Indoco Remedies SELL

Pharmaceuticals | Q2FY26 Result Update

CMP: Rs.264 | TP: Rs 224 | Downside 15%

Expect a gradual recovery

- **INDR's Q2FY26 earnings came above estimates. EBITDA margin was above our estimates mainly due to better-than-expected gross margin and lower-than-expected other expenses.**
- **Goa plant II remediation is complete, and the company has invited the USFDA for inspection. Any incremental sales from the lines that were restarted will reflect gradually.**
- **We downgrade our FY26E/FY27E EBITDA estimates by 34.2%/9.6%, assuming higher other expenses. We roll over to FY28E and maintain 'SELL' rating with a revised TP of Rs 224 at 16x FY28E P/E.**

Domestic growth in line

Domestic business, including Warren Remedies, was flat YoY (in line with our est). Excluding Warren Remedies, it declined 3.6%. Decline was on account of the GST revision that impacted sales in the month of Sep'25. Warren Remedies declined 7.3% sequentially and grew 40% YoY. We believe India formulations business will start performing with the acute segment coming back on track, along with traction in the chronic and sub-chronic portfolio from FY26E. Accordingly, we expect a domestic revenue CAGR of 8% over FY25-28E.

Strong US growth, while EU sales decline

US revenue grew 36.0%/19.0% YoY/QoQ in Q2FY26 (above estimates). Growth was mainly driven by oral solids with Glimepiride and Allopurinol doing well. We expect US revenue CAGR of 27% over FY25-28E on a low base with sales gradually picking up from Q4FY26. EU growth declined 8.7%/13.8% YoY/QoQ in Q2, due to challenges with a particular product at the distribution level. But growth is expected to return in the coming quarters with the completion of the MMP (Master Manufacturing Plan). Expect EU revenue CAGR of 14% over FY25-28E.

Valuation

We believe domestic business will recover with major brands recovering and focusing on chronic traction. However, recovery in the US will be gradual, due to the ongoing remediation activity in the Goa II plant and the associated costs, coupled with subsidiary losses, which will likely delay margin recovery. We introduce FY28 earnings and maintain our 'SELL' rating with a revised target price of Rs224 at 16x FY28E P/E. **Key Upsides:** USFDA Clearance of Goa plant II will give scope for re-rating on the stock.

DOLAT CAPITAL
IN-DEPTH-PRECISE-ACTIONABLE

Key Data

Nifty	25,510
Equity / FV	Rs 185mn / Rs 2
Market Cap	Rs 24bn
	USD 276.0mn
52-Week High/Low	Rs 355/ 190
Avg. Volume (no)	174,973
Bloom Code	INDR IN

	Current	Previous
Rating	**SELL**	**SELL**
Target Price	**224**	**208**

Change in Estimates

(Rs.bn)	Current		Chg (%)/bps	
	FY26E	FY27E	FY26E	FY27E
Revenue	17.8	20.7	(5.7)	(4.7)
EBITDA	1.4	3.1	(34.2)	(9.6)
EBITDA (%)	8.1	14.8	(350)	(80)
APAT	(0.4)	0.9	(218.2)	(28.9)
EPS (Rs)	(4.0)	9.4	(218.2)	(28.9)

Valuation (x)

	FY26E	FY27E	FY28E
P/E	N.A	28.0	18.9
EV/EBITDA	22.9	10.5	8.6
ROE (%)	(3.8)	8.5	11.5
RoACE (%)	2.1	8.2	9.9

Q2FY26 Result (Rs Mn)

Particulars	Q2FY26	YoY (%)	QoQ (%)
Revenue	4,847	12.0	10.7
Total Expense	4,416	12.5	5.1
EBITDA	430	7.0	145.6
Depreciation	323	11.9	8.6
EBIT	108	(5.5)	(188.7)
Other Income	8	(51.3)	(53.4)
Interest	246	37.7	(6.0)
EBT	(135)	N.A	N.A
Tax	(43)	N.A	N.A
RPAT	(79)	N.A	N.A
APAT	(74)	N.A	N.A
		(bps)	(bps)
Gross Margin	70.0	163	84
EBITDA (%)	8.9	(42)	488
NPM (%)	N.A	N.A	N.A
Tax Rate (%)	N.A	N.A	N.A
EBIT (%)	2.2	(41)	501

Rashmi Shetty
+9122 40969724
rashmis@dolatcapital.com

Candice Pereira
candicep@dolatcapital.com

Zain Gulam Hussain
zain@dolatcapital.com

Exhibit 1: Actual vs DART estimates

Particulars (Rs mn)	Q2FY26	Q2FY26E	Variance (%)	Comment
Revenue	4,847	4,466	8.5	Above estimates due to better-than-expected Exports and API sales
EBITDA	430	210	105.1	Above estimates due to higher sales, better gross margin and lower other expenses
EBITDA margin (%)	8.9	4.7	418bps	
PAT	-74	-274	N.A	Above estimates due to better-than-expected operating performance.
EPS (Rs)	-0.8	-3.0	N.A	

Source: Company, Dolat Capital

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY26E			FY27E		
	Old	New	Chg (%)	Old	New	Chg (%)
Revenue	18875	17793	(5.7)	21732	20702	(4.7)
EBITDA	2189	1441	(34.2)	3390	3064	(9.6)
EBITDA Margin (%)	11.6	8.1	(350bps)	15.6	14.8	(80bps)
PAT	311	(368)	N.A	1227	872	(28.9)
EPS (Rs)	3.4	(4.0)	N.A	13.3	9.4	(28.9)

Source: Company, Dolat Capital

Exhibit 3: Quarterly revenue mix

Particulars (Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	H1FY26	H1FY25	YoY (%)
Formulations	4,088	3,818	7.1	3,738	9.4	7,825	7,630	2.6
Domestic	2,554	2,556	(0.1)	2,344	9.0	4,898	4,797	2.1
Exports	1,534	1,262	21.5	1,394	10.1	2,927	2,833	3.3
- Regulated markets	916	866	5.7	950	(3.6)	1,866	2,139	(12.8)
- Semi-regulated markets	618	396	56.1	443	39.4	1,061	694	52.9
API	431	302	42.7	366	17.8	797	614	29.8
CRO	68	36	88.9	50	36.0	118	93	26.9
Other operating Income	128	20	542.0	88	45.7	217	92	135.3
Total revenue	**4,715**	**4,176**	**12.9**	**4,242**	**11.2**	**8,957**	**8,429**	**6.3**

Source: Company, Dolat Capital

Exhibit 4: Annual revenue assumption table

(Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Formulation	16,081	14,353	15,649	18,332	20,775
% of Sales	89.8	89.2	88.0	88.6	88.8
% YoY	3.7	(10.7)	9.0	17.1	13.3
- India	8,448	9,342	9,809	10,790	11,869
% of Sales	47.2	58.1	55.1	52.1	50.7
% YoY	6.0	10.6	5.0	10.0	10.0
- Export	7,633	5,011	5,840	7,542	8,906
% of Sales	42.6	31.1	32.8	36.4	38.1
% YoY	1.3	(34.4)	16.6	29.1	18.1
- Regulated	5,772	3,609	3,877	5,187	6,079
% of Sales	32.2	22.4	21.8	25.1	26.0
% YoY	(5.5)	(37.5)	7.4	33.8	17.2
- Semi-regulated	1,861	1,402	1,963	2,355	2,826
% of Sales	10.4	8.7	11.0	11.4	12.1
% YoY	29.9	(24.7)	40.0	20.0	20.0
API	1,265	1,300	1,583	1,741	1,915
% of Sales	7.1	8.1	8.9	8.4	8.2
% YoY	78.9	2.8	21.8	10.0	10.0
- India	533	527	617	678	746
% of Sales	3.0	3.3	3.5	3.3	3.2
% YoY	60.7	(1.1)	17.0	10.0	10.0
- Outside India	732	773	966	1063	1169
% of Sales	4.1	4.8	5.4	5.1	5.0
% YoY	95.1	5.7	25.0	10.0	10.0
CRO	274	200	230	265	304
% of Sales	1.5	1.2	1.3	1.3	1.3
% YoY	60.6	(26.9)	15.0	15.0	15.0
Other Operating Income	291	236	331	364	400
% of Sales	1.6	1.5	1.9	1.8	1.7
% YoY	1.8	(18.7)	40.0	10.0	10.0
Total	17,910	16,089	17,793	20,702	23,394

Source: Company, Dolat Capital

Earnings Call KTAs

Guidance

- The company lowered its R&D guidance of 5%-5.5% to 4-5% in FY26.
- Domestic business to grow in high single digits in H2FY26.
- Europe sales for FY26 will be in the range of Rs 2.3-2.5bn.
- The company will repay borrowings worth Rs 520mn in H2FY26 and Rs 1.4bn in FY27.

India business

- **Therapy performance:** Therapies like Anti-infectives and Respiratory performed well during the quarter, while Stomatologicals, Gastro and Dermatology underperformed.
- **Brand performance:** Brands like Febrex Plus, Oxipod, ATM performed well while Cital and Cyclopam witnessed a decline.
- **IQVIA:** As per IQVIA's prescription ranking, the company ranked 20th in the IPM (Sep'25). As per IQVIA, the company ranked 31st in the IPM (Sep'25) with a market share of 0.56%.
- **New launches:** The company launched six new products during the quarter. (a) Vepazil 250 & 500 tab, (b) Tuspel AA Tab, (c) Braceness Toothpaste, (d) Multifibro Capsule, (e) Toco Fibro Capsule and (f) Cital line extension
- **Warren Remedies:** OTC revenue for the quarter was Rs 293mn. During the quarter, sales declined due to the GST impact. The company will continue to invest in the OTC business as it has good potential for profitability and growth. The API intermediates business of WRL is being used for internal consumption by Indoco Remedies.
- **MR Strategy:** The company will not be adding more MRs in this segment as it will concentrate on sales in the metros and major cities.

US Business

- **Segment performance:** US sales for the quarter were Rs 336mn.
- **Regulatory Update:** INDR received final ANDA approval from the USFDA for Rivaroxaban Tablets.
- **Goa Plant-II:** The USFDA allowed the company to restart a couple of lines in the Goa II sterile facility. The company has several approved products and filings from this site. The two lines that were started were for injectables and ophthalmics. Remediation has been completed, and the company has invited the USFDA to inspect the facility.
- **FPP:** FPP Holding Company in the US is the company's subsidiary that acts as a front end for the company in the US. It is the company's distributor in the US.

EU Business & other businesses

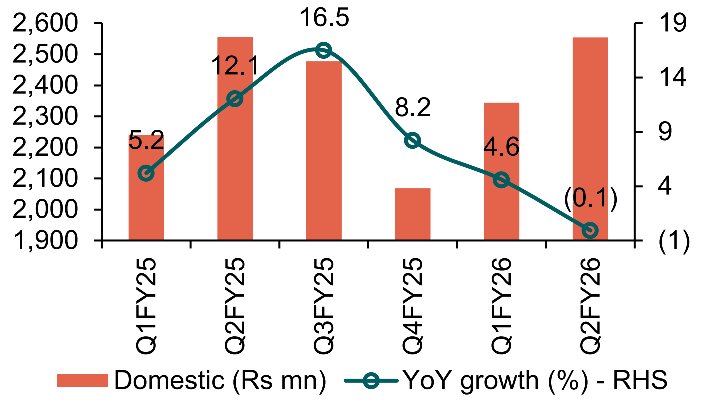
- **EU business:** EU sales for the quarter were Rs 547mn. Sales declined due to distribution-level challenges resulting from MMP. With the completion of MMP, a gradual recovery in sales is expected.
- **EM business:** Emerging Markets saw strong growth during the quarter at 56.1%. The company expects to add feet on the ground in this business.

Other highlights

- **Borrowings:** Interest expenses have increased as the company invested heavily on MMP, Goa Plant-II remediation and capex for the WPL plant. It will repay Rs 520mn worth of loan in H2FY26 and Rs 1.4bn in FY27.
- **Other Expenses:** Recurring expenses have been kept under control. However, sales promotion expenses have gone up along with advertising expenses. Other expenses are expected to be elevated with investment going towards OTC.
- **Clarity Pharma:** Indoco Remedies partnered with Clarity Pharma, a UK-based distributor, to expand its presence in the UK market. Under the agreement, Indoco will launch approximately 15 pharmaceutical products in the UK, out of which 4-5 products have been introduced in the UK market.

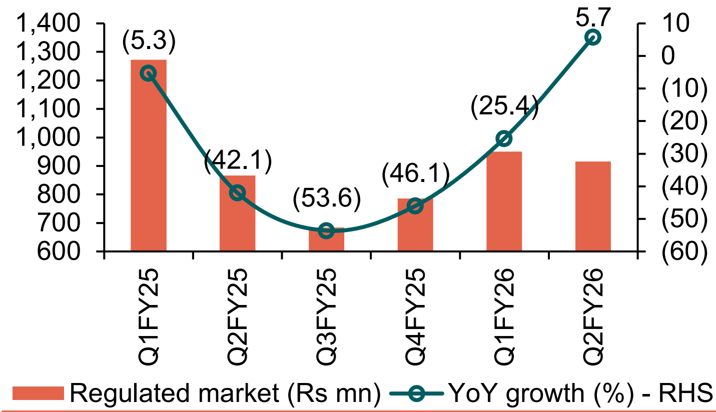
Story in Charts

Exhibit 1: GST impacts growth



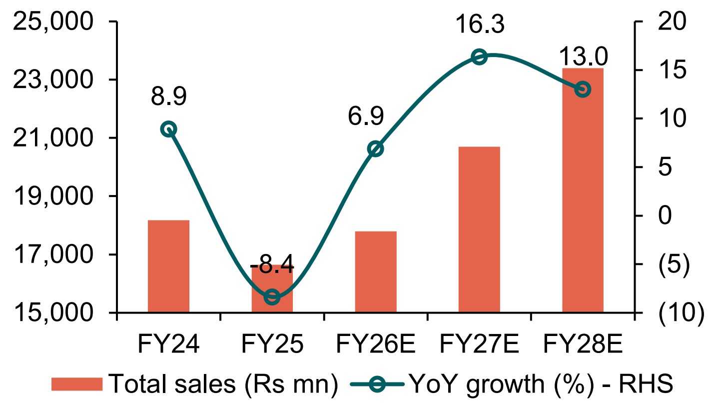
Source: Company, Dolat Capital

Exhibit 2: Strong US growth



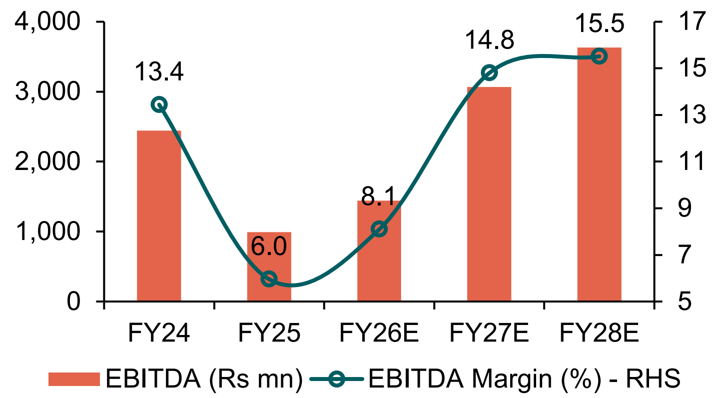
Source: Company, Dolat Capital

Exhibit 3: Revenue CAGR of 12% over FY25-FY28E



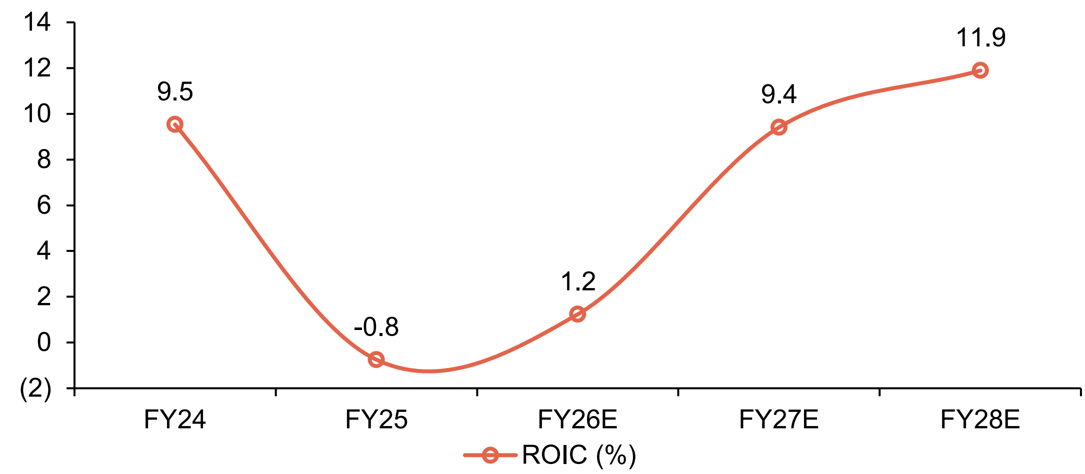
Source: Company, Dolat Capital

Exhibit 4: EBITDA margin to improve gradually



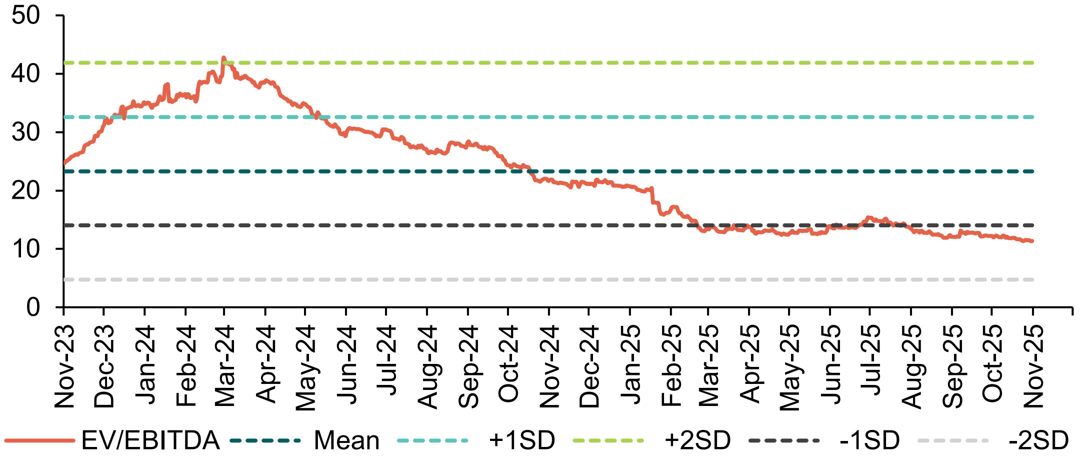
Source: Company, Dolat Capital

Exhibit 5: ROIC to expand gradually with improving profitability



Source: Company, Dolat Capital

Exhibit 6: One year forward EV/EBITDA band



Source: Company, Dolat Capital

Financial Performance

Profit and Loss Account

(Rs Mn)	FY25A	FY26E	FY27E	FY28E
Revenue	**16,649**	**17,793**	**20,702**	**23,394**
Total Expense	**15,657**	**16,352**	**17,638**	**19,765**
COGS	4,982	5,320	6,045	6,898
Employees Cost	3,940	4,003	4,451	5,030
Other expenses	6,734	7,028	7,142	7,837
EBIDTA	**993**	**1,441**	**3,064**	**3,629**
Depreciation	1,138	1,198	1,257	1,316
EBIT	**(146)**	**244**	**1,807**	**2,313**
Interest	662	797	716	667
Other Income	55	63	72	83
Exc. / E.O. items	10	(5)	0	0
EBT	**(744)**	**(496)**	**1,163**	**1,729**
Tax	36	(124)	291	432
Minority Interest	(42)	8	8	0
Profit/Loss share of associates	0	0	0	0
RPAT	**(737)**	**(380)**	**864**	**1,297**
Adjustments	(53)	12	8	0
APAT	**(790)**	**(368)**	**872**	**1,297**

Balance Sheet

(Rs Mn)	FY25A	FY26E	FY27E	FY28E
Sources of Funds				
Equity Capital	184	185	185	185
Minority Interest	(36)	(28)	(20)	(20)
Reserves & Surplus	10,035	9,621	10,447	11,698
Net Worth	**10,220**	**9,806**	**10,632**	**11,882**
Total Debt	9,780	8,859	7,959	7,409
Net Deferred Tax Liability	703	778	863	962
Total Capital Employed	**20,668**	**19,415**	**19,434**	**20,233**
Applications of Funds				
Net Block	**9,820**	**9,559**	**9,242**	**8,869**
CWIP	3,354	3,354	3,354	3,354
Investments	1,075	980	901	911
Current Assets, Loans & Advances	**10,050**	**9,778**	**10,674**	**12,232**
Current Investments	0	0	0	0
Inventories	4,194	3,900	4,254	4,807
Receivables	3,524	3,656	4,254	4,807
Cash and Bank Balances	171	264	184	611
Loans and Advances	69	72	78	84
Other Current Assets	2,092	1,886	1,905	1,923
Less: Current Liabilities & Provisions	**3,632**	**4,256**	**4,738**	**5,134**
Payables	2,081	2,195	2,368	2,437
Other Current Liabilities	1,550	2,061	2,370	2,697
sub total				
Net Current Assets	6,418	5,521	5,936	7,098
Total Assets	**20,668**	**19,415**	**19,434**	**20,233**

E – Estimates

Important Ratios

Particulars	FY25A	FY26E	FY27E	FY28E
(A) Margins (%)				
Gross Profit Margin	70.1	70.1	70.8	70.5
EBIDTA Margin	6.0	8.1	14.8	15.5
EBIT Margin	(0.9)	1.4	8.7	9.9
Tax rate	(4.8)	25.0	25.0	25.0
Net Profit Margin	(4.4)	(2.1)	4.2	5.5
(B) As Percentage of Net Sales (%)				
COGS	29.9	29.9	29.2	29.5
Employee	23.7	22.5	21.5	21.5
Other	40.4	39.5	34.5	33.5
(C) Measure of Financial Status				
Gross Debt / Equity	1.0	0.9	0.7	0.6
Interest Coverage	(0.2)	0.3	2.5	3.5
Inventory days	92	80	75	75
Debtors days	77	75	75	75
Average Cost of Debt	8.1	8.6	8.5	8.7
Payable days	46	45	42	38
Working Capital days	141	113	105	111
FA T/O	1.7	1.9	2.2	2.6
(D) Measures of Investment				
AEPS (Rs)	(8.5)	(4.0)	9.4	14.0
CEPS (Rs)	3.8	9.0	23.0	28.3
DPS (Rs)	1.5	0.5	0.5	0.5
Dividend Payout (%)	(17.5)	(12.6)	5.3	3.6
BVPS (Rs)	110.5	106.0	115.0	128.5
RoANW (%)	(6.9)	(3.8)	8.5	11.5
RoACE (%)	(0.7)	2.1	8.2	9.9
RoAIC (%)	(0.8)	1.2	9.4	11.9
(E) Valuation Ratios				
CMP (Rs)	264	264	264	264
Mcap (Rs Mn)	24,456	24,456	24,456	24,456
EV	34,066	33,051	32,231	31,254
MCap/ Sales	1.5	1.4	1.2	1.0
EV/Sales	2.0	1.9	1.6	1.3
P/E	N.A	N.A	28.0	18.9
EV/EBITDA	34.3	22.9	10.5	8.6
P/BV	2.4	2.5	2.3	2.1
Dividend Yield (%)	0.6	0.2	0.2	0.2
(F) Growth Rate (%)				
Revenue	(8.4)	6.9	16.3	13.0
EBITDA	N.A	45.2	112.6	18.5
EBIT	N.A	N.A	641.6	28.0
PBT	N.A	N.A	N.A	48.7
APAT	N.A	N.A	N.A	48.7
EPS	N.A	N.A	N.A	48.7

E – Estimates

Cash Flow

Particulars	FY25A	FY26E	FY27E	FY28E
Profit before tax	**(798)**	**(559)**	**1,091**	**1,646**
Depreciation & w.o.	1,138	1,198	1,257	1,316
Net Interest Exp	662	797	716	667
Direct taxes paid	(5)	124	(291)	(432)
Change in Working Capital	(484)	1,988	(330)	(647)
Non Cash	0	0	0	0
(A) CF from Operating Activities	**514**	**3,548**	**2,443**	**2,550**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(3,522)	(937)	(940)	(943)
Free Cash Flow	**(3,008)**	**2,611**	**1,503**	**1,607**
(Inc)./ Dec. in Investments	0	0	0	0
Other	55	63	72	83
(B) CF from Investing Activities	**(3,467)**	**(874)**	**(868)**	**(860)**
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	3,628	(1,750)	(900)	(550)
Interest exp net	(662)	(797)	(716)	(667)
Dividend Paid (Incl. Tax)	(138)	(46)	(46)	(46)
Other	53	12	8	0
(C) CF from Financing	**2,881**	**(2,580)**	**(1,655)**	**(1,263)**
Net Change in Cash	(72)	94	(80)	427
Opening Cash balances	**243**	**171**	**264**	**184**
Closing Cash balances	**171**	**264**	**184**	**611**

E – Estimates

Notes

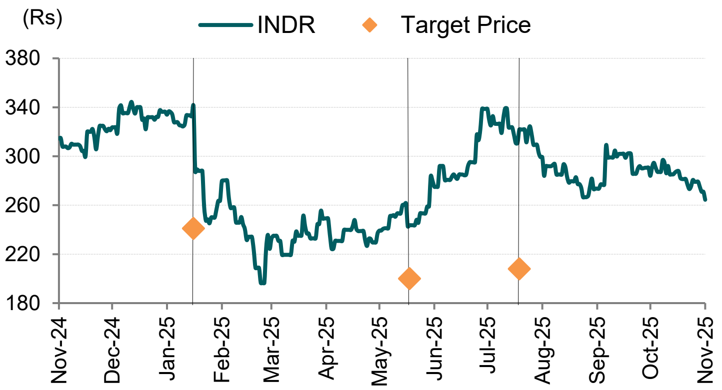
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	(7)	(12)	(16)
Rel to NIFTY (%)	(9)	(15)	(20)

Shareholding Pattern

Particulars	Mar'25	Jun'25	Sep'25
Promoters	58.9	58.9	58.9
MF/Banks/FIs	18.8	19.0	18.2
FIIs	1.2	1.2	1.3
Public / Others	21.1	20.9	21.6



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-25	SELL	241	341
May-25	SELL	200	244
Jul-25	SELL	208	322

**Price as on recommendation date*

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Dolat Team

Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**
	CONTACT DETAILS		
Equity Sales	**Designation**	**E-mail**	**Direct Lines**
Dinesh Bajaj	Director - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	Director - Equity Sales & Corporate Access	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	Director - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Nikhil Thacker	Director - Equity Sales	nikhilt@dolatcapital.com	+9122 4096 9773
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	Director and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	Director - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	Director - Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Director - Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Nishit Sariya	VP - Derivatives Sales Trading	nishits@dolatcapital.com	+9122 4096 9765
Monali Jobanputra	Co - Head Asia Derivatives	monalij@dolatcapital.com	+9122 6176 4841
Bhavin Mehta	Director Research - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

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Member: BSE Limited and National Stock Exchange of India Limited.
SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012
Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com