

Ipca Laboratories (IPCA IN)

Rating: HOLD | CMP: Rs2,278 | TP: Rs2,393

November 10, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23EE	FY22E	FY23EE
Rating	HOLD		HOLD	
Target Price	2,393		1,886	
Sales (Rs. m)	56,883	67,126	56,883	67,126
% Chng.	-	-	-	-
EBITDA (Rs. m)	13,197	15,842	12,594	15,573
% Chng.	4.8	1.7	-	-
EPS (Rs.)	73.9	88.6	69.8	87.9
% Chng.	5.9	0.8	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	46,487	50,506	56,883	67,126
EBITDA (Rs. m)	9,067	15,128	13,197	15,842
Margin (%)	19.5	30.0	23.2	23.6
PAT (Rs. m)	6,036	11,163	9,343	11,196
EPS (Rs.)	47.8	88.4	73.9	88.6
Gr. (%)	37.3	85.0	(16.3)	19.8
DPS (Rs.)	8.0	8.0	8.0	8.0
Yield (%)	0.4	0.4	0.4	0.4
RoE (%)	17.9	27.1	18.5	18.7
RoCE (%)	18.5	29.0	20.2	21.0
EV/Sales (x)	6.2	5.6	4.9	4.1
EV/EBITDA (x)	31.7	18.6	21.1	17.5
PE (x)	47.7	25.8	30.8	25.7
P/BV (x)	8.0	6.2	5.3	4.4

Key Data

IPCA.BO | IPCA IN

52-W High / Low	Rs.2,460 / Rs.1,051
Sensex / Nifty	42,597 / 12,461
Market Cap	Rs.289bn/ \$ 3,897m
Shares Outstanding	127m
3M Avg. Daily Value	Rs.1579.1m

Shareholding Pattern (%)

Promoter's	46.07
Foreign	12.36
Domestic Institution	29.04
Public & Others	12.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.2	46.7	112.9
Relative	2.9	9.0	101.5

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Growth on track but valuation discomfort : Maintain Hold

Quick Pointers:

- Earnings normalize with lesser benefits from Chloroquine (CQ) and Hydroxy-Chloroquine (HCQS).
- Guided EBITDAM of 25-28% for FY22/23E.

We increase our estimate by 13%/6%/1% for FY21/22/23E with discounting management guidance of sustainable EBITDAM 25%-28% (v/s 20% in FY20) from here onwards. We however rationalize the guidance and factor Adj.EBITDAM of 30%/23.2%/23.6% for FY21/22/23E as we believe part of fixed (marketing/SGA) and R&D costs would return to pre-COVID level with MRs back to field visits. The 2QFY21 earnings beat was primarily led by higher EBITDAM at 28% v/s our estimate of 24%. IPCA reaffirmed its growth guidance for FY22-23E with 1) India formulation back at 10-12%, 2) API at 12-14% led by new capacity, 3) Export generics at 15%-16% with all regions contributing to growth and 4) Strong order book from institutional clients based on new products approval (injectable and DT drugs). Despite factoring multiple growth levers, IPCA's valuation is at discomfort as it trades at 26x PE of FY23E. We roll over our valuation to FY23E (earlier FY22E) and derive at new TP of Rs2,393 (earlier Rs1,886) based on 27x (Unchanged) PE of FY23E EPS of Rs89. We maintain Hold(Unchanged).

Earnings normalizes after 1QFY21 one-off opportunity: Revenue grew 7% YoY while declined 13% QoQ to Rs12.97bn (Rs13.2bn). India formulations declined 1% YoY while export formulations grew 7% YoY. India API declined 13% YoY and export API grew 31% YoY. EBITDA grew 38% YoY while declined 39% QoQ to Rs3.6bn (PLe: Rs3.1bn) and EBITDA margin was 28% (PLe: 24%) v/s 22% YoY and 40% QoQ. IPCA highlighted freight charges have increased by 60% in FY20. PBT grew 44% YoY while declined 41% QoQ to Rs3.2bn (PLe: Rs2.7bn) and PAT grew 40% YoY while declined 40% QoQ to Rs2.7 (PLe: Rs2.1bn).

Conference Call and other key highlights:

- India formulations:** Declined by 1% YoY as demand for derma, neuro, anti-bacterial, cold/cough and older products (6-7% of revenue) were muted however pain (PMS) and cardiovascular products grew 10% and 6% YoY during the quarter. Guided revenue of 8-10% YoY for 2HFY21E while 10-12% for FY22/23E. IPCA guided for higher SG&A costs once MRs start on-field visiting of doctors. It has a total field force of 5,000 MRs.
- HCQS:** 2QFY21 earnings normalized after Q1FY21 benefitted due to HCQS and CQ supply in India and export markets. Revenue from HCQS has returned to pre-COVID level after FDA revoked Emergency Use Authorization (EUA) status for HCQS.

- **Export Formulation:** Grew 7% YoY while declined 21% QoQ after FDA revoked EUA status for HCQ. Branded formulations declined 9% YoY and 32% QoQ, while Institutional segment grew 9% YoY due to strong order book from new approvals (injectable and dispersible tablets). Generics declined 22% QoQ while grew 7% YoY as business from UK was only Rs120m in 2Q. v/s Rs520m YoY as receivable amount increased above the threshold limit from its distributor. IPCA guided UK would be back on track from 2H FY21E as the issue has been resolved and accordingly received new orders. The loss of revenues from UK compensated in EU sales as it grew to Rs830m in 2Q v/s Rs400m YoY. IPCA maintained its guidance of Rs2bn for institutional segment in FY21E and also seeks approval for hormone related products which would be key for growth post FY22E.
- **API:** Overall API sales grew by 21% YoY while declined 26% QoQ. Guided for API growth of 12-14% YoY over FY22/23E led by capacity expansion. IPCA acquired 35-acre land at Dewas and Noble Explochem plant to expand its API business. These facilities would come on stream from 2H FY22E and FY23E. Currently capacity utilization is 90% for API plants.
- **CAPEX/R&D/Tax rate:** Guided CAPEX of Rs2.5bn for FY21E, of which Rs600-700m 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 Rs3bn MAT credit.
- **Regulatory Status update:** Ratlam, Silvassa and Piparia continue to be under USFDA scanner and status remains unchanged with USFDA inspection awaited. There are two DMFs filed from Pissah plant in US and expect FDA visit in near term. Remediation cost was Rs160mn and Rs30mn for FY20 and Q4 FY20 respectively. IPCA stated it would not incur incremental remediation cost in FY21E.

Exhibit 1: 2QFY21 Result Overview (Rs mn) : Earnings normalize after FDA revoked EUA status for HCQs

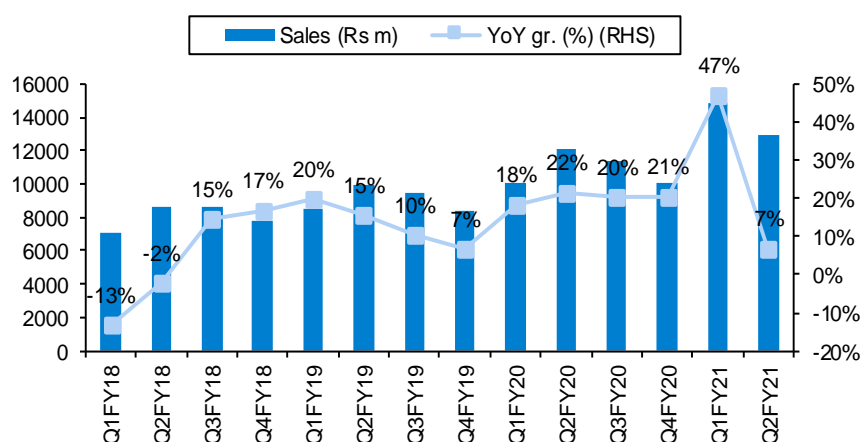
Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	12,978	12,126	7.0	14,846	27,824	22,236	25.1
Raw Material	4,066	4,097	(0.8)	4,074	8,140	7,722	5.4
<i>% of Net Sales</i>	<i>31.3</i>	<i>33.8</i>		<i>27.4</i>	<i>29.3</i>	<i>34.7</i>	
Personnel Cost	2,391	2,197	8.8	2,419	4,810	4,252	13.1
<i>% of Net Sales</i>	<i>18.4</i>	<i>18.1</i>		<i>16.3</i>	<i>17.3</i>	<i>19.1</i>	
Others	2,920	3,217	(9.2)	2,479	5,399	5,696	(5.2)
<i>% of Net Sales</i>	<i>22.5</i>	<i>26.5</i>		<i>16.7</i>	<i>19.4</i>	<i>25.6</i>	
Total Expenditure	9,376	9,510	(1.4)	8,973	18,349	17,670	3.8
EBITDA	3,602	2,616	37.7	5,873	9,475	4,566	107.5
<i>Margin (%)</i>	<i>27.8</i>	<i>21.6</i>		<i>39.6</i>	<i>34.1</i>	<i>20.5</i>	
Depreciation	462	451	2.4	452	914	872	4.9
EBIT	3,140	2,165	45.0	5,421	8,561	3,695	131.7
Other Income	150	143	4.7	117	267	338	(21.0)
Interest	18	41	(55.3)	25	43	85	(49.9)
PBT	3,272	2,267	44.3	5,513	8,785	3,947	122.6
Extra-Ord. Inc./Exps.	30	-		-	-	-	
Total Taxes	514	307	67.4	983	1,497	666	124.7
<i>ETR (%)</i>	<i>15.7</i>	<i>13.5</i>		<i>17.8</i>	<i>17.0</i>	<i>16.9</i>	
Reported PAT	2,727	1,960	39.1	4,530	7,288	3,281	122.1
Other Comprehensive Income	-	(33)		-	(33)	(42)	
Total Comprehensive Income	2,727	1,927	41.5	4,530	7,254	3,239	124.0

Source: Company, PL

Exhibit 2: Major Sources of Revenue

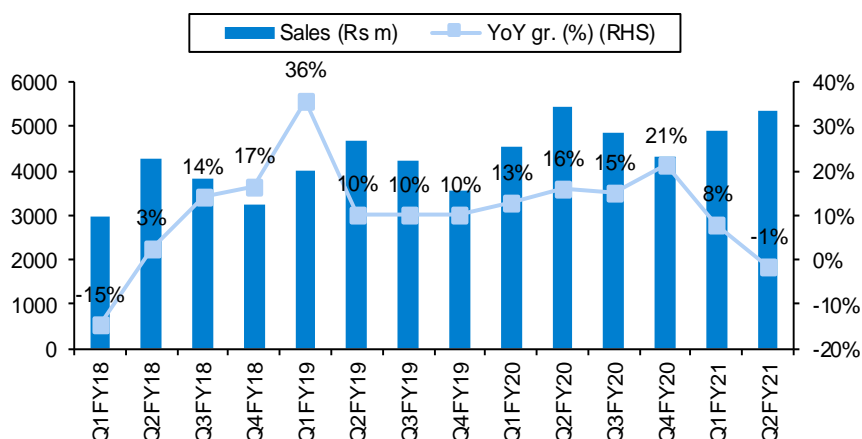
Major sources of revenues	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Domestic	5,940	6,104	(2.7)	6,925	12,864	11,289	14.0
Formulations	5,355	5,432	(1.4)	4,894	10,249	9,960	2.9
APIs	585	672	(12.9)	2,030	2,615	1,329	96.8
Exports	6,868	5,880	16.8	7,739	14,607	10,655	37.1
Formulations	3,643	3,408	6.9	4,636	8,279	5,857	41.4
APIs	3,225	2,472	30.5	3,103	6,328	4,798	31.9
Net Sales	12,808	11,984	6.9	14,663	27,472	21,944	25.2

Source: Company, PL

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


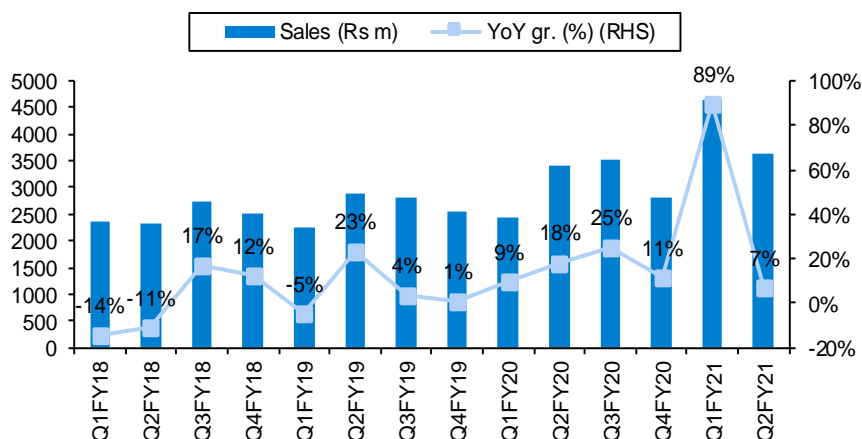
Source: Company, PL

Exhibit 4: India Formulation :Growth to return from 2HFY21E



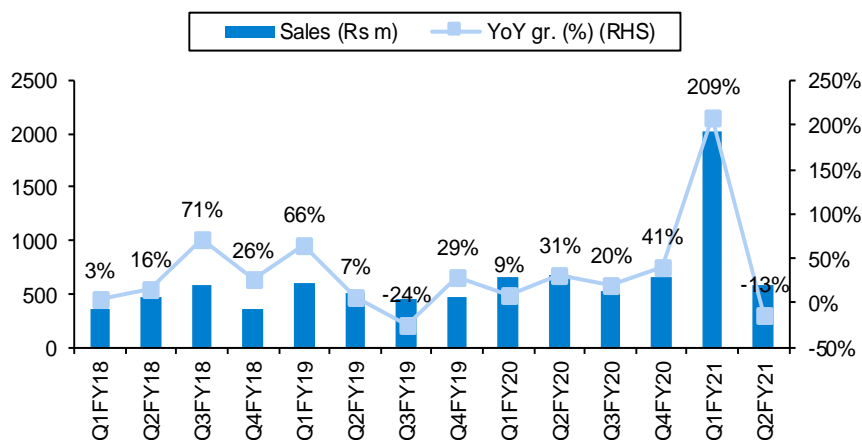
Source: Company, PL

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



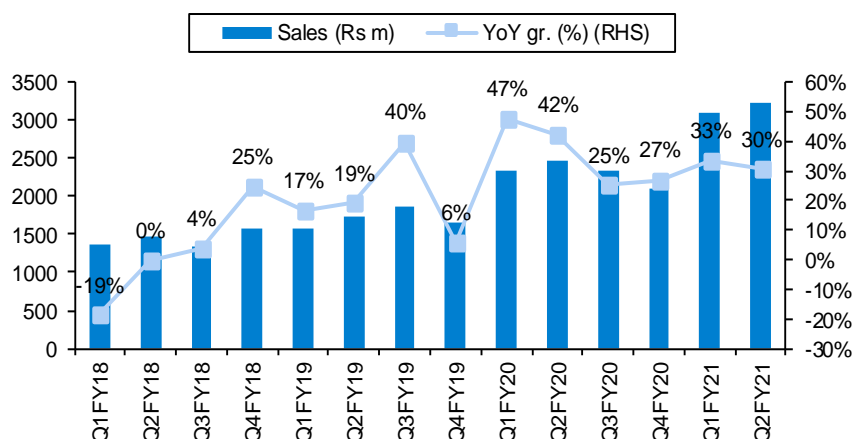
Source: Company, PL

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



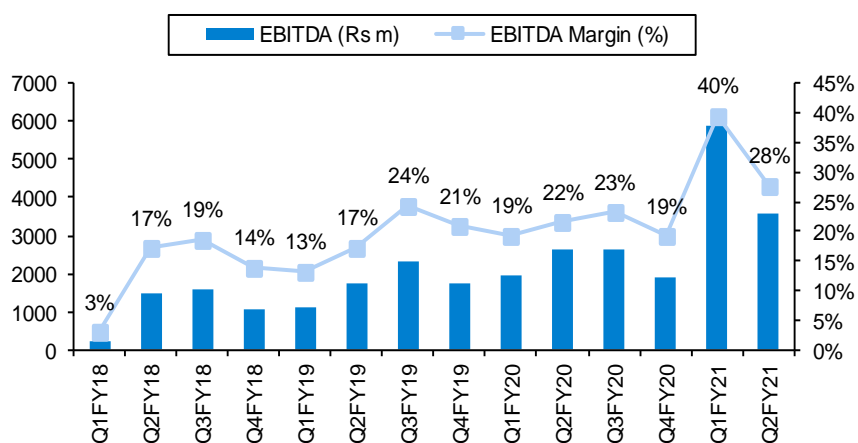
Source: Company, PL

Exhibit 7: API Export and YoY Gr (%)



Source: Company, PL

Exhibit 8: EBITDA (Rs mn) % EBITDA Margin (%) :Benefit from lower SGA



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	46,487	50,506	56,883	67,126
YoY gr. (%)	23.2	8.6	12.6	18.0
Cost of Goods Sold	16,441	16,323	19,226	22,487
Gross Profit	30,046	34,183	37,656	44,639
Margin (%)	64.6	67.7	66.2	66.5
Employee Cost	9,212	8,666	9,044	10,606
Other Expenses	1,255	1,265	1,763	2,349
EBITDA	9,067	15,128	13,197	15,842
YoY gr. (%)	31.1	66.8	(12.8)	20.0
Margin (%)	19.5	30.0	23.2	23.6
Depreciation and Amortization	2,105	2,169	2,553	3,012
EBIT	6,962	12,959	10,644	12,830
Margin (%)	15.0	25.7	18.7	19.1
Net Interest	165	116	88	103
Other Income	670	651	731	863
Profit Before Tax	7,467	13,494	11,288	13,589
Margin (%)	16.1	26.7	19.8	20.2
Total Tax	1,353	2,251	1,862	2,310
Effective tax rate (%)	18.1	16.7	16.5	17.0
Profit after tax	6,114	11,243	9,426	11,279
Minority interest	78	80	83	83
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,036	11,163	9,343	11,196
YoY gr. (%)	37.3	85.0	(16.3)	19.8
Margin (%)	13.0	22.1	16.4	16.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,036	11,163	9,343	11,196
YoY gr. (%)	37.3	85.0	(16.3)	19.8
Margin (%)	13.0	22.1	16.4	16.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,036	11,163	9,343	11,196
Equity Shares O/s (m)	126	126	126	126
EPS (Rs)	47.8	88.4	73.9	88.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	29,452	31,502	33,552	35,602
Tangibles	27,149	29,049	30,949	32,849
Intangibles	2,304	2,454	2,604	2,754
Acc: Dep / Amortization	9,270	11,946	14,582	15,473
Tangibles	8,185	11,038	13,463	14,289
Intangibles	1,085	908	1,120	1,184
Net fixed assets	20,182	19,556	18,970	20,129
Tangibles	18,963	18,010	17,486	18,559
Intangibles	1,219	1,546	1,484	1,570
Capital Work In Progress	852	979	806	697
Goodwill	624	624	624	624
Non-Current Investments	2,081	2,302	3,332	4,944
Net Deferred tax assets	(1,398)	(1,643)	(1,829)	(2,061)
Other Non-Current Assets	282	338	1,014	3,041
Current Assets				
Investments	2,383	2,502	3,752	4,653
Inventories	13,231	14,668	16,675	19,310
Trade receivables	8,952	9,963	11,377	13,241
Cash & Bank Balance	1,809	6,486	7,520	7,223
Other Current Assets	1,342	1,544	2,161	2,593
Total Assets	52,598	59,926	67,657	78,578
Equity				
Equity Share Capital	253	253	253	253
Other Equity	35,903	46,057	54,389	64,576
Total Network	36,156	46,309	54,642	64,828
Non-Current Liabilities				
Long Term borrowings	1,030	669	435	283
Provisions	322	258	271	284
Other non current liabilities	23	20	18	16
Current Liabilities				
ST Debt / Current of LT Debt	3,168	2,059	1,339	870
Trade payables	6,099	5,812	6,234	7,356
Other current liabilities	3,998	3,024	2,759	2,749
Total Equity & Liabilities	52,599	59,926	67,657	78,578

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,114	11,243	9,426	11,279
Add. Depreciation	2,105	2,169	2,553	3,012
Add. Interest	165	116	88	103
Less Financial Other Income	670	651	731	863
Add. Other	1,683	1,322	(9,828)	(12,291)
Op. profit before WC changes	10,066	14,850	2,238	2,103
Net Changes-WC	(2,987)	(4,022)	(4,349)	(4,521)
Direct tax	(1,883)	(1,892)	(1,908)	(3,596)
Net cash from Op. activities	5,197	8,935	(4,019)	(6,014)
Capital expenditures	(3,437)	(2,192)	(1,838)	(1,891)
Interest / Dividend Income	5	5	5	5
Others	(1,551)	(194)	(1,328)	(980)
Net Cash from Invst. activities	(4,984)	(2,381)	(3,160)	(2,865)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,254)	(3,875)	8,007	8,509
Dividend paid	-	-	-	-
Interest paid	(165)	(116)	(88)	(103)
Others	-	-	-	-
Net cash from Fin. activities	(1,419)	(3,991)	7,920	8,406
Net change in cash	(1,206)	2,564	741	(474)
Free Cash Flow	1,760	6,744	(5,856)	(7,904)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	11,390	10,048	14,846	12,978
YoY gr. (%)	20.2	20.5	46.8	7.0
Raw Material Expenses	3,815	3,269	4,074	4,066
Gross Profit	7,575	6,779	10,772	8,912
Margin (%)	66.5	67.5	72.6	68.7
EBITDA	2,654	1,927	5,873	3,602
YoY gr. (%)	14.5	10.3	201.1	37.7
Margin (%)	23.3	19.2	39.6	27.8
Depreciation / Depletion	461	454	452	462
EBIT	2,193	1,473	5,421	3,140
Margin (%)	19.3	14.7	36.5	24.2
Net Interest	38	35	25	18
Other Income	176	133	117	150
Profit before Tax	2,331	1,572	5,513	3,272
Margin (%)	20.5	15.6	37.1	25.2
Total Tax	365	294	983	514
Effective tax rate (%)	15.7	18.7	17.8	15.7
Profit after Tax	1,966	1,278	4,530	2,757
Minority interest	-	-	-	30
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,966	1,278	4,530	2,727
YoY gr. (%)	22.7	16.7	243.1	39.1
Margin (%)	17.3	12.7	30.5	21.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,966	1,278	4,530	2,727
YoY gr. (%)	22.7	16.7	243.1	39.1
Margin (%)	17.3	12.7	30.5	21.0
Other Comprehensive Income	-	(33)	-	-
Total Comprehensive Income	1,966	1,244	4,530	2,727
Avg. Shares O/s (m)	126	126	126	126
EPS (Rs)	15.6	10.1	35.9	21.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	47.8	88.4	73.9	88.6
CEPS	64.4	105.5	94.1	112.4
BVPS	286.2	366.5	432.5	513.1
FCF	13.9	53.4	(46.3)	(62.6)
DPS	8.0	8.0	8.0	8.0
Return Ratio(%)				
RoCE	18.5	29.0	20.2	21.0
ROIC	17.1	30.2	21.4	21.6
RoE	17.9	27.1	18.5	18.7
Balance Sheet				
Net Debt : Equity (x)	-	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	126	136	140	137
Valuation(x)				
PER	47.7	25.8	30.8	25.7
P/B	8.0	6.2	5.3	4.4
P/CEPS	35.4	21.6	24.2	20.3
EV/EBITDA	31.7	18.6	21.1	17.5
EV/Sales	6.2	5.6	4.9	4.1
Dividend Yield (%)	0.4	0.4	0.4	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Domestic Formulations	19,126	21,039	23,563	26,391
Domestic API	2,509	2,810	3,035	3,278
Export Formulations	12,215	13,746	16,670	19,779
Export API	9,222	10,183	11,852	14,160

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Oct-20	Hold	1,886	2,113
2	12-Aug-20	Hold	1,962	2,013
3	08-Jul-20	BUY	1,839	1,636
4	17-Jun-20	BUY	1,839	1,563
5	04-May-20	Accumulate	1,728	1,619
6	18-Apr-20	Accumulate	1,728	1,498
7	14-Apr-20	Accumulate	1,826	1,603
8	02-Mar-20	BUY	1,826	1,361
9	13-Feb-20	BUY	1,826	1,423
10	03-Jan-20	Accumulate	1,238	1,139

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	808	834
2	Cadila Healthcare	Sell	357	411
3	Cipla	Hold	836	789
4	Dr. Lal PathLabs	UR	-	2,179
5	Dr. Reddy's Laboratories	BUY	5,964	4,951
6	Eris Lifesciences	BUY	671	518
7	Glenmark Pharmaceuticals	Sell	349	496
8	Indoco Remedies	BUY	352	256
9	Ipca Laboratories	Hold	1,886	2,113
10	Jubilant Life Sciences	Accumulate	752	696
11	Lupin	BUY	1,212	936
12	Sun Pharmaceutical Industries	BUY	597	486
13	Thyrocare Technologies	UR	-	1,138

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

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