“Indoco Remedies Limited

Q2 FY '26 Earnings Conference Call”

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MODERATOR: **MR. UMESH LADDHA – NIRMAL BANG INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '26 Earnings of Indoco Remedies Limited. As a reminder, all the participants' 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Umesh Laddha. Thank you, and over to you, sir.

Umesh Laddha: Good afternoon, everyone. I am Umesh Laddha from Nirmal Bang Institutional Equities. It gives me immense pleasure to hold 2Q FY '26 Indoco Remedies Limited Con Call. From the management, we have Ms. Aditi Panandikar, Managing Director; Mr. Sundeep Bambolkar, Joint Managing Director; and Mr. Pramod Ghorpade, CFO.

Now I pass it over to management for their opening remarks.

Pramod Ghorpade: Thank you, Umesh. Good afternoon, everyone. Thank you for all 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 expectations 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 so much.

Now I will request our Managing Director, Ms. Aditi Panandikar, for her opening comments.

Aditi Panandikar: Good afternoon, everyone, and thank you for joining us today. I would like to give a brief summary of business highlights for the quarter 2 FY '26. For our India business, the anti-infective and respiratory segments, which typically do well in this -- in the second quarter, have done very well for the company and brands like ATM, Febrex Plus, Karvol Plus have registered a good growth.

This quarter, we launched 6 new products in the India market. Vepazil 250 and 500, which is a Cefadroxil an anti-infective for upper respiratory tract infections. Tuspel AA, solid oral tablet, again, to be used in COPD kind of conditions. Braceness, a toothpaste in the stomatological ethical segment of Warren, a paste to be used for people using braces and for removing plaque even otherwise.

And 2 other nutrient and vitamin formulations, Multi Fibro and Toco Fibro capsules, both again in the ethical dental segments, where we are going after the submucosal fibro fibrosis segment for dental.

As per IQVIA, the company is ranked 31st in the IPM for September '25 with a market share of 0.56%. As per IQVIA, again, for prescription ranking, we are ranked 20th in IPM as per September '25 data. Coming to the other businesses, U.S. FDA successfully completed an inspection of our API manufacturing facility at Patalganga with 0 observations. Our API

manufacturing plant at Patalganga also received a Certificate of Merit Award from the National Safety Council of Maharashtra Chamber.

For our finished formulations to U.S., Indoco Remedies Limited received the final ANDA approval for the -- from U.S. FDA for Rivaroxaban tablets. Our focus on manufacturing capability enhancement has started yielding results in terms of higher productivity and competitive cost advantages, coupled with our continuous R&D endeavors, both in domestic as well as international front.

As most of you are aware, we've had a very difficult second half last year, largely on account of our inability to supply product because of planned and unplanned shutdown in many of our plants. I'm happy to share that Q2 FY '26 is the first quarter when we begin to show an uptick in performance.

And most importantly, we are finally coming out of the lows of the earlier half year. I'm confident that with an increase in revenues going forward, with the continued control on costs and a focus on efficiency, which we -- all of which are currently being practiced in the company, we will soon go back to the days when we deliver a healthy and consistent financial performance going forward.

Thank you all for joining us. I now hand over the call to Mr. Sundeep to take you through the financial performance of the quarter.

Sundeep Bambolkar: Good afternoon, everyone. Thank you, Aditi. Let me first begin with the financial highlights. Stand-alone net revenues of the company for the second quarter FY '25-'26 are at INR4,293 million compared to INR3,946 million for the same quarter last year and INR3,856 million for the immediately preceding quarter. That is Q1 FY '26 at 8.8% growth and 11.3% growth, respectively.

Consolidated net revenues of the company for the second quarter are at INR4,718 million compared to INR4,307 million for the same quarter last year and INR4,309 million for the immediately preceding quarter, giving 9.6% and 9.5% growth, respectively. Stand-alone EBITDA to net sales for the quarter is 12.4% at INR534 million compared to 13.4% at INR529 million same quarter last year. And for the immediately preceding quarter, it was 3.8% at INR148 million.

Consolidated EBITDA to net sales for the quarter is 9.1% at INR431 million compared to 9.3% at INR403 million and for the immediately preceding quarter, 4.1% at INR175 million. Revenues from domestic formulation business for the quarter are at INR2,261 million compared to INR2,346 million.

Major therapeutic segments like vitamins, anti-diabetics, anti-infectives and respiratory performed well during the quarter as compared to the same quarter last year. On the international formulation business front, revenues from international formulations are at INR1,533 million compared to INR1,262 million. Revenues from reg markets for the quarter are at INR915 million as against INR866 million.

Revenues from U.S. business for the quarter are INR336 million as against INR247 million. From Europe, for the quarter, the revenues stand at INR547 million as against INR599 million. And for South Africa, Australia and New Zealand, they are at INR33 million as against INR20 million.

Revenues from emerging markets for the quarter are at INR618 million against INR396 million, and revenues for the API business for the quarter are INR431 million against INR301 million. Revenues from AnaCipher CRO and Indoco Analytical Solutions are at INR68 million against INR37 million. That is all about the business highlights for the second quarter.

And I now request all of you to put forth your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Nirmam from Unique PMS.

Nirmam: First question on our international business, so the international revenues have gone up, but that was from the emerging markets primarily. So on the Europe side of things, what kind of ramp-up do we expect now given the MMP is completed? And subsequently, what impact can that have on the margins?

Aditi Panandikar: Yes. Thank you for the question and for reading it right. Yes, the MMP is completed now. However, as I said in the earlier call, we have gone -- in Q2, we have been in a phase where although our plants are ready, several of our customers were doing the sort of giving us approval for the tech transfer, etc., and all the formalities that are required to be registered with the requisite authorities to allow us to move products to the sites where they will be taken in larger batch sizes, etc.

Therefore, going forward, I'm very confident from Q3 since we have now got approvals from the largest buyer of product to U.K. and Europe. I'm confident going forward now, we shall soon start seeing the upside coming to Europe business. The upside will be seen in 2 ways.

Yes, revenues will go up because we can now supply more and efficiency on these revenues is also expected to go up. So I expect that at least from here on, we should be able to show a double-digit growth in Europe, U.K. business. And on the margin front, we would like to wait and surprise you.

Nirmam: Okay. And ma'am, secondly, on our other expenses again. So while we were expecting them to go down quarter-on-quarter, but even on a consolidated basis and on a stand-alone basis, they have increased. So what levels do we see these expenses going forward? And what measures are we taking to control?

Aditi Panandikar: Yes. So the recurring kind of other expenses, in fact, are being very well brought under control, such as lab expenses, your spares and all the other plant-related efficiency related, those are coming under control. In other expenses for us, we continue to have the remediation costs, which are related to the USFDA remediation at Plant 2. And these specifically are likely to go on for another 2 quarters.

Also, our sales promotion expenses have gone up requisite to the -- since typically, for the first half of the year, we do not hold anything here. And generally, if we see that the India business is not giving us, for example, the kind of returns that we need, then accordingly, from Q3 onwards, you will see them slowing down.

But we do not -- for the first half, most of the campaigns most of the CMEs, most of the other expenses related to product like samples, etc., that is all on track, and therefore, that has not come down yet. And for international, like I told you, the legal professional, so that is one area where we have expenses. Traveling also because a lot of our international business has -- so some of these -- but largely, it is a remediation cost on U.S. FDA, which is at this stage a little high.

Also at a consolidated level for Warren Remedies, which is our OTC business, we are not slowing down in any way the spend on the advertising and digital advertising, etc. So while in the Q1 this year, we had seen a small dip because the advertising strategy was underway. This is -- so on other expenses, while we feel confident to hold at INR150, INR160 levels on a consolidated basis, that is going to be our attempt, but they are likely to stay a little bit elevated.

Nirmam: Okay. So earlier, we were talking about INR140 crores at a consol level. So now...

Aditi Panandikar: INR140 crores was at standalone.

Nirmam: Okay. On the cash flow, I see sale of fixed assets of INR45 crores in H1. So can you provide more details about this?

Pramod Ghorpade: Yes. On the cash flow front, this INR45 crores is equipment from the Waluj plant, which we have resorted to a sale and leaseback transaction, and that's what you're seeing there.

Nirmam: But that's only INR25 crores as per the exchange disclosure, right?

Pramod Ghorpade: No, no, no. In 2 lots, it was done totalling to very close to INR50 crores.

Nirmam: So this is a sale and leaseback transaction?

Pramod Ghorpade: Yes, yes.

Nirmam: Okay. And lastly, on the U.S. FDA side. So any update from there? And also, what has been the progress on the 2 restarted lines?

Aditi Panandikar: Yes. So I'll come to the lines first. So on the 2 restarted lines, we have finished media fills of most of the volumes and some amount of manufacturing has started, but it is quite minimalistic yet. And on the audit from our side, letters have gone to U.S. FDA reminding that we are ready.

And just this morning, we have got a receipt from U.S. FDA saying that they acknowledge that we are ready. So which is the first positive communication we have got from their side that they acknowledge that we are ready. So we will now look forward to them coming down soon.

Moderator: The next question comes from the line of Madhav from Shastra Capital.

Madhav: I want to touch upon the regulatory supplies from U.S. Since as you know, we got what we hear in the previous calls is that we heard from the FDA for the first 2 lines commencement in the month of June. So we are in the month of October, I think still 3, 4 months since now we are hearing that we are in the starting stage. Is there any reason for taking more time madam.

Aditi Panandikar: So if you look at the sales to U.S. Canada for the quarter FY '26, they are at INR334 crores, and that is an improvement over the INR28 crores last time. But out of the 4 lines in Goa, which are in the sterile plant, only 2 have been allowed to function. And typically, the way U.S. works is you are not allowed to take any product from Line 1 and 2 and transfer it to these lines.

So only the product mix, which was running on these 2 lines, one of which is injectable, and the other is ophthalmic, we are allowed to make. And much of the time, as I told you, has gone into media fill, getting the partner sort of up and about and allowing us to supply. Our largest line was Line 1, which is still not approved. So it is a bit slow, I agree, but we expect after the audit to be able to supply from the old plant. Does that answer your question?

Madhav: Yes. That answers my question. And one more thing. So what would be the revenues? So let us say, it will take another 1 or 2 quarters for the remaining 2 lines to get approved from the FDA. From the first 2 lines, so can we expect at least some INR30 crores, INR40 crores revenue coming out of this financial year?

Aditi Panandikar: Incremental, you mean?

Madhav: Yes, from now onwards, incremental, you're right. You're right.

Aditi Panandikar: Yes. So it is a bit dicing to say from now onwards because we will have an audit. And after that, we will have a report. And sadly, that is going to go away into now, even if it happens by December, it will go into the next quarter, quarter 4. So in a clean quarter after U.S. FDA audit with everything going fine, we can definitely expect INR30 crores incremental. Till then, we hope we will be able to sell more of our solid orals so that we can get some more revenues for U.S.

Madhav: That answers my question. And one more thing on the same note. Are we working on any additional lines other than any new lines other than the 4 what got approved?

Aditi Panandikar: So what we are doing at this stage is we are trying to derisk from our side by getting our larger products approved and approved in other facilities outside of our own from other CMOs. We feel that is a better strategy at this stage than us further investing on U.S.

Madhav: Because in the annual report, when I was going to this year, so there was a INR200 crores capex on Generation 2. That is the reason I'm asking you this question.

Aditi Panandikar: Yes, it was planned, and we have made initiation. But looking at how slow U.S. FDA is to coming and with all this that is going on, either that capex, which is planned, we are looking to sort of offset it by rather than depending on CMOs rather than investing it upfront.

Madhav: Okay. So you have 2 choices whether to do it in-house or we do it outside. So decision is not yet taken?

Aditi Panandikar: Correct.

Madhav: Yes. And the same on the -- in the annual report, which was also given there. So there are 2 -- 3 new diabetic products are given for the in-licensing from the U.S. Market to be commercialized in the financial year. So can you kindly throw some light on that?

Aditi Panandikar: Diabetic product, can you repeat? I'm sorry.

Madhav: Yes. So it was given in the annual report that 3 new diabetic products are given for in-licensing for commercial agency for the U.S. market. That was given in the annual report.

Aditi Panandikar: For U.S. market from Baddi, I just look at it. I'll have somebody open the page. And if you can come back in queue, I will try to reply exactly to what you're asking.

Madhav: Yes. So then meanwhile, I think you can -- I have a few more claries if I'm allowed to do that. So shall I continue, madam?

Aditi Panandikar: Yes. Yes, of course.

Madhav: On the Clarity Pharma, we have signed an agreement with them for the 15 products. So can you throw some light on the 15 products, what is the status of these? How many got actually signed with the U.K.? And what is this kind of agreement with them? So can we allow to do the same molecule for other partners as well or exclusively for them? So what is expected visibility of the business? So some information is required?

Pramod Ghorpade: We have just started with Clarity. Actually, we have launched the products under Indoco U.K and Clarity is our distributor. So about 4 to 5 products have just been introduced in the market. Still we have a long way to go.

Madhav: So 6 months, can we take 2 quarters, we can take to get some kind of revenues coming into it?

Pramod Ghorpade: Yes. By March, we'll be able to give you some update.

Madhav: Yes. And out of this Clarity Pharma, how many of the products are from oral and stoma from the sterile?

Aditi Panandikar: No, they are all oral. We don't have any sterile with Clarity. Sterile business is largely only for U.S.

Madhav: Okay. Okay. Understood. And on the -- so what I was given in the annual report also. So 3 products are being launched for the Europe market in September 2025. So 3 are from the U.S. Clarity Pharma, is there an additional product?

Aditi Panandikar: Can you repeat. Your voice is a little bit -- I'm not getting. The last part, can you just repeat your question?

Madhav: Yes. So in the annual report, it is also given that for the Europe, 3 products are launched in the month of September 2025 for U.K. market. Am I audible, madam?

Aditi Panandikar: Yes. I'm just trying to look into annual report exactly to what has been said, so we can respond accordingly. So FPP has licensed in. So I'll just explain to you about your first question on U.S. and the diabetic portfolio. So FPP, the company we acquired in 2023, used to be in the business of trading. So they had licensed in -- so we have licensed in a couple of products from some people to continue that business. So this is a business where a third party makes the product and FPP is a trading partner to sell in U.S. okay?

Pramod Ghorpade: These products have been now -- will now be logged in with the U.S. FDA, and we'll take at least 2 years to get them approved.

Aditi Panandikar: So that is about that. And let me check about your Europe thing and come back to you, okay?

Moderator: The next question comes from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Ma'am, I wanted to understand what would be the margin profile of our domestic formulation business?

Aditi Panandikar: So the domestic formulation business is one of the better margin business for the company naturally because we are creating brands. As such, we do not give out segmental profitability. But it is a good business. It is a rock-solid business for the company, and that's it.

Madhur Rathi: Is it higher than 20% on an EBITDA level or even higher than 20%, 25%...

Aditi Panandikar: Yes, I think your numbers are quite ballpark.

Madhur Rathi: Okay. And at what rate do we see this business growing either by new product additions or just taking market share from different players over the next 2 to 3 years?

Aditi Panandikar: So even now, if you have checked then on a consolidated basis, we have grown by 11% in India, which is way above the IPM and the covered market growth of around 8% -- 7%, 8%. This is despite we have a heavy seasonal portfolio.

And Cyclopam, one of our main brands, although on a MAT basis, it is growing at 12%. The prescriptions are growing by 12% and the product is also growing. This year because the rains have come early and they refuse to go away. I mean probably this is the longest monsoon we've had in the last decade. So it is doing a bit of a flip flop for some of our acute products.

So Cyclopam, which is typically anti-spasmodic, which gets -- which sells a lot when there is food-related diarrhea, which happens when there are hot moist summers, which did not happen this year as well as Cital, which is like a urinary alkalizer, which also sells very well when the heat is excessive and there is no moisture.

Both these products stay impacted. So despite headwinds for Cyclopam and Cital because of very good performance by Oxipod, which is an antibiotic, Fabrex Plus, which is anti-cold, Karvol Plus, which is also anticold and some of our ATM, which is an antibiotic, the company

has managed to show a decent performance. I'm confident that we will be able to show a higher single-digit growth in India business in the quarters to come as well.

Madhur Rathi: Got it. And ma'am, can you please mention about the new product addition strategy? Or how are we making our portfolio more resilient towards these cyclical ups and downs?

Aditi Panandikar: Yes. So yes, we have launched 2 antibiotics this quarter also. But if you look at overall our new launches, then we have products across almost all segments because we have 5 or 6 divisions and each division takes new launches. So we have new launches in urology. We have done an extension of the Cital portfolio to make it a little unseasonal. So Cital primary brand is highly dependent on heat and summer season.

But Cital UTI, which is for urinary tract infection. And the new launch, Cital PM6 solution in urology. It is a potassium salt of the same sodium citrate. So it is unseasonal. Dropizin cough syrup in Spade, which we launched, it is again, for cough and for -- when there was a prolonged COVID. So it is not necessarily related to the season.

Another GI product we have launched is Drotitec, which is another anti-spasmodic. This is to expand our antis-spasmodic portfolio. We have launched a new Macuchek in ophthalmology, which is a multivitamin product in -- for ophthalm for degenerative -- age-related degenerative ophthalmic illness.

We have another product in stomatological, which we have launched is Rinseoff mouthwash and gargle. This is a very good product and has done quite well after launch also because given the kind of respiratory ailments we are seeing now post COVID, where there is a whole lot of throat pain and dry cough and mucus and people are looking at beyond antibiotics and beyond cough syrups for treatment.

In addition to that, we have done a brand extension of our old brand, Weppl by launching Weppl CV, which is with clavulanic acid cefpodoxime. And another product, Vopanza, which we have launched is voriconazole, which is your -- PPI, sorry. And then we have Tuspel AA, which I talked of and multiple. So we are doing launches across a variety of segments. Most of these fall in the subchronic kind of product therapy area.

Moderator: The next question comes from the line of Sajal Kapoor from Antifragile Thinking.

Sajal Kapoor: FPP Holding and warrant remedies have a negative net worth of INR35 crores and INR51 crores, respectively. And put together, both have reported a combined loss of INR23 crores in this quarter. Now management opines that the recoverable amounts of investments in these loss-making subsidiaries exceed their carrying values.

And therefore, we are not taking any impairment hit. What are the key assumptions in cash flow forecast and business plans underpinning this assessment that there is no need to take any impairment hit?

Aditi Panandikar: Yes. I'll let my CFO answer that technically to you.

Pramod Ghorpade: So Mr. Sajal, thanks for this question. So this gives us an opportunity to explain you about these 2 subsidiaries. One is about the FPP. So a couple of years back, we got this subsidiary in U.S. Advantages they have licenses to operate in all states in U.S. And we started shipping certain goods.

So now with our sterile plant under regulatory constraint, we could not supply as many products as we wanted to. So our plan is to now -- once we resume production and once we are out of this regulatory challenges, we will supply those, and they will act as a front end for us where that is a bigger plan for APP.

And we are very confident that we should turn around this very quickly. If you see the overall expenses for the FPP, those are really controlled very well. We have only 6 people operating there in U.S. We don't have much overheads as such, except rent and salaries for the 6 people.

The second subsidiary, which you talked about WRPL, the Warren remedies. In Warren remedies, there are 2 part of business. One is the OTC business, which launched last year. And second one is API intermediates and API finished goods.

So out of these 2, OTC, we launched, we have a manufacturing setup under this particular entity, which started -- which is commissioned and started delivery. In all right from commissioning, we could manufacture close to about 92 lakhs tubes till date from that particular plant, which is a highly automated plant, which is supporting for our OTC venture. That is one.

Second phase, which is about API, where intermediate plant has started and it started supplying to our Patalganga plant. But the API finished goods will be closed very soon. And if you see the API uptick, the current growth in our API, which is almost about 40%, you can see quarter-on-quarter as well as even Y-on-Y basis, some portion is contributed by this particular subsidiary called Warren.

Once we finish this API manufacturing facility and go for approval, then we'll start the product, which will give us a margin -- better margin from this particular plant. So we have very specific assumptions, which is very specific strategic plan for this particular entity. And we are very confident that we'll very soon come into positive margins from this particular entity.

Sajal Kapoor: Sure, sure. And while we are on this balance sheet and if I can just quickly check what the thought process is currently on the rising debt profile on the balance sheet? Because if I look at our business over the last 10 years, roughly speaking, our -- over the last 10 years, our sales have barely doubled.

But our interest payment has gone up tenfold. So we used to be running at INR10 crores, INR11 crores of annual interest cost. Today, we are approaching INR100 crores run rate quarterly '24, 25, right? I mean this is clearly not sustainable. So what is -- I mean, operating cash flow yes, we got to do innovation. We got to do R&D. We got to do plant upgradation, remediation challenges.

So -- and I mean, our operating cash flows are limited, right? So what is the view on the balance sheet debt levels? And how soon can we get to a more manageable level, which to me is

something like on a sustainable operating cash flow, we should not be carrying more than 2x net debt?

Pramod Ghorpade: Yes. So Mr. Sajal, so if you remember our past calls, so last about 2 years, we have invested heavily on -- particularly on the master manufacturing plant, that is one. And secondly, on remediation for Goa II. In addition to this, major capex is invested in this Warren subsidiary, where we have now 2 separate units. Which are commissioned in Waluj, Sambhajinagar in Maharashtra. So these are major capex which we carried during last 2 years.

Now there is no any further specific capex, which is required for at least next few years because we have now a good amount of capacity which is available to utilize. We have done a lot of projects on increasing the efficiency in particularly in Baddi I, Baddi II and Goa I, our plant. So that should give us a decent margins. That will increase our overall capex -- overall cash flow.

Secondly, we have reduced our R&D spend. So we have been very clear in terms of controlling the R&D spend as such because we have multiple products which are either approved or in process of approval, which should give us a good amount of overall product portfolio going forward for next 2 to 3 years. So we expect to reduce a little bit of R&D spend. No capex as such, except running capex.

And as regards to expansion in our margin, that will increase our overall cash inflow. We can see that in quarter 2 also. Quarter 2, we have generated cash from operating activities that is almost equal to what we generated during last 1 year. So you can see that, and we anticipate to make -- start repaying.

This year itself, we repaid certain loan in first half. And our commitment to repay in the next half, that is the second half of this particular year is close to about INR52 crores. And a year after that, close to about INR140 crores. So we are definitely confident in terms of generating that much cash flow, including supporting for the finance. So Madam...

Aditi Panandikar: Yes. I just wanted to add something. So for this decade of investment, I agree with you. We also have moved models for our regulated markets and moved from being a pure contract manufacturer to sort of front ending in both the geographies, whether it is U.K. or Europe and in fact, even in Germany with our own MAs, etc.

This has been a transition because we did realize that with the kind of infrastructure investment required to succeed in these markets. If we remain only a sort of benign player with having no say in exactly when our products would get launched with an inability to, therefore, convert opportunities into gains, we really suffered because otherwise, we had a great ophthal portfolio, which should have today been of a very different size.

So that has meant that our milestone collections from the likes of Teva are very minimal now, almost nothing. And instead, we have paid them back whatever we had collected to own all these assets. It simply means that going forward, much of the investments that were to be done towards U.S. as a business, towards Europe as a business are done and over with.

And from here on, we have to only manufacture and convert it to sales and get the opportunity. We are instead investing towards the OTC business, which we see has a great promise in India. And it is required for how the market conditions for the Indian business are ripe for this kind of change in -- not exactly change, but a kind of a lateral increment for where we are.

So beyond doing pure ethical, we are also going to OTC. So you will see the organization shape a little differently going forward. And I give you confidence that the kind of capex we have done or the kind of R&D budgets you have seen historically when we work with large players, those are not going to happen in the years and to come.

But our pipeline is not going to dry because we have, over the last 5 years, invested in products, which will be commercialized from '28 onwards. So we have enough product to support us for growth. I hope that answers your question.

Sajal Kapoor: Yes, it helps, Aditi ma'am. And strategy-wise, I think it makes sense to own our future, own our IP in our hands and then commercialize them, taking the majority or all of the gains, but we have taken certain risk, i.e., piling the debt on the balance sheet. Now our aspiration at one point in time a couple of years back was to get to this target of INR5,000 crores of top line, give or take.

How realistically -- yes, and what is your kind of -- given what has happened and the remediation of Goa Plant II, Line 1 and so on, what is your realistic expectation over the next 3 years? Let's not talk about next year because we'll still be probably in a ramp-up mode after the U.S. FDA approval, hopefully, fingers crossed. What is your 3-year target from here? So fiscal '27, '28 and '29 ballpark?

Aditi Panandikar: So yes, thank you for that question, and thank you for understanding the hell we have gone through. So the loss of opportunity has really hurt us tremendously. And we realized that, as you correctly said, we must own the chain through and through.

So yes, because of all that we've gone through in the last couple of years, the INR5,000 crore in 2027, which was our immediate agenda, looks a little bit distant at this stage. I feel that we will have to take a delay of probably 18 months to realize that beyond 2027. That is only for the top line, though. The margin improvement, you will see substantial.

I'll give you a little flavor of what's going on. Like I said, for Europe, which is our largest volume business outside of India, because of the MMP investments, we will see much better EBITDA returns in the quarters to come. In emerging markets where we are focusing with on-ground people and where we participate only with the branded business and where we are now giving more focus, you will see much better growth. And these markets give EBITDA close to India business kind of.

In India, where we are not growing or increasing the number of people on the ground, rather focusing on getting more from the metros where sales are coming more incrementally and doing much better with our new launches. I expect the Indian business to give us better return. The only one business where I will have to support for the next 3 or 4 years with expenditure for creating brands will be the OTC.

So I feel confident that going forward -- you asked me a picture of 3 years. Today, last year, we did INR1,500 roughly crores with a degrowth. From here in 3 years, I feel confident to be in the region of around INR3,500 crores.

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

Dhwanil Desai: Ma'am, my first question is on the U.S. side, and I think 2, 3 subparts to that. So one, for the U.S. business, you talked about filing from alternate sources from the CMO model. So one, let's say, even if we are not able to clear the FDA inspection, there are some challenges on that side, do we have existing product already filed from CMO so that we can start supply to U.S. market for the existing products? And on the front-end side, is FPP ready to kind of do the marketing part as and when the CMO alternate site gets approval?

Aditi Panandikar: Yes. So I'll answer the second part first. For FPP, it really doesn't matter where we give the product from. They are a sales and distribution company kind of, although they are our front end. And they take orders for the product, not irrespective of where it is made. It has to be against our ANDA, of course. So coming back to, yes, I mean, it should not happen, but supposing we have challenges with the FDA, both in terms of the time of the audit or the outcome.

Yes, the products that are currently approved and in the market, we have been proactively working on this now for an entire year. So some products we will be immediately able to put into the market.

Others which are under approval from U.S. FDA, however, or where we are making changes because the new sites have kind of an equipment or which is different, which requires a change in process, we may have to wait a little bit for the regulator to approve it. So it will be a mixed bag, but we will definitely -- even then we will be doing better than we did in H2 when we were at absolute lows because our solid oral supplies are going very well.

Glimipiride, an antidiabetic, which we are supplying to U.S. is doing very well. We are vertically integrated on this product. Another product, Allopurinol, which we are vertically integrated on is also doing decently all right in U.S. And I feel that the solid oral portfolio will continue to give us a good top line from U.S. and growth because in the second half of last year, our U.S. supplies of solid oral had also got impacted.

So from a growth perspective, we will do well. From an opportunity perspective on ophthalmics, if the U.S. FDA does not clear us sight, yes, we will not be able to deliver like we expected, but it will not come to an absolute 0.

Dhwanil Desai: Okay. Got it. Second question on Europe. So I think you talked about double-digit growth from the current run rate of INR55-odd crores on this quarter. But going back a couple of years back, we were kind of INR300 crore plus on the Europe side of it. So on a run rate basis, by Q4, should we be able to reach that number? What are your thoughts on kind of reaching that milestone of INR300 crores on the Europe side?

Aditi Panandikar: Yes. Actually, by next year itself, we should be able to do it. This year, in the first half, we have done INR55 crores from Europe...

Pramod Ghorpade: INR118 crores.

Aditi Panandikar: INR118 crores, sorry. This is Q2. I'm sorry. Yes. First half, we've done INR118 crores already. So we are in that run rate of INR230 crores, INR250 crores already. And this is simply because first quarter this year, we -- our manufacturing challenges continue. So it will be a full year with 1 quarter not giving optimal. So next year itself, I think we should be able to do your -- the number that you have talked of, 100%, if not more.

Dhwanil Desai: Okay. Second question on the consol numbers. I think at subsidiary level, there is significant increase in loss on a sequential basis. So I assume that will be largely from the OTC side, right, because FPP operations are almost stagnant…

Aditi Panandikar: Yes, yes. I think Pramod explained it earlier, what you heard. So it is largely from the OTC business because we have restarted our promotions.

Dhwanil Desai: Okay. So how should we look at this number? Is this the run rate now going forward, at least for this H2? And I think we talked about a couple of years before we break even on the OTC side. So...

Aditi Panandikar: On FPP, I'm far more confident we'll be able to recover losses more quickly. And in a couple of quarters, FPP should be able to break even. But WRPL, it is really a function of how fast we can grow the sales in OTC because there will be a period of investment. So we should look at another 2 quarters where these 2 subsidiaries will continue to bleed a bit.

Dhwanil Desai: Okay. By any chance, ma'am, can you give a number of sales number at which we would break even rather than a time line? Is that possible?

Aditi Panandikar: So as Pramod explained earlier, the WRPL of Warren Remedies Private Limited is a consolidation of 2 strategies for the company. One is to manufacture and sell cosmetic toothpaste and other oral products. And the second is to support Indoco Remedies' API strategy. So at this stage, I see that the OTC side of business will break even much faster despite of the investment we do, simply because the API manufacturing, which is currently only making key starting materials, the finished product construction is underway.

That will get completed, after which we will file with U.S. FDA, after which the site will be triggered and then we'll be able to sell finished API from that site. So there will be a lag on the API side for breaking even. But we keep our fingers crossed for the OTC side doing so well in sales that it should help the whole entity breakeven faster.

Dhwanil Desai: Okay. And 2 questions on the number side. So Pramod, sir, the other operating income has gone up significantly. So can you help us understand what that number contains?

Pramod Ghorpade: Yes. So there are 2 components. One is foreign exchange gain, looking at dollar, euro and GDP rate, you can understand there is a good amount of gain. And second is the exports incentives, which we could realize during this time. Since exports are increased as compared to previous couple of quarters, there is a contribution of exports incentive in that particular number.

Dhwanil Desai: Okay. Got it. And on the R&D side, ma'am, you and Pramod sir, both mentioned that going forward, R&D cost probably will kind of come down a bit. So any sense on the number that you can give?

Aditi Panandikar: So we have been hovering at around 5% of our sales. But as the sales pick up, I think we should -- going forward, we can bring it easily down to 4% in the very first year. And this is not because our focus on R&D is going away. We are just being a little bit more mindful on the kind of efficiency R&D can give us. So we are looking at working more on products where we are vertically integrated on API so that we don't spend too much on the material that goes into taking these batches.

We have been mindful of how many projects we take up parallelly. We have been mindful of how many Para IV like opportunities we don't wish to go into, where we are ready with product way before we can -- for example, I can say that openly now because we just got a tentative approval on the Canagliflozin.

Although it is not part of Q2, it has come after Q2. Pramod or the secretarial department may not like it. But yes, we got it in this month a few days ago. So you can imagine this product was filed 4 years ago. So that means we have carried for 4 years the investment of research on a product like that, which we will be only able to sell in '28. So 6 years of -- so we are not doing stuff like that because U.S. market is becoming very unpredictable.

And I do not know over 6 years, how the scenarios for a generic will change. So we are doing more of Paracreeze, more of volume builders, more of products where we are vertically integrated, more of sterile products where manufacturing and supply continues to remain an advantage. We have just back from CPHI, and we have seen that despite whatever has happened with Plant 2, both our customers as well as the market is hungry for sterile product. So we will stay focused on the kind of research, picking and choosing the research opportunity.

Moderator: The next question comes from the line of Naysar, Credent Asset Management.

Naysar: Ma'am, just on Warren Remedies on the OTC portfolio, can you just maybe share what is the gross margin profile of this portfolio? How much you are spending on A&P?

Aditi Panandikar: So we are not doing that. But I'll tell you very honestly, you know logically that products that have taken OTC have to start with very good GCs. Otherwise, it's impossible to even survive or stand because these products in the initial years, when you take them from X to C, need a whole lot of support with advertising budgets, etc.

So you don't be concerned about that. The products as such are really profitable even at GC level, at EBITDA level, but the kind of support they need initially for the company to register and for us to make that shift from beyond selling at chemists to selling at grocers, selling through modern trade and to reach the consumer, the initial years are going to be a bit draining on the margin.

Naysar: Okay. And ma'am, what would be the -- because since Warren Remedies has 2 businesses, OTC and API intermediates, OTC contribution would be how much in this quarter?

Aditi Panandikar: On topline perspective, OTC would be 98% of the revenue. No, I'm sorry. This year, we did a little better on API because API currently makes KSMs, which get transferred to our Patalganga site. If somebody can upload that. I think around INR4 crores came from API in the Warren Remedies top line this quarter, but let me just quickly check it.

Naysar: And maybe on the OTC side, your portfolio will be restricted to Oral Care or maybe you would look to expand other categories? And if yes, when...

Aditi Panandikar: No. Right now, we are remaining in OTC, frank OTC restricted to Oral Care. I don't think you guys want me to put more money behind advertising. Let me stick to one area and perform. And just to tell you why this was necessary, I said it in earlier calls and you must know it that on the ethical side of sensitivity, the market only expanded in the last 4 years from INR500 crores to INR700 crores.

But on the other side, which is beyond X, there has been an expansion, which is like doubling up of market size. So we had to go after this opportunity. And that is what OTC gives you. It may not give you the same margin profile as ethical, but it will give you a huge opportunity of creating brand, and it is very much required for us to do that. So coming back to this quarter, I think of the INR34 crore revenue, we have almost INR29 crores coming from OTC sales.

For the first half, of the INR71 crores, INR61 crores has come from OTC sales. So it is very much an OTC company, okay? API is only a support system for the parent Indoco because we saw our API division being able to sell high volumes going forward and needed an expansion of the key starting material manufacturing areas. And as such, today, we depend on the Patalganga site. So it will become a second site for regulated API. Yes. Go ahead. You were asking the question.

Naysar: Yes. Overall Warren Remedies, you think that maybe you said next 2 quarters, we will still be loss-making. But FY '27, you think you can break even at PAT level in Warren Remedies?

Aditi Panandikar: Yes. At EBITDA levels, we should, not sure about that.

Naysar: Okay. I thought earlier you said maybe it would be breakeven in '27. So has there been some kind of delay that you now would be? Maybe I thought earlier you said it will breakeven in FY '27, maybe a few quarters ago. So has there been some kind of delay that we are assuming?

Aditi Panandikar: We were talking of EBITDA breaking even earlier and improvement in drain. But yes, I mean, you're asking me questions, so I tell you the numbers. And I'm trying to be safe because I've been told I should not put my foot in the mouth. Let's wait a little bit. '27 is a little far away. Let's clear these 2 quarters, which are going to be challenging. And maybe next year itself, we can surprise you a bit.

Naysar: Okay. And since you have done a very large capex last 2 years and capex requirement is minimum. So for, let's say, next 2, 3 years, what could be the capex roughly, if you can just indicate?

Aditi Panandikar: We would do more of maintenance capex in the region of around INR50 crores to INR70 crores max, INR50 crores because we have several sites. So that is the highest use.

Naysar: So let's say, maybe next 3 years, we can assume about INR150 crores kind of capex?

Aditi Panandikar: Yes, yes, less than that.

Moderator: The next question comes from the line of Madhav from Shastra Capital.

Madhav: So again, on the Europe side, madam, since now our Unit 2 also got approval for the EU GMP. So what is our plan for the Europe market for the sterile products madam?

Aditi Panandikar: So we have an approval from Europe because we had filed some very promising products. But I'll be very honest, the kind of opportunity the sterile products have in U.S. Currently, we are not seeing that too much in Europe. So Europe, unless we work with a very large partner who already has a market share and become the contract manufacturer or something like that, which defeats the purpose, it would be a backup strategy for U.S. challenges, I would say.

Madhav: Okay. And any reason madam for the -- if you compare the quarter 1 and quarter 2 for the Europe. So quarter 1, I think we have made close to INR63 crores, INR64 crores in the current financial year. And Q2, we made INR55 crores. Any reason for the reduction in Europe, madam?

Aditi Panandikar: Yes. So we had some challenges with one of our products on distribution side and a, but more importantly, if you look at U.S. in the same period, it has increased. So like I said earlier, some of our customers, they had not entirely shifted to the new sites for Europe, but our commitments to U.S. customers from the erstwhile sites were already there.

So some of the volume from Plant 1 in Goa has been committed to U.S. to supply, say, Glimipride, which is increasing leaps and bounds. And we have had Europe to queue in at Baddi III so that some supplies got delayed. But it will get evened out going forward. From a trajectory perspective, if you've seen, it is going in the right direction.

Madhav: Okay. And last query again on the Clarity Pharma segment. Out of the 15 products for the Clarity Pharma, so all 15 products are new products, and no existing product is available for the Clarity Pharma for distribution.

Aditi Panandikar: No, they are not because most of the existing products are already tied up with other customers for whom we manufacture them. So our model before Clarity clearly was, we were contract manufacturers for license holders. So everything else in Clarity is new. It will be built from scratch.

Madhav: Okay. And are we allowed to do same product manufacturing for other companies as well? It's an exclusive working with Clarity?

Aditi Panandikar: No, it is not exclusive working. But typically, it is a good relationship thing that we work together to build the products for the market. So we don't expect to do the same product with others that we are doing with Clarity. And the product mix that we do as part of contract manufacturing with our existing partners that we don't intend to take to Clarity.

Moderator: As there are no further questions, I would like to hand the conference over to management for closing comments.

Aditi Panandikar: Thank you very much, and thank you, everybody, for your active participation, pointed questions and good discussion. As I said earlier, look forward to presenting better and more consistent financial results in the quarters to come. Thank you very much.

Moderator: This brings the conference call to an end. On the behalf of Indoco Remedies Limited, we thank you for all joining us. You may now disconnect your lines. Thank you.