

IPCA LABORATORIES

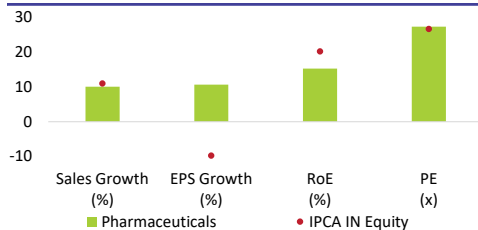
COMPANY UPDATE



KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	2,068
12 month price target (INR)	2,530
Market cap (INR bn/USD bn)	262/3.5
Free float/Foreign ownership (%)	53.7/17.8
What's Changed	
Target Price	—
Rating/Risk Rating	—

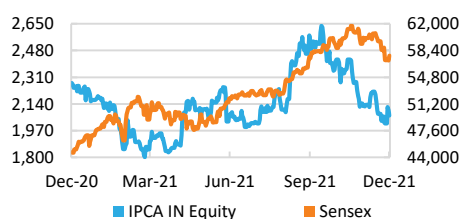
INVESTMENT METRICS



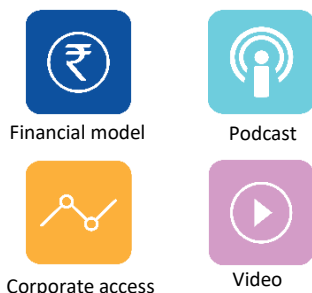
FINANCIALS

	(INR mn)			
Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	54,199	60,115	67,493	75,393
EBITDA	15,443	14,084	17,276	19,313
Adjusted profit	11,410	10,291	12,827	13,386
Diluted EPS (INR)	90.0	81.1	101.1	105.5
EPS growth (%)	77.0	(9.8)	24.6	4.4
RoAE (%)	27.4	20.1	21.2	18.9
P/E (x)	23.9	26.5	21.3	20.4
EV/EBITDA (x)	19.2	21.0	16.7	14.5
Dividend yield (%)	0.8	0.8	0.9	1.0

PRICE PERFORMANCE



Explore:



Long-run growth prospects intact

We interacted with Joint MD of Ipca Laboratories (Ipca), Mr. Ajit Jain. Key highlights: i) Confident of clocking market-beating growth in India as other therapies complement Zerodol. Getting aggressive in cardiac, which can become 25% (from 18%) of the overall pie. ii) Rebuilding UK business through a direct approach, which should improve margin over the next 18 months. iii) Dewas and Ratlam API plants to add 25% to existing capacity. iv) Input cost pressures expected to stabilise in a couple of quarters. v) Targeting API companies with newer molecules, possibly USFDA approved, which can be forward-integrated.

Barring near-term pressures, Ipca is poised to turn in organic low-teens growth as its revenue trajectory is intact. 'BUY' with a TP of INR2,530.

Underrated R&D strength to drive domestic outperformance

Ipca has grown at almost 1.5x industry growth over the last five years. Its success is attributable to its R&D, where it has successfully demonstrated aceclofenac (Zerodol) superiority to other NSAIDs and low-dose chlorthalidone (CTD) efficacy that has enabled it to shift Rx to its own brands. Ipca is confident of not only sustaining its pain franchise— Zerodol peak sales >INR10bn – but also grow cardiac and other divisions. The company is getting aggressive to expand cardiac therapy to an aspirational 25% of revenue (from ~17-18%) and plans to add 350–400 salesforce.

EU to achieve full potential in next 12-18 months

The UK business is ~60% down from its peak, but Ipca is confident of recovering a large part in the next 18 months as it will have a basket of ~25 products (up from 9) the next 18 months on its own label. The EU situation, which is currently facing excess inventory, should start easing over the next couple of quarters.

Selectively targeted acquisitions should keep balance sheet lean

Ipca's acquisitions are either to fill gaps in existing businesses (Lyka for injectable) or part of long-term plans (Pisgah: low-volume/high-value CRAMS). Investments in subsidiaries/associates have been <USD100mn over last five years, keeping BS lean.

Outlook and valuation: Growth levers intact; maintain 'BUY'

The unprecedented input cost escalation should start easing over the next six months. Ipca is confident of maintaining its volume in sartans as it has developed a new process and expects orders in the rest of the API business to also pick up. Near-term pressures should not obscure its market-beating growth in India, its vertically integrated business model, API potential beyond FY22 due to capacity addition and an enviable cost optimisation track record.

Ipca has been a beneficiary of several one-offs such as HCQs during covid and sartan opportunities in API. Hence, while FY22 growth looks challenging, FY23 should see normal growth resuming. We stay optimistic on Ipca's long-term prospects. Retain 'BUY/SO' with a TP of INR2,530.

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	54,199	60,115	67,493	75,393
Gross profit	36,916	38,834	44,545	49,759
Employee costs	10,136	11,555	12,826	14,237
R&D cost	1,409	1,473	1,552	1,809
Other expenses	7,761	9,318	10,191	11,384
EBITDA	15,443	14,084	17,276	19,313
Depreciation	2,092	2,150	2,350	2,580
Less: Interest expense	90	74	74	74
Add: Other income	628	781	883	1,288
Profit before tax	13,889	12,641	15,735	17,947
Prov for tax	2,401	2,275	2,832	4,487
Less: Exceptional item	0	0	0	0
Reported profit	11,410	10,291	12,827	13,386
Adjusted profit	11,410	10,291	12,827	13,386
Diluted shares o/s	127	127	127	127
Adjusted diluted EPS	90.0	81.1	101.1	105.5
DPS (INR)	18.0	16.2	20.2	21.1
Tax rate (%)	17.3	18.0	18.0	25.0

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Gross margin	68.1	64.6	66.0	66.0
R&D as a % of sales	2.6	2.5	2.3	2.4
Net Debt/EBITDA	(0.4)	(0.4)	(0.8)	(1.1)
EBITDA margin (%)	28.5	23.4	25.6	25.6
Net profit margin (%)	21.1	17.1	19.0	17.8
Revenue growth (% YoY)	16.6	10.9	12.3	11.7
EBITDA growth (% YoY)	70.3	(8.8)	22.7	11.8
Adj. profit growth (%)	77.9	(9.8)	24.6	4.4

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(6.0)	7.0	6.0	6.0
Repo rate (%)	3.0	3.5	4.0	4.0
USD/INR (average)	74.0	73.0	72.0	72.0
India growth (%)	3.6	22.0	10.0	13.0
Export generics (%)	21.8	2.0	18.0	15.0
Export branded (%)	5.7	11.0	12.0	12.0
API growth (%)	28.4	(3.1)	16.8	10.5
Institutional (USD mn)	52.1	55.7	55.7	55.7
Capex (USD mn)	48.9	82.2	41.7	0

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	23.9	26.5	21.3	20.4
Price/BV (x)	5.8	4.9	4.2	3.6
EV/EBITDA (x)	19.2	21.0	16.7	14.5
Dividend yield (%)	0.8	0.8	0.9	1.0

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	254	254	254	254
Reserves	46,763	54,995	65,257	75,966
Shareholders funds	47,017	55,249	65,511	76,219
Minority interest	145	145	145	145
Borrowings	1,857	1,857	1,857	1,857
Trade payables	6,662	8,162	8,802	9,832
Other liabs & prov	4,983	4,983	4,983	4,983
Total liabilities	60,664	70,397	81,299	93,037
Net block	20,770	24,620	25,270	25,690
Intangible assets	466	466	466	466
Capital WIP	1,837	1,837	1,837	1,837
Total fixed assets	23,073	26,923	27,573	27,993
Non current inv	1,114	1,114	1,114	1,114
Cash/cash equivalent	7,589	8,093	15,548	23,093
Sundry debtors	8,118	11,035	12,389	13,839
Loans & advances	4,823	4,823	4,823	4,823
Other assets	15,948	18,410	19,852	22,176
Total assets	60,664	70,397	81,299	93,037

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	11,410	10,291	12,827	13,386
Add: Depreciation	2,092	2,150	2,350	2,580
Interest (net of tax)	0	0	0	0
Others	(237)	0	0	0
Less: Changes in WC	(2,363)	(3,878)	(2,157)	(2,744)
Operating cash flow	10,901	8,562	13,020	13,222
Less: Capex	(3,616)	(6,000)	(3,000)	(3,000)
Free cash flow	7,286	2,562	10,020	10,222

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	27.4	20.1	21.2	18.9
RoCE (%)	31.2	23.9	25.3	24.7
Inventory days	308	295	304	299
Receivable days	57	58	63	63
Payable days	135	127	135	133
Working cap (% sales)	49.1	51.6	60.2	67.5
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Interest coverage (x)	147.7	160.6	200.9	225.2

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	77.0	(9.8)	24.6	4.4
RoE (%)	27.4	20.1	21.2	18.9
EBITDA growth (%)	70.3	(8.8)	22.7	11.8
Payout ratio (%)	20.0	20.0	20.0	20.0

Company Description

From a company which was known for anti-malarials and an API manufacturer in the past, its business has evolved into a full-fledged global Pharma company with multiple segments spanning multiple countries. IPCA is a vertically integrated company with a diverse presence across geographies including India, Africa, Asia, Australia, Europe and the US. It boasts of high level of vertical integration that has enabled leadership in various segments and delivered good profitability at the same time. India business is its largest business where it has consistently beaten market growth over the years. Exports formulations account for almost 50% of its revenues with branded generics business accounting for 1/4th of exports. While branded generics continue to register steady growth, the growth in exports will be driven by the generics business (US, EU and Institutional malaria).

Investment Theme

Ipca has had a strong execution track record in the past years along with maintaining healthy balance sheet (low net D/E) despite an investment phase. Even without US, Ipca is likely to report double-digit growth as: a) main domestic therapies pain and CVS continue to post market-leading growth; b) API exports to remain strong as Ipca bolsters sartans over its existing portfolio; and c) recovery in generics led by EU. Ipca has a moat w.r.t. cost leadership in several APIs, enabling it to be cheapest supplier in the world. With domestic and APIs contributing ~70% to revenue, Ipca deserves to trade at a premium.

Key Risks

Cross Currency impacts could hurt earnings.

Extensive input cost escalation

Delay in EU and UK recovery

Additional Data

Management

Chairman, MD and CEO	Premchand Godha
Joint Managing Director/CFO	Ajit Kumar Jain
Executive Director	Pranay Godha
Executive Director	Prashant Godha
Auditor	G. M. Kapadia & Co

Holdings – Top 10*

% Holding		% Holding	
DSP	4.57	Vanguard	1.70
HDFC AMC	3.36	Mirae	1.66
Blackrock	1.98	L&T MF	1.62
HDFC Life	1.94	UTI	1.61
ICICI Pru AMC	1.72	Axis AMC	1.38

*Latest public data

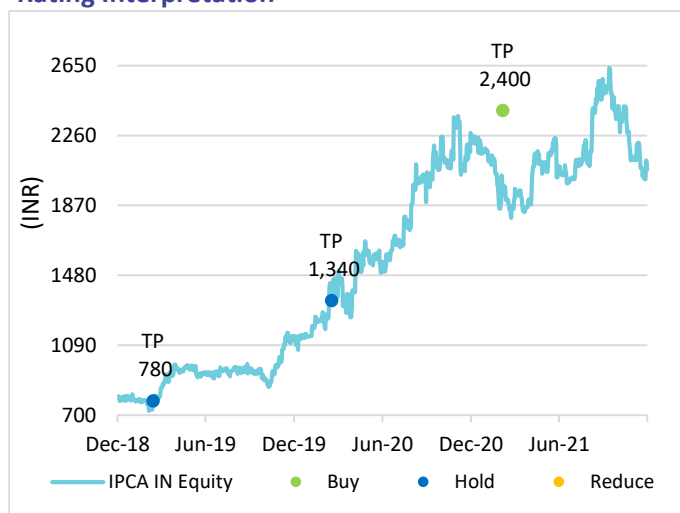
Recent Company Research

Date	Title	Price	Reco
16-Nov-21	Growth intact beyond near-term issues; <i>Result Update</i>	2,153	Buy
06-Aug-21	The going remains strong; <i>Result Update</i>	2,171	Buy
31-May-21	Revenue trajectory unaltered; <i>Result Update</i>	2,071	Buy

Recent Sector Research

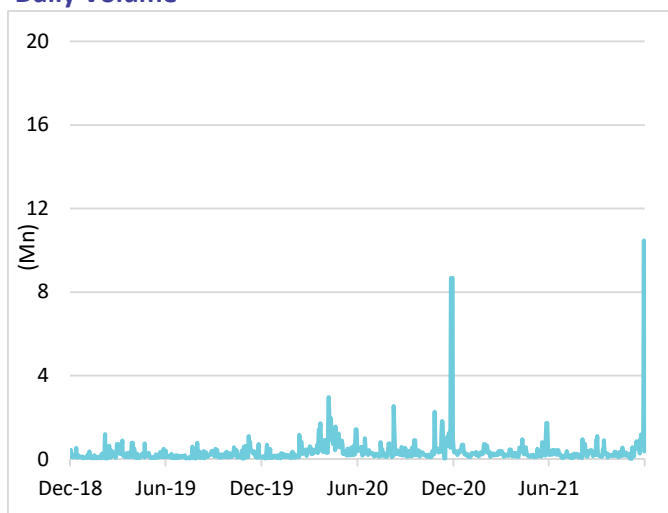
Date	Name of Co./Sector	Title
15-Nov-21	Glenmark Pharma.	Awaiting new growth trajectory; <i>Result Update</i>
12-Nov-21	Alkem Laboratories	Domestic turnaround impressive; <i>Result Update</i>
12-Nov-21	Natco Pharma	Stuck in a rut; acceleration likely from; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	186	52	18	257
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	229	42	4	275

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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