

Current	Previous
CMP : Rs.367	Rating : BUY
Rating : HOLD	Target : Rs.392
Target : Rs.392	Achieved

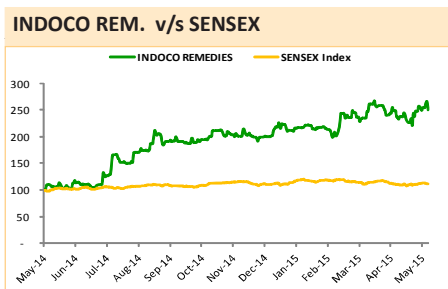
STOCK INFO	
BSE	532612
NSE	INDOCO
Index	S&P BSE 500
Bloomberg	INDR IN
Reuters	INRM.NS
Sector	Pharmaceutical
Face Value (Rs)	2
Equity Capital (Rs mn)	184
Mkt Cap (Rs mn)	33,907
52w H/L(Rs)	413 / 145
Avg Daily Vol (BSE+NSE)	180,089

SHAREHOLDING PATTERN	%
(as on Mar. 2015)	
Promoters	59.3
FII's	8.3
DII's	10.9
Public & Others	21.6

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
INDOCO REMEDIES	5.8	24.0	147.4
SENSEX	0.6	(6.1)	12.3

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

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Indoco Remedies' (INDR IN) financial performance was below our estimates, led by lower-than-expected sales growth in exports and higher-than-expected other expenses. The overall performance was driven by strong growth in domestic formulation (DF) segment. We maintain our sales and adjusted PAT estimates for FY16 and FY17 as outlook remains intact. We expect earnings in FY16E and FY17E to be driven by increased business, under Watson agreement in US, own dossier filing in Europe and better-than-industry growth in domestic formulation market. At CMP of Rs367, the stock is trading at 22.4x FY16E EPS of Rs16.4 and 18.8x FY17E EPS of Rs19.5. We continue to value INDR at 20x FY17E earnings to arrive at price target of Rs392. However, we downgrade INDR to HOLD rating on the basis of limited upside from current levels.

Rs.mn	Q4FY15	Q4FY14	Y-y (%)	Q3FY15	Q-q (%)	INSPL Est	Variance(%)
Revenue	2,115	1,859	13.8	2,129	(0.7)	2,263	(6.5)
EBITDA	389	351	10.9	390	(0.1)	464	(16.1)
Adjusted PAT	219	224	(2.1)	216	1.2	246	(11.1)
PAT	187	186	0.8	216	(13.5)	246	(24.1)

Source: Company Filings; IndiaNivesh Research

Though DF was the driver for Q4FY15, it was exports led growth for FY15:

Net sales grew by 13.8% y-y to Rs2.1bn for Q4FY15. Y-y sales growth was driven mainly by DF segment, which grew by 16.7% for the quarter. Y-y growth in exports was moderate at 9.9% y-y due to nominal y-y growth of 2.3% y-y in exports-regulated market, which formed 83% of exports-formulation. Low growth in exports-regulated market is mainly due to high base of past year. Exports-emerging market grew at strong rate of 73.8% y-y due to low base of past year. Gross margin improved 61bps y-y to 67.6% due to superior product mix in Q4FY15. However, EBITDA margin declined by 49bps y-y due to higher other expenses. Other operating income had forex loss of Rs31.9mn for the quarter. Adjusting for forex loss, PAT was Rs219mn for the quarter.

Though DF was the driver for Q4FY15, it was exports led growth for FY15. Net sales grew by 18.5% y-y to Rs8.5bn. Exports-formulation grew by 25.6% y-y and DF grew by 15% y-y in FY15.

Management has guided for 20% y-y growth in sales for FY16. This guidance excludes income from products under Watson agreement, which has received tentative approval. INDR has guided for capex of Rs1.25bn for FY16. The capex is mainly for setting up pilot plant and replicating API plant at Patalganga.

DF sales y-y growth on uptrend after two quarters of downtrend:

DF sales grew at better-than-industry growth at 16.7% y-y to Rs1.2bn for Q4FY15. The y-y growth for the quarter was driven by Stomatologicals, Anti-infective, Pain and Vitamin segment, which grew by 19.4% y-y, 18.1% y-y, 17.1% y-y and 22.6% y-y, respectively.

DF sales grew by 15.1% y-y to Rs5bn for FY15. INDR launched 19 new products in FY15. Currently, MR strength is about 2700. INDR expects to add 500 MRs in FY16 for increased penetration and enhancing anti-obesity category. We expect INDR to outperform in DF category on the back of new product launches and increased penetration.

Sales in US market under Watson agreement is yet to pick up:

Exports formulation sales at Rs750mn grew at muted rate of 9.9% y-y for the quarter. This was due to high base of past year, which resulted in 2.3% y-y growth in exports for regulated market. There has been delay in pick-up in US sales under Watson

agreement. However, we remain confident of pick up in US sales in medium term on the back of approved product as well as on the basis of products which have received tentative approval. INDR has total cumulative filing of 24 ANDAs, (16 under Watson agreement and 8 own). INDR has 17 ANDAs pending for approval at the end of Q4FY15. INDR expects to file 6 ANDAs under Watson agreement and 4-5 own ANDAs in FY16. INDR had filed 7 dossiers for Europe market and is expected to file 12 in FY16.

USFDA inspection update:

During the quarter, INDR had USFDA inspection at its Kilo-lab facility at Rabale and API facility at Patalganga. The kilo-lab facility had zero 483 observations and API facility at Patalganga had one minor observation.

Valuation:

At CMP of Rs367, the stock is trading at 23.4x FY16E EPS of Rs15.7 and 19.5x FY17E EPS of Rs19.5. We maintain our estimates for FY16 and FY17 as outlook remains intact. We expect earnings in FY16E and FY17E to be driven by increased business, under Watson agreement in US, own dossier filing in Europe and better-than-industry growth in domestic formulation market. We continue to value INDR at 20x FY17E earnings to arrive at price target of Rs392. However, we downgrade INDR to HOLD rating on the basis of limited upside from current levels.

Quarterly financial summary

Rs mn	Q4FY15	Q4FY14	Y-y (%)	Q3FY15	Q-q (%)	FY15	FY14	Y-y (%)
Net Sales	2,115	1,859	13.8	2,129	(0.7)	8,508	7,174	18.6
Other operating income	15	16	NA	37	(59.5)	79	37	112.0
Consumption of raw material	685	613	11.7	777	(11.8)	3,004	2,691	11.6
Employee Cost	350	346	1.0	347	0.7	1,398	1,237	13.0
Manufacturing & Other Expenditure	617	507	21.8	566	9.1	2,296	2,004	14.6
R&D Expense	75	42		50		217	144	
Operating Expenses	1,726	1,508	14.5	1,740	(0.8)	6,914	6,076	13.8
EBITDA	389	351	10.9	390	(0.1)	1,594	1,098	45.2
Other income	4	10	(63.7)	2	85.0	17	17	0.6
Depreciation and Amortization	125	79	59.4	120	4.4	471	309	52.3
EBIT	283	298	(5.2)	309	(8.5)	1,219	843	44.6
Net Interest Expenses	22	35	(35.9)	27	(18.5)	106	188	(43.7)
Profit Before Tax	261	264	(1.1)	282	(7.5)	1,114	655	69.9
Tax	42	40	4.0	66	(36.3)	267	142	88.2
Net Profit After Tax	219	224	(2.1)	216	1.2	846	513	64.9
Minority Interest	-	-	NA	-	NA	-	-	NA
Adj. PAT	219	224	(2.1)	216	1.2	846	513	64.9
Adj. EPS (Rs)	1.3	1.3	(2.1)	1.3	1.2	5.0	3.0	64.9
EO items	(31.9)	(38.0)		-		(18.0)	66.0	
Reported PAT	187	186	0.8	216	(13.5)	828	579	43.0
Rep. EPS (Rs)	2.4	2.4	(2.1)	2.4	1.2	9.2	5.6	64.9

Source: Company Filings; IndiaNivesh Research

Key ratios

Adj Gross Margins	67.6	67.0	61	63.5	410	64.7	62.5	220
Adj EBITDA margin	18.4	18.9	(49)	18.3	10	18.7	15.3	343
Net Margin	10.3	11.9	(165)	10.0	30	9.9	7.1	274
Material cost/Net Sales	32.4	33.0	(61)	36.5	(410)	35.3	37.5	(220)
Employee Cost/ Net Sales	16.5	18.6	(209)	16.3	23	16.4	17.2	(82)
Other Expenditure/ Net Sales	29.2	27.3	191	26.6	262	27.0	27.9	(95)
Tax Rate	16.1	15.3	79	23.3	(727)	24.0	21.7	233

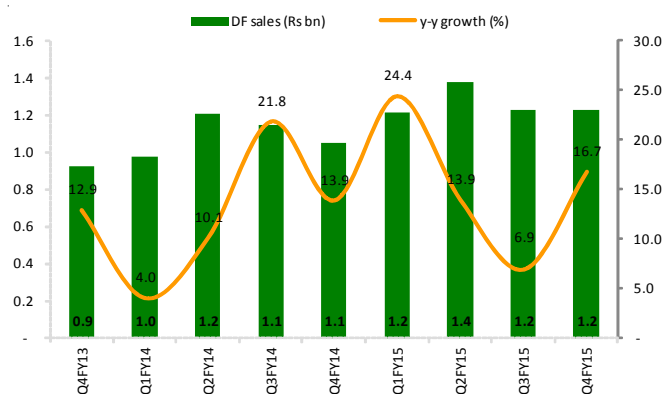
Source: Company Filings; IndiaNivesh Research

Sales breakdown

(Rs Mn)	Q4FY15	Q4FY14	Y-y (%)	Q3FY15	Q-q (%)	FY15	FY14	Y-y (%)
Formulations	1,980	1,736	14.1	1,997	(0.8)	7,950	6,697	18.7
Domestic	1,230	1,053	16.7	1,229	0.1	5,048	4,386	15.1
Exports	750	683	9.9	768	(2.3)	2,903	2,311	25.6
Reg	624	610	2.3	663	(5.9)	2,516	2,005	25.5
Semi Reg	127	73	73.8	105	20.8	387	307	26.3
APIs	130	117	10.8	129	0.8	518	460	12.7
Domestic	61	49	25.8	64	(4.1)	251	228	10.2
Exports	68	68	-	65	5.6	267	232	15.1
Trading/ Others	6	6	-	4	37.5	20	16	19.5
Total	2,115	1,859	13.8	2,129	(0.7)	8,488	7,174	18.3

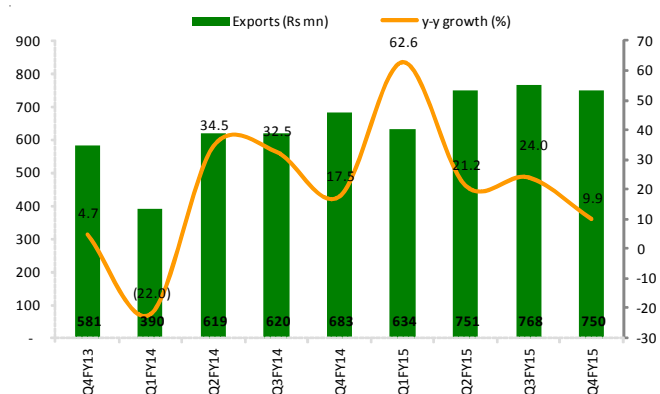
Source: Company Filings; IndiaNivesh Research

Y-y growth in DF sales back on uptrend



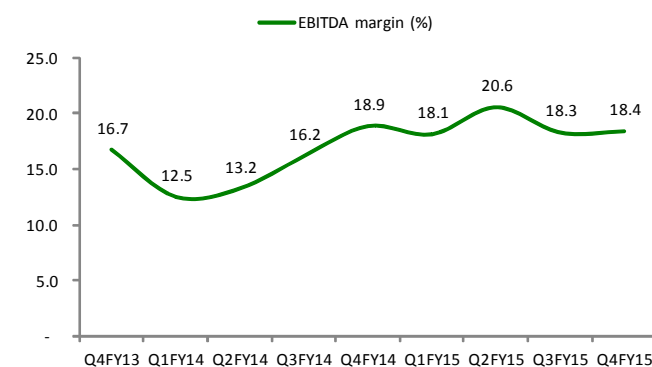
Source: Company Filings; IndiaNivesh Research

Exports grew at moderate rate on y-y basis



Source: Company Filings; IndiaNivesh Research

Though gross margin improved by 61bps y-y, EBITDA margin dipped by 49bps y-y to 18.4%



Source: Company Filings; IndiaNivesh Research

Financial Statements

Income statement

Y E March (Rs m)	FY13	FY14	FY15AE	FY16E	FY17E
Net sales	6,308	7,258	8,570	11,191	13,255
Growth %	10.9	15.1	18.1	30.6	18.4
Expenditure	5,381	6,122	6,914	8,864	10,427
Raw Material	2,626	2,720	3,004	3,950	4,626
Employee cost	1,079	1,295	1,398	1,802	2,121
Other expenses	1,677	2,107	2,513	3,112	3,680
EBITDA	927	1,136	1,655	2,327	2,828
Growth %	9.5	22.6	45.7	40.6	21.5
EBITDA Margin %	14.7	15.7	19.3	20.8	21.3
Depreciation	237	309	471	511	524
EBIT	690	827	1,184	1,816	2,304
EBIT Margin %	10.9	11.4	13.8	16.2	17.4
Other Income	15	18	17	20	23
Interest	92	103	106	93	139
PBT	612	742	1,096	1,743	2,188
Tax	58	143	267	296	394
Effective tax rate %	12	20	24	17	18
Extraordinary items	(126)	(18)	-	-	-
Less: Minority Interest	-	-	-	-	-
Adjusted PAT	428	581	828	1,446	1,794
Growth%	(7.7)	35.7	42.6	74.7	24.0
PAT margin %	7	8	10	13	14
Reported PAT	428	581	828	1,446	1,794
Growth%	(7.7)	35.7	42.6	74.7	24.0

Cash Flow

Y E March (Rs m)	FY13	FY14	FY15AE	FY16E	FY17E
PBT	612	742	1,096	1,743	2,188
Depreciation	237	309	471	511	524
Interest	92	103	106	93	139
Other non cash charges					
Changes in working capital	(126)	70	(269)	(411)	(788)
Tax	(58)	(143)	(384)	(296)	(394)
Cash flow from operations	758	1,081	1,018	1,640	1,669
Capital expenditure	(488)	(412)	(684)	(1,250)	(600)
Free Cash Flow	270	669	334	390	1,069
Investments	-	(0)	-	-	-
Cash flow from investments	(488)	(412)	(684)	(1,250)	(600)
Equity capital raised	62	-	-	-	-
Loans availed or (repaid)	62	(285)	(35)	-	600
Interest paid	(92)	(103)	(106)	(93)	(139)
Dividend paid (incl tax)	(119)	(151)	(253)	(170)	(548)
Others	(147)	(61)	7	35	(0)
Cash flow from Financing	(235)	(600)	(387)	(228)	(87)
Net change in cash	35	69	(52)	161	982
Cash at the beginning of the year	105	140	209	157	318
Cash at the end of the year	140	210	157	318	1,300

Source: Company Filings; IndiaNivesh Research

Balance Sheet

Y E March (Rs m)	FY13	FY14	FY15AE	FY16E	FY17E
Equity capital	184	184	184	184	184
Reserves and surplus	3,957	4,387	5,004	6,280	7,526
Total equity	4,144	4,574	5,191	6,467	7,713
Total debt	1,300	1,014	979	979	1,579
Minority interest	2	2	2	2	2
Total Liabilities	5,444	5,589	6,170	7,446	9,292
Fixed assets	3,592	3,694	4,022	4,761	4,837
Investments	1	2	2	2	2
Current assets	3,324	3,672	4,432	5,718	7,841
Cash	140	210	157	318	1,300
Inventory	932	1,102	1,491	1,993	2,360
Debtors	1,271	1,381	1,554	2,024	2,360
Other current assets	0	3	4	4	4
Current liabilities	1,127	1,475	2,018	2,733	3,085
Accounts payable	683	707	1,199	1,913	2,266
Provisions	217	359	410	410	410
Others	228	410	410	410	410
Deferred tax liability (net)	(348)	(305)	(271)	(305)	(305)
Total Assets	5,444	5,589	6,170	7,446	9,292

Key ratios

Y E March	FY13	FY14	FY15AE	FY16E	FY17E
EPS (Rs) Core	4.6	6.3	9.0	15.7	19.5
EPS Reported	4.6	6.3	9.0	15.7	19.5
Cash EPS (Rs)	7.2	9.7	14.1	21.2	25.2
DPS (Rs)	1.1	1.4	2.3	1.6	5.1
BVPS (Rs)	45.0	49.6	56.3	70.2	83.7
ROCE	9.8	11.7	16.3	22.4	22.3
ROE	10.3	12.7	16.0	22.4	23.3
Inventories Days	62.3	64.8	77.6	65.0	65.0
Sundry Debtors Days	72.5	68.5	65.5	66.0	65.0
Loans & Advances Days	56.0	48.4	51.7	45.0	50.0
Trades Payable Days	45.7	41.6	62.4	62.4	62.4
PER (x)	79.0	58.2	40.8	23.4	18.9
P/BV (x)	8.2	7.4	6.5	5.2	4.4
EV/EBITDA (x)	37.7	30.5	20.9	14.8	12.1
Dividend Yield %	-	-	-	-	-
m cap/sales (x)	5.4	4.7	3.9	3.0	2.6
net debt/equity (x)	0.3	0.2	0.2	0.1	0.0
net debt/ebitda (x)	1.3	0.7	0.5	0.3	0.1

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 SELL. We expect this stock to deliver <-15% returns over the next 12 months.
 Our target prices are on a 12-month horizon basis.

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