

# IPCA Laboratories

BSE SENSEX 65,398  
S&P CNX 19,543



Bloomberg	IPCA IN
Equity Shares (m)	254
M.Cap.(INRb)/(USD\$)	237.4 / 2.9
52-Week Range (INR)	981 / 670
1, 6, 12 Rel. Per (%)	4/2/-8
12M Avg Val (INR M)	434

## Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	62.4	76.3	94.4
EBITDA	9.7	11.8	16.0
Adjusted PAT	5.3	5.9	8.5
EBIT Margin (%)	11.3	11.0	12.5
Cons. Adj EPS (INR)	20.8	23.4	33.4
EPS Gr. (%)	-42.8	12.7	42.7
BV/Sh. (INR)	230.3	250.5	278.9

## Ratios

Net D-E	-0.1	0.2	0.1
RoE (%)	9.3	9.7	12.6
RoCE (%)	8.1	8.6	10.8
Payout (%)	39.3	31.7	32.5

## Valuation

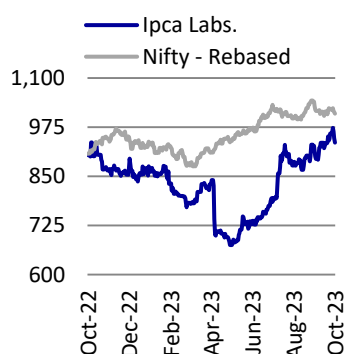
P/E (x)	45.0	39.9	28.0
EV/EBITDA (x)	24.7	20.3	15.0
Div. Yield (%)	0.8	0.8	1.2
FCF Yield (%)	1.6	-6.8	2.1
EV/Sales (x)	3.8	3.1	2.5

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	46.3	46.3	46.3
DII	35.0	35.2	33.8
FII	9.9	10.1	10.6
Others	8.8	8.5	9.4

FII Includes depository receipts

## Stock's performance (one-year)



**CMP: INR936 TP: INR860 (-8%) Neutral**

## Clearance of Ratlam API site to uplift the US prospects

Pithampur classification – another near-term monitorable

- IPCA has received a voluntary action indicated (VAI) classification from the USFDA for its Ratlam API and Silvassa formulation plant.
- The US business was at a standstill since IPCA had an import alert from the USFDA across its sites since CY15.
- The considerable remediation measures have finally led to the revival of the US generics business for IPCA. We expect a gradual pick-up of the existing US operations, which will also pave the way for new approvals.
- Another key event over the near term is the USFDA classification of its Pithampur formulation site.
- We value IPCA at 28x 12M forward earnings to arrive at our TP of INR860. We expect 27% earnings CAGR over FY23-25 given the low base of FY23 (elevated opex) and revival in the generics business. We reiterate our Neutral rating as the earnings upsides over the next 2-3 years are adequately factored in at current valuation.

## VAI paves the way for commercialization of existing products/new approvals

- The API plant of Ratlam was inspected by the USFDA in Jun'23 and it issued Form 483 with 11 observations. Further, the Piparia (Silvassa) formulation plant was inspected in Apr'23 and received Form 483 with three observations.
- With the implementation of the remediation measures at both these plants, the USFDA issued VAI classification for these plants. These sites were under import alert since FY15.
- The Ratlam plant's VAI designation has a great significance, as IPCA's strategy has been to source API in-house for its ANDAs. As the compliance is in place, it will be able to restore its formulation business in the US gradually.
- The IPCA's Pithampur formulation site was also under import alert since Mar'15, and was inspected in Jun'23. It received Form 483 with eight observations. We await classification from the USFDA for this site.

## Inspection due at Unichem sites

- Unichem's sites were last inspected almost three years ago in Feb'20.
- We expect that the USFDA may conduct inspections anytime at Unichem's sites, for cGMP practices and/or as a part of pre-approval inspection process.
- Unichem has 76 ANDA filings, with 54 approvals and ~44 products in the market. The Top 10 products account for about 70-75% of current business.

## Valuation and view

- IPCA continues to outperform the industry in Domestic Formulation business (44% of sales). Further, the International business would pick up gradually with revival of the US business and scale-up in the UK generics business. Moreover, considering the low FY23 base, we expect 27% earnings CAGR over FY23-25.
- We value IPCA at 28x 12M forward earnings to arrive at our TP of INR860. We reiterate our Neutral rating as the earnings upsides over the next 2-3 years are adequately factored in at current valuation.

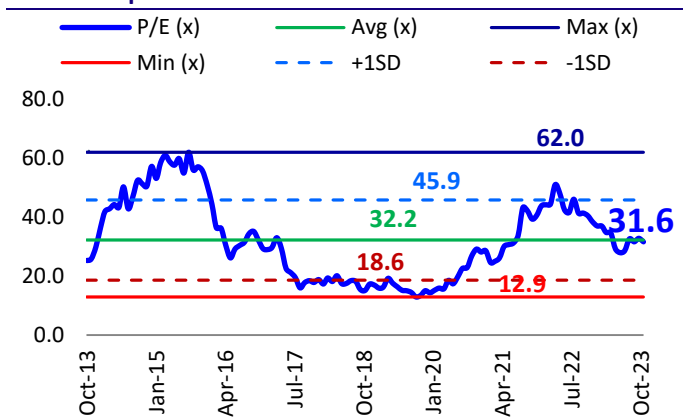
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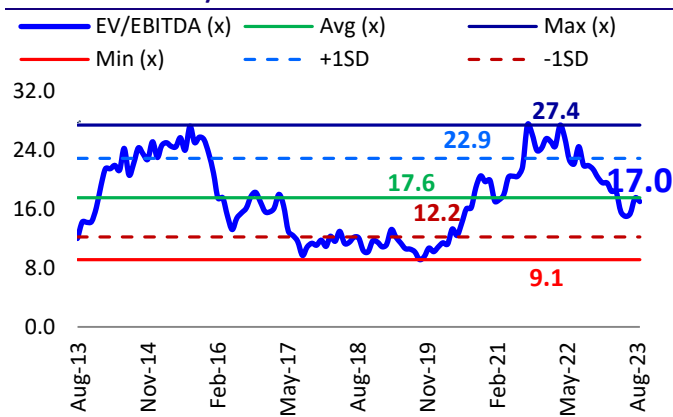
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Exhibit 1: Ipca PE Chart



Source: MOFSL

Exhibit 2: IPCA EV/EBITDA Chart



Source: MOFSL

Exhibit 3: The USFDA inspection history of Unichem

Sr No	Plant	Inspection End Date	Classification
1	Roha	Feb'20	NAI
2	Goa	Jan'20	VAI
3	Kolhapur	Sept'19	NAI
4	Roha	Sept'19	NAI
5	Pithampur	Sept'19	NAI
6	Ghaziabad	Aug'19	VAI
7	Goa	Jul'19	VAI
8	Ghaziabad	Mar'19	NAI

Source: Company, MOFSL

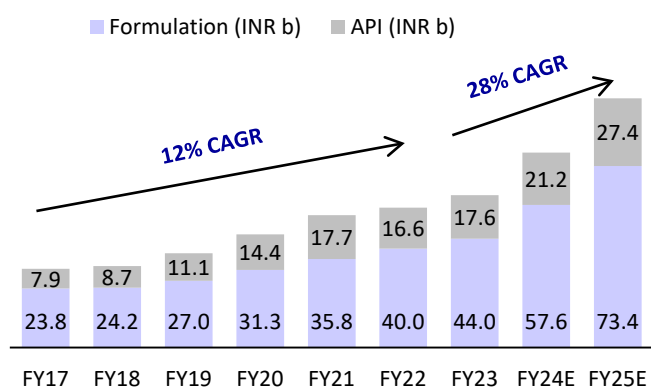
Exhibit 4: IPCA's recent inspection status

Sr No	Site	Date	Inspection Conclusion
1	Ratlam	Oct'23	VAI
2	Silvassa	Aug'23	VAI
3	Pithampur	Jun'23	Form 483 with 8 observations

Source: Company, MOFSL

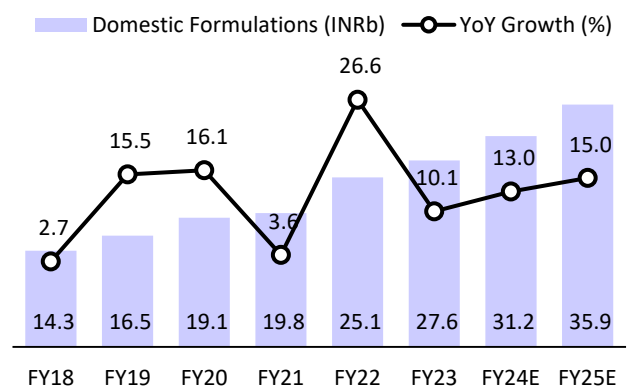
## Story in charts

**Exhibit 5: Total sales to see 28% CAGR over FY23-25E**



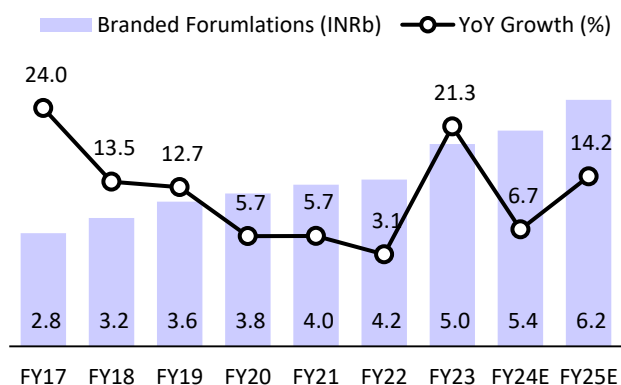
Source: Company, MOFSL

**Exhibit 6: DF sales to post 14% CAGR over FY23-25E**



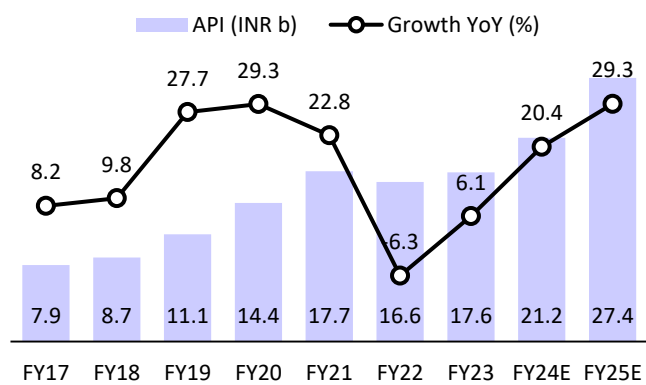
Source: Company, MOFSL

**Exhibit 7: BF sales to record 10% CAGR over FY23-25E**



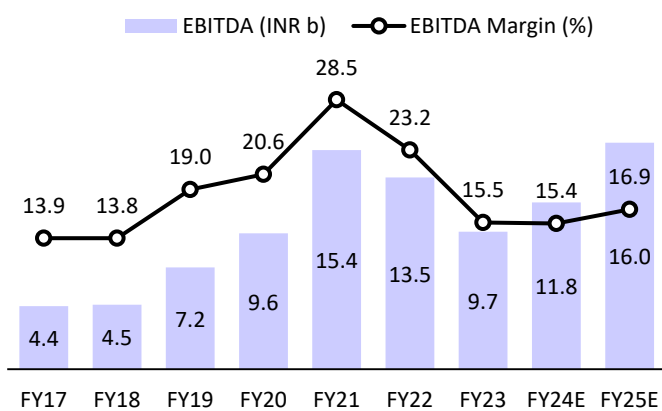
Source: Company, MOFSL

**Exhibit 8: API sales to clock 25% CAGR over FY23-25E**



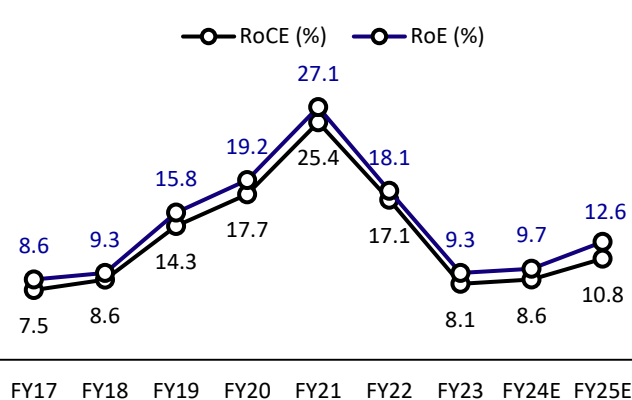
Source: Company, MOFSL

**Exhibit 9: Expect margin to contract a bit in FY24**



Source: Company, MOFSL

**Exhibit 10: Return ratios bottomed out in FY23**



Source: Company, MOFSL

## Financials and valuations

Income Statement						(INRm)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>37,732</b>	<b>46,487</b>	<b>54,200</b>	<b>58,298</b>	<b>62,443</b>	<b>76,345</b>	<b>94,446</b>
Change (%)	14.9	23.2	16.6	7.6	7.1	22.3	23.7
<b>EBITDA</b>	<b>7,170</b>	<b>9,580</b>	<b>15,444</b>	<b>13,509</b>	<b>9,687</b>	<b>11,757</b>	<b>15,961</b>
Margin (%)	19.0	20.6	28.5	23.2	15.5	15.4	16.9
Depreciation	1,824	2,105	2,092	2,324	2,616	3,325	4,163
<b>EBIT</b>	<b>5,346</b>	<b>7,475</b>	<b>13,352</b>	<b>11,184</b>	<b>7,071</b>	<b>8,433</b>	<b>11,799</b>
Int. and Finance Charges	189	165	90	77	455	972	909
Other Income - Rec.	483	578	457	666	1,151	1,250	950
<b>PBT before EO Expense</b>	<b>5,640</b>	<b>7,888</b>	<b>13,719</b>	<b>11,773</b>	<b>7,767</b>	<b>8,710</b>	<b>11,840</b>
EO Expense/(Income)	157	445	-171	416	314	-135	0
<b>PBT after EO Expense</b>	<b>5,483</b>	<b>7,442</b>	<b>13,890</b>	<b>11,357</b>	<b>7,453</b>	<b>8,845</b>	<b>11,840</b>
Current Tax	1,218	1,406	2,487	2,070	2,302	2,526	3,019
Deferred Tax	-176	-53	-85	178	230	174	237
Tax	1,042	1,353	2,401	2,248	2,532	2,700	3,256
Tax Rate (%)	18.5	17.2	17.5	19.1	32.6	31.0	27.5
<b>Reported PAT</b>	<b>4,441</b>	<b>6,090</b>	<b>11,488</b>	<b>9,110</b>	<b>4,922</b>	<b>6,144</b>	<b>8,583</b>
Less: Minority Interest	18	78	91	269	-206	110	100
<b>Net Profit</b>	<b>4,423</b>	<b>6,012</b>	<b>11,398</b>	<b>8,841</b>	<b>5,128</b>	<b>6,034</b>	<b>8,483</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>5,946</b>	<b>8,483</b>
Adj PAT growth (%)	91.3	41.6	73.6	-18.1	-42.8	12.7	42.7

Balance Sheet						(INRm)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	252	252	254	254	254	254	254
Total Reserves	30,971	35,903	46,763	54,666	58,167	63,296	70,508
<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>63,550</b>	<b>70,762</b>
Deferred liabilities	1457	1398	1316	1506	1856	2030	2267
Total Loans	3,505	4,328	1,988	8,027	14,746	18,775	17,566
<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>84,355</b>	<b>90,595</b>
Gross Block	26,657	30,268	31,872	37,647	43,601	62,701	64,201
Less: Accum. Deprn.	6,951	9,056	11,148	13,472	16,088	19,412	23,575
<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>43,289</b>	<b>40,627</b>
Capital WIP	361	708	2,348	3,064	1,404	404	404
Investments	1,204	2,719	4,711	9,892	6,260	760	760
<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>53,079</b>	<b>65,106</b>
Inventory	10,725	13,231	15,948	18,580	17,434	24,054	29,239
Account Receivables	6,815	8,952	8,118	9,108	9,890	13,596	17,337
Cash and Bank Balance	2,823	1,809	3,651	6,407	18,532	9,155	10,767
Loans & Advances	3,854	3,947	5,164	5,143	5,194	6,275	7,763
<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>13,177</b>	<b>16,302</b>
Account Payables	8,190	9,182	8,781	9,704	8,923	11,713	14,490
Provisions	957	1,259	1,417	1,443	1,550	1,464	1,811
<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>39,902</b>	<b>48,804</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>84,355</b>	<b>90,595</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<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>23.4</b>	<b>33.4</b>
Cash EPS	24.8	32.2	53.2	44.0	30.5	36.9	49.8
BV/Share	123.7	143.2	185.3	216.5	230.3	250.5	278.9
DPS	0.5	3.6	6.8	6.6	7.7	7.8	11.1
Payout (%)	2.8	14.8	14.9	18.3	39.3	31.7	32.5
<b>Valuation (x)</b>							
P/E	51.9	36.6	21.1	25.8	45.0	39.9	28.0
P/BV	7.6	6.5	5.1	4.3	4.1	3.7	3.4
EV/Sales	6.3	5.1	4.4	4.1	3.8	3.1	2.5
EV/EBITDA	33.3	25.0	15.5	17.7	24.7	20.3	15.0
Dividend Yield (%)	0.1	0.4	0.7	0.7	0.8	0.8	1.2
<b>Return Ratios (%)</b>							
RoE	15.8	19.2	27.1	18.1	9.3	9.7	12.6
RoCE	14.3	17.7	25.4	17.1	8.1	8.6	10.8
RoIC	14.0	18.0	28.7	21.1	10.0	9.4	11.2
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	1.9	2.3	2.6	2.6	2.4	2.2	2.3
Debtor (Days)	65	70	54	56	58	65	67
Inventory (Days)	104	104	107	116	102	115	113
Working Capital Turnover (Days)	118	123	128	136	129	147	147
<b>Leverage Ratio (x)</b>							
Interest Cover Ratio	28.3	45.3	147.7	145.4	15.5	8.7	13.0
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	0.2	0.1

### Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Oper. Profit/(Loss) before Tax	7,170	9,580	15,444	13,509	9,687	11,757	15,961
Interest/Dividends Recd.	483	578	457	666	1,151	1,250	950
Direct Taxes Paid	-1,165	-1,412	-2,484	-2,058	-2,181	-2,526	-3,019
(Inc)/Dec in WC	-1,686	-3,442	-3,343	-2,652	-361	-8,702	-7,290
<b>CF from Operations</b>	<b>4,803</b>	<b>5,304</b>	<b>10,075</b>	<b>9,464</b>	<b>8,295</b>	<b>1,779</b>	<b>6,602</b>
Others	365	784					
EO Expense / (Income)	157	445	-171	416	314	-135	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>7,982</b>	<b>1,914</b>	<b>6,602</b>
(inc)/dec in FA	-1,632	-3,958	-3,244	-6,491	-4,294	-18,100	-1,500
<b>Free Cash Flow</b>	<b>3,379</b>	<b>1,685</b>	<b>7,002</b>	<b>2,557</b>	<b>3,688</b>	<b>-16,186</b>	<b>5,102</b>
(Pur)/Sale of Investments	-336	-1,515	-1,992	-5,181	3,632	5,500	0
Others	317	376	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>-12,600</b>	<b>-1,500</b>
Issue of shares	0	0	1	0	0	0	0
(Inc)/Dec in Debt	-1,070	804	-2,331	6,663	6,683	3,296	-1,209
Interest Paid	-189	-165	-90	-77	-455	-972	-909
Dividend Paid	-126	-902	-1,710	-1,670	-1,933	-1,950	-2,790
Others	-447	-1,042	961	306	511	935	1,418
<b>CF from Fin. Activity</b>	<b>-1,832</b>	<b>-1,305</b>	<b>-3,169</b>	<b>5,222</b>	<b>4,806</b>	<b>1,309</b>	<b>-3,489</b>
<b>Inc/Dec of Cash</b>	<b>1,528</b>	<b>-758</b>	<b>1,841</b>	<b>2,598</b>	<b>12,125</b>	<b>-9,377</b>	<b>1,613</b>
Add: Beginning Balance	2,181	3,709	2,954	4,795	7,393	19,518	10,141
Forex/ Business acquisition	0	3	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>19,518</b>	<b>10,141</b>	<b>11,754</b>
Bank balances / Mutual fund (gain)/ loss	-886	-1,145	-1,145	-986	-986	-986	-986
<b>Closing Balance</b>	<b>2,823</b>	<b>1,809</b>	<b>3,650</b>	<b>6,407</b>	<b>18,532</b>	<b>9,155</b>	<b>10,767</b>

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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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