

Indoco Remedies (Rs473)

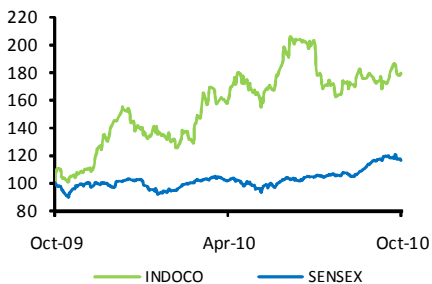
Market performer

Target Price: Rs504

Stock Data

Bloomberg Code	INDR IN
Market Cap. (Rs bn / US\$ mn)	5.8/129
52-week High/Low (Rs)	524/235
Shares Outstanding (mn)	12
Avg. daily volume ('000)	19
Avg. daily value (Rs mn)	7.5
Promoter holding (%)	60.9
Free float (%)	39.1
FII holding (%)	3.3

Relative Performance



BSE Sensex 19,872

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Domestic Formulations shows strong momentum

- Domestic sales outperform expectations:** Indoco's Q2FY11 net sales grew 38.7% y-o-y to Rs 1323.4 mn higher than our estimates during Q2FY11. Domestic sales grew 37.2% y-o-y to Rs.884.4 mn on the back of higher sales of its respiratory products (esp. Febrex plus (+40% y-o-y)) and anti-infectives (Oxipod (+38% y-o-y) and Clamcheck (+68.1% y-o-y)). Export formulation business reported 35.5% y-o-y increase to Rs.352.7 mn primarily on the back of higher sales to the non-regulated markets.
- Higher raw material costs dents margins:** Indoco reported EBITDA margins of 14.8% lower than our expectation of 18.2% for Q2FY11 primarily due to higher raw material costs and staff costs (on account of increments and launch of new division). Raw material costs were higher primarily due to higher input cost and depreciation of Euro against the rupee.
- Continue to rate the stock as Market Performer:** We have marginally upgraded our revenue estimates for FY11 by 2.7% to Rs.4922 mn owing to strong traction in the domestic formulations (DF) space. We have moderated our revenues in FY12 owing to lower ramp up in the UK market. We have upgraded our EBITDA estimates for FY11 from 14.4% to 15.8% and for FY12 from 15.1% to 16.2% owing to higher sales in the DF space. Hence we upgrade our EPS estimates by 15% to Rs.47.8 due to higher operating performance and downgrade our EPS estimates by 12.3% to Rs.50.4 for FY12E due to higher tax rates. Due to re-rating in the pharma space and upgrade in our margin estimates we have upgraded our PE multiple from 8.5X to 10X for Indoco. We upgrade our target price by 5% to Rs.504 based on 10X FY12E and rate the stock as **Market performer**.

Quarterly Performance

Y/E March Rs Mn	Q2FY10	Q1FY11	Q2FY11	QoQ%	YoY%
Net Sales	960.7	1,129	1,341	18.8	39.6
Cost	829.9	938.0	1,146	22.2	38.1
EBITDA	130.8	190.7	195.3	2.4	49.3
EBITDA Margin (%)	13.7	17.1	14.8		
Other Income	0.6	0.0	13.1	N.A	2083.3
Interest	6.6	6.5	5.3	(18.5)	(19.7)
Depreciation	28.9	32.1	33.5	4.4	15.9
Profit before Tax	95.9	152.1	169.6	11.5	76.9
Tax	3.4	3.9	17.0	335.9	400.0
Tax rate (%)	3.5	2.6	10.0	290.9	182.7
Net Profit	92.5	148.2	152.6	3.0	65.0

Y/E June Rs Mn	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Revenues	2,628	3,522	4,002	4,922	5,868
EBITDA	436	478	550	778	953
Net Profit	313	308	421	587	619
EPS(Rs)	33.9	25.1	34.3	47.8	50.4
EPS growth (%)	1.4	(26.1)	36.6	39.6	5.3
EBITDA margin(%)	16.6	13.6	13.7	15.8	16.2
PER(x)	13.9	18.9	13.8	9.9	9.4
EV/EBITDA (x)	13.7	12.7	11.1	8.2	6.7
P/S (x)	2.1	1.7	1.5	1.2	1.0
RoCE(x)	16.4	11.5	12.1	15.0	16.0
RoE(%)	17.1	11.6	14.3	17.6	16.3

Source: Company and Karvy Institutional Research

Indian GAAP consolidated

Key highlights

- Indoco's top 4 segments in DF space witnessed strong growth namely respiratory (+53.2% y-o-y), anti-infective (+33.2% y-o-y), GI (+42.2% y-o-y) and Stomatologicals (+28.6% y-o-y) during Q2FY11. Indoco is confident of achieving 18-20% y-o-y growth in the domestic market. During Q2FY11 the company has launched products catering to Gastro, Orthopaedic and GP areas.
- Export formulations business in UK witnessed (+59% y-o-y) to Rs.145 mn. The UK revenues for H1FY11 were Rs265mn. As the revenue traction is lower than our estimates we downgrade our revenues for UK market for FY11 by 15% to Rs667mn and FY12 by 27% to Rs767mn. Indoco is serving 4 companies in UK. Additional revenues came from tender supplies to SA and New Zealand. The company has applied for tenders through a partner in Germany which should pan out in the latter half of the year.
- Contractual supplies to Aspen for Latam and Sub-Saharan African countries will begin in the next 6 months. Watson has expanded the deal with Indoco and 4 products with market size of US\$765 mn have been added to the same.
- Strong DMF filings going forward will keep the momentum in the Export API business.
- The company is not availing of MAT credit to the full extent in FY2011E and FY2012E, hence the effective tax rate would be 7% for FY11E and 20% for FY12E as against nil for both the years.

Stock Ratings	Absolute Returns
Buy	: > 25%
Out Performer	: 16 - 25%
Market Performer	: 0 - 15%
Under Performer	: < 0%
Sell	: <(25%)

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Disclosures Appendix

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