

INDOCO REMEDIES LIMITED

MANAGEMENT DISCUSSION & ANALYSIS FOR THE 4TH QUARTER MARCH 2011

➤ **Revenue figures:**

The table below gives the break-up of revenues (Net of excise duty):

(Rs. in Lacs)

	4 th Quarter (Unaudited)					Full Yearly				
	Jan 11 – Mar 11	% to Net Sales	Jan 10 – Mar 10	% to Net Sales	% Gwth	Apr 10 – Mar 11	% to Net Sales	Apr 09 – Mar 10	% to Net Sales	% Gwth
Net Sales :										
Domestic – Formulation	7223	60.0	7175	65.9	0.7	30725	64.2	27067	67.9	13.5
- API	427	3.5	280	2.6	52.5	1471	3.1	883	2.2	66.6
Total Domestic ... (A)	7650	63.5	7455	68.5	2.6	32196	67.3	27950	70.2	15.2
Formulation Exports :										
- Regulatory	3230	26.8	2410	22.1	34.0	11114	23.2	8996	22.6	23.5
- Semi-Regulatory	761	6.3	712	6.5	6.9	3047	6.4	1908	4.8	59.7
Formul. Exports Total:	3991	33.1	3122	28.7	27.8	14161	29.6	10904	27.4	29.9
API's Export :	403	3.3	310	2.8	30.0	1490	3.1	975	2.4	52.8
Total Export ... (B)	4394	36.5	3432	31.5	28.0	15651	32.7	11879	29.8	31.7
Total Net Sales (A+B)	12044	100.0	10887	100.0	10.6	47847	100.0	39829	100.0	20.1
Other Operating Income	240		145		65.5	789		431		83.1
Total Income	12284		11032		11.3	48636		40260		20.8
EBIDTA	2064	17.1	1560	14.3	32.3	8171	17.1	6828	17.1	19.7
Operating Profit	1651	13.7	1148	10.5	43.8	6580	13.8	5319	13.4	23.7
Profit After Tax	1216	10.1	823	7.6	47.8	5105	10.7	4209	10.6	21.3

➤ ***Financial Highlights :***

During the fourth quarter ended March 31, 2011, the net revenues were higher by 10.6 % at Rs.120.44 crores compared to Rs.108.87 crores, over same quarter previous year. The increase in revenues was due to the remarkable performance of International and API division.

During the quarter, the revenues from domestic business (including API business) grew to Rs.76.50 crores compared to Rs.74.55 crores for the same quarter previous year. During the quarter, the domestic formulation business showed a flattish trend. However, the API domestic business did well with a growth rate of 52.5% at Rs 4.27 crores compared to Rs. 2.80 crores over the same quarter previous year. On a YoY comparison, the domestic business reported a growth of 15.2 % at Rs.321.96 crores compared to Rs.279.50 crores previous year.

During the quarter, the revenues from international business grew notably by 28.0 % at Rs. 43.94 crores compared to Rs. 34.32 crores. The business pertaining to regulated markets grew by 34.0 % at Rs.32.30 crores compared to Rs. 24.10 crores. The growth in the business from emerging markets remained muted during the quarter showing a growth of 6.9% at Rs.7.61 crores compared to Rs.7.12 crores over the same quarter previous year. However, the API exports did exceeding well with a growth rate of 30% at Rs.4.03 crores compared to Rs.3.10 crores over same quarter previous year.

The material consumption to net sales is 44.2 % compared to 47.3% during same quarter previous year. The staff cost to net sales is 14.6 % compared to 13.7 % during same quarter previous year. Research expenses are at Rs.2.68 crores compared to Rs.2.97 crores same quarter last year. Other expenses as a percentage to sales have remained same at 26.1% for these quarters.

Measures taken by the company for continued efficiency in operations and cost curtailment across all the segments of business have ensured better profitability during the quarter. The profitability margins, during the quarter, improved remarkably due to marketing of products with better gross margins. The expenses on power & fuel increased during the quarter. The shifting of electricity source from Reliance to Goa Electricity Board has not taken place inspite of best efforts. The recent meeting with the department has given us a hope that by July 2011, we will be able to shift to Goa Electricity Board for Power requirements for all the three Plants. This will reduce the expenses on Power & Fuel in future. The marketing expenses were on the higher side during the quarter. Besides this, the manpower cost increased by Rs. 2.66 crores over same quarter previous year. This was due to normal annual increase in salary and new recruitments across the organization. The interest cost for this quarter has dropped as compared to the figures of same quarter last year despite the increase in the interest rates by all the banks in India. This control in interest cost has been a consistent feature for more than 5 to 6 quarters. The company's overall DSO has reduced to 70 days as

at 31st March 2011 from 82 days as on 31st March 2010. This is a result of better credit control measures adopted by the Management. Further, the inventory of the company is also well within the control at 60 days.

The Earnings before Interest, Depreciation, Tax & Amortization (EBIDTA) for the quarter works out to 17.1 % compared to 14.3 % during same quarter previous year. The Profit before Tax recorded for the quarter is Rs.13.86 crores as against Rs.8.52 crores during the same quarter previous year showing a growth of 62.7 %. Finally the Profit after Tax recorded for the quarter is at Rs. 12.16 crores as against Rs.8.23 crores during same quarter previous year.

For the year ended 31st March' 2011, the Earnings before Interest, Depreciation, and Tax & Amortization (EBIDTA) works out to 17.1 % compared to 17.1 % previous year. The Profit before Tax (Unaudited) is Rs.56.53 crores as against Rs.43.13 crores previous year showing a growth of 31.1 %. Finally the Profit after Tax (Unaudited) recorded for the year is at Rs. 51.05 crores as against Rs. 42.09 crores previous year.

➤ **Credit Rating :**

Company's commercial paper program and working capital facilities are rated as A1+ and long term borrowings are rated as LA+ by ICRA.

A1 + rating indicates highest credit quality rating and LA+ rating indicates adequate credit quality rating.

➤ **Finished Dosages:**

- **Domestic Business:**

The domestic formulations business showed a flattish growth during the 4th quarter ended Mar. 2011 over corresponding period last year.

The performances of main products showing a positive trend in this quarter are as under:

(Rs. Lacs)

Product Name	Therapeutic Segment	Jan11- Mar11	Jan10- Mar10
Cyclopam Tab	Gastro intestinal	455.07	408.66
Sensodent-K	Stomatologicals	410.22	362.77
Sensodent-KF	Stomatologicals	211.42	175.26
Karvol Plus capsules	Respiratory	175.41	147.45
Clamchek 625 tablets	Anti-infective	76.72	76.41
Nosic	Gastro intestinal	42.03	38.07
Irivisc	Ophthal / otologicals	28.39	24.35
Macuchek capsules	Ophthal / otologicals	20.5	16.16
Irimist	Ophthal / otologicals	8.41	5.35

During the fourth quarter, the performance of top therapeutic segments is as follows:

Particulars	(Rs. in Lacs)	
	Jan 2011 - Mar 2011	Jan 2010 - Mar 2010
Respiratory	1,359.81	1,263.77
Dental	1,158.19	1,004.95
Gastro-Intestinal	1,001.25	861.76
Ophthalmic	374.58	370.27
Pain / Analgesic	355.60	293.52
Vitamins / Mineral / Nutrients	331.90	320.33

ORG Ranking:

The Company has been ranked by ORG Marg as under:

Secondary Sales Audit Ranking status:

SSA RANKING	Mar-11	Mar-10
MONTH	33	32
MAT	33	31

Prescription Audit :

Rx RANKING	Feb-11	Feb-10
MONTH	24	23
MAT	23	22

The company has generated 50.3 million prescriptions (MAT) as on Feb 2011 as against 48.6 million prescriptions (MAT) as on Feb 2010.

- International Business :

On the International Formulation front, the business continued to perform well in the 4th quarter by registering a growth of 27.8 % over the same quarter previous year. The revenues for the quarter under review are Rs.39.91 crores as against Rs.31.22 crores over the same quarter previous year.

Regulated Markets:

The exports to regulated markets at the end of the 4th Quarter stood at Rs.32.30 crore as against Rs 24.10 crore in the 4th Quarter of 2010-2011, indicating a growth of 34% . The manufacturing contracts signed off between Aspen and Indoco saw major extensions to increase the solid dosage product folio taking the number to 12 products for the year. These products will cater Aspen's requirement in the Latin American and Sub-Saharan African Markets. This deal will give a major boost to the contract manufacturing business of Indoco from its MCC approved facilities in Goa.

Indoco and Aspen also signed off Contract Research deals where Indoco will be developing the products for Aspen's global requirements. Currently the deal encompasses products in the Oral Solids category. Aspen's requirements for new products are ever growing and such deals show their confidence in the relationship which is growing stronger.

Indoco's Goa III facility for Oral Solids will be operational by June 2011. The state of the art facility will be approved by the regulatory authorities from UK-MHRA and TGA Australia, to further expand the deliverable capacities of Indoco to the regulated markets.

We have successfully teamed up with the winner of the new AOK tender and hope to resume supplies of Metformin tablets to AOK, Germany from the next quarter. The winner this time has won 7 territories as against 5 territories won by Axcourt in the last tender. We, therefore anticipate that there will be substantial growth in our sales to Germany / other geographies. Indoco participated in Europlix in Portugal in the month of March'11 and it was a great success in terms of our dossier as well as CRAMS business.

The UK-MHRA audit at Baddi went off successfully and the German audit of our plant I is slated to take place in the next quarter.

Emerging Markets:

The revenues from emerging markets at the end of 4th quarter ending March 2011 stood at Rs. 7.61 crore as compared to Rs.7.12 crore recording a growth of 6.9 % over the same period last year. The emerging market division has achieved 6 new product registrations in Kenya and Philippines in this quarter. The efforts to re initiate exports to Ghana received a boost with the signing of the agreement and completion of plant inspection formalities in this quarter. The commercialization of this market is expected in Q1 2011-12 and the production of the first order has already been initiated.

Bio equivalence Study

During the quarter, Indoco conducted Bioequivalence study for a product prescribed for acute gouty arthritis. This biostudy was critical in view of a very low dose and peculiarity of the molecule. The study was conducted on 24 volunteers in fasting condition. The study was successful and this helps us to complete our CTD dossier for Regulated markets.

➤ **API Business :**

The company's API business recorded revenues of Rs 8.30 crores during the 4th quarter ended March 31, 2011 as compared to Rs. 5.90 crores for the same period previous year showing a growth of 40.7 %. The break-up of API revenues are as under:

(Rs. in Lacs)			
Particulars	Jan 11 – Mar 11	Jan 10 – Mar 10	% Change
Domestic	427	280	52.5
Export	403	310	30.0
Total	830	590	40.7

➤ **Infrastructure**

The highlights related to Operation for the quarter ended March 11 are as follows:

- **Progress of New Tablet Mfg. facility at Goa III** – The project is almost completed and the trial production and validation activity will start in May 2011 and the Plant will be commercialized in June 2011. We expect the approvals from UKMHRA by Nov. 2011. The total cost of putting up this plant was Rs. 55 crores.
- **Goa Plant II (Ophthalmic facility)** - The plant has successfully completed Regulatory Audit of USFDA in February 2011. The sterile facility was originally approved in October 2005. Validation batches of ANDA submission is carried out during this quarter.
- **Goa Plant I (Tablet / Liquid / Ointment facility)** - The plant capacity has been enhanced by installation of a high capacity equipment in coating and blister packaging department. Also enhanced capacity by adding new blister packing machine CB-45.
- **Waluj Plant (Tablet / Liquid / External facility)** –The plant has recently done atomization of sugar transfer system for liquid product manufacturing.

- **Baddi Plant (Tablet / Liquid / Toothpaste / Ointment facility)** - The plant has recently installed shrink wrap machine on liquid line to save cost of packing material and freight during transportation. Also added the equipment Cartonator, in Ointment department to increase its capacity and reduce the cost.

➤ ***Research & Development :***

Indoco's ultra modern R & D centre is spread over an area of 70,000 sq. feet. The present strength is 130 Scientists including 12 Doctorates. The new R&D set up houses state-of-the-art equipments, analytical instruments and latest databases.

R&D API Project - "Technology Development and Demonstration Program (TDDP).

API division initiated a project proposal for a pilot plant facility with Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, Govt. of India. After several technical interactions and presentations, DSIR has sanctioned partial funding of Rs 11 crore under a prestigious scheme named "Technology Development and Demonstration Program (TDDP). The company plans to develop commercially viable processes in the segment of Analgesic and Anticonvulsant APIs. This scheme will also support hi-tech and duty free analytical instrumentation. The project is likely to produce commercial APIs by March 2016.

R & D (Formulation)

The formulation R & D is capable of handling formulations in various dosage forms, Novel drug delivery systems and Technology platforms. The above efforts are supplemented by the company's regulatory department which has tie-ups with external CROs to conduct Bio-Equivalence Studies and Clinical trials. The formulation research team is engaged in development of various dosage forms which include oral solids, topical, injections and ophthalmic preparations.

Indoco is also working on new drug delivery system projects including solutions, sustained release dosage forms and micro emulsions.

The aim of the research centre is to develop and scale up the various type of formulations to commercial batch sizes.

The centre has capabilities to develop any type of dosage form, work on non-infringing routes and file Para IV applications.

Apart from the in-house development work, Indoco is involved in contract research where Indoco's research centre develops the products for other organizations for both domestic and international business markets and prepare the dossiers for submissions to the various regulatory agencies all over the world (USA, Europe, South Africa, Australia, Brazil and other semi regulated countries).

The project status of various R & D (APIs) projects is summarized below:

Sr. No	Project Status	No of Projects for Jan -Mar 2011
1.	New projects under evaluation	5
2.	Projects under lab development	5
3.	Lab validation completed	1
4.	Plant validation / process established at plant	2

Analytical Method Development: (APIs)

Sr. No.	Project status	No of Projects for Jan -Mar 2011
1.	Development Projects	7
2.	Analytical method validation project	1
3.	Analytical method transfer	3
4.	DMF/CEP Related studies	1
5.	Impurity Isolation and characterization	10

The project status of various R & D (Finished Dosages) projects is summarized below:

Sr. No.	Project Status	No of Projects for Jan -Mar 2011
1.	Under development	44
2.	Scaled up and under validation	3
3.	Ready for scale up with Lab validation completed	8
4.	Contract Research Projects	11
5.	Under Scale up and plant validation	1
6.	Novel Polymorphism Study	1
7.	Scaled up and Plant Validated	3

Project under pipeline: 9

Analytical Method Development: (Finished Dosages):

Sr. No.	Project Status	No of Projects for Jan -Mar 2011
1.	Analytical method development	More than 40 methods of RM and final products
2.	Analytical method validation	10 completed
3.	Novel Polymorphism Study	1

➤ **Regulatory Affairs:**

Following is the status of regulatory submission / approval received in the quarter of Jan 2011 to Mar. 2011.

APIs:

1. Received revised CEP for Glimipride Ph. Eur.
2. Submitted COS Application Betaxolol EDQM..
3. Submitted COS Application Dorzolamide Hydrochloride EDQM.

DMF/COS Filing Status till date:

Project Status	No of Projects
US DMF	9
Canada	1
Cyprus	2
Germany	1
COS approval received	6
EU DMF under progress	2

Finished Dosages:

During the quarter company has submitted CTD Dossiers for 1 formulation to customers for regulated markets and 40 dossiers of our own in emerging and ROW markets.

Dossier Filing Status till date:

Project Status	No of Projects
US ANDA	7
EU CTD	21
Emerging Market	1006
US ANDA under progress	-
EU CTD under progress	4
Emerging Market & ROW dossiers under progress	25

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

APIs

Patents filed	Total Patents filed till date	Patents filed in Jan – March 2011 Quarter
India	17	-
PCT application	8	-

Finished Dosage

Patents filed	Total Patents filed till date	Patents filed in Jan – March 2011 Quarter
India	10	-
PCT application	3	-
USA	1	-
