

August 13, 2023

Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	880		750	
Sales (Rs. m)	67,044	75,839	69,375	77,641
% Chng.	(3.4)	(2.3)		
EBITDA (Rs. m)	12,662	15,766	13,174	15,984
% Chng.	(3.9)	(1.4)		
EPS (Rs.)	26.4	35.4	29.8	37.3
% Chng.	(11.4)	(5.2)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	58,298	62,443	67,044	75,839
EBITDA (Rs. m)	12,785	9,582	12,662	15,766
Margin (%)	21.9	15.3	18.9	20.8
PAT (Rs. m)	8,898	4,790	6,709	8,969
EPS (Rs.)	17.5	18.9	26.4	35.4
Gr. (%)	(22.0)	7.7	40.1	33.7
DPS (Rs.)	3.0	7.0	8.0	10.0
Yield (%)	0.3	0.8	0.9	1.1
RoE (%)	17.5	8.5	11.1	13.6
RoCE (%)	18.7	10.3	13.3	16.4
EV/Sales (x)	7.8	3.6	3.3	2.9
EV/EBITDA (x)	35.5	23.2	17.5	14.0
PE (x)	51.6	47.9	34.2	25.6
P/BV (x)	8.4	3.9	3.6	3.3

Key Data

IPCA.BO | IPCA IN

52-W High / Low	Rs.1,023 / Rs.670
Sensex / Nifty	65,323 / 19,428
Market Cap	Rs.230bn/ \$ 2,771m
Shares Outstanding	254m
3M Avg. Daily Value	Rs.536.51m

Shareholding Pattern (%)

Promoter's	46.29
Foreign	10.05
Domestic Institution	35.18
Public & Others	8.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	18.3	3.5	(11.0)
Relative	18.8	(3.9)	(19.1)

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Ipca Laboratories (IPCA IN)

Rating: HOLD | CMP: Rs905 | TP: Rs880

Mixed bag - Margin recovery while muted export business

Quick Pointers:

- Domestic formulation business continues to outperform market
- Guided for 19-19.5% margin with 6-8% revenue growth in FY24

Ipca Labs (IPCA) Q1 EBITDA of Rs2.95bn was broadly in line with our estimate. Domestic formulation business continues to outperform and grow at healthy levels however export business (50% of total sales) outlook remains muted and will drag profitability. We reduce our FY24/FY25E EPS estimates by 12%/6% to factor in lower revenue growth from export business. The Unichem acquisition will allow IPCA to re-enter US formulation generic market, however it may be margin and return ratios dilutive in near term. At CMP, the stock is trading at 26x FY25E factoring in near term recovery. Maintain our 'Hold' rating with revised TP of Rs880/share (Rs750 earlier), valuing at 25x (20x earlier) FY25E EPS.

- Revenues miss led by lower API sales:** IPCA's revenues came in at Rs 16bn (flat YoY) vs our estimate of Rs 17bn. The miss was on account of lower API sales. Domestic formulations grew healthy at 14% YoY to Rs7.8bn. Export formulation declined by 1% YoY to Rs 4bn. Branded and generic business growth was healthy at 23% and 11% YoY respectively. Institutional business was down by 50% YoY. Overall API business was largely impacted due to lower realization and ant-malaria sales; down 23% YoY. Export API declined 24% YoY while domestic API was down 20% YoY. Revenue from subsidiaries came at Rs 1bn.
- In line EBITDA; higher gross margins:** Gross margins were up by 400bps YoY and 650bps QoQ at 67.5% (we estimate 65%). There was a forex gain of Rs 135mn booked under other expenses in Q1FY24. Adj for this EBITDA was at Rs 2.9bn; up 4% YoY; broadly in line with our estimate. Consolidated EBITDA margins came in at 18.5%, up 60bps YoY. Lower KSM prices and revision in NLEM benefited margins in Q1FY24. Tax rate stood at higher at 34%. PAT improved by 15% YoY to Rs 1.65bn vs our estimates of Rs 1.7bn.
- Key Concall takeaways: (1) Domestic Formulation:** Robust growth was witnessed across key therapies like Pain, cardiac, derma, Opthal and CNS segments. Gained rank by 2 in chronic segment. Achieved break even within one-year launch of cardiac division. Similar productivity improvement was seen in other divisions where people were added **(2) API business** – Revenue decline due to lower anti-malarial sales and reduction in KSM prices. Guided for ~10% revenue decline in FY24. **(3) Institutional business**- Lower offtake and plnat shutdown for injectable biz led to lower sales however expect recovery from H2FY24. Guided for 15% YoY decline **(4) GMS** improvement aided by better product mix and softening of API prices. Guided GMS to sustain at current level of ~67%. Overall guided for 300-350bps margin improvement in standalone biz. During Q1 subsidiaries reported Rs30mn of loss at PAT level which is likely to come down **(5) Among other export business;** generic business likely to grow at 6-8% while branded generic business to grow by 12-13%. UK generic sales is recovering and likely to report Rs1.3-1.4bn of sales in FY24. Unichem business likely to be consolidated from H2FY24

Exhibit 1: 1QFY24 Result Overview (Rs mn): Higher gross margins and healthy domestic formulation biz aided EBIDTA

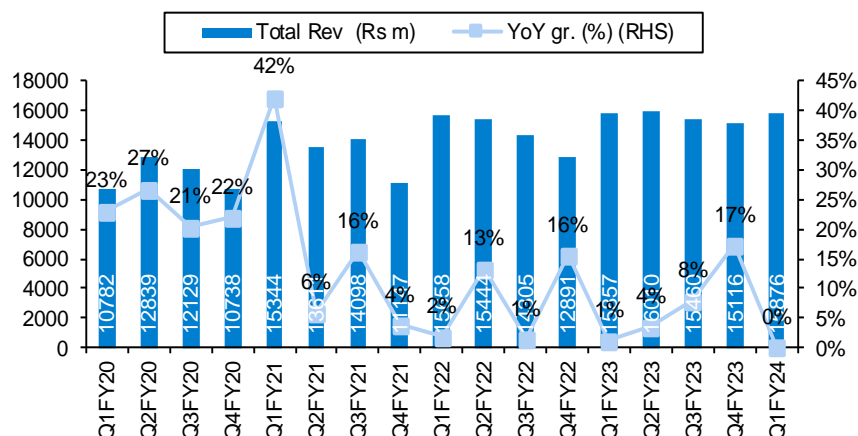
Y/e March	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Net Sales	15,876	15,857	0.1	15,116	5.0	67,044	62,443	7.4
Raw Material	5,153	5,787	(11.0)	5,912	(12.8)	22,286	23,065	(3.4)
<i>% of Net Sales</i>	<i>32.5</i>	<i>36.5</i>		<i>39.1</i>		<i>33.2</i>	<i>36.9</i>	
Personnel Cost	3,575	3,227	10.8	3,273	9.2	14,422	12,876	12.0
<i>% of Net Sales</i>	<i>22.5</i>	<i>20.4</i>		<i>21.7</i>		<i>21.5</i>	<i>20.6</i>	
Others	4,206	4,008	4.9	4,226	(0.5)	17,675	16,920	4.5
<i>% of Net Sales</i>	<i>26.5</i>	<i>25.3</i>		<i>28.0</i>		<i>26.4</i>	<i>27.1</i>	
Total Expenditure	12,935	13,023	(0.7)	13,411	(3.6)	54,382	52,862	2.9
EBITDA	2,941	2,835	3.8	1,705	72.5	12,662	9,582	32.1
<i>Margin (%)</i>	<i>18.5</i>	<i>17.9</i>		<i>11.3</i>		<i>18.9</i>	<i>15.3</i>	
Depreciation	693	617	12.3	695	(0.4)	2,799	2,616	7.0
EBIT	2,249	2,218	1.4	1,010	122.6	9,863	6,966	41.6
Other Income	583	79	640.4	469	24.4	1,000	1,256	(20.4)
Forex	135	(142)		105		135	(314)	
Interest	314	69	352.2	185	70.1	1,200	455	163.5
PBT	2,518	2,227	13.1	1,295	94.5	9,798	7,453	31.5
Total Taxes	856	743	15.3	484	77.0	2,939	2,534	16.0
<i>ETR (%)</i>	<i>34.0</i>	<i>33.3</i>		<i>37.4</i>		<i>30.0</i>	<i>34.0</i>	
Reported PAT	1,662	1,484	12.0	811	105.0	6,859	4,919	39.4
Minority Interest	(13)	(54)		(46)		(150)	(129)	
Adjusted PAT	1,649	1,431	15.3	765	115.5	6,709	4,790	40.1

Source: Company, PL

Exhibit 2: Domestic formulation business drives the revenue

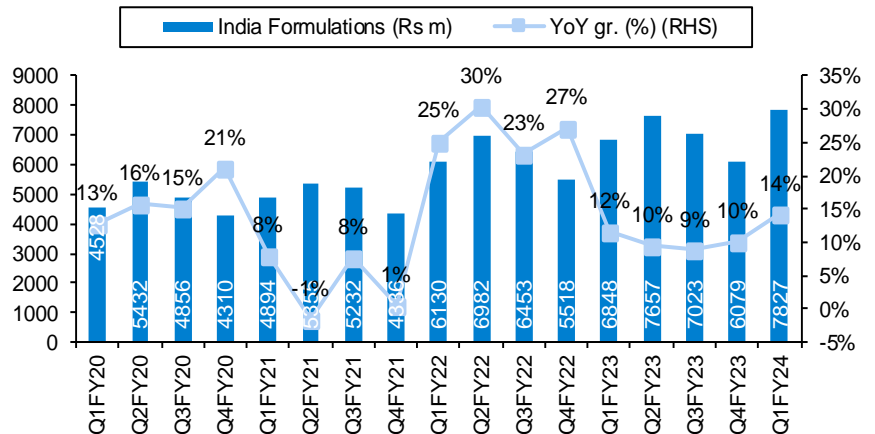
Major sources of revenues (Rs mn)	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Domestic	8,604	7,813	10.1	7,027	22.4	34,740	31,338	10.9
Formulations	7,827	6,848	14.3	6,079	28.8	31,196	27,607	13.0
APIs	777	965	(19.5)	948	(18.0)	3,544	3,731	(5.0)
Exports	6,153	6,894	(10.8)	6,849	(10.2)	27,197	26,434	2.9
Formulations	3,979	4,018	(1.0)	4,326	(8.0)	17,657	16,392	7.7
APIs	2,174	2,876	(24.4)	2,522	(13.8)	9,540	10,042	(5.0)

Source: Company, PL

Exhibit 3: Weak revenues led by lower API sales


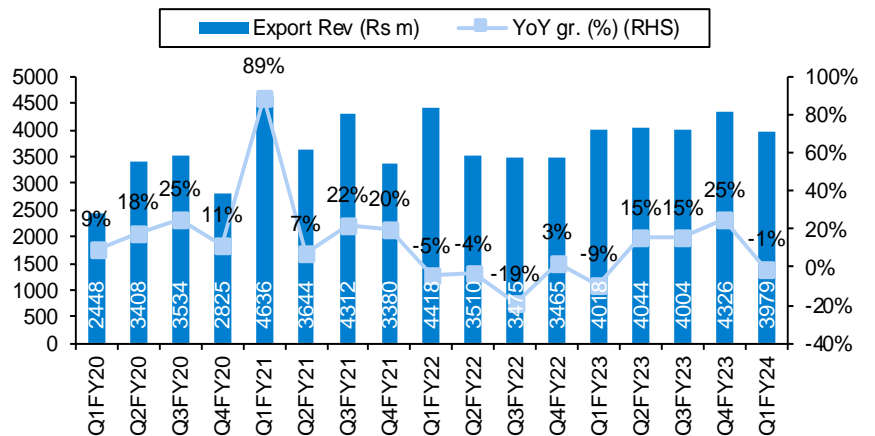
Source: Company, PL

Exhibit 4: Continue to outperform market



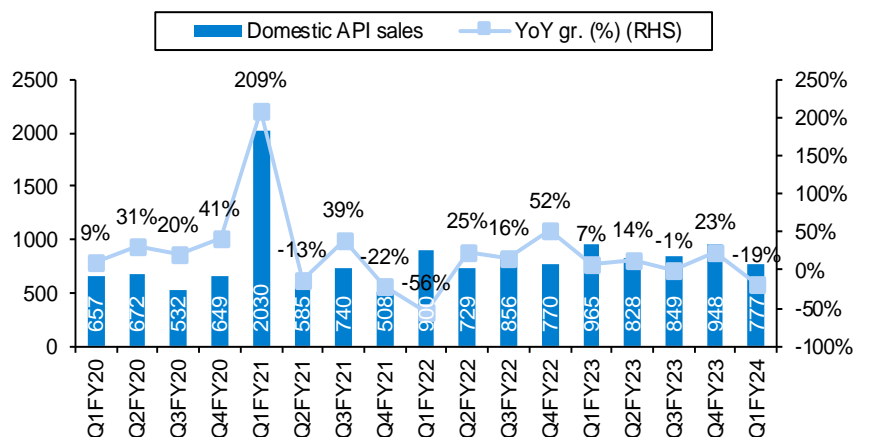
Source: Company, PL

Exhibit 5: Branded generics reported healthy growth of 23% YoY



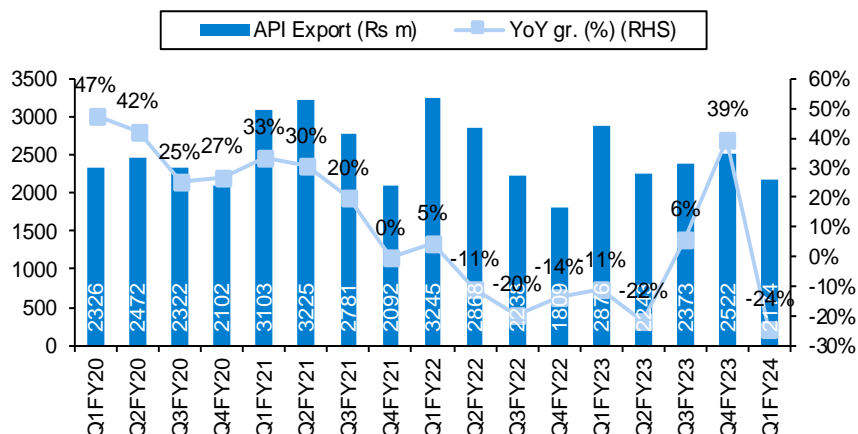
Source: Company, PL

Exhibit 6: Domestic API was down 20% YoY



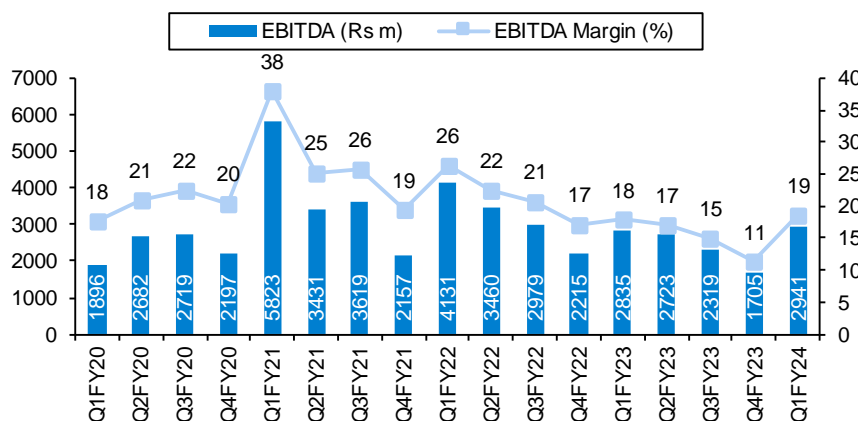
Source: Company, PL

Exhibit 7: Lower realization and plant shutdown impacted sales



Source: Company, PL

Exhibit 8: Margin recovered on higher GMs and steady overheads



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	58,298	62,443	67,044	75,839
YoY gr. (%)	7.6	7.1	7.4	13.1
Cost of Goods Sold	24,793	28,386	27,617	30,986
Gross Profit	33,505	34,057	39,428	44,853
Margin (%)	57.5	54.5	58.8	59.1
Employee Cost	11,774	12,876	14,422	16,008
Other Expenses	8,947	11,599	12,344	13,079
EBITDA	12,785	9,582	12,662	15,766
YoY gr. (%)	(14.9)	(25.1)	32.1	24.5
Margin (%)	21.9	15.3	18.9	20.8
Depreciation and Amortization	2,324	2,616	2,799	3,023
EBIT	10,461	6,966	9,863	12,743
Margin (%)	17.9	11.2	14.7	16.8
Net Interest	77	455	1,200	1,000
Other Income	974	942	1,135	1,100
Profit Before Tax	11,357	7,453	9,798	12,843
Margin (%)	19.5	11.9	14.6	16.9
Total Tax	2,248	2,534	2,939	3,725
Effective tax rate (%)	19.8	34.0	30.0	29.0
Profit after tax	9,110	4,919	6,859	9,119
Minority interest	-	-	-	-
Share Profit from Associate	(212)	(129)	(150)	(150)
Adjusted PAT	8,898	4,790	6,709	8,969
YoY gr. (%)	(22.0)	(46.2)	40.1	33.7
Margin (%)	15.3	7.7	10.0	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,898	4,790	6,709	8,969
YoY gr. (%)	(22.0)	(46.2)	40.1	33.7
Margin (%)	15.3	7.7	10.0	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,898	4,790	6,709	8,969
Equity Shares O/s (m)	507	254	254	254
EPS (Rs)	17.5	18.9	26.4	35.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	37,079	43,194	48,194	53,694
Tangibles	37,079	43,194	48,194	53,694
Intangibles	-	-	-	-
Acc: Dep / Amortization	13,446	16,061	18,860	21,883
Tangibles	13,446	16,061	18,860	21,883
Intangibles	-	-	-	-
Net fixed assets	23,634	27,132	29,334	31,811
Tangibles	23,634	27,132	29,334	31,811
Intangibles	-	-	-	-
Capital Work In Progress	3,064	1,404	1,404	1,404
Goodwill	542	381	381	381
Non-Current Investments	2,699	3,027	3,027	3,027
Net Deferred tax assets	(1,506)	(1,856)	(1,856)	(1,856)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	7,193	3,233	3,233	3,233
Inventories	18,580	17,434	19,403	21,959
Trade receivables	9,108	9,890	11,087	12,548
Cash & Bank Balance	6,407	18,532	17,006	15,908
Other Current Assets	2,205	2,309	2,309	2,309
Total Assets	76,368	86,229	90,214	95,762
Equity				
Equity Share Capital	507	254	254	254
Other Equity	54,412	58,167	62,681	68,869
Total Network	54,920	58,420	62,935	69,123
Non-Current Liabilities				
Long Term borrowings	3,952	6,518	6,518	6,518
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,961	8,058	6,058	4,058
Trade payables	5,577	5,251	6,468	7,320
Other current liabilities	6,454	6,127	6,381	6,888
Total Equity & Liabilities	76,369	86,229	90,214	95,762

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	10,537	7,421	11,063	13,743
Add. Depreciation	2,324	2,616	2,799	3,023
Add. Interest	(77)	(455)	(1,200)	(1,000)
Less Financial Other Income	974	942	1,135	1,100
Add. Other	795	1,018	-	-
Op. profit before WC changes	13,580	10,600	12,662	15,766
Net Changes-WC	(3,010)	(305)	(1,840)	(2,809)
Direct tax	(2,020)	(2,237)	(2,939)	(3,725)
Net cash from Op. activities	8,550	8,058	7,882	9,232
Capital expenditures	(7,547)	(6,894)	(5,000)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(7,547)	(6,894)	(5,000)	(5,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,403	6,577	(2,000)	(2,000)
Dividend paid	(1,015)	(1,015)	(2,344)	(2,930)
Interest paid	589	801	(200)	100
Others	(3,225)	4,599	135	-
Net cash from Fin. activities	1,753	10,962	(4,409)	(4,830)
Net change in cash	2,756	12,126	(1,527)	(1,098)
Free Cash Flow	3,761	3,113	2,882	3,732

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	17.5	18.9	26.4	35.4
CEPS	22.1	29.2	37.5	47.3
BVPS	108.2	230.3	248.1	272.5
FCF	7.4	12.3	11.4	14.7
DPS	3.0	7.0	8.0	10.0
Return Ratio(%)				
RoCE	18.7	10.3	13.3	16.4
ROIC	16.7	10.8	14.1	16.6
RoE	17.5	8.5	11.1	13.6
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	138	129	131	131
Valuation(x)				
PER	51.6	47.9	34.2	25.6
P/B	8.4	3.9	3.6	3.3
P/CEPS	40.9	31.0	24.1	19.1
EV/EBITDA	35.5	23.2	17.5	14.0
EV/Sales	7.8	3.6	3.3	2.9
Dividend Yield (%)	0.3	0.8	0.9	1.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

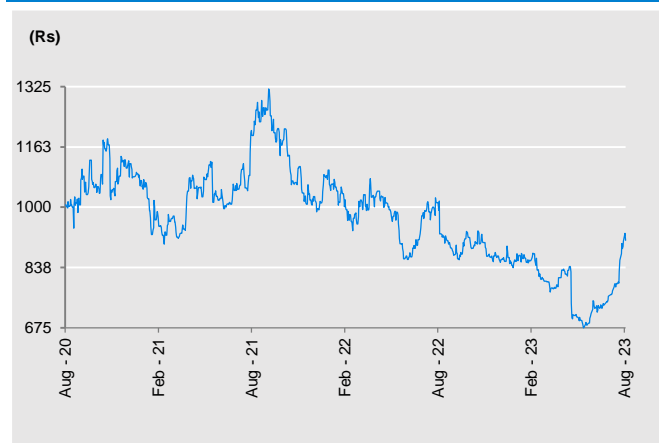
Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	16,010	15,460	15,116	15,876
YoY gr. (%)	3.7	8.1	17.3	0.1
Raw Material Expenses	5,748	5,618	5,912	5,153
Gross Profit	10,262	9,842	9,205	10,723
Margin (%)	64.1	63.7	60.9	67.5
EBITDA	2,723	2,319	1,705	2,941
YoY gr. (%)	(21.3)	(22.1)	(23.0)	3.8
Margin (%)	17.0	15.0	11.3	18.5
Depreciation / Depletion	637	666	695	693
EBIT	2,086	1,654	1,010	2,249
Margin (%)	13.0	10.7	6.7	14.2
Net Interest	93	108	185	314
Other Income	246	148	469	583
Profit before Tax	2,238	1,693	1,295	2,518
Margin (%)	14.0	11.0	8.6	15.9
Total Tax	770	537	484	856
Effective tax rate (%)	34.4	31.7	37.4	34.0
Profit after Tax	1,468	1,156	811	1,662
Minority interest	29	78	46	13
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,439	1,078	765	1,649
YoY gr. (%)	(42.5)	(45.2)	(41.2)	15.3
Margin (%)	9.0	7.0	5.1	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,439	1,078	765	1,649
YoY gr. (%)	(42.5)	(45.2)	(41.2)	15.3
Margin (%)	9.0	7.0	5.1	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,439	1,078	765	1,649
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	5.7	4.3	3.0	6.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Domestic Formulations	25,083	27,607	31,196	35,252
Domestic API	3,587	3,731	3,544	4,076
Export Formulations	14,867	16,392	17,657	20,005
Export API	10,214	10,042	9,540	11,162

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Hold	750	760
2	25-Apr-23	Hold	750	741
3	06-Apr-23	Hold	865	810
4	17-Feb-23	Hold	865	863
5	06-Jan-23	Accumulate	950	858
6	15-Nov-22	Accumulate	950	870
7	06-Oct-22	Accumulate	1,000	934
8	29-Sep-22	Accumulate	1,000	896

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	4,906
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,220	1,069
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	5,150	5,476
7	Eris Lifesciences	BUY	910	828
8	Fortis Healthcare	BUY	365	324
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	385	331
11	Indoco Remedies	BUY	380	324
12	Ipca Laboratories	Hold	750	760
13	J.B. Chemicals & Pharmaceuticals	BUY	3,000	2,711
14	Krishna Institute of Medical Sciences	BUY	2,000	1,831
15	Lupin	Hold	1,010	1,064
16	Max Healthcare Institute	BUY	610	560
17	Narayana Hrudayalaya	BUY	1,110	1,010
18	Sun Pharmaceutical Industries	BUY	1,265	1,141
19	Torrent Pharmaceuticals	BUY	2,250	2,055
20	Zydus Lifesciences	Accumulate	520	588

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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