

October 30, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		REDUCE	
Target Price	157		130	
Sales (Rs. m)	11,445	12,962	11,409	12,835
% Chng.	0.3	1.0		
EBITDA (Rs. m)	1,179	1,452	1,512	1,932
% Chng.	(22.0)	(24.8)		
EPS (Rs.)	5.1	7.5	7.7	11.2
% Chng.	(33.7)	(33.3)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	9,421	11,445	12,962	14,693
EBITDA (Rs. m)	503	1,179	1,452	1,792
Margin (%)	5.3	10.3	11.2	12.2
PAT (Rs. m)	(21)	469	688	943
EPS (Rs.)	(0.2)	5.1	7.5	10.2
Gr. (%)	(104.5)	(2,321.6)	46.7	37.1
DPS (Rs.)	1.0	1.0	1.0	-
Yield (%)	0.6	0.6	0.6	-
RoE (%)	(0.3)	6.9	9.5	11.7
RoCE (%)	(2.3)	5.1	7.7	10.3
EV/Sales (x)	1.8	1.4	1.3	1.1
EV/EBITDA (x)	33.3	14.0	11.2	8.9
PE (x)	(696.4)	31.3	21.4	15.6
P/BV (x)	2.2	2.1	1.9	1.7

Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.239 / Rs.132
Sensex / Nifty	40,052 / 11,844
Market Cap	Rs.15bn / \$ 207m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.17.27m

Shareholding Pattern (%)

Promoter's	58.69
Foreign	2.06
Domestic Institution	14.79
Public & Others	24.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.1	(20.2)	(14.8)
Relative	0.5	(22.2)	(27.9)

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Regulatory overhang fading away but guided lower in H2; Valuation remain challenging

Net sales and adj. EBITDA grew by 21% and 113% YoY respectively. India formulation sales increased by 17% YoY, while it maintained guidance 15% YoY for FY20E. The sales in regulated markets increased by 42% YoY and led overall increase in exports by 40% YoY in Q2FY20 as UK sales gradually ramping up post re-instating GMP compliance by UK MHRA. The plant related manufacturing issues (mainly delay in re-approval of Goa Unit-2 by UK MHRA) are guided to have resolution in near to medium term. Exports in non-regulated markets increased by 36% with the benefits of lower base YoY.

While management achieved US FDA resolutions in Goa Unit-2 and 3, as well as MHRA approval in Goa Unit-1, INDR achieved two PAIs (pre-approval inspection) from USFDA with only two minor observations. It guided approval of 2-3 ANDA approvals of sterile products (mainly ophthalmic and Inj) and one oral product. The delay in re-approval of UK MHRA however decreased guidance of EU revenues to Rs1.75 bn vs. earlier guidance of Rs2 bn in FY20E.

Management maintained low double digit growth of India formulations in FY20E on the back of better growth in acute therapy portfolio, driven by AI, GI and stomatology segments. With acute-heavy portfolio and seasonally challenging period of H2FY20E, we estimate 13% YoY growth in FY20E. Nevertheless, there will be a benefit of lower base in India formulations which grew only at 2% YoY in FY19.

INDR trades at PER of 31.4x FY20E and 21.4x FY21E earnings. It has guided for better productivity of India sales team and USFDA approvals from sterile unit in H2FY20E. With structural degradation in the sector valuation, there are still a sizable gap between guidance and achievement of key targets. The US market prospects changed significantly with approved products being highly competitive and hardly having any economic feasibility to re-enter in those products. Teva planned to return some of its ophthalmic ANDAs due to indistinct economic prospects. While there are challenging comparative valuations in comparison to its growth and peers, we also accept that there will be improvement in assigned multiple due to better clarity in regulatory clearance. We assign 60% discount to earnings growth in FY21 and value INDR at TP of Rs157 (21x if FY21E EPS). At current valuation, it has neutral risk-return matrix. We upgrade our recommendation to 'Hold' while improve TP of Rs157 from Rs130.

Exhibit 1: Q2FY20 Result Overview (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net Sales	2,856	2,359	21.1	2,472	5,328	4,484	18.8
Raw Material	896	796	12.5	856	1,752	1,509	16.1
<i>% of Net Sales</i>	<i>31.4</i>	<i>33.8</i>		<i>34.6</i>	<i>32.9</i>	<i>33.7</i>	
Personnel Cost	639	585	9.2	606	1,245	1,146	8.7
<i>% of Net Sales</i>	<i>22.4</i>	<i>24.8</i>		<i>24.5</i>	<i>23.4</i>	<i>25.6</i>	
Others	1,064	857	24.1	837	1,901	1,643	15.7
<i>% of Net Sales</i>	<i>37.2</i>	<i>36.3</i>		<i>33.9</i>	<i>35.7</i>	<i>36.6</i>	
Total Expenditure	2,598	2,238	16.1	2,299	4,898	4,298	14.0
EBITDA	258	121	113.3	173	430	186	131.2
<i>Margin (%)</i>	<i>9.0</i>	<i>5.1</i>		<i>7.0</i>	<i>8.1</i>	<i>4.2</i>	
Depreciation	180	177	2.2	170	350	344	1.9
EBIT	77	(56)	NA	3	80	(158)	(150.8)
Other Income	70	1	NA	61	131	54	142.2
Interest	54	50	7.2	61	115	122	(5.7)
PBT	93	(105)	NA	3	96	(226)	NA
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	20	(27)	NA	(19)	0	(27)	NA
<i>ETR (%)</i>	<i>21.3</i>	<i>25.9</i>		<i>(691.4)</i>	<i>0.5</i>	<i>12.1</i>	
Reported PAT	73	(78)	NA	22	95	(198)	NA
Other Comprehensive Income	(1)	-		(1)	(2)	-	
Total Other Comprehensive Income	72	(78)	NA	21	93	(198)	NA

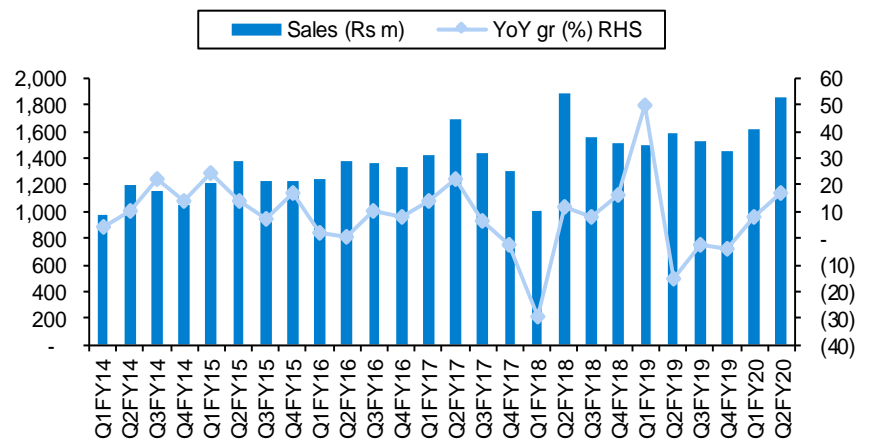
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major sources of revenues	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Domestic	1,926	1,649	16.7	1,702	3,628	3,229	12.3
Formulations	1,863	1,590	17.2	1,616	3,479	3,087	12.7
APIs	63	60	5.0	86	149	143	4.3
Exports	913	660	38.2	744	1,657	1,149	44.2
Formulations	741	528	40.3	593	1,335	943	41.6
Reg mkt	516	363	42.1	432	948	657	44.3
Non-reg mkt (Emerging mkt)	225	165	36.3	161	386	286	35.3
APIs	171	132	29.9	151	322	206	56.2
Net Sales	2,838	2,309	22.9	2,446	5,284	4,378	20.7
Add: Analytical & Testing Rev.	18	50		26	44	106	
Net Revenues	2,856	2,359	21.1	2,472	5,328	4,484	18.8

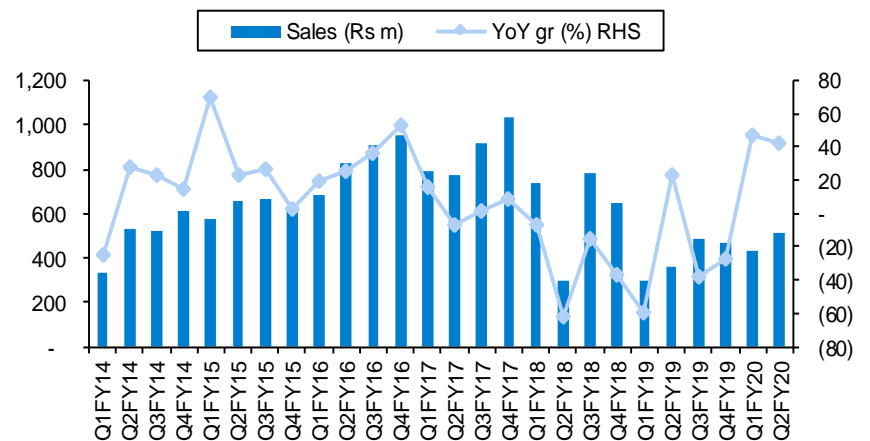
Source: Company, PL

Exhibit 3: Domestic formulations sales, growth



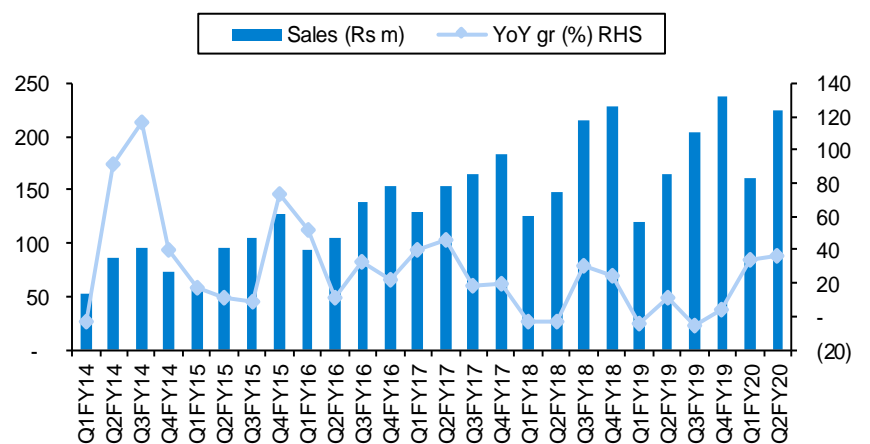
Source: Company, PL

Exhibit 4: Export: Regulated Mkt. Sales, growth



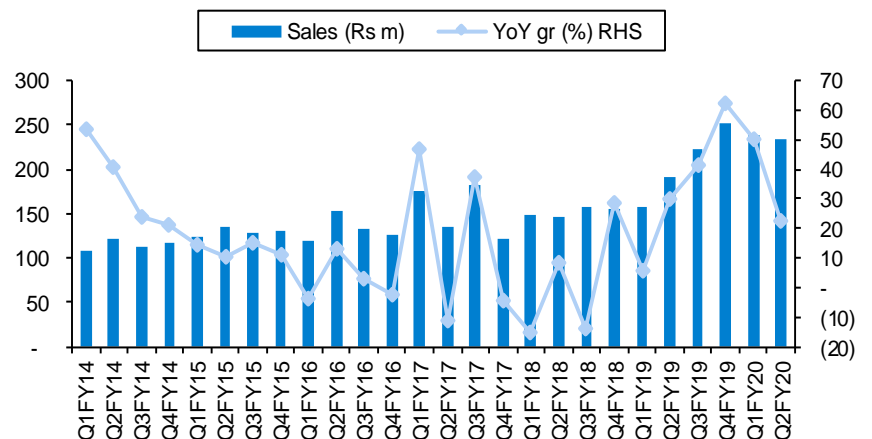
Source: Company, PL

Exhibit 5: Export, Semi-Reg. mkt sales



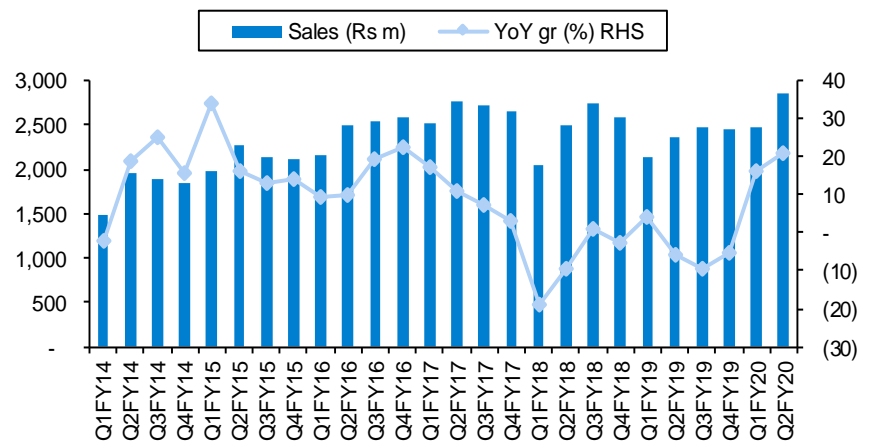
Source: Company, PL

Exhibit 6: API sales and growth



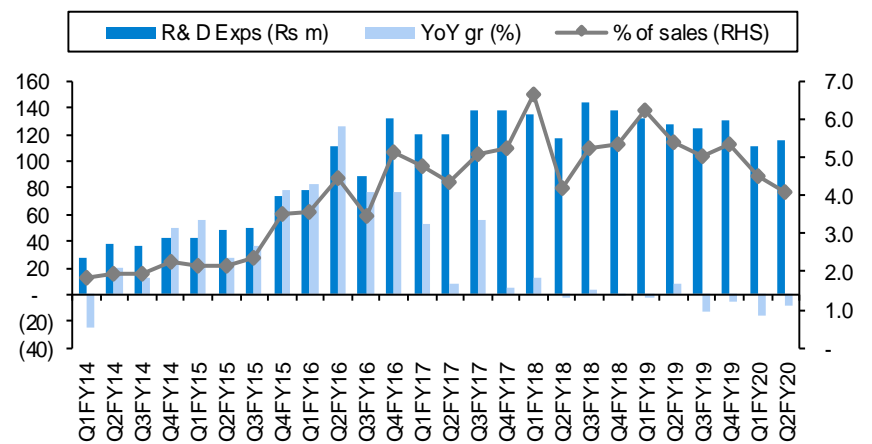
Source: Company, PL

Exhibit 7: Overall sales and growth



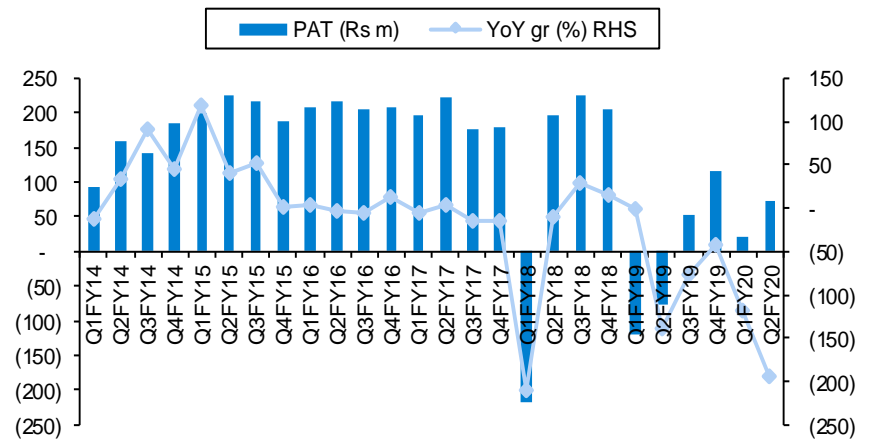
Source: Company, PL

Exhibit 8: R&D Exps as % of sales



Source: Company, PL

Exhibit 9: Adj. PAT, growth



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	9,421	11,445	12,962	14,693
YoY gr. (%)	(7.7)	21.5	13.3	13.4
Cost of Goods Sold	3,203	3,720	4,148	4,628
Gross Profit	6,218	7,726	8,814	10,064
Margin (%)	66.0	67.5	68.0	68.5
Employee Cost	2,317	2,518	2,787	3,159
Other Expenses	515	481	557	632
EBITDA	503	1,179	1,452	1,792
YoY gr. (%)	(54.6)	134.4	23.1	23.5
Margin (%)	5.3	10.3	11.2	12.2
Depreciation and Amortization	716	716	726	756
EBIT	(213)	463	726	1,037
Margin (%)	(2.3)	4.0	5.6	7.1
Net Interest	205	190	176	162
Other Income	325	328	332	335
Profit Before Tax	(93)	601	882	1,209
Margin (%)	(1.0)	5.3	6.8	8.2
Total Tax	(72)	132	194	266
Effective tax rate (%)	77.3	22.0	22.0	22.0
Profit after tax	(21)	469	688	943
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(21)	469	688	943
YoY gr. (%)	(104.5)	(2,321.6)	46.7	37.1
Margin (%)	(0.2)	4.1	5.3	6.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(21)	469	688	943
YoY gr. (%)	(104.5)	(2,321.6)	46.7	37.1
Margin (%)	(0.2)	4.1	5.3	6.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(21)	469	688	943
Equity Shares O/s (m)	92	92	92	92
EPS (Rs)	(0.2)	5.1	7.5	10.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	9,366	10,016	10,666	11,466
Tangibles	7,215	7,715	8,215	8,715
Intangibles	2,151	2,301	2,451	2,751
Acc: Dep / Amortization	4,690	5,407	6,133	6,889
Tangibles	3,048	3,452	3,902	4,357
Intangibles	1,642	1,954	2,231	2,531
Net fixed assets	4,676	4,609	4,533	4,577
Tangibles	4,166	4,262	4,313	4,357
Intangibles	509	347	221	220
Capital Work In Progress	1,854	1,249	862	600
Goodwill	1	1	1	1
Non-Current Investments	64	71	59	50
Net Deferred tax assets	355	385	429	490
Other Non-Current Assets	251	263	266	270
Current Assets				
Investments	-	-	-	-
Inventories	1,835	2,132	2,379	2,657
Trade receivables	1,958	2,414	2,734	3,019
Cash & Bank Balance	363	385	484	574
Other Current Assets	1,119	1,175	1,199	1,438
Total Assets	12,581	12,819	13,074	13,835
Equity				
Equity Share Capital	184	184	184	184
Other Equity	6,422	6,802	7,378	8,321
Total Networkth	6,606	6,987	7,563	8,506
Non-Current Liabilities				
Long Term borrowings	1,287	1,158	1,042	938
Provisions	160	136	115	98
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,134	1,077	1,023	972
Trade payables	1,707	1,975	2,202	2,455
Other current liabilities	1,614	1,420	1,070	813
Total Equity & Liabilities	12,581	12,819	13,074	13,835

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	(93)	601	882	1,209
Add. Depreciation	716	716	726	756
Add. Interest	205	190	176	162
Less Financial Other Income	325	328	332	335
Add. Other	153	3	28	(304)
Op. profit before WC changes	981	1,510	1,812	1,823
Net Changes-WC	431	(486)	(341)	(308)
Direct tax	20	(144)	(212)	(290)
Net cash from Op. activities	1,432	880	1,259	1,225
Capital expenditures	(504)	(650)	(650)	(800)
Interest / Dividend Income	19	19	19	19
Others	2	-	(2)	-
Net Cash from Invt. activities	(483)	(631)	(633)	(781)
Issue of share cap. / premium	-	-	-	-
Debt changes	(203)	(239)	(215)	(194)
Dividend paid	(112)	(112)	(112)	-
Interest paid	(205)	(190)	(176)	(162)
Others	-	-	-	-
Net cash from Fin. activities	(520)	(540)	(502)	(356)
Net change in cash	429	(291)	125	87
Free Cash Flow	928	230	609	425

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	2,480	2,450	2,472	2,856
YoY gr. (%)	(9.6)	(5.4)	16.3	21.1
Raw Material Expenses	882	811	856	896
Gross Profit	1,598	1,639	1,616	1,960
Margin (%)	64.4	66.9	65.4	68.6
EBITDA	102	215	173	258
YoY gr. (%)	(74.0)	(44.4)	164.3	113.3
Margin (%)	4.1	8.8	7.0	9.0
Depreciation / Depletion	177	195	170	180
EBIT	(75)	20	3	77
Margin (%)	(3.0)	0.8	0.1	2.7
Net Interest	37	46	61	54
Other Income	151	120	61	70
Profit before Tax	39	94	3	93
Margin (%)	1.6	3.8	0.1	3.3
Total Tax	(14)	(22)	(19)	20
Effective tax rate (%)	(36.9)	(23.7)	(691.4)	21.3
Profit after Tax	53	116	22	73
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	53	116	22	73
YoY gr. (%)	(76.4)	(43.3)	(118.4)	(194.0)
Margin (%)	2.2	4.7	0.9	2.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	53	116	22	73
YoY gr. (%)	(76.4)	(43.3)	(118.4)	(194.0)
Margin (%)	2.2	4.7	0.9	2.6
Other Comprehensive Income	-	-	(1)	(1)
Total Comprehensive Income	53	116	21	72
Avg. Shares O/s (m)	92	92	92	92
EPS (Rs)	0.6	1.3	0.2	0.8

Source: Company Data, PL Research

Key Financial Metrics

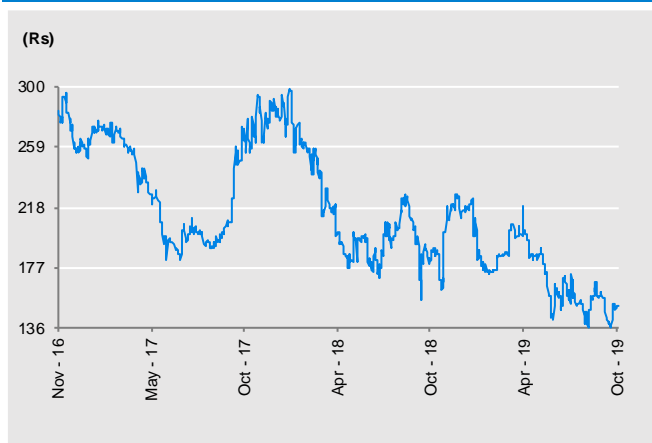
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	(0.2)	5.1	7.5	10.2
CEPS	7.5	12.9	15.3	18.4
BVPS	71.7	75.8	82.1	92.3
FCF	10.1	2.5	6.6	4.6
DPS	1.0	1.0	1.0	-
Return Ratio(%)				
RoCE	(2.3)	5.1	7.7	10.3
ROIC	(0.5)	4.1	6.3	8.6
RoE	(0.3)	6.9	9.5	11.7
Balance Sheet				
Net Debt : Equity (x)	0.3	0.3	0.2	0.2
Net Working Capital (Days)	81	82	82	80
Valuation(x)				
PER	(696.4)	31.3	21.4	15.6
P/B	2.2	2.1	1.9	1.7
P/CEPS	21.2	12.4	10.4	8.6
EV/EBITDA	33.3	14.0	11.2	8.9
EV/Sales	1.8	1.4	1.3	1.1
Dividend Yield (%)	0.6	0.6	0.6	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Domestic Formulations	6,062	6,850	7,672	8,593
Export Formulations	2,335	3,351	3,804	4,326
APIs	822	1,014	1,209	1,442

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Reduce	130	142
2	14-Aug-19	Reduce	130	149
3	19-Jul-19	Hold	137	160
4	4-Jul-19	Hold	182	159
5	5-Apr-19	Reduce	111	204
6	30-Jan-19	Reduce	111	186
7	7-Jan-19	Reduce	103	217
8	14-Nov-18	Reduce	100	168

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	511	452
2	Cadila Healthcare	Accumulate	266	234
3	Cipla	Reduce	439	441
4	Dr. Lal PathLabs	Accumulate	1,120	1,390
5	Dr. Reddy's Laboratories	Accumulate	2,997	2,820
6	Eris Lifesciences	Accumulate	459	431
7	Glenmark Pharmaceuticals	Reduce	385	320
8	Indoco Remedies	Reduce	130	142
9	Ipca Laboratories	Accumulate	1,008	905
10	Jubilant Life Sciences	Reduce	433	562
11	Lupin	Reduce	730	701
12	Lupin	Reduce	730	701
13	Lupin	Reduce	730	701
14	Sun Pharmaceutical Industries	Reduce	396	388
15	Thyrocare Technologies	BUY	500	595

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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