

July 25, 2023

Q1FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	380		400	
Sales (Rs. m)	18,414	20,770	18,549	20,744
% Chng.	(0.7)	0.1		
EBITDA (Rs. m)	3,127	3,716	3,326	3,819
% Chng.	(6.0)	(2.7)		
EPS (Rs.)	16.5	21.0	18.6	22.3
% Chng.	(11.3)	(5.7)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	15,408	16,686	18,414	20,770
EBITDA (Rs. m)	3,273	2,861	3,127	3,716
Margin (%)	21.2	17.1	17.0	17.9
PAT (Rs. m)	1,548	1,423	1,519	1,939
EPS (Rs.)	16.8	15.4	16.5	21.0
Gr. (%)	123.8	(8.1)	6.8	27.6
DPS (Rs.)	2.3	2.3	2.3	2.3
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	18.5	14.7	13.9	15.6
RoCE (%)	23.3	17.3	16.4	18.3
EV/Sales (x)	2.1	2.0	1.8	1.6
EV/EBITDA (x)	9.8	11.5	10.4	8.7
PE (x)	19.3	21.0	19.6	15.4
P/BV (x)	3.3	2.9	2.6	2.2

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.424 / Rs.306
Sensex / Nifty	66,342 / 19,672
Market Cap	Rs.30bn/ \$ 364m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.42.74m

Shareholding Pattern (%)

Promoter's	58.73
Foreign	1.58
Domestic Institution	17.16
Public & Others	22.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.2	(7.2)	(14.6)
Relative	(4.0)	(15.8)	(28.2)

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Another quarter of weak margins

Quick Pointers:

- Rs 80mn one-off expenses related to remediation and certain staff expenses
- Lowered its FY24E margin guidance to 17-18% vs 18-19% earlier.

We cut our FY24/FY25 EPS by ~11%/6% to factor in low margins and US sales. Indoco Remedies' (INDR) Q1FY24 revenues at Rs4.2bn were largely in-line, while EBITDA was 20% below our estimates led by Rs80mn one offs and higher other expenses. Adjusted for one offs, margins came in at 16.2%. The recent OAI to its Goa unit-2 is negative and will restrict growth in US sales in FY24. However, we remain structurally positive on INDR's growth prospects given steady domestic franchise (50% of total sales) and reasonable valuations. We expect 17% PAT CAGR over FY23-25E. At CMP, stock is trading at 15x FY25E EPS. We retain our 'Buy' rating with revised TP of Rs380 valuing at 18x FY25E EPS. Timely resolution of Goa facility unit-2 is a key for re-rating.

- Lower regulated market sales:** Consolidated revenues ex-other operating income increased by 5% YoY to Rs 4.2bn (down 3% QoQ), largely in-line with our estimates. Domestic formulations sales grew by 6.5% YoY to Rs 2.1bn. Key therapies like Stomatologicals reported healthy growth, while anti-infectives and respiratory reported decline YoY. Regulated business declined by 9% YoY to Rs1.3bn, whereas EM business registered decline of 15% YoY. EU sales were Rs 794mn, up 2% YoY, while US sales came in lower at Rs512mn down 28% QoQ. API grew strongly by 169% YoY; above our estimate.
- EBITDA miss due to higher other expenses and one-offs:** INDR reported EBITDA of Rs612mn; down 14% YoY. Other operating income came in higher at Rs96mn. Reported OPM of 14.3%, down 80bps QoQ. There were Rs80mn one offs related to remediation cost and certain expenses in staff cost. Gross margins (ad for other operating income) were largely flat QoQ to 69.1%. R&D cost came in higher at 5.7% of sales, up 30% YoY. Resultant PAT declined 37% YoY to Rs 244mn sharply below our estimates of Rs 360mn.
- Key concall takeaways:** (1) During the quarter; company has got OAI for its Goa plant II facility. This is critical facility from US growth perspective. Mgmt. cited that it is likely to incur Rs40mn/quarter towards remediation cost. (2) US sales were impacted in Q1, as certain milestone income got postponed with delay in supply due to OAI. Guided for Rs2.8-3bn of US sales in FY24. (3) Domestic Formulation: Delay in monsoon impacted growth in Q1. Key brands like Cyclopam and Febrex plus reported YoY decline while brands like Sensodent and Cital reported strong YoY growth. Guided for 11-12% growth in FY24 (4) The recent acquisition of FPP (Florida Pharmaceutical Products) got consolidated for 1 month and will strengthen its front end position in US market. Company intends to transfer products got back from its Teva partnership to FPP entity. Will be incurring \$2mn as opex towards running operations of FPP (5) Strong API sales in Q1 are sustainable, while sales from EM markets to recover from Q2. Guided for Rs 3.8bn sales from EU market in FY24. Expects margin within 17-18% range in FY24 vs its earlier guidance of 18-19%. Also guided for overall capex of Rs 1,250mn in FY24.

Exhibit 1: 1QFY24 Result Overview (Rs m): Lower US sales and Rs80mn one offs led to miss in EBITDA

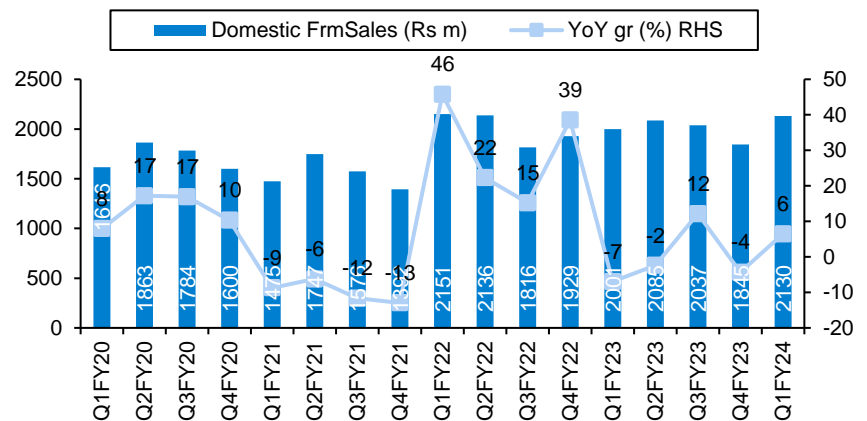
Y/e March	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Net Sales	4,265	4,082	4.5	4,282	(0.4)	18,414	16,686	8.3
Raw Material	1,287	1,321	(2.6)	1,315	(2.1)	5,700	5,213	14.1
<i>% of Net Sales</i>	<i>30.2</i>	<i>32.4</i>		<i>30.7</i>		<i>31.0</i>	<i>31.2</i>	
Personnel Cost	915	827	10.7	767	19.4	3,548	3,226	9.6
<i>% of Net Sales</i>	<i>21.5</i>	<i>20.3</i>		<i>17.9</i>		<i>19.3</i>	<i>19.3</i>	
Others	1,451	1,220	18.9	1,552	(6.5)	6,039	5,386	16.5
<i>% of Net Sales</i>	<i>34.0</i>	<i>29.9</i>		<i>36.3</i>		<i>32.8</i>	<i>32.3</i>	
Total Expenditure	3,653	3,368	8.5	3,634	0.5	15,287	13,825	13.9
EBITDA	612	715	(14.4)	648	(5.5)	3,127	2,861	(12.6)
<i>Margin (%)</i>	<i>14.3</i>	<i>17.5</i>		<i>15.1</i>		<i>17.0</i>	<i>17.1</i>	
Depreciation	199	201	(1.1)	177	12.4	823	706	(10.6)
EBIT	413	514	(19.6)	471	(12.3)	2,304	2,155	(13.2)
Other Income	4	11	(63.7)	5	(18.0)	30	23	0.4
Interest	78	41	88.6	86	(9.8)	308	250	77.0
PBT	339	483	(29.9)	389	(12.9)	2,026	1,927	(18.5)
Extra-Ord. Inc./Exps.	-	-	-	-	-	-	-	-
Total Taxes	97	98	(0.5)	131	(25.8)	506	506	(38.2)
<i>ETR (%)</i>	<i>28.7</i>	<i>20.2</i>		<i>33.7</i>		<i>25.0</i>	<i>26.2</i>	
Reported PAT	244	386	(36.8)	258	(5.5)	1,521	1,422	7.0

Source: Company, PL

Exhibit 2: Weak formulation business while strong pick-up in API sales

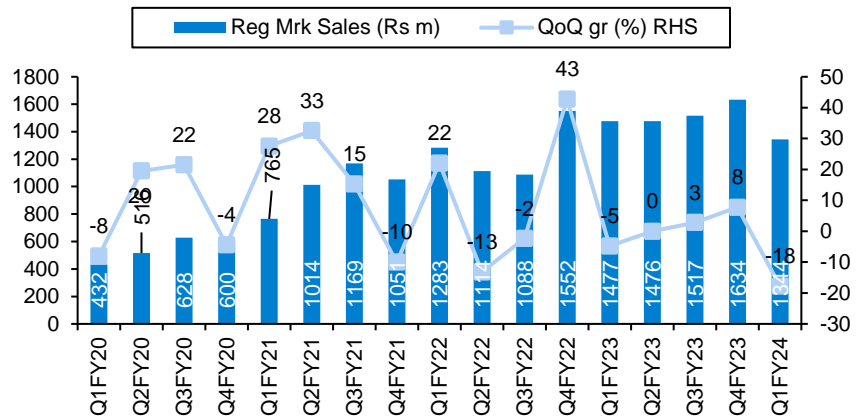
Major sources of revenues	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY Gr %
Domestic	2,264	2,028	11.6	1,963	15.3	4,227	3,522	20.0
Formulations	2,130	2,001	6.5	1,845	15.4	3,975	3,320	19.7
APIs	134	27	392.3	118	13.5	252	202	24.7
Exports	1,820	1,878	(3.1)	2,272	(19.9)	4,093	3,365	21.6
Formulations	1,597	1,773	(9.9)	2,162	(26.1)	3,759	3,117	20.6
Reg mkt	1,344	1,477	(9.0)	1,634	(17.8)	2,978	2,399	24.1
Non-reg mkt (Emerging mkt)	253	296	(14.5)	528	(52.1)	781	718	8.8
API	223	106	111.7	110	102.3	334	248	34.4
CRO	48	42	13.6	45	6.0	93	62	50.7

Source: Company, PL

Exhibit 3: India Formulations: Delayed monsoon led to lower sales


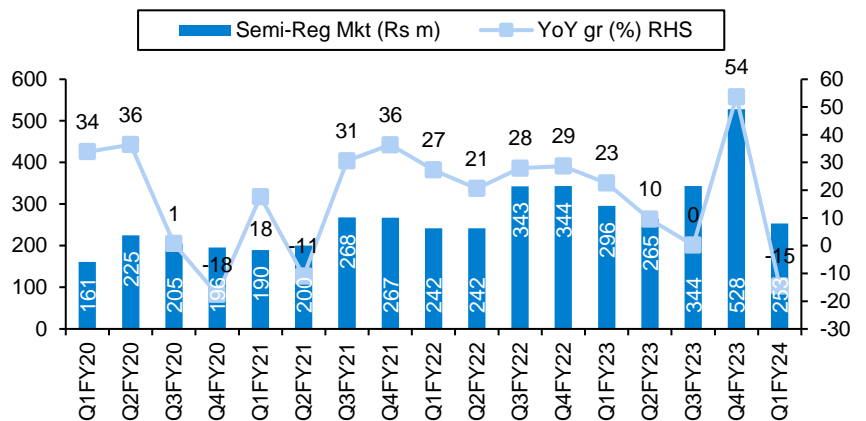
Source: Company, PL

Exhibit 4: Export: Regulated Mkt : OAI to Goa plant 2 impacted US sales



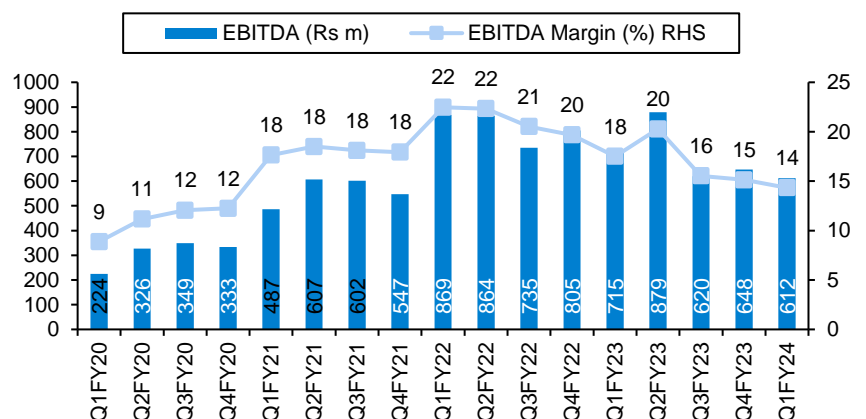
Source: Company, PL

Exhibit 5: Export: EM markets sales to recover from Q2



Source: Company, PL

Exhibit 6: Decline in OPM led by higher other expenses and one offs



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	15,408	16,686	18,414	20,770
YoY gr. (%)	24.1	8.3	10.4	12.8
Cost of Goods Sold	4,568	5,213	5,700	6,442
Gross Profit	10,840	11,473	12,714	14,328
Margin (%)	70.4	68.8	69.0	69.0
Employee Cost	2,937	3,226	3,548	3,903
Other Expenses	4,629	5,386	6,039	6,709
EBITDA	3,273	2,861	3,127	3,716
YoY gr. (%)	63.4	(12.6)	9.3	18.8
Margin (%)	21.2	17.1	17.0	17.9
Depreciation and Amortization	790	706	823	898
EBIT	2,484	2,155	2,304	2,817
Margin (%)	16.1	12.9	12.5	13.6
Net Interest	141	250	308	272
Other Income	23	23	30	40
Profit Before Tax	2,366	1,928	2,026	2,585
Margin (%)	15.4	11.6	11.0	12.4
Total Tax	818	506	506	646
Effective tax rate (%)	34.6	26.2	25.0	25.0
Profit after tax	1,548	1,423	1,519	1,939
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,548	1,423	1,519	1,939
YoY gr. (%)	123.8	(8.1)	6.8	27.6
Margin (%)	10.0	8.5	8.3	9.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,548	1,423	1,519	1,939
YoY gr. (%)	123.8	(8.1)	6.8	27.6
Margin (%)	10.0	8.5	8.3	9.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,548	1,423	1,519	1,939
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	16.8	15.4	16.5	21.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	13,136	14,969	16,469	17,969
Tangibles	13,136	14,969	16,469	17,969
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,899	7,605	8,429	9,327
Tangibles	6,899	7,605	8,429	9,327
Intangibles	-	-	-	-
Net fixed assets	6,237	7,364	8,040	8,642
Tangibles	6,237	7,364	8,040	8,642
Intangibles	-	-	-	-
Capital Work In Progress	528	554	554	554
Goodwill	1	1	1	1
Non-Current Investments	-	-	-	-
Net Deferred tax assets	(106)	(61)	(61)	(61)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	0	15	15	15
Inventories	3,105	3,260	3,784	4,268
Trade receivables	2,972	3,509	3,569	4,034
Cash & Bank Balance	198	133	333	274
Other Current Assets	1,800	1,701	1,769	1,839
Total Assets	14,861	16,572	18,100	19,662
Equity				
Equity Share Capital	184	184	184	184
Other Equity	8,862	10,098	11,410	13,142
Total Networkth	9,046	10,283	11,594	13,326
Non-Current Liabilities				
Long Term borrowings	959	1,435	1,435	1,435
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,483	1,710	1,647	1,284
Trade payables	1,333	1,235	1,513	1,707
Other current liabilities	1,934	1,859	1,859	1,859
Total Equity & Liabilities	14,861	16,582	18,110	19,672

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	2,366	1,928	2,026	2,585
Add. Depreciation	790	706	823	898
Add. Interest	141	250	308	272
Less Financial Other Income	23	23	30	40
Add. Other	379	303	(30)	(40)
Op. profit before WC changes	3,675	3,187	3,127	3,716
Net Changes-WC	(1,526)	(782)	(373)	(826)
Direct tax	(411)	(617)	(506)	(646)
Net cash from Op. activities	1,738	1,788	2,248	2,243
Capital expenditures	(1,253)	(2,073)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(1,253)	(2,073)	(1,500)	(1,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(130)	319	(63)	(363)
Dividend paid	(138)	(207)	(207)	(207)
Interest paid	(141)	(250)	(308)	(272)
Others	(21)	359	30	40
Net cash from Fin. activities	(431)	220	(549)	(802)
Net change in cash	54	(64)	200	(59)
Free Cash Flow	485	(284)	748	743

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	4,330	3,992	4,282	4,265
YoY gr. (%)	11.9	11.5	4.7	4.5
Raw Material Expenses	1,274	1,304	1,315	1,287
Gross Profit	3,057	2,689	2,967	2,978
Margin (%)	70.6	67.3	69.3	69.8
EBITDA	879	620	648	612
YoY gr. (%)	1.6	(15.5)	(19.6)	(14.4)
Margin (%)	20.3	15.5	15.1	14.3
Depreciation / Depletion	157	172	177	199
EBIT	722	449	471	413
Margin (%)	16.7	11.2	11.0	9.7
Net Interest	53	70	86	78
Other Income	4	4	5	4
Profit before Tax	673	382	389	339
Margin (%)	15.5	9.6	9.1	8.0
Total Tax	176	101	131	97
Effective tax rate (%)	26.1	26.3	33.7	28.7
Profit after Tax	497	282	258	242
Minority interest	-	-	-	(2)
Share Profit from Associates	-	-	-	-
Adjusted PAT	497	282	258	244
YoY gr. (%)	19.3	(14.7)	(36.2)	(36.8)
Margin (%)	11.5	7.1	6.0	5.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	497	282	258	244
YoY gr. (%)	19.3	(14.7)	(36.2)	(36.8)
Margin (%)	11.5	7.1	6.0	5.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	497	282	258	244
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	5.4	3.1	2.8	2.6

Source: Company Data, PL Research

Key Financial Metrics

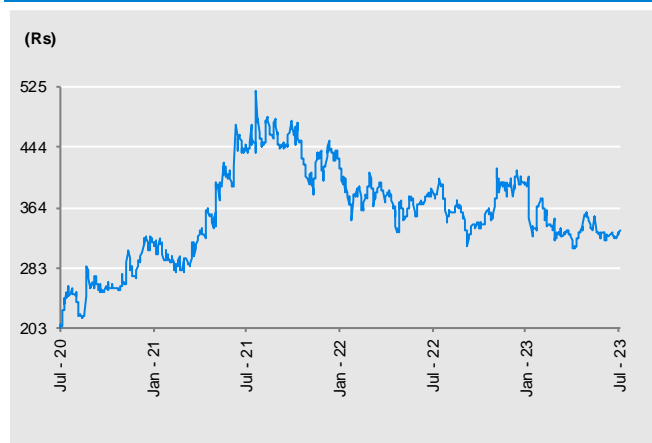
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	16.8	15.4	16.5	21.0
CEPS	25.4	23.1	25.4	30.8
BVPS	98.2	111.6	125.8	144.6
FCF	5.3	(3.1)	8.1	8.1
DPS	2.3	2.3	2.3	2.3
Return Ratio(%)				
RoCE	23.3	17.3	16.4	18.3
ROIC	16.9	13.1	13.0	14.5
RoE	18.5	14.7	13.9	15.6
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.2	0.2
Net Working Capital (Days)	112	121	116	116
Valuation(x)				
PER	19.3	21.0	19.6	15.4
P/B	3.3	2.9	2.6	2.2
P/CEPS	12.8	14.0	12.7	10.5
EV/EBITDA	9.8	11.5	10.4	8.7
EV/Sales	2.1	2.0	1.8	1.6
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Domestic Formulations	8,031	7,967	8,764	9,640
Export Formulations	6,206	7,537	8,150	9,508
APIs	634	707	989	1,088

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	400	328
2	24-May-23	BUY	400	340
3	06-Apr-23	BUY	430	328
4	25-Jan-23	BUY	430	363
5	06-Jan-23	BUY	430	396
6	14-Nov-22	BUY	430	348
7	06-Oct-22	BUY	430	336
8	10-Aug-22	BUY	430	396

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,300	5,283
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,070	1,021
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	4,500	5,232
7	Eris Lifesciences	BUY	780	706
8	Fortis Healthcare	BUY	365	322
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	375	326
11	Indoco Remedies	BUY	400	328
12	Ipca Laboratories	Hold	750	760
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,314
14	Krishna Institute of Medical Sciences	BUY	1,660	1,782
15	Lupin	Hold	730	905
16	Max Healthcare Institute	BUY	565	614
17	Narayana Hrudayalaya	BUY	1,100	1,013
18	Sun Pharmaceutical Industries	BUY	1,140	1,043
19	Torrent Pharmaceuticals	BUY	1,900	1,899
20	Zydus Lifesciences	Accumulate	520	588

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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