"Torrent Pharma Q2FY2017 Earnings Conference Call"

October 26, 2016

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Moderator: Ladies and gentlemen good day and welcome to the Torrent Pharma Q2 FY2017 earnings conference call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Rahul Solanki from Edelweiss Securities. Thank you and over to you Sir!

Rahul Solanki: Thank you. On behalf of Edelweiss, I welcome you all for the Torrent Pharma Q2 FY2017 earnings conference call. From Torrent Pharma's management today we have on call Mr. Ashok Modi, Executive Director Finance, Mr. Sanjay Gupta – Executive Director of International Business, Mr. Dhruv Gulati, Executive Director of India and ROW 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 Mr. Gupta!

Sanjay Gupta: Thank you. Thanks everybody for joining our call. Good evening. I would like to begin by just taking you through a few highlights for the quarter and for the first half of the year.

During the current Q2 the total revenues of the company degrew by 16% at Rs.1429 Crores versus 1693 Crores in the previous year. For the first half, the revenue degrew by 18% at Rs.2980 Crores versus Rs.3642 Crores in the previous quarter.

The EBITDA for the quarter and half-year is at 26% and 28% respectively. As you can very well know the degrowth in revenue and profit for the quarter and half-year is on account of exceptional revenue profits in the previous period due to a limited competition product in the US. I would like to take you through some of the major business countries where we operate.

Starting with the Indian business the revenue growth in the Indian business for the quarter is 12% and 8% for the half-year. Our per capita productivity continues to increase and has reached a level of almost 6 lakhs during Q2. During the quarter we also launched first time launch in India for CNS product called Lurasidone, which will strengthen our presence in the antipsychotic market.

Attrition at the field force level is under control and the team is really stable with a 10% attrition rate in Q2. And as usual we continue to focus on specialty medicines, specialty physicians, science and productivity and this will continue to have growth in revenues and profitability going forward for our Indian business.

Our second branded generic market Brazil the revenue grew in INR terms for the quarter is at 20% and 21% for the half-year. Value growth trends as per Close-Up which is equivalent to I-Met in Brazil continues to be 26% for both quarters compared to overall ethical market growth in Brazil of 15% and 14% respectively in Q1 and Q2.

During the quarter we launched the first branded generic of Olmesartan in Brazil. To give you an idea about the market size, the market for this product is about 75 million Real. We will also be launching the first branded generic of Trazadone in Brazil relatively soon before the end of the third quarter and the market for this is about 110 million Brazilian Real.

During the quarter the volume in the tender business, which accounts for about 12% of our sales declined precipitously due to the budgetary constraints of the Brazilian government authorities.

Coming to the US revenue degrowth for Q2 and first half were 55% and 53% respectively. We continued to face the full impact of additional competition around Aripiprazole. Since April 1st we have had four additional competitors on the market and this has obviously had an impact on the pricing that we received from our customers.

Pricing for other key molecules by Esomeprazole continued to show a downward trend, as there is additional incremental competition on the market. On the R&D side we continue to invest and both in our internal R&D efforts as well as in-licensing of products from outside and our goal remains to reach about four to five filings of quarter. In the first half of the year we have filed six ANDAs which includes our first Derma ANDA and as well as one STF and one in-licensed product and as of today we have about 20 ANDAs under review at the FDA along with six ANDAs that have received tentative approvals so overall we are expecting four final approvals but 26 products from the FDA in the month ahead.

As far as Dahej is concerned we made efforts to get the additional products approved and we have got eight products approved so far. R&D spending in the quarter is up by about 54 Crores from 57 Crores in the same period, so our R&D spend run rate for the quarter is about 111 Crores and the sale of the Dahej products has began in the US from April and the production has been ramping up and what we would have is as the additional products get approved especially the same released products we would be seeing an impact on the topline of the company.

As the approval of products is slightly slower it has resulted in a lower capacity utilization of Dahej plants while the cost of full capacity has been charged to the P&L. As far as the other territories are concerned so the performance has been satisfactory and now we can open the call up for questions.

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

Anubhav Agarwal: The question is only in the US market, you mentioned about impact on Aripiprazole and Nexium but sequentially the drop that you guys are reported is so significant that it has to involve many more products and I am talking now not year-on-year I am just talking June 2016 to September quarter in Nexium we have not seen any new competition sequentially. We have lost almost like $17 million sequential sales in the US it has to be more than Abilify and Nexium?

Sanjay Gupta: Yes your hypothesis is not incorrect so for Esomeprazole Aurobindo received the approval towards the latter part of April so that is the only new competition that I have seen this year and we had a big impact on Aripiprazole but more importantly we also had an impact across the board as new competition came on and we faced either a loss in volume or a loss in pricing. So I would say that the impact is broader than just Aripiprazole and Esomeprazole.

Anubhav Agarwal: But IMS does not reflect for us any of this impact as yet, IMS shows impact only on Aripiprazole other products it does not show any impact is it that it was start impacting now is this something like you have done the recent contracts where you lost this volume?

Sanjay Gupta: We did lose some contracts in just out of the fiscal year and the impact has there is a lag period yes. Because we feel that the pricing is below rational pricing for us as such we have given up the business but we work with the customers to make sure that the inventories that we build up or to stocks that we build up in our business are liquidated. So yes there is the lag between the change in the commercial scenario and the impact that you would see in our book.

Anubhav Agarwal: Just one more clarity on ANDA filings now that we have done six ANDA filings in first half and you guided for between 10 and 15 what your expectation is now for the second half or the next 12 months rolling rate?

Sanjay Gupta: Anubhav we will be north of 15.

Anubhav Agarwal: North of 15 next 12 months.

Sanjay Gupta: For this current fiscal year.

Anubhav Agarwal: Thank you. I will join back the queue.

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

Aditya Khemka: Thanks for the opportunity. A couple of questions, firstly on the R&D spend you mentioned year-over-year the R&D spend has gone up from 53 odd Crores to 111 Crores this quarter could you continue what was your R&D spend for this quarter and what is your budget for the full year of FY2017?

Sudhir Menon: Aditya as far as guidance is concerned we have not been giving guidance but typically I think quarter one what we had indicated was we are looking at an R&D spend of around 6% so if you look at quarter two this year the R&D spend is close to 8% and for H1 it is around 7% and for the last year if you see it was around 4%.

Aditya Khemka: So the question one is that will the R&D spend be at 7% for the full year or will it be low?

Sudhir Menon: I think the indication is H1 we are already at 7% right and we do not see any reason why it should fall down. So whatever we have said in Q1 on the indication of R&D spend I think that should hold good.

Aditya Khemka: The other question was on the recent products approval that you guys have, I forgot to remain but it is a product with Teva and Mylan at present and it is a 110 million market Sanjay could you remind me the recent ANDA approval that you have got have you launched that product in the US?

Sanjay Gupta: No in the earlier calls if we go back we had guided to about 10 launches this year so I am behind schedule on the launches so we have not really launched any products so far this year but as far as approvals are concerned, I have three approved products already from this year so amongst the approved products we will be launching two in November and one in January and I am also expecting one additional approval end of October so I have good visibility on four launches. The other six launches which I had indicated right now are little bit in the hands of the FDA so I am a little behind on approvals and hopefully we would at least launch a few of them before the end of the fiscal year. So it would be somewhere between 4 and 10. I cannot precisely tell you but we are behind in receiving approvals compared to what my expectation was earlier.

Aditya Khemka: The product I was alluding to the Fluoxetine Hydrochloride so Fluoxetine you already have approval and would this be the product launch in December or November?

Sanjay Gupta: Yes this one would be launching in November

Aditya Khemka: You feel this market is going to remain a little bit competition market it has thus far been but is there some sort of the order in a sort of filing the product is it a complex oral product?

Sanjay Gupta: I think generally it is a very small kind of product and it sells through a wholesaler channel so I would think that I would not expect there is the Mylan which is by far the dominant player which is about 85% market share and Teva has close to 10%, 15% share so I do not expect the other players to come into this part because it is not a large market enough for people to get in.

Aditya Khemka: Lastly Sanjay on the Glochem aspect I read some notes on the financial statements which says that we have not be yet recognized the sales because we are yet to ascertain the fair value of the asset and I see that on the balance sheet property plant and equipment number has gone up by so property plant and equipment plus capital work in progress both these put together it has gone up by 300 Crores for the last reported number in March so what is this 300 Crores so this is now Glochem as I understand currently because Glochem is since with the capital work in progress so is this 300 Crores all Dahej?

Sudhir Menon: Yes just a minute so the CWIP includes the Glochem's number right.

Aditya Khemka: Yes which is about 400 Crores.

Sudhir Menon: No not at all so it was a very small acquisition it was close to around 120 Crores.

Aditya Khemka: So what is it this CWIP and what is the 500 Crores addition and property plant and equipments?

Sudhir Menon: It is basically the normal capex which has happened. If you take the property plant equipment plus capital work in progress we are talking about a net addition of only 249 of which I am saying around 120 is the Glochem and the rest is the normal Capex addition in six months time.

Aditya Khemka: So the number which has moved from CWIP to PPE between March and September is Dahej the 500 Crores?

Sudhir Menon: Yes. The formulation piece we capitalized in April 2006 so the amount has moved from CWIP to the property plant and equipment that is the one.

Aditya Khemka: Sanjay one last question for you. We are about to acquire the derma asset and we are looking to file products but if you look at the current scenario of the derma segment in the US it has changed dramatically from the time we meet this acquisition right. What is your thought process there as the attractiveness of the filing materially fallen down or do you still see there is enough scope in the derma space for us to file aggressively and sort of ramp up in that space?

Sanjay Gupta: The pricing has come down and as well competition increases it is fairly normal. I just wanted to remind you that we were probably late in the US also compared two or three years and we manage to make a kind of a place for ourselves so derma we are one of the very large contract manufacturers in India for MNC companies for the Indian market and we are also manufacturing for our generic large generic players out of Canada so we are probably one of the most cost effective companies in this space so even with the lower price scenario we think we can make a profitable sustainable business out of our derma business so I think our strategy here would be initially not so complicated filings, filings which required a limited investments which would get ramped up over the course of the next few quarters into more complicated chemical trial product but we are confident that we would be able to make a success out of it based on the infrastructure and the cost that we have in our manufacturing facilities.

Aditya Khemka: Ashok one last question to you if I may. I see our balance sheet you have about 1850 Crores our current investments, cash and bank deposits and we have a gross debt of about 2000 Crores long-term borrowing just trying to understand is why are we carrying we get only balance sheet of the cash flow prepaid is it that the debt of this four logo had been telling the cash mix?

Ashok Modi: Good part of this cash is also in the overseas subsidiary so that part is something which needs to be knocked out of this and the remaining cash actually is the part of normal business requirements and typically we would like to have some liquidity in the system to be able to take care of the capex which is happening during the year. We are looking at refinancing options to reduce the cost of debt in some bit but otherwise we are generally comfortable with this sort of situation and now the net debt briefly we are close to zero although there would a bit of negative carry which I would say is a cost of having the reigns of company running smoothly. So we are comfortable with these sorts of numbers.

Aditya Khemka: Sanjay I thought this question I missed on the US side given that we have seen significant price erosion in many of our large products over the past two quarters now and the other products also you are indicating have contributed to this so from the current base the base that you have reported this quarter was 300 odd Crores on a base business perspective so forget about the new launches but on the current business how much more pressure do you envisage can it is fall another 10% within the next two quarters or do you think that would be practical situation. The truthful answer is actually I do not know because there is a the environment is changing and you have the FDA which is pretty close to respecting is GDUFA commitments and secondly you will also have from 1st of April the merger or if the joint purchases from Wal-Mart and Nikasin?

Sanjay Gupta: So there are certain changes taking place in the market place and I would not hazard a guess but I think really what we thought at the beginning of the year we said usually we use to have 3% to 5% and we thought that this year our pricing impact should be in the 5% to 10% range on the base business that is how we are kind of thinking about our business that is not changed but I would not be able to tell you exactly where we would be in the next two quarters.

Aditya Khemka: Most of that, sorry I have to just follow up to do like the question on this as well. But just to put us in perspective you without closing any significant volume we have actually lost 25% of the 1Q revenue and 3Q if I go by the IMS data most of this has to be priced I do not see any significant volumes of at least for the larger products that you have in IMS. So even if it is not the entire 25 units of 15% quarter-on-quarter pricing deflation how much more there has to be a limit beyond which you cannot really function in a profitable manner in the US so that is what I am trying to get from you actually how much more can this grow because we have already lost like 28% on pricing quarter-on-quarter?

Sanjay Gupta: I think that is a large part of it is due to Aripiprazole so which Aripiprazole has now become more or less a normal product let us put it this way. So I do not envisage those kind of macro impact, but the routine business as usual impacts with the pricing and the pressures that we face that would be my guess going forward I do not expect anything out of the box and I would say from Q2 to Q1 we had a few out of the box issues impacting us. I would not specifically name it so we did face some irrational competition on one product where we had some launch impact and where we had a direct impact which was significant for the topline.

Aditya Khemka: Thanks for taking my questions and all the best.

Moderator: Thank you. We will take the next question from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Thanks for taking my question. Continuing on the US business you said that this has competitive pressures and I assume this would mostly be the pricing pressure but if I look at the gross margin the gross margin has kind of remained same sequentially so we have seen a proportionate decrease in the material consumed so what is it if it is pricing pressure competitive pricing pressure and the gross margin also should decrease but here we are looking at same kind of gross margin can you just explain what I am missing here?

Sudhir Menon: I think Nimish the other territories have been doing well right and typically if you see the US constitution in quarter two to the total revenue pie is hardly 22% and the territories like India, Brazil and other branded segments the more the sales, the gross margin has to improve. So it is basically a product mix and a territory mix which is maintaining the same kind of margin between Q1 and Q2.

Nimish Mehta: But if I were to assume that Abilify I as bulk of it and Abilify I obviously would be much larger than the normal gross margin even in Q1 it will still hold true I am trying to understand or it is as you mentioned there was one other product where you had seen irrational competition all those were not larger than the average gross margins that you use to have generate otherwise.

Sudhir Menon: Not really. For example let us say the other factor could be the price increases which we have taken and almost all the territories typically if you look at Brazil there have been substantial price increases which have been allowed by the government which was almost 12.5% to 13% price increase so all this helps to really maintain our margin in spite of the Abilify going down in quarter two compared to quarter one.

Nimish Mehta: Was there no ramp up in Detrol LA, which I think which will have a very low competition in that segment?

Sanjay Gupta: So basically we have sold out on that product so but going forward we have taken steps to increase our production capacity on that product and hopefully I would say that we would start chasing some more share in the month ahead but so far we are seeing capacity constraint on that product.

Nimish Mehta: I thought that the capacity constraint is no more an issue given the Dahej plant.

Sanjay Gupta: Unfortunately each product has to go through the same process to get approval for Dahej so it will be a little bit more time before we start making tolterodine in Dahej but what we have done is the kind of some changes to move the product to larger glass in Indrad and we would get that approval from the FDI and then we would be in a position to increase our volumes to the US market.

Nimish Mehta: So given the competition in existing products you still see that expanded capacity can increase your volume not just Detrol I am talking about other products as well is that a possibility still there.

Sanjay Gupta: Sure I have 56 approved ANDAs there are at least five or six of them what I am looking to increase the capacity and where I think there is opportunity for us to strike so we are out of the 56 so there are products where we are almost out of the market due to our past baggage in terms of capacity constraints and as these products get approved in Dahej or as more of the sustained released products we would be in a position to increase volumes. So all the products I would not paint them in the same brush.

Nimish Mehta: So there is a scope of improvement from the current sales even if we do not get new products is that a fair assumption?

Sanjay Gupta: Yes absolutely, I will give you a couple of examples just to illustrate what I am saying so tolterodine is the good example where we have been constraint and we have been kind of limited stock, if you look at IMS our market share is being struck at about 18% that is how because we cannot get more market share it is more because we cannot produce more as yet for this product. Another product which we use to sell which I do not sell anymore is Venlafaxine for example that is the product which made in the glatt I have almost kind of do as we transferred production capacity to initially first to Duloxetine then to Esomeprazole and then it is all the same equipment so as a result of which it provides me an opportunity that once we have capacity available to relaunch a product like Venlafaxine for there has been a very strong demand the market is still growing at 7% to 8% in unit term for that molecules and it is never in our products. So yes I would be reviving some of these products, which are being kind of let go because of other higher price opportunities in the last two to three years.

Nimish Mehta: Sir I know these are uncertain times but any outlook that you can give on the US business would be helpful may be not the immediate quarters but next year also?

Sanjay Gupta: I think we are reaching a level where the impact of our Aripiprazole is as a onetime product should not be anymore I would say more it is like a business as usual or routine so the growth will come from the same factors that have always kind of worked for us. On the positive side it will be a new product and on the negative side it would be pricing pressure and loss of market share and as we focus on increasing share of existing products so for me it is business as usual I think I would say that the hangover phase is over so I would not be able to give more guidance except that you should expect current trends to especially this time from Q1 to Q2 I would not expect that the fleet of that it is more like a regular business going forward.

Nimish Mehta: Just last if I can squeeze that almost 17 million decline that we have seen Q-o-Q sequentially how much would it be from Aripiprazole if you can quantify?

Sanjay Gupta: I would not quantify but it will be substantially so the product is now become a regular product as I have spoken in the past calls about where the pricing was in terms of percentage of branded WAC so that would give you a rough idea. I think one point which gets missed out very often is hope look at our share in the IMS, IMS is not an accurate reflection of our share and especially one should not look at the value shares in IMS plus anything representative so we had a fairly good run rate we meant our targets of Aripiprazole but that is behind us for now and now I would prepare it as a regular product and on power with any other product in our portfolio.

Nimish Mehta: Thank you very much.

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

Nitin Agrawal: Thanks for taking my question. On the domestic business we still at about 12% of growth we have been talking about the growth picking up over the last several quarters and we have seen a fair number of our peers are reporting much stronger growth in the current quarter with the market was also being little on the higher side so where do we see the trajectory of the market now incrementally when do we see our growth rates bring into accelerate the market?

Dhruv Gulati: See if you look at the Q1 our growth was 3% and in Q2 we have almost become 12% and even in AIOCD if you look at as compared to Q1 now our growth is about 9% but as you know we have been discussing earlier that we have been defocusing on anti-infective so if I remove the anti-infective our growth in AIOCD is at par with internal growth and also we are at par with the market and going forward our focus has been on specialty, science and productivity as Sanjay Bhai has just correctly said that we have received the productivity of 6 lakhs that shows that we are on the right path and our growth in the coming quarters is going to be better than the overall market.

Nitin Agrawal: But Sir on a sustainable basis if we take a look at the next two to three years what is the kind of about market growth that we can do in terms of how should the moral growth for the domestic business going forward?

Dhruv Gulati: Our focus has been very clear if you look at the series of business hygiene measures which we have been implemented we do not anticipate any further course action and this should take us forward in a much healthier way and the growth and our focus is purely on the prescription and if you look at our trade growth which is very high which is almost 1.5 times and the overall growth if you look at so that shows that we are on the right track we are in the business of generating prescription and that will be strengthen further with the kind of activities what we are doing.

Nitin Agrawal: Secondly Sir on Dahej, Sanjay when do we see the impact of Dahej on the non-US market so I think that was essentially a big plant for us in terms of Dahej capacity sort of helping us grow our European business.

Sanjay Gupta: We are only making like European API at Dahej so that has started. In terms of finished products right now the focus for Dahej plant itself is essentially a large part on the US and you would see a bidding for additional tenders for the European market mostly from the Indrad plant as the capacity gets freed up I would say from the start of next fiscal year.

Nitin Agrawal: Lastly on the cost structure we have seen some material increase in the staff cost on a YoY basis is there any one half in this or this is the base we should take now going forward staff cost as well as the SG&A expenses?

Sudhir Menon: Nitin there have been one half's in both the quarters but I think going forward, I would not indicate any number but I think by and large it should be plus minus 5 to 10 Crores.

Nitin Agrawal: If I take an aggregate of an employee cost in SG&A expenses.So it is pretty much the base or that we can go well.

Sudhir Menon: Yes.

Nitin Agrawal: Thank you.

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

Anmol Ganju: During the last quarter on an ex-Abilify basis you made a comment that we are base business grew low single digit would it be possible to share the same number for this quarter ex-Abilify what was these business growth for degrowth?

Sanjay Gupta: I think it is clear that there is degrowth but I do not have the number right now with me ex-Abilify. I do not want to communicate from this quarter Abilify and the others separately we should lump them together because like I mentioned Abilify is just a product amongst the others.

Anmol Ganju: So basically what I am trying to understand is based on your commentary incremental competition in two products supply constraints in Dahej are the big drivers of the sequential drop that we have seen. I know you would not share an exact number but just from how we think about sustainable run rate what is it that we should be working with if you would be able to attribute proportionately which, these three factors the proportion and which they contributed to the decline that would be helpful any sense would be helpful if you do not want to share the exact numbers?

Sudhir Menon: I think that is what Sanjay indicated take that the quarter two number looks like a normal quarter which would be feasible for the remaining part of the year as well.

Anmol Ganju: In that case because as I understand that there cannot be significant pricing erosion from here on and if ANVISA price hikes are in effect for at least two years is this pretty much the gross margin trough that we should work with?

Sudhir Menon: I think it more depends on the product mix and the territory mix i.e how the revenue flows in. So typically if you look at quarter two India and Brazil put together is around 45% to 46% of the total revenue. I think it will be a mix of both the territory revenues as well as the product mix. By and large if let us say the US is going to have this share of the pie by and large it should look similar.

Anmol Ganju: My third question slightly medium-term now it has been around three quarters that we are on this new annualized 400 Crores kind of R&D spend run rate and also greater visibility into what we will be able to launch now from a FY2018 perspective how confident are you feeling on the US business and how should we be thinking FY2018 US business growth?

Sanjay Gupta: One thing that has changed for us on the US business since the product that are filed this year. So the six that I referred to out of which leave aside the one FTF issue because that has dynamics of its own but the remaining five others we expect to launch them in the next fiscal year because of the FDA GDUFA guidelines.

Anmol Ganju: So what I was trying to understand is that now that we have seen sharper than anticipated erosion in the base does that kind of do we go back to the drawing board in terms of the assets that we are looking at or what we might be doing in organically to sustain growth?

Sanjay Gupta: My analysis is that inorganic growth remains interesting but at a right price, especially given the new environment I would guess that the value of the assets from the market there would be a larger gap between the expectations of the sellers on the offers of the buyers given that the market is not the same as it was a year ago.

Anmol Ganju: I have more questions I will get back in the queue. Thank you for taking my questions.

Moderator: Thank you. We have the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Thank you for taking my question. Sir my first question is on Brazil if I could understand what was the local currency growth rate and if you could tell me give some color on the volume trend in that market particularly since you said that the tender business has slowed?

Sanjay Gupta: Yes absolutely in terms of overall the local currency growth since Q1 we had a growth of 31% and in Q2 we have a growth of about 8% so overall if you wish our H1 growth is coming out over 19%.

Neha Manpuria: The decline from 31% to 8% is essentially because of decline in tender government tender business that you talked about.

Sanjay Gupta: Yes there is the big decline in volume. I would just tell you that the tender business is down by almost 20% it is roughly about 12% to 13% of our business and that essentially because of fiscal issues of the government but also on the trade business we have a negative very low negative volume growth which is in the -2% to -3% range but overall it is compensated by the price to impact in Q2 which is continuous to be about 10% and that new product is roughly giving about 2%.

Neha Manpuria: How do you see this panning out for the next few quarters?

Sanjay Gupta: We would expect the volume growth in the trade business we would expect the volume growth to be in line with the Brazilian markets volume growth are higher and so you would expect that to come back to about a high single digit or even double digits during this quarter we also had one kind of exceptional situation because of which we have the constraint in Brazil the law required as to test extensively each batch when it arrived so we have a QC lab in reserve and we have some issues in the productivity of QC lab because of which we build up a large backlog of inventory in our warehouses and we could not release all the batches that the customers required so that is also a factor which has contributed to the volume decline in the trade business. So when is the choice we have been trade and tender we tend to favour the tender business but this quarter we also have a negative impact that is vary about 2%, 3% negative impact on the trade business because of the constraints that we had with the QC lab so we have increased the capacity we have done some capex and we have hired additional people so going forward we should not have that as a bottleneck to increasing our sales on the trade business.

Neha Manpuria: Sir my second question is on the medium-term in terms of M&A I mean you talked about valuations and assets available at the right price but in terms of priority which are the areas that you are focusing on for M&A of US obviously remains one of them but in US what particularly are you looking at and is there any other markets that you are looking at opportunities?

Sanjay Gupta: Overall now the M&A priorities continues to be in lot different, our first priority for growth is India which is our home country we understand the market and we would like to do more here and we are actively it is moving all the possible opportunities that we can participate in and I would say in terms of priority two I would put the US and Brazil along the same level both are markets where we have very strong platforms and we can build on those additional platforms in terms of priority three I would say the UK because we have a good business there which is less than $10 million we are growing and now we understand that market and we would like to do more in the UK. That is the geographical focus for itself growth in terms of what type of company what therapeutic areas we would like to acquire in so I think we essentially would like to do two things one is in the areas where we are present can we add more scale the answer is yes because of our presence is not optimal so we can do a scale type acquisition but more importantly what we would prefer in doing a acquisition which leads to additional therapeutic areas or new dosage forms in our businesses so more like a scope type acquisition and we continue to evaluate all possible opportunities so I think I have shared in geographical priorities as well as the technological or therapeutic priorities that we would have for external growth.

Neha Manpuria: Would there be a size limit that we are looking out for certain side let us say $200 to $400 million $500 plus million when we evaluate these opportunities or we have not constraint ourselves to a particular number?

Sanjay Gupta: I think the company's current financial strength is such that it allows us to do acquisitions up to $400, $500 million without kind of changing anything major and the way we operate today higher.

Neha Manpuria: Thank you so much for taking my question Sir.

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. Just trying to understand the India growth if you could split into volume new product and pricing phase?

Dhruv Gulati: In Q2 if you look at our price growth in AIOCD if you look at Q2 was 6% is price 1% is volume and then is about 2%.

Prakash Agarwal: So that is what the question is actually the volume growth has still not seen are we still continue to see the volume disruption due to NLEM or is it due to the bonus scheme that we launched in it is still kind of having some teething issues?

Dhruv Gulati: We discontinued our bonus offers you remember last year we had informed you so that was one and second thing is our hygienic factors which we have taken up so that is the reason the volume has been hit in this quarter.

Prakash Agarwal: Can you share an outlook on the volume uptick?

Dhruv Gulati: Volume market if you look at the market has grown by almost 7%.

Prakash Agarwal: And what can be share in terms of how do we plan to improve our volumes from here?

Dhruv Gulati: See we have said we are focusing basically on specialty. We have started focusing on specialty. We have reduced the GP coverage drastically and specialties they take little time to pick up your brand and start prescribing so it is lot of scientific activities what we are doing focus on specialties that is going to help us to improve our volumes.

Prakash Agarwal: A follow up to this is when you say specialty you are looking at the existing top brand we have or we have a second line of top 20 to top 30 products where we are planning to increase that coverage or we are more focusing on the top 10 brands which are giving us higher growth?

Dhruv Gulati: See what we are looking at is not only building our bigger brands but also we are focusing on other brands which have high potential and also building the NIs as Sanjay Bhai said we have recently launch on Lurasidone also which is the antipsychotic drug and as a very good hope.

Prakash Agarwal: Just trying to understand the news flows that keep coming in terms of increasing the NLEM impact so our top 10 products constitute about 33% of sales so is there a plan to derisk in terms of making bigger brands or acquiring that is what you said but is there a serious effort because all the acquisition available are very expensive so what is your thought?

Dhruv Gulati: You are right see we are building our own brand each therapy or each division is focusing on three to four brands we call them lead and build brand so we are focusing and each division is focusing on certain brands and building big brands that is what we are doing.

Prakash Agarwal: Second question on the tax rates how do we see the year and next year?

Sudhir Menon: H1 we are close to 17%. I think it is safe to assume for the full year it should be in 18% to 20%.

Prakash Agarwal: Some color on next year Sir?

Sudhir Menon: Next year it would be difficult for me to comment.

Prakash Agarwal: Thank you.

Moderator: Thank you. We have the next question from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: How are you looking at Glochem are there immediate opportunities for you to backward integrate your existing portfolio what is your DMF filing strategy and when can we see truly vertically integrated products coming out of Torrent whole for the US market?

Sanjay Gupta: Torrent currently has about 31 DMFs which are filed in the US so what we have with Glochem is, Glochem was actually already a manufacturer of APIs for Torrent to some extent we have done the CB30 filings in using Glochem and it was a part and parcel of our supply chain to some extent what is allows us to do is to file additional DMFs from there and I would say that our goal is to file 8 to 10 DMFs every year.

Abhishek Sharma: These would basically be an attempt for you to vertically integrate your pipeline or existing portfolio?

Sanjay Gupta: Yes absolutely so we are now in terms of FDA approved API plants we have. They are not very large plants so just to give you it is like about for 60 tonnes for Indrad about 60 tonnes for Dahej it is about 50 tonnes for Glochem. So we are not going to become a very large API manufacturer but well it is interesting is that it allows us to manufacture high cost expensive APIs and also manufacture APIs for which the sourcing in the market is very difficult.

Abhishek Sharma: And can you indicate as to what percentage of your US revenue you are able to you have your own API supply?

Sanjay Gupta: Roughly in the 40% range I would say.

Abhishek Sharma: And this does not include the Abilify I believe?

Sanjay Gupta: No Abilify we do not manufacture the API as such.

Abhishek Sharma: Thank you.

Moderator: Thank you. We have the next question from the line of Sayan Mukherjee from Nomura. Please go ahead.

Sayan Mukherjee: Just one question on your filing strategy when you mentioned like out of the six filings you did five you expect to launch next year, it gives the impression that these Para-III launches where there are existing players in the market is that a right thought process here and I just broadly now how you are trying to build your portfolio is it going after some niches or you are going after the first way of launches any color if you can give there?

Sanjay Gupta: It is a combination of various products so when I said that we filed six so I would just give you a little detail on the six so firstly one in FTF the others are more like Para-III or day 181 launches so once you have that then one of them is the derma product so it is a derma product which does not require a clinical trial so that gives you an idea whether it is a steroid, anti-viral or anti-fungal product and so then on top of it one we have external sourced product for which the regulatory work but the development was done externally so what we have as of today is roughly we have already signed fiscal year about six deals with company's outside and our goal is to sign about ten external R&D deals every year at least so you would have a mixed deals so right now with the amongst the six deals we have signed. There are some which we do not manufacture so they would become like soft gelatin capital opportunity some times of oral oncology drugs so it is a combination of external and internal, external we can do anything sometimes things for which we do not have capacities internal we would do a mix of first to file, day 181 paragraph, three I would say derma, onco, opthal as well as OFDs.

Sayan Mukherjee: When you talk about I think 15 filings annually so that is all internal development and licensing and outsourced will be on top of it?

Sanjay Gupta: Yes.

Sayan Mukherjee: So have you set up any numbers for that how many you are pursuing and so I am just wondering like couple of is down the line how large you want to put portfolio to be because that is one issue the portfolio is relatively leaner at this point?

Sanjay Gupta: Absolutely so our objective is to sign about ten deals but I would not be able to give you filing and launch guidance for those deals that we sign because we tend to be fairly spread out overtime so if we might sign a deal this year for 20, 23 for example, so unlike the filings we make, so I would say that you should take about 15 filings from the company and in terms of launches on a sustainable basis we should be combination of external internal we should be about 15 launches a year fairly easily from FY2018, FY2019 onwards.

Sayan Mukherjee: One just last question if you can going forward like whatever products which are in public domain if you can share the what are the relatively better or less competition opportunities that you look forward to?

Sanjay Gupta: I am not aware about which ones are in the product domain, so if you have a specific question on a product I would try to help you answer but other than that we do not actually talk about specific products.

Sayan Mukherjee: You have a filing for Seroquel XR and also I think last call you talked about Renvela if you can update us from these few?

Sanjay Gupta: Yes I can update you on Renvela so Renvela we have actually responded to all the questions that FDA had asked us and as of today there is nothing more that we are doing and we are just waiting for the FDA to kind of come back to us either with additional queries or with the in terms of what we need to do or not do so clearly we do not have any visibility and I would be like to comment up on it in terms of what will happen in terms of I think you are referring Cetapin ER so in terms of Cetapin ER we have some queries from the FDA and we expect to respond to them relatively soon and depending upon where the competitors launched we might be in base two of wave one depending upon what others do but we have one pending queries from the FDAs which we are working on right now.

Sayan Mukherjee: Thanks a lot.

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

Aditya Gupta: Thank you for taking my question. Sir my question is, what is the key products that you are expected to launch in the US in this fiscal year?

Sanjay Gupta: I am sorry, can you repeat the question.

Aditya Gupta: What are the key products that you are expected to launch in the US?

Sanjay Gupta: I think we have not publicly listed out the product but if you look at the approvals that Torrent has received or has received there about four or three which we have already got approvals for this year so we have discussed one of them which was Fluoxetine, we have a couple of others which are already approved and then we are expecting one more approval by the end of this month so there are four which I am fairly 100% about in terms of FDA approval there are another six for which my expectation was to receive approval this year this fiscal year I have not received them as yet but at least out of the six at least two or three at minimum which I should receive approvals at this year so I think we would actually send the year with close to six seven launches but I would not like to go through a individual list of products.

Aditya Gupta: Sir what is the capex guidance for the FY2017?

Sudhir Menon: **O**n an average we have been talking about 500 Crores per year so basically next three years period we are looking at around 1500 Crores.

Aditya Gupta: Thank you.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Sanjay Gupta: Thank you for your interest in Torrent and we hope to get back on the growth trajectory as soon as our comparatives get better. Thank you. Bye! Bye!

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