

Indoco Remedies Limited

Management Discussion & Analysis for the Fourth Quarter FY17

➤ Financials (Stand-alone)

(₹ In Lakhs)

Particulars	Unaudited						
	Quarter Ended				Year Ended		
	Mar-17	Dec-16	Mar-16	Gw%	Mar-17	Mar-16	Gw%
Gross Sales (Net of Sales Returns):							
Formulation :							
- Domestic	13009	14415	13303	(2.2)	58501	53429	9.5
- Exports							
Regulated Market	10310	9160	9512	8.4	35125	33657	4.4
Emerging Market	1839	1642	1542	19.3	6314	4914	28.5
International Buss. Total	12149	10802	11054	9.9	41439	38571	7.4
Total Formulation ... (A)	25158	25217	24357	3.3	99940	92000	8.6
API :							
- Domestic	320	573	613	(47.8)	2515	2849	(11.7)
- Exports	884	1250	650	36.0	3630	2563	41.6
Total API ... (B)	1204	1823	1263	(4.7)	6145	5412	13.5
CRO & Analytical Services :							
- Domestic	193	181	88	119.3	580	333	74.2
- Exports	-	-	71	-	-	335	-
Total CRO ... (C)	193	181	159	21.4	580	668	(13.2)
Total Gross Sales (A+B+C)	26555	27221	25779	3.0	106665	98080	8.8
Other Operating Income	1139	561	743	53.3	2741	2396	14.4
Total Income from Operations	27694	27782	26522	4.4	109406	100476	8.9
EBIDTA	3257	3916	4243	(23.2)	15662	17039	(8.1)
Operating Profit	3257	3603	3546	(8.2)	13890	14079	(1.3)
Profit Before Tax	2038	2336	2327	(12.4)	9133	9929	(8.0)
Profit After Tax	1794	1759	2095	(14.4)	7745	8229	(5.9)

➤ **Financial Highlights**

Net revenues for the fourth quarter grew by 3.0 % at ₹ 265.5 crores against ₹ 257.8 crores, same quarter last year. For the year, the Net revenues grew by 8.8% at ₹ 1066.6 crores compared to ₹ 980.8 crores, last year.

Formulations business contributed to 94% and API business contributed to 6 %. The formulations business grew by 3.3% at ₹ 251.6 crores, against ₹ 243.6 crores, same quarter last year. APIs business revenues were at ₹ 12.0 crores, against ₹ 12.6 crores, same quarter last year. For the year, the formulations business grew by 8.6 % at ₹ 999.4 crores, compared to ₹ 920.0 crores, last year. APIs business revenues grew by 13.5 % at ₹ 61.4 crores, compared to ₹ 54.1 crores, last year.

During the quarter, the material consumption is 36.6 % of the net sales, compared to 32.5 % , same quarter last year. Staff cost to net sales is 21.4 % compared to 19.9 %. Depreciation / Amortization are at ₹ 15.4 crores, compared to ₹15.5 crores. Research & Development (R&D) expenses to net sales are 5.2 % at ₹ 13.9 crores, compared to 5.1% at ₹ 13.2 crores. Other expenses to net sales are 28.8 % at ₹ 76.5 crores, compared to 28.9 % at ₹ 74.4 crores.

For the year, the material consumption is 35.8 % of the net sales, compared to 35.5%, last year. Staff cost to net sales is 20.3% compared to 18.5%. Depreciation / Amortization are at ₹ 63.3 crores, compared to ₹ 60.6 crores. Research & Development (R&D) expenses to net sales are 4.8 % at ₹ 51.7 crores compared to 4.4 % at ₹ 43.2 crores. Other expenses to net sales are 27.0 % at ₹ 288.1crores compared 26.7 % at ₹ 261.8 crores.

Earnings before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the quarter are 12.3 % at ₹ 32.6 crores, compared to 16.5 % at ₹ 42.4 crores, same quarter last quarter. For the year, Earnings before Interest, Depreciation, Tax and Amortization (EBIDTA) to the net sales is 14.7 % at ₹ 156.6 crores compared to 17.4% at ₹ 170.4 crores, last year.

Profit Before Tax (PBT) for the quarter is 7.7 % of net sales at ₹ 20.4 crores, compared to 9.0 % at ₹ 23.3crores, same quarter last year. For the year, Profit Before Tax (PBT) is 8.6 % of net sales at ₹ 91.3 crores, compared to 10.1 % at ₹ 99.3 crores, last year.

Profit After Tax (PAT) for the quarter is 6.8 % of net sales at ₹ 17.9 crores, compared to 8.1 % at ₹ 20.9 crores, same quarter last year. For the year, Profit After Tax (PAT) is 7.3% of net sales at ₹ 77.4 crores, compared to 8.4 % at ₹ 82.3 crores, 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.

According to the data analyzed by Business Standard on India's Top 1000 Companies, Indoco is ranked at 601 in terms of revenue. According to data analyzed, the Company has climbed 30 ranks in revenues, up from 631 in 2015 and has been ranked 32nd in the Pharma Industry.

(Source : Business Today magazine, March, 2017 issue)

➤ **Finished Dosages**

Growth figures for the fourth quarter for Indian Pharma Market (IPM), Covered Market (CVM) and Indoco are as follows:

IPM	Gwth %	CVM	Gwth %	Indoco Remedies	Gwth %
27,075	8.8	10016	6.8	199	17.4

(Source : AWACS March 2017)

Secondary Sales Audit Ranking

The Company is at 31st rank for the month of March'17 as well as on MAT basis. (Source: AWACs)

Prescription Ranking

Indoco ranks 23rd in prescription ranking as per Mar'17 MAT. As on March'17, the company generated 70.32 Mn prescriptions as against 68.76 Mn prescriptions, reflecting 2.3% prescription growth (Source: IMS).

Indoco's Domestic Formulation Business:

The Domestic formulations business for the quarter was at ₹ 130.1 crores as against ₹ 133.0 crores for the same quarter last year. For the year, the domestic formulation business grew by 9.5% at ₹ 585.0 crores as against ₹ 534.3 crores.

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

Therapy	4QFY17	4QFY16	Gwth %
Respiratory	2426	2191	10.8
Stomatologicals	2086	2330	(10.5)
Anti-Infectives	2023	2019	0.2
Gastro Intestinal	1891	1838	2.9
Pain / Analgesics	850	1191	(28.6)
Vit./ Minerals/Nutrients	837	740	13.0
Gynaec.	810	797	1.6
Ophthal / Otologicals	752	720	4.5

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

Brand	4QFY17	4QFY16	Gwth %
Cyclopam	1417	1403	1.0
Febrex Plus	1363	1133	20.3
Cital	719	676	6.4
Oxipod	691	612	13.0
Sensodent K	632	776	(18.6)
ATM	523	516	1.3
Cloben G	448	439	2.1
Sensoform	385	435	(11.4)
Karvol Plus	383	409	(6.3)
Sensodent KF	369	396	(6.8)

New product introductions:

During the quarter, the Company launched 4 new products, details of which are as follows:

The names of the products are as follows:

PRODUCT	PACK	THERAPY	SEGMENT
CLOBITRA 100 CAPSULES,	4S	DERMATOLOGY	SUB CHRONIC
CLOBITRA 200 CAPSULES,	4S	DERMATOLOGY	SUB CHRONIC
PRAZTAC-40 TABLETS,	10S	GASTRO INTESTINAL	ACUTE
CONCIZE GUMMIES,	30S	VITAMINS / MINERALS / NUTRIENTS	CHRONIC

For the year, the Company launched 31 new products, 10 in Chronic, 12 in Sub Chronic and 9 in Acute.

➤ **International Formulation Business**

During the quarter, the international formulations business revenues grew by 9.9 % at ₹ 121.5 crores as against ₹ 110.5 crores during the same quarter last year. For the year, the international formulations business grew by 7.4% at ₹ 414.4 crores as against ₹ 385.7 crores, last year.

Europe contributed 38 % of International formulation sales, followed by US at 30 %, South Africa, Australia & New Zealand at 17% and Emerging markets at 15%.

USA

During the quarter, the revenues grew by 15.8 % at ₹32.8 crores as against ₹ 28.3 crores for the same period last year. For the year, the revenue grew by 17.3 % at ₹ 125.0 crores as against ₹ 106.5 crores for the same period last year.

Current Status of ANDAs:

- ❖ 10 approvals till date
- ❖ 3 tentative approvals
- ❖ 29 filed, pending approval

During the quarter, the Company has filed 4 ANDAs, 3 of which are in Own name and 1 is in Customer's name. All 3 of our Own filings fall under First to file (FTF) category.

USFDA warning letter related issues at Goa Plant II are being resolved with the help of a US based Consultant. Company has now sent its response to USFDA which addresses their concerns. The corrective measures implemented post warning letter will further strengthen our Quality Management System with benefits to all our Manufacturing facilities.

Europe

During the quarter, the revenues grew by 22.4 % at ₹ 54.1 crores, compared to ₹ 44.2 crores, same period last year. For the year, the revenues are at ₹ 156.2 crores compared to ₹ 155.6 crores.

The Company received approval from UK-MHRA for its solid dosage Plant at Goa I, which was inspected in December 2016. It was the sixth time this Plant has successfully faced UK-MHRA inspection and received approval from time to time since 2003. The Plant contributes to 40% of the Company's International Business. This approval confirms Indoco's consistent adherence to International standards and Good Manufacturing Practices.

South Africa, Australia and New Zealand Business

The revenues for the quarter were at ₹ 16.2 crores compared to ₹ 22.6 crores, same period last year. For the year, the revenue were at ₹ 70.1 crores compared to ₹ 74.4 crores, last year.

Both in Australia and New Zealand, the progress of the Company is good. The Company has received a couple of product approvals in Australia and won a tender in New Zealand during the quarter.

Emerging Markets

The revenues for the quarter grew by 19.3 % at ₹ 18.4 crores compared to ₹ 15.4 crores, same period last year. For the year, the revenues grew by 28.5% at ₹ 63.1 crores compared to ₹ 49.1 crores last year. Kenya, French West Africa, Myanmar, Tanzania, Ukraine, Sri Lanka are the major revenue contributors.

➤ **Active Pharmaceutical Ingredients (APIs)**

The revenues of API business were at ₹ 12.0 crores compared to ₹ 12.6 crores, same quarter last year.

API domestic sales are at ₹ 3.2 crores, compared to ₹ 6.1 crores whereas, the API international sales grew by 36.0% at ₹ 8.8 crores, compared to ₹ 6.5 crores, same quarter last year.

For the year, the revenues of API business grew by 13.5 % at ₹ 61.4 crores compared to ₹ 54.1 crores, last year. API domestic sales were at ₹ 25.1 crores, compared to ₹ 28.5 crores, last year whereas, the API international sales grew by 41.6 % at ₹ 36.3 crores, compared to ₹ 25.6 crores last year.

During the quarter, the Company submitted/filed two Active Substance Master File (ASMF) in Europe.

➤ **CRO & Analytical Services**

During the quarter, revenues from CRO and Analytical Services business grew by 21.4% at ₹ 1.9 crores compared to ₹ 1.6 crores, same quarter last year. For the year, revenues were at ₹ 5.8 crores, compared to ₹ 6.7 crores, last year.

Anacipher CRO, Hyderabad was inspected by the United States Food and Drug Administration twice during the quarter, in January 2017 (Bio-analytical department) and in the second week of February 2017 (Clinical department). Both audits were conducted by separate audit teams from USFDA and were concluded successfully with ZERO 483s.

➤ **Intellectual Property Rights (IPR)**

During the quarter, the company received patent grant for manufacturing process of Linezolid & Brinzolamide (FDFs). The grant of these patents will provide further recognition of the innovative research being carried out at Indoco.

Company was honored with the 'Best Patent Award' for the year 2016 by IDMA for the patents on manufacturing processes of Olopatadine Hydrochloride, Brinzolamide Intermediate, Nitropyridine Derivatives and for Racemization Process.

As on date, the Company has filed total 24 patents for Finished Dosages and 52 for APIs. Out of these filings, 15 API process patents and 5 Finished Dosages manufacturing processes have been granted.

➤ **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 a recently 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.