

Indoco Remedies Limited

Management Discussion & Analysis for the Third Quarter FY17

➤ Financials

(₹ In Lakhs)

Particulars	Unaudited							Audited
	Quarter Ended				Nine Months Ended			Year Ended
	Dec'16	Sept'16	Dec'15	Gw%	Dec'16	Dec'15	Gw%	Mar'16
Gross Sales (Net of Sales Returns):								
Formulation :								
- Domestic	14415	16884	13708	5.2	45492	40126	13.4	53561
- Exports								
Regulatory Market	9160	7715	9040	1.3	24815	24145	2.8	33657
Emerging Market	1642	1539	1390	18.1	4475	3372	32.7	4914
International Buss. Total	10802	9254	10430	3.6	29290	27517	6.4	38571
Total Formulation ... (A)	25217	26138	24138	4.5	74782	67643	10.6	92132
API :								
- Domestic	573	648	648	(11.6)	2195	2235	(1.8)	2848
- Exports	1250	711	725	72.4	2746	1913	43.5	2563
Total API ... (B)	1823	1359	1373	32.8	4941	4148	19.1	5411
CRO & Analytical Services :								
- Domestic	181	142	73	146.8	387	246	57.0	334
- Exports	-	-	57	-	-	264	-	335
Total CRO ... (C)	181	142	130	39.0	387	510	(24.2)	669
Total Gross Sales (A+B+C)	27221	27639	25641	6.2	80110	72301	10.8	98212
Other Operating Income	598	462	402	48.8	1525	1871	(18.5)	2677
Total Income from Operation	27819	28101	26043	6.8	81635	74172	10.1	100889
EBIDTA	3953	4195	4276	(7.6)	12328	13015	(5.3)	17235
Operating Profit	3604	3574	3295	9.4	10633	10533	0.9	14292
Profit Before Tax	2336	2472	2211	5.7	7095	7602	(6.7)	10093
Profit After Tax	1759	2213	1898	(7.3)	5951	6134	(3.0)	8332

➤ **Financial Highlights**

The Net revenues for the quarter grew by 6.2 % at ₹ 272.2 crores as against ₹ 256.4 crores during the same period last year. Year to date, the Net revenues grew by 10.8 % at ₹ 801.1 crores as against ₹ 723.0 crores during the same period last year.

Formulations business contributed to 93% and API business contributed to 7 %. The formulations business grew by 4.5 % at ₹ 252.2 crores, as against ₹ 241.4 crores during the same period last year. APIs business revenues grew by 32.8 % at ₹ 18.2 crores, as against ₹ 13.7 crores during the same period last year.

Year to date, the formulations business grew by 10.6 % at ₹ 747.8 crores, as against ₹ 676.4 crores during the same period last year. API business revenues grew by 19.1% at ₹ 49.4 crores, as against ₹ 41.5 crores during the same period last year.

During the quarter, the material consumption is 36.1% of the net sales, as against 37.0 % for the same period last year. The staff cost to net sales is 20.2 % as against 17.4 % for the same period last year. Depreciation / Amortization are at ₹ 14.4 crores, as against ₹ 15.2 crores for the same period last year. Research & Development (R&D) expenses to net sales are 5.1 % at ₹13.8 crores compared to 4.3 % at ₹ 11.0 crores for the same period last year. Other expenses to net sales are 26.3 % at ₹ 71.5 crores, as against 26.2 % at ₹ 67.2 crores during the same period last year.

For the Year to date, the material consumption is 35.5 % of the net sales, as against 36.5 % for the same period last year. The staff cost to net sales is 19.9 % as against 18.0 % for the same period last year. Depreciation / Amortization are at ₹47.9 crores, as against ₹ 45.1 crores for the same period last year. Research & Development (R&D) expenses to net sales are 4.7 % at ₹37.8 crores compared to 4.1 % at ₹30.0 crores for the same period last year. Other expenses to net sales are 26.4 % at ₹211.6 crores, as against 25.9 % at ₹187.4 crores during the same period last year.

Earnings before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the quarter are 14.5 % at ₹ 39.5 crores, as against 16.7 % at ₹ 42.8 crores during the same period last year.

Year to date, Earnings before Interest, Depreciation, Tax and Amortization (EBIDTA) to the net sales is 15.4% at ₹123.3crores, as against 18.0 % at ₹ 130.2 crores during the same period last year

Profit Before Tax (PBT) for the quarter is 8.6 % of net sales at ₹ 23.4 crores, as against 8.6 % at ₹ 22.1 crores during the same period last year.

Year to date, Profit Before Tax (PBT) is 8.9 % of net sales at ₹ 71.0 crores, as against 10.5 % at ₹ 76.0 crores during the same period last year.

Profit After Tax (PAT) for the quarter is 6.5 % at ₹ 17.6 crores, as against 7.4 % at ₹ 19.0 crores during the same quarter last year.

Year to date, Profit After Tax (PAT) is 7.4 % of net sales at ₹ 59.5crores, as against 8.5 % at ₹ 61.3 crores during the same period last year.

➤ Credit Rating

The Company's working capital facilities are rated as A1+ and long term borrowings are rated as AA- by ICRA.

Instruments with A1+ rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

Instruments with AA- rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

➤ Finished Dosages

Indian Pharma Market (IPM)

The Indian Pharma Market (IPM) during the quarter witnessed a growth of 10.4 % with revenues at ₹ 28113 crores, as against ₹ 25459 crores during the same quarter last year. On demonetisation of currency notes on 8th November 2016 disrupted the liquidity in market causing a setback to sales across all therapies, especially acute segment.

Secondary Sales Audit Ranking

The Company is at 30th rank for the month of Dec'16 as well as on MAT basis. (Source: AWACs)

Prescription Ranking

Indoco ranks 23rd in prescription ranking as per Sept'16 MAT generated 69.58 Mn prescription as against 65.26 Mn prescriptions, reflecting 7 % prescription growth. (Source: IMS).

Indoco's Domestic Formulation Business:

The Domestic formulations business for the quarter grew by 5.2 % at ₹ 144.1 crores compared to ₹ 137.1 crores for the same period last year. Year to date, the domestic formulation business grew by 13.4% at ₹ 454.9 crores as against ₹ 401.3crores

Details of revenues from major therapies are as follows: (₹ In Lakhs)

Therapy	3QFY17	3QFY16	Gw %
Respiratory	2,942	2,725	8.0
Stomatologicals	2,377	2,399	(0.9)
Anti-Infectives	2,182	2,350	(7.2)
Gastro Intestinal	1,726	1,499	15.1
Pain / Analgesics	1,084	1,160	(6.6)

Details of revenues from major brands are as follows: (₹ In Lakhs)

Brand	3QFY17	3QFY16	Gw %
Febrex Plus	1,564	1,356	15.3
Cyclopam	1,287	1,105	16.5
Sensodent K	737	802	(8.0)
Oxipod	709	706	0.4
Karvol Plus	637	585	8.8
Cital	586	465	26.0
ATM	556	626	(11.2)
Cloben G	513	447	14.7
Sensoform	448	453	(0.9)

New product introductions:

During the quarter, the Company launched 9 new products, three in Anti-diabetic, three in Respiratory & three in Stomatologicals.

The newly acquired solid dosage facility (from Micro Labs) at Baddi has commenced manufacturing for Domestic Market and the Company expects this plant to be inspected by European regulatory authorities in the next financial year.

➤ **International Formulation Business**

During the quarter, the international formulation business revenues grew by 3.6% at ₹ 108.0 crores as against ₹ 104.3 crores during the same period last year. Year to date, the international formulation business grew by 6.4% at ₹ 292.9 crores as against ₹ 275.2 crores during the same period last year

Europe contributed to 34.9 % of International formulation sales, followed by US at 31.5 %, South Africa, Australia & New Zealand at 18.4 % and Emerging markets at 15.3%.

USA

During the quarter, the revenues grew by 27.5 % at ₹ 37.8 crores as against ₹ 29.7 crores for the same period last year. Year to date, the revenue grew by 17.9% at ₹ 92.1 crores as against ₹ 78.2 crores for the same period last year.

Current Status of ANDAs:

- ❖ 10 approvals till date
- ❖ 3 tentative approvals
- ❖ 25 filed but pending approval

We are still awaiting Establishment Inspection Report (EIR) from the USFDA for our Goa Plant II & III for the audit conducted in the month of Sept. 2016.

Europe

The revenues for the quarter were at ₹ 35.9 crores, as against ₹ 37.4 crores for the same period last year. Year to date the revenues were at ₹ 102.2 crores as against ₹ 111.5 crores

During the quarter, our finished dosage facilities at Baddi and Goa (Plant I) successfully completed UK-MHRA inspection. The Company has won the AOK tender for supply of Allopurinol and Losartan tablets in Germany.

South Africa, Australia and New Zealand Business

The revenues for the quarter were at ₹ 17.8 crores, as against ₹ 23.3 crores for the same period last year. Year to date, the revenue were at ₹ 53.4 crores as against ₹ 51.8 crores for the same period last year

The Company has started supplying Aripiprazole in Australia market and expects to garner 20 % market share.

Emerging Markets

The revenues for the quarter grew by 18.1 % at ₹ 16.4 crores, as against ₹ 13.9 crores for the same period last year. Year to date, the revenues grew by 32.7% at ₹ 44.7 crores as against ₹ 33.7 crores

➤ Active Pharmaceutical Ingredients (APIs)

During the quarter, the revenues of API business grew by 32.8 % at ₹18.2 crores as against ₹13.7 crores during the same period last year. API domestic sales were at ₹ 5.7 crores, as against ₹ 6.5 crores whereas, the API international revenues were at ₹ 12.5 crores during the quarter as compared ₹ 7.2 crores to the same quarter last year.

Year to date, the revenues of API business grew by 19.1 % at ₹ 49.4 crores as against ₹ 41.5 crores during the same period last year. API domestic sales were at ₹ 21.9 crores, as against ₹ 22.3 crores whereas, the API international revenues were at ₹ 27.5 crores as against ₹ 19.1 crores to the same period last year.

During the quarter, the Company filed two Drug Master Files (DMFs), viz., Canagliflozin (Antidiabetic) and Neostigmine Methylsulfate (Anticholinesterase). With these filings, the total number of DMFs filed are 17.

➤ **CRO & Analytical Services**

During the quarter, the revenues from CRO & Analytical Services business were at ₹ 1.8 crores as against ₹ 1.3 crores during the same period last year. Year to date, the revenue were at ₹ 3.9 crores as against ₹ 5.1 crores for the same period last year

➤ **Intellectual Property Rights (IPR)**

The Company has filed total 23 patents for F&D & 50 patents for API manufacturing as on date.

➤ **Future Outlook**

The Company's domestic business continues to focus on brand building, new product launches, thrust on sub-chronic (speciality) segment and penetration in Tier II and Tier III towns. The Company has re-structured its domestic business with addition of marketing divisions and field force to accelerate growth and build on its core strengths in the mass specialty segments.

Going forward, the Company's business from US and EU territory is expected to grow speedily as ANDAs and Dossiers will be commercialized at regular intervals. While surging ahead in the Regulated Markets, Indoco is also consolidating its position in the Emerging Markets through active brand promotion. Robust pipeline in multiple dosage forms will enable the Company to have an upper edge over its competitors in the international business.

With the smooth integration of a newly acquired CRO, the Company is now completely integrated and will remain a preferred partner, offering complete solutions to generic companies worldwide.

Expertise in Research & Development, backward integration in API in select products, own CRO Set-up, excellence in finished dosages manufacturing and a strong customer base will ensure consistent growth in the Company's Domestic as well as International business.

Safe Harbour

Statements made in this Management Discussion and Analysis (MDA) describing the Company's objective, projections, estimates and expectations may be 'Forward-looking statements' within the meaning of applicable securities laws & regulations. Actual results could differ from those expressed or implied due to risks, uncertainties and inaccurate assumptions.