

Indoco Remedies Ltd.

New Strategies and exports to boost growth

Key takeaways from INDR's management meeting held on 28th Feb 2023:

- Growth momentum will be led by increased revenue from all three geographies India, US and EU.
- Foray into injectable and complex generics with limited competition will provide growth sustainability.
- Spreading wings to other therapies as well such as cardiovascular, Neurology etc in US.
- Hiring of specialized professionals at top management will lead to more focused approach

Change in top Management: Indoco is making strategic moves to strengthen its leadership team by bringing in experienced professionals like Mr Pramod Ghorpade (Ex Teva employee), CMO – Mr Rajesh Usgaonker (Ex Glenmark employee), and CIO Mr. Ketan Patel (Ex Cadila Employee). Having seasoned professionals in key positions can help the company to navigate challenges, make informed decisions, and drive growth. The addition of a Chief Information Officer (CIO) is particularly significant in today's digital age, as technology plays a crucial role in many aspects of business operations. A CIO can help to ensure that the company is using the latest technology to optimize its processes and improve efficiency. Overall, it seems that Indoco is taking steps to enhance its leadership team and position itself for success in the future.

Robust growth from US markets: The company is focusing on expanding its presence in the US market, particularly in the areas of sterile injectables and ophthalmics. These are products with limited competition, which means that the company can command higher prices and experience less price erosion. Additionally, shortages in these products can provide significant opportunities for the company to benefit.

Domestic business to be aided by new product launches: The company has launched 4 new products in the domestic market till YTD namely Noxa, Dropizin, Subitral and Sorbitrate DS. The revenue contribution from the new product launches contributes roughly 2-2.5% to the domestic revenue. Indoco hardly used to launch any new product in the domestic market but now to increase its domestic growth, they have started launching new products into the market which will increase the revenue and growth visibility going forward.

The management expects 15% growth in next 5 years for domestic market which will be a mix of volume, price and new products. Going ahead, the domestic contribution to total revenue will decrease to 40% from 50%.

Currently the domestic revenue is divided as 40% from Acute and 50% from sub-chronic and 10% from chronic segment.

Products under NLEM: 10% of company's domestic portfolio is under NLEM and the company.

Inorganic growth: The company is open for acquisition and for inorganic growth but is waiting for right company at right multiple. Currently, the M&A multiples are quite high.

Sales force productivity: From FY19 to FY22, the company has consistently increased its sales force productivity from Rs. 22 Lacs in FY19 to Rs 33 Lacs in FY22. Management expects topline growth to improve further as productivity rises. There are 2800 MR's currently and the management does not plan to add more field force.

Emerging markets have better margins: Emerging market business is pretty much like India business with similar or better margins. In Emerging markets, substantial growth comes from brands and not from tenders. In semi-regulated market, the company is present in various markets of Asia and Africa predominantly and in some markets of LATAM. The company has their own sales force to promote their products and are ramping up well. Indoco has done many filings and has got good approvals from these markets.

Capex Plan: The company plans to spend Rs. 1250 Mn on capex in FY24 and certain investments will be made on injectables as well. The injectables capacity is at peak, Oral Solid Dosage capacities are running at 68%-70% and certain investments were made in Baddi and Patalanga.

China Dependence: The company imports 10-12% of its API from China, thus they are derisking their business. By doing so, the company is taking steps to mitigate the potential risks that may arise from any disruption in the supply chain from China.



Rating: Buy **Upside/(Downside): 29%**
Current Price: 358 **Target Price: 461**

Earlier recommendation	
Previous Rating:	Buy
Previous Target Price:	469

Market data	
Bloomberg:	INDR IN
52-week H/L (Rs):	426 / 308
Mcap (Rs bn/USD bn):	32.9/0.4
Shares outstanding (mn):	92
Free float:	40.0%
Avg. daily vol. 3mth (3M Avg.):	0.18 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
FII's	1.2	1.1	1.1	1.1
DII's	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

Source: BSE

Price performance (%) *				
YE Mar (R)	1M	3M	12M	36M
NIFTY 50	-0.9	-7.2	3.9	55.8
NIFTY 500	-1.2	-8.4	2.4	58.7
INDR	10.0	-9.3	-8.8	55.3

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

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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

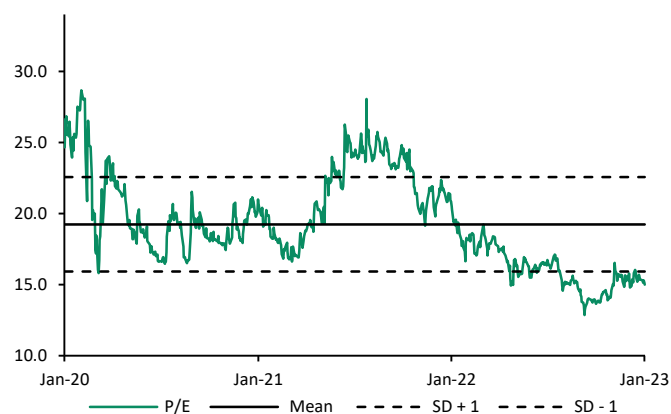
Source: Company, SMIFS research

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

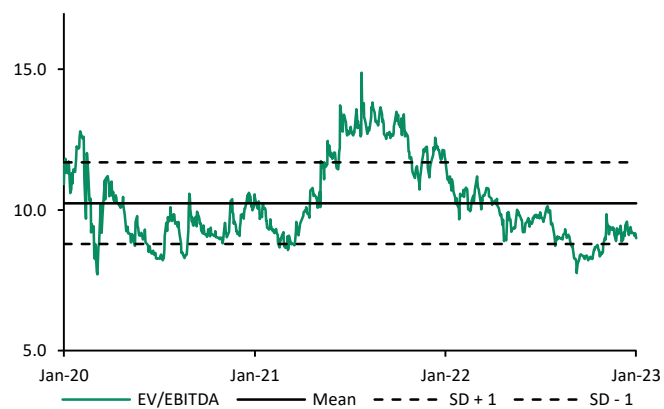
Source: Company, SMIFS research

Fig 2: 1 year forward P/E chart



Source: Bloomberg, Company, SMIFS Research

Fig 3: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, SMIFS Research

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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