



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Q2FY21 Result Update @ Dalal & Broacha

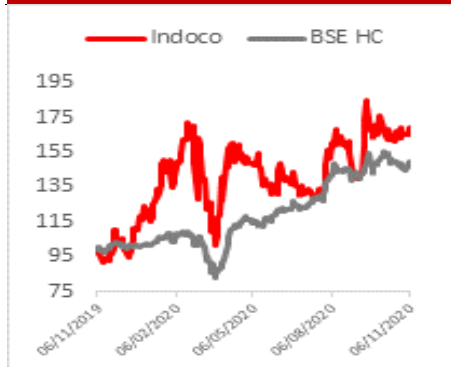
BUY

Current Price	255
Target Price	316
Upside	24%
52 Week Range	140/295

Key Share Data

Market Cap (Rs.bn)	23
Market Cap (US\$ mn)	318
No of o/s shares (mn)	92
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	121
BSE Code	532612
NSE Code	INDOCO
Bloomberg	INDR:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	58.69	58.68
FII	2.22	2.00
DII	14.29	14.52
Others	24.42	24.77
Total	100	100

Indoco Remedies Q2FY21 results were better than estimates. Growth in revenues and profitability came from exports to regulated markets, with 2.9x growth in US exports. Improved EBITDA margins at 18.5% were the highest in the last 14 quarters.

- Sales (+13% yoy/+21% qoq) at Rs 3230 mn, 1% higher than our estimate.
- EBITDA (+89% yoy/+25% qoq) at Rs 607 mn.
- EBITDA margins at 18.5% (+750 bps yoy/+90 bps qoq) above our estimate of 17.8%.
- PAT grew 2.5x to Rs 256.5 mn.
- EPS for the quarter was at Rs 2.78, higher than our estimate of 2.57.

KTAs from the concall:

- India launch of FEBUNDO 400 mg, (Favipiravir) during the quarter.
- Indoco received USFDA approval for APIXABID, currently under patent till 2026.
- The company has received repeat orders for products exported to US in Q1FY21. **Indoco expects US exports of Rs 1500 mn in FY21, to increase to Rs 2500 mn by FY22E.**
- The company has submitted its Corrective measures and Preventive action (CAPA) to the USFDA, and expects re-inspection of Goa plant 1.
- Indoco plans to repay its long term debt of Rs 1360 mn over the next 2 years.

Outlook & Valuation

Although India business growth is a concern, the traction in US sales has remarkably improved profitability. We have revised our estimates upwards and valued Indoco on DCF basis.

At Rs 255, Indoco trades at 17x FY22E EPS of Rs 13.1. **We upgrade our rating from BUY on Dips to BUY, with a target price of Rs 316.**

Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY18	10,453	(4.7)	1,349	12.9	411	(47)	4.5	57	6.1	7.1
FY19	9,684	(7.4)	767	7.9	(29)		(0.3)	(808)	(0.4)	0.6
FY20	11,066	14.3	1,232	11.1	241		2.6	97	3.5	5.9
FY21E	12,520	13.1	1,926	15.4	664	175	7.2	35	9.4	12.3
FY22E	14,749	17.8	2,700	18.3	1,229	85	13.3	19	16.0	19.3


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By Geography

1. **India (59% of sales) -3.5% Rs 1876 mn**
 - a. **Formulations** -6% yoy Rs 1747 due to lower footfalls on account of lockdown. Key brands ATM, Karvol Plus, Sensodent K and extensions, Cloben G recorded double digit growth.
 - b. **API** +50% Rs 94 mn.
2. **Exports Formulations – Regulated markets (31% of sales) +96% Rs1014 mn**
 - a. **US +2.9x Rs 434 mn** due to 4 new launches – 3 injectables and Febuxostat tablets.
 - b. **Europe +43% Rs 561 mn**
 - c. **SA +38% Rs 18 mn.**
3. **Exports Formulations – Semi regulated markets (6% of sales, -11% Rs 200 mn)**
4. **Exports API (4% of sales -21% Rs 135 mn), lower due to captive consumption.**
5. **Profitability:**
 - a. **Gross margins of 72% in view of better sales mix.**
 - b. **EBITDA margins at 18.5% in Q2FY21 have been highest in the last 14 quarters.** Indoco expects EBITDA margins of 15-15.5% in H2FY21, in view of increased marketing spend.

Revision of estimates and Valuation

In view of the traction in US launches and improved profitability from the better sales mix we have revised our estimates for FY21 and FY22.

	FY21E	FY21E (Old)	Var	FY22E	FY22E (Old)	Var
Sales	12,520	12,490	0.2%	14,749	14,132	4.4%
EBITDA	1,926	1,843	4.5%	2,700	2,289	17.9%
OPM (%)	15.4	14.8		18.3	16.2	
PAT	664	603	10.1%	1,229	925	32.9%
EPS	7.2			13.3		

We have valued Indoco on DCF basis and arrived at a target price of Rs 316.


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	Q2FY21	Q1FY21	Q2FY20	%yoy	%qoq	H1FY21	H1FY20	
Net Sales	3276.6	2758.6	2919.7	12%	19%	6035.2	5446.4	11%
Other Income	5.2	2.6	5.8			7.8	12.2	
Total Income	3281.8	2761.2	2925.5	12%	19%	6043	5458.6	11%
Raw Material costs	-902.10	-816.20	-895.90			-1718.3	-1752.00	
Gross Profit	2374.50	1942.40	2023.80	17%	22%	4316.90	3694.40	17%
GPM	72.5%	70.4%	69.3%			71.5%	67.8%	
Employee costs	-751.50	-658.30	-638.80			-1409.8	-1247.90	
R & D	-156.60	-102.60	-116.40			-259.2	-227.60	
Other Expenses	-865.00	-695.00	-947.20			-1560	-1673.40	
Total Expenses	-2675.20	-2272.10	-2598.30	3%	18%	-4947.30	-4900.90	1%
EBITDA ex OI	601.40	486.50	321.40	87%	24%	1087.90	545.50	99%
EBITDA margins	18.4%	17.6%	11.0%			18.0%	10.0%	
Interest	-58.90	-57.50	-53.70			-116.4	-114.90	
Depreciation	-185.70	-191.30	-180.40			-377	-350.30	
Profit before tax	362	240.30	93.10	289%	51%	602	93	551%
Tax	-111.3	-69.9	-19.8			-181.2	0.80	
Profit after tax	250.70	170.40	73.30	242%	47%	783.50	91.70	754%
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)	2.72	1.85	0.80			8.50	1.00	



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INDOCO REMEDIES LTD - FINANCIALS											
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	10,453	9,684	11,066	12,520	14,749	Net Profit	411	(29)	241	664	1,229
Raw materials	(3,512)	(3,203)	(3,304)	(3,631)	(4,277)	Add: Dep. & Amort.	677	716	708	790	858
Employee costs	(2,209)	(2,317)	(2,565)	(2,822)	(3,104)	Cash profits	1,088	687	949	1,454	2,087
Other Expenses	(3,383)	(3,399)	(3,964)	(4,142)	(4,669)	(Inc)/Dec in					
Cost of sales	(9,104)	(8,918)	(9,834)	(10,594)	(12,050)	-Sundry debtors	62	137	(143)	(300)	(630)
Operating Profit	1,349	767	1,232	1,926	2,700	-Inventories	(64)	99	(249)	(146)	(397)
Depreciation	(677)	(716)	(708)	(790)	(858)	-Loans/advances	311	0	0	(0)	(0)
PBIT	672	51	524	1,136	1,842	-Sundry creditors	(145)	212	(51)	(15)	292
Other income	47	61	24	25	27	-Others	1,729	377	376	168	509
Interest	(236)	(205)	(263)	(264)	(208)	Change in working capital	1,893	825	(67)	(293)	(226)
Profit before tax	483	(93)	286	897	1,661	CF from Oper. activities	2,981	1,512	882	1,161	1,861
Provision for tax	(72)	64	(45)	(233)	(432)	CF from Inv. activities	(1,515)	(1,370)	(322)	(527)	(800)
Reported PAT	411	(29)	241	664	1,229	CF from Fin. activities	(123)	(293)	(388)	(397)	(898)
Extraordinary Items	-	-	-	-	-	Cash generated/(utilised)	1,343	(152)	173	237	163
Adjusted PAT	411	(29)	241	664	1,229	Cash at start of the year	2,355	3,699	3,547	3,720	3,956
						Cash at end of the year	3,699	3,547	3,720	3,956	4,119
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	Ratios	FY18	FY19	FY20	FY21E	FY22E
Equity capital	184	184	184	184	184	OPM	12.9	7.9	11.1	15.4	18.3
Reserves	6,566	6,422	6,611	6,853	7,517	NPM	3.9	(0.3)	2.2	5.3	8.3
Net worth	6,750	6,606	6,796	7,037	7,701	Tax rate	(15.0)	(68.8)	(15.6)	(26.0)	(26.0)
Def. Tax Liab.+Minority Int	96	73	128	154	185	Growth Ratios (%)					
Total debt	2,577	2,421	2,029	2,029	1,665	Net Sales	(5)	(7)	14	13	18
CAPITAL EMPLOYED	9,422	9,100	8,953	9,220	9,551	Operating Profit	(14)	(43)	61	56	40
						PAT	(47)	(107)	(929)	175	85
Gross block	7,130	7,130	8,790	9,290	10,090	Per Share (Rs.)					
Accumulated depreciation	(2,719)	(2,719)	(3,427)	(4,216)	(5,074)	Net Earnings (EPS)	4.5	(0.3)	2.6	7.2	13.3
Net block	4,411	4,411	5,364	5,074	5,016	Cash Earnings (CPS)	11.8	7.5	10.3	15.8	22.6
Capital WIP	758	1,412	73	100	100	Dividend	2.0	2.0	2.0	2.0	2.0
Total fixed assets	5,169	5,823	5,437	5,174	5,116	Book Value	73.2	71.7	73.7	76.4	83.6
Goodwill	1	1	1	1	1	Free Cash Flow	22.6	16.4	(8.4)	7.2	11.5
Investments	0	0	0	0	0	Valuation Ratios					
Inventories	1,934	1,835	2,083	2,230	2,627	P/E(x)	57	(808)	97	35	19
Sundry debtors	2,095	1,958	2,101	2,401	3,031	P/B(x)	3	4	3	3	3
Cash & bank	3,699	3,547	3,720	3,956	4,119	EV/EBIDTA(x)	17	29	18	11	8
Loans & advances	5	4	4	4	5	EV/SALES(x)	2	2	2	2	1
Other current assets	1,217	1,119	1,026	1,129	1,241	Div. Yield(%)	1	1	1	1	1
Sundry creditors	(1,495)	(1,707)	(1,656)	(1,641)	(1,934)	FCF Yield(%)	9	6	(3)	3	5
Acceptances	(2,692)	(2,879)	(3,014)	(3,135)	(3,577)	Return Ratios (%)					
Provisions	(509)	(602)	(749)	(899)	(1,078)	ROE	6.1	(0.4)	3.5	9.4	16.0
Working capital	4,253	3,276	3,515	4,045	4,434	ROCE	7.1	0.6	5.9	12.3	19.3
Deferred Tax Assets	-	-	-	-	-						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	9,422	9,100	8,953	9,220	9,551						



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