

November 9, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		HOLD	
Target Price	352		239	
Sales (Rs. m)	15,249	17,465	15,429	17,465
% Chng.	(1.2)	-		
EBITDA (Rs. m)	2,435	2,792	2,192	2,480
% Chng.	11.1	12.6		
EPS (Rs.)	15.7	19.6	13.3	18.1
% Chng.	18.0	7.9		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	10,794	12,464	15,249	17,465
EBITDA (Rs. m)	967	1,982	2,435	2,792
Margin (%)	9.0	15.9	16.0	16.0
PAT (Rs. m)	242	1,014	1,443	1,802
EPS (Rs.)	2.6	11.0	15.7	19.6
Gr. (%)	(1,249.3)	318.2	42.3	24.9
DPS (Rs.)	0.3	0.3	0.3	0.3
Yield (%)	0.1	0.1	0.1	0.1
RoE (%)	3.6	14.8	18.5	18.9
RoCE (%)	2.9	13.8	16.7	17.5
EV/Sales (x)	2.3	2.0	1.6	1.3
EV/EBITDA (x)	26.1	12.4	9.8	8.3
PE (x)	97.5	23.3	16.4	13.1
P/BV (x)	3.5	3.4	2.7	2.3

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.296 / Rs.140
Sensex / Nifty	41,893 / 12,264
Market Cap	Rs.24bn/ \$ 318m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.140.9m

Shareholding Pattern (%)

Promoter's	58.69
Foreign	2.22
Domestic Institution	14.67
Public & Others	24.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.4)	11.6	65.9
Relative	(6.9)	(15.6)	60.2

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Signs of earnings recovery : Upgrade to BUY

Quick Pointers:

- Guided US revenue of Rs1.5bn (vs. Rs560m in FY20) for FY21E and Rs2.5bn for FY22E with domestic formulation of 10-12% growth.
- Return ratios, headline margins to expand with more US contributions.

We incorporate INDR's guidance in our assumption and upgrade to Buy (earlier Hold) led by increase in earnings estimate by 14%/18%/8% for FY21/22/23E mainly due to EBITDAM expansion of 200-300bps. INDR guided for 1) increased MR productivity with same number of field force, 2) US launch of ophthalmic and oral ANDAs in partnerships and 3) lower remediation cost as regulatory issue are resolved. INDR earnings were in line with our estimate, led by growth in export formulation while India formulations suffered due to lockdown and lower demand for acute products (55% of India revenue). We believe, over the last few years INDR was in CAPEX mode and growth suffered due to regulatory issues. With guidance of limited CAPEX, regulatory issues resolved and restructured sales force, INDR is poised to grow on better contributions from two key markets, US and India. We roll over our valuation to FY23E (from FY22E) and derive at new TP of Rs352 (earlier Rs239) based on 18x (unchanged) PE of FY23E EPS of Rs20. We upgrade our rating to Buy (earlier Hold).

Export market drives growth: Revenue grew 13% YoY and 21%QoQ to Rs3.2bn (PLe: Rs3.0bn) led by growth in export formulation of 64% YoY and 27% QoQ. EBITDA grew 113% YoY and 38% QoQ to Rs550mn (PLe: Rs477mn) while EBITDA Margin was 17.1% (PLe: 15.6%) versus 9% YoY and 15% QoQ. PBT was Rs362m (PLe: Rs312m) v/s Rs33m YoY and Rs242m QoQ. While PAT was Rs251m (PLe: Rs250m) v/s Rs73m YoY and Rs172m QoQ.

Conference Call Highlights

- India formulations:** Domestic formulations declined 6% YoY making it second consecutive declining quarter due to lockdown. INDR gave a strong guidance for 2HFY21 as marketing activities are reaching at pre-COVID levels and 4QFY21 would capture some part of seasonality benefit for channel filling of acute products. INDR guided domestic formulation growth of 10-12% from FY22E onwards with more focus on chronic product, higher revenue contribution from eastern India and increase in MR productivity. INDR launched FEVINDO 400 (Favipiravir) in India while Apixabid (Apixaban) launched in December'19 and later is was withdrawn due to ad-interim injunction. The injunction order is further delayed with no guidance on litigation outcome. Legacy product (more than 3 years old) contributes 55-60% to domestic business. It has 2,300 MRs with most of them still remaining off the field.
- US market:** Revenue grew 62% QoQ to Rs434mn. It received approval for Olanzapine tabs in 1QFY21 and plans to launch in 2HFY21E. During the quarter, company dispatched four products to USA for launch by partners. The products include 3 injectables viz., Phenylephrine, Palonosetron, Zoledronic

acid and one solid dosage viz., Febuxostat tablet. The Company received repeat orders for the products shipped in 1QFY21. Guided revenue of Rs1.5bn (vs. Rs560m in FY20) for FY21E and Rs2.5bn for FY22E.

- **Europe and EMs:** Europe revenue grew 32% QoQ and guided Rs2.2bn for FY21E alongside 15-20% growth for FY22. INDR is a contract manufacturer for paracetamol in Europe while EM grew 6% QoQ.
- **API:** Grew 3%% QoQ to Rs228m in 2QFY21. Guided for 20% growth in FY21E.
- **CAPEX/ R&D/ Debt:** CAPEX was Rs500m for FY20 and guided similar range for FY21E. INDR has a gross debt of Rs2.6bn with long and short term borrowing at Rs1.45bn and 1.3bn.

Exhibit 1: 2QFY21 Result Overview (Rs m): Export formulation drives growth

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	3,225	2,856	12.9	2,668	5,893	5,328	10.6
Raw Material	902	896	0.7	816	1,718	1,752	(1.9)
<i>% of Net Sales</i>	<i>28.0</i>	<i>31.4</i>		<i>30.6</i>	<i>29.2</i>	<i>32.9</i>	
Personnel Cost	749	639	17.2	656	1,404	1,245	12.8
<i>% of Net Sales</i>	<i>23.2</i>	<i>22.4</i>		<i>24.6</i>	<i>23.8</i>	<i>23.4</i>	
Others	1,024	1,064	(3.7)	798	1,822	1,901	(4.1)
<i>% of Net Sales</i>	<i>31.8</i>	<i>37.2</i>		<i>29.9</i>	<i>30.9</i>	<i>35.7</i>	
Total Expenditure	2,675	2,598	2.9	2,270	4,945	4,898	1.0
EBITDA	550	258	113.4	398	948	430	120.3
<i>Margin (%)</i>	<i>17.1</i>	<i>9.0</i>		<i>14.9</i>	<i>16.1</i>	<i>8.1</i>	
Depreciation	186	180	2.9	191	377	350	7.6
EBIT	364	77	371.2	207	571	80	613.6
Other Income	57	70	(17.8)	93	150	131	14.9
Interest	59	54	9.7	58	116	115	1.3
PBT	362	93	289.3	242	605	96	530.7
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	111	20	462.1	70	181	-	NA
<i>ETR (%)</i>	<i>30.7</i>	<i>21.3</i>		<i>28.9</i>	<i>30.0</i>	<i>0.5</i>	
Reported PAT	251	73	242.6	172	423	95	343.5

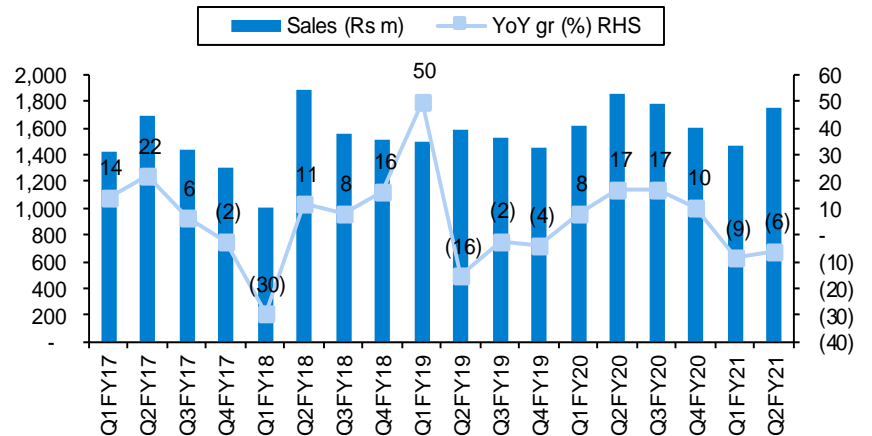
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Domestic	1,841	1,926	(4.4)	1,559	3,521	3,628	(3.0)
Formulations	1,747	1,863	(6.2)	1,475	3,384	3,479	(2.7)
APIs	94	63	50.1	84	137	149	(8.1)
Exports	1,348	913	47.7	1,093	1,880	1,657	13.5
Formulations	1,213	741	63.7	955	1,627	1,335	21.9
Reg mkt	1,013	516	96.2	765	1,227	948	29.3
Non-reg mkt (Emerging mkt)	200	225	(11.0)	190	401	386	3.7
APIs	134	171	(21.4)	138	252	322	(21.6)
Net Sales	3,189	2,838	12.4	2,652	5,400	5,284	2.2
Add: CRO	35	18		17	35	35	
Net Revenues	3,224	2,856	12.9	2,668	5,436	5,320	2.2

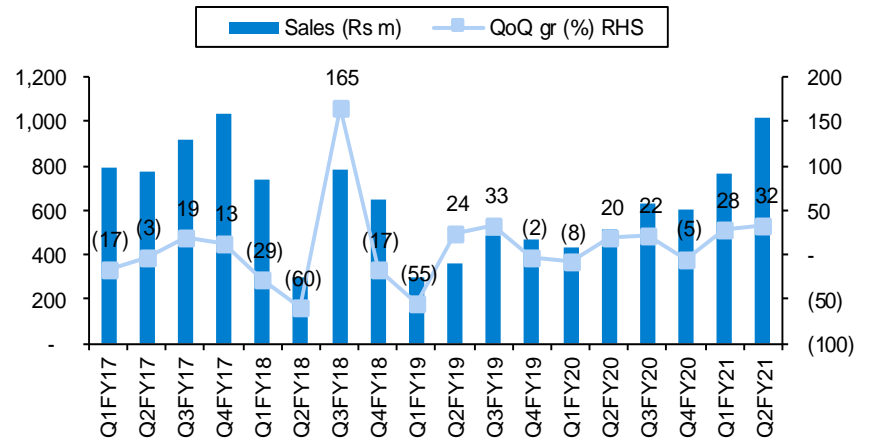
Source: Company, PL

Exhibit 3: Domestic formulations: Growth muted due to lockdown



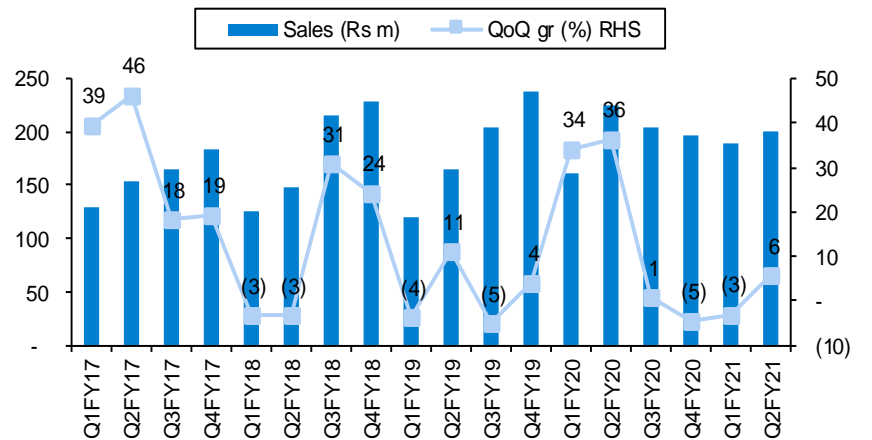
Source: Company, PL

Exhibit 4: Export: Regulated Mkt : Current growth driven by export market



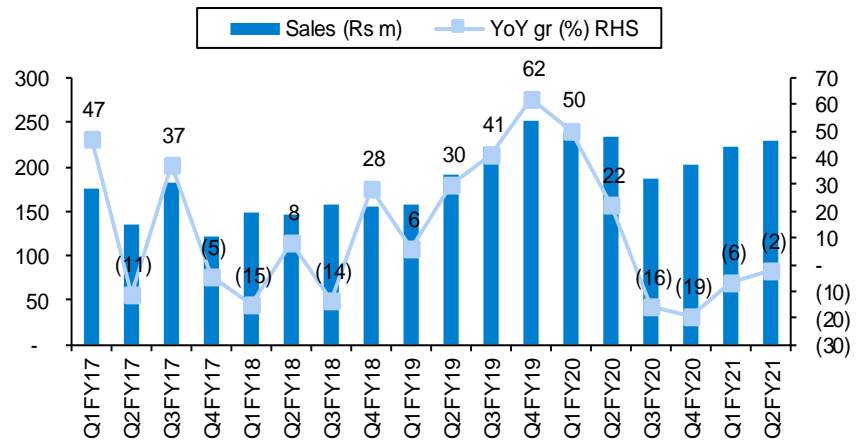
Source: Company, PL

Exhibit 5: Export, Semi-Reg. mkt sales



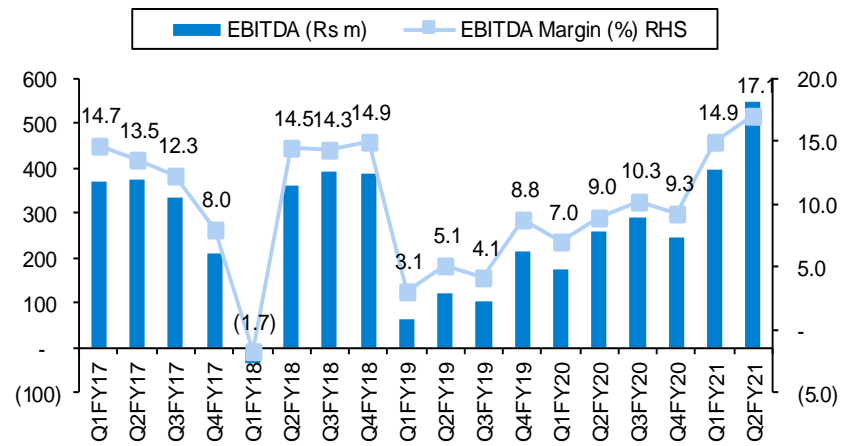
Source: Company, PL

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	FY20	FY21E	FY22E	FY23E
Net Revenues	10,794	12,464	15,249	17,465
YoY gr. (%)	14.6	15.5	22.3	14.5
Cost of Goods Sold	3,304	3,530	4,102	4,688
Gross Profit	7,490	8,934	11,146	12,777
Margin (%)	69.4	71.7	73.1	73.2
Employee Cost	2,553	2,914	3,348	3,842
Other Expenses	497	588	743	851
EBITDA	967	1,982	2,435	2,792
YoY gr. (%)	92.3	104.9	22.8	14.7
Margin (%)	9.0	15.9	16.0	16.0
Depreciation and Amortization	708	748	787	786
EBIT	259	1,234	1,648	2,006
Margin (%)	2.4	9.9	10.8	11.5
Net Interest	263	180	135	87
Other Income	290	265	289	332
Profit Before Tax	287	1,320	1,803	2,251
Margin (%)	2.7	10.6	11.8	12.9
Total Tax	45	305	359	449
Effective tax rate (%)	15.5	23.1	19.9	19.9
Profit after tax	242	1,014	1,443	1,802
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	242	1,014	1,443	1,802
YoY gr. (%)	(1,249.3)	318.2	42.3	24.9
Margin (%)	2.2	8.1	9.5	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	242	1,014	1,443	1,802
YoY gr. (%)	(1,249.3)	318.2	42.3	24.9
Margin (%)	2.2	8.1	9.5	10.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	242	1,014	1,443	1,802
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	2.6	11.0	15.7	19.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	11,212	11,712	12,312	12,862
Tangibles	8,953	9,303	9,603	9,853
Intangibles	2,259	2,409	2,709	3,009
Acc: Dep / Amortization	5,369	6,611	7,390	7,793
Tangibles	3,590	4,419	4,898	5,025
Intangibles	1,779	2,192	2,492	2,768
Net fixed assets	5,844	5,101	4,922	5,069
Tangibles	5,364	4,884	4,706	4,828
Intangibles	480	217	217	241
Capital Work In Progress	560	631	673	727
Goodwill	1	1	1	1
Non-Current Investments	69	77	85	93
Net Deferred tax assets	359	420	492	582
Other Non-Current Assets	252	303	352	410
Current Assets				
Investments	-	-	-	-
Inventories	2,083	2,288	2,757	3,158
Trade receivables	2,101	2,629	3,008	3,445
Cash & Bank Balance	379	1,162	1,827	2,271
Other Current Assets	1,026	872	741	630
Total Assets	12,716	13,534	14,932	16,488
Equity				
Equity Share Capital	184	184	184	184
Other Equity	6,611	6,761	8,448	10,211
Total Networkth	6,796	6,946	8,632	10,395
Non-Current Liabilities				
Long Term borrowings	969	872	785	707
Provisions	233	198	168	143
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,060	1,272	1,208	1,148
Trade payables	1,656	2,083	2,548	2,919
Other current liabilities	1,874	2,061	1,498	1,093
Total Equity & Liabilities	12,716	13,535	14,932	16,488

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	287	1,320	1,803	2,251
Add. Depreciation	708	748	787	786
Add. Interest	263	180	135	87
Less Financial Other Income	290	265	289	332
Add. Other	38	1,268	(273)	(820)
Op. profit before WC changes	1,295	3,516	2,452	2,304
Net Changes-WC	(443)	(306)	(383)	(467)
Direct tax	(69)	(317)	(433)	(540)
Net cash from Op. activities	784	2,893	1,636	1,296
Capital expenditures	(1,867)	(500)	(600)	(550)
Interest / Dividend Income	19	19	19	19
Others	-	(2)	-	-
Net Cash from Inv. activities	(1,848)	(483)	(581)	(531)
Issue of share cap. / premium	-	-	-	-
Debt changes	(445)	130	(198)	(179)
Dividend paid	(39)	(39)	(39)	(39)
Interest paid	(263)	(180)	(135)	(87)
Others	-	-	-	-
Net cash from Fin. activities	(746)	(88)	(372)	(305)
Net change in cash	(1,810)	2,322	683	460
Free Cash Flow	(1,083)	2,393	1,036	746

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	2,834	2,632	2,668	3,225
YoY gr. (%)	14.3	7.4	7.9	12.9
Raw Material Expenses	828	724	816	902
Gross Profit	2,006	1,908	1,852	2,323
Margin (%)	70.8	72.5	69.4	72.0
EBITDA	292	245	398	550
YoY gr. (%)	185.4	13.9	130.6	113.4
Margin (%)	10.3	9.3	14.9	17.1
Depreciation / Depletion	176	182	191	186
EBIT	116	63	207	364
Margin (%)	4.1	2.4	7.7	11.3
Net Interest	69	78	58	59
Other Income	66	93	93	57
Profit before Tax	113	78	242	362
Margin (%)	4.0	3.0	9.1	11.2
Total Tax	20	24	70	111
Effective tax rate (%)	17.6	30.8	28.9	30.7
Profit after Tax	93	54	172	251
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	93	54	172	251
YoY gr. (%)	74.2	(53.6)	677.5	242.6
Margin (%)	3.3	2.1	6.5	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	93	54	172	251
YoY gr. (%)	74.2	(53.6)	677.5	242.6
Margin (%)	3.3	2.1	6.5	7.8
Other Comprehensive Income	-	(16)	(1)	(1)
Total Comprehensive Income	93	38	171	250
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	1.0	0.6	1.9	2.7

Source: Company Data, PL Research

Key Financial Metrics

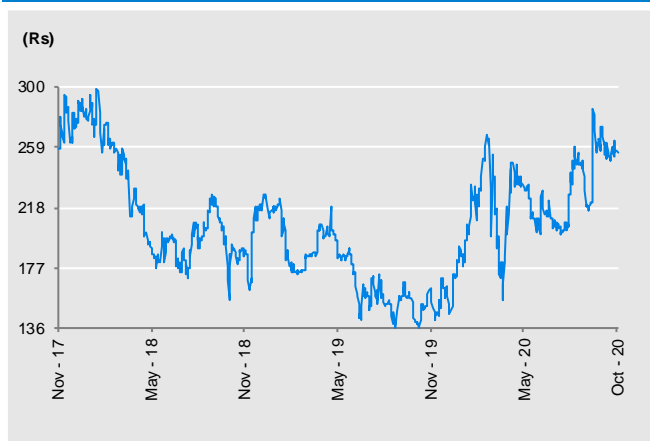
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	2.6	11.0	15.7	19.6
CEPS	10.3	19.1	24.2	28.1
BVPS	73.7	75.4	93.7	112.8
FCF	(11.8)	26.0	11.2	8.1
DPS	0.3	0.3	0.3	0.3
Return Ratio(%)				
RoCE	2.9	13.8	16.7	17.5
ROIC	2.6	12.2	16.4	17.5
RoE	3.6	14.8	18.5	18.9
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.0	0.0
Net Working Capital (Days)	86	83	77	77
Valuation(x)				
PER	97.5	23.3	16.4	13.1
P/B	3.5	3.4	2.7	2.3
P/CEPS	24.9	13.4	10.6	9.1
EV/EBITDA	26.1	12.4	9.8	8.3
EV/Sales	2.3	2.0	1.6	1.3
Dividend Yield (%)	0.1	0.1	0.1	0.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Domestic Formulations	6,862	7,548	8,454	9,469
Export Formulations	2,963	4,717	5,909	6,304
APIs	860	1,023	1,227	1,476

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Oct-20	Hold	239	252
2	12-Aug-20	Hold	243	262
3	08-Jul-20	Hold	219	208
4	25-Jun-20	Hold	219	211
5	18-Apr-20	Hold	259	236
6	14-Apr-20	Reduce	198	248
7	23-Jan-20	Hold	198	234
8	03-Jan-20	Hold	157	185

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	808	834
2	Cadila Healthcare	Sell	357	411
3	Cipla	Reduce	657	814
4	Cipla	Reduce	657	787
5	Dr. Lal PathLabs	UR	-	2,179
6	Dr. Reddy's Laboratories	BUY	5,964	4,951
7	Eris Lifesciences	BUY	671	518
8	Glenmark Pharmaceuticals	Sell	349	496
9	Indoco Remedies	Hold	239	252
10	Ipca Laboratories	Hold	1,886	2,113
11	Jubilant Life Sciences	Accumulate	752	696
12	Lupin	BUY	1,212	936
13	Sun Pharmaceutical Industries	BUY	597	486
14	Thyrocare Technologies	UR	-	1,138

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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