

Robust top-line growth; guided for strong FY21

IPCA's Q4FY20 numbers beat our estimates on top-line while adjusted for one-offs (impairment for US subsidiary and forex loss) margins at 20.5% came in line. Top line grew a strong 22% YoY led by: i) generic formulations (up 41% YoY), API (30% YoY); and ii) domestic formulations (21% YoY growth, while delay in shipment due to lockdown impacted branded exports to the tune of Rs260mn. HCQ supplies (both in India and exports) and higher sales from anti-malarial and anti-bacterial segments aided growth. Gross margins 65.5% were better given higher contribution from both India and generic exports.

For FY21E, management guided for 14-17% revenue growth and ~150 bps EBITDA margin expansion led by: 1) strong growth in exports (both formulations and API); 2) order visibility from global fund tender; 3) improving asset utilization (Piparia and Pithampur running at 20% capacity) and cost optimization measures.

While the company has adequate capacity at the formulations front, it is now seeking to become self-reliant on API (KSM) front, company's captive consumption is now at 55%. Its past few acquisitions have been in this direction and revenues from incremental API capacity should kick-start from FY23 onwards. We believe strong API capabilities are at the core of IPCA's diversified exports business model, which, in our view, is a major competitive advantage, given growing cost pressures in global generics. Notwithstanding the one-time opportunity of HCQ, sustained outperformance in the branded domestic formulation space coupled with enhanced opportunities in the API segment indicates that IPCA has enough headroom to be on a strong earnings trajectory over the next 3-4 years. FDA clearance should be a meaningful boost (not in our estimates till FY22) and a reason for EPS upgrades/re-rating. Maintain ACCUMULATE.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	10,738	8,796	22.1	12,129	(11.5)
Total Expense	8,540	7,151	19.4	9,410	(9.2)
EBITDA	2,197	1,645	33.5	2,719	(19.2)
Depreciation	495	448	10.7	508	(2.5)
EBIT	1,702	1,198	42.1	2,211	(23.0)
Other Income	137	153	(10.0)	181	(24.3)
Interest	37	64	(43.0)	40	(8.5)
EBT	1,146	1,286	(10.9)	2,370	(51.6)
Tax	292	317	(7.7)	369	(20.8)
RPAT	830	959	(13.4)	1,975	(58.0)
APAT	1,487	959	55.0	1,958	(24.0)
			(bps)		(bps)
Gross Margin (%)	66.0	65.1	91	65.1	99
EBITDA Margin (%)	20.5	18.7	176	22.4	(196)
NPM (%)	7.7	10.9	(317)	16.3	(855)
Tax Rate (%)	25.5	24.6	87	15.6	992
EBIT Margin (%)	15.8	13.6	223	18.2	(238)

CMP	Rs 1,563
Target / Upside	Rs 1,600 / 2%
BSE Sensex	33,479
NSE Nifty	9,881

Scrip Details

Equity / FV	Rs 253mn / Rs 2
Market Cap	Rs 198bn
	USD 3bn
52-week High/Low	Rs 1,825/Rs 845
Avg. Volume (no)	651,702
NSE Symbol	IPCALAB
Bloomberg Code	IPCA IN

Shareholding Pattern Mar'20(%)

Promoters	46.1
MF/Banks/FIs	26.6
FII's	12.6
Public / Others	14.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	33.5	26.1	21.9
EV/EBITDA	22.1	18.2	15.1
ROE (%)	17.9	19.4	19.8
RoACE (%)	15.4	17.2	18.0

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	46,487	52,671	59,745
EBITDA	8,927	10,690	12,498
PAT	5,896	7,573	9,008
EPS (Rs.)	46.7	59.9	71.3

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Valuation

We expect IPCA's revenue to sustain its growth momentum over the next 3-4 years, led by focus on improving productivity, brand building, better asset utilization and cost efficiency. This should, in turn, aid the company's overall margins and profitability. We project a 13% sales CAGR and 22% PAT CAGR over FY20–22E, wherein the EBITDA margin is expected to expand by ~180bps to 21% by FY22E. Our numbers are at the lower end of the guidance as we believe the currency fluctuation in EM and lower sales in India could impact growth. Our estimates do not factor in the USFDA resolution of the 3 sites. At the CMP, IPCA trades at 26.1x FY21E and 21.9x FY22E EPS of Rs60 and Rs71.3 respectively.

Exhibit 1: Revenue mix

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Formulations	7,134	6,093	17.1	8,391	(15.0)	31,342	26,951	16.3
Domestic	4,310	3,557	21.2	4,856	(11.3)	19,126	16,468	16.1
Exports	2,825	2,536	11.4	3,534	(20.1)	12,216	10,483	16.5
Branded formulations	767	946	(18.9)	1,130	(32.1)	3,815	3,609	5.7
Generic formulations	1,660	1,182	40.5	1,926	(13.8)	6,637	5,224	27.1
Institutional business	397	408	(2.7)	478	(17.0)	1,763	1,650	6.9
API	2,751	2,116	30.0	2,854	(3.6)	11,731	8,846	32.6
Domestic	649	460	40.9	532	22.0	2,509	2,020	24.2
Exports	2,102	1,656	27.0	2,322	(9.5)	9,222	6,826	35.1
Subsidiaries	690	458	50.6	738	(6.5)	2,813	1,400	100.9
Total Sales	10,575	8,667	22.0	11,982	(11.7)	45,886	37,197	23.4

Source: Company, DART

Conference call takeaways

Guidance:

- Guided for top-line growth of 14-17% led by generic exports, India formulations and API. Revenue of Rs2.4bn in FY21E on the back of strong visibility of procurement orders in the tender business. Despite the higher base and lower price of sartans, management remains confident of healthy double digit growth in FY21E, led by improved output post de-bottlenecking exercise.
- EBITDA margin guided at 100-150 bps increase YoY as management believes it still has scope of improvement w.r.t. plant utilization, process improvements and cost optimization at subsidiary levels.
- Remediation costs incurred at Rs160mn in FY20 and guided at Rs50mn in FY21E as the company awaits action from the US regulator.
- While Q1 is likely to be subdued for domestic formulations, IPCA guided for a decent growth in exports.
- In a bid to de-risk from China and increase in-house manufacturing of intermediates, IPCA acquired an old facility, Noble Explochem through the NCLT approval for Rs690mn based out of Nagpur. The management plans to re-modify this plant into full-fledged intermediate facility as its current plants at Aurangabad and Mahad are running at optimum capacity. It would take ~18 months to revamp and commercialize the unit.
- It has also bought a land parcel in Dewas in Q2FY20 to build a greenfield plant, up and running by FY22E. Company guided for a capex of Rs2.5bn for FY21E to be largely utilized for upgrading its API infrastructure, enhancing automation and setting up solar power plants.

India: Revenue from domestic formulations grew 21% YoY to Rs4.8bn (6% above our expectations) led by strong growth in its anti-malarial (33% for in Q4 and 7% in FY20) and anti-bacterial (40% in Q4 and 35% in FY20) portfolio which are fast-growing market segments. Top 10 products constitute 57% of sales. Anti-malaria's contribution is now lowered at 6% of India sales, while relatively newer divisions in CNS, derma and ophthalmic are growing at ~20%+ YoY. It has 7-8 products under clinical trial and would explore opportunities for in-licensing of products. IPCA spends 2.5% of sales on R&D. With most therapies in the growth phase, we expect domestic formulation to continue its growth momentum over the next 2-3 years.

Europe & UK: Generic exports grew 50% YoY as its UK partner received clean chit from the UK MHRA last quarter resulting in normalized supply. Further, IPCA has smartly increased its business in Europe (ex-UK), which offers higher margins than overall company's blended margins. This shall aid the generic segment from FY21E onwards as the European business ramps up. SA, Australia and Canada have supported the growth ably.

Tender business: Institutional tender revenues de-grew 3% YoY as the order offtake from the global tender fund is lumpy in nature and shipments were delayed. The company expects the institutional tender business to generate revenues of ~Rs2.4bn in FY21E (have injectable supply orders for the next 2 quarters).

API: IPCA continues to report strong growth in the API segment led by large orders for Valsartan, Losartan and HCQ. Company has completed Rs420mn worth HCQ order for Indian Government and export supplies of the same have been healthy for the 1st 2 months of Q1FY21E. API is now 26% of total sales and grew 35% in FY20. Despite the higher base and lower price of sartans, management remains confident of healthy double digit growth in FY21E, led by improved output post de-bottlenecking exercise. Further, given IPCA's lower dependency on China w.r.t intermediates and in-house manufacturing we expect IPCA to be relatively better placed vs. peers.

Subsidiary performance: (1) In FY20 Onyx reported a profits of Rs180mn and garners healthy EBITDA margins at 27-28%. Pisgah Labs, however, reported a loss of \$0.2mn. The company out-licenses the technology patent to a third party which lost market share resulting into lower royalty income and hence the impairment of Rs276mn in Q4 (2) Bayshore saw profits of Rs144mn against revenue of Rs1.5bn in FY20.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	37,732	46,487	52,671	59,745
Total Expense	30,813	37,560	41,981	47,247
COGS	12,397	16,441	18,570	20,743
Employees Cost	7,874	9,212	10,408	11,816
Other expenses	10,542	11,906	13,002	14,688
EBIDTA	6,919	8,927	10,690	12,498
Depreciation	1,824	2,105	2,061	2,191
EBIT	5,095	6,822	8,630	10,307
Interest	189	165	99	63
Other Income	577	670	677	686
Exc. / E.O. items	0	140	0	0
EBT	5,483	7,467	9,208	10,930
Tax	1,042	1,353	1,565	1,858
RPAT	4,422	6,036	7,573	9,008
Minority Interest	0	0	0	0
Profit/Loss share of associates	(18)	(78)	(70)	(63)
APAT	4,422	5,896	7,573	9,008

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	253	253	253	253
Minority Interest	155	256	256	256
Reserves & Surplus	30,971	35,903	41,542	49,031
Net Worth	31,224	36,155	41,794	49,284
Total Debt	3,505	4,139	3,289	2,439
Net Deferred Tax Liability	2,277	2,052	1,971	1,979
Total Capital Employed	37,162	42,602	47,311	53,958

Applications of Funds

Net Block	18,932	20,444	20,558	20,367
CWIP	1,135	1,477	1,604	1,751
Investments	441	618	773	966
Current Assets, Loans & Advances	24,980	30,040	34,609	41,252
Inventories	10,725	13,231	14,077	14,938
Receivables	6,815	8,952	9,552	9,469
Cash and Bank Balances	2,823	1,809	4,325	9,468
Loans and Advances	2,280	2,323	2,750	3,266
Other Current Assets	1,434	1,342	1,522	1,728
Less: Current Liabilities & Provisions	8,327	9,976	10,234	10,379
Payables	5,243	6,099	6,207	6,251
Other Current Liabilities	3,083	3,877	4,027	4,128
	<i>sub total</i>			
Net Current Assets	16,654	20,064	24,375	30,873
Total Assets	37,162	42,602	47,311	53,958

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	67.1	64.6	64.7	65.3
EBIDTA Margin	18.3	19.2	20.3	20.9
EBIT Margin	13.5	14.7	16.4	17.3
Tax rate	19.0	18.1	17.0	17.0
Net Profit Margin	11.7	13.0	14.4	15.1
(B) As Percentage of Net Sales (%)				
COGS	32.9	35.4	35.3	34.7
Employee	20.9	19.8	19.8	19.8
Other	27.9	25.6	24.7	24.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.0
Interest Coverage	27.0	41.3	87.5	162.5
Inventory days	104	104	98	91
Debtors days	66	70	66	58
Average Cost of Debt	4.6	4.3	2.7	2.2
Payable days	51	48	43	38
Working Capital days	161	158	169	189
FA T/O	2.0	2.3	2.6	2.9
(D) Measures of Investment				
AEPS (Rs)	35.0	46.7	59.9	71.3
CEPS (Rs)	49.4	63.3	76.2	88.6
DPS (Rs)	1.2	1.2	6.0	6.0
Dividend Payout (%)	3.4	2.6	10.0	8.4
BVPS (Rs)	247.1	286.2	330.8	390.1
RoANW (%)	15.2	17.9	19.4	19.8
RoACE (%)	13.0	15.4	17.2	18.0
RoAIC (%)	15.2	18.2	20.6	23.6
(E) Valuation Ratios				
CMP (Rs)	1563	1563	1563	1563
P/E	44.7	33.5	26.1	21.9
Mcap (Rs Mn)	197,542	197,542	197,542	197,542
MCap/ Sales	5.2	4.2	3.8	3.3
EV	197,321	197,489	194,124	188,130
EV/Sales	5.2	4.2	3.7	3.1
EV/EBITDA	28.5	22.1	18.2	15.1
P/BV	6.3	5.5	4.7	4.0
Dividend Yield (%)	0.1	0.1	0.4	0.4
(F) Growth Rate (%)				
Revenue	14.9	23.2	13.3	13.4
EBITDA	52.2	29.0	19.7	16.9
EBIT	83.9	33.9	26.5	19.4
PBT	86.0	36.2	23.3	18.7
APAT	84.7	33.3	28.4	19.0
EPS	84.7	33.3	28.4	19.0
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,722	4,315	8,203	10,325
CFI	(2,045)	(5,365)	(2,735)	(2,686)
CFF	(1,360)	36	(2,952)	(2,495)
FCFF	2,677	(1,050)	5,468	7,639
Opening Cash	1,506	2,823	1,809	4,325
Closing Cash	2,823	1,809	4,325	9,468

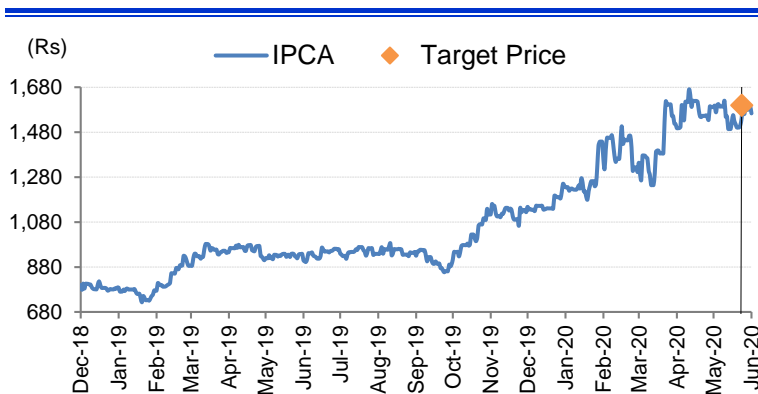
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-20	Accumulate	1,600	1,543

*Price as on recommendation date

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