



“Torrent Pharmaceuticals Limited Q1 FY2022 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Torrent Pharmaceuticals Limited Q1 FY2022 Earnings Conference Call. We have with us today Mr. Sanjay Gupta, Executive Director International Business, Mr. Sudhir Menon, Executive Director and Chief Financial Officer and Mr. Aman Mehta, Chief Marketing Officer, India Business. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Sudhir Menon. Thank you and over to you Sir!

Sudhir Menon: Thank you. Good evening everyone and welcome to Torrent Q1 FY2022 earnings call. At the outset, Q1 growth was backed by continued growth momentum in the branded generics market mainly India and Brazil. The second wave of pandemic impacted recovery trends across some of the key markets we operate.

Very shortly in terms of financial performance during the quarter, revenues were INR 2134 Crores up by 4% on year-on-year basis. EBITDA was INR 717 Crores, up by 8%. Profit before tax was at INR 484 Crores, up by 20%. Net profit after taxes was at INR 330 Crores, up by 3%. The company will now start utilizing the MAT credit which is grouped under deferred tax as the normal tax will become applicable from this year before the company gets into the new tax regime of 25%. The tax cash outflow will continue to be 17% for standalone India. I shall now request Aman to provide insights on the India business performance.

Aman Mehta: Thanks, Sudhir. India Business revenues at INR 1093 Crores, grew by 18% on a year-on-year basis, growth was driven by strong momentum in top brands across all therapies and is complimented by new launches. As per the AIOCD data set, the Torrent’s Q1 growth was at 24% versus the market growth of 37%. The market growth includes high contribution from COVID treatments and a low base from last year.

We have launched Baricitinib during this quarter and are conducting clinical trials for Molnupiravir. Both of these are licensed products for COVID and we continue to look for more partnership opportunities to widen the portfolio.

Torrent has launched its trade generics division during the quarter with the complimentary portfolio to the Rx business. PCPM for the Rx business for the quarter was INR 10 lakhs with MR strength of 3600. Torrent continues to focus on brand building and specialty approach and has 16 brands in the top 500 of the IPM with 11 brands more than 100 Crores sales.

I now handover to Mr. Sanjay Gupta to take us through the international business.

Sanjay Gupta:

Thanks Aman. Speaking first about Brazil which is our largest branded generic market outside India, Brazil Q1 sales were at BRL 108 million, up by 14%. Growth was aided by strong performance in a generic segment which now accounts for about 7.5% of our topline and growth was also helped by new branded generics that were launched. There were two brands launched in 2020-2021 which are contributed to the growth as well as the recent price increases allowed by the authorities from April onwards. As per IMS Q1 FY2022 covered market growth was at 11.6% while Torrent growth was at 9.4%. IMS expects Brazil pharma market to grow at about 10% in 2021 and we expect our growth to be superior to the market growth rate.

Moving onto the Germany, Germany sales were at Euro 29 million, flattish growth versus last year same period. IMS for the last month is showing in an overall market degrowth of 1% as compared to 4% in 2021. IMS reflection on Torrent showed a growth of 15% in the last three months. As the COVID situation improves, we expect the German generics market to return to its long-term growth rate of 3% to 4% with Torrent growth returning to high single digits.

On the US side, US sales were at 36 million down by 24% on a year-on-year basis and down by 3% on a Q-o-Q basis. Growth continues to be impacted due to lack of new product launches pending re-inspection of our facilities and price erosion in the base portfolio. As of June 30, 54 ANDAs were pending approval with the USFDA and 7 tentative approvals were received.

I would like to conclude by stating that the branded generic markets led by India and Brazil continue to drive growth backed by our top brands and performance of new launches. We will continue to focus on returning our German and US business back to growth and to further deepen our presence in all our core markets.

Operator, we can open call to questions please.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shriram Rathi from ICICI Securities. Please go ahead.

Shriram Rathi:

Thanks for the opportunity. Firstly, on India business, I mean if you can break it up into the price growth and volume growth and also some idea on the how the Chronic and Acute businesses have performed?

Sanjay Gupta:

The AIOCD data shows Torrent's growth had 24%, out of that 14% was volume, 6% was price and 4% was new products and on a broad basis Sub-Chronic and Acute definitely had much higher growth, because of their low base last year and also there was a significantly higher demand from COVID prescriptions during the quarter.

- Shriram Rathi:** Okay got it, so 6% is a price growth and secondly, on the other expenses part I mean this quarter we have seen that it is lower even Y-o-Y also even with respect to the R&D, so what exactly has been the driver, is it because of the lockdown in the first months to two months of this quarter and how should we look at this number going forward because I think from the last four - five quarters is now related in the range of INR 350 Crores to INR 370 Crores?
- Aman Mehta:** Marketing expenses were certainly I would say because of the second wave this time were lower than what we have planned but I do not think there should be too much of an increase from here at the current rate, so this should be a pretty representative number in terms of marketing expense for the year. Sudhir, if you like to add anything?
- Sudhir Menon:** No, perfect.
- Shriram Rathi:** Okay, so which should give this kind of number is going forward also towards the increase in sales?
- Sudhir Menon:** Plus-minus here and there Shriram.
- Shriram Rathi:** That is helpful and just lastly one thing I mean both should be the reported tax rate now I mean this year?
- Sudhir Menon:** Shriram, just to give a background, the government had come out with the new tax regime about 25% for all the companies and what it said in that course that no exemptions will be available and 25% would be the tax rate for everyone. And the government also gave an option to people that the people who had MAT credits in their book, they can see continue in the old regime so that they can utilize the MAT credit and once that is done, they can transit into the new tax regime, so for us it started now, so the cash tax would continue to remain at 17% and the MAT credit utilization will start for the balance. So, the effective tax including deferred tax would be roughly 30%-31% but the cash tax would be roughly 17% because there will be a MAT credit utilization from the balance sheet coming into the P&L.
- Shriram Rathi:** That is helpful. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JPM. Please go ahead.
- Neha Manpuria:** Thanks for taking my question. On the employee cost given that we had rationalised our MR during last quarter, the quarter-on-quarter increase is primarily because of increments or just wanted to get a sense there?

- Sudhir Menon:** Largely increments, Neha but Q4 if you recollect, I had also said there was a reversal on some provisions to the tune of 7 Crores to 8 Crores. Other than that it is increment impact which is there, so ideally 341 should have been let us say 350.
- Neha Manpuria:** Okay understood. Sanjay, on Brazil this quarter-on-quarter decline it was about BRL 140l, close to 110, is this some inventory correction in the market or you may if could give some colour on that and second on Germany now that our quality issues have resolved we were expecting normalisation of sales given most of you have pretty much opened up, any reason why we are not being able to ramp it up to the 30+ million Euro level that we were seeing before the quality issue?
- Sanjay Gupta:** Sure, starting with Brazil, generally traditionally in Brazil Q4 sales are always high and the reason is that the distributors speculate on price increases to take place on April 01, so it works pretty much the same way every year, so there is usually on Q-o-Q specified dropped in Q1 versus Q4 which is normal, so I do not see anything unusual here. We decide on the level of inventories we want to keep in the channel at the end of March and it does go up and by the end of June it comes back to a normal level, so Neha the appropriate comparison would be year-on-year, not quarter-on-quarter for Brazil because of this phenomena. For Germany, there are few things here. I would have like to see a higher level of sales, so what is holding us back from that 30+ level. Firstly it is the overall market, last three months we have seen the market go down by -1% again and I was expecting it to return to growth but with the second wave kind of impacted that in March-April-May and we had a lower market rate. Secondly, what has happened is we have about 10% to 12% of our business in the OTC space which has suffered disproportionately because the sales of the business has actually declined, so that had an impact. What I can say is going forward, our internal issues are resolved and as the market, I would expect it to come back to the traditional 3% to 4% range and then pass to be on a high single digits 7% to 9% range, this could be the end of the year, so hopefully in the next few quarters will be able to show numbers in that range.
- Sudhir Menon:** Sanjay, just to add to what you said the OTC impact is because of the lockdown right, so quarter sales should be better?
- Sanjay Gupta:** Yes. Absolutely.
- Neha Manpuria:** Okay, understood. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Angelo Bell, an individual investor. Please go ahead.
- Angelo Bell:** I thank for this opportunity. I just wanted to have a quick overview of the company that how is it with regards to the US pricing? Is a pricing pressure returning and if so, what are the steps or how does the Torrent Pharma foresee it? Thank you.

- Sanjay Gupta:** On the US side, number one cause of decline in sales has been the pricing pressure that we have been facing and the pricing essentially we face is because we have relatively mature portfolio. We have not had much launches from March 2019 when the USFDA issue started, so on the mature portfolio how it works is that there are new competitors that emerge every three months and then they make competitive bids to your customers and has a pricing impact, so I would say that for Torrent, we have been seeing high single digit pricing impact across our portfolio on an annualized basis.
- Angelo Bell:** Alright Sir, thank you so much. But are there any remediation's which we are looking forward that it does not impact as much moving forward?
- Sanjay Gupta:** Generally, the way to counter the pricing impact is to have new product launches which is like the oxygen of US generics market and of the players. Unfortunately we seem to be a bit charmed up on that front, but last few years we have continued to file, so in 2018-2019 I think we filed about 20 ANDAs and in 2019-2020 about 12 and 2020-2021 about 12, so we have been continuing to make new filings in the US and as soon as the facility issues are resolved, we expect to launch about 12 to 15 products a year and that would more compensate for the pricing decline in the base portfolio and lead us back to growth.
- Angelo Bell:** Thank you so much. Appreciate your response.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Thanks for the opportunity. Good evening. Just missed on the opening remarks on the India outlook as well as gross margin and EBITDA margin outlook, while India growth is very strong but gross margins are tad lower if you could explain and outlook as well?
- Sudhir Menon:** I will first take the gross margin question Prakash. Basically although the India contribution is higher there are two, three impacts which have happened this quarter versus quarter of last year, so one is the export benefit income not being there, this quarter versus same quarter previous year that impacted where we would say 0.25 kind of a number. The other is the Sikkim benefits are over for us, so 2020-2021 was the last year, so that is again impacting the gross margin by another I would say 0.25, so both put together there is 0.5. The other thing what has happened is although the India share a higher, I think there is a skewness towards the acute portfolio which I think the concentration has little higher compared to the Q4 or last year same quarter and that has caused a drop in the gross margin I would say. So, it is basically the product mix which is driving which anyways should come back in the next quarter I believe.
- Prakash Agarwal:** Outlook on the India business?

- Aman Mehta:** If we look at the June data at 14% that was practically with the lowest COVID cases across the country, so April-May had a high growth and June was significantly lower, so depending on the footfalls recovery as the country is opening up now substantially, pretty much everywhere apart from a few metros in a few states, our view is that double-digit growth for the market should continue even without the COVID going ahead.
- Prakash Agarwal:** Okay and do you think your entry now with the COVID drugs Molnupiravir and first one and you are expected to disclose one more, so is there any colour to that and do you think these products have long runway of growth or these are like getting prepared for if at all there was a third wave, how do things about this pipeline that you are building?
- Aman Mehta:** It should be more for, if at all the future waves, that would be where these products would be prescribed more, so will not be a long-term prescription.
- Prakash Agarwal:** Okay and for the long term in terms of introductions after Dapagliflozin are there any new introductions around nutrition or preventive healthcare or any other segment which will drive future growth?
- Aman Mehta:** CNS we have had a few launches, one from last quarter has done well so far, brivaracetam so that market is picking up quite well. We have also Perampanel which is another antiepileptic, so CNS have seen a good traction I would say of new launches apart from that Baricitinib was already launched this quarter as well, so I think this Q1 we had about four new products. We are looking at a few nutritional extensions in the coming quarters as well and then the next wave of launches will be after the patent expirations next year, large launches I would say.
- Prakash Agarwal:** Okay understood and on exports I see that Brazil currency after long has reversed. We are still near industry growth, so when do we start seeing the higher growth in Brazil given, we just mentioned that 10% industry growth and we expect to outperform that plus there will be the currency tailwind which would start or that is unlikely?
- Sanjay Gupta:** So, the currency tailwind is I mean from what we have seen of the economic forecast done by various banks etc., it seems to be unlikely, so the country seems to be fairly stable this year of forecasting a GDP growth of about 6% and next year same figures in the 3% range. In terms of inflation also things are pretty stable. So all in all I do not expect the currency to devalue substantially. In terms of growth I think you will see that growth will come from three or four things, one is we had discussed that we are investing in our generics business, so last year we hired seven additional people, we will be hiring some more people this year to push the generics business and that has grown quite handsomely and that will continue to grow as we launch more products. The second thing is we benefitted from the price increase that took place this year on time on April 1, so the price increase that will be authorized for category of products but for the most competitive

products the government authorized at 10% price increase, so that will benefit us as many of our products fall into that category and then thirdly we have new launches which are on the calendar, so last year we had launched two new products one was Mirtazapine and the second was Bisoprolol, Mirtazapine is already showing double digit share and prescription and volume and Bisoprolol is mid single digit but the goal is to reach double digit soon and then this fiscal year we would launch about five products, some of them are quite major products and so they would help start growth rate which is about market growth rates, that is how the expectation.

Prakash Agarwal: Okay. Thank you for the detailed answer and one question on growth expectations, we have seen India reviving quite a bit, we have seen Brazil reviving now, Germany you had couple of quarters back, so when do we start seeing double digit growth because US is something which is pulling down our double-digit growth both in terms of topline and EBITDA growth, so when do we see that coming through?

Sanjay Gupta: Unfortunately Prakash, we have no position to give any guidance on the US and the main problem there is the FDA when do they start travelling to India, when do they inspect the plants and start approving our new products. We are from our side doing whatever we can in terms of filings and getting products from third parties but that has a limited impact, so last year we launched only two new products which are both manufacturing parties, coming year if the plants do not get approved, we will have to do a single digit number of launches.

Sudhir Menon: Prakash, I will give you two data points actually or rather one data point, so this quarter the US impact on the overall growth is around 7%, I mean because last year Q1 was roughly 47 million and which came down to a base of 36 in Q4 this year and that is something which we are maintaining, so assuming let us say Q3, the 7% in fact should not be there because we are maintaining the same base of 36-37.

Prakash Agarwal: Okay and assuming you have double digit growth across the other three markets you can achieve double digit growth?

Sudhir Menon: Correct.

Prakash Agarwal: Okay, fair enough and last question for you on cash flow generation for the quarter and any debt repaid?

Sudhir Menon: Yes, we repaid around INR350 Crores approximately.

Prakash Agarwal: These are re-finances or largely from cash flow from operations?

Sudhir Menon: From cash flows.

- Prakash Agarwal:** Okay perfect, great. I will join back the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Thank you for taking my question and good evening. Just one on in the press release it says you have launched trade generics division during the quarter, what is the idea here, is there any outlook which you want to share on this?
- Aman Mehta:** We launched the division in Q1 and I think we would want the business to stabilize a bit first before sharing more details but broadly speaking it is a complementary portfolio focusing only on the acute segment, predominantly acute in some sub-chronic. There is barely any chronic share in the trade generic business So while we would look at having organic launches in this basket, we would also look at shifting some of our prescription brands to the trade generic division at some point where there would be a higher growth potential. These would be molecules or segments where there is greater consumer recall and self-medication, so as of now I would say it is a good start but we would wait for may be another quarter or two to comment on trajectory.
- Shyam Srinivasan:** If we were to look at the margin profile for this would it be very different you think or in a kind of an umbrella approach it should kind lead into the entire India business. How should we look at and maybe the timing of why we started it now, just curious?
- Aman Mehta:** The margin profile would be lower than the prescription business for sure. The nature of the business is such that you have to be at that price point plus the channel margin is significantly higher and in terms of the timing I think this has been something like we have been discussing internally for quite a while but because of COVID disruptions last year, it was not appropriate to launch, as it requires a completely new supply chains, new set of distributors. So, once that situation stabilized, we started working on this sometime around January and we ended up launching it this quarter.
- Shyam Srinivasan:** Got it. Thank you and second question is on the updates of the US from the Levittown facility about some of the oral liquids, have we done anything yet or is it not material enough for us to see in the numbers. I remember we had a 12 million annual target to kind of get back so I am just to guess what was happening there.
- Sanjay Gupta:** So, far we have not started commercializing products, actually we are couple of months with delay, so we will start selling the products in October but you would not see the impact in the numbers at least in the initial few months, it would not be material enough to move the needle.

Shyam Srinivasan: So, you are saying it should be a more fiscal 2023, there we will likely see the impact of all these oral liquid launches?

Sanjay Gupta: Correct.

Shyam Srinivasan: Okay and the last question is on Sartans, sorry I may have just missed, what is happening on the Sartans side?

Sanjay Gupta: Sure, so we have launched two Sartans on the market, third one would be launched in this quarter. The topline you will see some impact but the margin profile on Sartans is not what it used to be, so we will get our share on a couple of Sartans and those numbers should start coming in the topline from this quarter onwards.

Shyam Srinivasan: You mean Q2, right?

Sanjay Gupta: Yes.

Shyam Srinivasan: Got it. Lastly on R&D I think slightly slower than the run rate you have had say I am just looking quarter-on-quarter but is it the same like 6% to 7% and what are the kind of filings, where is that being directed are we doing anything incrementally in terms of either complex filings, if you can just share some general outlook on the R&D side?

Sanjay Gupta: Sudhir can comment on the expenditure level, but in terms of filings because of the filings remains the four core market and to the extent possible we try to have common products. So, do common developments across all our geographies and particularly in expensive areas like Oncology. If you can leverage your R&D investments across multiple geographies so, our focus is on that, for the US we do products with generally complex products, so we do a very low single digit number of simple vanilla oral solids and generally we are doing products which require a little bit higher level of investment, a higher level of risk and overall the number of ANDAs would be in 10 to 12 range. So, in the past we have done up till 20 but going forward it will more in the 10 to 12 range with some single digit simple generics. A good example would be Dapsone. So in April of 2021 we got a tentative approval from the FDA for Dapsone which is acne product for which we conducted a clinical trial in patients in the US. So, the level of investment was higher than what historically we have been used to be doing and the tentative approval speaks well to the fact that we would get approval on that product. So, you would see more of those kinds and we are also building a large Onco portfolio for all our markets. So, Onco products are very expensive to develop, given the cost of the R&D as well as the cost of the API, so we have a new facility outside of Ahmedabad where we would be developing these products across all geographies. So, those are the kind of investments we are making right now.

- Shyam Srinivasan:** Got it and last question is on EBITDA. I think the EBITDA excluding other income 32%, this has been higher than what we had talked in the past where we thought there was going to be a fade in terms of margins once things formalize. How should we look at this EBITDA percentage?
- Sudhir Menon:** Number one as a policy, we do not get guidance but if something was possible to be talked about in a scientific way, we could have done that but now people are already talking about the third wave, so I would still wait for one more quarter to see where the full year can settle. So, give me one more quarter please.
- Shyam Srinivasan:** Got it. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Thanks for taking my question. Aman, just coming back to the trade generic business that we ensure it, is it going contrast to our general philosophy of high growth margin businesses. So, what is the landscape prompted you or has been prompting you in the past to look at this piece of business going forward in India?
- Aman Mehta:** No, I think earlier we had a lot going on or I would say over the last five years in terms of integration of businesses and mergers for portfolios. So, I think we consciously stayed away from entering this segment and it is also reached a level where it can add meaningfully to our portfolio now as the size is much greater than it was probably five years back. And anyway our acute portfolio in the Rx business is not very significant, so this gives us an opportunity to partake in the acute segment as well. So, the idea is to expand our overall market and the market share in portfolio across TGx trade generics plus branded generics.
- Nitin Agarwal:** So, this is largely going to be around the acute portfolio or acute segment trade generic business?
- Aman Mehta:** Yes, there are barely any chronic sales in this segment because substitution is not very high or even retail recommendation for chronic products is not very high. So, this is most conducive for acute and sub-chronic.
- Nitin Agarwal:** Okay, and at what stage do you see it becomes more meaningful for our overall India business?
- Aman Mehta:** I would say probably after the first year of launch may be three–four quarters from now within the near term right now we have launched with the first phase of the portfolio that is about 50–60 SKUs but that is a long way to go for us to add more products here. So, anything between about 3% to 4% of our total India business contribution is what we can look at as a reasonable target in the near term and then at some point later we can see how it is progressing. But I would say that would be an immediate target to hug.

- Nitin Agarwal:** Got it. Thanks. Secondly on the US business, whenever the US business sort of starts again, what sense of new product launches coming through, we have about \$150 million run rate give or take right now on the business and the dynamic in the US business especially oral side has changed very meaningfully over the last three four years. So, realistically speaking where do you see this business really heading in terms of size over a period time, in the next three year to four year to five years the response industrially would looking, what do you see in the market?
- Sanjay Gupta:** In terms of the business we are very small in the US. So essentially I would say that our business is now doing about \$ 35 million-\$ 36 million a quarter from these levels, I do not expect further declines. I mean I would expect it to be more or less around these numbers in the quarters ahead and then new launches would contribute meaningfully to moving the needle up surge. Medium-term I mean given that it is a \$ 50 billion market to do \$ 500 million in US revenue is not something which is outside the realm of possibility and it is something that we are planning for and we continue to work. So, after we get through this FDA barrier that we are currently stuck in, we should be able to return to growth with around 10 to 15 ANDAs in new approvals and launches in each year.
- Nitin Agarwal:** Right, and secondly in the annual report there is fair bit of mention of our evaluation R&D efforts, so these efforts are largely are targeted towards domestic launches or there is some possibility of some meaningful launches in these market also from that?
- Sanjay Gupta:** So, in the US we are building a small portfolio of 505(b)(2) currently we have three and we aim to add one to two every year that is the way we are going. So, eventually at some point in time we will have a small promotional activity in the US. We are doing this in partnership which had lot more experience in marketing branded products in the US. So, that is the approach and for India, Aman is doing incremental innovation also and I think there are few products on the market, so Aman you might like to speak about it.
- Aman Mehta:** That is our Tapentadol Nasal Spray which has been launched few months back and essentially this is the first of its kind nasal spray for severe pain where there is post-operative pain, where there is no other alternate. So, right now it is only for use in hospitalized cases, the market itself is not very large but the product is received very well so far. So, we hope to capitalize on this launch.
- Nitin Agarwal:** Okay, as this last one Sudhir, just the MAT credit utilization over what period do we see our credit getting utilized and going back to the 25% taxes?
- Sudhir Menon:** Nitin I think between four year to five years.
- Nitin Agarwal:** So, for the next four year to five years will be at 31% reported tax rate?
- Sudhir Menon:** Yes, including the deferred tax but as I said cash tax is only going to be 17%.

- Nitin Agarwal:** Yes, but on a reported basis 31% for the next four year to five years?
- Sudhir Menon:** Yes.
- Nitin Agarwal:** Okay, because bulk of our profits are all sitting out of Indian subsidy itself?
- Sudhir Menon:** Yes.
- Nitin Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abdul Kader Puranwala from Anand Rathi. Please go ahead.
- Abdul Kader Puranwala:** Thank you for the opportunity. Just one question from my end, what you have mentioned to the earlier participant that the US business, it would not go below \$35 million-\$36 million quarterly run rate so, currently if you look from that point what would be the quantum of the fixed assets which should be dedicated towards the US and which would be not generating any topline for us and how we see the ramp up to happen once the plant gets the approval in the near term?
- Sudhir Menon:** I think it is difficult question, because all the manufacturing facilities which we have is fungible and the way this plant is basically looking at the volumes over the next three year to five years on a global business. So, I do not know how to respond to that as to what percentage manufacturing capital is assigned to US. I mean there can be some thumb rules of looking at it, right I mean for example what is your per pill capex which you spend in putting up the manufacturing facility and based on that what are the volumes which are getting manufactured for the US and the see what extent of the capital can be allocated to the US that could be too theoretical I would say.
- Abdul Kader Puranwala:** Understood and my next question was on the India business, so India we had a fantastic quarter but as we stand today could you provide some outlook as how the growth is panning now that the COVID cases are going down and the market is really stabilizing. So, what is the stand point now?
- Aman Mehta:** June data is most recent that we can look at 14% growth for the market and that may have some element of some COVID drugs part of the growth but not very much. So, I think going ahead if you recall even last year the base started normalizing month-on-month. So, our view is that 10% growth between that range should be doable going ahead and of course a lot of it will depend on whether or not there are future waves. But as of now this is what the situation looks like in particularly as most markets have opened up significantly.
- Abdul Kader Puranwala:** Sure Sir, that was helpful. Thank you.

- Moderator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Thanks for the opportunity. My question is more about the strategy. Now that we want to focus on trade generics, is that because we believe that the market is likely to shift in that manner or it is more opportunistic, like I am just trying to understand how we have seen a market because we are trying to focus on a segment which is not as high margin as we used to otherwise focus on?
- Aman Mehta:** No, absolutely not. In fact our view has always been that both segments have their own space to grow, the branded segment will grow and the trade generics will grow without eating into each other's share. It is just a matter of us getting into, rather expanding our portfolio reach for some of the acute segments which we have not really focused on that much and which gives us a pretty good opportunity to enter. So, it is not in any way going to affect the branded segment at all for us and in fact entering in this also we have seen is how difficult it is to really get product substituted especially in the chronic space. So, this even gives us more confidence that the branded business is not really at any risk on this.
- Nimish Mehta:** So, it is more like a expansion into new therapies or again what I am trying to understand it is more Torrent specific strategy or you think that the market is likely to shift?
- Aman Mehta:** No, this is more specific to Torrent because I think we were probably the last companies to enter this segment. Most of the other peers are already present in this segment.
- Nimish Mehta:** Okay, I got it and the other the reverse of that is what I understand you are likely to do at US. You are trying to focus on 505(b)(2), to which is more like branded so far otherwise US is a generics market, so again the same question, is more Torrent specifically you think there is more opportunity in the 505(b)(2) space, when it comes to US market than the normal generic space?
- Sanjay Gupta:** It is a different profile of business, so it is not that you are going to place all your eggs in to that. If you do 12 to 15 AND a year, we will do one to two 505(b)(2), like moving up the learning curve and these products generally can enjoy from three years exclusivity. But the skill set to succeed is a little different than what we do in our core generics business. So, I would say it is an evolution of the company towards the branded space but it is not as if that is the only activity that you would be focused on, it is a complementary activity.
- Nimish Mehta:** Got it, so will we be also developing a Salesforce for 505(b)(2) that we might be targeting?
- Sanjay Gupta:** Initial products we have partnered with company that has a Salesforce, leveraging the partner's field force.

- Nimish Mehta:** Thank you very much. This is very helpful.
- Moderator:** Thank you. The next question is from the line of Bharat Celly from Equirus. Please go ahead.
- Bharat Celly:** Thanks for the opportunity. Sir just wanted to clarify on tax part. So, are we saying that the tax rate is going to be around 30% - 31% and cash tax will be around 17%, is it right understanding?
- Sudhir Menon:** That is right, yes.
- Bharat Celly:** Sir, just on the margin perspective given that we are saying that our opex or the other expenses are going to stay at the current level. So, directionally how do you see margins to be going forward for the ensuing quarters? Is it going to be something similar to what we have reported this quarter or there could be some skewness towards downward or upward trend? So, just from a trend perspective I understand your absolutely part average?
- Sudhir Menon:** I think that is what I answered in one of the questions earlier saying that I would like to wait for one more quarter before I start looking at it directionally how the margin would settle for this year.
- Bharat Celly:** Right, but in any case if let us say there is no COVID wave or if we put it both the ways, if you could give that?
- Sudhir Menon:** If there was no COVID the margin could improve by 1% every year.
- Bharat Celly:** That is helpful, Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** Good evening. Just one clarity on this trade generic initiative. Can you just talk about what kind of investments this would require roughly? I am not looking for the exact numbers but if you can just walk me through and the reason I am asking this question in context that it is always overhang on this segment because the channel margin is so high and the government can plant down on the margins at any point of time so that is the context I am asking that what resources are you devoting when you are starting this business and have you taken a call that specific clamp down from government is not going to come in and that is why now is the right time to start with?
- Aman Mehta:** The initial investment while entering this business, there are two ways one can enter. One is by having a large field force attending to retailers ensuring distribution and the second is just going to the distributors who then manage the last mile delivery. So, that is what we have gone for right now, so we do not really have a large field force to begin with. We have got about 20-25 representatives across India who are responsible for this business. So, if the business reaches a size

large enough to handle a larger field force at some point that is when probably there could be some synergy benefit in having our own field force so that the distribution margin can be cut down. But as of now that is not the case and we think this will sustain for at least the next one year or two years and then we can see later on how to take it up forward.

- Anubhav Aggarwal:** The products are you manufacturing it or these are mostly contract manufactured products?
- Aman Mehta:** I think mostly contract manufactured.
- Anubhav Aggarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line Shriram Rathi from ICICI Securities. Please go ahead.
- Shriram Rathi:** Thanks for the follow up. Just one thing, on the balance sheet your deferred tax is around Rs.421 Crores. Does that mean that until that is being utilized after that probably it will be 25% ?
- Sudhir Menon:** Shriram, you look at the breakup of the deferred tax because when we show it as a deferred tax it is netted off against deferred tax liabilities.
- Shriram Rathi:** Okay.
- Sudhir Menon:** So, if you look at the breakup you will find MAT credit at Rs.975 Crores, which needs to be utilized.
- Shriram Rathi:** Okay, got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Nishant Kothari from Pictet. Please go ahead.
- Nishant Kothari:** This is Nishant from Pictet. My question is again on trade generics and do you this kind of has happening across companies now where each companies wherever they are not present try to launch through the trade generic segments in order to capture that market and the outcome of that would be that there is a generic kind of a price depletion which happens in the state as more kind of companies try to grow the trade generics business and obviously some of our focus more from the branded part?
- Aman Mehta:** So, I would not be able to comment on what competition is looking into but broadly speaking this is a completely contrasting portfolio, so there is no real overlap that this situation can happen where pricing can be under pressure for the branded business or branded products. The whole distribution

channel is also completely separate for trade generics, so there is practically no scope of conflict on that front and that is how this seem to be an opportunity for us to launch these new products especially in the acute space where we had over the significant gap in our portfolio and that is how we continue to build on this as well.

Nishant Kothari: It is just like the overlap might not be the VR focal but will shortly be overlapping with other companies portfolio and as customers move from that branded product to your trade generics there is a price fluctuation which happens because to know and if everybody starts doing the same what you are doing at the event overall as fluctuation in the market overall kind of timing will come down?

Aman Mehta: Yes, just to clarify on that, there is a very specific segment of therapies where trade generics has higher share. Most therapies trade generics is not significant in terms of market share, so it should effect the overall market even if more people enter the space, more brands enter the space, so that segment has always been this competitive in the trade generic segment and most of the other particularly chronic segments should not see any impact from this.

Nishant Kothari: Secondly may be bit unrelated to the earnings but what are your thoughts on the consolidation of the distribution channel, is it something which could meaningful, eventful in the years to come by?

Aman Mehta: Consolidation, distribution channel in India you are referring?

Nishant Kothari: India only, yes?

Aman Mehta: If you could be a bit more specific about anything?

Nishant Kothari: The companies like Pharm easy where trying to consolidate on the distributor side is it something which is already meaningful or could become meaningful and or are there other kind of players are there could be doing the same and thereby kind of protesting the bargaining power of pharma companies like us?

Aman Mehta: No, as of now we have not seen any impact and we do not really have any direct selling to the pharmacies, so that impact should not be there in our view.

Nishant Kothari: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the conference over to Mr. Sanjay Gupta for closing comments.

Sanjay Gupta: I think we can conclude the call here. Thank you for participating and we are available to answer any further question. Thank you and good night.

Moderator: Thank you. On behalf of Torrent Pharma Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.