Stock Update

FDC Ltd.

Mar 04, 2024

RETAILRESEARCH

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FDC Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 446.25	Buy in the band of Rs 446-452 & add more on declines to Rs 403.5	Rs 491.5	Rs 529.5	2-3 quarters

HDFC Scrip Code	FDCLTDEQNR
BSE Code	531599
NSE Code	FDC
Bloomberg	FDCLT IN
CMP Mar 02, 2024	446.25
Equity Capital (Rs cr)	16.28
Face Value (Rs)	1
Equity Share O/S (cr)	16.28
Market Cap (Rs cr)	7265
Book Value (Rs)	121
Avg. 52 Wk Volumes	633110
52 Week High	487.5
52 Week Low	245

Share holding Pattern % (Dec, 2023)	
Promoters	69.66
Institutions	10.19
Non Institutions	20.15
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

FDC Ltd. has presence across domestic formulations (81%), International formulations (16%) and APIs (3%) businesses. Company has ~1% market share in Indian Pharmaceuticals Market (IPM). The key therapeutic areas of focus include Anti-Infective, Gastro-Intestinal, Vitamins/Minerals/Supplements, Cardiac, Ophthalmology, Respiratory, Dermatology and Gynaecology in the domestic market. The major brands include Zifi, Electral, Enerzal, Zifi CV, Zathrin, Vitcofol, Zocon, Zipod, Zoxan, Cotaryl, Simyl, Zefrich and Mycoderm.

FDC is a leading player in Oral Rehydration Salt (ORS) segment, with its well-known brands Electral and Enerzal. Electral is the first FDC brand to cross Rs 350cr club. It is the leading brand with ~74% market share in the category. In India, the company markets more than 130 brands, with 250+ SKUs, across several therapeutic segments. FDC has several high growth brands in its portfolio, including Electral (a category leader in ORS), and Zifi (a category leader in Cefixime). Additionally, it is the third largest supplier in India by volume in the ophthalmic segment and has a strong portfolio of functional foods and energy drinks. FDC has around 3600 Medical Representatives (MRs) across 10 divisions in the domestic market. The company enjoys strong brand recall of its two brands Zifi and Enerzal in the respective areas. FDC has about 40% of its domestic portfolio under price control.

Exports business had registered strong 28% YoY growth for FY21 while the sales declined for FY22 due to price erosion, lower volumes and sharp decline in profit share in the US. In FY23, exports formulation revenue increased 49% YoY at Rs 328cr mainly led by strong growth from the US market. US formulation sales stood at Rs 141cr and accounted for 54% of exports formulation sales. Company spends 2-3% of its revenue in the R&D. India formulation sales registered 11% growth at Rs 1447cr for FY23 led by strong traction in its top brands, new launches and market share gains in the existing products. Company derives large part of domestic revenue from acute segment. Anti-Infective and Gastro-Intestinal therapeutic areas contribute to around 60% of domestic revenue. Typically, H1 remains strong for FDC while H2 remains little weak due to seasonality.

FDC has approval for 8 ANDAs in the US market. Exports contributed to 18.5% of sales in FY23 and it was at 19% in 9MFY24. With a pickup in ORS sales and Ophthalmic solutions to key markets like US and Europe, we expect international sales to grow at 16.8% CAGR over FY23-26E. As on Sep-2023, the company has cash & investments of Rs 382cr and non-current investments of Rs 371cr, which works out to Rs 47 per share. FDC has done buy back five times in the past 5-6 years at prices ranging from Rs.350 to Rs.500 per share and distributed Rs 630cr among the shareholders.

We had issued report on FDC on Jun 12, 2023 and recommended to buy in the band of Rs 297-301.5 for target of Rs 326 and Rs 349 over the 2-3 quarters (link). The stock had achieved both the targets in just 1.5 months. FDC reported strong numbers for 9MFY24 led by robust growth from domestic market and steady growth from International business. Given strong robust numbers and strong growth outlook, we issue a stock update on FDC. We have lowered revenue estimate by 2% each for FY24E/FY25E, while increasing EBITDA and net profit estimate by 13.7%/18.4% and 27.5%/28% for FY24E/FY25E respectively.

Valuation & Recommendation:

FDC had registered strong revenue growth of 16.7% at Rs 1784cr in FY23. EBITDA margin contracted 250bps YoY to 14.1% due to weak gross margin and higher other expenses in FY23. Gross margin slipped 190bps YoY at 63.2% due to higher RM/API/packaging cost. For 9MFY24, total sales grew 9.8% YoY at Rs 1481cr led by 8% growth in domestic formulation business. Operating margin expanded 460bps YoY at 19%. Net profit increased 58.6% YoY at Rs 259cr on strong margin and higher other income.

We estimate 11.7% CAGR in revenue led by 16.8% growth in exports business and 11% CAGR in India formulation business over FY23-26E. Strong revenue growth and improvement in gross margin could drive 18.8% CAGR in net profit over the same period. FDC has strong market position in anti-infective and gastrointestinal segments and has also increased its presence into chronic segments by entering into areas such as cardiac, Vitamins (VMN), dermatology etc. Healthy growth in domestic formulation business, better growth outlook in international business, robust balance sheet, strong return ratios and buyback at regular intervals are some of the key positives for the company. We feel investors can buy the stock in the band of Rs 446-452 and add more on dips to Rs 403.5 (16x FY26E EPS) for base case target of Rs 491.5 (19.5x FY26E EPS) and bull case target price of Rs 529.5 (21x FY26E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Revenue	458	409	11.9	486	-5.8	1,344	1,333	1,528	1,784	1,962	2,184	2,485
EBITDA	84	49	70.3	76	9.7	293	334	254	301	361	414	502
Depreciation	10	10	1.5	10	1.0	37	38	37	39	42	47	52
Other Income	25	18	34.2	27	-9.2	69	97	76	50	93	95	98
Interest Cost	1	1	-16.7	1	-4.8	3	3	3	4	4	3	2
Tax	18	16	15.7	23	-19.7	80	87	73	64	98	114	136
PAT	79	41	94.4	70	13.5	240	301	216	245	310	346	410
EPS (Rs)						14.0	17.9	12.8	14.7	19.1	21.2	25.2
RoE (%)						16.0	18.4	11.7	12.4	15.1	15.2	15.6
P/E (x)						31.8	25.0	34.8	30.2	23.4	21.0	17.7
EV/EBITDA (x)						24.7	21.7	28.5	24.0	20.1	17.4	14.4

(Source: Company, HDFC sec)

Q3FY24 result update

FDC reported better than expected numbers in the quarter. Revenue grew 11.9% YoY at Rs 458.2cr. EBITDA margin expanded 630bps YoY at 18.3%. Net profit increased 94.4% YoY at Rs 79.2cr. Other Income was up 34.2% YoY at Rs 24.7cr.

India formulations sales grew 14.7% YoY at Rs 364cr. Emerging Markets business grew 8.3% at Rs 37cr. US business remained flat YoY at Rs 34cr. API sales grew 6.4% YoY at Rs 22cr.

The main contributor to the growth was the US market which accounted for 48% of total Export Formulations Business for the quarter. The business continued to grow at a healthy pace of 19.7% during 9MFY24, registering sales of Rs 215 crore.

Cash & equivalents stood at Rs 382cr and non-current investments stood at Rs 371cr as on Sep-2023. EPS for the quarter stood at Rs 4.86 and it stood at Rs 15.9 for 9MFY24.

FDC's manufacturing unit at Roha, Dist. Raigad, Maharashtra that manufactures API products was inspected by US FDA in March 2023. The said audit got completed successfully by the US FDA with No observations (Zero 483s). Active Pharmaceutical Ingredients (APIs) manufactured at the facility continues to be marketed in the US market.

Q2FY24 Conference call highlights

- FDC filed 2 ANDAs during this first half of the current financial year and the ANDA filing fees are a big in number and that led to higher other expenses in H1FY24. About Rs 9cr were one-off in other expenses in Q2FY24.
- Apart from the top three which is Electral, Zifi and Enerzal, the company has seven products in the category of Rs 50-100 crore as per the market data.
- Management said that focus continues to remain on profitable growth in the medium term.
- Total field force as of Sep-2023 stood about 4,800 and in the last 12 months there is no significant changes.
- Company would increase its presence in Europe, Asia and Africa in the medium to long term.
- Cost optimization and operational efficiencies along with better Gross margin to drive strong operational performance.
- FDC has strong presence in Opthalmology area in the US market.
- Company recorded a productivity (PCPM) of almost 3.89 lakhs in H1FY24 and looks forward to take it further in the medium term.
- The brands such as Zifi CV, Vitcofol, Zathrin, Zocon, Zifi-O, Simyl MCT and Flemiclav are in Rs 50-100cr category.
- Electral has crossed Rs 400 crore landmark, Zifi has crossed Rs 300 crore and Enerzal is close to Rs 200 crore.
- Till 2-3 years back, the company had heavy dependency on top-3 brands at ~50%, however it has gradually reduced and stands around 40%.

- On the capex front there are a lot of other small and big projects which are going on particularly in the corporate office which is ongoing. It is likely to get completed by CY2024 and the expenditure would spill over till the next financial year also. Regular maintenance capex is about Rs 50-60 crore annually.
- Total capex to be in the range of Rs 170-180 crore in the next 18 months.
- FDC had launched Zocon division to focus more on dermatology area. It has added around 500 people in the division.
- Company had launched Nutraceutical business under 'Nutrica'. Company has brands like Simyl MCT, Mum Mum, Humyl powder, Zefrich powder. It had launched one new product Sitagliptin in anti-diabetic category.
- H1 remains strong while H2 remains relatively weak. This is due to higher sales from Acute segment.
- Company said that the attempt is to lower seasonality by entering into new areas and launches.
- Management guided for 15-18% CAGR in revenue and net profit over the next 3-5 years.
- Company has been focusing more on areas such as cardio-diabeto, dermatology. It has also lined up new products (line extension) in its key therapeutic areas.
- Zifi has been consistent category leader in Cefixime with ~25% market share with second leading brand being Taxim-O. Enerzal enjoys market share of ~45% in Energy drinks category with second largest being ORSL.
- Over the last 12-18 months, the company has been focusing on Nutraceutical and Dermatology segment. These are the areas where it already has presence but now the company is launching products in these segments to drive growth.
- FDC would invest Rs 80cr in capital expenditure for ophthalmic line at Waluj facility and that is likely to be operational in the medium term.
- FDC is also setting up office building at Oshiwara (Mumbai) plot. In the next 24 months, it will spend around Rs 200cr on construction, interior etc.

Key Triggers

Top brands continue to be growth driver in the domestic business

FDC has a strong presence in anti-infective, Oral Rehydration Salt (ORS), vitamin, dermatology and nutraceutical segments with well-known brands in the domestic market. Domestic business is anchored by a portfolio of leading brands including Electral, Enerzal, Vitcofol, Zifi, Zifi CV, Zocon, Zoxan, Zathrin, Zipod, Zefu, Simyl MCT and Mycoderm. Among these, Zifi has become synonymous with the product category while Electral and Enerzal, dominate their respective categories. We expect its top brands along with new launches to drive future growth in the domestic business. The brands such as Zifi CV, Vitcofol, Zathrin, Zocon, Zifi-O, Simyl MCT and Flemiclav are in Rs 50-100cr category.

The company's brands are spread across diverse therapeutic segments. In the ophthalmology segment, it enjoys legacy strength by being among the first to manufacture and market products using the advanced BFS (Blow, Fill, Seal) technology. The company has 3,600+ medical representatives across 10 divisions for marketing 130+ products. Company plans to continue focusing on growing its market share in Anti-infective, Gastro and vitamins and dermatology area. FDC is venturing into newer therapeutic areas, such as Infant formulations, Nutraceuticals, Dermatology, Cardiology, and Anti-diabetic products, to diversify and drive growth. It is establishing a dedicated vertical to elevate brand recall and customer engagement, focusing on catering to higher brand recall requirements. Total field force as of Sep-2023 stood about 4,800 which includes the managers all put together and in the last 12 months there is no significant changes.

With ~45% of the domestic business under price control, FDC plans to grow volumes as against competitors that are looking to achieve growth through upward price revisions. Enerzal and Electral have established themselves as wellness brands and are over-the counter products (OTC). Company continues to invest in enhancing brand visibility and customer outreach. Company has launched innovative tetra pack variants of Electral, a ready-to-drink ORS solution to meet evolving preferences. It has also launched Enerzal in 500 ml PET bottles, and a zero-sugar variant called Enerzal Zero in 400 ml PET bottles, thus expanding direct-to-consumer portfolio. By the end of FY20, the company acquired ‘ENTEROPLUS’ from GlaxoSmithKline Pharmaceuticals. This was the first time in history that it has done brand acquisition in India. The acquisition added considerable potential to domestic growth in Gastro segment (as an adjunct therapy with anti-infectives). We estimate 11% CAGR in domestic formulations business over FY23-26E.

Key Brands

Brand	Molecule	Rank	Sales in INR Crs	Market Share %
ELECTRAL	Oral Electrolytes	1	429	70.6%
ZIFI	Cefixime	1	345	25.4%
ENERZAL	Oral Electrolytes – Energy drink	1	185	49.9%
ZIFI CV	Cefixime+Clav.	1	88	49.0%
VITCOFOL	Iron and Other B complex Combi. (Sol+Liq+Inj)	8	85	2.4%
ZATHRIN	Azithromycin	5	66	4.8%
ZIFI-O	Cefixime+Ofloxacin	1	63	15.1%
ZOCON	Fluconazole	1	61	30.0%
SIMYL-MCT	Casein based + Soy based IMS	2	54	31.3%
AMODEP-AT	Amlodipine + Atenolol	5	40	6.0%

Source: IQVIA-Moving Annual Total Turnover- MAT Sep 23

Export formulations business

FDC has built a strong reputation for products in the Ophthalmic and ORS categories, which in turn is driving its extensive reach and penetration across continents. FDC was the first Indian company to introduce sterile ophthalmic products using BFS technology in the UK. A primary advantage of this technology is that it reduces human intervention, which lowers the risk of microbial contamination and foreign particulates. The company exports its pharmaceutical formulations in over 50 countries with key being US, Denmark, UK, Africa, Middle East and Asia. Company has filed several ANDAs and intends to focus more on R&D. Company spends 2-2.5% of sales in R&D and that is likely to continue.

The company is confident of sustained growth in the US, its key market, despite the prevailing challenges. In the US, few of the major obstacles are: price erosion due to customer consolidation, tougher competition, and tight regulatory controls. In the exports market, the key focus area has been Ophthalmology. The company has 8 approved ANDAs in the US, all in the Ophthalmology area. US business continues to remain a focus area for formulations exports and the company has also announced investment of ~Rs 80cr to expand capacity and capability. FDC is in process to expand its production capacity by installation of an additional BFS machine at the existing plant. This would help in catering further pipeline export orders for regulated market. This would largely drive growth from FY25E onwards. Company would also foray into new markets, introduce new products and increase penetration of existing products. We estimate 16.8% CAGR in export formulations business over FY23-26E.

Company continues to supply its anti-diarrheal and ophthalmic products to reputed global NGOs such as UNICEF-Denmark, WHO (through partners), Government bodies in Africa, thereby maintaining its reputation of being among the preferred suppliers for emergency supplies worldwide. Company has also ventured into new markets such as Mauritius, Ghana, Nigeria, French West African nations in the African region and Uzbekistan, Kazakhstan, Oman, and UAE in the Middle East region and Asian markets.

In the US market, the company had registered weak numbers for FY22 due to lower volumes and price erosion and also lower profit share. However, the business bounced back strongly in FY23 and 9MFY24. FDC has accreditations from the US FDA, UK MHRA, MCC-RSA, etc. FDC is a forerunner in manufacturing and marketing of Oral Rehydration Salts (ORS) and Ophthalmic. FDC has also set-up globally approved, multi-location manufacturing facilities for Active Pharmaceuticals Ingredients (APIs) as well as Finished Dosage Forms. These facilities are located at Roha, Waluj and Sinnar in Maharashtra, Verna in Goa and Baddi in Himachal Pradesh.

FY23 Update

Revenue increased 16.7%, against domestic industry growth of 8%. Company crossed Rs 2,000 crore mark for the first time in history in IQVIA secondary sales data. Electral has crossed Rs 400 crore sales while Zifi achieved Rs 350 crore sales mark and Enerzal reached Rs 170 crore. During the year, the company’s anti-infective, gastro-intestinal, VMN (vitamins), ophthalmology and dermatology segments performed well, registering growth of 16%, 33%, 20%, 19% and 19%, respectively. In FY23, the incremental value came from anti-infective, gastro-intestinal and Vitamins (VMN).

FDC derived its majority of revenue from the US market in the exports markets. US sales have exhibited significant growth over the past financial year. Company's partners in the US market have successfully revived the sales post-Covid-19 pandemic of key products like Timolol 0.5% ophthalmic solution, Ciprofloxacin 0.3% ophthalmic solution, Ofloxacin 0.3% ophthalmic solution & Dorzolamide 2%, Timolol 0.5% ophthalmic solution. US Generic Market pricing has been under pressure due to higher competitive intensity in the form of a rise in the number of drug approvals, market consolidation, and an increase in competition. Cost pressures will remain in the near-term, and the company would endeavor to optimize its supply chain by increasing the production batch sizes wherever possible to stabilize the price pressure in the base business of generic ophthalmic product sales. FDC is confident of sustained growth in the US market, despite the challenges of price deflation and the continually changing market scenario among stricter regulatory controls.
FDC International UK, the 100% subsidiary of FDC Limited, India, generated a total revenue of GBP 1.06 million through sales of key products like Sodium Cromoglicate 2% Eye drops 13.5 ml, Chloramphenicol 0.5% Eye drops 10 ml & Timolol 0.5% Eye drops 5 ml against the revenue of GBP 1.46 million of the last financial year.

Company is venturing into newer therapeutic areas, such as Infant formulations, Nutraceuticals, Cardiology, and Anti-diabetic products, to diversify and drive growth. It has established a dedicated vertical to elevate brand recall and customer engagement, focusing on catering to higher brand recall requirements.

Company has 401 products registrations across 51 countries. It has approval for 8 ANDAs in the US. Over the years, FDC has successfully done backward integration of many CEP grade APIs ensuring consistent supply of high-quality APIs.

Asia region

In FY23, FDC reported significant growth in the Asia region. Company's business in Asia reached Rs 38.4 crore, +83% as compared to the previous financial year. Among the countries in the Asia region, Malaysia, New Zealand, Myanmar, Australia, and Hong Kong emerged as the key contributors, accounting for approximately 88% of business in Asia. Malaysia stood out as the highest contributor, with a remarkable growth rate of 247% over the last year. FDC achieved Rs 10.8 crore in New Zealand, +63% YoY. Sales in Myanmar reached Rs 5.2 crore, with its flagship brand Electral experiencing exceptional growth at a rate of 149% over the previous year. Ophthalmic and ORS remain the prime categories that drive FDC's export business in the region. Among the Company's top 10 products, which collectively contributed to 70% of the total business in Asia, notable brands include the Electral range, Salmodil syrup, Latanoprost 0.005% Eye Drops, and Chloramphenicol 0.5% Eye Drops.

Africa

In FY23, the Africa region registered revenue of Rs 38.2 crore, a growth of 49% over the previous year and contributing 22% to overall exports. FDC's presence is in 21 countries, with the top countries contributing (Ethiopia/Tanzania/Zimbabwe/Botswana/Uganda) to 82% of regional sales.

R&D

FDC's R&D center located at Kandivali, Mumbai is engaged in the process of developing niche products, particularly in the areas of ophthalmic, anti-hypertensive, anti-fungal, anti-diabetic, anti-histaminic, bronchodilator and anti-bacterial new chemical entity (NCE). Company is also focused on the development of API for COPD, for example, Glycopyrrolium bromide.

Nutraceuticals

Company formulates nutraceutical products, such as non-carbonated water-based beverages and other food products that offer additional health benefits besides their basic nutritional value. Nutraceuticals are derived from natural sources and contain scientifically proven active ingredients that promote health. The demand for nutraceuticals and dietary supplements has been steadily increasing in recent years, due to consumer awareness of the importance of preventive healthcare and as they are seeking natural and alternative ways to improve their well-being.

Buyback at regular intervals

FDC has done buy back five times in the past 5-6 years at prices ranging from Rs.350 to Rs.500 per share and distributed Rs 630cr among the shareholders.

In Mar-2018, the company bought back 34.2 lakh equity shares at Rs 350 per share and distributed Rs 120cr to the shareholders. In Jul-2019, the company bought back 34.3 lakh equity shares at Rs 350 per share and spent Rs 120cr. In Sep-2020, the company bought back 21.6 lakh equity shares at Rs 450 per share and distributed Rs 98cr to the shareholders.

In Apr-2022, the company concluded buyback of 29 lakh equity shares at Rs 475 per equity share through tender offer route. It had spent Rs 138cr in the said buyback.

In Aug-2023, the company did buy back of 31 lakh equity shares at Rs 500 per share and spent Rs 155cr in the said buyback.

As the company is implementing capex for the exports markets and also constructing office at Mumbai, buybacks may not be as frequent as in the past.

Key Concerns

- The Drug Price Control (Amendment) Order limits price increases in schedule drugs mentioned in the National List of Essential Medicines (NLEM). While it has been observed that competitive forces in the market have been more effective in controlling prices, amendments to the list will continue to pose challenges for the industry and for the company. Company has about 40% of its domestic portfolio under NLEM.
- Concentration Risk: Company derives around 60% of business from two therapeutic areas (i.e. anti-infective and Gastro-Intestinal). Any adverse news flow or heightened competition may affect the business.

- Company has planned capex of around Rs 80cr for ophthalmic line for the exports market. Any delay in capex could impact its overall performance. It has also announced to spend Rs 200cr on constructing a new corporate office over 2 years. This large spend could dilute its RoE till the time it raises money by divesting some existing assets including offices.
- The Government of India is encouraging the use of generic products through various initiatives. This may have an impact on the company's domestic business as it has strong presence in branded generic space. Rollout of the Jan Aushadi Kendras is an important step taken by Govt. to make sure that everyone has access to medicines at affordable price. It has not scaled up much yet. It had reported sales of Rs 893cr in FY22 and Rs 1236cr in FY23. Significant scale up of this may hurt branded players.
- As on May-2023, the government has operationalised 9,500 Jan Aushadhi Kendras with products comprising 1,800 lifesaving medicines and 285 surgical, nutraceuticals and medical devices, at 50-80% cheaper than the branded ones.
- Company has strong presence in acute therapeutic area in the domestic market (70-80% of revenue), which is seasonal in nature.
- Elevated price erosion in the US generic business could hurt the performance. Incremental competition in existing key products in US business may impact growth. US business declined 54% YoY during FY22 due to price erosion and competitive environment however, US revenue grew significantly in FY23. Lower than expected growth in the US business could hurt revenue and profitability.
- Inability to scale-up new launches or expand through inorganic growth in the domestic business would stagnate India formulation growth.
- Any slowdown in IPM growth, delay in new launches and sales ramp up of new products may hurt its earnings.

Company Background

In 1940, the partnership firm was incorporated as a private limited company - Fairdeal Corporation (Private) Limited and in 1986 its name was changed to FDC Private Limited. It had started its business as an importer of formulations, medical equipment and specialized infant foods. In 1963, FDC entered into the ophthalmic therapeutic segment, in which FDC commands strong market share at present. Company has one of the best product portfolios in the ophthalmic segment catering to almost all-possible eye ailments. In 1972, FDC entered into oral rehydration salts (ORS) with Electral. The product was introduced as a substitute to IV fluids and it has become a household name in the last 25 years. FDC started this project in a small setup at Jogeshwari with an initial capacity of 4000 packs per day and now it has separate manufacturing facilities at Nashik and Waluj with total capacity of > 2.5 lakh packs per day.

In 1998, FDC established another manufacturing unit for solid dosage form at Goa with the objective of manufacturing selected products going off patent for the international market. FDC has joint venture with group of professionals in UK to export ophthalmic range of formulations. In this JV, FDC has majority of the stake. Company continues to focus on increasing export of ophthalmic dosage formulation to high margin markets of US and Europe. FDC has also set-up globally approved, multi-location manufacturing facilities for Active Pharmaceuticals Ingredients (APIs) as well as Finished Dosage Forms. These facilities are located at Roha, Waluj and Sinnar in Maharashtra, Verna in Goa and Baddi in Himachal Pradesh. FDC markets more than 300 products in India and exports to over 50 countries in the world with key being US and Europe.

FDC strives to explore, innovate and integrate solutions with modern technology, empowering talent and expanding healthcare horizons for a better quality of life to millions globally. The company has presence in various therapeutic segments, such as anti-infectives, gastrointestinal, ophthalmology, vitamins (VMN), dietary supplements, anti-diabetes, gynaecology, dermatology, and others. The company products are sold under brand names, Electral, Enerzal, Vitcofol, Zocon, Zoxan, Zathrin, Zifi CV, Amodep AT, Cotaryl and Mycoderm.

FDC has seven manufacturing plants located at five locations such as Waluj, Baddi, Roha, Sinnar and Goa. It has R&D Centre located at Kandivali, Mumbai. Company exports its products to 50+ countries with key being US, Europe, Ethiopia and New Zealand. Company spends 2-2.5% of revenue as R&D expenses. In FY23, R&D expenses were at Rs 39.7cr or 2.2% of sales. Company is setting up office building at its Oshiwara, Jogeshwari (Mumbai) plot for around Rs 200cr.


Functional Foods

We, have a wide range of functional foods under our foods division. We develop our products while maintaining high standards, to consistently deliver health benefits to our customers. Our functional foods division is categorised into three sub-divisions i.e.,

- Anti-oxidants
- Balanced Energy & Protein Drinks
- Vitamins and Nutraceuticals

Some of the market leading brands under our functional food division are:

Electral, Enerzal, Humyl, Mum Mum 1, ProSoyal, Simyl, Zefrich

Formulations

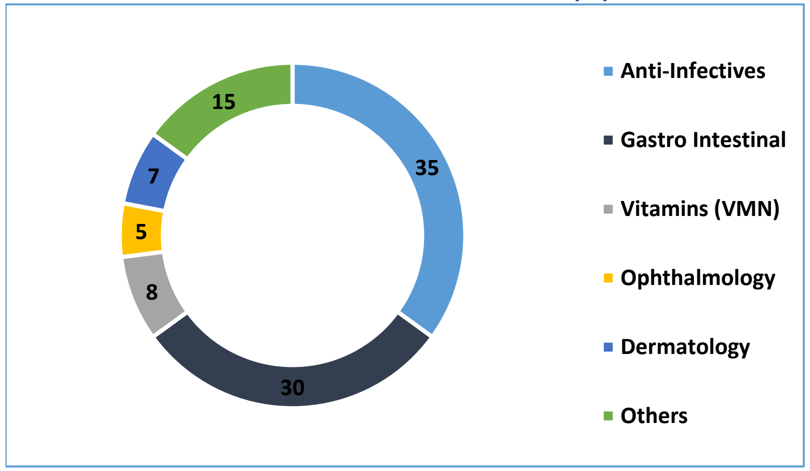
FDC is a pioneer in producing specialised formulations. We have a wide presence across therapeutics including:

- Anti-Infectives
- Gastrointestinals
- Opthalmics
- Vitamins, minerals, dietary supplements, cardiovascular , anti-diabetics, respiratory, gynaecology, dermatology, analgesics, and others.

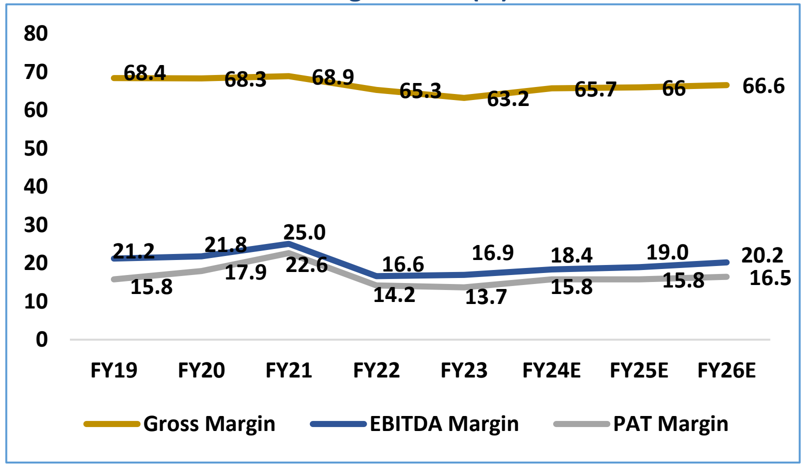
Some of our well-known brands in the therapeutic segment are:

Zifi, Vitcofol, Pyrimon DF, Zocon, Zoxan, Zathrin, Zipod, Amodep-AT, Zefu, Cotaryl, Mycoderm, Ziglim Plus 2, Ziglim-M1

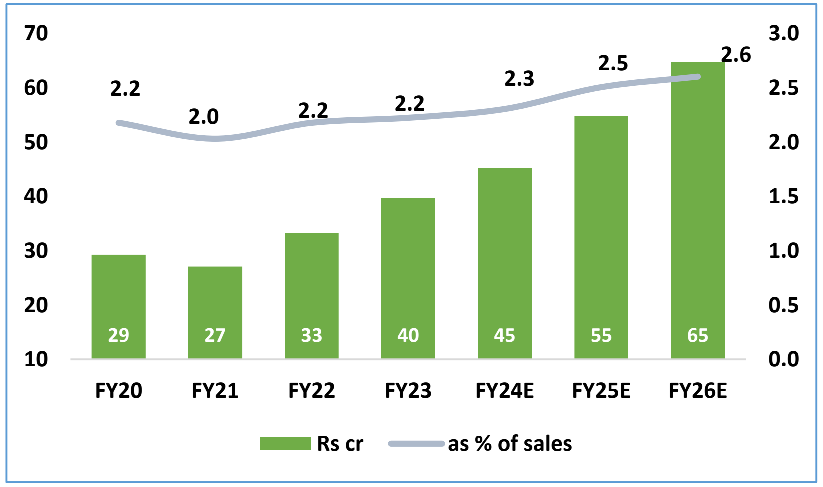
Domestic Revenue Mix (%)



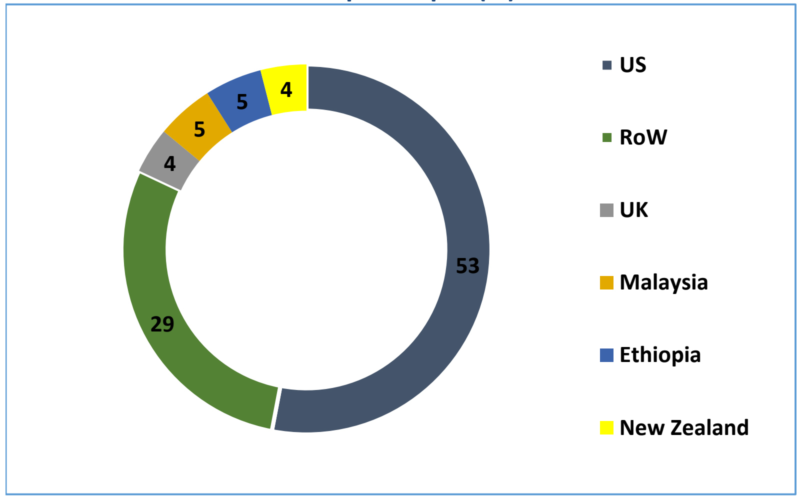
Margin Trend (%)



R&D Trend



Exports Split (%)



(Source: Company, HDFC sec)

Financials (Consolidated)

Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Revenue	**1333**	**1528**	**1784**	**1962**	**2184**	**2485**
Growth (%)	-0.8	14.6	16.7	10	11.3	13.8
Operating Expenses	999	1274	1482	1602	1769	1983
EBITDA	**334**	**254**	**301**	**361**	**414**	**502**
Growth (%)	14	-24	18.7	19.6	14.9	21.2
EBITDA Margin (%)	25	16.6	16.9	18.4	19	20.2
Depreciation	38	37	39	42	47	52
EBIT	296	217	262	319	367	450
Other Income	97	76	50	93	95	98
Interest expenses	3	3.1	4	4.5	3.4	2.4
PBT	388	289	308	407	459	546
Tax	87	73	64	98	114	136
RPAT	**301**	**216**	**245**	**310**	**346**	**410**
Growth (%)	25.6	-28.2	13	26.8	11.5	18.7
EPS	17.9	12.8	14.7	19.1	21.2	25.2

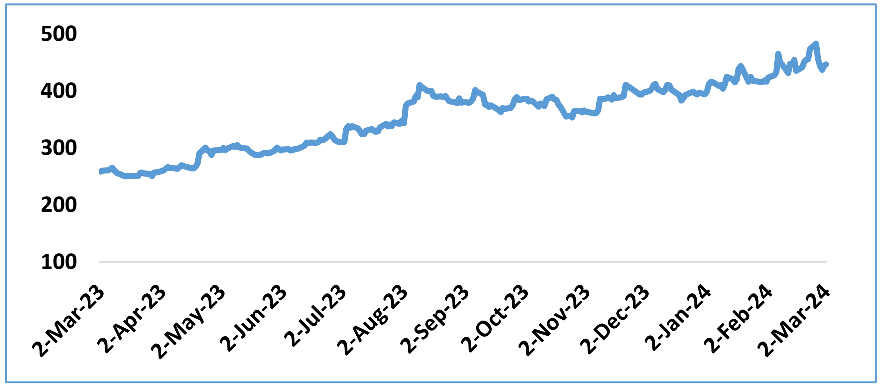
Balance Sheet

As at March	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS						
Share Capital	16.9	16.9	16.6	16.3	16.3	16.3
Reserves	1717	1940	1966	2102	2416	2784
Shareholders' Funds	1734	1957	1982	2118	2432	2801
Long Term Debt	7	1	1	2	3	4
Net Deferred Taxes	-13	-18	-30	-33	-36	-39
Long Term Provisions & Others	0	25	38	37	38	39
Total Source of Funds	**1729**	**1965**	**1990**	**2124**	**2436**	**2805**
APPLICATION OF FUNDS						
Net Block & Intangibles	708	810	897	987	1059	1097
Non Current Investments	265	385	349	359	382	413
Long Term Loans & Advances	25	42	29	33	37	42
Total Non-Current Assets	**998**	**1236**	**1275**	**1379**	**1478**	**1551**
Current Investments	525	501	457	375	405	461
Inventories	215	305	329	356	383	444
Trade Receivables	110	82	123	140	159	184
Short term Loans & Advances	1	2	2	3	5	8
Cash & Equivalents	32	39	25	84	231	392
Other Current Assets	51	72	89	102	120	147
Total Current Assets	**934**	**1001**	**1027**	**1060**	**1303**	**1636**
Trade Payables	77	137	178	170	188	211
Other Current Liab & Provisions	90	99	109	119	130	141
Short-Term Provisions	36	36	24	25	28	30
Total Current Liabilities	**204**	**272**	**311**	**315**	**345**	**382**
Net Current Assets	731	729	715	745	958	1253
Total Application of Funds	**1729**	**1965**	**1990**	**2124**	**2436**	**2805**

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	390	289	308	407	459	546
Non-operating & EO items	-97	-76	-50	-93	-95	-98
Interest Expenses	3	3	4	4	3	2
Depreciation	38	37	39	42	47	52
Working Capital Change	-32	-13	-69	28	-69	-133
Tax Paid	-95	-80	-78	-98	-114	-136
OPERATING CASH FLOW (a)	**207**	**162**	**155**	**290**	**231**	**233**
Capex	-59	-127	-113	-130	-120	-90
Free Cash Flow	148	35	42	160	111	143
Investments	-115	-94	74	-16	-29	-38
Non-operating income	97	76	50	93	95	98
INVESTING CASH FLOW (b)	**-77**	**-145**	**11**	**-53**	**-53**	**-30**
Debt Issuance / (Repaid)	-6	-7	-7	-1	1	1
Interest Expenses	-3	-3	-4	-4	-3	-2
FCFE	139	25	31	155	109	142
Share Capital	0	0	0	0	0	0
Dividend/Buyback	-120	0	-169	-173	-31	-40
FINANCING CASH FLOW (c)	**-129**	**-10**	**-180**	**-179**	**-34**	**-41**
NET CASH FLOW (a+b+c)	**1**	**7**	**-14**	**59**	**144**	**162**

One Year Price Chart



Key Ratios

	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profitability (%)						
Gross Margin	68.9	65.3	63.2	65.7	66	66.6
EBITDA Margin	25	16.6	16.9	18.4	19	20.2
EBIT Margin	22.2	14.2	14.7	16.2	16.8	18.1
APAT Margin	22.6	14.2	13.7	15.8	15.8	16.5
RoE	18.4	11.7	12.4	15.1	15.2	15.7
RoCE	16.9	10.8	12.9	14.7	14.8	15.8
Solvency Ratio (x)						
Net Debt/EBITDA	-1.6	-2.1	-1.6	-1.3	-1.5	-1.7
D/E	0	0	0	0	0	0
Net D/E	-0.3	-0.3	-0.2	-0.2	-0.3	-0.3
PER SHARE DATA (Rs)						
EPS	17.9	12.8	14.7	19.1	21.2	25.2
CEPS	20.1	15	17.1	21.6	24.2	28.4
BV	103	116	119	130	149	172
Dividend	0	0	0	1	1.8	2.3
Turnover Ratios (days)						
Debtor days	30	20	25	26	27	27
Inventory days	59	62	65	66	64	65
Creditors days	42	59	66	61	61	61
VALUATION (x)						
P/E	25	34.8	30.2	23.4	21	17.7
P/BV	4.3	3.8	3.7	3.4	3	2.6
EV/EBITDA	21.7	28.5	24	20.1	17.4	14.4
EV / Revenues	5.4	4.7	4.1	3.7	3.3	2.9
Dividend Yield (%)	0	0	0	0.2	0.4	0.5
Dividend Payout (%)	0	0	0	5.2	8.5	9.1

(Source: Company, HDFC sec)

KUSHAL MAHENDRA RUGHANI Digitally signed by KUSHAL MAHENDRA RUGHANI Date: 2024.03.04 08:06:15 +05'30'

HDFC Sec Retail Research rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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