

August 14, 2019

Q1FY20 Result Update

■ Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		BUY	
Target Price	1,008		908	
Sales (Rs. m)	43,317	49,568	43,317	49,568
% Chng.	-	-	-	-
EBITDA (Rs. m)	8,144	9,567	8,144	9,567
% Chng.	-	-	-	-
EPS (Rs.)	42.5	51.2	42.5	51.2
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	32,836	37,655	43,317	49,568
EBITDA (Rs. m)	4,547	6,797	8,144	9,567
Margin (%)	13.8	18.1	18.8	19.3
PAT (Rs. m)	2,394	4,251	5,367	6,474
EPS (Rs.)	19.0	33.6	42.5	51.2
Gr. (%)	24.8	77.3	26.3	20.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	9.3	14.6	15.8	16.3
RoCE (%)	8.5	14.5	16.8	17.8
EV/Sales (x)	3.7	3.1	2.7	2.3
EV/EBITDA (x)	27.0	17.4	14.4	12.0
PE (x)	49.5	27.9	22.1	18.3
P/BV (x)	4.4	3.8	3.2	2.8

Key Data

IPCA.BO | IPCA IN

52-W High / Low	Rs.1,046 / Rs.590
Sensex / Nifty	37,312 / 11,029
Market Cap	Rs.119bn/ \$ 1,665m
Shares Outstanding	126m
3M Avg. Daily Value	Rs.272.01m

Shareholding Pattern (%)

Promoter's	46.07
Foreign	15.58
Domestic Institution	24.07
Public & Others	14.28
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.2)	24.2	27.1
Relative	1.6	19.4	29.0

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Q1: Sartans lead sales growth but reduce margin

IPCA beats in Q1FY20 as its sales, EBITDA and PAT grew by 4%, 36% and 50% above our estimates. IPCA took the benefit of high demand and price of Sartan APIs in global markets (mainly EU) due to contamination issues. The higher contribution of Sartan APIs increased API contribution to 30% in Q1FY20 from its average contribution of 25%. This has resulted in higher material costs and lower gross margin by 360bps QoQ. Management guided that normalized gross margin will return from Q2FY20E onwards. The higher material costs also contributed from the higher price of material by 100bps out of 360bps in Q1FY20. IPCA is global leader in losartan production (Rs1.2bn sales in FY19) and its valsartan sales is improving from current run rate of Rs25m/month. It guided more than 20% growth in API sales in FY20E.

Steady emerging market currencies (Russia, SA, SE Asia, MEA, Africa, LatAm) helped to gain traction in branded generics in non-US export business. Branded business grew 17% YoY, more than its guidance of 10% growth in FY20E. India business grew 13% YoY due to strong growth of 22% in pain management segment (PMS) as it contributes 40% of its India formulations. IPCA suggested that all required data are submitted to USFDA and invited for plant visit which could occur in FY20E. Institutional Tender business declined by 34% YoY and its guidance is reduced to Rs2.25-2.5bn in FY20E. Management expects new approvals of DT and Injectable to boost its anti-malaria tender business in FY21E.

EBITDA margin is guided to improve by 100-200bps in FY20E due to the benefits operating leverage. We expect slower offtake of Global Fund business may shift some of its sales to FY21E. IPCA trades at PER of 22x (FY20E) and 18.3x (FY21E). With better visibility of exports, we increase our TP to Rs1,008 (from Rs908) on PE 20x of FY21 earnings while downgrade our ratings to 'Accumulate' as upside potential at current valuation is 8%.

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	10,110	8,539	18.4	8,338	37,732	43,317	(12.9)
Raw Material	3,626	2,777	30.6	2,690	12,397	13,645	(9.1)
<i>% of Net Sales</i>	<i>35.9</i>	<i>32.5</i>		<i>32.3</i>	<i>32.9</i>	<i>31.5</i>	
Personnel Cost	2,055	1,954	5.2	1,768	7,874	8,663	(9.1)
<i>% of Net Sales</i>	<i>20.3</i>	<i>22.9</i>		<i>21.2</i>	<i>20.9</i>	<i>20.0</i>	
Others	2,479	2,668	(7.1)	2,134	10,542	12,865	(18.1)
<i>% of Net Sales</i>	<i>24.5</i>	<i>31.2</i>		<i>25.6</i>	<i>27.9</i>	<i>29.7</i>	
Total Expenditure	8,160	7,399	10.3	6,591	30,813	35,174	(12.4)
EBITDA	1,950	1,140	71.1	1,747	6,919	8,144	(15.0)
<i>Margin (%)</i>	<i>19.3</i>	<i>13.4</i>		<i>20.9</i>	<i>18.3</i>	<i>18.8</i>	
Depreciation	420	445	(5.5)	416	1,824	1,970	(7.4)
EBIT	1,530	695	120.1	1,331	5,095	6,174	(17.5)
Other Income	194	136	42.6	146	577	443	30.1
Interest	45	49	(9.3)	63	189	136	39.1
PBT	1,680	782	114.7	1,414	5,483	6,481	(15.4)
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	359	127	182.8	319	1,042	1,069	(2.5)
<i>ETR (%)</i>	<i>21.4</i>	<i>16.2</i>		<i>22.6</i>	<i>19.0</i>	<i>16.5</i>	
Reported PAT	1,321	655	101.5	1,095	4,440	5,412	(18.0)
Other Comprehensive Income	(9)	26		(9)	(56)	(45)	
Total Comprehensive Income	1,312	681	92.6	1,086	4,384	5,367	(18.3)

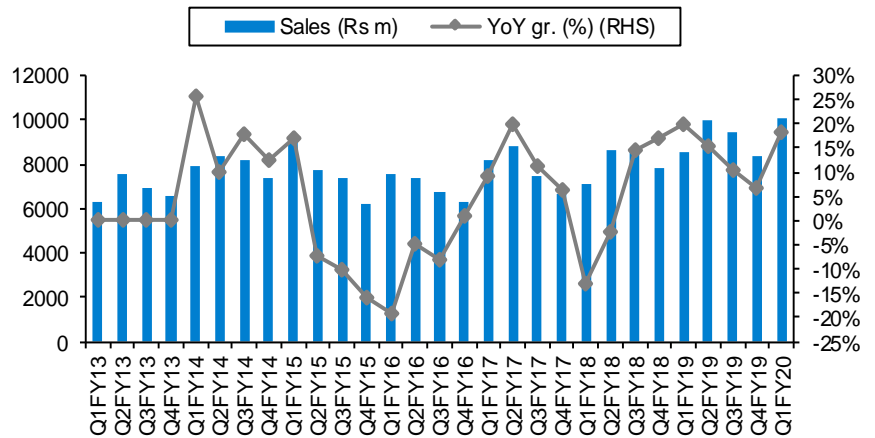
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major sources of revenues	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Domestic	5,185	4,610	12.5	4,017	20,423	21,195	-3.6
Formulations	4,528	4,009	12.9	3,557	18,404	19,133	-3.8
APIs	657	600	9.5	460	2,020	2,062	-2.1
Exports	4,775	3,817	25.1	4,192	17,308	22,122	-21.8
Formulations	2,448	2,240	9.3	2,536	10,483	14,482	-27.6
APIs	2,326	1,577	47.5	1,656	6,826	7,641	-10.7
Net Sales	9,960	8,427	18.2	8,209	37,732	43,317	-12.9

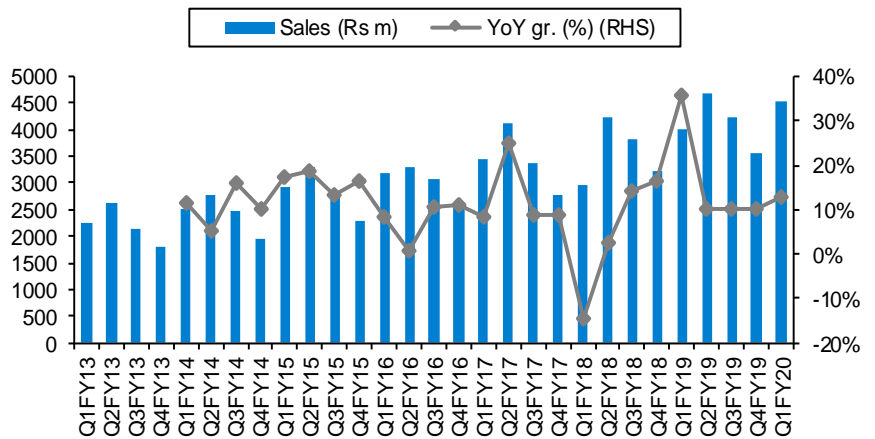
Source: Company, PL

Exhibit 3: Total Sales and growth



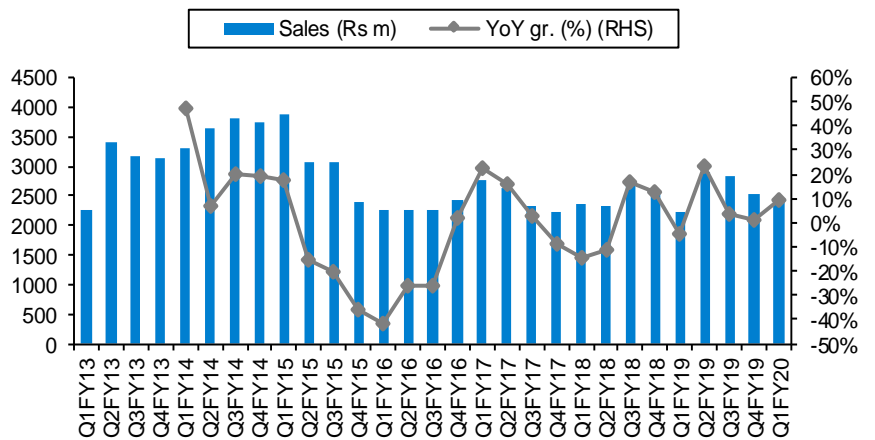
Source: Company, PL

Exhibit 4: India formulations sales, growth



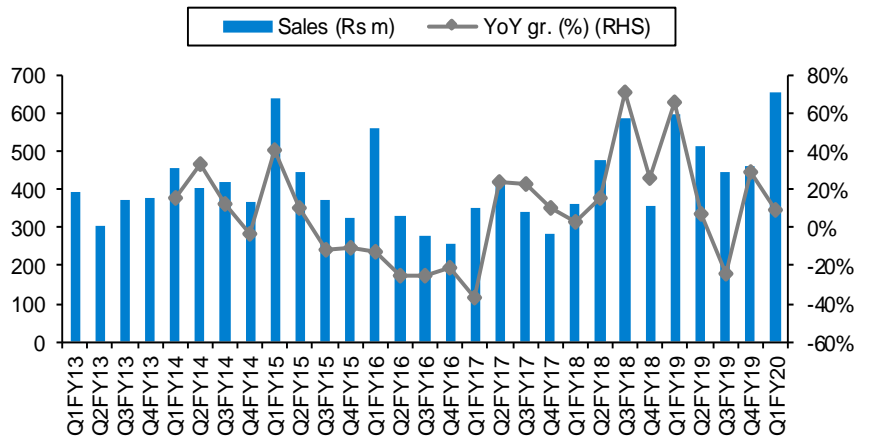
Source: Company, PL

Exhibit 5: Export formulation sales, growth



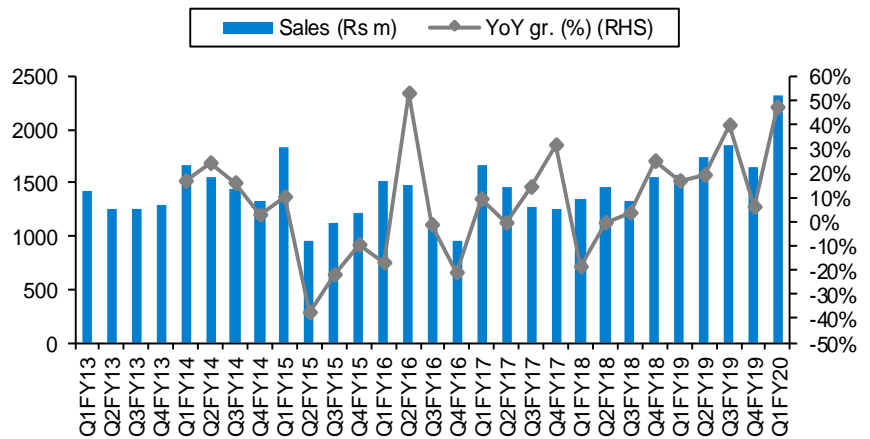
Source: Company, PL

Exhibit 6: Domestic API Sales and growth



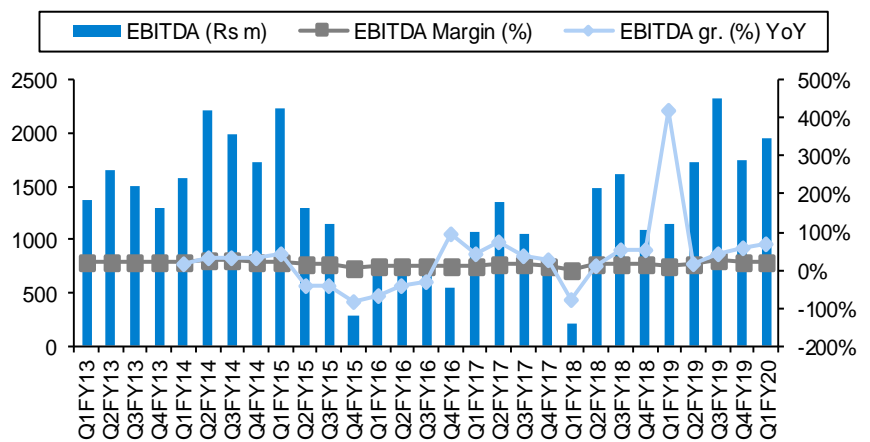
Source: Company, PL

Exhibit 7: Export API sales and growth



Source: Company, PL

Exhibit 8: EBITDA Margin



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	32,836	37,655	43,317	49,568
YoY gr. (%)	6.2	14.7	15.0	14.4
Cost of Goods Sold	11,248	12,238	13,645	15,366
Gross Profit	21,588	25,417	29,672	34,202
Margin (%)	65.7	67.5	68.5	69.0
Employee Cost	7,359	7,625	8,663	9,914
Other Expenses	997	1,130	1,300	1,487
EBITDA	4,547	6,797	8,144	9,567
YoY gr. (%)	19.7	49.5	19.8	17.5
Margin (%)	13.8	18.1	18.8	19.3
Depreciation and Amortization	1,777	1,879	1,970	2,141
EBIT	2,770	4,918	6,174	7,425
Margin (%)	8.4	13.1	14.3	15.0
Net Interest	240	174	136	74
Other Income	418	431	443	457
Profit Before Tax	2,948	5,174	6,481	7,808
Margin (%)	9.0	13.7	15.0	15.8
Total Tax	511	880	1,069	1,288
Effective tax rate (%)	17.3	17.0	16.5	16.5
Profit after tax	2,437	4,294	5,412	6,520
Minority interest	42	44	45	46
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,394	4,251	5,367	6,474
YoY gr. (%)	24.8	77.5	26.3	20.6
Margin (%)	7.3	11.3	12.4	13.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,394	4,251	5,367	6,474
YoY gr. (%)	24.9	77.5	26.3	20.6
Margin (%)	7.3	11.3	12.4	13.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,394	4,251	5,367	6,474
Equity Shares O/s (m)	126	126	126	126
EPS (Rs)	19.0	33.6	42.5	51.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	24,171	25,870	27,920	29,970
Tangibles	23,324	23,940	25,840	27,740
Intangibles	847	1,930	2,080	2,230
Acc: Dep / Amortization	5,114	6,938	9,208	11,349
Tangibles	4,788	6,475	8,114	10,056
Intangibles	326	463	1,094	1,293
Net fixed assets	19,058	18,932	18,712	18,621
Tangibles	18,536	17,465	17,726	17,684
Intangibles	522	1,467	986	937
Capital Work In Progress	730	663	597	635
Goodwill	472	472	472	472
Non-Current Investments	1,313	1,503	1,744	2,032
Net Deferred tax assets	(1,580)	(1,457)	(1,605)	(1,761)
Other Non-Current Assets	128	141	169	203
Current Assets				
Investments	694	904	922	968
Inventories	8,806	10,725	12,817	14,667
Trade receivables	6,023	6,815	8,307	9,506
Cash & Bank Balance	1,506	2,823	3,273	4,289
Other Current Assets	1,471	1,434	1,577	1,814
Total Assets	41,173	45,507	49,774	54,567
Equity				
Equity Share Capital	252	253	253	253
Other Equity	26,633	30,971	36,338	42,812
Total Networkth	26,886	31,224	36,591	43,065
Non-Current Liabilities				
Long Term borrowings	2,340	1,409	1,056	687
Provisions	259	253	303	243
Other non current liabilities	16	16	14	13
Current Liabilities				
ST Debt / Current of LT Debt	3,936	2,097	1,258	818
Trade payables	4,235	5,243	5,934	5,704
Other current liabilities	1,906	3,635	3,012	2,277
Total Equity & Liabilities	41,173	45,507	49,774	54,567

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	2,905	4,294	5,412	6,520
Add. Depreciation	1,777	1,879	1,970	2,141
Add. Interest	240	174	136	74
Less Financial Other Income	418	431	443	457
Add. Other	(136)	(1,144)	2,038	4,748
Op. profit before WC changes	4,787	5,203	9,556	13,483
Net Changes-WC	(801)	(130)	(3,740)	(4,403)
Direct tax	(575)	(1,069)	(1,883)	(1,892)
Net cash from Op. activities	3,411	4,005	3,934	7,187
Capital expenditures	(1,356)	(1,641)	(2,014)	(2,115)
Interest / Dividend Income	4	4	5	5
Others	(3)	(281)	(91)	(121)
Net Cash from Inv. activities	(1,354)	(1,918)	(2,100)	(2,231)
Issue of share cap. / premium	-	-	-	-
Debt changes	(926)	(1,282)	(1,254)	(3,875)
Dividend paid	(153)	-	-	-
Interest paid	(225)	(174)	(136)	(74)
Others	-	-	-	-
Net cash from Fin. activities	(1,304)	(1,457)	(1,389)	(3,949)
Net change in cash	753	630	444	1,008
Free Cash Flow	2,056	2,363	1,920	5,073

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	9,978	9,476	8,338	10,110
YoY gr. (%)	15.4	10.3	6.7	18.4
Raw Material Expenses	3,134	2,997	2,690	3,626
Gross Profit	6,845	6,479	5,648	6,484
Margin (%)	68.6	68.4	67.7	64.1
EBITDA	1,728	2,317	1,747	1,950
YoY gr. (%)	15.9	43.7	60.7	71.1
Margin (%)	17.3	24.5	20.9	19.3
Depreciation / Depletion	432	426	416	420
EBIT	1,296	1,891	1,331	1,530
Margin (%)	13.0	20.0	16.0	15.1
Net Interest	24	49	63	45
Other Income	138	126	146	194
Profit before Tax	1,410	1,968	1,414	1,680
Margin (%)	14.1	20.8	17.0	16.6
Total Tax	213	366	319	359
Effective tax rate (%)	15.1	18.6	22.6	21.4
Profit after Tax	1,197	1,602	1,095	1,321
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,197	1,602	1,095	1,321
YoY gr. (%)	24.1	51.7	113.4	101.5
Margin (%)	12.0	16.9	13.1	13.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,197	1,602	1,095	1,321
YoY gr. (%)	24.1	51.7	113.4	101.5
Margin (%)	12.0	16.9	13.1	13.1
Other Comprehensive Income	(23)	(12)	(43)	(9)
Total Comprehensive Income	1,175	1,590	1,052	1,312
Avg. Shares O/s (m)	126	126	126	126
EPS (Rs)	9.5	12.7	8.7	10.5

Source: Company Data, PL Research

Key Financial Metrics

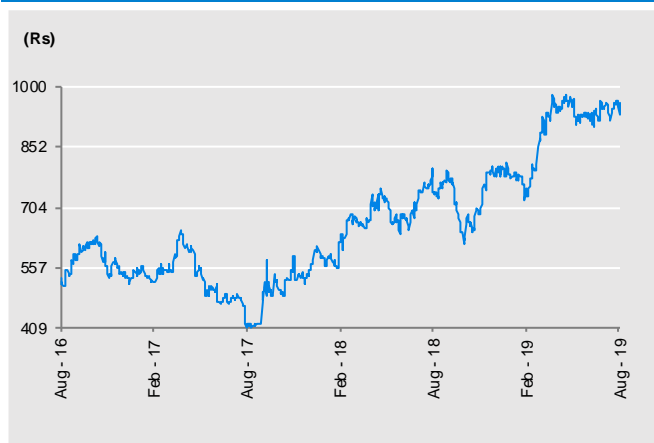
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	19.0	33.6	42.5	51.2
CEPS	33.1	48.5	58.1	68.2
BVPS	213.0	247.1	289.6	340.8
FCF	16.3	18.7	15.2	40.1
DPS	-	-	-	-
Return Ratio(%)				
RoCE	8.5	14.5	16.8	17.8
ROIC	7.6	13.5	15.8	17.0
RoE	9.3	14.6	15.8	16.3
Balance Sheet				
Net Debt : Equity (x)	0.2	0.0	(0.1)	(0.1)
Net Working Capital (Days)	118	119	128	136
Valuation(x)				
PER	49.5	27.9	22.1	18.3
P/B	4.4	3.8	3.2	2.8
P/CEPS	28.4	19.4	16.2	13.8
EV/EBITDA	27.0	17.4	14.4	12.0
EV/Sales	3.7	3.1	2.7	2.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Domestic Formulations	14,254	16,468	18,684	20,926
Domestic API	1,785	2,020	2,062	2,165
Export Formulations	9,940	10,483	14,482	17,466
Export API	5,703	6,826	7,641	8,557

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	908	949
2	5-Apr-19	BUY	921	957
3	6-Mar-19	BUY	921	873
4	13-Feb-19	BUY	921	751
5	7-Jan-19	BUY	899	784
6	15-Nov-18	BUY	829	753
7	5-Oct-18	BUY	829	642

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	715	600
2	Cadila Healthcare	Accumulate	266	232
3	Cipla	Reduce	439	518
4	Dr. Lal PathLabs	Accumulate	1,120	1,061
5	Dr. Reddy's Laboratories	Accumulate	2,997	2,648
6	Eris Lifesciences	Accumulate	459	402
7	Glenmark Pharmaceuticals	Reduce	417	423
8	Indoco Remedies	Reduce	130	149
9	Ipca Laboratories	BUY	908	949
10	Jubilant Life Sciences	Reduce	433	445
11	Lupin	Reduce	730	761
12	Sun Pharmaceutical Industries	Reduce	396	439
13	Thyrocare Technologies	BUY	595	466

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



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Surajit Pal- PGDBA, CFA, M.Com Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Surajit Pal- PGDBA, CFA, M.Com Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com | Bloomberg Research Page: PRLD <GO>