

Indoco Remedies Limited

Management Discussion & Analysis for the Second Quarter FY18

Financials (Stand-alone)

(₹ In Lakhs)

Particulars	Unaudited				Unaudited			Audited
	Quarter Ended				Half Year Ended			Year Ended
	Sept'17	Jun'17	Sept'16	Gw %	Sept'17	Sept'16	Gw %	Mar'17
Gross Sales (Net of Sales Returns):								
Formulation :								
- Domestic	18822	9972	16885	11.5	28795	31077	(7.3)	58501
- Exports								
Regulated Market	5940	7349	7715	(23.0)	13289	15655	(15.1)	35125
Emerging Market	1487	1251	1539	(3.4)	2738	2834	(3.4)	6314
International Buss. Total	7428	8600	9254	(19.7)	16027	18489	(13.3)	41439
Total Formulation ... (A)	26250	18572	26139	0.4	44822	49566	(9.6)	99940
API :								
- Domestic	649	694	648	0.2	1343	1622	(17.2)	2515
- Exports	823	800	711	15.8	1623	1496	8.5	3630
Total API ... (B)	1472	1494	1359	8.3	2966	3118	(4.9)	6145
CRO & Analytical Services :								
- Domestic	282	356	142	98.6	638	206	209.7	580
Total CRO ... (C)	282	356	142	98.6	638	206	209.7	580
Total Gross Sales (A+B+C)	28004	20422	27640	1.3	48426	52890	(8.4)	106665
Other Operating Income	477	479	525	(9.1)	956	1040	(8.1)	2741
Total Income from Operation	28481	20901	28165	1.1	49382	53930	(8.4)	109406
EBIDTA	4093	129	4259	(3.9)	4222	8489	(50.3)	15662
Operating Profit / (Loss)	2850	(810)	3574	(20.3)	2040	7029	(71.0)	13890
Profit /(Loss) Before Tax	1909	(2081)	2472	(22.8)	(172)	4759	(103.6)	9133
Profit /(Loss) After Tax	1976	(2173)	2213	(10.7)	(197)	4192	(104.7)	7745

➤ Financial Highlights

Net revenues for the quarter were at ₹ 280.0 crores, against ₹ 276.4 crores, same quarter last year. Formulations business contributed to 94 % and API business contributed to 6 %.

Formulations business revenues were at ₹ 262.5 crores, against ₹ 261.4 crores, same quarter last year. API business revenues were at ₹ 17.5 crores, against ₹15.0 crores, same quarter last year.

During the quarter, the material consumption was 35.8 % of the net sales, compared to 35.1%, same quarter last year. Staff cost to net sales is 19.8% compared to 19.3 %. Depreciation / Amortization are at ₹ 17.2 crores, compared to ₹ 16.7 crores. Research & Development (R&D) expenses to net sales are 4.2 % at ₹ 11.7 crores, compared to 4.4 % at ₹ 12.0 crores. Other expenses to net sales are 27.3 % at ₹ 76.5 crores, compared to 27.7 % at ₹ 76.5 crores, same quarter last year.

Earnings Before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the quarter are 14.6 % at ₹ 40.9 crores, compared to 15.4 % at ₹ 42.6 crores, same quarter last year.

Profit Before Tax (PBT) for the quarter is 6.8 % of net sales at ₹ 19.1 crores, as against 8.9 % at ₹ 24.7 crores, same quarter last year.

Profit After Tax (PAT) for the quarter is 7.1 % at ₹ 19.8 crores, as against 8.0 % at ₹ 22.1 crores, same quarter last year.

➤ **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**

The performance of our domestic formulation business in the second quarter FY18 has shown evidence that the slowdown effect due to the Goods and Services Tax (GST) has “more or less played out”. As per AWACS, the industry average of 40 days inventory pre-GST had fallen to 17 days at the time of GST implementation.

The inventory holding for Indoco products has improved to 32 days for the month of September’17 as per AWACS.

Secondary Sales Audit Ranking

The Company is at 31st rank on Sept’17 MAT basis. (Source: AWACS)

Prescription Ranking

As per SMSRC Rx data, the Company ranks 23rd in the IPM, with Rx share of 0.9% for the period July-Aug’17.

As per Strategic Marketing Solutions and Research Centre (SMSRC), the prescription (Rx) growth of 4% recorded by Indoco vis-à-vis industry growth of 1% during the period July-Aug’17 denotes futuristic progressive trend, thereby, suggesting good growth prospects for the Company.

(Source: SMSRC).

Indoco’s Domestic Formulation Business:

The Domestic formulations business for the quarter grew at 11.5% at ₹ 188.2 crores as against ₹ 168.8 crores for the same quarter last year.

Details of revenues from major therapies are as follows:

(₹ In Lakhs)

Therapy	Q2FY18	Q2FY17	Gw %
Stomatologicals	3308	2697	22.7
Anti-Infectives	3185	3308	(3.7)
Respiratory	3274	3315	(1.2)
Gastro Intestinal	2793	2164	29.1
Vitamins / Minerals / Nutrients	1325	1004	32.0

Details of revenues from major brands are as follows:

(₹ In Lakhs)

Brand	Q2FY18	Q2FY17	Gw %
Cyclopam	2133	1551	37.5
Febrex Plus	1948	2031	(4.1)
Oxipod	1053	1182	(10.9)
Sensodent K	1033	872	18.5
ATM	903	836	8.0
Cital	896	598	49.8
Cloben G	703	596	18.0
Sensoform	618	470	31.5
Sensodent KF	542	467	16.1
Karvol Plus	503	468	7.5

New product introductions:

During the quarter, the Company launched a new product, Bactogard-CV 100 DS in the Anti-Infective segment category.

➤ **International Formulation Business**

During the quarter, the international formulations business revenues were at ₹ 74.3 crores as against ₹ 92.5 crores during the same quarter last year.

Europe contributed 51% of International formulation sales, US at 11 %, South Africa, Australia & New Zealand at 18 % and Emerging markets at 20 %.

USA

During the quarter, the revenues were at ₹ 7.9 crores, as against ₹ 26.2 crores for the same period last year

On the progress of remediation measures, the Company has sent its final response to USFDA with all the supporting documentation and updates of completed actions. Detailed investigations were performed to identify root

cause of the observations and to have an effective Corrective and Preventive action (CAPA) plan. Consequent to the responses, Indoco continues to work with the US based consultant to assess all GMP systems at site and ensure upgradations as per latest GMP trends.

The Company wishes to inform that it is on track in sending all its responses and will seek an audience with USFDA.

As reiterated in the first quarter, the Company received renewal of GMP compliance from Health Canada till 2019 for its Goa facility II & III and has resumed commercial production for Canada Market in this quarter.

The Company will soon commence production of some of the existing ophthalmic products from Goa plant II for US market.

Current Status of ANDAs:

- ❖ 10 approvals till date
- ❖ 2 tentative approvals
- ❖ 35 filed, pending approval

During the quarter, 3 ANDAs were filed viz., Neostigmine injection (through partner), Phenylephrine injection and Alogliptin & Metformin tablets (Own filings).

Europe

During the quarter, the revenues were at ₹ 38.0 crores, compared to ₹ 32.4 crores, same period last year.

The supplies to Germany for Allopurinol and few other products contributed to this quarter's growth.

Validation batches to initiate the inspection by EU Regulatory authority have been completed at the newly acquired facility at Baddi.

South Africa, Australia and New Zealand Business

The revenues for the quarter were at ₹ 13.5 crores compared to ₹ 18.6 crores, same period last year. The Company has won tenders in South Africa for Ciprofloxacin tablets & eye drops and for Allopurinol tablets in New Zealand.

Emerging Markets

The revenues for the quarter were at ₹ 14.9 crores, compared to ₹ 15.4 crores, same period last year.

In French West Africa, the secondary sales are showing positive trends. Products in Anti-malarial category launched in Ivory Coast are also showing encouraging sales trend. The Company has registered 20 products in MUGFC (Health Insurance Scheme, Ivory Coast), which will give boost to trade sales. In Tanzania, the Ophthalmic & Dental range of products are showing good sales trends.

➤ **Active Pharmaceutical Ingredients (APIs)**

The revenues of API business were at ₹ 14.7 crores compared to ₹ 13.6 crores, same quarter last year.

The Company received EDQM GMP Certification for its Patalganga API Site for Allopurinol. This site was also jointly audited by French Authority as well, and separate GMP Certificate was issued by them.

The Kilo Lab site at Rabale has also been audited by EDQM for Brimonidine API and the certification for the same is awaited.

The construction at the new API manufacturing facility at Patalganga is progressing well and the Company expects to commence validation batches from first quarter FY19.

CRO & Analytical Services

During the quarter, revenues from CRO and Analytical Services business were at ₹ 2.8 crores compared to ₹ 1.4 crores, same quarter last year.

➤ **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.

Going forward, the Company's business from US and EU is expected to grow speedily as ANDAs and Dossiers will be commercialized at regular intervals after resolution of USFDA's warning letter and EU approval of newly acquired solid dosages manufacturing facility at Baddi. 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 acquired CRO in Hyderabad and the manufacturing facility at Baddi, the Company is now completely integrated with sufficient capacity 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.