"Torrent Pharmaceuticals Limited Q1 FY'14 Earnings Conference Call"

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MODERATOR:	**MS. PERIN ALI – ANALYST, EDELWEISS SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY'14 Earning Conference Call of Torrent Pharma hosted by Edelweiss Securities. As a reminder, for the duration of the conference, all participants' lines are in listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Perin Ali. Thank you. And over to you ma'am.

Perin Ali: Thanks, Chitrasu. Good afternoon and a warm welcome to all of you on briefing of Q1 FY'14 results of Torrent Pharma. We at Edelweiss welcome the Torrent management team. Today, we have Mr. Ashok Modi -- Executive Director; Mr. Ruchir Modi -- Chief Marketing Officer; Mr. H. Balkrishna -- Executive Director, Marketing and Rishi Shah – Manager, Finance. Now I hand over to Ashok Modi for opening comments and then we can take the Q&A later on. Over to you, sir

Ashok Modi: Good morning, everybody. I am Ashok Modi here along with my colleagues Mr. Ruchir Modi, Mr. H. Balkrishna and Mr. Rishi Shah. I welcome you all to this post result conference. I would first like to take you all through the highlights for this quarter's performance of the company. The first quarter the total revenues of the company grew by 27% at 972 crores Vs 767 crores in the previous year same quarter. We had a one-off patent assignment income during the quarter and after adjusting for that the revenues grew by 21%. The Indian Formulations business saw growth of 12% with revenues of 312 crores Vs 278 crores during the last year and the international operations registered 28% growth with revenues of 539 crores.

Key highlights of major territories US business registered a revenue growth of 43% with revenues of 113 crores. At constant currency the growth was 38%. Europe which includes Heumann, UK, Romania and these operations registered revenues at 196 crores with the growth of almost 50%. The constant currency growth in these territories was 43%. The ROW territories which include the Russia and CIS operations, the revenue growth of 23% were there during this quarter with total revenue just 85 crores. On constant currency basis, it was 15% growth in the ROW territories. The only negative in this entire thing was our Brazil operations which saw de-growth of 2% during the quarter at 133 crores. The principal reason for this was price reduction taken in 2 major brands against which we hope that the sales would start creaping up during the ensuing quarter. The contract manufacturing operations for the quarter were marginally growing at 3% over the last year. The EBITDA margins of the company for the quarter were at 21.4% and after adjusting for one-time income and one-time provisions relating to impairment of inventories, where margins were at 20.1%. During the quarter the FOREX loss was 13 crores which were 24 crores during the same quarter of the previous year. Profit before tax was 187 crores compared to 140 crores which was a growth of 34% and profit after tax was 149 crores against 102 crores during the last year which shows a growth of 46%. Thank you very much for the patient listening. And we can now start the question-and-answer session.

Moderator: We will now begin the question-and-answer session. First question is from the line of Vinod Patiparambil from IFL. Please go ahead.

Vinod Patiparambil: Hi, a couple of quick questions. First of all, the Forex loss of 13 crores in the exchange filed in P&L it appears in other expenses, am I right?

Ashok Modi: That is right.

Vinod Patiparambil: So if I adjust for that the EBITDA margin is 22% and the exceptional expenses?

Ashok Modi: Right.

Vinod Patiparambil: Second, the 42 crores milestone income, what is that related to can we expect that going forward and in the sales breakup that you gave under what geography will that come?

Ashok Modi: It would not fall under any geography; it will be a part of our overall other operating income. The nature of income is that we had a one-time license and patent assignment agreement with one of the MNC's and there are two initial milestone payments, the first one was received during the last quarter of FY-'13, and the second had been received during the current quarter. Going forward, there are other milestones defined which may be two additional amount coming into the company including some royalty income. But all those milestones today there is no immediate future visibility of those milestones. So by and large we do not expect any further income during the year on this account.

Vinod Patiparambil: Just one doubt on the answer, you said it will come as part of other operating income but the sales breakup that you have given in the presentation there is no other operating income. So it should be somewhere there. Is that part of others?

Ashok Modi: Others.

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

Anubhav Agarwal: Can you explain the nature of this provision for slow moving inventory? Is the quantum around 22 crore and which geography does it pertain to?

Ashok Modi: Actually, we have taken an impairment based on our future working of the things that the inventory levels are such which would not lead to actual sale of these products going forward.

And it pertains to international operations most of it, I think 2 crores is pertaining to domestic operations and 20 crores is pertaining to international operations.

Anubhav Agarwal: Second question is can you explain your high growth in Europe? Business model there is mainly the dossier sales, right. So is it like you are entering some new markets, like I remember you mentioned in the last call that remind me about contributing significantly there, is it like new market which is leading to high growth? And is that sustainable going forward, can you throw some more light on this how should we look at Europe going forward?

Ashok Modi: Europe has got only dossier income, Europe would comprise our German operations, Heumann, UK, Romania, and all these territories are now grouped under the European operation. And the growth is coming from all these territories put together.

Anubhav Agarwal: Among these markets, any particular market which is a high contributor, which is like let us say 50% growth in Europe coming from, is it widely spurt is it coming largely from one particular market, two particular markets?

Ashok Modi: Major growth is seen from German operations i.e. Heumann.

Anubhav Agarwal: We currently have branded generic operations in Brazil, and you mentioned earlier that you have an intention at some point of time to also augment that with generic-generic operations in Brazil. So just wanted to check that in terms of final culmination, is it like are we quarters away from there or are we years away from launching generic-generic products in Brazil?

H. Balkrishna: We should be launching that this second quarter

Anubhav Agarwal: And how many products you are in the pipeline that you are targeting to launch?

H. Balkrishna: We will start with about 4-5 products but in terms of pipeline yes, we will have a pipeline of easily about 20-30 products in the next 2-years or so.

Anubhav Agarwal: These products are all let's say different from what you sell in the branded generics market, right?

H. Balkrishna: No, they would be identical in terms of molecules, so we will have exposure both in the branded segment as well as the generic-generic segment.

Anubhav Agarwal: Mr. Balkrishna do you not think that there is no chance of cannibalization of your sales or is just to arrest the decline that you are seeing in the branded generic sales?

H. Balkrishna: There would be some cannibalization, no doubt about it, but then if it is not through our generic-generic it will be through somebody else's generic-generic. So it is better that it gets cannibalized through our own generics no, that is the logic.

Moderator: Thank you. Next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Just on Brazil, can you quantify the extent of price reductions taken in these two brands and where do you see the benefit of that in terms of say growth stabilizing going forward?

H. Balkrishna: I think in the previous quarters also this issue had come up where we had talked about the competitiveness of a couple of products not being that good, essentially because of the local companies drastically reducing their prices and we were looking at the option of price reduction which we implemented in this quarter. So these are in our two major products that is Venlafaxine and Lamotrigine. So the price reduction would be to the extent of 40 to 50%. So that is the reason why you see de-growth in this quarter. So obviously with the subsequent quarters the volume should pickup once the price reduction has been fully understood by the doctors and the trade.

Girish Bakhru: I know you do not give region wise margin but with tender program and these price reductions, would you say Brazil has come out at a significant discount to say the margins you make in India?

H. Balkrishna: We would not like to comment on that.

Girish Bakhru: Lastly, on the operating income, besides the patent income can you give a breakup of the remaining 30-odd-crores, what all it includes?

Ashok Modi: We will give that to you offline.

Moderator: Thank you. Next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

Nitin Gosar: What amount of the CAPEX is earmarked for the custom manufacturing?

Ashok Modi: This investment is all for manufacturing facilities to feed our own markets.

Nitin Gosar: During this AGM you had proposed to raise your borrowing limits, could you throw some light why it would be for?

Ashok Modi: Actually, what has happened is that we have been very actively looking at inorganic growth opportunities both in the Indian and overseas market. Such an opportunity which is fitting with our strategic plan and this is appearing to be interesting financially, then we would certainly move forward which may require us to borrow significant amount. Now at that point in time, obviously the availability of approval of shareholders is not there, it will delay the whole process. So this is more in anticipation of any such proposal getting certified rather than any specific plan as of now.

Nitin Gosar: Two more questions; one is wanted to understand on custom manufacturing that we are having right now, when can we see a real pickup in that particular piece? It has been slowing down for now 6-8 quarters.

Ashok Modi: One of the major components of this is the insulin manufacturing which we do for Novo Nordisk. And there have been some issues in the domestic market relating to insulin pricing under the DPCO and the new DPCO. And some of those sales which is actually being handled by Novo is not picking up. So very hardly anything which as a contract manufacturer we can contribute towards that.

Nitin Gosar: On the margin front, US is doing somewhere close to double-digit post R&D expense?

Rishi Shah: We would not like to comment on this.

Moderator: Next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Can you elaborate on the US launches this year, are you like it to see any of the FTF launches or the Para IV launches that you would have filed for?

Ashok Modi: In the current year, there is no FTF launch expected.

Nimish Mehta: Non-FTF but Para IV?

Ashok Modi: I think there are 4 products to get likely to get approved for marketing during the current year.

Nimish Mehta: If you can let us know whether those will be under limited competition or how do we see those products where you already have some competition?

H. Balkrishna: This is Bala here just to correct, there will be one product where we have in FTF. And the only thing is we would not be the only FTF supplier, there would be 5 others who have the FTF status. Now, in all the products, it is going to be the normal competition, Teva, Mylan, Watson and Sun and Lupin, the usual names.

Nimish Mehta: Can you name the FTF products that you are likely to launch?

H. Balkrishna: Duloxetine.

Nimish Mehta: Just I would missed out in the initial part, if you can just let us know the Brazil sales and Heumann sales that would be of benefit?

Rishi Shah: We have uploaded presentation on the website you can get it from there.

Nimish Mehta: And also the Heumann sales?

Rishi Shah: We have combined all them into a Europe as a territory, so now we are not sharing any territory wise sales in Europe per se.

Nimish Mehta: One more thing you might have disclosed this earlier, if you can repeat the impact of pricing policy on your domestic business on a top line as well as bottom line?

Ruchir Modi: In Q1 if you see our internal growth rate are at 12% and there is a healthy bottom line growth as well. So as far as the NLEM policy is concerned, yes, although our growth are in line with last year, and most of the company you will see that would end up much lower. I can say that we could have done much better if this panic situation would have not been there because of trade and stockists and distribution channel had really reduce their stocks, and I can just say we could have done much better although we are very close to our budget that we had thought of in Q1. So I can just say we could have done much better and exact number of impact we do not have that, we cannot estimate that.

Nimish Mehta: Okay, but any anticipation of how much price cut you might have to take because of NLEM list and the result and impact on the bottom line is what I am trying to understand?

Ruchir Modi: Negligible impact I can say

Moderator: Next question is from the line of Monica Joshi from Avendus Securities. Please go ahead.

Monica Joshi: Just two questions; one is on your gross margin reduction. What I am comparing is after adjusting for the inventory write down the reduction in gross margin from the March quarter even from the June quarter for last year if it largely driven by a price reduction in Brazil?

Ashok Modi: No but if you compare with last year June, there is no reduction in gross margins; in fact there is an improvement.

Monica Joshi: The gross margins in June last year was some 70.1% and that number is now 68.9 adjusting for the 23 crores of inventory.

Rishi Shah: Yes, Monica, this is mainly because of the territory mix and the product mix, it is not majorly coming out of Brazil price reduction, there would be some element of Brazil price reduction coming into it but it is not only the Brazil price reduction which is coming in. So let us say you adjust for inventory provisioning and one-time income the gross margins have come down by around 1% which is partly because of Brazil and partly because of the mix between the territories and the product mix.

Monica Joshi: Just one book keeping question, in your annual report you seem to have about 65 crores and a 52 crore expense line item in the standalone and consolidated numbers and there seems to be some sort of a provision. So can you just throw some light on what this is because we do not see it in the balance sheet but it is somehow stemming in the other expenses line item, it says it is a compensation expense item so can you just throw some light on it and whether we see this expense recurring in the following year?

Ashok Modi: This line item is pertaining to some supply-related issues which we had in some of our international territories and the contracts were requiring us to pay a compensation for delays in supplies of products. Going forward, there may be some situations but we have substantially under control the supply situation, so we do not anticipate any significant cost coming in on this account going forward.

Monica Joshi: And is this the first time you have taken such a charge because we do not seem to see it in the earlier years?

Ashok Modi: This is a charge and secondly this is pertaining to two or three years of actual supply. The amount does not pertains to a single year.

Moderator: Thank you. Next question from the line of Kartik Mehta from ICICI Securities. Please go ahead.

Kartik Mehta: Can you update on the India business, what is the overall growth as per your addressable market? We grew ahead of the market in this quarter. Which of the therapies would have contributed for that?

Management: The IPM has grown at 8% in Q1 whereas our cover markets in which we are present has also grown at 8% and our growth are at 12%. And Acute segment has grown at 10% and Chronic segment have grown at 13% internally, so chronic growth have been higher than the acute.

Kartik Mehta: So we have grown ahead of the addressed market in the chronic space or is it equal or lower?

Management: In the chronic covered market growth is 10% and our growth is 13%. Acute covered market growth is 6% and our growth is 10%.

Kartik Mehta: How do we expect to do in the year for FY'14 now given that the pricing policy has been implemented for the products that we are strong especially in the chronic segment, how do you see the year being, if we loose EBITDA margins in the India business, how does that impact the overall EBITDA margin for the entire year given that we have some of the products where we will need to reduce the price?

Ashok Modi: We do not give any forward numbers as a policy and like Ruchir earlier mentioned there is a very marginal impact of DPCO on our product basket. I think that is all we would be able to really address on this particular issue.

Kartik Mehta: If we just have to understand on the India business on the top line is it fair to assume that we will be able to grow by about 200, 300 bps above that for the entire year. I am not asking about the margin, I am just asking about the top line especially in FY14 that we see all the market shares been very volatile because of the pricing policy?

Ashok Modi: That is always the target for Torrent to grow better than the market. So let us see which way we are able to actually perform.

Kartik Mehta: And then on the US pipeline can you share the number of products we are planning to file and how many will be launched over the next 2 years?

Rishi Shah: We have already uploaded the presentation which have the details of the products and the pipeline and already filed. In terms of launching of products on a yearly basis we will be launching around 4 to 5 products every year.

Kartik Mehta: The last one is on the hedging policy. We had mentioned that a large portion of our hedges were between 54 to 55 for more than six months or so. Does that impact any of our export realizations?

Ashok Modi: We try to bring in a certain amount of predictability and stability by going through the hedging policy. Obviously, on a medium term basis, if not let us say 6 month, 12 month term basis, on a medium term basis there would be ups and downs which would be directly dependent on the actual and underline currency movement. So we follow our hedging policy more for ensuring predictability and we have been following it consistently over last 2, 3 years.

Kartik Mehta: So how much percentage of our net FOREX would have been hedged now sir?

Ashok Modi: By and large we try to do it between 6 to 12 months of forward revenues that is the broad policy we follow, minimum 6 months is hedged.

Kartik Mehta: What tax rate should we assuming for FY14?

Rishi Shah: Broadly, it should be in the range of 22 to 24%.

Moderator: Next question is from the line of Hardik Vora from Motilal Oswal Financial Services. Please go ahead.

Hardik Vora: Can you give us the break up as to what does this 13 crore FOREX loss come from?

Rishi Shah: Majorly, it is coming out of revenue hedges which we have done for the quarter. Because of spot being higher than the actual hedge rate this loss rate is coming in. In terms of liabilities all our liabilities are fully hedged. So there is not a significant amount coming in from those. This is mainly because of the revenue hedges which we have taken.

Hardik Vora: But are these realized in nature completely?

Rishi Shah: The revenues have been done; the cash flow will be coming in next quarters so that will get realized in the next quarters.

Hardik Vora: The next one was on the inventory I am sorry I did not understand the exact nature of this provisioning, was this 22 crore is it going to recover or this is just a one-time impact?

Ashok Modi The impairment is taken on the following principle that we have inventory of any particular product and while we try to maintain the inventory to a reasonable level, which is enough to feed the respective market, once in a while the inventory may go beyond that, and if the quantity is such that we may not be able to liquidate the entire quantity by the time the products becomes unsalable on account of the expiry, we take an impairment charge in the quarter in which we realized that this is going to rise. So it is one-time in the sense that, yes, it is a not a regular occurrence, but on a regular basis we do take impairment on an incremental basis on a month-to-month and quarter-to-quarter basis.

Hardik Vora Just to clarify Rs. 2 crores for the domestic market and the Rs. 20 crores was for the international market, right?

Ashok Modi That is right.

Hardik Vora Just one more question I had on the margin front, I am trying to compare what the sales mix was last year and I am looking at what the sales mix has been for this year ,when I am seeing this year, the last quarter and this first quarter financial year '14. Now the way I look at it is that the growth in Europe has been higher this quarter, I am sure the contribution also for Europe has been higher and Brazil has been taking price cuts. So with this kind of worsening sales mix, our EBITDA margins still seem to be in line. So can you indicate which markets are actually improving in terms of profitability and how do you see profit margins going forward with this kind of a situation?

Ashok Modi The mix of sales is one is the market mix and second would be the product mixes within the market. A fairly detailed exercise and obviously we would be sharing the details with you, where exactly the margins have improved and which markets from which products selling more or less. So it is not only a market mix, it is also a product within the same market.

Hardik Vora Just trying to take up your qualitative sense on this, you will be taking a price decrease of about 40 to 50% on your key products in Brazil and Europe seems to have grown stronger and I am sure the growth will continue as you said for at least for one quarter maybe. So do you see the profitability might be under pressure or can you maintain the sort of profitability going forward?

Ashok Modi My dear said no comments on that.

Hardik Vora I just wanted to ask one last accounting question if I can squeeze that in. I am looking at your presentation sales mix. If I am trying to add the four geographical breakup that you have given; Brazil, Europe, USA and ROW, it does not adapt to the international parts. So if you could just give that to us offline I will really appreciate it.

Rishi Shah I will clarify that offline.

Moderator Next question from the line of Ashish Rathi from Emkay Global. Please go ahead.

Ashish Rathi On the Brazil front, I just wanted to understand when timeline does management look at double digit growth coming back, maybe some help on volume increases or faster growth from generic-generic?

H. Balkrishna If you are looking at specifically the growth per se, then you should start saying it from this Q2 itself.

Ashish Rathi On a full year perspective after the pricing policy implementation as you said is a negligible impact, but do we still target 12 to 15% growth on the domestic business for FY14?

Ashok Modi Like I said earlier, we would be making any predictions of growth, but yes, we do target to do better than what the overall market is doing, that is the continuous endeavour of the company, but what would it really translate into in terms of numbers we would be only able to tell you after the end of second quarter.

Ashish Rathi Rishi, what would be the average currency realization rate for the first quarter?

Rishi Shah 57.

Ashish Rathi And current outstanding hedges would be at?

Rishi Shah Right now we have hedged this year full revenues, so somewhere in the range of $200 to $250 million.

Ashish Rathi And the rate could be?

Rishi Shah Around 58, 59 the forward rate.

Moderator Next question from the line of Amit Shah from Enam Asset Management Company. Please go ahead.

Amit Shah I have just a couple of questions; first is on the Brazil, you said that there has been a sharp reduction in the prices which is in response to the competition. so I am just wondering what is structurally changing, can we see such kind of a reduction in some of other products as well going forward apart from these 2 products or in other words, what has led the competitors to reduce the price by 40%, 50% so dramatically so that we have to respond that?

H. Balkrishna Let us understand the detail, whether it is Brazil or any other territory, competition is continuously becoming more and more intense and there is price pressure. So the price pressure is something which one has to live it whether it is Brazil or US or Germany or any of these territories. Now what happens is you would launch a product at that time there may not be too many competitors, some other strong guy is coming after a few months or a couple of years at much lower prices, so one has to react and reduce the price otherwise one will lose market share.

Amit Shah A related question, you mentioned that you will be launching generic-generic from this quarter onwards and as I understand the margins how there would be lower compared to your branded generic business, and you have said in next 2 to 3 years, it is a pipeline of around 20 to 30 products that you will be launching in generic-generic segment. How do you plan to manage margins wherein the contribution of generic-generic would be going up over the period of next 2 to 3 years in Brazilian market?

H. Balkrishna Even in next 2 to 3 years it is not that the generic-generic business is going to become equal to the branded generic business. So it is not going to be that significant to have a substantial impact on the overall margin.

Moderator Next question is from the line Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

Pankaj Tibrewal A couple of questions; one, on the cash flows and margin, last quarter in the March ended we saw substantial increase in inventory and some increase in trade. Can you give a sense on how that cash flows and working capital has behaved in this quarter?

Ashok Modi Broadly there is a marginal change in the inventory as compared to the March level. We will share the details with you offline, right now, I do not have it handy with me.

Pankaj Tibrewal The second question is that you guys are doing some good job on the domestic front and after a long time this quarter we saw you increasing more than the competition in the market. It would be really handy for us to just get a sense on your road map. I am not asking for a particular quarter or a particular couple of quarters, but just a sense that the changes which we did on our domestic business over the last few quarters in terms of repositioning sales force and all, maybe giving us some benefits. How confident we are on our domestic business now going forward?

Ruchir Modi Last three years, we have been launching divisions in the segments that we were not present in the past, for example, gynecology, oncology, and dermatology and especially gynecology and dermatology have been a part of the top 10 therapies in the IPM. Most of the other 8 therapies we are present in. So that was one of the growth drivers and oncology of course even the not part of top 10, it is exciting business because with very less fixed cost or field force, you get much more value and volumes both. So we launched these segments and our established business like CNS, Cardio and Diabetology and Gastroenterology and Anti-infectives, what we did was last year we decided to focus on productivity, we had a field force of 3,000 medical representatives and other managers, about 3800 people as on 1st January 2012, and as on today also it remains the same. So we did not increase any field force and the top line has been growing up, so higher productivity will lead to better margin then so on. I mean if there is consistency in the field that also gives more foothold moving forward and also as far as the sales force and field force is concerned, more confidence moving forward because they have been in the same territory and they have been getting more and more knowledge moving on. If I do too many changes in the name of restructuring it also confuses the field force. I think the consistency itself is bringing good sustainable business. What I see is that a lot of ideal factors like attrition, etc., are also going down. So I can say that if sustainability is the core I think we are on a sustainable business model even though at 13, 14% growth compared to some players which are even higher, but I think definitely it is sustainable. Another thing was from the marketing front we identified 7 brands which we have identified to become Rs. 100 crores each, and 14 brands to become Rs. 50 crores each and 21 brands to become Rs. 25 crores each. So we rather than focusing on everything that we have, we have some 400 products, we decided that let us disproportionately spend time on these 20, 30 brands which have lot of potential moving forward in the next 5 years and the portfolio obsolescence risk is almost minimal of these identified products.

So we are on the brand front also focusing on very few brands, but planning to make them big, planning to get more brands in the top 20 brands, in the top 300 or top 50 and top 100 so on. So both brand wise focus and in the field also productivity focus. So both these combinations we are trying to drive and build a sustainable business that is the core.

Pankaj Tibrewal If I understand correctly what you are suggesting is that the investment phase which you guys were in, in terms of plateauing on the product gaps is now over, the management is confident on the products they have and now the focus has moved to more productivity and ramping up the top brands in a focused manner. So probably if we can keep on doing that sustainable double-digit growth on the top line, the margins would keep on improving because the investment phase is now over and productivity gains has started?

Ruchir Modi Margins will grow much more than top line because fixed cost will remain almost constant.

Pankaj Tibrewal This is all assumptions being made in the changing landscape on the domestic market which we are seeing today?

Ruchir Modi Yes.

Pankaj Tibrewal The third question is that whichever global company I am looking not on the pharma but other places where Brazilian operations has a large portion, most of them were commenting that because of the unrest in Brazil last quarter, you saw some sales getting impacted. Was it also a reason for us on the unrest and the riot which happened in Brazil over the last 1, 1.5 months and can you give us some sense how much impact would have been coming from there if that would be the case?

H. Balkrishna No, there was no impact of the unrest or anything of that kind. What you have seen is essentially because of the price reduction that we have taken on two of the major brands.

Pankaj Tibrewal The impression is on Europe, you have shown a very decent growth for the last few quarters on European operations. Can you give us some sense on what is pulling that growth and how sustainable that growth is just from our understanding so that market does not extrapolate that growth to the future and get disappointed later on?

H. Balkrishna When we say Europe it includes Heumann, it includes the dossier business as well as UK and Romania. As far as Heumann is concerned it really depends upon which of the products that we have got into the tenders. If we have got some new tenders and new products which are at a relatively higher price, then obviously the growth would be high. It depends on what kind of tenders we win. And as far as UK and Romania concerned these are two new Greenfield projects, obviously, they will show good growth because our base is very small.

Pankaj Tibrewal So what I get a sense is that the growth rate which we are seeing have been not a one-time kind of growth or few tenders just coming in and going out. It is more looking structural at least for few more quarters to come in. Is this the sense which I am getting right?

H. Balkrishna No, if you look at this quarter growth that is driven essentially by Heumann, but then going forward the other smaller territories they will start showing the good growth.

Moderator Next question from the line of Shalabh Agarwal from Franklin Templeton. Please go ahead.

Shalabh Agarwal Just wanted to get some sense on the branded generic market in Brazil. Is it very different from what we have in India where multiple brands exist at different prices unlike in Brazil where if new competition came in at a lower price we have to reduce our prices to match up with the competitors, if you could comment on that?

H. Balkrishna Each market has got its own characteristics. When you are in a particular market you got to play the game as per the local rules. Now even with LATAM, behavior in Brazil is different, behavior in Mexico, now that is the general statement. Now coming specifically to Brazil, you are comparing Brazil versus India…?

Shalabh Agarwal Primarily because here we have different brand sell at different prices to different customers. So in Brazil where we are in branded business, what made us decrease the prices catering to the competition?

H. Balkrishna Yes, for us to protect our market share and increase our market share.

Shalabh Agarwal So the prescriptions are more price-sensitive there or?

H. Balkrishna Yes, they are.

Shalabh Agarwal These two how much would they been contributing to our total sales in Brazil, was it less than 10% or much higher or?

Ashok Modi Actually we would not be really able to share with you the product wise sales for any such things.

Shalabh Agarwal I just wanted to get a sense of whether it is a single-digit number or a big double-digit number kind of a thing.

Ashok Modi Same thing, Shalabh, I am sorry.

Shalabh Agarwal Second thing that I wanted to check is the CAPEX of around Rs. 1100 crores for the day, how much has been already spent on this?

Rishi Shah Around Rs. 340 crores.

Shalabh Agarwal If you can also give us some sense in terms of how many times our capacity will increase if you take the case as today once we have the Dahej CAPEX, in terms of just the formulations?

Ashok Modi It would be more than double the capacity at the existing capacity.

Shalabh Agarwal The entire 1100 crores is to be spent by FY'17, is that understanding correct?

Ashok Modi Yes, that is what the plan as of now.

Moderator Next question from the line of Anand Padmanabhan from Canara Robeco. Please go ahead.

Anand Padmanabhan I had a question regarding your Brazil operations. Now that you are planning to go into generic-generic products, does it in anyway affect your future products or future product portfolio of your branded products. Will it be going slow on introduction of new products in branded generics?

H. Balkrishna Typically what we will do is we develop a molecule and the molecule and then we file both the branded-generic dossier as well as the generic-generic dossier. This will have any impact on our product portfolio.

Anand Padmanabhan In case of your generic-generic products it will be through tender business or you will be using your same investing sales force for?

H. Balkrishna Products are not sold through tender based route.

Anand Padmanabhan So it will be the same set of field force would be simultaneously…?

H. Balkrishna That would be essentially pharmacy-driven whereas the branded generic would be doctor-driven.

Moderator Next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak On the Brazil business, the price reduction that you took on the two molecules that is related to a competition from another branded-generic player or because of generic-generic competition on those two molecules or a combination of the two?

H. Balkrishna It is a combination of the two because typically what happens is the let us say the big competitors whether it is EuroPharma or Medley. Now these companies they introduce both the similar at the branded generic as well as a generic-generic. So we are looking at the combination.

Dheeresh Pathak On your presentation on the Brazil slide, can you just help me understand what is the difference between internal growth and reality growth, when you say internal growth of 7% and reality growth of 2%, how to read that two numbers?

Ashok Modi Internal growth versus reality growth is the delta would be primarily the currency movement during the quarter?

Dheeresh Pathak Now but rupee growth and reai growth is almost similar, rupee growth is 2%, and reality growth is 2%, what is internal growth…

Rishi Shah We have to correct that that is a wrong thing.

Ashok Modi Internal growth should be (-2%)

Dheeresh Pathak Rishi, do you have it on the top of your head in terms of why on the presentation, the four geographies do not match up with the international revenue, if you can give that, somebody else has also asked I think?

Rishi Shah I will be explaining to you why it will not tally, so I will have to give it to you offline.

Dheeresh Pathak What is the difference in terms of gross margins between branded generic and generic-generic in the Brazil geography?

H. Balkrishna In the two models the whole structure would be different, the gross margins would be different even the fixed cost structure would be different…

Dheeresh Pathak Specifically on the gross margin if you can give some color?

H. Balkrishna No, we would not like to comment on that.

Moderator Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Ms. Perin Ali for closing comments. Thank you.

Perin Ali Thanks, everyone and on behalf of Edelweiss I thank management for taking out time. Mr. Ashok Modi if you have any closing comments, please go ahead sir.

Ashok Modi Thank you very much for the patient hearing and also bearing with the fact that we do not share some of the issues. Thank you very much all of you for participating in this conference and thank you to Edelweiss for organizing the whole thing.

Moderator On behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.