“Indoco Remedies Limited

Q2 FY’25 Earnings Conference Call”

October 24, 2024

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MODERATOR: **MS. RASHMI SHETTY – DOLAT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Indoco Remedies Q2 FY '25 Earnings Conference Call hosted by Dolat Capital. As a reminder, all participants line 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 star and zero on your touch-tone phone.

I now hand the conference over to Ms. Rashmi Shetty from Dolat Capital. Thank you, and over to you, ma'am.

Rashmi Shetty: Thank you, Shifa. Good afternoon, everyone. I, Rashmi Shetty on behalf of Dolat Capital welcome you all on the Q2 FY '25 earnings con call of Indoco Remedies. I would like to thank the management of Indoco Remedies for giving us this opportunity to host the call. Today from the management team we have with us Ms. Aditi Panandikar, Managing Director; Mr. Sundeep Bambolkar, Joint MD; and Mr. Pramod Ghorpade, CFO. I now hand over the call to the management for the opening remarks. Over to you, sir.

Sundeep Bambolkar: Thank you. Thank you, Rashmi. Good afternoon, everyone. Thank you all for joining this call today. Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements, which are projections or estimates about our future events. These estimates reflect the management's current expectation of the future performance of the company. Please note that these estimates involve certain risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied.

Indoco does not undertake any obligation to publicly update any forward-looking statement, whether as a result of new confirmation, future events or otherwise. Thank you. I'll request Aditi Madam for her opening comments.

Aditi Panandikar: Yes. Good afternoon, everybody. And once again, thank you for joining us. It gives me immense pleasure to let you all know that this August, the organization celebrated 77 years of excellence in providing quality medicines and building healthier community. This has been a tough quarter for us, but let me share some of the general business highlights with you.

As regards the India business, we have seen good growth in most of our key brands and a majority of our therapies this quarter. Cyclopam the number one product of the company, the antispasmodic analgesic has recently crossed a prescriber base of 1 lakh prescriber -- prescriptions -- prescribers in the quarter with -- in this quarter. And incidentally, the brand is also growing at close to 20%.

During the quarter, in the India business, we also launched new products namely Perio Rexidin Mouth wash, Sensodent Acipro both in the dental segment, dental ethical segment and ATM 250 and 500 mg, which is a clarithromycin antibiotic in the ethical segment in our acute divisions. Steve Jobs once said about his life that there were good times and there were hard times but there were never bad times.

For whatever is worth, the international business at Indoco currently is going through difficult times but very interesting changes happening inside the organization to prepare the company for

the future, wherein, especially in the solid oral space, our efficiency in manufacturing and agility of product basket are going to be the need of the hour and the company is preparing for that.

As you might be aware, we have close to 15 ANDAs in the solid oral space, of which at least two are great opportunities with tentative approvals for the future. Also in the current basket which is being supplied to the US, we have some excellent products such as Allopurinol which are vertically integrated. The company has made tremendous strategic plans on a master manufacturing operation to harmonize products at various locations, to increase batch sizes, to bring down costs of testing as well as bring down other costs related to manufacturing.

As part of this exercise, some of our plants are currently not in a position to supply all the orders that they have in hand. Added to this, we also have some challenges still in Plant 2, which is our sterile unit, where there is remediation going on across various lines for manufacture of ophthalmic and injectables. This remediation is in line with USFDA's expectations.

These two factors have largely resulted in our inability to supply product to the best of our abilities. And we therefore see the international business, particularly that to US and Europe having been impacted. Having said that, I would also like to share that in this period, Indoco received the final ANDA approval from USFDA for Lofexidine tablets 0.18 mg with competitive generic therapy designation with 180 days exclusivity.

Indoco also received approval from WHO Geneva for Albendazole 400 mg chewable tablets. Our Contract Research organization AnaCipher CRO at Hyderabad has expanded its offerings with the new pharmacovigilance services fair. Sensodent-K won the prestigious Rising Brands of India 2024 award in the sensitivity oral healthcare market, and we had a very successful launch recently of the new validated learning management system at Goa. This is all from me. I will now hand over to Mr. Sundeep to share the financial highlights.

Sundeep Bambolkar: Yes. Thank you, Aditi. Good afternoon, everyone. Hope you all are doing fine. Let me first begin with the business highlights. Net revenues of the company for the second-quarter '24-'25 shows muted growth at INR3,946 million compared to INR3,942 million when compared to the immediate preceding quarter. EBITDA to net sales for the quarter is 13.4% at INR529 million compared to 15.6% at INR724 million for the same quarter last year. PAT to net sales for the quarter is at INR128 million compared to INR331 million.

Earnings per share for the quarter is INR1.39 compared to INR3.59. The above numbers are on standalone basis. We have declared results with consolidation, which includes results of subsidiaries. Domestic formulation business, revenues from domestic business for the quarter grew by 2.9% at INR2,346 million as compared to INR2,281 million for the same quarter last year. Major therapeutic segments namely anti-infectives, respiratory and cardiac performed well during the quarter as compared to the same quarter last year.

On the international business front, revenues from international business are at INR1,262 million compared to INR1,949 million for the same quarter last year. Revenues from regulated markets are at INR866 million as against INR1,495 million. Revenues from US business are at INR247 million against INR814 million. Revenues from Europe for the quarter are at INR599 million

against INR634 million. Revenues from South Africa, Australia and New Zealand are at INR20 million against INR47 million and those from emerging markets for the quarter are at INR396 million as against INR454 million.

Revenues from the API business for the quarter are at INR301 million against INR358 million and revenues from AnaCipher CRO and Indoco Analytical Solutions for the quarter are at INR36 million against INR64 million. That's all about the business highlights for the second quarter.

I now request the participants to put forth their questions. Thank you.

Moderator: We have the first question from the line of Mr. Rajat from Tata.

Rajat: Sir, as I can see, there is a capex of around INR220 crores, which you have incurred in the first half. Can you just elaborate where this capex has gone?

Pramod Ghorpade: Yes, Rajat, Pramod here. So capex primarily is for three reasons. One is specifically for the upgradation of the plants, which ma'am mentioned just now as a master manufacturing plan, we have been increasing batch sizes, putting new machines, replacing old machines that is at all-oral solid doses plants. That is one.

Secondly, we are upgrading certain lines at our sterile plant at Goa too, that is another capex. And certain portion of capex, the amount which you mentioned includes certain advances paid for two lines, which we already ordered, one injectable and one ophthal. So these are the three major capex which happened during last six months.

Rajat: So incrementally from here, how does the capex guidance look like?

Pramod Ghorpade: So this year, as previously also we guided close to about INR200 plus crores. Out of that, close to about INR180-odd crores is already incurred. So we don't see much incremental capex in the remaining six months or so.

Rajat: Sure. Sir, last question from my side. If I look at your Q-on-Q performance, I see there is a very sharp increase in other expenses. They are up by roughly around INR27 crores, while your sales is up only by INR6 crores. Can you just tell us like why your other expenses have moved so -- like increased at such a sharp rate?

Pramod Ghorpade: Yes, sure. So Rajat, if you see as compared to quarter 1, the expenses are increased by about INR20-odd crores, particularly in our various sales promotional activities, advertisement, sales promotional activities and travel field, we have increased certain field force and travel-related to that field force is also a part of this other expenses.

Aditi Panandikar: There is also some increase in commissions and incentives since our acute divisions are doing very well.

Moderator: We have next question from the line of Sudarshan from JM Financial.

Sudarshan: I would like to understand that US is a bit of a problematic zone for us right now, given the remediation, etcetera. But can you elaborate why we are seeing a decline in Europe as well as emerging markets?

Aditi Panandikar: Yes. So I think Europe and emerging markets are two different things. But there is one common thing for both these geographies is that both the plants supplying to emerging as well as Europe are also under master manufacturing plan upgradation. So while we have tried our best to stagger it, somehow in Q2, it was not possible anymore to keep things pending as they would have hurt us in future.

Just to give you -- and you know our Europe and US plants, although geographically, we say Goa makes for US and Baddi will make for Europe and Bharuch will make for emerging, as part of our attempt to have a very agile operations management system, we are trying to align the portfolios at various locations and therefore whenever a location comes under renovation to meet with the blueprint plan as per the master manufacturing organization, a particular product to both geographies suffers.

So somehow in this quarter that has happened and one of our larger manufacturing unit which supplies to Europe, particularly is under remediation, not because regulators want it, but for us, because we have decided that that is now going forward, we'll get far more output from the same unit at much lesser cost per year.

Sudarshan: Apart from US, I mean, how far are we in terms of fixing up and ramping up for the other locations, I mean, Europe and US? I mean, I understand it's always good to harmonize the quality and others that you said.

Aditi Panandikar: Yes. You are asking for solid oral.

Sudarshan: Yes, for the solid oral, I mean, I'm just trying to understand now that as most of the practices and the process has been implemented in the other geographies outside the US.

Aditi Panandikar: Yes, what was your question exactly?

Sudarshan: Earlier, I mean, we have seen impact in Europe and other regions as well, just any regions and we are basically trying to harmonize if I understand, you know, put things in practice. So I'm just trying to understand, one let's you work with the USFDA, which is mandatory. The others are working because it is more voluntary. So has majority of the voluntary work been done for Europe and the emerging markets and we should start seeing the growth?

Aditi Panandikar: Yes. Because you know, it depends, I think the perspective is very important to decide what is mandatory and what is necessary and what is voluntary. I think we are all aware of what is happening globally with increase in freights and yo-yoing in cost of goods and particularly in US with the drop-in prices. I think our corporate operations planning has sat together with the business teams of Europe, US as well as emerging markets. And we have made a plan which will allow us to ride through these kinds of rough phases. And therefore, you may say it is voluntary, but we feel it is mandatory, if we are to going-forward show better efficiency and better EBITDA margins, both in Europe as well as US.

Sudarshan: Sure, ma'am. The next question from my side is on the gross margin. If we are looking at, I mean, the API prices largely my understanding is the chemicals and API prices have remained kind of benign. Would the drop in the gross margin largely be because of the regional mix that we are seeing or are we seeing any kind of a fast escalation on our raw materials?

Aditi Panandikar: Which period you are looking for a drop-in GC?

Sudarshan: So I'm primarily looking at the second quarter and probably in comparison with the last year as well as this.

Aditi Panandikar: Okay, gross margins and COGS are other operating. So because at least two large plants are under this kind of staggering shutdown planned or compulsory. The operating costs at those sites other than the material costs are of a fixed nature, right? So they remain. So that is how the margins get impacted. Is that your question?

Sudarshan: Yes that explains below the gross margin, but we have also seen the raw-material price has increased. I mean, is that primarily because of the mix or is it primarily because the raw-material prices have gone up? I just wanted to understand that more.

Sundeep V Bambolkar: So Mr. Sudarshan, if you see the raw-material prices, the overall trend is on a decreasing side. Of course, not significantly, but certainly we are looking at certain key raw materials at a lower level. Of course, the impact of the same will reflect going-forward in next couple of quarters.

Aditi Panandikar: But yes, product mix does matter. Because you know, as of now, with steriles being really down and whatever business for US has come, it's come from solid orals. So naturally that impact would be seen in the GCs, A. B, also like we have explained in earlier calls, the company is in a transformational phase. In the past, quite a substantial portion of our revenues for end markets used to come from milestones as well as royalties or profit share, etcetera, but less of profit share and more of milestone. Now that Indoco has a front-end in US of our own and we are therefore keeping IP for ourselves, there is minuscule amount that is coming from that.

So rather than the GCs have gone down, the entire sort of portfolio mix or product mix of the business has changed. So in order to keep margins for us in the future, we are kind of foregoing milestones currently. Does that answer your question?

Sudarshan: Yes, ma'am. And going-forward, what should be the trajectory that we should expect in the near-term as well as say in FY '26 or so?

Aditi Panandikar: See, I think you can appreciate the last two quarters, at least Q1 was alright. We saw some impact of these supply constraints. Q2 has taken a maximum impact. Q3, why we remain optimistic, I have to say there would be certain constraints. So at this stage, I would want to wait for another quarter before I give guidance for the future.

Sudarshan: Sure ma'am. One final question before I join the queue. If I look at the data on the brands that you had given in the press and also the AIOCD data, the growth that we are seeing, it looks like our brands are doing fairly well in the secondary market, but the primary sales is a little lesser. I mean, one is what would be the reason and should we see a catch-up playing going-forward? I

mean, should the secondary start reflecting as the primary data in terms of better growth as we start moving towards the third and fourth quarter?

Aditi Panandikar: Okay. I think when you say secondaries are good, you are looking at IQVIA and Pharmarack data and primarily we are looking at internal. Is that it?

Sudarshan: Yes.

Aditi Panandikar: So I think when you look at the internal data of IRL standalone, you have to factor in the aspect that two large toothpastes are now with the 100% subsidiary Warren Remedies. So the base sale of these two toothpaste continues to be there in last year's sales, which is why if you look at growth on primary, it would appear that we have not grown. Does that answer your question?

Sudarshan: That answers mine. Thanks a lot, ma'am. I'll join back the queue.

Moderator: Thank you so much. We have next question from the line of Ankit Minocha from Adezi Ventures. Please go ahead, sir.

Ankit Minocha: So this is regarding a notification that was put out. There was another visit by the FDA on Goa 2 facility and there was an OAI indication. This was also the status in the past. So what exactly happened here and when do the plants get back to the other remediation that getting over and the plants getting back to running.

Aditi Panandikar: Yes. So in 2023, we were audited by USFDA. And after that audit, the plant was classified as OAI. While there were not any issues directly related to data integrity, cleaning validations or any such procedures, a sterile unit FDA had cautioned because they felt that the plant was old and certain areas need remodelling so that more space is created. Also, some of our lines were very old and FDA expected us to move from Glove Ports to the future isolator baselines, etcetera. And therefore, we were classified as OAI.

After that, we have submitted outlined plan to USFDA of how and when we propose to make these changes and complete the job. And accordingly, routine updates have been going to USFDA. As for this plan, much of the workforce to be completed by the end of 2024 and now to was surprised USFDA once again came in July 2024. While the lines were actually opened up and are not ready for any kind of audit, etcetera. And from the object, there were seven observations, and we have responded to those observations.

And again, we have got the same. So basically, the way we look at it is once all the remediations online is over. USFDA is likely to come back for an audit before it can change the classification of the site. Does that explain your question?

Ankeet Pandya: Yes. It mostly does, so just -- in that case I believe the earlier con-calls you are expecting this remediation to get done by maybe Q3. So, does that then now put a delay on the entire process and by when do we expect the facility to...

Aditi Panandikar: We still expect the remediation to get over by quarter three, whether FDA coming down is going to -- or not coming down is going to hamper commercial from this site is something that we have to wait simply because we have continued the OAI status.

But our technical teams are in continuous dialogue with USFDA to try and understand their concerns and understand how we have to move forward now. Because I don't know if there were some -- the FDA walked on they misunderstood and felt that we would be ready in November '23 and not November '24, which was really odd because all our a communication said November '24 or later.

Ankeet Pandya: Okay. All right. My second question is any comment on I mean if I look at operating margin on a consolidated level, I mean, I look at the times in 2015 to even 2018-19 where these margins were over around much higher levels and currently the quarter from the consol level, the OPM is 9%. So, I just wanted to understand from your top view of the business, where do you see this number kind of the OPM on a consolidated level, where do you see this number go for this year or as well as next year, if you can out grind some sort of trajectory considering all the challenges of the business?

Aditi Panandikar: Right. So, like I said to one of the earlier questions. At this stage, we are not very -- we don't feel is a right time to make give guidance. But I can help you understand why the, consolidated picture is the way it is. So, for consolidation, we have two subsidiaries for which sales are consolidated to the company, which matter more. One is Warren Remedies, which is taking two of our toothpaste OTC, and also manufactures a few intermediate APIs for us, for Indoco.

The second is the subsidiary FPP, which is Florida Pharma, which is our vehicle for launching product in US. So, Florida Pharma, if actually quarter-on-quarter has made great progress since its acquisition only more than just about a year, more than a year ago, year and a half ago.

And we feel very confident in the next six months, especially after the supplies to US start smoothly, we expect the drain happening through FPP on the corporate to come down. Coming to Warren, where the two toothpaste are in the market, this is a phase whereas part of the whole OTC, product launch awareness, digital marketing, television marketing, certain expenses especially on the promotion side are a little bit higher, but that is something which cannot be delayed.

As a consequence of that, Warren Remedies is also on the negative and the consolidated picture appears like this more because the parent Indoco revenues are very short in comparison to the running cost for the organization. As explained earlier because our international business has not been able to, we have not been able to supply and collect revenues against international business. Okay.

Moderator: Thank you. We have the next question from the line of Abhishek from Padmaja Investment. Please go ahead.

Abhishek: So, my question, has been partially answered. On the European part, you are done with this master manufacturing plan process? And can we expect the ramp-up from Q4? That's my question one.

Aditi Panandikar: Yes, we can.

Abhishek: Okay. So the European part is done, the emerging market part is done. US is current -- and were there any repeat observations? So currently we received like seven observations and…

Aditi Panandikar: No, no, none were repeat.

Abhishek: Okay. And like will this take like another one year to again get again this classification changed.

Aditi Panandikar: No. I don't think it should take one year. Had they not come in July, I feel in the -- by the -- by Q1 of '25, they would have -- would have been the latest when they would have come down. Now that they've just come in July, we will stay optimistic to bring them down. And also, we are in talks with them to understand and I don't think current supply is out of that site. So once the site comes up and gets remediated totally and fully ready, I don't see why we have to wait for FDA audits to start supply.

Abhishek: But we won't be getting new approvals?

Aditi Panandikar: Yes. But that is not -- yes, we have enough approvals and actually our order book both for US and Europe is very healthy. So that is not very disturbing and neither are we missing out on any big deadlines for any para forth. So that is not a big concern right now. Right now, for me, the urgency with which we can finish the projects and there are four lines. So, one-line is up actually just now as we speak.

And every 15 days, a line will come up. So, the question is whether FDA will want for all four lines to be going before they agree to come down. Can we – we are asking for a call with them since they have recently commenced in our site. You would like to understand if they have any other concerns, all that is going on and I'm hoping in the next call, when I speak with you, I can give you a much better guidance.

Abhishek: So Q3 also, there will be improvement sequentially compared to Q2 because Europe is done?

Aditi Panandikar: Not -- yes. So, US business is not all about sterile for us. We do have a solid oral plant, which is plant one and there is a small amount of business we have currently of solids that also work is going on to ramp it up. So, there will be improvement surely. But as you rightly said, Q4 would be probably a better time for us to see upside coming from smooth functioning of plant.

Abhishek: So on the Europe part, it is completely done now and in Q3 also, it's on full ramp-up?

Aditi Panandikar: Europe is almost done, yes.

Abhishek: But yes, revenues haven't started like optimally what…

Aditi Panandikar: They were impacted, rather.

Moderator: We have next question from the line of Anik Mitra from Finnomics.

Anik Mitra: My name is Anik Mitra. Ma'am, my first question, I have couple of questions. The first one is, related to the OPC, like what is the advert of it or the promotional expenses have been added to the other expenses. As OTC products, these are all for the OTC products, right? So going-forward, like this OTC products we will keep on adding and so this -- will these expenses, this promotional expenses be there going-forward?

Aditi Panandikar: So typically, if you are aware there are various categories of products, so you are frank ethical, then you have BTC as it's called behind the counter, then you have OTX and then you have frank OTC. So depending on where your product is positioned, the amount of expenditure that is required is different. Not all the products we intend to take beyond ethical will always go frank OTC.

These two toothpastes had to go frank OTC because the largest competitor we have, which is Sensodyne has almost close to 70% of its revenues coming from channel outside ethical, that is chemist, meaning they sell at grocers, they sell with modern trade and they sell even with the panwala. So we have to go there and since this kind of a supply-chain expansion, a shift in the structure of how goods are distributed in order to keep your new SDs.

And new purchase partners and the GTs, that is the grocer's sort of positive on the product because they don't know this product, right? The chemists know the product because it's been prescribed for doggone years. So for this channel partners also to get confidence, the company has planned strategically the kind of inputs that we would require specifically advertising on television and digital spend on YouTube, Facebook, etcetera. And we have been doing that.

Coming to your question, future products as they come -- as they go OTC, will this spend remain? No, it doesn't mean that with every product, this kind of a spend is there. Also, sometimes for the first time when a company goes OTC, such a spend is required and that's what we are doing.

Anik Mitra: So maybe a small component may be there. A small component may be there.

Aditi Panandikar: You know, if I were you, I would concentrate on growth in sales because we have one OTC because the whole thing about doing OTC is getting a much larger market from which to get share. And while this expenditure initially is like an investment and we should be prepared for that. Yes.

Anik Mitra: And my next question is, what kind of revenue addition can you expect from this OTC product in FY '26?

Aditi Panandikar: So the two -- right now only two toothpastes are there with some various SKUs as in pack sizes, but largely we are just two. And these two are for the current year, we expect them to do in excess of INR120 crores, which would still be a decent growth over there, you know, I think if I'm not mistaken, when they were in ethical, it was around INR85 crores or INR90 crores. So this is the first year.

But as the awareness with consumer, the reach to consumer, the -- we incidentally now subscribe to Nielsen data also, where we measure what is called weighted or a numerical distribution --

where we are consistently seeing a 15 -- month-on-month 15% increase in the counters at which the product is being carried. These are all kind of foundation activities to prepare for a much larger sale as we go ahead.

So I'm very confident and I feel surely and certainly that in the second year, we can definitely expect 25% to 30% growth from these two products itself.

Anik Mitra: Ma'am, do you position your products in this toothpaste with the normal toothpaste or do you place -- like consider it as only the peer of Sensodyne?

Aditi Panandikar: No, not necessarily only, Sensodyne, but sensitivity market. And as per Nielsen, in the sensitivity market, we are number two to Sensodyne.

Moderator: We have next question from the line of Mr. Sudarshan from JM Financial.

Sudarshan: I would like to understand a little bit more on the debt side. If I look at the long-term debt, we have seen some kind of an increase and also the short-term debt we have seen kind of an increase. Historically, we never had an issue in terms of interest cost, but given the negative operating leverage, if we look at the interest today in the first half. It is slightly higher than what one would have expected as compared to what we have ever seen in the past.

In the context of one, if you can throw…

Aditi Panandikar: Hello. I think his line got cut.

Moderator: Sorry to interrupt ma'am. The line from his side got disconnected.

Aditi Panandikar: Shall we wait for him to join back?

Moderator: We can proceed with next question.

Aditi Panandikar: Others, okay.

Moderator: Taking the next question from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: So I have one question on the US business. We acquired [inaudible 40:00] in US and moved the business model from kind of licensing out our brand to front end developing our own front end. So can you talk a bit about how long this transition is going to take and whether all the existing brands and the registered products will also get transferred here? And if so, what is the timeline, if you can talk a bit about that?

Aditi Panandikar: Yes. Thank you for the question. So no in answer to your question, not all products which were licensed out are being brought in, but further products are not getting licensed out. So the milestones, therefore, are not coming in. We have some excellent relationships with front end -- other front end partners in US with whom we are quite happy, especially in the solid oral space and those continue. Much of the ophthalmic and sterile opportunities though we would prefer to do through FPP going forward. Many of the products which we had licensed out to Teva, for

example, are now back with us as part of the arrangement and those are also being relaunched through FPP. Does that answer your question?

Dhwanil Desai: Yes. So approximately what percentage of your portfolio now is back to you and now going through front end, existing one?

Aditi Panandikar: See, volume and value are two different things because you will get volume in solid orals and value in ophthalmic. So roughly I would say around 60-40 with 60% going with FPP and 40% still through others.

Dhwanil Desai: Okay. And that 40% is now currently everything is now through FPP?

Aditi Panandikar: No. 60% would be through FPP, 40% is currently with other partners.

Dhwanil Desai: So 60% is already done by our own front end, currently?

Aditi Panandikar: Yes, plan to be done, once the supply chain does.

Dhwanil Desai: It's not yet been done.

Aditi Panandikar: No.

Dhwanil Desai: Got it. Thank you ma'am. That's it from my side.

Moderator: Thank you. We have next question from Ankur Agarwal from R.C. Business House Private Limited. Please go ahead.

Ankur Agarwal: Good evening, ma'am. The capacities which we have and the product line which we have, if we remove the temporary pains then in the coming 3 years, 4 years what growth management predict under the company in operating profits and toplines?

Aditi Panandikar: Thank you for the question. You have asked the correct question. The kind of things that I said earlier literally we are looking at incrementally getting 50% more from each of our sites -- each of the factories. So from every factory 50% more output can come from solid orals. Not only that every batch capacity has been increased. So testing costs associated to it -- with it, process times required to manufacture each batch is being reduced.

And I would not like to unnecessarily commit, but I'm actually hoping that as the numbers come out, you will see the beauty of what this kind of restructuring does, but if you understand our business India business is branded and emerging market business is also branded. US business is generic before it was generic support now it is a front end then in the coming time it will be ours.

Europe business is 90% contracting manufacturing in today's date and in these kind of business if you see in UK the Paracetamol which has been sold of that 50% market is with us. So such a big market we have capture then when this efficiency increases directly through company medium the benefits comes from this and we are waiting for these kind of beautiful things to come out and show by way of profitability.

Ankur Agarwal: Then also internal targets in 3 to 4 years where did it reached?

Aditi Panandikar: We are expecting from an EBITDA perspective at least great increment to happen. But because of what we are going through right now. You all can understand that I would prefer to wait for one more quarter before I give you these numbers.

Ankur Agrawal: Okay. And in US Biosecure Act which has been passed or will pass will we get a benefit from that?

Aditi Panandikar: Biosecure Act CDMO business which is there and India might get the plenty and direct impact from a manufacturing side bio generic and bio pharmaceuticals in today situation then we can't get the direct manufacturing advantage, but associated with the research is there like contract research to do parts of the work, analytical research, analytical services division is there and related to that bio studies the business which CRO will get that advantages we can get.

Ankur Agarwal: Normalized business we can understand that after April 2025 all things can come in line?

Aditi Panandikar: Yes. Thank you very much.

Ankur Agarwal: Okay. Thank you, ma'am.

Moderator: Thank you. We have next question from Sudarshan from JM Financial. Please go ahead.

Sudarshan: Sorry, I got locked off. Ma'am, I would like to understand on the debt side. If I look at from March to September both on the long-term as well as the short-term, there has been an INR80 crores addition each more or less like INR140 crores to INR150 crores addition. I understand that there is some capex that we are undergoing additionally to the working capital. I mean, if I look at it on the context of the operations, we never had an issue on debt hit us though but given the fact that our margins are contracting because of various reasons, it tends to impact the profits. Can you give some color on how do we see the debt evening out say in the next couple of years or so? And second is on the PAT, given that the first half is a loss, it's more of a bookkeeping question. Should we take lower tax rate taking the benefit of the losses that we have made in the first half?

Aditi Panandikar: So let me answer first on the business and then I will let Pramod take on some of your sticky issues on the borrowings. So you said, I think there is something you said which I feel needs correction. You said margins are contracting which is actually not true. Margins are not contracting. The efficiency we are bringing in is to increase the margin and also to prepare for the kind of business we are expecting both from Europe and US going forward, the enhancement in capacity is being done.

So it is correct from your side to wonder why so much capex is being -- company is incurring capex whereas on one side historically also you must have seen that utilization was less. There is a very funny aspect of capacity, how you calculate capacity is also very important. What has happened in the generic space, especially in your US and, of course, UK for gone years is that in order to ride over the kind of price drops, etc each manufacturing unit has been trying to do a

multiple or various kind of product mix. This kind of a mix when it comes to operations poses all kinds of challenges, whether it comes to line change, especially sterile with media fills, etc.

And eventually, the unit becomes less agile. So on paper, it would look like 60% capacity is utilized. But finally, when you ask them to make one more batch, they have lost so much of downtime that they are not able to cope. What we are doing right now as part of the master manufacturing correction plan is to bring down all such things. So it might appear to you right now that the company is investing when it may not have required these investments. But trust me that the investments that are being done now are to prepare for a time when the huge volumes will start.

I'll let Pramod now explain to you about the borrowing.

Pramod Ghorpade: Yes. Thanks, Aditi. So Mr. Sudarshan, if you see as compared to March, our long-term borrowing for Indoco, has gone up by about INR54 crores, primarily towards the capex, what we discuss in detail in our call, the master manufacturing plan initiatives and the site to certain upgradation and the new lines. So that is the primary reason for increasing long-term borrowings. Short-term also, it has increased by close to about INR60 crores. So that is all investment into various new initiatives what we have carried on.

Then there is a slight increase in borrowing in Warren, one of our subsidiary, again that is towards the capex related to Warren, new business. API finished goods lines are -- we are just order, and we expect that to get finished within next 6 months of time. So primarily increase in borrowings ask towards creating new capacities, investment for the future.

In one more area, that is particularly on the stability lab. So we have now centralized stability, newly-created at Waluj. So plan is to basically move most of these stability labs spread across various plants to this one central place to bring in efficiency to reduce cost. So all this is for investment for the future, Mr. Sudarshan.

Sudarshan: Yes. So, and what would be the debt-to-EBITDA that we are comfortable? Do we have any number on the mind over the long-term?

Pramod Ghorpade: Not really. So as we discussed, we don't expect much of the capex going forward. It will be like a maintenance capex or so, but most probably we'll be able to absorb through our internal accruals, but maybe incrementally make close to about INR40 crores to INR50 crores may require intermittently, but not beyond this amount. And I missed your one question that is on taxation. So we are already on a lower tax rate, Mr. Sudarshan, Indoco at this point of time.

Sudarshan: Thanks a lot. I'll join back in the queue.

Moderator: Thank you. The next question is from the line of Abhishek from Padmaja Investments. Please go ahead.

Abhishek: Yes. My question is on -- currently we have like close to 25 pending ANDA approvals, right, when it comes to U.S., close to?

Aditi Panandikar: Yes.

Pramod Ghorpade: 20, yes.

Abhishek: Yes. Of this 25, how many will be like sterile and ophthalmic products versus solid orals?

Aditi Panandikar: If I'm not mistaken, close to six are solid orals and the rest are sterile.

Abhishek: Okay. And are there any paraforce and plus two files also in this?

Aditi Panandikar: I think you will appreciate that we have stopped giving this kind of disclosure now.

Abhishek: Okay. Thank you, ma'am. That's all.

Moderator: Thank you. The next question is from Maulik Varia from B&K Securities. Please go ahead.

Maulik Varia: Ma'am just wanted a little clarity to your facility supplying to emerging markets and EU were under renovation under the master manufacturing plan. So I might have missed the point, but when is it expected to be completed or has it been completed by September end?

Aditi Panandikar: So we have two sites supplying to Europe right now and one for emerging. The emerging site is almost done. One of the European sites is done. The second one is almost complete.

Maulik Varia: Okay. And during the Q2, were the sites completely shut for some number of days?

Aditi Panandikar: Not all, one of the Europe site was almost not available and the other two were partially available.

Maulik Varia: Okay. For the entire quarter?

Aditi Panandikar: Yes.

Maulik Varia: Okay, ma'am. Thank you so much.

Moderator: Thank you so much. We will be taking that as our last question. As there are no -- I would now like to hand the conference over to management for closing comments.

Aditi Panandikar: Thank you all for the very interesting questions, which has allowed us to express our position. Thank you very much and have a good day. Thank you.

Moderator: On behalf of Dolat Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.