

Ipsca Laboratories

Estimate change



TP change



Rating change



Bloomberg	IPCA IN
Equity Shares (m)	254
M.Cap.(INRb)/(USDb)	266.5 / 3.2
52-Week Range (INR)	1065 / 670
1, 6, 12 Rel. Per (%)	12/45/11
12M Avg Val (INR M)	465

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	62.6	79.2	93.0
EBITDA	9.8	13.3	17.3
Adjusted PAT	5.3	6.5	9.4
EBIT Margin (%)	11.5	12.5	14.5
Cons. Adj EPS (INR)	20.8	25.7	37.2
EPS Gr. (%)	-42.8	23.8	44.7
BV/Sh. (INR)	230.3	251.3	282.9

Ratios

Net D-E	-0.1	0.2	0.1
RoE (%)	9.3	10.7	13.9
RoCE (%)	8.3	9.9	12.3
Payout (%)	38.3	30.6	29.2

Valuation

P/E (x)	50.6	40.9	28.2
EV/EBITDA (x)	27.4	20.2	15.5
Div. Yield (%)	0.7	0.7	1.1
FCF Yield (%)	1.4	-6.1	3.0
EV/Sales (x)	4.3	3.4	2.9

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

CMP: INR1,051

TP: INR1,000 (-5%)

Neutral

Efforts underway to revamp US generics business

On track to sustain better-than-industry growth in domestic formulation space

- IPCA's 2QFY24 sales was better than expected, while EBITDA was largely in line with expectations. However, earnings were lower than expectation due to increased depreciation/interest cost/tax rate, partly due to Unichem consolidation. IPCA continues to outperform in branded markets of India (DF) as well as South Africa (SA). This is offset to some extent by competitive pressures in the API segment.
- We raise our earnings estimate upward by 10%/11% for FY24/FY25. This adjustment takes into account a) the expansion of the SA private market, b) enhanced effort to optimize synergy from the Unichem integration, and c) the resurgence of the US generics business, supported by regulatory compliance across IPCA's facilities dedicated to the US market. We value IPCA at 23x 12M forward earnings to arrive at a price target of INR1,000.
- IPCA's dedicated efforts over the past eight years in implementing remediation measures have successfully overcome regulatory hurdles, allowing the company to recommence its US generics business. This, coupled with the acquisition of Unichem, provides a substantial growth catalyst over the next 3-4 years. Having said this, the sites of Unichem, which underwent inspection in CY20, may undergo re-inspection for compliance with Good manufacturing practices (GMP) or pre-approval inspection (PAI). The current valuation captures the earnings upside adequately. We reiterate our Neutral stance on the stock.

Product mix benefit offset by higher opex

- 2QFY24 Sales grew 27% YoY to INR20.3b (our est: INR17.6b).
- DF sales grew 10% YoY to INR8.5b (42% of sales). Exports (generics) grew 32% YoY to INR2.6b (13% of sales). Exports (branded) grew 15% YoY to INR1.5b (7% of sales). API sales grew 9% YoY to INR3.3b (16% of sales). Revenue from subsidiaries grew 3x YoY to INR3.7b (18% of sales). The revenue growth is largely due to Unichem.
- Gross margin (GM) expanded 260bp YoY to 66.7% due to superior product mix/lower RM cost.
- However, EBITDA margin expanded at a lower rate of 70bp YoY to 17.7% (our est: 20.5%) due to higher operational cost (employee/other expenses up 100bp/90bp YoY as % of sales).
- EBITDA grew 32% YoY to INR3.6b (our est: INR3.6b).
- Adjusting for a one-time charge of INR393m, PAT declined 9% YoY to INR1.7b (our estimate: INR2b), due to higher interest outgo.
- For 1HFY24, Revenue/EBITDA grew 14%/18% YoY to INR36b/INR6.5b, while PAT declined 5% YoY to INR3.2b.
- On Proforma bases, ex-Unichem, Revenue/EBITDA grew 10%/30% YoY to INR17.6b/INR3.5b, while PAT was stable YoY at INR1.9b.

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)

Research Analyst: Sumit Gupta (Sumit.G@MotilalOswal.com) | **Akash Manish Dobhada** (Akash.Dobhada@MotilalOswal.com)

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, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from the management commentary

- IPCA guided for 12-14% YoY growth in DF for FY24.
- IPCA expects exports branded business to grow at 12% YoY in FY24.
- The exports generics business can now grow at 20% YoY in FY24 vs. earlier guidance of 7-8%.

Quarterly Performance

Y/E March	FY23					FY24E				FY23	FY24E	Est. 2QE	% Chg
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE					
Net Revenues (Core)	15,857	16,010	15,460	15,116	15,876	20,340	21,677	21,335	62,569	79,227	17,605	15.5	
YoY Change (%)	1.3	3.7	8.1	17.3	0.1	27.0	40.2	41.1	7.3	26.6	10.0		
EBITDA	2,835	2,722	2,319	1,810	2,941	3,606	3,620	3,143	9,812	13,310	3,609	-0.1	
YoY Change (%)	-31.9	-29.3	-24.7	-25.0	3.8	32.4	56.1	73.7	-27.4	35.6	32.6		
Margins (%)	17.9	17.0	15.0	12.0	18.5	17.7	16.7	14.7	15.7	16.8	20.5		
Depreciation	617	637	666	695	693	903	915	919	2,616	3,430	705		
EBIT	2,218	2,085	1,654	1,115	2,249	2,702	2,705	2,224	7,197	9,880	2,904	-7.0	
YoY Change (%)	-38.5	-36.5	-33.6	-38.2	1.4	29.6	63.6	99.5	-35.7	37.3	39.3		
Margins (%)	14.0	13.0	10.7	7.4	14.2	13.3	12.5	10.4	11.5	12.5	16.5		
Interest	69	93	108	185	314	441	430	407	455	1,592	250		
Other Income	221	362	309	259	449	386	350	286	1,151	1,470	310		
PBT before EO Expense	2,369	2,354	1,854	1,189	2,383	2,647	2,625	2,103	7,892	9,758	2,964		
One-off (gain)/ Expense	142	116	161	-105	-135	393	0	0	314	258	0		
PBT after EO Expense	2,227	2,238	1,693	1,294	2,518	2,254	2,625	2,103	7,579	9,500	2,964		
Tax	743	770	537	482	856	879	774	613	2,532	3,123	889		
Rate (%)	31.3	32.7	29.0	40.5	35.9	33.2	29.5	29.1	32.1	32.0	30.0		
Reported PAT	1,484	1,468	1,156	812	1,662	1,374	1,851	1,490	5,044	6,377	2,075	-33.8	
Minority Interest	-54	-29	-78	-46	-34	76	-40	-112	-206	-110	-25		
Adj PAT after Minority Int	1,525	1,861	1,188	701	1,539	1,690	1,811	1,490	5,275	6,530	2,050	-17.5	
YoY Change (%)	-50.3	-31.0	-37.2	-52.8	0.9	-9.2	52.4	112.7	-42.8	23.8	10.1		
Margins (%)	9.6	11.6	7.7	4.6	9.7	8.3	8.4	7.0	8.4	8.2	11.6		

Key performance Indicators

Y/E March	FY23				FY23				FY23	FY24E	Est. 2QE
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Domestic formulations	6,848	7,657	7,023	6,079	7,827	8,450	8,006	6,913	27,607	31,196	8,499
YoY Change (%)	11.7	9.7	8.8	10.2	14.3	10.4	14.0	13.7	10.1	13.0	11.0
Exports formulations	4,018	4,044	4,004	4,326	3,979	4,707	5,733	5,833	16,392	20,252	4,389
YoY Change (%)	-9.1	15.2	15.2	24.9	-1.0	16.4	43.2	34.8	10.3	23.5	8.5
API sales	3,751	3,072	3,222	3,470	2,951	3,349	3,609	3,668	13,773	13,576	3,417
YoY Change (%)	-9.5	-14.6	4.2	34.6	-21.3	9.0	12.0	5.7	2.7	-1.4	11.2
Cost Break-up											
RM Cost (% of Sales)	36.5	35.9	36.3	39.1	32.5	33.3	36.5	37.0	36.9	35.0	33.2
Staff Cost (% of Sales)	20.4	19.9	20.6	21.7	22.5	20.9	21.0	21.8	20.6	21.5	20.2
Other Cost (% of Sales)	25.3	27.2	28.1	27.3	26.5	28.0	25.8	26.5	26.9	26.7	26.1
Gross Margins(%)	63.5	64.1	63.7	60.9	67.5	66.7	63.5	63.0	63.1	65.0	66.8
EBITDA Margins(%)	17.9	17.0	15.0	12.0	18.5	17.7	16.7	14.7	15.7	16.8	20.5
EBIT Margins(%)	14.0	13.0	10.7	7.4	14.2	13.3	12.5	10.4	11.5	12.5	16.5

E: MOFSL Estimates



Highlights from the management commentary

- IPCA highlighted multiple levers to gain synergy and enhance profitability from the Unichem acquisition in the near term, including: a) targeting a reduction in raw material costs by ~15-40%. B) implementing measures to decrease logistics costs, c) expanding the utilization of Unichem's USFDA-approved products to other strategic markets within Ipca's focus.
- The shipment with respect to earlier ANDA approved would start in 1QFY25. IPCA remains confident of maintaining margins in its US business, given that they no more have partners to share the profit.
- About 26 ANDAs are pending for approval. R&D cost can escalate to 4% of sales from the current 2% of sales to develop products for the US market.
- The capacity utilization of Piparia/Pithampur site are 15-20%/30%.
- API business had moderated YoY due to considerable price reduction in sartans and certain anti-malaria APIs.

Valuation and view

DF segment growth to be driven by MR addition/superior execution

- In 1HFY24, the DF segment grew 12% YoY to INR16.3b, led majorly by Derma, Pain, and anti-Neoplast therapies.
- Additionally, IPCA has increased its field-force particularly in the pain division.
- Accordingly, we expect a 14% sales CAGR in the DF segment to INR36b over FY23-25, led by increased MR productivity and traction in key therapies.

Capacity expansion/new molecules to drive API segment prospects

- In 1HFY24, API sales declined 8% YoY to INR6.3b, due to a ~70% YoY decline in the prices of sartans and anti-malarial API business. This was majorly led by poor demand for all anti-malarial APIs. There was also a price decline in certain APIs, which was led by a decline in KSM prices in the market.
- Having said this, IPCA continues to enhance capacity as well as product offerings to better API business outlook.
- We expect a 7% sales CAGR in this segment to INR15.8b over FY23-25.

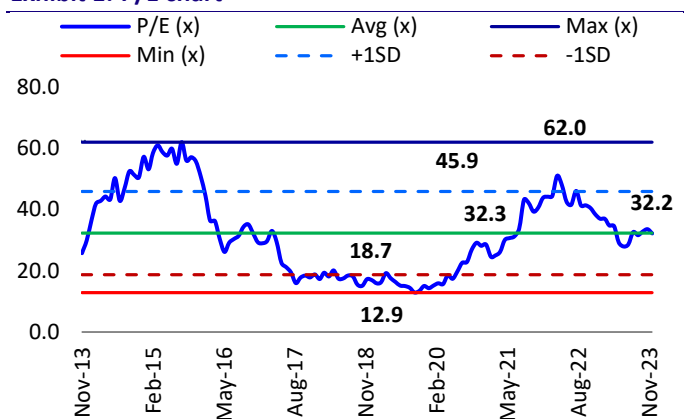
US exports to pick-up with regulatory clearance in place

- In 1HFY24, export sales grew 8% YoY at INR8.7b. This was led by healthy performance across branded and generic formulations, which was offset due to subdued performance by institutional business.
- The performance across geographies remained robust during 1HFY24. The SA private market is witnessing revival with new tenders in addition to the EU market, which is doing well already.
- The exports segment is expected to get boost as IPCA has received favorable classification at its API/formulation site post inspection. The initial business would be from approved products. In addition to pending ANDAs, it intends to expand its product pipeline to strengthen growth in the US generics market.
- We expect overall export Formulations to clock a 29% sales CAGR to INR27b over FY23-25, partly due to the consolidation of Unichem business as well.

Valuation and view

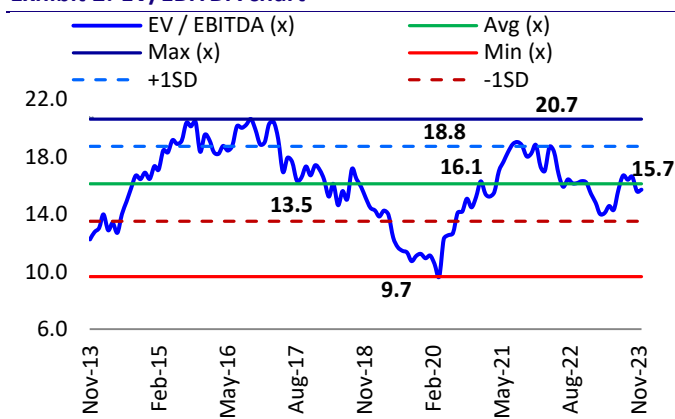
- We raise our earnings estimate by 10%/11% for FY24/FY25. This adjustment takes into account a) the expansion of the SA private market, b) enhanced effort to optimize synergy from the Unichem integration, and c) the resurgence of the US generics business, supported by regulatory compliance across IPCA's facilities dedicated to the US market. We value IPCA at 23x 12M forward earnings to arrive at price target of INR1,000.
- IPCA's dedicated efforts over the past eight years in implementing remediation measures have successfully overcome regulatory hurdles, allowing the company to recommence its US generics business. This, coupled with the acquisition of Unichem, provides a substantial growth catalyst over the next 3-4 years. Having said this, the sites of Unichem, which underwent inspection in CY20, may undergo re-inspection for compliance with Good manufacturing practices (GMP) or pre-approval inspection (PAI). The current valuation captures the earnings upside adequately. We reiterate our Neutral stance on the stock

Exhibit 1: P/E chart



Source: MOFSL, Company, and Bloomberg

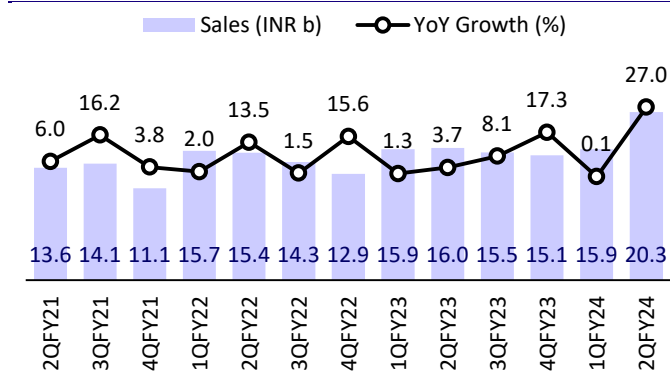
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, and Bloomberg

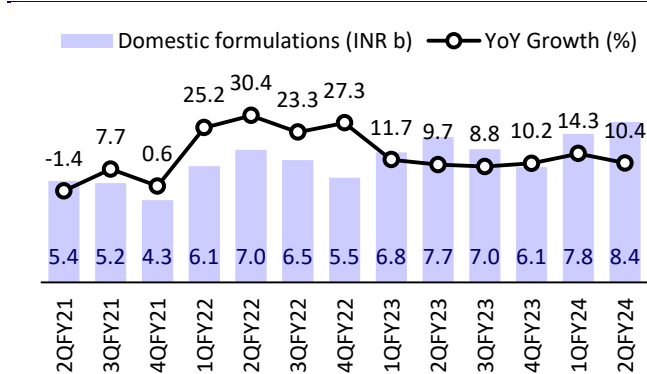
Story in charts

Exhibit 3: Total sales grew 27% YoY in 2QFY24



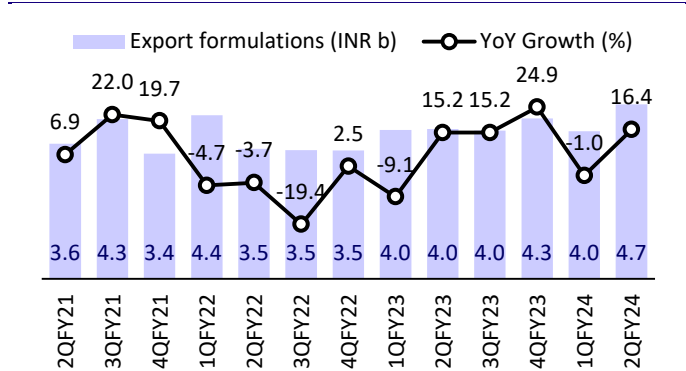
Source: Company, MOFSL

Exhibit 4: DF sales grew 10% YoY in 2QFY24



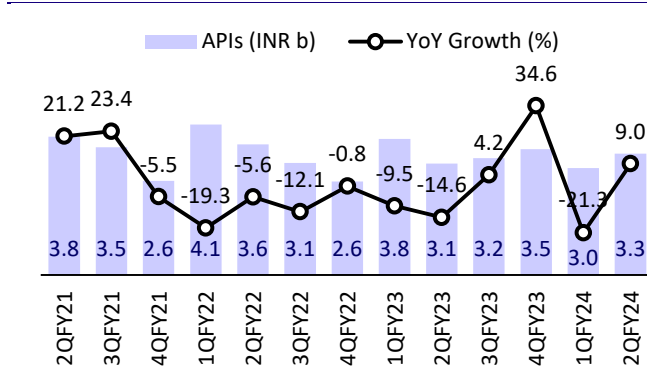
Source: Company, MOFSL

Exhibit 5: Export Formulation sales grew 16% YoY



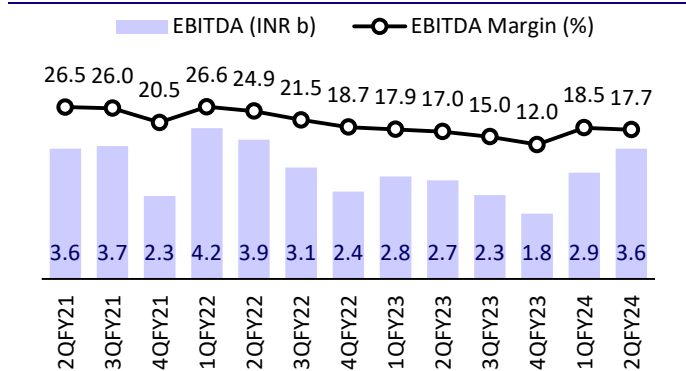
Source: Company, MOFSL

Exhibit 6: API sales grew 9% YoY in 2QFY24



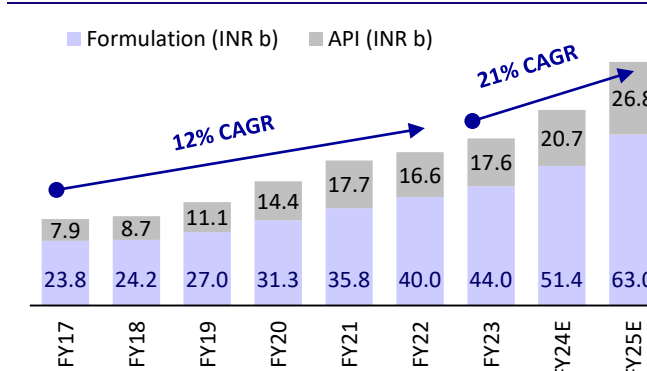
Source: Company, MOFSL

Exhibit 7: EBITDA margin expanded 70bp YoY in 2QFY24

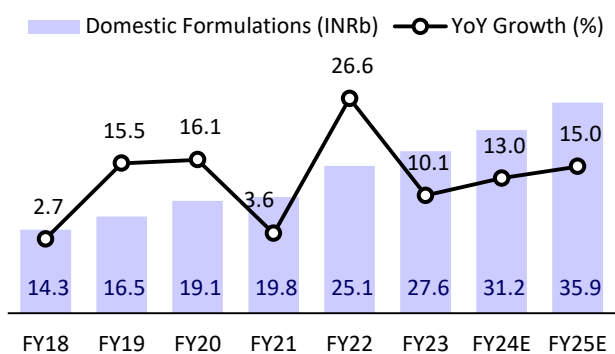


Source: Company, MOFSL

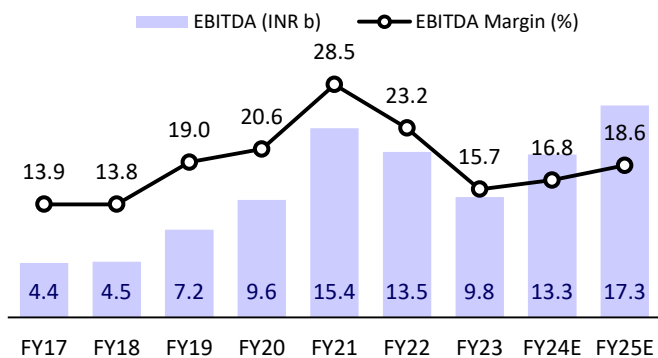
Exhibit 8: Expect 21% sales CAGR over FY23-25



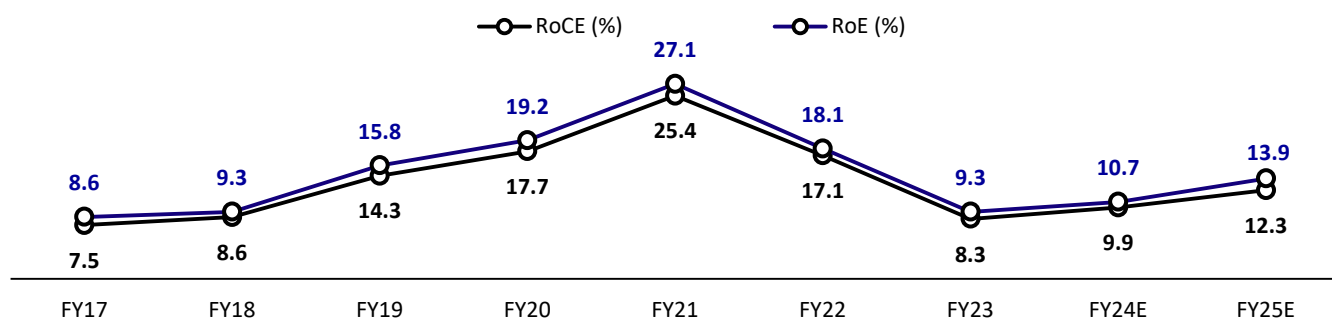
Source: Company, MOFSL

Exhibit 9: Expect 14% DF sales CAGR over FY23-25

Source: Company, MOFSL

Exhibit 10: Expect margin to expand over FY23-25

Source: Company, MOFSL

Exhibit 11: Expect return ratios to improve over FY23-25

Source: Company, MOFSL

Financials and valuations

Income Statement								(INRm)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	32,836	37,732	46,487	54,200	58,298	62,443	79,227	92,975
Change (%)	2.3	14.9	23.2	16.6	7.6	7.1	26.6	17.4
EBITDA	4,547	7,170	9,580	15,444	13,509	9,687	13,310	17,293
Margin (%)	13.8	19.0	20.6	28.5	23.2	15.5	16.8	18.6
Depreciation	1,777	1,824	2,105	2,092	2,324	2,616	3,430	3,784
EBIT	2,770	5,346	7,475	13,352	11,184	7,071	9,880	13,509
Int. and Finance Charges	240	189	165	90	77	455	1,592	1,454
Other Income - Rec.	418	483	578	457	666	1,151	1,470	1,300
PBT before EO Expense	2,948	5,640	7,888	13,719	11,773	7,767	9,758	13,356
EO Expense/(Income)	0	157	445	-171	416	314	258	0
PBT after EO Expense	2,948	5,483	7,442	13,890	11,357	7,453	9,500	13,356
Current Tax	614	1,218	1,406	2,487	2,070	2,302	2,927	3,539
Deferred Tax	-102	-176	-53	-85	178	230	195	267
Tax	511	1,042	1,353	2,401	2,248	2,532	3,123	3,806
Tax Rate (%)	17.3	18.5	17.2	17.5	19.1	32.6	32.0	28.5
Reported PAT	2,436	4,441	6,090	11,488	9,110	4,922	6,376	9,548
Less: Minority Interest	42	18	78	91	269	-206	110	100
Net Profit	2,394	4,423	6,012	11,398	9,110	5,128	6,266	9,448
Adj PAT	2,394	4,580	6,485	11,255	9,218	5,275	6,530	9,448
Adj PAT growth (%)	18.1	91.3	41.6	73.6	-18.1	-42.8	23.8	44.7

Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	252	252	252	254	254	254	254	254
Total Reserves	26,633	30,971	35,903	46,763	54,666	58,167	63,494	71,526
Net Worth	26,886	31,224	36,275	47,017	54,920	58,420	63,747	71,779
Deferred liabilities	1580	1457	1398	1316	1506	1856	2051	2318
Total Loans	4,731	3,505	4,328	1,988	8,027	14,746	18,775	17,566
Capital Employed	33,196	36,342	42,137	50,466	65,222	75,755	84,573	91,664
Gross Block	24,969	26,657	30,268	31,872	37,647	43,601	62,701	64,201
Less: Accum. Deprn.	5,127	6,951	9,056	11,148	13,472	16,088	19,518	23,302
Net Fixed Assets	19,842	19,706	21,212	20,724	24,175	27,514	43,184	40,900
Capital WIP	418	361	708	2,348	3,064	1,404	404	404
Investments	869	1,204	2,719	4,711	9,892	6,260	760	760
Curr. Assets	20,027	24,217	27,939	32,881	39,237	51,051	53,900	65,648
Inventory	8,806	10,725	13,231	15,948	18,580	17,434	24,962	28,784
Account Receivables	6,023	6,815	8,952	8,118	9,108	9,890	14,109	17,067
Cash and Bank Balance	1,506	2,823	1,809	3,651	6,407	18,532	8,318	12,155
Loans & Advances	3,693	3,854	3,947	5,164	5,143	5,194	6,512	7,642
Curr. Liability & Prov.	7,960	9,147	10,441	10,198	11,147	10,473	13,675	16,048
Account Payables	7,029	8,190	9,182	8,781	9,704	8,923	12,155	14,265
Provisions	931	957	1,259	1,417	1,443	1,550	1,519	1,783
Net Current Assets	12,068	15,070	17,498	22,682	28,091	40,577	40,225	49,600
Appl. of Funds	33,196	36,342	42,137	50,466	65,222	75,755	84,573	91,664

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS (INR)	18.1	25.6	44.4	36.3	20.8	25.7	37.2
Cash EPS	24.8	32.2	53.2	44.0	31.0	38.2	52.2
BV/Share	123.7	143.2	185.3	216.5	230.3	251.3	282.9
DPS	0.5	3.6	6.8	6.6	7.7	7.8	11.1
Payout (%)	2.8	14.8	14.9	18.3	38.3	30.6	29.2
Valuation (x)							
P/E	58.3	41.2	23.7	29.0	50.6	40.9	28.2
P/BV	8.5	7.3	5.7	4.9	4.6	4.2	3.7
EV/Sales	7.1	5.8	5.0	4.6	4.3	3.4	2.9
EV/EBITDA	37.5	28.0	17.4	19.9	27.4	20.2	15.5
Dividend Yield (%)	0.0	0.3	0.6	0.6	0.7	0.7	1.1
Return Ratios (%)							
RoE	15.8	19.2	27.1	18.1	9.3	10.7	13.9
RoCE	14.3	17.7	25.4	17.1	8.3	9.9	12.3
RoIC	14.0	18.0	28.7	21.1	10.2	10.8	12.6
Working Capital Ratios							
Fixed Asset Turnover (x)	1.9	2.3	2.6	2.6	2.4	2.2	2.2
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
Leverage Ratio (x)							
Interest Cover Ratio	28.3	45.3	147.7	145.4	15.8	6.2	9.3
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	9,812	13,310	17,293
Interest/Dividends Recd.	483	578	457	666	1,151	1,470	1,300
Direct Taxes Paid	-1,165	-1,412	-2,484	-2,058	-2,181	-2,927	-3,539
(Inc)/Dec in WC	-1,686	-3,442	-3,343	-2,652	-361	-9,863	-5,537
CF from Operations	4,803	5,304	10,075	9,464	8,421	1,990	9,517
Others	365	784					
EO Expense / (Income)	157	445	-171	416	314	258	0
CF from Oper. incl EO Exp.	5,010	5,643	10,246	9,048	8,107	1,732	9,517
(inc)/dec in FA	-1,632	-3,958	-3,244	-6,491	-4,294	-18,100	-1,500
Free Cash Flow	3,379	1,685	7,002	2,557	3,813	-16,368	8,017
(Pur)/Sale of Investments	-336	-1,515	-1,992	-5,181	3,632	5,500	0
Others	317	376	0	0	0	0	0
CF from Investments	-1,651	-5,097	-5,236	-11,672	-662	-12,600	-1,500
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	-1,592	-1,454
Dividend Paid	-126	-902	-1,710	-1,670	-1,933	-1,950	-2,790
CF from Fin. Activity	-1,832	-1,305	-3,169	5,222	4,681	653	-4,179
Inc/Dec of Cash	1,528	-758	1,841	2,598	12,126	-10,216	3,838
Add: Beginning Balance	2,181	3,709	2,954	4,795	7,393	19,519	9,303
Forex/ Business acquisition	0	3	0	0	0	0	0
Closing Balance	3,709	2,954	4,795	7,393	19,519	9,303	13,141
Bank balances / Mutual fund (gain)/ loss	-886	-1,145	-1,145	-986	-986	-986	-986
Closing Balance	2,823	1,809	3,650	6,407	18,533	8,318	12,155

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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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