



“Torrent Pharmaceuticals Ltd Q3 FY21 Results Conference
Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Torrent Pharmaceuticals Limited Q3 FY'21 Earnings Conference Call. We have with us today Mr. Sanjay Gupta -- Executive Director, International Business; Mr. Sudhir Menon -- Executive Director and Chief Financial Officer; and Mr. Aman Mehta -- Chief Marketing Officer, India Business. 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sudhir Menon. Thank you, and over to you, sir.

Sudhir Menon: Good evening, and welcome to Q3 FY'21 Earnings Call. On an overall basis, Q3 witnessed mixed trends with respect to recovery from pandemic across the market, while India continued to witness a sequential recovery of near to normal, certain other markets where we are present, such as US, Europe and LATAM they witnessed extended lockdowns during the quarter.

Very Quick Highlights of our Financial Performance for the Quarter. Revenues were at Rs.1,995 crores, up by 1% on a year-on-year basis. Operating EBITDA was at Rs.607 crores, up by 12% on a YoY basis, and the margin is 30%. Net profits were Rs.297 crores, up by 18% on a year-on-year basis.

The Board of Directors today has approved an interim equity dividend of Rs.20 per equity share.

I would now hand over the call to Aman for taking us through the India Business.

Aman Mehta: Thanks, Sudhir. India business revenues were Rs.930 crores, up 7% on a year-on-year basis. The IPM witnessed a sequential recovery in Q3 with a growth of 6% versus low to negative growth in the first two quarters. Torrent's Q3 growth as per AIOCD was 8%. Growth was driven by overall recovery in footfalls, continued momentum in chronic brands and strong recovery in sub-chronic brands. Our growth was also complemented by new launches, the contribution of which increased to 2.9% Vs 2% of Q3 last year. While we continue to outperform many of these high potential new launches from the last year, we have further launched two promising brands in this quarter, including Dapagliflozin and Rivaroxaban.

We would further like to highlight that in Q3 we have undertaken a phased restructuring of our field force to optimize focus on high growth markets and therapies. As of Q3, the MR strength post this restructuring was 3,800 compared to 4,000 in the previous quarter and the PCPM was 8.1 lakhs. In the beginning of Q4, we have further executed this restructuring and the Q4 strength as of Q4 stand at 3,600. And this PCPM will be reflected at the end of Q4.

Torrent continues its focus on brand building and specialty approach and has 16 brands in the top-500 of the IPM, with 10 brands more than Rs.100 crores sales.

I will now hand over to Mr. Sanjay Gupta to take us through the International Markets.

Sanjay Gupta:

Thanks, Aman. Let's begin with Brazil. During 2020, Brazil GDP shrank by an estimate of 5% to 6%. Despite initial concerns in the March-April time frame about the pharma market, it has demonstrated a solid performance. As per IQVIA, MAT December performance of the branded generic market in Brazil was a growth of 7.9%. And in comparison, Torrent had a performance of 10.1% growth. Q3 sales R\$ 125 million, up by 16% on a year-on-year basis. Q3 sales growth was primarily due to volume increase in our large brands as well as the launch of new products. We launched two new products in Brazil; Mirtazapine ODT as well as Bisoprolol. Our Generics business, which now contributes 6% to our top line, has also started growing strongly.

In Q3, the German market was flat after two quarters of negative growth. Torrent Q3 sales were at €29.6 million, up by 10% on a year-on-year basis. Our quality issues are now being resolved, and this is reflected in a recovering market share. Our market share has almost reached its level prior to the quality issues and is currently at 7% as compared to a peak market share in September 2019 of 7.2%. We have already launched six products this year and expect to launch two further products before the end of this fiscal year.

Moving on to the US, our Q3 sales in the US were \$39.3 million as compared to \$51.5 million in similar period last year. US growth continued to be impacted due to temporary discontinuation of our Sartan products, absence of new launches and price erosion on the base portfolio. For Indrad and Dahej, we have submitted closure reports and continue to await guidance from the USFDA on next steps. Currently, we have 47 ANDAs pending approval and 6 tentative approvals in hand.

To conclude, Q3 revenue growth was strong in India, Germany and Brazil. Profitability improvement was backed by cost control and efficiency improvements. Our focus continues to be on deepening our presence in our core markets and on returning our US business back to growth.

Operator, we can open the call to questions now.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal:

First question is around India business. I heard Sudhir saying return to normalcy of 8%. But when we see the split of volume, price and new products, I think volume is still a negative number for both, the market as well as Torrent. How do we see this going forward, what is the initial pillars, and how do we see the growth for next year?

Aman Mehta:

Volume still continues to be negative, and the IPM volume was (-1.9%) for the quarter and Torrent was (-1.6%). So this has seen a gradual recovery every quarter. So, we expect it to continue the same pace of recovery over the next quarters.

- Prakash Agarwal:** But given the low base that we have, is it fair to assume that we could have a mid-teen kind of growth with volumes coming back?
- Aman Mehta:** That would be too early to say right now when mid teen growth would be back. It all depends on the overall market recovery. And what we've seen so far is that still Q3, there has been a consistent increase in the sub-chronic and acute as well. Because chronic has remained more or less stable. So as that picks up, the overall volume would also pick up.
- Prakash Agarwal:** The comment that you made on the phased restructuring, so with 3,600 in this Q4, is it already done? And this is the number we want to achieve or there could be further restructuring as well?
- Aman Mehta:** No, this is what has already been executed.
- Prakash Agarwal:** So this 3,800 was during the Q3 or it was at the fag end of the quarter, we're going to see the impact in upcoming quarters?
- Aman Mehta:** 3,800 was in Q3, and at the beginning of Q4, it was 3,600. So it's been done over a three, four month period.
- Prakash Agarwal:** So we're going to see the impact from Q4 onwards in totality?
- Aman Mehta:** Yes, should be.
- Prakash Agarwal:** And then next question is for Sanjay on the US side. So Q4, we were expected to see the liquid products which were discontinued from the US plant. So, are you on track to reintroduce them? And how should we expect the pickup from sales of those products?
- Sanjay Gupta:** We should expect commercial impact starting from the April timeframe onwards. The plant renovation is complete, is going through the validation requirements at this point in time. So we should have sales coming in from Q1 of next fiscal year. Generally, our first goal is to launch currently approved products. So we have about six approved products which we should bring to the market. I think the first year would be a gradual ramp up. And second year onwards I would say we should be back to where we were before we shut down the facility which was at the annual run rate of between \$10 million to \$15 million. That's what we are targeting in the initial, let's say a couple of years.
- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** Aman, on the India business, given our volume is declining when you mentioned that the chronic sales is pretty stable, how should I look at that versus the sales restructuring. I mean what was the reason behind the sales restructuring given the volume is already weak over the last few months?

- Aman Mehta:** It was exactly that. The essential purpose of this restructuring was to defocus on some of the less or low growing brands and increase focus on the higher growth brands including the new launches. So that's the intent.
- Neha Manpuria:** This reduction that we've seen, were these essentially from any specific therapy areas or any particular brands, the older brands, etc., would you like to highlight?
- Aman Mehta:** I can certainly share that they were from the older brands. Those would be the kind of low growth markets.
- Neha Manpuria:** On the Brazil business, we have seen a good quarter-on-quarter momentum on a constant currency basis. Sanjay, what is the product launch pipeline for Brazil over the next year, and how should we look at growth in this market?
- Sanjay Gupta:** So frankly speaking, I've been surprised this year by the strength of the Brazilian pharma market. Overall, we are seeing the branded generic market in the 8% range and the generic market in the 15% - 16% range. And this is despite the negative performance on the GDP. So this pharma market in Brazil continues to be an island of growth in this overall environment, and I think that is going to continue. So the projections I'm seeing for the next three, four, five years from IMS and other consultancies is in the same range. Our objective is two-fold; firstly, is to grow our branded generic business, and we would be launching about three to five products a year in terms of branded generics. And at some point in time, we would be forced to undertake an expansion of the two field forces we have which are in the CNS and cardio diabetes area. So the branded generic business would grow with existing products and three to five new products a year. In terms of our generic business, which is currently small because branded generics is 91% of our business and generics is about 6% of our business. There is enormous scope for growth here because the market itself is growing 15% - 16%, and we have a relatively narrow portfolio. There is no need to increase field force to launch more generics. So we'll be focused on launching initially maybe less than five, but eventually adding to that portfolio. So I would say, overall, we should grow faster than the market in both our segments, Branded Generics and Generics.
- Neha Manpuria:** Lastly, on the operating cost, if I were to look at our other expenses ex-R&D, that pretty much remains flat even though commentary from most of the peers or even you suggested near normalization of trends in India. Has the restructuring also meant lower SG&A cost, is that the way we should look at it or how should we look at this cost trending forward?
- Sudhir Menon:** Neha, the promotional expenses have started going up. Versus Q2, Q3 has seen some increase happening. So that's something which has started. The only thing which has happened in this quarter is there were some offsetting items setting up the increase in the sales and distribution expenses. So one is I had said the freight expenses had gone up in Q1, and there's some normalization which will happen. So good amount of normalization has happened in terms of freight expenses in Q3. So that offset the increase which we're seeing in the promotional/selling and distribution expenses. Also, there's a certain period with supply

provision which was made, not very big ones, smaller ones, where because of the supplies normalizing, it was reversed in Q3. So, although the sales and marketing expenses have gone up, there were some offsetting things which have happened in Q3.

- Moderator:** Thank you. The next question is from Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Aman, one question on this restructuring sales force. Can you just indicate almost 10% of sales force, which has gone away, what was the productivity level? When you report overall Q2, it was before restructuring 8.1 lakhs or 8 lakhs. What is that around 2 lakhs or 3 lakhs or what would have been their productivity?
- Aman Mehta:** No, it wouldn't have been as low as that. I think it would have been certainly lower than the company average, but it's not about that specific factor, it's the products that were more realized. So we looked at it from a product positioning and promotional angle rather than just productivity angle.
- Anubhav Agarwal:** Effectively, we are saying that we are not losing sales at all same work is now being done by 10% lesser field force. Is that what's happening? So the same brands being promoted by lesser number of guys?
- Aman Mehta:** Yes, one or two brands may be on less focus overall, but those brands should be able to maintain the share. But overall, there shouldn't be any negative impact on sales because coverage has not been impacted, coverage is in fact exactly the same. So net impact on sales should not be negative at all.
- Anubhav Agarwal:** Second question is on the US business. Now the new run rate of sub-\$40 million, is it more to do let's say suppose our facilities, just a scenario, doesn't get cleared for another two, three quarters, we'll see more competition coming in, for example, Detrol LA now is not such a big product for us, but still see more and more guys keep coming there, so is \$39 million a new low that on this we cannot go down significantly here, or is it like a number of \$30- 35 million is still possible as quarterly run rate?
- Sanjay Gupta:** There's forces in both directions, right. On the positive side, we will have the Levittown plant starting sales from April. And then we have some external business development projects which are coming through. So we recently launched Erythromycin IR, and we've also launched another product Aprepitant. So these would be I would say contributors on the positive side, liquid business and the external R&D projects. On the negative side, price erosion continues. This is a matured portfolio. And so as new entrants come in, there would be price erosion. And the price erosion I would say would be in the high single digits is what we are seeing in the US market right now. So overall I would say that maintaining would be a good result.
- Anubhav Agarwal:** You said here is that this year margins have been great. I'm not looking for a number, but just a direction. Would fiscal '22 margins can match up fiscal '21 or only fiscal '23 margins would be higher or equal to fiscal '21?

- Sudhir Menon:** This year, the margins have been higher. I don't think it is sustainable. I mean the way I look at, Anubhav, is that if I look at FY'20 as the normalized year, there I think the operating EBITDA was roughly 27%. And what we've been talking about the business is that at least there are some inherent levers because of the branded piece being 65% for the margin to improve at least by 75 to 100 basis points. So I think if this year was not impacted by COVID, probably from 27%, we would have come to 28%, and therefore, next year, we should be at around 29%, I would say. That's the way to look at it. But I really don't know whether some of these cost efficiency which has been brought in, would play out next year or not, maybe a little bit, but not significant.
- Moderator:** Thank you. The next question is from the line of VS Ram Babu, who is an individual investor. Please go ahead.
- VS Ram Babu:** Is there any idea to issue bonuses or anything for reward of the shareholders in the near future?
- Sudhir Menon:** In the opening call, I just mentioned that today was the board meeting. The Board has approved an interim dividend of Rs.20.
- Moderator:** Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.
- Bharat Shah:** In that phased restructuring where significant such large field force has been reduced, then why did we wait this long? I mean, did it need a pandemic for us to take such a decision?
- Aman Mehta:** No, not really. It's more dependent on the market dynamics of each portfolios or each therapy in the portfolio. And the call was taken looking at the future growth markets. So the idea was to really optimize the overall growth of the portfolio.
- Bharat Shah:** That I understand that it's for the growth of the portfolio. But these restructuring were relatively so simple. Shouldn't we have done it earlier itself rather than having waited because this is not a minor reduction.
- Aman Mehta:** I don't think we would have been able to do it sooner. It's purely a call that we evaluate as we mentioned on the call that every year, every few years, we do evaluate the overall portfolio and productivity. So it's part of that exercise.
- Bharat Shah:** All the separation cost is already reflected in this quarter results?
- Sudhir Menon:** Yes.
- Moderator:** Thank you. The next question is from Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** On the financial, just wanted to know the debt reduction for the quarter and the FCF for the quarter?

- Sudhir Menon:** So YTD December, the total reduction is roughly Rs.830 crores.
- Prakash Agarwal:** And first half was sir?
- Sudhir Menon:** Rs.440 crores.
- Prakash Agarwal:** We were looking at Rs.1,000 crores plus number?.It should be around Rs.1,200 crores now?
- Sudhir Menon:** Closer to Rs.1,000 crores is definitely possible. Let's see what happens in Q4,.
- Prakash Agarwal:** What is the free cash flow?
- Sudhir Menon:** Free cash flows as at December should be roughly Rs.1,200 crores.
- Prakash Agarwal:** And just one on the USFDA. I heard the opening remarks. So our remediation is fully done as was also the last quarter. But in terms of dialogue with the FDA, has the dialogue progressed or they have given any dates or the physical inspection started by Indian inspectors, anything of that sort that we have requested, any update would be useful.
- Sanjay Gupta:** Our regulatory group has been communicating with the FDA. But there is nothing that we are able to share as of today in terms of indication as to when they would come. So it's an ongoing conversation and we have taken note of the fact that some local inspectors from the FDA have started testing facilities. But when we have something concrete, we will report to you.
- Prakash Agarwal:** Just one more clarification. So from EBITDA margin expectation perspective, what I heard right was around 29% with the phased restructuring getting reflected, but with not much impact on the revenue growth, so when you're pulling out 400 people, so there is not much impact on the sales as you are just defocusing on a low growth brand portfolio. Is that correct?
- Sudhir Menon:** That's right.
- Moderator:** Thank you. The next question is from Arpit Kapoor from IDFC Mutual Fund. Please go ahead.
- Arpit Kapoor:** On the domestic piece, so given with the reduced sales force, we are currently running almost Rs.1 crore plus per MR. So how far can you see this number going before we would need to add sales force again?
- Aman Mehta:** So the existing basket of brands in the portfolio right now can certainly sustain this strength of the field force. And as and when we have further launches over the next year, year and a half, it leaves us in a much more comfortable position in terms of overall PCPM to expand as well. So, we would take a call definitely every year on the expansion. And just to further clarify, this restructuring also did have some part of expansion as well. It wasn't just a decrease, it was net at 3,600.

- Arpit Kapoor:** As far as the pricing is concerned,, -so again volumes continue to be negative. I guess pricing growth would have been close to 6%, 7% and that is the trend that we believe we are comfortable even for next year as well. So we'll be able to take that much kind of a pricing growth from a portfolio point of view for the domestic business?
- Aman Mehta:** Yes, should be.
- Arpit Kapoor:** In terms of new product introductions, any plans of getting into new therapies or it would be in the existing therapies that we are there?
- Aman Mehta:** As of now, it's more in the existing therapies. In Q3, we had seven new launches and we expect maybe four to five in Q4.
- Moderator:** Thank you. The next question is from Bharat Shah from ASK Investment Managers. Please go ahead.
- Bharat Shah:** I hope this is not taken wrongly. But last eight - nine quarters, we seem to be into rate of growth of 1%, 2%, 3% type. When do we think we are likely to break out of this stranglehold?
- Sudhir Menon:** Two important factors which have impacted for the last five or six quarters: One is the US business. Somewhere in 2019, the whole USFDA warning letter and OAI came in. And since most of our filings are basically from these two facilities, we were stuck on account of the new products not coming in. So US-based business, we know that it's always a decline in sales because of price erosion. That's something which has got impacted. The other is in terms of INR growth. The BRLUSD depreciation, which has almost been 25% over a period of one, one and a half years. So these two put together have impacted. The third thing which happened was somewhere in Q3 of last year. We had implemented the new quality management system in Germany because of which there's a lot of backlogs in terms of revealing batches to the market. And over the last three quarters, we have been talking about all these three parameters. But if you look at the intrinsic value for these three businesses, you will see that Germany has now come back to double-digit growth which is around 10% in constant currency and INR growth is around 21%. So, I think the future outlook for Germany looks very good because all the remediation plan is now over and we are back as per our normal base. The second thing is as far as Brazil is concerned, last quarter we said, adjusted for the utilization which is happening in the distribution business, it's double digits. So now we've started seeing double-digit growth in Brazil. In terms of constant currency, it is 16% although in terms of INR it is (-8%). We believe that going forward now, there's no room for further currency depreciation as far as BRLUSD is concerned. And if it all, once the economy starts to revise, after the COVID disruption which has happened, there should be some appreciation happening. So going forward, you will see Brazil also doing well both in terms of constant currency and INR. India, already understood well, because the market is gradually recovering and we've seen a 6% growth in Q3. So we believe that Q4 should be still better than Q3 and we should be at least 200 basis points above the market, so that should also be on track. So US is only a surprise which is there, and we're all waiting for the US FDA inspection to happen and our new

products to come in. And once those things come in, you will start seeing US contributing to the overall growth of the company, because today, if you see US is around 20% of the business which is degrowing at around 25%. So the overall growth impact because of US is 5% for the reasons known. But once the US FDA issue is sorted out, in the coming year, you'll find US contributing to the overall growth of the company. So all the four important geographies, which contribute to 85% of our total revenue, we will start seeing the overall growth coming in.

Bharat Shah: So can we say the next year should be a year of watershed departure?

Sudhir Menon: Yes, provided the US thing happens, right and the expectation is there. So we keep on hearing that for one or two facilities the USFDA has started with a physical inspection. So we are also waiting for our turn. So if that happens in H1, so I think from H2, things should start looking much better.

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

Nitin Agarwal: Aman, on the India business, when we take us a three to five year view of this business, just looking at hypothetically potential growth composition, should we continue to keep modeling in a 5%- 6% value increase on an annualized basis for the business?

Aman Mehta: Near-term, that definitely is something that we think should be sustainable. From a five-year period, it's difficult to say from now because it depends on market dynamics, market share at that point of time.

Nitin Agarwal: At least a year or two years, that trend should sustain in terms of the market can take in your assessment this kind of price hike in the portfolio?

Aman Mehta: Yes, that should be equivalent.

Nitin Agarwal: And at what stage do our new product launches begin to sort of start contributing in a meaningful way, let's say 4%-5% of our portfolio, is there a feasibility so that the new portfolio starts contributing like 4%-5%?

Aman Mehta: No, usually, the new contribution is measured over a two-year period and then they move to the base portfolio. So over a two-year period from zero to 24 months, anything between 3% to 3.5% is a good number I would say. And maybe like we've seen in the past when exceptionally strong launches were made, we've reached even 4.5%. But I think right now what we're seeing is around 3%, we are quite satisfied with that.

Nitin Agarwal: Lastly, on the base business, as you said, from a volume growth perspective of the core business, do you see challenges in certain parts of the portfolio to grow from a volume

perspective, or bulk of the portfolio you believe has enough in itself to sort of keep growing at maybe a mid-single digit growth over next say three- four years?

Aman Mehta: No. Right now, it's more market dependent. So as and when the market and demand picks up, we should also grow with that. So no any other issue that we see specifically in our volume front.

Nitin Agarwal: You don't see issue with the portfolio construction or molecule construction that should impede our growth once the market begins to come back?

Aman Mehta: That's right.

Nitin Agarwal: Sudhir, you talked about the margin expansion pegging at to FY'20 levels going forward. So are we assuming that the costs which are there, especially on the SG&A costs are going to grow much faster than the revenue growth for next year, is that how we should model it?

Sudhir Menon: It depends upon what kind of revenue growth is going to come next year, , whether there's an operating leverage, which will kick off, that's something we'll have to wait and see. But what I said is in a normal scenario, 29% is something which I would have anticipated in FY'22. So, I think that should remain.

Nitin Agarwal: Sudhir, if you're already at 31% or thereabout this year, we're talking about significant negative operating leverage then for next year for us?

Sudhir Menon: This year is an aberration.? We know thatBecause the top line is not there, the expenses are not there. So tomorrow if the top line is coming, the expenses will also be in tandem with the top line. But would there be a negative leverage in FY22 is something we'll have to wait and see. I mean if the top line is also growing, it's better than FY'21, and the expenses are also growing in tandem with the top line. So, I think we should be there, it should not be a major problem.

Nitin Agarwal: Unless and until we're building a major negative operating leverage, that kind of a margin compression which a 29% imply should not come through?

Sudhir Menon: What is your belief is that 30% will continue, is it?

Nitin Agarwal: It's only assumption. The point here is that if you're going to go down to 150-200 basis points versus where we are in FY'22 despite revenue picking up versus FY'21, we're talking of significant negative operating leverage on the incremental revenue is the point I was making.

Sudhir Menon: You're looking at a 30% margin which is there in FY'21. And since we are talking about FY'22, 29% margin in a normal scenario. So yes, there's some amount of negative operating leverage kicking in which theoretically is correct. There would be some pieces of cost efficiency, which has already walked in current year may continue next year. But I really don't know. Because so far, we've been quite a financially disciplined company. So wherever it was possible to bring in

cost efficiency, we worked on that every year. So yes, on a very realistic basis, I would say so, 1% negative operating leverage kicking in to make it 29% versus 30% this year.

- Moderator:** Thank you. The next question is from Damayanti Kerai from HSBC. Please go ahead.
- Damayanti Kerai:** My question is on the US side. So let's assume FDA comes and inspect our plant within next six months, two quarters down the line, and we get the clearance. So how long it will take for you to go back to I'll say pre-disruption sales level? For India part, going ahead, what kind of launch plans you have, like how many products you are intending to launch in a year? Obviously, the focus is more on the ramp-up of three existing brands, but what about the new launches plans?
- Aman Mehta:** So YTD December, we've had a total of 17 new launches, and Q4, we expect around four or five out of which one should be in a relatively significant market, and similar number of launches should be planned in Q1 next year maybe four or five. So that's the current foreseeable new launch trajectory.
- Damayanti Kerai:** So broadly 20 launches per year we are assuming for India market, on a very broad basis?
- Aman Mehta:** This year was slightly higher than normal. So I don't know if 20 would be the right number. So next year, I think it may be slightly lower.
- Damayanti Kerai:** One question on Losartan product. I think recent secondary data is showing some pickup in growth compared to I think what we had seen in previous quarter. So are you seeing the same in your primary numbers on the Losartan product?
- Aman Mehta:** Losar overall has done better this year compared to the earlier years since acquisition. So overall we continue to gain market share in the Losartan market as the brand Losar. Though the market itself is not going to grow as fast as the Telmisartan market. So our goal will be to continue gaining the share within the market.
- Moderator:** Thank you. The next question is from Kashyap Pujara, who is an individual investor. Please go ahead.
- Kashyap Pujara:** Most of my questions have been answered, but just a recap on Losartan. I think you were planning to change the source of API to in-house. So, where are we on that journey, are we kind of through with it?
- Sanjay Gupta:** It's a very broad portfolio that we have. So we prioritized let's say, three to four Sartans that we would be relaunching. And out of these three to four, there are a few where I would say the economic opportunity is still present and where we have approved PMS from inside Torrent. So we would be actually focused on relaunching those with a much greater percentage of API coming from in-house. So it is part of the plan, but the number of Sartans that we would be launching would be low single-digit in the course of the next three- four months.

- Kashyap Pujara:** Just to gauge, at peak, what would have been revenue from this segment, and do you think that once these issues are behind, you can get back to that number?
- Sanjay Gupta:** So at its peak, the Sartan contributed about \$30 million to Torrent's top line. So the market dynamics today are very different from what they were at that point in time. We've been through a phase where there was a shortage, price hikes, and now we are back to a normalized phase with plenty of supply in the market, and the days of shortage are behind us. So I think it would be very hard for us to kind of reach that level of sales anytime soon with the sartan portfolio.
- Kashyap Pujara:** I did hear you mentioned on the India margins which will be around 29% next year. But just leave aside the following year, and if you take a trajectory of three to five years, wouldn't it be fair to assume that given the restructuring and the MR efficiency which is underway, more utilizations of your in-house API and once the regulatory cost at least on the US side also kind of come behind us, wouldn't there be a genuine operating leverage which one can build in from the current levels? So do you think that there is room for further improvement on EBITDA margins three to five years out from the current margins that we are seeing in the current year which is around 30%- 31%?
- Sudhir Menon:** Today US is contributing in a negative way. So with the higher margin products coming in, it's going to be positive from an overall perspective. But we'll have to wait and watch because as a policy we don't give any forward-looking statements. The only thing is, for example, our Dahej facility is also underutilized. So as and when new bigger volume products walks in, there would be some cost efficiency walking in at the manufacturing level also. So I think it's very logical to think that as the business in the US starts growing and with new products coming in with better realization, that should help in offsetting the price erosion on the base business, but at the same time, also bringing in overall cost efficiency and improving the margin on an overall basis.
- Moderator:** Thank you. The next question is from the line of Abhishek Sharma from Jefferies. Please go ahead.
- Abhishek Sharma:** This defocused portfolio, is it fair to say that instead of promoting to doctors, you guys are now promoting it through trade or is it not being promoted at all?
- Aman Mehta:** I would say, it will be low-intensity promotion. It won't be the focused promotion as the other brands.
- Abhishek Sharma:** So intensity has dropped for third or fourth kind of a product that is, is that how this would work?
- Aman Mehta:** What you're saying is correct. There may not be number one, two, three, it may be probably down below that.

- Abhishek Sharma:** What percentage of our India portfolio would now be actively promoted to doctors which would be typically number one, two, or three to the doctors?
- Aman Mehta:** Should be upwards of 75%- 77%, I believe, but I'll get the exact number offline and correct if it's not correct but should be around that range.
- Abhishek Sharma:** Last couple of years, after Unichem transaction, you guys are not very keen to grow via M&A. Is there some rethink on that?
- Aman Mehta:** Absolutely no rethink on that. In fact, we do believe that it's an important growth driver going ahead as well. And it's about waiting for the right portfolio fit for us more than anything else.
- Abhishek Sharma:** This M&A interest would primarily remain to the India, right?
- Aman Mehta:** First priority would be India, yes.
- Moderator:** Thank you. The next question is from Ritesh Rathod from Nippon India. Please go ahead.
- Ritesh Rathod:** Can you help us understand what kind of digital initiatives and investments have been running India business certainly in the context? Does the peak productivity of your MR goes up dramatically post these investments?
- Aman Mehta:** So I would say, digital investments overall have been not very significant. Of course, we have gone digital in all the ways required. But we don't see that replacing the physical in any way. We see it more as a complementary promotional asset. So that shouldn't really lead to any savings from the existing cost structure.
- Ritesh Rathod:** What was the gross addition in Q3 when you highlighted, and what would be in next four quarters and next 12-months you are planning, if you can share anything on the MR front?
- Aman Mehta:** This number should be sustainable for some time. So no real plans to change this from now.
- Ritesh Rathod:** You mentioned the number is net. There were some gross additions. Can you say that?
- Aman Mehta:** So we have had minor additions; maybe I would say, 50 to 60 reps were added.
- Ritesh Rathod:** You mentioned in Q4 you will have one product to be launched. Any launch in FY'22?
- Aman Mehta:** Yes, there will be, some in cardio, some in diabetes, but I won't say it would be as significant as this year overall. So we'll continue focusing on these five to six large market launches from last year.
- Moderator:** Thank you. The next question is from Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: First one is on the Germany business. We've seen now double-digit growth in constant currency terms. So just want to understand the outlook share for this business. Have all the restructuring, serialization, all of that is now completely done and we can just look towards market growth or higher growth? That is one. And the portfolio overlap with our India business. How many of your products are there, and what is the upside that we can sell into Germany?

Sanjay Gupta: So the issues were linked to the quality SOPs in Germany and these have been updated, so about 98%- 99% of the products are now being released in a normal fashion. So we do not expect these problems to resurface or to impact our business going forward. Then in terms of growth, currently, the German market is on a net basis, about €2 billion to €2.5 billion. Torrent currently covers only about 48% of the German market in terms of product portfolio overlap with German. And the product portfolio is very broad; it is therapeutic area-agnostic. So the overlap with the Indian business does not really matter because you're selling in the generic business without promotion. So you don't really need to be organized as we are in terms of therapeutic areas in the branded generic markets. So our growth will continue to come from new product launches. I mentioned in my opening comment that we launched eight products this year and then we will continue to launch eight to ten products every year, and then we'll continue to bid on improving our presence in higher volume products with our plants in Dahej. We currently have two products already approved from Dahej and we will be getting a significant number approved in the next two - three years to make us more competitive in high volume segment. So all that said, we expect a return to a high single-digit type of growth rate in Germany from these factors going forward.

Shyam Srinivasan: But I also remember you said in your market share, you have already reached the peak or close to that peak. So we foresee that we can clearly be ahead in terms of what market share there is before overall change?

Sanjay Gupta: In December IMS data, we are at 7% market share and peak in 2019, we were at 7.2%, so we are very close. In the next two or three years, our goal would be to enhance this further and join the top three players who are more in the 9% to 11% market share range. So, our goal is of course to enhance our presence. To increase market share, we have to become I would say a player in the high volume product segment.

Shyam Srinivasan: My second question is on capital allocation in the interim. You talked a little bit about M&A. But just curious, the kind of cash that is getting generated, what are we planning for the next one -, two years?

Sudhir Menon: Shyam, I think the goal is very clear. So I think the entire priority is on deleveraging. So I think major part of the capital allocation would be going towards that deleveraging.

Shyam Srinivasan: Sudhir, just about the debt level, we think we can kind of pay it down entirely over the next one, one and a half years?

- Sudhir Menon:** I would think so. Entirely down meaning, I think in terms of net debt-to-EBITDA, I think we should be substantially down to a level which we were prior to acquiring Unichem.
- Moderator:** Thank you. The next question is from the line of Anupam Aggarwal from Lucky Investment. Please go ahead.
- Anupam Aggarwal:** My question is on the US front. Our press release suggests that we have around 46- 47 ANDAs pending. So my question was basically out of these products, how many are still economically feasible for us to launch when our plants get resolved, and how many are not economical and how many are economical to go forward with based on market dynamics of those products at current levels?
- Sanjay Gupta :** I think you're right to analyze in terms of economic viability at a given point in time. We are prepared to launch all these products. But it would depend upon the timing of the approval of the plants. Because what happens is initially if you miss the first wave of launches, for the next few months you can't really do anything. But then after that, the market dynamic plays out, there might be shortages or there might be some players withdrawing. So, we see when we are closer to the launch as to which ones are viable, but will be a bunch of that which would not be viable. I wouldn't be in a position to quantify for you today as to what proportion are not viable. But as you can expect in delayed launch scenarios, there are some molecules which lose their economic interest, but hard to quantify today.
- Anupam Aggarwal:** So basically, if I had to rephrase, from the time of filing of those products versus that current situation, how is the dynamics, not product-by-product, but on an average product basket level if you can tell us something?
- Sanjay Gupta:** Because you did not get approval, you were not able to launch at the initial timing, the first launches. So late launches are economically less interesting than on-time launches in a generic market. But at the same time, there are pockets of opportunity in that portfolio because of either not enough competitors or because there were some competitors who could not come to the market or could not launch or had shortages or whatever. So we'll evaluate all of this. But there should be a substantial number of launches because of the large volume of portfolio that we have, even if there is a portion of them, which are not economically viable, there would be, let's say, a significant number which would remain interesting.
- Anupam Aggarwal:** Other operating revenue has substantially gone down YoY from Rs.42 crores to Rs.23 crores. Does this include the MEIS benefit that has gone away?
- Sudhir Menon:** Yes, that's right.
- Anupam Aggarwal:** Is it fair to assume that this is a sustainable run rate going forward on that line item?
- Sudhir Menon:** I think there's a new scheme which the government has floated, RoDTEP. We're just waiting. The scheme is out. But in terms of industry-specific percentages which would be given, that is

yet to come. So we believe by March, it should come. Our expectation is substantial portion of MEIS should get covered under those scheme.

Anupam Aggarwal: Lastly, on the tax rate, what should we assume for the next two years?

Sudhir Menon: 21% to 22% is what I would take for the next year, and one more year down the line, I think it should be roughly 23%.

Moderator: We'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Sudhir Menon: Thank you for coming on to Torrent's Q3 Call. Any incremental question, you can reach out to our Investor Relations Cell, Sapan Sanghani. Thank you so much.

Moderator: Thank you very much. On behalf of Torrent Pharmaceuticals Limited, that concludes the conference.