

January 22, 2025

## Q3FY25 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
<b>Rating</b>	HOLD		ACCUMULATE	
<b>Target Price</b>	325		320	
Sales (Rs. m)	19,055	21,890	20,699	23,173
% Chng.	(7.9)	(5.5)		
EBITDA (Rs. m)	2,157	3,629	3,301	4,202
% Chng.	(34.7)	(13.6)		
EPS (Rs.)	3.2	15.0	12.5	19.6
% Chng.	(74.3)	(23.5)		

### Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	18,173	16,969	19,055	21,890
EBITDA (Rs. m)	2,443	1,240	2,157	3,629
Margin (%)	13.4	7.3	11.3	16.6
PAT (Rs. m)	855	(549)	295	1,380
EPS (Rs.)	9.3	(6.0)	3.2	15.0
Gr. (%)	(39.9)	(164.2)	(153.8)	367.1
DPS (Rs.)	2.3	2.3	2.3	2.3
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	8.0	(5.1)	2.8	12.4
RoCE (%)	9.8	0.6	5.1	12.2
EV/Sales (x)	2.1	2.4	2.1	1.8
EV/EBITDA (x)	15.5	32.2	18.9	11.1
PE (x)	37.0	(57.6)	107.0	22.9
P/BV (x)	2.8	3.0	3.0	2.7

### Key Data

INRM.BO | INDR IN

52-W High / Low	Rs.414 / Rs.287
Sensex / Nifty	75,838 / 23,025
Market Cap	Rs.32bn/ \$ 365m
Shares Outstanding	92m
3M Avg. Daily Value	Rs.54.56m

### Shareholding Pattern (%)

Promoter's	58.80
Foreign	1.25
Domestic Institution	18.91
Public & Others	21.04
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	0.9	5.0	(15.6)
Relative	3.8	11.6	(20.5)

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## Weak quarter led by negative operating leverage

### Quick Pointers:

- US sales likely to remain impacted in Q4FY25 while EU market will recover.
- Next two quarters will continue to face higher remediation costs.

**Our FY26/FY27E EPS have been cut sharply to factor in low margins given ongoing remediation cost and lower sales across regulated markets. We downgrade stock to 'Hold' from 'Accumulate'. Indoco Remedies' (INDR) Q3FY25 EBITDA was much below our estimates due to muted international business and higher expenses. The warning letter issued for both units is expected to restrict growth, particularly in the US market. The company cited other expenses to remain elevated over next two quarters. Our numbers do factor in higher remediation cost till H1FY26. At CMP, the stock is trading at 3.5x EV/domestic sales based on FY26E. We expect 11% PAT CAGR over FY24-27E. We downgrade stock to 'Hold' from 'Accumulate' rating with revised TP of Rs325 valuing at 21x FY27E EPS as we roll forward. Timely resolution of Goa facility Unit 2 is a key for re-rating.**

- Lower exports impacted Revenues YoY:** Consolidated revenues (ex-other operating income) was down 12% YoY to Rs4bn (PLe Rs4.1bn). Domestic formulations sales grew 16.5% YoY to Rs2.48bn, above our estimate. Key therapies like gastro, stomatologicals, derma, as well as respiratory reported healthy growth YoY, whereas anti-infectives delivered single-digit growth YoY. Regulated market continued to underperform, down 53.6% YoY and 21% QoQ to Rs684mn. EM sales declined by 17.4% YoY to Rs354mn whereas US sales came in higher QoQ at Rs280mn (up 15.5%). Overall API sales declined by 17% YoY. CRO sales were down YoY.
- EBITDA miss led by higher opex:** EBITDA (incl other operating income) stood at Rs120mn, below PLe of Rs394mn. Other operating income came at Rs 81mn. Reported OPM stood at 2.9%, down both QoQ/YoY. Employee expense increased 8.4% YoY. Gross margins (excl other operating income) came in higher at 71.7% up 270bps YoY and 350bps QoQ. Other expenses remain elevated given ongoing remediation cost and higher expenses toward repair and maintenance work of plants. R&D cost continue to stood lower at 4.6% of sales, down 23% YoY. Reported loss adj for minority came in at Rs264mn.
- Key concall takeaways: Domestic Formulations:** Key therapy areas (gastro, stomatologicals, dermatology, respiratory) reported healthy YoY growth. Major brands like Cyclopam, Karvol, Cital, Sensoform, and Methycal achieved double-digit growth, while Oxipod grew by 3% YoY. Launched 5 new products (a) Icraft Susp. (b) Afebrex Drops (c) Afebrex Syrup (d) Bital – DX Syrup and (e) Winbrinza Eye Drops. **International markets:** Supplies to international markets (EU and US) remain impacted. US was impacted by corrective actions at master manufacturing facilities and due to warning letter at the sterile Plant 2 in Goa. EU remained impacted on account of delayed production rollout for OSD at the Baddi site. Order book for international markets (EU and US) stands at Rs 1.8bn. Entered a strategic distribution partnership with Clarity

Pharma, UK. Plans to launch 18 products over the next 18 months, with supply to Clarity for further distribution. **Capex** was incurred for refurbishment and setup of a plant for cosmetic toothpaste manufacturing, addition of a block to increase API production capacity, and for installing new equipment to enhance efficiency at the oral solid dosage site. **Other:** New introductions contributed 4.8% of the domestic revenues. Indoco received final ANDA approval from the USFDA for Cetirizine HCL Tab Tablets 10 mg & Varenicline Tablets 0.5 & 1.0 mg. Plant 2, Line 1 is operational.

**Exhibit 1: 3QFY25 Result Overview (Rs mn): Remediation cost dents profitability**

Y/e March	Q3FY25	Q3FY24	YoY gr. (%)	Q2FY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
<b>Net Sales</b>	<b>4,106</b>	<b>4,594</b>	<b>(10.6)</b>	<b>4,327</b>	<b>(5.1)</b>	<b>12,747</b>	<b>13,677</b>	<b>(6.8)</b>
Raw Material	1,139	1,423	(20.0)	1,368	(16.7)	3,922	4,183	(6.2)
<i>% of Net Sales</i>	<i>27.7</i>	<i>31.0</i>		<i>31.6</i>		<i>30.8</i>	<i>30.6</i>	
Personnel Cost	976	900	8.4	929	5.0	2,877	2,736	5.1
<i>% of Net Sales</i>	<i>23.8</i>	<i>19.6</i>		<i>21.5</i>		<i>22.6</i>	<i>20.0</i>	
Others	1,871	1,642	13.9	1,627	14.9	4,948	4,803	3.0
<i>% of Net Sales</i>	<i>45.6</i>	<i>35.7</i>		<i>37.6</i>		<i>38.8</i>	<i>35.1</i>	
Total Expenditure	3,985	3,965	0.5	3,924	1.6	11,747	11,722	0.2
<b>EBITDA</b>	<b>120</b>	<b>629</b>	<b>(80.9)</b>	<b>403</b>	<b>(70.1)</b>	<b>1,001</b>	<b>1,954</b>	<b>(48.8)</b>
<i>Margin (%)</i>	<i>2.9</i>	<i>13.7</i>		<i>9.3</i>		<i>7.8</i>	<i>14.3</i>	
Depreciation	287	244	17.9	288	(0.3)	851	656	29.6
<b>EBIT</b>	<b>(167)</b>	<b>386</b>	<b>(143.3)</b>	<b>114</b>	<b>(246.0)</b>	<b>150</b>	<b>1,298</b>	<b>(88.5)</b>
Other Income	9	24	(63.8)	16	(45.5)	34	72	(52.2)
Interest	161	101	60.0	178	(9.6)	483	260	85.8
<b>PBT</b>	<b>(320)</b>	<b>308</b>	<b>(203.6)</b>	<b>(48)</b>	<b>560.1</b>	<b>(298)</b>	<b>1,110</b>	<b>(126.9)</b>
Extra-Ord. Inc./Exps.	(10)	(82)	-	-	-	10	(82)	-
Total Taxes	(26)	71	(136.2)	52	(149.5)	78	278	(72.1)
<i>ETR (%)</i>	<i>8.0</i>	<i>22.9</i>		<i>(106.8)</i>		<i>(26.0)</i>	<i>25.1</i>	
Minority Interest	(20)	-	-	(4)	-	(32)	(8)	-
<b>Reported PAT</b>	<b>(264)</b>	<b>156</b>	<b>(269.6)</b>	<b>(96)</b>	<b>174.6</b>	<b>(334)</b>	<b>758</b>	<b>(144.1)</b>

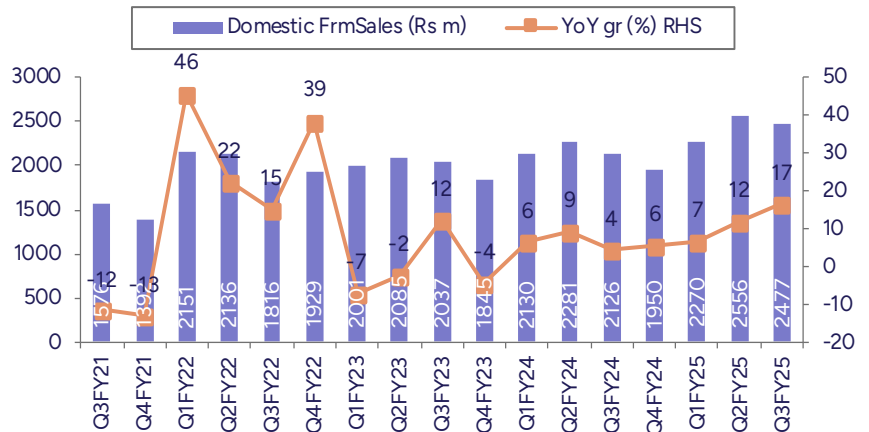
Source: Company, PL

**Exhibit 2: Decline in export sales impacted overall revenue**

Major sources of revenues	Q3FY25	Q3FY24	YoY gr. (%)	Q2FY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
<b>Domestic</b>	<b>2,573</b>	<b>2,288</b>	<b>12.5</b>	<b>2,644</b>	<b>(2.7)</b>	<b>7,562</b>	<b>6,988</b>	<b>8.2</b>
Formulations	2,477	2,126	16.5	2,556	(3.1)	7,303	6,537	11.7
APIs	96	162	(40.7)	88	9.1	259	451	(42.6)
<b>Exports</b>	<b>1,255</b>	<b>2,117</b>	<b>(40.7)</b>	<b>1,476</b>	<b>(15.0)</b>	<b>4,539</b>	<b>6,090</b>	<b>(25.5)</b>
Formulations	1,074	1,947	(44.8)	1,262	(14.9)	3,907	5,493	(28.9)
Reg mkt	684	1,475	(53.6)	866	(21.0)	2,823	4,314	(34.6)
Non-reg mkt (Emerging mkt)	390	472	(17.4)	396	(1.5)	1,084	1,179	(8.1)
APIs	181	170	6.5	214	(15.4)	632	597	6.0
CRO	6	79	(92.4)	36	(83.3)	99	191	(48.1)
<b>Net Revenues</b>	<b>3,834</b>	<b>4,484</b>	<b>(14.5)</b>	<b>4,156</b>	<b>(7.7)</b>	<b>12,200</b>	<b>13,268</b>	<b>(8.1)</b>

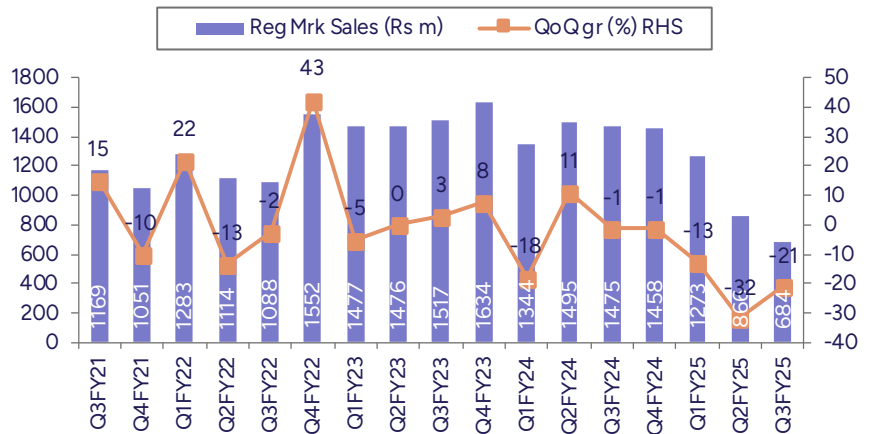
Source: Company, PL

**Exhibit 3: India formulations: Momentum continues YoY**



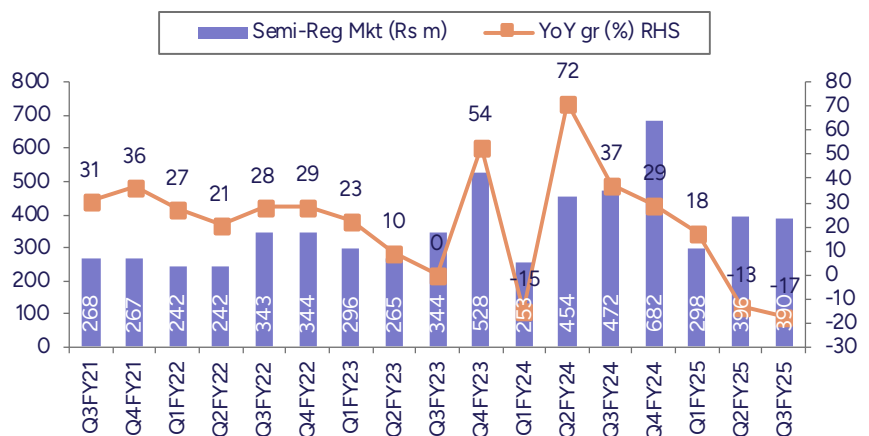
Source: Company, PL

**Exhibit 4: US markets continued to remain impacted**



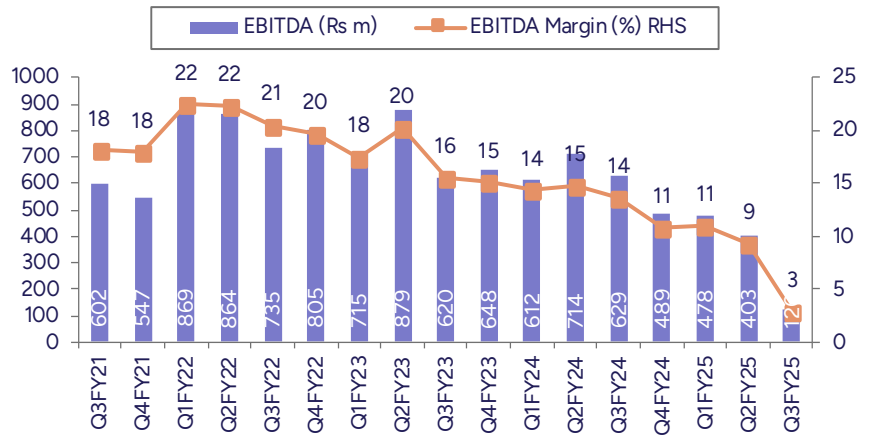
Source: Company, PL

**Exhibit 5: EM sales declined YoY**



Source: Company, PL

**Exhibit 6: Reduced margins due to weak exports and higher opex**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Net Revenues</b>	<b>18,173</b>	<b>16,969</b>	<b>19,055</b>	<b>21,890</b>
YoY gr. (%)	8.9	(6.6)	12.3	14.9
Cost of Goods Sold	5,592	5,183	5,830	6,600
Gross Profit	12,581	11,786	13,225	15,290
Margin (%)	69.2	69.5	69.4	69.8
Employee Cost	3,619	3,909	4,222	4,644
Other Expenses	6,519	6,637	6,847	7,017
<b>EBITDA</b>	<b>2,443</b>	<b>1,240</b>	<b>2,157</b>	<b>3,629</b>
YoY gr. (%)	(14.6)	(49.2)	73.9	68.3
Margin (%)	13.4	7.3	11.3	16.6
Depreciation and Amortization	919	1,138	1,196	1,276
<b>EBIT</b>	<b>1,524</b>	<b>102</b>	<b>961</b>	<b>2,353</b>
Margin (%)	8.4	0.6	5.0	10.8
Net Interest	380	641	641	589
Other Income	99	50	80	100
<b>Profit Before Tax</b>	<b>1,243</b>	<b>(489)</b>	<b>399</b>	<b>1,865</b>
Margin (%)	6.8	(2.9)	2.1	8.5
Total Tax	388	60	104	485
Effective tax rate (%)	31.2	(12.3)	26.0	26.0
<b>Profit after tax</b>	<b>855</b>	<b>(549)</b>	<b>295</b>	<b>1,380</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>855</b>	<b>(549)</b>	<b>295</b>	<b>1,380</b>
YoY gr. (%)	(39.9)	(164.2)	(153.8)	367.1
Margin (%)	4.7	(3.2)	1.6	6.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>855</b>	<b>(549)</b>	<b>295</b>	<b>1,380</b>
YoY gr. (%)	(39.9)	(164.2)	(153.8)	367.1
Margin (%)	4.7	(3.2)	1.6	6.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	855	(549)	295	1,380
<b>Equity Shares O/s (m)</b>	<b>92</b>	<b>92</b>	<b>92</b>	<b>92</b>
<b>EPS (Rs)</b>	<b>9.3</b>	<b>(6.0)</b>	<b>3.2</b>	<b>15.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>18,071</b>	<b>21,071</b>	<b>22,571</b>	<b>24,071</b>
Tangibles	18,071	21,071	22,571	24,071
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>8,524</b>	<b>9,662</b>	<b>10,858</b>	<b>12,134</b>
Tangibles	8,524	9,662	10,858	12,134
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>9,547</b>	<b>11,409</b>	<b>11,713</b>	<b>11,937</b>
Tangibles	9,547	11,409	11,713	11,937
Intangibles	-	-	-	-
Capital Work In Progress	1,029	1,029	1,029	1,029
Goodwill	215	215	215	215
Non-Current Investments	72	72	72	72
Net Deferred tax assets	(118)	(118)	(118)	(118)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	15	15	15	15
Inventories	3,531	3,347	3,759	4,318
Trade receivables	4,062	3,756	4,225	4,624
Cash & Bank Balance	243	159	(623)	(965)
Other Current Assets	2,670	2,536	2,409	2,289
<b>Total Assets</b>	<b>21,430</b>	<b>22,585</b>	<b>22,860</b>	<b>23,581</b>
<b>Equity</b>				
Equity Share Capital	184	184	184	184
Other Equity	10,915	10,212	10,315	11,503
<b>Total Network</b>	<b>11,099</b>	<b>10,396</b>	<b>10,499</b>	<b>11,687</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3,517	3,517	3,517	3,517
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,034	5,034	5,034	4,334
Trade payables	1,536	1,395	1,566	1,799
Other current liabilities	2,119	2,119	2,119	2,119
<b>Total Equity &amp; Liabilities</b>	<b>21,430</b>	<b>22,585</b>	<b>22,860</b>	<b>23,581</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	1,243	(489)	399	1,865
Add. Depreciation	919	1,138	1,196	1,276
Add. Interest	380	641	641	589
Less Financial Other Income	99	50	80	100
Add. Other	193	8	(60)	(80)
Op. profit before WC changes	2,734	1,298	2,177	3,649
Net Changes-WC	(872)	481	(582)	(606)
Direct tax	(295)	(60)	(104)	(485)
<b>Net cash from Op. activities</b>	<b>1,567</b>	<b>1,719</b>	<b>1,491</b>	<b>2,559</b>
Capital expenditures	(4,273)	(3,000)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(4,273)</b>	<b>(3,000)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	3,404	2,000	-	(700)
Dividend paid	(207)	(212)	(212)	(212)
Interest paid	(380)	(641)	(641)	(589)
Others	0	50	80	100
<b>Net cash from Fin. activities</b>	<b>2,816</b>	<b>1,197</b>	<b>(773)</b>	<b>(1,401)</b>
<b>Net change in cash</b>	<b>110</b>	<b>(84)</b>	<b>(782)</b>	<b>(342)</b>
Free Cash Flow	(2,706)	(1,281)	(9)	1,059

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
<b>Net Revenue</b>	<b>4,496</b>	<b>4,315</b>	<b>4,327</b>	<b>4,106</b>
YoY gr. (%)	5.0	1.2	(10.2)	(10.6)
Raw Material Expenses	1,409	1,415	1,368	1,139
Gross Profit	3,088	2,900	2,959	2,966
Margin (%)	68.7	67.2	68.4	72.3
<b>EBITDA</b>	<b>489</b>	<b>478</b>	<b>403</b>	<b>120</b>
YoY gr. (%)	(24.5)	(21.9)	(43.6)	(80.9)
Margin (%)	10.9	11.1	9.3	2.9
Depreciation / Depletion	262	275	288	287
<b>EBIT</b>	<b>226</b>	<b>203</b>	<b>114</b>	<b>(167)</b>
Margin (%)	5.0	4.7	2.6	(4.1)
Net Interest	121	143	178	161
Other Income	27	10	16	9
<b>Profit before Tax</b>	<b>133</b>	<b>70</b>	<b>(48)</b>	<b>(320)</b>
Margin (%)	2.9	1.6	(1.1)	(7.8)
Total Tax	110	52	52	(26)
Effective tax rate (%)	82.6	73.9	(106.8)	8.0
<b>Profit after Tax</b>	<b>23</b>	<b>18</b>	<b>(100)</b>	<b>(294)</b>
Minority interest	7	8	4	20
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>16</b>	<b>10</b>	<b>(104)</b>	<b>(314)</b>
YoY gr. (%)	(93.7)	(95.7)	(129.7)	(232.2)
Margin (%)	0.4	0.2	(2.4)	(7.6)
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>16</b>	<b>10</b>	<b>(104)</b>	<b>(314)</b>
YoY gr. (%)	(93.7)	(95.7)	(129.7)	(232.2)
Margin (%)	0.4	0.2	(2.4)	(7.6)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>16</b>	<b>10</b>	<b>(104)</b>	<b>(314)</b>
Avg. Shares O/s (m)	92	92	92	92
<b>EPS (Rs)</b>	<b>2.3</b>	<b>0.2</b>	<b>(1.0)</b>	<b>(2.9)</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Per Share(Rs)</b>				
EPS	9.3	(6.0)	3.2	15.0
CEPS	19.2	6.4	16.2	28.8
BVPS	120.4	112.8	113.9	126.8
FCF	(29.4)	(13.9)	(0.1)	11.5
DPS	2.3	2.3	2.3	2.3
<b>Return Ratio(%)</b>				
RoCE	9.8	0.6	5.1	12.2
ROIC	7.2	0.5	4.1	9.6
RoE	8.0	(5.1)	2.8	12.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.6	0.8	0.9	0.8
Net Working Capital (Days)	122	123	123	119
<b>Valuation(x)</b>				
PER	37.0	(57.6)	107.0	22.9
P/B	2.8	3.0	3.0	2.7
P/CEPS	17.8	53.7	21.2	11.9
EV/EBITDA	15.5	32.2	18.9	11.1
EV/Sales	2.1	2.4	2.1	1.8
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
Domestic Formulations	8,448	9,462	10,408	11,449
Export Formulations	7,634	5,407	6,389	8,008
APIs	1,265	1,328	1,461	1,607

Source: Company Data, PL Research

**Price Chart**



**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-25	Accumulate	320	337
2	25-Oct-24	Accumulate	320	315
3	07-Oct-24	Accumulate	320	335
4	25-Jul-24	Accumulate	320	322
5	08-Jul-24	Accumulate	335	348
6	17-May-24	Accumulate	335	320
7	08-Apr-24	Accumulate	380	350
8	24-Jan-24	Accumulate	380	369

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,437
2	Aster DM Healthcare	BUY	620	524
3	Aurobindo Pharma	Accumulate	1,475	1,298
4	Cipla	BUY	1,730	1,497
5	Divi's Laboratories	Accumulate	6,000	5,920
6	Dr. Reddy's Laboratories	Reduce	1,335	1,353
7	Eris Lifesciences	BUY	1,420	1,301
8	Fortis Healthcare	BUY	710	735
9	HealthCare Global Enterprises	BUY	535	488
10	Indoco Remedies	Accumulate	320	337
11	Ipca Laboratories	Accumulate	1,700	1,736
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,896
13	Jupiter Life Line Hospitals	BUY	1,660	1,565
14	Krishna Institute of Medical Sciences	BUY	675	649
15	Lupin	BUY	2,420	2,359
16	Max Healthcare Institute	BUY	1,200	1,198
17	Narayana Hrudayalaya	BUY	1,420	1,351
18	Rainbow Children's Medicare	BUY	1,785	1,552
19	Sun Pharmaceutical Industries	BUY	2,100	1,853
20	Sunteck Realty	BUY	670	490
21	Torrent Pharmaceuticals	Accumulate	3,600	3,404
22	Zydus Lifesciences	Accumulate	1,050	1,001

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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