

Indoco Remedies

Performance Highlights

Indoco Remedies (Indoco), having a strong Domestic portfolio, reported 3QFY2010 numbers, which were marginally below estimates. Net Sales came in at Rs95.7cr, up 22.8% yoy driven by the Domestic Formulation business, which grew 37.3% to Rs66.6cr. Indoco reported OPM of 12.9%, which was below our expectation on account of lower Gross Margins. The company reported Net Profit of Rs7.7cr. Indoco recently announced entering into a supply agreement with Watson Pharma for seven products, which we believe will contribute meaningfully from FY2013E onwards. **We maintain a Buy on the stock.**

Domestic business drives growth: Indoco reported Net Sales of Rs95.7cr (Rs77.9cr), up 22.8% driven by robust Domestic Formulation Segment, which grew by a strong 37.3% to Rs66.6cr (Rs48.5cr). On the Export front, the Formulation business was flat yoy to Rs24.9cr (Rs24.8cr) mainly on account of capacity constraints. To address the issue, the company plans to set up a new facility at Goa, which is likely to commence production by FY2011E. OPM expanded by 684bp yoy to 12.9% (6.0%), but lower than our estimate of 13.6% on account of lower Gross Margins. The company reported Net Profit of Rs7.7cr (Rs0.6cr), up 1126% yoy driven by OPM expansion and lower Interest cost. However, Bottom-line was affected by forex loss of Rs1.2cr (gain Rs0.6cr).

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 15.2% to Rs5,36.2cr and EPS to clock a CAGR of 24.0% to Rs54.1 over FY2010-12E. The stock is trading at 7.7x and 6.2x FY2011E and FY2012E Earnings. We maintain a Buy on the stock, with a 15-month Target Price of Rs433.

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	351.0	404.3	460.5	536.2
% chg	33.6	15.2	13.9	16.4
Net Profit	31.3	43.3	53.3	66.5
% chg	4.0	38.2	23.2	24.8
EPS (Rs)	25.5	35.2	43.4	54.1
EBITDA Margin (%)	13.1	14.5	15.8	16.7
P/E (x)	13.1	9.5	7.7	6.2
RoE (%)	10.9	14.8	16.1	18.1
RoCE (%)	11.9	13.7	15.1	17.4
P/BV (x)	1.5	1.3	1.2	1.1
EV/Sales (x)	1.3	1.1	0.9	0.8
EV/EBITDA (x)	9.3	7.4	5.8	4.6

Source: Company, Angel Research.

BUY

CMP	Rs330
Target Price	Rs433

Investment Period	15 Months
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Stock Info

Sector	Pharmaceutical
Market Cap (Rs cr)	406
Beta	0.5
52 WK High / Low	385 / 104
Avg. Daily Volume	7,355
Face Value (Rs)	10
BSE Sensex	16,496
Nifty	4,932
Reuters Code	INRM.BO
Bloomberg Code	INDR@IN

Shareholding Pattern (%)

Promoters	61.0
MF/Banks/Indian FIs	11.7
FII/NRIs/OCBs	3.3
Indian Public	24.0

Abs. (%)	3m	1yr	3yr
Sensex	7.1	80.3	14.5
Indoco	35.3	189.5	(5.4)

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Revenues up 23% driven by Domestic business: Indoco reported Net Sales of Rs95.7cr (Rs77.9cr) up 22.8% driven by the robust Domestic Formulation Segment, which grew by a strong 37.3% to Rs66.6cr (Rs48.5cr) on back of traction seen on the Respiratory, Anti-infective, Ophthalmic and Alimentary Therapeutic Segments. Indoco expects the growth trend on the Domestic Formulation business to continue going ahead as well. In Exports, the Formulation business was flat yoy to Rs24.9cr (Rs24.8cr) mainly due to capacity constraints. To address the issue, the company plans to set up a new facility in Goa, which is likely to commence production by FY2011E. For 9MFY2010, the company clocked Revenues of Rs289.5cr (Rs266.0cr), up 8.8% yoy driven by its Domestic and Export Formulation businesses.

OPM expands, but below expectation: OPM expanded by 684bp yoy to 12.9% (6.0%), but lower than our estimate of 13.6% on account of lower Gross Margins. Raw Material cost for the quarter increased by 25.2% to Rs37.4cr (Rs29.9cr) resulting in lower Gross Margins. For 9MFY2010, OPM expanded by 40bp yoy to 15.0% (14.6%) on the back of lower SG&A expenses.

Bottom-line driven by OPM expansion: The company reported Net Profit of Rs7.7cr (Rs0.6cr), up 1,126% yoy driven by OPM expansion and lower Interest cost. However, Bottom-line was affected by forex loss of Rs1.2cr (Gain Rs0.6cr). For 9MFY2010, the company reported Net Profit of Rs33.8cr (Rs27.4cr), up 23.3% yoy.

Other Takeaway

Indoco has entered into a supply agreement with Watson (among the Top-5 generic companies in the US) for a basket of seven products, which currently has market size of US \$679mn. Indoco plans to file ANDA for these products from 4QFY2010 onwards. We expect substantial Revenue flow from the deal to commence from FY2013E onwards.

Exhibit 1: 3QFY2010 Performance

Y/E March (Rs cr)	3QFY10	3QFY09	%chg	9MFY10	9MFY09	%chg
Net Sales	95.7	77.9	22.8	289.5	266.0	8.8
Other Income	(0.9)	1.3	(1.7)	2.2	3.1	(0.3)
Total Income	94.8	79.2		291.7	269.2	8.4
PBIDT	12.3	4.7	161.7	43.3	38.8	11.7
OPM (%)	12.9	6.0		15.0	14.6	
Interest	0.6	1.7	(65.5)	2.2	4.6	(52.0)
Dep & Amortisation	3.0	2.8	8.6	8.7	8.2	6.9
PBT	8.7	0.2	5010.0	34.6	29.2	18.5
Provision for Taxation	0.1	0.8	(91.5)	0.8	1.8	(55.0)
Reported Net Profit	7.7	0.6	1,126.5	33.8	27.4	23.3
Less : Exceptional Items	0.0	0.0		0.0	0.0	
PAT after Exceptional Items	7.7	0.6	1,126.5	33.8	27.4	23.3
EPS (Rs)	6.3	0.5		27.5	22.3	

Source: Company, Angel Research

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 the 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 Domestic Sales. Indoco now proposes to scale up its Exports through higher exposure to the Regulated markets.

We expect Net Sales to post a CAGR of 15.2% to Rs5,36.2cr and EPS to clock a CAGR of 24.0% to Rs54.1 over FY2010-12E. Indoco is currently trading at 7.7x and 6.2x FY2011E and FY2012E Earnings, respectively. **We maintain a Buy on the stock, with a 15-month Target Price of Rs433.**

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Note: Please refer important 'Stock Holding Disclosure' report on Angel web-site (Research Section).

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 Rs 5 lakh for Angel, its Group companies and Directors.

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