



“Indoco Remedies Limited
Q2 FY2023 Earnings Conference Call”

November 11, 2022



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Moderator: Ladies and gentlemen, good day and welcome to Indoco Remedies Limited Q2 FY2023 Earnings Conference Call hosted by JM Financial. 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 now hand the conference over to Ms. Cyndrella Carvalho. Thank you and over to you!

Cyndrella Carvalho: Thank you Yashashri. Good morning everyone. I am Cyndrella Carvalho. On behalf of JM Financial I welcome you all on the Q2 FY2023 earnings call of Indoco Remedies. At the outset I thank the management of Indoco Remedies for giving us this opportunity to host the call and looking forward to have a detailed insight on the earnings from the management. Today from the management team we have with us, Ms. Aditi Panandikar, Managing Director, Mr. Sundeep Bambolkar, Joint Managing Director, Mr. Pramod Ghorpade, Chief Financial Officer. I now hand over the call to management for their opening remarks. Over to you Ms. Aditi!

Aditi Panandikar: Thank you Cyndrella and thank you all for joining us this morning. Amidst a very volatile Indian pharma market experiencing highs and lows due to COVID therapy product performance at Indoco it has been a pleasure to report excellent overall performance for the last few quarters. Our journey of financial excellence continues for Q2 FY2023 where a steady domestic business and a fast growing international business have helped us post good numbers. We closed second quarter this year with Y-o-Y growth of 8.6% with domestic branded business contributing to 55% of revenue.

Anti-infectives and respiratory segments have shown substantial improvement over their Q1 performance this year, but the high base of last year for these therapies continues to create a drag for growth for India business. Overall acute therapies which were degrowing by 20% in Q1 are now only marginally degrowing at 1.8% for Q2. I am confident that in the coming quarters both anti-infective and respiratory as well as acute therapy overall will start showing better performance for the company. Sales to US and EU have shown substantial growth and helped the company post overall good performance. As part of our super transformation journey at Indoco we recently achieved a major milestone when we successfully implemented SAP S4 Hana across all verticals and geographies for the company. These are particularly satisfying as we went live within eight months on dot as planned. I am confident that SAP and all the advantages it offers will help us significantly in our quest for better top and bottomline in the years to come. On August 23, 2022, Indoco completed 75 glorious years. Indoco has wholeheartedly participated in the celebrations of the platinum jubilee year. I am confident they will strive hard and allows us to register an



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excellent performance this year. Before the short preamble from me I now hand over to Mr. Sundeep Bambolkar, Joint MD to take you through the financial performance for Q2 and half year.

Sundeep Bambolkar: Thank you Aditi. Good morning to all participants. I hope you and your family members are all safe and healthy. Let me first begin with the business highlights. Net revenues for the company grew by 8.6% at Rs.404.6 Crores compared to Rs.372.6 Crores for the same quarter last year. In the first half of the year revenues grew by 6.1% at Rs.799.5 Crores as against Rs.753.8 Crores. EBITDA to net sales for the quarter is 21.7% at Rs.87.8 Crores compared to 23.2% at Rs.86.3 Crores. EBITDA to net sales for the first half is at 19.9% at Rs.159 Crores compared to 23% at Rs.173 Crores. PAT to net sales for the quarter is 12.3% at Rs.49.6 Crores compared to 11.2% at Rs.41.6 Crores. PAT to net sales for the first half is 11% at Rs.88 Crores compared to 10.8% at Rs.81.2 Crores. Earnings per share for the quarter is Rs.5.39 compared to Rs.4.51, EPS for the first half is at Rs.9.56 compared to Rs.8.81 for the same period last year.

Coming to the domestic formulation business. Indoco ranks 26th in the second quarter FY2022-2023 with market share of 0.69% and reflects growth at 10.2%, this is as per AWACS data. Revenues from domestic formulation business for the quarter registered a growth of 4.2% over the immediately preceding first quarter of current fiscal and degrew by 2.4% at Rs.208.5 Crores as against Rs.213.6 Crores for the same quarter last year. For the first half revenues degrew by 4.7% at Rs.408.5 Crores against Rs.428.7 Crores. During the quarter one product was launched by Indoco's paid division namely Febrex tablet that is Levocetirizine Hydrochloride 5 mg with Pseudoephedrine Hydrochloride 120 mg sustained release tablets under the respiratory segment.

Coming to the international formulation business. Revenues from international business registered a growth of 28.5% at Rs.174 Crores as against Rs.135 Crores. For the first half revenues grew by 22% at Rs.351.5 Crores against Rs.288 Crores, revenues from regulated market for the quarter grew by 32.6% at Rs.147 Crores as against Rs.111.4 Crores. For the first half revenues grew by 23.2% at Rs.295.3 Crores as against Rs.239.6 Crores. Revenues from US business for the quarter grew by 44.7% at Rs.69.3 Crores as against Rs.47.9 Crores for the same quarter last year and for the first half revenues grew by 42.7% at Rs.134.2 Crores as against Rs.94 Crores for the same period last year. Revenues from Europe for the quarter grew by 25.2% at Rs.74.7 Crores against Rs.59.7 Crores and for the first half revenues grew by 9.8% at Rs.152.5 Crores against Rs.138.8 Crores.

Revenues from South Africa, Australia, and New Zealand were at Rs.3.7 Crores constant as the same quarter last year and for the first half revenues grew by 28.5% at Rs.8.7 Crores compared to Rs.6.8 Crores. Revenues from emerging markets for the quarter grew by 9.5%

at Rs.26.5 Crores against Rs.24.2 Crores and for the first half revenues grew by 16% at Rs.56 Crores against Rs.48 Crores. Revenues from API business for the quarter are at Rs.18.3 Crores against Rs.19.7 Crores and for the first half revenues grew by 3.2% at Rs.31.6 Crores as against Rs.30.6 Crores. Revenues from CRO & Analytical Services for the quarter are at Rs.3.7 Crores constant as the same quarter last year and for the first half there is a growth of 20.8% totaling to Rs.7.9 Crores against Rs.6.5 Crores. One satisfying factor is our going live for the SAP S4 Hana on August 5, 2022, we now completed the closure of three months of sales revenue from the system and the first quarterly results have come out from the system, so altogether the implementation of S4 Hana by our team has been completely satisfying and highly successful. Thank you very much for giving me a patient hearing and now I would like to invite questions from all of you. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Aditya Khemka from Incred PMS. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Aditi Madam first question on the India business, so if I understand correctly last year in the first half we had sales of about Rs.430 Crores of which I think we had previously called out roughly Rs.50 Crores was let us say COVID-related sales, so if at just Rs.430 Crores, Rs.450 Crores I end up at Rs.380 Crores of sales for last year first half this year first half we had Rs.408 Crores so if I do the math it is about 6%, 7% growth excluding COVID impact in the base and if I understand correctly the level of price increases we have taken during the first half is around that number 5%, 6%, so does that mean effectively that in the first half of FY2023 or first half of FY2022 the contribution of volume and new product introduction put together is zero?

Aditi Panandikar: Interesting question Aditya, lot of calculations you seemed to have done which I will have to put in order, but the scenario you are finally arrived at is incorrect because let me start from new products. So new introductions in the current quarter contribute to Rs.5 Crores revenue with a contribution of 2.3% to topline which is the best we have done in the last several years, same quarter last year we were at 0.8% of topline at Rs.1.7 Crores, so new introductions are doing exceedingly well. The kind of math you have done is a bit difficult to apply for the Q1 and Q2 this year because as I have explained before various products performed well and did not, so the entire impact of top and bottomline going up or down cannot be assigned entirely to COVID or COVID basket because ATM is the product which is a great strength for the company, so this is a product which without the COVID impact also does alright when the season comes in. I just give you a few numbers which will explain things possibly. Anti-infectives as a category in absolute term from Q1 went up by 73% and respiratory has gone up by 25%, so overall the category started doing well, but in some cases, so if you see Q2 last year besides COVID products other acute products had also done well because this was around the time when peripheral diseases to COVID

treated, etc., so it is not correct to assign entire growth or degrowth to COVID basket. So in Q2 this year for example Febrex Plus as a brand has not done very well while all the COVID basket products including ATM for that matter and Karvol Plus are doing much better than the same period last year. I hope this answers your question.

Aditya Khemka: To an extent it does Madam, so essentially I understand that the performance of individual products might be different at a basket level, if we are growing at 5%, 6% for the first half over like-for-like excluding COVID and that is the level at this...

Aditi Panandikar: You cannot use that calculation for excluding COVID technically that is why we differ possibly.

Aditya Khemka: Second question last year we did roughly Rs.800 Crores in India and this year given that we have done Rs.408 Crores in the first half and first half tends to be the heavier of the two halves would it be fair to assess that this year will be almost zero or negative growth in the India business?

Aditi Panandikar: No, we will do much better in the second half. I will explain why, this was a very challenging year for us for target setting for India business as I have said earlier because when you have for Indoco in particular anti-infectives and respiratory contribute to 40% of our topline at least and when these two therapies have had fell down last year and we expect that it was very difficult to set target for the field. So we had therefore created a target for excluding COVID and COVID basket surprisingly it did not support us this strategy and we have now revised it strategically for the second half and I therefore expect much better performance, so we thought there would be many areas where the ATM drop would affect people performance and therefore we have done separate targets, actually ATM has done much better than expected but people did not push typically as fielders, so we might have got impacted partly for our primary, but at a secondary level I feel we are alright and therefore our second half will be better.

Aditya Khemka: But Madam second half generally given that the fourth quarter is the worse quarter of the year second half generally tends to be like 45% of the full year and first half tends to be 55% of the full year, so you are saying this year second half can be more than 50% of the full year?

Aditi Panandikar: Yes.

Aditya Khemka: So, if you were to guide us Madam what would you guide us to for the full year in India business on a reported basis on a base of Rs.803 Crores of last year, what kind of growth should we be looking for?



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- Aditi Panandikar:** At least 5% if not more.
- Aditya Khemka:** So, Rs.800 Crores going to Rs.840 Crores, Rs.845 Crores that is what you are looking at?
- Aditi Panandikar:** Correct.
- Aditya Khemka:** Understood, that is helpful Madam. Second question, Sundeep Sir, on the US business just to understand in the current quarter is there any element of Brinzolamide's profit sharing in that Rs.70 Crores revenue that you have reported?
- Sundeep Bambolkar:** No, ever since we relaunched Brinzolamide, Brinzolamide has settled down in the market and the profit share from Brinzolamide is not appreciable. The total profit share from US business is around Rs.7 Crores, but that has many products, so Brinzolamide is just settling down and in the coming quarters you would see profit share from that product.
- Aditya Khemka:** Right and what is the status of Combigan Sundeep Sir as we have been able to launch the product and what is the kind of traction?
- Sundeep Bambolkar:** Combigan as you know is the much bigger product compared to Brinzolamide, so more than double the market size and we have been the third player to launch besides the innovator, so we luckily had stocks in Teva's warehouse already when we got the approval and Teva has launched it just about a month back.
- Aditya Khemka:** A month back, so you are saying in the second quarter number there is no impact of Combigan sales am I right?
- Sundeep Bambolkar:** Right, from third quarter onwards we will have that.
- Aditya Khemka:** Basically when you shift the products to Teva that is not when you recognize the revenue, when Teva actually launches in the market that is when you recognize the revenue of the product so that is the right way of understanding because you said that stock was already there in Teva's warehouse when you got approval?
- Sundeep Bambolkar:** Yes.
- Aditya Khemka:** So, you recognize revenue when Teva actually sells?
- Sundeep Bambolkar:** The profit share is recognized when Teva sells; the first part of the dispatch was already recognized.



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Aditya Khemka: So manufacturing cost plus mark of that revenue which we recognize, that we have recognized when you sell to Teva, when the product goes from your warehouse to Teva's warehouse?

Sundeep Bambolkar: Perfect.

Aditya Khemka: So that element of revenue will be there in Rs.70 Crores of Q2?

Sundeep Bambolkar: Yes, correct.

Aditya Khemka: For Combigan, okay, got it. Now coming to the European market Sundeep Sir, obviously very tough time given how the currencies are playing out in fact before this quarter results US published we were reading so many reports that COVID will be severely impacted because of the pound depreciation, but European revenue seems to be fantastic, better than what I had expected, so can you talk a bit about the impact of the Euro or the GBP on your business and why that has not adversely impacted you yet?

Sundeep Bambolkar: A very smart question Aditya for the benefit of all those who are listening and I will certainly talk at length on this. We deployed a very careful strategy while hedging the euro and pound with the result our hedging has been near to perfect. I would not bores too much about it because things could go wrong in subsequent quarters, so I will be a very little careful on my words, but at least for the time being we are on good track. Like-to-like currency wise pound has recorded sales 2% higher than the same quarter last year, euro 11% higher and dollar 13% higher so that is in constant currency term. Now coming to why Indoco has done better. The order book itself is Rs.150 Crores plus as on today that is the first point which gives us ample and good scope and very good opportunity to control cost and do a near to perfect production planning activity in all our plants that is two plants in Baddi and Goa one and Goa three as and when required. Interestingly now going ahead we have got approvals for one capsule product of neurotic pain and one of epilepsy, so Europe is certainly see better times going ahead as far as margins are concerned. Right now margins are tottering around 9.5%, 10% of EBITDA, but going ahead within three quarters from now onwards I hope to see EBITDAs of 14%, 15% minimum.

Aditya Khemka: This margin is going from 9.5%, 10% to 15%, this is for the entire European business?

Sundeep Bambolkar: Entire European business.

Aditya Khemka: Got it.



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Sundeep Bambolkar: When the pound was around 1.20 to the dollar and dollar was around \$79, \$80 we got ample chances to hedge the pound at that time because if you see the pound was recording over Rs.100 to a rupee and that is the time we really hedge the pound and euro hedging also has been quite favorable for us. The high rates were 95, 98 all those rates and the low rates were around 82 giving us an average rate of around 90 so that is where we are on the European business and as I told you euro has recorded in constant terms also 11% growth and pound we will do far better now going ahead because pound on constant currency was 2% to 3% growth.

Aditya Khemka: Got it, this hedging that you do how long do you hedge what timeframe do you hedge for 6 months exposure, 12 months exposure, what is the extent to which you hedge?

Sundeep Bambolkar: At this point in time around end of 2024.

Aditya Khemka: Till the end of FY2024 you have already hedged?

Sundeep Bambolkar: Yes.

Aditya Khemka: Okay and that is a rolling exercise, right now you will be buying fresh hedges for 2025?

Sundeep Bambolkar: Perfect that is a rolling exercise, so we get advantage of it every month.

Aditya Khemka: Got it. Now couple of questions on the P&L Sundeep Sir. One is our other operating income; it was slightly on the higher side in Q1 and Q2 substantially higher, is the majority part of the other operating income forex gain?

Sundeep Bambolkar: Yes, other operating income was higher by about Rs.7.5 Crores to Rs.8 Crores, but that is operating income not only other income. As you know very well the exchange gain is part of our business, it is not speculative exchange gain that is very important to be noted.

Aditya Khemka: Out of this Rs.28 Crores this quarter for other operating income how much the exchange gain?

Sundeep Bambolkar: Incremental exchange gain we should look at is Rs.13 Crores.

Aditya Khemka: 13?

Sundeep Bambolkar: Yes.

Aditya Khemka: Got it and given that the India business was actually a lower contributor this quarter to the overall revenue that it has been in the past I am slightly surprised that we have seen gross



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margins improving Q1 versus Q2, 67%, 67.5% of gross margin in Q1 and 70.5% in Q2, so there are two questions on the gross margin one the sequential improvement is slightly difficult to understand given that the India business is not really performed very well and compared to Y-o-Y obviously your gross margins are down 200 basis points so I guess the other question as you know when do we see normalcy being reflected in the gross margins, how long would you guess it will take, so first question how did you sequentially improve and second question when does it go back to the normal level of 72%?

Sundeep Bambolkar: As I already mentioned to you the basic product mix of Europe is changing and I have to talk on Europe because Europe was driving us down and a solid conscious effort has been put in within the organization. Aditi and myself are talking about this extremely frequently when we address the management teams and an operational excellence team has been setup under the leadership of our CFO, Pramod Ghorpade and our operations head, Sachin Ghosalkar, so these two teams are interacting extremely frequently and putting the plants under constant surveillance so that our overhead come down and as a result cost of goods improve that is the first point. Second point if you notice the raw material costs have now started normalizing compared to the sequentially previous quarter, so there are lot of effort has been put in to have alternate vendor development which is constant process for the EPS which Indoco is not manufacturing on its own, so that is the second point and sequentially things should certainly look up with the US business going up that is going to be a very major contributor because we are in niche segment such as injectables now getting into complex injectables. The first complex injectable has been developed by R&D and will go into the plants for exhibit batches in January and/or February beginning. New line has been purchased which is getting into the plant in this month. Point number two suspension ophthalmics like Brinzolamide have entered the market so that is the second point. Third sustained release products solids will get into the US market. One is under very active development I would not be able to give you the name. So these factors all are pointing towards the high scale US business in time to come, downward COGS movement and resulting into much higher gross margin.

Aditya Khemka: Okay. Thanks a lot for your response Sundeep Sir. I had three more questions, but I will give others opportunity and come back in queue. Thank you so much.

Moderator: Thank you. We have our next question from the line of Mitesh Shah from Nirmal Bang Securities. Please go ahead.

Mitesh Shah: Thanks for taking my question. When Aditya asked questions and we have very less questions to ask, but I will try my best. Again squeezing to the domestic market, so are you expecting around 16% plus growth in the domestic market like you are giving the guidance



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for 5%, so what would be the major reason or major drivers for this 16% growth are you expecting for second half?

Aditi Panandikar: I think 5% was on annual sales, this 5% of course includes the COVID impacted basket, so taking the COVID impact basket quantum aside we would do much better right. As I said almost all parameters the business is doing well. We have certain setbacks on a few molecules, for example this quarter anti-infectives as a category did well for the industry in Q2, but the anti-infectives we sell Cefuroxime they are not grown as substantially as your Amoxicillin, so when you compare CVM or our performance vis-à-vis industry you will see these little bit of hitches, but overall for the company on product like Cyclopam is at 10% growth an old product even Y-o-Y basis and on Q1 basis all products are on good growth, Febrex Plus is flat, so I am very confident going forward we do well.

Mitesh Shah: How much price hike have you taken in your entire portfolio?

Aditi Panandikar: Effectively we get around 6% price hike.

Mitesh Shah: That all have started reflecting in this quarter?

Aditi Panandikar: No, it depends very much on how the inventory in the system, consumptions and new price inventory going out. There is some scope in future to get better efficiency effective this year. We have identified this as an area of improvement.

Mitesh Shah: My second question is regarding your other expenditure had increased sharply on a Q-o-Q basis what is the reason for that?

Aditi Panandikar: There is a one-time expense related to indirect taxes of around Rs.7 Crores, otherwise we are all ready on all other time.

Mitesh Shah: Got it, so is that freight cost and everything has normalized or still on a high level?

Aditi Panandikar: It has steadied, it has not yet normalized, but it is not increasing much and basically as Sundeep explained earlier it is our geography and product mix of international business in this quarter which has helped us because we have done probably higher contribution from US than any other geography at any time and that has helped because that certainly has margins.

Mitesh Shah: Got it and again in Europe and the emerging market the currency volatility definitely you have done good job in the hedging front, but it is a scope for the pass out the domestic



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currency appreciation or depreciation of the euro and the emerging market that we envisaged?

Aditi Panandikar: Can you repeat that for the Europe?

Mitesh Shah: We pass out to the end users for both EU and the emerging market, hedging is definitely a good policy, but it would not be sustained for long right?

Sundeep Bambolkar: Majority of our emerging markets and dollars that is the first point, complete Latin America, major part of Africa and South East Asia are in dollar. The only part which is in euro in emerging markets is the French West Africa portion so that is the first part, so we stand very strong on the dollar.

Aditi Panandikar: Fortunately for us in Europe we are not exposed to the front end because large portion of our Europe revenue is of being contract manufacturers, so the impact has really taken by our end customers and the portfolio is like that they understand so it is being absorbed.

Mitesh Shah: Got it and again just coming back to the domestic market of the strong second half growth what would be the key driver for you definitely this price hike benefit will be coming into H2 and you said that new product introduction are also higher in the past, so it would be like a combination of all volume price hike and the new product introduction would be divest?

Aditi Panandikar: New introductions will definitely continue to do well, so if you see it has already come to 2.3, it will further go up to at least 3% by end of the year I am very confident, legacy product growth Cyclopam is doing very well it will continue to drive, Febrex Plus will also start catching up again as I explained earlier, both my acute divisions, Indoco and Spade were impacted with one product each which did significantly well last year for COVID that post tremendous challenges in setting targets, so we had given targets to Indoco main division for example without Karvol Plus and with Karvol Plus separate target and same for Spade with and without Febrex Plus. Now what happens is that this sort of buying people and does not allow them to stretch I am very confident in the second half this particular hurdle which we identify pretty early and we have already strategically resolved it, so the performance will give us more I am very confident.

Mitesh Shah: Thanks for your answers. That is it from my end.

Moderator: Thank you. We have a next question from the line of Rashmi Sancheti from Dolat Capital. Please go ahead.



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- Rashmi Sancheti:** Thanks for the opportunity. Aditi Madam on US business if you can bifurcate how many launches have we done in first half and what are you guiding for the full year and if it in bifurcate in terms of how many injectables we have launched and how many oral solids we have launched?
- Aditi Panandikar:** Thanks for your questions. Three new launches happened up to this point in the first half and overall for the year we expect to do at least Rs.300 Crores from US.
- Rashmi Sancheti:** Any launch guidance like in second half how much are we planning to do?
- Aditi Panandikar:** There are several opportunities, but at this stage with the regulator and the time and everything I prefer to wait to announce.
- Rashmi Sancheti:** Okay and out of these three new launches how many are injectables or oral solids or all are basically ophthalmic?
- Aditi Panandikar:** One ophthalmic and two injectable.
- Rashmi Sancheti:** Wherever filings we are doing in the US business are they majorly move towards injectables like we are adding more of injectable filings or we do a good basket of oral solids also?
- Aditi Panandikar:** Yes, you guessed correctly. First priority our largest contribution to new filings is coming from injectables followed by ophthalmic and then the solid oral. We have already filed solid orals in the past, as you remember we had several F2F opportunities which will now start to getting converted into commercial whenever the patent time comes in, so solid oral work has been done in the past, now most of the filings are for steroids.
- Sundeep Bambolkar:** I think you might have jointed late because I gave a very elaborate answer on the US business when Aditya Khemka asked this question, so our preference now would be towards complex injectables, suspension ophthalmics and sustain release solids going forward.
- Rashmi Sancheti:** Everything would be via partner only right; we are not doing anything on our own?
- Aditi Panandikar:** I am talking frontend sales yes, filing several are ours you know that.
- Rashmi Sancheti:** Yes, correct, but the pipeline which you are talking about the complex injectables will be all through the partners only?



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Aditi Panandikar: Yes, obviously.

Sundeep Bambolkar: Intellectual property will be held by Indoco.

Rashmi Sancheti: Again coming on the India business, I understand that Aditi mentioned that second half we would be doing much better, more on this **(inaudible) 38:12** FY2022, FY2023, how do we see FY2024, are we expecting that we will be come back to the double digit growth in FY2024 and if yes how that would be achieved, if you can comment on the number of MRs and do we have any plans do not adding additional MRs like what you are doing this?

Aditi Panandikar: Yes, we have heard a lot about our peers adding MRs, so let me start you asked several questions, but let me start with where we see India business going forward, of course something this is my opinion, I see very clearly but the end of 2023 this COVID impact business will all get over and we will have a new base on which we can grow. After that the market I believe will start giving that is for the industry, higher single digit at least and in some quarters double digit growth and Indoco will be able to beat those numbers. Second question is about the incremental field staff being added, because Indoco has always had an acute portfolio we have compared to many of other peers who have high chronic and have people mostly in the metros, our field staff is actually more scattered in the Tier-2, Tier-3 and interior rural as we call it, so we have substantial presence, but we are watching what is happening in the industry and whether this number of people added by others is impacting us directly in any case. Number three Indoco has especially with Warren Ace at least a good portfolio, which has an OTX element attached to it. So the company has done several strategic things so that we should be able to turn this around. We internally work very hard to generate prescriptions and all our strategies of evaluation of performance, excellence, etc., are around prescription generation. You will be surprised that in a quarter like this when respiratory has given up so much trouble we have actually added one lakh prescriptions even for a product like Karvol Plus, so sometimes as Indoco addition of prescriptions and outcome of sales is not something that goes hand-in-hand especially the product has a lot of OTX element attached to it. At Indoco today several initiatives have been taken by way of which we can change the ratio of prescription to sale for such products in the coming years and I am expecting at least in the next year to start seeing some element of this get converted into sales. I hope that answers your question.

Rashmi Sancheti: Okay Madam and finally margin on the first half we have achieved around 19% operating margins and second half you normally says that basically it is very soft because all the **(inaudible) 41:24** we have already guided that second half will be much better, is it bettered in terms of operating margin also because cost is also getting normalized, so are we expecting that for the full year these are new guidance of around 20% or 20% plus in FY2023?



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Aditi Panandikar: As you said correctly we have given much better guidance for India business, but in fact now international plus others is almost 50% of our topline and these businesses we are expecting a good ramp up in the second half itself, so therefore until Indoco used to be heavy on India business I could understand that the second half has issues on profitability because the numbers are looking different, but now it is very different, so we are very confident going ahead. We will do well and we maintain our guidance of 20% odd which we have made for EBITDA and cogs also which Sundeep explained earlier, but let me say this again that various initiatives have been taken to increase operational efficiency and even this month if you take out one-off Rs.7 Crores out of the other expenses you would see much better profitability for the company in this quarter also. Cogs are coming under control, contribution from US and India business to total business is going up, all of this will help us.

Rashmi Sancheti: Okay Madam. Thank you so much. That is it from my side.

Moderator: Thank you. We have our next question from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Good morning everyone and thanks a lot for the opportunity. So, firstly from my side in the domestic business how is our chronic business portfolio performance and what are our plans to scale up this business, so what kind of targeted contribution we expect from this business over the next three, five years?

Aditi Panandikar: Thank you for that question. Thank you for asking it. At Indoco sometimes we forget to talk of our chronic and that is not good. Chronic today contributes around 10% of India business and is expected to ramp up well, if the size is small the incremental sales coming from these therapies do not show great improvement, but cardiac therapy for example this quarter has grown by 70% and is now at Rs.3.5 Crores, your anti-diabetic is at Rs.6.5 Crores so sort of chronic therapy basket is slowly making up revenue, in fact if I was to share with you on Y-o-Y basis for the quarter it is our sub-chronic and chronic rather for the half year sub-chronic therapy has grown by 11.5%, chronic therapy has grown by 2% and helped us tide over the -13.5% acute up and down, so slowly and steadily it is making a presence. For the first half this year we have clocked around Rs.50 Crores sale from chronic. Last year we did a major restructuring of our two chronic divisions and made it into one division synergy so that we could get efficiency and we could focus on the products that matter. In the last quarter I have explained this, it did not make sense to be the 50th launch where there are top three players take 60% of the market or something like that, so we are very careful now, we are focusing on the right brand and I am confident going forward synergy division will show great result.



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Deepan Shankar: In the previous year we used to talk about the launch of Alogliptin kind of products, so those kind of critical products are we planning to launch in chronic business?

Aditi Panandikar: Yes, certainly and Alogliptin is also in the market, performance of Alogliptin is still muted, but lot of work has been done there and our plans to launch better chronic product in India market continues.

Deepan Shankar: Any updates on Apixaban launch in Indian market?

Aditi Panandikar: Apixaban we are reviewing, when we were one of the two, it was an absolute fantastic kind of a scenario for us to get in considering such a small player in the cardiology segment. Now when the patents get sort of over and the market opens for everyone then for Indoco we have such a small presence in cardiology whether we can make a substantial dent in this market or something we are reviewing. We will come back to you once we finalized, but it may not be such a great advantage now as it would have been had we won the case against the MS.

Deepan Shankar: Okay and finally from my side what is our long term guidance in the margins looking like, over next three, five years, so considering now Europe business transforming from CRAMS to launches and the US business also complex products are getting launched and India business continued to do well, so are we upping our long-term guidance of margins in the range of 25%?

Aditi Panandikar: How much?

Deepan Shankar: 25%.

Aditi Panandikar: So in three years I feel confident we can beat 25%.

Deepan Shankar: Sure. Thanks a lot and all the best Madam.

Moderator: Thank you. We have our next question from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Thanks for the opportunity. Couple of questions. One is, on Lacosamide could you speak a little bit and second could you quantify what was your South Africa business earlier, where was it reported and what is your outlook on that portion of the business?

Sundeep Bambolkar: First coming to Lacosamide, for three months Indoco enjoyed a position of being the only generic in the US market for Lacosamide injections, thereafter two players have got

approvals, but when I visited our partners in very early August I was told very firmly that 43 million market size which was prevailing when we just entered the market had grown to 49 million within three months, which is very good news for us that means the prices have not at all come under pressure in fact we have been able to sell the product at good prices or taking into account that one or two competitors might have joined right now, but still I think Indoco is holding very strong with its frontline partner. Now coming to South Africa business we have revived the South Africa business after all the approvals for all three plants in Goa are in place now and in fact in the long term the plans also approved because right now for the quarter we are doing about Rs.3.5 Crores, but with more business coming in more products getting approved we have certain contracts with large companies, I would not like to name the two large companies at this stage, but there are various dosage forms like creams or ointments, liquid oral, so profitability in these dosage forms is much, much higher compared to solid dosage, so South Africa business will definitely grow. In two quarters we should double this business and going ahead strong growth of around 15% to 20% I can project.

Aditi Panandikar: Your question of where it gets reported it gets reported in the FDA under SAANZ, so there has been fantastic performance from South Africa this quarter, Australia, New Zealand we expect now seems to ramp up in the quarters to come.

Aejas Lakhani: I was talking about you have a tender business with South Africa...

Aditi Panandikar: For South Africa.

Sundeep Bambolkar: United of South Africa.

Aejas Lakhani: Correct, but earlier that business was if I recollect larger right Rs.60 Crores, Rs.70 Crores three, four years back?

Aditi Panandikar: Yes.

Sundeep Bambolkar: Thereafter there were certain regulatory issues, but those all have been solved and that Rs.60 Crores, Rs.70 Crores business is driven by tenders, so we have applied for tenders and those will be announced shortly.

Aejas Lakhani: So you expect that tender business to come back for even 2024 is that correct?

Sundeep Bambolkar: Yes, starting April 2023, correct.



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Aejas Lakhani: Whatever the tender business growth and the size of the tenders are what you are used to do earlier on that Rs.60 Crores, Rs.70 Crores?

Sundeep Bambolkar: Per annum around Rs.60 Crores business is there.

Aejas Lakhani: So this business can really scale up much more than in the tender business?

Sundeep Bambolkar: Certainly yes.

Aejas Lakhani: Again an earlier participant asked this question, but given the fact that you will have profit shares coming in from Brinzolamide in the third quarter and you have been thinking about lot of these initiatives that you have done, the RM basket coming down, it seems quite obvious that your margin will shoot up in excess of 20%, so directionally is that understanding that, but directionally it seems that it will definitely exceed that?

Sundeep Bambolkar: India business and US business are the top contributors right now to the margins. I am taking three quarters time for the Europe business as I clearly mentioned earlier because new product launches will happen then and Europe business margins will definitely improve in about three quarters from today, but all put together you are right, next year onwards margins should be better than what we are doing today.

Aejas Lakhani: Got it, just one strategic question, because the landscape in the US is so vast and so large and you are being very targeted on specific molecules, so I just want to understand that how do you go about in the R&D process, is it partner led where they are pushing you that there are such opportunities in the market next year or could you just speak a little bit about that process please?

Sundeep Bambolkar: I can answer that question on a general note because there are lot of confidential matters involved, so we have a process of molecule selection within the organization which we do sitting with the business team and the R&D team and as I said earlier we are specifically going after complex injectables, suspension ophthalmic and sustained release solids and partnering opportunity we do it at the right time, sometimes when the molecule is very, very close to approval because the values and increases, so that has been the overall strategy. The partner pushing us those days have gone that was co-development. Now Indoco has become very strong to have its own product pipeline going ahead and we have a solid pipeline with the R&D right now.

Aditi Panandikar: If I can add there is also a parallel development for the API done, the moment the pipeline selection happens, so for 80%, 90% of our products we will have the in-house API as one of



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the sources if not be only and this is very, very helpful especially at the time of launch, at the time of making product available for cash flows and everything.

Aejas Lakhani: Got it and could you just quantify what has been the capex till date and for the rest of the year what is the capex outgo?

Sundeep Bambolkar: Capex for the year we have projected Rs.125 Crores and we are almost in line with that.

Moderator: Thank you. We have next question from the line of Aditya Khemka from Incred PMS. Please go ahead.

Aditya Khemka: Thanks for the followup. Sundeep Sir capex Rs.125 Crores for the full year, first half I think the cash flow section shows Rs.90 Crores plus, so is it going to be only Rs.35 Crores for the second half?

Aditi Panandikar: 95% includes lot of advances Aditya, so we are confident to control it as Rs.125 Crores.

Aditya Khemka: Got it. Secondly on the other expenses side I was just looking at it our Y-o-Y growth in other expenses this quarter is about 20% and other expenses includes your sales promotion, fuel cost, power cost and traveling expenses, etc., and also sales promotion, I just want to know which are these costs have gone up dramatically Y-o-Y?

Aditi Panandikar: We answered this earlier, but in anyway say that there is element of one-time expense related to indirect taxes of around Rs.7 Crores especially for this quarter almost all other expenses are under control.

Aditya Khemka: Rs.7 Crores of indirect tax that we have paid and we have recognized it under other expenses?

Sundeep Bambolkar: One-time.

Aditya Khemka: Otherwise it would have been basically Rs.112 Crores?

Sundeep Bambolkar: Correct, absolutely.

Aditya Khemka: Okay that helps. Lastly, from the API business because you have obviously internally consuming more and more, in this year what do we see as our external sales of API for this year?



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Aditi Panandikar: We had aspiration to do very well in API excellence, but I am not completing that internal consumption is increasing, but external sales I feel confident to be able to do as much as last year about, so close to 100.

Aditya Khemka: That is helpful. Sundeep Sir what is the utilization of the Micro Labs plant?

Sundeep Bambolkar: Micro Labs plant there is huge scope for utilization, all the European businesses have been put under approval in that plant and as you know the regulatory agency they have given okay till December 2023, they have maintained the currency of the certification right now till December 2023, so we are on very strong ground, by December 2023 we will be in 70% occupancies.

Aditya Khemka: Okay and if need be there is a space for expansion in the plant itself?

Aditi Panandikar: That plant is used for supplying to many geographies today not just Europe in fact some of domestic also gets done there, so the idea is as European business ramps up and as we transfer more and more from Goa to Baddi we will move the India business out.

Aditya Khemka: This will be outsourced to third party or your own plant somewhere in the Baddi?

Aditi Panandikar: Third party mostly, we have relationships with these players now for a long time for India business.

Aditya Khemka: On the R&D side our R&D is now 5% of sales, where do we see R&D going given that we have aspirations for the complex products for US where do we see the R&D as a percentage sale wise?

Sundeep Bambolkar: Most important part of the R&D is developing smart products and well in time, so necessarily the 5% need not go up because the revenue side is going to go up and 5% of that incremental revenue size will automatically enhance the quantum, so I think we stay put at around 5% right now and we have an excellent Bio Study Center in Hyderabad which we acquired in 2015-2016 which has an excellent record of 0483 after about 8-9 FDA inspections have been done, so considering all this I think we are on very sound footing.

Aditya Khemka: I will tell you why I asked this question Sundeep Sir because half of our sales is India and I doubt any significant portion of this R&D goes for our India business, which effectively means that on our export business we are doing 10% of sales is R&D, the substantial amount of R&D that we are already doing, so I am really crossing my fingers that it does not go up and it shows in terms of profitability and topline growth for us.



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- Sundeep Bambolkar:** It will not go up we will stabilize it around this.
- Aditya Khemka:** That is it. Thanks a lot for taking my questions and all the best.
- Sundeep Bambolkar:** Thank you for your very active participation.
- Moderator:** Thank you. We have the next question from the line of Vipukumar Shah from Sumangal Investment. Please go ahead.
- Vipukumar Shah:** I just wanted to know why our CRO business is not ramping up, it has a very meager contribution, and so what is the logic of continuing in that business, so what is the plan for?
- Aditi Panandikar:** We actually backward integrated into or rather forward integrated into CRO when the company has got into the aspiration of filing products in US especially the first two file products and as of today 65% of the capacity at the CRO is consumed by Indoco for our own product, so we have only 40% capacity for external sales which appeared here as income from CRO. I am happy to share that we have ramped up capacity at the CRO and an expansion is underway and I am confident in a couple of months that additional capacity which will help us double will then allow us to get more business from this segment. As Sundeep already mentioned it is an excellent CRO, we have had 8 to 9 USFDA audits all with 0483 and the CRO itself is looking at various new projects, so we are very much focusing on CRO going forward, it may not look substantial in size, but it is a critical part of our business.
- Vipukumar Shah:** Second question Madam what is our MR productivity at present and have you seen any improvement over the last two, three years there?
- Aditi Panandikar:** Yes, we have actually one from three to three-and-a-half over last couple of years and I will see that this will only go up in the coming years.
- Moderator:** Thank you. We have last question from the line of question of Cyndrella Carvalho from JM Financial. Please go ahead.
- Cyndrella Carvalho:** Thank you so much for taking my question. Madam just one question as looking almost all our engines firing let it be India, US, Europe and especially red market which will support our EBITDA margins also going ahead is there any vision that you would like to share with us but if you could help us understand how do you see this business going ahead? That is it from my end.



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- Aditi Panandikar:** Thanks for your question. When it comes to vision, an aspiration I believe it has to be something very, very large right, so recently as I already declared we completed 75 years and I was very happy that the first line team that report to Sundeep and me collectively took a target of achieving Rs.5000 Crores in five years.
- Cyndrella Carvalho:** That is very encouraging to hear. Anything more Madam you would like to add in that.
- Aditi Panandikar:** I think everything else we will speak as and when it turns out. You know us.
- Sundeep Bambolkar:** Cyndrella today has been one of the most active calls, so whatever we had to share I am sure we have shared.
- Cyndrella Carvalho:** Yes, absolutely Sir. Thank you so much for that insight.
- Sundeep Bambolkar:** Thank you for organizing.
- Cyndrella Carvalho:** That is it from my end.
- Moderator:** Thank you. On behalf of JM Financial that concludes this conference. Thank you for joining us. You may now disconnect your lines.