



“Indoco Remedies Ltd Q4 FY10 Results Conference Call”

26th April 2010



MODERATORS: MR. SUNDEEP BAMBOLKAR – DIRECTOR - FINANCE AND OPERATIONS
MS. ADITI KARE PANANDIKAR - DIRECTOR - BUSINESS DEVELOPMENT AND HRD
MR. GANESH GOKHALE - VICE PRESIDENT - FINANCE AND ACCOUNTS
MR. RAJ MEHTA – SENIOR ANALYST, DALAL & BROACHA STOCK BROKING LTD



*Indoco Remedies
April 26, 2010*

Moderator Ladies and gentlemen good afternoon and welcome to the Indoco Remedies Limited Q4FY10 Results Conference Call, hosted by the Dalal & Broacha Stock Broking Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Raj Mehta from Dalal & Broacha, thank you and over to you sir.

Raj Mehta Thank you Melissa, good afternoon everyone this is Raj Mehta from Dalal & Broacha Stock Broking. I would like to extend a warm welcome to all of you for Indoco Remedies' full year FY10 conference call. We have with us Ms. Aditi Kare Panandikar – Director, HRD and Business Development. Mr. Sundeep Bambolkar – Director, Finance and Operations and Mr. Ganesh Gokhale - Vice President, Finance and Accounts. I would now like to hand over the proceedings to Mr. Bambolkar for his introductory remarks and business outlook, after which we can have the question and answer session. Thank you and over to you sir.

Sundeep Bambolkar Yes, thank you Raj. Good evening to all the participants. I will begin with the financial performance first.

During the fourth quarter ended March 2010 Company's net sales have grown by 28% to Rs.109 crores from Rs.85 crores during fourth quarter in the previous year. The increase in total revenues was due to increase in domestic formulation business by 25% and international business by 42% over the same quarter last year. The PAT for the fourth quarter stands at Rs.8.23 crores compare to Rs.3.92 crores for the same quarter last year. The increase in PAT is mainly due to the increase in total revenues and rationalization of cost. The material consumption ratio for the current quarter is 47.4% compare to 44.18%. The rise in consumption is mainly due to the raw material prices increased but are now under control due to USD weakening. Going forward we strongly feel these will remain under control and the present trend would continue for next three to four quarters, showing improved profitability. The drop in international currencies such as USD, Pound, and Euro have also contributed to some extent to the material consumption ratio going up. We have also initiated cost control over some of our very important packaging material. We are confident these measures will give us the desired return in the future quarter.

As promised as during the last quarter the work towards getting the electrical connection from the State Electricity Board for our Goa plant is nearing completion, this will sharply reduce the power and fuel cost in the future quarter. The interest cost has reduced considerably from Rs.1.29 crores to Rs.72 lakhs for the fourth quarter. This reduction is mainly due to drop in working capital borrowings and also due to increase foreign currency borrowing at very competitive rates. However, the manpower cost has risen by Rs.1.89 crores, this is mainly due

to normal annual increase in involvement at all levels and also new recruitment across the organization. The manpower cost now stands at 14% of net sales.

Coming to the infrastructure, we completed the expansion of our API plant at Patalganga at an approximate investment of Rs.15 crores. Part modernization of the Solid Dosage plant in Goa has resulted in an average increase in output by more than 20%. This will definitely help in quicker deliveries to reg markets, thus sharply increasing international revenues. We are already experiencing this in the current quarter, wherein the international business revenues have grown by 42%. We are confident this trend will continue and we will embark on further modernization to get much higher output thus resulting in higher revenues.

In anticipation of the sterile business growing due to the Watson deal as well as the Aspen deal, we have expanded the sterile infrastructure at our second plant in Goa. A state of the art fully automated machine is under installation currently and we hope to commission the same by 15th May, 2010. Validation as well as exhibit batches of all prospective ANDAs and dossiers will now be manufactured & packed in the new department. The total investment on account of this has been around Rs.8 crores. I shall now invite questions from participants. These were the opening remarks, thank you.

Moderator Thank you ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch-tone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. The first question is from Rahul Sharma from Karvy Stock Broking.

Nishit Sanghvi Yes this is Nishit Sanghvi, good evening sir, congratulation on a good set of numbers. Sir, I need a further breakup of the other expenditure for the year that is 104 crores. So, can you just give us the details of how much comes from manufacturing expenses, how much from selling and distribution expenses, and how much from general expenses?

Sundeep Bambolkar Yes, just hold the line because you will need some details, so we will just give it to you.

Nishit Sanghvi Okay sir.

Sundeep Bambolkar Can we come back to you meanwhile we can take another question?

Nishit Sanghvi Okay sir sure, thank you.

Moderator Thank you. The next question is from the line of Sarabjit Nagra from Angle Securities, please go ahead.

Shushant Good afternoon this is Shushant here, congratulations on a good set of numbers.

- Sundeep Bambolkar** Yeah thank you.
- Shushant** Sir, just couple of questions. First sir you can elaborate your raw material consumption increase?
- Sundeep Bambolkar** Yeah I just said, during the quarter some of our raw material prices have gone up but that was only a transition period and now we are seeing already the downtrend in the RM cost. So, going forward since the USD is weakening, we will get that benefit because most of our raw material is imported and secondly the raw material manufacturers themselves are importing intermediates from China and elsewhere. So, naturally the cost of RM is going to reduce over the next two-three quarters.
- Shushant** In terms of your overall FY10 operating margins, so it is still in spite of a good sales growth for FY10 of around 13%, your operating margins are still the same at the same levels of FY09. Sir, can you elaborate in terms of how you see this going forward in terms of FY11?
- Sundeep Bambolkar** Yeah going forward for the current year we have budgeted EBITDA margins at around 18.5% to 18.75% and the PAT should be around 11.5% to 12%. We are seeing a sharp rise in the margins going ahead for the year 2010-11.
- Shushant** And sir what would be the reason for such a huge expansion on the OPM front?
- Sundeep Bambolkar** Well there are many reasons, number one is the RM cost, okay last year majority part of it the dollar was still holding strong so now that the dollar has started weakening that benefit we will get for the RM cost. Second is the power and fuel cost will show a substantial downtrends because of the State Electricity Board connection coming in by May 2010. I think these two reasons are primary.
- Shushant** Sir in terms of what would be the breakup of RM cost between the imported and the indigenous in terms of percentage wise?
- Ganesh Gokhale** Imported RM cost is hardly 10% of our total consumption.
- Sundeep Bambolkar** But all our manufacturers even if they are Indian in turn they import the intermediates from China, so that is the major part and that approximately accounts for about 55% to 60%.
- Shushant** Okay and sir in terms of anything on the milestone payments from Watson I mean that need to be started?
- Sundeep Bambolkar** We have already received the advance from Watson, which is 20% of the total deal.
- Shushant** And when it would be accounted in terms of the P&L impact?

Sundeep Bambolkar During the current quarter.

Shushant And sir in terms of your ANDA filings?

Sundeep Bambolkar The first ANDA slated to be filed by 15th of May or a bit earlier than that and then every other ANDA after that would be once in two to three months.

Shushant And sir in terms of your debtor days?

Sundeep Bambolkar Currently the debtor days stand at 79 and we have already promised that every quarter there will be a drop of five days, so the next that is June quarter 2010 you will see it has 74.

Shushant So, it includes the total debtors days or on the domestic front-?

Sundeep Bambolkar These are total debtors, domestic are still better. These are little high because of export.

Shushant Sir, just last question from my side in terms of the growth on the domestic and export front for FY11?

Sundeep Bambolkar Domestic growth should be around 20%, 25% and export growth around 35% to 40%.

Shushant What would be the Watson milestone in terms of quantum?

Sundeep Bambolkar No, we have not disclosed that so there is an agreement between the two companies that the amount will not be disclosed.

Shushant Okay thank you sir that is it from my side.

Sundeep Bambolkar Okay thanks.

Moderator Thank you Mr. Mehta would you like to ask any questions while we wait for questions from participants?

Purvi Sir, this is Purvi from Dalal & Broacha. Sir, I just had a few questions. One is regarding I think sir in one of the interviews you have said that FY11 revenue should be somewhere around 550 crores odd, I just wanted to have a clarification that how do we see this coming in because currently we are 400 crores which is an additional 150 crores in the current fiscal so if you could just elaborate more on this?

Sundeep Bambolkar Yes, as I said the international revenues will grow about 40% and the domestic revenues at around 25%, this is for the present business and for the domestic business we are launching two new divisions one is extension of semi-urban areas and the other is for consulting

physicians. So, these two divisions will bring in lot more extra revenues compare to what we are today. So, all that put together we should be very close to 550 or crossing 550.

- Purvi** In FY11 itself right?
- Sundeep Bambolkar** That is right, yes.
- Purvi** Okay sir and sir the other thing is on the tax rate front, so far we are still having MAT in FY11 this would be last year if I am not mistaken, so I just wanted to know what would be the tax rate from FY12 onwards like would we be full tax paying or how is it?
- Sundeep Bambolkar** No for 2010-11 and 2011-12 we will continue to pay MAT at 17% or 17.5% and we continue to receive MAT credit of equivalent amount. So, the tax payout would be very, very less and only in 2012-13 that would be the first year where we will pay full tax.
- Purvi** I mean FY12-13 would be full year?
- Sundeep Bambolkar** Yes.
- Purvi** Okay and sir on the EBITDA margin as well, I mean like 14.5% is what we are at currently and how much do we see the improvement in the next two to three quarters because if we see the quarterly trends excluding the other income it has been on a declining trend, so.
- Sundeep Bambolkar** Yes, since the revenues are going to go up sharply, we envisage that by the end of 2010-11 we shall be at the level of around 18.5% to 18.75% on the EBITDA front. Even now if you see the entire year 2009-10 that is 17.25%.
- Purvi** Yes that is including the other income, right sir?
- Sundeep Bambolkar** Right, which is not much.
- Ganesh Gokhale** Only it is other operating income which is nothing but the DEPB license which is part of our regular activity as such.
- Sundeep Bambolkar** So, we are just talking of an expansion of 150 bps.
- Purvi** Basis points, okay. If you could just give us debt and cash as on March 2010?
- Ganesh Gokhale** The cash will be in the tune of around 30 crores because out of that around 25 crores is in the fix deposits, the ECB loans, the unutilized amount has gone to the fix deposits, therefore the cash balance will be on a higher side around 30 crores.

- Sundeep Bambolkar** As far as the debt is concerned we are totally right now it is 68 crores out of that around 25 crores is working capital debt and the remaining is long-term debt.
- Purvi** And sir if you could give the CapEx figures also for FY11 and FY12?
- Sundeep Bambolkar** FY11 the CapEx is around 95 crores, we are setting up a new plant in Goa that should take about 48 crores, this will double our tableting capacity to about 8 billion per annum and the remaining CapEx is we have already put in a line with sterile line which I talked about so that has taken up around Rs.8 to Rs.8.5 crores. Baddi and Waluj put together would be another 25 crores for modernization and expansion so we have already got the plot next to our plant in Waluj where we are expanding. So, all these and some of the R&D put together would be around 95 crores.
- Purvi** Okay that is all from my side thank you sir.
- Moderator** Thank you. The next question is from the line of Shreyas Devalkar from IDFC, please go ahead.
- Shreyas Devalkar** Sir, the top line is concern that is 400 crores out of which how much is the domestic revenue for this year?
- Aditi Kare Panandikar** Can you repeat that?
- Shreyas Devalkar** Out of the total sales of 400 crores what is the domestic revenue for this year?
- Aditi Kare Panandikar** Yeah domestic is about 70%.
- Shreyas Devalkar** Okay when I look at the margin outlook for the next year, to me actually it looks slightly low in a sense that now your raw material cost is higher that had an impact in this year so your average raw material will cost you somewhere around 39% of revenue and you expect it to come down next year then you will have license fee coming in which is actually net of cost it would be much higher, so the margin expansion should be more than this or do you think only 100 to 150 is the max you can achieve?
- Sundeep Bambolkar** Alright, you will agree with me that we cannot paint the most optimistic scenario. We have to be conservative to some extent because there are too many uncertainties today around the globe.
- Aditi Kare Panandikar** Also the product mix is changing all the time and we sell more APIs possibly where the material component is much higher, it is safer to take views on that.
- Shreyas Devalkar** You have now exports which is most of the API?

- Aditi Kare Panandikar** No, active pharmaceuticals as a business has higher material cost component than formulation.
- Shreyas Devalkar** Okay, so on the net margin level also one should be assuming 150 basis point margin expansion per se?
- Sundeep Bambolkar** Yes.
- Shreyas Devalkar** Okay.
- Moderator** Thank you. The next question is a follow up from the line of Rahul Sharma from Karvy Stock Broking, please go ahead.
- Rahul Sharma** I just wanted to enquire our API exports have moved up considerably in the quarter from 87 lakhs to 310 lakhs now is this for one time or do you feel you will be able to achieve the run rate of 3 to 4 crores per quarter?
- Aditi Kare Panandikar** We should be able to keep the tempo up and you know basically over a period of time we have cut down the domestic kind of supplies which were lower margin for API and moved into more of exports, so we hope to be able to repeat this performance every quarter.
- Rahul Sharma** And these basically are to which markets and which are the products which are being sold?
- Aditi Kare Panandikar** Largely it is product called Allopurinol and it goes to Germany right now, which is bulk of the export, other than that we have some ophthalmic APIs also which have been exported.
- Rahul Sharma** But any change in the mix where any number of products would be added or these products only should be ramped up?
- Aditi Kare Panandikar** For this year sales would be largely out of these products. Although there are lots of products in the pipeline but they would probably we will be doing the validation batches for these products this year, but the commercial should start next year.
- Rahul Sharma** Okay thanks.
- Aditi Kare Panandikar** Yes.
- Moderator** Thank you, the next question is from the line of Ashish Thavkar from ICICI Direct, please go ahead.
- Ashish Thavkar** Sir congrats on good set of numbers. Sir, I would like to have the breakup between the domestic formulation and the API revenues, the same for the export side for this quarter as well as for the full financial year?

Sundeep Bambolkar Yeah domestic business is around 70%.

Ashish Thavkar Is this the formulation one?

Sundeep Bambolkar No.

Aditi Kare Panandikar Domestic formulation about 68%, API is 2% and the international business is the remaining 29.8%.

Ashish Thavkar And for the full year?

Sundeep Bambolkar That is for the full year.

Ashish Thavkar This is for the full year.

Sundeep Bambolkar The proportion remains the same for the quarter and the year.

Ashish Thavkar Would you like tell us at what rate the working capital loans sourced because I believe the interest cost has gone down substantially.

Ganesh Gokhale For the normal working capital borrowings we are using the route of packing credit in foreign currency where we get a very competitive rate of LIBOR plus 100 bps so that is why the interest cost is on a very low site. On the rupee borrowing it comes to around 10% to 10.5%. Maximum borrowing is happening through the foreign currency loan.

Ashish Thavkar And then as far as the new product launches go, how many have we launched in the financial year?

Aditi Kare Panandikar For this quarter we launched three products. If I am not mistaken we would have launched about 20 products in this year.

Ashish Thavkar One more clarification the other income was substantially higher at 1.6 crores if we include the other income plus the other operating income, so any specific reason for the same?

Ganesh Gokhale This other operating income is mainly on account of DEPB license export benefits as such, the moment export goes up, my other operating income goes up. Partially it is because of interest income from the fix deposits, which we have kept it during our course of business.

Ashish Thavkar And so far as the tax rate are concerned on quarter-on-quarter basis if we calculate tax as a percentage of PBT it comes to roughly around 3% for the current quarter?

- Ganesh Gokhale** Yeah actually there is no income tax impact as far as the profit and loss account is concerned because the impact is only deferred taxes because whatever tax liability is there, MAT liability for which credit is available, so which is set off.
- Ashish Thavkar** So, in FY10 you would be having the full impact of tax at that point in time how is the MAT credit entitlement....
- Ganesh Gokhale** Well in the financial year 2012-13 whole MAT credit will be available for credit, so there will not be any cash flow that year but there will be charge to P&L which can be roughly estimated at say 20% to 25%.
- Ashish Thavkar** Okay thanks a lot. I will get back in queue in case if I have some questions.
- Moderator** Thank you the next question is a follow up from the line of Sarabjit Nagra from Angle Securities, please go ahead.
- Sarabjit Nagra** On the CapEx side you guided around at 95 crores and I suppose there is an increase from what you have been guiding previously of around 60 crores, so what is EBITDA in terms of PAT would be incurred.
- Sundeep Bambolkar** Sorry.
- Sarabjit Nagra** Sir in terms of your CapEx you have guided now at around 95 crores for FY11, so earlier you were guiding at around 50 to 60 crores, so what is the difference in terms of, where would be the additional CapEx pending apart from your....?
- Sundeep Bambolkar** Yeah what happened was there was a good opportunity, our next door plot of land at Waluj was available so we quickly took it over and there we are expanding the facilities that itself has gone up by 20 crores so that is the difference we are talking about.
- Sarabjit Nagra** And this would be for the domestic market.
- Sundeep Bambolkar** Emerging markets.
- Sarabjit Nagra** And in terms of the funding of this CapEx would be through debt or internal accruals?
- Ganesh Gokhale** 85% of this is coming by way of debt, we have already tied up with DBS Bank at a very competitive rate of 5% for five years, which is fixed.
- Sarabjit Nagra** Can you repeat your present cash and debt levels?
- Ganesh Gokhale** Cash is around 30 crores which mainly comprises of fixed deposits because whatever ECB we have taken till the time it is utilized, we have to keep it in the fixed deposits, so that is why my

cash level is on a very high side. On the debt side the debt is around 65-66 crores out of that 20 crores is from the working capital debt and 45 crores is long term debt.

- Sarabjit Nagra** Okay thank you sir.
- Moderator** Thank you. The next question is a follow up from the line of Rahul Sharma from Karvy Stock Broking, please go ahead.
- Rahul Sharma** Sir, you have basically said that we will be doing 40% growth in exports going ahead. Will this be primarily driven by our UK business?
- Sundeep Bambolkar** No UK, Germany, and South Africa-
- Aditi Kare Panandikar** The contract manufacturing business itself.
- Sundeep Bambolkar** Will be driven by all these five markets.
- Aditi Kare Panandikar** And Asia will be small part of it.
- Rahul Sharma** What type of approvals you are expecting in the UK market going ahead?
- Sundeep Bambolkar** You mean dossier approval?
- Rahul Sharma** Yes.
- Sundeep Bambolkar** No at this stage, they all are under filing.
- Aditi Kare Panandikar** And you know it takes about 18 months, so I do not expect any approvals to come in hand this year.
- Rahul Sharma** Okay thanks.
- Moderator** Thank you. The next question is a follow up from the line of Ashish Thavkar from ICICI Direct, please go ahead.
- Ashish Thavkar** Yeah thanks for taking my question. Could you elaborate our domestic market strategy going forward?
- Aditi Kare Panandikar** Yeah as I said and Sundeep mentioned earlier we have done some kind of a restructuring of our marketing division and two new divisions are being launched this year. The first division we launched is EXTENT which is an extension of the extra urban coverage, not exactly a rural marketing division but greater coverage of extra urban population. The second division we are launching is Chrona, a division for chronic therapy, covering consulting physicians primarily.

Across both these divisions we should be adding few staff of about 350 people and while EXTENT is already launched as on 1st April, Crona will be launched on 1st of July. Other than that frankly all our products have done very well as you know our top therapeutic segments are anti-infected, respiratory, GI, and dental and if you look at the product portfolio about 7 brands are in the range of 10 to 20 crores and these group of 7 brands has grown as over 25% and that is being the key to the growth in the domestic business.

Ashish Thavkar

Could you just give the numbers in absolute for the top three to four products as such?

Aditi Kare Panandikar

Yeah actually the MDA that must have been circulated to you, we have given a therapeutic category wise but if you want brand wise Febrex Plus is 31 crore brand which is grown at about 18%, Cyclopam is 28 crores growing at 30%, Sensodent is the desensitizing toothpaste it is about 20 crores again growing at 12%. Then we have the anti-infective Vepan, which is 15 crores brand, we have ATM which is about 12 crores. These are collectively growing at around 12%. Sensoform has grown at either 11 crores brand growing at 10% and Oxipod one of the new anti-infective which is launched only two years ago. We are happy to note that it is already about 11 crore brand and showing very good growth of about 60%.

Ashish Thavkar

Okay, could you spell Oxipod?

Aditi Kare Panandikar

Oxipod, O-X-I-P-O-D must have noticed this quarter we have launched a brand extension called Oxipod CV, which is plus Clavulanic Acid.

Ashish Thavkar

Okay thanks ma'am and all the best for the future.

Aditi Kare Panandikar

Yes.

Moderator

Thank you Mr. Thavkar. I would now like to hand the floor back to Mr. Raj Mehta for closing comments, please go ahead sir.

Raj Mehta

Thank you Melissa. On behalf of Dalal & Broacha Stock Broking, we would like to thank the top management of Indoco Remedies for spending their time and discussing their company's fully year FY10 results and that concludes the conference call, thank you.

Sundeep Bambolkar

Thank you Raj and thanks to all the participants, thanks.

Moderator

Thank you gentlemen of the management, thank you Mr. Mehta. Ladies and gentlemen on behalf of Dalal & Broacha Stock Broking Limited that concludes this conference call. Thank you for joining us and you may not disconnect your lines.