Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Ipca Laboratories (IPCA IN)

Rating: HOLD | CMP: Rs741 | TP: Rs750

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)

Param Desai
paramdesai@plindia.com | 91-22-66322259

Akshaya Shinde
akshayashinde@plndia.com | 91-22-66322490

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
% yoy growth		*11.9*	*2.8*	
Cost of goods sold	3872	3794	4158	3776
% of revenues	*35.1*	*30.7*	*32.7*	*40.1*
Gross Profit	7,165	8,558	8,540	5,633
% of revenues	*64.9*	*69.3*	*67.3*	*59.9*
Employe cost	2733	3070	3305	2677
% of revenues	*24.8*	*24.9*	*26.0*	*28.4*
Other Expense	4941	4577	4435	3560
% of revenues	*44.8*	*37.1*	*34.9*	*37.8*
EBITDA	(508)	911	800	(603)
% of revenues	*(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)
% of revenues	*(4.4)*	*4.2*	*2.4*	*(13.0)*
Exceptional items	0	0	72	67
Current Tax	120	172	-111	288
% of PBT	*-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)
% of revenues	*(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 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	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

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**

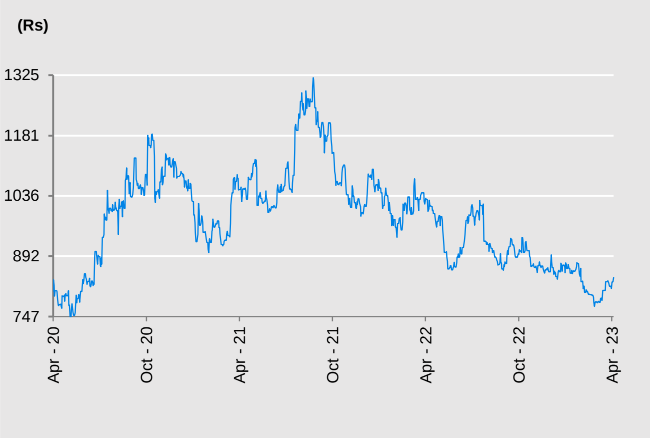
Source: Company Data, PL Research

Key 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

ANALYST CERTIFICATION

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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com

Amnish Aggarwal