



## 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	✓	↔	✓

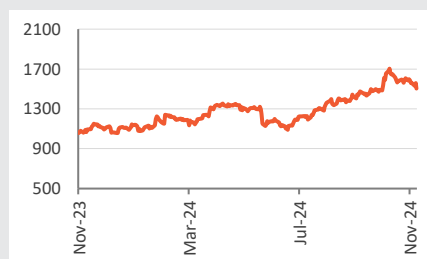
## Company details

Market cap:	Rs. 37,964 cr
52-week high/low:	Rs. 1,709 / 1,041
NSE volume: (No of shares)	3.21 lakh
BSE code:	524494
NSE code:	IPCALAB
Free float: (No of shares)	6.8 cr

## Shareholding (%)

Promoters	46.3
FII	10.8
DII	33.9
Others	9.0

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-20.4	0.5	5.3	28.2
Relative to Sensex	-17.1	0.5	-2.1	7.8

Sharekhan Research, Bloomberg

## Ipca Laboratories Ltd

## US recovery, Unichem acquisition set to drive growth

## Pharmaceuticals

## Sharekhan code: IPCALAB

## Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,535

Price Target: Rs. 1,765



## Summary

- Quarterly revenues reached Rs. 2,355 crore, marking a 16% y-o-y increase and a 13% rise from the previous quarter. Profit after tax (PAT) came in strong at Rs. 245 crore, up 39% as compared to last year and 23%, sequentially.
- EBITDA stood at Rs. 441 crore, reflecting a 22% y-o-y growth and a 12% increase sequentially. Margins stood at 19%, improving by 102 bps y-o-y but slightly declining by 2 bps versus the previous quarter.
- Market share rose to 2.14% from 2.04% in Q2FY25, with six of its brands now featured in the top-300 brand list.
- Integration of Bayshore's generics business into Unichem US would boost growth, aided by recovering international revenue and recent US regulatory approvals that expand production. Strategic investments in biologics and CDMO initiatives add further growth potential, with the stock showing upside at current multiples of 40x and 30x for FY26E and FY27E EPS.

Domestic formulation business grew by 11%, outpacing the industry average of 8% and expanding its market share from 2.04% to 2.14%. This performance was particularly strong in the chronics segment, where Ipca achieved a 17% growth compared to the market's 10%. Export performance was mixed, with a 15% growth in the export formulation business, an 8% increase in generic exports, and an impressive 85% growth in the institutional segment. However, the branded formulations segment declined by 6%. API business faced challenges, with a 5% decline and a reduction in export revenue from Rs. 335 crore to Rs. 319 crore, suggesting operational hurdles in this area. Margins improved, as the standalone EBITDA margin increased to 23.89% from 20.86%, and the consolidated EBITDA margins rose to 19.10%, largely due to a favorable product mix, lower input costs, and reduced manufacturing expenses. Despite these gains, overall growth projections were modestly adjusted to 9-10%. Strategically, the management is focusing on synergies from its Unichem acquisition, highlighting operational improvements that have led to a 25-30% cost reduction in API processes. Future US product launches are on the horizon and while the Indian market growth projection is cautious, it remains positive at 11-12%.

## Key positives

- Decline in raw material costs.
- Operational improvements at Unichem, achieving 25-30% cost reductions in API processes.
- Robust 85% growth in institutional segment.

## Key negatives

- Company may encounter price erosion in the UK market.
- API segment decreased by 5%.
- Branded formulation segment saw a 6% decline.

## Management Commentary

- Ongoing emphasis on increasing capacity utilization through improved throughput.
- Inventory levels stand at Rs. 11,648 million, reduced to approximately 50 Days of Sales compared to 63 days as of 30-Sep-23.
- Launched four new products in Exports and 4 new products in Domestic Agri Brands.
- Completed the acquisition of the global biologicals company, Plant Health Care.

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 1,765:** The integration of Bayshore Pharmaceuticals' generics business into Unichem Pharmaceuticals (USA) Inc, is poised to significantly benefit the company, particularly as international revenue is expected to rebound. This recovery is further supported by growth opportunities stemming from recent regulatory approvals for manufacturing sites in the US, which will enhance production capabilities and market access. Additionally, Ipca's strategic investments in biologics, coupled with its plans to revitalize its contract drug development and manufacturing (CDMO) initiatives, highlight substantial growth potential moving forward. These factors collectively bolster our confidence in a PT of 1734 for the stock. Currently, the stock is trading at multiples of 40x and 30x based on its FY26E and FY27E EPS estimates of 37.77 and 50.43, respectively, suggesting that there is considerable upside potential for investors as the company capitalizes on these strategic developments.

## Key Risks

- Delay in the commissioning of projects or execution of orders or delayed orders by clients in the export business can affect revenue growth and
- higher-than-normal time lag in passing on the increase in raw material prices could affect margins.

## Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Sales	6207	7664	9023	10647	10722
EBITDA	964	1321	1714	2022	2512
EBITDA M (%)	16%	17%	19%	19%	20%
PAT	471	623	812	958	1279
NPM (%)	7.6	8.1	9	9	10%
EPS (Rs.)	18.6	24.5	32.01	37.77	50.43
P/E	73x	55x	47x	40x	30x
P/BV	5x	5x	6x	5x	4x
EV/EBITDA	32x	34x	27x	23x	19x
ROE (%)	9%	8%	13%	14%	16%
ROCE (%)	12%	9%	14%	14%	16%

Source: Company; Sharekhan estimates

## Q2FY25 conference call highlights

- ♦ The company has provided a cautious outlook for its international business due to challenges in the South African and UK markets.
- ♦ Margin improvement is driven by a better product mix, reduced input costs, and lower manufacturing and overhead expenses.
- ♦ Ipca holds a market share of over 60% in disease-modifying agents for Rheumatoid Arthritis.
- ♦ It commands a significant share in the pain management segment, including Zerodol, and is optimistic about regaining market share in these products over time.
- ♦ Unichem's R&D will continue focusing on formulation development for the US, with Ipca contributing to these efforts as well.
- ♦ The business in Australia and New Zealand was affected in the first half due to supply constraints on certain APIs.
- ♦ The company has optimized its API processes for Unikin, achieving a 25-30% reduction in manufacturing costs and completing validations for six products.
- ♦ The company plans to launch approximately six products soon, with three already dispatched and the remaining three expected to launch within a month.

### Results (Consolidated)

					Rs cr
Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
<b>Net Sales</b>	<b>2,355</b>	<b>2,034</b>	<b>16%</b>	<b>2,093</b>	<b>13%</b>
Total expenditure	1,486	1,442	3%	1,299	14%
<b>Reported operating profit</b>	<b>441</b>	<b>361</b>	<b>22%</b>	<b>393</b>	<b>12%</b>
Other Income	26	39	-32%	21	27%
Depreciation	100	90	11%	99	1%
Interest	23	44	-49%	24	-6%
PBT	345	265	30%	290	19%
Tax	99	88	13%	91	9%
<b>PAT</b>	<b>245</b>	<b>177</b>	<b>39%</b>	<b>199</b>	<b>23%</b>
EPS (Rs)	9.05	7.27		7.58	
<b>Margins (%)</b>			<b>BPS</b>		<b>BPS</b>
Operating profit margin (OPM)	19%	18%	102	19%	-2
NPM	10%	9%	173	10%	91
Tax rate	29%	33%	-440	31%	-266

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Multiple growth engines ahead

The Indian pharmaceutical market 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 US and, thereby, partially offset any impact of competitive pricing pressures in the US. 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 for Indian pharma companies going ahead.

### ■ 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, the Dewas 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. 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 raw material 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 – Maintain Buy with a revised PT of Rs. 1,765

The integration of Bayshore Pharmaceuticals' generics business into Unichem Pharmaceuticals (USA) Inc, is poised to significantly benefit the company, particularly as international revenue is expected to rebound. This recovery is further supported by growth opportunities stemming from recent regulatory approvals for manufacturing sites in the US, which will enhance production capabilities and market access. Additionally, Ipca's strategic investments in biologics, coupled with its plans to revitalize its contract drug development and manufacturing (CDMO) initiatives, highlight substantial growth potential moving forward. These factors collectively bolster our confidence in a PT of 1734 for the stock. Currently, the stock is trading at multiples of 40x and 30x based on its FY26E and FY27E EPS estimates of 37.77 and 50.43, respectively, suggesting that there is considerable upside potential for investors as the company capitalizes on these strategic developments.

## About 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
Pranay Godha	MD/CEO

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	8.71
2	DSP Investment Managers Pvt Ltd	5.80
3	Chandurkar Investments Pvt Ltd	5.50
4	Kotak Mahindra Asset Management Co	5.08
5	SBI Life Insurance Co Ltd	2.20
6	Vanguard Group Inc/The	2.09
7	HDFC Life Insurance Co Ltd	1.93
8	Nippon Life India Asset Management	1.92
9	PPFAS Asset Management	1.40
10	FundRock Management Co SA	1.36

Source: Bloomberg

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## 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 deteriorating 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

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