

Transcript

Conference Call of Indoco Remedies Limited – Q1 FY10

Event Date / Time : **30th July 2009, 3:45 PM IST**

Event Duration : **27 min 44 sec**

Presentation Session

Moderator:

Good evening ladies and gentlemen. I am Rajkumar, moderator for this conference. Welcome to the conference call of Indoco Remedies Limited hosted by Tata Securities Limited. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Milind Bhangale from Tata Securities Limited.

Milind Bhangale:

Good evening everybody. This is Milind Bhangale from Tata Securities and on behalf of my organization; I would like to welcome all of you to Indoco Remedies Q1 FY10 earnings conference call. We have with us today Mr. Sundeep Bambolkar, Director Finance and Operations, Ms. Aditi Kare Panandikar, Director Business Development and HR, and Mr. Ganesh Gokhale VP Finance & Accounts. Now, I would request Mr. Bambolkar to take us through the quarterly results and also if you could brief us on the future outlook for the company. Over to you sir.

Sundeep Bambolkar:

Thank you Milind. Good evening all the participants. At the outset, thanks a lot for logging in for our conference call. We are indeed happy that all of you have logged in. As discussed during the last con-call, the company had tightened the credit control measures for quite sometime now and as expected, the domestic sales had been affected. However, the export sales have shown a growth of 16% over the corresponding quarter previous year. The total de-growth in the topline is 10.18% over the same quarter last year. However, the sales compared to the immediate preceding quarter shows a lot of encouraging figures. The total sales have grown by 15.7% and the domestic sales have grown by more than 16% compared to the March quarter of 2009. It is interesting to note also that the demands for the company's brand at the retail level is growing continuously as indicated by ORG IMS data. Indoco's ranking in secondary sales audit has improved from 33 in June 2008 to 31 in June 2009 as per

the ORG IMS data. The company is therefore confident that positive impact of the measures taken will be seen very soon. We are also happy to inform you all that the tightened credit control measures improved the liquidity situation within the organization considerably. The working capital borrowings have reduced to 32 crores from Rs.40 crores and as on date the same has dropped further to Rs. 25 crores. We have also tied up some long-term funds for our capital expenditure project for Patalganga and modernization in Goa, that is, \$3 million from Citibank and for our ambitious R&D project; we have tied up USD 5 million from Standard Chartered Bank. The reduced sales had affected the profitability of the company. The profit after tax for the quarter stands at Rs.16.88 crores as compared to Rs.24.60 crores during the same quarter for the previous year. The percentage of profit after tax has reduced by 531 bps and the percentage of EBITDA margin has reduced by 453 bps. The reduction in the profit is mainly due to the contribution loss on account of reduced sales. The contribution loss is to the tune of Rs.5.5 crores. Also, the employees cost for the quarter has marginally gone up by Rs.1.71 crores due to normal increment for the year. The other expenditure is up by Rs.2.37 crores over the same quarter previous year. The increase in other expenditure is mainly on account of export airfreight to the tune of Rs.1.71 crores and travelling expenses to the tune of Rs.70 lakhs. However, it is to be noted that this export airfreight has been charged to the customer. The other operating income was higher by Rs.1.65 crores. This was mainly due to the foreign exchange gain of Rs.1.10 crores and interest earned by way of Rs.43 lakhs. Company's mark-to-market position as on June 30, 2009 is Rs.33 lakhs loss. The company's interest cost had gone down by Rs.43 lakhs due to better management of working capital requirement. The interest cost for the quarter was Rs.92 lakhs. While peeping into the future, the management expects that during the quarter July to September, the domestic sales will be up substantially higher compared to the same quarter last year. The outlook for export and international business, both on the API and formulation front also remains very bright. Company has taken the required steps to control the travelling expenditure, which was high during the present quarter. Therefore, I would like to say that in totality the company's profitability will improve substantially in the coming quarter. The management discussion and analysis for the quarter ended June 30th has already been circulated to all of you. I would now be happy to have your queries and me along with my colleagues would be able to answer the same. Thank you very much.

Question and Answer Session

- Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing # key. Our first question comes from Mr. Bhavesh Shah of Dolat Capital.
- Bhavesh Shah:** Good afternoon sir. I just wanted to know about the domestic formulation business, when do we see a positive turnaround happening there?
- Aditi Kare Panandikar:** The coming quarter.
- Bhavesh Shah:** Okay, do you anticipate a major bounce back from hereon?
- Aditi Kare Panandikar:** Yes.
- Bhavesh Shah:** Okay, have we considered any Metformin API sales in the international market?
- Aditi Kare Panandikar:** Not in the quarter completed, I think from now.
- Bhavesh Shah:** Okay fine, I will be in the queue.
- Moderator:** Thank you sir. Our next question comes from Ms. Sarabjit Kaur of Angel Broking.
- Sushant:** Good afternoon, this is Sushant here. I just wanted to know, first thing was your full year guidance for domestic formulation sales?
- Aditi Kare Panandikar:** We have not given any clear guidance for the formulation sales for the whole year, but as I said in my earlier answer, the coming quarter is going to be the first bounce back quarter for domestic sales. We are very confident. All the efforts put in with the credit control policy have brought results. June as a month among the three months of this quarter has shown us the highest sales for the entire year and we are very clear that the upside has started. That given the position for the same quarter last year, I am very confident that we will see a high growth for domestic sales.
- Sushant:** So, you will be able to grow in line with the industry or it would be that below the industry?
- Aditi Kare Panandikar:** Far greater.

- Sushant:** Okay. Madam, wanted to know the contribution from that UK tender dispatches this quarter?
- Aditi Kare Panandikar:** If you are talking about the API towards AOK or are you talking about the formulations of Metformin to AOK. I think, the Metformin formulation?
- Sushant:** Yeah, the formulation?
- Aditi Kare Panandikar:** Yeah, maybe Sundeep can answer that. Is there contribution here or there?
- Sundeep Bambolkar:** What exactly would you like to know?
- Sushant:** Sir, the Metformin formulation contribution during the quarter?
- Sundeep Bambolkar:** Contribution to the topline?
- Sushant:** To the topline, yeah.
- Sundeep Bambolkar:** Okay, during the quarter? Three and a half crores out of total formulation international business of Rs.27 crores.
- Sushant:** Three and a half crores?
- Sundeep Bambolkar:** Yes.
- Sushant:** Sir, how do you see it panning out.
- Sundeep Bambolkar:** In fact, it is growing day by day. Orders are pouring in and supplies are going very, very quick. So, I think, in this quarter, it should grow more than Rs. 5 crores and further improvement in the next quarter after this.
- Sushant:** Sir, last question in terms of your FOREX cover and the CAPEX during the quarter?
- Sundeep Bambolkar:** Yeah, see we have expanded the Patalganga facility during the last two to three quarters and modernized some equipment in Goa. So, together for all this, we had borrowed about Rs.15 crores from Citibank. This is a long-term loan and the rate of interest is around 7.5%. That was the ECB. Going ahead, we have planed an expansion of a formulation facility in Goa for tablets and the total investment, we envisage is around Rs.30 crores. This will be part funded from our internal accruals as well as the long term ECB again. On the R&D front also, we have tied up an ECB to the tune of about 5 million dollars from Standard Chartered Bank. This is mainly for NDDS projects, Dossiers, ANDAs and DMF. This money will be

invested over a period of 18 to 24 months for various projects, bioequivalence studies, etc.

Sushant: What would be your FOREX cover?

Sundeep Bambolkar: FOREX as far as dollar FOREX cover is concerned, our average rate of hedging, we have hedged till about May 2010 and our average rate of hedging is around 48 and 49. The highest rate of hedging is 53.

Sushant: The quantum, in terms of the amount over entire?

Sundeep Bambolkar: We have hedged about 5.5 million as far as dollar is concerned and Euro is around 2 million. We will hedge Euro more, but we are waiting because presently the Euro is around 66.50 to 67 and I do not think this is the right time to hedge. Because, we have hedged at a maximum price of 70 and our average works out to around 67 to 68. So, I think, it should go at above 67 to 68 now for us to hedge more. We are already covered between from July 09 to May 10 and we would like to hedge more per month because of revenue proceeds from Germany have started going up.

Sushant: Your debt position as on June 30?

Sundeep Bambolkar: Working capital debt as on June 30 is around Rs.25-26 crores, which has again dropped by 1 or 2 crores as we talk on date and even after increasing the inventory level to very comfortable levels at the 32 CNF locations, we definitely hope to keep the debt around Rs.26-27 crores, that is the working capital debt. To that, you have to add both the long-term ECBs, that is, one for CAPEX that is Rs.15 crores and one for R&D that is Rs.25 crores. That together will total 40. To that you add 28, so it will be 68 crores.

Sushant: Okay sir thank you.

Moderator: Thank you sir. Our next question comes from Mr. Krishna Kiran of Capital Market.

Krishna Kiran: Sir, I have missed that number, how much you have hedged in US dollars?

Sundeep Bambolkar: 5.5 million dollars.

Krishna Kiran: Okay sir. Thanks a lot.

Moderator: Thank you sir. Our next question comes from Mr. Manish Jain of Axis Holdings.

- Manish Jain:** Sundeep, hi. Just a quick question on the credit control measures, which we talked about. Roughly, can you give us an insight as to from what debtor dates you have come down to what debtor days levels and this is going to be sustained throughout now. This is a permanent change?
- Sundeep Bambolkar:** Yes. The domestic debtor days used to be around 105. From there, we have come down to about 89.
- Manish Jain:** Wow and this is going to be a significantly sustainable change?
- Sundeep Bambolkar:** Absolutely. In fact, we are trying to bring it to 75, that is our next endeavor and I think; now we have really got a grip of the situation, very firmly. Because, I believe that going ahead 80% of the job is already done and only 20% remains. So, from the next quarter onwards, although we will go on tightening the credit control measures, the sale will go up now.
- Manish Jain:** Excellent. Thanks and best of luck.
- Sundeep Bambolkar:** Thank you.
- Moderator:** Thank you sir. Follow up question comes from Mr. Manish Jain of Axis Holdings.
- Manish Jain:** Another question since there are more questions to come through from others, essentially on the branded sales, you, I reckon, are amongst the few companies in the country, which have significant component of branded sales today?
- Sundeep Bambolkar:** That's right.
- Manish Jain:** So, in exports, what is the, like you have mentioned 3.5 crores is coming from Metformin AOK tender, everything else can we take it as branded sales?
- Sundeep Bambolkar:** No, not really. Because the export is divided into two parts. First is the regulated market sales mainly comprising of UK, Germany, New Zealand, Australia, South Africa and Eastern Europe. That is totally generic.
- Manish Jain:** So, out of 27 crores, how much will be the branded?
- Sundeep Bambolkar:** About 4.5 crores is branded sales and the rest is generic.
- Manish Jain:** Fair enough. Thanks.
- Sundeep Bambolkar:** Thanks.

- Moderator:** Thank you sir. Our next question comes from Urmil Negandhi of Religare Securities.
- Urmil Negandhi:** Sir, I just want to ask what is top 10 products' contribution to domestic sales, and how many products we have launched and contribution from the new products?
- Aditi Kare Panandikar:** Our top 13 brands give us about 62% of our topline. For this quarter, we have launched one new product, which is Prichek GMC; it is an extension of an antidiabetic release. We already have Glimepiride, which is Prichek and a Glimepiride-Metformin combination, which is Prichek-M and this is the third extension.
- Urmil Negandhi:** Okay. Another one question. If you can throw some light at how you are looking at the CRAMS opportunity?
- Sundeep Bambolkar:** See, CRAMS opportunity is again divided into the formulation space and the API. Aditi will talk on API. In the formulation space, we have got a very large number of contracts with European and South African companies wherein they give us the total contract for compiling a dossier. So, is that what you are asking about?
- Urmil Negandhi:** Yeah.
- Sundeep Bambolkar:** Okay. So that starts right from the literature search then getting the reference listed drugs, deciphering them, then formulating, then the analytical method development, then transmitting technology to the plant, the stability studies, and so on and so forth. And for this, a fee is charged and this is backed by our final agreement. Because once dossier is logged in, in Europe and we get the green signal that is the approval, that process itself would take about 18 to 24 months and after that happens, this is backed by final agreement wherein Indoco continues to supply the product.
- Urmil:** Okay. Sir, if I just ask related to this question only, what kind of a growth rate we see in next two to four years, broad number any?
- Sundeep Bambolkar:** In totality, the international business, which is unit supplies as well as CRAMS, we foresee growing at about 35-40%.
- Urmil:** Okay thank you sir.
- Sundeep Bambolkar:** Thank you.

- Moderator:** Our next question comes from Mr. Basavaraj Shetty of Techno Shares.
- Basavaraj Shetty:** Hello. Good evening everybody. Actually, can you give some overall guidance in terms of domestic business for FY10 and I suppose this international your expectation of around 35%-40% is for this year, FY10?
- Sundeep Bambolkar:** Yes.
- Basavaraj:** Okay and domestic business growth sir?
- Aditi Kare Panandikar:** As you know, we are coming out of a difficult day of our domestic where because of the credit control policy, we have not done very well on the topline and therefore we expect substantial gain in domestic sales going forward. At this stage, I am not comfortable giving guidance, but you can rest assured, we will be growing much, much faster than the industry.
- Basavaraj:** Okay. Any number there, around high 20s or low 20s?
- Aditi Kare Panandikar:** 20% is high or low, this is what you are saying?
- Basavaraj:** I suppose, the industry is growing at around 15% on domestic?
- Aditi Kare Panandikar:** No, the industry is growing at about 12%. It shows a fluctuation quarter over quarter, it is a very seasonal industry also, but I mean, it just depends on your product ranges. For us at Indoco, we are getting a good balance in our product range now. So, (inaudible) the product is going down, so I do not doubt very much there will be much fluctuation in that, but we will definitely do much better than the industry, 20% is a good target to have. I will just take the first quarter sales from hereon and then pitch there up.
- Basavaraj:** Okay. And I missed about your debt part, around Rs 25 crores will be for working capital, 15 for CAPEX, 25 for R&D and rest sir?
- Sundeep Bambolkar:** Going ahead, we are tying up one more ECB for formulation expansion project, which is just about to start on the drawing board. We plan to start the construction of this project around December 2009 and complete it by December 2010, and the total investment in this project would be around Rs.30 to 35 crores.
- Basavaraj:** Okay, thank you.

- Moderator:** Thank you sir. Our next question comes from Ms. Priyanka of HBM Partners.
- Priyanka:** Yeah, I missed that part in the beginning, what are your splits of domestic sales and export sales?
- Aditi Kare Panandikar:** Domestic formulations is 65%-66%, export formulations is about 27% and rest is APIs, which is really small at this stage.
- Priyanka:** Okay. Thank you.
- Moderator:** Thank you madam. Follow up question comes from Mr. Manish Jain of Axis Holding.
- Manish Jain:** Sundeep, could you also give insight on the Andheri plant, what is the roadmap ahead for the Andheri plant, which we closed down?
- Sundeep Bambolkar:** As of now, no decision has been taken because the company continues to hold the property and we are talking to at least three developers and I think sooner or later the deal would be concluded.
- Manish Jain:** Thanks.
- Moderator:** Thank you sir. There are no further questions. Now, I hand over the floor to Mr. Milind Bhangale for closing comments.
- Milind Bhangale:** Hello? Sir, I have got a few questions. Sir, you had said in quarter 4 that you had bagged your tender from CMS Sudan for (inaudible) 2% to be supplied over the period of two years, so whether that has started or when it is going to start?
- Sundeep Bambolkar:** Not yet. It will start in the next quarter.
- Milind Bhangale:** In Q2, FY10?
- Sundeep Bambolkar:** Yeah, we had some regulatory documentation to be sorted out and that is just done. So, hopefully, it will start from the next, that is, the third quarter.
- Milind Bhangale:** And sir, just wanted to know on the domestic formulations front, are you seeing because of the recession part of it or sort of recession, any impact on the domestic formulation sales?
- Aditi Kare Panandikar:** Not at all.

- Milind Bhangale:** Also, any new geographies, where we are expected to enter or trying to enter into that market?
- Sundeep Bambolkar:** New geographies as in ROW?
- Milind Bhangale:** Yeah.
- Sundeep Bambolkar:** Yes, we are targeting Philippines, which is quite a good market and dossiers are already being logged in and I think, we will be able to start commercial selling from around December. That is going to be a substantially big size because we have logged in about 20 dossiers at this point in time.
- Milind Bhangale:** Okay and sir, any update on the Brazil front, whether the commercialization has started?
- Sundeep Bambolkar:** Not yet.
- Milind Bhangale:** Any time length you are giving on that?
- Sundeep Bambolkar:** Brazil is, I believe, difficult market. Because it is just not international business that happens in Brazil, you have to partner with a Brazilian company, so that is going to take time.
- Milind Bhangale:** Okay. Also sir, in the fourth quarter, our sterile facility was audited by Slovenian Regulatory Authorities for carprofen injections?
- Sundeep Bambolkar:** Yeah, that approval has gone through and Indoco has been approved by the authorities and commercialization will start within a month or two from now. Also, there is good news on the Bagdi front. We have got an approval from UK MHRA. The inspection was in the first week of April and we have just been informed that the plant has approved.
- Milind Bhangale:** Wonderful.
- Aditi Kare Panandikar:** We have also got approval from some of our German customers for our Patalganga site for supplying APIs and some sales in this quarter, you will see from that site also to Europe.
- Milind Bhangale:** From Q2 onwards?
- Sundeep Bambolkar:** That's right.
- Milind Bhangale:** Okay. And sir, on R&D front, if you can throw some light on the R&D?

Sundeep Bambolkar: R&D formulations, as I said earlier, I gave a very elaborate reply to a question. There are quite a number of contracts signed with various European companies and more inquiries are pouring in and Indoco's own dossiers also work is going on very well for which we have tied on that \$5 million ECB. Because a lot of bioequivalence studies will have to be done and then we will out license those dossiers to various companies globally backed by five-year supply agreement.

Milind Bhangale: Wonderful. That's it from my side sir.

Sundeep Bambolkar: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

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