

INDOCO REMEDIES LIMITED

MANAGEMENT DISCUSSION & ANALYSIS FOR THE FIRST QUARTER FY16

➤ **Financials**

(₹ In Lacs)

Particulars	Unaudited				Audited
	Quarter Ended				Year Ended
	Apr. 15 – Jun. 15	Jan. 15 – Mar. 15	Apr. 14 – Jun. 14	Gwth%	Apr. 14 - Mar. 15
Net Sales :					
Domestic – Formulation	12441	12297	12156	2.3	50479
- API	699	614	589	18.7	2527
- CRO	18	-	-	-	-
Total Domestic ... (A)	13158	12911	12745	3.2	53006
Formulation Exports :					
- Regulated Markets	6872	6239	5728	20.0	25155
- Emerging Markets	929	1265	609	52.5	3871
Form. Exports Total:	7801	7504	6337	23.1	29026
API's Export	497	684	658	(24.5)	2657
CRO Export of Services	83	-	-	-	-
Total Export ... (B)	8381	8188	6995	19.8	31683
Total Net Sales (A+B)	21539	21099	19740	9.1	84689
Analytical & Testing Income	58	60	55	5.5	201
Net Revenue	21597	21159	19795	9.1	84890
Other Operating Income	743	(168)	68	992.6	474
Total Income from Operation	22340	20991	19863	12.5	85364
EBIDTA	4260	3729	3657	16.5	16519
Operating Profit	3195	3002	2866	11.5	12941
Profit Before Tax	2566	2294	2499	2.7	10948
Profit After Tax	2027	1875	2004	1.1	8281

➤ **Financial Highlights**

Net Revenues of the Company during the first quarter grew by 9.1 % at ₹ 216.0 Crs as against ₹197.9 Crs during the same period last year. Sales of domestic business are at ₹ 131.6 Crs and international business at ₹ 83.8 Crs. The revenue contribution from these business stands at 61% and 39 % of the net sales respectively.

The revenues from domestic business were at ₹ 131.6 Crs compared to ₹ 127.4 Crs during the same period last year and the revenues of international business were at ₹ 83.8 Crs as against ₹ 69.9 Crs during the same period last year.

For the quarter, material consumption is at 35.4% of net sales as against 36.7 % for the same period last year. The staff cost to net sales is 18.8 % as against 17.0% for the same period last year. The depreciation / amortization is at ₹ 15.0 Crs as against ₹ 9.5 Crs for the same period last year. Research & Development expenses to net sales is 3.0% at ₹ 6.5 Crs compared to 2.2 % at ₹ 4.3 Crs for the same period last year. Other expenses to net sales are 26.6 % at ₹ 57.4 Crs as against 26.0 % at ₹ 51.5 Crs during the same period last year.

Earnings before Interest, Depreciation, Tax & Amortization (EBIDTA) to net sales for the quarter is 19.7 % at ₹ 42.6 Crs as against 18.5% at ₹ 36.6 Crs during the same quarter last year.

Profit after tax (PAT) to net sales for the quarter is 9.4 % at ₹ 20.3 Crs as against 10.1% at ₹ 20.0 Crs during the same quarter last year.

Company's stock of samples and promotional items worth ₹ 6.8 Crs lying at its central warehouse at Indore was damaged due to fire on 21st April, 2015. This stock was adequately insured.

➤ **Credit Rating**

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

A1+ rating indicate highest credit quality rating and AA Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

➤ **Finished Dosages**

Indian Pharma Market (IPM)

During the quarter, IPM recorded a growth of 14.8% with revenues at ₹ 23800 Crs as against ₹ 20733 Crs during the same quarter last year. Top 10 therapies contributed 88.1 % of the IPM market. Performance of top five therapies is, Anti-infective grew by 7.6%, Cardiac by 15.4%, Gastro Intestinal by 17.2%, Vitamins/Minerals/Nutrients by 12.8 %, Anti Diabetes by 25.9%

Indoco's Ranking in Indian Pharma Market (IPM)

Secondary Sales Audit Ranking (AWACS)

Jun'15	Jun'14
28	30

Company has climbed two ranks up in the month of June'15 as compared to the same month last year.

CMARC Prescription Ranking (Rxs)

May'15 – Jun'15	May'14 – Jun'14
27	27

Indoco's Domestic Formulation Business:

During the quarter, revenues from Domestic formulation business were ₹ 124.4 Crs as compared to ₹ 121.6 Crs for the same quarter last year.

Beginning this year, the Company has restructured its domestic formulation business divisions by carving out new additional divisions as well as re-grouped its product baskets within the divisions, wherein specialty oriented therapy management approach is given the key priority.

The details of these newly structured divisions are as follows:

Marketing Divisions	Caters to Doctor Specialties	Remarks
Indoco FOCUS	Consulting Physicians	Aimed at creating a strong presence amongst Consulting Physicians. Also focusing upon emerging therapy areas addressing management of lifestyle related disorders
Warren ACE	Dentists	Retaining No. 1 Position through rapid and sustained growth for the existing range of blockbuster dental brands
Warren NXGen	Dentists / Super specialties within Dentistry	Carved out from original Warren product range. Designed towards focused promotion on innovative & sophisticated range of dental products
Indoco IMPULSE	Intensivist & Consulting Physicians	For exploiting the untapped business potential at rapidly Emerging corporate hospital sector with high end Injectables & Oral antibiotics in critical care segment

Besides above, the Company has also taken steps in transforming its existing **Spera division from multispecialty to Gynaec specialty division** through effective utilization of the existing brand equities of its Gynaec brands.

As part of restructuring, the Company has expanded its manpower strength across the divisions by around 500 medical representatives. These steps will help in ensuring good market penetration through prescription growth, on a sustainable basis. However, post the restructuring exercise, initial operational issues have affected the performance of the domestic business for the quarter.

In the current quarter, Dermatology and Cardiac segments have fared well with double-digit growth whereas Gastro Intestinal, Anti-Infective and Ophthalmic therapeutic segments contributed to single-digit growth.

Details of top therapies are given below:

(₹ In Lacs)

Therapy	Q1FY16	Q1FY15
Stomatologicals	2182	2347
Gastro Intestinal	2022	1909
Anti-Infective	1808	1742
Respiratory	1585	1601
Pain / Analgesics	929	998

Details of top brands are given below:

(₹ In Lacs)

Brand	Q1FY16	Q1FY15
CYCLOPAM	1524	1407
FEBREX PLUS	1015	1000
SENSODENT K	722	800
CITAL	559	577
ATM	451	451
OXIPOD	445	432
CLOBEN G	435	408
SENSOFORM	405	487
SENSODENT KF	397	393
CARMICIDE	276	231

The company launched ten new products in this quarter. Four of the products are in Anti-Infective segment, two in Pain / Analgesics, two in Respiratory and one each in Cardiac & Ophthalmic segment. Four of the brands recently launched in the Anti-obesity segment have been clocking impressive sales.

➤ **International Formulation Business**

The International formulation business during the quarter grew by 23.1% at ₹ 78.0 Crs as against ₹ 63.4 Crs during the same period last year. Europe region contributed to 43 % of international formulation sales, followed by US at 28 %, South Africa at 15%, Africa at 9% and rest of the world at 5%.

Regulated Markets

The regulated markets during the quarter grew by 20.0 % ₹ 68.7 Crs as against ₹ 57.3 Crs during the same quarter last year.

Allergan has announced that it has entered into a definitive agreement under which Teva Pharmaceutical Industries Ltd. will acquire Allergan's global generic pharmaceuticals business. The Company has received a formal communication from Allergan (Watson) which states that the entire portfolio signed with Watson will be transferred to Teva, as a part of this deal. However, business will be as usual till Q1 2016.

Teva, being stronger in both generics and specialty business, is expected to garner a better market share for our products. Moreover, the issue related to (four) products overlap with Allergan gets addressed. The Company, therefore, views this development as positive for its sterile products business in USA.

In the US market, Latanoprost, ophthalmic solution has recorded good sales. Site transfer projects signed for injectable products will facilitate our entry in niche injectable segment in US market.

Company has also won a major tender with Pharmac, New Zealand through its partner.

Current Status of ANDAs (*Filings through Partners and on Our Own*):

- ❖ 6 approvals till date
- ❖ 3 tentative approvals
- ❖ 17 filed but pending approval
- ❖ 28 under pipeline

Emerging Markets

The emerging markets for the quarter grew by 52.5% at ₹ 9.3 Crs as against ₹ 6.1 Crs during the same quarter last year. Kenya, Botswana, Tanzania, and Myanmar have driven the sales during the quarter.

➤ **Active Pharmaceutical Ingredients (APIs)**

During the quarter, the revenues of API business were at ₹ 12.0 Crs as against ₹ 12.5 Crs during the same period last year. API domestic sales grew by 18.7 % at ₹ 7.0 Crs as against ₹ 5.9 Crs whereas the API exports revenues were at ₹ 5.0 Crs during the quarter as compared ₹ 6.6 Crs to the same quarter last year.

➤ **CRO**

The operations at CRO have begun after completing the legal and regulatory formalities post acquisition. During the quarter, the revenues of CRO business were at ₹ 1.01 Crs. This acquisition from Piramal's will be earnings accretive right from the first year of acquisition.

➤ **Intellectual Property Rights (IPR)**

During the quarter, the Company filed two patent applications for finished dosages and two patent applications for API, taking the tally of total number of patents filed to 66. Out of these, 21 are for finished dosages and 45 are for API manufacturing processes.

➤ **Update on USFDA Inspections**

Kilo Lab facility at Rabale, inspected in Feb'15 received the Establishment Inspection Report (EIR). The API Patalganga facility was inspected during the quarter.

➤ **Future Outlook**

Indoco is adopting strategies to build on its core competencies, viz., Research & Development and Manufacturing.

Company's domestic business continues to focus on brand building, new product launches, thrust on share in chronic segment and penetration in Tier II and Tier III towns. The Company has re-structured some of its marketing divisions with addition to the field force to accelerate growth and build on its core strengths in the mass specialty segments.

With the recent acquisition of a CRO, the Company is now completely integrated and will remain a preferred partner, offering complete solutions, to generic companies worldwide. Additionally, it will also exploit the larger opportunities through alliances in major markets.

Going forward, the Company's business from US and EU territory is expected to grow speedily as ANDAs and Dossiers will be commercialized at regular intervals. While surging ahead in the Regulated Markets, Indoco is also consolidating its position in the Emerging markets through active brand promotion. Part of the emerging market is exploited through distributors appointed by Indoco and part through alliances. Robust pipeline with multiple dosage forms accompanied with flexible business models will enable the Company to have upper edge over competitors in international business.

Expertise in Research & Development, backward integration in API in select products, newly acquired CRO, excellence in finished dosages manufacturing and a strong customer base will ensure consistent growth both in Indoco's Domestic as well as International 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, uncertainties and inaccurate assumptions.