

Polymed's Q3 results were exactly in line with estimates. Sales grew 13% YoY, EBITDA margins at 28.4% were steady on the back of cost efficiency measures. Reported PAT at Rs353mn was up 41% YoY. On the 9MFY21, company reported 11% growth in sales while the PAT growth has been stellar at 32% YoY. This is driven by sharp improvement in product mix led by new launches coupled with prudent fiscal measures. We believe introduction of products such as sterilized VTM Testing Kits, Personal Protection Kits and Face Protective Shield have also aided growth. The Company garners ~70% of its revenue from exports and 30% from domestic markets; Europe contributes 40% of the total export business. Its flagship product IV Cannula contributes ~28-30% of total sales. Apart from IV Cannula, we expect its new launches of pre-filled syringes, catheters, and dialyzers to contribute meaningfully over the next 2-3 years.

Growth drivers:

- Pick up in elective surgeries is also likely to bode well in the near term.
- New product launches and capacity expansion shall drive incremental growth.
- It is expanding its direct customer connect in domestic and global markets along with clinical engagement programs and increasing digital footprint.
- The estimated demand in India is ~900mn syringes for COVID 19 vaccination. We believe Polymed could be a beneficiary here
- Moving up the value chain, company is now launching dialyzers as well as dialysis machines

Host of strategic initiatives like enhancement of operational efficiency, optimization of raw material consumption, addition of new customers, expanding its geographical reach, investments in R&D initiatives, automation of processes and energy efficiency would led to improved performance of the company.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	2,035	1,804	12.8	1,996	1.9
Total Expense	1,457	1,349	8.0	1,431	1.8
EBITDA	578	456	26.9	565	2.3
Depreciation	126	108	16.2	114	9.8
EBIT	452	348	30.2	451	0.4
Other Income	50	40	25.0	32	55.9
Interest	48	54	(11.5)	28	72.4
EBT	455	334	36.3	455	(0.1)
Tax	107	86	24.4	110	(2.3)
RPAT	353	250	41.1	350	0.9
APAT	353	250	41.1	350	0.9
			(bps)		(bps)
Gross Margin (%)	66.6	67.9	(124)	69.8	(319)
EBITDA Margin (%)	28.4	25.2	315	28.3	9
NPM (%)	17.3	13.9	349	17.5	(19)
Tax Rate (%)	23.5	25.8	(226)	24.1	(53)
EBIT Margin (%)	22.2	19.3	297	22.6	(35)

CMP	Rs 515
Target / Upside	Rs 620 / 20%
NIFTY	13,968

Scrip Details

Equity / FV	Rs 441mn / Rs 5
Market Cap	Rs 45bn
	USD 624mn
52-week High/Low	Rs 559/ 200
Avg. Volume (no)	87,527
Bloom Code	PLM IN

Price Performance	1M	3M	12M
Absolute (%)	(1)	6	98
Rel to NIFTY (%)	(1)	6	105

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	48.8	48.8	48.8
MF/Banks/FIs	0.0	0.0	0.3
FIs	2.9	2.4	3.8
Public / Others	48.3	48.9	47.1

Valuation (x)

	FY21E	FY22E	FY23E
P/E	35.3	30.2	24.8
EV/EBITDA	22.4	19.4	15.9
ROE (%)	27.4	27.3	28.0
RoACE (%)	21.3	22.0	23.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	7,873	9,182	10,645
EBITDA	2,091	2,383	2,847
PAT	1,290	1,508	1,835
EPS (Rs.)	14.6	17.1	20.8

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Polymed has grown at 14% and 20% CAGR in revenue and PAT respectively during FY17-20 with margins improving by 400 bps to 24.5% in FY20. Management guides for the growth momentum to sustain in teens with an EBITDA margin improvement of 500bps over the next 4 years. It is exploring new opportunities in Europe & USA markets as all its recently developed new products have received EU approval (CE mark) and will be launched in selected markets in coming months. Company has an enabling resolution of QIP of Rs4bn to be utilized for greenfield expansion under the latest PLI scheme to expand its renal segment. With improving penetration and A/O, we believe the company can easily grow at 19-20% earnings CAGR generating CFO to EBITDA at 80%+. Company has guided to become debt free by FY22E. Current net D/E ratio stands at 0.4x.

Further, it has improved its CFO/EBITDA from 60% in FY18 to 82% in FY20. The return ratios have been impressive at ~22%+. Over the past 10 years, revenue and PAT has grown at steady 16% CAGR with EBITDA margins at an average of 24%. At CMP, the stock trades at 29.9x FY22 and 24.6x FY23E EPS of Rs17.2 and Rs20.9 respectively.

Given that there is no direct comparable of this business, we benchmark our valuations to the diagnostics industry and use DCF as our valuation methodology. Assuming mid-teens growth and sustained margins, WACC of 11% and terminal growth of 5%, we initiate coverage on Polymed with a BUY recommendation and target price of Rs620.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	6,872	7,873	9,182	10,645
Total Expense	5,233	5,782	6,798	7,798
COGS	2,170	2,479	2,929	3,334
Employees Cost	1,388	1,481	1,727	2,002
Other expenses	1,675	1,822	2,143	2,463
EBIDTA	1,640	2,091	2,383	2,847
Depreciation	405	475	544	612
EBIT	1,234	1,616	1,840	2,235
Interest	183	141	89	67
Other Income	185	194	204	214
Exc. / E.O. items	0	0	0	0
EBT	1,236	1,669	1,954	2,381
Tax	298	403	472	575
RPAT	959	1,290	1,508	1,835
Minority Interest	0	0	0	0
Profit/Loss share of associates	21	24	26	28
APAT	959	1,290	1,508	1,835

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	441	441	441	441
Minority Interest	0	0	0	0
Reserves & Surplus	3,907	4,635	5,534	6,704
Net Worth	4,348	5,076	5,975	7,146
Total Debt	1,686	1,566	1,116	956
Net Deferred Tax Liability	252	263	275	288
Total Capital Employed	6,287	6,905	7,366	8,389

Applications of Funds

Net Block	3,278	3,860	4,131	4,149
CWIP	598	589	627	684
Investments	619	549	507	507
Current Assets, Loans & Advances	3,178	3,037	3,405	4,529
Inventories	1,121	1,122	1,241	1,379
Receivables	1,271	1,286	1,401	1,596
Cash and Bank Balances	254	89	208	965
Loans and Advances	1	2	2	2
Other Current Assets	372	380	393	428
Less: Current Liabilities & Provisions	1,386	1,130	1,304	1,480
Payables	664	698	803	900
Other Current Liabilities	723	432	501	579
<i>sub total</i>				
Net Current Assets	1,791	1,907	2,101	3,049
Total Assets	6,287	6,905	7,366	8,389

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	68.4	68.5	68.1	68.7
EBIDTA Margin	23.9	26.6	26.0	26.7
EBIT Margin	18.0	20.5	20.0	21.0
Tax rate	24.2	24.2	24.2	24.2
Net Profit Margin	14.0	16.4	16.4	17.2
(B) As Percentage of Net Sales (%)				
COGS	31.6	31.5	31.9	31.3
Employee	20.2	18.8	18.8	18.8
Other	24.4	23.1	23.3	23.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.3	0.2	0.1
Interest Coverage	6.7	11.5	20.6	33.4
Inventory days	60	52	49	47
Debtors days	68	60	56	55
Average Cost of Debt	12.0	8.7	6.7	6.5
Payable days	35	32	32	31
Working Capital days	95	88	84	105
FA T/O	2.1	2.0	2.2	2.6
(D) Measures of Investment				
AEPS (Rs)	10.9	14.6	17.1	20.8
CEPS (Rs)	15.5	20.0	23.2	27.7
DPS (Rs)	2.4	3.6	4.1	4.8
Dividend Payout (%)	22.2	24.6	24.2	22.9
BVPS (Rs)	49.3	57.5	67.7	81.0
RoANW (%)	23.5	27.4	27.3	28.0
RoACE (%)	19.1	21.3	22.0	23.8
RoAIC (%)	22.5	25.2	26.3	30.6
(E) Valuation Ratios				
CMP (Rs)	515	515	515	515
P/E	47.4	35.3	30.2	24.8
Mcap (Rs Mn)	45,469	45,469	45,469	45,469
MCap/ Sales	6.6	5.8	5.0	4.3
EV	46,743	46,787	46,218	45,301
EV/Sales	6.8	5.9	5.0	4.3
EV/EBITDA	28.5	22.4	19.4	15.9
P/BV	10.5	9.0	7.6	6.4
Dividend Yield (%)	0.5	0.7	0.8	0.9
(F) Growth Rate (%)				
Revenue	12.5	14.6	16.6	15.9
EBITDA	26.7	27.5	14.0	19.4
EBIT	33.9	30.9	13.8	21.5
PBT	25.2	35.1	17.1	21.9
APAT	46.6	34.5	16.9	21.7
EPS	46.6	34.5	16.9	21.7

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	1,342	1,897	1,987	2,238
CFI	(156)	1	1	1
CFF	(153)	(1,140)	(1,115)	(855)
FCFF	(140)	975	1,235	1,612
Opening Cash	546	254	89	208
Closing Cash	254	89	208	965

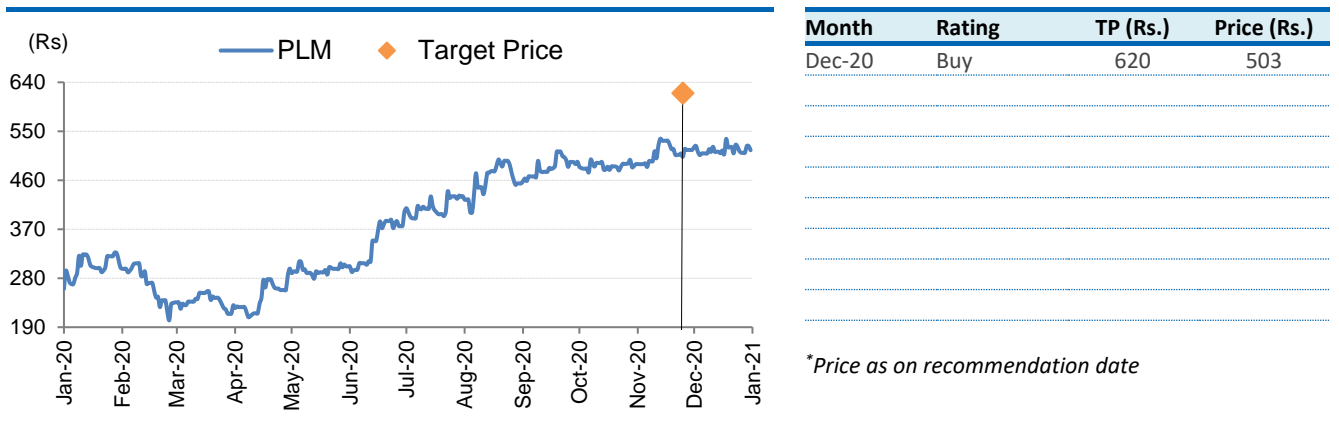
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



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