

Indoco Remedies

31 August, 2021

Reuters: INDR.BO; Bloomberg: INRMIN

Indoco Remedies – Management Meet Update

We recently hosted the management of Indoco Remedies to discuss the company's business as it stands and future prospects. We maintain our 'Accumulate' rating on the stock at 20x FY23E EPS to arrive at a target price (TP) of Rs463. We have slightly fine-tuned our estimates. The key takeaways from our discussion are as follows:-

Domestic Market: Indoco is focusing on improving execution in Northern and Eastern markets in India as Medical Representatives' (MR) productivity remains low in these areas. Northern and Western markets also have higher penetration of acute drugs, which is an area of strength for Indoco. Execution will be led by implementing the right systems & processes to improve productivity. The company has also inducted professionals to drive the same. Signs of improvement in Bihar are being witnessed.

Besides focusing on improving productivity, Indoco will also continue to add new launches that would leverage on the company's doctor relationships built out of its legacy portfolio. As per AIOCD AWACS, Indoco has been ranked 29 in retail while its prescription rank is between 21 and 22. The new launches will be in segments that would allow Indoco to improve realization per prescription, which is where it is currently lagging peer group names.

US Market: In the US market, the growth trajectory should sustain as it has launches lined up that include a limited competition product by the end of 4QFY22. Launches in partnership with Teva should happen about 14 months from now. Among the ANDA filings in the US, it has a portfolio of ophthalmic suspension products which represent a market opportunity of >US\$600mn. Indoco's profitability should improve as the contribution of US business increases. Future ANDA filings in the US would be suspensions, injectables and extended oral solids.

Net Debt: Indoco would look to retain some debt to ensure optimal returns for its shareholders. It would look to reinvest profits in growth opportunities. Short-term working capital debt has reduced to around Rs100crs from Rs125-130crs. Indoco does not plan to take any more long-term debt unless it sees very large capex opportunities. Effective interest rate is 5% for short-term and long-term debt. In the near term, it will look to spend ~Rs30-40crs as maintenance capex and Rs40crs investment in the expansion of Patalganga API plant. Completion of the plant is expected in 8-10 months.

Manufacturing Compliance Update: Unit 1 at Goa, which is under warning letter from the USFDA, is yet to be re-inspected. The timelines of inspection remain unclear. However, existing supplies from the plant remain normal. There are no important near term approvals pending from the facility. To ensure that the compliance situation across all plants remains in order, the company has put up a strong in-house regulatory team that keeps auditing the process and quality on an ongoing basis.

Workforce: Indoco currently has 6,000 employees, including a sales force of 2,300 people and 250 scientists, and 8 marketing divisions. It receives most of its prescriptions from GPs (48%); ophthalmologists and gynecologists for sub-chronic products.

Support from COVID portfolio should subside but growth in core therapies is coming back: Indoco's portfolio includes drugs that have seen enhanced usage in the COVID environment in 1QFY22 and they include Karvol and ATM (Azithromycin). While it expects lower sales from these drugs going forward, respiratory sales, which had taken a hit last year, have almost normalized and should ensure that growth is sustained.

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	9,685	11,066	12,415	15,637	17,785
EBITDA	767	1,232	2,243	3,315	3,797
Net profit	(29)	241	931	1,684	2,131
EPS (Rs)	(0.3)	2.6	10.1	18.3	23.1
EPS growth (%)	(107.0)	NA	285.8	81.0	26.6
EBITDA margin (%)	7.9	11.1	18.1	21.2	21.3
P/E (x)	NA	108.1	47.5	26.2	20.7
P/BV (x)	3.9	3.8	5.7	4.8	4.0
EV/EBITDA (x)	37.4	23.0	20.6	13.7	11.6
RoCE (%)	0.2	4.5	10.6	16.3	17.4
RoE (%)	-0.4	3.6	12.8	19.9	20.9

Source: Company, Nirmal Bang Institutional Equities Research

ACCUMULATE

Sector: Pharmaceuticals

CMP: Rs480

Target Price: Rs463

Downside: 4%

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Key Data

Current Shares O/S (mn)	99.2
Mkt. Cap (Rsbn/US\$mn)	44.2/834.1
52 Wk H / L (Rs)	530/213
Daily Vol. (3M NSE Avg.)	705,125

Price Performance (%)

	1 M	6 M	1 Yr
Indoco Remedies	6.7	61.1	118.8
Nifty Index	8.7	16.1	49.4

Source: Bloomberg

[Latest Annual Report](#)

[Latest Results](#)

Exhibit 1: Revised Estimates

(Rsmn)	New estimates		Old estimates		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	15,637	17,785	15,637	17,785	0.0	0.0
EBITDA	3,315	3,797	3,315	3,797	0.0	0.0
Margin (%)	21.2	21.3	21.2	21.3	0 bps	0 bps
PAT	1,684	2,131	1,684	1,989	0.0	7.1
Margin (%)	10.8	12.0	10.8	11.2	0 bps	78 bps
EPS	18.3	23.1	18.3	21.6	0.0	7.1

Source: *Nirmal Bang Institutional Equities Research*

Financial statements

Exhibit 2: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	9,685	11,066	12,415	15,637	17,785
% growth	-7.4	14.3	12.2	25.9	13.7
Raw material expenses	3,203	3,304	3,541	4,537	5,308
Staff costs	2,317	2,565	2,740	3,124	3,467
R&D expenses	515	497	597	752	855
Other expenses	2,884	3,467	3,294	3,909	4,357
Total expenditure	8,918	9,834	10,173	12,322	13,988
EBITDA	767	1,232	2,243	3,315	3,797
% growth	-43.2	60.7	82.0	47.8	14.5
EBITDA margin (%)	7.9	11.1	18.1	21.2	21.3
Other income	61	24	31	61	62
Interest costs	205	263	223	243	261
Gross profit	6,482	7,762	8,874	11,100	12,477
% growth	-6.6	19.7	14.3	25.1	12.4
Depreciation	716	708	731	727	756
Profit before tax	-93	286	1,320	2,406	2,842
% growth	NA	NA	361.9	82.3	18.1
Tax	-64	45	390	722	710
Effective tax rate (%)	68.9	15.6	29.5	30.0	25.0
Net profit	-29	241	931	1,684	2,131
% growth	NA	NA	285.8	81.0	26.6
EPS (Rs)	-0.3	2.6	10.1	18.3	23.1
% growth	NA	NA	285.8	81.0	26.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Equity	184	184	184	184	184
Reserves	6,422	6,611	7,506	9,012	10,965
Net worth	6,606	6,796	7,690	9,196	11,149
Provisions/ other LT liabilities	233	361	422	499	558
Total loans	2,978	2,631	2,133	2,331	2,502
Liabilities	9,817	9,788	10,245	12,025	14,210
Net block	4,166	5,364	5,217	5,246	5,246
Capital work-in-progress	1,412	73	251	251	251
Intangible assets	510	481	416	416	416
LT loans & advances	13	10	10	10	10
Other LT assets	1,099	1,157	1,032	1,044	1,044
Inventories	1,835	2,083	2,379	3,047	3,565
Debtors	1,958	2,101	2,338	2,945	3,349
Cash	363	379	143	1,033	2,613
Other current assets	1,225	1,067	1,365	1,718	1,954
Total current assets	5,381	5,631	6,225	8,744	11,482
Trade payables	1,707	1,656	1,132	1,451	1,697
Other current liabilities/provisions	1,056	1,272	1,774	2,234	2,541
Total current liabilities	2,764	2,928	2,906	3,685	4,238
Net current assets	2,617	2,703	3,319	5,059	7,243
Total assets	9,817	9,788	10,245	12,025	14,210

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
PBT	(93)	286	1,320	2,406	2,842
(Inc.)/Dec. in working capital	556	(15)	(1,398)	(850)	(605)
Cash flow from operations	463	271	(78)	1,556	2,237
Other income	178	287	366	(61)	(62)
Depreciation	716	708	731	727	756
Tax paid (-)	(36)	(38)	(197)	(722)	(710)
Net cash from operations	1,321	1,228	822	1,500	2,221
Capital expenditure (-)	(930)	(584)	(767)	(551)	(551)
Net cash after CapEx	391	645	56	949	1,669
Other investing activities	(108)	24	100	(156)	(143)
Cash from Financial Activities	(162)	(640)	(299)	97	53
Change in Cash	277	171	(94)	890	1,580
Opening cash balance	86	208	238	143	1,033
Closing cash balance	363	379	143	1,033	2,613

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Profitability & return ratios					
EBITDA margin (%)	7.9	11.1	18.1	21.2	21.3
EBIT margin (%)	0.5	4.7	12.2	16.6	17.1
Net profit margin (%)	(0.3)	2.2	7.5	10.8	12.0
RoE (%)	(0.4)	3.6	12.8	19.9	20.9
RoCE (%)	0.2	4.5	10.6	16.3	17.4
Working capital & liquidity ratios					
Receivables (days)	76	67	65	62	65
Inventory (days)	215	216	230	218	227
Payables (days)	183	186	144	104	108
Working capital days	108	98	152	176	184
Current ratio (x)	1.9	1.9	2.1	2.4	2.7
Quick ratio (x)	1.3	1.2	1.3	1.5	1.9
Valuation ratios					
EV/Sales (x)	3.0	2.6	3.7	2.9	2.5
EV/EBITDA (x)	37.4	23.0	20.6	13.7	11.6
P/E (x)	NA	108.1	47.5	26.2	20.7
P/BV (x)	3.9	3.8	5.7	4.8	4.0

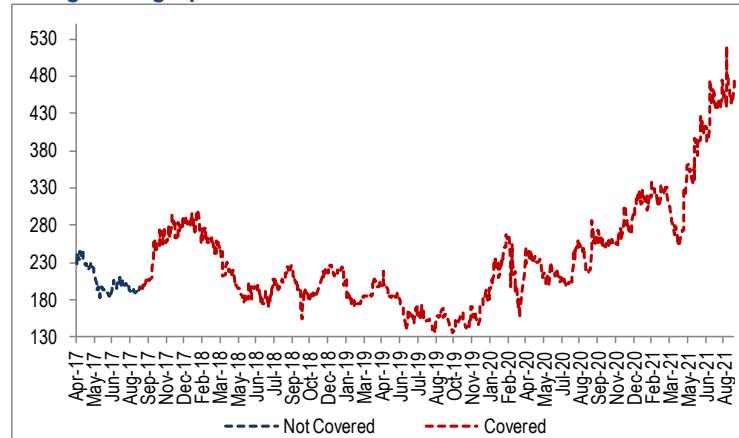
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: P/BV Chart


Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
5 September 2017	Buy	194	250
8 November 2017	Buy	256	295
29 January 2018	Accumulate	296	315
31 May 2018	Buy	200	301
14 August 2018	Buy	196	301
14 November 2018	Buy	179	273
5 April 2019	Buy	208	289
30 May 2019	Buy	187	290
14 August 2019	Buy	151	290
23 September 2019	Buy	158	300
31 October 2019	Buy	159	239
24 January 2020	Buy	234	239
27 March 2020	Buy	181	224
23 April 2020	Accumulate	235	224
25 June 2020	Accumulate	210	231
12 August 2020	Buy	260	303
22 September 2020	Buy	262	322
9 November 2020	Buy	255	322
7 January 2021	Accumulate	322	346
10 February 2021	Accumulate	314	344
26 May 2021	Buy	338	401
12 August 2021	Accumulate	441	432
31 August 2021	Accumulate	480	463

Rating track graph


DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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