

June 17, 2020

## Q4FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
<b>Rating</b>	<b>BUY</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>1,839</b>		<b>1,728</b>	
Sales (Rs. m)	51,261	58,416	47,534	53,066
% Chng.	7.8	10.1		
EBITDA (Rs. m)	10,534	12,705	9,768	11,542
% Chng.	7.8	10.1		
EPS (Rs.)	57.7	71.3	55.2	66.0
% Chng.	4.6	8.0		

### Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	37,732	46,487	51,261	58,416
EBITDA (Rs. m)	6,919	9,067	10,534	12,705
Margin (%)	18.3	19.5	20.5	21.7
PAT (Rs. m)	4,396	6,036	7,287	9,005
EPS (Rs.)	34.8	47.8	57.7	71.3
Gr. (%)	83.4	37.3	20.7	23.6
DPS (Rs.)	1.0	8.0	1.0	1.0
Yield (%)	0.1	0.5	0.1	0.1
RoE (%)	15.1	18.2	18.6	18.7
RoCE (%)	15.0	18.8	19.2	20.2
EV/Sales (x)	5.2	4.2	3.8	3.3
EV/EBITDA (x)	28.5	21.8	18.4	14.9
PE (x)	44.9	32.7	27.1	21.9
P/BV (x)	6.3	5.6	4.5	3.8

### Key Data

### IPCA.BO | IPCA IN

52-W High / Low	Rs.1,825 / Rs.844
Sensex / Nifty	33,508 / 9,881
Market Cap	Rs.198bn/ \$ 2,594m
Shares Outstanding	126m
3M Avg. Daily Value	Rs.2022.92m

### Shareholding Pattern (%)

Promoter's	46.07
Foreign	12.64
Domestic Institution	26.61
Public & Others	14.68
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.8)	36.2	71.9
Relative	(8.8)	68.1	99.8

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## Strong guidance in tough environment - Upgrade to BUY

### Quick Pointers:

- Q4FY20 growth led by domestic formulation and API
- Comeback in US highly unlikely in FY21E

**IPCA held its strong guidance for FY21E with 1) Revenue growth of 14-17% 2) EBITDA margin expansion of 100-150bps and 3) domestic formulation growth of 10-12% in tough environment. We believe IPCA's Q4FY20 performance and growth visibility was far better as compared to its peers. Also, future prospects are not depended on exogenous factors (like resolution from FDA, new approval and tender win). We believe FDA's resolution in FY21E for its three plants would lead to an earnings surprise. Accordingly, we value IPCA at Rs1,839(earlier Rs1,728) on 26x PE of FY22E and upgrade to Buy (earlier Accumulate) due to marginal change in earnings estimate.**

### Strong performance by Domestic formulation and API segment in Q4FY20:

Revenue grew 21% YoY to Rs10.0bn (PLe Rs8.8bn) with domestic formulations and API business reporting strong growth of 21% and 30% YoY. EBITDA growth was 10% YoY to Rs1.92bn (PLe Rs1.56bn) and EBITDA margin was 19.2%(PLe 17.7%) versus 21% in Q4FY19. During the quarter, IPCA incurred impairment and forex loss of Rs276mn and Rs209mn. Adj to impairment loss, EBITDA margin was 22%.

### Conference Call and other key highlights:

- Domestic formulation:** Grew by 21% YoY in Q4FY20 due to growth in pain segment 26%, Anti-bacterial 40%, CNS 18%, Neuro 18% and Ophthal 29%. Domestic formulation growth for FY20 was at 16% YoY, with top 10 brands (57% of domestic revenue) growing at 10%. Guided for 11-12% growth for FY21E in tough environment when MR's continue to be off the field
- HCQ:** Q1FY21E will include the benefit of HCQ supply to US and domestic market. IPCA has supplied Rs400mn (120 tablets) worth of HCQ to various Indian govt. entities.
- Export Formulation:** Branded business declined 19% YoY due to delay in shipment of assignments for CIS, LATAM and Africa. Q1FY21E is expected to be better due to additional supply of HCQ and shipment of previous assignments.
- API:** Total API segment grew by 30% YoY with domestic/export growth of 41%/27% YoY. Guided for double digit growth in FY21E, led by de-bottlenecking of existing facilities. IPCA acquired 35-acre land at Dewas and Noble Explochem plant to expand its API business. These facilities would come on stream from 2HFY22E and FY23E. IPCA highlighted prices of Losartan and Valsartan have stabilized.

- CAPEX/R&D/Tax rate:** Guided CAPEX of Rs2500mn for FY21E of which Rs600-700mn would be utilized in development of Dewas plant. R&D was at 2.5% of sales in FY20 and guided at 3-3.5% of sales for FY21E. Tax rate would be 17% for next few years as it has Rs3000mn MAT credit.
- Regulatory Status update:** Ratlam, Silvasa and Indore Piparia continues to be under USFDA scanner even after partial ban lifted to supply HCQ. IPCA completed remediation work and is waiting for a response from the regulator. Remediation cost was Rs160mn and Rs30mn for FY20 and Q4FY20 respectively. IPCA stated it would not incur incremental remediation cost in FY21E.
- Working Capital:** Inventory/Receivables days were 107/71 in FY20 versus 104/64 in FY19. Inventory days was stretched due to high captive utilization level (55%) while receivables have been extended due to global lockdown.

**Exhibit 1: Q4FY20 Result Overview (Rs mn)**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
<b>Net Sales</b>	<b>10,048</b>	<b>8,338</b>	<b>20.5</b>	<b>11,390</b>	<b>43,674</b>	<b>36,332</b>	<b>20.2</b>
Raw Material	3,269	2,690	21.6	3,815	14,807	11,598	27.7
<i>% of Net Sales</i>	<i>32.5</i>	<i>32.3</i>		<i>33.5</i>	<i>33.9</i>	<i>31.9</i>	
Personnel Cost	2,279	1,768	28.9	2,177	8,708	7,522	15.8
<i>% of Net Sales</i>	<i>22.7</i>	<i>21.2</i>		<i>19.1</i>	<i>19.9</i>	<i>20.7</i>	
Others	2,573	2,134	20.6	2,744	11,012	10,280	7.1
<i>% of Net Sales</i>	<i>25.6</i>	<i>25.6</i>		<i>24.1</i>	<i>25.2</i>	<i>28.3</i>	
Total Expenditure	8,121	6,591	23.2	8,736	34,527	29,400	17.4
<b>EBITDA</b>	<b>1,927</b>	<b>1,747</b>	<b>10.3</b>	<b>2,654</b>	<b>9,147</b>	<b>6,932</b>	<b>32.0</b>
<i>Margin (%)</i>	<i>19.2</i>	<i>20.9</i>		<i>23.3</i>	<i>20.9</i>	<i>19.1</i>	
Depreciation	454	416	9.1	461	1,786	1,719	3.9
<b>EBIT</b>	<b>1,473</b>	<b>1,331</b>	<b>10.7</b>	<b>2,193</b>	<b>7,361</b>	<b>5,213</b>	<b>41.2</b>
Other Income	133	146	(8.8)	176	647	546	18.5
Interest	35	63	(44.5)	38	158	185	(14.6)
<b>PBT</b>	<b>1,572</b>	<b>1,414</b>	<b>11.2</b>	<b>2,331</b>	<b>7,850</b>	<b>5,574</b>	<b>40.8</b>
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	294	319	(7.9)	365	1,325	1,025	29.3
<i>ETR (%)</i>	<i>18.7</i>	<i>22.6</i>		<i>15.7</i>	<i>16.9</i>	<i>18.4</i>	
<b>Reported PAT</b>	<b>1,278</b>	<b>1,095</b>	<b>16.7</b>	<b>1,966</b>	<b>6,524</b>	<b>4,549</b>	<b>43.4</b>
Other Comprehensive Income	(33)	(43)		-	(75)	(51)	
<b>Total Comprehensive Income</b>	<b>1,244</b>	<b>1,052</b>	<b>18.3</b>	<b>1,966</b>	<b>6,450</b>	<b>4,498</b>	<b>43.4</b>

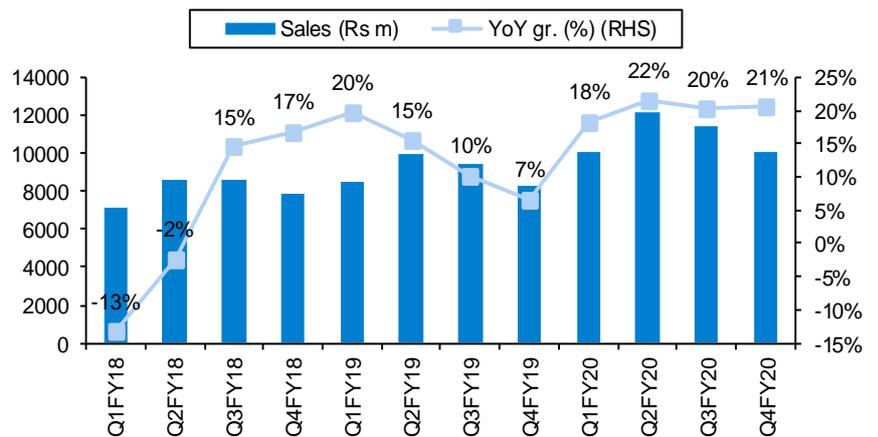
Source: Company, PL

**Exhibit 2: Major Sources of Revenue**

Major sources of revenues	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
<b>Domestic</b>	<b>4,958</b>	<b>4,017</b>	<b>23.4</b>	<b>5,388</b>	<b>21,635</b>	<b>18,488</b>	<b>17.0%</b>
Formulations	4,310	3,557	21.2	4,856	19,126	16,468	16.1%
APIs	649	460	40.9	532	2,509	2,020	24.2%
<b>Exports</b>	<b>4,927</b>	<b>4,192</b>	<b>17.5</b>	<b>5,856</b>	<b>21,438</b>	<b>17,308</b>	<b>23.9%</b>
Formulations	2,825	2,536	11.4	3,534	12,216	10,482	16.5%
APIs	2,102	1,656	27.0	2,322	9,222	6,826	35.1%
<b>Net Sales</b>	<b>9,885</b>	<b>8,209</b>	<b>20.4</b>	<b>11,244</b>	<b>43,073</b>	<b>35,796</b>	<b>20.3%</b>

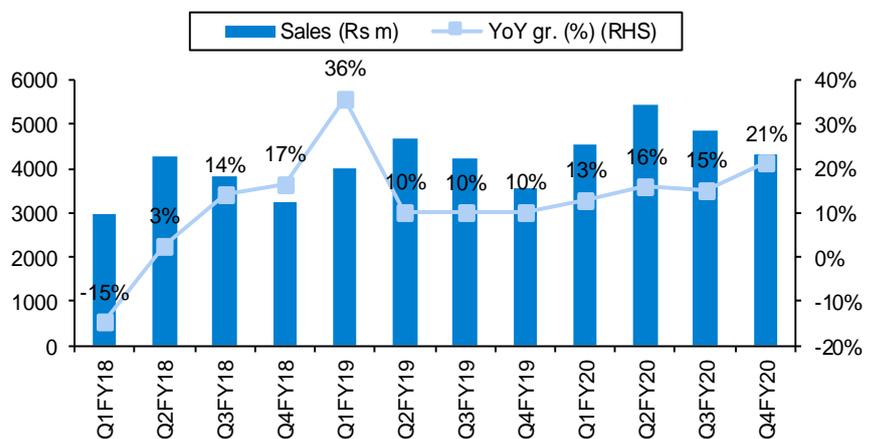
Source: Company, PL

**Exhibit 3: Total Sales (Rs mn) and YoY Gr (%)**



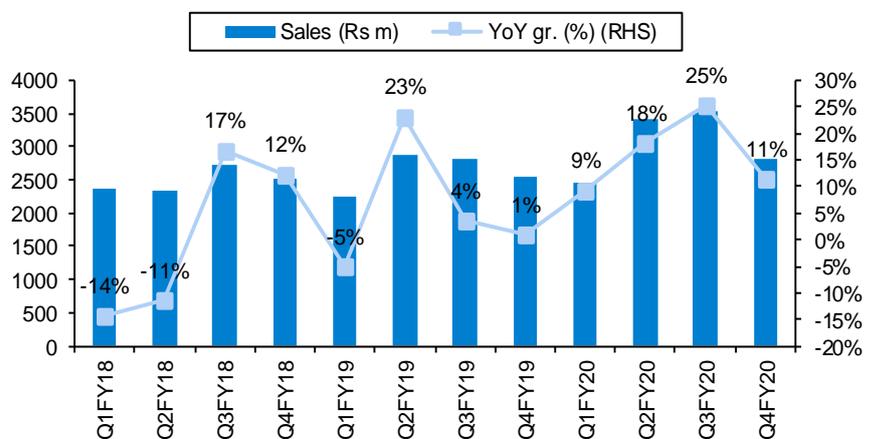
Source: Company, PL

**Exhibit 4: India Formulation (Rs mn) and YOY Gr (%)**



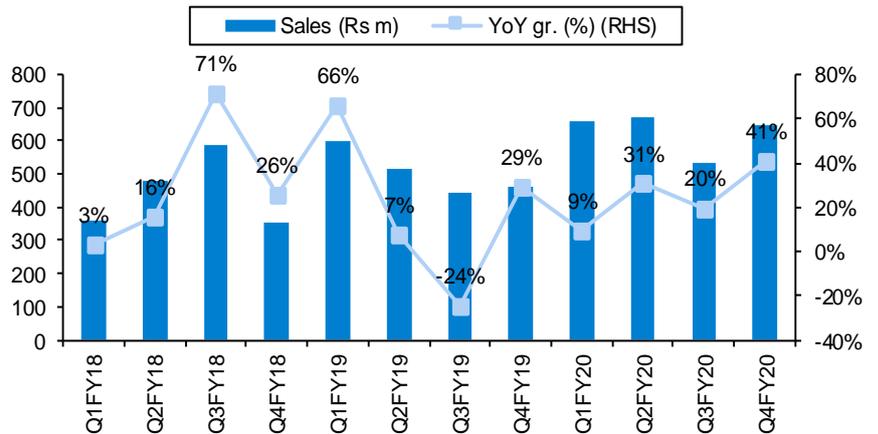
Source: Company, PL

**Exhibit 5: Export Formulation (Rs mn) and YoY Gr (%)**



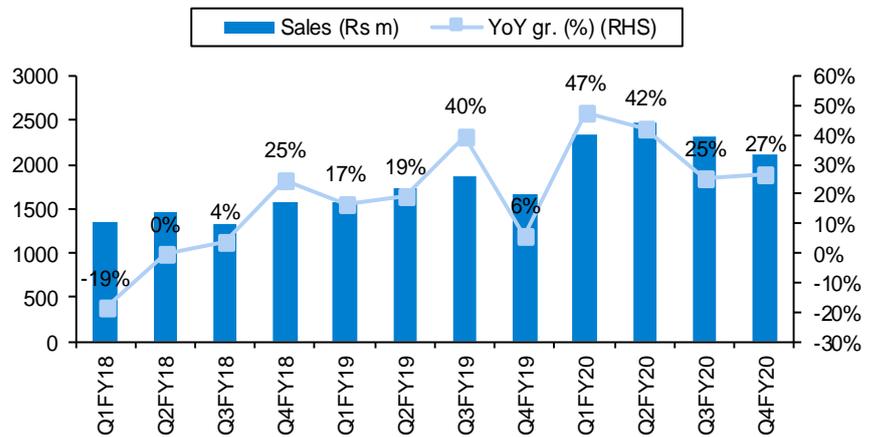
Source: Company, PL

**Exhibit 6: Domestic API (Rs mn) and YoY Gr (%)**



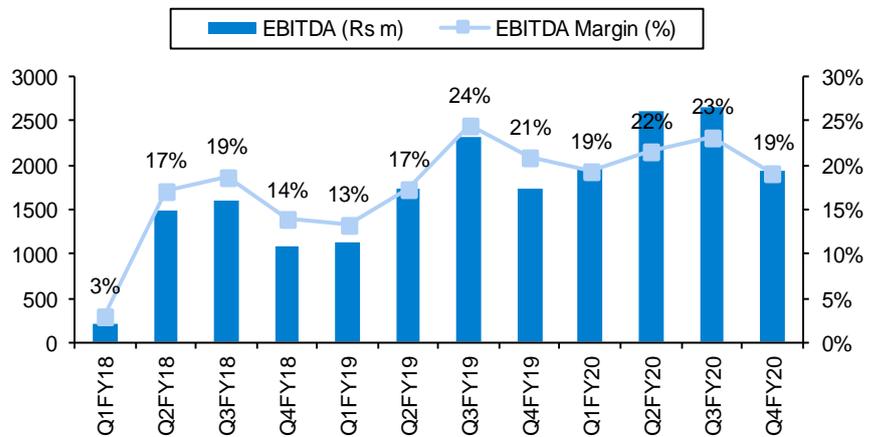
Source: Company, PL

**Exhibit 7: API Export and YoY Gr (%)**



Source: Company, PL

**Exhibit 8: EBITDA (Rs mn) % EBITDA Margin (%)**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>37,732</b>	<b>46,487</b>	<b>51,261</b>	<b>58,416</b>
YoY gr. (%)	14.9	23.2	10.3	14.0
Cost of Goods Sold	12,397	16,441	17,403	20,037
Gross Profit	25,334	30,046	33,858	38,379
Margin (%)	67.1	64.6	66.0	65.7
Employee Cost	7,874	9,212	9,483	10,194
Other Expenses	943	1,255	1,538	1,752
<b>EBITDA</b>	<b>6,919</b>	<b>9,067</b>	<b>10,534</b>	<b>12,705</b>
YoY gr. (%)	52.2	31.1	16.2	20.6
Margin (%)	18.3	19.5	20.5	21.7
Depreciation and Amortization	1,824	2,105	2,323	2,550
<b>EBIT</b>	<b>5,094</b>	<b>6,962</b>	<b>8,211</b>	<b>10,155</b>
Margin (%)	13.5	15.0	16.0	17.4
Net Interest	189	165	150	89
Other Income	577	670	710	753
<b>Profit Before Tax</b>	<b>5,482</b>	<b>7,467</b>	<b>8,771</b>	<b>10,819</b>
Margin (%)	14.5	16.1	17.1	18.5
Total Tax	1,042	1,353	1,403	1,731
Effective tax rate (%)	19.0	18.1	16.0	16.0
<b>Profit after tax</b>	<b>4,440</b>	<b>6,114</b>	<b>7,367</b>	<b>9,088</b>
Minority interest	44	78	80	83
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,396</b>	<b>6,036</b>	<b>7,287</b>	<b>9,005</b>
YoY gr. (%)	83.6	37.3	20.7	23.6
Margin (%)	11.7	13.0	14.2	15.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,396</b>	<b>6,036</b>	<b>7,287</b>	<b>9,005</b>
YoY gr. (%)	83.6	37.3	20.7	23.6
Margin (%)	11.7	13.0	14.2	15.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,396	6,036	7,287	9,005
<b>Equity Shares O/s (m)</b>	<b>126</b>	<b>126</b>	<b>126</b>	<b>126</b>
<b>EPS (Rs)</b>	<b>34.8</b>	<b>47.8</b>	<b>57.7</b>	<b>71.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>25,870</b>	<b>27,920</b>	<b>29,970</b>	<b>32,020</b>
Tangibles	23,940	25,840	27,740	29,640
Intangibles	1,930	2,080	2,230	2,380
<b>Acc: Dep / Amortization</b>	<b>6,938</b>	<b>9,043</b>	<b>11,366</b>	<b>13,917</b>
Tangibles	6,475	8,398	10,541	12,893
Intangibles	463	645	825	1,023
<b>Net fixed assets</b>	<b>18,932</b>	<b>18,877</b>	<b>18,604</b>	<b>18,103</b>
Tangibles	17,465	17,442	17,199	16,746
Intangibles	1,467	1,435	1,405	1,357
Capital Work In Progress	663	852	979	806
Goodwill	472	624	624	624
Non-Current Investments	1,503	2,081	2,302	3,332
Net Deferred tax assets	(1,457)	(1,398)	(1,594)	(1,810)
Other Non-Current Assets	141	282	338	1,014
<b>Current Assets</b>				
Investments	904	2,383	2,502	3,752
Inventories	10,725	13,231	14,887	17,125
Trade receivables	6,815	8,952	10,112	11,683
Cash & Bank Balance	2,823	1,809	4,360	5,705
Other Current Assets	1,434	1,342	1,544	2,161
<b>Total Assets</b>	<b>45,507</b>	<b>51,293</b>	<b>57,215</b>	<b>65,731</b>
<b>Equity</b>				
Equity Share Capital	253	253	253	253
Other Equity	30,971	36,022	43,309	52,314
<b>Total Networkth</b>	<b>31,224</b>	<b>34,970</b>	<b>43,562</b>	<b>52,567</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,409	1,030	669	435
Provisions	253	322	258	271
Other non current liabilities	16	23	20	18
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	2,097	3,168	2,059	1,339
Trade payables	5,243	6,099	5,899	6,402
Other current liabilities	3,635	3,998	3,024	2,759
<b>Total Equity &amp; Liabilities</b>	<b>45,507</b>	<b>51,293</b>	<b>57,215</b>	<b>65,731</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	4,440	6,114	7,367	9,088
Add. Depreciation	1,824	2,105	2,323	2,550
Add. Interest	189	165	150	89
Less Financial Other Income	577	670	710	753
Add. Other	(1,144)	1,683	2,913	(9,054)
Op. profit before WC changes	5,309	10,066	12,754	2,673
Net Changes-WC	(130)	(2,987)	(4,303)	(4,656)
Direct tax	(1,069)	(1,883)	(1,892)	(1,892)
<b>Net cash from Op. activities</b>	<b>4,110</b>	<b>5,197</b>	<b>6,559</b>	<b>(3,875)</b>
Capital expenditures	(1,641)	(2,397)	(2,192)	(1,838)
Interest / Dividend Income	4	5	5	5
Others	(281)	(1,551)	(194)	(1,328)
<b>Net Cash from Inv. activities</b>	<b>(1,918)</b>	<b>(3,944)</b>	<b>(2,381)</b>	<b>(3,160)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,282)	(1,254)	(3,875)	8,175
Dividend paid	-	-	-	-
Interest paid	(189)	(165)	(150)	(89)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,471)</b>	<b>(1,419)</b>	<b>(4,025)</b>	<b>8,087</b>
<b>Net change in cash</b>	<b>721</b>	<b>(165)</b>	<b>153</b>	<b>1,051</b>
Free Cash Flow	2,469	2,800	4,367	(5,713)

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>10,110</b>	<b>12,126</b>	<b>11,390</b>	<b>10,048</b>
YoY gr. (%)	18.4	21.5	20.2	20.5
Raw Material Expenses	3,626	4,097	3,815	3,269
Gross Profit	6,484	8,029	7,575	6,779
Margin (%)	64.1	66.2	66.5	67.5
<b>EBITDA</b>	<b>1,950</b>	<b>2,616</b>	<b>2,654</b>	<b>1,927</b>
YoY gr. (%)	71.1	51.4	14.5	10.3
Margin (%)	19.3	21.6	23.3	19.2
Depreciation / Depletion	420	451	461	454
<b>EBIT</b>	<b>1,530</b>	<b>2,165</b>	<b>2,193</b>	<b>1,473</b>
Margin (%)	15.1	17.9	19.3	14.7
Net Interest	45	41	38	35
Other Income	194	143	176	133
<b>Profit before Tax</b>	<b>1,680</b>	<b>2,267</b>	<b>2,331</b>	<b>1,572</b>
Margin (%)	16.6	18.7	20.5	15.6
Total Tax	359	307	365	294
Effective tax rate (%)	21.4	13.5	15.7	18.7
<b>Profit after Tax</b>	<b>1,321</b>	<b>1,960</b>	<b>1,966</b>	<b>1,278</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,321</b>	<b>1,960</b>	<b>1,966</b>	<b>1,278</b>
YoY gr. (%)	101.5	63.7	22.7	16.7
Margin (%)	13.1	16.2	17.3	12.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,321</b>	<b>1,960</b>	<b>1,966</b>	<b>1,278</b>
YoY gr. (%)	101.5	63.7	22.7	16.7
Margin (%)	13.1	16.2	17.3	12.7
Other Comprehensive Income	(9)	(33)	-	(33)
<b>Total Comprehensive Income</b>	<b>1,312</b>	<b>1,927</b>	<b>1,966</b>	<b>1,244</b>
Avg. Shares O/s (m)	126	126	126	126
<b>EPS (Rs)</b>	<b>10.5</b>	<b>15.5</b>	<b>15.6</b>	<b>10.1</b>

Source: Company Data, PL Research

**Key Financial Metrics**

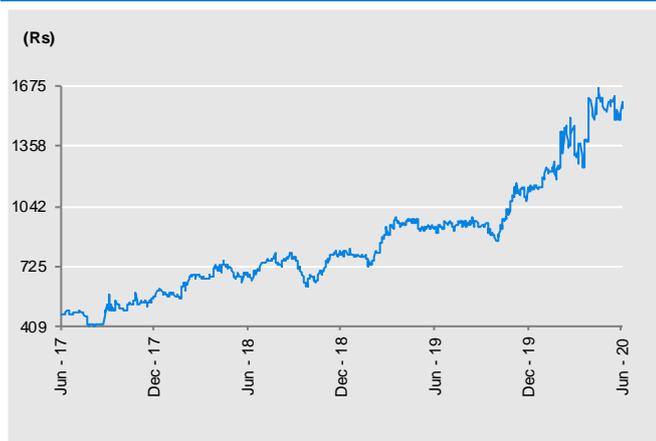
Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	34.8	47.8	57.7	71.3
CEPS	49.2	64.4	76.1	91.5
BVPS	247.1	276.8	344.8	416.0
FCF	19.5	22.2	34.6	(45.2)
DPS	1.0	8.0	1.0	1.0
<b>Return Ratio(%)</b>				
RoCE	15.0	18.8	19.2	20.2
ROIC	13.7	17.4	19.2	20.9
RoE	15.1	18.2	18.6	18.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	-	(0.1)	(0.1)
Net Working Capital (Days)	119	126	136	140
<b>Valuation(x)</b>				
PER	44.9	32.7	27.1	21.9
P/B	6.3	5.6	4.5	3.8
P/CEPS	31.8	24.3	20.6	17.1
EV/EBITDA	28.5	21.8	18.4	14.9
EV/Sales	5.2	4.2	3.8	3.3
Dividend Yield (%)	0.1	0.5	0.1	0.1

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY19	FY20	FY21E	FY22E
Domestic Formulations	16,468	19,126	21,039	23,563
Domestic API	2,020	2,509	2,810	3,035
Export Formulations	10,483	12,215	14,976	17,653
Export API	6,826	9,222	10,423	12,131

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-May-20	Accumulate	1,728	1,619
2	18-Apr-20	Accumulate	1,728	1,498
3	14-Apr-20	Accumulate	1,826	1,603
4	2-Mar-20	BUY	1,826	1,361
5	13-Feb-20	BUY	1,826	1,423
6	3-Jan-20	Accumulate	1,238	1,139
7	8-Nov-19	Accumulate	1,238	1,074
8	3-Oct-19	Accumulate	1,008	905
9	14-Aug-19	Accumulate	1,008	940
10	4-Jul-19	BUY	908	949

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	759
2	Cadila Healthcare	Sell	263	324
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,326	3,915
6	Eris Lifesciences	Accumulate	576	520
7	Glenmark Pharmaceuticals	Sell	257	314
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	Accumulate	1,728	1,619
10	Jubilant Life Sciences	Hold	414	445
11	Lupin	BUY	1,001	870
12	Sun Pharmaceutical Industries	Hold	467	450
13	Thyrocare Technologies	Sell	307	503

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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