



“Torrent Pharmaceuticals Limited Q4 FY2019 Earnings Call”

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MANAGEMENT:

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Moderator: Good evening ladies and gentlemen and welcome to Q4 FY2019 Earnings Call of Torrent Pharmaceuticals Limited. We have with us Shri. Sanjay Gupta, Executive Director - International Business, Shri. Dhruv Gulati, Executive Director - India & RoW Business, and Shri. Sudhir Menon, CFO who will represent Torrent Pharmaceuticals on the call. The call would run for an hour. 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 Shri. Sanjay Gupta for opening remarks. Thank you and over to you Sir!

Sanjay Gupta: Thank you. Good evening everyone and welcome to the FY2019 conference call. I will start with the Q4 results. Q4 revenues were up by 9% at Rs.1856 Crores. Q4 EBITDA margin before exceptional items was at 26%. For the full fiscal year, revenues were at Rs.7673 Crores with a year-on-year growth of 29%. The Board of Torrent Pharma has recommended a final dividend of Rs.4 per equity share.

During the quarter, the company has provided for two exceptional items so I will just elaborate on those right in the beginning. There are product recall charges due to Losartan. So Torrent Pharma has a high market share in Losartan in the U.S. at 30% and for Losartan H, our market share was 22% as of December 2018. The financial cost of the recall and subsequent recalls from the market has been substantial. The second reason for the exceptional item is the impairment of Bio-Pharm, Inc. on account of suspension of manufacturing activities. This is necessary to carry out upgrades and required GMP improvements to the Levittown, Pennsylvania plant. Torrent has decided to stop commercialization of Levittown products for the near future. In fiscal 2018-2019, Levittown products generated revenues of \$11.7 million.

I will now make a few comments about our performance in the top markets. India is the largest contributor to our revenues, and its contribution this year stands at 42% compared to 35% prior to the Unichem acquisition. India business revenue growth for the quarter is 9% whereas growth for the FY2018-19 stands at 38%, normalizing for one-off due to GST growth is at 40%. For enhancing our sustainable profitable growth, we have undertaken a series of measures in the Indian market. Notably, we have discontinued low-value, low-margin products. We continue with the hygiene initiatives to bring more focus on prescription generations and we have changed the sales cycle from Q4 2018-19 to advance our financial closing process.

Adjusted for these factors, Q4 growth stands at 11%, which is above the IPM growth. From the external indicator standpoint, growth stands at 18% and 15%, respectively, for the quarter and for FY2018-19 against the IPM growth, which is 10% for the quarter and the fiscal year. Over the past few years, our endeavor in the India business is to grow faster than the market. We have been able to

do so because of our focus on brand building, specialty focus through chronic business and productivity improvement. Amongst peers, we continue to have one of the lowest components of bonus offers. And as per AIOCD quarterly ranking without bonus offers, we have improved our ranking in the market, and we currently stand at sixth position. On brand building front, count of brand more than Rs.100 Crores stands at 8 as per AIOCD. We would like to highlight that Shelcal has almost touched the Rs.450 Crores mark. India business continues to be speciality-driven with 71% of the prescriptions coming from specialists and this has ensured that we are amongst the top five players in the six key specialities: Cardiologists, Nephrologists, Psychiatrist, Gastroenterologists, Neurologists and Gynecologists. On an overall basis, Torrent stands at sixth position across specialities as per the SMSRC Prescription dataset.

Coming to the acquired business. On the integration front, field force rationalization has largely been achieved. Focus on top five brands, Losar, Ampoxin, Unienzyme, Telsar and Vizylac that contribute 48% has yielded improvement on a sequential basis and as a group, these top five brands have registered a growth of 15% on MAT period compared to 12% of the covered market growth. Losar currently stands at Rs.217 Crores with 11% growth compared to 2% covered market growth as per AIOCD MAT March 2019. On the productivity front, we have achieved the pre-acquisition productivity and combined productivity stands at Rs.6.2 lakhs for the fiscal year 2018-2019 considering the closing strength of MRs.

U.S. sales during the quarter were \$52 million compared to Q4 FY2018 sales of \$46 million that translates into a growth rate of 11%. Main reason for growth is continued increases in market share on a full year impact on launches of last year.

We have accelerated the pace of product launches and ANDA filings. During the year, 14 products were launched and 20 ANDAs were filed. As of March end, we are 32 ANDAs pending approval and 10 ANDAs which have tentative approval. So during Q4, we had FDA inspections of Dahej, Indrad, Levittown plant. We have responded to the observations made by the U.S. FDA and expect to here back in the stipulated time period of 90 days. We are committed to remediate observations made by the FDA in an expeditious manner.

In Germany, Torrent sales were at Euro 29 million for the quarter and was at par with last year. Torrent continues to maintain fourth rank in the overall German generic market with a value market share of 6.5% as per IMS quarter ending February 2019.

In Brazil, our Q4 sales were 108 million Reals and full year sales were 365 million Reals compared to 348 million in the previous year, which represents a growth rate of 5%. As per close-up data, MAT March 2019, growth was 10.7% versus pharma market growth of 8.7%. Our new product launches in Brazil continued to do well with market share greater than 20% for Losartan and Lamotrigine CD and above 10% for trazodone. We have also recently launched two molecules in the Brazilian market,

which are Risperidone and aripiprazole. During Q4, we invested Rs.139 Crores in R&D as against Rs.136 Crores in Q4 of last year. Current ratio of R&D to sales is about 7.5%.

Before opening the call to Q&A, I would conclude by saying that while we have faced headwinds in our U.S. business, we continue to perform well in our branded generic markets of India and Brazil and have achieved double-digit growth in Germany for the third year in a row. Aman, we can open the call now for questions and answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Thanks for taking my question. My first question is on the write-off of Rs.140 Crores for losartan and losartan H. Can you just explain why this number is so high? And are you still supplying the product in the U.S. without any interruption?

Sanjay Gupta: Answering first the second question, we have discontinued these two products in the U.S. So we have actually served discontinuing notices to customers towards the end of last year/ beginning of this year, and we are no longer supplying these products. The number is very high because of the nature of the products. So it is the most widely used anti-hypertensive drugs, so millions of patients take this drug and we had a very important market share. As I mentioned, it was above 30% for losartan and above 20% for losartan plus H. So that recall is at patient level recall. So each individual patient has to be contacted and sent a kit by FedEx which the patient actually sends back to our recall processor and then we have to reimburse the patient according to what they have paid for the drug. So hence, it is a specificity of this recall due to the nature of the product and the nature of the recall why the expenses are so high.

Saion Mukherjee: Okay. Thanks. Can you state like how large these two products are in the U.S. that would be discontinued?

Sanjay Gupta: So we do not disclose the revenues by product and it is because for competitive reasons. What I can tell you is that if you look at IMS you will see that Torrent was in the top two players in both these markets.

Saion Mukherjee: Would you say it will have a significant impact on your revenues going forward for the U.S.?

Sanjay Gupta: The discontinuation of these products will have a significant impact.

Saion Mukherjee: Okay and do you expect any additional charges or this is largely done in terms of recall charges?

Sanjay Gupta: So the provisions that we have taken this quarter should cover us adequately for recall-related expenses.

- Saion Mukherjee:** Okay, thank you and I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** Thank you for taking my question. My first question is broadly on our gross margin. We started off the year saying that we will probably do between 72% and 73%. I understand that there have been some one-off in India but, overall any specific reason why we won't be able to meet that despite the synergies that we got out of the Unichem deal?
- Sudhir Menon:** Neha, what we had said is it should be between 71% and 72%. So because of this shutdown which we are taking in the Levittown facility, there have been certain write-offs which we have taken on the products which were there at that facility. So there is an impact to that extent additionally in this quarter.
- Neha Manpuria:** And how much would that be, Sir?
- Sudhir Menon:** I think it should be close to, around Rs.8 Crores to Rs.9 Crores.
- Neha Manpuria:** Okay. So adjusted for this, the margin is 26% that you mentioned in the opening remarks?
- Sudhir Menon:** No, so it is not adjusted in the margins because this impact would be roughly 0.7%, 0.8% which is not adjusted in the 26% which we spoke about.
- Neha Manpuria:** Okay. So what was the other one-off in the EBITDA margin in the 26% that you mentioned?
- Sudhir Menon:** So there is no one-off in this quarter...
- Neha Manpuria:** Okay. Understood. my second question is in the India business. Again, it seems like we have done a little slower than the market in this quarter. As you mentioned in your opening remarks that Unichem brands have grown quarter-on-quarter. Any more color on how we should look at growth over the next year? Probably how much of the benefit from the MR improvement, cross-selling, etc would finally come through?
- Dhruv Gulati:** If you look at the overall growth of the domestic business as per AIOCD, in the last quarter, at against 10% our total growth of TPL is about 18%. Now as far as growth of the acquired portfolio is concerned, if you look at the overall top five brands, their sales growth of these five brands, which contribute almost 87% for the current quarter. The growth is 23% against 14% of the growth of the market. So if you look at the overall, as Mr. Sanjay has explained, we have taken last year a number of steps. Number of steps like low volume, low margin product discontinuation, also hygiene initiatives which we have taken. Now all these steps have taken so that we can grow better than the

market in the current year. So we expect that our growth - combined growth will be better than the overall market growth.

Neha Manpuria: So the changes to low-margin product discontinuation and hygiene factors, etc, have been taken in the current quarter or it was through the last year?

Dhruv Gulati: In the last year.

Neha Manpuria: Okay, thank you.

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

Prakash Agarwal: Thanks for the opportunity. Just trying to understand the India piece better, so typically Q4, we have to do away with the inventory in the channel and all. So apart from that, any major reason because that is a Y-o-Y impact. So last quarter last year, there would be a similar reason to it. So how should we read about this soft quarter in the India business?

Dhruv Gulati: See, overall we have grown in the Q4 by 9%. But if you take in account these three, four factors what Sanjay has explained, our normalized growth would be about 11%, which is higher than the overall IPM, which is growing by about 10%.

Prakash Agarwal: Yes, understand that but, I mean, we have been following those policies for some time now. So it is not that particular quarter impact. Are you seeing some slowdown in major brands or chronic segment?

Dhruv Gulati: No, chronic segment, if you see, our growth is still the higher. I can give you the overall chronic growth. For example, chronic growth for IPM is about 12% while we are growing by 13% and subchronic growth for the IPM is 10% while we are growing by 21%. So as far as growth is concerned, overall growth as well as growth in chronic and subchronic is better than the market.

Prakash Agarwal: And these are AIOCD numbers, Sir?

Dhruv Gulati: Yes, these are purely AIOCD numbers and these are MAT numbers.

Prakash Agarwal: Okay. And just to model around for the U.S. business, you have taken a 20 million haircut on this recall impact. So would it be fair at least that this half of it is a sales impact that we should build in for fiscal 2020?

- Sanjay Gupta:** So the exceptional item is not linked to sales actually. Yes, so I think the only source I can give you is you use your usual ways ie. you look at IMS and then calculate what you think is the sales impact because, as a policy, I am not comfortable disclosing individual product sales for the U.S.
- Prakash Agarwal:** Understood and lastly, on the Indrad facility, so just if you could break it up in terms of the current pending filings and the current sales, Dahej in Indrad, that would be useful?
- Sanjay Gupta:** So essentially, the last few years, we have actually built up quite a few approvals from Dahej and as a result of which, today about 50% of our volumes come from Dahej and in terms of pending filings because most of these filings have been made over before Dahej came up, I would say that a majority of them come from Indrad.
- Prakash Agarwal:** Pending ANDA?
- Sanjay Gupta:** Yes.
- Prakash Agarwal:** Okay and would it be fair to say that other 50% is Indore?
- Sanjay Gupta:** So we have filings from four facilities, right? So we have filings from Indrad. We have filings from Dahej. We have filings from Pithampur / Indore, which is our derma plant. And we have filings from Levittown. So those are the sources. I would say number one source of filing will be Indrad followed by Dahej and Pithampur and Levittown.
- Prakash Agarwal:** Okay, understood. I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Anubhav Agarwal from Crédit Suisse. Please go ahead.
- Anubhav Agarwal:** Can you clarify that U.S. sales went down sequentially from \$59 million to \$53 million. Just has the impact of losartan has already flow in? Or will it flow next year?
- Sanjay Gupta:** No, I would say a couple of things. Firstly, the impact of losartan has already flowed in because we discontinued sometime towards the end of last quarter, early this year. And secondly, we had some one off sales in previous quarters because of which we are seeing a lower sales number.
- Anubhav Agarwal:** And what is this impact you mentioned about Levittown facility. Has that impacted sales in this quarter? Can you give a little background about this? I missed your initially sale number of \$11.7 million discontinued? I was not even aware of - can you just explain- what has happened in the Levittown facility and what was the impact like?

- Sanjay Gupta:** So we decided to carry out a substantial upgrade of this facility. As you know, it was a contract manufacturer for over-the-counter products, which we acquired because of Rx pipeline. As we shift the product mix away from OTC into prescription products, there is a higher expectation from the regulatory authorities in terms of GMP compliance and the type of infrastructure that we need to have. So in order to make those major changes, we have decided to take a full shutdown of the plant for a period of a few months. Hence, we will not be having sales for the near future and my guidance to you was, sales in FY2018-19 were \$11.7 million. Those sales could be missing at least for the initial few months of 2019-20.
- Anubhav Agarwal:** And this quarter has not been impacted from this?
- Sanjay Gupta:** Yes, this quarter has been marginally impacted, but not so much.
- Anubhav Agarwal:** So when you know that you are going to take a shutdown, why would not you prepare inventory equal to that? I do not know if the products are so voluminous and that you do not want to prepare inventory, are you ready to take a knock on your sales?
- Sanjay Gupta:** So the reason is that essentially most of the business was in the OTC area where we are serving as contract manufacturers and we have decided that the plant and the requirements from the regulator are not actually compatible with servicing low-margin OTC products. So we are looking at shifting our business model, hence the reason for not building further inventory in the OTC space.
- Anubhav Agarwal:** Okay. That is clear. Second question was on the India business. You mentioned about discontinuation of some low-margin product. So if you started the process in this quarter, so for good part of fiscal 2020, it will impact our sales in India?
- Dhruv Gulati:** Actually, we started this from last six months. There are some small volume low-margin products which were there. Hence we had discontinued them. So initially, we were not focusing on them and for current year, we have decided not to continue with these brands.
- Anubhav Agarwal:** Sir, you mentioned 9% reported versus 11% adjusted. The 2% is largely coming only from discontinuation of low-margin products?
- Dhruv Gulati:** No, this is coming basically from discontinued brand, discounted business which we have reduced, and also the impact of Unienzyme scheme stoppage which we had done in H2.
- Anubhav Agarwal:** Okay. And last question is what is the net debt for company right now as of end of March 2019?
- Sudhir Menon:** Rs.4800 Crores.
- Anubhav Agarwal:** Okay, thank you.

- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.
- Tushar Manudhane:** Sir, along with this product recall, would there be any penalties associated because of non-supply or we have completed the contracts and then disputing?
- Sanjay Gupta:** So we completed the contractual period and its impact is in the financials.
- Tushar Manudhane:** So no more impact at least on the penalty perspective?
- Sanjay Gupta:** We do not expect any penalty impact.
- Tushar Manudhane:** And just on this India business discontinuation because I missed out one reason was it to due to the higher receivable days, the higher credit period which the distribution channel was asking for?
- Dhruv Gulati:** No. It is nothing to do with the distribution channel discount. It is marketing call.
- Tushar Manudhane:** Okay, Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Chirag Talati from Kotak Securities. Please go ahead.
- Chirag Talati:** Thanks for taking my question. A couple of them actually. So I do not understand fully the write-off taken in Bio-Pharm because the magnitude of \$30 million seems much higher than what you would suffer by shutting the plant for few months, given that it is only \$11 million in sales. So have you actually seen deterioration in the market conditions for the products?
- Sanjay Gupta:** So we had made a couple of assumptions, right. One was in the valuation or in the value allocation. We had allocated some value to the continued OTC business. So as we discontinued temporarily and probably for a longer duration of this business, while we thought it is prudent to take an impairment. Secondly, we have also changed the pipeline mix of this company based on what we had acquired and we substantially rejigged the pipeline in development. So hence it is the value allocation process, it is specifically tied to individual projects. So if you cancel out project, A, and you start project, B, then your value assign to project A has to be impaired. It cannot just be transferred, so this is the reason for the impairment.
- Chirag Talati:** Okay. And did I hear correctly that net debt is Rs.4800 Crores?
- Sudhir Menon:** That is right, Chirag.
- Chirag Talati:** So there has been no repayment, there has been no cash generation? I do not understand.

Sudhir Menon: No, there has been a repayment actually. So we have repaid Rs.750 Crores but that is offset against Rs.300 Crores, which we had taken additional loans. So net-net, there is a reduction of Rs.425 Crores.

Chirag Talati: We are talking year-on-year?

Sudhir Menon: Yes.

Chirag Talati: Okay, thank you.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Franklin Templeton. Please go ahead.

Krishna Prasad: Thanks for taking my question. Can you help me understand how much did you pay for this Bio-Pharma acquisition?

Sanjay Gupta: So enterprise value of around \$60 million.

Krishna Prasad: \$50 million, so roughly about 50, 60?

Sanjay Gupta: 60.

Krishna Prasad: Okay, so roughly more than half the value you have impaired now at this point of time?

Sanjay Gupta: Yes, correct.

Krishna Prasad: Okay, but the underlying value of some of these projects, I mean you explained something to do with accounting, where you shifted the project A with project B. But does the underlying value still remain? Or you think that, that is no longer available for Torrent?

Sanjay Gupta: Let me give you a brief background. So the liquid market is a market that we like. In the U.S. generic space compared to oral solids, the liquid market is only about \$2 billion. So it is a much smaller market. Number of serious competitors is less than 10 and there is a very large number of products. So the reason why we had acquired this facility was to do three things. First was to do prescription, liquid products, generics, second was to do 505(b)(2) projects because it is much easier in the U.S. to do 505(b)(2) projects in the liquids area as compared in the oral solids area. And third was to try to diversify our customer mix because liquid do have customers, which are the hospital groups like that so they do not allow us to sell to a broader set of customers compared to the three core customers which exist for oral solids. So those three reasons remain viable and valid, so we intend to continue with this business after the shutdown period is over.

- Krishna Prasad:** Okay, I understood. And my final question is that if I look at your reported India sales, I mean, you have about 9% and you said adjusted is 11%. But when you explain your growth numbers and I am assuming you are talking about the AIOCD there. You have significantly higher numbers? So I am just wondering how does 10% or 20%, 25% growth in top brands finally boiled down to just 9% growth in overall reported revenues?
- Dhruv Gulati:** Yes, you will look at the sequential growth and this is what AIOCD trend will only give you how the trend is there vis-à-vis our competitors and how we are performing as against the overall market growth. So this shows that our secondary trend is quite positive. These are some of the steps which we have taken which has impacted the overall primary sales.
- Sanjay Gupta:** You are aware that AIOCD measure sales from stockists.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP BlackRock. Please go ahead.
- Aditya Khemka:** Thanks for the opportunity. Just want to understand the losartan a bit better. So we have stopped the product in the U.S. market where we had a decent share and we have taken write-offs against our contracts that we must have customers in U.S. What is the situation in other markets ex-U.S.?
- Sanjay Gupta:** We have discontinued losartan in our two other big markets, which is Brazil and Germany.
- Aditya Khemka:** Brazil and Germany also you have discontinued. Any write-offs regarding those two discontinuations?
- Sanjay Gupta:** No write-offs. No major ones.
- Aditya Khemka:** And that write-off happened at the similar timeline when you discontinued U.S.?
- Sanjay Gupta:** Sudhir, it is a write-off in the year?
- Sudhir Menon:** Yes, it was not major, Aditya.
- Aditya Khemka:** You think the sales are not major in Germany and Brazil as well?
- Sudhir Menon:** That is right.
- Aditya Khemka:** Okay. So the impact of those two revenue streams is not significant while it is significant in the U.S., that is how I should understand it?
- Sudhir Menon:** Yes.

- Aditya Khemka:** Okay. And just on Chirag's question on free cash flow. So from the Q3 FY2019 to the Q4 of FY2019, how has the net debt moved?
- Sudhir Menon:** I do not have the number right away, but for the full year, as I said we prepaid around Rs.750 Crores and we have borrowed something for capex, which is around Rs.300 Crores. So the net-net, the reduction over last year should be roughly Rs.450 Crores.
- Aditya Khemka:** Rs.450 Crores. Okay.
- Sudhir Menon:** Go ahead.
- Aditya Khemka:** Okay and going forward, what is your capex requirement going to be?
- Sudhir Menon:** So if you go with the maintenance capex, because all the expansion capex is already done, it should be between Rs.300 Crores to Rs.350 Crores, not more than that.
- Aditya Khemka:** Rs.300 Crores to Rs.350 Crores?
- Sudhir Menon:** That is right.
- Aditya Khemka:** Okay. I have one more question on the U.S. plant. So from your early acquisition of Zyg Pharma are you doing the derma filings as we speak, how is the derma market right now versus when you had acquired Zyg Pharma Sanjay, so has the market gone worse? Or is it similar opportunity still exists for you in derma market in the U.S. or has the opportunity significantly declined?
- Sanjay Gupta:** So the pricing in derma market has not worked very differently to the pricing in the OS market. So generally, if you look at IMS over the last four years, pricing in the U.S. has declined by about 25% over the course of the last four years, so I do not think there is any difference amongst the derma. So there has been slight erosion to an extent but the opportunity still exists because there were a lot of products and there is still I would say interesting margins and as you might recall actually Zyg was the contract manufacturers for a large MNCs in India, right? So it was making product for the likes of GSK and MSB for the Indian market at a U.S. FDA approved plant and those products which are coming out from Zyg were competitive for the Indian pricing scenario. So we think that we have a decent costing position with the Zyg plant and we will be able to compete in any pricing scenario in the U.S.
- Aditya Khemka:** Got it. Just one more on the Unichem bit. So I think in the opening remarks Sanjay you said that whatever manpower rationalization had to happen due to Unichem acquisition is done. Is that a fair understanding?

- Dhruv Gulati:** Yes, more or less, yes. Overall, rationalization, we have completed. In fact, we continue to evaluate if any further rationalization would be beneficial. So it is a continuous process, but yes, largely it has been done.
- Aditya Khemka:** Understood. So any further efficiency you can try from that acquisition? Or whatever synergies we had to realize from the acquisition is now in the base and there is nothing more to be realized from there?
- Dhruv Gulati:** Synergy will be a continuous process because we are trying to bring in same focus on cardio, diabeto as we have in the base business. So synergy will continue.
- Aditya Khemka:** Okay, I have two more questions, so I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Thank you. So if I understood correctly to a question you said that U.S. sales this quarter do not include losartan and losartan H sales, right?
- Sanjay Gupta:** I said losartan & losartan H reduction in sales to an extent factored into this quarter.
- Dheeresh Pathak:** Yes, but does it include some or does it include nil of losartan and losartan H this quarter sales?
- Sanjay Gupta:** It wasn't nil.
- Dheeresh Pathak:** It was not nil.
- Sanjay Gupta:** Yes.
- Dheeresh Pathak:** Okay and second is, just to understand this impairment again, Rs.217 Crores. So this intangible asset you impaired, these were created at the time of acquisition because after the acquisitions, whatever you spend on R&D you would be writing off, right, on the P&L. So you are saying liquid OTC products which you at that time thought you would continue developing and now you have stopped developing because plants are not compliant?
- Sanjay Gupta:** So there is a mixed bag here. There were some liquid OTC products, there was some liquid Rx products and there were a few 505(b)(2) projects. So there was a mix bag.
- Dheeresh Pathak:** Okay, alright. Thank you.

- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Thanks for the opportunity again. India business, again I am just trying to understand business ex of Unichem assets would have grown double digit Y-o-Y?
- Dhruv Gulati:** Yes.
- Prakash Agarwal:** Okay and secondly on outlook, Sir, it would have been great, if you could just share some outlook on India business? And how is losartan turning around?
- Dhruv Gulati:** If you look at the losartan, current trend. Losartan today against the market growth, which is about 2% on MAT basis 12 months' period, we have grown by about 11% and in fact, if you look at the overall the trend also, which I shared earlier also that cardiologists, they write 65% - write losartan, while the prescription for Losar is about 47%, so we are working on them and so that those who are writing these products should write our brand. Similarly, Diabeto also, if you look at 62%, still write losartan potassium and only 41% are writing for Losar. So these are the major segment where we are focusing and trying to convert. In fact, the brand has grown by taking the share from the other competitive brands of losartan.
- Prakash Agarwal:** Okay. And outlook for fiscal 2020, Sir, for India business?
- Dhruv Gulati:** We should grow better than the market.
- Prakash Agarwal:** Any number you want to put like 500-basis points or something?
- Dhruv Gulati:** No, I do not think we can share. But I can only say that we should grow better than the IPM growth.
- Prakash Agarwal:** Okay, thanks and secondly, for international markets, Germany and Brazil, both also had a softer quarter. Germany, nine months, we were doing pretty good, anything to call out for Germany and Brazil, please?
- Sanjay Gupta:** Actually it is just that last year, in the last quarter, there was a major tender we started. So we are from a high base. So Germany, on a like-for-like basis, is growing close to 10% on an annualized basis, and that is the way to look at it.
- Prakash Agarwal:** And Brazil, Sir?
- Sanjay Gupta:** Brazil, let us say on a local currency basis, the full year growth works out to 5%. So it is a little lower than what we expect. And the reasons are varied reasons, so firstly it is a primary sale, so sometimes the channel does play games in Brazil and our primary sales do not reflect the underlying business

growth, underlying business growth is greater than the market. The market being at 8% and product being at 10%. So some of the things which have impacted the primary sales could be we have discontinued losartan, which was not such a small product in Brazil and losartan and losartan H, and also some of the inventory-related effects in the market. So overall, I would say that we expect growth in Brazil to be close to double digit going forward, which is a little bit higher than the market growth rate.

Prakash Agarwal: Understood and lastly, Sir, on the tax rates. What should be the normalized tax rates for 2020 as well as the capex?

Sudhir Menon: So capex, I think, it should be roughly Rs.300 Crores to Rs.350 Crores and the tax rate should be a little above 25% at this point in time.

Prakash Agarwal: Okay and acquisition plan, Sir, we have been taking and renewing the resolution to raise money. I mean is there any change in thoughts or the one that you mentioned in the last quarter that remains in the U.S. or India, if you could just call on that?

Sanjay Gupta: So like I said multiple times, our acquisition strategy has a clear set of priorities, right? So first is that we have interested in the Indian market if there are any opportunities that show up. But as you know, we have done acquisitions in India. And other than that, there is nothing growing in the international markets also at this present point in time. So we will not change our strategy, but we do not see so many opportunities in the near-term timeframe.

Prakash Agarwal: Okay, thank you and all the best.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Just wanted to get more clarity on the Dahej plant. What is the nature of observations which are there and how much time to resolve the same?

Sanjay Gupta: So with Dahej, we submitted our responses to the FDA on April 8, and if the proposals and the projects have been submitted are acceptable, we would hear back in the timeframe stipulated, which is 90 days after the end of the inspection. So the nature of the observation, we know as a company are procedural in nature and they link to some of the SOPs that we have and we are working to remediate the same as rapidly as possible. Other than that, I would not individually comment upon the observations.

Rahul Sharma: Okay. Just wanted some clarity there are 32 pending ANDAs, if I heard right?

Sanjay Gupta: There are 10 tentative approvals and 32 pending ANDAs.

- Rahul Sharma:** How many of them are from Dahej?
- Sanjay Gupta:** So as I said previously that I would not give the exact number, but in order of priority first is Indrad; second, Dahej, third, Levittown and fourth Pithampur.
- Rahul Sharma:** Okay. And just wanted so what type of approvals that you are all expecting in the current year and how many approvals are there which you have not launched - which you have the approvals but have not launched?
- Sanjay Gupta:** There would be anywhere between 5 to 10 approvals that we have with us we have not launched for a variety of reasons, be it commercial reasons or manufacturing reasons, so that is the range.
- Rahul Sharma:** Okay. Any take on how many approvals or launches could be there in the current year in the U.S. market?
- Sanjay Gupta:** So if you look at our filing trends, we have been filing about 15 ANDAs per year. In 2016-17, we filed 17, in 2017-18, we filed 16 and last year, we filed 20. So all in all, we kind of anticipate to launch at least more than 10 products each year.
- Rahul Sharma:** Any exciting products, which could be launched in the current year?
- Sanjay Gupta:** There are a few large opportunities, but excitement comes when you realize a number of competitors which have come to the market. So, it is hard to stay in the US market if we get excited in advance. Sometimes things do change on launch. So I would not like to comment before launching, but there might be some products where the competition is lesser than anticipated.
- Rahul Sharma:** Do you anticipate we will be able to cover up for loss of losartan and losartan HCTZ in the current year?
- Sanjay Gupta:** So there are two factors that we have to consider for the U.S. market, right, which are headwinds which I have to overcome. The first one is linked to losartan. The second one is linked to our Levittown plant. So both of these make it quite haunting for me to try to grow the U.S. sales in the 2019-20, but we will try.
- Rahul Sharma:** Okay. Thank you. I will join back.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Thank you for taking my question Sir. On the cash flows, just if you can probably help us understand better on the usage of cash generation for the year. You had almost Rs.2000 Crores of operating cash,

right for generation for the year. So there is obviously Rs.300 Crores capex that you mentioned. What else would be the larger sort of uses of cash that would have happened in the year?

Sudhir Menon: One is capex and the other is repayment plus the dividend payment. These are the three important ones.

Nitin Agarwal: How much is the dividend payout for cash payout in cash terms?

Sudhir Menon: So dividend would be approximately Rs.310 Crores.

Nitin Agarwal: Repayment you said is another Rs.450-odd Crores?

Sudhir Menon: Net-net, Rs.450 Crores, yes.

Nitin Agarwal: But Sir that should have led to a larger reduction in the net debt numbers, right, for the year?

Sudhir Menon: No, I said, I mean the reduction is roughly Rs. 400-450 Crores, net debt which stands at Rs.4800 Crores.

Nitin Agarwal: And the FY2018 net debt was Rs.5200 Crores thereabouts, from our revenue perspective?

Sudhir Menon: I think so, yes.

Nitin Agarwal: Okay and Sir, on the German business, how should we see them, I mean this particularly is a soft quarter, but is there anything more which is changing in the market? Or structurally, we got extremely bullish on Germany market growth with the incremental volumes and all, which are available to us in Dahej. Does that concession still stand in that shape?

Sanjay Gupta: So for the last five years, our CAGR is 13% and fundamentally nothing changed in the German market. We do see higher competitors, but we are covering only 62% of the market. So we are increasing the proportion of the Germany market, which we bring into our portfolio. So for future guidance, I would say that we expect a good trend to continue, it should not be very different from the past as far as I can tell.

Nitin Agarwal: Okay Sir, thank you.

Moderator: Thank you. We have a follow-up question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: Sanjay, for you to come back to the losartan potassium market in U.S., what would it take in terms of cost and time? Or is it that lost call, there's no point in pursuing that anymore?

- Sanjay Gupta:** So, Aditya, We have an API available to us, in which supposedly the root of synthesis is impurity free okay. So we have contracted to purchase this API for the U.S. market and we are just being a little cautious in terms of the quantities that we receive and the quality that we receive. This is a market where we have been leaders since more than 10 years. So not easy for Torrent to give up this market and at the same time, we have been a victim of API impurities for Valsartan and losartan at a substantial cost. So we will rebuild this business but in a cautious manner.
- Aditya Khemka:** So, therefore the time taken will be more than 12 months, 24 months, 36 months?
- Sanjay Gupta:** I would say we will try to do it, in a rational way. As we gain confidence, we would accelerate, but I need to see some green shoots before I bet more on it.
- Aditya Khemka:** Fair enough and this NDMA impurity, if I am not mistaken, all the markets in the world are sort of rejecting products with this impurity. What is the Indian regulator stance on that and does your Losar franchise in India stand at risk?
- Dhruv Gulati:** There is no impact in India as far as losartan or valsartan is concerned.
- Aditya Khemka:** And that is because we manufacture it in a different fashion API coming from a different source or because the Indian regulator does not care?
- Sudhir Menon:** Yes, so the API from where we are sourcing that does not have this impurity.
- Aditya Khemka:** For the domestic market okay, got it and the second question is on the Dahej again. What is the capacity utilization right now at Dahej?
- Sanjay Gupta:** About 50%.
- Aditya Khemka:** And the balance 50 is ready and operational, but just not utilized for the long term business or there is some further investment required to get that capacity operational?
- Sanjay Gupta:** No, further investments are required. In fact, we are transferring products for Germany already to Dahej. So it needs a few more transfers to happen. So as you know we have started with the CR projects, the controlled release CR projects take a bit longer because of the prior approval supplements, so we are filing every year. We have got one approval of CR project from Dahej and we should file for another five to six CR projects this year.
- Aditya Khemka:** Fair enough and regarding the Form 483 that we have pending, and what we have seen at least in the past is that plants with the NDMA issue generally do not get favorable outcome, FDA is probably a bit harsh on that side. In that light, how many of our ANDAs have dual source of filing. Are we de-risked in terms of our pipeline?

- Sanjay Gupta:** So as a general strategy, we do not dual source at the time of filing. The dual source is right after launch.
- Aditya Khemka:** Okay. So, basically right now none of your pending Dahej filings would be dual source?
- Sanjay Gupta:** We generally do not do have at the time of filing.
- Aditya Khemka:** Alright and lastly again on the free cash flow front, so whatever free cash flow you generate, let us say next year apart from repaying debt and the routine capex that you spoke of Rs.300 Crores, Rs.350 Crores, any other venues of investment that you can foresee?
- Sudhir menon:** No, nothing so far.
- Aditya Khemka:** So R&D trajectory, etc., is not going to change materially from where it is?
- Sudhir menon:** Yes.
- Aditya Khemka:** And we are talking absolute R&D dollars or we are talking percentage of sale?
- Sudhir Menon:** Percentage of sale should be roughly 8%, right that is the guidance, which we had given. A little here and there, yes, plus/minus something.
- Aditya Khemka:** Okay and Sudhir Sir, we are earlier talking about some 505(b)(2) projects for the developed markets. Any progress there and what is our R&D spend on such projects?
- Sanjay Gupta:** No, I said, I see product specific probably includes 8% and it includes the spend on 505(b)(2). So what you will see generally in our portfolio in the years ahead, the number of products - projects would remain constant or go down, but the quality and the complexity of the projects would go up.
- Aditya Khemka:** I just wanted to understand the split of your R&D budget of 8% between the normal generics and the super generics that is 505(b)(2) that is all
- Sanjay Gupta:** We would not give it to you, Aditya because we are just new to the 505(b)(2), so we have initiated a few projects, but let us see how it goes, but it is one budget. We do not treat it any differently. There is allocation, which we make across various buckets and the buckets being Brazil, Germany with some extensions from the U.S., Brazil and Germany then India. Then we have allocation made for complex projects, vanilla generics, oral solid, dermatology, ophthalmology. So there is kind of allocation mechanism as Mr. Sudhir Menon gave to me and that is how we allocate projects, but we do not disclose that publicly.
- Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

- Damayanti Kerai:** Thank you for the opportunity. Sir, my question is regarding Unienzyme pickup. AIOCD data showing strong pickup of around 30% growth there, so can you explain like how this OTC channel - OTC and Rx channels are ramping up, which is driving growth more, the OTC part or the Rx part?
- Dhruv Gulati:** It has a dual promotion now. We are promoting to almost 50000 doctors and that is the reason that you are seeing a spurt in the prescription growth. Also the availability has increased from 2.5 lakhs retailers to almost 2.9 lakhs retailers now and very soon you will be seeing our new ad also. It is almost ready, maybe right in the beginning of the next month you will be seeing and it will be again on a very active promotion form of OTC from next month.
- Damayanti Kerai:** Sure, Sir. Actually Unienzyme is doing quite well as per the AIOCD data, but if I look at Losar-H and Losar, there we have seen growth, I think what I say stabilizing around some high single-digit number. So you mention that you continue to put efforts but what kind of growth we should be potentially expecting from Losar brands because we are targeting as the main growth drivers right?
- Dhruv Gulati:** Yes, Losar, you look at it as a mother brand and if you look at the mother brand, the Losar growth is almost 11% on a MAT basis, I am saying against the 2% of the market and for the current quarter, if you look at, it is 13% against 4% of the market growth. So our focus is on the whole range, which also includes Losar, Losar-H and other combinations.
- Damayanti Kerai:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Talati from Kotak Securities. Please go ahead.
- Chirag Talati:** Thanks for taking my followup. Just one question. Is it fair to assume that a large part of Dahej was just being utilized for losartan and losartan H?
- Sanjay Gupta:** So a substantial part of Dahej was being utilized for losartan and losartan H.
- Chirag Talati:** Okay, thanks.
- Moderator:** Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Yes, just a couple of clarities. One, this Rs.140 Crores exceptional that we have taken, have you already paid this or this will be paid next year, a good part of which is like for the expense related?
- Sudhir Menon:** So whatever claims have come we paid that, but all of that is not actually accrued. So some part of it is provisions, which we are carrying.

- Anubhav Agarwal:** I am just asking from a perspective of how it will impact our cash flow next year. So out of Rs.140 Crores, good part we have paid or good part we are yet to pay?
- Sudhir Menon:** No, it should be 50:50 I would say.
- Anubhav Agarwal:** Okay and Gulati Sir, on this losartan, what percentage of the losartan market do we represent in India?
- Dhruv Gulati:** 42%.
- Anubhav Agarwal:** 42%, okay.
- Dhruv Gulati:** Yes, we have 42% share of the losartan market.
- Anubhav Aggarwal:** You are saying basically everybody else is declining when you are growing at double digit across the market?
- Dhruv Gulati:** Yes, when I am growing by 11%, 12% and the overall market is 2%, so most of the other brands are declining and that is what we had shared in our first discussion also after the acquisition that we will have to take the share from the other brands.
- Anubhav Agarwal:** Right. The only thing is what Krishna also asked earlier that you gave good numbers for every product, but the sales growth in this quarter 9% or 11%, you said ex-Unichem we have grown double digit. Losartan is growing double digit, but our growth does not reflect the same maybe the top five products that you mentioned, 87% are doing well, the bottom 13% are doing very bad. There is some disconnect here?
- Dhruv Gulati:** If you look at we believe in building big brands and for building big brands we have to work and focus on some brands in each division and that is what we are doing. In fact, the top 25 brands, which contribute 87% are growing faster than the market. So that is what the process we have started from last year. As I told you our business model is building big brands, focus on productivity and working on specialty. So we are continuing on that and we are building big brands even in the acquired portfolio.
- Anubhav Agarwal:** Okay, but bottomline is, just trying to understand, 11% adjusted growth that you are saying is one of the two entities is growing below 10%, right?
- Dhruv Gulati:** Both the entity combined, yes, it is 9% we shared, but there are some of these major initiatives taken, which will help us in growth in the long term. So those steps we have taken and growth is 9%, but if you normalize it is about 11 %.

Anubhav Agarwal: Okay, thank you Sir.

Moderator: Thank you. Ladies and gentlemen that would be the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Sanjay Gupta: Thank you very much for attending our call. Our Investor Relations group is available to answer any further questions. Thank you and good night.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Torrent Pharmaceuticals Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.