Poly Medicure

11 May 2023

Strong revenue growth coupled with margin expansion

RESULT UPDATE

Sector: Pharmaceuticals **Rating: HOLD**

CMP: Rs 977 **Target Price: Rs 1,035**

Stock Info

Sensex/Nifty	61,905/18,297
Bloomberg	PLM IN
Equity shares	96mn
52-wk High/Low	Rs 1,044/652
Face value	Rs 5
M-Cap	Rs 94bn/ USD 1.1bn

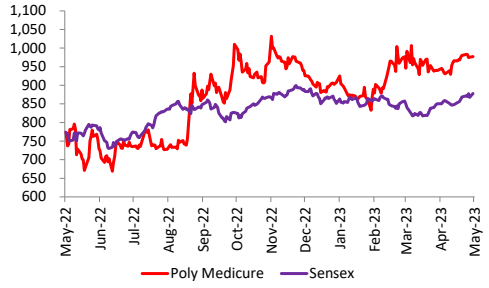
Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
Sales	11,152	13,160	15,528
Gross profit	7,094	8,685	10,249
Gross Margin %	64%	66%	66%
EBITDA	2,654	3,631	4,477
Margin %	24%	28%	29%
PAT	1,793	2,343	3,007
EPS	18.7	24.4	31.4
DPS(Rs)	2.8	3.7	4.7
ROE(%)	15.4	17.5	19.2
P/E(x)	52.2	40.0	31.1
EV/EBITDA (x)	35.2	25.4	20.3

Shareholding pattern (%)

	Sep-22	Dec-22	Mar-23
Promoter	53.33	53.33	53.31
–Pledged	-	-	
FII	16.27	16.33	16.21
DII	3.39	3.38	3.67
Others	27.01	26.96	26.81

Stock Performance (1-year)



4QFY23 has been another strong quarter for Poly Medicure (PLM) in terms of revenue growth coupled with margin expansion. PLM's reported profit after tax at Rs 588mn was 5.6% above our estimate. In 4QFY23, PLM's revenue grew at ~20% led by growth in European exports. Growth in the European market and softening input prices have aided EBITDA margin expansion of 218bps QoQ. Company expects an equally strong FY24 performance with 20% growth and EBITDA margin between 25-27%. During the quarter, PLM has received US FDA approval for two new product categories and will start exporting these products from 2QFY24 onwards. To support the strong growth expected ahead, PLM has commercialized one plant and expects to commission another three plants in 2QFY24/3QFY24. These new facilities will double capacities and support growth over the next 3 years. The key growth drivers in FY24 would be base business volume growth, foray into US, scale-up in renal segment (dialysis consumable and dialysis machines), expand reach in corporate chain hospitals and venturing into high value critical care segment. We have tweaked our margin estimates on improving gross margins and maintained target PE multiple at 33x FY25E EPS. We maintain a HOLD rating on PLM with a revised target price of Rs 1,035 (Rs 990 earlier).

New Medical Device Policy will shape the industry growth

The Union Cabinet has approved the National Medical Devices Policy, 2023 and the final policy is expected to be announced on 26th May 2023. The new policy includes institutionalizing a new export promotion council, which will simplify the export process as the regulation will fall under one single window rather than multiple regulatory agencies. The policy will also incentivize R&D investments made in the medical device industry.

Renal segment growth was strong but was impacted by Chinese competition

In the renal segment, PLM grew at 40% YoY in FY23. PLM expects to install 200 machines in FY24. The primary customers of PLM's dialysis machines are private dialysis service providers, which is encouraging. Company's dialyzer sales are getting impacted owing to competition from cheaper Chinese imports. PLM is hopeful that the import duty on dialyzers will be increased from the present 7.5% and if the government could track the misuse of Free Trade Agreements (FTA) as Chinese companies are routing exports into India from other countries like Malaysia. PLM is also hopeful that its recommendation to prevent reuse of dialyzer will be accepted and implemented as part of the national program "One nation, One Dialysis". Preventing reuse of dialyzers can reduce risk of fatal infections and hence improve life expectancy of patients on dialysis.

Key risks – 1) Slowdown in export revenue led by lower demand, 2) Persisting growth challenges in the renal segment.

4QFY23 earnings highlights

PLM's 4Q revenue at Rs 3,069mn, was up 19.2% YoY and 7.7% QoQ. EBITDA at Rs 832mn rose 27.4% YoY and 17.2% QoQ. EBITDA margin at 27.1% was up 175 bps YoY, and 218 bps lower QoQ. PAT at Rs 588mn surged 28.5% YoY and 17.6% QoQ. PAT margin at 19.2% was up 140 bps YoY and 161 bps QoQ. R&D expenses stood at Rs 58mn (1.9% of sales).

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Investors are advised to refer disclosures made at the end of the research report.

4QFY23 earnings call highlights

- **Margins:** Raw material prices have started cooling off leading to better margins during the quarter. PLM has also benefited from increased exports to Europe (1/3rd of exports revenue now), which has better margins compared to overall export margins. Ramp-up in renal business is not expected to dilute margins in FY24/FY25.
- **Revenue segmentation:** PLM's export revenue contribution was 68% of sales and India sales were 32% of overall sales in FY23 (standalone). Infusion therapy contributes 80-85% to the exports business and 45-50% to the India business. In FY23, domestic business grew at 15% while the exports business grew at 23%.
- **US:** PLM has received US FDA approval for two product categories in the US market and should be able to start exporting from 2QFY24 onwards.
- **Capacity expansion:** PLM will be commissioning four new facilities doubling capacities over the next three years. PLM has already commissioned one facility and will commission the other three in 2QFY24 or 3QFY24. The company is expecting to generate 1.3-1.5x asset turnover from these new facilities.
- **Dialysis:** PLM's dialysis business grew at 40% YoY in FY23. The company is expecting to grow this business at 30-40% in FY24. PLM will be installing 200 dialysis machines in FY24. Renal business revenue was Rs 750mn in FY23 and is expected to reach a revenue target of Rs 3,000mn over the next few years. The company has invested Rs 450mn in PLI scheme investments so far and will need to invest another Rs 550mn. Chinese players have been dumping cheap dialyzers in the Indian market. PLM's dialyzers are priced at 15% higher than Chinese dialyzers. The dialysis machine market in India is Rs 2,000mn-2,500mn while the dialyzer market is Rs 8,000-9,000mn.
- **Future growth drivers:** The company is primarily looking at increasing its wallet share in hospitals by selling more medical devices to its present hospital base. It is also looking at expanding its corporate chain hospital business. PLM's corporate chain hospital business is Rs 800mn-1,000mn.
- **Input costs:** PLM's input costs is largely related to sourcing or manufacturing plastic products, which is dependent on crude oil prices.

Exhibit 1: Quarterly performance

Particulars (Rs mn)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
Net revenue	**2,575**	**2,848**	**3,069**	**19.2**	**7.7**	**9,231**	**11,152**	**20.8**
Total material costs	1,018	1,025	1,048	3.0	2.3	3,481	4,059	16.6
% of revenue	39.5	36.0	34.2	(537) bps	(182) bps	37.7	36.4	(131) bps
Staff costs	452	533	535	18.4	0.3	1,636	2,028	23.9
% of revenue	17.5	18.7	17.4	(11) bps	(129) bps	17.7	18.2	46 bps
Other expenses	452	580	653	44.5	12.6	1,983	2,412	21.7
% of revenue	17.5	20.4	21.3	373 bps	92 bps	21.5	21.6	15 bps
EBITDA	**653**	**710**	**832**	**27.4**	**17.2**	**2,131**	**2,654**	**24.5**
EBITDA margin (%)	**25.4**	**24.9**	**27.1**	**175 bps**	**218 bps**	**23.1**	**23.8**	**71 bps**
Other income	85	144	85	0.2	(41.1)	403	366	(9.3)
Interest costs	15	48	23	62.0	(51.3)	43	88	107.4
Depreciation	140	142	148	5.7	4.2	540	572	6.0
Share of profit/(loss) of joint venture	-	4	6	-	62.3	-	15	-
PBT	584	668	752	28.8	12.5	1,953	2,375	21.6
Tax	126	168	163	29.5	(2.6)	487	582	19.5
Tax rate (%)	21.6	25.1	21.7	13 bps	(338) bps	25.0	24.5	(45) bps
Reported PAT	**458**	**500**	**588**	**28.5**	**17.6**	**1,465**	**1,793**	**22.4**
PAT Margin	**17.8**	**17.6**	**19.2**	**140 bps**	**161 bps**	**15.9**	**16.1**	**20 bps**

Source: Company, Systematix Institutional Research

Exhibit 2: Margin summary

Particulars (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Gross Margin	64.6	66.0	62.6	60.5	60.5	62.8	61.4	64.0	65.8
EBITDA Margin	25.5	26.1	22.8	22.2	21.7	18.7	23.5	24.9	27.1
EBIT Margin	19.6	20.0	16.7	16.3	16.2	13.1	18.4	20.0	22.3
PAT Margin	18.2	17.7	17.1	15.0	14.0	10.8	15.8	17.6	19.2

Source: Company, Systematix Institutional Research

Exhibit 3: Change in estimates

Particulars (Rs mn)	New estimates		Old estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net sales	13,160	15,528	13,185	15,559	(0.2)	(0.2)
EBITDA	3,631	4,477	3,381	4,181	7.4	7.1
Margin (%)	27.6	28.8	25.6	26.9	195 bps	196 bps
PAT	2,343	3,007	2,252	2,876	4.1	4.5
Margin (%)	17.8	19.4	17.1	18.5	73 bps	88 bps

Source: Systematix Institutional Research

Exhibit 4: Actual vs Estimates

Particulars (Rs mn)	Actuals	Systematix	Var(%)
Net sales	3,069	3,090	(0.7)
EBITDA	832	785	6.0
Margin (%)	27.1	25.4	171 bps
PAT	588	557	5.6
Margin (%)	19.2	18.0	114 bps

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**7,865**	**9,231**	**11,152**	**13,160**	**15,528**
YoY gr. (%)	14%	17%	21%	18%	18%
Cost of Goods Sold	2,619	3,481	4,059	4,474	5,280
Gross Profit	5,246	5,750	7,094	8,685	10,249
Margin (%)	67%	62%	64%	66%	66%
Employee Cost	1,418	1,636	2,028	2,291	2,589
Other Expenses	1,685	1,983	2,412	2,764	3,183
EBITDA	**2,144**	**2,131**	**2,654**	**3,631**	**4,477**
YoY gr. (%)	31%	-1%	25%	37%	23%
Margin (%)	**27%**	**23%**	**24%**	**28%**	**29%**
Depreciation and Amortization	475	540	572	612	647
EBIT	1,668	1,591	2,082	3,019	3,829
Margin (%)	21%	17%	19%	23%	25%
Net Interest	85	43	88	82	96
Other Income	184	379	366	168	255
Exceptional Items	-	-	-	-	-
Profit Before Tax	1,767	1,928	2,360	3,104	3,989
Margin (%)	22%	21%	21%	24%	26%
Total Tax	442	487	582	776	997
Effective tax rate (%)	25%	25%	25%	25%	25%
Minority Interest & Share of Loss from Associates	33	24	15	15	15
Profit after tax	1,359	1,465	1,793	2,343	3,007
EPS	**14.2**	**15.3**	**18.7**	**24.4**	**31.4**
YoY gr. (%)	30%	8%	22%	31%	28%

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	479	480	480	480	480
Reserves & Surplus (Ex OCI)	9,176	10,395	11,937	13,928	16,484
Net Worth	**9,656**	**10,875**	**12,416**	**14,408**	**16,964**
Short term debt	696	872	1,289	1,474	1,740
Long term debt	678	396	175	175	175
Trade payables	662	939	922	1,017	1,200
Other Provisions	12	4	6	6	6
Other liabilities	571	711	963	963	963
Total Liabilities	**12,274**	**13,796**	**15,771**	**18,042**	**21,047**
Net block	4,322	4,944	6,408	6,796	7,149
CWIP	147	371	726	726	726
Other Non-current asset	3,581	3,491	568	568	568
Cash and Cash Equivalents	296	154	1,831	3,077	4,814
Debtors	1,559	2,066	2,354	2,778	3,278
Inventories	1,265	1,684	2,087	2,300	2,714
Other current asset	1,104	1,086	1,797	1,797	1,797
Total Assets	**12,274**	**13,796**	**15,771**	**18,042**	**21,047**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	1,801	1,952	2,375	3,104	3,989
Depreciation	475	540	572	612	647
Interest	51	20	88	82	96
Others	-82	-168	9	-	-
Working capital	-612	-634	-500	-543	-731
Direct tax	-446	-475	-579	-776	-997
Net cash from Op. activities	**1,187**	**1,235**	**1,965**	**2,480**	**3,003**
Net Capital expenditures	-951	-1,556	-2,393	-1,000	-1,000
Others	-3,405	703	603	168	255
Net Cash from Invt. activities	**-4,356**	**-853**	**-1,790**	**-832**	**-745**
Issue of share cap. / premium	4,000	1	4	-	-
Debt changes	-665	-63	210	-	-
Dividend paid	-	-239	-240	-351	-451
Others	-166	-52	-85	-82	-96
Net cash from Fin. activities	**3,170**	**-353**	**-111**	**-434**	**-547**
Net change in cash	**1**	**28**	**64**	**1,214**	**1,712**

Source: Company, Systematix Institutional Research

Key Financial Metrics

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Per Share(Rs)					
EPS	14.2	15.3	18.7	24.4	31.4
CEPS	19.1	20.9	24.7	30.8	38.1
BVPS	100.7	113.4	129.5	150.3	176.9
DPS	-	2.5	2.8	3.7	4.7
Return Ratio(%)					
RoCE	19.1	13.7	16.0	20.2	21.9
RoE	19.4	14.3	15.4	17.5	19.2
Balance Sheet					
Net Debt : Equity (x)	0.1	0.1	-0.0	-0.1	-0.2
Net Working Capital (Days)	138.3	142.3	158.2	171.0	167.9
Valuation(x)					
PER	68.9	63.9	52.2	40.0	31.1
EV/EBITDA	44.2	44.5	35.2	25.4	20.3
EV/Sales	12.0	10.3	8.4	7.0	5.8

Source: Company, Systematix Institutional Research

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