

# IPCA Laboratories

BSE SENSEX

81,381

S&P CNX

24,964



## Stock Info

|                       |            |
|-----------------------|------------|
| Bloomberg             | IPCA IN    |
| Equity Shares (m)     | 254        |
| M.Cap.(INRb)/(USDb)   | 419.8 / 5  |
| 52-Week Range (INR)   | 1659 / 933 |
| 1, 6, 12 Rel. Per (%) | 15/15/50   |
| 12M Avg Val (INR M)   | 625        |
| Free float (%)        | 53.7       |

## Financials Snapshot (INR b)

| Y/E MARCH            | FY25E | FY26E | FY27E |
|----------------------|-------|-------|-------|
| Sales                | 88.9  | 101.6 | 119.6 |
| EBITDA               | 17.2  | 20.2  | 24.9  |
| Adj. PAT             | 8.5   | 10.9  | 14.2  |
| EBIT Margin (%)      | 14.9  | 16.0  | 17.4  |
| Cons. Adj. EPS (INR) | 33.4  | 42.8  | 55.9  |
| EPS Gr. (%)          | 60.8  | 28.1  | 30.5  |
| BV/Sh. (INR)         | 278.0 | 314.4 | 362.0 |

## Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | 0.3  | 0.2  | 0.1  |
| RoE (%)    | 12.7 | 14.5 | 16.5 |
| RoCE (%)   | 11.2 | 12.1 | 14.0 |
| Payout (%) | 22.0 | 17.9 | 19.2 |

## Valuations

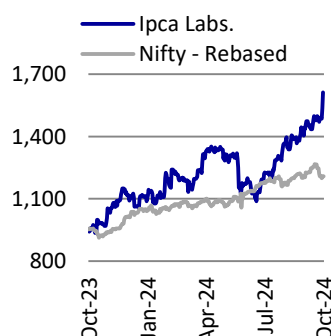
|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 49.6 | 38.7 | 29.7 |
| EV/EBITDA (x)  | 24.6 | 20.9 | 17.0 |
| Div. Yield (%) | 0.5  | 0.5  | 0.7  |
| FCF Yield (%)  | 1.1  | 2.2  | 2.4  |
| EV/Sales (x)   | 4.8  | 4.2  | 3.5  |

## 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

## Stock performance (one-year)



**CMP: INR1,659 TP: INR1,950 (+18%) Upgrade to Buy**

## At an inflexion point

- After three years of earnings deterioration, IPCA is well-poised to deliver strong earnings growth over FY24-27.
- With broad-based growth in volume and pricing, IPCA has been able to outperform the industry significantly in the domestic formulation (DF) market, with 15% YoY growth in MAT Aug'24 and a 15% CAGR in MAT Aug'21-24.
- IPCA is making efforts to augment its export prospects through new launches and market share gains in generics exports. It is also working to drive synergies from the Unichem acquisition.
- After a muted performance in the US generics business over the last 10 years due to compliance issues, IPCA is geared up to revive its US business through improving USFDA compliance, new launches over the next 6-8 months, and synergies from the Unichem acquisition.
- Considering a 29% earnings CAGR and an anticipated improvement in the return ratio to ~17% over FY24-26, we value IPCA at 38x 12M forward earnings to arrive at a TP of INR1950. We upgrade IPCA to BUY as we factor in better operational efficiency, a revival in US business, synergies from the Unichem acquisition, and well-established DF business.

## DF: Geared up to sustain industry-beating growth

- Given the highest share of acute therapies in the DF market (68% of DF sales MAT Aug'24) and chronic therapies (32% of DF sales MAT Aug'24), IPCA has outperformed IPM consistently over MAT Aug'21-24, led by strong brand equity, efficient management of seasonality, increase in MR productivity and market share gain.
- IPCA's Cardiac/Anti-infective/Derma outperformed IPM by 6%/10.6%/13.1% in MAT Aug'24, led by superior execution.
- Although the pharma industry has been witnessing a decline in Pain therapy, IPCA has outperformed IPM by ~680bp over MAT Aug'21-24, led by strong execution and growth in its key brands, including Zerodol and combination.
- IPCA is focusing on improving MR productivity, new launches and market share gain in existing and new launches.
- We expect a 14% sales CAGR in the DF segment over FY25-27.

## Exports: Healthy momentum in generics formulation business

- The company's export formulation business grew slowly at a CAGR of 3.6% over FY21-FY24, dragged down by a decline in its institutional business (-11.5%) and slower growth in its generics business (6.7% CAGR).
- We expect IPCA to deliver a 27% CAGR in exports over FY24-27 on the back of a healthy approval pace, a sound compliance record, and new product launches.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Valuation and view**

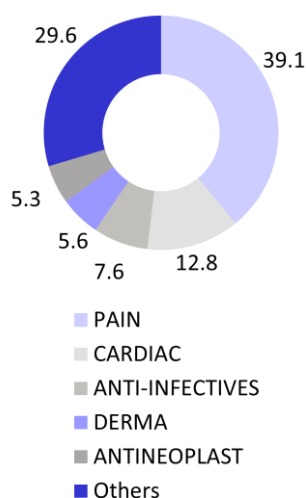
- We believe that the positive factors for IPCA include strong domestic brand franchise, improved USFDA compliance, US business revival, synergic benefits of the Unichem acquisition, and improving operational efficiency.
- We value IPCA at 38x 12M forward earnings to arrive at a TP of INR1,950. We upgrade to BUY.

**Exhibit 1: Valuation snapshot**

| Company           | Reco                  | MCap<br>(USD B) | EPS (INR)   |             |             | EPS Gr. YoY (%) |             | PE (x)      |             | EV/EBITDA (x) |             | ROE (%)    |             |             |
|-------------------|-----------------------|-----------------|-------------|-------------|-------------|-----------------|-------------|-------------|-------------|---------------|-------------|------------|-------------|-------------|
|                   |                       |                 | FY24        | FY25E       | FY26E       | FY25E           | FY26E       | FY25E       | FY26E       | FY25E         | FY26E       | FY24       | FY25E       | FY26E       |
| Ajanta Pharma     | Buy                   | 5.0             | 62.3        | 75.8        | 87.8        | 21.7            | 15.6        | 44.2        | 38.2        | 31.1          | 27.1        | 22.7       | 24.5        | 23.7        |
| Alembic Pharma    | Neutral               | 2.7             | 31.5        | 37.4        | 41.2        | 18.8            | 10.3        | 31.4        | 28.4        | 19.3          | 17.2        | 13.5       | 14.2        | 13.9        |
| Alkem Lab         | Neutral               | 8.7             | 159.7       | 187.8       | 204.3       | 17.6            | 8.8         | 32.9        | 30.2        | 27.9          | 25.5        | 19.7       | 20.1        | 18.8        |
| Aurobindo Pharma  | Neutral               | 10.2            | 56.0        | 66.3        | 73.8        | 18.3            | 11.3        | 22.5        | 20.3        | 11.6          | 10.7        | 11.6       | 12.3        | 12.2        |
| Biocon            | Neutral               | 4.9             | 1.8         | 4.4         | 9.2         | 144.4           | 109.8       | 78.5        | 37.4        | 16.1          | 12.6        | 1.1        | 2.6         | 5.3         |
| Cipla             | Buy                   | 15.5            | 52.5        | 58.7        | 65.6        | 11.9            | 11.7        | 27.2        | 24.3        | 18.0          | 15.7        | 15.9       | 15.4        | 14.9        |
| Divi's Lab.       | Neutral               | 18.8            | 60.0        | 77.7        | 95.1        | 29.6            | 22.4        | 79.0        | 64.5        | 53.8          | 44.9        | 12.1       | 14.4        | 15.9        |
| Dr Reddy's Labs   | Neutral               | 13.0            | 317.1       | 353.8       | 389.0       | 11.6            | 9.9         | 18.7        | 17.0        | 11.0          | 9.2         | 20.7       | 19.1        | 17.7        |
| Eris Lifescience  | Neutral               | 2.3             | 29.2        | 30.4        | 42.0        | 4.0             | 38.0        | 45.5        | 33.0        | 17.7          | 15.4        | 16.8       | 15.2        | 18.2        |
| Gland Pharma      | Buy                   | 3.3             | 47.6        | 53.4        | 67.0        | 12.1            | 25.6        | 31.8        | 25.3        | 17.8          | 14.4        | 9.4        | 9.6         | 10.9        |
| Glenmark Pharma   | Buy                   | 5.9             | 2.5         | 47.5        | 59.2        | 1811.9          | 24.6        | 37.8        | 30.3        | 19.5          | 16.1        | 0.8        | 15.8        | 16.8        |
| Glaxosmit Pharma  | Neutral               | 5.6             | 43.3        | 48.1        | 53.4        | 11.1            | 11.1        | 57.9        | 52.1        | 42.9          | 38.1        | 41.3       | 38.3        | 35.3        |
| Granules India    | Buy                   | 1.7             | 17.4        | 22.2        | 29.4        | 27.7            | 32.8        | 27.2        | 20.5        | 14.5          | 11.8        | 13.9       | 15.4        | 17.5        |
| <b>Ipca Labs.</b> | <b>Upgrade to Buy</b> | <b>4.8</b>      | <b>20.8</b> | <b>33.5</b> | <b>43.0</b> | <b>61.3</b>     | <b>28.2</b> | <b>49.4</b> | <b>38.5</b> | <b>24.9</b>   | <b>20.8</b> | <b>8.7</b> | <b>12.7</b> | <b>14.5</b> |
| Laurus Labs       | Buy                   | 2.9             | 3.0         | 6.7         | 11.9        | 121.9           | 78.3        | 70.8        | 39.7        | 24.7          | 18.8        | 4.0        | 8.4         | 13.7        |
| Lupin             | Neutral               | 11.6            | 41.5        | 59.2        | 69.8        | 42.5            | 17.8        | 37.6        | 31.9        | 21.3          | 17.9        | 14.1       | 17.3        | 17.4        |
| Mankind Pharma    | Buy                   | 12.8            | 47.8        | 54.5        | 62.4        | 14.1            | 14.6        | 51.3        | 44.7        | 34.6          | 29.5        | 22.8       | 21.4        | 20.9        |
| Piramal Pharma    | Buy                   | 3.4             | 0.4         | 2.6         | 5.3         | 509.3           | 107.2       | 85.8        | 41.4        | 21.8          | 16.1        | 0.8        | 4.2         | 8.2         |
| Sun Pharma.Inds.  | Buy                   | 53.9            | 41.4        | 49.2        | 57.9        | 18.6            | 17.8        | 38.7        | 32.8        | 30.5          | 26.4        | 16.7       | 17.2        | 17.4        |
| Torrent Pharma.   | Neutral               | 13.9            | 47.1        | 63.4        | 82.0        | 34.6            | 29.3        | 55.2        | 42.7        | 29.2          | 24.5        | 24.4       | 28.5        | 30.5        |
| Zydus LifeScience | Neutral               | 12.6            | 37.6        | 43.9        | 47.3        | 16.5            | 7.9         | 24.3        | 22.5        | 15.9          | 14.3        | 20.3       | 19.6        | 17.4        |

Source: MOFSL, Company

Pain is IPCA's biggest therapy, contributing 39% to DF sales



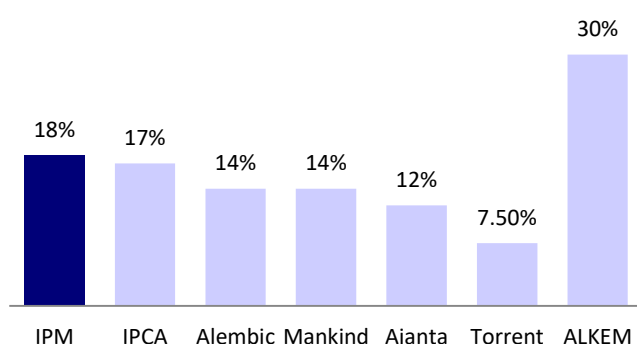
## Outperforming DF market with strong brands and strategic execution

- In 5MFY25/MAT Aug'24, IPCA has outperformed IPM by 6.3%/6.7%, led by strong brand equity, improved productivity and increase in volumes.
- In MAT Aug'24, acute therapies (68% of DF business)/Chronic therapies (32% of DF business) outperformed IPM by 6.3%/8.3%.
- Pain therapy (~39% of total DF revenue) grew 13.6% YoY in MAT Aug'24, led by 14 % YoY growth in Zerodol and combination.
- Cardiac/Anti-infective/Derma outperformed IPM by 6%/10.6%/13.1% in MAT Aug'24, led by superior execution.
- Supported by new product launches and market share gains, we expect the DF segment to grow at 14% over FY25-27.

## Strong brand equity paves way for IPM outperformance

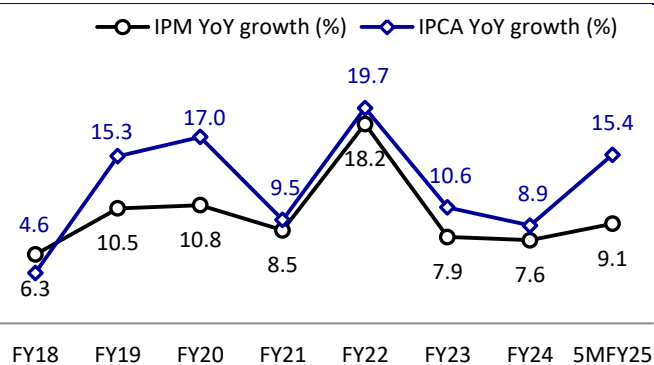
- During MAT Aug'24, IPCA grew 14.8% YoY, outperforming IPM by 670bp, on the back of 7.7%/6.1%/1% growth in price/volume/New launches.
- In FY23 and FY24, although IPCA outperformed IPM, its YoY growth declined due to the high base of Covid and moderate growth in key therapies like Anti-infectives. Strong brand equity led to consistent outperformance against IPM over FY19-24.
- Despite having 17% of its portfolio under the National List of Essential Medicines (NLEM), IPCA has consistently outperformed IPM since FY19. This can be attributed to strong brand recall, effective management of seasonality, a rise in volume, decluttering the MRs for enhanced brand focus, and improved productivity.

Exhibit 2: IPCA has 17% of its portfolio under NLEM



Source: MOFSL, company

Exhibit 3: IPCA consistently outperforming IPM



Source: MOFSL, company, IQVIA

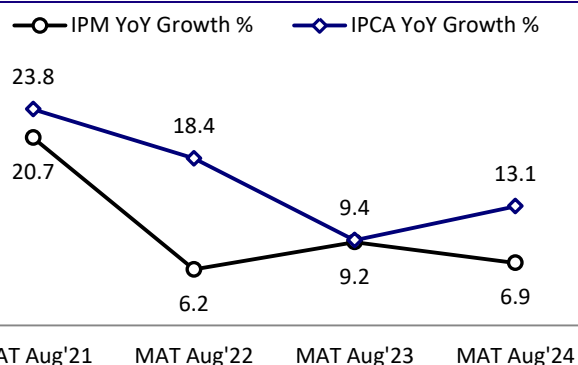
**Strong brand equity led to consistent outperformance against IPM over FY19-24**

- IPCA has posted a CAGR of 16% over FY21-24, outperforming IPM by ~480bp. IPCA outperformed IPM in Derma/Pain/Anti-Infectives by 21.7%/5.2%/1.7% over FY21-24.
- In FY21, although IPCA outperformed IPM, DF growth declined YoY to 9.5% due to the adverse impact of the Covid lockdown, leading to temporary disturbances in the supply chain. However, in FY22, the company registered a phenomenal growth of 19.7% YoY, due to rising demand on account of Covid-19, higher growth in the respiratory division, and a low base of FY21.

### Broad-based growth across therapies over past 12 months

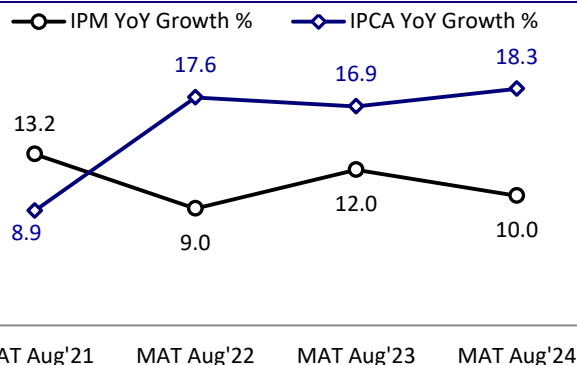
- During MAT Aug'24, IPCA's growth was attributed to strong outperformance in Acute (+630bp vs. IPM) and Chronic (+830bp vs. IPM).
- Over MAT Aug'20-24, IPCA's acute therapies (68% of DF sales) saw a 16.1% CAGR and chronic therapies (32% of DF sales) clocked a 15.4% CAGR.

**Exhibit 4: Acute therapies and....**



Source: MOFSL, IQVIA

**Exhibit 5: ... chronic therapies continues to outperform IPM**



Source: MOFSL, IQVIA

**Exhibit 6: Except Antineoplast, all other therapies have outperformed IPM**

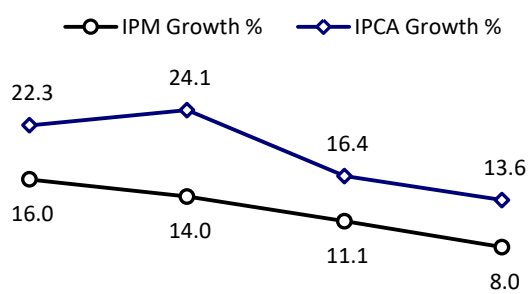
| Therapy                      | MAT AUG'24 | 4 Year CAGR (%) | IPCA YoY (%) | IPM YoY (%) |
|------------------------------|------------|-----------------|--------------|-------------|
| Pain / Analgesics            | 1,777      | 18              | 14           | 8           |
| Cardiac                      | 583        | 12              | 17           | 11          |
| Anti-Infectives              | 344        | 8               | 11           | 6           |
| Derma                        | 255        | 24              | 20           | 7.2         |
| Antineoplast/Immunomodulator | 243        | 19              | 16           | 20.3        |
| Gastro Intestinal            | 225        | 8               | 10           | 9.6         |
| Respiratory                  | 204        | 20              | 4            | 2.7         |
| Urology                      | 202        | 35              | 33           | 13.3        |
| Anti Malarials               | 193        | 1               | 15           | 14.2        |
| Neuro / Cns                  | 184        | 19              | 13           | 8.6         |
| Anti Diabetic                | 160        | 10              | 22           | 7.1         |

Source: MOFSL, IQVIA

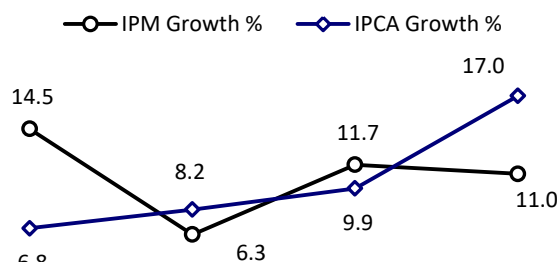
**IPM outperformance across both acute and chronic therapies**

### IPCA outperforming IPM despite industry slowdown in Pain segment

- Pain therapy in IPM has been on a downward trend, from 16% YoY in MAT Aug'21 to 8% YoY in MAT Aug'24. Despite the slowdown, IPCA has consistently outperformed IPM by ~680bp over the same period owing to strong brand equity. Pain therapy accounted for 39% of IPCA's total DF sales in MAT Aug'24.
- In MAT Aug'21-22, the pain segment saw significant growth, driven by a surge in demand for hydroxychloroquine during the Covid-19 pandemic. However, excluding growth of hydroxychloroquine, the Pain segment witnessed growth in mid-single digits.

**Exhibit 7: IPCA consistently outperforms IPM in Pain**

Source: MOFSL, IQVIA

**Exhibit 8: In MAT Aug'24, IPCA outperformed IPM with a wide margin in Cardiac**

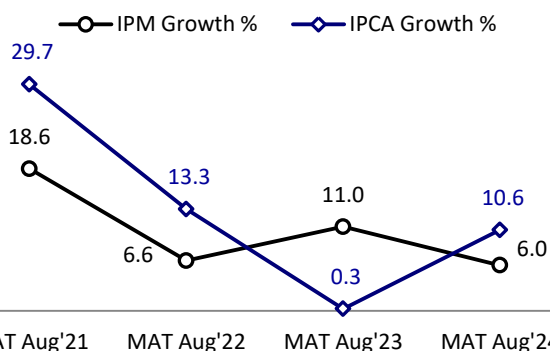
Source: MOFSL, IQVIA

**Strong revival in Cardiac therapy over past 12 months**

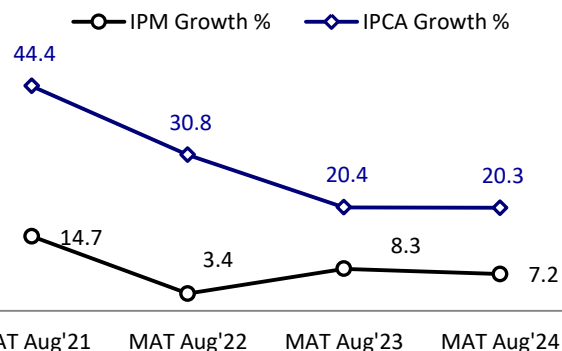
- In MAT Aug'24, IPCA's cardiac therapy (12.8% of DF sales) outperformed IPM growth by 600bp, led by strong brand growth and MR productivity improvement.
- In MAT Aug'23, the cardiac segment showed healthy growth of 9.9%, though it still underperformed as one division remained in the breakeven phase.
- In MAT Aug'22, growth in the cardiac segment was subdued due to the launch of two new divisions aimed at increasing consultant-level penetration and restructuring the existing distribution network, leading to a decline in growth.
- In MAT Aug'21, IPCA's cardiac therapy saw its highest growth, driven by the introduction of sartan into the product portfolio.

**Superior execution in Anti-infective therapy**

- In MAT Aug'24, IPCA outperformed IPM in Anti-infective therapy (7.6% of Ipca's DF sales), led by the seasonality effect and a strong brand recall of the company. In MAT Aug'23, growth in Anti-infective therapy was low despite good growth in IPM. This was due to the high base effect of last year and seasonality.

**Exhibit 9: In MAT Aug'24, IPCA outperformed IPM in Anti-infective therapy**

Source: MOFSL, IQVIA

**Exhibit 10: Consistent strong double-digit growth in Derma therapy since MAT Aug'21**

Source: MOFSL, IQVIA

### Robust high-teens YoY growth in derma therapy for IPCA

- As of Aug'24, IPCA's Derma therapy outpaced IPM, with 13.1% YoY growth, led by the, strong brand recall, increase in productivity, new launches and strong execution.
- Over MAT Aug'21-24, the therapy consistently achieved high double-digit growth, reflecting strong performance in this segment.
- The Derma therapy has outperformed IPM by ~28.5% over MAT Aug'21-22 led by low base effect of covid-19.

### Top brands growing faster than IPM

- ZERODOL-SP is used in pain management related to inflammation relief, swelling and aids faster recovery of inflamed or injured tissues. The drug has registered a 24.4% CAGR over the past four years, surpassing the growth of therapy as well as molecule, indicating strong brand equity and enhanced productivity of the specialized division.
- Further, ZERODOL-SP is superior to ZERODOL-P, owing to the introduction of Serrapeptase molecule, resulting in a reduction of inflammation and edema (swelling) and promoting faster tissue repair compared to ZERODOL-P.

### Exhibit 11: Except HCQ and CTD, all other brands are growing in high double digits

| Top 10 brands | Therapy      | Molecule                                                           | MAT Aug'24 INRm | YoY Growth % | 4 Year Brand CAGR | 4 years Therapy CAGR % | 4 Years molecule CAGR % |
|---------------|--------------|--------------------------------------------------------------------|-----------------|--------------|-------------------|------------------------|-------------------------|
| Zerodol-sp    | Pain         | Aceclofenac + Paracetamol + Serrapeptase                           | 5766            | 18.2         | 24.4              | 12.2                   | 19.7                    |
| Zerodol-p     | Pain         | Aceclofenac + Paracetamol                                          | 2905            | 7.6          | 14.5              | 12.2                   | 11.1                    |
| Hcqs          | Pain         | Hydroxychloroquine Sulfate                                         | 1926            | 7.4          | 5.3               | 12.2                   | 4                       |
| Folitrax      | Antineoplast | Methotrexate And Comb.                                             | 1358            | 14.3         | 15.3              | 21.5                   | 15.1                    |
| Zerodol-th    | Pain         | Aceclofenac + Thiocolchicoside                                     | 1248            | 9.3          | 15.8              | 12.2                   | 11.4                    |
| Ctd-t         | Cardiac      | Chlortalidone + Telmisartan                                        | 1113            | 31.0         | 18.6              | 10.8                   | 12.6                    |
| Solvin cold   | Respiratory  | Chlorphenamine Maleate + Paracetamol + Phenylephrine Hydrochloride | 928             | 4.0          | 16.8              | 10.4                   | 6.8                     |
| Ctd           | Cardiac      | Chlortalidone                                                      | 784             | 9.7          | 7.6               | 10.8                   | 7.3                     |
| Tfct-nib      | Pain/Derma   | Tofacitinib Citrate                                                | 757             | 25.2         | 66*               | 12.2                   | 127.4                   |
| Pacimol       | Pain         | Paracetamol                                                        | 712             | 16.4         | 14.5              | 12.2                   | 13.9                    |

\*Note: TFCT-NIB brand growth is take for 3 years, Source: MOFSL, IQVIA

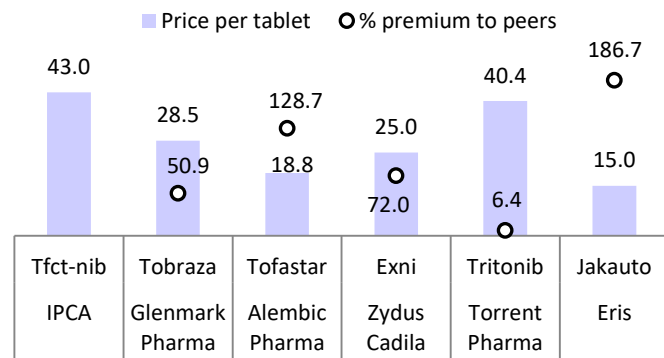
**Low base, higher productivity and new introduction led to 21% outperformance of Derma therapy vs, IPM**

- CTD brand has seen moderate growth of 7.6% over the last four years and has underperformed the cardiac therapy. CTD is used for reducing fluid and salt in the body to lower blood pressure.
- While CTD-T is a combination drug of Chlortalidone + Telmisartan, it provides a stronger and more comprehensive control of high blood pressure by targeting both fluid reduction and blood vessel relaxation.
- This has resulted in faster growth of CTD-T (18.6% CAGR over last 4 years) vs. CTD (7.6% CAGR over same period). Further CTD-T is growing faster than the molecule and therapy.

### TFCT-NIB growth strong, albeit losing market share on price competition

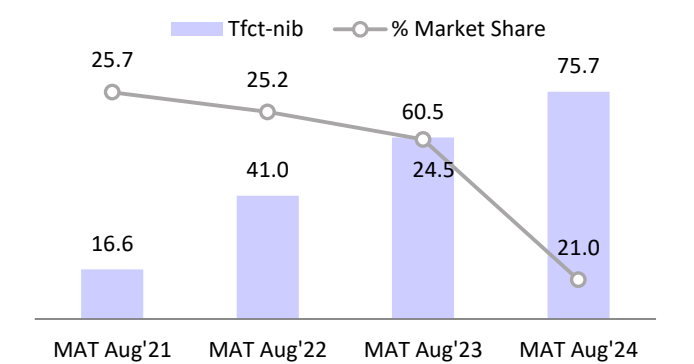
- Osteoarthritis (OA) is the most common rheumatic disease and the 4<sup>th</sup> most common cause of disability worldwide.
- IPCA's arthritis drug TFCT-NIB was launched in 2021 and has grown at a CAGR of 66% in the past three years to INR757m.

**Exhibit 12: IPCA's Tofacitinib drug at ~68% premium over peer average.....**



Source: MOFSL, Company, Tata 1MG

**Exhibit 13: .... leading to high price competition and loss of market share**



Source: MOFSL, Company, IQVIA

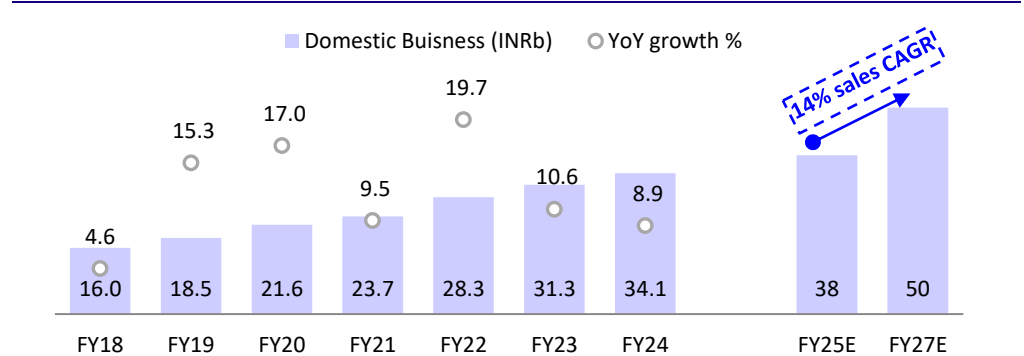
- While TFCT-NIB has seen the fastest growth among other drugs of the company, it still lags behind Tofacitinib market growth of 78% over Aug'21-Aug'24.
- The key reason is that TFCT-NIB is priced at a ~68% premium to average peer pricing in the Tofacitinib market, leading to ~470bp market share loss over Aug'21 to Aug'24 to 21%.
- India's elderly population (>60 years) is set to increase drastically from around 7.4% in 2001 to around 19% in 2050.

**New in-licensing deals/superior execution aid IPCA to outperform IPM**

### IPCA is well positioned to outperform IPM with 14% CAGR

- As of Aug'24, IPCA received marketing rights for Novalead's patented drug, Diulicus, for the treatment of diabetic foot ulcer. Owing to a high diabetes rate among people, this deal would help IPCA grow over the medium to long term.
- Accordingly, we expect DF sales to clock a CAGR of 14% over FY25-27 to INR50b.

**Exhibit 14: DF business to register a CAGR of 14% over FY25-27**



Source: MOFSL, Company



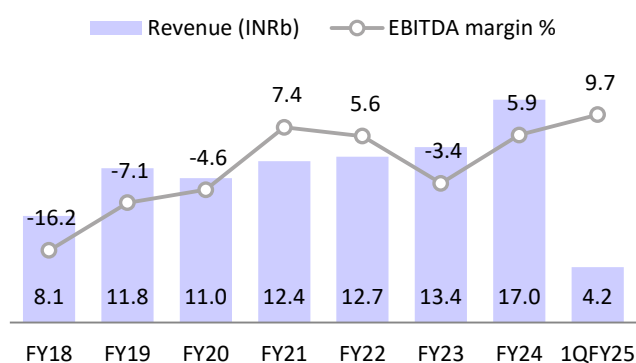
## Synergies of Unichem, approvals to boost exports

- After the acquisition, Unichem's revenue grew 16% YoY from Dec'23 to Jun'24.
- IPCA's North America (NA) business grew by a meager 7% over FY18-24, due to regulatory issues at its three sites. After the clearance of the site and the synergic benefits of Unichem, we expect a faster revival in business.
- The regulatory compliance at IPCA/Unichem sites and the ongoing product development exercise should start showing commercial benefits after 6-7 months.
- We expect export formulation business to register a CAGR of 28% over FY24-27.

## Ipca scaling up Unichem business through cost efficiency and new launches

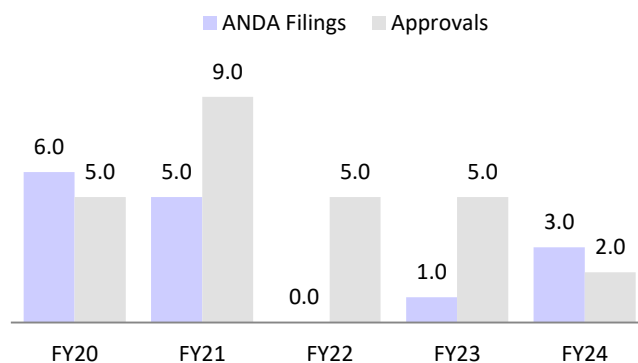
- Unichem business, after the consolidation in Sep'23, grew 16% YoY over Dec'23-Jun'24. Driven by efficient cost optimization, Unichem's EBITDA margins expanded by 310bp YoY to 9.7% in 1QFY25.
- The US remains a key market for the company, with ~58% contribution to total Unichem revenue and 40% YoY growth in FY24.
- As of Mar'24, Unichem had 75+ ANDAs and 77 DMF across markets and therapeutic categories.

**Exhibit 15: Unichem is improving on operating parameters**



Source: MOFSL, Company

**Exhibit 16: Total ANDA filings stood at 75+ as of FY24**



Source: MOFSL, Company

- Bayshore Pharmaceuticals LLC, a subsidiary of IPCA Labs, sold all rights in the product approvals and all goodwill associated with 9 ANDAs to Unichem for USD2.7m. Unichem Pharmaceuticals (USA) Inc. will also purchase Bayshore's US generics formulation marketing and distribution business for USD10m.
- Aligning Bayshore's generic portfolio would help Unichem generate synergies, improve efficiency and expand product offerings.

## Work in progress to revive US business

- Over the last six years (FY18-24), IPCA's NA sales have grown by a meager 7%, due to the import alert on its three facilities in the US.
- Over the past 10 years, IPCA had no business in the US market and had no development pipeline for the US market.
- However, after the clearance of the three sites, IPCA is working on filing new products in the US market, which would yield benefits over the medium term.
- Further, with the integration of Unichem business, IPCA would restructure its US business faster. Furthermore, the company is also foraying into biosimilar business, which would benefit over the longer term.



**USFDA compliance at sites provides comfort for better US prospects**

- On the compliance front, IPCA had a rough history with the USFDA. Over the past eight years, Ratlam and Silvassa plants were under the import alert.
- However, after the recent inspection completed in Jun'23/Apr'23 for Dhar/Ratlam/Silvassa, IPCA's facilities are in compliance with the regulatory norms of the USFDA.
- IPCA is working on its product pipeline and would file ANDA after 6-8 months.

**Exhibit 17: All facilities are compliant to USFDA regulations**

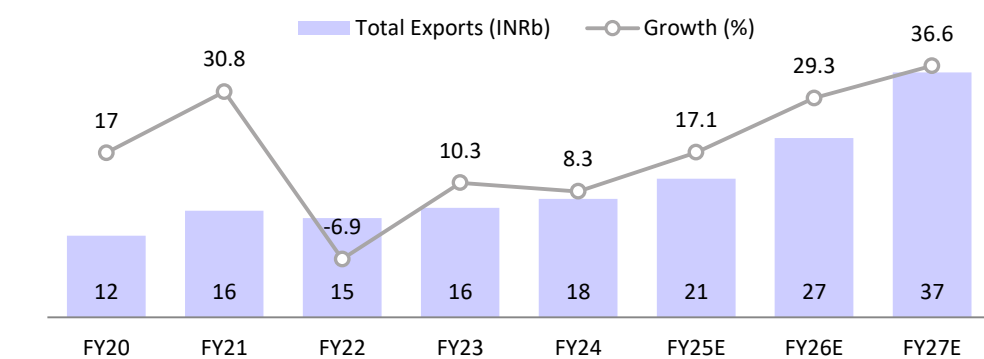
| Company | City            | Inspection End Date | Classification |
|---------|-----------------|---------------------|----------------|
| IPCA    | Dhar            | Jun-23              | VAI            |
|         | Ratlam          | Jun-23              | VAI            |
|         | Silvassa        | Apr-23              | VAI            |
|         | Silvassa        | Aug-19              | OAI            |
| Unichem | Pilerne Bardez  | Jul-24              | VAI            |
|         | Ghaziabad       | Feb-24              | NAI            |
|         | East Brunswick  | Sep-23              | NAI            |
|         | District Raigad | Feb-20              | NAI            |
|         | Pilerne Bardez  | Jan-20              | VAI            |

Note: NAI- No Action Indicated, VAI- Voluntary Action Indicated, OAI- Official Action Indicated,  
Source: MOFSL, Company, USFDA

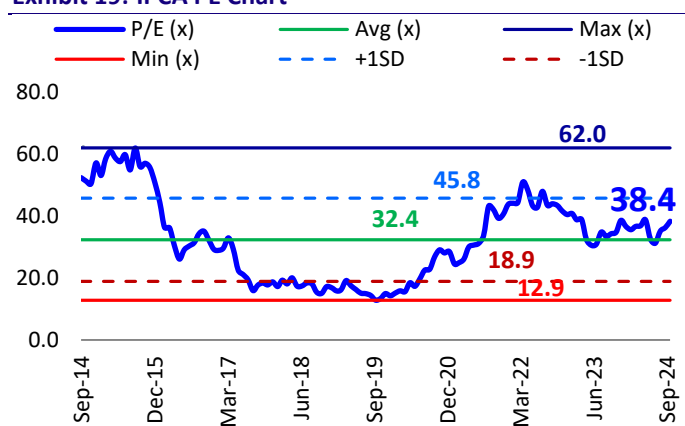
- On the other hand, Unichem has a sound compliance record. Since 2009, it has witnessed 28 USFDA inspections, with an outcome of either NAI/VAI.
- With the acquisition of Unichem business, IPCA is trying to revive the US business through its USFDA-compliant facilities and reach.

**Export business to grow as generics business expands**

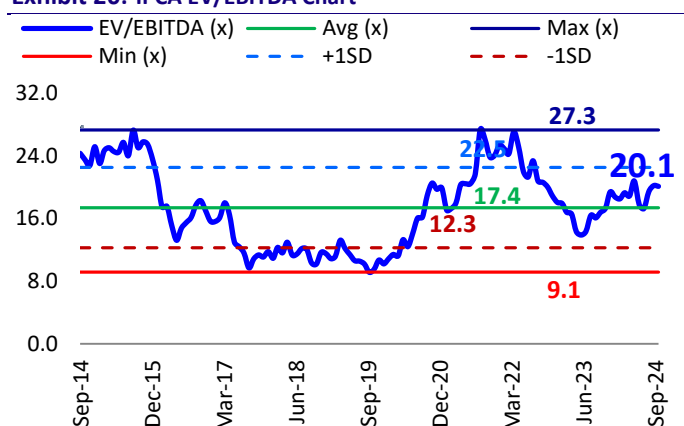
- Formulation business (62% of total revenue) is expected to clock a CAGR of 18%, driven by 27% growth in exports over FY24-FY27E.
- Export growth (36% of formulation revenue) is expected to be driven by 39% growth in generics over FY24-FY27E, aided by a favorable pricing environment, market share gains, Unichem consolidation, and new product launches.
- Branded formulation exports have been under pressure owing to high exposure to countries like Russia, Kazakhstan and Belarus, which have been impacted by geopolitical conflicts. However, with geographic diversification and easing pressure, we expect branded formulation exports to post a CAGR of 33% over FY25-FY27.

**Exhibit 18: Export formulation business to register a CAGR of 28% over FY24-27**

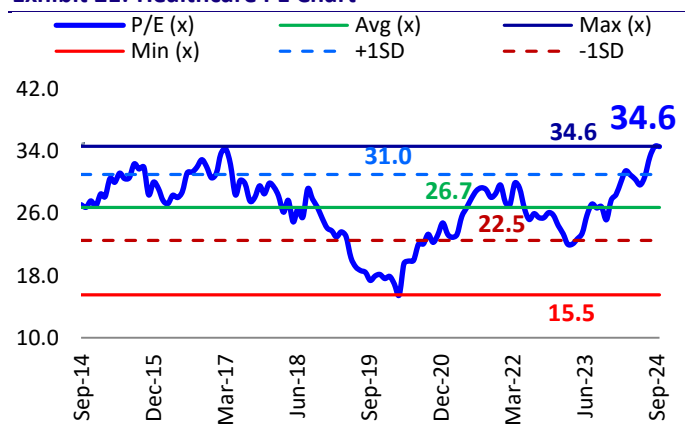
Source: MOFSL, Company

**Exhibit 19: IPCA PE Chart**

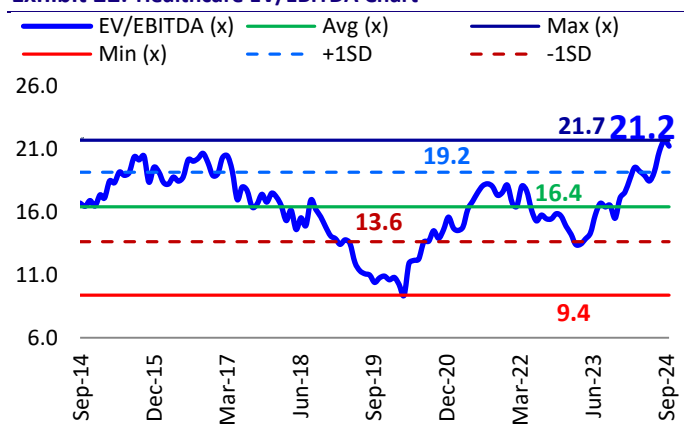
Source: MOFSL, Company

**Exhibit 20: IPCA EV/EBITDA Chart**

Source: MOFSL, Company

**Exhibit 21: Healthcare PE Chart**

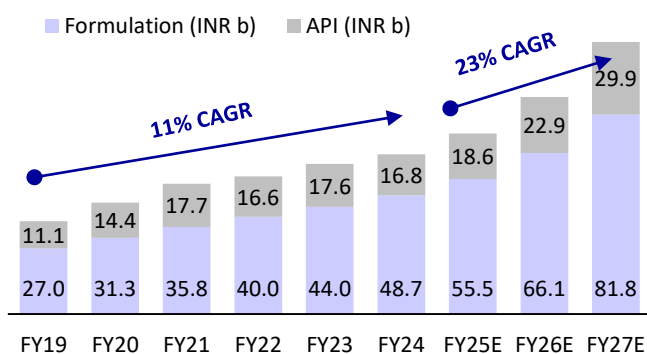
Source: MOFSL, Company

**Exhibit 22: Healthcare EV/EBITDA Chart**

Source: MOFSL, Company

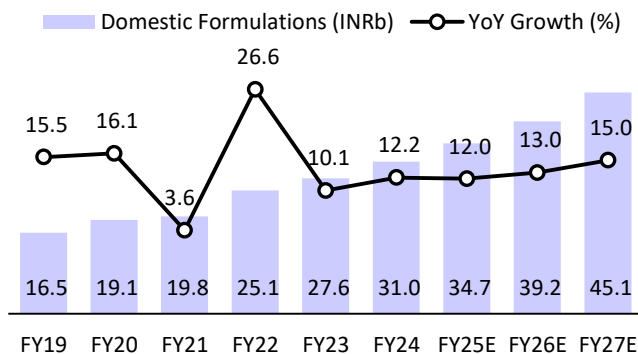
## Story in charts

**Exhibit 23: Expect 23% revenue CAGR over FY25-27**



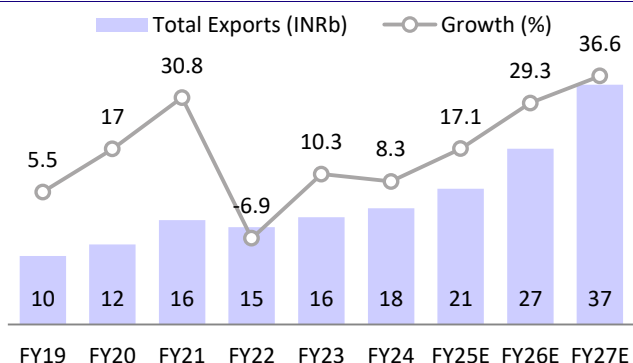
Source: Company, MOFSL

**Exhibit 24: Expect India sales CAGR of 14% over FY25-27**



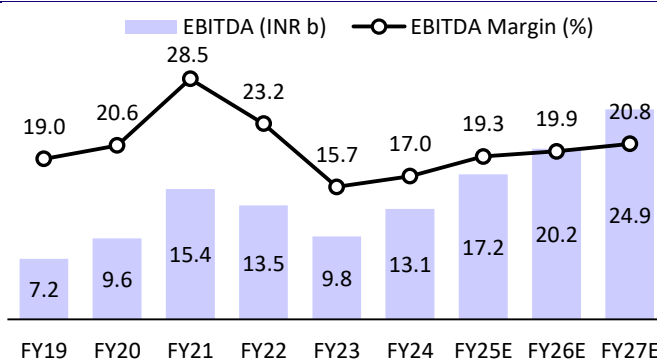
Source: Company, MOFSL

**Exhibit 25: Expect 33% export sales CAGR over FY25-27**



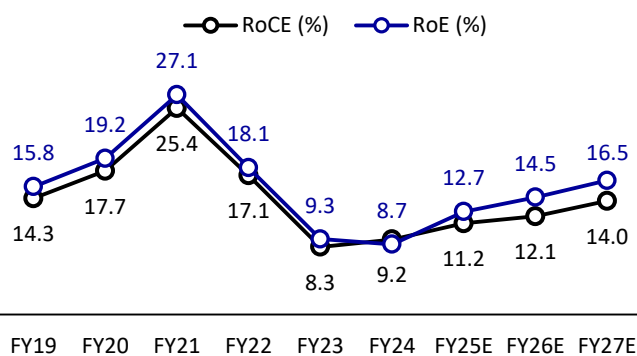
Source: Company, MOFSL

**Exhibit 26: EBITDA margin to expand over FY25-27**



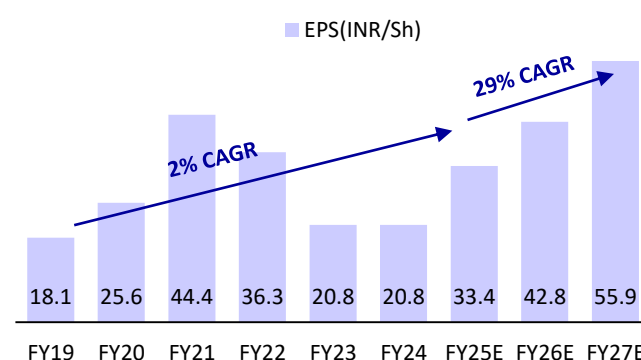
Source: Company, MOFSL

**Exhibit 27: ROCE/ROE to improve over FY25-27**



Source: Company, MOFSL

**Exhibit 28: Expect 29% earnings CAGR over FY25-27**



Source: Company, MOFSL

## Financials and valuations

| Income Statement             |               |               |               |               |               |               | (INRm)        |                 |                 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|
| Y/E March                    | FY19          | FY20          | FY21          | FY22          | FY23          | FY24          | FY25E         | FY26E           | FY27E           |
| <b>Net Revenues</b>          | <b>37,732</b> | <b>46,487</b> | <b>54,200</b> | <b>58,298</b> | <b>62,569</b> | <b>77,074</b> | <b>88,904</b> | <b>1,01,567</b> | <b>1,19,621</b> |
| Change (%)                   | 14.9          | 23.2          | 16.6          | 7.6           | 7.3           | 23.2          | 15.3          | 14.2            | 17.8            |
| <b>EBITDA</b>                | <b>7,170</b>  | <b>9,580</b>  | <b>15,444</b> | <b>13,509</b> | <b>9,812</b>  | <b>13,076</b> | <b>17,158</b> | <b>20,212</b>   | <b>24,881</b>   |
| Margin (%)                   | 19.0          | 20.6          | 28.5          | 23.2          | 15.7          | 17.0          | 19.3          | 19.9            | 20.8            |
| Depreciation                 | 1,824         | 2,105         | 2,092         | 2,324         | 2,616         | 3,572         | 3,902         | 3,926           | 4,082           |
| <b>EBIT</b>                  | <b>5,346</b>  | <b>7,475</b>  | <b>13,352</b> | <b>11,184</b> | <b>7,197</b>  | <b>9,503</b>  | <b>13,256</b> | <b>16,286</b>   | <b>20,799</b>   |
| Int. and Finance Charges     | 189           | 165           | 90            | 77            | 455           | 1,383         | 969           | 950             | 896             |
| Other Income - Rec.          | 483           | 578           | 457           | 666           | 1,151         | 1,075         | 900           | 950             | 980             |
| <b>PBT before EO Expense</b> | <b>5,640</b>  | <b>7,888</b>  | <b>13,719</b> | <b>11,773</b> | <b>7,892</b>  | <b>9,195</b>  | <b>13,187</b> | <b>16,286</b>   | <b>20,883</b>   |
| EO Expense/(Income)          | 157           | 445           | -171          | 416           | 314           | 769           | 0             | 0               | 0               |
| <b>PBT after EO Expense</b>  | <b>5,483</b>  | <b>7,442</b>  | <b>13,890</b> | <b>11,357</b> | <b>7,579</b>  | <b>8,426</b>  | <b>13,187</b> | <b>16,286</b>   | <b>20,883</b>   |
| Current Tax                  | 1,218         | 1,406         | 2,487         | 2,070         | 2,302         | 3,102         | 3,890         | 4,641           | 5,931           |
| Deferred Tax                 | -176          | -53           | -85           | 178           | 230           | 33            | 264           | 326             | 418             |
| Tax                          | 1,042         | 1,353         | 2,401         | 2,248         | 2,532         | 3,135         | 4,154         | 4,967           | 6,348           |
| Tax Rate (%)                 | 18.5          | 17.2          | 17.5          | 19.1          | 32.1          | 34.1          | 31.5          | 30.5            | 30.4            |
| <b>Reported PAT</b>          | <b>4,441</b>  | <b>6,090</b>  | <b>11,488</b> | <b>9,110</b>  | <b>5,047</b>  | <b>5,291</b>  | <b>9,032</b>  | <b>11,317</b>   | <b>14,533</b>   |
| Less: Minority Interest      | 18            | 78            | 91            | 269           | -206          | 984           | 550           | 450             | 350             |
| <b>Net Profit</b>            | <b>4,423</b>  | <b>6,012</b>  | <b>11,398</b> | <b>8,841</b>  | <b>5,253</b>  | <b>4,307</b>  | <b>8,482</b>  | <b>10,867</b>   | <b>14,183</b>   |
| <b>Adj PAT</b>               | <b>4,580</b>  | <b>6,485</b>  | <b>11,255</b> | <b>9,218</b>  | <b>5,275</b>  | <b>5,274</b>  | <b>8,482</b>  | <b>10,867</b>   | <b>14,183</b>   |
| Adj PAT growth (%)           | 91.3          | 41.6          | 73.6          | -18.1         | -42.8         | 0.0           | 60.8          | 28.1            | 30.5            |

| Balance Sheet                      |               |               |               |               |               |               | (INRm)        |                 |                 |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|
| Y/E March                          | FY19          | FY20          | FY21          | FY22          | FY23          | FY24          | FY25E         | FY26E           | FY27E           |
| Equity Share Capital               | 252           | 252           | 254           | 254           | 254           | 254           | 254           | 254             | 254             |
| Total Reserves                     | 30,971        | 35,903        | 46,763        | 54,666        | 58,167        | 63,068        | 70,279        | 79,517          | 91,574          |
| <b>Net Worth</b>                   | <b>31,224</b> | <b>36,275</b> | <b>47,017</b> | <b>54,920</b> | <b>58,420</b> | <b>63,322</b> | <b>70,533</b> | <b>79,771</b>   | <b>91,828</b>   |
| Deferred liabilities               | 1457          | 1398          | 1316          | 1506          | 1856          | 3062          | 3326          | 3652            | 4070            |
| Total Loans                        | 3,505         | 4,328         | 1,988         | 8,027         | 14,746        | 14,274        | 24,474        | 23,047          | 21,763          |
| <b>Capital Employed</b>            | <b>36,342</b> | <b>42,137</b> | <b>50,466</b> | <b>65,222</b> | <b>75,755</b> | <b>94,607</b> | <b>98,333</b> | <b>1,06,470</b> | <b>1,17,660</b> |
| Gross Block                        | 26,657        | 30,268        | 31,872        | 37,647        | 43,601        | 65,195        | 66,695        | 68,195          | 69,695          |
| Less: Accum. Deprn.                | 6,951         | 9,056         | 11,148        | 13,472        | 16,088        | 19,660        | 23,562        | 27,488          | 31,570          |
| <b>Net Fixed Assets</b>            | <b>19,706</b> | <b>21,212</b> | <b>20,724</b> | <b>24,175</b> | <b>27,514</b> | <b>45,535</b> | <b>43,133</b> | <b>40,707</b>   | <b>38,125</b>   |
| Capital WIP                        | 361           | 708           | 2,348         | 3,064         | 1,404         | 3,429         | 3,429         | 3,429           | 3,429           |
| Investments                        | 1,204         | 2,719         | 4,711         | 9,892         | 6,260         | 8,620         | 8,620         | 8,620           | 8,620           |
| <b>Curr. Assets</b>                | <b>24,217</b> | <b>27,939</b> | <b>32,881</b> | <b>39,237</b> | <b>51,051</b> | <b>53,386</b> | <b>58,496</b> | <b>71,245</b>   | <b>88,133</b>   |
| Inventory                          | 10,725        | 13,231        | 15,948        | 18,580        | 17,434        | 24,713        | 27,524        | 30,888          | 36,050          |
| Account Receivables                | 6,815         | 8,952         | 8,118         | 9,108         | 9,890         | 16,865        | 19,729        | 22,818          | 26,874          |
| Cash and Bank Balance              | 2,823         | 1,809         | 3,651         | 6,407         | 18,532        | 2,968         | 1,047         | 5,891           | 11,490          |
| Loans & Advances                   | 3,854         | 3,947         | 5,164         | 5,143         | 5,194         | 8,840         | 10,196        | 11,649          | 13,719          |
| <b>Curr. Liability &amp; Prov.</b> | <b>9,147</b>  | <b>10,441</b> | <b>10,198</b> | <b>11,147</b> | <b>10,473</b> | <b>16,364</b> | <b>15,345</b> | <b>17,531</b>   | <b>20,647</b>   |
| Account Payables                   | 8,190         | 9,182         | 8,781         | 9,704         | 8,923         | 13,050        | 13,640        | 15,583          | 18,353          |
| Provisions                         | 957           | 1,259         | 1,417         | 1,443         | 1,550         | 3,314         | 1,705         | 1,948           | 2,294           |
| <b>Net Current Assets</b>          | <b>15,070</b> | <b>17,498</b> | <b>22,682</b> | <b>28,091</b> | <b>40,577</b> | <b>37,022</b> | <b>43,151</b> | <b>53,714</b>   | <b>67,486</b>   |
| <b>Appl. of Funds</b>              | <b>36,342</b> | <b>42,137</b> | <b>50,466</b> | <b>65,222</b> | <b>75,755</b> | <b>94,607</b> | <b>98,333</b> | <b>1,06,470</b> | <b>1,17,660</b> |

E: MOFSL Estimates

## Financials and valuations

### Ratios

| Y/E March                       | FY19        | FY20        | FY21        | FY22        | FY23        | FY24        | FY25E       | FY26E       | FY27E       |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>EPS (INR)</b>                | <b>18.1</b> | <b>25.6</b> | <b>44.4</b> | <b>36.3</b> | <b>20.8</b> | <b>20.8</b> | <b>33.4</b> | <b>42.8</b> | <b>55.9</b> |
| Cash EPS                        | 24.8        | 32.2        | 53.2        | 44.0        | 31.0        | 31.1        | 48.8        | 58.3        | 72.0        |
| BV/Share                        | 123.7       | 143.2       | 185.3       | 216.5       | 230.3       | 249.6       | 278.0       | 314.4       | 362.0       |
| DPS                             | 0.5         | 3.6         | 6.8         | 6.6         | 7.7         | 7.8         | 7.9         | 8.1         | 11.1        |
| Payout (%)                      | 2.8         | 14.8        | 14.9        | 18.3        | 38.3        | 36.9        | 22.0        | 17.9        | 19.2        |
| <b>Valuation (x)</b>            |             |             |             |             |             |             |             |             |             |
| P/E                             | 91.9        | 64.9        | 37.4        | 45.7        | 79.8        | 79.8        | 49.6        | 38.7        | 29.7        |
| P/BV                            | 13.4        | 11.6        | 9.0         | 7.7         | 7.2         | 6.6         | 6.0         | 5.3         | 4.6         |
| EV/Sales                        | 11.2        | 9.1         | 7.8         | 7.2         | 6.8         | 5.5         | 4.8         | 4.2         | 3.5         |
| EV/EBITDA                       | 58.9        | 44.1        | 27.4        | 31.3        | 43.1        | 32.3        | 24.6        | 20.9        | 17.0        |
| Dividend Yield (%)              | 0.0         | 0.2         | 0.4         | 0.4         | 0.5         | 0.5         | 0.5         | 0.5         | 0.7         |
| <b>Return Ratios (%)</b>        |             |             |             |             |             |             |             |             |             |
| RoE                             | 15.8        | 19.2        | 27.1        | 18.1        | 9.3         | 8.7         | 12.7        | 14.5        | 16.5        |
| RoCE                            | 14.3        | 17.7        | 25.4        | 17.1        | 8.3         | 9.2         | 11.2        | 12.1        | 14.0        |
| RoIC                            | 14.0        | 18.0        | 28.7        | 21.1        | 10.2        | 9.7         | 11.0        | 13.0        | 15.9        |
| <b>Working Capital Ratios</b>   |             |             |             |             |             |             |             |             |             |
| Fixed Asset Turnover (x)        | 1.9         | 2.3         | 2.6         | 2.6         | 2.4         | 2.1         | 2.0         | 2.4         | 3.0         |
| Debtor (Days)                   | 65          | 70          | 54          | 56          | 58          | 80          | 81          | 82          | 82          |
| Inventory (Days)                | 104         | 104         | 107         | 116         | 102         | 117         | 113         | 111         | 110         |
| Working Capital Turnover (Days) | 118         | 123         | 128         | 136         | 129         | 161         | 173         | 172         | 171         |
| <b>Leverage Ratio (x)</b>       |             |             |             |             |             |             |             |             |             |
| Interest Cover Ratio            | 28.3        | 45.3        | 147.7       | 145.4       | 15.8        | 6.9         | 13.7        | 17.1        | 23.2        |
| Debt/Equity                     | 0.0         | 0.1         | 0.0         | 0.0         | -0.1        | 0.2         | 0.3         | 0.2         | 0.1         |

### Cash Flow Statement

(INR m)

| Y/E March                                | FY19          | FY20          | FY21          | FY22           | FY23          | FY24           | FY25E         | FY26E         | FY27E         |
|------------------------------------------|---------------|---------------|---------------|----------------|---------------|----------------|---------------|---------------|---------------|
| Oper. Profit/(Loss) before Tax           | 7,170         | 9,580         | 15,444        | 13,509         | 9,812         | 13,076         | 17,158        | 20,212        | 24,881        |
| Interest/Dividends Recd.                 | 483           | 578           | 457           | 666            | 1,151         | 1,075          | 900           | 950           | 980           |
| Direct Taxes Paid                        | -1,165        | -1,412        | -2,484        | -2,058         | -2,181        | -1,928         | -3,890        | -4,641        | -5,931        |
| (Inc)/Dec in WC                          | -1,686        | -3,442        | -3,343        | -2,652         | -361          | -12,009        | -8,050        | -5,719        | -8,173        |
| <b>CF from Operations</b>                | <b>4,803</b>  | <b>5,304</b>  | <b>10,075</b> | <b>9,464</b>   | <b>8,421</b>  | <b>213</b>     | <b>6,118</b>  | <b>10,801</b> | <b>11,757</b> |
| Others                                   | 365           | 784           |               |                |               |                |               |               |               |
| EO Expense / (Income)                    | 157           | 445           | -171          | 416            | 314           | 769            | 0             | 0             | 0             |
| <b>CF from Oper. incl EO Exp.</b>        | <b>5,010</b>  | <b>5,643</b>  | <b>10,246</b> | <b>9,048</b>   | <b>8,107</b>  | <b>-556</b>    | <b>6,118</b>  | <b>10,801</b> | <b>11,757</b> |
| (inc)/dec in FA                          | -1,632        | -3,958        | -3,244        | -6,491         | -4,294        | -23,618        | -1,500        | -1,500        | -1,500        |
| <b>Free Cash Flow</b>                    | <b>3,379</b>  | <b>1,685</b>  | <b>7,002</b>  | <b>2,557</b>   | <b>3,813</b>  | <b>-24,174</b> | <b>4,618</b>  | <b>9,301</b>  | <b>10,257</b> |
| (Pur)/Sale of Investments                | -336          | -1,515        | -1,992        | -5,181         | 3,632         | -2,360         | 0             | 0             | 0             |
| Others                                   | 317           | 376           | 0             | 0              | 0             | 0              | 0             | 0             | 0             |
| <b>CF from Investments</b>               | <b>-1,651</b> | <b>-5,097</b> | <b>-5,236</b> | <b>-11,672</b> | <b>-662</b>   | <b>-25,979</b> | <b>-1,500</b> | <b>-1,500</b> | <b>-1,500</b> |
| Issue of shares                          | 0             | 0             | 1             | 0              | 0             | 0              | 0             | 0             | 0             |
| (Inc)/Dec in Debt                        | -1,070        | 804           | -2,331        | 6,663          | 6,683         | 12,743         | -3,748        | -1,427        | -1,284        |
| Interest Paid                            | -189          | -165          | -90           | -77            | -455          | -1,383         | -969          | -950          | -896          |
| Dividend Paid                            | -126          | -902          | -1,710        | -1,670         | -1,933        | -1,950         | -1,989        | -2,029        | -2,790        |
| <b>CF from Fin. Activity</b>             | <b>-1,832</b> | <b>-1,305</b> | <b>-3,169</b> | <b>5,222</b>   | <b>4,681</b>  | <b>10,705</b>  | <b>-5,816</b> | <b>-3,338</b> | <b>-3,803</b> |
| <b>Inc/Dec of Cash</b>                   | <b>1,528</b>  | <b>-758</b>   | <b>1,841</b>  | <b>2,598</b>   | <b>12,126</b> | <b>-15,830</b> | <b>-1,198</b> | <b>5,963</b>  | <b>6,455</b>  |
| Add: Beginning Balance                   | 2,181         | 3,709         | 2,954         | 4,795          | 7,393         | 19,519         | 3,689         | 2,491         | 8,454         |
| Forex/ Business acquisition              | 0             | 3             | 0             | 0              | 0             | 0              | 0             | 0             | 0             |
| <b>Closing Balance</b>                   | <b>3,709</b>  | <b>2,954</b>  | <b>4,795</b>  | <b>7,393</b>   | <b>19,519</b> | <b>3,689</b>   | <b>2,491</b>  | <b>8,454</b>  | <b>14,909</b> |
| Bank balances / Mutual fund (gain)/ loss | -886          | -1,145        | -1,145        | -986           | -986          | -721           | -741          | 2,564         | 3,419         |
| <b>Closing Balance</b>                   | <b>2,823</b>  | <b>1,809</b>  | <b>3,650</b>  | <b>6,407</b>   | <b>18,533</b> | <b>2,968</b>   | <b>1,750</b>  | <b>5,891</b>  | <b>11,490</b> |

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## NOTES

| Explanation of Investment Rating |                                                                                              |
|----------------------------------|----------------------------------------------------------------------------------------------|
| 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 |

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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