

September 29, 2022

## Management Meet Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		HOLD	
Target Price	1,000		1,010	
Sales (Rs. m)	63,478	72,740	63,687	72,851
% Chng.	(0.3)	(0.2)		
EBITDA (Rs. m)	12,402	16,513	13,029	17,085
% Chng.	(4.8)	(3.3)		
EPS (Rs.)	28.7	41.3	30.6	43.9
% Chng.	(6.3)	(5.8)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	58,298	63,478	72,740	81,462
EBITDA (Rs. m)	12,785	12,402	16,513	19,266
Margin (%)	21.9	19.5	22.7	23.7
PAT (Rs. m)	8,898	7,272	10,490	12,453
EPS (Rs.)	35.1	28.7	41.3	49.1
Gr. (%)	(22.0)	(18.3)	44.2	18.7
DPS (Rs.)	6.0	7.0	8.0	10.0
Yield (%)	0.7	0.8	0.9	1.1
RoE (%)	17.5	12.6	16.3	17.0
RoCE (%)	18.7	15.3	19.7	21.1
EV/Sales (x)	3.8	3.5	3.0	2.6
EV/EBITDA (x)	17.3	17.8	13.2	11.1
PE (x)	25.5	31.2	21.7	18.2
P/BV (x)	4.1	3.8	3.3	2.9

### Key Data

### IPCA.BO | IPCA IN

52-W High / Low	Rs.1,229 / Rs.831
Sensex / Nifty	56,598 / 16,859
Market Cap	Rs.227bn/ \$ 2,772m
Shares Outstanding	254m
3M Avg. Daily Value	Rs.338.61m

### Shareholding Pattern (%)

Promoter's	46.29
Foreign	10.61
Domestic Institution	33.30
Public & Others	9.80
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.6)	(10.4)	(23.8)
Relative	2.3	(8.8)	(19.7)

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## Profitability to improve

We reduce our FY23/FY24 EPS estimates by 6% and introduce FY25 EPS at Rs49/share, even as we upgrade IPCA Lab (IPCA) to 'Accumulate' from Hold at TP of Rs 1,000 (earlier Rs 1,010) based on 22x Sept 2024E earnings. We believe earnings are likely to remain muted over FY21-23E impacted by high COVID base, weak margins and one time issues related to UK and export API business, resulting in stock underperformance. However, in our recent management interaction, the company highlighted that margins are likely to recover as revenues scale up with easing of certain overheads and raw material prices.

We expect 31% EPS CAGR over FY23-25E vs 20% EPS decline over FY21-23E on back of strong domestic formulation business (45% of total sales), which continues to outperform IPM. Additionally, export business is also on a gradual recovery mode with UK and export API business expected to normalize by Q4F23. At CMP, stock is trading at 22x FY24E and 18x FY25E P/E. Upgrade to 'Accumulate'.

## India Business on strong footing:

- Company has announced likely addition of 1200 MRs in FY23 which will result in total field force of 6000. Around 1000 have been added so far. Further 500 will be added in Cardiac division, 250 in Pain, 400 in Derma and CNS and 100 in Opthal. Expect MR productivity of additional MRs to reach company level over next 2-3 years.
- Q2FY23 growth will be impacted due to continued weakness in anti-malaria and anti-bacteria sales. NLEM (25% of domestic formulation revenues) benefit of +10% price hike will be fully reflected from Q2FY23.
- Zerodol franchise (~30% of total domestic formulation) continues to see strong double digit volume growth.
- Overall management expects growth of 13-15% over next 2-3 years; Guided for 12-13% growth in FY23.

## Export formulation business- gradual recovery:

- Branded generics:** Due to geopolitical issues businesses across Sri-lanka, Mynamar and Ukraine have been impacted. Overall these geographies contribute Rs400-500mn to total branded generic revenues. On other hand, Russia/CIS sales (Rs2.5bn; 50% of total branded generic sales) continue to remain healthy and will likely see growth of +20% in FY23. Overall guided for 13-15% YoY growth in total branded generic sales in medium term
- Non US generics:** Total sales –Rs7.5bn in FY22 (13% of total sales). Of total Rs7.5bn sales from export generics in FY22- Rs2.45bn came in from Australia/NZ, Rs2.2bn from EU, Rs1.1bn from Canada, Rs900mn from South Africa and Rs850mn from UK markets. Growth may remain muted in near term due to currency volatility in Euro/GBP/Aus dollar. Further IPCA owned

distribution network in UK will take ~2-3 quarters to fully normalize the business. Overall guided for 3-5% growth in generic segment in FY23 and +10-12% growth from FY24.

- **US generics:** Status quo - remediation across plants being completed are awaiting USFDA re-inspection. Company has 40 ANDAs of which 23 are approved. Given most ANDAs are backward integrated, company expect to scale up business when it resumes.
- **Institutional business:** New orders have floated and mgmt. guided for better offtake than previous one. Benefit of that should be reflected Q3/Q4FY23 onwards. Overall we see institutional business in range of Rs3-4bn.

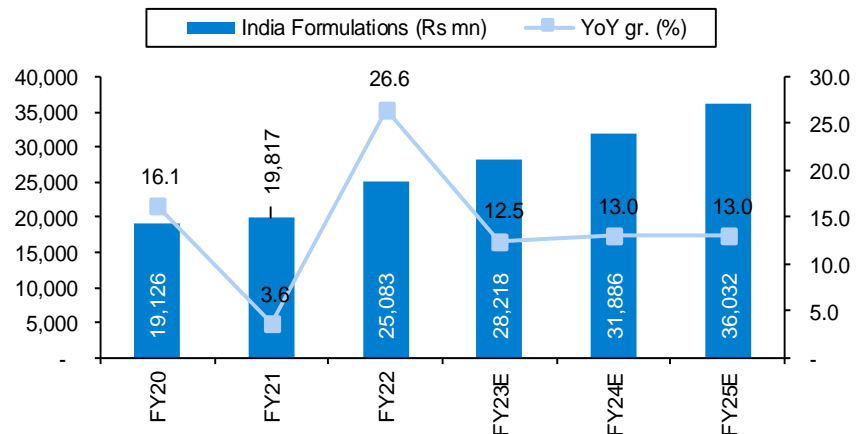
### Export API business- Rs20bn guidance over next 5-6 years

- Sartan issues have been resolved, however due to competitive intensity there is lower pricing and market share. Pre Azido impurity issues, sales from Losartan were to tune of Rs3.5bn, which have now recovered only to tune of 60-65%.
- Dewas commercialization will enhance incremental capacity by 25%. Company is in process to validate certain products and expects revenue contribution to start from Q1FY24. Peak revenues to reflect from FY25/26.
- Company is witnessing difficulty in passing entire increase in raw material prices to end API customers.
- Overall guided for doubling of export API sales to Rs20bn over next 5-6 years.

### Margins – improvement likely

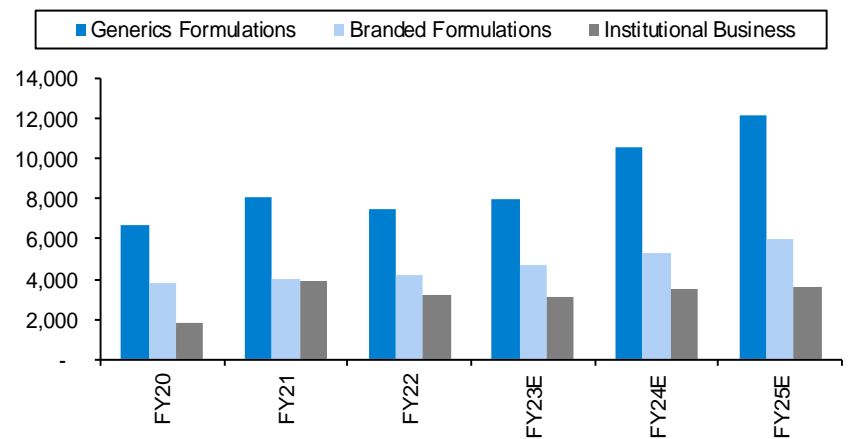
- Management sees easing of raw materials, which will see GMs improvement from Q2. Overall guided for 66-67% GMs from FY24 vs 63-64% in Q1.
- Operating cost/overheads like freight cost, power & fuel are also on downward trend, though still at higher levels vs historical run-rate.
- Staff costs related to new MR addition will be fully reflected from Q2/Q3 onwards. Expect increase in employment expenses on sequential basis.
- Reiterated its EBITDA margins guidance for 20.5%-21% in FY23 and 150-200 bps margin expansion from FY24.

**Exhibit 1: Strong growth to continue in domestic formulation**



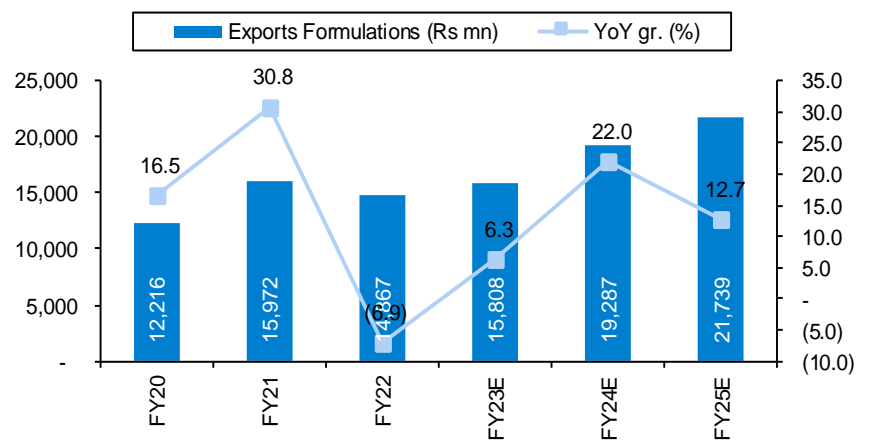
Source: Company, PL

**Exhibit 2: Non US generic business to recover from FY24**



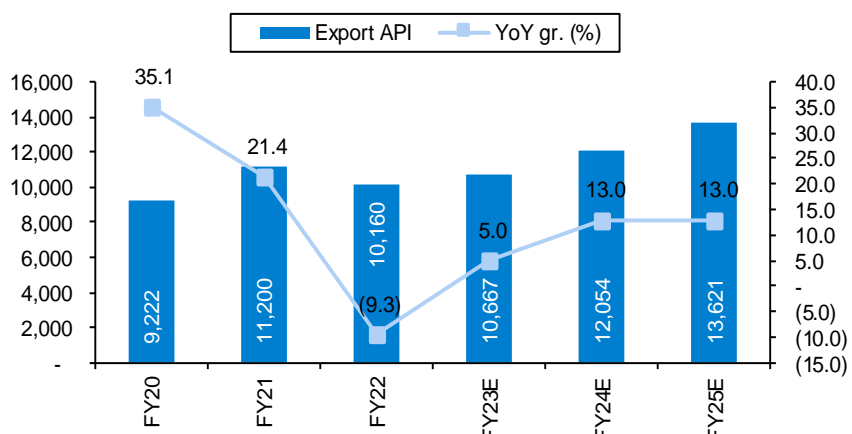
Source: Company, PL

**Exhibit 3: Export frm (Rs m): we expect 14% CAGR over FY22-25E**



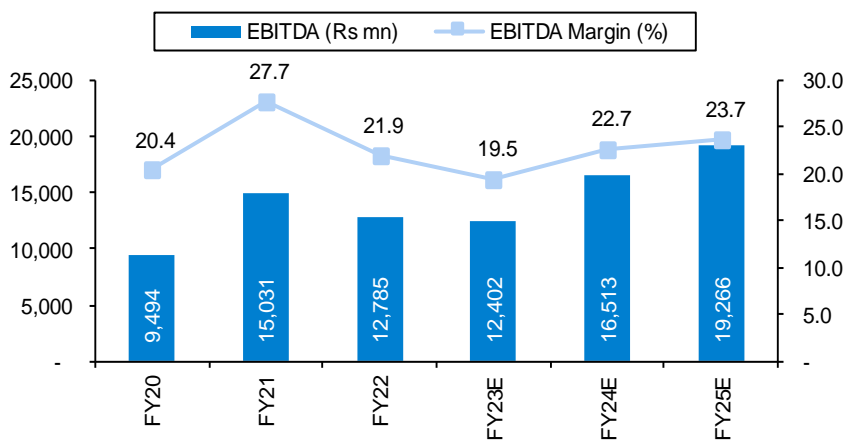
Source: Company, PL

**Exhibit 4: API Export and YoY Gr (%)**



Source: Company, PL

**Exhibit 5: EBITDA (Rs m) %, Margin (%): EBITDAM margin back to improve**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>58,298</b>	<b>63,478</b>	<b>72,740</b>	<b>81,462</b>
YoY gr. (%)	7.6	8.9	14.6	12.0
Cost of Goods Sold	24,793	27,190	29,732	32,908
Gross Profit	33,505	36,288	43,008	48,553
Margin (%)	57.5	57.2	59.1	59.6
Employee Cost	11,774	13,658	15,297	16,979
Other Expenses	8,946	10,229	11,198	12,308
<b>EBITDA</b>	<b>12,785</b>	<b>12,402</b>	<b>16,513</b>	<b>19,266</b>
YoY gr. (%)	(14.9)	(3.0)	33.2	16.7
Margin (%)	21.9	19.5	22.7	23.7
Depreciation and Amortization	2,324	2,487	2,736	3,036
<b>EBIT</b>	<b>10,461</b>	<b>9,915</b>	<b>13,778</b>	<b>16,230</b>
Margin (%)	17.9	15.6	18.9	19.9
Net Interest	77	230	240	240
Other Income	974	608	800	1,000
<b>Profit Before Tax</b>	<b>11,357</b>	<b>10,293</b>	<b>14,338</b>	<b>16,990</b>
Margin (%)	19.5	16.2	19.7	20.9
Total Tax	2,248	2,831	3,728	4,417
Effective tax rate (%)	19.8	27.5	26.0	26.0
<b>Profit after tax</b>	<b>9,110</b>	<b>7,462</b>	<b>10,610</b>	<b>12,573</b>
Minority interest	-	-	-	-
Share Profit from Associate	(212)	(190)	(120)	(120)
<b>Adjusted PAT</b>	<b>8,898</b>	<b>7,272</b>	<b>10,490</b>	<b>12,453</b>
YoY gr. (%)	(22.0)	(18.3)	44.2	18.7
Margin (%)	15.3	11.5	14.4	15.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>8,898</b>	<b>7,272</b>	<b>10,490</b>	<b>12,453</b>
YoY gr. (%)	(22.0)	(18.3)	44.2	18.7
Margin (%)	15.3	11.5	14.4	15.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,898	7,272	10,490	12,453
<b>Equity Shares O/s (m)</b>	<b>254</b>	<b>254</b>	<b>254</b>	<b>254</b>
<b>EPS (Rs)</b>	<b>35.1</b>	<b>28.7</b>	<b>41.3</b>	<b>49.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>37,079</b>	<b>42,579</b>	<b>47,579</b>	<b>53,079</b>
Tangibles	37,079	42,579	47,579	53,079
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>13,446</b>	<b>15,933</b>	<b>18,668</b>	<b>21,705</b>
Tangibles	13,446	15,933	18,668	21,705
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>23,634</b>	<b>26,647</b>	<b>28,911</b>	<b>31,375</b>
Tangibles	23,634	26,647	28,911	31,375
Intangibles	-	-	-	-
Capital Work In Progress	3,064	3,064	3,064	3,064
Goodwill	542	542	542	542
Non-Current Investments	2,699	2,699	2,699	2,699
Net Deferred tax assets	(1,506)	(1,506)	(1,506)	(1,506)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	7,193	7,193	7,193	7,193
Inventories	18,580	19,213	22,028	24,693
Trade receivables	9,108	10,480	12,015	13,469
Cash & Bank Balance	6,407	6,292	6,990	9,292
Other Current Assets	2,205	2,205	2,205	2,205
<b>Total Assets</b>	<b>76,368</b>	<b>81,419</b>	<b>88,885</b>	<b>97,931</b>
<b>Equity</b>				
Equity Share Capital	507	507	507	507
Other Equity	54,412	59,823	68,089	77,731
<b>Total Networkth</b>	<b>54,920</b>	<b>60,331</b>	<b>68,596</b>	<b>78,239</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3,952	3,952	3,952	3,952
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,961	2,461	461	(1,539)
Trade payables	5,577	6,462	7,409	8,306
Other current liabilities	6,454	6,708	6,961	7,469
<b>Total Equity &amp; Liabilities</b>	<b>76,369</b>	<b>81,419</b>	<b>88,885</b>	<b>97,931</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	10,538	10,145	14,018	16,470
Add. Depreciation	2,324	2,487	2,736	3,036
Add. Interest	(77)	(230)	(240)	(240)
Less Financial Other Income	974	608	800	1,000
Add. Other	795	-	-	-
Op. profit before WC changes	13,580	12,402	16,513	19,266
Net Changes-WC	(3,010)	(1,013)	(3,304)	(2,877)
Direct tax	(2,020)	(2,831)	(3,728)	(4,417)
<b>Net cash from Op. activities</b>	<b>8,551</b>	<b>8,559</b>	<b>9,481</b>	<b>11,972</b>
Capital expenditures	(7,547)	(5,500)	(5,000)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(7,547)</b>	<b>(5,500)</b>	<b>(5,000)</b>	<b>(5,500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	5,403	(1,500)	(2,000)	(2,000)
Dividend paid	(1,015)	(2,051)	(2,344)	(2,930)
Interest paid	589	520	560	760
Others	(3,225)	(142)	-	-
<b>Net cash from Fin. activities</b>	<b>1,752</b>	<b>(3,173)</b>	<b>(3,784)</b>	<b>(4,170)</b>
<b>Net change in cash</b>	<b>2,756</b>	<b>(115)</b>	<b>697</b>	<b>2,302</b>
Free Cash Flow	3,761	3,059	4,481	6,472

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>15,444</b>	<b>14,305</b>	<b>12,891</b>	<b>15,857</b>
YoY gr. (%)	13.5	1.5	15.6	1.3
Raw Material Expenses	5,444	4,986	4,262	5,787
Gross Profit	10,000	9,319	8,629	10,070
Margin (%)	64.8	65.1	66.9	63.5
<b>EBITDA</b>	<b>3,460</b>	<b>2,979</b>	<b>2,215</b>	<b>2,835</b>
YoY gr. (%)	0.8	(17.7)	2.7	(31.4)
Margin (%)	22.4	20.8	17.2	17.9
Depreciation / Depletion	570	587	609	617
<b>EBIT</b>	<b>2,890</b>	<b>2,393</b>	<b>1,606</b>	<b>2,218</b>
Margin (%)	18.7	16.7	12.5	14.0
Net Interest	11	14	34	69
Other Income	377	228	124	79
<b>Profit before Tax</b>	<b>3,256</b>	<b>2,607</b>	<b>1,696</b>	<b>2,227</b>
Margin (%)	21.1	18.2	13.2	14.0
Total Tax	679	573	288	743
Effective tax rate (%)	20.9	22.0	17.0	33.3
<b>Profit after Tax</b>	<b>2,577</b>	<b>2,033</b>	<b>1,408</b>	<b>1,484</b>
Minority interest	75	64	106	54
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,502</b>	<b>1,970</b>	<b>1,302</b>	<b>1,431</b>
YoY gr. (%)	(6.3)	(25.8)	(19.2)	(53.4)
Margin (%)	16.2	13.8	10.1	9.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,502</b>	<b>1,970</b>	<b>1,302</b>	<b>1,431</b>
YoY gr. (%)	(6.3)	(25.8)	(19.2)	(53.4)
Margin (%)	16.2	13.8	10.1	9.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,502</b>	<b>1,970</b>	<b>1,302</b>	<b>1,431</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>9.9</b>	<b>7.8</b>	<b>5.1</b>	<b>5.6</b>

Source: Company Data, PL Research

**Key Financial Metrics**

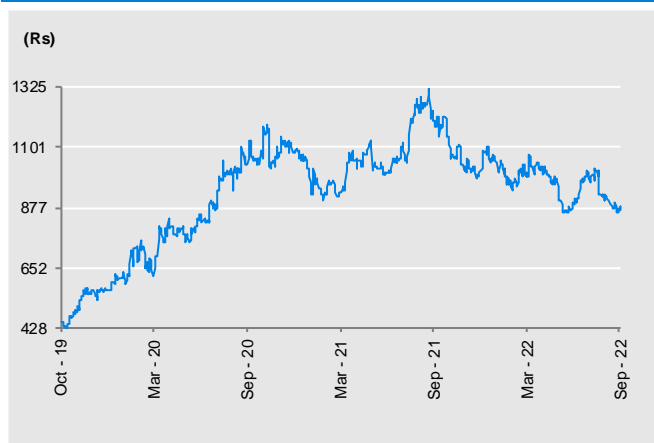
Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	35.1	28.7	41.3	49.1
CEPS	44.2	38.5	52.1	61.1
BVPS	216.5	237.8	270.4	308.4
FCF	14.8	12.1	17.7	25.5
DPS	6.0	7.0	8.0	10.0
<b>Return Ratio(%)</b>				
RoCE	18.7	15.3	19.7	21.1
ROIC	16.7	14.6	18.4	19.9
RoE	17.5	12.6	16.3	17.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	138	134	134	134
<b>Valuation(x)</b>				
PER	25.5	31.2	21.7	18.2
P/B	4.1	3.8	3.3	2.9
P/CEPS	20.2	23.3	17.2	14.7
EV/EBITDA	17.3	17.8	13.2	11.1
EV/Sales	3.8	3.5	3.0	2.6
Dividend Yield (%)	0.7	0.8	0.9	1.1

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
Domestic Formulations	25,083	28,218	31,886	36,032
Domestic API	3,254	3,580	3,938	4,253
Export Formulations	14,867	15,808	19,287	21,739
Export API	10,160	10,667	12,054	13,621

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Aug-22	Hold	1,010	1,016
2	07-Jul-22	BUY	1,085	946
3	26-May-22	BUY	1,085	938
4	08-Apr-22	BUY	1,180	1,002
5	16-Feb-22	BUY	1,225	989
6	07-Jan-22	BUY	2,450	2,200
7	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	5,000	4,313
2	Aster DM Healthcare	BUY	234	204
3	Aurobindo Pharma	Accumulate	635	593
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,140	3,726
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	269
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	358	284
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	Hold	1,010	1,016
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,204
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	362
17	Narayana Hrudayalaya	BUY	810	708
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,850	1,535
20	Zydus Lifesciences	BUY	425	364

**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

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