"Indoco Remedies Limited
Q2 FY2019 Earnings Conference Call"

November 13, 2018

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Moderator: Ladies and gentlemen, good day and welcome to the Indoco Remedies Limited Q2 FY2019 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 call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vishal Manchanda from Nirmal Bang Equities. Thank you and over to you Sir!

Vishal Manchanda: Thanks. Good afternoon everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you to Indoco Remedies Q2 FY2019 earnings call. We thank the Indoco management for giving us an opportunity to host the call. We have with us, the senior management of the company represented by Mr. Sundeep V. Bambolkar – Joint Managing Director, Mr. Vilas V. Nagare – President - Corporate Affairs and M&A, Mr. Mandar Borkar – Chief Financial Officer, Mr. Ajay Karajagi, Vice President Domestic Marketing. The Managing Director, Ms. Aditi Panandikar is unable to join us today. I now handover the conference to the Indoco Management.

Sundeep Bambolkar: Good evening all participants. First of all, season's greetings to all from Indoco Remedies.

Now, let me brief you on the business highlights. Net revenues for the quarter were at Rs.236 Crores against Rs.280 Crores. For the first half, the net revenues were at Rs.448 Crores as against Rs.484 Crores. Sequentially, the revenues for the quarter were higher by 11% at Rs.236 Crores as against Rs.212 Crores. Domestic formulations grew by 6.2%, export formulations grew by 27.5% and API business grew by 21.2%. EBITDA to net sales for the quarter is at Rs.11.8 Crores compared to Rs.40.9 Crores. EBITDA for the first half is at Rs.23.4 Crores compared to Rs.42.2 Crores.

Now on to domestic formulations business - the revenues from domestic formulations business for the quarter were at Rs.159 Crores as against Rs.188 Crores. However, the second quarter witnessed a growth of 6.2% on the immediate preceding quarter. Due to impact of GST, comparison of half yearly figure as against quarter-on-quarter figure is more appropriate. For the half-year of FY2019, sales grew by 7.2% at Rs.309 Crores as against Rs.288 Crores. During the quarter, the company launched three new products namely one in acute, one in subchronic and one in chronic segment. In the IPM, Indoco ranks 30th with market share of 0.66% as on September 2018 as per AWACS. As per SMSRC, Indoco ranks 23rd with prescription share of 0.85% as on August 2018 MAT basis.

Now, I give the details of therapy wise for half year ended 2018-2019 compared to half year ended 2017-2018. Stomatologicals have grown by 14.5%, gastrointestinal 9.8%, respiratory 3.4%, antiinfective 1.9%, vitamins, minerals and nutrients 16.5%, ophthalmic 10.7%, pain and analgesics 3.2% and gynec 7.8%.

Coming to the major brands for the half year comparison - Cyclopam has grown by 7.8%, Febrex Plus 3.4%, Sensodent K 16.4%, Oxypod has degrown by 1.9%, Cital grown by 17%, ATM by 13.2%, Sensoform by 11.8%, Methycal 14%, Sensodent KF 7.2%, Karvol Plus 11.3%, Bactogard 14.4%, Carmicide 9.5%, Glychek 0.6%, Kidodent by 16%.

Now on to the international formulation business - for the quarter revenues from international formulation business were at Rs.53 Crores as against Rs.74 Crores. For the first half, the net revenues were at Rs.94 Crores as against Rs.160 Crores. Let me brief you on the regulatory matters. US FDA for formulation plant. On the regulatory front, the company had a face-to-face meeting with US FDA on June 13, 2018, where a technical presentation was made on the remediation progress at Indoco. As informed earlier, the company is expecting re-inspection of the facilities any time both at Goa plant II and Goa plant I.

US FAD for API plants, the company's API facilities at Patalganga, Kilo Lab, and Rabale were audited by US FDA from May 7, 2018 to May 12, 2018 and from May 15, 2018 to May 18, 2018 respectively. There were three observations that is 483s for Patalganga site and 0483s for Kilo Lab. Both the inspections have been closed successfully and the company has received EIRs for both these facilities during the last week of July.

UK MHRA post issuance of the restricted GMP license by UK MHRA for Goa plant I, an audit was conducted in July 2018 by an independent EU qualified person QP to check the corrective and preventive measures committed to the UK authority. Based on QP report, UK MHRA conducted a focused audit in October 2018. The audit was closed with no critical observation. The successful focused audit by UK MHRA allows the company to continue supplies of medically critical products. However, as a procedure to reinstate the EU GMP certification at Goa plant I, a full GMP audit by EU qualified person QP followed by re-inspection by UK MHRA needs to be conducted. The company anticipates these audits in the fourth quarter of FY2019. The company also had UK MHRA audit at Goa plant II from September 17, 2018 to September 21, 2018, which concluded with no critical observations. The company's facilities at Baddi, that is, unit I existing and unit III acquired from Micro Labs were also audited by UK MHRA from October 16, 2018 to October 20, 2018. The audit was concluded with no critical observations. While Baddi I will continue to supply to Europe, Baddi III is being approved by UK MHRA for the first time and will add significant value to the Europe sales considering substantial capacity of the plant.

The company had a successful audited Goa II by TGA Australia. Inspection report for the same has been received. An Australian GMP certification will be accredited post review of the compliance response.

Lastly Ministry of Foods and Drug Safety, Korea audited Kilo Lab facility from June 15, 2018 to June 18, 2018. We have submitted the compliance in October 2018 and are awaiting approval, which is expected anytime. That is all about the business highlights for the quarter and I now request the participants to put up their questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Thanks for the opportunity. Just want more clarity on gross margins front. Despite lower US, domestic and European sales, our gross margins have improved Y-o-Y both during the quarter as well as during the first half, so what has let to the improvement in the sales, is it because this time we have lower sales from the Europe and that contributes lower to the margin or is it something else?

Sundeep Bambolkar: As you have seen, the domestic sales component has increased considerably because of drop in exports and that is one reason. The second reason is the plant expenditure has been controlled considerably because the output from Goa plants is as good as negligible right now. So, that has also contributed to the addition of the gross margins.

Rashmi Sancheti: Okay and can you just tell me like - if you adjust GST, what is the growth in domestic business on like-to-like basis or is it degrowth?

Sundeep Bambolkar: GST component of 6%, you have to take into account and then you can revoke the figure for yourself.

Rashmi Sancheti: You mean to say that in Q2 FY2018, 6% contribution is only due to the GST?

Sundeep Bambolkar: See GST was implemented last year July, so as far as if you compare standalone Q2, there is no impact, and we are a like-to-like. In Q1, if we compare year-to-date, the overall impact will be around 2 to 2.5%, very negligible.

Mandar Borkar: But Q2, we are GST neutral.

Rashmi Sancheti: Okay. Any guidance on domestic business you are giving then for the full year?

Sundeep Bambolkar: Yes. We will close the year with a double-digit growth in domestic.

Rashmi Sancheti: So, you mean to say that the second half would be much higher, because in the first half itself we have done only 7% kind of growth.

Sundeep Bambolkar: Correct. That is right.

Mandar Borkar: Yes, yes.

Rashmi Sancheti: Okay. And second question on the Europe business, how many products we have transferred to Baddi I and how many we are planning to transfer to Baddi III, which has been approved now and on full year basis of let say Rs.179 Crores European sales on FY2018 numbers, how much sales would now we are going to lose?

Sundeep Bambolkar: See, I will take your questions part by part. I will first give you the situation as it stands today. You are aware that we had issues in Goa in March with UK MHRA. Now all these issues have been corrected very, very significantly. So, if you see the graph, it is really going upward as far as the technical and regulatory compliance is concerned. Because the same inspector came back this time for MHRA focused audit and he was highly appreciative about the facility and the kind of compliance we had put it, the material which we showed him, for all his queries, the systems which we are following, the procedures which we have put in place, the training which we have imparted to our people, the awareness which we have created in the team and even shop floor level people, the confidence which they have answered him. He found it significantly of a very, very higher quality and he was very appreciative. Naturally, there was zero critical observation and hardly any observations of routine matter. So, he has advised us to go for a full-fledged GMP audit from a qualified person, which we feel will happen somewhere in the third or fourth week of December and that report has to go to MHRA and then MHRA will come for a full-fledged audit somewhere in the last quarter, maybe hopefully, end of January or beginning of February. That is about Goa plant I. Now Baddi plant I is under full production and Baddi III we have just got approval, so we will keep one or two products ready, all the art works, and also by the time we the certificate after a month or one and a half month from today, we should be able to start at least one product from Baddi III.

Rashmi Sancheti: So that one product would be transferred from the Goa I or it will be a new product only?

Sundeep Bambolkar: It will be a new product.

Rashmi Sancheti: Okay. But here you were saying that there will be few products, which will be transferred from Goa I, because of this ban, it will be transferred to the Baddi unit, so yet we have not transferred any products, we are not planning to do it because we are expecting supplies to start from Goa I or just planning to do?

Sundeep Bambolkar: Yes. One by one we are rolling out products from Goa I. We are aware that it has taken time. But we are taking it one step at a time so that we are sure that what we are doing will go through very smoothly and there will not be any more hiccups, because all the equipment has to be qualified as per the latest GMP requirement. Validation of three batches for every product has to be carried out and that is the reason it is taking time, but by now we have started rolling out, at least two products have been rolled out. So now….

Rashmi Sancheti: So basically we are not going for any site transfer, right?

Sundeep Bambolkar: Not at this time, yes.

Rashmi Sancheti: Okay. So how much loss sales we can expect on that Rs.179 Crores number in FY2018, I mean how much sales would be completely lost?

Sundeep Bambolkar: Europe – in short you are asking how much we will close Europe at…?

Rashmi Sancheti: Yes.

Sundeep Bambolkar: We should end the year with European sales of about Rs.100 Crores.

Rashmi Sancheti: Rs.100 Crores.

Sundeep Bambolkar: Yes.

Rashmi Sancheti: Okay. Thanks. I have more questions. I will join back the queue.

Moderator: Thank you. Next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Good afternoon Sir. Just a few questions from my side. On the domestic market, if I remember - initially we were guiding for a full year growth of close to around 13% to 15% and today you are mentioning that we will do close to double digit, so is because the second half has not been up to the expectations, so we are looking at a little lower growth now for the domestic business in the current year?

Sundeep Bambolkar: Yes. We will 100% do double digit growth, I standby that statement. 13% to 14% we had guided earlier. But if you see the market inventory, for the industry, it is 33 days and for Indoco is 31 days. Traditionally, industry market inventory used to be 45 days, Indoco used to be 48 days and then it came down after GST, in preparation for GST substantially. We were hoping that it will go up, but it has not gone up. And September figures are stating Indoco market inventory at 31 days and industry 33 days. So first I would have to guide at double-digit growth.

Sachin Kasera: Sure Sir. So, basically it because the inventory has not increased to the level you were expecting, it is one of the reasons we are looking at a little lower growth than what you were envisaging earlier?

Sundeep Bambolkar: Yes, due to that reason, our primaries are not picking up.

Sachin Kasera: Okay. But we are quite confident at least achieving a double-digit growth?

Sundeep Bambolkar: Yes**.** Definitely.

Sachin Kasera: Secondly Sir, on the MR productivity and margin improvement on the domestic business, what are the steps you have taken and maybe will plan to take going ahead?

Sundeep Bambolkar: MR, we are very clear. We will not increase anymore MR for the next two to three years at least. We feel that we have well covered Pan India. And sales will go up definitely, which means the MR productivity has to go up.

Sachin Kasera: On the gross margin front, are we taking any initiatives to improve the gross margins on the domestic business apart from the improvement that we will get for MR productivity?

Sundeep Bambolkar: Yes, gross margins of legacy brands particularly, where our volumes are very high, like Cyclopam and Febrex Plus. We are taking some additional measures to see that gross margins go up. I am not at liberty to disclose the measures on the call because these are the company's intellectual property, how we do it. Definitely you will see dramatic improvement in gross margins for legacy brands.

Sachin Kasera: Sure. Sir second question, you mentioned that this year you will close the European sales at close to around Rs.100 Crores vis-à-vis Rs.178 Crores last year, and you also detailed a lot of initials that you have taken to get the plans for the regulatory compliance as far as the European business is concerned. So going ahead, financial year FY2020 do we see a significant improvement if the measures you have taken start to bear fruit? As far as the European sales are concerned, you can go back to that Rs.175 to Rs.180 Crores type of run rate?

Sundeep Bambolkar: It may even exceed that Rs.175 or Rs.179. The reason being the micro plant has huge capacities. We do not have to force manufacture any product in any plant going ahead. So regulatory unnecessary, any sort of burden on the plant will be avoided. Smooth functioning of the plant is what is required going ahead and that we will bring automatically because of the huge capacity we have built in.

Sachin Kasera: So Sir, this Baddi III, which you mentioned, has a huge capacity, can you give us some sense, what is the type of the investment that has gone into the plant and what is the type of turnover we can achieve from this plant at full capacity?

Sundeep Bambolkar: The investment, which has gone into the plant, is about Rs.65 Crores and the peak level sales, which we can achieve from, that plant is round about Rs.600 Crores.

Sachin Kasera: Okay. And Sir, just one question regarding other expenditure you mentioned. That you can see for the first half, it is down by around 3% to 4%, you mentioned that you have taken some initiatives to cut cost to rationalize it. This Rs.138 Crores figure that you have reported for the first half, how much of that includes the remediation cost?

Sundeep Bambolkar: Remediation cost for the entire year will be restricted to around less than Rs.5 Crores.

Sachin Kasera: Not much. And just last question Sir, regarding the R&D cost of Rs.26 Crores that we have incurred, so as of now what is the type of ANDA filings we have done in the first half, have you done any ANDA filings or there is some routine R&D spend that we are doing?

Sundeep Bambolkar: No. This is in preparations of future filing also, but so far we have got quite a rich pipeline. We have filed about 16 solid dosages and about 18 ophthalmics, either of our own or in partnership, and plus about six to seven injectables are there in the pipeline. So, when you have a pipeline of 40 molecules, I think we are well endowed in short what I am trying to say. So, once the warning letter is lifted, now approvals are coming in quick succession.

Sachin Kasera: But Sir because of the issues that we had with US FDA, are there certain opportunities, which have now lost relevance because some other competition has come in or products have become more generalized and is there some sort of lost opportunity for us as far as this delay in the US clearance is concerned?

Sundeep Bambolkar: Yes. We might have lost opportunity on three to four molecules, but in US one molecule success can turn the organizations fortune to great height.

Sachin Kasera: Okay. Thank you so much Sir and wish you all the best.

Moderator: Thank you. Next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: Hi. Sundeep, I have three questions to be specific. Number one is that what is the normal growth of your company without GST in FY2018, what would have been?

Sundeep Bambolkar: Normal growth of the?

Surjeet Pal: Domestic formulation.

Sundeep Bambolkar: Domestic formulation?, 15%.

Surjeet Pal: 15% right? Now Q2, your FY2018 Y-o-Y growth was 11%?

Sundeep Bambolkar: Can you repeat?

Surjeet Pal: Q2 FY2018, your year-on-year growth was 11%, right?

Sundeep Bambolkar: Yes.

Surjeet Pal: So, this is not high base if I compare with FY2019 sales Q2 vis-à-vis FY2018 Q2. So, I was just wondering what could be the reason for such a low growth in domestic formulation in Q2 FY2019, because it is not something like saying 20%-25%. Some of the company showed, last year Q2 that 30%, 28%, 25%, 20%, I could have understood that is a very high base. For your company, 11% is not a very high base. It is a normal business. How can you even not able to get any growth on that, 7% growth I mean for that matter?

Sundeep Bambolkar: Yes. Can I say something?

Surjeet Pal: Yes.

Sundeep Bambolkar: See, to iron out the ups and downs of GST, that is the reason I read out all the important therapeutic segments and all the important brands to compare half yearly 2018 and 2019. And as you know we have grown 7.2%. Now, if market inventory had not been crashed to this extent, we would have easily gone 11% to 12%, 101%. You take inventory to 45 days extrapolate and see the effect. It will be much more than 11% growth. So if certain conditions in the market are foreseeing us to be what we are today then I think that point also needs to be considered.

Surjeet Pal: Okay. So in that case, your guidance of minimum or something like say double digit growth, say for example 10%, overall the year you will end up as a double digit growth in FY2017 domestic formulation. Now say last year, you got around Rs.595 Crores in domestic formulation, right? Now this year, if I take 10% growth that means it is about Rs.655 Crores. You have done till date is Rs.309 Crores, right? So if I want to reach Rs.655 Crores, I have to do Rs.345 Crores in next half of FY2019, which means if I compare like-to-like of H2 FY2018 and 2019 that means you have to grow 13%, which according to your understanding of inventory days is not possible to achieve.

Sundeep Bambolkar: No. Now inventory days, we do not talk anymore going ahead from here. Let us say we maintained inventory same number of days the way it is today, till we make a statement that we will grow double digit at the end of the year.

Mandar Borkar: And that 13% growth which is required will be attained in the second half.

Surjeet Pal: So, you got a sense that – this year 31 days will increase to the level of 40, which was before GST?

Mandar Borkar: Even if it does not increase to 40, still we will grow by – that is what is given, we are taking it as given and giving a guidance that we will still be growing by double digit.

Sundeep Bambolkar: I think internal measures are also been taken in terms of...

Surjeet Pal: Okay. The thing is, either it will be price or significantly volume increase. Second point you said your gross margin increased because of your higher domestic contribution, now if I compare quarter-on-quarter or year-on-year, your domestic contribution overall is 72% in Q2 FY2019, vis-à-vis, 77% in Q1 FY2019 and 79% in Q2 FY2018. So comparing both the quarters, your Q2 is lowest in domestic contribution, same is domestic formulation contribution if I compare with the past two quarters. Still and despite having that API price increases both in domestic and international market, your gross margin increased, even quarter-on-quarter and year-on-year, so that means the logic of domestic contribution high that lead to your higher gross margin does not impact nowhere.

Sundeep Bambolkar: It has. See try and understand, the dynamics of domestic formulation business are multidimensional. Number one, where you make the product, number two what are the promotional expenses while selling the product, number three, the volumes. There are so many what should I say, economies of scale while making products, so many multidimensional. So if you take everything into account plus the product mix, what sort of products you all sold during the quarter. So one quarter and the second quarter will not hold your comparison, so there are so many reasons why this quarter cannot be compared to sequentially, immediately preceding quarter.

Surjeet Pal: Anyway thank you and wish you all the best.

Moderator: Thank you. Next question is from the line of Deepan Shankar from TrustLine Portfolio Managers. Please go ahead.

Deepan Shankar: Good evening Sir. Thanks a lot for the opportunity. So now with UK MHRA allowing supply of this medically critical important product, so what kind of improvement in Europe business we can see in the next two quarters?

Sundeep Bambolkar: See if you see international business, right now supplies to US are as good as nil. So it is Europe only what we are talking about. So, compared to Q1, Q2 growth is 27%. That means things are improved and they will go on improving every quarter henceforth.

Deepan Shankar: Okay. And this South Africa and this Australia business that has fallen drastically, so when do you see the improvement in that business?

Sundeep Bambolkar: See our commitment to MHRA was that any product being made for any geography, we will comply with all the requirements same like UK market. So that is the reason that product roll out from that particular plant has taken time, but now the speed will be much more accelerated.

Deepan Shankar: Okay, so full year we will be able to achieve better figures for this region also?

Sundeep Bambolkar: Yes.

Deepan Shankar: Okay Sir. Thank you. All the best.

Moderator: Thank you. We would take the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Yes. Sir, you indicated a double-digit growth for the domestic business and you have also indicated that European business of this year will be close to around Rs.100 Crores vis-à-vis Rs.175 Crores last year, if you could give us some sense broadly on the overall exports number against Rs.385 Crores last year. That will also be very helpful.

Sundeep Bambolkar: Overall, we should touch Rs.200 Crores at least.

Sachin Kasera: Sir, we have already done Rs.115 Crores in the first half and Rs.66 Crores in the Q2 and you mentioned that from hereon every quarter there will be significant improvement, so then I just wondered, it looks it does not add up. If it is going to increase from Rs.66 Crores every quarter, then the overall numbers should be significantly higher than Rs.200 Crores in that case.

Sundeep Bambolkar: That Rs.200 Crores is without API, API itself will be around Rs.30 Crores to Rs.40 Crores, so you take Rs.230 Crores to Rs.235 Crores.

Sachin Kasera: Okay. So, overall exports at Rs.230 Crores to Rs.240 Crores vis-à-vis Rs.385 Crores last year?

Sundeep Bambolkar: Yes.

Sachin Kasera: Okay and are there any plans to file any ANDA during the current financial year? If you could share some number that this is the number of ANDA that we are looking to file either this year or may be you can say for this year and next year combined, something, something on that Sir?

Sundeep Bambolkar: We have targeted to file 4 to 5 ANDAs. So far we have not filed any, but yes in the next two quarters that target will be achieved.

Sachin Kasera: Okay, so for the full year we were looking at 4 to 5 ANDAs?

Sundeep Bambolkar: Yes.

Sachin Kasera: And that will also include some of the injectables as you mentioned in the opening remarks?

Sundeep Bambolkar: Absolutely.

Mandar Borkar: Yes. Correct.

Sachin Kasera: Okay. Sir this Goa facility, which today you said is hardly producing anything because of the issues with the US FDA, what is the cost other than remediation cost? There has also been absolute fixed cost either in terms of the manpower or other fixed cost that you are incurring, if could just share with us – because from what we understand, today the company is incurring a large part of the cost on lot of plants for which there is no production, that would be really helpful to us – that what is the type of swing that can come to the profitability once things start to improve for the company?

Sundeep Bambolkar: All plants put together the fixed cost per quarterly will be in the region of Rs.20 Crores.

Sachin Kasera: Rs.20 Crores. Okay. Including manpower or excluding manpower Sir?

Sundeep Bambolkar: Including manpower, the fixed cost.

Sachin Kasera: Fixed cost. Okay. Thank you Sir.

Moderator: Thank you. Next question is from the line of Aashish Rathi from Lucky Investment Managers. Please go ahead.

Aashish Rathi: Thank you for the opportunity. Sir, I wanted to understand like you mentioned, inventory days for Indoco is actually higher than the market, even prior to GST and now we are significantly lower, like around 8-10% lower than the industry average. What has really changed, I mean same company, same products, why are distributors not stocking an inventory for us now?

Sundeep Bambolkar: See our product range is more of acute and that cannot be compared with the industry product basket. So that goes to explain why in spite of higher inventory days for the industry, the growth rate there is lower.

Mandar Borkar: It is actually marginal. Industry is 33 days and Indoco is 31 days.

Aashish Rathi: I am asking prior to GST also we were lower compared to the industry or we were higher than the industry? Inventory days for us?

Sundeep Bambolkar: Both were same. I think industry was 47 and Indoco was 45.

Aashish Rathi: Okay. So we were lower.

Sundeep Bambolkar: Yes, by two days or three days as of now.

Aashish Rathi: Okay, so I heard it wrong actually. Secondly, now they are comparing second half to like-to-like inventory days, right? You are saying that the inventory day's impact will not be there, but we are targeting growth or we are looking at a growth of around 13% at a company level. I personally remember that we used to always talk of 18% to 20% growth of domestic market, and our team used to highlight that very strong in this period. So why this lower growth rate for the company at 13% is what we are looking at? Is that like a change, which has come for a few years to come also or this, is one-off in the second half and again will bounce back to a much higher growth?

Sundeep Bambolkar: I think we should first tackle this second half right now, which we are confident of doing as I reiterate again that we are confident of a double-digit growth closing the present year. And next year-end, we could always size up the situation and give a fresh guidance.

Aashish Rathi: Fair. But now we are comparing like-to-like inventory days, so 90 days is not a problem, GST is not a problem. So now we are on a fresh base. On our fresh base, on the second half, I am looking only 13% growth, which is possibly maybe inline with the market or industry growth? So, the reason for lower guidance for Indoco is what I am trying to understand, what is that you see that your company will not outperform the industry growth, which we have been generally doing in the past and guiding for growth as well.

Sundeep Bambolkar: You are talking of the next year?

Aashish Rathi: No Sir, second half.

Sundeep Bambolkar: Second half…?

Aashish Rathi: I mean the commentary from Indoco for domestic market has in the number of years, which I have been looking at the company. So that is what I am trying to understand what has changed, like why are we looking at 18-20% growth aggressive on the commentary and if there is some difference you are seeing what our brand perception or company's perception which is why we are targeting 13% growth and overall if I wish to understand for first half, put together, I can tell you that okay 10% to 11% we get, so why second half is only 13%?

Sundeep Bambolkar: Yes, see this is a minimum what we are confident of doing and the second reason is normally our peak season is from the monsoon; typically it starts June end, July beginning and goes up to October. It is a peak season. Although the peak season is over, till we are confident of doing this growth that is point number one and second point is we have had some challenges in our dental division, the growth of our dental division, which we are trying to reexamine, how to get that growth back on track.

Aashish Rathi: Sir, could you elaborate that point a little.

Sundeep Bambolkar: Growth of the dental division.

Mandar Borkar: It is stomatological or dental we were growing at the rate of 20% in the past which has now come down to 13%. So that has taken down the overall growth guidance that we are giving you. To improve upon this dental performance next year, the overall company growth rate also will improve.

Aashish Rathi: What according to you is the reason for this, because we have a very strong Sensodent track also there? What reason in this Sir for 20% coming out to around 13% of this division?

Mandar Borkar: It is a situation, more competition, more small time players coming in, so we have to tackle that over a period of time.

Aashish Rathi: In a way, it is a loss of market share and not no growth from the division itself?

Sundeep Bambolkar: Yes. You can say that.

Aashish Rathi: Okay. Thank you. This is helpful and I wish you all the best Sir.

Moderator: Thank you. Next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Sir, my question has been answered. Thank you.

Moderator: Thank you. Next question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Thanks for the followup again. Just want to know that your staff cost has been high during the quarter, so does it include any one-off or this will be a new base?

Sundeep Bambolkar: So it is because of the increments that element has come and now it will be normal.

Rashmi Sancheti: Sir, you say that it will go back to Rs.65-Rs.66 Crores run rate in the second half?

Sundeep Bambolkar: It will remain at this level now.

Rashmi Sancheti: It will remain at this level. Okay and on full year basis, do you think that on sales and EBITDA front we will be lower than FY2018?

Sundeep Bambolkar: Yes.

Rashmi Sancheti: Okay and on operating margin front, if you can guide on full year basis like, will it remain in the single digit or because of the better second half we can see that coming closer to the higher single digit margins?

Sundeep Bambolkar: Higher single digit, yes.

Rashmi Sancheti: Okay. And any capex guidance if you can give?

Sundeep Bambolkar: Capex, we have so far incurred Rs.13.7 Crores as of date, that is for the first half and for the full year this guidance is around Rs.50 Crores, which also we will try and pull it down.

Rashmi Sancheti: So, basically it will be lower than Rs.50 Crores?

Sundeep Bambolkar: Yes.

Rashmi Sancheti: Okay and in FY2020 and 2021, will it be only maintenance?

Sundeep Bambolkar: Maintenance capex only around Rs.50 Crores.

Rashmi Sancheti: 50 Crores.

Sundeep Bambolkar: See Rashmi, we have invested substantial money in the last two and a half years, you know that we built a sterile block, sterile lines I mean, we imported and plus we built about 35,000 to 40,000 square feet area in that plant. Then we have built a new API block, they acquired the micro site in Baddi. All this has taken substantial investment. So in the next three to four years, we do not want to invest anything more appreciably. So just maintenance capex is what we will plan and do.

Rashmi Sancheti: Okay. Thanks. That is it from my side.

Moderator: Thank you. Next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. Sir what is the GST adjusted growth in the first half of FY2019 for India?

Sundeep Bambolkar: First half?

Chirag Dagli: Yes.

Sundeep Bambolkar: I think you take 3% less.

Chirag Dagli: So this 7.2% is the reported number, 10.2 is what you have done?

Sundeep Bambolkar: Yes.

Chirag Dagli: And in this the two reasons that I could pickup from the various discussions in the call are one is the inventory level and the other is the lower growth in stomatological, this understanding is right?

Sundeep Bambolkar: Yes.

Chirag Dagli: There is nothing more beyond this?

Sundeep Bambolkar: Nothing more than this.

Chirag Dagli: How big is stomatological for us Sir in the overall contribution?

Sundeep Bambolkar: Rs.150 Crores.

Chirag Dagli: Rs.150 Crores. Okay and what is the mark-to-market on the forex loan Sir for the second quarter as well as for the first quarter that we include in the interest cost?

Sundeep Bambolkar: Yes. On loans, fortunately, we had a good option strategy. So there is no impact on the loan front, but on our long-term receivables and long-term hedging, which we have done, there is overall about Rs.4.5 Crores to Rs.5 Crores impact for the second quarter.

Chirag Dagli: This is including above the EBITDA line?

Sundeep Bambolkar: Yes.

Chirag Dagli: Various line items. So the Rs.5 Crores interest cost, this is a sustainable run rate Sir on quarterly basis?

Sundeep Bambolkar: We do not see any major increase at least in the current year because there are no fresh measures, because there is a repayment already happening, it will be sustained.

Chirag Dagli: Okay and Sir for the first half what is the amount of capitalized R&D that we have?

Sundeep Bambolkar: Actually on the first half, there is a reduction in capitalized R&D by almost Rs.3.5 Crores.

Vilas V. Nagare: Reduction.

Chirag Dagli: Versus the first half of last year?

Sundeep Bambolkar: Yes.

Chirag Dagli: So, just to put in numbers in context, last year I think we capitalized about 39-odd Crores in R&D, this is in the first half, it is about Rs.5 Crores lower?

Sundeep Bambolkar: Yes.

Chirag Dagli: Okay and Sir in the US, where are we recording this Rs.5.3 Crores also, what is this exactly, because our supplies are not happening right?

Sundeep Bambolkar: The tablet sale is there.

Vilas V. Nagare: Two tablets for us, we are free to sell in US, even as on today.

Chirag Dagli: Okay. So this is sales from those products?

Vilas V. Nagare: Yes. Plant I is not yet affected because of warning letter.

Chirag Dagli: Okay and so Sir when you sort of think of resolution especially for the ophthalmic line, and for the US market, do you think this is likely an FY2020 event or likely FY2021 event without getting into very specifics, this ballpark – in your mind when you are planning for the company, do you think this is an FY2020 event?

Sundeep Bambolkar: FY2020, we will get a whole clean year.

Chirag Dagli: That is how you are thinking about it?

Sundeep Bambolkar: Yes. We should resume supplies from April.

Chirag Dagli: Even for the ophthalmic products?

Sundeep Bambolkar: Yes.

Chirag Dagli: And you should start getting approvals as well?

Sundeep Bambolkar: Yes. Once the warning letter is lifted, then approvals would come. Approvals can start coming from end of May, beginning of June.

Chirag Dagli: Sure and Sir this is last question. What is the INR this change means because we have some imports as well as exports, so net-net what is it mean for us?

Vilas V. Nagare: See as we explained, our imports are very limited, not major.

Sundeep Bambolkar: Imports are one third of exports where at a full level. Currently, exports have suffered that is a different story, but at full operative imports are one third of exports that is point number one. Second point is INR, if it is stable between 72 and 73, then also it should be positive for Indoco. Sorry, dollar stabilizing at 72 to 73.

Chirag Dagli: Okay Sir. Thank you so much and best of luck.

Moderator: Thank you. Next question is from the line of Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Yes Sir, just taking the previous question forward on this forex, so have we started to see the benefit of the currency depreciation in the Q2 numbers or last part of this depreciation we should start to see the impact on margin from Q3?

Sundeep Bambolkar: It will come from Q3 only because the volume growth in exports, you will see a multiplicative effect with currencies having gone up.

Sachin Kasera: Okay. No Sir that I can understand. That with currency going up, you will have benefit of higher volumes, but purely in terms of the realization of higher dollar or higher Euro, have you started to see that benefiting? Or is it the way we are hedged that that benefit will also come in from Q3 onwards in the major way?

Sundeep Bambolkar: Q3 only.

Sachin Kasera: Q3 only. Okay. Second Sir if you see the balance sheet, there is a capital work-in-progress on Rs.95 Crores, so if you could just give us some key details on what does it exactly pertain to and when will it get commissioned?

Sundeep Bambolkar: This is mainly of Patalganga plant, which is about to be completed and trial production will start from December.

Sachin Kasera: And what is the total capex for the Patalganga plant and how much is pending Sir?

Sundeep Bambolkar: Totally, we have invested about Rs.95 Crores.

Sachin Kasera: Okay and this will be mainly again for the export market Sir or?

Sundeep Bambolkar: Yes, mainly Indoco's own consumption and whatever quantities extra we get, we will sell in the overseas markets also.

Sachin Kasera: Mainly the API plant?

Sundeep Bambolkar: API plant, yes.

Sachin Kasera: Okay. So, this will be benefiting more in terms of improving our margins and better control on supply chains?

Sundeep Bambolkar: Yes. Absolutely.

Sachin Kasera: Okay and Sir just one question on this other operating income against Rs.5 Crores positive we have got 28 lakh loss. Is this, the forex loss that you are referring to offer on Rs.5 Crores?

Sundeep Bambolkar: Yes, same forex loss.

Sachin Kasera: Okay and just on this interest cost, you mentioned that it has come down and this number is sustainable, but if you see compared to June quarter, where it was Rs.7 Crores, this quarter it has come down to Rs.5 Crores, whereas when you see the balance sheet, the debt reduction has been to the tune of only Rs.10 to Rs.12 Crores, so is it that we have got some renegotiation at a much lower rate that is why the interest cost has been significant in terms of the reduction quarter-on-quarter?

Sundeep Bambolkar: No. Rs.7 Crores included Rs.2 Crores of exchange loss.

Sachin Kasera: Okay. Got it Sir. And you mentioned that there is no major capex from FY2020 onwards, so we should see a significant debt reduction in 2020 and 2021?

Sundeep Bambolkar: Yes. Definitely.

Sachin Kasera: Okay. Thank you very much Sir.

Moderator: Thank you. Next question is from the line of Harisha Kakkera from B&K Securities. Please go ahead.

Harisha Kakkera: Hi Sir. Just wanted to have the further breakup of export revenue if it is possible for you to give?

Sundeep Bambolkar: Europe we have said Rs.100 Crores. No, you wanted the year end you are saying?

Harisha Kakkera: No. I wanted it for this quarter.

Sundeep Bambolkar: This quarter, Europe was Rs.27 Crores, US was Rs.5.25, US and Canada put together, South Africa, Australia, and New Zealand Rs.4 Crores. Emerging market is Rs.16 Crores.

Harisha Kakkera: Okay and what is your API revenue Sir for the quarter?

Sundeep Bambolkar: API is about Rs.19 Crores for domestic.

Harisha Kakkera: Rs.19 Crores and CRO?

Sundeep Bambolkar: CRO Rs.4 Crores.

Harisha Kakkera: Okay and Sir what is the reason that your South Africa revenues are also declining like versus previous year like they were growing?

Sundeep Bambolkar: Yes. Same I discussed it. Somebody else also asked the same question. Major of these products were being exported from Goa plant I. So our commitment to UK MHRA was that all the equipment will be re-qualified as per latest current GMP standards. And each and every product three batches validation batches will be manufactured irrespective of which geography it is going to do. So that is how the whole thing has slowed down, which hopefully we will now accelerate because things are falling in place.

Harisha Kakkera: Okay. That is all Sir. Thank you.

Moderator: Thank you. Next question is from the line of Rahul Sharma from KARVY stock broking. Please go ahead.

Rahul Sharma: Just wanted clarity on Europe. We did around Rs.179 Crores last year, so out of which only Rs.120 Crores was to UK, please correct me if I am wrong and Rs.30 Crores to Germany and rest was to the other European countries. So this UK piece will go down to how many Crores this year Sir?

Sundeep Bambolkar: UK was last year Rs.105 Crores, Germany Rs.49, those were the major. So what is the question?

Rahul Sharma: So how much will UK close the year with the new plant heading clearance by within one and a half to two months?

Sundeep Bambolkar: Yes, but we will get only two months effective for exports from the new plant. So far UK has done Rs.28 Crores.

Rahul Sharma: H1 UK is Rs.28 Crores.

Sundeep Bambolkar: The early effect of all these will be seen in the next year.

Rahul Sharma: Okay. So UK – in the current quarter how much we did in UK Sir?

Sundeep Bambolkar: Rs.18 Crores.

Rahul Sharma: So, we will continue with the Rs.18 Crores run rate?

Sundeep Bambolkar: It can improve.

Vilas V. Nagare: It will improve.

Rahul Sharma: Okay. And what about Germany Sir?

Sundeep Bambolkar: Germany, we have done this quarter Rs.4 Crores and first half Rs.12 Crores.

Rahul Sharma: Okay. Here also we are basically going to fall short?

Sundeep Bambolkar: Yes. Because of the tender effect.

Rahul Sharma: Okay Sir. Thanks.

Moderator: Thank you. Next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: Hi. I just need a bit of clarification of the interest cost reduction. So, your basic cost if there is no such up and down in forex, so it is roughly on Rs.5 Crores, right?

Sundeep Bambolkar: Right. Rs.4.76 Crores was in first quarter, Rs.4.81 Crores in the second quarter, so it will be around that range.

Surjeet Pal: Right and so you have taken some bit of derivative hedge position against loan?

Sundeep Bambolkar: Yes. For our foreign currency long term borrowing, we have taken that. So, it was quite effective in this quarter, which helped this reduction.

Surjeet Pal: But it could go also the opposite way, because of the risk?

Sundeep Bambolkar: Yes. But in the long run if we see its overall weighted average interest cost is beneficial.

Vilas V. Nagare: No, it cannot go against because if it goes down, then we are free to have the lower rate.

Surjeet Pal: Okay. So, you have taken interest rate option?

Sundeep Bambolkar: Interest rate swap.

Surjeet Pal: Swap, you have option.

Sundeep Bambolkar: Yes.

Surjeet Pal: Okay. What is the total percentage of your total loan belongs to forex?

Sundeep Bambolkar: Our total long-term loan is Rs.172 Crores, and forex is Rs.100 Crores, but after repayment, I think about Rs.80 to Rs.85 Crores is balance now on forex.

Surjeet Pal: Rs.80-Rs.85 Crores, okay. In working capital, there is no forex loss?

Sundeep Bambolkar: Short term PCFC we resort to but minimum.

Surjeet Pal: Okay. Thank you.

Moderator: Thank you very much. Ladies and gentlemen that seems to be the last question for today, I would now like to hand the conference over to Mr. Vishal Manchanda for his closing comments.

Vishal Manchanda: Thank you everybody for participating in the call. Look forward to see you in the next quarter. Thank you.

Sundeep Bambolkar: Thank you everybody. Thank you for your active participation and have a nice evening. Bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Nirmal Bang Equities, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines.