

**INDOCO REMEDIES LIMITED**

**MANAGEMENT DISCUSSION & ANALYSIS FOR THE FOURTH QUARTER FY14**

➤ *Revenue figures*

(₹ in Lacs)

Particulars	Unaudited				Audited		
	Quarter Ended				Year Ended		
	Mar'14	Dec'13	Mar'13	% Gwth	Mar'14	Mar'13	% Gwth
<b>Net Sales :</b>							
Domestic – Formulation	10533	11492	9252	13.8	43861	39040	12.3
- API	488	539	420	16.2	2277	1662	37.0
<b>Total Domestic ... ( A )</b>	<b>11021</b>	<b>12031</b>	<b>9672</b>	<b>13.9</b>	<b>46138</b>	<b>40702</b>	<b>13.4</b>
Formulation Exports :							
- Regulated	6098	5235	5292	15.2	20046	18138	10.5
- Emerging Market	728	961	518	40.5	3066	1951	57.2
Formulation Exports Total:	6826	6196	5810	17.5	23112	20089	15.0
API's Export :	684	578	545	25.5	2323	1782	30.4
<b>Total Export ... ( B )</b>	<b>7510</b>	<b>6774</b>	<b>6355</b>	<b>18.2</b>	<b>25435</b>	<b>21871</b>	<b>16.3</b>
<b>Total Net Sales ( A + B )</b>	<b>18531</b>	<b>18805</b>	<b>16027</b>	<b>15.6</b>	<b>71573</b>	<b>62573</b>	<b>14.4</b>
Analytical & Testing Income	55	36	21	161.9	164	70	134.3
<b>Net Revenue</b>	<b>18586</b>	<b>18841</b>	<b>16048</b>	<b>15.8</b>	<b>71737</b>	<b>62643</b>	<b>14.5</b>
Other Operating Income	(224)	(60)	(161)	-	1034	396	161.1
<b>Total Income from Operation</b>	<b>18362</b>	<b>18781</b>	<b>15887</b>	<b>15.6</b>	<b>72771</b>	<b>63039</b>	<b>15.4</b>
<b>EBIDTA</b>	<b>3704</b>	<b>3352</b>	<b>2793</b>	<b>32.6</b>	<b>13450</b>	<b>10537</b>	<b>27.6</b>
<b>Operating Profit</b>	<b>2574</b>	<b>2164</b>	<b>1674</b>	<b>53.8</b>	<b>8479</b>	<b>5977</b>	<b>41.9</b>
<b>Profit Before Tax</b>	<b>2258</b>	<b>1808</b>	<b>1426</b>	<b>58.3</b>	<b>7211</b>	<b>4837</b>	<b>49.1</b>
<b>Profit After Tax</b>	<b>1855</b>	<b>1412</b>	<b>1285</b>	<b>44.4</b>	<b>5790</b>	<b>4266</b>	<b>35.7</b>

➤ **Financial Highlights**

During the fourth quarter, net revenues grew by 15.8 % at ₹ 185.9 Crs as against ₹ 160.5 Crs during the same period last year. For the year 2013-14, the net revenues grew by 14.5% at ₹ 717.4 Crs as against ₹ 626.4 Crs. With sales of ₹ 461.4 Crs from domestic business and ₹ 254.3 Crs from International business, the contribution stood at 64 % and 36 % of the total revenues by the respective business.

The domestic business during the quarter grew by 13.9% at ₹ 110.2 Crs as against ₹ 96.7 Crs during the same period last year and for the year, the revenues grew by 13.4 % at ₹ 461.4 Crs as against ₹ 407.0 Crs.

The international business during the quarter grew by 18.2% at ₹ 75.1 Crs as against ₹ 63.5 Crs during the same period last year and for the year, the revenues grew by 16.3 % at ₹ 254.3 Crs as against ₹ 218.7 Crs

Favourable product and business mix has brought down the material consumption to 33.0% of net sales during the quarter as against 39.9 % for the same period last year. The staff cost to net sales is 18.6 % as against 16.6 % for the same period last year. The depreciation / amortization are at ₹ 7.8 Crs as against ₹ 6.2 Crs for the same period last year. Research & Development expenses to net sales is 2.2% at ₹ 4.2 Crs and is 1.7% at ₹ 2.8 Crs for the same period last year. Other expenses to net sales are 27.3% at ₹ 50.7 Crs and as against 25.1% at ₹ 40.3 Crs during the same period last year.

For the year, the material consumption to net sales is 37.5% as against 41.9 % last year. The staff cost to net sales is 18.0% as against 17.2 % last year. The depreciation / amortization are at ₹ 30.9 Crs as against ₹ 23.7 Crs last year. Research & Development expenses is ₹14.4 Crs which is 2.0 % of the net sales as against ₹ 12.9 Crs which is 2.1 % last year. Other expenses to net sales are 27.2% as against 24.7 % last year.

Earnings before Interest, Depreciation, Tax & Amortization (EBIDTA) to net sales for the quarter is 19.9 % at ₹ 37.0 Crs as against 17.4 % at ₹ 27.9 Crs during the same quarter last year and for the year, it is 18.7 % at ₹ 134.5 Crs as against 16.8 % at ₹ 105.4 Crs last year.

Profit after tax (PAT) to net sales for the quarter is 10.0 % at ₹ 18.5 Crs as against 8.0% at ₹ 12.8 Crs during the same quarter last year. For the year, PAT is 8.1% at ₹ 57.9 Crs as against 6.8 % at ₹ 42.7 Crs 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 fourth quarter, the Indian Pharmaceutical Market (IPM) grew by 6.6% over the same quarter last year. During the quarter, acute segment grew by 4.9% and chronic segment grew by 10.6%. Among the top key therapies, Cardiac (8.2%), Gastro Intestinal (6.9%), Vitamins/Mineral/Nutrients (7.3%), Respiratory (8.7%), Anti Diabetics (16.5%) reported comparatively good growth in this quarter.

**Indoco's Domestic Formulation Business:**

The domestic formulation business during the quarter grew by 13.8% at ₹ 105.3 Crs as against ₹ 92.5 Crs during the same period last year. Therapeutic segments which performed well are Respiratory, Stomatologicals, Gastro Intestinal, Anti-Infectives, Vitamins/Minerals/Nutrients and Anti-Diabetic, details of which are as under,

(₹ In Lacs)

Therapy	Jan-Mar'14	Jan-Mar'13	Gwth %
Respiratory	2004	1754	14.2%
Stomatologicals	1946	1568	24.1%
Gastro Intestinal	1524	1308	16.5%
Anti-Infectives	1522	1382	10.1%
Vitamins / Minerals / Nutrients	605	460	31.5%
Anti-Diabetic	462	406	13.8%

Brands which performed well during the quarter are as under:

(₹ In Lacs)

Brands	Jan-Mar'14	Jan-Mar'13	Gwth%
Febrex Plus	1,176	1,004	17.2%
Cyclopam	1,131	976	15.9%
Sensodent K	990	846	17.0%
ATM	438	408	7.5%
Cital	396	349	13.4%
Oxipod	424	335	26.7%
Sensoform	360	315	14.2%
Cloben G	352	307	14.6%
Glycheck	306	274	11.9%

## **Ranking in IPM**

### **Secondary Sales Audit Ranking (AWACS)**

<b>Mar'14</b>	<b>Mar'13</b>
28	29

### **CMARC Prescription Ranking (Rxs)**

<b>Nov'13 – Feb'14</b>	<b>Nov'12 – Feb'13</b>
25	25

## **❖ International Business**

The international formulation business during the quarter grew by 17.5% at ₹ 68.3 Crs as against ₹ 58.1 Crs during the same period last year. For the year, the revenues grew by 15.0 % at ₹ 231.1 Crs as against ₹ 200.9 Crs.

### ***Regulated Markets:***

The regulated market during the quarter grew by 15.2% at ₹ 61.0 Crs as against ₹ 52.9 Crs during the same quarter last year. For the year, the revenues grew by 10.5% at ₹ 200.5 Crs as against ₹ 181.4 Crs.

Indoco received approval from State Institute for Drug Control (SUKL), Czech Republic, Certificate of Good Manufacturing Practice (cGMP) Compliance for their Goa Plant II located at L-32,33,34 Verna Industrial Estate, Goa 403722. The approval pertains to manufacture of Sterile Ophthalmic Formulations for EU.

We are still awaiting approval from USFDA for our sterile facility in Goa. Recent communications with USFDA gives us confidence that the process is moving in the right direction.

A couple of dossiers were filed through the Decentralized Procedure (DCP) route and two deals were signed for injectables in Europe. Regulatory work related to two new contract manufacturing projects for a UK customer was completed and shipments of formulations to a new customer in Spain commenced in this quarter. Company has signed a project on development of a Modified Release Oral solid dosage with a large generic company in Canada. Regulatory Authorities in Canada also approved one of our ophthalmic product during the quarter.

## ***Emerging Markets***

The emerging markets for the quarter grew by 40.5% at ₹ 7.3 Crs as against ₹ 5.2 Crs during the same quarter last year. For the year, the revenues grew by 57.2% at ₹ 30.7 Crs as against ₹ 19.5 Crs.

The quarter marked opening of new market in Jamaica with approval of 7 products followed by receipt of first order. Company received 14 product approvals from Ivory Coast, 2 from Sudanese and 4 from Myanmar regulatory authorities. Company has out-licensed three products with a new customer in Chile. Aggressive brand promotion activities were conducted in Kenya and Tanzania to boost the sales.

### ➤ **Active Pharmaceutical Ingredients (APIs)**

During the quarter, the revenues of API business grew by 21.4 % at ₹ 11.7 Crs as against ₹ 9.6 Crs during the same period last year. For the year, the revenues grew by 33.6 % at ₹ 46.0 Crs as against ₹ 34.4 Crs.

The revenues of API domestic business for the quarter grew by 16.2 % at ₹ 4.9 Crs as against ₹ 4.2 Crs during the same period last year. For the year, the revenues grew by 37.0 % at ₹ 22.8 Crs as against ₹ 16.6 Crs. The revenues of API export business grew by 25.5 % at ₹ 6.8 Crs as against ₹ 5.4 Crs during the same period last year. For the year, the revenues grew by 30.4 % at ₹ 23.2 Crs as against ₹ 17.8 Crs.

In recognition of Indoco's technical excellence in development of innovative processes for manufacturing of Bulk Drugs/APIs, the Company was honored by Pharmexcil with the 'Certificate of Appreciation' (Bulk Drugs) for outstanding contribution to India's Pharmaceutical industry during the year 2012-13.

### ➤ **Intellectual Property Rights (IPR)**

The total number of patent applications filed by the Company as on date is 58, out of which 38 pertain to API processes and 20 pertain to finished dosages.

Indoco received a patent from the European Patent Office for the novel process for manufacturing of Lacosamide API. The notification from the European Patent Authority for the grant of patent was issued on 6/03/2014.

Company's R&D efforts received due recognition with receipt of the 'Best Patent Award 2012-2013' for two of its process patents for Tazarotene and Adapalene APIs, at the 52nd IDMA Annual Day function held on 4th January 2014.

**Future Outlook:**

The domestic formulation business continues to contribute 64% of the total revenues and we believe that it will continue to drive growth and create value for the company in coming years. Indian Pharma Industry witnessed a slowdown in the last year due to implementation of new pricing policy and trade issues related thereto. However, with settlement of these issues, the growth would bounce back, provided the macro-economic factors remain favorable. Indoco will continue to focus on chronic segment, better market penetration especially in North and East region and promote legacy brands along with successful new product launches.

With anticipated product launches in US market through alliance partner and filing of our dossiers in Europe, the growth momentum in International Business is expected to pick up. However, the regulatory delays are a cause of concern. In the European markets, the contract manufacturing business will be slowly augmented with supplies against own Dossiers/Marketing Authorizations (MAs) to bring sustainability and 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.

The Company is equipped with a world class R&D and manufacturing facilities which enables it to provide a complete solution to Generic Companies worldwide. With strong infrastructure in place, skilled manpower and strategic alliances, it is poised for a higher growth with improved margins in both Domestic and 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, certainties and inaccurate assumptions.

