



## “Indoco Remedies Post Results Conference Call”

July 28, 2011



Moderators:

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INDOCO REMEDIES LIMITED**  
**MR. SUNDEEP BAMBOLKAR – WHOLE-TIME DIRECTOR,  
FINANCE & OPERATIONS, INDOCO REMEDIES LIMITED**  
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**Moderator:** Good evening Ladies and gentleman. Good day and welcome to the Indoco Remedies Q1 FY'12 post results conference call hosted by Dalal & Broacha stock broking. As a reminder, for the duration of this conference, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call please signal an operator by pressing "\*" and then "0" on your touchstone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Ms. Meeta Shetty from Dalal & Brocha. Thank you and over to you, madam.

**Meeta Shetty:** I would like to extend a warm welcome to all of you for Indoco Remedies, Q1 FY'12 post results conference call. We have with us Ms. Aditi Kare Panandikar, full-time Director of the company, Mr. Sundeep V. Bambolkar, full-time Director Finance and Operations, and Mr. Ganesh Gokhale, Vice President, Finance and Accounts. I would now like to hand over the proceeds to Ms. Aditi Kare for introductory remarks and business outlook after which we can have the Q&A session.

**Aditi Kare Panandikar:** I will ask Sundeep to give you an introduction on how the quarter has been and thereafter it will be open for Q&A.

**Sundeep V. Bambolkar:** To all the participants a very warm welcome and good evening Today, I would like to present the financial and business performance for the first quarter of FY'2011-2012. During the first quarter of the current fiscal the revenues have grown by 13% at Rs. 125.6 Crores as compared to Rs. 111.4 Crores. The domestic business contributed 65.2% and the international business contributed 34.8% of the total revenues. The international business recorded a growth of 21.8% and the domestic business has recorded a growth of 8.4%.

Now, I would like to take you through the highlight of the business performance of both the domestic and the international divisions of the company. First, the domestic business, the revenues from domestic business including the API business are at Rs. 81.9 Crores as against Rs. 75.5 Crores during the same quarter last year. The sales of brand falling under various therapeutic segments like Stomatological, Pain/Analgesics, and Lifestyle have been very encouraging in this quarter. The domestic business of APIs achieved a growth of 26.7% at Rs. 3.8 Crores as against Rs. 2.9 Crores over the same quarter last year. Coming to the international business, the revenues from international business during the quarter are at Rs. 43.6 Crores against Rs. 35.8 Crores. The regulated market grew by 31.7% at Rs. 32.9 Crores as against Rs. 25 Crores during the same quarter last year. The sales of emerging markets are at Rs. 7.9 Crores as against Rs. 7.8 Crores, i.e., the trend during the quarter has been flattish without much growth. Export formulation business has been performing

consistently over the last three quarters registering an average growth of more than 25%. The revenues of API export are at Rs. 2.8 Crores compared to Rs. 3 Crores during the same quarter last year.

I would now like to give you brief insight on the regulated and the emerging markets. First the regulated market, our manufacturing plants are gearing up for the supplies of metformin for the AOK-German tender. Dexcel, a company head quartered in Israel have won this tender and they have signed the supply agreement with Indoco. Indoco has also signed an agreement with Ingenus pharma, USA for an anti-gout product. Under this agreement, Indoco will develop and file the ANDA and Ingenus will market the product through their end customers in US. Indoco will receive milestone payments at various stages of development and filing during the filing process. The company also initiated the filing of the first ophthalmic dossier on its own with a French Regulatory Authority. This will trigger the inspection of our sterile ophthalmic facility thereby paving the way for manufacturing and sales of ophthalmic dosage forms throughout the European Union. The ASPEN relationship is getting stronger with the signing of an agreement with ASPEN, Australia for manufacture of eight products followed by one more deal for oral dosage form i.e., metformin for Brazil. The commercial orders from ASPEN, Australia have started flowing in and this will result in a substantial revenue flow in the years to come.

Now the emerging market, the emerging market division has achieved five new product registrations during the quarter and the commercialization of these products will begin soon across the markets in Africa and Asia. The commercial supplies to Ghana have been initiated in this quarter giving a boost to the African business. The first order from Tata, Zambia, a new distributor was executed successfully during the quarter. Now coming to some important information on the financial performance front. The material consumption to net sales is at 43% as compared to 43.5% during same quarter last year. The staff cost to net sales is 14.4 % as compared to 13.3 %. Research & Development expenses are at Rs. 2.3 Crores as compared to Rs. 1.9 Crores during the same quarter last year. Other expenses are at Rs. 34.1 Crores as against Rs. 28.5 Crores. The profitability margins have been under pressure during the quarter mainly due to increase in the expenses such as staff cost, marketing expenses, and power & fuel. The margins of few products in the anti-infective therapy segment faced pricing pressure from competitors and this has also affected the revenues.

The growth outlook for the coming quarter looks to be quite promising. The company has strategized measures so as to boost the prescriptions of some of the key brands resulting in increased revenues. During the quarter, the staff cost increased due to additional sales force recruitments across the marketing division in the domestic market. Major additions have

taken place in Indoco and Spade marketing division so as to cover a larger geography and boost up sales. The marketing expenses on sales promotion have also increased to Rs.5.2 Crores from Rs.3.6 Crores. The additional expenses are incurred in the quarter so as to give a boost to the sales and marketing activities of the company, which will help boost the revenues in the coming quarter during the year. The expenses on power & fuel also increased to Rs. 6.39 Crores as against Rs. 4.05 Crores. There is however good news on this front as we have been discussing for the past four to five quarters the shifting of power source from Reliance to Goa Electricity Board has finally been achieved starting in the month of July 2011. Power connections to our Goa plants have been switched over to the Goa Electricity Board with effect from 1st of July 2011. The connection pertaining to Plant III from Goa Electricity Board will materialize from the 1st August 2011. This is the new plant, which has just been commissioned from June 2011. Due to this development, Indoco will see a substantial drop in the power and fuel expenditure for all the three plants located in Goa in the quarter to come and in the years to come. Interest cost for the quarter is at Rs. 0.9 Crores as compared to Rs. 0.7 Crores during the same quarter last year. This is mainly due to the term loan interest pertaining to the new plant in Goa being debited to the P&L account post commercialization of Goa plant III. Interestingly, the working capital interest has reduced due to borrowings in foreign currency and better working capital management. The earnings before interest, depreciation, tax, and amortization for the quarter works out to 16.6% compared to 18.9% during the same quarter previous year. The profit before tax recorded for the quarter is Rs.13.8 Crores as against Rs.15.2 Crores. The profit after tax recorded for the quarter is at Rs.11.7 Crores against Rs.14.8 Crores. It is important to note the following. The company has reworked the estimated tax liability for the future years considering the lower tax benefit at Baddi unit. Since the first five-year 100% tax holiday has ended on the 31<sup>st</sup> March 2011 on a prudent basis the company has decided to claim lesser MAT credit though the company is eligible for full MAT credit. During the quarter the deferred tax provision is on a higher side due to the capitalization of Goa Plant III. Due to the lesser MAT credit availed and higher deferred tax provisions, the profit after tax is lower by Rs.1.75 Crores. Company's commercial paper program and working capital facilities are rates as A1+ and long-term borrowings are rates as LA+ by ICRA. During the quarter, the company successfully completed bioequivalence studies on an anti-asthmatic product as well as an anti-gout product. Goa Plant I and II were audited for the renewal of WHO GMP certification and they have gone through successfully. I am also very happy to report that we have received the conclusion i.e., the final letter from US FDA. We were audited by the US FDA in the month of February as a part of the renewal proceedings and we have received the final go ahead for this. Progress on the new tablet manufacturing facility at Goa III commercial production has been started in the month of June 2011 for catering to the domestic as well as semi regulated markets. Aspen Pharmacare Limited, a

global pharma company based in South Africa carried out a preliminary audit of all the three plants at Goa and the said audit has also been completed successfully. The API division initiated a project proposal for a pilot plant facility with the Department of Scientific and Industrial Research (DSIR), Ministry of Science & Technology, Government of India. After several technical interactions and presentations DSIR has sanctioned partial funding of Rs.11 Crores under a prestigious scheme named the “Technology Development and Demonstration Program” (TDTP). The company plans to develop commercially viable processes pertaining to certain niche molecules going off patent in the next five to seven years. This scheme will also support hi-tech and duty-free analytical instrumentation. The project is likely to produce commercial APIs by March 2016. We are also in the process of expanding our Patalganga API side. The acquisition of the next-door plot is almost coming to a conclusion and that should happen by the first week of September 2011. We shall be investing Rs.60 Crores for this new project, which will more than double our API capacity as Patalganga.

I think this is all that I have to report on the quarter. I welcome questions from the participants and we will be very happy to provide more information on the same.

**Moderator:** Thank you very much. We will now begin with the question and answer session. Our first question is from the line of Ms. Mukta Desai from Centrum Wealth.

**Mukta Desai:** Two question for you; one was about the tax rate going forward...

**Ganesh Gokhale:** Tax rate going forward will be 20% because we have decided to claim lesser MAT credit but due to capitalization at Goa deferred tax will be on a higher side, so that MAT credit will get compensated with the deferred tax, so ultimately we will end up in 20% tax rate going forward i.e., as a normally the MAT rate.

**Mukta Desai:** What is the CapEx plans for this year?

**Sundeep V. Bambolkar:** The CapEx plans this year will be around 90 Crores. Out of this 90 Crores about 60 Crores will be invested at Patalganga but this investment will happen over a period of about 14 to 16 months. The balance around 30 Crores will be invested in some new machines at other formulation machinery at Baddi and Goa.

**Meeta Shetty:** I have a few questions; one thing on this new deal that you have signed with Ingenus, can you throw some more light on this?

**Sundeep V. Bambolkar:** It is a cost sharing, profit sharing deal, so we have quoted development cost.



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- Meeta Shetty:** Okay, but how big will be this opportunity and what is the kind of milestone payments that we can expect?
- Sundeep V. Bambolkar:** We will be in a position to give you the numbers after sometime because the deal just been crystallized right now but since it happened we thought of announcing this.
- Meeta Shetty:** Alright, coming to your R&D expense if I see FY'11 and FY'10 we have had lesser R&D expense in absolute terms as well, so what is the R&D expense that you are looking at for FY'12 as a year?
- Sundeep V. Bambolkar:** FY'12 as a year will be somewhere around 2% to 2.25% of net sales.
- Meeta Shetty:** Okay, so this quarter we have not booked so much; can we expect that going forward we will be having a higher R&D expenses especially in the second half?
- Sundeep V. Bambolkar:** Little bit higher not much.
- Meeta Shetty:** Do we have any Forex gain in the quarter?
- Ganesh Gokhale:** We have 2.83 Lakhs; gain was 1.47 Crores and loss is 1.45 Crores, so net is around 2 Lakhs but MTM gain as on 30th June was 27 Lakhs.
- Meeta Shetty:** You have given the therapeutic area breakup and you have this time Lifestyle segment. I understand the diabetic and cardio would be included but what are the others included because I am not able to match the numbers there so...
- Aditi Kare Panandikar:** Basically now like in our chronic as you call it, chronic is perceived as any therapy area where a prescription would result in product usage for more than three weeks. It would include other areas such as degenerative bone disorders as an arthritis and other ailments, it involves vitamin therapy and in certain cases even Ophthal, which has products, which has to be used over a long period of time.
- Meeta Shetty:** So, the vitamins and minerals all that have also gone into Lifestyle segment, right?
- Aditi Kare Panandikar:** Yes.
- Meeta Shetty:** Coming to your Goa approval from the electricity board earlier we were expecting around 3 Crores of savings per year, so does that stand still till now even at this juncture?
- Sundeep V. Bambolkar:** Yes, definitely it may be a little more also.

- Meeta Shetty:** If I go by the current quarter you have had around 6 Crores of power & fuel cost, so can I assume that for the year you will be looking 20 after this benefit comes in?
- Sundeep V. Bambolkar:** What has happened is this does not include the full flow of Plant III, which is a new plant, so we have to take that into account.
- Meeta Shetty:** Okay, so could be around 22 odd?
- Sundeep V. Bambolkar:** See, the saving definitely will be 3 Crores or more that much I can tell you safely. Specifically if you want we will give all the numbers but for Reliance we were paying about Rs.13 to Rs.14 per unit and for Goa Electricity Board we are going to pay just Rs.5.75 or Rs.6 per unit.
- Meeta Shetty:** Okay, does it not enough saving, I mean more than what we are talking...
- Sundeep V. Bambolkar:** That is what I said; even if you include Plant III saving will be 3 Crores without Plant III it might go to 5 Crores.
- Meeta Shetty:** Now we are talking about metformin tender plus this Aspen deal and you are gearing up for in the second half supplies to Aspen, so on the exports front can we look at something more than 200 Crores for the year?
- Sundeep V. Bambolkar:** Our budget is around 185 to 190 Crores but let us see if we do well we may do more than that but at this point yes I would definitely say more than 185 Crores.
- Meeta Shetty:** On the margin front because these I believe at least the Aspen would have more margin, so what can we expect as a whole year, I mean EBITDA margin for the year?
- Sundeep V. Bambolkar:** The EBITDA margin in totality would be around 17.5%.
- Meeta Shetty:** That is before R&D?
- Sundeep V. Bambolkar:** Yes, before R&D total company's EBITDA margin.
- Moderator:** Thank you. The next question is from the line of Mr. Rusmik Oza from Kotak Mahindra Bank. Please go ahead.
- Rusmik Oza:** Just wanted to get the status on the deal with Aspen because two quarters back we had said that we have signed a deal for 10 sterile products to be developed by Indoco that was one then in the last con call we said 13 new products have been added where the work is done



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by Aspen but it will be a contract manufacturing deal, so you can just give us some status on both these deals,, where are we right now and if you can just throw some more light on this new deal you have done with Aspen, Australia for eight products, can give us the size or something more on the deal?

**Sundeep V. Bambolkar:** Typically with Aspen we have three types of deals. First is the oldest one, which you spoke about i.e., out licensing of sterile products where we have signed 10 products. Second is products, which were developed by Aspen in their own research center, which come to Indoco for validation and then commercial batches, i.e., after the dossiers will be approved then we start the commercial and the third is products, which are sold by Aspen already in the market place but which have been transferred to Indoco's plants in Goa, which is pure contract manufacturing. So, the third deal will get commercialized the fastest that will be in early 2012. The second deal i.e., where the products are developed by them but validation batch by us that is already going on and then the data is filed with the respective regulatory authorities, it will be approved and thereafter the commercial will start. So that is the second fastest deal, which will go through and the last will be the first one, which we signed i.e., we develop the product, we compile the data and we file and then once it is approved then we start manufacturing and supply.

**Aditi Kare Panandikar:** Work for all the three has already begun.

**Rusmik Oza:** This second deal where we are doing the validation batches when will the contribution of that starts coming in?

**Sundeep V. Bambolkar:** The validation batches have already been taken and now data compilation is going on at least for about seven to eight products and we are hopeful that this will be filed sometime in say August or September and it will take about 12 months minimum for the commercials to start.

**Rusmik Oza:** Can you throw some light on this new deal with Aspen, Australia. Is it different from the earlier one?

**Sundeep V. Bambolkar:** Purely contract manufacturing.

**Rusmik Oza:** Okay, and you said it starts very early, so when can we expect revenues from this deal?

**Sundeep V. Bambolkar:** First revenues after three to four months.

- Rusmik Oza:** Can you give us some more potential with this deal for metformin supply that is an old tender, what could be the potential from this deal?
- Sundeep V. Bambolkar:** See, the last time when we supplied the same tender, it was 50 Crores for two years, so they have won it for one more province, so we can safely say it may be more than Rs. 50 Crores for two years.
- Rusmik Oza:** The supplies are from this ongoing quarter or from next quarter?
- Sundeep V. Bambolkar:** From the ongoing quarter.
- Rusmik Oza:** Can you just give us some update on the Watson deal also because earlier we had 10 products where we already filed I think the DMF or dossier and then we had another seven new products we had signed up, so can you just give us some status of what is happening on the Watson deal?
- Sundeep V. Bambolkar:** With Watson we have signed so far three phases, phase I was six products, phase II was four products, and phase III seven products, so out of the first six, five we have already been filed and one remaining in phase I and four of phase II that makes it another five; it will be filed before end of December 2011.
- Rusmik Oza:** On the last seven products, what is the status?
- Sundeep V. Bambolkar:** Out of the last seven products, work has already started on three or four products.
- Rusmik Oza:** Going by, the new plant, which you have commissioned plant III in Goa, at full utilizing what will be the contribution of this plant to the total turnover?
- Sundeep V. Bambolkar:** Contribution we cannot talk about because we are now getting into high value products, so that way the contribution can be pretty large but at this point in time I am not in a position to commend on it.
- Rusmik Oza:** Can you just give us what was the CapEx in plant III and to what extent the depreciation might go up on account of this plant commissioning?
- Sundeep V. Bambolkar:** CapEx for plant III, as promised they have invested about 52 or 53 Crores there, so that is as per our budget.
- Ganesh Gokhale:** As far as depreciation is concerned, depreciation may go up during this year around by Rs. 2 Crores compared to the last year.

**Rusmik Oza:** Given the way this Aspen deal is going through with Watson also firming up, do we stick with that initial target we had earlier of Rs. 1000 Crores turnover by FY'14 out of which 50% should come from exports and 50% from domestic. Are we on track to attain that target?

**Sundeep V. Bambolkar:** Yes, we are on track.

**Moderator:** Thank you. Our next question is from the line of Krishna Kiran from ICICI Direct. Please go ahead.

**Krishna Kiran:** I just missed one number regarding phase II Watson deal, phase I is 6 of which 5 has been filed, phase II is how much?

**Sundeep V. Bambolkar:** Phase II is four products.

**Krishna Kiran:** Which you are expected to file this year, right?

**Sundeep V. Bambolkar:** The four of phase II and one of phase I that makes it five that will be filed before end of December this year.

**Krishna Kiran:** In the phase I five we have already filed, when was the first product filed, when we can expect first approval to come?

**Sundeep V. Bambolkar:** In about 12 to 14 months from today.

**Krishna Kiran:** Regarding Aspen deal, total three deals you told, one is out licensing and third one is pure CRAMS and for the second one how many products we are doing for them?

**Sundeep V. Bambolkar:** Right now it is a dynamic situation more and more products are coming; type I is about 10 products and type II will be about 15 products and type III also will be around 15 products.

**Krishna Kiran:** Revenues can start from one, two, three; three will be starting in this fiscal and chances of second and first in the next fiscal, is that right?

**Sundeep V. Bambolkar:** The third type that is the fastest one will start in last quarter of this year and the second one will be after that in the year 2012-2013, and the first one that is deal type I will be end of 2012-2013 or beginning of 2013-2014.

**Krishna Kiran:** Secondly on your domestic market, the growth was bit lower comparing to our previous quarters, is there any particular reason or going ahead what we are going to see in this?



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**Aditi Kare Panandikar:** For the entire pharma industry this has been a muted quarter and although on a MAT basis the industry is growing at 15% and we are also in line with that, if you look at our numbers on a MAT basis, we are very close to that. This has just been a quarter kind of a thing. If you look at our covered market i.e., the therapeutic areas in which we operate and for the industry also the growth was close to 10%-11% only. There was some kind of pricing constraint on the anti-infective, this actually forms almost 22% odd of our total product portfolio, so although unit wise we have grown we were not able to show that kind of value. In fact, if you look at certain areas like chronic portfolio, if you look at our new introduction, if you look at our stomatological, the products have done really well. The therapy areas that have really taken a hit because of which we have also suffered are because of seasonal portfolio.

**Krishna Kiran:** How was our performance on Indoco and Spade divisions?

**Aditi Kare Panandikar:** Indoco and Spade division both carry maximum of our existing brands including most of the anti-infectives. Indoco has taken the worst hit frankly and other than Indoco and Spade all the other divisions have actually grown at 20% plus almost but since the proportion of Indico and Spade to the entire portfolio is so high it actually causes a cascading kind of an impact, which also means that since both these divisions have a highly seasonal portfolio they are the ones, which will do essentially well in the next quarter.

**Krishna Kiran:** If I understand right generally Indoco and Spade will be good at Q2 and Q3 is it right?

**Aditi Kare Panandikar:** That is right.

**Krishna Kiran:** And Q1 and Q4 will be not that much good?

**Aditi Kare Panandikar:** For only these two divisions.

**Krishna Kiran:** As you said anti-infective segment across the industry is facing problem, so are we taking any initiatives to setoff?

**Aditi Kare Panandikar:** There are lot of strategic initiatives, which have been taken up including addressing a better target audience to bring down the seasonality of the product mix. Regarding the pricing pressure it is largely because of certain marketing strategies adopted by a couple of players in the pharma market and there is not much really either we or most of our peer companies want to go about it because it does not make sense.

**Krishna Kiran:** What is the current field force of MRs?

**Aditi Kare Panandikar:** We have 1,800 people.

**Krishna Kiran:** How much we have added?

**Aditi Kare Panandikar:** We added 200 this year.

**Moderator:** Thank you. We have next question is from the line of Alok Tiwari from Sushil Finance. Please go ahead.

**Alok Tiwari:** I just had a few questions; one was on this other expenditure front, it has gone up as a percentage of sales so, is there any onetime expense in there or is it a normal phenomenon?

**Aditi Kare Panandikar:** Most of the increase in expenditure has been on account of employee cost, we added 200 new people this year also one of our new divisions Eterna, which is meant for Lifestyle bone generative disorder kind of chronic therapy, did not exist this time last year, in fact you could take close to 300 plus field staff under salaries, which have been added then power & fuel also there has been an increase; we are sure that positive measures will be seen on this front. Third, there has been an increase in advertising and sales promotions, which appears far more glaring as a percentage of the sale for this quarter since domestic did not do well but these are kind of marketing inputs and strategies, which have already been rolled off in anticipation of, we will see returns in the coming quarter.

**Alok Tiwari:** As we are now changing the power supplier the power cost could anyway come down, right?

**Aditi Kare Panandikar:** Absolutely.

**Alok Tiwari:** So going forward in the coming quarters this cost can be expected to be lower?

**Aditi Kare Panandikar:** Absolutely.

**Alok Tiwari:** Next question was on the formulation expansion front since we are investing around Rs. 60 Crores for API plant, so if we are having a vision of achieving around Rs. 1000 Crores by 2014 are we also looking at some other formulation expansion?

**Sundeep V. Bambolkar:** Actually formulation plant, it has just been commercialized in Goa plant III. That has huge capacities and since we are going in for high value products in time to come that target looks quite within our reach. We need not invest too much money plus Baddi is also already approved by UK, so on the formulation plants as of now we are alright.



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- Alok Tiwari:** What would be the current capacity there, I mean utilization?
- Sundeep V. Bambolkar:** Goa III is fully unutilized let us say that way because the approval will come in December.
- Aditi Kare Panandikar:** Lot of domestic gets done there.
- Sundeep V. Bambolkar:** So even that can be outsourced. Goa I is utilized to the extent of about 80%.
- Alok Tiwari:** So, broadly we would not need any significant expansion?
- Sundeep V. Bambolkar:** Not in the next two to three years at least and this Goa plant I what we are trying to do is move up the value chain and stop making products, which are cheaper we are going for high value and high margin products so then the revenues stream looks up significantly.
- Alok Tiwari:** One question was on this slight degrowth we have witnessed in anti-infective and gynec segment, any particular reason for that?
- Aditi Kare Panandikar:** Anti-infective as I said specifically there has been some kind of pricing pressure, so if you look at it from a volume perspective there is growth, but on a value front we have seen a shrinkage; one is the pricing pressure, two is the season. Basically anti-infectives really kick up once the season starts and last year this had happened in the first week of June, which we are actually seeing an impact this year in July.
- Alok Tiwari:** This pricing pressure could be expected to continue, so in the next couple of quarters also we could expect....
- Aditi Kare Panandikar:** Peculiar thing happens in anti-infectives when the prices are reduced because you have several other anti-infectives being prescribed for similar kind of ailments and often a price reduction results in higher quantum wise utilization of that molecule. We actually expect a rebound kind of a consumption of these products and that should help us.
- Alok Tiwari:** Could you share the growth rate of the top brands?
- Aditi Kare Panandikar:** Among our top 10 we have four to five legacy products.
- Alok Tiwari:** If you could just share the top five?
- Aditi Kare Panandikar:** On a quarter basis also all our toothpastes are actually growing at 30% plus, which includes the desensitizing molecules, Sensodent and Sensoform. Our Febrex Plus has grown about 6% because of the off-season. The antidiabetic group Glychek has grown at close to 35%,

another anti-infective ATM has grown at around 13%, and essentially Cyclopam, the largest brand for us has stagnated this quarter.

**Alok Tiwari:** Okay, any particular reason for that.

**Aditi Kare Panandikar:** Not really, if you look at the therapy area it has not done well either, but on a strategy front definitely actions are being taken in order to see that we do not get this kind of a skewed Q1 and Q4 performance on our legacy projects.

**Moderator:** Thank you. The next question is from the line of Mr. Anubhav Aggarwal from Credit Suisse. Please go ahead.

**Anubhav Aggarwal:** What you were explaining on the anti-infective market, is this pricing pressure limited to only anti-infective segment or you have seen this kind of pricing pressure on the other segments as well?

**Aditi Kare Panandikar:** As of now only anti-infective.

**Anubhav Aggarwal:** Is it like the nature of anti-infective that is letting this couple of players...

**Aditi Kare Panandikar:** Well, typically in the industry it has been seen that very high volume therapy area people will do this, but it is extremely short-lived, we have seen people do it for one odd year and they really can not sustain it beyond a certain point.

**Anubhav Aggarwal:** Is it just typically driven by some of the players, they had higher inventory and now because they are sitting with high inventory they are releasing it into the market at any cost...

**Aditi Kare Panandikar:** I am not really sure why they are doing it, it could also mean to get a better topline.

**Anubhav Aggarwal:** No, I was just asking from the experience, in the past also you have seen this kind of...

**Aditi Kare Panandikar:** We still believe it is one kind of a market entry strategy.

**Anubhav Aggarwal:** Okay, but you have not seen this pressure in the other segments like gastro or pain...

**Sundeep V. Bambolkar:** No.

**Moderator:** Thank you. The next question is from the line of Mr. Anshul Sehgal from Kotak PMS. Please go ahead.

- Anshul Sehgal:** I want to know that is the breakup of long-term and short-term debt?
- Ganesh Gokhale:** Long-term debt as of today is around 75 Crores and short-term i.e., the working capital as of today is around 20 Crores.
- Anshul Sehgal:** You have given the CapEx for this year and next, but going forward what will be CapEx?
- Ganesh Gokhale:** This year we have planned 90 Crores of which 60 Crores is for the Patalganga expansion, which will be spread over 18 months, so out of that one-third only will get spent in this year and balance is 30 Crores, which is the normal CapEx every year.
- Anshul Sehgal:** So what is the gross block today?
- Ganesh Gokhale:** Gross block today is in the range of 300 Crores, which will get added by 50 Crores next year.
- Anshul Sehgal:** You mentioned your strategy for reaching your target of 1000 Crores in the next two years. Can you please explain the strategy again in some detail, like improving target audience and reducing the seasonality, how you are doing this?
- Aditi Kare Panandikar:** Well, we have said very clearly that by the time our topline is 1000 Crores with the 50% contribution coming from domestic and the other from exports. Exports I think we have sufficiently elaborated the kind of strategic initiatives including our tie ups with Aspen and Watson, the kind of product development we have and also the kind of filings that we are doing on our own in Europe as well as US. All of these are long-term strategies and we are very sure they will turn around in the next few years. On the domestic front, frankly the Indian pharma market on a MAT basis has grown at 15%. It is expected that pharma always grow at twice GDP, so the opportunity is definitely there. At Indoco for the last year lot of strategic initiatives have been taken in order to bring a product wise sales return rather than just achieving rupee wise and we are looking at better margin products, we are also looking at higher value to come from products in growing segments, so that kind of a shift is also going on including focus on chronic, pediatric, gynec as well as making new introductions to success and reducing our dependence on the seasonal portfolio and out of all this we are very sure that we will achieve our objective. For domestic to get to 500 Crores by 2014, I do not see any problems at all.
- Anshul Sehgal:** You mentioned a division, which did not exist last year and because of which there is an increase in other expenditure, what division is this?

**Aditi Kare Panandikar:** Eterna was the division we launched in July last year and this division takes products to the orthopaedician, the consulting physician, and the gastroenterologist. It takes products in the therapy area of degenerative bone disorders for the pain, calcium, and the typical aging geriatric age related product usage.

**Anshul Sehgal:** Of the three formulation plants Goa I, III and the Baddi plant can we break the gross block into these three or on the other hand give revenue potential from these three?

**Aditi Kare Panandikar:** Actually it is very difficult to do that because as Sundeep said very clearly what we are doing at this point plant in plant III, the new plant, has been designed to take much higher batch sizes; logically we would like to move products, which are already established and going in higher volumes to that unit. We are actually seeing a kind of a shift of product probably from plant I to plant III, the smaller products coming out of plant I, we will have to look at all the plant in totality.

**Anshul Sehgal:** So it will be difficult to give a revenue potential also?

**Aditi Kare Panandikar:** Total Incremental we can look at, but specifically from that plant would be difficult.

**Sundeep V. Bambolkar:** Yes, because we are now graduating from the lost cost or low margin type of products to high value high margin type of products, so at the most we can say that total international business will move this way with this incremental growth, but specifically from each plant it would be very difficult to give.

**Anshul Sehgal:** Again it is clear that formulation as a part of the whole business will grow, now with that clearly margins should be higher also, so should one assume that as you reach 1000 Crores of revenue your margins will be towards the 20% kind of range?

**Sundeep V. Bambolkar:** When we are at 1,000 Crores we are aiming for EBITDA margins around 21-21.5%.

**Moderator:** Thank you. The next question is from Mr. Ruskim Oza from Kotak Mahindra Bank. Please go ahead.

**Ruskim Oza:** Just want to check one thing in the last three years yours sales to gross block has been around 1.6 times and almost 53 Crores for the plant III. Is it safe to assume that the revenue this year should go to around 550 Crores plus as against 483 Crores net sales of last year?

**Sundeep V. Bambolkar:** Yes, definitely we will cross 550 Crores.

**Rusmik Oza:** My another question was linked to that, say from 550 Crores in FY'12 to 1000 Crores in FY'14 in two years that means somewhere we should at least in FY'13 be around close to 700 to 750 Crores then we can achieve and go to around 1000 Crores, it is safe to assume that way? .

**Aditi Kare Panandikar:** It will logically be that way; you can not go directly from 550-1,000.

**Rusmik Oza:** Another thing is since 500 Crores will be the contribution of exports in FY'12 and if you are looking at around another 85 Crores this year that means logically are you looking at adding around close to 300 Crores of extra revenue from exports in the next two years i.e., FY'2013-2014.

**Aditi Kare Panandikar:** Yes.

**Rusmik Oza:** We are doing so much value deal work for Aspen and Watson, so obviously the R&D expenses will be humungous or huge on these two accounts, so in the P&L 2.2-2.5% is R&D expenses, just what to understand how are we getting compensated for the R&D work we doing for Watson and Aspen, is it from some other novel deal we have...

**Sundeep V. Bambolkar:** What we are doing is right now since revenue recognition has not happened we are capitalizing the R&D expenditure on such big project like Watson and Aspen and as and when suppose now in 2013 the first dossier gets commercialized then we will start, the R&D expenditure for that product will start hitting the P&L that is the way we are doing it.

**Rusmik Oza:** Can you give us some idea in FY'11 how much R&D expense you might have capitalized and in FY'12 how much will be the amount that will get capitalized?

**Ganesh Gokhale:** Last year we have capitalized around 6 Crores towards this R&D expenditure.

**Moderator:** Thank you. We have a question from the line of Mr. Anshul Sehgal from Kotak PMS. Please go ahead

**Anshul Sehgal:** I missed the EBITDA target for that period when you reach 1000 Crores was it 21%-25% or 21%-22%?

**Sundeep V. Bambolkar:** No, 21%-21.5%.

**Moderator:** Thank you. The next question is from the line of Mr. Pawan Kumar from Capital Market. Please go ahead.



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- Pawan Kumar:** Especially this quarter margins are under pressure like what can I look for going for full year? Will the margins improve because of the reduction of power cost as well as the other costs?
- Sundeep V. Bambolkar:** Yes, as I said earlier the EBITDA margins for the whole year we are looking at around 17.5%.
- Pawan Kumar:** And regarding the field force the entire field force is fully productive or...
- Aditi Kare Panandikar:** That never happens, when you are taking 200 new people it takes about 10-12 months to start breaking even also, so one has to assume one year before they become productive.
- Moderator:** Thank you. As we have no questions I would now like to hand the floor over to Ms. Meeta Shetty for closing comments.
- Meeta Shetty:** On behalf of Dalal & Broacha we thank the management of Indoco Remedies and all the participants for being on the call.
- Moderator:** Thank you. On behalf of Dalal & Broacha Stock Broking Limited that concludes this conference.