

Indoco Remedies (IRL)

Pharmaceuticals | NBIE Conference Update

ACCUMULATE

CMP: Rs324 | Target Price (TP): Rs344 | Upside: 6%

June 12, 2024

US to drive growth

Key Points

- We hosted the management of IRL, represented by Mr. Sundeep V. Bambolkar, Jt. Managing Director and Mr. Pramod Ghorpade – CFO, to gain insights into the current business outlook.
- IRL had acquired FPP (Florida Pharmaceuticals Products) in June 2023 and in just 10 months, FPP is expected to be EBITDA positive. Also, in the US market, significant emphasis is being laid on expanding the product pipeline and maintaining key relationships.
- Sensodent K and KF have transitioned to consumer products and are projected to achieve Rs3bn in revenue by FY25-end and the company is focusing more on the branded portfolio.
- We like IRL due to its Domestic market focus and robust Complex Products portfolio in the US market. However, we are concerned about the company's disappointing performance on the Domestic front and high dependence on certain niche launches in the US for growth. Moreover, macroeconomic factors like higher shipping costs (due to Red Sea issue) affect the company's bottomline. Hence, we have maintained our ACCUMULATE rating on IRL with a target price (TP) of Rs344, valuing it at 14x FY26E EPS.

Domestic business: Domestic business comprised 48% of total revenue. Key products like Sensodent K and KF have shifted from doctor recommendations to consumer products and are projected to reach Rs3bn in revenue in FY25.

International business: International Formulations revenue account for 52% of total revenue, primarily from regulated markets (including the US, the EU and others). The US & other regulated markets account for 80% of total international business while the ROW market (mainly Africa) accounts for the balance international business. In Africa, the company employs medical representatives (MR) through a third-party agent and bears their salaries.

Strategic acquisition: The company acquired a 85% stake in FPP for US\$4mn to enhance its front-end marketing & distribution strength in the US. FPP is expected to be EBITDA positive by June 2024-end.

Operational and R&D focus: It is targeting Rs3.2bn in revenue from the US market this year. It has allocated 5% of revenue to R&D, guided by IQVIA software to decide on product launches with aggressive pricing and market share assumptions.

Est Change	Maintain
TP Change	Maintain
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	INRM.BO
Bloomberg:	INDR IN Equity
Mkt Cap (Rsbn/US\$mn):	29.9 / 357.7
52 Wk H / L (Rs):	415 / 287
ADTV-3M (mn) (Rs/US\$):	45.6 / 0.5
Stock performance (%) 1M/6M/1yr:	1.2 / (17.8) / (1.7)
Nifty 50 performance (%) 1M/6M/1yr:	6.0 / 4.2 / 24.3

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	58.7	58.7	58.7
DII's	17.8	19.6	19.4
FII's	1.6	1.7	1.9
Others	21.9	20.0	20.0
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net sales	16,686	18,173	20,899	24,034
EBITDA	2,862	2,443	3,501	4,339
Net profit	1,423	970	1,809	2,411
EPS (Rs)	15.4	8.9	18.0	24.6
EPS growth (%)	(8.1)	(42.1)	101.8	36.2
EBITDA margin (%)	17.1	13.4	16.8	18.1
PER (x)	20.7	35.8	17.7	13.0
EV/Sales (x)	1.9	1.8	1.6	1.3
EV/EBITDA (x)	11.3	13.1	9.3	7.3
RoCE (%)	12.2	7.6	12.9	15.0
RoE (%)	14.7	9.1	15.3	17.6

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Conference Call Highlights

Domestic Formulations

- Domestic Formulations business accounts for 48% total revenue generated.
- Key Products: Sensodent K and KF: They have transitioned from doctor recommendations (D) to consumer products (C) through social media campaigns and upcoming TV advertisements.
- Toothpaste and Mouthwash: Projected to achieve Rs3bn in revenue.
- NLEM contributes 11% to the Indian business.
- Strategic shift in marketing for Consumer Health products like Sensodent.

International Formulations (US and ROW)

- 52% of total revenue comes from the international markets.
- Market Breakdown:
 - Regulated Markets (80% of international revenue): Includes the US, the EU, South Africa, Australia, New Zealand, Canada and Southeast Asia.
 - ROW (20% of international revenue): Predominantly comprises Africa, with 150+ representatives employed by agents but paid by the company. In Africa, Scientific Promotion is done by the company and is focused on Indoco-branded products.

Regulated Markets Strategy: Acquisition of FPP

- Acquired an 85% stake in FPP for US\$4mn.
- Facilitates front-end marketing & distribution.
- Maintains relationships with major wholesalers and retail chains like Cardinal and Walmart.
- Currently sells six Indoco products, with plans for more.
- Expected to achieve positive EBITDA by June 2024-end.
- Forecast net sales of Rs425-430mn from June 2023 to March 2024.
- Future product pipeline includes 3-4 new products annually.

Operational Highlights for US business

- Allopurinol Tablets: Supplied to two partners, one being a subsidiary of a large wholesaler. The company ensures stock readiness for continuous supply.
- US and Canada Revenue: Expected to be ~Rs2.6bn, driven by existing products.
- Growth and maintenance capex.
- Quarterly expenditure: Rs50mn for consultancy and repairs for two more quarters.
- Total FY24 capex: Rs200mn.

Guidance

- Revenue from the US: Targeting Rs3.2bn this year.
- UK market: Paracetamol will represent only a small portion of total revenue (10-12%).

R&D spending

- Allocates 5% of revenue.
- 90% guided by IQVIA software. In this, the company crashes the prices of the product by 99% and assumes only 10% of market share; if it is still positive, then only the company invests in that product.
- The strategy involves aggressive pricing assumptions and market share estimates to decide product launches.
- Target selling price: 3-4% of the innovator's price with a 10% market share.

Specific Products

Paracetamol

- Business impacted by supplier issues, but it is now recovering.
- Expected revenue from Paracetamol in the US: 10-12% of the company's total revenue.
- Competitive advantage: 10% margin.

Partnerships and Competitive Advantages in Spain

- Front-end partners: In Spain and other regions, for marketing & distribution, the company does not have representatives.

Valuation and Outlook

IRL's revenue is expected to clock 12.9% CAGR over FY23-FY26E mainly on the back of growth in DM Export Formulations business and new launches in the Domestic market along with growth in EMs. We are building in 18.2% CC CAGR over FY23-FY26E for the US market despite EIR on Goa Plant II. The Domestic Formulations business is expected to clock 9.3% CAGR over FY23-FY26E to Rs10.4bn mainly on the back of increased focus on new launches and the Chronic segment. EBITDA margin is expected to be ~16-18%. Net profit is expected to clock 19% CAGR over FY23-FY26E, mainly driven by an improvement in operational performance and higher other income.

The company is currently trading at 17.7x/13x PE on FY25E/FY26E and 9.3x/7.3x EV/EBITDA on FY25E/FY26E. We estimate free cash flow (FCF) generation of ~Rs1bn over FY25E-FY26E with minimal capex requirements. ROE/ROCE will remain decent at 17.6%/15% by FY26E. We like IRL due to high contribution from the Domestic market and robust Complex Products portfolio for the US market. However, we are concerned about the company's continued disappointing performance in the Domestic market. Besides, it is highly dependent on certain niche launches for growth in the US market. Also, the macroeconomic issues like Red Sea conflict directly affect the company's bottomline as freight costs increase. Hence, we maintain ACCUMULATE rating on IRL with a TP of Rs344, valuing it at 14x FY26E EPS.

Exhibit 1: One-year Rolling Forward P/B Chart



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

Financial statements

Exhibit 2: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	15,408	16,686	18,173	20,899	24,034
% growth	24.1	8.3	8.9	15.0	15.0
Raw Material	4,568	5,213	5,592	6,270	7,482
Staff	2,937	3,226	3,619	3,981	4,300
R&D	746	809	972	1,045	1,202
Other expenses	3,883	4,577	5,547	6,102	6,712
Total Expenditure	12,134	13,825	15,730	17,398	19,695
Gross Profit	10,840	11,473	12,581	14,629	16,552
% growth	22.1	5.8	9.7	16.3	13.1
EBITDA	3,273	2,862	2,443	3,501	4,339
% growth	46.0	-12.6	-14.6	43.3	23.9
EBITDA margin (%)	21.2	17.1	13.4	16.8	18.1
Other income	23	23	99	104	120
Interest	141	250	380	218	215
Depreciation	790	706	919	891	956
PBT	2,366	1,929	1,358	2,381	3,172
% growth	79.2	-18.5	-29.6	75.3	33.2
Tax	818	506	388	571	761
Effective tax rate (%)	34.6	26.2	28.6	24.0	24.0
Net Profit	1,548	1,423	970	1,809	2,411
% growth	66.4	-8.1	-31.8	86.5	33.2
EPS (Rs)	16.8	15.4	8.9	18.0	24.6
% growth	66.4	-8.1	-42.1	101.8	36.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Equity	184	184	184	184	184
Reserves	8,862	10,098	10,921	12,436	14,553
Net worth	9,046	10,283	11,105	12,620	14,737
Provisions/ other LT liabilities	501	558	608	679	751
Total loans	2,442	3,145	2,953	2,730	2,691
Liabilities	12,096	14,047	14,727	16,091	18,241
Net block	5,206	5,952	7,726	6,892	7,264
Capital work-in-progress	528	554	1,029	554	554
Intangible assets	233	661	1,661	447	447
LT loans & advances	14	29	31	31	31
Other LT assets	1,144	1,305	1,454	1,922	1,922
Inventories	3,105	3,260	3,531	4,262	5,086
Debtors	2,972	3,509	4,062	4,032	4,637
Cash	198	133	243	-322	376
Other current assets	1,461	1,179	1,806	2,047	2,343
Total current assets	7,736	8,082	9,641	10,019	12,441
Trade payables	1,333	1,235	2,417	1,829	2,183
Other current liabilities/provisions	1,433	1,301	4,398	1,943	2,235
Total current liabilities	2,765	2,535	6,815	3,773	4,418
Net current assets	4,971	5,547	2,827	6,246	8,023
Total assets	12,096	14,047	14,727	16,091	18,241

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PBT	2,366	1,928	1,358	2,381	3,172
(Inc.)/Dec. in working capital	(1,088)	(732)	2,892	-3,985	-1,080
Cash flow from operations	1,278	1,196	4,250	-1,604	2,092
Other income	82	503	-99	-104	-120
Depreciation	790	706	919	891	956
Tax paid (-)	(411)	(617)	-388	-571	-761
Net cash from operations	1,738	1,788	4,683	-1,388	2,167
Capital expenditure (-)	(1,244)	(2,061)	-2,926	568	-1,179
Net cash after capex	495	-273	1,757	-820	988
Other investing activities	30	(21)	-1,315	701	-30
Cash from Financial Activities	(444)	228	-144	-299	-115
Change in Cash	104	(41)	298	-419	843
Opening cash balance	94	175	133	243	-322
Closing cash balance	198	133	431	-176	522

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

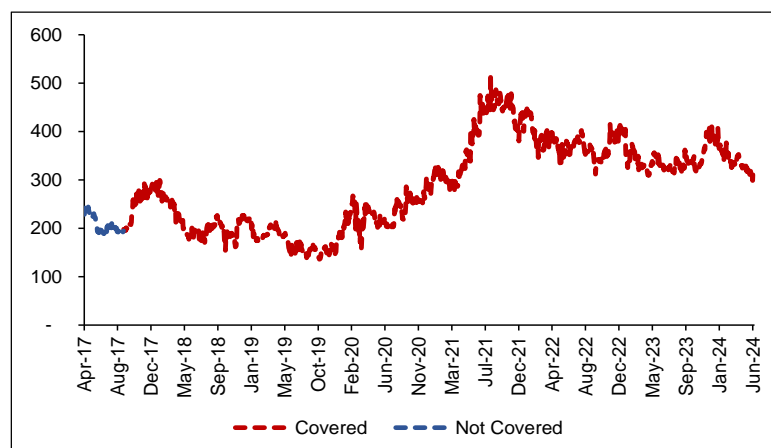
Y/E March	FY22	FY23	FY24	FY25E	FY26E
Profitability & Return ratios					
EBITDA margin (%)	21.2	17.1	13.4	16.8	18.1
EBIT margin (%)	16.1	12.9	8.4	12.5	14.1
Net profit margin (%)	10.0	8.5	5.3	8.7	10.0
ROE (%)	18.5	14.7	9.1	15.3	17.6
ROCE (%)	14.6	12.2	7.6	12.9	15.0
Working capital & Liquidity ratios					
Receivables (days)	63	71	76	71	66
Inventory (days)	219	223	222	227	228
Payables (days)	98	90	119	124	98
Working capital days	184	204	178	174	196
Current ratio (x)	2.8	3.2	1.4	2.7	2.8
Quick ratio (x)	1.7	1.9	0.9	1.5	1.7
Leverage ratios					
Net Debt/Equity (x)	0.2	0.3	0.2	0.2	0.2
Interest Cover (x)	17.6	8.6	4.0	11.9	15.7
Net Debt/EBITDA (x)	0.7	1.1	1.1	0.9	0.5
Valuation ratios					
EV/Sales (x)	2.1	1.9	1.8	1.6	1.3
EV/EBITDA (x)	9.7	11.3	13.1	9.3	7.3
P/E (x)	19.0	20.7	35.8	17.7	13.0
P/BV (x)	3.3	2.9	2.7	2.3	2.0

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 March 2023	Buy	320	427
23 May 2023	Accumulate	339	380
25 July 2023	Accumulate	323	352
20 October 2023	Accumulate	323	352
24 January 2024	Accumulate	369	363
17 May 2024	Accumulate	320	344
12 June 2024	Accumulate	324	344

Rating Track Graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010