

Indoco Remedies Limited

Management Discussion & Analysis for the Fourth Quarter FY16

➤ Financials

(₹ In Lacs)

Particulars	Unaudited				Audited		
	Quarter Ended				Year Ended		
	Mar'16	Dec'15	Mar'15	Gwth %	Mar'16	Mar'15	Gwth %
Total Income from Operation	26344	25863	20991	25.5	100040	85364	17.2
Business Segment wise Break –up :							
Domestic – Formulation	13084	13573	12299	6.4	52903	50479	4.8
- API	549	602	614	(10.6)	2615	2527	3.5
- CRO	-	13	-	-	62	-	-
Total Domestic ... (A)	13633	14188	12913	5.6	55580	53006	4.9
Formulation Exports :							
- Regulated Market	9512	9040	6238	52.5	33657	25155	33.8
- Emerging Market	1542	1390	1264	22.0	4914	3871	26.9
Formul. Exports Total:	11054	10430	7502	47.3	38571	29026	32.9
API's Export	650	726	684	(5.0)	2563	2657	(3.5)
CRO Export	71	57	-	-	335	-	-
Total Export ... (B)	11775	11213	8186	43.8	41469	31683	30.9
Total Net Sales (A+B)	25408	25401	21099	20.4	97049	84689	14.6
Analytical & Testing Income	88	60	60	46.7	272	201	35.3
Net Revenue	25496	25461	21159	20.5	97321	84890	14.6
Other Operating Income	848	402	(168)	(604.8)	2719	474	473.6
Total Income from Operation	26344	25863	20991	25.5	100040	85364	17.2
EBIDTA	4082	4314	3729	9.5	17231	16519	4.3
Operating Profit	3981	3395	3002	32.6	14288	12941	10.4
Profit Before Tax	2145	2528	2294	(6.5)	10093	10948	(7.8)
Profit After Tax	2001	2042	1875	6.7	8332	8281	0.6

➤ **Financial Highlights**

For the fourth quarter ended March 31, 2016, the Net revenues of the Company grew by 20.5 % at ₹ 255.0 crores as against ₹ 211.6 crores during the same period last year. For the year ended March 31, 2016, the net revenues of the Company grew by 14.6 % at ₹ 973.2 crores as against ₹ 848.9 crores last year.

During the quarter, the revenues from domestic business grew by 5.6 % at ₹136.3 crores compared to ₹ 129.1 crores during the same period last year and the revenues of international business grew by 43.8 % at ₹117.7 crores as against ₹ 81.9 crores during the same period last year. For the year, the revenues of domestic business grew by 4.9 % at ₹ 555.8 crores as against ₹ 530.1 crores last year and the revenues of international business grew by 30.9 % at ₹ 414.7 crores as against ₹ 316.8 crores last year. The revenue contribution from the domestic and international business stands at 57 % and 43 % of net sales respectively.

During the quarter, the material consumption percentage to net sales is at 32.3 % as against 32.4 % for the same period last year. The staff cost to net sales is 19.6 % as against 16.6 % for the same period last year. The spurt in Staff Cost is mainly on account of bonus provision of ₹ 10.60 crores for the period of 1.4.2014 to 31.3.2016 in accordance with The Payment of Bonus (Amendment) Act, 2015. The depreciation / amortization are at ₹ 15.2 crores as against ₹ 12.5 crores for the same period last year. Research & Development (R&D) expenses to net sales are 7.4 % at ₹ 18.9 crores compared to 3.5 % at ₹ 7.4 crores for the same period last year. R&D as percentage of sales is higher for the quarter due to CRO expenses of ₹ 8.07 crores, as majority of the studies are being undertaken and completed at CRO. Other expenses to net sales are 28.0 % at ₹ 71.4 crores as against 29.1% at ₹ 61.6 crores during the same period last year.

For the year, material consumption percentage to net sales is at 34.9 % as against 35.2% last year. The staff cost to net sales is 18.7 % as against 16.5 % last year. Depreciation / amortization are at ₹ 60.3 crores as against ₹ 47.1 crores last year. Research & Development expenses to net sales are 4.4 % at ₹ 43.2 crores as compared to 2.6 % at ₹ 21.7 crores last year. Other expenses to net sales are 27.1% at ₹ 263.4 crores as against 26.9 % at ₹ 228.7 crores last year.

Earnings before Interest, Depreciation, Tax and Amortization (EBIDTA) percentage to net sales for the quarter is 16.0 % at ₹ 40.8 crores as against 17.6 % at ₹ 37.3 crores during the same period last year. For the year, the EBIDTA to net sales is 17.7 % at ₹ 172.3 crores as against 19.5 % at ₹ 165.2 crores last year. Increase in Staff cost, R&D spend and Other expenditure have resulted in lower EBIDTA margins.

Profit Before Tax (PBT) percentage to net sales for the quarter is 8.4 % at ₹ 21.4 crores as against 10.8 % at ₹ 22.9 crores during the same period last year. For the Year, the Profit before tax (PBT) to net sales is 10.4 % at ₹ 100.9 crores as against 12.9 % at ₹ 109.5 crores last year.

Profit After Tax (PAT) percentage to net sales for the quarter is 7.8 % at ₹ 20.0 crores as against 8.9 % at ₹ 18.7 crores during the same quarter last year. For the Year, Profit after tax (PAT) to net sales is 8.6 % at ₹ 83.3 crores as against 9.8 % at ₹ 82.8 crores 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 9.3 % with revenues at ₹ 24093 crores as against ₹ 22043 crores during the same quarter last year. Top 10 therapeutic segments contributed about 88.3 % of the IPM market.

Details of therapeutic segments of Indian Pharma market (IPM) where Indoco is present are as follows,

(Rs. In crores)

Therapeutic Segment	4QFY16	4QFY15	Gwth %
Anti - Infectives	3,546	3,373	5.1
Gastro Intestinal	2,766	2,458	12.5
Respiratory	2,054	1,936	6.1
Pain / Analgesics	1,596	1,479	7.9
Stomatologicals	99	92	7.7

Source : AWACs

Secondary Sales Audit Ranking

The Company is at rank 29th for the month of Mar'16 and 28th for the month of Mar'15. For the year ended March 31, 2016, the rank of the Company remained same at 29th as compared to last year.

(Source: AWACs)

Indoco's Prescription Ranking (Rxs)

Nov'15 – Feb'16	Nov'14-Feb'15
25	25

(Source: CMARC)

Indoco's Domestic Formulation Business:

During the quarter, revenues from domestic formulation business registered a growth of 6.4 % at ₹130.8 crores as compared to ₹123.0 crores for the same period last year. For the year, revenues from domestic formulation business registered a growth of 4.8 % at ₹ 529.0 crores as against ₹ 504.8 crores last year.

Ban on some of the fixed dose combinations (FDCs) announced by Government in March'16 resulted in confusion with trade slowing down

purchases even in respect of other products. This resulted in a muted IVth quarter growth. Although, the impact of the proposed ban on our sale is minimal, the Company has obtained stay orders from Delhi High Court.

As a fallout of restructuring exercise, the strategic consolidation of support from core prescribers has started showing positive trends as per IV Qtr prescription analysis.

(Source: CMARC)

Details of revenues from top therapies are as follows:

(₹ In Lacs)

Therapeutic Segment	4QFY16	4QFY15	Gwth %
Anti-Infectives	2,020	1,797	12.4
Gastro Intestinal	1,815	1,654	9.7
Respiratory	2,191	2,231	(1.8)
Pain / Analgesics	1,204	990	21.6
Stomatologicals	2,329	2,318	0.5

Details of revenues from top brands are as follows:

(₹ In Lacs)

Brands	4QFY16	4QFY15	Gwth %
Cyclopam	1,386	1,264	9.7
Febrex Plus	1,149	1,213	(5.2)
Sensodent K	776	811	(4.2)
Cital	676	447	51.4
Oxipod	612	506	20.9
ATM	507	503	0.9
Flamar	481	361	33.1
Cloben G	439	358	22.6
Sensoform	435	438	(0.6)
Karvol Plus	409	362	12.9

New product introductions:

During the fourth quarter, the Company launched 3 new products, two in Vitamins/Minerals/Nutrients and one in Gynaec. One of these 3 products, Theorem Capsules is a unique formulation launched by Eterna Division for management of chronic low back pain, one of the most common problems in the elderly patients.

➤ **International Formulation Business**

During the quarter, the revenues of International formulation business grew by 47.3 % at ₹ 110.5 crores as against ₹ 75.0 crores during the same period last year. For the Year, the revenues grew by 32.9 % at ₹ 385.7 crores as against ₹ 290.3 crores last year.

Europe contributed to 40.0 % of International formulation sales, followed by US at 25.6 %, South Africa, Australia & Newzealand at 20.4 % and Emerging market at 14.0 %.

Regulated Markets

The regulated markets during the quarter grew by 52.5 % to ₹ 95.1 crores as against ₹ 62.4 crores for the same period last year. For the year, the revenues grew by 33.8 % at ₹ 336.6 crores as against ₹ 251.5 crores last year.

USA

During the quarter, the revenues grew by 69.5% at ₹ 28.4 crores as against ₹ 16.7 crores for the same period last year. For year, the revenues grew by 50.4% at ₹ 106.5 crores as against ₹ 70.8 crores last year.

The Company received the Establishment Inspection Report (EIR) on 25th May, 2016 from US Food and Drug Administration (USFDA) for its sterile and solid dosage facility (Goa Plant II) situated at L-32/33/L34, Verna Industrial Estate, Goa. This approval confirms the closure of inspection conducted in July'2015. In March 2016, the Company had already received the approval (EIR) from USFDA for its solid dosages facility (Goa Plant I) situated at L-14, Verna Industrial Estate, Verna inspected in the month of October, 2015.

Current Status of ANDAs:

- ❖ 8 approvals till date
- ❖ 3 tentative approvals
- ❖ 23 filed but pending approval
- ❖ 54 in pipeline

Europe

During the quarter, the revenues grew by 39.6 % at ₹ 44.2 crores as against ₹ 31.6 crores for the same period last year. For the year, the revenues grew by 16.9 % at ₹155.6 crores as against ₹ 133.2 crores last year.

South Africa, Australia and New Zealand Business (SA & ANZ)

During the quarter, the revenues grew by 61.2 % at ₹ 22.6 crores as against ₹ 14.0 crores for the same period last year. For the year, the revenues grew by 56.9 % at ₹ 74.4 crores as against ₹ 47.4 crores last year.

The Company has won the tender for Bimatoprost Ophthalmic Solution in New Zealand and the supplies for the same will commence soon.

Emerging Markets

During the quarter, the revenues grew by 22 % at ₹ 15.4 crores as against ₹ 12.6 crores for the same period last year. Kenya, French West Africa, Uganda, Myanmar and Tanzania are the largest revenue contributors. For the year, the revenues grew by 26.9 % at ₹ 49.1 crores as against ₹ 38.7 crores last year.

➤ **Active Pharmaceutical Ingredients (APIs)**

During the quarter, the revenues of API business are at ₹ 12.0 crores as against ₹ 13.0 crores for the same period last year. For the year, the revenues remained flat at ₹ 51.8 crores as compared to last year. Surge in captive consumption of APIs has led to a flat growth in API sales.

➤ **CRO**

During the quarter, revenues of CRO business are ₹ 0.70 crores and for the year, the revenues are ₹ 4.0 crores. CRO capacity was utilized mainly for

conducting Indoco's own bio-equivalence studies which has resulted in speedy filing of ANDAs / Dossiers.

➤ **Intellectual Property Rights (IPR)**

Company has filed total 70 patents as on date. Out of these, 23 are for finished dosages and 47 are for API manufacturing processes.

During the quarter, the Company was granted 3 patents by Indian Patent Office for manufacturing process of,

- a) Intermediates of Brinzolamide
- b) Nitropyridine derivatives and
- c) Racemisation (Pregabalin)

Indoco received 'Best Process Patent Award 2014-15' from Indian Drug Manufacturers Association, at their 54th Annual Day celebration in January 2016, for 1 European and 2 US patents for API manufacturing process of Lacosamide and Tapentadol.

➤ **Future Outlook**

Company's domestic business continues to focus on brand building, new product launches, thrust on chronic and 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 accompanied with flexible business models will enable the Company to have upper edge over competitors in international business.

With the acquisition of a 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, newly acquired CRO, excellence in finished dosages manufacturing and a strong customer base will ensure consistent growth in 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.