

November 15, 2022

## Q2FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	950		1,000	
Sales (Rs. m)	71,603	80,183	72,740	81,462
% Chng.	(1.6)	(1.6)		
EBITDA (Rs. m)	15,572	17,967	16,513	19,266
% Chng.	(5.7)	(6.7)		
EPS (Rs.)	37.9	44.4	41.3	49.1
% Chng.	(8.3)	(9.6)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	58,298	62,366	71,603	80,183
EBITDA (Rs. m)	12,785	11,057	15,572	17,967
Margin (%)	21.9	17.7	21.7	22.4
PAT (Rs. m)	8,898	6,343	9,621	11,255
EPS (Rs.)	35.1	25.0	37.9	44.4
Gr. (%)	(22.0)	(28.7)	51.7	17.0
DPS (Rs.)	6.0	7.0	8.0	10.0
Yield (%)	0.7	0.8	0.9	1.1
RoE (%)	17.5	11.1	15.2	15.8
RoCE (%)	18.7	13.3	18.7	20.1
EV/Sales (x)	3.7	3.4	3.0	2.6
EV/EBITDA (x)	16.8	19.4	13.6	11.6
PE (x)	24.8	34.8	22.9	19.6
P/BV (x)	4.0	3.7	3.3	2.9

### Key Data

### IPCA.BO | IPCA IN

52-W High / Low	Rs.1,129 / Rs.831
Sensex / Nifty	61,873 / 18,403
Market Cap	Rs.220bn/ \$ 2,716m
Shares Outstanding	254m
3M Avg. Daily Value	Rs.271.62m

### Shareholding Pattern (%)

Promoter's	46.29
Foreign	10.57
Domestic Institution	33.28
Public & Others	9.86
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.4)	(11.0)	(21.0)
Relative	(8.6)	(24.0)	(22.5)

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## Weak quarter; margins to improve

### Quick Pointers:

- Export API revenues impacted due to lower demand; guided for 2% decline in FY23.
- Higher other expenses led by increase in power & fuel and marketing cost.

**We reduce our FY24E/FY25E EPS estimates by 8%/9%. IPCA Lab's (IPCA) H1 performance was muted impacted by higher overheads, high COVID base and issues related to UK and export API business. However, we see margins are likely to recover as revenues scale up with easing of certain overheads and raw material prices. Domestic business (45% of total sales) remained strong and it will continue 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 23x FY24E and 19.6x FY25E P/E. We recommend 'Accumulate' with revised TP of Rs950/share.**

- In-line Revenue:** IPCA's sales grew 4% YoY at Rs 16bn, vs our estimates of Rs16.5bn. Domestic business grew by 10% YoY to Rs7.6bn, while export formulation posted growth of 15% YoY to Rs 4bn vs our est. of Rs 3.7bn. Institutional business was up by 22% YoY due to higher order offtake. Branded business up by 33% YoY while generics up by 4% YoY. Export API declined by 22% QoQ due to lower sales from Sartans and lower demand. Domestic API grew by 14% YoY. Revenue from subsidiaries in Q2 came in at Rs 1.1bn.
- EBIDTA miss led by higher other expenses:** Gross margins were at 64.1% (PL est 65%) in Q2 - up 60bps QoQ. EBITDA margins came at 17%, down 90bps QoQ impacted by higher other expenses. There was a forex loss of Rs 120mn booked in other expenses during the qtr. Adj for this EBITDA was at Rs 2.7bn (PL est Rs 3.3bn) down 21% YoY and 4% QoQ. Adj for forex, other expenses grew 22% YoY and 8% QoQ led by higher energy cost and marketing expenses. Staff cost also grew by 8% YoY. PAT declined by 42% YoY to Rs 1.4bn vs our est of Rs2bn.
- Key Concall takeaways:** (1) The export API business impacted due to lower demand from LATAM and Asia market. Guided for 2% decline in export API in FY23 Vs 5% growth earlier. Sartan issues have been resolved, however due to competitive intensity there is lower pricing and market share (2) Domestic Formulation: Q2FY23 growth was impacted due to continued weakness in anti-malaria and anti-bacteria sales. Ex anti-malaria growth was 13% YoY. (3) UK business progressing well and the own product launched by company has gained good market share. Including SKUs 7-8 products are under current launch pipeline and guided for 20 new product launches in H2FY23 (4) Management sees easing of raw materials, which will see GMs improvement in coming quarters. (5) Margins in consolidated were lower than standalone due to some exceptional losses in subsidiaries like Pisgah and Ramdev (6) The QoQ increase in other expenses were due to higher power & fuel cost to tune of Rs160mn (7) Status quo - remediation across plants being completed are awaiting USFDA re-inspection

**Exhibit 1: 2QFY23 Result Overview (Rs mn): Higher other expenses impacted EBITDA**

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
<b>Net Sales</b>	<b>16,010</b>	<b>15,444</b>	<b>3.7</b>	<b>15,857</b>	<b>1.0</b>	<b>31,867</b>	<b>31,102</b>	<b>2.5</b>
Raw Material	5,748	5,444	5.6	5,787	(0.7)	11,535	10,901	5.8
<i>% of Net Sales</i>	<i>35.9</i>	<i>35.2</i>		<i>36.5</i>		<i>36.2</i>	<i>35.0</i>	
Personnel Cost	3,192	2,964	7.7	3,227	(1.1)	6,419	5,960	7.7
<i>% of Net Sales</i>	<i>19.9</i>	<i>19.2</i>		<i>20.4</i>		<i>20.1</i>	<i>19.2</i>	
Others	4,347	3,577	21.5	4,008	8.5	8,356	6,651	25.6
<i>% of Net Sales</i>	<i>27.2</i>	<i>23.2</i>		<i>25.3</i>		<i>26.2</i>	<i>21.4</i>	
Total Expenditure	13,287	11,985	10.9	13,023	2.0	26,309	23,512	11.9
<b>EBITDA</b>	<b>2,723</b>	<b>3,460</b>	<b>(21.3)</b>	<b>2,835</b>	<b>(3.9)</b>	<b>5,558</b>	<b>7,591</b>	<b>(26.8)</b>
<i>Margin (%)</i>	<i>17.0</i>	<i>22.4</i>		<i>17.9</i>		<i>17.4</i>	<i>24.4</i>	
Depreciation	637	570	11.9	617	3.3	1,255	1,128	11.2
<b>EBIT</b>	<b>2,086</b>	<b>2,890</b>	<b>(27.8)</b>	<b>2,218</b>	<b>(5.9)</b>	<b>4,303</b>	<b>6,462</b>	<b>(33.4)</b>
Other Income	246	377	(34.8)	79	211.8	325	622	(47.8)
Interest	93	11	778.3	69	34.1	163	29	464.2
<b>PBT</b>	<b>2,238</b>	<b>3,256</b>	<b>(31.3)</b>	<b>2,227</b>	<b>0.5</b>	<b>4,465</b>	<b>7,055</b>	<b>(36.7)</b>
Total Taxes	770	679	13.4	743	3.7	1,513	1,387	9.1
<i>ETR (%)</i>	<i>34.4</i>	<i>20.9</i>		<i>33.3</i>		<i>33.9</i>	<i>19.7</i>	
<b>Reported PAT</b>	<b>1,468</b>	<b>2,577</b>	<b>(43.0)</b>	<b>1,484</b>	<b>(1.1)</b>	<b>2,953</b>	<b>5,668</b>	<b>(47.9)</b>
Minority Interest	(29)	(75)		(54)		(83)	(99)	
<b>Adjusted PAT</b>	<b>1,439</b>	<b>2,502</b>	<b>(42.5)</b>	<b>1,431</b>	<b>0.6</b>	<b>2,870</b>	<b>5,569</b>	<b>(48.5)</b>

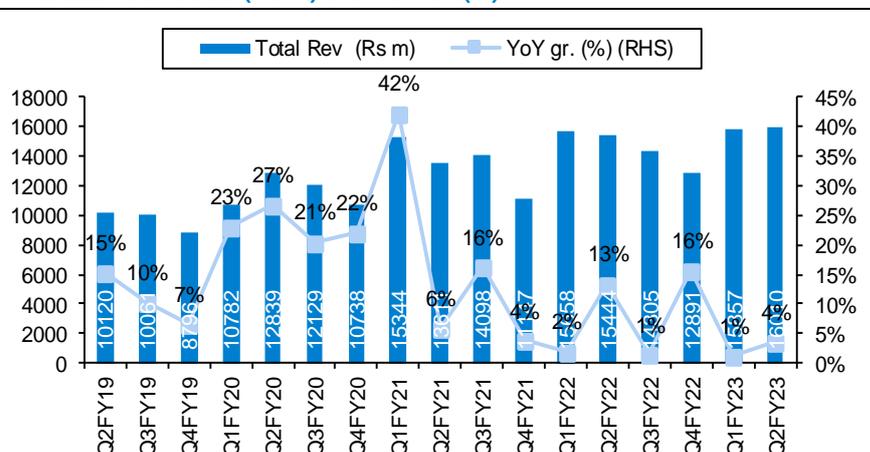
Source: Company, PL

**Exhibit 2: Major Sources of Revenue**

Major sources of revenues	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
<b>Domestic</b>	<b>8,485</b>	<b>7,712</b>	<b>10.0</b>	<b>7,741</b>	<b>9.6</b>	<b>16,226</b>	<b>14,741</b>	<b>10.1</b>
Formulations	7,657	6,982	9.7	6,848	11.8	14,505	13,112	10.6
APIs	828	729	13.6	893	(7.2)	1,721	1,629	5.7
<b>Exports</b>	<b>6,287</b>	<b>6,378</b>	<b>(1.4)</b>	<b>6,876</b>	<b>(8.6)</b>	<b>13,163</b>	<b>14,040</b>	<b>(6.2)</b>
Formulations	4,044	3,510	15.2	4,018	0.6	8,062	7,928	1.7
APIs	2,243	2,868	(21.8)	2,858	(21.5)	5,101	6,113	(16.6)

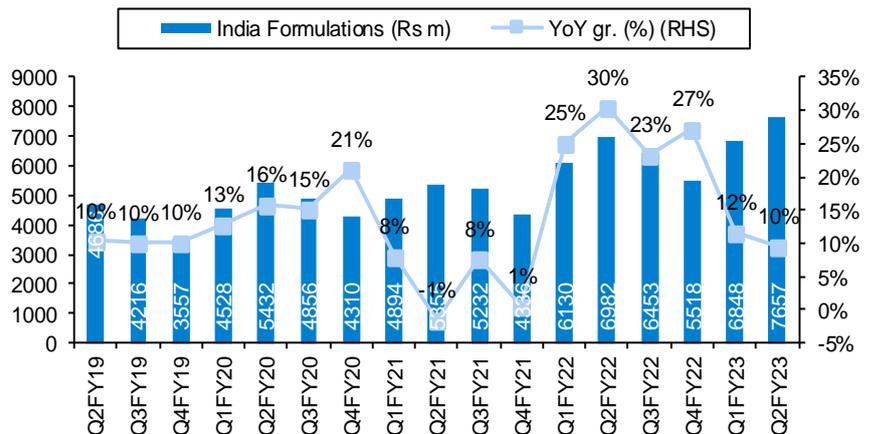
Source: Company, PL

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



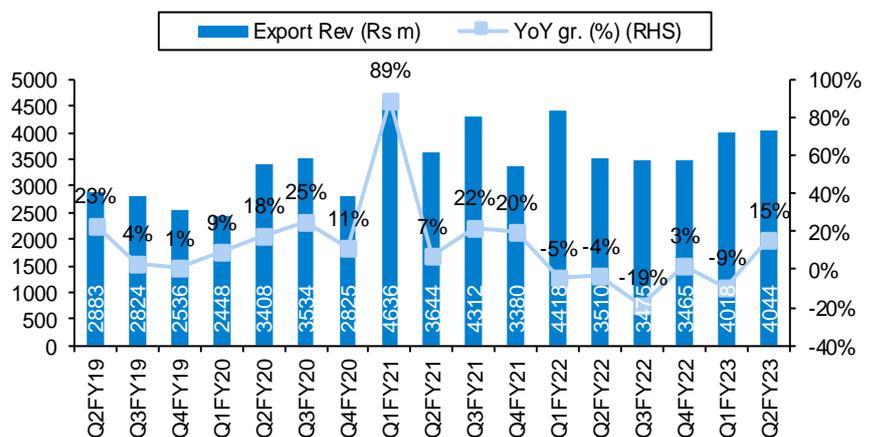
Source: Company, PL

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



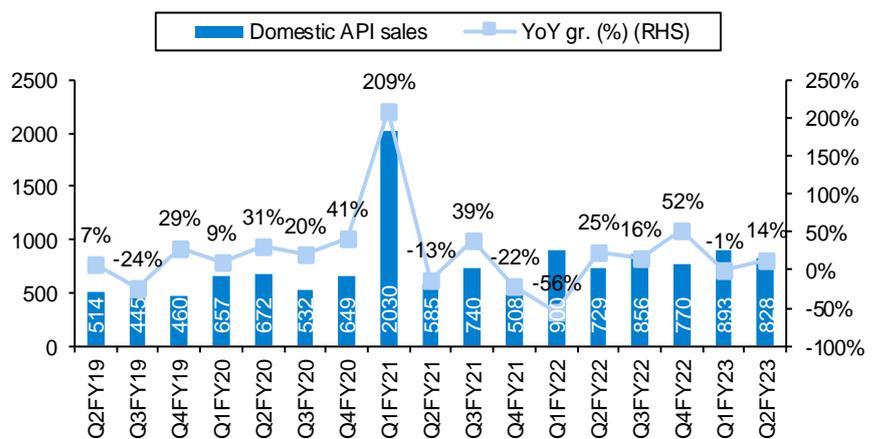
Source: Company, PL

**Exhibit 5: Export frml (Rs m): Healthy growth aided by branded generics**



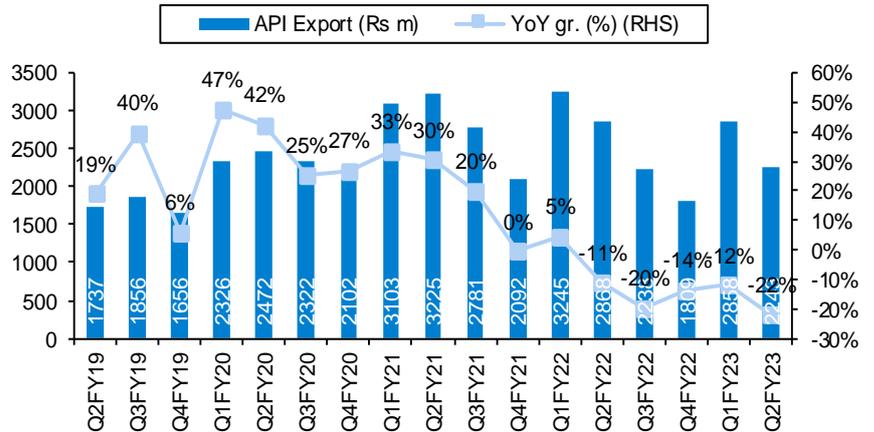
Source: Company, PL

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



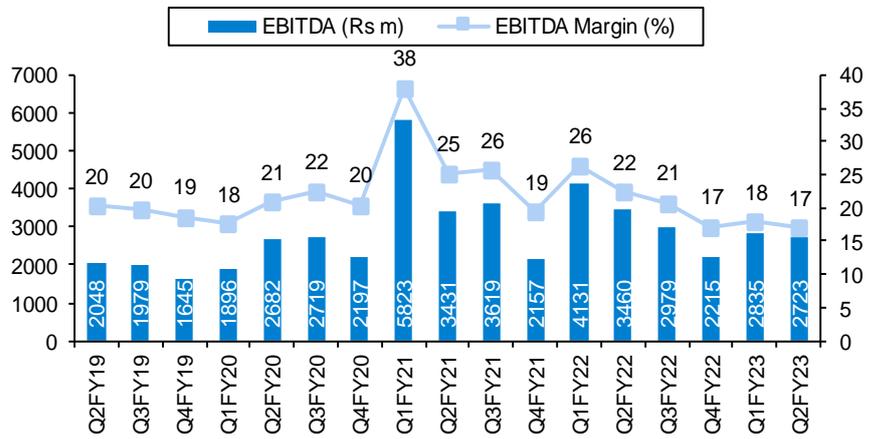
Source: Company, PL

**Exhibit 7: API Export and YoY Gr (%) - Impacted due to lower demand**



Source: Company, PL

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



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>58,298</b>	<b>62,366</b>	<b>71,603</b>	<b>80,183</b>
YoY gr. (%)	7.6	7.0	14.8	12.0
Cost of Goods Sold	24,793	26,982	29,661	33,067
Gross Profit	33,505	35,384	41,942	47,116
Margin (%)	57.5	56.7	58.6	58.8
Employee Cost	11,774	13,422	15,033	16,687
Other Expenses	8,946	10,905	11,337	12,463
<b>EBITDA</b>	<b>12,785</b>	<b>11,057</b>	<b>15,572</b>	<b>17,967</b>
YoY gr. (%)	(14.9)	(13.5)	40.8	15.4
Margin (%)	21.9	17.7	21.7	22.4
Depreciation and Amortization	2,324	2,487	2,736	3,036
<b>EBIT</b>	<b>10,461</b>	<b>8,570</b>	<b>12,836</b>	<b>14,930</b>
Margin (%)	17.9	13.7	17.9	18.6
Net Interest	77	300	300	240
Other Income	974	741	900	1,000
<b>Profit Before Tax</b>	<b>11,357</b>	<b>9,011</b>	<b>13,436</b>	<b>15,690</b>
Margin (%)	19.5	14.4	18.8	19.6
Total Tax	2,248	2,478	3,695	4,315
Effective tax rate (%)	19.8	27.5	27.5	27.5
<b>Profit after tax</b>	<b>9,110</b>	<b>6,533</b>	<b>9,741</b>	<b>11,375</b>
Minority interest	-	-	-	-
Share Profit from Associate	(212)	(190)	(120)	(120)
<b>Adjusted PAT</b>	<b>8,898</b>	<b>6,343</b>	<b>9,621</b>	<b>11,255</b>
YoY gr. (%)	(22.0)	(28.7)	51.7	17.0
Margin (%)	15.3	10.2	13.4	14.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>8,898</b>	<b>6,343</b>	<b>9,621</b>	<b>11,255</b>
YoY gr. (%)	(22.0)	(28.7)	51.7	17.0
Margin (%)	15.3	10.2	13.4	14.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,898	6,343	9,621	11,255
<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>25.0</b>	<b>37.9</b>	<b>44.4</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	18,919	21,695	24,317
Trade receivables	9,108	10,319	11,834	13,264
Cash & Bank Balance	6,407	5,718	5,593	6,751
Other Current Assets	2,205	2,205	2,205	2,205
<b>Total Assets</b>	<b>76,368</b>	<b>80,391</b>	<b>86,975</b>	<b>94,810</b>
<b>Equity</b>				
Equity Share Capital	507	507	507	507
Other Equity	54,412	58,894	66,291	74,736
<b>Total Networkth</b>	<b>54,920</b>	<b>59,401</b>	<b>66,798</b>	<b>75,244</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	6,364	7,298	8,179
Other current liabilities	6,454	6,708	6,961	7,469
<b>Total Equity &amp; Liabilities</b>	<b>76,369</b>	<b>80,391</b>	<b>86,975</b>	<b>94,810</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	10,538	8,870	13,136	15,170
Add. Depreciation	2,324	2,487	2,736	3,036
Add. Interest	(77)	(300)	(300)	(240)
Less Financial Other Income	974	741	900	1,000
Add. Other	795	-	-	-
Op. profit before WC changes	13,580	11,057	15,572	17,967
Net Changes-WC	(3,010)	(657)	(3,258)	(2,825)
Direct tax	(2,020)	(2,478)	(3,695)	(4,315)
<b>Net cash from Op. activities</b>	<b>8,551</b>	<b>7,922</b>	<b>8,619</b>	<b>10,827</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	700	600	760
Others	(3,225)	(259)	-	-
<b>Net cash from Fin. activities</b>	<b>1,752</b>	<b>(3,110)</b>	<b>(3,744)</b>	<b>(4,170)</b>
<b>Net change in cash</b>	<b>2,756</b>	<b>(689)</b>	<b>(125)</b>	<b>1,157</b>
Free Cash Flow	3,761	2,422	3,619	5,327

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>14,305</b>	<b>12,891</b>	<b>15,857</b>	<b>16,010</b>
YoY gr. (%)	1.5	15.6	1.3	3.7
Raw Material Expenses	4,986	4,262	5,787	5,748
Gross Profit	9,319	8,629	10,070	10,262
Margin (%)	65.1	66.9	63.5	64.1
<b>EBITDA</b>	<b>2,979</b>	<b>2,215</b>	<b>2,835</b>	<b>2,723</b>
YoY gr. (%)	(17.7)	2.7	(31.4)	(21.3)
Margin (%)	20.8	17.2	17.9	17.0
Depreciation / Depletion	587	609	617	637
<b>EBIT</b>	<b>2,393</b>	<b>1,606</b>	<b>2,218</b>	<b>2,086</b>
Margin (%)	16.7	12.5	14.0	13.0
Net Interest	14	34	69	93
Other Income	228	124	79	246
<b>Profit before Tax</b>	<b>2,607</b>	<b>1,696</b>	<b>2,227</b>	<b>2,238</b>
Margin (%)	18.2	13.2	14.0	14.0
Total Tax	573	288	743	770
Effective tax rate (%)	22.0	17.0	33.3	34.4
<b>Profit after Tax</b>	<b>2,033</b>	<b>1,408</b>	<b>1,484</b>	<b>1,468</b>
Minority interest	64	106	54	29
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,970</b>	<b>1,302</b>	<b>1,431</b>	<b>1,439</b>
YoY gr. (%)	(25.8)	(19.2)	(53.4)	(42.5)
Margin (%)	13.8	10.1	9.0	9.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,970</b>	<b>1,302</b>	<b>1,431</b>	<b>1,439</b>
YoY gr. (%)	(25.8)	(19.2)	(53.4)	(42.5)
Margin (%)	13.8	10.1	9.0	9.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,970</b>	<b>1,302</b>	<b>1,431</b>	<b>1,439</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>7.8</b>	<b>5.1</b>	<b>5.6</b>	<b>5.7</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	35.1	25.0	37.9	44.4
CEPS	44.2	34.8	48.7	56.3
BVPS	216.5	234.1	263.3	296.6
FCF	14.8	9.5	14.3	21.0
DPS	6.0	7.0	8.0	10.0
<b>Return Ratio(%)</b>				
RoCE	18.7	13.3	18.7	20.1
ROIC	16.7	12.7	17.3	18.5
RoE	17.5	11.1	15.2	15.8
<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	24.8	34.8	22.9	19.6
P/B	4.0	3.7	3.3	2.9
P/CEPS	19.7	25.0	17.9	15.4
EV/EBITDA	16.8	19.4	13.6	11.6
EV/Sales	3.7	3.4	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	27,967	31,603	35,711
Domestic API	3,254	3,580	3,938	4,253
Export Formulations	14,867	15,808	19,287	21,739
Export API	10,160	9,956	11,251	12,713

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	Accumulate	1,000	934
2	29-Sep-22	Accumulate	1,000	896
3	12-Aug-22	Hold	1,010	1,016
4	07-Jul-22	BUY	1,085	946
5	26-May-22	BUY	1,085	938
6	08-Apr-22	BUY	1,180	1,002
7	16-Feb-22	BUY	1,225	989
8	07-Jan-22	BUY	2,450	2,200
9	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	5,400	4,421
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	360	304
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	375	295
11	Indoco Remedies	BUY	430	348
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,982
14	Krishna Institute of Medical Sciences	BUY	1,660	1,448
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	900	740
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	Accumulate	465	429

**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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