

Regulated market exports aid margin expansion

- Sales came in at Rs 3336.6 mn (+15% yoy/+1% qoq) against our estimate of Rs 3352 mn
- EBITDA came in at Rs 598.4 (+73% yoy/ flat qoq), 2% above our estimate of Rs 584 mn.
- EBITDA margin came in at 18% (+600 bps yoy/-30 bps qoq)
- PBT came in at Rs 376.3 mn, 23% above our estimate due to lower interest (-13%) and depreciation (-4%).
- After taxes@33%, PAT came in at Rs 253.6 mn (+179% yoy/+1% qoq).
- EPS for the quarter came in at Rs 2.75

Key Highlights

- India revenues sales (53% of sales, -5%) Rs 1775.8 mn, driven by formulations (47% of sales, -12% Rs 1576 mn), API (Rs 169.8 mn, +187%) and CRO at Rs 30.4 mn.
- 12% de-growth in formulations due to higher component of acute business (>80% of domestic). Impact due to lower footfalls at retail stores and better hygiene environment resulting in lower number of patients.
- Impact on Stomatologicals, anti-infectives, respiratory and gastrointestinal therapies. Indoco's de-growth is lower than the therapy degrowth for respiratory.
- Indoco's brands Cyclopam, Oxipod, Febrex Plus, Cital were impacted. However, Febrex Plus and Cyclopam increased market share in its represented market.
- Exports (47% of sales, +62%) Rs 1557.4 mn, driven by formulations Rs 1437 mn, +73% and API (Rs 120.6 mn, -6%).
- Regulated markets Rs 1169 mn, +86%, driven by US Rs 448 mn, +178%, EU Rs 659 mn, +45% and scale up in South Africa Rs 62 mn, +376%.
- Semi regulated markets Rs 268 mn, +31%.
- We have marginally revised our FY21 Sales/EBITDA/PAT estimates by 1%/14%/26% and for FY22 by -1%/3%/9%, in view of the improved profitability.

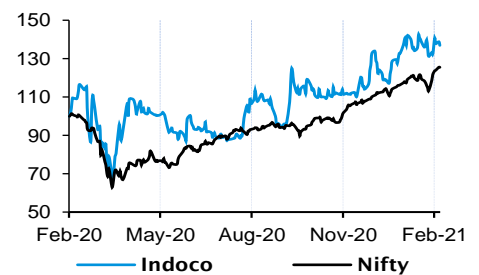
Rating	TP (Rs)	Up/Dn (%)
BUY	358	19

Market data

Current price	Rs	100
Market Cap (Rs.Bn)	(Rs Bn)	28
Market Cap (US\$ Mn)	(US\$ Mn)	385
Face Value	Rs	2
52 Weeks High/Low	Rs	336/146
Daily Average Volume	('000)	125
BSE Code		532612
Bloomberg		INDR:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	58.69	58.69
Public	41.31	41.31
Others	0.00	0.00
Total	100	100

Source: BSE

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	9,684.5	11,065.9	12,628.5	14,662.6	17,253.5
Adjusted net profit	(29.1)	241.2	836.8	1,338.5	1,864.0
Vs Consensus					
Free cash flow	1,511.9	(778.3)	8.9	1,501.9	1,519.0
EPS (Rs)	(0.3)	2.6	9.1	14.5	20.2
growth (%)	(107.1)	(929.2)	247.0	60.0	39.3
P/E (x)	(956.7)	115.4	33.3	20.8	14.9
P/B (x)	4.2	4.1	4.0	3.5	3.0
EV/EBITDA (x)	34.8	21.2	12.1	9.3	7.1
D/E	0.4	0.3	0.4	0.3	0.3
RoIC (%)	(0.5)	4.7	14.1	23.3	28.9
RoE (%)	(0.4)	3.5	11.9	17.0	20.2
Dividend yield (%)	0.7	0.7	0.7	0.7	0.7

Source: Company

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Conference Call Highlights

India business

- India acute (>80% of India) sales impacted due to lower footfalls due to the lockdown and better hygiene environment.
- Indoco launched 3 new products during the quarter namely Favipiravir, Povidone Gargles and ZMUN CD tablets (multivitamin).
- Major impact on Oxipod (brand sales ~Rs 40 crs), and Febrex Plus (Rs 60-70 crs) due to degrowth in anti infectives.
- The company expects recovery in ophthalmics, dental and Gynecology in the coming quarters.
- Gross debt at Rs 2850 mn. Indoco has repaid debt during the quarter resulting in lower interest burden.
- Increase in working capital due to increased contribution from US.
- R & D spend to continue as % of sales.

-12% degrowth in domestic formulations due to impact on anti-infectives and respiratory

Exports

- Indoco dispatched 3 products to the US, 1 ophthalmic and 2 injectables.
- The company has received USFDA approval for an injectable ANDA, launch quantities will be supplied soon.
- During the quarter Indoco won tenders in Germany valued at Rs 1400 mn, for supply of Allopurinol tablets over CY21 and CY22. The company has shipped initial quantities to Europe, which are part of Q3FY21 sales.
- Q3FY21 exports include Rs 180 mn from milestone payments/dossier income.
- 2 of the Teva ophthalmic products have come back to Indoco. The company is in the process of revalidation and preparedness for launch.
- Indoco has 29 ANDAs pending USFDA approval.
- Goa plant 1 is due for USFDA inspection to clear the Warning letter on the plant.

Exports grow with more regulated market launches. US sales grow 4x with increased product supplies

Quarterly Performance Analysis

Exhibit 1

Particulars (INR in mn)	Q3FY21	Q2FY21	Q1FY21	Q3FY20	%yoy	%qoq	9MFY21	9MFY20	
Net Sales	3322.9	3276.6	2758.6	2893.4	15%	1%	9358.1	8339.8	12%
Other Income	3.6	5.2	2.6	7.2			11.4	19.4	
Total Income	3326.5	3281.8	2761.2	2900.6	15%	1%	9369.5	8359.2	12%
Raw Material costs	-943.5	-902.1	-816.2	-828.1			-2661.8	-2580.1	
Gross Profit	2379.40	2374.50	1942.40	2065.30	15%	0%	6696.30	5759.70	16%
GPM	71.6%	72.5%	70.4%	71.4%			71.6%	69.1%	
Employee costs	-728.7	-751.5	-658.3	-682.3			-2138.5	-1930.2	
R & D	-173.6	-156.6	-102.6	-129.1			-432.8	-356.7	
Other Expenses	-875.3	-865.0	-695.0	-905.3			-2435.3	-2578.7	
Total Expenses	-2721.1	-2675.2	-2272.1	-2544.8	7%	2%	-7668.4	-7445.7	3%
EBITDA ex OI	601.80	601.40	486.50	348.60	73%	0%	1689.70	894.10	89%
EBITDA margins	18.1%	18.4%	17.6%	12.0%			18.1%	10.7%	
Interest	-60.3	-58.9	-57.5	-69.3			-176.7	-184.2	
Depreciation	-168.8	-185.7	-191.3	-175.9			-545.8	-526.2	
Profit before tax	376	362	240.30	110.60	240%	4%	979	203	382%
Tax	-122.7	-111.3	-69.9	-19.7			-303.9	-18.9	
Profit after tax	253.60	250.70	170.40	90.90	179%	1%	674.70	184.20	266%
Equity	184.3	184.3	184.3	184.3			184.3	184.3	
Face Value	2	2	2	2			2	2	
Number of shares	92.15	92.15	92.15	92.15			92.15	92.15	
EPS (Rs)	2.75	2.72	1.85	0.99			7.32	2.00	
Profitability analysis	Q3FY21	Q2FY21	Q1FY21	Q3FY20	+/-yoy	+/-qoq	9MFY21	9MFY20	bps
Gross margin	71.6	72.5	70.4	71.4	23	-86	71.6	69.1	249
EBITDA margin	18.1	18.4	17.6	12.0	606	-24	18.1	10.7	734
PBT margin	11.3	11.0	8.7	3.8	750	28	10.5	2.4	802
PAT margin	7.6	7.7	6.2	3.1	449	-2	7.2	2.2	500
Cost analysis	Q3FY21	Q2FY21	Q1FY21	Q3FY20	%yoy	%qoq	9MFY21	9MFY20	
RMC	-28.4	-27.5	-29.6	-28.6			-28.4	-30.9	
Employee	-21.9	-22.9	-23.9	-23.6			-22.9	-23.1	
R & D	-5.2	-4.8	-3.7	-4.5			-4.6	-4.3	
Other expts	-26.3	-26.4	-25.2	-31.3			-26.0	-30.9	
Revenue breakup	Q3FY21	Q2FY21	Q1FY21	Q3FY20	%yoy	%qoq	9MFY21	9MFY20	
India	1775.8	1876.1	1575.6	1873.9	-5%	-5%	5227.5	5545.1	-6%
Exports	1557.4	1348.6	1092.4	960.5	62%	15%	3998.4	2617.1	53%

15% sales growth driven by exports (62%), offsetting domestic degrowth(-5%)

Robust EBITDA growth (73% yoy), despite higher R & D and employee costs

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Indoco's domestic sales degrowth was more than offset by its exports growth in the regulated markets. With more launches in US and Europe, Indoco has improved its margin profile and benefits as a low cost manufacturer.

We roll forward our estimates to FY23. At Rs 302, Indoco trades at 15x FY23E EPS of Rs 20.2. We have valued Indoco as a weighted average of 18x P/E, 10x EV/EBITDA and DCF on 40:40:20 basis. We have arrived at a **target price of Rs 358, indicating an upside of 19%**.

We maintain BUY.

Financial

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	9,684	11,066	12,629	14,663	17,254	Net Profit	(29)	241	837	1,339	1,864
Raw materials	(3,203)	(3,304)	(3,599)	(4,252)	(5,004)	Add: Dep. & Amort.	716	708	727	768	851
Employee costs	(2,317)	(2,565)	(2,893)	(3,241)	(3,727)	Cash profits	687	949	1,564	2,107	2,715
Other Expenses	(3,399)	(3,964)	(3,935)	(4,388)	(4,952)	(Inc)/Dec in					
Cost of sales	(8,918)	(9,834)	(10,427)	(11,881)	(13,682)	-Sundry debtors	137	(143)	(493)	(418)	(532)
Operating Profit	767	1,232	2,201	2,782	3,571	-Inventories	99	(249)	(339)	(390)	(497)
Depreciation	(716)	(708)	(727)	(768)	(851)	-Loans/advances	0	0	(0)	(0)	(0)
PBIT	51	524	1,474	2,014	2,721	-Sundry creditors	212	(51)	(128)	394	340
Other income	61	24	16	18	19	-Others	377	376	55	610	595
Interest	(205)	(263)	(241)	(223)	(223)	Change in working capital	825	(67)	(905)	195	(95)
Profit before tax	(93)	286	1,249	1,809	2,518	CF from Oper. activities	1,512	882	659	2,302	2,620
Provision for tax	64	(45)	(412)	(470)	(655)	CF from Inv. activities	(1,370)	(322)	(677)	(1,000)	(1,700)
Reported PAT	(29)	241	837	1,339	1,863	CF from Fin. activities	(293)	(388)	238	(835)	(488)
Extraordinary Items	-	-	-	-	1	Cash generated/(utilised)	(152)	173	220	467	432
Adjusted PAT	(29)	241	837	1,339	1,864	Cash at start of the year	3,699	3,547	3,720	3,939	4,407
						Cash at end of the year	3,547	3,720	3,939	4,407	4,838
Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	184	184	184	184	184	OPM	7.9	11.1	17.4	19.0	20.7
Reserves	6,422	6,611	6,853	7,689	9,028	NPM	(0.3)	2.2	6.6	9.1	10.8
Net worth	6,606	6,796	7,037	7,874	9,212	Tax rate	(68.8)	(15.6)	(33.0)	(26.0)	(26.0)
Def. Tax Liab.-Minority Int	73	128	154	185	222	Growth Ratios (%)					
Total debt	2,421	2,029	2,837	2,473	2,473	Net Sales	(7)	14	14	16	18
CAPITAL EMPLOYED	9,100	8,953	10,028	10,532	11,907	Operating Profit	(43)	61	79	26	28
Gross block	7,130	8,790	9,440	10,240	11,340	PAT	(107)	(929)	247	60	39
Accumulated depreciation	(2,719)	(3,427)	(4,154)	(4,922)	(5,772)	Per Share (Rs.)					
Net block	4,411	5,364	5,287	5,319	5,568	Net Earnings (EPS)	(0.3)	2.6	9.1	14.5	20.2
Capital WIP	1,412	73	100	100	500	Cash Earnings (CPS)	7.5	10.3	17.0	22.9	29.5
Total fixed assets	5,823	5,437	5,387	5,419	6,068	Dividend	2.0	2.0	2.0	2.0	2.0
Goodwill	1	1	1	1	1	Book Value	71.7	73.7	76.4	85.4	100.0
Investments	0	0	0	200	400	Free Cash Flow	16.4	(8.4)	0.1	16.3	16.5
Inventories	1,835	2,083	2,422	2,812	3,309	Valuation Ratios					
Sundry debtors	1,958	2,101	2,595	3,013	3,545	P/E(x)	(957)	115	33	21	15
Cash & bank	3,547	3,720	3,939	4,407	4,838	P/B(x)	4	4	4	4	3
Loans & advances	4	4	4	5	5	EV/EBIDTA(x)	35	21	12	9	7
Other current assets	1,119	1,026	1,129	1,241	1,366	EV/SALES(x)	3	2	2	2	1
Sundry creditors	(1,707)	(1,656)	(1,528)	(1,922)	(2,262)	Div. Yield(%)	1	1	1	1	1
Acceptances	(2,879)	(3,014)	(3,022)	(3,566)	(4,070)	FCF Yield(%)	5	(3)	0	5	5
Provisions	(602)	(749)	(899)	(1,078)	(1,294)	Return Ratios (%)					
Working capital	3,276	3,515	4,640	4,912	5,438	ROE	(0.4)	3.5	11.9	17.0	20.2
Deferred Tax Assets	-	-	-	-	-	ROCE	0.6	5.9	14.7	19.1	22.9
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	9,100	8,953	10,028	10,532	11,907						

Source: Dalal & Broacha Research, Company

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