

# INDOCO REMEDIES

BUY RATE 340

CMP	340		
SECTOR	PHARMA		
BSE CODE	532612		
NSE CODE	INE873D01024		
FACE VALUE	2		
INDUSTRY P/E	36.37		
COMPANY P/E	37.61		
MARKET CAP	3134.8cr		
<b>SHARE HOLDING PATTEENS</b>			
(IN%)	JUN1 5	MAR1 5	DEC
Promoters	59.25	59.25	59.25
FII	8.66	8.26	7.66
DII	10.23	10.93	11.25
OTHERS	21.46	21.56	21.84
TOTAL	100	100	100

**ABOUT COMPANY:-** Indoco Remedies is engaged in the manufacturing and marketing of formulations (finished dosage forms) and Active Pharmaceutical Ingredients (API) in India. Indoco has a strong international presence in the regulated and emerging markets. The company is looking at various opportunities in untapped markets and association with business partners in the global markets to boost its revenues. Indoco remains focused on APIs & formulations business and will be looking to expand the same, both in the domestic as well as international markets. Today indoco has a well built brand portfolio of 135 products in various therapeutic segments, including high growth life style segments such as Anti-Diabetics, Cardiovascular, Central Nervous System, Musculo-Skeletal, Nutrition and Dental care.

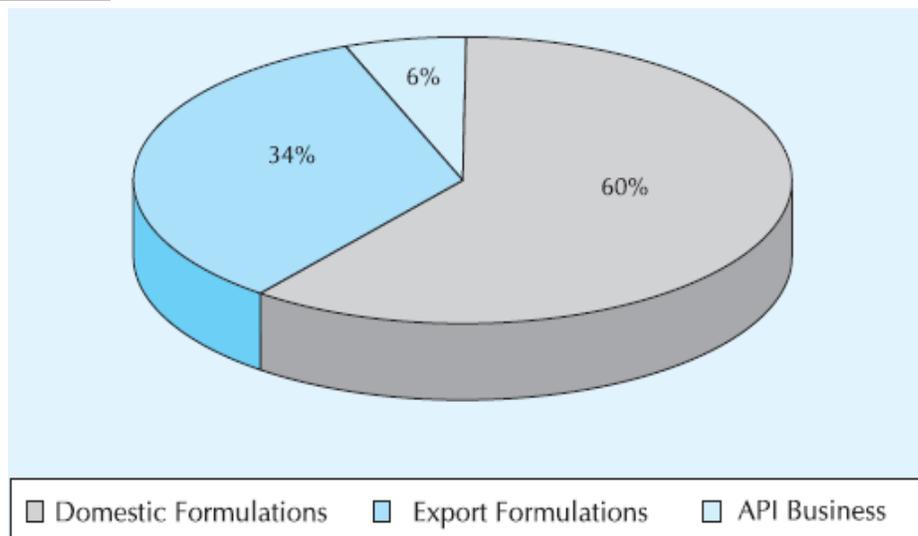
**Global Footprint:-** Indoco is present in Europe, USA, Asia, Africa, Latin America and other CIS countries. A number of its products have emerged as brand leader in the Indian and in international markets. Indoco has made significant investments to build capabilities in API manufacturing and R&D services to enhance its visibility. As of today the company operates in over 35 countries globally for formulations and APIs. With approval of its finished Dosage facilities by the US-FDA, Darmstadt-Germany, TGA Australia, MCC-South Africa and UK-MHRA, Indoco has emerged as the most suitable partner and provider of contract Research and Manufacturing services (CRAMS) to its customers globally.

## THERAPY SEGMENTS

SEGMENTS	GROWTH (%)	SEGMENTS	GROWTH (%)
➤ <u>Stomatological</u>	<u>15.3</u>	➤ <u>Pain/Analgesics</u>	<u>15.9</u>
➤ <u>Respiratory</u>	<u>10.2</u>	➤ <u>Vitamin/Minerals</u>	<u>23.4</u>
➤ <u>Anti-Infectives</u>	<u>15.2</u>	➤ <u>Ophthal /Otologicals</u>	<u>15.2</u>
➤ <u>Gastro Intestinal</u>	<u>12.0</u>	➤ <u>Gynaec</u>	<u>14.2</u>

## INVESTMENT RATIONAL

- **Growth in Domestic Markets:-** The domestic formulation business is one of the key area for company which it will drive growth and create a value in coming yrs. Company derives major portion of its domestic revenue from strong established brands in stomatological, ophthalmic Anti infective and Respiratory segments. Top Brands contribute 40% domestic revenues. Company intends to launch 20 products in India every year. The company's strategy is focused on brand building, stepping up contribution from chronic segment and improvement in sales from northern and eastern regions. During the yrs, the business grew by 15.1% whereas the Indian pharmaceutical industry grew by 12.9%..
- **Growth in Top line and Bottom line:-**Indoco is showing strong performance from last couple yrs. Indoco sales have grown at steady pace with app 16% sales CAGR over FY10-14 above industry average. Export business has shown sales CAGR of 21% over the same period led by strategic alliance with global companies. We expect revenues to remain 24% CAGR over FY15-FY18E on account of domestic growth in formulation business and entry into regulated markets. We also expect company to post strong earning and show PAT CAGR of app 39% over FY4-FY18 on account of higher operating performance backed by improved sales mix.
- **Segment Wise Revenue**

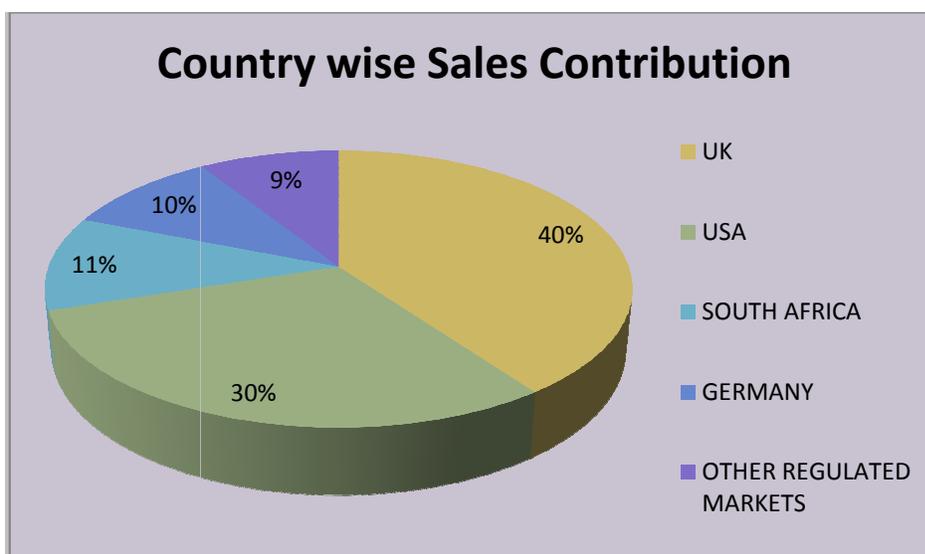


- **Operating Margins to improve due to better sales mix:-** Company showing good performance in sales and PAT due to better business mix and efficiency. Company Operating margin up to 19% in FY15 from 16.17% in FY 14. We expect operating margin will improve to 23% by FY18 on account of better business mix and better performance in domestic and regulated market and ramp up in international business.
  - **Strong Balance Sheet & Healthy Returns:-** Indoco Remedies have a strong Balance sheet with positive cash flow. Company has maintained Debt in comfortable zone. Company also has low D/E Ratio. Company has a positive cash flow which will help the company to fund its capex plan through internal
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accrual. Company has capex plan of Rs125cr which will also improve the efficiency ratio. Higher revenue growth and improved profitability will show strong returns ratio.

- **Aspen deal to establish strong presence in emerging markets:-** In 2010 company entered into agreement with aspen which covers 30plus geographies and 75 products. Currently company is supplying 10 products and in the process of commercialization of 2 product in near term. The products developed and licensed out to aspen are under registration in various countries and contract manufacturing business with aspen will further grow as products under registration start getting approvals.
- **Strong Export Business:-** The company's business from US and EU territory will grow speedily ,as ANDAs and Dossiers will be commercialized at regular intervals, on approval. while surging ahead in the Regulated Markets, indoco is also consolidating its position in the emerging markets through active brand promotion. The growth in regulated markets was driven by growth in the US, UK and South Africa. German Metformin tenders also contributed to regulated markets growth. It has filed 26 ANDAs with the USFDA and received approvals for 9 products including 3 tentative approvals. Of these, 16 were filed under the Watson deal. Indoco intend to file 10ANDAs annually. Management expect export to grow at a CAGR 35% in FY 15-16.



## ➤ Current Status of ANDA

Particulars	Through Watson	Own fillings	Through other	Total
Approval till date	2	2	4	8
Tentative approval	3	0	0	3

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Filed but pending	11	6	1	18
Pipeline	9	14	2	25

- **Growth Opportunities in UK:** - Indoco derives major portion of revenues from UK through CRAMS, Dossiers and showed 23% CAGR over FY11-FY14. UK and Germany are major markets in Europe followed by Denmark, Slovenia, Croatia, Czech and Spain, Netherlands. The company' business model includes CRAMS as well as out –licensing of dossiers and Marketing Authorization. Company is negotiating with big players in ophthalmic segment for contract manufacturing business as this segment remain high margin business company has filed 7 dossiers till date. Management has guided 11-13 annual fillngs.....

#### Status of Dossiers filing in Europe

PARTICULARS	NO. OF DOSSIERS FILED
Approval Till date	18
Filed buy pending approval	10
In pipeline	21
Total	49

- **Acquisition Of Piramal Clinical Company:-** On 6<sup>TH</sup> OF April 2015 the company acquired Piramal Clinical Research, a division of Piramal Enterprise Ltd. The CRO is based at Hyderabad and has 70 skilled manpower and state of the art infrastructure. The CRO specializes in conducting bioavailability and bioequivalence studies bio-analytical method development and validation, sample processing and analysis, statistical analysis and reporting. The facility is quipped with a 98 bed facility, monitoring stations, and phlebotomy stations, four bed ICU state of art analytical lab and capabilities of eCTD submission.
  - **API BUSINESS:-** Indoco has made significant progress in API business inspire of its late entry. The company has three API manufacturing facilities, two of which have been approved by US FDA, COFEPRIS Mexico, TGA Australia and WHO GMP. With a good product mix in opthalmics anti-diabetic and other therapeutic categories, backed but Drug Master Files and Certificates of suitability, the company is well positioned to cater to its captive requirement as well as external customers.
  - **Regulatory APPROVAL:-** Indoco has a team of 35 regulatory specialists who are engaged in submissions of DMFs, Dossiers and ANDA across the globe. Indoco has submitted 25 ANDA, in US and 6 Decentralized procedures in Europe. Indoco's regulatory submissions in emerging markets is pursued aggressively from which, more than 500 product registrations have been received from 35 countries. Indoco holds 7CEPs for drug substances, 11 US DMFs,8 Taiwan DMFs.
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- The company has filed several patent applications, details of which are as under

Particulars	India	Pct	Europe	US
APIs	26	13	2	2
FDFs	15	2	1	1

During the years the company was granted two patents by United States of Patent and Trademark office for novel process of Lacosamide and tapentadol APIs.

- **Dividend Track Records:-**Company has good dividend payout records. Since last 5 yrs company is continuing pay dividend to its shareholders.
- **New Products launch During the Years:-** During the years the company launched 19 new products across various therapeutic categories details of which are as follows

Product	Division	Therapy
Mafloran D Eye Drop	Excel	Ophthal /Otologicals
Rexidin-M forte Gel	Warren	Dermatology
Karvol clear	Indoco	Respiratory
Concize Syrup	Spade	Vitamins/Minerals/Nutrients
TRYBR Tablets	Eterna	Pain /Analgesics
TRYBR-D Tablets	Eterna	Pain / Analgesics
Tavaren Eye Drop	Excel	Ophthal / Otologicals
Tuspel Plus SF	Indoco	Respiratory
LVR Forte Syrup	Spera	Gastro Intestinal
Durashape Tablets	Indoco	Respiratory
CC Zems Tablest	Indoco	Vitamins / Minerals/ Nutrients
LP-Slim Tablets	Eterna	Anti- Obesity
KG Low Tablets	Spera	Anti –Obesity
Obi-X Tablets	Indoco CND	Anti-Obesity
Bactogard 100 DS	Spade	Anti-Infectives
LVR Forte Tablets	Spade	Gastro Intestinal
Clygan Eye Ointment	Excel	Ophtahl / Otologicals
Bactogard CV200 Tablets	Spade	Anti Infectives
Bactogard CV 50 DS	Spade	Anti Infectives

**VALUATION OF COMPANY:** - Indoco Remedies is showing good performance we expect Indoco is a sound investment option. We expect domestic performance of company will get more strong on account of improve productivity through increased field force and introduction of new product. In FY 14 Company launched 19 products which increased the product portfolio of company. At current market price of 340rs,the stock is trading at P/E multiple of 37.82X of FY15, 25.81X of FY16E,19.37X of FY17 and 14.24X of FY18E.

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## Consolidation financial Statement

	2014	2015	2016(E)	2017(E)	2018(rs..cr)
<b>Net Sales</b>	<b>728.76</b>	<b>872.88</b>	<b>1064.91</b>	<b>1320.49</b>	<b>1663.82</b>
Other Income	1.75	1.74	1.74	1.74	1.74
Total Sales	730.51	874.62	1066.65	1322.23	1665.56
Expenditure	608.7	707.69	841.28	1029.98	1281.14
<b>Operating Profit</b>	<b>120.06</b>	<b>165.19</b>	<b>223.63</b>	<b>290.51</b>	<b>382.68</b>
<b>EBDIT</b>	<b>121.81</b>	<b>166.93</b>	<b>225.37</b>	<b>292.25</b>	<b>384.42</b>
Depreciation	30.91	47.1	51.12	63.38	79.86
<b>EBIT</b>	<b>90.9</b>	<b>119.83</b>	<b>174.26</b>	<b>228.86</b>	<b>304.56</b>
Interest	18.8	10.34	12.3	13.09	11.13
<b>EBT</b>	<b>72.1</b>	<b>109.49</b>	<b>161.96</b>	<b>215.77</b>	<b>293.43</b>
TAX	14.21	26.67	40.5	53.9	73.4
<b>PAT</b>	<b>57.89</b>	<b>82.82</b>	<b>121.47</b>	<b>161.83</b>	<b>220.07</b>

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## Consolidation of Balance Sheet

	2014	2015	2016E	2017E	2018E
<b>Equity And Liability</b>					
<b>Share Capital</b>	<b>18.43</b>	<b>18.43</b>	<b>18.43</b>	<b>18.43</b>	<b>18.43</b>
Reserves & Surplus	438.72	500.38	552.42	635.97	807.86
<b>Net worth</b>	<b>457.15</b>	<b>518.81</b>	<b>570.85</b>	<b>654.4</b>	<b>826.29</b>
Non Current liabilities					
loan	71.75	88.23	96.98	104.73	92.73
Deferred Tax Liabilities	30.53	27.07	27.07	27.07	27.07
Other Long Term Liabilities	9.16	9.69	9.69	9.69	9.69
long term Provision	16.36	15.04	15.04	15.04	15.04
<b>Total</b>	<b>584.95</b>	<b>658.84</b>	<b>719.63</b>	<b>810.93</b>	<b>970.82</b>
<b>ASSETS</b>					
Fixed Assets	455.37	508.6	571.1	633.6	753.6
Depreciation	129.93	168.79	219.91	283.29	363.15
<b>Net fixed Assets</b>	<b>325.44</b>	<b>339.81</b>	<b>351.19</b>	<b>350.31</b>	<b>390.45</b>
CWIP	44.12	62.81	62.81	62.81	62.81
Non Current Investment	0.17	0.17	0.17	0.17	0.17
Long Term Loan and Advance	55.13	57.73	57.62	57.62	57.62
<b>Current Assets</b>					
Inventories	110.22	149.22	182.97	226.88	285.88
Trade Receivable	138.13	155.39	182.5	231.16	291.90
Cash & Bank Balance	13.39	15.4	34.13	82.02	144.35
Short Term Loan& Advance	42.48	65.04	68.26	71.67	75.25
<b>Total Current Assets</b>	<b>304.22</b>	<b>385.05</b>	<b>467.86</b>	<b>611.73</b>	<b>797.38</b>
<b>Current Liabilities</b>					
Trade Payables	70.66	119.86	141.88	175.96	218.51
Other Long Term Liabilities	53.98	40.97	47.9	58.64	72.94
Short term Provision	19.54	25.92	30.31	37.11	46.16
<b>Net Current Assets</b>	<b>160.04</b>	<b>198.3</b>	<b>247.77</b>	<b>340.02</b>	<b>459.77</b>
<b>Total Assets</b>	<b>584.9</b>	<b>658.82</b>	<b>719.7</b>	<b>810.93</b>	<b>970.82</b>

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## Consolidation Cash flow Statement

	Cash Flow Statement				in Rs..cr
	2014	2015	2016(E)	2017(E)	2018(E)
<b>Net Profit Before Tax</b>	<b>72.32</b>	<b>109.55</b>	<b>161.96</b>	<b>215.77</b>	<b>293.43</b>
Net Cash from Operating Activities	98.81	109.5	154.29	193.98	253.6
Net Cash (used in)/From investing Activities	-40.98	-88.41	-106.25	-110.25	-120
Net Cash (used in)from financing Activities	-58.98	-19.92	-29.57	-39.84	-70.27
<b>Net(decrease)/increase in cash</b>	<b>-1.15</b>	<b>1.17</b>	<b>18.47</b>	<b>43.89</b>	<b>63.33</b>
Opening Cash & Cash Equivalents	10.92	9.77	10.93	29.4	73.29
<b>Closing Cash &amp; Cash Equivalents</b>	<b>9.77</b>	<b>10.93</b>	<b>29.4</b>	<b>73.29</b>	<b>136.62</b>

## Consolidation Ratio Analysis

Valuation Ratio	2014	2015	2016(E)	2017(E)	2018(E)
P/E	39.68	37.82	25.81	19.37	14.24
P/B	5.04	6.04	5.49	4.79	3.79
EV/Sales	3.24	3.67	3.00	2.39	1.85
EV/EBITDA	19.40	19.22	14.19	10.80	8.02
<b>Per Share</b>					
<b>EPS</b>	<b>6.30</b>	<b>8.99</b>	<b>13.17</b>	<b>17.55</b>	<b>23.87</b>
Book Value	49.59	56.25	61.91	70.98	89.62
<b>Liquidity Ratio</b>					
<b>Current Ratio</b>	<b>2.11</b>	<b>2.06</b>	<b>2.13</b>	<b>2.25</b>	<b>2.36</b>
<b>Profitability Ratio</b>					
Operating Profit Margin	16.47	18.92	21.00	22.00	23.00
N/P Margin	7.94	9.49	11.41	12.26	13.23
RONW	12.66	15.96	21.28	24.73	26.63
<b>ROCE</b>	<b>15.54</b>	<b>18.19</b>	<b>24.21</b>	<b>28.22</b>	<b>31.37</b>
<b>Turn Over Ratio</b>					
Debtor Turnover Ratio	5.28	5.62	5.84	5.71	5.70
Inventory Turn Over Ratio	6.61	5.85	5.82	5.82	5.82
<b>Coverage Ratio</b>					
<b>Interest Coverage Ratio</b>	<b>4.84</b>	<b>11.59</b>	<b>14.17</b>	<b>17.48</b>	<b>27.36</b>
<b>Du Point Analysis</b>					
Tax Retention Ratio	0.80	0.76	0.75	0.75	0.75
Cost of Debt	0.79	0.91	0.93	0.94	0.96
EBIT Margin	0.12	0.14	0.16	0.17	0.18
Assets Turn Over Ratio	1.25	1.32	1.48	1.63	1.71
Leverage Ratio	1.28	1.27	1.26	1.24	1.17

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