

Indoco Remedies

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Shareholding (%)

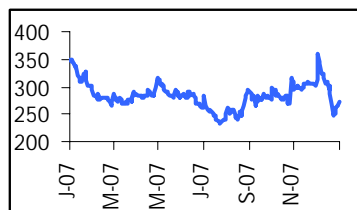
Promoters	60.3
FII's	5.5
MF's	11.1
Others	23.1

Share price performance

52-week high/low (Rs)	391/215		
	-1m	-3m	-12m
Abs (%)	-12.1	-0.7	-21.6
Rel* (%)	3.7	11.2	-48.2

*to Nifty

Stock chart



Sound prospects; 'BUY' maintained

During Q2FY08, Indoco Remedies Ltd. (Indoco) reported revenues of Rs912mn, EBITDA of Rs164mn, and PAT of Rs118.5mn. The company's EBITDA margins increased to 18% from 17.6% in Q2FY07, and PAT margin improved to 13% from 12.1% during the same period. Indoco registered a 17% growth in domestic sales to Rs729mn, primarily due to growth in anti-infective and dental segment.

At the current price of Rs274, the stock is trading at a P/E of 6.5x FY08E EPS of Rs42.3 and 5.0x FY09E EPS of Rs54.7. We maintain our 'Buy' rating on the stock with a target price of Rs340 (8x FY08E).

- ▲ During Q2FY08, Indoco's domestic formulation sales increased by 17% YoY. This was mainly due to 37.4% growth in the anti-infective segment and a 31.3% growth in the dental segment. Indoco launched 11 new products during the quarter and was successful in consolidating its new division Spera, launched in Q1FY08.
- ▲ Formulation exports increased by 23.3% to Rs192mn, with regulated markets growing at 24.4% to Rs155mn and semi-regulated markets growing at 18.9% to Rs37.1mn. Indoco started operations in two markets namely, Costa Rica and Peru, and has decided to focus on Latin American markets for its branded generics.
- ▲ In Q2FY08, Indoco signed a JV with Amneal U.S.A., to develop, manufacture, market, and distribute ophthalmic products for the U.S. market. The company expects to get USFDA approval for three ophthalmic products in FY09E.
- ▲ In Q2FY08, Indoco received ANDA approval for its diclofenac ophthalmic solution and is in the process of shipping the same.
- ▲ The API segment, with sales at Rs60.1mn, is in a nascent stage; the management is confident of the segment's satisfactory performance in future.
- ▲ The company's all three facilities started operating at optimum capacity. Its plants are: the Kilo Plant-Rabale (as per cGMP, EDQM, USFDA standards), the Multi-Ton Plant-Patalganga (as per cGMP, EDQM, USFDA standards) and API & Intermediate Plant - Rabale (as per Local GMP Standards). The Kilo and Multi-Ton plant are being prepared for regulatory inspections like USFDA & EDQM so that

Buy

Rs274

31 January 2008

Market cap

Rs bn 3

US\$ mn 85

Avg 3m daily volume

25,599

Avg 3m daily value

Rs mn 8

Shares outstanding (mn)

12

Reuters/Bloomberg

INRM.BO/INDR.IN

NSE/BSE

INDOCO/532612

Sensex

17,759

Nifty

5,168

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products can be exported to the U.S. and European markets. At present, Indoco's products are exported to more than 25 countries.

- ▲ Indoco's ultra modern R&D centre is spread over 70,000 sq. feet. The present strength is 100 scientists including eight doctorates.
- ▲ As per ORG Mat Nov'07, Indoco was successful in maintaining its position in prescriptiOn audit (23rd position) and has improved its position in retail audit (from 33rd position to 30th position).
- ▲ During Q2FY08, Indoco closed down its manufacturing operations at Tarapur, Maharashtra, and offered VRS to the unit's employees. The VRS amount was shown as an extra-ordinary item. During FY07, the company had also closed down its manufacturing operations at Andheri, Mumbai, and offered VRS to the employees of that unit.
- ▲ API R&D has successfully developed ten molecules that are under various stages of development, from technology transfer to commercial production. Another 15 products are under development.
- ▲ In the formulation segment, Indoco's R & D Centre is capable of handling formulation developments in various dosage forms, NDDS, and technology platforms. The above efforts are supplemented by the company's regulatory department that has tie-ups with external CROs to conduct bio-equivalence studies and clinical trials. Euro-dossiers for solid oral products are in the process of development at various stages in CTD format.
- ▲ To meet the requirement from the domestic market, Indoco has decided to put up additional production facilities for formulations at Baddi, Himachal Pradesh. The commercial production is expected to start during FY10E. Consequently, the company would cater to its requirement of international business from the Goa Plant, as well as from its existing plant at Baddi.
- ▲ The Goa plant I & II have been approved by the South African Regulatory Authority – MCC; this would enable Indoco to commence business in South African markets on approval of its dossiers.
- ▲ Indoco has successfully completed the audit of its Goa Plant I by TGA, Australia, and would export to Australia and New Zealand after securing approval of dossiers.
- ▲ Indoco has completed several formulation development/ dossier development projects for various European companies. The company has also filed application for COS with EDQM for two products; DMFs for two products have also been submitted to USFDA.
- ▲ By Q3FY08E, Indoco would be able to file application for COS for another three products; DMF for two products would also be submitted to USFDA during this period. This will help increase the company's exposure to international markets.

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- ▲ Currently, the stock is quoting at a PER of 6.5x and 5.0x FY08E and FY09E respectively. Indoco is expected to grow at a two-year CAGR of 24.7%. This growth will be driven by (a) scaling up its European contracts, (b) huge potential in the US ophthalmic market, (c) above average growth in the domestic market, and (d) higher API sales in the U.S. market. Therefore, we maintain our 'Buy' rating on the stock.

Table 1. Quarterly result table

Rs mn	Q2FY08	Q1FY08	QoQ (%)	Q2FY07	YoY (%)
Net Sales	911.8	844.3	8.0%	794.2	14.8%
Expenditure	747.9	683.7		654.2	
EBITDA	163.9	160.6	2.1%	140.0	17.1%
Depreciation	25.9	25.1		20.6	
EBIT	138.0	135.5	1.8%	119.4	15.6%
Interest	10.5	12.0		18.5	
Other Income	16.9	7.3		13.1	
PBT & EI	144.4	130.8	10.4%	114.0	26.7%
Extraordinary Item	-2.1	0.0		0.0	
PBT	142.3	130.8		114.0	
Tax	23.8	22.3		17.7	
PAT	118.5	108.5	9.2%	96.3	23.1%
Equity Capital	122.9	122.9		118.2	
EPS	9.6	8.8		8.1	
Ratios %					
EBITDA Margin	18.0	19.0		17.6	
Tax / PBT	16.7	17.0		15.5	
PAT Margin	13.0	12.9		12.1	

Source: IISL research, company

Financials
Profit & Loss

In Rs million	FY06	FY07	FY08E	FY09E
Net sales	2,434.3	3,259.9	4,114.8	5,071.3
YoY (%)	25.4	33.9	26.2	23.2
Total expenses	2,029.0	2,667.9	3,324.0	4,066.9
Inc/dec in stock	(32.6)	(9.0)	(41.0)	(58.0)
Raw material cost	1,110.1	1,422.3	1,787.7	2,180.6
Staff cost	268.3	341.5	426.2	535.8
Power and fuel cost	70.6	101.6	127.7	157.4
Other manufacturing expens	39.2	52.3	61.9	67.2
Selling Expenses	155.7	200.1	259.9	320.3
Other expenses	417.8	559.0	701.6	863.5
EBIDTA	405.3	592.0	790.8	1,004.5
YoY (%)	(1.5)	46.1	33.6	27.0
EBIDTA (%)	16.6	18.2	19.2	19.8
Other income	84.1	48.3	48.3	48.3
PBIDT	489.3	640.3	839.1	1,052.8
Interest	35.2	50.9	76.4	91.7
Gross profit	454.1	589.4	762.6	961.1
Depreciation	59.5	90.3	112.3	121.8
PBT and extra ordinary	394.6	499.2	650.3	839.3
Extra ordinary items	3.8	(33.0)	0.0	0.0
PBT	398.4	466.1	650.3	839.3
(-) Tax	114.6	45.8	130.1	167.9
Tax/ PBT	28.8	9.8	20.0	20.0
PAT	283.8	420.4	520.3	671.5
Adjusted net profit	283.8	420.4	520.3	671.5
YoY (%)	13.3	48.1	23.8	29.1

Balance Sheet

In Rs million	FY06	FY07	FY08E	FY09E
Equity capital	118.2	118.2	122.9	122.9
Preference capital	0.0	0.0	0.0	0.0
Reserves	1,826.0	2,206.7	2,624.4	3,189.7
Net worth	1,944.2	2,324.9	2,747.3	3,312.5
Total borrowings	332.6	355.5	573.0	650.0
Deferred tax	175.3	206.9	206.9	206.9
Total liabilities	2,452.1	2,887.3	3,527.2	4,169.5
Gross block	1,311.6	2,067.2	2,371.8	2,471.8
Less: Acc. depreciation	261.9	396.4	508.7	630.5
Net block	1,049.6	1,670.8	1,863.1	1,841.3
CWIP	45.5	16.8	50.0	50.0
Investments	114.9	0.0	0.0	331.1
Current assets	1,810.7	1,777.3	2,291.2	2,719.5
Inventories	328.3	379.7	414.5	506.0
Debtors	834.1	1,036.9	1,304.0	1,607.1
Cash	246.3	154.3	366.3	400.0
Loans and advances	402.1	206.4	206.4	206.4
Current liabilities	468.1	464.8	550.0	641.5
Provisions	100.6	112.7	127.1	130.8
Net current assets	1,242.0	1,199.8	1,614.1	1,947.1
Miscellaneous expenses	(8.8)	0.0	0.0	0.0
Total assets	2,452.1	2,887.3	3,527.2	4,169.5

Key Ratios

	FY06	FY07	FY08E	FY09E
EPS (Rs)	24.0	35.6	42.3	54.7
CEPS (Rs)	35.6	45.5	51.5	64.6
Book value (Rs)	164.5	196.7	223.6	269.6
Dividend per share (Rs)	7.1	7.9	8.8	9.1
Debt-equity (x)	0.2	0.2	0.2	0.2
ROCE (%)	15.2	18.7	20.4	22.3
ROE (%)	14.6	18.1	18.9	20.3

Valuations

	FY06	FY07	FY08E	FY09E
PE (x)	11.4	7.7	6.5	5.0
Cash PE (x)	7.7	6.0	5.3	4.2
Price/book value (x)	1.7	1.4	1.2	1.0
Dividend yield (%)	2.6	2.9	3.2	3.3
Market cap/sales (x)	1.3	1.0	0.8	0.7
EV/sales (x)	1.4	1.1	0.9	0.7
EV/EBDITA (x)	8.2	5.8	4.5	3.6

Cash Flow

In Rs million	FY06	FY07	FY08E	FY09E
Net profit	283.8	420.4	520.3	671.5
Depn and w/o	70.9	95.6	117.6	127.1
Deferred tax	77.6	27.5	0.0	0.0
Change in working cap	(309.5)	(49.8)	(202.3)	(299.3)
Other income	(84.1)	(48.3)	(48.3)	(48.3)
Operating cash flow	38.8	445.4	387.3	450.9
Other income	84.1	48.3	48.3	48.3
Capex	(193.2)	(682.7)	(337.8)	(100.0)
Investments	285.8	114.9	0.0	(331.0)
Investing cash flow	176.7	(519.4)	(289.5)	(382.7)
Dividend	(84.2)	(93.4)	(107.8)	(111.6)
Fresh equity	0.3	50.2	0.0	0.0
Debt	(165.0)	22.9	217.5	77.0
Financing cash flow	(248.9)	(20.3)	109.6	(34.5)
Others	(6.1)	2.4	4.7	0.0
Net change in cash	(39.5)	(92.0)	212.1	33.7
Opening cash	285.8	246.3	154.3	366.3
Closing cash	246.3	154.3	366.3	400.0

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