

# Indoco Remedies Limited

## Management Discussion & Analysis for the First Quarter FY17

### ➤ Financials

(₹ In Lacs)

| Particulars                                       | Unaudited     |              |              |               | Audited       |
|---|---------------|--------------|--------------|---------------|---------------|
|   | Quarter Ended |              |              |               | Year Ended    |
|   | Jun'16        | Mar'16       | Jun'15       | Gwth %        | Mar'16        |
| Revenues (Net of Sales Returns)                   |               |              |              |               |               |
| <b>Formulations :</b>                             |               |              |              |               |               |
| - Domestic  | 14214         | 13272        | 12617        | 12.7          | 53673         |
| - Exports   |               |              |              |               |               |
| - Regulated Markets                               | 7940          | 9512         | 6872         | 15.5          | 33657         |
| - Emerging Markets                                | 1294          | 1542         | 929          | 39.3          | 4914          |
| Exports Total:                                    | 9234          | 11054        | 7801         | 18.4          | 38571         |
| <b>Total Formulation ... ( A )</b>                | <b>23448</b>  | <b>24326</b> | <b>20418</b> | <b>14.8</b>   | <b>92244</b>  |
| <b>Active Pharmaceutical Ingredients (APIs) :</b> |               |              |              |               |               |
| - Domestic  | 974           | 613          | 752          | 29.5          | 2848          |
| - Exports   | 785           | 650          | 497          | 57.9          | 2563          |
| <b>Total APIs ... ( B )</b>                       | <b>1759</b>   | <b>1263</b>  | <b>1249</b>  | <b>40.8</b>   | <b>5411</b>   |
| <b>CRO and Analytical Services ... ( C )</b>      | <b>65</b>     | <b>159</b>   | <b>158</b>   | <b>(58.9)</b> | <b>669</b>    |
| <b>Net Revenues (A + B + C)</b>                   | <b>25272</b>  | <b>25748</b> | <b>21825</b> | <b>15.8</b>   | <b>98324</b>  |
| Other Operating Income                            | 465           | 848          | 743          | (37.4)        | 2719          |
| <b>Total Income from Operations</b>               | <b>25737</b>  | <b>26596</b> | <b>22568</b> | <b>14.0</b>   | <b>101043</b> |
| <b>EBIDTA</b>                                     | 4180          | 4082         | 4268         | (2.1)         | 17231         |
| <b>Operating Profit</b>                           | 3455          | 3413         | 3413         | 1.2           | 14288         |
| <b>Profit Before Tax</b>                          | 2287          | 2145         | 2649         | (13.7)        | 10093         |
| <b>Profit After Tax</b>                           | 1979          | 2001         | 2082         | (4.9)         | 8332          |

➤ **Financial Highlights**

The Net revenues for the quarter grew by 15.8% at ₹ 252.7 crores as against ₹ 218.2 crores during the same period last year. Formulation business contributed 93% and API business contributed to 7.0 %.

The formulations business grew by 14.8 % at ₹ 234.5 crores as against ₹ 204.2 crores during the same period last year. APIs business grew by 40.8 % at ₹ 17.6 crores as against ₹ 12.5 crores during the same period last year.

During the quarter, the material consumption percentage to net sales is at 35.2 % as against 36.0 % for the same period last year. The staff cost to net sales is 20.1 % as against 18.3 % for the same period last year. Depreciation / amortization are at ₹ 16.8 crores as against ₹ 15.0 crores for the same period last year. Research & Development (R&D) expenses to net sales are 4.7 % at ₹ 12.0 crores compared to 3.6 % at ₹ 7.8 crores for the same period last year. Other expenses to net sales are 25.2 % at ₹ 63.8 crores as against 25.9 % at ₹ 56.6 crores during the same period last year.

Earnings before Interest, Depreciation, Tax and Amortization (EBIDTA) percentage to net sales for the quarter is 16.5 % at ₹ 41.8 crores as against 19.6 % at ₹ 42.7 crores during the same period last year.

Profit Before Tax (PBT) percentage to net sales for the quarter is 9.0 % at ₹ 22.9 crores as against 12.1% at ₹ 26.5 crores during the same period last year

Profit After Tax (PAT) percentage to net sales for the quarter is 7.8 % at ₹ 19.8 crores as against 9.5 % at ₹ 20.8 crores during the same quarter last year.

The Company has adopted the Indian Accounting Standards ('Ind AS') from 1<sup>st</sup> April, 2016 and accordingly, the financial results are prepared in accordance to the same.

### ➤ Credit Rating

The Company's working capital facilities are rated as A1+ and long term borrowings are rated as AA- by ICRA.

Instruments with A1+ rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

Instruments with AA- rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

### ➤ Finished Dosages

#### **Indian Pharma Market (IPM)**

The Indian Pharma Market (IPM) during the quarter witnessed a growth of 6.4 % with revenues at ₹ 25411 crores as against ₹ 23878 crores during the same quarter last year. Top 10 therapeutic segments contributed about 88.2 % of the IPM.

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

(Rs. In crores)

| <b>Therapeutic Segment</b> | <b>1QFY17</b> | <b>1QFY16</b> | <b>Gwth %</b> |
|----------------------------|---------------|---------------|---------------|
| Anti - Infectives          | 3497          | 3448          | 1.4           |
| Gastro Intestinal          | 3209          | 2995          | 7.1           |
| Pain / Analgesics          | 1728          | 1668          | 3.6           |
| Respiratory                | 1633          | 1613          | 1.2           |
| Stomatologicals            | 110           | 102           | 8.4           |

(Source: AWACs)

#### **Secondary Sales Audit Ranking**

The Company is at rank 31 for the month of June'16 and on June'16 MAT basis, the rank stands at 29 (Source: AWACs).

## Indoco's Domestic Formulation Business:

The Domestic formulation business for the quarter grew by 12.7 % at ₹ 142.1 crores compared to ₹ 126.2 crores for the same period last year.

### Details of revenues from major therapies are as follows:

(₹ In Lacs)

| Therapeutic Segment | 1QFY17 | 1QFY16 | Gwth % |
|---------------------|--------|--------|--------|
| Anti-Infectives     | 1912   | 1808   | 5.8    |
| Gastro Intestinal   | 2182   | 2022   | 7.9    |
| Pain / Analgesics   | 1081   | 929    | 16.4   |
| Respiratory         | 1641   | 1585   | 3.5    |
| Stomatologicals     | 2859   | 2285   | 25.1   |

### Details of revenues from major brands are as follows:

(₹ In Lacs)

| BRANDS       | 1QFY17 | 1QFY16 | Gwth % |
|--------------|--------|--------|--------|
| Cyclopam     | 1,618  | 1,524  | 6.2    |
| Febrex Plus  | 1,050  | 1,015  | 3.5    |
| Sensodent K  | 941    | 722    | 30.2   |
| Cital        | 613    | 559    | 9.7    |
| Oxipod       | 561    | 445    | 26.1   |
| Cloben G     | 516    | 435    | 18.6   |
| Sensoform    | 504    | 405    | 24.3   |
| Sensodent KF | 476    | 397    | 19.8   |
| ATM          | 417    | 451    | (7.6)  |
| Glychek      | 305    | 270    | 12.8   |

Revenue trends of re-structured divisions are positive. The growth of the current quarter in double digit reflects the same. Series of measures taken, such as, re-structuring of product baskets and carving out newer divisions oriented towards mass specialities, has reflected healthy prescription trends resulting in good product performance.

### *New product introductions:*

During the quarter, the Company launched 14 new products, six in Anti-diabetic category, two each in Gynaec and Stomatologicals, one each in Anti-infective, Gastro intestinal, Ophthalmic and Urological respectively.

### ➤ **International Formulation Business**

The International formulation business during the quarter grew by 18.4 % at ₹ 92.3 crores as against ₹ 78.0 crores during the same period last year.

Europe contributed to 36.7 % of International formulation sales, followed by US at 30.5%, South Africa, Australia & New Zealand at 18.8% and Emerging markets at 14.0%.

### ***Regulated Markets***

The Regulated markets during the quarter grew by 15.5 % at ₹ 79.4 crores as against ₹ 68.7 crores for the same period last year.

### **USA**

The revenues for the quarter grew by 27.4 % at ₹ 28.1 crores as against ₹ 22.1 crores for the same period last year. The market share of ophthalmic products launched through Actavis is showing an upward trend and the order position has also improved.

The Company has received the USFDA approval for its Abbreviated New Drug Application (ANDA) for Allopurinol 100 mg and 300 mg tablets. Allopurinol is indicated for treatment of Gout. The Company is fully integrated to manufacture Allopurinol (API & tablets) and will be soon launching this product in the US market. The market size of this product in the US is \$169 million.

### **Current Status of ANDAs:**

- ❖ 9 approvals till date
- ❖ 3 tentative approvals
- ❖ 23 filed but pending approval

## **Europe**

The revenues for the quarter grew by 2.3 % at ₹ 33.9 crores as against ₹ 33.1 crores for the same period last year.

Supply of Metformin tablets against AOK order for the next two years will commence through Dexcel, Germany.

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

The revenues for the quarter grew by 28.7 % at ₹ 17.4 crores as against ₹ 13.5 crores for the same period last year.

The Company won tenders in South African market for three products and the supplies for the same will commence soon.

## **Emerging Markets**

The revenues for the quarter grew by 39.4 % at ₹ 12.9 crores as against ₹ 9.3 crores for the same period last year.

Kenya, French West Africa, Tanzania, Sri Lanka, Croatia and Bolivia are the major revenue contributors. The Company launched three ophthalmic products in Kenya.

### **➤ Intellectual Property Rights (IPR)**

During the quarter, the Company filed 2 patents for API manufacturing processes. The tally of patents filed stands at 72, out of which 23 are for finished dosages.

### **➤ Future Outlook**

The Company's domestic business continues to focus on brand building, new product launches, thrust on chronic and sub-chronic (speciality) segment and penetration in Tier II and Tier III towns. The Company has re-structured its domestic business with addition of marketing divisions and field force to accelerate growth and build on its core strengths in the mass specialty segments.

Going forward, the Company's business from US and EU territory is expected to grow speedily as ANDAs and Dossiers will be commercialized at regular intervals. While surging ahead in the Regulated Markets, Indoco is also consolidating its position in the Emerging Markets through active brand promotion. Robust pipeline in multiple dosage forms accompanied with flexible

business models will enable the Company to have an upper edge over its competitors in the international business.

With the acquisition of a CRO, the Company is now completely integrated and will remain a preferred partner, offering complete solutions to generic companies worldwide.

Expertise in Research & Development, backward integration in API in select products, newly acquired CRO, excellence in finished dosages manufacturing and a strong customer base will ensure consistent growth in the Company's Domestic as well as International business.

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**Safe Harbour**

Statements made in this Management Discussion and Analysis (MDA) describing the Company's objective, projections, estimates and expectations may be 'Forward-looking statements' within the meaning of applicable securities laws & regulations. Actual results could differ from those expressed or implied due to risks, uncertainties and inaccurate assumptions.