

Company Name: Indoco Remedies Ltd  
Company Ticker: INDR IN  
Date: 2011-10-20  
Event Description: Q2 2012 Earnings Call

Market Cap: 4,789.47  
Current PX: 389.8  
YTD Change(\$): -105.2  
YTD Change(%): -21.253

Bloomberg Estimates - EPS  
Current Quarter: N.A.  
Current Year: N.A.  
Bloomberg Estimates - Sales  
Current Quarter: N.A.  
Current Year: N.A.

## Q2 2012 Earnings Call

### Company Participants

- Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations
- Aditi Kare Panandikar, Whole-Time Director

### Other Participants

- Meeta Shetty
- Sushant Dalmia
- Krishna Kiran Konduri
- Surya Narayan Patra
- Arpit Kapoor
- Manoj Garg
- Girish Bakhru
- Purvi Shah
- Nishith Sanghvi
- Alok Deora
- Analyst

### Presentation

#### Operator

Good evening, ladies and gentlemen. I am Reshma, moderator for this conference. Welcome to the Q2, FY12 Post Results Conference Call of Indoco Remedies Limited, hosted by Asian Markets Securities Private Limited.

We have with us today Ms. Meeta Shetty, Senior Analyst from Asian Markets Securities Private Limited.

At this moment all participants are in listen-only mode. Later we will conduct a question-and-answer session. [Operator Instructions]. Please note this conference is recorded.

I would now like to hand over the conference to Ms. Meeta Shetty from Asian Markets Securities Private Limited. Please go ahead ma'am.

#### Meeta Shetty

Yeah. Thank you Reshma. Good afternoon, everyone. I would like to extend a warm welcome to all of you all for joining the Indoco Remedies' second quarter FY12 post results concall.

We have with us Ms. Aditi Kare Panandikar, Whole-Time Director of the company; Mr. Sundeep Bambolkar, Whole-Time Director, Finance and Operations; Mr. Sunil Joshi, President, Finance and Company Secretary; and Mr. Vilas Nagare, Executive VP, Corporate Affairs.

I would now like to hand over the proceed to Mr. Bambolkar, for introductory remarks and business outlook, after which we can have the Q&A session. Thank you. And over to you, sir.

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## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

Yeah. Thank you, Meeta.

We'll now start the proceedings. Dear participants, a very good evening to all of you. To start the proceedings I would like to present to you the financial highlights first.

The overall net revenues during the second quarter ended September 30th stood at Rs. 144.7 crores, as compared to Rs. 132.3 crores during the same quarter last year, higher by 9.4%. The revenues from domestic business are at Rs. 98.1 crores and from international business at Rs. 46.6 crore, contributing 67.8% and 32.2% respectively.

The domestic business of API has achieved a growth of around 38% at Rs. 4.9 crores as against Rs. 3.6 crores previous year. The material consumption to net sales is at 45.8% as compared to 45.7% during the same quarter last year. The staff cost to net sales is 15.3% compared to 14% during the previous year. The depreciation at Rs. 4.68 crore as compared to Rs. 3.35 crore for the previous year. Research and development expenses to net sales is 1.8% as compared to 1.6%. Other expenses are at 24.7% as compared to 25.2% for the same quarter last year.

The earnings before interest, depreciation, tax and amortization, that is EBITDA for the quarter works out to 16.1% compared to 17.4%. The profit before tax recorded for the quarter is Rs. 14.6 crores as against Rs. 16.9 crores for the same quarter previous year.

The profit after tax recorded for the quarter is at Rs. 13.8 crores compared to Rs. 15.3 crores during the previous year. The company has witnessed some pressure on the profitability during the quarter, mainly due to increase in expenses like staff costs and marketing expenditures. The major field staff additions in the marketing division, such as Task Force, Spera, Xtend and Eterna have increased the staff cost. Strengthening of the force in Tier II and Tier III cities is a part of the corporate strategies to boost the revenues. The additional expenditure on sales and advertisement along with the additional expenditure on traveling for field staff in the quarter will help to boost the revenues in the ensuing quarter. The Company is observing a sizeable drop in the power and fuel expenses for all the three plants located in Goa, and this will bring good savings in the future.

Interest cost for the quarter is at Rs. 1.44 crores as compared to Rs. 0.53 crores during the same quarter last year. This is mainly due to the term loan interest pertaining to the new plant in Goa, being debited to the P&L account post capitalization of the Goa III Plant. Also during the quarter, the working capital interest increased due to utilization of limits. The capitalization of Goa Plant III has also increased the staff cost.

On the revenue side the margins of few of its products in the anti-infective segment faced pricing pressure from some pharma players, and this affected the margin.

On the ForEx side, the company did not face volatility due to the sharp rupee depreciation on account of its hedging policies in place. The net exchange loss during the quarter stands at Rs. 0.19 lakhs.

Going forward, the company is well poised to meet its targeted annual revenue growth estimates and expects the margins to improve in the second half.

On the credit rating track, ICRA has assigned Valuation Grade 'A' and Fundamental Grade '3' to Indoco Remedies Ltd. The Fundamental Grade '3' assigned to us implies that the company has good fundamentals relative to other listed securities in India. The Valuation Grade 'A' assigned to Indoco implies that the company is "significantly undervalued" on a relative basis.

On the domestic business front, the domestic formulation business recorded revenues of Rs. 93.2 crores during the second quarter ended September 30, 2011 as compared to Rs. 88.4 crores for the same period previous year, showing a growth of 5.3%.

The company launched three new products in the quarter, Favorit CV in the anti-infective therapy, Telmichek AH in the life style therapy and Osteoflam P in the Pain/Analgesic therapy.

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In the first two quarters, domestic Indian companies, some of the domestic Indian companies have witnessed a slowdown in the growth and analysts feel that there is a high degree of correlation between macro factors, and economic growth and the Indian pharma industry growth.

Therapies which contributed to the top line of the domestic formulation business are respiratory, anti-infective, stomatologicals, gastro intestinal and life style, besides others. The second quarter witnessed the revenues from life style segment improving over the same quarter last year. However, the revenues from anti-infective and respiratory segments did not improve as expected due to the change in the seasonality factor, which has pushed the monsoon season to spill to the third quarter.

Now on the international business front, the formulations business recorded a growth of 23.6% during the quarter and performed up to its expectation. The revenue figures for the quarter are Rs. 43.6 crores against Rs. 35.3 crores during the same quarter last year.

Our relationship with Watson Pharmaceuticals, Inc. is progressing well. Further to this, the company has signed an agreement with two U.S. based pharma companies for a couple of products. The Company is also in the process of signing agreements with EU customers for complete ophthalmic range.

During the quarter, there were four new products registered in Eastern Europe, two in anti-diabetic segment, one in analgesic segment and another in the anti-infective segment. We are expecting few more registrations in regulated markets, which will enable us to participate in the tender business, in Europe as well as South Africa. Few of the site transfer products signed in South Africa are getting commercialized in the next two quarters. We expect the commercials for few of the products to start in the coming few months.

We are working closely with Aspen Pharmacare Limited, a global pharma company based in South Africa, and are adding new products/projects, thus expanding the overall portfolio.

In the emerging markets, five new products were registered in the Q1 and commercialized in this quarter. The African business received a further boost with the signing of Zimbabwe agreement, an immediate commercialization in this market. Furthermore, supplies to Uganda were fortified with the formalization of a supply contract to a major NGO, which would generate revenues of approximately Rs. 4 crores.

On the infrastructure front, following are some of the highlights. Goa Plant I was audited by the German authorities in the current quarter and the same was completed successfully. Besides this, there were also some audits from German customers and other European customers completed successfully. Goa Plant II was audited by the Colombian authorities and the same has been completed successfully.

On the API front, the Patalganga manufacturing unit has been approved by an MNC company for supply of Allopurinol and the commercials will start soon. Further to this, the company has signed two major export contracts for the supply of API product over a period of three years to a customer in Europe.

Indoco is looking at providing high level analytical services through its initiative named 'Anacipher', to global generic and innovative pharma companies. The laboratory plan for the same has been approved by the FDA. An expansion of the API plant in Patalganga is being planned, which will be constructed on the site adjoining our present manufacturing facility. This plant will have a capacity to manufacture API, a number of APIs in modern therapies. The CapEx plan for the same would be around Rs. 45 to 50 crores approximately. The Rabale Kilo lab manufacturing facility is gearing up for its audit by the TGA, Australia which is likely to take place soon.

In conclusion, on behalf of Indoco Remedies Limited, I would like to wish all the participants a very happy and prosperous Diwali, and hope that the year will be a joyful one for all of you. The MDA has already been circulated to all.

We now request the participants to put forward their questions. And we'll be happy to answer the same. Thank you.

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## Questions And Answers

### Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. First question comes from Mr. Sushant Dalmiya from PINC Research.

### Sushant Dalmia

Thanks for taking my question. Sir, I wanted to know about the acute segment in terms of the competition, how it's shaping up and whether it's the price cut or more incentives at the chemist and the GP levels that is driving up the competition. Can you provide color on that?

### Aditi Kare Panandikar, Whole-Time Director

Yeah, let me say something on this.

We work in a highly fragmented market, right? So there are a lot of players that are adopting various strategies to get market share. So price cuts, incentives to doctor, etc. These kind of things have been adopted many times by various players in every kind of therapy area. It is nothing new frankly. What has happened for Indoco, if anybody tries to understand, is that this quarter the main division, Indoco and some of the areas in Spade, which carry more kind of respiratory, anti-infective products, have not really grown much over the same period last year.

Last quarter, was a bumper quarter for the industry and also for us. We had grown at 38%. This year has not been the same, partly because of the monsoon, or season not coming the way it did last year. And secondly, also because of certain competitive pressures, which Sundeep mentioned, there have been a couple of players who have gone very aggressive on pricing. Indoco also had partly fallen in line on some products. On the unit front we see good growth, but we are not able to match the growth on the value front. And this is why we're seeing the kind of erosion on some of them.

### Sushant Dalmia

Okay. So, ma'am it would be right that you've also taken certain price cuts on the products or what it is?

### Aditi Kare Panandikar, Whole-Time Director

Yes, on one or two products.

### Sushant Dalmia

That would be which products?

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### **Aditi Kare Panandikar, Whole-Time Director**

They are in the anti-infective segment.

### **Sushant Dalmia**

Anti-infective segment.

### **Aditi Kare Panandikar, Whole-Time Director**

Yeah.

### **Sushant Dalmia**

Okay. And in terms of when would revenues from Watson contract commence?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Some time in September 2012.

### **Sushant Dalmia**

September 2012.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah. At least few products commercialization would start from September 2012.

### **Sushant Dalmia**

Okay. And just last question from my side. Sir, you've said that you have signed an agreement with two U.S. companies. Can you provide more color on it in terms of size and when the revenue is expected to flow from that context?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

We've just signed right now. So the product development will start from next month, and it will take about 10 to 12 months to develop the product. Thereafter filing that would take another 1.5 to 2 years. So still some time to go. In course of time we'll provide you the details.

### **Sushant Dalmia**

Okay. And it would be in which therapeutic space?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

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One is in anti-diabetic.

## Sushant Dalmia

Okay. And you need to do any further CapEx for it or your existing capacity would suffice?

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

No, the existing capacity would suffice. As you are aware, we have commercialized Plant III. We have invested about Rs. 50 crores there. So we are quite ok, capacity wise and plant III also will be inspected and approved by U.S. FDA, UK or Germany.

## Sushant Dalmia

Okay. That's it from my side. Thank you.

## Operator

Thank you, sir. Next question comes from Krishna Kiran from ICICI Direct.

## Krishna Kiran Konduri

Yeah. Thanks for taking my question. Sir, just to understand your sales force count, what is sales force count now?

## Aditi Kare Panandikar, Whole-Time Director

1,900.

## Krishna Kiran Konduri

Yeah, I mean you have added 100 people now.

## Aditi Kare Panandikar, Whole-Time Director

Yeah.

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### **Krishna Kiran Konduri**

Got it. And till what 5% growth in the next one year?

### **Aditi Kare Panandikar, Whole-Time Director**

We generally do our expansions in the month of April.

### **Krishna Kiran Konduri**

Okay.

### **Aditi Kare Panandikar, Whole-Time Director**

So we would add another 100 to 150 this year also.

### **Krishna Kiran Konduri**

Okay. And ma'am, just to understand, in the last fiscal, how many numbers you have added?

### **Aditi Kare Panandikar, Whole-Time Director**

We've added about close to 200 reps, we restructured a bit, sort of net-net, we must have added about 200.

### **Krishna Kiran Konduri**

Okay 200. And what do you feel when this addition will bring top line growth from these 200 people?

### **Aditi Kare Panandikar, Whole-Time Director**

The branded business takes some time to turn around. So normally in the industry, one expects about 18 months at least, before a new expansion starts really bringing you a big return. Because we have expansion planned in two kinds: A, in geographies which do not exist. And some times these are in areas where we're already having a very high sale. So we

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split the territory.

### **Krishna Kiran Konduri**

Okay. And one more, just to understand. Your EBITDA margins, are we maintaining EBITDA margins now, I mean that target which we have given?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah. See, we're optimistic that the second half will be better if you compare the second half, which is going to start now from October to March, compared to the second half of last year, this year will be far, far better. So we're very firm that we will be able to maintain the EBITDA margins what we projected in the beginning of the year.

### **Krishna Kiran Konduri**

Okay. Fine, sir. Thanks. That answers my question. Thanks a lot.

### **Operator**

Thank you, sir. Next question comes from Surya Patra from Systematix Shares.

### **Surya Narayan Patra**

Thank you. Congratulations for delivering the results inline with the expectations. Sir, in fact one query with regards to domestic formulations business. We were seeing in the last couple of quarters, we are underperforming the market, yeah of course, those countries are the big price pressure and competition, increasing competition all are there. So how are you addressing these issues, I mean when can you capture industry growth rate on the domestic formulation side?

### **Aditi Kare Panandikar, Whole-Time Director**

Yeah. Actually I'll just answer that.

There are many reasons for this and a lot of corrective measures have already been taken, because of which we are confident going forward in this industry. Compared to many other players in the industry, Indoco has a much larger portfolio of acute. That's why we are taking the hit more than the others. I am sure most people have AWACS data now, would have seen that many companies have a similar kind of acute to chronic ratio, who have performed even worse than this.

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## **Surya Narayan Patra**

Correct.

## **Aditi Kare Panandikar, Whole-Time Director**

So, it is largely the portfolio and correction on that front, has already taken place.

In fact for the current quarter, if one looks only at the performance of life style or the dental products, the ophthal, the multi-vitamins, the new divisions of Eterna in orthopedics, each of these segments have done very, very well. Our problem is that the acute is so large that this good work done on the other side is still not able to compensate a few setbacks we have received on the acute side.

## **Surya Narayan Patra**

Yeah, correct.

## **Aditi Kare Panandikar, Whole-Time Director**

And since it gets multiplied in the high season, because these acute therapies are largely anti-infective, which has a very, very seasonal kind nature of sales. The impact gets reduced in other quarters.

## **Surya Narayan Patra**

Okay. It looks that we are targeting this by next year FY13, what is the kind of mix that you are targeting in terms of acute and chronic?

## **Aditi Kare Panandikar, Whole-Time Director**

See by FY14, we want our chronic to be at least 20% of total sales.

## **Surya Narayan Patra**

Total in domestic pharma sales?

## **Aditi Kare Panandikar, Whole-Time Director**

Yes.

## **Surya Narayan Patra**

Okay. And regards to formulation exports, sales are growing in a sense, we have been delivering good numbers on the growth rate, formulation export growth front and we've been maintaining the momentum. But I just wanted to know when can

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you see the profitable growth for the formation export? I mean whatever the majority of the business on the export side it is, through the contract manufacturing or something like that, which is low margin operational it seems?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

We started as contract manufacturers and then we went up the value chain by doing dossiers for customers.

### **Surya Narayan Patra**

Correct.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

And these dossiers were logged in for registration in various geographies in Europe, South Africa, and Australia. So, now those dossiers are seeing registration completion. In fact, during this quarter, we have got five registrations; one in Portugal, one in Spain, two in Eastern Europe and one in South Africa.

So, more and more registrations will come in. Once this starts happening, profitable products will be manufactured and shipped, so the profitability will start improving. And I guess, this will happen from April of next year.

### **Surya Narayan Patra**

Okay. And are we seeing in export also the margins from the non-regulated market are better as of now or compared to the regulated market?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yes, we are marketing our own brands in emerging markets. We are present in at least eight countries in Africa, about five countries in Latin America, three countries in CIS, some countries in Southeast Asia. So, there we are marketing our own brand through field force which is employed by the agents. So the margins are very good there.

### **Surya Narayan Patra**

Okay. And last question, sir, normally third quarter is kind of a nil quarter for Indoco. So and again with that we are seeing second half a bit slow, it should be delivering better now both in terms of sales as well as the profitability. So, can you just...?

### **Aditi Kare Panandikar, Whole-Time Director**

See both of those are domestic, mainly performing.

### **Surya Narayan Patra**

Yeah.

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## Aditi Kare Panandikar, Whole-Time Director

If you look at the first two quarter sales, you will agree that Indoco is now really moving away from its highly skewed seasonal performance or in fact one big quarter we used to have. So we've seen more balanced kind return quarter-over-quarter because of the other therapies which are not seasonal at all.

And as I said, last year was very weak because of which you see this. But by enlarge, the kind of sales we have got this quarter, we should be able to do an equivalent amount we feel going forward.

## Surya Narayan Patra

Okay. Thank you. Thanks a lot ma'am. Wish you all the best.

## Operator

Thank you, sir. Next question comes from Arpit Kapoor from UTI Mutual Funds.

## Arpit Kapoor

Hello, ma'am. Hello, sir

A question on domestic growth. You have given in the MDA, popular therapy areas and the growth rate. So if I remove those therapy areas and the acute therapy areas, which will be gastro, anti-infective and respiratory process, we would have de-grown 7% over on a Y-o-Y basis. So would all of this be pricing or there might be some kind of volumes also involved in the same?

## Aditi Kare Panandikar, Whole-Time Director

Yeah. I'll just clarify. On anti-infective, it's largely pricing.

## Arpit Kapoor

Okay.

## Aditi Kare Panandikar, Whole-Time Director

On respiratory, it is the muted season predominantly. And we expect the respiratory kind of business coming in the next quarter. There are several regions of interior of Maharashtra and the South, where the monsoon came in very late and is expected to continue to give us good kind of seasonal return. I think these are the two areas. And GI is the third one. This is for us, largely dominated by Cyclopan and widely by Cital, the two brands.

Now Cyclopan is another brand, although it's an antispasmodic is a co-prescription for digestive, for diarrhea kind of disorders, which are also coming this monsoon. So, Cyclopan has also taken the brunt of the season being muted. And we also expect that to continue in the next quarter.

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## Arpit Kapoor

So some of these peak sales might come in the third quarter? Right. And as far as pricing is concerned in anti-infective, are the pricing cuts being taken by some companies or all the companies who have expanded field force would have the cut?

## Aditi Kare Panandikar, Whole-Time Director

Not just companies who have expanded field force but almost every company in the market who is operating in the anti-infective areas had at some point taken it. Some have taken it earlier and some have taken it now.

## Arpit Kapoor

Okay.

## Aditi Kare Panandikar, Whole-Time Director

In order to meet the market conditions.

## Arpit Kapoor

That will also include the MNC companies wherever they are?

## Aditi Kare Panandikar, Whole-Time Director

Yes.

## Arpit Kapoor

And ma'am, can you quantify a rough range as to what kind of pricing that would be there on a broad therapy basis, as to the kind of pricing trends that are there in the market?

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### **Aditi Kare Panandikar, Whole-Time Director**

It's very difficult because as you know, we have not taken cuts across all our dosage forms...

### **Arpit Kapoor**

Sure.

### **Aditi Kare Panandikar, Whole-Time Director**

On antibiotic, we have various trends. So we have only looked at particular trends where we thought we were getting highly impacted, because of one competitor's aggressive strategy on sales.

### **Arpit Kapoor**

Okay. And then what will be your views on the latest NELM that is being circulated and how will we be impacted, if let's say part of it or the entire thing is implemented in the entirety?

### **Aditi Kare Panandikar, Whole-Time Director**

To be very honest, it's something that's going to impact the entire industry.

### **Arpit Kapoor**

Right.

### **Aditi Kare Panandikar, Whole-Time Director**

We have to just wait and see what happens there.

### **Arpit Kapoor**

Okay, okay. Very fair. Thanks a lot, ma'am.

### **Operator**

Thank you, sir. Next question comes from Mr. Manoj Garg from Edelweiss Securities.

### **Manoj Garg**

Yeah. Good evening to all of you and thanks for taking this question.

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This is like taking, again sorry for persisting on domestic business. Taking this question further like in last 12 to 18 months, most of the guys in the domestic market have expanded their sales force in anticipation that there would be high growth and there will be a penetration, even a growth story. All of a sudden we have seen the slow down, maybe because of seasonal postponement, the delayed monsoon or waiting monsoon and all.

### **Aditi Kare Panandikar, Whole-Time Director**

Correct.

### **Manoj Garg**

And which has skipped both the top line growth as well as the bottom line kind of a growth. But looking at the scenario, may be probably a little longer horizon in next two to three years..

### **Aditi Kare Panandikar, Whole-Time Director**

Yeah.

### **Manoj Garg**

How do you see overall the macro growth panning out and do you see structurally that could be pressure on the margins as the competitive intensity has been higher in last few quarters?

### **Aditi Kare Panandikar, Whole-Time Director**

Yeah. See, basically, the only place we have seen pricing related problems is the anti-infective area. You have to understand one thing about the industry is that we operate in various therapy segments and anti-infective just happens to be one large chunk. So we are not seeing this across any other area.

Coming to your question of the expanded field force and the growth prospects for the industry, I agree with you to a certain extent, the return that the companies were expecting have got a little delayed, but there are very much there to stay, because consumption is going to be increased because of various reasons. I see that there is potentially a great opportunity for the Indian pharma companies to grow. The gain has altered a little bit in the last three quarters because of the various strategies adopted by some competitors, and people are now sort of getting adapted or adjusted to it.

I don't know whether you attended my concall in the last quarter, where I had spoken exactly about how various companies at various points have adopted the price cut as a strategy to get in, to penetrate the market. While this has worked for the brand here and there and for a short time, over a period of time, for the organization it will really not be a great success. So it largely depends on each management whether such aggressive strategies, as many companies are taking on various price trends are to be adopted, or end of the day since it's an ethical business, where we get prescription for the doctors we continue to rather put energies in that area to create demand.

### **Manoj Garg**

Okay. If I have to frame my question in the sense like from which kind of competitive, like the competition you are seeing this price competition, is it more of a regional players or it's like even larger player also they are getting into this game?

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Bloomberg Estimates - EPS  
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### **Aditi Kare Panandikar, Whole-Time Director**

There are, in some therapies, you have small regional players. But they are not really a very big threat honestly because when they adopt such strategies they're generally short-term, they cannot go on. We're seeing at this point some cuts coming in from few larger players, few larger players, and a couple to be specific, not more than that.

### **Manoj Garg**

Okay. But you don't anticipate this competition going beyond antibiotic, may be in other segment?

### **Aditi Kare Panandikar, Whole-Time Director**

No, because the chunk has to be large enough for this, because at end of the day, everybody wants to make money, right? So if its economies of scale is soft state or whatever they're working on at this point, it doesn't become feasible beyond that.

### **Manoj Garg**

Okay. And again like, if I talk about the margins may be going forward in next one or two years, do you feel like whatever the margin which we used to enjoy or the industry used to enjoy in the domestic market, they will sustain at the current level or you may see some pressure over there? Because as you move from metro or Tier I towns to Tier III and Tier IV towns, obviously the realization per customer and profitability will not be as same as you see in metro and Tier I towns.

### **Aditi Kare Panandikar, Whole-Time Director**

Well, some very dynamic things are going on in the industry, which sort of are set of two in fact. I agree with what you say, as we go into the interior, we are probably launching more of the cheaper kind of products, not exactly at a lower margin but products which are more affordable. So you end up having probably higher number of units for lesser value, something like that.

### **Manoj Garg**

Yes, yes ma'am.

### **Aditi Kare Panandikar, Whole-Time Director**

If you carefully look at what has happened say for example with the anti-diabetic segment right now and you look at the kind of the growth it is showing, it is very obvious that a few new molecules at very high margins.

### **Manoj Garg**

This is like earlier.

### **Aditi Kare Panandikar, Whole-Time Director**

Yeah. So, they pushed the top line forward.

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## Manoj Garg

Yes.

## Aditi Kare Panandikar, Whole-Time Director

See this kind of balancing thing continues to happen and it is nothing new. It has been happening in the industry all the time, while one segment gets commoditized may be there are other segments which have higher value. In our case, for example, once you go into the niche like the ophthalmic etc., this is an area where we are seeing that doctors prefer higher end product as you go forward.

Surgery is taking over some of the therapies and you need to get into higher end products to service other therapeutics. So this kind of a swap is happening. So I'm not really sure that net-net it will be a loss of margin going forward. But there is a kind of feeling with everybody today it is not predictable anymore, what an MNC will do, what an Indian company will do, what a large company or a small company will do.

## Manoj Garg

So coming to point which you have read like DPP-4 or Gliptins have really expanded the market.

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

Sure.

## Manoj Garg

And we have all know for the reason that probably the new drugs pipeline for most of Indian companies, because a very few opportunities are remaining in the existing area, is likely to be depleting or where the opportunities are likely to come down. So how will they adjust their growth opportunity when they will not have may be the pipeline of new products moving forward?

## Aditi Kare Panandikar, Whole-Time Director

Yeah. See there are two ways by, I am sure you agree companies grow. One is by launching new products and the other is a volume growth in existing products. If we look at the, data say IMS or MIS data, you will see that the biggest driver for growth for the Indian domestic business is the volume growth on existing molecules. And it's largely driven by increased population, increased affordable population and higher penetration.

Now these are not areas where the new product pipelines really come in the way. The new product pipeline and its non-availability becomes a big issue for companies who have a huge chronic portfolio compared to the acute portfolio. For companies like ours, it is not really such a big issue.

## Manoj Garg

Okay. That's all from my side. Wish you all the best.

## Operator

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Thank you, sir. Next question comes from Mr. Desai from Central Wealth.

### **Aditi Kare Panandikar, Whole-Time Director**

Yes?

### **Operator**

Please go with your question. I'm sorry ma'am, there is no response. Shall I move to the next question?

### **Aditi Kare Panandikar, Whole-Time Director**

Yeah.

### **Operator**

Thank you. Next question comes from Girish Bakhru from HSBC Securities.

### **Girish Bakhru**

Yeah, hi. I just wanted of course little more clarity on the domestic side. Like you said, the respiratory and some of the other therapies have been kind of facing pressure. If you can just share how you are seeing the growth rate in some of the other divisions like you have in ophthal or your geriatric portfolio, are the volume growth still over there?

### **Aditi Kare Panandikar, Whole-Time Director**

Stomatological as a therapy area has grown by more than 30%.

Warren carries the stomatological portfolio for the company.

### **Girish Bakhru**

Right.

### **Aditi Kare Panandikar, Whole-Time Director**

And it has shown more than 25% growth.

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## Girish Bakhru

Okay.

## Aditi Kare Panandikar, Whole-Time Director

Some new areas we had in like life style, although it's small for us have shown a 60% growth. There are products like CLOBEN-G, which is a derma product, which have shown about 18% growth.

We have the multi-vitamins launched, which are really growing at 40% up. Our GLYCHEK-M which is an anti-diabetic product has shown more than 20% growth. So there are a lot of growth stories. The impact of a setback or it's effect on us is very difficult to make up in the season. I hope you understand.

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## Girish Bakhru

Right. Why has the CITAL also not shown despite it's not being a respiratory...?

## Aditi Kare Panandikar, Whole-Time Director

CITAL, yeah. If we look at the Urinary Alkalizer segment, which CITAL is predominantly a very large player .

## Girish Bakhru

Right.

## Aditi Kare Panandikar, Whole-Time Director

The demand for that therapy actually, it is generally driven by high heat, etc. etc. As for IMS figures also, that entire therapy has not taken off and it's season is yet to come, October onwards is the main season for CITAL.

## Girish Bakhru

Okay. I mean just to kind of if you have to offset this line in future, where are the more new launches coming in?

## Aditi Kare Panandikar, Whole-Time Director

New launches now are largely in the life style like areas, in the longer term prescription areas and there's also a few anti-infectives which need to be launched in some divisions, which don't have anti-infective. So they are definitely not in the GI respiratory kind of areas for the future.

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### **Girish Bakhru**

Okay. And in this overall 5% growth rate that have been in the quarter, can you share how much is volume versus price in new launches?

### **Aditi Kare Panandikar, Whole-Time Director**

New launches would hardly contribute anything this quarter.

### **Girish Bakhru**

Okay.

### **Aditi Kare Panandikar, Whole-Time Director**

That will be very small. Price would be to an extent of may be 2%.

### **Girish Bakhru**

2% increase, basically you are saying?

### **Aditi Kare Panandikar, Whole-Time Director**

Would contribute to 2% of the growth.

### **Girish Bakhru**

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Okay. And I mean, in the API segment, I am not sure why has there been such a huge decrease, is it largely because of the some tender business or what is it happening...?

### **Aditi Kare Panandikar, Whole-Time Director**

Okay. Look, when we took over this, you know the history of how we got to the API and the acquisition of LaNOVA which was in the project stage and how we built the business. They were doing a lot of emerging markets kind of exports of products, which were not adding great value to the bottom line.

### **Girish Bakhru**

Okay.

### **Aditi Kare Panandikar, Whole-Time Director**

So we intentionally restructured and today all the sales that we get is from new APIs that have been developed by the company. So I am not really concerned because there is seasonality to how these deals get structured. You must have heard Sundeep say that the Patalganga site has now got approved by one multinational player and supplies of one of the main products we make, Allopurinol. So we will make up for the exports of API, in the second half of the year.

### **Girish Bakhru**

Okay. Would it be possible to give a split across certain bigger geographies like UK, Germany, how the sales have been there?

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## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah. UK and Germany are contributing about 33% each in the rate market. Then South Africa is contributing about 14%.

### **Girish Bakhru**

Okay.

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

It is a main contributor. And the rest is coming from Australia, New Zealand and U.S.; they are selling three products right now.

### **Girish Bakhru**

Right.

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

So that is the split.

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## Girish Bakhru

Okay. And the large part of growth is because we are launching more products right now.

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

Yeah. Large part of the growth henceforth will come from the products which we have got recently approved, some in Western Europe, some in Eastern Europe and some in South Africa.

## Girish Bakhru

Okay. Alright, thank you

## Operator

Thank you, sir. Next question comes from Purvi Shah from Dalal and Broacha.

## Purvi Shah

I have just two questions. One is regarding the Metformin. You just started the AOK tender and you are expecting this to come for the next two years as well. I just wanted to know how those were doing, when you're going to commence it?

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

The Metformin tender supply commenced from end of July. Almost, you can say, first week of August.

## Purvi Shah

Okay. And how big would be the tender?

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## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

It would go on for the next two years. That means this would go on up to about August of 2013.

## **Purvi Shah**

And how much do we expect the contribution from this tender...? Hello?

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah. Approximately around Rs. 30 to Rs. 35 crores per annum.

## **Purvi Shah**

Rs. 30 to Rs. 35 crores per annum?

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah.

## **Purvi Shah**

So roughly Rs. 70 crores for the next two years till 2014?

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

That's right, yeah.

## **Purvi Shah**

Okay. And sir, the other question was regarding the Allopurinol, like when can we expect the commercial sale and how big this could also be?

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Allopurinol has been approved by a large company for supplies by Indoco. The site has been approved. So the supply will start in the next few months.

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## Purvi Shah

Okay.

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

Volume right now, there's no clarity immediately, but we'll keep you posted on that.

## Purvi Shah

Okay. Thank you so much, sir.

## Operator

Thank you, sir. Your next question comes from Nishith Sanghvi from Karvy Stock Broking.

## Nishith Sanghvi

Hello, sir. Just wanted to know what's the outlook for growth in the domestic sales for the second half? I mean what kind of growth, since you've said that you expect the second half will be better due to some products which have, because of the seasonality and similar sales. So what kind of growth do you expect in second half?

## Aditi Kare Panandikar, Whole-Time Director

We can expect an equivalent kind of growth that we've been showing in the first quarter for example. We need to take out this impact of the second quarter. And see for the year, we are still looking at about 15 to 18% growth rate.

## Nishith Sanghvi

Okay. And about FY13, again, what's the outlook for next year? Actually, the 15 to 18% growth, so it will be high as we have done for six months we have done around 6.4% growth.

## Aditi Kare Panandikar, Whole-Time Director

Yeah.

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## **Nishith Sanghvi**

So it looks a bit ambitious.

## **Aditi Kare Panandikar, Whole-Time Director**

Yeah, we have ambitious target. We are working towards it.

## **Nishith Sanghvi**

Okay. And then on the other hand, can you provide the breakup of other operating income which is 26.6 million for the quarter, can we get the breakup?

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah. This is both incentive plus interest on FD.

## **Nishith Sanghvi**

Okay. Okay. So how much will be the export incentives sir?

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

And plus exchange gain also.

## **Nishith Sanghvi**

Okay. How much would be your export incentives, sir?

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Export incentives are about Rs. 2.26 crores (April to September 2011)

## **Nishith Sanghvi**

8%.

## **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Interest included is Rs. 1.11 crores.

## **Nishith Sanghvi**

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Okay.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Exchange gain is comparatively small.

### **Nishith Sanghvi**

Okay. And how much improvement in gross margin do you foresee because of ramp up in the second half in your domestic sales.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

See we have said that we will be very close to 18% EBITDA by the end of the year.

### **Nishith Sanghvi**

Okay.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

And for that to happen, the third and fourth quarters which are balanced now compared to last year's quarters, will be in fact far better naturally.

### **Nishith Sanghvi**

Okay. Thank you sir. Thank you.

### **Operator**

Thank you sir. Next question comes from Meeta Shetty from Asian Markets.

### **Meeta Shetty**

Hello. Just one clarity, we have been talking about the tax rate going up. But if I see this quarter, the claim on MAT credit claim has been higher. Just wanted to get some sense on that.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

See MAT credit, we have received a clarity that the utilization period is for 10 years. So we have re-estimated on the entitlement, and that's how you are seeing the MAT credit whatever we have taken in the quarter.

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## Meeta Shetty

And sir, what is the tax rate that we can assume for the year?

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

I think at MAT that is 20%. 19 point whatever odd percent.

## Meeta Shetty

But after claiming credit what will be the net effect that would come?

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

That would come down to about 10%.

## Meeta Shetty

Okay, so 10% for the year we got, we can assume in our estimates?

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

Roughly 10 to 12.

## Meeta Shetty

Okay, yeah. Thank you, sir. That's it from my side.

## Operator

Next question comes from Alok Deora from Sushil Finance.

## Alok Deora

Hello?

Good evening, thank you for taking my question. Yeah, I have one similar question, on the domestic business. We expect to grow by around 25 to 30% in the second half. So how would that be possible if you have any strategy in place for that?

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### **Aditi Kare Panandikar, Whole-Time Director**

Strategies are definitely there. All our divisions which were launched last year, they have now really started functioning. As I said, it takes about at least 12 to 15 months. So they have really started ramping up now. Obviously we are very small, we will grow there. Other than Indoco and Spade, almost every other division had actually shown good growth even in this quarter, which was a very tough quarter for growth.

So they will continue and they did not have great second half last year. So we will get growth from there. And regarding Spade, the second largest division predominantly the setback has come from the anti-cold segment for this quarter. So it is more of a growth on a not such a great half year last year, to be very honest.

### **Alok Deora**

Okay. So in terms of segment, which segment would be the key driver during the second half of the year?

### **Aditi Kare Panandikar, Whole-Time Director**

See the four main therapy areas for us are anti-infectives, GI, Stomatoglogicals and Gastro.

### **Alok Deora**

Okay.

### **Aditi Kare Panandikar, Whole-Time Director**

And together they give us almost 60-65% of our top line. So if the company has to do well all these have to grow.

### **Alok Deora**

Okay. But in anti-infective, as you are saying there is pricing pressure and everything is there.

### **Aditi Kare Panandikar, Whole-Time Director**

Yeah.

### **Alok Deora**

You expect that 30% is very much possible?

### **Aditi Kare Panandikar, Whole-Time Director**

30%?

### **Alok Deora**

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Growth in the domestic business?

**Aditi Kare Panandikar, Whole-Time Director**

I thought we said 20 to 25?

**Alok Deora**

Yeah. 20 to 25?

**Aditi Kare Panandikar, Whole-Time Director**

See, anti-infectives alone may not give you 20 to 25, but I am sure that the other areas will contribute. And anti-infectives frankly, because of the price cut here, we are actually expecting higher unit sales. So we expect to make up a little bit there.

**Alok Deora**

And then in terms of margins, we are expecting to achieve better EBITDA margins than what we did in the first half. So how would that be possible?

**Aditi Kare Panandikar, Whole-Time Director**

That is because of the mix, when the contribution of the domestic business increases to the top line, automatically you see the impact in the margins.

**Alok Deora**

Okay. So what kind of margins are we expecting for the second half?

**Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah, that's what I said, approximately...

**Aditi Kare Panandikar, Whole-Time Director**

Annual we will maintain about 17 or up to 18%...

**Alok Deora**

18%. That's the pre-R&D margin, right?

**Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah, yeah correct.

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Current Quarter: N.A.  
Current Year: N.A.

### **Alok Deora**

Okay. And during the quarter what was the Metformin contribution to the revenues? Because it started from August, right?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

August, yeah. It just started in August, so we had barely two to three containers and in September four, five containers. So really the momentum has not yet picked up. Approximately Rs. 3 crores in this quarter.

### **Alok Deora**

Okay. And the power cost also has come down because we have moved the suppliers. So...

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah, substantially the unit rate in Goa is approximately Rs.5.75 compared to Reliance about Rs. 13.50.

### **Alok Deora**

Okay. So that is for those first two plants right? Goa one and two.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

All three plants.

### **Alok Deora**

Okay, all the...

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Plant three was not there last year. It has just started.

### **Alok Deora**

Company Name: Indoco Remedies Ltd  
Company Ticker: INDR IN  
Date: 2011-10-20  
Event Description: Q2 2012 Earnings Call

Market Cap: 4,789.47  
Current PX: 389.8  
YTD Change(\$): -105.2  
YTD Change(%): -21.253

Bloomberg Estimates - EPS  
Current Quarter: N.A.  
Current Year: N.A.  
Bloomberg Estimates - Sales  
Current Quarter: N.A.  
Current Year: N.A.

Okay, okay. And then in terms of this interest cost have gone up during the quarters, compared to the first quarter, which was I think mainly due to working capital increase.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

Yeah, what has happened is, in expectation of good sales, there was inventories build-up.

### **Alok Deora**

Right.

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

So Goa III also got functional. So the expenditures have gone up. So the banking utilization limits have gone up. So that's how the interest has gone up.

### **Alok Deora**

Okay. So going forward, we can expect any reduction in that?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

No, the moment the sales go up, and the collections go up, the utilization of bank limits will go down, so interest will go down.

### **Alok Deora**

Okay. Just one question on the grants business in the Aspen deal, any update we have on that front?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

It's going on. The number of products is fine. So as and when there are important updates we will definitely come back to you all.

### **Alok Deora**

Okay. But no update as of now?

### **Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations**

No, more and more products are being signed, that's all I can say.

### **Alok Deora**

Okay. Just one last question, what is the CapEx we are looking at for FY12?

Company Name: Indoco Remedies Ltd  
Company Ticker: INDR IN  
Date: 2011-10-20  
Event Description: Q2 2012 Earnings Call

Market Cap: 4,789.47  
Current PX: 389.8  
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Current Quarter: N.A.  
Current Year: N.A.  
Bloomberg Estimates - Sales  
Current Quarter: N.A.  
Current Year: N.A.

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

We are expecting to build that expansion in API plant, that's almost 45- 50 crores, which will be going on for about 18 months.

### Alok Deora

Okay.

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

And otherwise it is all maintenance CapEx. So not any specifically big CapEx.

### Alok Deora

Okay. And FY13 would be again more of maintenance CapEx only?

## Sundeep V. Bambolkar, Whole-Time Director, Finance and Operations

Yes.

### Alok Deora

Okay. Fine. Thank you so much.

### Operator

Thank you sir.

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