

May 17, 2024

Q4FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	335		380	
Sales (Rs. m)	19,936	22,238	20,225	22,632
% Chng.	(1.4)	(1.7)		
EBITDA (Rs. m)	3,176	3,777	3,403	3,979
% Chng.	(6.7)	(5.1)		
EPS (Rs.)	14.1	18.2	17.6	21.7
% Chng.	(20.3)	(16.4)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	16,686	18,173	19,936	22,238
EBITDA (Rs. m)	2,861	2,443	3,176	3,777
Margin (%)	17.1	13.4	15.9	17.0
PAT (Rs. m)	1,423	855	1,296	1,675
EPS (Rs.)	15.4	9.3	14.1	18.2
Gr. (%)	(8.1)	(39.9)	51.6	29.3
DPS (Rs.)	2.3	2.3	2.3	2.3
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	14.7	8.0	11.1	13.0
RoCE (%)	17.3	9.8	11.6	13.3
EV/Sales (x)	1.9	2.0	1.8	1.6
EV/EBITDA (x)	11.3	14.6	11.3	9.5
PE (x)	20.7	34.5	22.7	17.6
P/BV (x)	2.9	2.7	2.4	2.2

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.417 / Rs.308	
Sensex / Nifty	73,664 / 22,404	
Market Cap	Rs.29bn/ \$ 353m	
Shares Outstanding	92m	
3M Avg. Daily Value	Rs.33.97m	

Shareholding Pattern (%)

Promoter's	58.72
Foreign	1.92
Domestic Institution	19.41
Public & Others	19.95
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.9)	(4.4)	(10.2)
Relative	(4.8)	(14.4)	(24.5)

Param Desai

paramdesai@plindia.com | 91-22-66322259

Kushal Shah

kushalshah@plinida.com | 91-22-66322490

Indoco Remedies (INDR IN)

Rating: ACCUMULATE | CMP: Rs320 | TP: Rs335

Muted quarter

Quick Pointers:

- Higher remediation expenses and promotional cost impacted margins.
- Mgmt guided for improved margins in FY25.

We cut our FY25/FY26 EPS by ~18% to factor in low margins and lower sales across key markets. Our numbers do factor in margin recovery with reduction in remediation cost from FY25. Indoco Remedies' (INDR) Q4FY24 EBITDA was sharply below our estimates led by muted domestic formulation and EU sales and continued higher remediation and promotional expenses. The recent OAI to its Goa unit-2 is negative and will restrict growth in US sales in FY25. We expect 30% PAT CAGR over FY24-26E given low base. At CMP, stock is trading at 17.6x FY26E EPS. We maintain our Accumulate with revised TP of Rs335 valuing at 18x FY26E EPS, as we roll forward. Timely resolution of Goa facility unit-2 is a key for re-rating.

- Slowdown in domestic and EU markets:** Consolidated revenues ex-other operating income increased by 2.4% YoY to Rs 4.4bn, below our estimates. Domestic formulations sales grew by 3.6% YoY to Rs 1.9bn; below our estimate. Key therapies like Stomatologicals, VMS, Ophthal, Cardiac reported healthy growth, while Anti-Infectives and Respiratory reported decline YoY. Regulated business decline by 11% YoY, whereas EM business revenues registered growth of 17% YoY. EU sales were down 40% YoY, whereas US sales was largely flat QoQ. Overall API sales declined by 5% YoY.
- Higher other expenses led to EBITDA miss:** INDR reported EBITDA of Rs489mn; below our est Rs 622mn. Other operating income came in higher at Rs106mn; against loss of Rs 6mn YoY. Reported OPM of 10.9%, down 280bps QoQ. Other expense continued to remain elevated led by higher remediation charges and promotional expenses. Gross margins declined 140bps YoY and 110bps QoQ at 67.9%. R&D cost stood at Rs 233mn; 5.3% of sales, down 3% YoY. Resultant PAT came in at Rs 22mn sharply below our est.
- Key concall takeaways:** (1) Slowdown in Anti-Infective and Respiratory therapies impacted growth in domestic formulations. Major brands like Oxipod and Febrex plus decline YoY (2) Higher other expenses led by Rs 50mn remediation cost and higher promotional expenses towards brands like Sensodent (3) **US market:** Prices have stabilized, with expectations for 3-4 new approvals in oral solids and several in steriles if plant is cleared (4) **EU market:** Experienced disruptions in paracetamol orders to the UK, leading to a decline in Q4 sales. Expects 15-20% growth with 4 new launches in FY25. Aiming to capture maximum market share and improve margins through new product launches and reduce dependence on paracetamol. (5) **EM's:** Kenya, Tanzania, and French west Africa demonstrated strong growth. Deployed 150 MR's in French West Africa and 32 each in Kenya and Sri Lanka (6) During Q4FY24 the company launched a second division focused on ophthalmology in India, particularly strengthening its position in the anti-glaucoma market. (7) Commenced manufacturing at a new greenfield facility in Aurangabad, enhancing production capabilities. The API kilo lab facility received clearance from the USFDA, allowing for increased production and export potential (8) Overall capex guided at Rs 2.5bn in FY25. EBITDA guidance 17-18% by FY26.

Exhibit 1: 4QFY24 Result Overview (Rs m): Muted growth, Lower sales and higher other expenses drags profitability

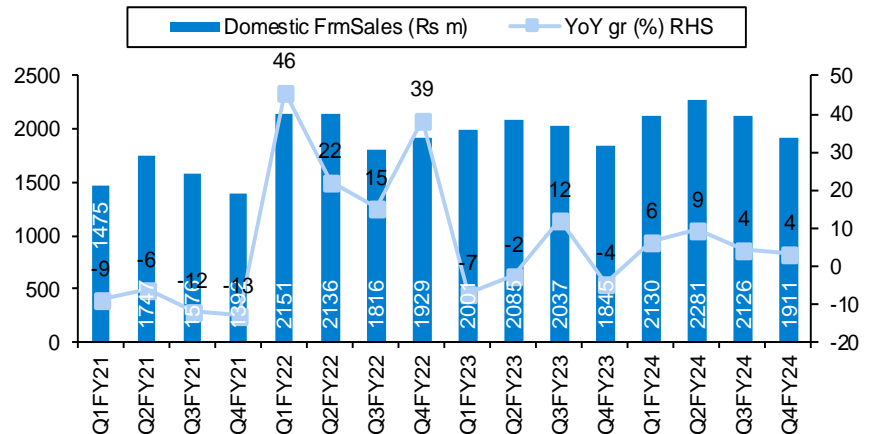
Y/e March	Q4FY24	Q4FY23	YoY gr. (%)	Q3FY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Sales	4,496	4,282	5.0	4,594	(2.1)	18,173	16,686	8.9
Raw Material	1,409	1,315	7.2	1,423	(1.0)	5,592	5,213	7.3
<i>% of Net Sales</i>	<i>31.3</i>	<i>30.7</i>		<i>31.0</i>		<i>30.8</i>	<i>31.2</i>	
Personnel Cost	883	767	15.1	900	(1.9)	3,619	3,219	12.4
<i>% of Net Sales</i>	<i>19.6</i>	<i>17.9</i>		<i>19.6</i>		<i>19.9</i>	<i>19.3</i>	
Others	1,716	1,552	10.5	1,642	4.5	6,519	5,393	20.9
<i>% of Net Sales</i>	<i>38.2</i>	<i>36.3</i>		<i>35.7</i>		<i>35.9</i>	<i>32.3</i>	
Total Expenditure	4,008	3,634	10.3	3,965	1.1	15,730	13,825	13.8
EBITDA	489	648	(24.5)	629	(22.3)	2,443	2,861	(14.6)
<i>Margin (%)</i>	<i>10.9</i>	<i>15.1</i>		<i>13.7</i>		<i>13.4</i>	<i>17.1</i>	
Depreciation	262	177	48.3	244	7.7	919	706	30.1
EBIT	226	471	(51.9)	386	(41.3)	1,524	2,155	(29.3)
Other Income	27	5	432.0	24	13.2	99	23	320.9
Interest	121	86	39.5	101	19.7	380	250	51.9
PBT	133	389	(66.0)	308	(57.0)	1,243	1,928	(35.5)
Extra-Ord. Inc./Exps.	(197)	-		(82)		115	-	
Total Taxes	110	131	(16.5)	71	54.9	388	505	(23.2)
<i>ETR (%)</i>	<i>82.6</i>	<i>33.7</i>		<i>22.9</i>		<i>31.2</i>	<i>26.2</i>	
Minority Interest	-	-		-		1	-	
Reported PAT	220	258	(14.6)	156	41.6	971	1,423	(31.8)

Source: Company, PL

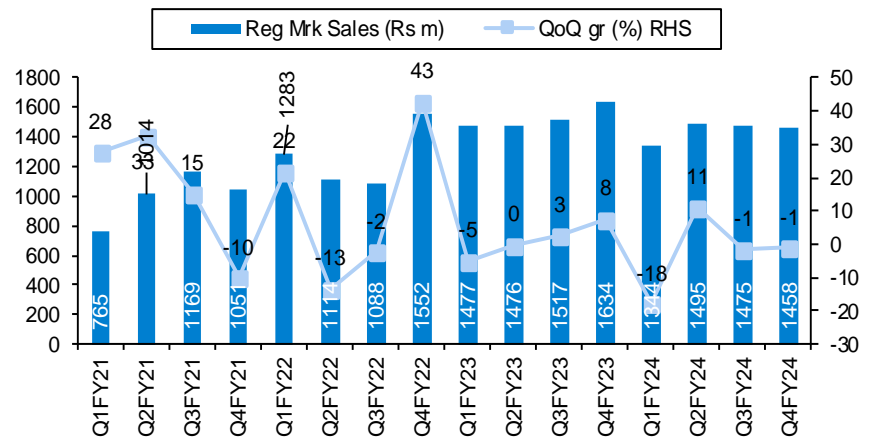
Exhibit 2: Domestic formulation and EU markets impacted sales

Major sources of revenues	Q4FY24	Q4FY23	YoY gr. (%)	Q3FY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Domestic	1,993	1,963	1.5	2,288	(12.9)	8,981	8,299	8.2
Formulations	1,911	1,845	3.6	2,126	(10.1)	8,448	7,967	6.0
APIs	82	118	(30.5)	162	(49.4)	533	332	60.6
Exports	2,275	2,272	0.1	2,117	7.5	8,365	7,911	5.7
Formulations	2,140	2,162	(1.0)	1,947	9.9	7,633	7,537	1.3
Reg mkt	1,458	1,634	(10.8)	1,475	(1.2)	5,772	6,104	(5.4)
Non-reg mkt (Emerging mkt)	682	528	29.2	472	44.5	1,861	1,432	30.0
APIs	135	110	22.3	170	(20.6)	732	375	95.1
CRO	83	45	84.4	79	5.1	274	170	60.7
Net Revenues	4,351	4,281	1.6	4,484	(3.0)	17,619	16,381	7.6

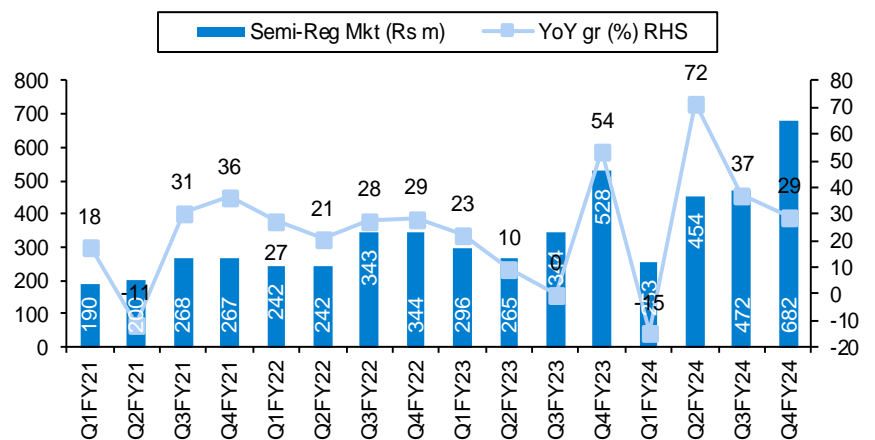
Source: Company, PL

Exhibit 3: India Formulations: Slowdown in business, below est


Source: Company, PL

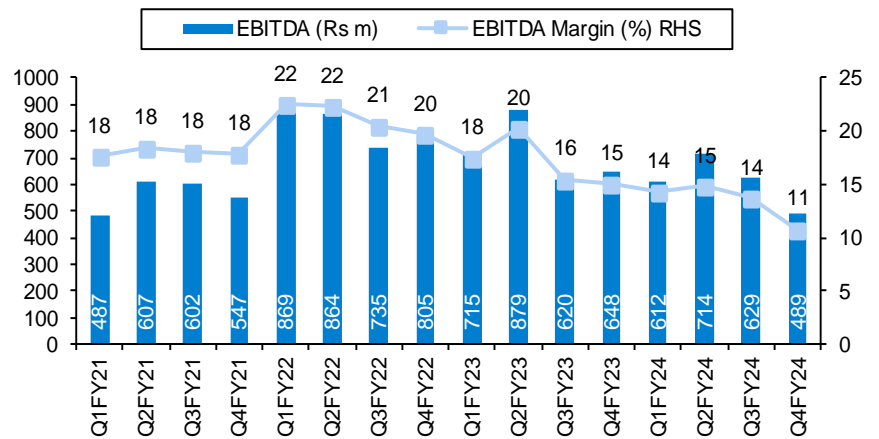
Exhibit 4: US sales largely flat QoQ while EU sales remained weak


Source: Company, PL

Exhibit 5: Sustained EM performance


Source: Company, PL

Exhibit 6: Higher other expenses dented margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	16,686	18,173	19,936	22,238
YoY gr. (%)	8.3	8.9	9.7	11.5
Cost of Goods Sold	5,213	5,592	6,087	6,801
Gross Profit	11,473	12,581	13,849	15,437
Margin (%)	68.8	69.2	69.5	69.4
Employee Cost	3,226	3,619	4,017	4,419
Other Expenses	5,386	6,519	6,655	7,241
EBITDA	2,861	2,443	3,176	3,777
YoY gr. (%)	(12.6)	(14.6)	30.0	18.9
Margin (%)	17.1	13.4	15.9	17.0
Depreciation and Amortization	706	919	1,044	1,148
EBIT	2,155	1,524	2,133	2,630
Margin (%)	12.9	8.4	10.7	11.8
Net Interest	250	380	494	491
Other Income	23	99	100	110
Profit Before Tax	1,928	1,243	1,739	2,248
Margin (%)	11.6	6.8	8.7	10.1
Total Tax	506	388	443	573
Effective tax rate (%)	26.2	31.2	25.5	25.5
Profit after tax	1,423	855	1,296	1,675
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,423	855	1,296	1,675
YoY gr. (%)	(8.1)	(39.9)	51.6	29.3
Margin (%)	8.5	4.7	6.5	7.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,423	855	1,296	1,675
YoY gr. (%)	(8.1)	(39.9)	51.6	29.3
Margin (%)	8.5	4.7	6.5	7.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,423	855	1,296	1,675
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	15.4	9.3	14.1	18.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	14,969	18,071	20,071	22,071
Tangibles	14,969	18,071	20,071	22,071
Intangibles	-	-	-	-
Acc: Dep / Amortization	7,605	8,524	9,568	10,715
Tangibles	7,605	8,524	9,568	10,715
Intangibles	-	-	-	-
Net fixed assets	7,364	9,547	10,503	11,356
Tangibles	7,364	9,547	10,503	11,356
Intangibles	-	-	-	-
Capital Work In Progress	554	1,029	1,029	1,029
Goodwill	1	215	215	215
Non-Current Investments	10	72	72	72
Net Deferred tax assets	(61)	(118)	(118)	(118)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	15	15	15	15
Inventories	3,260	3,531	3,933	4,387
Trade receivables	3,509	4,062	4,304	4,688
Cash & Bank Balance	133	243	467	60
Other Current Assets	1,701	2,670	2,536	2,409
Total Assets	16,582	21,430	23,120	24,277
Equity				
Equity Share Capital	184	184	184	184
Other Equity	10,098	10,915	12,003	13,471
Total Networkth	10,283	11,099	12,187	13,655
Non-Current Liabilities				
Long Term borrowings	1,435	3,517	3,517	3,517
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,710	3,034	3,534	3,034
Trade payables	1,235	1,536	1,639	1,828
Other current liabilities	1,859	2,119	2,119	2,119
Total Equity & Liabilities	16,582	21,430	23,120	24,277

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	1,928	1,243	1,739	2,248
Add. Depreciation	706	919	1,044	1,148
Add. Interest	250	380	494	491
Less Financial Other Income	23	99	100	110
Add. Other	303	193	(100)	(110)
Op. profit before WC changes	3,187	2,734	3,176	3,777
Net Changes-WC	(782)	(872)	(408)	(522)
Direct tax	(617)	(295)	(443)	(573)
Net cash from Op. activities	1,788	1,567	2,325	2,682
Capital expenditures	(2,073)	(4,273)	(2,000)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(2,073)	(4,273)	(2,000)	(2,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	319	3,404	500	(500)
Dividend paid	(207)	(207)	(207)	(207)
Interest paid	(250)	(380)	(494)	(491)
Others	359	0	100	110
Net cash from Fin. activities	220	2,816	(101)	(1,089)
Net change in cash	(64)	110	224	(407)
Free Cash Flow	(284)	(2,706)	325	682

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	15.4	9.3	14.1	18.2
CEPS	23.1	19.2	25.4	30.6
BVPS	111.6	120.4	132.3	148.2
FCF	(3.1)	(29.4)	3.5	7.4
DPS	2.3	2.3	2.3	2.3
Return Ratio(%)				
RoCE	17.3	9.8	11.6	13.3
ROIC	13.1	7.2	9.4	10.9
RoE	14.7	8.0	11.1	13.0
Balance Sheet				
Net Debt : Equity (x)	0.3	0.6	0.5	0.5
Net Working Capital (Days)	121	122	121	119
Valuation(x)				
PER	20.7	34.5	22.7	17.6
P/B	2.9	2.7	2.4	2.2
P/CEPS	13.8	16.6	12.6	10.4
EV/EBITDA	11.3	14.6	11.3	9.5
EV/Sales	1.9	2.0	1.8	1.6
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	4,265	4,817	4,594	4,496
YoY gr. (%)	4.5	11.2	15.1	5.0
Raw Material Expenses	1,287	1,473	1,423	1,409
Gross Profit	2,978	3,344	3,171	3,088
Margin (%)	69.8	69.4	69.0	68.7
EBITDA	612	714	629	489
YoY gr. (%)	(14.4)	(18.8)	1.4	(24.5)
Margin (%)	14.3	14.8	13.7	10.9
Depreciation / Depletion	199	214	244	262
EBIT	413	500	386	226
Margin (%)	9.7	10.4	8.4	5.0
Net Interest	78	81	101	121
Other Income	4	44	24	27
Profit before Tax	339	463	308	133
Margin (%)	8.0	9.6	6.7	2.9
Total Tax	97	110	71	110
Effective tax rate (%)	28.7	23.9	22.9	82.6
Profit after Tax	242	352	238	23
Minority interest	(2)	2	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	244	351	238	23
YoY gr. (%)	(36.8)	(29.5)	(15.6)	(91.1)
Margin (%)	5.7	7.3	5.2	0.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	244	351	238	23
YoY gr. (%)	(36.8)	(29.5)	(15.6)	(91.1)
Margin (%)	5.7	7.3	5.2	0.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	244	351	238	23
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	2.6	3.8	1.7	2.4

Source: Company Data, PL Research

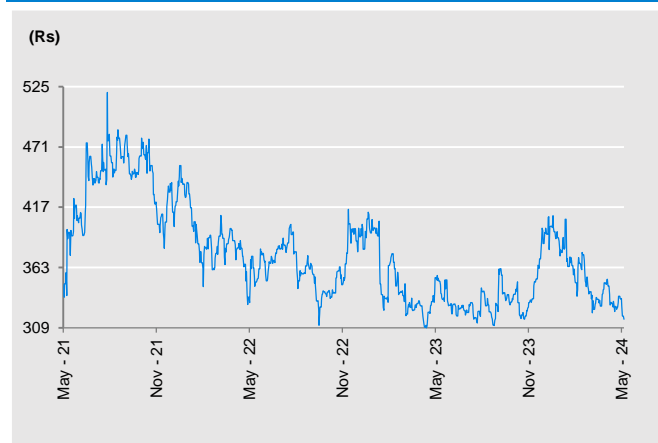
Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Domestic Formulations	7,967	8,448	9,293	10,222
Export Formulations	7,537	7,634	8,516	9,713
APIs	707	1,265	1,265	1,404

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-24	Accumulate	380	350
2	24-Jan-24	Accumulate	380	369
3	08-Jan-24	BUY	385	390
4	19-Oct-23	BUY	385	350
5	07-Oct-23	BUY	380	332
6	26-Jul-23	BUY	380	324
7	06-Jul-23	BUY	400	328
8	24-May-23	BUY	400	340

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,259
2	Aster DM Healthcare	BUY	515	457
3	Aurobindo Pharma	Accumulate	1,120	1,124
4	Cipla	Accumulate	1,405	1,340
5	Divi's Laboratories	Reduce	3,150	3,748
6	Dr. Reddy's Laboratories	Reduce	5,700	6,258
7	Eris Lifesciences	BUY	1,100	851
8	Fortis Healthcare	BUY	480	437
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	368
11	Indoco Remedies	Accumulate	380	350
12	Ipca Laboratories	Hold	1,060	1,315
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,715
14	Jupiter Life Line Hospitals	BUY	1,360	1,275
15	Krishna Institute of Medical Sciences	BUY	2,200	2,038
16	Lupin	Hold	1,675	1,611
17	Max Healthcare Institute	BUY	925	805
18	Narayana Hrudayalaya	BUY	1,435	1,286
19	Sun Pharmaceutical Industries	BUY	1,640	1,609
20	Suntech Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,700	2,577
22	Zydus Lifesciences	Accumulate	855	1,007

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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