

May 24, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	400		430	
Sales (Rs. m)	18,549	20,744	18,700	20,911
% Chng.	(0.8)	(0.8)		
EBITDA (Rs. m)	3,326	3,819	3,608	4,128
% Chng.	(7.8)	(7.5)		
EPS (Rs.)	18.6	22.3	21.2	25.1
% Chng.	(12.3)	(11.1)		

Key Financials - Consolidated

Ye Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	15,408	16,686	18,549	20,744
EBITDA (Rs. m)	3,273	2,861	3,326	3,819
Margin (%)	21.2	17.1	17.9	18.4
PAT (Rs. m)	1,548	1,423	1,712	2,057
EPS (Rs.)	16.8	15.4	18.6	22.3
Gr. (%)	123.8	(8.1)	20.3	20.2
DPS (Rs.)	2.3	2.3	2.3	2.3
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	18.5	14.7	15.5	16.2
RoCE (%)	23.3	17.3	17.9	19.1
EV/Sales (x)	2.2	2.1	1.8	1.6
EV/EBITDA (x)	10.2	12.0	10.2	8.8
PE (x)	20.2	22.0	18.3	15.2
P/BV (x)	3.5	3.0	2.7	2.3

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.424 / Rs.306
Sensex / Nifty	61,774 / 18,285
Market Cap	Rs.31bn/ \$ 379m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.65.08m

Shareholding Pattern (%)

Promoter's	58.69
Foreign	1.54
Domestic Institution	17.29
Public & Others	22.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.0	(18.2)	(6.2)
Relative	6.0	(17.5)	(17.9)

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Weak quarter; higher other expenses led to miss

Quick Pointers:

- Goa Plant-I received EIR with Voluntary Action Initiated status from USFDA.
- Reiterated FY24E margin guidance between 18-19% range.

We cut our FY24/FY25 EPS by ~11% factoring in lower margins. Indoco Remedies' (INDR) Q4FY23 revenues (Rs4.3bn) were in-line, while EBITDA was sharply below our estimates by ~20% led by forex loss and higher other expenses. Adjusted for forex loss, margins came in at 15.2% (down 300 bps QoQ), but then it will improve as and how revenues further scale up. We remain structurally positive on INDR's growth prospects given 1) MR productivity enhancement along with high penetration in North & East markets 2) new launches in US and 3) higher tender business in EU market. We expect 20% PAT CAGR over FY23-25E. At CMP, stock is trading at 15x FY25E EPS. We retain our 'Buy' rating with TP of Rs400; 18x FY25E EPS.

- In-line revenues aided by export formulations:** Consolidated revenues excluding other operating income increased by 7% YoY to Rs 4.3bn (up 4% QoQ), in-line with our estimates. Domestic formulations sale declined by 4% YoY to Rs 1.8bn. Key brands like Febrex Plus, ATM and Karvol Plus reported significant decline. Regulated business grew by 5% YoY to Rs1.6bn, whereas EM business registered strong growth of 54% YoY. EU sales were Rs 821mn, down 5% QoQ, while US sales came at Rs713mn up 18% QoQ. API grew 74% YoY.
- Sharp decline in EBITDA due to higher other expenses:** INDR reported EBITDA of Rs648mn; down 20% YoY. Other operating income came in negative at Rs6mn led by forex loss. Reported OPM of 15.1%, down 40bps QoQ. Gross margins (ad for other operating income) were up 110bp QoQ to 69.3%. R&D cost came in at 5.6% of sales, up 22% YoY. Resultant PAT declined 36% YoY (down 8% QoQ) to Rs 258mn sharply below our estimates of Rs 400mn.
- Key concall takeaways: (1) Domestic Formulation:** All key brands are doing well and expect to continue the growth momentum in FY24. Decline in Q4FY23 was on account of higher COVID base and lower sales from acute portfolio **(2) US sales:** Given VAI status for its Goa Plant1 and healthy order-book, management expects 30-35% growth from US market in FY24. Plans to launch 4 products in FY24, majority of them will be in ophthal segment. On Combigan, Teva lost some market share along with some minor supply issues which will likely get resolved by Oct 2023. During the quarter, company booked Rs160mn of revenues as profit share in US **(3) EU market:** The recently won tenders for Allopurinol Tablets in Germany to achieve Rs600-700mn annual sales for next 2 years. **(4) Other expenses** were higher; related to legal & professional fees, advertisement and promotion. Further there was MTM loss of Rs5mn due to currency fluctuations. **(5) Management** expects margin within 18-19% range in FY24 and has guided for 15% growth from India business. Also guided for overall capex of Rs 1,250mn in FY24

Exhibit 1: 4QFY23 Result Overview (Rs m): Higher other expenses led to miss in EBITDA

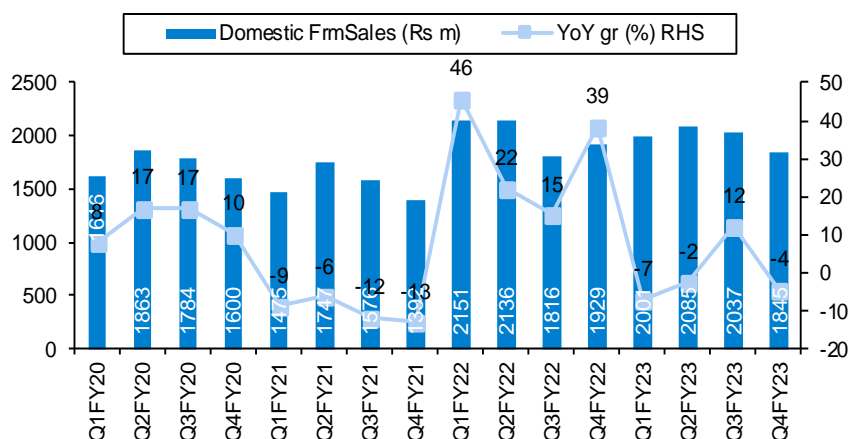
Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	4,282	4,091	4.7	3,992	7.3	16,686	15,408	8.3
Raw Material	1,315	1,315	(0.0)	1,304	0.9	5,213	4,568	14.1
<i>% of Net Sales</i>	<i>30.7</i>	<i>32.1</i>		<i>32.7</i>		<i>31.2</i>	<i>29.6</i>	
Personnel Cost	767	732	4.7	821	(6.6)	3,219	2,937	9.6
<i>% of Net Sales</i>	<i>17.9</i>	<i>17.9</i>		<i>20.6</i>		<i>19.3</i>	<i>19.1</i>	
Others	1,552	1,239	25.3	1,247	24.5	5,393	4,629	16.5
<i>% of Net Sales</i>	<i>36.3</i>	<i>30.3</i>		<i>31.2</i>		<i>32.3</i>	<i>30.0</i>	
Total Expenditure	3,634	3,286	10.6	3,372	7.8	13,825	12,134	13.9
EBITDA	648	805	(19.6)	620	4.4	2,861	3,273	(12.6)
<i>Margin (%)</i>	<i>15.1</i>	<i>19.7</i>		<i>15.5</i>		<i>17.1</i>	<i>21.2</i>	
Depreciation	177	181	(2.0)	172	3.0	706	790	(10.6)
EBIT	471	625	(24.7)	449	4.9	2,155	2,484	(13.2)
Other Income	5	3	66.7	4	38.9	23	23	0.4
Interest	86	30	184.2	70	23.3	250	141	77.0
PBT	389	598	(34.8)	382	1.9	1,928	2,366	(18.5)
Extra-Ord. Inc./Exps.	-	-		(0)		0	-	
Total Taxes	131	193	(32.0)	101	30.3	505	818	(38.2)
<i>ETR (%)</i>	<i>33.7</i>	<i>32.3</i>		<i>26.3</i>		<i>26.2</i>	<i>34.6</i>	
Reported PAT	258	405	(36.2)	282	(8.3)	1,423	1,548	(8.1)

Source: Company, PL

Exhibit 2: Domestic business slowed down while good pick-up in international business

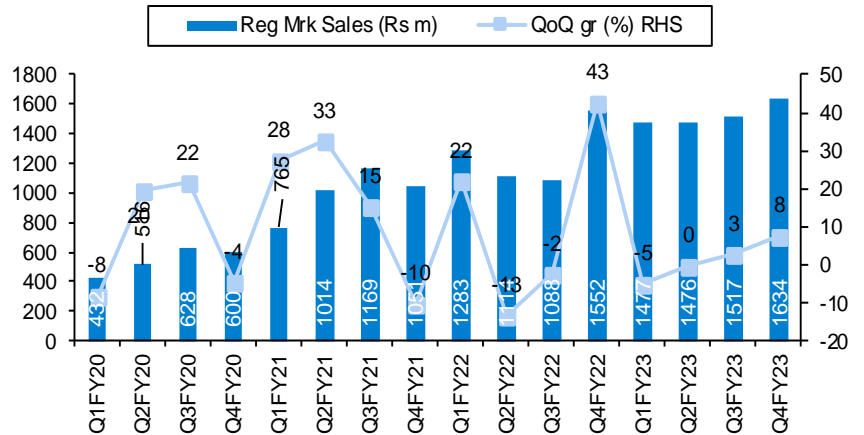
Major sources of revenues	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Domestic	1,963	1,974	(0.5)	2,098	(6.4)	4,061	3,657	11.1
Formulations	1,845	1,929	(4.3)	2,037	(9.4)	3,882	3,512	10.5
APIs	118	45	163.4	61	92.8	179	145	23.4
Exports	2,272	1,982	14.7	1,962	15.8	4,234	3,054	38.6
Formulations	2,162	1,895	14.1	1,861	16.2	4,023	2,815	42.9
Reg mkt	1,634	1,552	5.3	1,517	7.7	3,151	2,282	38.1
Non-reg mkt (Emerging mkt)	528	344	53.7	344	53.6	871	533	63.4
API	110	86	28.1	101	9.1	212	239	(11.5)
CRO	45	48	(5.5)	46	(2.8)	91	63	45.4

Source: Company, PL

Exhibit 3: India Formulations: High COVID base led to decline


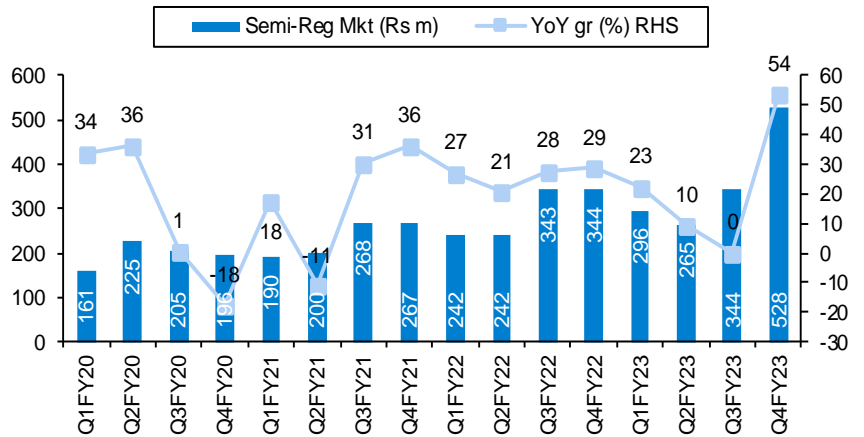
Source: Company, PL

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



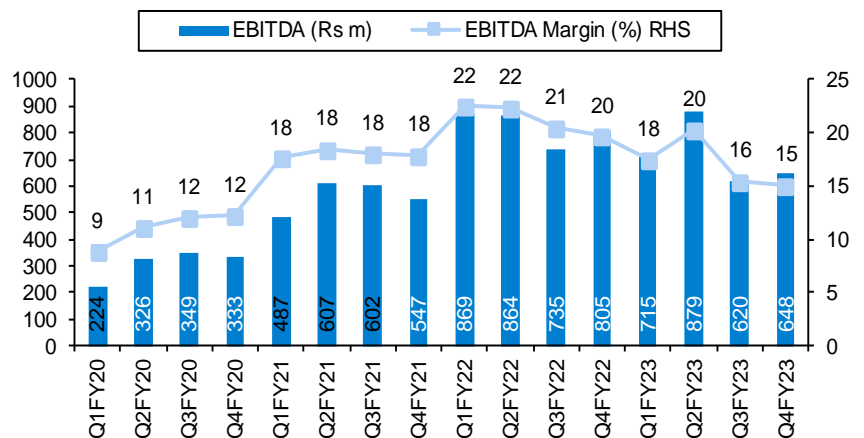
Source: Company, PL

Exhibit 5: Export: Strong performance from EM markets



Source: Company, PL

Exhibit 6: Decline in EBITDA margins led by higher other expenses



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	15,408	16,686	18,549	20,744
YoY gr. (%)	24.1	8.3	11.2	11.8
Cost of Goods Sold	4,568	5,213	5,742	6,434
Gross Profit	10,840	11,473	12,807	14,310
Margin (%)	70.4	68.8	69.0	69.0
Employee Cost	2,937	3,226	3,548	3,903
Other Expenses	4,629	5,386	5,932	6,588
EBITDA	3,273	2,861	3,326	3,819
YoY gr. (%)	63.4	(12.6)	16.3	14.8
Margin (%)	21.2	17.1	17.9	18.4
Depreciation and Amortization	790	706	823	898
EBIT	2,484	2,155	2,503	2,920
Margin (%)	16.1	12.9	13.5	14.1
Net Interest	141	250	250	218
Other Income	23	23	30	40
Profit Before Tax	2,366	1,928	2,283	2,743
Margin (%)	15.4	11.6	12.3	13.2
Total Tax	818	506	571	686
Effective tax rate (%)	34.6	26.2	25.0	25.0
Profit after tax	1,548	1,423	1,712	2,057
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,548	1,423	1,712	2,057
YoY gr. (%)	123.8	(8.1)	20.3	20.2
Margin (%)	10.0	8.5	9.2	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,548	1,423	1,712	2,057
YoY gr. (%)	123.8	(8.1)	20.3	20.2
Margin (%)	10.0	8.5	9.2	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,548	1,423	1,712	2,057
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	16.8	15.4	18.6	22.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	13,136	14,969	16,469	17,969
Tangibles	13,136	14,969	16,469	17,969
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,899	7,605	8,429	9,327
Tangibles	6,899	7,605	8,429	9,327
Intangibles	-	-	-	-
Net fixed assets	6,237	7,364	8,040	8,642
Tangibles	6,237	7,364	8,040	8,642
Intangibles	-	-	-	-
Capital Work In Progress	528	554	554	554
Goodwill	1	1	1	1
Non-Current Investments	-	-	-	-
Net Deferred tax assets	(106)	(61)	(61)	(61)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	0	15	15	15
Inventories	3,105	3,260	3,811	4,262
Trade receivables	2,972	3,509	3,596	4,029
Cash & Bank Balance	198	133	183	293
Other Current Assets	1,800	1,701	1,769	1,839
Total Assets	14,861	16,572	18,004	19,671
Equity				
Equity Share Capital	184	184	184	184
Other Equity	8,862	10,098	11,603	13,453
Total Networth	9,046	10,283	11,787	13,637
Non-Current Liabilities				
Long Term borrowings	959	1,435	1,435	1,435
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,483	1,710	1,347	984
Trade payables	1,333	1,235	1,525	1,705
Other current liabilities	1,934	1,859	1,859	1,859
Total Equity & Liabilities	14,861	16,582	18,014	19,681

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	2,366	1,928	2,283	2,743
Add. Depreciation	790	706	823	898
Add. Interest	141	250	250	218
Less Financial Other Income	23	23	30	40
Add. Other	379	303	(30)	(40)
Op. profit before WC changes	3,675	3,187	3,326	3,819
Net Changes-WC	(1,526)	(782)	(416)	(775)
Direct tax	(411)	(617)	(571)	(686)
Net cash from Op. activities	1,738	1,788	2,340	2,359
Capital expenditures	(1,253)	(2,073)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(1,253)	(2,073)	(1,500)	(1,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(130)	319	(363)	(363)
Dividend paid	(138)	(207)	(207)	(207)
Interest paid	(141)	(250)	(250)	(218)
Others	(21)	359	30	40
Net cash from Fin. activities	(431)	220	(791)	(748)
Net change in cash	54	(64)	49	111
Free Cash Flow	485	(284)	840	859

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	16.8	15.4	18.6	22.3
CEPS	25.4	23.1	27.5	32.1
BVPS	98.2	111.6	127.9	148.0
FCF	5.3	(3.1)	9.1	9.3
DPS	2.3	2.3	2.3	2.3
Return Ratio(%)				
RoCE	23.3	17.3	17.9	19.1
ROIC	16.9	13.1	14.1	15.1
RoE	18.5	14.7	15.5	16.2
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.2	0.2
Net Working Capital (Days)	112	121	116	116
Valuation(x)				
PER	20.2	22.0	18.3	15.2
P/B	3.5	3.0	2.7	2.3
P/CEPS	13.4	14.7	12.3	10.6
EV/EBITDA	10.2	12.0	10.2	8.8
EV/Sales	2.2	2.1	1.8	1.6
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

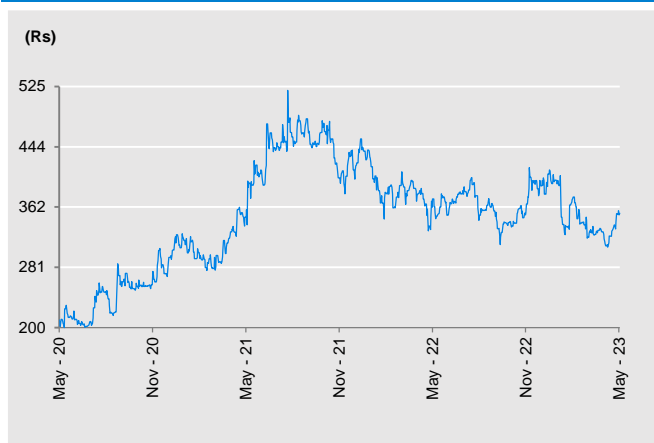
Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	4,082	4,330	3,992	4,282
YoY gr. (%)	5.6	11.9	11.5	4.7
Raw Material Expenses	1,321	1,274	1,304	1,315
Gross Profit	2,761	3,057	2,689	2,967
Margin (%)	67.6	70.6	67.3	69.3
EBITDA	715	879	620	648
YoY gr. (%)	(17.8)	1.6	(15.5)	(19.6)
Margin (%)	17.5	20.3	15.5	15.1
Depreciation / Depletion	201	157	172	177
EBIT	514	722	449	471
Margin (%)	12.6	16.7	11.2	11.0
Net Interest	41	53	70	86
Other Income	11	4	4	5
Profit before Tax	484	673	382	389
Margin (%)	11.8	15.5	9.6	9.1
Total Tax	98	176	101	131
Effective tax rate (%)	20.2	26.1	26.3	33.7
Profit after Tax	386	497	282	258
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	386	497	282	258
YoY gr. (%)	(2.7)	19.3	(14.7)	(36.2)
Margin (%)	9.4	11.5	7.1	6.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	386	497	282	258
YoY gr. (%)	(2.7)	19.3	(14.7)	(36.2)
Margin (%)	9.4	11.5	7.1	6.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	386	497	282	258
Av g. Shares O/s (m)	92	92	92	92
EPS (Rs)	4.2	5.4	3.1	2.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Domestic Formulations	8,031	7,967	8,843	9,728
Export Formulations	6,206	7,537	8,417	9,628
APIs	634	707	777	855

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	430	328
2	25-Jan-23	BUY	430	363
3	06-Jan-23	BUY	430	396
4	14-Nov-22	BUY	430	348
5	06-Oct-22	BUY	430	336
6	10-Aug-22	BUY	430	396
7	07-Jul-22	BUY	430	377

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	265	240
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	3,098
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	360	256
9	Glenmark Pharmaceuticals	Reduce	570	609
10	HealthCare Global Enterprises	BUY	375	274
11	Indoco Remedies	BUY	430	328
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,975
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	980	827
18	Sun Pharmaceutical Industries	BUY	1,175	997
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	520	508

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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