

August 10, 2022

Q1FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	430		430	
Sales (Rs. m)	17,351	19,164	17,280	19,205
% Chng.	0.4	(0.2)		
EBITDA (Rs. m)	3,392	3,976	3,517	4,053
% Chng.	(3.5)	(1.9)		
EPS (Rs.)	19.3	23.6	20.0	23.9
% Chng.	(3.7)	(1.3)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	12,415	15,408	17,351	19,164
EBITDA (Rs. m)	2,243	3,273	3,392	3,976
Margin (%)	18.1	21.2	19.6	20.7
PAT (Rs. m)	931	1,548	1,779	2,175
EPS (Rs.)	10.1	16.8	19.3	23.6
Gr. (%)	285.8	66.4	14.9	22.3
DPS (Rs.)	0.5	2.3	2.3	2.3
Yield (%)	0.1	0.6	0.6	0.6
RoE (%)	12.8	18.5	18.1	18.7
RoCE (%)	16.2	23.3	20.7	22.2
EV/Sales (x)	3.1	2.5	2.2	2.0
EV/EBITDA (x)	17.2	11.8	11.3	9.4
PE (x)	39.2	23.6	20.5	16.8
P/BV (x)	4.7	4.0	3.4	2.9

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.530 / Rs.321
Sensex / Nifty	58,853 / 17,525
Market Cap	Rs.36bn / \$ 458m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.43.63m

Shareholding Pattern (%)

Promoter's	58.69
Foreign	1.17
Domestic Institution	17.52
Public & Others	22.62
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.3	7.7	(12.1)
Relative	(3.4)	5.8	(18.9)

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Margins to improve

Quick Pointers:

- Reiterated its 40% and 20% revenue growth guidance in US and EU in FY23.
- Input cost to soften from Q2FY23; should aid margins.

Indoco Remedies' (INDR) Q1FY23 performance was muted with 11% QoQ and 18% YoY decline in EBITDA; we expect margins to recover led by softening of input prices and scale up in revenues. Domestic market (ex COVID) continues to grow. 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. Our FY23E and FY24E EPS stands marginally reduced by 3% and 1%. At CMP, stock is trading at 16.7x on FY24E EPS. We reiterate our Buy rating with unchanged TP of Rs430 based on 18x FY24E earnings.

- In-line revenues:** Consolidated revenues grew by 6% to Rs4.1bn in-line with our estimates. Domestic formulations declined by 7% YoY to Rs 2bn vs our estimate of Rs 2.1bn. Key therapeutic segments Respiratory and Anti-infectives witnessed double digit de-growth YoY given COVID base. Regulated business grew by 15% YoY to Rs1.5bn, in line with our estimate. US sales came in at Rs650mn; down 7% QoQ while EU sales was down 2% YoY. EM formulation grew by 23% YoY. API increased 57% YoY.
- Weak GMs led to EBIDTA miss:** INDR registered EBITDA of Rs715mn, down 11% QoQ, vs our estimates of Rs800mn. Reported OPM of 17.5%; down 220bps QoQ. Gross margins were down by 60bps QoQ and 450 bps YoY to 66.6% largely on pressure of input cost. Other expenses marginally decreased by 2% QoQ (up 7% YoY). R&D cost came in at 4.6% of sales; up 10% YoY. Resultant PAT declined by 3% YoY (down 5% QoQ) to Rs 386mn, vs our est of Rs 410mn.
- Key concall takeaways:** (1) Strong order book across US & EU markets; reiterate its Rs3bn US sales guidance and +20% YoY growth in EU markets. (2) On gCombigan, TAD been shifted to mid Oct 2022 vs Sept 2022 and company have already started shipping goods and remains hopeful of Q3FY23 launch. Recent launch of Iacosamide injection (\$49mn mkt size) is scaling up well with limited completion (3) Domestic formulation: Reiterated its mid teen growth for FY23. New launches contributed 2% to total sales in Q1FY23. Currently 11% of portfolio is under NLEM however INDR intends to take gradual price hike vs 10.7% taken by most of its peers (4) Input cost and freight charges to be soften and hence company maintained its margin guidance of 19-20% for FY23. (5) Profit share for quarter was to tune of Rs70mn (6) Capex to tune of Rs 1.1bn-1.2bn in FY23 which includes Rs500-600mn of capex pertaining to ophthal segment (7) EU-GMP compliance certificate for Goa Plant-I and Baddi (Plant-III) will boost the EU business, with availability of larger manufacturing capacity.

Exhibit 1: 1QFY23 Result Overview (Rs m): In-line revenues, weak gross margins

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Net Sales	4,082	3,868	5.6	4,091	(0.2)
Raw Material	1,321	1,103	19.8	1,315	0.5
<i>% of Net Sales</i>	<i>32.4</i>	<i>28.5</i>		<i>32.1</i>	
Personnel Cost	827	750	10.3	732	12.9
<i>% of Net Sales</i>	<i>20.3</i>	<i>19.4</i>		<i>17.9</i>	
Others	1,220	1,146	6.5	1,239	(1.5)
<i>% of Net Sales</i>	<i>29.9</i>	<i>29.6</i>		<i>30.3</i>	
Total Expenditure	3,368	2,999	12.3	3,286	2.5
EBITDA	715	869	(17.8)	805	(11.3)
<i>Margin (%)</i>	<i>17.5</i>	<i>22.5</i>		<i>19.7</i>	
Depreciation	201	222	(9.6)	181	11.4
EBIT	514	647	(20.6)	625	(17.8)
Other Income	11	9	31.4	3	276.7
Interest	41	42	(2.6)	30	35.9
PBT	483	613	(21.1)	598	(19.1)
Extra-Ord. Inc./Exps.	-	-		-	
Total Taxes	98	216	(54.8)	193	(49.3)
<i>ETR (%)</i>	<i>20.2</i>	<i>35.3</i>		<i>32.3</i>	
Reported PAT	386	397	(2.7)	405	(4.6)

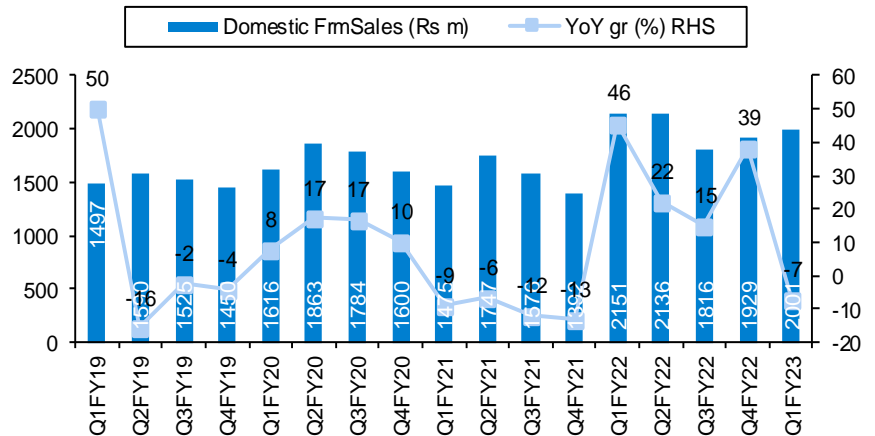
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Domestic	2,028	2,192	(7.5)	1,974	2.7
Formulations	2,001	2,151	(7.0)	1,929	3.7
APIs	27	42	(34.6)	45	(39.3)
Exports	1,878	1,592	18.0	1,982	(5.2)
Formulations	1,773	1,524	16.3	1,895	(6.5)
Reg mkt	1,477	1,283	15.1	1,552	(4.8)
Non-reg mkt (Emerging mkt)	296	242	22.6	344	(13.8)
API	106	67	57.0	86	22.4
CRO	42	28	50.0	48	(11.8)

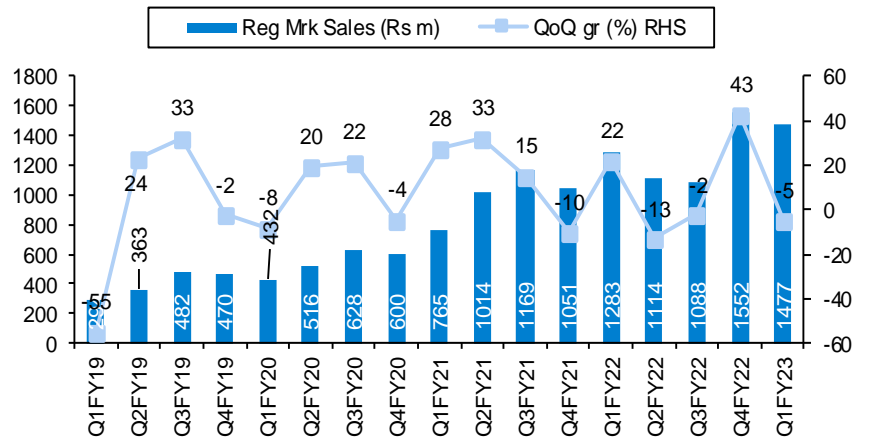
Source: Company, PL

Exhibit 3: India Formulations: YoY declined due to high base



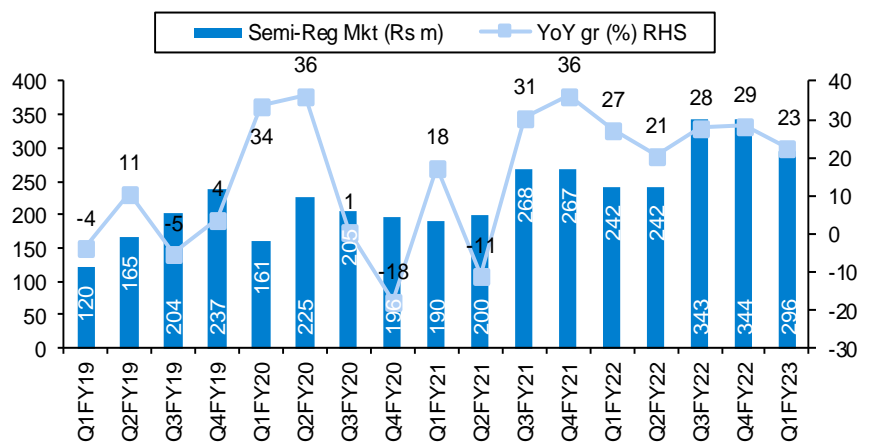
Source: Company, PL

Exhibit 4: Export: Regulated Mkt : Strong YoY growth aided by US



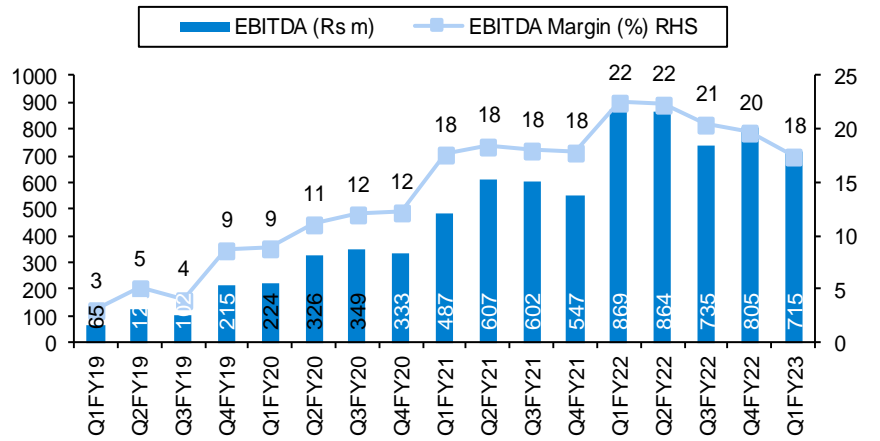
Source: Company, PL

Exhibit 5: Export—strong YoY growth in emerging market



Source: Company, PL

Exhibit 6: Muted margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	12,415	15,408	17,351	19,164
YoY gr. (%)	12.2	24.1	12.6	10.4
Cost of Goods Sold	3,541	4,568	5,501	5,842
Gross Profit	8,874	10,840	11,850	13,322
Margin (%)	71.5	70.4	68.3	69.5
Employee Cost	2,740	2,937	3,289	3,618
Other Expenses	3,891	4,629	5,168	5,728
EBITDA	2,243	3,273	3,392	3,976
YoY gr. (%)	82.0	46.0	3.6	17.2
Margin (%)	18.1	21.2	19.6	20.7
Depreciation and Amortization	731	790	892	985
EBIT	1,511	2,484	2,500	2,991
Margin (%)	12.2	16.1	14.4	15.6
Net Interest	223	141	163	151
Other Income	31	23	35	60
Profit Before Tax	1,320	2,366	2,372	2,900
Margin (%)	10.6	15.4	13.7	15.1
Total Tax	390	818	593	725
Effective tax rate (%)	29.5	34.6	25.0	25.0
Profit after tax	931	1,548	1,779	2,175
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	931	1,548	1,779	2,175
YoY gr. (%)	285.8	66.4	14.9	22.3
Margin (%)	7.5	10.0	10.3	11.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	931	1,548	1,779	2,175
YoY gr. (%)	285.8	66.4	14.9	22.3
Margin (%)	7.5	10.0	10.3	11.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	931	1,548	1,779	2,175
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	10.1	16.8	19.3	23.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	11,809	13,136	14,386	15,886
Tangibles	11,809	13,136	14,386	15,886
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,110	6,899	7,791	8,776
Tangibles	6,110	6,899	7,791	8,776
Intangibles	-	-	-	-
Net fixed assets	5,699	6,237	6,595	7,110
Tangibles	5,699	6,237	6,595	7,110
Intangibles	-	-	-	-
Capital Work In Progress	681	528	528	528
Goodwill	1	1	1	1
Non-Current Investments	-	-	-	-
Net Deferred tax assets	194	(106)	(106)	(106)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	0	-	-
Inventories	2,379	3,105	3,518	3,885
Trade receivables	2,338	2,972	3,359	3,717
Cash & Bank Balance	143	198	346	795
Other Current Assets	1,702	1,800	1,853	1,928
Total Assets	12,957	14,861	16,220	17,984
Equity				
Equity Share Capital	184	184	184	184
Other Equity	7,506	8,862	10,434	12,401
Total Networkth	7,690	9,046	10,618	12,585
Non-Current Liabilities				
Long Term borrowings	969	959	959	959
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,163	1,483	1,083	720
Trade payables	1,132	1,333	1,521	1,680
Other current liabilities	2,196	1,934	1,934	1,934
Total Equity & Liabilities	12,957	14,861	16,221	17,984

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,320	2,366	2,372	2,900
Add. Depreciation	731	790	892	985
Add. Interest	223	141	163	151
Less Financial Other Income	31	23	35	60
Add. Other	102	375	(35)	(60)
Op. profit before WC changes	2,376	3,672	3,392	3,976
Net Changes-WC	(1,398)	(1,526)	(665)	(640)
Direct tax	(197)	(410)	(593)	(725)
Net cash from Op. activities	781	1,736	2,134	2,610
Capital expenditures	(769)	(1,253)	(1,250)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(769)	(1,253)	(1,250)	(1,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(143)	(4)	(400)	(363)
Dividend paid	(28)	(138)	(207)	(207)
Interest paid	(223)	(141)	(163)	(151)
Others	146	(145)	35	60
Net cash from Fin. activities	(248)	(428)	(736)	(661)
Net change in cash	(236)	54	148	449
Free Cash Flow	12	482	884	1,110

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	3,869	3,580	4,091	4,082
YoY gr. (%)	17.9	7.7	34.1	5.6
Raw Material Expenses	1,063	1,087	1,315	1,321
Gross Profit	2,806	2,493	2,777	2,761
Margin (%)	72.5	69.6	67.9	67.6
EBITDA	864	735	805	715
YoY gr. (%)	42.4	22.1	47.2	(17.8)
Margin (%)	22.3	20.5	19.7	17.5
Depreciation / Depletion	195	192	181	201
EBIT	670	542	625	514
Margin (%)	17.3	15.1	15.3	12.6
Net Interest	31	38	30	41
Other Income	10	2	3	11
Profit before Tax	650	506	598	484
Margin (%)	16.8	14.1	14.6	11.8
Total Tax	233	176	193	98
Effective tax rate (%)	35.8	34.8	32.3	20.2
Profit after Tax	417	330	405	386
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	417	330	405	386
YoY gr. (%)	62.5	30.1	61.8	(2.7)
Margin (%)	10.8	9.2	9.9	9.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	417	330	405	386
YoY gr. (%)	62.5	30.1	61.8	(2.7)
Margin (%)	10.8	9.2	9.9	9.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	417	330	405	386
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	4.5	3.6	4.4	4.2

Source: Company Data, PL Research

Key Financial Metrics

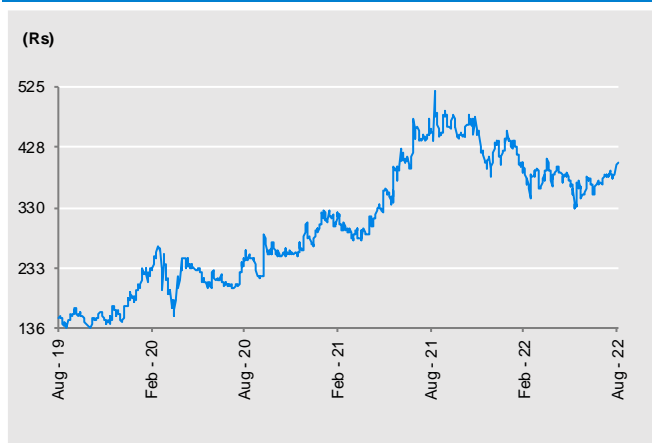
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	10.1	16.8	19.3	23.6
CEPS	18.0	25.4	29.0	34.3
BVPS	83.4	98.2	115.2	136.6
FCF	0.1	5.2	9.6	12.1
DPS	0.5	2.3	2.3	2.3
Return Ratio(%)				
RoCE	16.2	23.3	20.7	22.2
ROIC	11.8	16.9	15.7	17.4
RoE	12.8	18.5	18.1	18.7
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.2	0.1
Net Working Capital (Days)	105	112	113	113
Valuation(x)				
PER	39.2	23.6	20.5	16.8
P/B	4.7	4.0	3.4	2.9
P/CEPS	22.0	15.6	13.7	11.5
EV/EBITDA	17.2	11.8	11.3	9.4
EV/Sales	3.1	2.5	2.2	2.0
Dividend Yield (%)	0.1	0.6	0.6	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Domestic Formulations	6,190	8,031	8,581	9,525
Export Formulations	4,924	6,206	7,481	8,250
APIs	940	634	793	872

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	430	377
2	17-May-22	BUY	430	350
3	08-Apr-22	Accumulate	460	392
4	03-Feb-22	Accumulate	460	398
5	07-Jan-22	Accumulate	480	438
6	04-Nov-21	Accumulate	480	450

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	238
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	377
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	450	366

PL's Recommendation Nomenclature (Absolute Performance)

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



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