

Sales flat YoY, India sales recover partially post GST: With 11% YoY growth in India and 20% YoY decline in exports, Indoco's (INDR) net sales grew only by 1% YoY in Q2FY18.

Operational Performance: The stoppage of US exports from Goa reduced US exports by 33% QoQ while India formulations partially recovered with 32 days of inventory with stockists in Q2FY18. This has resulted in adjusted EBITDA margin reduction by 60bps YoY to 12.9%. Export formulations in regulated markets declined by 20% QoQ and 23% YoY due to declining sales in US and Europe.

US sales impacted by voluntary withdrawal of sales from Goa plant-Unit-II: With voluntary withdrawal of sales of gTrusopt, gCosopt and gLatonoprost, INDR's US sales reduced to Rs80m in Q2FY18 vs Rs189m in Q1FY18, a fall we expect to continue till it achieves resolutions in manufacturing issues in Unit-II and III. Indoco discontinued its supply of generics from its sterile plant in Goa Unit-II. This resulted in reduction of US contribution to 11% in Q2FY18 from 32% of export formulations in Q2FY18. Management expects to restart supply in near term, which will enable export of key products including gToprol-XL and gVigamox.

EU sales, 51% of export formulations declined: INDR's EU exports also remain lacklustre with lower supply from its OSD plant in Goa Unit-I. INDR's EU sales declined by 6% QoQ due to lower off-take in tender business in Germany. Its EM sales also declined down by 15% due to volatile currencies in South Africa and New Zealand.

Debt :Equity scenario: Long term debt was Rs1.8bn while short term debt was Rs1.3bn in Q2FY18. Management guided for capex of Rs900m and effective tax rate of 15-20% in FY18E

Valuation: With uncertain regulatory environment in India, we expect only gradual pick up in channel off-take in domestic formulations in H2FY18E. With discontinuation of sterile drugs to US, we expect Indoco's expectation of 15% revenue growth with 15-18% EBITDA margin in FY18E to be challenging. INDR trades at PER of 35x FY18E and 27x FY19E earnings. INDR has guided for seasonal benefits in India formulations and early resolution in Goa Unit-II. With structural degradation in the sector valuation, we maintain '**Reduce**' and retain TP at Rs151 (PE 14x of FY19E)

Key Financials (Rs m)

Y/e March	FY15	FY16	FY17	FY18E	FY19E
Revenue (Rs m)	8,522	9,842	10,694	11,607	12,901
Growth (%)	18.0	15.5	8.7	8.5	11.1
EBITDA (Rs m)	1,608	1,465	1,291	1,451	1,755
PAT (Rs m)	828	819	771	768	994
EPS (Rs)	9.0	8.9	8.4	8.3	10.8
Growth (%)	NA	NA	(6.0)	(0.3)	29.5
Net DPS (Rs)	1.6	1.6	1.6	1.6	1.6

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY15	FY16	FY17	FY18E	FY19E
EBITDA margin (%)	18.9	14.9	12.1	12.5	13.6
RoE (%)	17.0	15.0	12.5	11.3	13.3
RoCE (%)	17.1	15.1	11.2	10.3	11.9
EV / sales (x)	3.1	2.7	2.5	2.3	2.1
EV / EBITDA (x)	16.4	18.2	21.0	18.5	15.3
PER (x)	NA	32.0	34.0	34.2	26.4
P / BV (x)	5.1	4.5	4.0	3.7	3.3
Net dividend yield (%)	0.6	0.6	0.6	0.6	0.6

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	17.4	15.6	(7.1)
Relative to Sensex	12.5	3.8	(28.6)

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)	Q2FY18E	Variance %
Net Sales	2,800	2,764	1.3	2,042	4,843	5,289	(8.4)	2,874	(2.6)
Raw Material	1,003	971	3.3	711	1,714	1,861	(7.9)		
<i>% of Net Sales</i>	35.8	35.1		34.8	35.4	35.2			
Personnel Cost	554	534	3.7	563	1,117	1,042	7.2		
<i>% of Net Sales</i>	19.8	19.3		27.6	23.1	19.7			
Others	883	886	(0.4)	803	1,686	1,641	2.7		
<i>% of Net Sales</i>	31.5	32.0		39.3	34.8	31.0			
Total Expenditure	2,439	2,391	2.0	2,077	4,516	4,544	(0.6)		
EBITDA	362	373	(3.1)	(35)	327	745	(56.1)	411	(12.1)
<i>Margin (%)</i>	12.9	13.5		(1.7)	6.7	14.1			
Depreciation	172	167	3.2	169	341	335	1.8		
EBIT	190	207	(8.2)	(204)	(14)	410	(103.5)	241	(21.4)
Other Income	71	56	26.1	57	128	106	20.4		
Interest	70	16	343.9	61	131	40	225.7		
PBT	191	247	(22.8)	(208)	(17)	476	(103.6)	236	(19.1)
Extra-Ord. Inc./Exps.	-	-		-	-	-			
Total Taxes	(7)	26	(125.9)	9	3	57	(95.6)		
<i>ETR (%)</i>	(3.5)	10.5		(4.4)	(14.5)	11.9			
Reported PAT	198	221	(10.7)	(217)	(20)	419	(104.7)	177	11.7

Revenue - Segments

Indoco Remedies

	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Domestic	1,975	1,767	11.8	1,102	3,078	3,290	(6.5)
Formulations	1,882	1,688	11.5	997	2,879	3,108	(7.3)
APIs	93	79	17.8	105	198	183	8.4
Exports	825	997	(17.2)	940	1,765	1,999	(11.7)
Formulations	743	925	(19.7)	860	1,603	1,849	(13.3)
Reg mkt	594	772	(23.0)	735	1,329	1,566	(15.1)
Non-reg mkt (Emerging mkt)	149	154	(3.4)	125	274	283	(3.4)
APIs	82	71	15.8	80	162	150	8.5
Net Sales	2,800	2,764	1.3	2,042	4,843	5,289	(8.4)
Add: Analytical & Testing Rev.	-	-	-	-	-	-	-
Net Revenues	2,800	2,764	1.3	2,042	4,843	5,289	(8.4)

Income Statement (Rs m)

Y/e March	FY15	FY16	FY17	FY18E	FY19E
Net Revenue	8,522	9,842	10,694	11,607	12,901
Direct Expenses	3,332	3,998	4,207	4,469	4,747
% of Net Sales	39.1	40.6	39.3	38.5	36.8
Employee Cost	1,398	1,819	2,167	2,379	2,683
% of Net Sales	16.4	18.5	20.3	20.5	20.8
SG&A Expenses	1,968	2,128	2,512	2,728	3,070
% of Net Sales	23.1	21.6	23.5	23.5	23.8
Other Expenses	217	432	517	580	645
% of Net Sales	2.5	4.4	4.8	5.0	5.0
EBITDA	1,608	1,465	1,291	1,451	1,755
Margin (%)	18.9	14.9	12.1	12.5	13.6
Depreciation	471	607	633	645	677
PBIT	1,137	858	658	806	1,077
Interest Expenses	106	124	62	164	167
PBT	1,096	989	909	972	1,243
Total tax	267	170	139	204	249
Effective Tax rate (%)	24.4	17.2	15.3	21.0	20.0
PAT	828	819	771	768	994
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	828	819	771	768	994

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY15	FY16	FY17	FY18E	FY19E
Share Capital	184	184	184	184	184
Reserves & Surplus	5,004	5,581	6,331	6,883	7,704
Shareholder's Fund	5,188	5,765	6,516	7,067	7,889
Preference Share Capital	-	-	-	-	-
Total Debt	279	514	1,502	1,665	1,765
Other Liabilities(net)	97	97	114	103	93
Deferred Tax Liability	271	(219)	(276)	(286)	(273)
Total Liabilities	5,835	6,157	7,856	8,549	9,473
Gross Block	5,523	6,372	7,670	8,570	9,570
Less : Depreciation	2,032	2,639	3,272	3,916	4,593
Net Block	3,491	3,733	4,398	4,653	4,976
Capital Work in Progress	531	548	906	997	1,087
Cash & Cash Equivalent	154	283	626	1,033	1,162
Total Current Assets	3,854	4,489	5,725	6,550	7,171
Total Current Liabilities	2,621	3,030	3,838	3,924	4,061
Net Current Assets	1,232	1,459	1,887	2,626	3,111
Other Assets	580	260	665	272	299
Total Assets	5,835	6,157	7,856	8,549	9,473

Source: Company Data, PL Research