Conference Call Transcription Report

On Q3FY08 & Full year FY08 performance of

Indoco Remedies Ltd

Hosted By:

Operator

Thank you for standing by. And welcome to the Q3FY08 Financial Performance Conference Call of "Indoco Remedies Ltd" presented by Reliance Money. At this time, all participants are in listen-only mode. There will be a presentation followed by question-and-answer session. At which time if you wish to ask a question please press "star" "one" on your telephone.

I would like to hand the conference to over to Mr. Surya Narayan Patra over to sir.

Surya Narayan Patra

Thank you. Good afternoon, everybody. I on behalf of Reliance Money welcome you all for the third and final quarter FY08 earnings call for Indoco Remedies Limited. We have from the company side Mr. Sundeep Bambolkar, Director of Finance and Operations; Ms. Aditi Kare Panandikar, Director of Business Development and HR; and Mr. Ganesh Gokhale, VP, Finance and Accounts.

I would like to congratulate the entire management team of Indoco Remedies on good set of numbers. Now, I hand over the floor to Mr. Bambolkar, who will discuss the financial performance and give us about the future outlook of the company. Over to you sir.

Sundeep Bambolkar

Thank you, Surya and thanks for your congratulatory remark. Welcome to all the participants. Today, we are presenting the financial and other performance of the company for the quarter ended March '08. At the outfit the total sales have grown by 18% from 73.59 crores to 87.08 crores. The domestic formulation business has gone by about 14% from 54 crores to 61.25 crores.

Coming to the export -- the formulation export have grown in totality by about 32% from 16.5 crores to 22 crores. The business what is noteworthy here is the business to regulate the market comprising of US, UK, Germany and Eastern Europe have grown by 42% from 12.30 crores to 17.47 crores.

I shall now take you through the financial parameters for the quarter. The material costs have improved from 45.34% as a percentage to net sales to 43.86% translating into 38.19 crores. The staff costs stands at 14% compared to 12.25% translating into 12.25 crores.

The main reason for the increase in staff cost is that as all the participants may be aware the bonus provisions have been hiked as per the bonus act and the limit now as against 3500 earlier stands at 10,000 with itself has absorbed Rs.1.20crores. The company has also inducted 300 new field staff, which has absorbed about 30 lakhs; hence both the cost together has taken the percentage from 12.25 to 14.

Other expenses have substantially improved from 32.87 % to 27.93% absorbing 24.32 crores. At the EBITDA levels, the company has expanded the EBITDA by about 4.5 percentage point from 9.75% earlier to 14.25% now.

The R&D expenses stand at 3% and have absorbed to 2.73 crores. Interest payout has been 1.36 crores, depreciation around 2.7 crores. We also have extraordinary items in this quarter to quite some extent totaling about 1.62 crores. The main components of the extraordinary items are as follows.

Prior to the amalgamation of Indoco Healthcare at Baddi, Indoco Healthcare has paid an interest component of 93 lakhs to Indoco Remedies. Post amalgamation this entry had to be squared off as a result we have written-off those 93 lakhs of prior period under the extraordinary items.

Item number two, the bonus provision for 06-07 amounting to around 72 lakhs has also been written-off under this item. As a result of all this the PAT margin have expanded from 2.86% to 8.5%, translating into 7.31 crore of profit after-tax.

I now throw this floor open for questions-and-answers.

Question-and-Answer Session:

Operator

Surely sir, At this time, if you wish to ask a question, please press “star” “one” on your telephone keypad and wait for your name to be announced. If you wish to cancel your request please press the “hash” or the “pound” key.

Q: Can you comment on the decline in export API sales?

A: API exports frankly the numbers you are comparing with of last year were the export sales at LaNOVA as a company used to do and which was largely trading in nature when we acquired this. After that acquisition of LaNOVA as a company we have actually gone into hardcore manufacturing of APIs and developed our product line and whatever sales you see here exports are truly with own manufactured APIs. So although the top line APIs rule might have de-grown because of a large part of the APIs sold at that time were entirely trading and all export. What you might have seen on the other side is the domestic sale of API has substantial increase. So this is what I have to say.

Q: When can we see, you filing DMS from the LaNOVA facility?

A: Two DMS have already got filed. And now we have at least three coming up in the next three months, one per month frankly.

Q: Your call on expose to less regulated markets, which have been muted this quarter?

A: In case of formulation export, there was certain orders, which needed some extra looking into which could not be executed in this quarter, so in the performance for June and September quarter you will see a big difference. So that’s the reason why the exports to Semi-Reg markets have not shown a good growth.

Q: So there will be a spill ove r effect?

A: Yes, yes. We have orders in hand.

Q: Any update on the US operations?

A: Yeah. As you know we had through Nexus three ANDA’s were filed, two of them are now approved and in fact, we have started commercializing of the second one also. We await approval of the third. Another ANDA, which was on the verge of being filed through [Pedoff] Lab will find any moment now. And then we have at the same time the ANDA’s for Amneal. Of which we start filing from the month of August, two each month, so exhibit batches are planned from the month of June now.

Q: For this Amneal, what can be the opportunity if we take a five-year view, what can be the opportunity here?

A: Well, since we are filing August this year, the earliest approval is expected in the period Feb-March 2010. See at the lack time and so we have actually looking at the clock ticking since then. Clockwise here will be 2010-11 frankly as a full year profile. And when we would expect at least four of these products to be having commercial supply at that time. So it's a little early at this stage because many of the back ends have to still expire and the kind of forecast we are working on right now have got all kind of expense. But so I think you'll be comfortable talking about this probably next quarter but we are really looking at very positive indication in roughly by March 2010.

Q: I would like to just know the idea on the EBITDA margins. Would it be stabled at around 16 or we could see it expanding further?

A: No. This as far as EBITDA margin is concerned; March is one of our lowest quarters. If you see the EBITDA margins in June, last year was that, you know, 26.5%. And this year also in June, we expect EBITDA margins of around 26%. So net, net you maybe aware that we are closing our books of accounts in March this year, Resulted we were having March of the year ending in, from now onwards. So as we closed our books of accounts in June, our EBITDA levels would have been 20.5% to 21%. So year-on-year now, 12 months, so later, EBITDA margins would be 20.5% to 21%. And every year, we look forward to EBITDA inching up by around 50 basis points.

Q: And let me know the debt currently we are having on books. Is it the same 25?

A: It's between 35 to 40 crores.

Q: When do we expend the approvals to come in for the API facilities for the US and European market, so that we can start commencing our batches and supplies base?

A: APIs we had said, couples of DMS have just got filed and we have arrangements in place couple of agreements is under working with some for big supplies. Once the APIs get into the ANDA's, first of all two APIs we filed up for Solid Oral. Once the ANDA's get filed then the site will be triggered for approval. As you know, for APIs we need a client to trigger our site. Of course, we have our own formulation of Indoco itself. So our off time APIs are only ANDA's will be triggering the site approval. And we are actually strategically taking a call on whether we would be filing DMS for the separately or whether we would use our own ANDA's to trigger the approval for the APIs. Okay?

Q: And to say that all of it was been looked into by 2010…?

A: No. API approval should in the next eight months.

Q: And if you could give us a sense as to how, what percentage of the APIs used for our internal ANDA formulations?

A: Currently it's just about 20%. But going forward as the US business on formulation picks up it's going to be substantial.

Q: And there was the comment in the press release on the loan licensing as the percentage should be brought down, I am not mistaken?

A: What's happening is Indoco was getting its products manufactured on loan license basis. And the payout under that heading was to the extent of about 4.5 crores to 5 crores. And after Baddi going full scale and the Baddi capacity reaching optimization level, that payout on loan license have now come down to around 1 crore. So purely products, which cannot be produced in-house, that is something like (inaudible) foreign product. Only those types of products are now made on loan licensing. Hello?

Q: Ophthalmic as a segment, when do we see growth coming into that particular division or if I could put it this way. The Amneal JV what type of revenue potential do you all estimate by FY10?

A: The first approval would come in by Feb March 2010. I feel for the year 2010, '11 we could as a most conservative, we look at between 25 to 30 crores in the top line. That in the very first year

Q: Between 2010 you say?

A: Yes.

Q: And how do you plan to sustain the growth in domestic formulation of 14, 15% item?

A: We have, as you know, we've been continuously structuring and restructuring our division to get the obtained mode of them. You might have read of the launch of Spera as a division. We had an entire kitty of good brand which we're launching because of the kind of product which we are introducing new product. We launch all the time. So instead of getting them, we actually created a new division called Spera, which falls of the same 30,000 the consultant position, general practitioner and some of our older brand such as

Vepan, which is a unitary optimizer, has shown substantial growth this quarter entirely because of this initiative. So Spera is one. We also launched the oncology division this quarter called OncoSpera. So we are continuously tapping new therapeutic segment, as well as launching better products in the same -- to the same seven divisions. So I have no doubts we'd be able to compete in this area.

Q: Did we talk 10 products, so it contributes how much to the total turnaround?

A: We have about six-seven products, which have a top line of more than 10 crores. And then, we have another eight to ten in the group of five to ten crores. And I think, between this we should be doing about 60%of the top line

Q: How many MRs do we have on the road today?

A: 1,500.

Q: Do we plan to add more?

A: Not at this stage. We've already added through Spera about 160, which are included in this 1,500. And oncology as you know is not a very manpower different kind of a business, so not too many there. At this stage, we are quite comfortable.

Q: There are a couple of projects in contract. You said that we have I think around six odd for innovative companies. So when do we see that material lively?

A: We have come to stage, where samples manufactured have been submitted. They had been valuation, promotions have been discussed and obviously, this would now go to manufacturing. So I would after -- I'm still giving about couple of quarter for all this to happen and after that we should start supply.

Q: With the significant and in terms of the quantum that we are looking for these molecules, once they go commercial?

A: Significant of the API division certainly, may not be in the light of the entire company.

Q: Is the interest rate has come down significantly on this nine month total year-on-year basis. Sir, what would be the interest rate expectation? What exactly is the interest rate expense currently?

A: Currently, our average for borrowing rate is at 8.5 to 8.75%. And you might have read today, you know our expert like Mr.Kamath have put their views, that interest rates are going pull off. So I don't think, at least we don't want see a sharp rise in the interest rate. I foresee around 8.75 only.

Q: Any specific reasons for-- actually interest rates have for this half for this nine month. So what would be the reason for that?

A: Actually interest rates will remain stable maybe at the end of the period nine months period, we have repaid some loans. That is, paying the interest out we don't compare to debt -- the rates we're seen on the lower price.

Q: What was the debt on books?

A: Currently it's around less than 40 crore.

Q: What is the tax rates expectation for going forward?

A: Going forward for the next three to four years will be at under minimum alternate tax…Which is around 11%.

Q: Can I get the breakup of domestic business into divisions?

A: The reason wise, I am sure we'll give you, in Indoco division contribute 46%, Radius 6%.Warren 15%, Excel 5% and Spera 7%

Q: Can you torch some light on your CapEx plant at Baddi plant?

A: We have acquired land to put up the fellows foreign type of block at Baddi. And we foresee that it will absorb around 18 to 20 crore. This will be comprised of four departments that is tablet & capsule. dry powers, injectables and dry syrup.

Q: How much would be an increment in injection and tablet capsule around?

A: No. Capacities will not be tide up with the general capacities because this is a C-block, very specific product. We are outsourcing right now under loan license. But to that extent, loan license outgo which is around 1 to 1.25 crores will completely be stopped.

Q: Can you give me the breakup of your other expenditure that is around 24.32 crore for this quarter.

A: I think we could take it offline because I need to readout these entire sub-heading otherwise.

Q: Have you added any new contract on the European front this quarter?

A: On the European front, we have definitely, two from UK and one from Eastern Europe. And one from Spain.

Q: How large are these contracts?

A: If you're referring to redevelopment type of contract, they ranged anywhere between 100,000 to 125,000 pound. And the supply side is as you know, it goes on. The post approval supply, it's like a five-year contract. So we cannot quantify it.

Q: What are the capacity utilization rates at our existing plans for API?

A: APIs what we did essentially, when we first took over the plant, plant specifically the one at Patalganga. We had a ready mix of product which we've intended for the plant. Which we have been supplying and meanwhile, we have developed our own product. So, it could be a little odd to top capacity utilization at this stage but we are -- as with the current product mix we are running it about 60 to 70% of the capacity. But since the mixes in the evaluation, we would be probably taking out some of the lower margin product and introducing and looking at product, which Indoco is interested in from the as a formulator. So then, we would have to relocate capacity. Whereas looking at capacity there as at two other facilities, one is the Kilo Lab. It is primarily being use for validation and filing of API's for the US market. And give us; nearly we are looking more at a backend supply to Indoco sales. We have a current facility at Rabale, which is been run at about 60% of capacity and we can easily enhance it.

Q: Do we see any of target expiries or other patent expiry this year in 2008, '09?

A: There is doubt to the mind, one of the products, which is in our city, which is expected to expire October or November 2008. And but a big chance of expiries are coming in 2010.

Q: Your supplies would be commencing for that as well labs?

A: Yeah. Absolutely.

Q: Benefit arises in last of October when you say?

A: Benefit will come in early 2010 for us.

Q: Can you throw some light on filing of Dossiers in Europe?

A: We have got a pipeline of about 8 to 10 product and we have already filed about five. Mainly the activity compiles of out licensing these Dossiers to

European companies to countries like UK, Germany, and Spain and to parts of Eastern Europe, which we are continuously doing. And we already completed Dossiers for customers to then extend of about 10 to 12. So in totality the pipeline is about 25 Dossiers.

Q: What are the revenue expectations?

A: As I say of the 8 to 10 Dossiers, which we already made for customers and which we've already being filed. These approvals will be expected sometime you know eight to 10 months down the line. And once they are approved, the supplies will start. And I think each of these products is a niche product. I wouldn't like put any number to at this stage, but it will main substantial expansion on the international business.

Q: Are we looking for any acquisition in the coming years so on?

A: Well, actually acquisition in the domestic phase that is brand. We have been really ought into that. But as you maybe aware nothing significant is available at this point in time. So we have intermediary, who are working for us and from time to time they do bring us some cases but it has to be worth that effort and investment you know. Price wise in Europe also we have been actively evaluating couple of opportunity, where we could apply IC. Our team interested to acquired company with product IC approval and not manufacturing type just another contract manufacturing company. So that's into evaluation.

Q: Are we seeing any dilution in equity?

A: No. Not at this stage.

Q: Can I have the margins by the geography?

A: Margins by geography, the Indian business, which comprises around 73 to 74% at this stage, the EBITDA margins are around 19 to 20%. UK business, the EBITDA margins are varying around 16 to 18%. The -- when I say margins, this is at the end of 12 months period, please note that. And European business, the margins are again between 18 and 20%. And US, when it really significantly takes off as Aditi said in 2010 and all, there the margins would be much, much higher. I mean, we don't want to talk about those margins in this kind of a range. Because there would be…Those are supplies and profit share arrangement, definitely very, very high.

Q: So as of now at what margins Amneal is operating?

A: Amneal will start commercially operating in 2010 as far as Indoco is concerned

Q: Can I have the total CapEx in the coming year on the consolidated basis?

A: The new Baddi plant will absorb around 18 crore. And all the other CapEx plans, all put together should be around 18 to 20 crore.

Q: I was just going through the therapeutic segment table and the cardio-vascular shows a de-growth of nearly about 29%. I mean despite the lifestyle segment doing high. Is there any specific reason why we are showing fall?

A: It is just one of those things probably, you know, Indoco has -- as you know, this is the lowest quarter for the industry. It's the worst quarter for the industry, and for Indoco it's the kind of product mix we have. We also reflect that in a very sharp manner. So basically, what has happened for us is that the focus probably has slightly shifted towards Anti-Infectives, which have really shown a tremendous growth this quarter. And our Anti-Diabetics have done well, but Anti-Cardiovascular there are certain measures we've already taken within the radius division, and we should see this change in the next quarter.

Q: Is there any significant change that you anticipate in the overall mix as such by 2010?

A: For the company?

Q: As far as the therapies are concerned?

A: For the domestic sales, Anti-Infectives still becoming one of the largest contributors to our revenue. Our top six brands now continue to provide 15% plus, in fact our -- the oldest brands like Cyclopam, Febrex Plus has grown at more than 20%. So why we see a large contempt of unit wise sale continue to come from the old brand -- established brand, the value is going to come from Anti-Infectives and Anti-Diabetic segment. Also in this year, we made this change of forming a Warren Excel out of Warren that is given focus to the ophthal, ophthal will get revise. And we want to start [according to the onco space]. So quite frankly, other than the DNS product, which we are not in right now. We will now be in almost all therapies and that is traditionally in Indoco's way. We are dealers because we are (inaudible) therapeutic segment and I expect it to continue in this manner.

Q: Is there any pricing impact on account of the excise revision?

A: No, much of our domestic sales, products are manufactured at Baddi. So we have not had to work on our prices and we don't see any impact there. Does that answer your question?

Q: The scenario in the working capital side, the inventory data sector?

A: The debtors number of days consist around 90. The inventory is at about 45 days. So we are well aware that, you know, we need on the data more so and steps we take it in that direction.

Q: If you could let us know the cash and books currently that we are having on hand?

A: Just 16 crore

Q: Sir in fact, after many years we are seeing less than 15% kind of growth for the domestic formulation business in the nine-month period. Is that a kind of concern or this is because of non-inclusion of Q4 impact in the 1 nine-month period?

A: I have not actually got your question right. But you are concerned about the percentage growth of domestic sales, right?

Q: Because we have been seeing around 20% kind of growth…

A: Yeah. Yeah. It is, as you said rightly. Our last quarter is a very big quarter for domestic sales. So, if we had closed four quarters no doubt, we would have achieved the sales in terms of growth. But let me also retreat at this stage that in the first two quarters domestic had, it's like started to show a slowdown, not just for Indoco but entirely for the industry, and since we track both primary as well as secondary levels of sales we were anticipating it. The third quarter on that -- for that matter has been a good one for domestic sales and we are already seeing secondary is revising. So, I have no doubt that the market will come out of this, and we should still have closed the year, a four quarter year at anywhere between 18 to 19% growth on domestic.

Q: Yes. That is the kind of a growth outlook for the domestic formulations for couple of years or…?

A: Yeah. Certainly. We are looking at anything between 18 and 20%.

Q: Can you give us some idea like in next couple of years time, what would be the real growth driver for the company, whether formulations (formulation exports) or some other business or what?

A: By 2010 we expect the US business to really come of it. There will be some small revenues happening from it in the interim year also, but it will not be quite substantial. In the interim, we are expecting the European business to bring good revenues specially the client's revenue, which we are currently in. Also on the API side of business good amount of top line growth will be seen next year. Since our development has matured now, the technology transfer is in place and we are seeing good impact come out of this. So domestic will grow -- domestic, as I said will grow at about 18%, but APIs will show good growth this year and exports to regulated markets will also show good growth.

Q: Can you give us some idea regarding the progress of the product registration in the semi regulatory markets and what is the growth outlook for those segments?

A: The semi-regulated markets, we have to register our products in all the countries now, whether you talk of Latin America, Africa, South East Asia, CIS all of them. So what happens is making a dossier it takes at least about 5 to 6 months, and getting it registered minimum another one year, so it's a 1.5-year time cycle we are talking about. And as regards the growth with the new geographies new product combination, we anticipate the growth of 35 to 40% every year. In fact, because backward integration to API has a major factor here which will help us pumping semi-regulated market sales because many of this markets have businesses which are -- which in initial status you have to be very competitive, and our integration backward is going help us to do that.

Q: What was the gross block amount as on closing date?

A: It's about 218 crores.

Q: On these US revenues, we have already launched two products in the US market. Can we have like, what is the exact revenue that we have earned from that two products?

A: For the second product only one commercial supply has happened, which is also very early, our partners however -- I'm quite happy to say have gotten to firm arrangements now with the distributing companies in US. So we look at good year ahead and for the coming year both Ciplofloxacin and Diclofenac is in second ANDA. We'll have a full year and I expect the top line growth, you know earnings in the range of about couple of crores.

Q: In the last nine-month period, what was the kind of Dossier development income in the export that is there?

A: It was around 5 crores.

Q: On this front, similar kind of trend we are following possibly?

A: Yes. Yes.

Q: By last quarter, we had developed certain 3 or 4 Dermabased cream products for the regulatory markets, and we were in discussion with various US partner for clinical trials or something like that?

A: That's right.

Q: So any update on that front?

A: That is on we have almost finalized our relationship with one party. We cannot discuss like it…You know at this time. But development has progressed this quarter; we shall put the product on trials. We will need clinical trials to be done for one of this product. That should not expire till end 2010. So we are in good time, even after this trial, which we will be a six-month trial, we would then go for filing.

Q: On the margin side, we have been saying like we can achieve 22% kind of margin in couple of year. Whether, that is the target we are still having or we have some more margin expansion plan or means what is the kind of outlook that you have?

A: In the coming year since we have closed the books now in March. April to March '08-'09, I think we should definitely clock 22%.And going forward, as the niche therapies the US business comes in…Then the upside will be much more.

Q: In the press release, we have indicated like Indoco is a planning to file some NDDS things, when that will be happening and any update on that?

A: These products are under development. Unfortunately, I'm not able to give you more clarity on that because relatively that would not be wise, we have identified some excellent opportunities both NDDS as well as [505-2b], and this stage all I can say is that work is underway, and in this year, I definitely look at a couple of fillings.

Surya Narayan Patra:

And now, thanks to all the participants. And our special thanks to the entire management team of Indoco Remedies.

Aditi Kare Panandikar:

Thanks.

Sundeep Bambolkar:

Thank you.

Operator:

That does conclude our conference for today. Thank you for participating. You may all disconnect now.

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