

INDOCO REMEDIES LIMITED

MANAGEMENT DISCUSSION & ANALYSIS FOR THE 2ND QUARTER SEPTEMBER 2011

Ø Revenue figures:

The table below gives the break-up of revenues (Net of excise duty):

(₹ . in Lacs)

Particulars	2nd Quarter					Half Yearly				
	Jul 11 – Sep 11	% to Net Sales	Jul 10 – Sep 10	% to Net Sales	% Gwth	Apr 11– Sep 11	% to Net Sales	Apr 10 – Sep 10	% to Net Sales	% Gwth
Net Sales :										
Domestic – Formulation	9,316	64.4	8,843	66.8	5.3	17,132	63.4	16,101	66.1	6.4
- API	492	3.4	356	2.7	38.2	867	3.2	652	2.7	33.0
Total Domestic ... (A)	9,808	67.8	9,199	69.5	6.6	17,999	66.6	16,753	68.7	7.4
Formulation Exports :										
- Regulated	3,601	24.9	2,713	20.5	32.7	6,899	25.5	5,215	21.4	32.3
- Semi-Regulated	758	5.2	815	6.2	(7.0)	1,548	5.7	1,595	6.5	(2.9)
Formul. Exports Total:	4,359	30.1	3,528	26.7	23.6	8,447	31.3	6,810	27.9	24.0
API's Export :	307	2.1	507	3.8	(39.4)	583	2.2	809	3.3	(27.9)
Total Export ... (B)	4,666	32.2	4,035	30.5	15.6	9,030	33.4	7,619	31.3	18.5
Total Net Sales (A+B)	14,474	100.0	13,234	100.0	9.4	27,029	100.0	24,372	100.0	10.9
Other Operating Income	266		299		(11.0)	417		432		(3.5)
Total Income	14,740		13,533		8.9	27,446		24,804		10.7
EBIDTA	2,332	16.1	2,302	17.4	1.3	4,421	16.4	4,402	18.1	0.4
Operating Profit	1,720	11.9	1,913	14.5	(10.1)	3,329	12.3	3,626	14.9	(8.2)
Profit After Tax	1,381	9.5	1,526	11.5	(9.5)	2,555	9.5	3,008	12.3	(15.1)

Ø ***Financial Highlights :***

In the first two quarters, the Domestic Indian companies have witnessed a slowdown in the growth and analysts have predicted that this is due to a high degree of correlation between macro factors, economic growth and Indian pharma industry growth. For Indoco, the overall net revenues during the second quarter ended September 30, 2011 stood at ` . 144.7 Crores as compared to ` . 132.3 Crores during same quarter last year, higher by 9.4%. The revenues from Domestic business are ` . 98.1 Crores and the revenues from International business are ` . 46.6 Crores. Domestic business contributed to 67.8% and International business contributed to 32.2% of the total revenues.

Therapies which contributed to the top line of the domestic formulation business are Respiratory, Anti-infectives, Stomatologicals, Gastro Intestinal, Life Styles besides others. The second quarter witnessed the revenues from Life segment improving over the same quarter last year. However, the revenues from Anti-infectives and Respiratory segment did not improve as expected due to the change in the seasonality factor which has pushed the monsoon season to spill further. The anti-infective segment is also becoming more susceptible to competition from low cost pharma players. The domestic business of API achieved a growth of 38.2% at ` . 4.9 Crores as against ` . 3.6 Crores over the same quarter last year.

The revenues from international business during the quarter are at ` . 46.6 Crores as against ` . 40.4 Crores same quarter last year. The export formulation business has performed well registering a growth of 23.6%. The regulated market revenues stood at ` . 36.0 Crores as against ` . 27.1 Crores during the same quarter last year while the sales of emerging market stood at ` . 7.6 Crores as against ` . 8.2 Crores during the same quarter last year. The API export sales are at ` . 3.07crores as compared to ` . 5.07 Crores during the same quarter last year.

The material consumption to net sales is 45.8 % as compared to 45.7 % during the same quarter last year. The staff cost to net sales is 15.3 % as compared to 14.0 % during same quarter last year. The depreciation / amortization is at ` . 4.68 Crores as compared to ` . 3.35 Crores same quarter last year. Research & Development expenses to net sales is 1.8% as compared to 1.6% same quarter last year. Other expenses are at 24.7% as compared to 25.2% same quarter last year.

The company has witnessed some pressure on the profitability margins during the first two quarters as compared to same quarters mainly due to increase in the expenses like Staff cost and Marketing expenses. The major field staff additions in the marketing divisions - Task force, Spera, Xtend and Eterna have increased the staff cost. Strengthening of field force in Tier II and III cities is one of the corporate strategies to boost the revenues. Further the field staff touring / travelling expenses have increased compared to the same quarter last year. The travelling / touring expenses have increased so as to cover wider areas in Tier II and Tier III areas. The additional expenditure on sales and advertisement along with the additional expenditure on travelling marketing in this quarter will help to fructify the revenues in the ensuing quarter. The company is observing a sizeable drop in the power and fuel expenses for

all the three plants located in Goa and this will bring a good saving in the coming quarters. Interest cost for quarter is at ₹. 1.44 Crores as compared to ₹. 0.53 Crores during the same quarter last year. This is mainly due to the term loan interest pertaining to the new plant in Goa being debited to the P&L A/c post capitalization of Goa Plant III. Also during the quarter, the working capital interest increased due to utilization of its limits. The commercialization of Goa Plant III has also increased the Staff Cost. On the revenue side, the margins of few of its products in the anti-infective segment faced some pricing pressure from few pharma players and this affected the revenues. On the Forex side, the company having exposure to international market did not face volatility due to the sharp Rupee depreciation on account of its hedging policies in place. The net exchange loss during the quarter is ₹. 0.19 Lacs.

The Earnings before Interest, Depreciation, Tax & Amortization (EBIDTA) for the quarter works out to 16.1 % compared to 17.4 % during the same quarter previous year. The profit before tax recorded for the quarter is ₹. 14.6 Crores as against ₹. 16.9 Crores for the same quarter last year. The profit after tax recorded for the quarter is at ₹. 13.8 Crores as against ₹. 15.3 Crores during the same quarter last year.

Going forward, the company is well poised to meet its targeted annual revenue growth estimates and expects the margins to improve in the second half.

Ø **Credit Rating :**

Company's commercial paper program and working capital facilities are rated as A1+ and long term borrowings are rated as LA+ by ICRA.

A1 + rating indicates highest credit quality rating and LA+ rating indicates adequate credit quality rating.

ICRA Online's Equity Research did an independent research on the company and the grading / research details are available on their web site: www.icraonline.com. ICRA vide their report dated October 5, 2011 has assigned the Fundamental Grade '3' and the Valuation Grade 'A' to Indoco Remedies Ltd.

The Fundamental Grade '3' assigned to Indoco Remedies Ltd implies that the company has "Good fundamentals" relative to other listed securities in India. The Valuation Grade 'A' assigned to Indoco Remedies Ltd implies that the company is "Significantly undervalued" on a relative basis.

Ø **Finished Dosages:**

Domestic Business:

The company's Domestic Formulation business recorded revenues of ₹. 93.2 Crores during the 2nd quarter ended September 30, 2011 as compared to ₹.88.4 Crores for the same period last year showing a growth of 5.3 %.

During the second quarter, the performance of top therapeutic segments is as follows:

(₹. in Lacs)			
Therapeutic Segment	Q2 FY11-12	Q2 FY10-11	Growth
Stomatologicals	1,525.5	1,177.5	29.56
Life Style	962.8	653.2	47.40
Pain / Analgesics	589.4	479.0	23.05
Dermatology	482.3	417.0	15.67
Gynaec.	456.1	420.2	8.55

Rankings:

CMARC Prescription Ranking (Rxs)

Aug 2011	Aug 2010
29	29

Secondary Sales Audit Ranking (AWACS)

Sept 2011	Sept 2010
31	30

New products launched in this quarter are as follows:

Product	Therapy	Division
Favorit CV	Anti-infectives	Spade
Telmichek AH	Life Style	Indoco
Osteoflam P	Pain / Analgesics	Xtend

International Business:

The International Formulation Business recorded a growth of 23.6% during the quarter and performed well to its expectations. The revenue figures for the quarter are ₹. 43.6 Crores as against ₹. 35.3 Crores during the same quarter last year.

Regulated Markets

The revenues of regulated markets during the quarter grew by 32.7% at ₹. 36.0 Crores as against ₹. 27.1 Crores same quarter last year. Countries like United Kingdom, Germany and South Africa were the top contributors.

Our relationship with Watson Pharmaceuticals, Inc. (3rd largest generic Company in USA) is progressing well. Further to this, the company has signed an agreement with two US based pharmaceutical companies.

Metformin Tablet supply has already started for AOK-Germany tender and will give consistent revenues to company for the next two years. The company is also participating in new AOK tender with additional products and results are expected in coming quarter.

During the quarter, there were four new products registered in Eastern Europe, two in anti-diabetic segment (in Croatia), one in Analgesic segment (in Portugal) and another in Anti-infective segment (in South Africa).

We are working closely with Aspen Pharmacare Limited (a global pharmaceutical company based in South Africa) and are adding up new products / projects, thus expanding the overall portfolio.

Emerging Markets

The exports to the emerging markets in Q2 ending September 2011 is ₹. 7.6 Crores. The major markets which grew in this quarter include the Asian markets and Latin America.

The 5 new products registered in the Q1, were commercialized in this quarter. The African business received a further boost with the signing of Zimbabwe agreement and immediate commercialization of this market. Furthermore, supplies to Uganda were fortified with the formalization of a supply contract to a major NGO, which would generate a revenue of approximately ₹. 4 Crores.

Ø API Business :

The company's API business recorded revenues of ₹ 8.0 crores during the 2nd quarter ended September 30, 2011 as compared to ₹.8.6 Crores same period last year.

The break-up of API revenues are as under:

(₹. in Lacs)

Particulars	Jul'11 – Sept'11	Jul'10 – Sept'10	% Change
Domestic	492	356	38.2
Export	307	507	(39.4)
Total	799	863	(7.4)

The export revenues of same quarter of the last year included business from a major tender for the sale of Allopurinol. Patalganga manufacturing unit has been approved by an MNC for supply of Allopurinol and the commercials will start soon. Further to this, the company has signed two major export contracts for supply of an API product over a period of three years to a customer in Europe.

Ø **Infrastructure**

The highlights related to Operations for the quarter ended September' 11 are as follows:

- **Goa Plant I (Tablet / Liquid / Ointment facility)** – The plant was audited by German Authority in this quarter and the same was completed successfully. Besides this there was also an audit from the German Customer which was also completed successfully. A new ointment tube filling machinery imported from Italy was commissioned in this quarter. Also a fully automatic capsule filling machine was installed in this quarter to improve the volumes.
- **Goa Plant II (Ophthalmic facility)** - The plant was audited by Colombia authority and the same has been completed successfully.

Ø **Research & Development :**

Our Research and Development (R&D) is an expression of our commitment towards excellence through innovation.

Spread over an area of 100,000 square feet, Indoco's ultra modern and multi disciplinary R&D centre houses state-of-the-art equipments, analytical instruments and latest database.

The robust R&D environment within the Company for both, Process Designing and Product Development reflects the Company's commitment to be a leader in the generics space and offer non-infringing activities and value added formulations.

R & D (Formulation)

Research and development is a vital area of the Company's focus and has been a key factor in maintaining the Company's growth. Leveraging on its strong research and development department, company is constantly evolving with newer products and dosage forms and keeps abreast with the latest trends in product development.

Each formulation is unique and the formulation projects starts with a strategic formulation development plan. The formulation strategy is the result of a thorough analysis of the pre-formulation data, the intended manufacturing process, patient compliance issues and the strategic goals of the company.

The formulation R & D is capable of handling various dosage forms like solid orals, liquid orals, topicals, injectables, ophthalmic formulations. The above efforts are supplemented by the company's regulatory department which has tie-ups with external CROs to conduct Bio-Equivalence Studies and Clinical trials.

Indoco is also working on New Drug Delivery System including Controlled release dosage forms , pulsatile drugs delivery systems, MUP's and micro emulsions.

The aim of the research centre is to develop and scale up the various type of formulations to commercial batch sizes as per the regulatory requirements.

The centre has capabilities to develop any type of dosage form, work on non-infringing routes and file Para IV applications.

Apart from the in-house development work, Indoco is involved in contract research where Indoco's research centre develops the products for other organizations for both domestic and international business markets and compiles the dossiers for submissions to the various regulatory agencies all over the world.

Indoco also undertakes the manufacturing site transfer (Toll / Contract manufacturing) projects for generic companies from Europe, US, South Africa and Australia.

Formulation development capabilities:

- Development of Controlled Release Technologies
- Taste masking
- Development of "Difficult to Formulate" Products
- Development of Dental Care Products
- Neutraceutical Product Development
- Ophthalmic product development for solutions and suspensions
- Development of all kinds of dosage forms

The Project Status of Various R &D (API) Projects is summarized below:

Sr. No	Project Heads	No of Projects for Jul - Sept 2011	Total No of Projects from Apr – Sept 2011
1.	New projects under evaluation	3	3
2.	Projects under lab development	8	8
3.	Lab validation completed	1	1
4.	Plant validation / process established at plant	-	1

Analytical Method Development: (APIs)

Sr. No.	Project status	No of Projects for Jul - Sept 2011	Total no. of Project for Apr- Sept 2011
1.	Development New Projects	3	8
2.	Development existing Projects	3	9
3.	Analytical method validation project	1	3
4.	Analytical method transfer	2	2
5.	DMF/CEP Related studies	3	7
6	Impurity Isolation and characterization	7	19

The project status of various R & D (Finished Dosages) projects is summarized below:

Sr. No.	Particulars	No of Projects for July-Sept 2011
1.	Projects ready for exhibit batches	10
2.	Indoco Dossier Projects	21
3.	NDDS Projects	3
4.	Contract Development	13
5.	New Projects to be started	9
6.	Domestic Projects	27
7.	Emerging Market Projects	15

Analytical Method Development: (Finished Dosages):

Sr. No.	Particulars	No of Projects for July -Sept 2011
1.	Analytical method development	38 methods of RM and final products
2.	Analytical method validation	36 completed
3.	Novel Polymorphism Study	1

Ø **Regulatory Affairs:**

Following is the status of regulatory submission / approval received in the quarter of July 2011 to September 2011.

APIs:

DMF / COS Filing status till date:

Project Status	No of Projects
US DMF	11
Canada	4
COS approval received	6
EU DMF	16

Finished Dosages:

During the quarter July – September 2011, company has submitted 1 ANDA to customers for regulated markets and 35 dossiers of our own in emerging and ROW markets.

Dossier Filing Status till date:

Project Status	No of Projects
US ANDA	8
EU CTD	26
Emerging Market	1074
US ANDA under progress	3
EU CTD under progress	5
Emerging Market & ROW dossiers under progress	20

Intellectual Property Rights (IPR)

APIs

Patents filed	Patents filed in Jul'11 – Sept'11	Total Patents filed during Apr'11- Sept' 11
India	1	2
PCT application	3	3
National Phase Japan	1	1
Total	-	6

Ø Future Outlook:

The company is in the process of signing agreements with one of the EU customers for the complete ophthalmic range. The company is evaluating 10-15 products for in-house development which will make pipeline of dossiers ready for licensing in 2013.

We are expecting few more registrations in South Africa shortly which will enable us to participate in the ensuing business. Few of the site transfer products signed in South Africa are getting commercialized next quarter. The effort of yesteryears has started paying off with the news that our first product got registered in South Africa. We expect the commercials for few of the products to start in coming few months.

Indoco is looking at providing high level analytical services to global generic and innovator pharmaceutical companies. This initiative will offer value added services like Impurity Profiling and characterization, Chromatography, Forced Degradation Studies, Method Development and Validation, Polymorphism, Lyophilisation Studies, Trace Analysis and Carry over Studies (Organic and Inorganic), Reference Standards and Stability Studies. The Laboratory plan for the same is approved by local FDA.

An expansion of API plant at Patalganga is being planned, which will be constructed on a plot area of 4000 sq m. This plant will have a capacity to manufacture API's like Atorvastatin, Pregabalin, Rasagiline, Bosentan and Febuxostat.

Audit by TGA, Australia of the Kilo lab manufacturing facility at Rabale is likely to take place in the coming quarter.

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
