Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Ipca Laboratories Ltd

Strong Q4; UniChem's turnaround sustainable

Pharmaceuticals	Sharekhan code: IPCALAB

Reco/View: Buy ↑	CMP: **Rs. 1,126**	Price Target: **Rs. 1,350** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↑	

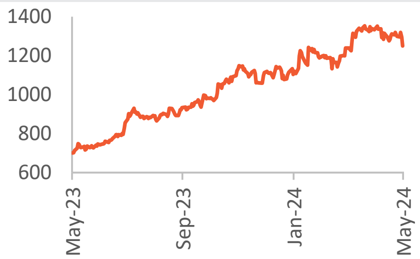
Company details

Market cap:	Rs. 28,584 cr
52-week high/low:	Rs. 1,373 / 692
NSE volume: (No of shares)	14.97 lakh
BSE code:	524494
NSE code:	IPCALAB
Free float: (No of shares)	6.8 cr

Shareholding (%)

Promoters	46.3
FII	10.6
DII	34.1
Others	9.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-15.9	-7.3	2.6	60.6
Relative to Sensex	-19.4	-11.9	-13.0	38.5

Sharekhan Research, Bloomberg

Summary

- Ipca's Q4FY2024 performance was above our estimates. Sales grew 43.6% y-o-y to Rs. 2,020 crore, EBITDA increased 44.7% y-o-y to Rs. 321 crore, and APAT rose 110% y-o-y to Rs. 165 crore.
- Segment-wise growth was seen across regions, where domestic branded formulation surpassed IPM growth, generic grew 15%, and institution grew 8%.
- Healthy product mix, raw-material cost rationalisation, and Unichem's profitability led to 550bps y-o-y growth in gross margin to 66%; subsequently, EBITDA margin increased 322bps y-o-y to 15.8%.
- Ipca's UniChem business has reported healthy turnaround and resurgence of U.S. sales is expected to increase EBITDA margin to 21.5% by FY2026; hence, we upgrade our rating to BUY. Currently, the stock is trading at ~31.5x/24.9x its FY2025E/FY2026E EPS and we ascribe a P/E of 27x to arrive at a PT of Rs. 1,350.

Ipca Laboratories Limited's (Ipca) earnings came above our estimates, as sales grew 4.3.6% y-o-y to Rs. 2020 crore. Sales growth was driven by 13% y-o-y growth in domestic branded formulations, surpassing IPM growth of 9%, 15% y-o-y growth in the generic formulation, driven by traction in geographies like Europe, U.K., and South Africa, and 8% YoY growth in the institutional business due to a lower base. Subsidiary sales also grew by 374% y-o-y to Rs. 522 crore, led by growth in Unichem sales. Healthy sales and raw-material (RM) cost rationalisation, which contributed 34% to sales (vs. 40% of sales in 4QFY2023) resulted in a 550bps increase in gross margin. Subsequently, EBITDA grew 44.7% y-o-y to Rs. 321 crore and EBITDA margin increased 12% to 15.93%. Despite higher interest costs, which grew 267% y-o-y to Rs 29.4 crore, and 46% y-o-y growth in depreciation, adjusting against one-time loss of Rs. 136 crore towards penalty in the European market, PAT grew 53% y-o-y to Rs. 195.1 crore. This was the second quarter of full integration of Unichem's business. Going forward, management expects Unichem sales to grow to Rs. 9,000 crore and EBITDA of Rs. 1,600 crore. Hence, at a consolidated level, the company expects sales to grow to 10.5-11.5% in FY2025E and EBITDAM of 18% in FY2025E, which can further inch up to 24% in 5-6 years. Management expects U.S. business sales to resume with 6-7 products in FY2025E and ramp up from FY2026E. Ipca's subsidiary, Unichem business is growing well and its EBITDA has improved from a loss of Rs. 45 crore in FY2023 to Rs. 100 crore in FY2024 and is expected to improve to Rs. 225 crore by FY25E, which will in-turn increase consolidated performance. Hence, we upgrade our rating to BUY for the stock.

Key positives

- The domestic formulations segment grew 13.5% to Rs. 689 crore, surpassing IPM growth by 6%.
- Institutional business grew 7.5% y-o-y to Rs. 81 crore owing to a lower base.
- Adjusted PAT grew 10% above our estimate to Rs. 195 crore.

Key negatives

- Reported PAT was lower than our estimate due to one-time expense of Rs. 136 crore.

Management Commentary

- Management expects to launch 7-8 products in the U.S. market in FY2026, as FY2025E launch has been delayed.
- Unichem's EBITDA was -Rs. 45 crore last year, which saw a turnaround to Rs. 100 crore in CY2024 and is expected to reach Rs. 225 crore.
- Management expects the product mix to remain healthy, which drives EBITDA margin to 18% in FY2025E and towards 24% by 5-6 years.

Revision in estimates – Management has retained its guidance of improvement in Unichem's business, domestic growth outperforming the IPM, and contribution of U.S. sales from FY25E, which we have factored in our estimates, hence we have not revised our estimates.

Our Call

Valuation – Upgrade to BUY with a revised PT of Rs. 1,350: Ipca reported higher-than-expected earnings. Sales growth can be attributed to the integration of Unichem's business, followed by strong growth in the domestic branded generics and generics segments. A healthy product mix and RM cost rationalisation led to increased gross margin to 66% and EBITDA margins to 16%. Going forward, the company expects growth to be driven by 1) stable realisation in the API prices, 2) domestic formulation growth led by the chronic segment, and 3) pick-up in the institution business. Additionally, the recent acquisition of Unichem Labs is expected to grow, driven by penetration into newer geographies such as Europe, Australia, New Zealand, Canada, and South Africa, resulting in an increase in EBITDA from Rs. 100 crore in FY24 to Rs. 225 crore in FY2025E. Higher profitability in Unichem's business is expected to increase consolidated EBITDA margin to 18.5% in FY2025E and eventually grow to 24% in 5-6 years. On account of the turnaround in Unichem's business, we upgrade our rating to BUY. Currently, the stock is trading at ~30.5x/23.6x its FY2025E/FY2026E EPS of Rs. 38.4/Rs. 49.7 per share. Due to the resurgence in U.S. sales and a positive turnaround of Unichem's business, we ascribe a P/E of 27x to arrive at a PT to Rs. 1,350 (earlier PT of Rs. 1,300).

Key Risks

1) Delay in regulatory clearance of Pithampur and the Pipariya plants and 2) adverse changes in the regulatory landscape could affect its profitability.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
Sales	5766.8	6206.9	7660.4	9323.1	10721.6
EBITDA	1309.6	964.2	1321.2	1731.4	2143.0
EBITDAM (%)	22.7	15.5	17.2	18.6	20.0
PAT	884.4	471.3	622.8	969.5	1254.0
NPM (%)	15.3	7.6	8.1	10.4	11.7
EPS	34.8	18.6	24.5	38.2	49.4
P/E	33.6	63.1	47.7	30.7	23.7
P/BV	5.8	5.4	5.0	5.4	4.5
EV/EBITDA	23.8	32.2	33.5	25.0	17.2
ROE (%)	17.4	9.4	8.1	13.4	14.9
ROCE (%)	19.6	11.6	8.5	10.2	12.9

Source: Company Data; Sharekhan estimates

Key result highlights from Concall

Guidance –

- Consolidated revenue including Unichem to be around Rs. 9,000 crore in FY2025E.
- Consolidated EBITDA at 18% in FY2025, excluding other income and foreign exchange gain.
- Domestic and export generic business to grow at 12% in FY2025.
- Institutional business to grow at 14% in FY2025.
- API business to grow at 7% to 8% in FY2025.
- Standalone revenue to grow at 10.5% to 11% in FY2025.
- Standalone EBITDA margin at 20.5% to 21% in FY2025.
- Unichem business sales to reach Rs. 20 billion topline and EBITDA of around Rs. 2.25 billion in FY2025.
- Capex guided for FY2025 is around Rs.3–3.5 billion.
- Consolidated R&D spend for FY2025 will in the range of 3.25-3.5%.

India –

- Domestic formulation business grew by 13% for Q4FY2024 and Ipca continued to be ranked 16th in the IPM.
- IPCA has outperformed IPM, with 15% growth vs. 6% IPM growth.
- Market share improved to 2.04% from 1.88% as per IQVIA MAT March 2024.
- It reported 16% vs. 8% market growth in the top six metro cities.
- Ipca's domestic business was driven by growth in acute and chronic therapies.
- In the chronic segment, Ipca grew 12% vs. IPM growth of 10%.
- In the acute segment, Ipca grew 11% vs. IPM growth of 3%.
- Ipca emerged as the fastest-growing company in the top-25 players in IPM as per the IQVIA MAT March 2024.
- The company is currently focused on metro cities; and for these cities, the company has already added enough field force.
- In FY2025, the price increase for NLEM products is expected to be nil, price growth for non-NLEM products is expected to be 4-6% with volume growth of 5-6% and 2% growth expected from new products.

Exports –

- Due to the issues at Silvassa and Pithampur plant, the company is seeing an excess expense of Rs. 500-600 million. Supplies to the U.S. have already begun from Silvassa, with the first batch already shipped.
- Pithampur plant utilisation stands at 35%.
- The company has not yet started ANDA filings from its facility and management believes filing will take some more time as it looks forward to building a pipeline for the U.S. As the company was not present in the U.S. market for quite some time, all ANDAs need to be updated before supplying to the U.S. Currently, two products are in the pipeline and a few more are expected in FY2025.

Subsidiaries –

- Onyx pharmaceuticals, U.K. develops new manufacturing processes for solid-state chemistry in the U.K., with a turnover of around GBP15-16million, and the company is consistently profitable.
- Tropic Wellness, which caters to Neutraceuticals for the company, has also generated good profits in FY2024 and remains profitable.

- Bayshore, now integrating with Unichem, was initially formed solely to market Ipca's products in the U.S. With the huge capacity of Unichem, the entire operations of Ipca will be done through Unichem, including the distribution of Ipca's products in the U.S.
- Pisgah, a subsidy created for the CRAMS business in the U.S., was established as an extension of the successful U.K.-based Onyx operations. Services are currently primarily provided by Onyx to European companies. Certain narcotics products and low-volume, high-value API production are present at Onyx, which also has two to three new commercial APIs in the pipeline and is under development for new drugs.
- Pisgah may host the production of newly launched commercial APIs once the volume increases, with some narcotics products currently in development at the facility. Although Pisgah is currently experiencing some small losses, these are expected to diminish as the CRAMS business expands.
- In the steroid business, profit is being delivered by Avik, one of the associate companies.
- Krebs, the fermentation operation company, is the only entity still struggling to achieve profitability. Despite introducing new products like Simvastatin and Shirasho peptides, utilising their large capacities, particularly the fermentation side, remains an ongoing effort with plans to explore contract manufacturing opportunities

Unichem consolidation –

- Unichem's EBITDA improved from a loss of Rs. 45 crore in FY2023 to Rs. 100 crore in FY2024.
- Unichem and Ipca operate as separate entities, with integration benefits primarily seen in procurement, favouring Ipca by providing buying efficiency due to higher volume. Avoidance of duplication has led to reduced unnecessary costs, along with enhancements in expertise, utility cost reduction, and operational efficiency. Ipca is also sharing expertise with Unichem to lower API costs. Ongoing efforts are aimed at further cost reduction and generating synergies, such as low-cost APIs for Ipca.
- The significant advantage will be realised when Unichem products are supplied to Europe, Australia, New Zealand, and South Africa, leading to larger integration benefits. Earlier, Unichem was only selling seven to nine products out of 80 in the region.
- A gradual ramp-up is expected in the U.S., with benefits derived from the export outlook due to Unichem's presence.
- Gross margin and pricing remain stable, with plans to launch 5-6 formulation products in the U.S. market.
- Procurement prices remain unchanged with steady pricing across the board.
- A major impact on APIs is observed with Losartan, where cost prices and manufacturing costs have stabilised.
- Only one plant underwent inspection, which was concluded without any observations.

Other highlights –

- Approvals for four products were received in the current month, with a few filings still pending. A total of 6-7 products are scheduled to be launched in FY2025, and these products are expected to see traction in FY2026 in the U.S.
- In the API and export business, margin improvement is expected to stem from stabilising RM prices, with a projected annual margin improvement of 100-150bps for the next three years to 25% over the next seven years. Margin improvement in FY2024 can be attributed to lower RM costs and a higher contribution from the formulation business.
- The R&D expenditure stands at Rs. 2.05 billion for Ipca and Unichem together, representing 3.25-3.5% of sales, and it is anticipated to remain within this range in FY2025.

Results (Consolidated) **Rs cr**

Particulars	Q4FY2024	Q4FY2023	YoY %	Q3FY2024	QoQ %
Net Revenue	2,020.2	1,497.6	34.9	2,043.7	-1.1
Raw materials costs	685.9	591.2	16.0	697.0	-1.6
Gross Profit	1,334.3	906.4	47.2	1,346.7	-0.9
Operating Expenses	1,025.2	739.4	38.7	1,024.6	0.1
EBIDTA	321.9	181.0	77.8	331.3	-2.8
Depreciation	98.1	69.5	41.1	99.5	-1.4
EBIT	223.8	111.5	100.7	231.8	-3.5
Interest	29.4	18.5	59.2	33.4	-12.1
Other income	18.9	36.4	-48.0	22.5	-15.7
PBT	213.3	129.4	64.8	220.9	-3.4
Exceptional item	136.72	2.93	4566.2	-68.01	-301.0
Tax	73.7	48.4	52.3	66.2	11.2
Reported PAT	**2.9**	**81.1**	**-96.4**	**222.7**	**-98.7**
Minority Intrest	-58.3	1.6	NA	41.3	NA
PAT after MI	**59.6**	**76.5**	**-22.1**	**179.7**	**NA**
Adjusted PAT	149.1	78.4	90.3	65.7	126.8
Adjusted EPS (Rs)	7.7	3.5	116.5	4.5	72.1
Margins			**bps**		**bps**
GPM (%)	66.0	60.5	553	62.9	311
EBITDA (%)	15.93	12.09	384	22.3	-641
Reported profit margin (%)	0.1	5.4	-527	13.5	-1339
Adjusted profit margin (%)	7.4	5.2	215	3.2	416
Tax Rates (%)	34.5	37.4	-282	30.0	456

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Multiple growth engines ahead

The Indian Pharmaceutical Market (IPM) is growing with increased consumer spends and awareness. Additionally, Indian pharmaceutical companies with a large market share in the IPM and a strong pipeline of specialty products will help them gain market share in the U.S. and thereby partially offset any impact of competitive pricing pressure in the U.S. Moreover, other factors such as faster product approvals and resolutions by the USFDA regarding plant observations and strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules, biosimilars, and injectables) and the commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for Indian pharma companies.

■ Company Outlook – Long-term growth levers intact

Ipca is a fully integrated Indian pharmaceutical company, manufacturing a wide array of formulations and APIs for various therapeutic segments. The domestic formulations business is expected to grow at a healthy pace and is likely to be a key growth driver for the company. The company is witnessing strong demand traction in the API segment and is implementing de-bottlenecking to ease capacity constraints. Over the next year, Dewas's expansion would come on stream and drive the topline. Moreover, the company has set up a new API plant at its Ratlam facility with a 50MT capacity, which is on the verge of commercialisation. The expected improvement in the formulation business, increased opportunities in the API space, and healthy traction from the institutional segment indicate strong earnings potential for the company. In the near term, emerging cost pressures due to higher RM and logistics costs and time lag to pass on the price hike to customers coupled with de-stocking in key markets of Europe are expected to drag down growth. Consequently, while near-term growth seems to moderate, long-term growth levers are intact.

■ Valuation – Upgrade to BUY with a revised PT of Rs. 1,350

Ipca reported higher-than-expected earnings. Sales growth can be attributed to the integration of Unichem's business, followed by strong growth in the domestic branded generics and generics segments. A healthy product mix and RM cost rationalisation led to increased gross margin to 66% and EBITDA margins to 16%. Going forward, the company expects growth to be driven by 1) stable realisation in the API prices, 2) domestic formulation growth led by the chronic segment, and 3) pick-up in the institution business. Additionally, the recent acquisition of Unichem Labs is expected to grow, driven by penetration into newer geographies such as Europe, Australia, New Zealand, Canada, and South Africa, resulting in an increase in EBITDA from Rs. 100 crore in FY24 to Rs. 225 crore in FY2025E. Higher profitability in Unichem's business is expected to increase consolidated EBITDA margin to 18.5% in FY2025E and eventually grow to 24% in 5-6 years. On account of the turnaround in Unichem's business, we upgrade our rating to BUY. Currently, the stock is trading at ~30.5x/23.6x its FY2025E/FY2026E EPS of Rs. 38.4/Rs. 49.7 per share. Due to the resurgence in U.S. sales and a positive turnaround of Unichem's business, we ascribe a P/E of 27x to arrive at a PT to Rs. 1,350 (earlier PT of Rs. 1,300).

About the company

Ipca is a fully integrated Indian pharmaceutical company manufacturing more than 350 formulations and 80 APIs for various therapeutic segments. Ipca is a therapy leader in India for anti-malaria with a market share of over 34% and a fast-growing presence in the international market as well. The company has leading brands in five therapeutic areas, with three of its branded formulations being ranked among the top-300 Indian brands by ORG-IMS. Ipca's APIs and formulations are produced at manufacturing facilities approved by leading drug regulatory authorities, including USFDA, UK-Medicines, Healthcare Regulatory Agency (MHRA), South Africa-Medicines Control Council (MCC), Brazil-Brazilian National Health Vigilance Agency (ANVISA), and Australia-Therapeutic Goods Administration (TGA) with operations in more than 100 countries.

Investment theme

Strong growth in the domestic formulation business coupled with increased opportunities in the API space and additional business from the institutional segment indicate strong earnings potential over the next 2-3 years. We feel most headwinds that impacted the company's sales and profitability (except for the import alert from USFDA) are now behind it. Management is also evaluating new therapeutic areas that would boost the company's overall growth. In addition, Ipca is implementing de-bottlenecking plans for its API facilities to ease capacity constraints. Further, Ipca is setting up new API capacities at Dewas and is looking to build the Nobel Expochem plant into a KSM plant. Collectively, incremental capacities are coming on stream and would fuel growth, though over the long term.

Key Risks

1) Lack/delay of clearance by other drug regulators would impact the export business outlook; 2) Addition of drugs in the NLEM list could hurt the domestic business.

Additional Data

Key management personnel

Premchand Godha	Chairman and Managing Director
Ajit Kumar Jain	Joint Managing Director
Harish Kamath	Corporate Counsel and Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP Investment Managers Pvt. Ltd.	5.30
2	HDFC AMC	5.24
3	Kotak Mahindra AMC	2.63
4	ICICI Prudential AMC	2.45
5	Nippon Life India Asset Management	2.21
6	Mirae Asset Global Investments	2.08
7	HDFC Life Insurance Co. Ltd.	2.03
8	Axis AMC	1.77
9	Vanguard Group Inc.	1.70
10	UTI AMC	1.67

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan
by BNP PARIBAS

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