

October 19, 2023

## Q2FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	385		380	
Sales (Rs. m)	18,651	20,747	18,414	20,770
% Chng.	1.3	(0.1)		
EBITDA (Rs. m)	2,817	3,634	3,127	3,716
% Chng.	(9.9)	(2.2)		
EPS (Rs.)	13.7	19.8	16.5	21.0
% Chng.	(16.7)	(5.8)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	16,686	18,651	20,747	23,243
EBITDA (Rs. m)	2,861	2,817	3,634	4,118
Margin (%)	17.1	15.1	17.5	17.7
PAT (Rs. m)	1,423	1,266	1,827	2,141
EPS (Rs.)	15.4	13.7	19.8	23.2
Gr. (%)	(8.1)	(11.0)	44.3	17.2
DPS (Rs.)	2.3	2.3	2.3	2.3
Yield (%)	0.6	0.6	0.6	0.6
RoE (%)	14.7	11.7	15.0	15.4
RoCE (%)	17.3	13.8	16.8	17.6
EV/Sales (x)	2.1	1.9	1.7	1.5
EV/EBITDA (x)	12.3	12.8	9.9	8.6
PE (x)	22.7	25.5	17.7	15.1
P/BV (x)	3.1	2.8	2.5	2.2

### Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.424 / Rs.306
Sensex / Nifty	65,629 / 19,625
Market Cap	Rs.32bn/ \$ 388m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.83.68m

### Shareholding Pattern (%)

Promoter's	58.73
Foreign	1.58
Domestic Institution	17.16
Public & Others	22.53
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.7)	11.1	3.3
Relative	1.2	0.8	(7.0)

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## Margins to improve

### Quick Pointers:

- One-off expenses related to remediation and consulting expenses.
- Guided for higher growth in H2 in domestic formulation.

**We cut our FY24/FY25 EPS by ~17%/6% to factor in low margins. Indoco Remedies' (INDR) Q2FY24 revenues at Rs4.8bn were largely in-line, while EBITDA was 4% below our estimates led by higher remediation cost. Adjusted for one offs, margins came in at ~17%. The recent OAI to its Goa unit-2 is negative and will restrict growth in US sales in FY24. However, we remain structurally positive on INDR's growth prospects given steady domestic franchise (50% of total sales) and reasonable valuations. We expect 17% PAT CAGR over FY23-25E. At CMP, stock is trading at 17.5x FY25E EPS. We retain our 'Buy' rating with revised TP of Rs385 valuing at 18x Sept 2025E EPS, as we roll forward. Timely resolution of Goa facility unit-2 is a key for re-rating.**

- Healthy sales aided by API and EM markets:** Consolidated revenues ex-other operating income increased by 17% YoY to Rs 4.7bn (up 13.6% QoQ), above our estimates. Domestic formulations sales grew by 9.4% YoY to Rs 2.3bn. Key therapies like Stomatologicals, cardiology, Vitamins reported healthy growth, while anti-infectives and respiratory reported decline YoY. Regulated business was up by 1% YoY to Rs1.5bn, whereas EM business registered sharp growth of 72% YoY. EU sales were down 15% YoY, while US sales improved QoQ by 59%. API grew sharply by 96% YoY.
- Higher other expenses impacted EBITDA:** INDR reported EBITDA of Rs714mn; down 19% YoY. Other operating income came at Rs82mn; down YoY as Q2FY23 had forex gain of Rs130mn. Reported OPM of 14.8%, up 50bps QoQ. We believe additional Rs100mn was incurred towards remediation costs and consultancy charges, which is likely to continue for next 1-2 quarter. Gross margins were flat QoQ at 69%. R&D cost stood at Rs 258mn; 5.4% of sales, up 37% YoY. Other income came in higher at Rs 44mn. Resultant PAT declined 29.5% YoY to Rs 351mn; in-line with our estimate.
- Key concall takeaways:** (1) Other expenses remain elevated given higher remediation and consulting charges largely towards its Goa facility. (2) EU sales were impacted due to overstocking by one customer, however it should recover in coming quarters. Mgmt. reiterated its EU sales guidance of Rs3.7-3.8bn for FY24E (3) Goa facility 1 was inspected by USFDA from Oct 12-18, 2023. This was pre approval inspection for 2 product applications filed from this facility. The USFDA has issued four observations (4) Domestic Formulation: Delay in monsoon impacted growth in H1. Key brands like Febrex plus and Oxipod reported YoY decline, while brands like Sensodent and Methycal reported strong YoY growth. Guided for strong H2 growth to extent of 15% (5) Strong API sales in H1 are sustainable. Expects margin to improve as remediation cost starts coming off from Q4FY24 and should recover to 17-18% range. Also guided for overall capex of Rs 1,250mn in FY24. (6) Net debt increased by Rs1.1bn to Rs4.1bn as of H1FY24 end.

**Exhibit 1: 2QFY24 Result Overview (Rs m): Healthy sales; higher other expenses led to miss in EBITDA**

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
<b>Net Sales</b>	<b>4,817</b>	<b>4,330</b>	<b>11.2</b>	<b>4,265</b>	<b>12.9</b>	<b>9,082</b>	<b>8,413</b>	<b>8.0</b>
Raw Material	1,473	1,274	15.6	1,287	14.5	2,760	2,595	6.4
<i>% of Net Sales</i>	<i>30.6</i>	<i>29.4</i>		<i>30.2</i>		<i>30.4</i>	<i>30.8</i>	
Personnel Cost	921	804	14.6	915	0.6	1,837	1,638	12.2
<i>% of Net Sales</i>	<i>19.1</i>	<i>18.6</i>		<i>21.5</i>		<i>20.2</i>	<i>19.5</i>	
Others	1,709	1,374	24.4	1,451	17.8	3,160	2,587	22.2
<i>% of Net Sales</i>	<i>35.5</i>	<i>31.7</i>		<i>34.0</i>		<i>34.8</i>	<i>30.8</i>	
Total Expenditure	4,104	3,452	18.9	3,653	12.3	7,757	6,820	13.7
<b>EBITDA</b>	<b>714</b>	<b>879</b>	<b>(18.8)</b>	<b>612</b>	<b>16.7</b>	<b>1,325</b>	<b>1,593</b>	<b>(16.8)</b>
<i>Margin (%)</i>	<i>14.8</i>	<i>20.3</i>		<i>14.3</i>		<i>14.6</i>	<i>18.9</i>	
Depreciation	214	157	36.8	199	7.7	413	358	15.5
<b>EBIT</b>	<b>500</b>	<b>722</b>	<b>(30.8)</b>	<b>413</b>	<b>21.0</b>	<b>912</b>	<b>1,236</b>	<b>(26.2)</b>
Other Income	44	4	1,165.7	4	980.5	48	15	227.0
Interest	81	53	54.5	78	4.1	159	94	69.6
<b>PBT</b>	<b>463</b>	<b>673</b>	<b>(31.2)</b>	<b>339</b>	<b>36.5</b>	<b>802</b>	<b>1,157</b>	<b>(30.7)</b>
Extra-Ord. Inc./Exps.	-	-	-	-	-	-	-	-
Total Taxes	110	176	(37.2)	97	13.5	208	274	(24.1)
<i>ETR (%)</i>	<i>23.9</i>	<i>26.1</i>		<i>28.7</i>		<i>25.9</i>	<i>23.6</i>	
Minority Interest	(2)	-	-	2	-	(1)	-	-
<b>Reported PAT</b>	<b>351</b>	<b>497</b>	<b>(29.5)</b>	<b>244</b>	<b>43.8</b>	<b>594</b>	<b>883</b>	<b>(32.8)</b>

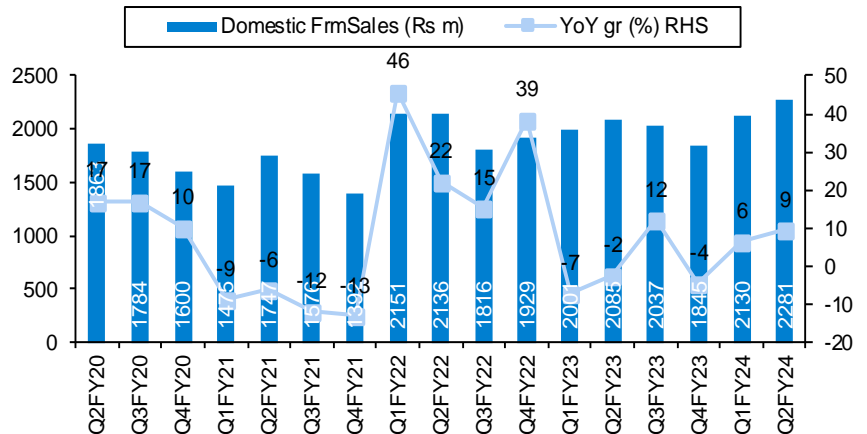
Source: Company, PL

**Exhibit 2: Healthy domestic formulation business while strong pick-up in API sales**

Major sources of revenues	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
<b>Domestic</b>	<b>2,436</b>	<b>2,210</b>	<b>10.2</b>	<b>2,264</b>	<b>7.6</b>	<b>4,700</b>	<b>4,238</b>	<b>10.9</b>
Formulations	2,281	2,085	9.4	2,130	7.1	4,411	4,085	8.0
APIs	155	126	23.7	134	15.9	289	153	89.3
<b>Exports</b>	<b>2,152</b>	<b>1,799</b>	<b>19.7</b>	<b>1,820</b>	<b>18.2</b>	<b>3,973</b>	<b>3,677</b>	<b>8.0</b>
Formulations	1,949	1,741	12.0	1,597	22.0	3,546	3,514	0.9
Reg mkt	1,495	1,476	1.3	1,344	11.2	2,839	2,953	(3.9)
Non-reg mkt (Emerging mkt)	454	265	71.6	253	79.6	707	561	26.1
APIs	203	58	251.6	223	(9.0)	427	163	161.2
CRO	64	37	73.0	48	34.2	112	79	41.4
<b>Net Revenues</b>	<b>4,653</b>	<b>4,046</b>	<b>15.0</b>	<b>4,132</b>	<b>12.6</b>	<b>8,784</b>	<b>7,994</b>	<b>9.9</b>

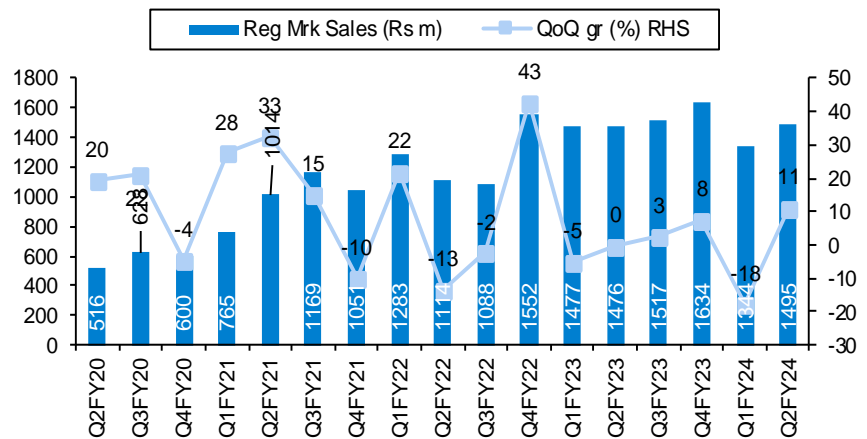
Source: Company, PL

**Exhibit 3: India Formulations: Despite delayed monsoon growth was healthy**



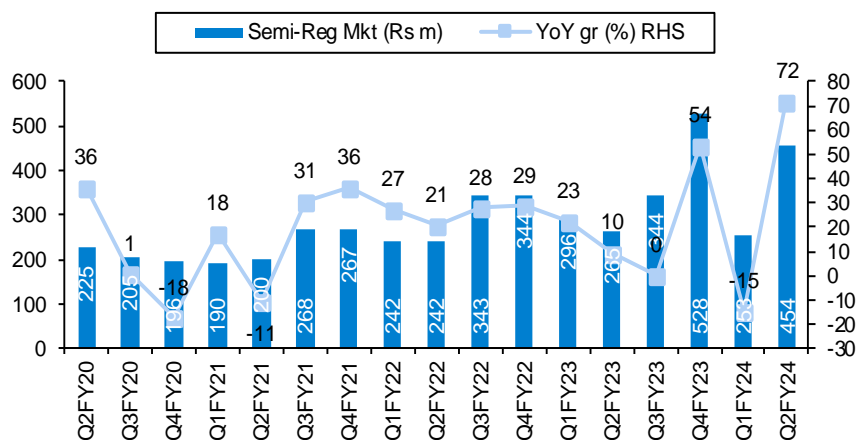
Source: Company, PL

**Exhibit 4: Export: Regulated Mkt : Strong recovery in US sales QoQ**



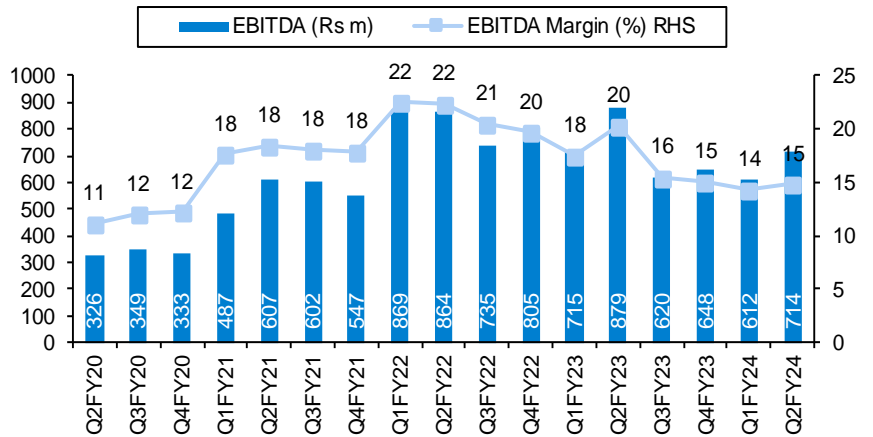
Source: Company, PL

**Exhibit 5: Strong growth in EM markets**



Source: Company, PL

**Exhibit 6: Decline in OPM YoY led by higher other expenses and one offs**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>16,686</b>	<b>18,651</b>	<b>20,747</b>	<b>23,243</b>
YoY gr. (%)	8.3	11.8	11.2	12.0
Cost of Goods Sold	5,213	5,683	6,332	7,106
Gross Profit	11,473	12,968	14,415	16,137
Margin (%)	68.8	69.5	69.5	69.4
Employee Cost	3,226	3,613	4,046	4,532
Other Expenses	5,386	6,539	6,735	7,486
<b>EBITDA</b>	<b>2,861</b>	<b>2,817</b>	<b>3,634</b>	<b>4,118</b>
YoY gr. (%)	(12.6)	(1.5)	29.0	13.3
Margin (%)	17.1	15.1	17.5	17.7
Depreciation and Amortization	706	823	898	973
<b>EBIT</b>	<b>2,155</b>	<b>1,993</b>	<b>2,735</b>	<b>3,145</b>
Margin (%)	12.9	10.7	13.2	13.5
Net Interest	250	352	352	321
Other Income	23	70	70	70
<b>Profit Before Tax</b>	<b>1,928</b>	<b>1,711</b>	<b>2,453</b>	<b>2,894</b>
Margin (%)	11.6	9.2	11.8	12.4
Total Tax	506	445	625	752
Effective tax rate (%)	26.2	26.0	25.5	26.0
<b>Profit after tax</b>	<b>1,423</b>	<b>1,266</b>	<b>1,827</b>	<b>2,141</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,423</b>	<b>1,266</b>	<b>1,827</b>	<b>2,141</b>
YoY gr. (%)	(8.1)	(11.0)	44.3	17.2
Margin (%)	8.5	6.8	8.8	9.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,423</b>	<b>1,266</b>	<b>1,827</b>	<b>2,141</b>
YoY gr. (%)	(8.1)	(11.0)	44.3	17.2
Margin (%)	8.5	6.8	8.8	9.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,423	1,266	1,827	2,141
<b>Equity Shares O/s (m)</b>	<b>92</b>	<b>92</b>	<b>92</b>	<b>92</b>
<b>EPS (Rs)</b>	<b>15.4</b>	<b>13.7</b>	<b>19.8</b>	<b>23.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>14,969</b>	<b>16,469</b>	<b>17,969</b>	<b>19,469</b>
Tangibles	14,969	16,469	17,969	19,469
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>7,605</b>	<b>8,429</b>	<b>9,327</b>	<b>10,301</b>
Tangibles	7,605	8,429	9,327	10,301
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>7,364</b>	<b>8,040</b>	<b>8,642</b>	<b>9,168</b>
Tangibles	7,364	8,040	8,642	9,168
Intangibles	-	-	-	-
Capital Work In Progress	554	554	554	554
Goodwill	1	1	1	1
Non-Current Investments	10	10	10	10
Net Deferred tax assets	(61)	(61)	(61)	(61)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	15	15	15	15
Inventories	3,260	3,730	4,263	4,840
Trade receivables	3,509	4,018	4,197	4,710
Cash & Bank Balance	133	342	626	755
Other Current Assets	1,701	2,296	2,388	2,483
<b>Total Assets</b>	<b>16,582</b>	<b>19,041</b>	<b>20,732</b>	<b>22,571</b>
<b>Equity</b>				
Equity Share Capital	184	184	184	184
Other Equity	10,098	11,157	12,777	14,711
<b>Total Networkth</b>	<b>10,283</b>	<b>11,341</b>	<b>12,961</b>	<b>14,895</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,435	1,435	1,435	1,435
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,710	2,710	2,710	2,347
Trade payables	1,235	1,635	1,705	1,974
Other current liabilities	1,859	1,859	1,859	1,859
<b>Total Equity &amp; Liabilities</b>	<b>16,582</b>	<b>19,041</b>	<b>20,732</b>	<b>22,571</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	1,928	1,711	2,453	2,894
Add. Depreciation	706	823	898	973
Add. Interest	250	352	352	321
Less Financial Other Income	23	70	70	70
Add. Other	303	(70)	(70)	(70)
Op. profit before WC changes	3,187	2,817	3,634	4,118
Net Changes-WC	(782)	(1,173)	(734)	(916)
Direct tax	(617)	(445)	(625)	(752)
<b>Net cash from Op. activities</b>	<b>1,788</b>	<b>1,199</b>	<b>2,274</b>	<b>2,450</b>
Capital expenditures	(2,073)	(1,500)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(2,073)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	319	1,000	-	(363)
Dividend paid	(207)	(207)	(207)	(207)
Interest paid	(250)	(352)	(352)	(321)
Others	359	70	70	70
<b>Net cash from Fin. activities</b>	<b>220</b>	<b>510</b>	<b>(490)</b>	<b>(822)</b>
<b>Net change in cash</b>	<b>(64)</b>	<b>209</b>	<b>284</b>	<b>128</b>
Free Cash Flow	(284)	(301)	774	950

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>3,992</b>	<b>4,282</b>	<b>4,265</b>	<b>4,817</b>
YoY gr. (%)	11.5	4.7	4.5	11.2
Raw Material Expenses	1,304	1,315	1,287	1,473
Gross Profit	2,689	2,967	2,978	3,344
Margin (%)	67.3	69.3	69.8	69.4
<b>EBITDA</b>	<b>620</b>	<b>648</b>	<b>612</b>	<b>714</b>
YoY gr. (%)	(15.5)	(19.6)	(14.4)	(18.8)
Margin (%)	15.5	15.1	14.3	14.8
Depreciation / Depletion	172	177	199	214
<b>EBIT</b>	<b>449</b>	<b>471</b>	<b>413</b>	<b>500</b>
Margin (%)	11.2	11.0	9.7	10.4
Net Interest	70	86	78	81
Other Income	4	5	4	44
<b>Profit before Tax</b>	<b>382</b>	<b>389</b>	<b>339</b>	<b>463</b>
Margin (%)	9.6	9.1	8.0	9.6
Total Tax	101	131	97	110
Effective tax rate (%)	26.3	33.7	28.7	23.9
<b>Profit after Tax</b>	<b>282</b>	<b>258</b>	<b>242</b>	<b>352</b>
Minority interest	-	-	(2)	2
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>282</b>	<b>258</b>	<b>244</b>	<b>351</b>
YoY gr. (%)	(14.7)	(36.2)	(36.8)	(29.5)
Margin (%)	7.1	6.0	5.7	7.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>282</b>	<b>258</b>	<b>244</b>	<b>351</b>
YoY gr. (%)	(14.7)	(36.2)	(36.8)	(29.5)
Margin (%)	7.1	6.0	5.7	7.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>282</b>	<b>258</b>	<b>244</b>	<b>351</b>
Avg. Shares O/s (m)	92	92	92	92
<b>EPS (Rs)</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>	<b>3.8</b>

Source: Company Data, PL Research

**Key Financial Metrics**

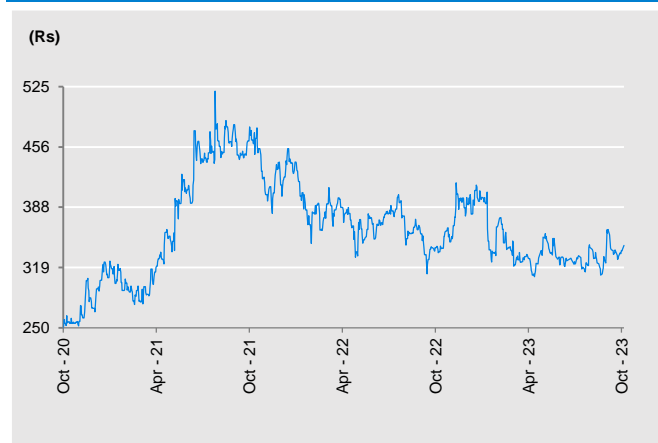
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	15.4	13.7	19.8	23.2
CEPS	23.1	22.7	29.6	33.8
BVPS	111.6	123.1	140.7	161.6
FCF	(3.1)	(3.3)	8.4	10.3
DPS	2.3	2.3	2.3	2.3
<b>Return Ratio(%)</b>				
RoCE	17.3	13.8	16.8	17.6
ROIC	13.1	10.7	13.6	14.4
RoE	14.7	11.7	15.0	15.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.3	0.3	0.2
Net Working Capital (Days)	121	120	119	119
<b>Valuation(x)</b>				
PER	22.7	25.5	17.7	15.1
P/B	3.1	2.8	2.5	2.2
P/CEPS	15.2	15.5	11.8	10.4
EV/EBITDA	12.3	12.8	9.9	8.6
EV/Sales	2.1	1.9	1.7	1.5
Dividend Yield (%)	0.6	0.6	0.6	0.6

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
Domestic Formulations	7,967	8,764	9,640	10,700
Export Formulations	7,537	8,163	9,362	10,639
APIs	707	1,200	1,200	1,332

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	380	332
2	26-Jul-23	BUY	380	324
3	06-Jul-23	BUY	400	328
4	24-May-23	BUY	400	340
5	06-Apr-23	BUY	430	328
6	25-Jan-23	BUY	430	363
7	06-Jan-23	BUY	430	396
8	14-Nov-22	BUY	430	348

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	5,060
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,220	1,163
5	Divi's Laboratories	Reduce	3,000	3,722
6	Dr. Reddy's Laboratories	Reduce	5,150	5,425
7	Eris Lifesciences	BUY	910	900
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	385	361
11	Indoco Remedies	BUY	380	332
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,500	1,500
14	Krishna Institute of Medical Sciences	BUY	2,000	1,918
15	Lupin	Hold	1,010	1,155
16	Max Healthcare Institute	BUY	610	561
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,265	1,127
19	Sunteck Realty	BUY	565	397
20	Torrent Pharmaceuticals	BUY	2,250	1,894
21	Zydus Lifesciences	Accumulate	650	604

**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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