"Torrent Pharma Q1 FY2016 Earnings Conference Call"

July 28, 2015

ANALYST: **MR. RAHUL SOLANKI – EQUITY RESEARCH ANALYST - EDELWEISS SECURITIES**

MANAGEMENT: **MR. ASHOK MODI - EXECUTIVE DIRECTOR- TORRENT PHARMACEUTICALS LIMITED**
MR. SANJAY GUPTA - EXECUTIVE DIRECTOR - INTERNATIONAL BUSINESS - TORRENT PHARMACEUTICALS LIMITED
MR. RUCHIR MODI – EXECUTIVE DIRECTOR – INDIA AND ROW OPERATIONS - TORRENT PHARMACEUTICALS LIMITED
MR. SUDHIR MENON – VICE PRESIDENT – FINANCE – TORRENT PHARMACEUTICALS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Torrent Pharma Q1 FY'16 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 the 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. Rahul Solanki from Edelweiss.

Rahul Solanki: On behalf of Edelweiss I welcome you all for Torrent Pharma Q1 FY'16 Earnings conference call. We have Torrent Pharma Management today Mr. Ashok Modi, Executive Director, Mr. Sanjay Gupta, Executive Director for International business, Mr. Ruchir Modi, Executive Director for India and ROW operations and Mr. Sudhir Menon, Vice President Finance. I would like to handover the conference to Mr. Ashok Modi now for opening remarks. Over to you Sir!

Ashok Modi: Ruchir will be making the remarks, so Ruchir can yo go ahead.

Ruchir Modi: Good evening everybody. Let me first take you through the operating highlights of the quarter. During the quarter the total revenues of the company grew by 75% at Rs.1947 Crores versus Rs.1114 Crores in the previous year. The EBITDA for the quarter was at 50% compared to 34% in the quarter of the previous year. The profit after tax was at 449 Crores compared to 256 Crores in the same quarter of previous year showing a growth of 75%. We have also today at 4 p.m. uploaded segment wise performance highlights for all of you which cover details of key segments and their Q1 performance including constant currency growth. We have also uploaded the 2015-2016 investor presentation in the investor section of the website which outlines our growth strategies in the years ahead. All three documents are now live on torrentpharma.com.

The first quarter of the year has been driven by our focused areas that we clearly outlined and shared on the concall last quarter; India in branded generic market and US in the generic-generic market are our top priority. The base business in both these geographies remains strong and moreover in the USA this quarter has been driven by the launch of Aripiprazole, however our focus always remains on base business for sustainability. This has also enabled us refinancing of debt and also pay up Elder debt earlier than anticipated in part.

India business a quick update - we have clocked revenue of 491 Crores for India business with a growth of 39%. As per AIOCD data set our growth for the quarter stands at 28% and we have further moved up to 14th rank for the quarter in the IPM. This is quarter which also completes one year of Elder portfolio acquisition and as we have completed the integration of the same we will not be reporting the portfolio separately for ease of understanding of all. We are consistently outperforming the market on that portfolio by a huge margin.

We continue to outperform the market in all key therapies for the quarter for the Torrent business as well. The two largest brands of the elder portfolio Shelcal and Chymoral are growing at 100% plus rates as per AIOCD data set in June. We continue to focus on specialities, science, and MR productivity for India business. I am also happy to announce that MR productivity is around 6 Lakh as on AIOCD Q1 numbers. We now have 13 brands in the IPM Top 500 brands the latest entrant being Deplatt-A which entered this club in June 2015. There have been about six new launches in the quarter mainly in the acute segment. New therapy entry nephrology is also on track. With focus on specialty, business hygiene, and science, our rationalization efforts are ongoing to leverage the synergies of the acquisition of Elder.

We achieved our field force rationalization of around 200 more field force in Q1. Our granularity of growth is what matters to us the most than just numbers and being the lowest in terms of bonus to sales value in the top 20 of IPM our lowest discounted business are things we are striving for in our business culture, not just being big on sales but being value creating, profitable and respected for what we do is the aim. I would now handover to Sanjay for Brazil, US and Europe update.

Sanjay Gupta: In Brazil the underlying business continues to perform very well, the currency movements which have been responsible for the reported numbers essentially. Our operations in this business registered, adjusted for currency movement a growth of 20%. As we know the Brazilian economy has macroeconomic challenges for the past one year and it looks like for the next one year also. Despite negative GDP growth forecast we are still seeing double digit growth in the volume trends in the pharmaceutical market and the objective for Torrent remains to grow faster than the Brazilian market in unit term.

In the US as of now we are currently ranked eighth amongst generic Indian companies and in the covered market we have a share of about 10%. This is in line with our peer companies and what we see is that we also have more than our fair share of brands where we are ranked in the top three products, so Torrent currently has 13 molecules where we are in the top 3 products in the US.

In this quarter the US business had an exceptional growth and that is because of the results of aripiprazole. It is a high impact launch with a limited set of competitors and what we have seen is that until now the situation has been stable since launch. We just saw another approval come through on Friday of last week and it has not yet had an impact on our business. It is too early to say what impact it will have in the weeks ahead. In the generic business for us, US will continue to be the prime focus as Ruchir mentioned. We are committed to strengthening our R&D pipeline to increasing the complexity of our products. During the first quarter we completed the acquisition of Zyg which drives us more into the specialty area. We have also ramped up our investments in R&D and we are moving into the new areas like ointments, injectable, specialty oral solids. As of now the company has 49 ANDA approvals and its pipeline consists of 19 pending approvals and 40 products under development.

Operations in Europe registered a constant currency revenue growth of 16% during the quarter and we continue to perform well and Torrent is today the sixth largest company in Germany and besides Germany our priorities in Europe continue to be the UK market where we feel the conditions are fairly similar to what we know elsewhere and the Torrent has the card to play and we are focused on increasing portfolio offering of Torrent in the UK.

I think we can start the questions and answers Rahul.

Moderator: Thank you very much Sir, ladies and gentlemen we will now begin the question and answer session. Our first question is in the line of Aditya Khemka from Ambit. Please go ahead.

Aditya Khemka: Hi, thanks for the opportunity. Sir just a clarification, did I hear you saying that Europe constant currency growth is 14%?

Sanjay Gupta: 16%.

Aditya Khemka: Sir can we also have the Brazil constant currency growth please?

Sanjay Gupta: 20%.

Aditya Khemka: Sir, are we sharing the absolute sales in these geographies Brazil, Europe and ROW?

Sanjay Gupta: We have shared the figures in the press release and in the presentation which is uploaded on our website, so for the Brazilian business during Q1 we reported sales of 138 Crores.

Aditya Khemka: Sir, my question is that, actually on 138 Crores your INR growth is -7% and you have 20% constant currency so which is basically, that is broadly fine, okay, can I have your European sales as well Sir?

Sanjay Gupta: I do not believe we have broken up the European sales separately. The new segmentation we have decided to disclose sales of the US and other markets, so Europe is not broken up, it is part of the other market.

Aditya Khemka: Sir, my confusion is the following, assuming that Europe grew 16% in constant currency I am assuming that in INR terms you are flat right, because Euro has depreciated by about 14%-15%, so your INR revenue would have been flat Y-o-Y which basically implies that your ROW revenue has fallen something like 60%-70% Y-o-Y is that a correct inference to make?

Sanjay Gupta: No.

Aditya Khemka: Okay, then I am struggling with the geographical break up, okay Sir, I will get back in the queue because I don’t understand. Okay thanks.

Moderator: The next question is from the line of Karthik Mehta from ICICI Securities. Please go ahead.

Karthik Mehta: Hi, just wanted to understand on the Elder side, can you please may be highlight how you expect overall to be connected here and also you mentioned about 100% plus growth rate so what would we have done to achieve this, how much of this if I may ask is on account of actually rebalancing of inventory, earlier it would have been actually at a lower level and also on Elder on the average overall productivity; so as a combined entity how many MRs do we have now Sir?

Ruchir Modi: I think there were too many and some there was voice was breaking up, so I need the question again.

Karthik Mehta: Can you just share how many MRs we have in total for the combined entity in India? Second was on the thought of 100% Elder portfolio growth which we have achieved, how much of it is on account of rebalancing inventory to normal levels, it had been at lower levels earlier, how do you plan to improve the MR productivity ahead and if there is anything else you would want to highlight on the Elder in the Torrent India business?

Ruchir Modi: So MR total strength currently is 3100, I had said that 3300 in my May concall and by the end of the year you can say that we will stabilize at 3000 and that is what the strength will remain. We do not see anymore rationalization happening and this is across the 16 divisions and not just Elder portfolio because Elder portfolio we had already done the rationalization of 304 people. Additionally, I would say that last year there was a 16-day gap when we had actually transferred the business where almost all the inventories was called for stock audit and everything and on June 29 when the transaction actually happened there was only two days billing and hence there was a vacuum in the market, so I would say that around 20% of the growth is because of the inventory getting reduced last year same quarter, rest of the growth is real because Shelcal had never crossed the 26th rank in AIOCD, it is ranked at 12th for the month and 14th for the quarter. Chymoral also has never entered the top 100 club, it is now ranked 65th, so typically what you are seeing is that while our business has bounced back of Elder to the original level and a bit above that in the very first year the ratio of Shelcal and Chymoral the contribution of these two brands has increased from 75% to 81%, so when we bought the business 75% contribution was from Shelcal and Chymoral group, today the contribution is 81% to the overall portfolio of Elder that we bought and hence this being very high profitability brand it is also contributing to higher EBITDA. Also Six Lakh PCPM of India business that we achieved in Q1 was also higher than the anticipated 5 Lakh plus PCPM because of the 200 rationalization that we had foreseen in March but we were not sure and we did it in April when we were sure, so this was something that happened post our thought process because we had thought that now we had done enough of it but we thought some low-hanging fruits, so I see that the PCPM will settle at 6-6.5 Lakhs by end of the year and it would touch 10 lakh in three years.

Karthik Mehta: Ten lakhs in three years, this will be on a very, very broader side. We have seen some of your larger peers may be bid at some multiples of 8-9 times, how do you look at growth in the US market on the assumption that we had two large products in two years, we may not have anything of this size each for a year or so, so your profits because of Abilify having a very higher base in FY'16 would obviously not be of that level in FY'17, despite whatever we may do in actually the Elder part so how do you see US business and I would surely want to hear your views on what is the value for the acquisitions that you are willing to pay?

Sanjay Gupta: I would address the thought about the US business and may be Ruchir or Sudhir can speak about the acquisition strategy. So for the US business in any generic business it is never a straight line, so we have been fortunate for the last two years we have had two good launches, we have had sizing momentum on a few products and while we do not like to give forward launches we have a few other launches over the course of next two years which could provide surprises, so the nature of the US business is essentially uncertainty. Until we launch a product and until we actually understand what the competitive intensity is, it is hard to predict revenues. Our efforts are to launch a maximum number of products, have our supply chain organized, maintain good relationship with customers and be cost competitive, beyond that predicting the results of our launches is I would say a perilous exercise.

Karthik Mehta: Surely I understand this part, may be actually this is also well explained by you guys in all your previous calls, my question is purely as an IRR or as a payback what do you look at it I am sure you have some assumptions here and the worry obviously is that we have grown on these two products on a very larger base so if it is not there and is there a value you would put to acquire asset assuming it will not be a very large one in India now that we have Elder or is there any thought. I am just looking at IRR payback etc., just for my comfort, thanks.

Sanjay Gupta: It is difficult to talk about the future but if you just look at the PAT in 2013-2014 our sales were about 125 which was the year we launched duloxetine , I am talking in dollars, it is easy for you to compare apples to apples, so in 2013-2014 we closed at 125 and I was expecting a dip actually in 2014-2015 and in 2014-2015 we closed at 134, so in 2014-2015 we had duloxetine in a positive trajectory for about six to seven weeks so despite losing duloxetine, we managed to stable and even grow our business and that is possible to some extent because of strong performance of the underlying, the molecules had been commercialized in the US, so we made an extra effort in getting increasing volumes from India, from getting more customers for these products and we also managed to increase pricing policy of our product. So you know those are the factors that you do to mitigate the impact of high potential launches in subsequent years. Some years you seen our peer companies that their sales have increased and decreased over the course of the year, Torrent has been fortunate that since we started selling in the US our sales have been in one direction and it is not unusual in our industry that the sales would decline in some years I mean it happens all the time.

Sudhir Menon: I think as far as the future acquisition is concerned for US it all depends on what kind of basket you are getting or what kind of company you are acquiring and the whole basis of IRR would depend on what kind of complementary basket you are getting vis-à-vis the existing one which you have. It could be very difficult today to tell what kind of IRR we are looking at. It all depends on the kind of returns which the basket is giving you.

Karthik Mehta: Sorry I don't have an answer, so may be I will join back the queue, basically what I was actually looking at is that you turned around Torrent in pretty much less than two years and we can see and you would have paid higher multiples on the sales but on EV EBITDA it was very attractive, so do you look at acquisitions on payback EV EBITDA is it actually different for different geographies because it has now become very important for the sector may be based on what acquisition we have seen so I was just actually may be looking at some amount of direction there Sir, may be I am not able to ask you…..

Sudhir Menon: What you are saying is right, so we look at two or three models together as to how it should be working out, so EV on EBITDA is one model which we look at, the sales multiple is the second model we look at and the third is of course the discounted cash flow as to what kind of returns you are going to get right, combined together we try and look at what fits in for the acquisition.

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

Nimish Mehta: Thanks for taking my question. First of all, if you can just let us know the EBITDA margins ex of Abilify and if you do not want to quantify just wanted to know has it increased Y-o-Y Q-o-Q or how has it been?

Sudhir Menon: Nimish what Ruchir spoke in the initial talk which he said was that the base business has been strong and it has been growing actually, so we would not be able to provide as a policy the EBITDA margin excluding Abilify but the message for you is that the base business has done well and there has been a growth Y-o-Y.

Nimish Mehta: Right. I am just trying to understand whether we have the impact of the price increases at least in the Elder product now showing up in the group profitability or not that obviously will have a positive impact, that is what I wanted to know, so have we been able to capture it completely in this quarter?

Sudhir Menon: Yes, I think so because the base year did not have the Elder portfolio, this year has the elder portfolio where the margins were better than the current domestic margins which we had, so the improvement in margin is there in this quarter.

Nimish Mehta: Okay fair enough. And if I compare the domestic business on a sequential basis total of Elder and Torrent Pharma domestic there has not been a great change, so I am trying to figure out because you had been mentioning about solid growth between Shelcal and Chymoral but on a sequential basis in last quarter we had seen some problem with the inventory or you know Q4 the lower generally speaking, so how do you explain this?

Ruchir Modi: We have shared the AIOCD numbers to you and last year Q1 we did not have the base of Elder, so I can just say that since this is the last quarter where last year same quarter Elder sales was not there and from next quarter Elder sales was part of Torrent so we will obviously now be talking together but for the benefit of everyone I would say that excluding Elder portfolio TPL Ahmedabad business had grown at 15% and rest of the business is Elder business and we have crossed the turnover of Elder pharma that when we had acquired 365 Crores it has been already crossed long time back so I can say that this quarter was obviously the bigger quarter and it is for you to now calculate what numbers it is. Also last year same quarter there was a billing of Elder's portfolio on June 29 and June 30 which Mr. Ashok Modi said of 2 Crores.

Nimish Mehta: Right. Okay. This was very helpful. The next question actually, you also mentioned about in the US market launch of Nexium should have happened by June end or early July we are still awaiting, anything on that, it will be helpful, has the FDA asked us to send some more details any update on that?

Sanjay Gupta: What I would say is that we expect approval soon. We have received some communication from the FDA and we are in the process of clarifying, those are of a relatively minor nature and you know it is difficult for us to give a precise guidance besides saying that we expect the approval sometime before the end of the year and there are no major issues outstanding with the FDA and so that is the only guidance that I think I am comfortable sharing at this point in time.

Nimish Mehta: End of the year meaning end of the calendar year or financial year….

Sanjay Gupta: I would expect anytime before the end of the calendar year, so actually basically we expect imminent approval but we have received some correspondence to which we are responding.

Nimish Mehta: When did you receive this corresponding any rough cut understanding?

Sanjay Gupta: I do not have the exact date in my mind. During the last conference call I have updated that we had no outstanding correspondence.

Nimish Mehta: And any update on Detrol-LA has there been any correspondence or there is also something that you are expecting?

Sanjay Gupta: We have no outstanding matters on that so I am just waiting for an approval letter hopefully to arrive in the mailbox.

Nimish Mehta: So it could come any time.

Sanjay Gupta: Yes.

Nimish Mehta: Understood. Finally two book keeping things, one obviously if you can share R&D expenses that will be very helpful for the quarter and second the other expenses line item which looked very high in the last quarter that means Q4 even in this quarter we understood that there was some one-off there but even this quarter has many kind of comparable and slightly lower so is it the same base that we should take for the entire year or how should we do that.

Sudhir Menon: I think so Nimesh, if you look at the full year picture as far as the other expenses are concerned, its basically averaging around 344 per quarter so its basically the spread of expenses during the last year where Q1 was looking little lower, so if you take a normal 15% increase Y-o-Y then this 410 looks pretty okay.

Nimish Mehta: Okay, so this is the base basically right.

Sudhir Menon: Yes it should be around 375 to 400 and it will depend on activities which you are doing in each quarter.

Nimish Mehta: Okay and R&D expense?

Ruchir Modi: R&D is more or less the same as last year mainly because we are actually in the process of recruiting 550 more people from 600 current strength we are going to go to 1150 scientists this year because we are ramping up our product development capabilities across all the geographies, however we realize that it is taking much more time to have those people on board because it is a long process to get people and hence the spend has been same as last year, however we feel that, once the people are in place it will be 6% plus in line with industry standards expected this year, which I already mentioned in the presentation we have uploaded.

Nimish Mehta: When you say last year this is Q1 of last year or Q4 of last year or the average year you are talking about?

Ruchir Modi: The full year was 2014-2015 was 4.8% R&D spend to the turnover.

Moderator: Our next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

Nitin Gosar: I missed your opening remarks where you mentioned a couple of geographies, a couple of business where you are trying to keep them as high priority? Could you come again on that I missed that opening remarks.

Ruchir Modi: Basically we were in 70 countries we used to always mention and 1000 product registrations, however in the last quarter we had started mentioning presence in 40 countries because all the small countries where we were present and having an opportunistic business we had shut down. Also this quarter we plan to rationalize another 15 more countries and have a very strong presence in let us say 15 or 20 countries and make them our strong business like we have in Brazil or like we have in India and hence we have decided that all the countries in ROW or let us say emerging market or semi-regulated markets we will only go for branded generic model, we will not go for opportunistic driven model or a distribution driven model which is there in many countries currently, so yes we are consolidating and we will focus on very few countries and we will grow by launching new therapies, new products, field force, doctor promotion like Brazil in those countries and not go for opening up new countries for growth.

Nitin Gosar: Okay, got your point Sir and with regard to US again on the outlook front if one were to understand what are the filings that you are working on?

Sanjay Gupta: Sorry we would not disclose the individual project.

Nitin Gosar: That's fine but, I mean the question was more pertaining to therapy wise if you can.

Sanjay Gupta: Sure absolutely, our focus of course is on oral solids tablets and capsules irrespective of therapeutic areas that has been traditionally our focus so we are leveraging the pipeline which Ruchir bhai has been building for India and for the US market. Secondly moving away from there we have already disclosed that we are working on Dermatology as well as Oncology including injectables, so those of the areas which so far we have publically disclosed but we have not satisfied with this level of mix between I would say specialty or complex products and vanilla generic so you should expect to see us diversify further into other dosage forms for the US market.

Nitin Gosar: And we continue with our stand of that 1000 Crore Capex for Dahej facility.

Sanjay Gupta: Yes.

Moderator: A next question is from the line of Ameya Chalke from Motilal Oswal Securities. Please go ahead.

Ameya Chalke: Sir I just had one question regarding your recent acquisition of Zyg Pharma, can you throw some light on how is this business right now and how do you expect to scale up this business going ahead and at what time this business would start contributing meaningfully to our US business in terms of ANDA filings and approvals?

Sanjay Gupta: Our objective, let us say in the next two or three years is to file about 25 ANDAs from Zyg; we hope to do 10 in the next couple of years and then the other 15 in the third year, let us put it this way. The current level of sales of Zyg is about 57 Crores but most of it comes from the contract manufacturing business so it is a business which we have decided to maintain. We have very good relationship with the customers that they currently have and we would like to continue to maintain and strengthen those partnerships but the strategic objective of acquiring Zyg is not to become a CMO but it is to in fact use that as a platform for launching our products in the US. So you should expect meaningful sales contribution from Zyg in the US market I would say at least three to four years down the road.

Ameya Chalke: Okay and any other therapeutic area which we are focusing on apart from oncology or we are going for any acquisition in US because our pipeline is very thin if you look at the numbers?

Sanjay Gupta: Yes, we have been participating in quite a few processes in the US but as you know our company is quite value driven so we have been kind of disciplined in than approach but we have been I would say not excluded from any of the major transactions which you have seen going forward but Torrent has its own metrics and its own way of evaluating projects. When we split in to with our criteria we would go ahead and basically have a good template with the acquisition of Elder in India and acquisition of the minocycline brand in the US.

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

Anubhav Agarwal: One question to Ruchir, on the Indian field force rationalization are they from specific therapies.

Ruchir Modi: I would say that out of 200, 50% is still from Elder and than 50% is from across the therapies especially the acute segment where we found that there was still scope of rationalizing because there was a large coverage of general practitioners and like I said we want to focus more on specialist and as we go deeper and understand that who are the doctors giving us prescription and who are the doctors not why not focus on who are the ones giving us prescription and get more out of that by scientific selling and all that so we found as we go deeper into business we find that to align to our focus there is more scope.

Anubhav Agarwal: Would it mean reduction in doctor coverage.

Sanjay Gupta: Three years four months back when I joined I had 100,000 GPs coverage general practitioners, today I have only 11,000 GP coverage, so that is the maximum coverage which has gone down, however all the 13 specialists in the IPM whether it is oncologist, nephrologists, you name it specialist we have 100% coverage.

Anubhav Agarwal: One question for Sanjay, Sanjay Abilify our analysis show that Torrent has a market share of about 3% plus we are losing our market share, is **(unclear-36.35)**.

Sanjay Gupta: What I would say is that we would like to see our market share go up in the next couple of months as IMS starts collecting further data, in a four-player market in general in any launch that Torrent does in the US we target about 15% market share that is our usual standard benchmark for any launch and I would say we performed as per expectations in this one also even to some extent beyond expectations so we have got a fair market share on the Abilify market and you should expect the IMS figures to reflect that in the months ahead, the launch was only at the end of April, if you recall so IMS has some data for May when the retailers are building up inventories and then it has again some data for the weeks in June so I would expect it to give a more accurate picture in the month ahead.

Anubhav Agarwal: I was asking that you know how voluminous is the product, let us say for example Nexium.

Sanjay Gupta: The total US market is about 300 million tablets so its not like Nexium, it is not like duloxetine where the total market was 1.2 billion tablets so it is a small volume product and so it is something with enhanced competition you would see the shares split up amongst the players further.

Anubhav Agarwal: I was asking about the Dahej facility. FDA data shows that you got 483 on Dahej facility April 2015 month and does it impact your commercialization plans for the US in any manner, is there any, I mean plant is not yet operational so I doubt there will be any serious observations there, just wanted to understand that?

Sanjay Gupta: No we had a successful FDA inspection in the month of May we are awaiting for the EIR to arrive, these days the FDA backlog for sending the EIR could be anywhere up to six months so we see, we have plans to commercialize products out of Dahej in this third quarter of this fiscal year or latest by the beginning of the fourth quarter. So as far as the Torrent is concerned we are looking at Dahej as the major growth driver for the US market because I would not hide that we have capacity constraints in our current facility at Indrad, so with the arrival of Dahej we would be able to look at increasing our volumes in the US but also increasing our volumes available in Germany where we are already the sixth largest generic player and not content yet.

Anubhav Agarwal: You mentioned that fourth quarter this year you have been supplying to US.

Sanjay Gupta: Yes, third or fourth quarter of this fiscal year.

Moderator: Our next question is in the line of Kunal Randeria from JM Financial. Please go ahead.

Anmol Ganjoo: Hello, this is Anmol Ganjoo from JM Financial. Just first from math if you look at our incremental sales on year on year basis we have cloaked in an incremental amount of around 833 Crores, out of which 622 Crores is US, 137 Crores India and around 89 Crores is contract manufacturing, which would mean that ex US we have declined by close to 69 Crores where 15% in INR terms which shouldn’t be surprising given what has been happening with some of the EM currencies, is that correct? Is my math correct?

Ruchir Modi: It is mainly due to currency fluctuations but the number is a bit lower.

Anmol Ganjoo: Okay that's helpful. And my second question is in one of your remarks, one participant said that in next two years our pipeline holds the potential of surprising on the upside, I know you won't get into specific opportunities but purely in terms of an assessment of the size of the opportunity from a quantum standpoint do you think there is something which can match up to the element of surprise that we saw in the case of Abilify for example?

Sanjay Gupta: I don't think we have the sufficient foresight to predict what the sales of a product in the next two years would be, it really because it doesn't depend upon our action. Our action what we do is our file with the FDA is clean, our manufacturing facilities are FDA approved, our supply chain is well organized, our customer service levels are high, so whatever we can control we control to the best possible extent but the big variable we face is what are the competitors doing and how many would show up on the starting line at the start of the race, so that is really what determines. What we would assure you is that amongst the 50 ANDAs that we have currently approved in the US all of them were well filed on time all approvals and so we would be filing a good dossiers with the FDA and expecting approvals on time and also in case of some litigations that we would be trying to reach the most advantageous settlement for Torrent we have already have 22, I would say FTF in the US and this was our first **(indiscernible-42.53)** launch, so from Torrent side you can be assured that we would be doing what it is, in terms of revenue prediction the missing element is what our competitors doing or what will they come up with it.

Anmol Ganjoo: So just a follow up on that, obviously I understand that you know Abilify there were a lot which meant for us in terms of competition and pricing and some pills not being able to launch but purely from a headline opportunity standpoint from the market sizing numerator standpoint, you think that Abilify is something which you would see after the couple of years and the pipeline is geared to ensure that, is that correct Sir?

Sanjay Gupta: So we are currently, I would say that we are not satisfied with the number of products that we have pending with the FDA so that is the reason why we are almost tripling our R&D spend and increasing the number of projects in hiring 500 people in Ahmedabad and also looking for M&A because we are not content with where we are today.

Moderator: The next question is from the line of Chirag Dugli from HDFC Mutual Fund. Please go ahead.

Chirag Dugli: Sir can you split the other income between foreign exchange and the usual other income?

Sudhir Menon: As a policy we don't disclose what is the amount of forex in other income.

Chirag Dugli: Okay. And the other question was on the US market Sir; if you look at the sequential performance excluding Abilify what you think would have changed in the US based business?

Sanjay Gupta: The other big element which I would like to highlight is that we in this quarter was in the transition of minocycline tablets and capsules from Sun and that has gone through very smoothly. We captured the customers that we wanted to capture at pricing that is we made our own pricing which is I would say in line with the models that we had made to acquire this asset, so that process has gone through smoothly. We have not had any other I would say major impact, as I had mentioned in the beginning for the first two quarters of this year we are a little capacity constrained because Dahej would come on stream in Q3, our shares on products in IMS are on track, our sales for the core products where we have decided to have anchor customers for each of those products we have done in some cases, the products for which we had taken pricing action in the last two years seems to be holding. So we are very pleased with the fact that the products where the prices were increased not only has Torrent raised its market share and also maintained pricing, so I would say the underlying momentum is positive.

Chirag Dugli: So Q-o-Q as a sequentially fourth quarter versus first quarter US sales would not have grown on the base business?

Sanjay Gupta: Yes, I would say that Abilify is not the only positive driver for Torrent.

Chirag Dugli: Okay and the last point was on the presentation I was seeing that there is an injectable facility at Dahej but we don’t have any injectable filings so which market is this targeted or is this like in commissioning and not yet?

Sanjay Gupta: What we have done is, if you at some point in time we would like to make R&D facilities open to the investment community but our R&D facilities they are making investments to develop different dosage forms at the R&D facility and as a follow on we are also making investments to manufacture those products, so the oncology and the injectables facility are actually located in Indrad where our current plant is

Ruchir Modi: They are going to come in Indrad.

Chirag Dugli: Okay, so Dahej is not injectable.

Ruchir Modi: Those are Brownfield project actually.

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

Nitin Agarwal: Thanks for taking the question Sir. On Indrad when was the last time we have the FDA inspection?

Sanjay Gupta: In April of this year.

Nitin Agarwal: So both Indrad and Dahej got inspected?

Sanjay Gupta: Yes and also the bio-equivalence center that we have and as well as the warehouse in the US and as well as the US office, we have five facilities which were audited by the FDA on a frequent basis and all the sessions went very well.

Nitin Agarwal: And you inspect the EIR for Indrad to also come through over the next couple of quarters as you were expecting for Dahej presumably?

Sanjay Gupta: Yes.

Nitin Agarwal: And secondly on, on Abilify if you can probably give us some sense on the kind of inventory you know the sales would represent, in the in-market inventory post the quarter?

Sanjay Gupta: I would just say that we don't know what our customer is holding but the norm in the US for big retailers is to have between I would say 20 to 30 days of inventory at least.

Nitin Agarwal: Is it fair to say that we will not be too deviant from there on this product also?

Sanjay Gupta: I mean it really not our call, it is what our customers decide to do so I would say that just to be safe you can imagine anywhere between 20 to 30 days of inventory is with these people.

Nitin Agarwal: And the market is progressed over the last two-and-a-half, three months have you seen any trends in pricing, has it been upwards, downwards, sort of stable, how has the experience been on the pricing front?

Sanjay Gupta: I will say generally stable. There will be minor tweaks here and there different channels the product settles down, generally we have been fortunate for first three months the pricing has been somewhat stable.

Nitin Agarwal: And this entry of Apotex has not changed anything yet?

Sanjay Gupta: It is too early because Apotex has got its approval on Friday so will see how that goes.

Moderator: Thank you. Our next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Sir just wanted to know, the sales of Abilify in the quarter how much of inventory filling would be there Sir, in that?

Sudhir Menon: On a consolidated basis, I think you are talking about the in-market inventory, just what Sanjay explained moments before.

Rahul Sharma: It was on 30 days.

Sudhir Menon: Yes, around 20 to 30 days.

Rahul Sharma: Okay, so additional what has been actually, this 30 days of inventory which has been actually booked in the sales?

Sanjay Gupta: No, we don't know, because our sales are we sell to the channel and then the channels have their own practices, so usually retailers hold between 20 to 30 days of inventory but in this particular product I don't have the data from the likes of one of the big chain as to what exactly is the inventory level but it is a standard operating cost because they do not work just in time. We book sales when we sell our products to the channel partner. It is the same process for every product that we launch, so Abilify is more different from any other launch in the past that we made.

Rahul Sharma: Another thing was on Nexium, you have received some correspondence you are expected to launch end of the year am I guessing is right?

Sanjay Gupta: It is our expectation that the queries would be answered to the FDA's satisfaction very soon and after that its really their call, if they are happy with the response and depending upon the workload at the FDA but we think it should be a priority for the FDA because it is right now still a big ticket cost item for the US healthcare system, it is only one generic on the market, so as you probably know that the FDA is pretty sensitive to the cost impact of the generic launches and I don't think we have reached the level of savings which the US healthcare systems needs on this product.

Rahul Sharma: Any reasons for the high tax impact which was there in this quarter and could you also give me the breakup of royalty income for the quarter?

Sudhir Menon: There is no royalty income.

Rahul Sharma: Milestone payment or something whatever is there.

Sudhir Menon: **No. T**he reason for high tax in Q1, is basically since Abilify was being launched in US there were additional inventories which were sold out from India to US so there is a component of unrealized profits on the inventory build-up which is there in the US because on a standalone basis you need to pay tax on whatever you have shipped to US, so that's a major component but going forward as and when the inventories are sold out from the US subsidiary this will get neutralized and the other thing which has come in is the timing difference on which the deferred tax liability has been created. On a full year basis we expect that the tax should not be significantly different than what we had in 2014-2015.

Rahul Sharma: Sir on the revenues part, could you give the breakup for the major geographies because it is not there uploaded on the site?

Ruchir Modi: It is uploaded on the site.

Rahul Sharma: We have got 2014-2015 numbers.

Ruchir Modi: No that is another presentation. There is another presentation of Q1. 2014-2015 is a general presentation. This is not a Q1 presentation.

Sudhir Menon: The segment revenue which we have uploaded what we have said is the branded generic is 705 Crores of which India is the major one with 491 Crores, Brazil 138 and the others at 76 Crores. As far as the generic segment is concerned the total sales is 1130 Crores of which US is 888 Crores. That's the major one. And others is 242 Crores.

Rahul Sharma: Okay you are not giving Russia CIS and other geographies now?

Sudhir Menon: Right, because that's the segmentation we have been talking about since last quarter, talking about the focus which we would be brining in. As far as the branded generic is concerned India as a market and as far as generic is concerned US as one of the focus territory.

Rahul Sharma: Germany would be the next biggest market, only Germany which is there in generic or any other major market would be there?

Sudhir Menon: Germany would be the biggest.

Moderator: Our next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: A quick question on Abilify, what IMA shows right now, maybe bit off the mark, innovator continues to have about 33% market share and that is a bit unusual for any product especially large one as that with four generic players so is there anything different about this one or do you think this will get normalized for just 10% as you go forward?

Sanjay Gupta: There are couple of reasons for this, the first reason is that this a CNS drug, so as you could have seen if you see the generic uptake in cases like levetiracetam etc., that is seen as drugs that are little slower than other drugs in terms of generic uptake because of physician I would say conservatism and you know so there is an impact of the particular therapeutic area in which this drug operates and the second reason is that in some states until now the branded product continues to be reimbursed so as the reimbursement disappears you would expect the brand share to come down but as and until certain points, certain states are still reimbursing on the branded product, you would see some greater volume of branded sales than in other cases.

Sameer Baisiwala: And what percentage would this reimbursement portion be?

Sanjay Gupta: I would say less than 5 US states out of the 50.

Sameer Baisiwala: Sir just on Nexium couple of other companies also said that they have got some query from the FDA they have also responded, are you getting a sense that FDA is processing multiple files together, what would that number be if you can sense that?

Sanjay Gupta: No, we don't know the FDA is doing we don't know what our peer companies are doing; as far as Torrent is concerned we are doing the best to respond rapidly and to get these files through.

Moderator: Thank you very much. Our next question is from the line of Sayan Mukherjee from Nomura Securities. Please go ahead.

Sayan Mukherjee: Good evening and thanks for taking my question. Sir one question on acquisition strategy, I mean would it be right to assume that you would be most interested in looking at US assets compared to other emerging markets assets at this point in time?

Sanjay Gupta: Our acquisition strategy would be entirely in line with the strategy that Ruchir bhai outlined last quarter and this quarter in the sense that we are focused on generic and branded generic businesses and in fact in these businesses our top two priorities are India and the US, so you know everything inside the company would fall in line with this overarching strategy and including M&A we clearly feel that we are underrated in the US market and we are not at a rightful ranking in the Indian market so we need to improve on those two things and that's the reason why we put a halt to geographical expansion, so we are no more I would say expanding in a geographical way, we want to deepen our presence in the markets where we are present because we are not satisfied with the current share of the pie in the fields we play.

Sayan Mukherjee: Basically in India you have done an Elder deal frankly we don't hear about any deals in India and I mean in the US we have seen a lot many deals happening so I was just wondering you know you would be spending more time looking at assets in the US and therefore that's the geography where the chances of acquiring a company is higher for you?

Ruchir Modi: We believe in paying Rs.50 for Rs.100 value rather than paying Rs.200, I am just trying to say that on a lighter side, but not trying to criticize other don't take it otherwise but we have not found value for our strategic fit, it may be strategic fit for others, somehow we have not been able to proceed with like

Sanjay said that he has been really, really trying hard to look at various assets but somehow we have not found what fits Torrent. Zyg somehow is fitting that because really it is not about something available for less value, it was actually fitting our strategy of specialist driven focus and a long term value creation for the company rather than more or less value so we look at strategic fit more than anything else.

Sameer Baisiwala: Sir one question on financial the other operating income is high so can you just throw some light there?

Sudhir Menon: Yes, so there is a new export benefit scheme which has walked in from April 2015 which allows 3% of the FOB value as the export benefit. That's an addition which has happened vis-à-vis previous year.

Sameer Baisiwala: So you expect this to continue at these levels?

Sudhir Menon: Yes.

Sudhir Menon: I just wanted to clarify to all that the website on the home page, you can find Q1 performance update and the Q1 segment wise performance. It is on the home page and it is not in the investors' link.

Moderator: Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to the management for closing remarks.

Sanjay Gupta: We thank you for your participation today and we look forward to answering any queries please reach us to Mr. Sudhir Menon and we will provide you any further information. Thank you very much. Good evening to all of you.

Moderator: Ladies and gentlemen on behalf of Edelweiss that concludes the conference call thank you all for joining us and you may now disconnect your lines.