



## “Indoco Remedies Limited Q2 FY22 Earnings Conference Call”

**November 2, 2021**



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**MODERATOR:** **MS. CYNDRELLA CARVALHO – CENTRUM BROKING  
LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to Indoco Remedies Limited Q2 FY22 earnings conference call posted by Centrum Broking Limited.

As a reminder, all participants' 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 the operator by pressing '\*' and then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Cyndrella Carvalho from Centrum Broking. Thank you and over to you, ma'am.

**Cyndrella Carvalho:** Good afternoon everyone. I, Cyndrella Carvalho, welcome you all on behalf of Centrum Broking and wishing everyone a very Happy Diwali. Today, we are hosting the Q2 FY22 earnings con-call of Indoco Remedies. At the outset, I thank the management of Indoco Remedies for giving us this opportunity to host the earnings call. From the management team today, we have with us, Ms. Aditi Panandikar – Managing Director; Mr. Sundeep Bambolkar – Joint Managing Director; Mr. Pramod Ghorpade – Senior Vice-president, Finance; Mr. Vilas Nagare – Corporate Affairs and M&A.

I now hand over the con-call to the management team for their opening remarks. Over to you, management team.

**Management:** Good afternoon to all the participants. Hope you and your family members are all safe and healthy. Let me first begin with the business highlights. Net revenues of the company grew by 15.6% at Rs. 373 crores compared to 12.9% at Rs. 322 crores for the same quarter last year. In the 1st half of the year, revenues grew by 27.9% at Rs. 754 crores as against Rs. 589 crores. EBITDA to net sales for the quarter is at 23.2% at Rs. 86.3 crores compared to 18.7% at Rs. 60.2 crores. EBITDA to net sales for the 1st half is 23% at Rs. 173 crores compared to 18.5% at Rs. 109 crores for the same period last year. PAT to net sales for the quarter is 11.2% at Rs. 41.6 crores compared to 7.8% at Rs. 25.1 crores. PAT to net sales for the 1st half is 10.8% at Rs. 81.2 crores compared to 7.2% at Rs. 42.3 crores. Earnings per share for the quarter is Rs. 4.51 compared to Rs. 2.72 for the same quarter last year. EPS for the 1st half is Rs. 8.81 compared to Rs. 4.59 for the same period last year.

Indian Pharma Industry: IPM has shown normalcy in sales from June 2021. The sales registered for Q2 FY22 is Rs. 43,064 crores with a growth of 14.6%. Most of the therapies have shown strong growth. Anti-infectives, gastrointestinals, and respiratory segments have shown significant growth. In September 2021, the company's rank jumped to 25th from 29th in the IPM with market share of 0.75%. The source is AWACS data.



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Domestic formulation business: Revenues from domestic formulation business for the quarter grew by 22.3% at Rs. 214 crores compared to degrowth of 6.2% at Rs. 175 crores, same quarter last year. Major therapeutic segments namely anti-infectives, gastrointestinal, vitamins, minerals, nutrients, and ophthalmics performed well during the quarter. For the 1st half, revenues grew by 33% at Rs. 429 crores as against Rs. 322 crores for the same period last year. During the quarter, 2 new products were launched, namely Renofen Plus tablets, i.e., paracetamol with diclofenac sodium, under pain/analgesics segment and Noxa cream, the molecule name ozenoxacin 1% under derma segment. The total number of new products stands at 4 for the period.

Now onto the international formulation business: Revenues from international formulation business registered a growth of 11.6% at Rs. 136 crores as against Rs. 121 crores, same quarter last year. For the 1st half, revenues grew by 32.8% at Rs. 288 crores as against Rs. 217 crores. Revenues from reg markets grew by 9.9% at Rs. 111 crores as against Rs. 101 crores. For the 1st half, revenues grew by 34.8% at Rs. 240 crores as against Rs. 178 crores.

Revenues from the US business for the quarter grew by 10.2% at Rs. 48 crores as against Rs. 43 crores for the same quarter last year. For the 1st half, revenues grew by 33.8% at Rs. 94 crores as against Rs.70 crores.

Revenues from Europe for the quarter grew by 6.3% at Rs. 60 crores as against Rs. 56 crores for the same quarter. For the 1st half, revenues grew by 33.5% at Rs. 139 crores as against Rs. 104 crores for the same period.

Revenues from South Africa, Australia, and New Zealand for the quarter grew by 114% at Rs. 3.8 crores as against Rs. 1.8 crores; and for the 1st half, revenues grew by 91% at Rs. 6.8 crores against Rs. 3.5 crores.

Revenues from emerging markets for the quarter grew by 20.6% at Rs. 24 crores as against Rs. 20 crores; and for the 1st half, revenues by 23.9% at Rs. 48 crores against Rs. 39 crores.

Revenues from API business degrew during the quarter at 13.6% at Rs. 20 crores. For the 1st half, revenues degrew by 32% at Rs. 31 crores as against Rs. 45 crores for the same period last year. The degrowth is because of higher captive consumption which is at around 60% of the total API dispatches.

Revenue from CRO and analytical services for the quarter grew by 6% at Rs. 3.7 crores as against Rs. 3.5 crores. For the 1st half, revenues grew by 26.5% at Rs. 6.5 crores as against Rs. 5.2 crores.



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That's all about the business highlights for the 2nd quarter, and I now request the participants to put up their questions. Wishing you and your family a very Happy Deepavali. Be safe, be healthy.

**Moderator:** We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mr. Aditya Khemka from InCred Asset Management. Please go ahead.

**Aditya Khemka:** Happy Diwali everyone and a very good afternoon. Two questions; firstly, in the European market, when I see sequentially, compared to 1Q to 2Q, we have seen a decline in revenues. What would you attribute that to?

**Management:** Aditya, We have had certain challenges in the dispatches. Container availability is the first challenge and the second challenge is API material availability. Both these have been looked into very cautiously and very carefully and we have taken measures to see that things improve from hereon.

**Aditya Khemka:** Are you saying that the dispatches in 2Q were lower than what you were expecting or is it that there is a pricing challenge or a market share challenge? That's what I wanted to understand.

**Management:** No, there is no pricing challenge. The dispatches were lower than what we were expecting, that's right, because of the container unavailability.

**Aditya Khemka:** So, as a corollary, some of these dispatches would get bunched up into 3Q and 4Q and we should see recovery of sales because there is no loss of sales because it is just about dispatches?

**Management:** Correct, absolutely.

**Aditya Khemka:** Same question for the US business. Now, at least, I would have expected we would have received some profit share and sales from brinzolamide into our 2nd quarter numbers, but it doesn't seem that there is any meaningful uptick in the US sales for the quarter. What would you attribute that to?

**Management:** The US order book is very healthy. I don't think there is any reason to be anxious or to have any sort of that kind of feeling – very healthy order book, and we will recover in the 3rd and 4th quarters definitely.

**Aditya Khemka:** But did we receive any profit share from brinzolamide in the 2nd quarter? Have we recognized any profit share?

**Aditi Panandikar:** Aditya, over 2 quarters, in piecemeal it has been coming in. Close to around 8.5 has come in as of now because this is against what they sell in the US actually and collect. So, it's a long cycle.



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- Aditya Khemka:** Aditi ma'am, can I understand the cycle a little better? When do you recognize the profit share – when they sell and pay you? Is it when you receive it or is it when they sell?
- Aditi Panandikar:** After they collect and then they send us.
- Aditya Khemka:** So, it is basically upon receipt you recognize.
- Aditi Panandikar:** Yes.
- Aditya Khemka:** One more question on the India business. We did 22% growth in the 2nd quarter and that's obviously a lot of it is due to recovery of the anti-infective segment coming back in the market. Can you talk a little bit about how the chronic piece of our business, although it is very small I understand, but the newer products which we have launched on the more Speciality side, how are they sort of faring in the marketplace and how is the progress on that front?
- Aditi Panandikar:** Aditya, as you rightly said, virtually there has been close to 95% growth in anti-infectives alone, of course aided by a good season this year and also by an extremely low base last year; that is correct. The acute segments, anti-infective and respiratory both really helped us this quarter. Other than that, if you have also seen the industry data, chronic per se has been muted for various reasons. We ourselves don't have chronic as a great area of strength; however, our focus division is doing decently alright with CND which is the cardiology division, there have been some concerns. But I would rather speak about the sub-chronic part of our business which is of having the ophthal, gynaec, and the 2 dental divisions. Our dental divisions have done decently alright, an 8% growth throughout – with or without Covid, with or without season, or whatever – very predictable kind of sales performance. Gynaec has begun doing well. The biggest gainer per se in fundamentally quality of business has been the ophthalmic business because ophthalmology was most impacted in lockdown and our teams really used this time to build relationships with the end users, the prescribers. We are seeing an excellent upside on the ophthal basket. To sum it up, I would expect more in Q3 and Q4 from sub-chronic, then chronic, and of course the acute run, I am very confident, will continue.
- Aditya Khemka:** One follow up on the US. How many products now are we selling in the US? Brinzolamide is obviously one. Of the older product basket, rosutin I remember we are already....
- Aditi Panandikar:** Twelve products in toto.
- Aditya Khemka:** Twelve in total we are already selling?
- Aditi Panandikar:** Yes.
- Aditya Khemka:** And how many products are we expected to relaunch of the older ophthalmic basket?



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- Aditi Panandikar:** Three to four more this year.
- Aditya Khemka:** FY22?
- Aditi Panandikar:** Right.
- Aditya Khemka:** Could you quantify the Milestones payments received in the US this quarter versus what was that in 1Q?
- Aditi Panandikar:** They are comparable. Pretty much we have been, as I told you in the last call, because there are several products, both US and Europe, and there are several research projects being done for customers. So, pretty much now we have a good predictability to collections. I have to say Q1 this year was a bit on the higher side, but otherwise, if you look at 5 quarters in running, it is pretty predictable.
- Aditya Khemka:** And now you must have seen some regularity in dispatches given that the freight costs have come off and hopefully containers are more freely available.
- Aditi Panandikar:** Yes, I think more than freight cost, there has been an issue with availability of containers. So, there is a kind of a pushing ahead of sales is happening in all international markets. That is what has impacted us. I am sure in a couple of quarters, that will settle.
- Aditya Khemka:** So, you haven't yet seen the normalization of availability. You are saying even in the months of October and November that there is scarcity of containers?
- Aditi Panandikar:** Yes, whatever we have seen for the month of October also, problems continue.
- Moderator:** The next question is from the line of Rashmi from InCred Capital. Please go ahead.
- Rashmi Sancheti:** Happy Diwali to everyone. Ma'am, again on India business, what I am seeing from your brand data that with a decline in the Covid cases and with the growth normalizing, we have seen uptick in the sales of Febrex Plus and Cyclopam; the growth is coming back, but at the same time, in Karvol Plus and Kidodent, we are seeing a Y-o-Y degrowth. I understand that we should see a quarter-on-quarter growth because these products were used as co-prescriptions for the Covid patients, but why are we seeing a degrowth on a Y-o-Y basis?
- Aditi Panandikar:** What has happened, as I explained, is dental and ophthalmology were 2 categories which were most impacted during the Covid and while doctors are coming back, I feel per se still footfall and other things are a bit of a concern. As I explained, the dental segment for us we have 2 divisions; one is Warren Ace and the other is Warren nXgen. Warren nXgen depends on more demand creation and there we have seen a good movement of products. In Warren Ace, we have got more of the repeat purchase or more of the counter push kind of products and there, there



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has been some concern of product growth coming back. And there are some competitors doing a little better. The segment per se is not doing well, but there are.... and we are tracking them very closely. But other than maybe Kidodent or Sensodent KF, a couple of products here and there, pretty much, if you have seen, most of the legacy brands across most of our divisions are doing exceedingly well.

**Rashmi Sancheti:** What about the therapy-wise? Because for the other competitors, we are seeing a pickup in dermatology segment, but we are not seeing that kind of growth coming back in dermatology segment.

**Aditi Panandikar:** For us, derma is not a key focus area. We get into dermatology because of age-old products like Cloben-G which we had and Noxa which we just launched, but we do not really consider them derma products. They are taken through our acute division only. I think when you look at derma for the industry, it is more of cosmetic, the dermas new moisturizers, and all those. We are not into that.

**Rashmi Sancheti:** Ma'am, again on the US business, \$8.5 million is the profit share or profit share plus sales which is coming from the brinzolamide suspension for 1st half?

**Aditi Panandikar:** This is not in dollars first and foremost. What I said was in rupee terms.

**Rashmi Sancheti:** Okay, it is 8.5 crores you mentioned?

**Aditi Panandikar:** Yes. Share of profit against what they must have completed selling, accounting, etc., from 2 quarters ago possibly. Okay?

**Rashmi Sancheti:** Okay, but are we seeing any price erosion in the new product launches that we are doing or if we are planning to relaunch?

**Aditi Panandikar:** Because we are in a niche segment, not for us as much. Of course, the input prices, solvents going up for API and all is a standard thing across the industry, but even that is stabilizing now.

**Rashmi Sancheti:** Ma'am, what about the tax rate guidance? Because the last time, you all mentioned that cash tax of 18%, but I think the overall tax rate which I am seeing for the 1st half is 35%. If you can explain on that?

**Management:** Rashmi, the tax rate right now is 35%.

**Rashmi Sancheti:** For FY22, you are guiding 35%?

**Management:** No; for this year, it is 35%. From next year, we will go to the new tax regime which would be 25%.



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- Rashmi Sancheti:** But last quarter, you mentioned something about cash tax of 18% in FY22?
- Management:** No, not 18%.
- Aditi Panandikar:** No, even last year, it was not 18 because we had MAT credit which we have availed; and this year is going to be 1 year where we will be getting the full impact of tax. From next year, we will be able to move to the 25% regime. We are very clear about that.
- Rashmi Sancheti:** From FY23, we will come back to the 25% regime.
- Management:** Correct.
- Rashmi Sancheti:** The last question on gross margins. Are we not seeing any sort of high input cost related to.... Our gross margins are basically seeing an improvement sequentially?
- Aditi Panandikar:** Yes. The gross margin improvement is also related to the business mix. So, if you were to quantify and take out, say Milestones and dossier income, and also because India business did so well, so it has got corrected, but as such, there is an increase in input prices directly and indirectly hitting us even when the solvent prices are going up for API manufacturing – products which we consume for our own international business, for example – but up to Q2, it is not significant, but I expect in Q3, there will be some amount of impact.
- Moderator:** The next question is from the line of Deepan Sankaranarayanan from TrustLine PMS. Please go ahead.
- Deepan S. Narayanan:** Aditi ma'am, firstly, I wanted to understand these antibiotics and diabetic segments in domestic market. Are we seeing aggressive growth in this segment in future? Are we planning to launch good products in this segment?
- Aditi Panandikar:** You mean anti-infectives and diabetology?
- Deepan S. Narayanan:** Yes.
- Aditi Panandikar:** Indoco has almost 20% plus contribution coming from anti-infectives and we have some big brands here. We have ATM which is our azithromycin brand, we have Oxipod which is a cefpodoxime brand, and these products are doing exceedingly well. If you are an acute-heavy company, anti-infectives is a large part of your portfolio. In anti-infectives per se, there have not been too many new products coming in. Cefpodoxime and azithromycin are the molecules of choice even today, and we see good demand for these products. In any case, in the 2nd quarter, because of the season, the demand used to pick up. Now, because of Covid and post Covid related complications also, the upper respiratory tract related anti-infectives' consumption has increased. So, we are doing well there and we expect for this momentum to continue.





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Coming to antidiabetics, it is a very small portfolio for a company like Indoco, but potentially a very good one. For the industry, it is one of the fastest growing categories and simply because there is a large want from the doctor community for new molecules because they are finding it difficult to bring HbA1c under control, for example. So, there is definitely a want here. So, when there is a want, certainly those markets always do well. It is a very competitive market. Indoco is one of the late entrants here, but on account of the product mix which we have for the US where we have gone after several para 4 kind of opportunities. We have excellent products for launch in India as well. Our Aloja launch, for example, is one which we have done, and in our own fashion, we will create our own place and niche in the diabetology segment.

**Deepan S. Narayanan:** I remember when we were discussing, we were discussing about Aloja listing and some combination products in the antidiabetic segment.

**Aditi Panandikar:** Aloja and Aloja-M. Aloja-M has also been launched now in the market. We expect this molecule to get good sales. We are the only player in the market.

**Deepan S. Narayanan:** Can you provide some guidance for FY23 in our US, Europe, and the emerging market?

**Aditi Panandikar:** The US is on a healthy growth path, and we hope to do well this year. I think maybe by the end of Q3, it would be a good time to talk of numbers for the future.

**Deepan S. Narayanan:** Lastly, in domestic segment, are we seeing the inventories back to normal levels post Covid now? Are we still seeing inventory at lower levels only?

**Aditi Panandikar:** Inventories of acute are still very much on the lower side. In fact, Q2 consumption was very high in some segments like respiratory, antibiotics, and GI. But others, there is a good amount of stabilization. So, inventories in the market if you mean, they are still on the lower side. There is quite a high demand still. Does that answer your question?

**Deepan S. Narayanan:** Yes. So, Q3 and Q4 post season going away, still we are expecting good growth in domestic segment for us?

**Aditi Panandikar:** Yes. We have other products which start doing well. I am keeping fingers crossed for an excellent performance from dental, gynaec, ophthal, cardio, and diabeto. And even for the acute divisions, other than the very seasonal products which will also do their bit, we can expect good performance and growth.

**Moderator:** The next question is from the line of Charulata from Dalal & Broacha. Please go ahead.

**Charulata Gaidhani:** My question pertains to the US. There is a 10% growth in Q2. Do you expect new launches in FY22?



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- Management:** Yes. Last year same quarter, we had a lot of launches and that's how the growth was huge, but in Q3 and Q4, we will have a good amount of launches; 3 to 4 at least.
- Charulata Gaidhani:** Do you see an increase in the profit sharing for brinzo going up? Because I believe there was an exclusivity for brinzo.
- Aditi Panandikar:** Yes, we were the first generic to be launched, and the exclusivity is created because it was a difficult product nobody could make. It is not an exclusivity created by patent situation or anything like that.
- Charulata Gaidhani:** But being the first generic, it would have got good pricing, right?
- Management:** Charulata, whatever advantage we can derive from that, we will do it.
- Charulata Gaidhani:** Has that come in or it is yet to come?
- Management:** Partly it has come in and it will come in phases.
- Charulata Gaidhani:** And just confirming that Milestones income of 150 million in Q1, the Q2 number also is on similar lines?
- Management:** Yes. As Aditi said, it is a predictable income.
- Charulata Gaidhani:** So, every quarter, we can consider 150 million?
- Aditi Panandikar:** It depends on which product sort of.... Milestones for which product gets collected, specifically.... Your statement of can we take it for granted, I said roughly this is how we can expect things to be.
- Charulata Gaidhani:** My next question is on the India business. How many MRs are you currently having and do you expect growth to continue in Q3 and Q4 above industry average?
- Aditi Panandikar:** We have around 2,300 medical reps; with managers, it's around 2,800. Your question on will the India business continue to grow; yes, even today even if the IPM is off Q2 kind of highs, overall slowly the market normalization is happening and Indoco as such is doing much better than IPM as well as the covered market. So, we will post good growth in India business in Q3 and Q4.
- Charulata Gaidhani:** Okay, fine. All the best. Happy Diwali.
- Moderator:** The next question is from the line of Abdulkader from Elara Capital. Please go ahead.



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- Abdulkader Puranwala:** My first question is on the US business. Would you like to highlight any particular reason why there would be a slower uptick in brinzolamide for your partner to book sales, and which is also impacting us by the related profit sharing income getting delayed?
- Aditi Panandikar:** I don't think we are in a position to comment on that, honestly, but the order position is good. So, I believe they know what they are doing.
- Abdulkader Puranwala:** On the guidance front, are we still maintaining our top-line guidance of close to Rs. 16.5 billion for the fiscal 22 and EBITDA margins of 19% to 20% for the fiscal?
- Aditi Panandikar:** Yes.
- Management:** The EBITDA guidance given was 19.75%. We stick to that guidance.
- Moderator:** The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.
- Aejas Lakhani:** Just one question. What is the MR productivity today? Because I remember hearing that you had an aspiration to take it about 3 lakhs. Could you give some color on that?
- Aditi Panandikar:** It is currently around 2.6.
- Aejas Lakhani:** How do you expect to take it to this figure greater than 3?
- Aditi Panandikar:** Because we are not adding any more people, naturally all growth that comes in sales is going to go towards increasing the per man return. Also, there are a lot of new product launches planned. That is one area of weakness for Indoco as a company. We have done very well with our first launch this year of Noxa and there are 3-4 other products in the pipeline. They will also help increase the PHY.
- Aejas Lakhani:** In the German market, there has been a bio consolidation. Does that favorably or unfavorably impact us? Could you comment a little bit about the German market?
- Management:** German market, we are doing well even now as we talk. One tender we have won and 2 more products are being planned in a similar fashion. We are the front-ended company and we have appointed a distribution company to distribute the product all over the country and we pay them for their distribution costs and some profit.
- Aejas Lakhani:** I am aware about the German tender of roughly 70 crores which is expected to be the growth driver, but you are talking about 2 more incremental tenders coming in FY22 or '23?
- Management:** That will be for '23.



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- Aejas Lakhani:** Would the size of these tenders be equivalent to what we won last year or....?
- Management:** No, these will be smaller.
- Aejas Lakhani:** And again will be 2-year orders?
- Management:** 2-year supply, Yes.
- Aejas Lakhani:** And we continue to be at roughly 300 crores in terms of guidance in the Europe business for?
- Management:** Yes.
- Moderator:** The next question is from the line of Rashmi from InCred Capital.
- Rashmi Sancheti:** A question on API segment. In domestic as well as outside API sales, we are continuously seeing a degrowth from last quarter. Any specific reason for it?
- Aditi Panandikar:** Rashmi, we are consuming most of the API we are making right now. So, the international business growth.... Basically, priority is being given for internal consumption. I am hoping in a couple of quarters to be able to correct this cycle so that there will be enough to sell.
- Rashmi Sancheti:** In FY22, we will see a similar kind of growth what we are seeing in 1st half, right?
- Aditi Panandikar:** Yes, around 20% we should be able to do.
- Rashmi Sancheti:** Ma'am, you all have guided operating margin of 19.75% in FY22, right? EBITDA margin?
- Aditi Panandikar:** Yes.
- Rashmi Sancheti:** But don't you think like 1st half only we have done 22% and the 19.75% is pretty conservative because you had said that we will be doing good amount of US launches....
- Aditi Panandikar:** Rashmi, from Q1 to Q2, you see the numbers, no? Despite such a robust India performance, investment in R&D has started in a big way; travel and sales promotion cost attached to India business are coming back; cost of goods as you have already heard, there is an incremental change. So, we prefer to stay with our guidance right now. This is on sales, not total income.
- Moderator:** The next question is from the line of Rajat Srivastava from InCred Asset Management. Please go ahead.
- Rajat Srivastava:** Ma'am, just a couple of some bookkeeping questions. Your Other Operating Income has come to around 14 crores in this quarter. So, there is a sudden bump up, as we were doing around 5 to



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6 crores in the previous quarters. May I know what this is attributed to? Why is there a sudden bump up here?

**Aditi Panandikar:** It is purely a forex-related thing on when the orders were booked and at what they got fulfilled. It's not in our control.

**Rajat Srivastava:** Also, the depreciation cost has come down by somewhere around 4 crores quarter-on-quarter. Why is that?

**Aditi Panandikar:** In the 1st quarter, there was more advertisement. That's all. It's more of a bookkeeping thing.

**Rajat Srivastava:** Ma'am, for your CAPEX guidance, does it still stand at 80 crores? Because I think in the 1st half, you have spent around 56 crores.

**Aditi Panandikar:** Yes, we stick by our CAPEX guidance.

**Moderator:** The next question is from the line of Shanti Patel from Shanti Patel Investments. Please go ahead.

**Shanti Patel:** My question is, taking into consideration all the factors, what will be the approximate turnover for the account in year '21-22? And what will be the PAT margin thereon?

**Aditi Panandikar:** We are certainly looking at in excess of 1,600 crores. As you must have seen in Q2, we have done 11.8%. So, we should for the whole year be able to do roundabout 10% to 11%.

**Shanti Patel:** What will be the return on capital employed and the return on equity?

**Aditi Panandikar:** ROC has finally come in excess of 15% to 16% after a lull of 4 years. We are very happy about that. I expect it only to go up from here. We will be able to do.... I think at the same CAPEX, we should be able to deliver at least twice the amount of international sales. So, I am pretty confident going ahead this number will only improve from here.

**Shanti Patel:** Madam, you are the joint managing director, right?

**Aditi Panandikar:** I am MD.

**Shanti Patel:** What is your qualification?

**Aditi Panandikar:** I am a pharmacist by profession. I had a Masters in Pharmaceutical Administration. But my biggest qualification is 28 years of working at Indoco.

**Shanti Patel:** I can make out the way you are answering the questions. And you have got a good accounting knowledge also.



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**Aditi Panandikar:** Thank you. That is not my strength, honestly.

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

**Vishal Manchanda:** Ma'am, could you give a guidance for the US sales this year? You had an earlier guidance of 250 crores. Does that stand?

**Aditi Panandikar:** Yes, we stand by it.

**Vishal Manchanda:** So, the run rate should accelerate in the subsequent quarters?

**Aditi Panandikar:** Yes, it has to. The order position is excellent. There have been some concerns on logistics as we explained with container availability, some related to material availability, but it will all get sorted out soon.

**Vishal Manchanda:** Sir, would that be driven by your existing portfolio largely or you are expecting new approvals that's going to drive this number?

**Aditi Panandikar:** Yes, largely existing. As we said, another couple of new product launches, but largely existing.

**Vishal Manchanda:** But most part of it is going to be driven by the existing products?

**Aditi Panandikar:** Yes.

**Vishal Manchanda:** What percentage of EBITDA would get converted into operating cash flow?

**Management:** We have said that we will end up with 19.75% EBITDA totally by the end of the year, and we have said that 80 crores will go into CAPEX. So, if you remove that....

**Vishal Manchanda:** Working capital should remain flat. Is that what we can assume?

**Management:** Yes, remain flat. Even the short-term loans are now flattish. They are swinging between 105 crores and 120 crores, short-term loans. They are well under control.

**Vishal Manchanda:** Just one more on the domestic side. AIOCD-reported growth for the quarter was in excess of 30% and I think your reported growth is lower.

**Aditi Panandikar:** Yes, there is a small gap between primaries and secondaries. Primaries is what we do internally. Secondaries is what gets actually sold in the market. And I already answered this earlier that there has been stock depletion actually in the market for us in anti-infectives and respiratory. Q2 has been about actually running to deliver because some of the products have done in excess of twice or thrice the amount they had projected. So, there is a small gap, but we are very sure that



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there will not be stockouts. In fact, going ahead, that is very positive for the company. We will be able to sell more.

**Moderator:** The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

**Aditya Khemka:** Ma'am, a couple of questions on the India business strategy again. We are launching new products in the pain segment, right? You mentioned diclofenac and paracetamol, a large segment but pretty crowded already with a bunch of incumbent players. When you launch such a product when you are let us say the 20th or the 30th brand to be in the market, how do you....?

**Aditi Panandikar:** Aditya, one correction. This has been launched in our dental division, not in pure acute. Because although we are Number 1 with the dentist and stomatological; with pain and antibiotics, we are not big, and we could see with the Zerodol in the world, there is an opportunity. So, this is more of an opportunistic product. It is not a launch to become big. My bets are more on Noxa, the other launch, which is ozenoxacin, a topical cream for impetigo. And there are several products lined up for our acute division coming up.

**Aditya Khemka:** My question was exactly that. I don't know if Zerodol is prescribed in dental. Is it?

**Aditi Panandikar:** Of course, it is aceclofenac, very big.

**Aditya Khemka:** My question was that if you are going to compete with Zerodol which is an established incumbent, how do you differentiate your brand in such a competition?

**Aditi Panandikar:** It is not to compete with Zerodol as much as to get a co-prescription.

**Aditya Khemka:** So, this would be a co-prescribing product with the Zerodol; okay, not really competing with it.

**Aditi Panandikar:** Not with Zerodol, with a lot of other products which get prescribed by the dentist.

**Aditya Khemka:** But your product is diclofenac, right? Zerodol is aceclofenac.

**Aditi Panandikar:** Yes, that is aceclofenac, correct.

**Aditya Khemka:** Second question, ma'am, on the new hires you had announced I think 2 quarters back or the last quarter I don't remember, but you had done a few hires in the domestic business, right? I mean some of the fresh talent that you acquired from different pharma companies. How is that being now shaping up? How is the energy in the department? Internally, is it now synchronised and harmonized? Or are still these people finding their own places in the organization? If you can talk a little bit about how the new hiring has evolved.



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- Aditi Panandikar:** The restructuring was done primarily to fill a gap of new product launch, identifying molecules early, finding the strategic fit, and the whole launch activity and the zeal. Towards that, there is great progress. We have begun well. On the other side, yes, inside the organization, they are settling down. But much of the strategies we have earmarked are more for mid to long term by when I think they are.... For the running business and running sales and the secondary opportunity in the market, it is more driven by the existing sales employees. So, we must give them credit for Q1 and Q2.
- Aditya Khemka:** That's right and it's very fair. Last question on the existing employees – the MRs. What is the current attrition?
- Aditi Panandikar:** Attrition is pretty high, anything between 25% and 30%. There are some regions which are very bad and some which are very stable. It's a geographical thing.
- Aditya Khemka:** Would you care to explain a bit more, ma'am?
- Aditi Panandikar:** If you go to headquarters like Chennai, I think attrition would be in excess of 35% and that's not just for us but for everyone. It's a regional thing. And it is a field where people move rapidly. We have done a lot of work in that area from induction to recruitment to buddy scheme, referrals, a lot of new things happening. I am hoping with the performance coming in this year and especially with the acute division, close to 90% of people on target, that is one of the best things that can happen for you towards retention of employees. They earn incentives, they will stay. This might be a good year for us to correct this.
- Aditya Khemka:** Because 25% attrition what it implies is that half of your MR strength is actually on the bench; half of them are training and half of them are in notice period, am I right?
- Aditi Panandikar:** A kind of, but industry has operated like that always.
- Aditya Khemka:** Other than making sure that they make their incentives, any other retention programs? You touched upon buddy system, you touched upon.... I am just a little worried. In a growing organization, the retention of talent on the medical representative side tends to be a key performance indicator from a longer-term sustainable growth trajectory perspective. I am just a little bit worried as to while we are experiencing rapid growth....
- Aditi Panandikar:** Fortunately for us, Aditya, we don't see this really in the established division – the acute division, the 2 dental divisions – the turnover is pretty low. It is mostly in the new small divisions where a boy cannot do his target and then he will leave. We are working around it. Some changes have been made in recruitment policies and retention policies. They have a high amount of variable earnings and sometimes you have to look at it in the cities. A lot of work is being done. I am confident we will bring this under control.





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- Aditya Khemka:** Sorry to sort of harp on and continuing on this, but can you talk about a bit more about the policies that you are trying to change – what is it that will improve attrition?
- Aditi Panandikar:** At Indoco, typically a rep was generally recruited at a starting salary. So, mostly a fresher or 1 year or whatever. Now, we have started recruiting experienced representatives in the market. Since we are not adding people, there will possibly be an increase in wage bill, but it will be well observed with the sales growth as percentage of sales. Now, more concentration on quality of people, return per man, less on how many reps kind of a thing. And I think post the entire lockdown thing when people were stuck at home and could not meet doctors and the brand still got sold and strategies got executed, there is a good awareness and understanding on how this employee as a resource has to be looked at for India business. We have started within the organization a new cell on SFE or sales force effectiveness. I am confident with that, we will be able to improve retention, bring down attrition, and consequently we will get more effectiveness.
- Aditya Khemka:** Are you personally heading the SFE initiative?
- Aditi Panandikar:** Yes, I mean personally as in through a president-level person to whom the cell reports.
- Aditya Khemka:** Ma'am, what is the regrettable attrition in the MR force and what is the non-regrettable attrition?
- Aditi Panandikar:** A good question. There are some which are non-regrettable considering how sales promotion employees are classified. There are some who exit because we want them to go, but that is not a very big percentage. I would still want to keep people, a steady team gives you more return.
- Moderator:** The next question is from the line of Dipali from Sameeksha Capital. Please go ahead.
- Dipali Patadiya:** I think most of my questions are already answered. I just wanted to confirm that on euro, we had a guidance of around 300 crores for FY22. Are we still maintaining that guidance? Are we expecting the growth that we didn't see in quarter 2 to come back in the 2nd half?
- Management:** Yes, we are maintaining the same guidance.
- Moderator:** The next question is from the line of Suraj Jain, an individual investor. Please go ahead.
- Suraj Jain:** I just want to ask on the borrowings. I can see that your financial cost is coming down. And going forward, what are your plans for reducing your debt?
- Management:** Suraj, the first priority will be to pay off the long-term debt. We have a mixed bag of long-term debt, some are in foreign currency and some in Indian rupees. And the average cost of borrowing stands at around 5.5%. So, we will repay the long-term debt. That's the first aim. That is around 132 crores. So, that is going to take some time to repay.



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- Suraj Jain:** Any repayment happened in the last quarter?
- Management:** Yes, it's a continuous process. In September 2021, we repaid our 2 long-term borrowings; one was in British pound and one was in US dollars. One had been taken for the Patalganga expansion and the other one was for acquiring the plant in Baddi. Those two are totally paid off now. And our short-term borrowings are swinging between 105 crores to 120 crores.
- Suraj Jain:** Regarding your current CAPEX, as you have already told it is around 80 and you have already done 58, so the remaining will be done by internal?
- Management:** We maintain 80 crores only for the remaining part of the year. Total is 80 crores CAPEX.
- Suraj Jain:** Do you have any plans for borrowing?
- Aditi Panandikar:** I think in Q2, we repaid around 14 crores worth of loans.
- Moderator:** The next question is from the line of Kunal from Vallum India. Please go ahead.
- Kunal Mehta:** I just have a single question. I wanted to understand, ma'am, for the contracts where you have a fixed pricing towards the end customer – for example, the Germany contract. I wanted to understand in the next 3 to 4 months maybe there would be a rapid increase in the input cost. Would it have a major impact? I am sure there would be some impact, but how severe would the impact be on the profitability of these fixed price contracts where the customer who would be not so much willing to negotiate the price beyond a certain level?
- Management:** Yes, I think it's a good question, Kunal. One thing, we are the front end. So, to that extent, currently we had a fixed price to pay to the distribution company and majority of the profits remain in Indoco. So, if we were the back end, the front-end customer was paying us practically nothing. Four-five years back, we had those kind of supplies, but today we are in a far far better position. And I agree with what you said that the input costs are rising. So, we are continuously taking stock of the situation and in what way we can handle this, but we expect from January onwards these costs to neutralize slowly over a period of time. So, yes, for 3 to 4 months, we have been bearing the brunt.
- Kunal Mehta:** Sir, for the contracts at Germany tender which you had got, which I am sure would be a fixed price. There, in such contracts, would there be a big reduction in the margin which you are yet to earn because the COGS for these would shoot up very rapidly in these sorts of contracts?
- Management:** No, there won't be a major impact, but there will be an impact.
- Moderator:** The next question is from the line of Ms. Cyndrella Carvalho. Please go ahead.



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- Cyndrella Carvalho:** Ma'am, I just want to hear if we have heard anything from USFDA since we are hearing a lot of inspections are now happening. Any update on any of our facilities that you could share with us?
- Aditi Panandikar:** No, sadly not yet. We are waiting eagerly.
- Cyndrella Carvalho:** The next question is, ma'am, how do you see the current domestic acute recovery? What is your sense for us on our basket as well as on the industry if you can help us with your view? How do you see it going ahead? Next 2nd half, how does it look in your view?
- Aditi Panandikar:** Typically, the Indian pharma market seems to be stabilizing now and coming to some kind of predictability of performance – a higher single digit growth across most therapies, some double digit. Coming to us, we had some products which were more severely impacted than most of the companies – a couple of antibiotics, specifically the cefpodoxime brand which did very badly last year because everyone was home, everyone was masked up, and no upper respiratory tract infection. So, specifically our product basket, the Oxipod and Bactogard; we have 2 brands. They had a lot of sort of margin to make up, and therefore, they have done exceedingly well. We are also very fortunate that we have ATM azithromycin which in Q1 got the upside of the 3rd wave and in Q2 got the season and the sort of post Covid kind of secondary infection treatment option it's considered. In that manner, anti-infectives for us in our portfolio continue to stay very robust, and I am therefore very confident that despite the covered market – because we have such a high level of contribution coming from antibiotics – we will do well.
- Cyndrella Carvalho:** Ma'am, on the industry per se, any sense for the 2nd half?
- Aditi Panandikar:** Industry, again, the acute segments are doing well; I think chronic is still pretty muted, but industry is gradually coming back to, like I said, a respectable excess of 6% to 7% growth per month which is good. Some months because the base would be very bad from last year, we have to keep going back and doing the base corrections, but otherwise, good predictability coming into the industry now for growth.
- Moderator:** We will take that as the last question. I will now hand the conference over to the management for closing comments.
- Management:** Thank you all the participants and the organizers for this very fruitful discussion. I wish all of you and your families a very Happy Diwali. Stay safe, stay healthy.
- Moderator:** On behalf of Centrum Broking Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.