



“Indoco Remedies Q4 FY11 Earnings Conference Call  
hosted by Centrum Broking Limited”

**May 25, 2021**



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**MR. VILAS NAGARE - CORPORATE AFFAIRS AND  
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**MODERATOR:** **MS. CYNDRELLA THOMAS – CENTRUM BROKING LTD.**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Indoco Remedies Q4 FY21 Earnings Conference Call hosted by Centrum Broking 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 '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Cyndrella Thomas from Centrum Broking. Thank you and over to you, ma'am.

**Cyndrella Thomas:** Thanks, Steve. Good afternoon, everyone. Thanks for joining this Indoco Remedies Q4 Earnings Call. I hope and wish that all of you are well and safe amid this pandemic times. At the outset, I thank the management of Indoco Remedies for giving us this opportunity to host the call. Today from the management team we have with us, Managing Director Ms. Aditi Panandikar, Joint Managing Director Mr. Sundeep Bambolkar, Chief Financial Officer Mr. Mandar Borkar, Corporate Affairs and M&A Mr. Vilas Nagare.

With this, I hand over the call to management for the opening remarks.

**Sundeep Bambolkar:** Thank you, Cinderella. Good afternoon all the participants. Hope you and your family members are all safe and healthy. Let me first begin with the business highlights.

The net revenues for the company grew by 12% year-on-year. For the year ended March 21 revenues grew by 12.8% at Rs. 1,217 crores as against Rs. 1,079 crores last year. EBITDA to net sales for the quarter is 18.5% at Rs. 54.6 crores compared to 12.7% at Rs. 33.3 crores and for the year ended March 21 the EBITDA is 18.4% at Rs. 223.6 crores compared to 11.4% at Rs. 123.3 crores. PAT to net sales for a quarter is 8.4% at Rs. 24.9 crores compared to 2.1% at Rs. 5.4 crores and for the year ended March 21 the PAT is 7.6% at Rs. 92.4 crores compared to 2.2% at Rs. 24.2 crores.

Now on the Indian pharma industry. As per the AWACS data or the IPM is showing signs of recovery and has registered a sale of Rs. 38,253 crores with a growth of 5.3% in the fourth quarter. During the quarter, Indoco has registered a sale of Rs. 231 crores degrowing by 1.6%. The company is ranked 29<sup>th</sup> in the IPM with market share of 0.61% as on 31<sup>st</sup> March. SMSRC bimonthly Rx prescription data for Jan to Feb 21 has shown recovery in terms of overall prescription generation for IPM with prescription degrowth of 4% over last year Jan-Feb 20. Indoco reflects prescription degrowth of 20% during Jan to Feb 21 with prescription share of 0.73%. The source here is SMSRC prescription data.

Domestic formulation business, the revenues from domestic formulation business degrew by 13% year-on-year. For the year ended March 21, revenues degrew by 9.8% at Rs. 619 crores as against Rs. 686 crores last year. During the quarter dapagliflozin 500 mg tablets under the



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brand name Depaja was launched. The tally of new products in SKUs launched for the year stands at 9.

Now the impact on business front:

Revenues from international business posted a robust growth of 65.7% year-on-year. For the year ended March 21 revenues grew by 66.2% at Rs. 492 crores as against Rs. 296 crores last year. Revenues from regulated markets grew by 75.3% year-on-year. For the year ended March 21, the revenues grew by 83.3% at Rs. 400 crores as against Rs. 217 crores last year. Revenues from US business for the quarter grew by 23.5% at Rs. 33 crores as against Rs. 27 crores for the same quarter last year. Brinzolamide suspension was launched in the US in March 21 in partnership with Teva as the first generic.

For year ended March 21, the US revenues grew by 162.3% at Rs. 148 crores as against Rs. 56 crores last year. Revenues from Europe for the quarter grew by 120% at Rs. 69 crores as against Rs. 31 crores for the same quarter last year. For the year ended March 21, the revenues grew by 55.5% at Rs. 239 crores as against Rs. 154 crores. Revenues from South Africa, Australia and New Zealand for the quarter are at 2.5 crores as against 1.6 crores. For the year, the revenues are at 12.2 crores as against 7 crores. Revenues from emerging markets for the quarter grew by 36.4% at Rs. 27 crores as against 20 crores for the same quarter last year. For the year ended March 21, the revenues grew by 17.5% at Rs. 92 crores as against Rs. 79 crores. Revenues from API business degrew by 1.6% year-on-year, for the year ended March 21 the revenues grew by 9.3% at Rs. 94 crores against 86 crores. Revenues from CRO and Analytical Services for the quarter grew by 13% at Rs. 3.8 crores against Rs. 3.4 crores. For the year, the revenue grew by 10.9% at Rs. 12 crores against Rs. 10.9 crores last year.

That is all about the business highlight for the fourth quarter. And I now request the participants to put up their questions. Be safe be healthy. Thank you.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session. The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

**Aditya Khemka:** Aditi ma'am, can you split the degrowth in the India business into acute and chronic sales?

**Aditi Panandikar:** So, Aditya, it is the entire degrowth is attributed only to two categories that too in acute. One is anti-infectives and the second is respiratory. So, if you had heard me in the earlier calls, for much of the year, most of the acute segments were degrowing but in by Q4 we made up GI which is Cyclopam leading the way, one of the main brands. However, Febrex Plus in respiratory and Oxipod in anti-infectives are largely responsible for pulling the growth down. Their categories have also heavily degrown for the pharmaceutical industry.



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- Aditya Khemka:** So, has the chronic brands or the semi chronic brands, has they actually registered growth in the same timeframe in the last 12 months or in the last 3 months?
- Aditi Panandikar:** Chronic in particular, there is some marginal growth. Sub chronic, mostly dental has done decently alright. However, the base is too small. So, when two of the largest brands degrew very heavily, but Q4 compared to the earlier quarters, I have to say overall growths in domestic have been little muted. So, you know India business highly suffered this year and typically field force is motivated to go after the targets when they can achieve incentives. So, what you saw in Q4 was largely led by an unfavorable environment in business and possibly a demoralized field force. So, that is a cumulative effect of that, nothing else.
- Aditya Khemka:** Understood. And on the export side on Brinzolamide, so we launched it in March, but could you give us some sense of whatever we shipped in March, was that like a one-month inventory for our customer or what is that like six-month inventory for our customer? I mean what kind of volumes we would have shipped in March.
- Sundeep Bambolkar:** Aditya, they wanted a critical mass in their warehouse before they could launch the product. So, I suppose this is about 3 to 4 months inventory which we have shipped.
- Aditya Khemka:** And you wouldn't have got the profit share. So, this is the revenue that you are reporting, is basically your thing, is basically your cost of goods plus manufacturing margin?
- Sundeep Bambolkar:** Correct. Right now, that is where we are.
- Aditya Khemka:** Right. So, going forward, as Brinzolamide sales pick up, as in there was sales pick up, you will start receiving profit share from them as well. Is that the correct understanding?
- Sundeep Bambolkar:** Yes. Absolutely.
- Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Funds. Please go ahead.
- Sudarshan Padmanabhan:** My question is I think the last few quarters has been very good for us in terms of business doing well across the board, but on the cash flow, if you look at the cash flow prior to working capital and we have generated about 240 crores, but fair amount of leakage is seen across, one is the other current assets were almost about, we have seen about 35 crores-40 crores. Inventory has not seen much of impacts, but receivables, other current assets and I think we have basically been a little bit more, I mean the payables has been unfavorable in the sense, that has basically moved up to the extent of about 50 crores-60 crores. So, can you explain a little bit more on what is happening on the working capital?
- Sundeep Bambolkar:** See, our payables had partly suffered in previous years because of the cash flow issue we had after the MHRA and FDA problems. Those were sorted out; in the last 12 months the cash



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flows have been very solid and as a result we have to make up for our payables which were lagging behind and today I am happy to report to you that all the payables are almost online. We had to do that because otherwise we would not have got good rates going forward for the purchases. And the confidence in the marketplace had to be built up. So, that is the reason, in spite of that you will be more happy to know that short term borrowings are still pegged around 120 crores. This shows very solid cash inflow both from domestic business as well as international.

**Vilas Nagare:** Sudarshan, this inventory days have been brought down from 79 days to 71 days, receivables have been brought down from 84 days to 70 days. So, there is a vast improvement in working capital management.

**Sudarshan Padmanabhan:** There is this other current asset that has moved up. So, any specific reason for that?

**Sundeep Bambolkar:** See, about and before that I will tell you about the creditors also, if you see all our major projects, capital projects have virtually been completed. So, in the previous year there have been creditors due on account of project capital expenditure. That has substantially come down. So, that is the reduction also we are witnessing. Trade receivables naturally in line with the export business growth, the credit period in the export vis-à-vis the credit period in domestic, there is always a difference. So, that is one important aspect. And your specific question, on the other current assets and all, these more towards as we are building up inventory for the others, then there are GST related some views, so that has also led to this interest and because overall if you see, the topline growth is happening because we are comparing with the last year pace. So, that is that major thing.

**Sudarshan Padmanabhan:** So, I would assume that as we move forward, I mean your working capital rationalize and the cap generation will kind of comeback pretty strongly.

**Sundeep Bambolkar:** In the new year, that is the year that is going on, we are slated to generate about 300 crores cash.

**Sudarshan Padmanabhan:** This is free cash you are talking about or cash from operations?

**Sundeep Bambolkar:** Cash from operations.

**Sudarshan Padmanabhan:** My second question is taking cues from your earlier commentary on the domestic side, even I understand that the fourth quarter has been bad, but if I look at probably the last month, we have seen a major spike as far as growth is concerned. Can you give some color with respect to, are we also seeing a growth in line with what the AIOCD is kind of showing and second is what is really happening on the ground, I mean given that we are seeing extended lockdowns across several states, do you think that the salesforce continues to remain a bit demotivated or any specific plans that we have to kind of improve the productivity and improve the sales?



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**Aditi Panandikar:** So, Sudarshan, as you said yourself, AWACS numbers for April are already out and you must have seen that the industry has grown by over 50%. Indoco too if you saw in AWACS has shown a growth of in excess of 75%. And this is pretty close to the real picture. This growth is partly coming on the base of low-level April sale of last year. And unlike the first wave of COVID when entire acute basket did very badly, this time around because there was no completely lockdown across the country and there were essential services and many other people are working. Also, because unlike the first wave, the doctors are practicing. So, what you are seeing is that the other acute segments are not hammered this time around. So, there is a double impact on growth. One on a low base and second on actual growth coming in, as you must be hearing now pre and post COVID there is a much better understanding of disease, its treatment and one is seeing several upper respiratory tract infections, use of antihistamines, use of anticoagulants, steroids which are required to be done pre and post COVID also. So, the entire basket is moving and that is responsible for the growth that you have seen for April in AWACS. Happy to share the Indoco too is seeing similar growth. Your second part of question about lockdown and is it impacting? When the first lockdown happened there were very few companies in India which had already established a digital means of reaching out to customers. Companies like Indoco were quite nascent for this. And I am happy that we have got enough time to prepare in the interim. So, today even if the field is not able to move as freely as they would like to, they are still able to make a) doctor calls and b) they are able to connect and say engaged with the customers through digital means. So, this time around we are not seeing that big an impact.

**Sudarshan Padmanabhan:** And one final thing before I log off is, join back the queue is, we also have the Fabiflu in the COVID portfolio. I mean, how would the growth be if we are basically removing the COVID? I mean, is the growth holistic or is it kind of colored by COVID. Are we seeing an excess growth because of the COVID portfolio?

**Aditi Panandikar:** So, segments like Ophthal, Dental where typically the doctors are not practicing because of the risk to themselves. Those are seeing a bit of an impact even now as in they are not growing as much as the others. But other end of therapies and what I am hearing from the industry Indoco is not big on CNS, but psychiatric treatment, CNS is moving very well. Like I said antibiotics, respiratory is also doing well this time around and per se, other than chronic of course is doing all that. And in fact, there seems to be a good consumption of medicines of all kinds and wondering if people are sort of stocking up at home as well. I am not seeing too much impact on too many segments like I said Ophthal, Dental maybe because they are directly related to two branches where a lot of surgical intervention happens and that probably is getting postponed.

**Sudarshan Padmanabhan:** And favipiravir should also be adding to portfolio, right?

**Aditi Panandikar:** It is not very big for Indoco but still doing exceedingly well.



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- Moderator:** Thank you. The next question is from the line of Rashmi Sancheti from InCred Capital. Please go ahead.
- Rashmi Sancheti:** Just a follow up from earlier participant. Ma'am could you explain that which of your top brands are basically co prescribed for the COVID treatment now where we can see that some kind of ramp up in the coming quarters?
- Aditi Panandikar:** So, Rashmi, we have typically for COVID we have a basket used in prevention. We have a basket used for treatment and then we have a basket of products which I used post COVID for any other infection. It is quite broad but roughly to talk of the key brands we have ATM which is an erythromycin brand, and it is the third highest growing brand right now in erythromycin segment for the industry and today it is the largest brand for us as a consequence of that. Other than that, we have Karvol Plus which is used a nasal decongestant and which is moving very well, it is used in steam inhalation for prevention. We have got Rexitin mouth wash with Warren, our Dental division which is a mouth wash used for killing germs in the oral cavity, that is doing well. We also launched two other ancillary products in our COVID basket. One is a mouth gargle called Poviclean which is gradually taking shape and a Zinc with Vitamin C and D, **(Inaudible) 21:37** which is a higher end zinc vitamin C combination which is at a nascent stage I would say in launch. Besides this, we have got favipiravir of course Fabiflu which is used for treatment. Also, other antibiotics like Oxipod which is a product line used in upper respiratory tract infection. Cough preparations like Tuspel, Tuspel Plus and vitamin D3 combinations which we have, like OH D3 which is also very small, but we do have a good-sized basket of products used along with pre and post COVID and they are all doing well.
- Rashmi Sancheti:** And ma'am, we have done around 9 product launches in India. So, to know what kind of run rate we should expect in FY22, after seeing a good recovery in the India market?
- Aditi Panandikar:** So, in this phase, other than dapagliflozin and empagliflozin combination and Alogliptin combination, they are key products for us. Most of the products have been in the COVID basket that has been launched. And after 2023 typically we do new product launch of around 3 to 4 products per division. So, we should be able to do that, around 20 products in a year.
- Rashmi Sancheti:** 20 products, is something the annual run rate we can expect for next 1 or 2 years?
- Aditi Panandikar:** Yes.
- Rashmi Sancheti:** And lastly on the raw material cost. Are we seeing any sort of impact due to the high raw material prices or anything which would impact the gross margins? Or it would more or less remain at the same levels?



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- Sundeep Bambolkar:** I don't think that will be that substantial that it will impact the margins because on the international business front we have covered our costs. And as far as domestic is concerned we expect things to get ironed out within 2 to 3 months from today.
- Rashmi Sancheti:** So, any guidance on the gross margin front which you are giving?
- Aditi Panandikar:** We should be able to work at these margins because our business mix is evolving Rashmi. So, if you observe this year itself in international business, it is moved from the pure contract manufacturing for Europe more towards supply to US and even for domestic as the per person return increases, the product mix is also getting better. So, I do not think that the increase in RM prices will directly impact our gross margins too much.
- Rashmi Sancheti:** And one last question on debt. Our long-term borrowings are more or less at the same levels versus last year. Are we going to see any kinds of repayment in FY22 or it would remain at the same levels? I mean I understand that for our working capital needs, our short-term borrowings can inch up. But if you can give some guidance on long term borrowings?
- Sundeep Bambolkar:** Long term borrowings compared to March 19 and March 21 we have repaid 40 crores long-term borrowings and today we stand at 141 crores and by September this figure should go down to 128 crores.
- Moderator:** Thank you. The next question is from the line of Deepan Sankara Narayanan from TrustLine PMS. Please go ahead.
- Deepan S Narayanan:** Firstly, I would like to understand from you, what will be our guidance for full year next year overall and for US and European markets?
- Aditi Panandikar:** Domestic is, because it is coming off very difficult year and of course today one has to predict based on how the situation will be but considering a decent amount of normalization in the business environment, domestic is targeting to do an excess of around 850 Cr. in topline. US should do close to 250 crores and Europe is expected to do around 300.
- Deepan S Narayanan:** And lastly, any update on this court case ban removal on apixaban application?
- Aditi Panandikar:** The court case in India, no. An application has been made. We eagerly await a hearing.
- Deepan S Narayanan:** So, no settlements for US market also, right?
- Sundeep Bambolkar:** No.
- Moderator:** Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi. Please go ahead.



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- Abdul Puranwala:** One question on the US business. As mentioned to one of the participants earlier, will we expect the profit share from the US Brinzolamide sales coming down in the next few quarters. Had it been that we would have gotten in this quarter, would that be a substantial increase on the gross margin?
- Vilas Nagare:** If it had come in March quarter?
- Sundeep Bambolkar:** It would have made a difference, definitely. But we launched, we shipped in March, so the question doesn't arise. So, definitely when we declare June quarter results you will hear something about it.
- Abdul Puranwala:** My second question is on the other expenses. So, when we are talking about the India business how stable it is in growth probably in the next quarter and from there, how do we see the promotion expenditure? So, typically, for our set of products, typically when does the MR start pushing those products in the market, and as compared to last year would there be any substantial increase in the promotional expenditure that we are seeing in FY21?
- Aditi Panandikar:** So, this year, actually if you look at the numbers, quarter-to-quarter change in how much has been spent. So, we had been showing a steady increase in sales and promotion expenses up to Q3 and then because of the lockdown again in Q4 it has come down a bit. But yes, compared to this year, next year there will be a marginal increase once the lockdown phase is over and it is very much required for the India business to grow. So, you might have heard from one of the earlier sessions. Right now, there is a spurt in the COVID basket, that is a kind of a demand created because of environmental condition. But other than that, to maintain and grow the other segments of business, certainly some number of sales and promotion expense increase will happen, but the increase in topline will more than offset. So, it is not going to impact margin clearly.
- Abdul Puranwala:** And would you like to provide some sort of guidance on an EBITDA level for FY22?
- Aditi Panandikar:** EBITDA is a sensitive topic right for us because from close to 11.5% last year, every quarter we were doing an excess of 18 and I kept saying that next quarter will be less than that and looks like we still did 18.5. So, we will definitely better this.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.
- Sachin Kasera:** Aditi ma'am I have 2-3 questions. One was, just wanted to clarify regarding this domestic, you mentioned a figure of 850 crores or 750 crores?
- Aditi Panandikar:** 850.



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- Sachin Kasera:** That looks quite aggressive. Even if you adjust for base of FY20, we are looking at more like a 15%-17% CAGR, earlier we stood at 12%-13%, so if you could give us some sense what is giving these types of optimism?
- Aditi Panandikar:** Yeah, because this year in lockdown has been a huge year of learning and we are seeing that kind of upside for many of the product categories that we are in. Other than that, for the organization, basically this year if you looked at our performance, 3 of our 4 segments were hammered and we are already seeing in the first quarter good signs of recovery and growth. So, I feel pretty confident to be very close. This is the target taken but I feel pretty confident to get close to that number.
- Sachin Kasera:** The second question was on the margins. You mentioned you will better this year. But considering the effect that you also mentioned that your industrial business now has become profitable, now that this year we will have the benefit of profit share also from Brinzolamide, can you look at a significant improvement in EBITDA margins, madam?
- Aditi Panandikar:** Yes. I think because we are yet to fully understand how and when these margins will start flowing back to us. So, we are not actually pegged in to come in at a particular quarter or not. So, this is steady state operations, but we will do in excess of 19% EBITDA for sure.
- Sachin Kasera:** And on the US, madam, how many products you plan to file and launch this year?
- Vilas Nagare:** This year we are trying to file 5 to 6 products.
- Sachin Kasera:** And the number of launches, any idea?
- Vilas Nagare:** It will be around 5 or so.
- Sachin Kasera:** Just one last data question, on the CAPEX, madam. This year and next year have you finalized the CAPEX plans?
- Sundeeep Bambolkar:** Yes. We will be close to 80 crores and next year also should be a similar number.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** My question pertains to US. There is a sequential degrowth. So, if you could throw some light on that, the degrowth, and secondly in terms of repeat orders from US. How are they moving and how you expect to grow going forward?
- Aditi Panandikar:** So, Charulata, as of now the way our products are taken on campaign basis and the way we book these sales is that unlike India business you don't have like a running product mix quarter on quarter. So, if this quarter 80% or 90% of the topline has come from Brinzolamide, the



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earlier quarter it would be from another set of products. So, that is one thing. Also, the business mix. Sometimes milestones come in at a particular time in a quarter and then they don't come in the immediate quarter. It is just that, nothing else.

- Charulata Gaidhani:** And about repeat orders?
- Sundeep Bambolkar:** We have plenty of repeat orders. US business is going to be very bullish for Indoco. I don't want to spell out the numbers at this stage, but the order book is very firm.
- Charulata Gaidhani:** So, far, I think there are 11 products in the market now?
- Sundeep Bambolkar:** 10 to 11, yeah, correct.
- Charulata Gaidhani:** So, how many products have you started getting repeat orders?
- Sundeep Bambolkar:** At least 6 to 7 products.
- Charulata Gaidhani:** And in terms of the India business, how much is the contribution of COVID to India sales?
- Aditi Panandikar:** It is not that substantial Charulata because the only two big brands that are contributing to the COVID basket until now, till the Q4 are ATM and Karvol Plus. Our favipiravir was launched after the first wave. So, till Q4 it is not seen a significant number. However, in this quarter, that is a running quarter it is doing well. So, we will just wait and see how things move, too early right now. But as such we have a very derisk India business. So, the COVID basket by a contribution to the whole India business is not too good.
- Vilas Nagare:** In fact Charulata, during this quarter, the COVID related products are not done as well as last year the same quarter.
- Charulata Gaidhani:** And I missed out on, you called out a number of prescriptions degrowth in the domestic...
- Aditi Panandikar:** I just checked that number after that was said. So, the entire industry is degrowing still on prescription and what SMSRC does is they give a relative degrowth. So, Indoco is relatively degrowing by 8% looking at the entire industry. This is what it means that minus 20 is an absolute number. What they mean is, 80% of the prescriptions for the industry are coming back, that is what it means.
- Charulata Gaidhani:** So, in terms of doctor prescriptions are we seeing growth now compared to...?
- Aditi Panandikar:** Yeah, so like I said, compared to the first wave, this time around doctors are actually attending clinics. Our patient footfall is a little limited on physical side but there are lot of E-Consult and other consults going on, but at least the early signs of April and May show that there is



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consumption of medicine happening largely on account of people wanting to buy COVID and COVID related therapies. Otherwise, chronic and subchronic basket based on need.

- Charulata Gaidhani:** And in terms of paracetamol, are you seeing a raw material cost increase?
- Sundeep Bambolkar:** Yes, of course. Like any other company. But we have passed on the cost increase to our frontend partners.
- Moderator:** Thank you. The next question is from the line of Rashmi Sancheti from InCred Capital. Please go ahead.
- Rashmi Sancheti:** Just want to know what is the current capacity utilization at Baddi-III plant?
- Aditi Panandikar:** Baddi-III is around 70% utilization of capacity.
- Rashmi Sancheti:** And what about the other plant for the Europe business?
- Aditi Panandikar:** So, currently, still Europe lot of it comes from Goa. Although gradually plans are to move it to Baddi and that has begun to happen. So, plant-I is running at quite a high capacity of excess of 85%. And plant-II which is this sterile plant is running at almost 70%-75% capacity. Baddi-I also does Europe and that is running at a much higher capacity.
- Rashmi Sancheti:** Ma'am, so you have guided at around 300 crores of European revenues for FY22, that includes your German tender business also?
- Aditi Panandikar:** Yeah, everything.
- Vilas Nagare:** Inclusive of all.
- Rashmi Sancheti:** And what about your API business? This year we have done exceptionally well. But going ahead how should we look at it?
- Aditi Panandikar:** Like Sundeep said in the call, the API business also has set good targets for growth. Expect to do around 20% growth in the API business in the coming year. What happens is as the international business for us increases, the internal consumption goes up. So, they are not able to sell enough. Right now, there is struggling on satisfying customers both internal and external parallelly.
- Rashmi Sancheti:** And finally, any remediation cost we had incurred in this year in FY21 or there was no, nothing?
- Aditi Panandikar:** Around 3 crores.



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**Moderator:** Thank you. The next question is from the line of Kunal from Vallum India Discovery Fund. Please go ahead.

**Kunal:** Sir, my first question is on the US business. In the opening to one of the participants mentioned that you had shipped 3-4 months of inventory of Brinzolamide to the US. So, when I remove considering the market size which was reported, then I removed that much, 3-month-4-month worth of revenue from the US business, what I see is that the rest of the portfolio actually has degrown on a Y-o-Y basis. So, could you throw some light, was there any competitive pressure or it is just I would say more of a seasonal change in terms of the US business, in terms of the mix?

**Sundeep Bambolkar:** As we said, it is all a product mix driven business unlike the India branded business. So, we cannot equate that because 3 months inventory was shipped that is why the others are not doing well, it is not that. The order book currently is very strong. As I said earlier, I cannot give you numbers, but it is absolutely on a very sound footing. So, the two don't correlate. The way what you are trying to put it.

**Aditi Panandikar:** Can you repeat what you try to say because for us to completely understand what you are saying? Are you saying that if we took out the Brinzolamide sale, we would have degrown, is that what you are saying?

**Kunal:** Yeah, because this quarter you did 33.1 crores and same quarter last year you did 26.8. So, from 33 if I take out a reasonable quantity for Brinzolamide?

**Aditi Panandikar:** Let me repeat what I said earlier. US should not be measured on a period-to-period basis because there are continuous shift in the kind of product we sort of manufacture and sold, because we take them on campaign basis. So, it is better if you look at it on a broader period basis, maybe in 6 months, over 6 months or something like that or annual, that makes more sense. Because when we manufacture, we sell, we ship it to US, then the partner carries inventory there and then sells. So, to make any kind of sort of conjecture based on the number of units moved or value of it, is not correct. We might have shipped something big last year at this time which was held by our frontend partner, something like that.

**Vilas Nagare:** Kunal, another point is the entire 3- or 4-months inventory was not shipped in March. March was just a beginning of the shipment and it also happened in April.

**Kunal:** Got it, sir. It was helpful. And the second question I had was on the India business. Ma'am I do appreciate that last year we would have had good amount of time to gain insights on how we can improve the momentum of the India business, but the 850 crores target which we have mentioned, could you give us a broader understanding of how because as one of the earlier participants also mentioned that even on the FY20 this target of growth is much higher than what we have done in probably any of the last 5 years also.



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- Aditi Panandikar:** Well, I did explain earlier that we are pretty confident of getting close to it. If you looked at industry growth which has come out for the month of April which is a 56%, normally on the old base, even with the base effect industry should not have grown at more than 30%. There are signs of an increased consumption, sometimes pandemic also. See, we were always aware that on account of reach and distribution itself, one should be able to sell more in India that you did before. Possibly things are changing. We are seeing a very high consumption happening right now in the industry across almost all segments. So, I feel that targets taken we take positive, and we try to get there.
- Kunal:** So, ma'am you are saying that the whole trajectory of the consumption across a much broader baskets, not just for Indoco but for all, for a good portion of the entire industry that was rebased to some extent because of this pandemic? Is that what you mean?
- Aditi Panandikar:** Yes.
- Moderator:** Thank you. The next question is from the line of Chirag T from HDFC Fund. Please go ahead.
- Chirag T:** Two questions. Firstly, did I hear correctly, you mentioned 300 crores as OCS for FY22?
- Sundeep Bambolkar:** Cash generated, yes.
- Chirag T:** And if I look at it historically in terms of your OCS to EBITDA generated, what you seem to be indicating is that EBITDA that should be in North of 300 crores as well?
- Sundeep Bambolkar:** Yeah, like Aditi said, we will do better than 19%.
- Chirag T:** And secondly on domestic. Again, did I hear correctly 850 crores for FY22?
- Aditi Panandikar:** That is the target, yes. Except for 800 for sure.
- Chirag T:** Again, I know a few participants have stressed this, but this looks very aggressive.
- Aditi Panandikar:** Yes, I agree.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.
- Aditya Khemka:** Vilas sir, what was the milestone increment this quarter for the US business?
- Vilas Nagare:** 8 crores.
- Aditya Khemka:** So, out of 33, 8 crores is the milestone.



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- Vilas Nagare:** Yes.
- Aditya Khemka:** And do we still have, say for the next 12-24 months, do we still have enough visibility on the milestone side for the US business where we can say that the milestones received in FY21 would not decline in FY22 or 23, I mean how should we look at the milestones for 22 and 23?
- Vilas Nagare:** It will be definitely maintained.
- Aditya Khemka:** Is there are reason it should not grow. I mean we are launching more products and hopefully more customers should ideally pay?
- Vilas Nagare:** No, your first question was will it decline. So, we said no, it won't decline.
- Aditya Khemka:** Okay, that is a vantage. So, let me rephrase that question. How much growth can we expect on the milestone side?
- Vilas Nagare:** See, the endeavor is to develop more and more complex products, but we definitely have visibility that it will grow. But how much and all that is a...
- Aditi Panadikar:** Aditya, what happens is, a lot of these milestones are pegged with certain regulatory sort of events. So, CR responses, ANDA approvals, API drug master file, so a lot of situational things are there which all need to fall into place. If everything works out, we can definitely do better also, much better.
- Aditya Khemka:** Understood. And when it comes to the SRM businesses, semi regulated market business, how do you see in the future, because we have a very small base there and we have a decent product basket in other markets which I don't believe is replicate in the SRM site. So, I am slightly more interested because I believe that is a high potential business where we don't have enough debt on that site. So, any thoughts Aditi ma'am on the SRM side or Sundeep sir on the SRM side?
- Sundeep Bambolkar:** We have done 91 crores or 92 crores this year and next year we would definitely do around 115 crores.
- Aditya Khemka:** And how would you achieve this growth. How do you get there? Is it more product launches or is it better penetration of existing products? What kind of portfolio are you selling, any color?
- Sundeep Bambolkar:** Both. Got better penetration in the existing market and new products to be including within the existing as well as new markets. This year just like the India business, for the year completed we had run into some problems. Logistics wise and getting material across to those countries. But now it seems to be dying down, all these issues and medicos are also back on their feet in Africa to visit doctors, doctors are meeting the reps. So, things are far better now. So, that is



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not introduction of new products, that is what gives us confidence. I mean it is a question of adding about 25 crores to the base. That is where we are.

**Aditya Khemka:** Understood. Did I hear you correctly? Aditi ma'am you said that the Micro Labs Baddi III plant is now running at 70% capacity utilization?

**Aditi Panandikar:** Yes.

**Aditya Khemka:** Is this like the average utilization for the past quarter or is it at this movement in time. I will tell you why I am confused because my understanding was that Baddi-III at its peak could give us 300 to 400 crores of sales. So, when you saying it is doing 70% utilization, is it already generating like 200-250 crores of annualized sales?

**Aditi Panandikar:** No, like I have explained several times before, how much sale you can do from a site and its utilization do not have a direct relationship as regards contract manufacturing related product mixes because we are continuously changing our mix to make it more earnings per unit manufacture both on the topline as well as margins. So, currently when we say 70% utilization that also includes the capacity utilized for lot of validation and findings and things like that. So, this is not entirely for commercial and this is spread an average kind of.

**Vilas Nagare:** This for the quarter and for the year it is not much. This is around 50% or less than that.

**Sundeep Bambolkar:** Aditya, you are right. We can easily generate 400 to 450 crores from that plant. It is just a question of replacing the products like Aditi said a higher value product the moment you make, automatically the value of dispatches from the plant will shoot up.

**Aditya Khemka:** Yeah, I get that. I respect that. I know each product doesn't give you the same utilization and the same revenue, that is not proportionate, I get that. What I was trying to gauge here is, okay, given by what you had said, we are basically selling lower value products and maybe higher volume products at this juncture from that facility. And my question is, if you can throw some more light on what is the kind of high value products that we may sell from that facility going forward. So, what is the pipe of that facility in other words and also what are the current products that we are selling out, we manufacturing paracetamol for the tenders from that facility which is why the volume is higher and value is low?

**Vilas Nagare:** It is not only paracetamol. There are a slew of products for domestic as well as international markets being made over there.

**Aditya Khemka:** So, domestic are also manufacturing in Baddi III?

**Vilas Nagare:** Of course.

**Moderator:** Thank you. The next question is from the line of Gaurang from NBIE. Please go ahead.



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- Gaurang:** I just had a question on employee cost. It has degrown Q-o-Q by 17% and also Y-o-Y 5%. So, I just wanted to ask whether this is structural or was it a one off?
- Sundeep Bambolkar:** There was some provisions in prior quarters of which we got the benefit, that was one part and the second part was the actuarial valuation. So, both these put together has brought down the employee cost to some extent.
- Aditi Panandikar:** And it is not structural. It is more one time for this quarter.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** My question is regarding our CRO business. How are we going to scale up that business over next 3 to 5 years?
- Aditi Panandikar:** So, we have a total capacity of 98 beds at CRO divided into 3 zones. So, we can do studies from 16 beds to a total 98 beds if need be and currently almost 40% capacity is being utilized by Indoco internally, either for our own projects or for customer projects for which we are doing contract research. And there are some external customers and there is, going forward, certainly this business I am expected for it to go by around 25% every year.
- Vipul Shah:** And second question relates to domestic business. You have given a guidance of 850 crores. So, when I see your major brands, all of them have degrown by 15%, some have degrown by 40% Y-o-Y. So, I am missing something. So, can you explain?
- Aditi Panandikar:** Our top four categories for India business are stomatological, anti-infectives, respiratory and GI and the fifth is vitamins, minerals, nutraceuticals. So, if you look at this current year, two of those categories were clearly hammered. One is anti-infectives and the other is respiratory. And GI for greater part of the year was also not picking up at all largely because of a COVID like environment. So, this 850 has been taken keeping in mind a more corrected environment. Surely, if the lockdown goes for much longer or COVID-like situation continues, then what happens to topline is a factor for the COVID basket moves of course. But looking at our top 4 categories, how badly they did and the amount of sale, we expect that there will be a spurt this year in those category. And I am pretty confident other than that many of the other divisions whether they are Opthal, Dental, Gynec, Cardio, Diabeto are really very small and have to ramp up in a big way. They have taken challenging targets and of course one has to wait and see but we are pretty confident this year domestic we will be able to revive and go after it.
- Vipul Shah:** Aditi ma'am, all our R&D expenditure we charge to P&L or any portion is capitalized also?
- Management:** We have set up policy many years back. As per that the projects post completion and once we get the approval they are written off in 3 years. And what we expect P&L is about 5% of the sales.



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- Moderator:** Thank you. The next question is from the line of Vipin Taneja, an individual investor. Please go ahead.
- Vipin Taneja:** Actually, you were mentioning about, actually CFO sir mentioned that the cash from operations are going to be upwards of 300 crores, I think Mr. Chirag of HDFC was also mentioning that we will be having that 19%-20% EBITDA margin, that means sales around 1500 crores to 1600 crores including the rest of the world as well. So, 1400 crores, you have mentioned 850 is from the domestic market, US is around 250 crores and Europe 300 crores coming forward and rest of the world 100-200 crores. So, around that numbers we should be looking at 1500 crores-1600 crores, around ...?
- Aditi Panandikar:** You have not counted API yet.
- Sundeep Bambolkar:** Another 100 crores for API.
- Vipin Taneja:** So, around 1500-1600 sales this year?
- Aditi Panandikar:** That is a good number.
- Sundeep Bambolkar:** Around 1650.
- Vipin Taneja:** And 19% to 20% EBITDA margins if we have to look for 300 crores plus cash generations.
- Aditi Panandikar:** Right.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.
- Sundeep Bambolkar:** Thank you very much, all the participants, thank you for your active participation. Have a nice evening.
- Aditi Panandikar:** And all stay home and stay safe.
- Vilas Nagare:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Centrum Broking Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.