

Indoco Remedies

31 October 2019

Reuters: INDR.BO; Bloomberg: INRMIN

Entering into a high growth phase

Indoco Remedies' (IRL) 2QFY20 revenue at Rs 2,926mn is up 15.8% QoQ and 24.2% YoY and is higher than our/consensus estimate by 9%/7%, respectively. Net profit stood at Rs78mn (in line with expectation) and was adversely impacted by a one-off expenditure of Rs120mn. Adjusted for the same, net profit would have been Rs180mn.

Revenue outperformance was led by the domestic business, which expanded 17% YoY. A strong anti-infective season together with better execution aided the performance. The recorded growth was almost twice the covered market growth. The growth was largely volume driven (11% volume growth). The company hopes to deliver mid-teens growth in the domestic business for the rest of the year. In subsequent quarters, EU business ramp-up should also become evident as compliance woes (which led to restricted exports to Europe) are now resolved. Incrementally, the new facility at Baddi is also now EU GMP compliant and will add to the base business. The company expects EU sales quarterly run rate to be around Rs500mn in 2HFY20, which was Rs390mn in the current quarter. Over the next six to eight quarters, EU sales can potentially ramp up to 2.5x of current levels.

Renewal of supplies to the US markets should also begin 4QFY20 onwards. The US ramp-up may be slow but will be margin accretive as the fixed costs related to the business are largely into the structure.

API business sales grew by 22% YoY during the quarter and the run rate should be maintained as the new expansion at Patalganga (3x of current manufacturing capacity) will come into play 1QFY21 onwards.

EBITDA at Rs326mn increased by 45.5% QoQ and 176.1% YoY, and was in line with our/consensus estimates. EBITDA margin improved to 11.2%, up by 228bps on account of operating leverage. During the quarter, the company also had Rs120mn in extraordinary expenses, adjusted for which EBITDA would have been Rs450mn.

Guidance for FY20 – The company is guiding for FY20 EBITDA of Rs125 crore, which implies 2HFY20 EBITDA of Rs70 crore. The company acknowledges guidance as conservative given the expected immediate ramp-up in Europe sales and resumption in US sales in 4QFY20. Net profit expansion will be disproportionate with EBITDA growth as there is no additional investment that will be required in capex to execute sales growth. We retain our Buy on IRL and revise our valuation methodology from EV/EBITDA to P/E basis. We roll over to September 2021 earnings and assign a risk adjusted P/E multiple of 16x to arrive at a target price of Rs. 239 which represents a 50% upside at CMP

BUY

Sector: Pharmaceutical

CMP: Rs159

Target Price: Rs239

Upside: 50%

Vishal Manchanda

Research Analyst

vishal.manchanda@nirmalbang.com

+91-9737437148

Gaurang Sakare

Research Associate

Gaurang.sakare@nirmalbang.com

+91-22 6273 8093

Key Data

Current Shares O/S (mn)	92.2
Mkt Cap (Rsbn/US\$m)	14.6/206.3
52 Wk H / L (Rs)	239/132
Daily Vol. (3M NSE Avg.)	77,810

Price Performance (%)

	1 M	6 M	1 Yr
Indoco Remedies	3.6	(20.5)	(15.2)
Nifty Index	3.2	0.8	16.1

Source: Bloomberg

Y/E March (Rsmn)	Q2FY19	Q1FY20	Q2FY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenues	2,356	2,527	2,926	24.2	15.8	4,532	5,453	20.3
Raw material costs	796	856	896	12.5	4.6	1,509	1,752	16.1
% of revenues	33.8	33.9	30.6	(316) bps	(326) bps	33.3	32.1	(117) bps
Staff costs	585	609	641	9.7	5.3	1,146	1,251	9.1
% of revenues	24.8	24.1	21.9	(290) bps	(218) bps	25.3	22.9	(235) bps
R&D	127.5	111.2	116.4	(8.7)	4.7	260	228	(12.3)
% of revenues	5.4	4.4	4.0	(143) bps	(42) bps	5.7	4.2	(155) bps
Other expenses	730	726	946	29.6	30.2	1,383	1,672	20.9
% of revenues	31.0	28.7	32.3	136 bps	358 bps	30.5	30.7	14 bps
EBITDA	118	224	326	176.1	45.5	234	551	135.4
EBITDA margin (%)	5.0	8.9	11.2	614 bps	228 bps	5.2	10.1	493 bps
Other income	3	6	6	75.8	(9.4)	6	12	90.6
Interest costs	50	61	54	7.2	(12.3)	122	115	(5.7)
Depreciation	177	170	180	2.2	6.2	344	350	1.9
PBT	(105)	(0)	98	(193.2)	(19,700.0)	(225)	98	-
Tax	(27)	(19)	20	(172.9)	(204.7)	(27)	1	-
Tax rate (%)	26.0	-	20.3	(567) bps	-	12.1	0.9	-
Reported PAT	(78)	19	78	(200.4)	322.2	(198)	97	-

Source: Company, Nirmal Bang Institutional Equities Research

Earnings conference-call commentary

Margin: The gross margin stood at 69.4%, which was the highest margin the company has achieved and was aided by a strong domestic sales performance and milestone income accruing for its US business.

Domestic formulations: The domestic formulations business grew by 17% on the back of growth in multiple therapies. It was good season for anti-infectives. The company took a price growth of 4% and new launches grew by 2% while the rest of the growth came from volume. During the quarter, the company launched one new product in the Chronic segment. The total number of new product launches in 1HFY20 stands at three i.e., two in Chronic and one in Sub-Chronic segment.

Europe: European business grew sequentially as guided by management and with a full GMP status has been reinstated in Plant I in Goa. The supplies will increase going forward. The company has 3 clients in the UK, 3 clients in Germany and 1 client in Spain. Management has guided for revenue of Rs1,750mn for the year.

Capex: IRL has given annual capex guidance of Rs500mn over the next three to four years, mainly towards maintenance capex.

Other expenses: Other expenses were higher due to an extra expense of Rs200mn, of which Rs120mn was one-off. There was an expense on advertising worth Rs70mn, benefit of which will be realized in the subsequent quarters.

Approvals: Management has guided for a total of 4 approvals from USA. The company has received an approval for Rasagiline this month. Management has guided for 2 injectibles approval and 1 solid dosage approval.

Patalganga plant: The old capacity of 150 tonne is running at 100% whereas the new capacity will be adding 300 tonne to the existing capacity. However, the ramp up will be slow.

EBITDA: Management has guided for an annual EBITDA of Rs1100mn to Rs1250mn.

R&D: Management has guided that the R&D expense will be around 4% of sales.

Tax Rate: Management has guided that the tax rate will be around 20-21%.

Exhibit 1: Key financials

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	10,453	9,685	12,054	14,739	16,619
EBITDA	1,349	767	1,554	2,670	3,046
Net profit	412	(29)	457	1,238	1,523
EPS (Rs)	4.5	(0.3)	5.0	13.4	16.5
EPS growth (%)	(46.6)	(107.0)	-	170.8	23.0
EBITDA margin (%)	12.9	7.9	12.9	18.1	18.3
P/E (x)	34.5	NA	31.0	11.5	9.3
P/BV (x)	2.1	2.1	2.1	1.8	1.5
EV/EBITDA (x)	12.2	21.2	10.7	6.0	5.0
RoCE (%)	9.0	0.3	10.0	22.1	23.1
RoE (%)	6.2	-0.4	6.8	16.7	17.7

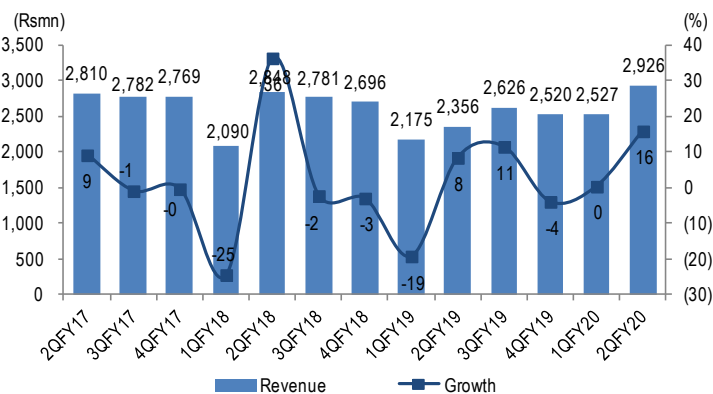
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual versus our estimates

(Rsmn)	Actual	Our est.	Var. (%)	Cons.	Var(%)
Revenues	2,926	2,675	9.4	2,723	7.4
EBITDA	326	337	(3.1)	297	10.1
EBITDA margin (%)	11.2	12.6	(144) bps	10.9	27 bps
PAT	78	90	(12.9)	64	21.6

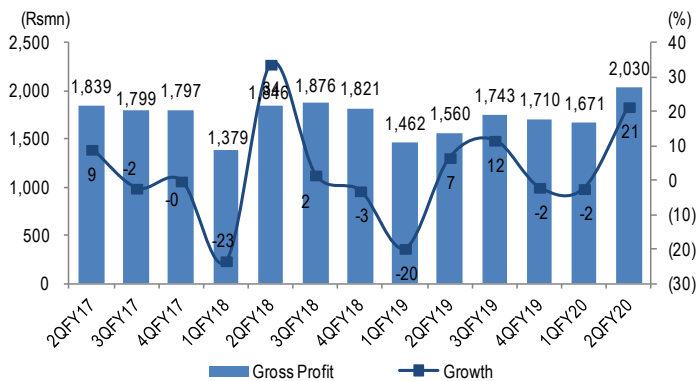
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revenue and growth trend



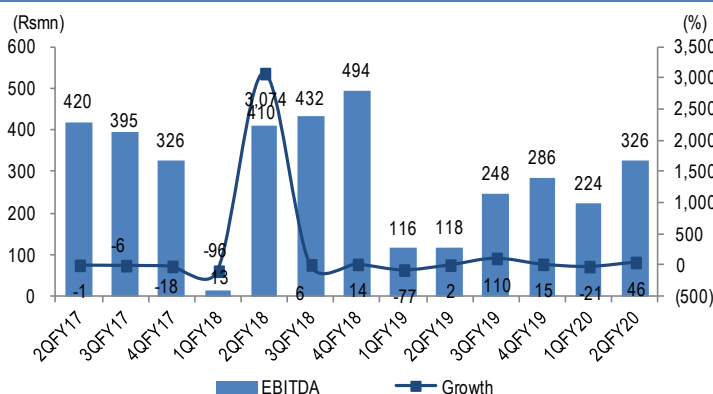
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Gross profit and growth trend



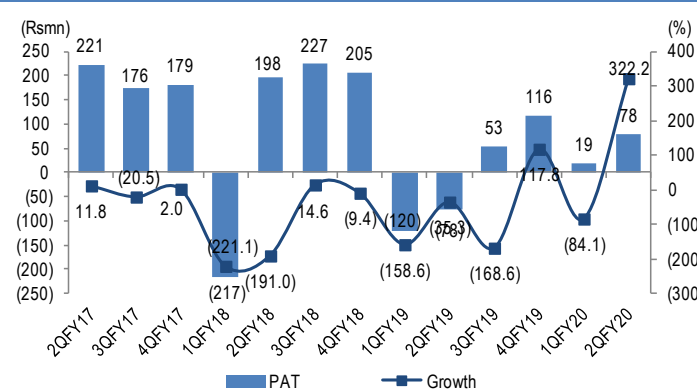
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: EBITDA and growth trend



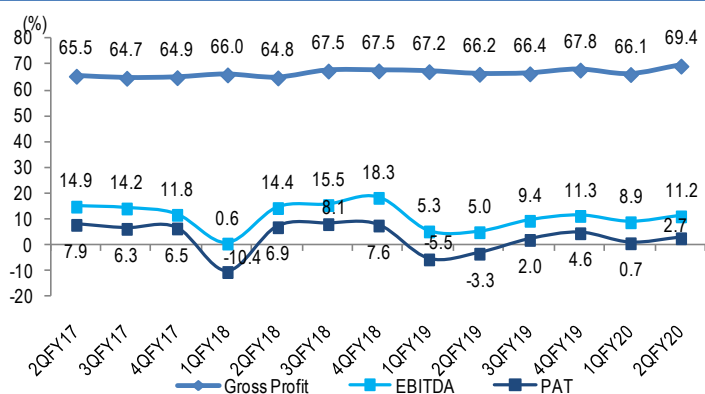
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: PAT and growth trend



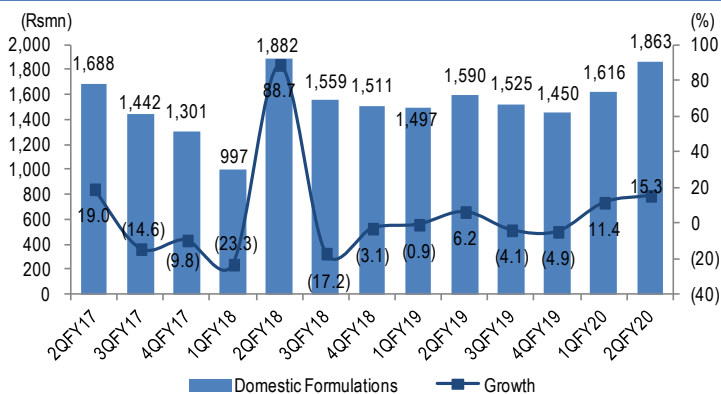
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Margin trend



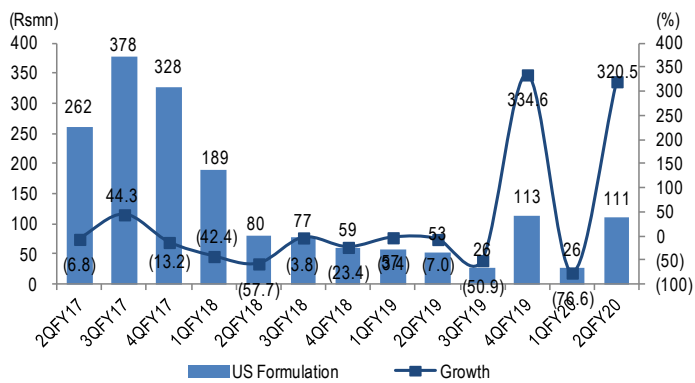
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Domestic formulations revenue and growth trend



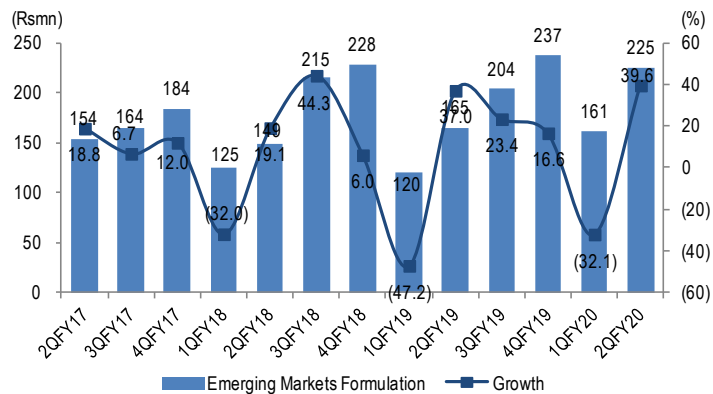
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: US formulations revenue and growth trend



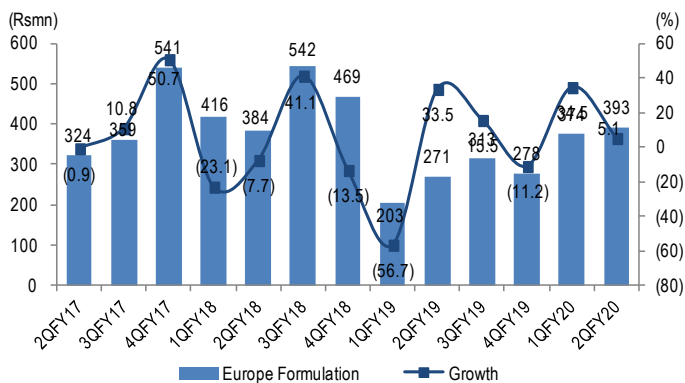
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: EM formulations revenue and growth trend



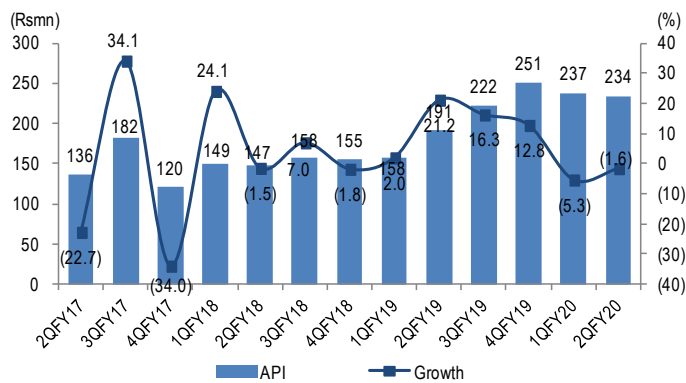
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Europe formulations revenue and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: API revenue and growth



Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 13: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	10,453	9,685	12,054	14,739	16,619
% growth	(4.7)	(7.4)	24.5	22.3	12.8
Raw material expenses	3,512	3,203	4,215	5,139	5,808
Staff costs	2,209	2,317	2,548	2,803	3,111
R&D expenses	535	515	663	737	831
Other expenses	2,848	2,884	3,074	3,390	3,822
Total expenditure	9,104	8,918	10,500	12,069	13,572
EBITDA	1,349	767	1,554	2,670	3,046
% growth	(13.8)	(43.2)	102.7	71.8	14.1
EBITDA margin (%)	12.9	7.9	12.9	18.1	18.3
Other income	47	61	27	13	70
Interest costs	235	205	216	242	261
Gross profit	6,941	6,482	7,839	9,600	10,811
% growth	(2.7)	(6.6)	20.9	22.5	12.6
Depreciation	677	716	755	790	824
Profit before tax	484	-93	610	1,651	2,031
% growth	(46.8)	(119.2)	(754.7)	170.8	23.0
Tax	72	(64)	152	413	508
Effective tax rate (%)	15	68.9	25	25	25
Net profit	412	(29)	457	1,238	1,523
% growth	(46.6)	(107.0)	(1,676.3)	170.8	23.0
EPS (Rs)	4.5	(0.3)	5.0	13.4	16.5
% growth	(46.6)	(107.0)	(1,676.3)	170.8	23.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Equity	184	184	184	184	184
Reserves	6,566	6,422	6,701	7,761	9,107
Net worth	6,750	6,606	6,885	7,946	9,291
Provisions/ other LT liabilities	224	233	258	297	332
Total loans	2,332	2,421	2,548	2,854	3,073
Liabilities	9,306	9,259	9,691	11,097	12,696
Net block	4,411	4,166	4,729	4,812	4,861
Capital work-in-progress	758	1,412	450	450	450
Intangible assets	486	510	478	478	478
LT loans & advances	11	13	13	13	13
Other LT assets	1,333	1,099	1,310	1,310	1,310
Inventories	1,934	1,835	2,321	2,830	3,198
Debtors	2,078	1,958	2,397	2,931	3,304
Cash	119	363	169	928	2,081
Other current assets	1,242	1,225	1,431	1,749	1,971
Total current assets	5,373	5,381	6,317	8,437	10,555
Trade payables	1,496	1,707	1,795	2,188	2,473
Other current liabilities/provisions	1,570	1,614	1,811	2,214	2,496
Total current liabilities	3,066	3,321	3,605	4,402	4,969
Net current assets	2,307	2,059	2,712	4,035	5,585
Total assets	9,305	9,259	9,691	11,097	12,696

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	719	112	826	1,893	2,292
(Inc./)dec. in working capital	178	492	(846)	(564)	(397)
Cash flow from operations	897	604	(20)	1,329	1,894
Other income	(47)	(61)	(27)	(13)	(70)
Depreciation	677	716	755	790	824
Interest	(235)	(205)	(216)	(242)	(261)
Tax paid (-)	(72)	64	(152)	(413)	(508)
Net cash from operations	1,220	1,117	339	1,452	1,880
Capital expenditure (-)	(1,242)	(859)	(84)	(600)	(600)
Net cash after capex	(22)	258	255	852	1,280
Other investing activities	(131)	(3)	(424)	(260)	(203)
Cash from financial activities	(353)	(17)	(25)	168	75
Change in cash balance	(506)	238	(194)	760	1,153
Opening cash balance	626	119	363	169	928
Closing cash balance	120	357	169	928	2,081

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key ratios

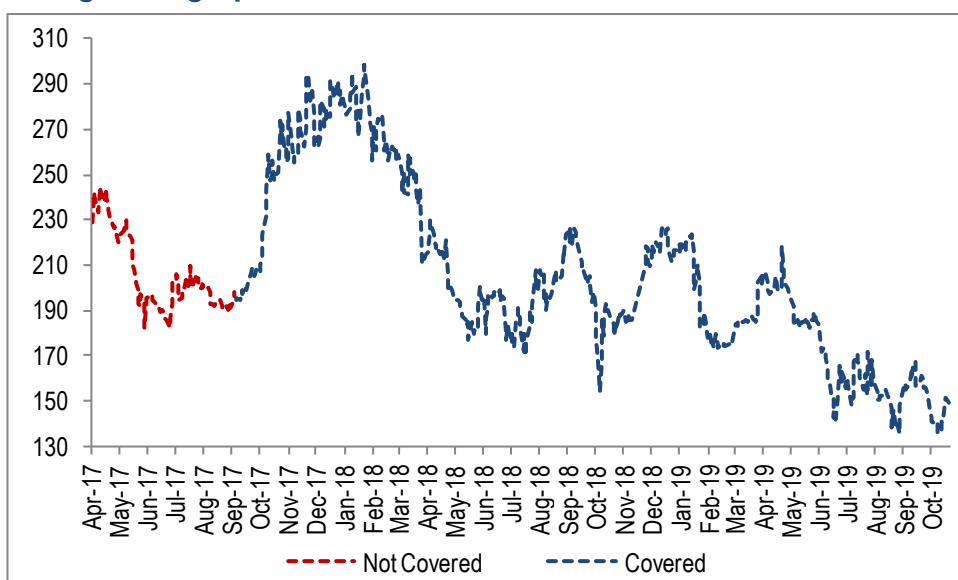
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Profitability & return ratios					
EBITDA margin (%)	12.9	7.9	12.9	18.1	18.3
EBIT margin (%)	6.4	0.5	6.6	12.8	13.4
Net profit margin (%)	3.9	(0.3)	3.8	8.4	9.2
RoE (%)	6.2	(0.4)	6.8	16.7	17.7
RoCE (%)	9.0	0.3	10.0	22.1	23.1
Working capital & liquidity ratios					
Receivables (days)	73.9	76.1	65.9	66.0	68.5
Inventory (days)	197.6	214.7	179.9	182.9	189.4
Payables (days)	163.0	182.5	151.6	141.5	146.5
Working capital days	108.6	108.3	94.2	107.4	111.4
Current ratio (x)	1.8	1.6	1.8	1.9	2.1
Quick ratio (x)	1.1	1.1	1.1	1.3	1.5
Valuation ratios					
EV/Sales (x)	1.6	1.7	1.4	1.1	0.9
EV/EBITDA (x)	12.2	21.2	10.7	6.0	5.0
P/E (x)	34.5	NA	31.0	11.5	9.3
P/BV (x)	2.1	2.1	2.1	1.8	1.5

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
5 September 2017	Buy	194	250
8 November 2017	Buy	256	295
29 January 2018	Accumulate	296	315
31 May 2018	Buy	200	301
14 August 2018	Buy	196	301
14 November 2018	Buy	179	273
5 April 2019	Buy	208	289
30 May 2019	Buy	187	290
14 August 2019	Buy	151	290
23 September 2019	Buy	158	300
31 October 2019	Buy	159	239

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010