

August 14, 2019

Q1FY20 Result Update

■ Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	REDUCE		HOLD	
Target Price	130		137	
Sales (Rs. m)	11,409	12,835	11,409	12,835
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,512	1,932	1,512	1,932
% Chng.	-	-	-	-
EPS (Rs.)	7.7	11.2	7.7	11.2
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	10,210	9,421	11,409	12,835
EBITDA (Rs. m)	1,107	503	1,512	1,932
Margin (%)	10.8	5.3	13.3	15.1
PAT (Rs. m)	474	(21)	707	1,031
EPS (Rs.)	5.1	(0.2)	7.7	11.2
Gr. (%)	(24.8)	(104.5)	(3,453.1)	45.7
DPS (Rs.)	1.0	1.0	1.0	1.0
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	7.1	(0.3)	10.2	13.4
RoCE (%)	4.6	(2.3)	8.5	11.8
EV/Sales (x)	1.6	1.7	1.4	1.2
EV/EBITDA (x)	14.7	31.4	10.5	8.2
PE (x)	29.0	(652.0)	19.4	13.3
P/BV (x)	2.0	2.1	1.9	1.7

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.239 / Rs.134
Sensex / Nifty	36,958 / 10,926
Market Cap	Rs.14bn/ \$ 193m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.10.68m

Shareholding Pattern (%)

Promoter's	58.68
Foreign	2.10
Domestic Institution	15.19
Public & Others	24.04
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.7)	(13.8)	(24.0)
Relative	(7.5)	(15.7)	(22.1)

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Q1:Gap remains between guidance, achievement

Net sales, adj. EBITDA and PAT all miss estimates by a big margin. India formulation sales increased by 8% YoY, while it guided (earlier) growth of more than 15%. The sales in regulated markets increased by 47% YoY and led overall increase in exports by 43% YoY in Q1FY20 (falling short of guidance) due to slow execution of exports to UK markets. The plant related manufacturing issues (mainly due to delay in re-approval of Goa Unit-1 by UK MHRA) have caused slowdown in exports to Europe (especially UK and Germany). Exports in non-regulated markets increased by 34% on the back of exceptionally lower base YoY.

While management achieved US FDA resolutions in Goa Unit-2 and 3, as well as pending MHRA approval in Goa Unit-1, INDR guided for further internal restructuring and additional studies of sterile products in Unit-2 and 3 to remain compliant with USFDA. This has explained the delay in new product approvals from both the plants despite resolution being achieved. INDR expects resolution from UK MHRA for Goa Unit-1 as regulators have inspected the plant in May FY20. While the plant is under review for re-approval, we believe there could be delay for final resolution given a) US FDA issued warning letter in July FY20 for Unit-1 and b) growing harmonization between leading regulators. INDR guided almost double its sales of Rs2bn in FY20E.

Management maintained low double digit growth of India formulations in FY20E on the back of better growth in stomatology and GI segment. With acute-heavy portfolio and challenging growth scenario in respiratory products (contributes 11% of India sales), it would require positive surprise to achieve guidance of more than 10% in FY20E. Nevertheless, there will be a benefit of lower base in India formulations which grew only at 2% YoY in FY19.

INDR trades at PER of 19.7x FY20E and 13.5x FY21E earnings. INDR has guided for seasonal benefits in India formulations and early resolution in Goa Unit-1 from UK MHRA. With structural degradation in the sector valuation, there are sizable gap between guidance and achievement of key targets in INDR. The US market prospects changed significantly with approved products being highly competitive and hardly having any economic feasibility to re-enter in those products. Teva planned to return some of its ophthalmic ANDAs due to indistinct economic prospects. With challenging comparative valuations in comparison to its growth and peers, we assign 12x PE of FY21E earnings as it reflects unfavorable risk-return matrix. We downgrade to 'Reduce' and decrease TP to Rs130 (from Rs.137).

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	2,472	2,125	16.3	2,450	11,409	9,421	21.1
Raw Material	856	713	20.1	811	3,480	3,203	8.7
<i>% of Net Sales</i>	<i>34.6</i>	<i>33.5</i>		<i>33.1</i>	<i>30.5</i>	<i>34.0</i>	
Personnel Cost	606	561	8.1	578	2,510	2,317	8.3
<i>% of Net Sales</i>	<i>24.5</i>	<i>26.4</i>		<i>23.6</i>	<i>22.0</i>	<i>24.6</i>	
Others	837	786	6.5	846	3,908	3,399	15.0
<i>% of Net Sales</i>	<i>33.9</i>	<i>37.0</i>		<i>34.5</i>	<i>34.3</i>	<i>36.1</i>	
Total Expenditure	2,299	2,060	11.6	2,235	9,897	8,918	11.0
EBITDA	173	65	164.3	215	1,512	503	200.6
<i>Margin (%)</i>	<i>7.0</i>	<i>3.1</i>		<i>8.8</i>	<i>13.3</i>	<i>5.3</i>	
Depreciation	170	167	1.6	195	716	716	0.1
EBIT	3	(102)	NA	20	795	(213)	NA
Other Income	61	54	14.6	120	328	325	1.0
Interest	61	72	(14.8)	46	217	205	5.5
PBT	3	(120)	NA	94	907	(93)	NA
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	(19)	-	NA	(22)	200	(64)	NA
<i>ETR (%)</i>	<i>(691.4)</i>	<i>-</i>		<i>(23.7)</i>	<i>22.0</i>	<i>68.9</i>	
Reported PAT	22	(120)	NA	116	707	(29)	NA

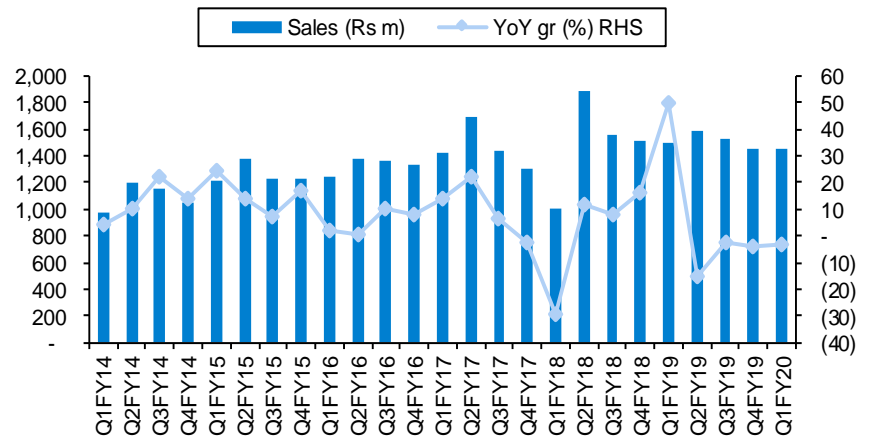
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Domestic	1,702	1,636	4.0	1,547	7,052	6,382	10.5
Formulations	1,616	1,497	7.9	1,450	6,668	6,062	10.0
APIs	86	139	(37.9)	97	384	320	20.0
Exports	744	489	52.2	861	4,127	2,838	45.4
Formulations	593	414	43.1	707	3,496	2,335	49.7
Reg mkt	432	294	46.9	470	2,660	1,609	65.3
Non-reg mkt (Emerging mkt)	161	120	33.9	237	837	727	15.2
APIs	151	75	102.6	154	631	503	25.5
Net Sales	2,446	2,125	15.1	2,408	11,179	9,219	21.3
Add: Analytical & Testing Rev.	26	56		42	230	195	
Net Revenues	2,472	2,181	13.3	2,450	11,409	9,414	21.2

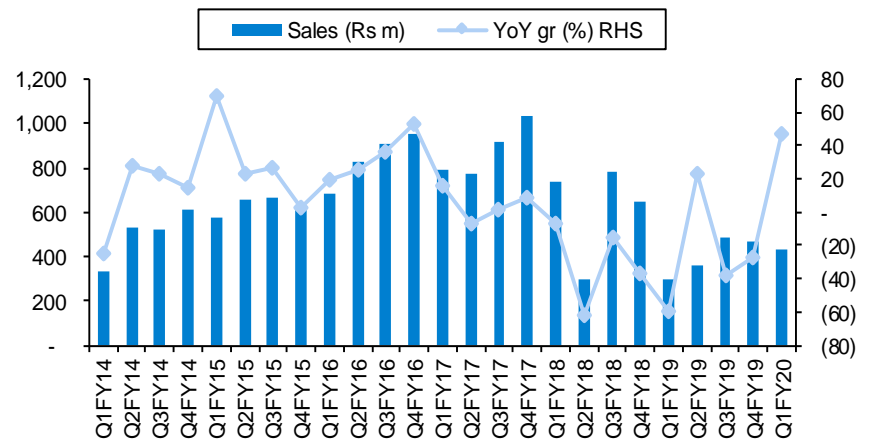
Source: Company, PL

Exhibit 3: Domestic formulations sales, growth



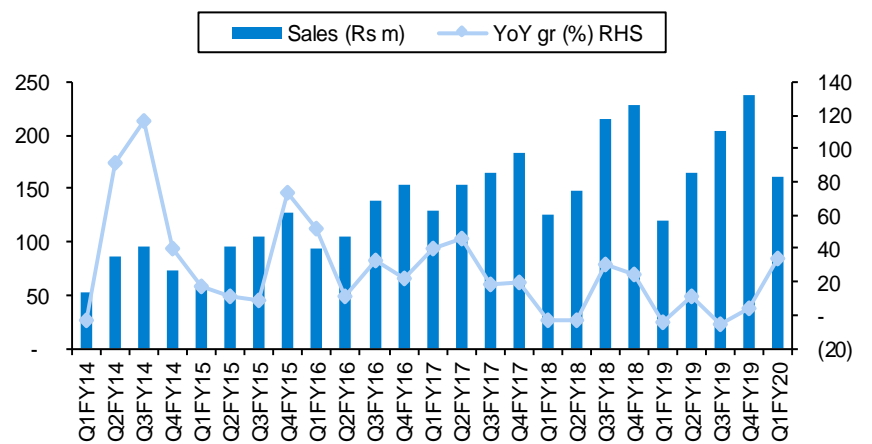
Source: Company, PL

Exhibit 4: Export: Regulated Mkt. Sales, growth



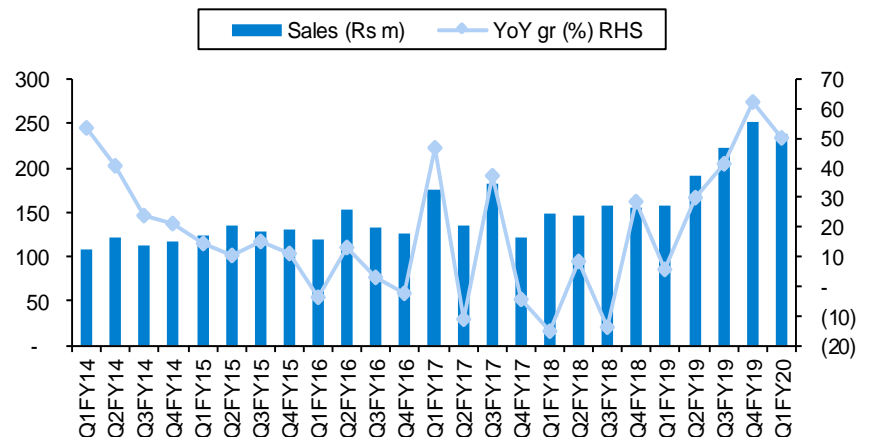
Source: Company, PL

Exhibit 5: Export, Semi-Reg. mkt sales



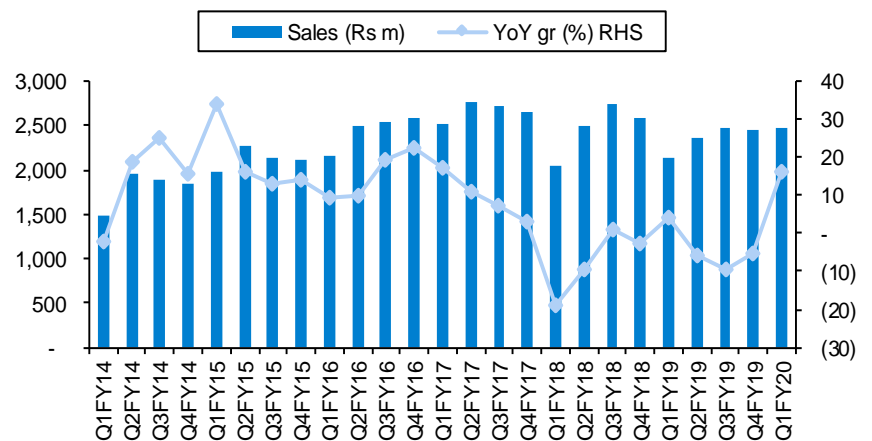
Source: Company, PL

Exhibit 6: API sales and growth



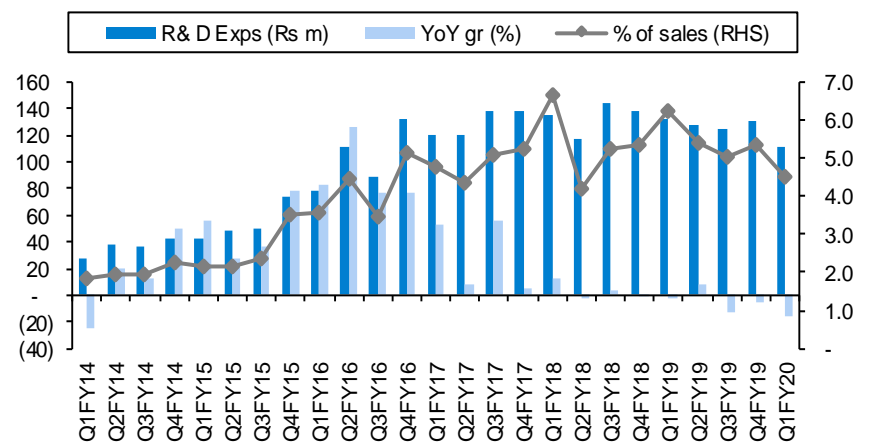
Source: Company, PL

Exhibit 7: Overall sales and growth



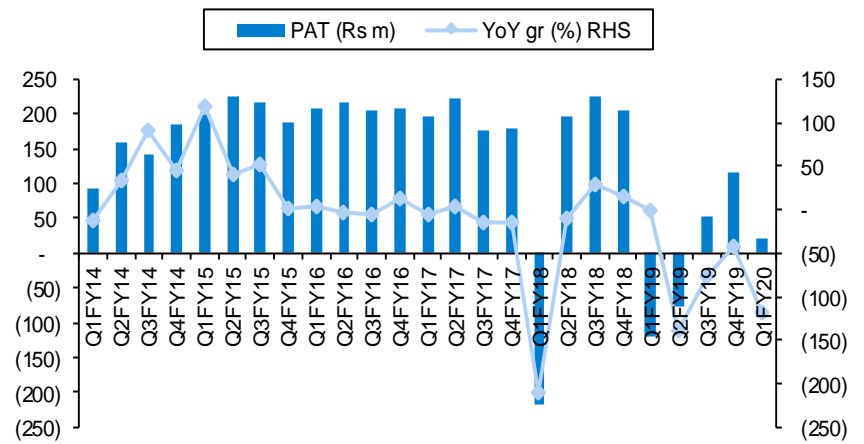
Source: Company, PL

Exhibit 8: R&D Exps as % of sales



Source: Company, PL

Exhibit 9: Adj. PAT, growth



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	10,210	9,421	11,409	12,835
YoY gr. (%)	(4.5)	(7.7)	21.1	12.5
Cost of Goods Sold	3,512	3,203	3,480	3,786
Gross Profit	6,698	6,218	7,929	9,049
Margin (%)	65.6	66.0	69.5	70.5
Employee Cost	2,209	2,317	2,510	2,759
Other Expenses	535	515	542	610
EBITDA	1,107	503	1,512	1,932
YoY gr. (%)	(14.3)	(54.6)	200.6	27.8
Margin (%)	10.8	5.3	13.3	15.1
Depreciation and Amortization	677	716	716	726
EBIT	430	(213)	795	1,206
Margin (%)	4.2	(2.3)	7.0	9.4
Net Interest	235	205	217	215
Other Income	290	325	328	332
Profit Before Tax	484	(93)	907	1,322
Margin (%)	4.7	(1.0)	8.0	10.3
Total Tax	10	(72)	200	291
Effective tax rate (%)	2.1	77.3	22.0	22.0
Profit after tax	474	(21)	707	1,031
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	474	(21)	707	1,031
YoY gr. (%)	(24.8)	(104.5)	(3,453.1)	45.7
Margin (%)	4.6	(0.2)	6.2	8.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	474	(21)	707	1,031
YoY gr. (%)	(24.8)	(104.5)	(3,453.1)	45.7
Margin (%)	4.6	(0.2)	6.2	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	474	(21)	707	1,031
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	5.1	(0.2)	7.7	11.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	8,862	9,366	10,016	10,666
Tangibles	7,104	7,215	7,715	8,215
Intangibles	1,758	2,151	2,301	2,451
Acc: Dep / Amortization	3,975	4,690	5,407	6,133
Tangibles	2,693	3,048	3,452	3,902
Intangibles	1,281	1,642	1,954	2,231
Net fixed assets	4,888	4,676	4,609	4,533
Tangibles	4,411	4,166	4,262	4,313
Intangibles	477	509	347	221
Capital Work In Progress	1,356	1,854	1,249	862
Goodwill	1	1	1	1
Non-Current Investments	171	64	71	59
Net Deferred tax assets	313	355	400	467
Other Non-Current Assets	261	251	313	259
Current Assets				
Investments	-	-	-	-
Inventories	1,934	1,835	2,282	2,637
Trade receivables	2,078	1,958	2,501	2,883
Cash & Bank Balance	119	363	414	495
Other Current Assets	1,217	1,119	1,392	1,670
Total Assets	12,363	12,581	13,366	14,032
Equity				
Equity Share Capital	184	184	184	184
Other Equity	6,566	6,422	7,041	7,960
Total Network	6,750	6,606	7,225	8,145
Non-Current Liabilities				
Long Term borrowings	1,233	1,287	1,325	1,259
Provisions	127	160	136	115
Other non current liabilities	25	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,423	1,134	1,225	1,274
Trade payables	1,496	1,707	1,969	2,110
Other current liabilities	1,238	1,614	1,420	1,070
Total Equity & Liabilities	12,363	12,581	13,366	14,032

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	484	(93)	907	1,322
Add. Depreciation	677	716	716	726
Add. Interest	235	205	217	215
Less Financial Other Income	290	325	328	332
Add. Other	(108)	153	(273)	(258)
Op. profit before WC changes	1,288	981	1,567	2,005
Net Changes-WC	(131)	431	(727)	(598)
Direct tax	(99)	20	(218)	(317)
Net cash from Op. activities	1,058	1,432	622	1,090
Capital expenditures	(1,535)	(504)	(650)	(650)
Interest / Dividend Income	19	19	19	19
Others	-	2	-	(2)
Net Cash from Invt. activities	(1,516)	(483)	(631)	(633)
Issue of share cap. / premium	-	-	-	-
Debt changes	284	(203)	76	(63)
Dividend paid	(112)	(112)	(112)	(112)
Interest paid	(235)	(205)	(217)	(215)
Others	-	-	-	-
Net cash from Fin. activities	(63)	(520)	(252)	(389)
Net change in cash	(520)	429	(262)	68
Free Cash Flow	(476)	928	(28)	440

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	2,359	2,480	2,450	2,472
YoY gr. (%)	(15.8)	(9.6)	(5.4)	16.3
Raw Material Expenses	796	882	811	856
Gross Profit	1,563	1,598	1,639	1,616
Margin (%)	66.2	64.4	66.9	65.4
EBITDA	121	102	215	173
YoY gr. (%)	(66.6)	(74.0)	(44.4)	164.3
Margin (%)	5.1	4.1	8.8	7.0
Depreciation / Depletion	177	177	195	170
EBIT	(56)	(75)	20	3
Margin (%)	(2.4)	(3.0)	0.8	0.1
Net Interest	50	37	46	61
Other Income	1	151	120	61
Profit before Tax	(105)	39	94	3
Margin (%)	(4.5)	1.6	3.8	0.1
Total Tax	(27)	(14)	(22)	(19)
Effective tax rate (%)	25.9	(36.9)	(23.7)	(691.4)
Profit after Tax	(78)	53	116	22
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(78)	53	116	22
YoY gr. (%)	(139.5)	(76.4)	(43.3)	(118.4)
Margin (%)	(3.3)	2.2	4.7	0.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(78)	53	116	22
YoY gr. (%)	(139.5)	(76.4)	(43.3)	(118.4)
Margin (%)	(3.3)	2.2	4.7	0.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(78)	53	116	22
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	(0.8)	0.6	1.3	0.2

Source: Company Data, PL Research

Key Financial Metrics

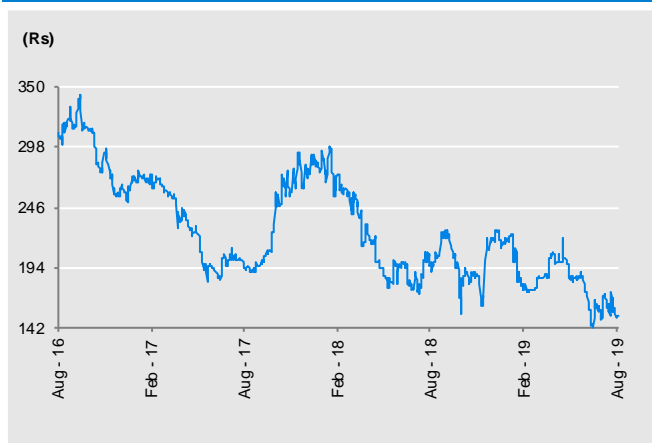
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	5.1	(0.2)	7.7	11.2
CEPS	12.5	7.5	15.5	19.1
BVPS	73.2	71.7	78.4	88.4
FCF	(5.2)	10.1	(0.3)	4.8
DPS	1.0	1.0	1.0	1.0
Return Ratio(%)				
RoCE	4.6	(2.3)	8.5	11.8
ROIC	4.5	(0.5)	6.9	9.7
RoE	7.1	(0.3)	10.2	13.4
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.3	0.3
Net Working Capital (Days)	90	81	90	97
Valuation(x)				
PER	29.0	(652.0)	19.4	13.3
P/B	2.0	2.1	1.9	1.7
P/CEPS	12.0	19.8	9.7	7.8
EV/EBITDA	14.7	31.4	10.5	8.2
EV/Sales	1.6	1.7	1.4	1.2
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Domestic Formulations	5,950	6,062	6,668	7,402
Export Formulations	3,473	2,335	3,496	3,948
APIs	609	822	1,014	1,209

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	19-Jul-19	Hold	137	160
2	4-Jul-19	Hold	182	159
3	5-Apr-19	Reduce	111	204
4	30-Jan-19	Reduce	111	186
5	7-Jan-19	Reduce	103	217
6	14-Nov-18	Reduce	100	168
7	5-Oct-18	Reduce	184	178

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	715	600
2	Cadila Healthcare	Accumulate	266	232
3	Cipla	Reduce	439	518
4	Dr. Lal PathLabs	Accumulate	1,120	1,077
5	Dr. Reddy's Laboratories	Accumulate	2,997	2,648
6	Eris Lifesciences	Accumulate	459	402
7	Glenmark Pharmaceuticals	Reduce	417	423
8	Indoco Remedies	Hold	137	160
9	Ipca Laboratories	BUY	908	949
10	Jubilant Life Sciences	Reduce	433	445
11	Lupin	Reduce	730	761
12	Sun Pharmaceutical Industries	Reduce	396	392
13	Thyrocare Technologies	BUY	595	466

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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