

Indoco Remedies Ltd

Stronger Second Half: Boosted by Export Growth

Q1FY25 results missed the estimates on all fronts primarily due to a weaker respiratory season, which resulted in lower-than-anticipated domestic sales. Additionally, exports were negatively impacted by reduced supply to the US and EU regions, caused by plant remediation efforts and the transition to automated technologies. The company also had higher COGS and employee costs leading to lower EBITDA in the quarter. The revenue witnessed growth of 1.5% YoY but has seen decline of 4% on QoQ basis to Rs 4,315 Mn. Sales from domestic business witnessed growth of 6.6% YoY and 19% QoQ to Rs.2,270 Mn. Higher employee expenses, primarily due to low MR productivity, led to a decrease in EBITDA margins, contracting by approximately 327 bps YoY, though remaining stable QoQ at 11.1%. On the export front, plant remediation efforts are expected to continue until October 2024, after which strong growth of 25-30% is anticipated in the US markets. Due to two quarters of muted growth in FY25, we have reduced our revenue forecast for the export business by 6% for FY25 and expect the business to achieve a CAGR of 13% from FY24 to FY26E. We expect company to deliver revenue/EBITDA CAGR of 10%/22% over FY24-FY26E due to low base in FY24 which has one off expenses for plant remediation and lower revenue in domestic business. We cut our PAT estimates for FY25 by 15%. We maintain our rating to Accumulate with target price of Rs 349 based on 19x FY26E EPS.

US business – Company's US business has witnessed degrowth of 5.5% YoY in Q1FY25 with sales of Rs. 484 Mn in the quarter. **The US business was impacted by supply constraints due to ongoing remediation efforts at the Goa Plant 2 and due to transition from out-licensing to establishing a front-end presence in the US resulted in short-term margin compression.** We expect the company to deliver revenue growth of 12% in FY25 backed by higher revenues from drugs such as Lacosamide, allopurinol. **Additionally, the full contribution from the US subsidiary, FPP, is expected to bolster growth.** The company expect to receive approvals for 3-4 oral solids in US in FY25. **We expect US revenue to deliver CAGR growth of 20% from FY24 to FY26E.**

Europe – EU business witnessed degrowth of 10.2% YoY and 6.7% on QoQ basis to Rs. 713 Mn in Q1FY25 **due to optimal supplies of drugs led by plant remediation.** The company expects consistent supply to the EU market to resume from Q3 onwards, with anticipated growth in the European businesses. We expect the company to deliver revenue growth 5% in FY25 in the EU business.

India – The India business witnessed growth of 6.6% YoY and 18.8% QoQ with sales of Rs. 2,270 Mn. This was mainly due to lower sales from anti-infectives (Febrex plus and ATM continues to underperformed) and respiratory segment (Oxipod underperformed). However, the business will return to normalcy in Q2FY25 as due to good monsoon season. Going ahead, we expect CAGR growth of 8% for the business.

EBITDA Margins – We expect EBITDA margins for FY25 and FY26 to see sharp pick up from 13.5% in FY24 to 15%-16%. This improvement will be driven by robust revenue growth, the absence of one-off expenses, and a stronger product mix from higher domestic business and US revenue.

Valuation offers comfort and discounts execution risks

At 16.8x FY26E EPS, Indoco trades at a discount to peers. We value Indoco at 19x FY26E EPS of 18.4 and recommend Accumulate rating on the stock, with a target price of Rs 349 with upside of 8%.

Y/E Mar (Rs Mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Q1FY25E	Var. (%)
Net sales	4,315	4,265	1.2%	4,496	-4.0%	4,689	-8.0%
Operating costs	3,837	3,653	5.0%	4,008	-4.3%		
EBITDA	478	612	-21.9%	489	-2.3%	771	-38.0%
EBITDA Margin (%)	11.1%	14.3%	(327) bps	10.9%	20 bps	16.4%	(536) bps
Depreciation	275	199	38.4%	262	4.9%		
Other income	10	4	151.2%	27	-61.3%		
Interest	143	78	83.7%	121	18.8%		
Extraordinary items	0	0	NM	197	NM		
PBT	70	339	-79.4%	330	-78.9%		
Provision for tax	52	97	-47.1%	110	-53.0%		
Effective tax rate (%)	73.9%	28.7%	4,519 bps	33.2%	4,069 bps		
Reported PAT	18	242	-92.5%	220	-91.7%		
PAT margin (%)	0.4%	5.7%	(525) bps	4.9%	(4) bps		
Minority Interest	8	2	NA	7	NA		
Consolidated PAT	26	244	-89.2%	227	-88.4%	353	-92.6%
Adjusted PAT	26	244	-89.2%	79	-66.7%	353	-92.6%

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE(%)	RoCE (%)	P/E(x)	EV/EBITDA (x)
FY22	15,408	24.1	3,273	21.2	1,548	66.4	16.8	18.5	14.9	24.5	12.3
FY23	16,686	8.3	2,861	17.1	1,423	-8.1	15.4	14.7	12.7	23.9	12.9
FY24	18,173	8.9	2,443	13.4	898	-36.9	9.7	9.1	7.4	35.3	12.9
FY25E	19,183	5.6	2,945	15.4	1,232	37.1	13.4	10.5	8.3	24.1	9.4
FY26E	21,899	14.2	3,628	16.6	1,762	43.1	19.1	13.6	10.4	16.8	7.4

Source: Company, SMIFS research estimates



Rating: Accumulate Upside/(Downside): 8%
Current Price: 322 Target Price: 349

Earlier recommendation

Previous Rating: Accumulate
Previous Target Price: 353

Market data

Bloomberg:	INDR IN
52-week H/L (Rs):	417 / 286
Mcap (Rs bn/USD bn):	29.7/0.4
Shares outstanding (mn):	92
Free float:	40.0%
Avg. daily vol. 3mth (3M Avg.):	0.2 Mn
Face Value (Rs):	2

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	58.7	58.7	58.7	58.7
FII	1.5	1.9	1.7	1.6
DII	18.7	19.4	19.6	17.8
Public/others	20.1	19.9	20.0	21.9

Promoters pledged shares (%)

Pledged	0.0	0.0	0.0	0.0
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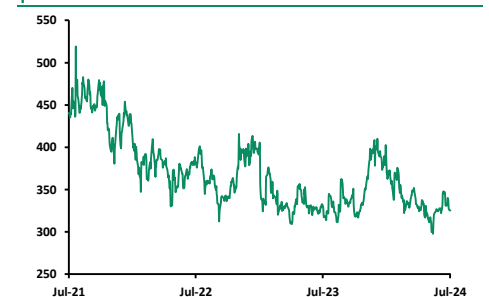
Source: BSE

Price performance (%) *

YE Mar (R)	1M	3M	12M	36M
NIFTY 50	3.7	8.9	24.1	53.9
NIFTY 500	2.8	10.5	35.9	67.4
INDR	-1.9	-2.1	-2.3	-27.4

* As on 24th July 2024; Source: AceEquity, SMIFS research

3 Year Price Performance Chart



Source: NSE

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Key takeaways from the management call

EBITDA Margins: There has been a decline in gross margins due to product composition and supply issues to the US market, which is highly profitable. Indoco is making efforts to improve margins by enhancing operational efficiency across manufacturing sites and expect 15-16% margins from Q3FY25 onwards.

Europe business: There have been challenges in scaling the European business, but a mass manufacturing plan is expected to be completed by end of Q2, which should benefit this division significantly. A comprehensive master manufacturing plan is being implemented across all sites, focusing on efficiency improvements through automation, upgrades, and capacity expansion. Healthy order book position is noted, indicating confidence in future performance.

US business: Undergoing strategic transformation for the US business and hence expect H1FY25 to remain soft and ramp up will happen more in Q3 and Q4 of FY25.

India Business: 1) The India business witnessed very slow revival in anti-infective and respiratory portfolio in Q1FY25, while few brands maintained their strong double-digit growth:

2) Indoco's largest brand, **Cyclopalm**, crossed a milestone turnover of 100 crores and grew by 32% quarter-on-quarter.

3) Other brands like Cital and Carvol Plus also showed significant growth while **Febrix Plus**, a major brand in the Indian market, is experiencing negative growth.

4) Sensodent K and KF cosmetic variants entered the OTC market.

Other expenses: There has been one off expense related to remediation cost and had higher spent on promotion and marketing for Synsodyn-K brand to capture the larger market. Management aims to maintain total other expenses in the range of Rs. 1100-1200 Mn per quarter going forward.

Gross Margin: Gross margin affected by negative operating leverage due to lower performance in the India and US business.

EBITDA Margin: EBITDA margins are expected to reach at least 15% by Q3 backed by improvement in US and domestic business.

Supply Constraints: Ongoing remediation efforts at Goa Plant 2 continue to limit supply to the US market.

Strategic Transition: The transition from out-licensing to establishing a front-end presence in the US is resulting in short-term margin compression.

Investment Impact: Significant upfront investment in the India business is exerting pressure on current margins.

Others:

ANDA Approvals: Received final ANDA approval from the US FDA for Pregabalin Capsules and tentative ANDA approval for Canagliflozin and Metformin Hydrochloride Tablets.

FDA Inspection Success: The US FDA successfully completed inspections of the API Kilo manufacturing plant and the Indoco Analytical Solutions public testing lab, with zero observations.

Product Launch: Launched a new treatment for uncomplicated urinary tract infections under the brand name Fosf HS.

New Cosmetic Products: Introduced cosmetic variants of Sensodyne K and KF in the OTC market through the subsidiary Warren Remedies.

Capex Plan: Overall capex guidance for FY25 remains at Rs. 2500 Mn. No additional capex going ahead indicating that post-current CAPEX, only maintenance CAPEX will be required. The investment is continued in field force for India market, company plans to add 300 people for the year.

Quarterly financials, operating metrics & key performance indicators

Fig 1: Quarterly Performance

Y/E March (Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Q1FY25
Net Sales	4330	3992	4282	4265	4817	4594	4496	4315
Raw Materials	1274	1304	1315	1287	1473	1423	1409	1415
Employee Costs	803	821	767	915	921	900	883	973
R&D Costs	189	198	241	239	258	242	233	247
Other Expenditure	1186	1049	1312	1212	1452	1401	1483	1203
EBITDA	878	620	648	612	714	629	489	478
Depreciation	157	172	177	199	214	244	262	275
Interest	53	70	86	78	81	101	121	143
Other Income	4	4	5	4	44	24	27	10
Exceptional Items	0	0	0	0	0	82	197	0
PBT	673	382	389	339	463	226	330	70
Tax	176	101	131	97	110	71	110	52
Tax rate (%)	26	26	34	29	24	31	33	74
PAT	497	282	258	242	352	156	220	18
Minority Interest	0	0	0	2	2	7	7	8
Consolidated PAT	497	282	258	244	351	163	227	26
Adjusted PAT	497	282	258	244	351	225	79	26
Y-o-Y Growth (%)								
Revenue	11.9	11.5	4.7	4.5	11.2	15.1	5.0	1.2
EBITDA	1.6	-15.5	-19.6	-14.4	-18.8	1.4	-24.5	-21.9
PAT	19.3	-14.7	-36.2	-37.3	-29.1	-44.7	-14.6	-92.5
Q-o-Q Growth (%)								
Revenue	6.1	-7.8	7.3	-0.4	12.9	-4.6	-2.1	-4.0
EBITDA	23.0	-29.4	4.4	-5.5	16.7	-11.9	-22.3	-2.3
PAT	28.9	-43.4	-8.3	-6.3	45.7	-55.8	41.6	-91.7
Margin (%)								
EBITDA	20.3	15.5	15.1	14.3	14.8	13.7	10.9	11.1
Consolidated PAT	11.5	7.1	6.0	5.7	7.3	3.5	5.0	0.6

Source: Company, SMIFS research

Key Assumptions	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Q1FY25
Domestic	2,213	1,994	1,804	2,130	2,281	2,126	1,911	2,270
% growth yoy	3.6%	9.8%	-6.5%	8.8%	3.1%	6.6%	5.9%	6.6%
Exports	1,816	1,836	2,137	1,597	1,949	1,947	2,140	1,571
% growth yoy	34.0%	28.3%	12.7%	-8.7%	7.3%	6.1%	0.1%	-1.6%
API	125	177	243	357	358	333	217	312
% growth yoy	-29.2%	-10.2%	85.4%	142.7%	156.6%	88.2%	-10.7%	-12.7%
CRO	34	46	45	48	64	79	83	57
% growth yoy	-14.6%	0.4%	-10.2%	10.2%	87.4%	70.6%	84.4%	19.5%
Other Operating income	142	-61	54	133	165	109	145	105
Total	4,330	3,992	4,282	4,265	4,817	4,594	4,496	4,315
% growth yoy	11.9%	11.5%	4.7%	4.5%	11.3%	15.1%	5.0%	1.2%

Fig 2: Quarterly Performance

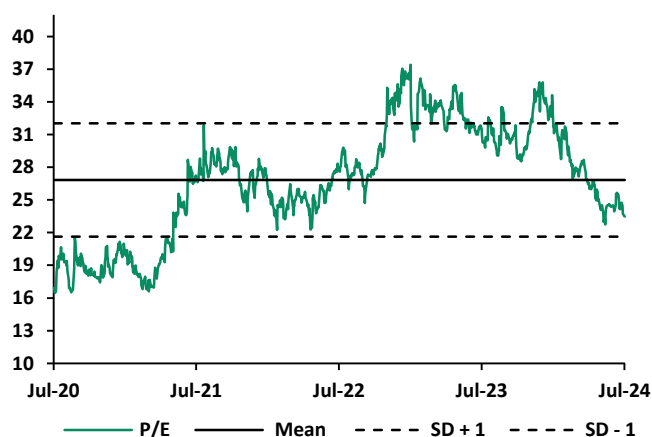
Fig 3: Key Assumptions Yearly

Key Assumptions	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Domestic	6,062	6,862	6,190	8,031	7,967	8,793	9,124	10,036
% growth	1.9%	13.2%	-9.8%	29.7%	-0.8%	6.0%	8.0%	10.0%
Exports	2,335	2,963	4,924	6,205	7,537	7,550	8,118	9,680
% growth	-32.8%	26.9%	66.2%	26.0%	21.5%	0.2%	7.5%	19.2%
API	822	860	940	634	707	1,266	1,354	1,519
% growth	35.0%	4.6%	9.3%	-32.5%	11.5%	11.0%	7.0%	12.2%
CRO	195	109	133	167	170	274	304	340
% growth	38.0%	-44.1%	22.3%	25.7%	2.0%	10.0%	11.0%	11.8%
Other Operating income	271	272	229	370	305	291	283	324
% growth	1%	0.5%	-15.8%	61.5%	-17.7%	-4.6%	-2.5%	14.2%
Total	9,684	11,066	12,415	15,408	16,686	18,173	19,183	21,899

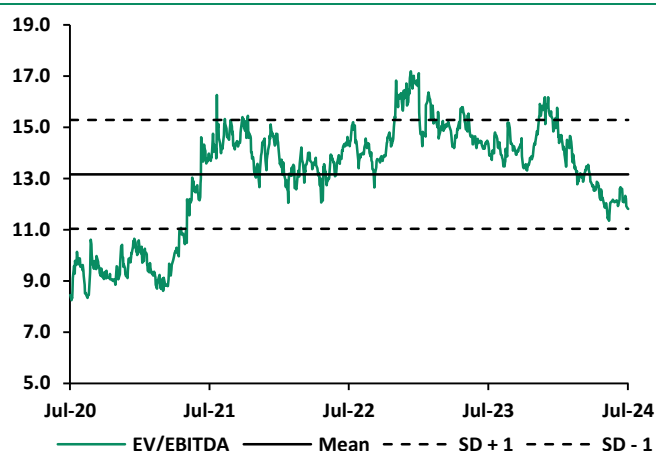
Source: Company, SMIFS research

Fig 4: Change in estimates

Particulars	New Estimates		Old Estimates		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenues	19,183	21,899	19,950	22,351	-3.8%	-2.0%
Gross Profit	12,891	15,110	13,766	15,422	-6.4%	-2.0%
Gross Margin	67.2%	69.0%	69.0%	69.0%	(180) bps	-
EBITDA	2,945	3,628	3,161	3,635	-6.8%	-0.2%
EBITDA Margin (%)	15.4%	16.6%	15.8%	16.3%	(49) bps	30 bps
PAT	1,232	1,762	1,444	1,711	-14.7%	3.0%
EPS	13.4	19.1	15.7	18.6	-14.7%	3.0%

Fig 5: 1 year forward P/E chart


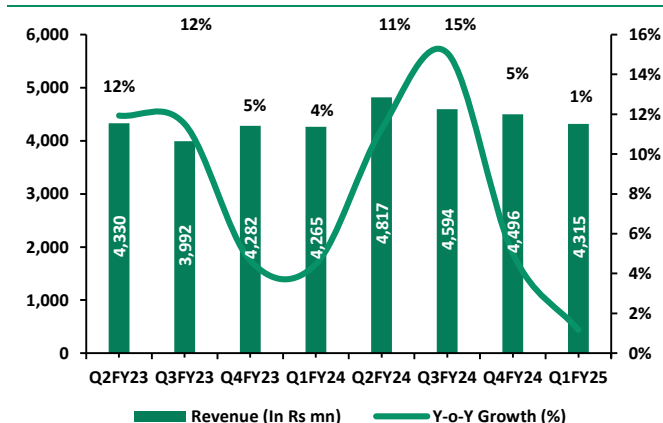
Source: AceEquity, SMIFS Research

Fig 6: 1 year forward EV/EBITDA chart


Source: AceEquity, SMIFS Research

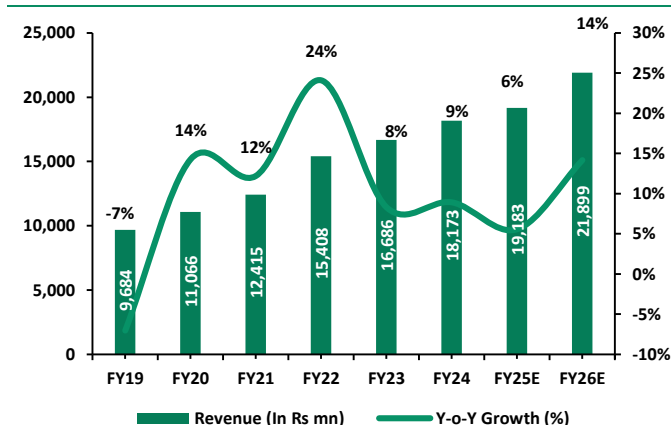
Story In Charts

Fig 7: Revenue (Quarterly)



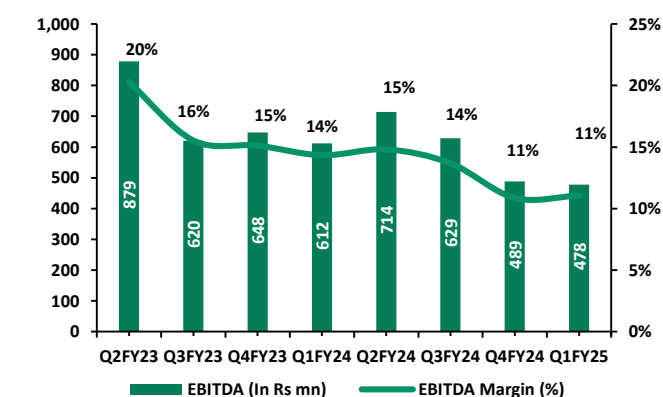
Source: AceEquity, SMIFS Research

Fig 8: Revenue (Yearly)



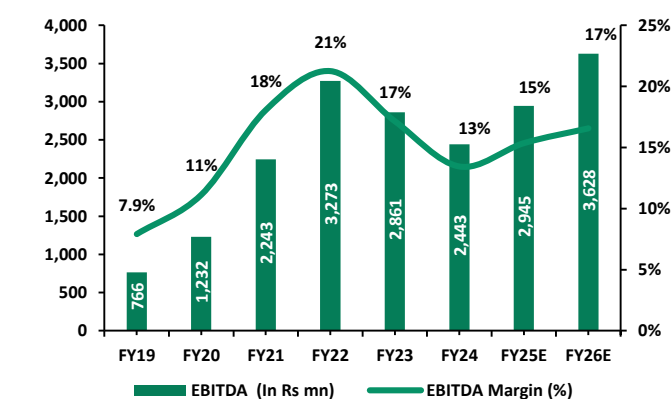
Source: AceEquity, SMIFS Research

Fig 9: EBITDA (Quarterly)



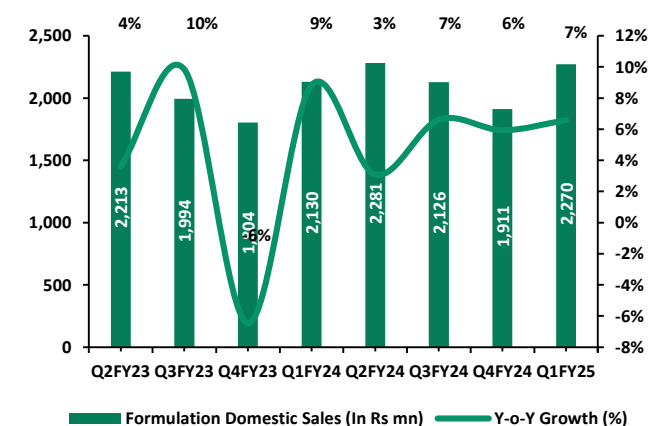
Source: AceEquity, SMIFS Research

Fig 10: EBITDA (Yearly)



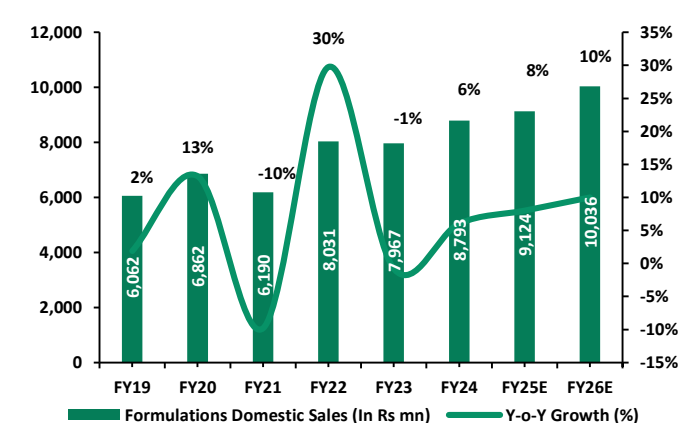
Source: AceEquity, SMIFS Research

Fig 11: Formulation Domestic Sales (Quarterly)

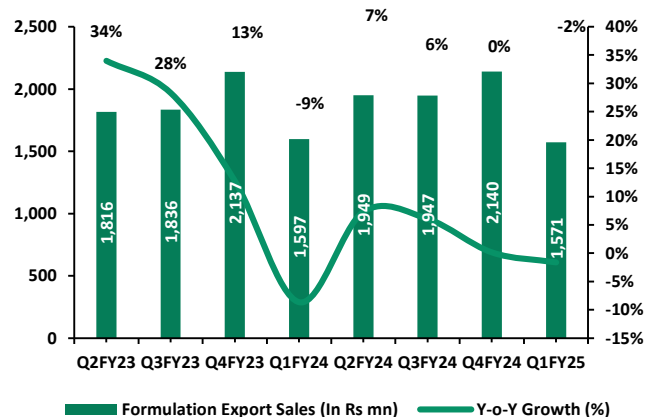


Source: AceEquity, SMIFS Research

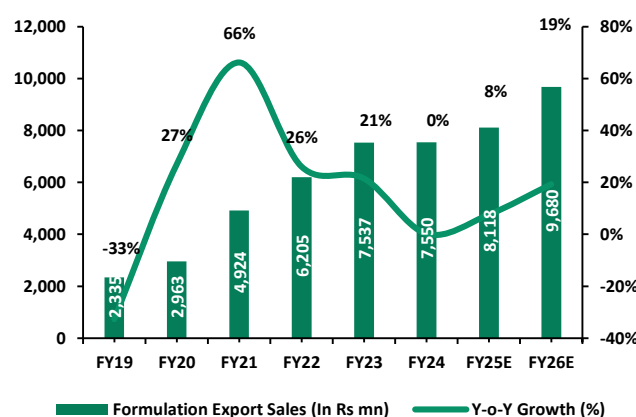
Fig 12: Formulation Domestic Sales (Yearly)



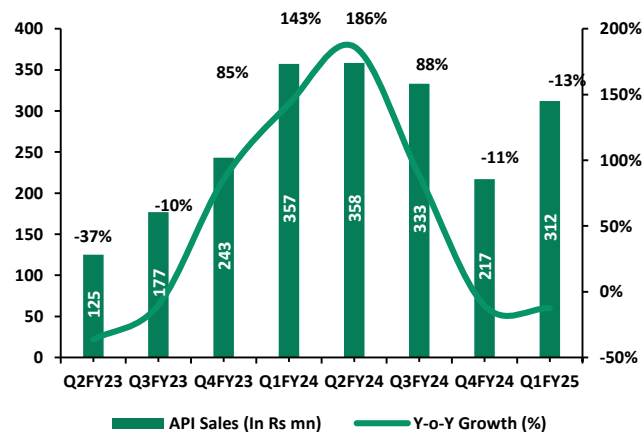
Source: AceEquity, SMIFS Research

Fig 13: Formulation Export Sales (Quarterly)


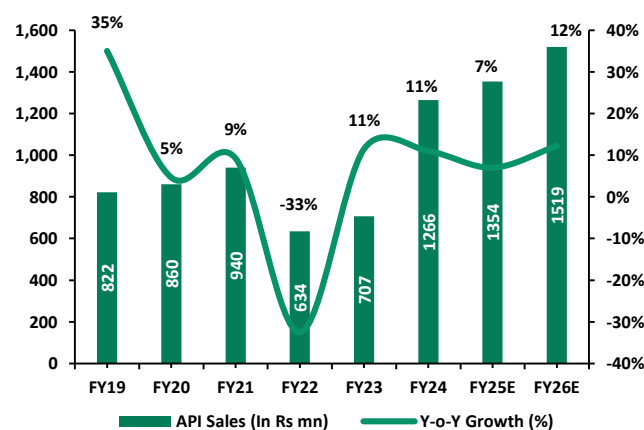
Source: AceEquity, SMIFS Research

Fig 14: Formulation Export Sales (Yearly)


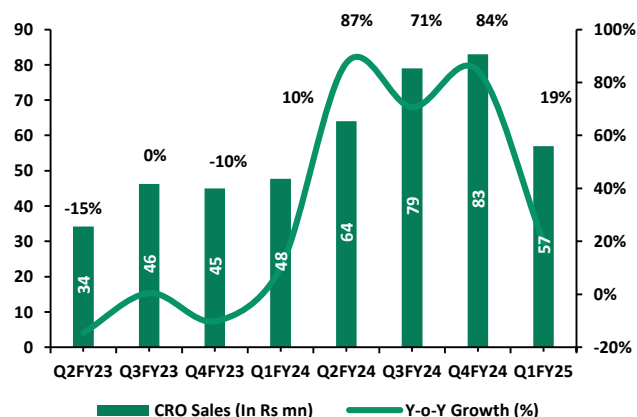
Source: AceEquity, SMIFS Research

Fig 15: API Sales (Quarterly)


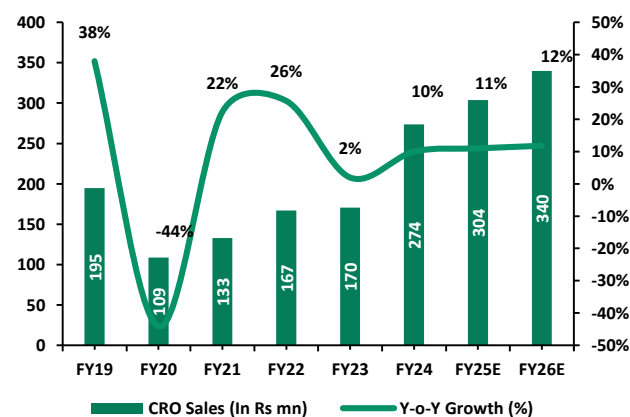
Source: AceEquity, SMIFS Research

Fig 16: API Sales (Yearly)


Source: AceEquity, SMIFS Research

Fig 17: CRO Sales (Quarterly)


Source: AceEquity, SMIFS Research

Fig 18: CRO Sales (Yearly)


Source: AceEquity, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	15,408	16,686	18,173	19,183	21,899
Raw Materials	4,568	5,213	5,592	6,292	6,789
% of sales	29.6	31.2	30.8	32.8	31.0
Personnel	2,963	3,226	3,619	4,063	4,488
% of sales	19.2	19.3	19.9	21.2	20.5
R&D Expenses	746	810	972	1,026	1,171
% of sales	4.8	4.9	5.3	5.3	5.3
Other Expenses	3,857	4,577	5,547	4,856	5,824
% of sales	25.0	27.4	30.5	25.3	26.6
EBITDA	3,273	2,861	2,443	2,945	3,628
Other Income	23	23	99	107	194
Depreciation	790	706	919	984	1,007
EBIT	2,507	2,178	1,623	2,068	2,815
Finance cost	141	250	380	445	476
Core PBT	2,342	1,905	1,144	1,516	2,145
Extraordinary items	0	0	115	0	0
PBT	2,366	1,928	1,358	1,623	2,339
Tax-Total	818	506	388	406	592
Tax Rate (%) - Total	34.6	26.2	28.6	25.0	25.3
PAT	1,548	1,423	970	1,217	1,747
Share of Associate	0	0	14.6	14.6	14.6
Adjusted PAT	1,548	1,423	898	1,232	1,762

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY22	FY23	FY24	FY25E	FY26E
Growth Ratio (%)					
Revenue	24.1	8.3	8.9	5.6	14.2
EBITDA	46.0	-12.6	-14.6	20.6	23.2
Adjusted PAT	66.4	-8.1	-36.9	37.1	43.1
Margin Ratios (%)					
Gross Profit	70.4	68.8	69.2	67.2	69.0
EBITDA	21.2	17.1	13.4	15.4	16.6
EBIT	16.3	13.1	8.9	10.8	12.9
Core PBT	15.2	11.4	6.3	7.9	9.8
Adjusted PAT	10.0	8.5	5.4	6.4	8.0
Return Ratios (%)					
ROE	18.5	14.7	9.1	10.5	13.6
ROCE	14.9	12.7	7.4	8.3	10.4
Turnover Ratios (days)					
Gross Block Turnover (x)	1.6	1.6	1.5	1.3	1.4
Adj OCF/Adj PAT (%)	102	105	117	256	121
Inventory	63	71	71	71	71
Debtors	65	70	75	75	75
Creditors	29	28	29	29	29
Cash conversion cycle	99	112	117	117	117
Solvency Ratio (x)					
Debt-equity	0.3	0.3	0.6	0.6	0.5
Net debt-equity	0.3	0.3	0.6	0.4	0.3
Gross Debt/EBITDA	0.8	1.2	2.8	2.5	2.0
Current Ratio	1.8	1.9	1.6	1.7	1.8
Interest coverage ratio	17.7	8.7	4.3	4.6	5.9
Dividend					
DPS	2.3	2.2	2.2	2.3	2.4
Dividend Yield (%)	0.5	0.6	0.7	0.7	0.7
Dividend Payout (%)	13.4	14.6	23.1	17.2	12.6
Per share Ratios (Rs)					
Basic EPS (reported)	16.8	15.4	10.7	13.4	19.1
Adjusted EPS	16.8	15.4	9.7	13.4	19.1
CEPS	25.4	23.1	19.7	24.0	30.0
BV	98.2	111.6	120.5	131.4	148.1
Valuation (x)					
Adj P/E	24.5	23.9	35.3	24.1	16.8
P/BV	4.2	3.3	2.9	2.5	2.2
EV/EBITDA	12.3	12.9	12.9	9.4	7.4
EV/Sales	1.7	2.4	2.0	1.6	1.3
Adj MCap /Core PBT	16.1	17.8	27.4	18.2	12.5
Adj MCap /Adj OCF	24.0	22.6	29.8	8.7	12.6

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Sources of funds					
Equity Share Capital	184	184	184	184	184
Reserves & Surplus	8,862	10,098	10,921	11,922	13,463
Shareholders' Fund	9,046	10,283	11,105	12,107	13,648
Total Debt	2,567	3,329	6,720	7,420	7,320
Other Liabilities	498	469	578	636	702
Total Liabilities	12,111	14,080	18,402	20,162	21,669
Application of funds					
Gross Block	9,698	10,919	13,323	15,323	16,023
Net Block	5,206	5,952	7,726	8,988	8,955
Capital WIP	528	554	1,029	306	320
Quasi Investments	-	-	-	-	-
Other Investments	0	15	15	15	15
Other Non-Current Assets	1,391	1,926	3,131	2,966	3,358
Inventories	3,105	3,260	3,531	3,942	4,500
Sundry Debtors	2,972	3,509	4,062	3,633	3,996
Current Investments	0	10	72	72	72
Cash and bank balances	198	133	243	2,054	2,691
Other current assets	1,461	1,223	1,638	1,167	1,167
Total Current Assets	7,736	8,136	9,547	10,869	12,426
Trade payables	1,333	1,235	1,536	1,524	1,740
Other current liabilities	1,417	1,267	1,509	1,457	1,663
Total Current Liabilities	2,750	2,502	3,045	2,980	3,403
Net Current Assets	4,986	5,634	6,502	7,887	9,022
Total Assets	12,111	14,080	18,402	20,162	21,669

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Operating profit before WC changes	3,237	3,137	2,618	2,960	3,642
Changes in working capital	-1,088	-732	-872	1,045	-435
Income tax Paid	-411	-617	-295	-406	-592
Cash flow from operating activities	1,738	1,788	1,452	3,599	2,615
Adj. OCF	1,576	1,499	1,052	3,154	2,139
Capex	-1,244	-2,061	-4,256	-2,660	-1,362
Adj FCF	332	-562	-3,204	494	777
Cash flow from investing activities	-1214	-2082	-4338	-1761	-1182
Debt	-143	725	3404	700	-100
Dividend paid	-138	-207	-207	-212	-221
Interest and lease liabilities	-163	-290	-400	-445	-476
Cash flow from financing activities	-444	228	2804	43	-797
Net change in cash	80	-65	-82	1,882	637

Source: Company, SMIFS research estimates

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