"Torrent Pharmaceuticals Q1-FY24 Earnings Conference Call"

August 07, 2023

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'24 Earnings Conference Call of Torrent Pharmaceuticals.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Sudhir Menon: Thank you. Good evening and welcome to Q1-FY24 Earnings Call of Torrent.

While we continue to see strong underlying market beating growth in our branded business, on the generic side, Germany has registered a sequential increase in the revenues on the back of tender wins in the last three quarters, while the US business has delivered stable revenues for the quarter. In terms of key financial performance indicators for quarter one, revenues were Rs. 2,591 crores, up by 10% compared to the previous year same quarter. Operating EBITDA for the quarter is Rs. 791 crores. Operating EBITDA margin stands at 30.5% and registering a growth of 16% adjusted for one-off in the previous year.

Now, I would request Aman to give us insights on the India business.

Aman Mehta: Thanks, Sudhir. India revenues at Rs. 1,426 crores, grew by 14.5%. Adjusted for the one-time NLEM related price impact for the quarter, overall growth stands at 16%. As per the AIOCD data set, Torrent's growth in Q1 stands at 9% against the IPM growth of 4%.

We'd like to share some operational highlights from the quarter:

The Curatio business continues to perform well with 18% growth in Q1 led by the flagship brand Tedibar. Tedibar is now over a 100 crore brand growing upwards of 25% and the top five brands of the portfolio all continue to deliver high teen growth. With the merger approval now in place, we have been able to accelerate integration in the last few months. EBITDA margins of the Curatio portfolio are now 7% higher than pre-acquisition, due to operational efficiency. Further, incremental margin expansion is looking visible in the coming quarters, while longer term margin profile will continue to improve due to operating leverage. We are on track to reach our base business level margin in the near future given the current trajectory. PCPM of the Curatio business is now just under 5 lakhs compared to 3.6 lakhs pre-acquisition as we have restructured some divisions to focus more on the top 5 brands.

Moving to branded generic market, our launch in Diabetes continues to remain strong and we are ranked number one in the branded generic players in the Sitagliptin market. We are clocking just around 10 crores per month in the 12th month of launch, which is one of our fastest launches to reach this scale.

Some updates on the Consumer Health Division. Our first product, Shelcal-500 has shown positive outcomes in our pilot markets and as a result, we have now spent the last quarter expanding our distribution and reach to 230 sales reps across the country in order to start a national campaign. We expect the Shelcal national rollout to begin in the coming few months. On similar lines, pilot for Unienzyme has been launched in some of the key states and the campaign for Tedibar from the Curatio portfolio is also planned in H2 in the coming year. At the end of the quarter, Torrent has 20 brands in the top 500 of the IPM with 15 brands now more than 100 crore sales as per MAT June 2023.

Our field force strength now stands at 5,500 MRs. We expect the India business should continue to outperform the market growth in the coming quarters and our focus during the year will remain on continuing to improve our market share in the base business, improving field force productivity in the expanded areas, realize integration synergies of the Curatio portfolio and execute our consumer health national rollout.

I'll now hand over to Mr. Sanjay Gupta for the international business.

Sanjay Gupta: Thanks, Aman. We will start with our branded business market of Brazil. Brazil has reported a 3% growth during the quarter. In constant currencies, the revenues were Brazilian Reais 114 million, registering a degrowth of 2%. The reported growth was lower due to revenue getting recognized in July owing to delay in dispatch to one of our largest customers. Adjusted for this, the underlying growth in constant currency is 12% and in INR, it is 17%. As per secondary data set, Torrent's growth is 15% versus branded generic market growth of 11%. Of the seven brands launched in the last 24 months, we have achieved double digit market shares in four of them. In Q1, we have launched Pregabalin and we expect 5 additional launches in the balance of this fiscal year. Our generics business is also scaling up fast and we've achieved the 8.8% volume market share as per IQVIA June data in our covered market.

Moving on to Germany, our German business has registered a growth of 21% this quarter. Constant currency revenue was 29 million Euros, up by 11%. Since the last two quarters, the business is witnessing steady sequential recovery, driven by new tender wins. We also see better conversion of existing tenders. During the quarter, we have launched 2 products and we expect a similar run rate to continue in the next quarter as well. There were additional tender wins in Q1, which will have a positive impact on sales starting in Q4 of this fiscal year. In the US, we registered revenues of Rs. 293 crores, down by 2%. Constant currency revenue for the US is at 36 million, down by 8%. Adjusted for one-off income in Q1 of current year and previous year, constant currency growth is 1%. Our Bileshwarpura Onco facility was cleared by the USFDA and we have to now commercialize our first product in the US in the month of July.

To conclude, I would like to say that we expect to further deepen our presence in branded generic market, aided by the Curatio integration, new launches and foraying into new therapies and new divisions. Germany shall continue to witness continued recovery trend aided by incremental tender wins, cost improvement strategies and OTC expansion. And until the clearance of our US oral solid facilities, our US focus will continue to be to maintain a niche and profitable presence.

Operator, we can open the call to questions now. 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 Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My first question is on India business. So, can you split India's growth into volume, new launches and price hike? And related question is, although like your India business remains very healthy in recent quarters, but some of the secondary data is showing volume to remain muted for the market. So, how do you see the market growing for the current fiscal? That's my first question. Thanks.

Aman Mehta: Yes. So, the breakup of the AIOCD numbers at overall growth for the quarter is 9% versus 4% of the IPM. Breakup of this 9 is -3 in volume compared to -4 of the market, 7% in price versus 5% of the market and 4.5 in new products compared to 3% of the market. So, I think this quarter has been slightly weaker in terms of the acute sales that we're seeing trending across most data sets. So, probably due to that, it's caused a bit of weakness, but should be recovering in the coming months. As far as our chronic business is concerned, our total chronic piece has grown in double digits and our gastro business, which contributes more than roughly around 1000 crores for us overall that had been impacted by this seasonality which hopefully should recover in the coming months. But apart from that, we think there is a positive traction in the market going ahead.

Damayanti Kerai: So, in your view, market can grow at, at least in single digit for the current fiscal and you will outperform the market?

Aman Mehta: That's correct.

Damayanti Kerai: And my last question is on your consumer health business, which you have recently launched. So, with this Shelcal, now you're taking Pan India, but can you just talk a bit about like how many products you would like to bring in here and what kind of cost you foresee for your plants here?

Aman Mehta: So, we'll be looking at by the end of this year, around 3 to 4 products and maybe by next year, about 5, if all execution is on track. In terms of cost, I think this quarter and last quarter, good part of the fixed cost has already been kind of, is part of the numbers. So, incrementally, there won't be too much of a higher spend going ahead. It may depend on product wise, if you're launching a pilot, depending on the scale of the pilot by a few crores here and there. But it would not be significantly higher from what we're currently seeing. This is I'm talking about advertising spends.

Damayanti Kerai: And also like sales rep, you have around 270 people, that will be sufficient for next few quarters, right? You won't be adding more?

Aman Mehta: Yes, this is 230 sales reps for the consumer distribution and we will be not be adding any reps this year.

Damayanti Kerai: And my last question is your margins are very healthy like they are staying in like 30s level. So, how do you see margins moving ahead, say like more efficiencies come from Curatio etc., so how should we look at numbers ahead?

Sudhir Menon: So, I think Damayanti, this level I think should be maintained for the rest of the year for sure is what we believe today. Over and above that, there's some amount of improvement can still come is what we believe, but that let's see when the quarter gets reported subsequently.

Moderator: Thank you. The next question is from the line of Arti Rai from Equentis Wealth Advisory. Please go ahead.

Arti Rai: The first thing would be if you could give an update on the FDA issue on how's that panning?

Sanjay Gupta: So, we are expecting a letter from the FDA sometime in September and that would be I think the stipulated timeframe for a report on the hedge. We're kind of optimistic because the last inspection that we had, we had relatively, I would say, 2 observations which were not very very significant. So, let's see where that letter goes and then for the other plant at Indrad, we're waiting for a reinspection, and that date has not been communicated by the FDA.

Arti Rai: Thank you. And on the India business, you just mentioned that in this quarter 3% was from volume and in the previous quarter when we were speaking, you did highlight that at least 2% volume growth is something that you were looking at. So, is this something that we look to maintain, I mean, is the view changed there from the last quarter, assuming we have done a 3% volume growth this year, so what's the view there for the full year, more or less, both on price and volume?

Aman Mehta: Just to clarify, this is the AIOCD data that we're talking, which shows that the IPM volume growth is -4 as against which we are at -3. So, our volume traction is ahead of the market, but our internal volume trend is positive. Our overall growth numbers, when you look at either the reported or the underlying growth are close to 16%, so obviously volume will be positive there. What is important for us to look at here is because we are in this phase of high new product contribution, some products will see a slowdown in volume because they're in competing therapies. So, it's the net of new products and volume that we need to look at, which is actually looking quite healthy right now. So, volume trends, we believe that we should be 1% or 2% higher than the market going ahead as well.

Arti Rai: Thank you. Just the last question, from the Bileshwarpura plant, I mean, July, we just started the commercial production for the first product and we are expecting to launch about 2 to 3 products every year is what I understand. So, any other product that we are working on or an expected outlook there?

Sanjay Gupta: I mean, you'll see them once they get approved. So, for competitive reasons, we don't disclose the pipeline, but we have a pipeline of 10 Onco assets right now, all scheduled for launch over the next 4 years.

Moderator: Thank you. The next question is from the line of Sriraam Rathi from BNP Paribas. Please go ahead.

Sriraam Rathi: So, just a couple of clarifications. Firstly, the staff cost and the other expenses are looking slightly elevated this quarter. Is this a normal increase which was due or there is something more to it?

Sudhir Menon: No, so as far as the staff cost is concerned, Sriraam, if you look at a quarter 4 number and apply a normal increment over that and annualize it, it will look similar, I would say, okay. As far as other expenses are concerned, I think there should be a normal level for this year, I would say for all the quarters.

Sriraam Rathi: Because I mean, as a percentage of sales also, it is looking higher mean is it also because the Brazil sales have been due to some extent, so the expenses might have already been booked in this quarter for those.

Sudhir Menon: Yes Yes, that could be one of the reason as well.

Sriraam Rathi: And secondly in terms of tax rate, I mean earlier guidance was like around 31%-32%, This quarter we are around 28%-29%. So, how should we look at for the full year?

Sudhir Menon: So, I think this is the effective rate which should work out for the full year and that's how the rate is arrived at. So, I think for the full year, we should hold at 29%. Effectively coming because of the Curatio tax benefit flowing in.

Sriraam Rathi: And lastly, just on India business, ex Curatio, have we grown in double digit in terms of revenue?

Aman Mehta: Yes, that's correct.

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

Tushar Manudhane: Sir, given that the sort of confidence is getting better for Dahej, so we would like to understand how the R&D cost and subsequently product filing is going to be?

Sanjay Gupta: So, last few years we maintained the momentum in filing. So, again now, we've guided towards the high single digit filing for the US, so there should be no change. The only thing is that now we'll start getting some approvals, right? So, from the previously filed products, a lot of them have become irrelevant given the evolved market scenario. So, many of them we would not be bringing to the market, but there are still pockets of value where we can bring up some products that will get approved to the market. So, you will start to see an incremental pace of launching from September, hopefully September, October onwards.

Tushar Manudhane: Understood. And also on the base portfolio, how has been the price erosion? Is it getting reduced? Is it similar?

Sanjay Gupta: Yes, we did not see material price erosion in Q1.

Tushar Manudhane: So, if any broad or other ballpark range, you would like to highlight?

Sanjay Gupta: No No, it's nothing much. It's not material at this scale of the company. Right now, Q1 was, I would say more a price stability story than a price erosion story.

Moderator: Thank you. The next question is from the line of Ashish Tavkar from IIFL Asset Management. Please go ahead.

Ashish Tavkar: Sir, would like to know your views on trade generics because lot many companies are venturing into it. So, it is not obviously in the core business, it seems that there's a lot of fighting as far as the volumes acquisitions is concerned. So, is that a reason why most of the companies are wanting to go into trade generics? But then at the end of the day, even that could be a saturated market. So, would like to know your views there?

Aman Mehta: Yes, it's definitely there's space to grow in both, trade generics and branded without eating into the other share because the regional contribution is different and the product mix is different. So, for example, the reason why we entered some time back was our acute presence in the branded business is very minimal. And we think this is a very good way to enter the acute space and in regions where we're not present with our MRs. So, for us it was a complementary portfolio addition. And we don't launch conflicting brands in our branded business and trade generics. So, there's absolutely no cannibalization happening there. So, given that this market itself is complementary to one regions and product mix, there is very little scope of kind of taking away share from each other and there's enough room for both to grow.

Ashish Tavkar: Yes and given that we now have a sizable cash on the books, obviously we have turned a lot many acquisitions in the past, but this time around, would the acquisitions, be slightly different in terms of what we have acquired in the past because there was more like what we already had and then we added by acquiring more. But is it possible that you would go ahead and acquire something which is totally a white space, and then acquire that and then turn around?

Aman Mehta: No, I would say the acquisition things would remain similar in the sense that it will predominantly be focused on Indian branded businesses either in existing therapies or new therapies, that depends on the quality of the asset and the strategic fit, but definitely still remains an important priority for us. Curatio, being the example of how we enter into a new segment through the inorganic route, that's the preferred option.

Ashish Tavkar: Yes, fair enough. So, lastly on this capital allocation, so at this juncture, would you be more inclined towards the now putting that extra dollar again in the US markets? You feel in terms of capital allocation, that part would still be a lot more skewed towards the Indian markets?

Sanjay Gupta: So, I think we've made clear priorities in terms of external growth, right. In terms of inorganic growth, our focus remains on the India market, followed by branded generics in other emerging countries and then comes generic-generic markets. So, as of today, our focus is not so much on the US market. We've substantially diversified our ongoing R&D investments also. The portfolio which used to be skewed a lot towards the US, is now kind of evenly distributed across our various geographies. So, the amount of investment going into the US is considerably lower in proportion to what it was 2 or 3 years before.

Ashish Tavkar: And at least in terms of the competition, has some fundamentals changed in the US market or you feel structurally or basically fundamentally things remain as it is as they were like say in the last few quarters?

Sanjay Gupta: Yes, we haven't noticed any structural changes, neither on the customer side nor on the supplier side.

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

Rahul Jeewani: Can you just indicate your new product launch pipeline for the Brazil business? I missed out on that comment. So, you indicated 5 launches in the upcoming quarter or for the full year?

Sanjay Gupta: For the full year. So, for this year, we would have a total of 6 launches. We just did one in quarter one and five to come in the remaining three quarters. And these are branded products in the CNS and Cardio therapeutic areas.

Rahul Jeewani: And are we doing any rep expansion in Brazil to support these launches?

Sanjay Gupta: Correct. So, we've already added 77 CNS reps in the last, I would say, 18 months and we are adding another 26 reps in August.

Rahul Jeewani: Sure, sir. And sir, on the Germany business, while the Y-o-Y growth looks good because the base was depressed last year, but if I look at your Euro denominated Germany revenue, that has been pretty flat at around 28-29 Euros for past three quarters. So, when do we see a pickup as far as the Germany business is concerned?

Sanjay Gupta: So, I would say that you would see a pickup towards the Q4 of this year. So, because we have new tender wins, so Germany business is fairly visible because there is a lag between winning tenders and the start of the business. So, whatever the tenders we participated in Q1, they will actually start in Q4 because there's a time difference of 6 months before your new tender win starts. So, I can optimistically guide you towards the higher threshold of sales in Q4 of this year and more or less stable sales for Q2 and Q3.

Rahul Jeewani: Sure, sir. And just one last question from me would be on the debt. So, what is our debt position as of 1Q and what will be your debt reduction target for the full year? Thank you.

Sudhir Menon: Rahul, the net debt to EBITDA as at 30th June is 1.3x; for the rest of the year, we should be repaying another 600 crores.

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

Nitin Agarwal: On the US business, given with the plants clearance that needs to come through now and the changed market dynamics right now, where do you see the US business for us settle in next 3-4 years from a sales perspective?

Sanjay Gupta: So, the contribution of the US business to Torrent is quite low. So, if you look at it this quarter is about 10%, right? So, I would say that given the amount of growth that we are seeing in the other territories and the current issues that we have with the plants, I don't expect it to go up in a very material fashion as a share of the overall business. Our goal right now till the new product approval start to come through is to maintain profitability and to try to maintain topline to the extent possible and once the new product launches comes, I think we can be back on growth and growth in the US from the very low base we have, so, if you look at a base of about 35 million a quarter, I don't think in the next couple of years it will be difficult for us to reach 50-60 million a quarter with the new product approvals on hand.

Nitin Agarwal: Yes, but are looking at like we getting to $100 million - $150 million number over next 3-4 years, is there something that we working towards or this is something which is not where the capital allocation is going to be happening to us?

Sanjay Gupta: So, as Torrent, we have a lot of priorities. I think our key priority remains our expansion in the branded generics market. So, we are kind of investing in new reps as I highlighted to the person who asked the question before that in Brazil. All in all, we would have added about close to 100 reps in the last 18 months. So, we have a lot of places to invest in. We are investing in the US high single digit ANDAs per year, complex ANDAs, Onco ANDAs and some specialty drugs. But I would say that it's not going to be a disproportionate share of investments towards the US.

Nitin Agarwal: Secondly, on the India business, Aman, what's been the experience with Curatio in terms of things which have played out and which haven't quite played out as per the expectations?

Aman Mehta: So, what we have done in the last few quarters is, increase the coverage of pediatricians and dermatologists and increase the number of calls per day compared to earlier. So, that has kind of given a pretty good initial result in terms of sales pickup in those regions led by the key brands Tedibar and Atogla, which are the two largest brands. So, in terms of the overall growth profile, we would say this has done slightly better than what we anticipated so far. And in terms of the operational synergies, we had merged one division with our existing base business, that was also part of the plan. So, merging a few brands with our existing derma coverage has given a good result there as well. So, overall, I would say that a few positive surprises, no real negative kind of surprises at all and we believe this trajectory should continue from here.

Nitin Agarwal: And Aman, are we calling out the number for the Curatio business for the quarter?

Aman Mehta: So, if we look at the overall underlying growth adjusted for the NLEM impact, it's at 16%, so roughly 5% contribution is from Curatio in that.

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

Alok Dalal: Sudhir, gross margin for the quarter is 25% at a multi-quarter high. So, do these margins essentially capture price increases, lower raw material costs, and do you think this kind of margin is sustainable?

Sudhir Menon: I would think so this is sustainable at this point. What we are seeing is basically the margin improvement of 3% as two components. One, I think because of a better branded mix and price increases playing out across our branded generic segments. Plus in terms of generic segments also, we've seen some amount of good product mix playing out, which is adding to the margin. And the third is there were some cost efficiency measures which we had undertaken H2 of last year, which actually has played out now in quarter one. So, I think a substantial portion of this should be sustainable from here, Alok.

Alok Dalal: And other income is also slightly higher than previous quarters, any one-off here?

Sudhir Menon: Yes, there is a one-off in the other income of roughly, I think Rs. 20 crores.

Alok Dalal: And Sanjay, for the US business, do you expect prices to remain stable over the next 1 or 2 quarters?

Sanjay Gupta: I think Alok, we'll take one quarter at a time. Q1 was stable. I am very reluctant to provide you for guidance going forward, right, it can change on a dime. As you know, it depends on the product wise basis as to how many new approvals come through etc.. It's not generalized for a portfolio. So far we are seeing a decent amount of stability. I'm just hoping that it continues.

Alok Dalal: Because you know, if there is no structural change in the market, then there is no reason for prices to also remain stable given the way the US has behaved in the past?

Sanjay Gupta: Yes, I think it just depends upon where the people are investing on what type of products and how many players are coming with new products and how many people are going after older products. So, I would say there's a point beyond which price erosion doesn't make sense, because I've seen that the buyers have had difficulties with supply in the last 6-9 months, based on going after the cheapest supplier. So, very often as a buyer you get tempted to go with a lower cost supplier and then you get your fingers burned. I think we are currently in that phase where people with a reliable supply are not being squeezed to the last cent on prices.

Alok Dalal: And from the Dahej side, any meaningful products, any products that are currently in the shortage in the US and where maybe if you get clearance then you can come in?

Sanjay Gupta: We'll see that. Alok, we can't comment upon it because also it's not automatic. So, assuming that we get a Dahej EIR in the September end timeframe, product approvals will still take some time. It can be ranged from like one month to three months to six months. So, there's a big queue of products at the FDA, we hope to start getting approvals but I don't know the exact timing by product. So, based on that, we'll see the potential, but we would be planning to launch at least let's say a mid-single digit to close to double digit number of products which are pending from Dahej.

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

Shyam Srinivasan: Just on your investor presentation, I'm just looking at the last two lines of the revenue, right, other countries have grown 16% and other others has declined. So, if you could just comment about these two-line items?

Sudhir Menon: So, others category is basically the insulin manufacturing business which we have from Novo Nordisk and another portion of the Europe, B2B business which is there. So, that two put together is the others. Other countries basically other than what has been stated above.

Shyam Srinivasan: I was looking at the growth rates more rather than the classification and why we have seen?

Sudhir Menon: So, I think the major reason for the degrowth which you're seeing in other category is the uptake in terms of the insulin business has been lower compared to quarter one of last year because there has been some amount of inventory rationalization step which Novo Nordisk has taken from quarter 4 onwards. So, that should come back maybe in a quarter or so, I would say.

Shyam Srinivasan: And these other countries, is there any country that stacks up higher in terms of concentration or it's like a bunch of many countries you put together in that line?

Sudhir Menon: Mostly bunch of many countries, but essentially if I can name one or two markets which are reasonably bigger than the other markets, I would say Mexico is one, the other is the UK and the third is Philippines.

Shyam Srinivasan: Got it, helpful. My last question, I think in the opening remarks, there was a mention about 33 SKUs being launched. So, just I was not sure whether I got the comment right. And what's the kind of trajectory we're looking at for the reminder, is there any areas that we are focusing more on?

Aman Mehta: So, not sure this is related to India, but we have not mentioned anything about 33 SKUs. We were mentioning about our diabetes launch traction being strong. In terms of new products being launched in the quarter, I would say it's about 4 to 5, which has been a usual run rate. Going ahead this year, no real meaningful new launches are in the pipeline, but last year's launches are giving us enough kind of headroom to continue the growth for the next 1-2 years. The next wave of launches will likely be in the chronic segment in the next financial year.

Shyam Srinivasan: Got it. So, last question again in India, just on the in-licensed portfolio, what's our contribution if any and any products that you will likely see go off patent in the next 12 months. Thank you.

Aman Mehta: So, in-licensed portfolio as Empagliflozin brands, which is from Boehringer Ingelheim, they are performing as per our expectations so far. This has already been a relatively kind of entrenched market, so we are being a late entrant, we didn't expect this to be a very large brand, but it's still an important entry for us into this segment before the patent expires in 25. And that's when we really hope to leverage the brand and brand recall when the generics enter the market. So, it's more from a future horizon that we're looking at this rather than the current contribution. In terms of other launches, there are a few in the diabetes segment, but will not be very large in this coming year.

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

Rashmi Shetty: On the Curatio, you mentioned that EBITDA, you all have improved by 7% versus pre acquisition. Is there a further scope of improvement in Curatio with the cost efficiency and the productivity or you feel most of the thing is done?

Aman Mehta: No, there is still significant headroom left here. This is just in the third quarter of integration that we've been able to achieve this. A lot more will come from operating leverage. So, that will be the ongoing annual kind of margin improvement that we hope to achieve. But incrementally in this year also, we feel there is further scope as we continue to realize the operational efficiencies of synergy. So, as I mentioned, some of the division had been merged. So, that should give us further benefit, but definitely a lot more scope to increase margins from here as well.

Rashmi Shetty: So, is it good to say that FY25, we could actually see the overall margin improving at least 100 to 200 basis points from the current level?

Sudhir Menon: So, I think 2 pointers for you. One is, I think the branded segment for us constitutes roughly 72% 73% of our overall revenues. And there are two levers which play out every year for us, one is the price increases which we take in all our markets and the other is the operating leverage. And typically we find that if there are no negatives from the other segments, which is the generic segment, then I think 75 basis to 100 basis points should come as improvement year-on-year.

Rashmi Shetty: And on Brazil business, when you said that the sales have been slipped to quarter two, this entire sales would be recovered in quarter two or you might see some loss of sales also?

Sudhir Menon: No, it's already booked in the first week of July, I would say. So, this went into July because of the revenue recognition principles under the accounting standards. So, there was a delay in dispatch, so it couldn't get delivered to the customer and therefore the revenue had to be booked in July and not in June.

Rashmi Shetty: So, accordingly, we should see a much higher growth in Quarter 2 FY24?

Sudhir Menon: That is right.

Moderator: Thank you. The next question is from the line of Karan Vora from Goldman Sachs. Please go ahead.

Karan Vora: So, two from my end. So first on the Brazil business, so adjusted for the delaying shipment, roughly Rs. 215 crores of sales is what it looks like for Q1. So, is that the run rate on which we should kind of build on and does Brazil have a stronger second half versus first half from a financial year point of view? That's my question.

Sanjay Gupta: Good question. So, traditionally, Brazil always has a stronger second half, so Q3 and Q4 are where we do the larger proportion of our sales and then just due to the structure of the market, you know there are some strong sales coming before Christmas and then Q4 is linked to the price changes that usually take place in April. So, structurally, Q3-Q4 is higher. In terms of run rate, it is hard to give you a run rate. What I would tell you is that besides the sales that we do and book in our books, there are two other criteria. One is we can use the IQVIA data and one is what we also get from our distributors is sellout data. So, both of these indicators are pointing towards a 15% type of growth. So, if you look at the branded generic business, which is the bulk of our 85% of our business, IQVIA is showing a 15% growth for Torrent compared to a 9% growth for the market. And if I look at the sellout data, I see a similar trend. So, what I can tell you is that the underlying trend is healthy double-digit growth and that is what we should see things balance out over 2 or 3 quarters. So, quarter-over-quarter it changes because of what has been invoiced, what has been received in the inventory management on the part of distributors, but over an annualized basis, healthy double-digit growth is normal for business.

Karan Vora: On the India business, I guess you mentioned around 1.5% point impact on growth due to NLEM. So, that should stay as in that should keep impacting the future quarters as in the base will not have that impact, right. So, can you highlight as to which products or which therapies were impacted for us?

Aman Mehta: So, our NLEM contribution is just about 10% overall to business, so specific product wise, I don't have the exact details, but whichever products have been impacted the price, one time reduction has been factored into Q1, which will no longer continue from Q2. So, it was a one-time impact.

Karan Vora: And lastly on Curatio, so you mentioned significant headroom for margin improvement, so any targets in mind as to by, say, in a year or 2 years you would want to reach the India based business margin levels?

Aman Mehta: It will all depend on the growth trajectory that the business shows, so no real kind of hard target that we've set. But directionally, we do believe that the performance so far gives us the confidence that this can reach near our base business margins. Whether it's 2 years or 3 years, that's something that we haven't really put in as a target, but directionally all we can share is that it's all on track.

Moderator: Thank you. The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: On the India business given we also have contribution from trade generics, if I were to just you know some numbers then adjust that, is it fair to assume that the domestic formulation business is growing below the 8% run rate that seems particularly low given what we are seeing from some of our other peers that are reporting. Just wanted some color on what we think will be the ex Curatio growth for the branded business in India?

Aman Mehta: So, I don't know which 8% is being referred to, but the base business growth is above double digits and maybe trade generics adds half a percent or so to that growth. So, if you break it down from the 16%, half a percent is contributed by trade generics because the base is small, so the growth is faster and Curatio is adding about 5%.

Neha Manpuria: Sir, but that does not include the NLEM impact, right?

Aman Mehta: No, that does not. That's right. So, when we look at without adjusting for the NLEM impact, it's about 16% growth, whereas the reported growth is 14.5.

Neha Manpuria: Yes. So, that's what my point that on the 14.5 if I were to adjust Curatio and adjust the trade generic, the growth seems probably closer to 8.5%-9%, probably not 8, so 8.5%-9%. Given our chronic exposure and the fact that we're gaining market share, doesn't it seem particularly low or is this the growth that we should be building in for the base business?

Aman Mehta: So, that's what I mentioned because our gastro business has such a high contribution, that market was slightly weaker in this quarter, which should hopefully recover in the coming quarters. Chronic business was not really impacted in that sense. So, it's a matter of seasonality, which should hopefully bounce back.

Neha Manpuria: So, then for the full year, we should still assume higher than market growth for the branded generic business?

Aman Mehta: That's right.

Neha Manpuria: And Sudhir on the other expenses, sorry if I missed this number. Was there any one-off in the quarter?

Sudhir Menon: No, no one-off, Neha.

Neha Manpuria: So, this is the base that I should be building going forward. It seemed to have jumped pretty significantly quarter-on-quarter.

Sudhir Menon: Yes, it was 620 in quarter 4. Now it is 651. So, 30 crores more, yes.

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

Tushar Manudhane: So, just on the India business, if you could also highlight about the business breakdown in terms of the Tier of cities, say Metro, Tier-1, Tier-2, tier 3. And how has that changed over, say, the last 5 years?

Aman Mehta: So, that's the number that I don't have right now, but directionally what we can share is that our Metro contribution is much higher than industry average and Tier-2-6 is lower than industry average because we historically haven't had the coverage and presence in those regions, but in some divisions and certain brands where as part of either lifecycle management or routine expansion, we are entering into these areas, particularly covering GPs that we have not covered before, so that should help us increase our contribution from Tier-2 to 6 as well going ahead.

Tushar Manudhane: So, particularly here, the thought process was that once the super specialist prescribes, then the automatically the Tier-2, Tier-3 cities doctor sort of gets accounted to that prescription and that is how it drives the business without much of the marketing spend. So, do you see change in this philosophy or it is more like the Tier-2 doctor have also got certain super specialist where it becomes more important for MR to reach out?

Aman Mehta: Yes, I would say the latter because already there is an increasing presence of industry in these regions. So, to grow there further, you definitely need your presence and reps on the ground.

Tushar Manudhane: So, from that perspective, then scope to add MRs particularly to expand the reach or existing MR force, which is sufficient to drive that as well?

Aman Mehta: But for now, we don't see any expansion need because already in the last 12 to 18 months, we've added more than 1000 MRs that some of it is for regional expansion as well. So, it's already covered. As we see some progress in PCPM and sales growth, in those regions maybe next year onwards we can look at further expansion.

Moderator: Thank you. The next question is from the line of Sriraam Rathi from BNP Paribas. Please go ahead.

Sriraam Rathi: Thanks for the follow-up. Just one question on Revlimid. If you can indicate when are we planning to launch? Will it be FY24 opportunity for us or not?

Sanjay Gupta: For which market?

Sriraam Rathi: For US.

Sanjay Gupta: No. So, right now it's not an opportunity for us in the ‘23-24 or ‘24-25 timeframe. So, we are we are a late launcher.

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

Bino: Just a follow-up on Revlimid. Would you be launching it at all before Jan 26 when it becomes completely generic or after that?

Sanjay Gupta: So, we have a settlement. So, before us, there will be all these limited quantity launches. So, we will see the state of the market when we come to the market. So, we have the approval already from the FDA. We have tentative approval; I mean we have approval on three of those things. So, I think the only barrier to us is the settlement date, which we've not disclosed exactly when it is. So, yes, we'll be coming to the market, but it'll still be most of the people before us would be the limited quantity folks.

Bino: When you launch, you are not limited by any quantities?

Sanjay Gupta: We haven't disclosed exactly the terms of the settlement.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sanjay Gupta – Executive Director for closing comments. Thank you.

Sanjay Gupta: Thank you very much for attending our call today and we look forward to hearing from you soon. Thank you.

Moderator: Thank you. On behalf of Torrent Pharma, we conclude today's conference. Thank you for joining. You may now disconnect your lines.