Indoco Remedies

Performance Highlights

Indoco Remedies (Indoco), having a strong domestic portfolio, reported 4QFY2010 numbers which were above our estimates. Net Sales came in at Rs108.9cr, up 28.1% driven by the Domestic and Export Formulation business, which grew 24.5% and 34.2%, respectively. Indoco reported OPM of 10.1%, which was below our expectation due to higher Raw Material expenses. The company reported Net Profit of Rs8.2cr. Given the strong demand going forward, the company has embarked on an aggressive capex plan. Indoco has indicated to incur capex of Rs95cr (around 35% of FY2010 GFA) in FY2011. **We maintain a Buy on the stock.**

Ahead of expectation: Indoco reported Net Sales of Rs108.9cr (Rs85.0cr), up 28.1% driven by the Domestic and Export Formulation Segment. On the Domestic front, the Formulation business grew by a strong 24.5% to Rs71.8cr (Rs57.7cr) on account of the traction seen in the Respiratory, Anti-infective, Dental and Alimentary Therapeutic Segments. On the Export front, the Formulation business grew by a healthy 34.2% to Rs31.2cr (Rs23.3cr) driven by growth in the Regulated market. Indoco clocked OPM of 10.1% (7.9%), up by 228bp yoy, but below our estimate on account of lower Gross Margins. The company reported Net Profit of Rs8.2cr (Rs3.9cr), which doubled on a yoy basis driven by Top-line growth, OPM expansion and lower Interest cost. For FY2010, the company clocked Revenue of Rs398.3cr (Rs350.6cr), up 13.6% yoy and flat OPM of 13.4% (13.2%).

Outlook and Valuation: Indoco has a strong brand portfolio of 120 products and a base of 1,600 medical representatives. The company now proposes to scale up its Exports through higher exposure to the Regulated markets. We expect Net Sales to post a CAGR of 16.1% to Rs536.8cr and EPS to clock a CAGR of 25.7% to Rs54.2 over FY2010-12E. At Rs412, the stock is trading at 10.4x and 7.6x FY2011E and FY2012E Earnings. We maintain a Buy on the stock, with a Target Price of Rs487.

BUY

CMP	Rs412
Target Price	Rs487
Investment Period	12 Months

Stock Info	
Sector	Pharmaceutical
Market Cap (Rs cr)	509
Beta	0.6
52 WK High / Low	433/120
Avg. Daily Volume	6410
Face Value (Rs)	10
BSE Sensex	17,745
Nifty	5,322
Reuters Code	INRM.BO
Bloomberg Code	INDR@IN

Shareholding Pattern (%)	
Promoters	60.5
MF/Banks/Indian FIs	11.5
FII/NRIs/OCBs	3.5
Indian Public	24.5

Abs. (%)	3m	1yr	3yr
Sensex	5.7	56.6	24.7
Indoco	62.5	177.4	41.0

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	350.6	398.3	454.8	536.8
% chg	*33.5*	*13.6*	*14.2*	*18.0*
Net Profit	31.4	42.1	48.5	66.5
% chg	*4.5*	*33.7*	*15.2*	*37.2*
EPS (Rs)	25.6	34.3	39.5	54.1
EBITDA Margin (%)	13.2	13.4	15.4	16.6
P/E (x)	16.1	12.0	10.4	7.6
RoE (%)	11.8	14.5	15.2	18.7
RoCE (%)	10.5	10.9	12.6	14.6
P/BV (x)	1.8	1.7	1.5	1.3
EV/Sales (x)	1.5	1.3	1.3	1.1
EV/EBITDA (x)	11.5	10.0	8.2	6.5

Source: Company, Angel Research.

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Exhibit 1: 4QFY2010 Performance

Y/E March (Rs cr)	4QFY2010	4QFY2009	% chg	FY2010	FY2009	% chg
Net Sales	108.9	85.0	*28.1*	398.3	350.6	*13.6*
Other Income	1.6	1.4	*0.1*	5.0	3.9	*0.3*
Total Income	110.5	86.4		403.3	354.6	*13.8*
PBIDT	11.0	6.7	*65.3*	53.2	46.2	*15.1*
OPM (%)	10.1	7.9		13.4	13.2	
Interest	0.7	1.3	*(44.2)*	2.9	5.9	*(50.3)*
Dep & Amortisation	3.4	3.0	*12.7*	12.1	11.2	*8.4*
PBT	6.9	2.4	*190.4*	43.2	33.1	*30.3*
Provision for Taxation	0.3	(0.1)	*-*	1.1	1.7	*(35.3)*
Reported Net Profit	8.2	3.9	*111.0*	42.1	31.4	*33.9*
EPS (Rs)	6.7	3.2		34.3	25.6	

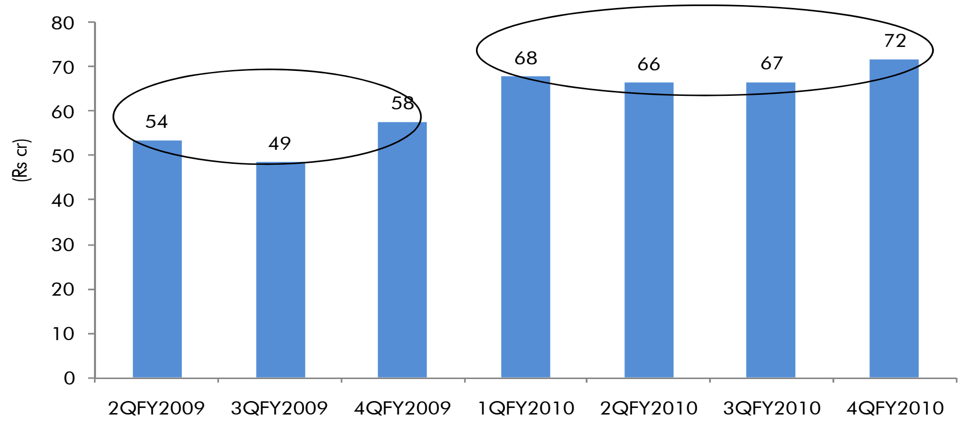
Source: Company, Angel Research

Key Highlights

Revenues up 28% driven by Domestic and Export business: Indoco reported Net Sales of Rs108.9cr (Rs85.0cr), up 28.1% driven by both the Domestic and Export Formulation Segment. For FY2010, the company clocked Revenue of Rs398.3cr (Rs350.6cr), up 13.6% yoy.

On the Domestic front, the Formulation business grew by a strong 24.5% to Rs71.8cr (Rs57.7cr) on account of the traction seen on the Respiratory, Anti-infective, Dental and Alimentary Therapeutic Segments. For FY2010, the Domestic Formulation Segment grew 13.0% to Rs270.7cr (Rs239.5cr).

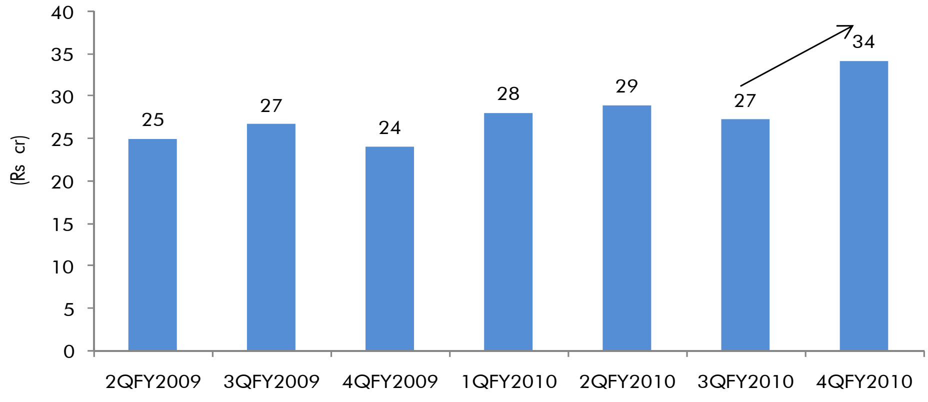
Exhibit 2: Domestic Formulations back on growth trajectory



Source: Company, Angel Research

On the Export front, the Formulation business grew by a healthy 34.2% to Rs31.2cr (Rs23.3cr) driven by the Regulated markets, which registered stellar growth of 38.6% to Rs24.1cr (Rs17.4cr). The semi-Regulated markets registered 21.3% yoy growth to Rs7.1cr (Rs5.9cr). For FY2010, the Export Formulation Segment clocked 15.1% yoy growth to Rs109.1cr (Rs94.8cr).

Exhibit 3: Export Sales gaining momentum



Source: Company, Angel Research

OPM expands but below expectation: Indoco clocked OPM of 10.1% (7.9%), which expanded by 228bp yoy, but lower than our estimate on account of lower Gross Margins. Raw Material cost for the quarter increased 64.5% to Rs48.0cr (Rs29.2cr) resulting in lower Gross Margins. Employee expenses for the quarter increased 14.6% to Rs14.9cr (Rs13.0cr), while Other Expenses were up 11.6% to Rs28.4cr (Rs25.4cr). For FY2010, the company reported flat OPM of 13.4% (13.2%).

Exhibit 4: OPM impacted by higher Raw Material costs

Source: Company, Angel Research

Bottom-line driven by Top-line growth: The company reported Net Profit of Rs8.2cr (Rs3.9cr), which doubled on a yoy basis driven by Top-line growth, OPM expansion and lower Interest cost. In 4QFY2010, Interest cost fell 44.2% to Rs0.7cr (Rs1.3cr). For FY2010, the company reported Net Profit of Rs42.1cr (Rs31.4cr), up 33.9% yoy with Interest cost declining 50.3% to Rs2.9cr (Rs 5.9cr) on lower Interest rate and better working capital management.

Other Takeaways

- For FY2011, the company expects the Domestic Formulation to grow by 20-25%, while Exports would register 30-35% yoy growth, which would result in composite Top-line growth of 23-28% with OPM in the range of 18-19%. However, we have conservatively factored in 14% growth in Top-line with OPM of 15.4% for FY2011E.

- On the capex front, the company plans to incur capex of Rs95cr (around 35% of FY2010 GFA) for building Formulation facilities at Goa and Waluj funded through Debt and Internal accruals to cater to the increased Export demand.

- On the Watson deal, the company plans to file its first ANDA in 1QFY2011E and would also book the milestone payment on the same.

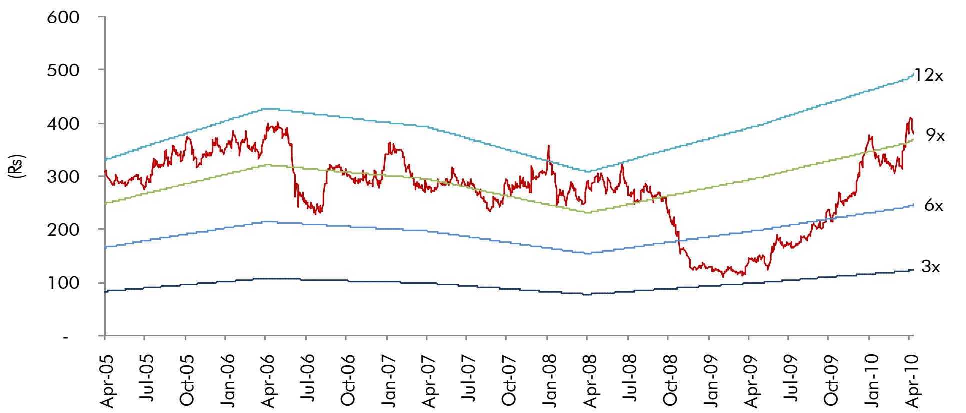
- As on FY2010, Indoco had Debt of Rs66cr and Cash of Rs30cr. Debtor days are at a comfortable 79days, down from 105 days as on FY2009.

Outlook and Valuation

Indoco has a strong brand portfolio of 120 products and a base of 1,600 medical representatives. The company operates in various Therapeutic segments including Anti-infective, Anti-diabetic, CVS, Ophthalmic, Dental care, Pain management and Respiratory. Prominent Indoco brands include *Cyclopam*, *Vepan*, *Febrex Plus*, *ATM*, *Sensodent-K* and *Sensoform*. The company's Top-10 brands contribute 60% of Domestic sales. Indoco now proposes to scale up its Exports through higher exposure to the Regulated markets. Recently, the company entered into a long-term agreement for supply of ophthalmic products with Watson (for the US markets) and Aspen (for the Emerging markets), which will contribute from FY2012E onwards.

We expect Net Sales to post CAGR of 16.1% to Rs536.8cr and EPS to clock CAGR of 25.7% to Rs54.2 over FY2010-12E. At Rs412, the stock is trading at 10.4x and 7.6x FY2011E and FY2012E Earnings, respectively. **We maintain a Buy on the stock, with a Target Price of Rs487, valuing the company at 9x (5-year historical average PE) FY2012E Earnings**

Exhibit 5: One-year forward PE Band



Source: C-line, Angel Research

Profit & Loss Statement (Rs cr)

Y/E March	FY2007	*FY2008	FY2009	FY2010E	FY2011E	FY2012E
Gross sales	344.2	271.9	355.1	402.4	460.9	543.7
Less: Excise duty	18.4	9.2	4.5	4.0	6.1	6.9
Net Sales	325.7	262.7	350.6	398.3	454.8	536.8
Other operating income	0.7	1.0	1.6	4.8	4.2	5.8
Total operating income	326.4	263.7	352 .3	403.2	459 .0	542.6
% chg	*34.1*	*(19.2)*	*33.6*	*14.4*	*13.9*	*18.2*
Total Expenditure	266.6	219.9	304.4	345.1	384.8	447.5
Net Raw Materials	143.0	112.7	149.6	174.2	196.5	229.7
Other Mfg costs	22.3	25.9	38.5	104.3	27.3	32.2
Personnel	34.2	32.3	47.9	56.4	59.1	69.9
Other	67.1	49.0	68.5	10.2	101.9	115.7
EBITDA	59.1	42.8	46 .2	53 .2	70.0	89.3
% chg	*23.1*	*(27.6)*	*8.1*	*15.1*	*31.6*	*27.4*
(% of Net Sales)	*18.1*	*16.3*	*13.2*	*13.4*	*15.4*	*16.6*
Depreciation& Amortisation	9.0	7.8	11.2	12.1	16.7	19.0
EBIT	50.1	35 .0	35 .1	41.1	53.4	70.3
% chg	*(63.2)*	*(30.1)*	*0.3*	*17.2*	*29.9*	*31.6*
(% of Net Sales)	*15.4*	*13.3*	*10.0*	*10.3*	*11.7*	*13.1*
Interest & other Charges	5.1	3.6	5.8	2.9	5.7	9.0
Other Income	2.2	1.5	2.3	0.2	2.0	2.0
(% of PBT)	4.6	4.4	7.0	0.4	3.7	2.9
Recurring PBT	47.9	33.9	33.2	43.2	53.9	69.1
% chg	*235.0*	*(29.3)*	*(2.1)*	*30.2*	*24.7*	*28.3*
Extraordinary Expense/(Inc.)	1.6	1.8	-	-	-	-
PBT (reported)	46.3	32.1	33.2	43.2	53.9	69.1
Tax	4.6	1.9	1.7	1.1	5.4	2.6
(% of PBT)	*9.9*	*6.1*	*5.1*	*2.5*	*10.0*	*3.8*
PAT (reported)	41.8	30.1	31.4	42.1	48.5	66.5
ADJ. PAT	43.4	31.9	31.4	42.1	48.5	66.5
% chg	*28.5*	*(26.3)*	*(1.4)*	*33.7*	*15.2*	*37.2*
(% of Net Sales)	*12.8*	*11.5*	*9.0*	*10.6*	*10.7*	*12.4*
Basic EPS (Rs)	35.6	24.5	25.6	34.3	39.5	54.1
Fully Diluted EPS (Rs)	35.6	24.5	25.6	34.3	39.5	54.1
% chg	*29.3*	*(31.1)*	*4.4*	*33.9*	*15.2*	*37.2*

Balance Sheet

(Rs cr)

Y/E March	FY2007	*FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	11.8	12.3	12.3	12.3	12.3	12.3
Reserves& Surplus	220.7	242.0	266.2	291.3	321.4	363.9
Shareholders Funds	**233.0**	**254.3**	**278.4**	**303.6**	**333.7**	**376.1**
Total Loans	35.6	34.3	55.5	67.5	87.5	102.5
Deferred Tax Liability	20.7	21.9	23.0	25.1	30.5	33.1
Total Liabilities	**289.3**	**310.4**	**357.0**	**96.3**	**451.8**	**511.8**
APPLICATION OF FUNDS						
Gross Block	206.7	219.0	234.3	274.3	354.3	404.3
Less: Acc. Depreciation	39.6	47.4	58.4	71.3	87.9	106.9
Net Block	**167.1**	**171.6**	**175.9**	**203.0**	**266.4**	**297.4**
Capital Work-in-Progress	1.7	1.8	16.3	16.3	16.3	16.3
Current Assets	177.7	199.1	223.3	247.8	246.5	299.4
Cash	15.5	16.1	29.0	39.7	18.6	28.8
Loans & Advances	20.6	30.9	41.5	47.8	54.6	64.4
Other	141.6	152.1	152.8	160.3	173.3	206.1
Current liabilities	57.7	62.6	58.7	71.0	77.4	101.3
Net Current Assets	**120.0**	**136.5**	**164.6**	**176.8**	**169.0**	**198.0**
Mis. Exp. not written off	0.5	0.4	0.1	0.1	0.1	0.1
Total Assets	**289.3**	**310.4**	**357.0**	**396.3**	**451.8**	**511.8**

Cash Flow Statement

(Rs cr)

Y/E March	FY2007	*FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	48.2	33.9	33.1	43.2	53.9	69.1
Depreciation	9.0	7.8	11.2	12.1	16.7	19.0
(Inc)/Dec in Working Capital	(47.7)	(7.6)	(4.7)	(1.4)	(13.4)	(18.8)
Less: Other income	2.2	1.5	2.3	0.2	2.0	2.0
Direct taxes paid	3.8	6.9	5.3	7.8	9.7	12.4
Cash Flow from Operations	3.5	25.7	32.0	45.9	45.4	54.9
(Inc.)/Dec.in Fixed Assets	(15.1)	(15.0)	(29.9)	(40.0)	(80.0)	(50.0)
(Inc.)/Dec. in Investments	(2.2)	(0.0)	-	0.0	(0.0)	-
Other income	2.2	1.5	2.3	0.2	2.0	2.0
Cash Flow from Investing	(15.0)	(13.5)	(27.6)	(39.8)	(78.0)	(48.0)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	5.2	(1.3)	21.3	12.0	20.0	15.0
Dividend Paid (Incl. Tax)	(8.4)	(9.3)	(11.8)	(7.4)	(8.5)	(11.7)
Others	0.7	(0.8)	(1.1)	-	-	-
Cash Flow from Financing	(2.5)	(11.4)	8.3	4.6	11.5	3.3
Inc./(Dec.) in Cash	(14.0)	0.7	12.8	10.7	(21.1)	10.2
Opening Cash balances	29.5	15.5	16.1	29.0	39.7	18.6
Closing Cash balances	15.5	16.1	29.0	39.7	18.6	28.8

Key Ratios

Y/E March	FY2007	*FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	11.6	16.8	16.1	12.0	10.4	7.6
P/CEPS	9.6	13.4	11.9	9.3	7.8	5.9
P/BV	2.1	2.0	1.8	1.7	1.5	1.3
Dividend yield (%)	1.6	1.2	1.2	1.2	1.4	2.1
EV/Sales	1.6	2.0	1.5	1.3	1.3	1.1
EV/EBITDA	8.6	12.3	11.5	10.0	8.2	6.5
EV / Total Assets	1.8	1.7	1.5	1.3	1.3	1.1
Per Share Data (Rs)						
EPS (Basic)	35.6	24.5	25.6	34.3	39.5	54.1
EPS (fully diluted)	35.6	24.5	25.6	34.3	39.5	54.1
Cash EPS	43.0	30.8	34.7	44.1	53.0	69.6
DPS	6.8	5.0	5.1	5.1	5.9	8.1
Book Value	197.1	206.9	226.6	247.1	271.6	306.1
Dupont Analysis						
EBIT margin	15.4	13.3	10.0	10.3	11.7	13.1
Tax retention ratio	90	94	95	97	90	96
Asset turnover (x)	1.5	0.9	1.1	1.2	1.2	1.2
RoIC (Post-tax)	20.2	11.6	10.7	11.8	12.3	14.9
Cost of Debt (Post Tax)	12.8	9.7	12.4	4.6	6.7	9.1
Leverage (x)	0.6	0.1	0.1	0.1	0.1	0.2
Operating RoE	24	12	11	13	13	16
Returns (%)						
RoCE (Pre-tax)	20.5	11.7	10.5	10.9	12.6	14.6
Angel RoIC (Pre-tax)	22.7	12.4	11.6	12.6	14.1	15.9
RoE	20.1	13.1	11.8	14.5	15.2	18.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	1.2	1.6	1.6	1.5	1.4
Inventory / Sales (days)	41	57	50	50	51	51
Receivables (days)	105	146	108	91	82	77
Payables (days)	50	56	41	39	40	41
WC cycle (ex-cash) (days)	166	239	195	182	173	168
Solvency ratios (x)						
Net debt to equity	0.1	0.1	0.1	0.1	0.2	0.2
Net debt to EBITDA	0.3	0.4	0.6	0.5	1.0	0.8
Interest Coverage (EBIT / Interest)	9.8	9.7	6.0	14.1	9.3	7.8

*Note: *For Nine months ended March 31st 2008*

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Disclosure of Interest Statement	Indoco
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	

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