



Date: 26th July, 2024

To The Listing Department National Stock Exchange of India Limited Exchange Plaza, Bandra - Kurla Complex Bandra (East) <u>Mumbai - 400 051</u> <i>Stock Code : INDOCO-EQ</i>	To The Listing Department Bombay Stock Exchange Limited Floor 25, P. J. Towers, Dalal Street, <u>Mumbai - 400 001</u> <i>Stock Code : 532612</i>
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Dear Sir/Madam,

Subject: Transcript of Earnings Conference Call on Unaudited Standalone and Consolidated Financial Results for the quarter ended 30th June, 2024

Pursuant to the Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, please find enclosed the transcript of Earnings Conference Call held on 24th July, 2024 at 03:30 p.m. (IST) in respect of Unaudited Standalone and Consolidated Financial Results for the Quarter ended 30th June, 2024. The Earnings Conference Call concluded at 04.25 p.m. (IST) on 24th July, 2024.

You are requested to kindly take the same on record

Thanking you,
Yours faithfully,
For Indoco Remedies Limited

RAMANATHA N HARIHARAN
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RAMANATHAN HARIHARAN
Date: 2024.07.26 13:13:13
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Ramanathan Hariharan
Company Secretary & Head- Legal



“Indoco Remedies Limited
Q1 FY'25 Earnings Conference Call”
July 24, 2024



Dolat Capital



MANAGEMENT: **MS. ADITI PANANDIKAR – MANAGING DIRECTOR –
INDOCO REMEDIES LIMITED**
**MR. SUNDEEP BAMBOLKAR – JOINT MANAGING
DIRECTOR – INDOCO REMEDIES LIMITED**
**MR. PRAMOD GHORPADE – CHIEF FINANCIAL
OFFICER – INDOCO REMEDIES LIMITED**

MODERATOR: **MRS. RASHMI SHETTY – DOLAT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Indoco Remedies Limited Q1 FY'25 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mrs. Rashmi Shetty from Dolat Capital. Thank you, and over to you.

Rashmi Shetty: Thank you, Ben. Good afternoon, everyone. I, Rashmi Shetty, on behalf of Dolat Capital, welcome you all on the Q1 FY'25 Earnings Con-Call of Indoco Remedies. I would like to thank the management of Indoco Remedies for giving us this opportunity to host the call. Today, from the management team, we have with us Ms. Aditi Panandikar, Managing Director; Mr. Sundeep Bambolkar, Joint MD; and Mr. Pramod Ghorpade, CFO.

I now hand over the call to the management for the opening remarks. Over to you, sir.

Pramod Ghorpade: Thank you, Rashmi. Good afternoon, everyone. Thank you all for joining this call today. Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements, which are projections or estimates about our future events.

These estimates reflect the management's current expectation of the future performance of the company. Please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. Indoco does not undertake any obligation to publicly update any forward-looking statements, whether as a result of new confirmation, future events or otherwise. Thank you.

I will request Aditi madam for her opening comments now.

Aditi Panandikar: Thank you, Pramod. Thank you, ladies, and gentlemen, for joining us this afternoon on our call to discuss the quarter 1 performance of the company. At Indoco, Q1 has been a mix of many wins and a few losses. I would like to start with the wins for the organization. Our number 1 and largest brand, Cyclopam, which crossed a milestone turnover of INR100 crores last year has done exceedingly well in the first quarter and has grown quarter-on-quarter by 32% and 60% growth on the immediate preceding quarter.

Similarly, other brands like Cital and Karvol Plus have also grown in higher double digit for the company. This quarter, Indoco received the final ANDA approval from U.S. FDA for Pregabalin capsules. We have also received a tentative ANDA approval from the U.S. FDA for canagliflozin and metformin hydrochloride tablets, which are used to treat type 2 diabetes, the SGLT2 inhibitor combination.

U.S. FDA also successfully completed the inspection at API Kilo manufacturing plant as well as at the Indoco Analytical Solutions public testing lab, both of these with zero observations. This quarter, Indoco launched a revolutionary treatment for uncomplicated urinary tract infection with the brand FosHS. FosHS offers gynecologists a reliable solution to address UTIs and provide optimal care to the patients in a cost-effective manner.

Some of our other new product launches this quarter include Hylupro, Britigan and Olarchek eye drops; Kidodent bubble gum mouthwash and CalaidXT tablets. Meanwhile, this quarter, the cosmetic variance of Sensodent-K and KF have also made a good entrance into the OTC market through our 100% subsidiary Warren Remedies. Also, Sensodent-K has won the Golden Mikes Silver Award for the best single commercial at the e4m Golden Mikes Radio and Audio awards 2024.

Also across all our manufacturing sites, master manufacturing plan is in progress in a phase-wise manner, supported with automation, upgradation, capacity increase and aimed at improving efficiency of manufacturing at various sites.

Coming to misses, in the India business, a very slow revival of anti-infective and respiratory portfolio and in particular, a negative growth as of yet for the period completed of Febrex Plus had created a bit of dampness.

In the international business, the remediation at lines of manufacturing at Goa Plant 2 where the sterile ophthalmics and injectables are manufactured has also meant we have not been able to give an optimal supply of product to U.S. market. I look forward to taking your calls later today after Mr. Sundeep has briefed you on the financial performance. Over to you, Sundeep.

Sundeep Bambolkar:

Yes. Thank you, Aditi. Good afternoon, everyone. Hope you all are doing fine. Let me first begin with the business highlights. Net revenues of the company for the first quarter degrew by 4.6% at INR3,942 million compared to INR4,132 million for the same quarter last year. EBITDA to net sales for the quarter is at 13.1% at INR516 million compared to 15.2% at INR629 million.

PAT to net sales for the quarter is 3.8% at INR150 million compared to 6.3% at INR259 million. Earnings per share for the quarter is INR1.62 compared to INR2.81 for the same quarter last year. The above numbers are on a stand-alone basis. We have declared results with consolidation, which include results of our subsidiaries.

On the domestic formulation business, revenues from domestic formulation business for the quarter are at INR2,002 million as compared to INR2,130 million. Major therapeutic segments, namely gastrointestinal, urology and anti-infectives performed well during the quarter as compared to the same quarter last year.

On the international business front, revenues from international formulations are at INR1,571 million compared to INR1,597 million. Revenues from regulated markets for the quarter are at INR1,273 million against INR1,344 million. Revenues from U.S. business stand at INR487 million as against INR512 million.

Revenues from Europe for the quarter are at INR754 million against INR794 million. South Africa, Australia, and New Zealand are at INR32 million compared to INR38 million. Emerging markets at INR298 million against INR253 million.

For the API business, we have recorded a revenue of INR312 million as against INR357 million. Revenues from AnaCipher CRO and Indoco Analytical Solutions grew by about 20% at INR57 million against INR48 million. That's all about the business highlights for the quarter.

And I now request the participants to put forward their questions. Thank you.

- Moderator:** The first question is from the line of Nigel from Everflow Partners.
- Nigel:** Sir, my question was about the growth outlook for your regulated markets, specifically Europe and USA for this year. If you could please share some light on that?
- Sundeep Bambolkar:** Currently, as Aditi already mentioned that our plants are under refurbishment, the solid dosage plants are undergoing automation. And the sterile plant, we are doing a complete refurbishment in response to the FDA observations. So the product availability in the market has been a little bit of a problem. So we are trying our best to do whatever is within our control. But it would be rather difficult to put a number at this point in time.
- Aditi Panandikar:** But most of the plants related corrections would get completed in the second quarter. So we expect from Q3 to be able to have consistent supply.
- Nigel Mascarenhas:** All right. And how about in the longer run, let's say, five years ahead, how about then, how would the growth outlook be then?
- Aditi Panandikar:** So five years is a long period, frankly, when you look at the life of an organization, which has to declare results every quarter. But to be honest, there has been such a lot of R&D, which has been done by us in the past decade, which has resulted in close to 50-plus ANDAs, which are at various stages of approval, that is in U.S. In Europe, also from a contract manufacturing player, we have migrated to a company which owns its own MAs. And we have front-end presence in some of these markets. So all this work that is done, obviously, at the point of when we can commercialize it fully, has to give the organization a good upside.
- So over a period of 5 years, I expect the Europe business to consistently give us CAGR of close to 20%. U.S., quite frankly, it's all about timing and new approvals and how fast we are able to come out of the slack that we have right now on product supply. But from next year onwards, I feel clearly close to 30% can be expected from U.S.
- Moderator:** The next question is from the line of Sudarshan from JM Financial.
- Sudarshan:** Ma'am, I would like to understand a little bit more detail about the misses on the domestic brands in the first quarter. Because if I look at the PPT, the sub-therapies looks good. And also when I look at the AIOCD data, we didn't think that there could be a decline in this quarter.
- Aditi Panandikar:** Yes, yes. So thank you for asking that question. So if you look at the sales, as they appear for last quarter this year for India business, there is a quantum of sales which is coming from drug product Sensodent-K and KF, which is there in the base.
- For this quarter, we have launched a cosmetic variant of the 2 products through the OTC segment through Warren Remedies. So that doesn't come in Indoco stand-alone. If you look at consolidated and we have given that intentionally so everybody understands. If you take the impact of the toothpaste into picture, we are growing at 6% plus which may not reflect in AIOCD picture, but it definitely reflects the IQVIA picture for the organization.

Coming back to your question on a few brands. Like I said, Cyclopam internally has grown by 30%, Cital by 20%, Sensiform by 30%, Karvol Plus by 40%. So the question of brands not doing well doesn't arise. It is just one brand Febrex Plus, which is minus 8% internally. And if I'm not mistaken, in IQVIA would be minus 12%, which is in keeping with how the segment and therapy market has performed.

Sudarshan: And how do you see that for the full year, I mean, are we seeing the revival happening with the onset of monsoon, etcetera?

Aditi Panandikar: Yes. So we had revival in the last 10 days of June, to be very honest. Last 10 days of June, we saw a pickup in the antibiotic segment. So we have 2 large brands. One is Oxipod which is a set product strength and ATM, which is azithromycin. These 2 brands picked up. Febrex Plus has also picked up in the last 10 days. But the deficit in the first 2 months was so high that we were not able to recover into positive.

Fortunately, the rains are on time this year and looks like a good season for respiratory and antibiotics both. So Q2, I'm expecting for these brands also to start contributing, and that will help us show a very robust performance for India business.

Sudarshan: Sure, ma'am. Coming to the cost structure, I mean, we have seen on the gross margin side, there has been a decline both year-on-year and Q-on-Q. And also on the other costs, I mean, how much of remediation costs were seen in this quarter? And how do we see both, the gross margins, and if I can also add on the employee cost because you will also see a ramp-up on the domestic business. So the MR productivity in the second half should look much better. So a little bit on the margin side now.

Aditi Panandikar: Right. So I'll answer your question the way you asked it. First on the gross margin this quarter. So like I said, the gross margins this quarter are more a function of the business product contribution, kind of composition, because we are short of close to 20 CR in supply to U.S. market, which is second to India, the most profitable business of the company.

As a consequence, contribution of Europe to the whole business looks high. Also, as I explained at the pace, which are also quite profitable, we are seeing those move into a different company and lose on that. So on a comparison basis, you see the gross margin fall. As regards to the contribution to gross margin coming from U.S. business, I expect this to ramp up soon.

Also, if you have not heard me on the previous call, our organization is in the process of transitioning from a company which used to license our products in U.S. to other selling partners, to one which now has a front end of our own, as in FTP. Having done that, the kind of milestones or upfront payments, royalties we would collect is now going to thin going forward.

So in the interim, we can expect, therefore, some compression on margins. But with India business doing well, with U.S. numbers coming back from Q3 onwards, I expect a larger amount of the gross margin to get corrected. I think one of your other questions was, I'm trying to remember the second part of your question was on the other expenses.

So if you look at other expenses in particular and staff costs, in absolute terms, actually, we are able to contain them. If you're looking at it as a percentage of sales, then they look to be a little bit on the higher side. That is largely because the sales haven't come in this quarter to our expectation. On consumables, job work, power fuel, rent and many of the themes that are related to getting operational efficiency, in fact, we have done well. There are certain one-off costs that are coming by way of remediation and also certain returns of products in emerging markets, which must have resulted in some bit in expenses for us.

Sudarshan: How much of those one-offs, ma'am, remediation cost and the one-off?

Aditi Panandikar: I cannot directly quantify everything, but I can roughly tell you that you can expect, I think other expenses in total, we'll be able to maintain in the margin of INR110 crores, INR120 crores per quarter going forward.

Sudarshan: Sure. And how much do we see the margin for the full year, given that domestic business will start contributing on operating leverage?

Aditi Panandikar: So I think we'll meet at the end of second quarter meeting. And I always say this, that no one should ask me about performance before the Q2, in the middle of Q2. After the first half of the year is a good time to start making some kind of judgment call. But from here on, we only have to improve, quite frankly. Another quarter of the U.S. supply is under constraint, but otherwise, everything else will come on track. So I expect margins to start normalizing from Q3.

Sudarshan: Sure. And one question before I join back the queue is on the Goa 2 lines. I mean one is on the remediation that we have done, where are we? And when should we expect the U.S. FDA for inspection there?

Aditi Panandikar: So the lines, we had made commitments to FDA. We have 4 manufacturing packing lines. And we have given timelines for when each line is going to undergo remediation, correction, repair, etcetera, etcetera.

And accordingly, we have been giving regular updates to U.S. FDA. So they are aware of when and how when we are going to complete. According to me, if I'm not mistaken, by October, we will be completely ready with all lines remediated and running. And after that, we'll be able to give product from the plant at full potential.

Moderator: The next question is from the line of Hemant Agarwal from Leo Capital.

Hemant Agarwal: So could you please talk about your API capex that you're going to do? And will that be for in-house consumption or external sales?

Aditi Panandikar: Okay. For API, all right. So API, as you know, we have three manufacturing sites in IRL today, Indoco Remedies Limited. One is a small kilo manufacturing site. One is a site for making intermediates. And the third is our large, finished API site at Patalganga. All these sites are today running at decent capacity. And we are in need of higher capacity, especially for our intermediate products, which can be finished in the Patalganga plant. So Warren Remedies, which is a 100% subsidiary of Indoco, at its new site in AURIC, is investing in putting up facilities for API. As

of now, we have invested close to about INR100 crores in the API facility through Warren Remedies. With this investment, I feel confident that we'll be able to more than double our API business going forward.

Hemant Agarwal: All right. So could you also talk about internal consumption?

Aditi Panandikar: Yes, internal consumption. Yes, yes, yes. So till last year, we had 60% of quantity of API we produced being consumed internally, and we used to sell the remaining 40%, which appears as API sales in the books of the company. From this year, we are flipping the ratio and expect to be able to sell around 60% of what we manufacture.

Hemant Agarwal: All right. Could you also just throw some light on the revenues and margins that we'll be expecting from this capex?

Aditi Panandikar: From the capex. So as you know, the plant is being built right now. Once it is ready, you have to then take the validation batches, file them with authorities. When they come down, inspect, after stability, then they approve for the reg markets.

And quite frankly, that is when you start really making money on the products that you make there. So therefore, the real margins on what we make at AURIC and finish at Patalganga incrementally to what we are doing today, we can only expect at the end of another 6 to 8 months, not before that.

But even today, API division by itself, we call it a boutique division because priority is always given to internal consumption first and then to what else we can make and sell outside is giving us very decent EBITDA margins as of now.

Hemant Agarwal: Okay. So my last question would be what sort of growth rate do you expect from the emerging markets business for the current year and probably next two to three years?

Aditi Panandikar: Okay. I think 18% to 20% is a good expectation to keep from the emerging business for the next couple of years.

Hemant Agarwal: Okay. This is on a CAGR basis, right?

Aditi Panandikar: I'm sorry.

Hemant Agarwal: The 18% to 20% would be on a CAGR basis, is it?

Rashmi Shetty: Yes, yes.

Moderator: The next question is from the line of Ankeet Pandya from InCred Asset Management.

Ankeet Pandya: Ma'am, just 2, 3 questions. So firstly, like you have already mentioned that there are certain one-off expenses during the quarter. But sequentially, if I go to see, it has come down from almost INR148 crores to INR120 crores. So any particular reason for that? Because if I remember, the remediation cost is also expected to continue till at least second quarter. And previously, we

have been investing in advertising and promotional activities for Sensodent-K. So anything that has changed materially sequentially?

Aditi Panandikar: I'll just take this one at a time. As you correctly said from a one-off of INR140 plus crores in the last quarter, we are now at INR100 crores. And as I said, we expect it to stabilize around INR120 crores. So this drop in expenses is largely because of -- as I said, there are a lots of projects underway at various manufacturing sites to bring in more efficiency in manufacturing that has resulted in better containment of costs and that has helped us.

Coming back to the Sensodent-K and KF, last year's base has the kind of investments we did on the brand for digital presence in social media. Now that those 2 cosmetic variants are with Warren Remedies, that base of investment has also gone to that company. So naturally, that is not here. So that's the correct assumption.

Ankeet Pandya: Okay. So INR120 crores, what you said, this is for the remaining quarters, or we can expect that at a steady base, between INR120 crores, INR130 crores.

Aditi Panandikar: Yes.

Ankeet Pandya: And secondly, on your European geography, like we have been facing the paracetamol challenge. So how has that been? And like how should we look at the geography for the coming quarters, for the next 2, 3 quarters with new launches and ramp-up in paracetamol. How is the situation?

Sundeep Bambolkar: Yes. We are not only depending on paracetamol. Of course, paracetamol is a big contributor to the European geography, particularly to the UK, but we have developed and filed many more products which are either approved or about to be approved. So as a result, paracetamol, of course, has bounced back, and you'll see better results in Q2, Q3 and Q4. And last year, definitely, we took a hit on European business, but we will definitely do better than last year's figure.

Ankeet Pandya: We'll see at least growth of in FY '25 in the European region?

Sundeep Bambolkar: Yes, yes, definitely.

Ankeet Pandya: Okay. And just on the capex front, so like we had guided earlier for INR250 crores of capex in FY '25. So INR100 crores is towards this Warren Remedies. So any change in that? Or still we maintain the INR250 crores capex guidance for the year?

Aditi Panandikar: We'll be able to maintain as per commit.

Ankeet Pandya: Okay. And just lastly, I just wanted to reconfirm. You mentioned that 30% growth in the U.S. market or you said 30% or something for the U.S. market?

Aditi Panandikar: Yes, yes, 30% growth in U.S.

Ankeet Pandya: That's in FY '26.

- Aditi Panandikar:** Yes. We said over the next 2 years, on a CAGR basis.
- Ankeet Pandya:** On the CAGR basis. Okay.
- Moderator:** The next question is from Vipulkumar Shah from Sumangal Investments.
- Vipulkumar Shah:** So my question relates to this new launch of FosHS. So what is the size of this market? How many players are there? And what type of market share we are targeting there?
- Aditi Panandikar:** Right. So FosHS is a brand of Fosfomycin. It is a single-dose treatment for treating urinary tract infections. So typically, UTI is a very common problem per se, but it is more common amongst women and that to women in the age group of 50 onwards. And typically, they get recurring urinary tract infections. And then you have to waste 48 hours to do urine culture to decide which antibiotic is going to work.
- What FosHS does is that it deals with all kinds of bacteria and, therefore, can be taken immediately upon diagnosis, without wasting any time. And it is a one sachet, there are granules, to be taken directly or with water. And it is a one sachet kind of treatment only. And quickly trying here to look at the market size, I have it somewhere. There are already quite a few players in the market. For us, it is a first kind of a launch for it.
- Vipulkumar Shah:** Okay. And then my second question means, it's an observation. So since last two years, our EBITDA margins are falling very rapidly. So it's a story of one step forward and two steps backwards. So why our performance is suffering since the last two years. We are not able to report any consistent performance.
- Aditi Panandikar:** Correct. Thank you for that question, actually. Being such an open question, it allows me to explain. So as I said earlier, as an organization, you are trying to make major strategic changes in keeping with market conditions, then sometimes you have to take turns, sometimes U-turn, sometimes right-angle turn.
- And while taking turns, it's not possible to keep the speed intact. So what you see today really is a work in progress of the company. In U.S., as I mentioned earlier, until last year, we had quite a substantial portion of income coming through what is known as out-licensing fees or milestones, which are today absolutely near NIM. And we are keeping instead all the intellectual property for ourselves because we would like to collect them in margins going forward as the opportunities come up.
- And therefore, it is a matter of letting go of immediate gain for much better margins of a recurring nature in the future. Coming to India business, as we explained, we see an opportunity for our toothpaste to compete in a much larger market size of OTC, and therefore, the organization has decided to incur the kind of expenditure that might be required.
- Today, our advertisements are seen on television. We are there on sort of physical media, on bus stops and buses and wherever. We are also spending on social media. And this is a lot of upfront investment in order to build a product which can grow many times in the much larger market size.

These are 2 of the main reasons. The number 3 is that the reason we are incurring these kind of strategic changes is to actually overcome the very nature of what has been happening. Over the last 2 years, a minor issue here and there seems to impact our margins to a very large sort of effect. And therefore, the kind of efficiency building measures we are taking at all our sites, whether it is increasing back sizes, whether it is replacing old machines with new ones. All of that is going to help us improve our margins going forward. But all of that comes at a cost. So we are not able to postpone investments or costs today, all which are meant to improve performance of the future. I hope that explains it.

Vipulkumar Shah: Yes. So can you put any timeline by which all these initiatives will be completed? And what will be the expenditure for all these initiatives?

Aditi Panandikar: The expenditure, sir, has already been -- as you heard on the previous caller who asked the question. Last quarter itself, we had said in total, we will not spend more than INR250 crores this year and we are very much in line with that. When it comes to timelines, most of the measures that have been taken in all our plants for increasing efficiencies should be over by the end of Q2 or early Q3. For U.S. in particular, the changes in the line should also. So Q3 as per me will be a good time to start looking at many of these efficiencies to start coming into the numbers.

Vipulkumar Shah: So ma'am, so 2, 3 quarters down the line, can we reach our earlier EBITDA margins, which were around 20%, 21%?

Aditi Panandikar: I don't think we can go from 13% to 21% immediately. But by third quarter, I'm looking at a minimum of 15%, if not more.

Moderator: The next question is from the line of Avinash from Brookefields Estate Private Limited.

Avinash: Ma'am, this question is more broadly to understand the company. If I look -- I think when the company reached around INR1,000 crores in like FY'16, INR1,000 crores turnover. Since then, I think the company has done capex of more than INR1,500 crores. But somehow or the other, I don't think most of the capex has kind of translated into incremental sales. So would that be an accurate reservation that a lot of that capex has not yet translated to sales and hence profitability of the company?

Aditi Panandikar: So we have different models, as you know, largely 55% of our top line comes from India business, which is not really very capex heavy. There investment is in terms of number of people. And from that time until today, we probably have done the maximum addition of people in this year, which is 300.

Coming to the facilities and the kind of investments you talk of. As you know, U.S. is a market which has a pretty long-term gestation period for getting returns. Many of these investments have happened in the sterile side for products which were filed at that time. And then we had a -- actually that very year, we had a setback with the regulators, if you remember. So we lost a couple of years in that. But now, with this last remediation, we feel very confident we will be able to sort of give returns.

Coming to returns based on the capex made. In the reg markets, we have both U.S. and Europe. And for the longest time, European business was pure contract manufacturing, and that too of very commoditized products like paracetamol.

And we were parking the capacity with paracetamol simply because we wanted to then eventually use it for U.S. The regulatory challenges interim have meant that many of those products were postponed in approval and things got delays, but I'm happy to note today that Europe by itself is now sort of able to sustain in a manner that we can get better margins even in the contract manufacturing business. And there is one thing about how much investment you do.

And another of that investment whether -- last year, we got into a master manufacturing plan when we realized that piecemeal investments in various sites, although they have helped us get to a particular level, we need better rationalizing of portfolios, bringing a lot of same product at one place, increasing back sizes, all of that, which is getting concluded now. And a large part of that investment, which you talk about, has actually happened in the last 2 years. I hope that answered the question.

Avinash: Yes, I'm saying like if I exclude the last FY, which is INR400 crores, but if I just take from broadly, if I just cumulatively add the capex of 8, 9 years, it comes to around INR800 crores. And since then, the revenue has not even doubled. So that's what I just wanted to understand what are the challenges that company experienced?

And generally, in terms of capex, how does the management look in terms of how much the payback period should be generally, the ballpark. When the capex happens, obviously, it may or may not kind of work out that.

Aditi Panandikar: So we are going to need a minimum of 2 years for payback from here on.

Avinash: So even this Warren Remedies, the capex that you've earmarked. So that would pay the company back in maybe 2 to 3 years? Is that what you're indicating?

Aditi Panandikar: Yes, yes, yes. We have expanded our market by taking the toothpaste OTC. That alone with the kind of efforts we are doing in the marketing, has to grow our sales in that manner.

Moderator: The next question is from the line of Surya from Himalaya Investment Advisors.

Surya: Yes. So as of now on Goa Line 2, are you able to make new fillings for the sterile products? And what about Plant 1 or under the same current plant status?

Aditi Panandikar: I'm sorry, I couldn't get that at all because what did you say about -- I'm sorry, can you repeat that?

Surya: Yes, ma'am. Can you hear me now? Is it clear?

Aditi Panandikar: Yes, clear. Yes. Yes.

Surya: So as of now, on Goa Line 2, are you able to make new fillings for the sterile products? And what about Plant 1 or under the current plant status, can't we do that?

- Aditi Panandikar:** So Plant 1 is clean. It is under VAI. We have no issues in Plant 1. But we barely have 3 to 4 solid orals only in U.S. So for the U.S. solid oral business to pick up and ramp up, there is still time from Plant 1. Coming to Plant 2, which is a sterile unit. Yes, we are continuously making new products there and filing with the FDA. But that is a site which is under OAI. So from that site, our approvals will only come in after our status gets cleared. Does that answer your question?
- Surya:** Okay. Okay. Got it. So ma'am, as you mentioned that the U.S. FDA made a couple of inspections with zero observations. How much were the expenses towards this remediation this quarter? And till when do you expect these to continue?
- Aditi Panandikar:** Yes. So the remediation or the repairing work or whatever is going on is happening in Plant 2. The zero 483s came for the API manufacturing site and the testing lab. Typically, our remediation has been about INR4 crores per quarter. And we are maintaining the same run rate.
- Surya:** Okay. So till when do you expect this to continue?
- Aditi Panandikar:** We'll have to wait until the status changes of the site. I expect at least another quarter to have the same.
- Surya:** Okay. And one last question, ma'am. And why have you not been able to grow in the European market and we don't have any plant issues there. Why is that we not being able to scale that business?
- Aditi Panandikar:** We don't have any -- I'm sorry.
- Surya:** Plant issues there?
- Aditi Panandikar:** Plant issue. Okay. So what we have done is, we did not want to have too many geographies inside one plant. So but our 2 manufacturing sites at Baddi are the ones which make Europe product. We also make a couple of products of EU in our Plant 1 at Goa.
- And actually, European business has a very healthy order book position right now. And I feel very confident once the sort of master manufacturing plan is completed by end of Q2, Europe will be the division with maximum benefit coming out of this. And then we can freely manufacture a lot of products for Europe.
- Moderator:** The next question is from Gautam Rajesh, an Individual Investor.
- Gautam Rajesh:** So my first question was, so you have mentioned the capex for 2025. So for the next three years, how much can we expect in terms of capex, because we are already running way below our capacity. And given this capex, what sort of peak net debt do we expect from the company?
- Aditi Panandikar:** So once this round of capex is done, we are not expecting any more capex for the company. What we will need is some kind of maintenance capex, which is a routine across sites. Coming to debt, today, maybe Pramod, would you like to take that?

- Pramod Ghorpade:** Yes, sure. So your question on capex, just one more addition. So these lines, which order certain cash flow will flow to next year. That is what the regular capex plus certain cash flow for this line 5 and line 6. As regards to debt, the current position -- as regards to short-term debt, it is about INR350 crores and long term is about INR250 crores.
- Gautam Rajesh:** Long term is 250, if I'm right, if I heard you right?
- Pramod Ghorpade:** [inaudible 0:43:37] is basically INR284 crores and term loan is INR250 crores.
- Gautam Rajesh:** Okay. INR280 crores and INR250 crores, right?
- Pramod Ghorpade:** Yes.
- Gautam Rajesh:** And just one last question. How is the D2C Oral Care business shaping up a little bit more? Any sense on the quantum of revenues that you can give and expectations going forward? And what is the capex that has technically gone into it?
- Aditi Panandikar:** So we have set up for manufacturing unit at AURIC in Aurangabad for making, as you know, with all the things that is going on in the media that you are not allowed to make drugs and cosmetic products in the same facility. So we built up a cosmetic facility and that we have actually put in one line today for manufacturing and packing but built a facility large enough to expand to 2 more lines, including mouthwashes, but that will be in the future.
- And coming to how is the OTC business doing as of now? So this has only been the first quarter. We've had to look at a separate channel for distribution, which includes SDs, super distributors, and a different kind of chain that typically is required to reach beyond retailers, even to grocers and modern trade. Lot of field work going on there. As of now, stand-alone, these 2 toothpastes, over the same period last year, are growing at around 18% to 20%.
- Gautam Rajesh:** So how much would that be if...
- Aditi Panandikar:** I think this quarter, in total, we have done close to INR25 crores about from the two variants.
- Gautam Rajesh:** From the 2 variants, INR25 crores. Okay. And the capex for it, that's gone into this for the oral D2C business?
- Aditi Panandikar:** Around INR100 crores.
- Moderator:** The next question is from the line of Sajal Kapoor, an individual investor.
- Sajal Kapoor:** Aditi ma'am, a lot of other participants have also alluded to this area. I would like to just seek your guidance and help in to zoom into this, with the benefit of hindsight, of course, I mean, is it fair to acknowledge our capital allocation mistakes over the last 10 years and the fact that a much lower amount of capital investments and a much lower R&D would have generated far stronger cash flows and return ratios if we were focused more on the branded India and emerging markets, exactly like some of our peers like RPG Life, Ajanta Pharma, etcetera, have been doing over the years. I mean, when we look at their return ratios and cash flows, I mean, Indoco,

although with our stronger signs, has got a much inferior return ratios and cash flows because of our capital allocation.

Aditi Panandikar: I understand what you say. Let me answer that in two ways. At hindsight, of course, there is so much we can say, right, kind of. I remember classically a period when we got listed in 2005, when our top line of INR150 crores coming from India. Every time I spoke of my brands, they ask me how many ANDAs I have.

And today, you ask me why we are more focused or investing so much in U.S. Let me tell you very clearly that our strategy is correct. The decisions we made are also correct. Although some of the decisions have come in at a time when there have been massive headwinds that we had from the markets, whether regulatory or otherwise, and therefore, there has been postponement in getting returns from them.

But certainly, I agree with you that there are some other companies, which you sort of listed out, who are doing much better with their numbers. But looking at the fundamental strength of our brands in India, of our India business. And fundamentally, how the U.S. business is planned today, I feel over a period of time, we will be able to do better than them.

Sajal Kapoor: And then second question is, after this remediation is over in October, surely, we would have to wait for U.S. FDA's physical inspection and an EIR before any shipment can start from that plant to the U.S., correct?

Aditi Panandikar: Our current OAI does not allow us in any way to stop shipping and we have been shipping. The reason this quarter U.S. was impacted is because we took planned shutdown in our lines. Does that answer your question?

Sajal Kapoor: Right. So which means that after the October remediation is over, we can straightaway start for the ramp up -- okay, okay. So does that mean that next fiscal FY'26 should be materially different, better compared to this fiscal?

Aditi Panandikar: Has to be.

Moderator: The next question is from the line of Abhishek, an individual investor.

Abhishek: My question has been answered.

Moderator: The next question is from the line of Hemant Agarwal from Leo Capital.

Hemant Agarwal: All my questions have been answered.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital.

V.P. Rajesh: So just two quick questions because most of them have been asked earlier. On the debt side, what is your peak debt? If this what the numbers you just shared, is that the peak debt or are you expecting it to go even higher?

- Aditi Panandikar:** The debt. I think we will require to borrow close to another INR100 crores to meet with all the commitments we have made for capex.
- V.P. Rajesh:** Okay. So this number plus from here or some of this will be paid down. So I'm just trying to get an absolute number.
- Aditi Panandikar:** The INR100 crores is incremental beyond what the cash flow we generate.
- V.P. Rajesh:** Okay. And then the second question on this remediation of the U.S. line that you just talked about. I thought you said earlier that this will be up and running in Q3, right? So I just wanted to make sure, in Q3, we can see strong revenues from the U.S. business.
- Aditi Panandikar:** Yes, certainly.
- V.P. Rajesh:** Okay. And then when you talked about the EBITDA margin of 15% or higher in Q3. What is your sense for the whole year?
- Aditi Panandikar:** So by Q3, if I'm going to say 15%, we are still looking at a year where we are barely managing to stay at the 15% level. I can be frank about that. We will be trying very hard to do better than that, but one can expect minimum 15% for the whole year.
- V.P. Rajesh:** Okay. So therefore, your Q4 will be even stronger than Q3. Is that what you're saying, from the margin perspective?
- Aditi Panandikar:** Yes.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.
- Aditi Panandikar:** Yes. Thank you, everybody, for your very active participation and very intelligent questions, which has allowed us to express ourselves. Thank you very much. Have a good week ahead.
- Moderator:** Thank you. On behalf of Indoco Remedies, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.