

Conference Call Transcription Report On Q1FY09 performance of



Indoco Remedies Limited

Management Team:

Mr. Sundeep Bambolkar - Director (Finance & Operations),

Ms. Aditi Kare Panandikar-Director Business Devpt & HR

Mr. Ganesh Gokhale - VP (Finance & Accounts)

Hosted by:
Surya Narayan Patra

Operator:

Thank you for standing by. And welcome to the Q1 FY 2009 Financial Performance of Indoco Remedies Limited Conference Call, presented by Mr. Surya Narayan Patra.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a 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 over to your speaker now. Over to you, sir.

Surya Narayan Patra:

Yeah. Thank you, Sachin. Good afternoon to all the participants. Myself Surya Narayan Patra. On behalf of Reliance Money welcomes you all to the Q1 FY09 earnings call of Indoco Remedies Limited.

Now, I congratulate the entire management of Indoco Remedies for good set of numbers for the quarter. And also discuss the quarterly performance in detail we have with us, 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 Account from Indoco Remedies side.

Now, I request Mr. Bambolkar to precede the call and take us through numbers and brief us over the future outlook of the company. Over to you, sir.

Sundeep Bambolkar:

Yeah. Thank you, Surya. Thanks for your greeting. Good evening all the participants. I shall now give you the highlight for the quarter of Indoco Remedies Limited. This year we have started the New Year from April and April to June happens to be our first quarter for the year '08, '09.

For this quarter, we recorded a growth of around 9% for the domestic formulation business and the regulated market business that is formulation export recorded a growth of 38.4%. On the financial side, we had EBITDA margins of 27.77% and operating profit margins of 24% and PAT margins of 23%. So we have maintained the performance at EBITDA level and operating profit margin level and at PAT levels, we have in fact improved the performance.

On the domestic business side, as I said the business has grown by 9% in this quarter and that growth in turnover mainly was due to consolation and growth of existing products in different marketing division.

Product that have substantially contributed to growth are Febrex Plus, Oxipod, Sensodent-K, KF, Sensoform, Kidodent, Lignox, Karvol Plus, Tuspel Plus, Cital, Scabex, Methycal, Pepchek, Ceftichek, Calaid and Bactogard. These are mainly from the Anti-Infective, the Respiratory and Anti-Allergic, the dental, the dermatology and the urinary therapeutic areas.

On the Reg market front, as I said earlier, we have grown the business in this quarter by about 38.4%. The plant one in Goa has secured approval from the TGA Australia, and our first deal for Metformin tablet has been approved by TGA. As a result, the first shipment of this product has been executed in this particular quarter.

Our German partner has extended the contract and signed new product for transferring a site variation to our plant in Goa. The estimated business for this is likely to be more than 450000 euros.

On the R&D formulation front I would like to say a few words, the R&D sector as all of you are aware it is capable of handling formulation in various brokerage pharm, and NTDS and technology platform. The above effort are supplemented by the companies regulatory department also, which has tie ups with external CTO's to conduct these studies.

On this front, we have a good pipeline in place and many new molecules have been introduced for developing our own dossier for European market. Apart from the, development work, Indoco is involved in contract research where Indoco Research Center develops the product for other organization for both domestic and international business. and dossiers for submissions to various regulatory authorities of the west that is ANDA for US and Euro Dossier and Dossier to South Africa, Australia and Brazil and many other countries are undertaken.

Products under developments for US and Europe generic market in Solid Oral, we have six, in Ophthalmic we have 11, and semi-solid we have four. Products that are already developed and ready for exhibit batches in Solid Oral are three and in Ophthalmic four, and there are at least half a dozen products where bioequivalence studies are in progress at the moment.

This was sort of synopsis of the performance. I would now like to invite questions from the participants.

Question and Answer Session:

Operator:

Certainly sir. Participant who wish to ask a question please press "star" "one" on your telephone keypad and wait for your name to be announced.

The first question comes from Mr. Surjit Pal from Standard Chartered. Please go ahead, sir.

Surjit Pal:

Good evening, everybody. I have just gone through the result I have one concern about your domestic growth. Now, if I see the excise duty, more shifting towards the Baddi caused reduction in your excise rate overall.

If I remove that and if we discuss the gross sales part and if I compare June to June there is 3% domestic growth, right? And if I see a parallel of what you have done in June quarter in last year or last to last year. It has shown a steep decline, you know, if I compare between June quarter within '06 and '05, it was 54, then '07 and '06, it is 18% and now it is 3%. And for the company supposedly, June quarter and March quarter is the blockbuster quarter vis-à-vis other two quarters.

Now, what could be the reason for such a kind of huge under performance vis-à-vis the market and vis-à-vis your earlier performance, is it basically basic factor, what do you think on that?

Aditi Kare Panandikar:

Yeah. I'll take that.

Sundeep Bambolkar:

Yeah.

Aditi Kare Panandikar:

Okay. Basically, let me correct you there, our March quarter is not a blockbuster quarter. It was traditionally the very poor quarter for the company. This year we did very well, as compared to our performance earlier.

This quarter used to be an abnormally huge quarter for the company. There were reasons possibly because of the sale target being completed at the active rate and a lot of pull push strategy and things like that. Over a period of time, we have strategically aligned what we wanted to do and what we have, what you are seeing now is possibly a result of the changing product list and product profile across the various division.

Lot of the newer divisions launched by the company are the super specialty division, unlike the older traditional therapy we use to have; it's to be highly fitment. And what we are seeing now is that we had extraordinary good March quarter. And to that extend we did not have a very great June quarter, okay?

We have also tightened from the company side and brought in some good credit control measures. Despite this being a large bumper quarter, we have put some of those in place. Possibly what we see is an impact of that, we are very clear that this is not something which we'll be seeing quarter-after-quarter. In fact the outcome of this will be much more positive in quarters to come. So this outstanding is expected to go down as the quarter's progress and eventually you will see the sales come up.

As regard, if you look at some parameters within the sales achievement on the certain key products and for the strategies in place. To see that strategically things are in place, it's not really your concern. It has not been as greater quarter as every June use to be. I agree with that.

Surjit Pal:

No. I would have agreed, you know, how they have not given the data but thing is that if I see overnight it could not be possible for any company to shift their mix.

Now if I go by your Anti-Infective data generally you know, in rainy season your Anti-Infective sales are more as split areas sales are more. Now we are seeing very rapid growth in those areas, like 8%, 13% kind of growth vis-à-vis if I see that you're shifting towards more life style products, say for example cardiovascular, where you were showing, quite a big de-growth. So do you still substantiate what you have said?

Aditi Kare Panandikar:

Yes. Anti-Infective by itself as you have seen we have done very good at 13% which is not bad, for a quarter which has by and large for the industry not been very good either. For the industry, I just explained this, look at the industry performance on Pharma. You have this very seasonal kind of a graph.

Because of our probably dependent on the rural market. We get about 32% of our sales from the rural market. In a way it is costly because going forward potentially that is good because they are the fastest growing segment for the industry.

But these are the areas segment which take maximum retail where the performance of the industry looking somewhat very well. Additionally, see that the quarter where the March quarter where industry doesn't do well we use to suffer very badly and the June quarter where the industry did well we use to extraordinary well.

And we have some kind of balance coming. one of the main reasons for us has been the, de-growth possibly in our main product Cyclopam. See look at strategies, marketing strategies have been put in place that is one single reason why we might have seen that. But if you look at some of other products, how it has happened, the churn, strategies are in place and I think it will turn around, not a problem.

Surjit Pal:

Don't you think basically your star products or the major therapeutic areas where you have been doing fantastic performance for last two years whether to say? If catching up with the base effect of, huge performance for last two years say, as a result of you need some breathing time before showing against your growth or something like that?

Aditi Kare Panandikar:

I don't entirely agree, but it is -- coming to its paid level you know, our strategy for marketing are very, very scientifically oriented. and are monitored on a months-to-months basis, performance regularly doctor categories, the support we get from various strategies, you know, prescribing profiles like that. So and positive that it is just an impact we will have of quarter which is not been very late for the industry.

Surjit Pal:

Well, so what will be your kind of, guidance or I would say the kind of indications of the overall domestic growth this year?

Aditi Kare Panandikar:

We should comfortably be able to do at least 15%.

Surjit Pal:

15%.

Aditi Kare Panandikar:

Yeah. So we are quite bullish on going up to 18% also.

Surjit Pal:

So you are seeing that huge growth in going forward?

Aditi Kare Panandikar:

Yeah, yeah. Certainly.

Surjit Pal:

And in that case your basic structure of, say fourth quarter and second quarter being fantastic. will your June and December quarter be fantastic. Will that structure be changed again?

Aditi Kare Panandikar:

It will get tampered.

Surjit Pal:

Okay.

Aditi Kare Panandikar:

Yeah.

Surjit Pal:

All right. Thanks. I will come back again.

Operator:

Thank you. The next question comes from Mr. Rahul Sharma from Karvy. Please go ahead, sir.

Rahul Sharma:

Yeah. I have some queries on filings which Sundeep went through. Now, many of them just wanted to know the products, which have been underdevelopment for US and Europe markets and where, you have already done some site transfer project. I just wanted more clarity on how would they pen-out in terms of revenues in current year and next year?

Sundeep Bambolkar:

Current year for UK, our projection is around at least 60 crores.

Rahul Sharma:

Okay. And how will that be derived? Is it derived solely from site transfer?

Sundeep Bambolkar:

UK is purely from site transfer and so is Germany and Eastern Europe.

Aditi Kare Panandikar:

Our dossier for all the companies for which bio studies are on, are the one which will change our profile over contract manufacturer to license holder. Till then most of the red market sales will come at the back of contract manufacturing opportunity, which largely involve segregation.

Rahul Sharma:

Okay. And how much did you do in UK last year?

Sundeep Bambolkar:

I'll just give it to you. For the same -- this quarter we have done 12.86 crore and for the same quarter last year we did 11.55 crore.

Rahul Sharma:

Okay. And last year -- full year, how much you did in UK?

Sundeep Bambolkar:

Around 45 crore.

Rahul Sharma:

Okay. And Germany what are you looking at in the current year?

Sundeep Bambolkar:

Germany, we are looking at around 7 to 8 crores in the current year.

Rahul Sharma:

Okay. And when would you migrate to becoming a license holder? Will it happen in the current year itself?

Sundeep Bambolkar:

Quality of our Solid Dosages, dossiers are getting ready in the current year. So they will be filed around December this year and I think the approval process takes about one and half year, one to one and half year.

Rahul Sharma:

Okay. And any update on your US and you said, how many on the ANDA filling and on the Ophthalmic front?

Aditi Kare Panandikar:

Yeah. We have products which are on the verge of the exhibit batch is happening now. So three or four products will definitely get filed before December itself. And then, we have a couple of products every month going forward. So these are on track.

Rahul Sharma:

Okay. Okay. Thank you.

Aditi Kare Panandikar:

Yeah.

Sundeep Bambolkar:

Yeah.

Operator:

Thank you. Once again, participant who wish to ask a question, please press "star" "one" on your telephone and wait for you name to be announced. I repeat, participant who wish to ask a question, please press "star" "one" on your telephone and wait for you name to be announced.

The next question comes from Mr. Bhavin from Dolat Capital. Please go ahead, sir.

Bhavin:

Thanks for taking my question. Just wanted to know that from the current level where export stand where do you see the contribution of exports going to for the next fiscal?

Sundeep Bambolkar:

Currently, 22% of the company's revenue comes from international business.

Bhavin:

Right.

Sundeep Bambolkar:

So you're saying after a current fiscal is over.

Bhavin:

Yes. Perhaps, you know, 2010 maybe.

Sundeep Bambolkar:

In 2010, it should be around 35%.

Bhavin:

25%, which means...

Aditi Kare Panandikar:

35...

Sundeep Bambolkar:

35, 35.

Bhavin:

35. Okay. And this would primarily be from the joint ventures that we have, the Ophthalmic?

Sundeep Bambolkar:

From all the concerned sectors that is reg market, semi-reg market put together...

Bhavin:

Okay.

Sundeep Bambolkar:

Should be 35% of the company's revenue.

Bhavin:

All right. And which two will get a sense of that 35% of the pie, would it be the plain vanilla generics contributing to this more of that or would it be the other Ophthalmics that would take this initiative?

Sundeep Bambolkar:

Ophthalmics will just make a beginning at that time.

Bhavin:

Okay.

Sundeep Bambolkar:

It would be the first commercial year.

Bhavin:

Okay.

Sundeep Bambolkar:

And as to plain vanilla generics definitely, yes, but higher level.

Aditi Kare Panandikar:

Yeah. Yeah, I have one issue with the vanilla and let me clarify it. Although segregation and contract manufacturing is considered to be a simpler business. We have in fact not lost any of our partners or clients to others who might be able to do cheaper either.

Because the contract manufacturing aspect, there is a huge amount of research that goes behind varying site and that's the capability in the [core hand now what to start trend. We have also been able to work on quality and logistic expectation of our very difficult client including those in Germany.

And so, the kind of product profile they are moving towards are more of a life style cardiovascular products even for these markets. So things will be better even if there will be contract manufacturing.

Bhavin:

Okay. But then, the margins would not be as substantial I believe, as we earn in the domestic front.

Sundeep Bambolkar:

No. the margins still would be at 18% that's exactly the point that we are trying to make. as you move into molecules, which are of higher levels, that is the anti-diabetics and the cardiovascular, which we already started growing through some extend for Germany and Eastern Europe. The EBITDA levels margins are seen moving more towards 25 to 26% from the present level of 16 to 18%.

Bhavin:

Okay.

Sundeep Bambolkar:

And the next point. I was trying to bring in is that, when our own dossiers are approved and we become holders of the product licenses, then we are into the higher value chain, then the margins will improve substantially. They would cross 30% levels.

Bhavin:

Okay. I wish you all the best. Then I will be in the queue, just in case.

Sundeep Bambolkar:

Yeah. Thank you.

Surya Narayan Patra:

Thank you.

Operator:

Thank you. The next question comes from Ronak Nagda from ValueQuest Research. Please go ahead, sir.

Ronak Nagda:

Good evening, sir.

Sundeep Bambolkar:

Good evening.

Ronak Nagda:

Sir, I would like to know why is your tax rate so low. Do you get any benefits or something?

Sundeep Bambolkar:

Tax rate? Okay. Benefit, yeah of course, we have a plant in Baddi in, Himachal Pradesh. So as a result, we are following under the MAT, the Minimum Alternate Type.

Ronak Nagda:

MAT?

Sundeep Bambolkar:

MAT. Yeah. That's how our tax rate is low.

Ronak Nagda:

And sir, recently, you have closed down the manufacturing operation in Andheri. So, what you are going to do about that particular unit?

Sundeep Bambolkar:

Right now, no decision has been taken. We are just holding the property right now with us.

Ronak Nagda:

Okay. Thank you, sir. All the best.

Sundeep Bambolkar:

Thank you.

Rahul Sharma:

I just wanted to understand, a lot of other companies are also in a generic space in Europe. And their margins are much lower and they are sellers cum distributors. How is it that selling cardiovascular and other products and so. Is there something different what we are doing compared to them?

Aditi Kare Panandikar:

I guess one would have to understand which molecule. It is often not simple enough to say an anti-diabetic. You could be dealing with a commoditize molecule like a Metformin or a premium molecule like Gliclazide or even better than that. So it would not be fair to just look at the category and classify. One would also look at the kind of supply chain they are using. It is not unknown in Europe to have various levels of un-required people in the process; you know in tax it also got a lot of margins to be displayed between various vendors. So essentially, when you become license holders, you can actually directly get into a partner or wholesaler who will just be able to take your product to market. And then you do not need the person, you know the kind of companies in Europe which hold licenses and heat up the margins and get product mix of it.

Rahul Sharma:

Okay. I did not get the last part, what do you say?

Aditi Kare Panandikar:

You have been asking about the contract manufacturing or -- after the licenses?

Rahul Sharma:

I think you can probably take me through both of them.

Aditi Kare Panandikar:

Okay. For contract manufacturing, as I said earlier, it entirely depends on the product we're talking about. And when it comes to the licenses that Indoco, you know the dossiers Indoco intends to fight and definitely there will be margin expansion on account of you know, wiping off one level in the supply chain.

Rahul Sharma:

How do you wipe off the leverage supply chain?

Aditi Kare Panandikar:

Yeah. Because currently we manufacture for somebody else who holds the license.

Rahul Sharma:

Okay.

Aditi Kare Panandikar:

Partly they just take the product from us and give it to wholesale in that country. They do nothing else.

Rahul Sharma:

Yeah. But where are you wiping out the chain, in the sense and intermediary in the chain?

Aditi Kare Panandikar:

It will not need that party in the process, if the licenses are.

Rahul Sharma:

So we won't meet the

Sundeep Bambolkar:

License holder.

Rahul Sharma:

License holder, okay. That's what the others are also doing no?

Sundeep Bambolkar:

Right.

Rahul Sharma:

Probably the only logic is your products amount research and others.

Aditi Kare Panandikar:

I don't know. Again, most of them are the contract manufacturers. There are companies you can count of the single tips who are actually doing the filing of dossier. A lot of them do dossier and sale the dossiers. It will not go and find them you know and give a product that they hold in this market.

Rahul Sharma:

And they won't sale the product on there own?

Aditi Kare Panandikar:

You will hear a lot of companies who say there into business of making dossier. A small CROs are mid-size companies which eventually sells this dossier to other companies, so they sale the dossier while steal the dossier before it becomes the license.

Sundeep Bambolkar:

They don't register for themselves, that's what she is trying to say.

Rahul Sharma:

Okay. Thanks.

Sundeep Bambolkar:

Yeah. Thank you.

Aashish Thavkar:

Yes, Sir, initially we were having some talk about acquisitions you know from period IPO related prospective. So any progress on that front, sir?

Sundeep Bambolkar:

Acquisition fortuning to?

Aashish Thavkar:

Sir, the IPO related firms like you had mentioned in the previous concall that we are a particular targeting companies who are pure IPO related.

Sundeep Bambolkar:

We are still definitely in the frame for that. But over the period of time, we have given it a careful thought and couple of conclusion it's better to acquire something in the Indian space for the kind of multiple that the Europeans are asking presently.

Aashish Thavkar:

Also in the Indian space, would it be a brand acquisition or a company acquisition?

Aditi Kare Panandikar:

Possibly a brand acquisition.

Sundeep Bambolkar:

Possibly a brand acquisition.

Aashish Thavkar:

Okay. And that would be in the lifestyle segment?

Sundeep Bambolkar:

Not necessary. Any therapeutic segment, which compliments Indoco segment.

Aashish Thavkar:

Sir, you have received the contract for two products. And it has a market size of approximately \$11 million, preferably in South Africa.

Sundeep Bambolkar:

Okay.

Aashish Thavkar:

So could you tell me that how much does dossier contribute to your revenues?

Sundeep Bambolkar:

In the huge way, because once we prepared the dossier register in the country like South Africa, the business potentially is huge because the market size for that product in that country would be anywhere between 25 million to \$50 million. I'm just giving you an example.

Aashish Thavkar:

Okay. And how much is the utility market penetration, if the market size is \$30 million.

Sundeep Bambolkar:

Yeah.

Aashish Thavkar:

How much is the penetration?

Sundeep Bambolkar:

Yeah. Yeah. Exactly I am coming to that. And we have very good agent in South Africa. Who says that in our first year itself we would be able to get 10 to 12% of the market share easily.

Aashish Thavkar:

Okay. And these are like a long term contracts that you saw?

Sundeep Bambolkar:

Yeah. Long term, five years, six years contract.

Aashish Thavkar:

Okay. So, on an annual basis, how much would the single dossier contribute?

Sundeep Bambolkar:

That as is that depends on the market size in that particular country and the ability to penetrate. But it could contribute to 2 crore, 3 crore in Indian rupees easily.

Aashish Thavkar:

Okay. Sir, also could you let me know the contribution of CRAMS to the revenues?

Sundeep Bambolkar:

You know July to June 12 months; we've run around 7.5 crores.

Aashish Thavkar:

Okay. Thank you, sir. I will get back to you, in case I have some questions.

Sundeep Bambolkar:

Sorry.

Aashish Thavkar:

I will get back to you.

Sundeep Bambolkar:

Okay. Thank you.

Aashish Thavkar:

Thank you.

Operator:

Thank you. The next follow up question comes from Mr. Surjit Pal from Standard Chartered. Please go ahead, sir.

Surjit Pal:

Yeah. Mr. Bambolkar your topline is just restricted to around 9% where if I compare your material cost and staff cost its significantly high. And another thing is that your interest cost has come down while you know interest cost for everybody has gone up.

Sundeep Bambolkar:

Yeah.

Surjit Pal:

So could you through some light on these topics?

Sundeep Bambolkar:

Yeah, Surjit. Our material cost, if you see, we have done better in this quarter. last year same quarter the material cost was around...

Surjit Pal:

30%.

Sundeep Bambolkar:

No. 42.62%, which is percentage to sales I am talking about.

Surjit Pal:

Okay.

Sundeep Bambolkar:

Which is 41.37% this year, the staff was 9.19 which have gone to 10.26 this year. There's definite reason for this, there are new increment because of the New Year happening in April now, new increments have taken place in this particular quarter.

Surjit Pal:

Okay.

Sundeep Bambolkar:

The second reason the provisions for bonus, at individual level, you know, has being hiked by the government.

Surjit Pal:

Okay.

Sundeep Bambolkar:

For statutory bonus. So both this put together contributed for this rise.

Surjit Pal:

Okay.

Sundeep Bambolkar:

Now the third point you ask is about interest. Now, it depends on each company how smartly they handle their interest regimen. As far as Indoco is concerned, we have now started borrowing in foreign currency.

Surjit Pal:

Okay.

Sundeep Bambolkar:

Because of for increasing export there are MNC Bank who are willing to lend at LIBOR plus 200.

Surjit Pal:

All right.

Sundeep Bambolkar:

And these are basically rolling short-term loan for 90 days, but you got to handle it smartly and that's the way we have done it, you know, as soon as you receive your payment from abroad and foreign currency, pay bank a loan and back to the bank and he would renew the loan. So TCFC have contributed significantly and that's how we see the interest going down.

Surjit Pal:

But in that case, your Forex exposure and a mark-to-market loss will be increase, right?

Sundeep Bambolkar:

Not necessary, we had more Forex gain and loss net-to-net either, you know, we are in positive situation.

Surjit Pal:

Right. You have taken loans say for example, 41 or 42 one year back or although six months back and right now it is 43. So you have to sure how much is your Forex loss this time, if there is any?

Sundeep Bambolkar:

Just a minute. Lastly, in the range of 35 to 40 lakh.

Surjit Pal:

35 to 40 lakhs your Forex loss net.

Sundeep Bambolkar:

No, gain. Gain is more than the loss, it is purely the loss.

Surjit Pal:

Why is there gain by the way?

Sundeep Bambolkar:

Because of invoicing, if suppose they are invoice at 41 and then the realization has come let say 43, it might go to odd gain.

Surjit Pal:

Now, that is your realized gain, right. I'm talking about say, when you have gone for your booking of your loan. You know, I mean mark-to-mark there should be send it kind of loss?

Mr.Gokhale:

Yeah. Mr. Sujit, actually whatever loans we have taken, which are on the longer term. 180 days to 365 days.

Surjit Pal:

Right.

Sundeep Bambolkar:

In borrowed I would say something at \$41 and still the repayment has not occurred but only whatever is getting due we are replacing it with the fresh loan.

Surjit Pal:

Right.

Sundeep Bambolkar:

Let's see, so impact is really not coming in the books, okay. And that impact will never come, because it will be on a rolling basis.

Surjit Pal:

True. But everybody shows, I mean Accounting Standards.

Sundeep Bambolkar:

Yeah.

Surjit Pal:

It is not basically translation loss.

Sundeep Bambolkar:

Correct. So that time is when I take a new loan, it goes like a higher rate.

Ganesh Gokhale:

It remains dollar-to-dollar.

Surjit Pal:

Dollar-to-dollar.

Sundeep Bambolkar:

There is no translation into rupees.

Surjit Pal:

Okay. That's all. See, the point is that you have taken LIBOR plus 2% right.

Sundeep Bambolkar:

Yes.

Surjit Pal:

Plus if you see the appreciation of dollar then how much actually cost is coming to you?

Sundeep Bambolkar:

Pardon

Surjit Pal:

Appreciation of dollar also taken your interest goes up, right?

Sundeep Bambolkar:

Correct, correct.

Surjit Pal:

So in that case what percentage of interest rate you are actually paying?

Sundeep Bambolkar:

Net effect if it comes to us, we have borrowed at 2.37%, 200 basis and we have borrowed yet, in fact of the dollar is to another 3% head borrows have goes to around 7.5%.

Surjit Pal:

Right.

Sundeep Bambolkar:

Yeah. That is a worse case scenario.

Surjit Pal:

I mean what I have understood use is that you have not provided any kind of translation loss which is been...?

Sundeep Bambolkar:

No, we've already provided.

Ganesh Gokhale

We have provided.

Surjit Pal:

Okay. And as far as the news line, been you have faith in other news line deal when you are expecting to supply them?

Sundeep Bambolkar:

Also next month onwards that is August.

Surjit Pal:

And what kind of revenue impact you were expecting out of the deal?

Sundeep Bambolkar:

It is about 5 crores but right now over two year.

Surjit Pal:

That it will be spent around two years?

Sundeep Bambolkar:

Yeah.

Surjit Pal:

Okay. Okay.

Sundeep Bambolkar:

Okay.

Surjit Pal:

Okay. Thanks. I'll come back.

Sundeep Bambolkar:

Okay.

Operator:

Thank you. The next follow-up question comes from Mr. Ronak Nagda. Please go ahead, sir.

Ronak Nagda:

Sir, I just want to know your total debt component in the company?

Ganesh Gokhale:

Right now, we are borrowing in the range, I would say 35 to 40 crores.

Ronak Nagda:

Okay.

Ganesh Gokhale:

Its maximum goes to 40 and minimum goes to around 30 crores.

Ronak Nagda:

Sir, and what is your average cost of interest?

Ganesh Gokhale:

Yeah. Average cost of borrowing is 8 to 8.5%.

Ronak Nagda:

8.5?

Ganesh Gokhale:

Yeah.

Ronak Nagda:

Okay. Thank you.

Aashish Thavkar:

Sir, can I get the figure for cash on books?

Ganesh Gokhale:

Cash on books as of today, I mean, as of 30th June is around 23 crores.

Aashish Thavkar:

And how much is the working capital?

Ganesh Gokhale:

Working capital is 36 crores.

Aashish Thavkar:

36 crores.

Ganesh Gokhale:

Yeah. This 23 you see is the money in transit.

Aashish Thavkar:

Okay. Fine.

Ganesh Gokhale:

Because we have got the [CMS] 15, so whatever money three, four days what we collect goes into the transit that's why it appears as a bank balance.

Aashish Thavkar:

Okay. Okay. Fine. That's it. Thanks.

Surjit Pal:

Hello. Mr. Bambolkar, I was going through the numbers of June quarter of FY'07 I mean, earlier times. It was seen that your consumption of materials is 39.7 crore vis-à-vis that your increase in stock and the decrease in stock is around 3 crore, right?

Ganesh Gokhale:

Yeah.

Sundeep Bambolkar:

Yes. Okay.

Surjit Pal:

And at this time it is 48.8 crore and the increase in the stock is 3.5 crore, right? Now vis-à-vis, if I compare with the sales, do I see any kind of efficiency increase?

Sundeep Bambolkar:

Basically these two figures that are the consumption of material and the increase, decrease in stock and the purchase of finish formulations.

Surjit Pal:

Right.

Sundeep Bambolkar:

All three are to be read together.

Surjit Pal:

Okay.

Sundeep Bambolkar:

So they all contribute to material cost.

Surjit Pal:

Okay.

Sundeep Bambolkar:

Then you realize that we will do better to this quarter compared to same quarter last year.

Surjit Pal:

Okay. that is your bottom-line margin, and [PBT] before other income, why it has come down? I mean in terms of percentage wise growth, it has been actually 7%.

Sundeep Bambolkar:

Okay.

Surjit Pal:

I mean, basically apart from the staff cost? What is responsible for bringing it down?

Sundeep Bambolkar:

Other expenses, here I can talk about power and fuel in particular, what has happened is when we sign the agreement with Reliance for our Goa plant, we had per unit cost of Rs. 4.75 and Government of Goa was to supply at Rs. 4.25.

Surjit Pal:

Okay.

Sundeep Bambolkar:

So it was only 50 paise per unit more. So the maintenance side, mainly because not because Reliance whatever other reasons, but mainly because Goa Government power was hopelessly bad, lot of spice and that would, you know, destroy our...Asset

Surjit Pal:

[Asset].

Sundeep Bambolkar:

...(inaudible) based equipment.

Surjit Pal:

All right.

Sundeep Bambolkar:

That's why we signed with them. But the Reliance Power was based on NAFTA. And also dollar to some extent, NAFTA at that time, oil was \$40, you can imagine and today it is \$140. So the unit cost of power from 4.75 went to 12.75.

Surjit Pal:

Sure.

Sundeep Bambolkar:

Goa government 4.25 gone to 5.75.

Surjit Pal:

Okay.

Sundeep Bambolkar:

So we are suffering badly and that's the reason our other expenses have shot up. So we are taken corrective measures in the second plant, to put a agro base about two years back. So to that extend that plant is under control, but the bigger plant, space was the constraint which we will manage and that boiler is now being installed within a month or two. Besides by January, this contract is terminating, so we go back to Goa government.

Surjit Pal:

But in that case you are again increasing the risk of damaging your equipment?

Sundeep Bambolkar:

No, no, no. No, we will be going with all those UPS and all those things you know, which will not damage the equipment, to bring in power stability. And now Goa government has improved – has largely improved about 75% people are saying.

Surjit Pal:

Yes. How many products, by the way, you have launched last year in India?

Sundeep Bambolkar:

Last year, 25.

Surjit Pal:

25, and how many you are planning to launch this year?

Sundeep Bambolkar:

This quarter we will launch seven, so about 30 we will launch during the year.

Surjit Pal:

30.

Sundeep Bambolkar:

That's right.

Surjit Pal:

Okay. And what percentage of your export are basically based on your own API?

Aditi Kare Panandikar:

Currently not much?

Surjit Pal:

Currently, pardon?

Aditi Kare Panandikar:

Currently, not much. The dossiers that are being prepared especially in the [corridorial] space are entirely out of the API's delay.

Surjit Pal:

Okay.

Aditi Kare Panandikar:

So this – with that we will be able to actually target the very competitive ROW market.

Surjit Pal:

Right.

Aditi Kare Panandikar:

Where you know having your own vertical integration hedge completed on pricing and we expect this to be additional, you know, calling dream for the company going forward.

Surjit Pal:

So when do you say that this will improve the scenario in next one year, two years?

Aditi Kare Panandikar:

No, within this year.

Surjit Pal:

Within this year?

Aditi Kare Panandikar:

In the ROW market, of course, some of the markets will lag time after the dossier hiring is very high. And we have started calling them in a lesser rate markets now because almost everybody needs to be on bio-studies and things like that. So the lag time is about a year.

Surjit Pal:

Right.

Aditi Kare Panandikar:

But even then there are some small markets, some of the territorial markets of Russia and some of the South East Asian markets where this is a much shorter lag time, we see, in fact earlier.

Surjit Pal:

Okay. And how about your USFDA inspection of your plants?

Aditi Kare Panandikar:

They said it was already done.

Surjit Pal:

It was not there, this was Germany?

Aditi Kare Panandikar:

German bandstand we had, re-inspection recently.

Surjit Pal:

So when you are expecting even with the inspection for your clients?

Aditi Kare Panandikar:

(Multiple Speaker) for tablets.

Surjit Pal:

Pardon?

Aditi Kare Panandikar:

That could come after we trigger it with our corrodorial dossier

Surjit Pal:

Okay. Not before that.

Aditi Kare Panandikar:

Not before that.

Surjit Pal:

And going by the ANDA, you have said is that most of your API plant is running on optimum capacity that means what it implies that you have to invest in your new API plants or expand through your ground field capacity.

Aditi Kare Panandikar:

Yeah.

Sundeep Bamboikar:

So what is your plan on that and how much CapEx you are planning for this year?

Aditi Kare Panandikar:

Frankly, when we took over the Patalganga facility, we were already making some lower end products.

Surjit Pal:

Okay.

Aditi Kare Panandikar:

So our product mix which is what we never wanted, the kind of product mix we wanted. So lot of capacity although it is being utilized currently for making these products freed for the better product mix. So the capacity formations on account of that but apart from that small investment in CapEx will happen. So we have seen some of the products which were being planned for a KO manufacturing site.

Surjit Pal:

Okay.

Aditi Kare Panandikar:

On account of the relative products having done very well, they will, no longer will remain pillow side products going forward. So already, I am working on expanding bed sizes. Some amount of CapEx will come in at the Patalganga facility. Towards that, we are working and we are almost at the final stages, we have applied once one property exactly behind our plot. Second one is under acquisition right now. And those expansion will come this year, small CapEx in the range of about 12 crores, we are anticipating.

Surjit Pal:

For FY '09?

Aditi Kare Panandikar:

Yes.

Surjit Pal:

Okay. Thanks.

Aditi Kare Panandikar:

Yeah.

Sundeep Bambolkar:

Thank you.

Ronak Nagda:

Sir, you said that you expect our EBITDA margins to be around 25%, am I right?

Sundeep Bambolkar:

EBITDA margins for the quarter, we said, are 28% for this quarter.

Ronak Nagda:

So -- what do you expect them to be the full year?

Sundeep Bambolkar:

Full year we have promised very close to 22%, which we have achieved. If you take July to June, rolling 12 months, we have done an EBTIDA of 21.65% which is the higher by almost two percentage point compared to last year.

Ronak Nagda:

Sir, any guidance you can tell me what kind of revenue you expect or something?

Sundeep Bambolkar:

I think going forward this year also we expect to inch the EBITDA by another percentage point, so it will go close to 23.

Ronak Nagda:

23 crores EBITDA.

Sundeep Bambolkar:

No, no. 23 %.

Ronak Nagda:

23%. Okay. Thank you.

Operator:

Thank you, once again I repeat, participant who wish to ask a question, please press "star" "one" on your telephone and wait for your name to be announced. The next follow up question comes from Mr. Aashish Thavkar from JHP securities. Please go ahead sir.

Aashish Thavkar:

Sir if we have to look at the results on a Y-O-Y basis, we see that the contribution from semi-Reg and the EPI exports have actually gone down. So, I just wanted to understand whether the quarter-on-quarter basis is volatile in these two business segments?

Sundeep Bambolkar:

No. There is not volatility. What has happened is currently the FBI prices have short up.

Aashish Thavkar:

Okay.

Sundeep Bambolkar:

So, last year in the same quarter we had some good tender business in Africa for semi-Reg market in formulation, which has not happened this year, because we would not like to supply in these standard that are losing proposition. So that's the reason, we have not indulged in that kind of business but instead we are going more into promoted product that is brand building for continent like Latin America, Africa, South East Asia, CIS countries. So, I still maintain I am very bullish on this segment and towards the end of the year that is March '09 you will see a growth of around 25 to 30% in the semi-Reg business.

Aashish Thavkar:

Okay.

Aditi Kare Panandikar:

On the Asia exports, when we acquired LaNOVA a year ago they were in the trading business for export and that has never been Indoco's rate at those margins. So if you look at our API business in profanity domestic as well as export and put it together and you will see the technical shifted interim toward domestic API sales, in lieu of doing trading export and eventually as our plants get approved and the DMS, which are already been sized you will see us moving towards higher-end export. So that is the shift that is being caused.

Aashish Thavkar:

Okay. So that means in the coming quarter. We would definitely see a good performance from the semi-Reg market.

Aditi Kare Panandikar:

Yeah.

Sundeep Bambolkar:

Yes, yes definitely.

Aashish Thavkar:

Okay, sir. Okay thanks a lot.

Sundeep Bambolkar:

Thank you....

Sundeep Bambolkar:

Okay.

Surya Narayan Patra:

Okay. So, I have couple of questions. I just want to know, on the domestic formulation business. Since, long we have been seeing in low parameters outspoken in the industry growth. Could we see the same trend going forward also?

Aditi Kare Panandikar:

Yeah. Certainly. Surya, lot of things are being done with regard to structuring, restructuring the division. early last year, we had launched Spera, you must be aware of that. What we realized is that why our top brands, you got sizable amount of them. As a company compared to our peers and really lack in the brands over the size 5 crore to 10 crore space and for the company, then we took this decision to launch two new divisions. The Spera, which was already launched and Cresta, which is going to be, which is under launch right now. The idea being pick up the older bottom brands of Indoco which have been stagnating simply on account of them not being promoted properly to the doctor and we have refocused on these products and you are seeing a Urinary Alkaliser like Cital, which is to be in the range of about 6 crores for the last two, three years. This year, we have done a brand, total brand sale of about 10 crores. So several such initiatives are underway and I am very positive that we will continue to beat the market in the coming quarter.

Surya Narayan Patra:

Okay. What main factors would led the growth in the domestic formulation, ma'am? It is whether the launch of the product or...

Aditi Kare Panandikar:

We have always had a very balance kind of an impact while new products had given substantially to the growth. We have not entirely depended on them, when our top products, which is we had – Oxipod is one of the antibiotics which was launched only about two years ago. It is already coming in our top six products that's a very good sign. our dental products are doing exceedingly well. The decentralizing toothpaste, our Vepan has done very well although it took some beating earlier because of the pricing and all in all we will see a good impact to the old products, old revised products like few division like Spera and the new products. All three segments should contribute.

Surya Narayan Patra:

Okay. One more question on that same domestic formulation. See since long we have been seeing a wide gap between this prescription-based ranking and with detail audit based ranking. When actually we would see is this bridging of this gap (Multiple Speaker) You are taking some initiative on the prescription-inducing side or not in either or any?

Aditi Kare Panandikar:

Yeah. Actually, the super specialty divisions that the company have launched with an intent that as the prescription of deep formulation increased and as prescription on a Life Style Product increase, the value for prescription will go up, which will automatically result in the fact that we sell a lot of units and therefore it would also convert into that kind of value. What possibly on the strategy for these division, what we see is we had gone directly with super specialist whereas our strength were always with the consulting physicians, the general practitioners who also use currently these products. And what you will see in the coming quarters is that in fact of that, we have started taking Life Style Product including the GPs and CPs. We come out of traditional, you know, Indoco Trade Division and we will see an impact of that and when that happens we will see the gap definitely reducing.

Surya Narayan Patra:

But again in the Life Style Segment wherever we have credited so, they are not being very well?

Aditi Kare Panandikar:

We have products like Glychek.

Surya Narayan Patra:

Yeah.

Aditi Kare Panandikar:

Glychek has done very well. Its already among our seven product. So what happens is in these segments you launch a basket of products, because when you want to go to the doctor, you want to have an array of products to offer and then not all them succeed. So probably that entire effect which you are seeing there, but with this realignment of strategy going to the life style with these products, you will see the impact.

Surya Narayan Patra:

Okay. Sundeep sir, can you give me the breakup of this division wise revenue?

Sundeep Bambolkar:

Division wise revenue, yeah. Indoco constitutes 49%, Spade 19, Radius 5, Warren 16, Excel 5 and Spera, 6.

Surya Narayan Patra:

Okay.

Sundeep Bambolkar:

All these are percentages.

Surya Narayan Patra:

So this is the percentage of the total domestic formulation?

Sundeep Bambolkar:

Yes. Yes.

Surya Narayan Patra:

Okay. And what was the contribution from the dossier development revenues?

Sundeep Bambolkar:

Dossier development, that is CRAMS space. All put together it's 7.5 crore.

Surya Narayan Patra:

For the quarter?

Sundeep Bambolkar:

No. For the quarter, okay. between 1.5 and 2 crore. Exact number I can give you later on.

Surya Narayan Patra:

Okay. And you have indicated like that margin expansion will be there but what is the real trigger? Why because input cost is rising means things like that are happening now a days?

Sundeep Bambolkar:

Agreed. I think the rise in input cost, this phenomena is going to be temporary in nature. Basically, I have been to China last month and this phenomena should end about one month after the Olympic game that is maximum by end of September. Because the games are ending by I think end of August. So that being the case, you might see this load or this pressure for one more quarter, that is July, August, September quarter. After that I think we'll be out of it.

Surya Narayan Patra:

And apart from this input cost, what would be the real trigger for the expansion of the margin?

Sundeep Bambolkar:

Volume and niche product as far as domestic marketing is concerned and high end one Q for Contract Manufacturer plus our own product licenses. New countries opening up like South Africa or Australia, New Zealand. All this should be gross triggers and expansion of margin triggers.

Surya Narayan Patra:

Yeah. Have we already seen some numbers from the gradual ratio or it is still to come?

Sundeep Bambolkar:

Not yet. It should start from the fourth quarter of this year.

Surya Narayan Patra:

Okay. that is all from my side. Thanks to all the participants for making this con call successful. And our special thanks to the entire management team of Indoco Limited.

Sundeep Bambolkar:

On behalf of Indoco management, I would like to thank all the participants for taking time out and logging on and also for the question-and-answer session. And special thanks to Mr. Surya Narayan of Reliance Money for hosting the conference call.

Surya Narayan Patra:

Thank you, sir.

Sundeep Bambolkar:

Thank you.

Aditi Kare Panandikar:

Thank you.

Sundeep Bambolkar:

Thanks.

Operator:

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

END