IPCA Loboratories

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Result Update

Strong growth –even ex-HCQ, bullish guidance

IPCA's Q1FY21 numbers beat our estimates across all fronts led by one-time Rs2.6bn revenue from HCQ supplies (both in India and exports). Even excluding HCQ, growth was strong at 18% YoY with EBITDA margins of 25%. For FY21E, management has revised its guidance upwards to 18-20% revenue growth and EBITDA margin at ~23% 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 further EPS upgrades/re-rating.

We project a 16% sales CAGR and 33% PAT CAGR over FY20–22E, wherein the EBITDA margin is expected to expand by ~400bps to 23.5% by FY22E. Factoring in strong Q1 and guidance revision, we upgrade our FY21/22 estimates by 30%/18%. Based on the growth outlook, we estimate significant strengthening of IPCA's balance sheet and expect the company to have ~Rs13bn net cash by FY22. This will provide IPCA with significant financial capacity to step-up growth investments if the opportunities arise. Also, we estimate the return ratios will improve to 20%+. Maintain ACCUMULATE.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	12,754	10,782	18.3	10,738	18.8
Total Expense	9,521	8,886	7.1	8,540	11.5
EBITDA	3,233	1,896	70.5	2,197	47.2
Depreciation	510	461	10.7	495	3.0
EBIT	2,723	1,435	89.8	1,702	60.0
Other Income	121	203	(40.6)	137	(11.9)
Interest	27	46	(40.3)	37	(25.3)
EBT	2,876	1,684	70.8	1,146	151.0
Tax	999	374	167.4	292	242.1
RPAT	1,867	1,294	44.2	830	124.8
APAT	1,807	1,203	50.2	1,487	21.5
			(bps)		(bps)
Gross Margin (%)	66.2	62.3	381	66.0	11
EBITDA Margin (%)	25.4	17.6	777	20.5	489
NPM (%)	14.6	12.0	263	7.7	690
Tax Rate (%)	34.7	22.2	1254	25.5	924
EBIT Margin (%)	21.4	13.3	804	15.8	550

CMP	Rs 2,006
Target / Downside	Rs 2,106 / 5%
BSE Sensex	38,423
NSE Nifty	11,323

Scrip Details

Equity / FV	Rs 253mn / Rs 2
Market Cap	Rs 253bn
	US$ 3bn
52-week High/Low	Rs 2,175/Rs 845
Avg. Volume (no)	382,200
NSE Symbol	IPCALAB
Bloomberg Code	IPCA IN

Shareholding Pattern Jun'20(%)

Promoters	46.1
MF/Banks/FIs	26.6
FIIs	12.6
Public / Others	14.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	43.0	25.8	23.8
EV/EBITDA	28.4	18.5	16.6
ROE (%)	17.9	24.5	21.9
RoACE (%)	15.4	21.7	20.1

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	46,487	55,011	62,492
EBITDA	8,927	13,415	14,477
PAT	5,896	9,820	10,643
EPS (Rs.)	46.7	77.7	84.2

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DOLAT CAPITAL

Q1FY21 Result Snapshot: Top line grew a strong 42% YoY led by: i) generic formulations (up 94% YoY), API (72% YoY); and ii) domestic formulations (8% YoY growth). Branded exports had a spill-over of Rs260mn from 4Q. Gross margins 72% (normal run-rate of 65%) were better given higher contribution from HCQ (incremental sales had ~80% gross margins). Led by strong top-line and lower opex, EBITDA margins swelled to 38%. Assuming ~65-70% EBITDA contribution from HCQ, core business margins at Rs3.5bn were still strong at 25%.

Exhibit 1: Revenue mix

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Formulations	**9,531**	**6,976**	**36.6**	**7,134**	**33.6**	**31,342**	**26,951**	**16.3**
Domestic	4,894	4,528	8.1	4,310	**13.6**	19,126	16,468	16.1
Exports	4,636	2,448	89.4	2,825	**64.1**	12,216	10,483	16.5
Branded formulations	1,335	916	45.7	767	**74.0**	3,815	3,609	5.7
Generic formulations	2,415	1,259	91.8	1,660	**45.4**	6,637	5,224	27.1
Institutional business	887	273	224.6	397	**123.3**	1,763	1,650	6.9
API	**5,133**	**2,983**	**72.1**	**2,751**	**86.6**	**11,731**	**8,846**	**32.6**
Domestic	2,030	657	209.0	649	**212.9**	2,509	2,020	24.2
Exports	3,103	2,326	33.4	2,102	**47.6**	9,222	6,826	35.1
Subsidiaries	**490**	**672**	**(27.0)**	**690**	**(28.9)**	**2,813**	**1,400**	**100.9**
Total Sales	**15,154**	**10,631**	**42.5**	**10,575**	**43.3**	**45,886**	**37,197**	**23.4**

Source: Company, DART

Conference call takeaways:

Guidance:

- Guided for top-line growth of 18-20% led by higher HCQS contribution in Q1, revival in India and traction in generic exports (UK/Europe). Tender business guided at Rs2.4bn in FY21E. Q2 is also likely to see benefits of lower costs though HCQ benefit is largely done with. Management remains confident of healthy double digit growth in FY21E, led by improved output post de-bottlenecking exercise.
- EBITDA margin guided to improve YoY as management believes it still has scope of improvement w.r.t. plant utilization, process improvements and cost optimization at subsidiary levels.
- 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 (received environmental clearance in Q1FY21), expected to be 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 8% YoY in-line with our expectations led by government orders for HCQS. Chronic divisions in CNS, derma and ophthalmic have de-grown in Q1. Ex-HCQS, growth was 2%. It does not expect significant opportunities from COVID from Q2 onwards.

US: The USFDA had partially lifted the ban on two plants for IPCA to ship HCQS and chloroquine phosphate APIs to the US; company has booked ~Rs210m revenues on the same in Q1. The ban has since been reinstated. IPCA continue to wait for clearance on its plants (Piparia and Indore SEZ) under import alert. We believe this will now happen beyond 2HFY22E. Currently these plants are running at ~20% capacity and IPCA continues to book losses to the tune of Rs600mn p.a. on them. IPCA has ~20 ANDAs filed from Indore and this remains a critical facility.

Subsidiary – a proxy to the US: In a bid to start its front end in the US, IPCA acquired 80% stake in Bayshore Pharma for US$10mn last year. Bayshore saw profits of Rs144mn against revenue of Rs1.5bn in FY20. Management guided for US$20mn revenue from Bayshore in FY20. Further, Bayshore can also be used to manufacture API if Indore SEZ does not get clearance soon.

IPCA also acquired Pisgah Labs in the US, in Jan 2018, which reported a loss of $0.2mn in FY20. It expects to turn profitable in FY21. The company is in the process of transferring technology to file 2 DMFs from Pisgah.

R&D: IPCA currently spends ~2.5% on R&D and has guided this to increase to 3.5-4% over the next 2-3 years. IPCA has 47 ANDA filings with 28 ANDAs pending approval. The company currently has 20 products under development. As most of the company's formulations are backward integrated, it expects to be fairly competitive in these ANDAs. It has already started to dissolve its partnership based contracts (had ~18 products) inorder to start its own front-end in the US.

Ex-US generic exports: IPCA has smartly increased its business in Europe (ex-UK), which offers higher margins than overall company's blended margins. The issue with the distributor (receivables) has now been resolved. Going forward, company plans to start its own front end in Europe. 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 grew 2.3x YoY as the order offtake from the global tender fund is lumpy in nature. The company expects the institutional tender business to generate revenues of ~Rs2.4bn in FY21E (have injectable supply orders for the next 2 quarters). Further, IPCA has received approval for dispersible tablets of Arthemether Lumefantrine and expects to monetize this in FY22E.

API: IPCA continues to report strong growth in the API segment led by large orders for Valsartan, Losartan and HCQ. 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 20% growth in FY21E, led by improved output post de-bottlenecking exercise as its plants are running at full capacity. 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.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**37,732**	**46,487**	**55,011**	**62,492**
Total Expense	**30,813**	**37,560**	**41,597**	**48,015**
COGS	12,397	16,441	17,342	20,702
Employees Cost	7,874	9,212	10,060	11,129
Other expenses	10,542	11,906	14,194	16,185
EBIDTA	**6,919**	**8,927**	**13,415**	**14,477**
Depreciation	1,824	2,105	2,061	2,191
EBIT	**5,095**	**6,822**	**11,354**	**12,285**
Interest	189	165	115	73
Other Income	577	670	677	686
Exc. / E.O. items	0	140	0	0
EBT	**5,483**	**7,467**	**11,916**	**12,899**
Tax	1,042	1,353	2,026	2,193
RPAT	4,422	6,036	9,820	10,643
Minority Interest	0	0	0	0
Profit/Loss share of associates	**(18)**	**(78)**	**(70)**	**(63)**
APAT	**4,422**	**5,896**	**9,820**	**10,643**

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	43,789	52,913
Net Worth	**31,224**	**36,155**	**44,042**	**53,166**
Total Debt	3,505	4,139	3,289	2,439
Net Deferred Tax Liability	2,277	2,052	2,016	2,031
Total Capital Employed	**37,162**	**42,602**	**49,603**	**57,892**
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**	**36,632**	**45,324**
Inventories	10,725	13,231	13,324	14,603
Receivables	6,815	8,952	9,982	9,909
Cash and Bank Balances	2,823	1,809	6,561	13,305
Loans and Advances	2,280	2,323	2,792	3,316
Other Current Assets	1,434	1,342	1,591	1,809
Less: Current Liabilities & Provisions	**8,327**	**9,976**	**9,965**	**10,517**
Payables	5,243	6,099	5,797	6,239
Other Current Liabilities	3,083	3,877	4,168	4,278
sub total				
Net Current Assets	16,654	20,064	26,668	34,807
Total Assets	**37,162**	**42,602**	**49,603**	**57,892**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	67.1	64.6	68.5	66.9
EBIDTA Margin	18.3	19.2	24.4	23.2
EBIT Margin	13.5	14.7	20.6	19.7
Tax rate	19.0	18.1	17.0	17.0
Net Profit Margin	11.7	13.0	17.9	17.0
(B) As Percentage of Net Sales (%)				
COGS	32.9	35.4	31.5	33.1
Employee	20.9	19.8	18.3	17.8
Other	27.9	25.6	25.8	25.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.0
Interest Coverage	27.0	41.3	98.6	167.9
Inventory days	104	104	88	85
Debtors days	66	70	66	58
Average Cost of Debt	4.6	4.3	3.1	2.6
Payable days	51	48	38	36
Working Capital days	161	158	177	203
FA T/O	2.0	2.3	2.7	3.1
(D) Measures of Investment				
AEPS (Rs)	35.0	46.7	77.7	84.2
CEPS (Rs)	49.4	63.3	94.0	101.6
DPS (Rs)	1.2	1.2	6.0	6.0
Dividend Payout (%)	3.4	2.6	7.7	7.1
BVPS (Rs)	247.1	286.2	348.6	420.8
RoANW (%)	15.2	17.9	24.5	21.9
RoACE (%)	13.0	15.4	21.7	20.1
RoAIC (%)	15.2	18.2	27.1	28.0
(E) Valuation Ratios				
CMP (Rs)	2006	2006	2006	2006
P/E	57.3	43.0	25.8	23.8
Mcap (Rs Mn)	253,452	253,452	253,452	253,452
MCap/ Sales	6.7	5.5	4.6	4.1
EV	253,230	253,399	247,798	240,203
EV/Sales	6.7	5.5	4.5	3.8
EV/EBITDA	36.6	28.4	18.5	16.6
P/BV	8.1	7.0	5.8	4.8
Dividend Yield (%)	0.1	0.1	0.3	0.3
(F) Growth Rate (%)				
Revenue	14.9	23.2	18.3	13.6
EBITDA	52.2	29.0	50.3	7.9
EBIT	83.9	33.9	66.4	8.2
PBT	86.0	36.2	59.6	8.2
APAT	84.7	33.3	66.6	8.4
EPS	84.7	33.3	66.6	8.4

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,722	4,315	10,455	11,936
CFI	(2,045)	(5,365)	(2,735)	(2,686)
CFF	(1,360)	36	(2,969)	(2,505)
FCFF	2,677	(1,050)	7,720	9,250
Opening Cash	1,506	2,823	1,809	6,561
Closing Cash	2,823	1,809	6,561	13,305

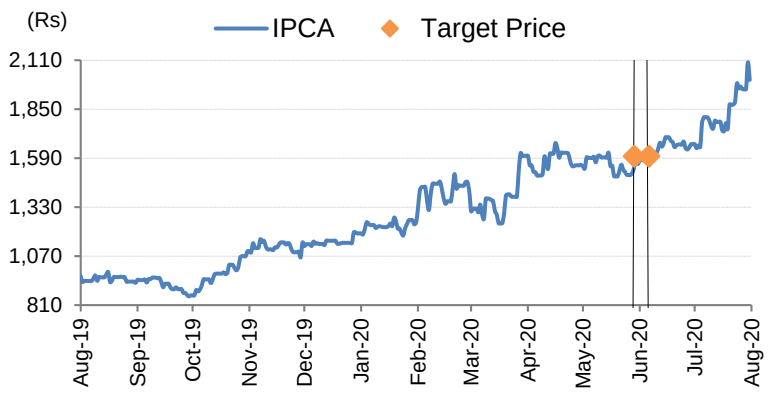
E – Estimates

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
Jun-20	Accumulate	1,600	1,563

*Price as on recommendation date

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