Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

February 13, 2020

Q3FY20 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	**BUY**		**ACCUMULATE**	
Target Price	**1,826**		**1,238**	
Sales (Rs. m)	51,066	57,626	50,363	57,311
% Chng.	*1.4*	*0.6*		
EBITDA (Rs. m)	11,362	13,398	9,342	10,631
% Chng.	*21.6*	*26.0*		
EPS (Rs.)	65.8	78.4	48.6	55.8
% Chng.	*35.2*	*40.3*		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	37,732	44,799	51,066	57,626
EBITDA (Rs. m)	6,919	9,542	11,362	13,398
Margin (%)	*18.3*	*21.3*	*22.3*	*23.3*
PAT (Rs. m)	4,396	6,877	8,308	9,900
EPS (Rs.)	34.8	54.4	65.8	78.4
Gr. (%)	*83.4*	*56.4*	*20.8*	*19.2*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*15.1*	*19.8*	*19.7*	*19.3*
RoCE (%)	*15.0*	*20.5*	*21.1*	*21.2*
EV/Sales (x)	4.8	4.0	3.4	2.9
EV/EBITDA (x)	26.0	18.6	15.3	12.5
PE (x)	40.9	26.1	21.6	18.2
P/BV (x)	5.8	4.7	3.9	3.2

Key Data

Key Data	IPCA.BO | IPCA IN
52-W High / Low	Rs.1,441 / Rs.740
Sensex / Nifty	41,460 / 12,175
Market Cap	Rs.180bn/ $ 2,519m
Shares Outstanding	126m
3M Avg. Daily Value	Rs.420.4m

Shareholding Pattern (%)

Promoter's	46.07
Foreign	13.99
Domestic Institution	25.93
Public & Others	14.01
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	20.0	52.3	89.4
Relative	21.2	35.8	64.6

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Ipca Laboratories (IPCA IN)

Rating: BUY | CMP: Rs1,423 | TP: Rs1,826

Robust growth across segments – Upgrade to BUY

Quick Pointers:

- India formulations outperform Industry (IPM) growth
- Guided: API to grow 15-16% in Q4FY20E.

IPCA reported strong Q3FY20 earning with Revenue, EBITDA, and PAT increasing by 20%, 15%, and 23% YoY to Rs11.4bn (PLe 11.9bn), Rs2.7 (PLe 2.7bn), and Rs1.9bn (PLe 1.9bn). Its 85% of formulations are integrated with captive APIs while only top 8-10 APIs are integrated with key ingredients. With inventory of ingredients/API till April, management guided that manufacturing of pharma chemicals need to be normalised in China by mid-March. The delay beyound mid-March will impact productions of key APIs and formulations in IPCA.

EBITDA margin guided to improve by 100-150 bps YoY in FY21E and FY22E due to the benefits of operating leverage, re-entry in UK generics, traction in branded generics and strong demand of high value APIs. We expect Global Fund business may shift some of its sales to FY21E. IPCA trades at PER of 21.6x (FY21E) and 18x (FY22E). We have increased our earnings estimate by 34% (FY21E) and 40% (FY22E) and increased our PE multiple to 23.3x(earlier 22x)due to better visibility in tender business, generic export and reduction in effective tax rate.We have upgraded the stock to 'BUY' from Accumulate with TP to Rs1826 (from Rs1238) on PE 23.3x of FY22 earnings.

Conference Call and other key highlights:

- **Formulation:** Revenue grew 19% YoY led by growth in India and export markets of 15% and 25% YoY, respectively. In exports, its branded, institutional, and generics grew 8%, 23% and 39% YoY, respectively.

- **India Formulations:** Top 10 brands contributed 55% of the domestic revenue and it grew 19% YoY. IPCA further strengthen its presence in pain management (PMS) with growth of 19% YoY in Q3FY20. Contribution from PMS is increased to 47% (vs. 45.5% in FY15) of India revenue, while other therapies like Diabetes, anti-Bacteria, Derma and Cough/cold contributed 18%, 8%, 5% and 4% of the domestic revenues and those also grew at 9%, 34%, 17% and 8% YoY. IPCA has a team of 4,600 MRs in India with productivity of Rs10 Lac/ month for rheumatoid arthritis segment (PMS) though majority of the products in the portfolio are in NLEM list.

- **Exports:** Institutional Business grew 23% YoY, while declined 22% QoQ due to weak orders from Global fund. IPCA guided revenue of Rs1,800m in FY20E and Rs2,500m in FY21E. Branded generics business grew 8% YoY and 13% QoQ, led by growth across regions (Europe, Canada, Africa, Australia and New Zealand).

- **API :** Revenue grew 24% YoY and declined 9% QoQ due to stabilization in Sartan prices. IPCA focuses on de-bottle necking of current plants of API and plan for expansion in FY22E. Capacity utilization at API unit in Ratlam was at 90%, while intermediaries plant of Aurangabad and Mahad are running at full capacity

- **Regulatory Status**: Ratlam, Silvasa and Indore Piparia continues to be under USFDA import alert. IPCA completed remediation work for Silvasa is awaiting response from the regulator.

- **Subsidiaries:** Total revenue from subsidiaries were Rs740m with Bayshore, Ramdev and Pisgah contributed Rs410m, Rs150m and Rs180m in Q3FY20.

- **Noble Explochem:** During Q3FY20, IPCA acquired Noble Explochem. The plant has been not operational since 2006 and it will take further 15-18 months to commercialize. IPCA plans to utilize the plant to produce KSM and reduce its dependence on Chinese import.

Exhibit 1: Q3FY20 Result Overview (Rs mn)

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Net Sales	**11,390**	**9,476**	***20.2***	**12,126**	**33,626**	**27,993**	***20.1***
Raw Material	3,815	2,997	*27.3*	4,097	11,538	8,908	*29.5*
% of Net Sales	*33.5*	*31.6*		*33.8*	*34.3*	*31.8*	
Personnel Cost	2,177	1,763	*23.5*	2,197	6,429	5,754	*11.7*
% of Net Sales	*19.1*	*18.6*		*18.1*	*19.1*	*20.6*	
Others	2,744	2,399	*14.4*	3,217	8,439	8,146	*3.6*
% of Net Sales	*24.1*	*25.3*		*26.5*	*25.1*	*29.1*	
Total Expenditure	8,736	7,159	*22.0*	9,510	26,406	22,808	*15.8*
EBITDA	**2,654**	**2,317**	***14.5***	**2,616**	**7,220**	**5,185**	***39.2***
Margin (%)	*23.3*	*24.5*		*21.6*	*21.5*	*18.5*	
Depreciation	461	426	*8.2*	451	1,333	1,303	*2.3*
EBIT	**2,193**	**1,891**	***16.0***	**2,165**	**5,887**	**3,882**	***51.6***
Other Income	176	126	*39.6*	143	514	400	*28.4*
Interest	38	49	*(22.9)*	41	123	122	*0.7*
PBT	**2,331**	**1,968**	***18.5***	**2,267**	**6,278**	**4,160**	***50.9***
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	365	366	*(0.3)*	307	1,031	706	*46.1*
ETR (%)	*15.7*	*18.6*		*13.5*	*16.4*	*17.0*	
Reported PAT	**1,966**	**1,602**	***22.7***	**1,960**	**5,247**	**3,454**	***51.9***
Other Comprehensive Income	-	(12)		(33)	(42)	(9)	
Total Comprehensive Income	**1,966**	**1,590**	***23.7***	**1,927**	**5,205**	**3,446**	***51.1***

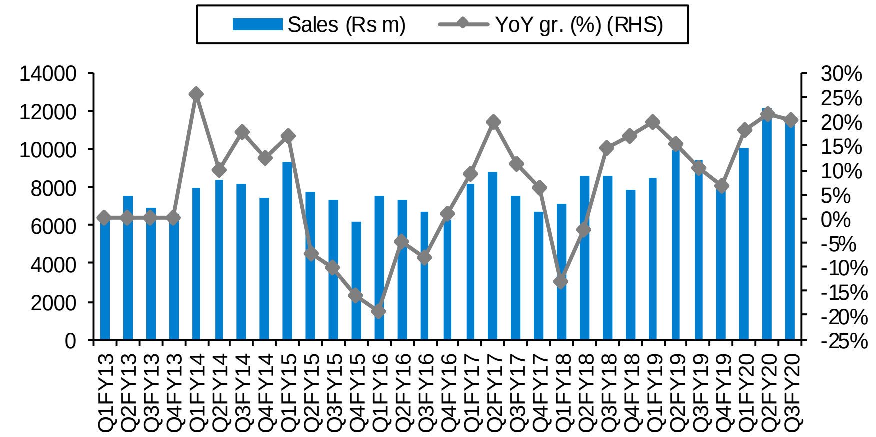
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major sources of revenues	Q3FY20	Q3FY19	*YoY gr. (%)*	Q2FY20	9MFY20	9MFY19	*YoY gr. (%)*
Domestic	**5,388**	**4,661**	***15.6***	**6,104**	**16,677**	**14,471**	***15.2%***
Formulations	4,856	4,216	*15.2*	5,432	14,817	12,911	*14.8%*
APIs	532	445	*19.5*	672	1,861	1,559	*19.3%*
Exports	**5,856**	**4,680**	***25.1***	**5,880**	**16,511**	**13,117**	***25.9%***
Formulations	3,534	2,824	*25.2*	3,408	9,391	7,946	*18.2%*
APIs	2,322	1,856	*25.1*	2,472	7,120	5,170	*37.7%*
Net Sales	**11,244**	**9,340**	***20.4***	**11,984**	**33,188**	**27,587**	***20.3%***

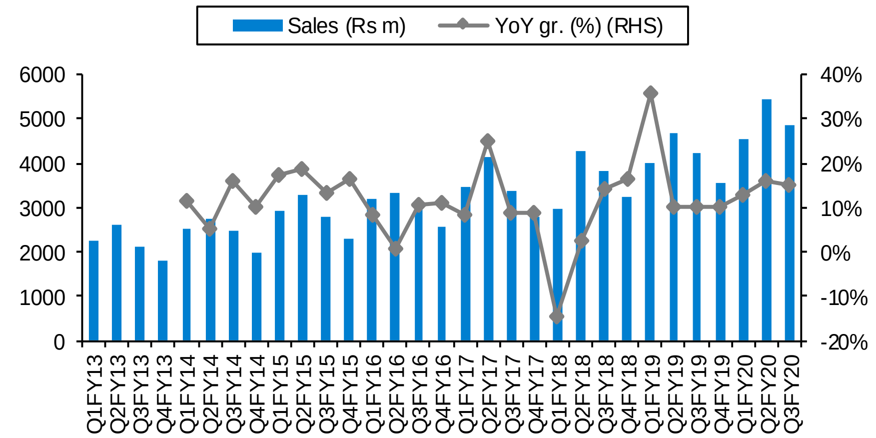
Source: Company, PL

Exhibit 3: Total Sales and growth



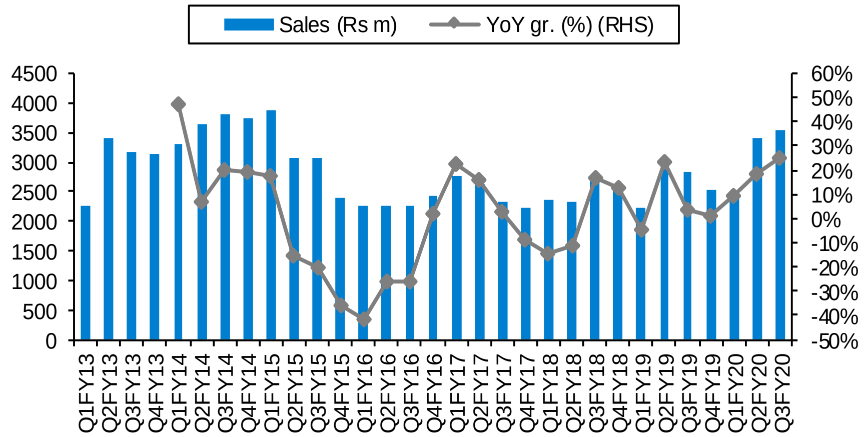
Source: Company, PL

Exhibit 4: India formulations sales, growth



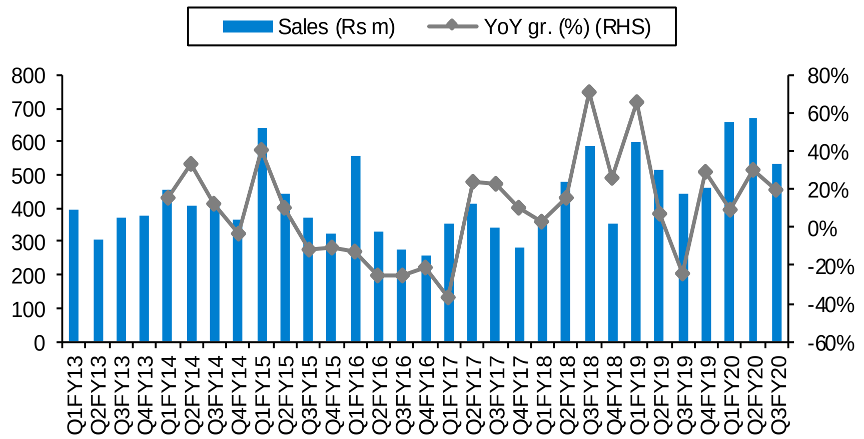
Source: Company, PL

Exhibit 5: Export formulation sales, growth



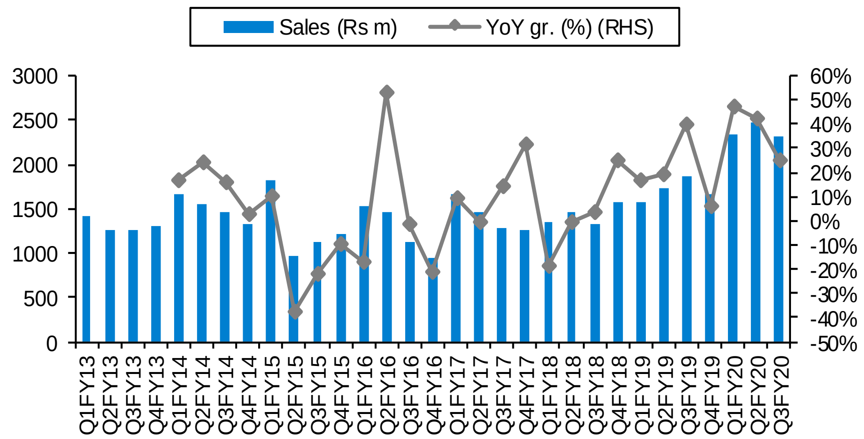
Source: Company, PL

Exhibit 6: Domestic API Sales and growth



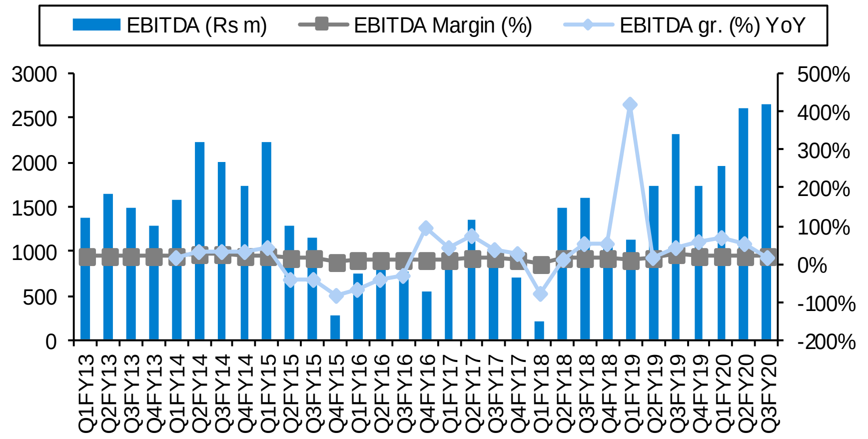
Source: Company, PL

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	FY19	FY20E	FY21E	FY22E
Net Revenues	**37,732**	**44,799**	**51,066**	**57,626**
YoY gr. (%)	*14.9*	*18.7*	*14.0*	*12.8*
Cost of Goods Sold	12,397	15,344	17,031	19,190
Gross Profit	25,334	29,456	34,036	38,437
Margin (%)	*67.1*	*65.8*	*66.7*	*66.7*
Employee Cost	7,874	8,624	9,447	10,056
Other Expenses	943	1,210	1,328	1,441
EBITDA	**6,919**	**9,542**	**11,362**	**13,398**
YoY gr. (%)	*52.2*	*37.9*	*19.1*	*17.9*
Margin (%)	*18.3*	*21.3*	*22.3*	*23.3*
Depreciation and Amortization	1,824	1,826	2,026	2,215
EBIT	**5,094**	**7,717**	**9,337**	**11,184**
Margin (%)	*13.5*	*17.2*	*18.3*	*19.4*
Net Interest	189	157	113	106
Other Income	577	681	721	765
Profit Before Tax	**5,482**	**8,240**	**9,945**	**11,843**
Margin (%)	*14.5*	*18.4*	*19.5*	*20.6*
Total Tax	1,042	1,318	1,591	1,895
Effective tax rate (%)	*19.0*	*16.0*	*16.0*	*16.0*
Profit after tax	**4,440**	**6,922**	**8,354**	**9,948**
Minority interest	44	45	46	48
Share Profit from Associate	-	-	-	-
Adjusted PAT	**4,396**	**6,877**	**8,308**	**9,900**
YoY gr. (%)	*83.6*	*56.4*	*20.8*	*19.2*
Margin (%)	*11.7*	*15.3*	*16.3*	*17.2*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**4,396**	**6,877**	**8,308**	**9,900**
YoY gr. (%)	*83.6*	*56.4*	*20.8*	*19.2*
Margin (%)	*11.7*	*15.3*	*16.3*	*17.2*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,396	6,877	8,308	9,900
Equity Shares O/s (m)	**126**	**126**	**126**	**126**
EPS (Rs)	**34.8**	**54.4**	**65.8**	**78.4**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	**25,870**	**27,920**	**29,970**	**32,020**
Tangibles	23,940	25,840	27,740	29,640
Intangibles	1,930	2,080	2,230	2,380
Acc: Dep / Amortization	**6,938**	**8,764**	**10,789**	**13,004**
Tangibles	6,475	8,139	9,986	12,004
Intangibles	463	624	803	1,000
Net fixed assets	**18,932**	**19,156**	**19,181**	**19,016**
Tangibles	17,465	17,700	17,753	17,636
Intangibles	1,467	1,456	1,427	1,380
Capital Work In Progress	663	597	635	611
Goodwill	472	472	472	472
Non-Current Investments	1,503	1,744	2,032	3,071
Net Deferred tax assets	(1,457)	(1,640)	(1,839)	(2,076)
Other Non-Current Assets	141	169	203	608
Current Assets				
Investments	904	922	968	1,452
Inventories	10,725	13,010	14,830	16,577
Trade receivables	6,815	8,837	10,493	11,841
Cash & Bank Balance	2,823	3,854	6,173	12,055
Other Current Assets	1,434	1,577	1,814	2,358
Total Assets	**45,507**	**51,522**	**58,160**	**69,949**
Equity				
Equity Share Capital	253	253	253	253
Other Equity	30,971	37,848	46,156	56,056
Total Networth	**31,224**	**38,101**	**46,408**	**56,308**
Non-Current Liabilities				
Long Term borrowings	1,409	1,056	687	652
Provisions	253	303	243	255
Other non current liabilities	16	14	13	11
Current Liabilities				
ST Debt / Current of LT Debt	2,097	1,258	818	859
Trade payables	5,243	6,137	5,876	7,105
Other current liabilities	3,635	3,012	2,277	2,683
Total Equity & Liabilities	**45,507**	**51,522**	**58,161**	**69,949**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	4,440	6,922	8,354	9,948
Add. Depreciation	1,824	1,826	2,026	2,215
Add. Interest	189	157	113	106
Less Financial Other Income	577	681	721	765
Add. Other	(1,144)	1,683	3,976	(9,629)
Op. profit before WC changes	5,309	10,587	14,468	2,639
Net Changes-WC	(130)	(4,259)	(4,861)	(2,546)
Direct tax	(1,069)	(1,883)	(1,892)	(1,892)
Net cash from Op. activities	**4,110**	**4,445**	**7,715**	**(1,799)**
Capital expenditures	(1,641)	(2,014)	(2,115)	(1,953)
Interest / Dividend Income	4	5	5	5
Others	(281)	(91)	(121)	(561)
Net Cash from Invt. activities	**(1,918)**	**(2,100)**	**(2,231)**	**(2,509)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,282)	(1,254)	(3,875)	8,616
Dividend paid	-	-	-	-
Interest paid	(189)	(157)	(113)	(106)
Others	-	-	-	-
Net cash from Fin. activities	**(1,471)**	**(1,411)**	**(3,988)**	**8,510**
Net change in cash	**721**	**934**	**1,496**	**4,202**
Free Cash Flow	2,469	2,431	5,600	(3,752)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	34.8	54.4	65.8	78.4
CEPS	49.2	68.9	81.8	95.9
BVPS	247.1	301.5	367.3	445.7
FCF	19.5	19.2	44.3	(29.7)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	15.0	20.5	21.1	21.2
ROIC	13.7	19.8	21.2	23.9
RoE	15.1	19.8	19.7	19.3
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	119	128	139	135
Valuation(x)				
PER	40.9	26.1	21.6	18.2
P/B	5.8	4.7	3.9	3.2
P/CEPS	28.9	20.7	17.4	14.8
EV/EBITDA	26.0	18.6	15.3	12.5
EV/Sales	4.8	4.0	3.4	2.9
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	**8,338**	**10,110**	**12,126**	**11,390**
YoY gr. (%)	*6.7*	*18.4*	*21.5*	*20.2*
Raw Material Expenses	2,690	3,626	4,097	3,815
Gross Profit	5,648	6,484	8,029	7,575
Margin (%)	*67.7*	*64.1*	*66.2*	*66.5*
EBITDA	**1,747**	**1,950**	**2,616**	**2,654**
YoY gr. (%)	*60.7*	*71.1*	*51.4*	*14.5*
Margin (%)	*20.9*	*19.3*	*21.6*	*23.3*
Depreciation / Depletion	416	420	451	461
EBIT	**1,331**	**1,530**	**2,165**	**2,193**
Margin (%)	*16.0*	*15.1*	*17.9*	*19.3*
Net Interest	63	45	41	38
Other Income	146	194	143	176
Profit before Tax	**1,414**	**1,680**	**2,267**	**2,331**
Margin (%)	*17.0*	*16.6*	*18.7*	*20.5*
Total Tax	319	359	307	365
Effective tax rate (%)	*22.6*	*21.4*	*13.5*	*15.7*
Profit after Tax	**1,095**	**1,321**	**1,960**	**1,966**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,095**	**1,321**	**1,960**	**1,966**
YoY gr. (%)	*113.4*	*101.5*	*63.7*	*22.7*
Margin (%)	*13.1*	*13.1*	*16.2*	*17.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,095**	**1,321**	**1,960**	**1,966**
YoY gr. (%)	*113.4*	*101.5*	*63.7*	*22.7*
Margin (%)	*13.1*	*13.1*	*16.2*	*17.3*
Other Comprehensive Income	(43)	(9)	(33)	-
Total Comprehensive Income	**1,052**	**1,312**	**1,927**	**1,966**
Avg. Shares O/s (m)	126	126	126	126
EPS (Rs)	**8.7**	**10.5**	**15.5**	**15.6**

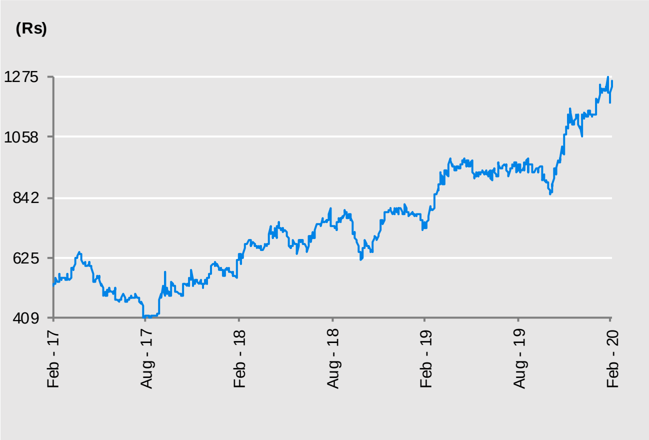
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Domestic Formulations	16,468	18,939	21,590	24,397
Domestic API	2,020	2,343	2,624	2,887
Export Formulations	10,483	12,398	14,708	16,862
Export API	6,826	9,127	10,131	11,448

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Accumulate	1,238	1,139
2	8-Nov-19	Accumulate	1,238	1,074
3	3-Oct-19	Accumulate	1,008	905
4	14-Aug-19	Accumulate	1,008	940
5	4-Jul-19	BUY	908	949
6	5-Apr-19	BUY	921	957
7	6-Mar-19	BUY	921	873

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	525	547
2	Cadila Healthcare	Hold	247	272
3	Cipla	Reduce	460	448
4	Dr. Lal PathLabs	Hold	1,797	1,741
5	Dr. Reddy's Laboratories	Accumulate	3,331	3,200
6	Eris Lifesciences	Accumulate	459	490
7	Glenmark Pharmaceuticals	Reduce	335	352
8	Indoco Remedies	Hold	198	234
9	Ipca Laboratories	Accumulate	1,238	1,139
10	Jubilant Life Sciences	Reduce	488	583
11	Lupin	Reduce	654	722
12	Sun Pharmaceutical Industries	Reduce	412	431
13	Thyrocare Technologies	BUY	724	603

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, Mr. Tausif Shaikh- BA, Major in Economics, Financial Management 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.

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