



“Indoco Remedies Limited Q4 FY2020 Earnings Conference Call”

June 24, 2020



ANALYST:

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- Moderator:** Ladies and gentlemen, good day and welcome to Indoco Remedies Limited Q4 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 from Nirmal Bang Equity. Thank you and over to you Sir!
- Vishal Manchanda:** Thank You Nirav. Good afternoon everyone. Welcome to the Q4 FY2020 earnings call of Indoco Remedies Limited. 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 Kare Panandikar, Managing Director, Mr. Sundeep Bambolkar, Joint Managing Director, Mr. Mandar Borkar, Chief Financial Officer, Mr. Vilas Nagare, President, Corporate Affairs and M&A. I now hand over the call to the company management for their opening comments.
- Sundeep Bambolkar:** Thank you Vishal. Good afternoon all the participants. Hope you and your family members are all safe and healthy. We never anticipated that the Novel Coronavirus would grip the entire world so rapidly. The kind of disruption it has created to the economy and the agony to mankind has never been witnessed before. We still do not know the consequences. This pandemic has no clue with regards to time resources and efforts that would be required to come back to normalcy. We have been quick in complying with the government directives and are taking special care in protecting our employees, even though we are facing challenges in keeping our production facilities running. Indoco across India rose to the occasion and are braving the risk and hardships in travelling, reporting on duty to keep the continuity in production and field activity going. Teams looking after supply chain and support staff have been working tirelessly to facilitate movement of raw material and finished products throughout India and abroad.
- In the fight against Coronavirus outbreak, the management and staff of Indoco contributed Rs.1 Crore to the Honorable Prime Minister's Citizen assistance and relief in emergency situations fund, PM Cares Fund. In the wake of COVID-19, our company's domestic and international sales during the last week of March got impacted due to supply chain issues and ban on exports, especially that of Paracetamol.
- Let me begin with the business highlights. Net revenues for the quarter were at Rs.263 Crores as against Rs.245 Crores. The net revenues were at Rs.1079 Crores as against Rs.941 Crores. EBITDA to net sales for the quarter is 12.7% at Rs.33.3 Crores compared to 11.7% at 28.5 Crores and for the

year the EBITDA is 11.4 at Rs.123.3 Crores compared to 8.1% at Rs.76.7 Crores. Profit after tax for the quarter is Rs.5.4 Crores as against Rs.11.6 Crores and for the year the PAT is Rs.24.2 Crores as against loss of 2.8 Crores last year.

Now on to the domestic formulation business, revenues from domestic formulations grew by 10.3% for the quarter at Rs.160 Crores as against Rs.145 Crores and for the year the revenues grew by 13.2% at Rs.686 Crores as against Rs.606 Crores. During the year, eight new products, five in cardiac segments, two in anti-diabetic segment and one in dermatology segment were launched. In the case of Apixabid, which was launched in December 2019 and withdrawn subsequently, the court hearing in the injunction matter is delayed due to the ongoing COVID-19 crisis. Although the outcome of this case cannot be ascertained at this stage, Indoco is positive about its defense strategy. As per AWACS, Indoco ranks 29th in the IPM with market share of 0.66% as on March 2020.

For the fourth quarter FY2020, the Indian Pharma industry has grown at 9.7%. In terms of prescription generation, Indoco ranks 23rd with market share of 0.88% as per SMSRC report for the period November 2019 to February 2020. Prescription growth of Indoco corporate is driven by growth recorded in specialties like ENT, Dentists and GPs.

Now the international formulation business front, during the quarter revenues from international formulation business grew by 12.5% at Rs.79 Crores as against Rs.71 Crores and for the year the net revenues grew by 26.9% at Rs.296 Crores as against Rs.233 Crores. During the quarter, the US revenues were at Rs.27 Crores as against Rs.11 Crores and for the year the net revenues were at Rs.56 Crores as against Rs.25 Crores. In February 2020, the US FDA approved the first file ANDA with Paragraph IV Certification for Olopatadine HCL Ophthalmic solution, USP 0.7% developed at Indoco's R&D center. The ANDA has filed from Goa plant to on behalf of our US partner and has been approved by the FDA with 180 days generic drug exclusivity. The product will be launched by Indoco's partner as per the agreed settlement date. The consignment of Allopurinol tablets and Rasagiline tablets large quantity were dispatched to US from Goa plant 3 in April 2020. The first consignment of Glycopyrrolate injection was also dispatched from Goa plant 2 for launch in the US in April 2020. The company received approval for its own ANDA for Succinylcholine Chloride injection USP 200 mg per 10 ml, 20 mg per ml multi-dose vial therapeutically equivalent to the RLD that is the reference listed drug Quelicin Injection of Hospira. This approval was received in the month of May 2020 in a record time of just four months from the date of filing the ANDA.

During the quarter, the Europe revenues were at Rs.31 Crores as against Rs.28 Crores and for the year the net revenues were at Rs.154 Crores as against Rs.106 Crores. Indoco has been a part of the initiative by the Indian and British Government to supply Paracetamol tablets to the UK in its fight against COVID-19. The first shipment of Paracetamol tablets to the UK was airlifted on April 12,

2020 from Goa Airport. Indoco is the only company to whom the permission was granted by the Indian Government for shipment of Paracetamol tablets at that time. The restriction however is now completely withdrawn. Revenues from South Africa, Australia and New Zealand for the quarter were at Rs.2 Crores against Rs.8 Crores for the year. The net revenues at Rs.7 Crores as against Rs.29 Crores. Revenues for the emerging market for the quarter were Rs.20 Crores as against Rs.24 Crores and for the year the net revenues were at Rs.79 Crores as against Rs.73 Crores. In March 2020 the month end shipment due to lockdown suffered a setback resulting in drop in the sales for the quarter.

Now on the regulatory update on Goa plant 1, US consultants continue to be on board for remedial actions to resolve the concerns raised in the warning letter issued by the FDA on July 18, 2019. Periodic compliance updates are being timely submitted to the FDA. On to the API business, revenues from API business were at Rs.20 Crores as against Rs.25 Crores for the year and for the year the net revenues were at Rs.86 Crores as against Rs.82 Crores. The new API facility at Patalganga received the certificate of suitability, CEP for Allopurinol API from European Directorate of Quality of Medicine (EDQM) paving the way to commence supplies to European markets. CRO and analytical services during the quarter, revenues from CRO and analytical services business were at Rs.3 Crore as against Rs.4 Crores and for the year the net revenues were at Rs.11 Crores as against Rs.19 Crores. Indoco CRO AnaCipher at Hyderabad received the WHO approval through a desk assessment review process held in March 2020 by the pre-qualification inspection unit of the World Health Organization. That is all about the business highlights for the quarter and I now request the participants to put up their questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudarsan Padmanabhan from Sundram Mutual Fund. Please go ahead.

Sudarsan P: Hi Sir. Thank you for taking my question. So my question is if I go through the presentation you did mention about disruption specifically both in domestic and export business, I mean because of COVID and also shipment delay. If you can quantify the amount basically for the domestic and export and also give some clarity with respect to whether this shipment delay would actually result in better sales in the first quarter?

Sundeep Bambolkar: Yes. On the international front, the total disruption was to the tune of 9.5 Crores and on the domestic front it was about 6 Crores that was the disruption. Now business uncertainty still persists, so we would not like to comment about the first quarter so soon.

Sudarsan P: But the shipment should basically get executed right, it is not a last order?

- Aditi Panandikar:** Shipment got executed, I think what Mr. Sundeep meant to say and we understand as time goes by more and more is for the last two weeks of March major challenges were on goods movement whether from the ready goods from the plant to the port and from the ports onwards or from our manufacturing sites to the various CFA and from there on for billing. While those have eased, the challenges in the first quarter this year are largely with regard to how much can be manufactured at the manufacturing sites. Because in the period ending March, we had two and a half months in those three months of regular attendance. In the first quarter this year whereas March end attendance was very thin gradually most of our sites are now operating at 70 to 80% attendance. So that is what he meant when he said there is likely to be challenges for a short time period.
- Sudarsan P:** Mam, if I actually look at the costs, I mean gross margins have certainly been on an improvement trajectory, and the other costs and R&D this quarter marginally higher, number one and other expenses the broad belief was that with you coming out of regulatory issues across plant, the other expenses as a percentage of sales, will start coming down with better volumes. Apart from the US business, I am not able to see a very visible improvement even in Europe, I mean the numbers are slightly weakish in this quarter, so any thoughts on that.
- Aditi Panandikar:** When you say weakish you are talking in terms of top-line growth?
- Sudarsan P: *** Yes. Europe the top line growth.
- Aditi Panandikar:** So that is what Mr. Sundeep said close to around 9 to 10 Crores of business to international markets could not be executed which was to be done in the last week of March other than that let me come back to your cost discussion, the GCs are definitely on the higher side you must have seen that. This is largely attributed to a better business mix. Coming to other expenditures this time there are other expenditures which were not there in the same period last year same quarter and largely got to do with incentive payments and promotional expenses for the India business. The India business has done very well this year grown by close to 14% on an annual basis and therefore incentive outgo to field has come in this quarter which has come in the other expenses, but rightly as you mentioned as the top-line sales grow the percentage of other expenses to top-line will come under control.
- Sudarsan P:** Yes. Just one small question from my side and I will move back to the queue. From the FTF, you had mentioned that the moment your partner is ready and the settlement is done, the launch will happen, any idea - I mean I am not asking for an exact date, but when one should expect and what would be the size of it?
- Aditi Panandikar:** At this stage, they have not conveyed to us that is going to happen in any reasonable immediate future.

Sudarsan P: Sure and any development on Brinzo?

Aditi Panandikar: Yes. It is underway. We had to as I mentioned in the last call generate some more data towards the response on CR that work is underway and we seem to be okay as of now to be able to launch it the military get the approval.

Sudarsan P: Any timelines that you have or any target action date that we have for this?

Aditi Panandikar: At this stage we are ready to look at it sometime after August.

Sudarsan P: Sure. Thanks a lot. I will join back to the queue.

Moderator: Thank you very much. The next question is from the line of Suraj from CGS-CIMB. Please go ahead.

Suraj: Thanks for the opportunity. Regarding the export of Paracetamol which you have done in April, so how many tablets were supplied so far and how much have you realized from the opportunity?

Sundeep Bambolkar: Paracetamol exports to UK is a regular feature, so it is not that how many tablets were supplied, regularly the product is being exported to UK.

Suraj: Okay and like approximately how much percentage of the exports would be from this product.

Sundeep Bambolkar: So we have many products now going to the UK, Germany, Spain, Eastern Europe at least 15 products.

Suraj: Okay and how much percentage of exports will..

Aditi Panandikar: I think around 25 to 30% is attributed to Paracetamol.

Sundeep Bambolkar: Yes roughly.

Suraj: Okay. Thank you and regarding the domestic business, what was the main reason behind the low growth especially from FY2016 to 2019 and how do we see it going forward?

Aditi Panandikar: Okay so if you are asking about domestic business over four years that is a very long story, but just coming to this year, in particular, you must have seen that we have done quite well and then higher than market growths in every quarter, no doubt our growth in the second and third quarter were much higher. Fourth quarter, we got impacted largely in the month of March more than any other - as a responsible pharmaceutical company from March 17, 2020 we had asked our field staff to stop

working because they would be meeting doctors and going into the field and that could make them susceptible to catching the virus. So field has stopped working from the 17th of the month itself, so over the last two weeks typically what you saw post initial days of lockdown where there was a lot of restrictions on who could go and buy what or meet doctor's, doctors are not having practice. So we have seen that the kind of product which needs to be sold against prescription that is why we have sort of lost. Also in that period because some of our India business comes from sourcing from outside organization like third-party manufacturers and these people found it very challenging to start in lockdown period, so although our factories managed to pull up within two to three days, the third parties guys had a lot of challenges and we had some constraints therefore to get material in that period, both these things are responsible for a muted March sale for domestic business.

Suraj: Okay and last time you had mentioned about increasing focus in the north and eastern region so that we could improve the MR productivity, so what will be the exact strategy be like so that we could improve our revenue from these regions?

Aditi Panandikar: See basically we get very little contribution from North and East compared to what we get from South and West. So the strategy therefore is to focus on these areas because there is a lot of opportunity to be leveraged here for a legacy product itself let along the new products. The strategy to do this naturally would be to concentrate on controlling attrition in the north and also in the East where attrition is not so much an issue actually it is about taking opportunity of all the potential that exists, so we feel very confident and if you look at PHY that is a per head yield in North and East for some of our major divisions then those regions are coming to par almost, so it is mostly the smaller divisions which need to catch up and we feel confident that in a couple of years we will be able to show good change their itself.

Suraj: Okay. Thank you. I will join back in the queue.

Moderator: Thank you very much. The next question is from the line of Rahul Veera Abakkus Asset Managers. Please go ahead.

Rahul Veera: Hi Sir. Just wanted to understand if Paracetamol are we backward integrated or we import bap from the other countries?

Aditi Panandikar: No. We are not backward integrated on Para. Para is one API where you need economy for scale, so Para we purchase.

Rahul Veera: Okay. Because we are getting to the price of raw material especially from China including bap price has gone up very sharply?

- Aditi Panandikar:** There have been ups and downs but I think it is slowly coming under control now.
- Rahul Veera:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** Growth is not forthcoming in this quarter in majority of the market except US, so can you please give more clarity on it?
- Aditi Panandikar:** Yes. I think we just explained Rahul, but I will repeat again. US growth you are seeing largely because the base was very small last year and coming to emerging and other markets like Sundeep explained, it is largely the second half of March where we could not export, there was a ban on Para of course and the ports itself were jammed and not functioning, so exactly when most of the goods get shipped that time we had to take a setback, so that is what he explained. Coming to India business this quarter generally for us fourth quarter is not very big not as compared to second or third. In addition to that, month of March and I do not know how familiar you are with branded ethical promoted products, but typically the kind of cycles we have of purchase, supply and sales, much of the sales does come in the last two weeks of the month, so that is the reason now we are not able to show the kind of growth which we did show in the third quarter.
- Rahul Sharma:** What about Europe particularly and API has been the new plant coming in?
- Aditi Panandikar:** Yes. So API what happened is international business has caught up, India formulations is getting revived, more and more capacity at this stage was diverted towards supplying for the international combination business, so which is why API sales got impacted marginally but it is nothing to be worried about.
- Rahul Sharma:** Okay and Europe was also due to logistical issues and Paracetamol?
- Aditi Panandikar:** Yes, absolutely.
- Rahul Sharma:** Okay but things have streamlined and now we will be back on track?
- Aditi Panandikar:** Yes.
- Rahul Sharma:** Okay. Thank you.

- Moderator:** Thank you. The next question is from the line of Cyndrella C from Centrum Broking. Please go ahead.
- Cyndrella C:** Thanks for taking my questions and mam if you could help us understand the current scenario or the demand scenario in the domestic market as well as some color on the export market, specifically US and Europe? Mid May onwards till now how was the improvement and what other emerging trends that you are seeing?
- Aditi Panandikar:** Okay. So your question is to understand the demand trend in the India market is that right for our product?
- Cyndrella C:** Yes.
- Aditi Panandikar:** Okay if you know the whole of last year, the India pharma market was doing close to 10% growth, and we had major dip if you see in the AWACS for IMS numbers for the first two months which was also expected because people actually since there were no doctors practicing, and ethical branded pharmaceutical market is the kind of market that if you have established brands and products people will go and do a repeat purchase on the counter, but the prescription is always the place where the business demand starts. So certainly whole of April and part of May there was no work happening in the field by our reps because we asked them not to and also doctors were not practicing to that extent. In this period, what we saw was there was a high demand for anti-cough and cold like products, products like our Karvol Plus which we have or ATM which is an Azithromycin brand or some such products, but otherwise there was not too much of prescription generation happening. Now after mid May our people have started moving out in the field at least in the green and orange zone and we expect soon the kind of demand creation we typically do through prescription generation for that to get aligned. It was actually a matter of great pride for us that despite these challenges the kind of sales were able to clock in this period is thanks to the demand that exists for the legacy products of the company which are already established. I hope I am answering your question. In subchronic therapies, we have got a stake in ophthalmology as well as dental and both these fields are the ones where doctors are least, last likely to go and start practice because both involve surgical intervention and their own Medical Associations are now advising them how and when to start. So therefore there are parts of our business which are going to take a bit of a hit in this quarter and we are ready for that because we understand the difference between a primary sale, a secondary demand and eventual consumption. So we shall have to wait and see how much this first quarter turbulence and disturbance is likely to impact the whole year sale, but there will be a kind of a dip which we are already seeing in the industry numbers. I hope that I answers your question.

- Cyndrella C:** Yes and I would be trying to understand these emerging order demand coming back scenarios in month of June, are we seeing any early signs of that?
- Aditi Panandikar:** Yes if you look at April where I think if I am not mistaken AWACS had showed a minus 11 from there already now it is in a lower single digit negative and I expect from June this month it is likely to get a little bit better and come into positive. So although first quarter on a whole for the industry will still be negative quarter-on-quarter, I think you will see the trend improvement and quite honestly I expect by second quarter, some amount of semblance to come for demand versus supply kind of right.
- Cyndrella C:** And in the similar scenario in terms of export market specifically US and Europe in these time period, like specifically....
- Aditi Panandikar:** Yes. So for US and Europe, demand is not going to be such a problem as much as probably some amount of efficiency because of attendance related issues in the factories. So if the plant was running at an X capacity then because you are still not able to get everyone to work, to that extent there is likely to be a marginal dip, but otherwise I do not expect any concern from supply side or meeting demand in fact for us this period, although in lockdown was one of the most successful periods for US business where we got so many product approvals ours as well as through customer and in fact it was a nice thing that our plants which were functioning in Goa, were able to dispatch for the first time three products to US market. So that way we do not see much concern for international business.
- Cyndrella C:** Any guidance or any....
- Aditi Panandikar:** No as I said it is too early to get any guidance. You know that our base was very small last year, so growth is not going to be a concern in these markets.
- Cyndrella C:** I understand that completely, I am just trying to understand any number, are we indicating any particular number for the full year from US?
- Aditi Panandikar:** Yes. So 150 is achievable.
- Cyndrella C:** Okay that is helpful. Mam any commentary on the domestic inventory level at present?
- Aditi Panandikar:** Yes. The inventories have been going up and down, at some point in April, there was very high inventory being carried both by us as well as stockiest and low inventories at the retail level then eventually you saw that inventory get converted to retail counters and now again it is coming under control, I think the latest update the weekly update we get from AWACS now shows that the inventory levels are beginning to slip down again.

- Cyndrella C:** Any improvements you expect - any improvement as we go ahead?
- Aditi Panandikar:** Improvement I think you want an increase, I think the industry had become efficient in fact and from 45 to 50 days the inventory had gone down to 30 to 33 days, in this March it went back to close to 55 to 60 and it is again coming back, I think once efficiency comes in, it is difficult just to go back, and inventory levels should not bother us too much, it just will give a small sort of spike in primary sales nothing else.
- Cyndrella C:** Thank you.
- Moderator:** Thank you very much. The next question is from line of Sachin Kasera from SVAN Investment Managers. Please go ahead.
- Sachin Kasera:** Good afternoon madam. Two to three question from my side. One was regarding the operating leverage, from what I understand we were mentioning that as far as the domestic market is concerned, we have not added any major strength and if you see major part of the growth has come this year only for the domestic market despite that say the staff cost is about 10 to 11% similarly on the other expenditure, our cost has gone up by almost 20 to 25%, so this is a little lower because what we understand is that you guided this year the cost will be contained and we will see some operating leverage coming in which we have not seen, so if you could comment a little bit on that?
- Aditi Panandikar:** Yes. So I will first come to employee cost, we have not added any additional people in India business that is correct. The kind of employee cost hike you see in this quarter has largely come on account of Y-o-Y should compare it is because of increments done and also because of certain number of people added in, for example Patalganga, an entire block has gone operational, a new block. Also orders from US, there is a better visibility of orders from US, the plants supplying to US have also ramped up employment. These two factors are largely responsible for that and coming to your question on the leverage aspect as the top line increases because the fixed cost at the plants are still going to be quite high until we are able to get the business to a size.
- Sachin Kasera:** But if we see the other expenditure, it has gone up from 292 to 346 Crores and we mentioned that we are incurring lot of fixed cost till last year and the plants were not operational, which all commissioned, but despite that we know with only 10% to 12% increase in topline, we have seen a 20% increase in our expenditures?
- Aditi Panandikar:** Correct. So I explained this earlier, but I will repeat again. A large part of the other expenses which have increased is because of increased incentives and commissions to domestic, also partly remediation costs continue, it is not that they are over yet, we are lower than before but they continue.

I do feel that as the top line comes in, you will see that commissary to top line other expenditures will not include further.

Sachin Kasera: Madam, if we see the quarter three when you had reported 90 Crores of other expenditure and it was mentioned on the call that they were certain one off because of which it was higher and at this quarter while the topline has in fact been lower by around Rs.20 Crores, the other expenses have not come down ideally if there are one-off in the Q3 quarter, Q4 should have been much lower?

Aditi Panandikar: Yes. I think Mandar will give you greater insight on exactly what is there in Q4?

Mandar Borkar: See typically in domestic market, one of the major driver for this other expenditure increase particularly in Q4 is on account of some of the initiatives in domestic market, one is some special advertisement and promotions related expenses and second is the field incentive and commission as the achievement you had throughout the year and particularly for the whole year it is in the range of 14.7% so those incentives payout and announcement happened at the last quarter that is one of the important item which increased our Q4 expense to some extent the impact of the factory overheads, which also continued that was there and regulatory spend particularly in Q4 towards the regulatory costs that also was substantially higher, also on overall basis, we maintained the earlier forecast but it was queued towards end of fourth quarter.

Sachin Kasera: So Sir just as some sort of outlook for FY2021, so we have total employee and cost is roughly around 600 Crores this year, how should we look at that should not grow by 10% or it will again grow at 15 to 20% next year, both costs combined of Rs.600 Crores?

Aditi Panandikar: Not more than 10%.

Sachin Kasera: 10%.

Mandar Borkar: No additions, we are not planning any additions.

Sachin Kasera: Are we quite confident on retaining it at 10% madam?

Aditi Panandikar: Yes.

Sachin Kasera: Okay. My second question was on API business, last time you have mentioned that while you added capacities, there were certain delays in approvals because of which in FY2021, what we had initially anticipated the growth did not come in the API business. So can you just tell us what is the progress on that front and what is the sort of outlook there because I believe you mentioned that the API

business from 80 to 90 Crores can be like a 200 to 250 Crores business, because we almost tripled our capacities?

Aditi Panandikar: That is true, that is the real potential and it is very much possible regarding all the regulatory pathways, which have to be explored to be able to supply from the larger capacity API that is all underway, not a problem. In addition to that internal customer supplied to Indoco International foray, especially in the opthal space as well as the solid oral on that part also there is a lot of support and this is going to particular help us because dependency on outside API source will be less, we will be able to control, it will help cash flow in the longer run also. Coming to API own sales party this quarter API has a lot of challenges, a. of course it had to divert capacity for international formulation, our own international formulation. In addition to that the COVID issues that happened in China in December and January had impacted to a certain extent material availability if you remember. So those also cumulated, but as such from next quarter API is coming under control. We are also looking at this whole China situation and the Indian government's promotion for API we are actually looking at how we can use the capacity in a much better manner going forward.

Sachin Kasera: So are we seeing any growth, looking at any growth this year in API business Madam or

Aditi Panandikar: Yes. We will go ahead, close to 20% you can expect.

Sachin Kasera: Last question on Europe Madam, you had mentioned that with now all the clearances now on our way we should see a very significant ramp up in the European business and you have been measured the potential is between 90 to 100 Crores a quarter. So sitting today what is the type of visibility which quarter do you think maybe two quarters, four quarter, six quarters, when we get the potential?

Sundeep Bambolkar: I think there has been some misunderstanding, 90 to 100 Crores per quarter we have never said, Europe business went through sort of down curve, when we had the problems with the regulatory. Now that it has come out, and we are envisaging somewhere around 225 Crores total for the year.

Aditi Panandikar: For the year and at the peak it had done 200 Crores.

Sundeep Bambolkar: Yes absolute.

Aditi Panandikar: 180 to 200.

Sundeep Bambolkar: That was year ended 2017.

Sachin Kasera: Okay so that is in the short term interval, 200 to 225 peaks that the Europe business can achieve.

- Sundeep Bambolkar:** Yes. This year, year ended 2021, we will do very close to 225 Crores.
- Aditi Panandikar:** You must understand one thing for us Europe business, it is not just about the challenge of scale up or anything like that, we also supply to US, which is likely to happen in the second half of the year and for us it is very clear that the CMO kind of business which we do largely in Europe compared to that the supply business for US will definitely be better, so Europe business one should not keep looking at it from a size perspective only, but we had our own regulatory hurdles and we have come out of it, it is now slowly catching up.
- Sachin Kasera:** Okay. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Deepan Shankar from Crossline. Please go ahead.
- Deepan Shankar:** Good afternoon everyone and thanks a lot for the opportunity. Mam, just wanted to understand any update we have got from our US partner for the marketing of our ophthalmic portfolio?
- Aditi Panandikar:** I am sorry I did not get the question.
- Deepan Shankar:** Any updated from our US partner for marketing of our ophthalmic portfolio, last time we had discussed that they will be taking some of the portfolio for marketing and some of them they will leave?
- Aditi Panandikar:** Correct. So it is under negotiation stage.
- Sundeep Bambolkar:** This portfolio is under negotiation right now, we have been approached by at least three companies and it is going on.
- Deepan Shankar:** Okay and this newly approved Olopatadine Hydrochloride ophthalmic solution so what is the kind of opportunity we are expecting from this? Market opportunity and...
- Sundeep Bambolkar:** It is far away right now. The date is not clear. So I think after two quarters or so we will be able to give you more clarity.
- Deepan Shankar:** Okay so currently you can be say that that branded company how much annual pills they are doing?
- Sundeep Bambolkar:** About closed to 200 million.
- Deepan Shankar:** 200 million, Okay. Thank you Sir. All the best.

- Moderator:** Thank you very much. The next question is from the line of Aditya Ghanekar from DSP Mutual Fund. Please go ahead.
- Aditya Ghanekar:** Just a couple of questions the balance sheet and cash flow so you know this year has been the year of perfect storm for Indoco, came out of couple of regulatory hurdles that our businesses from multiple roads proximal geography and the one red spot was this year India business which did extremely well, I just want to understand on the cash flow side, so you know while we generated a free cash flow from what I can see roughly about 70 Crores, less than 70 Crores, majority of this flow we actually used to repay debt and to service our fixed cost and small amount of dividend, going forward what is your capex this year while it was about 58 odd Crores, going forward would your capex remain in that 50 to 60 Crores range?
- Mandar Borkar::** We said that we have completed all the capex which is worth mentioning about and going ahead it will be only in the range of around 55 to 60 Crores per year.
- Aditya Ghanekar:** Right that is helpful and second Sundeep Sir assuming that we grow from here and we are seeing momentum according to your comment on the US business, and the Europe business, API business, all are expected to scale up. So the cash flow grows from this point what could be priority be, we will have about 200 Crores debt on our book, so ...
- Sundeep Bambolkar:** First priority is to repay the long term loan, which are right now at around 155 Crores and short term borrowing is swinging between 105 to 120 Crores. So 155 Crores definitely we have to repay that is the topmost priority which is the long-term debt and thereafter we will see I mean nothing is envisaged right now.
- Aditya Ghanekar:** Got Sir.
- Sundeep Bambolkar:** We also repaid 34 Crores of debt during the year.
- Aditya Ghanekar:** 34 you said right?
- Sundeep Bambolkar:** Yes.
- Aditya Ghanekar:** 34 Crores, I see that. Also on the domestic business are we sort evolving the way we promote our products, I am sorry I joined a call a bit late so in case you have answered this, my apologies.
- Aditi Panandikar:** Can you repeat?

Aditya Ghanekar: The question I am asking is, is there a way that our promotion strategy in the domestic business evolving given the COVID situation?

Aditi Panandikar: Yes. I am glad you asked this question, I have not answered it in this fashion. I was asked the question on demand and what is demand and how much it is, but not on the strategy like that and I am happy to share that the COVID period actually has been a kind of a real shakeout period for the India business from strategy execution and operations perspective because I do not think people had ever imagined the time when field force will not be working because that is the essence of prescription generation and demand creation when you ethically market your products. So we had this entire - out of the three months plus we have had at least one and half to two months where hardly any work could happen in the field. In this period however we saw our field staff being able to garner and collect orders for the stockiest be it from their home. We also saw an entire emphasis coming on digital marketing. So whether it is a core customer of every division, and connecting with them over media whether it is webinar related to products we have or related to COVID and its treatment whether it is related to restarting or sometime lighter topics entirely of different kind also the doctors wanted to hear, I can assure you that 2300 people sitting at home were engaging all time in L&OD, learning and OD activities, where their skills have been sharpened. In addition to that they were in connect with all their core customers, so it has been in a manner a period where the organization has had time to pause and concentrate on the customer per se, of course returns from that will come now when the doctors go back and start practicing. So in a manner there is been a big shift in the way we have handled, so typically our business comprises of three types of products, we have acute, we have subchronic and we have chronic. So in this period in the acute basket, we have a lot of legacy products and those products we were able to sell well despite people having finding it difficult to go out and meet doctors. In the chronic space also, we have a very small base and here we had some established products which patients are using so repeat purchase was happening. I think the area which has suffered probably more for us is subchronic therapy areas like gynecology and opthal, which is also picking up now, but there definitely has been a totally different manner in which we have reached out to the customers, not only that the company has also made a lot of inroads in reaching out to retail. So there have been very strategies which will put in place to reach doctors, to reach retailer and of course the supply chain that is the stockiest. All in all it has been a very good time to strategize to do stuff differently. I think like most people in the industry, I also believe that right up to March 21, 100% working in field is not going to be possible to the extent that they were doing before and it will be very much required that their efforts are supplemented with digital marketing, which Indoco is getting into in a major way now.

Aditya Ghanekar: Right, so how does this strategy therefore influence your cost on the domestic side, so you know there were physical promotion, travel conveyance, cost for hire, they were also promotional costs in terms of visual aid, printing, logistic cost like how does it impact your..

- Aditi Panandikar:** Yes. Actually what you said is correct. The large element of expenditure towards field goes into what is called TE or travel, which has not been there in the first quarter for sure to a great extent. Also when they can travel, we have restricted them to only move to headquarters where they do not have to take any kind of public transport in addition to that other promotional expenses also on the lower side, expenses on visual aid, etc., will come down, but will be compensated by expenses towards digital marketing. Now digital marketing has a lot of positive like you can reach a larger audience at one go, but it can never replace the one on one you have when we meet the doctor. So one can compare this from a cost versus benefit advantage to say that over a period of time therefore one can see and expect a lot of efficiency in the India business going forward, but from an effectiveness perspective we are yet to experience and qualify whether it compensates meeting the doctor kind of thing, I hope I am clear.
- Aditya Ghanekar:** Yes. You are, which basically in a sense means what you are telling us is that as soon as it is possible, the business models would transitioned back to the traditional model of the rep walking into the doctors...
- Aditi Panandikar:** To a great extent, but complemented with digital wherever they cannot.
- Aditya Ghanekar:** Right, so in that point, sorry just to elaborate on that point then so I understand Indoco's domestic business, we were largely constrained by our reach in the northern and eastern regions of India and with this use of more digital, would you say that your reach in the northern and eastern region may just expand slightly quickly because of the digital initiative or do you think that the initiative will be largely limited to the south and the west where already
- Aditi Panandikar:** No. Digital initiative is pan India. So certainly the areas where we are lagging, those areas will get maximum benefit, no doubt, but you know as they say in digital marketing, how many people you are able to bring to the table is one thing and how many get connected and converted is another. So to that extent I still expect the strength in the South and West to be able to generate a greater turnaround from digital marketing, but I agree with you it is an excellent tool for us to use in the north and east to make a greater headway.
- Aditya Ghanekar:** Right one more question on the same business mam, so what we have been seeing in some of the second description or the data, is that some of the larger brands, the larger pharma companies, they are gaining market share and some of the smaller pharma companies are losing market share, would say that is a statement number one. Number two, which sided of the table does Indoco fit in?
- Aditi Panandikar:** When there are 5000 small and large companies, modestly I would say I am medium, but compared to many others I would be large. Now your question about bigger brand getting bigger, yes that is true.

Typically Indian ethical sales are generated out of prescription generation, I have said this before I will repeat it that ensures that marketing strategies drive growth, but root of this whole thing has got to be the field being able to work and meet doctors so in the last three months that has not happened. Effectively therefore much of the decision-making on what to buy, how to buy, whom to buy from, has been delineated from the doctor and has gone to the rest of the supply chain. You therefore see these patterns where people have wanted to hold existing old brands, which they were habitually taking and wanted to have a stock at home, they have gone and purchased or if they are on a chronic therapy, they are on prescription, they have gone and bought more of it kind of, and yes even for us, we have seen that larger brands have done better than a smaller brand because the smaller brand will have lot more work to be done in the field for them to get established, right. So they are likely to lag behind this whole year, I agree, so companies would look at that very closely when they are driving business, in the shorter term, we would expect more to come from the larger brands this year.

- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.
- Chirag Dagli:** Yes Sir, thank you for the opportunity. Sir is there a US guidance that you want to share with us for FY2021?
- Sundeep Bambolkar:** Yes. We already said it around 150 Crores.
- Chirag Dagli:** 150 Crores for FY2021 Sir?
- Sundeep Bambolkar:** Yes.
- Chirag Dagli:** Okay and that along with 225 Crores in the European business?
- Sundeep Bambolkar:** Yes. European.
- Chirag Dagli:** Understood and when you think of the US business, we used to be about \$18 to \$19 million back in 2017, since then we have made significant investment, how should we think about beyond FY2021, how should the US business progress?
- Sundeep Bambolkar:** In rupee terms in 2017 we did the highest, which was 125 Crores. So this year definitely we are beating that figure and what was your question?
- Chirag Dagli:** I am saying beyond FY2021...
- Sundeep Bambolkar:** So beyond FY2021, okay.

- Chirag Dagli:** My point Sir is that in FY2017, we were already at this number, we may beat this number in FY2021, but since then meaningful - investments have been made...
- Sundeep Bambolkar:** I got your question. We are waiting one after the other many approvals now. So easily it can grow at about 35 to 40%.
- Chirag Dagli:** On the FY2021?
- Sundeep Bambolkar:** Yes. Exactly.
- Aditi Panandikar:** What is more important for you to understand which I said maybe in one earlier call, but I will repeat that the quality and nature of that Rs.120 Crores or Rs.125 Crores of US business in 2017, versus the quality and nature of the Rs.150 Crore now, is a fee change, I mean it is a totally different business and I think that is where you should look at. Those days we used to have contract manufacturing of ophthalmic products. This is none of that the only kind of contract manufacturing, you are likely to see is that a supply to our partner on opthal and a bit in the injectable space, but otherwise there is a whole lot of product on our own and the nature of product which will constitute this, will make the business far more qualitatively as well as better on the margin front.
- Chirag Dagli:** I understand. Okay. Thank you for that. You know just on one of your earlier comments you said there could still be a 10% increase in the fixed cost, it seems very high given that we have already invested so much on the operating expenses as well, this is all...
- Aditi Panandikar:** Not 10% increase in fixed cost, 10% increase in employee cost we said over the year.
- Chirag Dagli:** Just the employee line item?
- Aditi Panandikar:** Yes...
- Chirag Dagli:** And this is all inflation?
- Aditi Panandikar:** Yes. We have to cover and Indoco is by far a company which takes care of its employees.
- Chirag Dagli:** I understand and the fact that one of the large ophthalmic majors filed for bankruptcy, is that helping us in any way when you look at this business shorter term in the next 12 months?
- Aditi Panandikar:** I am sure it is going to help our front end partner in US.
- Chirag Dagli:** But you are seeing signs of that already?

- Aditi Panandikar:** It is too early, we are - like one of the major blockbusters we are both going to put in the market is like you to happen in the third quarter for us, so we shall look at it at that time, till then it is just mere supply. The product, Sundeep already explained to you this month we restarted launch and sent the launch quantities of one injectable and couple of solid oral products, so the opthal have not yet even started.
- Chirag Dagli:** Okay. Thank you so much. Best of luck.
- Moderator:** Thank you. The next question is from the line of Aditya Ghanekar from DSP Mutual Fund. Please go ahead.
- Aditya Ghanekae:** Thanks for opportunity again. Thanks for the follow-up. Sundeep, so the question I was asking you was the gross margins, so we have seen a significant jump in gross margins in this quarter and throughout this year, am I correct to state that some of this gross margin uptick is purely because of the US milestones that we are getting?
- Sundeep Bambolkar:** Yes.
- Aditya Ghanekae:** Okay and so therefore as an organization under a steady state, could you tell us what steady state gross margin should we expect from Indoco as an organization?
- Sundeep Bambolkar:** Steady-state, it should be 30%.
- Aditya Ghanekae:** 30% cost of raw materials, 70% gross margin?
- Sundeep Bambolkar:** Yes.
- Aditya Ghanekae:** Okay and same question on EBITDA Sundeep Sir, so on a steady state, once our European business sort of ramps up to a decent scale, API ramps up to a decent scale, the US business gets going, what is the steady state margin for the business model that we are running?
- Sundeep Bambolkar:** This year we can expect an EBITDA of 14%. Purely because first two months – we could have done better, if COVID was not there, but still we will try to do more but 14 is definite.
- Aditya Ghanekae:** That is probably your guidance to FY2021, my question is more or like a three year or five-year outlook?
- Sundeep Bambolkar:** In three year, we should go above 18%.

Aditya Ghanekae: Above 18%.

Sundeep Bambolkar: Yes.

Aditya Ghanekae: So we were doing above 18, sometimes in 2015...

Aditi Panandikar: We have touched 20 Aditya in 2016.

Sundeep Bambolkar: 19.7 we have touched that is the highest we have done.

Aditya Ghanekae: Right and that time also we were investing in the US while we did not have, if you get numbers on there?

Sundeep Bambolkar: Yes.

Aditya Ghanekae: Okay. I will get that. On the R&D side, 50 odd Crores of R&D in FY2020 would be forward going expectations be similar?

Sundeep Bambolkar: Similar. We will stick to around this much only right now at least for the next one or two years.

Aditya Ghanekae: Understood. Any potential, so your CRO is a business that most of the pharma companies are talking very happy about and we do have small presence there. Any thoughts on looking to leverage that platform or expand that platform given the demand most of the pharma companies are seeing there?

Aditi Panandikar: Yes. This year Aditya has really helped us especially in the year where we could file four FTF because at that time it was very difficult to get dates from other CRO and there was also lot of risk from ethics or other regulatory practices so it has helped the company stay in control of that side of the business, no doubt we can grow it further for the last two years it was pretty much occupied with the internal customers, which is us and we have not really done too much of external business but going forward yes we will be leveraging that certainly. Plans to expand, the capacity pretty decent right now, we have three wings and we can do right up to 98 patients, so I think we are all right on capacity at this stage.

Aditya Ghanekae: Madam, what would be our capacity utilization today in CRO, any number?

Aditi Panandikar: About 50%.

Aditya Ghanekae: 50.

- Aditi Panandikar:** Yes.
- Aditya Ghanekae:** Understood. Sorry one more on the semi regulated market business, so obviously you know a business which has done well for us historically speaking, we have been doing pretty consistently there, how does the currency – the emerging markets impact us do we hedge ourselves, do we invoice in dollars, how does it work?
- Sundeep Bambolkar:** Currency wise, we have only in dollars and Euros. The entire ROW except FWA Africa is in dollars and French West Africa itself is in Euros and parts of CIS is also in Euros. So we are steady as far as the currency is concerned.
- Aditya Ghanekae:** But Sundeep in times like these..
- Moderator:** Thank you. The next question is from line of Anupam Agarwal from Lucky Investment. Please go ahead.
- Anupam Agarwal:** Good afternoon all. So my two questions first on the balance sheet and interest cost, we have reduced our debt by 35 Crores this year, still our finance cost has increased even in the quarter and the full year? Can you comment please?
- Sundeep Bambolkar:** The finance cost comprises of interest paid to the banks and the financial institutions as well as forex loss, so both put together, but it is absolutely under control.
- Mandar Borkar:** One of the factors which caused about 1.5 Crores increase is in last year, there was a dedicated facility for this new plant, Patalganga plant so the interest was getting capitalized, in the current year plant got commissioned, so that impact of that interest, which is now hitting the P&L.
- Anupam Agarwal:** So going forward do we see our debtors days are reducing?
- Sundeep Bambolkar:** Yes. It should go down.
- Anupam Agarwal:** And also second question is on the R&D again, you have seen massive growth and outlook on the US business. So R&D you have, how much are we capitalizing right now and how much of expanding?
- Sundeep Bambolkar:** See US business we already have quite a number of ANDAS which are not yet approved and those approvals will come now speedily, as it has already happened in the last two to three months and going forward R&D spend will be around 14 to 15 Crores per quarter, we will stick to those levels.
- Anupam Agarwal:** Are we capitalizing in the R&D that is the question?

- Sundeep Bambolkar:** Yes as a policy historically and till now we do capitalized is the intangible and which is written off over three years. At every quarter end, we do evaluate the impairment in terms of its future launch probabilities and cash flow. So that is seen every year.
- Anupam Agarwal:** So Sir what is the quantum of that?
- Sundeep Bambolkar:** You need to know the quantum for the quarter then it is 8 Crores 96 lakhs that is what we have capitalized.
- Anupam Agarwal:** Okay Sir. How many ANDAS do we have approved and how many do we plan to file in FY2021 and FY2022?
- Sundeep Bambolkar:** We have 12 ANDAS which are approved, and planning to file about seven for the next year, I mean 2021.
- Anupam Agarwal:** Okay. Thank you so much.
- Moderator:** Thank you very much. Ladies and gentleman, due to time constraint that was the last question for today. I will now hand the conference over to Mr. Vishal for closing comments.
- Vishal Manchanda:** Thanks everyone for taking time out and attending the conference call. Thank you everyone.
- Sundeep Bambolkar:** From the management side, I would like to thank all the participants for your very active participation and enthusiasm. Thank you very much. All the best to you and your family. Thank you
- Moderator:** Thank you very much. On behalf of Nirmal Bang Equity that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.