

### Robust Q1, growth story intact

Sales grew 24% YoY driven by higher share of domestic markets aided by COVID (lower demand of hospital led surgery products was offset by respiratory and diagnostics kits). Higher polymer prices continued in Q1 as well but ability to pass prices to customers aided gross margins at 66% (flat YoY, up 100bps QoQ). Higher freight charges restricted EBITDA margins at 26%. PAT at Rs376mn was up 41% YoY, 30% higher vs our estimate of Rs282mn, aided by higher net interest income. In Q1, product mix changed resulting into 62% of revenue from exports and 38% from domestic markets. Management reiterated its guidance of 17-18% revenue growth with sustained EBITDA margin for FY22E. Proceeds from QIP will be utilized to enhance its offerings in the renal care segment under the PLI scheme. Company is on track to achieve its guidance of being debt free by FY23E.

**Key triggers:** 1) PLI scheme for renal care, capex guided of Rs1.5bn over next 2 years with asset turn of 1.2-1.5x, 2) Renal guided to become 7-8x in next 5 years (Rs320mn as on FY21), 3) New launches in respiratory, syringes (for vaccine market), diagnostic kits to contribute meaningfully over the next 2-3 years, 4) Looking at inorganic opportunities, 5) Entry into newer markets like US (expect USFDA approval and launches from 2HFY22). It has also taken board approval to set up an office in the UK and is in advanced discussion with 3-4 large customers for direct distribution.

**Outlook and Valuation:** Polymed has grown at 15% and 25% CAGR in revenue and PAT respectively during FY17-21 with margins improving by 700 bps to 27.3% in FY21. Further, it has improved its CFO/EBITDA from 60% in FY18 to 82% in FY20. We believe PLI scheme and medical device regulation will be a game changer for organized players like Polymed in an unorganized fragmented market. Assuming overall capex of Rs2.5bn for the PLI scheme and asset turn 1.4x, our back of the envelope calculations suggest, revenue potential of Rs3.5bn over FY24-27E. Further assuming the margins at 28%, we believe PLI optionality to be at Rs215 (20x EV/EBITDA). We pencil 20% earnings CAGR over FY21-23E and value the base business at 45x FY23E earnings. **Maintain Buy.**

### Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	2,119	1,704	24.4	2,130	(0.5)
Total Expense	1,566	1,245	25.8	1,588	(1.4)
EBITDA	553	459	20.7	542	2.1
Depreciation	129	110	17.2	125	2.6
EBIT	425	349	21.8	416	2.0
Other Income	103	35	196.4	67	54.1
Interest	32	28	14.5	(18)	(274.6)
EBT	495	355	39.4	501	(1.2)
Tax	126	95	32.1	130	(2.9)
RPAT	376	267	40.7	388	(3.2)
APAT	376	267	40.7	388	(3.2)
			(bps)		(bps)
Gross Margin (%)	66.1	65.7	35	64.6	146
EBITDA Margin (%)	26.1	26.9	(80)	25.4	66
NPM (%)	17.7	15.7	206	18.2	(50)
Tax Rate (%)	25.4	26.8	(139)	25.9	(43)
EBIT Margin (%)	20.0	20.5	(43)	19.6	48

CMP	Rs 982		
Target / Upside	Rs 1,136 / 16%		
NIFTY	15,763		
<b>Scrip Details</b>			
Equity / FV	Rs 479mn / Rs 5		
Market Cap	Rs 94bn		
	USD 1bn		
52-week High/Low	Rs 1,165 / 365		
Avg. Volume (no)	187,692		
Bloom Code	PLM IN		
<b>Price Performance</b>			
1M	3M	12M	
Absolute (%)	(3)	(1)	149
Rel to NIFTY (%)	(4)	(9)	107

### Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	48.8	44.9	44.9
MF/Banks/FIs	0.3	2.5	2.5
FIs	3.8	12.6	12.6
Public / Others	47.2	40.0	40.0

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	69.1	56.2	48.5
EV/EBITDA	42.6	36.4	30.6
ROE (%)	19.4	16.5	17.2
RoACE (%)	16.4	14.8	15.6

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	7,865	9,437	10,919
EBITDA	2,144	2,515	2,978
PAT	1,361	1,674	1,942
EPS (Rs.)	14.2	17.5	20.3

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**Exhibit 1: Revenue Break-up (Rs mn)**

Particulars	FY21	FY20	% YoY
India	2,186	1,868	17.0
Export	5,679	4,824	17.7
Total Sales	7,865	6,693	17.5

Source: DART, Company

**Exhibit 2: Segment break-up (Rs mn)**

Particulars	FY21	FY20	% YoY
Infusion therapy	5,584	4,685	19.2
Blood Transfusion	708	602	17.5
Renal	314.6	267.7	17.5
Respiratory	236	268	-11.9
Others	1,022	870	17.5
Total Sales	7,865	6,693	17.5

Source: DART, Company

### Concall takeaways

- **Guidance:** Revenue growth of 17-18% and EBITDA margins to be sustained at 25-26% despite higher raw material prices. Indian market is expected to grow at 25-30% and exports at ~12%. The guidance does not include contribution from new launches. Long term EBITDA guidance reiterated at 30%. Capex guided at Rs2.5bn for next 18 months. Of this, Rs1.5bn will be utilized towards PLI scheme. Apart from renal category, company will focus on infusion and diagnostics business (planned capex of Rs1bn).
- **New launches in FY22E:** Amongst other products, Polymed plans to launch nebulizer machine, syringes. It has already launched RT-PCR kit, COVID antigen kit, single use dialyzer and Y connectors (used in oxygen cylinders) in Q1 and the initial response for the product has been encouraging. Company believes that higher volumes in these products will compensate for their low value thereby sustaining EBITDA margins.
- **PLI Update:** Management remain upbeat on the opportunities in renal segment (currently 85-90% imported). In FY21, Renal contributed Rs360mn, 5% of sales and management guided this to grow 7-8x over the next 5 years. Besides, the company also plans to apply for PLI 2 scheme under the diagnostic products scheme.
- **COVID:** Q1FY22 has seen higher contribution from domestic market aided by COVID. Higher demand of products in respiratory segment (nasal tubes, connectors, oxygen masks) and diagnostics (blood collection tubes, rapid test kits) aided growth. It also helped company made inroads with major diagnostic chains in India along with other key hospitals. Management mentioned that it had ramped up capacity by 2-3x for these 2 segments given the higher demand. Besides, it does see increased demand for syringes used for vaccines and diagnostic kits, manufacturing for which is on stream.
- **Higher costs:** Apart from high raw material prices (up by ~70-80% YoY), Polymed's margins were impacted due to higher logistics and freight costs in Q1 as well. While large part of this cost is passed through, some cost increase has impacted margins.
- **US launch:** Company expects USFDA approval in next 1-2 quarters and product launch to start from 2HFY22E onwards. Revenue contribution should be largely seen from FY23E onwards. Company is in process of hiring sales force (3-4 people) in the US and plans to set up an R&D center in North Carolina. Total investment for this is expected to be in the range of US\$2-3mn.
- **India:** All the new product launches would initially be launched in India and then in the exports market. Its distributor strength stands at 223 and sales and marketing team at 200. In terms of customer network, Polymed has added multiple hospitals, diagnostic chains.

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>6,872</b>	<b>7,865</b>	<b>9,437</b>	<b>10,919</b>
<b>Total Expense</b>	<b>5,233</b>	<b>5,721</b>	<b>6,922</b>	<b>7,941</b>
COGS	2,170	2,619	3,021	3,468
Employees Cost	1,388	1,418	1,670	1,912
Other expenses	1,675	1,685	2,232	2,561
<b>EBIDTA</b>	<b>1,640</b>	<b>2,144</b>	<b>2,515</b>	<b>2,978</b>
Depreciation	405	475	544	612
<b>EBIT</b>	<b>1,234</b>	<b>1,668</b>	<b>1,971</b>	<b>2,366</b>
Interest	183	85	53	53
Other Income	185	184	265	222
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>1,236</b>	<b>1,767</b>	<b>2,183</b>	<b>2,535</b>
Tax	298	439	546	634
RPAT	959	1,361	1,674	1,942
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>21</b>	<b>33</b>	<b>36</b>	<b>40</b>
<b>APAT</b>	<b>959</b>	<b>1,361</b>	<b>1,674</b>	<b>1,942</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	441	479	479	479
Minority Interest	0	0	0	0
Reserves & Surplus	3,907	9,176	10,209	11,450
<b>Net Worth</b>	<b>4,348</b>	<b>9,656</b>	<b>10,689</b>	<b>11,930</b>
Total Debt	1,686	1,034	984	974
Net Deferred Tax Liability	252	239	250	262
<b>Total Capital Employed</b>	<b>6,287</b>	<b>10,929</b>	<b>11,923</b>	<b>13,166</b>

**Applications of Funds**

Net Block	<b>3,278</b>	<b>3,905</b>	<b>4,805</b>	<b>5,155</b>
CWIP	598	520	603	657
Investments	619	755	694	694
<b>Current Assets, Loans &amp; Advances</b>	<b>3,178</b>	<b>7,058</b>	<b>6,632</b>	<b>7,546</b>
Inventories	1,121	1,265	1,227	1,377
Receivables	1,271	1,565	1,396	1,615
Cash and Bank Balances	254	296	48	570
Loans and Advances	1	3	4	5
Other Current Assets	372	479	508	529
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,386</b>	<b>1,308</b>	<b>809</b>	<b>886</b>
Payables	664	645	657	711
Other Current Liabilities	723	663	152	174
<i>sub total</i>				
Net Current Assets	1,791	5,750	5,823	6,660
<b>Total Assets</b>	<b>6,287</b>	<b>10,929</b>	<b>11,923</b>	<b>13,166</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	68.4	66.7	68.0	68.2
EBIDTA Margin	23.9	27.3	26.7	27.3
EBIT Margin	18.0	21.2	20.9	21.7
Tax rate	24.2	24.9	25.0	25.0
Net Profit Margin	14.0	17.3	17.7	17.8
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	31.6	33.3	32.0	31.8
Employee	20.2	18.0	17.7	17.5
Other	24.4	21.4	23.6	23.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.4	0.1	0.1	0.1
Interest Coverage	6.7	19.6	36.9	44.7
Inventory days	60	59	47	46
Debtors days	68	73	54	54
Average Cost of Debt	12.0	6.3	5.3	5.4
Payable days	35	30	25	24
Working Capital days	95	267	225	223
FA T/O	2.1	2.0	2.0	2.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	10.0	14.2	17.5	20.3
CEPS (Rs)	14.2	19.2	23.1	26.6
DPS (Rs)	2.2	3.6	4.1	4.8
Dividend Payout (%)	22.2	25.4	23.7	23.5
BVPS (Rs)	45.4	100.7	111.5	124.4
RoANW (%)	23.5	19.4	16.5	17.2
RoACE (%)	19.1	16.4	14.8	15.6
RoAIC (%)	22.5	20.0	17.5	19.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	982	982	982	982
P/E	98.2	69.1	56.2	48.5
Mcap (Rs Mn)	94,116	94,116	94,116	94,116
MCap/ Sales	13.7	12.0	10.0	8.6
EV	95,390	91,405	91,603	91,070
EV/Sales	13.9	11.6	9.7	8.3
EV/EBITDA	58.2	42.6	36.4	30.6
P/BV	21.6	9.7	8.8	7.9
Dividend Yield (%)	0.2	0.4	0.4	0.5
<b>(F) Growth Rate (%)</b>				
Revenue	12.5	14.4	20.0	15.7
EBITDA	26.7	30.7	17.3	18.4
EBIT	33.9	35.2	18.2	20.0
PBT	25.2	43.0	23.5	16.1
APAT	46.6	42.0	23.0	16.0
EPS	46.6	42.0	23.0	16.0

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	1,342	1,003	2,321	2,176
CFI	(156)	(3,290)	1	1
CFF	(153)	3,434	(1,233)	(715)
FCFF	(140)	(3,392)	985	1,238
Opening Cash	546	254	296	48
Closing Cash	254	296	48	570

E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



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