

February 3, 2022

## Q3FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	460		480	
Sales (Rs. m)	17,171	19,168	17,914	20,112
% Chng.	(4.1)	(4.7)		
EBITDA (Rs. m)	3,710	4,166	3,710	4,202
% Chng.	-	(0.8)		
EPS (Rs.)	22.1	25.4	22.3	25.8
% Chng.	(1.0)	(1.6)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	12,415	15,244	17,171	19,168
EBITDA (Rs. m)	2,243	3,305	3,710	4,166
Margin (%)	18.1	21.7	21.6	21.7
PAT (Rs. m)	931	1,540	2,037	2,341
EPS (Rs.)	10.1	16.7	22.1	25.4
Gr. (%)	285.8	65.5	32.2	15.0
DPS (Rs.)	0.5	0.5	0.5	0.5
Yield (%)	0.1	0.1	0.1	0.1
RoE (%)	12.8	18.3	20.0	19.0
RoCE (%)	16.2	24.0	24.0	23.5
EV/Sales (x)	3.1	2.5	2.2	1.9
EV/EBITDA (x)	17.2	11.6	10.0	8.6
PE (x)	39.4	23.8	18.0	15.7
P/BV (x)	4.8	4.0	3.3	2.7

### Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.530 / Rs.274
Sensex / Nifty	59,558 / 17,780
Market Cap	Rs.37bn / \$ 490m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.74.96m

### Shareholding Pattern (%)

Promoter's	58.69
Foreign	1.62
Domestic Institution	17.23
Public & Others	22.46
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(12.5)	(16.0)	31.2
Relative	(14.4)	(25.4)	9.7

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## Another quarter of weak regulated market sales

### Quick Pointers:

- Revenue miss due to lower US & EU revenues
- Management guided for sales to pick up across segment in Q4.

**Indoco Remedies' (INDR) reported another muted quarter in a regulated market performance; management expects to recover in coming quarters given strong order book and new launches. Domestic market continued to witness growth on low base in therapies like anti-infective, GI, VMN and Ophthal. We remain structurally positive on INDR on account of 1) MR productivity enhancement and higher penetration in North and East markets 2) new launches in US and 3) higher tender business in EU market. This will continue to sustain current margin trajectory at ~21-22%. Our FY23E and FY24E broadly remains unchanged. We recommend 'Accumulate' with TP of Rs460 based on 20x Dec 2023E earnings.**

- Weak regulated market sales:** Consolidated revenues grew by 7% to Rs3.6bn vs our est of Rs3.9bn. Domestic formulations business sales grew up 15.2% YoY to Rs 1.8bn below than our estimate of Rs 1.92mn. Key therapeutic segments of INDR reported double digit growth on YoY in Q2. Export formulations business was up by 5.5% QoQ (flat YoY) to Rs1.43bn impacted due to lower sales from regulated markets (down 7% YoY and 2% QoQ). API declined by 32% YoY on account of increased captive consumption.
- EBITDA miss; lower other expenses aided margins:** INDR registered EBITDA of Rs735mn, up 22% YoY vs our estimate of Rs830mn. Reported OPM of 20.5%; down 180 bps QoQ. Adjusted for other operating income margins were down 100 bps QoQ. Gross margins were down by 264bps QoQ and 287 bps YoY largely on pressure of input cost. Other expenses decreased by 13% QoQ (flat on YoY) largely on cost controlling measures and change in product mx. R&D cost came in at 4.9% of sales; down 1.4% YoY. Resultant PAT grew by 30% YoY (down 21% QoQ) to Rs 330 mn, vs our estimates of Rs 390mn. The miss was largely on account of lower revenues.
- Key concall takeaways: (1)** EU revenues were impacted due to higher API prices in paracetamol. Strong order book in EU at Rs1.3bn. Management expects US & EU sales to pick up in Q4. Guided for Rs2.75-2.85bn of revenues from EU market in FY22 Vs Rs3bn earlier and Rs2.2-2.3bn of sales in US vs Rs2.5bn guided earlier in FY22 **(2)** The regulatory milestone in the US was Rs 200mn including the profit share of Rs 80mn largely from *Brinzolamide* in Q3. **(3)** India's Q3 performance was slower as one of its key product Febrex plus remains still below pre covid levels. Likely to report Rs7.8-8bn of sales from domestic formulation market vs Rs8.5bn earlier guidance. **(4)** Expanding Goa Plant II, with new line of extension which will increase a capacity by ~33% (currently at 80% utilization). **(5)** Recovery in US formulations expected with pick-up from new launches **(6)** Guided for effective tax rate at 25% in FY23 & FY24. **(7)** Doubling capacity in CRO segment.

**Exhibit 1: 3QFY22 Result Overview (Rs m): Regulated market remained challenging**

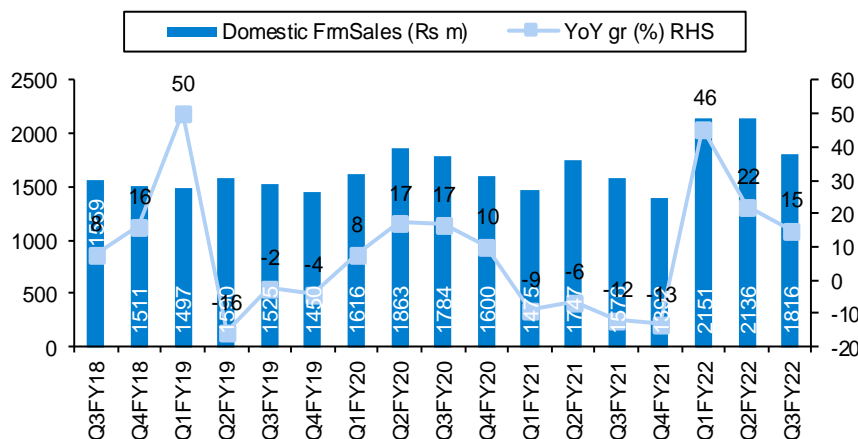
Y/e March	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	9MFY22	9MFY22	YoY gr. (%)
<b>Net Sales</b>	<b>3,580</b>	<b>3,323</b>	<b>7.7</b>	<b>3,869</b>	<b>11,316</b>	<b>9,364</b>	<b>20.8</b>
Raw Material	1,087	944	15.2	1,063	3,253	2,662	22.2
<i>% of Net Sales</i>	<i>30.4</i>	<i>28.4</i>		<i>27.5</i>	<i>28.7</i>	<i>28.4</i>	
Personnel Cost	713	729	(2.1)	742	2,205	2,139	3.1
<i>% of Net Sales</i>	<i>19.9</i>	<i>21.9</i>		<i>19.2</i>	<i>19.5</i>	<i>22.8</i>	
Others	1,046	1,049	(0.3)	1,199	3,391	2,868	18.2
<i>% of Net Sales</i>	<i>29.2</i>	<i>31.6</i>		<i>31.0</i>	<i>30.0</i>	<i>30.6</i>	
Total Expenditure	2,846	2,721	4.6	3,004	8,848	7,668	15.4
<b>EBITDA</b>	<b>735</b>	<b>602</b>	<b>22.1</b>	<b>864</b>	<b>2,468</b>	<b>1,696</b>	<b>45.6</b>
<i>Margin (%)</i>	<i>20.5</i>	<i>18.1</i>		<i>22.3</i>	<i>21.8</i>	<i>18.1</i>	
Depreciation	192	169	13.9	195	609	546	11.6
<b>EBIT</b>	<b>542</b>	<b>433</b>	<b>25.2</b>	<b>670</b>	<b>1,859</b>	<b>1,150</b>	<b>61.7</b>
Other Income	2	4	(55.6)	10	20	11	78.1
Interest	38	60	(36.8)	31	111	177	(37.2)
<b>PBT</b>	<b>506</b>	<b>376</b>	<b>34.4</b>	<b>650</b>	<b>1,768</b>	<b>984</b>	<b>79.6</b>
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	176	123	43.4	233	625	304	105.6
<i>ETR (%)</i>	<i>34.8</i>	<i>32.6</i>		<i>35.8</i>	<i>35.3</i>	<i>30.9</i>	
<b>Reported PAT</b>	<b>330</b>	<b>254</b>	<b>30.1</b>	<b>417</b>	<b>1,143</b>	<b>680</b>	<b>68.0</b>

Source: Company, PL

**Exhibit 2: Major Sources of Revenues**

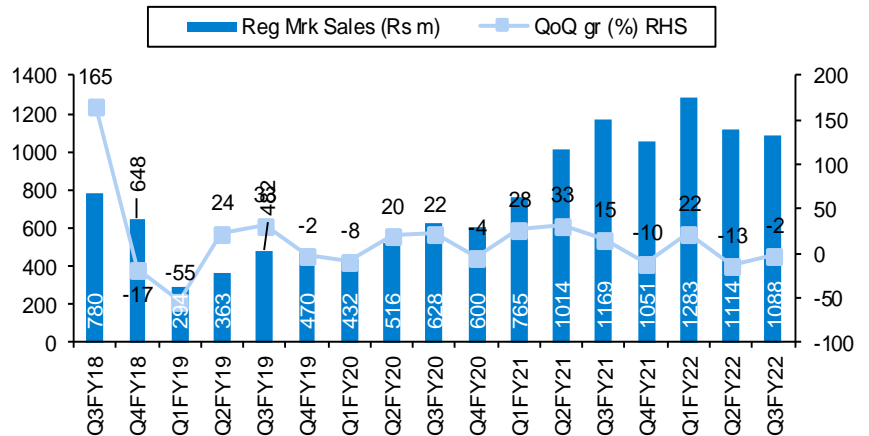
Major sources of revenues	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	QoQ gr. (%)	9MFY22	9MFY22	YoY gr. (%)
<b>Domestic</b>	<b>1,874</b>	<b>1,745</b>	<b>7.3</b>	<b>2,187</b>	<b>(14.3)</b>	<b>4,060</b>	<b>3,746</b>	<b>8.4</b>
Formulations	1,816	1,576	15.2	2,136	(15.0)	3,952	3,611	9.4
APIs	58	170	(65.8)	50	15.3	108	134	(19.4)
<b>Exports</b>	<b>1,569</b>	<b>1,557</b>	<b>0.8</b>	<b>1,502</b>	<b>4.5</b>	<b>3,072</b>	<b>2,595</b>	<b>18.4</b>
Formulations	1,430	1,437	(0.4)	1,355	5.5	2,786	2,310	20.6
Reg mkt	1,088	1,169	(7.0)	1,114	(2.3)	2,201	1,878	17.2
Non-reg mkt (Emerging mkt)	343	268	27.9	242	41.9	585	431	35.5
API	139	121	15.2	147	(5.5)	286	285	0.4
CRO	44	30	43.4	38	16.3	81	54	50.2

Source: Company, PL

**Exhibit 3: India Formulations: To drive the growth on seasonality**


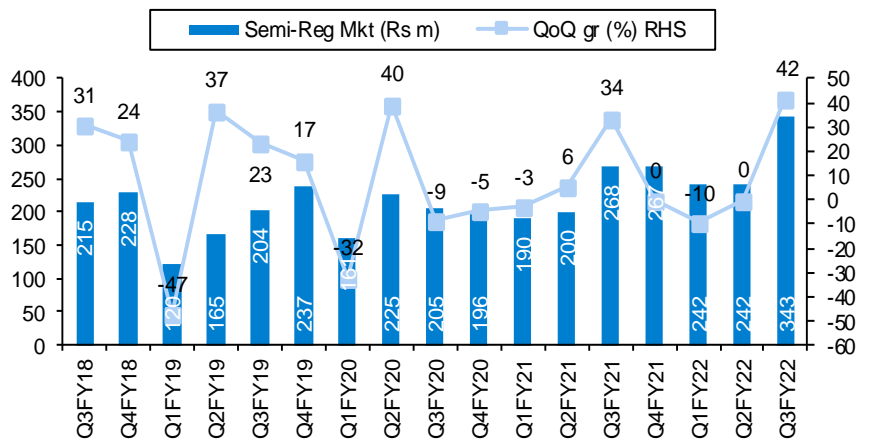
Source: Company, PL

**Exhibit 4: Export: Regulated Mkt : US, EU to be normalised**



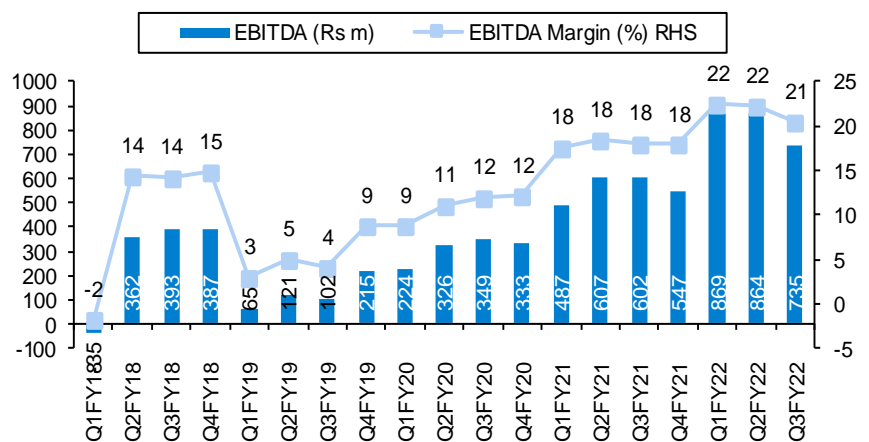
Source: Company, PL

**Exhibit 5: Export— Lower Semi Reg. sales helped in better operating margin**



Source: Company, PL

**Exhibit 6: EBITDA margins to remain stable at current level**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>12,415</b>	<b>15,244</b>	<b>17,171</b>	<b>19,168</b>
YoY gr. (%)	12.2	22.8	12.6	11.6
Cost of Goods Sold	3,541	4,385	5,076	5,669
Gross Profit	8,874	10,859	12,095	13,499
Margin (%)	71.5	71.2	70.4	70.4
Employee Cost	2,740	2,987	3,285	3,680
Other Expenses	3,891	4,568	5,100	5,653
<b>EBITDA</b>	<b>2,243</b>	<b>3,305</b>	<b>3,710</b>	<b>4,166</b>
YoY gr. (%)	82.0	47.4	12.2	12.3
Margin (%)	18.1	21.7	21.6	21.7
Depreciation and Amortization	731	820	898	995
<b>EBIT</b>	<b>1,511</b>	<b>2,485</b>	<b>2,812</b>	<b>3,171</b>
Margin (%)	12.2	16.3	16.4	16.5
Net Interest	223	156	120	87
Other Income	31	40	60	80
<b>Profit Before Tax</b>	<b>1,320</b>	<b>2,369</b>	<b>2,752</b>	<b>3,164</b>
Margin (%)	10.6	15.5	16.0	16.5
Total Tax	390	829	716	823
Effective tax rate (%)	29.5	35.0	26.0	26.0
<b>Profit after tax</b>	<b>931</b>	<b>1,540</b>	<b>2,037</b>	<b>2,341</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>931</b>	<b>1,540</b>	<b>2,037</b>	<b>2,341</b>
YoY gr. (%)	285.8	65.5	32.2	15.0
Margin (%)	7.5	10.1	11.9	12.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>931</b>	<b>1,540</b>	<b>2,037</b>	<b>2,341</b>
YoY gr. (%)	285.8	65.5	32.2	15.0
Margin (%)	7.5	10.1	11.9	12.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	931	1,540	2,037	2,341
<b>Equity Shares O/s (m)</b>	<b>92</b>	<b>92</b>	<b>92</b>	<b>92</b>
<b>EPS (Rs)</b>	<b>10.1</b>	<b>16.7</b>	<b>22.1</b>	<b>25.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>11,809</b>	<b>12,809</b>	<b>13,809</b>	<b>15,309</b>
Tangibles	11,809	12,809	13,809	15,309
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>6,110</b>	<b>6,929</b>	<b>7,827</b>	<b>8,822</b>
Tangibles	6,110	6,929	7,827	8,822
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>5,699</b>	<b>5,880</b>	<b>5,982</b>	<b>6,487</b>
Tangibles	5,699	5,880	5,982	6,487
Intangibles	-	-	-	-
Capital Work In Progress	681	681	681	681
Goodwill	1	1	1	1
Non-Current Investments	-	-	-	-
Net Deferred tax assets	194	194	194	194
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	2,379	3,007	3,387	3,781
Trade receivables	2,338	2,932	3,338	3,728
Cash & Bank Balance	143	164	1,051	1,886
Other Current Assets	1,702	1,702	1,702	1,702
<b>Total Assets</b>	<b>12,957</b>	<b>14,380</b>	<b>16,155</b>	<b>18,279</b>
<b>Equity</b>				
Equity Share Capital	184	184	184	184
Other Equity	7,506	8,999	10,990	13,285
<b>Total Networkth</b>	<b>7,690</b>	<b>9,184</b>	<b>11,174</b>	<b>13,469</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	969	969	969	969
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,163	763	363	0
Trade payables	1,132	1,462	1,647	1,838
Other current liabilities	2,196	2,196	2,196	2,196
<b>Total Equity &amp; Liabilities</b>	<b>12,957</b>	<b>14,380</b>	<b>16,156</b>	<b>18,279</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	1,320	2,369	2,752	3,164
Add. Depreciation	731	820	898	995
Add. Interest	223	156	120	87
Less Financial Other Income	31	40	60	80
Add. Other	102	(40)	(60)	(80)
Op. profit before WC changes	2,376	3,305	3,710	4,166
Net Changes-WC	(1,398)	(893)	(601)	(592)
Direct tax	(197)	(829)	(716)	(823)
<b>Net cash from Op. activities</b>	<b>781</b>	<b>1,583</b>	<b>2,393</b>	<b>2,751</b>
Capital expenditures	(769)	(1,000)	(1,000)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(769)</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(1,500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(143)	(400)	(400)	(363)
Dividend paid	(28)	(46)	(46)	(46)
Interest paid	(223)	(156)	(120)	(87)
Others	146	40	60	80
<b>Net cash from Fin. activities</b>	<b>(248)</b>	<b>(562)</b>	<b>(506)</b>	<b>(416)</b>
<b>Net change in cash</b>	<b>(236)</b>	<b>21</b>	<b>887</b>	<b>835</b>
Free Cash Flow	12	583	1,393	1,251

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b>Net Revenue</b>	<b>3,051</b>	<b>3,868</b>	<b>3,869</b>	<b>3,580</b>
YoY gr. (%)	12.2	40.2	17.9	7.7
Raw Material Expenses	879	1,103	1,063	1,087
Gross Profit	2,172	2,764	2,806	2,493
Margin (%)	71.2	71.5	72.5	69.6
<b>EBITDA</b>	<b>547</b>	<b>869</b>	<b>864</b>	<b>735</b>
YoY gr. (%)	64.4	78.6	42.4	22.1
Margin (%)	17.9	22.5	22.3	20.5
Depreciation / Depletion	186	222	195	192
<b>EBIT</b>	<b>362</b>	<b>647</b>	<b>670</b>	<b>542</b>
Margin (%)	11.9	16.7	17.3	15.1
Net Interest	46	42	31	38
Other Income	20	9	10	2
<b>Profit before Tax</b>	<b>336</b>	<b>613</b>	<b>650</b>	<b>506</b>
Margin (%)	11.0	15.8	16.8	14.1
Total Tax	86	216	233	176
Effective tax rate (%)	25.5	35.3	35.8	34.8
<b>Profit after Tax</b>	<b>250</b>	<b>397</b>	<b>417</b>	<b>330</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>250</b>	<b>397</b>	<b>417</b>	<b>330</b>
YoY gr. (%)	366.4	132.7	62.5	30.1
Margin (%)	8.2	10.3	10.8	9.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>250</b>	<b>397</b>	<b>417</b>	<b>330</b>
YoY gr. (%)	366.4	132.7	62.5	30.1
Margin (%)	8.2	10.3	10.8	9.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>250</b>	<b>397</b>	<b>417</b>	<b>330</b>
Avg. Shares O/s (m)	92	92	92	92
<b>EPS (Rs)</b>	<b>2.7</b>	<b>4.3</b>	<b>4.5</b>	<b>3.6</b>

Source: Company Data, PL Research

**Key Financial Metrics**

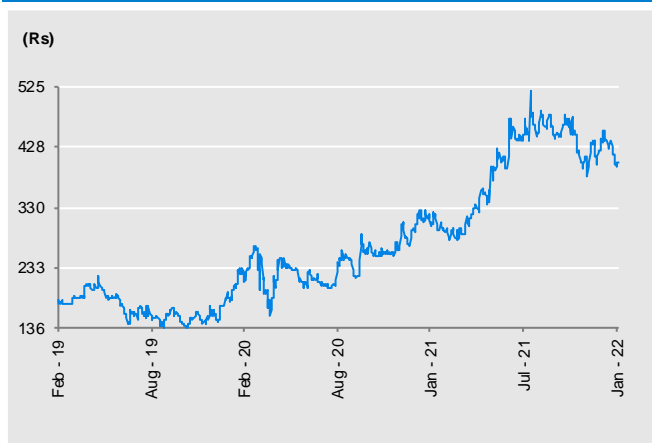
Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	10.1	16.7	22.1	25.4
CEPS	18.0	25.6	31.8	36.2
BVPS	83.4	99.7	121.3	146.2
FCF	0.1	6.3	15.1	13.6
DPS	0.5	0.5	0.5	0.5
<b>Return Ratio(%)</b>				
RoCE	16.2	24.0	24.0	23.5
ROIC	11.8	17.5	18.6	19.3
RoE	12.8	18.3	20.0	19.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.2	0.0	(0.1)
Net Working Capital (Days)	105	107	108	108
<b>Valuation(x)</b>				
PER	39.4	23.8	18.0	15.7
P/B	4.8	4.0	3.3	2.7
P/CEPS	22.1	15.5	12.5	11.0
EV/EBITDA	17.2	11.6	10.0	8.6
EV/Sales	3.1	2.5	2.2	1.9
Dividend Yield (%)	0.1	0.1	0.1	0.1

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY21	FY22E	FY23E	FY24E
Domestic Formulations	6,190	7,861	8,647	9,512
Export Formulations	4,924	6,125	7,306	8,318
APIs	940	733	806	887

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jan-22	Accumulate	480	438
2	4-Nov-21	Accumulate	480	450

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	780	710
2	Cadila Healthcare	BUY	590	451
3	Cipla	BUY	1,100	906
4	Divi's Laboratories	Accumulate	4,750	4,517
5	Dr. Reddy's Laboratories	BUY	5,200	4,219
6	Eris Lifesciences	BUY	880	695
7	Glenmark Pharmaceuticals	Accumulate	600	511
8	Indoco Remedies	Accumulate	480	438
9	Ipca Laboratories	BUY	2,450	2,200
10	Lupin	Accumulate	1,004	916
11	Sun Pharmaceutical Industries	BUY	1,050	835
12	Torrent Pharmaceuticals	BUY	3,560	3,161

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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