



“Indoco Remedies Limited
Q1 FY2022 Earnings Conference Call”

August 11, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Indoco Remedies Limited Q1 FY2022 Earnings 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, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Manchanda from Nirmal Bang Institutional Equities. Thank you and over to you Sir!

Vishal Manchanda: Good afternoon everyone and welcome to the Q1 FY2022 earnings call of Indoco Remedies Limited. We thank the Indoco Management for giving us an opportunity to host the call. Today, we have with us the senior management of the company represented by Ms. Aditi Panandikar - Managing Director, Mr. Sundeep Bambolkar - Joint Managing Director and Mr. Vilas Nagare - President, Corporate Affairs and M&A. I now hand over the call to the Indoco Remedies Management. Over to you Sir!

Sundeep Bambolkar: Thank you Vishal. Good afternoon all the participants. Hope you and your family members are all safe and healthy. Before we begin, I am happy to share Indoco's new brand identity. We are proud to announce the launch of our new corporate brand identity with a redesigned logo. This identity comes with Indoco entering into its 75th year of operation and at a time when the company is on the verge of an unprecedented zeal for growth in both its domestic and global operations. The new identity captures our core values and the younger, bolder, and dynamic nature of Indocoites. The bowing R of Remedies indicates the respectful bow to the Heart of India, atop the I, to bring out our Core Value "Respectfully Indian at Heart, Global in Vision."

Now on to the business highlights. The net revenues of the company grew by 42.9% at Rs. 381 Crores compared to Rs. 267 Crores. EBTIDA to net sales for the quarter is at 22.8% at Rs. 86.8 Crores compared to Rs. 48.9 Crores. Profit after tax to net sales for the quarter is at 10.4% at Rs. 39.6 Crores compared to Rs. 17.2 Crores. Earnings per share for the quarter is Rs. 4.30 compared to Rs. 1.87 for the same quarter last year.

Domestic formulations business, the company ranks 29th in the IPM with market share of 0.66% as on 30th June as per AWACS data. In terms of prescription generation, the company ranks 21st for IPM. Revenues from domestic formulation business grew by 45.8% at Rs. 215 Crores compared to Rs. 147 Crores for the same quarter last year. Excellent performance of anti-infective and respiratory therapeutic segments resulted in a robust growth during the quarter. Indoco launched two products during the Q1, Naricover lozenges under the respiratory segment and the second Methycal 60K under vitamin, mineral, and nutrient segments. Now to the international business, revenues from international business,

formulation business posted a healthy growth of 59.7% at Rs. 152 Crores compared to Rs. 95 Crores. Revenues from regulated markets grew by 67.7% at Rs. 128 Crores compared to Rs. 76 Crores. Revenues from US business for a quarter grew by 71.9% at Rs. 46 Crores as against Rs. 27 Crores for the same quarter last year. The major portion of growth is contributed by Brinzolamide ophthalmic suspension. Currently, we have 16 products in the US market. This comprise of 4 solid dosages, 10 injectables and 2 ophthalmic suspensions.

Revenues from Europe for the quarter grew by 65.4% at Rs. 79 Crores as against Rs. 48 Crores for the same quarter last year. Increased demand for analgesics in UK and AOK tender Germany supplies boosted sales in Europe. Revenues from South Africa, Australia and New Zealand are at 2.9 Crores against 1.8 Crores. Revenues from emerging markets for the quarter grew by 27.3% at Rs. 24 Crores against Rs. 19 Crores.

Coming to the API business, external sales of the API business degrew during the quarter. The degrowth is on account of higher captive consumption, which is at 63% of the total API dispatches. Revenues from CRO and analytical services for the quarter are at Rs. 2.8 Crores against Rs. 1.6 Crores. That's all about the business highlights for the first quarter and I now request the participants to put up their questions. Thank you all.

Moderator: Thank you. Ladies and gentleman we will now begin the question-and-answer session. We have the first question from the line of Praful Bhora from Systematix Group. Please go ahead.

Praful Bhora: Sir the US business reflects the entire profit contribution from Brinzolamide or it also come in subsequent quarters?

Aditi Panandikar: I think (inaudible) 07:22 as we supplied Brinzolamide to Teva. Teva then sells it in the market and based on the sales then the profit generated comes back. If you are asking if this profit is equivalent to the kind of supply we might have made to Teva, then it is not, it is more got to do with the sales Teva has got for the product in the US market that would have been corrected.

Praful Bhora: Exactly so the question was the profit share from whatever sales you would have done in the last quarter that would reflect in the next quarter right?

Aditi Panandikar: Correct.

Praful Bhora: Secondly on the India business so we saw very strong growth in the first two months, how the trend being now in July that we almost through the July and half of August almost, has the trend continued there?



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Aditi Panandikar: I will talk to you about July sales in the next meeting we have for the MDA discussion, but it is safe from me to say that although in the month of April and May we got strong sort of tailwind with couple of products, mainly Karvol Plus and ATM. It is safe to say that the entire basket of key legacy products for the company did exceedingly well for the whole quarter and similar trends continue for this quarter as well.

Praful Bhora: Good. Thank you.

Moderator: Thank you. We have the next question from the line of Abdulkader Puranwala from Anand Rathi. Please go ahead.

Abdulkader Puranwala: Thank you for the opportunity. My first question is on the earlier participant was asking, so mam if I see the India growth on the brand-specific side then apart from 2 to 3 brands I believe there will be some benefit because of COVID, the growth in the other brands have been in almost single digit, so are we saying that the growth has now picked up in other brands as well.

Aditi Panandikar: If you are referring to the performance of the other brands, so other than Cyclopam and Sensodent-K almost all the other products have grown very well in this period and these products have also started doing well now.

Abdulkader Puranwala: Sure mam. My second question is on the gross margin front, in the India side there will be some benefit of COVID but the gross margin at least on an annual basis has increased close to 100 or 110, so would this largely be on account of the profit share income that we have received in US.

Aditi Panandikar: No, the margins increase you see in this quarter has largely got to do with India business performance.

Abdulkader Puranwala: Sure mam.

Aditi Panandikar: Because we had a mix quarter, if you are talking only of GCs, yes it is a product mix in the India business.

Abdulkader Puranwala: My final question is on the promotion cost, so mam how are we standing on this now, is there a complete recovery in terms of promotional cost, is it back to the pre-COVID level, we still think some benefit because of the digitization initiative that we have taken last year.

Aditi Panandikar: In Q1 we saw some benefit, because of the second wave there was not much working happening so I would say around 60% promotion related cost have come back, 40% are yet



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to come back, the bigger saving was in travel in the first quarter we expect that to steadily start going up as the quarter progress.

Abdulkader Puranwala: Sure mam. Understood. Thank you so much once again.

Moderator: Thank you. We have the next question from the line of Charulata Gaidhani from Dalal&Broacha. Please go ahead.

Charulata Gaidhani: Congrats on the good set of numbers, my query pertains to the increased expenses in terms of R&D spend and also other expenses. Can you guide in terms of how far R&D spend can go up to and also other expense?

Sundeep Bambolkar: Charulata R&D expenses will stabilize around this, whatever has happened in this quarter because we have got an impressive pipeline going forward for US and Europe of complex injectables, difficult to formulate ophthalmic suspensions as well as SR that is sustained release tablets. So the point I am trying to make is we will invest money at the right time and at the right point to maximize our return on investment, but for the time being for the next three to four quarters you can take this as a sort of figure for R&D for quarter.

Aditi Panandikar: Your question on other expenses Charulatha you must remember that almost 60% of our other expenses are actually variable and attached to the sales, so you will see a kind of an increase in them whenever the top line increases.

Charulata Gaidhani: Okay, had there been any additional filings for regulated market?

Sundeep Bambolkar: Filings will keep happening whether it happens in this quarter or next quarter that is fine but during the year we will target 6 minimum filing for the US and Europe is separate.

Charulata Gaidhani: Okay fine, thank you, all the best.

Moderator: Thank you. We have the next question from the line of Aditya Khemka from Incred Asset Management. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Firstly on the API side that capacity that we have increased in Patalganga, I think it is the capacity had gone up to the X, is the entire capacity now utilized because we are seeing a decline in external sales due to internal consumption?

Sundeep Bambolkar: No Aditya capacity is yet to be fully utilized but whatever we are making right now majority of it like 65% to 70% is going in internal consumption, meanwhile we had built an extra building in Patalganga two years back and we had provided for about 12 reactors, so

that will be taken up during this year as soon as the monsoon is over around November with increase in warehousing capacity also. So that should again increase the manufacturing capacity by at least 50% to 60% further, so we should be in good scale within eight to nine months from today.

Aditya Khemka: Yeah understood, so therefore currently Patalganga what is the capacity utilization that we have, the total potential capacity that we can have there.

Sundeep Bambolkar: Right now we are utilizing 65% of the capacity.

Aditya Khemka: Understood, and second question on the US business, obviously we did not get the entire profit share but what was the milestone income this quarter from different products that we must have partnered with our partners.

Sundeep Bambolkar: It was around 15 Crores.

Aditya Khemka: 15, understood. Last question on the gross margin pressures, so we keep hearing some other pharma companies price of raw material, freight cost has gone up and that is impacting gross margins as well as other expenses because of freight cost, how are we placed there and what has been our experience?

Sundeep Bambolkar: Our certain partners abroad, I would not mention any names, but I have been empathetic enough to understand the position which we are facing and we have appealed to them from time to time when realistically we have seen hiccup in cost or freight or whatever, so to the extent things have been under control pressure, I would not say there is no pressure obviously there is pressure but we have been able to control it.

Aditya Khemka: Understood. Just lastly on the new logo, new corporate identity, is there any major shift in the strategy along with this or is this something which has been done to give a new brand to the company, just trying to understand the purpose of the new identity?

Aditi Panandikar: Aditya you know that long enough you know that we would not just do something to paint the picture obviously, new logo indicates and signifies the shift in the manner in which the company now thinks. It is driven by couple of things, number one of course the correction in all our issues related to reg market which have allowed us to come back on our feet and stand strong and that allows us a lot of levy to push ahead in the India business as well. So certainly the logo indicates a new Indoco.

Aditya Khemka: Understood, sorry I have one more. On the personal changes, have we done any significant top level, mid level changes in the India business as I understand we needed some new

blood, new regard in the business to push it ahead, so if you can talk about a bit if there has been any significant changes at the medium to the top level at the India business?

Aditi Panandikar: So Aditya in the India business we have added a position of Chief Marketing Officer to drive strategies and particularly push new introductions and performance to create a larger appetite for growth. In the API business, we have a person at the level of Vice President, technical operations, should write the API, technical production and process side going further. In API business development, we have a person at similar level who will further drive API standalone sale for the organization. In human resources, we have person, a senior GM AVP level coming in and human capital optimization specifically in the Indian sales and marketing side function has been created to look at SFE, sales force effectiveness, increase per man return and overall see that organization is ready for all the new opportunities.

Aditya Khemka: Thank you mam and all the best.

Moderator: Thank you. We have the next question from the line of Surjit Pal from Prabhudas Lilladher. Please go ahead.

Surjit Pal: Congratulations for good set of results. Could you just throw me what kind of percentage of profit share you have with your partner for Brinzolamide and other products?

Sundeep Bambolkar: Surjit I think you will appreciate that there are certain confidentiality clauses in all our agreement, which do not permit us to divulge specific numbers and specific terms and conditions of any contract. So by that I am bound not to give out classified information.

Surjit Pal: Not an issue. The initial time, I mean their expenditure on R&D during the development period they are supposed to deduct it from the initial profit before sharing between you and Teva. So that cost is totally deducted or still remain to be deducted?

Aditi Panandikar: We didn't understand your question, can you repeat?

Surjit Pal: The initial profit will be deducted by whatever the investment made by you and them during the development phase right that is the.. .

Aditi Panandikar: All cost have to be deducted whether after investments, their expenditure, cost and profit share right?

Surjit Pal: So now it is all clear so whatever the profit will be coming there will be no additional cost to be deducted as of now.



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Sundeep Bambolkar: Yeah perfect.

Surjit Pal: Could you throw some light on domestic market growth this time what kind of product, it is mainly antibiotic, anti-infective or pain management what kind of product you have got a good traction this time?

Aditi Panandikar: As I said in the beginning two products really stood out for us this quarter, one is Karvol Plus, which is a nasal decongestant which moved very well because of the third wave of COVID and its utilization that is one. Second product which did exceedingly well is an antibiotic azithromycin brand ATM. We are now the third largest supplier in the azithromycin market, our brand is doing exceedingly well. These are the two products in addition to some other mouth washes, etc., which also did well, (inaudible) 21:56 did well but other than this our non-COVID basket also which did very well, which has other respiratory products like Febrex Plus, it has a whole host of stomatological products, it has got other antibiotics like cefpodoxime because after the second wave there has been good amount of use of upper respiratory tract related antibiotics, so unlike the first wave it was not just azithromycin but the other antibiotics. So overall respiratory, antibiotics both segments did very well and other than that many of the other segments on a very low base last year has done considerably well.

Surjit Pal: How do you think that this will continue or do you think there is some other reasons to try going forward?

Aditi Panandikar: Surjit we are getting into the biggest quarter for the Indian business for companies like us, which have high acute therapy products so at least in the shorter time I am very sure this will continue, may not come from exactly the same molecules but overall for the company you will see good performance even in Q2.

Surjit Pal: Thank you and all the best.

Moderator: Thank you. We have the next question from the line of Rajat Srivastava from Incred Asset Management. Please go ahead.

Rajat Srivastava: Thanks for taking my question. Aditi mam you have guided for 850 Crores of India sales in FY2022 while the first quarter has seen an exponential growth do you think we are on track to achieve 850 Crores of sales. Why am I asking you is because even if I take the same run rate for the next two quarters and knowing that the fourth quarter is generally be for India business, I think we will still fall short of 850 Crores of guidance. Can you comment on that mam?

- Aditi Panandikar:** Tough question you are asking me in the first quarter of the year. It happened three months ago, I told you we will do 850 Crores and I think after my first quarter performance in fact you should have greater confidence in me than before and what is 80 Crores for 850 Crores for a catch up game don't you agree?
- Rajat Srivastava:** Mam I do but the first quarter has seen a lot of sales coming from COVID related products like Karvol and why I am asking you the question is because the COVID cases have subsided in the last quarter, so there would be some bit of sales tapering down from that segment.
- Aditi Panandikar:** Other segments will catch up.
- Rajat Srivastava:** Alright. There has been some increase in the depreciation cost. May I know what is that attributed to like we were doing around 18 Crores run rate and now it is 22 Crores this quarter?
- Sundeep Bambolkar:** As a policy we have said that we will apportion the A&Ds European dossier, so we have this quarter over apportioned on approval.
- Rajat Srivastava:** Also sir on the tax rate, we are seeing some bit of jump on the tax rate also, it is around 35% for this quarter any comments on that?
- Sundeep Bambolkar:** We can talk about elaborately, currently we are in full tax bracket and this year because of max credit, there was quite an amount of max credit which we will consume this year and from next year we should be in the new regime of 25%.
- Rajat Srivastava:** Okay so for this year itself we are on 20% to 25% range right?
- Sundeep Bambolkar:** Next year onwards.
- Rajat Srivastava:** Sir last year on Brinzolamide when do you expect incremental competition setting in for this product because I think right now you are the only generic right?
- Sundeep Bambolkar:** We cannot predict about competition that is very difficult to predict whether anybody has filed or got approval or whatever I mean whatever is in public domain you and I both know.
- Rajat Srivastava:** Alright, thanks.
- Moderator:** Thank you. We have the next question is from the line of Sudarshan Padmanaban from Sundaram Mutual Funds. Please go ahead.



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- Sudarshan:** Thank you for taking my question and congrats on very good set of numbers. My question is little bit more broad on the industry, the US business specifically, I am not specifically talking about Indoco but broadly most of the companies have disappointed in the US numbers, I just would like to understand are you seeing more price erosion basically the oral solids or any specific category or is it because there is a sign of higher amount of inventory that is being built up so there is a slower sales that is happening. I am talking more from industry side?
- Sundeep Bambolkar:** Yes, you are right, I mean the common products like immediate release tablets and liquid injectables there is bound to be pressure as inventory builds up so to the extent you are right but now bigger companies and specific companies like ours are pursuing very niche molecules. The important part is being there on time on dot of time and if you can crack these molecules, you are along with a select few, three to four companies on day 0 and whereas for common products there are at least 12 to 14 players on day 0 I think that makes all the difference.
- Sudarshan:** If I look at the cost I think there has been some kind of a cost increase that specifically happened on the other expenses and the employee cost side, specifically the employee cost, has there been any kind of one off incentive that is basically given for staff cost?
- Sundeep Bambolkar:** No the increments for the year to all the employees were announced on dot in April, so this is the employee cost for this year, throughout the year you will see every quarter this kind of employee cost that is point number 1 and like Aditi said earlier other expenses of promotion and marketing and travel for India business will vary with the increase in business, 60% to 65% will go up as the business goes up.
- Sudarshan:** With respect to Europe, are we standing by the guidance, do we see that Europe should continue to do pretty strong this year, any color on how the European business is shaping up?
- Sundeep Bambolkar:** Europe is strong, very strong position, there is a very good order pipeline which foresee next three to four months of very good orders so there should not be any doubts on Europe.
- Sudarshan:** So we should be achieving the set target whatever the set target is?
- Sundeep Bambolkar:** Yes, fully.
- Sudarshan:** You said about more than 23% margin so are we going to see a substantially higher margins going ahead for this year?



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- Aditi Panandikar:** The first quarter margins as we already discussed are a function of couple of things, one is the huge upside to some of the products we got because of environmental conditions in India and the other is also because of cost related to India business did not fully come out. So as the year goes on, Q2 for us is a big quarter so I think by end of first half of the year, we will be in a much better position to talk of exact margins for the business but as of now both India and international look to be set for good performance.
- Sudarshan:** Finally on tax, I think next year you are going to get into the new tax regime, what is the kind of tax that we should see for this year and the next year?
- Sundeep Bambolkar:** This year you can take from the tax 35% but for cash flow purpose half of it will come from max credit and only half will be pay out actual and next year onwards 25%.
- Sudarshan:** Okay, sure, thanks a lot. I will join back the queue.
- Moderator:** Thank you. We have the next question from the line of Vishal Manchanda from Nirmal Bang Equities. Please go ahead.
- Vishal Manchanda:** Good afternoon sir. My question pertains to the milestone income, so we booked about 15 Crores this quarter, does this milestone income pertain to new approvals or it pertains to sales related goals that you would have agreed for?
- Sundeep Bambolkar:** It pertains across the board to new products.
- Aditi Panandikar:** It is going to be connected based on specific R&D achievement against set targets for many of our clients.
- Vishal Manchanda:** Okay so are these R&D achievements linked to approvals or even they are also linked to development milestone?
- Aditi Panandikar:** Like Q1, Q2 gets done as in product formulation then validation batches after that on completion of certain amount of stability then on filing and signing an approval so various stages.
- Vishal Manchanda:** So this would be a recurring number?
- Sundeep Bambolkar:** Yes definitely.
- Vishal Manchanda:** Could you guide on new launches in the US expected during the year?

- Sundeep Bambolkar:** There is one ophthalmic solution, which we will get approval in April, by March end or April first week. It is about 500 million dollars and quite a tricky product to develop, so we should be among the three or four players from day #1. Patent expiry is in April and there is a sustain release tablet which should be in the market by October or November 2022.
- Vilas V. Nagare:** Vishal if you want to know in nutshell, we have a very strong and good pipeline for US market, it comprises of almost 20 byproduct, 6 out of them are a solid dosages which includes extra tablets as Sundeep sir mentioned. We also have 13 ophthalmic solution out of which 4 are suspension and 9 are plain solution and 6 injectable. Market size of this product put together is 4.6 billion dollars and these are going to be launched over a period of next two to three years period of time.
- Vishal Manchanda:** Great sir, there are 13 ophthalmic products pending approval is it right?
- Sundeep Bambolkar:** Yes.
- Vishal Manchanda:** Just one more clarification, in your press release you have pointed that you have two ophthalmic suspension on the market, so one as we know is Brinzolamide which is the other that you would have an approval for?
- Sundeep Bambolkar:** The name cannot be mentioned due to confidentiality clause with the customers.
- Vishal Manchanda:** Okay got it sir. Thank you, that's all from my side.
- Moderator:** Thank you. We have the next question from the line of Vivek Gautam from GS Investment. Please go ahead.
- Vivek Gautam:** Sir my query is with this work from home and pandemic world over, people staying mostly at home, so with the increase usage of laptop mobile is it increasing to more ophthalmic drug usages and is it beneficial to us? Number 2 is the competition intensity in ophthalmic division in US and Europe much less than the other generic sort of thing, is it a complex generic which was again a useful thing for us?
- Aditi Panandikar:** I will answer both your questions. The first part I think you were pertaining even to India not just US. Yes there is something called computer vision syndrome, which causes stress because of increased screen time usage and therefore you see a lot of tear substitutes in particular getting used more in ophthalmic, so therefore you have seen that although ophthalmology practices got impacted, ophthalmic product for tears we have quite a few product for India also have done quite well. Coming to your query on US and competition, yeah ophthalmology largely because there are lot of chronic sides to its therapy constitution



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and mostly geriatric based kind of anti-glaucoma and macular degeneration, so these are the LPs which are showing good growth in US as a segment and yes they are difficult to develop and manufacture and also sterile therefore there is less competition.

Vivek Gautam: Where do we stand in ophthalmic field in India and abroad in terms of exporters?

Aditi Panandikar: In India we are ranked if I am not mistaken 8th among various peers in the ophthalmology space, jumped a rank this year in India, we have a long way to go here. In US since we are working with Teva, it will be difficult to say where Indoco stands but Indoco-Teva I think you have to give us some time to make a mark for our position in ophthalmology. The market is dominated by innovative players like Allergan, Alcon, Bausch & Lomb amongst others.

Vivek Gautam: Madam if we see our compliance track record with the FDA because that is the (inaudible) 37:08 for Indian drug companies, I believe our Goa plant and other plants are having a very compliance track record, if you could throw some light on that?

Aditi Panandikar: So all our sites are now FDA compliant except just one on which we have an overhanging warning letter, the issue is related to warning letter, the resolutions are complete. Updates have gone to FDA and in fact we have been inviting FDA time and again to come and audit us. On the 12th of last month, we have made another attempt to officially ask them to come and audit us again, I am hoping this time we will get a better response. If they come down to our site they will be able to clear our warning letter and pave the way for more approvals from plant one which is the solid oral site for US FDA, other than that the other sites, that is site 2 and 3 are all clear by US FDA and have been getting continuous product approvals in those sites.

Vivek Gautam: Thank you mam.

Moderator: Thank you. We have the next question from the line of Aditya Khemka from Incred Asset Management. Please go ahead

Aditya Khemka: Thanks for the followup. Sandeep sir on the US business whatever products we had with Teva, which we had to withdraw because of the warning letter on unit 2 earlier, have we re-launched most of the products that we wanted to re-launch post the warning letter was removed or there are still certain products that we are yet to relaunch?

Sundeep Bambolkar: No we have not yet re-launched, two of these products we will be launching in either December or January this year and others will then follow.



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Aditya Khemka: How many in total do we plan to re-launch over the next two years from that portfolio the legacy portfolio with Teva?

Sundeep Bambolkar: Four.

Aditya Khemka: So two will be in December, January, and other two.

Sundeep Bambolkar: Other two would be after April.

Aditya Khemka: After April, so FY2023?

Sundeep Bambolkar: Yes.

Aditya Khemka: Okay, understood. Aditi mam in relation to hiring the Chief Marketing Officer in the India business, can you talk to us a little bit about his background and how is that particular person incentivized, is it our market share or on cash flow, on profit, on RY, how do you evaluate that person's performance.?

Aditi Panandikar: Aditya you will agree that anybody hired at that senior level in the organization is directly or indirectly responsible and of course a lot of linkage in CTC will be there for deliverables. Regarding background as I said we looked at the gaps in our India business of part and specifically identified areas of weakness and targeted those. Our biggest area of weakness in the last five to six years has been our inability to create large new launches, so we have succeeded to some extent in dental but in other areas while we have done well we have not managed to create a large new brand and identify the opportunity, so selection was guided by that.

Aditya Khemka: Understood, just one more clarification on this response Aditi mam. So obviously you evaluate him and his performance is linked to the company's performance, my question was what is the criteria on which you evaluate him, it is the criteria like RY, is it cash flow, is it market share, is it sales, just some indication, I do not want an exact sort of?

Aditi Panandikar: Market share Aditya, see that you will agree that at 29th rank where I stand today in the retail audit, it is a very crowded place and there are at least 5 players at 0.66 around me and with me, in a good month I go to 0.7 and then I have to come back. It is a steep uphill from here if I want to jump ranks for various reasons. You must have also noted in IQVIA we stand at 21 and in fact if you actually count the number of prescriptions we generate we are not too much lower than a company like Glenmark also. The problem is the kind of prescriptions because of the portfolio, so there is a definite thought process in correcting this portfolio and moving towards a much higher return for a product, higher usage for

prescription kind of intent that we are going after. Already in this quarter because of various reasons you must have seen our pharma retail has already gone up to 2.7 and from here on I expect to only climb.

Aditya Khemka: Correct. That was my next question. So in the India business we do not need to add incremental amount right because we are sitting at 2.7?

Aditi Panandikar: That would be rationalization if at all.

Aditya Khemka: What is the target for this PCPM for you madam I mean today is 2.7 where do you see three years down the road what are you aspiring for?

Aditi Panandikar: Two years down the road 3.

Aditya Khemka: 3 and what is the ideal level at which a company with Indoco's portfolio can operate?

Aditi Panandikar: It can go up to 4 because we have such a high acute and I do not want those to slow down either right.

Aditya Khemka: Yes mam, we had one new launch that was stuck in litigation process in India because of a patent issue with the innovator any updates on that litigation?

Aditi Panandikar: Yes so we had actually gone to Supreme Court to ask for faster vacation in the stay which was given by High Court and Supreme Court said that they cannot interfere but they did give the High Court a deadline of three months within which to close this issue. So I am hoping in the next couple of months we will find resolution.

Aditya Khemka: So the deadline is there in the next couple of months is it?

Aditi Panandikar: It is a suggested deadline. Supreme Court could not put it on but it is a strong suggestion so I believe it will happen.

Aditya Khemka: In the case we prevail in the high court are we ready with the inventory and marketing plan to launch it immediately or we plan to do that after we get the order.

Aditi Panandikar: No, it is already.

Aditya Khemka: All the best mam. Thank you.

Moderator: Thank you. We have the next question from the line of Aditya Khemka from Incred Asset Management. Please go ahead



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Aditya Khemka: Thank you again for the followup mam. Sundeep sir, on the European business while obviously our sales are ramping up, I just wanted to check if the AOK tender, if the tender supply going to be like even the spread across the two year tender that we have across the quarters or would it be lumpy in certain quarters and lumpy in some other quarters, are we shipping the six-month inventory in one quarter.

Sundeep Bambolkar: No, absolutely smooth, touchwood going very strong.

Aditya Khemka: Any further improvement on the Goa 1, Aditi mam did mention Goa 1 we are US FDA sort of we have done the Kappa but any indication from US FDA as to when do they want to order it and will it be desktop audit or physical audit anything?

Aditi Panandikar: You know Aditya not to our facility but to the industry they have been giving shifting goal posts for when they are ready to do physical audit and they have been very sketchy about how many virtual they will do, so really very difficult to answer but we have tried again last month and I am hoping to hear something from them.

Aditya Khemka: Got it and on the API side we are running at 65% of our total potential capacity and clearly we had customers for our API when we were able to sell externally and I am assuming those external sales are profitable, which means there is demand for our product if we have enough capacity to sell more. Does that tell you that you should expand capacity faster maybe there is more space in Patalganga maybe an alternate site, just want to dig your brains on that?

Sundeep Bambolkar: That's why we are doing the expansion very quickly and certain other products, which have gone up in demand we are pushing from the Kilo lab to Patalganga, the validation is being done very quickly so by another two quarters you will see very strong performance.

Aditya Khemka: But Sundeep sir we will hit expansion road block in Patalganga at some stage right, it would not have indefinite space or does it have large enough space to accommodate whatever plans you might have for the next three years?

Aditi Panandikar: Aditya I would like to come in here. If you look at capacity at Patalganga today you know because we wanted to very much be in command of the technology, we today have patent for most of the processes we use for manufacturing the API and we have been pretty conservative on taking our manufacturing out. So in addition to the finished API which comes out of Patalganga, we do make several stages of product there, addition to that we make several stages at backend site which makes our starting materials, first few stages of product, the whole thing is being looked at once again to try and outsource capacity for some of the stages so that internal capacity can be further freed. So in order to add the

capacity or to be able to make more API, in addition to what Sundeep said of expansion within Patalganga site itself, we are also looking to do some kind of third party manufacturing for some of the products so that should give us faster results in the shorter term but after that certainly there are plans to further expand API.

Aditya Khemka: So that is the only reason I am asking this question and I am sort of wasting your time on this is because we see all the other API companies in India expanding capacity is being unprecedented demand, reporting extremely high growth on the API side, so I am just wondering to myself for an organization like Indoco is it fair for you to outsource your products to third party or is it fair for you to build more capacity and in source third party products to your API plant, I mean which is the better capital allocation decision or is it a bit of both I do not know, I am just wondering which is the better way to go about it?

Aditi Panandikar: Bit of both, but I can tell you this since most of our reg market finished API are our own in the file, we are happy to make it on our own there. What I would do really is outsource many of the stages at the beginning, so that the capacity can be freed for finishing the product more, also the first quarter had a bit to do with unpredictable extra ordering of Brinzolamide for the future kind of, so the API division also was set a little bit off track because we have to put something aside and go back to making more Brinzo API so some things like that, otherwise, I can assure you that we will have enough API to send by end of the year.

Aditya Khemka: Right makes sense mam and I will leave to your wisdom obviously but just seems to be it is an industry trend where all API manufacturers are trying to in-source more products from other people and manufacture for them because the margins needs to be pretty healthy and ROIs are pretty good, I was just wondering which is the right way. Last question for Sundeep sir, Sundeep sir what was your betting cash flow this quarter for us?

Sundeep Bambolkar: Cash flow is around between 65 and 70 Crores.

Aditya Khemka: That's the operating cash flow or the cash flow after capex sir?

Sundeep Bambolkar: Before capex.

Aditya Khemka: Before capex 65 to 70 Crores and after tax?

Sundeep Bambolkar: Yes after tax.

Aditya Khemka: Perfect and what is the capex we incurred this quarter?



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- Sundeep Bambolkar:** 21 Crores.
- Aditya Khemka:** So the planned portfolio remains around 100 or 50 or 70?
- Sundeep Bambolkar:** Around 75 to 80.
- Aditya Khemka:** 75 to 80. Okay. Thank you.
- Moderator:** Thank you. We have the next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** I just wanted two things, one in terms of the profit share for US. In this quarter our revenue has been somewhere around 6 to 6.5 million dollars, so assuming if we supply 1 million dollar for Brinzo what kind of a profit share can we expect. Can we expect a 4 million, 5 million?
- Aditi Panandikar:** Charulata I think Mr. Sundeep explained this earlier, probably you might have joined the call later, that we are binding with some of our customers and we are really not free to discuss especially product-related margins, profits etc., safe to say that right now most of the US sales you see has come from supply of product and also from income against milestones for R&D work we are doing for the future.
- Charulata Gaidhani:** But then the profit share would normally be more than what is coming from supplies right?
- Aditi Panandikar:** It has to be but that will come in the time to come.
- Charulata Gaidhani:** Second in terms of the EBITDA margins, what kind of margins you think are sustainable?
- Aditi Panandikar:** I also answered this earlier, last year we guided to 19.5% to 20% if you remember for this year but we started on a unusually great note which is 22.8, I am very happy for that, depending on the circumstance of the environment, picking up of India, actual operations, how the expenses come back and how the second quarter pans out, at this stage I am pretty bullish to be able to do a good job on EBITDA.
- Charulata Gaidhani:** Right, okay, thank you.
- Moderator:** Thank you. We have the next question from the line of Dinesh Kotecha from KRIC. Please go ahead.

- Dinesh Kotecha:** Madam good afternoon, good set of numbers and you said you know we are in a (inaudible) 52:04 but what guidance you are giving for the earlier answers was that research and development will be in the region of 16% to 17% for every quarter and also the profits, can we take quadruplicate, multiply by 4 and add another 10% for the full year?
- Aditi Panandikar:** I just explained, let me repeat this. Q1 is an unnaturally different quarter. India business have got upsize from a few products, good sales from another set of products, some of the expenses related to India business have not fully come back. As the quarter progress, some of these expenses will come back but many of the other products which are not selling very well because the people are not out in the field will actually start doing better. Under the circumstances, it is very difficult to actually give an exact number on the margins but you can take it from me that the performance can be maintained or better.
- Dinesh Kotecha:** But another question is that your tax is already 55% of the entire year's tax, I mean if I take that same ratio of tax and the profit before tax can I do that?
- Aditi Panandikar:** That's true. Let me explain in this year we would be hit with higher tax rate but we would utilize our max credit as well.
- Dinesh Kotecha:** That I heard it but I am just trying to understand let us say we are now on the third gear so our full year's results will be in the fourth gear, I mean can I do that calculations on my own.
- Aditi Panandikar:** Yeah certainly.
- Dinesh Kotecha:** Thank you very much mam. Wish you all the best.
- Moderator:** Thank you. As we have no further questions, I would like to hand the floor back to Mr. Rahul Arora from Nirmal Bang.
- Rahul Arora:** I would like to thank the management once again for extending the courtesy to us to hold this call and to all the participants for their active participation as well. Thank you all so much. Stay safe. Any parting thoughts from the management if they would like to address, please feel free.
- Sundeep Bambolkar:** Thank you very much, we had a very good conversation with all the participants and I am highly thankful that all the participants took a very active role.
- Aditi Panandikar:** Stay safe and stay healthy.



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Sundeep Bambolkar: Yeah, all the best to all of you. Thank you.

Rahul Arora: Thank you.

Moderator: Thank you members of the management and Mr. Arora. Ladies and gentleman, on behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.