

February 16, 2022

Q3FY22 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,225		1,225	
Sales (Rs. m)	65,435	74,390	64,670	73,855
% Chng.	1.2	0.7		
EBITDA (Rs. m)	15,884	19,012	15,535	18,814
% Chng.	2.2	1.1		
EPS (Rs.)	44.3	52.2	45.4	52.0
% Chng.	(2.4)	0.4		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	54,200	58,670	65,435	74,390
EBITDA (Rs. m)	15,031	13,235	15,884	19,012
Margin (%)	27.7	22.6	24.3	25.6
PAT (Rs. m)	11,412	9,320	11,232	13,236
EPS (Rs.)	45.0	36.7	44.3	52.2
Gr. (%)	(10.0)	(18.3)	20.5	17.8
DPS (Rs.)	4.0	6.0	7.0	8.0
Yield (%)	0.4	0.6	0.7	0.8
RoE (%)	27.4	18.3	18.9	19.0
RoCE (%)	29.0	21.0	22.4	23.5
EV/Sales (x)	4.5	4.1	3.6	3.1
EV/EBITDA (x)	16.3	18.3	15.0	12.3
PE (x)	22.0	26.9	22.3	19.0
P/BV (x)	5.3	4.6	3.9	3.3

Key Data

IPCA.BO | IPCA IN

52-W High / Low	Rs.1,384 / Rs.893	
Sensex / Nifty	58,142 / 17,352	
Market Cap	Rs.251bn/ \$ 3,331m	
Shares Outstanding	254m	
3M Avg. Daily Value	Rs.1149.16m	

Shareholding Pattern (%)

Promoter's	46.29
Foreign	12.34
Domestic Institution	29.72
Public & Others	11.65
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.9)	(17.1)	4.3
Relative	(2.0)	(20.9)	(6.4)

Param Desai

paramdesai@plndia.com | 91-22-66322259

Akshaya Shinde

akshayashinde@plndia.com | 91-22-66322490

Ipca Laboratories (IPCA IN)

Rating: BUY | CMP: Rs989 | TP: Rs1,225

In line quarter; margin recovery from FY23

Quick Pointers:

- Guided for 20% revenue growth in Q4FY22 on standalone nos.
- Sartan issue has been resolved; business should stabilize by H1FY23.

IPCA Lab's (IPCA) Q3 performance was largely in line and we expect margin recovery from FY23 onwards. Domestic business (45% of total sales) continued to remain strong and should continue to outperform IPM. Strong API capabilities and diversified model benefit IPCA in the current environment. Our FY23E and FY24E earnings broadly remain unchanged. We recommend 'Buy' rating on the stock with target price of Rs 1,225 based on 23x FY24E earnings. Remain our preferred pick in mid cap space.

- In line revenues aided by domestic segment:** IPCA's sales grew 1.5% YoY at Rs 14.3bn vs our est of Rs 13.8bn. Domestic business grew 22% YoY aided by higher growth in acute segment and on good seasonality while export formulation was weak with 19% YoY decline. Institutional business declined 57% YoY, impacted by delay in shipments. Branded business grew by 41% YoY (on low base) while generics declined by 17% YoY. Export API declined by 22% QoQ due to lower sales from Sartans. Domestic API grew by 17% YoY. Revenue from subsidiaries in Q3 came in at Rs 1bn.
- Steady GM; higher other expenses:** EBITDA margins came at 20.8%, down 160bps QoQ impacted by negative operating leverage. Gross margins were at 65.1% in Q3, up 30bps QoQ and 170bps YoY mainly on better product mix. There was forex gain of Rs100m.Adj for forex, overheads grew 22% YoY led by higher freight cost. PAT declined by 26% YoY and 21% QoQ to Rs 2bn.
- Key Concall takeaways:** (1) Sartans constitute 30% of export API business, company has resolved the issue of Azido impurity however business stabilization will be gradual and should be normalized from Q1FY23 (2) Guided for 67% GM however other expenses will continue to remain elevated in near term (3) Dewas commercialization of entire plant in H1FY23 however it has partially commercialized to fulfill certain shortages on KSM. (4) Delay in shipments impacted institutional business and guided for Rs3.5bn of revenues in FY22. (5) UK business likely to remain muted in FY23 and has shifted to own distribution model given delay in payments from third party distributors. (6) Domestic business – 25% of portfolio under NLEM and company will take benefit of entire price hike available. Overall will outperform IPM by 150-200bps. Pain segment contributing 48% of sales grew 22% YoY (ex-HCQS). Among other segments- Anti-bacteria, Cough & cold, Derma and Anti-malaria grew by 20%, 51%, 32% and 34% respectively for Q3FY22 (6) Company guided for 20% revenue growth in Q4 on standalone nos.

Exhibit 1: 3QFY22 Result Overview (Rs mn): Aided gross margin and higher other expenses

Y/e March	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	QoQ gr. (%)	9MFY22	9MFY21	YoY gr. (%)
Net Sales	14,305	14,098	1.5	15,444	(7.4)	45,407	43,053	5.5
Raw Material	4,986	5,154	(3.3)	5,444	(8.4)	15,886	13,897	14.3
<i>% of Net Sales</i>	<i>34.9</i>	<i>36.6</i>		<i>35.2</i>		<i>35.0</i>	<i>32.3</i>	
Personnel Cost	2,837	2,451	15.8	2,964	(4.3)	8,797	7,559	16.4
<i>% of Net Sales</i>	<i>19.8</i>	<i>17.4</i>		<i>19.2</i>		<i>19.4</i>	<i>17.6</i>	
Others	3,503	2,874	21.9	3,577	(2.1)	10,154	8,723	16.4
<i>% of Net Sales</i>	<i>24.5</i>	<i>20.4</i>		<i>23.2</i>		<i>22.4</i>	<i>20.3</i>	
Total Expenditure	11,326	10,479	8.1	11,985	(5.5)	34,837	30,180	15.4
EBITDA	2,979	3,619	(17.7)	3,460	(13.9)	10,570	12,874	(17.9)
<i>Margin (%)</i>	<i>20.8</i>	<i>25.7</i>		<i>22.4</i>		<i>23.3</i>	<i>29.9</i>	
Depreciation	587	535	9.6	570	3.0	1,715	1,567	9.5
EBIT	2,393	3,084	(22.4)	2,890	(17.2)	8,855	11,307	(21.7)
Other Income	228	204	12.1	377	(39.4)	850	710	19.8
Interest	14	23	(37.3)	11	34.9	43	73	(41.2)
PBT	2,607	3,265	(20.2)	3,256	(20.0)	9,662	11,944	(19.1)
Total Taxes	573	567	1.1	679	(15.6)	1,960	2,092	(6.3)
<i>ETR (%)</i>	<i>22.0</i>	<i>17.4</i>		<i>20.9</i>		<i>20.3</i>	<i>17.5</i>	
Reported PAT	2,033	2,698	(24.6)	2,577	(21.1)	7,702	9,852	(21.8)
Minority Interest	(64)	(43)		(75)		(163)	(69)	
Adjusted PAT	1,970	2,655	(25.8)	2,502	(21.3)	7,539	9,782	(22.9)

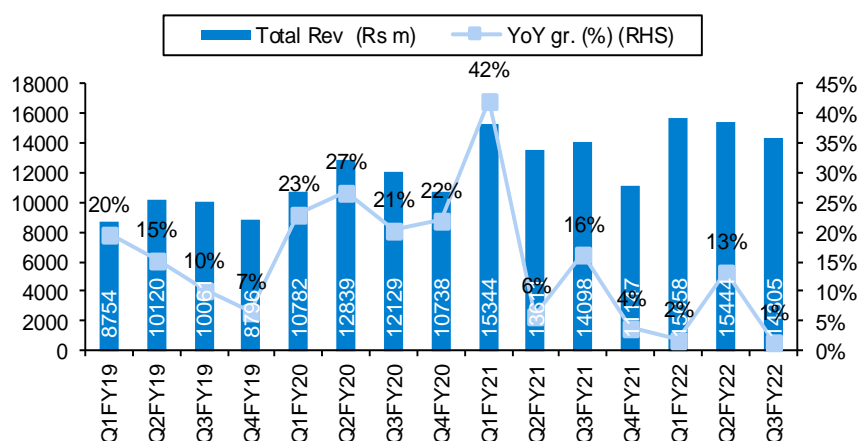
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major sources of revenues	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	QoQ gr. (%)	9MFY22	9MFY21	YoY gr. (%)
Domestic	7,308	5,972	22.4	7,712	(5.2)	22,049	18,836	17.1
Formulations	6,453	5,232	23.3	6,982	(7.6)	19,565	15,481	26.4
APIs	856	740	15.6	729	17.3	2,484	3,355	(26.0)
Exports	5,713	7,093	(19.4)	6,378	(10.4)	19,754	21,700	(9.0)
Formulations	3,475	4,312	(19.4)	3,510	(1.0)	11,403	12,592	(9.4)
APIs	2,238	2,781	(19.5)	2,868	(22.0)	8,351	9,109	(8.3)

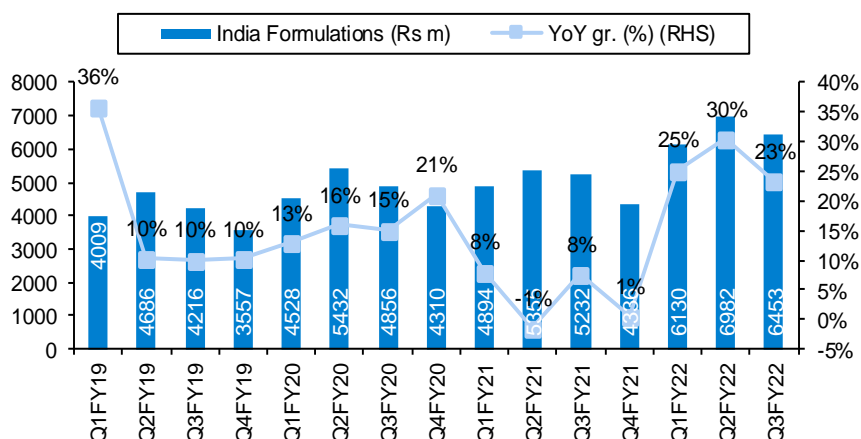
Source: Company, PL

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



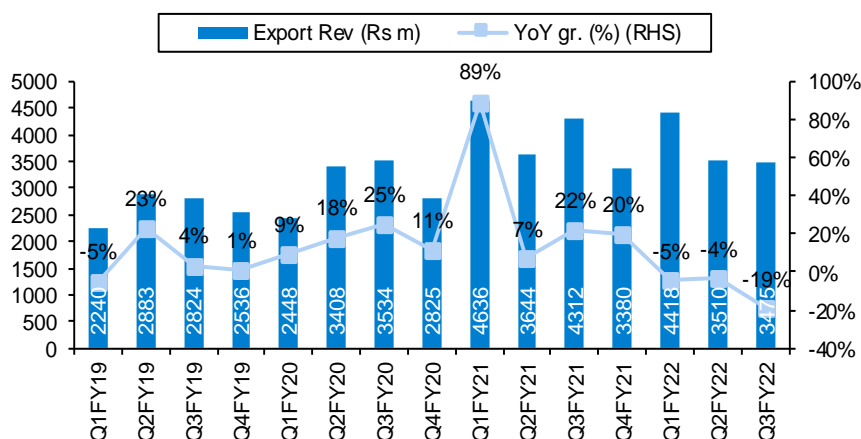
Source: Company, PL

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



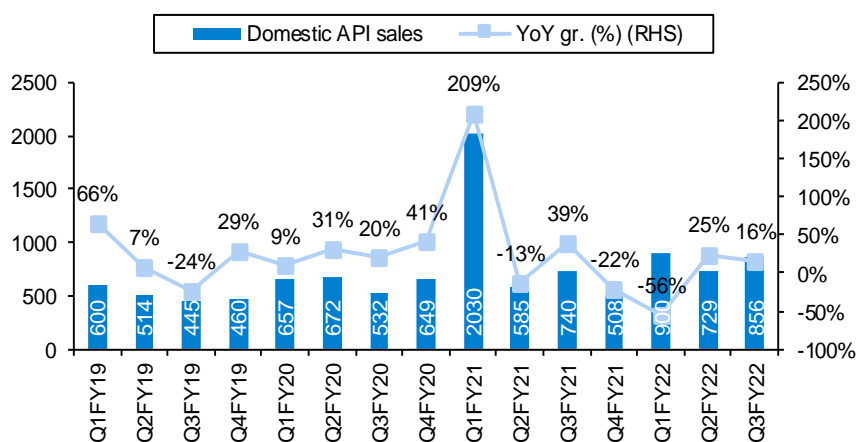
Source: Company, PL

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



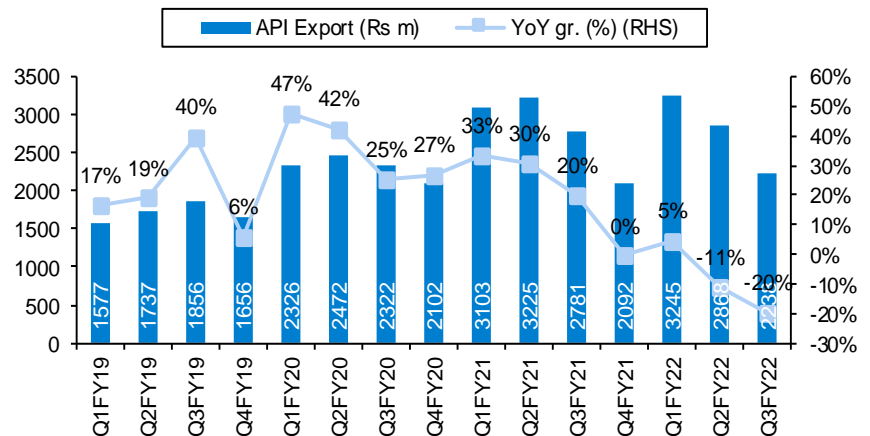
Source: Company, PL

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



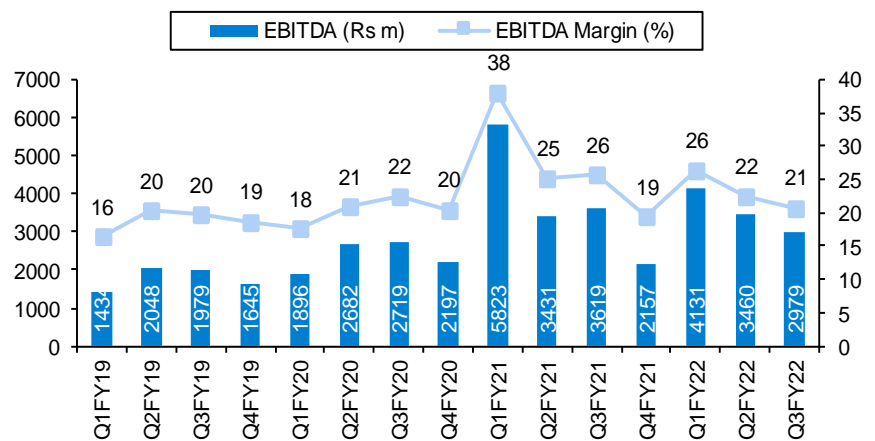
Source: Company, PL

Exhibit 7: API Export and YoY Gr (%)



Source: Company, PL

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



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	54,200	58,670	65,435	74,390
YoY gr. (%)	16.6	8.2	11.5	13.7
Cost of Goods Sold	21,439	25,049	26,972	30,290
Gross Profit	32,762	33,621	38,463	44,100
Margin (%)	60.4	57.3	58.8	59.3
Employee Cost	10,136	11,656	12,938	14,232
Other Expenses	7,595	8,730	9,640	10,856
EBITDA	15,031	13,235	15,884	19,012
YoY gr. (%)	58.3	(11.9)	20.0	19.7
Margin (%)	27.7	22.6	24.3	25.6
Depreciation and Amortization	2,092	2,280	2,394	2,514
EBIT	12,939	10,955	13,490	16,499
Margin (%)	23.9	18.7	20.6	22.2
Net Interest	90	60	50	50
Other Income	1,041	1,030	850	1,000
Profit Before Tax	13,890	11,925	14,290	17,449
Margin (%)	25.6	20.3	21.8	23.5
Total Tax	2,401	2,385	2,858	4,013
Effective tax rate (%)	17.3	20.0	20.0	23.0
Profit after tax	11,489	9,540	11,432	13,436
Minority interest	-	-	-	-
Share Profit from Associate	(77)	(220)	(200)	(200)
Adjusted PAT	11,412	9,320	11,232	13,236
YoY gr. (%)	80.8	(18.3)	20.5	17.8
Margin (%)	21.1	15.9	17.2	17.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,412	9,320	11,232	13,236
YoY gr. (%)	80.8	(18.3)	20.5	17.8
Margin (%)	21.1	15.9	17.2	17.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,412	9,320	11,232	13,236
Equity Shares O/s (m)	254	254	254	254
EPS (Rs)	45.0	36.7	44.3	52.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	31,380	36,380	41,880	47,880
Tangibles	31,380	36,380	41,880	47,880
Intangibles	-	-	-	-
Acc: Dep / Amortization	11,122	13,401	15,795	18,309
Tangibles	11,122	13,401	15,795	18,309
Intangibles	-	-	-	-
Net fixed assets	20,258	22,978	26,084	29,571
Tangibles	20,258	22,978	26,084	29,571
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	-	-	-	-
Current Assets				
Investments	3,938	3,938	3,938	3,938
Inventories	15,948	16,937	18,925	21,551
Trade receivables	8,118	10,485	11,715	13,341
Cash & Bank Balance	3,651	5,314	9,321	13,399
Other Current Assets	1,878	1,878	1,878	1,878
Total Assets	60,664	68,550	79,037	91,016
Equity				
Equity Share Capital	507	507	507	507
Other Equity	46,509	54,291	63,672	74,763
Total Network	47,017	54,798	64,179	75,271
Non-Current Liabilities				
Long Term borrowings	365	365	365	365
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,492	492	492	-
Trade payables	6,662	7,259	8,111	9,236
Other current liabilities	3,813	4,320	4,574	4,828
Total Equity & Liabilities	60,664	68,551	79,037	91,016

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	12,849	10,895	13,440	16,449
Add. Depreciation	2,092	2,280	2,394	2,514
Add. Interest	90	60	50	50
Less Financial Other Income	1,041	1,030	850	1,000
Add. Other	1,748	-	-	-
Op. profit before WC changes	16,779	13,235	15,884	19,012
Net Changes-WC	(2,363)	(2,399)	(2,267)	(3,035)
Direct tax	(2,456)	(2,385)	(2,858)	(4,013)
Net cash from Op. activities	11,960	8,451	10,759	11,964
Capital expenditures	(3,616)	(5,000)	(5,500)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(3,616)	(5,000)	(5,500)	(6,000)
Issue of share cap. / premium	358	-	-	-
Debt changes	(2,258)	(1,000)	-	(492)
Dividend paid	(1,015)	(1,758)	(2,051)	(2,344)
Interest paid	538	640	800	950
Others	(4,125)	330	-	-
Net cash from Fin. activities	(6,502)	(1,788)	(1,251)	(1,886)
Net change in cash	1,842	1,663	4,008	4,078
Free Cash Flow	8,344	3,451	5,259	5,964

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	11,147	15,658	15,444	14,305
YoY gr. (%)	3.8	2.0	13.5	1.5
Raw Material Expenses	3,386	5,457	5,444	4,986
Gross Profit	7,761	10,201	10,000	9,319
Margin (%)	69.6	65.1	64.8	65.1
EBITDA	2,157	4,131	3,460	2,979
YoY gr. (%)	(1.8)	(29.1)	0.8	(17.7)
Margin (%)	19.4	26.4	22.4	20.8
Depreciation / Depletion	525	559	570	587
EBIT	1,632	3,572	2,890	2,393
Margin (%)	14.6	22.8	18.7	16.7
Net Interest	17	18	11	14
Other Income	332	245	377	228
Profit before Tax	1,947	3,799	3,256	2,607
Margin (%)	17.5	24.3	21.1	18.2
Total Tax	309	708	679	573
Effective tax rate (%)	15.9	18.6	20.9	22.0
Profit after Tax	1,637	3,091	2,577	2,033
Minority interest	25	24	75	64
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,612	3,067	2,502	1,970
YoY gr. (%)	45.7	(31.2)	(6.3)	(25.8)
Margin (%)	14.5	19.6	16.2	13.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,612	3,067	2,502	1,970
YoY gr. (%)	45.7	(31.2)	(6.3)	(25.8)
Margin (%)	14.5	19.6	16.2	13.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,612	3,067	2,502	1,970
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	12.8	24.3	19.8	15.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	45.0	36.7	44.3	52.2
CEPS	53.2	45.7	53.7	62.1
BVPS	185.3	216.0	253.0	296.7
FCF	32.9	13.6	20.7	23.5
DPS	4.0	6.0	7.0	8.0
Return Ratio(%)				
RoCE	29.0	21.0	22.4	23.5
ROIC	24.4	18.5	20.5	22.4
RoE	27.4	18.3	18.9	19.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	117	125	126	126
Valuation(x)				
PER	22.0	26.9	22.3	19.0
P/B	5.3	4.6	3.9	3.3
P/CEPS	18.6	21.6	18.4	15.9
EV/EBITDA	16.3	18.3	15.0	12.3
EV/Sales	4.5	4.1	3.6	3.1
Dividend Yield (%)	0.4	0.6	0.7	0.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Domestic Formulations	19,817	24,969	27,716	31,042
Domestic API	3,863	3,267	3,594	3,953
Export Formulations	15,972	15,474	17,489	21,340
Export API	11,200	10,528	12,002	13,202

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jan-22	BUY	2,450	2,200
2	17-Nov-21	BUY	2,450	2,153

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	759	684
2	Cadila Healthcare	Accumulate	465	408
3	Cipla	BUY	1,100	906
4	Divi's Laboratories	Accumulate	4,750	4,291
5	Dr. Reddy's Laboratories	BUY	5,200	4,219
6	Eris Lifesciences	BUY	880	695
7	Glenmark Pharmaceuticals	Accumulate	600	511
8	Indoco Remedies	Accumulate	460	398
9	Ipca Laboratories	BUY	2,450	2,200
10	Lupin	Accumulate	950	872
11	Sun Pharmaceutical Industries	BUY	1,050	835
12	Torrent Pharmaceuticals	BUY	3,560	3,161

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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