Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Ipca Laboratories (IPCA IN)

Rating: HOLD | CMP: Rs863 | TP: Rs865

February 17, 2023

Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		ACCUMULATE	
Target Price	865		950	
Sales (Rs. m)	69,154	77,404	71,603	80,183
% Chng.	*(3.4)*	*(3.5)*		
EBITDA (Rs. m)	13,211	16,025	15,572	17,967
% Chng.	*(15.2)*	*(10.8)*		
EPS (Rs.)	30.0	37.5	37.9	44.4
% Chng.	*(20.8)*	*(15.4)*		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	58,298	61,656	69,154	77,404
EBITDA (Rs. m)	12,785	9,731	13,211	16,025
Margin (%)	*21.9*	*15.8*	*19.1*	*20.7*
PAT (Rs. m)	8,898	4,898	7,623	9,519
EPS (Rs.)	35.1	19.3	30.0	37.5
Gr. (%)	*(22.0)*	*(45.0)*	*55.6*	*24.9*
DPS (Rs.)	6.0	7.0	8.0	10.0
Yield (%)	*0.7*	*0.8*	*0.9*	*1.2*
RoE (%)	*17.5*	*8.7*	*12.6*	*14.3*
RoCE (%)	*18.7*	*11.2*	*15.6*	*18.3*
EV/Sales (x)	3.7	3.5	3.1	2.7
EV/EBITDA (x)	16.7	21.9	16.1	13.2
PE (x)	24.6	44.7	28.7	23.0
P/BV (x)	4.0	3.8	3.5	3.1

Key Data

Key Data	IPCA.BO | IPCA IN
52-W High / Low	Rs.1,095 / Rs.824
Sensex / Nifty	61,320 / 18,036
Market Cap	Rs.219bn/ $ 2,646m
Shares Outstanding	254m
3M Avg. Daily Value	Rs.219.29m

Shareholding Pattern (%)

Promoter's	46.29
Foreign	10.46
Domestic Institution	34.03
Public & Others	9.22
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.4)	(6.8)	(12.1)
Relative	(2.4)	(9.1)	(16.9)

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Weak margins

Quick Pointers:

- Q4FY23 will see revenue growth of 10-12% while margins to see further impact due to downward price revision in certain NLEM products
- Guided for 21% EBITDA margin in FY24

We reduce our FY24/FY25E EPS estimates by 21%/15% and downgrade the stock to 'Hold' from Accumulate with revised TP of Rs865 (Rs950 earlier), valuing at 23x on FY25E EPS. Our FY24/FY25E factors margin recovery to 19%/ 21%. Ipca Labs (IPCA) Q3 OPM of 15% was lowest since FY19, impacted by lower GMs and continued higher overheads. We expect margins to recover from Q1FY24 as revenues scale-up with NLEM benefits, along with easing of certain raw material prices. Domestic business (45% of total sales), remained strong and will continue to outperform IPM. Further, export business is on a gradual recovery mode with UK and export API business expected to normalize. At CMP, the stock is trading at 23x FY25E factoring in near term recovery. Downgrade to 'Hold'.

- **In-line revenues at Rs 15.5bn, aided by formulation sales**: IPCA's sales grew 8% YoY at Rs 15.5bn, vs our estimates of Rs15.4bn. Domestic business grew by 9% YoY to Rs7bn, while export formulation posted growth of 15% YoY to Rs 4bn vs our est. of Rs 3.8bn. Institutional business was up by 41% YoY due to higher order offtake. Branded business up by 17% YoY while generics up by 6% YoY. Export API grew by 6% YoY. Domestic API grew was flat YoY. Revenue from subsidiaries in Q3 came in at Rs 1.1bn.

- **EBIDTA below estimates (11% miss) led by lower gross margins:** Gross margins were at 63.7% (PL est 65%) in Q3 - down 40bps QoQ. EBITDA margins came at 15%, down 200bps QoQ impacted by lower gross margins and negative operating leverage. There was a forex loss of Rs 161mn booked in other expenses during the qtr. Adj for this EBITDA was at Rs 2.3bn (PL est Rs 2.6bn) down 22% YoY and 15% QoQ. Adj for forex, other expenses were flat on QoQ. Staff cost grew by 12% YoY. Tax rate came in higher at 32%. PAT declined by 45% YoY to Rs 1.1bn vs our est of Rs1.6bn.

- **Key Concall takeaways: (1) Domestic Formulation:** In Q3FY23, anti-malaria continued to decline while cardiovascular and anti-diabetic growth was muted at 2% YoY. These therapies contributed 22% of total domestic revenues in FY22 **(2) NLEM impact-** Certain Products under NLEM (~3-4% of total domestic revenues) saw price revision downward by ~15%; the impact of Rs700mn on annualized basis. However same products will get benefit of WPI (12% upward revision) w.e.f from April 2023 and hence impact is restricted to Q4FY23 **(3)** GMs impact was due to increased testing cost of APIs. Mgmt cited that such extent of testing will not continue in ensuing quarters and hence GMs should improve from FY24 **(4) Guidance-** Topline growth of 12-13%YoY. Segment wise API growth of 10% YoY, tender business at Rs 3.25-3.5bn and branded generic business to grow by 15% in FY24. Guided for 21% OPM in FY24 including other income. Tax at 29-30%. Capex of Rs5bn includes commissioned biotech project. Total 5 products are in pipeline of which 2 are in clinical stage. This would also aid R&D expenses going forward.

Exhibit 1: 3QFY23 Result Overview (Rs mn): Lower gross margins and higher other exps impacted EBIDTA

Y/e March	Q3FY23	Q3FY22	*YoY gr. (%)*	Q2FY23	*QoQ gr. (%)*	9MFY23	9MFY22	*YoY gr. (%)*
Net Sales	**15,460**	**14,305**	***8.1***	**16,010**	***(3.4)***	**47,327**	**45,407**	***4.2***
Raw Material	5,618	4,986	*12.7*	5,748	*(2.3)*	17,153	15,886	*8.0*
% of Net Sales	*36.3*	*34.9*		*35.9*		*36.2*	*35.0*	
Personnel Cost	3,184	2,837	*12.3*	3,192	*(0.2)*	9,603	8,797	*9.2*
% of Net Sales	*20.6*	*19.8*		*19.9*		*20.3*	*19.4*	
Others	4,338	3,503	*23.8*	4,347	*(0.2)*	12,694	10,154	*25.0*
% of Net Sales	*28.1*	*24.5*		*27.2*		*26.8*	*22.4*	
Total Expenditure	13,141	11,326	*16.0*	13,287	*(1.1)*	39,450	34,837	*13.2*
EBITDA	**2,319**	**2,979**	***(22.1)***	**2,723**	***(14.8)***	**7,877**	**10,570**	***(25.5)***
Margin (%)	*15.0*	*20.8*		*17.0*		*16.6*	*23.3*	
Depreciation	666	587	*13.5*	637	*4.4*	1,920	1,715	*12.0*
EBIT	**1,654**	**2,393**	***(30.9)***	**2,086**	***(20.7)***	**5,957**	**8,855**	***(32.7)***
Other Income	148	228	*(35.1)*	246	*(39.7)*	473	850	*(44.4)*
Interest	108	14	*658.0*	93	*16.4*	271	43	*528.5*
PBT	**1,693**	**2,607**	***(35.0)***	**2,238**	***(24.3)***	**6,159**	**9,662**	***(36.3)***
Total Taxes	537	573	*(6.3)*	770	*(30.2)*	2,050	1,960	*4.6*
ETR (%)	*31.7*	*22.0*		*34.4*		*33.3*	*20.3*	
Reported PAT	**1,156**	**2,033**	***(43.1)***	**1,468**	***(21.3)***	**4,109**	**7,702**	***(46.7)***
Minority Interest	(78)	(64)		(29)		(161)	(163)	
Adjusted PAT	**1,078**	**1,970**	***(45.2)***	**1,439**	***(25.1)***	**3,948**	**7,539**	***(47.6)***

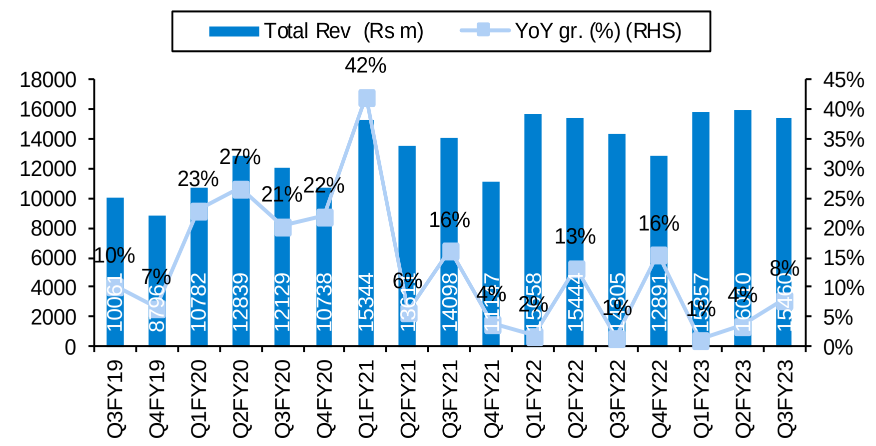
Source: Company, PL

Exhibit 2: Export business drives the revenue

Major sources of revenues (Rs mn)	Q3FY23	Q3FY22	*YoY gr. (%)*	Q2FY23	*QoQ gr. (%)*	9MFY23	9MFY22	*YoY gr. (%)*
Domestic	**7,872**	**7,308**	***7.7***	**8,485**	***(7.2)***	**24,098**	**22,049**	***9.3***
Formulations	7,023	6,453	***8.8***	7,657	***(8.3)***	21,528	19,565	***10.0***
APIs	849	856	***(0.7)***	828	***2.5***	2,570	2,484	***3.5***
Exports	**6,377**	**5,713**	***11.6***	**6,287**	***1.4***	**19,540**	**19,754**	***(1.1)***
Formulations	4,004	3,475	***15.2***	4,044	***(1.0)***	12,066	11,403	***5.8***
APIs	2,373	2,238	***6.0***	2,243	***5.8***	7,474	8,351	***(10.5)***

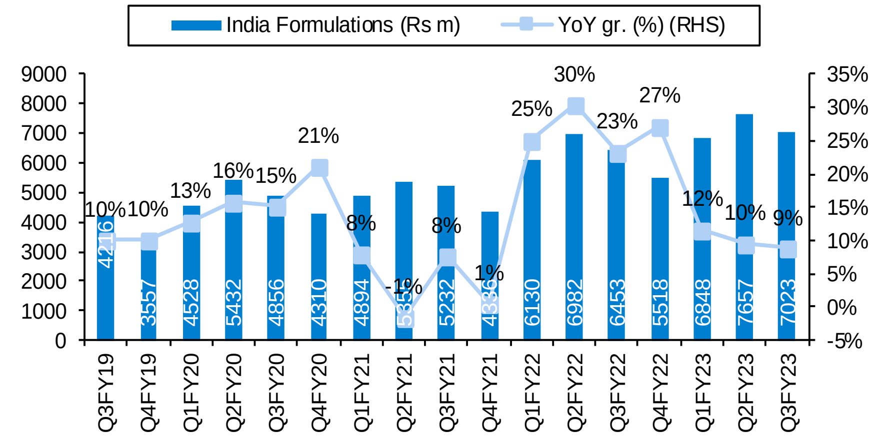
Source: Company, PL

Exhibit 3: In-line revenues aided by export formulation



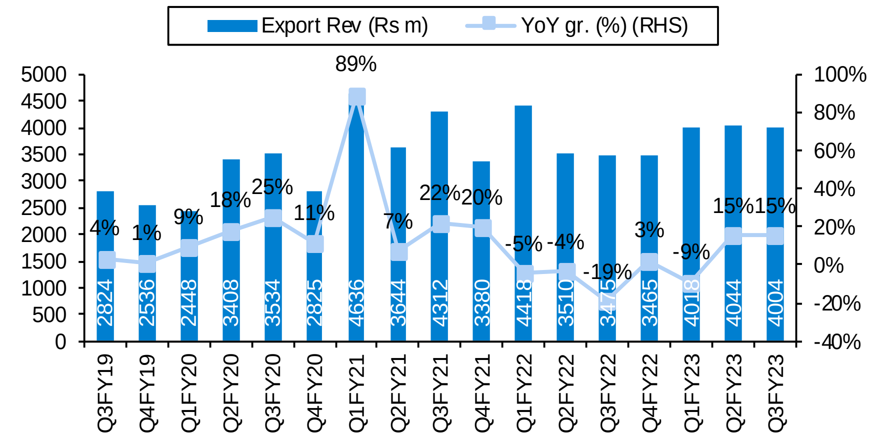
Source: Company, PL

Exhibit 4: Moderate growth impacted by lower anti-malaria & diabetic sales



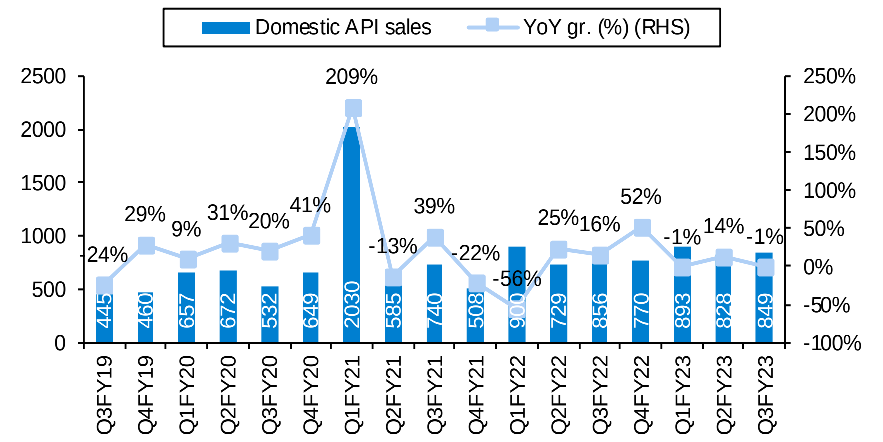
Source: Company, PL

Exhibit 5: Branded generics reported healthy growth of 15% YoY



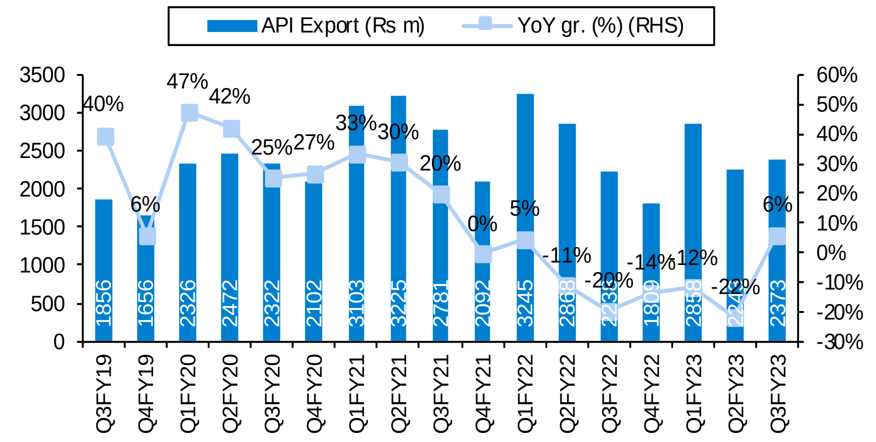
Source: Company, PL

Exhibit 6: Domestic API was flat YoY



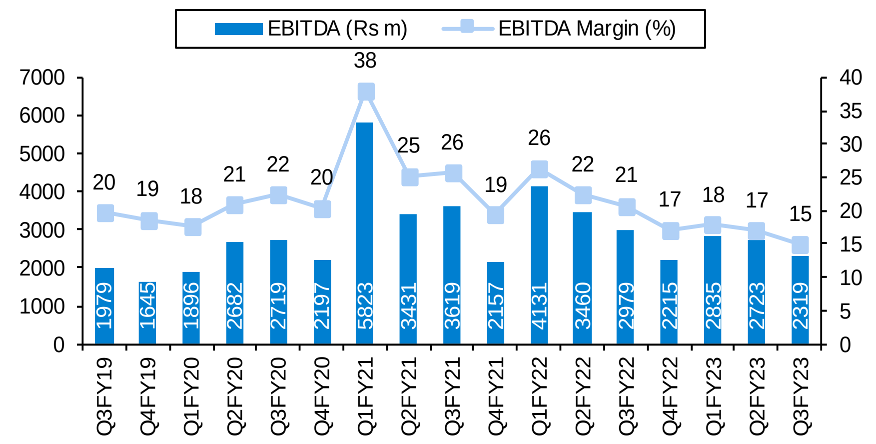
Source: Company, PL

Exhibit 7: Recovery expected on the business normalisation



Source: Company, PL

Exhibit 8: Margin remained weak on lower GMs and higher overheads



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	**58,298**	**61,656**	**69,154**	**77,404**
YoY gr. (%)	*7.6*	*5.8*	*12.2*	*11.9*
Cost of Goods Sold	24,793	27,667	29,524	32,408
Gross Profit	33,505	33,989	39,630	44,996
Margin (%)	*57.5*	*55.1*	*57.3*	*58.1*
Employee Cost	11,774	12,834	14,245	15,812
Other Expenses	8,946	11,424	12,174	13,158
EBITDA	**12,785**	**9,731**	**13,211**	**16,025**
YoY gr. (%)	*(14.9)*	*(23.9)*	*35.8*	*21.3*
Margin (%)	*21.9*	*15.8*	*19.1*	*20.7*
Depreciation and Amortization	2,324	2,580	2,864	3,207
EBIT	**10,461**	**7,151**	**10,348**	**12,818**
Margin (%)	*17.9*	*11.6*	*15.0*	*16.6*
Net Interest	77	390	400	300
Other Income	974	780	1,000	1,100
Profit Before Tax	**11,357**	**7,541**	**10,948**	**13,618**
Margin (%)	*19.5*	*12.2*	*15.8*	*17.6*
Total Tax	2,248	2,413	3,175	3,949
Effective tax rate (%)	*19.8*	*32.0*	*29.0*	*29.0*
Profit after tax	**9,110**	**5,128**	**7,773**	**9,669**
Minority interest	-	-	-	-
Share Profit from Associate	(212)	(230)	(150)	(150)
Adjusted PAT	**8,898**	**4,898**	**7,623**	**9,519**
YoY gr. (%)	*(22.0)*	*(45.0)*	*55.6*	*24.9*
Margin (%)	*15.3*	*7.9*	*11.0*	*12.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**8,898**	**4,898**	**7,623**	**9,519**
YoY gr. (%)	*(22.0)*	*(45.0)*	*55.6*	*24.9*
Margin (%)	*15.3*	*7.9*	*11.0*	*12.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,898	4,898	7,623	9,519
Equity Shares O/s (m)	**254**	**254**	**254**	**254**
EPS (Rs)	**35.1**	**19.3**	**30.0**	**37.5**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	**37,079**	**42,579**	**47,579**	**53,079**
Tangibles	37,079	42,579	47,579	53,079
Intangibles	-	-	-	-
Acc: Dep / Amortization	**13,446**	**16,026**	**18,889**	**22,096**
Tangibles	13,446	16,026	18,889	22,096
Intangibles	-	-	-	-
Net fixed assets	**23,634**	**26,554**	**28,690**	**30,983**
Tangibles	23,634	26,554	28,690	30,983
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	-	-	-	-
Current Assets				
Investments	7,193	7,193	7,193	7,193
Inventories	18,580	18,745	21,008	23,514
Trade receivables	9,108	10,224	11,459	12,826
Cash & Bank Balance	6,407	4,617	3,272	3,034
Other Current Assets	2,205	2,205	2,205	2,205
Total Assets	**76,368**	**78,927**	**83,371**	**89,460**
Equity				
Equity Share Capital	507	507	507	507
Other Equity	54,412	57,489	62,918	69,656
Total Networth	**54,920**	**57,996**	**63,425**	**70,164**
Non-Current Liabilities				
Long Term borrowings	3,952	3,952	3,952	3,952
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,961	2,461	461	(1,539)
Trade payables	5,577	6,305	7,066	7,909
Other current liabilities	6,454	6,708	6,961	7,469
Total Equity & Liabilities	**76,369**	**78,927**	**83,371**	**89,460**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	10,538	7,541	10,748	13,118
Add. Depreciation	2,324	2,580	2,864	3,207
Add. Interest	(77)	(390)	(400)	(300)
Less Financial Other Income	974	780	1,000	1,100
Add. Other	795	-	-	-
Op. profit before WC changes	13,580	9,731	13,211	16,025
Net Changes-WC	(3,010)	(447)	(2,637)	(2,684)
Direct tax	(2,020)	(2,413)	(3,175)	(3,949)
Net cash from Op. activities	**8,551**	**6,871**	**7,399**	**9,392**
Capital expenditures	(7,547)	(5,500)	(5,000)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(7,547)**	**(5,500)**	**(5,000)**	**(5,500)**
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	810	600	800
Others	(3,225)	(420)	-	-
Net cash from Fin. activities	**1,752**	**(3,161)**	**(3,744)**	**(4,130)**
Net change in cash	**2,756**	**(1,790)**	**(1,345)**	**(238)**
Free Cash Flow	3,761	1,371	2,399	3,892

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	35.1	19.3	30.0	37.5
CEPS	44.2	29.5	41.3	50.2
BVPS	216.5	228.6	250.0	276.6
FCF	14.8	5.4	9.5	15.3
DPS	6.0	7.0	8.0	10.0
Return Ratio(%)				
RoCE	18.7	11.2	15.6	18.3
ROIC	16.7	10.7	14.2	16.2
RoE	17.5	8.7	12.6	14.3
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	138	134	134	134
Valuation(x)				
PER	24.6	44.7	28.7	23.0
P/B	4.0	3.8	3.5	3.1
P/CEPS	19.5	29.3	20.9	17.2
EV/EBITDA	16.7	21.9	16.1	13.2
EV/Sales	3.7	3.5	3.1	2.7
Dividend Yield (%)	0.7	0.8	0.9	1.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	**12,891**	**15,857**	**16,010**	**15,460**
YoY gr. (%)	*15.6*	*1.3*	*3.7*	*8.1*
Raw Material Expenses	4,262	5,787	5,748	5,618
Gross Profit	8,629	10,070	10,262	9,842
Margin (%)	*66.9*	*63.5*	*64.1*	*63.7*
EBITDA	**2,215**	**2,835**	**2,723**	**2,319**
YoY gr. (%)	*2.7*	*(31.4)*	*(21.3)*	*(22.1)*
Margin (%)	*17.2*	*17.9*	*17.0*	*15.0*
Depreciation / Depletion	609	617	637	666
EBIT	**1,606**	**2,218**	**2,086**	**1,654**
Margin (%)	*12.5*	*14.0*	*13.0*	*10.7*
Net Interest	34	69	93	108
Other Income	124	79	246	148
Profit before Tax	**1,696**	**2,227**	**2,238**	**1,693**
Margin (%)	*13.2*	*14.0*	*14.0*	*11.0*
Total Tax	288	743	770	537
Effective tax rate (%)	*17.0*	*33.3*	*34.4*	*31.7*
Profit after Tax	**1,408**	**1,484**	**1,468**	**1,156**
Minority interest	106	54	29	78
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,302**	**1,431**	**1,439**	**1,078**
YoY gr. (%)	*(19.2)*	*(53.4)*	*(42.5)*	*(45.2)*
Margin (%)	*10.1*	*9.0*	*9.0*	*7.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,302**	**1,431**	**1,439**	**1,078**
YoY gr. (%)	*(19.2)*	*(53.4)*	*(42.5)*	*(45.2)*
Margin (%)	*10.1*	*9.0*	*9.0*	*7.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,302**	**1,431**	**1,439**	**1,078**
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	**5.1**	**5.6**	**5.7**	**4.3**

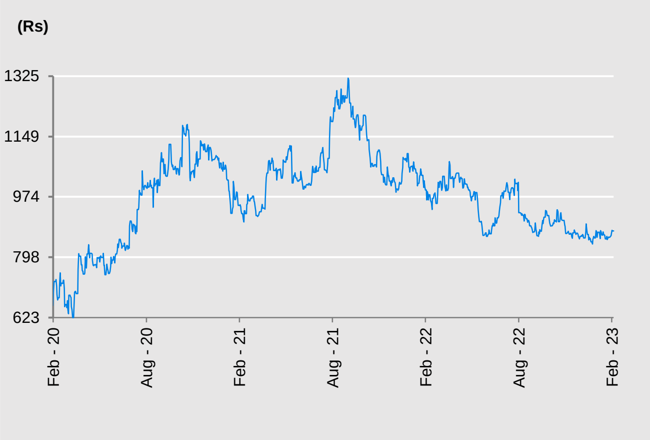
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Domestic Formulations	25,083	27,792	31,405	35,487
Domestic API	3,254	3,417	3,759	4,134
Export Formulations	14,867	15,729	17,588	19,646
Export API	10,160	9,804	11,078	12,519

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	Accumulate	950	858
2	15-Nov-22	Accumulate	950	870
3	06-Oct-22	Accumulate	1,000	934
4	29-Sep-22	Accumulate	1,000	896
5	12-Aug-22	Hold	1,010	1,016
6	07-Jul-22	BUY	1,085	946
7	26-May-22	BUY	1,085	938
8	08-Apr-22	BUY	1,180	1,002

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,387
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	BUY	565	469
4	Cipla	BUY	1,280	1,035
5	Divi's Laboratories	Hold	2,700	2,884
6	Dr. Reddy's Laboratories	BUY	4,900	4,201
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	272
9	Glenmark Pharmaceuticals	Accumulate	460	423
10	HealthCare Global Enterprises	BUY	375	282
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Accumulate	950	858
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,965
14	Krishna Institute of Medical Sciences	BUY	1,660	1,469
15	Lupin	Hold	675	737
16	Max Healthcare Institute	BUY	500	436
17	Narayana Hrudayalaya	BUY	965	719
18	Sun Pharmaceutical Industries	BUY	1,175	1,035
19	Torrent Pharmaceuticals	BUY	1,820	1,557
20	Zydus Lifesciences	Accumulate	480	435

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

ANALYST CERTIFICATION

(Indian Clients)

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