

Indoco Remedies (INDR IN)

Rating: HOLD | CMP: Rs211 | TP: Rs219

June 25, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	219		259	
Sales (Rs. m)	13,430	15,766	13,651	16,118
% Chng.	(1.6)	(2.2)		
EBITDA (Rs. m)	1,706	2,239	1,734	2,289
% Chng.	(1.6)	(2.2)		
EPS (Rs.)	9.6	13.5	9.3	14.2
% Chng.	3.0	(4.8)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	9,421	10,794	13,430	15,766
EBITDA (Rs. m)	503	967	1,706	2,239
Margin (%)	5.3	9.0	12.7	14.2
PAT (Rs. m)	(21)	204	886	1,245
EPS (Rs.)	(0.2)	2.2	9.6	13.5
Gr. (%)	(104.5)	NA	334.4	40.6
DPS (Rs.)	1.0	0.3	0.3	0.3
Yield (%)	0.5	0.2	0.2	0.2
RoE (%)	(0.3)	3.0	12.3	15.3
RoCE (%)	(2.3)	2.9	10.6	14.2
EV/Sales (x)	2.3	2.0	1.5	1.3
EV/EBITDA (x)	42.7	21.8	12.0	9.1
PE (x)	NA	95.2	21.9	15.6
P/BV (x)	2.9	2.9	2.6	2.2

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.285 / Rs.132
Sensex / Nifty	34,869 / 10,305
Market Cap	Rs.19bn / \$ 256m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.48.24m

Shareholding Pattern (%)

Promoter's	58.69
Foreign	1.97
Domestic Institution	15.56
Public & Others	23.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.1	23.3	40.2
Relative	(11.9)	46.6	57.3

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Earnings in-line, margin remains to be subdued

Quick Pointers:

- Guided: US revenue of Rs1.5bn and Europe Rs2.2b for FY21E
- EBITDA margin recovery a steep task

We maintain HOLD on INDR and wait for more visibility post Q1FY21E considering that this quarter is usually weak due to seasonality effect plus COVID scenario could possibly lead to a double blow. FY20 was a recovery and CAPEX phase for INDR given 1) Remediation work for its Goa facility 2) Expansion of API segment with Patalganga Unit 3) Restructuring of Domestic formulation and 4) Making a comeback in European market after facing regulatory issues.

INDR's revenue guidance for FY21E appears to be strong for US, Europe and domestic markets with Rs1.5bn, Rs2.2bn and 12-14% growth, but COVID-19 and high operating cost may weigh on EBITDA margin and guidance may perhaps be unmet. We maintain HOLD but reduce our TP to Rs219 (earlier Rs259) based on 17x (earlier 18x) of FY22E. We reduce our multiple to 17x seeing with uncertainty related to COVID and its acute business (80% of domestic formulation) in Q1FY21E.

Earnings in-line with estimate, margin continues to be subdued: Revenue grew 7% YoY to Rs2.6bn (PLe Rs2.5bn). Incremental revenue was led by India formulations (61% of total revenue) and US market. Gross Margin was 72.5% vs. 67% YoY due to higher revenue contribution from US business compared to last year. EBITDA grew 14% YoY to Rs245m (PLe 240m), while EBITDA Margin was 9.3% (PLe 9%) v/s 8.8% in Q4FY20. Employee and operating expense (Ex- R&D) increased 9% and 25% YoY due to commercialization of new Patalganga API plant. PAT declined 54% YoY to Rs54mn (PLe Rs51m) due to lower tax in Q4FY19.

Conference Call Highlights

- India formulations:** Grew 10.3% YoY in Q4FY20 even with 10-15days of lockdown in Mar FY20. INDR's shift in focus to chronic therapy drugs led to a growth of 13.2% YoY in FY20. It launched 8 new products in FY20. For FY21E guided growth to be in a similar range with focus on Chronic/Sub-Chronic segment along with northern and eastern parts of India.
- US market:** Guided revenue of Rs1.5bn (vs. Rs560m in FY20) for FY21E while it was Rs270m in Q4FY20 vs. Rs110m (Q4FY19) and Rs161m (Q3FY20). INDR has approval of 12 ANDA's while it has pending approval of 44 ANDA's with USFDA. It has around 18-20 ophthalmic products among the pending ANDA's and it is in negotiation with three potential marketing partners.
- Europe and EMs:** Revenue declined 31% QoQ and 5% QoQ respectively. Export revenue worth Rs95m has been impacted due to delay in shipment in Q4FY20. Europe revenue declined sequentially attributed to export ban of paracetamol imposed by the GOI.

- **API:** Declined 19% YoY to Rs203m in Q4FY20.Guided for 20% growth in FY21E.
- **CAPEX/R&D/Debt:** CAPEX was Rs500m for FY20 and guided to in similar range for FY20E. R&D expense was 5.3% and 4.6% of sales for Q4FY20 and FY20. INDR made a debt repayment of Rs340m in FY20, while its long and short term borrowing stood at Rs1.5bn and 1.1bn.

Exhibit 1: Q4FY20 Result Overview (Rs m)

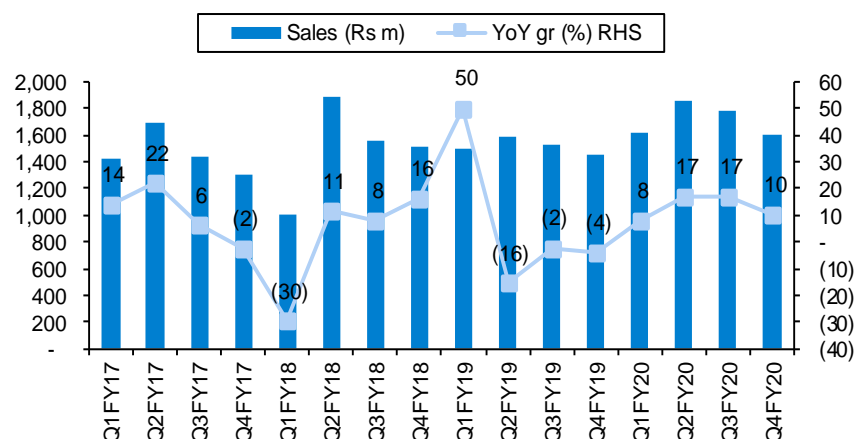
Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	2,632	2,450	7.4	2,834	10,794	9,421	14.6
Raw Material	724	811	(10.6)	828	3,304	3,203	3.2
<i>% of Net Sales</i>	<i>27.5</i>	<i>33.1</i>		<i>29.2</i>	<i>30.6</i>	<i>34.0</i>	
Personnel Cost	629	578	8.9	679	2,553	2,317	10.2
<i>% of Net Sales</i>	<i>23.9</i>	<i>23.6</i>		<i>24.0</i>	<i>23.7</i>	<i>24.6</i>	
Others	1,033	846	22.1	1,035	3,969	3,399	16.8
<i>% of Net Sales</i>	<i>39.3</i>	<i>34.5</i>		<i>36.5</i>	<i>36.8</i>	<i>36.1</i>	
Total Expenditure	2,387	2,235	6.8	2,542	9,827	8,918	10.2
EBITDA	245	215	13.9	292	967	503	92.3
<i>Margin (%)</i>	<i>9.3</i>	<i>8.8</i>		<i>10.3</i>	<i>9.0</i>	<i>5.3</i>	
Depreciation	182	195	(6.5)	176	708	716	(1.1)
EBIT	63	20	208.3	116	259	(213)	NA
Other Income	93	120	(22.1)	66	290	325	(10.7)
Interest	78	46	69.1	69	263	205	27.8
PBT	78	94	(17.0)	113	287	(93)	NA
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	24	(22)	NA	20	45	(64)	NA
<i>ETR (%)</i>	<i>30.8</i>	<i>(23.7)</i>		<i>17.6</i>	<i>15.5</i>	<i>68.9</i>	
Reported PAT	54	116	(53.6)	93	243	(29)	NA
Other Comprehensive Income	(16)	-		(0)	-	-	
Total Other Comprehensive Income	38	116	(66.9)	93	243	(29)	NA

Source: Company, PL

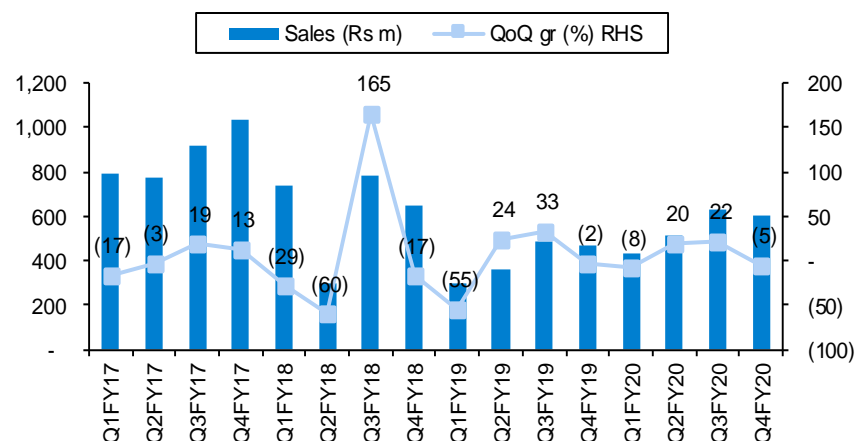
Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Domestic	1,678	1,547	8.5	1,843	7,147	6,382	12.0
Formulations	1,600	1,450	10.3	1,784	6,862	6,062	13.2
APIs	78	97	(19.5)	59	285	320	(10.9)
Exports	919	861	6.7	960	3,539	2,838	24.7
Formulations	795	707	12.4	833	2,965	2,335	27.0
Reg mkt	599	470	27.5	628	2,175	1,609	35.2
Non-reg mkt (Emerging mkt)	196	237	(17.6)	205	790	727	8.7
APIs	125	154	(19.2)	128	574	503	14.2
Net Sales	2,597	2,408	7.8	2,803	10,686	9,219	15.9
Add: Analytical & Testing Rev.	34	42		31	108	202	
Net Revenues	2,631	2,450	7.4	2,834	10,794	9,421	14.6

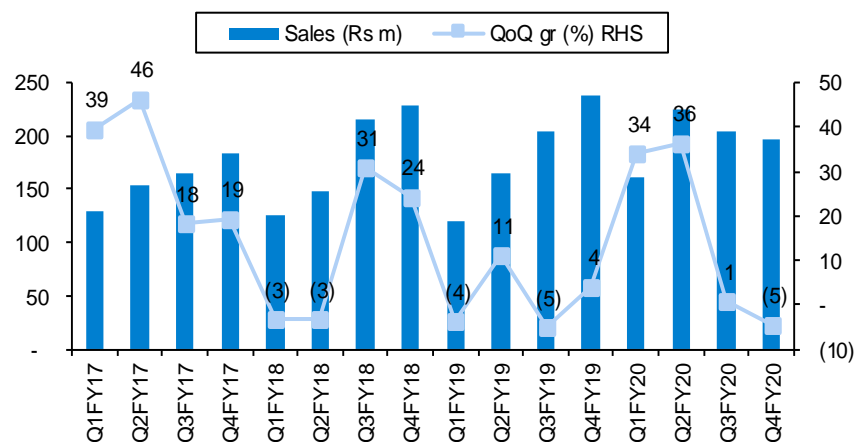
Source: Company, PL

Exhibit 3: Domestic formulations sales, growth


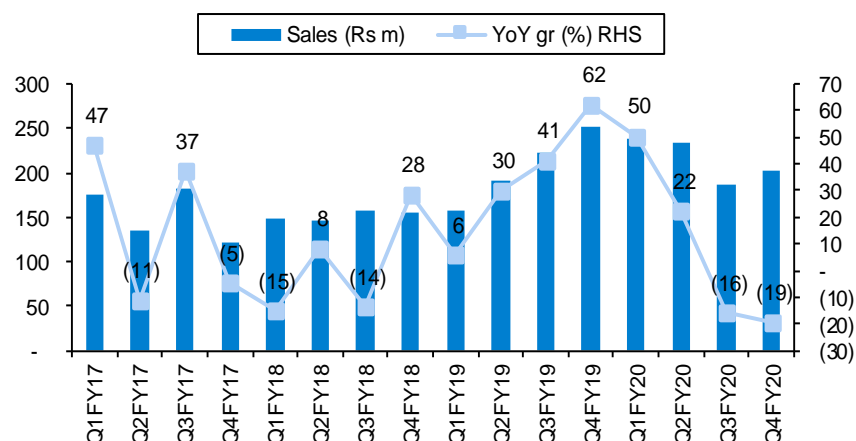
Source: Company, PL

Exhibit 4: Export: Regulated Mkt. Sales, growth


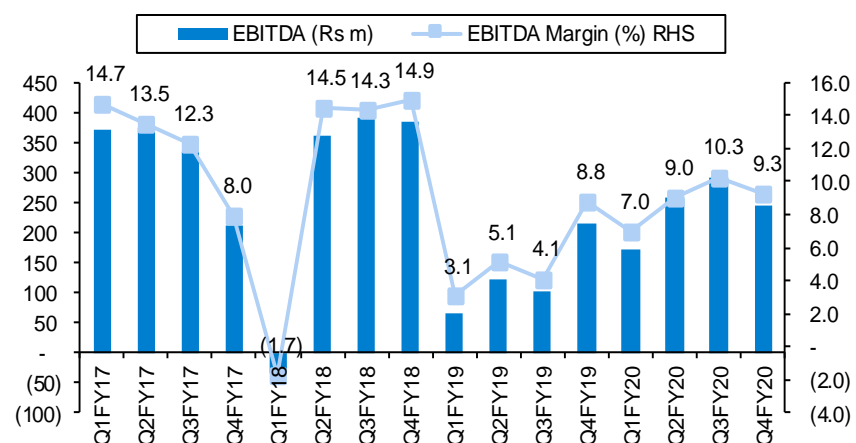
Source: Company, PL

Exhibit 5: Export, Semi-Reg. mkt sales


Source: Company, PL

Exhibit 6: API sales and growth


Source: Company, PL

Exhibit 7: EBITDA (Rs m) and EBITDA Margin (%)


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	9,421	10,794	13,430	15,766
YoY gr. (%)	(7.7)	14.6	24.4	17.4
Cost of Goods Sold	3,203	3,304	4,096	4,730
Gross Profit	6,218	7,490	9,334	11,036
Margin (%)	66.0	69.4	69.5	70.0
Employee Cost	2,317	2,553	3,022	3,468
Other Expenses	515	497	577	678
EBITDA	503	967	1,706	2,239
YoY gr. (%)	(54.6)	92.3	76.3	31.3
Margin (%)	5.3	9.0	12.7	14.2
Depreciation and Amortization	716	708	745	843
EBIT	(213)	259	960	1,396
Margin (%)	(2.3)	2.4	7.1	8.9
Net Interest	205	263	146	135
Other Income	325	290	293	296
Profit Before Tax	(93)	287	1,107	1,557
Margin (%)	(1.0)	2.7	8.2	9.9
Total Tax	(72)	83	221	311
Effective tax rate (%)	77.3	29.0	20.0	20.0
Profit after tax	(21)	204	886	1,245
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(21)	204	886	1,245
YoY gr. (%)	(104.5)	NA	334.4	40.6
Margin (%)	(0.2)	1.9	6.6	7.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(21)	204	886	1,245
YoY gr. (%)	(104.5)	NA	334.4	40.6
Margin (%)	(0.2)	1.9	6.6	7.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(21)	204	886	1,245
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	(0.2)	2.2	9.6	13.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	9,366	10,016	10,666	11,466
Tangibles	7,215	7,715	8,215	8,715
Intangibles	2,151	2,301	2,451	2,751
Acc: Dep / Amortization	4,690	5,387	6,133	6,976
Tangibles	3,048	3,433	3,902	4,444
Intangibles	1,642	1,954	2,231	2,531
Net fixed assets	4,676	6,147	4,533	4,490
Tangibles	4,166	5,800	4,313	4,270
Intangibles	509	347	221	220
Capital Work In Progress	1,854	560	631	673
Goodwill	1	1	1	1
Non-Current Investments	64	69	77	85
Net Deferred tax assets	355	359	414	492
Other Non-Current Assets	251	252	303	352
Current Assets				
Investments	-	-	-	-
Inventories	1,835	2,083	2,465	2,851
Trade receivables	1,958	2,101	2,833	3,240
Cash & Bank Balance	363	379	690	683
Other Current Assets	1,119	1,026	1,180	1,298
Total Assets	12,581	13,019	13,178	14,237
Equity				
Equity Share Capital	184	184	184	184
Other Equity	6,422	6,611	7,367	8,573
Total Network	6,606	6,796	7,551	8,758
Non-Current Liabilities				
Long Term borrowings	1,287	969	872	785
Provisions	160	233	198	168
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,134	1,060	848	805
Trade payables	1,707	1,656	2,244	2,635
Other current liabilities	1,614	2,177	1,361	994
Total Equity & Liabilities	12,581	13,019	13,178	14,237

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	(93)	287	1,107	1,557
Add. Depreciation	716	708	745	843
Add. Interest	205	263	146	135
Less Financial Other Income	325	290	293	296
Add. Other	153	38	568	(678)
Op. profit before WC changes	981	1,295	2,567	1,857
Net Changes-WC	431	(443)	(525)	(402)
Direct tax	20	(69)	(266)	(374)
Net cash from Op. activities	1,432	784	1,776	1,082
Capital expenditures	(504)	(650)	(650)	(800)
Interest / Dividend Income	19	19	19	19
Others	2	-	(2)	-
Net Cash from Invt. activities	(483)	(631)	(633)	(781)
Issue of share cap. / premium	-	-	-	-
Debt changes	(203)	(445)	(354)	(168)
Dividend paid	(111)	(39)	(39)	(39)
Interest paid	(205)	(263)	(146)	(135)
Others	-	-	-	-
Net cash from Fin. activities	(520)	(746)	(539)	(342)
Net change in cash	429	(593)	604	(41)
Free Cash Flow	928	134	1,126	282

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	2,472	2,856	2,834	2,632
YoY gr. (%)	16.3	21.1	14.3	7.4
Raw Material Expenses	856	896	828	724
Gross Profit	1,616	1,960	2,006	1,908
Margin (%)	65.4	68.6	70.8	72.5
EBITDA	173	258	292	245
YoY gr. (%)	164.3	113.3	185.4	13.9
Margin (%)	7.0	9.0	10.3	9.3
Depreciation / Depletion	170	180	176	182
EBIT	3	77	116	63
Margin (%)	0.1	2.7	4.1	2.4
Net Interest	61	54	69	78
Other Income	61	70	66	93
Profit before Tax	3	93	113	78
Margin (%)	0.1	3.3	4.0	3.0
Total Tax	(19)	20	20	24
Effective tax rate (%)	(691.4)	21.3	17.6	30.8
Profit after Tax	22	73	93	54
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	22	73	93	54
YoY gr. (%)	(118.4)	(194.0)	74.2	(53.6)
Margin (%)	0.9	2.6	3.3	2.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	22	73	93	54
YoY gr. (%)	(118.4)	(194.0)	74.2	(53.6)
Margin (%)	0.9	2.6	3.3	2.1
Other Comprehensive Income	(1)	(1)	-	(16)
Total Comprehensive Income	21	72	93	38
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	0.2	0.8	1.0	0.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	(0.2)	2.2	9.6	13.5
CEPS	7.5	9.9	17.7	22.7
BVPS	71.7	73.7	81.9	95.0
FCF	10.1	1.5	12.2	3.1
DPS	1.0	0.3	0.3	0.3
Return Ratio(%)				
RoCE	(2.3)	2.9	10.6	14.2
ROIC	(0.5)	2.2	9.2	12.2
RoE	(0.3)	3.0	12.3	15.3
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.1	0.1
Net Working Capital (Days)	81	86	83	80
Valuation(x)				
PER	NA	95.2	21.9	15.6
P/B	2.9	2.9	2.6	2.2
P/CEPS	27.9	21.3	11.9	9.3
EV/EBITDA	42.7	21.8	12.0	9.1
EV/Sales	2.3	2.0	1.5	1.3
Dividend Yield (%)	0.5	0.2	0.2	0.2

Source: Company Data, PL Research

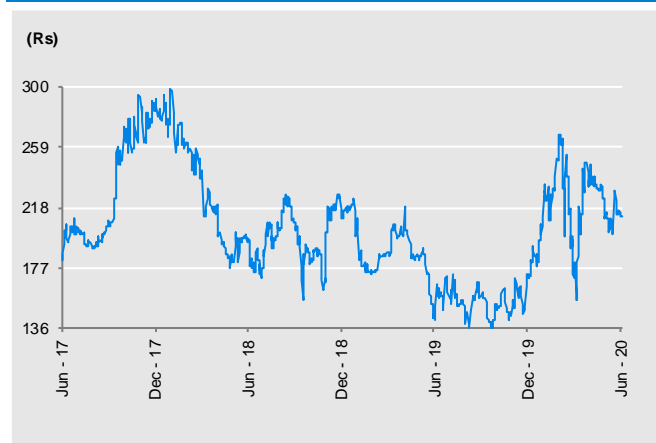
Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Domestic Formulations	6,062	6,862	7,548	8,454
Export Formulations	2,335	2,963	4,717	5,909
APIs	822	860	1,023	1,227

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-Apr-20	Hold	259	236
2	14-Apr-20	Reduce	198	248
3	23-Jan-20	Hold	198	234
4	03-Jan-20	Hold	157	185
5	30-Oct-19	Hold	157	159
6	03-Oct-19	Reduce	130	142
7	14-Aug-19	Reduce	130	149
8	19-Jul-19	Hold	137	160
9	04-Jul-19	Hold	182	159

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	759
2	Cadila Healthcare	Reduce	329	362
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,326	3,915
6	Eris Lifesciences	Accumulate	576	520
7	Glenmark Pharmaceuticals	Sell	257	520
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	BUY	1,839	1,563
10	Jubilant Life Sciences	Hold	414	445
11	Lupin	BUY	1,001	870
12	Sun Pharmaceutical Industries	Hold	467	450
13	Thyrocare Technologies	Sell	307	503

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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