

May 17, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		ACCUMULATE	
Target Price	430		460	
Sales (Rs. m)	17,280	19,205	17,177	19,173
% Chng.	0.6	0.2		
EBITDA (Rs. m)	3,517	4,053	3,743	4,203
% Chng.	(6.1)	(3.6)		
EPS (Rs.)	20.0	23.9	22.1	25.4
% Chng.	(9.0)	(6.0)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	12,415	15,408	17,280	19,205
EBITDA (Rs. m)	2,243	3,273	3,517	4,053
Margin (%)	18.1	21.2	20.4	21.1
PAT (Rs. m)	931	1,548	1,847	2,203
EPS (Rs.)	10.1	16.8	20.0	23.9
Gr. (%)	285.8	66.4	19.3	19.3
DPS (Rs.)	0.5	2.3	2.3	2.3
Yield (%)	0.1	0.6	0.6	0.6
RoE (%)	12.8	18.5	18.7	18.9
RoCE (%)	16.2	23.3	21.7	22.7
EV/Sales (x)	2.8	2.2	2.0	1.7
EV/EBITDA (x)	15.3	10.6	9.6	8.1
PE (x)	34.7	20.9	17.5	14.7
P/BV (x)	4.2	3.6	3.0	2.5

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.530 / Rs.321
Sensex / Nifty	54,318 / 16,259
Market Cap	Rs.32bn/ \$ 416m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.40.37m

Shareholding Pattern (%)

Promoter's	58.69
Foreign	1.62
Domestic Institution	17.23
Public & Others	22.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.5)	(13.7)	0.1
Relative	(2.8)	(4.7)	(8.7)

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In-line quarter; strong revenue guidance for US & EU mkt

Quick Pointers:

- Guided for 40% and 20% revenue growth in US and EU in FY23.
- Input cost to remain elevated in the near term.

Indoco Remedies' (INDR) reported robust performance in a regulated market; management expects to maintain its growth momentum given strong order book and new launches. Domestic market performed well on low base in therapies like anti-infective, Cardiac and Respiratory along with higher prescriptions. 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. Our FY23E and FY24E EPS stands reduced by 9% and 6% as we factor in lower margins. Given recent correction in stock price and current valuations of 14.8x P/E on FY24E are attractive, we upgrade stock to 'Buy' from Accumulate with TP of Rs430 based on 18x FY24E earnings.

- Strong revenue across formulation segment:** Consolidated revenues grew by 34% to Rs4.1bn vs our est of Rs3.93bn. Domestic formulations grew up 39% YoY to Rs 1.9bn higher than our estimate of Rs 1.8bn. Key therapeutic segments of INDR reported double digit growth YoY. Regulated business also grew strongly by 48% YoY to Rs1.6bn, in line with our estimate, aided by higher US sales (up 110% YoY and 42% QoQ). EM formulation grew by 29% YoY. API declined 34% YoY on account of increased captive consumption.
- In-line EBIDTA; input cost pressure dragged margins:** INDR registered EBITDA of Rs805mn, up 47% YoY, largely in line with our estimate. Reported OPM of 19.7%; down 83 bps QoQ. Adjusted for other operating income, margins were down 40 bps QoQ. Gross margins were down by 170bps QoQ and 300 bps YoY largely on pressure of input cost. Other expenses increased by 19% QoQ (21% YoY) largely on account of pick-up in business activities of regulated markets. R&D cost came in at 4.9% of sales; up 20% YoY. Resultant PAT grew by 62% YoY (up 23% QoQ) to Rs 405 mn, vs our est of Rs 382mn.
- Key concall takeaways:** (1) Strong order book across US & EU markets; Guided for revenue growth of 40% in US and 20% in EU in FY23. (2) Expect 5-6 approvals in opthal segment over next 2 years. This includes products like gCombigan expected to launch in Q2FY23. Company has got CRL which has been responded. Market size of the product is +USD400mn and likely to be second generic player. (3) Regulatory milestone in the US was Rs 180mn including profit share of Rs 40mn. (4) Domestic formulation included Rs300mn sales from COVID in FY22 and guided for +11-12% growth in FY23. New launches contributed 2% to total revs in FY22 which should further pick up in FY23. Consol price hike of +6% likely in FY23. Currently 11% of portfolio under NLEM. (5) Capex to tune of Rs 1.1bn-1.2bn in FY23 which includes Rs500-600mn of capex pertaining to opthal segment (6) API sales should normalize and grow 2x in FY23 (7) Input cost likely to stay elevated in near term and guided for ~ 69% GMs in FY23.

Exhibit 1: 4QFY22 Result Overview (Rs m): Strong revenue growth across formulation segments

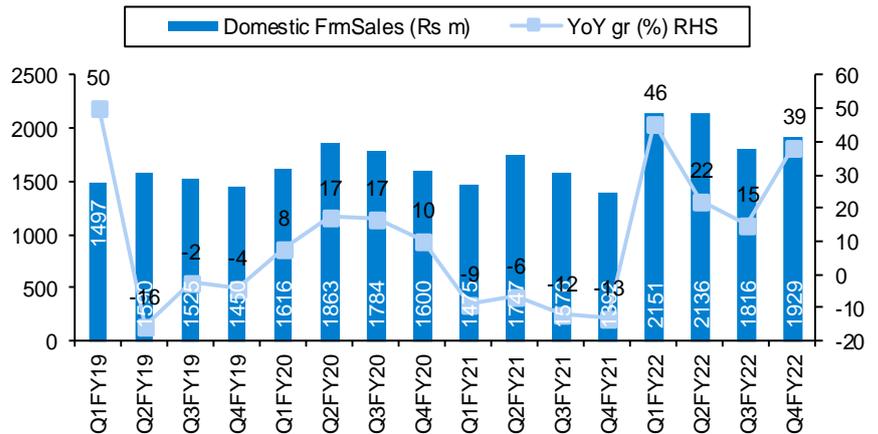
Y/e March	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	FY22	FY22	YoY gr. (%)
Net Sales	4,091	3,051	34.1	3,580	14.3	15,408	12,415	24.1
Raw Material	1,315	879	49.5	1,087	21.0	4,568	3,541	29.0
<i>% of Net Sales</i>	<i>32.1</i>	<i>28.8</i>		<i>30.4</i>		<i>29.6</i>	<i>28.5</i>	
Personnel Cost	732	602	21.7	713	2.7	2,937	2,740	7.2
<i>% of Net Sales</i>	<i>17.9</i>	<i>19.7</i>		<i>19.9</i>		<i>19.1</i>	<i>22.1</i>	
Others	1,239	1,023	21.1	1,046	18.5	4,629	3,891	19.0
<i>% of Net Sales</i>	<i>30.3</i>	<i>33.5</i>		<i>29.2</i>		<i>30.0</i>	<i>31.3</i>	
Total Expenditure	3,286	2,504	31.2	2,846	15.5	12,134	10,173	19.3
EBITDA	805	547	47.2	735	9.7	3,273	2,243	46.0
<i>Margin (%)</i>	<i>19.7</i>	<i>17.9</i>		<i>20.5</i>		<i>21.2</i>	<i>18.1</i>	
Depreciation	181	186	(2.7)	192	(6.1)	790	731	8.0
EBIT	625	362	72.8	542	15.2	2,484	1,511	64.3
Other Income	3	20	(84.8)	2	87.5	23	31	(25.3)
Interest	30	46	(33.8)	38	(20.2)	141	223	(36.5)
PBT	598	336	78.0	506	18.1	2,366	1,320	79.2
Extra-Ord. Inc./Exps.	-	-		-		-	-	
Total Taxes	193	86	125.5	176	9.7	818	390	110.0
<i>ETR (%)</i>	<i>32.3</i>	<i>25.5</i>		<i>34.8</i>		<i>34.6</i>	<i>29.5</i>	
Reported PAT	405	250	61.8	330	22.6	1,548	930	66.4

Source: Company, PL

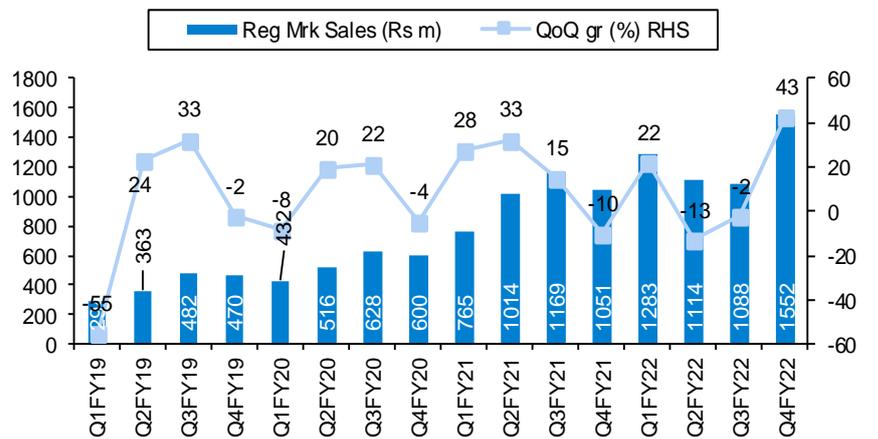
Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	FY22	FY22	YoY gr. (%)
Domestic	1,974	1,484	33.0	1,874	5.3	3,847	3,433	12.1
Formulations	1,929	1,392	38.5	1,816	6.2	3,744	3,291	13.8
APIs	45	92	(51.1)	58	(22.8)	103	142	(27.6)
Exports	1,982	1,426	39.0	1,569	26.3	3,551	2,662	33.4
Formulations	1,895	1,318	43.8	1,430	32.5	3,326	2,385	39.5
Reg mkt	1,552	1,051	47.6	1,088	42.7	2,639	1,852	42.5
Non-reg mkt (Emerging mkt)	344	267	28.7	343	0.2	686	533	28.9
API	86	108	(19.8)	139	(37.9)	225	277	(18.7)
CRO	48	38	24.0	44	9.2	91	60	51.7

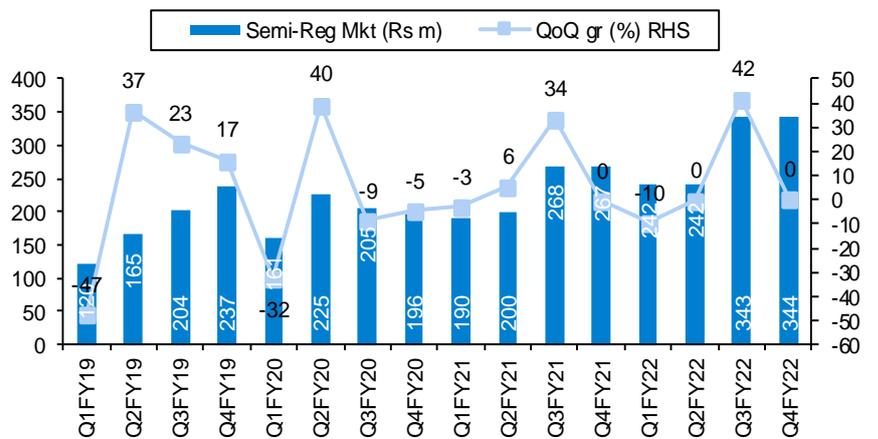
Source: Company, PL

Exhibit 3: India Formulations: Growth continued given low base


Source: Company, PL

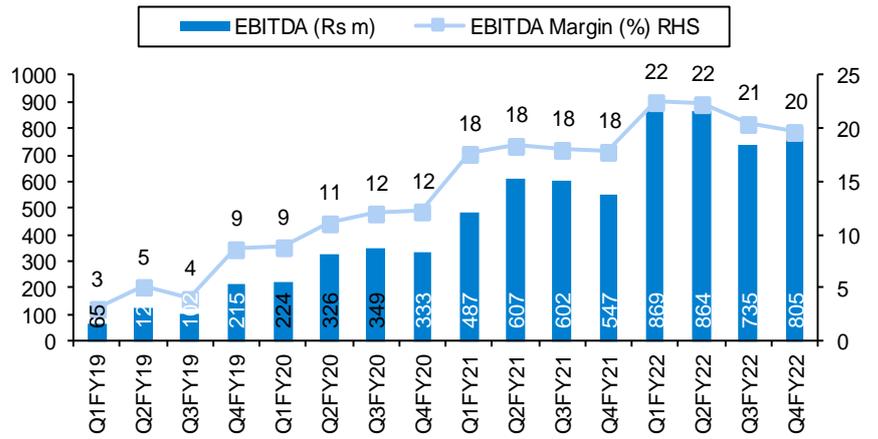
Exhibit 4: Export: Regulated Mkt : Strong growth aided by US


Source: Company, PL

Exhibit 5: Export— overall growth lead to strong performance


Source: Company, PL

Exhibit 6: EBITDA margins remained under pressure on weak GMs



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	12,415	15,408	17,280	19,205
YoY gr. (%)	12.2	24.1	12.2	11.1
Cost of Goods Sold	3,541	4,568	5,365	5,870
Gross Profit	8,874	10,840	11,916	13,335
Margin (%)	71.5	70.4	69.0	69.4
Employee Cost	2,740	2,937	3,231	3,554
Other Expenses	3,891	4,629	5,168	5,728
EBITDA	2,243	3,273	3,517	4,053
YoY gr. (%)	82.0	46.0	7.4	15.3
Margin (%)	18.1	21.2	20.4	21.1
Depreciation and Amortization	731	790	892	985
EBIT	1,511	2,484	2,625	3,069
Margin (%)	12.2	16.1	15.2	16.0
Net Interest	223	141	163	151
Other Income	31	23	35	60
Profit Before Tax	1,320	2,366	2,497	2,977
Margin (%)	10.6	15.4	14.4	15.5
Total Tax	390	818	649	774
Effective tax rate (%)	29.5	34.6	26.0	26.0
Profit after tax	931	1,548	1,847	2,203
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	931	1,548	1,847	2,203
YoY gr. (%)	285.8	66.4	19.3	19.3
Margin (%)	7.5	10.0	10.7	11.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	931	1,548	1,847	2,203
YoY gr. (%)	285.8	66.4	19.3	19.3
Margin (%)	7.5	10.0	10.7	11.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	931	1,548	1,847	2,203
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	10.1	16.8	20.0	23.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	11,809	13,136	14,386	15,886
Tangibles	11,809	13,136	14,386	15,886
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,110	6,899	7,791	8,776
Tangibles	6,110	6,899	7,791	8,776
Intangibles	-	-	-	-
Net fixed assets	5,699	6,237	6,595	7,110
Tangibles	5,699	6,237	6,595	7,110
Intangibles	-	-	-	-
Capital Work In Progress	681	528	528	528
Goodwill	1	1	1	1
Non-Current Investments	-	-	-	-
Net Deferred tax assets	194	(106)	(106)	(106)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	0	-	-
Inventories	2,379	3,105	3,456	3,841
Trade receivables	2,338	2,972	3,359	3,735
Cash & Bank Balance	143	198	517	975
Other Current Assets	1,702	1,800	1,853	1,928
Total Assets	12,957	14,861	16,330	18,137
Equity				
Equity Share Capital	184	184	184	184
Other Equity	7,506	8,862	10,502	12,498
Total Networkth	7,690	9,046	10,687	12,682
Non-Current Liabilities				
Long Term borrowings	969	959	959	959
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,163	1,483	1,083	720
Trade payables	1,132	1,333	1,562	1,736
Other current liabilities	2,196	1,934	1,934	1,934
Total Equity & Liabilities	12,957	14,861	16,330	18,137

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,320	2,366	2,497	2,977
Add. Depreciation	731	790	892	985
Add. Interest	223	141	163	151
Less Financial Other Income	31	23	35	60
Add. Other	102	375	(35)	(60)
Op. profit before WC changes	2,376	3,672	3,517	4,053
Net Changes-WC	(1,398)	(1,526)	(562)	(661)
Direct tax	(197)	(410)	(649)	(774)
Net cash from Op. activities	781	1,736	2,305	2,619
Capital expenditures	(769)	(1,253)	(1,250)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(769)	(1,253)	(1,250)	(1,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(143)	(4)	(400)	(363)
Dividend paid	(28)	(138)	(207)	(207)
Interest paid	(223)	(141)	(163)	(151)
Others	146	(145)	35	60
Net cash from Fin. activities	(248)	(428)	(736)	(661)
Net change in cash	(236)	54	320	457
Free Cash Flow	12	482	1,055	1,119

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	3,868	3,869	3,580	4,091
YoY gr. (%)	40.2	17.9	7.7	34.1
Raw Material Expenses	1,103	1,063	1,087	1,315
Gross Profit	2,764	2,806	2,493	2,777
Margin (%)	71.5	72.5	69.6	67.9
EBITDA	869	864	735	805
YoY gr. (%)	78.6	42.4	22.1	47.2
Margin (%)	22.5	22.3	20.5	19.7
Depreciation / Depletion	222	195	192	181
EBIT	647	670	542	625
Margin (%)	16.7	17.3	15.1	15.3
Net Interest	42	31	38	30
Other Income	9	10	2	3
Profit before Tax	613	650	506	598
Margin (%)	15.8	16.8	14.1	14.6
Total Tax	216	233	176	193
Effective tax rate (%)	35.3	35.8	34.8	32.3
Profit after Tax	397	417	330	405
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	397	417	330	405
YoY gr. (%)	132.7	62.5	30.1	61.8
Margin (%)	10.3	10.8	9.2	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	397	417	330	405
YoY gr. (%)	132.7	62.5	30.1	61.8
Margin (%)	10.3	10.8	9.2	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	397	417	330	405
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	4.3	4.5	3.6	4.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	10.1	16.8	20.0	23.9
CEPS	18.0	25.4	29.7	34.6
BVPS	83.4	98.2	116.0	137.6
FCF	0.1	5.2	11.5	12.1
DPS	0.5	2.3	2.3	2.3
Return Ratio(%)				
RoCE	16.2	23.3	21.7	22.7
ROIC	11.8	16.9	16.6	17.9
RoE	12.8	18.5	18.7	18.9
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.1	0.1
Net Working Capital (Days)	105	112	111	111
Valuation(x)				
PER	34.7	20.9	17.5	14.7
P/B	4.2	3.6	3.0	2.5
P/CEPS	19.4	13.8	11.8	10.1
EV/EBITDA	15.3	10.6	9.6	8.1
EV/Sales	2.8	2.2	2.0	1.7
Dividend Yield (%)	0.1	0.6	0.6	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Domestic Formulations	6,190	8,031	8,581	9,525
Export Formulations	4,924	6,206	7,322	8,167
APIs	940	634	951	1,046

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	Accumulate	460	392
2	03-Feb-22	Accumulate	460	398
3	07-Jan-22	Accumulate	480	438
4	04-Nov-21	Accumulate	480	450

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,772	4,537
2	Aster DM Healthcare	BUY	234	193
3	Aurobindo Pharma	Accumulate	759	699
4	Cipla	BUY	1,085	926
5	Divi's Laboratories	Accumulate	4,750	4,448
6	Dr. Reddy's Laboratories	BUY	5,200	4,317
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	362	271
9	Glenmark Pharmaceuticals	Accumulate	550	477
10	HealthCare Global Enterprises	BUY	316	292
11	Indoco Remedies	Accumulate	460	392
12	Ipca Laboratories	BUY	1,180	1,002
13	Krishna Institute of Medical Sciences	BUY	1,638	1,405
14	Lupin	Accumulate	950	785
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	733
17	Sun Pharmaceutical Industries	BUY	1,050	931
18	Torrent Pharmaceuticals	BUY	3,560	2,753
19	Zydus Lifesciences	Accumulate	465	369

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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