

Strong demand in India and exports, profitability improvement continues



Indoco Remedies Q2FY22 results were below estimates due to challenges in container availability for exports. We believe the issues are temporary in nature and will resolve in a quarter or two. Robust demand in India and exports continue in both regulated & semi regulated markets with profitability improvement.

- Sales came in at Rs 3868 mn, (+18% yoy/flat qoq).
- EBITDA came in at Rs 848 mn (+41% yoy/-2% qoq).
- EBITDA margin came in at 21.9% (+340 bps yoy/-80 bps qoq).
- PBT came in at Rs 623 mn (+72% yoy/+2% qoq). Lower interest (-48%) due to debt repayment of Rs 140 mn and depreciation (+5%).
- After taxes@35%, PAT came in at Rs 390 mn (+56% yoy/+2% qoq).
- EPS for the quarter was at Rs 4.24.

Sales by geography

- India sales (60% of sales, +19% Rs 2224 mn), driven by formulations (57% of sales, +22% Rs 2136 mn), API (Rs 50.3 mn, -46%) and CRO at Rs 38 mn.
- Exports (40% of sales, +11%) Rs 1502 mn, driven by formulations Rs 1355 mn, +12% and API (Rs 147 mn mn, +9%).
- Regulated markets Rs 1114mn, +10%, driven by US Rs 479 mn, +10%, EU Rs 597 mn, +6% and South Africa Rs 38 mn, +111%. US sales in Q1FY22 include launch of Brinzolamide suspension by Teva as the first generic.
- Semi regulated markets Rs 242 mn, +21%.

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	9,684	11,066	12,415	15,929	18,259
EBITDA	767	1,232	2,243	3,280	3,843
Adjusted net profit	(29)	241	931	1,532	2,121
Free cash flow	141.7	560.7	(1,043.3)	2,219.2	1,972.4
EPS (Rs)	(0.3)	2.6	10.1	16.6	23.0
growth (%)	(107.1)	(929.2)	285.8	64.7	38.4
P/E (x)	(1,447.7)	174.6	45.3	27.5	19.9
P/B (x)	6.4	6.2	5.5	4.9	4.1
EV/EBITDA (x)	53.5	32.8	18.5	12.3	10.3
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	17.8	20.9
Dividend yield (%)	0.4	0.4	0.3	0.4	0.4

Source: Company

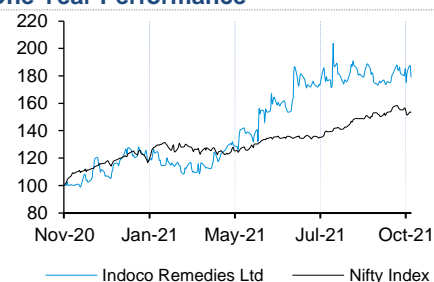
Rating	TP (Rs)	Up/Dn (%)
BUY	546	19

Market data

Current price	Rs	457
Market Cap (Rs.Bn)	(Rs Bn)	42
Market Cap (US\$ Mn)	(US\$ Mn)	563
Face Value	Rs	2
52 Weeks High/Low	Rs	530 / 248
Average Daily Volume	('000)	162
BSE Code		532612
Bloomberg		INDR.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

(%) Shareholding	Sep-21	Jun-21
Promoter	58.7	58.7
Public	41.3	41.3
Total	100	100

Source: Bloomberg

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Conference Call Highlights

A. India

- India sales (60% of sales, +19% Rs 2224 mn), driven by
 - formulations (57% of sales, +22% Rs 2136 mn), API (Rs 50.3 mn, -46%) and CRO at Rs 38 mn.
 - By therapy, Indoco grew in anti infectives, gastrointestinal, ophthalmic, vitamins and respiratory.
 - 2 new launches namely Renofin tablets (Paracetamol + Diclofenac) in pain management and Noxa cream in dermatology.
 - High attrition at 25-30% for domestic sales.
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B. Exports – Reg markets - US

- Regulated markets Rs 1114mn, +10%, driven by
 - US Rs 479 mn, +10%,
 - US sales in Q1FY22 include launch of Brinzolamide suspension by Teva as the first generic (Rs 75-85 mn in H1).
 - Orderbook healthy for all products including Brinzolamide, will grow faster in H2FY22.
 - The management has maintained its guidance at Rs 2500 mn for FY22.
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C. Exports – Reg markets - Europe

- EU Rs 597 mn, +6% and South Africa Rs 38 mn, +111%.
- Europe sales were muted due to shortages of containers and APIs during the quarter.
- No challenges in pricing, the management expects the situation to normalize in 1- 2 quarters.

D. Financials

- **R & D spend: @5% of sales**
- **The management expects PAT margins of 10% to be sustainable.**

Brands – fast moving brands were Oxipod, Febrex Plus, Cyclopam.

Healthy Orderbook for US, expect faster growth in H2FY22

Quarterly Financials

Particulars (INR in mn)	Q2FY22	Q1FY22	Q2FY21	%yoy	%qoq	H1FY22	H1FY21	
Net Sales	3865.9	3867.5	3276.6	18%	0%	7733.4	6035.2	28%
Other Income	10.1	8.6	5.2			18.7	7.8	
Total Income	3876	3876.1	3281.8	18%	0%	7752.1	6043	28%
Raw Material costs	-1079.0	-1103.1	-902.1			-2182.1	-1718.3	
Gross Profit	2789.00	2764.40	2374.50	17%	1%	5551	4317	29%
GPM	72.1%	71.5%	72.5%			71.8%	71.5%	
Employee costs	-741.7	-749.8	-751.5			-1491.5	-1409.8	
R & D	-213.3	-165.3	-156.6			-378.6	-259.2	
Other Expenses	-986.1	-980.3	-865.0			-1966.4	-1560	
Total Expenses	-3020.1	-2998.5	-2675.2	13%	1%	-6018.6	-4947.3	22%
EBITDA ex OI	845.80	869.00	601.40	41%	-3%	1715	1088	58%
EBITDA margins	21.9%	22.5%	18.4%			22.2%	18.0%	
Interest	-30.5	-42.4	-58.9			-72.9	-116.4	
Depreciation	-194.5	-222.3	-185.7			-416.8	-377	
Profit before tax	631	613	362	74%	3%	1243.80	602.30	107%
Tax	-232.6	-216.3	-111.3			-448.9	-181.2	
Profit after tax	398.30	396.60	250.70	59%	0%	794.90	421.10	89%
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)	4.32	4.30	2.72			8.63	4.57	
Profitability analysis	Q1FY23	Q1FY22	Q2FY21	+/-yoy	+/-qoq	H1FY22	H1FY21	bps
Gross margin	72.1	71.5	72.5	-32	67	71.8	71.5	25.5
EBITDA margin	21.9	22.5	18.4	352	-59	22.2	18.0	415
PBT margin	16.3	15.8	11.0	527	47	16.1	10.0	610
PAT margin	10.3	10.3	7.7	265	5	10.3	7.0	330
Cost analysis	Q1FY23	Q1FY22	Q2FY21			H1FY22	H1FY21	
RMC	-27.9	-28.5	-27.5			-28.2	-28.5	
Employee	-19.2	-19.4	-22.9			-19.3	-23.4	
R & D	-5.5	-4.3	-4.8			-4.9	-4.3	
Other exps	-25.5	-25.3	-26.4			-25.4	-25.8	
Revenue breakup	Q1FY23	Q1FY22	Q2FY21	%yoy	%qoq	H1FY22	H1FY21	
India	2224	2220.2	1876.1	19%	0%	4444.2	3451.7	29%
Exports	1502.3	1591.5	1348.6	11%	-6%	3093.8	2441	27%

Strong revenue growth yoy, flat sequentially due to supply chain issues in exports

Gross margins improve due to better sales mix

OPM marginally lower sequentially

Valuation & Outlook

Indoco Remedies reported muted growth in exports due to shortage of containers and APIs, leading to lower despatches for Europe. The management expects the situation to improve in 2 quarters. Further, the R & D spend is marginally higher at 5% of sales.

At Rs 457, Indoco Remedies trades at 20x FY23E EPS of 23 and 11x EV/EBITDA.

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	15,929	18,259	Net Profit	(29)	241	931	1,532	2,121
Raw materials	(3,203)	(3,304)	(3,541)	(4,779)	(5,386)	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	2,346	2,944
Other Expenses	(3,399)	(3,964)	(3,891)	(4,719)	(5,406)	(Inc)/Dec in					
Cost of sales	(8,918)	(9,834)	(10,173)	(12,649)	(14,416)	-Sundry debtors	137	(143)	(237)	(498)	(415)
Operating Profit	767	1,232	2,243	3,280	3,843	-Inventories	99	(249)	(295)	(458)	(415)
Depreciation	(716)	(708)	(731)	(814)	(823)	-Loans/advances	0	0	(0)	(0)	(0)
PBIT	51	524	1,511	2,466	3,020	-Sundry creditors	212	(51)	(524)	766	241
Other income	61	24	31	34	38	-Others	377	376	(887)	913	418
Interest	(205)	(263)	(223)	(213)	(192)	Change in working capital	825	(67)	(1,943)	722	(171)
Profit before tax	(93)	286	1,320	2,287	2,866	CF from Oper. activities	1,512	882	(281)	3,068	2,772
Provision for tax	64	(45)	(390)	(755)	(745)	CF from Inv. activities	(1,370)	(322)	(762)	(1,349)	(1,600)
Reported PAT	(29)	241	931	1,532	2,121	CF from Fin. activities	(293)	(388)	83	(573)	(554)
Extraordinary Items	-	-	-	-	-	Cash generated/(utilised)	(152)	173	(960)	1,146	619
Adjusted PAT	(29)	241	931	1,532	2,121	Cash at start of the year	3,699	3,547	3,720	2,760	3,906
						Cash at end of the year	3,547	3,720	2,760	3,906	4,524
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	9,968	NPM	(0.3)	2.2	7.5	9.6	11.6
Net worth	6,606	6,796	7,690	8,620	10,153	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	12,493	Operating Profit	(43)	61	82	46	17
Gross block	7,130	8,790	9,375	10,175	10,975	PAT	(107)	(929)	286	65	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	25.5	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	110.2
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	2,837	3,252	Valuation Ratios					
Sundry debtors	1,958	2,101	2,338	2,837	3,252	P/E(x)	(1,448)	175	45	27	20
Cash & bank	3,547	3,720	2,760	3,906	4,524	P/B(x)	6	6	5	5	4
Loans & advances	4	4	4	4	5	EV/EBIDTA(x)	53	33	18	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)	(2,140)	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	5,712	ROIC	(0.5)	4.7	13.2	24.1	32.8
Deferred Tax Assets	-	-	-	-	-	ROE	(0.4)	3.5	12.1	17.8	20.9
Miscellaneous exp.	-	-	-	-	-	ROCE	0.6	5.9	15.2	22.6	24.2
CAPITAL DEPLOYED	9,100	8,953	9,967	10,926	12,493						

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