

May 17, 2022

**RESULT REPORT Q4 FY22** | Sector: Pharmaceutical

# Indoco Remedies

## Growth expectation intact

### Result Synopsis

Indoco delivered better than expected revenue growth of 34% YoY with US revenue driving a sharp growth YoY. This was further aided by strong show in domestic business on a low base. Management expects growth on this high base in FY23 led by rebound in Stomatologicals. Margins have fallen as RM prices along with higher freight prices affected 4Q.

Indoco guides to a strong 40% growth in US business as Brinzolamide market share ramp up and Combigan launch in July drive H2 revenues. We reckon US business is dependent on these two key products along with ~6 new launches in current fiscal. Indoco would also be shielded from price erosion due to ophthalmic nature of launches. Capex of Rs550mn on 3 additional blocks comprising sterile and ophthalmic capacities should support growth in Europe and US. Domestic business has a high base of FY22 to contend with & expect ~8-9% growth in current fiscal (~12-13% on ex-Covid base) driven by rebound in Stomatologicals though acute therapies would be subdued. Importantly, we now expect margin to be lower than FY22 largely on back of lower gross margin expectation. Unless there is worsening of key starting material prices from China (management alluded to recent flatlining prices), expect 4Q or at worst 1Q margin to mark a bottom. We have raised revenue estimates for FY22 on back of strong US guidance which has offset impact of gross margin cut; a bottoming out of margin coupled with unchanged growth outlook would support rerating – retain target 19x on FY24 EPS with marginally lower TP Rs500 (earlier Rs530). On back of strong growth prognosis, Indoco remains one of our top bets in pharma.

### Result Highlights

- Revenue up 34.1% YoY to Rs 4,091mn, much higher than our estimate of 24% growth YoY.
- Gross margins declined 180bps QoQ to 67.9% as higher input costs negated the effect of higher sales and higher utilization.
- Operating margins came in at 19.7% and were down 83bps QoQ due to increased freight costs
- PAT increased 62% YoY and 23% QoQ, ahead of our estimates (+43% YoY) on solid revenue performance

### Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimates		% Variation		Remarks
		Yes Sec	Consensus	YES Sec	Consensus	
Sales	4,091	3,775	NA	8.4	NA	Revenue beat but margin lagged on higher input costs
EBITDA	805	785	NA	2.6	NA	
OPM (%)	19.7	20.8	NA	(111bps)	NA	
Adjusted PAT	405	357	NA	13.3	NA	

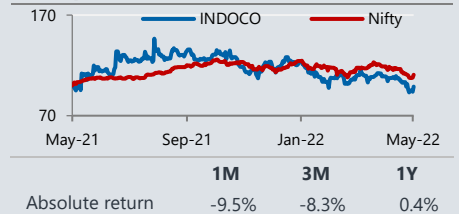
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 350
Target Price	: Rs 500
Potential Return	: 42%

### Stock data (as on May 17, 2022)

Nifty	16,259
52 Week h/l (Rs)	530 / 323
Market cap (Rs/USD mn)	32294 / 416
Outstanding Shares (mn)	92
6m Avg t/o (Rs mn):	49
Div yield (%):	0.4
Bloomberg code:	INDR IN
NSE code:	INDOCO

### Stock performance



### Shareholding pattern (As of Mar'22 end)

Promoter	58.7%
FII+DII	19.4%
Others	21.9%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	500	530

### Δ in earnings estimates

	FY23e	FY24e
EPS (New)	22.1	26.2
EPS (Old)	21.7	27.6
% change	2.0	-5.0

### Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	15,408	17,805	19,607
YoY Growth	24.1	15.6	10.1
EBIDTA	3,273	3,646	4,193
YoY Growth	45.9	11.4	15.0
PAT	1,555	2,040	2,419
YoY Growth	67.0	31.2	18.6
ROE	18.6	20.5	20.3
EPS	16.9	22.2	26.3
P/E	20.8	15.9	13.4
BV	98.3	118.0	141.3
EV/EBITDA	10.3	8.8	7.2

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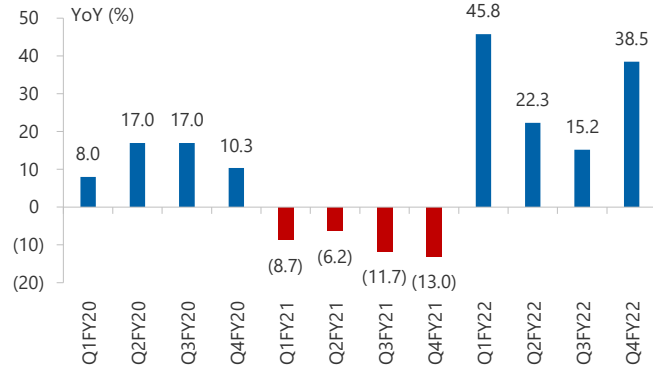

**YASH SINGHEE**, Associate

## Exhibit 2: Quarterly snapshot

Rs mn	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
<b>Revenue</b>	<b>3,051</b>	<b>3,868</b>	<b>3,869</b>	<b>3,580</b>	<b>4,091</b>	34.1	14.3	<b>15,408</b>	<b>12,403</b>	<b>24.2</b>
Expenditure	2,504	2,999	3,004	2,846	3,286	31.2	15.5	12,134	10,167	19.3
- RM	879	1,103	1,063	1,087	1,315	49.5	21.0	4,568	3,541	29.0
- Staff Cost	602	750	742	713	732	21.7	2.7	2,937	2,729	7.6
- Other Costs	1,023	1,146	1,199	1,046	1,239	21.1	18.5	4,629	3,898	18.8
<b>Operating Profit</b>	<b>547</b>	<b>869</b>	<b>864</b>	<b>735</b>	<b>805</b>	47.2	9.7	<b>3,273</b>	<b>2,236</b>	<b>46.4</b>
<b>OPM(%)</b>	<b>17.9</b>	<b>22.5</b>	<b>22.3</b>	<b>20.5</b>	<b>19.7</b>	<b>175 bps</b>	<b>-83 bps</b>	<b>21.2</b>	<b>18.0</b>	<b>322 bps</b>
Other Income	20	9	10	2	3	(85)	88	23	31	(25.3)
Depreciation	186	222	195	192	181	(3)	(6)	790	731	8.0
Interest	46	42	31	38	30	(34)	(20)	141	222	(36.4)
<b>PBT</b>	<b>336</b>	<b>613</b>	<b>650</b>	<b>506</b>	<b>598</b>	<b>78.0</b>	<b>18.1</b>	<b>2,366</b>	<b>1,314</b>	<b>80.1</b>
Tax	86	216	233	176	193	125.5	9.7	818	390	109.9
<b>PAT</b>	<b>250</b>	<b>397</b>	<b>417</b>	<b>330</b>	<b>405</b>	<b>61.8</b>	<b>22.6</b>	<b>1,548</b>	<b>924</b>	<b>67.6</b>

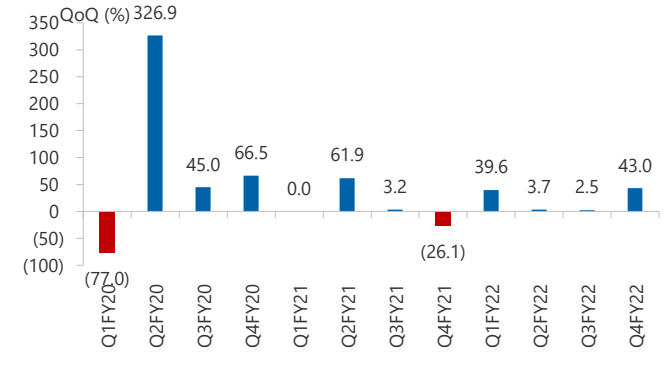
Source: Company, YES Sec

**Exhibit 3: India grows on low base of last year**



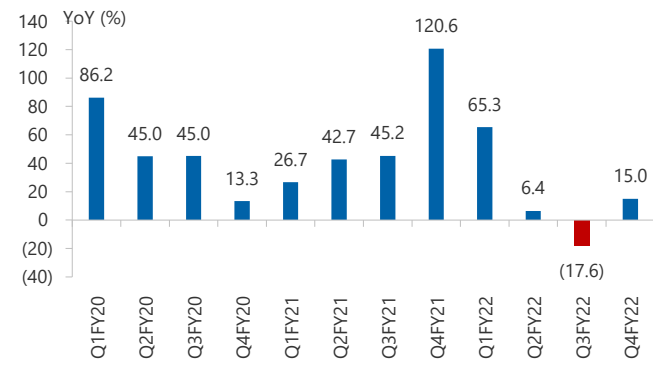
Source: Company, YES Sec

**Exhibit 4: US deliver strong growth QoQ**



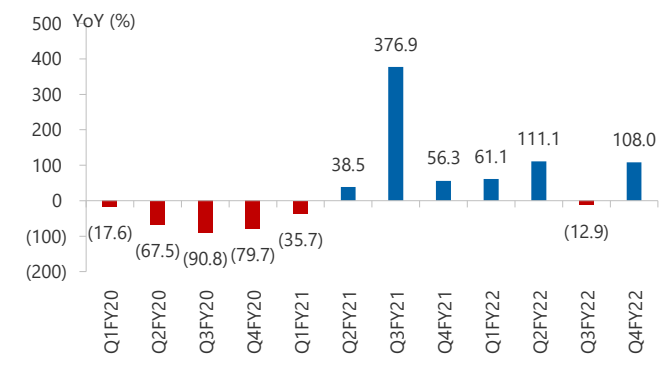
Source: Company, YES Sec

**Exhibit 5: Europe revenue growth**



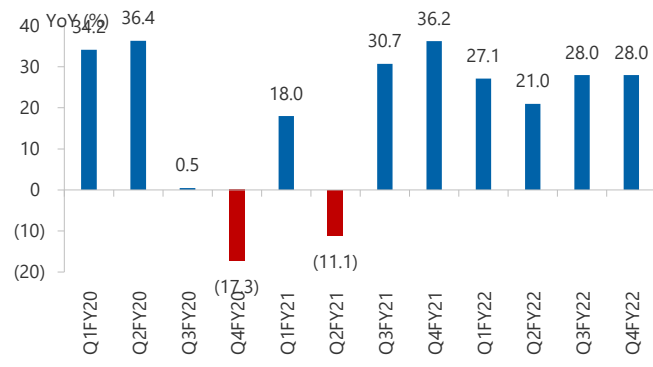
Source: Company, YES Sec

**Exhibit 6: SA, Aus & NZ deliver healthy growth**



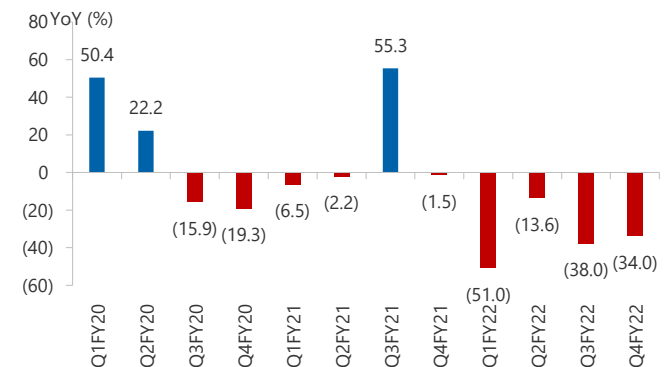
Source: Company, YES Sec

**Exhibit 7: EM growth trajectory continues**



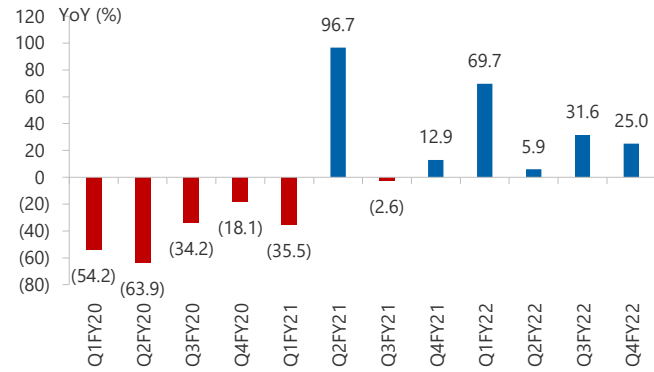
Source: Company, YES Sec

**Exhibit 8: API revenues on the decline**



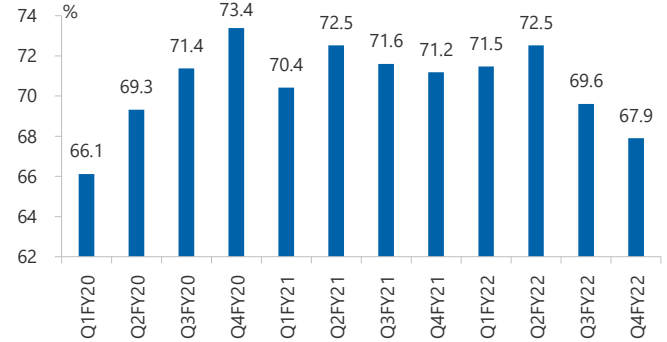
Source: Company, YES Sec

**Exhibit 9: CRO & Analytical Services business**



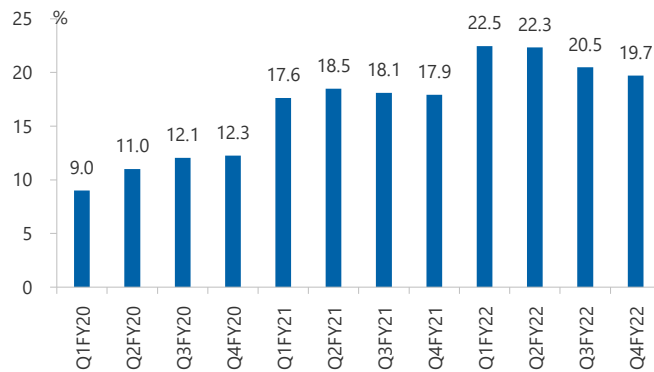
Source: Company, YES Sec

**Exhibit 10: High RM costs affect gross margins**



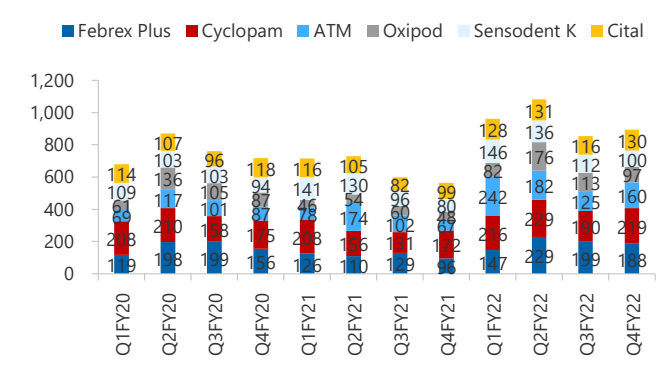
Source: Company, YES Sec

**Exhibit 11: Operating margin fall on higher COGS**



Source: Company, YES Sec

**Exhibit 12: Trend in key brands revenues**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Guidance

- To match 4Q margin in 1Q FY23 and hope to improve in the subsequent quarters
- API - To do external sales of Rs1.2bn and almost similar number consumed internally in FY23
- US business – to grow 40% and Europe 20% in FY23

### India

- Anti-infectives and respiratory saw increased consumption due to covid tailwinds. Karvol Plus, ATM and one more drug got benefit due to Covid.
- Stomatologicals continue to grow at double digits despite impact of covid. Expect to grow at higher levels this year.
- 2 acute divisions to show muted growth.
- Rs300mn extra due to Covid in FY22 largely from brands ATM, Oxipod but even here it was driven by prescriptions and not OTC due to Covid
- ~6% price blended across portfolio – 10.7% in NLEM (11% of total) and 5-6% in non NLEM
- To be impacted by 1 more quarter of high COGS
- Capex – Rs1.1-1.2bn in FY23 – maintenance + fresh lines in ophthalmic lines
- MR productivity – Rs3.3lakhs and in next 2 years expect it to touch Rs4lakhs
- New launches accounted for 2% of India growth and will be higher in FY23 as full benefit yet to be seen

### API

- Have started to see API prices stabilized and hopefully worst should be behind
- API – min 2 inventories across India, US & EU and packing inventory of 1.5 months

### US business

- US sales Rs700mn and Europe Rs800mn in 4Q
- Combigan – looking at July launch in US
- Brinzolamide – Teva share of 5-7% and by July expecting back to 20% - loss of share in 1 quarter was due to change in packaging requirement leading to lull in manufacturing earlier but supply has inched up now
- 6 launches in FY22 and similar number to be filed in FY23
- Looking to increase prices in Europe and ROW
- US – out of 20, about 15 products in injectables and ophthalmic & rest is oral solids
- Profit share of Rs40mn and dossier income of Rs170mn; profit share from partners to increase in plain vanilla products while on those which require clinical trial would remain flat
- Hi-potent block for Europe as well as sustained release tablets which would drive growth in FY23 -total capex of Rs550-600mn for 3 lines
- Installed and commissioned a sterile line which should be running by 20th June and should give benefits in FY23.

## FINANCIALS

### Exhibit 13: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	184	184	184	184	184
Reserves	6,611	7,506	8,862	10,672	12,815
<b>Net worth</b>	<b>6,796</b>	<b>7,690</b>	<b>9,046</b>	<b>10,857</b>	<b>12,999</b>
Debt	1,330	1,392	1,460	1,264	1,068
Def. tax lia	0	0	106	106	106
<b>Total liabilities</b>	<b>8,126</b>	<b>9,081</b>	<b>10,612</b>	<b>12,226</b>	<b>14,173</b>
<b>Goodwill</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Fixed assets	6,403	6,380	6,765	7,145	7,062
Investments	321	350	358	358	358
<b>Net working capital</b>	<b>1,042</b>	<b>2,157</b>	<b>3,488</b>	<b>4,722</b>	<b>6,751</b>
Inventories	2,083	2,379	3,105	3,588	3,952
Sundry debtors	2,101	2,338	2,972	3,435	3,783
Cash	380	144	198	1,567	3,125
Other current assets	1,067	1,365	1,461	1,602	1,765
Sundry creditors	(1,656)	(1,132)	(2,193)	(2,534)	(2,790)
Other current liabilities	(2,934)	(2,937)	(2,056)	(2,937)	(3,082)
Def tax assets	359	194	-	-	-
<b>Total assets</b>	<b>8,126</b>	<b>9,081</b>	<b>10,612</b>	<b>12,226</b>	<b>14,173</b>

Source: Company, YES Sec

### Exhibit 14: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	11,066	12,415	15,408	17,805	19,607
<b>Operating profit</b>	<b>1,232</b>	<b>2,243</b>	<b>3,273</b>	<b>3,646</b>	<b>4,193</b>
Depreciation	(708)	(731)	(790)	(820)	(883)
Interest expense	(263)	(223)	(141)	(136)	(117)
Other income	24	31	30	31	31
<b>Profit before tax</b>	<b>286</b>	<b>1,320</b>	<b>2,372</b>	<b>2,720</b>	<b>3,225</b>
Taxes	(45)	(390)	(818)	(680)	(806)
<b>Adj. profit</b>	<b>242</b>	<b>931</b>	<b>1,555</b>	<b>2,040</b>	<b>2,419</b>
Exceptional item	-	-	-	-	-
<b>Net profit</b>	<b>242</b>	<b>931</b>	<b>1,555</b>	<b>2,040</b>	<b>2,419</b>

Source: Company, YES Sec

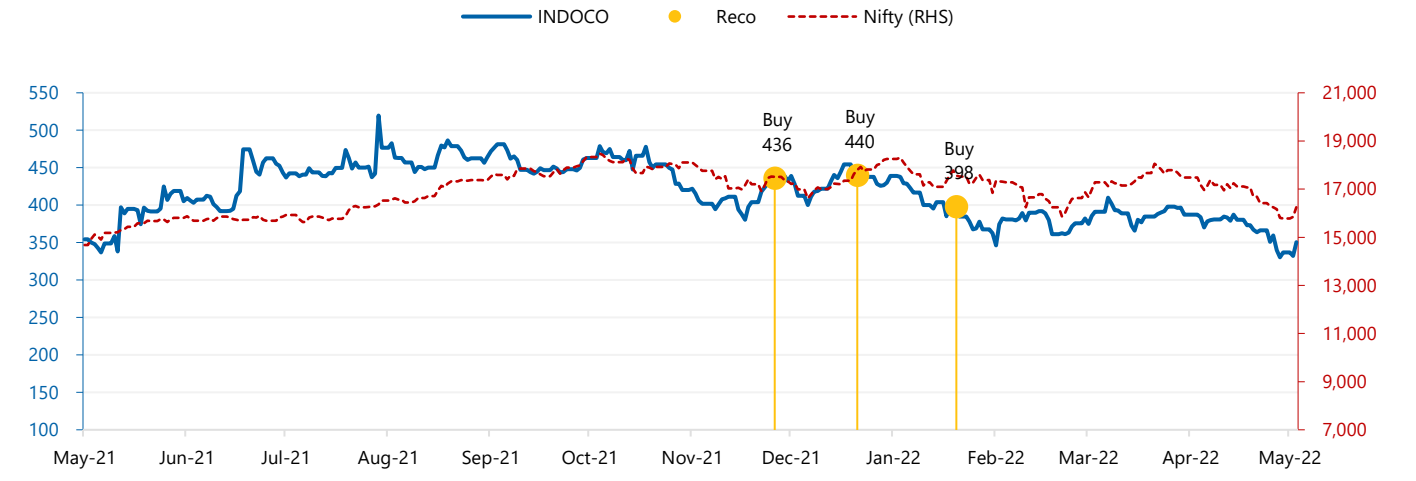
### Exhibit 15: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Revenue growth	14.3	12.2	24.1	15.6	10.1
Op profit growth	60.7	82.0	45.9	11.4	15.0
EBIT growth	387.3	181.3	62.9	13.6	17.0
Net profit growth	-	285.4	67.0	31.2	18.6

<b>Profitability ratios (%)</b>					
OPM	11.1	18.1	21.2	20.5	21.4
EBIT margin	5.0	12.4	16.3	16.0	17.0
Net profit margin	2.2	7.5	10.1	11.5	12.3
RoCE	6.8	17.9	25.5	25.0	25.3
RoNW	3.6	12.8	18.6	20.5	20.3
RoA	2.0	7.4	11.2	12.5	12.8
<b>Per share ratios</b>					
EPS	2.6	10.1	16.9	22.1	26.2
Dividend per share	0.4	0.3	2.2	2.5	3.0
Cash EPS	10.3	18.0	25.4	31.0	35.8
Book value per share	73.7	83.4	98.2	117.8	141.1
<b>Valuation ratios (x)</b>					
P/E	134.1	34.8	20.8	15.9	13.4
P/BV	4.8	4.2	3.6	3.0	2.5
M Cap/Sales	2.9	2.6	2.1	1.8	1.7
EV/EBIDTA	27.1	15.0	10.3	8.8	7.2
<b>Payout (%)</b>					
Tax payout	15.6	29.5	34.5	25.0	25.0
Dividend payout	13.9	3.0	13.3	11.3	11.4
<b>Liquidity ratios</b>					
Debtor days	69	69	70	70	70
Inventory days	69	70	74	74	74
Creditor days	55	33	52	52	52
<b>Leverage ratios</b>					
Interest coverage	2.1	6.9	17.8	21.0	28.7
Net debt / equity	0.1	0.2	0.1	(0.0)	(0.2)
Net debt / op. profit	0.8	0.6	0.4	(0.1)	(0.5)

Source: Company, YES Sec

## Recommendation Tracker





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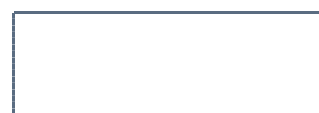
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