

Indoco Remedies Limited

Management Discussion & Analysis for the First Quarter FY18

The Company witnessed a disruptive 1st quarter FY18, with Domestic as well International sales getting affected adversely due to GST implementation in India and voluntary stoppage of ophthalmic product supplies to US.

In anticipation of the implementation of the Goods & Services Tax (GST) effective, July 1, 2017, wholesalers and retailers started de-stocking from the month of May'17 :

Particulars	Inventory Days					
	Apr'17	May'17	7th Jun'17	14th Jun'17	21st Jun'17	28th Jun'17
IPM	41.3	40.0	27.0	24.3	22.1	17.4
Indoco	46.2	42.2	33.0	32.0	27.0	16.0

(Source: AWACS)

The sharp drop in inventory levels held by the trade impacted primary sales for the month of May'17 and June'17. However, the secondary sales figures reported by AIOCD AWACs have shown usual off-take and growth as indicated below.

(Rs. In Crores)

Particulars	IPM	Gw %	CVM	Gw %	Indoco Remedies	Gw %
Q1FY18	28431	7.6	10529	5.7	182	8.0
June'17 MAT	113739	10.1	42791	9.2	803	14.7

(Source: AWACS)

The above statistics gives the Company confidence, that the loss of sales in quarter I will be recovered in the coming period.

On receipt of warning letter from USFDA, the Company voluntarily stopped manufacture of ophthalmic products from Goa Plant II, affecting international sales for the quarter. The Company has progressed well, in co-ordination with the US based consultant, for resolution of issues raised in the warning letter and will commence manufacturing from the site soon. The Company has used this incident as an opportunity to make the operational and plant related processes more robust.

The above disruptions which are one-off in nature have sadly coincided and adversely affected the 1st quarter results.

➤ **Financials (Stand-alone)**

(₹ In Lakhs)

Particulars	Unaudited			Audited
	Quarter Ended			Year Ended
	Jun'17	Mar'17	Jun'16	Mar'17
Gross Sales (Net of Sales Returns):				
Formulation :				
- Domestic	9972	13009	14192	58501
- Exports				
Regulated Market	7349	10310	7940	35125
Emerging Market	1251	1839	1295	6314
International Buss. Total	8600	12149	9235	41439
Total Formulation ... (A)	18572	25158	23427	99940
API :				
- Domestic	694	320	974	2515
- Exports	800	884	785	3630
Total API ... (B)	1494	1204	1759	6145
CRO & Analytical Services :				
- Domestic	356	193	64	580
- Exports	-	-	-	-
Total CRO ... (C)	356	193	64	580
Total Gross Sales (A+B+C)	20422	26555	25250	106665
Other Operating Income	479	1139	515	2741
Total Income from Operation	20901	27694	25765	109406
EBIDTA	129	3256	4230	15662
Operating Profit / (Loss)	(810)	3257	3455	13890
Profit / (Loss) Before Tax	(2081)	2038	2287	9133
Profit / (Loss) After Tax	(2173)	1794	1979	7745

➤ **Financial Highlights**

Net revenues for the quarter were at ₹ 204.2 crores against ₹ 252.5 crores, same quarter last year. Formulations business contributed to 92.7 % and API business contributed to 7.3 %. Formulations business revenues were at ₹ 185.7 crores, against ₹ 234.3 crores, same quarter last year. APIs business revenues were at ₹ 14.9 crores, against ₹ 17.6 crores, same quarter last year.

During the quarter, the material consumption was 34.8 % of the net sales, compared to 35.3 %, same quarter last year. Staff cost to net sales is 27.6 % compared to 20.1 %. Depreciation / Amortization are at ₹ 16.9 crores, compared to ₹ 16.8 crores. Research & Development (R&D) expenses to net sales are 6.6 % at ₹ 13.6 crores, compared to 4.7 % at ₹ 12.0 crores. Other expenses to net sales are 32.7 % at ₹ 66.7 crores, compared to 25.2 % at ₹ 63.5 crores.

Earnings before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the quarter are 0.6 % at ₹ 1.3 crores, compared to 16.8 % at ₹ 42.3 crores, same quarter last year.

Short-term revenue de-growth on account of disruption has resulted in loss for the quarter of ₹ 21.7 crores, compared to Profit After Tax (PAT) at ₹ 19.8 crores, same quarter last year. These unprecedented challenges have further intensified the cost optimization drive across all functions in the organization. While the current headwinds are temporary, the management has confidence in the long-term growth potential of the business.

➤ **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**

Secondary Sales Audit Ranking

The Company is at 31st rank on June'17 MAT basis. (Source: AWACs)

Prescription Ranking

Indoco ranks 23rd in prescription ranking as per Jun'17 MAT. As on MAT Jun'17, the company generated 70 Mn prescriptions annually as against 64 Mn prescriptions, reflecting 9 % prescription growth. (Source: SMSRC).

Indoco's Domestic Formulation Business:

The Domestic formulations business for the quarter were at ₹ 99.7 crores as against ₹ 142.0 crores for the same quarter last year.

Details of revenues from major therapies are as follows:

(₹ In Lakhs)

Therapy	1QFY18	1QFY17
Stomatologicals	1851	2855
Gastro Intestinal	1394	2189
Anti - Infectives	1201	1908
Respiratory	1066	1641
Vitamins / Minerals / Nutrients	737	1052
Ophthal / Otologicals	664	879
Pain / Analgesics	643	1066
Gynaec.	553	799

Details of revenues from major brands are as follows:

(₹ In Lakhs)

Brand	1QFY18	1QFY17
Cyclopam	1033	1637
Febrex Plus	680	1040
Sensodent K	553	941
Cital	545	646
Cloben G	411	516
Oxipod	381	561
Sensodent KF	348	476
Sensoform	329	504
ATM	313	454
Methycal	284	222

New product introductions:

During the quarter, the Company launched 3 new products, details of which are as follows:

Product	Pack Size	Therapy	Acute / Chronic
D-Chiro Plus Tablets	10s	Gynecology	Sub Chronic
Aziltence-40 Tablets	10s	Cardiac	Chronic
Aziltence-80 Tablets	10s	Cardiac	Chronic

➤ **International Formulation Business**

During the quarter, the international formulations business revenues were at ₹ 86.0 crores, as against ₹ 92.3 crores during the same quarter last year.

With reference to warning letter from USFDA for the Company's Goa Plant II & III, the remediation process is going on in co-ordination with a US based consultant and the packaging component manufacturer from Europe. After sending the comprehensive response in May 2017, the Company has sent the first update to USFDA in July 2017 and the second and final update will be sent soon. The Company is committed to resolve the warning letter issues at the earliest.

In the meanwhile, Health Canada has rated the Company's Goa Plant II and III GMP compliant and has issued establishment license valid up to 31st August, 2019. Based on this compliance rating and renewal confirmation, the Company's customers in Canada can continue to import pharmaceutical products manufactured at Goa Plant II and III.

USA

During the quarter, the revenues were at ₹ 18.9 crores as against ₹ 28.1 crores for the same period last year

Current Status of ANDAs:

- ❖ 10 approvals till date
- ❖ 2 tentative approvals
- ❖ 32 filed, pending approval

Moxifloxacin Ophthalmic Solution (gVigamox) launch has been planned in co-ordination with Teva and the Company expects the first shipment to be dispatched from the plant in September 2017.

Other Regulated Markets

During the quarter, the revenues from regulated markets other than US were at ₹ 54.6 crores, compared to ₹ 51.3 crores, same period last year.

The Company has progressed on documentation required to get the newly acquired Baddi facility approved by EU Regulatory authority. Post approval, the plant capacity will be available for supplies and growth in European markets.

Emerging Markets

The revenues for the quarter were at ₹ 12.5 crores, compared to ₹ 12.9 crores, same period last year. Due to change of distributor in Sri Lanka, forthcoming elections in Kenya in the month of August and instability in Yemen, the division could not register growth in Q1FY18. The Company expects good growth from next quarter onwards.

➤ **Active Pharmaceutical Ingredients (APIs)**

The revenues of API business were at ₹ 14.9 crores compared to ₹ 17.6 crores, same quarter last year.

API domestic sales were at ₹ 6.9 crores, compared to ₹ 9.7 crores whereas, the API international sales were at ₹ 8.0 crores, compared to ₹ 7.8 crores, same quarter last year.

CRO & Analytical Services

During the quarter, revenues from CRO and Analytical Services business were at ₹ 3.6 crores compared to ₹ 0.6 crores, same quarter last year.

➤ **Future Outlook**

The Company's domestic business continues to focus on brand building, new product launches, thrust on sub-chronic (speciality) segment and penetration in Tier II and Tier III towns.

Going forward, the Company's business from US and EU is expected to grow speedily as ANDAs and Dossiers will be commercialized at regular intervals after resolution of USFDA's warning letter and EU approval of newly acquired solid dosages manufacturing facility at Baddi. While surging ahead in the Regulated Markets, Indoco is also consolidating its position in the Emerging Markets through active brand promotion. Robust pipeline in multiple dosage forms will enable the Company to have an upper edge over its competitors in the international business.

With the smooth integration of a recently acquired CRO in Hyderabad and the manufacturing facility at Baddi, the Company is now completely integrated with

sufficient capacity and will remain a preferred partner, offering complete solutions to generic companies worldwide.

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

Safe Harbour

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