14 August 2024

1QFY25 Results Update | Sector: Healthcare

Ipca Laboratories

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	IPCA IN
Equity Shares (m)	254
M.Cap.(INRb)/(USDb)	342.2 / 4.1
52-Week Range (INR)	1414 / 847
1, 6, 12 Rel. Per (%)	12/6/28
12M Avg Val (INR M)	599

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	77.1	89.1	101.0
EBITDA	13.1	17.2	20.1
Adjusted PAT	5.3	8.5	11.3
EBIT Margin (%)	12.3	14.9	16.0
Cons. Adj EPS (INR)	20.8	33.5	44.4
EPS Gr. (%)	0.0	61.3	32.6
BV/Sh. (INR)	249.6	278.1	315.9
Ratios			
Net D-E	0.2	0.3	0.2
RoE (%)	8.7	12.7	15.0
RoCE (%)	9.2	11.3	12.5
Payout (%)	36.9	22.0	17.3
Valuation			
P/E (x)	65.1	40.4	30.4
EV/EBITDA (x)	26.4	20.1	17.2
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	-7.0	1.3	2.9
EV/Sales (x)	4.5	3.9	3.4

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	46.3	46.3	46.3
DII	33.8	34.4	35.2
FII	10.9	10.5	10.1
Others	9.1	8.8	8.5

FII Includes depository receipts

CMP: INR1,349 TP: INR1,310 (-3%) Neutral

Domestic formulation drives earnings

Muted show in exports/API segment

- IPCA delivered better-than-expected 1QFY25 earnings. The improved performance in the domestic formulation (DF) segment was offset to some extent by a subdued show in exports and API segment. Unichem also reported YoY sales growth and margin gains.
- We raise our earnings estimates by 10%/9% for FY25/FY26 factoring in a robust outperformance in DF, rising profitability of Unichem, a gradual pick-up in API segment, and extended benefits of lower RM costs. We value IPCA at 27x 12M forward earnings to arrive at a TP of INR1,310.
- IPCA continues to see robust growth in the DF segment (better than industry growth) and an improved performance of Unichem business. However, exports and the API segment affected the performance to some extent. Accordingly, we estimate a 46% earnings CAGR over FY24-26. Considering valuation of 17x EV/ FY26 EBITDA and 30x FY26E EPS, the upside is earnings is largely captured. Maintain Neutral.

Better segmental mix partly offset by higher opex on YoY basis

- Sales grew 31.8% YoY to INR20.9b (our est: INR21.6b). Formulations sales grew 7.5% YoY to INR12.7b (61% of sales). DF sales rose 11.6% YoY to INR8.7b (69% of formulation sales). Exports sales were stable YoY at INR4b (31% of formulation sales). Generics formulation exports declined 4.5% YoY to INR2.3b (57% of export sales). Branded formulation exports declined 1.1% YoY to INR1.1b (29% of export sales). Institutional sales exports grew 19% YoY to INR577m (15% of export sales). API sales declined 2.4% YoY to INR2.9b (14% of sales). Domestic API sales grew 19% YoY to INR925m (32% of API sales). API exports declined 10.1% YoY to INR2b (68% of API sales). Revenue from subsidiaries grew 4.3x YoY to INR5.3b (25% of sales), largely led by Unichem.
- Gross margin (GM) expanded 170bp YoY to 69.2%, due to a superior product mix and lower RM costs.
- However, EBITDA margin expanded at a lower rate of 20bp YoY to 18.8% (our est: 17%), due to higher employee expenses/other expenses (+80bp/70bp YoY as % of sales).
- EBITDA grew 33.5% YoY to INR3.9b (our est: INR3.7b).
- Adj. PAT grew 25% YoY to INR1.9b (our estimate: INR1.7b).

Highlights from the management commentary

- IPCA expects standalone revenue growth of 9% with EBITDA margins of 21-22% in FY25.
- IPCA is facing challenges in exports due to delay in shipping and supply chain issues, primarily in Australia and New Zealand.
- IPCA's MR strength grew from ~6,000 in 1QFY24 to ~6,500 in 1QFY25. MR productivity increased from INR0.42m in 1QFY24 to INR0.45m in 1QFY25.

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Quarterly Performance (INRm)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	% Chg
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Net Revenues (Core)	**15,876**	**20,340**	**20,529**	**20,330**	**20,926**	**22,623**	**22,552**	**22,980**	**77,074**	**89,082**	**21,578**	**-3.0**
YoY Change (%)	0.1	27.0	32.8	34.5	31.8	11.2	9.9	13.0	23.2	15.6	35.9	
EBITDA	**2,941**	**3,606**	**3,310**	**3,219**	**3,927**	**4,683**	**4,420**	**4,162**	**13,076**	**17,193**	**3,668**	**7.1**
YoY Change (%)	3.8	32.4	42.7	77.9	33.5	29.9	33.6	29.3	33.3	31.5	24.7	
Margins (%)	18.5	17.7	16.1	15.8	18.8	20.7	19.6	18.1	17.0	19.3	17.0	
Depreciation	693	903	995	981	989	985	990	938	3,572	3,902	996	
EBIT	**2,249**	**2,702**	**2,315**	**2,238**	**2,938**	**3,698**	**3,430**	**3,224**	**9,503**	**13,290**	**2,672**	**10.0**
YoY Change (%)	1.4	29.6	40.0	100.7	30.7	36.9	48.2	44.1	32.0	39.9	18.8	
Margins (%)	14.2	13.3	11.3	11.0	14.0	16.3	15.2	14.0	12.3	14.9	12.4	
Interest	314	441	334	294	241	248	230	250	1,383	969	272	
Other Income	449	386	225	16	206	190	235	269	1,075	900	220	
PBT before EO Expense	**2,383**	**2,647**	**2,205**	**1,960**	**2,904**	**3,640**	**3,435**	**3,242**	**9,195**	**13,222**	**2,620**	
One-off (gain)/ Expense	-135	393	-684	1,194	0	0	0	0	769	0	0	
PBT after EO Expense	**2,518**	**2,254**	**2,889**	**766**	**2,904**	**3,640**	**3,435**	**3,242**	**8,426**	**13,222**	**2,620**	
Tax	856	879	662	737	914	1,128	1,072	1,051	3,135	4,165	760	
Rate (%)	34.0	39.0	22.9	96.2	31.5	31.0	31.2	32.4	34.1	31.5	29.0	
Reported PAT	**1,662**	**1,374**	**2,227**	**29**	**1,990**	**2,512**	**2,363**	**2,192**	**5,292**	**9,057**	**1,860**	**7.0**
Minority Interest	-34	76	-428	-598	-67	-90	-180	-213	-984	-550	-138	
Adj PAT after Minority Int	**1,539**	**1,690**	**1,115**	**930**	**1,922**	**2,422**	**2,183**	**1,979**	**5,274**	**8,507**	**1,723**	**11.6**
YoY Change (%)	0.9	-9.2	-6.1	32.7	24.9	43.3	95.8	112.8	0.0	61.3	11.9	
Margins (%)	9.7	8.3	5.4	4.6	9.2	10.7	9.7	8.6	6.8	9.5	8.0	

Key performance Indicators

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
INRm	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Domestic formulations	7,827	8,450	7,796	6,898	8,734	9,337	8,849	7,769	30,972	34,688	8,375
YoY Change (%)	14.3	10.4	11.0	13.5	11.6	10.5	13.5	12.6	12.2	12.0	7.0
Exports formulations	3,979	4,707	4,331	4,737	3,954	5,048	5,230	6,736	17,753	20,967	4,747
YoY Change (%)	-1.0	16.4	8.2	9.5	-0.6	7.2	20.8	42.2	8.3	18.1	19.3
API sales	2,951	3,349	2,850	3,343	2,880	3,076	3,212	3,425	12,493	12,593	3,244
YoY Change (%)	-21.3	9.0	-11.6	-3.6	-2.4	-8.2	12.7	2.4	-9.3	0.8	9.9
Cost Break-up											
RM Cost (% of Sales)	32.5	33.3	34.0	33.7	30.8	31.5	32.0	33.6	33.4	32.0	33.7
Staff Cost (% of Sales)	22.5	20.9	22.4	22.9	23.3	21.8	22.2	22.4	22.2	22.4	21.7
Other Cost (% of Sales)	26.5	28.0	27.6	27.5	27.2	26.0	26.2	25.9	27.5	26.3	27.6
Gross Margins (%)	67.5	66.7	66.0	66.3	69.2	68.5	68.0	66.4	66.6	68.0	66.3
EBITDA Margins (%)	18.5	17.7	16.1	15.8	18.8	20.7	19.6	18.1	17.0	19.3	17.0
EBIT Margins (%)	14.2	13.3	11.3	11.0	14.0	16.3	15.2	14.0	12.3	14.9	12.4

E: MOFSL Estimates

Highlights from the management commentary

- IPCA is expanding Unichem's business across various geographies and expects benefits in 2HFY26.
- IPCA plans to launch 5-6 products in FY25 and 6-7 products in FY26 in the US. Having said this, new filings are 6-8 months away, considering work in progress on new products.
- As per IQVIA, IPCA delivered 15% YoY growth in the DF segment vs. IPM growth of 9% in 1QYF25. IPCA's Acute grew 12% (vs. IPM growth of 8%), while chronic therapy grew 20% (vs. IPM growth of 12%).
- As of MAT Jun'24, IPCA's market share grew to 2.01% from 1.91% in MAT Jun'23.

Growth in DF/generic exports to be partly offset by challenges in branded exports

Superior execution/additional MR force to drive the DF segment

- In 1QFY25, the DF segment grew 12% YoY to INR8.7b, led by growth across key therapies.
- Additionally, IPCA continues to implement efforts toward increasing its field-force productivity.
- Accordingly, we expect a 12.5% sales CAGR in the DF segment to INR39.1b over FY24-26, led by increased traction in key therapies and MR productivity.

API segment to be driven by capacity expansion

- In 1QFY25, API sales declined 2.4% YoY to INR2.9b due to a sharp reduction in prices.
- The prices are now stabilized for major APIs supplied by IPCA.
- We expect a 5.4% sales CAGR in this segment to INR13.8b over FY24-26.

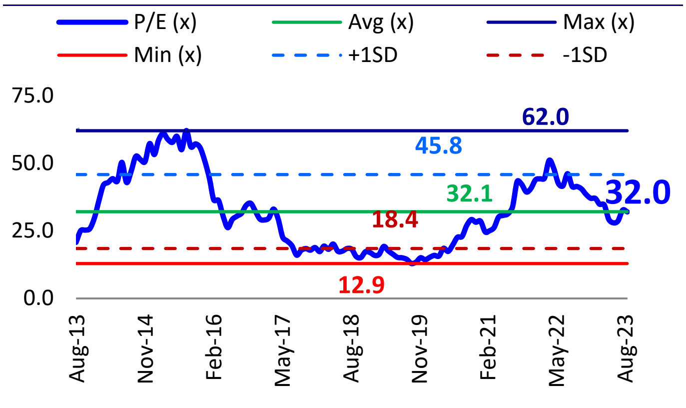
Portfolio expansion/synergies with Unichem to drive export growth

- In 1QFY25, export sales declined 0.6% YoY to INR4b, led by subdued performance across generics as well as branded. However, this was partially offset by robust growth in institutional business.
- It is also working on multiple aspects to improve business prospects as well as build synergy with the Unichem acquisition.
- Accordingly, we expect overall export formulations to clock a 22% sales CAGR to reach INR26.6b over FY24-26.

Valuation and view

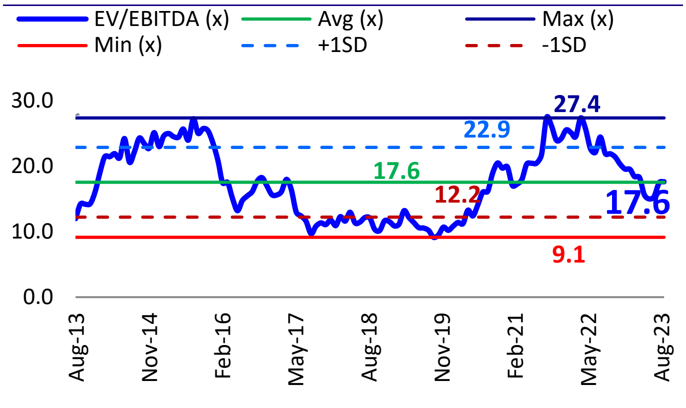
- We raise our earnings estimates by 10%/9% for FY25/FY26, factoring in IPCA's outperformance in DF, rising profitability of Unichem, a gradual pick-up in API segment, and extended benefits of lower RM costs. We value IPCA at 27x 12M forward earnings to arrive at a TP of INR1,310.
- IPCA continues to see robust growth in the DF segment (better than industry growth) and an improved performance of Unichem business. However, exports/API segment is affecting the performance to some extent. Accordingly, we build 46% earnings CAGR over FY24-26. Considering valuation of 17x EV/FY26 EBITDA and 30x FY26 PE, the upside is earnings is largely captured. Maintain Neutral.

Exhibit 1: P/E chart



Source: MOFSL, Company, and Bloomberg

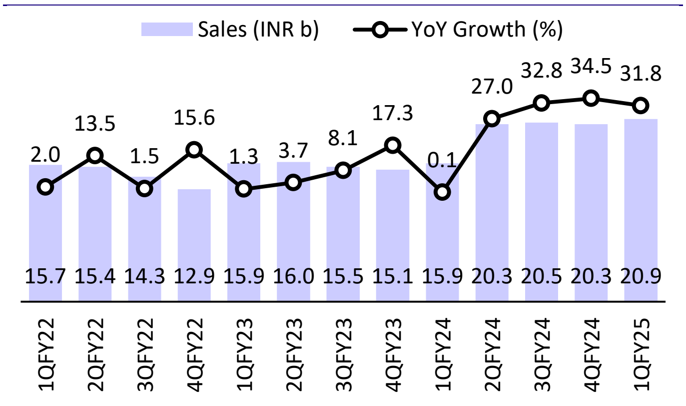
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, and Bloomberg

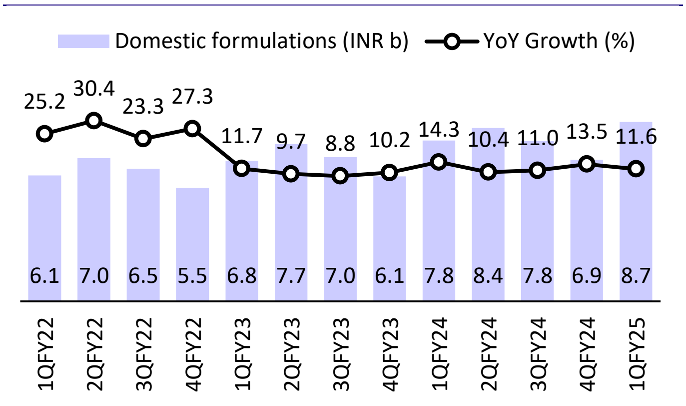
Story in charts

Exhibit 3: Total sales grew 31.8% YoY in 1QFY25



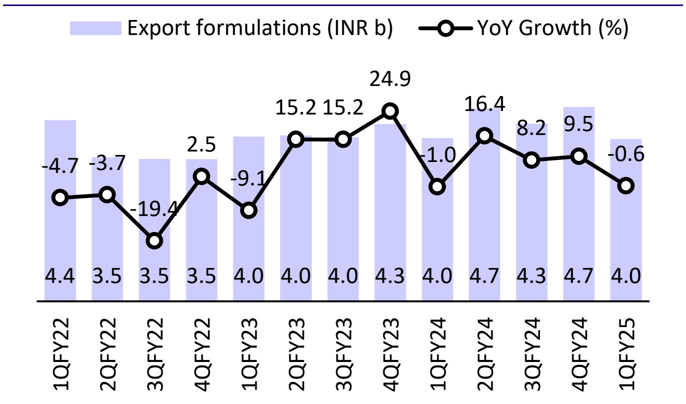
Source: Company, MOFSL

Exhibit 4: DF sales grew 11.6% YoY in 1QFY25



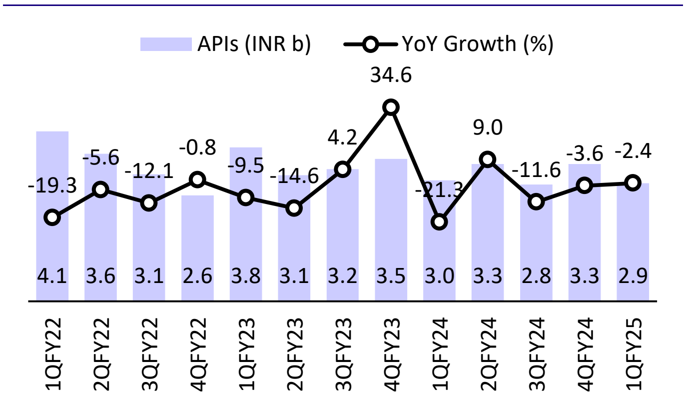
Source: Company, MOFSL

Exhibit 5: Export formulation sales de-grew 0.6% YoY



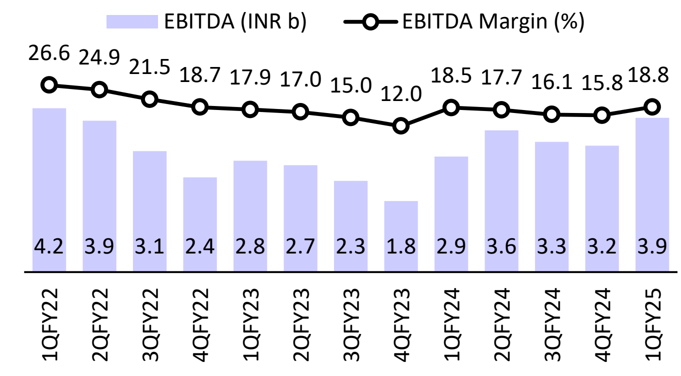
Source: Company, MOFSL

Exhibit 6: API sales declined 2.4% YoY in 1QFY25



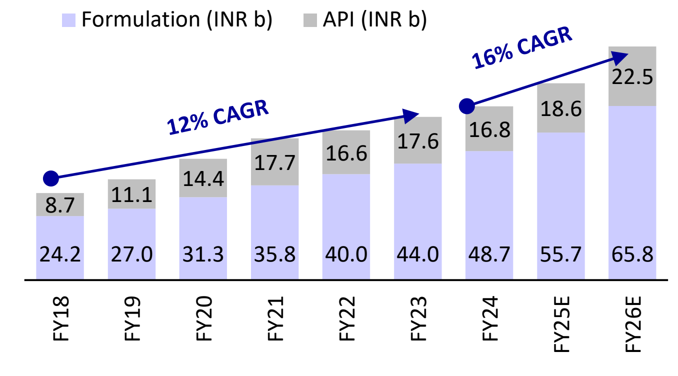
Source: Company, MOFSL

Exhibit 7: EBITDA margin grew 20bp YoY in 1QFY25



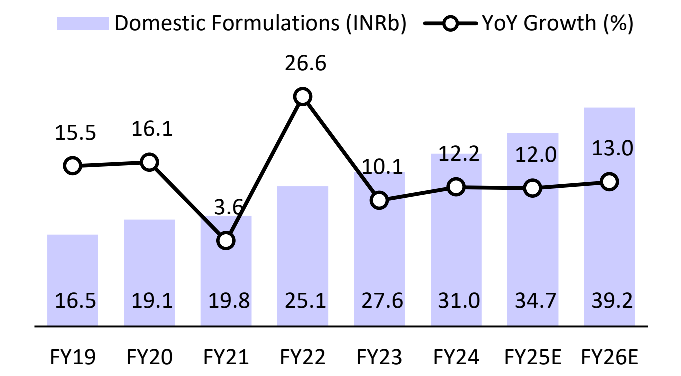
Source: Company, MOFSL

Exhibit 8: Expect 16% sales CAGR over FY24-26



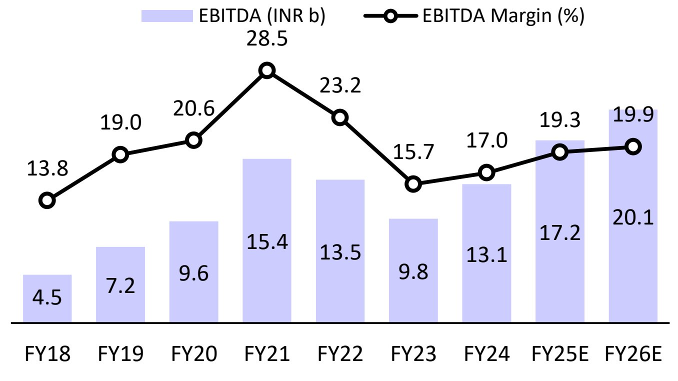
Source: Company, MOFSL

Exhibit 9: Expect 12% DF sales CAGR over FY24-26



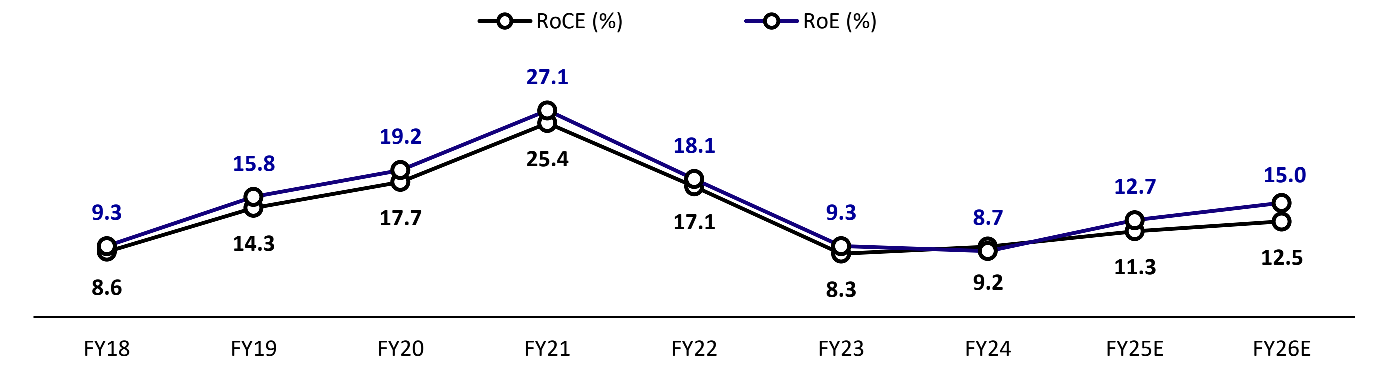
Source: Company, MOFSL

Exhibit 10: Expect margin to expand over FY24-26



Source: Company, MOFSL

Exhibit 11: Expect return ratios to improve over FY24-26



Source: Company, MOFSL

Financials and valuations

Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	**37,732**	**46,487**	**54,200**	**58,298**	**62,569**	**77,074**	**89,082**	**1,01,013**
Change (%)	14.9	23.2	16.6	7.6	7.3	23.2	15.6	13.4
EBITDA	**7,170**	**9,580**	**15,444**	**13,509**	**9,812**	**13,076**	**17,193**	**20,102**
Margin (%)	19.0	20.6	28.5	23.2	15.7	17.0	19.3	19.9
Depreciation	1,824	2,105	2,092	2,324	2,616	3,572	3,902	3,926
EBIT	**5,346**	**7,475**	**13,352**	**11,184**	**7,197**	**9,503**	**13,290**	**16,176**
Int. and Finance Charges	189	165	90	77	455	1,383	969	950
Other Income - Rec.	483	578	457	666	1,151	1,075	900	950
PBT before EO Expense	**5,640**	**7,888**	**13,719**	**11,773**	**7,892**	**9,195**	**13,222**	**16,175**
EO Expense/(Income)	157	445	-171	416	314	769	0	0
PBT after EO Expense	**5,483**	**7,442**	**13,890**	**11,357**	**7,579**	**8,426**	**13,222**	**16,175**
Current Tax	1,218	1,406	2,487	2,070	2,302	3,102	3,900	4,125
Deferred Tax	-176	-53	-85	178	230	33	264	324
Tax	1,042	1,353	2,401	2,248	2,532	3,135	4,165	4,448
Tax Rate (%)	18.5	17.2	17.5	19.1	32.1	34.1	31.5	27.5
Reported PAT	**4,441**	**6,090**	**11,488**	**9,110**	**5,047**	**5,291**	**9,056**	**11,726**
Less: Minority Interest	18	78	91	269	-206	984	550	450
Net Profit	**4,423**	**6,012**	**11,398**	**8,841**	**5,253**	**4,307**	**8,506**	**11,276**
Adj PAT	**4,580**	**6,485**	**11,255**	**9,218**	**5,275**	**5,274**	**8,506**	**11,276**
Adj PAT growth (%)	91.3	41.6	73.6	-18.1	-42.8	0.0	61.3	32.6

Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	252	252	254	254	254	254	254	254
Total Reserves	30,971	35,903	46,763	54,666	58,167	63,068	70,299	79,885
Net Worth	**31,224**	**36,275**	**47,017**	**54,920**	**58,420**	**63,322**	**70,553**	**80,138**
Deferred liabilities	1457	1398	1316	1506	1856	3062	3327	3650
Total Loans	3,505	4,328	1,988	8,027	14,746	14,274	24,474	23,047
Capital Employed	**36,342**	**42,137**	**50,466**	**65,222**	**75,755**	**94,607**	**98,354**	**1,06,836**
Gross Block	26,657	30,268	31,872	37,647	43,601	65,195	66,695	68,195
Less: Accum. Deprn.	6,951	9,056	11,148	13,472	16,088	19,660	23,562	27,488
Net Fixed Assets	**19,706**	**21,212**	**20,724**	**24,175**	**27,514**	**45,535**	**43,133**	**40,707**
Capital WIP	361	708	2,348	3,064	1,404	3,429	3,429	3,429
Investments	1,204	2,719	4,711	9,892	6,260	8,620	8,620	8,620
Curr. Assets	**24,217**	**27,939**	**32,881**	**39,237**	**51,051**	**53,386**	**58,548**	**71,515**
Inventory	10,725	13,231	15,948	18,580	17,434	24,713	27,579	30,719
Account Receivables	6,815	8,952	8,118	9,108	9,890	16,865	19,769	22,693
Cash and Bank Balance	2,823	1,809	3,651	6,407	18,532	2,968	983	6,517
Loans & Advances	3,854	3,947	5,164	5,143	5,194	8,840	10,217	11,585
Curr. Liability & Prov.	**9,147**	**10,441**	**10,198**	**11,147**	**10,473**	**16,364**	**15,376**	**17,435**
Account Payables	8,190	9,182	8,781	9,704	8,923	13,050	13,667	15,498
Provisions	957	1,259	1,417	1,443	1,550	3,314	1,708	1,937
Net Current Assets	**15,070**	**17,498**	**22,682**	**28,091**	**40,577**	**37,022**	**43,172**	**54,080**
Appl. of Funds	**36,342**	**42,137**	**50,466**	**65,222**	**75,755**	**94,607**	**98,354**	**1,06,836**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
EPS (INR)	**18.1**	**25.6**	**44.4**	**36.3**	**20.8**	**20.8**	**33.5**	**44.4**
Cash EPS	24.8	32.2	53.2	44.0	31.0	31.1	48.9	59.9
BV/Share	123.7	143.2	185.3	216.5	230.3	249.6	278.1	315.9
DPS	0.5	3.6	6.8	6.6	7.7	7.8	7.9	8.1
Payout (%)	2.8	14.8	14.9	18.3	38.3	36.9	22.0	17.3
Valuation (x)								
P/E	75.0	52.9	30.5	37.2	65.1	65.1	40.4	30.4
P/BV	10.9	9.4	7.3	6.3	5.9	5.4	4.9	4.3
EV/Sales	9.1	7.4	6.4	5.9	5.5	4.5	3.9	3.4
EV/EBITDA	48.1	36.0	22.3	25.5	35.1	26.4	20.1	17.2
Dividend Yield (%)	0.0	0.3	0.5	0.5	0.6	0.6	0.6	0.6
Return Ratios (%)								
RoE	15.8	19.2	27.1	18.1	9.3	8.7	12.7	15.0
RoCE	14.3	17.7	25.4	17.1	8.3	9.2	11.3	12.5
RoIC	14.0	18.0	28.7	21.1	10.2	9.7	11.0	13.5
Working Capital Ratios								
Fixed Asset Turnover (x)	1.9	2.3	2.6	2.6	2.4	2.1	2.0	2.4
Debtor (Days)	65	70	54	56	58	80	81	82
Inventory (Days)	104	104	107	116	102	117	113	111
Working Capital Turnover (Days)	118	123	128	136	129	161	173	172
Leverage Ratio (x)								
Interest Cover Ratio	28.3	45.3	147.7	145.4	15.8	6.9	13.7	17.0
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	0.2	0.3	0.2

Cash Flow Statement (INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Oper. Profit/(Loss) before Tax	7,170	9,580	15,444	13,509	9,812	13,076	17,193	20,102
Interest/Dividends Recd.	483	578	457	666	1,151	1,075	900	950
Direct Taxes Paid	-1,165	-1,412	-2,484	-2,058	-2,181	-1,928	-3,900	-4,125
(Inc)/Dec in WC	-1,686	-3,442	-3,343	-2,652	-361	-12,009	-8,134	-5,374
CF from Operations	**4,803**	**5,304**	**10,075**	**9,464**	**8,421**	**213**	**6,058**	**11,553**
Others	365	784						
EO Expense / (Income)	157	445	-171	416	314	769	0	0
CF from Oper. incl EO Exp.	**5,010**	**5,643**	**10,246**	**9,048**	**8,107**	**-556**	**6,058**	**11,553**
(inc)/dec in FA	-1,632	-3,958	-3,244	-6,491	-4,294	-23,618	-1,500	-1,500
Free Cash Flow	**3,379**	**1,685**	**7,002**	**2,557**	**3,813**	**-24,174**	**4,558**	**10,053**
(Pur)/Sale of Investments	-336	-1,515	-1,992	-5,181	3,632	-2,360	0	0
Others	317	376	0	0	0	0	0	0
CF from Investments	**-1,651**	**-5,097**	**-5,236**	**-11,672**	**-662**	**-25,979**	**-1,500**	**-1,500**
Issue of shares	0	0	1	0	0	0	0	0
(Inc)/Dec in Debt	-1,070	804	-2,331	6,663	6,683	12,743	-3,748	-1,427
Interest Paid	-189	-165	-90	-77	-455	-1,383	-969	-950
Dividend Paid	-126	-902	-1,710	-1,670	-1,933	-1,950	-1,989	-2,029
CF from Fin. Activity	**-1,832**	**-1,305**	**-3,169**	**5,222**	**4,681**	**10,705**	**-5,816**	**-3,338**
Inc/Dec of Cash	**1,528**	**-758**	**1,841**	**2,598**	**12,126**	**-15,830**	**-1,258**	**6,715**
Add: Beginning Balance	2,181	3,709	2,954	4,795	7,393	19,519	3,689	2,431
Forex/ Business acquisition	0	3	0	0	0	0	0	0
Closing Balance	**3,709**	**2,954**	**4,795**	**7,393**	**19,519**	**3,689**	**2,431**	**9,146**
Bank balances / Mutual fund (gain)/ loss	-886	-1,145	-1,145	-986	-986	-721	-741	2,629
Closing Balance	**2,823**	**1,809**	**3,650**	**6,407**	**18,533**	**2,968**	**1,690**	**6,517**

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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