

October 24, 2024

Q2FY25 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	320		320	
Sales (Rs. m)	20,699	23,173	21,558	24,046
% Chng.	(4.0)	(3.6)		
EBITDA (Rs. m)	3,301	4,202	3,571	4,243
% Chng.	(7.6)	(0.9)		
EPS (Rs.)	12.5	19.6	15.5	20.7
% Chng.	(19.3)	(5.4)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	18,173	18,256	20,699	23,173
EBITDA (Rs. m)	2,443	2,175	3,301	4,202
Margin (%)	13.4	11.9	15.9	18.1
PAT (Rs. m)	855	317	1,150	1,804
EPS (Rs.)	9.3	3.4	12.5	19.6
Gr. (%)	(39.9)	(62.9)	263.1	56.9
DPS (Rs.)	2.3	2.3	2.3	2.3
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	8.0	2.8	9.8	13.9
RoCE (%)	9.8	5.7	10.4	13.8
EV/Sales (x)	1.9	2.0	1.8	1.6
EV/EBITDA (x)	14.5	17.0	11.2	8.6
PE (x)	34.0	91.6	25.2	16.1
P/BV (x)	2.6	2.6	2.4	2.1

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.417 / Rs.287
Sensex / Nifty	80,065 / 24,399
Market Cap	Rs.29bn/ \$ 345m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.51.02m

Shareholding Pattern (%)

Promoter's	58.76
Foreign	1.70
Domestic Institution	18.25
Public & Others	21.29
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(15.5)	(4.3)	(1.8)
Relative	(10.4)	(11.7)	(20.8)

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Weak quarter led by lower US sales

Quick Pointers:

- Goa Unit 2 – Sterile plant's remediation cost to continue until Q3FY25
- Incurred higher capex on account of plant upgradation and setup of new lines

We cut our FY26/FY27E EPS by 19.3%/5.4% to factor in low margins and sales across regulated markets. Our numbers do factor in margin recovery with reduction in remediation cost from Q4FY25. Indoco Remedies' (INDR) Q2FY25 EBITDA was much below our estimates due to muted US sales and higher expenses. The OAI status for its Goa Unit 2 continues to restrict growth, especially for the US markets. At CMP, the stock is trading at 3.7x EV/domestic sales based on FY25E. We expect 9% PAT CAGR over FY24-26E. We maintain our 'Accumulate' rating with TP of Rs320 valuing at 20x Sep FY26E EPS. Timely resolution of Goa facility Unit 2 is a key for re-rating.

- Weak exports led by lower US sales:** Consolidated revenues (ex-other operating income) was down 9% YoY to Rs4.3bn (PLe Rs4.6bn). Domestic formulations sales grew 12% YoY to Rs2.55bn, above our estimate. Key therapies like gastro, derma, anti infectives as well as respiratory reported healthy growth YoY, whereas stomatologicals delivered single-digit growth YoY. Regulated market continued to underperform, down 42% YoY and 32% QoQ to Rs866mn. EM sales improved by 10% YoY to Rs396mn. EU sales came in at Rs580mn (down 9% YoY), while US sales came in lower at Rs242mn (down 50% QoQ). Overall API sales declined by 16% YoY. CRO sales were down by 35% YoY.
- EBITDA miss led by higher opex and lower revenues:** EBITDA (incl other operating income) stood at Rs403mn, below PLe of Rs642mn. Other operating income came in lower at Rs 20mn against PLe of Rs82mn YoY. Reported OPM stood at 9.3%, down both QoQ/YoY. Employee expense remained flat YoY. Gross margins (excl other operating income) at 68.2% remained flat YoY, but increased 160bps QoQ. R&D cost stood at Rs153mn, 3.5% of sales, down 40% YoY. Reported loss adj for minority came in at Rs96mn.
- Key concall takeaways:** (1) Domestic formulations: Key therapy areas, including gastro, derma, anti-infectives and respiratory, showed strong YoY growth. Major brands like Cyclopam, Sensoform and Oxipod achieved healthy double-digit growth, while Febrex grew 9% YoY. (2) INDR launched a couple of products in the dental segment, including Perio Rexitin Mouthwash, Sensodent Acipro, and ClatmTab 250/500. (3) **US:** The company holds 15 ANDA approvals in the OSD space, including 2 niche products with tentative approval. However, overall business performance was affected by a plant shutdown for refurbishment. The management cited that remediation costs are expected to continue until Q3FY25, with Goa Unit 2 clearance expected by end-FY25. (4) **EU:** INDR enjoys 50% share of the paracetamol market. Plant upgrades impacted quarterly performance, but the order book remains strong, with a ramp-up anticipated starting Q4FY25. (5) Long-term borrowing stood at Rs4.32bn. It increased on account of capex plans, mainly for plant upgrades (OSD), increasing sterile lines at Goa Unit 2, and advances for ophthalmic and sterile lines. (6) Other expenses rose due to higher travel costs for the field force and increased commissions.

Exhibit 1: 2QFY25 Result Overview (Rs mn): Revenues below est, higher other expenses impacted profitability

Y/e March (Rs in mn)	Q2FY25	Q2FY24	YoY gr. (%)	Q1FY25	QoQ gr. (%)	1HFY25	1HFY24	YoY Gr %
Net Sales	4,327	4,817	(10.2)	4,315	0.3	8,642	9,082	(4.9)
Raw Material	1,368	1,473	(7.1)	1,415	(3.3)	2,783	2,760	0.8
% of Net Sales	31.6	30.6		32.8		32.2	30.4	
Personnel Cost	929	921	0.8	973	(4.5)	1,901	1,837	3.5
% of Net Sales	21.5	19.1		22.5		22.0	20.2	
Others	1,627	1,709	(4.8)	1,450	12.3	3,077	3,160	(2.6)
% of Net Sales	37.6	35.5		33.6		35.6	34.8	
Total Expenditure	3,924	4,104	(4.4)	3,837	2.3	7,761	7,757	0.1
EBITDA	403	714	(43.6)	478	(15.7)	880	1,325	(33.6)
Margin (%)	9.3	14.8		11.1		10.2	14.6	
Depreciation	288	214	34.6	275	4.7	563	413	36.4
EBIT	114	500	(77.1)	202	(43.6)	317	913	(65.3)
Other Income	16	44	(64.8)	10	51.5	26	48	(46.5)
Interest	178	81	119.9	143	24.6	321	159	102.1
PBT	(48)	463	(110.5)	70	(169.4)	21	802	(97.3)
Extra-Ord. Inc./Exps.	-	-		-				
Total Taxes	52	110	(53.2)	52	0.4	103	208	(50.3)
ETR (%)	(106.8)	23.9		73.9		484.5	25.9	
Minority Interest	-4	(2)		8		12	(4)	
Reported PAT	(96)	351	(129.7)	26	(497.3)	(70)	591	(113.2)

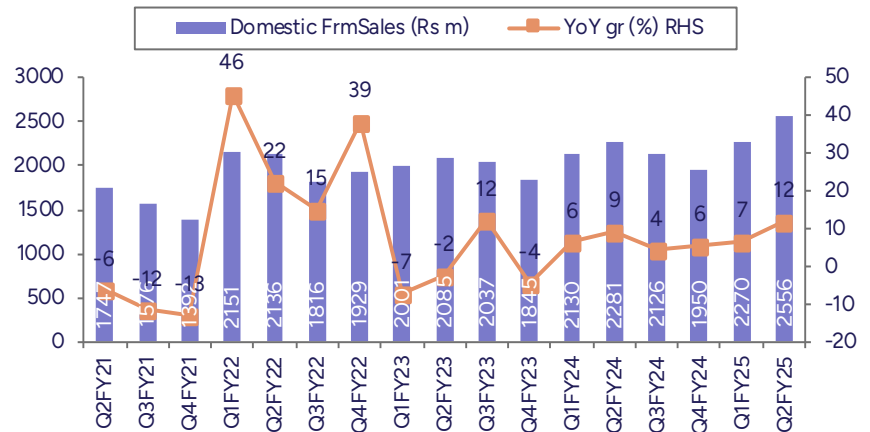
Source: Company, PL

Exhibit 2: Weak export sales drag sales

Major sources of revenues	Q2FY25	Q2FY24	YoY gr. (%)	Q1FY25	QoQ gr. (%)	1HFY25	1HFY24	YoY gr. (%)
Domestic	2,644	2,436	8.5	2,345	12.8	5,440	5,127	6.1
Formulations	2,556	2,281	12.1	2,270	12.6	4,826	4,411	9.4
APIs	88	155	(43.3)	75	17.3	614	716	(14.2)
Exports	1,476	2,152	(31.4)	1,808	(18.4)	3,447	4,262	(19.1)
Formulations	1,262	1,949	(35.3)	1,571	(19.7)	2,833	3,546	(20.1)
Reg mkt	866	1,495	(42.1)	1,273	(32.0)	2,139	2,839	(24.6)
Non-reg mkt (Emerging mkt)	396	454	(12.9)	298	32.9	694	707	(1.9)
APIs	214	203	5.3	237	(9.7)	614	716	(14.2)
CRO	36	64	(43.8)	57	(36.8)	93	112	(16.7)
Net Revenues	4,156	4,653	(10.7)	4,210	(1.3)	8,980	9,500	(5.5)

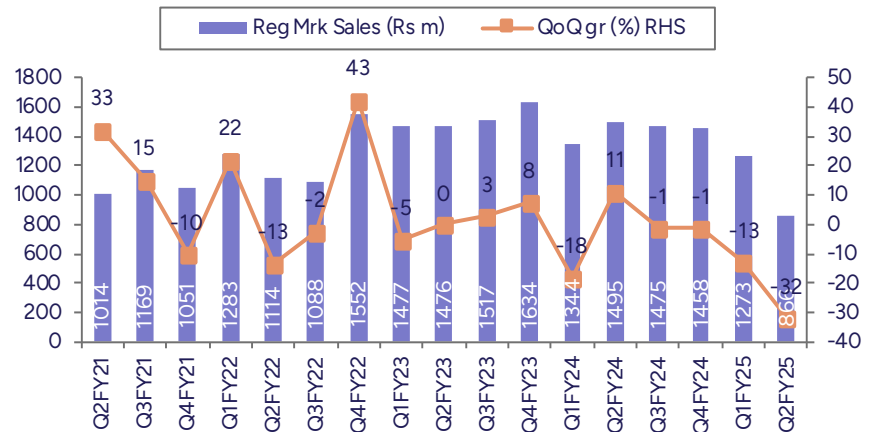
Source: Company, PL

Exhibit 3: India formulations: Uptick in revenues, beat est



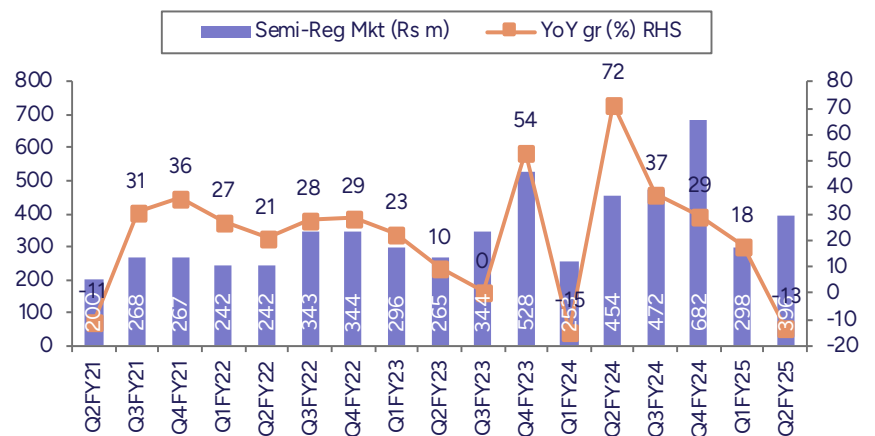
Source: Company, PL

Exhibit 4: US performance impacted by plant shutdown



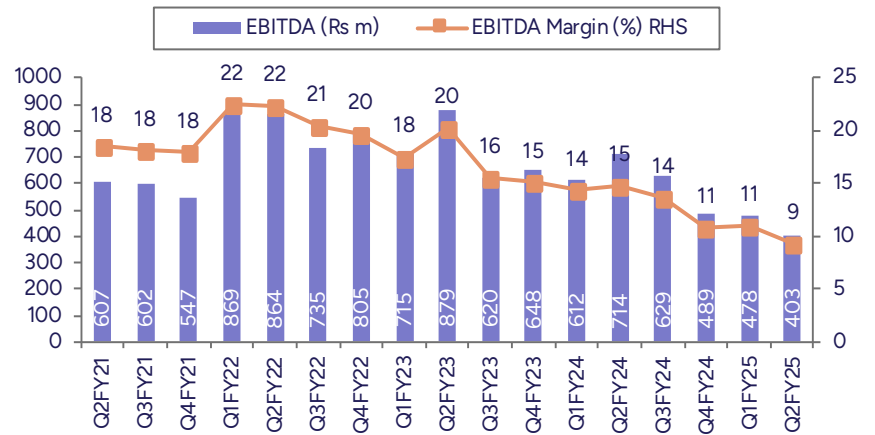
Source: Company, PL

Exhibit 5: EMs' impacted YoY



Source: Company, PL

Exhibit 6: Higher opex dented EBITDA YoY



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	18,173	18,256	20,699	23,173
YoY gr. (%)	8.9	0.5	13.4	12.0
Cost of Goods Sold	5,592	5,762	6,339	6,992
Gross Profit	12,581	12,494	14,360	16,182
Margin (%)	69.2	68.4	69.4	69.8
Employee Cost	3,619	3,909	4,222	4,644
Other Expenses	6,519	6,410	6,837	7,335
EBITDA	2,443	2,175	3,301	4,202
YoY gr. (%)	(14.6)	(11.0)	51.8	27.3
Margin (%)	13.4	11.9	15.9	18.1
Depreciation and Amortization	919	1,117	1,196	1,276
EBIT	1,524	1,059	2,105	2,927
Margin (%)	8.4	5.8	10.2	12.6
Net Interest	380	641	641	589
Other Income	99	70	80	100
Profit Before Tax	1,243	487	1,544	2,438
Margin (%)	6.8	2.7	7.5	10.5
Total Tax	388	171	394	634
Effective tax rate (%)	31.2	35.0	25.5	26.0
Profit after tax	855	317	1,150	1,804
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	855	317	1,150	1,804
YoY gr. (%)	(39.9)	(62.9)	263.1	56.9
Margin (%)	4.7	1.7	5.6	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	855	317	1,150	1,804
YoY gr. (%)	(39.9)	(62.9)	263.1	56.9
Margin (%)	4.7	1.7	5.6	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	855	317	1,150	1,804
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	9.3	3.4	12.5	19.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	18,071	21,071	22,571	24,071
Tangibles	18,071	21,071	22,571	24,071
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,524	9,641	10,837	12,113
Tangibles	8,524	9,641	10,837	12,113
Intangibles	-	-	-	-
Net fixed assets	9,547	11,430	11,734	11,958
Tangibles	9,547	11,430	11,734	11,958
Intangibles	-	-	-	-
Capital Work In Progress	1,029	1,029	1,029	1,029
Goodwill	215	215	215	215
Non-Current Investments	72	72	72	72
Net Deferred tax assets	(118)	(118)	(118)	(118)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	15	15	15	15
Inventories	3,531	3,601	4,083	4,571
Trade receivables	4,062	4,045	4,594	4,899
Cash & Bank Balance	243	534	485	704
Other Current Assets	2,670	2,536	2,409	2,289
Total Assets	21,430	23,524	24,682	25,798
Equity				
Equity Share Capital	184	184	184	184
Other Equity	10,915	11,044	12,002	13,614
Total Networth	11,099	11,229	12,187	13,799
Non-Current Liabilities				
Long Term borrowings	3,517	3,517	3,517	3,517
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,034	5,034	5,034	4,334
Trade payables	1,536	1,500	1,701	1,905
Other current liabilities	2,119	2,119	2,119	2,119
Total Equity & Liabilities	21,430	23,524	24,682	25,798

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	1,243	487	1,544	2,438
Add. Depreciation	919	1,117	1,196	1,276
Add. Interest	380	641	641	589
Less Financial Other Income	99	70	80	100
Add. Other	193	(45)	(60)	(80)
Op. profit before WC changes	2,734	2,200	3,321	4,222
Net Changes-WC	(872)	44	(703)	(469)
Direct tax	(295)	(171)	(394)	(634)
Net cash from Op. activities	1,567	2,074	2,224	3,120
Capital expenditures	(4,273)	(3,000)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invst. activities	(4,273)	(3,000)	(1,500)	(1,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	3,404	2,000	-	(700)
Dividend paid	(207)	(212)	(212)	(212)
Interest paid	(380)	(641)	(641)	(589)
Others	0	70	80	100
Net cash from Fin. activities	2,816	1,217	(773)	(1,401)
Net change in cash	110	290	(49)	219
Free Cash Flow	(2,706)	(926)	724	1,620

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	9.3	3.4	12.5	19.6
CEPS	19.2	15.6	25.5	33.4
BVPS	120.4	121.9	132.2	149.7
FCF	(29.4)	(10.1)	7.9	17.6
DPS	2.3	2.3	2.3	2.3
Return Ratio(%)				
RoCE	9.8	5.7	10.4	13.8
ROIC	7.2	4.6	8.7	11.7
RoE	8.0	2.8	9.8	13.9
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.7	0.5
Net Working Capital (Days)	122	123	123	119
Valuation(x)				
PER	34.0	91.6	25.2	16.1
P/B	2.6	2.6	2.4	2.1
P/CEPS	16.4	20.2	12.4	9.4
EV/EBITDA	14.5	17.0	11.2	8.6
EV/Sales	1.9	2.0	1.8	1.6
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	4,594	4,496	4,315	4,327
YoY gr. (%)	15.1	5.0	1.2	(10.2)
Raw Material Expenses	1,423	1,409	1,415	1,368
Gross Profit	3,171	3,088	2,900	2,959
Margin (%)	69.0	68.7	67.2	68.4
EBITDA	629	489	478	403
YoY gr. (%)	1.4	(24.5)	(21.9)	(43.6)
Margin (%)	13.7	10.9	11.1	9.3
Depreciation / Depletion	244	262	275	288
EBIT	386	226	203	114
Margin (%)	8.4	5.0	4.7	2.6
Net Interest	101	121	143	178
Other Income	24	27	10	16
Profit before Tax	308	133	70	(48)
Margin (%)	6.7	2.9	1.6	(1.1)
Total Tax	71	110	52	52
Effective tax rate (%)	22.9	82.6	73.9	(106.8)
Profit after Tax	238	23	18	(100)
Minority interest	-	7	(8)	4
Share Profit from Associates	-	-	-	-
Adjusted PAT	238	16	26	(104)
YoY gr. (%)	(15.6)	(93.7)	(89.1)	(129.7)
Margin (%)	5.2	0.4	0.6	(2.4)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	238	16	26	(104)
YoY gr. (%)	(15.6)	(93.7)	(89.1)	(129.7)
Margin (%)	5.2	0.4	0.6	(2.4)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	238	16	26	(104)
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	1.7	2.3	0.2	(1.0)

Source: Company Data, PL Research

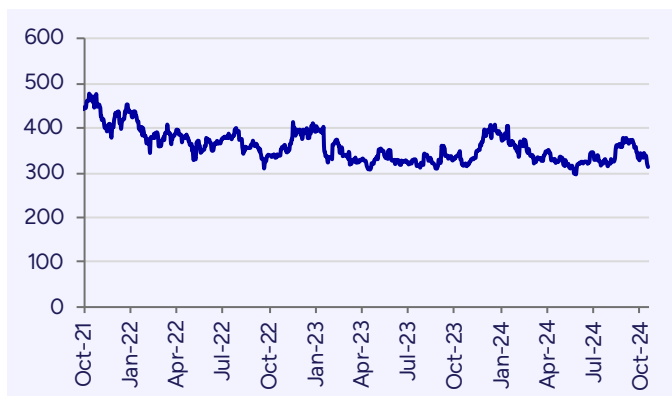
Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Domestic Formulations	8,448	9,293	10,129	10,990
Export Formulations	7,634	6,863	8,311	9,750
APIs	1,265	1,328	1,461	1,607

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	320	335
2	25-Jul-24	Accumulate	320	322
3	08-Jul-24	Accumulate	335	348
4	17-May-24	Accumulate	335	320
5	08-Apr-24	Accumulate	380	350
6	24-Jan-24	Accumulate	380	369
7	08-Jan-24	BUY	385	390

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,150	6,774
2	Aster DM Healthcare	BUY	400	412
3	Aurobindo Pharma	Accumulate	1,525	1,466
4	Cipla	Accumulate	1,680	1,623
5	Divi's Laboratories	Accumulate	5,000	5,426
6	Dr. Reddy's Laboratories	Reduce	6,000	6,633
7	Eris Lifesciences	BUY	1,250	1,351
8	Fortis Healthcare	BUY	515	581
9	HealthCare Global Enterprises	BUY	420	430
10	Indoco Remedies	Accumulate	320	335
11	Ipca Laboratories	Reduce	1,250	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,100	1,715
13	Jupiter Life Line Hospitals	BUY	1,475	1,432
14	Krishna Institute of Medical Sciences	BUY	480	550
15	Lupin	BUY	2,300	2,198
16	Max Healthcare Institute	BUY	975	926
17	Narayana Hrudayalaya	BUY	1,420	1,219
18	Sun Pharmaceutical Industries	BUY	1,885	1,910
19	Suntech Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,300	3,474
21	Zydus Lifesciences	Accumulate	1,305	1,057

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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