

May 26, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,085		1,180	
Sales (Rs. m)	64,046	73,130	63,552	72,849
% Chng.	0.8	0.4		
EBITDA (Rs. m)	14,390	17,850	14,891	18,444
% Chng.	(3.4)	(3.2)		
EPS (Rs.)	36.7	47.1	41.2	51.0
% Chng.	(10.9)	(7.5)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	54,200	58,298	64,046	73,130
EBITDA (Rs. m)	15,031	12,785	14,390	17,850
Margin (%)	27.7	21.9	22.5	24.4
PAT (Rs. m)	11,412	8,898	9,322	11,957
EPS (Rs.)	45.0	35.1	36.7	47.1
Gr. (%)	(10.0)	(22.0)	4.8	28.3
DPS (Rs.)	4.0	6.0	7.0	8.0
Yield (%)	0.4	0.6	0.7	0.9
RoE (%)	27.4	17.5	15.9	17.8
RoCE (%)	29.0	18.7	18.1	20.8
EV/Sales (x)	4.3	4.0	3.6	3.1
EV/EBITDA (x)	15.4	18.2	15.9	12.6
PE (x)	20.9	26.7	25.5	19.9
P/BV (x)	5.1	4.3	3.8	3.3

Key Data

IPCA.BO | IPCA IN

52-W High / Low	Rs.1,384 / Rs.917
Sensex / Nifty	53,749 / 16,026
Market Cap	Rs.238bn/ \$ 3,069m
Shares Outstanding	254m
3M Avg. Daily Value	Rs.387.98m

Shareholding Pattern (%)

Promoter's	46.29
Foreign	11.02
Domestic Institution	32.40
Public & Others	10.29
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.1)	(7.3)	(15.3)
Relative	(1.2)	1.4	(20.2)

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Weak exports; gradual recovery

Quick Pointers:

- Guided 10-12% revenue growth and 22-22.5% OPM for FY23.
- Added 1200 MRs in domestic formulation biz; launching 4 new divisions.

IPCA Lab's (IPCA) Q4 performance was impacted by weak exports, however API, UK and branded generics issues should normalize from H2FY23, in our view. Domestic business (45% of total sales) remained strong and it will continue to outperform IPM. Strong API capabilities and diversified model have benefited IPCA in the current environment. Our FY23E and FY24E EBITDA stands reduced by 3% yet PAT cut is higher by 7-10%, as management indicated 25% tax rate vs 22-23% earlier. We recommend 'Buy' rating with revised TP of Rs 1,085 based on 23x FY24E earnings.

- In-line revenues; weak export sales:** IPCA's sales grew 16% YoY at Rs 12.9bn, in line with our estimates. Domestic business grew strongly 27% YoY, while export formulation remained weak with 3% YoY (flat QoQ) growth. Institutional business was up by mere 5% YoY lower than our est, due to lower order offtake. Branded and generics business were up by 2% YoY. Export API declined by 19% QoQ due to lower sales from Sartans and sales return. Domestic API grew by 52% YoY. Revenue from subsidiaries in Q4 came in at Rs 1.2bn.
- Healthy GM; higher other expenses** EBITDA margins came at 17.2%- down 365bps QoQ impacted by negative operating leverage. There were one-time impairment charges to tune of Rs225mn. Adj for this OPM came in at 19%. Gross margins were at 66.9% (PL est 65%) in Q4- up 180bps QoQ, mainly on better product mix. There was forex loss of Rs20m. Adj for forex, overheads grew 14% YoY led by higher freight cost. Staff cost also grew by 16% YoY led by higher provision of incentives to field staff. PAT declined by 19% YoY to Rs 1.3bn vs our est of Rs1.4bn.
- Key Concall takeaways:** (1) Though company has resolved the issue of Azido impurity and Sartan, growth is expected to be gradual and should normalize from Q2FY23 (2) Guided for 68-69% GM in FY23 on standalone nos (3) Institution business continued to be impacted due to lower order offtake and guided for flat revenue growth in FY23. (4) UK business to remain muted in FY23; targeting more registrations and commercialization of product on own labels (so far done 7 -8 registrations out of 44). During Q4 sales from UK were down to Rs200mn vs Rs600mn in Q4FY21 (5) Ipca will be adding 1200 MRs to 6000 for domestic formulation biz in FY23, which may result in higher employee cost. Guided for 12-13% growth in Domestic formulation biz in FY23 (6) **API biz-** Benefit from Dewas plant commercialization will be seen from Q2FY24. Will regain Sartan biz gradually. Guided for 10% growth in API business in FY23 (7) Higher inventory as of FY22, in order to avoid any supply disturbances due to China issues (8) Minimal impact of Russia issues to branded generics biz; Guided for 20% growth in FY23.

Exhibit 1: 4QFY22 Result Overview (Rs mn): Healthy gross margin despite weak exports

Y/e March	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Net Sales	12,891	11,147	15.6	14,305	(9.9)	58,298	54,200	7.6
Raw Material	4,262	3,386	25.9	4,986	(14.5)	20,149	17,283	16.6
<i>% of Net Sales</i>	<i>33.1</i>	<i>30.4</i>		<i>34.9</i>		<i>34.6</i>	<i>31.9</i>	
Personnel Cost	2,977	2,576	15.6	2,837	5.0	11,774	10,136	16.2
<i>% of Net Sales</i>	<i>23.1</i>	<i>23.1</i>		<i>19.8</i>		<i>20.2</i>	<i>18.7</i>	
Others	3,436	3,027	13.5	3,503	(1.9)	13,591	11,750	15.7
<i>% of Net Sales</i>	<i>26.7</i>	<i>27.2</i>		<i>24.5</i>		<i>23.3</i>	<i>21.7</i>	
Total Expenditure	10,676	8,990	18.8	11,326	(5.7)	45,513	39,169	16.2
EBITDA	2,215	2,157	2.7	2,979	(25.6)	12,785	15,031	(14.9)
<i>Margin (%)</i>	<i>17.2</i>	<i>19.4</i>		<i>20.8</i>		<i>21.9</i>	<i>27.7</i>	
Depreciation	609	525	16.1	587	3.9	2,324	2,092	11.1
EBIT	1,606	1,632	(1.6)	2,393	(32.9)	10,461	12,939	(19.2)
Other Income	124	332	(62.7)	228	(45.9)	974	1,041	(6.5)
Interest	34	17	98.8	14	136.4	77	90	(14.8)
PBT	1,696	1,947	(12.9)	2,607	(35.0)	11,357	13,890	(18.2)
Total Taxes	288	309	(7.0)	573	(49.8)	2,248	2,401	(6.4)
<i>ETR (%)</i>	<i>17.0</i>	<i>15.9</i>		<i>22.0</i>		<i>19.8</i>	<i>17.3</i>	
Reported PAT	1,408	1,637	(14.0)	2,033	(30.8)	9,110	11,489	(20.7)
Minority Interest	(106)	(25)		(64)		(269)	(94)	
Adjusted PAT	1,302	1,612	(19.2)	1,970	(33.9)	8,841	11,395	(22.4)

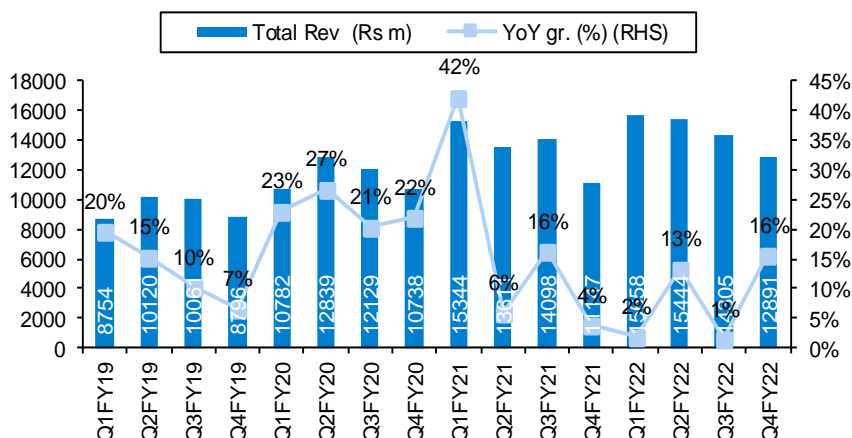
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major sources of revenues	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Domestic	6,288	4,844	29.8	7,308	(14.0)	28,337	23,680	19.7
Formulations	5,518	4,336	27.3	6,453	(14.5)	25,083	19,817	26.6
APIs	770	508	51.6	856	(10.0)	3,254	3,863	(15.8)
Exports	5,273	5,472	(3.6)	5,713	(7.7)	25,027	27,172	(7.9)
Formulations	3,465	3,380	2.5	3,475	(0.3)	14,867	15,972	(6.9)
APIs	1,809	2,092	(13.5)	2,238	(19.2)	10,160	11,200	(9.3)

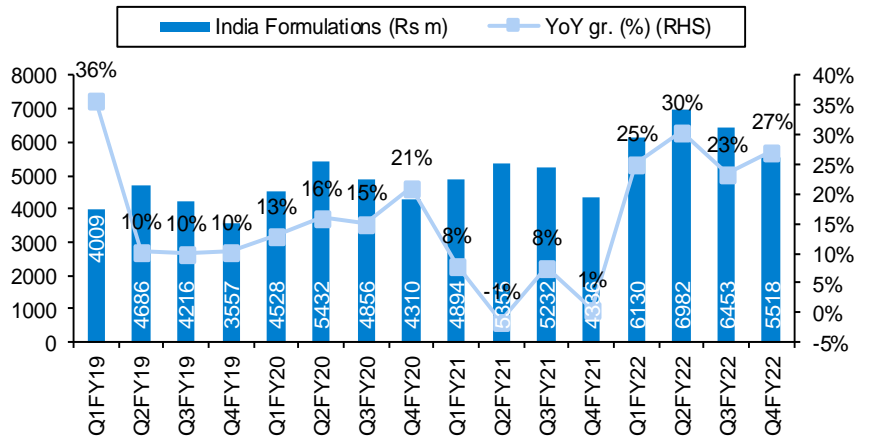
Source: Company, PL

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



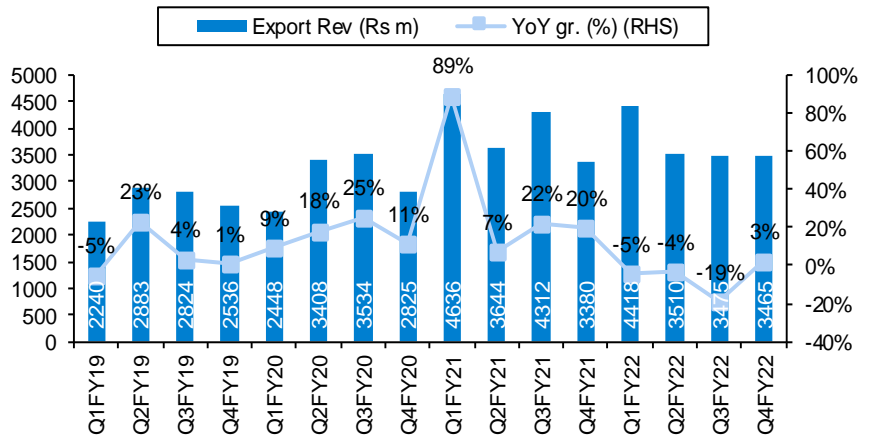
Source: Company, PL

Exhibit 4: India Formulation (Rs m): Growth driven by key therapies



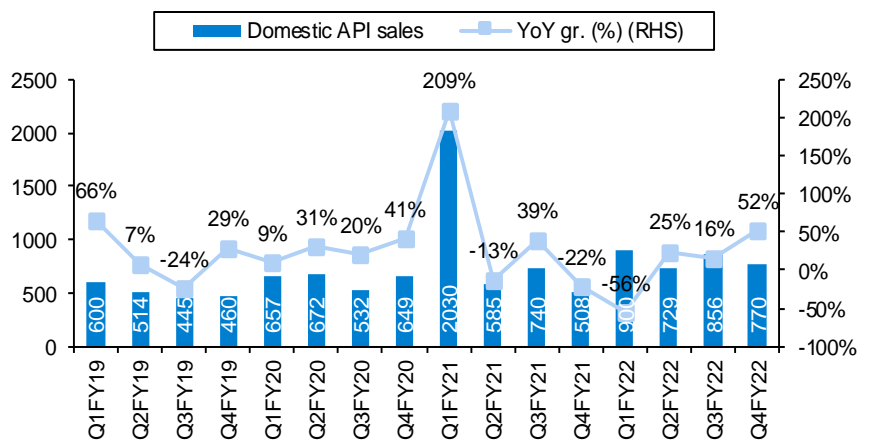
Source: Company, PL

Exhibit 5: Export frml (Rs m): mainly impacted due to geo-political issue



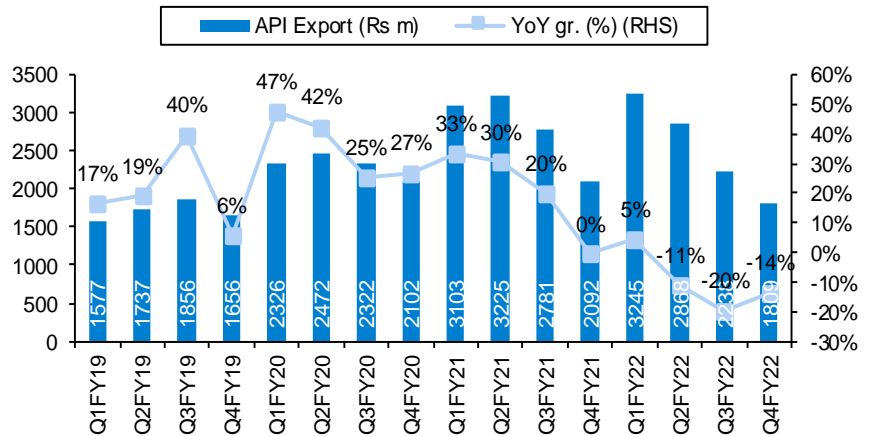
Source: Company, PL

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



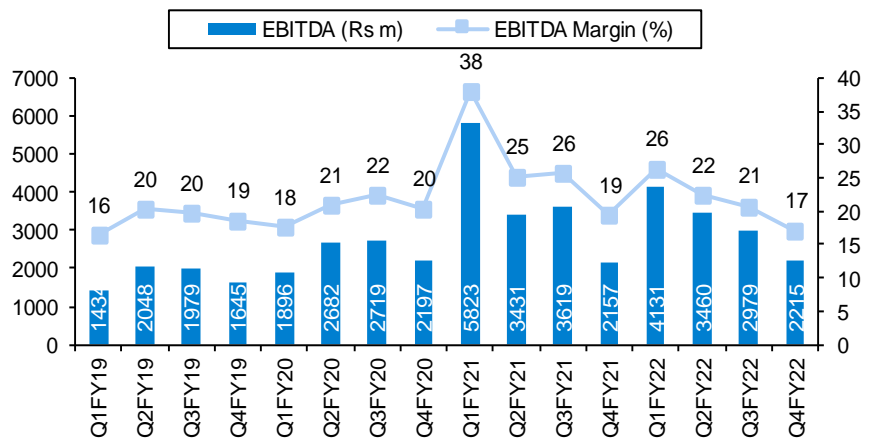
Source: Company, PL

Exhibit 7: API Export and YoY Gr (%)



Source: Company, PL

Exhibit 8: EBITDA (Rs m) %, Margin (%): EBITDAM margin remained weak



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	54,200	58,298	64,046	73,130
YoY gr. (%)	16.6	7.6	9.9	14.2
Cost of Goods Sold	21,439	24,793	26,767	29,503
Gross Profit	32,762	33,505	37,278	43,627
Margin (%)	60.4	57.5	58.2	59.7
Employee Cost	10,136	11,774	13,305	14,901
Other Expenses	7,595	8,946	9,584	10,876
EBITDA	15,031	12,785	14,390	17,850
YoY gr. (%)	58.3	(14.9)	12.6	24.0
Margin (%)	27.7	21.9	22.5	24.4
Depreciation and Amortization	2,092	2,324	2,487	2,736
EBIT	12,939	10,461	11,903	15,114
Margin (%)	23.9	17.9	18.6	20.7
Net Interest	90	77	150	150
Other Income	1,041	974	750	900
Profit Before Tax	13,890	11,357	12,503	15,864
Margin (%)	25.6	19.5	19.5	21.7
Total Tax	2,401	2,248	3,001	3,807
Effective tax rate (%)	17.3	19.8	24.0	24.0
Profit after tax	11,489	9,110	9,502	12,057
Minority interest	-	-	-	-
Share Profit from Associate	(77)	(212)	(180)	(100)
Adjusted PAT	11,412	8,898	9,322	11,957
YoY gr. (%)	80.8	(22.0)	4.8	28.3
Margin (%)	21.1	15.3	14.6	16.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,412	8,898	9,322	11,957
YoY gr. (%)	80.8	(22.0)	4.8	28.3
Margin (%)	21.1	15.3	14.6	16.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,412	8,898	9,322	11,957
Equity Shares O/s (m)	254	254	254	254
EPS (Rs)	45.0	35.1	36.7	47.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	31,380	37,079	42,579	48,079
Tangibles	31,380	37,079	42,579	48,079
Intangibles	-	-	-	-
Acc: Dep / Amortization	11,122	13,446	15,933	18,668
Tangibles	11,122	13,446	15,933	18,668
Intangibles	-	-	-	-
Net fixed assets	20,258	23,634	26,647	29,411
Tangibles	20,258	23,634	26,647	29,411
Intangibles	-	-	-	-
Capital Work In Progress	2,348	3,064	3,064	3,064
Goodwill	466	542	542	542
Non-Current Investments	1,114	2,699	2,699	2,699
Net Deferred tax assets	(1,316)	(1,506)	(1,506)	(1,506)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	3,938	7,193	7,193	7,193
Inventories	15,948	18,580	19,371	22,131
Trade receivables	8,118	9,108	10,566	12,072
Cash & Bank Balance	3,651	6,407	8,317	10,455
Other Current Assets	1,878	2,205	2,205	2,205
Total Assets	60,664	76,368	83,688	93,011
Equity				
Equity Share Capital	507	507	507	507
Other Equity	46,509	54,412	61,864	71,576
Total Networkth	47,017	54,920	62,371	72,084
Non-Current Liabilities				
Long Term borrowings	365	3,952	3,952	3,952
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,492	3,961	2,461	461
Trade payables	6,662	5,577	6,692	8,048
Other current liabilities	3,813	6,454	6,708	6,961
Total Equity & Liabilities	60,664	76,369	83,688	93,011

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	13,030	10,538	12,053	15,264
Add. Depreciation	2,092	2,324	2,487	2,736
Add. Interest	(90)	(77)	(150)	(150)
Less Financial Other Income	1,041	974	750	900
Add. Other	690	806	-	-
Op. profit before WC changes	15,721	13,591	14,390	17,850
Net Changes-WC	(2,363)	(3,010)	(1,028)	(2,811)
Direct tax	(2,456)	(2,020)	(3,001)	(3,807)
Net cash from Op. activities	10,901	8,561	10,362	11,232
Capital expenditures	(4,093)	(7,448)	(5,500)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(4,093)	(7,448)	(5,500)	(5,500)
Issue of share cap. / premium	358	-	-	-
Debt changes	(2,258)	5,403	(1,500)	(2,000)
Dividend paid	(1,015)	(1,015)	(2,051)	(2,344)
Interest paid	538	589	600	750
Others	(2,590)	(3,334)	-	-
Net cash from Fin. activities	(4,967)	1,644	(2,951)	(3,594)
Net change in cash	1,842	2,756	1,910	2,138
Free Cash Flow	7,286	3,771	4,862	5,732

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	15,658	15,444	14,305	12,891
YoY gr. (%)	2.0	13.5	1.5	15.6
Raw Material Expenses	5,457	5,444	4,986	4,262
Gross Profit	10,201	10,000	9,319	8,629
Margin (%)	65.1	64.8	65.1	66.9
EBITDA	4,131	3,460	2,979	2,215
YoY gr. (%)	(29.1)	0.8	(17.7)	2.7
Margin (%)	26.4	22.4	20.8	17.2
Depreciation / Depletion	559	570	587	609
EBIT	3,572	2,890	2,393	1,606
Margin (%)	22.8	18.7	16.7	12.5
Net Interest	18	11	14	34
Other Income	245	377	228	124
Profit before Tax	3,799	3,256	2,607	1,696
Margin (%)	24.3	21.1	18.2	13.2
Total Tax	708	679	573	288
Effective tax rate (%)	18.6	20.9	22.0	17.0
Profit after Tax	3,091	2,577	2,033	1,408
Minority interest	24	75	64	106
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,067	2,502	1,970	1,302
YoY gr. (%)	(31.2)	(6.3)	(25.8)	(19.2)
Margin (%)	19.6	16.2	13.8	10.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,067	2,502	1,970	1,302
YoY gr. (%)	(31.2)	(6.3)	(25.8)	(19.2)
Margin (%)	19.6	16.2	13.8	10.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,067	2,502	1,970	1,302
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	12.1	9.9	7.8	5.1

Source: Company Data, PL Research

Key Financial Metrics

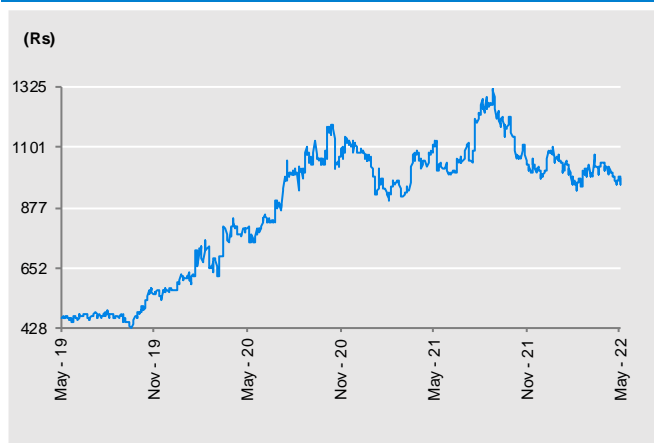
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	45.0	35.1	36.7	47.1
CEPS	53.2	44.2	46.5	57.9
BVPS	185.3	216.5	245.8	284.1
FCF	28.7	14.9	19.2	22.6
DPS	4.0	6.0	7.0	8.0
Return Ratio(%)				
RoCE	29.0	18.7	18.1	20.8
ROIC	24.4	16.7	17.5	20.1
RoE	27.4	17.5	15.9	17.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	117	138	132	131
Valuation(x)				
PER	20.9	26.7	25.5	19.9
P/B	5.1	4.3	3.8	3.3
P/CEPS	17.6	21.2	20.1	16.2
EV/EBITDA	15.4	18.2	15.9	12.6
EV/Sales	4.3	4.0	3.6	3.1
Dividend Yield (%)	0.4	0.6	0.7	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Domestic Formulations	19,817	25,083	28,343	32,028
Domestic API	3,863	3,254	3,580	3,938
Export Formulations	15,972	14,867	15,997	19,255
Export API	11,200	10,160	10,871	12,284

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	BUY	1,180	1,002
2	16-Feb-22	BUY	1,225	989
3	07-Jan-22	BUY	2,450	2,200
4	17-Nov-21	BUY	2,450	2,153

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,772	4,537
2	Aster DM Healthcare	BUY	234	193
3	Aurobindo Pharma	Accumulate	759	699
4	Cipla	BUY	1,085	926
5	Divi's Laboratories	Accumulate	4,300	3,898
6	Dr. Reddy's Laboratories	BUY	4,900	3,929
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	362	271
9	Glenmark Pharmaceuticals	Accumulate	550	477
10	HealthCare Global Enterprises	BUY	316	292
11	Indoco Remedies	BUY	430	350
12	Ipca Laboratories	BUY	1,180	1,002
13	Krishna Institute of Medical Sciences	BUY	1,638	1,262
14	Lupin	Hold	600	635
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	634
17	Sun Pharmaceutical Industries	BUY	1,050	931
18	Torrent Pharmaceuticals	BUY	3,560	2,753
19	Zydus Lifesciences	BUY	450	357

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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