

# Indoco Remedies

16 February, 2023

Reuters: INDR.BO; Bloomberg: INRMIN

## Indoco Remedies – Management Meet Update

We hosted the Indoco Remedies Ltd (Indoco) management at the NBIE Annual Investor Conference to discuss the company's future business outlook. In the US, the company believes that its portfolio of ophthalmic and injectable products is well placed and gaining traction. European markets is expected to grow by 17-18% on the back of robust order book and new launches. For India, volume gains, new launches and 4-5% price hike will continue to drive growth. Improvement of MR productivity and inorganic opportunities are also an area of interest for the company in the domestic market. The management intends to leverage its existing product portfolio in various emerging markets in Africa and Latin America. We remain positive about the company's future growth prospects mainly due to high domestic contribution, robust complex products portfolio for the export markets and reasonable valuation. We maintain a BUY on Indoco with a target price (TP) of Rs432, valuing it at 16x Sept'24E earnings.

### US

- Lacosamide, Brimonidine and Brinzolamide will continue to provide good traction even over the long run. Additionally, the company has backward integrated API supplies for Allopurinol.
- Brinzolamide faced some supply challenges (few month delay) due to Container closure system issues. However, the Company's front end partner Teva has started to supply the product in the US for which it expects a large part of the profit share to accrue in 1QFY24.
- Brinzolamide has a market size of ~US\$80mn with 3-4 players. The company is currently selling only single SKU (15ml), another SKU (10ml) is under process of being marketed, the latter has a higher market share.
- The company has reported one month of Combigan sales in 3QFY23. There are currently 3-4 players in the market
- Launch of a suspension ophthalmic product got deferred beyond April'23 due to which milestone payment of Rs100mn got delayed.
- The company's portfolio of ophthalmic and injectable products does not experience as stiff price erosion as oral solids. The contribution of the oral solids portfolio to the US is negligible.
- The company is expected to file 3 oral solid ANDAs with the USFDA by Dec'23, approval for which is expected 12-18 months post filing.

## BUY

**Sector:** Pharmaceuticals

**CMP:** Rs373

**Target Price:** Rs432

**Upside:** 16%

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### Key Data

Current Shares O/S (mn)	92.2
Mkt. Cap (Rsbn/US\$mn)	34.5/417.6
52 Wk H / L (Rs)	425/308
Daily Vol. (3M NSE Avg.)	180,176

### Price Performance (%)

	1 M	6 M	1 Yr
Indoco Remedies	(5.6)	4.2	0.2
Nifty Index	1.3	1.7	4.6

Source: Bloomberg

[FY22 Annual Report](#)
[3QFY23Results](#)

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	12,415	15,408	17,076	19,716	22,369
EBITDA	2,243	3,273	3,105	4,017	4,744
Net profit	931	1,548	1,526	2,164	2,812
EPS (Rs)	10.1	16.8	16.6	23.5	30.5
EPS growth (%)	285.8	66.4	(1.4)	41.8	29.9
EBITDA margin (%)	18.1	21.2	18.2	20.4	21.2
PER (x)	36.9	22.2	22.5	15.9	12.2
EV/Sales (x)	2.9	2.4	2.1	1.8	1.4
EV/EBITDA (x)	16.2	11.2	11.6	8.7	6.8
RoCE (%)	10.6	14.6	12.4	14.8	16.2
RoE (%)	12.8	18.5	15.7	18.9	20.4

Source: Company, Nirmal Bang Institutional Equities Research

## India

- 40% of domestic formulations come from acute segments, 50% from Sub-chronic (excluding cardiology and diabetology) and the rest from Chronic. Product wise, Cyclopalm is growing at ~20%, dental products are growing well, while Stomatology is growing in higher double digit.
- Under the CMO division, the company had 3 launches (Noxa, Dropizin, Subital) with one an anti-fungal product expected to be launched in near term. Noxa (Rs80mn brand) is the market leader within 3 months of launch. YTD, new product introduction growth was 4-4.5%
- In Chronic Therapy Company is focusing on 5-6 products, such as Glychek, Alogliptin etc.
- Current PCPM is of Rs3.9 lakh per month, excluding employees that are not on payroll. The company does not envisage any large MR addition in the near term and expects PCPM increase to Rs4.4 lakh per month in FY24.
- Price growth was 4-5% and that will expected to remain same going forward
- Most of India's cash flows will be re-invested into India. The company continues to look for inorganic opportunities.

## Europe

- Guided for 17-18% revenue growth. New products are expected to be launched in April'23.
- In Germany, company won a 2 year tender. Previous tender is expected to expire in March'23.

## Emerging Markets

- Africa's business is ~RS600mn in revenue with Kenya and Tanzania accounting for Rs250-300mn. The company is currently present in 6 French African countries with 120-130 RMs promoting own brands. Additionally, it has plans to expand into Senegal and Chad in the coming year.
- The company has filed tender for 3-4 products in SA the result of which will be known by March'23
- In Latin America, the company recorded Rs350-400mn of sales, the profitability of this region is on the higher side.

## Capex

- For FY23 capex stands at Rs1.5bn including capex for additional sterile line at Goa.
- Company is developing additional sterile line for US for de-risking purpose. Excluding it, the company is not looking for an additional major capex for US and Europe.

## Others

- The company generates highest margins in the US and India which varies based on product mix followed by EM, Europe and then UK
- The company has 5 USFDA approved plants.
- API business has a small contribution to overall mix since it was division created to support International formulation business.
- CRO capacity has been doubled

## Exhibit 1: P/BV Chart



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

## Financial statements

**Exhibit 2: Income statement**

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>12,415</b>	<b>15,408</b>	<b>17,076</b>	<b>19,716</b>	<b>22,369</b>
% growth	12.2	24.1	10.8	15.5	13.5
Raw Material	3,541	4,568	5,285	5,985	6,831
Staff	2,740	2,937	3,348	3,750	4,200
R&D	597	746	813	986	1,118
Other expenses	3,294	3,883	4,525	4,978	5,475
Total Expenditure	10,173	12,134	13,971	15,698	17,624
Gross Profit	8,874	10,840	11,791	13,731	15,538
% growth	14.3	22.1	8.8	16.5	13.2
<b>EBITDA</b>	<b>2,243</b>	<b>3,273</b>	<b>3,105</b>	<b>4,017</b>	<b>4,744</b>
% growth	82.0	46.0	-5.2	29.4	18.1
<b>EBITDA margin (%)</b>	<b>18.1</b>	<b>21.2</b>	<b>18.2</b>	<b>20.4</b>	<b>21.2</b>
Other income	31	23	51	79	89
Interest	223	141	173	190	209
Depreciation	731	790	921	981	824
PBT	1,320	2,366	2,062	2,925	3,800
% growth	361.9	79.2	-12.8	41.8	29.9
Tax	390	818	536	760	988
Effective tax rate (%)	29.5	34.6	26.0	26.0	26.0
<b>Net Profit</b>	<b>931</b>	<b>1,548</b>	<b>1,526</b>	<b>2,164</b>	<b>2,812</b>
% growth	285.8	66.4	-1.4	41.8	29.9
<b>EPS (Rs)</b>	<b>10.1</b>	<b>16.8</b>	<b>16.6</b>	<b>23.5</b>	<b>30.5</b>
% growth	285.8	66.4	-1.4	41.8	29.9

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Cash flow**

Y/E March (Rsmn)	FY 21	FY 22	FY23E	FY24E	FY25E
PBT	1,320	2,366	2,062	2,925	3,800
(Inc.)/Dec. in working capital	(1,398)	(1,088)	-603	-784	-844
<b>Cash flow from operations</b>	<b>-78</b>	<b>1,278</b>	<b>1,460</b>	<b>2,140</b>	<b>2,957</b>
Other income	366	82	-51	-79	-89
Depreciation	731	790	921	981	824
Tax paid (-)	(197)	(411)	-536	-760	-988
<b>Net cash from operations</b>	<b>822</b>	<b>1,738</b>	<b>1,793</b>	<b>2,282</b>	<b>2,703</b>
Capital expenditure (-)	(767)	(1,244)	-928	-928	-928
<b>Net cash after CapEx</b>	<b>56</b>	<b>495</b>	<b>865</b>	<b>1,354</b>	<b>1,774</b>
Other investing activities	100	30	-166	-139	1,008
<b>Cash from Financial Activities</b>	<b>(299)</b>	<b>(444)</b>	<b>358</b>	<b>217</b>	<b>251</b>
Change in Cash	(94)	104	1,056	1,432	3,034
Opening cash balance	238	94	198	1,254	2,686
Closing cash balance	143	198	1,254	2,686	5,719

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Balance sheet**

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	184	184	184	184	184
Reserves	7,506	8,862	10,240	12,257	14,922
Net worth	7,690	9,046	10,425	12,441	15,106
Provisions/ other LT liabilities	422	501	565	640	721
Total loans	2,133	2,442	2,883	3,173	3,491
<b>Liabilities</b>	<b>10,245</b>	<b>12,096</b>	<b>13,980</b>	<b>16,361</b>	<b>19,424</b>
Net block	5,217	5,206	5,431	5,596	5,700
Capital work-in-progress	251	528	528	528	528
Intangible assets	416	233	233	233	1
LT loans & advances	10	14	14	14	14
Other LT assets	1,032	1,144	1,144	1,144	457
Inventories	2,379	3,105	3,593	4,068	4,643
Debtors	2,338	2,972	3,294	3,804	4,315
Cash	143	198	1,254	2,686	5,719
Other current assets	1,365	1,461	1,618	1,868	2,118
Total current assets	6,225	7,736	9,760	12,425	16,796
Trade payables	1,132	1,333	1,542	1,746	1,993
Other current liabilities/provisions	1,774	1,433	1,588	1,833	2,080
Total current liabilities	2,906	2,765	3,130	3,579	4,073
Net current assets	3,319	4,971	6,630	8,846	12,723
<b>Total assets</b>	<b>10,245</b>	<b>12,096</b>	<b>13,980</b>	<b>16,361</b>	<b>19,424</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Key ratios**

Y/E March	FY 21	FY 22	FY23E	FY24E	FY25E
<b>Profitability &amp; Return ratios</b>					
EBITDA margin (%)	18.1	21.2	18.2	20.4	21.2
EBIT margin (%)	12.2	16.1	12.8	15.4	17.5
Net profit margin (%)	7.5	10.0	8.9	11.0	12.6
ROE (%)	12.8	18.5	15.7	18.9	20.4
ROCE (%)	10.6	14.6	12.4	14.8	16.2
<b>Working capital &amp; Liquidity ratios</b>					
Receivables (days)	65	63	67	66	66
Inventory (days)	230	219	231	234	233
Payables (days)	144	98	99	100	100
Working capital days	152	184	199	199	199
Current ratio (x)	2.1	2.8	3.1	3.5	4.1
Quick ratio (x)	1.3	1.7	2.0	2.3	3.0
<b>Valuation ratios</b>					
EV/Sales (x)	2.9	2.4	2.1	1.8	1.4
EV/EBITDA (x)	16.2	11.2	11.6	8.7	6.8
P/E (x)	36.9	22.2	22.5	15.9	12.2
P/BV (x)	4.5	3.8	3.3	2.8	2.3

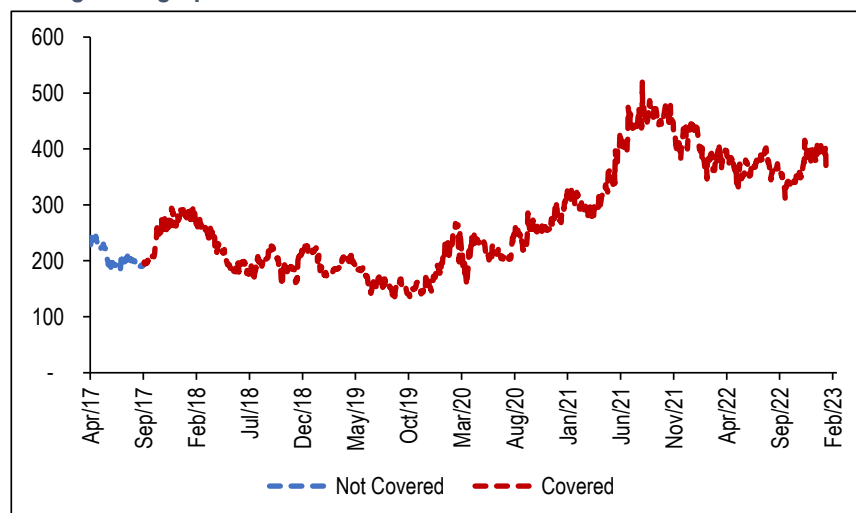
Source: Company, Nirmal Bang Institutional Equities Research

## 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
26 September 2021	Accumulate	461	470
11 October 2021	Accumulate	446	470
3 November 2021	Accumulate	457	468
22 December 2021	Accumulate	412	468
3 February 2022	Buy	398	464
21 February 2022	Buy	381	483
22 February 2022	Buy	382	483
18 May 2022	Buy	353	517
10 August 2022	Buy	396	509
29 September 2022	Buy	312	424
21 November 2022	Buy	347	452
25 January 2023	Buy	362	432
16 February 2023	Buy	373	432

Coverage was transferred to Mitesh Shah with effect from 29<sup>th</sup> September 2022

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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