

25 July 2024

India | Equity Research | Q1FY25 results review

Poly Medicure

Pharma

Fresh capacity and exports to drive momentum

Poly Medicure's (PolyMed) Q1FY25 performance was boosted by exports (~23% YoY) while domestic business growth (~12% YoY) took a pause on high base. The company has commissioned four new plants that may double its device manufacturing capacity to 1.8bn units p.a by FY25 end. It is further raising INR 10bn via QIP to setup additional four plants over the next 2-3 years and may also evaluate inorganic opportunities. Growth in India business may bounce back in Q2FY25, and management expects 18-20% growth in this segment in FY25. It has added 40 sales representatives in Q1FY25 in India and will add 60 more in FY25. Management has maintained its revenue guidance of 22-24% and 100-200bps improvement in margin for FY25. We raise our FY25/26E EBITDA by ~1-3%. The stock trades at an expensive valuation of 31.9x FY26E EV/EBITDA. We lower our rating to **HOLD** with higher TP of INR 1,940, based on 30x FY26E EV/EBITDA.

Europe drives the show, mix improvement boosts gross margin

Revenue surged 19.9% YoY/1.8% QoQ to INR 3.8bn led by healthy growth in Europe. Gross margin expanded 160bps YoY (+140bps QoQ) to 66.7%. EBITDA margin contracted 20bps YoY (+150bps QoQ) to 27.0%. Adjusted PAT was up 18.1% YoY/8.3% QoQ to INR 740mn.

Temporary slowdown in India

Domestic revenue accounted for 30% of sales and stood at INR 1.1bn (up 12% YoY). Domestic business growth was impacted on a high base of revenue from government orders of syringes for vaccination programme which was discontinued in Q1FY24. To boost growth, the company added 40 (20% increases) sales representatives in Q1FY25 and is on track to add 60 more in FY25. Management aims to grow domestic business by 20-22% YoY in FY25.

EU continues to drive strong momentum in export markets

Exports accounted for 70% of revenue. The segment grew a robust ~23% YoY led by EU markets (up 30% YoY). The company has received the approval for four products from the USFDA and another 8-10 products are awaiting approval. It is ramping up production capacity by adding new equipment to increase capacity for US market and has maintained its sales guidance of USD 15-20mn in the next 3-4 years. Exports may grow 22-25% in FY25E aided by new launches and traction in existing products.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	11,152	13,758	17,098	20,931
EBITDA	2,654	3,582	4,720	6,021
EBITDA Margin (%)	23.8	26.0	27.6	28.8
Net Profit	1,793	2,583	3,405	4,322
EPS (INR)	18.7	26.9	35.5	45.0
EPS % Chg YoY	22.3	44.0	31.9	26.9
P/E (x)	108.9	75.7	57.4	45.2
EV/EBITDA (x)	73.0	54.1	41.0	31.9
RoCE (%)	14.0	17.3	19.2	20.5
RoE (%)	15.4	19.0	21.1	22.2

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Market Data

Market Cap (INR)	195bn
Market Cap (USD)	2,334mn
Bloomberg Code	PLM IN
Reuters Code	PLMD.BO
52-week Range (INR)	2,237 /1,115
Free Float (%)	47.0
ADTV-3M (mn) (USD)	3.5

Price Performance (%)	3m	6m	12m
Absolute	30.4	40.3	77.8
Relative to Sensex	21.9	27.6	57.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.5	1.2
EBITDA	1.2	2.8
EPS	1.3	2.9

Previous Reports

20-05-2024: [Q4FY24 results review](#)

03-02-2024: [Q3FY24 results review](#)

Fund raise to improvise scale

PolyMed has been on an expansion spree in the last couple of years with INR 5.1bn already invested in increasing capacities for its existing line of businesses. It further plans to invest INR 2.5bn to set up four new plants aimed at building capacities for US markets, cardiology and critical care products. The company is also looking to improve scale and add new technology through M&A, from fresh equity raise of up to INR 10bn.

Guidance

Management guides for the following for FY25: 1) Overall revenue growth at 22–24%. 2) Renal segment to grow at 50% YoY to INR~1.4-1.5bn. 3) EBITDA margin to improve 100–200bps. 4) To launch 10–12 products in each of its existing markets. 5) US business to register sales of USD 15-20mn over the next three years.

Valuation

Poly Medicure is on track to increase its scale of operations. It is likely to increase its capacity by 50% to 1.8bn units by the end of FY25. The company is further raising INR 10bn of which INR 2.5bn will be used to setup four new plants and also pursue M&A to improvise scale. Its success in securing four product approvals in US and a wider acceptability in Europe has helped it prove its mettle. In the near term, its existing capacities may help the company grow its revenue at a strong 22–25% YoY while operating leverage could drive 273bps expansion in EBITDA margin over FY24-26E. We estimate earnings to grow at a CAGR of 29.7% over FY24–26E led by revenue CAGR of 23.3%. We forecast RoE/RoCE of ~22.2%/20.5% for FY26E.

The stock currently trades at expensive valuations of 57.2x FY25E and 45.1x FY26E earnings and EV/EBITDA multiples of 41.0x FY25E and 31.9x FY26E, respectively. We like the company mainly due to its strong presence in the fast-growing medical disposable segment, industry tailwinds, leading market share in key categories, entry into larger markets like the US, expansion into margin-accretive segments, and strong financials. We lower rating to **HOLD** (from Add) with higher target price of INR 1,940 (earlier INR 1,860), based on 30x FY26E EV/EBITDA.

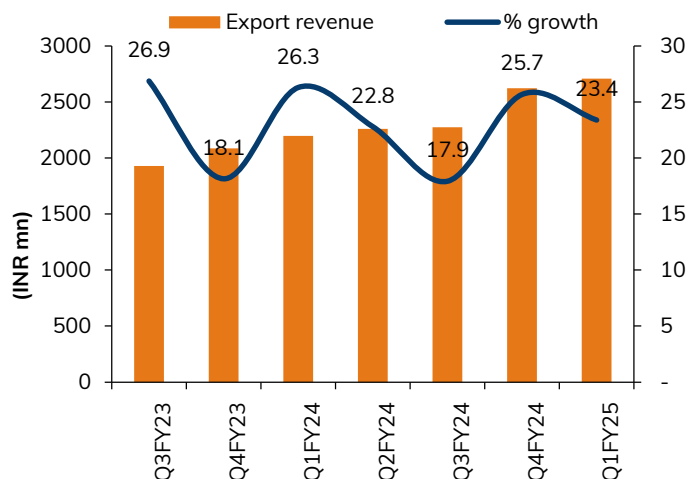
Key downside risks: Intensified competition, and disruption in distribution network.

Key upside risks: Market share gains in domestic market and faster ramp-up in new plants.

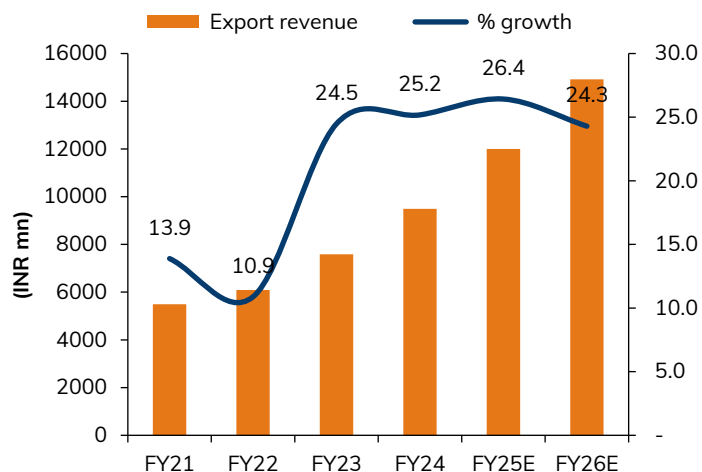
Exhibit 1: Q1FY25 quarterly review

Particular (INR mn)	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %	FY24	FY23	YoY %
Net Sales	3,848	3,208	19.9	3,781	1.8	13,758	11,152	23.4
Gross Profit	2,565	2,086	22.9	2,469	3.9	3,582	2,654	35.0
Gross margins (%)	66.7	65.0	160bps	65.3	140bps	26.0	23.8	220bps
EBITDA	1,039	872	19.2	966	7.6	3,582	2,654	35.0
EBITDA margins (%)	27.0	27.2	-20bps	25.5	150bps	26.0	23.8	220bps
Other income	174	139	25.2	152	14.2	613	-	-
PBIDT	1,213	1,010	20.0	1,118	8.5	4,195	2,654	58.0
Depreciation	196	155	26.6	162	21.3	639	572	11.8
Interest	32	25	26.9	31	1.2	113	88	27.9
Extra ordinary income/ (exp.)	-	-	-	-	-	-	-	-
PBT	985	830	18.6	925	6.5	3,443	1,994	72.6
Tax	244	203	20.0	241	1.3	769	582	32.2
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	740	627	18.1	684	8.3	2,673	1,412	89.3
Adjusted PAT	740	627	18.1	684	8.3	2,673	1,793	49.1

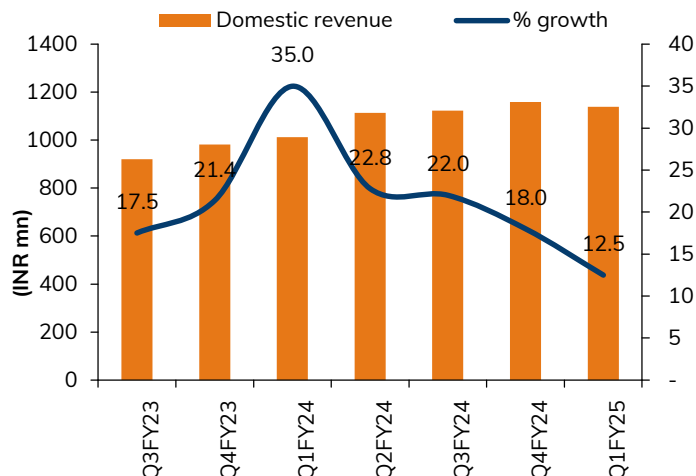
Source: I-Sec research, Company data

Exhibit 2: Export growth driven by traction in Europe

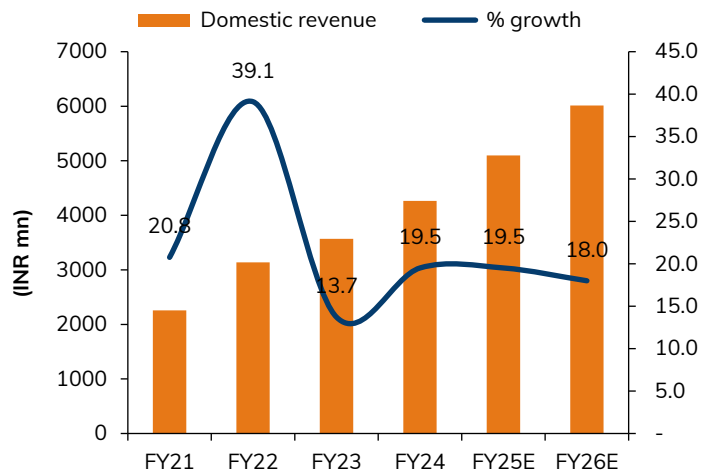
Source: I-Sec research, Company data

Exhibit 3: Export growth pegged at 25.4% over FY24–26E

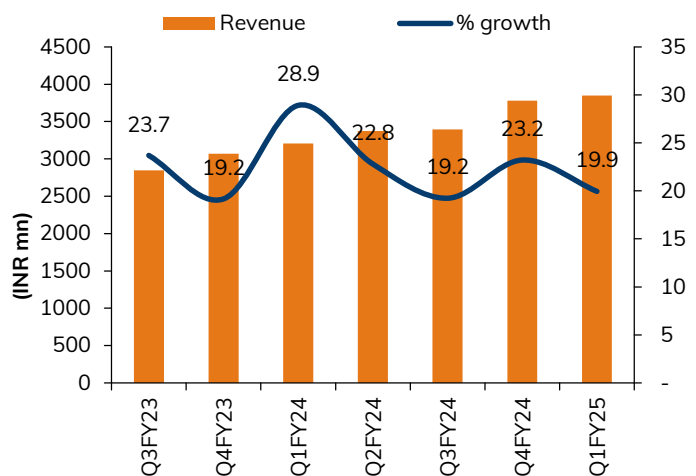
Source: I-Sec research, Company data

Exhibit 4: Domestic business grows at a comparatively slower pace

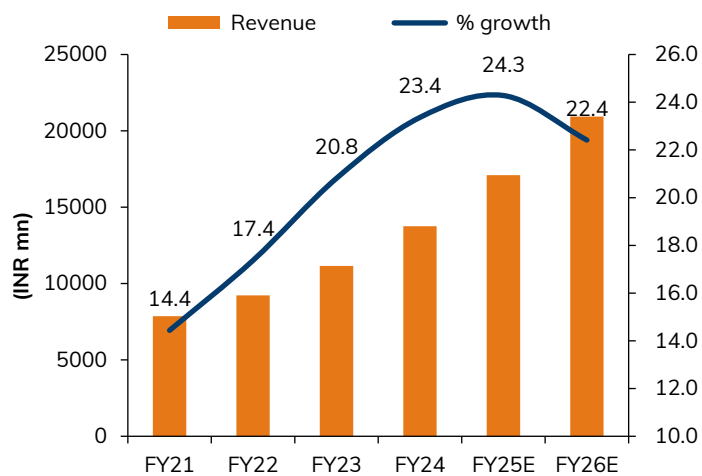
Source: I-Sec research, Company data

Exhibit 5: Growth investment underway for India

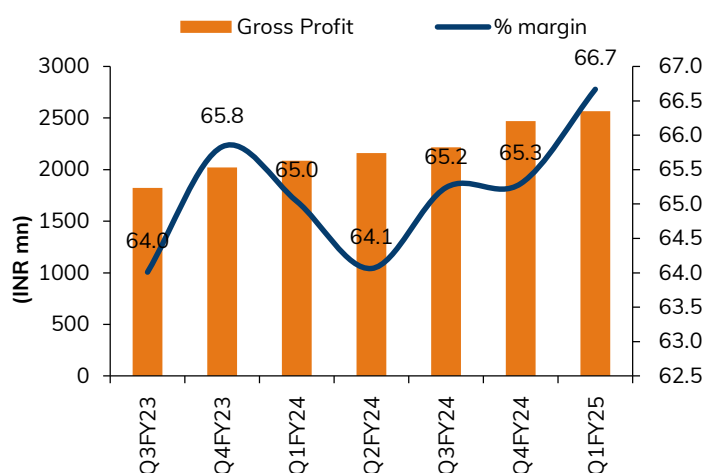
Source: I-Sec research, Company data

Exhibit 6: Revenue grew 19.9% YoY

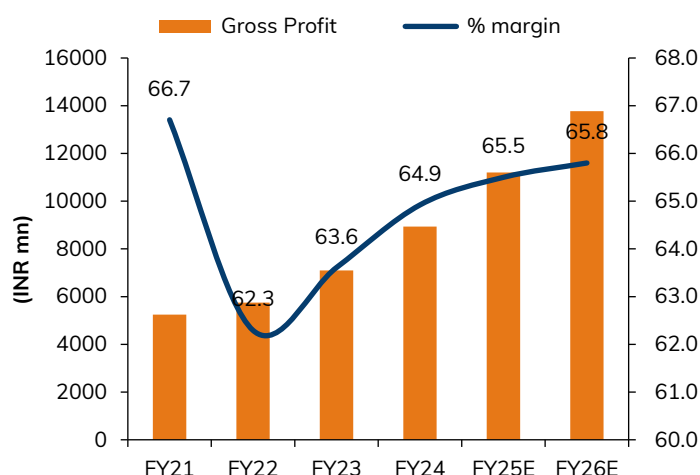
Source: I-Sec research, Company data

Exhibit 7: Revenue CAGR likely at 23.3% over FY24–26E

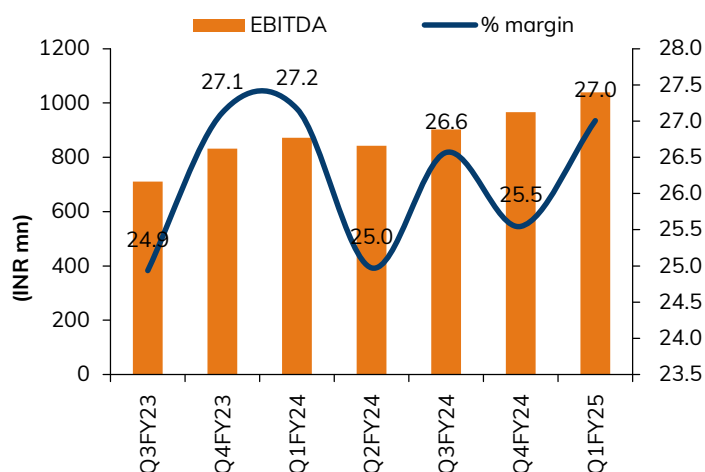
Source: I-Sec research, Company data

Exhibit 8: Gross margin expanded 160bps YoY

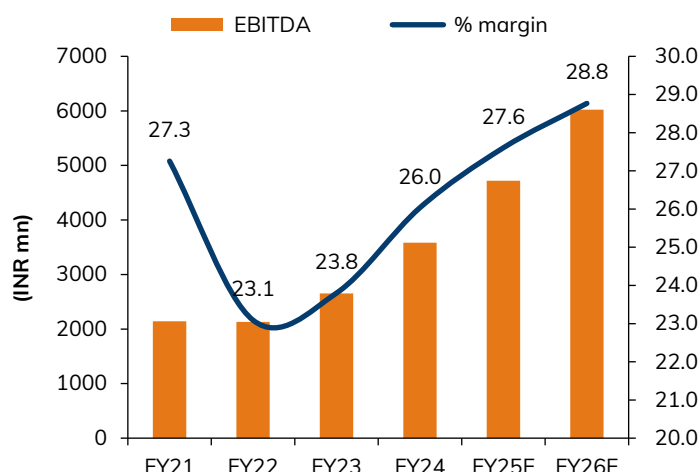
Source: I-Sec research, Company data

Exhibit 9: Gross margin to improve on the back of easing raw material costs and product mix

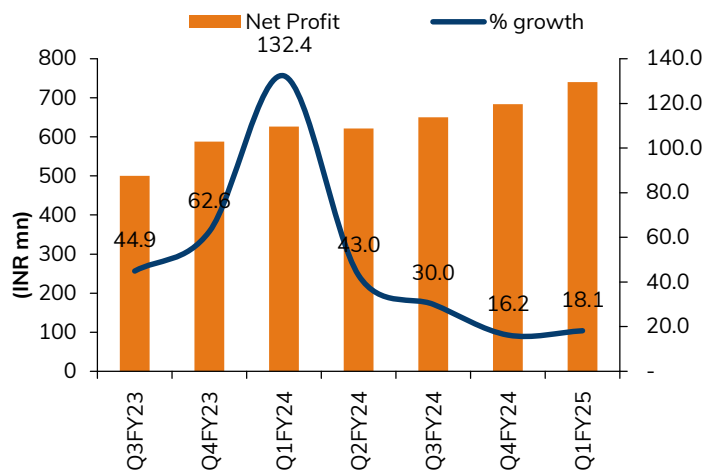
Source: I-Sec research, Company data

Exhibit 10: EBITDA margin contracted 20bps YoY

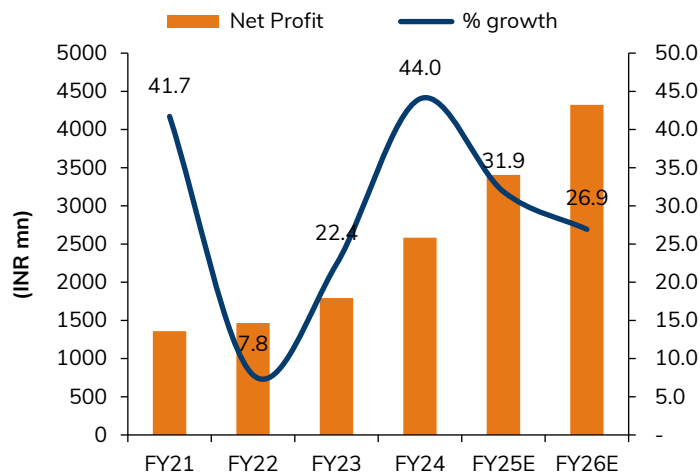
Source: I-Sec research, Company data

Exhibit 11: Operating leverage to drive 273bps expansion in EBITDA margin

Source: I-Sec research, Company data

Exhibit 12: Net profit jumped 18.1% YoY in Q1

Source: I-Sec research, Company data

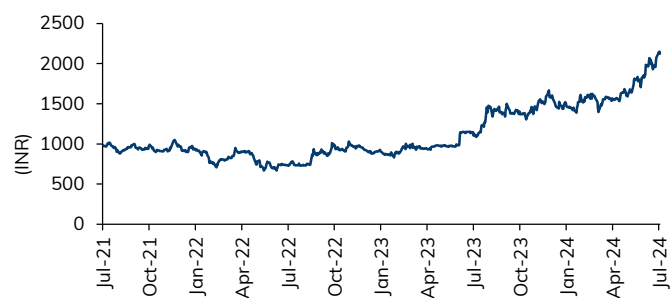
Exhibit 13: Net profit CAGR likely at 29.4% over FY24–26E

Source: I-Sec research, Company data

Exhibit 14: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	53.2	53.2	66.0
Institutional investors	19.6	19.6	19.2
MFs and others	4.2	5.0	6.3
FIs/Banks	0.0	0.0	0.7
Insurance	1.1	2.0	2.3
FIIIs	14.3	12.6	9.9
Others	27.2	27.2	14.8

Source: Bloomberg

Exhibit 15: Price chart

Source: Bloomberg

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	11,152	13,758	17,098	20,931
Operating Expenses	4,440	5,350	6,479	7,751
EBITDA	2,654	3,582	4,720	6,021
EBITDA Margin (%)	23.8	26.0	27.6	28.8
Depreciation & Amortization	572	639	714	826
EBIT	2,083	2,943	4,007	5,195
Interest expenditure	88	113	112	112
Other Non-operating Income	381	613	645	678
Recurring PBT	2,375	3,443	4,540	5,762
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	582	860	1,134	1,440
PAT	1,793	2,583	3,405	4,322
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,793	2,583	3,405	4,322
Net Income (Adjusted)	1,793	2,583	3,405	4,322

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	6,884	7,021	8,562	11,564
of which cash & cash eqv.	1,831	1,469	1,707	3,201
Total Current Liabilities & Provisions	1,631	1,803	2,221	2,706
Net Current Assets	5,253	5,218	6,341	8,858
Investments	1,763	2,141	2,141	2,141
Net Fixed Assets	5,873	8,185	9,972	11,146
ROU Assets	25	37	37	37
Capital Work-in-Progress	726	667	667	667
Total Intangible Assets	501	536	536	536
Other assets	491	464	464	464
Deferred Tax Assets	-	-	-	-
Total Assets	14,141	16,784	19,693	23,384
Liabilities				
Borrowings	1,464	1,702	1,702	1,702
Deferred Tax Liability	154	245	245	245
provisions	46	60	74	91
other Liabilities	34	37	37	37
Equity Share Capital	12,416	14,701	17,595	21,269
Reserves & Surplus	-	-	-	-
Total Net Worth	12,416	14,701	17,595	21,269
Minority Interest	-	-	-	-
Total Liabilities	14,141	16,784	19,693	23,384

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,911	2,661	3,360	4,254
Working Capital Changes	(653)	(436)	(934)	(1,079)
Capital Commitments	(2,391)	(2,751)	(2,500)	(2,000)
Free Cashflow	(481)	(90)	860	2,254
Other investing cashflow	599	342	-	-
Cashflow from Investing Activities	(1,792)	(2,409)	(2,500)	(2,000)
Issue of Share Capital	4	3	-	-
Interest Cost	(88)	(113)	(112)	(112)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(240)	(287)	(511)	(648)
Others	200	196	-	-
Cash flow from Financing Activities	(125)	(202)	(622)	(760)
Chg. in Cash & Bank balance	(7)	50	238	1,494
Closing cash & balance	147	1,881	1,707	3,201

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	18.7	26.9	35.5	45.0
Adjusted EPS (Diluted)	18.7	26.9	35.5	45.0
Cash EPS	24.6	33.6	42.9	53.6
Dividend per share (DPS)	2.5	3.0	5.3	6.8
Book Value per share (BV)	129.4	153.2	183.3	221.6
Dividend Payout (%)	13.4	11.1	15.0	15.0
Growth (%)				
Net Sales	20.8	23.4	24.3	22.4
EBITDA	24.5	35.0	31.8	27.6
EPS (INR)	22.3	44.0	31.9	26.9
Valuation Ratios (x)				
P/E	108.9	75.7	57.4	45.2
P/CEPS	82.6	60.6	47.4	38.0
P/BV	15.7	13.3	11.1	9.2
EV / EBITDA	73.0	54.1	41.0	31.9
P / Sales	17.5	14.2	11.4	9.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	63.6	64.9	65.5	65.8
EBITDA Margins (%)	23.8	26.0	27.6	28.8
Effective Tax Rate (%)	24.5	25.0	25.0	25.0
Net Profit Margins (%)	16.1	18.8	19.9	20.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt / EBITDA (x)	(0.6)	(0.4)	(0.4)	(0.5)
Profitability Ratios				
RoCE (%)	14.0	17.3	19.2	20.5
RoE (%)	15.4	19.0	21.1	22.2
RoC (%)	18.6	21.3	22.9	24.9
Fixed Asset Turnover (x)	2.2	2.0	1.9	2.0
Inventory Turnover Days	75	65	64	63
Receivables Days	84	79	79	79
Payables Days	33	28	28	27

Source Company data, I-Sec research

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