"Torrent Pharmaceuticals Limited Q4 FY20 Earnings Conference Call"

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MANAGEMENT: MR. SANJAY GUPTA – EXECUTIVE DIRECTOR, INTERNATIONAL BUSINESS, TORRENT PHARMACEUTICALS LIMITED
MR. SUDHIR MENON – CHIEF FINANCIAL OFFICER, TORRENT PHARMACEUTICALS LIMITED
MR. AMAN MEHTA – CHIEF MARKETING OFFICER, INDIA BUSINESS, TORRENT PHARMACEUTICALS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q4 FY20 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 '*' and 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. Good evening everyone, and welcome to the Q4 FY20 earnings call. We hope you and your families are keeping safe and healthy. At the onset, I would like to brief you as to how Torrent, as an organization, is responding to this crisis.

We have 3 priorities as we deal with the COVID situation: firstly, it is the people; secondly, it is supply; and thirdly, it is on the demand side. On the people front, safeguarding our employees' health has been our foremost priority. Wherever possible, our employees have been working from home and we are monitoring the health status of our employees and any exposure to the virus constantly. We have implemented social distancing and changed our work practices throughout our organization. For supply, we consider that to be a critical priority as patients rely on our medicines. Our plants have been working throughout this crisis, albeit in a different way and at a lower level of productivity. The number of people present at any one shift is lower than before. There was disruption and delays seen across the supply chain, caused mainly due to restriction on the movement of goods, closure of borders, etc. The situation is gradually expected to improve in the coming months.

On the demand side, in branded markets, new prescription generation has been impacted due to lockdowns. However, owing to the higher chronic and sub-chronic contribution in our portfolio, the impact is expected to be relatively lower than our peers. Our sales reps have switched to digital selling and organizing medical events online. In generic markets, while there was an initial increase in demand from our customers, things have mostly returned to normal.

I will now take you through the key highlights for Q4 and the full year. We start with the financial results, followed by comments on our key markets. Q4 revenues were 1,946 crores, up by 5% on a year-on-year basis. EBITDA margins were at 29% and EBITDA stood at Rs. 562 crores, up by 16% on a year-on-year basis. We continued to witness steady EBITDA improvement, driven by synergies from the integration of Unichem portfolio, productivity improvements and cost control. FY21 ended with revenues of 7,939 crores, up by 5% and an EBITDA of 29% at Rs. 2,284 crores, up by 13%.

Moving on to our key geographies, India business revenues were at 840 crores in Q4, up by 11% on a year-on-year basis. Adjusted for COVID related supply delays, the growth would be 15%. FY20 revenues were at 3,517 crores, up by 9%. Adjusted for the base impact of discontinued products and COVID-19-related supply delays, the adjusted growth was 12%. AIOCD growth for the quarter and the full year stands at 16% and 12.5% respectively against an IPM growth rate of 10%. Torrent is ranked 8th as per AIOCD MAT March 20 data set whereas the ranking in the specialty prescribed basis stands at 6th as per SMSRC.

On the brand building front, Torrent had 17 brands in the top 500 brands of the Indian pharma market, 10 brands have annual revenues more than 100 crores. This was 8, a year ago. Rozucor and Veloz are the new entrants. During the fiscal year, Chymoral and Nexpro crossed 200 crore revenues, whereas Shelcal has now crossed the 450 crores mark. H2 19-20 witnessed the launch of high potential products; Vildagliptin, Ticagrelor, Remogliflozin and a novel FDC Eurepa V**.** All of them have shown encouraging launch traction. India business continues to be specialty driven, with 73% of prescriptions coming from specialists. Torrent continues to be amongst the top 5 players in 6 key specialties. These are cardiologists, nephrologists, psychiatrists, gastroenterologists, neurologists and gynecologists.

On the productivity front, I am pleased to report that our PCPM now stands at 7.3 lakhs on a full year basis, against 6.2 lakhs for fiscal year 18-19.

Moving on to the US market, our US sales were $51.7 million compared to $51.5 million in Q4 last year. Financial year ended with sales of $207 million. Despite no major launches, we are able to sustain the base of $200 million plus, mainly due to market share gains in existing molecules. During the year, we filed 12 ANDAs and on March 31st we had 48 ANDAs pending approval and 6 tentative approvals.

I take this opportunity to provide a brief update on our manufacturing facilities. For Dahej, we have completed all the CAPAs and submitted to the FDA. Due to COVID, FDA may choose to do a desktop inspection only and we are waiting for their feedback. For Indrad, we plan to complete all the CAPAs and submit the closure report sometime in Q2. For the Levittown facility in the US, we expect to start production in Q3 of fiscal year 21 with prior notification to the FDA.

For the Brazilian market, Q4 sales were 119 million reais**,** up by 11% on a year-on-year basis. Fiscal year 20 sales were 409 million reais, up by 12% on a year-on-year basis. As per close-up data on an MAT basis, Torrent grew at 14.7% versus a covered market growth of 10.2%. Growth was complemented by market share gains and new launches and we continue to reduce our focus on the tender business.

For Germany, our sales were at EUR 27 million, down by 9%. Sales continued to be impacted by the temporary product release difficulties, resolution of which is taking more time than expected. Fundamentally, there is no change in our strength in the German market. Q4 R&D spend at Torrent was at 118 crores versus 139 crores of last year. On the dividend side, company declared an interim dividend of Rs. 32 per equity share including Rs. 15 per equity share as special dividend.

To conclude, fiscal year 20 continued to witness steady and sustained improvement in profitability with our strategy to focus on 4 key markets. We can now move to Q&A.

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: The first question is, if you could just give some outlook on the domestic business. I understand the lockdown situation and the patients not able to go for the doctor visits, OPDs or elective surgeries, so ballpark industry growth and how you expect yourself that would be really helpful.And especially, if you could comment on your therapeutic, like you said, some of them are chronic, it is not affecting, but what about the vitamin portfolio and others?

Aman Mehta: So if we recall the COVID impact began probably towards the end of March, around 16-17 March. So in April, if we look at the numbers of AIOCD because March was not such a big impact, April would be the more indicative number. April AIOCD number shows IPM was degrowth at minus 10% and our numbers are pretty similar. So overall, if we see our chronic contribution of almost 75% will ensure that our full year numbers will be a few points above the market growth because chronic growth should be able to sustain, whereas there will be some impact in the acute and subchronic. In terms of footfalls, over the last few weeks, there has been some improvement in the number of consultations by doctors. So as and when the lockdown improves across all states, there should be a gradual increase, but it shouldn't be very different from what we are seeing right now. It will be a very gradual increase through the rest of the year.

Prakash Agarwal: So you are saying better than market but how would market grow that is obviously not certain, as we go by, we will get to know.

Aman Mehta: Yes absolutely. Still a bit early to comment on that but we expect that the market should probably improve by a few percentage points next quarter or at least by Q3.

Prakash Agarwal: Understood. And my second question is on the cost side, so I understand growth can be softer but how do we see the margins shaping up? What are the cost measures we are taking so that we can at least sustain these margins? Or we can see plus/minus 1 or 2 percentage here and there, how should we look at it?

Sudhir Menon: No, I think, Prakash, it is too early to comment on the full year picture but what I can tell you is, quarter 1, I think most of the marketing spend, you find a reduction which will happen because typically, there is no promotion happening physically in the doctor's chamber.And most of the field force is working from home, so to that extent, some amount of cost containment would happen and certain fixed expenses, like, let us say, traveling expenses or admin-related expenses, all those costs would also get controlled. So I think quarter 1, I don't know, I mean we will have to wait for 1 more month to go as to how things are picking up but yes, I mean, logically, you are right. There would be some control, which will happen as far as the fixed cost is concerned. So I wouldn't say there would be a major impact in terms of margin logically in quarter 1 but as we go forward, for the full year, we will have to wait and see.

Prakash Agarwal: And the last one for Sanjay. On Dahej facility, as you said, this CAPA has been completed. So when was this completed? Did we send the online CAPA completion? Or it was done before the lockdown? And are we already in discussion for the desktop inspection, as you just mentioned? If you could just give more detail that would be helpful.

Sanjay Gupta: It was completed in the last two months and then we are in discussions with the FDAabout the desktop audit but we are waiting for a decision from their side.

Moderator: Thank you. Next question is from the line of Tushar Manudhane from Motilal Oswal Securities Limited. Please go ahead.

Tushar Manudhane: So just on the Brazil side would like to understand the portfolio, how much is the chronic and acute? And outlook there given that COVID scenario is intense even there?

Sanjay Gupta: So Brazil, the portfolio is almost 100% chronic. So we operate only in the CNS, cardio and diabetes spaces and essentially, so we are only in the chronic space. The situation in Brazil is, I would say, currently, doctors have seen a footfall reduction of 90%. So essentially, there were no patients. Brazil is today at its peak in terms of number of COVID cases. So it has the second highest number of cases in the world at about 350,000 cases with about 23,000 deaths. So the situation is, I would say, quite severe and Brazil also did not have a telemedicine system approved. So unlike in the US, where patients are consulting doctors on iPads or iPhones and things like that, in Brazil, it just got approved in middle of April. So you are going to see a dramatic reduction in the size of the market in post-COVID times. So what we are seeing for this current year, we are seeing initial reduction in market sizes but I would just like to cite IMS study which initially expected the Brazilian market to grow at 10% and currently, they are forecasting Brazil to grow at sub 2%, between 1% and 2% for this current year 2020. So about 8.5% reduction in market growth for the current year.

Tushar Manudhane: And so accordingly, the way you highlighted compared to India market industry, a few basis points. Accordingly, how do we take for the Brazil market?

Sanjay Gupta: So we are fairly confident that we will be doing better than the market and we have done this year also on the branded generic market growth of about 10.5%. We have grown at 14.7%. So we expect a similar kind of over-delivery. Now where the market would be is, if you go by IMS that would be between 1% and 2%.

Sudhir Menon: Tushar, just to add with what Sanjay has said, just to keep in mind, in Brazil, we are totally into chronic segment. It is only cardio, diabeto and CNS. So there are no subchronic or acute segments. So that is something which we believe is positive from an overall market perspective.

Tushar Manudhane: Number of MRs in Brazil and how many MRs you intend to add for the India market?

Aman Mehta: We will not be adding any MRs this year in India.

Sanjay Gupta: We have about 300 MRs in Brazil and we will not be adding any either.

Tushar Manudhane: And just lastly, how many products are ANDAs commercialized in US out of approved ANDAs?

Sanjay Gupta: We have 93 approved ANDAs and currently we are commercializing close to 70.

Tushar Manudhane: And any scope to commercialize remaining? Or they are not economically viable?

Sanjay Gupta: Actually, the market has changed quite dramatically in this COVID times and we have been getting solicitations from customers to start some of these ANDAs and some of them have been discontinued for several years. So it is not that obvious to set up a new supply chain in these COVID times, but we are looking into it. So we are working actively on a few projects to re-bring products to the market because of supply problems with other companies. But I don't know if it will have an impact, it will take some time, let us say, it will take at least 4 to 6 months to bring some of these products back.

Moderator: Thank you. The next question is from the line of Reshmi Sancheti from CGA-CIMP. Please go ahead.

Reshmi Sancheti: Sir, I would like to know on debt, I mean, we have around 4,400 crores long-term and short-term borrowings put together, how are we placed? Are we going to see any reduction in FY21 and years after that? Or it will remain at the same level?

Sudhir Menon: Absolutely, I think in terms of the repayment schedule, it is pretty clear, most of the repayments are happening in next two years.

Reshmi Sancheti: And can you quantify how much it would be?

Sudhir Menon: It should be around 1000 I would say for the next year.

Reshmi Sancheti: For FY21?

Sudhir Menon: That is right.

Reshmi Sancheti: And sir, what about tax rate guidance for the full year?

Sudhir Menon: I think it should be around 22-23% for the full year.

Reshmi Sancheti: And sir, how much CAPEX have you spent in this year? And going forward what are you guiding for FY21 and where exactly you will be catering?

Sudhir Menon: So I think going forward, at least for next couple of years, the CAPEX should be around 200 to 250 is what we believe will be maintenance CAPEX, no expansion CAPEX happening and for 19-20, I think the total CAPEX which we incurred this year is close to 250 crores.

Reshmi Sancheti: And this 200 to 250 crores which you are saying, it would be all maintenance CAPEX only or?

Sudhir Menon: Absolutely.

Reshmi Sancheti: And sir, finally just want to know in India business, if you can give the sales of Ampoxin as well as Losartan and 1 more, Shelcal during FY20, the annual sales?

Aman Mehta: Yes sure, I have the growth numbers, Ampoxin growth for the full year was 27% in AIOCD, Losartan for the full year was -1% as the losar group and Shelcal was 12%.

Reshmi Sancheti: Sir, Ampoxin you said 27%, any reason behind this strong growth during the year?

Aman Mehta: It is more of a promotional mix restructuring that we have done for the past 2 years that is now starting to yield results.

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

Neha Manpuria: If I were to look at our working capital number, that seemed to have increased quite a bit from last March or even if I look at it from June. But if I were to do like-for-like, is there any specific reason for the increase, particularly on the inventory and actually in all fronts? And second, is it net debt increase that we saw in the second half primarily because of working capital because I thought we are supposed to reduce debt further in the second half?

Sudhir Menon: Absolutely you are bang on target. So I think March 2020, we saw the working capital blockages going up, primarily driven by the lockdown, right? I mean, so at least for the last 10 days, we didn't see dispatches happening because of whatever confusion was existing in the market and lack of transportation, which was not there. So a lot of inventory buildup you would see, plus receivables were also impacted because suddenly, there was no means of collecting money from the customers, right? I mean, because of the courier agencies or the bank agents not being able to go and collect the money that is impacted. So yes, I mean, because of this whole COVID thing happening in March, there is an increase in the blockage of working capital.

Neha Manpuria: And then lack of repayment in the second half would be?

Sudhir Menon: No, Neha, 2 things happened. So one is the working capital to the tune of, I would say, 300 crores to 350 crores, which happened in March across all our geographies put together. The other thing which happened is, if you remember, Germany, quarter 3, we had this upgradation of quality management system, right, which we spoke about and because of that there was a lower amount of primary sales, both in quarter 3 and quarter 4 and that is what the result shows, right and we have been saying that for it to get to a normal level, at least it will take, let us say, June or maybe quarter 2. So what actually happened in Germany is, there is a depletion in cash balances which happened compared to the normal level of cash balance, which remains in Germany essentially because you get a float on the insurance claims, which come from the insurance companies, right and since the primary sales got impacted, which is always on a gross basis, the insurance claims started coming steadily because it was pertaining to the previous months, right, because there is a time lag of 6 to 7 months. So those depletions happened on a continuous basis and at the same time, since the gross sales was not happening for almost 6 months, there was a cash depletion which happened. So we believe these are short term and I think, quickly, we should be able to rebound by quarter 2 on both the cases.

Neha Manpuria: And if I got the number correctly, Sudhir, you said that 1,000 crores reduction in FY21, is what we are expecting?

Sudhir Menon: That is right, around that number, yes.

Neha Manpuria: Understood and just one more point on the working capital. Is it fair to assume that the receivable challenges particularly have eased in India in the last few weeks?

Sudhir Menon: No, absolutely. So I think we were up on the job right from first week of April and I think by mid of April, we were clearly in a very normal situation.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: Coming back to Germany, as you mentioned, since last quarter, we have been doing the system upgrade and all and that has impacted our reported numbers. So though you mentioned like there are no fundamental changes, but how soon we can get back to normal level of operations? And what should be the growth outlook we should be looking at?

Sanjay Gupta: So we would expect to be, I would say, completely normal by the end of second quarter. So let us say, starting 1st of October, we should have a normal level of sales and in regular times, excluding COVID, that would essentially mean a high single-digit or a double-digit growth rate but in the current COVID context, where we are seeing doctor visits fall, hospital admissions fall dramatically and we are seeing, I would say, a mid-teens reduction in level of prescriptions in April, so it is hard to give a forecast. So I would say that our internal issues would be resolved, but the macro market, where it is going and how that impacts the overall level of prescription and demand is something that it is too early to speculate for this current fiscal year.

Damayanti Kerai: And have we seen a normalized level of supplies now across through geographies, like India, you mentioned we are broadly back to normal level but what about other regions?

Sanjay Gupta: So the issues essentially are linked to a few, let us say, on the ground realities. The first reality is that, currently cargo out of India is operated by only 4 airlines. So it is Etihad, Emirates, Qatar and Turkish Airlines, which are operating cargo. So the capacity is fairly limited and international passenger flights used to carry a lot of the cargo and that is not happening. So there is an inherent constraint to export of goods from India and the freight charges, so availability is low, cost is 3 to 4 times higher. So that is issue number one that we are facing for exports. The second issue continues to be is that there was an acute shortage of lorry drivers in India, so lorry drivers both to bring packaging material and APIs to our plant as well as to take finished goods to the ports. Thirdly, even for sea shipment, containers were being quarantined or are being quarantined for 14 days. So there is a backlog at the port, which prevent goods from being shipped by sea in, I would say, as efficient manner as before. So I would say that things are not where they should be or where they were. We noticed week-on-week improvements but it will be a few months before it becomes normalized. What has helped us is our traditionally higher levels of inventory. So as we have maintained a good level of working capital investments, we generally keep finished product inventory 3 to 6 months and we keep API inventory in our plant, so that has helped us absorb the shock. In the meantime, we are hoping the situation will improve, but we are not where we should be in terms of our output or deliveries to our international markets.

Damayanti Kerai: And right now, like how much of our outbound logistics is going through airplanes and how much is through sea route?

Sanjay Gupta: No, I would say, normal proportion would be, say, 70%,-75% by sea and 25% by air. Right now, it is probably the reverse.

Damayanti Kerai: Also second question from my side will be like next year, you mentioned 100 crores of CAPEX and all for maintenance basically but how we are looking for broader capital allocation, say, for next 2 to 3 years? If you can give some insight there?

Sudhir Menon: No, I think the major chunk of the capital allocation out of the cash flow, which will be generated will go towards the financing activities. When I say financing activities, basically the interest payments as well as the repayments which are going to happen. The additional thing, as I said, the maintenance CAPEX would be to the tune of maybe 200 to 250 for a couple of months. Other than that, I think the other major payment is, of course, the dividend payment, which is based on the performance of the company. So I would say, 75% to 80% of my cash flow generation would be assigned for my financing activities.

Damayanti Kerai: And last question from my side, I think US, obviously, it will take some time for us to see the new launches again but despite no new launches, we have broadly maintained our base performance. So should we expect similar level of performance for FY21 also broadly if we look?

Sanjay Gupta: Broadly speaking, I would say no, because without new launches, it is very hard to sustain a US business. Inherently, the business is a price decline business and a fairly competitive business. We have been able to maintain it by, I would say, relying on older products and gaining shares but we have still not ramped up our sartans and generally, I would not, it is going to be very hard to maintain the 200 million level this year.

Damayanti Kerai: So until and unless, we get some clearance from the FDA and we launch new products, it is difficult to sustain on just the existing portfolio?

Sanjay Gupta: Correct. Yes.

Moderator: Thank you. The next question is from the line of Vinit Marang from Vito Capital. Please go ahead.

Vinit Marang: This question is regarding the Indian business. So most of the growth of Torrent has come from price growth like, especially in the last 2 years, so like how sustainable is this and for how many years is this going to be followed?

Aman Mehta: So overall this year, volume growth has been about 2.6%, price is roughly 8%. I think it is hard to comment on how long this can be sustained, but as we mentioned in the previous calls as well, we aren't out of range of our competitive products. So I think we will have to take it product by product and see every year on how do we look at price but it is not something that is going to be a one-off case this time. Maybe something in this range would be possible going forward.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: Sir, on employee expenses, we see gradual reduction in costs for last 3 quarters, so what may be the reason in absolute number, I see?

Sudhir Menon: I think the major part of reduction, which you see is basically because of certain capitalization of expenses on the US manufacturing upgradation, which is happening. Some part of the salary expenses are getting capitalized. So the major part of that is pertaining to the facility under upgradation and this would continue for, I would say, next 2 quarters more.

Ranvir Singh: You say that base will continue for 2 quarters more or the pace of reduction will be like this in the next 2 quarters?

Sudhir Menon: The reduction that you see between quarter 3 and quarter 4, what I am trying to say is that the major part is contributed to certain expenses, which are getting capitalized because there is a project which is running, so based on the project that is accounting, those expenses are getting capitalized. So around, I would say, 10 crores to 11 crores of the total reduction is basically pertaining to that and since this facility will come up by the end of quarter 2, the indication which I am giving is for quarter 1 and quarter 2 also, this reduction will continue to that extent.

Ranvir Singh: And what was the R&D expenses in this quarter and full year, if you would say?

Sudhir Menon: Sanjay, you have the number? So this quarter, it is 118 crores.

Sanjay Gupta: Correct.

Sudhir Menon: And for the full year, Sanjay, do you have the number?

Sanjay Gupta: No, I don't have it in front of me.

Ranvir Singh: Okay. So as a percentage of sales, would be in similar range or going forward.

Sudhir Menon: No, I think on a full year basis, there is 1% reduction compared to the previous year.

Ranvir Singh: And just to confirm, you said that maintenance CAPEX for next year would be around 250 crores, right?

Sudhir Menon: 200 crores to 250 crores, that's the max, which we think.

Ranvir Singh: And this year, what was the expense?

Sudhir Menon: This year, the total CAPEX was around 250 crores. So the full year R&D spent is 494 crores, so around 500 crores.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: Just one clarification, in your prepared remarks, you had mentioned that adjusting for the COVID and discontinued products, the growth in 4Q would have been 15%. Is that the right number I am looking at?

Aman Mehta: Yes. For the Indian market, the adjusted growth was 15%.

Nikhil Mathur: From the pricing improvement, has it been in the range 7- 8% even in 4Q like it has been in the preceding quarters?

Aman Mehta: Yes, pricing has been pretty much similar throughout the year, price growth. Just for everyone's clarity, I can just mention the breakup. So Q4, the AIOCD growth for price is 8.2%, and NI is 2.6%.

Nikhil Mathur: And with regards to the discontinued products, I believe that, that commenced sometime in 4Q FY19, so would 1Q now would be the normalized quarter in terms of like-for-like growth?

Aman Mehta: Yes. So this quarter itself, there has been practically 0 discontinued impact. It was supposed to be neutralized by Q3. So that is where we see that now the growth is really starting to show the non-discontinued product really picking up.

Nikhil Mathur: And one final question. It is just a bit on the broader outlook, I know it is a bit difficult to give the exact colour of FY21 because there are so many unknown variables that are currently playing out. So if I were to break down the growth argument over FY 21-22 into 3 broad segments, that is basically, the risk potentially can be that there might be some bit of down trading by the patients because the broader income levels might be weak, the new prescription generation or new patient additions might be somewhat of an issue in FY21 and a culmination of these factors could be that the pricing leeway might not be there in FY21 and possibly spilling into FY22. So do you think that quite a few of these risks are unfounded? Or are there some merit in a couple of these risks? So how should one look at the broader weakness in the economy and how things are likely to shape up from the chronic side over the next 2 years?

Aman Mehta: I think the bigger concern for the IPM this year would be more on the volume side. If we anticipate surgeries to pick up and other procedures to pick up, there would be a gradual increase in volumes. But that will all depend on how the lockdown situation opens up over the next few months and quarters. So the main concern for the market would be how do we really see the volume growth in acute and the subchronic space. So that is where all the effort should be at. So that is where availability also plays a major role in this time.

Nikhil Mathur: But do you think that the 7 to 8% kind of a pricing growth that kind of environment can sustain, despite volume growth might not be that strong in FY21?

Aman Mehta: Yes, I don’t think that should be an immediate concern.

Nikhil Mathur: And just extending that question again, any risks or potential downgrading by the patients to lower value products, does that really happen in the Indian market and is there risks from this side as well?

Aman Mehta: So that risk, which is already there in the form of Janaushadhi and trade generics has been fairly muted as we have seen for the last few years. That may slightly increase this year, but nothing meaningful or substantial to affect the branded generic volumes.

Sanjay Gupta: Just clarifying on the previous question, so the full year R&D spend works out to 494 crores.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Question for Sanjay Sir. Some of the global peers have talked about production realignment where they want to realign because of the social distancing norms output of the factory is lesser. So just a question that when you talked about that without launching new products difficult to maintain $200 million run rate, why are you not getting more market share of the existing products, until the time facilities don't clear, wouldn't that be the best option for you? Or are you not entering any contracts there?

Sanjay Gupta: No, you are absolutely right and that is what we've been doing, Anubhav, since the last, I would say, 12- 18 months, but essentially, there is a limit to how much you can push market shares for your existing products. For most of the products, we are now in the top 3-4 players and so we are actually also seeing a lot of customers come to us as they experience supply difficulties from other suppliers but right now, I am a bit hesitant to take up new business also because of lack of visibility on supplies. So let us say, I take maybe 2 out of 10 opportunities that come my way because I am not sure how my future supplies would be. If it was normal times, I would probably take a lot more of these because we have a pretty robust supply chain but in these COVID times, I don't feel like it is appropriate for me to increase the failure to supply risk for Torrent unless I am 100% sure that the supply chain connectivity would be thereAnd the supply chain connectivity is a little complex for many of our products, right? So for example, for some products, we import European material, we import some polymers from the US or we import some Chinese products. So imports have been impacted because of the port situation, so because of which, I would say, it is more challenging to pick up incremental business today and to risk opening up to failure to supply penalties.

Anubhav Agarwal: One more question I had, you mentioned about desktop audit for Dahej facility. Just wanted to get 2 -3 sub questions on this. Has FDA done this for any other facilities so far? Earlier when I thought FDA, you were talking about timelines, so is there an updated timeline from FDA that they may not inspect Indian facility for certain more period of time, maybe you can?

Sanjay Gupta: Sorry, Anubhav, there is nothing defined from them. So we are in constant contact and we know that theoretically, it is possible for them to do a desktop audit but in practice, the road that they will choose is not clear to us and so we are actually, unfortunately, not able to give you visibility or neither do we have visibility on when will they do a desktop audit or a physical audit and it is something which is in their purview and they have not made a decision or at least not announced a decision on this topic.

Anubhav Agarwal: One more clarity, on Levitton, are you thinking about upgrading it to orals as well or will it continue to liquid facility?

Sanjay Gupta: No, Levitton makes liquids and suppositories and it will continue for the possible future to focus on these two dosage forms.

Anubhav Agarwal: At some point of time, would you think about having a plant in the US for oral side also?

Sanjay Gupta: There is a lot of talk about domestic manufacturing and what incentives can be provided. Currently, we have seen the government take one initiative whereby they have allocated a big chunk of money to a local entrepreneur to set up domestic manufacturing but as you probably know, right, the US does not have a domestic API industry. So essentially, you would be substituting reliance on imported finished goods and replacing it with reliance on imported APIs. So I don't think it is going to be straightforward to set up domestic supply chain from KSM to API to finished product in the US anytime soon. So we are watching the situation, I mean, I am monitoring it carefully. Setting up an OFC facility in the US will, in my opinion, not resolve the concerns that we have about domestic sourcing of pharmaceutical products. So as of today, no plans, but we are monitoring.

Moderator: Thank you. The next question is from the line of Nitin Agarwalfrom IDFC Securities. Please go ahead.

Nitin Agarwal: Nitin here. So I am saying the US facility once it starts up by the second half of the year, how meaningful would it be for US business revenue perspective in your assessment?

Sanjay Gupta: So what I would guide you towards is what was the revenues before we shut down the facility, so the revenues of the facility were in the $12 million to $13 million range before we shut down and bulk of those revenues were coming from OTC contract manufacturing. So essentially, what we had procured was an OTC manufacturer that was making product for store brands for chains. So we were transitioning it towards Rx business model. So we have discontinued the OTC business. So going forward, we would do only the Rx business. So I would say that it would take us some time before we reach the $10 million, $15 million mark.

Nitin Agarwal: And secondly, from a US business perspective, in the past, you've talked about third-party outsourced partnerships for certain products, so are there any such products which will come through for this or looking at coming through this year?

Sanjay Gupta: Yes, so we would expect to get at least 2 products this year. So this current fiscal year, we are not sure what will happen to Dahej and Indrad, but we would be getting products from our third parties and as well as from our Derma plant. So you would expect a low single-digit number of launches at least, from what we call external partners as well as our Derma plant.

Nitin Agarwal: And second on the ROW markets, with the currency volatility that has been there, I mean how much of an impact has it had on the business? And how are you looking at this business now given where this whole currency situation is?

Sudhir Menon: So Nitin, so I think from a currency impact perspective, it is only Brazil where we have seen a heavy depreciation happening post March, right? As far as ROW markets are concerned, it is very straightforward, billing being done in dollars and I think for 19-20, the average depreciation was around 3%. So if at all anything is happening on that side, it will be positive for the P&L but Brazil, yes, I mean, the depreciation has been quite heavy in terms of BRL to USD. So that is something which we are watching out.

Nitin Agarwal: This Brazilian depreciation from an economic impact for us, it is just lower dollar and US, lower profitability in absolute Indian rupee terms for us?

Sudhir Menon: The only thing I would say, Nitin, is that Brazil contributes to only 8% of my total revenues.So considering that the same amount of contribution may come from the EBITDA as well in terms of contribution by Brazil, the impact would not be that severe, I would say, from an overall performance perspective. It should be less than 0.4-0.3, I would say.

Nitin Agarwal: And one last one, on the India business, I mean, we obviously did launch these 3 or 4 products you mentioned in the second half of the year, new products, and I think the relaunches happened after a while for us, now if we take a next 2- to 3-year view, how relevant or how important, rather, is this new product launch engine for us from a growth perspective?

Aman Mehta: So the 3 products that were launched in H2 with Ticagrelor, Remogliflozin and Vildagliptin, those 3 would certainly be very important for us in the cardio-diabetes space and looking at the current trends, in terms of volume share and ranking, we anticipate this market share to continue, if not slightly increase going forward. In terms of the market size, I think with the COVID situation, it is a bit difficult to estimate right now.

Nitin Agarwal: But in terms of new launches, do we have any numbers or any such meaningful large sort of launches for the next couple of years? Any broad sense on that?

Aman Mehta: So not in number of products, but in terms of overall growth driver breakup, if you see the quarterly trends, Q4 has the highest contribution of new products to the overall growth of 2.6% and the plan was to obviously have a much higher contribution in this financial year overall but how large that will be, again, with this demand situation, it will be hard to say but over the medium term, that should definitely be in the space of probably 3% to 4%.

Moderator: Thank you. The next question is from the line of Hari Belawat from Techfin. Please go ahead.

Hari Belawat: This is regarding pledging of share, you had already clarified to the exchanges that this is because of the certain covenants in the loan agreement. Any possibility of getting it removed over a period of time, I mean, 1-2 years? Or it will continue as long as, I mean, the loans continue?

Sudhir Menon: No, it is already removed. Why don't you have a look at the BSE and NSE.

So what we have done is, we have gone back to the bank and removed those covenants. So we have already intimated to the stock exchange. So this issue is resolved as on date.

Hari Belawat: I think that is a good development, one. Second thing is, sir, was there any recall of valsartan and losartan during this FY? Last year, there were certain recalls in US particularly. This year in FY20, was there any recall of these two?

Sanjay Gupta: No, the Valsartan recalls were in 2018 and the Losartan recall last one was, Sudhir, I don't recall if this was in this fiscal year or last fiscal year but.

Sudhir Menon: Which one?

Sanjay Gupta: Losartan, the last one recall.

Sudhir Menon: 18-19, it was in 18-19.

Hari Belawat: And sir, just one more query. This MRs we are having around 4,000 number. Now in view of the social distancing and all these things, is there any different plan for marketing? I mean, digital marketing or some other type of marketing through e-pharmacy or all this. Are we looking into that aspect of marketing our products?

Aman Mehta: Yes, we are certainly looking at digital as an important avenue of marketing. So currently, it has been a very nascent environment for customers and for us. So it is going to evolve slowly over time, but no real change in the field force structure. I think it will be too early to comment on that at this stage.

Hari Belawat: I think then we will continue with this at least in FY21 also?

Aman Mehta: That is what we anticipate, yes.

Moderator: Thank you. Next question is from the line of Krishnendu Saha from Quantum Mutual Fund. Please go ahead.

Krishnendu Saha: Do you think we will be missing the acute season by a loss? Or we would be in time to meet the acute season demand, the industry as a whole. I am talking about that comment and number two, are you looking for any acquisitions as you said that a lot of capital is being given on manufacturing in the US, so are you looking for any acquisitions in the US, some of them have filed for bankruptcy and so on and so forth?

Aman Mehta: So just to clarify, I think the first question was, will there be an impact on the acute season for the Indian market? So acute is definitely impacted as of now. In the IPM, I think it is one of the highest impacted segments. So wouldn't be surprising if the season would be much lower this year and I think the primary reason is that there would be less people getting infected or ill because of social distancing and staying at home in terms of anti-infective indications, but for us, the contribution is quite small, so it doesn't have any meaningful difference.

Sudhir Menon: On the second part of the question, I think this is, currently, we are not looking at any acquisition in the US.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Sir, if we have, let us say, Rs. 100 of sales in acute and Rs. 100 of sales in chronic, in whatever experience you have had so far in April and May, would the chronic go from 100 to 90 in your remarks you said that the AIOCD data shows a 10% decline in the market and similar for you, and therefore, would acute and your response to your previous question, you said that the acute will suffer meaningfully. So would Rs. 100 of acute go to, say, Rs. 20 in this environment?

Aman Mehta: So chronic would remain quite stagnant because it all depends on how the clinics open up and the surgeries and procedures pick up. So it would be best to assume that it would be stagnant for the next few quarters. In terms of acute, this is our estimation based on the current April numbers. So yes, again, I wouldn't be surprised if it remains at this level or reduces, unless obviously, it is winter and usually Q3 is the slightly higher acute season pickup.

Aditya Khemka: Right, but sir, even within chronic, one, there is repeat purchases in existing chronic and two, there is new diagnosis of chronic patients. So the new diagnosis certainly isn't happening because the OPs are closed, the doctors aren't attending clinics, the existing patients would probably be buying. So you don't see any loss of compliance in existing patients and therefore, decline in chronic. The chronic consumption is going on as it is supposed to go on within existing patients?

Aman Mehta: No, because there is only so long that you can delay an elective surgery or a procedure. So you can probably delay it for a month or 2 months, but beyond that, especially for senior citizens, at some point, they have to go through with it. So that demand is getting deferred by a few months in our view and it is not permanently lost for the chronic segment.

Aditya Khemka: And if you lost, let us say, Rs. 10 of growth in April and May because of the lockdown, so that Rs. 10 you believe would be pent-up demand and therefore, come in the future quarters?

Aman Mehta: So the full 10 may not be recovered, but a good portion of it would be recovered.

Aditya Khemka: I was asking that in your cost structure, the comment on margins, I just want to understand the cost structure. What percentage of our operating costs are fixed, percentages variable in nature, including raw material?

Sudhir Menon: So I think the gross margin is around 73%, for us, so that takes away 27% of COGS, which is completely variable. The other costs which are there is basically the employee cost, which I think is typically 18%, right, of the overall cost structure and assuming, let us say, the EBITDA is 27% and 27% variable of COGS is 54%, so balance we are talking about 45%, of which 18% is employee cost and the remaining, I would say, 27% is other expenses.? Out of these expenses, there are few expenses which pertain to manufacturing expenses and selling and distribution expenses. So I think broadly, I don't have the correct number, but I would say maybe 50-50, which can be fixed and which can be really variable or semi-variable, which can be controlled, I would say, yes.

Aditya Khemka: So a quarter where your sales hasn't grown and obviously your fixed cost will grow by inflation at least, do you foresee a 1% or 2% sort of margin dip? There was a previous comment, so I am just trying to reconcile that?

Sudhir Menon: No, that is possible. The only attempt would be, Aditya, to see what additional cost containment can be done so that we don't have this vast gap of 2%, which you are saying. So that would be something additional, which we would be monitoring every quarter based on what is the overall performance and what kind of measures to be taken even to control certain fixed costs, right.

Aditya Khemka: When the MRs are receiving incentives, do you recognize it under employee cost?

Sudhir Menon: It is all on accrual basis. So month-on-month basis, yes.

Aditya Khemka: So this year, especially maybe from April and May, MRs must not have made their incentives, they must not have met their targets. I mean, correct me if I am wrong and in such case, how do you ensure your force motivation stays up there or attrition remains low and the team remains intact and motive?

Sudhir Menon: It is basically our marketing secret, right and not to be discussed on phone.

Aditya Khemka: So that brings me to one more question. On your US business, I think Sanjay mentioned that you guys obviously won't grow unless you get new products on the line and you are at the same time discussing the stock possibility from the US FDA in Dahej. So would the comment imply that you don't expect a positive outcome at least for the next 1 year.

Sanjay Gupta: No. It is common to imply that we don't know when the FDA would do the audit and start giving us new product approvals.

Aditya Khemka: So that statement is right, there is no positive outcome in the next 1 year, the possibility of a positive outcome in the next 1 year is still there though?

Sanjay Gupta: Yes, absolutely. It can be tomorrow. As far as I am concerned, It just depends upon the regulators, I would say, prioritization of such desktop audit and we have no prior experience and this is something unprecedented because of this COVID that they are not doing any audits. Even in the US, they are not doing any audits. So it is not just an international situation, on the US side, it is the same, domestic front is the same thing, because of safety of FDA inspectors, they are not stepping out. So we don't know how quickly they would be able to get our plant reviewed and cleared.

Aditya Khemka: Just a followup, so while the US FDA may do a desktop audit, if they agree to that, a clearance following such a desktop audit, would it be like a permanent 2-year sort of a clearance that we historically had? Or would that be like subject to physical verification? That I mean, I am just trying to understand the level of discussion you are having with them?

Sanjay Gupta: No, so without revealing anything, a clearance from the FDA is like clearance from the FDA. So if we get the EIR, we would get the EIR and that would be the end of this round of inspection. But of course, the FDA always has the right to come and inspect our facilities whenever they want and I guess there will be subsequent inspections but at least for this round of inspections, if you get an EIR, the topic would be closed.

Aditya Khemka: And on the domestic business front, are you guys seeing any higher mortality propaganda and regional companies in environment like COVID must be difficult for these smaller regional companies to survive given the weakness in the supply chain and lack of scale. So it would be fair to say that going ahead, given mortality in such companies, there will be a consolidation of market share in the domestic industry?

Aman Mehta: So that would be a bit premature to comment on because it's just been 2 months but what definitely is turning out to be the case is that the larger brands with more reach are going to benefit from this situation. So especially, the brands, let us say, which are above 75 crores to 100 crores plus. So those brands would continue to gain much more than the relatively smaller brands.

Aditya Khemka: But on this front, so most of propaganda regional companies have largely post their sales from Tier-2, Tier-3, correct me again if my perception is incorrect, the lack of our reach into such segment is what sort of also given them in that geography. Even if they were to die a natural death, how far are we planning to reach into their pocket and get market there?

Aman Mehta: So for chronic, the reach in these areas doesn't really make any difference because there is a large spillover that comes from the larger cities to the Tier-2 towns and beyond, so from that standpoint, coverage won't really have any added value, additional coverage.

Aditya Khemka: No, could you clarify, I didn't understand that.

Aman Mehta: This prescription spillover from specialists gets carried on beyond the cities of metros and Tier-2, so that is where we believe that the additional coverage at this stage won't really have any added value. For acute and subchronic, it is probably a different thing, but I am referring more to the chronic segment.

Sanjay Gupta: I would just like to thank everybody for their participation, and we remain available for follow-up questions through our Investor Relations group. Please feel free to call Sapan who is our Investors Relations Officer. Thanks everyone.

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