

Management Discussion & Analysis for the First Quarter FY19

Financials (Stand-alone)

(₹ In Lakhs)

Particulars	Unaudited				Audited		
	Quarter Ended				Year Ended		
	Apr'18 - Jun'18	Jan'18 - Mar'18	Apr'17 - Jun'17	Gwth %	Apr'17 - Mar'18	Apr'16 - Mar'17	Gwth %
Gross Sales							
Formulation :							
- Domestic	14968	15109	9973	50.1	59498	58501	1.7
- Export							
Regulated Market :	2940	6475	7349	(60.0)	27564	35125	(21.5)
Emerging Market :	1204	2283	1250	(3.7)	7169	6314	13.5
Export Total	4144	8758	8599	(51.8)	34733	41439	(16.2)
Total Formulation (A)	19112	23867	18572	2.9	94231	99940	(5.7)
API :							
- Domestic	833	636	694	20.0	2432	2515	(3.3)
- Export	745	911	800	(6.9)	3655	3630	0.7
Total API ... (B)	1578	1547	1494	5.6	6087	6145	(0.9)
CRO & Analytical Services :							
- Domestic	559	472	356	57.0	1413	580	143.6
Total CRO ... (C)	559	472	356	57.0	1413	580	143.6
Total Gross Sales (A+B+C)	21249	25886	20422	4.0	101731	106665	(4.6)
Other Operating Income	504	1077	479	5.2	2427	2741	(11.5)
Total Income from Operation	21753	26963	20901	4.1	104158	109406	(4.8)
EBIDTA	1157	4942	129	-	13486	15662	-
Operating Profit	88	3854	(810)	-	9713	13890	-
Profit Before Tax	(1202)	2580	(2081)	-	4843	9133	-
Profit After Tax	(1202)	2050	(2173)	-	4120	7745	-

➤ **Financial Highlights**

Net revenues for the quarter were at ₹ 212.5 crores against ₹ 204.2 crores, same quarter last year. Contribution from Domestic formulation business is 70%, for International formulation business is 20% and API business is 10 %.

During the quarter, the material consumption was 33.6% of the net sales, compared to 34.8%, same quarter last year. Staff cost to net sales is 26.4% compared to 27.6 %. Depreciation / Amortization are at ₹ 16.7 crores, compared to ₹ 16.9 crores. Research & Development (R&D) expenses to net sales are 6.2% at ₹ 13.2 crores, compared to 6.6 % at ₹ 13.6 crores. Other expenses to net sales are 30.8% at ₹ 65.4 crores, compared to 32.7% at ₹ 66.7 crores.

Earnings Before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the quarter is 5.4% at ₹ 11.6 crores, compared to 0.6% at ₹ 1.3 crores, same quarter last year.

During the quarter, the Domestic business registered good growth, due to low base effect. However, the revenues from International business suffered on account of regulatory issues. This set back had a significant impact on the top line, as well as, bottom line. The Management is confident that headwinds on account of regulatory issues are transitory and the Company will tide over the same soon.

➤ **Rating**

The Company's working capital facilities are rated as [ICRA] A1+ (Pronounce ICRA A One Plus) and long term borrowings are rated as [ICRA] A+ (Pronounce ICRA A Plus) by ICRA.

Instruments with A1+ rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

Instruments with A+ rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

➤ Finished Dosages

Secondary Sales Audit Ranking

The Corporate rank is 30th in IPM with market share of 0.66% as on June'18 MAT. For the first quarter, IPM has added ₹ 2618 crores and has grown by 9.1% over same quarter last year.

(Source: AWACs)

Prescription Ranking

The Company ranks 23rd with prescription (R_x) share of 0.84 % as on June'18 MAT basis. As per Strategic Marketing Solutions and Research Centre (SMSRC), the prescription (R_x) growth of 3 % was registered by Indoco vis-à-vis industry growth of 2 % on June'18 MAT basis. (Source: SMSRC).

Indoco's Domestic Formulation Business:

The revenues of domestic formulations business for the quarter grew at 50% at ₹ 149.7 crores as against ₹ 99.7 crores for the same quarter last year. In 2017, Industry had witnessed a disruption in supply chain due to GST implementation. Consequently, the inventory holding by the trade plummeted to 17 days as against 40 days. The low base due to this disruption resulted in a high growth of 50% this quarter.

Details of revenues from major therapies are as follows:

(₹ In Lakhs)

Therapy	Cont %	Q1FY19	Q1FY18
Stomatologicals	20.3	3077	1851
Gastrointestinal	16.0	2427	1394
Respiratory	12.8	1937	1066
Anti-Infectives	12.5	1891	1201
Vitamins / Minerals	7.7	1159	737

Details of revenues from major brands are as follows:

(₹ In Lakhs)

Brand	Cont %	Q1FY19	Q1FY18
Cyclopam	11.8	1791	1033
Febrex Plus	8.5	1280	680
Sensodent-K	6.5	978	553
Cital	5.8	880	545
ATM	3.9	585	313
Oxipod	3.7	565	381
Sensoform	3.7	560	329
Cloben- G	3.5	532	411
Sensodent KF	3.2	482	348
Methycal	2.5	376	284

New product introductions:

The Company has launched 2 new products, 1 in Acute and 1 in Chronic during the quarter.

➤ International Formulation Business

During the quarter, the International formulations business revenues were at ₹ 41.4 crores as against ₹ 86.0 crores, same quarter last year.

Europe contributed 49 % of International formulation sales, America at 13.7 %, South Africa, Australia & New Zealand at 8.2 % and Emerging markets at 29.1%.

USA

During the quarter, the revenues were at ₹ 5.7 crores, as against ₹ 18.9 crores, same quarter last year.

Current Status of ANDAs:

- ❖ 10 approvals till date
- ❖ 38 filed, pending approval

On the regulatory front, Indoco management had a face-to-face meeting with USFDA on 13th June 2018 at which a technical presentation was made on the remediation progress at Indoco. The meeting was also attended by Indoco's US-based quality consultants and legal counsel. USFDA was receptive to Indoco's remediation efforts and indicated that, depending on scheduling issues, it could re-audit both Goa Plant II and Goa Plant I before the end of this year.

Europe

During the quarter, the revenues were at ₹ 20.3 crores, compared to ₹ 39.9 crores, same quarter last year.

On Regulatory front, as committed to MHRA, the Company has extended appointment of the US based cGMP consultants to advise on remediation efforts at Goa Plant I. The cGMP consultants completed their assignment in Plant II and has begun work at Goa Plant I from May'18.

As recommended by MHRA, audit by an independent Qualified Person (QP) has been completed. The QP audit will now be followed by MHRA re-audit of Goa Plant I, which is scheduled in Sept'18.

South Africa, Australia and New Zealand Business

The revenues for the quarter were at ₹ 3.4 crores, compared to ₹ 14.7 crores, same quarter last year.

The Company had successful audits of Goa Plant II and Plant III by MCC, South Africa (in June'18) and by TGA, Australia of Goa Plant II (in May'18).

Emerging Markets

The revenues for the quarter were at ₹ 12.0 crores, compared to ₹ 12.5 crores, same quarter last year. Kenya, as well as, FWA markets have contributed good volumes in this quarter.

➤ **Active Pharmaceutical Ingredients (APIs)**

The revenues from API business were at ₹ 15.8 crores, compared to ₹ 14.9 crores, same quarter last year.

The Company has received Establishment Inspection Report (EIRs) on 8th August 2018 for both the API manufacturing sites at Patalganga and Rabale. The USFDA inspected these facilities in May'18 and the inspection now stands closed.

The construction work of new API facility at Patalganga is progressing well and commissioning of the plant is expected to take place at the end of second quarter FY18-19.

Kilo Lab, Rabale was audited by Ministry of Foods & Drugs Safety (MFDS), Korea during May'18. The audit was satisfactorily completed and expect the audit clearance before end of the second quarter FY 18-19.

➤ **CRO & Analytical Services**

During the quarter, revenues from CRO and Analytical Services business were at ₹ 5.6 crores, compared to ₹ 3.6 crores, same quarter last year.

➤ **Future Outlook**

The Company's Domestic business continues to focus on brand building, new product launches, thrust on sub-chronic (Speciality) segment and penetration in the North and East Region.

Going forward, the Company's business from US is expected to grow speedily as ANDAs will be commercialized at regular intervals after resolution of USFDA's warning letter. Reinstatement of the EU-GMP compliance certificate for Goa Plant I and EU-GMP approval of newly acquired solid dosages manufacturing facility at Baddi (Plant III) will also boost the EU business. Indoco is also consolidating its position in the Emerging Markets through active brand promotion. Robust pipeline in multiple dosage forms will enable the Company to have an upper edge over its competitors in the international business.

Expertise in Research & Development, backward integration in API in select products, own CRO set-up, excellence in finished dosages manufacturing and a strong customer base makes the Company, a preferred partner, offering complete solutions to generic companies worldwide.

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.