

## Management Discussion & Analysis for the Second Quarter FY19

**Financials (Stand-alone)**

(₹ In Lakhs)

Particulars	Unaudited				Unaudited			Audited
	Quarter Ended				Half Year Ended			Year Ended
	Sept'18	Jun'18	Sept'17	Gw %	Sept'18	Sept'17	Gw %	Mar'18
<b>Gross Sales (Net of Sales Returns):</b>								
Formulation :								
- Domestic	15898	14968	18822	(15.5)	30865	28795	7.2	59498
- Exports								
Regulated Market	3633	2940	5940	(38.8)	6574	13289	(50.5)	27564
Emerging Market	1650	1204	1488	10.9	2854	2738	4.2	7169
International Buss. Total	5283	4144	7428	(28.9)	9428	16027	(41.2)	34733
<b>Total Formulation ( A )</b>	<b>21181</b>	<b>19112</b>	<b>26250</b>	<b>(19.3)</b>	<b>40293</b>	<b>44822</b>	<b>(10.1)</b>	<b>94231</b>
API :								
- Domestic	595	833	649	(8.3)	1428	1343	6.3	2432
- Exports	1317	745	823	60.0	2063	1623	27.1	3655
<b>Total API ... ( B )</b>	<b>1912</b>	<b>1578</b>	<b>1472</b>	<b>29.9</b>	<b>3491</b>	<b>2966</b>	<b>17.7</b>	<b>6087</b>
CRO & Analytical Services :								
- Domestic	456	559	278	64.0	1013	634	59.8	1413
- Exports	42	0	4	950.0	43	4	975.0	0
<b>Total CRO ... ( C )</b>	<b>498</b>	<b>559</b>	<b>282</b>	<b>76.6</b>	<b>1056</b>	<b>638</b>	<b>65.5</b>	<b>1413</b>
<b>Total Gross Sales (A+B+C)</b>	<b>23591</b>	<b>21249</b>	<b>28004</b>	<b>(15.8)</b>	<b>44840</b>	<b>48426</b>	<b>(7.4)</b>	<b>101731</b>
Other Operating Income	(28)	504	477	(105.9)	476	956	(50.2)	2427
<b>Total Income from Operation</b>	<b>23563</b>	<b>21753</b>	<b>28481</b>	<b>(17.3)</b>	<b>45316</b>	<b>49382</b>	<b>(8.2)</b>	<b>104158</b>
EBIDTA	1181	1157	4093	-	2338	4222	-	13486
Operating Profit	190	88	2850	-	278	2040	-	9713
Profit/(Loss) Before Tax	(1052)	(1202)	1909	-	(2254)	(172)	-	4843
Profit/(Loss) After Tax	(779)	(1202)	1976	-	(1981)	(197)	-	4120

### ➤ **Financial Highlights**

Net revenues for the quarter were at ₹ 235.9 crores, against ₹ 280.0 crores, same quarter last year. For the first half of the year, the net revenues were at ₹ 448.4 crores, as against ₹ 484.3 crores for the same period last year. Sequentially, the revenues for the quarter were higher by 11.0 % at ₹ 235.9 crores as against ₹ 212.5 crores. Domestic formulations grew by 6.2 %, Export formulations grew by 27.5 % and API business grew by 21.2 %, sequentially.

During the quarter, material consumption was 33.7% of the net sales, compared to 35.8% for the same quarter last year. Staff cost to net sales is 24.8% compared to 19.8 %. Depreciation / Amortization are at ₹ 17.6 crores, compared to ₹ 17.2 crores. Research & Development (R&D) expenses to net sales are 5.4% at ₹ 12.7 crores, compared to 4.2 % at ₹ 11.7 crores. Other expenses to net sales are 30.9 % at ₹ 73.0 crores, compared to 27.3% at ₹ 76.5 crores.

For the first half, material consumption was 33.7 % of the net sales, compared to 35.4 % for the same period last year. Staff cost to net sales is 25.6 % compared to 23.1 %. Depreciation / Amortization are at ₹ 34.4 crores, compared to ₹ 34.1 crores. Research & Development (R&D) expenses to net sales are 5.8 % at ₹ 26.0 crores, compared to 5.2 % at ₹ 25.3 crores. Other expenses to net sales are 31.0 % at ₹ 138.3 crores, compared to 29.6 % at ₹ 143.2 crores.

Earnings Before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the quarter is at ₹ 11.8 crores, compared to ₹ 40.9 crores for the same quarter last year.

Earnings Before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the first half is at ₹ 23.4 crores, compared to ₹ 42.2 crores for the same period last year.

### ➤ **Rating**

The Company's working capital facilities are rated as [ICRA] A1+ (Pronounce ICRA A One Plus) and long term borrowings are rated as [ICRA] A+ (Pronounce ICRA A Plus) 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 A+ rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

➤ **Finished Dosages**

**Ranking in IPM**

Indoco ranks 30<sup>th</sup> in the IPM, with market share of 0.66% as on Sept'18 as per AWACS. As per SMSRC, Indoco ranks 23<sup>rd</sup> with prescription (R<sub>x</sub>) share of 0.85 % as on Aug'18 MAT basis.

**Indoco's Domestic Formulation Business:**

The revenues from Domestic formulations business for the quarter were at ₹ 159.0 crores, as against ₹ 188.2 crores for the same quarter last year. However, the second quarter witnessed a growth of 6.2 % over immediate preceding quarter.

For the first half, sales grew by 7.2 % at ₹ 308.6 crores, as against ₹ 287.9 crores for the same period last year.

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

Due to impact of GST, comparison of half yearly figures as against quarter on quarter figures is more appropriate.

(₹ In Lakhs)

Therapy	First Half 18-19	First Half 17-18	Gw %
Stomatological	5908	5158	14.5
Gastro-Intestinal	4598	4187	9.8
Respiratory	4486	4340	3.4
Anti-Infective	4471	4387	1.9
Vitam/ Miner/ Nutri	2401	2062	16.5
Ophthalmic	2011	1816	10.7
Pain / Analgesics	1798	1742	3.2
Gynaecology	1641	1521	7.8

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

(₹ In Lakhs)

Brand	First Half 18-19	First Half 17-18	Gw %
Cyclopam	3413	3166	7.8
Febrex Plus	2719	2629	3.4
Sensodent K	1847	1586	16.4
Oxipod	1407	1434	(1.9)
Cital	1684	1440	17.0
ATM	1378	1217	13.2
Cloben G	1098	1115	(1.5)
Sensoform	1059	947	11.8
Methycal	858	752	14.0
Sensodent KF	954	890	7.2
Karvol Plus	684	614	11.3
Bactogard	533	466	14.4
Carmicide	571	522	9.5
Glycheck	541	538	0.6
Kidodent	504	434	16.1

**New product introductions:**

During the quarter, the Company launched 3 new products, viz., 1 in Acute, 1 in Sub-chronic and 1 in Chronic.

**➤ International Formulation Business**

During the quarter, revenues from International formulations business were at ₹ 52.8 crores, as against ₹ 74.3 crores for the same quarter last year. For the first half, the net revenues were at ₹ 94.3 crores, as against ₹ 160.3 crores for the same period last year. The revenues from International business have suffered on account of regulatory issues.

**USA**

During the quarter, the revenues were at ₹ 5.3 crores, as against ₹ 7.9 crores for the same quarter last year. For the first half, the net revenues were at ₹ 11.0 crores as against ₹ 26.8 crores for the same period last year.

**Current Status of ANDAs:**

- ❖ 10 approvals till date
- ❖ 37 filed, pending approval

On the regulatory front, the Company had a face-to-face meeting with USFDA on 13<sup>th</sup> June'18, where a technical presentation was made on the remediation progress at Indoco. As informed earlier, the Company is expecting re-inspection of the facilities anytime, both at Goa Plant II and Goa Plant I.

## **Europe**

During the quarter, the revenues were at ₹ 27.1 crores, compared to ₹ 38.0 crores for the same quarter last year. For the first half, the net revenues were at ₹ 47.4 crores as against ₹ 77.9 crores for the same period last year.

Post issuance of the restricted GMP license by UK-MHRA for Goa Plant I, an audit was conducted in July'18 by an independent EU - Qualified Person (QP) to check the corrective and preventive measures committed to the UK Authority. Based on QP's report, UK-MHRA conducted a 'Focused Audit' in Oct'18. The audit was closed with no Critical Observations. The successful 'Focused Audit' by UK-MHRA allows the Company to continue supplies of medically critical products. However, as a procedure to re-instate the EU GMP certification at Goa-Plant I, a full GMP audit by EU-Qualified Person (QP) followed by a re-inspection by UK-MHRA, needs to be conducted. The Company anticipates these audits in the fourth quarter of FY19.

The Company also had UK-MHRA audit at Goa Plant II from 17<sup>th</sup> to 21<sup>st</sup> Sept'18, which concluded with no critical observations.

The Company's facilities at Baddi, i.e., Unit I (existing) and Unit III (acquired from Microlabs) were also audited by UK-MHRA from 16<sup>th</sup> to 20<sup>th</sup> Oct'18. The audit was concluded with no critical observation. While Baddi unit I will continue to supply to Europe, Baddi Unit III is being approved by UK-MHRA for the first time and will add significant value to Europe sales, considering substantial capacity of the Plant.

## **South Africa, Australia and New Zealand Business**

The revenues for the quarter were at ₹ 4.00 crores, compared to ₹ 13.5 crores for the same quarter last year. For the first half, the net revenues were at ₹ 7.4 crores as against ₹ 28.2 crores for the same period last year. Restricted GMP status of Goa Plant I has impacted the performance in this region as well.

The Company had a successful audit at Goa Plant II by TGA, Australia. Inspection Report for the same has been received. An Australian GMP certification will be accredited post review of the compliance response.

## **Emerging Markets**

The revenues for the quarter were at ₹ 16.5 crores, compared to ₹ 14.9 crores for the same quarter last year. For the first half, the net revenues were at ₹ 28.5 crores as against ₹ 27.4 crores for the same period last year.

During the quarter, both Africa & Asia regions grew by 25.8 % and 14.9 % respectively. However, CIS region was affected due to Regulatory challenges at Goa plant I which has impacted the overall growth of the Emerging markets.

### ➤ **Active Pharmaceutical Ingredients (APIs)**

The revenues from API business were at ₹ 19.1 crores, compared to ₹ 14.7 crores for the same quarter last year. For the first half, the net revenues were at ₹ 34.9 crores, as against ₹ 29.7 crores for the same period last year.

The Company's API facilities at Patalganga and Kilolab, Rabale were audited by USFDA from 7<sup>th</sup> to 12<sup>th</sup> May'18 and 15<sup>th</sup> to 18<sup>th</sup> May'18, respectively.

There were 3 observations (483s) for Patalganga site and zero 483s for Kilolab. Both the inspections have been closed successfully and the Company has received EIRs for both these facilities in the last week of July'18.

Ministry of Food and Drug Safety, Korea (MFDS) audited Kilolab facility from 15<sup>th</sup> to 18<sup>th</sup> June'18. We have submitted the compliance in Oct'18 and are awaiting approval, which is expected anytime.

### ➤ **CRO & Analytical Services**

During the quarter, revenues from CRO and Analytical Services business were at ₹ 5.0 crores, compared to ₹ 2.8 crores for the same quarter last year. For the first half, the net revenues were at ₹ 10.6 crores as against ₹ 6.4 crores for the same period last year.

### ➤ **Future Outlook**

The Company's Domestic business continues to focus on brand building, new product launches, thrust on sub-chronic (Specialty) segment and penetration in the North and East Region.

Going forward, the Company's business from US is expected to grow speedily as ANDAs will be commercialized at regular intervals after resolution of USFDA's warning letter. Reinstatement of the EU-GMP compliance certificate for Goa Plant I and EU-GMP approval of newly acquired solid

dosages manufacturing facility at Baddi (Plant III) will also boost the EU business. 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.

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 makes the Company, a preferred partner, offering complete solutions to generic companies worldwide.

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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.