

Robust growth in India and exports improves profitability



Indoco Remedies Q1FY22 results were in line with estimates. Growth across India and exports and highest ever EBITDA margins of 22.4%, reflect upbeat trajectory of the company.

- Sales came in at Rs 3868 mn, (+40% yoy/+27% qoq).
- EBITDA came in at Rs 869 mn (+79% yoy/+59% qoq), 1% lower than our estimate of Rs 878 mn.
- EBITDA margin came in at 22.4% (+480 bps yoy/+460 bps qoq).
- PBT came in at Rs 613 mn, in line with our estimate of Rs 636 mn. Lower interest (-26%) and depreciation (+16%).
- After taxes@35%, PAT came in at Rs 397 mn.
- EPS for the quarter was at Rs 4.3.

Key Developments

- **India sales** (58% of sales, +41% Rs 2220 mn), driven by formulations (56% of sales, 46% Rs 2151 mn), API (Rs 41.6 mn, -51%) and CRO at Rs 28 mn.
- **Exports** (42% of sales, +46%) Rs 1592 mn, driven by formulations Rs 1524 mn, +68% and API (Rs 67 mn mn, -51%).
- **Regulated markets** Rs 1283mn, +68%, driven by US Rs 462 mn +72%, EU Rs 695 mn +65% and South Africa Rs 29 mn +81%.
- **US sales** majorly include launch of Brinzolamide suspension by Teva as the first generic. Indoco expects profit sharing income in the coming quarters.
- **Semi regulated markets** Rs 242 mn, +27%.

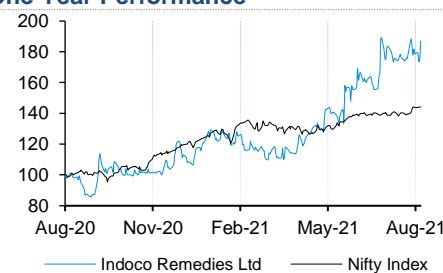
Rating	TP (Rs)	Up/Dn (%)
BUY	546	15

Market data

Current price	Rs	473
Market Cap (Rs.Bn)	(Rs Bn)	43.4
Market Cap (US\$ Mn)	(US\$ Mn)	585
Face Value	Rs	2
52 Weeks High/Low	Rs	495 / 213
Average Daily Volume	('000)	2081
BSE Code		532612
Bloomberg		INDR IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	58.69	58.69
Public	41.31	41.31
Total	100	100

Source: BSE

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	9,684	11,066	12,415	15,922	18,252
EBITDA	767	1,232	2,243	3,275	3,838
Adjusted net profit	(29)	241	931	1,529	2,117
Free cash flow	141.7	560.7	(1,043.3)	2,216.9	1,968.9
EPS (Rs)	(0.3)	2.6	10.1	16.6	23.0
growth (%)	(107.1)	(929.2)	285.8	64.4	38.4
P/E (x)	(1,460.3)	176.1	45.7	27.8	20.1
P/B (x)	6.4	6.3	5.5	4.9	4.2
EV/EBITDA (x)	54.0	33.1	18.7	12.4	10.4
D/E	0.4	0.3	0.3	0.2	0.2
RoIC (%)	(0.5)	4.7	13.2	24.1	32.8
RoE (%)	(0.4)	3.5	12.1	17.7	20.9
Dividend yield (%)	0.4	0.4	0.3	0.4	0.4

Source: Company

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KTAs from the concall

India

- Created new corporate brand identity with new logo.
- India business
 - Major growth from Karvol plus and ATM in the second wave. Growth across other brands like Febrex Plus, Sensodent K, and Cyclopam.
 - By therapy, growth rebounded in anti infectives and respiratory and stomatologicals.
 - Indoco is strengthening its leadership for India business by creating 2 senior level positions, of Chief Marketing officer and VP for API sales.

Exports regulated markets

US

- US revenues include Rs 150mn from milestone income received from Teva.
- Excluding milestone income, US sales growth at 16%.
- Indoco expects profit sharing income from Brinzolamide to come in the following quarters.
- Indoco has a strong pipeline of ophthalmic products and injectables for the US market.
- Indoco has completed remediation for Goa plant 1 and awaits USFDA inspection for the plant.
- The company has guided for higher R&D spend and expects 6 ANDA filings in FY22

Europe

- Growth in Europe due to increased demand for analgesics in UK, with supplies to Germany for Allopurinol.

South Africa, Australia & New Zealand

- Q1FY22 +81% Rs 29 mn.

Emerging markets

- Emerging markets growth to continue, going forward.

API

- API sales lower due to captive consumption.

Financials

- Indoco expects FY21 gross margins to be sustainable.
- Expect OPM improvement to 19- 20% for FY22.
- FY22 R & D spend 5% of sales.
- Capex Rs 800 mn each in FY22 and FY23.

Key Highlights

Particulars (INR in mn)	Q1FY22	Q4FY21	Q1FY21	%yoy	%qoq	FY21	FY20	
Net Sales	3867.5	3051.5	2758.6	40%	27%	12409.6	11065.9	12%
Other Income	8.6	19.8	2.6			31.2	24.4	
Total Income	3876.1	3071.3	2761.2	40%	26%	12440.8	11090.3	12%
Raw Material costs	-1103.1	-879.3	-816.2			-3541.1	-3304.3	
Gross Profit	2764.40	2172.20	1942.40	42%	27%	8868.50	7761.60	14%
GPM	71.5%	71.2%	70.4%			71.5%	70.1%	
Employee costs	-749.8	-601.7	-658.3			-2740.2	-2562.5	
R & D	-165.3	-164.2	-102.6			-597.0	-497.0	
Other Expenses	-980.3	-859.0	-695.0			-3294.3	-3468.9	
Total Expenses	-2998.5	-2504.2	-2272.1	32%	20%	-10172.6	-9832.7	3%
EBITDA ex OI	869.00	547.30	486.50	79%	59%	2237.00	1233.20	81%
EBITDA margins	22.5%	17.9%	17.6%			18.0%	11.1%	
Interest	-42.4	-45.9	-57.5			-222.6	-262.5	
Depreciation	-222.3	-185.5	-191.3			-731.3	-708.2	
Profit before tax	613	336	240.30	155%	83%	1314.30	286.90	358%
Tax	-216.3	-85.6	-69.9			389.5	-44.6	
Profit after tax	396.60	250.10	170.40	133%	59%	924.80	242.30	282%
Equity	184.3	184.3	184.3			184.3	184.3	
Face Value	2	2	2			2	2	
Number of shares	92.15	92.15	92.15			92.15	92.15	
EPS (Rs)	4.30	2.71	1.85			10.04	2.63	

Robust revenue growth across India and exports

All time high EBITDA margins despite increased overheads and R & D spend

Post debt repayment and 35% tax, PAT margins at 10.3%

Profitability analysis	Q1FY22	Q4FY21	Q1FY21	+/-yoy	+/-qoq	FY21	FY20	bps
Gross margin	71.5	71.2	70.4	107	29	71.5	70.1	133
EBITDA margin	22.5	17.9	17.6	483	453	18.0	11.1	688
PBT margin	15.8	11.0	8.7	714	485	10.6	2.6	800
PAT margin	10.3	8.2	6.2	408	206	7.5	2.2	526

Cost analysis	Q1FY22	Q4FY21	Q1FY21		FY21	FY20
RMC	-28.5	-28.8	-29.6		-28.5	-29.9
Employee	-19.4	-19.7	-23.9		-22.1	-23.2
R & D	-4.3	-5.4	-3.7		-4.8	-4.5
Other exps	-25.3	-28.2	-25.2		-26.5	-31.3

Revenue breakup	Q1FY22	Q4FY21	Q1FY21	%yoy	%qoq	FY21	FY20	
India	2220.2	1522.4	1575.6	41%	46%	5227.5	5545.1	-6%
Exports	1591.5	1425.7	1092.4	46%	12%	3998.4	2617.1	53%

Valuation & Outlook

Indoco Remedies has benefitted from the Covid19 second wave with growth in anti infectives, respiratory and stomatologicals.

We believe Indoco will grow across India, US, Europe and other markets. We have revised our estimates for Sales/EBITDA/PAT by 5%/10%/5% for FY22 and 4%/6%/11% for FY23E.

At Rs 461, Indoco trades at 20x FY23E EPS of Rs 23. We have valued Indoco as a weighted average of DCF, 25x P/E and 12x EV/EBITDA and arrived at a target price of Rs 546.

We maintain BUY.

Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	9,684	11,066	12,415	15,922	18,252	Net Profit	(29)	241	931	1,529	2,117
Raw materials	(3,203)	(3,304)	(3,541)	(4,776)	(5,384)	Add: Dep. & Amort.	716	708	731	814	823
Employee costs	(2,317)	(2,565)	(2,740)	(3,151)	(3,624)	Cash profits	687	949	1,662	2,343	2,940
Other Expenses	(3,399)	(3,964)	(3,891)	(4,718)	(5,405)	(Inc)/Dec in					
Cost of sales	(8,918)	(9,834)	(10,173)	(12,646)	(14,414)	-Sundry debtors	137	(143)	(237)	(497)	(415)
Operating Profit	767	1,232	2,243	3,275	3,838	-Inventories	99	(249)	(295)	(457)	(415)
Depreciation	(716)	(708)	(731)	(814)	(823)	-Loans/advances	0	0	(0)	(0)	(0)
PBIT	51	524	1,511	2,461	3,015	-Sundry creditors	212	(51)	(524)	765	241
Other income	61	24	31	34	38	-Others	377	376	(887)	912	418
Interest	(205)	(263)	(223)	(213)	(192)	Change in working capital	825	(67)	(1,943)	722	(171)
Profit before tax	(93)	286	1,320	2,283	2,861	CF from Oper. activities	1,512	882	(281)	3,066	2,769
Provision for tax	64	(45)	(390)	(753)	(744)	CF from Inv. activities	(1,370)	(322)	(762)	(1,349)	(1,600)
Reported PAT	(29)	241	931	1,529	2,117	CF from Fin. activities	(293)	(388)	83	(570)	(553)
Extraordinary Items	-	-	-	-	-	Cash generated/(utilised)	(152)	173	(960)	1,147	616
Adjusted PAT	(29)	241	931	1,529	2,117	Cash at start of the year	3,699	3,547	3,720	2,760	3,907
						Cash at end of the year	3,547	3,720	2,760	3,907	4,522
Balance Sheet	FY19	FY20	FY21	FY22E	FY23E	Ratios	FY19	FY20	FY21	FY22E	FY23E
Equity capital	184	184	184	184	184	OPM	7.9	11.1	18.1	20.6	21.0
Reserves	6,422	6,611	7,506	8,436	9,965	NPM	(0.3)	2.2	7.5	9.6	11.6
Net worth	6,606	6,796	7,690	8,620	10,150	Tax rate	(68.8)	(15.6)	(29.5)	(33.0)	(26.0)
Def. Tax Liab.+Minority Int	73	128	144	173	208	Growth Ratios (%)					
Total debt	2,421	2,029	2,133	2,133	2,133	Net Sales	(7)	14	12	28	15
CAPITAL EMPLOYED	9,100	8,953	9,967	10,926	12,490	Operating Profit	(43)	61	82	46	17
Gross block	7,130	8,790	9,375	10,175	10,975	PAT	(107)	(929)	286	64	38
Accumulated depreciation	(2,719)	(3,427)	(4,158)	(4,972)	(5,795)	Per Share (Rs.)					
Net block	4,411	5,364	5,217	5,203	5,180	Net Earnings (EPS)	(0.3)	2.6	10.1	16.6	23.0
Capital WIP	1,412	73	251	300	300	Cash Earnings (CPS)	7.5	10.3	18.0	25.4	31.9
Total fixed assets	5,823	5,437	5,468	5,503	5,480	Dividend	2.0	2.0	1.5	2.0	2.0
Goodwill	1	1	1	1	1	Book Value	71.7	73.7	83.4	93.5	110.1
Investments	0	0	0	500	1,300	Free Cash Flow	1.5	6.1	(11.3)	24.1	21.4
Inventories	1,835	2,083	2,379	2,835	3,250	Valuation Ratios					
Sundry debtors	1,958	2,101	2,338	2,835	3,250	P/E(x)	(1,460)	176	46	28	20
Cash & bank	3,547	3,720	2,760	3,907	4,522	P/B(x)	6	6	6	5	4
Loans & advances	4	4	4	4	5	EV/EBIDTA(x)	54	33	19	12	10
Other current assets	1,119	1,026	1,334	1,467	1,614	EV/SALES(x)	4	4	3	3	2
Sundry creditors	(1,707)	(1,656)	(1,132)	(1,898)	(2,139)	Div. Yield(%)	0	0	0	0	0
Acceptances	(2,879)	(3,014)	(2,437)	(3,333)	(3,718)	FCF Yield(%)	0	1	(2)	5	5
Provisions	(602)	(749)	(747)	(896)	(1,076)	Return Ratios (%)					
Working capital	3,276	3,515	4,498	4,922	5,709	ROIC	(0.5)	4.7	13.2	24.1	32.8
Deferred Tax Assets	-	-	-	-	-	ROE	(0.4)	3.5	12.1	17.7	20.9
Miscellaneous exp.	-	-	-	-	-	ROCE	0.6	5.9	15.2	22.5	24.1
CAPITAL DEPLOYED	9,100	8,953	9,967	10,926	12,490						

Source: Dalal & Broacha Research, Company

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