



“Indoco Remedies Limited Q2 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Indoco Remedies limited Q2 FY2020 earnings conference call, hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Vishal Manchanda from Nirmal Bang Equities. Thank you and over to you Sir!

Vishal Manchanda: Good afternoon everyone. Welcome to the Q2 FY2020 earnings call for Indoco Remedies Limited. We thank the Indoco Remedies Management for giving us an opportunity to host the call. Today, we have with us the senior management of the company represented by Ms. Aditi Panandikar - Managing Director, Mr. Sundeep Bambolkar - Joint Managing Director, Mr. Mandar Borkar - Chief Financial Officer, Mr. Vilas Nagare - President Corporate Affairs and M&A. I now hand over the call to the Company Management.

Sundeep Bambolkar: Dear participants, a very good evening to all of you. Hope you all had great time during the Diwali festive season. Let me begin with the business highlights. Revenues for the quarter grew by 21.1% at Rs.286 Crores as against Rs.236 Crores and during the first half of the year revenues grew by 18.8% at Rs.533 Crores as against Rs.448 Crores. While the EBITDA for the quarter is 11.3% at Rs.32.1 Crores compared to 5% at Rs.11.8 Crores and for the first half of the year the EBITDA is 10.3% at Rs.54.9 Crores compared to 5.2% at Rs.23.4 Crores.

Now on to the domestic formulation business front, revenues for the quarter grew by 17.2% at Rs.186 Crores as against Rs.159 Crores and for the first half by 12.7% at Rs.348 Crores as against Rs.309 Crores. During the quarter, the company launched one new product in chronic segment. As per AWACS, the company ranks at 30th rank in the IPM with market share of 0.68% as on September 2019 and as per SMSRC, the company's rank is at 23rd position with prescription share of 0.86% as on August 2019 MAT basis.

Now on to the international formulation business, during the quarter revenues grew by 40.3% at Rs.74 Crores as against Rs.53 Crores and for the first half of the year revenues grew by 41.6% at Rs.133 Crores as against Rs.94 Crores. Revenues for the quarter for America region were at 11 Crores as against Rs.5.2 Crores and for the first half revenues were at 14 Crores as against 11 Crores. Revenues for the quarter Europe region grew by 45.2% at Rs.39 Crores compared to Rs.27 Crores and for the first half revenues grew by 62.6% at 77 Crores as against Rs.47 Crores.

Revenues for the quarter for South Africa, Australia and New Zealand were at 1.3 Crores compared to Rs.4 Crores and for the first half 4.1 Crores as against 7.4 Crores. Revenues for the quarter for emerging markets grew by 36.4% at Rs.22 Crores compared to 16 Crores and for the first half revenues grew by 35.4% at Rs.39 Crores as against Rs.28 Crores. On the regulatory front, Goa plant I, a full GMP status has been reinstated for plant 1 in September 2019 as an outcome of the recent inspection by UK-MHRA in May 2019. European supplies are expected to grow from here on.

US consultants are onboard for remedial action to resolve the concern raising the warning letter issued by USFDA on July 18, 2019 for Goa plant 1. In September 2019, inspection was conducted by UK-MHRA in plant 2, which resulted in two observations, none of them being critical. Response to UK-MHRA has been duly submitted. Indoco successfully concluded the USFDA audit for this current manufacturing facility in Goa plant 2 from October 7, 2019 to October 15, 2019. This is the second successful pre-approval inspection of this site in less than 6 months, which indicates steady progress in review of a pending ANDA.

The inspection ended with two observations neither of these being related to data integrity or core quality management system. The company will respond to the FDA within the stipulated time. The site continues to maintain the voluntary action in initiated status. Indoco recently received an ANDA approval for Rasagiline 0.5 mg and 1 mg tablets from plant 3. The molecule is used for the treatment of Parkinson's disease. The launch is planned in the last quarter of FY2020. USFDA conducted inspection of bioanalytical part from August 5, 2019 to August 9, 2019 and for clinical part from October 14, 2019 to October 18, 2019 at AnaCipher CRO, Hyderabad. Both these inspections were successfully concluded with zero 483s. That is all about the business highlights for the quarter and I now request the participants to put up their questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aditya Khemka from DSP. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Domestic business did well this quarter 18% growth Y-o-Y, could you tell us what was the driving factor behind it, was it the good anti-infective season that we saw or has there been any structural change in the business that we have?

Aditi Panandikar: Aditya, actually we have done well across many therapy segments not just anti-infective. Anti-infective because it is season and second quarter have done better than last year, but we also done well in stomatological, respiratory, GI, in fact most of our divisions, especially the acute division and the two dental divisions have done very well and the

reason for this performance, no doubt is that we have our high motivated field force right now, as I explained probably one of my earlier call that you might have listened to what I had said last year about there being a gap in kind of expected benchmarks on target, which we had last year against what was deliverable given what the market was doing then. As of today, we have a market growing at close to 10% and we are growing at around 17% this side largely contribute to the field force being managed very effectively, good effectiveness and efficiency are contributing to this kind of growth.

Aditya Khemka: Right, growth for the first half now in the domestic business is around 13%?

Aditi Panandikar: True.

Aditya Khemka: And we have early stated that full year we would expect to be a mid teen number still seems like that?

Aditi Panandikar: Yes, certainly.

Aditya Khemka: You would still be on track for 15% growth?

Aditi Panandikar: Yes.

Aditya Khemka: Thank you for that and secondly just on the US business growth trajectory, so we did about 11 Crores of revenue in Q4 of FY2019, which came of to 2.5 Crores in first quarter FY2020 and then again back to 11 Crores, what is causing this volatility across quarters in the business?

Aditi Panandikar: Aditya, as you are aware, although the issues this plant 2 had cleared totally, the plant is on VAI and now the VAI inspections have happened, so effectively manufacturing led, supply led sales to US has yet to start in a big way. The kind of ups and downs you are seeing are largely related to milestones that we were receiving from clients based on completion of R&D projects.

Aditya Khemka: So, could we get some detail on how much is the milestone payment and how much is product sales this quarter in the US?

Aditi Panandikar: We come back to you, but largely you are seeing is on an account of the milestone itself.

Aditya Khemka: Understood regarding the semi-regulated market business, so we are of course doing well there, but could you also help us understand what is driving this sort of growth and how sustainable such a growth is?

- Sundeep Bambolkar:** The growth is coming mainly from Africa and parts of Latin America, so this is a sustained business because it is brand promotion.
- Aditya Khemka:** Sundeep Sir, do we use our own field force or do we sell it to a distributor who promotes the product for us in these locations?
- Sundeep Bambolkar:** In Latin America and Asia, it is through distributor and in Africa we have our own field force and employed on the agent's payroll, but we bear the compensation.
- Aditya Khemka:** And how would your revenue be split Latin Asia together and Africa separate, how would that split?
- Sundeep Bambolkar:** Africa is of course way ahead of other regions followed by Asia and CIS but together and then the Latin.
- Aditya Khemka:** Got it, I have more questions, but I will get back in the queue. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Prateek Singha from Alpha Asset Management. Please go ahead.
- Prateek Singha:** Thanks for very encouraging set of numbers and we have been waiting for these numbers and we were actually anticipating them, the best is yet to come of course based on the first question that Aditya was asking, so congratulations and I have got a couple of questions, first one is, if I look at your export, is the entire export business sort of a CRAMS model where the ANDA could be your customer owned or even if you own the IP the customer good market then, so for the exports when is it all CRAMS based model?
- Aditi Panandikar:** So, our exports are largely divided between those to the reg markets and the emerging markets. The emerging markets are obviously our brands, so that is not CRAMS that is much like the India business irrespective of whether the field force is on our payroll or not, so that is a branded business and that is not CRAMS. When it comes to reg largely the European business as of now is at the back of contract manufacturing. The US business, we have various models, some of contract manufacturing, but largely whether there is a cost and profit share.
- Prateek Singha:** Right, on that contract manufacturing, I heard that you mentioned some milestone payment, so those are the IP that the customer owns?
- Aditi Panandikar:** Yes.

Prateek Singha: Just saying that you may be doing your own IP as well because you spend quite a lot in the research?

Aditi Panandikar: Yes, so lot of products already filed, which will be our ANDA, as you might have heard, Sundeep in his narrative, we already got approval of one product, which is Rasagiline, that is our own ANDA and going ahead we expect many more, those of course will be own ANDA, as you correctly said we need a sufficient mark of products to setup our own marketing upfront in the reg markets, so we will wait for that, but in the interim period it will be distributed by others.

Prateek Singha: Right, but your long-term aspirations are to have your own front there?

Aditi Panandikar: Yes, we have filed a lot of solid products out of plant 1 and plant 3, both for the US and our own ANDA.

Prateek Singha: And what about sterile?

Aditi Panandikar: Sterile, much of it is two partners as of now.

Prateek Singha: Sure, and very quickly the split between domestic and export, is it still 50:50?

Aditi Panandikar: It is still 60:40.

Prateek Singha: So, 60 is domestic?

Aditi Panandikar: True.

Prateek Singha: Second question is around your margin, so before this USFDA and regulatory issues happened somewhere around 2015, you are kind of heading close to 20% on the EBITDA, what sort of guidance, I know if you call it as a regulatory business there are many unknown, but have you got any sort of a ballpark and the time horizon for getting closer to those high teens if not 20?

Aditi Panandikar: I think, we can wait for three quarters to get to that point.

Prateek Singha: Three quarters, so sometime next fiscal?

Aditi Panandikar: Yes.

Prateek Singha: Thank you and I will fall back in the queue. Thank you and all the best.

- Moderator:** Thank you very much. The next question is from the line of Sachin Kasera from Lucky Investment Management. Please go ahead.
- Sachin Kasera:** This is Sachin Kasera from Swan Investments. Congrats for a good set of numbers. One question was regarding this US Madam, on the sterile if you could give us some insights our most of the partnership with Teva is still intact are they interested or we are looking at some other partners that would be really helpful?
- Aditi Panandikar:** So, if you are aware there was a basket of close to 24 products and of that of course the two were approved, which was Dorzo and Dorzo-Timo and then we have 11, which are very much alike right now, so the rest of the products are under discussion with Teva for their interest and/or for us to take it up with another client.
- Sachin Kasera:** So, when we can expect more clarity on this Madam, you think we are in final stages of concluding the discussions or you are still at early stages?
- Aditi Panandikar:** Mid level I would say, by another quarter.
- Sachin Kasera:** Secondly Madam, you mentioned that this quarter, the US numbers that you are seeing is primarily the licensing fee or the dossier income that you are getting, so when do we start seeing the actually ramp up in terms of the US sales, is it Q3, Q4, Q1, what is your sales?
- Aditi Panandikar:** Q4, you will start seeing revenues against sales.
- Sachin Kasera:** What is the type of ANDA you are expecting this year and next year, Madam, what is your sales broadly speaking?
- Aditi Panandikar:** We have already got Rasagiline solid oral and we are expecting a couple of injectables based on the PAIs that were done because when we review a dossier you that that is probably the one coming first, so probably a couple of injectables will come in and then possibly one more solid oral.
- Sachin Kasera:** Madam, at B category, we used to do 120 Crores to 125 Crores per year in US, you think growing by the type of filings we have now that we have cleared all the regulatory hurdles that is the target that we can aspire for FY2020 or you think that is a more realistic target for FY2022?
- Aditi Panandikar:** We will certainly aspire for it for next year.

- Sachin Kasera:** Madam, one question on the Europe front, so this quarter, Europe if I see vis-à-vis June quarter, has more or less remain flattish this 1 Crore improvement, and now with all the regulatory hurdles have been there, what is the type of ramp up we can see on the European part of the business?
- Sundeep Bambolkar:** Europe, we have visibility to do at least 175 Crores this year.
- Sachin Kasera:** But I think at peak service to do like 250 Crores to 260 Crores if I get it?
- Sundeep Bambolkar:** 200 Crores, actually the number is 195 Crores maximum what we reached.
- Sachin Kasera:** Madam, just one question regarding the overall EBITDA numbers, while we have done very well in terms of topline growth and good gross margins, the other expenditure seems to have gone up almost 20 Crores to 22 Crores compared to the June quarter, so is it like something new that has come up or there are certain one-off items if you could just explain that?
- Vilas V. Nagare:** Sachin, in other expenditure around 20 Crores is extra over and above what is our normal figure and that is coming from advertising and sales promotion some 7 Crores some exports trade is 3 Crores, commission and incentive is around 3 Crores and miscellaneous around 6 Crores to 7 Crores, so out of that this advertising and sales promotion is going to be booked in the current quarter, but the benefit will be passed on in the next two quarters, so that will be a kind of a one-off to some extent, export freight is also one-off to certain extent, so 10 Crores to 12 Crores out of this 20 Crores is one-off and rest is related to commission incentives of course related to sales so that will repeat again hopefully and which is good, so out of 20 Crores, 12 Crores will be one-off and that is what is going to be the run rate going forward.
- Sachin Kasera:** Thank you very much. I will come back in the queue.
- Moderator:** Thank you very much. Next question is from the line of Aditya Khemka from DSP. Please go ahead.
- Aditya Khemka:** Madam, just a question on the economics of your partner ANDAs versus the ANDAs that you are developing yourself, so there also I have two parts to those ANDAs, one is the ANDAs, which you organically yourself develop, the second branch is those ANDAs, which you had partnership with Teva/Watson, but now would probably get back from them and then out license that, so what would be the economics of your own developed ANDAs and the ANDAs you get back from Teva once you give them to a partner just to distribute in the US?

- Aditi Panandikar:** Once we get back from Teva obviously we have shared in the cost and once we develop on our own, the entire cost is owned by us that is very broadly and basically what is going to be different, does it answer your question?
- Aditya Khemka:** No, I was actually looking more from a revenue perspective.
- Aditi Panandikar:** From a revenue perspective, we would have got a share of profit coming from those sold by Watson or Teva after manufacturing and supply at a certain price whereas here in this case what we are going to probably do and we will do with the partner is give them a percentage for marketing and the distributional marketing and the rest of entire profit will come to Indoco.
- Aditya Khemka:** Right, so this distribution and marketing percentage of revenue, what number does it generally tend to be, I am asking for the market rate not the rate that you guys will be contracting it at?
- Aditi Panandikar:** Around 20% to 22% roughly is a factor most people use, it varies from product to product.
- Aditya Khemka:** But 20% to 22% of sales of ANDA?
- Aditi Panandikar:** Yes.
- Aditya Khemka:** And for the products that you get back from Teva, so your cost was actually shared by Teva, but Teva is no longer distributing them, so now when you go to another party with those ANDAs, the other party, firstly would you need to reimburse Teva for the development cost that they share for these ANDAs, but now they are not marketing?
- Aditi Panandikar:** As we said we are midway through this negotiation, it would not be correct for me to say anything right now, we will give you full disclosure when it happens.
- Aditya Khemka:** So, leave that aside for now, then once you get these ANDAs back, can you go to a new partner, would the new partner come along with the terms of this 20% to 22% distribution margin or would he come along the Teva margin profiles where he shares revenue with you for higher profitability?
- Aditi Panandikar:** I think we are going to look at, there are a couple of options already on the table, and we were looking at each separately based on where the product is in its lifecycle and then we would make decision, it is not a very general thing actually.

- Aditya Khemka:** Understood and on the question of this other expenses, so given that this 10 Crores to 12 Crores amount is a one-off, could you sort of guide us to an EBITDA margin profile for a full year of FY2020, I know you said FY2021 mid would be in the like of 15% EBITDA margin, but for FY2020?
- Sundeep Bambolkar:** Why 20 Crores, we should land up somewhere between 110 Crores to 125 Crores.
- Aditya Khemka:** Of absolute EBITDA?
- Sundeep Bambolkar:** Yes.
- Aditya Khemka:** And for next year you are saying EBITDA margin 15%?
- Sundeep Bambolkar:** Next year, we are aiming at, I think we have to wait for the approvals to come then we will be in a better position to give you the numbers.
- Aditya Khemka:** Right and when are we planning to launch Rasagiline in US?
- Sundeep Bambolkar:** Rasagiline we are planning to launch in Q4.
- Aditya Khemka:** So, why the long timeframe in launching a product after getting approval, I understand US is a timing-oriented market, right?
- Sundeep Bambolkar:** Not faraway, we are already in November now, so we are talking about January launch.
- Aditya Khemka:** No, Sundeep Sir, my point is that when we speak to other companies, while they anticipate approvals you already keep inventory ready, so that once the approval comes they are quick to dispatch to the distribution whereas here it seems that after getting the approval we are manufacturing batches and then dispatching, so I am just trying to sort of connect that to?
- Aditi Panandikar:** Partly, there are two reasons for this, one is the regulatory issues we had, so one if you have your own marketing and sales force in US, I guess you are better in command of the sale, which we do not have at this point and secondly because of the regulatory issues we had you will understand when we try to partner with others then there will be some concern on that side also, so probably for the first couple of products this is going to be the case, but once we are on our way I think we would also be prepared, we already have launched team is working, so it is not that there is any inefficiency on our side, this is probably decision making across two clients, which is taking time and that is driven by some of the issues of the past.

- Aditya Khemka:** Alright, fair enough and Madam can we also sort of guide for the topline growth that we aspire for FY2020 and FY2021, I know for a domestic business you have given us a guidance, but your more volatile business seems to be the export business, which is slightly more difficult for us and this to sort to extrapolate and understand given the complexities with your partnership with Teva and regulatory compliance, etc., as per your budget, as per your understanding, what is the export of number we should run with?
- Aditi Panandikar:** Aditya, you rightly said there is a lot of volatility in this business and there are a lot of instant buds that are related to things happening on time. I think, international we should safely look at a 30% growth over last year given all the variables also if not better.
- Aditya Khemka:** And this is for FY2021?
- Sundeep Bambolkar:** Yes.
- Aditya Khemka:** And for FY2021 would you have that as a case?
- Sundeep Bambolkar:** No, too early to say.
- Aditya Khemka:** Fair enough. Thanks Madam.
- Moderator:** Thank you very much. Next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.
- Surjeet Pal:** Thanks for the opportunity. My part, do you suggest that your US revenue for Q3 and Q4 will be in US you will be remain to be around 2.5 Crores to 3 Crores?
- Aditi Panandikar:** No, there are other milestones Surjeet and which are likely to retire around, which are approximately like this, so we do work to be able to maintain this kind of revenues for US.
- Surjeet Pal:** As far as Europe, you have given guidance, so basically what you have achieved in first half, so roughly around 100 Crores you are expecting from next two quarters?
- Sundeep Bambolkar:** Yes.
- Surjeet Pal:** And, staying away from the market will not hamper in terms of filing new product and grabbing the market share?
- Aditi Panandikar:** Staying away from market as well?

- Sundeep Bambolkar:** Yes.
- Surjeet Pal:** Because of these regulatory issues, which during that period when you were not supplying, so I believe that some other guys have definitely grabbed those market share from your partner?
- Aditi Panandikar:** So, those are only for products, which were already commercialized. One of the large products what we done across in which we had leakage issues and that is not our IP in any case, so the composition of that 125 Crores for business and product mix is very different from the kind of composition of 125 Crores in US we do now, it is going to be very different you cannot compare the two.
- Surjeet Pal:** My point is not that, what I am saying is that during the European market your other competitors definitely have grabbed, which you were suppose to get?
- Aditi Panandikar:** True, there were two ophthalmic products, which truly we had created, we and with the partner got a good market share, Dorzo, Dorzo-Timo on those products we would have definitely lost.
- Surjeet Pal:** My point is that when other guys grabbed those contract or market share, for you going back and again getting those days would it be delayed or will it take sometime to get that run rate again?
- Aditi Panandikar:** I will repeat again so you understand, when we do 125 Crores we are not expecting to do it with the product mix, which we had, when we did 125 Crores earlier, so getting the market share for these kinds of products, we are totally different products, no doubt we also tried for the others, am I understanding your question, little confused?
- Surjeet Pal:** Fine, Madam, you said 30% growth you were talking about non-regulatory market?
- Aditi Panandikar:** Total export business.
- Surjeet Pal:** So, when do you believe that US growth will come back to the level of which you were before this?
- Aditi Panandikar:** Two years.
- Surjeet Pal:** FDI growth your last two quarters of FY2019, was quite a high base, do you think that current growth rate would be maintainable or it will come down?

- Aditi Panandikar:** Yes, it can be maintained, the division is largely a backhand division supplying for internal consumption, so with the reg markets are picking up they had to supply more internally, but these kinds of growths can be maintained.
- Surjeet Pal:** So, 35% year-on-year growth in faster could be replicable?
- Aditi Panandikar:** Yes.
- Sundeep Bambolkar:** Yes, we have now additional capacity with the new plant commissioned just in the beginning of the year.
- Surjeet Pal:** So, that would not be a problem?
- Sundeep Bambolkar:** Not a problem.
- Surjeet Pal:** Thank you.
- Moderator:** Thank you very much. Next question is from the line of Sachin Kasera from Swan Global Investments. Please go ahead.
- Sachin Kasera:** Madam, just a question on this EBITDA, Mr. Vilas mentioned that this you are looking at 110 Crores to 120 Crores, if I see this quarter itself and he mentioned there was a 12 Crores one-off, so we are looking it roughly adjusted EBITDA from 45 Crores and you also mentioned that the India numbers are sustainable and exports in fact should improve because you have to ramp up with now the approval thing, so if you just do the math then is it there certain other cost that will come in H2 that we are as of now not aware of or is it that we are very conservative with guidance because if we do the match?
- Aditi Panandikar:** I think it is being conservative.
- Sachin Kasera:** Fine, secondly Madam, on this API, what is the peak sales we can do with the new capacity in place?
- Sundeep Bambolkar:** We have mentioned peak sales meaning what, using entire capacity you mean?
- Sachin Kasera:** I am saying what can be the peak API, because I see?
- Aditi Panandikar:** See, we have tripled the capacity of API in tonnage by addition of this block actually and so you can do the math, so we can easily go to three times this with current capacity now.

- Sachin Kasera:** But, I believe lot of the incremental capacities will also be for the in-house consumption, right?
- Aditi Panandikar:** Yes, it is planned for in-house, but the in-house largely is high value small volume product, which is used into ophthalmic per se, some solid oral is also there, so there will be a lot of capacity, which can be used for sales.
- Sachin Kasera:** Madam, what is the planned capex for the current year?
- Aditi Panandikar:** We are trying to maintain it at 45 Crores to 50 Crores.
- Sachin Kasera:** And how many ANDAs we are planning to file this year?
- Aditi Panandikar:** Two to three for the end of the year.
- Sachin Kasera:** And mainly ophthalmic injectables, Madam?
- Aditi Panandikar:** Yes.
- Sachin Kasera:** And how do you see the pipeline filing for next year FY2020?
- Aditi Panandikar:** As I said, we have already had, probably next year should be five to six products if not more.
- Sachin Kasera:** Madam, this India growth that we have seen now finally this quarter, so are the certain structural change that we have done, which means that this is now more a sustainable growth for us at least for the next two to three years or this is this year the high growth is a catch up of the issues we had in the last couple of years and then the growth should nowhere back to 9% to 10% mark from FY2021 onwards?
- Aditi Panandikar:** No, there are structural corrections also, as I said we work on both effectiveness and efficiency. There is some ambit of growth coming in because last year was lull, but then industry was also growing at lower rates at that time, so I do believe we can sustain these growths.
- Sachin Kasera:** And Madam, where are we in terms of the MR productivity today and how do we see that going up in the next couple of years?
- Aditi Panandikar:** We are in 2.5 per man per month.

- Sachin Kasera:** And how do we see this in the next two to three years, do we see space of scope improving this, Madam?
- Aditi Panandikar:** Yes, certainly. We are not hiring any more people, so all sales growth is going to result in per man return.
- Sachin Kasera:** May be in two years, we should be at 2.8 to 3 roughly that should be the sales growth?
- Aditi Panandikar:** Yes, certainly.
- Sachin Kasera:** Thank you so much, Madam.
- Moderator:** Thank you very much. Next question is from the line of Prateek Singha from Alpha Asset Management. Please go ahead.
- Prateek Singha:** Thanks for the opportunity again. So, my question was on the R&D and investments or expenses for this fiscal and next space both capital and revenue?
- Aditi Panandikar:** What is your question?
- Prateek Singha:** The R&D expenses for FY2020 and FY2021, please?
- Aditi Panandikar:** We will be maintaining at 4% of topline for the last 20 quarters and I expect we will be in the same range for the next year.
- Prateek Singha:** How much is plant gross additions are you aiming for your R&D centers any signs of suggestion?
- Aditi Panandikar:** No.
- Prateek Singha:** And before this US disruption happened, you had a few para 4 filing, so are they still promising?
- Aditi Panandikar:** No, they are all very promising.
- Prateek Singha:** Right, so no damage has been done to the cash flows?
- Aditi Panandikar:** No.
- Prateek Singha:** And what is the timeline for launch for these just a ballpark?

- Aditi Panandikar:** In a couple of years we should see things coming, one is probably expected next year and the other three later.
- Prateek Singha:** You have got four in total at the moment?
- Aditi Panandikar:** Yes.
- Prateek Singha:** Thank you. All the best.
- Moderator:** Thank you very much. Next question is from the line of Aditya Khemka from DSP. Please go ahead.
- Aditya Khemka:** Thanks for the followup again. Just the one question on API madam so there was a new plant you said that was commissioned at the beginning, this is a Patalganga plant?
- Aditi Panandikar:** Patalganga, yes.
- Aditya Khemka:** Could you give a sense of what your current API capacity utilization stands at?
- Sundeep Bambolkar:** Capacity utilization, Aditya, is almost full, more or less for the whole plant, the new plant has been commissioned and we are going in stages now, it cannot be sort of put to the full capacity immediately, it has to ramp up slowly and steadily.
- Aditya Khemka:** So, how much does Patalganga plant augment your capacity at full utilization?
- Aditi Panandikar:** As I said, we can do two times what we are doing now added, so it is a multiple of three times actually, in tonnage what we can make.
- Sundeep Bambolkar:** 150 tonne is our capacity, which has gone to almost 450 tonnes.
- Aditya Khemka:** With Patalganga addition, right?
- Sundeep Bambolkar:** Yes.
- Aditya Khemka:** So, in what timeframe would you expect to fully utilize Patalganga, I know it is a big number 300 tonnes?
- Aditi Panandikar:** Yes, Aditya, as I said earlier, I will repeat that. API as a business we got into only by the way of backward integration for a formulation business, but there are changes in the business environment, which augment well for API as a division standalone, looking at that

we will emphasize and strategically look at growing this business much faster than we intended to standalone basis by way of sales, but all the same I think this year we would be doing close to 100 Crores in API alone and next year we can ramp up much faster because capacity will be there.

Aditya Khemka: But, as you are aware the time lag, you will have to file DMF then get it approved and then the customer has to file his formulation, you understand the whole process, so it takes time from the new plant to sell material to the customers?

Aditi Panandikar: We are at 90% of API sales is happening to reg markets only for us, so we do not depend on or intent to do much of domestic or emerging API sales, so that is not much value there.

Aditya Khemka: Understood and as per our balance sheet and cash flow statement disclosed, we did about 25 Crores odd capex in the first half, so that is correct?

Sundeep Bambolkar: Correct.

Aditya Khemka: So, full year would be 50 Crores to 55 Crores capex?

Aditi Panandikar: Right.

Sundeep Bambolkar: Yes, we should not go more than 50 Crores.

Aditya Khemka: And that leads us with sort of a free cash flow of 60 Crores to 70 Crores depending on how our business fares in the second half of the full year, so you know 70 Crores of free cash flow, let us say for FY2020, how would we plan to utilize that capex, how much would be dividend, how much would be debt repayment out of that?

Sundeep Bambolkar: We will bring down our debt that would be the first priority, today the debt is 106 Crores short-term and 166 Crores long-term.

Aditya Khemka: And what is the cost of debt for us, Sundeep, Sir?

Sundeep Bambolkar: Around 7%, the long-term loans are lesser, dollar loan is around 5.5% and pound loan at 6.5%.

Aditi Panandikar: Averaging around 7%.

Sundeep Bambolkar: With compete hedging and Indian rupees at 7.5%.

- Aditya Khemka:** So, given that we have a loan at 7% average cost of debt, why are we so keen on repaying debt a fixed deposit could probably earn your 6.5% to 7%, why do not we use this to either the buyback stock or pay dividend to shareholders, what is the thought process?
- Sundeep Bambolkar:** I think that we can do subsequently, first let us bring down the debt.
- Aditya Khemka:** But, the leverage capital structure is till that point in time it leverage to a certain extent is good only know, Sundeep, Sir?
- Sundeep Bambolkar:** We will see it that point of time, we will pay the pros and cons.
- Aditya Khemka:** Sure, I get your point, you cross that bridge when you get to it, I understand. Sir, lastly are there inorganic plants that you guys are looking at, so let us say if you do not want to repay the debt because the cost of debt is okay despite full hedging, if you were to do any organic moves, anything that you are focused on?
- Aditi Panandikar:** Yes, Aditya, you know we have come out of a very difficult phase for the last two years, and I cannot come out if it yet, but it is at the lighter end of tunnel kind of, let us discuss these things when we are back on our feet, I will only be happy the moment when I am able to do the kind of facts I was giving to you two years ago.
- Aditya Khemka:** All the best Aditi Madam. I missed wishing you guys Happy Diwali.
- Sundeep Bambolkar:** Happy Diwali thanks.
- Moderator:** Thank you very much. Next question is from the line of Ashish Rathi from Lucky Investment Managers. Please go ahead.
- Ashish Rathi:** Thanks. Madam, wanted to check, what is the kind of amortization, you said 4% of revenue will be R&D expenditure, how much of it is getting capitalized and how much is being spend?
- Sundeep Bambolkar:** For the quarter you want?
- Ashish Rathi:** First half.
- Sundeep Bambolkar:** What we have done is we have amortized 11 Crores and added 8 Crores, so we have amortized more than what we have added.
- Ashish Rathi:** Right, so 8 Crores is what we have added, right?

- Sundeep Bambolkar:** Yes.
- Ashish Rathi:** Out of that total R&D spend of 20 Crores to 21 Crores?
- Sundeep Bambolkar:** 23 Crores.
- Ashish Rathi:** 23 Crores, okay, so the question is in the context that now we have around 50 Crores of net intangible sitting in the balance sheet, and we are taking approximately 30 Crores of run rate amortization every year, so where do you see these numbers going like in three years, three to four years we should be at net zero number, is it possible?
- Sundeep Bambolkar:** Yes, certainly because looking we do not foresee any major investment ramp up, so we should be in a position to clear it off in three to four years.
- Ashish Rathi:** Presently because your 70 Crores of depreciation and amortization that you report right now, the operational actually is only 40 Crores and balance is amortization?
- Sundeep Bambolkar:** Right.
- Ashish Rathi:** And second is any clarity on launch timelines or approval timelines for **inaudible 41:55**?
- Aditi Panandikar:** We are in the process of responding to some CR right now, so may be by the time we meet on call next time will be able to give you more clarity.
- Ashish Rathi:** So, the last CR the response, which you have sent was well?
- Aditi Panandikar:** We have one update still pending, which is underway right now, and largely was ready to scale up nothing else.
- Ashish Rathi:** So, they want to see whether you can scale that product up in that?
- Aditi Panandikar:** It is a difficult product, both for development as well as manufacturing and which is good you rarely get these kinds of products.
- Ashish Rathi:** So, when you say it was largely ready to scale up because I believe this product requires a 30-month trial to go through, so are we seeing the trial outcome is all fine, but now they are questioning the scale up of the product?
- Aditi Panandikar:** Operations related.

- Ashish Rathi:** So, principally the product manufacturing has been approved in a way that can be interpreted like that, right?
- Sundeep Bambolkar:** Yes.
- Ashish Rathi:** That is great Sir. Thank you very much and wish you all a very happy Diwali.
- Moderator:** Thank you very much. Next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.
- Surjeet Pal:** There are already six generic approvals including it would be seven, what would be the current market is currently on this product?
- Sundeep Bambolkar:** \$105 million around as per our knowledge.
- Surjeet Pal:** So, that is all including of discounts and rebates and all?
- Sundeep Bambolkar:** Yes.
- Surjeet Pal:** So, what could be your understanding of how much market share you can grab?
- Sundeep Bambolkar:** We are planning our partner is sort of talking about 10% minimum first year and 20% next year.
- Surjeet Pal:** That is why being so many guys?
- Sundeep Bambolkar:** Yes.
- Surjeet Pal:** Thanks, and that is all.
- Moderator:** Thank you very much. The next question is from the line of Anupam Agarwal from Lucky Investment Managers. Please go ahead.
- Anupam Agarwal:** Good afternoon. One of my questions is same as Ashish Rathi on amortization and all of that, my second question pertains to your tax rate guidance for FY2020 and FY2021 given the fact that you have deferred tax lying in the books?
- Sundeep Bambolkar:** We expect our tax rate in the range of 20% to 21%, the new tax rate, which was announced probably once we exhaust our MAT credit we will be in a position to move to that, at that time it will be further lowered.

Anupam Agarwal: So, around 20% to 21% in FY2021?

Sundeep Bambolkar: Yes.

Anupam Agarwal: Thank you. That is, it. All the best.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Global Investments. Please go ahead.

Sachin Kasera: Just one question on CRO, for the first time we have seen some decline there in the revenues, is there anything to be read into that?

Aditi Panandikar: So, it is just a one-off thing because whenever we have captive use then we are not giving capacity outside, so it is one of the factors, nothing otherwise.

Sachin Kasera: Sure, Madam, one question on Europe, so now we also have the Baddi plant, so with additional capacity what is the peak revenue can we do from Europe?

Aditi Panandikar: I think 2.5 times what we are doing right now.

Sachin Kasera: And you think what it, it will take at least six to eight quarters to reach that full level?

Aditi Panandikar: Four quarters.

Sachin Kasera: Thank you.

Moderator: Thank you very much. Next question is from the line of Himesh Satra from Joindre Capital. Please go ahead.

Himesh Satra: Madam, I wanted to know what was the FY2020 guidance for EBITDA that you gave 125 Crores right?

Vilas V. Nagare: 110 Crores to 125 Crores that is a conservative estimate that we have given.

Himesh Satra: That should be all. Thank you.

Moderator: Thank you very much. Next question is from the line of Cinderella Carvalho from Centrum Broking Limited. Please go ahead.

Cinderella Carvalho: Thanks for taking my question and happy Diwali to all of you. Just wanted to understand Madam, if you could help me with how is our now the discussion with our partner Teva coming up, is there any new updates, how are we looking at thing that you can allude to us?

Aditi Panandikar: I think I had already answered of the basket of 24 products, which were signed, 11 are live, two were approved, so there were 13 and remaining 10 has been stalled pause are under discussion and the discussions are midway and as soon as we have some outcome we will inform.

Cinderella Carvalho: And in terms of, if you get our compliance status, we have like if you see European compliance, we are cleared from that side, our plants are looking like we have Baddi now with us, so how do you look at the entire compliance status for the company toady and what are the key efforts or key milestone that you have achieved, which you would like to highlight to us that gives you confidence that you will maintain these compliance levels going ahead?

Aditi Panandikar: So, it has been a very tough couple of years and two-and-a-half years for us, starting with the first warning letter we got for plant 2 and to date so both the plants in Goa plant 1 and plant 2 have gone through their own phases of understanding the expectation from the regulator and complying to the expected quality standards. I might have spoken earlier the concept of ALCOA and ALCOA plus for data integrity, it was largely the plus part, which nearly impacted us where incomplete documentation or missing signature also construed gets the data integrity. There has been a huge learning curve that the company has gone through and we have put through all the staff at all our facilities all the eight manufacturing sites through an entire training with modules on data integrity, GST compliance, code of ethics, there is an internal concept of tattvas, which is sachai, akandatha, theevratha, vishwas other and samatha, philosophy where every employee had to sign to these quotes, this kind of code of ethics and agree to function and work as per that. There has been a huge understanding and learning across the organization and it has been a lot of effort. We have also learned a lot through working with the remediation partner and all in all the quality infrastructure both hard and soft is much superior today. We have a new position of CTO, which we formed a year-and-a-half ago almost two years ago with a new sale of compliant over and above the local quality assurance in quality control and this has all helped us, so today we see ourselves to be much stronger by way of our knowledge, understanding and ability to manufacture product of the expected standard by the regulator.

Cinderella Carvalho: Madam, any update on the pending WL on the plant front?

- Aditi Panandikar:** We have had one sharing of information with USFDA, largely where we have given them timeline and scope of activities and outline of what we will be doing and I think now the communication will go back and forth where the FDA will come back and tell us if they are satisfied with what we expect to do and they expect us to do anything more and the process will go on.
- Cinderella Carvalho:** Do you have any timeline in your mind where you will invite them?
- Aditi Panandikar:** I think I would be happier talking to you about warning letter resolutions of plant 1 in the next call.
- Cinderella Carvalho:** All the best to you and thank you.
- Moderator:** Thank you very much. Next question is from the line of Aditya Khemka from DSP. Please go ahead.
- Aditya Khemka:** Sorry and thanks again for the followup. Madam, just on the European business, you have seen quite optimistic about the potential of the business given the infrastructure?
- Aditi Panandikar:** Yes, I was only talking of consuming you know, there are two ways of looking at that is whether if you can consume all your capacity and make for Europe is one way of looking at out of sales, the other one is whether you are right in sales and marketing can go out and get that much.
- Aditya Khemka:** That was my question, so although your infrastructure could support.
- Aditi Panandikar:** Yes, I said four quarters, but probably more than six to eight may be depending on efficiency or effectiveness of how we can go out and get.
- Aditya Khemka:** Yes, but my question was slightly different, I understand where you are coming from, but for the European market when we speak to other pharma company seems to be a difficult market both in terms of pricing and in terms of the regulatory hurdles that are there, can you sort of take us through whether how many products we have registered there, whether you have partners with agreements already in place, what is giving you the confidence of that six to eight quarters or four to eight quarters timeline?
- Aditi Panandikar:** I will take up the regulatory part and Sundeep will probably discuss more on the business side. As you know we already had a setback from MHRA for plant 1 and much in line with what I responded earlier we had a huge learning as regards MHRA expectations also, you may not be aware, but I will tell you that the ALCOA plus part of it on DI is actually an

MHRA guided, which now FDA is also looked at, so from a regulatory perspective we are feeling pretty strong regarding our understanding of expectation for supply to the continents, so we are okay on that. On the supply side, through this couple of years has actually allowed us to look at a product mix, a partner mix, and get into the business in a manner that we are able to make better margin than we were doing earlier, but I will let Sundeep tell you more.

Sundeep Bambolkar: We have three big partners in UK. I will not be able to give you names, there are partners more of products, three in Germany and one in Spain. So, these partners are capable of procuring much more from us than what they are doing today because we pass through a very difficult phase, so we were unable to supply, but now that all the approvals are in place for UK and Europe, I think we are very optimistic of supplying good quantity from Goa and Baddi both.

Aditya Khemka: Sir, I was actually just trying to get more detail from that optimism, Sundeep, Sir, once you went out of the market, your partners would have already started procuring from someone else right or if not your partners and competitors of your partners would have taken market share given that your partners are unable to supply due to your manufacturing issues, so what gives us the confidence of regaining that market share or launching?

Sundeep Bambolkar: I will come to that. We had a personal meetings, I personally traveled and met all the partners at that critical juncture and they really empathize with what has happened to us, but you know rather than resorting to self pity we told them we will get along with the business and let things fall in place by our actions and which we approved now, so the partners have stood by with us very firmly, it is some of the partners the relationship is from 2003 to 2018 when this happened, so it has been a very long relationship, there is plenty of trust and faith and that is what has enabled us to get back. As regards to the market share, of course the competitors would have snatched the market share, I am not saying no, but the partners have a very good standing in the market, which we have noticed and you are seeing the numbers right from the past two months, which have enabled us to make some good headwinds in which that brings the enthusiasm and optimism for us to take this further.

Aditya Khemka: Understood, and could you help us with any number of products that you have partnered with and is the economics of this segment cost plus for you guys?

Sundeep Bambolkar: I think number of products is quite a lot, we cannot go very deep on this call, I think when we meet you we can possibly discuss all that.

- Aditya Khemka:** Sure, and the economics is cost plus for your open market for us or is it a profit share, revenue share sort of thing?
- Sundeep Bambolkar:** There are some products of course majority products are cost plus, but there are some products, which are having profit share.
- Aditya Khemka:** Thank you, Sundeep, Sir.
- Moderator:** Thank you very much. Next question is from the line of Kunal Randheria from Antique Stock Broking. Please go ahead.
- Kunal Randheria:** Thank you for taking my questions. Madam, of the 17% growth in the domestic market could you share the volume price breakdown please?
- Sundeep Bambolkar:** The price is around 4%, new product is around 2% and rest is volume.
- Kunal Randheria:** Right, and have we sort of taken price hikes in the product this year or yet to be taken?
- Aditi Panandikar:** No, as we said the price rise is 4% to 5%.
- Kunal Randheria:** But, you have already taken it for this year or was it taken last year?
- Aditi Panandikar:** No, we have taken this year.
- Kunal Randheria:** Are we facing any sort of some volume pressure in the domestic market like some of our peers are facing?
- Aditi Panandikar:** No, as you have seen our numbers we are doing almost double of our cover market growth rates also and essentially I would attribute that to some of our brands, which have been built in a very solid manner, so we are able to drive it scientifically and I have not seen much **inaudible 57:21** there is still an area of improvement, which can further sales, so in our number of days of stock held for our products in the market continues to be low at 33 from 45 days, so despite of that we have shown this growth and that is really commendable.
- Kunal Randheria:** That is good to know, secondly, how much is the annual cost that you are incurring on consultants and other remediation charges?
- Aditi Panandikar:** We have been incurring close to 4 Crores to 4.5 Crores for the last two years.
- Kunal Randheria:** Right and that should start coming down in the next year?

- Aditi Panandikar:** Yes, may be another two quarters and then it should phase out.
- Kunal Randheria:** My last question, sorry if you have answered this before, in Europe now since we yet coming back after sometime, does the economics of the deal changed with the partners or does it remain?
- Aditi Panandikar:** Actually we never went out I just want to rephrase that, there was a lot of products being manufactured in plant 1 and majority of our large customers we are able to support them from Baddi 1, what went out actually is other than the nonessential products, which were not very significant there were many small products actually and on which we have not supplied and we are actually looking at the product mix properly because even when we were doing those sales it was not that we were getting great margins, so we believe there is a dynamics of being able to make money on the European business provided you get the right product and business mix.
- Kunal Randheria:** Going forward, would the economics sort of remain the same?
- Aditi Panandikar:** It will be better.
- Kunal Randheria:** It will be better?
- Aditi Panandikar:** Yes.
- Kunal Randheria:** Right. Thank you very much for taking my question and all the best.
- Moderator:** Thank you very much. The next question is from the line of Vishal Manchanda from Nirmal Bang Equities. Please go ahead.
- Vishal Manchanda:** Thanks for the opportunity. I just have one question, so with regards to the products that have already been on the US market and you expect to come back with the spread up in the last quarter is that right?
- Aditi Panandikar:** No, I actually said this that when we come back with sales in US it is not likely to be from the products, which was sold earlier may be one or two of them, but not other than that, we already have one solid oral being supplied from plant 1, which is steady and we will grow and there were around four to five products being supplied from plant 2 for which three of product we have contract manufacturers and we are out of that and one or two products are likely to come in over a period of time.
- Kunal Randheria:** Thank you.



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Moderator: Thank you very much. As there are no further questions, I will now hand the conference to the management for closing comments.

Sundeep Bambolkar: Friends, thank you for your active participation, have a nice evening. Thanks.

Aditi Panandikar: Thank you.

Moderator: Thank you very much. On behalf of Nirmal Bang Equities that conclude this conference. Thank you for joining us. You may now disconnect your lines.