

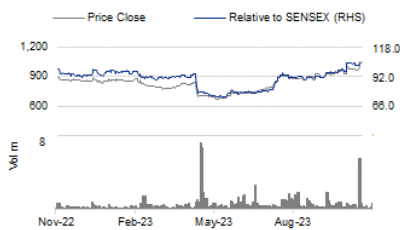
India

HOLD (previously REDUCE)

Consensus ratings*: Buy 6 Hold 7 Sell 8

Current price:	Rs1,051
Target price:	Rs1,067
Previous target:	Rs825
Up/downside:	1.5%
InCred Research / Consensus:	18.3%
Reuters:	IPCA.NS
Bloomberg:	IPCA IN
Market cap:	US\$3,198m
	Rs266,530m
Average daily turnover:	US\$6.7m
	Rs556.4m
Current shares o/s:	253.7m
Free float:	53.7%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.4	16.6	18.3
Relative (%)	12.8	17.4	12.6

Major shareholders	% held
Promoter	46.3
HDFC MF	7.2
DSP MF	6.8

Ipca Laboratories Ltd

US ramp-up, Unichem synergies in focus

- Ipca Laboratories' standalone 2Q results (ex-Unichem) were a slight miss vs. our estimates. Unichem numbers, consol. for two months, posted a 5% margin.
- Ipca Laboratories highlighted several low-hanging fruit, and we now believe the synergies can play out faster than our earlier expectations.
- With two plants under import alert now cleared & faster turnaround at Unichem, we feel the stock will remain firm. Upgrade to HOLD with a higher Rs1,067 TP.

2QFY24 results slightly miss our expectations

Our 2QFY24 estimates of Ipca Laboratories were without Unichem's numbers. Ex-Unichem, the company's EBITDA was 4% below our estimate. Unichem's financials were consolidated for two months, with sales at Rs2.85bn and a 5% margin. Reported margins stood at 15.8% and includes a one-off Rs400m cost related to the acquisition. Ipca Laboratories largely reiterated its guidance from the last call, revising the guidance for its export business from 7-8% to 20% now for FY24F.

Unichem acquisition – focusing on low-hanging fruit

Four months now since Unichem's acquisition, Ipca Laboratories highlighted the reduction in input costs (through process modification, better procurement and supply of some APIs through Ipca Laboratories), logistic costs (50% air shipment for Unichem portfolio currently), market extensions of Unichem's portfolio (examples - Chile, EU, Australia) and launch of a few ANDAs from Unichem as the immediate areas of focus. The company reiterated its guidance of achieving Rs3bn EBITDA in a two-year time frame post-acquisition (mid-FY26F).

Two-to-three plants now under compliance

After an 8-year hiatus in the US, since the import alert on all its three plants, Ipca Laboratories has finally managed to clear two plants and expects to clear the Pithampur plant soon. While we do not expect an immediate US market ramp-up, given most filings will either be obsolete or customers may have shifted. Nevertheless, this will take off the compliance-related costs on the P&L in the immediate term. In the last few years, Ipca Laboratories has focused on backward (Pisgah, Ramdev acquisitions) as well as forward integration (Bayshore/Unichem) in the US. Further, Ipca Laboratories' strength lies in its cost efficiency and we believe it would be able to regain lost ground in a couple of years. Pre-import alert, Ipca Laboratories garnered around US\$25-30m in revenue from its US business.

Upgrade rating to HOLD with a higher target price of Rs1,067

Our concerns on Ipca Laboratories were largely on the Unichem portfolio being a drag, but management commentary and detailed explanation of possible synergies assures us on a faster turnaround. Further, with plants now under compliance and a back-end infrastructure in place, the company's US business can drive strong leverage benefits over the next few years. We thus expect the stock to hold its ground; upgrade to HOLD rating from REDUCE earlier. Slower margin expansion in Unichem is a downside risk while faster US market ramp-up is an upside risk.

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Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	54,200	58,298	62,443	78,016	92,164
Operating EBITDA (Rsm)	15,444	13,093	9,268	12,465	17,556
Net Profit (Rsm)	11,400	8,841	4,713	5,850	9,024
Core EPS (Rs)	44.9	34.8	18.6	23.1	35.6
Core EPS Growth	79.8%	(22.5%)	(46.7%)	24.1%	54.3%
FD Core P/E (x)	23.38	30.15	56.56	45.57	29.54
DPS (Rs)	4.0	8.0	4.0	4.0	5.0
Dividend Yield	0.38%	0.76%	0.38%	0.38%	0.48%
EV/EBITDA (x)	17.10	19.78	27.74	21.30	15.07
P/FCFE (x)	16.06	27.20	24.29	(25.55)	28.34
Net Gearing	(3.8%)	(10.1%)	(12.2%)	2.2%	0.6%
P/BV (x)	5.67	4.85	4.56	4.20	3.74
ROE	27.4%	17.3%	8.3%	9.6%	13.4%
% Change In Core EPS Estimates				(13.57%)	7.41%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Result snapshot

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	16,010	15,460	15,116	15,876	20,340	27%	28%
Consumption of raw materials	5,748	5,618	5,912	5,153	6,776	18%	31%
<i>as % of sales</i>	<i>35.9%</i>	<i>36.3%</i>	<i>39.1%</i>	<i>32.5%</i>	<i>33.3%</i>		
Employee costs	3,192	3,184	3,273	3,575	4,259	33%	19%
<i>as % of sales</i>	<i>19.9%</i>	<i>20.6%</i>	<i>21.7%</i>	<i>22.5%</i>	<i>20.9%</i>		
Other expenditure	4,464	4,338	4,121	4,071	6,092	36%	50%
<i>as % of sales</i>	<i>27.9%</i>	<i>28.1%</i>	<i>27.3%</i>	<i>25.6%</i>	<i>30.0%</i>		
EBITDA	2,606	2,319	1,810	3,076	3,213	23%	4%
<i>Margins (%)</i>	<i>16.3%</i>	<i>15.0%</i>	<i>12.0%</i>	<i>19.4%</i>	<i>15.8%</i>		
Depreciation	637	666	695	693	903		
Other income	362	148	364	449	386		
Interest	93	108	185	314	441		
PBT	2,238	1,693	1,294	2,518	2,254	1%	-11%
Total tax	0	0	0	-1	0		
<i>Tax rate (%)</i>	<i>34.4%</i>	<i>31.7%</i>	<i>37.4%</i>	<i>34.0%</i>	<i>39.0%</i>		
PAT before MI	2,238	1,693	1,295	2,519	2,254	1%	-11%
Minority interest (MI)	-29	-78	-46	-34	76		
Adj. PAT before extraordinary items	1,439	1,078	765	1,628	1,451	1%	-11%
Extraordinary expenses	0	0	0	0	0		
Reported PAT	1,439	1,078	765	1,628	1,451	1%	-11%
No. of shares	253.7	253.7	253.7	253.7	253.7		
EPS	5.7	4.2	3.0	6.4	5.7		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Margins (%)							
Gross	64%	64%	61%	68%	67%	4%	-1%
EBITDA	16%	15%	12%	19%	16%	-3%	-18%
Adj.PAT	9%	7%	5%	10%	7%	-21%	-30%
Effective tax rate	34%	32%	37%	34%	39%	13%	15%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue contribution

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Institutional tenders	770	833	758	484	606	-21%	25%
<i>% total revenue</i>	<i>4.8%</i>	<i>5.4%</i>	<i>5.0%</i>	<i>3.0%</i>	<i>3.0%</i>		
Europe revenue	2,000	1,889	2,005	2,354	2,642	32%	12%
<i>% total revenue</i>	<i>12.5%</i>	<i>12.2%</i>	<i>13.3%</i>	<i>14.8%</i>	<i>13.0%</i>		
Domestic formulations	7,657	7,023	6,079	7,827	8,450	10%	8%
<i>% total revenue</i>	<i>47.8%</i>	<i>45.4%</i>	<i>40.2%</i>	<i>49.3%</i>	<i>41.5%</i>		
International branded	1,273	1,282	1,564	1,140	1,459	15%	28%
<i>% total revenue</i>	<i>8.0%</i>	<i>8.3%</i>	<i>10.3%</i>	<i>7.2%</i>	<i>7.2%</i>		
Exports API / intermediates	2,243	2,373	2,522	2,174	2,500	11%	15%
<i>% total revenue</i>	<i>14.0%</i>	<i>15.3%</i>	<i>16.7%</i>	<i>13.7%</i>	<i>12.3%</i>		
Domestic API / intermediates	828	849	948	777	849	3%	9%
<i>% total revenue</i>	<i>5.2%</i>	<i>5.5%</i>	<i>6.3%</i>	<i>4.9%</i>	<i>4.2%</i>		
Other operating income / Others	1,237	1,212	1,241	1,119	3,833	210%	243%
<i>% total revenue</i>	<i>7.7%</i>	<i>7.8%</i>	<i>8.2%</i>	<i>7.0%</i>	<i>18.8%</i>		
Total revenue	16,010	15,460	15,116	15,876	20,340	27%	28%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. Incred and Bloomberg consensus estimates

(Rs m)	2QFY24A	Incred Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	20,340	17,094	19%	17,294	18%
EBITDA	3,213	3,115	3%	3,376	-5%
EBITDA Margin (%)	16%	18%	-243bp	20%	-373bp
PAT	1,451	1,496	-3%	1,913	-24%

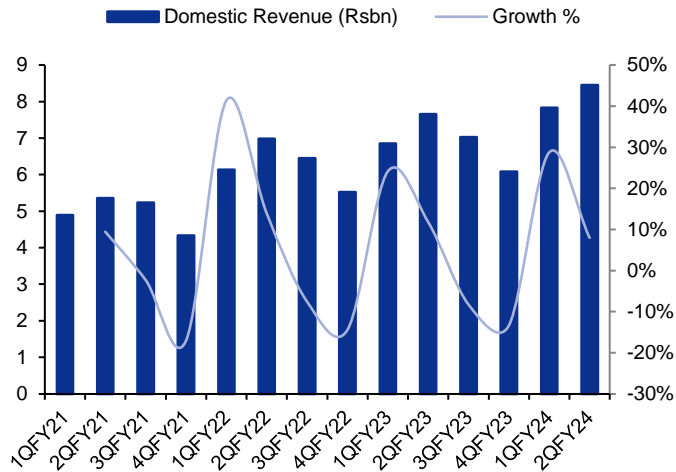
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change(%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	66,349	74,839	78,016	92,164	18%	23%
EBITDA	12,569	15,167	12,465	17,556	-1%	16%
EBITDA Margin (%)	19%	20%	16%	19%	-297bp	-122bp
PAT	6,494	8,402	5,850	9,024	-10%	7%

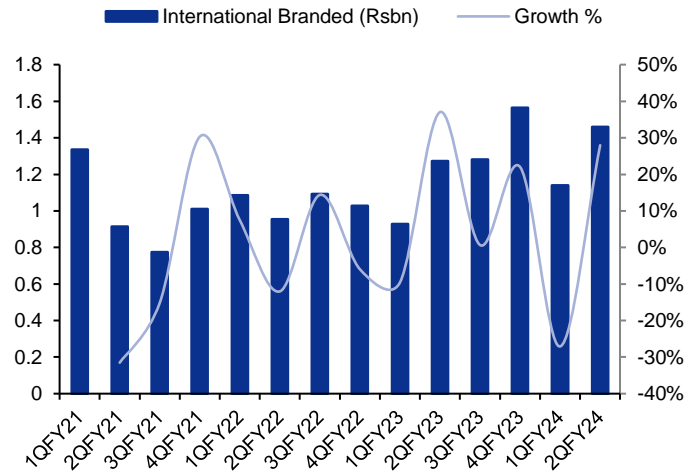
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Figure 3: Domestic revenue growth continues to do well



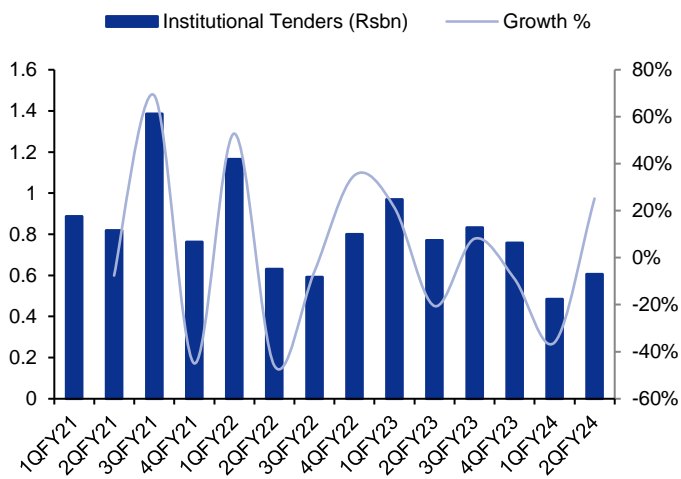
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Figure 12: International branded business has also been the weakest in recent quarters



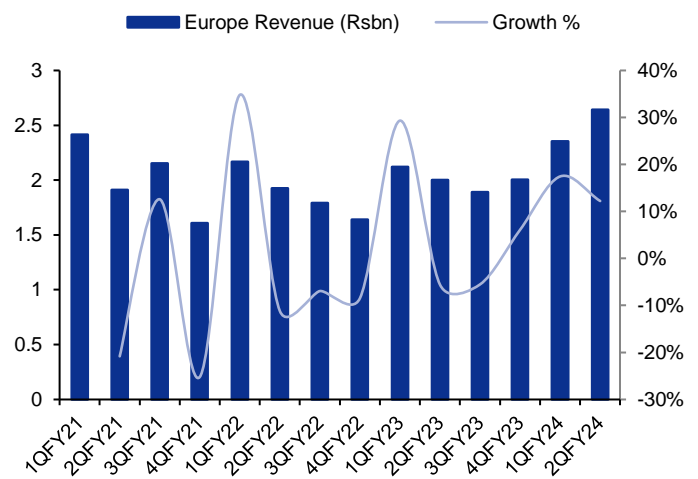
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Institutional tender business has witnessed a decline because of reduction in demand for antimalarial drug



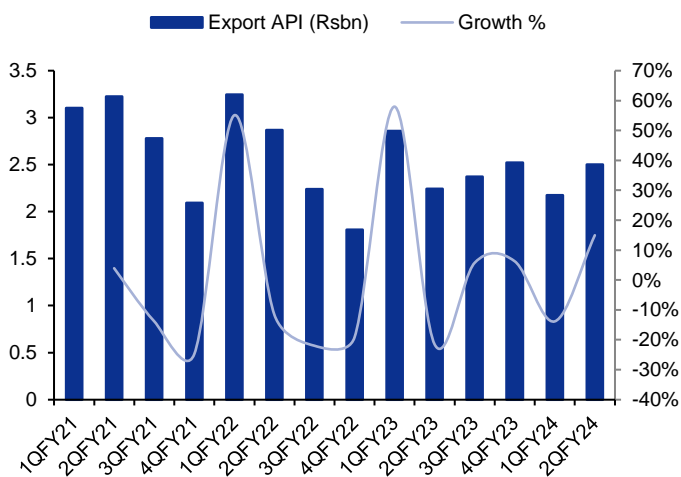
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: UK market recovery reflects in the EU market's growth



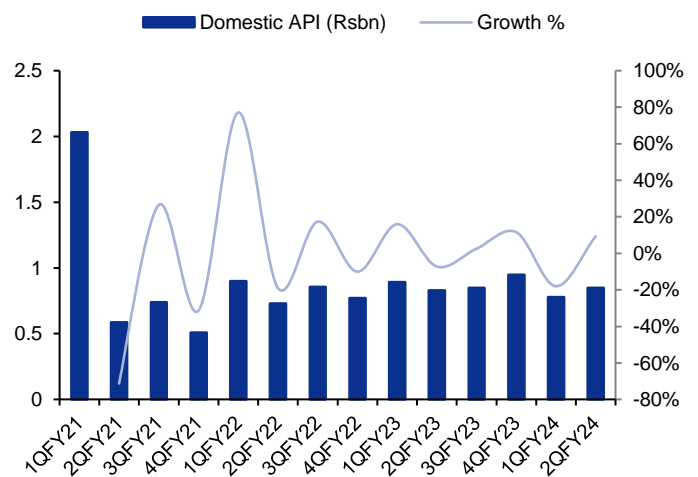
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: 2QFY24 export growth has grown since the last quarter



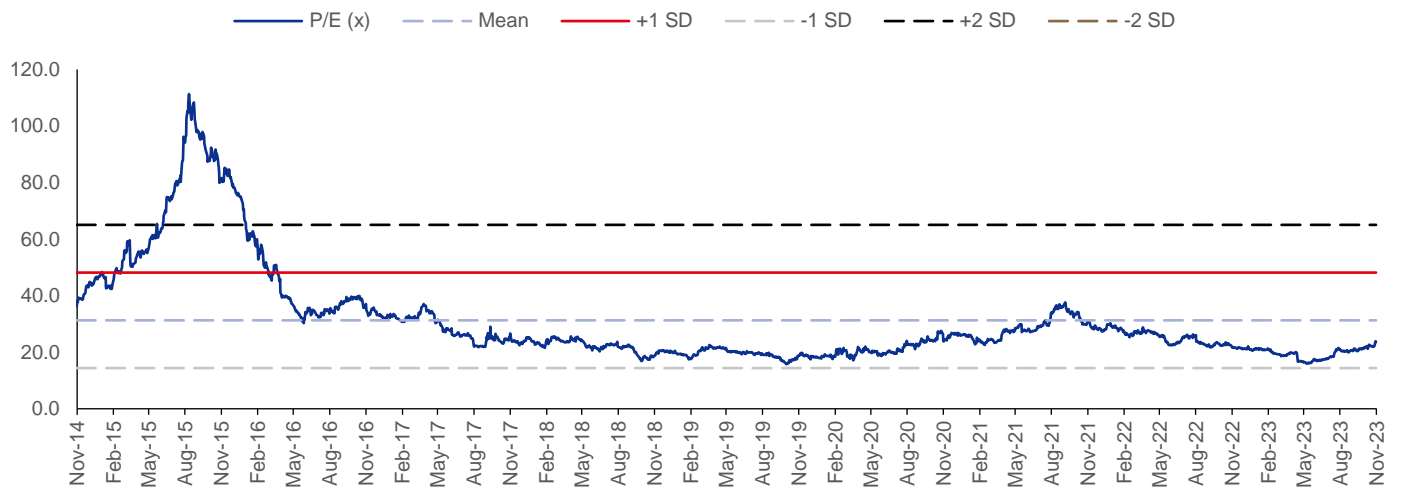
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Domestic API business has been consistently underperforming



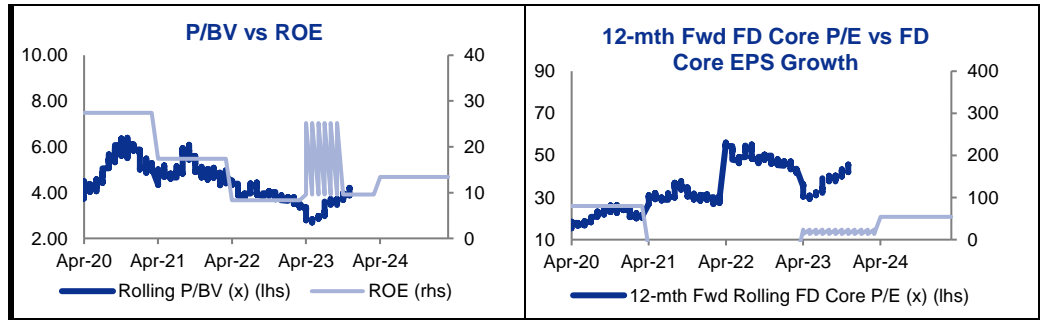
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: One-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	54,200	58,298	62,443	78,016	92,164
Gross Profit	36,897	38,149	39,378	51,875	62,211
Operating EBITDA	15,444	13,093	9,268	12,465	17,556
Depreciation And Amortisation	(2,092)	(2,324)	(2,616)	(3,596)	(4,000)
Operating EBIT	13,352	10,768	6,652	8,869	13,556
Financial Income/(Expense)	(90)	(77)	(455)	(1,705)	(1,950)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	628	666	1,256	1,534	1,500
Profit Before Tax (pre-EI)	13,890	11,357	7,453	8,698	13,106
Exceptional Items					
Pre-tax Profit	13,890	11,357	7,453	8,698	13,106
Taxation	(2,401)	(2,248)	(2,534)	(3,070)	(3,932)
Exceptional Income - post-tax					
Profit After Tax	11,489	9,109	4,919	5,628	9,174
Minority Interests	(89)	(269)	(206)	222	(150)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,400	8,841	4,713	5,850	9,024
Recurring Net Profit	11,400	8,841	4,713	5,850	9,024
Fully Diluted Recurring Net Profit	11,400	8,841	4,713	5,850	9,024

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	15,444	13,093	9,268	12,465	17,556
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,363)	(2,728)	490	(12,583)	(6,522)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,179)	(1,805)	(1,700)	(2,848)	(4,082)
Net Interest (Paid)/Received	(90)	(77)	(455)	(1,705)	(1,950)
Tax Paid	(2,640)	(2,394)	(2,500)	(2,677)	(3,632)
Cashflow From Operations	10,901	8,560	8,058	(2,966)	6,953
Capex	(3,616)	(4,761)	(4,583)	(4,500)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments		(2,310)	(453)		
Other Investing Cashflow	(1,591)	(250)	(106)		
Cash Flow From Investing	5,694	1,239	2,916	(7,466)	2,453
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	358				
Shares Repurchased					
Dividends Paid	(69)	(1,015)	(1,015)	(1,015)	(1,015)
Preferred Dividends					
Other Financing Cashflow	(3,347)	9,828	6,194	(11,547)	(1,489)
Cash Flow From Financing	(3,058)	8,813	5,179	(12,562)	(2,504)
Total Cash Generated	2,636	10,052	8,095	(20,028)	(52)
Free Cashflow To Equity	16,596	9,800	10,974	(10,432)	9,405
Free Cashflow To Firm	16,686	9,877	11,429	(8,727)	11,355

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	3,651	13,703	21,798	1,770	1,718
Total Debtors	8,118	9,108	9,890	14,043	16,590
Inventories	15,948	18,580	17,434	22,625	26,728
Total Other Current Assets	6,653	3,181	2,771	8,582	10,138
Total Current Assets	34,370	44,572	51,893	47,019	55,174
Fixed Assets	21,310	25,152	26,946	27,850	28,350
Total Investments	773	2,699	3,027	3,027	3,027
Intangible Assets	1,608	2,088	1,972	1,972	1,972
Total Other Non-Current Assets	2,623	1,879	2,427	2,427	2,427
Total Non-current Assets	26,314	31,817	34,372	35,276	35,776
Short-term Debt	1,492	4,005	8,058	8,058	8,058
Current Portion of Long-Term Debt					
Total Creditors	6,662	8,595	5,251	8,704	9,870
Other Current Liabilities	3,178	2,058	4,750	3,868	4,386
Total Current Liabilities	11,331	14,659	18,058	20,629	22,313
Total Long-term Debt	365	4,067	6,518	(4,858)	(5,898)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,825	1,974	2,535	2,535	2,535
Total Non-current Liabilities	2,191	6,041	9,053	(2,323)	(3,362)
Total Provisions					
Total Liabilities	13,522	20,700	27,111	18,306	18,951
Shareholders Equity	47,017	54,920	58,420	63,478	71,337
Minority Interests	145	769	733	511	661
Total Equity	47,162	55,689	59,153	63,988	71,998

Key Ratios

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	16.6%	7.6%	7.1%	24.9%	18.1%
Operating EBITDA Growth	65.3%	(15.2%)	(29.2%)	34.5%	40.8%
Operating EBITDA Margin	28.5%	22.5%	14.8%	16.0%	19.0%
Net Cash Per Share (Rs)	7.07	22.19	28.47	(5.63)	(1.74)
BVPS (Rs)	185.32	216.47	230.27	250.20	281.18
Gross Interest Cover	147.70	140.03	14.61	5.20	6.95
Effective Tax Rate	17.3%	19.8%	34.0%	35.3%	30.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	57.48	53.92	55.52	55.99	60.66
Inventory Days	307.77	312.74	284.95	279.66	300.69
Accounts Payables Days	134.59	138.19	109.55	97.42	113.16
ROIC (%)	21.5%	16.3%	9.7%	10.2%	14.1%
ROCE (%)	29.8%	19.1%	9.7%	12.6%	19.2%
Return On Average Assets	20.4%	13.4%	6.5%	8.2%	12.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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