



“Indoco Remedies Limited Q1 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Indoco Remedies Limited Q1 FY2021 Results Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Manchanda from Nirmal Bang Equities. Thank you, and over to you, Sir!

Vishal Manchanda: Thanks, Aisha, and good afternoon, everybody. We welcome you to the Indoco Remedies Q1 FY2021 earnings call. We thank the Indoco Remedies' management for giving us an opportunity to host the call. Today, we have with us the senior management of Indoco represented by Mr. Aditi Panandikar, Managing Director; Mr. Sundeep Bambolkar, Joint Managing Director; Mr. Mandar Borkar, Chief Financial Officer; Mr. Vilas Nagare, President, Corporate Office and M&A. I now hand over the call to the company management for their opening comments.

Sundeep V. Bambolkar: Good afternoon, all participants. Hope you and your family members are all safe and healthy. Let me start with some preamble. The concerns and uncertainties due to COVID-19 affected day-to-day life and business operations. Despite challenges, the company took all efforts in maintaining continuity in operations to ensure uninterrupted supplies of medicines in India and across the world. Efforts by Indocoites reporting to work and also those working from home, helped the company to restrict the degrowth in the domestic market to a single-digit and post an impressive growth in the International business, resulting in a modest growth of 8% in total revenues for the first quarter.

Let me now begin with the business highlights. Net revenue for the quarter grew by 7.9% at 267 Crores, as against 247 Crores. Sequentially, revenues for the quarter were marginally higher by 1.4% at 267 Crores, as against 263 Crores.

EBITDA to net sales for the quarter is 18.3% at 48.9 Crores compared to 9.2% at 22.7 Crores.

Profit after tax for the quarter is 6.5% at 17.2 Crores compared to 0.9% at 2.2 Crores.

Now on to the Domestic formulations business revenue from Domestic formulations business degrew by 8.7% for the quarter at 147 Crores, as against 162 Crores. In the midst of the COVID-19 pandemic, Indoco used various methods to create multiple touch points with stakeholders, like doctors, stockists as well as retail chemists through digital platforms. The objective was to build engaging virtual interaction models, example, care delivery

adaptation, patient support enhancement and supply inventory management. These measures will pave the way for a better communication in future as well.

During the quarter, Telmichek-CT tablets were launched in the cardiac category. There is no change in the status of the Apixaban patent litigation as the normal functioning of the courts in India, including Delhi High Court, is suspended since March 2020 due to COVID-19 crisis. As of now, the case is scheduled for hearing before the Delhi High Court on September 8, 2020. As for AWACS June 2020 report, the Indian pharma industry has degrown by 5.9% in quarter 1 of FY2021. Indoco ranks 29th in the IPM with market share of 0.65% as on June 2020 MAT. As per SMSRC MAT June 2020 report, IPM shows a degrowth of 20% in prescriptions generated. Indoco ranks 23rd with market share of 0.83%.

Now on to the International Formulation business front. During the quarter, revenues from International Formulations business grew by 60.9% at 95 Crores, as against 59 Crores. U.S. revenues were at 27 Crores, as against 3 Crores. The company received approval for its ANDA for Olanzapine tablets 2.5mg, 5 mg, 7.5 mg, 10 mg, 15 mg and 20 mg. Olanzapine is indicated for the treatment of schizophrenia and bipolar disorder. The U.S. market size of Olanzapine tablets is USD 65 million as per available IMS data. The company is planning to launch this product in the U.S. in the second half through the marketing partner.

One of the company's U.S. partner received approval for Palonosetron injection ANDA, which was filed from Goa Plant II. Launch of this product has been planned in the current quarter of FY2021.

In addition to Rasagiline and Glycopyrrolate injections, launch quantities of Tranexamic Acid injections in June 2020 and Zolendronic injections in July 2020 have been shipped to USA from Goa Plant II.

Europe revenues grew by 26.8% at 48 Crores, as against 38 Crores. U.K. was the major contributor to the business. Revenues from South Africa, Australia and New Zealand were at 1.8 Crores, as against 2.8 Crores.

Revenues for emerging markets grew by 17.7% at 19 Crores, as against 16 Crores for the same quarter last year. Ivory Coast and other French West African countries and Kenya have been the major contributors.

Regulatory update on Goa Plant I. Periodic compliance updates are being timely submitted to the USFDA and inspection of the site by the U.S. health regulators, virtually or on-site, is anticipated to be scheduled. API and CRO business, revenues were at 22 Crores, as against

24 Crores for this business. Revenues from CRO and Analytical Services business were at 1.6 Crores, as against 2.5 Crores.

That is all about the business highlights for the quarter, and I now request the participants to put up their questions. Thank you very much.

Moderator: Thank you. The first question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Congrats for a good set of numbers. So, initially, so we have seen this Antidiabetic segment for the domestic market has grown well for us. So how many antidiabetic brands other than Glychek we have? And what kind of new launches we are expecting in domestic diabetic segment? And what kind of contribution we are expecting from this segment over the next 3 years?

Aditi Panandikar: Yes. So Glychek, no doubt, is the largest product in our antidiabetic basket, but other than that, we have got the Prichek range also, which is the Glimeperide and its combinations. In addition to that, we have the gliptins and Teneligliptin, we have two brands; one is J-Ring and the other is Zilenta. More importantly for us, is our first time in India launch of Alogliptin brand, Aloja, happy to share that we now have a center approval on a combination of Alogliptin with Metformin also, which is slated for launch later this year. So Aloja, Aloja M is a great opportunity for the organization. Alogliptin is a molecule, which is approved by USFDA. We, as a company, have chosen to go with the first time in India launch of Alogliptin over a mad rush for Vildagliptin, which is in the market otherwise. We believe Alogliptin is a much better molecule, and having a first time in India launch advantage is definitely something, which helps a small division, Antidiabetic division, like us, make entry into the physician chamber. As regards growth, the base is extremely small for us to worry about growth right now. We should definitely be clocking a higher double-digit growth in the Antidiabetic segment.

Deepan Shankar: Okay. Also in the domestic market, this Vitamin, Mineral and Nutrition segment has degrew sharply. So is this OTC or prescription base? And do we expect good growth in the coming quarter?

Aditi Panandikar: Yes. So is entirely prescription based, and although it is classified as Vitamin, Mineral and Nutrition, actually these are products written by gynecologists and mass specialty products. So basically, our vitamins, minerals and nutraceuticals are largely written by the mass specialty and since a prescription generation in this quarter was an issue, we have taken a bit of a backseat, but going ahead, I believe, this will do well.

- Deepan Shankar:** Okay. And also in the case of U.S. market, so when can we expect more ophthalmic approvals? And also what is the status on discussion with our marketing partner relating to ophthalmic? And how many of the products do we need to find a new partner?
- Aditi Panandikar:** Maybe we should take your last question first. We absolutely do not need a market of products to find a new partner. Other than the initial deal we did with Teva, now Indoco does not do any deals for baskets with anybody. So each product is on a product-to-product basis, okay.
- Coming to your question on how many are to be transferred, how many are being transferred, we expect, at least, 6 products to come to us eventually; 2 are absolutely in the final stages of being handed over, yes.
- Your first question was about how many and when can we expect approvals? I think given the track history of what we are seeing with Plant II in the last three months, where we have had two, three injectable, four approvals come in actually, I feel as soon as USFDA is happy with whatever data is being submitted, like CR responses, etc. Ahead of time, we should be getting approvals.
- Deepan Shankar:** So we are not seeing any market size reduction because of these kind of delays? So more or less, for our 18 products, we are not expecting any market size reduction?
- Aditi Panandikar:** No, no because many of these products were for the future.
- Moderator:** Thank you. The next question is from the line of Sajal Kapoor from Unseen Risk Advisors. Please go ahead.
- Sajal Kapoor:** Aditi madam, could you just share your thoughts on the Para IV pipeline, in terms of the updates like the filings, the approvals and the launch time lines?
- Aditi Panandikar:** Well, frankly, we do not disclose too much on Para IV filings in calls because partly it is a strategic advantage, but we already have 3 filings with FDA, which are Para IV in nature. What was your question exactly?
- Sajal Kapoor:** Yes. So in terms of the approvals, so we believe, so when, I think reading your previous transcripts, we were expecting at least one launch, either back end of FY2021 or 2022? Has that changed? So I am not interested in the...
- Aditi Panandikar:** No, no, it has not changed. One is definitely on the cart.

Sajal Kapoor: Definitely on the cart, this fiscal or early next year?

Aditi Panandikar: Yes. FY2021, H2.

Sajal Kapoor: Okay. Right. Great. Great, and on this Succinylcholine ANDA that we got the fastest approval in our history, I mean, given the nature of the usage, i.e., the ICU/stroke emergency usage, how has been the market response in Q1 this fiscal?

Sundeep V. Bambolkar: You want to know the market size, is it?

Sajal Kapoor: No, no. Just how has been the response?

Aditi Panandikar: Okay, we have not yet launched it.

Sundeep V. Bambolkar: We have not yet launched.

Aditi Panandikar: Succinylcholine injection, the one you are talking about, was the fastest ANDA approval. We filed it, and in 4 months, we got approval, way ahead of any expectations. So from a launch perspective, prep is going on.

Sajal Kapoor: Excellent. Excellent, and just maybe a couple of more, if I could squeeze in. So there is recently this news of stockpiling across the world, but one coming from the U.K., where you are the largest supplier from a Paracetamol perspective. So how do you see that opportunity unfolding? And do we have the capacities to fulfill the demand?

Aditi Panandikar: We actually missed the first part of your sentence. What is it about?

Sajal Kapoor: Yes. So the stockpiling, which is going on the...

Aditi Panandikar: Stockpiling, okay.

Sajal Kapoor: So on the U.K., from a paracetamol perspective and other therapeutics, if you may.

Aditi Panandikar: We have not felt any of it, if it is there with our front-end customer. Because our order books pretty much are okay, and at any given time, they give us a rolling 6-month plan. So as of now, they have not made any reductions.

Sajal Kapoor: And how do you generally see this trend unfolding, both on the APIs and more on the APIs? I mean, have you seen much traction because we do have the spare capacity. We are ramping up our API.

- Aditi Panandikar:** Yes. See, what has happened is, as you must have noted, we have shown a 60% growth in International Formulations business this quarter. The sudden surge in volumes being manufactured for international market, most of which have backward integration, has meant that the API capacity has been used more for internal consumption. However, thanks to the new block of APIs, where a lot of validations are underway. We are confident in the next 3 to 6 months with stability, etc., in place, we will be able to utilize that capacity and then deliver on API numbers.
- Sajal Kapoor:** Right, and will that be part of our contract manufacturing side of the business? And how do you generally see our trends? Because there is a lot of tailwind that we keep hearing from different companies that contract manufacturing is definitely seeing some traction, and given that some of the capacity is overseas, I am talking about Europe and U.S., are not functioning at 100% sort of capacity, and that is likely to further fuel the demand for contract manufacturing. Are you seeing any of that trend or indication?
- Aditi Panandikar:** We have not felt it, as you might have noted in the narration made by Sundeep. Our U.K. business, which is largely contract manufacturing, and overall, the European business has also shown a growth of 25%. I am not sure how much you follow our organization, but our company has come out of extreme regulatory issues of over 2 years, and we had a lot of catching up to do by way of volumes. So in addition to that, we have totally 5 manufacturing sites with UK-MHRA and European approvals, and in fact, we have got a good order book position. So as of now, we have not seen any of this, and I do not know because probably what you are saying is of our capacities remaining idle in Europe. That is probably because they are outsourcing more from here.
- Sajal Kapoor:** Yes, exactly. So that is, and I am aware of that Goa II issue that happened?
- Aditi Panandikar:** Yes, yes, yes. Actually, Goa II did, never impacted our top line as much as Goa I MHRA, which is totally resolved. So as a result, you see the total correction in volumes coming from Plant I for Europe.
- Sajal Kapoor:** Right, and on this Goa II, madam, if just very quickly, we, kind of, projected 100 Crores sales in this fiscal, and I do not think that is kind of baked into this Q1 number, at least, because the numbers do not suggest that we are up and running as far as our injectables going into the U.S. are concerned.
- Aditi Panandikar:** No, we are very much on track. A lot of these numbers have got to do with the timing of approvals, timing of target dates given by FDA, execution of validation batches. So we are well on track for that number.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: So a few questions. I would say three questions. Firstly, Aditi madam, in the first quarter of FY2021, 9% revenue decline in India. How is the sales force incentive being paid out? How are you looking to pay out in future? And in that context, how would you look at the attrition in your field force in India?

Aditi Panandikar: Okay. I will answer your last question first. I think given that for the first time, for the Indian business, at least, the industry saw a kind of a simulation exercise of what happens to your brands when people cannot meet the doctor. There is a huge concern, I think, amongst the field staff for a continued opportunity or kind of demand for the function going forward. It is very clear now that everybody will look at efficiency and effectiveness, of course, in India market. So there has been no attrition.

Question #2 was on commissions and incentives. So what we did, Aditya, is that when we were hit with this lockdown and crisis situation in the month of March, it became very clear that one cannot make any kind of long-term targets or goals because that would put sales in a tizzy. So what we have done actually is gone month-on-month. So every month, first few days, we have been announcing targets, and the field is then going after it. That has allowed us to keep the field morale high. It gives them confidence that we are reviewing the reality on the ground and then making allowance for target, and also for what tactical approach we need to take.

For example, we have used this time very effectively in building a relationship with a new customer directly for us, that is a retailer. We never used to reach the retailer directly earlier, and we have used this time very effectively.

So domestic business has been about doing month-on-month kind of target setting, month-on-month going after and getting orders, and we get data from various sources above our internal sales from industry, and that is also keeping us aware of what is happening to various categories we cater to.

So you might have seen that our dental has done exceedingly well. Some of our legacy products have done very well. A few of our legacy products, which are directly tied up with acute, acute kind of season coming in, they are not able to grow as much as last year, and that is the collective impact you got of this minus 8 Crores to 10 Crores, 10%, sorry.

- Aditya Khemka:** Understood. Very clear. So fair, just to summarize your answer. So basically, the field force is being just from monthly basis. Is the incentive payout also on a monthly basis? Or is it paid at the end of the year?
- Aditi Panandikar:** Yes. So, we used to always have a year incentive, we used to have a quarter incentive and we used to have month incentive. We have reversed some of the ratios to see that because people worry when too much is kept for the annual, in a year where the situation is not easy. So we are tweaking the percentages here and there to keep them motivated.
- Aditya Khemka:** Perfect. Secondly, in the sales of U.S. this quarter, if I am not mistaken about 27 Crores, could you break that up into product sales and milestones received?
- Sundeep V. Bambolkar:** Majority is product sales because we got approval of Rasagiline, then Glycopyrrolate Injection and all these products. So majority of it is in actual commercial dispatches.
- Aditya Khemka:** Okay, but your milestones would be in the region of 7 Crores, 10 Crores?
- Aditi Panandikar:** Around 10 Crores.
- Sundeep V. Bambolkar:** Yes.
- Aditya Khemka:** It is okay, if we do not have the exact numbers. We can always check back with you.
- Aditi Panandikar:** Around 10 Crores, around 10 Crores, Aditya.
- Aditya Khemka:** Around 10 Crores. Okay. Okay. Perfect, and the third question I had was on the other expenses. So I just looked at the earnings of some of your peers. Most of them had reported, sort of, a dramatic decline in their other expenses year-over-year, and I mean to say about a 15% to 30% decline from company to company in other expenses, and when we asked them questions about that, they said it was primarily driven by promotion expense, traveling costs in the domestic business, which has basically not been incurred in the June quarter. We had a slightly low decline in other expenses. If I am not wrong, about 2% decline. Just trying to understand which, if you are traveling and commission and promotion expenses also went down, what is it that went up to compensate for it?
- Mandar Borkar:** See, Aditya, Mandar Borkar this side, other expense comprises of multiple items. One is essentially definitely the travel, promotion and incentive. So that is one, and there are expenses at the plant level also, in terms of repair, maintenance, power, fuel. So ours is that way, a unique combination because definitely domestic constitutes a major part, but at the same time, all the large 9 manufacturing plants.

So we had a decline in both, traveling costs has been a substantial declining; then in terms of promotion also, there is a decline, and coming back to your question, which cost element showed increase, if I have the value of, there is no such major increase in any of the cost head. Probably, each company has got their own different cost structures. So you cannot generalize like why our decline is not comparable. Yes, plant expenses to some extent...

Aditi Panandikar: Yes, Aditya, considering that the international business has grown by 60%, you have to factor in that in absolute terms last year, there were hardly any other expenses related to manufacturing for international business. So in that manner, we are different from others.

Aditya Khemka: Yes, but Aditi madam, last year, we would have also had some remediation expenses.

Vilas V. Nagare: Aditya, specifically to answer your question, on commission and incentives, on provision for doubtful debt, we have spent more, if that satisfies your question.

Aditya Khemka: Got it. Got it, and how much has that provision for doubtful debts, if you could quantify that Vilas, Sir?

Vilas V. Nagare: 2,25,00,000 is the extra spend.

Aditya Khemka: Extra spending. I get that. Yes. That makes sense. Just one last question to the management so when it comes to the European business, again, very good growth of 27-odd percent, and I think the previous participant asked a question on Paracetamol. So would you say your supplies in the June quarter of Paracetamol to U.K., was like a normalized quantity that you keep selling every year and every quarter? Or would you say that because it came after a break, there was some sort of lumpiness in the quantity that you supplied in the June quarter, and therefore, that should normalize going forward. How would you look at it?

Sundeep V. Bambolkar: Yes. It was near-to-normal considering that now all the plants are working well. Touchwood, Baddi I, Baddi III, and Goa I and Goa III are catering to Europe right now. So I think there is scope for doing better still because Baddi III is yet to show its full potential, and that will happen as 1 or 2 quarters go by.

Aditya Khemka: Yes, Sir, my question was on Baddi III only, actually. So Baddi III, what is the utilization today?

Sundeep V. Bambolkar: Baddi III utilization is about 33%.

Aditya Khemka: 33%, and what would be the annual operating expense of a plant like Baddi III?

Sundeep V. Bambolkar: About 3Crores.

Aditya Khemka: I could not get that number, sorry.

Sundeep V. Bambolkar: Yes, but now as a strategy, all the new products transferred from Europe, any new product is directly going to Baddi III.

Aditi Panandikar: With depreciation, 4 Crores.

Sundeep V. Bambolkar: 4 Crores is the annual expenditure.

Aditya Khemka: 4 Crores is the operating expense, including depreciation...

Sundeep V. Bambolkar: Quarter, sorry, not annual, 4 Crores.

Aditya Khemka: 4 Crores for the quarter, including depreciation. That is Right. Okay. I had one more on the API side. So anything we are targeting on the PLI scheme that the government has announced, I know it is only for domestic sales, and I know you have expanded our capacity in API through Patalganga. Now given that we did not have commercial supplies from Patalganga till few months back, would we qualify for a PLI scheme, if you were to develop one of those products where the incentives are available?

Aditi Panandikar: No. We have actually looked at the list, and there is just one-off product appearing, which is there in our list, and it is not very exciting, to be honest.

Moderator: Thank you. The next question is from the line of Anshul Saigal from Kotak PMS. Please go ahead.

Anshul Saigal: Congrats on great numbers. I had, you mentioned during the conversation that there will be one Para IV launch in this year. Is this as of we are talking of?

Aditi Panandikar: Actually, as I said, on Para IVs, we are not able to make too many disclosures, especially because we work with a lot of partners. I hope you understand.

Anshul Saigal: No problem. The second question is that on gross margin, we had a very healthy number, which we showed for the quarter. Of course, it might be because of product mix, etc., and given that our overseas revenues have grown very handsomely. Now going forward, do we see this as a sustainable number?

Aditi Panandikar: Yes, yes. Around 30% cost of goods is what we are targeting on an annual basis also.

- Anshul Saigal:** Okay, and which means that the, I mean, the read-through from that is that the current quarter's EBITDA number also looks like a sustainable number because the only other major costs are other expenses and, of course, manpower, and to some extent, R&D, and those do not change materially on a quarter-on-quarter basis?
- Aditi Panandikar:** Yes. Let me just say this that this quarter, there has been, despite what Aditya spoke earlier than you said, that many other companies showed a much better drop. In our case, the India business, whatever we have saved on account of travel or promotional articles, etc., etc., that has helped us this quarter, and on an annualized corrected year in the new normal, it may not be this much, but yet since the COVID situation is dragging, we expect some of these benefits to continue for another quarter, at least, and then structurally, on an annualized basis, we are really working on increasing the efficiency of the India business. If that happens, this kind of predictable bottom line should be able to be done, but because it happened this quarter on account of people not traveling, that is not something that makes us happy because it does not augur good growth in prescription business in the future. I hope you understand.
- Anshul Saigal:** Yes. Also on a quarter-on-quarter basis, our employee expenditure went up by, I did say, about 5%. What is that on account of?
- Aditi Panandikar:** We have actually provided for increments, Sir. Although we, and, because till the last year, it used to hit us in one-off quarter when we paid it out, so this year we are providing.
- Anshul Saigal:** So does that mean that going forward, this number should be lower given that we provided for it in this quarter?
- Aditi Panandikar:** It could be standard. It could be stable.
- Anshul Saigal:** Okay. I mean at the current quarter's level, it will be somewhat stable and at this level for the ensuing two, three quarters?
- Aditi Panandikar:** Yes, yes.
- Anshul Saigal:** Okay, and the India business, of course, kind of came off its growth trajectory for the quarter and for understandable reasons, but what is the outlook that we have for that business going forward?
- Aditi Panandikar:** Yes. See, we are entering into a very, very challenging quarter because in under normal circumstances, it used to be the biggest quarter for the company, given it has almost 40% coming from so-called seasonal product mix, but this year, on account of COVID lockdown,

footfalls lower in doctor chambers, doctors not fully practicing, there is bound to be some amount of impact on sale of products. So I would not like to make any kind of projections.

As of now, all I can say is that the trends you see on the pure acute portfolio are likely to continue on growth perspective. That is month-on-month, we are seeing our products do better than before, but from a perspective of is it as high as last year in the season, that is not likely to happen. So I expect domestic business to continue to have small impact even in Q2.

Anshul Saigal: Right, and if we were to just look at the month of July versus last year, where are we at 70%, 80%? What kind of number are we at versus?

Aditi Panandikar: More than 90%.

Anshul Saigal: More than 90%. Okay.

Aditi Panandikar: My concern was on growing, not on...

Anshul Saigal: Okay. Got it, and this number, say, in the period of May, would have been what, 50%, 60%?

Aditi Panandikar: April was 50%, May was 60%, 65%. June was close to 80%. Yes? So it is a steady growth. We just have to wait. I am hoping the season will help us.

Anshul Saigal: Okay, and Mr. Bambolkar, just please give some color on working capital for the quarter? How has that played out? And what are the trends on that?

Sundeep V. Bambolkar: Yes, yes. Working capital has gone up to some extent because important products of the India business, we ensured that inventories built up and there are no shortages on the India business.

Second thing, we are now having a slow U.S. launches. In the next 3 to 4 months, we will have, at least, 3 products being launched in the U.S. These, and of course, Europe order book has been built up very well for the next 4 months. As a result of all this, our short-term borrowings, which were around 110 Crores have now hiked up to 125 Crores. So there is likely to be a demand for short-term loan, but nothing to worry.

Hello? So as a result, short-term borrowings from 110 Crores to 125 Crores is the main point, the main parameter on which the working capital will go up to some extent.

Anshul Saigal: Okay. Okay, and given the speed with which we are getting clearances from USFDA, is there a case to increase our outlook for launches and sales from the U.S.?

Aditi Panandikar: No, from U.S., you mean?

Anshul Saigal: Yes, please.

Aditi Panandikar: No, I think that is captured in the numbers we have committed.

Sundeep V. Bambolkar: Already captured. Yes.

Moderator: Thank you. Next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Congrats for the good set of numbers. My question was on the India business with the normal monsoon, anti-infectives should be doing well. So, but yet, the Q1 has shown a de-growth. So do you expect a similar kind of de-growth in Q2 or because the stocks are already there and not being sold?

Aditi Panandikar: No, Charulata. If you would see the kind of updates we get from AWACS, stock corrections are already happening in the field. High stocks were being held in April and May, but after that, stock level corrections have happened.

Coming to your question on growth, as I specifically said, July, August, September, we sometimes do 2 or 2.5x volumes of a regular month, and my concern is only for those levels, yes. So season will come, no doubt, already product movement is there. Also aided by the situation, a product like ATM, for example, which is an Azithromycin brand, that is doing very well. Karvol Plus is doing exceedingly well. So there is a product-to-product kind of an impact, but some antibiotics like Oxipod or FEBREX PLUS, which is anti-COVID and very much driven with the season coming in, where there is a high footfall in the general practitioner's chamber. It is those products which bother me a bit.

Therefore, I have already said earlier, I would not be surprised if similar trends continue in Q2 from the growth perspective, but efforts from our side are to see that sales grow, okay? But the situation is so fluid, it is not correct to give any kind, give or, say, anything rather. It could even turn for the positive. We are hoping for that.

Charulata Gaidhani: Okay. Right, and U.S., the new launches happened in the month of June, is it?

Aditi Panandikar: Yes, one of them has happened in June and more are happening in July.

- Charulata Gaidhani:** Okay, and because sequentially, it is almost flat?
- Aditi Panandikar:** Yes, yes, yes. That is true.
- Charulata Gaidhani:** So Q2, we should see a significant increase?
- Aditi Panandikar:** True, true. Certainly.
- Moderator:** The next question is from the line of Aditya Khemka from DSP Mutual Funds.
- Aditya Khemka:** Just, madam, given the limited number of products we are currently selling from Plant II to U.S, and even Plant III, what is the capacity utilization? Because III also caters to U.K, and Europe, I understand, so what is the capacity utilization of Plant II and Plant III, if you could provide?
- Aditi Panandikar:** Currently, Plant III utilization of about 50%, 50%, 60%, and yes, we are actually, I might have said this earlier, but in a couple of years' time, Goa will be entirely freed of Europe manufacturing. It will all go to the two Baddi plants. So capacity is not a problem for us, Aditya.
- Aditya Khemka:** And Plant II capacity utilization, madam?
- Aditi Panandikar:** Plant II capacity also, there are several lines. So actually, if you go by a line, there is probably a little bit of traffic on one line more than the other kind of, but otherwise, we are okay. Around, I think, 20%, 25% capacity is there. Also because of the continuous amount of validation batches or CR responses, there is some amount of capacity which gets utilized for that, which is likely to go down going forward. So we should be okay.
- Aditya Khemka:** Do we have a open CRL on brinzolamide today, madam?
- Aditi Panandikar:** No.
- Aditya Khemka:** Okay, and lastly, on the Capex plan for the next 2 to 3 years. So given capacity of API has been expanded formulation, we have enough capacity. What would be the recurring Capex for the next 2 to 3 years?
- Aditi Panandikar:** Not more than 50 Crores per year.

- Aditya Khemka:** 50 Crores a year, and where do we stand today in terms of net debt? I heard Sundeep Sir say something about the short-term loan on working capital. So where do we stand today in terms of net debt as a company?
- Sundeep V. Bambolkar:** Long-term loan is 155 Crores. Now it has come down, sorry, 143 Crores and short-term has gone up slightly to 125 Crores.
- Aditya Khemka:** Right. So both put together, about 270 Crores of gross debt?
- Sundeep V. Bambolkar:** Yes, yes.
- Aditya Khemka:** So how much is cash and cash equivalent is how much?
- Mandar Borkar:** So cash, cash equivalent is not more than 10 Crores to 12 Crores.
- Sundeep V. Bambolkar:** 10 Crores to 12 Crores.
- Mandar Borkar:** Loan is 268 Crores.
- Sundeep V. Bambolkar:** Yes, that is there.
- Aditya Khemka:** Okay. So net debt of about 250 Crores, 260 Crores?
- Sundeep V. Bambolkar:** Yes, yes, 250 Crores net-net yes.
- Moderator:** Thank you. The next question is from the line of Rahul Sharma from KARVY Stock Broking. Please go ahead.
- Rahul Sharma:** There was a decent order, which you will had said it is there in, of paracetamol in Q4 FY2020. So has that been exhausted? Or is it spanning over a couple of quarters?
- Aditi Panandikar:** See, Rahul, for para, in particular, we have a 6-month order position with us any given time with the customer. So there is a question of exhausting, yes.
- Rahul Sharma:** There is no, was there any one-off in this quarter in Europe or...
- Aditi Panandikar:** No, no, not at all. There was a small period in March when we could not ship, that is it, because of the restriction, okay? But that was not significant enough to impact anything.

- Rahul Sharma:** Another thing I just wanted to ask was of this couple of approvals, which have come in. Any of them are meaningful for the U.S. market for us?
- Aditi Panandikar:** See, for us, everything is meaningful, however, small the opportunity may be, given our size in U.S, and what it is. What is important is that we find decent front-end partners and get good margins, and as you know very well over the last 3 years, we have carried plant expenses without making product. So in that scenario, any product, if manufactured, will be useful for us at this time. So I think for us, there is not a concern. They are not very big opportunities, no doubt, but still, for example, Olanzapine, which just came in, is only USD 65 million, and there are quite a few competitors, but we are still positive on it.
- Sundeep V. Bambolkar:** Rahul, 4 injectables and 1 solid dosage has been commercialized in the last 3 months, last 3 to 4 months, and as Aditi said, anything is meaningful for us, given our size in the U.S. is very small right now.
- Rahul Sharma:** What I have got, Palonosetron injection is a good opportunity, was a good opportunity. Is it yet a meaningful opportunity, USD 400 million plus?
- Vilas V. Nagare:** Yes, it is Rahul. Rahul, that is one. Glycopyrrrolate is yet another, where the market size is around USD 224 million, so there is, these two products definitely has a good kind of opportunity, and the rest of the injectable are in the range of USD 40 million, USD 60 million market size wise.
- Rahul Sharma:** How big is Palonosetron now?
- Vilas V. Nagare:** I think around USD 400 million. I will get back to you.
- Moderator:** Next question is from the line of Vishal Manchanda from Nirmal Bang Equities.
- Vishal Manchanda:** Sir, I want to check whether all the approvals that you received last year, including Febuxostat, have these been launched in the U.S.?
- Vilas V. Nagare:** Not yet. We are in the process of manufacturing. It will be shipped very shortly, maybe in the current month or early next month.
- Vishal Manchanda:** So how many would be pending? And is Febuxostat also pending?
- Vilas V. Nagare:** Yes, yes, it is.
- Vishal Manchanda:** Okay, and how many others are pending apart from Febuxostat?

- Vilas V. Nagare:** Apart from Febuxostat, Succinylcholine, but that, I think, will take a little time.
- Vishal Manchanda:** Okay. So is the shortage there for Succinyl chloride? Or is it now out of shortage?
- Vilas V. Nagare:** This is shown in the shortage list still.
- Vishal Manchanda:** Okay. Okay, and all other injections have been launched? All the injectables?
- Vilas V. Nagare:** Yes. Despite from here, couple of them launched, others are in the preserved launch.
- Vishal Manchanda:** Right. Okay, and Sir, on Europe, basically, if the run rate move up from here, so you are at 47 Crores this quarter. So would this exceed 50 Crores in coming quarters?
- Vilas V. Nagare:** It has to exceed 50 Crores because we have given a guidance of 225 Crores. So it will be a little over 250 Crores.
- Vishal Manchanda:** Okay. So we should expect better run rates from here?
- Vilas V. Nagare:** Yes, yes, yes.
- Vishal Manchanda:** Sir, overall, is there a change in the Europe environment because what we are seeing is some companies are doing better in Europe than they were doing earlier while it is not a very consistent trend, but I could see a lot of companies doing better than they were doing before. So as the pricing environment change, demand supply situation become more favorable?
- Sundeep V. Bambolkar:** Yes. Our front-end partners are quite bullish on the business, and for, at least, 7 to 8 molecules in U.K, and 3 to 4 molecules in Germany and 2 molecules in Spain, we have a proper order book, a predictable, sort of, 3 to 4 months order book.
- Vishal Manchanda:** Okay, Sir, and Sir, on India, on Alogliptin, could you talk about how is it differentiated from other gliptins in terms of either an efficacy or safety? Is there a difference that you can play it for us?
- Aditi Panandikar:** I am sorry, can you, I said it earlier, but I will just repeat. Alogliptin is a USFDA-approved molecule, contrary to Vinda, which was not yet approved by USFDA, and compared to many of the others, whether it is dapa or especially, Teneligliptin, there are major advantages medically as well as from safety profile and all others. So it is a fantastic molecule.

- Vishal Manchanda:** Okay. Okay, and any color on the Apixaban litigation? So is this getting delayed on the contract?
- Aditi Panandikar:** See, we have appealed for an early show in the court for lifting the stay, especially given that anticoagulants are very much required in COVID times also. I think in the MDA, we have put an update on which the hearing is about to happen, somewhere in September.
- Vilas V. Nagare:** But Vishal, we have find a separate case to allow us to sell the products in the market in view of this COVID situation, and that case is coming up for hearing much earlier than what we have stated in MDA. So in August, later...
- Aditi Panandikar:** We will keep you informed based on whatever happens. Yes?
- Vilas V. Nagare:** Yes.
- Moderator:** Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment. Please go ahead.
- Ashish Kacholia:** Congratulations on the good set of number madam. I just wanted to check whether we are going to be putting some further attention on our domestic dental portfolio in the Sensodent-K and toothpaste category? Because our packaging looks pretty old. I picked up a toothpaste tube from the chemist and like it really did not stand out against the competition.
- Aditi Panandikar:** Oh, is it? Okay. I have to look at it. I know they have gone for glossy finish. Maybe you picked up the wrong variant.
- Ashish Kacholia:** I picked up the green boxes, where it really, it did not look kind of...
- Aditi Panandikar:** Okay. Okay. We will look at it surely, but I can tell you one thing is that product is doing exceedingly well. Most of us know what has happened in the lockdown period, that it is solely the legacy products, which were established in the consumers mind and which have a good repeat purchase element to it, and with Karvol Plus, Sensodent-K is another such product doing very well for us. Thank you. We will look at the packing surely.
- Ashish Kacholia:** Any thoughts on putting some more money into the marketing and branding of these products, madam?
- Aditi Panandikar:** Definite thoughts are there. We will keep you updated when there are any concrete. There is definitely a scope for looking at OTX.

- Ashish Kacholia:** Yes. Brand recall is very strong. So I think there is an opportunity sitting, I mean, for us to definitely look at.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** Yes. Just one last question, madam. So you mentioned in your remarks something about reaching direct to a chemist and getting a retail partnership done in India. Can you talk a little bit about that model because this is fairly novel and innovative?
- Aditi Panandikar:** Sure. Yes. It is not a partnership. See, Aditya, what happens is that all pharma track secondary sales, which is the sale from stockist to retailer, but none of us really track the tertiary sale, which is at the retail counter, and when the COVID lockdown happened, when doctors could not advise patients, we realized that a large amount of influence is there with the retailer for the buyer when he comes to the chemist counter. Given that there is a large amount of products at Indoco, which have a repeat purchase element attached to them, it made sense for us to now understand this customer also better. With that in mind, we started some kind of retail campaign, so that there is a good database created of retailers with us. The person who spoke before you also spoke of the OTX element of our toothpaste. So for that also, it would be helpful. I am very positive. With this new customer, we have, sort of, adopted over and above the stockists and the doctor. The stockist who actually makes purchase and doctor who actually makes the decision. I am very confident this kind of understanding of the retailers will help Indoco in the long run. Yes.
- Aditya Khemka:** Would it be fair to characterize this as a trade generic model in the OTC segment?
- Aditi Panandikar:** No, no, no. For us, we are not going in the trade generic way, getting close to the retailer. For us, it is definitely for the push kind of products, which have a repeat purchase element to it, and to understand because there are more retailers than doctors, and we go after 300,000 doctors, and there are 500,000 retailers, and we will not reach them at all. So it made sense at this time to understand. There are kinds of retailers, who keep these kind of products and those kind of products, retailers who keep speciality products, retailers who largely keep dental products. So huge learning for the organization. We have used this period effectively, especially since our boys could not meet the doctor.
- Aditya Khemka:** And it is your reps who connect to these retailers as well, madam? Or is there a different arm?
- Aditi Panandikar:** Yes. Yes. No. There are reps, and we have created online platforms. So the retailer can directly connect to the organization also.

Moderator: Thank you. The next question is from the line of Anshul Saigal from Kotak PMS. Please go ahead.

Anshul Saigal: Madam, what is the total capital employed in the API business?

Aditi Panandikar: API...

Vilas V. Nagare: 120 Crores is a gross block.

Aditi Panandikar: API research, you mean?

Anshul Saigal: No. Even the manufacturing, that much of it we use in-house and some we sell outside. How much is the...

Vilas V. Nagare: Yes. 120 Crores is the gross block.

Anshul Saigal: 120 Crores, and who is the competitor here? Are we competing with the Chinese on this API?

Aditi Panandikar: No. See, we actually, I hope you are aware, Indoco got into the API business only as part of a strategic initiative when we wanted to be backward integrated for our own formulation. So currently, what Indoco International Formulations does not buy is being sold by API sales team and that too largely in Europe and U.S.

Anshul Saigal: Right, and given that we are going to add to our capacities in the next, say, 2 or 3 quarters, and our capacity is going to go up, we will have more capacity to sell to the outside market. How much is that capital that is going into this business? And how much...

Aditi Panandikar: Yes. Capex is already incurred. Utilization is going to happen. In fact, the Capex was incurred, so that we are ready for a time when U.S. formulation sales kick off, which is now. So quarter-on-quarter, if you have seen the kind of guidance we have given for U.S. business for our formulations, much of it is backward integrated with our APIs. So the API team has to keep up with the manufacturing product for the same supply chain. In addition to that, we are doing external sales, and that will be about 100 Crores, yes.

Anshul Saigal: Okay, and why I am asking this question is that given current environment where the world is looking for China Plus One strategy, is that, kind of, going to catalyze our investments in this part of the business? Is it likely that we may add?

- Aditi Panandikar:** Yes, yes. Certainly, there will be some upside. There will be some upside. More importantly, we are also concentrating on the stat, key starting materials, which are coming from China, some of which we were also getting, and we are adding Plus One to the KSMs, if you know what I mean. So there seems to be a good-enough opportunity even in key starting material supply from India, and we are exploring that.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** I just wanted to know what is the percentage of legacy products to India sales?
- Aditi Panandikar:** Legacy products as percentage to total sale will be around 60%. It depends on what you term legacy, Charulata. Typically, AWACS only classifies last 2-year launches as new. I would say any product, which is in the market for more than 10 years, technically can be called legacy, but even then, around 50% to 60% is legacy for us.
- Charulata Gaidhani:** Okay. That means 60% of your India business is not impacted?
- Aditi Panandikar:** No. Not all legacy products did well. There also has got to be a demand created, even if the product is legacy. For example, Cyclopam, when if Cyclopam has dipped in this quarter, that does not mean Cyclopam's sales are very less. It is just that if we had aspired to grow much, we are not able to get that, right? So the growth market has got impacted for generally where the business was getting added from new prescriptions, which were being generated.
- Charulata Gaidhani:** Okay, and yes, how many MRs do you have right now?
- Aditi Panandikar:** 2,300.
- Charulata Gaidhani:** 2,300, and my last question pertains to the traction in profitability that has come sequentially. Has it come from Europe or U.S.?
- Aditi Panandikar:** U.S. business growth is one area, and India business lower expenses in the second area.
- Charulata Gaidhani:** Okay. Okay. What about the Europe or paracetamol?
- Aditi Panandikar:** Europe has grown by 25%. So it is doing its bit. Yes, but because you asked for huge traction, from priority angle it would be first, India business expense is lower; number two, U.S. business growth and number three, Europe doing well.

- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Vishal Manchanda for closing comments.
- Vishal Manchanda:** Thanks, everyone, for participating in the call. Look forward to see you in the next Q2 FY2021 earnings call. Thank you very much.
- Sundeep V. Bambolkar:** Thank you, everybody. Stay home, stay safe. Thank you. Thank you for your active participation.
- Aditi Panandikar:** Thank you.
- Vilas V. Nagare:** Thank you. Bye. Bye.
- Moderator:** Thank you. On behalf of Nirmal Bang Equities, that concludes today's conference call. Thank you for joining us, and you may now disconnect your lines.