

Indoco Remedies Limited

Management Discussion & Analysis for the Second Quarter FY16

➤ Financials

(₹ In Lacs)

Particulars	Unaudited							Audited
	Quarter Ended				Half Year Ended			Year Ended
	Jul'15 - Sept'15	Apr'15 - Jun'15	Jul'14 - Sept'14	Gw %	Apr'15 - Sept'15	Apr'14 - Sept'14	Gw %	Apr'14 - Mar'15
Net Sales :								
Domestic – Formulation	13805	12441	13740	0.5	26245	25895	1.4	50479
- API	764	699	684	11.7	1464	1273	15.0	2527
- CRO	31	18	-	-	50	-	-	-
Total Domestic ... (A)	14600	13158	14424	1.2	27759	27168	2.2	53006
Formulation Exports :								
- Regulated Market	8234	6872	6555	25.6	15106	12284	23.0	25155
- Emerging Market	1053	929	950	10.8	1982	1559	27.1	3871
Formul. Exports Total:	9287	7801	7505	23.7	17088	13843	23.4	29026
API's Export	691	497	667	3.6	1187	1325	(10.4)	2657
CRO Export	124	83	-	-	207	-	-	-
Total Export ... (B)	10102	8381	8172	23.6	18482	15168	21.8	31683
Total Net Sales (A+B)	24702	21539	22596	9.3	46241	42336	9.2	84689
Analytical & Testing Income	65	58	46	41.3	123	101	21.8	201
Net Revenue	24767	21597	22642	9.4	46364	42437	9.3	84890
Other Operating Income	726	743	201	-	1469	269	-	474
Total Income from Operation	25493	22340	22843	11.6	47833	42706	12.0	85364
EBIDTA	4575	4260	4863	(5.9)	8835	8520	3.7	16519
Operating Profit	3717	3195	3769	(1.4)	6912	6635	4.2	12941
Profit Before Tax	2854	2566	3336	(14.4)	5420	5835	(7.1)	10948
Profit After Tax	2262	2027	2241	0.9	4289	4245	1.0	8281

➤ **Financial Highlights**

Net Revenues of the Company during the quarter grew by 9.4 % at ₹ 247.7 Crs as against ₹ 226.4 Crs during the same period last year.

The revenues from domestic business were at ₹ 146.0 Crs compared to ₹ 144.2 Crs during the same period last year and the revenues of international business were at ₹ 101.0 Crs as against ₹ 81.7 Crs during the same period last year. The revenue contribution from the domestic and international business stands at 59.1 % and 40.9 % of net sales respectively.

For the quarter, material consumption is at 35.6 % of net sales as against 35.2 % for the same period last year. The staff cost to net sales is 18.6 % as against 15.9 % for the same period last year. The depreciation / amortization are at ₹ 14.9 Crs as against ₹ 13.1 Crs for the same period last year. Research & Development expenses to net sales are 3.6 % at ₹ 8.9 Crs compared to 2.2 % at ₹ 4.9 Crs for the same period last year. Other expenses to net sales are 26.6 % at ₹ 65.9 Crs as against 26.2 % at ₹ 59.2 Crs during the same period last year.

Earnings before Interest, Depreciation, Tax & Amortization (EBIDTA) to net sales for the quarter is 18.5 % at ₹ 45.7 Crs as against 21.5 % at ₹ 48.6 Crs during the same quarter last year.

Profit after tax (PAT) to net sales for the quarter is 9.1 % at ₹ 22.6 Crs as against 9.9 % at ₹ 22.4 Crs during the same quarter 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)

During the quarter, IPM recorded a growth of 11.7 % with revenues at ₹ 25218 Crs as against ₹ 22574 Crs during the same quarter last year. Top 10 therapies contributed 88.1% of the IPM market. The five top therapeutic segments in terms of value are given below,

- ❖ Anti-infective growth at 2.1% to ₹ 3938 Crs
- ❖ Cardiac growth at 15.6% to ₹ 3068 Crs
- ❖ Gastro Intestinal growth at 14.8% to ₹ 3026 Crs
- ❖ Vitamins/Minerals/Nutrients growth at 10.0% to ₹ 2298 Crs
- ❖ Anti Diabetes growth at 22.9% to ₹ 2017 Crs

Secondary Sales Audit Ranking

Indoco's rank has improved from 28th to 27th in Sept'15 over the same month last year and on MAT basis, the rank also improved from 29th to 28th as on Sept'15.
(Source : AWACs)

Indoco's Prescription Ranking (Rxs)

Jul'15 – Aug'15	Jul'14 – Aug'14
26	26

(Source :CMARC)

Indoco's Domestic Formulation Business:

During the quarter, revenues from Domestic formulation business were ₹ 138.0 Crs as compared to ₹ 137.4 Crs for the same quarter last year.

Details of revenues from top therapies are given below:

(₹ In Lacs)

Therapeutic Segment	Q2FY16	Q2FY15
Anti-Infective	2392	2448
Stomatological	2374	2264
Respiratory	2313	2634
Gastro Intestinal	1803	1801
Pain / Analgesics	1155	1106

Details of revenues from top brands are given below:

(₹ In Lacs)

Brand	Q2FY16	Q2FY15
Cyclopam	1361	1311
Febrex Plus	1335	1496
Sensodent K	788	777
Oxipod	717	668
ATM	553	727
Cital	496	424
Cloben G	451	487
Sensoform	435	458
Sensodent KF	416	371
Karvol Plus	367	366

The restructured domestic formulation business and effective implementation of planned expansion programme undertaken from the beginning of this year is on track and progressing as planned. This re-structuring process is expected to yield good results in future.

The precise positive outcome of the newly strategized approach would take some time to be visibly evident. We are confident about the long term strategic benefits of the planned approach in terms of creating desired promotional space for our newly introduced growth brands on one side as also consolidating our legacy brands on the other side.

Prescription Trend

The Company has recorded a fairly good prescription growth at some of the important doctor specialties during this year, viz., ENTs (23%), Consulting Physicians (10%), Cardiologists (7%), Orthopedicians (35%) and Chest Physicians (20%).

The latest quarterly prescription data reflects an increase of about one lac prescriptions per month (from 47 to 48 lac prescriptions per month) coming from around 1.85 lac regular prescribers across the country.

(Source: Market data, CMARC and AWACs)

Furthermore, the data indicates consistent consolidation of core segment of Indoco prescribers thus reflecting positive beginning of the effective implementation of our strategic approach.

New product introductions:

This quarter the company launched six new products. Two products in Stomatological segment, two in Pain / Analgesics and one each in Gynaec and Anti-diabetes.

On prescription front, our Company's new product prescriptions are contributing around 4.5% to the total volume of freshly generated prescriptions during the last quarter.

➤ **International Formulation Business**

The International formulation business during the quarter grew by 23.7 % at ₹ 92.9 Crs as against ₹ 75.0 Crs during the same period last year. Europe region contributed to 43.3 % of international formulation sales, followed by US at 28.4 %, South Africa at 12.3 %, Africa at 9.0 % and rest of the world at 7.0 %.

Regulated Markets

The regulated markets during the quarter grew by 25.6 % to ₹ 82.3 Crs as against ₹ 65.5 Crs during the same quarter last year.

Current Status of ANDAs (*Filings through Partners and on Our Own*):

- ❖ 6 approvals till date
- ❖ 3 tentative approvals
- ❖ 19 filed but pending approval
- ❖ 33 under pipeline

US Business

During the quarter, US business grew by 84% with revenues at ₹ 26.4 Crs. Latanoprost ophthalmic solution sales picked up well during the quarter. Launch of Ophthalmic solution, viz., Olopatadine 0.1 % and Brimonidine 0.2% (our own ANDA) have been planned in quarter III and quarter IV respectively.

Europe Business

The process of launching products against our own dossiers has commenced with the launch of Cetirizine in Eastern Europe through a partner. The Company has also filed two new dossiers for Ophthalmic solutions in EU and has out licensed one of the niche products in antiepileptic category with a large Pharmaceutical Company in EU.

South Africa, Australia and New Zealand Business

Revenues from this region have registered a remarkable growth and this growth momentum will continue due to the tender award for Ciproflaxcin, Metformin and Metformin, Paracetamol in South Africa and New Zealand respectively.

Aspen SA has signed a new injectable project in anti-emetic category. Few more projects in the pain management, anti-glaucoma and anti-gout therapeutic categories have been signed with multi-national Companies in South African and Australian markets.

Emerging Markets

The emerging markets for the quarter grew by 10.8 % at ₹ 10.5 Crs as against ₹ 9.5 Crs during the same quarter last year. Kenya, French West Africa, Uganda, Tanzania and Myanmar have driven the sales during the quarter.

➤ Active Pharmaceutical Ingredients (APIs)

During the quarter, the revenues of API business grew by 7.7% at ₹ 14.5 Crs as against ₹ 13.5 Crs during the same period last year. API domestic sales grew by 11.7% at ₹ 7.6 Crs as against ₹ 6.8 Crs whereas the API exports revenues grew by 3.6% at ₹ 6.9 Crs as against ₹ 6.7 Crs during the same period last year. The captive consumption of APIs against products launched in Regulated markets is on the rise.

➤ CRO

During the quarter, the revenues of newly acquired CRO business were at ₹ 1.5 Crs. The activities at CRO are picking up after completion of transition process.

➤ **Intellectual Property Rights (IPR)**

During the quarter, the Company filed one patent application for API, taking the tally of total number of patents filed to 67. Out of these, 21 are for finished dosages and 46 are for API manufacturing processes.

➤ **Update on USFDA Inspections**

During the quarter, the Company successfully completed USFDA audit of its Sterile Plant and Finished dosage Plant at Goa.

➤ **Future Outlook**

Indoco is adopting strategies to build on its core competencies, viz., Research & Development and Manufacturing.

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

With the recent acquisition of a CRO, the Company is now completely integrated and will remain a preferred partner, offering complete solutions, to generic companies worldwide. Additionally, it will also exploit the larger opportunities through alliances in major markets.

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. Part of the emerging market is exploited through distributors appointed by Indoco and part through alliances. Robust pipeline with multiple dosage forms accompanied with flexible business models will enable the Company to have upper edge over competitors in international business.

Expertise in Research & Development, backward integration in API in select products, newly acquired CRO, excellence in finished dosages manufacturing and a strong customer base will ensure consistent growth both in Indoco'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.