

Indoco Remedies Q4FY21 results were below estimates. Sales were below estimates due to Domestic (52% of sales, -11%) in view of degrowth in anti-infectives and respiratory. Higher profitability (OPM 17.8%) and lower interest + taxes (26% Vs 31% yoy) helped 358% in PAT. The board has recommended dividend of Rs 1.5 per share (75%).

- Sales came in at Rs 2951 mn, (+12% yoy/-8% qoq).
- EBITDA came in at Rs 547, (+64% yoy/-9% qoq).
- EBITDA margin came in at 17.8% (+560 bps yoy/-30 bps qoq). EBITDA margins were 90 bps higher than our estimate of 16.9%.
- PBT came in at Rs 335.6 mn, in line with our estimate of Rs 336 mn. Lower interest (-41%) and depreciation (+2%).
- After taxes@26%, PAT came in at Rs 250 mn, 3% higher than our estimate of Rs 242 mn.
- EPS for the quarter was at Rs 2.71.
- Dividend of Rs 1.5 per share - payout of Rs 138 mn.

Key Developments

- **India sales** (52% of sales, -11%) Rs 1522 mn, driven by formulations (47% of sales, -13%) Rs 1392 mn), API (Rs 91.7 mn, +18%) and CRO at Rs 38.4 mn.
 - a. Demand ramp up April onwards, for both Covid and non-covid products.
 - b. The company expects a ramp up in stomatologicals and gastroenterology and strong recovery due to second wave. Expect double digit growth in India business.
 - c. The company plans 20 new product launches in India in FY22.
- **Exports** (48% of sales, +55%) Rs 1425.7 mn, driven by formulations Rs 1318 mn, +66% and API (Rs 107.5 mn, -14%).

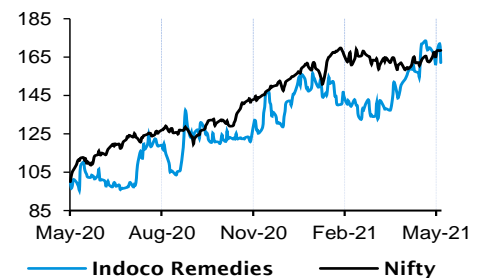
Rating	TP (Rs)	Up/Dn (%)
BUY	401	18

Market data

Current price	Rs	339
Market Cap (Rs.Bn)	(Rs Bn)	33
Market Cap (US\$ Mn)	(US\$ Mn)	454
Face Value	Rs	2
52 Weeks High/Low	Rs	377/190
Average Daily Volume	('000)	235
BSE Code		532612
Bloomberg		INDR:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	58.69	58.69
FII	2.66	2.88
DII	19.26	17.11
Others	19.39	21.32
Total	100	100

Source: BSE

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	9,684	11,066	12,415	15,158	17,589
EBITDA	767	1,232	2,243	2,974	3,628
Adjusted net profit	(29)	241	931	1,463	1,908
Free cash flow	141.7	560.7	(1,043.3)	2,189.7	1,751.0
EPS (Rs)	(0.3)	2.6	10.1	15.9	20.7
growth (%)	(107.1)	(929.2)	285.8	57.2	30.5
P/E (x)	(1,073.9)	129.5	33.6	21.4	16.4
P/B (x)	4.7	4.6	4.1	3.6	3.1
EV/EBITDA (x)	39.3	24.0	13.6	9.9	8.0
D/E	0.4	0.3	0.3	0.2	0.2
RoIC (%)	(0.5)	4.7	13.2	23.2	29.7
RoE (%)	(0.4)	3.5	12.1	17.0	18.9
Dividend yield (%)	0.6	0.6	0.4	0.6	0.6

Source: Company

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- **Regulated markets** Rs 1051 mn, +73%, driven by US Rs 331 mn, +24%, EU Rs 695 mn, +121% and South Africa Rs 25 mn, +56%. US sales include launch of Brinzolamide suspension by Teva as the first generic.
- **Semi regulated markets** Rs 267 mn, +36%.

Key Highlights from the Conference Call

India

- In Formulations, anti-infectives, respiratory impacted due to lower footfalls at clinics. Also impact on ophthalmic, dental products due to delay in surgeries.
- Indoco launched 9 new products in Q4, including Dapagliflozin tablets under the brand DEPAJA.
- Febrex Plus and Oxipod, Cyclopam led the degrowth.
- ATM (Azithromycin), Karvol plus, Coviclean, Vitamin D3 part of Covid basket growing well.
- Demand ramp up April onwards, for both Covid and non-covid products.
- The company expects a ramp up in stomatologicals and gastroenterology and strong recovery due to second wave. Expect double digit growth in India business.
- The company plans 20 new product launches in India.
- Expect 20% growth in APIs.
- Expect 25% growth in CRO revenues.

Exports

US

- Q4 sales include majorly Brinzolamide with manufacturing margins. Profit sharing income will come in from Q1FY22.
- US sales includes milestone income of Rs 80 mn.
- Sequential degrowth due to business mix.
- Strong orderbook, includes repeat orders for 6-7 products.
- The company expects to launch 5-6 new products in FY22. Also expects 5-6 ANDA filings in FY22.

Europe

- Q4 +121% to Rs 695 mn, with anti-infective supplies.
- Expect 25% growth to Rs 3bn in FY22. Includes Allopurinol tender supplies.
- Indoco has passed on raw material price increases in paracetamol to customers.

South Africa, Australia & New Zealand

- Q4 +56% Rs 25 mn.

Emerging markets

- Q4 +36% Rs 267 mn.

API

- The company expects 20% growth in FY22.

Financials

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

Key Highlights

Particulars (INR in mn)	Q4FY21	Q3FY21	Q4FY20	%yoy	%qoq	FY21	FY20	
Net Sales	3051.5	3322.9	2720.1	12%	-8%	12409.6	11065.9	12%
Other Income	19.8	3.6	5			31.2	24.4	
Total Income	3071.3	3326.5	2725.1	13%	-8%	12440.8	11090.3	12%
Raw Material costs	-879.3	-943.5	-724.2			-3541.1	-3304.3	
Gross Profit	2172.20	2379.40	1995.90	9%	-9%	8868.50	7761.60	14%
GPM	71.2%	71.6%	73.4%			71.5%	70.1%	
Employee costs	-601.7	-728.7	-632.3			-2740.2	-2562.5	
R & D	-164.2	-173.6	-140.3			-597.0	-497.0	
Other Expenses	-859.0	-875.3	-890.2			-3294.3	-3468.9	
Total Expenses	-2504.2	-2721.1	-2387.0	5%	-8%	-10172.6	-9832.7	3%
EBITDA ex OI	547.30	601.80	333.10	64%	-9%	2237.00	1233.20	81%
EBITDA margins	17.9%	18.1%	12.2%			18.0%	11.1%	
Interest	-45.9	-60.3	-78.3			-222.6	-262.5	
Depreciation	-185.5	-168.8	-182.0			-731.3	-708.2	
Profit before tax	336	376	77.80	331%	-11%	1314.30	286.90	358%
Tax	-85.6	-122.7	-24			389.5	-44.6	
Profit after tax	250.10	253.60	53.80	365%	-1%	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)	2.71	2.75	0.58			10.04	2.63	

Profitability analysis	Q4FY21	Q3FY21	Q4FY20	+/-yoy	+/-qoq	FY21	FY20	bps
Gross margin	71.2	71.6	73.4	-219	-42	71.5	70.1	133
EBITDA margin	17.9	18.1	12.2	569	-18	18.0	11.1	688
PBT margin	11.0	11.3	2.9	814	-32	10.6	2.6	800
PAT margin	8.2	7.6	2.0	622	56	7.5	2.2	526

Cost analysis	Q4FY21	Q3FY21	Q4FY20	FY21	FY20
RMC	-28.8	-28.4	-26.6	-28.5	-29.9
Employee	-19.7	-21.9	-23.2	-22.1	-23.2
R & D	-5.4	-5.2	-5.2	-4.8	-4.5
Other exps	-28.2	-26.3	-32.7	-26.5	-31.3

Revenue breakup	Q4FY21	Q3FY21	Q4FY20	%yoy	%qoq	FY21	FY20
India	1522.4	1775.8	1711.7	-11%	-14%	5227.5	5545.1
Exports	1425.7	1557.4	919.9	55%	-8%	3998.4	2617.1

Q4FY20 gross margins higher due to sales mix. EBITDA margins higher at 17-18% due to higher contribution from regulated markets.

Debt repayment leads to lower interest costs

De-growth in India business offset by 55% growth in exports.

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Indoco Remedies FY21 India business has been impacted due to anti infectives, respiratory and also due to lower patient footfalls for ophthalmic and dental products. FY22 has started with the second wave of Covid19 with a scale up in demand for anti infectives, vitamins and gastroenterology. Exports to regulated markets to continue growth due to new launches in US, Europe and profit sharing from Brinzolamide. We expect marginal improvement in profitability with EBITDA margins at 19-20% over the next 2 years.

We expect sales to grow 19% CAGR to Rs 17.4 bn in FY23. Sales growth will be driven by India (+13% CAGR to Rs 8.5 bn) and exports (+28% to Rs 8.8 bn) by FY23. Exports from regulated markets to grow 33% CAGR to Rs 7.1 bn, semi regulated markets to grow 12% CAGR to Rs 1.2 bn by FY23. API exports to grow 7% CAGR to Rs 578 mn by FY23. EBITDA to grow 27% CAGR to Rs 3.6 bn, with EBITDA margins of 19-20%. PBT to grow 42% to Rs 2.6 bn. PAT to grow 43% to Rs 1.9 bn by FY23.

At Rs 339, Indoco Remedies trades at 16x FY23E EPS of Rs 20.7. We have valued Indoco Remedies as a weighted average of DCF, 10x EV/EBITDA and 18x FY23E EPS and arrived at a target price of Rs 401. **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	15,158	17,589	Net Profit	(29)	241	931	1,463	1,908
Raw materials	(3,203)	(3,304)	(3,541)	(4,548)	(5,189)	Add: Dep. & Amort	716	708	731	763	823
Employee costs	(2,317)	(2,565)	(2,740)	(3,151)	(3,624)	Cash profits	687	949	1,662	2,226	2,732
Other Expenses	(3,399)	(3,964)	(3,891)	(4,486)	(5,148)	(Inc/Dec in					
Cost of sales	(8,918)	(9,834)	(10,173)	(12,184)	(13,961)	-Sundry debtors	137	(143)	(237)	(361)	(433)
Operating Profit	767	1,232	2,243	2,974	3,628	-Inventories	99	(249)	(295)	(321)	(433)
Depreciation	(716)	(708)	(731)	(763)	(823)	-Loans/advances	0	0	(0)	(0)	(0)
PBIT	51	524	1,511	2,211	2,805	-Sundry creditors	212	(51)	(524)	674	255
Other income	61	24	31	34	38	-Others	377	376	(887)	821	431
Interest	(205)	(263)	(223)	(213)	(192)	Change in working capital	825	(67)	(1,943)	812	(181)
						CF from Oper. activities	1,512	882	(281)	3,038	2,551
Profit before tax	(93)	286	1,320	2,032	2,651	CF from Inv. activities	(1,370)	(322)	(762)	(1,349)	(1,600)
Provision for tax	64	(45)	(390)	(569)	(742)	CF from Fin. activities	(293)	(388)	83	(504)	(411)
Reported PAT	(29)	241	931	1,463	1,908	Cash generated/(utilised)	(152)	173	(960)	1,186	540
Extraordinary Items	-	-	-	-	-	Cash at start of the year	3,699	3,547	3,720	2,760	3,946
Adjusted PAT	(29)	241	931	1,463	1,908	Cash at end of the year	3,547	3,720	2,760	3,946	4,486
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	19.6	20.6
Reserves	6,422	6,611	7,506	8,436	9,899	NPM	(0.3)	2.2	7.5	9.6	10.8
Net worth	6,606	6,796	7,690	8,620	10,083	Tax rate	(68.8)	(15.6)	(29.5)	(28.0)	(28.0)
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	22	16
CAPITAL EMPLOYED	9,100	8,953	9,967	10,926	12,424	Operating Profit	(43)	61	82	33	22
						PAT	(107)	(929)	286	57	30
Gross block	7,130	8,790	9,375	10,175	10,975	Per Share (Rs.)					
Accumulated depreciation	(2,719)	(3,427)	(4,158)	(4,921)	(5,744)	Net Earnings (EPS)	(0.3)	2.6	10.1	15.9	20.7
Net block	4,411	5,364	5,217	5,254	5,230	Cash Earnings (CPS)	7.5	10.3	18.0	24.2	29.6
Capital WIP	1,412	73	251	300	300	Dividend	2.0	2.0	1.5	2.0	2.0
Total fixed assets	5,823	5,437	5,468	5,554	5,530	Book Value	71.7	73.7	83.4	93.5	109.4
Goodwill	1	1	1	1	1	Free Cash Flow	1.5	6.1	(11.3)	23.8	19.0
Investments	0	0	0	500	1,300	Valuation Ratios					
Inventories	1,835	2,083	2,379	2,699	3,132	P/E(x)	(1,074)	130	34	21	16
Sundry debtors	1,958	2,101	2,338	2,699	3,132	P/B(x)	5	5	4	4	3
Cash & bank	3,547	3,720	2,760	3,946	4,486	EV/EBIDTA(x)	39	24	14	10	8
Loans & advances	4	4	4	4	5	EV/SALES(x)	3	3	2	2	2
Other current assets	1,119	1,026	1,334	1,467	1,614	Div. Yield(%)	1	1	0	1	1
Sundry creditors	(1,707)	(1,656)	(1,132)	(1,807)	(2,061)	FCF Yield(%)	0	2	(3)	7	6
Acceptances	(2,879)	(3,014)	(2,437)	(3,242)	(3,640)	Return Ratios (%)					
Provisions	(602)	(749)	(747)	(896)	(1,076)	ROIC	(0.5)	4.7	13.2	23.2	29.7
Working capital	3,276	3,515	4,498	4,871	5,592	ROE	(0.4)	3.5	12.1	17.0	18.9
Deferred Tax Assets	-	-	-	-	-	ROCE	0.6	5.9	15.2	20.2	22.6
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	9,100	8,953	9,967	10,926	12,424						

Source: Dalal & Broacha Research, Company

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