

BUY

Price	Rs 290
Target Price	Rs 460
Investment Period	18- months

Stock Info

Sector	Pharmaceuticals
Market Cap (Rs cr)	360
Beta	0.43
52 WK High / Low	384/222
Avg Daily Volume	6775
Face Value (Rs)	10

BSE Sensex	17,373
Nifty	5,145

BSE Code	532612
NSE Code	INDOCO
Reuters Code	INRM.BO
Bloomberg Code	INDR IN

Shareholding Pattern (%)

Promoters	60.3
MF/Banks/Indian FIs	11.1
FII/ NRIs/ OCBs	9.2
Indian Public	19.4

Abs.	3m	1yr	3yr
Sensex (%)	(1.1)	24.9	167.5
Indoco (%)	11.3	2.3	(0.1)

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Performance Highlights

The company has changed its financial year from June to March, thus FY2008 for the company is for 9 months.

■ **Net Sales grows by 18.3%:** For 3QFY2008, the company posted Net Sales of Rs87cr (Rs 73.6cr), a yoy growth of 18.3%. For FY2008 (9MFY2008), the company logged Sales of Rs262.7cr (Rs 225.7cr) registering a yoy growth of 16.4%. Sales growth during the period came mainly on the back of Exports, which registered a yoy growth of 22.8% and 21.9% during 3QFY2008 and FY2008, respectively.

■ **OPM expansion restricted owing to rise in expenditure:** During 3QFY2008, Gross Margins expanded by 200bp. However, the same was not reflected on the Operating front, with OPMs expanding by 100bp to end the period at 11.1% (10.1%). OPM expansion was restricted due to the substantial increase in Staff costs and R&D expenditure, which registered a yoy rise of 35% and 99.3%, respectively.

For FY2008, OPMs expanded by 176bp to 16.3% (14.5%). The increase on the Operating front came on the back of 147bp point expansion in Gross Margins to 57% (55.6%) and lower Other Expenditure (up 4.5%). Staff costs and R&D expenditure during the period increased 33.3% and 86.1%, respectively.

■ **Net Profit surges 248.6%:** While Operating Profits grew 29.9% yoy, Net Profits grew by a substantial 248.1% to Rs7.3cr (Rs 2.1cr). Lower Interest expenditure and Tax write-back of Rs3.5cr aided this substantial rise in Net Profits.

For FY2008, Net Profit registered a growth of 50.5% to Rs30.1cr (Rs20cr) mainly on the back of better Operating performance and lower Tax outgo. For the period, Tax outgo was 4.1% of PBT v/s 13.3% of PBT in the corresponding period of last year.

Exhibit 1 : Key Financials (Consolidated)

Y/E Mar (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	324.0	262.7	426.2	491.4
% chg	34.4	(18.9)	62.2	15.3
Net Profit	46.1	30.0	57.1	66.6
% chg	46.4	(34.8)	90.1	16.7
EPS (Rs)	35.2	25.5	48.4	56.5
EBITDA Margin (%)	17.7	16.3	18.5	18.5
P/E (x)	8.2	11.4	6.0	5.1
RoE (%)	21.4	12.7	21.9	22.4
RoCE (%)	20.2	12.6	22.4	23.1
P/BV (x)	1.5	1.4	1.2	1.1
EV/Sales (x)	1.1	1.4	0.8	0.7
EV/EBITDA (x)	6.1	8.6	4.2	3.6

Source: Company, Angel Research, Note: FY2008 numbers are for 9Months

Business Performance

Exports post robust growth

In FY2008, the company's performance was mainly driven by Exports. On a yoy basis, the company's Exports grew 21.9%. With this, overall contribution of Exports in the overall pie increased to 22.7% (21.9%). The company's revenue from Formulation Export Business during the period yoy grew by 32.6%. The Semi-Regulated markets clocked yoy growth by 38.9%.

During 3QFY2008, Exports registered a yoy growth of 22.8% to Rs23.1cr (Rs18.8cr). Growth in Exports was primarily aided by Formulation Exports, which registered a growth of 31.6% to Rs21.8cr (Rs16.6cr). The Regulated Markets witnessed a significant jump of 42.0% to Rs17.5cr (Rs12.3cr) whereas the Semi-Regulated market registered a marginal improvement of 1.6% to Rs4.34cr (Rs4.27cr). API Exports, on the other hand, de-grew by 41.6% and 54.6% to Rs1.3cr (Rs2.3cr) and Rs2.8cr (Rs6.1cr) during 3QFY2008 and FY2008, respectively.

In terms of filings, the company received approval of 2 ANDAs (*Ciprofloxacin* and *Doclofenac Ophthalmic Solution*) and shipped its first consignment of *Doclofenac* in the US Markets in March 2008. As regards the Amneal deal (for which the company would be developing 10 products), the company expects filings to start from August 2008 and commercialization of the products from FY2010. However, FY2011 will reflect full-year sales from the products.

Domestic Formulations

Indoco's Domestic Formulation business posted a yoy growth of 13.7% and 13.9% to Rs61cr (Rs53.9cr) and Rs195.9cr (Rs172.1cr) in 3QFY2008 and FY2008, respectively. Growth during the period was aided by the Top brands like *Vepan*, *Febrex Plus*, *Oxipod*, *Cyclopam*, *Sensodent-K/KF*, *Sensoform*, *Karvol Plus*, *Tuspel*, *Cital* and *Methycal*. During FY2008, the company's Top-6 brands, which constitute around 60% of its Domestic Formulation Sales, registered a yoy growth of 15%. Going ahead, the Top brands along with the New Product introductions in the Life-style segment would aid growth of the Domestic Formulations segment.

Valuation and Outlook

At the CMP, the stock is trading at 6.0x FY2009E and 5.1x FY2010E Earnings, which we believe is attractive given the company's growth prospects. Going ahead, we expect Topline to clock a CAGR growth of 15% over FY2007-10 primarily led by Exports. The growth in Exports would be on the back of better contribution from the Regulated market to 22% of Sales during FY2010E (17% of Sales during FY2008) from the Regulated market, registering a CAGR of 36% over FY2007-10E. Also, the company plans to augment capacity of its Formulation plant in Baddi to meet the domestic requirements. On the Operating Margin front, the company will witness an expansion of 220bp to 18.5% in FY2010E (16.3% in FY2008) on the back of better product mix, thereby registering a CAGR growth of 13% in Bottomline over FY2007-10E. **We maintain a Buy on the stock, with an 18-month Target Price of Rs460.**

3QFY2008 Performance (Consolidated)						
Y/E March (Rs cr)	3QFY2008	3QFY2007	% chg	9MFY2008	9MFY2007	% chg
Net Sales	87.1	73.6	18.3	262.7	225.7	16.4
Other Income	0.7	0.4		2.5	2.2	
Total Income	87.8	74.0	18.7	265.2	227.8	16.4
PBIDT	9.7	7.4	29.9	42.8	32.8	30.5
OPM (%)	11.1	10.1		16.3	14.5	
Interest	1.4	2.2		3.6	3.5	
Dep & Amortisation	2.7	2.2		7.8	6.5	
PBT	6.35	3.5	82.5	33.9	25.0	35.6
Provision for Taxation	(2.6)	1.4		2.0	5.0	
Reported Net Profit	8.9	2.1	325.2	31.9	20.0	59.6
Less : Exceptional Items	1.6	0		1.8	0	
PAT after Exceptional Items	7.3	2.1	248.1	30.1	20.0	50.5
EPS (Rs)	7.3	1.8		25.4	16.9	


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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)