

Indoco Remedies Ltd

Exports business to boost growth

Q3FY23 results were below our estimates. The company reported lowest ever EBITDA Margin in the quarter. The revenue witnessed growth of 11.5% YoY but it declined by 7.8% QoQ to Rs 3,992 Mn. In Q3FY23, the sales from Indian market have witnessed degrowth of 2% QoQ, however on YoY basis there was growth of 12%. The current quarter had a negative impact Rs 140 Mn of foreign currency fluctuations which was recorded in other operating income. Increase in material costs led to the decrease of gross margins by ~324bps QoQ to 67.3%. Higher employee costs and other expenses led to decrease in EBITDA margins which contracted by ~475 bps QoQ to 15.5%. PAT margin has decreased by ~216 bps YoY and ~443 bps QoQ to 7.1% in Q3FY23. Due to lower EU and US business and headwinds in EU region we cut our Revenue/EBITDA/PAT estimates by 8.8%/17.8%/23% for FY23E. However, we expect the company to bounce back strongly in FY24 and FY25E. The company's growth will come from 1) Mid-to-high single digit growth in the India business (54% of revenue), 2) Robust growth in the US and Europe businesses by expanding the base portfolio where company plans to monetize its ANDA filings and strong growth from high margin opportunities in Europe. We assign a BUY rating on the stock, with a target price of Rs 461 based on 15x FY25E EPS.

US business – Company's US business has witnessed a robust growth of 23% YoY in Q3FY23 with sales of Rs. 603 Mn in the quarter. The profit share of brinzolamide has been deferred to next quarter due closure of partnered sites due to holiday season. The company has launched gCombigan in the quarter whose profits will flow in Q4FY23. We expect the company to deliver revenue of Rs. 905 Mn in Q4FY23 in the US business. The company is currently focusing more on own filings, which led to lower milestones revenues. Due higher ANDA filings and increased revenue from partnered drugs we expect US revenue to deliver CAGR growth of 28% from FY22 to FY25E.

Europe – EU business witnessed growth of 58% YoY to Rs. 860 Mn. The company has won tender of allopurinol in Germany for next 2 years which will add revenue of Rs. 600-700 Mn per year. It has started own filings into solid orals, liquid orals and creams and has expanded its portfolio to Europe specific injectables as well. Going ahead, we expect EU to deliver CAGR growth of 15% from FY22 to FY25E.

India – New product launch execution is improving. The India business witnessed growth of 12.2% YoY with sales of Rs. 2036 Mn. Respiratory and anti-infectives has not contributed much in the quarter. The company is growing on prescription base with 1 Mn prescription base annually out of which 50% of the prescription are in acute. Acute is growing on high base and even dental portfolio which does not require prescriptions is growing at double digit growth rate. We expect India business to deliver revenue CAGR growth of 9% from FY22 to FY25E.

Form 483 at Goa Plant I – Currently this plant is used to provide supplies to EU market, however the company plans to use this plant for US supplies going ahead. The USFDA has issued 9 observations which the company said are procedural in nature. On YTD basis, US contribution from this plant is 3% (Rs 60 Mn).

Valuation offers comfort and discounts execution risks

At 12x FY25E EPS, Indoco trades at a discount to peers. We value Indoco at 15x FY25E EPS and recommend a BUY rating on the stock, with a target price of Rs 461 translating into an upside of 27%.

Y/E Mar (Rs Mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23E	Var. (%)
Net sales	3,992	3,580	11.5%	4,330	-7.8%	4,600	-13.2%
Operating costs	3,372	2,846	18.5%	3,452	-2.3%		
EBITDA	620	735	-15.5%	879	-29.4%	870	-28.7%
EBITDA Margin (%)	15.5%	20.5%	(498) bps	20.3%	(475) bps	18.9%	(337) bps
Depreciation	172	192	-10.7%	157	9.7%		
Other income	4	2	125.0%	4	2.9%		
Interest	70	38	84.0%	53	33.5%		
Extraordinary items	0	0	NM	0	NM		
PBT	382	506	-24.4%	673	-43.2%		
Provision for tax	101	176	-42.8%	176	-42.7%		
Effective tax rate (%)	26.3%	34.8%	(843) bps	26.1%	24 bps		
Consolidated PAT	282	330	-14.7%	497	-43.4%	410	-31.3%

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	PAT (%)	RoE (%)	RoCE (%)	P/E(x)	EV/EBITDA (x)
FY21	12,415	12.2	2,243	18.1	930	7.5	12.8	11.0	25.3	11.6
FY22	15,408	24.1	3,273	21.2	1,548	10.0	18.5	14.9	24.5	12.3
FY23E	16,689	8.3	2,958	17.7	1,509	9.0	15.6	13.4	22.1	11.2
FY24E	20,918	25.3	3,893	18.6	2,129	10.2	19.0	16.1	15.7	8.5
FY25E	23,576	12.7	4,446	18.9	2,463	10.4	18.7	16.2	13.5	7.5

Source: Company, SMIFS research estimates



Rating: **Buy** Upside/(Downside): **27%**
Current Price: **368** Target Price: **461**

Earlier recommendation

Previous Rating: **Buy**
Previous Target Price: **469**

Market data

Bloomberg:	INDR IN
52-week H/L (Rs):	429 / 308
Mcap (Rs bn/USD bn):	33.9/0.4
Shares outstanding (mn):	92
Free float:	40.0%
Avg. daily vol. 3mth (3M Avg.):	0.12 Mn
Face Value (Rs):	2

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	58.7	58.7	58.7	58.7
FIIIs	1.2	1.1	1.1	1.1
DIIIs	18.1	17.9	18.0	18.2
Public/others	22.0	22.2	22.1	21.9

Promoters pledged shares (%)

Pledged	0.0	0.0	0.0	0.0
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Source: BSE

Price performance (%) *

YE Mar (R)	1M	3M	12M	36M
NIFTY 50	1.6	2.1	5.5	47.8
NIFTY 500	2.2	1.2	4.5	52.5
INDR	-3.2	7.4	-8.0	65.2

* As on 24th Jan 2023; Source: AceEquity, SMIFS research

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Q3FY23 – Key takeaways from the management call

Revenue Target: The company expect revenue of Rs. 50,000 Mn by FY27 and FY28.

US business: The company plans to increase its own filings and saving its IP for its own filings which led to lower milestone revenue. The company has launched gCombigan in the quarter and expect the revenue to flow in next quarter. US business has not yet started to contribute fully and the company expect higher growth in coming years from US.

Europe business: The company has lesser margins in EU business. The EU supplies will be transferred to Baddi facility from Goa plant I. The management expect 20% growth for FY24 and FY25. The company Germany tender for Allopurinol has been renewed for the next 2 years and the management expects revenue of Rs. 600-700 Mn annually from this opportunity. However, the margins on this business is less than 10%.

India Business: India business is expected to grow in mid-single digit. The company is seeing increased prescription and is growing faster than the industry from prescription base. It has reached 1 mn prescription on annual basis out of which 50% are acute.

Acute has very steady and disciplined kind of return. The contribution of acute is also growing on high base along with dental portfolio which is least dependent on prescription is growing at high double digits. The company's legacy drug Cyclopam has 60% on prescription.

Negative other operating income: The Company incurred M2M loss of Rs 140 Mn in the quarter which was due to currency fluctuations.

The company had created hedge of 55-66% for USD, Euro and GBP. The median rate was 81.79 for USD, 91.93 for Euro and 105.83 for GBP. Historically hedging of these currencies has been good for Indoco.

Form 483 at Goa Plant I: The management is confident to resolve the issues at earliest. Currently this plant is used to provide supplies to EU market, however the company plants use this plant for US supplies going ahead. The USFDA has issued 9 observations which the company said are procedural in nature. On YTD basis, US contribution from this plant is 3% (Rs 60 Mn).

Goa Plant II: The company is awaiting USFDA inspection at its sterile facility in Goa. The company has certain prior approvals from this plant.

ANDA filings: There are 25 pending approvals out of which 10 are own filings which is a mix of sterile and oral.

ESOP: The company will grant of 2,95,500 Employee Stock Options and 75,000 Restricted Stock Unit to its eligible employee's convertible into equal number of Equity Shares of the Company of face value of Rs. 2/- each. Employees above General Manager designation will be eligible for the same.

Quarterly financials, operating metrics & key performance indicators

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	3051	3868	3869	3580	4091	4082	4330	3992
Raw Materials	879	1103	1063	1087	1315	1321	1274	1304
Employee Costs	602	750	742	713	732	827	803	821
R&D Costs	164	165	213	171	197	183	189	198
Other Expenditure	859	982	986	875	1044	1038	1186	1049
EBITDA	547	867	864	735	804	715	878	620
Depreciation	186	222	195	192	181	201	157	172
Interest	46	42	31	38	30	41	53	70
Other Income	20	9	10	2	3	11	4	4
PBT	336	611	650	506	596	484	673	382
Tax	86	216	233	176	193	98	176	101
Tax rate (%)	26	35	36	35	32	20	26	26
PAT	250	395	417	330	403	386	497	282
Extraordinary items	0	0	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0	0	0
Consolidated PAT	250	395	417	330	403	386	497	282
Adjusted PAT	250	395	417	330	403	386	497	282
Y-o-Y Growth (%)								
Revenue	12.2	40.2	17.9	7.7	34.1	5.6	11.9	11.5
EBITDA	64.4	78.3	42.4	22.1	46.9	-17.6	1.6	-15.5
PAT	366.4	131.7	62.5	30.1	61.1	-2.3	19.3	-14.7
Q-o-Q Growth (%)								
Revenue	-8.2	26.7	0.0	-7.5	14.3	-0.2	6.1	-7.8
EBITDA	-9.1	58.5	-0.3	-15.0	9.4	-11.1	23.0	-29.4
PAT	-1.4	57.9	5.6	-20.9	22.1	-4.2	28.9	-43.4
Margin (%)								
EBITDA	17.9	22.4	22.3	20.5	19.6	17.5	20.3	15.5
PAT	8.2	10.2	10.8	9.2	9.8	9.4	11.5	7.1

Source: Company, SMIFS research

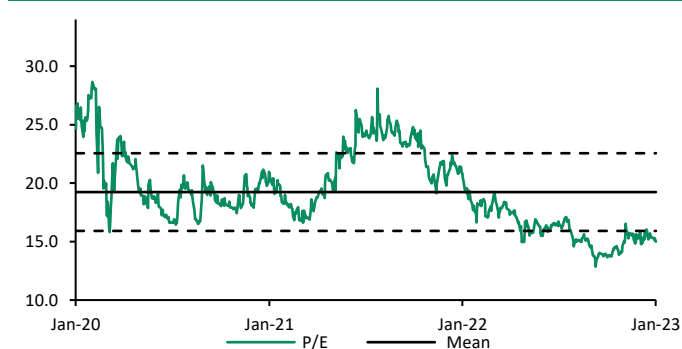
Fig 1: Key Assumptions

Key Assumptions	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Domestic	6,062	6,862	6,190	8,031	8,191	9,801	10,487
% growth	1.9%	13.2%	-9.8%	29.7%	2.0%	8.0%	7.0%
Exports	2,335	2,963	4,924	6,205	7,330	9,652	11,444
% growth	-32.8%	26.9%	66.2%	26.0%	18.1%	21.6%	18.6%
API	822	860	940	634	653	795	883
% growth	35.0%	4.6%	9.3%	-32.5%	3.0%	11.0%	11.0%
CRO	195	109	133	167	187	261	300
% growth	38.0%	-44.1%	22.3%	25.7%	12.0%	20.0%	15.0%
Other Operating income	264	272	229	370	327	410	462
% growth	0.9%	3.2%	-11.3%	53.5%	-11.6%	14.3%	12.7%
Total	9,677	11,066	12,415	15,408	16,689	20,918	23,576

Source: Company, SMIFS research

Fig 2: Change in estimates

Particulars	New Estimates			Old Estimates			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenues	16,689	20,918	23,576	18,303	20,918	23,576	-8.8%	0.0%	0.0%
Gross Profit	11,259	14,433	16,220	12,702	14,789	16,621	-11.4%	-2.4%	-2.4%
Gross Margin	67.5%	69.0%	68.8%	69.4%	70.7%	70.5%	(194) bps	(170) bps	(170) bps
EBITDA	2,958	3,893	4,446	3,598	4,364	5,048	-17.8%	-10.8%	-11.9%
EBITDA Margin (%)	17.7%	18.6%	18.9%	19.7%	20.9%	21.4%	(193) bps	(225) bps	(255) bps
PAT	1,509	2,129	2,463	1,966	2,486	2,920	-23.3%	-14.4%	-15.7%
EPS	16.4	23.1	26.7	21.3	27	31.7	-23.1%	-14.4%	-15.7%

Fig 3: 1 year forward P/E chart


Source: Bloomberg, Company, SMIFS Research

Fig 4: 1 year forward EV/EBITDA chart


Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25E
Revenues	12,415	15,408	16,689	20,918	23,576
Raw Materials	3,541	4,568	5,430	6,485	7,356
% of sales	28.5	29.6	32.5	31.0	31.2
Personnel	2,740	2,937	3,270	4,195	4,799
% of sales	22.1	19.1	19.6	20.1	20.4
R&D Expenses	597	746	768	966	1,088
% of sales	4.8	4.8	4.6	4.6	4.6
Other Expenses	3,294	3,883	4,262	5,380	5,887
% of sales	26.5	25.2	25.5	25.7	25.0
EBITDA	2,243	3,273	2,958	3,893	4,446
Other Income	31	23	24	26	27
Depreciation	731	790	840	963	1,072
EBIT	1,543	2,507	2,143	2,956	3,401
Finance cost	223	141	175	155	160
Core PBT	1,289	2,342	1,944	2,775	3,214
Extraordinary items	0	0	0	0	0
PBT	1,320	2,366	1,969	2,801	3,240
Tax-Total	390	818	460	672	778
Tax Rate (%) - Total	29.5	34.6	23.4	24.0	24.0
PAT	930	1,548	1,509	2,129	2,463
Adjusted PAT	930	1,548	1,509	2,129	2,463

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25E
Growth Ratios (%)					
Revenue	12.2	24.1	8.3	25.3	12.7
EBITDA	82.0	46.0	-9.6	31.6	14.2
Adjusted PAT	285.8	66.4	-2.5	41.1	15.7
Margin Ratios (%)					
Gross Margin	71.5	70.4	67.5	69.0	68.8
EBITDA	18.1	21.2	17.7	18.6	18.9
Core PBT	10.4	15.2	11.6	13.3	13.6
Adjusted PAT	7.5	10.0	9.0	10.2	10.4
Return Ratios (%)					
ROE	12.8	18.5	15.6	19.0	18.7
ROCE	11.0	14.9	13.4	16.1	16.2
Turnover Ratios (days)					
Gross Block Turnover (x)	1.4	1.6	1.6	1.9	2.0
Adj OCF / Adj PAT (%)	63	102	132	98	103
Debtors	65	63	69	71	71
Inventory	66	65	75	75	75
Creditors	41	29	33	33	33
Cash conversion cycle	90	99	111	113	113
Solvency Ratio (x)					
Debt-equity	0.3	0.3	0.3	0.2	0.2
Net debt-equity	0.3	0.3	0.2	0.2	0.2
Gross debt / EBITDA	1.2	0.8	0.9	0.7	0.6
Current Ratio	1.5	1.8	1.8	1.9	2.1
Interest coverage ratio	6.9	17.7	12.3	19.1	21.2
Dividend					
DPS	1.5	2.3	2.3	3.2	3.7
Dividend Yield (%)	0.6	0.5	0.6	0.9	1.0
Dividend Payout (%)	14.9	13.4	14.0	14.0	14.0
Per share Ratios (Rs)					
Adjusted EPS	10.1	16.8	16.4	23.1	26.7
CEPS	18.0	25.4	25.5	33.6	38.4
BV	83.4	98.2	111.7	131.5	154.5
Valuation (x)					
Adj P/E	25.3	24.5	22.1	15.7	13.5
P/BV	3.1	4.2	3.2	2.8	2.3
EV/EBITDA	11.6	12.3	11.2	8.5	7.5
EV/Sales	1.1	1.7	2.4	1.6	1.4
Adj Mcap /Core PBT	18.2	16.1	17.1	12.0	10.3
Adj Mcap / Adj OCF	40.2	24.0	16.6	16.0	13.1

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25E
Sources of funds					
Equity Share Capital	184	184	184	184	184
Reserves & Surplus	7,506	8,862	10,085	11,916	14,034
Shareholders' Fund	7,690	9,046	10,270	12,100	14,218
Total Debt	2,667	2,567	2,667	2,767	2,867
Other Liabilities	352	498	498	498	498
Total Liabilities	10,709	12,111	13,434	15,364	17,582
Application of funds					
Gross Block	9,275	9,755	10,698	11,498	12,298
Net Block	5,217	5,206	5,586	5,766	5,899
Capital WIP	251	528	727	782	836
Investments	0	0	0	0	0
Other Non-Current Assets	1,457	1,391	1,813	2,569	3,516
Inventories	2,379	3,105	3,429	4,298	4,844
Trade receivables	2,338	2,972	3,155	3,658	4,327
Cash and bank balances	143	198	188	139	247
Other current assets	1,365	1,461	1,461	1,461	1,461
Total Current Assets	6,225	7,736	8,233	9,555	10,879
Trade payables	1,132	1,333	1,509	1,891	2,132
Other current liabilities	1,309	1,417	1,417	1,417	1,417
Total Current Liabilities	2,441	2,750	2,926	3,309	3,549
Net Current Assets	3,784	4,986	5,306	6,247	7,330
Total Assets	10,709	12,111	13,434	15,364	17,582

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25E
Operating profit before WC changes	2,418	3,237	2,958	3,893	4,446
Changes in working capital	-1,398	-1,088	-331	-989	-976
Income tax Paid	-197	-411	-460	-672	-778
Cash flow from operating activities	822	1,738	2,168	2,232	2,693
Adj. OCF	582	1,576	1,994	2,077	2,532
Capex	-	-	-	-	-
	766	1,244	1,000	800	800
Cash flow from investing activities	-667	-1214	-1892	-1928	-2180
Debt	-31	-143	100	100	100
Dividend paid	-28	-138	-211	-298	-345
Interest and lease liabilities	-240	-163	-175	-155	-160
Cash flow from financing activities	-299	-444	-286	-353	-405
Net change in cash	-143	80	-10	-49	108

Source: Company, SMIFS research estimates

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