

Results Update

Indoco Remedies Ltd

Bloomberg Code: INDR IN

India Research - Stock Broking

BUY

Positive Momentum in Place

Revenues at Rs. 2759 Mn in Q1FY21 grew 9.2% YoY by 1.4% QoQ. EBITDA increased by 117% YoY and by 46% QoQ to Rs. 487 Mn. EBITDA margins increased from 8.9% in Q1FY20 to 17.6% in Q1FY21. Profits increased from Rs. 18.5 Mn in Q1FY20 to Rs. 170 Mn in Q1FY21.

Export formulations shows good traction: Domestic formulations business de-grew by 8.7% to Rs. 1475 Mn, while export formulations grew by 61% YoY to Rs. 955 Mn. US business was Rs. 268 Mn in line with Q4, UK had 29% growth YoY to Rs. 479 Mn while Emerging Markets grew by 17.7% to Rs. 190 Mn. API de-grew by 3% and 8.6% in domestic and exports space.

Margins move up: The company's EBITDA margins were at 17.6% in Q1FY21 as against 8.9% in Q1FY20. Savings in materials cost of 400 bps has been on account of strong sales in regulated markets and milestone payments received in US business. Staff cost increased by 8% to Rs. 658 Mn while other expenses decreased by 4% to Rs. 6.95 Bn due to lower travel and promotional spend. R & D expenses decreased by 7.7% YoY to Rs. 103 Mn (3.85% of revenues). Net profit increased from Rs. 18.5 Mn in Q1FY20 to Rs. 170.4 Mn in Q1FY21.

Valuation and Risks

We upgrade our Revenues for FY21E/FY22E by 0.9%/0.7% to Rs. 13.3 Bn / Rs. 16.8 Bn due to upgrade in US markets. We upgrade our EBITDA Margins by 140 bps / 150 bps to 13.9%/17.4% for FY21E/FY22E due to better gross margins and lower overheads. Lower growth in profits is on account of higher tax rates of 30%. We revise our EPS by 4.8%/2.1% to Rs. 8.8 / Rs. 17.4 for FY21E /FY22E. Due to better operational performance we upgrade our multiple to 17x and our price target to Rs. 296 and retain our "BUY" rating on the stock.

Exhibit 1: Valuation Summary

| YE Mar (Rs. Mn) | FY18 | FY19 | FY20P | FY21E | FY22E |
|-------------------|--------|--------|-------|-------|-------|
| Net Revenues | 10453 | 9685 | 11060 | 13322 | 16847 |
| EBITDA | 958 | 610 | 934 | 1854 | 2933 |
| Net Profit | 298 | 116 | 190 | 815 | 1605 |
| EPS (Rs.) | 3.2 | 1.3 | 2.1 | 8.8 | 17.4 |
| EPS growth (%) | (56.8) | (61.2) | 64.2 | 328.9 | 97.0 |
| EBITDA margin (%) | 9.2 | 6.3 | 8.4 | 13.9 | 17.4 |
| PER(x) | 76.6 | 197.5 | 120.3 | 28.1 | 14.2 |
| EV/EBITDA (x) | 26.2 | 40.9 | 26.2 | 13.1 | 8.0 |
| P/S (x) | 2.2 | 2.4 | 2.1 | 1.8 | 1.4 |
| RoCE (x) | 6.7 | 2.9 | 5.8 | 15.8 | 25.6 |
| RoE (%) | 4.5 | 1.7 | 2.8 | 11.4 | 19.3 |
| P/BV (x) | 3.4 | 3.5 | 3.4 | 3.0 | 2.5 |

Source: Company, Karvy Research

Consolidated

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Recommendation (Rs.)

| | |
|--------------------------|-----|
| CMP (as on Aug 14, 2020) | 248 |
| Target Price | 296 |
| Previous Target Price | 256 |
| Upside (%) | 19 |

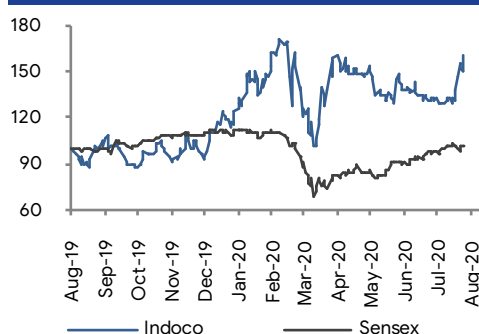
Stock Information

| | |
|-------------------------|---------------|
| Mkt Cap (Rs.Bn/US\$ Mn) | 23 / 305 |
| 52-wk High/Low (Rs.) | 284 / 133 |
| Sensex/Nifty | 37877 / 11178 |
| O/S Shares(mn) | 92.2 |
| Face Value (Rs.) | 2.0 |

Shareholding Pattern (%)

| | |
|---------------|------|
| Promoters | 58.7 |
| FII's | 2.0 |
| Banks/Fis/MFs | 14.5 |
| Public | 24.8 |

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision

| % | FY21E | FY22E |
|-----------|--------|--------|
| Revenue | ↑ 0.9 | ↑ 0.7 |
| EBITDA | ↑ 12.6 | ↑ 10.2 |
| EPS (Rs.) | ↑ 4.8 | ↑ 2.1 |

Source: Karvy Research

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Key takeaways from quarterly earnings

Domestic formulations business:

- The company used various methods including multiple touch points with Doctors, Stockists and Retail Chemists through the Digital platforms. The company has now been able to create a direct connect with retailers through a digital platform. We have lowered our growth estimates to 5% in the current year.
- Telmichek–CT Tablets was launched in the Cardiac Category in the quarter. There is no change in the status of Apixaban patent litigation as the normal functioning of the courts in India was suspended. Hearing before the Delhi High Court on September 8, 2020.

US Business:

- The Company received approval for its ANDA for Olanzapine Tablets. The company is planning to launch this product in the US in the second half through the marketing partner. One of the Company's US partner received approval for Palonosetron injection ANDA, which was filed from Goa Plant II. Launch of this product has been planned in Quarter II of FY21.
- In addition to Rasagiline tablets and Glycopyrrolate injections, launch quantities of Tranexamic injections (June'20) and Zolendronic injections (July'20) have been shipped to USA from Goa Plant II. Company currently has 3 Para IV FTF pending with the USFDA.
- The company received around Rs. 100 Mn as milestone payment for the quarter.

Europe:

- The company has strong order book for the Europe business and is confident of maintaining its revenue guidance of Rs. 2.25 Bn revenues from Europe in FY21E.

Other takeaways:

- Capex for the current year would be Rs. 500 Mn.
- Company is confident of maintaining its gross margins at current level.
- The company's working capital has increased from Rs. 1.10 Bn to Rs. 1.25 Bn for the quarter.

Exhibit 2: Quarterly Performance

| YE Mar (Rs. Mn) | Q1FY21 | Q4FY20 | Q1FY20 | QoQ (%) | YoY (%) |
|-------------------|--------|--------|--------|---------|---------|
| Net Sales | 2759 | 2720 | 2527 | 1.4 | 9.2 |
| Cost | 2272 | 2387 | 2303 | (4.8) | (1.3) |
| EBITDA | 487 | 333 | 224 | 46.1 | 117.0 |
| EBITDA Margin (%) | 17.6 | 12.2 | 8.9 | | |
| Other Income | 3 | 5 | 6 | (48.0) | (59.4) |
| Interest | 58 | 78 | 61 | (26.6) | (6.0) |
| Depreciation | 191 | 182 | 170 | 5.1 | 12.6 |
| Profit before Tax | 240 | 78 | (1) | 209.7 | |
| Tax | 70 | 24 | (19) | 191.3 | |
| Tax rate (%) | 29.1 | 30.9 | | | |
| Net Profit | 170 | 54 | 18 | 217.9 | 821.1 |

Source: Company, Karvy Research

Exhibit 3: Change in Estimates

| YE Mar (Rs. Mn) | FY21E | | | FY22E | | | Comments |
|-------------------|-------|-------|----------|-------|-------|----------|---|
| | New | Old | % change | New | Old | % change | |
| Domestic Form | 7206 | 7411 | (2.8) | 8286 | 8523 | (2.8) | downgrade in domestic revenues in lieu of Q1 |
| Export Form | 4678 | 4378 | 6.8 | 6869 | 6546 | 4.9 | |
| Reg Market | 3833 | 3533 | 8.5 | 5855 | 5532 | 5.8 | upgrade in US revenues due to better traction |
| Semi-Reg | 845 | 845 | - | 1014 | 1014 | - | |
| API-Dom | 306 | 306 | - | 327 | 327 | - | |
| API-Export | 632 | 632 | - | 695 | 695 | - | |
| Net Revenues | 13322 | 13205 | 0.9 | 16847 | 16737 | 0.7 | |
| Raw material | 3984 | 4075 | (2.3) | 4978 | 5084 | (2.1) | higher gross margins factored in FY21/FY22 |
| Personal | 2822 | 2822 | - | 3245 | 3245 | - | |
| R&D Expense | 948 | 969 | (2.2) | 1065 | 1061 | 0.4 | |
| Other Expense | 3715 | 3693 | 0.6 | 4625 | 4686 | (1.3) | lower overheads factored |
| Total Expenses | 11468 | 11559 | (0.8) | 13914 | 14075 | (1.1) | |
| EBITDA | 1854 | 1647 | 12.6 | 2933 | 2661 | 10.2 | |
| EBITDA Margin (%) | 13.9 | 12.5 | 1.4 | 17.4 | 15.9 | 1.5 | |
| Interest | 215 | 160 | 34.7 | 153 | 131 | 16.3 | higher interest outgo factored |
| Depreciation | 505 | 505 | - | 530 | 530 | - | |
| Tax | 349 | 232 | 50.3 | 688 | 470 | 46.5 | tax rates of 30% factored for FY21/22 |
| Net Profit | 815 | 777 | 4.8 | 1605 | 1572 | 2.1 | |
| EPS (Rs.) | 8.8 | 8.4 | 4.8 | 17.4 | 17.1 | 2.1 | |

Source: Company, Karvy Research

Financials

Exhibit 4: Income Statement

| YE Mar (Rs. Mn) | FY18 | FY19 | FY20P | FY21E | FY22E |
|------------------------|--------|---------|-------|-------|-------|
| Domestic sales | 6371 | 6612 | 7248 | 7611 | 8714 |
| Exports | 3839 | 2923 | 3537 | 5310 | 7563 |
| Net Sales | 10210 | 9421 | 10794 | 12921 | 16277 |
| Operating Income | 243 | 264 | 266 | 401 | 570 |
| Total Revenues | 10453 | 9685 | 11060 | 13322 | 16847 |
| Raw Material | 3512 | 3203 | 3304 | 3984 | 4978 |
| Staff | 2209 | 2317 | 2565 | 2822 | 3245 |
| R&D Exps | 927 | 672 | 789 | 948 | 1065 |
| Others Exps | 2848 | 2884 | 3467 | 3715 | 4625 |
| Total Expenditure | 9495 | 9075 | 10126 | 11468 | 13914 |
| EBITDA | 958 | 610 | 934 | 1854 | 2933 |
| EBITDA margin (%) | 9.2 | 6.3 | 8.4 | 13.9 | 17.4 |
| Other income | 47 | 61 | 24 | 30 | 42 |
| Interest | 235 | 205 | 263 | 215 | 153 |
| Gross Profit | 769 | 466 | 696 | 1669 | 2823 |
| Depreciation | 399 | 414 | 462 | 505 | 530 |
| Profit Before Tax | 371 | 52 | 235 | 1164 | 2293 |
| Tax | 72 | (64) | 45 | 349 | 688 |
| Effective tax rate (%) | 19.5 | (124.1) | 19.0 | 30.0 | 30.0 |
| Net Profit | 298 | 116 | 190 | 815 | 1605 |
| % growth | (56.8) | (61.2) | 64.2 | 328.9 | 97.0 |
| Extraordinaries | - | - | - | - | - |
| Reported Net Profit | 298 | 116 | 190 | 815 | 1605 |

Source: Company, Karvy Research, * We write off entire R&D incurred in the year and don't amortise the same

Exhibit 5: Balance Sheet

| YE Mar (Rs. Mn) | FY18 | FY19 | FY20P | FY21E | FY22E |
|----------------------------------|-------------|-------------|-------------|-------------|--------------|
| Equity | 184 | 184 | 184 | 184 | 184 |
| Reserves | 6566 | 6422 | 6611 | 7371 | 8884 |
| Networth | 6750 | 6606 | 6796 | 7555 | 9068 |
| Short-term Loans | 1099 | 1134 | 1060 | 1163 | 1058 |
| Long-term Loans | 1233 | 1287 | 969 | 629 | 329 |
| Total Loans | 2332 | 2421 | 2029 | 1792 | 1387 |
| Deferred tax Liability | (313) | (355) | (359) | (359) | (359) |
| Liabilities | 8769 | 8672 | 8466 | 8988 | 10097 |
| Gross Block | 8554 | 9034 | 10729 | 11240 | 11785 |
| Depreciation | 3963 | 4670 | 5132 | 5637 | 6167 |
| Net Block | 4592 | 4364 | 5598 | 5603 | 5618 |
| Capital work-in-progress | 758 | 1412 | 73 | 112 | 118 |
| Intangible assets | 895 | 755 | 734 | 800 | 800 |
| Inventories | 1934 | 1835 | 2083 | 2407 | 2899 |
| Debtors | 2078 | 1958 | 2101 | 2518 | 3171 |
| Cash | 119 | 363 | 379 | 391 | 750 |
| Other Current assets | 1674 | 1539 | 1388 | 1632 | 2015 |
| Total Current assets | 5805 | 5694 | 5952 | 6948 | 8835 |
| Creditors | 1495 | 1707 | 1656 | 1965 | 2455 |
| Other current liabilities | 1785 | 1847 | 2235 | 2511 | 2819 |
| Total current liabilities | 3281 | 3554 | 3891 | 4475 | 5274 |
| Net current assets | 2524 | 2141 | 2061 | 2473 | 3560 |
| Total Assets | 8769 | 8672 | 8466 | 8988 | 10097 |

Source: Company, Karvy Research, We write off entire R&D incurred in the year and don't amortise the same

Exhibit 6: Cash Flow Statement

| YE Mar (Rs. Mn) | FY18 | FY19 | FY20P | FY21E | FY22E |
|-------------------------------------|-------|-------|-------|-------|-------|
| EBIT | 559 | 196 | 473 | 1349 | 2404 |
| (Inc.)/Dec in working capital | 1032 | 627 | 96 | (400) | (729) |
| Cash flow from operations | 1590 | 823 | 569 | 949 | 1675 |
| Other income | 47 | 61 | 24 | 30 | 42 |
| Depreciation | 399 | 414 | 462 | 505 | 530 |
| Interest paid (-) | (235) | (205) | (263) | (215) | (153) |
| Deferred Tax liability | (661) | (42) | (4) | 0 | 0 |
| Tax paid (-) | (72) | 64 | (45) | (349) | (688) |
| Dividends paid (-) | (112) | (33) | (33) | (55) | (92) |
| Net cash from operations | 956 | 1082 | 711 | 865 | 1314 |
| Capital Expenditure (-) | (944) | (841) | (356) | (550) | (550) |
| Free Cash Flow | 12 | 241 | 354 | 315 | 764 |
| Inc./(Dec.) in short-term borrowing | (84) | 35 | (74) | 103 | (105) |
| Inc./(dec.) in long-term borrowing | (90) | 54 | (317) | (340) | (300) |
| Inc./(dec.) in borrowings | (175) | 88 | (391) | (237) | (405) |
| Equity issue/(Buyback) | (2) | 0 | (0) | 0 | 0 |
| Cash from Financial Activities | (177) | 88 | (391) | (237) | (405) |
| Others | (342) | (86) | 54 | (66) | |
| Opening cash | 626 | 119 | 363 | 379 | 391 |
| Closing cash | 119 | 363 | 379 | 391 | 750 |
| Change in Cash | (507) | 244 | 17 | 12 | 359 |

Source: Company, Karvy Research

Exhibit 7: Key Ratios

| YE Mar | FY18 | FY19 | FY20 | FY21E | FY22E |
|-----------|------|-------|-------|-------|-------|
| EV/EBITDA | 26.2 | 40.9 | 26.2 | 13.1 | 8.0 |
| RoE (%) | 4.5 | 1.7 | 2.8 | 11.4 | 19.3 |
| RoCE (%) | 6.7 | 2.9 | 5.8 | 15.8 | 25.6 |
| PE (x) | 76.6 | 197.5 | 120.3 | 28.1 | 14.2 |
| P/S (x) | 2.2 | 2.4 | 2.1 | 1.8 | 1.4 |
| P/BV (x) | 3.4 | 3.5 | 3.4 | 3.0 | 2.5 |

Source: Company, Karvy Research

| Stock Ratings | Absolute Returns |
|---------------|------------------|
| Buy | : > 15% |
| Hold | : 5-15% |
| Sell | : < 5% |

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