

January 24, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		BUY	
Target Price	380		385	
Sales (Rs. m)	20,415	22,881	20,747	23,243
% Chng.	(1.6)	(1.6)		
EBITDA (Rs. m)	3,434	4,041	3,634	4,118
% Chng.	(5.5)	(1.9)		
EPS (Rs.)	17.9	22.2	19.8	23.2
% Chng.	(9.8)	(4.3)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	16,686	18,520	20,415	22,881
EBITDA (Rs. m)	2,861	2,654	3,434	4,041
Margin (%)	17.1	14.3	16.8	17.7
PAT (Rs. m)	1,423	1,134	1,647	2,048
EPS (Rs.)	15.4	12.3	17.9	22.2
Gr. (%)	(8.1)	(20.3)	45.2	24.3
DPS (Rs.)	2.3	2.3	2.3	2.3
Yield (%)	0.6	0.6	0.6	0.6
RoE (%)	14.7	10.6	13.9	15.2
RoCE (%)	17.3	12.3	15.4	17.1
EV/Sales (x)	2.2	2.0	1.8	1.6
EV/EBITDA (x)	12.9	14.3	11.0	9.2
PE (x)	23.9	30.0	20.6	16.6
P/BV (x)	3.3	3.1	2.7	2.4

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.417 / Rs.306
Sensex / Nifty	70,371 / 21,239
Market Cap	Rs.34bn/ \$ 409m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.75.11m

Shareholding Pattern (%)

Promoter's	58.75
Foreign	1.69
Domestic Institution	19.56
Public & Others	20.00
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.8)	11.1	(8.9)
Relative	(6.9)	5.2	(21.5)

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Another quarter of weak margins

Quick Pointers:

- Higher remediation expenses led to weak margins.
- Guided for improved performance from FY25.

We cut our FY25/FY26 EPS by ~10%/4% to factor in low margins and lower sales across regulated markets. We downgrade stock from Buy to Accumulate given weak earnings visibility, muted domestic formulation sales. Our numbers do factor in margin recovery with reduction in remediation cost from FY25. Indoco Remedies' (INDR) Q3FY24 EBITDA was sharply below our estimates led by continued higher remediation cost and lower regulated market sales. The recent OAI to its Goa unit-2 is negative and will restrict growth in US sales in FY24/H1FY25. We expect 18% PAT CAGR over FY23-26E. At CMP, stock is trading at 20.5x FY25E EPS. We downgrade stock to Accumulate from Buy with revised TP of Rs380 valuing at 18x Dec 2025E EPS, as we roll forward. Timely resolution of Goa facility unit-2 is a key for re-rating.

- Weak revenues across domestic and EU markets:** Consolidated revenues ex-other operating income increased by 12% YoY to Rs 4.6bn (down 3.1% QoQ), below our estimates. Domestic formulations sales grew by 4.4% YoY to Rs 2.1bn; below our estimate. Key therapies like Stomatologicals, Anti infectives, Dermatology reported healthy growth, while Cardiac and VMS reported decline YoY. Regulated business delivered de growth of 2.8% YoY to Rs1.5bn, whereas EM business revenues registered growth of 11.6% YoY. EU sales were largely impacted down 40% YoY, whereas US sales improved QoQ by 5%. Momentum continued in API, grew sharply by 104% YoY.
- Increased other expenses impacted EBITDA:** INDR reported EBITDA of Rs629mn; up 1.4% YoY. Other operating income came at Rs7mn; against loss of Rs 120mn YoY. Reported OPM of 13.7%, down 112bps QoQ. Other expense continued to remain elevated led by higher remediation charges. Mgmt cited additional Rs80mn was incurred towards VRS booked as exception loss. Gross margins were up 70bps/10bps YoY/QoQ at 69%. R&D cost stood at Rs 242mn; 5.3% of sales, up 22% YoY. Resultant PAT declined 44.7% YoY to Rs 156mn.
- Key concall takeaways:** (1) Slowdown in established brands offset by new launches. Depreciation & amortization included costs for ANDAs amortization. Remediation costs persisted, similar cost structure expected in Q4FY24. Sales and promotional expenses rose due to digital marketing. (2) Goa Plant-I received EIR from USFDA post Pre-Approval Inspection. Plans to supply to EU markets from the same. (3) Intends to dedicate Baddi plant entirely for EU whereas Goa plants for US markets. (4) Domestic Formulation: Key brands like Sensodent KF, Oxipod, Cyclopam showed higher growth. Consumer preference change led to decline in Senosform and Febrex plus YoY (5) Product Launches: Introduced Bital-M Suspension in anti-allergy segment. Launched Lygylachas in VMS category (6) Lower Paracetamol affected EU sales due to customer overstocking. Management expects new product approvals for EU in Q1FY25 (7) Continuation of API sales ramp-up; internal consumption reduced to 30% from 60% earlier, leading to increased exports. (8) Overall capex guided at Rs 1,500mn in FY24.

Exhibit 1: 3QFY24 Result Overview (Rs m): Muted growth, remediation cost drags profitability

Y/e March	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Net Sales	4,594	3,992	15.1	4,817	(4.6)	13,677	12,405	10.3
Raw Material	1,423	1,304	9.2	1,473	(3.4)	4,183	3,898	7.3
<i>% of Net Sales</i>	<i>31.0</i>	<i>32.7</i>		<i>30.6</i>		<i>30.6</i>	<i>31.4</i>	
Personnel Cost	900	821	9.5	921	(2.3)	2,736	2,452	11.6
<i>% of Net Sales</i>	<i>19.6</i>	<i>20.6</i>		<i>19.1</i>		<i>20.0</i>	<i>19.8</i>	
Others	1,642	1,247	31.7	1,709	(3.9)	4,803	3,841	25.0
<i>% of Net Sales</i>	<i>35.7</i>	<i>31.2</i>		<i>35.5</i>		<i>35.1</i>	<i>31.0</i>	
Total Expenditure	3,965	3,372	17.6	4,104	(3.4)	11,722	10,191	15.0
EBITDA	629	620	1.4	714	(11.9)	1,954	2,213	(11.7)
<i>Margin (%)</i>	<i>13.7</i>	<i>15.5</i>		<i>14.8</i>		<i>14.3</i>	<i>17.8</i>	
Depreciation	244	172	41.8	214	13.7	656	529	24.0
EBIT	386	449	(14.1)	500	(22.8)	1,298	1,684	(22.9)
Other Income	24	4	552.8	44	(47.0)	72	18	290.8
Interest	101	70	43.7	81	24.2	260	164	58.5
PBT	308	382	(19.3)	463	(33.4)	1,110	1,539	(27.8)
Extra-Ord. Inc./Exps.	82	(0)		-		(82)	-	
Total Taxes	71	101	(29.8)	110	(36.0)	278	374	(25.6)
<i>ETR (%)</i>	<i>22.9</i>	<i>26.3</i>		<i>23.9</i>		<i>25.1</i>	<i>24.3</i>	
Minority Interest	-	-		(2)		1	-	
Reported PAT	156	282	(44.7)	351	(55.6)	750	1,165	(35.6)

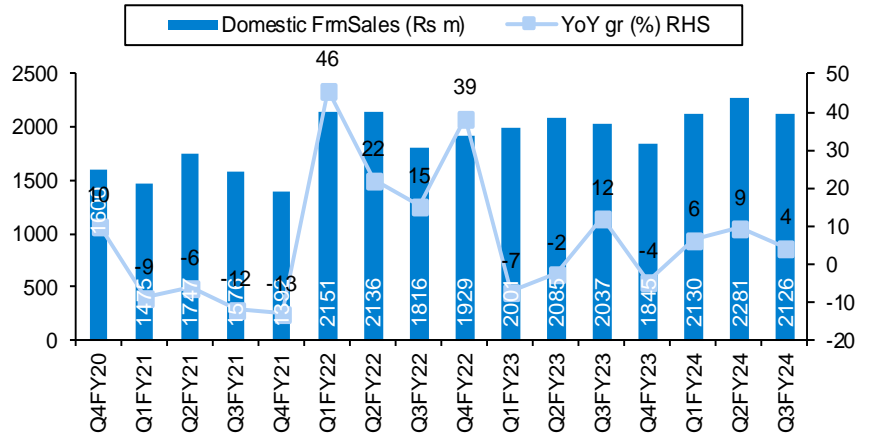
Source: Company, PL

Exhibit 2: Lower domestic formulation and EU sales

Major sources of revenues	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Domestic	2,288	2,098	9.1	2,436	(6.1)	6,988	6,336	10.3
Formulations	2,126	2,037	4.4	2,281	(6.8)	6,537	6,122	6.8
APIs	162	61	164.7	155	4.4	451	214	110.9
Exports	2,117	1,962	7.9	2,152	(1.6)	6,090	5,639	8.0
Formulations	1,947	1,861	4.6	1,949	(0.1)	5,493	5,375	2.2
Reg mkt	1,475	1,517	(2.8)	1,495	(1.3)	4,314	4,470	(3.5)
Non-reg mkt (Emerging mkt)	472	344	37.4	454	3.9	1,179	904	30.4
APIs	170	101	68.0	203	(16.3)	597	265	125.5
CRO	79	46	70.6	64	23.4	191	125	52.2
Net Revenues	4,484	4,106	9.2	4,653	(3.6)	13,268	12,100	9.7

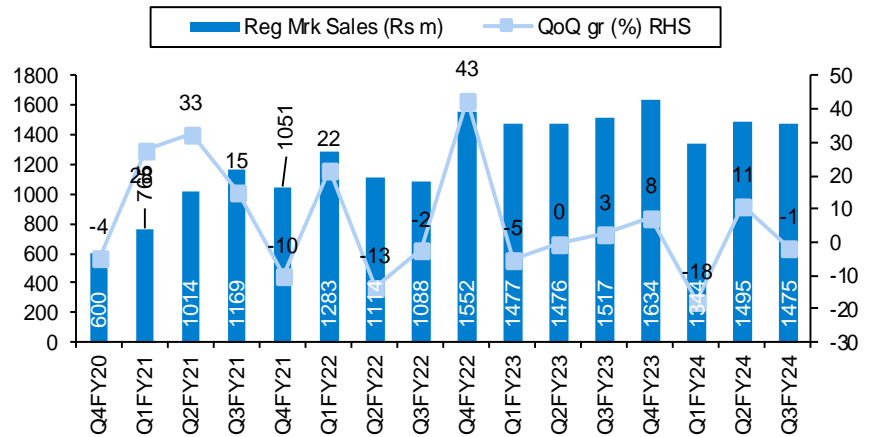
Source: Company, PL

Exhibit 3: India Formulations: Witnessed lower growth, below est



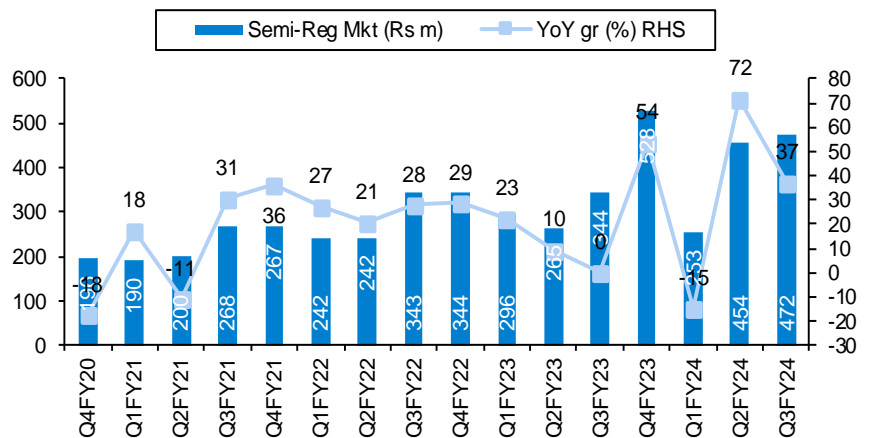
Source: Company, PL

Exhibit 4: US sales flat QoQ while EU sales were weak



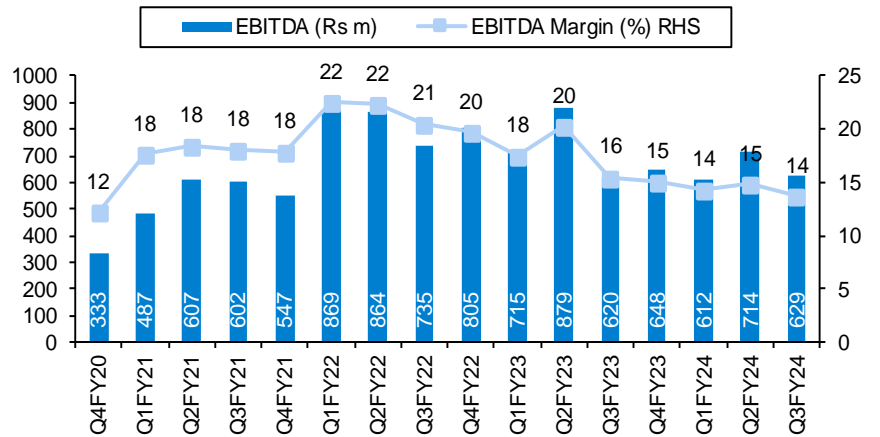
Source: Company, PL

Exhibit 5: EM performance in uptrend



Source: Company, PL

Exhibit 6: Decline in OPM YoY led by elevated other expenses



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	16,686	18,520	20,415	22,881
YoY gr. (%)	8.3	11.0	10.2	12.1
Cost of Goods Sold	5,213	5,664	6,236	7,000
Gross Profit	11,473	12,856	14,179	15,881
Margin (%)	68.8	69.4	69.5	69.4
Employee Cost	3,226	3,613	4,010	4,411
Other Expenses	5,386	6,589	6,735	7,429
EBITDA	2,861	2,654	3,434	4,041
YoY gr. (%)	(12.6)	(7.2)	29.4	17.7
Margin (%)	17.1	14.3	16.8	17.7
Depreciation and Amortization	706	889	970	1,051
EBIT	2,155	1,765	2,464	2,989
Margin (%)	12.9	9.5	12.1	13.1
Net Interest	250	352	352	321
Other Income	23	120	100	100
Profit Before Tax	1,928	1,533	2,211	2,768
Margin (%)	11.6	8.3	10.8	12.1
Total Tax	506	399	564	720
Effective tax rate (%)	26.2	26.0	25.5	26.0
Profit after tax	1,423	1,134	1,647	2,048
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,423	1,134	1,647	2,048
YoY gr. (%)	(8.1)	(20.3)	45.2	24.3
Margin (%)	8.5	6.1	8.1	9.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,423	1,134	1,647	2,048
YoY gr. (%)	(8.1)	(20.3)	45.2	24.3
Margin (%)	8.5	6.1	8.1	9.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,423	1,134	1,647	2,048
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	15.4	12.3	17.9	22.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	14,969	16,469	17,969	19,469
Tangibles	14,969	16,469	17,969	19,469
Intangibles	-	-	-	-
Acc: Dep / Amortization	7,605	8,495	9,465	10,516
Tangibles	7,605	8,495	9,465	10,516
Intangibles	-	-	-	-
Net fixed assets	7,364	7,974	8,504	8,953
Tangibles	7,364	7,974	8,504	8,953
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	-	-	-	-
Current Assets				
Investments	15	15	15	15
Inventories	3,260	3,704	4,195	4,764
Trade receivables	3,509	4,004	4,133	4,640
Cash & Bank Balance	133	223	476	599
Other Current Assets	1,701	2,296	2,388	2,483
Total Assets	16,582	18,816	20,310	22,054
Equity				
Equity Share Capital	184	184	184	184
Other Equity	10,098	10,943	12,383	14,224
Total Networth	10,283	11,127	12,568	14,408
Non-Current Liabilities				
Long Term borrowings	1,435	1,435	1,435	1,435
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,710	2,710	2,710	2,347
Trade payables	1,235	1,624	1,678	1,943
Other current liabilities	1,859	1,859	1,859	1,859
Total Equity & Liabilities	16,582	18,816	20,310	22,054

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	1,928	1,533	2,211	2,768
Add. Depreciation	706	889	970	1,051
Add. Interest	250	352	352	321
Less Financial Other Income	23	120	100	100
Add. Other	303	(202)	(100)	(100)
Op. profit before WC changes	3,187	2,572	3,434	4,041
Net Changes-WC	(782)	(1,145)	(657)	(906)
Direct tax	(617)	(399)	(564)	(720)
Net cash from Op. activities	1,788	1,029	2,213	2,415
Capital expenditures	(2,073)	(1,500)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(2,073)	(1,500)	(1,500)	(1,500)
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	120	100	100
Net cash from Fin. activities	220	560	(460)	(792)
Net change in cash	(64)	89	253	123
Free Cash Flow	(284)	(471)	713	915

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	4,282	4,265	4,817	4,594
YoY gr. (%)	4.7	4.5	11.2	15.1
Raw Material Expenses	1,315	1,287	1,473	1,423
Gross Profit	2,967	2,978	3,344	3,171
Margin (%)	69.3	69.8	69.4	69.0
EBITDA	648	612	714	629
YoY gr. (%)	(19.6)	(14.4)	(18.8)	1.4
Margin (%)	15.1	14.3	14.8	13.7
Depreciation / Depletion	177	199	214	244
EBIT	471	413	500	386
Margin (%)	11.0	9.7	10.4	8.4
Net Interest	86	78	81	101
Other Income	5	4	44	24
Profit before Tax	389	339	463	308
Margin (%)	9.1	8.0	9.6	6.7
Total Tax	131	97	110	71
Effective tax rate (%)	33.7	28.7	23.9	22.9
Profit after Tax	258	242	352	238
Minority interest	-	(2)	2	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	258	244	351	238
YoY gr. (%)	(36.2)	(36.8)	(29.5)	(15.6)
Margin (%)	6.0	5.7	7.3	5.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	258	244	351	238
YoY gr. (%)	(36.2)	(36.8)	(29.5)	(15.6)
Margin (%)	6.0	5.7	7.3	5.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	258	244	351	238
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	2.8	2.6	3.8	1.7

Source: Company Data, PL Research

Key Financial Metrics

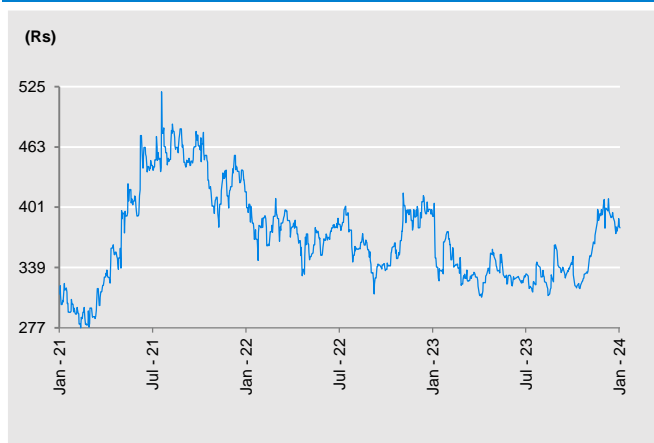
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	15.4	12.3	17.9	22.2
CEPS	23.1	22.0	28.4	33.6
BVPS	111.6	120.8	136.4	156.4
FCF	(3.1)	(5.1)	7.7	9.9
DPS	2.3	2.3	2.3	2.3
Return Ratio(%)				
RoCE	17.3	12.3	15.4	17.1
ROIC	13.1	9.5	12.4	13.9
RoE	14.7	10.6	13.9	15.2
Balance Sheet				
Net Debt : Equity (x)	0.3	0.4	0.3	0.2
Net Working Capital (Days)	121	120	119	119
Valuation(x)				
PER	23.9	30.0	20.6	16.6
P/B	3.3	3.1	2.7	2.4
P/CEPS	16.0	16.8	13.0	11.0
EV/EBITDA	12.9	14.3	11.0	9.2
EV/Sales	2.2	2.0	1.8	1.6
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	8,564	9,421	10,457
Export Formulations	7,537	8,055	9,019	10,262
APIs	707	1,400	1,400	1,554

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	BUY	385	390
2	19-Oct-23	BUY	385	350
3	07-Oct-23	BUY	380	332
4	26-Jul-23	BUY	380	324
5	06-Jul-23	BUY	400	328
6	24-May-23	BUY	400	340
7	06-Apr-23	BUY	430	328
8	25-Jan-23	BUY	430	363

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	6,000	5,754
2	Aster DM Healthcare	BUY	430	417
3	Aurobindo Pharma	Accumulate	1,065	1,124
4	Cipla	BUY	1,350	1,287
5	Divi's Laboratories	Reduce	3,150	4,015
6	Dr. Reddy's Laboratories	Reduce	5,300	5,852
7	Eris Lifesciences	BUY	1,050	928
8	Fortis Healthcare	BUY	400	434
9	Glenmark Pharmaceuticals	Reduce	570	893
10	HealthCare Global Enterprises	BUY	420	371
11	Indoco Remedies	BUY	385	390
12	Ipca Laboratories	Hold	1,060	1,119
13	J.B. Chemicals & Pharmaceuticals	BUY	1,800	1,682
14	Jupiter Life Line Hospitals	BUY	1,310	1,138
15	Krishna Institute of Medical Sciences	BUY	2,000	2,000
16	Lupin	Hold	1,200	1,390
17	Max Healthcare Institute	BUY	675	715
18	Narayana Hrudayalaya	BUY	1,250	1,212
19	Sun Pharmaceutical Industries	BUY	1,280	1,300
20	Sunteck Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,250	2,350
22	Zydus Lifesciences	Accumulate	670	714

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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