

Exports drive growth; domestic yet to normalise...

Amid strong recovery in the export business, the company's overall revenues grew 10.8% to ₹ 604 crore. Domestic market growth was subdued amid Covid. EBITDA margins improved 800 bps to 18.1% mainly due to better product mix and lower travel & promotional expenses. Subsequent EBITDA grew 98.7% YoY to ₹ 109.7 crore. Net profit for H1 came in at ₹ 42.7 crore (up 342% YoY) vs. ₹ 9.7 crore in H1FY20.

India formulations growth core to overall growth

Domestic formulations (~63% of FY20 revenues) grew at 6.5% CAGR in FY16-20. The subdued growth can be attributed to high concentration of acute therapies and one of the lowest MR productivity. With a market share of ~0.62% and overall rank of 29, the company is still a marginal player with some top brands in smaller categories like stomatologicals. However, with a positive outcome of restructuring exercise and likely improvement in MR productivity besides therapy calibration, we expect Indian formulations to deliver 9% growth in FY20-23E to ₹ 889 crore.

Exports formulations slowly coming back on track

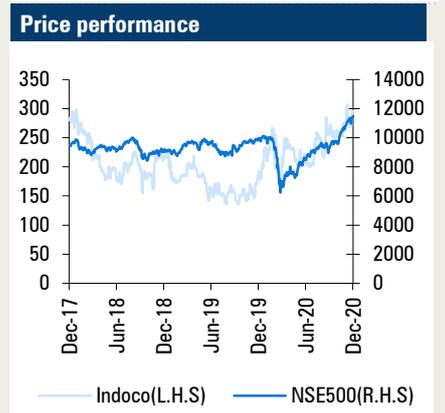
Exports formulations (~27% of overall FY20 sales) have de-grown at 6.6% CAGR in FY16-20, undone by regulatory hurdles in developed markets. However, recent clearance from the UK-MHRA and lifting of warning letters from the USFDA for Goa plant II and III (plant I is still under warning letter) is likely to improve operating leverage for export formulations. We expect the export business to grow at ~35% CAGR in FY20-23E to ₹ 733 crore, mainly due to lower base and launches of new products.

Valuation & Outlook

H1 growth was led by strong growth in export markets (albeit on lower base), strong gross margins and lower travel & promotional spends. The management has guided for significant export growth and margin improvement for FY21. After going through rough patches in FY18-19, where Indoco faced headwinds on the domestic front (structural issues) and exports front (regulatory setbacks), the situation is returning to normalcy. While FY21 growth in the domestic market is likely to be subdued due to Covid-19, exports are likely to deliver robust growth on the back of strong pipeline and visible launch schedule as reflected in the upbeat management guidance. Normalisation of exports dispatches is likely to improve operating leverage as well. With better visibility, we expect the company to maintain consistency and generate strong FCF. We maintain **BUY** rating and arrive at a revised target price of ₹ 380 based on ~18x FY23 EPS of ₹ 21.



Particulars	Amount
Market Capitalisation	₹2694 crore
Debt (FY 20)	₹263 crore
Cash (FY 20)	₹38 crore
EV	₹2919 crore
52 week H/L (₹)	311/146
Equity capital	₹18.4 crore
Face value	₹2



- #### Key Risk
- CGMP related regulatory concerns on export front
 - Higher than expected competition panning in domestic power brands

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Key Financial Summary

₹Crore	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E) %
Revenues	1106.6	1257.9	1550.5	1771.2	17.0
EBITDA	123.2	208.4	259.6	323.1	37.9
EBITDA margins (%)	11.1%	16.6%	16.7%	18.2%	
Adjusted PAT	24.1	85.6	136.8	193.9	100.3
EPS (Adjusted)	2.6	9.3	14.8	21.0	
PE (x)	111.8	31.5	19.7	13.9	
EV to EBITDA (x)	23.7	13.8	10.8	8.6	
RoNW (%)	3.5	11.4	15.7	18.6	
RoCE (%)	4.6	11.4	15.6	19.4	

Source: ICICI Direct Research; Company

Financial Summary

Exhibit 1: Profit & Loss (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenues	1,106.6	1,257.9	1,550.5	1,771.2
Growth (%)	14.3	13.7	23.3	14.2
Raw Material Expenses	330.4	368.0	465.2	531.4
Employee Expenses	256.5	284.8	325.6	363.1
Other Manufacturing Expe	346.7	342.3	430.4	473.9
Total Operating Expenditu	983.4	1,049.5	1,291.0	1,448.1
EBITDA	123.2	208.4	259.6	323.1
Growth (%)	60.7	69.2	24.5	24.5
Interest	26.3	23.4	14.6	11.3
Depreciation	70.8	75.4	79.8	84.2
Other Income	2.4	1.7	1.7	8.9
PBT	28.6	111.3	166.9	236.4
Total Tax	4.5	25.7	30.0	42.6
PAT	24.1	85.6	136.8	193.9
Adjusted PAT	24.1	85.6	136.8	193.9
Growth (%)	NA	255.2	59.8	41.7
EPS	2.6	9.3	14.8	21.0
EPS (Adjusted)	2.6	9.3	14.8	21.0

Source: ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxatio	24.8	85.6	136.8	193.9
Add: Depreciation & Amor	70.8	75.4	79.8	84.2
Net Increase in Current As	-27.7	-75.0	-124.0	-97.6
Net Increase in Current Lia	26.2	20.7	48.6	38.6
Other	28.7	23.4	14.6	11.3
CF from operating activi	122.8	130.2	155.8	230.4
(Inc)/dec in Investments	0.0	0.0	0.0	-100.0
(Inc)/dec in Fixed Assets	-58.4	-50.0	-50.0	-50.0
Others	1.1	-5.0	-5.6	-6.2
CF from investing activit	-57.2	-55.0	-55.6	-156.2
Inc / (Dec) in Equity Capit	0.0	0.0	0.0	0.0
Proceeds/(Repayment) Lo	-38.3	-59.9	-70.0	-20.0
Others	-25.7	-34.8	-32.8	-37.1
CF from financing activi	-64.0	-94.7	-102.8	-57.1
Net Cash flow	1.7	-19.5	-2.7	17.1
Opening Cash	36.3	37.9	18.4	15.7
Closing Cash	37.9	18.4	15.7	32.8
Free Cash flow	64.5	80.2	105.8	180.4

Source: ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	18.4	18.4	18.4	18.4
Reserve and Surplus	661.1	735.4	854.0	1,022.1
Total Shareholders fund	679.6	753.8	872.4	1,040.5
Total Debt	262.8	202.9	132.9	112.9
Deferred Tax Liability	0.0	0.0	0.0	0.0
Other Non Current Liabiliti	12.8	13.5	14.1	14.8
Long term Provisions	23.3	24.5	25.7	27.0
Source of Funds	978.5	994.6	1,045.2	1,195.2
Gross Block - Fixed Asse	1,126.7	1,196.7	1,266.7	1,336.7
Accumulated Depreciation	537.0	612.4	692.2	776.4
Net Block	589.7	584.3	574.5	560.2
Capital WIP	50.7	30.7	10.7	-9.3
Net Fixed Assets	640.4	615.0	585.2	550.9
Goodwill on Consolidation	0.1	0.1	0.1	0.1
Investments	0.0	0.0	0.0	100.0
Inventory	208.3	232.7	286.8	327.7
Cash	37.9	18.4	15.7	32.8
Debtors	210.1	250.1	308.3	352.2
Loans & Advances & Othe	106.7	117.4	129.1	142.0
Total Current Assets	563.1	618.6	740.0	854.7
Creditors	165.6	180.0	221.8	253.4
Provisions & Other CL	127.5	133.9	140.6	147.6
Total Current Liabilities	293.1	313.8	362.4	401.0
Net Current Assets	270.0	304.7	377.6	453.7
LT L& A, Other Assets	32.1	35.3	38.9	42.8
Deferred Tax Assets	35.9	39.5	43.4	47.8
Application of Funds	978.5	994.6	1,045.2	1,195.2

Source: ICICI Direct Research

Exhibit 4: Key Ratios (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	2.6	9.3	14.8	21.0
BV per share	73.7	81.8	94.7	112.9
Dividend per share	0.3	1.2	2.0	2.8
Operating Ratios (%)				
Gross margins	70.1	70.7	70.0	70.0
EBITDA margins	11.1	16.6	16.7	18.2
Net Profit margins	2.2	6.8	8.8	10.9
Inventory days	69	68	68	68
Debtor days	69	73	73	73
Creditor days	55	52	52	52
Asset Turnover	0.9	1.1	1.3	1.4
EBITDA conversion rate	99.7	62.4	60.0	71.3
Return Ratios (%)				
RoE	3.5	11.4	15.7	18.6
RoCE	4.6	11.4	15.6	19.4
RoIC	6.4	15.3	19.2	22.1
Valuation Ratios (x)				
P/E	111.8	31.5	19.7	13.9
EV / EBITDA	23.7	13.8	10.8	8.6
EV / Net Sales	2.6	2.3	1.8	1.6
Market Cap / Sales	2.4	2.1	1.7	1.5
Price to Book Value	4.0	3.6	3.1	2.6
Solvency Ratios				
Debt / Equity	0.4	0.3	0.2	0.1
Debt / EBITDA	2.1	1.0	0.5	0.3
Current Ratio	1.8	1.9	2.0	2.0

Source: ICICI Direct Research

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Reduce: -5% to -15%;

Sell: < -15%



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