"Indoco Remedies Limited
Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Indoco Remedies Limited Q3 FY2020 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Manchanda. Thank you and over to you Sir!

Vishal Manchanda: Good afternoon everyone. Welcome to the Indoco Remedies Q3 FY2020 Earnings Call. We thank the Indoco Management for giving us an opportunity to host the call. Today we have with us the senior management of the company represented by Ms. Aditi Panandikar, Managing Director; Mr. Sundeep Bambolkar, Joint Managing Director; Mr. Mandar Borkar, Chief Financial Officer; and Mr. Vilas Nagare, President - Corporate Affairs and M&A. I now hand over the call to the Indoco Management.

Sundeep Bambolkar: Dear participants a very good evening to all of you. Let me begin with the business highlights. Revenues for the quarter grew by 14.3% at Rs.283 Crores as against Rs.248 Crores and year-to-date revenues grew by 17.2% at Rs.816 Crores against Rs.696 Crores. The EBITDA for the quarter is 12.4% at Rs.35.1 Crores as against 10% at Rs.24.8 Crores, and the year to date EBITDA is 11% at Rs.90 Crores as against 6.9% at Rs.48.2 Crores.

On the domestic formulations business front, revenues for the quarter grew by 16.9% at Rs.178 Crores as against Rs.152 Crores and for the year to date the revenues grew by 14.1% at Rs.526 Crores as against Rs.461 Crores. During the quarter the company launched five new products in chronic segment. The total number of new product launches in the year to date stands at 8, that is 7 in chronic and 1 in subchronic. The company has recently launched two new promising products, details of which are as under.

Aloja, Indoco focus, a division of Indoco launched a bioequivalent antidiabetic product namely Alogliptin, which is indigenously developed at the company's R&D facility and manufacture at the US FDA approved site. The product offers once a day dosage, which facilitates better dosage compliance for diabetic patients with high pill burden. The launch of Aloja marks the intention of Indoco to become a competitive player in the diabetic therapy market in India.

Second Apixabid, Indoco CND a cardiac speciality division of Indoco launched Apixabid in December 2019 after expiry of a product patent for Apixaban in India. This generic equivalent of the brand Eliquis is also indigenously developed at the company's R&D facility and manufactured at the US FDA approved site. It is one of the safe and highly effective novel oral anticoagulant with worldwide sales of Eliquis touching $12.5 billion up to 2019 as per Newport data. Currently the launch activities for Apixabid are on hold as Indoco is contesting a patent infringement case filed against it in Delhi High Court in December 2019 by the innovator company. Although the outcome of the patent infringement case cannot be ascertained with certainty, Indoco is strongly defending the case filed against it. As per AWACS, Indoco jumped one rank and is placed at 29th in the IPM with market share of 0.67% as per December 2019 MAT data. As per SMSRC Indoco ranks 23rd with prescription share of 0.85% as per November, December 2019 MAT data.

On the international formulations business front, during the quarter revenues from international formulations business grew by 21.5% at Rs.83 Crores against Rs.68 Crores and for the year to date revenues grew by 33.1% at Rs.217 Crores against Rs.163 Crores.

US revenues during the quarter were at Rs.16 Crores as against 3 Crores and for the year to date the revenues were at Rs.30 Crores as against 14 Crores. Indoco has secured an ANDA approval for Febuxostat tablets 40 milligram and 80 milligram. Febuxostat is used for the treatment of gout caused by excessive levels of uric acid in the blood.

Company has also secured another ANDA approval for Glycopyrrolate injection 0.2 milligram per ML filed from its Goa plant II on behalf of its partner in the US. Glycopyrrolate is indicated for use as a preoperative antimuscarinic to reduce salivary, tracheobronchial, and pharyngeal secretions to reduce the volume and free acidity of gastric secretions. An ANDA approval for Tranexamic Acid injection filed from its Goa plant II has also been received on behalf of its partner in the US.

Tranexamic Acid belongs to a class of drugs known as antifibrinolytics. Tranexamic Acid works by slowing the breakdown of blood clots, which helps to prevent prolonged bleeding during menstrual period.

During the quarter revenues from Europe business grew by 44.9% at Rs.45 Crores compared to 31 Crores and for year to date revenues grew by 55.6% at Rs.122 Crores against 79 Crores. Revenues from emerging markets for the quarter were flat at Rs.20 Crores. For the year to date revenues grew by 21% at Rs.59 Crores as against Rs.49 Crores.

On the regulatory front, Goa plant I, US consultants are on board for remedial actions to resolve the concerns raised in the warning letter issued by the US FDA on July 18, 2019 for Goa plant I. Periodic compliance updates are being timely submitted to the FDA. Inspections have been conducted by the Australian health regulators in Q3 2019 and inspection outcome is awaited from the agency TGA. The outcome for re-inspections conducted by SAHPRA, the South African agency in plant I is awaited from the health authority as well.

Goa plant II and III, the sterile manufacturing facility plant II at Baina, Goa received European GMP certification from the UK health regulator in December 2019. This is an outcome from the last successful inspection conducted by UK MHRA in September 2019.

Goa II facility received EIR from the US regulators in November 2019 on successful conclusion of the inspection conducted by US FDA in October 2019. This is the second successful PAI that is Preapproval Inspection of this site in less than six months. The site continues to maintain its voluntary action indicated VAI status.

Inspections have been conducted by the Australian health regulators in Q3 2019 in plant II and inspection outcome is awaited from TGA. The outcome for the re-inspections conducted by SAHPRA in plant II and III that is the South African agency is awaited from the health authority as well.

On the API business front, revenues for API business for the quarter were at Rs.19 Crores compared to Rs.22 Crores and for the year to date revenues grew by 15% at Rs.66 Crores as against Rs.57 Crores. Diversion of capacity for internal consumption has resulted in API division's muted growth during the quarter. However the capacity from new facility will be used and growth will resume gradually, as the complete regulatory work of registering the new API site for customers, dossiers, and ANDAs. That is all about the business highlights for the quarter and I now request the participants to put up their questions. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Sir if you could explain in the remarks you said API sales were impacted due to higher internal consumption which of the operating segments and which of the geographies are we internally consuming more API is it the domestic market or any export market?

Sundeep Bambolkar: No, it is the international market that is mainly right now Europe and then US also will follow.

Aditya Khemka: So right now basically in the European sales we are using our own API?

Sundeep Bambolkar: Yes, absolutely.

Aditya Khemka: And you said the new capacity will come online and then the ramp up will happen so any timelines you would like to share as to how much time it would take to get the API registered in the dossiers of the customers and by when can we say the ramp up in API sales?

Sundeep Bambolkar: Yes it would be at least two to three quarters.

Aditya Khemka: And on the gross margin side, our gross margin sort of picked up to 71% I think in this quarter. Since our historical range of 66%, 67%, anything specific you would like to call out and how sustainable you think this 71% gross margin is for us?

Sundeep Bambolkar: Yes, business mix of the company has improved that is the first point. Second point the pricing of the raw material has been under continuous control so these are the two salient features, which have got the business under tight control and material cost is limited to 29%.

Aditi Panandikar: Also captive consumption?

Sundeep Bambolkar: Yes, captive consumption also.

Aditya Khemka: So both these factors whether be it the external raw material price distribution or be it higher dependence on internal raw material both these to me seem to be more of a structural change and therefore would it be fair to assume that this 70%, 71% gross margin is the new normal?

Aditi Panandikar: Some part of it like Sandeep said is because of a kind of business mix we have been able to get for this quarter. While every attempt will be made as US sales contribution increases I think we should be able to sustain this kind of a margin going forward.

Aditya Khemka: So Aditi when you say US sales contribution goes up so would not US sales be diluted to a gross margin that is the US sales mix goes up?

Aditi Panandikar: Can you repeat that.

Sundeep Bambolkar: Yes, please repeat.

Aditya Khemka: So the question I am asking is if our US sales let us say were to go up threefold in the next year, the incremental revenue in US would not that be gross margin dilutive would not the gross margins for US be lower than the 71% we are currently doing?

Aditi Panandikar: No why would it be lower.

Aditya Khemka: No just asking, I am not sure whether it will be lower or higher I am just asking whether it will be lower or higher?

Sundeep Bambolkar: No.

Aditya Khemka: It would not be. Okay, those were my questions. Thanks a lot.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: With regards to the Apixaban launch you mentioned there is a court case by the innovator, given that the patents are required so what is this court case about and how long can it take to resolve?

Aditi Panandikar: Currently this is in court there is not much I can tell you except that I think it is in public domain already that there were two patents from the innovator, the first one was the broad patent as we understand it and the second one is the specific patent they claim, we claim the second one is not valid. So we have put a product in the market and there are some other players also like us they have got an injunction we have gone into appeal to vacate that stay.

Anand Bhavnani: And this product is only for the India market or are we even planning to service in US?

Aditi Panandikar: It has been developed with US in mind, but at this stage we are launching it in India.

Anand Bhavnani: And with regards to our product pipeline can you give us a sense of what is the plan for in calendar year 2020, what is the plan for ANDA filings and any plan for launching newer products in India?

Aditi Panandikar: We will talk about it separately, the US and India business, right.

Sundeep Bambolkar: Yes, thanks. We will be filing about 5 ANDAs in the financial year 2021 that was your question right?

Anand Bhavnani: Yes correct.

Aditi Panandikar: Regarding which of these or which products per se will come to India let me just give you some gist of this. The India business up to now used to not have much overlap with the product pipeline we developed for US market; however, going forward we intent to bring in at least those products, which are in the cardio/diabeto segments in to India as well as and when the opportunities exist. So in the solid oral pipeline for US for Indoco as a company there are several products in the cardio/diabeto space and we shall look at launching them in India at specific times as and when the opportunity arises.

Anand Bhavnani: I had a broad question with regards to our strategy, if I were to see, we have small business in all the geographies of all kinds we are in India, and we have some European business, some US. So what is the broad thought process like, I mean, would we be continue to be doing the business same we are trying to grow each of these or is there a focus on any particular of the segments. What is the broad thought process and how do we kind of overcome the disadvantages of subscale in each of these businesses?

Aditi Panandikar: So, we have always looked at each of these businesses separately within the organization also, therefore we do not think it is a defocus first and foremost. Broadly for us the India business is the main business, which contributes 60% of the topline or more as in this quarter and in the international business the broad markets are Europe and US, US which is yet to actually find foothold and grow. So going ahead if you ask me to answer your questions it would be the growth we are going to get in US market going forward, maintenance of the European market business and steadily to grow it and in India we have a branded business, so we have got eight marketing divisions. If you were to hear that you will find it further defocus that is what how we work. So we have plans very clearly in India the basket is divided into acute, subchronic and chronic therapies and there are very clear strategies to grow products in each of these. With chronic as Sandeep read out to you, we believe it is our strength in product portfolio, which will help us make a dent and allow us to get into the super specialty segment. When it comes to subchronic we already have a very good position with the Mass specialist so whether it is the dentist, the ophthalmologist, the ENT Surgeon, the gynecologist, the pediatrician, and with these doctor specialties we grow our subchronic business. The acute business is an age old business of the company, here we have the top legacy products of the company and they continue to grow very well even now and here we are focused on the general practitioner and the consultant physician. So there are different strategies for different therapies in India, there are also different strategies for different geographies worldwide, but each is very important in its own right. We continue to pursue all of them.

Anand Bhavnani: So internally the capital that would be generated how do you decide how much do you deploy in each of these, is there a ratio that you fixed on it?

Aditi Panandikar: Yes, so the India business is not really capital intensive from that perspective it more revolves around the return per man, or the number of people you deploy and their effectiveness or efficiency to give return. The international business on the other hand is far more dependent on the installed capacities of manufacturing and if you have been following us carefully our development, we were doing very well on that front until a couple of years ago when we got our regulatory hurdles on because of compliance issues. Those are now almost resolved, so we now have all the capacity available to grow our international business. So I do not see too much capital deployment therefore by way of any new capex, which would be required to grow the international business from here on. I also do not see too much investment in men going forward in the India business. Much of the investment going forward yes is going to continue by way of sustaining the research and development pipeline, whatever is underway as well as the new ones we develop so that is broadly how you have to understand it.

Anand Bhavnani: What would be your MR strength in India at the end of quarter?

Aditi Panandikar: 2300 people.

Anand Bhavnani: Thank you. I will come back in the queue for more.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S Padmanabhan: Madam my question is on the earlier participant when you talked about capex and manpower cost that would basically be benign going forward. One is when if you can talk a bit more about currently when you are running at around say close at about 1100, 1200 Crores of sales to what extent your current capacity can take you through and second I mean, even on the cost side if I look at our gross margins we are at around 70%, I mean, specifically we are running at around 11% to 12% kind of EBITDA margin so there is a lot of negative operating leverage that is playing because of our facilities or the capacities not being optimally utilized so if you can dwell a bit more on what is the kind of margins, which we can reach on a steady state business as things unwind?

Aditi Panandikar: As you said correctly, it is a capacity utilization, which has not happened effectively over the last couple of years, which has actually caused a lot of burden to us. I expect these margins to go up to at least 14% in the coming year and coming to what was the first part of your question?

S Padmanabhan: To what extent our current capacity?

Aditi Panandikar: Yes, so as I said we are not really going to deploy any more people in the India business. Of the 2300 people half of them are deployed into the acute space and actually enjoy a far greater per man return for us. We enjoy a greater per man return from them. It is the other half which is around another 1100 odd people who are doing the subchronic and chronic sales where actually we deserve far greater per man return, but where the brands are being built today that is going to be our future. So in this business therefore we can suitably expect currently we have a per man return of around 2.4 I think we can easily go up to 4 with the current manpower. Coming to the international business, at the height we had done close to 425 Crores from the two facilities in Goa and one in Baddi after which we added a facility and we had a regulatory woes. Today we therefore have much higher capacity. I see that we would be able to do easily go up to 600 to 700 Crores without or more, without any further capex deployment.

S Padmanabhan: Then with respect to the cash that probably would be generated over the next couple of years as the margins improve, I mean, one is where would we be deploying cash, would we be looking at any inorganic growth opportunities are, would we be looking at deploying more in towards our R&D to strengthen the US business?

Sundeep Bambolkar: Yes, see first of all the endeavor would be to repay the long-term debt it is around 106 Crores right now that is being repaid and that would be the first priority and as more cash we have generated inorganic growth in India would be the top priority along with R&D pipeline development.

Aditi Panandikar: As that might have been obvious from the earlier responses and the questions there are several opportunities in India where we need to focus to get return. We have specific strength in the acute therapies because of which our legacy brands, which have been developed over five decades continue to give us excellent growth, but in the subchronic therapies in particular as well as in chronic there is a lot to be done. We also have a pipeline, if you are aware we are ranked number one with the dentist in the stomatological space and there are several products where we can look at on our OTX kind of a future. All these endeavors will need a lot of support and we expect to need cash to be put there. In addition to that of course we are taking four steps back two years ago in research with regard to the pace with which we were looking at the pipeline. So we will again start deploying more money in research.

S Padmanabhan: Sure. Madam one final question from my side, while we have filed some products and some of the interesting products are there in the US like Brinzolamide, when can we see some of these interesting products coming through in terms of actual benefits in terms of launches?

Aditi Panandikar: Yes, so a couple of launches are planned in the coming quarter they are small launches. I really think that by end of Q1 next year or closer to Q2 we are likely to see good volumes coming out of supplies to US I think that was your question right?

S Padmanabhan: Yes and differentiated products I mean like Brinzo, I mean do we see the launch happening next year?

Aditi Panandikar: Yes, the Brinzo launch would happen next year.

S Padmanabhan: Sure. Thanks a lot madam. I will join the queue.

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

Anupam Agarwal: My question was continuing from the first participant on how your US gross margins are higher than the peer set, incrementally going forward how do we make a higher than reported company level gross margin in the US?

Aditi Panandikar: We can look, we cannot just talk of margin to US per se it is across several products and several, and it may not be the same across. So possibly we can take this offline another time, but quite simply when we talk of margin overall that because a lot of the topline to reg markets today comes from contract manufacturing kind of revenues to Europe where the margins are really very low. So when we say when US margins will be better that is because the contribution there is going to be a profit share contribution coming to the US business also not just manufacturing for others or our own products as they get sold. I hope I am answering your question.

Anupam Agarwal: So that incrementally the pipeline that we have is that those products having a higher gross margin in the company?

Aditi Panandikar: Yes and no, like I said some of them are contract manufacturing products for others where there is a profit element, which will come back to the company, others are own filings, which will be sold by partners in US, well definitely the margins will be better.

Ashish Rathi: Madam this is Ashish Rathi. I wanted to check how many products in the US are there already launched from us and how many are approved and yet to be launched?

Sundeep Bambolkar: We already have two products in the market in US currently that is Allopurinol and Glimepiride and another three to four products are slated to be launched shortly in the next say four months.

Ashish Rathi: So I believe we have one which is approved and yet to be launched is it?

Aditi Panandikar: Yes.

Ashish Rathi: And we expect in the next two, three months, two, three more to be approved and launched?

Aditi Panandikar: Yes.

Ashish Rathi: And FY2021 what is the expectation in terms of number of approvals?

Aditi Panandikar: About four per year I think.

Ashish Rathi: Madam also if you can tell me in Europe what is driving the growth, we have seen some stupendous growth in the first nine months and what is driving this growth and what do you think we should build a sustainable growth rate for this geography?

Aditi Panandikar: Yes, so the growth is largely coming on a muted base to be honest, if you know last year we had issues in plant I from UK MHRA, post which it had taken us sometime to resolve, correct, file data and for the business to pickup. Post MHRA withdrawing that status on the plant we have been able to manufacture from plant I, otherwise the capacity available to manufacture to Europe was very small and which is why the levels were low. So the growth is largely on back of our low base, but going forward we expect this kind of ramp up to continue.

Ashish Rathi: So we can build a 30%, 35% growth rate for a 21 sustainable number?

Aditi Panandikar: Yes that would be.

Ashish Rathi: And then how much is the R&D spend for this quarter and how much is expensed?

Sundeep Bambolkar: R&D spends is 4.5%.

Ashish Rathi: How much is expensed out of it?

Sundeep Bambolkar: That is 4.5% entirely expensed around 2% is not yet expensed out.

Ashish Rathi: Sorry I did not understand Sir.

Sundeep Bambolkar: The 2% portion is not expensed, 4.5% is expensed.

Ashish Rathi: Okay total 6.5% and on Goa plant I what are we hearing from the US has there been a response from their side?

Aditi Panandikar: No, we have given them a clear outline on how we intent to respond the remediation issues, how the data is going to be submitted to them. Two updates have also gone with the information, the last update is expected to go in the month of Feb, we feel we will be able to send it a little earlier also probably by next week, so after that I think from our side most of the information FDA expects will be done and given with thereafter we expect them to respond in a couple of months at the latest. There is likely to be an audit I think.

Ashish Rathi: There is likely to be an audit?

Aditi Panandikar: Typically in an OAI case they would come back.

Ashish Rathi: Madam last question if I may with your permission. The India piece of our company had a northwards of 20% margin if I am not wrong earlier, but with the slowdown and everything you had indicated three, four quarters back that they have fallen to around 18% the EBITDA margin, now with the growth coming back and MR productivity improvement we expect that number to come back to northwards of 20%?

Aditi Panandikar: Yes, we do.

Ashish Rathi: Thank you madam.

Anupam Agarwal: Thank you madam.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: My first question is regarding the EBITDA if I remember it well. In the last quarter we had mentioned that there were certain one off expenses because of which the reported EBITDA was lower by around 7 to 8 Crores so is it that those one off because if you see compared to September quarter the EBITDA is higher by 3 Crores, so if we take 7, 8 Crores in the last quarter is one off is it some of the one off have continued or how should we look?

Aditi Panandikar: Yes some of them actually, some cost associated with remediation in US has spilled over in this quarter also, but more than that in this quarter we have taken the impact of increments, increments to start and the arrears, in addition to which there has been some additional expenses in sales promotion legal and professional in India also, largely associated with the two product launches so there are other one off if I may say so.

Sachin Kasera: So will this continue in Q4?

Aditi Panandikar: No, let us keep our fingers crossed for no other one off. We do not expect either of these to continue much, there is going to be some amount of remediation cost, which will continue but not at this stature.

Sachin Kasera: Secondly madam a question linked to this only, as you mentioned that you are incurring a lot of cost and we are not getting the revenues, and one of the things that you are looking is as the plans come back to normal and we see the sales ramp up the cost associated will not increase and you also mentioned that we have not been increasing MR but if we still see the employee cost is up by say around 11%, 12% other expenses are up by from 16%, 17% for the nine months so is it billing curve of this one off that you are talking?

Aditi Panandikar: Yes, see we took increments for the whole year with arrears associated with the increments all in this quarter, so that is there and of we employed 6000 people today of them only 2300 are in the field the others are in the plants actually.

Sachin Kasera: So how should we look at the employee inflation next two, three years is 8%, 10% number a good number?

Aditi Panandikar: Yes, so like I said when we say capacity of plants is not utilized it also means capacities of people who work there is not utilized. So I do not expect the number to go up from here as the manufacturing or the number of units manufactured go up to be honest. By our employee cost probably what is expected to go up is whatever rise in salaries we give them year-on-year.

Sachin Kasera: Madam my second question was related to the API number. So last quarter we had indicated that we are looking at a very substantial growth in API number and while you continue to maintain the bullish outlook you are saying that at least in the next two, three quarters it may not see a big ramp up because of this approval?

Aditi Panandikar: Yes, see from the new block the batches that have been, products that are being validated we have to do filings with the regulators and on the key products one of them at least we have already got the approval post which now they are being put into the dossier, so we were supplying this product from one block now from the other block we have to sort of get it into the dossier of our clients after which we will see a real ramp up, but some amount of growth will come what we can supply to some geographies where these kind of regulatory requirements and operating stringent, possibly we will be able to supply. This quarter in particular because we had to prepare for some launches for the next quarter in the reg markets, we have to give internal consumption so we could not send those products outside.

Sachin Kasera: But the medium-term two to three year target of 200, 250 Crores API sales versus 80 Crores in FY2019 that more we have seen are on track?

Aditi Panandikar: 200 certainly.

Sachin Kasera: One question on the US numbers, is there any milestone income or these are normal numbers for the quarter that you do 16 Crores revenue from US?

Aditi Panandikar: The US business is divided into typically CRAMS business the manufacturing income and dossier business, which is related to some amount of milestone. So there has been milestone because otherwise we are not hardly supplying products yet. So the numbers you see right now that is what Mr. Sandeep meant when you said that there is a business mix element also, which has resulted in the cost.

Sachin Kasera: So when we see 16 Crores in December versus 12 this 4 Crores increase is mainly because of licensing income madam?

Aditi Panandikar: Yes.

Sachin Kasera: So, how we are seeing madam now that you mentioned that you should slowly start getting the approvals in the US, how do we see the US numbers improving in FY2021 over FY2020?

Sundeep Bambolkar: US will do about 100 Crores in year ended 2021 and this year it would be 50.

Sachin Kasera: And just one last question regarding the Australia, New Zealand, there the revenues are only 1 Crore versus 14 Crores so is there some change in strategies or something?

Aditi Panandikar: Yes, we had an audit from the Australian regulator, which is also there in the MDA and we are waiting for the report to come in post which product we can supply again there was a bit of pause there, also in South Africa there were some issues with that regulatory agency not moving at all on certain approvals because we could not supply, so both of these are largely on back of regulatory issues at sites.

Sachin Kasera: Thank you very much madam.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Madam so on the Australia, New Zealand business, which facility do we supply these products from?

Aditi Panandikar: Plant I and Plant II both, largely Plant I, what happens is after there is like the US FDA OAI came in and the WN came in then the regulators want to come in and check themselves before they also give you a go ahead, that kind of a thing has happened there, we expect we have to get that resolved quickly.

Aditya Khemka: Any timelines when you say quickly I mean I was looking at Q2?

Aditi Panandikar: We will stay positive on that.

Aditya Khemka: And on the other expenses line item just to sort of see the cost management that we are going through so last year if I recall correctly line item in FY2019 over FY2018 was largely flat and one of the reasons could have been lower promotion expenses, etc., as we have disclosed in the past and this year the run rate that at least we are seeing is actually your other expenses are flat for the past three years, 288 Crores for all three years 2017, 2018 and 2019 and then in FY2020 we seem to be closing in a run rate of 330, 340 Crores on the basis of what we have done in nine months full year would be around 330, 340 Crores. So this jump of like a 18% in other expense seems to be on the higher side and as you said there are number of one offs in this, but when we sort of try to look up to FY2021 or 2022 that is like you said in employee expense there would be like 8%, 9% increment would be there would other expenses will be on a similar growth trajectory or could it be higher because we will be doing more revenue so we will pay out more incentives, we are do more promotion how would it look like?

Aditi Panandikar: See there is an element of remediation costs, which have come in this other expenses and considering plant II we had done with most of the remediation cost associated with that site and plant I also with the updates to FDA getting over we expect there to be a bare minimum going ahead. So on that one at least there will be definitely respite as you said employee cost to the extent of 8% to 9% growth will come in year-on-year, promotional expenses per se as percentage of sales will stay control at the field as well like they are doing this year, they will earn incentive, but pretty much in proportion to the sales growth it will stay controlled.

Aditya Khemka: So because what will happen madam is that in over the next two years your FY2020 and 2021 you will see FY2021 even FY2022 you will see pretty high sales growth because you are coming off a very poor base in some of the stocks, but if your other expenses sort of stayed as a percentage same as your revenue?

Aditi Panandikar: No, we will not, that is what I meant when I say that, we said that as the sales grow other expenses and percentage of sales will come down.

Aditya Khemka: And could you quantify how much remediation cost has we incurred for the nine months FY2020 and third quarter of FY2020?

Sundeep Bambolkar: You want for the nine months for the current year?

Aditya Khemka: Yes, nine months and the third quarter if possible both.

Aditi Panandikar: I think the third quarter close to 4 Crores, which was a jump actually, we were doing close to 2 per quarter.

Aditya Khemka: And so far the nine months would it be like 8 Crores for the full year?

Aditi Panandikar: Yes.

Aditya Khemka: Thank you madam.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Yes, madam on the domestic business, the release mentions that you are going to focus a lot now on the East and the Northern market and at the same point of time you mentioned that we are not looking at adding MR so can you explain how will this happen?

Aditi Panandikar: Yes, that growth need not come from adding MR, our productivity per man is poorest in the North actually and followed by East, so when we say we get more sales in South and West that is not really just because we have more people there, the return per man is also very poor in North, East in North in particular and that is where the effectiveness has to happen.

Sachin Kasera: So what exactly have we done to change that because it must be historically there for long time?

Aditi Panandikar: Yes, it has historically been a weakness we had actually gone in to North first and last into East, but whereas we have been able to ramp up in East comparatively and I see it is growing much faster from here on. In North there have been several issues from certain field issues in Punjab, Haryana to effectively being able to manage the Uttar Pradesh belt, but there are some strategical initiatives that have been taken up this year to change that, I would like to talk about it more when it actually happens.

Sachin Kasera: And madam this year partly the India business has been helped because we had a strong anti-infective season so do you think that the type of growth we have shown this year in domestic is a sustainable is 14%, 15%, or it should come down to 10%, 11% as you move ahead?

Aditi Panandikar: We have grown across several therapy areas not just anti-infectives and anti-cold, last year we had a poor anti-cold season, Febrex Plus has done very badly last year that product is doing well this year, so basically season comes every year for the company, so let us really hope we get the season next year also, but even otherwise it is not just anti-infectives and anti-cold we have done well on the other segments as well. So I believe domestic growth we can sustain at double digit.

Sachin Kasera: And on emerging market madam this quarter the number is flattish the first half was very strong so just one quarter have finished to be back to growth?

Sundeep Bambolkar: Yes it is just question of this particular quarter but otherwise the business should return back to normal next quarter.

Sachin Kasera: And one last question on capex madam, how do we see the capex for FY2020 and 2021 each?

Sundeep Bambolkar: It would be just normal maintenance capex nothing extraordinary because we already said on the call that capacity is enough for the next three years.

Sachin Kasera: So maybe it is 40, 50 Crores a year?

Sundeep Bambolkar: Yes roughly 50 Crores.

Sachin Kasera: Thank you.

Moderator: Thank you. The next question is from the line of Ranbir Singh from Sunita Securities. Please go ahead.

Ranbir Singh: Sir related to US business the two products you have mentioned on the note Glycopyrrolate and Tranexamic Acid could you give some more detail how is the market size, how many players are there?

Sundeep Bambolkar: Glycopyrrolate is 120 million and there are five, six players already in the market, Tranexamic Acid the market size is, I will give that market size, so that also is generic product already and there are the three, four players already in the market. So those are small products really per se.

Ranbir Singh: And these products would be again like will be distributed through partners who will be manufacturing like a contract manufacturing?

Aditi Panandikar: That is true.

Ranbir Singh: Who are partners?

Aditi Panandikar: So far they have not disclosed that.

Ranbir Singh: Just for clarity you said that four product approvals you are expecting every year going forward right?

Sundeep Bambolkar: Average yes.

Ranbir Singh: This is independent of your Goa I facility getting cleared right?

Sundeep Bambolkar: Absolutely yes.

Ranbir Singh: For remedial cost for last two quarters only has been this cost has been included in other expenses or this was there in Q1 also?

Aditi Panandikar: Always included, which actually went up as a quantum this quarter.

Sundeep Bambolkar: Tranexamic Acid their market size is $20 million.

Ranbir Singh: Just on the South Africa business that business is now a small one, but what is happening actually there we are not seeing any traction this month?

Sundeep Bambolkar: Yes, we however re-inspected as was the case with all the regulators and the result of that re-inspection is yet to come.

Ranbir Singh: Fine. That is it from my side. Thank you.

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

Ashish Rathi: Yes, this is Ashish Rathi again. Madam just wanted to understand the company from a more India, non-India kind of a piece we have done like 90 Crores EBITDA in the first nine months on a total sales of 835 Crores part of India sales is around 525 Crores and like we just discussed earlier like 18% kind of India business margin what you had indicated let us assume it is at lower levels only then practically the full EBITDA for the company for nine months has come from India business. Now what I want to try and understand is what kind of losses are there in the other parts of the business and when do we actually see that number coming into positive at what run rate of say the US sales so that we can get some color on this prospect?

Aditi Panandikar: Well as I said all the capex, all the plants are running today deserve to actually manufacture and sell to US and Europe only, we had brought in capacity to fill our capacity some India business so frankly that is where the margin drain out is happening because until those capacities are actually fill to manufacture for US and Europe we are not covering the plant cost effectively and which is why you are seeing that kind of a dip. Your next question was at what levels of international business we can break even on those I think is that right?

Ashish Rathi: Yes madam.

Sundeep Bambolkar: See presently if you see the business mix as explained in the previous questions the major driver is Europe so particularly Europe business is giving a reasonable margin took over our fixed cost indefinitely some macro under vision, but as you move starting from the next year the US once we get into the larger US business I think as we projected about 100 Crores at that level we will be definitely kind of a breakeven so currently if we can say still we are in the investment phase because regulatory expenses I would say it is still a mitigation cost and so technically bifurcating this profitability domestic India cannot give a right perspective.

Ashish Rathi: Fair point, Sir basically what the objective was to look at it like this if we are indicating mid teen growth of 15% kind of growth in India business next year on base of 700 Crores this year we will do around 800 plus Crores next year you said at those levels we will be making 20% EBITDA margin in the India business that would be like 160 Crores of EBITDA coming for the company from India business itself and if Europe is breaking even for all the fixed cost today then at 100 Crores of US business and you are indicating the incremental margins to be 70% gross margin in that piece that should be able to generate us around 50 odd Crores of EBITDA from that business itself. So northwards of 220, 230 Crores is the EBITDA that we should be ideally looking at next year would that be a fair kind of analysis?

Sundeep Bambolkar: That is little too high Ashish we are definitely planning to be somewhere between 180 and 200 but the number that you have projected is a little bit high.

Ashish Rathi: And Sundeep Sir the 100 Crores number for US is excluding as of time I would assume right for next year?

Sundeep Bambolkar: Yes.

Ashish Rathi: Thank you.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Just one question on the interest in financial charges madam, so this increase we are saying in the nine months is because of some element of forex loss or the debt levels gone up in the current year?

Sundeep Bambolkar: There is element of forex loss, which is about 1 Crore, but if you see the interest cost it largely remains static.

Sachin Kasera: What would be the current net debt of the capex book Sir including working capital?

Sundeep Bambolkar: On long-term we are 160 Crores and short-term is 101 Crores so overall about 261 Crores, so on quarter-on-quarter if you see, if you compare December 2018 we have lowered our overall debt by almost 50 Crores, compared to the sequential quarter we are lower by about 12 Crores. The other factor, which happen is as you are aware we capitalized our major project, which is our Patalganga API facility so to that extent overall cash flow on account of interest has remained the same, but it has moved from capital revenue assets to the yearend so that has to some extent impacted.

Sachin Kasera: Got it. Thank you.

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

Anupam Agarwal: Is there a CRL or a TAD that we have on Azopt already?

Aditi Panandikar: CRL on Azopt?

Anupam Agarwal: Yes, is there a TAD or something that we have we are working with.

Aditi Panandikar: Yes, there is a target action date.

Anupam Agarwal: Sorry I did not get it madam what is the target action date?

Aditi Panandikar: Considering the dates with the partner I am not feeling free to talk about it here, but I think somewhere in Q2 next year.

Anupam Agarwal: Q2 of next calendar year?

Aditi Panandikar: Financial year.

Anupam Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Congratulations on the steady improvements. Just one clarification the 100 Crores guidance for the US for next year, does it assume anything on the continuity of VAI?

Aditi Panandikar: Yes it is on steady state maximum of our filings are from plant II and III, there are very few filings from plant I and those two are not very urgent in nature and they are for the future so we do not see much impact on generic approval timelines because of the VAI on plant I actually.

Jigar Walia: And none of the critical products are dependent on the change has to come?

Aditi Panandikar: None of the critical products in short-term are dependent on plant I.

Jigar Walia: Not on plant I, on plant II, plant III as well, but generally they would not be..

Aditi Panandikar: We expect them to keep coming down for prior approval depending on the kind of product, somewhere in between they had asked us to send to them details of filing from every different manufacturing line and the nature of product is it a clear solution, is it a suspension, is it a thick preparation, is it an injectable kind of and from which line. I believe they would have made a metrics and accordingly they are approving the product. So they would come down every time there is a new kind of approval not necessarily every time there is a new approval I hope you understand.

Jigar Walia: If you are expecting 4 plus 4 and about 8 products is it in terms of the frequency is not an issue?

Aditi Panandikar: No.

Jigar Walia: Thank you so much.

Moderator: Thank you. The next question is from the line of Hiten Boricha from Sequent Invest. Please go ahead.

Hiten Boricha: Madam what is free cash flow we have generated for the nine months FY2019?

Aditi Panandikar: Any other questions till then?

Hiten Boricha: Yes madam. Madam you mentioned earlier that we can go up to 14% kind of margin right, so when are we targeting this kind of margin like say FY2021 or 2022 next financial year?

Aditi Panandikar: Coming 2020-2021.

Hiten Boricha: That is all from my side.

Aditi Panandikar: Just a minute I will give you the numbers.

Hiten Boricha: No problem. Madam and one more question if may I ask like what kind of revenue growth we are looking for let us say in the next three years?

Aditi Panandikar: Our revenue growth for the next three years between 15% and 20%.

Hiten Boricha: 15% to 20% kind of growth we are looking?

Aditi Panandikar: Yes.

Sundeep Bambolkar: Just coming back to your question, post the repayment of long-term loans we will generate a free cash flow of around 45 Crores for these nine months.

Hiten Boricha: Thank you so much Sir.

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

Surjeet Pal: As you said the growth in gross profit margin is mainly from your product mix and a bit of license income, which I can assume, but license income does not give much of the needle to move, which means that your product mix in domestic market could be the major contributor of significant rise in your gross margin could you throw some light on that?

Aditi Panandikar: Are you asking for this quarter?

Surjeet Pal: Yes.

Aditi Panandikar: No there has been both, there has been increase in dossier income in US as well as the much better product mix in India both have happened simultaneously.

Surjeet Pal: Exactly, so I think domestic is the major, major contributor in that.

Aditi Panandikar: Yes, you can say that in quantum especially.

Surjeet Pal: So could you throw some light what kind of mix you are talking actually?

Aditi Panandikar: Yes, see like I said we are operating now on a per man return of 2.5 lakhs close to 2.5 lakhs per man per month and going ahead we expect this to inch up as we are able to sell better in the subchronic and chronic space. So that is what actually contributes and comes directly into margin for India business. So I am expecting for the next year to target something like 2.7 to 2.8 per man.

Surjeet Pal: And as far as your SGA expenditure is concerned, which has taken a jump from Q1 to Q2 and Q3?

Aditi Panandikar: Which expense?

Surjeet Pal: Your SGA expenses, which I believe is mainly because of your launch of products in Q1, which means that going forward we should expect 90 to 100 Crores of SGA expenses or other expenditure to continue?

Aditi Panandikar: It depends, some of it is also on account of incentives paid out and sales promotion and it does not flow very uniformly quarter-on-quarter to be honest. So this is probably a pile up, Q4 for instance generally things are not so high, first quarter and fourth quarter you see these on the lower side and I think that is the pattern we have exhibited for some years now and generally Q2 and Q3 you see them on the higher side.

Surjeet Pal: Your Q2, Q3 is traditionally stronger quarter?

Aditi Panandikar: Correct.

Surjeet Pal: And how about your European sales guidance earlier I think this year you might be going for 150 Crores?

Aditi Panandikar: In Europe we expect to grow by around 30% next year.

Surjeet Pal: So, roughly around 200 Crores you are targeting?

Aditi Panandikar: Yes.

Surjeet Pal: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Cindrella from Centrum Broking. Please go ahead.

Cindrella: Madam good numbers and overall we are seeing good guidance on the US side, Europe side, so just want to take your view in terms of how should we see say next year will be more of getting everything put together so beyond that did you intent to tell us something how you are looking at the business on the domestic and international side?

Aditi Panandikar: Yes, Cindrella I partly answered that earlier, but I can tell you that in India in particular there is a lot to be done specially in the subchronic and chronic space for us, acute will continue to grow on its own just on account of efficiency effectiveness in the field, but the other two businesses need a lot of support, strategy and probably a differentiated strategy for us as we go ahead, so a lot of work being done right now at a grass root level there, which I expect in a couple of years to start showing us dividend. On the international front also there are lot of very interesting filings we had done, which has these approval dates of 2023 or a kind of. So there is lot of upside to be looked at around that time and those are all products we own IP of so our dependence on client, our release or decisions to continue, discontinue we become less and less dependent on that going ahead. So in a couple of years we therefore become much more in control of our international business, the mix for that international business is more of our own IP, more US centered at the same time European business also going up in its efficiency because of the captive consumption of API, which we are trying to do for it, and the India business able to grow faster this is very broadly what I can tell you.

Cindrella: And specifically on India business madam if whatever growth we have seen in this year as a full year what sort of we see it going ahead for India as a market as well as for you within it?

Aditi Panandikar: See the India business if you have seen is roughly doing a 10% growth although in one month it would be less and other month high for the Diwali thing otherwise roughly it has been doing 10% and we have been doing 14% to 15%. I expect a similar trajectory to continue for some time.

Cindrella: If you are saying that we will continue at 14%?

Aditi Panandikar: Yes.

Cindrella: And overall industry should remain at around 10%, 11%?

Aditi Panandikar: I cannot say much about the industry but I believe fundamentally all the ups and downs and the unpredictable trends of last two years seem to be settling now and we track primary and secondary so we had not seen much swing in secondary's in this entire period it was only the primary purchasing behavior, which was very unpredictable, which seems to be settling now.

Cindrella: Okay madam. Thank you so much and wishing you all the best and very hearty congratulations to all of you.

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

Sundeep Bambolkar: Thank you everybody for your participation. Have a nice evening. Thank you.

Moderator: Thank you. On behalf of Nirmal Bang Equities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.