



“Torrent Pharmaceuticals Limited
Q1 FY2021 Earnings Conference Call”

July 30, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to Torrent Pharmaceuticals Limited Q1 FY2021 Earnings Conference Call. We have with us today Mr. Sanjay Gupta, Executive Director, International Business; Mr. Sudhir Menon, 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 conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Gupta. Thank you, and over to you, Sir!

Sanjay Gupta: Thank you, Neerav. Good evening, everyone. Thank you for joining us. I would like to begin now with a few comments on our Q1 operating environment. Starting with demand, Pharma markets saw negative growth during Q1 2021 as compared to strong growth rates in Q4 of last fiscal year. In India, the overall market declined by 6% in Q1 as compared to a growth of 9.8% in Q4 of last year. However, inside this 6% decline, there are two trends that gave us reasons for optimism. Firstly, the chronic markets did much better. The Indian chronic market had a growth rate of 4%, while the sub-chronic segment declined by 8% and the acute market declined by 12%. Secondly, while April and May were strongly negative, June saw a turnaround as compared to April and May. Growth rates in June were 2.4%, while April had a negative growth rate of 10.9% and May was also negative at 8.8%.

We can report similar trends from Brazil. IQVIA data shows that branded generic market in Brazil grew by only 1% from April to June quarter as compared to 14.7% during Jan to March. It is worth noting that year-on-year growth rate in June was a positive 8.8%. We operate only in the chronic CNS, cardio and diabetes space, and this market grew in Q1 at 6.7% as compared to the overall market growth rate of 1%.

Moving on to the supply side while our supply chain was better than we had originally anticipated, the overall environment remains unpredictable. Since the lifting of the national lockdown in India, the number of COVID cases has gone up. As a result, state and local authorities have mandated local lockdown, including in towns where our facilities are located. This has a direct impact on our production. Freight and other costs continue to remain at an unusually high level.

Now let us move on to the highlights of Torrent's Q1 performance. Q1 revenues were at Rs. 2,056 Crores, up by 2% on a year-on-year basis. EBITDA stood at Rs.664 Crores, up by 19% on a year-on-year basis. EBITDA margins were at 32%. Margins are higher as lockdown resulted in lower expenses.



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I will make some comments on our major market. India revenues were at Rs.925 Crores and grew by 2%. During Q1, patient footfall was significantly impacted. Around 85% of our reps are now currently working in the field. As per AIOCD Dataset, Torrent's Q1 2021 growth rate was 1% as compared to an IPM growth of minus 6%. As noted earlier, the chronic market grew at 4% and Torrent's chronic portfolio grew at 8%. Moreover, IPM subchronic growth was minus 8%, whereas Torrent subchronic was at 0%. Our focus on brand building in the chronic and subchronic space continues to yield positive outcomes. Torrent is ranked #7 as per AIOCD quarter June 20 dataset, where as a ranking on specialty Rx basis stands a six as per the SMS-RC dataset.

On brand building front, Torrent has 16 brands in the top 500 brands of IPM, with 10 brands of more than Rs.100 Crores. During the current quarter, Nebicard has crossed Rs.150 Crores mark as per AIOCD MAT June 2020. Our new launches in CVD continue to gain volume momentum every month, even in the current difficult environment. On the productivity front, our PCPM currently stands at Rs.7.7 lakhs as against Rs.7.2 lakhs for Q1 of 2019-2020.

Commenting on the US, our US sales in Q1 were \$47.4 million as compared to \$51.4 million in Q1 of last year. For Indrad and Dahej plants, we have completed all the CAPAs and have submitted the closure report to the FDA. We await the FDA's communications on the next steps. Recently, we have also received our first approval of a product from external collaboration, which is Erythromycin IR tablets. As per IQVIA, it is the \$60 million market. We expect one to two additional approvals in the current fiscal year from external collaboration projects.

Our Germany Q1 sales were €29.3 million as compared to €33.1 million in Q1 of last year. However, we are encouraged by the positive quarter-on-quarter sales as our Q4 2019-2020 sales were €26.7 million. We are well on the way to resolving issues with our quality control procedures in Germany. At June end, 85% of the product issues have been resolved, and we are on track for 97% resolution by September end.

Brazil sales were R\$96.4 million, up by 1% on a year-on-year basis. IQVIA data shows that in Q1, Torrent had a growth rate of 10.5%, much higher than the overall market rate. One of the core reasons is that we operate only in the chronic space, which has grown much faster than the overall market. There were also some supply shortages, which negatively impacted our primary sales. The weakening of the Brazilian real resulted in our Q1 growth rate in INR to be negative 20%. Despite this short-term prevalence, we continue to believe that Brazil's structural story remains intact. We are optimistic about future reforms that are intending to increase overall competitiveness and reducing red tape. IMS now expects the Brazilian pharma market to grow in 2020 at the rate of 4.1% in line with the mid impact scenario as compared to a pre-COVID projection of 10.4% and the projection in March of only 1.9%. Torrent expects to launch three



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new products before the end of the current fiscal year, which will provide us with additional growth momentum, and we feel confident that we will be growing at a rate higher than the market. Nirav, we can now open the call to questions.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Vishal from Aviva Insurance. Please go ahead.

Vishal Biraia: Thank you. Sir, my first question is on the overhead expenses. There has been a substantial reduction that we saw for this quarter. So what proportion of this is sustainable? Because this quarter, there was no travel, there is less overheads. So once things normalize, how would this pan out?

Sudhir Menon: No, I think we will have to wait for one more quarter before we answer this question. So you are right, I mean, the expenses are lower because of the lockdown situation, which happened, in quarter one. So whether this kind of a substantial saving would continue in quarter two, I really doubt about it. So it is better to wait for one more quarter to see what levels we are reaching because I think there has been a substantial improvement in terms of the field working, the hospital working and the doctor working. So I would not like to give you any guidance, but it is better to wait for one more quarter and see what levels we are achieving.

Vishal Biraia: Okay and sir, what would have been the key driving factors for the US business because clearly, \$47 million has been a relatively good number at a time when new launches have not been there. So have you been able to scale up those sartans in the US? Or is it something else that is driving? Could you elaborate a bit on this?

Sanjay Gupta: No, in the US market, I mean, overall, the generic market was negative 6% in Q1, so this does not surprise any one of us because of the low patient footfall and the high number of COVID cases. On the negative side, we continue to face price declines. We have no new approvals from Indrad and Dahej. But on the positive side, we are fairly competitive in the products where we play and we have been able to grow volumes and shares with us, I would say, existing basket of products. So I would say that to some extent, the positive and negative factors balance each other out for the time being.

Vishal Biraia: Okay. Last question on Germany where you said the 97% of the issue should be resolved by September. So once things get back to normal, what would be the kind of growth that you foresee for the European market for FY2021.

Sanjay Gupta: So historically, Torrent has been growing almost double-digit every year in Germany. So I would expect us to return to that trend sometime before the end of the year. So for the current year, it would be slightly lower, given that we will only reach, I would say, our normalized growth by



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the end of Q2. So high single digits to close to double digits should be, I would say, a reasonable expectation for this year and this is, of course, subject to the caveat that we aim to reach 97% of the problem resolution by September, and we are on track to do so.

Vishal Biraia: Thank you very much and congratulations on a set of numbers. I will come back in the queue. Thank you.

Moderator: Thank you very much. Next participant is Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Hi good evening. Thanks for the opportunity. I just wanted to understand the gross margin improvement, so I understand the mix has not changed too much, right? For India business, Y-o-Y is fairly flat, which is good in this environment. US is down and so is your Brazil, which is a higher gross margin business. So what has really moved in terms of gross margins?

Sudhir Menon: So Prakash, what you said is absolutely right from an overall perspective. But as Sanjay did mention that the chronic businesses have done well for Torrent in the branded generic space and that would be one cause of a product mix change within the portfolio, which has rated better gross margins this quarter.

Prakash Agarwal: Okay and so I am just trying to understand, I mean, for the continuity part of it, so would this be sustainable? Or with your activities, which you said that has picked up, the mix would change a bit?

Sudhir Menon: No, I got it. So I think last year, if you remember, we had given a guidance that between 72% and 73% is something which is sustainable, is what we feel. And for the last four quarters, if you see that we have been between 72% and 73% and if the guidance, which I would continue giving that the right number is anything between 72% and 73%.

Prakash Agarwal: Okay. Perfect. That helps and secondly, on US FDA, I missed. So what is our expectation in terms of reviving or getting approval from Levittown, Dahej and the other one?

Sanjay Gupta: So Levittown is relatively straightforward because we would complete the remediation and start production in Q3. We just need to inform the FDA and at some point, the FDA will come and inspect us and then start approving new products. But for existing portfolio of projects, we will start manufacturing sometime in Q3. For Indrad and Dahej, there is actually no precedent, right, to these COVID times. So we do not know how it will pan out. So what Torrent has done is that it has completed its closure reports, so we have completed all the CAPAs and we have submitted the closure report and what we do is, we have asked for something which is called a record review, which is basically like a desktop audit, but we are just waiting for the FDA's feedback on this topic. So hence, as Torrent, we are in no position to give any guidance as to when this



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inspection or record review will happen and when we start getting FDA approval because we do not have any information on this topic.

Prakash Agarwal: Okay. Understood. But this Levittown, you are saying that you are expected to see inspection in Q3 and resolve it? I mean, this would also be under this warning letter route, right? So do you have visibility to resolve and start commercializing from Q3 and Q4.

Sanjay Gupta: So Levittown is slightly different because we are not manufacturing any product, right, so you will recall that from Indrad and Dahej, we are currently continuing to commercialize our existing approved products. So what I was telling you was that from sometime in Q3, we will begin commercializing our existing approved products from Levittown. So in other words, it will come on par with Indrad and Dahej.

Prakash Agarwal: Okay. Fair enough. Thanks. I have more questions, I will join back the queue.

Moderator: Thank you very much. Next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Hi. Thank you for the opportunity. Sir, can you split India growth into volume, price and new launches?

Aman Mehta: Torrent India growth as per AIOCD, volume growth was minus 8.5%, price growth 7.4%, new launches 1.7% and the IPM breakup is minus 11.8% volume, 4.5% price and 1.4% new products.

Damayanti Kerai: Sorry, new product, how much you said for IPM.

Aman Mehta: 1.4%.

Damayanti Kerai: Okay and sir, my second question is, we have seen that price increase has been one of the key driver for our India formulation growth for some quarters now, so how confident you remain about sustaining just 7%, 8% kind of growth, which we are seeing on last few quarters?

Aman mehta: This should be able to sustain and as our new launches keep gaining momentum, the volumes also will keep adding. So right now, we are 3% higher volume growth than the IPM.

Damayanti Kerai: Yes. Volume, we should see a recovery. I was asking more on the pricing sustainability part.

Aman mehta: So the 7.4% number should be sustainable.

Damayanti Kerai: What gives you confidence about that?



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- Aman Mehta:** Sorry, I lost you there.
- Damayanti Kerai:** No, I am asking like what gives you confidence about sustaining this 7%- 8% kind of price increase on a consistent basis?
- Aman Mehta:** So the same matter that we review every year, how this comparative scenario is evolving compared to the next two or three brands, especially in markets where we have leadership positions. That is where the price increase, maybe 1% or 2% higher than the competition is sustainable. So that is how.
- Damayanti Kerai:** Okay and my last question is regarding your debt repayment plan. So can you just update us on that?
- Sudhir Menon:** So I think this quarter, we have repaid around Rs. 440 Crores, I would say. And for the full year, we are looking at Rs.1000 Crores kind of a number.
- Damayanti Kerai:** Okay. So Rs.1000 Crores what we planned earlier, that remained on track, right?
- Sudhir Menon:** Yes, absolutely.
- Damayanti Kerai:** Okay. Thank you for your answers.
- Moderator:** Thank you very much. The next question from Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Thanks for taking my questions. I actually also wanted to understand the outlook on gross margin we have been hearing that the API costs have actually risen and most of the companies in API segment that are booking good pricing for themselves. So is it likely that we might be impacted in our formulation margin, especially at a gross level? Some outlook on that will be helpful.
- Sudhir Menon:** No, you are absolutely right. So I think there are few APIs where we see a substantial price increase. But if you ask me whether it is going to be a significant impact going forward, the answer is no. I would say it's not that significant, which will be there as far as the gross margin is concerned. Yes, I mean on an overall basis, we are seeing a gross margin impact of between 1% and 1.5%, I would say. But that is taken care basically because of certain price increases, which we have taken wherever possible and more in the branded generic space. So if you ask me whether that is going to impact the overall margin, the answer is, no.



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- Nimish Mehta:** Okay. So as I understand, I mean, you just commented on the gross margin sustaining between 72% and 73%. I am, therefore, assuming that the API prices will stay at whatever higher level it is, but it will get compensated by the price increase. Is that a fair assumption?
- Sudhir Menon:** Absolutely and I think most of the prior increases which we take, one is the competition-based price increase. We also look at cost-based price increases. So I think it should cover up to that extent.
- Nimish Mehta:** Okay. Great. Understood. The second thing, on the overhead marketing expenses, I mean, kind of talks, I mean industry is trying to move towards on a more digital marketing platform. Are there any thoughts related to that? And if yes, what do you think? I mean, on a ballpark level, it could be the cost structure and the savings that we may realize.
- Aman Mehta:** So from the Indian market perspective, there will be a shift towards digital in the coming quarters and possibly longer. But it is not going to be a substantial part. At least that is what it is looking right now. So more or less cost structure should be similar. Probably in the next quarter, we can provide further information on that.
- Nimish Mehta:** So you do not envisage a significant change in the overall scheme of things that has happened there?
- Aman Mehta:** Nothing, major. No.
- Nimish Mehta:** Okay. Thank you very much.
- Moderator:** Thank you very much. Next question is from Prateek Agarwal from ASK Investments. Please go ahead.
- Prateek Agarwal:** My question is with regards to production linked incentives that government of India is now starting to offer. Does Torrent in any manner seek to utilize those incentives?
- Sudhir Menon:** So I would say we are evaluating the proposal which the government has just brought in. So maybe next quarter or maybe after that, we'll update you on that.
- Prateek Agarwal:** Sure. Thanks.
- Moderator:** Thank you very much. Next participant is Kunal Mehta from Vallum Capital Advisors. Please go ahead.



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Kunal Mehta: Thank you for the opportunity. My question is, Sanjay sir, we wanted to understand the situation on sartan at the present. Are you back in the market and, if yes, for how many products?

Sanjay Gupta: So we are actually not selling sartans actively in the US. So we are actually prioritizing our FDA clearance and as such, we have taken, I would say, a management call to go slow on sartans. So I would not expect any material numbers from Torrent on sartans in the near future. At least until our FDA issues are behind us.

Kunal Mehta: Sir, just a follow-up on this one. So just so, sartan is already an approved product for Torrent and so all you would have to do is give us your CBE-30 filing and change the source of API source and you can relaunch your product. So I just wanted to understand what apprehensions or points are you having in your mind while you are deciding to go slow on sartans? Any perspective would be helpful sir.

Sanjay Gupta: So essentially, we have had these experiences with this nitrosamine impurities and we built a complete infrastructure to test them and as a company, we decided that it was better for us to manufacture these products in dedicated lines and so we just need to reconfigure a bit our production tools, so that we can organize these dedicated lines to manufacture sartans and also, we need to make some changes in our end-to-end supply chain in terms of sourcing of APIs, etc. So we are in the process of making those changes. So, by no means we are abandoning this market. But in the very short run, I would not guide you towards material revenues here.

Kunal Mehta: Understood, Sir. And you will be changing your API suppliers or the existing suppliers would be able to supply you?

Sanjay Gupta: So the situation varies from sartan to sartan, but we are constrained to change a few important API suppliers.

Kunal Mehta: Understood Sir. Thank you very much for your answer.

Moderator: Thank you very much. Next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks for taking my questions Sir. So Sanjay, two things. One is, on the US, how has the shortage situations been in the US over the last quarter, a couple of quarters? Have they sort of became more sporadic? Or do you see more opportunities there to participate in?

Sanjay Gupta: So in our experience, there was a little bit of a panic in the March time frame. But currently, that panic seems to have subsided and we are almost in a normal supply situation.



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- Nitin Agarwal:** So we are not seeing any incremental opportunities on the participating shortages?
- Sanjay Gupta:** I think we are not seeing either a panic purchases or there are, I would say, one or two here and there were certain suppliers might have difficulty in supply chain connectivity. But on a broader level, the market has no supply issues.
- Nitin Agarwal:** Okay and on the pricing front, so does that mean there are relatively fewer price increase opportunities now to sort of take that further?
- Sanjay Gupta:** Yes. I think we are back to a normal situation where, generally in the US many of you model between 5% to 10% price decreases across the portfolio of products. So I do not see why the trend would be different in the quarters ahead.
- Nitin Agarwal:** Sir, the last thing on sartans, since you've been a participant in the past, have you seen any meaningful price hikes in general across the portfolio? Or that is not really been the case because of the disruptions that are happening in the market?
- Sanjay Gupta:** I think there are other companies who are more competent than Torrent right now to comment on today's sartan market. So I would refrain because we are not actively participating in this market in an aggressive manner currently. So I would just refrain from commenting on this market situation.
- Nitin Agarwal:** No problem and secondly, on the emerging markets, we had a very sharp growth this quarter. So anything to sort of how should we look at that? Is it like a sustainable base for the emerging markets? And any particular market which drove it?
- Sanjay Gupta:** Sudhir, do you want to take that?
- Sudhir Menon:** Yes. So you are right, I mean, I think rest of the world looks a little higher this quarter. If you ask me whether this kind of growth is sustainable, I think it is better to wait for one more quarter to see because it will be too early for me to make a comment whether this is less more or whatever. But you are right. I mean, compared to the earlier growth levels, it is been higher.
- Nitin Agarwal:** But Sudhir, was there any particular market which drove it or it was broad based?
- Sudhir Menon:** No, it was broad-based, I would say and I think most of this would have been there because of some additional stocking because these are African, Southeast Asia markets and these are mostly distributor-driven models, which are there in the ROW market, where we have seen a surge happening. So possibly, yes, this kind of a growth might not continue in the subsequent quarters, but it is better to wait for one more quarter and see.



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Nitin Agarwal: Last one Sudhir, on the staff cost, is there an element of some reduction in staff cost or lower staff cost for the quarter due to this lower field, lower promotion related activities or that has just sort of entirely reflected only in the other expenses?

Sudhir Menon: Yes. It is only reflected in the other expenses Nitin, nothing in the staff cost.

Nitin Agarwal: That is more a sustainable number, a regular number has been accounted for.

Sudhir Menon: I would say so, yes.

Nitin Agarwal: Thank you. Best of luck.

Moderator: Thank you very much. Next question is from the line of Prakash Agrawal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the followup. Just trying to understand the India business better, clearly, you mentioned June saw a big uptick and I can see from the AIOCD data also your major brands beat Shelcal, your Dilzem, your Losar and all have high double-digit growth. So I would say partly could be stocking again with unlocking. But in July, we hear that there is some part of locking again happening. So would you say that growth is normalizing or is it still picking up? Any colour you can give for July?

Aman Mehta: Growth is definitely normalizing now. So obviously, April and May was the worst period for the market. June saw quite a good pickup and July was more or less sustaining except for the lockdowns in containment areas. So I would not say it is going to be a linear recovery, maybe month-on-month, but over the next two quarters, there will definitely be a recovery. So I think and especially as the chronic revenue and business would sustain, at the same time, the acute and sub-chronic would also start picking up.

Prakash Agarwal: Okay and any ballpark guidance on how we can grow, how should we look at this year because of the uncertain events? So what are you looking at in terms of growth?

Aman Mehta: It is still quite difficult to say that, but I think we should be able to grow a few percentage points above the IPM.

Prakash Agarwal: Okay, understood and secondly, on the R&D spend, so looking at your annual report, there are some NCE programs that you are running and how should we think about ANDA filing for this year? How many products we are looking at? And would it be a little slower one, given that there are FDA issues on the plants as well as there is some cost optimization or savings on that front also.



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Sanjay Gupta: So generally, last year we filed about 12 ANDAs, our objective this year would be in the same ballpark between 12 to 14 ANDAs is a reasonable number. The reason why some ANDAs might go slower is not linked so much to the plants because our R&D engine continues to work normally. It is more linked to the COVID and the impact that has on bioequivalent centers in India and elsewhere. So it is quite challenging to recruit patients for BE study during when you are having lockdowns and social distancing and it is hard to recruit patients. So BE centers and vendors who do BE studies have a slower uptake or a slower rate of completion of studies. So that is something that might have an impact. But our current plan is to be in the same range, 12 to 14 ANDAs in the current fiscal year.

Prakash Agarwal: Any comment on the NCE piece that you've talked about in the annual report, how should we think about for India market? Or what are you exactly doing there?

Aman Mehta: So the NCE would still be at least a few years down the line. So probably at some point later, when there is more developments we can share.

Prakash Agarwal: Thank you so much.

Moderator: Thank you. Next question is from Abdul from Anand Rathi. Please go ahead.

Abdul: Thank you for the opportunity. Sir, just one question on the Levittown facility as guided by you, the facility might be up and running in the third quarter. So in the current juncture, are we confident enough that we would be back to the annual run rate of 12 million to 13 million from this facility?

Sanjay Gupta: I would not give you guidance there and the reason is pretty straightforward. Because before the shutdown, the business model of the company was different right, it was doing a lot of contract manufacturing for over-the-counter products and going forward, it was also doing some grandfathered products as per the FDA system. So going forward, we will not be doing these two activities. On the other hand, this loss of business will be compensated by our own ANDA, existing and new and as the new products get approved, we will definitely cross this threshold and go beyond. But I will not be able to give you your timing on that.

Abdul: And Sir, just one more question. In terms of the filings from the third-party side, so how many such filings we have pending with the FDA now?

Sanjay Gupta: I would say it is in the single digit, Sir. I do not have an exact number, but it is less than 10 today.

Abdulkader Puranwala: Thank you for answering my questions.



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- Moderator:** Thank you. Next question is from Girish from Bank of America. Please go ahead.
- Girish:** Most questions are answered. Just, Sanjay, if you could actually just comment on the volumes in the U.S. in terms of the total pills, I think I remember last time, there was 4.5 billion pill number you had shared. Has the volume materially changed from there for U.S. market?
- Sanjay Gupta:** For Torrent, we are roughly doing about 100 Crores pills a quarter. We continue to do similar volumes. So all in all, on an annualized basis, around 400 Crores.
- Girish:** Okay. Overall from the group perspective, is company doing anything to participate in any of these COVID treatment drugs in your future in India market or abroad?
- Aman Mehta:** So we are evaluating almost all opportunities and if there is anything substantial, we would participate.
- Girish:** Okay. But you are saying, in the near term, there is nothing that one should expect in terms of launches, right?
- Aman Mehta:** Not as of now.
- Girish:** Thank you Sir.
- Moderator:** Thank you very much. Next question is from Neha from JPMorgan. Please go ahead.
- Neha Manpuria:** My questions have been answered. Thank you.
- Moderator:** Thank you very much. Next participant is Nitin Gosar from Invesco. Please go ahead.
- Nitin Gosar:** Two questions. One is trying to understand COVID situation or post-COVID world, our companies in position to reassess the way they have been doing marketing and promotion for the product to the doctors, the whole idea is to understand, is there any lever to digitize the whole process and take it forward from here on, lessened manpower involved. How do they see the situation from here on?
- Aman mehta:** So digital, certainly, will be an important part of the whole marketing ecosystem. It is not going to substitute actual clinic visits by any means in the near future. So as and when the adoption at the practitioner level increases, that is probably how the spend will also increase in that direction of more visibility. But as of now, it does not seem to be taking any major, rather it is not looking to like displace the existing marketing activities. So as I mentioned earlier, the marketing spend,



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overall the structure should be pretty much similar except there will be some additional aspect of digital spend this year.

Nitin Gosar: Got it. One final question is with regard to currency. Do you think currency would have played a kind of its part in terms of gross margin expansion for the quarter?

Sudhir Menon: Yes, I think to a certain extent, I would say, not very significant because on the Brazil side, the currency has depreciated almost by 20%. So I think on a net-on-net basis, nothing significant in terms of improvement in gross margins contributed by currency depreciation.

Nitin Gosar: Okay. Got it. But on face of it, U.S. and other emerging market would have benefited and Brazil would have pulled it down.

Sudhir Menon: To a certain extent, but if you ask me, as far as the bottomline is concerned, we have booked around Rs.15 Crores of forex losses in other expenses because of that.

Nitin Gosar: Thank you.

Moderator: Thank you very much. The next question is from the line of Deepak Mehta, an individual investor. Please go ahead.

Deepak Mehta: Thank you for taking my question, but my question has already been asked. So I will ask in other geography international. So how we are looking in the emerging markets, such as LATAM, Africa? What is the penetration of Torrent Pharma? That is my only question. Thank you.

Sudhir Menon: Sanjay, you want to answer about LATAM?

Sanjay Gupta: Sure. So currently, in LATAM, we have direct presence in our two major markets, which is Brazil and Mexico. The third most important market is Argentina, but we have no plans to enter into the Argentinian market. We are evaluating a series of four markets where we have licensing deals with the existing local companies and we are actively considering whether we should consider switching this B2B business to a direct presence business. So that evaluation is ongoing inside Torrent and we will probably provide more information as plans concretize. So that is as far as LATAM is concerned. So we have Brazil, Mexico, no plans for Argentina, some B2B business in other markets currently.

Sudhir Menon: Yes. And I think in terms of other emerging markets, you specifically talked about Africa. So I think including Africa, Southeast Asia, maybe Middle East, to a certain extent, so we have this pipeline which is there for the next three to five years. So you will see good amount of expansion happening in these markets through launches of new products, so that will continue.



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- Deepak Mehta:** Thank you Sir. Have a great rest of the year.
- Moderator:** Thank you very much. Next participant is Nikhil Mathur from AMBIT Capital. Please go ahead.
- Nikhil Mathur:** Thanks a lot. Two questions from my side. The first is on the MR strength. If not for COVID, would Torrent have looked to add incremental MRs in FY2021 and if not, then what is the sales base then which you achieve and after which, you will have to add, you would be forced to add new MRs to run the business?
- Aman Mehta:** There were no plans to add MRs even pre-COVID and usually, whenever every few years, there would be an increase in the doctor universe that is when we would look at expanding our coverage. So that probably would not be a significant amount compared to the 4000 strength, it would be a small number.
- Nikhil Mathur:** So is it more of an event possibly in FY2022 at some point in time, despite having been there?
- Aman Mehta:** Yes, I would not rule it out.
- Nikhil Mathur:** Okay and secondly, my second question is on the API side. Does Torrent aim to invest into developing API capabilities over the next two, three years and the reason I ask this question is that for the export markets, there is usually a lot of talk about pricing pressure, even Trump is talking about lowering prices in the U.S. and typically companies which are more backward integrated or have more control on the value chain, intend to enjoy more cost leadership. So any plans to invest on the API capacity building over the next two, three years and be a bit more buffer indicated?
- Sudhir Menon:** No, I would say, the currently, so we have API capacities, right, in three places: Dahej, Intrad and Vizag. So if you ask me whether the capacities have been utilized to the fullest, the answer is, no. Internally, we have a plan to increase the capacity utilization of these API facilities, which we have over the next three years, I would say. So at least for the next two- three years, there is no new investment, which we are looking at in terms of increasing our API capacities.
- Nikhil Mathur:** Okay. Can you just help me out with when were these capacity additions done? And what was the capital deployed in these capacity additions on the API side?
- Sudhir Menon:** I would not remember the capital deployed number, but I think Intrad, Dahej, put together, I think we are looking at a 90 metric tonne kind of capacity and Vizag could be roughly around 35 metric tonne. So all in all 125 metric tonnes capacity existing today with scope for expansion within the existing facilities, so we do not have to look for the new land and put up API facility both at Vizag as well as Dahej, we have sufficient space for expansion.



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- Nikhil Mathur:** Thanks a lot.
- Moderator:** Thank you very much. Next question is from Kartik Mehta from Klay Capital Limited. Please go ahead.
- Kartik Mehta:** Thank you for the opportunity. I just have one question.
- Kartik Mehta:** Is there a possibility that you guys enter into manufacturing, go backwards into some API business for the U.S., something which is being done by a lot of newer companies or would you stick to this and for that, would you allocate capital to acquire or would it be, if at all?
- Sudhir Menon:** Kartik, I would say that's not one of our priorities because unless U.S. business really grows up and we have more product portfolios in our basket as far as U.S. is concerned, I think this would not be a priority for us. So it is only, we will stick to our original plan of making more complex driven API in-house and depend upon the market partners for high-volume API.
- Kartik Mehta:** Okay, thank you.
- Moderator:** Thank you very much. Next question is from the line of Cyndrella Carvalho from Centrum Broking Limited. Please go ahead.
- Cyndrella Carvalho:** Thanks for taking my question. I just wanted to understand, as we are talking about Germany resuming growth from second half, we are hopeful that India will also resume in the coming two quarters or so. So if we have to look at over two to three years perspective, how should one be looking at in terms of overall growth, any indication, any direction that you could help us Sir?
- Sudhir Menon:** Okay. I will take that question. Sanjay, you can second whatever I say, if I miss out something. I think the way to look at for the next three years is, U.S. will be quite positive because I think the only problem which we have today is the negative outcome of this U.S. FDA inspection, right, so all the new products are on hold. However, we have continued filing double-digit ANDAs every year. So the expectation is that once this plant is getting clear, both the plants are getting cleared and the liquid facility also come on stream, we should see a good amount of growth happening as far as the U.S. market is concerned because we should be launching at least 12 to 15 products year-on-year. So that is the expectation and goal, so I would say. So that should do well is what our objective and expectation is. Germany, I think, historically, we have been doing double-digit is what Sanjay had spoken earlier and there is no reason why we should not think about it for the next three years as well, because in spite of the 80% of the market being generic, we are there only for 50% of it, so there is a big amount of expansion which can really happen and there is also focus which we are giving as far as our OTC space is concerned and therefore, the goal is to take it up from 10% today to a little higher. So I think Germany should also be doing well, that is



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what we believe. As far as the branded generic markets is concerned, which is India and Brazil, I would say two things will happen: so one is I think the new product introductions in both the places will see a higher share in the overall growth over the next three years and the rest of the growth will be in line with what the market is delivering. So if the market is delivering, let us say, 7% to 8%, we should be at least 100 to 200 basis points more than that, so that is the way we look at it.

Cyndrella Carvalho: That is helpful. And if you could help me understand how much of our portfolio will be backward integrated and if that are the parameters that we consider at this point in time?

Sudhir Menon: So I think on an overall basis, it is mostly for the U.S., I would say. So I think around 35% to 40% of vertical integration we have today.

Cyndrella Carvalho: And the intent to do losartan backward integrator, is that a correct understanding that I have from our call?

Sudhir Menon: Yes, losartan is not vertically integrated. We are dependent on the outsourced API.

Cyndrella Carvalho: That is helpful. Thank you and all the best.

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

Prakash Agarwal: Thanks for the followup again. Just question for Aman on the new launches that we did around December, so how has been the offtake for Vildagliptin and Ticagrelor?

Aman Mehta: So compared to Q4, in Q1, we have gained market share in all the new launches. Vildagliptin total market share from 4.3% in Q4 is now up to 5%. Ticagrelor market share is up from 3.9% to 4.2% and the Remo market share is up from 13.1% to 14.3%, so even month-on-month, there is an increase in volumes.

Prakash Agarwal: Okay, that is very helpful and in terms of new launches for the year, are we planning something or in terms of something different?

Aman Mehta: We already had two launches this quarter. One was in the gastro space and one was in the onco space. Rest of the year, we are looking at may be 9 to 10 launches.

Prakash Agarwal: Okay, perfect and for the Brazil market, like you mentioned, the portfolio is largely catering to the chronic and in the past, we have said one to two new launches every year, so how is it looking for this year and next year? **Sanjay Gupta:** I think



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in my opening remarks, I mentioned that we are planning to launch three products this year and just to give you a background on this. Last year 2019-2020 we filed three products in Brazil. In 20-21, we are also planning to file three to four products in Brazil. So since branded generic markets require a lot of investment in product launches and brand building, we feel that is an adequate number. So three to four launches and the new brands introduced and to be built in Brazil would give us good momentum. So that is where we are directionally headed.

Prakash Agarwal: Okay. And would it be fair to say that next year also around two/ three/ four products could be there in terms of launches? That is how you plan to build the pipeline?

Sanjay Gupta: Yes. So the plan is every year between 0 and 5, like say, two - three products every year, we would launch from our own pipeline and then if opportunities present, we are also in-licensing actively products for Brazil for both our branded generics and generics business, so that will be on top of that.

Prakash Agarwal: Okay and is there a ballpark number that we try to get or something in mind that like per product, revenues per product.

Sanjay Gupta: So generally, we essentially go after products where we expect the competitive intensity to be less and where we think we have strengths. So areas where we are present is CNS, cardio and diabetes. So our objective is to increase our coverage in these three therapeutic areas. Current coverage is about 23%- 24%, so we are adding products with the objective of increasing our coverage of these therapeutic areas and products where the competitive intensity is less or is likely to be less and where we think we can build up, I would say, at least 15%,- 20% market shares and generally, the markets we target are, I would say, between BRL 70 million to BRL 200 million each. So that is the kind of broad brushstroke of the markets we target.

Prakash Agarwal: Okay. You said 15% to 20% market share is what you target for each of your branded?

Sanjay Gupta: Correct.

Prakash Agarwal: That was very helpful. Thank you so much and all the best.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint that will be the last question for today. I will now hand the conference over to the management for closing comments.

Sanjay Gupta: Thank you so much for joining us today. We hope that we have answered your questions. If you have further queries, please feel free to contact our Investor Relations Officer, Sapan. Thank you and good night.



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Moderator: Thank you very much. On behalf of Torrent Pharmaceuticals Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.