

Management Discussion & Analysis for the Second Quarter FY20

Financials (Stand-alone)

(₹ In Lakhs)

Particulars	Unaudited				Unaudited			Audited
	Quarter Ended				Half Year Ended			Year Ended
	Jul'19– Sept'19	Apr'19- Jun'19	Jul'18– Sept'18	Gw %	Apr'19- Sept'19	Apr'18- Sept'18	Gw %	Apr.18 - Mar.19
Gross Sales								
Formulation :								
- Domestic	18630	16157	15898	17.2	34788	30865	12.7	60619
- Export								
Regulated Market :	5163	4320	3633	42.1	9482	6574	44.2	16085
Emerging Market :	2251	1612	1651	36.3	3864	2854	35.4	7265
Export Total	7414	5932	5284	40.3	13346	9428	41.6	23350
Formulation ... (A)	26044	22089	21182	23.0	48134	40293	19.5	83969
API :								
- Domestic	625	864	595	5.0	1489	1428	4.3	3197
- Export	1711	1509	1317	29.9	3219	2063	56.0	5025
API ... (B)	2336	2373	1912	22.2	4708	3491	34.9	8222
CRO & Analytical Services (C)	180	256	497	(63.8)	436	1056	(58.7)	1946
Gross Sales(A+B+C)	28560	24718	23591	21.1	53278	44840	18.8	94137
Other Operating Income	637	549	(28)	..	1186	476	149.2	2637
Income from Operation	29197	25267	23563	23.9	54464	45316	20.2	96774
EBIDTA	3214	2275	1181	172.1	5489	2338	134.8	7671
Operating Profit	2037	1076	190	..	3113	278	..	3613
Profit/(Loss) Before Tax	931	28	(1052)	188.5	959	(2254)	142.5	(924)
Profit/(Loss) After Tax	733	218	(779)	194.1	951	(1981)	148.0	(284)

➤ **Financial Highlights**

Revenues for the quarter grew by 21.1 % at ₹ 285.6 crores, against ₹ 235.9 crores, for the same quarter last year. In the first half of the year, revenues grew by 18.8 % at ₹ 532.8 crores, as against ₹ 448.4 crores for the same period last year. Sequentially, revenues for the quarter were higher by 15.5 % at ₹ 285.6 crores, as against ₹ 247.2 crores.

During the quarter, the material consumption was 31.4 % of the net sales, compared to 33.8 % for the same quarter last year. Staff cost to net sales is 22.4 %, compared to 24.8 %. Depreciation / Amortization are at ₹ 18.1 crores, compared to ₹ 17.6 crores. Research & Development (R&D) expenses to net sales are 4.1 % at ₹ 11.6 crores, compared to 5.4 % at ₹ 12.7 crores. Other expenses to net sales are 33.2 % at ₹ 94.7 crores, compared to 30.9 % at ₹ 73.0 crores.

For the first half of the year, material consumption was 32.9 % of the net sales, compared to 33.7 % for the same period last year. Staff cost to net sales is 23.4 %, compared to 25.6 %. Depreciation / Amortization are at ₹ 35.0 crores, compared to ₹ 34.4 crores. Research & Development (R&D) expenses to net sales are 4.3 % at ₹ 22.8 crores, compared to 5.8 % at ₹ 26.0 crores. Other expenses to net sales are 31.4 % at ₹ 167.3 crores, compared to 30.8 % at ₹ 138.3 crores.

Earnings Before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the quarter is 11.3 % at ₹ 32.1 crores, compared to 5.0 % ₹ 11.8 crores for the same quarter last year.

Earnings Before Interest, Depreciation, Tax and Amortization (EBIDTA) to net sales for the first half is 10.3 % at ₹ 54.9 crores, compared to 5.2 % ₹ 23.4 crores for the same period last year.

➤ Rating

The Company's working capital facilities are rated as [ICRA] A2+ (Pronounced as ICRA A two plus) and long term borrowings are rated as [ICRA] A (Pronounced as ICRA A).

[ICRA] A2 Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations. Such instruments carry low credit risk.

[ICRA] A Instruments rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

➤ Finished Dosages

Ranking in IPM

Indoco ranks 30th in the IPM, with market share of 0.68 % as on September'19 as per AWACS.

As per SMSRC, Indoco ranks 23rd with prescription (R_x) share of 0.86 % as on August'19 MAT basis.

Indoco's Domestic Formulation Business:

Revenues from Domestic formulations business for the quarter grew by 17.2 % at ₹ 186.3 crores, as against ₹ 159.0 crores for the same quarter last year. For the first half, revenues grew by 12.7 % at ₹ 347.9 crores, as against ₹ 308.6 crores for the same period last year.

Details of revenues from major therapies are as follows: (₹ In Lakhs)

Therapy	Q2FY20	Q2FY19	Gw %	First Half FY20	First Half FY19	Gw %
Anti-Infectives	3427	2580	32.8	5438	4471	21.6
Stomatologicals	3291	2831	16.3	6676	5908	13.0
Respiratory	3176	2549	24.6	4927	4486	9.8
Gastro Intestinal	2683	2170	23.6	5366	4598	16.7
Vitam / Miner / Nutri	1134	1243	-8.7	2453	2401	2.1
Ophthal / Otologicals	1056	997	5.9	2194	2011	9.1

Details of revenues from major brands are as follows: (₹ In Lakhs)

Brand	Q2FY20	Q2FY19	Gw %	First Half FY20	First Half FY19	Gw %
Cyclopam	2096	1636	28.1	4180	3442	21.4
Febrex Plus	1975	1439	37.3	3161	2719	16.2
Oxipod	1361	956	42.4	2039	1590	28.3
ATM	1165	793	47.0	1853	1378	34.5
Cital	1067	804	32.7	2208	1684	31.1
Sensodent K	1033	869	18.9	2124	1847	15.0
Cloben G	580	566	2.6	1114	1098	1.5
Sensoform	553	499	10.8	1126	1059	6.3
Karvol	520	442	17.6	722	706	2.3
Sensodent KF	507	472	7.4	1066	954	11.7
Bactogard	428	315	36.0	694	564	23.1
Tuspel	422	403	4.5	604	622	-2.9
Carmicide	324	272	18.9	621	571	8.7
Rexidin	310	201	54.2	544	401	35.6
Kidodent	296	248	19.1	617	504	22.4

New product introductions:

During the quarter, the Company launched one new product in Chronic Segment. The total number of new product launches in first half of the year stands at three i.e., two in Chronic and one in Sub-Chronic Segment.

➤ **International Formulation Business**

During the quarter, revenues from International formulations business grew by 40.3 % at ₹ 74.1 crores, as against ₹ 52.8 crores for the same quarter last year. For the first half, revenues grew by 41.6 % at ₹ 133.5 crores, as against ₹ 94.3 crores for the same period last year.

USA

During the quarter, revenues were at ₹ 11.1 crores, as against ₹ 5.2 crores for the same quarter last year. For the first half, revenues were at ₹ 13.7 crores as against ₹ 11.0 crores for the same period last year.

Europe

During the quarter, revenues from Europe business grew by 45.2 % at ₹ 39.3 crores, compared to ₹ 27.1 crores for the same quarter last year. For the first half, revenues grew by 62.6 % at ₹ 77.1 crores as against ₹ 47.4 crores for the same period last year.

South Africa, Australia & New Zealand

Revenues for the quarter were at ₹ 1.3 crores, compared to ₹ 4.0 crores for the same quarter last year. For the first half, revenues were at ₹ 4.1 crores as against ₹ 7.4 crores for the same period last year.

Emerging Markets

Revenues for the quarter grew by 36.4 % at ₹ 22.5 crores, compared to ₹ 16.5 crores for the same quarter last year. For the first half, revenues grew by 35.4 % at ₹ 38.6 crores, as against ₹ 28.5 crores for the same period last year.

Plant Regulatory Update Q2FY20

Goa Plant I

A full GMP status has been reinstated for Plant I in September 2019, as an outcome of the recent inspection by UK-MHRA in May 2019. The European supplies are expected to grow from here on.

US consultants are on board for remedial actions to resolve the concerns raised in the Warning Letter issued by the USFDA on 18th July, 2019 for Goa Plant I.

Goa Plant II & Goa Plant III

In September'19, inspection was conducted by UK-MHRA in Plant II, which resulted in 2 observations, none of them are critical. Response to UK-MHRA has been duly submitted.

Indoco successfully concluded the USFDA audit for its sterile manufacturing facility in Goa Plant II from 7th October'19 to 15th October'19. This is the second successful Pre-Approval Inspection (PAI) of this site in less than 6 months, which indicates steady progress in review of our pending ANDAs. The Inspection ended with 2 observations, neither of these are related to Data Integrity or the core Quality Management System.

The Company will respond to the FDA within the stipulated time. The site continues to maintain its VAI status.

Indoco recently received an ANDA approval for Rasagiline 0.5 mg and 1 mg tablets, filed from Plant III. The molecule is used for the treatment of Parkinsons disease. The launch is planned in the last quarter of FY20.

➤ **Active Pharmaceutical Ingredients (APIs)**

Revenues from API business grew by 22.2 % at ₹ 23.4 crores, compared to ₹ 19.1 crores for the same quarter last year. For the first half, revenues grew by at 34.9 % at ₹ 47.1 crores, as against ₹ 34.9 crores for the same period last year.

➤ **CRO, Hyderabad**

During the quarter, revenues from CRO business were at ₹ 1.8 crores, compared to ₹ 5.0 crores for the same quarter last year. For the first half, revenues were at ₹ 4.4 crores, compared to ₹ 10.6 crores for the same period last year.

USFDA conducted inspection for Bio-analytical part from 5th August'19 to 9th August'19 and for Clinical part from 14th October'19 to 18th October'19 at AnaCipher CRO, Hyderabad. Both these inspections were successfully concluded with zero 483s.

➤ **Future Outlook**

The Company's Domestic business continues to focus on brand building, new product launches, thrust on sub-chronic (Specialty) segment and penetration in the North and East Region.

Going forward, the Company's business from US is expected to grow as ANDAs will be commercialized at regular intervals. Re-instatement of the EU-GMP compliance certificate for Goa Plant-I and the latest EU-GMP approval of newly acquired solid dosages manufacturing facility at Baddi Plant-III will also boost the EU business. Indoco is also consolidating its position in the Emerging Markets through active brand promotion. Robust pipeline in multiple dosage forms will enable the Company to have an upper edge over its competitors in the international business.

Expertise in Research & Development, backward integration in API in select products, own CRO set-up, excellence in finished dosages manufacturing and a strong customer base makes the Company, a preferred partner, offering complete solutions to generic companies worldwide.

Safe Harbour

Statements made in this Management Discussion and Analysis (MDA) describing the Company's objective, projections, estimates and expectations may be 'Forward-looking statements' within the meaning of applicable securities laws & regulations. Actual results could differ from those expressed or implied due to risks, uncertainties and inaccurate assumptions.