

India

HOLD (no change)

Consensus ratings*:	Buy 6	Hold 8	Sell 7
Current price:	Rs1,152		
Target price:	Rs1,203 ▲		
Previous target:	Rs1,067		
Up/downside:	4.4%		
InCred Research / Consensus:	13.9%		
Reuters:	IPCA.NS		
Bloomberg:	IPCA IN		
Market cap:	US\$3,520m	Rs292,302m	
Average daily turnover:	US\$6.2m	Rs514.8m	
Current shares o/s:	253.7m		
Free float:	53.7%		
*Source: Bloomberg			

Key changes in this note

- Target price upgrade on rollover to FY26F EPS.
- FY24F/25F EPS cut by 14% each on higher tax.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.1	9.0	36.6
Relative (%)	2.6	(0.2)	16.3

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

Research Analyst(s)



Praful BOHRA
T (91) 22 4161 1552
E praful.bohra@incredresearch.com

Ipca Laboratories Ltd

Mixed 3Q results; trajectory set to improve

- Ipca Labs' 3Q base business (ex-Unichem) was weak due to subdued growth in branded generic markets (-18% YoY). Unichem's earnings above estimate.
- Unichem's margins were in line with guidance. FY25F should see a ramp-up of the US business with USFDA's clearance of its key plants.
- The stock is fairly valued. Retain our HOLD rating on it with a higher target price of Rs1,203 on rollover of the target price based on FY26F EPS.

Branded biz drags overall numbers; Unichem posts strong results

Ipca Laboratories' 3QFY24 revenue/EBITDA were 4%/5% below estimates, respectively, and the miss was largely on account of lower branded business (-18%YoY, led by delayed licenses in Myanmar, challenges in the Red Sea region and hindered shipments to the CIS market) and active pharmaceutical ingredient or API business (volume decline). On a positive note, the generics business exhibited strong growth, with around 33% YoY growth (led by the UK business which was up 100% in 9MFY24 and South Africa, which has delivered much better than expectations). Subsidiary Unichem Laboratories (Unichem) posted strong numbers, growing 43% YoY. India business was up 11% YoY.

Unichem's margins on track to achieve guidance of 15% by FY26F

With improvement in productivity, operating leverage and some shortage-led opportunities in the US market, Unichem delivered an 8.8% margin and seems on track to achieve the guidance of 15% by FY26F. Ex-Unichem, Ipca Laboratories' margins were up by 50bp QoQ at 18.1%. With the resumption of US business expected from FY25F that will lead to better utilization of its facilities, as well as a further recovery in Unichem's margins, management expects Ipca Laboratories' margins to grow by ~200bp in FY25F - to which we largely concur.

Other highlights

- Guidance:** India business growth at 13-14% in FY25F, branded markets to grow by 8% in FY24F and 10% in FY25F, API business to grow by 10-12% in FY25F and generics business to grow by 12-15% conservatively.
- Expects to launch seven-to-eight products in FY25F in the US market and around 16-17 products by FY26F.
- Zerodol's growth in India has slowed to 8-9% so far in FY24.

Retain HOLD rating on the stock with a higher target price of Rs1,203

With plant compliance issues largely behind and Unichem delivering on expected synergies, we believe Ipca Laboratories' growth trajectory should materially improve over the next two years. However, after the recent run-up, the risk-reward ratio is unfavourable and we await a better entry point. We retain our HOLD rating on the stock with a higher target price of Rs1,203 (Rs1,067 earlier), as we roll over the target price based on FY26F EPS. Our FY24F/25F EPS estimates stand reduced by 14% each, largely on account of a higher tax rate. Slower margin expansion in Unichem is a downside risk while faster US market ramp-up is an upside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	58,298	62,443	76,663	91,345	102,431
Operating EBITDA (Rsm)	13,093	9,268	12,397	17,465	21,468
Net Profit (Rsm)	8,841	4,713	5,684	7,750	10,178
Core EPS (Rs)	34.8	18.6	20.6	30.5	40.1
Core EPS Growth	(22.5%)	(46.7%)	10.7%	48.6%	31.3%
FD Core P/E (x)	33.07	62.03	56.06	37.72	28.72
DPS (Rs)	8.0	4.0	4.0	5.0	5.0
Dividend Yield	0.69%	0.35%	0.35%	0.43%	0.43%
EV/EBITDA (x)	21.75	30.52	24.82	17.68	14.31
P/FCFE (x)	29.83	26.64	(10.40)	37.40	20.35
Net Gearing	(10.1%)	(12.2%)	26.4%	23.3%	16.4%
P/BV (x)	5.32	5.00	4.70	4.33	3.91
ROE	17.3%	8.3%	8.6%	11.9%	14.3%
% Change In Core EPS Estimates			(10.85%)	(14.12%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	16,010	15,460	15,116	15,876	20,340	20,529	33%	1%
Consumption of RM	5,748	5,618	5,912	5,153	6,776	6,970	24%	3%
<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>	<i>34.0%</i>		
Employee costs	3,192	3,184	3,273	3,575	4,259	4,590	44%	8%
<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>	<i>22.4%</i>		
Other expenditure	4,464	4,338	4,121	4,071	6,092	5,655	30%	-7%
<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>	<i>27.5%</i>		
EBITDA	2,606	2,319	1,810	3,076	3,213	3,313	43%	3%
<i>Margins (%)</i>	<i>16.3%</i>	<i>15.0%</i>	<i>12.0%</i>	<i>19.4%</i>	<i>15.8%</i>	<i>16.1%</i>		
Depreciation	637	666	695	693	903	995		
Other income	362	148	364	449	386	225		
Interest	93	108	150	314	441	334		
PBT	2,238	1,693	1,329	2,518	2,254	2,209	30%	-2%
Total tax	0	0	0	-1	0	0		
<i>Tax rate (%)</i>	<i>34.4%</i>	<i>31.7%</i>	<i>36.4%</i>	<i>34.0%</i>	<i>39.0%</i>	<i>30.0%</i>		
PAT before MI	2,238	1,693	1,329	2,519	2,254	2,209	30%	-2%
Minority interest (MI)	-29	-78	-46	-34	76	-428		
Adj. PAT before extraordinary items	1,439	1,078	800	1,628	1,451	1,119	4%	-23%
Extraordinary expenses	0	0	0	0	0	680		
Reported PAT	1,439	1,078	800	1,628	1,451	1,799	67%	24%
No. of shares	253.7	253.7	253.7	253.7	253.7	253.7		
EPS	5.7	4.2	3.2	6.4	5.7	4.4		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(Rs m)	2QF23	3QF23	4QF23	1QF24	2QF24	3QF24	Y-o-Y (%)	Q-o-Q (%)
Margins (%)								
Gross	64%	64%	61%	68%	67%	66%	4%	-1%
EBITDA	16%	15%	12%	19%	16%	16%	8%	2%
Adj. PAT	9%	7%	5%	10%	7%	5%	-22%	-24%
Effective tax rate	34%	32%	36%	34%	39%	30%	-6%	-23%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Institutional tenders	770	833	758	484	606	766	-8%	26%
<i>% total revenue</i>	<i>4.8%</i>	<i>5.4%</i>	<i>5.0%</i>	<i>3.0%</i>	<i>3.0%</i>	<i>3.7%</i>		
Europe revenue	2,000	1,889	2,005	2,354	2,642	2,517	33%	-5%
<i>% total revenue</i>	<i>12.5%</i>	<i>12.2%</i>	<i>13.3%</i>	<i>14.8%</i>	<i>13.0%</i>	<i>12.3%</i>		
Domestic formulations	7,657	7,023	6,079	7,827	8,450	7,796	11%	-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>	<i>38.0%</i>		
International branded	1,273	1,282	1,564	1,140	1,459	1,048	-18%	-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>	<i>5.1%</i>		
Exports API / intermediates	2,243	2,373	2,522	2,174	2,500	2,073	-13%	-17%
<i>% total revenue</i>	<i>14.0%</i>	<i>15.3%</i>	<i>16.7%</i>	<i>13.7%</i>	<i>12.3%</i>	<i>10.1%</i>		
Domestic API / intermediates	828	849	948	777	849	777	-9%	-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>	<i>3.8%</i>		
Other operating income / others	1,237	1,212	1,241	1,119	3,833	5,552	358%	45%
<i>% total revenue</i>	<i>7.7%</i>	<i>7.8%</i>	<i>8.2%</i>	<i>7.0%</i>	<i>18.8%</i>	<i>27.0%</i>		
Total revenue	16,010	15,460	15,116	15,876	20,340	20,529	33%	1%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Estimates	Variance (%)
Revenue (Rsm)	20,529	21,334	-4%
EBITDA (Rsm)	3,313	3,496	-5%
Margin (%)	16.1	16.4	
PAT (Rsm)	1,799	1,738	4%

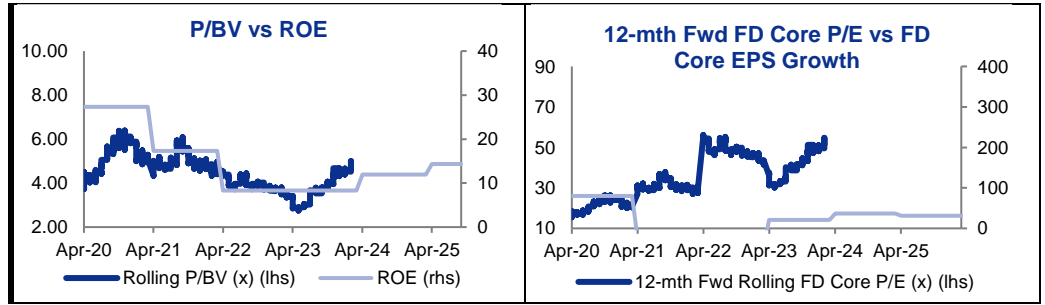
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY24F			FY25F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	78,016	76,663	-2%	92,164	91,345	-1%
EBITDA (Rsm)	12,465	12,397	-1%	17,556	17,465	-1%
Margin (%)	16.0	16.2		19.0	19.1	
PAT (Rsm)	5,850	5,004	-14%	9,024	7,750	-14%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	58,298	62,443	76,663	91,345	102,431
Gross Profit	38,149	39,378	50,992	61,201	69,141
Operating EBITDA	13,093	9,268	12,397	17,465	21,468
Depreciation And Amortisation	(2,324)	(2,616)	(3,591)	(4,000)	(4,500)
Operating EBIT	10,768	6,652	8,806	13,465	16,968
Financial Income/(Expense)	(77)	(455)	(1,439)	(1,550)	(1,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	666	1,256	1,409	1,300	1,500
Profit Before Tax (pre-EI)	11,357	7,453	8,776	13,215	16,968
Exceptional Items			680		
Pre-tax Profit	11,357	7,453	9,456	13,215	16,968
Taxation	(2,248)	(2,534)	(2,936)	(3,964)	(5,090)
Exceptional Income - post-tax					
Profit After Tax	9,109	4,919	6,520	9,250	11,878
Minority Interests	(269)	(206)	(835)	(1,500)	(1,700)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,841	4,713	5,684	7,750	10,178
Recurring Net Profit	8,841	4,713	5,215	7,750	10,178
Fully Diluted Recurring Net Profit	8,841	4,713	5,215	7,750	10,178

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	13,093	9,268	12,397	17,465	21,468
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,728)	490	(12,377)	(5,842)	(4,993)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,805)	(1,700)	(4,451)	(5,464)	(6,790)
Net Interest (Paid)/Received	(77)	(455)	(1,439)	(1,550)	(1,500)
Tax Paid	(2,394)	(2,500)	(4,421)	(5,214)	(6,790)
Cashflow From Operations	8,560	8,058	(4,431)	6,159	9,685
Capex	(4,761)	(4,583)	(4,500)	(4,500)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(2,310)	(453)	(15,429)		
Other Investing Cashflow	(250)	(106)	680		
Cash Flow From Investing	1,239	2,916	(23,680)	1,659	4,685
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,015)	(1,015)	(1,015)	(1,015)	(1,269)
Preferred Dividends					
Other Financing Cashflow	9,828	6,194	5,221	1,771	(1,301)
Cash Flow From Financing	8,813	5,179	4,206	756	(2,569)
Total Cash Generated	10,052	8,095	(19,474)	2,414	2,116
Free Cashflow To Equity	9,800	10,974	(28,112)	7,817	14,370
Free Cashflow To Firm	9,877	11,429	(26,673)	9,367	15,870

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	13,703	21,798	2,324	4,738	6,854
Total Debtors	9,108	9,890	16,866	19,182	21,511
Inventories	18,580	17,434	22,999	27,404	30,729
Total Other Current Assets	3,181	2,771	5,366	6,394	7,170
Total Current Assets	44,572	51,893	47,555	57,718	66,264
Fixed Assets	25,152	26,946	43,284	43,784	44,284
Total Investments	2,699	3,027	3,027	3,027	3,027
Intangible Assets	2,088	1,972	1,972	1,972	1,972
Total Other Non-Current Assets	1,879	2,427	2,427	2,427	2,427
Total Non-current Assets	31,817	34,372	50,710	51,210	51,710
Short-term Debt	4,005	8,058	8,058	8,058	8,058
Current Portion of Long-Term Debt					
Total Creditors	8,595	5,251	7,089	8,148	8,947
Other Current Liabilities	2,058	4,750	5,671	6,519	7,157
Total Current Liabilities	14,659	18,058	20,818	22,725	24,162
Total Long-term Debt	4,067	6,518	11,089	13,110	11,809
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,974	2,535	2,535	2,535	2,535
Total Non-current Liabilities	6,041	9,053	13,624	15,645	14,344
Total Provisions					
Total Liabilities	20,700	27,111	34,442	38,370	38,506
Shareholders Equity	54,920	58,420	62,254	67,490	74,699
Minority Interests	769	733	1,568	3,068	4,768
Total Equity	55,689	59,153	63,823	70,558	79,468

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	7.6%	7.1%	22.8%	19.2%	12.1%
Operating EBITDA Growth	(15.2%)	(29.2%)	33.8%	40.9%	22.9%
Operating EBITDA Margin	22.5%	14.8%	16.2%	19.1%	21.0%
Net Cash Per Share (Rs)	22.19	28.47	(66.31)	(64.76)	(51.29)
BVPS (Rs)	216.47	230.27	245.38	266.02	294.43
Gross Interest Cover	140.03	14.61	6.12	8.69	11.31
Effective Tax Rate	19.8%	34.0%	31.0%	30.0%	30.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	53.92	55.52	63.69	72.02	72.50
Inventory Days	312.74	284.95	287.44	305.15	318.69
Accounts Payables Days	138.19	109.55	87.72	92.25	93.72
ROIC (%)	16.3%	9.7%	8.2%	11.6%	13.8%
ROCE (%)	19.1%	9.7%	11.2%	15.4%	17.8%
Return On Average Assets	13.4%	6.5%	7.5%	10.0%	11.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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