



NEUTRAL

Price	Rs151
Target Price	-
Investment Period	-

Stock Info

Sector	Pharmaceuticals
Market Cap (Rs cr)	177
Beta	0.4
52 WK High / Low	325/104
Avg. Daily Volume	5899
Face Value (Rs)	10
BSE Sensex	12,135
Nifty	3,646
BSE Code	532612
NSE Code	INDOCO
Reuters Code	INRM.BO
Bloomberg Code	INDR@IN

Shareholding Pattern (%)

Promoters	59.0
MF/Banks/Indian FIs	11.3
FII/ NRIs/ OCBs	3.3
Indian Public/others	26.4

Abs.	3m	1yr	3yr
Sensex (%)	31.9	(31.1)	(1.7)
Indoco (%)	29.7	(50.5)	(61.4)

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Performance Highlights

■ **Net Sales down by 2%:** For 4QFY2009, Indoco posted a yoy 2.4% decline in Net Sales to Rs85.0cr, which was however above our estimate. The company continued to register de-growth in its Domestic Formulations Segment recording a 5.6% yoy decline in Sales to Rs57.7cr. Exports, on the other hand, posted 4.4% yoy growth to Rs24.1cr primarily driven by the Semi-Regulated Formulations Segment, which grew 34.2% yoy. However, the Regulated Formulations and API Segments de-grew by 1.1% and 25.6% yoy, respectively.

For FY2009, the company's Net Sales stood at Rs351.0cr as against our estimate of Rs346.4cr. Exports, which contributed 28.6% to Top-line, were mainly driven by the Regulated Formulation Segment (contributed a substantial 75.6% to Exports). During the quarter, Indoco and partner bagged the AOK tender in Germany for *Metformin* supply over two years with a potential contract size of US \$10mn.

■ **Operating Margins contract by 325bp:** For 4QFY2009, Indoco reported a decline in Operating Margins by 325bp to 7.9% on the back of the increase in Employee costs and Other Expenses by 6.7% and 4.5%, respectively. For FY2009, the company reported OPM of 13.1% against our estimate of 13.8%.

■ **Net Profit falls 46%:** Indoco reported Net Profit of Rs3.9cr for the quarter, down 46.6% yoy on account of the drop in Net Sales and contraction in OPM. For FY2009, Net Profit came in at Rs31.3cr, which was ahead of our expectation of Rs29cr.

Key Financials

Y/E March (Rs cr)	*FY2008	FY2009	FY2010E	FY2011E
Net Sales	262.7	351.0	404.3	455.5
% chg	(19.4)	33.6	15.2	12.7
Net Profit	30.1	31.3	38.1	44.5
% chg	(28.4)	4.0	21.5	17.0
EPS (Rs)	24.5	25.5	31.0	36.3
EBITDA Margin (%)	16.3	13.1	14.6	14.5
P/E (x)	6.2	5.9	4.9	4.2
RoE (%)	12.4	10.9	13.1	13.8
RoCE (%)	12.9	11.9	13.6	14.2
P/BV (x)	0.7	0.6	0.6	0.5
EV/Sales (x)	0.7	0.6	0.5	0.4
EV/EBITDA (x)	4.4	4.2	3.3	2.5

Source: Company, Angel Research; Note: *For Nine months ended March 31, 2008

Business Performance

Domestic Sales declines 5%

For 4QFY2009, the company continued to post dismal performance on the Domestic front. Overall Domestic Sales de-grew 4.9% to Rs60.7cr on the back fall in Domestic Formulation Sales by 5.6% to Rs57.7cr. The company attributes the fall in Domestic Formulation Sales to the strong credit control measures adopted by it in 1QFY2009. According to ORG Marg February 2009, Indoco ranked 25th in the Domestic Formulations market.

For FY2009, the company reported Domestic sales of Rs250.6cr, which were in line with our estimates. In the Therapeutic Segments, the company is witnessing strong traction in the Dental and Nutrition Segments.

Export Sales post single-digit growth

For 4QFY2009, Exports grew by a mere 4.4% yoy to Rs24.1cr on the back of de-growth in the Regulated Formulation market by 1.1% yoy. However, the Semi-Regulated Formulation market posted healthy growth of 34.2% to Rs5.9cr

For FY2009, Export sales stood at Rs100.3cr and were higher than our estimate of Rs95.9cr on account of higher contribution from both the Regulated and Semi-Regulated Formulations markets. During the quarter, the company along with its partner bagged the AOK tender in Germany for supplying *Metformin* over a period of two years with a potential contract size of US \$10mn. The tender covers all the three strengths and five territories in Germany. Indoco also bagged a tender from Sudan worth US \$0.34mn spread over two years.

Outlook and Valuation

For FY2010, we expect Net Sales to grow by 15.2% following revival of the company's Domestic Formulations business and strong traction in Exports. We expect the company's FY2010 OPM to improve to 14.6% on the back of growth in Top-line, and expect the company to report an EPS of Rs31.0.

On the bourses, in the last three months, the stock has moved up by 29.7% and is currently trading at 4.9x FY2010E Earnings. **We recommend Neutral on the stock.**

Exhibit 1: 4QFY2009 Performance

Y/E March (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	% chg
Net Sales	85.0	87.1	(2.4)	351.0	262.7	33.6
Other Income	1.4	0.7		3.9	2.5	
Total Income	86.4	87.8		355.0	265.2	33.8
PBIDT	6.7	9.7	(31.0)	46.1	42.8	7.8
OPM (%)	7.9	11.1		13.1	16.3	
Interest	1.3	1.4	(5.8)	5.9	3.6	61.7
Dep & Amortisation	3.0	2.7		11.2	7.8	
PBT	2.4	5.6	(57.5)	33.0	33.9	(2.5)
Provision for Taxation	(0.1)	(2.6)		1.7	1.9	
Reported Net Profit	3.9	8.9	(56.3)	31.3	30.3	3.2
Less : Exceptional Items	0.0	1.6		0.0	0.0	
PAT after Exceptional Items	3.9	7.3	(46.6)	31.3	30.3	3.2
EPS (Rs)	3.2	6.0		25.5	24.5	

Source: Company, Angel Research


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