

April 25, 2023

Event Update

■ Change in Estimates | ☒ Target | ■ Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|--------|----------|--------|
| | FY24E | FY25E | FY24E | FY25E |
| Rating | HOLD | | HOLD | |
| Target Price | 750 | | 865 | |
| Sales (Rs. m) | 69,154 | 77,404 | 69,154 | 77,404 |
| % Chng. | - | - | - | - |
| EBITDA (Rs. m) | 13,211 | 16,025 | 13,211 | 16,025 |
| % Chng. | - | - | - | - |
| EPS (Rs.) | 30.0 | 37.5 | 30.0 | 37.5 |
| % Chng. | - | - | - | - |

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 (%) | 0.8 | 0.9 | 1.1 | 1.3 |
| RoE (%) | 17.5 | 8.7 | 12.6 | 14.3 |
| RoCE (%) | 18.7 | 11.2 | 15.6 | 18.3 |
| EV/Sales (x) | 3.1 | 3.0 | 2.6 | 2.3 |
| EV/EBITDA (x) | 14.3 | 18.8 | 13.8 | 11.2 |
| PE (x) | 21.1 | 38.4 | 24.7 | 19.8 |
| P/BV (x) | 3.4 | 3.2 | 3.0 | 2.7 |

Key Data

IPCA.BO | IPCA IN

| | | |
|---------------------|---------------------|--|
| 52-W High / Low | Rs.1,037 / Rs.740 | |
| Sensex / Nifty | 60,131 / 17,769 | |
| Market Cap | Rs.188bn/ \$ 2,295m | |
| Shares Outstanding | 254m | |
| 3M Avg. Daily Value | Rs.287.15m | |

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 | (5.2) | (20.8) | (25.8) |
| Relative | (9.3) | (21.6) | (30.2) |

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Ipca Laboratories (IPCA IN)

Rating: HOLD | CMP: Rs741 | TP: Rs750

Unichem acquisition; expensive and dilutive

IPCA Labs (IPCA) has entered into a definitive agreement to buy 33.4% promoter stake of Unichem Laboratories (Unichem). The acquisition will allow IPCA to re-enter US formulation generic market, however at 2.3x sales, as acquisition cost is expensive in our view given challenges and uncertainty associated with US market. We do believe that Ipca has a huge scope to improve its operational efficiencies and potentially scale up OPM to +15% from current level of 6-7% in near term. The company has also guided for Rs3bn annual EBITDA from Unichem business within 2 years of taking management control. Even after factoring this, acquisition cost works out to be at 10x EV/EBITDA and largely EPS neutral in FY25E, however RoE/RoCE will be dilutive by ~200bps. Historically Ipca has done few acquisitions, but with size like Unichem will test management bandwidth and execution capabilities. Maintain 'HOLD' rating with revised TP of Rs 750/share (Rs865 earlier) at 20x FY25E EPS.

- **Contours of the transaction:** IPCA entered into definitive agreement to buy 33.4% promoter stake of Unichem Laboratories at Rs440/share, which will result in total cash consideration of Rs10.3bn. This proposed acquisition is subject to approval from the Competition Commission of India. Acquisition of Unichem is transacted at 15% premium to CMP. Ipca will also have to make mandatory open offer to the tune of 26% at Rs440/ share. This will result in additional cash outflow of Rs8bn. The transaction is likely to be completed over next 4-6 months.
- **Expensive acquisition; aim to re-enter the US market:** Post exit from India business in 2017, Unichem has strong footing in export market with over 55-60% contribution coming from US generic business. Remaining business is spread across Brazil, Ireland, China, South Africa and other markets. Unichem acquisition is transacted at 2.3x of revenues; much higher for any export generic biz transacted in recent past. Though compliance track record of Unichem is robust; any regulatory setbacks can push back operational synergies.
- **Key concall highlights:** (1) IPCA will be taking over the management control after the completion of open offer irrespective of majority stake in Unichem Labs; which will continue to exist as separate listed entity. (2) The company intends to bring operational efficiencies, cost optimization, enhancement of product offerings, backward integration of API and increasing its capacity utilizations along with other synergies through Unichem acquisition (3) Unichem has good track record within regulatory compliance in chosen markets. US contributes 55-60% of total revenues with ~75 ANDAs filed of which 44 are marketed currently and 78 DMFs filed. Top 10 products in US are contributing 75% of sales of which 70% are backward integrated (4) Unichem has 3.5 acres of land in Jogheshwari, Mumbai and Rs2.8bn GST refund dispute which can be monetize. On other hand, there is Rs1.2bn contingent liability (5) Unichem has spent Rs10bn capex over last 4 years. As of FY22 end, gross block stands at Rs9bn with capital WIP at Rs5bn. Management guided for potential peak revenues of Rs20-24bn at full utilization levels. On immediate basis, guided for 16-17% revenue growth with Rs17-18bn revenues and Rs3bn EBITDA within 2 years of taking management control.

Exhibit 1: Unichem P&L statement

| (Rs mn) | FY20 | FY21 | FY22 | 9MFY23 |
|--------------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 11037 | 12351 | 12698 | 9409 |
| <i>% yoy growth</i> | | 11.9 | 2.8 | |
| Cost of goods sold | 3872 | 3794 | 4158 | 3776 |
| <i>% of revenues</i> | 35.1 | 30.7 | 32.7 | 40.1 |
| Gross Profit | 7,165 | 8,558 | 8,540 | 5,633 |
| <i>% of revenues</i> | 64.9 | 69.3 | 67.3 | 59.9 |
| Employee cost | 2733 | 3070 | 3305 | 2677 |
| <i>% of revenues</i> | 24.8 | 24.9 | 26.0 | 28.4 |
| Other Expense | 4941 | 4577 | 4435 | 3560 |
| <i>% of revenues</i> | 44.8 | 37.1 | 34.9 | 37.8 |
| EBITDA | (508) | 911 | 800 | (603) |
| <i>% of revenues</i> | (4.6) | 7.4 | 6.3 | (6.4) |
| Depreciation | 817 | 844 | 912 | 838 |
| EBIT | (1,325) | 68 | (111) | (1,441) |
| Interest cost | 78 | 51 | 61 | 118 |
| Other income | 913 | 502 | 475 | 334 |
| PBT | (490) | 518 | 303 | (1,225) |
| <i>% of revenues</i> | (4.4) | 4.2 | 2.4 | (13.0) |
| Exceptional items | 0 | 0 | 72 | 67 |
| Current Tax | 120 | 172 | -111 | 288 |
| <i>% of PBT</i> | -24.4 | 33.1 | -36.6 | -23.5 |
| Net profit | (610) | 347 | 341 | (1,580) |
| Share of associates | 8 | -3 | -11 | 0 |
| Adj. PAT | (602) | 343 | 331 | (1,580) |
| <i>% of revenues</i> | (5.5) | 2.8 | 2.6 | (16.8) |
| (Rs mn) | FY19 | FY20 | FY21 | FY22 |
| Gross block | 8045 | 8,152 | 8,328 | 9,245 |
| Capital work-in-progress | 924 | 3,305 | 5,675 | 4,938 |
| Cash and Bank | 2,010 | 2,338 | 824 | 1,141 |
| Current Investments | 8,008 | 4,191 | 2,364 | 2,636 |
| Long term Borrowings | 0 | 0 | 0 | 890 |
| Short term Borrowings | 1,997 | 1,840 | 1,006 | 2,414 |
| Total loans | 1,997 | 1,840 | 1,006 | 3,304 |
| Capex | -1,943 | -3,862 | -2,878 | -1,270 |

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 Network | 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

Quarterly Financials (Rs m)

| Y/e Mar | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23E |
|-----------------------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 15,857 | 16,010 | 15,460 | 14,329 |
| YoY gr. (%) | 1.3 | 3.7 | 8.1 | 11.2 |
| Raw Material Expenses | 5,787 | 5,748 | 5,618 | 5,238 |
| Gross Profit | 10,070 | 10,262 | 9,842 | 9,091 |
| Margin (%) | 63.5 | 64.1 | 63.7 | 63.4 |
| EBITDA | 2,835 | 2,723 | 2,319 | 1,854 |
| YoY gr. (%) | (31.4) | (21.3) | (22.1) | (16.3) |
| Margin (%) | 17.9 | 17.0 | 15.0 | 12.9 |
| Depreciation / Depletion | 617 | 637 | 666 | 660 |
| EBIT | 2,218 | 2,086 | 1,654 | 1,194 |
| Margin (%) | 14.0 | 13.0 | 10.7 | 8.3 |
| Net Interest | 69 | 93 | 108 | 119 |
| Other Income | 79 | 246 | 148 | 308 |
| Profit before Tax | 2,227 | 2,238 | 1,693 | 1,383 |
| Margin (%) | 14.0 | 14.0 | 11.0 | 9.7 |
| Total Tax | 743 | 770 | 537 | 363 |
| Effective tax rate (%) | 33.3 | 34.4 | 31.7 | 26.3 |
| Profit after Tax | 1,484 | 1,468 | 1,156 | 1,020 |
| Minority interest | 54 | 29 | 78 | 69 |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 1,431 | 1,439 | 1,078 | 950 |
| YoY gr. (%) | (53.4) | (42.5) | (45.2) | (27.0) |
| Margin (%) | 9.0 | 9.0 | 7.0 | 6.6 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 1,431 | 1,439 | 1,078 | 950 |
| YoY gr. (%) | (53.4) | (42.5) | (45.2) | (27.0) |
| Margin (%) | 9.0 | 9.0 | 7.0 | 6.6 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 1,431 | 1,439 | 1,078 | 950 |
| Avg. Shares O/s (m) | - | - | - | - |
| EPS (Rs) | 5.6 | 5.7 | 4.3 | 3.7 |

Source: Company Data, PL Research

Key Financial Metrics

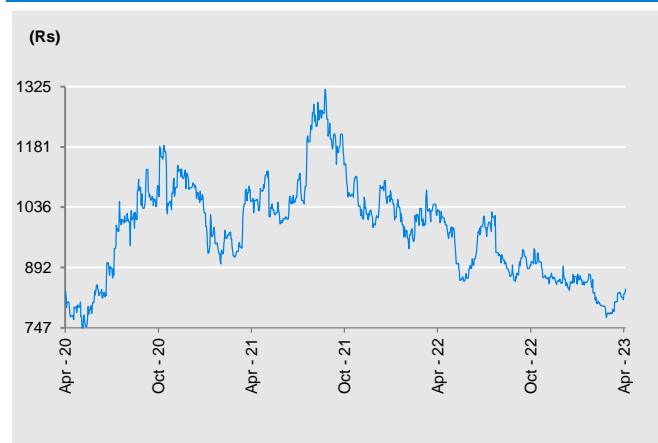
| Y/e Mar | FY22 | FY23E | FY24E | FY25E |
|----------------------------|-------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 35.1 | 19.3 | 30.0 | 37.5 |
| CEPS | 44.2 | 29.5 | 41.3 | 50.2 |
| BVPS | 216.5 | 228.6 | 250.0 | 276.6 |
| FCF | 14.8 | 5.4 | 9.5 | 15.3 |
| DPS | 6.0 | 7.0 | 8.0 | 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 | 21.1 | 38.4 | 24.7 | 19.8 |
| P/B | 3.4 | 3.2 | 3.0 | 2.7 |
| P/CEPS | 16.8 | 25.1 | 17.9 | 14.8 |
| EV/EBITDA | 14.3 | 18.8 | 13.8 | 11.2 |
| EV/Sales | 3.1 | 3.0 | 2.6 | 2.3 |
| Dividend Yield (%) | 0.8 | 0.9 | 1.1 | 1.3 |

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-Apr-23 | Hold | 865 | 810 |
| 2 | 17-Feb-23 | Hold | 865 | 863 |
| 3 | 06-Jan-23 | Accumulate | 950 | 858 |
| 4 | 15-Nov-22 | Accumulate | 950 | 870 |
| 5 | 06-Oct-22 | Accumulate | 1,000 | 934 |
| 6 | 29-Sep-22 | Accumulate | 1,000 | 896 |
| 7 | 12-Aug-22 | Hold | 1,010 | 1,016 |
| 8 | 07-Jul-22 | BUY | 1,085 | 946 |
| 9 | 26-May-22 | BUY | 1,085 | 938 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|---------------------------------------|------------|---------|------------------|
| 1 | Apollo Hospitals Enterprise | BUY | 5,400 | 4,201 |
| 2 | Aster DM Healthcare | BUY | 265 | 240 |
| 3 | Aurobindo Pharma | BUY | 565 | 522 |
| 4 | Cipla | BUY | 1,070 | 896 |
| 5 | Divi's Laboratories | Hold | 2,700 | 2,890 |
| 6 | Dr. Reddy's Laboratories | BUY | 4,900 | 4,683 |
| 7 | Eris Lifesciences | BUY | 780 | 585 |
| 8 | Fortis Healthcare | BUY | 360 | 256 |
| 9 | Glenmark Pharmaceuticals | Accumulate | 460 | 480 |
| 10 | HealthCare Global Enterprises | BUY | 375 | 274 |
| 11 | Indoco Remedies | BUY | 430 | 328 |
| 12 | Ipca Laboratories | Hold | 865 | 810 |
| 13 | J.B. Chemicals & Pharmaceuticals | BUY | 2,350 | 1,975 |
| 14 | Krishna Institute of Medical Sciences | BUY | 1,660 | 1,415 |
| 15 | Lupin | Hold | 675 | 659 |
| 16 | Max Healthcare Institute | BUY | 500 | 419 |
| 17 | Narayana Hrudayalaya | BUY | 965 | 760 |
| 18 | Sun Pharmaceutical Industries | BUY | 1,175 | 997 |
| 19 | Torrent Pharmaceuticals | BUY | 1,820 | 1,578 |
| 20 | Zydus Lifesciences | Accumulate | 480 | 493 |

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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