

## Management Meet Note

## Indoco Remedies Ltd

CMP (26/12/2011): Rs. 414

52- wk HI/Lo: Rs 520/360

Avg. volume NSE (Qrtly): 1943

Sector: Pharmaceuticals

Market Cap: Rs. 508

Free Float (%): 39%

We met Mr. Vilas Nagare (Executive Vice President - Corporate Affairs) and Mr. Rajiv Sardana (General Manager MIS) on Wednesday, 21 December 2011 to understand the growth prospects of Indoco Remedies Ltd.

### Company Overview

Indoco Remedies is one of the leading pharmaceutical players engaged in manufacturing of APIs and Formulations. Indoco's business spread worldwide from regulated markets like US, Europe to semi-regulated markets. The company has strong position in domestic therapeutics segments like Ophthalmology, Anti- Infectives etc. Recently it has achieved noteworthy milestones in its growth journey by tying up with big global Pharma companies for contract manufacturing and other services.

### Growth Drivers

- Tie up with Global giants for CRAMS: During FY10 the company has signed two significant deals; one with a MNC for US markets and second for emerging markets. These are landmark deals in the history of the company. Since initial tie-up, the scope and size of the deal has only increased which shows the strong capabilities of the company. In these deals, Indoco is involved from development of the product (for some products) until manufacturing. These deals have brought the Indoco in the category of trusted offshore players like Cadila, Dr Reddy.

Emerging Markets: Indoco Remedies' relationship with global MNC having strong presence in emerging markets started with a simple contract manufacturing deal for 30 countries. However, in last two years the company was able to increase the scope and size of deal. Currently Indoco Remedies has started validating batches. Revenue from this deal is expected to start flowing in from Q4FY12 however full reflection of relationship would be visible in FY14.

US markets: The agreement was initially signed for seven products however within last two years the number of products has increased to 19. The potential market size of these 19 products is \$1.7bn. JV has filed for 8-9 products. Revenue is expected to start from FY14. In 1HFY12 Indoco Remedies has signed two more contract-manufacturing deals in US. Such deals provide margin stability with revenue visibility for future. We believe CRAMS is a major growth driver for the company in coming period.
- Growing Exports: Currently exports contribute 10% of total revenues of the company. For semi-regulated the company distributes its own products and for regulated markets (mainly Europe) it sells dossier bundled with five year supply agreement. Currently Indoco is earning 13-14% EBITDA margins in exports market. However, the company intends to increase the margins in future by changing product mix. Contribution from exports is also expected to go to 15% by FY13. Exports business is expected to grow by 25-30% in coming years, supporting the overall growth of the company.

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- **Strong financials:** The company has grown at 22% CAGR over FY08-11. The company has debt/equity ratio of 0.29x (FY11). Although EBITDA Margins of the company have declined during financial meltdown (from 17.6% in FY07 to 14.0% in FY09) however, are now on growth trajectory (14.9% in FY11). Company has guided for 15.7% margins in FY12 and 19% by FY14. Management has also guided for Rs 1,000 cr revenues by FY14 (implying CAGR of 27% plus) with 19% EBITDA margins (post R&D).
- **Expansion in APIs:** Currently API contribution is very small in the overall revenue pie of the company. The company intends to increase the APIs business and for that, it has planned capex of Rs 50 cr over next 18 months at Patalganga. We believe going forward APIs would provide second line of revenues in addition with backward integration benefits to the company in future

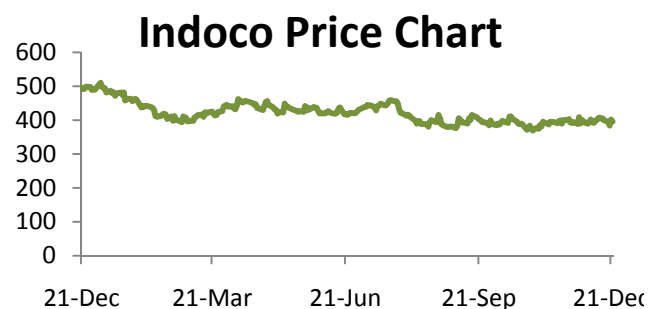
### Financials

Particulars (Rs Cr)	FY10	FY11	YOY %	1HFY12	1HFY11	YOY %
Total Income	402.6	486.4	20.8	274.5	248.2	10.6
EBITDA	58.0	72.4	24.9	39.3	39.9	(1.6)
PAT	42.1	51.1	21.5	25.6	30.1	(15.1)
EPS	34.3	41.6	21.5	20.8	24.5	(15.1)
EBITDA margins	14.4	14.9		14.3	16.1	
PAT margins	10.5	10.5		9.3	12.1	
Equity Capital (FV Rs 10)	12.3	12.3		12.3	12.3	

1HFY12 was down mainly because of slowdown in the domestic pharma industry. However, we have seen revival in the industry for first two months of Q3FY12

### Conclusion

Indoco Remedies took almost six decades to reach Rs 500 cr (FY12E) revenues mark however; it has set an aggressive target of adding another Rs 500 cr in next two years and expected to report Rs 1000 cr revenues in FY14. We believe the company is growing well and is now on the critical juncture where in it is expected to start enjoying the fruits of its past investments. We expect Indoco Remedies to post better 2HFY12 on the back of revival in domestic demand. For FY12 company has guided for 21% growth. On conservative basis (21% growth and 10.5% PAT margins, same as FY11) the stock is available at 8.2x FY12E earnings of Rs 50.3. . The stock can be purchased for long-term investment perspective



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