August 12, 2020

Q1FY21 Result Update

■ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	243		219	
Sales (Rs. m)	15,766	17,465	15,766	17,465
% Chng.	-	-		
EBITDA (Rs. m)	2,239	2,480	2,239	2,480
% Chng.	-	-		
EPS (Rs.)	13.5	18.4	13.5	18.4
% Chng.	-	-		

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)	242	886	1,245
EPS (Rs.)	(0.2)	2.6	9.6	13.5
Gr. (%)	*(104.5)*	*(1,249.3)*	*265.3*	*40.6*
DPS (Rs.)	1.0	0.3	0.3	0.3
Yield (%)	*0.4*	*0.1*	*0.1*	*0.1*
RoE (%)	*(0.3)*	*3.6*	*12.3*	*15.3*
RoCE (%)	*(2.3)*	*2.9*	*10.6*	*14.2*
EV/Sales (x)	2.8	2.4	1.9	1.6
EV/EBITDA (x)	52.0	26.6	14.7	11.2
PE (x)	(1,142.3)	99.4	27.2	19.4
P/BV (x)	3.6	3.5	3.2	2.8

Key Data	INRM.BO | INDR IN
52-W High / Low	Rs.285 / Rs.132
Sensex / Nifty	38,407 / 11,323
Market Cap	Rs.24bn/ $ 322m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.66.54m

Shareholding Pattern (%)

Promoter's	58.69
Foreign	2.00
Domestic Institution	14.54
Public & Others	24.77
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	28.5	12.7	71.8
Relative	22.4	20.9	68.1

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Indoco Remedies (INDR IN)

Rating: HOLD | CMP: Rs262 | TP: Rs243

US delivers, India falters; Maintain guidance

Quick Pointers:

- Seeking partners in US for its 18-20 ophthalmic products.
- Major headwinds behind but earnings yet to pick up.

1QFY21 earnings were mixed with revenue lower than our estimate but EBITDA and PAT higher due to higher gross margin and lower SG&A. INDR's key growth driver for FY22E India formulation declined by 9% (55% of revenue) YoY even after restructuring its marketing divisions and sales team with new taxonomy of portfolio, focus and allotment of MRs (including additional headcounts). Europe has already made a strong comeback with 27% YoY growth in 1QFY21 and guided for a strong FY21E with revenue guidance of Rs2.25bn.

We believe INDR 's CAPEX cycle is over while its regulatory issues are behind. There could be a possibility of next few quarters to be inflection point for earnings recovery. It has multiple triggers like 1) increased focus on chronic products, 2) Strong order book for EU, 3) launch of new products in US and 4) underutilized API capacity. However, its Rs2.7bn debt and only Rs100m of cash remains overhang on the valuation. India formulations receive 40% of yearly sales in 1Q and disappointing growth in 1QFY21 due to impact of covid-19 could be hindrance for management to achieve its guided growth and margin in FY21E. INDR however maintains its guidance for FY21E. We increase our assigned PE to 18x from 17x of FY22E and derived new TP of Rs243 (earlier Rs219) to maintain parity over comparative valuation with peers. We maintain HOLD recommendation.

1QFY21 mixed bag: Revenue grew 8% YoY and 1% QoQ to Rs2.6bn (PLe: Rs2.8bn) with growth led by export markets. EBITDA grew 130% YoY and 62% QoQ to Rs398m (PLe: Rs300m) while EBITDA Margin was 15% (PLe: 11.6%) versus 7% YoY and 9.3% QoQ. INDR's SG&A expense was only 5% lower YoY compared to its peer 20-25% decline. PBT was Rs242m (PLe: Rs166m) v/s Rs3m YoY and Rs78m QoQ. While PAT was Rs172m (PLe: Rs133m) v/s Rs22m YoY and Rs54m QoQ.

Conference Call Highlights

- **India formulations**: Declined 9% YoY due to lockdown led restriction. INDR gave a muted guidance for 2QFY21 because of uncertainty still revolving around lockdown, however 2HFY21E would be better. INDR indicated it generates 40% of annual sale in 1Q due to seasonality benefits. Legacy product (more than 3 years old) contributes 55-60% to domestic business. It has 2,300 MR's with most of them still remaining off the field.

- **US market:** Revenue were flat QoQ at Rs268m. It received approval for Olanzapine tabs in 1QFY21 and plans to launch in 2HFY21E. Its US partner received approval for Palonesetron injection, which was filed from Goa Plant II and it will be Launched in 2QFY21E. Guided revenue of Rs1.5bn (vs. Rs560m in FY20) for FY21E. It has around 18-20 ophthalmic products among the pending ANDA's and it is in negotiation with three potential marketing partners and targeting for launch in FY22E

- **Europe and EMs:** Revenue grew 52% QoQ and declined 2% QoQ respectively. Guided for revenue of Rs2.25bn for Europe in FY21E (46% growth YoY) as it has a strong order book for next 6-8 months. Ivory Coast, French West Africa and Kenya have been major contributors for EM business

- **API:** Declined 6%% YoY to Rs222m in 1QFY21.Guided for 20% growth in FY21E.

- **CAPEX/ R&D/ Debt:** CAPEX was Rs500m for FY20 and guided to in similar range for FY21E. INDR has a gross debt of Rs2.6bn with long and short term borrowing at Rs1.4bn and 1.3bn.

Exhibit 1: 1QFY21 Result Overview (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	**2,668**	**2,472**	***7.9***	**2,632**	**13,430**	**10,794**	***24.4***
Raw Material	816	856	*(4.7)*	724	4,096	3,304	*24.0*
% of Net Sales	*30.6*	*34.6*		*27.5*	*30.5*	*30.6*	
Personnel Cost	656	606	*8.1*	629	3,022	2,553	*18.3*
% of Net Sales	*24.6*	*24.5*		*23.9*	*22.5*	*23.7*	
Others	798	837	*(4.6)*	1,033	4,606	3,969	*16.1*
% of Net Sales	*29.9*	*33.9*		*39.3*	*34.3*	*36.8*	
Total Expenditure	2,270	2,299	*(1.3)*	2,387	11,724	9,827	*19.3*
EBITDA	**398**	**173**	***130.6***	**245**	**1,706**	**967**	***76.3***
Margin (%)	*14.9*	*7.0*		*9.3*	*12.7*	*9.0*	
Depreciation	191	170	*12.6*	182	745	708	*5.3*
EBIT	**207**	**3**	***NA***	**63**	**960**	**259**	***270.4***
Other Income	93	61	*52.0*	93	293	290	*1.0*
Interest	58	61	*(6.0)*	78	146	263	*(44.3)*
PBT	**242**	**3**	***NA***	**78**	**1,107**	**287**	***285.7***
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	70	(19)	*NA*	24	221	45	*396.5*
ETR (%)	*28.9*	*(691.4)*		*30.8*	*20.0*	*15.5*	
Reported PAT	**172**	**22**	***677.5***	**54**	**886**	**243**	***265.3***

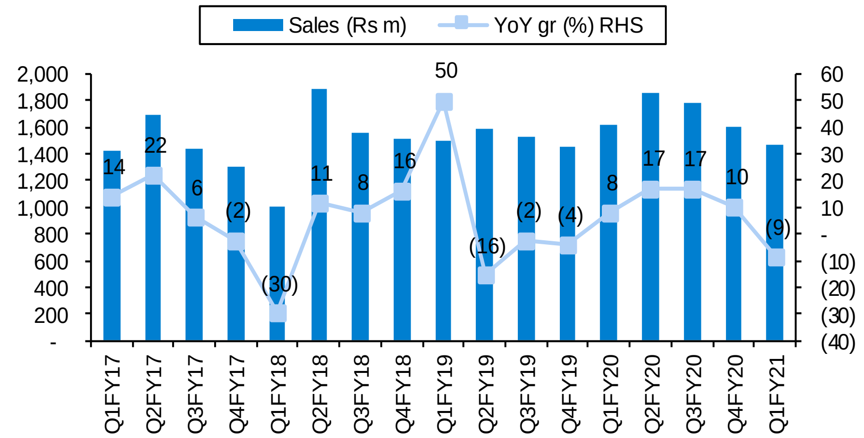
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Domestic	**1,559**	**1,702**	***(8.4)***	**1,678**	**7,863**	**7,147**	***10.0***
Formulations	1,475	1,616	*(8.7)*	1,600	7,548	6,862	*10.0*
APIs	84	86	*(2.8)*	78	314	285	*10.3*
Exports	**1,093**	**744**	***46.8***	**919**	**5,425**	**3,539**	***53.3***
Formulations	955	593	*60.9*	795	4,717	2,965	*59.1*
Reg mkt	765	432	*77.1*	599	3,831	2,175	*76.1*
Non-reg mkt (Emerging mkt)	190	161	*17.7*	196	886	790	*12.2*
APIs	138	151	*(8.6)*	125	708	574	*23.4*
Net Sales	**2,652**	**2,446**	***8.4***	**2,597**	**13,288**	**10,686**	***24.4***
Add: CRO	17	26		34	108	202	
Net Revenues	**2,668**	**2,472**	***7.9***	**2,631**	**13,396**	**10,888**	***23.0***

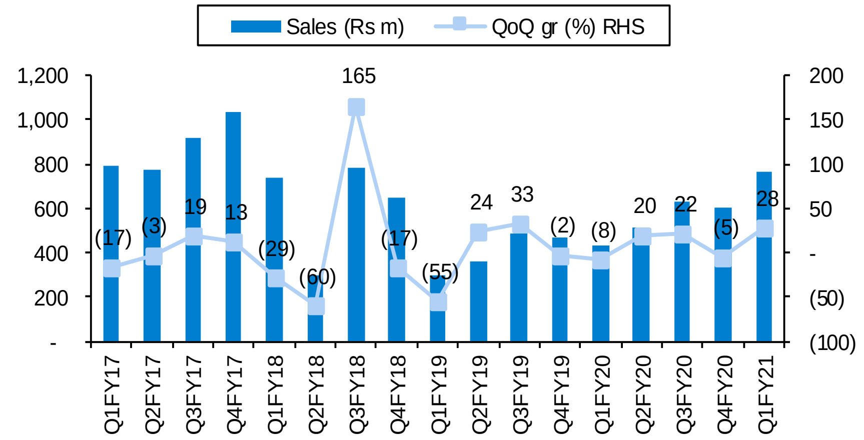
Source: Company, PL

Exhibit 3: Domestic formulations sales, growth



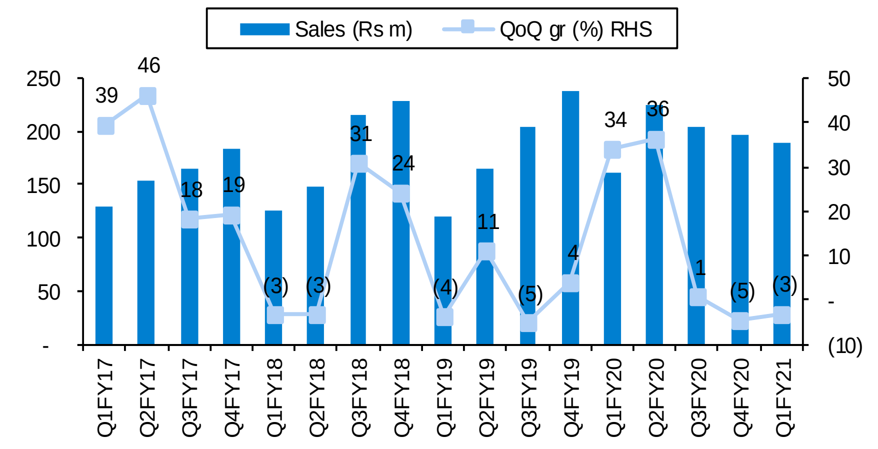
Source: Company, PL

Exhibit 4: Export: Regulated Mkt. Sales, growth



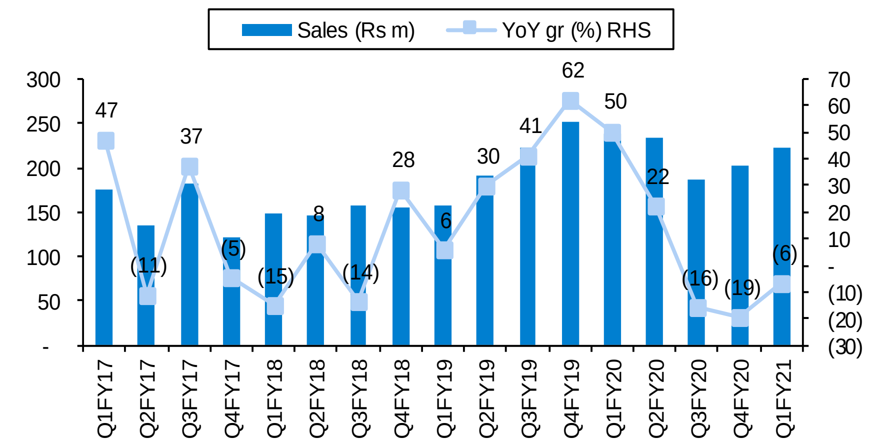
Source: Company, PL

Exhibit 5: Export, Semi-Reg. mkt sales



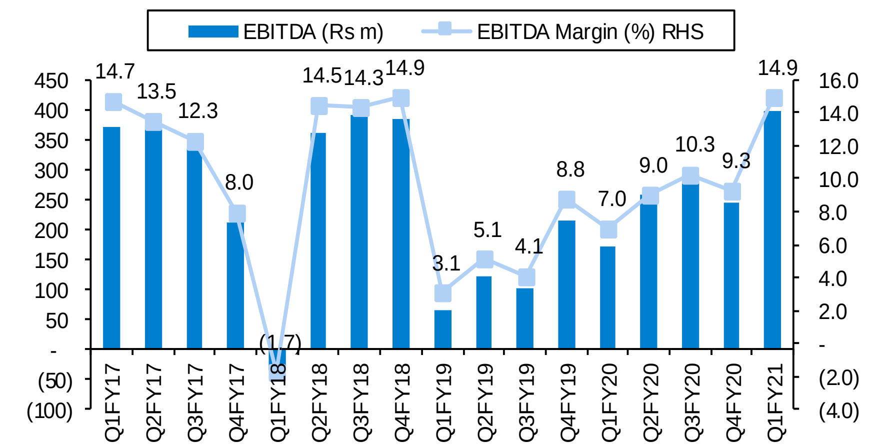
Source: Company, PL

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)	45	221	311
Effective tax rate (%)	*77.3*	*15.5*	*20.0*	*20.0*
Profit after tax	**(21)**	**242**	**886**	**1,245**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**(21)**	**242**	**886**	**1,245**
YoY gr. (%)	*(104.5)*	*(1,249.3)*	*265.3*	*40.6*
Margin (%)	*(0.2)*	*2.2*	*6.6*	*7.9*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**(21)**	**242**	**886**	**1,245**
YoY gr. (%)	*(104.5)*	*(1,249.3)*	*265.3*	*40.6*
Margin (%)	*(0.2)*	*2.2*	*6.6*	*7.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(21)	242	886	1,245
Equity Shares O/s (m)	**92**	**92**	**92**	**92**
EPS (Rs)	**(0.2)**	**2.6**	**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 Networth	**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	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	**2,856**	**2,834**	**2,632**	**2,668**
YoY gr. (%)	*21.1*	*14.3*	*7.4*	*7.9*
Raw Material Expenses	896	828	724	816
Gross Profit	1,960	2,006	1,908	1,852
Margin (%)	*68.6*	*70.8*	*72.5*	*69.4*
EBITDA	**258**	**292**	**245**	**398**
YoY gr. (%)	*113.3*	*185.4*	*13.9*	*130.6*
Margin (%)	*9.0*	*10.3*	*9.3*	*14.9*
Depreciation / Depletion	180	176	182	191
EBIT	**77**	**116**	**63**	**207**
Margin (%)	*2.7*	*4.1*	*2.4*	*7.7*
Net Interest	54	69	78	58
Other Income	70	66	93	93
Profit before Tax	**93**	**113**	**78**	**242**
Margin (%)	*3.3*	*4.0*	*3.0*	*9.1*
Total Tax	20	20	24	70
Effective tax rate (%)	*21.3*	*17.6*	*30.8*	*28.9*
Profit after Tax	**73**	**93**	**54**	**172**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**73**	**93**	**54**	**172**
YoY gr. (%)	*(194.0)*	*74.2*	*(53.6)*	*677.5*
Margin (%)	*2.6*	*3.3*	*2.1*	*6.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**73**	**93**	**54**	**172**
YoY gr. (%)	*(194.0)*	*74.2*	*(53.6)*	*677.5*
Margin (%)	*2.6*	*3.3*	*2.1*	*6.5*
Other Comprehensive Income	(1)	-	(16)	(1)
Total Comprehensive Income	**72**	**93**	**38**	**171**
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	**0.8**	**1.0**	**0.6**	**1.9**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	(0.2)	2.6	9.6	13.5
CEPS	7.5	10.3	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)	2.6	9.2	12.2
RoE	(0.3)	3.6	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	(1,142.3)	99.4	27.2	19.4
P/B	3.6	3.5	3.2	2.8
P/CEPS	34.7	25.4	14.8	11.5
EV/EBITDA	52.0	26.6	14.7	11.2
EV/Sales	2.8	2.4	1.9	1.6
Dividend Yield (%)	0.4	0.1	0.1	0.1

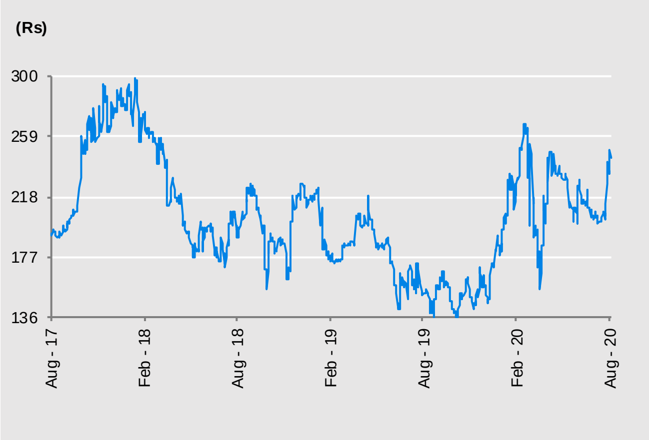
Source: Company Data, PL Research

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	08-Jul-20	Hold	219	208
2	25-Jun-20	Hold	219	211
3	18-Apr-20	Hold	259	236
4	14-Apr-20	Reduce	198	248
5	23-Jan-20	Hold	198	234
6	03-Jan-20	Hold	157	185
7	30-Oct-19	Hold	157	159
8	03-Oct-19	Reduce	130	142
9	14-Aug-19	Reduce	130	149

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	802
2	Cadila Healthcare	Sell	329	396
3	Cipla	Reduce	657	729
4	Dr. Lal PathLabs	Sell	1,006	1,892
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	511
7	Glenmark Pharmaceuticals	Sell	365	419
8	Indoco Remedies	Hold	219	208
9	Ipca Laboratories	BUY	1,839	1,636
10	Jubilant Life Sciences	Sell	414	703
11	Lupin	BUY	1,001	880
12	Sun Pharmaceutical Industries	Reduce	479	532
13	Thyrocare Technologies	Sell	307	677

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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