

FDC

Strong domestic recovery

FDC's Q1FY22 numbers were well ahead of our estimates, with strong recovery in domestic acute market benefiting FDC. Domestic revenue grew 61% YoY, driven by strong recovery in *Zifi*, *Electral* and *Enerzal*. Export formulations declined 28% YoY and 25% QoQ to Rs431mn (10% of sales). Weakness in exports business was driven by US sales being impacted by competition. Gross margins were lower amid lower profit share from the US. Meanwhile, EBITDA margins sustained at 26%, despite higher staff costs and other expenses sequentially due to improving domestic on-ground activities, driven by strong domestic margins. We expect the domestic recovery to remain strong on a weak base while we watch closely the US revenue impact from higher competition. We maintain BUY with a target price of Rs460 (18x FY23E EPS).

Domestic business – strong recovery amid strong anti-infective growth in IPM

India sales grew 67% YoY and 65% QoQ to Rs3.9bn (contributing 87% of sales). With the recovery in the acute market, FDC has benefited with strong recovery. The top brands *Electral* and *Enerzal* at MATJun21 are sustaining growth ahead of 25%. *Zifi* MAT Jun21 growth has turned positive, we expect the low base to aid the growth in FY22E. The key brands, *Enerzal*, *Electral* and *Zifi* witnessed an average monthly brand growth of 20%, 47% and 59% respectively as per the IQVIA June'21 data during quarter. We expect FDC would be able to sustain mid-teens growth in domestic market beyond the pandemic.

US formulations share has declined significantly amid competition

Formulations exports declined 28% YoY and 25% QoQ to Rs238mn, and contributed 11% of sales. US sales accounted for 45% of total formulations exports. US profit share for the quarter stood at Rs146mn, the lowest quarterly number in the last two years, impacting gross margins. FDC announced a capex of Rs1bn over the next 18 months to increase capacity by 30% by adding an ophthalmic line.

Margins recovery would have been higher driven by India Business

Gross margin was 67.2% vs 72.8% in Q1FY21 and 66.9% in Q4FY21, largely driven by higher domestic contribution along with higher input costs. Ex-profit share, gross margin has been at 64% compared to the earlier 60% average. Staff costs and other expenses increased sequentially by 26% and 10%, respectively. EBITDA for the quarter grew 124% YoY (on a weak base) and 11% QoQ to Rs1.2bn, with EBITDA margins at 25.8% vs 33.6% in Q1FY21 and 16.5% in Q4FY21.

Valuation

We believe as IPM is showing strong recovery in anti-infective segment, FDC's domestic business should recover faster on a weak base. Beyond Covid-19 we expect domestic market should sustain early-mid double-digit growth. FDC has nearly 46% of India sales under price control. We need to understand the US business outlook and the launch pipeline, as the business base has eroded meaningfully. Key risks to our call include any expansion of NLEM products under price control and US base erosion or competition. We have reduced FY22E/FY23E earnings by 3%/2% each. Maintain BUY, with a target price of Rs460 (18x FY23E EPS). At CMP of Rs360, the stock trades at 17.3x FY22E EPS of Rs20.8 and 14.4x FY23E EPS of Rs25.

Financial and valuation summary

YE Mar (Rs mn)	1QFY22A	1QFY21A	YoY (%)	4QFY21A	QoQ (%)	FY21A	FY22E	FY23E
Revenues	4,475	3,082	45.2	3,134	42.8	13,332	16,091	19,607
EBITDA	1,155	1,036	11.5	516	123.8	3,341	4,224	5,328
EBITDA margin (%)	25.8	33.6	934bps	16.5	(781 bps)	25.1	26.3	27.2
Adj. Net profit	979	917	6.7	490	99.8	3,033	3,503	4,226
Adj. EPS (Rs)	5.8	5.4	8.1	2.8	107.2	18.0	20.8	25.0
EPS growth (%)					(0.8)	20.7	21.9	
PE (x)						20.0	17.3	14.4
EV/EBITDA (x)						18.8	14.5	11.2
PBV (x)						3.5	2.9	2.4
RoE (%)						18.5	18.4	18.5
RoCE (%)						18.6	18.5	18.6

Source: Company, Centrum Broking

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Result Update

India I Pharmaceuticals

13 August, 2021

BUY

Price: Rs360

Target Price: Rs460

Forecast return: 28%

Market Data

Bloomberg:	FDCLT IN
52 week H/L:	405/255
Market cap:	Rs60.8bn
Shares Outstanding:	168.8mn
Free float:	30.5%
Avg. daily vol. 3mth:	595,198

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Changed to Rs 460
EPS:	FY22E -2.5%; FY23E -1.9%

Source: Centrum Broking

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	69.4	69.4	69.4	69.2
FII	4.8	5.7	6.4	6.7
DII	4.3	4.0	3.8	3.6
Public/other	21.6	21.0	20.5	20.4

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY22	Actual Q1FY22	Variance (%)
Revenue	3,823	4,475	17.0%
EBITDA	1,071	1,155	7.9%
EBITDA margin	28.0%	25.8%	(220bps)
PBT	962	1,283	33.4%
Tax	240	305	26.7%
Adj. PAT	721	979	35.7%

Source: Bloomberg, Centrum Broking



Cyndrella Carvalho

Analyst, Pharmaceuticals

+91-22-4215 9643

cyndrella.carvalho@centrum.co.in

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Sales	16,091	16,091	0.0%	19,607	19,607	0.0%
EBITDA	4,224	4,345	-2.8%	5,328	5,446	-2.2%
EBITDA margin (%)	26.3	27.0	-75bps	27.2	27.8	-60bps
Adj. PAT	3,503	3,592	-2.5%	4,226	4,309	-1.9%
Diluted EPS (Rs)	20.8	21.3	-2.5%	25.0	25.5	-1.9%

Source: Centrum Broking

FDC versus NIFTY Midcap 100

	1m	6m	1 year
FDCLT IN	(5.5)	24.3	9.9
NIFTY Midcap 100	0.1	20.4	67.0

Source: Bloomberg, NSE

Key assumptions

YE Mar (Rs mn)	FY22E	FY23E
Revenue growth %	20.7	21.9
Material cost (%)	30.8	30.2

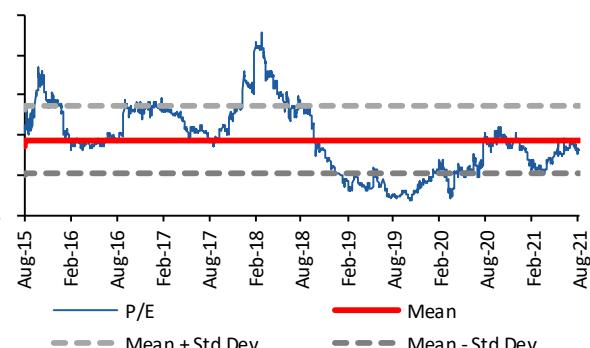
Source: Centrum Broking

Valuations

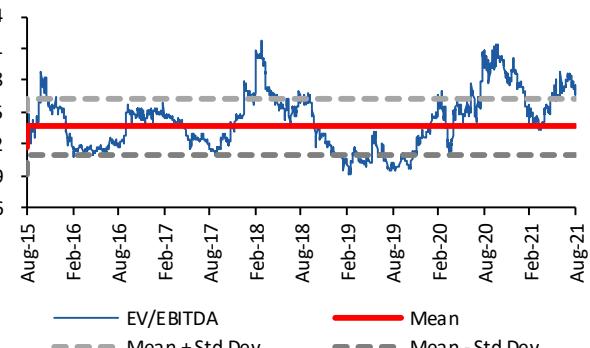
Maintain BUY, with a target price of Rs460 (18x FY23E EPS). At CMP of Rs360, the stock trades at 17.3x FY22E EPS of Rs20.8 and 14.4x FY23E EPS of Rs25

Valuations	Rs/share
EPS FY23E	Rs25
PER FY23E	14.4x

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap Rs mn	CAGR FY21-FY23E (%)			PE (x)		EV/EBITDA (x)			RoE (%)			
		Sales	EBITDA	PAT	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
FDC	60,789	21.3	25.3	18.5	20.2	17.3	14.4	18.8	14.5	11.2	18.5	18.4	18.5
Aarti Drugs Ltd	60,116	18.7	37.4	53.5	20	18.9	13.4	15	12.3	8.8	35.8	30.3	31.4
Indoco Remedies Ltd	43,629	21.8	28.1	45	47.1	32.1	22.4	20.5	15.3	12.5	12.8	16.5	20.0
JB Chemicals	137,222	14.6	11.9	15.1	30.7	30.4	26.0	23.4	21.7	18.6	27.6	22.7	22.3

Source: Company, Centrum Broking

Major products and their performance

FDC has strong presence in anti-infective, oral rehydration salt (ORS), multivitamin, antifungal and nutraceutical segments, with well-known brands in the domestic market. Top three brands contribute nearly 55% of domestic sales.

FDC markets *Electral* ORS and *Enerzal* nutraceutical brand in 200ml tetrapack. The tetrapacks are outside price control, and hence, have higher margins. FDC promotes *Enerzal* as a sports drink and markets the product at major sports events. Both these products continue to witness strong growth. MAT Jun21 reflecting strong recovery in *Electral* and *Enerzal* Franchise while *Zifi* has turned positive.

Exhibit 1: Major products & their performance

SSA IQVIA		April'21			May'21			June'21			MAT June'21		
Rs mn	Therapy Category	Value	M.S. (%)	Growth (%)	Value	M.S. (%)	Growth (%)	Value	M.S. (%)	Growth (%)	Value	M.S. (%)	Growth (%)
FDC		1,944	1.32	85.1	1,574	1.1	38.8	1,148	0.98	2.28	15,521	1.07	11.26
IPM		1,47,482		53.7	1,39,911		43.7	1,16,878		10.8	14,51,683		14.7
ZIFI	Anti-infective	316	21	93	248	18	82	164	14	3	2,461	17	1
ELECTRAL	ORS	425	29	106	372	27	34	175	15	-1	2,640	18	22
ENERZAL	Nutraceutical	184	12	52	129	9	13	89	8	-5	1,155	8	29

Source: IQVIA (IMS) Monthly Data- June'21

Exhibit 2: Quarterly financials

YE March (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenues	3,435	3,462	3,212	3,333	3,082	3,714	3,402	3,134	4,475
Materials cost	1,158	1,204	883	1,013	839	1,151	1,106	1,039	1,467
% of revenues	33.7%	34.8%	27.5%	30.4%	27.2%	31.0%	32.5%	33.1%	32.8%
Employee cost	675	696	695	708	657	773	798	735	929
% of revenues	19.7%	20.1%	21.6%	21.2%	21.3%	20.8%	23.5%	23.4%	20.8%
Others	817.8	822.0	786.3	1319.7	550.1	732.0	761.5	844.4	925.0
% of revenues	23.8%	23.7%	24.5%	39.6%	17.8%	19.7%	22.4%	26.9%	20.7%
EBITDA	785	740	848	293	1,036	1,057	737	516	1,155
EBITDA margin (%)	22.8%	21.4%	26.4%	8.8%	33.6%	28.5%	21.7%	16.5%	25.8%
Depreciation & amortisation	93.61	95.4	91.7	93.25	94.376	96.497	91.909	95.352	95.578
Interest expenses	8.104	8.2	7.9	9.902	7,496	8,204	7.98	10.662	8.105
Other income	97,879	169	310	377,624	279,679	190,378	350,445	149,754	232,023
Exceptional items	-	-	-	-	-	-	-	-	-
PBT	781	805	1,058	567	1,214	1,143	988	560	1,283
Taxes	217.3	259.7	315.0	8.6	294.4	264.3	235.7	70.9	304.6
Effective tax rate (%)	27.8%	32.3%	29.8%	1.5%	24.3%	23.1%	23.9%	12.7%	23.7%
PAT	564	545	743	559	919	879	752	489	978
Minority/Associates	1.4	3.7	1.0	3.9	2.0	-2.2	-0.4	-0.9	-0.3
Reported PAT	562	542	742	555	917	881	752	468	979

Source: Company, Centrum Broking

Exhibit 3: Revenue break up: Source Company, Centrum Broking

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Domestic	2,708	2,970	2,432	2,173	2,332	2,784	2,499	2,352	3,885
Export formulations	615	356	652	532	596	790	751	572	431
EU and SA	-	-	-	-	151	233	226	197	238
US	-	-	-	-	445	557	526	375	193
API	113	135	107	132	154	140	127	190	139

Source: Company, Centrum Broking

X					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	10,907	13,442	13,332	16,091	19,607
Operating Expense	5,543	6,504	7,029	7,422	9,098
Employee cost	2,256	2,775	2,963	3,318	3,750
Others	798	1,234	0	1,126	1,431
EBITDA	2,310	2,929	3,341	4,224	5,328
Depreciation & Amortisation	332	375	378	586	614
EBIT	1,978	2,555	2,962	3,638	4,714
Interest expenses	14	34	34	20	20
Other income	435	689	970	1,116	1,283
PBT	2,398	3,210	3,898	4,734	5,977
Taxes	668	801	865	1,231	1,751
Effective tax rate (%)	27.9	24.9	22.2	26.0	29.3
PAT	1,730	2,409	3,033	3,503	4,226
Minority/Associates	0	0	0	0	0
Recurring PAT	1,730	2,409	3,033	3,503	4,226
Extraordinary items	(32)	(10)	(21)	0	0
Reported PAT	1,698	2,399	3,012	3,503	4,226
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	0.7	23.2	(0.8)	20.7	21.9
EBITDA	1.9	26.8	14.0	26.5	26.1
Adj. EPS	(0.3)	42.7	27.5	15.5	20.7
Margins (%)					
Gross	68.4	68.3	68.9	69.2	69.8
EBITDA	21.2	21.8	25.1	26.3	27.2
EBIT	18.1	19.0	22.2	22.6	24.0
Adjusted PAT	15.9	17.9	22.8	21.8	21.6
Returns (%)					
ROE	12.7	16.1	18.5	18.4	18.5
ROCE	12.8	16.3	18.6	18.5	18.6
ROIC	10.6	12.9	14.2	14.3	15.5
Turnover (days)					
Gross block turnover ratio (x)	1.5	1.9	1.9	1.6	1.6
Debtors	28	29	32	30	32
Inventory	177	165	187	166	159
Creditors	92	84	86	71	78
Net working capital	188	185	200	206	209
Solvency (x)					
Net debt/equity	0.0	0.0	0.0	(0.1)	(0.1)
Interest coverage ratio	160.6	85.8	97.3	211.2	266.4
Net debt/EBITDA	(0.1)	(0.1)	(0.1)	(0.5)	(0.7)
Per share (Rs)					
Adjusted EPS	9.9	14.1	18.0	20.8	25.0
BVPS	82.5	90.5	102.7	122.5	147.7
CEPS	11.8	16.3	20.2	24.2	28.7
DPS	0.0	0.8	0.8	0.8	0.8
Dividend payout (%)	0.0	5.7	4.6	3.9	3.2
Valuation (x)					
P/E	36.5	23.5	20.0	17.3	14.4
P/BV	4.4	4.0	3.5	2.9	2.4
EV/EBITDA	27.2	19.7	18.8	14.5	11.2
Dividend yield (%)	0.0	0.2	0.2	0.2	0.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	175	171	169	169	169
Reserves & surplus	14,277	15,303	17,171	20,509	24,768
Shareholders fund	14,452	15,474	17,340	20,678	24,937
Minority Interest	0	0	0	0	0
Total debt	5	3	2	2	2
Non Current Liabilities	18	96	72	74	75
Def tax liab. (net)	133	92	109	109	109
Total liabilities	14,608	15,666	17,522	20,863	25,123
Gross block	7,154	6,985	7,122	10,151	11,975
Less: acc. Depreciation	(332)	(375)	(378)	(586)	(614)
Net block	6,822	6,610	6,744	9,564	11,360
Capital WIP	124	239	192	192	192
Net fixed assets	6,946	6,849	6,936	9,756	11,552
Non Current Assets	204	325	549	423	431
Investments	1,849	1,685	2,740	1,587	1,934
Inventories	1,738	2,100	2,149	2,357	2,788
Sundry debtors	875	1,237	1,105	1,543	1,880
Cash & Cash Equivalents	213	323	316	1,988	3,590
Loans & advances	7	12	14	44	54
Other current assets	4,567	5,599	5,753	5,623	5,687
Trade payables	776	1,179	773	1,153	1,383
Other current liab.	767	946	909	909	928
Provisions	248	339	358	397	483
Net current assets	5,609	6,808	7,298	9,096	11,205
Total assets	14,608	15,666	17,522	20,863	25,123
Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	2,366	3,200	3,877	4,734	5,977
Depreciation & Amortisation	332	375	378	586	614
Net Interest	14	34	34	20	20
Net Change – WC	(506)	(241)	(480)	1	(514)
Direct taxes	(715)	(847)	(863)	(1,231)	(1,751)
Net cash from operations	1,492	2,520	2,947	4,110	4,347
Capital expenditure	(413)	(277)	(465)	(3,407)	(2,410)
Acquisitions, net	0	0	0	0	0
Investments	(1,137)	(798)	(1,282)	1,153	(347)
Others	0	0	0	0	0
Net cash from investing	(1,549)	(1,076)	(1,747)	(2,253)	(2,757)
FCF	(57)	1,444	1,200	1,857	1,590
Issue of share capital	(7)	(4)	(2)	0	0
Increase/(decrease) in debt	(1)	(1)	(1)	0	0
Dividend paid	0	(141)	(164)	(164)	(164)
Interest paid	(14)	(34)	(34)	(20)	(20)
Others	(1)	(1,153)	(1,005)	0	197
Net cash from financing	(23)	(1,333)	(1,207)	(184)	12
Net change in Cash	(80)	111	(7)	1,672	1,602

Source: Company, Centrum Broking

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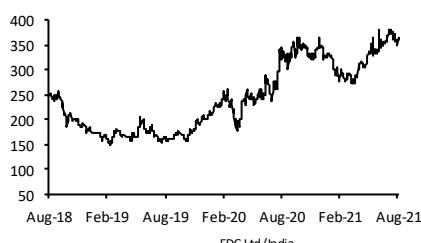
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FDC



Source: Bloomberg

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PORTFOLIO MANAGER

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Research Analyst

SEBI Registration No. INH000001469

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Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Ashok D Kadambi

(022) 4215 9937; Email ID: compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)**Registered Office Address**

Bombay Mutual Building,
2nd Floor, Dr. D. N. Road,
Fort, Mumbai - 400 001

Corporate Office & Correspondence Address

Centrum House
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai
400 098.
Tel: (022) 4215 9000 Fax: +91 22 4215 9344