



**“Indoco Remedies Limited  
Q3 FY2021 Earnings Conference Call”**

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- Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of Indoco Remedies Limited hosted by Nirmal Bang Institutional Equities. 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 Institutional Equities. Thank you and over to you!
- Vishal Manchanda:** Thank you Rutuja. Good afternoon everyone and welcome to the Q3 FY2021 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 Panandikar - Managing Director; Mr. Sundeep Bambolkar - Joint Managing Director; Mr. Mandar Borkar - Chief Financial Officer and Mr. Vilas Nagare - President, Corporate Affairs and M&A. Over to you Sir!
- Sundeep Bambolkar:** Good afternoon, all the participants. Hope you and your family members are all safe and healthy.
- Let me begin first with the business highlights. Net revenues for the quarter grew in double digits by 17.6% at Rs.333 Crores against Rs.283 Crores and for the nine-month period ended December 2020, revenues grew by 13% at Rs.923 Crores against Rs.816 Crores.
- EBITDA to net sales for the quarter is 18% at Rs.60 Crores compared to 12.4% at Rs.35.10 Crores and for the nine-month period, the EBITDA is 18.3% at Rs.169 Crores compared to 11% at Rs.90 Crores. PAT to net sales for the quarter is at 7.5% at Rs.25.1 Crores compared to 3.3% at Rs.9.3 Crores and for the nine months period, the PAT is 7.3% at Rs.67.5 Crores compared to 2.3% at Rs.18.9 Crores.
- Now on to the Domestic Formulations business, as per AWACS December 2020 data, IPM stands at Rs.39,484 Crores with a growth of 6.4% during the quarter and Rs.10986 Crores with a growth of 0.9% during the nine months period. Indoco ranks 29<sup>th</sup> in the IPM with market share of 0.63%; the source of this information is AWACS.
- As per SMSRC, the number of term prescription for the period November-December 2020 for the IPM has degrown by 13% compared to the same period last year. Indoco ranks 24<sup>th</sup> with a prescription share of 0.74%.

Revenue from domestic formulation business for the quarter degrew by 11.7% Y-o-Y. For the nine-month period revenue degrew by 8.8% at Rs.480 Crores as against Rs.526 Crores. As the Pediatric Conference Award 2020 organized by CIMS Medica India, the company's brand Kidodent received the Most Trusted Pediatric Toothpaste for Regular Use Award. The virtual event was held on November 21, 2020 and was attended by key dignitaries from medical fraternity. During the quarter, three new products were launched namely, FEVINDO-800 tablets that is Favipiravir, Povi Clean Gargle, Povidone Iodine and Cimune CD tablet multivitamin.

On to the international business front, revenues from international business posted a robust growth of 72.6 % for Q3. For the nine-month period revenues grew by 66.4% at Rs. 360 Crores as against Rs. 217 Crores. Regulated market grew by 86.3% Y-o-Y, for the nine-month period the revenue grew by 87% at Rs.295 Crores as against Rs.158 Crores.

Revenue from US business for the quarter, are at 45 Crores as against Rs.16 Crores and for nine months period, the revenues are at Rs.115 Crores as against Rs.30 Crores. The company has dispatched the launched quantities of one ophthalmic and two injectables to US during the quarter.

Indoco has also received US FDA approval for an injectable ANDA and the launched quantity of the same will be shipped soon. Revenues from Europe business for a quarter grew by 45.1% at Rs.66 Crores as against Rs.45 Crores. For the nine-month period, the revenues grew by 38.7% at Rs.170 Crores as against Rs.122 Crores.

The company won major tenders in Germany including AOK for Allopurinol tablets worth Rs. 140 Crores. The revenue expected from this business is Rs. 70 Crores per annum. The company is vertically integrated for Allopurinol API, the captive consumption of which will be equivalent to 100 metric tons per annum for supplies against these tenders. Revenue from South Africa, Australia and New Zealand for the quarter is at Rs.6 Crores as against Rs.1 Crores for the same quarter last year. For the nine-month period, revenues are at 10 Crores against Rs.5 Crores. Revenues from emerging markets for the quarter grew by 30.6% at Rs.27 Crores as against Rs.20 Crores. For the nine-month period, the revenue grew by 11.3% at Rs. 66 Crores as against Rs.59 Crores.

During the quarter, revenues from API business grew by 55.3% Y-o-Y. For the nine-month period, revenue grew by 12.6% at Rs. 74 Crores as against Rs. 66 Crores.

Revenues from CRO and Analytical Services for the quarter were flat at Rs.3 Crores. For the nine-month period, the revenues grew by 10% at Rs. 8 Crores as against Rs. 7 Crores.

The Indian patent office granted two patterns for Indoco formulation manufacturing processes. First a Novel Organogel composition for orobuccal drug, Indoco is currently using this novel process in the manufacturing, two of its brands namely, Rexidin-M Forte Gel and Duestom. A stable gel forming solution of Timolol Maleate, Indoco intends to use this formulation in its domestic and RoW market. With the grant of these patents, the company has 38 granted process patents out of which 21 are of API manufacturing process and 17 are for formulations.

That is all about the business highlight for Q3 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 Sudarshan from Sundaram Mutual Funds. Please go ahead.

**Sudarshan:** Thank you for taking my question and congrats on great set of numbers. Madam, my question is on the domestic business while I think we have done very good on the export side I mean on the domestic side, we are a little disappointed because we were expecting that on a Q-o-Q, there should be some kind of an improvement, if you can give some color with respect to anti-infectives, gastro and ophthalmology which occupies a higher percentage of your overall domestic side and also if you can give some color with respect to the larger brands because I mean the products like Febrex has not really seen any kind of growth, one is looking it from Q-o-Q basis also it is not as improvement as what we expected like Febrex Plus, Oxipod has really not or even Cyclopam for that matter, so if you can give some color with respect to some of these therapy areas, some of the larger brands, with respect to when we can see somewhat more normalization and what kind of plans do we have to push sales or is there any way where we can bring additional sales?

**Aditi Panandikar:** As you correctly identified, two of our key brands Febrex Plus and Oxipod have heavily degrown, not just in this quarter but even in the earlier quarters. I think you have two questions; one is why sequentially we could not show higher growth in Q2 and the second one was about the bigger categories the products, how are other products are fairing? So first to answer to your question, on a month-on-month basis if you look at the trajectory of most of the therapy areas you will see that we are doing better than the month before in lockdown. However, having said that it is true that we have not been able to post growth over Y-o-Y in this period and the two categories of our products which have let us down, one is anti-infectant and the second is respiratory both these therapies have not done for the covered market as well. For Q3 this year, the respiratory category has degrown by 12% for industry. We have degrown by 3% here. Anti-infectant is also if you take out the impact of Favipiravir and some of the antibiotics that have been used for COVID related ailments

other than that, anti-infectives are also revenue have degrown and that is how Oxipod has got impacted. We are confident going forward as things open up and essentially it is use of masks which has caused great amount of fall in any kind of respiratory and other ailments. Increase hygiene conditions, work from home, eating at home all those have been responsible, so our acute categories have got impacted and which is why the domestic business has shown the -11% this quarter. Some of our other categories and products you specifically asked, Cyclopam is one of the key products which had got impacted in lockdown but is showing good trends of recovery now. Same is the case with the product like Cital. The dental products are also doing quite well and for Q3, we have grown at twice the rate of the covered market in Stomatological, so as such there are good indications that we shall do well in domestic. However, we stay though certain extent impacted by what is happening in the covered market and by the demand for these products. I hope I have answered your question.

**Sudarshan:** Yes, Madam and in terms of specifically these therapies like ophthalmology dental I mean because of the fear of COVID, are we seeing better traction and better footfalls?

**Aditi Panandikar:** There is improved traction and improved footfall and incidentally ophthalmology is one of the categories which is ramping up much faster than all the others now, so I expect ophthalmology, dental in fact some of the other subchronic spaces also to do quite well like gynaecology, these should pick up first. The acute therapies will lack behind a bit for a growth perspective.

**Sudarshan:** And specifically with products like Febrex and Oxipod given that the last few months, it has been much lower, is it primarily because of COVID or are there any other issues with respect to these brands?

**Aditi Panandikar:** No, there are no other issues. Primarily, the season for these products is Q2 which did not come in this year because of lockdown, so Q3 generally is lower than Q2 even under normal circumstances. This year as I said use of mask, better hygiene conditions generally people have not got impacted by respiratory ailments, so most products in the respiratory segments cough, cold, decongestants and antibiotics used for upper respiratory tract infection like most of the C4 molecules, they have not done well and Oxipod and Febrex plus has fallen these categories.

**Sudarshan:** Madam, one question on the cost if I look at on Q-o-Q basis, the other expenses are lower so is your staff cost, the broad belief was that the sales will come off and the cost will come off, it looks like either of them have not happened, so any view on the cost side?

- Aditi Panandikar:** Cost related to India business have gone up marginally as was expected, that the cost was coming back and deposit offline is coming back is not a correct correlation to meet, whatever needs to be done for India business by the way of increase in travel and or advertising as is required based on what we can do given how conditions are opening up is being done and we are confident therefore the topline will come back that the condition gets corrected.
- Sudarshan:** Madam, with respect to the injectable products we should see ramp up from Q4, right? I mean for US business.
- Aditi Panandikar:** Yes.
- Sudarshan:** That is it from my side. I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from Incred Asset Management. Please go ahead.
- Aditya Khemka:** Thanks for the opportunity. First question is on the India business Aditi Madam, as you said, at the presented market has also not done well, so in terms of market share, are we flat Q-o-Q, are we down in the represented molecule market share?
- Aditi Panandikar:** Marginally higher.
- Aditya Khemka:** Okay, so we are gaining market share in the represented molecule?
- Aditi Panandikar:** Yes.
- Aditya Khemka:** That stands for Citalopram, that stands for Febrex and there also stands for Oxipod?
- Aditi Panandikar:** Cyclopam and Febrex plus, Oxipod we are in the top six brands of such product Cefpodoxime and the market leader is doing better than the rest of us marginally.
- Aditya Khemka:** Understood, Fair enough. On the litigation that we were engaged in for the India business some products we were in litigation with the innovator regarding the high price, could you update us what is happening there?
- Aditi Panandikar:** It has not really moved. There were couple of hearings when nothing happened and status quo continues, new date has been given, we stay hopeful.

- Aditya Khemka:** Right. Does the delay in solving the litigation also limit our opportunity window or does it not impact that?
- Aditi Panandikar:** No, it will not limit our opportunity window, there are other molecules expected to come off patent in this category, a little later but the biggest factor here is innovator product and how good it is from safety perspective and that market will stay.
- Aditya Khemka:** Understood, now to the US business sale which has done exceedingly well, so does this include milestones from the product approvals and non-share strategy of that?
- Aditi Panandikar:** Yes. As discussed in the last call also Aditya, typically the amount coming amount of proportion coming from milestones and total sales is almost constant for all the three quarters.
- Aditya Khemka:** As it has been 50-50 almost?
- Aditi Panandikar:** No, it is much lower. I think how much is this quarter.
- Sundeep Bambolkar:** Out of overall total export sales if you want to understand in terms of dossier and all, it is hardly 18 Crores which is like profit share?
- Aditi Panandikar:** For the quarter, only 18 Crores comes from milestones which we also call Dossier income internally.
- Aditya Khemka:** Right, okay. Understood and just one last question on the cost structure, so given that the costs are marginally lower sequentially, but the India cost has not normalized, so is the freight cost on the export side that is coming down or what cost is coming down?
- Aditi Panandikar:** India business all costs have not come back Aditya, and like I expressed earlier many areas of the India business, we are actually looking at bringing in more efficiency so, some costs are likely to get postpone forever, let us hope that regarding on international front it is a greater number of gain of numbers.
- Sundeep Bambolkar:** Yes, it is more since the volumes have gone up, the plant cost got optimized. Freight is constant. Freight is constant or marginally up, so we are not getting any advantage of that.
- Aditi Panandikar:** Coming to cost of goods, if you look at a Y-o-Y picture the absolute amount milestone collected in Q3 this year would be higher than same quarter last year and that would impact the cost of goods.

- Aditya Khemka:** Understood, so that impacts the cost of goods favorably?
- Aditi Panandikar:** Yes.
- Aditya Khemka:** Also, on your productions, so now we have a lot of API capacity given the Patalganga that is sanctioned, so what percentage of production vertically integrated, are we focused on the export side, domestic I do not really see that much but on the export side what percentage of our production has actually it is?
- Aditi Panandikar:** Close to 80%.
- Aditya Khemka:** Okay madam, all the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** Congrats on the good set of numbers and my question does the Europe sales include Allopurinol?
- Aditi Panandikar:** Yes.
- Charulata Gaidhani:** Okay and in terms of US supplies could you name the injectable that we have supplied?
- Aditi Panandikar:** Actually, we cannot at this stage, but we have been making periodic press releases whenever we got approval at least when it is our own product.
- Charulata Gaidhani:** Okay, so the two injectables are for our won or for contract?
- Aditi Panandikar:** Some are contract, some are our owns.
- Charulata Gaidhani:** Okay and there is one injectable that has been approached that will be shipped in the current quarter?
- Aditi Panandikar:** Yes.
- Charulata Gaidhani:** Okay, that is your own or?
- Aditi Panandikar:** Customers.
- Charulata Gaidhani:** Okay and in terms of lower interest and depreciation have you retake from that?



- Aditi Panandikar:** Yes.
- Sundeep Bambolkar:** You will be happy to know that between December 2018 and December 2020, we have repaid almost 50 Crores long term debt.
- Charulata Gaidhani:** Okay, so how much is the gross debt?
- Sundeep Bambolkar:** Short term debt of course fluctuates between 120 Crores and 140 Crores.
- Charulata Gaidhani:** What is the current level of gross debt?
- Sundeep Bambolkar:** Gross debt is around 285 Crores.
- Charulata Gaidhani:** Okay and cash?
- Sundeep Bambolkar:** Cash 2.5 Crores and 3 Crores by the end of year, cash balance you are talking about? It is marginal. Short term rates are also coming down, if you notice that is also short-term debt rates are also sequentially coming down every quarter since last three quarter, so that has also contributed.
- Aditi Panandikar:** It is lower cost of fund.
- Charulata Gaidhani:** Yes, Thank you.
- Moderator:** Thank you. The next question is from the line of Deepan Narayan from Trustline PMS. Please go ahead.
- Deepan Narayan:** Thanks a lot for the opportunity and congrats for the good set of numbers. Aditi Madam, as you have explained the domestic formulation so when are we expecting recovery basically on anti-infectants and also other segments acute division?
- Aditi Panandikar:** We keep our fingers crossed, as such now that vaccines have come in; I guess it will give people more confidence to step out of their homes and normalcies likely to return. With that I am hoping acute segment will gradually come back. As such as I already said in the first two quarters, we were taking lot of flat from most of our key products but in Q3 we have seen a good recovery of Cyclopam and in Q4, I expect it to further get better. Now, we are just lagging behind just for two products, one is Febrex Plus which is typically used for blocked noses, for congestion, pollution related, allergy related and when the season changes and for Oxipod which is product, antibiotic used for upper respiratory type infection, so both of these have a seasonal element to it also, typically Q2 is season for

these products, so for kind of peak sales of these products I guess we would have to do it for Q2 of next year but otherwise Q-o-Q kind of number we should be able to I am sure Q1 in next year we should be able to do better.

**Deepan Narayan:** Okay, also can you provide some guidance in terms of next year how it will be looking for domestic, US, and European market for us?

**Aditi Panandikar:** See India business YTD is -9% right now and considering whatever we have seen of the last couple of months, I do not expect it to change too much for the whole year basis, so this year we can safely say India business will be down by 8% to 9% and from there we must expect a minimum 15% growth next year.

**Deepan Narayan:** Let us see, okay and what about US and European market?

**Aditi Panandikar:** US this year will do close to 150 Crores and we should do 220 Crores to 225 Crores next year about. Europe will grow at around 25% to 30% can be expected.

**Deepan Narayan:** Okay, sure Madam. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Rashmi from InCred Research. Please go ahead.

**Rashmi:** Thanks for the opportunity. So, little bit more clarification on the domestic side, are we seeing any competition or any market share loss in this Stomatological therapy or we are still the most prescribed brands in this therapy?

**Aditi Panandikar:** Most prescribed no loss of market share.

**Rashmi:** Okay, and Madam, on the cost front you said that the cost would be expected to get postponed further. So, is it safe to assume that Q4 also we will see the similar kind of other expenses and all just like Q3, it would be in that range only but what about FY2022 is it something that then all the marketing and promotional expenses and everything will come back, everything will get normalize and this is going to go up like FY2020?

**Aditi Panandikar:** Not entirely like before but, yes it will inch up.

**Rashmi:** Inch up in the sense now currently more or less we are in the range of 26% of sales so, fair to assume that at least 100 basis point to 200 basis points inch up can happen in the next year?

**Aditi Panandikar:** Yes.

**Rashmi:** Okay, and Madam, on this Allopurinol tender, this Allopurinol for Germany it would be supplied from which facility?

**Aditi Panandikar:** Goa plant 1 and 3.

**Rashmi:** Goa plant 1 and 3, so what I understand that from plant-3 we were already supplying it the US right, and I think.

**Aditi Panandikar:** Yes, same size, we are also making for Europe, we are also making from one of the Baddi site.

**Rashmi:** From one of the Baddi site, so it would be supplied from plant 1, 3 and Baddi plant, the new Baddi plant, right?

**Aditi Panandikar:** Yes.

**Rashmi:** Okay so, what I want to understand that in the US Allopurinol used to contribute around \$ 1 million, right. So, it is at the same level or the supplies to US have come down and now we are focusing more on supplies to Germany, I mean the production is used there for Germany?

**Sudeep Bambolkar:** Rashmi, these are two different markets. So, German tender, which we have won, is entirely for the German territory and US supplies are totally different. So, right now we are in the range of \$1 million and marginally we did not fall.

**Rashmi:** Marginally it might fall you are saying?

**Sudeep Bambolkar:** No, go up.

**Aditi Panandikar:** See one is coming at the cost of the others that is not how it work.

**Rashmi:** Okay, so that means it is basically stagnant in the US, right that is not affected?

**Aditi Panandikar:** US generally when you make supplies you make enough for couple of quarters and then you get the next order that is how it is. So, if you study QoQ you may feel like that the one is going down other is going up. But annual basis there is nothing like that.

**Sundeep Bambolkar:** Yes, it will go up finally.

- Rashmi:** This supply to Germany has already started in this month, right?
- Aditi Panandikar:** Barely, this month yes.
- Rashmi:** Okay, so basically when you are saying that Rs.70 Crores supply it would be calendar year 2021 and 2022?
- Aditi Panandikar:** Yes.
- Rashmi:** Madam, what about the margins from this kind of tender is it like very competitive and is it below company level margins or they are much better or equal to the company level margins. The current company level margins?
- Aditi Panandikar:** They are equivalent to company level margins I would say, and you cannot generalize if you are asking for this one specific product. We are vertically integrated on it with our own API so, that is how we can do it at decent margins.
- Rashmi:** Okay, so specifically for this Germany market supply I am asking whether it is equivalent to or it is slightly below the company level margins?
- Aditi Panandikar:** Equivalent.
- Rashmi:** Equivalent to it. Okay, thanks. That is, it from my side and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Sajal Kapoor from Unseen Risk. Please go ahead.
- Sajal Kapoor:** Hi! Thanks for taking my question. Sandeep Sir, in a recent webinar hosted by ICRA you sounded very positive on the emerging CDMO opportunity as far as many companies including Indoco. So, my question is with an integrated CRO and a strong R&D set up and since its capabilities and complex sterile injectable and ophthalmic nano suspensions we have marks we have pulsatile drug delivery and so on. We should be able to scale up innovator and partner synthesis quite meaningfully, no?
- Sundeep Bambolkar:** Yes. Not necessary no with the companies I was talking about a large generic company in the US who give a lot of opportunity to Indian companies to go ahead for contract research in terms of development of complex Ophthalmic, complex injectables that is the story I spoke about.

- Aditi Panandikar:** But if you are asking about whether any capabilities can be used to work with it do with us and as such on paper it is a sale and if you ask me about a decade or more than that there used to be clear markets of innovator and generic in the last few years this has really become a very thin line so, both kind of companies work with each other. So, from a capability perspective what you said is correct, from capabilities on clinical research, doing VE studies, product development and even custom synthesis in API we have all the capabilities.
- Sajal Kapoor:** Yes, Madam so exactly for that, my question when we have all the capabilities then why we are not aggressively pursuing that path and do we have the capacity to address that sort of opportunity. Because what happens is, we have to think four year – five years out for this so it takes couple of years to design and build and you plan and then the validation, that, this and then the qualification etc., so all these from start to going commercialization takes four year – five years. So, we have to think for 20% - 25% and beyond growth today?
- Aditi Panandikar:** Right. it is a good perspective to bring in the two kind of lines of business are very different though and the kinds of risks that are taken also on both businesses, if you partner with generic versus if you partner with innovator are also entirely different. But certainly, something has to consider going forward.
- Sajal Kapoor:** Sure, Madam, we look forward to some further updates in ensuing quarters from that one and secondly, Madam COVID seems to have disrupted us more than our smaller size players as far as the domestic business is concerned. So, is it because we could not leverage or effectively adopt digital and online channels as effectively as some of our smaller competitors had?
- Aditi Panandikar:** No, it is more a play of how large some of the products which were impacted were for us in particular. If you look at the top four segments for us in India business number 1 is Stomatological, number-2 is anti-infective, number-3 is respiratory, and number-4 is GI and other than Stoma all three got impacted. So, it is more a case of the product basket which got impacted having a very high proportion of sales for Indoco compared to some of the other companies this is what I have to say to be honest.
- Sajal Kapoor:** No, I agree with that Aditi Madam, but even if you take pre-COVID so let us take the quarter ending December-2019 when there was no COVID. Our field force productivity was one of the lowest and that has been a pain point for us for quite a few businesses now. When can we expect our field force productivity to improve and not be at the rock bottom as far as the real growth is concerned?

- Aditi Panandikar:** Today our field force productivity is close to two and half and I expect it to inch up towards three in the next two years.
- Sajal Kapoor:** Right, so we were 2.4 today we are 2.5 and we expect to go to 3 by the end of FY2023?
- Aditi Panandikar:** Yes.
- Sajal Kapoor:** Okay, Sure and finally I could squeeze in a couple of product specific questions, so how has been the fraction on Dorzolamide in a world where almost everyone is working remotely in a zoom enabled digital world, we naturally expect some traction on the ophthalmic and products like Dorzolamide etc., no?
- Aditi Panandikar:** Yes, we do not know Dorzolamide in India as a brand and internationally we have just got the product matt from Teva, so we are yet to launch it. If you ask how to have ophthalmic taken off in India compared to much of the other segment in ophthalmology the tear substitutes have done better and in our case the product like Irivisc has done quite well compared to most of other ophthalmic product. So, to that extent the computer vision syndrome as it is called has impacted people and there is higher consumption of products like tear substitutes Irivisc which is one of our brands.
- Sajal Kapoor:** Sure Madam, and finally on the Olanzapine the approval came about six months back I think August last year. So, any traction on that as well as some of the first-to-file and Para-IV opportunities we spoke about previously?
- Aditi Panandikar:** We expect to launch in April Olanzapine.
- Sajal Kapoor:** Okay, and first-to-file, Para-IV are they eminent launch this quarter next year?
- Aditi Panandikar:** Which one?
- Sajal Kapoor:** The first-to-file, Para-IV?
- Aditi Panandikar:** Yes, some of the first-to-file will come up later for launching not now.
- Sajal Kapoor:** Sure, and do we expect to continue with this Rs. 50 Crores to Rs. 60 Crores annual expand on the R&D side or is it likely to increase given that we are pursuing more complex formulations?
- Aditi Panandikar:** Yes, it will marginally increase but we should be able to maintain our percentage of sales.

- Sajal Kapoor:** Sure, Madam. Okay, Madam all the very best. Thank you.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal and Broacha. Please go ahead.
- Charulata Gaidhani:** Yes, my question pertains to how many products are there in the US today and what is the status of repeat orders?
- Sundeep Bambolkar:** US we have 18 approvals out of which 10 are already there in the market and we have 29 products pending for approvals.
- Charulata Gaidhani:** Right, now are you getting repeat orders and what is the frequency?
- Sundeep Bambolkar:** Repeat orders take a quarter or so we have just started supplying and it is ongoing kind of a thing, so we are getting repeat orders for the product which we have supplied a quarter or two quarter back.
- Aditi Panandikar:** Charulata, post cards for US as a top line are based on these kinds of orders in hand and the picture that we have seen for US.
- Charulata Gaidhani:** Yes, okay. Thanks.
- Moderator:** Thank you. The next question is from the line of Rashmi from InCred Research. Please go ahead.
- Rashmi:** Thank you for the follow up. Just want to understand on API business this quarter was exceptionally strong in terms of domestic API. So, have we got some exceptional supplies have we done in this quarter or how do we look at overall?
- Aditi Panandikar:** Right, when you just classify as domestic API simply means that we are not earning in foreign currency so this will be supplied to other Indian players who are using the API's for their exports. That is the key trigger.
- Rashmi:** But Madam what I want to understand that this time this quarter the supplies were very high so how do we look at it. Is this the new normal or it is just one time?
- Aditi Panandikar:** No, it is not one time API will continue to do well like I said as earlier we primarily the first customer for API division is internal international formulations of the company. So, in a particular quarter they can get impacted for top line sales from external depending on how

much capacity they have to reserve for internal use that is all. So, in this quarter possibly they could sell more outside, this is what has happened.

**Rashmi:** Okay. Thank you that is it from my side.

**Moderator:** Thank you. The next question is from the line of Rahul Sharma from Karvy Capital. Please go ahead.

**Rahul Sharma:** What is our currently gross debt?

**Sundeep Bambolkar:** Total debt was as I said Rs.285 Crores or which working capital debt is Rs.139 Crores.

**Rahul Sharma:** Okay, and what is the target for the year end, Sir and for FY2022?

**Sundeep Bambolkar:** Long-term that will be retiring quite a lot in this year. I think from Rs.145 Crores it should come down to Rs.125 Crores by year end.

**Sundeep Bambolkar:** Yes, the target is to every quarter sequentially reducing, you might have observed in last six quarter – seven quarters has been the reduction of about Rs. 25 Crores to Rs.30 Crores. Of course, the short-term this trend will continue increase which has happened compared to the earlier quarter, it is about Rs.20 Crores plus. So, we may be Rs.5 Crores here and there it will happen but depending on the business needs.

**Rahul Sharma:** Okay, Sir FY2022 long-term debt further will go down to Rs.100 Crores. Am I right?

**Sundeep Bambolkar:** Rs.115Crores kind of thing Rs.115 Crores to Rs.120 Crores it should happen.

**Rahul Sharma:** Okay sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

**Vishal Manchanda:** Hi! Good afternoon. I just wanted to understand what is the status of the approved ophthalmic A&U's that Teva was supposed transfer back to Indoco so when should we expect the launch of these ophthalmic A&U's?

**Aditi Panandikar:** So, two products have been handed over and are back with us. These are currently under revalidation and preparedness for launch and there at least four others at any stages of discussion and handing over.



- Vishal Manchanda:** How many other, three others?
- Aditi Panandikar:** Four.
- Vishal Manchanda:** Four others? Okay. So, these are approved by India the four other which are?
- Aditi Panandikar:** No, they are not approved I think two are approved and two are pending.
- Vishal Manchanda:** Okay, so how long would you take to launch these two in India?
- Aditi Panandikar:** First quarter of next year we can expect the launch.
- Vishal Manchanda:** Okay and you would seek a new partner to launch this in India?
- Sundeep Bambolkar:** Yes.
- Vishal Manchanda:** Right, and any complex approvals that you would expect in FY2022?
- Aditi Panandikar:** Yes, there are a couple we will guide you because we are expecting some kind of audit to happen for that to get cleared. So, once a day comes on audits, we will be in a better position to commit.
- Vishal Manchanda:** Is there a routine inspection also there for any of that facility unit-1, unit-2, and unit-3?
- Aditi Panandikar:** Not really, we have invited USFDA to come down for plant -1 so that the warning letter can be cleared. Other than that, is mostly of product approvals.
- Vishal Manchanda:** So, are these oral product launches like Olanzapine, Febuxostat are these not happening because there is a volume later on the?
- Aditi Panandikar:** No, they are from the other plant and they have nothing to do with either warning letters or even prior approvals, they are simple products and Olanzapine is going to happen in April. So, Febuxostat has also already been launched.
- Vishal Manchanda:** It is already launched, okay. Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Sudarshan from Sundaram Mutual Funds. Please go ahead.

- Sudarshan:** Madam, just to touch your earlier commentary on the cash flows and debt. I mean just if I do some calculations for the nine months itself, we have generated cash profit of about Rs.120 Crores that is PAT plus depreciation and overall, we have seen like around Rs.100 Crores increase in sales that is primarily the first nine months of FY2020 versus first nine months of this year. If I actually go by historical working capital of even 90 days – 100 days I would assume that typically we would only require about Rs.30 Crores to Rs.40 Crores at best in terms of working capital for this jump. So, why is the debt reduction so small I would assume that the debt reduction should be at least to the tune of about Rs.80 Crores to Rs.100 Crores this year, should have been?
- Sundeep Bambolkar:** Yes, this is the ramp up in international business the working capital cycle there is higher than in India that is one reason and also, we are re-investing in some very high-end manufacturing of potent products in R&D. so, reduction in that is not the sole criterion.
- Sudarshan:** Yes, are we talking about capex or opex, I mean in terms of R&D cost?
- Sundeep Bambolkar:** Both plus our regular capex program is there around Rs.50 Crores to Rs.55 Crores per annum.
- Sudarshan:** Okay, and what would be the working capital intensity even we look at the US incrementally?
- Sundeep Bambolkar:** In terms of number of days?
- Sudarshan:** Yes, Sir.
- Sundeep Bambolkar:** US payment cycle happens only once in a quarter so anything which is supplied let us say on April 1, April 10, April 15 you get the payment only on July 1<sup>st</sup>, 2<sup>nd</sup> to 5<sup>th</sup>. There you can take 15 days increase in working capital cycle as far as US is concerned.
- Sudarshan:** Okay, sure. Thanks a lot. That is, it from my side.
- Moderator:** Thank you. The next question is from the line of Sajal Kapoor from Unseen Risk. Please go ahead.
- Sajal Kapoor:** Hi! Thanks for the follow up. My quick question for you so historically we have been very efficient in converting our EBITDA to operating cash flows my expectation is based on the nine months result we should be reporting in operating profit of somewhere in the region of Rs.230 Crores – Rs.240 Crores for the year ending March. So, taking our historic cash conversion EBITDA to cash that is, we should be able to report in an operating cash flow,

net operating cash flow that is of somewhere in the region of at least Rs.160 Crores is that a fair ballpark or?

**Sundeep Bambolkar:** We lost you in the last part of your question, sorry?

**Sajal Kapoor:** Sandeep Sir, I was saying that we should expect to close the year March ending that is this fiscal somewhere in the region of Rs.230 Crores to Rs.240 Crores operating profit. Now, looking at our historic EBITDA to cash conversion ratio we should be able to report that operating cash flows of somewhere in the region of Rs.160 Crores this fiscal. Is that a reasonable estimate or am I of?

**Sundeep Bambolkar:** Yes, your judgement is right.

**Sajal Kapoor:** Okay, which means that this should be our best ever year in terms of the net operating cash flow because we have never generated Rs.160 Crores we have not even generated Rs.150 Crores historically.

**Sundeep Bambolkar:** Compared to last three years yes.

**Aditi Panandikar:** The best year out was 2015- 2016.

**Sundeep Bambolkar:** No, not even I think even before the USFDA disruption we never generated Rs.150 Crores if my memory serves me right. Our best year was 2019 which was after the USFDA disruption and we generated Rs.132 Crores then.

**Aditi Panandikar:** No, you have to go back to 2016-2017 we used to have a PAT of over Rs.80 Crores.

**Sajal Kapoor:** No, not PAT or this thing Madam, I am talking about?

**Aditi Panandikar:** Operating okay, better.

**Sundeep Bambolkar:** We can take Rs.105 Crores.

**Sundeep Bambolkar:** Yes, I got your point our commitment in terms of our infrastructure coincided with all the problems. We acquired a plant in Baddi, we expanded Patalganga, we expanded our sterile plant, and this took away a huge amount of internal accruals and plus we invested out of our long-term borrowings to back on our feet it has taken three years that is what we are trying to tell you and this year would be the best year in the last three years.

- Sajal Kapoor:** Yes, correct I have been following Indoco for many years indeed, so I know with the disruption they go up to and find all depths of anything. So, Rs.160 Crores odd of operating cash flows our regular maintenance capex cannot be more than Rs.40 Crores- Rs.50 Crores maximum and we should be reporting very healthy amount of free cash this year and going forward, right. We can that for growth capex and what not?
- Sundeep Bambolkar:** You got it right, yes absolutely.
- Sajal Kapoor:** That is thing on discuss. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Mitesh Shah from ICICI Direct. Please go ahead.
- Mitesh Shah:** Thanks for taking my question. Just a quick housekeeping question sir, what would be the tax rate for FY2021 and FY2022-FY2023 and how much is the differed tax we have in the book?
- Sundeep Bambolkar:** Our tax spend is expected to be in the range of 32% -34% that is the range and you are talking about differed or the Mat?
- Mitesh Shah:** MAT annually?
- Sundeep Bambolkar:** MAT credit available is close to about Rs. 50 Crores – Rs.55 Crores.
- Mitesh Shah:** So, that Rs.30 Crores – Rs.34 Crores is for 2022 – 2023 as well we are opting for the new tax regime?
- Sundeep Bambolkar:** New tax regime probably will take third year it will be new tax regime. So, you are right for another two year we will be still under old regime.
- Mitesh Shah:** Okay, that is it from end. Thanks a lot.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Vishal Manchanda for closing comments.
- Vishal Manchanda:** Thanks everyone taking time out to attend the call. Look forward to seeing you all over the next positive Earnings Call. Thank you very much.
- Sundeep Bambolkar:** Thank you everybody for that your active participation. Thanks a lot.



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**Moderator:** Thank you. On behalf of Nirmal Bang in Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.