



“Indoco Remedies Limited Q3FY10 Results
Conference Call”

January 27, 2010



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Moderator Ladies and gentlemen good afternoon and welcome to the Indoco Remedies Limited Q3FY10 Post Results Conference Call hosted by Dalal & Broacha Stock Broking Pvt. Ltd. As a reminder for the duration of this conference all participants' 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 touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Raj Mehta of Dalal Broacha. Thank you. And over to you, sir.

Raj Mehta Thank you, Melissa. Good evening, everybody. This is Raj Mehta from Dalal & Broacha Stock Broking. I would like to extend a warm welcome to all of you for Indoco Remedies Third Quarter FY10 Results 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 Thank you, Raj. Good evening, ladies and gentlemen and welcome to our call for announcement of third quarter results for FY10. After the effect of the tightening of the credit control measures the revenues have risen consistently during the July/September quarter as well as the present quarter.

During the present quarter the Domestic Formulation sales are up by 37.26% to Rs. 66.63 Crores over the corresponding quarter last year. The export sales have grown marginally by 2.12% to Rs. 27.34 Crores over the corresponding quarter previous year. The total growth in the top line is 22.81% over the same quarter previous year. During the current quarter the profit after tax stands at Rs. 7.73 Crores as compared to Rs. 63 Lakhs during the same quarter previous year. The increase in the profit is mainly due to increase in net sales by Rs. 17.78 Crores.

After implementation of the strict credit control measures the working capital borrowing which has reduced the interest cost by Rs. 1.14 Crores compared to the same quarter previous year. The savings and interest cost for nine months is Rs. 2.37 Crores over the corresponding nine months previous year. The profit for the quarter would have been better but the employee cost for the quarter had gone up by Rs. 2.29 Crores due to normal annual increment.

The power and fuel cost has also gone up by Rs. 1.02 Crores over the same period previous year. During the quarter the electricity cost has gone up due to increase in fuel prices globally. However, the company is actively pursuing to switch over in the power service provider from the current private company to the Goa Electricity Board. This will reduce the cost of power at

its Goa plant by approximately 25% thus reducing the overall power cost considerably and thereby adding to the profitability.

During the quarter foreign exchange loss was Rs. 1.15 Crores. This was mainly due to rupee appreciation against all major currencies as on 31st December, 2009. However, the company's mark-to-market position as on 31st December, 2009, stands at Rs. 62.36 Lakhs net gain. During the next quarter that is the Jan to March quarter the domestic sales will continue the growth trend as compared to the same quarter last year. On the international business front the company's order book stands full for the next two to three quarters.

However, the flat growth seen in the present quarter in international business is mainly due to capacity constraint which we have quickly addressed and brought out a restructuring. Firstly, we are going to manufacture and dispatch more of value-added products compared to the products taken up in the previous quarter. Secondly, the shifts in Baddi have gone up. We will be working all three shifts in the Baddi plant which will also enhance our capacity considerably. In the longer-term to overcome this problem we have commenced construction of a new tablet manufacturing plant at Verna, Goa with an annual capacity of over 3 billion tablets per annum. This plant will be commissioned in December 2010 and we expect to receive the UK-MHRA approval by March 2011. We expect that the dossiers out-licensed by the company during the last two years will be registered in various countries in the European Union during this year. This would provide additional revenues since these dossier agreements are backed by a five-year supply agreement.

The CPhI Spain which was during quarter October/December was very encouraging and there has been a lot of positive response on out-licensing of dossiers and other activities. Therefore, the future outlook for international business is also very bright. With increased turnover the company's profitability is expected to improve considerably. The management discussion and analysis has already been circulated to all of you during the day. I now request all the participants to raise their questions and queries and we will be very happy to respond to them. Thank you very much.

Moderator

Thank you, sir. 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 touchtone 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. The first question is from the line of KC Suri from Span Capital. Please go ahead.

KC Suri

Good afternoon, Mr. Bambolkar and congratulations for a good set of numbers.

Sundeep Bambolkar

Thank you, KC. How are you doing?

KC Suri

Good. How are you doing?

- Sundeep Bambolkar** Good, good. Thanks.
- KC Suri** Just two quick questions. One is, what is the proposed cost for this 3 billion tablet manufacturing facility? And the second one is what is the reason for the sharp increase in current tax pay during the quarter vis-à-vis last quarter?
- Sundeep Bambolkar** Okay. When you talk of last quarter is it sequential or year-on-year?
- KC Suri** I meant year-on-year similar to the quarter last year.
- Sundeep Bambolkar** To address your first question, the total outlay investment would be around 45 Crores. This will be funded by an external commercial borrowing from Standard Chartered Bank of USD 6 million and the balance would be from internal accruals. This ECB has been signed-off at the rate of around 6.3% fixed interest cost. Coming to your second question, the tax paid has gone up because last year our profit was only 63 Lakhs. Net profit is 7.73 Crores. As you will notice that there is a large jump in profit thus leading to a considerable jump in the tax also.
- KC Suri** What I am arriving at is as a percentage of the PBT the tax rate has gone up.
- Ganesh Gokhale** Tax rate remains same. The profit has gone up. Profit before tax during last quarter was 1.45 Crore as against the profit of 7.80 Crores. So percentage remains the same whereas the tax liability goes up.
- KC Suri** What I am saying is like it is 133 upon 780 which is about 17% versus 12 upon 145...?
- Ganesh Gokhale** That is because the MAT rate has gone up from 10% to 15%.
- KC Suri** And just if I could squeeze another one, what is the current position of debt and cash on the books?
- Sundeep Bambolkar** Current working capital debt is 20 Crores and as far as the ECBs are concerned we had taken an ECB of USD3 million for modernization of Patalganga API plant. The second ECB of USD5 million was for our research and development program which to the extent of 95% is not yet utilized. And the third ECB is the latest one which is USD6 million, which is right now just borrowed. So that also is under utilized. So 20 Crores is working capital debt. And long-term we have only utilized one ECB to the tune of 15 Crores. So total debt is just short of 40 Crores.
- KC Suri** Right, sir. Thank you.
- Moderator** Thank you Mr. Suri. The next question is from the line of Bhavin Shah from Dolat Capital. Please go ahead.

- Bhavin Shah** Good afternoon and congrats on the results. Sir, if you could share with us any details on the price volume indicators for the domestic business?
- Aditi Kare Panandikar** No, all this growth that you have seen this quarter is out of volume growth only.
- Bhavin Shah** They are volume growth?
- Aditi Kare Panandikar** Yeah.
- Bhavin Shah** Okay, and any strategy that you would like to discuss as to on the domestic formulation business that would keep this growth sustained for the next few quarters?
- Aditi Kare Panandikar** I think you are aware of the kind of restructuring we had in our Credit policy. On account of which you might have noticed we have seen growth across all therapeutic group. So this is exactly what we were looking forward to. And all the divisions have done very well. The focus has been always on categories such as anti-infective for us, respiratory, which are important for Indoco. And there are some strategies which have been worked up now so that we have better emphasis on rural market for example. Many things are underway. You will see things concluding from that and we will see the outcomes also which will be very positive.
- Bhavin Shah** Okay. Any ramp-up in MRs per se?
- Aditi Kare Panandikar** At this stage frankly speaking we are looking at strategic rearrangement. Some of our divisions have not done very well in many geographies so there will be ramp-up in the good headquarters, but which might get offtake when some of the headquarters which will get closed. So obviously you will not see any ramp-up rising.
- Bhavin Shah** Okay. But if we look at this quarter as a more or less as a one-off blip should we believe that this it is here to stay for the next one year also?
- Aditi Kare Panandikar** You will see a better performance. Actually, compare to the last quarter this time was very poor.
- Bhavin Shah** People are destocking and all that...?
- Aditi Kare Panandikar** So the incremental growth numbers may look abnormally higher in this stage like 37%. But as regards rupee wise, the volume wise, contribution coming from domestic it will be of this kind itself.
- Bhavin Shah** Okay, great. And significant contribution from export should be post-accreditation of UK-MHRA?

- Aditi Kare Panandikar** We already have the accreditation as Sundeep explain before let me reiterate. We had a sudden on slot of lot of orders coming in, thanks to the AOK Germany tender. So when the volumes come at one-time you must be aware that in order to manufacture for the reg market one has to do what is known as site variations and approve new sites or increase the sites and stuff like that. It entails a certain amount of time. So we have used this quarter to do that. So the short-term measures are going to allow us to increase capacity substantially in the immediate range also. We will see many products being shifted to Baddi, we will see a third shift happening at Baddi. We are seeing bigger batch size happening at Goa itself and of course in the long run the new plant. So with that we are confident we will be able to meet up in the order position. From the demand side there is no concern as regard to exports.
- Bhavin Shah** Okay, great. I join the queue. Thanks a lot.
- Moderator** Thank you, Mr. Shah. The next question is from the line of Krishna Kiran from Capital Markets. Please go ahead.
- Krishna Kiran** Hey, sir, congrats for good set of numbers. Sir, I have missed some something on domestic formulation. Sir, you told that growth will be 37% or something else?
- Aditi Kare Panandikar** No, I said we will be maintaining the kind of numbers as in volume and value every quarter. The growth of 37% largely has come on account of very poor performance of domestic same quarter last year.
- Krishna Kiran** That means it will be in line with Q4? That is what you told, that Q4 will be domestic..
- Aditi Kare Panandikar** We will see similar value coming in from domestic if not better.
- Krishna Kiran** Okay. Ma'am can you tell me hedging position as on 31st December?
- Sundeep Bambolkar** The average cost of hedging, dollar has been hedged at 49. Euro at 70 almost.
- Krishna Kiran** Numbers, sir, how much you hedged?
- Sundeep Bambolkar** Dollar is 4.2 million and Euro is 2.8 million.
- Krishna Kiran** Okay. Sir, like last conference call you were telling us about two deals you were going to sign in the third quarter. Have you signed the deal, one with European company and one more with
- Sundeep Bambolkar** The U.S. deal will be signed within a week from today. And the other deal that is out-licensing dossiers to emerging markets which include Brazil, Mexico, and Australia. That deal will be signed during February.

Krishna Kiran Okay. Is it that the two are yet to be signed?

Sundeep Bambolkar Yeah, yeah. These two are very close to being signed.

Krishna Kiran Okay, thanks a lot. All the best.

Moderator Thank you, Mr. Kiran. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma Sir, in a domestic formulation space will we be able to breach the 70 Crores mark in the revenue side?

Aditi Kare Panandikar 70 Crores for the next quarter Rahul?

Rahul Sharma Yes.

Aditi Kare Panandikar Certainly. Very much.

Rahul Sharma Okay. And can you please give me the loan figure for FY10 and FY11?

Sundeep Bambolkar Debt figure for FY10, working capital debt you can take it as 20 Crores. It will be significantly lesser but we will maintain it at 20 just for discussion. The ECB debt would be around 45 Crores.

Rahul Sharma So the total debt would be 65 Crores for FY10?

Sundeep Bambolkar That is the worst case scenario, but I anticipate it to be 55.

Ganesh Gokhale And 2011 also similar figures will be there because something will get repaid and Balance ECB will be drawn during this period. It will remain at 65, the maximum it will go to 70 Crores.

Rahul Sharma And the average interest rates would be?

Ganesh Gokhale As of today the average cost of borrowing is much lesser, it is 6%.

Rahul Sharma Okay. And sir, what about the CAPEX for FY10 and FY11?

Sundeep Bambolkar For FY10 hardly two months remaining now, so we have started construction of that plant, so about 45 Crores will be invested by December 2010. We are also importing an ophthalmic line from Canada to prepare for our U.S. and European initiative.



*Indoco Remedies Limited
January 27, 2010*

Rahul Sharma So if I could quote the figure for FY10 for CAPEX how much would that be, for FY10 and FY11?

Sundeep Bambolkar FY10 would be around 30-35 Crores. FY11 would be around 50 Crores.

Rahul Sharma Okay. Sir, how much of the percentage of revenue that we hedged?

Sundeep Bambolkar Dollars as I guess we have hedged 100%. Euro also at 100%. Our hedging position is right now very advantageous.

Rahul Sharma Okay, sir, that is all from my side, sir. Thank you.

Moderator Thank you Mr. Sharma. The next question is from the line of Alok Dalal from MS Global. Please go ahead.

Alok Dalal Yeah, hi, sir. With respect to emerging markets you mentioned that de-growth was with respect to, you being cautious on the payment position from distributors in few of the countries. Which are those countries that you were talking about?

Sundeep Bambolkar Mainly CIS countries and some countries in Africa.

Alok Dalal Okay. And when do you think you will see growth in semi-reg markets coming in which quarter onwards do you see that?

Sundeep Bambolkar Next quarter onwards. That is the January to March quarter.

Alok Dalal That is Q4FY10.

Sundeep Bambolkar Q4FY10. That is right.

Alok Dalal Okay. And can you elaborate a little bit on new deals in the ophthalmic space that you are talking about. What could be the potential there?

Sundeep Bambolkar I think just one week remaining and the news will be out by then. So just hold your breath.

Alok Dalal Okay. How many ANDAs in ophthalmic have you filed till date?

Sundeep Bambolkar That is what we are talking about, no. This is a basket about....

Aditi Kare Panandikar Regarding what filing has been done to-date as you know three old mature ophthalmics that we have already filed and one of the newer groups' has been filed. The strategy here A) Indoco files in its own name, is this kind of a deal which we are talking about. So, where the numbers will be substantially larger.



*Indoco Remedies Limited
January 27, 2010*

Alok Dalal Okay. And how many approvals do we have?

Aditi Kare Panandikar We have on the API side we have six Drug Master Files already, five certificate of suitability. On the ANDA side as I said one ophthalmic ANDA and two ophthalmic approvals.

Sundeep Bambolkar Two we are shipping already. And one would be approved any moment on the approval side.

Alok Dalal Okay, thank you so much.

Moderator Thank you Mr. Dalal. The next question is from the line of Ashish Thavkar from ICICI Securities. Please go ahead.

Ashish Thavkar Congrats on a good set of numbers. I just wanted to know what is the order book position as of now?

Sundeep Bambolkar For international business?

Ashish Thavkar Yeah.

Sundeep Bambolkar As we have mentioned in the MDA the order book for international business is full for the next two to three quarters.

Ashish Thavkar And how do we see the domestic growth planning out over a period of next six or 12 months?

Aditi Kare Panandikar Yeah, we will definitely outperform the industry. And in fact I am very positive that we maintain our numbers. As we have always said that despite a bad first two quarters this year since the revival we will still end up with about 10% growth in domestic for 2010 that is expected. And for the next year we are looking at about 15%.

Ashish Thavkar Okay, so, 10% is for FY10?

Aditi Kare Panandikar Yeah.

Ashish Thavkar Okay. Ma'am in terms of the order book can I have the quantity like in number terms?

Aditi Kare Panandikar For domestic?

Ashish Thavkar For the export business.

Aditi Kare Panandikar For the export?

Sundeep Bambolkar For export you are talking about?

Ashish Thavkar Yeah.

Sundeep Bambolkar Numbers, I do not understand. I mean, do u want to value?

Ashish Thavkar Yeah, I want the value, yeah.

Sundeep Bambolkar Value is very difficult to give because we are exporting about 25 products to EU and UK, New Zealand. So I mean it depends on the product mix.

Ashish Thavkar Okay. And like going ahead what tax rate can we assume to be on the safer side?

Ganesh Gokhale Tax rate in this year is still on the MAT. Only FBT was there, now that has also gone. Deferred tax, which is just a book entry, which is coming as a charge to the profit and loss account. On the cash front we have to pay MAT which will continue at 15% even 2010-2011, and 2011-2012 also, and from 2012 onwards we will have to go on the normal tax liability.

Ashish Thavkar Okay, that would be in excess of 20%?

Ganesh Gokhale Yeah.

Ashish Thavkar Okay. Thanks for taking my question.

Moderator Thank you Mr. Thavkar. The next question is from the line of Manish Jain from Axis Holding. Please go ahead.

Manish Jain Yeah, hi. I just want to know on the credit control measures which you had initiated. If you could just give the status in terms of current debtor days, inventory, and what is it that it is likely to be, in the next three months, six months, and 12 months?

Sundeep Bambolkar Yeah, the debtor days right now is around 85 days compared to when we started it was 109 days.

Manish Jain Excellent.

Sundeep Bambolkar And going forward till March we hope to bring it down below 80 days. Then in June it will touch 70 days. So our endeavor is to improve it five days every quarter.

Manish Jain And how much cash has this exercise released overall, roughly?

Sundeep Bambolkar Release of cash. See, you can see the working capital borrowings was 61 Crores same period last year and today they are 21 Crores. So straightaway 40 Crores cash has been released.

Manish Jain Fair enough.

- Sundeep Bambolkar** In 12 months.
- Manish Jain** And second question relates to your statement on running at full capacities. Do you have option both on API and formulation side where a significant amount of capacities are lying idle for a lot of other guys of outsourcing on a long-term basis?
- Sundeep Bambolkar** Yeah, we have won two large tenders in the emerging market. And all those supplies will go from outsourced capacities.
- Manish Jain** Fair enough.
- Sundeep Bambolkar** And as far as the reg is concerned we are also exploring another possibility of some capacities lying idle which would come to us at a very good bargain.
- Manish Jain** Excellent. Thanks.
- Sundeep Bambolkar** Thank you.
- Moderator** Thank you Mr. Jain. Mr. Mehta, would you like to add any more questions while we wait for questions from participants?
- Raj Mehta** Yeah, sure. My analyst Ms. Purvi Shah has some queries . So I think she will ask some queries from her side and then I will give the concluding remarks.
- Sundeep Bambolkar** Yeah, okay, fine.
- Purvi Shah** Sir, basically I had a question regarding the South Africa contract. You have stated that the contract would be giving us revenue from \$3 million. So when does this commence, I mean, when do we start supplying and when do the revenues flow in?
- Sundeep Bambolkar** Yeah, this is a tender of Metformin tablet which we have included in today's MDA. You might have read it there.
- Purvi Shah** Yes.
- Sundeep Bambolkar** Supplies will start from first week of March or end of February. But latest is first week of March. These supplies are for two years.
- Purvi shah** And other one is on the other contract that we have in Kenya that you said that will be generating a revenue of 18 Crores over a period of two years. Now, if you could just give us some details on the products that I mean how many products are there, which products are there if possible?

Sundeep Bambolkar There are about three products. There are one tablet and two injectibles. And yeah the revenue would be 18 Crores over a period of two years.

Purvi Shah Okay. And sir, the other is that if you could just give the top five products sales in this quarter?

Sundeep Bambolkar Domestic you mean?

Purvi Shah Yeah, sir.

Sundeep Bambolkar Top five products?

Purvi Shah Yeah, sir, like, Cyclopam and other.

Sundeep Bambolkar Yeah, Febrex Plus as a brand that is tablet, syrup both together, then Cyclopam again as a brand, then Sensodent again as a brand. Sensodent and Sensodent-K both put together. And Vepan which is a cefadroxil. These put together are the top brands.

Purvi Shah Okay. And sir, how much of it contributed till nine months?

Sundeep Bambolkar Total revenues are 23 Crores approximately.

Purvi Shah 23 Crores for?

Sundeep Bambolkar For this total put together.

Purvi Shah For the quarter?

Sundeep Bambolkar For the quarter.

Purvi Shah Okay.

Sundeep Bambolkar If you compare last year same quarter it was 15.30 Crores. That was a very good growth.

Aditi Kare Panandikar 50% growth.

Purvi Shah Okay. And sir, do we see these products growing month-on-month as well?

Aditi Kare Panandikar Yeah, certainly.

Purvi Shah Okay. And sir is it possible to month-on-month data for this product as well?

Aditi Kare Panandikar We can look up the ORG data for you and share that with you on a month-to-month basis.

Purvi Shah Yeah that should be fine ma'am.



*Indoco Remedies Limited
January 27, 2010*

Sundeep Bambolkar We will send it across to you.

Purvi Shah Thank you so much.

Sundeep Bambolkar Thank you.

Raj Mehta Thank you, Melissa. On behalf of Dalal & Broacha Stock Broking we would like to sincerely thank the top management of Indoco Remedies for sparing their time and discussing the company's third quarter FY10 results. And that concludes the conference call. Thank you.

Sundeep Bambolkar Thank you, Raj from the Indoco management and my sincere thanks to all the participants for logging in. And any queries you all may have in future we are happy to report. Thanks a lot.

Moderator Thank you. Ladies and gentlemen on behalf of Dalal & Broacha that concludes this conference call. Thank you for joining us and you may now disconnect your lines.