

Indoco Remedies

Performance Highlights

Y/E March (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)
Net sales	255	248	2.8	213	19.6
Other operating income	4	8	(44.2)	4	7.4
Gross profit	162	160	1.7	135	20.0
Operating profit	39	38	1.6	39	0.4
Net profit	20	23	(9.7)	22	(5.6)

Source: Company, Angel Research

For 3QFY2016, Indoco Remedies (Indoco)' results were in line with our expectations on the sales front, while the net profit came in lower owing to a lower than expected OPM. The company posted sales of ₹255cr (V/s ₹257cr estimated), a growth of 19.6% yoy. The growth during the quarter came in through exports (₹112.1cr) which rose 34.6% yoy, while domestic market sales grew 9.8% yoy to ₹141.9cr. On the operating front, the OPM came in at 15.4% V/s 18.3% in 3QFY2015 (and V/s an expected 16.5%). Thus, the net profit came in at ₹20.4cr V/s ₹21.6cr in 3QFY2015, a dip of 5.6% yoy. This is against our expectation of ₹25.4cr. **Overall, we are Neutral on the stock.**

Results lower than expected: The company posted sales of ₹255cr (V/s ₹257cr estimated), a growth of 19.6% yoy. The growth during the quarter came in through exports (₹112.1cr) which rose 34.6% yoy, while domestic market sales grew 9.8% yoy to ₹141.9cr. Exports growth during the period was aided by the regulated markets (₹90.4cr) which grew 36.3% yoy and emerging markets (₹139.0cr) which grew 32.6% yoy. On the operating front, the OPM came in at 15.4% V/s 18.3% in 3QFY2015 (and V/s an expected 16.5%). The margins declined owing to 30.7% and 76.3% yoy rise in employee expenditure and R&D expenditure respectively. Thus, the net profit came in at ₹20.4cr V/s ₹21.6cr in 3QFY2015, a dip of 5.6% yoy. This is against our expectation of ₹25.4cr.

Outlook and valuation: We expect net sales to post a 19.6% CAGR to ₹1,199cr and EPS to post a 23.0% CAGR to ₹13.6 over FY2015-17E. At the current market price, the stock is trading at 34.3x and 23.7x its FY2016E and FY2017E earnings, respectively. **We recommend a Neutral rating on the stock, given the valuations.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	722.3	852.2	1032.6	1198.6
% chg	15.3	18.0	21.2	16.1
Net profit	58.2	82.8	86.8	125.3
% chg	36.5	42.3	4.9	44.4
EPS (₹)	6.3	9.0	9.4	13.6
EBITDA margin (%)	15.2	18.9	15.9	18.2
P/E (x)	51.1	35.9	34.3	23.7
RoE (%)	13.4	17.0	15.7	19.7
RoCE (%)	13.9	18.3	15.5	19.7
P/BV (x)	6.5	5.7	5.1	4.3
EV/Sales (x)	4.2	3.6	3.0	2.6
EV/EBITDA (x)	27.6	19.0	19.0	14.2

Source: Company, Angel Research; Note: CMP as of January 29, 2016

NEUTRAL

CMP ₹323
 Target Price -

Investment Period -

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	2,977
Net Debt (₹ cr)	73
Beta	1.0
52 Week High / Low	413/289
Avg. Daily Volume	16,565
Face Value (₹)	2
BSE Sensex	24,871
Nifty	7,564
Reuters Code	INRM.BO
Bloomberg Code	INDR@IN

Shareholding Pattern (%)

Promoters	59.2
MF / Banks / Indian Fls	14.0
FII / NRIs / OCBs	9.5
Indian Public / Others	17.3

Abs. (%)	3m	1yr	3yr
Sensex	(7.3)	(16.2)	24.4
Indoco	(0.3)	0.7	424.5

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2016 (Consolidated) performance

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg (qoq)	3QFY2015	% chg (yoy)	9MFY2016	9MFY2015	% chg (yoy)
Net sales	255	248	2.8	213	19.6	718	637	12.7
Other income	4.2	7.6	(44.2)	4	7.4	19	8	142.5
Total income	259	255	1.4	217	19.4	738	645	14.3
Gross profit	162	160	1.7	135	20.0	461	407	13.3
Gross margins (%)	63.7	64.4		63.5		64.2	63.9	
Operating profit	39.1	38.5	1.6	39.0	0.4	112.8	121.5	(7.2)
OPM (%)	15.4	15.5		18.3		15.7	19.1	
Interest	3	3	8.0	3	4.4	8	8	(4.9)
Dep & amortisation	15	15	2.3	12	27.1	45	35	28.8
PBT	25	29	(11.4)	28	(10.4)	79	87	(8.1)
Provision for taxation	4.9	5.9	(17.9)	7	(26.1)	16	22	(26.5)
Reported Net profit	20	23	(9.7)	22	(5.6)	63	64	(1.2)
Less : Exceptional items	0	0	-	0		0	0	
PAT after exceptional items	20	23	(9.7)	22	(5.6)	63	64	(1.2)
EPS (₹)	2.2	2.5		2.3		6.9	7.0	

Source: Company, Angel Research

Exhibit 2: 3QFY2016 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimate	Variation (%)
Net sales	255	257	(1.1)
Other operating income	4	4	8.2
Operating profit	39	42	(7.8)
Tax	5	3	42.5
Net profit	20	25	(19.6)

Source: Company, Angel Research

Revenues below expectations: The company posted sales of ₹255cr (V/s ₹257cr estimated), a growth of 19.6% yoy. The growth during the quarter came in through exports (₹112.1cr) which rose 34.6% yoy, while domestic market sales grew 9.8% yoy to ₹141.9cr. Exports growth during the period was aided by the regulated markets (₹90.4cr) which grew 36.3% yoy and emerging markets (₹139.0cr) which grew 32.6% yoy. Domestic formulations (₹135.7cr) posted a yoy growth of 10.5%.

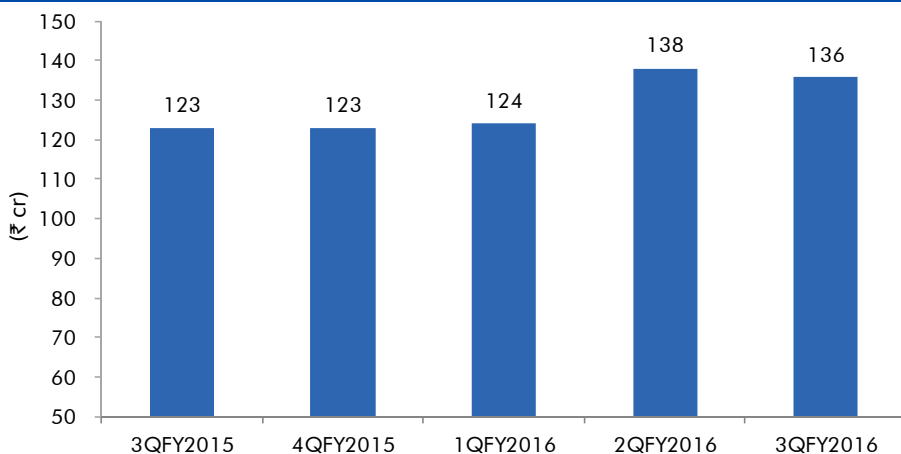
Domestic markets (₹141.9cr) posted a growth of 9.8% yoy, mainly on back of formulation sales (₹136cr; up 10.5% yoy), while API sales (₹6.02cr) a dip of 5.9% yoy. The top-10 therapies of the company contributed by 88.3% to the IPM market.

Exports (₹112cr) grew 34.6% yoy on back of formulation exports (₹104.3cr; up 35.8% yoy), while API exports (₹7.3cr) grew 12.0% yoy. The regulated markets during the quarter grew by 36.3% yoy to ₹90.4cr as against ₹66.3cr during the same quarter last year.

During the quarter, the company's US business grew by 22% yoy with revenues at ₹29.7cr. The company (through partners or by itself) filed 21 ANDAs which are pending approvals with 6 ANDAs approved till date. There are 33 under the pipeline for the company.

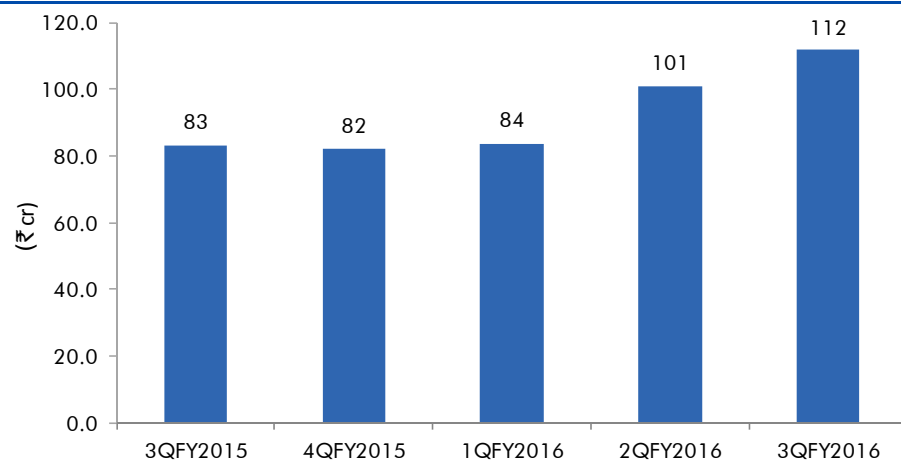
For the quarter, the emerging markets grew by 32.6% to ₹13.9cr as against ₹10.5cr during the same quarter last year. Kenya, French West Africa, Uganda, Tanzania and Myanmar drove sales during the quarter.

Exhibit 3: Domestic Formulation sales trend



Source: Company, Angel research

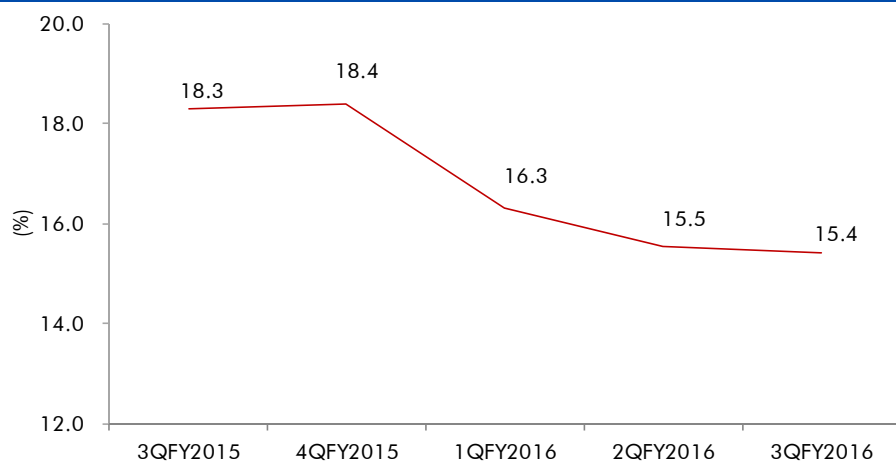
Exhibit 4: Export sales trend



Source: Company, Angel research

OPM lower than estimated: On the operating front, the OPM came in at 15.4% (V/s 16.5% expected) V/s 18.3% in 3QFY2015. The margins have declined on back of 30.7% and 76.3% yoy rise in employee expenditure and R&D expenditure respectively.

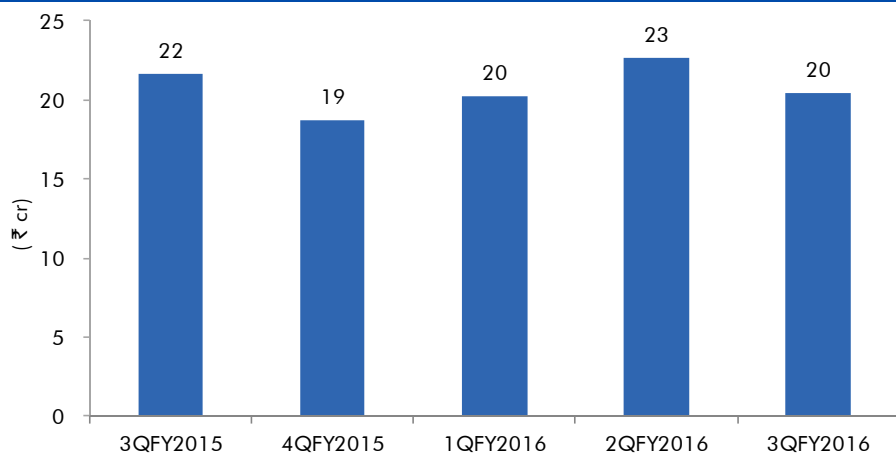
Exhibit 5: OPM trend



Source: Company, Angel Research

Net profit lower than expectation: Thus, the net profit came in at ₹20.4cr V/s ₹21.6cr in 3QFY2015, a yoy dip of 5.6%. This is against our expectation of ₹25.4cr.

Exhibit 6: Net profit trend



Source: Company, Angel Research

Concall takeaways

- During the quarter, the USFDA audited the company's finished dosage plant (Plant I) at Goa. Establishment Inspection Reports (EIRs) for the Finished Dosage Plant I, Sterile Plant II and Finished Dosage Plant III at Goa are awaited.
- The company has restructured some of its marketing divisions in domestic markets with addition to the field force to accelerate growth and build on its core strengths in the mass specialty segments.
- Going forward, the company's business from US and EU territory is expected to grow speedily as ANDAs and Dossiers will be commercialized at regular intervals.
- While surging ahead in the regulated markets, Indoco is also consolidating its position in the emerging markets through active brand promotion. Part of the emerging market is exploited through distributors appointed by Indoco and part through alliances.

Investment arguments

Focus on domestic formulations- Aiming for a higher-than-industry growth: Indoco has a strong brand portfolio of 135 products and a base of ~2,300 MRs. It 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 has seen strong growth across the respiratory, anti-infective, ophthalmic and alimentary therapeutic segments. Further, the company is investing to enhance the share of the chronic segment, which constitutes 10% of overall sales.

Post the restructuring of the domestic business in FY2009, which has resulted in an improvement in the working capital cycle, Indoco is back on the growth trajectory with its domestic formulation business growing at 15.1% in FY2015. We expect the domestic formulation segment to grow at a CAGR of 9.3% over FY2015-17E, factoring in a muted FY2016, restructuring, and low monsoon.

Scaling-up on the exports front: Indoco has also started focusing on regulated markets by entering into long-term supply contracts. The company is currently executing several contract-manufacturing projects, and covering a number of products for its clients in the UK, Germany and Slovenia. Indoco has received a nod from the USFDA for two of its facilities in Goa. The company derived ~39% of its revenues from exports in 2014-15.

In the last four years, the company has filed ~15 ANDAs in the ophthalmic space and expects to secure approval for ~5 products over FY2015-16E, addressing opportunities of US\$1bn brand sales. Thus, we estimate the company to garner around ₹120cr of sales in FY2016. We expect the exports segment to grow at a 35.6% CAGR over FY2015-17E.

Partnering with pharmaceutical majors: The company has a large customer base of small and medium sized generic companies across the globe and has major tie-ups with generic companies for certain territories and products. The company has a deal with Watson Pharmaceuticals to develop and manufacture a number of

sterile (ophthalmic) products for marketing in the USA. The agreement with South Africa's largest pharmaceutical company, Aspen Pharmacare, encompasses a number of solid dosages and ophthalmic products, extending to 30 emerging market countries, while the contract signed with DSM, Austria is for marketing 8 of Indoco's APIs in various geographies. These deals have further strengthened Indoco's image in the international arena.

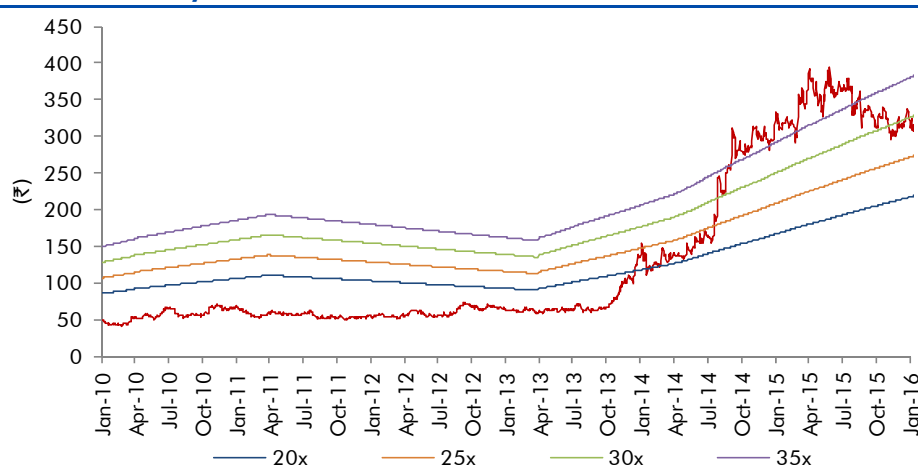
Valuation: We expect the company to post a net sales CAGR of 19.6% to ₹1,199cr and EPS to post a 23.0% CAGR to ₹13.6 over FY2015-17E. At the current market price, the stock is trading at 34.3x and 23.7x its FY2016E and FY2017E earnings, respectively. **We recommend a Neutral rating on the stock, given the valuations.**

Exhibit 7: Key assumptions

	FY2016E	FY2017E
Domestic sales growth (%)	4.0	15.0
Exports growth	55.6	18.0
Operating margins (%)	15.9	18.2
Capex (₹ cr)	60.0	60.0

Source: Company, Angel Research

Exhibit 8: One-year forward PE band



Source: Company, Angel Research

Exhibit 9: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside (%)	PE (x)	FY2017E		FY15-17E	FY2017E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	618	-	-	21.5	3.0	15.3	38.2	31.3	31.2
Aurobindo Pharma	Neutral	833	-	-	19.5	3.1	13.5	15.6	23.5	30.2
Cadila Healthcare	Buy	305	352	15.5	17.3	2.6	11.8	24.6	25.2	29.0
Cipla	Accumulate	586	636	8.6	20.3	2.8	14.5	21.4	17.1	16.8
Dr Reddy's	Buy	3,104	3,933	26.7	17.4	2.6	11.2	17.2	19.1	20.4
Dishman Pharma	Neutral	331	-	-	16.6	1.8	8.2	15.9	9.5	11.2
GSK Pharma*	Neutral	3,224	-	-	47.2	8.2	37.3	6.6	33.7	34.3
Indoco Remedies	Neutral	323	-	-	23.8	2.6	14.1	23.0	19.7	19.7
Ipca labs	Buy	669	900	34.6	23.9	2.4	12.9	17.9	11.8	14.0
Lupin	Neutral	1,710	-	-	25.0	4.3	15.9	13.1	29.6	24.7
Sanofi India*	Neutral	4,242	-	-	28.0	3.6	17.4	33.1	27.9	25.5
Sun Pharma	Accumulate	873	950	8.8	32.5	5.8	18.8	8.4	15.8	16.6

Source: Company, Angel Research; Note: *December year ending, Price as of November 6, 2015

Company Background

Indoco has a strong brand portfolio of 135 products and a base of 2,300 MRs. The company operates in various therapeutic segments including anti-infective, anti-diabetic, CVS, ophthalmic, dental care, pain management and respiratory areas. Prominent Indoco brands include Cyclopam, Vepan, Febrex Plus, ATM, Sensodent-K and Sensoform. The company's top-10 brands contribute over 50% of its domestic sales. Indoco now proposes to scale up its exports through higher exposure to the regulated markets.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Gross sales	576	638	735	863	1,043	1,211
Less: Excise duty	7	11	13	11	10	12
Net sales	569	626	722	852	1,033	1,199
Other operating income	2	4	10	5	5	5
Total operating income	571	630	733	857	1,038	1,204
% chg	17.4	10.4	16.2	17.0	21.0	16.0
Total expenditure	484	537	612	691	868	981
Net raw materials	245	262	272	300	382	443
Other mfg costs	39	37	42	50	60	70
Personnel	82	100	130	140	185	215
Other	119	138	168	201	241	253
EBITDA	85	89	110	161	164	218
% chg	31.2	5.4	23.5	46.1	2.3	32.3
(% of Net Sales)	14.9	14.2	15.2	18.9	15.9	18.2
Depreciation & amortisation	19	24	31	47	52	57
EBIT	65	65	79	114	112	160
% chg	28.1	0.1	21.0	43.7	(1.2)	42.9
(% of Net Sales)	11.5	10.4	11.0	13.3	10.9	13.4
Interest & other charges	16	22	19	11	11	11
Other income	-	1	2	2	2	2
(% of PBT)	0.0	1.8	2.4	1.6	1.6	1.1
Share in profit of Associates	-	-	-	-	1.0	2.0
Recurring PBT	51	48	72	110	109	157
PBT (reported)	51	48	72	110	109	157
Tax	5	6	14	27	22	31
(% of PBT)	9.6	11.8	19.6	24.3	20.0	20.0
PAT (reported)	46	43	58	83	87	125
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	46	43	58	83	87	125
ADJ. PAT	46	43	58	83	87	125
% chg	(9.2)	(7.9)	36.5	42.3	4.9	44.4
(% of Net Sales)	8.1	6.8	8.1	9.7	8.4	10.5
Basic EPS (₹)	5.0	4.6	6.3	9.0	9.4	13.6
Fully Diluted EPS (₹)	5.0	4.6	6.3	9.0	9.4	13.6
% chg	(9.2)	(7.9)	36.5	42.3	4.9	44.4

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	12	18	18	18	18	18
Reserves & surplus	372	396	439	500	566	669
Shareholders funds	385	414	457	519	584	688
Minority Interest	-	0	-	-	-	-
Total loans	114	90	72	88	181	120
Other Long Term Liab.	9	9	9	9	9	9
Long Term Provisions	5	7	16	16	16	16
Deferred tax liability	29	35	31	27	27	27
Total liabilities	542	555	585	659	792	835
APPLICATION OF FUNDS						
Gross block	404	447	481	561	621	681
Less: acc. depreciation	102	126	156	203	255	312
Net block	302	321	325	358	366	369
Capital work-in-progress	33	38	44	44	44	44
Goodwill	-	0	-	0	0	0
Investments	0	0	0	0	0	0
Long Term Loans And Adv.	55	57	55	58	101	117
Current assets	267	273	305	385	535	600
Cash	10	12	13	15	32	16
Loans & advances	38	41	42	85	103	120
Other	219	220	249	285	400	464
Current liabilities	114	134	144	187	255	296
Net current assets	152	139	160	199	280	304
Mis. Exp. not written off	0	0	-	-	-	-
Total assets	542	555	585	659	792	835

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	51	48	72	110	109	157
Depreciation	19	24	31	47	52	57
(Inc)/Dec in working capital	(28)	13	(18)	(39)	(109)	(56)
Less: Other income	-	1	2	2	2	2
Direct taxes paid	1	6	14	27	22	31
Cash Flow from Operations	41	79	69	90	29	125
(Inc.)/Dec.in fixed assets	(84)	(49)	(41)	(80)	(60)	(60)
(Inc.)/Dec. in investments	0	-	-	-	-	-
Other income	-	1	2	2	2	2
Cash Flow from Investing	(84)	(48)	(39)	(78)	(58)	(58)
Issue of equity	-	-	-	-	-	-
Inc./Dec.) in loans	39	(22)	(9)	16	93	(61)
Dividend Paid (Incl. Tax)	(12)	(12)	(12)	(22)	(22)	(22)
Others	14	3	(16)	(3)	(15)	9
Cash Flow from Financing	41	(30)	(37)	(9)	56	(74)
Inc./Dec.) in Cash	(2)	1	(7)	3	26	(7)
Opening Cash balances	27	10	12	13	15	32
Closing Cash balances	10	12	13	15	32	16

Key Ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	64.2	69.8	51.1	35.9	34.3	23.7
P/CEPS	45.4	44.8	33.4	22.9	21.4	16.3
P/BV	7.7	7.2	6.5	5.7	5.1	4.3
Dividend yield (%)	0.2	0.3	0.3	0.3	0.3	0.3
EV/Sales	5.4	4.9	4.2	3.6	3.0	2.6
EV/EBITDA	36.4	34.3	27.6	19.0	19.0	14.2
EV / Total Assets	5.7	5.5	5.2	4.6	3.9	3.7
Per Share Data (₹)						
EPS (Basic)	5.0	4.6	6.3	9.0	9.4	13.6
EPS (fully diluted)	5.0	4.6	6.3	9.0	9.4	13.6
Cash EPS	7.1	7.2	9.7	14.1	15.1	19.8
DPS	0.7	1.1	1.1	1.1	1.1	1.1
Book Value	41.8	44.9	49.6	56.3	63.4	74.6
Dupont Analysis						
EBIT margin	11.5	10.4	11.0	13.3	10.9	13.4
Tax retention ratio	90.4	88.2	80.4	75.7	80.0	80.0
Asset turnover (x)	1.2	1.2	1.3	1.4	1.5	1.5
ROIC (Post-tax)	12.2	10.8	11.6	14.2	12.9	16.3
Cost of Debt (Post Tax)	15.5	18.9	18.7	10.0	6.3	5.6
Leverage (x)	0.2	0.2	0.2	0.1	0.2	0.2
Operating ROE	11.6	8.9	10.4	14.8	14.2	18.5
Returns (%)						
ROCE (Pre-tax)	13.0	11.9	13.9	18.3	15.5	19.7
Angel ROIC (Pre-tax)	14.8	13.0	15.3	20.2	17.1	21.5
ROE	12.6	10.7	13.4	17.0	15.7	19.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.6	1.5	1.6	1.6	1.8	1.8
Inventory / Sales (days)	56	52	50	55	62	60
Receivables (days)	71	66	64	62	79	76
Payables (days)	47	43	40	46	50	52
WC cycle (ex-cash) (days)	78	78	68	70	76	81
Solvency ratios (x)						
Net debt to equity	0.3	0.2	0.1	0.1	0.3	0.2
Net debt to EBITDA	1.2	0.9	0.5	0.5	0.9	0.5
Interest Coverage (EBIT / Int.)	4.0	3.0	4.2	10.7	10.6	15.2

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Disclosure of Interest Statement	Indoco Remedies
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
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 ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15)