

## Transcript

### Conference Call of Indoco Remedies Limited

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#### *Presentation Session*

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**Moderator:**

Good afternoon ladies and gentlemen. I'm Rekha, moderator for this conference. Welcome to the conference call of Indoco Remedies Limited hosted by India Infoline Securities. At this moment all participants are in listen only mode. Later we will conduct a question and answer session. At that time if you have a question please press \* and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference Mr. Sachin Neema, head of Research at India Infoline.

**Sachin Neema:**

Thank you Rekha. I am Sachin Neema, head of research, India Infoline and I have with me Alok Dalal who is the pharma analyst with us. Very good afternoon to all of you. I would like to welcome you all to the second quarter earnings call of Indoco Remedies. We have with us Mr. Sandeep Bambolkar, Director Finance and Operations and Mr. Bimal Desai, Senior General Manager Finance with us to give us the highlights and details about the second quarter results of Indoco. Congratulations to the entire management team on spectacular results from Indoco. Without taking much time I would like to hand over the floor to Mr. Bambolkar. Over to you Mr. Bambolkar.

**Sandeep Bambolkar:**

Yeah, thank you Neema. Good evening all of you who have joined the conference call. I shall now take you through the half year results of Indoco Remedies Limited. We had a board meeting and an audit committee meeting today and I have presented the results to them. I am just beginning the presentation now. In the half year ended December, the domestic sales are up by 20%, the exports are up by 84%, and the FDI sales are up by 151%. The FDI sales strong growth is mainly because of the new acquisition we have done LaNova Chem. Now the domestic sales as on date constitute 78% of our total revenue. The export constitutes 17%, and the FDIs constitute 5%. In totality for the 6 months, the sales are up by 27%. Coming to the domestic numbers in particular, as I already told you the domestic sales are up by 20%, the

domestic scenario is made up of 5 divisions. Indoco is the main division which constitutes 54% of the revenues and that has grown by 20%. Spade which constitutes 23% of the revenues and has grown by 24%, Radius which constitutes 4% has grown by 13%, and Warren which constitutes 18% has grown by 8%. Surge is the latest division we launched in January 2006. So I am not giving you any growth numbers for that because it is just one year old and that constitutes 1% of our domestic revenue.

Coming to international business total international business has grown by 84% but more importantly, international business to reg markets has grown by 120% and these are based on the sustained contract manufacturing operations to UK, Germany and Eastern Europe. Eastern Europe as all of you may be aware has now joined the European Union. So all the guidelines of European Union are now also has the same guidelines applied to the Eastern European countries. The reg market business which we have done is now constituting 82% of the total international business and in quantum terms it stands at 21.98 crores and the semi-reg market, which constitutes 18% has grown by 6% and the total quantum is 4.75 crores. You are aware that the semi-reg business has grown on lower number during the first half but we have a very good order book provision for the semi-reg market of Latin America, Africa and South East Asia and CIS countries. So we are confident to do the number up by this year-end. Coming to the numbers proper, gross sales for the first half of 6 months has grown by 27% and the net sales by 32%. Net sales now stand at 152 crores for the first 6 months against 115 crores for the same period last year. Material consumption stands at 44% against 42% for the same period last year. Staff cost is 10% compared to 11% last year. R&D expenses have gone up. R&D expenses are 2% of the net sales against 1% last year and other expenses, which are mainly marketing, distribution and administrative expenses account for 26% of the net sales against 28% last year. All put together, the EBITDA margins are now at 18.25% against 19.75% during the earlier period. Profit before tax is at 21.5 crores against 19.78 crores which is a growth of 9% and profit after tax is at 17.87 crores against 14.22 crores which is a growth of 26%. I shall now take you through the numbers for the quarter October through December. Gross sales have grown by 20% that is from 68 crores to 82 crores, net sales have grown by 28% from 62 crores to 79.5 crores. Material consumption stands at 45% for this quarter. Also for the corresponding quarter last year we had the same percentage 45%. Staff cost is at 10% against 9% for the same quarter for the last year.

R&D expenses are at 2% against 1% of net sales last year. This is mainly on account of the new R&D center going operational where we are developing non-infringing processes for active pharmaceutical ingredients that is APIs. Shortly we are going to shift our formulation R&D center, which is located at Andheri also to New Bombay under the same umbrella so that the 2 R&D teams can now have a good synergy between both of them. Other expenses constituting marketing, distribution and administrative expenses make up 26% of net sales same as last year 26%. Now the EBITDA margins are at 18% for this quarter compared to 19% for the same quarter last year and profit before tax is at 11.40 crores against 10.63 crores last year which is a growth of 7% and profit after tax has grown to 9.63 crores against 7.79 crores which is 24% up. Now one of the main reasons for the EBITDA shrinking a little bit, I would like to address that issue, is because of our three new establishments. You are all aware that we commissioned R&D Center in April. We have also commissioned our Baddi plant in April and LaNova we acquired this company in July, which is having a USFDA approval plant at Patalganga for APIs. Now, we firmly believe that at this point in time Baddi has only realized 40 to 45% of its potential whereas the R&D center and the API plant at Patalganga have not realized any of its potential. With the result we are having a lot of expenses, establishment expenses right now because the revenue stream has not come up to those levels. Hence you are seeing a slight shrinkage in the EBITDA margins at this point in time but we are sure we will make up for it because as you are all aware April to June is always an excellent quarter for Indoco wherein we make up for time lost.

I shall now take you through the balance sheet figures as on 31<sup>st</sup> of December 2006. There is no change in the share capital. The share capital stands at 11.82 crores, reserves and surplus is at 206 crores compared to 177 crores last year. The secured and unsecured loans put together there is a marginal increase. Secured loans have gone up by 3 crores from 36.14 to 39.42 crores and the unsecured loans have gone up by about 3.94 crores from 12.19 crores to 16.16 crores. The deferred tax liability has gone up substantially and this is mainly on account of the capitalization of the R&D sector which now stands at 18.32 crores against 12.09 crores last year. Coming to the application of funds the fixed asset block has really grown this year because of the capitalization of the R&D Center, the Baddi plant and also the LaNova acquisition and that stands at 160 crores compared to 111.5 crores last year. The investments are at 90 lakhs compared to 24.20 crores. This is mainly on account of utilization of the IPO funds,

which were invested in many of the mutual funds last year. The current assets loans and advances block is at 169 crores against the 153.5 crores last year. The current liabilities block is at 39.46 crores against 40.66 crores last year resulting into net current assets of 129.6 crores against 112.87 crores last year. Miscellaneous expenses to the extent not written off are at 73 lakhs against 1.39 crores last year, because we have taken a conscious decision to write off all the miscellaneous expenses during the year. Some additional information I would like to give you about what happened in the board meeting. The scheme of amalgamation of LaNova Chem India Pvt. Limited has been passed by the Indoco Remedies Limited board today. So now the next step is we will be filing the scheme of amalgamations with the Bombay High Court. Also attached along with this scheme is another scheme of de-merger that is the associate company of Indoco Remedies Limited namely Spa Pharmaceuticals Private Limited holds two plants, both of international standards. One of the plants is at Waluj Aurangabad, which manufactures formulation products for Indoco on loan license and the second plant is at Rabale, New Bombay, which manufactures APIs for Indoco on loan license. Now both these plants will be coming into the Indoco umbrella now after the scheme of amalgamation and de-merger is approved by the Bombay high court and in exchange Indoco promoters will get additional shares of Indoco. Three shares of Indoco Remedies Limited for every four shares held in Spa Pharma Pvt. Limited. We had appointed an independent valuer for this purpose and based on his valuation report of the assets of the chartered accountant firm Bhuwania and Company has worked out the share exchange ratio. I shall now come to the ratios for the same period. The net profit margin is at 11.85% against 12.25% last year. Earning per share is 15.12 against 12.03 last year. Return on capital employed is at 8.88 against 9.06 last year. The test turn over days are 114 against 121 last year. Inventory turn over days are 48 against 59 last year. Coming to the brand equity ratio we are at 0.34 compared to 0.32 last year and the current ratio is at 4.28 compared to 3.78 last year. With that I think we are coming to the conclusion of our remarks on the quarter and the half year performance which was taken on record by the audit committee and the board of directors in today's meeting of Indoco Remedies Limited. I would now like to invite questions from all the participants. Thank you very much for your participation.

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**Moderator:** Thank you sir. Ladies and gentlemen we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing # key.

First question comes of Mr. Balaji of Sundaram BNP.

**Balaji:** Hello.

**Sandeep Bambolkar:** Yes.

**Balaji:** Sir, a couple of questions. One is on the domestic markets you know, earlier you were mentioning that you will be doing some kind of geographical diversification which will help you to maintain this above market growth face that you have seen know, so how has the progress been on that front and do you think this current growth rates are sustainable in the future?

**Sandeep Bambolkar:** Yeah Yes. Thank you Mr. Balaji I would like to comment as follows. We have now three the divisions which are already all India. Number one is Indoco, the second is Spade and third is Warren. As regard to the remaining two divisions we are carrying out a geographical expansion that is namely Radius division and Surge divisions with the comparatively new divisions to Indoco. We are in fact trying to make these two divisions all India within 6 to 8 months from today. As far as the Radius is concerned we have already covered more than 60% of the country and as far as Surge is concerned we have covered about 40%. So I think within 5 to 6 months both these divisions will be all India divisions. Besides we have also launched a new division called Warren-Excel in the south right now in the four southern states which will be fully focussing on ophthalmology and dermatology.

**Balaji:** Okay. Secondly on the regulated markets for the first half, especially for the first half your turnover has been around 22 crores. If you could give us a broad breakup in terms of geography wise how it has been these 22 crores?

**Sandeep Bambolkar:** Yeah. Out of this 22 crores 75% to 80% of our revenues comes from UK, the remaining about 6% to 7% from Germany and the balance from the Eastern European countries.

**Balaji:** Okay. If you could give us an update on the US you were supposed to launch an ophthalmic product, there seems to be some delay, and if you could give us an update on that.

**Sandeep Bambolkar:** Yeah. Actually our first ANDA has just been approved by the US FDA and I think in the next week we are about to receive our first order from our partner in the US who had filed the ANDA. I just in fact spoke to him last night and he is all set to place the first order.

**Balaji:** Okay. ANDA is owned by you or by the partner.

**Sandeep Bambolkar:** No the ANDA is owned by the partner.

**Balaji:** Okay. And on this acquisition that you did in the month of July on the API facility what was the cost of the acquisition?

**Sandeep Bambolkar:** The total acquisition was in the range of around 17.75 crores.

**Balaji:** Okay. Can you explain a bit about this facility in terms of capacity?

**Sandeep Bambolkar:** It has the capacity of 50 KL in terms of reactors. It is a beautiful facility which can go through the US FDA inspection very easily and our endeavor will be to file 2 DMF in the month of June or July 2007 and remaining two DMF by January 2008. That is largely the picture. The facility is being fine tuned to get it ready for the US FDA inspection because once we file the DMF we expect that the US FDA will come known for inspection within 3 to 4 months.

**Balaji:** Okay. For your domestic sourcing of APIs would it come from this facility that you acquire?

**Sandeep Bambolkar:** No actually what we have planned is in this shorter term when the facility is not yet US FDA approved we would like to export the products to lesser regulated markets which we already started doing, south east Asia, Asia Pacific, Latin America, Africa and once our approval comes then the LaNova plant will be mainly used as a backup strategy for Indoco reg market strategies to the US, UK and Europe. So, all our important APIs which we use in our own formulation will be manufactured in this plant.

**Balaji:** And then be exported.

**Sandeep Bambolkar:** And also they will be exported, yes.

- Balaji:** Okay. So this facility is not for in house.
- Sandeep Bambolkar:** No, no this facility is not for in house, for domestic at all.
- Balaji:** Okay, thanks a lot.
- Sandeep Bambolkar:** Thank you.
- Moderator:** Thank you Sir. Next question comes from Ms. Cheenu Gupta and team from UTI Mutual Fund.
- Cheenu Gupta:** Hello.
- Sandeep Bambolkar:** Yes.
- Cheenu Gupta:** Yes sir, you explained something in the EBITDA margin that envisages question on the raw material cost as in if you see that they have gone up sequentially as well as YOY. Could you just explain what has been the reason for that?
- Sandeep Bambolkar:** Yeah surely. See what has happened is Indoco has now graduated higher into exports and APIs. If you see last year almost 83% of our revenues are coming from domestic and as you are fully aware domestic products always have lesser raw material cost because they have of comparatively high promotional cost and distribution cost attached to it, where as the area where we have graduated mainly export to UK, there is zero promotional cost but higher raw material cost. That's the reason you are seeing that little bit of shift from 42 to 44%.
- Cheenu Gupta:** Okay, so going onwards from here do we assume as in that kind of sustenance or our exports will be gowing going ahead? Do we see the material cost rising further or?
- Sandeep Bambolkar:** Yeah I think the material cost will rise but then we are taking a double precaution is that we are now getting into formulation exports of very high end formulation where our margins are going to be exceedingly higher than the present margin level.
- Cheenu Gupta:** That is the US markets you are talking about.
- Sandeep Bambolkar:** Yes. US, Europe. I won't name UK in that bunch because UK is not a high margin country. But Europe you know countries like Germany and Eastern Europe you can definitely talk of 25% plus EBITDA margin.

- Cheenu Gupta:** Okay and sir what about the Baddi benefit because we were expecting that Baddi benefit also would be coming in this quarter and you also mentioned about 50% has already started coming in because of that we should have also seen some....
- Sandeep Bambolkar:** Yeah definitely, Baddi benefit has come in if you see in terms of excise duties there is a huge benefit to the company already, also in terms of income tax. As you go forward we are constructing another department in Baddi which will be ready by the end of March. In April to June quarter you will see a superb savings from Baddi again.
- Cheenu Gupta:** Okay and the tax rate that we see in this quarter that 15.5% would be maintained.
- Sandeep Bambolkar:** Yes, yes around 15% to 16%, 17%.
- Cheenu Gupta:** Is what we can expect?
- Sandeep Bambolkar:** Yes, yes surely.
- Cheenu Gupta:** Domestic work, have you taken any price hike in the recent quarter or the say last quarter.
- Sandeep Bambolkar:** No, we have not taken any price hike.
- Cheenu Gupta:** No just asking because there are certain companies going ahead with price hike in the domestic market also to improve their realization.
- Sandeep Bambolkar:** Oh no, we have strongly stood by our pricing. We have not done any price hike.
- Cheenu Gupta:** Okay. Thank you sir.
- Sandeep Bambolkar:** Yeah thank you.
- Moderator:** Thank you Sir. Next question comes from Ms. Monica of Quantum Securities.
- Ms. Monica:** Hi Sandeep. This is just about to what Cheenu said if you could elaborate, if you could give us your gross margins as per your business segment that would be good.
- Sandeep Bambolkar:** Gross margin for?
- Ms. Monica:** Say, for domestic market, what are your gross margins? Your overall gross margins are about 56% in H1. So if you could elaborate on what is the gross margin you will have in the domestic market?

- Sandeep Bambolkar:** No I think there is some misunderstanding. 56% is not the figure.
- Ms. Monica:** Gross margin, that's material cost your sales minus materials.
- Sandeep Bambolkar:** Only at material cost level?.
- Ms. Monica:** Yeah only at material cost.
- Sandeep Bambolkar:** Yeah we can give it at EBITDA level.
- Ms. Monica:** Okay, sir, it is difficult to understand that why would the material cost increase when your regulated market sales are increasing?
- Sandeep Bambolkar:** Yeah because the main sales at this point are to UK, where the material cost component is quite high, because we are in the me-too range it is not a specialty range at this point in time. But as I explained going forward we are getting into more and more specialty range then you know this rise in material cost will be stalled at least.
- Ms. Monica:** Okay. So next time mid January what would we be your normalized material cost?
- Sandeep Bambolkar:** Kind of 42% to 43% because I used the word stalled you know I have not said decreased.
- Ms. Monica:** Okay so 42 to 43% is what you are saying. Okay on the tax rate only this 50% utilization at Baddi your tax rate as actually come down very sharply so when are going to take up Baddi production higher and you also mentioned a new facility at Baddi is to be commissioned in March?
- Sandeep Bambolkar:** Yeah end of March. It is under construction. We are constructing a liquid department there.
- Ms. Monica:** Okay so all this put together then tax should actually go down further. Isn't it?
- Sandeep Bambolkar:** But I think MAT will be attracted.
- Ms. Monica:** So around 11-1/2%-12% would that be.
- Sandeep Bambolkar:** Yeah. Plus other domestic profits.
- Sandeep Bambolkar:** Yeah.

- Ms. Monica:** You would shift most of your production to Baddi with the new unit or you would still have...
- Sandeep Bambolkar:** We will still have production in Aurangabad the new plant you know which is going to be de-merged from Spa and in Goa also so 100% we cannot shift to Baddi.
- Ms. Monica:** Okay because when you talked about the tax outlook you still mentioned about 15% to 17% which is basically the range now, so when you increase your utilization at Baddi and also set up a plant shouldn't I mean....
- Sandeep Bambolkar:** I would like to be a little conservative on this front, may be we will do better but I won't you know I won't give a commitment, I would still say that 15% -, 16%.
- Ms. Monica:** For the next year?
- Sandeep Bambolkar:** For the current year.
- Ms. Monica:** For the current year and for the next year what would it be?
- Sandeep Bambolkar:** In the that same range we will maintain it right now while talking, if we do better then that is a bonus.
- Ms. Monica:** Oh, that's is the good answer. About your the swap ratio you mentioned this three shares for four shares of Spa?
- Sandeep Bambolkar:** Yes.
- Ms. Monica:** What would your fully diluted equity at Indoco be?
- Sandeep Bambolkar:** We will have to add another 4,65,000 shares to the present share numbers.
- Ms. Monica:** 4,65,000?
- Sandeep Bambolkar:** Yeah.
- Ms. Monica:** Thank you Sandeep and all the best. Thanks a lot.
- Sandeep Bambolkar:** Thanks.
- Moderator:** Thank you madam. Next question comes from Mr. Surjit and team from UTI securities.
- Surjit & Team:** Hi thanks. A fairly good set of numbers, but what I was looking at it is that could you give me the EBITDA breakup?

- Sandeep Bambolkar:** Breakup between international and domestic?
- Surjit & Team:** Yeah.
- Sandeep Bambolkar:** Export would be in the range of 21, 22; domestic would be in the range of 17 to 18 and APIs is in the range of 12.
- Surjit & Team:** The second point is that about your ANDA approval which you are expecting that next week you will be receiving so I can expect that February you will start adding the revenue from this market. Now my point is that you were planning to outsource your API from European partner and then you will be manufacturing the formulation or the conversion into formulated products and then you will be supplying to the US market. That is the process right?
- Sandeep Bambolkar:** Yes absolutely.
- Surjit & Team:** Now in such case what will be the expected margin of factors for this kind of business?
- Sandeep Bambolkar:** Actually the margin to US are very, very high because this is a very niche area. As you are aware only three plants in the country or approved by US FDA for sterile ophthalmics and Indoco is one of them. So the minimum EBITDA margin I can talk about is in the range of 45%, 50%
- Surjit & Team:** Okay that is after tax how much you will be getting over here.
- Sandeep Bambolkar:** After tax, 15% of the tax rate. At the most 16% to 17% is the tax rate.
- Surjit & Team:** But if you actually leave or going forward with your plan that when your LaNova Chem will be ready to supply APA for all the ANDA partners, so in that case what would will be EBITDA margin. Now it is 40, 45 when we are out sourcing our API. Now when you will be manufacturing it in-house then what will be the EBITDA margin?
- Sandeep Bambolkar:** Yes there will be a improvement of over around 5%, 7%.
- Surjit & Team:** Around 5%, 7%.
- Sandeep Bambolkar:** Yeah.
- Surjit & Team:** So that is the extra you are paying to repay FDI interest?
- Sandeep Bambolkar:** Yeah, yeah, true, true.

- Surjit & Team:** Okay and the third point is that what will you do or what's your company's plan for API? Are your R&D units in Andheri?
- Sandeep Bambolkar:** It's under total closure because in Andheri there will be no activity there.
- Surjit & Team:** I understood, but are you going to use it for any other purpose or you are going to sell that property?
- Sandeep Bambolkar:** I think the plan is not yet ready we are just shifting out of Andheri at this point in time.
- Surjit & Team:** But one thing is for sure that you are not putting up any of the activities there your plan, clinical research anything of that sort?
- Sandeep Bambolkar:** Nothing. All our research activity will be now in the new R&D sector, which has come at Rabale, New Bombay.
- Surjit & Team:** Okay could you indicate what could be the recent value of that property?
- Sandeep Bambolkar:** Actually it is lease old property which we have applied for conversion to ownership but value as of now I can't give you exactly.
- Surjit & Team:** What is the total area?
- Sandeep Bambolkar:** I think it is about one acre plot.
- Surjit & Team:** One acre plot. Thank you.
- Sandeep Bambolkar:** Yeah thank you.
- Moderator:** Thank you Sir. Next question comes from Mr. Rahul Sharma of Karvy Stock Broking.
- Rashmi:** Hello sir, this is Rashmi here.
- Sandeep Bambolkar:** Yes, yes I can hear you.
- Rashmi:** Sir, one side in your domestic formulation business, how come you have shown less growth as compared to the previous quarter and as lot of other companies have shown 15% plus growth, this quarter we have grown by 14%.
- Sandeep Bambolkar:** Yeah, that's because its base for the earlier years, during the first quarter comparatively lower that's why that time the first quarter we have grown much higher for the

domestic formulation, where in this quarters the base was much higher.

**Rahul Sharma:** Sir will we sustain the momentum which we have blocked for the half year in domestic formulation?

**Sandeep Bambolkar:** Yes, yes definitely. It will improve in fact in April, May, June quarter.

**Rahul Sharma:** And sir what is the exact dilution in equity shares sir, 4.59 lakh equity share or amount?

**Sandeep Bambolkar:** 4.65 lakhs equity shares.

**Rahul Sharma:** Okay, okay. Thanks.

**Moderator:** Thank you Sir. Next question comes from Mr. Balaji of Sundaram BNP.

**Balaji:** Sir one more question you know on this API facility you said the capacity has not yet started right.

**Sandeep Bambolkar:** No, no we have started using the plant.

**Rahul Sharma:** What is the current capacity utilization of that?

**Sandeep Bambolkar:** It must be in the range of 30%, 35%.

**Rahul Sharma:** And how do you expect this to move in the next six months?

**Sandeep Bambolkar:** In the next six months it will reach around 55%, 60% and thereafter in another six months it will reach about 80%, 85%.

**Rahul Sharma:** So the increase in capacity utilization of API plant with EBITDA margins of only 12%. The overall EBITDA margins could come down do you think?

**Sandeep Bambolkar:** Yeah, yeah, definitely it could come down but we are going in to niche products where we will be able to maintain the EBITDA margins between 12 and 14%, because eventually this plant is going to be only for the regulated market of US and Europe where the margins are comparatively much higher.

**Rahul Sharma:** Okay and on the R&D side what will be the guidance as a percentage of sales.

**Sandeep Bambolkar:** R&D as a percentage of sales would be around 2.5%.

- Rahul Sharma:** This for the full year?
- Sandeep Bambolkar:** Yeah for the full year.
- Rahul Sharma:** Okay so at the end of six months what will be the through put from Baddi now you said is around 40%, 45%?
- Sandeep Bambolkar:** At the end of six months – that is in June you are talking about.
- Rahul Sharma:** Yeah.
- Sandeep Bambolkar:** It will pan to around 65% to 70%.
- Rahul Sharma:** Okay, thank you.
- Sandeep Bambolkar:** Yeah thank you.
- Moderator:** Thank you Sir. Next question comes from Mr. Rahul of Voyager Capitals.
- Rahul Sharma:** Hello.
- Sandeep Bambolkar:** Yeah Rahul hi.
- Rahul Sharma:** Yeah, hi congratulations on a good set of numbers. I just wanted to ask on two things firstly your export ramp up in the first half seems to be quite impressive, will be fair to **expect** that kind of growth trend in the second half or there is some seasonality in times of ramp up?
- Sandeep Bambolkar:** Well it is like this. One of the products which we are exporting to UK, is essentially a winter product, so you know the kind of sales we will have in April, May, June will be slowed down there. But still we have said that total export will increase minimum 50% over last year export. And that we are the strongly standing by it. It will be more than 50% definitely.
- Rahul Sharma:** Okay, okay and in terms of this Spa pharma dilution I guess it is about 4.65 lakhs of sales would be around 4%, what are the benefits in terms of the improvement in the underlying business which will come to Indoco as a result of this abolition of these two plants?
- Sandeep Bambolkar:** I think you asked a real good question. As far as the business of the company is concerned this will have huge ramifications. 1. What is happening in countries like CIS and Latin America is that and even some of the African countries like Uganda, Tanzania when they come down for inspection they want the name of the plant to be the same

as the name of the registering company. So long that was not the case because wherever they came for inspection now lasts month we had an inspection from Uganda which went through very well and they asked us you know what is this Spa pharma and what is Indoco. So we have to go all over again and explain to them and this is an associated company within the group. So all that will be done away with and as a company need not be registered abroad again, so there is no duplication, administrative cost come down, so synergies go up and both the plants are of international standard. Spa people have done an excellent job in getting the plants renovated. I should say Indoco is getting an excellent bargain in the whole deal, so that you know for this 3:4 kind of flat ratio we are getting two very beautiful plants which can be even inspected by UK or European people if time comes.

**Rahul Sharma:**

Okay in terms of just trying to understand better can you throw some more light on what has been basis of evaluation on a replacement cost basis or you know on the capital basis if one were to spend.

**Sandeep Bambolkar:**

Actually we had appointed an independent valuer and I am glad to inform you that you know both the plants put together the value the asset value which he has arrived is at around 12 crores.

**Rahul Sharma:**

Replacement value?

**Sandeep Bambolkar:**

Replacement value, but I would say if we are actually going to put up such kind of plant it is going to cost Indoco much more than 12 crores. I think Indoco promoters have taken a very, very fair view and they have been very fair and very just because they would like the main company to grow much more.

**Rahul Sharma:**

Okay.

**Sandeep Bambolkar:**

Yeah.

**Rahul Sharma:**

Okay and just a few accounting questions in terms of the debt levels, what is the debt level as it stands today?

**Sandeep Bambolkar:**

All put together there was a carry forward debt of 8 crores in LaNova as we are aware. So all put together it's around 55 crores, if you minus that 8 the remaining part is the Indoco's debt. So Indoco's debt is around 46, 47 crores.

**Rahul Sharma:**

Okay.

**Sandeep Bambolkar:**

Yeah.

- Rahul Sharma:** Okay sir, thank you very much and all the best.
- Sandeep Bambolkar:** Yeah thanks the lot.
- Moderator:** Thank you sir. There is a follow-up question from Ms. Ms. Monica of Quantum Securities.
- Ms. Monica:** Hi Sandeep, I am sorry if I missed this the Waluj and Rabale plant are they approved by the US FDA?
- Sandeep Bambolkar:** No, not yet.
- Ms. Monica:** Okay so would need to refurbish the plants or something, you would need any additional cost to this.
- Sandeep Bambolkar:** No what we will do is we will get these plants approved by the semi-red market first, semi-red markets of Latin America, Africa, Southeast Asia and CIS countries.
- Ms. Monica:** Okay.
- Sandeep Bambolkar:** Because their registration costs are comparatively lesser and business opportunities are fairly big for our side.
- Ms. Monica:** Okay and then you will go for the US FDA
- Sandeep Bambolkar:** US FDA we haven't thought about for these plants, because we have to graduate the training level of the people much higher.
- Ms. Monica:** Okay, so basically LaNova is going to be the plant the API supplier for you?
- Sandeep Bambolkar:** Yeah LaNova will be US FDA approved.
- Ms. Monica:** Okay. And an earlier question the EBITDA breakup when you gave on exports domestic, you were talking about exports is at 21% to 22% isn't that EBITDA margin.
- Sandeep Bambolkar:** Yeah, yeah true.
- Ms. Monica:** If then, it still doesn't really clarify, because other costs have been more or less same with a higher proportion of exports to sales in fact your raw material cost, your overall EBITDA should have increased right? But your EBITDA margin is down now.
- Sandeep Bambolkar:** Oh yes, what happens is the EBITDA margins we cannot view them mid way for a company like Indoco, because

there are seasonal ramifications also so April to June quarter the EBITDA shoots up if you see that way.

**Ms. Monica:** For the export market?

**Sandeep Bambolkar:** No, no, total domestic and exports. By the time the end of year we will have EBITDA margin at least 1 to 1%-1/2% point higher than last year.

**Ms. Monica:** Okay, okay thank you so much.

**Sandeep Bambolkar:** Thank you.

**Moderator:** Thanks a lot. Next question comes from with the Mr. Himanshu of Asit C Mehta.

**Himanshu:** Good evening sir.

**Sandeep Bambolkar:** Yeah good evening.

**Himanshu:** Sir, congratulations on your results. Can you give me a breakup of - in BBC you said you have all your divisions have grown up almost by double digit except for Warren and Surge. Can you give me in figurative terms how the divisions have fared in this half year?

**Sandeep Bambolkar:** What exactly you are looking at?

**Himanshu:** The figure terms, sales of each division, Indoco, Spade and...

**Sandeep Bambolkar:** I will give it to you. It is ready with me. Indoco has clocked 68 crores.

**Himanshu:** For this half year?

**Sandeep Bambolkar:** For the half year, yeah. Spade has done 30 crores, Radius has done 4.75 crores, Warren has done 23.10 crores and Surge has done 1.77 crores.

**Himanshu:** Sir can we have the latest data for all the company's main brads which are contributing to domestic business such as the Febrex, Vepan, Cyclopam etc. and what has been the growth vis-à-vis the last quarter?

**Sandeep Bambolkar:** I can email it to you, be in touch with me tomorrow morning on the phone and I will get your email ID and then I will email the data to you.

**Himanshu:** And the same goes for the new product launches also \_\_\_\_\_septichek \_\_\_\_\_.

- Sandeep Bambolkar:** All that data I can give you.
- Himanshu:** Okay sir. Regarding sir, unless it has been approved for the \_\_\_\_\_ ophthalmic for production sir you said the shipment will be starting probably from February I guess.
- Sandeep Bambolkar:** Yes, yes.
- Himanshu:** And can you give me any guidance as to how much of that revenue will be approved by FY07 and ultimately when both the products would be approved for FY08 also?
- Sandeep Bambolkar:** Guidance in that term is difficult at this stage because we are waiting for the first off take to happen and the repeat order to come so probably in another two three months time we will be able to give you a guidance for the next year.
- Himanshu:** Sir, can you give me any output for the exports for the next two years for the semi regulated as well as the regulated how Indoco terms them to be from where the major push will come, what will be the outlook for exports both in the regulated as well as semi-regulated market?
- Sandeep Bambolkar:** The outlook will be for red market it will be US, UK, Europe, Australia, New Zealand these will be the main market and Brazil is coming down to inspect our plant in March second week. So Brazil inspection is supposed to be very tough so you can take Brazil as good as a red market. And semi-red will be the other markets of Latin America, Central America, Africa, CIS where we have just started operation and South East Asia, Asia Pacific. So altogether I think we really have a very good opportunity and I am very bullish on the international business.
- Himanshu:** Sir, can you just finally repeat the balance sheet figures that you had given at the beginning of the con call?
- Sandeep Bambolkar:** Yeah surely I can. Share capital has no change it is 11.82 crores, reserves and surplus is at 206 crores compared to 177, secured loans is at 39.4 crores against 36.15, unsecured loans at 16 crores compared to 12 crores, deferred tax liability at 18.32 crores compared to 12.09 crores. And we come to application side fixed assets 160 crores compared to 111 crores, investment 90 lakhs compared to 24 crores, current assets 169 compared to 153, current liabilities 39.5 compared to 40.5. Net current asset 129.6 compared to 112.8 and miscellaneous expenses 73 lakhs compared to 1.39 lakhs.

- Himanshu:** Thank you, that's all. Thank you sir.
- Moderator:** Thank you sir.
- Moderator:** Next question comes from Mr. Kesvinder Suri of SPAN Capital Services.
- Kesvinder Suri:** I would like to know how many ANDAs have we filed and how many do we plan to file rest of this year and for the next year?
- Sandeep Bambolkar:** We have filed 3 ANDAs during this year already, 4 will be coming in before December, 2 more next year.
- Kesvinder Suri:** Thank you.
- Moderator:** Thank you sir. Next question comes from Mr. Nilang Mehta of HSBC Asset Management.
- Nilang Mehta:** Very good evening sir.
- Sandeep Bambolkar:** Good evening.
- Nilang Mehta:** Sir just wanted to check the consolidated numbers and standalone numbers what are the entities which are getting into the consolidated numbers ?
- Sandeep Bambolkar:** Actually it is mainly the Baddi plant which we initially started in the name of Indoco Health Care limited, going forward we thought it was a better idea to merge it with Indoco Remedies because it is like any other any other Indoco Plant.
- Nilang Mehta:** So it is a separate company or...?
- Sandeep Bambolkar:** It is separate company but it is 100% subsidiary of Indoco Remedies.
- Nilang Mehta:** Okay. because the standalone raw material cost which is there for Q3, December quarter last year is higher than the consolidated so I was just trying to understand why this difference?
- Sandeep Bambolkar:** That is because sale form Baddi is shown as purchase in Indoco Remedies.
- Nilang Mehta:** So that is an intercompany transfer. Okay. And sir, I just wanted to get a sense on the I am sure you've discussed it earlier but what's the sense of the margin, because we have seen margins coming down this quarter and what are

the sustainable margins for the whole year which you look at this for year? EBITDA margin?

**Sandeep Bambolkar:** Again I am saying, April to June gives us always much better margins, so by the end of the year we will be at least 1% higher than last year, EBITDA margin.

**Nilang Mehta:** And you are on line on achieving that?

**Sandeep Bambolkar:** Yes, yes,

**Nilang Mehta:** Sir your press release is just giving me the half early numbers; I would appreciate if we get quarterly numbers because we analyze quarter on quarter it would be better to look at it that way also.

**Sandeep Bambolkar:** Okay. I will tell my people to get in touch with you and fax you the quarterly numbers also.

**Nilang Mehta:** And how has the domestic growth been in this quarter? Only this quarter compared to the year on year growth for domestic sales and export sales if you can just bifurcate that?

**Sandeep Bambolkar:** For this quarter I think it is around 16.5%-17%.

**Nilang Mehta:** For domestic is it?

**Sandeep Bambolkar:** Yes, only domestic.

**Nilang Mehta:** Okay and export are how much?

**Sandeep Bambolkar:** Export 99%.

**Nilang Mehta:** It is on a low basis. And sir, what's the outlook on the kind of contract manufacturing and other European contracts which you are looking at? What's the delivery timeframe you are looking at, and any new contracts you are looking to get?

**Sandeep Bambolkar:** At any point in time our order book is full for the next 3 to 4 months very comfortably. So that still continues. Even today I checked the order book and it was full for the next 3, 4 months.

**Nilang Mehta:** But any big order which are likely to come and which could really propel the grow forward?

**Sandeep Bambolkar:** Recurring business, yeah, yeah

**Nilang Mehta:** Thank you very much.

- Sandeep Bambolkar:** Thank you.
- Moderator:** Thank you sir. There is a follow-up question coming from Mr. Rahul Sharma of Karvy Consultants.
- Rahul Sharma:** Sir, how much gross block addition do we factor in due the Spa merger?
- Sandeep Bambolkar:** The gross block with effect from Spa merger will be 12 crores
- Rahul Sharma:** Sir just wanted to ask you about d-do you see any time span leverage due to this acquisition where by how much time you will be saving because of this?
- Sandeep Bambolkar:** We are saving about 18-20 months.
- Rahul Sharma:** Okay, okay. And revenues remain as it is on course, but basically because of the merger that it will come into Indoco books?
- Sandeep Bambolkar:** Yeah, yeah absolutely.
- Rahul Sharma:** Okay.
- Sandeep Bambolkar:** Okay, thank you.
- Moderator:** Thank you sir. Next question comes from Ms. Parvati Rai of UTI security.
- Parvati Rai:** Hello sir, what I would like to know is with regards to the Spa merger that you are talking what will be the kind of amortization on the gross block that you stated of around 12 crores?
- Parvati Rai:** We will absorb that 12 crores gross block into Indoco and then there will be only normal depreciation.
- Parvati Rai:** Thank you sir
- Moderator:** There is a follow-up question from Ms. Ms. Monica of Quantum Securities.
- Ms. Monica:** I am so sorry. Just can you give us the way you have a transfer agreement with Spa right now in the sense that they are supplying only to you or they are supplying to anybody else as of now?
- Sandeep Bambolkar:** No! They are exclusively making for Indoco.

- Ms. Monica:** Ok. So there must be selling at costs.
- Sandeep Bambolkar:** Yeah. At cost and a very thin margin.
- Ms. Monica:** What is the margin that they have currently?
- Sandeep Bambolkar:** No they are not selling, they are making and we are paying them conversion charges. We supply them the raw and packing materials and they process them and give it back to us and we pay them processing charges.
- Ms. Monica:** Okay. So basically even after you merged Spa with yourself you should not have an EBITDA margin growth would you?
- Sandeep Bambolkar:** In the sense what is going to happen is the plant will come to Indoco so Indoco will save the processing charges of 3, 3-1/2 crores being paid to Spa and in effect Indoco will pay salaries to the staff and incur depreciation.
- Ms. Monica:** So in short if you pay salary to the staff at the EBITDA level there could be some kind of slippage?
- Sandeep Bambolkar:** No but then the processing charges that we are paying that will be saved.
- Ms. Monica:** So that will set it off?
- Sandeep Bambolkar:** Yeah. Net, net it should be positive for Indoco.
- Ms. Monica:** Despite the depreciation?
- Sandeep Bambolkar:** Yes.
- Ms. Monica:** Any debt on Spa's books right now?
- Sandeep Bambolkar:** No debts, but we are not merging Spa as a company.
- Ms. Monica:** Okay only the assets?
- Sandeep Bambolkar:** Yeah only the assets and even then there is no debt.
- Ms. Monica:** Okay. So, on the net level it should be status clear or it should be positive?
- Sandeep Bambolkar:** Positive, positive.
- Ms. Monica:** Can you put a number to that? I mean in terms of percentage, what do you see the net effect?

- Sandeep Bambolkar** Yeah for that part of the business which we will be manufacturing in Spa our EBITDA should go up by about by 0.75 to 1% each point.
- Ms. Monica:** Okay. EBITDA?
- Sandeep Bambolkar:** Yeah.
- Ms. Monica:** Thank you Sir.
- Moderator:** Thank you mam. Next question come from Mr. Jabal Patel of Sushil Finance.
- Jabal Patel:** Good evening Mr. Bambolkar and Mr. Desai
- Sandeep Bambolkar** Good evening
- Jabal Patel:** Sir I wanted to know one or two things like what is the value of the goods manufactured currently at the Spa on a yearly basis. Just a rough idea?
- Sandeep Bambolkar:** Sure, but that has no relevance.
- Jabal Patel:** Yes I understand I just wanted to know that.
- Sandeep Bambolkar** All our important products like Febrex-Plus are being made there.
- Jabal Patel** Ok
- Sandeep Bambolkar:** Operations we have really not got into. One thing is 3, three 3-1/2 crores which we are paying them for processing that will be saved.
- Jabal Patel:** Right. And secondly the API manufacturing facility unit at Rabale of the Spa will that come under our fold?
- Sandeep Bambolkar:** Yes that also.
- Jabal Patel** Ok that is right now it is not having any positive impact but after the merger, after the asset being bought into our company that will give certain boost to our API backward integration?
- Sandeep Bambolkar:** Yes it will definitely because we can then export various APIs from there to all semi-red markets.
- Jabal Patel:** OK. Right and what is the turnover that Baddi has clocked in the first half of the year?

- Sandeep Bambolkar:** I will give it to you off line because I do not have the figures immediately.
- Jabal Patel:** Yeah, fine, okay. And lastly I wanted to have a look at the expenditure from the R&D side. It is good thing that you have started providing the R&D expenditure on the quarterly and the half yearly basis and like we are going ahead with the DMF filing and two, three more ANDAs also so what kind of expenditures can we expect from that so that you know we have to project...?
- Sandeep Bambolkar:** It will be at around 2.25% to 2.5% of the net sales.
- Jabal Patel:** Inclusive of all that? DMF and all?
- Sandeep Bambolkar:** Yes everything.
- Jabal Patel:** OK. Thanks a lot.
- Moderator:** Thank you sir. Next question comes from Mr. Nitin of SSK.
- Nitin:** Hi Sandeep, good afternoon. Just a small question on this LaNova plant which is the therapeutic areas for which it will be manufacturing APIs for or do you have...?
- Sandeep Bambolkar:** It's a multipurpose plant.
- Nitin:** Is it equipped to make ophthal APIs also?
- Sandeep Bambolkar:** No it can but ophthal volumes being small we have got a separate plant for ophthal. On the first floor of our R&D center we have got a small plant, which we shall be commissioning in April. So that is the plant we will be using for ophthal.
- Nitin:** So we will be doing a non-ophthal kind of API manufacturing, do you think so you will be filing ANDAs for in the non-ophthal categories also?
- Sandeep Bambolkar:** Yes, yes DMF.
- Nitin:** Not the ANDAs.
- Sandeep Bambolkar:** No DMF from the FDA plant we have to file DMF.
- Nitin:** One thing but there are no plans really speaking on a corporate level to go for non-ophthal formulations?
- Sandeep Bambolkar:** There is, there is, because we already have our tablet plants ready for US FDA inspection which is in Goa. So

there is a plan eventually to file both DMF and ANDAs for non-ophthal products.

**Nitin:** And would there be any particular segment that you would be looking at?

**Sandeep Bambolkar:** Yeah we will be looking at obesity, diabetes, cardiovascular.

**Nitin:** Okay and the model is going to be the same which you have for the ophthal in terms of partnering with someone who is going to do filing the ANDA and all?

**Sandeep Bambolkar:** Yes, yes same model

**Nitin:** Okay, fine. Thank you.

**Moderator:** Thank you sir. Next question comes from Mr. Akshit Vyas of Angel Broking.

**Akshit Vyas:** Hello sir, this is Akshit. I just want to know during the quarter how much was the regulated market growth for the quarter?

**Sandeep Bambolkar:** It was around 105%-106%.

**Akshit Vyas:** Thank you.

**Moderator:** Thank you sir. There are no further questions. Now I hand over the floor Mr. Alok Dalal of India Infoline for closing comments.

**Alok Dalal:** Thanks Rekha and many thanks to all the participants on the call. Also we thank the management Indoco Remedies Mr. Bambolkar and Mr. Desai for being on the call and giving us the opportunity to host the call. We look forward to many such calls in the future. Thank you sir, thank you so much.

**Sandeep Bambolkar:** Thank you very much for hosting the call and thanks to all the participating for coming in.

**Moderator:** Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

**Note:**

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.