



Dalal & Broacha
Stock Broking Pvt. Ltd.

Result Update @ Dalal & Broacha

Indoco Remedies Ltd.

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OUT PERFORM

CMP (Rs)	440.0
Recommendation	BUY
52 week range	Rs 523.0/ Rs 168.0
Target Price	620.0
% Upside	40.9%

KEYSHARE DATA

Market Cap	Rs 5406.1 MN / \$ 117.5MN
EV / Sales	1.4
EV / EBIDTA	10.7
Volume(BSE+NSE)	23824.0
No of Shares o/s	12.3
Face Value	10.0
Book Value	252.7
BSE / NSE	532612 / INDOCO
Bloomberg	INDR IN Equity

Share Holding

	Mar-10	Jun-10
Promoters	60.5%	60.5%
Public	24.5%	24.0%
Institutions	9.7%	9.8%
FII	3.5%	4.0%
Corprates	1.9%	1.8%



Though Indoco Remedies Q1FY11 results were below our expectations, we continue to be bullish on the stock.

Net Sales for the quarter Q1FY11 increased by 13% to Rs 1114 mn against Rs 983.4 in Q1FY10. The growth was mainly driven by exports which reported growth of 28% over corresponding previous year quarter. Domestic sales reported a growth of only 7% due to low prescription sales of brands like Vepan and Febrex plus. A corrective measure has been taken and the management is confident of 20-25% growth in domestic sales for FY11. Exports growth guidance is maintained at 30-35%.

Change in products mix led to increase in raw material cost for the quarter and other expenditure increased due to notional forex loss of Rs 20 mn on account of revaluation of ECB at 46.5 Rs vs. 44.5 Rs in March 2010. Also the company is awaiting the approval from Goa ministry for change in electricity source, which in turn will lead to improvement in margins.

Company expects the milestone payments to start from Q2FY11 onwards from the WATSON deal. First ANDA has been filed in May2010 and further milestone payments will depend on future filings of ANDA's.

The company has signed a deal with US based Zumanta for manufacturing validation batches for an ophthalmic product. Debt on Books as of 30th June 2010 is Rs 950 mn including working capital loan of Rs 220 mn. Capex for FY11 is expected to be Rs 930 mn.

The company has maintained its guidance of topline of Rs 5250 mn with EBIDTA margins of 18.5% for FY11.

Valuation:

At CMP of Rs 440, the stock currently trades at 8.4x FY11E earnings of Rs 52.5 and 8.2x its FY12E earnings of Rs 53.6.

We continue to remain bullish on the stock and recommend BUYING the stock at current levels with a target price of Rs 620, a potential upside of 41%.

Year	Net sales	%Growth	EBIDTA	OPM (%)	PAT	%Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY09	3,506.4	33.5	462.1	13.2	314.4	4.5	25.6	17.2	11.3	9.8
FY10	3,982.8	13.6	530.7	13.3	420.9	33.9	34.3	12.8	13.6	10.2
FY11 E	4,966.5	24.7	812.9	16.4	644.1	53.0	52.4	8.4	18.0	14.0
FY12 E	6,258.2	26.0	1,126.8	18.0	659.1	2.3	53.6	8.2	16.1	19.1

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Particulars	Q1FY11	Q1FY10	%Change	FY10	FY09	%Change
Gross Sales	1124.5	992.5	13.3%	4023.6	3552.6	13.3%
Less: Excise Duty	(10.7)	(9.1)	17.6%	(40.2)	(46.2)	-12.9%
Net Sales	1113.8	983.4	13.3%	3983.4	3506.4	13.6%
Other income	14.9	22.9	-34.9%	48.3	33.8	42.9%
Total income	1128.7	1006.3	12.2%	4031.7	3540.2	13.9%
Raw Material Consumed	(413.2)	(339.3)	21.8%	(1490.2)	(1186.3)	25.6%
Purchase of Finished goods	(73.4)	(63.7)	15.2%	(252.2)	(309.4)	-18.5%
Employee Expenses	(147.6)	(129.4)	14.1%	(564.2)	(479.4)	17.7%
R&D and Other Expenses	(303.8)	(264.7)	14.8%	(1144.7)	(1069.1)	7.1%
Total Exp	(938.0)	(797.1)	17.7%	(3451.3)	(3044.2)	13.4%
PBDIT	190.7	209.2	-8.8%	580.4	496.0	17.0%
OPM (%)	16.9%	20.8%		14.4%	14.0%	
Other Income	0.0	0.8		1.6	5.5	
Interest	(6.5)	(9.3)	-30.1%	(29.1)	(58.5)	-50.3%
Depreciation	(32.1)	(27.9)	15.1%	(121.0)	(111.6)	8.4%
Profit before tax	152.1	172.8	-12.0%	431.9	331.4	30.3%
Tax	(3.9)	(4.0)	-2.5%	(11.0)	(17.0)	-35.3%
Profit After tax	148.2	168.8	-12.2%	420.9	314.4	33.9%
Minority Interest	0.0	0.0		0.0		
Forex Gain / (Loss)	0.0	0.0		0.0		
Adjusted PAT	148.2	168.8	-12.2%	420.9	314.4	33.9%
NPM (%)	13.3%	17.2%		10.6%	9.0%	
Adj. NPM (%)	13.3%	17.2%		10.6%	9.0%	
EPS (Rs)	12.1	13.7	-12.2%	34.3	25.6	33.9%
Adj EPS (Rs)	12.1	13.7	-12.2%	34.3	25.6	33.9%



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INDOCO REMEDIES FINANCIALS									
P&L (Rs mn)	FY09	FY10	FY11E	FY12E	Cash Flow St. (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	3,506.4	3,982.8	4,966.5	6,258.2	Net Profit	314.4	420.9	644.1	659.1
Raw materials	(1,495.7)	(1,739.1)	(2,160.4)	(2,722.3)	Add: Dep. & Amort.	111.6	121.0	143.6	164.0
Employee costs	(479.4)	(564.6)	(705.8)	(882.2)	Cash profits	425.9	541.9	787.7	823.1
Other Expenses	(1,069.3)	(1,148.4)	(1,287.4)	(1,526.8)	(Inc)/Dec in				
Cost of sales	(3,044.3)	(3,452.2)	(4,153.6)	(5,131.4)	-Sundry debtors	74.3	96.1	(181.4)	(197.4)
Operating Profit	462.1	530.7	812.9	1,126.8	-Inventories	(81.5)	(168.2)	(66.3)	(197.5)
Depreciation	(111.6)	(121.0)	(143.6)	(164.0)	-Loans/advances	(105.8)	(120.1)	(26.8)	(28.1)
PBIT	350.5	409.7	669.3	962.8	-Sundry creditors	(46.9)	106.4	34.6	117.1
Other income	39.3	50.6	54.5	59.3	-Others	6.3	90.8	136.9	62.5
Interest	(58.5)	(29.1)	(45.8)	(33.9)	Change in working capital	(153.7)	5.1	(103.0)	(243.4)
Profit before tax	331.4	431.3	678.0	988.2	CF from Oper. activities	272.3	547.1	684.7	579.7
Provision for tax	(17.0)	(10.4)	(33.9)	(329.1)	CF from Inv. activities	(299.4)	(477.9)	(500.0)	(450.0)
Reported PAT	314.4	420.9	644.1	659.1	CF from Fin. activities	156.1	16.1	140.2	(408.2)
Extraordinary Items	-	-	-	-	Cash generated/(utilised)	129.0	85.3	324.8	(278.5)
Adjusted PAT	314.4	420.9	644.1	659.1	Cash at start of the year	161.2	290.2	375.5	700.3
					Cash at end of the year	290.2	375.5	700.3	421.8
Balance Sheet	FY09	FY10	FY11E	FY12E	Ratios	FY09	FY10	FY11E	FY12E
Equity capital	122.9	122.9	122.9	122.9	OPM	13.2	13.3	16.4	18.0
Reserves	2,661.6	2,982.2	3,465.2	3,959.6	NPM	8.9	10.4	12.8	10.4
Net worth	2,784.4	3,105.1	3,588.1	4,082.5	Tax rate	(5.1)	(2.4)	(5.0)	(33.3)
Def. Tax Liab.+Minority Int.	230.0	242.5	243.2	249.8	Growth Ratios (%)				
Secured loans	399.4	569.6	869.6	619.6	Net Sales	33.5	13.6	24.7	26.0
Unsecured loans	157.9	90.8	90.8	90.8	Operating Profit	8.0	14.9	53.2	38.6
Total debt	557.4	660.4	960.4	710.4	PAT	4.5	33.9	53.0	2.3
CAPITAL EMPLOYED	3,571.8	4,008.0	4,791.7	5,042.6	Per Share (Rs.)				
Gross block	2,343.2	2,675.9	3,175.9	3,625.9	Net Earnings (EPS)	25.6	34.3	52.4	53.6
Accumulated depreciation	(583.9)	(702.1)	(845.7)	(1,009.7)	Cash Earnings (CPS)	34.7	44.1	64.1	67.0
Net block	1,759.4	1,973.8	2,330.2	2,616.2	Dividend	5.2	6.9	13.1	13.4
Capital WIP	162.8	305.3	305.3	305.3	Book Value	226.6	252.7	292.0	332.3
Total fixed assets	1,922.2	2,279.1	2,635.5	2,921.5	Free Cash Flow	(2.2)	5.6	15.0	10.6
Goodwill					Valuation Ratios				
Investments	0.2	0.2	0.2	0.2	P/E(x)	17.2	12.8	8.4	8.2
Inventories	524.8	693.0	759.3	956.7	P/B(x)	1.9	1.7	1.5	1.3
Sundry debtors	1,003.3	907.1	1,088.6	1,285.9	EV/EBIDTA(x)	12.3	10.7	7.0	5.1
Cash & bank	290.2	375.5	700.3	421.8	EV/SALES(x)	1.6	1.4	1.1	0.9
Loans & advances	415.1	535.2	562.0	590.1	Div. Yield(%)	1.2	1.6	3.0	3.0
Other current assets	-	-	-	1.0	FCF Yield(%)	(0.5)	1.3	3.4	2.4
Sundry creditors	(309.1)	(415.5)	(450.1)	(567.2)	Return Ratios (%)				
Acceptances	(212.4)	(221.0)	(265.3)	(318.3)	ROE	11.3	13.6	18.0	16.1
Provisions	(63.9)	(146.1)	(238.7)	(248.2)	ROCE	9.8	10.2	14.0	19.1
Working capital	1,648.0	1,728.1	2,156.0	2,120.9					
Deferred Tax Assets	-	-	-	1.0					
Miscellaneous exp.	1.4	0.5	-	-					
CAPITAL DEPLOYED	3,571.8	4,008.0	4,791.7	5,043.6					

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