

IPCA Laboratories

Estimate change

TP change

Rating change



Bloomberg	IPCA IN
Equity Shares (m)	254
M.Cap.(INRb)/(USDb)	219 / 2.6
52-Week Range (INR)	1089 / 824
1, 6, 12 Rel. Per (%)	-1/-8/-16
12M Avg Val (INR M)	315

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	61.3	68.0	76.8
EBITDA	9.5	12.5	15.4
Adjusted PAT	5.4	7.7	9.9
EBIT Margin (%)	11.3	14.6	16.6
Cons. Adj EPS (INR)	21.3	30.5	39.2
EPS Gr. (%)	-41.4	43.2	28.5
BV/Sh. (INR)	232.4	258.3	291.6

Ratios

Net D-E	0.0	0.0	-0.1
RoE (%)	9.5	12.4	14.3
RoCE (%)	8.7	11.5	13.2
Payout (%)	39.2	29.4	27.8

Valuation

P/E (x)	39.6	27.6	21.5
EV/EBITDA (x)	22.7	17.2	14.0
Div. Yield (%)	0.9	1.1	1.3
FCF Yield (%)	0.6	3.0	3.4
EV/Sales (x)	3.5	3.2	2.8

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	46.3	46.3	46.3
DII	33.7	33.8	30.3
FII	10.8	10.6	12.3
Others	9.2	9.4	11.1

FII Includes depository receipts

CMP: INR864

TP: INR990 (+15%)

BUY

Operating leverage plays a spoil sport

Sales growth revival vital for profitability improvement

- IPCA delivered a lower-than-expected performance in 3QFY23, with an 11%/20% miss on EBITDA/PAT. Sales, however, came in line with estimates. High opex and a slow pick-up in API sales hurt profitability.
- We cut our FY23/Fy24/FY25 EPS estimates by 20%/14%/14% to factor in 1) a moderation in generics exports, 2) a gradual pick-up in API off-take and subsequent lower operating leverage, 3) an adverse impact of lower pricing for products under NLEM in domestic formulation (DF), and 4) a higher tax outgo. We continue to value IPCA at 24x 12M forward earnings to arrive at a TP of INR990.
- IPCA continues to deliver industry-beating growth in the DF segment and expects to sustain the momentum via increased MR force and marketing activities. Exports (generics) are expected to pick up as new product registrations/launches are underway. Maintain BUY.

Inferior product mix/elevated opex dent margins

- IPCA's 3QFY23 sales grew 8% YoY to INR15.4b (in line).
- DF sales grew 9% YoY to INR7.2b (45% of sales). Branded formulation exports rose 17% YoY to INR1.3b (8% of sales). Institutional exports grew 41% YoY to INR832m (5% of sales). Generics formulation exports increased 6% YoY to INR1.9b (12% of sales). API sales grew 4% YoY to INR3.2b (21% of sales). Revenue from subsidiaries increased 11% YoY to INR1.1b.
- Gross margin (GM) contracted 150bp YoY to 63.7%, due to high raw material prices.
- EBITDA margin contracted 650bp YoY to 15% (est. 16.7%), due to lower GMs and higher operational costs (employee cost/other expenses up 80bp/430bp YoY as a percentage of sales).
- EBITDA declined 25% YoY to INR2.3b (est. INR2.6b).
- Adj. PAT fell 37% YoY to INR1.2b (est. INR1.5b), due to a higher tax rate.
- In 9MFY23, revenue grew 4%, while EBITDA/PAT declined 29%/40%, YoY.

Highlights from the management commentary

- IPCA indicated that a 15% price reduction for NLEM products (17% of DF sales) will hurt the DF performance in 4QFY23. This will be offset by an inflation-linked price hike in FY24 and the impact would be limited to 3-3.5% of DF sales.
- IPCA has guided for stable API sales YoY in FY23. It expects a recovery in API sales FY24 onward on the back of capacity additions and new launches.
- It has guided for EBITDA margin of 21% in FY24.
- The cost increase was contributed by higher RM costs (1.8% of sales), increased marketing/analytical testing/energy costs (4% of sales) and the addition of MRs (0.7% of sales).

Quarterly Performance

(INR m)

Y/E March	FY22				FY23E				FY22	FY23E	Est. 3QE	% Chg
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Revenues (Core)	15,658	15,444	14,305	12,891	15,857	16,010	15,460	14,012	58,298	61,339	15,546	-0.6
YoY Change (%)	2.0	13.5	1.5	15.6	1.3	3.7	8.1	8.7	7.6	5.2	8.7	
EBITDA	4,165	3,852	3,078	2,413	2,835	2,722	2,319	1,631	13,509	9,508	2,596	-10.7
YoY Change (%)	-29.2	6.9	-16.1	5.4	-31.9	-29.3	-24.7	-32.4	-12.5	-29.6	-15.7	
Margins (%)	26.6	24.9	21.5	18.7	17.9	17.0	15.0	11.6	23.2	15.5	16.7	
Depreciation	559	570	587	609	617	637	666	644	2,324	2,564	630	
EBIT	3,607	3,282	2,492	1,804	2,218	2,085	1,654	987	11,184	6,943	1,966	-15.9
YoY Change (%)	-32.9	6.5	-20.5	2.2	-38.5	-36.5	-33.6	-45.3	-16.2	-37.9	-21.1	
Margins (%)	23.0	21.3	17.4	14.0	14.0	13.0	10.7	7.0	19.2	11.3	12.6	
Interest	18	11	14	34	69	93	108	113	77	384	97	
Other Income	210	181	30	145	221	362	309	308	666	1,200	200	
PBT before EO Expense	3,799	3,452	2,508	1,915	2,369	2,354	1,854	1,182	11,773	7,759	2,069	
One-off (gain)/ Expense	0	-196	99	-220	142	116	161	0	416	419	0	
PBT after EO Expense	3,799	3,256	2,607	1,695	2,227	2,238	1,693	1,182	11,357	7,341	2,069	
Tax	708	679	573	288	743	770	537	356	2,248	2,405	559	
Rate (%)	18.6	19.7	22.9	15.0	31.3	32.7	29.0	30.1	19.1	31.0	27.0	
Reported PAT	3,091	2,577	2,033	1,408	1,484	1,468	1,156	827	9,110	4,932	1,511	-23.5
Minority Interest	-24	-75	-64	-106	-54	-29	-78	-29	-269	0	-25	
Adj PAT after Minority Int	3,067	2,697	1,892	1,485	1,525	1,861	1,188	827	9,218	5,402	1,486	-20.0
YoY Change (%)	-31.2	6.7	-28.7	-7.9	-50.3	-31.0	-37.2	-44.3	-18.1	-41.4	-24.6	
Margins (%)	19.6	17.5	13.2	11.5	9.6	11.6	7.7	5.9	15.8	8.8	9.6	

Key performance Indicators

Y/E March	FY22				FY23E				FY22	FY23E	Est. 3QE
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Domestic formulations	6,130	6,982	6,453	5,518	6,848	7,657	7,023	5,311	25,083	26,838	6,969
YoY Change (%)	25.2	30.4	23.3	27.3	11.7	9.7	8.8	-3.8	26.6	7.0	8.0
Exports formulations	4,418	3,510	3,475	3,465	4,018	4,044	4,004	3,944	14,867	16,009	4,051
YoY Change (%)	-4.7	-3.7	-19.4	2.5	-9.1	15.2	15.2	13.8	-6.9	7.7	16.6
API sales	4,144	3,597	3,094	2,578	3,751	3,072	3,222	3,397	13,414	13,441	3,226
YoY Change (%)	-19.3	-5.6	-12.1	-0.8	-9.5	-14.6	4.2	31.7	-11.0	0.2	4.3
Cost Break-up											
RM Cost (% of Sales)	34.9	35.2	34.9	33.1	36.5	35.9	36.3	36.1	34.6	36.2	36.3
Staff Cost (% of Sales)	19.1	19.2	19.8	23.1	20.4	19.9	20.6	22.1	20.2	20.7	20.6
Other Cost (% of Sales)	19.4	20.6	23.8	25.1	25.3	27.2	28.1	30.2	22.1	27.6	26.8
Gross Margins(%)	65.1	64.8	65.1	66.9	63.5	64.1	63.7	63.9	65.4	63.8	63.7
EBITDA Margins(%)	26.6	24.9	21.5	18.7	17.9	17.0	15.0	11.6	23.2	15.5	15.0
EBIT Margins(%)	23.0	21.3	17.4	14.0	14.0	13.0	10.7	7.0	19.2	11.3	10.7

E: MOFSL Estimates



Highlights from the management commentary

- With inventory rationalization and an improving sales outlook, the impact of higher RM costs is expected to decline considerably going forward. Increased sales by new MRs would drive operating leverage, improving the company's overall profitability.
- IPCA indicated the annualized institutional anti-malaria sales run rate to be INR3-3.5b.
- 11-12 products are under validation at the Dewas site and the filings would start in FY24.
- Among therapies, pain management grew 15% YoY, while cardio-diabetes saw moderate YoY growth of 2% in 3QFY23.
- IPCA plans to invest INR1.5b in biotech for five products, largely toward clinical trials for biosimilars.

Valuation and view

DF: Near-term hiccups; MR additions/superior execution to drive Industry outperformance

- In 9MFY23, IPCA delivered 10% YoY growth in DF sales to INR21.5b, led by Arthritis, CNS, Derma, Neuro, and Ophtha therapies.
- IPCA increase its ranking in both Acute and Chronic markets, leading to an increase in the market share of key therapies. IPCA is ranked 13th in Acute and 18th in Chronic market.
- In addition, IPCA has added MRs to the field force (~1500), which should increase the contribution meaningfully in coming quarters.
- Further, 17% of the portfolio is now under NLEM, which would affect revenue from Q4 onward; however, an inflation-linked price hike in FY24 would offset this and the impact would be limited to 3-3.5% of DF sales.
- We expect a 14% sales CAGR in the DF segment to INR35b over FY23-25.

API: Inventory normalization/capacity addition to drive recovery

- API sales declined 7% YoY to INR10b in 9MFY23 due to higher RM costs and subdued supply on account of impurities in testing.
- With the normalization of channel inventory underway, we expect demand to revive. Further, enhanced capacity to manufacture API would improve operating leverage of the API segment.
- It is also working on adding new molecules to the API segment and increasing the scope of backward integration, along with capacity addition.
- We expect a 12.5% sales CAGR in this segment to INR17b over FY23-25.

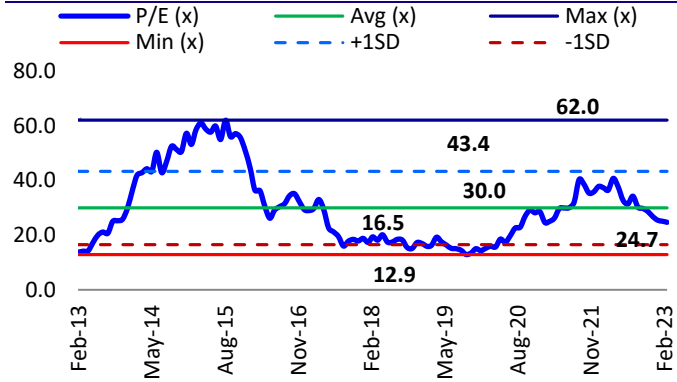
Formulation exports: Product registration ongoing in UK; off-take to pick up subsequently

- Exports grew by 6% for 9MFY23 to INR12.1b, led by healthy growth in European and ROW markets.
- IPCA is in the process of increasing the number of product registrations under its own label and subsequently launching them in the UK market.
- The lower visibility on the business restart in the US market remains a drag on overall return ratios.
- IPCA has completed remediation measures at US-focused sites. A successful USFDA inspection outcome remains vital for the US business restart.
- We expect overall export Formulations to exhibit an 11.4% sales CAGR to INR19.9b over FY23-25.

Valuation and view

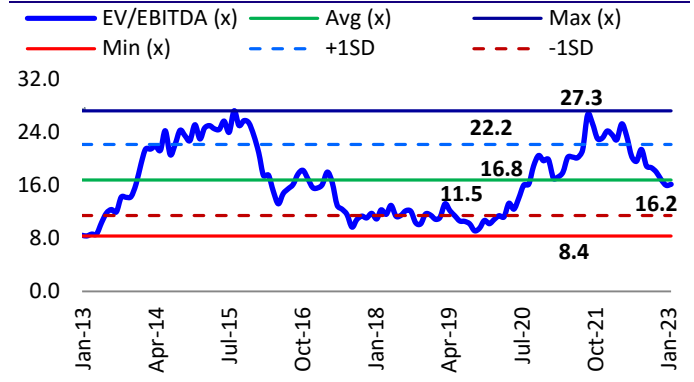
- We cut our FY23/FY24/FY25 EPS estimates by 20%/14%/14% to factor in 1) a moderation in generics exports, 2) a gradual pick-up in API off-take and subsequent lower operating leverage, and 3) a higher tax outgo. We continue to value IPCA at 24x 12M forward earnings to arrive at a TP of INR990.
- IPCA continues to deliver industry-beating growth in the domestic formulation segment and expects to sustain the momentum via increased MR force and marketing activities. Exports (generics) are expected to pick up as new product registrations/launches are underway. Maintain BUY.

Exhibit 1: P/E chart



Source: MOFSL, Company, and Bloomberg

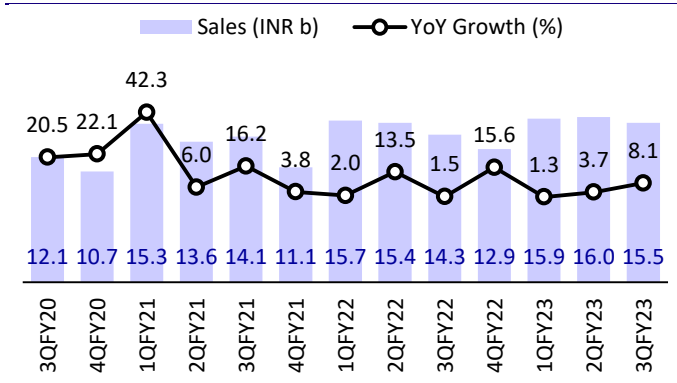
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, and Bloomberg

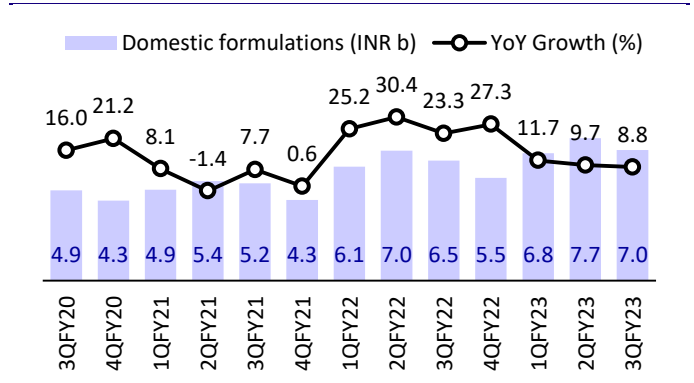
Story in charts

Exhibit 3: Total sales grew 8% YoY in 3QFY23



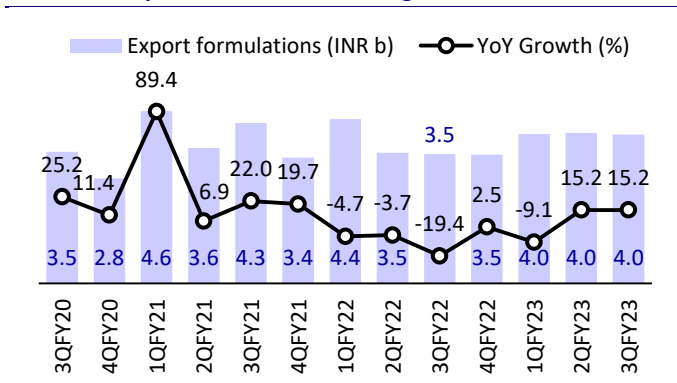
Source: Company, MOFSL

Exhibit 4: DF sales grew 8.8% YoY in 3QFY23



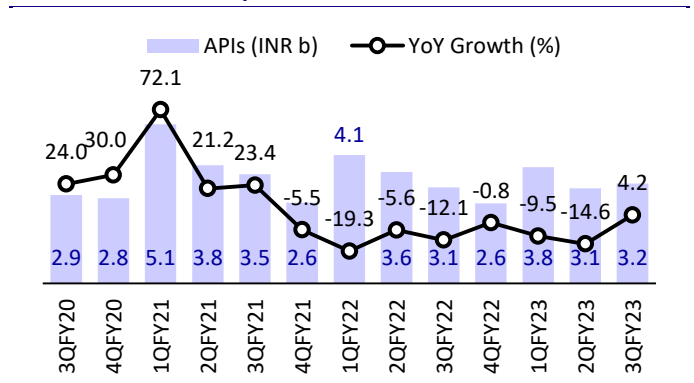
Source: Company, MOFSL

Exhibit 5: Export Formulation sales grew 15% YoY

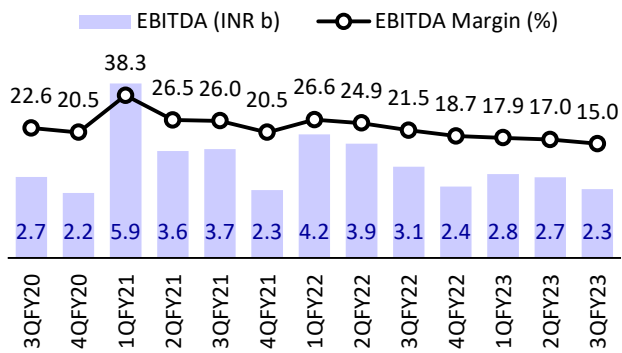


Source: Company, MOFSL

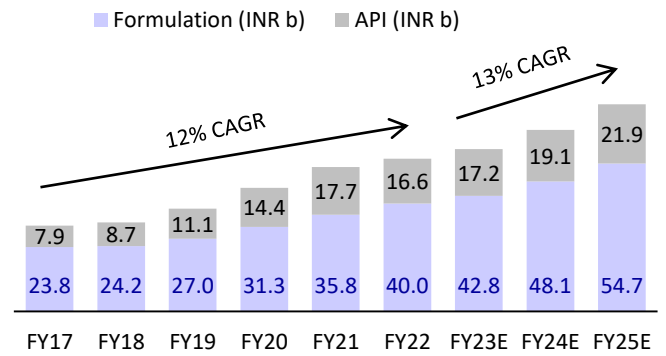
Exhibit 6: API sales up 4% YoY in 3QFY23



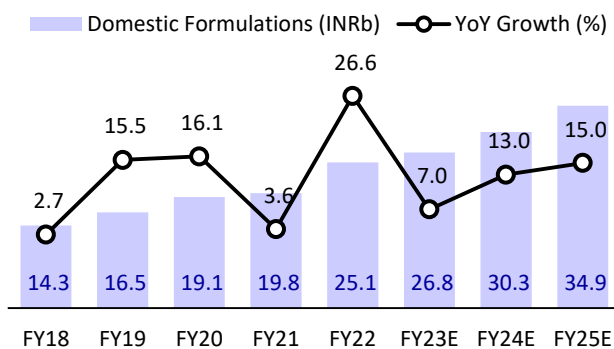
Source: Company, MOFSL

Exhibit 7: EBITDA margin falls 650bp YoY in 3QFY23

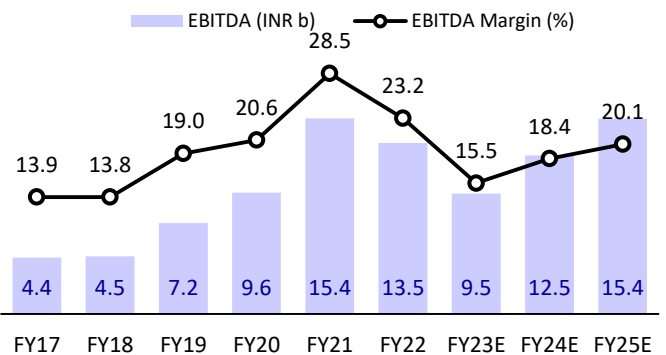
Source: Company, MOFSL

Exhibit 8: Expect 13% sales CAGR over FY23-25

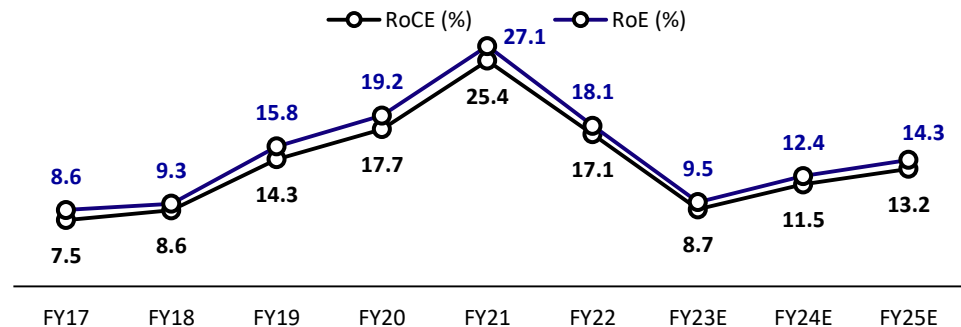
Source: Company, MOFSL

Exhibit 9: Expect 14% DF sales CAGR over FY23-25

Source: Company, MOFSL

Exhibit 10: Expect margin to bottom out in FY23

Source: Company, MOFSL

Exhibit 11: Expect return ratios to bottom out in FY23

Source: Company, MOFSL

Financials and valuations

Income Statement										(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	28,850	32,106	32,836	37,732	46,487	54,200	58,298	61,339	67,951	76,790
Change (%)	-8.2	11.3	2.3	14.9	23.2	16.6	7.6	5.2	10.8	13.0
EBITDA	3,417	4,448	4,547	7,170	9,580	15,444	13,509	9,508	12,503	15,435
Margin (%)	11.8	13.9	13.8	19.0	20.6	28.5	23.2	15.5	18.4	20.1
Depreciation	1,722	1,730	1,777	1,824	2,105	2,092	2,324	2,564	2,605	2,657
EBIT	1,695	2,718	2,770	5,346	7,475	13,352	11,184	6,943	9,897	12,778
Int. and Finance Charges	316	241	240	189	165	90	77	384	224	178
Other Income - Rec.	169	226	418	483	578	457	666	1,200	1,300	1,350
PBT before EO Expense	1,548	2,703	2,948	5,640	7,888	13,719	11,773	7,759	10,974	13,950
EO Expense/(Income)	395	0	0	157	445	-171	416	419	0	0
PBT after EO Expense	1,153	2,703	2,948	5,483	7,442	13,890	11,357	7,341	10,974	13,950
Current Tax	228	533	614	1,218	1,406	2,487	2,070	2,250	2,908	3,627
Deferred Tax	-42	142	-102	-176	-53	-85	178	155	219	279
Tax	186	675	511	1,042	1,353	2,401	2,248	2,405	3,128	3,906
Tax Rate (%)	12.0	25.0	17.3	18.5	17.2	17.5	19.1	31.0	28.5	28.0
Reported PAT	967	2,028	2,436	4,441	6,090	11,488	9,110	4,932	7,845	10,043
Less: Minority Interest	35	0	42	18	78	91	269	190	110	100
Net Profit	933	2,028	2,394	4,423	6,012	11,398	9,110	4,742	7,735	9,944
Adj PAT	1,328	2,028	2,394	4,580	6,485	11,255	9,218	5,402	7,736	9,944
Adj PAT growth (%)	-46.9	52.8	18.1	91.3	41.6	73.6	-18.1	-41.4	43.2	28.5

Balance Sheet										(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	252	252	252	252	252	254	254	254	254	254
Total Reserves	22,340	24,300	26,633	30,971	35,903	46,763	54,666	58,700	65,275	73,728
Net Worth	22,592	24,553	26,886	31,224	36,275	47,017	54,920	58,953	65,529	73,981
Deferred liabilities	1565	1705	1580	1457	1398	1316	1506	1661	1880	2159
Total Loans	6,691	5,290	4,731	3,505	4,328	1,988	8,027	7,631	7,275	6,954
Capital Employed	30,848	31,548	33,196	36,342	42,137	50,466	65,222	68,245	74,684	83,095
Gross Block	22,121	23,508	24,969	26,657	30,268	31,872	37,647	41,147	42,647	44,147
Less: Accum. Deprn.	1,628	3,350	5,127	6,951	9,056	11,148	13,472	16,036	18,642	21,299
Net Fixed Assets	20,493	20,158	19,842	19,706	21,212	20,724	24,175	25,111	24,005	22,848
Capital WIP	936	621	418	361	708	2,348	3,064	3,064	3,064	3,064
Investments	258	1,358	869	1,204	2,719	4,711	9,892	9,892	9,892	9,892
Curr. Assets	17,230	17,458	20,027	24,217	27,939	32,881	39,237	40,766	49,451	60,884
Inventory	8,374	8,822	8,806	10,725	13,231	15,948	18,580	19,651	21,409	24,382
Account Receivables	4,459	5,002	6,023	6,815	8,952	8,118	9,108	10,419	12,101	14,456
Cash and Bank Balance	1,755	359	1,506	2,823	1,809	3,651	6,407	5,150	9,798	14,925
Loans & Advances	2,641	3,276	3,693	3,854	3,947	5,164	5,143	5,546	6,143	7,120
Curr. Liability & Prov.	8,069	8,047	7,960	9,147	10,441	10,198	11,147	10,587	11,728	13,593
Account Payables	7,245	7,141	7,029	8,190	9,182	8,781	9,704	9,411	10,425	12,083
Provisions	824	906	931	957	1,259	1,417	1,443	1,176	1,303	1,510
Net Current Assets	9,160	9,410	12,068	15,070	17,498	22,682	28,091	30,178	37,723	47,290
Appl. of Funds	30,848	31,548	33,196	36,342	42,137	50,466	65,222	68,245	74,684	83,095

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS (INR)	5.2	8.0	9.4	18.1	25.6	44.4	36.3	21.3	30.5	39.2
Cash EPS	10.5	14.9	16.5	24.8	32.2	53.2	45.1	28.8	40.8	49.7
BV/Share	89.5	97.3	106.5	123.7	143.2	185.3	216.5	232.4	258.3	291.6
DPS	0.0	0.5	0.5	0.5	3.6	6.8	6.6	7.7	9.2	11.1
Payout (%)	0.0	6.2	5.2	2.8	14.8	14.9	18.3	39.2	29.4	27.8
Valuation (x)										
P/E	164.9	108.0	91.4	47.8	33.8	19.5	23.8	40.5	28.3	22.0
P/BV	9.6	8.9	8.1	7.0	6.0	4.7	4.0	3.7	3.3	3.0
EV/Sales	7.6	6.9	6.7	5.8	4.7	4.1	3.8	3.6	3.2	2.9
EV/EBITDA	64.5	49.6	48.5	30.8	23.0	14.3	16.3	23.2	17.6	14.3
Dividend Yield (%)	0.0	0.1	0.1	0.1	0.4	0.8	0.8	0.9	1.1	1.3
Return Ratios (%)										
RoE	5.9	8.6	9.3	15.8	19.2	27.1	18.1	9.5	12.4	14.3
RoCE	5.5	7.5	8.6	14.3	17.7	25.4	17.1	8.7	11.5	13.2
RoIC	5.3	7.1	7.7	14.0	18.0	28.7	21.1	10.0	13.9	17.2
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	3.3
Debtor (Days)	56	56	66	65	70	54	56	62	65	67
Inventory (Days)	106	100	98	104	104	107	116	117	115	116
Working Capital Turnover (Days)	94	103	117	118	123	128	136	149	150	154
Leverage Ratio (x)										
Interest Cover Ratio	5.4	11.3	11.5	28.3	45.3	147.7	145.4	18.1	44.3	71.8
Debt/Equity	0.2	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	-0.1

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Oper. Profit/(Loss) before Tax	3,417	4,448	4,547	7,170	9,580	15,444	13,509	9,508	12,503	15,435
Interest/Dividends Recd.	169	226	418	483	578	457	666	1,200	1,300	1,350
Direct Taxes Paid	-364	-535	-636	-1,165	-1,412	-2,484	-2,058	-2,250	-2,908	-3,627
(Inc)/Dec in WC	2,622	-1,647	-1,510	-1,686	-3,442	-3,343	-2,652	-3,345	-2,896	-4,440
CF from Operations	5,844	2,491	2,819	4,803	5,304	10,075	9,464	5,113	7,998	8,717
EO Expense / (Income)	395	0	0	157	445	-171	416	419	0	0
CF from Oper. incl EO Exp.	7,087	2,819	3,411	5,010	5,643	10,246	9,048	4,694	7,998	8,717
(inc)/dec in FA	5,079	-1,072	-1,258	-1,632	-3,958	-3,244	-6,491	-3,500	-1,500	-1,500
Free Cash Flow	12,165	1,747	2,154	3,379	1,685	7,002	2,557	1,194	6,498	7,217
(Pur)/Sale of Investments	-96	-1,100	489	-336	-1,515	-1,992	-5,181	0	0	0
CF from Investments	-2,183	-1,488	-1,354	-1,651	-5,097	-5,236	-11,672	-3,500	-1,500	-1,500
Issue of shares	0	0	0	0	0	1	0	0	0	0
(Inc)/Dec in Debt	-1,594	-1,401	-560	-1,070	804	-2,331	6,663	-1,165	-356	-321
Interest Paid	-316	-241	-240	-189	-165	-90	-77	-384	-224	-178
Dividend Paid	0	-126	-126	-126	-902	-1,710	-1,670	-1,933	-2,308	-2,790
CF from Fin. Activity	-4,615	-1,591	-1,304	-1,832	-1,305	-3,169	5,222	-2,760	-2,148	-2,355
Inc/Dec of Cash	288	-260	753	1,528	-758	1,841	2,598	-1,566	4,350	4,863
Add: Beginning Balance	1,037	1,689	1,428	2,181	3,709	2,954	4,795	7,393	5,827	10,177
Forex/ Business acquisition	364	0	0	0	3	0	0	0	0	0
Closing Balance	1,689	1,428	2,181	3,709	2,954	4,795	7,393	5,827	10,177	15,040
Bank balances / Mutual fund (gain)/ loss	67	-1,070	-676	-886	-1,145	-1,145	-986	-676	-379	-114
Closing Balance	1,755	359	1,506	2,823	1,809	3,650	6,407	5,150	9,798	14,925

NOTES

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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

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