

Ipca Laboratories

BSE SENSEX

51,823

S&P CNX

15,413

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Stock Info

Bloomberg	IPCA IN
Equity Shares (m)	252
M.Cap.(INRb)/(USDb)	225.6 / 2.9
52-Week Range (INR)	1384 / 831
1, 6, 12 Rel. Per (%)	-5/-3/-10
12M Avg Val (INR M)	673
Free float (%)	53.7

Financials Snapshot (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	58.3	61.8	69.9
EBITDA	13.5	13.7	16.9
Adj. PAT	9.3	9.4	11.4
EBIT Margin (%)	19.2	18.2	20.5
Cons. Adj. EPS (INR)	36.5	37.1	45.1
EPS Gr. (%)	-17.8	1.6	21.6
BV/Sh. (INR)	216.5	248.0	286.3

Ratios

Net D:E	0.0	0.0	-0.1
RoE (%)	18.2	16.0	16.9
RoCE (%)	17.1	14.2	15.4
Payout (%)	16.8	20.5	20.2

Valuations

P/E (x)	24.2	23.8	19.5
EV/EBITDA (x)	16.6	16.4	13.2
Div. Yield (%)	0.8	0.9	1.0
FCF Yield (%)	1.5	2.2	4.1
EV/Sales (x)	3.8	3.6	3.2

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	46.3	46.3	46.3
DII	32.9	30.3	25.1
FII	11.0	12.3	17.5
Others	9.8	11.1	11.1

FII Includes depository receipts

CMP: INR889
TP: INR1,030 (+16%)
Buy

On course to revive earnings growth

We recently met the management of IPCA lab to understand its business outlook in detail:

- The domestic formulation (DF) segment continues on its robust growth path, led by market share gain, favorable price hikes, addition of medical representatives (MRs), and its increased presence particularly in the cardiology segment.
- The exports opportunity is expected to improve with increased product launches in the UK, new launches and market share gain in Russia, and industry outperformance in Africa branded generics market.
- After 18% YoY decline in earnings in FY22, we expect 11% earnings CAGR over FY22-24, led by 13%/8%/8% sales CAGR in DF, exports formulations, and API, respectively. We reduce the 12M forward PE multiple to 22x from 24x to factor in extended period to revive exports formulation and API business. Thereby, we arrive at a price target of INR1,030 on 12M forward basis.
- Further, considering a 30% correction in market price over the past nine months and the stock now trading at 23x FY23E EPS of INR37 and 19x (vs 3-year average of 23x) FY24E EPS of INR45, we reiterate our Buy rating on the stock.

DF on robust growth path despite high base

- Anti-Malartials/Anti-Infectives therapies sales have moderated as the spread of covid infections subsided in Apr/May'22 and we expect the sales to decline in FY23 from its high base in FY22. The growth in FY23 is expected to be driven by the chronic therapies including Derma/Pain/Gastro/Cardiac, which have exhibited 55%/22%/17%/15% growth over the three months ended May'22.
- While the National List of Essential Medicines (NLEM) portfolio (30% of DF sales) will benefit from 10% price increases, the benefits may flow from June/July as the inventory build-up takes time. The NLEM portfolio has exhibited a CAGR of 12% over FY18-22, driven by Pain/Anti-Neoplastics. Considering the softening of volumes after price increase, we expect the NLEM portfolio to grow 6-7% YoY in FY23.
- IPCA has launched Vildagliptin, which has garnered annual sales of INR250m and the company further intends to expand its cardiovascular franchise with the launch of Sitagliptin. With about 400 MRs, the company has launched two divisions for cardiovascular therapy and it has added ~1200 MRs in total to expand its geographic as well as therapeutic coverage. The newly added MRs, expected to add ~INR700m to the employee costs, are expected to reach corporate level productivity in 18-24 months.
- DF business growth will be driven by price increase of 7-8%, volumes growth of 2-3%, and new launches at 1-1.5%, accumulating to 10-12% YoY growth in FY23.

API business on gradual recovery mode

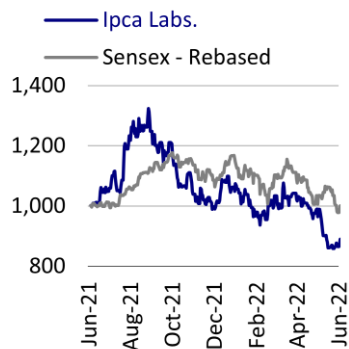
- Post re-validating of the manufacturing process ensuring azido impurities are within permissible limits, IPCA is back on track to supply Losartan to its customers. However, refilling of dossiers by major customers and subsequent approvals would take a couple of months. Accordingly, meaningful off-take would happen over near to medium term.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 MotilalOswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock performance (one-year)

- IPCA is having stable sales from other key APIs, including HCQs (INR1b), Metoprolol (INR1b), and Atonelol (~INR1b) on annualized basis.
- The API business is expected to revive post 2QFY23, given the outlook on Losartan and the overall confidence on order visibility. Overall growth for FY23 is expected to be ~5% for the API business.

Product approvals/launches underway in the UK market

- IPCA has progressed well with 15-16 products approved and 4-5 products launched till date in the UK market under its own label. The reduced sales through distributors and the prolonged periods required for product approvals affected the UK business in FY22, down 44% YoY to INR850m. Further, the distributor-led sales was INR650m in FY22.
- However, a) increased pace of product launches, b) geographic expansions, and c) new approvals would enable IPCA to improve business prospects in the UK region going forward.
- IPCA expects 10 new approvals over the near term for the UK market.
- Considering these factors, UK revenues are expected to improve FY24 onwards.
- As the UK business stabilizes for IPCA, it targets to have its own front end in other markets of the EU region as well.

New registrations/market share gain to drive Russia business outlook

- The Russia/CIS business has been doing well despite the ongoing war.
- In fact, the business prospects have improved in Russia with reduced competition from US/EU companies.
- Additionally, IPCA is increasing the pace of product registration to enhance the business opportunities in the Russian market. With only 7-8 products registered in Russia, IPCA has garnered about INR1.3b sales from the Russia market.
- IPCA expects robust 25-30% YoY growth in the Russian market in FY23.
- While the Ukraine region remains adversely impacted by the ongoing war, the sales of IPCA is minimal at INR150m annually.

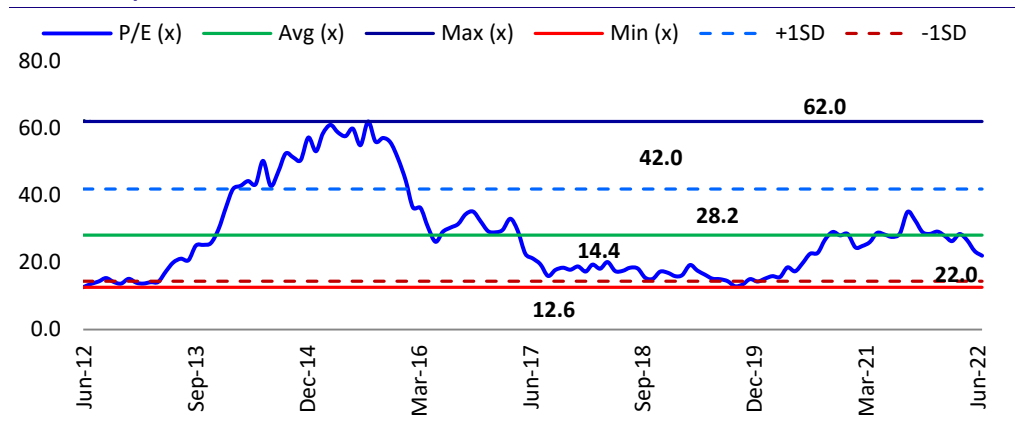
IPCA on path to optimize performance of its subsidiaries

- IPCA's subsidiary Ramdev Chemical is on track to achieve break-even in FY23 and improve profitability FY24 onwards.
- IPCA's another subsidiary Onyx is increasing its capacity to enhance its product development, process chemistry, and custom synthesis prospects. IPCA registered EBITDA of INR250m for FY22 in this subsidiary
- Byshore also had a higher distribution business, driving overall revenue at the subsidiary level for IPCA.
- IPCA is under process to improve profitability of Pishgah by transferring 2-3 products to Pishgah's site.
- IPCA has invested ~INR1.8b in Lyka Labs through a combination of equity (INR650m) and loan (remaining).

Valuation and view

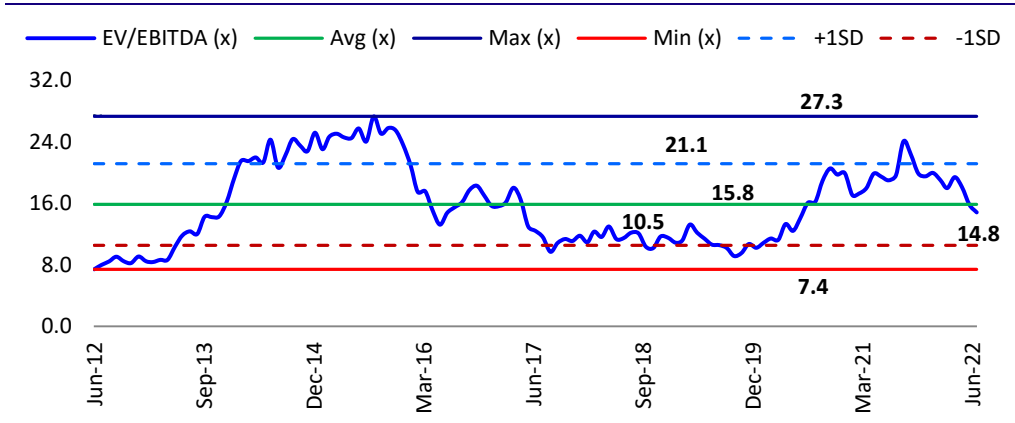
- We expect revival of API business and robust growth in DF business to be offset by the higher employee costs in FY23, leading to flat EPS. We expect 11% earnings CAGR over FY22-24, led by a 13%/8%/8% sales CAGR in DF/export formulations/API markets and 100bps EBITDA margin expansion.
- We value IPCA at 22x 12M forward earnings to arrive at a price target of INR1,030. While the near-term outlook may be subdued on account of cost pressures, we remain positive on IPCA on the back of strengthening franchise in the DF segment through price increase, market share gain, and increasing field force, capacity addition/revival in the API segment and the launching of products under its own label in the UK. We reiterate our Buy rating on the stock.

Exhibit 1: P/E chart



Sources: MOFSL, Company, and Bloomberg

Exhibit 2: EV/EBITDA chart



Sources: MOFSL, Company, and Bloomberg



Ipca Laboratories

Exhibit 3: Top 10 drugs

Secondary sales grew 13.9% YoY in 3M ending May'22. Zerodol, CTD, SAAZ remained strong brands for IPCA.

Drug	Therapy	MAT May-22			Growth (%)	
		Value (INR m)	Growth (%)	Mkt Share (%)	Last 3M	May-22
Total		33,423	21.8	100.0	13.9	17.7
Zerodol Sp	Pain / Analgesics	4,048	28.7	12.1	26.0	27.2
Zerodol P	Pain / Analgesics	2,405	14.6	7.2	-1.0	-9.3
Hcqs	Anti Malarials	1,752	-6.9	5.2	2.1	11.5
Folitrax	Anti-Neoplastics	1,068	22.1	3.2	31.8	41.0
Zerodol Th	Pain / Analgesics	985	18.4	2.9	26.4	45.0
Ctd-T	Cardiac	784	26.2	2.3	33.1	35.2
Ctd	Cardiac	772	25.9	2.3	27.5	29.0
Saaz	Gastro Intestinal	674	13.8	2.0	26.1	20.7
Glycinorm M	Anti Diabetic	623	-1.7	1.9	3.6	3.6
Solvin Cold	Respiratory	593	57.4	1.8	12.6	18.3

*Three-months: Mar-May'22

Sources: AIOCD, MOFSL

Exhibit 4: Therapy mix (%)

Anti-Malarials and Anti-Infectives were major drugs on growth in 3M ending May'22

	Share	MAT Growth (%)	3M*	May-22
Total	100.0	21.8	13.9	17.7
Pain / Analgesics	33.9	30.2	21.6	23.1
Cardiac	14.3	13.1	14.8	16.5
Anti Malarials	10.3	-4.9	-22.4	-20.5
Anti-Infectives	6.9	21.9	-22.4	-15.6
Gastro Intestinal	6.3	15.8	16.9	24.2
Derma	5.4	44.3	55.1	78.2

Sources: AIOCD, MOFSL

Growth was spread across the brands

Exhibit 5: Brand-wise growth distribution

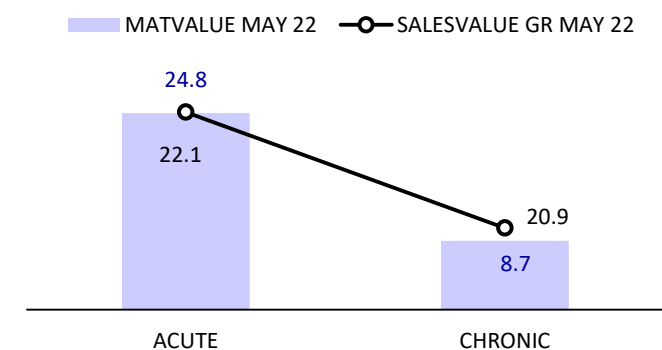
Volume was the largest growth driver on a MAT basis in May'22

	% of sales	MAT growth (%)	Growth Contribution (%)
Total	100.0	21.8	100.0
Top 10 Brands	41.0	17.4	34.1
11 to 25 Brands	19.5	25.7	22.3
26 to 50 Brands	16.0	18.4	13.9
Above 50 Brands	23.5	29.1	29.7

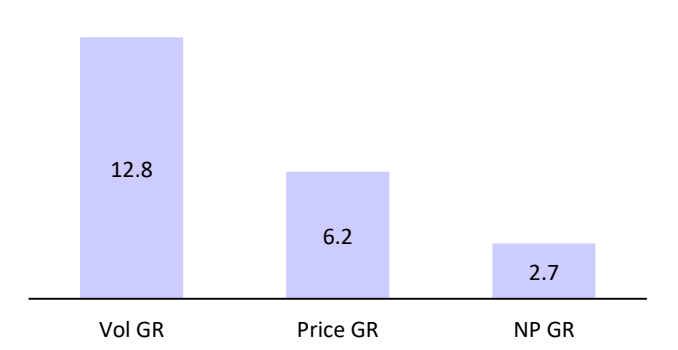
Sources: AIOCD, MOFSL

Exhibit 6: Acute v/s Chronic (MAT growth)

Exhibit 7: Growth distribution (%) (MAT May'22)



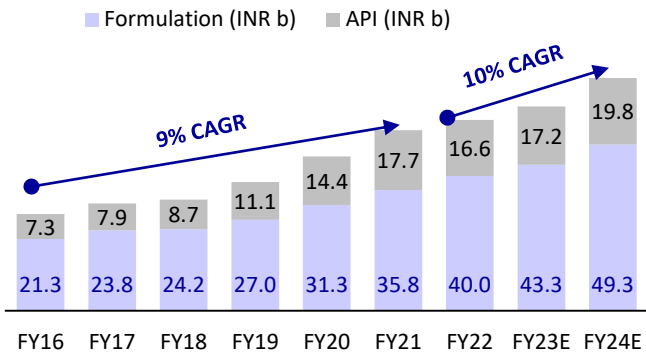
Sources: AIOCD, MOFSL



Sources: AIOCD, MOFSL

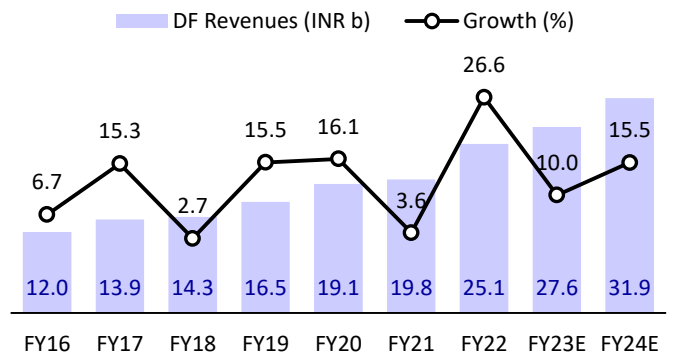
Story in charts

Exhibit 8: Expect ~10% revenue CAGR over FY22-24



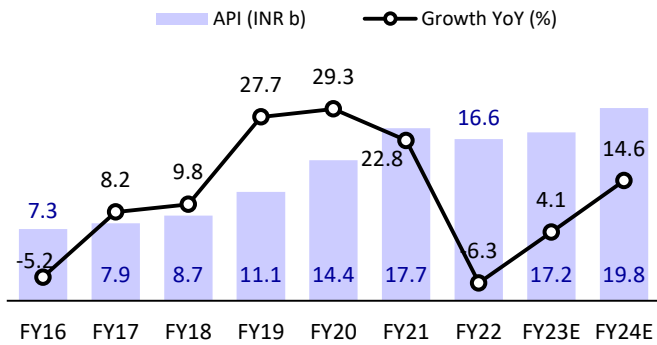
Sources: MOFSL, Company

Exhibit 9: Expect 13% DF sales CAGR over FY22-24



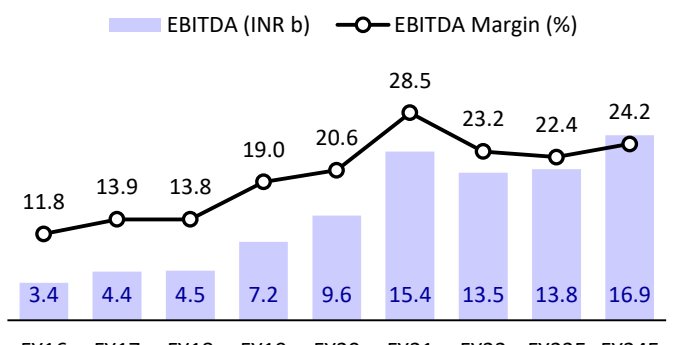
Sources: MOFSL, Company

Exhibit 10: Expect gradual recovery in API business



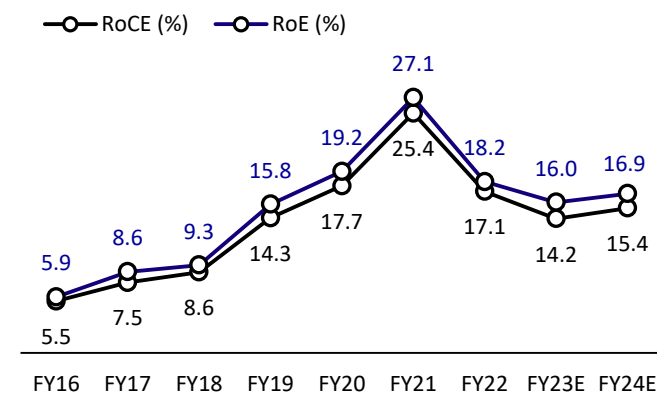
Sources: MOFSL, Company

Exhibit 11: Expect margin to expand 100bps over FY22-24



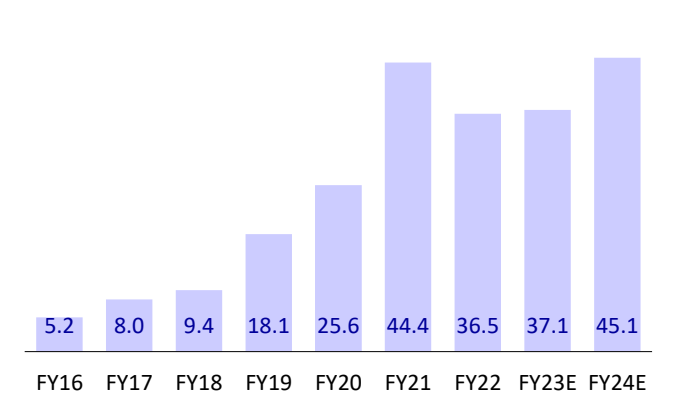
Sources: MOFSL, Company

Exhibit 12: RoE to bottom out in FY23



Sources: MOFSL, Company

Exhibit 13: Expect 11% EPS CAGR over FY22-24



Sources: MOFSL, Company

Financials and valuations

Income Statement								(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Revenue	28,850	32,106	32,836	37,732	46,487	54,200	58,298	61,785	69,912
Change (%)	-8.2	11.3	2.3	14.9	23.2	16.6	7.6	6.0	13.2
EBITDA	3,417	4,448	4,547	7,170	9,580	15,444	13,509	13,655	16,919
Margin (%)	11.8	13.9	13.8	19.0	20.6	28.5	23.2	22.1	24.2
Depreciation	1,722	1,730	1,777	1,824	2,105	2,092	2,324	2,440	2,564
EBIT	1,695	2,718	2,770	5,346	7,475	13,352	11,184	11,214	14,355
Int. and Finance Charges	316	241	240	189	165	90	77	117	149
Other Income – Rec.	169	226	418	483	578	457	666	810	850
PBT before EO Expense	1,548	2,703	2,948	5,640	7,888	13,719	11,773	11,907	15,056
EO Expense/(Income)	395	0	0	157	445	-171	-416	0	0
PBT after EO Expense	1,153	2,703	2,948	5,483	7,442	13,890	12,189	11,907	15,056
Current Tax	228	533	614	1,218	1,406	2,487	2,070	2,262	3,312
Deferred Tax	-42	142	-102	-176	-53	-85	178	238	301
Tax	186	675	511	1,042	1,353	2,401	2,248	2,500	3,613
Tax Rate (%)	12.0	25.0	17.3	18.5	17.2	17.5	19.1	21.0	24.0
Reported PAT	967	2,028	2,436	4,441	6,090	11,488	9,939	9,405	11,441
Less: Minority Interest	35	0	42	18	78	91	269	0	0
Net Profit	933	2,028	2,394	4,423	6,012	11,398	9,939	9,405	11,441
Adj. PAT	1,328	2,028	2,394	4,580	6,485	11,255	9,257	9,406	11,442
Adj. PAT growth (%)	-46.9	52.8	18.1	91.3	41.6	73.6	-17.8	1.6	21.6

Balance Sheet								(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	252	252	252	252	252	254	254	254	254
Total Reserves	22,340	24,300	26,633	30,971	35,903	46,763	54,666	62,662	72,387
Net Worth	22,592	24,553	26,886	31,224	36,275	47,017	54,920	62,915	72,641
Deferred liabilities	1565	1705	1580	1457	1398	1316	1506	1744	2045
Total Loans	6,691	5,290	4,731	3,505	4,328	1,988	8,027	7,631	7,275
Capital Employed	30,848	31,548	33,196	36,342	42,137	50,466	65,222	72,290	81,961
Gross Block	22,121	23,508	24,969	26,657	30,268	31,872	37,647	41,147	42,647
Less: Accum. Deprn.	1,628	3,350	5,127	6,951	9,056	11,148	13,472	15,912	18,476
Net Fixed Assets	20,493	20,158	19,842	19,706	21,212	20,724	24,175	25,235	24,171
Capital WIP	936	621	418	361	708	2,348	3,064	3,064	3,064
Investments	258	1,358	869	1,204	2,719	4,711	9,892	9,892	9,892
Curr. Assets	17,230	17,458	20,027	24,217	27,939	32,881	39,237	44,922	57,147
Inventory	8,374	8,822	8,806	10,725	13,231	15,948	18,580	20,088	22,477
Account Receivables	4,459	5,002	6,023	6,815	8,952	8,118	9,108	10,651	12,704
Cash and Bank Balance	1,755	359	1,506	2,823	1,809	3,651	6,407	8,514	15,516
Loans and Advances	2,641	3,276	3,693	3,854	3,947	5,164	5,143	5,669	6,450
Curr. Liability and Prov.	8,069	8,047	7,960	9,147	10,441	10,198	11,147	10,823	12,313
Account Payables	7,245	7,141	7,029	8,190	9,182	8,781	9,704	9,620	10,945
Provisions	824	906	931	957	1,259	1,417	1,443	1,203	1,368
Net Current Assets	9,160	9,410	12,068	15,070	17,498	22,682	28,091	34,099	44,834
Appl. of Funds	30,848	31,548	33,196	36,342	42,137	50,466	65,222	72,290	81,961

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS (INR)	5.2	8.0	9.4	18.1	25.6	44.4	36.5	37.1	45.1
Cash EPS	10.5	14.9	16.5	24.8	32.2	53.2	48.3	46.7	55.2
BV/Share	89.5	97.3	106.5	123.7	143.2	185.3	216.5	248.0	286.3
DPS	0.0	0.5	0.5	0.5	3.6	6.8	6.6	7.7	9.2
Payout (%)	0.0	6.2	5.2	2.8	14.8	14.9	16.8	20.5	20.2
Valuation (x)									
P/E	168.5	110.3	93.4	48.8	34.5	19.9	24.2	23.8	19.5
P/BV	9.8	9.1	8.3	7.1	6.2	4.8	4.1	3.6	3.1
EV/Sales	7.8	7.0	6.8	5.9	4.8	4.1	3.8	3.6	3.2
EV/EBITDA	65.6	50.4	49.3	31.3	23.4	14.5	16.6	16.4	13.2
Dividend Yield (%)	0.0	0.1	0.1	0.1	0.4	0.8	0.8	0.9	1.0
Return Ratios (%)									
RoE	5.9	8.6	9.3	15.8	19.2	27.1	18.2	16.0	16.9
RoCE	5.5	7.5	8.6	14.3	17.7	25.4	17.1	14.2	15.4
RoIC	5.3	7.1	7.7	14.0	18.0	28.7	21.1	18.3	20.9
Working Capital Ratios									
Fixed Asset Turnover (x)	1.5	1.6	1.6	1.9	2.3	2.6	2.6	2.5	2.8
Debtor (Days)	56	56	66	65	70	54	56	62	65
Inventory (Days)	106	100	98	104	104	107	116	119	117
Working Capital Turnover (Days)	94	103	117	118	123	128	136	151	153
Leverage Ratio (x)									
Interest Coverage Ratio	5.4	11.3	11.5	28.3	45.3	147.7	145.4	95.5	96.3
Debt/Equity ratio	0.2	0.2	0.1	0.0	0.1	0.0	0.0	0.0	-0.1

Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Oper. Profit/(Loss) before Tax	3,417	4,448	4,547	7,170	9,580	15,444	13,509	13,655	16,919
Interest/Dividends Recd.	169	226	418	483	578	457	666	810	850
Direct Taxes Paid	-364	-535	-636	-1,165	-1,412	-2,484	-2,058	-2,262	-3,312
(Inc.)/Dec. in WC	2,622	-1,647	-1,510	-1,686	-3,442	-3,343	-2,652	-3,901	-3,733
CF from Operations	5,844	2,491	2,819	4,803	5,304	10,075	9,464	8,301	10,724
Others	1,638	328	592	365	784				
EO Expense/(Income)	395	0	0	157	445	-171	-416	0	0
CF from Oper. Incl. EO Exp.	7,087	2,819	3,411	5,010	5,643	10,246	9,880	8,301	10,724
(inc.)/dec. in FA	5,079	-1,072	-1,258	-1,632	-3,958	-3,244	-6,491	-3,500	-1,500
Free Cash Flow	12,165	1,747	2,154	3,379	1,685	7,002	3,389	4,801	9,224
(Pur.)/Sale of Investments	-96	-1,100	489	-336	-1,515	-1,992	-5,181	0	0
Others	-7,166	684	-586	317	376	0	0	0	0
CF from Investments	-2,183	-1,488	-1,354	-1,651	-5,097	-5,236	-11,672	-3,500	-1,500
Issue of shares	0	0	0	0	0	1	6,663	-1,165	-356
(Inc.)/Dec. in Debt	-1,594	-1,401	-560	-1,070	804	-2,331	-77	-117	-149
Interest Paid	-316	-241	-240	-189	-165	-90	-1,670	-1,933	-2,308
Dividend Paid	0	-126	-126	-126	-902	-1,710	306	396	420
CF from Fin. Activity	-4,615	-1,591	-1,304	-1,832	-1,305	-3,169	5,222	-2,819	-2,394
Inc./Dec. in Cash	288	-260	753	1,528	-758	1,841	3,430	1,982	6,830
Add: Beginning Balance	1,037	1,689	1,428	2,181	3,709	2,954	4,795	8,225	10,207
Forex/Business acquisition	364	0	0	0	3	0	0	0	0
Closing Balance	1,689	1,428	2,181	3,709	2,954	4,795	8,225	10,207	17,037
Bank balances/Mutual fund (gain)/ loss	67	-1,070	-676	-886	-1,145	-1,145	-1,818	-1,693	-1,521
Closing Balance	1,755	359	1,506	2,823	1,809	3,651	6,407	8,514	15,516

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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