

## Transcript

### Conference Call of Indoco Remedies Limited

**Event Date / Time** : **26<sup>th</sup> April 2007 02:00 PM IST**

**Event Duration** : **34 min 24 secs**

#### *Presentation Session*

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**Moderator:**

Good afternoon ladies and gentlemen. I'm Johnson, moderator for this conference. Welcome to the conference call of Indoco Remedies. We have with us today Mr. Sundeep V. Bambolkar, Director, Finance and Operations; Mr. Bimal Desai, Senior Manager, Finance and Accounts of Indoco Remedies and Mr. Sachin Neema, head of Research at India Infoline Limited.

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.

**Sachin Neema:**

Thank you Johnson, a very good afternoon to all of you ladies and gentlemen. I am Sachin Neema, the head of research, India Infoline; a very warm welcome to all of you for the third quarter earnings call of Indoco Remedies Limited. I have great pleasure in having with us Mr. Sundeep Bambolkar, Director, Finance and Operations and Mr. Bimal Desai, Senior Manager, Finance and Accounts of Indoco Remedies. I would like to congratulate the entire Indoco Remedies team on excellent results. Without taking much time I would like to hand over the floor to Mr. Bambolkar. Over to you sir.

**Sundeep Bambolkar:**

Yeah, thank you Sachin for a nice introduction. Good afternoon all the listeners who have joined in already. We just had our audit committee meeting and the board of directors meeting to announce the third quarter results and the results for the nine months ended 31<sup>st</sup> March 2007 since ours is a June year ending. I have great pleasure in giving you the highlights of the results which will be followed by question and answers. I shall now start giving you all the details.

The sales for the third quarter have gone up by 43% from 53.54 crores to 76.81. The breakup of the sales is as

follows. The domestic sales which comprise of 74% have grown by 35% to 56.93 crores. The export which comprise 22%, have grown by 73% and now stand at 17.12 crores and the API sales which comprise 4% of the turnover have grown by 112% to 2.76 crores. This is largely because of our acquisition of LaNova Chem.

I would like to give you now the sales for nine month period ended 31<sup>st</sup> March 2007. The total sales have grown by 32% from 180 crores to 239 crores. Of that the domestic which comprises 78% have grown by 24% and now stands at 184 crores. The exports have grown by 79% and comprise 18% of the total sales now stand at 43.85 crores and the APIs which comprise 4% of the total business have grown to 10.51 crores grown by 139% again due to our new acquisition.

I would like to go further deeper into our domestic sales to give you division wise growth. Indoco the main division which comprises 53% of the domestic sales has grown by 23% for the nine months period and comprises of 96.39 cores. Spade has grown by 28% comprising of 23% of the total domestic sales now stands at 41.5 crores. Radius which comprises of 4% of the business has grown by 23%, this is our specialty division for cardiovascular and antidiabetic, now stands at 7.75 crores. Warren which specializes in ophthal and dental has grown by 16% and comprises of 19% of the domestic sales now stands at 35.58 cores and Surge which was launched just one year back has done a business of 2.75 crores and comprises 1% of our domestic sales.

The export sales for the nine month period ended March 31<sup>st</sup> 2007, in totality exports have grown by 80% from 24.39 crores to 43.85 crores. Of this, very interestingly the regulated market business has grown by 106% and that comprises 79% of our international sales now stands at 34.48 crores and the semi reg business has grown by 22% and that comprise of 21% of our international sales and now stands at 9.37 crores.

I shall now take you through the P&L account of the company for the quarter January to March, 3<sup>rd</sup> quarter that is, as well as the nine months period ended 31<sup>st</sup> March 2007. First of all coming to the quarter, net sales have grown by 53% from 48.07 crores to 73.60 crores. The total income stands at 73.96 crores compared to 50.29 crores earlier. Materials constitute 45% of net sales compared to 42% earlier. Staff cost comprises of 12% compared to 16% earlier. Other expenses comprise of 30% compared to 34% earlier. The EBITDA margin has grown from 8% to

12%. The R&D expenses have considerably grown, this is because of setting up of our new R&D center, and they have grown from 51 lakhs to 1.37 crores. Interest has increased from 1.69 crores to 2.16 crores; depreciation from 1.50 to 2.17 crores. This gives a profit before tax of 3.49 crores for the quarter as compared to 2.31 crores earlier and a profit after tax of 2.10 crores compared to 1.42 crores for the same quarter last year.

I shall now take you through the nine-month result that is July to March 2007. Net sales have grown by 38% from 163.13 crores to 225.67 crores. The total income stands at 228 crores compared to 168 crores. Cost of material is 44% for this nine month compared to 42% last year, staff cost is at 11% compared to 12% last year. Other expenses are at 27% compared to 30% last year, giving an EBITDA margin of 18% this year compared to 17% last year.

The R&D expenses stand at 3.88 crores again showing our growing investments and plans for research and development compared to 1.43 crores for the same period last year. Interest is at 6.38 crores compared to 4.21 crores last year. Depreciation at 6.47 crores compared to 4.25 crores last year. Therefore we will land up with a profit before tax of 25 crores compared to 22.08 crores last year and a profit after tax of 19.97 crores that is almost 20 crores compared to 15.64 crores last year.

I shall now take you through the balance sheet position as on 31<sup>st</sup> of March 2007. There is no change in the share capital of the company which stands at 11.82 crores, the reserves and surplus is higher and stands at 207.87 crores compared to 179.13 crores for the same period last year. The secured and unsecured loans are at 49 crores compared to 50.5 crores. However, a notable feature here is that when we acquired LaNova Chem in July 2006, part of the acquisition was taking over the liabilities of 7.25 crores. So if you minus that 7.25 crores I think we have repaid a liability of around 9 crores. So to that extent we have done much better. The deferred tax liability stands at 18.70 crores compared to 12.38 crores; this is due to capitalization of many of our projects. Coming to the fixed asset block that stands at around 165 crores compared to 128 crores last year. There are no investments because all the IPO funds have been utilized for all our projects. The current assets, loans and advances stand at 169 crores compared to 144 crores last year. The current liabilities and provisions at 47 crores compared to 37 crores last year giving a net current asset balance of 121.78 crores against 107.5 crores last year. The miscellaneous

expenses to the extent not written off stand at 64 lakhs compared to 1.15 crores last year.

Coming to the last part of the information that is the various ratios, the net profit margin for the current period stands at 8.85% compared to 9.59% last year. The earning per share stands at 16.89 against 13.23 last year. The return on capital employed is right now 10.94% compared to 9.58% last year. As regards debtors turnover number of days we are at 108 this year compared to 100 last year. The inventory turnover days at 47 compared to 54 last year. The debt equity ratio is at 0.22 compared to 0.26 last year and the current ratio is at 3.59 compared to 4.47 last year. I think this is largely the information we wanted to provide to the listeners today. I now welcome any questions from your side. Thank you.

#### *Question and Answer Session*

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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.

Our first question comes of Mr. Balaji of Sundaram BNP Paribas.

***Balaji:***

Good afternoon sir.

***Sundeep Bambolkar:***

Yeah. Good afternoon sir.

***Balaji:***

Sir, congratulations for the good set of results. I have a couple of questions. One is for the third quarter, regulated market sales have been 12.5 crores, which is very flat on a the QOQ basis and is actually less than 100% growth that we have been achieving in the last two quarters, why is it that it has been very flat on the QOQ basis despite commencement of shipments of one of your products?

***Sundeep Bambolkar:***

Just hold on, one minute. The reg market sales for the nine months period has grown by 106% over the last years nine months, so it is not flat, and today stands at 34.48 crores.

***Balaji:***

No, no I am talking about the third quarter.

***Sundeep Bambolkar:***

For the third quarter?

**Balaji:** For the third quarter your red market sales are worth 12.5 cores, third quarter of this year?

**Sundeep Bambolkar:** January to March quarter. 12.5 over 6.73 cores last year, almost a growth of 85.70%.

**Balaji:** Okay. I agree that is on a YOY basis. What I am saying is why is it there is no growth on a QOQ basis because you would have obviously started commencements of your shipment of one of your products.

**Sundeep Bambolkar:** The shipment you are talking to the US I presume and that is we have shipped only one shipment so far and that was in March and that is just the beginning of the story, we have not yet shipped any thing much.

**Balaji:** Okay. And your R&D costs have been roughly about 2% of sales for this quarter. So is this a kind of run rate going forward?

**Sundeep Bambolkar:** Yes it will be 2-2.5% of sales.

**Balaji:** Okay. Thanks.

**Sundeep Bambolkar:** Thank you

**Moderator:** Next question comes from Mr. Iden of Generics.

**Iden:** Good afternoon this is Iden and Clarke from Generics from UK. My question is also about the regulated and in particular Germany. I was wondering if you could possibly comment on the involvement you are seeing there with partners like (not sure) particularly now that those companies can negotiate directly with health insurance funds is that opening up new opportunities for Indoco. Thank you.

**Sundeep Bambolkar:** Yes, we signed a deal with this particular company wherein initially 18 products signed on a deal of contract manufacturing for Indoco. Right now they are adding more and more products to that list and the tally has already crossed about 21 products. So I think with the health sector opening up more there will be more and more opportunity for companies like Indoco and I think the footing is very sound. We are doing well there.

**Iden:** Thank you.

**Moderator:** Our next question comes from Mr. Manish of ING Investment Management.

**Manish:** Okay can you discuss in detail about each of the divisions and how the deal fraction will take of in Warren and Surge, Spade and Radius and also what could be the business potential for these 21 products that you are talking about going forward?

**Sundeep Bambolkar:** Right now first question is regarding domestic.

**Manish:** Yes.

**Sundeep Bambolkar:** Each of the domestic divisions I shall go through. Yeah Indoco has grown by 23% and it comprises 53% of the domestic sale and now stands at around 56.39 crores.

**Manish:** So that's okay with me, I do have the numbers. I just wanted to know your strategy in detail in terms of gaining market share and in terms of new product launch in each of the division.

**Sundeep Bambolkar:** Yeah, see as our policy we have been launching about 20 to 25 products every year, new products. New products constitute 30% of our growth in the domestic market. By and large each and every division has done well as you can see. The strategy going forward will be Indoco will be catering to GPs and consulting physicians and also Indoco has some products for diabetes and cardiovascular like Glychek-M and Glychek-M Forte, Glyclazide with metformin combination.

Spade which is also shown a growth of 28% is catering to gynaec, pediatrician and the strategy going forward will remain same, to introduce more and more new products to cater to this segment.

Radius is the specialty division for diabetes and cardiovascular, again new products are being introduced there also.

In Warren, in the case of Warren we have come out with an additional division called Warren Excel which will cater to ophthalmologists for the four southern states we have concentrated right now. Warren also caters to dental segment and it has been doing well.

As far as Surge is concerned the strategy is to introduce new products specifically for surgeons and Surge is a very new division comprising only 1% of the domestic business as on date.

Coming to your second question that is about Germany; we see very bright potential in that country because the

deal we got was a very good one at EBITDA levels of margins are around 18% to 20% or even more in some cases and they have been adding more and more products to the pipeline.

**Manish:** And do you have any acquisition strategy for regulated and non-regulated market?

**Sundeep Bambolkar:** Acquisitions, we are on the look out for brand within India.

**Manish:** Is it the OTC brand?

**Sundeep Bambolkar:** Not necessarily OTC. Any brand which will fit into our strategy.

**Manish:** Okay. Indoco should grow by close to 155 to 20% is it fair to assume so?

**Sundeep Bambolkar:** Indoco as a division?

**Manish:** That's right.

**Sundeep Bambolkar:** Yeah very close to 20%.

**Manish:** And same with Spade and Radius?

**Sundeep Bambolkar:** Yeah in fact Spade is rate growing at 28, so I presume more than 25. And as a company we have said the domestic business will grow at around 20%, the international business is more than 50%.

**Manish:** Okay and have your margins taken some beating in this quarter if I have to look at nine months vis-à-vis the last third quarter?

**Sundeep Bambolkar:** Margins, because specifically all our new investments have not given us the commensurate returns. See Baddi was commissioned in April 2006, but we got an excellent response from there. So we have in fact expanded that facility and invested another 6 to 7 crores for our liquid department. So that will again you know boost our margins this year. LaNova was acquired in July 2006, so it went through initial teething problems and it is now settling down, we are about to introduce a number of new APIs there for manufacturing. The R&D center has just settled down and we are shifting over formulation R&D from Andheri to Rabale under the same umbrella. So all this should provide excellent synergy within the group and give us more and more returns.

- Manish:** Next year what should be our margin target that should be achieved?
- Sundeep Bambolkar:** Next year our EBITDA margin should climb to around 22% to 23%.
- Manish:** 22 to 23?
- Sundeep Bambolkar:** That's right, yes.
- Manish:** And this year you should close to 19?
- Sundeep Bambolkar:** This year we should be between 19 and 20.
- Manish:** 19 and 20, the 200 basis point improvement?
- Sundeep Bambolkar:** That's right, yeah.
- Manish:** Okay and on the sales growth of close to 20 to 24%.
- Sundeep Bambolkar:** Sales around 23%, 24%.
- Manish:** Okay and the most of the new product launches is happening in which divisions?
- Sundeep Bambolkar:** While it is across the company, it is in all divisions and mostly it is in lifestyle and anti-infectives which are a very high value product.
- Manish:** That's right. Okay, thanks a lot.
- Sundeep Bambolkar:** Thank you.
- Moderator:** Next question comes from Mr. Nilang Mehta of HSBC.
- Nilang Mehta:** Sir very good afternoon to you, this is Nilang from HSBC.
- Sundeep Bambolkar:** Good afternoon.
- Nilang Mehta:** Sir just I was looking at your quarterly results and though sales growth has been reasonable, the costs have gone up substantially like consumption for materials or raw materials is up almost 60% and EBITDA margins which were at 19% has come down to almost 12%; any particular reason for this sir?
- Sundeep Bambolkar:** No I think I need to correct you. The EBITDA margins, but for last year same quarter the EBITDA margins were at 8%, so there is a drastic improvement in the EBITDA margins.

- Nilang Mehta:** But what the results you have printed out the consolidated if you look at those numbers I think so last year you made an EBITDA of almost 9.9 crores on sales of 48 crores and now on sales of 73 crores we are making an EBITDA of 8.8 crores.
- Sundeep Bambolkar:** Well you know the main difference lies in the R&D expenses.
- Nilang Mehta:** No I am taking R&D as below the line so this is before the R&D.
- Sundeep Bambolkar:** Yeah, so if you consider R&D. R&D is of course a long term investment.
- Nilang Mehta:** No I am saying this is before R&D, so I have not even considered R&D. This is the in the format of the stock exchange which we have, the press release which we have got.
- Sundeep Bambolkar:** Yeah, 12% EBITDA margins right now.
- Nilang Mehta:** So how do you expect the whole year to end at 20% so this quarter you have done 12%, so do we see next quarter a big jump in EBITDA?
- Sundeep Bambolkar:** Yes, yes, normally June is a heavy quarter for Indoco, wherein the EBITDA margins go up to even 25% in June.
- Nilang Mehta:** Okay, so you are confident of ending the year at 20% EBITDA because even if you look at the numbers last year we have done an EPS of 26 rupees a share and for nine months we are doing almost 17 rupees. So it is going to be a daunting task to reach that EPS number by the end of the next quarter.
- Sundeep Bambolkar:** Every year it is the same story but we make it happen. And nine month EPS is around 17, compared to 13 last year.
- Nilang Mehta:** 13 last year, okay. So you are seeing the big substantial jump will come in Q4.
- Sundeep Bambolkar:** It happens every year.
- Nilang Mehta:** Okay.
- Sundeep Bambolkar:** Plus we have lot of projects and contract research which are very, very profitable.

**Nilang Mehta:** Okay which are going to get booked in next quarter you are saying?

**Sundeep Bambolkar:** Yes, intentionally we have not booked them in this quarter.

**Nilang Mehta:** Okay. And sir, if you can just throw some light on the, I just missed the conference call because I logged in late but the new strategies which you are taking up in terms of your regulated market and the European market initiative and what is the development there?

**Sundeep Bambolkar:** Right now in UK we are doing contract manufacturing with about five companies and in Germany we are doing contract manufacturing with one company and in Eastern Europe it is with three companies. So I think right now the going is good, the strategy going forward is we would like to make our dossiers. First we have tasted one success we made one Euro dossier, they have licensed it out to at least five companies in Europe and in one in Australia and three more such dossiers will be ready within next four, five months including bio studies and all that.

**Nilang Mehta:** Okay how much it cost to make a dossier sir?

**Sundeep Bambolkar:** The main cost is of course is bio studies which is around 10 to 12 lakhs per dossier but it is also good and profitable business. So I think we are going ahead as far as Europe is concerned we are focussing more and more on contract manufacturing.

**Nilang Mehta:** So when you say contract manufacturing sir, what exactly do we do, do we supply the APIs or do we make the formulations for these people or what we do?

**Sundeep Bambolkar:** No, no, no contract manufacturing is for formulation. What we do is, we find people who are holding product license. And our approved plant in Goa, they put it on their license as a sign.

**Nilang Mehta:** Okay and what kind of revenues now UK, Germany and Eastern Europe as of now you are having from these contracts and what is the ramp up possible here?

**Sundeep Bambolkar:** I think the ramp up is good although the guidance we gave is 50% per annum.

**Nilang Mehta:** Okay so you are expecting these three things, the contract manufacturing only to grow by 50%?

**Sundeep Bambolkar:** Yeah, yeah but we have been showing remarkable growth. We have been showing 100% growth.

- Nilang Mehta:** Okay and in first nine months how much have we done in these in terms revenues from there?
- Sundeep Bambolkar:** In the first nine months we have done 34.48 crores in reg market, it constitutes 79% of our international business and it has jumped by 106% compared to the same period last year.
- Nilang Mehta:** And this is primarily the contract manufacturing, 79% of the 34 crores.
- Sundeep Bambolkar:** Largely it is the contract manufacturing to UK, Germany Eastern Europe.
- Nilang Mehta:** And what kind of margins does this business come at?
- Sundeep Bambolkar:** The EBITDA in UK are around 17% to 18% and in Germany they are around 19%, 20%, or little higher than that. And Eastern Europe is also around 20%, 22%.
- Nilang Mehta:** Okay so they are coming at same margins that the company margins as of now. UK could be the one which is diluted but the rest...
- Sundeep Bambolkar:** Little bit yeah.
- Nilang Mehta:** Okay and we have also seen sharp rise in your R&D expense from 51 lakhs to 1.4 crores. What is this attributed to what exactly gets contributed here sir?
- Sundeep Bambolkar:** R&D is on a number of forums we have put up a quite a big and very modern R&D center a Rabale. This went into commissioning somewhere in March last year. So first of all we are doing active pharmaceutical ingredient API such development. We are developing API in the pipeline for US and Europe which will be very robust pipeline, Generics going on off patent in 2010 and 2011 around that time and we would like to use the same APIs for our formulation. So the formulation development center which was at Andheri is also now going to be shifted under the same umbrella. So that will give an excellent synergy. Besides we also have the regulatory affair department there, the department which comprise and files the Euro dossiers and the ANDAs. They have also shifted there.
- Nilang Mehta:** So any kind of guidance would you like to give for next sir for the R&D expense, how much percentage revenues are in absolute terms what it would be?
- Sundeep Bambolkar:** Yeah it will be around 2.5 to 2.75% of net sales.

**Nilang Mehta:** Okay and sir we have also seen some increase in the interest cost so what is the data right now currently we have and what's the cost on that?

**Sundeep Bambolkar:** I think you joined a little late.

**Nilang Mehta:** Yeah.

**Sundeep Bambolkar:** Yeah no problem. The debts right now for the secured and unsecured loans are standing at 49 crores, compared to 50.5 crores last year, but a notable feature is that 7 crores out of this has come in along with LaNova Chem. So if you remove those 7 crores then we are better off by about 8 to 9 crores compared to last year.

**Nilang Mehta:** Right and what is the average cost on it sir?

**Sundeep Bambolkar:** Currently around to 10.5 to 11%. But of course we are now resorting to export credit financing and all that, CFC, even rupee, FC and RB and even rupee borrowing they are giving us at 8.75. We have just got 1 or 2 million dollars this week. So that will bring down interest cost.

**Nilang Mehta:** And in terms of domestic market sir, you said you plan to grow by 20% but is it purely on back of new product launches or it is also the existing products which are growing?

**Sundeep Bambolkar:** I must thank you for asking this question because all our existing products are doing excellent –. Febrex Plus, Vepan, Glychek-M, Glychek-M Forte, all these are growing near 25%. Cyclopam is going around 18%; these are real block buster brands which we have built up over a period of time. And the new product constitutes 30% of the growth. I think we are very solid on domestic front.

**Nilang Mehta:** Okay and sir any risk of DPCO because you keep hearing I think this has been a long drawn issue, but any clarity right now which we have and how are we strategizing to insulate ourselves from untoward risk or any of our products can come into that...

**Sundeep Bambolkar:** Yeah you are aware that the Prime Minister has appointed a group of empowered ministers?

**Nilang Mehta:** A group of empowered minister yeah.

**Sundeep Bambolkar:** And empowered them to look into this matter. You know led by honorable Sri. Sharad Power and our chairman happen to be the immediate past president of the Indian

Drug Manufacturers Association. So he has been spearheading this initiative largely in New Delhi and meeting the GO and many of the other opinion makers. So we are very confident that the PM and the GO will take a very positive view on the industry and they will not let the industry down because they themselves call it as a prize industry. And as far the Indoco is concerned I think only about 9% of our revenues are concerning products which are coming under DPCO. So I think we are all right with that.

- Nilang Mehta:** Okay, thank you very much.
- Sundeeep Bambolkar:** Thanks for participating.
- Nilang Mehta:** Thanks.
- Moderator:** Our next question comes from Mr. Rahul Sharma of Karvy Stock Broking.
- Rahul Sharma:** Sir, how much growth did we do in the quarter in the domestic formulation and how did various the divisions contribute?
- Sundeeep Bambolkar:** In this quarter, Indoco division has grown by 29%, Radius have grown by 42.27%, Warren have grown by 37.34%, and Surge of course which is very new so I wouldn't exactly comment on it, but still it has grown by 136%, giving a total growth in the domestic business by 34.78%.
- Rahul Sharma:** This is for the quarter?
- Sundeeep Bambolkar:** For the quarter the domestic sales are at 56.93 crores compared to 42.24 crores last year.
- Rahul Sharma:** Okay, thank you.
- Moderator:** Thank you sir. There are no further questions. Now I hand over the floor to Mr. Sachin Neema for closing comments.
- Sachin Neema:** Thank you, ladies and gentlemen. I would like to take this opportunity to express our gratitude to the Indoco Remedies management for giving us the opportunity to host the conference call. We look forward to many such quarters from the company. Thank you every body once again.
- Sundeeep Bambolkar:** Yes Sachin, I would like to take this opportunity for thanking you and India Infoline for hosting this call and once again thanks to all the analysts, listeners who have participated. We are very grateful to you for giving us your

time and going through all the numbers with us. Thanks a lot.

**Moderator:**

Ladies and gentlemen, this concludes the conference call 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 day.

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*Note:*

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