Q3 2016 Earnings Call

MANAGEMENT DISCUSSION SECTION

 Operator:

 Ladies and gentlemen, good day and welcome to the Torrent Pharma Earnings

 Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all

 participants line will be in the listen-only mode and there will be an

 opportunity for you to ask questions after the presentation concludes.

 [Operator Instructions] Please note that this conference is being recorded.

 I'll now hand the conference over to Mr. Deepak Malik from Edelweiss

 Securities. Thank you and over to you, sir.

 Deepak Malik:

 Thank you. On behalf of Edelweiss, I welcome you all for the Torrent Pharma

 third quarter FY 2016 earnings conference call. From Torrent Pharma's

 management today we have on call Mr. Ashok Modi, Executive Director; Mr.

 Sanjay Gupta, Executive Director, International Business; Mr. Ruchir Modi,

 Executive Director for India and ROW Operations; and Mr. Sudhir Menon, Vice

 President, Finance.

 I would like to hand over the conference to Mr. Ruchir Modi now for the

 opening remarks. Over to you, sir.

 Ruchir Modi:

 Good evening, everyone. Let me first take you through the operating

 highlights of the quarter. During the quarter, the total revenues of the

 company grew by 32% and INR 1,539 crores versus INR 1,168 crores in the

 previous year.

 The EBITDA for the quarter was at 43% compared to 26% in the quarter of the

 previous year. The profit after tax was at INR 483 crores compared to INR 167

 crores in the same quarter of previous year showing the growth of 189%.

 The company has declared an interim dividend of 400%, that is INR 20 per

 equity share of INR 5 each fully paid up for the year 2015-2016.

 Coming to India Business, we have achieved a revenue of INR 446 crores with

 the growth of 7% in Q3. We are not sharing EPL and DPL portfolio growth

 separately from now on as such growths are equal and integration is over, so

 we don't look at it separately any more. I shared in last con call, the

 discontinuation of discount and bonus would bring long term margin benefits

 in addition of prescription driven sustainable business model. The impact of

 the same was partially seen in Q3 as well. Growth of 7% in Q3 does not

 reflect the complete underlying picture as growth was higher towards second

 half of the quarter.

 Moreover, benefit in margin is much higher than the temporary top line loss.

 Shelcal and Chymoral are growing at a very fast pace as per AIOCD December

 data set. I've mentioned in past that brand extensions of Shelcal also have a

 very promising future, and today we are happy to share that Shelcal-CT also

 has entered the list of top 500 brands for the industry in December 2015,

 which is one of the recent extension launches of Shelcal. Both key brands,

 Shelcal and Chymoral continue to outperform the market consistently and the

 growth drivers for Shelcal will remain higher penetration in two key segments

 like Gynaec, Ortho, CPs and in case of Chymoral it would be [indiscernible]

 where there is a huge untapped potential.

 As per AIOCD, December 2015 data set, Shelcal has registered sales of INR 293

 crores and Chymoral has registered sales of INR 133 crores at a group level.

 As per AIOCD we are - as a company we are growing by 20% against the market

 growth of 14% on MAT basis December data set. We continue to focus on

 specialties, science, MR productivity for India business. We have launched

 whole new products in the quarter, out of which three products are

 in-licensed. We have launched a new gastro division which will be catering to

 hepatology and gastroenterology segment. We have also launched one derma

 division for high value cosmetic product and we have also launched one

 rheumatology division for one of our key biosimilar product that we have

 launched, which is actually the world's largest molecule, Adalimumab.

 We have merged our gyn division, Sensa with one of the elder division in

 addition to the ortho division, which we had merged last year. This has

 resulted rationalization of over 227 - around 227 field staff. Now synergy

 realization is broad based with maximum achieved through volume growth and

 equal through price increase and cost savings. Definitely, one of the major

 cost savings would be the second division merger, which took place in

 December.

 So in totality, we have achieved a field force rationalization of around 300

 plus field force in Q3 alone and 600 plus in vitally December. Being a

 productivity driven business, our productivity for the quarter has grown at

 31%. PCPM has grown to INR 5 lakhs plus based on internal sales versus last

 year INR 3.8 lakhs. Our attrition rate is also far below the industry

 standard and is around 10% to 11%. Brazil is coming to other busy markets.

 Brazil is impacted by the currency movements and realignment of channel

 inventory. However, it continues to outperform the market. As per latest IMS

 data, the growth is 24% compared to covered market growth of 20% in value

 terms.

 Coming to USA, the U.S. business revenues for the quarter grew by 226%. We

 are committed to strengthen our capabilities in complex specialty products,

 which enhances the lifecycle of the product and business development. While

 ramping up our pipeline with products like ointments, injectables and

 specialty oral solid. We are also simultaneously exploiting business

 development opportunities for the organic growth like we have laid the

 foundation stone of oncology manufacturing facility and also through

 inorganic route like in licensing deals and acquisition opportunities.

 Current quarter and YTD basis, performance has continued to benefit due to

 high sales of our largest product. However, these sales also recorded

 exceptional growth with support of new launches like esomeprazole and generic

 Detrol. During the quarter, esomeprazole monthly market share is 4% and we

 expect that share to grow up as the existing customer shift from brands to

 generics. That was an update on the performance of Q3. We now invite question

 from all.

Q&A

 Operator:

 Thank you very much. We'll now begin the question-and-answer session.

 [Operator Instructions] The first question from the line of Nimish Mehta from

 Research Delta Advisors. Please go ahead.

 <Q - Nimish Mehta>: Yeah. Thanks for taking my question and congrats for a

 great set of numbers. My first question is related to the margin in the

 domestic business. You mentioned two things, obviously one was

 discontinuation of margins and bonuses to the chemists, and second is the

 rationalization, so if you have to rank order, which one had a higher impact

 on this quarter between the two?

 <A>: Both, I would say had significant - I would say definitely the schemes

 and bonus reduction had a higher impact on margins. Rationalization, it's a

 process it takes time since it's a unionized category, so we have still some

 float in the system.

 <Q - Nimish Mehta>: I see. And you said the impact of the schemes and bonuses

 yet not captured, so it is in terms of margins or is that margin will still

 work, or it is in terms of the sales growth that we have achieved?

 <A>: No, what I said was, the 7% growth is not reflective of the real

 performance since the second half of the quarter, growth is far better, so

 typically what I meant is every month-on-month October, November, December -

 November growth was much better than the October and December growth was much

 better than the November. So every month we're seeing a sequential bouncing

 back phenomenon. We have come back to normal level growth by the end of the

 quarter basically.

 <Q>: Thank you. H2 would be kind of...

 <A>: On a quarterly basis and the average is 7%.

 <Q>: Okay. Sir, H2 we expect to come back to the market gross or market

 growth, is that a fair understanding?

 <A>: Yeah. So yeah, I think market growth will be coming in Q4 itself, but

 we'll start beating market growth from Q1 next year.

 <Q>: Understood, okay. Secondly, on the U.S. market, I'm understanding that

 there would maximum deferral are having single-digit market share, so if you

 can just throw some light on the kind of price variations that we've seen and

 we've seen any pricing pressure after the reentry of Dr. Reddys ?

 <A>: So Dev, esomeprazole is a very competitive product, so we haven't seen

 any incremental pricing pressure after Dr. Reddys has come back and I

 actually - I don't know if they come back fully or only with limited

 quantities, but essentially the impact has not been felt. On tolterodine,

 it's essentially pre-player market, so hence the prices prevailing in the

 market are more, I would say in line with [indiscernible] market.

 <Q>: I see. Okay. So that has also contributed to the overall margin, is that

 a fair understating ?

 <A>: Yes.

 <Q>: Okay, fine. Thanks. Just a last question if I [indiscernible] if you can

 just guide on the number of launches that we expect in FY 2017 in U.S., that

 could be great?

 <A>: Will be between 8 to 10.

 <Q>: 8 to 10 launches in FY 2017, okay. And you would be expecting over or a

 couple of high value launches or low competition launches?

 <A>: Yeah. Statistically speaking that will be our expectations, but I won't

 be able to tell which exactly where - which fund will let out, but with eight

 to ten, you can expect maybe a couple at least as the competition would be

 somewhat limited.

 <Q>: Okay. Thank you very much.

 Operator:

 Thank you. Next question from the line of Anubhav Aggarwal from Credit

 Suisse. Please go ahead.

 <Q - Anubhav Aggarwal>: Yeah. Hi. Good evening. One question on the other

 expenses this quarter. The absolute run rate has dropped significantly,

 almost by INR 40 crores, INR 45 crores, can you provide some explanation of

 that?

 <A>: Anubhav, the expenses have actually come down during this quarter,

 because the promotion expenses are lower compared to the previous quarter. So

 it's not a one-off thing, which has happened, but there has been an actual

 reduction in expenses.

 <Q - Anubhav Aggarwal>: But promotion expenses just will be like INR 40

 crores, INR 45 crores, that will be very high numbers, given our India's

 business level?

 <A>: Yeah. So it's a combination, right. For example, what Ruchir just spoke

 about certain bonus offer schemes going in, which is part of the promotion

 expenses. So that is one which has contributed and generally the promotion

 expenses for the company has been lower.

 <Q - Anubhav Aggarwal>: Okay. Sir, then, I mean, when we forecast - we now

 assume that this is the run rate for you in terms of let say percentage of

 sales, whichever reasons portrait this as based on one-off in this quarter?

 <A>: Yeah. Yeah. So on an average we have been saying that it should be

 around INR 360 crores to INR 370 crores, but this quarter has been lower.

 <Q - Anubhav Aggarwal>: Okay. That's it. And second, Ruchir, I had this

 question on the India growth. When you are saying that the second half was

 better, I mean - are you doing anything proactively from your side when you

 have reduced the bonus offers or is it something which is naturally you

 expect sales to just pick up after sometime, because given the prescription

 pull, the chemist will continue to fill prescription they will not substitute

 with something else?

 <A>: Yeah, it's absolutely, naturally. We're doing nothing extra but

 consistent in our practices of what we have been doing since last three

 years, nothing new.

 <Q>: Okay. Just one question with [indiscernible] as you said, now and

 January versus December quarter, has anything changed or we are even now we

 continue to see what the way we have performed in December quarter ?

 <A>: is a good product, but with time, the competitive intensity has gone up,

 so with an impact on pricing. So, but I mean it remains a very interesting

 product for the company.

 <Q>: You mean to say, even now and January, the prices were down versus

 December average?

 <A>: I won't be able to comment specifically on the prices in January, but

 sales - quarter, every quarter, the sales are little lower than in the

 previous quarter, and not only - not because you've lost share, but because

 of you try to keep yourself competitive or you try to keep your customers

 competitive when they have competing office from other company.

 <Q>: That's helpful. Last question, this Dahej facility which has started,

 when do you think that impact will start reflecting on the sales numbers?

 <A>: So, we'll be starting to ship goods to the U.S. from April onwards.

 <Q>: Okay. And to the other markets?

 <A>: I think initially, we'll focus on the U.S. and then the others markets

 would follow, but the facilities approved by the European authority since

 last year and the Brazilian authorities are going to inspected in Q1. So, I

 think initially, we'll focus on the U.S. and gradually move to the other

 territory.

 <Q>: Okay. Thank you very much.

 Operator:

 Thank you. [Operator Instructions] Next question is from the line of Purvi

 Shah from Sharekhan. Please go ahead.

 <Q - Purvi Shah>: Thanks for taking the question. Sir, I just wanted to know

 Dahej and further on, since we said that we are resupplying supplying to the

 U.S., so are we - is plant FDA approved and also wanted an updated on the

 inspection of the other plants also.

 <A>: So, the base facility has gotten in a strange situation, because we had

 a successful inspection and we're still waiting for the EIR to come, but

 we've already successfully received product approval from that facility.

 <Q>: Okay.

 <A>: So technically, there is nothing that stops us from shipping products.

 <Q>: Okay.

 <A>: So, we are just actually waiting for the EIR letter to arrive and we're

 quite hopeful that will arrive in the -between January and March of this

 year. So, we'll have no problem shipping goods from April.

 <Q>: Okay. And sir, if you could also tell us some, how many products have

 been signed from the site so far?

 <A>: So, from Dahej, during the course of the next fiscal year, we would be

 starting to show about close to 10 products.

 <Q>: 10 filings?

 <A>: Yeah.

 <Q>: Okay. And sir, what is the inspection status for the other plant and the

 other plants when have been they inspected last?

 <A>: Sudhir do you want to take that or do you want me to?

 <A - Sudhir Uttamlal Mehta>: Yeah. So, I think Indrad was inspected somewhere

 in March and the EIR has already come for Indrad plant.

 <Q>: You mean, March 2015, it's already done. Yeah, it's...

 <A>: That's right, that's right, that's right.

 <Q>: Okay, sir. And sir, there was - the other question was on the taxation

 front. What is the tax rate we're looking for this year and the next two

 years?

 <A>: Should be between 25% to 28%.

 <Q>: So sir, do you mean that Q4 tax rate would be much lower than what we

 have paid so far because I guess ...

 <A>: So, on a YTD basis, we are looking at a tax number of 30%, right?

 <Q>: Right.

 <A>: So, Q4 should be little over.

 <Q>: Exactly. Okay. Fair enough, sir. And the - sir, the - one more question

 was on the interest rate - the interest cost that is going down, so if you

 could just give some broader guideline as to where do we see this going for

 reducing, because it's come up - quarter-to-quarter it's come on from 58 to

 48 to 42?

 <A>: Yeah, so the only thing which has happened is the repayments has started

 for the loan which we had taken for the Elder acquisition.

 <Q>: Right sir.

 <A>: So, now sequentially you will find the interest cost coming down.

 <Q>: Sir, if you could just give us the debt and cash number?

 <A>: Well, I think what I can do is, on a H1 basis, the total debt which we

 had in books was around INR 2,000 crores.

 <Q>: Okay.

 <A>: And the cash was around INR 1,200 crores.

 <Q>: INR 1,200 crores. Okay, sir. That's helpful. In case if I have anything

 I will join in the queue. Thank you.

 <A>: Welcome.

 Operator:

 Thank you. Next question from the line of Aditya Khemka from DSP Blackrock.

 Please go ahead.

 <Q - Aditya Khemka>: Yeah. Hi. Thanks for taking my [indiscernible] firstly

 on Elder, so have we again taken base hike say in November or December on

 Shelcal, Chymoral, all these products?

 <A>: Yes.

 <Q - Aditya Khemka>: Okay. So the full quarter impact on those price hikes

 would probably be reflected in 4Q, is that correct?

 <A>: Yeah, still is in 4Q basically.

 <Q - Aditya Khemka>: Okay. And secondly, on the Dahej facility, so is my

 understanding correct that we were facing some sort of a capacity issue at

 our human plant at Germany? And this Dahej facility was supposed to sort of

 help us in ramping those sales up, is that not correct?

 <A>: No. So, we've facing a general capacity constraint for the regulated

 markets essentially we have, as you know for oral solid, we just have the

 Indrad plant approved for the U.S., and as far as the European business is

 concerned, we have the Indrad plant and Baddi plant approved for Europe.

 So the goal I'm setting up - and then, both these plants are kind of running

 very tight on capacity, we've moved the European business from Indrad to

 Baddi and we've - Indrad is almost exclusively used by the U.S. and Baddi is

 very focused on, I would say Europe and Brazil. That's the situation today.

 The goal for setting up the Dahej and it will have the capacity to meet the

 needs of growth for both acquirements Germany as well as the U.S. business.

 So, the initial priority right now is for the U.S., but eventually the

 European approval is already in hand, so we will start shipping to Europe

 also, that's I would say a few months behind the U.S. shipment. But the goal

 for Dahej is to support the growth in both Germany as well as in the U.S.

 <Q>: Yes. So, I'm just struggling with - Sanjay, sir, I'm just struggling

 with why Europe is behind U.S., because in U.S., we have to still wait for

 the EIR then ship the product, ANDA approvals, and my understanding was

 previously that in human, we could've taken more orders and we could have

 [indiscernible] production have you had the capacity, which we didn't have.

 And Dahej gives us that capacity. So, why not do Europe first, it seems to be

 the lower hanging fruit there?

 <A - Sanjay Gupta>: Yeah. The inspection was in December. So, we're just kind

 of waiting for some site transfers to come through. So technically, we could

 start shipping before April for Europe, but I think, also because of certain

 tax loss and in India, we prefer starting shipping [indiscernible] only.

 <Q>: Okay, okay. That's fair. That's fair. And on Zyg Pharma, Sanjay, sir,

 again where are you on the ANDA's filings, how - when do you see the first

 ANDA, no matter what the ANDA coming through from the - in terms of at least

 Hyline.

 <A>: So I mean, we are targeting right now and initially if we do four

 filings a year, and the first we do for would be in the next fiscal year. So

 we've been working on this, [indiscernible] and this would be a gradual ramp

 up.

 <Q>: Okay. And [indiscernible] subsidy already inspected and approved by the

 FDA.

 <A>: Yeah. That's the - that was much - in 2014, it was already approved.

 <Q>: In 2014, it was approved. All right, and again a question for Sudhir,

 sir. Surdhir, sir, your - especially your standalone versus consolidated,

 right. So, the [indiscernible] this quarter your standalone profit is INR 218

 crores. Help me understand something in our transfer pricing, do we book

 majority of our U.S. profits in the U.S. subsidiary or are the majority of

 profits booked in the Indian parent entity?

 <A>: Okay. You're right. As per the transfer pricing mechanism, the model

 which we have built in and the benchmarking which has happened from a

 transfer pricing perspective, the substantial part of the profits are

 retained in India.

 <Q>: Are retained in India.

 <A>: Yeah. Yeah.

 <Q>: So, hence my question is that, how come you have such a huge disparity

 between consolidated and standalone financial numbers?

 <A>: Yeah. So basically if we look at Q1 where the shipments of Aripiprazole

 had happened for U.S. and we had talked about huge amount of unrealized

 profits, which were one of the basic reason why the tax rate was very high

 right. So what actually happens, the stocks which have left from India are

 lying still in stocks in the U.S. So as and when these stocks are getting

 sold out, it's getting added to the profits as far as the concert results are

 concerned. So there was a high amount of profit, which was there in the

 standalone in the earlier quarter. This is now getting reversed because those

 inventories are getting sold and when you make a consolidated financial

 statement.

 <Q>: Understood.

 <A>: That is when the profits and revenue comes in the financial statement.

 <Q>: Understood. Okay. I appreciate that. But that also means that in this

 quarter, we didn't really ship much of Aripiprazole to the U.S. subsidiary

 because...

 <A>: Yeah. I think that's the right assumption.

 <Q>: Okay. Okay. Okay. And Sanjay sir again, back to you, just last question

 from my side, among the three products right, Nexium, Aripiprazole and Detrol

 LA I mean the three decent launches, how - I'm just trying to get a sense of

 relative size of these products for us. I mean would you say Aripiprazole is

 like 2x of next year when Detrol put together, 3x, 5x? I mean how large is

 Aripiprazole in this quarter? Relatively, just relatively, I don't want a

 number, but just relatively...

 <A - Sanjay Gupta>: No. Aripiprazole is a very large product and these two

 are just taking the initial steps in the launch cycle. So I wouldn't like to

 compare them among themselves. As Esomeprazole is really right now totally

 dominated by the brand with 60% market share. So, you would see a gradual

 ramp up for all generics on Esomeprazole Most of the customers are keeping

 both brand and generics, so it's very early days and tolterodine is a much

 smaller market. So I wouldn't say that there is a comparable between the

 three products as of today.

 <Q>: As of today. Okay. Understood. And lastly, I'm sorry, just one more for

 Ruchir sir. Ruchir sir, biosimilars we have launched Adalimumab, you had

 three products license from Reliance Lifestyle, has the other two been

 launched or...

 <A - Ruchir Modi>: Yes. So on the Q2 con-call, I have mentioned Rituximab

 which is launched in August.

 <Q>: Okay.

 <A - Ruchir Modi>: And this is Adalimumab is the second one.

 <Q>: Okay. And the third will be launched soon?

 <A - Ruchir Modi>: In next financial year.

 <Q>: In next financial year. Are we looking to extend this partnership to

 more biosimilars or...?

 <A>: Yes, we are - maybe we are talking to them.

 <Q>: Okay. Because my understanding is that, Reliance Life Sciences is

 actually developing the entire basket of 35 biosimilar products.

 <A>: Yes, yes.

 <Q>: And they need a marketing partner, because they don't have...?

 <A>: We are talking for a more larger strategic partnership rather than

 product wise. So, but I cannot discuss right now.

 <Q>: Okay. Thanks and all the best for the great set of numbers. Thank you.

 <A>: Thank you.

 Operator:

 Thank you. Ladies and gentlemen, in order to ensure that the management is

 able to address questions from all the participants in the conference, please

 limit your questions to two per participant. We have the next question from

 the line of Nitin Gosar, from Religare Invesco. Please go ahead.

 <Q - Nitin Gosar>: Thanks. Just on Brazil, can you give some kind of

 collective understanding on the volume growth?

 <A>: So, the underlying volume growth for the year-to-date is essentially 15%

 for us. And this compares quite favorably to a market, which is going light

 mid-single digits. Our volume growth would be even higher year-to-date about

 20% if we took out the - what we call the government tender business. Because

 essentially, because of the physical situation in the country, the municipal

 hospitals, the state hospitals and the federal hospitals, they are facing a

 resource crunch and we don't like to sell if we don't collect payment. So,

 we've essentially cut down a lot on our business with the public hospitals

 and as a result that brings down - and we've got a negative growth rate that

 brings down the overall growth rate. But the trade business, so bandage and

 [ph] eggs business, where we promote to physicians, which is the core of our

 operations, in terms of unit growths in the domestic market in Brazil, it's

 close to 20%.

 <Q>: Okay. And on [indiscernible] have you cut down further MRs in Brazil?

 <A>: So, as of now, yeah, it's an ongoing strategy. So it's very simple I

 would say cut-in piece of the successful track record that we have in India

 and we've cut down the further 50 people in the last 12 months.

 <Q>: Okay. What would be the current number right now?

 <A>: So, right now, the overall head count of the company is about 470

 people.

 <Q>: And what's the R&D cost on YTD basis?

 <A>: It's around 4%.

 <Q>: 4% on YTD basis.

 <A>: Yeah.

 <Q>: Okay. Good. Thank you.

 Operator:

 Thank you. The next question is from the line of Nimish Mehta from Research

 Delta Advisors. Please go ahead.

 <Q - Nimish Mehta>: Yeah, thanks for taking my questions again. Just we're

 keeping on you said 4% of R&D overall for the YTD where expenses let's ?

 <A>: Sorry, come again.

 <Q - Nimish Mehta>: The R&D expense for the quarter, that will be helpful, if

 you can give that?

 <A>: Yeah, it is around 4% on a quarter basis as well as YTD basis.

 <Q - Nimish Mehta>: I see, understood. And if you can also kind of let us

 know the growth rate of some color on the European business, that will be

 helpful?

 <A>: Sanjay, you are there?

 <A>: Yeah, yeah, you're orienting, okay. So our European business essentially

 is composed of two parts, right. It is our own affiliates in Germany, UK and

 Rumania and then what we call the [indiscernible] licensing business. So

 while the position continues to be extremely strong in Germany and Poland has

 been growing and maintaining its top five position in the German generic

 market. So there is no change in momentum in Germany. For the other markets,

 we've not been doing too well, and the basic reason is that because of the

 kind of lack of capacity or manufacturing capacity to supply goods to those

 markets, you have had to kind of prioritize ourselves. And overall from a

 corporate perspective, we prioritized the U.S., Brazil and Germany in terms

 of allocating our manufacturing capacity. So as we go forward, we will see

 increased momentum in UK, Romania as well as enhance the supplies to our

 partners in other parts of Europe.

 <Q>: Okay. And that would start basically from April when you are planning to

 have Dahej facility

 <A>: So essentially, it's like a fungible commodity, right manufacturing

 abilities, so as U.S. moves to Dahej, it frees up capacity in the other

 plants which allows other countries to get goods also. So yeah, once we get

 this new plant on steam, you should see an impact across the board in the

 organization.

 <Q>: Understood. Finally on the Adalimumab, if you can just let us know how

 much pricing the lead in just pricing in India with what discount are we

 selling it and what is the kind of response you're getting?

 <A>: The response is really very encouraging because due to Chymoral, there

 was a very strong equity in rheumatologist where this is prescribed maximum

 and it's one fifth of the innovative price, hence, it has become quite

 affordable to patients and we are getting very good response from these 500

 rheumatologists that are there in the country, very niche segment, but very

 high value and there is no discount or no push sales like it is there in

 oncology.

 <Q>: What do you think would be the market - at whatever price you're selling

 for Adalimumab in India.

 <A>: According to us, market would be right now INR 50 crores already with

 only one player present. We entered in December first week actually. So

 before that what we understand it is INR 50 crores.

 <Q>: No but like target, I mean as in there would be hidden market, right and

 big hidden market, so any estimate about that? How much that could be at the

 right price it will kind of come out with Adalimumab?

 <A>: It is a therapy market.

 <Q>: Yeah. Yeah. I'm talking - yeah, correct. Adalimumab I mean the compounds

 market, as such...

 <A>: Compound - so, basically this is biosimilar and it is a first biosimilar

 at the first line therapy in rheumatology.

 <Q>: Right.

 <A>: There was - Rituximab was there but it was a third line. It's a more...

 <Q>: Right.

 <A>: ...value product, whereas this is more first line therapy. So there is

 no really biosimilar competition available. You can say that we are still

 educating doctor how to prescribe this, because they have not used it, they

 have not used any biosimilar yet actually. Though I cannot compare but

 therapy I can. There are oral tablets for the same thing, so the market is

 around INR 1,100 crores.

 <Q>: Yeah. That will be there again. Okay. Fine. No problem. Thank you very

 much.

 <A>: Our old target is very - price wise very less.

 <Q>: Right. Right.

 <A>: Okay.

 <Q>: Thank you.

 Operator:

 Thank you. Next question from the line of Rahul Baijal from Bharti-AXA Life

 Insurance. Please go ahead.

 <Q - Rahul Baijal>: Yeah, in terms of Aripiprazole, I just want to check how

 many more players are you expecting to enter in the short term?

 <A>: So it's kind of difficult for us to guess but you can basically - the

 folks in the litigation, on the patent litigation, there are one, two, three,

 four, five, six, seven, eight and nine of them who have not yet launched. I

 think out of the nine there maybe two or three which drop their plans to

 launch and you would probably have five players to six players who will have

 the possibility as they get approval to launch if they decide to launch at

 risks and continue with the litigations. So, yeah, over a period of time, you

 can expect 5% additional players.

 <Q>: Okay. And I joined the call late, so maybe - I may be repeating the

 question, but - after the entry of the Hyderabad-based Indian player

 recently. I mean, has there been a material drop in the pricing or it's been

 not that material, at least qualitatively can you give us some direction?

 <A>: Are you talking about...

 <Q>:

 <A>: Which group from are you taking?

 <Q>:

 <A>: Yeah. Actually, the prices of the general trend eight months into launch

 with already seven players on the market is the pricing, which is declining.

 So I cannot attribute it to them, but it's per se - but overall the trend in

 pricing for the last - and that would reflected in our quarterly sales

 numbers also, so even though we might go down to a market share, but the

 pricing will not be the same from quarter-to-quarter. So, but I cannot tell

 you that is because of this launch and that launch because folks have been

 very reasonable in terms of their market share expectations. So there hasn't

 been - there hasn't been somebody who has been extremely greedy and trying to

 steal the entire market or disproportionate share of the market.

 <Q>: Okay. So, lastly, I mean assuming no more launches by Indian players,

 it's quite possible that status quo in pricing might continue going forward,

 is that correct assumption?

 <A>: That's what we hope in this process, but I can't forecast that.

 <Q>: Okay. All right. Thank you so much.

 Operator:

 Thank you. The next question from the line of Kartik Mehta from Deutsche

 Bank. Please go ahead.

 <Q - Kartik Mehta>: Yeah. Just trying to understand your strategy on

 acquiring assets now that Elder has been integrated, would you look at assets

 which add to the existing gaps in India or would it be manufacturing capacity

 for the U.S. and also in terms of ABAC, how do you look at it - I mean, this

 is just from the back of your experience with Elder?

 <A>: So, basically our priority for acquisition. and if it's a large scale

 acquisition, definitely is India, and U.S. definitely is our second priority

 and ABAC typically, like I think, everybody looks at ABAC typically for seven

 years, eight years, and that's what we have had looked at for Elder also,

 while we had acquired the company, and we usually do not stretch ourselves

 much while paying the price for acquisition. So, I think, seven years, eight

 years is typically what we look at.

 <Q>: And the Elder acquisitions, we paid INR 2,000 crores, so if there is an

 acquisition in the future of equal size or larger size? Would the funding we

 both by debt and equity or would it be only by debt?

 <A>: Yeah, it will be a combination of debt and equity.

 <Q>: So, on the back half, it - just trying to understand your dividend

 payout policy, while it continues to remain between 22% to 25% in interim

 dividend. So, would that, I mean, I'm just trying to understand, if you're

 looking out for acquisition, the reason would be higher dividend or if you

 can just should explain me on that?

 <Q>: It is the dividend quality, as we've been consistent and we are

 generally targeting the overall payout of 30%, and we are continuing to

 follow the same policy, there is no change in the policy.

 <A>: Yeah, which is visible in the last eight years, nine years ,so which is

 what I'm explaining, but the quantum obviously has increased phenomenally

 this year. If you just look at it because of your performance in the U.S.

 market. Just looking at it that we are on the lookout for acquisition, so

 would that - would it be prudent to hold on to the cash just a thought on

 that line?

 <A>: There is a big jump coming from U.S. As regard to funding of an

 acquisition in future, I don't think this sort of cash would make a

 significant [Technical Difficulty]

 <Q>: Hello? Hello? Hello? Hello?

 Operator:

 Mr. Depesh, hello?

 <Q>: Yeah. This is Kartik and I was not able to hear them.

 <A - Sanjay Gupta>: Yeah. When - this is Sanjay, I think the India line got

 cut.

 <Q>: Yeah. So...

 Operator:

 Ladies and gentlemen, sorry for the inconvenience. We have the management

 line connected. So, you may please proceed.

 <Q>: Hello. Yeah. Hi. This is Karthik here.

 <A>: So, the dividend payout we intend to follow consistently and it will

 keep on raising according to the profits in a particular year.

 <Q>: Sure.

 <A>: But we believe that a shareholder first of all should we participating

 in the company fortune, both plus and minus.

 <Q>: Sure, sure. The last one is on do you have any broad-based guidance over

 the next three years except the one-offs that you have in the Indian market,

 sorry, in the U.S. market. How do you look at EBITDA margins settling? Some

 time ago you guys had mentioned that your endeavor is to become the company,

 which has the highest EBITDA margin on the India business, so based on the

 improvement in the productivity? How far are you going from that and a

 broader color by [indiscernible] exact numbers on the EBITDA margin.

 Profitably...

 <A>: Yeah. I mean, typically, we don't give guidance for the future, but what

 you stated about domestic business is what we saw, we were achieving

 actually.

 <Q>: Yes.

 <A>: But otherwise, for the next three years, we will not be able to give any

 guidance. It's not our policy.

 <Q>: Sure. Thanks. Bye.

 <A>: Yeah, bye.

 Operator:

 Thank you. Next question is from the line of Chirag from HDFC Mutual Fund.

 Please go ahead.

 <Q>: Yes. Thank you for the opportunity. Sir, can you help us understand the

 U.S. base business trajectory of ex of Abilify of Q3 versus Q2 and Q2 versus

 Q1, I'm not looking for a number, but just a broad color. Is it dramatically

 increasing, is it not increasing? Any direction would help, sir.

 <A>: So it has a positive trajectory, but clearly what we've been doing is,

 we've been making trade-offs, and especially if you look in Nexium, it's a

 very manufacturing intensive product. So as we ramped up Nexium, we had to

 kind of figure out what some of the products that we would do less of, but

 overall in terms of value terms our base business has positive trajectory.

 And we've been focusing on higher value products, and shedding away some of

 the lower value low margin items, and that's the kind of trade-offs which you

 have to make on an ongoing basis for the U.S. market.

 <Q>: So you would say that for - so for each of the quarters, the business

 has actually grown, is it so, on a quarter-on-quarter basis?

 <A>: Yeah. On a quarter-on-quarter basis, we have a positive trajectory, and

 what we have is of - the product mix changes, and we try to get more

 contracts from - because there - any company especially a company of ours

 size and scale, does not have unlimited kind of manufacturing resources

 available, so we have to be smart about it and kind of divert it towards the

 products which should bring the maximum, I would say bottom line. And we do

 that - and you can do that actually. It's not something that can be done in a

 matter of week, days, but on a course of three months, four months, six

 months, you can move away from a set of contracts from certain low value

 items and move towards more high value items.

 So typically, as we've - and if you look at the IMS data, you can pretty much

 figure out, where is Torrent focusing its efforts and which are the products

 that we are going for in hand shares, and which are the products for which we

 are kind of walking away from market shares. So that could probably give you

 a much better indication as to where our business is going. And for all the

 products that we have focused on, where we have a bottom line, our shares

 have been growing and increasing dramatically. That's literally the strategy

 that we have. So profitable products, we try to at least have one or two

 anchor customers and move the share in a material way, and products with low

 margin, low prices extremely competitive and commoditized, where we try to

 let the share go away.

 <Q>: Okay. Thank you so much.

 <A>: Thank you.

 Operator:

 Thank you. The next question is from the line of Nitin Agarwal from IDFC

 Securities. Please go ahead.

 <Q - Nitin Agarwal>: Hi. Thanks for taking my questions. Sir, on your Brazil

 business now in the wake of what is happening with the currency over the last

 - specifically over the last few months? I mean how do we look at the

 business from a growth and a profitability perspective going forward?

 <A>: So as a company and especially as a company from India, we are very used

 to these markets being sometimes in a very favorable international

 environment, sometimes being in a very unfavorable international environment.

 But Torrent as a company, we've been in Brazil for more than 10 years. It got

 more than 200 million people very strong economy. So long term we are bullish

 in Brazil. And this kind of turbulence, and this is a very turbulent period.

 So the country basically had zero growth in 2014, negative three negative

 four growth in 2015 and 2016 and probably looking at again zero growth in

 2017. So but it's not going to last. So it's something for two years or three

 years, it's the time for us to kind of tighten our belts, improve our

 productivity. So we are taking steps to improve ourselves and amongst all the

 sectors of pharmaceutical sectors, it is the place to be in Brazil. If you

 look at sectorly growth rate, the pharma still has the positive trend. So

 when you meet your kind of person or the industries in Brazil, they'll tell

 you that you guys - we as a pharma company, we are in the right spot in the

 tough market. And the things that we are doing essentially is pretty much the

 same things that we do in India to improve our sales, one is we've been

 taking price increases, so wherever possible we've increased prices to

 material to the extent that exclusively rate impact and we found that the

 competition is also facing the same issues, so that the degree of cut for

 price competition is not reflected when - in these tough times.

 We've been reducing our headcounts, as I mentioned earlier that we've reduced

 our number of people to about 472, so which has a corresponding impact where

 we keep on increasing sales, so my PCPM in Brazil right now is R$80,000.

 About two years ago, it used to be R$50,000. So those R$30,000 put up

 additional sales per month per head. It really contributes to the company's

 bottom line. We've also kind of reduced the distributor margins, the trade

 margins and asking them to share the effort in these times and what we've

 also done is streamline the logistics and brought some activities in-house.

 So we essentially tried to cut costs to the bone during the three or four

 years, which will be tough for Brazil, because there it will be a much better

 position when the economy comes back. And the forecast I am seeing is that

 2017 might be a zero year, but 2018 onwards the company should start growing

 again. so I don't think that dark clouds will last.

 <Q>: I think this is helpful. So in this - I mean, to take you from there

 given all of these down turbulent times, the emerging markets - I mean, are

 you evaluating opportunities to scale up businesses in some of the other more

 targeted emerging market geographies or where you probably see opportunities

 opening up for you?

 <A>: No.

 <A>: So, Ruchir can speak about it so.

 <A>: Oh, no. No. We are still very focused in these markets, still lot to be

 done here.

 <Q>: Okay. Perfect. And lastly, on the U.S. business, I mean on the

 ex-Aripiprazole business, I mean how do you see that in terms of assuming no

 more product launches, I mean just making an assumption on that the timing. I

 mean do you still see significant scope or scale-up of the business from that

 levels that had been for the last couple of quarters?

 <A>: So, you mean to say is scale-up because of volume, right?

 <Q>: Yes, on the existing product.

 <A>: Yeah, yeah, yeah. I won't be able to do quantify it, but there is room

 for growth, yes, there is room, every day I mean these products.

 Unfortunately, some of the companies have already issues and things like

 that. So we always have customers coming back to us. And touchwood, Torrent

 had a very good clean FDA records, since we started business in the U.S. So,

 when customers are looking for guaranteed supplies, they tend to think of us.

 So, I would say that there is room for us to increase share in several of our

 products. Right now, we are not focused on all of these, because like I

 mentioned earlier, we're focused on the higher value items. But with time, as

 and when we have additional capacity. We would be able to drive growth of

 products, which today we are not focusing on.

 <Q>: And Detrol, where are you from your stabilized market share? Are you

 already there or are you still have more room to?

 <A>: I will not reveal our market share, but what I would just tell you is

 that IMS showed our market share at 10%.

 <Q>: Okay. Okay. Sure. Thanks very much.

 <A>: Thank you.

 Operator:

 Thank you. Next question is from the line of Abhishek Sharma from IIFL.

 Please go ahead.

 <Q - Abhishek Sharma>: Hi. Thanks. A couple of quick ones. There is this

 component of INR 51 crores of other income. So, can you give some color as to

 what this is?

 <A>: Yeah, basically, comprises of Forex gain.

 <Q - Abhishek Sharma>: Okay. And so, this is a net-net figure, I mean, you

 would have ...

 <A>: Sorry.

 <Q>: This is a net figure, I mean, taking into account all the currency

 dealings, right. So...

 <A>: Absolutely. Absolutely.

 <Q>: Right. Okay. And how many ANDAs did you file this quarter?

 <A>: So in this current fiscal year, so far we filed one and we expect to

 file one more, so it will be two, I think it will be the last year where

 Torrent files single digit ANDAs, from next year I hope to file at least 15

 to 20, so - but this year is, I would say at the end of the flurry side of

 single-digit ANDAs.

 <Q>: And this one was filed in the first quarter, right?

 <A>: Yeah, yeah. The second one I hope to file in the fourth quarter.

 <Q>: Sure. Understood. And that one would be in oral solid ANDA?

 <A>: Yeah. Yeah.

 <Q>: I mean, so - yeah, so basically I wanted to know if it was one week. And

 third question sir, more on philosophical lines, do you see - given the fact

 that your capacity is expanding with Dahej, do you see there is some

 rationale for you to get vertically integrated at some point of time in

 future?

 <A>: Sudhir, Ashok.

 <A>: Vertical, so Dahej is vertically integrated plant.

 <A - Ashok Modi>: Dahej itself is a vertically integrated where most

 [indiscernible] formulation there, and that is what you are referring to.

 <Q>: And that's something that is what I'm referring to, so - okay, so Dahej

 also has API capacity?

 <A>: That's right. That's right.

 <Q>: Okay. And significant, I mean, and this is because Indrad also had an

 API blocked, right? So...

 <A>: Right.

 <Q>: So this would be far bigger than what Indrad...

 <A>: That is bigger than the Indrad, correct.

 <Q>: Right. Got you. Got you. All right, sir. Thanks.

 Operator:

 Thank you. The next question is from the line of Prakash Agarwal from Axis

 Capital. Please go ahead.

 <Q - Prakash Agarwal>: Yeah. Thanks and congratulation. Good set of numbers.

 Sir, on this comment you made on the foundation stone for the oncology block,

 what is the timeframe that you expect that it would be up in running and you

 would be able to see approvals and shipments from this facility?

 <A>: Two years.

 <Q - Prakash Agarwal>: So two years completion of facility, by that time you

 will also expect the approvals to come by?

 <A>: The development started a bit earlier than that.

 <Q - Prakash Agarwal>: Yeah. Through CMO?

 <A>: Yeah.

 <Q - Prakash Agarwal>: Okay. And what's the landscape for the derma piece,

 sir?

 <A>: Sanjay?

 <A - Sanjay Gupta>: Yeah. No, the plant is already approved. So, as we file

 new [indiscernible] next day onwards, you would see them approved in the 12

 months to 16 months window, so then we would be commercializing them. So -

 but there is nothing to be done on the industrial side.

 <Q - Prakash Agarwal>: Okay. But in terms of approvals and commercialization,

 both oncology and derma would be good for fiscal 2018?

 <A - Sanjay Gupta>: Yeah. Dermatology for sure, oncology, the products would

 be ready, but not necessarily from our own plant, but from CMOs.

 <Q - Prakash Agarwal>: Understood. Okay. And sir, secondly, there is some

 media news on some API, which is being made mandatory to be manufactured

 locally. I don't see any merit in the news, but if you could as an industry

 expert could help us understand if this news is practical?

 <A>: No. It's basically, it says that this - they are going to the - the U.S.

 Army and the government, they are going to prefer for tenders by the locally

 manufactured people, but it doesn't say that they are going to completely ban

 it, it's their preference, the word that they've used. And anyways, we don't

 have business companies like Torrent and [indiscernible] they don't have

 business with government tenders.

 <Q>: Okay. So logically speaking local production in U.S. would also be high

 cost and the government is himself bleeding with the higher funds, I mean

 with the lack of funds. So, I just don't understand this kind of situation.

 <A>: Exactly, exactly. That's not the word you used, but there was

 preference.

 <Q>: Okay. And lastly can I have the U.S. number please, somehow I didn't

 receive the presentation. Can I have the U.S. sales, please?

 <A>: So, for the quarter it is INR 558 crores and for YTD sales INR 2,158

 crores.

 <Q>: Okay. So, its - this is substantial drop Q-on-Q, which is what you

 explained every quarter Abilify is coming down.

 <A>: That's right.

 <A>: Yes.

 <Q>: Okay. And base business has gone up, so net-net Abilify has come down

 quite a bit.

 <A>: Yeah.

 <Q>: Okay. Thanks and all the best.

 Operator:

 Thank you. Next question is from the line of Sameer Deshpande from Fairdeal

 Investments. Please go ahead.

 <Q - Sameer Deshpande>: Hello. Congratulations for excellent numbers. Hello?

 <A>: Thank you. Thank you.

 <Q - Sameer Deshpande>: Actually I wanted to know our long-term debt you

 mentioned something INR 2,000 crores and we have cash of INR 1,200 crores. So

 the net debt is only INR 800 crores?

 <A>: That's right.

 <Q - Sameer Deshpande>: [Foreign Language] Very good. So the accumulation in

 this quarter of the profits has - because in September we had some INR 670

 crores cash, so there is a potential accretion to that in this quarter?

 <A>: Yeah.

 <Q - Sameer Deshpande>: [Foreign Language]. And the Sundry debtors, what is

 the average age now, compared to last year or September?

 <A>: Sorry, what the ?

 <Q - Sameer Deshpande>: Sundry debtors...

 <A>: Yeah.

 <Q - Sameer Deshpande>: Our receivables.

 <A>: Yeah.

 <Q - Sameer Deshpande>: So what is the age of receivables compared to

 September?

 <A>: Yeah, it's 2.8 this quarter, I mean, as at 31st December, it is INR 2.83

 crores.

 <Q>: INR 2.83 crores.

 <A>: And, September should be similar.

 <Q>: So it was I think last time you had mentioned three months plus nine

 days, so it is something better than that this time.

 <A>: Yeah. Yeah. Yeah.

 <Q>: Good. And this Brazil impact, have we incurred any foreign exchange loss

 and booked it?

 <A>: No, so we have this forex policy, so what typically we do is we hedge

 100% so basically for the credit period of 270 days we are already hedged. So

 to that extent the more the depreciation of currency which is happening has

 not actually walked into the P&L.

 <Q>: Okay. All the best to you.

 <A>: Thank you.

 Operator:

 Thank you. Next question is from the line of Purvi Shah from Sharekhan.

 Please go ahead.

 <Q - Purvi Shah>: My questions have been answered. Thanks so much.

 Operator:

 Thank you. The next question is from the line of Fathima Khan from Khambatta

 Securities. Please go ahead.

 <Q - Fathima Khan>: Thanks for taking my question. I would like to know what

 is the cumulative ANDA filings we have and what is the number of total

 approvals we have?

 <A>: So as of today, the number of approvals we have close to 57 and the

 number of pending filings that we with the FDA are 16.

 <Q - Fathima Khan>: 16?

 <A>: Yeah.

 <Q - Fathima Khan>: Okay. And what would be the cumulative filings?

 <A>: So that will be 66 - 57 and plus 18 - plus 16, right.

 <Q - Fathima Khan>: Right. Thanks. And my next question is about diet

 facility. So what kind of numbers are you looking at, at the end of FY 2016?

 I don't think we'll be having anything because it would be at close, as when

 you are expecting to [indiscernible].

 <A>: So are you talking about the revenue from the H?

 <Q - Fathima Khan>: Yes.

 <A>: I think we'll have to wait and watch actually, because it all depends on

 the product approvals which will flow in next year. So it's a little

 difficult for us to estimate the revenues for the next year.

 <Q - Fathima Khan>: But you do have some product approvals in place and you

 are waiting for the FDA eight of the five approval, right?

 <A>: Yeah. Yeah. But that's hardly one.

 <Q - Fathima Khan>: Okay. Okay. So - okay, fine. Thank you.

 Operator:

 Thank you. Ladies and gentlemen due to time constraints that was the last

 question. I now hand the conference over to Mr. Ruchir Modi for the closing

 comments. Thank you and over to you, sir.

 Ruchir Modi - Executive Director for India and ROW Operations:

 Thank you, everyone and have a good evening.

 Deepak Malik:

 Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities,

 that concludes this conference. Thank you for joining us and you may now

 disconnect your lines.

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