



## “Torrent Pharma Q3FY24 Earnings Conference Call”

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**MANAGEMENT: MR. SUDHIR MENON – CHIEF FINANCIAL OFFICER & EXECUTIVE DIRECTOR, FINANCE**  
**MR. SANJAY GUPTA – INTERNATIONAL BUSINESS, TORRENT PHARMACEUTICALS**  
**MR. AMAN MEHTA – WHOLE TIME DIRECTOR**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY'24 Earnings Conference Call of Torrent Pharma.

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, Chief Financial Officer & Executive Director, Finance. Thank you and over to you, sir.

**Sudhir Menon:** Thank you. Good afternoon and thank you for joining us for the Third Quarter Earnings Call for FY'24.

This quarter highlights a sustained performance in the branded segment, which accounted for 72% this quarter, steady increase in revenues quarter-on-quarter in Germany on the back of incremental tender wins we've had, some of them starting in the next fiscal as well, and a stable US-based business. We should see new launches in the US starting from Q1 of the next fiscal, which will further help in enhancing the overall company performance from next year.

Our efforts to enhance cost efficiencies are playing out well in the margin improvement. Our operating EBITDA margins at 31.8% looks to be the new sustainable base going from here. During the quarter, the exceptional items of Rs.88 crores relate to the net gain from the sale of Liquid facility in the US which was impaired during the earlier years.

In terms of key financial performance indicators for Q3:

Revenues were Rs.2,732 crores, up by 10% YoY. Operating EBITDA for the quarter is Rs.869 crores, up by 20% YoY. Operating EBITDA margin stood at 31.8%. Other income includes forex translation losses of Rs.35 crores, likely to get reversed in the coming quarters.

The board has approved an interim dividend of Rs.22 per equity share. The overall leverage, which is net debt to EBITDA, now stands at 0.88x.

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

**Aman Mehta:** Thanks, Sudhir.

India revenue was at Rs.1,415 crores, registered a growth of 12%. As per the AIOCD Dataset, IPM growth for the quarter was at 9%. Our growth was driven by new launches, the performance of top brands and focused therapies and positive traction of the consumer health business. The Curatio business is now fully in the base as the acquisition was done in October 2022.

Torrent remains #1 amongst the generic players in the Sitagliptin market, clocking over Rs.100 crore sales on a MAT basis as per this quarter.

The Consumer Health division is progressing well, aided by new channel activations and an increase in distribution into newer towns.

We continue to see robust growth in our flagship brand Shelcal 500, supported by the impact of the National Media Campaign initiated towards the end of the last quarter.

We would also want to point out that brands that have switched to the consumer division, such as Shelcal and Tedibar, may not be fully reflected in the AIOCD dataset because they have a different distribution channel. Hence, the actual growth may be higher than what is reflected in the data.

At the end of the quarter, Torrent has 20 brands in the top 500 of the IPM, with 16 brands, more than 100 crores sales as of MAT December 2023. Field force strength at the end of the quarter stands at 5,700.

We expect the India business to continue outperforming the market growth. Our focus during the rest of the year will continue to improve our market share and focus therapies, improving new launch performance, improving field force productivity in the expanded divisions and regions and continue the scale up of the consumer health portfolio.

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

**Sanjay Gupta:**

Thanks, Aman.

Let's begin with Brazil. In Q3, constant currency revenue was Brazilian Real 185 million, registering a 17% year-on-year growth. Growth is supported by new launch momentum and a robust pricing environment. We've had a consistent pace of launches. Four brands were launched in '21, four in '22 and three again in calendar year '23. Going forward, we intend to maintain three to five branded launches per year. As per IQVIA, market growth is at 6.5% for Q3 and Torrent growth is at 11.6%.

Expansion of field force in CNS has been completed. In Brazil, now we have three sales teams, two in CNS and one in cardio diabetes. The total number of reps is 318. This will enable us to expand our reach and support new product launches.

In Q3, our generic business in Brazil has continued to deliver and represents about 14% of overall revenue. We sell 24 molecules and are seeking to add between 5 to 10 each year. Currently, we have 15 products waiting and ANVISA approval.

Moving on to Germany, our German business has registered a constant currency revenue of €30 million, up by 5%. During the quarter, we won incremental new tenders, which will start

delivering incremental sales in Q2 of '24-25. Since three quarters, we had an overall increase in the value of wins. This results in the large part due to our cost optimization efforts. We are also experiencing better conversion of existing tenders and that is our share in three player wins has increased.

Year-to-date we have launched seven molecules. In the next few years, we will continue to launch 10 or more products a year. Our overall share in the German generic market has reached a new two-year high of 5.7% in Q3.

In the US, we've registered constant currency revenues of US\$33 million, down by 7%. Sequentially, we have seen a 10% growth in revenues backed by new contracts.

New product launches as mentioned by Sudhir will start from Q1 of FY'25 and this should fuel the growth going forward. We expect about seven to eight launches in the next fiscal year.

To conclude, our focus will remain on deepening our presence in branded generic market while continuing to grow in Germany and returning to profitable growth in the US.

Michelle, you can open the call to questions now please.

- Moderator:** We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.
- Tushar Manudhane:** Just on the gross margin front, sequentially, where the India sales has been pretty stable, even Brazil sales have improved, but the gross margin have dipped. So, any particular reason you would want to call out?
- Sudhir Menon:** So, Tushar, it's actually the US sales have gone up by almost 3 million, I would say. So, what's played out is although there is this gross margin going down by half a percent, it actually led to an improvement in the operating leverage and thereby improving the overall EBITDA margins, I would say. So, it's basically the mix which has caused the dip by half a percent.
- Tushar Manudhane:** In Brazil, at least in the last two years, fourth quarter has been much stronger than the earlier three quarters. So, would that be a similar phenomenon this time as well?
- Sanjay Gupta:** Tushar, I would guide you to what IQVIA is showing us right now is that the market is at about 6.5% and Torrent is about 12%. I think that's a much better indicator than primary sales on a quarter-to-quarter basis because in Brazil, invoice sales vary on a quarterly basis. So, I would say that we are looking at a double-digit growth in Brazil and we'll see what it will be in Q4.
- Tushar Manudhane:** So double-digit growth on a year-on-year basis, right, on the Q4 results?
- Sanjay Gupta:** Correct, correct, in line with what you see in IQVIA.

- Tushar Manudhane:** Even on Germany side, the tenders which we had won in the past where the revenue was supposed to be coming in fourth quarter. So, from that perspective, Germany also would be looking better in the coming quarter?
- Sanjay Gupta:** So, this quarter we touched 30 and generally we should keep seeing a trend of upward direction in the next three quarters.
- Tushar Manudhane:** Any regulatory update on Indrad?
- Sanjay Gupta:** No, they're still pending inspection.
- Moderator:** The next question is from the line of Damayanti from HSBC. Please go ahead.
- Damayanti:** Sir, when you said 31% kind of margin looks a sustainable base going ahead, so, can you talk about the headroom improvement which might be available for Curatio. Are you broadly done with the improvement margin which you are targeting, that's why, like we might be looking more at the sustainable margins or like you have more room to improve there?
- Sudhir Menon:** I think, Curatio margins have improved versus the last quarter, I would say. So there has been improvement, which is continuing for Curatio portfolio. But I think, what I can guide you from here is, look at the India business as one portfolio and the two levers which I keep on talking about plays out every year, which is the margin improvement because of price increase and operating leverage because of the incremental growth coming in, that should continue playing out for the next year as well.
- Damayanti:** Any expectation or any assumption about the volume part of the market which you might be building in right now for next year or so?
- Aman Mehta:** So, talking about the India market, the quarter data was for the market about 9% growth, this I'm talking about AIOCD, which was 1% volume, rest was new products and price. As against the 1% volume growth, we have done 3.5% volume growth and 4.1% of the new products. So, new products maybe should start tapering down over the next few quarters, but that would then start converting to volume growth. We sense that this similar level of growth should continue in the next coming quarters.
- Damayanti:** Somewhere like 3-4% kind of volume growth you are comfortable?
- Aman Mehta:** That's right.
- Damayanti:** My second question is on like status of supply ramp up from Dahej. So although we have seen a sequential improvement like minor improvement in the US sales, but like how are supplies picking up from Dahej and what are you focusing on?

- Sudhir Menon:** So I think, Dahej capacity is kind of we worked on realigning the capacity to bring in more cost efficiency, I would say. So, it's some balancing which we have done in terms of picking up some high-volume products out of Dahej and taking it to CMO. So that's something which has happened. And the capacities now which are available at Dahej are good enough to take care of the new launches and the products which are shifting from Indrad to Dahej, I would say.
- Damayanti:** So, in the coming quarters, it should definitely move up from this US\$33 million sales which we have seen for the quarter?
- Sudhir Menon:** What we said is, Q1 of next year, we should start seeing the new products coming in, and then we should see an uptick happening from here.
- Damayanti:** My next question is on Brazil business. So, generic, now you said moved up to 14% of total segment sales. So, can you talk a bit about like your launch plan for both the branded generic part as well as the generic part and what will be your priorities for Brazil segment in next, say, two years or so?
- Sanjay Gupta:** No, it's 14% (one-four). So essentially, we think both the businesses present a good opportunity for Torrent. On the BG side, so far we are limited to CNS, cardio and diabetes. And we have three teams. So our goal is to launch about ideally five to six products a year because brand launch requires heavy lifting. So, good rhythm is one brand per team every six months. So, that would be the focus and it would be the focus in our current therapeutic area, and over a period of time, we're looking at adding additional therapeutic areas like dermatology, oncology. So, we would add those in due course. We're in the process of building the portfolio to do that. So that would be the focus of the BG business. On the generic side, we are agnostic as to which therapeutic area. So, ideally we should launch about 10 products a year and currently we're selling 24 molecules, and we think there's plenty of headroom available for growth in the GG business also. We don't need to expand the team further, so we have a sales team of about 12 people for generics and I think that's good enough for us for quite a while. So, there's, I would say, room for operating leveraging the GG business and we would be looking to expand our portfolio and increase our share in the molecules which we sell.
- Damayanti:** One just last point on Brazil business. So, right now you have BG portfolio, GS portfolio. Do you have presence in tender market also or it's not there anymore?
- Sanjay Gupta:** So we discontinued that business a few quarters ago.
- Moderator:** The next question is from the line of Neha Manpuria from BOFA Securities. Please go ahead.
- Neha Manpuria:** On the India business, Aman, how much would the trade generic and the consumer healthcare piece of the total India business? I'm just trying to understand how much growth we're seeing in the actual branded generic business versus these new areas that we have been trying to grow over the last few years.

**Aman Mehta:** Trade generics would be maybe 2% - 3% I think total of the base, which is growing at about 25% to 30% depending on the quarter of seasonality. That level of growth in trade generics we see to be continuing for the next one or two years. And we aim to kind of make this a meaningful business over a three to five year period with reasonable profitability. So, the focus has been on selecting products which are higher gross margin compared to the more commoditized products. So, that's why though there are many more SKUs that can be launched, we'd rather focus on ramping up profitability. In terms of consumer, we're not looking at it separately because the brands are also part of the prescription business, but just to recap, we only have four brands there in the consumer channel right now, which are Shelcal 500, Tedibar, Unienzyme and Ahaglow. So the reflection would be in the prescription portfolio, but the investments and marketing will be on the consumer side as well.

**Neha Manpuria:** So, basically to have more national ads, etc., like you had for Shelcal?

**Aman Mehta:** That's right.

**Neha Manpuria:** We are seeing a lot of our peers obviously trying to expand into the chronic segment. It's much talked about by everyone, particularly in markets that Torrent is very strong in. In that context, how do we see ourselves trying to maintain our market share or even maintain this 3% to 4% volume growth that you have talked about, how do I balance the fact that there is increased competition, there are new players trying to get in as well as Torrent trying to protect its market share and at the same time maintaining margins?

**Aman Mehta:** So, number of factors would be at play here. One is obviously focusing as much as possible on new launch performance, which our track record over the last two years has been very strong and above the IPM growth of new products. So, if you can get that right in as many products as you can, it kind of makes up for any volume loss in a product that's maybe going on a decline. So, our focus has been to ensure that new product launch performance is the maximum possible that may be by way of field force expansion or further divisionalization, and our focused therapies here will remain the same which we are currently looking at, which is diabetes, cardiac, gastro, VMN and pain. So, in these segments, we remain fairly confident that our pipeline is robust and our field force expansion, which has now been ongoing for the last 18 to 24 months, does give us enough headroom to continue the above market volume growth for the foreseeable coming quarters.

**Neha Manpuria:** So, you don't see the need to add more MR to the 5,500 number that we have in place to keep the growth momentum in the India business?

**Aman Mehta:** No. So we have already added a significant number of MRs in the last 1.5 years. Now it should be more incremental. We think maybe 200 to 300 reps per year could be kind of a base level and depending on any new product that comes up, it could be slightly higher. But nothing as much as we've done in the past two years for sure.

**Neha Manpuria:** I know, you don't want to talk about Curatio separately. So, if I were to just say the entire portfolio that we have acquired the pediatric, derma portfolio, initially, we were very strong in South and West and the idea was to make it more Pan-India. If you could give us some color in terms of what's the doctor coverage we've been able to achieve since it's been a year, how much more do you think there is to go in that and now that you've moved Tedibar to the consumer healthcare, is there any other brands that we can look at or brand extensions that we can look at on the acquired portfolio?

**Aman Mehta:** So we have done both. We've also added doctor coverage in Curatio and also merged some divisions. So it's a factor of both. So that's how we've been able to get the lot of cost synergy in the last one year as well. So, doctor coverage, I would say increased by maybe 20%, 25% for pediatricians and dermatologists, and it's still not 100%. So, we will be planning to increase it in the next year or so. In terms of regional growth, we have been able to further strengthen the strength area, which is the South and part of West regions. So, we are seeing accelerated growth in almost all the top brands here led by Tedibar followed by Atogla which is the lotion and there's creams. So, this basket of baby skin care products has kind of really accelerated in the strength regions and in the weaker areas, we're seeing some improvement, but still it's nowhere close to the growth that we're seeing in the South for example. And we think that over time this should gradually increase. So, as of now, we would say that the focus is on strengthening the core while gradually expanding in other regions and efficiency has almost been achieved to an optimal level, I would say. So, the number of divisions have been reduced from six to three and now we'll gradually improve the number of MRs possibly in the next six to nine months.

**Neha Manpuria:** Sudhir, now that we are less than one-time net debt to EBITDA and a lot of the noise around M&A has gone away, should I think about Torrent looking at more deals like we have done in the past in the India business?

**Sudhir Menon:** I really don't know how to answer that, Neha. But I think as of now, there's nothing on the plate, I can tell you that.

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

**Shyam Srinivasan:** The first question is on the overall India industry growth, right. If you look at any data source, it's been trending down, right? Like you said, your press release calls out about 9% growth for IPM, right? I know we're growing faster, 200, 300 bps like we have guided. But just want to understand and it seems to emanate more from volume growth, which you are better. So, just trying to understand what's happening from an industry standpoint and what we are doing differently to increase our volumes?

**Aman Mehta:** So industry growth, you're right, there has been not very predictable in the data set that comes out. There's fluctuations in both the data sets. But I guess if we look at it on an annualized basis, it still might give a more accurate picture than a quarterly basis. We think that the market growth has more or less stabilized now. If you recall the earlier part of the year, there was acute season that was low and that's why there was a reduction, but then that was made up subsequently. So,



our belief is that if we are growing at this 12% range, the market has to be in the range of at least 7% to 9% and structurally, we don't see that changing anytime in the near future as to how our growth has been above the market growth in terms of volumes essentially just going back to new launch performance particularly in the chronic space and the field force expansion that has been taken in the last two years.

**Shyam Srinivasan:** I don't know whether I got the MR number right. It's 5,700, right, or is it 5,500?

**Aman Mehta:** No, 5,700. We've added a few MRs, but also we've merged a few divisions. So, net number is 5,700.

**Shyam Srinivasan:** On top of this, on an annual basis, you plan to add 200 MRs.

**Aman Mehta:** No concrete number yet, but you can expect that possibly by the end of the year, maybe 300 can be added.

**Shyam Srinivasan:** Any commentary on the productivity of the field force, where does it stand right now and is there any aspirations of where we want to reach?

**Aman Mehta:** So pre-expansion and pre-Curatio, we had crossed the 10 lakh number. Right now obviously we have dropped because of the number of reps added. I think we are right now in the range of 8.5 to 9, somewhere in between there. And aspiration remains that we want to go back to the 10 lakh level as well which should be possible by the growth in the business and now more stabilization in the number of MRs.

**Shyam Srinivasan:** Second question is on US business. Just looking at the commentary that growth will start from 1Q, where are we in terms of price erosion, because of the lack of launches, are we still seeing a higher side of price erosion?

**Sanjay Gupta:** I would say we are seeing a low single digit price erosion right now.

**Shyam Srinivasan:** What is the prognosis here? Do we think that this remains and once the launches start, you will start seeing like high single digit value growth you think for next year, how should we look at the US business next year?

**Sanjay Gupta:** I will not make a sales forecast because honestly, we have about 7 to 8 launches in the next 12 months. But the sales that will come will depend upon the level of competition, of which I currently don't want to project as to how many players will show up at what time. So, we will see. But the momentum and the direction should be upward.

**Shyam Srinivasan:** I think in the opening remarks, there was a comment about profitable growth in the sense that in the US. So if we reach the kind of scale that you're talking about, when you mean profitability, what are we referring to?

- Sudhir Menon:** We are referring to positive operating profit before R&D.
- Shyam Srinivasan:** Where is that now? Like it's negative I get it. But how far?
- Sudhir Menon:** It's kind of breakeven I would say at this point, We need to start good things happening.
- Shyam Srinivasan:** Last question is again on sustainable margin. I thought was not 31, right, 31.8 is the number for the Q3, so it's 32 then what we should assume as a base going forward?
- Sudhir Menon:** Correct. That's what I meant, yes.
- Moderator:** We'll take the next question from the line of Rashmi Shetty from Dolat Capital. Please go ahead.
- Rashmi Shetty:** So what will be the R&D guidance now in FY'25-26 the US business will be picking up?
- Sudhir Menon:** I think we should be around 5 to 5.5 for the next year and maybe for FY'26 between 5.5 to 6 maybe, I think so.
- Rashmi Shetty:** Sir, with all the businesses on cash now, US, Brazil or Germany and even India and the base level is now EBITDA margin is around 31.8%, are we targeting that annually every year, we should improve at least your margin by 50-100 basis points?
- Sudhir Menon:** That's right, yes.
- Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** I have a question on Brazil. Now in Brazil, on the macro market growth, which seems to have picked up a bit. What do you sense, what has really driven this improvement in the underlying market growth, and what is the sense and how does it play out here from here on?
- Sanjay Gupta:** So I've said multiple times, Brazil is intrinsically a market quite similar to India. There's a lot of unmet needs and it should be a double-digit growth market. I would say three factors. One is there's a high level of product going off-patent. So that leads to a volume growth in the branded generic segment because while the patent is on, the volumes are kind of muted and as you take products off-patent, the volumes tend to increase quite dramatically. Secondly, Brazil is a positive pricing country. Every year, we get price increases in April. Usually in the past year, it's between 5% and 10%. So, I would expect like on an average to be 5% price increases available to us. So, volume growth, new product launches and pricing should give you a market which grows high single digit, double digit, so that is the reason.
- Nitin Agarwal:** In terms of our own plans for the market, apart from launches in the three therapies we are present right now, I mean is there a plan to add some more therapies as we go along?
- Sanjay Gupta:** Correct. So we're working on the portfolio. Because of the reps involved, you need, I would say, a decent size basket before you start the promotional team in a new therapeutic area. So,

specifically, we've been building over the last couple of years in dermatology. At some point, we'll pull the trigger and start a derma field force.

**Nitin Agarwal:** Secondly, on the ROW market as they are ex-Germany markets which are there, anything you want to call out, any markets where we made reasonable progress over the last few quarters and what is looking promising going forward?

**Sanjay Gupta:** There're two markets that we don't speak about where we have made decent progress. So one is on the generic generics, we have good traction in the UK. So, the UK is right now trending more like £25 million a year. So it's a good momentum market and from the base that we have, we see positive momentum. Secondly, we don't speak in the branded generic size about a market like Mexico. So, Mexico currently for us is trending again, in the same ballpark, about \$22 million to \$24 million a year, growing at a roughly 30%. It's a specialty CNS company that we have and next year we will have about close to 70 sales reps in Mexico and it should continue to do well. We are the second largest Indian player in Mexico, and we should be attaining #1 down the line.

**Nitin Agarwal:** So in terms of size in Brazil, what is the size in the branded generic market in terms of the size of the companies which are there?

**Sanjay Gupta:** We are by far the largest Indian company and if you rank all pharma companies in Brazil, Torrent's rank is #20.

**Nitin Agarwal:** This is including the innovators?

**Sanjay Gupta:** Yes, all.

**Nitin Agarwal:** And how has this changed over the last three years or so in terms of rank #20?

**Sanjay Gupta:** If I remember about five years ago, it was 27, 28 and then last year it was 22 and now it's currently running at 20.

**Nitin Agarwal:** Like the way I understood India market, is this a business where as long as there's revenue growth coming in, leads to continuous margin improvement as we go forward?

**Sudhir Menon:** Absolutely, Nitin. I think what's positively playing out for Brazil now is it's reached a particular scale, right, and the expansion which we did some 18 months back with better growth coming in Brazil. The operating leverage will be much better than what we see in India, I would say because the fixed costs are comparatively very high in Brazil compared to India. So, that story is playing out quite well I would say.

**Nitin Agarwal:** Just taking off from there, Sudhir, you are saying there is a serious positive operating leverage in Brazil, and I guess US with the scale that we start to get incrementally whatever growth we get, we should get some positive leverage coming from there also. So overall, these two should be further positive factors from a margin expansion perspective as we go forward?

- Sudhir Menon:** Absolutely, absolutely. At least US is not going to be negative on the overall margin improvement story, which continues every year. So, I think more positive play happening for the next year.
- Nitin Agarwal:** Aman, in terms of India, how are you looking at the new launch landscape for the next say four to five quarters, are there some interesting opportunities which are there?
- Aman Mehta:** In the next six quarters, there are a few interesting opportunities. One is in chronic space, one is in the sub-chronic space. This would be more like the day one patent expiration launch. So, we expect a number of players on the same day, but our recent track record gives us confidence that we should be in a leadership position in these launches. These are the two big ones. There will be some smaller kind of extensions and combination launches that will be also in addition to this.
- Nitin Agarwal:** On Sitagliptin, you referred in your conversation, what has worked for us in your assessment in Sitagliptin? It's a reasonably competitive market.
- Aman Mehta:** Difficult to pinpoint one or two single factors, but I think overall, probably the expansion that we have undertaken because the biggest number of MRs that we added was in the chronic, cardio and diabetes divisions, that seems to have played out for us.
- Moderator:** The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.
- Tushar Manudhane:** Sir, just this breakup of this ROW and contract manufacturing sales, if you could share?
- Sudhir Menon:** Tushar, I don't have it right now. Can I share you after the call?
- Tushar Manudhane:** Secondly, just on the India market again. The in-licensing of products, any thoughts on pursuing that as a strategy given that we have such a strong presence on the chronic side?
- Aman Mehta:** So in the last 12 to 15 months, we already have signed two licensing deals. One was in November, which was the latest one. We continue to explore many opportunities mostly in the chronic space. So, we do hope that this run rate of licensing deals should continue. It is becoming a more and more of a kind of lower number of pipeline opportunity, but we still think there is a lot left in terms of newer treatments that are available. So, we probably would think that one licensing deal per year in a chronic segment is something that we can target.
- Moderator:** Ladies and gentlemen, I would now like to hand the conference over to Mr. Sanjay Gupta for closing comments. Over to you, sir.
- Sanjay Gupta:** Thank you, Michelle. Thank you for attending today's call.



*Torrent Pharma  
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**Moderator:** Thank you, members of the Management. Ladies and gentlemen, on behalf of Torrent Pharma, that concludes this conference. We thank you for joining us and you may now disconnect your lines.