

India

REDUCE (no change)

Consensus ratings*:	Buy 11 Hold 8 Sell 5
Current price:	Rs849
Target price:	Rs759
Previous target:	Rs831
Up/downside:	-10.6%
InCred Research / Consensus:	-20.4%
Reuters:	
Bloomberg:	IPCA IN
Market cap:	US\$2,966m Rs215,393m
Average daily turnover:	US\$3.3m Rs240.0m
Current shares o/s:	253.7m
Free float:	53.7%
*Source: Bloomberg	

Key changes in this note

- Reduce FY23F-25F core earnings estimates by 8-15%.
- Reduce target price from Rs831 to Rs759.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.5)	(2.3)	(12.0)
Relative (%)	(3.7)	(1.0)	(16.1)

Major shareholders	% held
Promoter	46.3
DSP MF	5.5
HDFC MF	5.4

Analyst(s)



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Ipca Laboratories Ltd

No ray of hope on the horizon

- In a string of disappointing numbers, Ipca Laboratories' 3QFY23 revenue and EBITDA missed our estimates by 6% and 27%, respectively.
- Continued cost pressure reduce the chances of a sharp recovery in margins that have come off so far in FY23 to the 15-17% level from 20%+ earlier.
- We reduce our FY23F-25F core earnings estimates by 8-15%; cut our target price from Rs831 to Rs759. Maintain REDUCE rating on the stock.

Performance continues to disappoint

In a string of disappointing numbers, Ipca Laboratories' 3QFY23 revenue and EBITDA missed our estimates by 6% and 27%, respectively. EBITDA margin at 15% (adjusted for forex loss) was down further by 130bp from the already depressed 2QFY23 level. Higher finance expenses and tax rate led PAT to miss our estimate by 47%.

3QFY23 topline in line with expectations on key segments

3Q topline miss was mostly driven by the active pharmaceutical ingredient or API business. Other key segments grew broadly in line with expectations. Domestic revenue was up 9% YoY and Europe business rose 10% in GBP terms. Institutional tender business was up 28% YoY in USD terms and was flat QoQ, in line with estimates. We expect continued low-teen growth in the domestic business; growth in other businesses may come off in FY24F.

Margin recovery hope fades

The continued cost pressure further reduced the chances of a sharp recovery in margins that have come off significantly so far in FY23 to the 15-17% level from 20%+ earlier. Accordingly, we reduce our EBITDA margin estimates for FY24F-25F by about 100bp to 17.4-17.8% level. There exists the risk to our assumption of a 200bp margin recovery from the current level as well.

No visibility of a pick-up in US market

There is no visibility of a pick-up in Ipca Laboratories' US business – the manufacturing facilities have been under the US Food and Drug Administration radar for long. Despite multiple inspections happening in India, the company's facilities remain ignored. We still build in a gradual pick-up in the US business from FY24F.

Lower our estimates; maintain REDUCE rating

We have reduce our FY23F-25F core earnings estimates by 8-15% as we have lowered our margin expectations. Ipca Laboratories trades at 31.4x our revised FY24F core earnings. We have reduced our target price from Rs831 to Rs759, which is 25x our FY25F core earnings plus cash per share. We maintain our REDUCE rating on the stock. Unexpected sudden pick-up in the US business in the institutional anti-malarial tender segment is key upside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	54,200	58,298	62,449	69,041	75,842
Operating EBITDA (Rsm)	15,444	13,093	9,853	12,014	13,476
Net Profit (Rsm)	11,400	8,841	5,462	6,905	7,826
Core EPS (Rs)	44.9	34.8	21.5	27.2	30.8
Core EPS Growth	79.8%	(22.5%)	(38.2%)	26.4%	13.3%
FD Core P/E (x)	18.90	24.37	39.44	31.20	27.53
DPS (Rs)	4.0	8.0	4.0	4.0	5.0
Dividend Yield	0.47%	0.94%	0.47%	0.47%	0.59%
EV/EBITDA (x)	13.79	15.88	21.15	17.23	15.16
P/FCFE (x)	12.98	21.98	33.59	24.86	19.34
Net Gearing	(3.8%)	(10.1%)	(9.0%)	(10.5%)	(13.4%)
P/BV (x)	4.58	3.92	3.70	3.37	3.05
ROE	27.4%	17.3%	9.7%	11.3%	11.6%
% Change In Core EPS Estimates			(15.12%)	(8.91%)	(8.18%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 3QFY23 results snapshot

(Rs m)	3QFY23	3QFY22	yoy(%)	2QFY23	qoq(%)
Revenue	15,460	14,305	8.08%	16,010	-3.43%
EBITDA	2,159	3,078	-29.87%	2,606	-17.2%
EBITDA Margin (%)	14%	22%	-8%	16%	-2%
PAT	1,078	1,987	-45.7%	1,439	-25.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs. estimates

(Rs m)	3QFY23A	3QFY23F	Variation (%)
Revenue	15,460	16,508	-6%
EBITDA	2,159	3,201	-33%
EBITDA Margin (%)	14%	19%	-28%
PAT	1,078	2,041	-47%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus estimates

(Rs m)	3QFY23A	3QFY23F	Variation (%)
Revenue	15,460	15,372	1%
EBITDA	2,159	2,848	-24%
EBITDA Margin (%)	14%	19%	-25%
PAT	1,078	1,682	-36%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Our revised estimates

(Rs m)	New estimates		Old estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	62,449	69,041	63,669	70,091	-2%	-1%
EBITDA	9,853	12,014	11,079	12,939	-11%	-7%
EBITDA Margin (%)	16%	17%	17%	18%	-2%	-6%
PAT	5,462	6,905	6,454	7,580	-15%	-9%

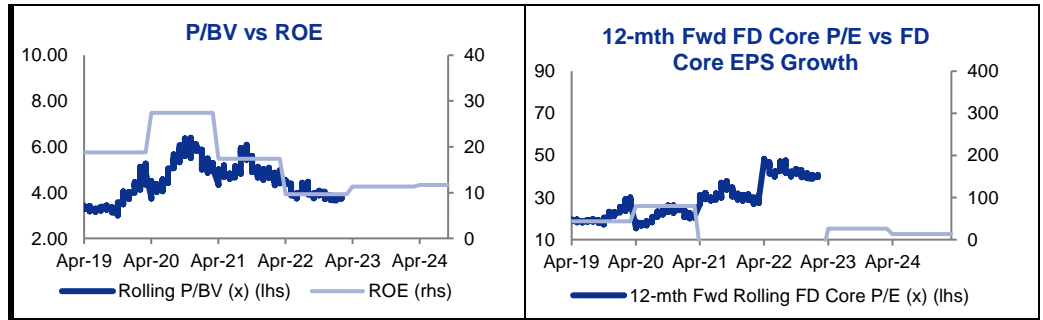
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	42.8	32.7	19.0	25.1	28.8
Core EPS growth	88.0%	-23.6%	-41.7%	32.1%	14.4%
Cash per share (Rs)	14.3	53.9	37.1	39.6	46.3
Current Core P/E (Rs)	18.9	24.8	42.6	32.2	28.2
Core ROIC	34.5%	23.7%	14.5%	17.1%	17.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	54,200	58,298	62,449	69,041	75,842
Gross Profit	36,897	38,149	40,003	44,877	49,297
Operating EBITDA	15,444	13,093	9,853	12,014	13,476
Depreciation And Amortisation	(2,092)	(2,324)	(2,570)	(2,800)	(3,050)
Operating EBIT	13,352	10,768	7,283	9,214	10,426
Financial Income/(Expense)	(90)	(77)	(361)	(250)	(200)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	628	666	857	700	700
Profit Before Tax (pre-EI)	13,890	11,357	7,778	9,664	10,926
Exceptional Items					
Pre-tax Profit	13,890	11,357	7,778	9,664	10,926
Taxation	(2,401)	(2,248)	(2,131)	(2,609)	(2,950)
Exceptional Income - post-tax					
Profit After Tax	11,489	9,109	5,648	7,055	7,976
Minority Interests	(89)	(269)	(186)	(150)	(150)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,400	8,841	5,462	6,905	7,826
Recurring Net Profit	11,400	8,841	5,462	6,905	7,826
Fully Diluted Recurring Net Profit	11,400	8,841	5,462	6,905	7,826

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	15,444	13,093	9,853	12,014	13,476
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,363)	(2,728)	(2,330)	(2,671)	(2,556)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,179)	(1,805)	(2,317)	(2,759)	(3,100)
Net Interest (Paid)/Received	(90)	(77)	(361)	(250)	(200)
Tax Paid	(2,640)	(2,394)	(496)	(450)	(500)
Cashflow From Operations	10,901	8,560	5,206	6,583	7,820
Capex	(3,616)	(4,761)	(4,000)	(4,500)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		(2,310)			
Other Investing Cashflow	(1,591)	(250)			
Cash Flow From Investing	5,694	1,239	1,206	2,083	3,320
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	358				
Shares Repurchased					
Dividends Paid	(69)	(1,015)	(2,030)	(1,015)	(1,015)
Preferred Dividends					
Other Financing Cashflow	(3,347)	9,828	(3,438)	(438)	(596)
Cash Flow From Financing	(3,058)	8,813	(5,468)	(1,453)	(1,611)
Total Cash Generated	2,636	10,052	(4,261)	630	1,709
Free Cashflow To Equity	16,596	9,800	6,413	8,666	11,140
Free Cashflow To Firm	16,686	9,877	6,774	8,916	11,340

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	3,651	13,703	9,442	10,072	11,781
Total Debtors	8,118	9,108	11,241	12,427	13,652
Inventories	15,948	18,580	18,110	20,022	21,994
Total Other Current Assets	6,653	3,181	6,869	7,595	8,343
Total Current Assets	34,370	44,572	45,662	50,116	55,770
Fixed Assets	21,310	25,152	26,582	28,282	29,732
Total Investments	773	2,699	2,699	2,699	2,699
Intangible Assets	1,608	2,088	2,088	2,088	2,088
Total Other Non-Current Assets	2,623	1,879	1,879	1,879	1,879
Total Non-current Assets	26,314	31,817	33,247	34,947	36,397
Short-term Debt	1,492	4,005	1,500	1,500	1,500
Current Portion of Long-Term Debt					
Total Creditors	6,662	8,595	9,467	10,265	11,226
Other Current Liabilities	3,178	2,058	4,208	4,562	4,989
Total Current Liabilities	11,331	14,659	15,175	16,327	17,715
Total Long-term Debt	365	4,067	2,638	1,751	655
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,825	1,974	1,974	1,974	1,974
Total Non-current Liabilities	2,191	6,041	4,612	3,725	2,629
Total Provisions					
Total Liabilities	13,522	20,700	19,787	20,052	20,344
Shareholders' Equity	47,017	54,920	58,166	63,906	70,568
Minority Interests	145	769	955	1,105	1,255
Total Equity	47,162	55,689	59,121	65,011	71,823

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	16.6%	7.6%	7.1%	10.6%	9.8%
Operating EBITDA Growth	65.3%	(15.2%)	(24.7%)	21.9%	12.2%
Operating EBITDA Margin	28.5%	22.5%	15.8%	17.4%	17.8%
Net Cash Per Share (Rs)	7.07	22.20	20.90	26.89	37.95
BVPS (Rs)	185.32	216.47	229.27	251.90	278.15
Gross Interest Cover	147.70	140.03	20.18	36.86	52.13
Effective Tax Rate	17.3%	19.8%	27.4%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	57.48	53.92	59.47	62.56	62.75
Inventory Days	307.77	312.74	298.31	287.99	288.87
Accounts Payables Days	134.59	138.19	146.86	149.03	147.75
ROIC (%)	21.5%	16.3%	10.3%	12.0%	12.7%
ROCE (%)	29.8%	19.1%	11.5%	14.0%	14.7%
Return On Average Assets	20.4%	13.4%	7.6%	8.8%	9.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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