, how it works is the tender duration is two months, and usually you win some tenders, and they start six months later. So, what happens is that the Q3 increase in sales, we flagged a few months ago, and saying that, you had tenders, which would start in Q3. So, subsequently, each quarter, we win a few tenders, which is what has led me to tell you that we expect single-digit growth next year.

Moderator: Our next question is from the line of Sumit Gupta from Motilal Oswal Securities. Please go ahead.

Sumit Gupta: Just want to know on the price erosion in the US market update, what kind of –

Moderator: Mr. Gupta, sorry to interrupt. Your audio is not very clear.

Sumit Gupta: I just want to know on price erosion update in the US market, so what kind of trajectory that you're seeing?

Sanjay Gupta : So, year-on-year, we are seeing high single digit.

Sumit Gupta: What is the capacity utilization overall?

- Sanjay Gupta :** Overall, depends upon the plant. So, Indrad is the multi-country plant rate, it is much more than Dahej. So, Indrad capacity utilization is in the high-70s, and for Dahej, we are more in the mid-55%, 56% range.
- Moderator:** Our next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Just again focusing back on Curatio acquisition. You talked about cost synergies. But I remember in our acquisition call, we talked about revenue as well, at some point of time, we look at the top five brands; Tedibar, Atogla, Spoo all of that and just see where they are priced with respect to market and if necessary take price increases. So, is early to comment about that or you think you have selectively started doing that as well?
- Aman Mehta:** So, that's also started. Already one round of price increase, which was already taken before the acquisition, was to offset the increased raw material cost that has been effected, and that new stock will be on the market in this quarter, so that should also start reflecting. Otherwise, the Curatio revenue standalone growth was about 20% for the quarter. So, the growth is pretty much on track.
- Shyam Srinivasan:** But I thought we were expecting to go faster relative to the segment, right, or maybe it's too early days for the two and a half months you think for this 20% growth, I was under the impression that the segment is growing, maybe 20% and Curatio is probably growing faster?
- Aman Mehta :** No, I think the segment that we specifically are covering which is the prescription based pedia-derma, this is significantly faster than that. But either case, next quarter should give a better picture. I think this mid-to-high teens growth is something that we feel is sustainable for this portfolio and rest will be the levers that we mentioned earlier, which should start playing out probably by end of the next financial year.
- Shyam Srinivasan:** Just on the financial side, so, what is the kind of debt position now after the deal, and if you could just reiterate some of the cash flow numbers that we are generating and how we plan to kind of reduce that over time?
- Sudhir Menon:** Shyam, I think by 31st March 2023, the net debt position should be around Rs.4,300 crores, And as per the repayments schedule, next year, we should be repaying roughly Rs.1,200 crores, and probably in FY'25, a major chunk of the cash flow will get allocated towards the pre-payments of all these loans.
- Shyam Srinivasan:** So, largely from internal accruals, right, so, essentially, we are going to divert. What about CAPEX, sorry, I think that's the other question I had. If Rs.1,200 crores you're going to repay and what is the rest of the operating cash flow is going towards?
- Sudhir Menon:** So, roughly you can say the EBITDA should be close to around Rs.3,000 crores, let's say, which the conversion to operating cash flow should be 80%, which is Rs.2,400 crores and CAPEX over

the next three years on an average should not be more than Rs.250 crores max, Rs.300 crores I would say per annum.

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

Prakash Agarwal: Just trying to understand the gross margin better. So, 3Q gross margin is a little down versus 2Q, while our higher gross margin business in India and Brazil have done fairly well. Can you explain that?

Sudhir Menon: So, Prakash, I don't know if you've heard the opening speech where I had explained, there is a one-time impact of gross margin by 0.6% for the quarter and which is primarily because of under-absorption of the manufacturing overheads in the month of October, wherein immediately after the USFDA audit, which ended on 28th of September, there had to be some cleaning validation of certain equipments, which had to be done as a follow up to the USFDA audit. Because of that, there has been under absorption of overhead, which has impacted the gross margin by 0.6%.

Prakash Agarwal: Any other reason, because Brazil also done fairly well, which is a higher gross margin business?

Sudhir Menon: No other reason, Prakash. This is only one-time impact which we have seen.

Prakash Agarwal: And what do you attribute this in Indrad facility, the 483s have come again, and now the OAI, it had warning letter status earlier, and we've seen other facilities or other companies also seeing observations coming back, so it's been three, four years now, so what's really as a company or as an industry, we are missing here?

Sudhir Menon: You are right. As far as this recent OAI is concerned, we are still working on it, right, trying to get in touch with the USFDA to understand better, so it would take couple of weeks I would say for us to get a better hang of what would be the next thing, which we should be looking at. So, maybe post one to two weeks, we'll have a better clarity to give you some feedback on that.

Prakash Agarwal: One more for you on the interest cost side. So, you mentioned Rs.3,000 crores EBITDA with 80% conversion. So, the debt repayment should be much higher than the Rs.1,200 crores you talked about, that's a conservative number or a realistic number?

Sudhir Menon: No, so it's a scheduled repayment, which is there for the next year. I agree, if there's additional cash, which is there on the balance sheet, it will be used for prepayment of the loans to the extent whatever is possible. But I was saying worst, even if I take a schedule repayment, which is happening next year of Rs.1,200 crores, that should end most of my previous acquisition funding, and therefore FY'25, whatever cash flows are getting generated considering the growth over the next two years, most of that can be allocated for prepayment of Curatio loans.

- Prakash Agarwal:** And lastly, if you can also give some color on the market formation of Sacubitril Valsartan. Understand not many players have come in or it's too crowded, as was seen in other diabetes products like Vilda, Sita, etc., or still market is getting formed?
- Aman Mehta:** Market is still getting formed. I think the matter is still subjudice. So, would want to wait for clarity.
- Prakash Agarwal:** You expect that in next three, six months, Aman?
- Aman Mehta:** Should be hopefully within the next six months.
- Moderator:** Our next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** ROW market has been a pretty strong growth in this quarter; Rs.290 crores number versus Rs.240 crores, 250 crores we've been doing. Any particular driver for this growth in the quarter?
- Sudhir Menon:** I don't think, Nitin. It's been quite a good quarter, I would say. There are one or two geographies where there were some incremental opportunities which were seen, which we were able to take it. That's the reason for ROW, the growth is little higher, but otherwise, even a country like Mexico is doing fine I would say, growing high double digit, for most last four to five quarters. So, yes, to a certain extent, there was some incremental opportunity which had come in Q3, in I would say Russia basically, which has helped in getting such a strong growth.
- Nitin Agarwal:** But, we should not take this as a base to model going forward numbers?
- Sudhir Menon:** But, Russia is a very small market for us, Nitin. Although, there is yes, possibly 1% or 2% contribution to the overall incremental growth, but not major I would say.
- Nitin Agarwal:** So, can we take this 290 as a base for this business from a modeling perspective?
- Sudhir Menon:** Nitin, it's a little difficult for me to give any guidance on that. Maybe two quarters or three quarters if that number is sustaining, then, possibly I can confirm that. But, I think it's better to wait for one more quarter to see whether this number is sustaining. But nothing as of now can indicate that this can go up or down.
- Nitin Agarwal:** On the Curatio cost on SG&A and staff costs, we've built in only one and a half months of these costs, right. So, some more costs we should be considering for next quarter?
- Sudhir Menon:** No, it's almost two and a half months which has been factored. Not major, even if you take a full quarter I would say.
- Nitin Agarwal:** So, that's at least on the overhead front. Largely, all the costs are basically the base?
- Sudhir Menon:** I would think so.

- Nitin Agarwal:** Lastly, on Brazil. You mentioned that the market growth is now guided to be about 10% for the next couple of years, was it correct?
- Sanjay Gupta :** Yes, IMS projects generally for the next five years of 8% to 12% growth, next two years is projected at 11%.
- Nitin Agarwal:** Given the fact that we are in the process of launching multiple new products, we should be in a position to outpace the market?
- Sanjay Gupta :** Correct. So, we have three growth drivers. Essentially, last one year, we've increased the number of CNS reps. So, that has given a good momentum to our CNS franchise. Our generics business is doing very well, and then thirdly, the new launches.
- Nitin Agarwal:** And what proportion of the business would be generics side in Brazil?
- Sanjay Gupta :** 14%.
- Moderator:** We'll take our next question from the line of Neha Manpuria from Bank of America. Please go ahead.
- Neha Manpuria:** Sanjay, on the Brazil business, we thought a good step up in this quarter. I heard the commentary that you mentioned. But is it fair to assume that this number is sustainable, and as we launch more products, we should continue to see growth from this space?
- Sanjay Gupta:** So, Neha, in the previous two quarters, local currency growth had been 8%, and essentially that growth was on the lower side, but IMS was showing this mid-teens growth, which is the underlying growth of the business. Q1 in Brazil generally gets impacted because of Q4, there is overstocking from the wholesalers. So, Q4 of last year was showing a growth of 21%. Q1 is a little bit impacted number. Q2, we had some shell stock adjustments because of which primary sales were on the lower side, but IMS sales continued in mid-teens. So, I would say that double digit, north of 10% given the market growth, and we should be reasonably higher. So, I would tell you that it looks like this is the trend.
- Neha Manpuria:** Did I hear correctly that you are planning to file 10 more products by the end of FY'23?
- Sanjay Gupta:** We would file a total of 10-plus products in this fiscal year.
- Neha Manpuria:** So, the 10 pending which includes part of the filings, right?
- Sanjay Gupta:** The 10 pending are as of today.
- Neha Manpuria:** So, by the end, we will have probably 20 products that are pending for approval?
- Sanjay Gupta:** I would say at least 16 to 17 products, maybe 20.

- Neha Manpuria:** By when should we start seeing commercialization, what's the approval timeline now like in Brazil, has it approved?
- Sanjay Gupta:** Yes, it's usually now 24-months, and it's quite heavy to launch branded generics, so, I think what you will see generally is four to six products a year.
- Moderator:** We'll take the next question from the line of Krishnendu Saha from Quantum Mutual Fund. Please go ahead.
- Krishnendu Saha:** Just understanding the 25% growth in the US, is mostly from the third-party filings, is it?
- Sanjay Gupta:** No, no, no, this growth is because of a base impact. So, if you go back to the same period last year, the sales were on the lower side, 31 million, and while generally for the last, I would say, six, seven quarters, our sales have been 35 million. So, that particular dip in the same period last year is what results in the percentage growth this year.
- Krishnendu Saha:** Net-net, how many products do we have in the market actually?
- Sanjay Gupta:** So, we sell about 55 products.
- Krishnendu Saha:** How many products do you have in Brazil itself?
- Sanjay Gupta:** In Brazil, we have about 22 products.
- Krishnendu Saha:** Just on the acquisition front, how much of our revenue will be on the OTC front in India right now?
- Aman Mehta:** Right now would be a small percentage, with the acquisition, that's right, yes.
- Krishnendu Saha:** Any percentage could you give us?
- Aman Mehta:** We'll be able to share better in the next quarter because there's only two and a half months, but the idea is to focus on the Rx piece first and then ramp up the OTC for the acquisition as well.
- Moderator:** The next question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.
- Cyndrella Carvalho:** Just wanted to know your thoughts on the US market. Because of Indrad now, what is your thought process in terms of getting the new launches to the market, what is the plan going ahead, any changes that you intend to make, any third-party sourcing, any other thoughts that you can help us understand?
- Sanjay Gupta:** So, this OAI is a setback for the organization. We would have greater visibility 45 to 90 days down the line as the range of options before the FDA is quite wide. So, depending upon the decision they make, we are kind of building up various scenarios as to what is the best way forward. I would say that it looks challenging to bring new products to the US market in the near

term, especially because of what happened to Indrad, also that we have not yet had the inspectors come over to Dahej. So, we are waiting for that inspection to happen. As of today, I am sitting on 55 filings for the US out of which I think 19 are from Indrad and 16 are from Dahej, so there is a lot of filings from these two facilities and as if with the passage of time, the value of these filings gets depreciated, so, we will have to kind of decide how we want to proceed, but I won't be able to share that with you today, but it is sufficient to say that we are in the scenario building phase depending on how the FDA outcome goes.

Sudhir Menon:

And I think Cyndrella, the only thing that I wanted to add to what Sanjay said, so Dahej we have enough capacities, it is quite underutilized and if things go positive as far as Dahej reinspection is concerned, many of the products which are there in Indrad can really shift to Dahej without any issue because the filings for getting approval for all these products have already been done or it is just waiting for submission and this would take a short time to get an approval and additionally we are also looking at some of the CMO options for certain high volume products which we initiated to optimize the overall cost and be more competitive. So, there are options which we are looking at, at least for the existing product base, but as Sanjay said the new product filings which have been done from Indrad that is something which we need to understand whether something can be salvaged out of that plant.

Cyndrella Carvalho:

And one more question is on the Indian derma space, you mentioned that the RX market you will be focusing first, so what is, if any thoughts that you can share in terms of strategy that you are going in for the derma specifically for the Curatio acquisition if you could highlight our strengths, what are we trying to build up, it would be helpful?

Aman Mehta:

We had mentioned in the last call that Curatio has a strong presence in pediatric derma and they also have a very strong presence in the South and West markets. There is a lot more opportunity in the North and East markets, but those markets are just smaller in size compared to the South and West, but there is still quite a big headroom for increasing the share in these regions as well. So, overall while the existing markets will continue to grow, we can add the reasonable share from these noncovered markets which we will be taking up probably in the next couple of quarters. All the top 5 brands are continuing to do quite well as of now and we believe that the top 3 brands, whether it is Tedibar or Atogla, they continue to see more and more market share gain even in the RX space, so hopefully that should continue in the same range of growth for the next couple of quarters and the additional initiative should add to the incremental growth.

Moderator:

Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane:

Sir, just on this inspection at Indrad, so what triggered this inspection and basically will that also help in getting the other sites inspected?

Sanjay Gupta:

So, one site is not linked to the other and this inspection is actually a follow-up on the inspection which happened in March of 2019. So, it is the second inspection post observations which were made in 2019.

- Tushar Manudhane:** So, basically, we still kind of wait for the other sites to get inspected?
- Sanjay Gupta:** Yes, that is the independent of this site.
- Tushar Manudhane:** And nearly the issue which may be USFDA highlighted at this site is kind of taken care of at the other site, so that if at all the inspection happens this doesn't recur?
- Sanjay Gupta:** Absolutely, and even the observations this time at Indrad are not the same as the one from last time. They are not repeat observations.
- Tushar Manudhane:** And how much of the gross block so to say associated for the US business, I understand it is a multipurpose or multi-geographical, but broadly how much of the gross block can be called out for US business?
- Sudhir Menon:** At Indrad plant?
- Tushar Manudhane:** Combining Indrad, Dahej both?
- Sudhir Menon:** I think around 45 to 50%.
- Tushar Manudhane:** Dedicated for US?
- Sudhir Menon:** Correct.
- Moderator:** Thank you. Our next question is from the line of Kumar Saumya from Ambit Capital. Please go ahead.
- Kumar Saumya:** I have just one book keeping question, what was the Forex loss during the quarter?
- Sudhir Menon:** Forex loss during the quarter was roughly Rs. 40 crores.
- Moderator:** Thank you. Our next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Just one house keeping question on depreciation and interest cost also are factored in the transaction fully?
- Sudhir Menon:** So, amortization cost for 2.5 months yes, interest cost for 2.5 months, yes.
- Nitin Agarwal:** And in terms of cost optimization measures, are there anything that you can look forward to from various costs perspective in next year?
- Sudhir Menon:** Absolutely, right, what we said is, so we have applied for this merger scheme right between Curatio and TPL and once the merger is happening may be two or three or four months down the line, then the synergy value will start coming in.

- Aman Mehta:** And additionally, procurement synergy is also likely in the next financial year, so procurement synergy plus as the PCPM increases from this base should be further levers for margin expansion for the next at least 2 to 3 years.
- Nitin Agarwal:** This is from a Curatio perspective, I was also interested, ex of Curatio, are there other levers in the business to improve core business, the ex of Curatio for profitability, are there any levers you are working on?
- Sudhir Menon:** Nitin, if I tell you anything ,wouldn't be a scientific calculated number, but what I can tell you is that it is a continuous process in trying to find out whatever cost efficiency is possible, so that happens in a very continuous way, I would say. But the only thing I recollect now is that the freight expenses which had gone up substantially since quarter 3 of last year that is still to normalize, I would say, by 0.5-0.6%, so that is one lever definitely going forward because the increase in freight expenses which had happened in quarter 3 of last year, at least what we see is last one or two quarter, it started falling actually, but there is still some amount of recovery which is pending which should happen probably over the next 2 to 3 quarters, so that is something which could be certain, but otherwise on an overall basis, we keep on working on whatever cost efficiency is possible.
- Moderator:** Thank you. Our next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.
- Saion Mukherjee:** Sudhir, on just following up on the cost pressures, so on the raw material side, any trend you are seeing with China reopening, any color or any trend you want to highlight?
- Sudhir Menon:** Saion, the input cost increases, it was not a significant impact as far as we were concerned, so nothing much to talk about from that perspective. If I recollect, when the cost had started moving up, we said that the impact could be roughly 0.5-0.7%, but nothing significant I would say.
- Saion Mukherjee:** And just one more question, you mentioned about oneoff cost this quarter, 0.6% that is around Rs. 150 crores, so I just want to understand how would you ascribe this, do you mean there are lower revenues because of the shutdown to that extent?
- Sudhir Menon:** No, so 0.6% is roughly Saion I think Rs. 12 to Rs. 15 crores, not 150, so Saion, just to put it in a very simple way, whatever direct cost you incur for manufacturing has to be balanced with the revenue right, so there has to be a cost revenue matching and how does that happen, so you have to inventorized all these costs on your manufacturing, right, so there is a balancing in by way of inventory or when it is sold, it is balanced by way of sales. So, what happens is you determine on an annual basis the per unit cost for each product, so what typically happens is when you manufacture, let us say only 50% instead of 100%, the cost absorption is only 50% on the inventory, right. So the rest 50% is not getting absorbed, so that is the onetime cost which comes and sits in your P&L. So, that is what has happened in October basically after the USFDA audit was completed on 28th of September, there was a shutdown which was taken for almost 15 to 20 days in the month of October for doing all those cleaning validation of equipments and stuff.

- Saion Mukherjee:** And just one last question if I can on the US being we have a delayed resolution both in Indrad and Dahej, how should we think about US revenues given the price erosion and new launch from other facilities if you can give some color on expectations in the US market?
- Sudhir Menon:** So, I think it is too early Saion, so I think one is the price erosion year-on-year which Sanjay spoke in high single digit that is something we believe should be the worst case as far as base business is concerned. From a new product perspective, at least from Dahej and Indrad those things cannot come in until at least for Dahej if the reinspection is happening and getting clear, then possibly yes, but till that point in time, there is no visibility of the new product coming in. there are few external products which will come, may be couple of them over the next 2 years, but not significant revenue contributor is what I can say. So, at the most I would say US would be flattish to declining sales over the next 1 year.
- Moderator:** Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.
- Prashant Kothari:** My first question was on India market opportunity one of the thesis is that during COVID time, the diagnosis of patient played a role and that should have picked up in the last one year enabling more patients for us, if that is happening do you think that can become a stronger volume growth bias for us in the coming year?
- Aman Mehta:** Yes, in compared to last couple of quarters, we are seeing an increase in the chronic growth trend, so I think on a MAT basis, the chronic market grew at about 8-9% which in the quarter is 11%, so sequentially you can see that it is increasing. So, we do believe that it may stabilize at a 11-12% level, but it does provide a significant volume opportunity for a player like us who has already got this much contribution from the chronic business.
- Prashant Kothari:** And on the OAI, you mentioned that you can ship product from Indrad to Dahej, was this comment in regard to the existing drug basket or was that for the new set of launches?
- Sudhir Menon:** For the existing for sure, subject to Dahej getting cleared, that is what I said. Sanjay for the new products which have been filed from Indrad, the parallel filing can happen for the same product from Dahej?
- Sanjay Gupta:** So, for the filings which have been made, let us say a few years ago, I don't think we will make the investment to shift them, but for forthcoming filings, yes.
- Prashant Kothari:** But some kind of existing large product coming out of Indrad, you can shift them all to Dahej?
- Sanjay Gupta:** Yes, correct.
- Moderator:** Thank you. Our next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

- Prakash Agarwal:** So Couple of clarifications, so one, you mentioned on Germany, you already started to see Q-on-Q with the corrective action in the new tenders etc., that you won, but how do we see the fiscal 24, do we see a mid-teen kind of growth given the low pace and then normalize to high single digit, how do we see this business for next 2 years?
- Sanjay Gupta:** So, Prakash, what I have is visibility on the basis of the tenders which we have one and we have a strategy in place to win more tenders every quarter, so what I indicated is as of today for next year mid-single digit is something that I have visibility too. If I win additional tenders, it could be high single digit to close to double digit, but that is right now not in the bag.
- Prakash Agarwal:** What is in the bag is mid-single digit?
- Sanjay Gupta:** Correct.
- Prakash Agarwal:** Despite the low base?
- Sanjay Gupta:** The base is 29 million Euro for quarter which was I think almost close because I think at some point we have crossed 31, but not more.
- Prakash Agarwal:** And secondly, I think Sudhir mentioned giving example of Rs. 3,000 crores EBITDA, if I see consensus, my numbers, etc., is 10-12% higher, so it is a rough number you are guiding or it is guidance for.....
- Sudhir Menon:** Approximately 3000 I said, if that is the number, then this is the way to look at. That is what I was trying to do.
- Prakash Agarwal:** But if I look very broadly next year, so India, Brazil and other ROW markets, 70% of your branded generic business is good to grow 10, 12, 13% is that fair assumption to build models?
- Sudhir Menon:** I would think so.
- Prakash Agarwal:** And on the margin side, you see levers for margin expansion given profitability of Curatio will increase, plus costs are coming down, would that be fair?
- Sudhir Menon:** I would think so Prakash. What we have been saying is because of this branded generic pieces, there are one or two levers which keep on coming every year provided other things remain constant, right, so one is the price increase driven gross margin improvements and the other is the operating leverage which would continue I believe plus the Curatio upside on the margins.
- Prakash Agarwal:** And lastly for Aman, so for next year if you see India, last year you mentioned about the CNS launch, one in diabetes, one in cardio, so how is the pipe looking in terms of decent size brands which you plan to launch, which gives us confidence of 12-13% growth?
- Aman Mehta:** The upcoming financial year won't have as many launches as the previous year in terms of numbers. There are few significant opportunities in diabetes which will still be there, but the

numbers will definitely be lower, instead the focus will be on increasing the traction and size of the recently launched brand. So, there is still enough headroom for us to continue the new launch momentum in the next year from the existing launches.

Prakash Agarwal: You mean the line extensions, etc., from the?

Aman Mehta: No, even the recently off patent launches that have been done, so the new launches take time to gain reasonable scale, so for example, we have done Rs. 5 crores now of Sitagliptin in about 6 months, Rs. 5 crores monthly, we would hope that maybe by the end of next year we cross Rs. 100 crores overall and that should continue growing at a high grade. So, that contribution should continue to increase from the new launches. The new year, next financial year will not have as many number of launches, so that new contribution will probably be lower than the previous year.

Prakash Agarwal: So, I am just trying to dissect it here, so 12%, so we would again see about say 8% raise and about 3% kind of new product and may be 1-2% volume?

Sanjay Gupta: Yes, that should be doable in the next year.

Moderator: Thank you. Our next question is from the line of Krishnendu Saha from Quantum Mutual Fund. Please go ahead.

Krishnendu Saha: Just a follow-up on the last question I asked, if you would remember correctly couple of years back, we had 36 odd or 40 odd products in what you call, in Brazil, so right now it is 22, I am just wondering that and due to the fact that we will be having some supply or procurement benefits for acquisition, but I believe that we also had 3-year manufacturing contract with them if I am right, so could you just elaborate on these two please?

Sanjay Gupta: On the first part, so Brazil, we have more approvals, but we focus on 22 products which are in our lead billed category, so essentially the idea is to follow the model which has worked well for us in India which is to build large brands and invest behind those that have the potential to grow and we have taken a series of brands into kind of an automatic mode where we don't promote them and we kind of let them just continue on the base that they have because it is not worth putting money and the sources behind them, so I would say 22 brands are actively promoted and invested in Brazil.

Krishnendu Saha: CMP products or focused product?

Sanjay Gupta: Yes, lead billed products as we call them inside the company. The rest are more in the maintained category and then your second question was what?

Krishnendu Saha: We had a sourcing agreement for acquisition in India, so we talked about and said that we will be having some sourcing benefits next year, how do we see that doing, we have a sourcing agreement for 3 years with our acquired company?

- Aman Mehta:** That would not be for all product, so for the full portfolio there is still enough headroom for finding alternate suppliers and getting better pricing.
- Krishnendu Saha:** And just a last question, the EBITDA margin is far better than our overall company, that is what I have realized last time on the call, is it, not far better than the overall Torrent Pharma?
- Sudhir Menon:** So, what we said it is not dilutive to the overall margins of Torrent Pharma which would mean that Curatio has similar margins. That was the thing which was spoken last time.
- Moderator:** Thank you. Our next question is from the line of Kunal Randeria from Nuvama. Please go ahead.
- Kunal Randeria:** Just one question, any visibility you can give us on Revlimid lost timelines?
- Aman Mehta:** So, we are not in the initial phase, so for us it is a little bit for distant launch, so it is not in the next 12 months.
- Kunal Randeria:** And should I assume that it is nothing to do with plant issues?
- Aman Mehta:** No, it is not made at Torrent, it is made at the third party.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now request Mr. Sanjay Gupta to add few closing comments. Over to you, sir.
- Sanjay Gupta:** I would just like to thank you for your interest in Torrent and for joining today's call. For any additional questions, please feel free to call our Investor Relations Group. Thank you very much and look forward to hearing from you soon. Bye-bye.
- Moderator:** Thank you members of the management. On behalf of Torrent Pharmaceuticals, that concludes this conference. Thank you for joining us and you may now disconnect your lines.