

Ipsca Laboratories

Estimate change



TP change



Rating change



CMP: INR1,152

TP: INR1,080 (-6%)

Neutral

Domestic formulation outperforms; API/branded exports underperforms

Work-in-progress to strengthen US generics prospects

- IPCA delivered operationally in-line 3QFY24 performance. It continues to deliver robust YoY growth in the domestic formulation (DF) segment. However, this is offset by deceleration in exports/API business.
- We cut our earnings estimate by 9%/4%/4% for FY24/FY25/FY26 to factor in a) prolonged subdued outlook in the API segment, b) lower off-take in branded generics segment, and c) reduced operating leverage. We value IPCA at 23x 12M forward earnings to arrive at a price target of INR1,080.
- IPCA remains on track to deliver better-than-industry growth in the domestic formulation segment. Its efforts are underway to rebuild US business from its site, given successful compliance in place. However, the branded generics segment would need enhanced efforts to improve growth prospects. We estimate 17%/27%/45% sales/EBITDA/PAT growth over FY24-26. The current valuation adequately factors in the upside in earnings. We reiterate our Neutral stance on the stock.

Product-mix benefit partly offset by higher opex

- 3QFY24 Sales grew 33% YoY to INR20.5b (our est: INR21.2b).
- DF sales grew 11% YoY to INR7.8b (38% of sales). Exports (generics formulation) grew 33% YoY to INR2.5b (12% of sales). Exports (branded formulation) declined 18% YoY to INR1b (5% of sales). Exports (institutional sales) declined 8% YoY to INR766m (4% of sales). API sales declined 12% YoY to INR2.9b (14% of sales). Revenue from subsidiaries grew 5x YoY to INR5.7b (28% of sales). The revenue growth is largely due to Unichem.
- GM expanded 240bp YoY to 66%, due to superior product mix/lower RM cost.
- However, EBITDA margin expanded at a lower rate of 110bp YoY to 16.1% (our est: 15.8%), due to higher employee expenses (up 180bp YoY as percentage of sales) offset by lower other expenses (down 50bp YoY as percentage of sales).
- EBITDA grew 43% YoY to INR3.3b (our est: INR3.4b).
- Unichem recorded a one-time income of INR684m from the sale of remaining equity shares, as outlined in the SPA.
- Adjusting for this income and FX gain of INR3.6m, Adj. PAT declined 6% YoY to INR1.1b (our estimate: INR1.6b), due to higher depreciation/interest.
- For 9MFY24, Revenue/EBITDA grew 20%/25% YoY to INR56.7b/INR9.9b, while PAT declined 5% YoY to INR4.3b. Meanwhile, EBITDA margins expanded 70bp YoY to 17.4%.

Highlights from the management commentary

- Branded Exports business was adversely impacted by the delay in obtaining licenses. Further, the Red sea issue affected the business in West Africa. IPCA expects 10% YoY growth in branded exports business in FY25.
- IPCA delivered 15.9% YoY growth in the chronic category against 11% YoY growth at industry level for 12M ending Dec'23. It exhibited 11% YoY growth in acute category against 9% YoY growth at industry level.

Bloomberg	IPCA IN
Equity Shares (m)	254
M.Cap.(INRb)/(USDb)	292.3 / 3.5
52-Week Range (INR)	1264 / 670
1, 6, 12 Rel. Per (%)	2/18/15
12M Avg Val (INR M)	533

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	76.7	89.1	104.6
EBITDA	12.6	16.6	20.3
Adjusted PAT	5.6	9.0	11.9
EBIT Margin (%)	11.7	14.4	15.8
Cons. Adj EPS (INR)	22.2	35.5	46.9
EPS Gr. (%)	6.5	60.1	32.2
BV/Sh. (INR)	250.6	280.8	320.6

Ratios

Net D-E	0.1	0.1	0.0
RoE (%)	9.2	13.3	15.6
RoCE (%)	9.1	11.8	13.8
Payout (%)	29.8	30.7	23.3

Valuation

P/E (x)	52.3	32.7	24.7
EV/EBITDA (x)	23.5	17.8	14.6
Div. Yield (%)	0.7	1.0	1.0
FCF Yield (%)	-5.2	2.7	3.3
EV/Sales (x)	3.9	3.3	2.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	46.3	46.3	46.3
DII	34.5	35.0	33.7
FII	10.3	9.9	10.8
Others	8.9	8.5	9.2

FII Includes depository receipts

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

Quarterly Performance

(INRm)

Y/E March	FY23				FY24E				FY23	FY24E	Est.	% Chg
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Revenues (Core)	15,857	16,010	15,460	15,116	15,876	20,340	20,529	19,976	62,569	76,720	21,209	-3.2
YoY Change (%)	1.3	3.7	8.1	17.3	0.1	27.0	32.8	32.2	7.3	22.6	37.2	
EBITDA	2,835	2,722	2,319	1,810	2,941	3,606	3,310	2,725	9,812	12,582	3,351	-1.2
YoY Change (%)	-31.9	-29.3	-24.7	-25.0	3.8	32.4	42.7	50.6	-27.4	28.2	44.5	
Margins (%)	17.9	17.0	15.0	12.0	18.5	17.7	16.1	13.6	15.7	16.4	15.8	
Depreciation	617	637	666	695	693	903	995	997	2,616	3,588	915	
EBIT	2,218	2,085	1,654	1,115	2,249	2,702	2,315	1,728	7,197	8,994	2,436	-5.0
YoY Change (%)	-38.5	-36.5	-33.6	-38.2	1.4	29.6	40.0	55.0	-35.7	25.0	47.3	
Margins (%)	14.0	13.0	10.7	7.4	14.2	13.3	11.3	8.7	11.5	11.7	11.5	
Interest	69	93	108	185	314	441	334	336	455	1,425	430	
Other Income	221	362	309	259	449	386	225	232	1,151	1,290	350	
PBT before EO Expense	2,369	2,354	1,854	1,189	2,383	2,647	2,205	1,624	7,892	8,859	2,356	
One-off (gain)/ Expense	142	116	161	-105	-135	393	-684	0	314	-426	0	
PBT after EO Expense	2,227	2,238	1,693	1,294	2,518	2,254	2,889	1,624	7,579	9,285	2,356	
Tax	743	770	537	482	856	879	662	349	2,532	2,746	754	
Rate (%)	31.3	32.7	29.0	40.5	35.9	33.2	30.0	21.5	32.1	31.0	32.0	
Reported PAT	1,484	1,468	1,156	812	1,662	1,374	2,227	1,276	5,044	6,539	1,602	39.0
Minority Interest	-54	-29	-78	-46	-34	76	-428	-75	-206	-460	-40	
Adj PAT after Minority Int	1,525	1,861	1,188	701	1,539	1,690	1,115	1,276	5,275	5,620	1,562	-28.6
YoY Change (%)	-50.3	-31.0	-37.2	-52.8	0.9	-9.2	-6.1	82.1	-42.8	6.5	31.5	
Margins (%)	9.6	11.6	7.7	4.6	9.7	8.3	5.4	6.4	8.4	7.3	7.4	

E: MOFSL Estimates. Quarter - Standalone; Full year - Consolidated

Key performance Indicators

Y/E March	FY23				FY23				FY23	FY24E	Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Domestic formulations	6,848	7,657	7,023	6,079	7,827	8,450	7,796	6,571	27,607	30,644	7,795
YoY Change (%)	11.7	9.7	8.8	10.2	14.3	10.4	11.0	8.1	10.1	11.0	11.0
Exports formulations	4,018	4,044	4,004	4,326	3,979	4,707	4,331	4,481	16,392	17,498	5,733
YoY Change (%)	-9.1	15.2	15.2	24.9	-1.0	16.4	8.2	3.6	10.3	6.7	43.2
API sales	3,751	3,072	3,222	3,470	2,951	3,349	2,850	3,126	13,773	12,275	3,351
YoY Change (%)	-9.5	-14.6	4.2	34.6	-21.3	9.0	-11.6	-9.9	2.7	-10.9	4.0
Cost Break-up											
RM Cost (% of Sales)	36.5	35.9	36.3	39.1	32.5	33.3	34.0	34.8	36.9	33.7	36.5
Staff Cost (% of Sales)	20.4	19.9	20.6	21.7	22.5	20.9	22.4	23.1	20.6	22.2	20.7
Other Cost (% of Sales)	25.3	27.2	28.1	27.3	26.5	28.0	27.6	28.5	26.9	27.7	27.0
Gross Margins(%)	63.5	64.1	63.7	60.9	67.5	66.7	66.0	65.2	63.1	66.3	63.5
EBITDA Margins(%)	17.9	17.0	15.0	12.0	18.5	17.7	16.1	13.6	15.7	16.4	15.8
EBIT Margins(%)	14.0	13.0	10.7	7.4	14.2	13.3	11.3	8.7	11.5	11.7	11.5

E: MOFSL Estimates



Highlights from the management commentary

- IPCA expects 13-14% YoY growth in DF in FY25.
- IPCA has seven approved ANDAs, which can be commercialized in 1QFY25 in the US generics segment. About 8-9 ANDAs can be launched in the next 12M, considering the revalidations. Overall, 16-17 products can be launched over the next two years.
- At Dewas, some products are filed with EU authority. It would take few months for 5-6 product approval.
- The API business has been adversely impacted by reduced off-take of Sartans' APIs.
- IPCA is engaged in various initiatives, which include expanding market reach, refining API processes, and scaling up production capabilities to improve the overall prospects of Unichem business.

Multi-prong strategy across key markets to better growth outlook

Superior execution/MR addition to drive DF segment

- In 9MFY24, the DF segment grew 12% YoY to INR24b, led majorly by Derma, Pain and anti-Neoplast therapies. IPCA outperformed the IPM by 460bp YoY in 9MFY24, as per IMS data.
- Additionally, IPCA continues to implement efforts toward increasing its field-force productivity.
- Accordingly, we expect 15% sales CAGR in the DF segment to INR40.5b over FY24-26, led by increased traction in key therapies and MR productivity.

API segment to be driven by portfolio expansion/capacity enhancement

- In 9MFY24, API sales declined 9% YoY to INR9.2b due to a decline in volumes and prices of products such as Sartans.
- The prices are stabilized now for major APIs supplied by IPCA.
- It is also adding capacity to not only have captive consumption, but also external sales.
- We expect 16.5% sales CAGR in this segment to INR16.7b over FY24-26.

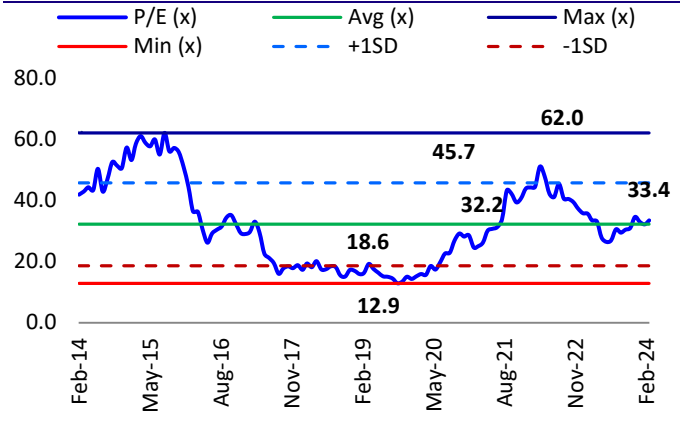
Portfolio expansion to drive US sales growth

- In 9MFY24, export sales grew 8% YoY at INR13b, led by robust performance across generic formulations. However, it was offset by subdued performance by institutional business.
- Particularly, in the US, IPCA has enhanced efforts to build robust product pipeline and commercializing already approved products.
- It is also working on multiple aspects to improve business prospects as well as build synergy with the Unichem acquisition.
- Accordingly, we expect overall export Formulations to clock 30% sales CAGR to INR29.6b over FY24-26.

Valuation and view

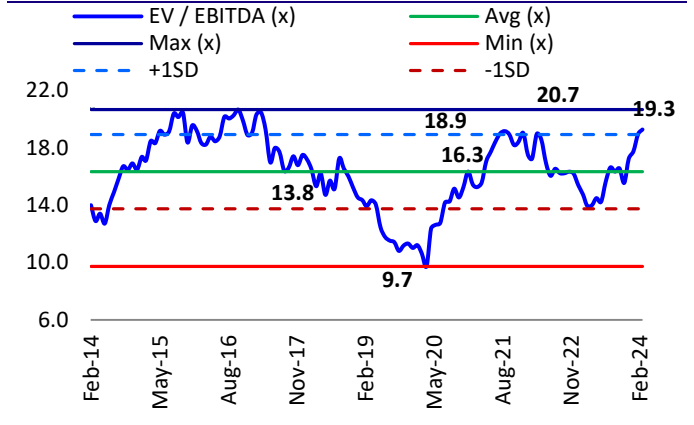
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- IPCA remains on track to deliver better-than-industry growth in the domestic formulation segment. Its efforts are underway to rebuild the US business from its site, given successful compliance in place. However, the branded generics segment would need enhanced efforts to improve growth prospects. We estimate 17%/27%/45% sales/EBITDA/PAT growth over FY24-26. The current valuation adequately factors the upside in earnings. We reiterate our Neutral stance on the stock.

Exhibit 1: P/E chart



Source: MOFSL, Company, and Bloomberg

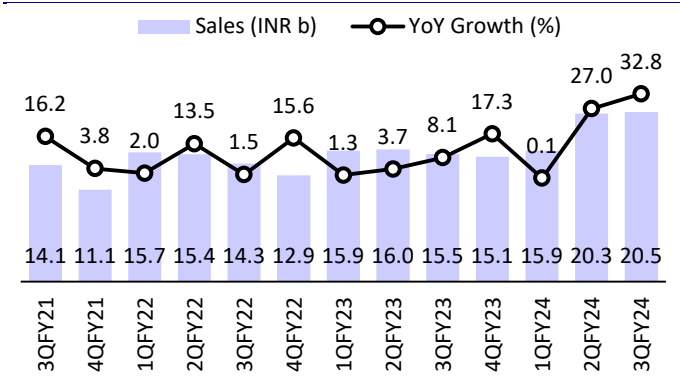
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, and Bloomberg

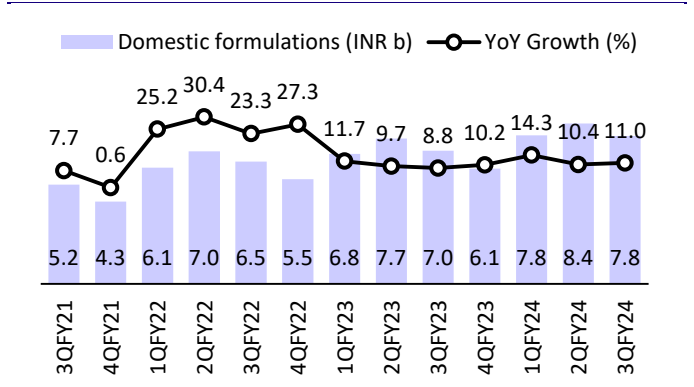
Story in charts

Exhibit 3: Total sales grew 33% YoY in 3QFY24



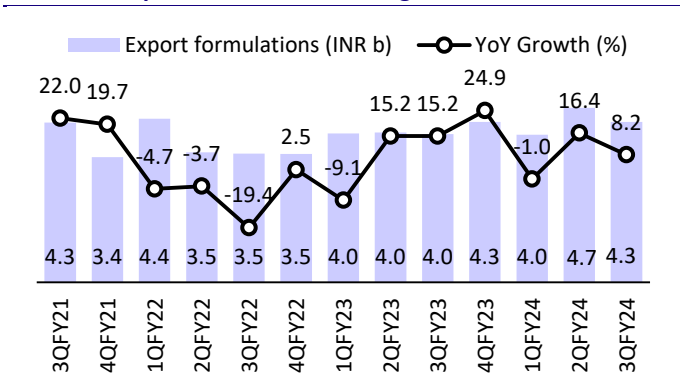
Source: Company, MOFSL

Exhibit 4: DF sales grew 11% YoY in 3QFY24



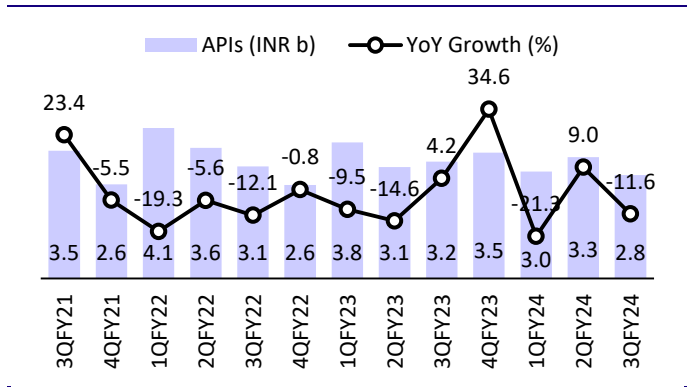
Source: Company, MOFSL

Exhibit 5: Export Formulation sales grew 8% YoY



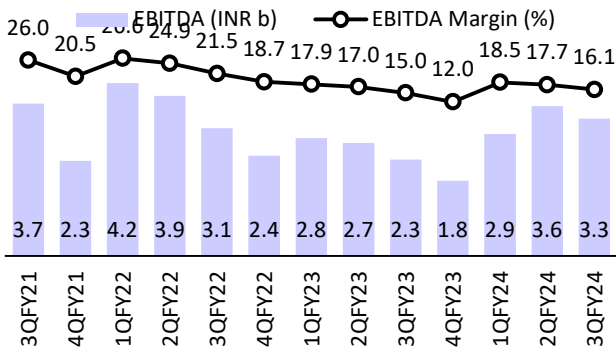
Source: Company, MOFSL

Exhibit 6: API sales declined 12% YoY in 3QFY24



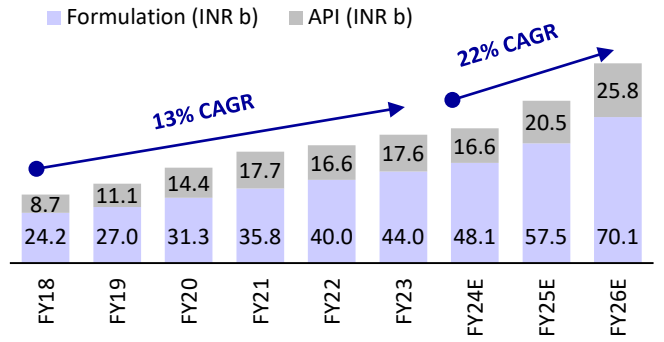
Source: Company, MOFSL

Exhibit 7: EBITDA margin expanded 110bp YoY in 3QFY24



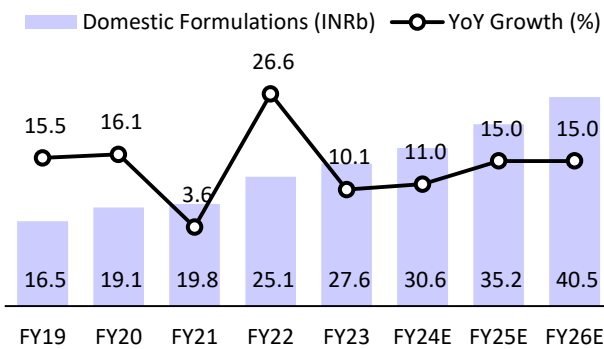
Source: Company, MOFSL

Exhibit 8: Expect 22% sales CAGR over FY24-26



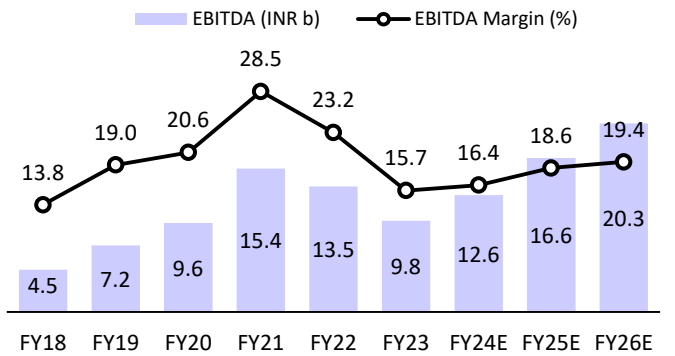
Source: Company, MOFSL

Exhibit 9: Expect 15% DF sales CAGR over FY24-26



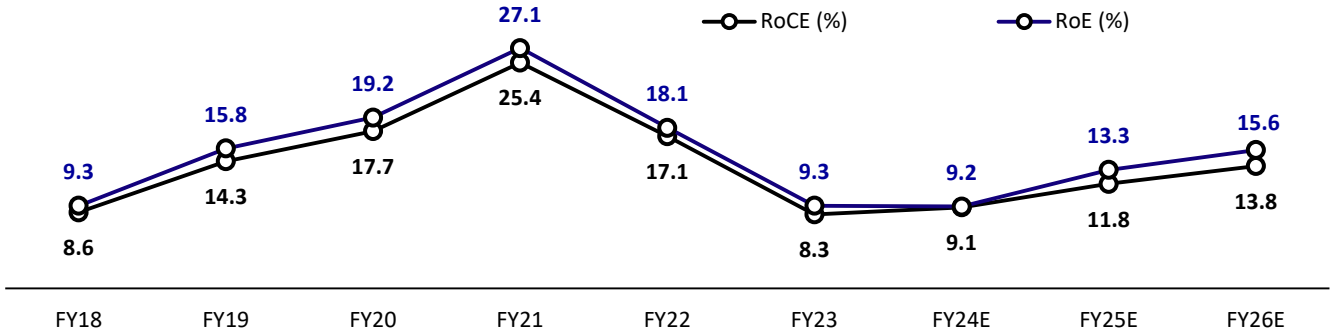
Source: Company, MOFSL

Exhibit 10: Expect margin to expand over FY24-26



Source: Company, MOFSL

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



Source: Company, MOFSL

Financials and valuations

Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	37,732	46,487	54,200	58,298	62,569	76,720	89,106	104,625
Change (%)	14.9	23.2	16.6	7.6	7.3	22.6	16.1	17.4
EBITDA	7,170	9,580	15,444	13,509	9,812	12,582	16,574	20,297
Margin (%)	19.0	20.6	28.5	23.2	15.7	16.4	18.6	19.4
Depreciation	1,824	2,105	2,092	2,324	2,616	3,588	3,784	3,810
EBIT	5,346	7,475	13,352	11,184	7,197	8,994	12,789	16,488
Int. and Finance Charges	189	165	90	77	455	1,425	1,363	1,192
Other Income - Rec.	483	578	457	666	1,151	1,290	1,300	1,250
PBT before EO Expense	5,640	7,888	13,719	11,773	7,892	8,859	12,727	16,546
EO Expense/(Income)	157	445	-171	416	314	-426	0	0
PBT after EO Expense	5,483	7,442	13,890	11,357	7,579	9,285	12,727	16,546
Current Tax	1,218	1,406	2,487	2,070	2,302	2,569	3,373	4,219
Deferred Tax	-176	-53	-85	178	230	177	255	331
Tax	1,042	1,353	2,401	2,248	2,532	2,746	3,627	4,550
Tax Rate (%)	18.5	17.2	17.5	19.1	32.1	31.0	28.5	27.5
Reported PAT	4,441	6,090	11,488	9,110	5,047	6,538	9,099	11,995
Less: Minority Interest	18	78	91	269	-206	460	100	100
Net Profit	4,423	6,012	11,398	8,841	5,253	6,078	8,999	11,895
Adj PAT	4,580	6,485	11,255	9,218	5,275	5,620	8,999	11,895
Adj PAT growth (%)	91.3	41.6	73.6	-18.1	-42.8	6.5	60.1	32.2

Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	252	252	254	254	254	254	254	254
Total Reserves	30,971	35,903	46,763	54,666	58,167	63,333	70,983	81,095
Net Worth	31,224	36,275	47,017	54,920	58,420	63,587	71,237	81,348
Deferred liabilities	1457	1398	1316	1506	1856	2033	2288	2619
Total Loans	3,505	4,328	1,988	8,027	14,746	18,775	17,566	16,478
Capital Employed	36,342	42,137	50,466	65,222	75,755	84,395	91,091	100,445
Gross Block	26,657	30,268	31,872	37,647	43,601	62,701	64,201	65,701
Less: Accum. Deprn.	6,951	9,056	11,148	13,472	16,088	19,676	23,460	27,270
Net Fixed Assets	19,706	21,212	20,724	24,175	27,514	43,025	40,741	38,432
Capital WIP	361	708	2,348	3,064	1,404	404	404	404
Investments	1,204	2,719	4,711	9,892	6,260	760	760	760
Curr. Assets	24,217	27,939	32,881	39,237	51,051	53,448	64,565	78,908
Inventory	10,725	13,231	15,948	18,580	17,434	24,172	27,586	32,391
Account Receivables	6,815	8,952	8,118	9,108	9,890	13,662	16,356	19,205
Cash and Bank Balance	2,823	1,809	3,651	6,407	18,532	9,307	13,299	18,713
Loans & Advances	3,854	3,947	5,164	5,143	5,194	6,306	7,324	8,599
Curr. Liability & Prov.	9,147	10,441	10,198	11,147	10,473	13,242	15,380	18,059
Account Payables	8,190	9,182	8,781	9,704	8,923	11,771	13,671	16,052
Provisions	957	1,259	1,417	1,443	1,550	1,471	1,709	2,007
Net Current Assets	15,070	17,498	22,682	28,091	40,577	40,206	49,185	60,850
Appl. of Funds	36,342	42,137	50,466	65,222	75,755	84,395	91,091	100,445

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EPS (INR)	18.1	25.6	44.4	36.3	20.8	22.2	35.5	46.9
Cash EPS	24.8	32.2	53.2	44.0	31.0	38.1	50.4	61.9
BV/Share	123.7	143.2	185.3	216.5	230.3	250.6	280.8	320.6
DPS	0.5	3.6	6.8	6.6	7.7	7.8	11.1	11.1
Payout (%)	2.8	14.8	14.9	18.3	38.3	29.8	30.7	23.3
Valuation (x)								
P/E	64.2	45.3	26.1	31.9	55.7	52.3	32.7	24.7
P/BV	9.4	8.1	6.3	5.4	5.0	4.6	4.1	3.6
EV/Sales	7.8	6.4	5.5	5.1	4.7	3.9	3.3	2.8
EV/EBITDA	41.2	30.9	19.1	21.9	30.1	23.5	17.8	14.6
Dividend Yield (%)	0.0	0.3	0.6	0.6	0.7	0.7	1.0	1.0
Return Ratios (%)								
RoE	15.8	19.2	27.1	18.1	9.3	9.2	13.3	15.6
RoCE	14.3	17.7	25.4	17.1	8.3	9.1	11.8	13.8
RoIC	14.0	18.0	28.7	21.1	10.2	10.1	12.1	15.2
Working Capital Ratios								
Fixed Asset Turnover (x)	1.9	2.3	2.6	2.6	2.4	2.2	2.1	2.6
Debtor (Days)	65	70	54	56	58	65	67	67
Inventory (Days)	104	104	107	116	102	115	113	113
Working Capital Turnover (Days)	118	123	128	136	129	147	147	147
Leverage Ratio (x)								
Interest Cover Ratio	28.3	45.3	147.7	145.4	15.8	6.3	9.4	13.8
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	0.1	0.1	0.0

Cash Flow Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Oper. Profit/(Loss) before Tax	7,170	9,580	15,444	13,509	9,812	12,582	16,574	20,297
Interest/Dividends Recd.	483	578	457	666	1,151	1,290	1,300	1,250
Direct Taxes Paid	-1,165	-1,412	-2,484	-2,058	-2,181	-2,569	-3,373	-4,219
(Inc)/Dec in WC	-1,686	-3,442	-3,343	-2,652	-361	-8,853	-4,988	-6,250
CF from Operations	4,803	5,304	10,075	9,464	8,421	2,450	9,513	11,078
Others	365	784						
EO Expense / (Income)	157	445	-171	416	314	-426	0	0
CF from Oper. incl EO Exp.	5,010	5,643	10,246	9,048	8,107	2,876	9,513	11,078
(inc)/dec in FA	-1,632	-3,958	-3,244	-6,491	-4,294	-18,100	-1,500	-1,500
Free Cash Flow	3,379	1,685	7,002	2,557	3,813	-15,224	8,013	9,578
(Pur)/Sale of Investments	-336	-1,515	-1,992	-5,181	3,632	5,500	0	0
Others	317	376	0	0	0	0	0	0
CF from Investments	-1,651	-5,097	-5,236	-11,672	-662	-12,600	-1,500	-1,500
Issue of shares	0	0	1	0	0	0	0	0
(Inc)/Dec in Debt	-1,070	804	-2,331	6,663	6,683	3,296	-1,209	-1,088
Interest Paid	-189	-165	-90	-77	-455	-1,425	-1,363	-1,192
Dividend Paid	-126	-902	-1,710	-1,670	-1,933	-1,950	-2,790	-2,790
CF from Fin. Activity	-1,832	-1,305	-3,169	5,222	4,681	470	-4,088	-3,651
Inc/Dec of Cash	1,528	-758	1,841	2,598	12,126	-9,254	3,924	5,926
Add: Beginning Balance	2,181	3,709	2,954	4,795	7,393	19,519	10,265	14,189
Forex/ Business acquisition	0	3	0	0	0	0	0	0
Closing Balance	3,709	2,954	4,795	7,393	19,519	10,265	14,189	20,116
Bank balances / Mutual fund (gain)/ loss	-886	-1,145	-1,145	-986	-986	-986	-986	1,403
Closing Balance	2,823	1,809	3,650	6,407	18,533	9,307	13,299	18,713

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NOTES

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BUY	>=15%
SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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