

January 23, 2024

RESULT REPORT Q3 FY24 | Sector: Pharmaceuticals & Healthcare

Indoco Remedies

Margin weakness to persist in Q4; D/G to Reduce

Result Synopsis

Indoco continues to be impacted by higher remediation costs and tepid domestic sales YoY as it weeds out slower performing brands. We await outcome of execution efforts of past few quarters as new launches in domestic business have been offset by a weak acute seasonality in current year. International exports have been driven by US which continues to gain on back of strong generic tailwinds amidst benign pricing environment. Europe business has been a stark disappointment as company would miss FY24 guidance. A subpar domestic performance, big European miss and one-off expense Rs82mn results in a rather sharp earnings downgrade of ~30% for FY24 which has a cascading effect on FY25 estimates too. We bake in margin recovery next fiscal on back of 10-11% domestic growth and notably lower other expenses as remediation costs decline YoY. With domestic business weaker QoQ in Q4 and Q1 FY25 expected to be anyways better YoY, surprises appear limited in the near term. We introduce FY26 estimates; continue to value stock at 19x FY25 EPS for a revised TP Rs350 (earlier Rs405) and downgrade to Reduce from ADD.

Result Highlights

- Sharp disappointment as revenue/EBIDTA misses estimates
- Disappointment driven by weak domestic growth as sales rise 4% YoY, below IPM growth rate for the quarter
- US sales sustain at Rs856mn, up 5% QoQ and would probably include profit share and reinstated Combigan supplies from Nov'23
- Margin came in at 13.7%, down 185bps YoY as better gross margin (+170bps YoY) was offset by higher other expenses (+31% YoY)
- PAT impacted by Rs82mn of one-off provision for staff costs

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	4,594	5,088	4,758	(9.7)	(3.4)	Revenue weakness across India and Europe led to sharp miss on topline and margin
EBITDA	629	872	750	(27.9)	(16.1)	
EBITDA Margin (%)	13.7	17.1	15.8	-345 bps	-207 bps	
Adjusted PAT	238	463	389	(48.7)	(38.8)	

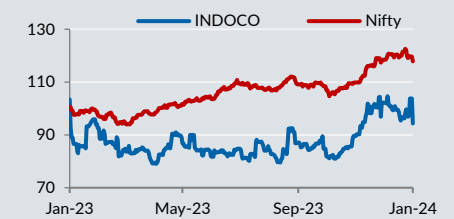
Source: Company, YES Sec

Reco	: REDUCE
CMP	: Rs 369
Target Price	: Rs 350
Potential Return	: -4%

Stock data (as on January 23, 2024)

Nifty	21,237
52 Week h/l (Rs)	414 / 306
Market cap (Rs/USD mn)	37464 / 451
Outstanding Shares (mn)	92
6m Avg t/o (Rs mn):	64
Div yield (%):	0.6
Bloomberg code:	INDR IN
NSE code:	INDOCO

Stock performance



	1M	3M	1Y
Absolute return	-7.7%	15.1%	-8.8%

Shareholding pattern (As of Dec'23 end)

Promoter	58.7%
FII+DII	19.6%
Others	21.7%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	ADD
Target Price	350	405

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	10.7	17.7	22.9
EPS (Old)	16.2	21.3	-
% change	-34.0%	-16.9%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	17,924	19,173	21,026
YoY Growth	7.4	7.0	9.7
EBIDTA	2,575	3,344	3,953
YoY Growth	-10.0	29.9	18.2
PAT	982	1,629	2,104
YoY Growth	(30.9)	65.8	29.2
ROE	10.0	13.8	15.7
EPS	10.7	17.7	22.9
P/E	34.6	20.8	16.1
BV	120.2	135.6	156.3
EV/EBITDA	14.0	10.5	8.6

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)
Revenue	3,992	4,282	4,265	4,817	4,594	15.1	(4.6)
Expenditure	3,372	3,634	3,653	4,104	3,965	17.6	(3.4)
- RM	1,304	1,315	1,287	1,473	1,423	9.2	(3.4)
- Staff Cost	821	767	915	921	900	9.5	(2.3)
- Other exp	1,247	1,552	1,451	1,709	1,642	31.7	(3.9)
Operating Profit	620	648	612	714	629	1.4	(11.8)
OPM(%)	15.5	15.1	14.3	14.8	13.7	-185 bps	-112 bps
Other Income	4	5	4	44	24	552.8	(47.0)
Depreciation	172	177	199	214	244	41.8	13.7
Interest	70	86	78	81	101	43.7	24.2
PBT	382	389	339	463	308	(19.3)	(33.3)
Tax	101	131	97	110	71	(29.8)	(36.0)
PAT	282	258	242	352	238	(15.6)	(32.5)
Exceptional	-	-	-	-	82	-	-
Minority int	0	-	2	(2)	(7)	-	362.5
Reported PAT	281	258	240	354	163	(42.1)	(53.9)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Introduced product under vitamins and minerals and suspension dosage of Montelukast combination in domestic market
- Major domestic therapies like cardiology, urology, stomatology performed well YoY
- Would have got Rs70mn from new products and Rs30mn in lost sales as a result of weeding out of smaller brands
- Move patient move towards anti-allergy and anti-histamine products and away from Febrex or Paracetamol type SKUs
- 12.8% growth for Indoco in covered market vs 8% per AIOCD; due to institutional business, growth pulled down and save for inhalation and respiratory, other acute categories have not done well
- Not heard from US FDA about Goa plant 2 inspection; Plant 2 is running at a good utilization
- Plant 1 – oral solids site – look to get more approvals and certain amount of Europe supplies from this site
- Expect similar level of remediation costs for 2-3 quarters and would continue in Q4
- Would end FY24 with close to Rs3bn of sales in US
- Europe – No impact of Red sea development in Q3 but more due to Paracetamol overstocking
- Incurred Rs82mn in VRS to employees at Goa plant 1
- ETR should normalize in coming quarters

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	184	184	184	184	184
Reserves	8,862	10,098	10,874	12,295	14,192
Net worth	9,046	10,283	11,058	12,480	14,377
Debt	1,460	1,993	2,193	1,593	593
Deferred tax liab (net)	106	61	61	61	61
Total liabilities	10,612	12,337	13,312	14,134	15,031
Goodwill	1	1	1	1	1
Fixed Asset	6,765	7,918	8,276	8,415	8,487
Investments	358	582	582	582	582
Net Working Capital	3,488	3,837	4,267	4,591	5,456
Inventories	3,105	3,260	3,502	3,746	4,108
Sundry debtors	2,972	3,509	3,770	4,033	4,422
Cash	198	143	156	418	619
Other current assets	1,461	1,169	1,434	1,534	1,682
Sundry creditors	(1,333)	(1,235)	(1,326)	(1,419)	(1,556)
Other CL	(2,916)	(3,011)	(3,082)	(3,175)	(3,314)
Def tax assets	-	-	-	-	-
Total Assets	10,612	12,337	13,312	14,124	15,031

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	15,408	16,686	17,924	19,173	21,026
Operating profit	3,273	2,861	2,575	3,344	3,953
Depreciation	(790)	(706)	(891)	(962)	(1,028)
Interest expense	(141)	(250)	(354)	(300)	(210)
Other income	30	23	90	90	90
Profit before tax	2,372	1,928	1,419	2,172	2,805
Taxes	(818)	(506)	(355)	(543)	(701)
Adj. profit	1,555	1,423	1,064	1,629	2,104
Exceptional items	-	-	(82)	-	-
Net profit	1,555	1,423	982	1,629	2,104

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	2,372	1,928	1,419	2,172	2,805
Depreciation	790	706	891	962	1,028
Def tax assets (net)	300	(45)	-	-	-
Tax paid	(818)	(506)	(355)	(543)	(701)
Working capital Δ	(1,277)	(404)	(604)	(421)	(624)
Other operating items	-	-	(82)	-	-
Operating cashflow	1,367	1,681	1,270	2,169	2,507
Capital expenditure	(1,175)	(1,859)	(1,250)	(1,100)	(1,100)
Free cash flow	192	(178)	20	1,069	1,407
Equity raised	9	21	0	0	(0)
Investments	(8)	(223)	-	-	-
Debt financing/disposal	68	533	200	(600)	(1,000)
Dividends paid	(207)	(207)	(207)	(207)	(207)
Net Δ in cash	54	(55)	13	262	200

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

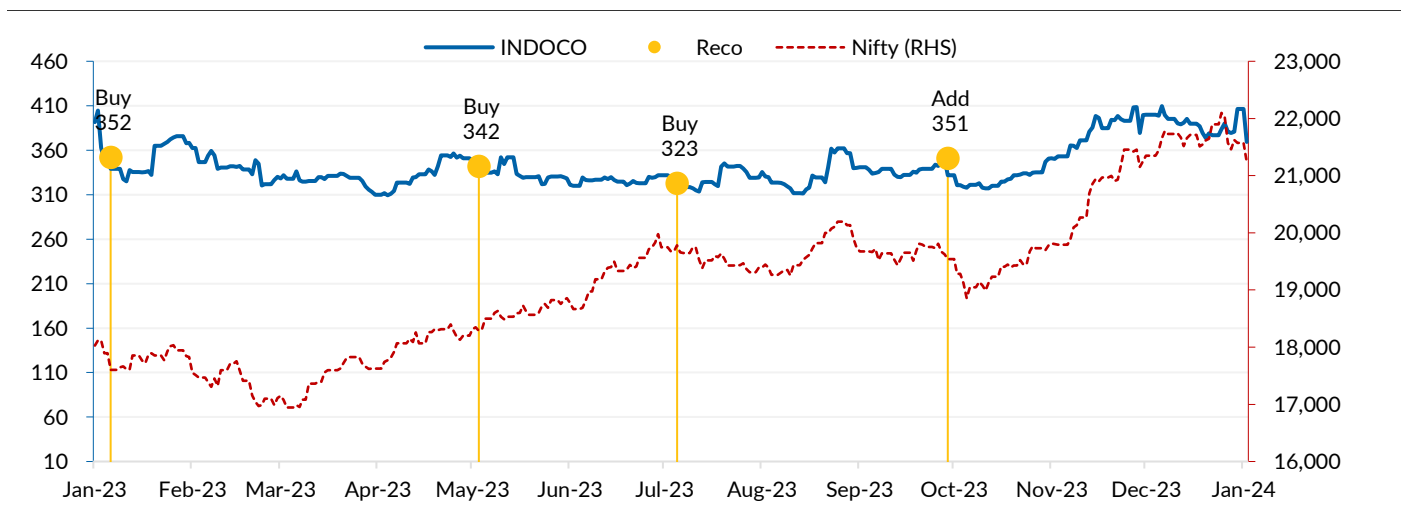
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.66	0.74	0.75	0.75	0.75
Interest burden (x)	0.94	0.89	0.81	0.90	0.95
EBIT margin (x)	0.16	0.13	0.10	0.13	0.14
Asset turnover (x)	1.11	1.06	1.05	1.07	1.12
Financial leverage (x)	1.66	1.63	1.61	1.55	1.44
RoE (%)	18.6	14.7	10.0	13.8	15.7

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	24.1	8.3	7.4	7.0	9.7
Op profit growth	45.9	(12.6)	(10.0)	29.9	18.2
EBIT growth	62.9	(13.3)	(18.6)	39.4	22.0
Net profit growth	67.0	(8.5)	(30.9)	65.8	29.2
Profitability ratios (%)					
OPM	21.2	17.1	14.4	17.4	18.8
EBIT margin	16.3	13.1	9.9	12.9	14.3
Net profit margin	10.1	8.5	5.9	8.5	10.0
RoCE	25.5	19.0	13.8	18.0	20.7

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
RoNW	18.6	14.7	10.0	13.8	15.7
RoA	11.2	9.0	6.2	8.9	10.9
Per share ratios					
EPS	16.9	15.4	11.6	17.7	22.8
Dividend per share	2.2	2.2	2.2	2.2	2.2
Cash EPS	25.4	23.1	21.2	28.1	34.0
Book value per share	98.2	111.6	120.0	135.4	156.0
Valuation ratios					
P/E	21.8	23.9	34.6	20.8	16.1
P/CEPS	3.8	3.3	3.1	2.7	2.4
P/B	2.2	2.0	1.9	1.8	1.6
EV/EBIDTA	10.8	12.5	14.0	10.5	8.6
Payout (%)					
Dividend payout	34.5	26.2	25.0	25.0	25.0
Tax payout	13.3	14.6	21.1	12.7	9.8
Liquidity ratios					
Debtor days	70	77	77	77	77
Inventory days	74	71	71	71	71
Creditor days	32	27	27	27	27

Recommendation Tracker



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