

Sector: Pharmaceuticals  
Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 1,563</b>	
Price Target: <b>Rs. 1,750</b>	↔

↑ Upgrade ↔ No change ↓ Downgrade

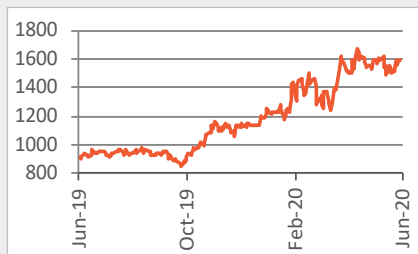
## Company details

Market cap:	Rs. 19,740 cr
52-week high/low:	Rs. 1821/844
NSE volume: (No of shares)	4.4 lakh
BSE code:	524494
NSE code:	IPCALAB
Sharekhan code:	IPCALAB
Free float: (No of shares)	6.8 cr

## Shareholding (%)

Promoters	46.1
FII	14.7
DII	25.9
Others	13.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-1.9	16.2	36.0	70.8
Relative to Sensex	-9.7	6.6	54.9	84.7

Sharekhan Research, Bloomberg

Ipca Laboratories Limited (Ipca) reported weak performance for the quarter. Revenues stood at Rs 1073.8 cr, up by 22% y-o-y. The growth in the topline was driven by a strong 17% and 30% growth in the formulations and the API segment respectively. The operating margins for the quarter contracted steeply to 15.7% attributable to higher employee costs and higher other expense. Consequently operating profit for the quarter at Rs 168.5 cr grew by a meager 2.4%. Higher depreciation charge coupled with a weak operating performance resulted in the PAT declining by 12.7% y-o-y to Rs 86 cr and missing estimates. IPCA has guided for a double-digit revenue growth for FY2021 on the back of healthy growth across both the API and formulations segments. The management has guided for a 100-150 bps margins expansion driven by favorable mix, operating leverage and stable input prices. Collectively a strong revenue growth coupled with margin expansion and reduction in remedial costs augurs well. We expect the sales and PAT to grow by 16% and 31% CAGR respectively over FY2020-2022. Strong earnings visibility amidst uncertain times augurs well for the company. IPCA's two manufacturing plants at Pithampur and Pipariya are under USFDA scrutiny. The company has submitted its responses and is awaiting a reply. Successful inspection outcome from the USFDA is critical and would be a key trigger for earnings upgrades.

## Key positives

- Sturdy revenue growth of 22% y-o-y backed by a double-digit growth across therapies.
- Lower remediation cost of Rs 3 cr for Q4FY2020. The management expects a sharp fall in the remediation costs going ahead.

## Key negatives

- Operating margins contract 300 bps despite an improvement in gross margins.

## Our Call

**Valuation – Maintain Buy with unchanged PT of Rs. 1750:** IPCA is one of the leading formulations and API player with presence across major markets around the globe. Both the segments – API and formulations have clocked double digit growth in FY2020 and traction is expected to continue going ahead. Management has guided for a 14-17% overall revenue growth for FY2021 and 100-150 bps OPM expansion driven by a favorable mix, operating leverage and stable input prices. IPCA is implementing de-bottlenecking exercise at its existing plants in the API segment to ease out capacity constraints. Over the long term, the commissioning of new facilities at Dewas would aid the revenue growth. Cumulatively a double-digit revenue growth and OPM expansion would result in a strong 31% PAT CAGR over FY2020-FY2022. Amidst the global crisis due to Covid-19, which has adversely impacted the economies, pharmaceutical companies have emerged sturdier as they offer strong visibility for earnings growth and hence have been in flavor. Given the weak performance in Q4FY2020, we have fine-tuned our estimates for FY2021/FY2022. At CMP, the stock is trading at reasonable valuation of 24.1x/19.1x its FY2021 / FY2022 EPS. Strong earnings prospects, a sturdy balance sheet and healthy return ratios augur well for IPCA. We retain our Buy recommendation on the stock with an unchanged PT of Rs 1750. Successful resolution of USFDA regulatory issues at the Pipariya and Pithampur plants is critical and could provide a further upside with potential for upgrade of earnings estimates.

## Key Risks

- Lack/delay of clearance by other drug regulators would impact the export business outlook;
- Addition of drugs in NLEM list could hurt the domestic business.

## Valuation (Consolidated)

	Rs cr				
Particulars	FY2018	FY2019	FY2020	FY2021E	FY2022E
Net sales	3,283.6	3,773.2	4,648.7	5,297.8	6,241.7
OPM (%)	13.8	18.3	19.5	21.9	22.9
PAT	239.4	442.2	603.6	818.0	1,030.3
EPS (Rs)	19.0	35.1	47.8	64.8	81.7
PER (x)	82.4	44.6	32.7	24.1	19.1
EV/Ebitda (x)	44.6	28.9	22.2	17.0	13.3
RoCE (%)	9.1	15.4	18.6	21.5	22.8
RoNW (%)	9.5	15.3	18.1	20.5	20.9

Source: Company; Sharekhan estimates

**Weak performance for the quarter:** IPCA reported weak performance for the quarter. The revenues stood at Rs 1073.8 cr, up by 22% y-o-y. The growth in the topline was driven by a strong 17% and 30% growth in the formulations and the API segment respectively. Domestic formulation revenues grew 21.2% y-o-y while that in the exports grew 11.4% y-o-y. The operating margins for the quarter contracted steeply from 18.7% in corresponding quarter to 15.7% attributable to higher employee costs and higher other expense. The gross margins however expanded by 90 bps y-o-y to 66%. Due to the cost increases the operating profit for the quarter at 168.5 cr grew by a meager 2.4%. The depreciation for the quarter was up 42.9% y-o-y to Rs 63.9cr. This coupled with a weak operating performance resulted in the PAT declining by 12.8% y-o-y to Rs 86 cr and missing estimates.

**Management guides for 14-17% growth in topline; API & Formulations to grow at a healthy pace:** IPCA is a largely formulations player with a presence in the API segment as well. For FY2020, both the segment have clocked a strong double digit growth. While the formulations segment (73% of FY20 sales) grew 16% y-o-y, the API segment (27% of API sales) clocked a strong 33% y-o-y growth. The management is confident of sustaining the double digit growth momentum in FY2021 as well. In the API segment, IPCA is confronting capacity constraints and is in the process of de-bottlenecking the existing capacities, which would drive the growth. Also IPCA is expanding the API facility at Dewas, which is expected to commence operations by FY2023. In the API segment, IPCA is focusing on products where it sees a potential for a shift to formulations, which would enable it to grow up the value chain. Currently, around 55% of the API's are captive backed, which points at un-interrupted supply. Further likely traction in the institutional business (Tender business) would drive the revenue growth. IPCA expects the revenues from the institutional business to reach around Rs 240 cr in FY2021 as against Rs 176 cr in FY2020. Given the crisis due to COVID-19, the domestic formulations business is confronting uncertainties as the prescription volumes have reduced substantially as well as the elective surgeries have also reduced. However, the top 10 brands have clocked a strong 20% growth in FY 2020. Amidst the COVID-19 led lockdown the growth in the formulations segment seems to have moderated. But with the relaxation in lock down, IPCA sees a revival in growth. The exports formulations segment too is likely to grow at a healthy pace. In addition to the traction in the API and the formulation segments, favorable currency movement would also aid the topline growth. We expect IPCA's revenues to grow at a 16% CAGR over the next 2 years.

**New Dewas facility to commence production by FY2023:** Ipca is in the midst of expanding its API facilities at Dewas, initially by setting up 3 API plants. Ipca also looks to reduce dependence on others for API and intermediaries. As of now, around 55% of its formulations business is backed by captive APIs, while a substantial portion of intermediaries are imported from China. The development of Dewas plant would require capex of Rs. 300 crore, of which the company plans to spend around Rs.50-60crore in FY2021. Ipca expects environmental clearance of the facility and plans to commence construction by end of July 2020. Also the recently acquired Nobel Exochem plant would be developed at a KSM plant over the long term. Collectively, the commissioning of Dewas plant and the Nobel facility would fuel the growth, though over the long term.

#### Q4FY2020 Conference Call Highlights:

- ♦ Top 10 brands constituting around 57% of the revenues have clocked a 20% y-o-y growth for Q4FY2020. IPCA's domestic market share has risen to 1.67% with a 19th Rank as compared to 1.58% and 21 Rank in the corresponding period.
- ♦ IPCA supplied 12 crore Hydroxychloroquine tablets to the government of India to treat the COVID-19 affected patients and reported a revenue of Rs 42 crore from the same. However the management has stated there are no new approvals coming in for the export of the drug post the emergency authorization revoked by the USFDA.
- ♦ The institutional business which comprises the tenders in the LMIC countries is expected to grow to Rs 240 cr in FY2021 from Rs 176 cr in FY2020.
- ♦ IPCA's Pithampur and Pipariya facilities have been under the USFDA scrutiny. The company has completed the remediation process as well as the submission to the regulator. A reply from the regulator is awaited.

- ♦ Remedial cost incurred for Q4FY20 stood at Rs 3 crore, and for FY2020 the number was Rs. 16 crore. Going ahead as per the management, the remedial cost is expected to fall significantly.
- ♦ For FY2021, the management has guided for a capex of Rs. 250 crore capex. Of this, Rs 50-60cr would be towards the Dewas facility, Rs 20-25 cr would be towards wind / solar power plant for captive consumption. Rs 15-20 cr would be towards automation capex.

**Results**

						Rs cr
Particulars	Q4FY2020	Q4FY2019	YoY %	Q3FY2020	QoQ %	
Net sales	1073.8	879.6	22.1	1212.9	-11.5	
Expenditure	905.3	715.03	26.6	939.2	-3.6	
Operating profit	168.5	164.6	2.4	273.7	-38.4	
Other income	13.73	15.26	-10.0	18.13	-24.3	
EBIDTA	182.2	179.8	1.3	291.8	-37.6	
Interest	3.67	6.44	-43.0	4.01	-8.5	
Depreciation	63.94	44.76	42.9	50.83	25.8	
PBT	114.6	128.6	-10.9	237.0	-51.6	
Net profit (reported)	86.0	98.6	-12.7	197.6	-56.5	
			<b>BPS</b>			<b>BPS</b>
OPM (%)	15.7	18.7	-302.2	22.6	-687.4	

Source: Company, Sharekhan Research

**Geographical Sales Break-Up – Quarterly**

						Rs cr
Particulars	Q4FY2020	Q4FY2019	YoY %	Q3FY2020	QoQ %	
Domestic	430.96	355.7	21.2	485.6	-11.3	
<b>Exports</b>	<b>282.5</b>	<b>253.6</b>	<b>11.4</b>	<b>353.4</b>	<b>-20.1</b>	
Branded Generics	76.72	94.59	-18.9	113.0	-32.1	
Institutional	39.71	40.82	-2.7	47.8	-17.0	
Generics	166.04	118.19	40.5	192.6	-13.8	
<b>Total Formulation</b>	<b>713.4</b>	<b>609.3</b>	<b>17.1</b>	<b>839.1</b>	<b>-15.0</b>	
<b>APIs</b>						
Domestic	64.88	46.04	40.9	53.2	22.0	
Exports	210.19	165.56	27.0	232.2	-9.5	
<b>Total APIs</b>	<b>275.1</b>	<b>211.6</b>	<b>30.0</b>	<b>285.4</b>	<b>-3.6</b>	
Subsidiaries	68.97	45.8	50.6	73.8	-6.5	
OOI	16.29	12.91	26.2	14.7	11.2	
<b>Total Sales</b>	<b>1073.8</b>	<b>879.6</b>	<b>22.1</b>	<b>1212.9</b>	<b>-11.5</b>	

Source: Company, Sharekhan Research, Industry Reports

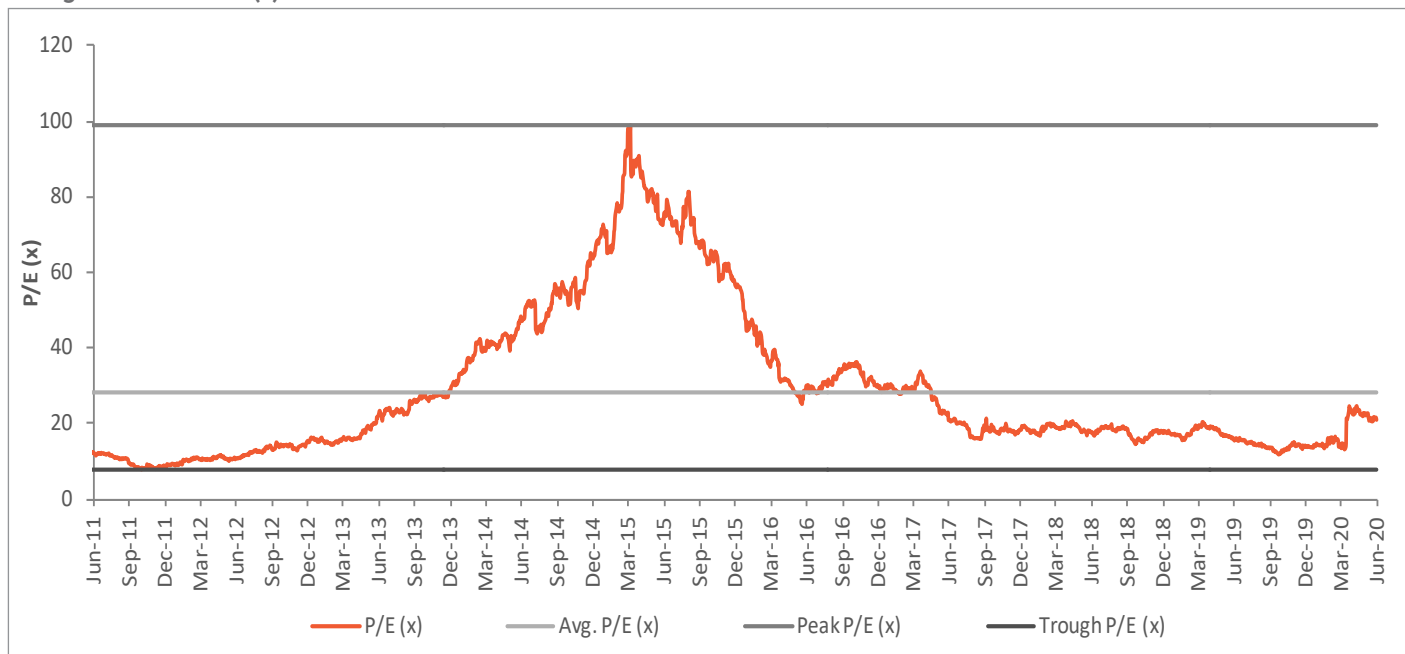
## Outlook

IPCA is a fully integrated Indian pharmaceutical company, manufacturing more than 350 formulations and 80 APIs for various therapeutic segments. In the API segment, immense growth opportunity lies ahead. The company is witnessing strong demand traction in the API segment and is implementing de-bottlenecking to ease out the capacity constraints. This would fuel the growth over the next two years, and by FY2023 the Dewas expansion would come on stream and drive the topline. The formulations business is expected to grow sturdily, albeit COVID related disruptions could moderate the near term growth, though it could normalise with the relaxation in the lock down. Despite uncertainties, the management has guided for a 14-17% revenue growth and 100 -150 bps OPM expansion in FY2021. The double-digit growth guidance provides comfort amidst uncertain times. Strong growth in the formulation business and increased opportunities in the API space and additional business from institutional segment indicates strong earnings potential for the company. The sales and PAT are expected to clock a 16% and 31% CAGR, respectively, over the next two years.

## Valuation

**Maintain Buy with unchanged PT of Rs. 1750:** IPCA is one of the leading formulations and API player with presence across major markets around the globe. Both the segments – API and formulations have clocked double digit growth in FY2020 and traction is expected to continue going ahead. Management has guided for a 14-17% overall revenue growth for FY2021 and 100-150 bps OPM expansion driven by a favorable mix, operating leverage and stable input prices. IPCA is implementing de-bottlenecking exercise at its existing plants in the API segment to ease out capacity constraints. Over the long term, the commissioning of new facilities at Dewas would aid the revenue growth. Cumulatively a double-digit revenue growth and OPM expansion would result in a strong 31% PAT CAGR over FY2020-FY2020. Amidst the global crisis due to Covid-19, which has adversely impacted the economies, pharmaceutical companies have emerged sturdier as they offer strong visibility for earnings growth and hence have been in flavor. Given the weak performance in Q4FY2020, we have fine-tuned our estimates for FY2021/FY2022. At CMP, the stock is trading at reasonable valuation of 24.1x/19.1x its FY2021 / FY2022 EPS. Strong earnings prospects, a sturdy balance sheet and healthy return ratios augur well for IPCA. We retain our Buy recommendation on the stock with an unchanged PT of Rs 1750. Successful resolution of USFDA regulatory issues at the Pipariya and Pithampur plants is critical and could provide a further upside with potential for upgrade of earnings estimates.

### One-year forward P/E (x) band



Source: Sharekhan Research

### Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
IPCA Labs	1,563	12.6	19,740	32.7	24.1	19.1	22.2	17.0	13.3	18.1	20.5	20.9
Divis Laboratories	2,300	26.5	61,052	47.2	36.6	29.0	22.2	17.0	13.3	18.1	20.5	20.9

Source: Company, Sharekhan estimates

## About company

Ipca is a fully integrated Indian pharmaceutical company, manufacturing more than 350 formulations and 80 APIs for various therapeutic segments. Ipca is a therapy leader in India for anti-malarials with a market share of over 34% with a fast-growing presence in the international market as well. The company has leading brands in five therapeutic areas, with three of its branded formulations being ranked among the top-300 Indian brands by ORG-IMS. Ipca's APIs and formulations are produced at manufacturing facilities approved by leading drug regulatory authorities, including USFDA, U.K.-Medicines and Healthcare Regulatory Agency (MHRA), South Africa-Medicines Control Council (MCC), Brazil-Brazilian National Health Vigilance Agency (ANVISA) and Australia-Therapeutic Goods Administration (TGA) with operations in more than 100 countries.

## Investment theme

Strong growth in the domestic formulation business coupled with increased opportunities in the API space and additional business from institutional segment indicates strong earnings potential over the next 2-3 years. We feel most headwinds that impacted sales and profitability of the company (except for import alert from USFDA) are now behind it. The Management is also evaluating new therapeutic areas, that would boost the overall growth for the company. Also IPCA is implementing de-bottlenecking plans for its API facilities to ease the capacity constraints. Further it is setting up new API capacities at Dewas and is looking to build the Nobel expochem plant in to a KSM plant. Collectively incremental capacities coming on stream would fuel the growth, though over the long term.

## Key Risks

1) Lack/delay of clearance by other drug regulators would impact the export business outlook; 2) Addition of drugs in NLEM list could hurt the domestic business

## Additional Data

### Key management personnel

Premchand Godha	Chairman and Managing Director
Ajit Kumar Jain	Joint Managing Director
Dr. Ashok Kumar	President - R&D (Chemical)
E. J. Babu	President - API
Dr. Goutam Muhuri	President - R&D (Formulations)
Kavita Sehwan	President – Generics
Sunil Ghai	President – Marketing
Harish Kamath	Corporate Counsel & Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chandurkar Investments Pvt Ltd	5.52
2	DSP Investment Managers Pvt Ltd	4.41
3	Paschim Chemicals Pvt Ltd	3.98
4	HDFC Asset Management Co Ltd	3.63
5	L&T Mutual Fund Trustee Ltd/India	3.26
6	Lavender Investments Ltd	2.88
7	UTI Asset Management Co Ltd	2.04
8	Axis asset Management Co Ltd	1.7
9	IDFC Mutual Fund	1.31
10	Canara Robeco Asset Management Company	1.14

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.