

November 4, 2021

Q2FY22 Result Update

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	12,415	16,045	17,914	20,112
EBITDA (Rs. m)	2,243	3,306	3,710	4,202
Margin (%)	18.1	20.6	20.7	20.9
PAT (Rs. m)	931	1,536	2,057	2,379
EPS (Rs.)	10.1	16.7	22.3	25.8
Gr. (%)	285.8	65.1	33.9	15.7
DPS (Rs.)	0.5	0.5	0.5	0.5
Yield (%)	0.1	0.1	0.1	0.1
RoE (%)	12.8	18.2	20.2	19.3
RoCE (%)	16.2	24.0	24.1	23.8
EV/Sales (x)	3.5	2.7	2.3	2.0
EV/EBITDA (x)	19.4	12.9	11.1	9.5
PE (x)	44.5	27.0	20.1	17.4
P/BV (x)	5.4	4.5	3.7	3.1

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.530 / Rs.248
Sensex / Nifty	59,772 / 17,829
Market Cap	Rs.41bn/ \$ 556m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.573.73m

Shareholding Pattern (%)

Promoter's	58.69
Foreign	2.43
Domestic Institution	17.22
Public & Others	21.66
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.6	37.5	75.4
Relative	(0.2)	11.0	19.2

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Strong domestic show; Regulated markets to recover in H2

Quick Pointers:

- Reiterated US sales guidance of Rs2.5bn despite muted Q2
- Domestic formulation continues to register strong growth

Indoco Remedies' (INDR) Q2FY22 performance was muted in regulated market, but should recover with pick up in profit share from Brinzolamide in US and settling of logistics issues in EU markets. The domestic market continued to witness strong growth in therapies like anti-infective, GI, VMN and Ophthal. We remain structurally positive on INDR on account of 1) MR productivity enhancement and higher penetration in North and East markets 2) new launches in US and 3) higher tender business in EU market. This will continue to sustain current margin trajectory at ~20%. We recommend 'Accumulate' with TP of Rs480 based on 20x Sept 2023E earnings.

- Acute segment drives the domestic market; US and EU underperformed:** Domestic formulations business sales grew 22.3% YoY and declined 0.7% QoQ at Rs 2136mn. Most of the therapeutic segments of INDR reported strong double digit growth on YoY. Export formulations business declined 11% QoQ at Rs1355mn, impacted due to availability issues of containers in the export market, which company expects to continue in Q3 as well. API declined by 13.6% YoY mainly on increased captive consumption during the quarter.
- Export challenges to impact margins going ahead:** INDR registered OPM of 22.3%. There was forex gain of INR120m booked in other operating income. Adjusted for this, OPM came in 19.4%, down 200 bps QoQ. Gross margins expanded by 40bps QoQ however down 60 bps YoY due to higher API prices. Other expenses grew by 14% YoY given normalization of marketing cost. R&D cost came in higher at 5.7% of sales; up 36% YoY. PAT grew by 63% YoY and 5% QoQ to Rs 417 mn.
- Key concall takeaways:** (1) Company launched 4 new products in domestic market and 12 new products in US market. INDR also plans to launch 3-4 new product in ophthal segment during H2. (2) Rate of attrition remains high in domestic formulation segment at 25-30%, while company kept in place buddy program along with monetary/non-monetary initiatives to reduce the attrition. (3) In anti-infective segment, legacy brands will register increased growth on seasonality, focusing on products like Aloja and Aloja M to create niche market with single player advantage in anti-diabetic segment. (4) Profit share from Brinzolamide in US was Rs85mn in H1 5) The average cost of borrowing is at 5.5% and company repaid its long term debt of Rs 130crs. (5) **Other Guidance:** a) annual capex of Rs 800mn in FY22, b) Recovery in US formulations from Q3; reiterated its guidance for US revenue of Rs 2500mn in FY22E and c) Company broadly maintains its earlier EBITDAM guidance at 19-20% in FY22.

Exhibit 1: 2QFY22 Result Overview (Rs m): Domestic formulations drives the growth

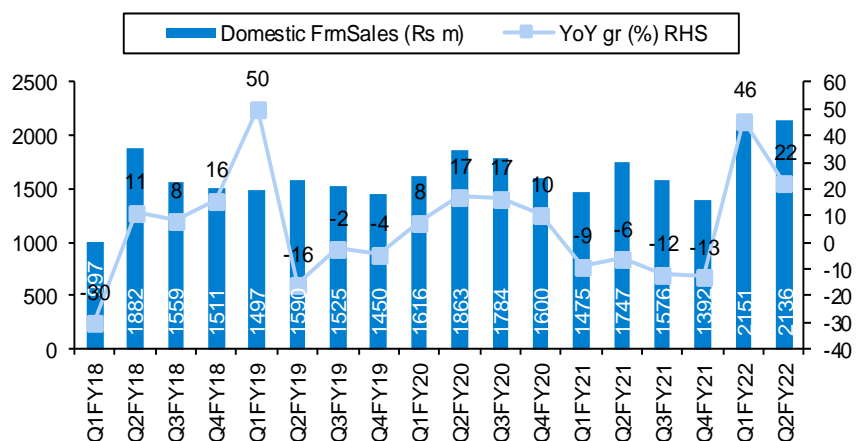
Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY22	YoY gr. (%)
Net Sales	3,869	3,282	17.9	3,868	0.0	7,736	6,041
Raw Material	1,063	902	17.9	1,103	(3.6)	2,166	1,919
<i>% of Net Sales</i>	<i>27.5</i>	<i>27.5</i>		<i>28.5</i>		<i>28.0</i>	<i>31.8</i>
Personnel Cost	742	752	(1.3)	750	(1.1)	1,492	1,408
<i>% of Net Sales</i>	<i>19.2</i>	<i>22.9</i>		<i>19.4</i>		<i>19.3</i>	<i>23.3</i>
Others	1,199	1,022	17.4	1,146	4.7	2,345	1,943
<i>% of Net Sales</i>	<i>31.0</i>	<i>31.1</i>		<i>29.6</i>		<i>30.3</i>	<i>32.2</i>
Total Expenditure	3,004	2,675	12.3	2,999	0.2	6,003	5,271
EBITDA	864	607	42.4	869	(0.5)	1,733	770
<i>Margin (%)</i>	<i>22.3</i>	<i>18.5</i>		<i>22.5</i>		<i>22.4</i>	<i>12.8</i>
Depreciation	195	186	4.7	222	(12.5)	417	414
EBIT	670	422	58.9	647	3.6	1,317	357
Other Income	10	5	94.2	9	17.4	19	11
Interest	31	59	(48.2)	42	(28.1)	73	100
PBT	650	368	76.6	613	6.0	1,262	268
Extra-Ord. Inc./Exps.							
Total Taxes	233	111	109.0	216	7.5	449	286
<i>ETR (%)</i>	<i>35.8</i>	<i>30.3</i>		<i>35.3</i>		<i>35.6</i>	<i>106.8</i>
Reported PAT	417	257	62.5	397	5.1	814	(18)

Source: Company, PL

Exhibit 2: Major Sources of Revenues

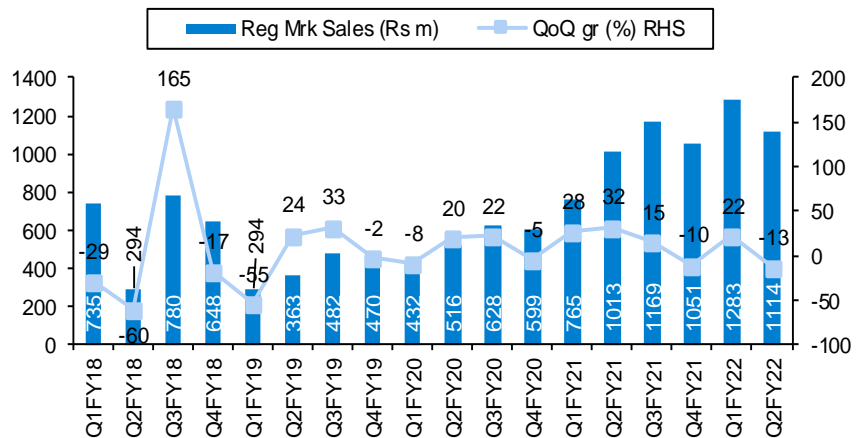
Major sources of revenues	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	QoQ gr. (%)	H1FY22	H1FY22	YoY gr. (%)
Domestic	2,187	1,841	18.8	2,192	(0.3)	4,379	3,751	16.7
Formulations	2,136	1,747	22.3	2,151	(0.7)	4,287	3,626	18.2
APIs	50	94	(46.4)	42	20.9	92	126	(26.8)
Exports	1,502	1,349	11.4	1,592	(5.6)	3,094	2,684	15.3
Formulations	1,355	1,214	11.6	1,524	(11.1)	2,880	2,479	16.2
Reg mkt	1,114	1,014	9.9	1,283	(13.2)	2,396	2,048	17.0
Non-reg mkt (Emerging mkt)	242	200	20.6	242	0.1	483	431	12.1
API	147	135	9.2	67	118.8	214	205	4.4
CRO	38	35	5.9	28	33.9	66	45	47.2

Source: Company, PL

Exhibit 3: India Formulations: Growth driven due to low base and seasonality


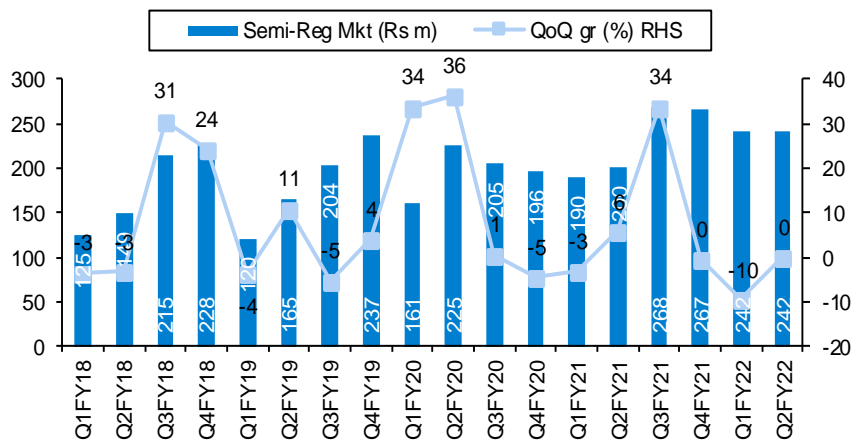
Source: Company, PL

Exhibit 4: Export: Regulated Mkt : muted regulated market sales



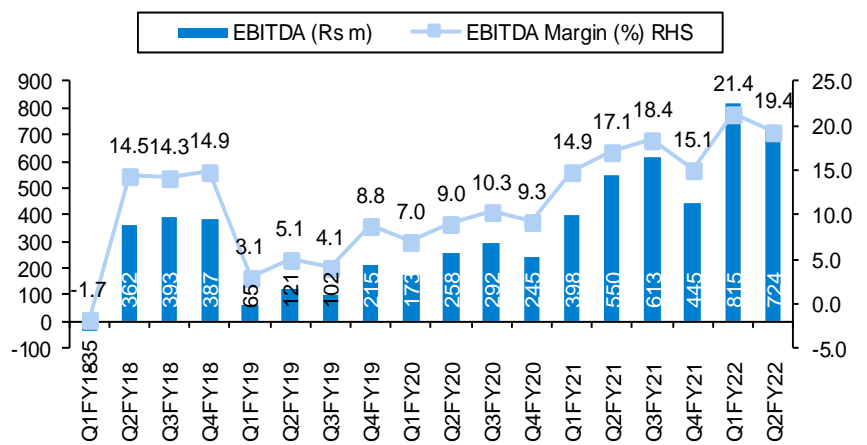
Source: Company, PL

Exhibit 5: Export— Lower Semi Reg. sales helped in better operating margin



Source: Company, PL

Exhibit 6: EBITDA margins to remain stable at current level



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	12,415	16,045	17,914	20,112
YoY gr. (%)	12.2	29.2	11.6	12.3
Cost of Goods Sold	3,541	4,724	5,308	5,968
Gross Profit	8,874	11,322	12,606	14,144
Margin (%)	71.5	70.6	70.4	70.3
Employee Cost	2,740	3,151	3,466	3,882
Other Expenses	3,891	4,864	5,429	6,061
EBITDA	2,243	3,306	3,710	4,202
YoY gr. (%)	82.0	47.4	12.2	13.2
Margin (%)	18.1	20.6	20.7	20.9
Depreciation and Amortization	731	820	885	982
EBIT	1,511	2,487	2,826	3,219
Margin (%)	12.2	15.5	15.8	16.0
Net Interest	223	173	133	97
Other Income	31	50	50	50
Profit Before Tax	1,320	2,364	2,743	3,173
Margin (%)	10.6	14.7	15.3	15.8
Total Tax	390	827	686	793
Effective tax rate (%)	29.5	35.0	25.0	25.0
Profit after tax	931	1,536	2,057	2,379
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	931	1,536	2,057	2,379
YoY gr. (%)	285.8	65.1	33.9	15.7
Margin (%)	7.5	9.6	11.5	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	931	1,536	2,057	2,379
YoY gr. (%)	285.8	65.1	33.9	15.7
Margin (%)	7.5	9.6	11.5	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	931	1,536	2,057	2,379
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	10.1	16.7	22.3	25.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	11,809	12,609	13,609	15,109
Tangibles	11,809	12,609	13,609	15,109
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,110	6,929	7,814	8,796
Tangibles	6,110	6,929	7,814	8,796
Intangibles	-	-	-	-
Net fixed assets	5,699	5,680	5,795	6,313
Tangibles	5,699	5,680	5,795	6,313
Intangibles	-	-	-	-
Capital Work In Progress	681	681	681	681
Goodwill	1	1	1	1
Non-Current Investments	-	-	-	-
Net Deferred tax assets	194	194	194	194
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	2,379	3,077	3,436	3,857
Trade receivables	2,338	3,020	3,393	3,815
Cash & Bank Balance	143	499	1,467	2,318
Other Current Assets	1,702	1,702	1,702	1,702
Total Assets	12,957	14,673	16,489	18,700
Equity				
Equity Share Capital	184	184	184	184
Other Equity	7,506	8,996	11,007	13,340
Total Networkth	7,690	9,180	11,191	13,524
Non-Current Liabilities				
Long Term borrowings	969	969	969	969
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,163	763	363	0
Trade payables	1,132	1,758	1,963	2,204
Other current liabilities	2,196	2,196	2,196	2,196
Total Equity & Liabilities	12,957	14,673	16,489	18,700

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	1,320	2,364	2,743	3,173
Add. Depreciation	731	820	885	982
Add. Interest	223	173	133	97
Less Financial Other Income	31	50	50	50
Add. Other	102	(50)	(50)	(50)
Op. profit before WC changes	2,376	3,306	3,710	4,202
Net Changes-WC	(1,398)	(754)	(527)	(602)
Direct tax	(197)	(827)	(686)	(793)
Net cash from Op. activities	781	1,725	2,497	2,806
Capital expenditures	(769)	(800)	(1,000)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(769)	(800)	(1,000)	(1,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(143)	(400)	(400)	(363)
Dividend paid	(28)	(46)	(46)	(46)
Interest paid	(223)	(173)	(133)	(97)
Others	146	50	50	50
Net cash from Fin. activities	(248)	(569)	(529)	(456)
Net change in cash	(236)	356	968	850
Free Cash Flow	12	925	1,497	1,306

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	3,323	3,051	3,868	3,869
YoY gr. (%)	14.8	12.2	40.2	17.9
Raw Material Expenses	944	879	1,103	1,063
Gross Profit	2,379	2,172	2,764	2,806
Margin (%)	71.6	71.2	71.5	72.5
EBITDA	602	547	869	864
YoY gr. (%)	72.6	64.4	78.6	42.4
Margin (%)	18.1	17.9	22.5	22.3
Depreciation / Depletion	169	186	222	195
EBIT	433	362	647	670
Margin (%)	13.0	11.9	16.7	17.3
Net Interest	60	46	42	31
Other Income	4	20	9	10
Profit before Tax	376	336	613	650
Margin (%)	11.3	11.0	15.8	16.8
Total Tax	123	86	216	233
Effective tax rate (%)	32.6	25.5	35.3	35.8
Profit after Tax	254	250	397	417
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	254	250	397	417
YoY gr. (%)	176.6	366.4	132.7	62.5
Margin (%)	7.6	8.2	10.3	10.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	254	250	397	417
YoY gr. (%)	176.6	366.4	132.7	62.5
Margin (%)	7.6	8.2	10.3	10.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	254	250	397	417
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	2.8	2.7	4.3	4.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	10.1	16.7	22.3	25.8
CEPS	18.0	25.6	31.9	36.5
BVPS	83.4	99.6	121.4	146.8
FCF	0.1	10.0	16.3	14.2
DPS	0.5	0.5	0.5	0.5
Return Ratio(%)				
RoCE	16.2	24.0	24.1	23.8
ROIC	11.8	17.5	18.8	19.7
RoE	12.8	18.2	20.2	19.3
Balance Sheet				
Net Debt : Equity (x)	0.3	0.1	0.0	(0.1)
Net Working Capital (Days)	105	99	99	99
Valuation(x)				
PER	44.5	27.0	20.1	17.4
P/B	5.4	4.5	3.7	3.1
P/CEPS	24.9	17.6	14.1	12.3
EV/EBITDA	19.4	12.9	11.1	9.5
EV/Sales	3.5	2.7	2.3	2.0
Dividend Yield (%)	0.1	0.1	0.1	0.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Domestic Formulations	6,190	8,047	8,851	9,737
Export Formulations	4,924	6,513	7,539	8,721
APIs	940	1,053	1,158	1,274

Source: Company Data, PL Research

Price Chart

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cadila Healthcare	BUY	590	504
2	Dr. Reddy's Laboratories	BUY	5,400	4,659
3	Lupin	Accumulate	1,004	882

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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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