"Indoco Remedies Q2 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Indoco Remedies Q2 FY2021 Earnings Conference Call hosted by Nirmal Bang Institutional Equities. 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. Thank you and over to you Sir!

Vishal Manchanda: Thanks. Good afternoon everyone and welcome to the Q2 FY2021 earnings of Indoco Remedies Limited. We thank the Indoco Remedies' 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; Mr. Mandar Borkar, Chief Financial Officer and Mr. Vilas Nagare, President, Corporate Affairs and M&A. I now hand over the call to the company management.

Sundeep Bambolkar: Good afternoon, all the participants. Hope you and your family members are all safe and healthy.

Let me begin first with the business highlights. Net revenues for the quarter grew in double-digits by 12.9% at Rs.322.5 Crores against Rs.285.6 Crores and for the first half of the year revenues grew by 10.6% at Rs.589.3 Crores as against Rs.532.8 Crores.

EBITDA to net sales for the quarter is at 18.7% at Rs.60.2 Crores compared to 11.3% at Rs.32.1 Crores and for the first half of the year, the EBITDA is 18.5% at Rs.109 Crores compared to 10.3% at Rs.52.9 Crores. PAT for the quarter is at 7.8% at Rs.25.1 Crores compared to 2.6% at Rs.7.3 Crores and for the first half of the year, the PAT is 7.2% at Rs.42.3 Crores compared to 1.8% at Rs.9.5 Crores.

Now on to the Domestic formulations business Indian pharma market for the first time has bounced back after months of COVID-19 crisis and registered a growth of 4.5% in September 2020 giving a positive growth for Q2. Indoco ranks 29th in the IPM with market share of 62%, the source of this information is AWACS.

In terms of prescription generation Indoco's rank is maintained at 23rd in pre-COVID and during COVID period with market share of 0.7%. The source is SMSRC, July, August 2020.

Revenue from domestic formulation business degrew by 6.2% for the quarter at Rs.174.7 Crores as against Rs.186.3 Crores and for the first half revenue degrew by 7.4% at Rs.322.2 Crores against Rs.347.9 Crores. During the quarter, FEVINDO-400 was launched for the treatment of mild-to-moderate COVID-19 cases. FEVINDO-400, Favipiravir is an antiviral drug effective against the RNA-based influenza virus. The drug has been approved by DCGI in the treatment of COVID-19. FEVINDO 400 reduces pill burden by 50% and ensures convenient dosing and better patient compliance. The company's brand namely Karvol Plus, ATM, Febrex Plus and Rexidin SRS mouthwash are being used in the prevention of COVID-19. With the launch of FEVINDO the company has moved to the next step from prevention to treatment of COVID-19.

Now on the international business front; during the quarter revenues from international formulation business grew by 63.7 % at Rs. 121.4 Crores as against Rs. 74.1 Crores and for the first half of the year, revenues grew by 62.5% at Rs.216.8 Crores as against Rs.133.5 Crores. On a narrow base, US revenue grew by 295% at Rs.43.4 Crores as against Rs.11 Crores and for first half revenues grew by 415% at Rs.70.3 Crores as against Rs.13.6 Crores. In September 2020, Indoco received the approval for Apixaban 2.5 mg & 5 mg tablet. Apixaban is a anticoagulant blood thinner and is used for patients with help problems caused by blood clotting. During the quarter, the company dispatched four products to US for launched by partners. The products include three injectables namely Phenylephrine, Palonosetron, Zoledronic acid and one solid dosage namely Febuxostat tablet.

The company received repeat orders and encouraging forecast for the product shift in the first quarter FY2021. Europe revenues grew by 42.7% at Rs.56.1 Crores as against Rs.39.3 Crores and for the first half revenue grew by 34.9% at Rs.104 Crores as against Rs.77.1 Crores. Revenue for South Africa, Australia and New Zealand grew by 38% at Rs.1.8 Crores as against Rs.1.3 Crores and for the first half revenue degrew by 13% at Rs.3.5 Crores as against Rs.4.1 Crores. Revenues from emerging markets were at Rs.20 Crores as against Rs.22.5 Crores and for the same quarter last quarter and for first half revenues were at Rs.39 Crores as against Rs.38.6 Crores.

Now on the regulatory update on Goa plant one. Periodic compliance updates are being timely submitted to the USFDA agency and inspection of the site by the US health regulator virtually, is onsite is anticipated to be scheduled. API and CRO business revenues were at Rs.22.8 Crores as against Rs.23.4 Crores for this business. For the first half revenues were at Rs.45 Crores against Rs.47.1 Crores.

Revenues from CRO and analytical services business were at Rs.3.5 Crores against Rs.1.8 Crores and for the first half revenues were at Rs.5.2 Crores as against Rs.4.4 Crores. That is all about the business highlight for the second quarter and I now request the participants to put up their questions.

Wishing you and your family a very Happy Diwali in advance. Be safe, be healthy. Thank you all.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sajal Kapoor from Unseen Risk Advisors. Please go ahead.

Sajal Kapoor: Thanks for taking my question. Congratulations on the reported performance to the management. The operating leverage is clearly visible. I have couple of questions. While the operating profit before working capital changes more than doubled on a Y-o-Y basis. I need your help to sort of better understand the working capital adjustment so I appreciate the jump in receivables and the inventory so on inventory is at raw material or finished goods inventory, what is the nature of the inventory and why there is such a sharp decrease in payables, so clearly our suppliers are pushing us hard and the balance of power and has shifted in their favour and these could be our solvent suppliers or intermediate suppliers on the chemical industry, so is this trend likely to sort of reverse by the end of this fiscal, because that has varying on our net operating cash flows?

Aditi Panandikar: Can you just repeat the last part of your question, we did not understand that?

Sajal Kapoor: We have seen a sharp decrease in the payables, so other question on the balance sheet and the cash flows, so while the operating profit has more than doubled Y-o-Y, but the working capital and within working capital more on the sharp decrease in the payables, so clearly I see the suppliers are pushing us for prepayment or they have some sort of bargaining power or some sort of power are shifted in their favour, so is this trend likely to reverse by the end of the year?

Sundeep Bambolkar: Thanks for your question. There are some improved trends, I would say. First is, we are strengthening our overall situation in terms of ensuring the right availability of our raw material intermediates so that we are blocking our inventory, so that is why there is an improvement or the reduction in the creditors, so sort of relief payment, timely payment which will ensure the availability in this period. Second, your observation about inventory is also very right. Typically we are keeping cushion of raw material and packing material key required for this season and as you are aware, the US and Europe which has almost 60%, 65% growth compared to the last year which requires a good amount of building of the inventory and of course in the domestic market also in this supply chain related challenges, we have ensured a right amount of inventory.

Aditi Panandikar: Your analysis like we might have purchased material at a higher level is incorrect that is what we wanted to clarify.

Sajal Kapoor: I am not worried about purchasing material at a higher level. I was more concerned about that our suppliers are asking for an early payment sort of thing?

Aditi Panandikar: I will just add on from here. Much of our US formulation business is entirely backward integrated so the extend we make the API ourselves, but some key starting materials are still coming from China because of the situation which China before COVID hit us and thereafter the situation here we have taken in this period we have ensured that we have enough material for our entire yearly requirement of US supply, so which is why the inventory levels have gone up.

Sajal Kapoor: Last year fiscal ending March 2020, we had reported a net operating cash flow of Rs.120 Crores odd, do we expect to cross that number when we close the fiscal we have still got six months left?

Aditi Panandikar: Yes.

Sajal Kapoor: So that is fine then this will likely normalize. On the Apixaban that is the big approval for us, so what are the launch timeline and expectations for this fiscal and the next fiscal from this product?

Aditi Panandikar: Apixaban is under backend right now and we are waiting to see how the backend situation evolve based on once we have clarity we will communicate with you, but as of now we have to wait for backend situation in US to resolve to know when we can launch the product.

Sajal Kapoor: Clearly, we are not supplying to the innovators?

Aditi Panandikar: We are not supplying to the innovators.

Sajal Kapoor: Finally on the domestic business Madam, so Q2 versus Q1 this fiscal we have seen a strong bounceback and we know what is happening in the domestic market because of COVID people are not visiting doctors and so on, question is can we continue with this momentum assuming that the Indian pharmaceutical market is going to pickup in Q3 so that is one part and the second part is, we have field force of close of 2300 MRs, so how much is the variable versus fixed pay ratio there, because clearly we need to do some further work on the productivity side of we need some more improvements on the MR productivity, those are the two part questions?

Aditi Panandikar: I will first talk about the sales as you would correctly right, there has been 18% growth Q-o-Q as in Q2 over Q1 and at the same time it is lower than last year because second quarter is typically a very big quarter for us. We have in our top two therapies anti-infective and respiratory, so in addition to the COVID and lockdown related work, we were specially impacted because our top two big therapies also were impacted heavily in the market, so going forward definitely we will see India business come back to a much better performance. Coming to your question on fixed costs and variable typically at the starting level for your rep, one-third is what is variable in incentives and the rest is fixed, so going forward typically for us as the per head yield, per head yield right now we were at 2.5 and we expected to improved from here. Over the last one-and-a-half year it has gone from 2 to 2.5, so there has been significant improvement as it is.

Sajal Kapoor: That is helpful and very finally what is the guidance on the EBITDA operating margins, because we have seen a small jump compared to the March 2020 and what we do expect to do in the second half of this fiscal and going forward, can we see this continuation in the improvement on a Y-o-Y basis or because we were kind of?

Aditi Panandikar: Definitely we have an improvement going forward. Last year we had closed with an EBITDA of 11.8% and when the year started we were looking at around 14% this year; however, as you know we started the first quarter it is very unusual way where a lot of expenses related to India business were not incurred. The second quarter while some of them are come back our excellent performance of international business has allowed us to repeat the similar kind of EBITDA. However, going forward slowly there is much regularization now of field travel and all other expenses related to India business, so we expect therefore we may not be able to maintain these levels of EBITDA so for the second half of the year, I am looking at close to 15.5% EBITDA.

Sajal Kapoor: That is very helpful and all the very best. Thank you.

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

Aditya Khemka: Thanks for the opportunity and good afternoon everyone. Aditi Madam, my question on the India business. Could you talk about a little bit excluding Favipiravir, how would have our base business done, the reason for asking the questions simply is that Favipiravir project understand how long the sales of that particular molecule will last and therefore I want to focus more on the India business excluding Favipiravir?

Aditi Panandikar: Thanks Aditya. That is very meaningful question. Because if you look at the IPM performance today and you look at the category as you know much on the peers above us almost everybody has at least one or more than one brand of Favipiravir now or some other anti-viral or anti-COVID treatment products. Let me come to our business **(inaudible) 17:56** I will give you clarity. As you know at Indoco we have broadly four baskets of products. One is pure acute which is largely anti-infective, anti-cold, respiratory kind of and GI very roughly. When we have got something called the subchronic which is dental, subchronic others which is Gynaec and Ophthal and finally we have the chronic which is the cardio-diabeto. So our acute therapy has been very severely impacted in Q2 largely because of a) people staying at home, infections coming down and typically other therapies like GI which are linked to anti-infective have also got impacted, so three of our top four categories were impacted for actual consumption or demand in this period. Our performance got more impacted because 20% of our topline especially in acute therapy comes from one state Maharashtra and for us as well as for the industry Maharashtra has given a huge setback because of the heavy COVID situation here. Coming to our subchronic dental, we have actually done quite well and Q2 all the dental products are in growth and some doing exceedingly well. Ophthal and Gynaec, Ophthal in particular was therapy where we were much impacted because of the Ophthalmologist are not at all in the chambers, but it is showing good recovery now and cardio-diabeto we have lot of promise and going forward these should also do well. So just coming back to what you said with and without Favipiravir. at Indoco, most of our topline say 95% of our topline is severely dependent on generation of new prescription, all prescriptions per se and with doctors not being in the chambers, senior aged doctors not being in the chambers, the therapy setting impacted, typically we have taken a brunt, I am very sure now with things normalizing and field working which actually became is getting towards normal, October it has come to around 70% of normal. Going forward it will further get normalized, managers were not travelling at all, and they had started travelling now. I am sure as soon as we regularization in the environment happen our core few therapy should also bounceback.

Aditya Khemka: On the followup from the previous participant around your projection for the second half EBITDA margin and slightly surprised that you are talking of sequential decline and I will tell you the reason, so basically if I see your employee expenses there seems to be no lower expenses anyway in the first half of our employee expenses seems to have grown 11%, 12% over last year we should be in the absence of incremental hiring of mass, there should be a normal growth in that expenditure, same goes for your R&D expense if I add R&D expense for the first half, we have grown about 15% year over year in R&D expense and then your other expenses is just showing -5%, -6% trajectory first half over first half, so even if your other expenses for the second half grow 10% year over year and assuming that the other costs remain in the same trajectory as they are, I do not understand mathematically how you can **(inaudible) 21:40**?

Aditi Panandikar: While Q2 domestic and it is India business which is truly driving margin at this stage for Indoco, although there is great coverage of operation cost because of international doing well now, so we are still factoring for because while I am very confident India business will come back in the second half, frankly to what extent the COVID impact is likely to drag and to what extent it is likely to impact India business topline, so my commitment is taking into account an India business which may not revive entirely even in Q3. If India business is back to normal, the numbers definitely will be much better.

Aditya Khemka: Fair enough, but I was just saying that even in the scenario of the India business doing what is doing currently right and your Europe continues to improve given that supplies from the BU and all are getting normalized and we are getting business from Europe the way we are right and if I just do a back of the envelop calculation on your gross margin sustaining where it is employee cost sustaining, the Y-o-Y growth, R&D is sustaining the Y-o-Y growth, and other expenses remaining at a little subdued because the topline would not come, expenditure also would not come, both will come together? In that case just mathematically I am not able to arrive at the conclusion?

Aditi Panandikar: We look at the math again, but I promise you we will do better.

Aditya Khemka: One more question on again similar lines of the previous participant on the trade payable side, just to help me understanding, I understand we have to build up inventory and we have to get more credit to the customers in these times, I get that and we are obviously buying more material in order to make more product, so I understand that, but a decrease in trade payable would imply that, we are actually paying them almost upfront or we are paying them in very good profession after placing the order, versus earlier let us say getting 60 day credit period over a 45 day credit period, so I think the previous participant question remained little unanswered, why is that we are paying our vendors quicker, that is the key question, we are clearly paying them quicker, that is visible in the credit payable number, but why is it that we are paying than quicker and secondly would this paying quicker continue in the interest of keeping inventory levels high and keeping ourselves well stock with KSMs or will this paying quicker now reverse because whatever we had in terms of building the inventory and stock has been done and now we need to revert to the normalized payment timelines?

Sundeep Bambolkar: I will take the second part of your question first. This is done thing now. There is no quick payment, one thing we have enough stock for the starting material both in API and formulation. Point number two, we are having enough inventory and third most important point is because of our past problems, the working capital cycle had got a little stretched, so we were paying late which we have corrected now that is why it seems that the number of days have come down, so going ahead we have learnt to pay in time now that the issues are sorted out.

Aditya Khemka: Understood Sundeep Sir, perfect. Just one last question on in FY2020 what are the total remediation cost included in other expenses?

Sundeep Bambolkar: In FY2020?

Aditya Khemka: Year ending March 2020?

Sundeep Bambolkar: Rs.5 Crores.

Aditya Khemka: Total remediation cost of Rs.5 Crores and are we still incurring any remediation cost connected to plant one?

Sundeep Bambolkar: Some handholding is going on, we expect around Rs.2 Crores this year.

Aditya Khemka: What would be the capacity utilization for Baddi now for the European market and Goa II now for the US market?

Sundeep Bambolkar: We still have long way to go. Order book looks good. Capacity we have quite a good picture of capacity, so I think in a one-to-one also I told you in the past that Baddi III which we acquired from Micro Labs has a long way to go, we have started dispatching quite a number of continents from there to UK. We have good capacity all in all to say.

Aditya Khemka: Current utilization any colour Sundeep Sir?

Sundeep Bambolkar: We have promised the financial community that we will not incur any more capital expenditure, were talking about from another 2.5 to 3 years minimum, so till then the capacity which we have Goa will be utilized majorly for US and Europe will be from Baddi I and Baddi III, so for at least 2.5 to 3 years we need to look at any building anymore new capacity.

Aditya Khemka: Thanks a lot and all the best for the future.

Moderator: Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi. Please go ahead.

Abdul Puranwala: Thank you for the opportunity. My first question is towards US based what you have registered, I just wanted to know if there are certain milestone payments also included in this number?

Aditi Panandikar: Yes.

Anand Rathi: Would it be possible to quantify that number for me please?

Aditi Panandikar: We will get back to you with the details later.

Anand Rathi: Second question was on the India business as you had clearly mentioned in the press release that there are certain products which have got benefitted for COVID, Madam would it be possible to quantify, what would be the growth excluding these products in a based India business?

Aditi Panandikar: There are two products which sharply got upside one is, Azithromycin brand ATM which for this quarter has shown a growth of around 50% and the other product is Karvol Plus which has done around 250% it is like quite high, but in actual value term this is not very substantial, ATM has done 70 over 11 and Karvol Plus 70 over 5.

Anand Rathi: My final question was towards the Patalganga plant, how do we intent to ramp up the facility and what kind of sales could be added to the API division from plant? Any colour no that would be very helpful.

Aditi Panandikar: The expansion at Patalganga has been done specifically in anticipation of the high volume intake for our own consumption and as you have seen US two regular quarters we have seen the kind of US sales that are coming for the company, we expect lot of consumption to happen for internal use itself, so therefore going forward the plant capacity will be utilized. Right now, the new block is under validation and batches from that size are under regulatory filing etc, there will be a short period before which we can use that capacity. Meanwhile API is the division is exploring many other possibilities including intermediates or some other APIs which now given the market conditions, we might be able to take advantage.

Anand Rathi: That would be all from my end. Thank you for answering my question.

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

Charulata Gaidhani: Congrats for the good set of numbers. I wanted your view on US exports for the second half and FY2022, how are you looking at?

Aditi Panandikar: Charulata as we already have been giving guidance that for the whole year we should do around Rs.150 Crores, so we stick by that and for the next year we are looking at around Rs.250 Crores to at least come in from US.

Charulata Gaidhani: You had stated that whatever product launches had happened in Q1, you have got repeat orders for those?

Aditi Panandikar: Yes.

Charulata Gaidhani: So then what would be the normal growth that you would expect from US apart from new launches?

Aditi Panandikar: The second half of the year now we have to do around Rs.80 Crores which is going to come marginally from repeat orders of existing supplies and a lot from new launches again, okay. So next year will be the first year in which we are any kind of ways to think about, so I think we should not be looking at growth at this stage, as such from the numbers I have shared with you, we will be doing an excessive 60% growth in any case.

Charulata Gaidhani: How do you see the demand position in US as well as Europe, is it more towards COVID related products?

Aditi Panandikar: We do not have any COVID range for US or Europe, we have some products which can be used for treatment of COVID, but that is not the intend which none of the upside today has got anything to do with COVID.

Charulata Gaidhani: Okay and how much of Europe would be Paracetamol?

Aditi Panandikar: I think around 50%, 35%, little less than 30%.

Charulata Gaidhani: Thank you. All the best.

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

Aditya Khemka: Thanks for the followup. Sundeep Sir, on the cash flow side, I was just computing we have about net debt of Rs.200 Crores odd correct me if I am wrong and given that the cash distribution this year would be better than Rs.120 Crores that we did last year, so it would be left with very little debt at the end of the year and then the year following which is FY2022 there should be net cash company, any thoughts on how company plans to utilize the cash that should come up FY2022?

Sundeep Bambolkar: As we have said the cash generation the first priority is to square of the loans, so we still have Rs.145 Crores of long term debt that will be our topmost priority as and when it falls due to repay that and the short term borrowing is swinging between Rs.120 Crores, Rs.125 Crores in that range, so together it is around Rs.270 Crores that is the cost priority.

Aditya Khemka: That is the gross debt number?

Sundeep Bambolkar: Yes.

Aditya Khemka: This is not minus cash, okay.

Sundeep Bambolkar: Short term rate would continue taking into account the inventory build up for US as new launches come along, finished goods inventory for India, it may not be Rs.125 Crores, but it may come down below Rs.100 Crores and I think it is little bit far away to think that once you become cash rich company what it is to be done that is two years ahead.

Aditi Panandikar: As such Aditya, there are lots of plans. We will share them with you as and when things there. There is a lot of we done India business to be honest. The whole lockdown story, the digital side of marketing it is like we have just started what is like a drop in the ocean as regards digital, we have done it more because we were pushing against the wall and we could not meet the doctors, but if you take it beyond this kind of demand meet of digital and actually starting using digital for growth in sales then the sky is a limit to what can be done to improve relationship with doctors, work on the subchronic and chronic areas, all of that is going to possibly need a lot of investments in the initial phase.

Aditya Khemka: Part enough, but we as individuals I just very inpatient not had the right way as way you guys are, but which is why I was trying to look one, two years forward?

Aditya Khemka: The other thing if you look at our dental portfolio also, we are working to move it slowly towards OTX that alone we will also need lot of investment and inventories alone, because the first thing to be done for that is to increase reach. We have to double the reach we have today with retailers that kind of inventory buildup will also need, so there is a lot happening as it unfolds you will hear and before that itself we will keep sharing with the community.

Aditya Khemka: That is very good to know. Madam on the US business on the ophthalmic portfolio obviously we have not launched those products yet, but just I was trying to map out the supply that is approaching the US market on the ophthalmic segment and again correct me if I am wrong but there seems to be a lot more pipeline building into the ophthalmic generic space as in much more competition for the space, what used to be there let us say two more year, three years earlier, I do not want to name any companies, but you would be aware of so many other companies now starting to talk about filing of ophthalmic products. In that context with our partnership model, where we sort of give up productive partner and he takes some margin to serve the product and then as competing with these people who are integrated to that extent, they own the backend and the front and both and therefore have more margin to play around with, do you see our competitiveness in the ophthalmic portfolio declining because of this new entrants in the space?

Aditi Panandikar: First and foremost the partner we have is a strong partner and the intent is to get market share because with the strong capable partner, the first thing you get is a large market share, so that will continue to be an advantage for us. The second thing is that we are backward integrated on most of these ophthalmic products because it is largely the kilo manufacturing like APIs which form part of the heavy cost base, so we are therefore in control. The other thing is that 90% of our Ophthal portfolio as I said we are backward integrated and all of these are very difficult to do APIs also and difficult to do formulations. We are supplying such quantities as well as commercial quantities to many of the so-called will be our competitors Aditya if I have to define this, so I do not see much concern on margin front for us.

Sundeep Bambolkar: To add further some of the products are very unique and at least one product ophthalmic suspension besides the innovator, we will be the first in the market along with our partner, so to that extent we have covered enormous ground.

Aditya Khemka: Regarding your pipeline in the ophthalmic space Sundeep Sir, would you have more such products where there are very few people trying to develop it specifically because I think ophthalmic drops seems to be something they are getting fairly commoditized, but whether there will be some space in the ophthalmic space and ophthalmic gel area?

Sundeep Bambolkar: We are having two ophthalmic suspensions. One will be launched in the market in US in January and second one would be sometime in April.

Aditi Panandikar: We are beyond the granular Tear solution which have become very commoditized, we have lot of products like Sundeep said in suspension, difficult to do suspension, thick solutions which are difficult to fill, evaluate and which require clinical, which are our front end has also done, so we are in the space with the different intend, yes, there are few key players who are also looking good, but I do not see much issues. We already lost out on a lot in the last three years especially after creating **(inaudible) 39:20** so well as well as Latanoprost, lot of lost opportunity. I feel going forward we will have a lot to recover.

Aditya Khemka: When it comes to hormonal ophthalmic products, I know we do not do hormone systematically speaking, but any thoughts of entering this space?

Aditi Panandikar: Not at this stage, because you will need separate facility for that and as we stay committed now for no more capacity or capex for Indoco.

Aditya Khemka: That is the fair part.

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

Anshul Saigal: Good afternoon. Thank you for taking my question. Congrats on good results. Mr. Bambolkar, the January launch that you refer to is Brinzolamide, is it?

Aditi Panandikar: We cannot commit names at this stage Sir, because of the agreement with our front end partners.

Anshul Saigal: This product has it gotten delayed if I may ask that question that you can answer that?

Aditi Panandikar: It is in the last stages of approval from USFDA, so the scale up related data has gone to them, they are coming back with things and the discussion is on, we expect the approval any time soon.

Anshul Saigal: Second despite our India business and of course on a quarter-on-quarter, we are up but on a year-on-year basis, we are down and still we feel because of the international business doing well probably we have seen a gross margin expansion of about 200-basis point on a Q-on-Q basis and about 30-basis points on a year-on-year basis. Is that because an international business is higher gross margin?

Aditi Panandikar: No. Well, yes and no. You cannot say the whole of international business. This is a combination of product mix, business mix coming together. International US is definitely much higher margin than international Europe, not because of the geography, but because Europe for us is more of a pure contract manufacturing business. In this, if you see Q2 in particular US is equal to Europe almost in number and that has really helped. In addition to that India business like you said is lower than last year, but still higher than the previous year and all expenses on India business did not come back. If you look at profitability or margin perspective in US, India are very good margin business, API is decent margin business comparatively, manufacturing to Europe if it is pure contract manufacturing, it is not a very great business, but when the volumes coming for that business also is the kind of cost coverage that happens that has helped our EBITDA.

Anshul Saigal: Did I hear you right when you said that from next year we could be targeting as much as Rs.250 Crores revenues from the US?

Aditi Panandikar: Yes.

Anshul Saigal: If we understand right initially our target was somewhere will be in Rs.175 Crores and Rs.200 Crores, so this means that we have got greater visibility on the US business?

Aditi Panandikar: Our target for the current year is Rs.150 Crores.

Anshul Saigal: I mean for the next year.

Aditi Panandikar: Yes there is much better visibility now largely on account of the kind of approvals coming in, you get a sense of things, so yes there is better visibility now.

Anshul Saigal: Even for the current year, I think our expectation was between 120 Crores and 125 Crores so is the target now on 150, clearly there is also current year there is greater visibility?

Aditi Panandikar: I think before the Q1 call itself we have been saying 150 Crores so that is very much on the cards.

Anshul Saigal: Can you just throw some light also, but TEVA partnership how many products are now under consideration, what kind of an opportunity does we see, any colour on that? Has it evolved further in the last three to four months?

Aditi Panandikar: A lot of things are happening, but TEVA being TEVA and how large it is, things are at various changes. There are seven to eight products are still lying with TEVA for the future, out of the remaining 10, seven products are under discussion for coming to Indoco and of these two are in absolute last stages, they have actually almost come over, but with FDA, there is some communication going on, one let us cleared we will honestly be able to say they are and we can sell them.

Anshul Saigal: Our guidance or targets for next year includes ramp up on the TEVA partnership for FY2022?

Aditi Panandikar: Certainly.

Anshul Saigal: Also as you have mentioned in the initial comments that the India business or the India market as a whole is kind of reviving with the 4% growth in the September month, has that revival continued in the current quarter and hence what is that bode for us in the India business for second half?

Aditi Panandikar: For us unfortunately although India business and overall IPM has revived because of our strong sort of dependence or contribution coming from absolute pure acute therapies is like anti-infective, respiratory, we have not got the kind of upside which otherwise some of our peers have got from the market, but despite that if you look at the company's performance month-on-month in absolute value terms also there is a good increment, but we have kind of portfolio of close to 40% which is very seasonal and season was Q2 to be honest, so although on Q3 basis we will grow better than the last year, we will do better than last year, but those therapy continue to be under stress right, so I feel for the first half, we have degrown by around 6%, for the second half look at marginal growth this is despite three to four major categories heavy degrowth for us in the industry.

Anshul Saigal: Any colour on that you have spoken of the diabetes product in the previous quarter, if you could just talk a little bit about how that is showing or any developments there?

Aditi Panandikar: Aloja will complete one year next week. We are celebrating the first year for Aloja and Aloja is Metformin, Aloja M is getting launched in couple of months now, so Aloja M for the year we have taken a target of Rs.10 Crores which I am pretty confident we will be closed to doing.

Anshul Saigal: My final question one, on our procurements products that we buy, if we starting intermediate etc, do we buy them through agents or do we buy them through direct sellers, direct manufacturers?

Aditi Panandikar: Direct manufacturers.

Anshul Saigal: So the decline in payables is because the direct manufacturers have tightened or we have gone back to them and said that we can pay this, they are okay to pay earlier?

Aditi Panandikar: If you have been following the company and what Sundeep said we have been through a huge phase in the last three years where lot of our partners, stakeholders, suppliers are actually stayed with us despite us not sort of returning their money in time, it has been stretched let me say. So two things have happened, one we are paying back some of the stretched suppliers for time, the second thing as I said specifically with the US market reviving for us and US international formulation business coming up. APIs wanted to be very sure that we will be able to deliver the starting material and active drug at formulation team will lead. Never there has been a building up of API inventory. Mandar, I think you would like to add something.

Mandar Borkar: One more factor, during last year we have significant capital expenditure, so we completed Rs.100 Crores API facility and also to some extent that impact is also there, because currently we have limited our capex, so capex creditor also has reduced to large extent, so it is a combination of both the impact, so I thought I should give you one more point.

Anshul Saigal: This working capital in the second half, it should ease off from current level?

Aditi Panandikar: Yes.

Anshul Saigal: Thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Lucky Investments. Please go ahead.

Anupam Agarwal: Good morning Madam and everybody. I just wanted to ask you, you have alluded to US number of Rs.250 Crores for the next year. Can you give us the sense of Europe is going to shape up in the current year and next year? Are we sticking to our guidance or are we revising that?

Aditi Panandikar: This year we are expecting to do Rs.225 Crores for Europe and next year we expect that number to go up by around 15% to 20%.

Anupam Agarwal: Coming to your business breakup, you have alluded to you made a comment that India has the best margins and followed by other regions, in a packing if I to ask you based on packing order, how the margins are across our business geography?

Aditi Panandikar: Packing order I can give you, do not ask me numbers, US and India are similar followed by API at this stage because we run it like boutique business, small volume for our own consumption kind of then followed by the contract manufacturing to Europe. We forgot about **(inaudible) 51:10** would come next to India, US in margin.

Anupam Agarwal: Sundeep Sir, you alluded to much easier capex cycle from current year to the next years, but your cash flow if we see consolidated cash flow for the first half, we have already done about Rs.20 Crores of payment towards capital expenditure which is at par with what we have done in the whole of last year?

Sundeep Bambolkar: We had guided that we will not exceed Rs.50 Crores or Rs.55 Crores in capital expenditure, for the half year I think we are at around Rs.20 Crores, so we are well on target.

Anupam Agarwal: Rs.50 Crores is going towards Patalganga mainly?

Sundeep Bambolkar: No, across the company.

Aditi Panandikar: Maintenance capex.

Sundeep Bambolkar: Maintenance capex across the organization.

Aditi Panandikar: We have eight manufacturing sites.

Anupam Agarwal: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vipulkumar Anopchand Shah an individual Investor. Please go ahead.

Vipulkumar Shah: Congratulations for very good set of number. So I just want to ask from Rs.150 Crores to Rs.250 Crores US next year which products will drive this growth?

Aditi Panandikar: It is a basket of products. We have quite a few solid orals also file which are awaiting approval. There are lot of injectables and ophthalmic file, it is difficult at this stage to say exactly which, also because we have partner on many of these products, I am not free to give that kind of information openly.

Sundeep Bambolkar: Right now we have four tablets and four injectables already in the US market, so the growth on this and the new launches that is how the confidence is coming that Rs.250 Crores next year.

Vipulkumar Shah: Thank you and all the best for the future.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Vishal Manchanda for closing comments.

Vishal Manchanda: Thanks everyone for participating in the call. I look forward to see you over the next call. Thank you very much.

Sundeep Bambolkar: Thank you from the management team, I would like to thank each one of you for your valuable time and Happy Diwali. Stay safe. All the best to your families. Thank you.

Aditi Panandikar: Happy Diwali. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Nirmal Bang Institutional Equities that concludes this conference. Thank you all for joining us. You may now disconnect your lines.