

INDOCO REMEDIES LIMITED

MANAGEMENT DISCUSSION & ANALYSIS FOR THE THIRD QUARTER FY14

➤ **Revenue figures (Standalone)**

(₹ in Lacs)

Particulars	Unaudited							Audited
	Quarter Ended				Nine Months Ended			Year Ended
	Dec'13	Sept'13	Dec'12	Gwth%	Dec'13	Dec'12	Gwth%	31.03.13
Net Sales :								
Domestic – Formulation	11492	12062	9434	21.8	33328	29788	11.9	39040
- API	539	672	385	40.0	1789	1242	44.0	1662
Total Domestic ... (A)	12031	12734	9819	22.5	35117	31030	13.2	40702
Formulation Exports :								
- Regulated	5235	5340	4233	23.7	13948	12846	8.6	18138
- Emerging Market	961	854	444	116.4	2338	1432	63.3	1951
Formulation Exports Total:	6196	6194	4677	32.5	16286	14278	14.1	20089
API's Export :	578	552	515	12.2	1638	1238	32.3	1782
Total Export ... (B)	6774	6746	5192	30.5	17924	15516	15.5	21871
Total Net Sales (A + B)	18805	19480	15011	25.3	53041	46546	14.0	62573
Analytical & Testing Income	36	25	15	-	110	49	-	70
Net Revenue	18841	19505	15026	25.4	53151	46595	14.1	62643
Other Operating Income	(60)	725	309	-	1258	557	125.9	396
Total Income	18781	20230	15335	22.5	54409	47152	15.4	63039
EBIDTA	3351	3685	2254	48.7	9750	7791	25.1	10597
Operating Profit	2164	2387	1181	83.2	5909	4350	35.8	6038
Profit Before Tax	1808	2045	897	101.6	4952	3411	45.2	4837
Profit After Tax	1412	1604	738	91.3	3934	2981	32.0	4266

➤ **Financial Highlights**

The net revenue of the company during the third quarter ended 31st December 2013 stood at ₹ 188.4 Crs as compared to ₹ 150.3 Crs during the same quarter last year, higher by 25.4 %. Domestic business recorded a growth of 22.5% at ₹ 120.3 Crs as compared to ₹ 98.2 Crs during the same quarter last year and international business recorded a growth of 30.5% at ₹ 67.7 Crs as compared to ₹ 51.9 Crs during the same quarter last year.

Company's Domestic Formulations business grew by 21.8 % at ₹ 114.9 Crs for the quarter as against ₹ 94.3 Crs during the same period last year. Among the key therapies, Stomatologicals, Gastro-Intestinal, Anti-Infectives, Pain/Analgesics, Vitamins/Minerals/Nutrients, Dermatology, Anti-Diabetics and Cardiac reported good growth. API Domestic business recorded a growth of 40% with revenues at ₹ 5.4 Crs for the quarter as against ₹ 3.8 Crs during the same quarter last year.

International Formulation business grew by 32.5% at ₹ 62.0 Crs as against ₹ 46.8 Crs during the same period last year. Regulated Markets revenue grew by 23.7 % at ₹ 52.3 Crs as against ₹ 42.3 Crs during the same period last year. The quarter also witnessed good upsurge in the sales from Emerging Markets with revenue at ₹ 9.6 Crs as against ₹ 4.4 Crs during the same period last year. API Export business grew by 12.2 % at ₹ 5.8 Crs as against ₹ 5.1 Crs during the same period last year.

During the quarter, the material consumption to net sales is 38.4% at ₹ 72.4 Crs as against 42.2% at ₹ 63.5 Crs during the same period last year. The staff cost to net sales is 17.1% at ₹ 32.2 Crs as against 17.0 % at ₹ 25.5 Crs during the same period last year. The depreciation / amortization are at ₹ 8.0 Crs as against ₹ 5.7 Crs during the same period last year. Research & Development expenses for the quarter are ₹ 3.7 Crs as against ₹ 3.3 Crs during the same period last year. Other expenses to net sales are 26.4% at ₹ 49.7 Crs as against 27.8% at ₹ 41.8 Crs during the same period last year.

During the quarter, the company witnessed significant improvement in EBIDTA margins. EBIDTA as a percentage to net sales is 17.8% at ₹ 33.5 Crs as against 15.0% at ₹ 22.5 Crs during the same period last year. For the year to date, the EBIDTA as a percentage to net sales is 18.3% at ₹ 97.5 Crs as against 16.7% at ₹ 77.9 Crs during the same period last year. The Operating Profit for the quarter as a percentage to net sales is 11.5% at ₹ 21.6 Crs as against 7.9% at ₹ 11.8 Crs during the same period last year. For the year to date, the Operating Profit as a percentage to net sales is 11.1 % at ₹ 59.1 Crs as against 9.3% at ₹ 43.5 Crs during the same period last year.

For the quarter, the Profit before tax as a percentage to net sales is 9.6% at ₹ 18.1 Crs as against 6.0% at ₹ 9.0 Crs for the same period last year. Profit after tax as a percentage to net sales is 7.5% at ₹ 14.1 Crs as against 4.9% at ₹ 7.4 Crs for the same period last year. Year to date, Profit before tax as a percentage to net sales is 9.3% at ₹ 49.5 Crs as against 7.3% at ₹ 34.1 Crs for the same period last year. Year to date, Profit after tax as a percentage to net sales is 7.4% at ₹ 39.3 Crs as against 6.4% at ₹ 29.8 Crs for the same period last year.

➤ **Credit Rating**

The Company's working capital facilities are rated as A1+ and long term borrowings are rated as A+ by ICRA.

A1 + rating indicate highest credit quality rating and A+ rating indicates adequate credit quality rating.

➤ **Finished Dosages**

Indian Pharma Market

During the third quarter, the Indian Pharmaceutical Market (IPM) grew by 4.9 % over the same quarter last year. During the quarter, acute segment grew by 2.9% and chronic segment grew by 10%. After two consecutive declines seen in Sept-2013 (-1.2%) and Oct-2013 (-0.7%), IPM witnessed positive growth in Nov-13 (7.9 %) and Dec-13 (8.2 %). Among the key therapies, Respiratory (9.0 %), Anti-diabetics (14.7 %), Derma (13.1 %), Ophthal/Otological (10.2 %) and Stomatologicals (10.2 %) reported good growth in this quarter by the Industry.

Indoco's Domestic Formulation Business:

The Company registered a good growth of 21.8 % at ₹ 114.9 Crs for the quarter as against ₹ 94.3 Crs during the same period last year. Indoco's growth in the Domestic Formulation space has surpassed the Indian Pharma Market's growth indicating a well laid out strategy of our Company for building up the Domestic formulation business and setting up new bench marks for success.

The therapies which performed well during the quarter are as under: (₹ In Lacs)

Therapy	Oct 13-Dec 13	Oct 12-Dec 12	Gwth %
Respiratory	2378	2091	13.7
Stomatologicals	2034	1613	26.1
Anti - Infective	1780	1565	13.7
Gastro-Intestinal	1378	1120	23.0
Pain / Analgesics	966	726	33.0
Vitamins / Minerals / Nutrients	681	504	35.1
Ophthalmic / Otologicals	632	540	17.0
Dermatology	488	386	26.4
Anti-Diabetic	467	382	22.2

The products which performed well during the quarter are as under: (₹ In Lacs)

Products	Oct 13-Dec 13	Oct 12-Dec 12	Gwth %
Cyclopam Tab	627	508	23.4
Sensodent K 100	511	431	18.6
Karvol Plus 18 X 10s	496	373	33.0
Febrex Plus Syrup	452	394	14.7
Cloben G 15 Gms	300	230	30.4
Tuspel Plus Expect.	300	264	13.6
Cital Liquid 100 MI	299	266	12.4
Sensoform 100 Gms	272	225	20.9
Sensodent KF 100	264	220	20.0
MCBM 69 10s	217	160	35.6

During the quarter, the company launched 8 new products, details of which are as follows:

Product	Therapy Name
OH-D3 Tablets	Vitamins / Minerals / Nutrients
OH-D3 Drops	Vitamins / Minerals / Nutrients
Vepan CV 250 DT	Anti - Infectives
Vepan CV 500 DT	Anti - Infectives
OH-D3 Sachets	Vitamins / Minerals / Nutrients
Metchek SR 1000mg tablet	Anti - Diabetic
Clamchek Forte DS	Anti - Infectives
Aloha - XT Plus Tablet	Gynaecological

Ranking in IPM

Secondary Sales Audit Ranking (AWACS)

Dec'13	Dec'12
28	30

CMARC Prescription Ranking (Rxs)

Nov'13 – Dec'13	Nov'12 – Dec'12
24	26

International Business

The International Formulations Business recorded a growth of 32.5% during the quarter with revenues at ₹ 62.0 Crs as against ₹ 46.8 Crs during the same quarter last year.

Regulated Markets:

The regulated market recorded revenues at ₹ 52.3 Crs as against ₹ 42.3 Crs during the same quarter last year. The Company launched an anti-diabetic product filed and approved in its own name in the US market. The filings in European markets have also begun in line with our strategy to steadily augment contract manufacturing business with manufacturing against our own Marketing Authorizations (MAs) for generic companies. To further leverage our strength in sterile ophthalmic formulations, the Company has through a major European partner filed a Dossier in European Union.

Emerging Markets

The emerging markets recorded revenues at ₹ 9.6 Crs as against ₹ 4.4 Crs during the same quarter last year. The growth regions in this quarter are Kenya and Tanzania. Re-launch of Dental products with attractive packaging in Sri Lanka and appointment of task force in Kenya for active promotion of dental products will help in leveraging Company's strength in this segment.

➤ **Active Pharmaceutical Ingredients (APIs)**

API business during the quarter recorded revenues of ₹ 11.2 Crs as against ₹ 9.0 Crs during the same quarter last year. API Domestic business revenues are at ₹ 5.4 Crs as against ₹ 3.8 Crs and API Exports business revenues are at ₹ 5.8 Crs as against ₹ 5.1 Crs during the same quarter last year. The Company's Drug Master File (DMFs) for Rasagaline filed during the quarter has already appeared on USFDA site taking the tally of DMFs filed to ten.

➤ **Intellectual Property Rights**

The total number of patent applications filed as on date is 57, out of which 37 pertain to API processes and 20 pertain to finished dosages. Indian Drug Manufacturers Association (IDMA) conferred on the Company a "Patent Appreciation Award 2012-2013" for two of its patents for API manufacturing processes.

➤ **Future Outlook:**

With the settlement of issues faced by the Industry subsequent to announcement of the new pricing policy, our domestic formulation business has picked up and is all set to further improve its performance in the coming quarters. Focus on chronic segment, better market penetration especially in North and East region and promotion of legacy brands along with new product launches will help in improvement in domestic sales and margins.

The Company has already commercialized its first anti-diabetic product, approved under its own ANDA through a US partner. It will soon commence the launch of ophthalmic products in the US market through ACTAVIS (Watson). This development is expected to take the Company in high growth trajectory.

In the European markets, the contract manufacturing business will be slowly augmented with supplies/sales against own Dossiers/Marketing Authorizations (MAs) to bring sustainability and to improve the margins.

The API business is growing as planned and is generating revenues through sales in domestic as well as international markets and at the same time contributing to our formulation business through backward integration.

With strong infrastructure built over a period of time, skilled manpower and strategic alliances, the Company is poised for a higher growth, improved margins and sustainable business.

Safe Harbour

Statements made in this Management Discussion and Analysis (MDA) describing the Company's objective, projections, estimates and expectations may be 'Forward-looking statements' within the meaning of applicable securities laws & regulations. Actual results could differ from those expressed or implied due to risks, certainties and inaccurate assumptions.
