“Torrent Pharma Q3 FY2017 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Torrent Pharma Q3 FY2017 Earnings Conference Call hosted by Edelweiss Securities Limited. 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 Deepak Malik from Edelweiss Securities Limited. Thank you and over to you Sir!

Deepak Malik: Thank you. On behalf of Edelweiss, I welcome you all for the Torrent Pharma Q3 FY2017 Earnings Conference Call. From Torrent Pharma's management today we have on call Mr. Ashok Modi, Executive Director and CFO, Mr. Sanjay Gupta, Executive Director of International business, Mr. Dhruv Gulati, Executive Director for India and ROW Business and Mr. Sudhir Menon, Vice President (Finance). I would like to hand over the conference to Mr. Sanjay Gupta now for the opening remarks. Over to you Sanjay!

Sanjay Gupta: Thank you. Good evening everybody and thank you participating in our call today. I would just highlight few key events for this quarter. Q3 revenues were at 1443 Crores versus 1542 Crores in the previous year. For the nine months ending December revenues were 4423 Crores versus 5184 Crores in the previous period.

As you know, degrowth was due to the impact on the base of the limited competition products that we have launched from the US earlier. The EBITDA for the quarter and the nine months ending December, 2016 is at 25% and 27% respectively.

The Company also declared an interim dividend of Rs.10 per equity share of Rs.5 each fully paid up share for the year 2016-2017.

Now we will just review the key markets for the company. India being our largest market accounts for about 34% of our Q3 revenue. Year-to-date revenue contribution of India is also 34%. The revenue growth for the quarter is at 12% and 9% for the nine months period. 77% of our revenues in the Indian market come from products that the AIOCD classify as chronic or subchronic.

As you all probably know that in the overall Indian market about 50% of the values lie with chronic or subchronic so Torrent as a Company is overweight or much more present in the chronic or subchronic segments compared to the Indian Pharma market.

Our per capita productivity, which is the key metrics that we use, has gone up to a level of Rs.6 lakhs during Q3. We are also very focused as a company on specialist and we have registered a prescription growth in the key market data of 4% compared to a minus 1% growth in the comparable market amongst specialists.

During Q3 we have further strengthened our presence in the speciality segment, particulary in CNS with the launch of novel combination of Pregabalin and Nortriptyline.

Moving on to a second largest market, which is the US in this quarter accounts for 21% of revenues. Revenue has degrown for the quarter as well as for the nine months by 44% and 51% respectively, which is again mainly because of the limited competition product base impact.

We continue to face pricing pressure in the US for our existing products in the high single digits. As the company we had only two new launches this year, which have not really compensated for the loss of pricing in the base business.

Torrent currently has a further six approvals in hand for which we aim to launch about three products in the remaining months of this year.

On the nine-month basis in terms of R&D filings as the end of December a total filings number 10, which includes two Derma ANDAs as well as two FTF. As of December 31, 2016, we have 21 ANDAs under review at the FDA along with 4 ANDAs for which we have received tentative approval. Furthermore for the US at the Dahej factory we have received 8 approvals so far and we except to receive see further four approvals in this current year.

Third largest market is Germany, which accounts for about 14% of quarterly revenues as well as year to date about 13%. In rupee terms it is growing this quarter at 24% while the year to date growth is 19%, so Germany continues chug along nicely.

Brazil, which is our fourth largest accounts for about 11% of revenues for the quarter as well as year to date. Close Up which is equivalent of IMS in Brazil ranks Torrent 17th largest Pharma Company in terms of prescriptions amongst all Pharma companies in the country.

Revenue growth in INR terms is at 35% and 25% for the nine-month period ending December 16, 2016. I would just like to highlight that the constant currency growth in Q3 was 12% and year to date is at 17%. Close Up is reflecting revenue growth for Torrent at 25% for the quarter compared to overall ethical market growth in Brazil of 14%.

In terms of units, Close Up is reflecting Torrents unit growth in the quarter 8% compared to an ethical market growth of 4%. For the year to date number are 6% for Torrent and for the market is 4%. Recently we have launched after a gap of several years two new products in Brazil, the first branded generic for Olmesartan as well as the first grand and generic for Trazodone. In Brazil, our PCPM this year is at about 107000 Real compared to 77000 Real in the previous year.

So overall as the company we continue to focus on our speciality physicians in the branded generics market and we continue to focus on sales force productivity and brand building as well as we have continued with enhanced focus on a pipeline building in this quarter as well as year to date our R&D expenses are now at 7% of sales.

With that I think we can open up the call for questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Just had a question on gross margins in the quarter sequentially. This is like from comparing September quarter and December quarter while mix on the sales side is not very different, but gross margins have declined very sharply, what is the reason for that?

Sudhir Menon: Anubhav, one of the thing what we have done in this quarter is taken a call to discontinue our Romanian operation and therefore provide for the inventory impairment as far as Romania is concerned and the other factor is of course the US pricing pressure continuing in Q3 versus Q2, so these would be the major factors, which have contributed to the drop in margin versus the previous quarter.

Anubhav Agarwal: But, you said this at least the US part is not that sharp decline sequentially?

Sudhir Menon: Yes.

Anubhav Agarwal: So, how much is the number let us say in fact of discontinuation of Romania operation, if you are to quantify to rupees Crores?

Sudhir Menon: Anubhav, We would not be able to share it at this point in time what is the amount for the Romania discontinuation.

Anubhav Agarwal: Give a sense that let us say this has not happened that is the US pricing pressure is where it is, how would gross margins would be like plus or minus 50-basis points or something like that?

Sudhir Menon: I do not have the working right now, we are talking about drop of around 4% over last quarter, so I think it should be in the range of Romania 60-40 US.

Anubhav Agarwal: Sudhir Sir, one question on the depreciation for Dahej phase I our depreciation used to be 65 Crores till March 16, 2016 per quarter not it has gone to 73 Crores would you say that now it is 73 Crores depreciation amortization is it factoring in the Dahej commissioning now?

Sudhir Menon: So the only piece, which is pending now is the API which is going to be capitalized this quarter otherwise as far as the formulation capitalization is concerned it is over.

Anubhav Agarwal: How much will be the total capex which we have capitalized there?

Sudhir Menon: So we have to work out the final number, but it should be between 150 and 200 Crores.

Anubhav Agarwal: Can I ask one more question, tax rate has been pretty low for us just 14% for first nine months, what can help over there, what has changed here?

Sudhir Menon: There are two factors basically for the lower tax, so one is on the standalone basis there is a benefit of higher depreciation and higher weighted deduction on R&D, which has led to our lower effective tax rate. The other thing what is happening is that since the inventories at the subsidiary level has gone up the unrealized profit component is higher in Q3 and as per the current accounting standards you need to create a deferred tax asset at the marginal rates of each and every subsidiary, which is higher than the effective tax rate of standalone and that has caused the Q3 tax number to be lower at 7% and the YTD of 14%.

Anubhav Agarwal: So when it will normalize, as you said that inventory will it normalize in Q4?

Sudhir Menon: **I**t depends i.e if there is no further inventory build up, in Q4, it has to get reversed in Q4.

Anubhav Agarwal: But as you say broadly our tax rates will remain as what we have seen at MAT rate in the past as well we will come to that number only?

Sudhir Menon: Yes, YTD we are at 14% right, I think for the full year we should be around 14% to 16% should not be more than that.

Anubhav Agarwal: But then the normalization will happen next year FY2018?

Sudhir Menon: Yes, one is as I said the standalone, substantial profits are retained in standalone books, the impact of higher depreciation and higher R&D will actually determine next year how the tax rate would look and there are certain other expansion also happening, so we will have to really see what benefit would come from an effective tax rate perspective.

Anubhav Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Nimesh Mehta from Research Delta Advisors. Please go ahead.

Nimesh Mehta: Thanks for taking my question. A few questions from the US business, we were under the impression that Abilify or Aripiprazole would have normalized in Q4, but it does not seem to be, what I want to know is that where are we in terms of Detrol LA sales as far as the market share is concerned because that does not seem to be picking up is that right assumption?

Sanjay Gupta: In Aripiprazole we have a sequential decline in sales of roughly about $4 million and you can think that Aripiprazole accounts for a large chunk of that. In terms of Detrol LA market share in fact we are let say selling capacity and we have been taking steps to increase our capacity and it should come on board in the coming months, so as of today I would say that our market share reflects our current manufacturing capacity on this product.

Nimesh Mehta: So basically you have space for increasing market share it is only constraint by capacity is that a right assumption?

Sanjay Gupta: Yes, we have been working to optimize the process for this product so that it takes a less machine time and I think in the course of the current calender year we should be there so at current I think I am just looking at the December IMS data for Detrol, I think correctly speaking, so it at 19% in December, so this is where it is a kind of stable.

Nimesh Mehta: This is pretty much same as what your internal numbers also say right?

Sanjay Gupta: Yes, we are in this range.

Nimesh Mehta: The other thing, I wanted to know about the future opportunities especially Renagel when do you expect because I heard last time you mentioned that from your side everything is done and you were waiting for FDI approval so any colour on that?

Sanjay Gupta: I was saying that we have received some further information from FDI. I would not count down on any launch in the short-term for this product, so we have to let us say substantially we work on this product, so I would remove it from the short-term forecast.

Nimesh Mehta: So, may in the second half of FY2018, is what we can think of?

Sanjay Gupta: May be even longer.

Nimesh Mehta: Finally, do you expect other than Renagel any niche or any kind of meaningful launches for Torrent next year specifically, my question is on Seroquel XR had an opportunity or Lipitor kind of an opportunities. Those are countable opportunities or you do not think those are meaningful one?

Sanjay Gupta: I think what we expect to launch it in the next 18 months.

Nimesh Mehta: In the next 18 months?

Sanjay Gupta: I mean I would say the second half of calender year 2017 that would be more accurate.

Nimesh Mehta: I see as I understand the 180-day expires after May so that is not going to happen for Torrent?

Sanjay Gupta: Yes, I do not think we would be 180-day on this one.

Nimesh Mehta: So this important opportunity does not seem like because it will be commoditized?

Sanjay Gupta: No, it is an important opportunity, but we have some queries to which we still need to respond to the FDI.

Nimesh Mehta: Finally on Lipitor if you can guide that will be helpful?

Sanjay Gupta: No, we are not in that product.

Nimesh Mehta: Thank you very much.

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

Girish Bhakru: Thanks for taking question. First of all I just wanted some update on Dahej. What is the utilization level Dahej is at that right now?

Sudhir Menon: It is yet to pick up Girish. As Sanjay said there are only approval for 8 products this year, other approvals will flow and that is when the capacity utilization will start going up; I think today it is at a very low level.

Girish Bhakru: Just on the overall R&D side, you of course have guided that R&D would remain around this level, but when do we see more R&D collaborations in soft gel and other niche areas that you have talked about, when do we see that activity happening?

Sanjay Gupta: The activity has already happened, so we signed six deals this year and then we will probably sign another three or four remaining in the months of this year, let us say a few of them may be more than two would be in the soft gelatin capsules.

Girish Bhakru: Sanjay, can you confirm that you have filed Fingolimod for the US market.

Sanjay Gupta: No, actually we do not comment upon individual filings in the US.

Girish Bhakru: No, I am asking because Torrent was party to the IPR case and so one would probably extrapolate from that they could filing in the order?

Sanjay Gupta: We are interested in this product and we had an IPR, and we have not pursued the IPR route against the Norvatis, but other than that I would not like to comment upon it.

Girish Bhakru: Just lastly biosimilar sales are they material in India now, Humira and Rituximab?

Dhruv Gulati: Yes, we are already in the market with Rituximab and Adalimumab and we are planing to come out with another two or three biosimilars in next financial year.

Sanjay Gupta: I do not think the sales have reached a material level.

Dhruv Gulati: No.

Girish Bhakru: Are they filed in any other emerging markets beside India right now?

Dhruv Gulati: No.

Girish Bhakru: Thank you so much

Moderator: Thank you. The next question is from the line of Aditya Gupta from Narnolia Securities. Please go ahead.

Aditya Gupta: Thank you for taking my question. Can you give any debt guidance for FY2017 and FY2018?

Sudhir Menon: We are looking at a capex of roughly 1200 to 1500 Crores for the next three years, other than that we do not think there will be any debt requirement.

Aditya Gupta: Will there be increase in the debt?

Sudhir Menon: No, not necessary, I think we will have to see how the cash flows get generated and only if required we would go for a debt.

Aditya Gupta: Thank you.

Moderator: The next question is from the line of Cyndrella Karvalho from Dolat Capital. Please go ahead.

Cyndrella Karvalho: Thanks for taking my question. Just wanted to understand your strategy in the German Market as we are going with the pace you over there, what is the plan and how it will pan out?

Sanjay Gupta: Our strategy is to continue to focus on Germany. The bulk of the business 75% to 80% is in the tender market in Germany and we have seen over the last five years consistently annualized growth of about 15% and the challenge in Germany is that we think we can continue to increase our sales as we have more production capacity will be bidding for more lots in the public tenders, but the challenging part is really about profitability, so it is a profitable business although the ratio of profitability is lower I would say other major markets, so what we are trying to do is to mitigate the profitability impact of increasing presence in tenders by focusing on our OTC business, so we think Germany would continue to be an important major country for us.

Cyndrella Karvalho: Sir, how much would be the OTC portion in the German market?

Sanjay Gupta: About 10%.

Cyndrella Karvalho: 10%, so focus would larger. Just wanted to understand more on the US in terms of product approvals, whatever we had guided for this year we have just launched two, and we had said earlier four to five in the last quarter, but I guess, we said now only four, how do you look at going ahead in FY2018 in terms of number of opportunities and with that if you could guide us any speciality areas where you would be focusing on?

Sanjay Gupta: So, as the company what we had earlier said was that we would do this year about 15 filings so at the end December we have done about 10, so I think we would probably exceed our guidance in the current fiscal year. For the next fiscal year we would be targeting about close to 20 filing, so given the timelines of about 15 months for their FDA fiscal year and last fiscal year and for the new fiscal year the FDA guidelines is 10 months, so we pretty much our launch base would be on par with our filing base in the US based in the years ahead, so you can counter about 15 to 20 launches a year. For the next fiscal year it will be slightly less so I am anticipating about 10 or 11 launches, while individually we do not anticipate any of these to be major blockbuster type of opportunities similar to what we have had in the past, so collectively there would be important impact for Torrent

Cyndrella Karvalho: Thank you so much.

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

Aditya Khemka: Thanks for the opportunity. Sanjay, can you just help me understand are the Zyg filings already on, have we made any Zyg filings this year?

Sanjay Gupta: Yes Aditya, we made two filings so far from Zyg and we are likely to make about three to five every year.

Aditya Khemka: Three to give every year and specifically I think we have discussed this last time as well so given that many products in the dermatology space now are facing incremental amount of competition almost every week if you have put a cost cut going to be some of those Taro or Fougera products where there were price hikes and now competition is already stepping in or do you have any other target product basket in mind?

Sanjay Gupta: We have two types of products, so initially what we call is a low hanging fruit product so initially just to get big start in the US and progressed, our front end established, we went forward is know as AT rated products, but we also have a second leg to our product portfolio in dermatology which is a clinical trial products, so which are the ones requiring higher level of investment, higher level of risk as well as higher gestation period, so amongst the 38 derma products there is a basket and in the initial couple of years you will see the AT rated products coming on the market and then in the subsequent after two years you will see the CT rated, so we will try to expand the two kind of have a mix of Me2 derma products as well as some where the level of competition would be pure, but the later ones would be the ones which are little bit less competitive. Initially it would be probably the Taro or Fougera type of products.

Aditya Khemka: Lastly, if could understand, so far in our US business we have been restricted to oral solids, Zyg gave us somewhat cream and ointments and are we also working or thinking about working on any sort of 505(b)(2) products or if I also understand correctly they have a couple of Me2 in pipelines so what we update on that as well?

Sanjay Gupta: Just to talk about we are not yet at 505(b)(2) working in the US. We have been more focused on two things, which is to increase the number of filings that we had. As you know filing tract record on last three has been doing pretty dismal, so this year it would be 15, which is probably I think more than what we filed in the last year and next year we will be guiding towards 20, so number of filings has been lacking and it has just picked up. Secondly our focus on diversifying the nature of the filings so like I have mentioned there would be some derma filings, some opthal, onco filing in the next fiscal year also, then 505(b)(2) is a little bridge too far and our discovery programme is fairly modest so we have a couple of products which are ready for phase III, but we are talking about phase III study for the Indian market. So we are not talking about the regulated market phase III, some of our peer companies have already launched I would say innovative molecules in the domestic market and right now our ambitions are limited to that I would say.

Aditya Khemka: But is you R&D expense also matching your ambition there as in what part of our R&D goes into such products into pipeline?

Sanjay Gupta: No, let us say we spend for innovative NCE for the domestic market is not comparable at all to what we would have for the regulated markets and it is not the major part of our spend, which I would say small minority of the overall R&D spend of the company the majority of it is focused on generic product development.

Aditya Khemka: As Brazil is shaping up, I think last time we discussed that the generic market hitting into be branded generic space, branded generic space, branded generic space was supposed to stabilize at a certain level so in the past couple of months is the generic generics still gaining share above branded generics or has that stabilized?

Sanjay Gupta: The share of the branded generic market in Brazil is very stable at 33% to 34%. There is a little bit of exchange going on between the innovated products and the generics, but on the whole on the branded generic side we have not reached any decline at a macro level and so we continue to focus a lot on branded generics and we have a small presence like I have mentioned about 10% of a revenues came from tender business and about 3% to 4% from the generic business and those two businesses have not been doing well given the overall conditions in Brazil, but the branded generic segment continues to deliver and it does much more profitable and much more the core competence of Torrent, so we continue to keep that as a top priority.

Aditya Khemka: For your couple more on the same follow ups, so this 33% to 34% share of branded generics this is for value or volume?

Sanjay Gupta: For value.

Aditya Khemka: For value, so volume would be lower, because the pricing in the generic generics could be lesser right?

Sanjay Gupta: Not necessarily, so what happens in Brazil is it depends the list pricing is fairly similar. It is the traded terms, which vary.

Aditya Khemka: And what is the kind of trade discount in both the segments?

Sanjay Gupta: So, just to give an idea on the branded generics side it depends upon the company, so it is usually between 15% and 20% and is the benchmark for the branded generic side of things and you need a high GT because you have to finance you sales and marketing efforts in the whole infrastructure. For the generic-generics segment the discounts can be between 70% and 80%.

Aditya Khemka: Thank you for that. Last question Sir, Dhruv Gulati for you Sir, on the India business now if you were to split this quarter growth in our chronic and acute segments, what would that be Sir, roughly ballpark?

Dhruv Gulati: See chronic and subchronic put together is about 77% and 23% comes from the acute.

Aditya Khemka: Sir, I was talking about the growth, so the growth that you saw this quarter?

Dhruv Gulati: Yes, growth if you see chronic and subchronic market growth is about 13%, while our growth is about 16%.

Aditya Khemka: And what about the acute?

Dhruv Gulati: Acute the market growth would be something like about 7% to 8% because the overall growth in the quarter is about 10%, so chronic and subchronic if it has grown by 13% obviously acute must have grown by about 7% to 8% because the contribution of acute is 48 and chronic and subchronic for the market is about 62%.

Aditya Khemka: Our growth in acute segment would have been much lower?

Dhruv Gulati: Much lower, as you know we do not focus on acute now, so our major focus in chronic and subchronic.

Aditya Khemka: Are we seeing any impact of this and there is still any lingering impact of this clean trade policy that we had adopted or do you feel that from next quarter onwards basically the trade policy impact will be pretty much out of the number?

Dhruv Gulati: Whatever the cleanliness or whatever hygiene factor we wanted to bring in is almost over now, so what you see that the component of discounted business scheme must be the lowest in the industry and the more of the growth will be coming from the trade only.

Aditya Khemka: Thank you Dhruv Sir, thank you Sanjay and I wish you all the best.

Moderator: Thank you. We have the next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks for taking my question. On the Brazil business how has been the trend in profitability for the business over the last few quarters and how do you see it playing out or generally as a trend?

Sanjay Gupta: Last few years have not been a very profitable business in Brazil. We are currently under double-digit profitability level. We do not disclose a lot, but going forward we expect the profitability to keep increasing.

Sudhir Menon: Nitin, just to add, last year because of this macroeconomic issues which were there is Brazil and because of the currency depreciation which had happened, there was a impact as far as consolidated results were concerned, but this time the local currency to the US dollars is more or less stable and have appreciated over the last years rate, so now we are seeing those things flowing into the consolidated results which are there, but in addition to this I would say that we have been taking price increases on products based on the outlook of the competition, which is there in Brazil plus the productivity in Brazil has been improving year-on-year, which gives the operating leverage benefit and the profit margins have been improving and as long as this kind of a runrate continues I think the margin should improve more over the next couple of years.

Nitin Agarwal: Now with the currency being stable for now, the growth outlook from revenue perspective seems to be a lot better than it was for start the year?

Sanjay Gupta: Yes, as a company we focus a lot more on the unit growth rate and if you look at the quarter our unit was at 8% compared to market overall growth of 4% and the revenue growth for the quarters are 25% compared to industry growth of 14% so these are the Close Up numbers. We are optimistic about the growth in Brazil despite the economy being in a bit of a slump, so we are talking about 2015 and 2016 GDP at minus 3.5% and the pharma market business, which is substantially slowed down, but I think going forward as you might recall in April 2016 the government has allowed a 16.5% price increase. I do not anticipate those levels of price increases being authorized in the next couple of years. Historically it has been more in the single digit in between 5% and 10% so a big chunk of the value growth will come from price increases, but you can anticipate unit growth the way superior to the market unit growth.

Nitin Agarwal: On the US business now we are at the runrate basis of around $200 million business as of the last couple of quarter or so now when we see the business that the size of the scale where we are and we look around a multiple people of our size trying to ramp up the US business and there are distribution the pressure which are there in the US market because of the distribution consolidation and there are talks about smaller players having challenges to breakthrough your distribution channel so when we will look at the US business and where do we see the opportunity for us, just like a shear low size for us and the fact that we are investing in the past makes an opportunity for us or there is something inherently different something about the strategy that we can do differently in the market going forward. Where do we see the opportunity?

Sanjay Gupta: Essentially you are talking about generic market, which is institutional. So there is four customers on the front end, so the way to differentiate yourself is quite limited, so the first thing we differentiate ourselves is that we have one of the regulatory track record so when I could meet a customer in the US and I will show him FDA inspection track record of the four facilities at Torrent which FDA approved and I do not think they will see another company with the same tract records so that is the fairly big differentiator. The second differentiator that we have is the robust supply chain, so we have enough stock in US, we have enough API stock, we are one of the best service levels between 95% and 99% for most of the top four customers, so that really fetch you apart because you can provide products. The third thing where we have been historically weak and we are trying to improve with in terms of your pipeline differentiation, so I think that is the weak part historically of Torrent and we are almost there I would say in terms of offering a differentiated set of products, my first priority was to offer a quantity of products which I think would by March, I would be happy with you the number of ANDAs that we have filed, but the second priority is to have a differentiated product offering in the generic space and the typical example is the product that we just launched in December so you know we launched the first generic of a small niche product called Paraffin and we are the only generic on the market so it is the small product. IMS seems to show about $10 million in branded sales, but being the first generic and it is the first time that we are the first in only generic is that kind of developments, which I would expect to, demonstrate more of those in the future.

Nitin Agarwal: Thanks. Best of luck.

Moderator: We will take the next question from the line of Anmol Ganju from JM Financial. Please go ahead.

Anmol Ganju: Thank you everyone for the opportunity. My first question is on the Romanian exit, is this one-off or are we in the middle of the strategy to rationalize some products of geographies probably on time with the longer time strategy?

Sanjay Gupta: We have in the last few years been in process already, so just to give an example we had earlier shutdown our business in Canada, we had almost shutdown our business in France to some extent. Mr. Gulati has streamlined his countries in the Rest of World to six major focused geography with the a reemphasis of a lot of smaller countries, we had shutdown countries like Turgistan earlier so this is an ongoing process, but Romania is the biggest and I think the only one on that scale that we would be shutting down, I do not think we have plans to rationalize geographies going forward. We are pretty much there and the reason for the Romania is just the very nature of the market and what has happened is that the government had instituted arbitrary flow back depending upon the amount of the budget deficit they would claim amounts to all the pharma companies so we have been reimbursing amounts of the government every year without being able to anticipate what those amounts would be so that has been quite painful and also in terms of any new launches in Romania we have not been seeing any reimbursement expansion of the formulary which the social security system reimburses, so given the structure of the market, which calls for sales reps, so it has the cost of a branded generic business, but it has the revenues of generic business at the lowest reference pricing being used across Europe so we did not see the light at the end of the tunnel hence this decision. There are no other markets in the same category.

Anmol Ganju: Thank you that is helpful. My second question is on the outlook for the US business. In this quarter seems drilling down of a few US business variables it is probably seen in the worst of Abilify behind us, Dahej has come on board, there is visibility on prospects of launches happening or not happening within the next 12 or 18 months, so if I look at the US business now I just wanted to know your thoughts on how FY2018 is shaping up both from a gross margin profile as well as growth last quarter ex-Abilify grew low single digits, so what are the thoughts around US growth going forward more from FY2018 standpoint?

Sanjay Gupta: Leaving aside comparable periods and impact of base business and everything, I think what we can say is that currently we are doing our level of sales corresponds to a base business level of sales, so any changes in that would be what you would see either in terms of pricing pressure on existing products or volume gains or losses on existing products and then new products would be there and they would be used to compensate those two negatives as well as growth, so I would say that we are pretty much at a stable base business at this point in time and the upsides would come from increasing shares and new launches.

Anmol Ganju: Last quarter we had said that we would move to around 80% capacity utilization as far as Dahej is concerned by the end of the year from 50%, are we on track to achieve that?

Sanjay Gupta: No, I do not think that is accurate. So Dahej just to give you the numbers, so in terms of Dahej capacity is about 700 Crores in our sales in the previous from the Indrad facility were in the range of 300 to 350 Crores so we have a long way to go before we have 80% capacity utilization from Dahej.

Anmol Ganju: My last question I am stretching myself, but you spoke about on a Y-o-Y basis a lot of variables having changed in Brazil, but we had seen a very sharp improvement in PCPM as far as the Brazil was concerned is that a trend both from an absolute as well as growth standpoint, which continues to hold or are we stabilizing it around 110000?

Sanjay Gupta: There are two things, in the last few years what we have done is we have rationalized the number of sales force, so we have kind of deceased the headcount in the field by close to 75 to 80 people without impacting the current business as well as without impacting the growth of the business and that is the major reason for the PCPM improvement. Going forward, we do not have plans to rationalize the field force part anymore and just focused on the top line growth of the existing infrastructure, no plans to increase or decrease, so I would anticipate the rate of increase to kind of be lower than what you have seen in the past. We have already kind of best in class company, compare which are pretty strong in Brazil some of the local family owned companies have PCPMs, which are lower than ours, the companies like Aché and it is about 80000 to 90000 Reals PCPM and we have already above 100000 so let us see where we go, our goal is to continuously improve, but I think the place of improvement would be slower given that we do not intent rationalizing the sales force anymore.

Anmol Ganju: Thank you that is all. I will get back to you.

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

Anubhav Agarwal: Sanjay one question on the R&D, if we look at the R&D spend that we have done and we filed about 15 products in this year we are averaging about $4 million per ANDA, I know that is not a right way, but roughly that looks high as a number because we are not so much into FTF as of now and we have not started really the clinical trials, could you say roughly how much of the out of $16 million R&D potentially for this year, how much will be going and what percent will be going for legal that this number is coming out so high?

Sanjay Gupta: We do not split, but our goal out of the 20 filing per year to do roughly 4 to 5 FTF. There are lot of spend this year is not linked to any filings this year, it is more like the filings it will come to your 24 to 36 months down the line, so let me just roll back a little bit and just to remind you that we had said that we are building a machine and R&D, which is capable of doing between 30 to 35 ANDAs a year, so we are not going to stop at 20, eventually in the next few years it will be up at 30 to 35 ANDAs per year and that is what we are working towards.

Anubhav Agarwal: For that I remember your scientist team is about 1100 and that is what you translate 30 to 35 ANDAs output?

Sanjay Gupta: Yes, we do not intend to raise the number of persons going forward. I think we are right now about 900 scientists, so we think we are in the right size and I do not intent to go beyond 30 to 35 ANDAs and the focus would be in improving the quality of the ANDAs making them more technically let say complex and to provide better economic opportunities.

Anubhav Agarwal: Thank you. That is helpful. Second on Dahej you had a program initially of transferring at least the immediate release once from Indrad to Dahej and free up the capacity at Indrad would that classify CV30 transfer would should be done fast right?

Sanjay Gupta: Yes, absolutely, so your assumption is correct and the only thing is we have to make three exhibit batches and pilot and sometimes FDI guides us to CV30 and sometimes takes a little bit longer because there are some questions or queries, which needs to be answered, so right now we have got eight products approved and what I said earlier in my opening was that we expect to have four additional products approved in this current fiscal year and we are starting to get some an interesting product approved from Dahej, the initial ones are like let say either those, where Torrent had a very large share of products, which were very highly commoditized, but as the number increases we are going towards products where there is a higher level of opportunity and it is easier for us to improve upon the company’s topline and bottomline. Next year we would do another 12 products and see about 5 to 6 extra products getting approved.

Anubhav Agarwal: So with the eight products having been already transferred to Dahej have we been able to capitalize on this opportunity by selling higher through Indrad the other products like you talked about Detrol, Nexium also we are maximizing next year, where is the benefit showing of this Dahej eight products that we have transferred or we have not started selling from Dahej as yet?

Sanjay Gupta: I would say that you are not seeing any benefit right now, so just to call us we are not seeing any benefit now for a few reasons, one is that a lot of it has gone towards building inventories in the US, so we are pretty much hand to mouth in order to have a robust supply chain we need to have 4 to 5 months of inventory in the US, so we have used some of the Dahej capacity to build up on the inventory, secondly for the products that are approved the last two got approved so we got approvals for Telmisartan and Carba IR was approved it was the end of November and Telmisartan was approved towards the end of September, so those are the types of products, which you would see like some kind of ramp up in market share in the months ahead.

Anubhav Agarwal: That is helpful. If I can ask one question to Dhruv Gulati. Sir on the India growth trajectory what have you seen in January, of course our growth rate was much better than some of the peers on the India growth rate, but as January have you seen the growth trajectory increasing to beyond 12% or it has been like good recovery in January or similar percent what we have seen in the December quarter?

Dhruv Gulati: See January overall has not been very good and overall the market also has been down. In fact what is expected is AIOCD number is also going to be the negative growth that is what is the prediction and that is what the first feeler I had got, so we will share with you once the overall quarter.

Anubhav Agarwal: I think the AIOCD numbers will come out in a few weeks?

Dhruv Gulati: Yes, it will be coming around 10th or 11th of the month, second or third week of the month.

Anubhav Agarwal: Can you provide some flavour not at all in number, but what caused is declined in the market in the month of January?

Dhruv Gulati: That is not the thing I have just heard a feeler from the AIOCD that overall market has not done well in the month of January, overall almost all the companies have not done well, now what exactly the number will be we will know in second or third week of February.

Anubhav Agarwal: Thank you.

Moderator: Thank you. We have the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. Sir. Have you put out FY2018 tax rate guidance?

Sudhir Menon: No, we have not.

Chirag Dagli: But it should be materially higher than the 14-16% for FY2017?

Sudhir Menon: As far as the standalone accounts are concerned we should be under MAT and we should continue for couple of years that is what we feel and on a consolidated basis it would be very difficult to comment at this point in time..

Chirag Dagli: And then on the other income this run rate of 50 Crores a quarter ballpark to 100 Crores annually if this kind of sustainable or is there an element of foreign exchange gain, which is unsustainable in this?

Sudhir Menon: Yes, you are right and there is an element of foreign exchange. We have a hedging policy of hedging for the next 12 months of revenue / cash flows, so it all depends upon how the spot currency moves. Whatever is the difference will come and sit in the forex, So either it is coming by way of revenue booking, or by way of the difference between the forward rate and the revenue booking rate. Therfore it depends upon how the currency is going to move.

Chirag Dagli: In sort of maintaining this 100 Crores run rate?

Sudhir Menon: No, I do not know whether it will be maintained. It all depends upon how the spot rate moves.

Chirag Dagli: Sir, can you split it out at least for what you have done in nine months, how much is foreign exchange gain in the other income?

Sudhir Menon: We have not been giving that out and it is only annually when the financials comes we have been showing that number. By and large I can tell you all the three quarters the numbers should have remained more or less the same.

Chirag Dagli: Outside of this foreign exchange gain what else constitutes other income Sir?

Sudhir Menon: The other item is the treasury gains, which come out of the short-term investments, which we carry.

Chirag Dagli: Did you say the capex of 1000 Crores or 1500 Crores annually?

Sudhir Menon: I said 1200 to 1500 Crores in next 3 years.

Chirag Dagli: 1200 to 1500 still after such a large capex at Dahej you still maintain that you will do 1200 Crores?

Sudhir Menon: Yes, Dahej 2, which is actually doubling the capacity, is going to happen over the next couple of years, the second is basically the onco facility which is coming up and the third is the Sikkim expansion, which is going on.

Chirag Dagli: Just last question Sir, what is our effective interest cost or borrowing rate that we should pencil in?

Sudhir Menon: That is something we have not been sharing.

Chirag Dagli: Ballpark of what we will record in the P&L that will also okay?

Sudhir Menon: I would say it is the trend, which really matters Chirag that is declining because of two reasons, one is the repayments are being made every year now. The second is we have tried refinancing some pieces of loans for a better rate, so I think both these factors put together we should see a further decline happening for the next year.

Chirag Dagli: Will you say 100 to 200 basis points kind of on the interest cost effectively?

Sudhir Menon: Chirag I would not be able to give you that.

Chirag Dagli: No problem Sir. Thank you so much and best of luck.

Moderator: Due to time constraints, that would be the last question ladies and gentlemen. I would now like to hand the conference back to the management for any closing comments.

Sanjay Gupta: I think I just like to finish by thanking you for your continued interest in Torrent. We hope to consistently demonstrate our tracks record and performance in all the key markets and we will look forward to seeing you soon in either one of the conferences or during road shows. Thank you.

Moderator: Thank you very much. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.