

IOL CHEMICALS & PHARMACEUTICALS LTD.

(NSE : IOLCP) (BSE: 524164)

Date : 13-4-2018



CMP : 95

TP : 175

Buy

Market Data

| | |
|-----------|-------|
| Nifty | 10511 |
| Sensex | 34280 |
| Nifty PE | 26 |
| Sensex PE | 23.5 |

Stock Data

| | |
|-------------------------|---------------|
| Sector | Chem & Pharma |
| BSE Code | 524164 |
| NSE Code | IOLCP |
| FV | 10 |
| Market Cap (INR cr) | 535 |
| Market Cap (US\$ cr) | 8.21 |
| Equity Share Cap. (cr.) | 56.21 |

Stock Performance (%)

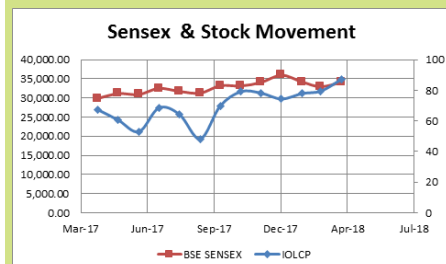
| | | | |
|------------------|-------|------------|-------|
| 52-week high/low | Rs. | 96.30 / 42 | |
| | 1M | 6M | 12M |
| Absolute (%) | 13.90 | 3.7 | 44.69 |

Shareholding Pattern (%)

Promoters : 41%

Others : 50%

Sensex & Stock Movement



Company Background:

Established in 1986, IOL Chemicals & Pharmaceuticals is India's one of the leading generic pharmaceutical company, and a significant player in the organic chemicals space. It has two business segments i.e. chemicals and pharmaceuticals. The chemical segment manufactures Ethyl Acetate, Iso Butyl Benzene (IBB), Acetyl Chloride and Mono Chloro acetic Acid (MCA), while under pharmaceuticals the company manufactures active pharmaceutical ingredient (APIs) i.e. Ibuprofen. Company sells branded formulation and ibuprofen in export markets like Europe, Latin America and Middle East. Apart from Ibuprofen, it also manufactures Metformin Hydrochloride, Lamotrigine, Fenofibrate and Clopidogrel Bi sulphate. The chemical and pharmaceutical segments contribute equally to the revenue but management wants to take pharma business revenue upto ~65% over a period of time. Company has a co-generation plant of 17MW to meet the energy demands of its production units. It's R&D lab is DSIR approved and is fully equipped to validate the existing processes.

The Specialty Chemicals Segment:

IOLCP is a major manufacturer in the specialty organic chemical space. It is one of the largest producers of Ethyl Acetate (87,000 TPA) and ISO Butyl Benzene in India with over 30% of the global market share and a major player in Ibuprofen. It has forward-integrated this vertical to the pharmaceutical segment with end products such as IBB (9000 TPA), MCA (7200 TPA) and Acetyl Chloride (5200 TPA) used as key raw materials for Ibuprofen. It plans to explore its presence in other industries such as paints, flexible packaging and glass. In line with this approach, it has added many MNC giants to its customer base like Akzo Nobel, BASF, Strides, Granules etc.

Pharmaceuticals Segment:

With a presence in over 50 countries, IOL Chemicals & Pharmaceuticals has established itself as a major player in Ibuprofen with over 30% of the global capacity. It is the world's only backward-integrated Ibuprofen producer (8,000 TPA) that manufactures all intermediates and key starting materials at one location. It has augmented its pharma business by moving up the value-chain by entering into lifestyle drugs for pain management, anti-depressant, anti-diabetic, anti-platelet and anti-convulsion. Currently, 6 APIs are already commercialized and 10 APIs are in the advance stage of development. IOLCP's Ibuprofen plant is USFDA, EDQM and EUGMP certified by the National Institute of Pharmacy and Nutrition, Hungary. Most of all the MNC pharma

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companies are IOLCP's clients like Sanofi, Abbott, Cipla, Alkem, Alembic, etc.

Financial:

For FY17, IOLCP's sales grew 22% to Rs.710.65crore from Rs.581.62 crore in FY16. It posted PAT of Rs.4.23 crore as against a loss of Rs.40.03 crore in FY16 fetching an EPS of Re.0.75 and Cash EPS of Rs.6.08. It has posted superb set of nos in Q3FY18 numbers. In Q3FY18, PAT zoomed 771.28% to Rs.8.80 crore from Rs.1.01 crore on 33% higher sales of Rs.262.68 crore fetching an EPS of Rs.1.56 and Cash EPS of Rs.2.68. For 9MFY18, it's PAT soared 507.11% to Rs.16.21 crore from Rs.2.67 crore on 26% higher sales of Rs.713.44 crore fetching an EPS of Rs.2.88 and cash EPS of Rs.6.57.

5 Year Financials :

| INR Mn | FY 13 | FY 14 | FY 15 | FY 16 | FY 17 |
|------------------|--------|-------|--------|--------|--------|
| Sales | 481.51 | 563.5 | 384.73 | 580.42 | 710.65 |
| Operating Profit | 89.04 | 95.74 | 11.25 | 51.38 | 101.68 |
| PBT | 2.96 | 5.08 | -75.44 | -38.55 | 5.47 |
| PAT | 1.59 | 3.3 | -66.65 | -40.03 | 4.23 |
| EPS (Rs.) | 0.61 | 1.15 | -13.99 | -7.12 | 0.75 |
| Cash EPS (Rs.) | 12.6 | 12.12 | -7.92 | -1.84 | 6.08 |

Ratios

| Particulars | FY 13 | FY 14 | FY 15 | FY 16 | FY 17 |
|-------------|--------|--------|-------|-------|--------|
| ROE | 1% | 2% | -33% | -22% | 2% |
| ROCE | 10% | 12% | -1% | 3% | 11% |
| OPM | 18.49% | 16.99% | 2.92% | 8.85% | 14.31% |
| DEBTOR DAYS | 27.15 | 31.91 | 30.99 | 54.87 | 57.92 |

Financials:

| INR Cr. | Q3FY18 | Q2FY18 | QoQ(%) | Q3FY17 | YoY(%) | 9MFY18 | 9MFY17 | YoY(%) |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Sales | 262.67 | 217.79 | 20.6% | 197.63 | 32.9% | 713.44 | 565.61 | 26.1% |
| Operating Pro. | 32.78 | 30.02 | 9.2% | 25.73 | 27.4% | 90.42 | 76.96 | 17.5% |
| Profit Before Tax | 9.56 | 5.84 | 63.7% | 1.32 | 624.2% | 18.57 | 3.6 | 415.8% |
| Net Profit | 8.8 | 4.43 | 98.6% | 1.01 | 771.3% | 16.21 | 2.67 | 507.1% |
| EPS | 1.56 | 0.79 | 97.5% | 0.18 | 766.7% | 2.88 | 0.48 | 500.0% |
| Cash EPS | 2.68 | 2.14 | 25.2% | 1.54 | 74.0% | 6.57 | 4.52 | 45.4% |

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Turnaround Story and Expansion of Capacity:

It has arrested heavy losses of last two years in FY17 by posting profit of Rs. 4.2 crore. It has posted profit of Rs. 16.2 crs in 9MFY18 which is substantially higher than total profit of FY17! Looking at the management's plan to increase the focus on pharma, led by capacity expansion, will substantially boost the profitability in coming years!

Company will invest about Rs.100 crore every year for two years to increase their capacity by 30% every year, to meet its growing demand of Ibuprofen. Currently company is working with full capacity utilization at 8000 TPA out of which it has added 800 TPA capacities in Q3FY18 and management believes by the end of H2FY19 it will reach to the capacity level of 10,000 and rest 2000 TPA will be added gradually. The company will also enhance the capacities of its backward integrated products i.e. ISO butyl benzene from 9000 TPA to 12000 TPA, MCA from 7200 TPA to 10500 TPA and Acetyl Chloride from 5200 TPA to 8400 TPA. The company has already completed and commercialized unit 3 to manufacture Fenofibrate, Clopidogrel and Lamotrigine etc. with an investment of Rs.16.48 crs met through internal accruals. It has successfully started the Metformin, an anti-diabetes drug with an annual capacity of 3000 MT in February 2018.

Industry Overview:

The Indian chemical industry is the 3rd largest in Asia and 6th by volume in the world. By 2025, the industry is projected to reach \$403 bn. The Indian pharmaceuticals market is the 3rd largest in terms of volume and 13th largest in terms of value. India is the largest producer of generic drugs globally with Indian generics accounting for 20% of the global exports in terms of volume. The Indian pharma industry, which is expected to grow over 15% per annum between 2015 and 2020, will outperform the global pharma industry.

Ibuprofen – The New Sunrise Product of Industry:

Ibuprofen has installed manufacturing capacity of 31,350 TPA, while it has demand of around 38,000 TPA! Which is quite high compared to its supply. According to industry reports, the demand of Ibuprofen is likely to increase in couple of years. Prices of Ibuprofen have increased substantially in the USA and Europe due to lack of capacity expansion by existing manufacturers. Industry checks suggest prices of Ibuprofen have increased by ~50% in the USA and Europe while in India it has increased by ~30%. IOLCP is the only Ibuprofen manufacturer who is expanding capacity to meet the shortage demand. Currently, it is running at full capacity.

Valuations:

AT CMP of Rs. 95, the stock is trading at PE of 30x on its EPS (TTM) of Rs. 3.15 per share. The stock is available at a discount if we compare it with Industry PE (PE 38.7x).

It is quoting at 1.4x of Sales/MCap ratio which is dearth cheap considering its product mix and expansion plans.

IOLCP is expanding its API product portfolio and improving cost competitiveness through efficient manufacturing processes and systems and growing relationships with major MNCs for the sale of APIs.

To meet the rising demand in the market, IOLCP has announced expansion plan.

Considering the above, along with the growth drivers; we recommend a strong BUY to our investors with a Target Price of Rs. 175 by 2020. We will closely monitor company's executions and keep upgrading our forecasts on the basis of earnings.

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Disclosure:

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