

November 17, 2021

## Q2FY22 Result Update

### Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	54,200	57,956	64,670	73,855
EBITDA (Rs. m)	15,031	12,883	15,535	18,814
Margin (%)	27.7	22.2	24.0	25.5
PAT (Rs. m)	11,412	9,469	11,512	13,182
EPS (Rs.)	90.0	74.6	90.8	103.9
Gr. (%)	80.1	(17.0)	21.6	14.5
DPS (Rs.)	8.0	12.0	14.0	16.0
Yield (%)	0.4	0.6	0.7	0.7
RoE (%)	27.4	18.6	19.3	18.9
RoCE (%)	29.0	20.6	22.3	23.8
EV/Sales (x)	4.9	4.6	4.0	3.5
EV/EBITDA (x)	17.8	20.5	16.7	13.6
PE (x)	23.9	28.8	23.7	20.7
P/BV (x)	5.8	5.0	4.2	3.6

### Key Data

### IPCA.BO | IPCA IN

52-W High / Low	Rs.2,767 / Rs.1,785
Sensex / Nifty	60,322 / 17,999
Market Cap	Rs.273bn/ \$ 3,673m
Shares Outstanding	127m
3M Avg. Daily Value	Rs.1308.3m

### Shareholding Pattern (%)

Promoter's	46.29
Foreign	18.46
Domestic Institution	25.00
Public & Others	10.25
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(11.1)	0.2	2.8
Relative	(9.6)	(19.0)	(25.6)

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## Weak quarter; outlook remains positive

### Quick Pointers:

- Strong growth in India formulations; pain accounts 48% of total India biz.
- Cost pressure to continue along with weak export API business in Q3.

**IPCA Lab's (IPCA) Q2 performance was weak and should recover from Q4FY22/Q1FY23. Domestic business (45% of total sales) continues to remain on strong footing and should continue to outperform IPM. Strong API capabilities and diversified model benefit IPCA in the current environment. We recommend 'Buy' rating on the stock with target price of Rs 2,450 based on 25x sept 2023E earnings. Any weakness in stock should be used as buying opportunity.**

- Mixed bag:** IPCA's sales at Rs 15.4bn, grew 14% YoY. Domestic business grew 30% YoY aided by low base while export formulation growth was muted with 4% YoY decline. Institutional business declined 22% YoY, mainly impacted by delay in shipments. Branded generics grew by 4.5% YoY while generics grew 1% YoY. Export API declined by 12% QoQ largely on reduced order flow. Domestic API grew strongly by 25% YoY. Revenue from subsidiaries was higher in Q2 at Rs 1.2bn
- Margins disappoint:** IPCA reported weak EBITDA margins of 22.4%, down 400bps QoQ due to increase in commodity prices and logistic costs. During the quarter, raw material prices increased 17% YoY vs revenue growth of 10%. Gross margins contracted by 30bps QoQ and 270bps YoY mainly on higher API prices. Overheads grew 12% YoY aided by higher freight cost. There was forex gain of Rs196m. PAT declined by 6% YoY and 18% QoQ to Rs 2.5bn.
- Key Concall takeaways:** (1) Raw material prices are expected to remain elevated in near term, however company expects to pass on increased prices to customers with a lag of 3-4 months. (2) Export API will see decline in near term given azido impurity issues faced in its Sartan business. IPCA has already filed with regulators revised process and should get fresh approval by Dec 2021 end and remain hopeful of recovery from Q4. Sartans constitute 30% of export API business. (3) No update on re-inspection of plants on import alert from US FDA. (4) Additional capacity at Ratlam plant will start in next month while Devas facility to start in Q1FY23 which should enhance 30-35% capacity on API side. (5) IPCA expects traditional products to continue despite vaccine approval for malaria in its institutional business (6) Pain segment contributing 48% of sales grew 33% YoY (ex-HCQS). Among other segments- Anti-bacteria, Cough & cold, Derma and Anti-malaria grew by 37%, 95%, 52% and 75% respectively (7) Management maintained its earlier guidance of branded and institutional business while lowered its Europe generic and export API guidance for FY22. Expect FY22E domestic revenue to be better than earlier guidance of 17-18%.

**Exhibit 1: 2QFY22 Result Overview (Rs mn) : Sharp hit on margins on the back of increased RM prices**

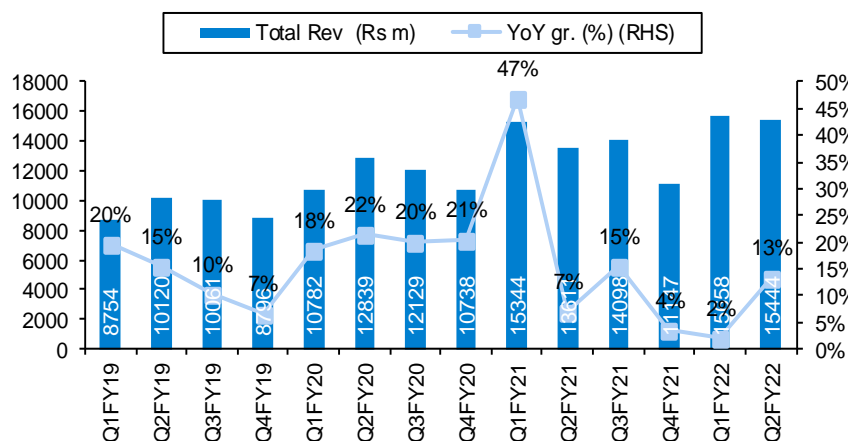
Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	QoQ gr. (%)	H1FY22	H1FY21	YoY gr. (%)
<b>Net Sales</b>	<b>15,444</b>	<b>13,611</b>	<b>13.5</b>	<b>15,658</b>	<b>(1.4)</b>	<b>31,102</b>	<b>28,955</b>	<b>7.4</b>
Raw Material	5,444	4,427	23.0	5,457	(0.2)	10,901	8,743	24.7
<i>% of Net Sales</i>	<i>35.2</i>	<i>32.5</i>		<i>34.9</i>		<i>35.0</i>	<i>30.2</i>	
Personnel Cost	2,964	2,545	16.4	2,996	(1.1)	5,960	5,109	16.7
<i>% of Net Sales</i>	<i>19.2</i>	<i>18.7</i>		<i>19.1</i>		<i>19.2</i>	<i>17.6</i>	
Others	3,577	3,208	11.5	3,074	16.4	6,651	5,849	13.7
<i>% of Net Sales</i>	<i>23.2</i>	<i>23.6</i>		<i>19.6</i>		<i>21.4</i>	<i>20.2</i>	
Total Expenditure	11,985	10,180	17.7	11,527	4.0	23,512	19,701	19.3
<b>EBITDA</b>	<b>3,460</b>	<b>3,431</b>	<b>0.8</b>	<b>4,131</b>	<b>(16.2)</b>	<b>7,591</b>	<b>9,254</b>	<b>(18.0)</b>
<i>Margin (%)</i>	<i>22.4</i>	<i>25.2</i>		<i>26.4</i>		<i>24.4</i>	<i>32.0</i>	
Depreciation	569.6	521.2	9.3	558.7	2.0	1,128	1,032	9.4
<b>EBIT</b>	<b>2,890</b>	<b>2,910</b>	<b>(0.7)</b>	<b>3,572</b>	<b>(19.1)</b>	<b>6,462</b>	<b>8,223</b>	<b>(21.4)</b>
Other Income	376.8	325.3	15.8	244.8	53.9	622	506	22.8
Interest	10.6	23.1	(54.1)	18.2	(41.8)	29	51	(43.0)
<b>PBT</b>	<b>3,256</b>	<b>3,212</b>	<b>1.4</b>	<b>3,799</b>	<b>(14.3)</b>	<b>7,055</b>	<b>8,679</b>	<b>(18.7)</b>
Total Taxes	679.1	525.9	29.1	707.7	(4.0)	1,387	1,525	(9.1)
<i>ETR (%)</i>	<i>20.9</i>	<i>16.4</i>		<i>18.6</i>		<i>19.7</i>	<i>17.6</i>	
Minority Interest	75	15.5	383.9	24.3	208.6	99	26	279.0
<b>Reported PAT</b>	<b>2,502</b>	<b>2,671</b>	<b>(6.3)</b>	<b>3,067</b>	<b>(18.4)</b>	<b>5,569</b>	<b>7,128</b>	<b>(21.9)</b>
Extraordinary exps	0	0	#DIV/0!	0	#DIV/0!	0	0	#DIV/0!
<b>Adjusted PAT</b>	<b>2,502</b>	<b>2,671</b>	<b>(6.3)</b>	<b>3,067</b>	<b>(18.4)</b>	<b>5,569</b>	<b>7,128</b>	<b>(21.9)</b>

Source: Company, PL

**Exhibit 2: Major Sources of Revenue**

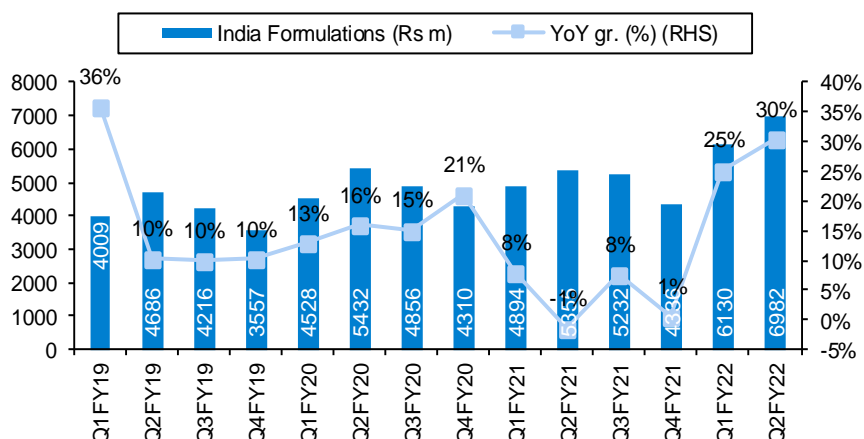
Major sources of revenues	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	QoQ gr. (%)	H1FY22	H1FY21	YoY gr. (%)
<b>Domestic</b>	<b>7,712</b>	<b>5,940</b>	<b>29.8</b>	<b>7,029</b>	<b>9.7</b>	<b>14,741</b>	<b>12,864</b>	<b>14.6</b>
Formulations	6,982	5,355	30.4	6,130	13.9	13,112	10,249	27.9
APIs	729.2	585	24.6	899.5	(18.9)	1,629	2,615	(37.7)
<b>Exports</b>	<b>6,378</b>	<b>6,869</b>	<b>(7.2)</b>	<b>7,663</b>	<b>(16.8)</b>	<b>14,040</b>	<b>14,608</b>	<b>(3.9)</b>
Formulations	3,510	3,644	(3.7)	4,418	(20.6)	7,928	8,280	(4.3)
APIs	2,868	3,225	(11.1)	3,245	(11.6)	6,113	6,328	(3.4)

Source: Company, PL

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


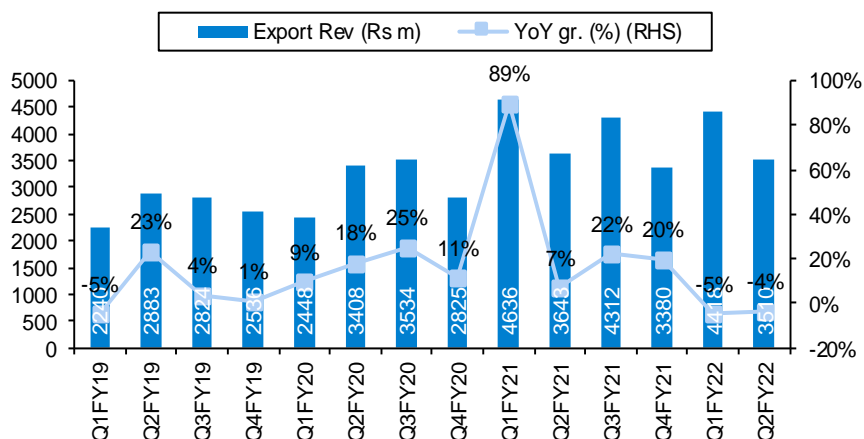
Source: Company, PL

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



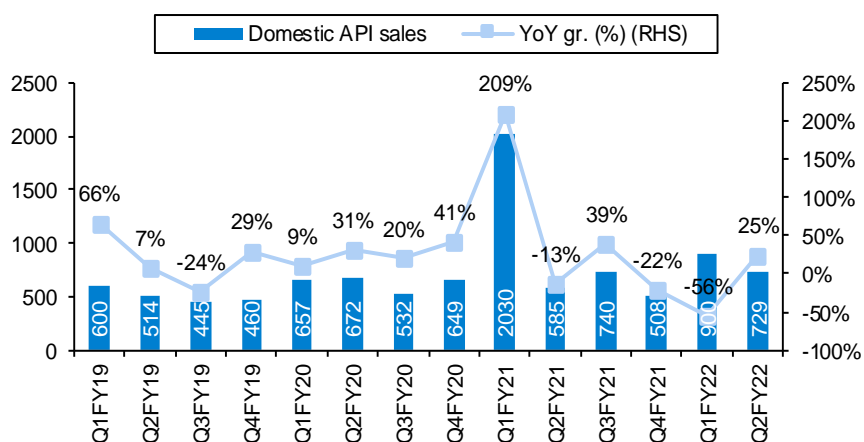
Source: Company, PL

**Exhibit 5: Export frm (Rs m): Disappointed Institutional segment**



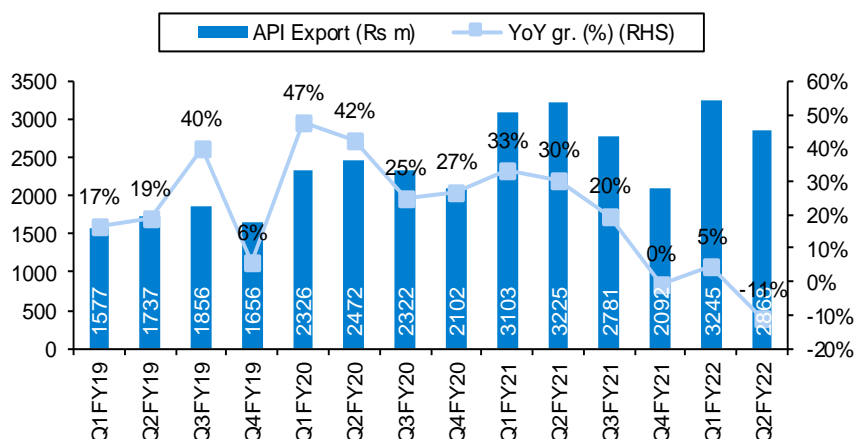
Source: Company, PL

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



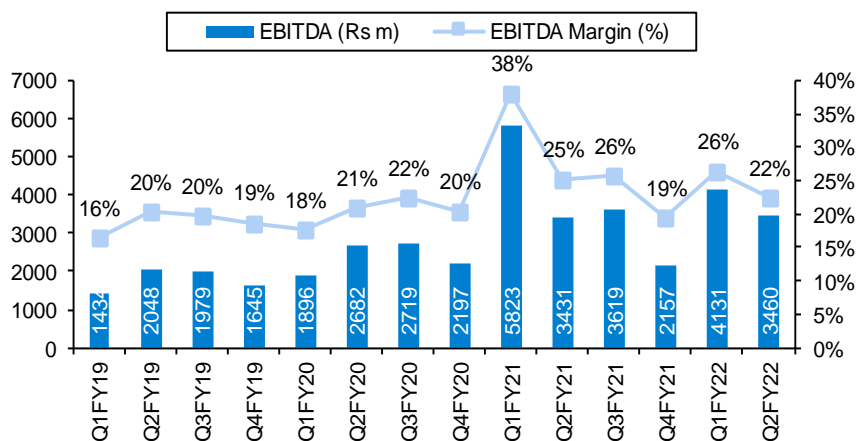
Source: Company, PL

**Exhibit 7: API Export and YoY Gr (%)**



Source: Company, PL

**Exhibit 8: EBITDA (Rs m) %, Margin (%): Weak EBITDAM on higher input cost**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>54,200</b>	<b>57,956</b>	<b>64,670</b>	<b>73,855</b>
YoY gr. (%)	16.6	6.9	11.6	14.2
Cost of Goods Sold	21,439	24,783	26,731	30,120
Gross Profit	32,762	33,173	37,939	43,735
Margin (%)	60.4	57.2	58.7	59.2
Employee Cost	10,136	11,555	12,826	14,108
Other Expenses	7,595	8,736	9,579	10,812
<b>EBITDA</b>	<b>15,031</b>	<b>12,883</b>	<b>15,535</b>	<b>18,814</b>
YoY gr. (%)	58.3	(14.3)	20.6	21.1
Margin (%)	27.7	22.2	24.0	25.5
Depreciation and Amortization	2,092	2,196	2,306	2,421
<b>EBIT</b>	<b>12,939</b>	<b>10,687</b>	<b>13,229</b>	<b>16,393</b>
Margin (%)	23.9	18.4	20.5	22.2
Net Interest	90	60	30	30
Other Income	1,041	1,031	950	1,100
<b>Profit Before Tax</b>	<b>13,890</b>	<b>11,658</b>	<b>14,149</b>	<b>17,463</b>
Margin (%)	25.6	20.1	21.9	23.6
Total Tax	2,401	2,098	2,547	4,191
Effective tax rate (%)	17.3	18.0	18.0	24.0
<b>Profit after tax</b>	<b>11,489</b>	<b>9,559</b>	<b>11,602</b>	<b>13,272</b>
Minority interest	-	-	-	-
Share Profit from Associate	(77)	(90)	(90)	(90)
<b>Adjusted PAT</b>	<b>11,412</b>	<b>9,469</b>	<b>11,512</b>	<b>13,182</b>
YoY gr. (%)	80.8	(17.0)	21.6	14.5
Margin (%)	21.1	16.3	17.8	17.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>11,412</b>	<b>9,469</b>	<b>11,512</b>	<b>13,182</b>
YoY gr. (%)	80.8	(17.0)	21.6	14.5
Margin (%)	21.1	16.3	17.8	17.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,412	9,469	11,512	13,182
<b>Equity Shares O/s (m)</b>	<b>127</b>	<b>127</b>	<b>127</b>	<b>127</b>
<b>EPS (Rs)</b>	<b>90.0</b>	<b>74.6</b>	<b>90.8</b>	<b>103.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>31,380</b>	<b>36,380</b>	<b>41,380</b>	<b>47,380</b>
Tangibles	31,380	36,380	41,380	47,380
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>11,122</b>	<b>13,318</b>	<b>15,624</b>	<b>18,045</b>
Tangibles	11,122	13,318	15,624	18,045
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>20,258</b>	<b>23,062</b>	<b>25,756</b>	<b>29,335</b>
Tangibles	20,258	23,062	25,756	29,335
Intangibles	-	-	-	-
Capital Work In Progress	2,348	2,348	2,348	2,348
Goodwill	466	466	466	466
Non-Current Investments	1,114	1,114	1,114	1,114
Net Deferred tax assets	(1,316)	(1,316)	(1,316)	(1,316)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	3,938	3,938	3,938	3,938
Inventories	15,948	16,787	18,745	21,424
Trade receivables	8,118	10,392	11,604	13,263
Cash & Bank Balance	3,651	4,428	8,553	12,304
Other Current Assets	1,878	1,878	1,878	1,878
<b>Total Assets</b>	<b>60,664</b>	<b>67,506</b>	<b>77,650</b>	<b>89,479</b>
<b>Equity</b>				
Equity Share Capital	254	254	254	254
Other Equity	46,763	54,564	64,115	75,042
<b>Total Network</b>	<b>47,017</b>	<b>54,818</b>	<b>64,369</b>	<b>75,296</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	365	365	365	365
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,492	(508)	(1,008)	(1,508)
Trade payables	6,662	7,195	8,034	9,182
Other current liabilities	3,813	4,320	4,574	4,828
<b>Total Equity &amp; Liabilities</b>	<b>60,664</b>	<b>67,506</b>	<b>77,650</b>	<b>89,479</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	12,849	10,627	13,199	16,363
Add. Depreciation	2,092	2,196	2,306	2,421
Add. Interest	90	60	30	30
Less Financial Other Income	1,041	1,031	950	1,100
Add. Other	1,748	-	-	-
Op. profit before WC changes	16,779	12,883	15,535	18,814
Net Changes-WC	(2,363)	(2,221)	(2,232)	(3,098)
Direct tax	(2,456)	(2,098)	(2,547)	(4,191)
<b>Net cash from Op. activities</b>	<b>11,960</b>	<b>8,564</b>	<b>10,756</b>	<b>11,525</b>
Capital expenditures	(3,616)	(5,000)	(5,000)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(3,616)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(6,000)</b>
Issue of share cap. / premium	358	-	-	-
Debt changes	(2,258)	(2,000)	(500)	(500)
Dividend paid	(1,015)	(1,758)	(2,051)	(2,344)
Interest paid	538	740	920	1,070
Others	(4,125)	231	-	-
<b>Net cash from Fin. activities</b>	<b>(6,502)</b>	<b>(2,787)</b>	<b>(1,631)</b>	<b>(1,774)</b>
<b>Net change in cash</b>	<b>1,842</b>	<b>777</b>	<b>4,125</b>	<b>3,751</b>
Free Cash Flow	8,344	3,564	5,756	5,525

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Revenue</b>	<b>14,098</b>	<b>11,147</b>	<b>15,658</b>	<b>15,444</b>
YoY gr. (%)	16.2	3.8	2.0	13.5
Raw Material Expenses	5,154	3,386	5,457	5,444
Gross Profit	8,944	7,761	10,201	10,000
Margin (%)	63.4	69.6	65.1	64.8
<b>EBITDA</b>	<b>3,619</b>	<b>2,157</b>	<b>4,131</b>	<b>3,460</b>
YoY gr. (%)	33.1	(1.8)	(29.1)	0.8
Margin (%)	25.7	19.4	26.4	22.4
Depreciation / Depletion	535	525	559	570
<b>EBIT</b>	<b>3,084</b>	<b>1,632</b>	<b>3,572</b>	<b>2,890</b>
Margin (%)	21.9	14.6	22.8	18.7
Net Interest	23	17	18	11
Other Income	204	332	245	377
<b>Profit before Tax</b>	<b>3,265</b>	<b>1,947</b>	<b>3,799</b>	<b>3,256</b>
Margin (%)	23.2	17.5	24.3	21.1
Total Tax	567	309	708	679
Effective tax rate (%)	17.4	15.9	18.6	20.9
<b>Profit after Tax</b>	<b>2,698</b>	<b>1,637</b>	<b>3,091</b>	<b>2,577</b>
Minority interest	43	25	24	75
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,655</b>	<b>1,612</b>	<b>3,067</b>	<b>2,502</b>
YoY gr. (%)	34.4	45.7	(31.2)	(6.3)
Margin (%)	18.8	14.5	19.6	16.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,655</b>	<b>1,612</b>	<b>3,067</b>	<b>2,502</b>
YoY gr. (%)	34.4	45.7	(31.2)	(6.3)
Margin (%)	18.8	14.5	19.6	16.2
Other Comprehensive Income	1,194	-	-	-
<b>Total Comprehensive Income</b>	<b>3,849</b>	<b>1,612</b>	<b>3,067</b>	<b>2,502</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>21.0</b>	<b>12.8</b>	<b>24.3</b>	<b>19.8</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	90.0	74.6	90.8	103.9
CEPS	106.5	92.0	108.9	123.0
BVPS	370.6	432.1	507.4	593.6
FCF	65.8	28.1	45.4	43.6
DPS	8.0	12.0	14.0	16.0
<b>Return Ratio(%)</b>				
RoCE	29.0	20.6	22.3	23.8
ROIC	24.4	18.1	20.3	22.4
RoE	27.4	18.6	19.3	18.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	117	126	126	126
<b>Valuation(x)</b>				
PER	23.9	28.8	23.7	20.7
P/B	5.8	5.0	4.2	3.6
P/CEPS	20.2	23.4	19.8	17.5
EV/EBITDA	17.8	20.5	16.7	13.6
EV/Sales	4.9	4.6	4.0	3.5
Dividend Yield (%)	0.4	0.6	0.7	0.7

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY21	FY22E	FY23E	FY24E
Domestic Formulations	19,817	24,177	26,836	30,325
Domestic API	3,863	3,267	3,594	3,953
Export Formulations	15,972	16,418	18,685	22,661
Export API	11,200	10,304	11,747	12,921

Source: Company Data, PL Research

**Price Chart**

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	780	677
2	Cadila Healthcare	BUY	590	504
3	Dr. Reddy's Laboratories	BUY	5,400	4,659
4	Eris Lifesciences	BUY	954	813
5	Glenmark Pharmaceuticals	Accumulate	600	536
6	Indoco Remedies	Accumulate	480	450
7	Lupin	Accumulate	1,004	882
8	Sun Pharmaceutical Industries	BUY	1,000	815

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



## **ANALYST CERTIFICATION**

### **(Indian Clients)**

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