

Indoco Remedies Limited

Management Discussion & Analysis for the Second Quarter FY17

➤ Financials

(₹ In Lacs)

Particulars	Unaudited							Audited
	Quarter Ended				Half Year Ended			Year Ended
	Sept'16	Jun'16	Sept'15	Gw%	Sept'16	Sept'15	Gw %	Mar'16
Revenue (Net of Sales Returns):								
Formulation :								
Domestic	16,884	14,192	13,839	22.0	31,077	26,418	17.6	53,561
International								
- Regulated Market	7,715	7,940	8,234	(6.3)	15,654	15,106	3.6	33,657
- Emerging Market	1,539	1,295	1,053	46.2	2,834	1,981	43.1	4,914
International Total	9,254	9,235	9,287	(0.4)	18,488	17,087	8.2	38,571
Total Formulation ... (A)	26,138	23,427	23,126	13.0	49,565	43,505	13.9	92,132
APIs :								
- Domestic	648	973	836	(22.5)	1,622	1,588	2.1	2,848
- International	711	785	691	2.9	1,496	1,187	26.0	2,563
Total APIs ... (B)	1,359	1,758	1,527	(11.0)	3,118	2,775	12.4	5,411
CRO & Analytical Services... (C)	142	65	219	(35.2)	206	380	(45.8)	669
Net Revenue (A+B+C)	27,639	25,250	24,872	11.1	52,889	46,660	13.3	98,212
Other Operating Income	462	465	726	(36.4)	927	1,469	(36.9)	2,677
Total Income from Operation	28,101	25,715	25,598	9.8	53,816	48,129	11.8	1,00,889
EBIDTA	4,195	4,180	4,469	(6.1)	8,375	8,739	(4.2)	17,235
Operating Profit	3,574	3,455	3,823	(6.5)	7,029	7,238	(2.9)	14,292
Profit Before Tax	2,472	2,287	2,742	(9.8)	4,759	5,391	(11.7)	10,093
Profit After Tax	2,213	1,979	2,154	2.7	4,192	4,236	(1.0)	8,332

➤ **Financial Highlights**

The Net revenues for the quarter grew by 11.1% at ₹ 276.4 crores as against ₹ 248.7 crores during the same period last year.

Formulations business contributed to 95% and API business contributed to 5%. The formulations business grew by 13.0% at ₹ 261.4 crores, as against ₹ 231.3 crores during the same period last year. APIs business revenues were at ₹ 13.6 crores, as against ₹ 15.3 crores during the same period last year.

During the quarter, the material consumption is 35.1% of the net sales, as against 36.5% for the same period last year. The staff cost to net sales is 19.3% as against 18.3% for the same period last year. Depreciation / Amortization are at ₹16.7 crores, as against ₹ 14.9 crores for the same period last year. Research & Development (R&D) expenses to net sales are 4.4% at ₹ 12.0 crores compared to 4.5% at ₹ 11.1 crores for the same period last year. Other expenses to net sales are 27.7% at ₹ 76.5 crores, as against 25.7% at ₹ 64.0 crores during the same period last year.

Earnings before Interest, Depreciation, Tax and Amortization (EBIDTA) percentage 15.2% of the net sales at ₹ 41.9 crores, as against 18.0% at ₹ 44.7 crores during the same period last year.

Profit Before Tax (PBT) for the quarter is 8.9% of net sales at ₹ 24.7 crores, as against 11.0% at ₹ 27.4 crores during the same period last year.

Profit After Tax (PAT) for the quarter is 8.0% at ₹ 22.1 crores, as against 8.7% at ₹ 21.5 crores during the same quarter last year.

➤ **Credit Rating**

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

The Indian Pharma Market (IPM) during the quarter witnessed a growth of 12.8% with revenues at ₹ 28641 crores, as against ₹ 25401 crores during the same quarter last year.

During the month of July'16, as per AWACS data, Indoco registered a growth of 27.8 % and earned a coveted position as the corporate recording highest growth amongst top 50 Corporates. During the month of August'16, Indoco recorded the highest growth of 33.7% amongst the Companies ranked between 21st-30th. In September'16, Indoco's growth rate was at 18.1%.

(Rs. Crores)

Month	IPM			Indoco Remedies		
	2016-17	2015-16	Gwth %	2016-17	2015-16	Gwth %
Q2FY17	28,641	25,401	12.8	225	178	26.4
Jul	9,176	8,349	9.9	75	58	27.8
Aug	9,672	8,354	15.8	78	58	33.7
Sep	9,792	8,699	12.6	72	61	18.1

Source: AWACs

This excellent performance culminated to an impressive growth of 26.4% during the quarter, more than doubling IPM growth of 12.8% of 2nd quarter FY17.

Secondary Sales Audit Ranking

The Company is at 28th rank for the month of Sept'16 and at 29th rank on MAT basis. (Source: AWACs).

Prescription Ranking

Indoco ranks 22nd in prescription ranking as per August'16 MAT , generated 58.40 Lacs additional new prescriptions over August'15 MAT, reflecting 9% prescription growth. (Source: IMS).

Indoco's Domestic Formulation Business:

The Domestic formulations business for the quarter grew by 22.0 % at ₹ 168.8 crores compared to ₹ 138.4 crores for the same period last year.

Details of revenues from major therapies are as follows:

(₹ In Lacs)

Therapy	2QFY17	2QFY16	Gw %
Anti-Infectives	3,460	2,507	38.0
Respiratory	3,360	2,356	42.6
Stomatologicals	2,731	2,524	8.2
Gastro Intestinal	2,204	1,850	19.1

Details of revenues from major brands are as follows:

(₹ In Lacs)

Brand	2QFY17	2QFY16	Gw %
Febrex Plus	2,050	1,345	52.3
Cyclopam	1,564	1,377	13.6
Oxipod	1,210	740	63.6
Sensodent K	878	797	10.2
ATM	862	588	46.6
Cital	604	499	21.0
Cloben G	604	459	31.5
Sensoform	473	442	7.1
Sensodent KF	470	422	11.5

New product introductions:

During the quarter, the Company launched 3 new products, one each in Gastro Intestinal, Pain / Analgesics and Stomatologicals respectively.

➤ **International Formulation Business**

During the quarter, the international formulation business revenues were at ₹ 92.5 crores as against ₹ 92.9 crores during the same period last year.

Europe contributed to 35.8 % of International formulation sales, followed by US at 29.4 %, South Africa, Australia & New Zealand at 19.5 % and Emerging markets at 15.3 %.

USA

During the quarter, the revenues were at ₹ 26.2 crores as against ₹ 26.4 crores for the same period last year. The market share of ophthalmic products launched through Actavis is showing an upward trend.

USFDA audited Goa Plant II & III in September 16. The inspection was triggered on account of injectable filings. The Company has submitted the compliance with documentary evidence to USFDA on all the observations covered in the inspection report.

Current Status of ANDAs:

- ❖ 10 approvals till date
- ❖ 3 tentative approvals
- ❖ 24 filed but pending approval

Europe

The revenues for the quarter were at ₹ 32.4 crores, as against ₹ 40.9 crores for the same period last year. Exports to United Kingdom were largely impacted due to weakening of sterling pound.

South Africa, Australia and New Zealand Business

The revenues for the quarter grew by 24.3 % at ₹ 18.6 crores, as against ₹ 15.0 crores for the same period last year.

The Company's Australian partner, Generic Health, has won the legal battle on Aripiprazole tablets in Australia and the Company is planning to launch this product in the next quarter. The Company has also received Marketing Authorization for Allopurinol tablets from New Zealand Regulatory Authorities.

Emerging Markets

The revenues for the quarter grew by 46.2 % at ₹ 15.4 crores, as against ₹ 10.5 crores for the same period last year. The markets which are driving growth are Kenya, French West Africa, Myanmar, Tanzania, and Sri Lanka.

The Company completed the launch of Ophthalmic Products in Tanzania successfully.

➤ **Active Pharmaceutical Ingredients (APIs)**

During the quarter, the revenues of API business were at ₹ 13.6 crores as against ₹ 15.3 crores during the same period last year. API domestic sales were at ₹ 6.5 crores, as against ₹ 8.4 crores whereas, the API international revenues were at ₹ 7.1 crores during the quarter as compared ₹ 6.9 crores to the same quarter last year.

➤ **CRO & Analytical Services**

During the quarter, the revenues from CRO & Analytical Services business were at ₹ 1.4 crores as against ₹ 2.2 crores during the same period last year

➤ **Intellectual Property Rights (IPR)**

The Company has filed total 23 patents for F&D & 49 patents for API manufacturing as on date.

During the quarter, the Company was honored with the ‘**Best Patent Award**’ by Pharmexcil in the Bulk Drugs / API category.

➤ **Acquisition**

The Company acquired a Solid Oral Dosage manufacturing facility located at Baddi from Micro Labs Ltd., a Bangalore based company. The facility is spread over an area of 18,000 sq.mtre, with 11,000 sq.mtre built-up area. It has a capacity to produce 4.3 billion tablets and 50 million capsules per annum. Anticipated high growth in the Company’s international business in the coming future necessitated this acquisition. The facility will cater mainly to the Regulated markets and the necessary approvals from the regulatory authorities will be obtained soon. The acquisition will expand the Company’s capabilities, as well as capacities in manufacturing and will strategically help to further its footprint in International Business.

➤ **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 Tier II and Tier III towns. The Company has re-structured its domestic business with addition of marketing divisions and field force to accelerate growth and build on its core strengths in the mass specialty segments.

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. Robust pipeline in multiple dosage forms will enable the Company to have an upper edge over its competitors in the international business.

With the smooth integration of a newly acquired CRO, the Company is now completely integrated and will remain a preferred partner, offering complete solutions to generic companies worldwide.

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 will ensure consistent growth in the Company'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.