"Torrent Pharma Q4 FY2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Torrent Pharma Q4 FY2016 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. I now hand the conference over to Mr. Deepak Malik from Edelweiss. Thank you and over to you Sir!

Deepak Malik: Thank you. On behalf of Edelweiss, I welcome you all for the Torrent Pharma Q4 FY2016 earnings conference call. From Torrent Pharma's management today, we have on call Mr. Ashok Modi – Executive Director Finance, Mr. Sanjay Gupta – Executive Director International 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 Sir!

Sanjay Gupta: Thank you Deepak. Good evening everybody. So we are missing Ruchir Bhai today so we will try to cover up with him. Let us begin by reviewing the operating highlights for the quarter and for the year. During the quarter the total revenues of the company grew by 30% to 1499 Crores versus 1154 Crores in the previous year. The EBITDA for the quarter was at 34% compared to 22% over the previous year. For the full financial year, the total revenue grew by 43% to 4653 Crores from 4653 Crores to 6676 Crores.

Let us take a quick look at the various segments. So inside the branded generic segments our biggest country being India, so I will just highlight the performance for the last quarter and for the full fiscal year. During the quarter the total revenues of the company grew by about 30% to 1499 Crores versus 1154 Crores in the previous year. The EBITDA for the quarter was at 34% compared to 22% in the quarter of the previous year. For the full fiscal year, the total revenue grew by 43% to 6676 Crores.

Let us quickly review the various segments of the company and the main countries inside these segment. In the branded generic segment our largest country being India, we achieved quarterly revenues of 447 Crores versus 396 Crores during the same quarter last year showing a growth rate of 13%, so our India formulation business has accelerated a growth trend and from flat growth in Q2 7% in Q3 we are now at 13% in Q4 demonstrating a positive outcome of adherence to a sustainable business model.

On a MAT basis our India business is now growing at 15% against an overall market growth rate of 13% and the various hygiene made measures taken earlier in the year are starting to show their fruits. On a qualitative notice Torrent has launched Adalimumab, the second biosimilar in India and the initial response from the market have been very encouraging. We further sharpened our focus from the antidiabetic segment with the launch of Teneligliptin and two of our largest brand Shelcal and Chymoral have been growing well above the market rate.

As per AIOCD MAT, Shelcal has now reached sales of about 302 Crores and Chymoral has sales of 134 Crore at the Group level. The Indian formulation business of Torrent continues to have a low exposure to the various legislative measures in India in terms of FDC and NLEM regulations and these have had almost negligible impact on Torrent. Our key focus point for all branded generic market and in particular India remains sales force productivity and for productivity for this quarter is demonstrated an increase of 36% for the same period previous year.

Moving on to the US, the US business in Q4 registered sales of 514 Crores showing a growth of 128% and for the full fiscal year it demonstrated sales of 2671 Crores with a growth of 221%, so a notable highlight for the last fiscal year was the launch of five products, so the five products that we launched were aripiprazole, tolterodine, Esomeprazole, amlovalsartan and amlovalsartan HCTZ. For each of these products Torrent made his target market share as well as its objective of having one anchor customer. We also successfully transitioned the nano cycling product from Sun Ranbaxy into Torrent.

In terms of regulatory update, during the last 12 months we had an additional inspection of our main flagship Indrad facility, which happened in May 2016, and we also had an inspection of our Indore Derma facility in April 2016. You will recall the earlier Torrent had an inspection of its Dahej plant in April 2015, so we have successfully received the EIR for Dahej and there are no major issues to report from the other inspections. The European authority inspected Baddi in May 2015 and Dahej in December 2015 and both have received their approval.

On the R&D side we have made progress and the number of active projects has been increased to 121. In addition, we have signed 9 collaboration agreements on individual products to the external partners and are on track to file about 15 to 20 ANDAs in the current fiscal year. At present we have 14 products that are pending approval at the FDA in addition we have about 6 tentative approvals and 121 projects as I mentioned earlier.

On the Brazilian business we registered revenues of 119 Crores during the quarter, showing a degrowth of 15% and for the full fiscal year 2016 we registered revenues of 506 Crores showing a degrowth of 16%. However, as we all know the macroeconomic situation in Brazil is fragile, on a constant currency basis the growth for Q4 and FY2016 is 5% and 13% respectively.

The low growth in Q4 is due to a correction of secondary inventory at the distributor level, which has come down from 79 days to 62 days in March 2015. We can now open up the call to questions.

Moderator: Thank you very much. Ladies and gentlemen we will now being the question and answer session. We will take the first question from the line of G. Vivek from GS Investments. Please go ahead.

G. Vivek: Good evening on good set of number Sir. Just wanted to know about is the golden time for Indian pharma companies is it over in terms of too many launches that are first to file opportunity and second query is about how serious is the impact of this DPCO controlled by Indian government and what are we doing to sort of negate growth of these points? Thank you.

Sudhir Menon: There is a new NELM list which has been issued under DPCO and as far as Torrent is concerned the impact on an annual basis is around 1% to 1.2% but considering whatever actions we have taken in 2015-2016 we are expecting to cover up this deficit of 1% impact on NELM through the improvement in margins coming in because of the various measures which was taken in 2015-2016.

Sanjay Gupta: On the question of golden age, I would say that Torrent is very pleased with its mix of branded generic and generic business and its focussed countries. So as you all very well know that we are focused in the generic space on the US and Germany both these markets are expected to continue growing, are very large market and we believe that we have good platforms and on the branded generic side on Brazil and India these are very strong markets in despite the macroeconomic difficulties in Brazil the pharma market continues to grow in unit terms about 8% so it is a good space to be in and we are optimistic about a future in this market so yes, we think that macro conditions are favourble for our business.

G. Vivek: Any other big opportunity in terms of molecule which we are pursuing?

Sanjay Gupta: It is difficult to pinpoint one big opportunity so in the next fiscal year for the United States we have about 10 launches which cover about $9 billion dollars in market revenue right now, the one which we have identified previously is Crestor which is about six and then the remaining nine are about $3 billion dollars in current sale so I cannot tell you which batsman will hit a four or six but we are optimistic that at least we will have a few boundaries in that.

G. Vivek: Our foray in to specialised segment including Oncology, biosimilar are there ready plans?

Sanjay Gupta: So the biosimilar business in India is of to a rocking start. We have launched two products already. Our strategy to for now limits the biosimilar presence to the branded generic space so we do not have a biosimilar strategy for the US. For the US, we have been working on Dermatology, Oncology, injectables and orals and we have plans to file about four dermatology products this year in the US so yes that is making progress and we have also, as I mentioned earlier in my opening comments we have signed about nine external collaboration agreements and some of them covers areas like softgel capsules and technological capabilities which we do not have inside Torrent.

G Vivek: Thank you.

Moderator: Thank you. The next question is from the line of Kartik Mehta from Deutsche Bank. Please go ahead.

Kartik Mehta: Just two things to understand, first on the US business we did about 375 million US this year, how do you look at this in terms of limited period opportunity and with the ten overall launches that you have, do you think we have a tail wind of any products like Abilify or Nexium actually still remaining. How do we look at your US business in terms of the launches for the next two three years, that is No.1?

Sanjay Gupta: In the last 12 months fiscal year we have benefited from the relatively higher prices prevailing on the Aripiprazole market place. The prices during the last quarter were much lower than the previous quarters and we should all expect as additional entrants come into the market for the prices to go down, so reasonably we cannot guide you to the same level of sales in the next 12 months for Aripiprazole compared to the previous period. That said we expect the sales decline to be compensated by a few factors, may be not compensated entirely but at least partially by the major factor being the start of commercial sales in the US from our Dahej facility so Dahej started shipping products and we have received three product approval from Dahej from April of 2016 and by the end of the year we should be close to about 10 product approval from Dahej that would compensate and allow us to increase some volumes and then the second point of compensation would come from the ten new launches that we are currently scheduling to launch, so there would be some offset but to the degree at which we an offset sales I would not like to comment upon it because its something that we will come to know once we launch these products and once we have more product approval from Dahej in a rapid manner.

Kartik Mehta: Just may be related to this which you are planning to file about 15 – 20 products in this year can you share what will be the R&D cost as a percentage of sales in a FY2017 and where did you end FY2016?

Sudhir Menon: I think FY2016 we should be close to around 4% and for the next year we are looking at a number of around 8%.

Kartik Mehta: So would the absolute number be almost may be almost the same because of the fact that we do not have any one offs in FY2017 do we look at it in that way or any number that in this quarter that you have done, should we run that as a base?

Sudhir Menon: So if you look at in terms of absolute numbers the R&D cost would have gone up by around 40% compared to 2014-2015, so when I am saying around 8% in FY2017 of course in terms of absolute value it will be higher.

Karthick Mehta: Just trying to understand from this, how do you see the other increase in R&D is it in some other areas other than the US or is it in areas where you want to throw some light on that because the number for 15 – 20 approval it looks a bit higher?

Sanjay Gupta: The 15-20 approvals is the result of work which has been going on for the last two or three years so it is something which is not only a result of last 12 months of efforts, we have also actually quadrupled our R&D spend for Brazil and for India the R&D spend has been increased substantially so the company is being focused on enriching its pipeline for this main focus markets and extending its specialty focus around the four priority geographies that we have so yes there is an increase in R&D spend for Brazil and India also.

Kartik Mehta: I have some more questions. I will join back the queue. Thanks.

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

Nimesh Mehta: Thanks for taking my question and congrats for great set of numbers. Firstly, if you can just let us know what is the 193 Crore of write off that you have taken in this year and whether it is reflected in this quarter and in which line item you have been taking it?

Sudhir Menon: Yes, Nimesh this 193 write-off is basically pertaining to the goodwill, which got generated because of the amalgamation of Zyg Pharma with Torrent. So as per the sanction which we have got from the High Court it was effected from October 1, 2015. The impact of 193 you will find that there is an amended regulation 33 which we have given wherein we had shown this as an exceptional item. The consideration which we paid for at the time of acquisition of Zyg was around 231 and then the tangible asset was fair value which came to around 38 Crores so the difference of 231 and 38 was the goodwill generated which we have written off this year.

Nimesh Mehta: Is it sitting as an exceptional item in this quarter is what you mean to say?

Sudhir Menon: Not in Q4, because since the amalgamation was effected from October 1, there is a revision of Q3 which has been given and as per the regulation 33 where the previous Q3 number has been revised to give the impact of this exceptional item.

Nimesh Mehta: Second is it fair to say that this quarter reflects kind of base level of Abilify sales are more or less something that would kind of recur plus or minus here and there is that a fair assumption?

Sanjay Gupta: If you can tell me how many new entrants will come in the next 12 months, I would not be able to comment but jokes apart, my expectation is that we should see at least a couple more entrants in the next 12 months and there would be a negative impact on prices but if there are no new entrants we can consider the market to be fairly stable.

Nimesh Mehta: My real question is whether the price has eroded as much as like beyond which anymore erosion will not have have huge impact, is that where we are?

Sanjay Gupta: Aripiprazole is still a good product.

Nimesh Mehta: Thirdly, if you can also let us know what are the market share we have been gaining in Detrol LA we have seen that it is not picking up quite fast and also your thoughts on the likely launch of Renvela Renagel?

Sanjay Gupta: If I look at the month data from IMS so for Detrol Torrent the last data I have seen is for March and Torrent is showing up 15% share so as you have know it is a four player market and for normal target market shares are 15% but four player market we can expect slightly higher market share so we were expected to go up in the coming months. We are pretty satisfied with the performance in tolterodine so I would say we will have a fair market share on this product.

Nimesh Mehta: On Renvela Renagel when do you likely see the launch of this happening?

Sanjay Gupta: I would not like to give guidance on that because we have some questions from the FDA on our filings and we are in a process of responding to this questions and this questions relate to the finished product as well as the API so we have to work in collaboration with our API suppliers so I am sorry I would not be able to give a guidance as to when we expect the approval for those products.

Nimesh Mehta: Like whether in FY2017 will it get launch?

Sanjay Gupta: No I am not sufficiently close to the technical details to give your precise answer.

Nimesh Mehta: Also if I can squeeze in one more, among the FDC brands that we are seeing in India one of the product serratiopeptidase FDC combination so if that effect, if that brand really comes through will we have any benefit on Chymoral or are we already seeing the benefit of Chymoral?

Sudhir Menon: No Nimesh at this point in time it will be too early to comment on it. But you are right the alternative for Chymoral which is Trypsin and Chymotypsin is the only alternative to Serratiopeptidase. We will have to wait and watch how this FDC thing comes up.

Nimesh Mehta: So far we have not seen the benefit of?

Sudhir Menon: So far no.

Nimesh Mehta: Thank you very much. I will join back the queue.

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

Anubhav Agarwal: Sanjay can you give more details on this Indrad inspection what triggered this, was it a pre-approval inspection because it was just inspected a year back?

Sanjay Gupta: Anubhav so this was a product specific inspection for some new filings that we have made and so it was specifically focussed on two products and the good news is we do not have anything much to report and it went quite well and hopefully we get EIR again in a few months from now, so this was we are not used to getting inspected every 12 months usually it is a cycle of 24 months but these days the FDA has probably increased the frequency of visits.

Anubhav Agarwal: So did we get any 483 observations here or we got and they were minor and hence we commit?

Sanjay Gupta: Yes, minor.

Anubhav Agarwal: How many observations did you get here?

Sanjay Gupta: It is a low very low single digit two or three so I do not know the exact number but it is not something, which is very large.

Anubhav Agarwal: The nature of observations will be what its product specific on the plant?

Sanjay Gupta: I would say they are product specific.

Anubhav Agarwal: One question I had on the R&D, just help me with one thing, the 4% going to 8% is that an average you are talking for the year or it has exit rate for the year?

Sudhir Menon: On a full year basis it would be around 8%.

Anubhav Agarwal: So how many ANDAs would you have filed already because we have already seen almost end of May now how many ANDAs you filed now and fist two months?

Sanjay Gupta: We will tell you that in next quarter at the end of Q1.

Anubhav Agarwal: I have another question, because we are talking about R&D increase now if I look at how much we have spent in FY2016 so FY2015 we spent about 191 Crores and then FY2016 we spent 55 Crore extra now when I look at all the comments made by Torrent so far we talked about huge increase in activities for example we talked about hiring 400 scientists, number of projects that we were working on was so significant, I was very surprised at looking at 246 Crore number for FY2016 so if this was a spend that you have done it that is the reason I am a little skeptical that are we going to really file four five products in first quarter and are we going to double it? So what I am trying to say is that this 246 Crore number looked a number ideally should have been much higher given the number of activities, which has been talking about?

Sanjay Gupta: The 15 to 20 products that we have guided for this current fiscal year has something, which you might not have considered. A few of the derma products the ones which we inherited from Zyg Pharma so we have been working on it but I would say a substantial quantity of work was performed before the acquisition so we in the process of remediating so my guidance to you would be in Q1. We should be in between say let us say about four filings. So I would say on an average for each quarter will be between three and five roughly ball park four filings per quarter.

Anubhav Agarwal: That is helpful. One last question what is the capex we plan for FY2017 I think we have Sikkim, Onco Block and Dahej phase II so all put together how much in 2017 and 2018 roughly?

Sudhir Menon: Anubhav on a two to three year basis the total capex we are looking at is around 1500 Crores.

Anubhav Agarwal: So roughly about 400 to 500 Crores annually that is the number including maintenance capex everything?

Sudhir Menon: Yes.

Anubhav Agarwal: Last question, Sir you said this other expenses you have mentioned last time when we did 340 Crore number and now 375 Crore so this average for the second half about 360 Crores on if the sales do not pick up absolute amount is this more sustainable then?

Sudhir Menon: Yes, last time also I had mentioned that the right way to look at the number would be around 370.

Anubhav Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Anmol Ganju from JM Financial. Please go ahead.

Anmol Ganju: Most of my questions have been answered, but just a couple of things I can squeeze in, in your opening comments you spoke about Crestor being a major opportunity for year would you like to share any colour on as on to how do you perceived competitive dynamics and the potential for us for the full year?

Sanjay Gupta: So this is going to be a fairly competitive space. Torrent would be not in the early wave of launch so it is a very large opportunity but we would not be let us say in wave 1 so as a result of which and there would be a large number of players so it will be a tough marketing challenge.

Anmol Ganju: So when you say that this is important you made most of them in headline perspective right?

Sanjay Gupta: Yes, what I was trying to explain at that point in time was that the overall market for the products that we would launch is about $10 billion today and then Crestor is the biggest one with the current sales of odd $6 billion out of that.

Anmol Ganju: Second is I know that next year we obviously have a tough challenge because of the base this year but directionally if you look at the US business and see how we have come in last three four years to a base of now $350 to $400 million how do you organically where we are and given some of the initiatives we have taken where do you see this numbers stabilizing in a year's timeframe or where are we headed directionally?

Sanjay Gupta: We are headed towards half a billion dollars in sustainable sales double in the US so I would love to give you exact date but that is the direction and endeavour we are working on, there would be bumps along the road as in the generic models we have some good launches so your sales shoot up and then the curb does not go in one direction always but Torrent is everything in place to have a sustainable business of about $0.5 billion in the US I would say in the course of the next two three years.

Anmol Ganju: That is helpful and lastly you spoke about the large number of programs that we are running even so in that case while percentages are okay, what is the bargain basement absolute R&D numbers that now becomes the new defined R&D expenditure base for us moving forward?

Sudhir Menon: I think the question what you are asking is in terms of absolute numbers, it will be difficult for us to comment on it. The only guidance I can give you is that it should be around 8% for the next year and we would want to maintain it at that level going forward as well.

Anmol Gupta: Thanks.

Moderator: Thank you. 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 EBITDA that we have done for the quarter are about 498 Crores thereabouts I mean just want to check is this a fair assumption to make this was a reasonably base sort of EBIT, base business EBITDA for us which are recovering EBITDA on which we will probably go ahead and the only primary variable on this would be Aripiprazole and pretty much else would be a recovering number?

Sudhir Menon: Absolutely.

Nitin Agarwal: Even in Aripiprazole incrementally, it is only the incremental combination which is going to pretty much make it materially different than what it probably it was the current quarter?

Sanjay Gupta: Yes, that is the biggest impact.

Nitin Agarwal: It is still despite that the price erosion being happening with the couple of more guys coming through over the last couple of quarter still remains like reasonably material products for us on a quarterly basis?

Sanjay Gupta: Yes.

Nitin Agarwal: Secondly on your external partnerships since you touched upon that as part of the R&D strategy what is the thought process behind these partnerships? What kind of capabilities are we looking at and you know is it more of like a short-term measure because you know we are still ramping upon it organic efforts or how do we see it really playing forward?

Sanjay Gupta: The way we think about it is that it will be a sustainable complementary strategy so we would do a lot of products inhouse but we would never have the ability that we would not be investing in all the equipments and the talent required to do a wider basket of goods in more diversified therapeutic areas or dollish firms so we look at partnering and building long-term partnerships with research companies where we can do three four five products which each of these companies and without going to specific products so we have now a couple of soft gel projects with the leading US Research Company and there would be I would say a way forward for us so it allows us to leverage our commercial platforms in these markets to bring products which we do not have in-house capabilities of developing or manufacturing.

Nitin Agarwal: When do we see the first launches coming through this partnership route?

Sanjay Gupta: Hopefully next year.

Nitin Agarwal: In FY2018.

Sanjay Gupta: Yes.

Nitin Agarwal: Off the 10 products that you talked about I mean Crestor probably would be a July launch for us I mean how do you sort of in terms of timing when do you see that the balance sort of nine getting spaced out?

Sanjay Gupta: So it is a most of them are let say before the end of the calendar year.

Nitin Agarwal: Before Q3 we pretty much allow the bulk of them coming through.

Sanjay Gupta: Yes, before the end of Q3 you will have the bulk of them.

Nitin Agarwal: All of them would be orals solids?

Sanjay Gupta: Yes.

Nitin Agarwal: Secondly on Brazil, I mean how do we see Brazil given all the turmoil which is happening there all we did see some bounce in the currency coming through I mean how do we assess Brazil as we go forward now?

Sanjay Gupta: So it is not what it was but it is still a very good market so I clearly like what we think about Brazil is in two phases so one is you know between 2010-2015 how the country was and what is this period between 2015 and 2020 and it is a tale of two cities actually. So Brazil had a GDP growth of 0% and 2014 -4% and 2015 again minus 3% to 4% and 2016 hopefully in 2017 I see projections which are showing zero growth and 2018 onwards they are showing some kind of positive growth trend and you have to linked to elections which are supposed to take place in 2018. Pharma market you know in terms of value for a very long time so in between 2010 and 2015 it was growing in the 12%-13% range and what we have seen in the 2015-2020 range is more in the 7% to 9% range so which is still fairly decent especially if you compare it to the performance of the other sectors and we look at this slow down or this macroeconomic instability period as more of an opportunity and we being an Indian company we have seen how the ebbs and flows of interest in the Indian market so we think Brazil has a similar so there are periods when it is attractive market for everybody but we are there for the long-term and we are going to use this relative down turn period to invest more and to improve our operations to upgrade our talent to become more efficient in terms of PCPM in terms of our cost base so that we are in a strong position in a market turns around.

Nitin Agarwal: If I can squeeze in may be just a more questions, on Dahej approval you mentioned that Dahej approval will contribute to the growth in the US in FY2017 so how are we seeing Dahej really driving growth for us going forward given the fact that most of our relaunches so I mean what kind of options do we see volume gains on the current product?

Sanjay Gupta: I will give you a ballpark idea but, so this year we should get about 10 IR products approval from Dahej for the US and next year we should be ready and filed with for about 10 – 15 release products so Dahej as of today we can supply about 180 Crore tablets out of Dahej so as products get ramped up we would be meeting this objective of supplying 180 to 200 Crore tablets capsules a year from Dahej to put that in context we currently commercialize about 300 Crore tablets a year in the US mostly from a Indrad facility I mean all of it comes from Indrad. Our current short term plan is as we ramp up Dahej and the product from Dahej start coming into the US is to use that Dahej exclusively for the US and to use the freed up capacity at Indrad for other markets and in particular Germany and the UK and for our licensing business in Europe so that is how we are kind of operating on a two year period.

Nitin Agarwal: Thanks. Best of luck.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity and congrats for good set of numbers. Just trying an understand the US Q-on-Q run rate of 5.6 billion to 5.1 billion so is that fair to say it is largely Abilify or the base business given the pricing erosion incremental approvals and channel consolidation that would have impacted single digit base business?

Sudhir Menon: As you have said one of the important factors for the jump in the US sales this year has been Abilify but despite that the base business has done reasonably well and the new launches, which have happened this year, have also helped to get a good growth in the base business.

Prakash Agarwal: So net-net there was a growth in the base business rather than a decline?

Sudhir Menon: Absolutely.

Prakash Agarwal: If I just exclude Detrol also would you be able to comment?

Sudhir Menon: Yes, absolutely. I think what you can do is based on the IMS number which you have, if you work out the reported numbers you will see that the base business has gone up in a very good way.

Prakash Agarwal: Is it fair to assume as you I think you already highlighted with Dahej coming back the base business will see incremental volumes?

Sudhir Menon: Absolutely.

Prakash Agarwal: So a broader question here on the channel consolidation that is again gaining momentum where the pricing would be here and people would be consolidating with the number of generic players they are dealing with so what is your broad thoughts on that and where is Torrent on overall scheme of things with the handful of products in the market?

Sanjay Gupta: So if channel consolidation is clearly not a favourable situation. It is something where we have seen a number of anchor customers diminishing so we had five large customers we just now we were have four large customers. So I think at this scale at which Torrent operates we have to learn to adopt and we think there is a room for us and for these large customers the last thing they want is to put all the eggs in the baskets of large companies. So we find ourselves being encouraged by them to be one of their suppliers but obviously it results in pricing pressure so it results in harmonization of prices to lowest common factor and the old system of channel based pricing has been tossed to the wind so now we have just all different classes of trade mixed up and jumbled into these four large buyers and so its not a great impact but at the same time we know how to work with these four customers. We have a good record of performance I mean a Torrent got selected supplier of the year two years ago by Mckensey now Wal-Mart is not something which we have reason to chaos. In fact we have excellent business with both of these customers and so while there would be some pricing impact overall I think there is room for companies like us in these large customers who continue to support us.

Prakash Agarwal: Right, and lastly on the acquisition plans if you could throw some light on the size that we are looking at and I think you have mentioned in the past that strategic acquisition in the field of injectables if you could throw some light there what are our current plans on the acquisition please?

Sanjay Gupta: The sweet spot for acquisitions process in the $300 to $600 million range but that said that our strength of our organization and our finances allows us to target larger acquisitions. We can even realistically bring about a much larger acquisitions. In terms of injectables so I would say in the medium term we feel the need to diversify our business so as you all know that we are in the oral solid space, totally focused on retail customers, I feel that in order to make up little stronger and more sustainable in the long run we need to have a hospital presence, so we are working actively on building a hospital presence but the current large divestment which is taking place in India Torrent is not part of that anymore, so we are not currently pursuing any large injectable acquisition in India but as we remain entrusted in the hospital space.

Prakash Agarwal: Just a follow up that it would be largely due to the valuation range?

Sanjay Gupta: I would not like to comment on the reasons behind our decision in order not to pursue.

Prakash Agarwal: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Rohit Ojha from retail investments. Please go ahead.

Rohit Ojha: Hello Sir, you mentioned that the number of projects has been ramped up to 121 now, just want to get an idea what was the number last year and just to get a feel on that?

Sanjay Gupta: It was about between 40 and 50 a year ago.

Rohit Ohja: Thanks a lot.

Moderator: Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: When you comment on the base business, are you speaking on the base business x next year Detrol and Abilify?

Sudhir Menon: Yes, the base business which we talked about is ex Abilify but including esomeprazole and tolterodine which was launched this year.

Deep Master: But have you seeing volume growth in the other products as well not that Dahej has started production?

Sanjay Gupta: There is right now I have only three products approved from Dahej so we have just started shipping in April so what we are trying to do is to free up some capacity in Indrad so I would say it is too early for me to build incremental volumes but I have already indicated that potentially our volumes would move up from 300 Crores to close to 500 Crores but a chunk of it will also go into the German market so there is potential to increase volumes but have we already seen impact the answer is no.

Deep Master: Okay and this 500 would be more towards the second half on the run rate basis?

Sanjay Gupta: I actually cannot guide as to what proportion of that would come to the US because like we would…

Deep Master: No I mean can we assume 500 Crores as the volume for the full year or is that more sort of a run rate basis towards the second half of the year as you ramp up?

Sanjay Gupta: Yes, it will be more towards, 12 months to 18 months as we get more products approved for the US from Dahej.

Deep Master: Okay and the three products approved are the site transfers?

Sanjay Gupta: Yes, they are the IR products so we are able to do it through the CB-30 mechanism for the other products we need to generate some stability data as well as some bio equivalence data.

Deep Master: Right, as it is a site transfer you can keep ramping up and the absolute R&D spend would it grow in about double digits could you give any sort of more color there?

Sanjay Gupta: I think in the press release there is a line which gives you the absolute amount of R&D spend in the last fiscal year so it was 250 Crores and you can expect it to be at I would say substantially higher in the next fiscal year, but as Sudhir mentioned we are currently based on our internal budgeting processes we are looking at about 8% and we would let you put your own numbers next to that 8% but going forward the R&D is clearly the priority No.1 of the organization and we are going to continue to invest on a sustainable basis in R&D.

Deep Master: So when you said you have doubled your scientists from 200 to 400 was most of that absorbed in FY2016 or some of that still to be absorbed in FY2017?

Sudhir Menon: I think it has happened over a period of time actually so the process was started somewhere I think in Q1 and over a period of time the scientists were added so I do not think the full impact would come in FY2015 – 2016.

Deep Master: That is helpful and could you give any sort of color on the European sales?

Sudhir Menon: On a full year basis Europe has grown by around 10% on a constant currency basis.

Deep Master: Is that substantial part of that Germany is it all Germany?

Sudhir Menon: Absolutely.

Deep Master: All Germany?

Sudhir Menon: No, substantial part of it is Germany.

Deep Master: Have we been getting any new approvals?

Sanjay Gupta: In the last year we lost about five new products so yes, new approvals have been coming on a regular routine basis so the biggest problem that we have in Europe has been capacity constraint which has lead us to focus basically on Germany and to de-emphasize a great extent to other markets which are UK and Romania as well as out licensing business that we have but with Dahej arrival and speed up capacity in Indrad we can again look at bidding for more tenders in Germany as well as the I would say helping our partners in northern and southern Europe increase the shares of their products.

Deep Master: That is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Poorvi Shah from Sharekhan. Please go ahead.

Poorvi Shah: Congratulations. Most of the questions has been answered I just want a clarification on the tax rate if you could help us what would be the tax rate for the next two years?

Sudhir Menon: **For** the next year I think we should fall under the MAT rate and so on a consolidated basis today we are looking at the rate of around 23%. I think as we go forward more clarity will emerge as to what extent Dahej would be supporting us so I think as of now we can say that it should be around 23%.

Poorvi Shah: Fair enough Sir and all the best.

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

Nimesh Mehta: Thanks for giving me an opportunity again. On the domestic market I mean now is it fair to say that the impact on the sales that we have seen last quarter is because of change in the way we treat our channels has that kind of come over so this is like in more normalized growth that we are looking at?

Sudhir Menon: Yes, I think by and large whatever initiatives we had taken I think those have settled down. I think things should be fine from here but the only thing which we are looking at is because of the whole NLEM implementation which is happening in Q1and what needs to be looked into is how the pharma industry as such is getting impacted because of that.

Nimesh Mehta: So there is an effect on Torrent what it could be something that you are not certain of?

Sudhir Menon: Yes, but it will all depend upon how the market is getting impacted because of this NLEM implementation.

Nimesh Mehta: Do you have any target? How many products looking at launching next year in domestic market and how many of them would be kind of first two market launches?

Sudhir Menon: First to market launches I think this point in time it will be difficult for me to talk about it but not much of them. From growth perspective I think the new product should contribute around 2% to 3% being the first year.

Nimesh Mehta: I see, but that still would be among those products, which are already in the market by as a competitor?

Sudhir Menon: Substantially yes.

Nimesh Mehta: Understood, and have we seen kind of full impact of the leveraging Elder sales force by launching Torrent's product to the sales force?

Sudhir Menon: Yes, Nimesh, if you remember last quarter we said there was one piece we had done, basically bringing the Gyne division together and we expect the synergy value to flow in this 2016-2017.

Nimesh Mehta: Have we taken any price increase after the Q3 in Elder portfolio?

Sudhir Menon: Yes, basically depending upon the cycle we keep on doing the price increases wherever it is feasible but yes for the next year substantial price increases have been taken on the Elder portfolio.

Nimesh Mehta: That means in this Q1, after March we have taken price increase?

Sudhir Menon: The price increase implementation was already done, let us say end of Q3, beginning of Q4 so 2016-2017 you should see a full year impact of the price increase coming in.

Nimesh Mehta: Understood, and finally, if you can just comment on the higher employee expenses in this quarter particular reason or is this the base that we should look at?

Sudhir Menon: On a consolidated basis since the functional currencies are getting converted into INR the numbers would go up and down based on the exchange rates. So that is one of the impacts in the numbers, which you see.

Nimesh Mehta: So this is just more or less the base? Is that a fair understanding?

Sudhir Menon: Yes, I would say so.

Nimesh Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: Thanks for taking my question. Sir, how many reps do we have in India now? How many medical reps do we have in India?

Sudhir Menon: We have close to around 2720.

Abhishek Sharma: This is down from a peak of 4200, right?

Sudhir Menon: I do not remember the original numbers, but as on date we are at around 2720.

Abhishek Sharma: Sir, you also said there is going to be an increased R&D spend for the India market. Just wanted to understand what would be the focus of this R&D effort?

Sanjay Gupta: The Indian R&D showcases essentially on two types of products. One is what we would call first in India. So these are the products which exists in other geographies and are not yet commercialized in India, so we have build a back end of what we call first in India products and then the second basket which is more I would say what we call in the world, so these are more innovative delivery firms which probably are more explains about 505(b)(2) type of opportunities in the US so we build a basket of products for the Indian markets and first what we call novel drug delivery systems or first in the world basket and these would be our main focus areas for Indian R&D and across the divisions that we have in India. So we would be bringing in new products not only for our CNS and diabetes business, but also for GI, Dermatology and Gynecology divisions.

Abhishek Sharma: Thanks.

Moderator: Thank you. The next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master: Could you give some commentary on the price erosion on Abilify, roughly what you have seen for the last three to four months?

Sanjay Gupta: I will tell you one thing. We are still in litigation with Otsuka and this litigation is expected to go about two years and one of their favorite things is to bring the transcripts of these calls to the litigation. So, I would not comment on prices beyond what we have said in the past, and so I prefer not to comment on the prices prevailing in the market currently, beyond saying that they are much lower than where they were at the time of launch.

Deep Master: Could you comment on your market share?

Sanjay Gupta: I would say IMS market share for Torrent in the month of March is being shown at 4%. So I am going to say that our market share is higher than 4% and we think that IMS is not reporting this product appropriately.

Deep Master: Have you been able to scale up market share Nexium this year?

Sanjay Gupta: Nexium if you look at IMS the brand is still showing a 44% market share, so as a result of which although we have one of the largest customers in the US we have a slow ramp up of sales because the brand is still occupying a large sales inside our customer, but week on week we are seeing our share going up and I think this year we are guided towards a single digit market share for Torrent on Esomeprazole because of the intensity of manufacturing of this product and the capacities and the capabilities available to Torrent. We are looking at a market share around 5% to 7% for this product in the long run.

Deep Master: How much did you say the innovator has, 40% to 44%?

Sanjay Gupta: 44% as of March.

Deep Master: Thank you.

Moderator: Thank you. Due to time constraints we will take the last question from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

Arpit Kapoor: Thanks Sir for taking the question. Just carrying forward from the last question, Esomeprazole bit only. So given that we have got some site transfer approvals we would still not be able to scale up and get market share let us say beyond 10% given the fact that one of the players is having an issue for keeping the plants?

Sanjay Gupta: No, Esomeprazole unfortunately will take some time before it gets dispatched from Dahej. So I would not be guiding towards IR Esomeprazole in the next few months, beyond a 12-month period we will see how things evolve.

Arpit Kapoor: Because I thought it we were able to transfer some of the products; we could scale up Esomeprazole in the last plant?

Sanjay Gupta: This product takes quite amount of time. The manufacturing cycle is about 75 days so we would have to sacrifice some other stuff in order to raise the quantities of Esomeprazole that we are able to make at Indrad. As you know the price of Esomeprazole are not there as they were when it was a two-player market. So today it is six player market, so we have to be careful about the arbitrages between the products and as of present it is not considered judgement that we should not raise the share on Esomeprazole at the expense of some of the other products where we have I would say long-term contracts in place, so you know it is not easy, you do not want to fire your customers on certain products especially given that there are only four large customers left in the US so with these constraints we feel that the target of Esomeprazole should remain where it is.

Arpit Kapoor: How has the pricing been for this product?

Sanjay Gupta: The pricing is lower than what Teva and Mylan had earlier, but it is still a good price and it is an interesting product for us, but it is not where it was.

Arpit Kapoor: Thanks.

Moderator: Thank you.

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

Sanjay Gupta: Thank you for attending our concall and Sudhir remains available for any follow up questions that you might have and we look forward to meeting you at the various conferences in the coming months. Thank you very much.

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