



## India

**ADD** (previously HOLD)

Consensus ratings\*: Buy 8 Hold 3 Sell 7

Current price:	Rs1,130
Target price:	Rs1,268
Previous target:	Rs1,268
Up/downside:	12.2%
InCred Research / Consensus:	3.8%

Reuters:	IPCA.NS
Bloomberg:	IPCA IN
Market cap:	US\$3,436m Rs286,557m
Average daily turnover:	US\$7.8m Rs652.2m
Current shares o/s:	253.7m
Free float:	53.7%

\*Source: Bloomberg

**Key changes in this note**

- Upgrade our rating on the stock to ADD from HOLD earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.9)	(8.7)	52.1
Relative (%)	(8.2)	(14.5)	24.5

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

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# Ipca Laboratories Ltd

## Price correction gives favourable entry point

- Unichem arm posted strong FY24 results. Healthy FY25F performance is also likely from it, with a 20% revenue growth & 500-600bp margin improvement.
- Ipca Labs may post a healthy growth of 11-11.5%. Margin growth to continue with a 100-130bp rise on a standalone basis & ~150bp rise on a consol. basis.
- Recent price correction offers a favourable risk-reward ratio and a good entry point. Upgrade our rating to ADD with an unchanged target price of Rs1,268.

### Unichem subsidiary is gradually moving on the right track

Unichem ended FY24 on a strong note (posting an EBITDA of Rs1bn as against a loss of Rs450m in FY23 and turning profitable) and is geared to post a strong FY25F performance as well. Ipca Laboratories expects Unichem to clock around Rs20bn in revenue (20% YoY growth) and around Rs2.25bn EBITDA in FY25F, implying around 10-11% margin (an improvement of 500-600bp YoY). Beyond FY25F, Ipca Laboratories expects Unichem's margin to touch 15%.

### Decent guidance indicates consistent growth likely ahead

Ipca Laboratories expects its India business and export generics business to grow 12% YoY in FY25F, although the branded business is likely to show a moderate performance due to depreciation of the Russian rouble as well as problems in West Africa. The institutional business is expected to grow at 14% YoY while the API business should grow by 7-8% YoY – all these combined should drive an 11–11.5% growth overall for Ipca Laboratories (ex-Unichem). The US business should see around six-to-seven product launches during the year, although a meaningful swing should show up only from FY26F. The standalone margin is likely to be around 20.5-21% (an improvement of 100-130bp), although, including Unichem, the consolidated business should post around 18% (an improvement of ~150bp). Scale-up of the US business should aid the momentum in margins.

### Upgrade our rating on the stock to ADD from HOLD

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. Further, with the recent price correction, the valuation has become reasonable, and the risk-reward ratio offers a favourable entry point. We upgrade our rating on the stock to ADD (from HOLD earlier) with unchanged target price of Rs1,268. Slower margin expansion in Unichem is a downside risk.

**Financial Summary**

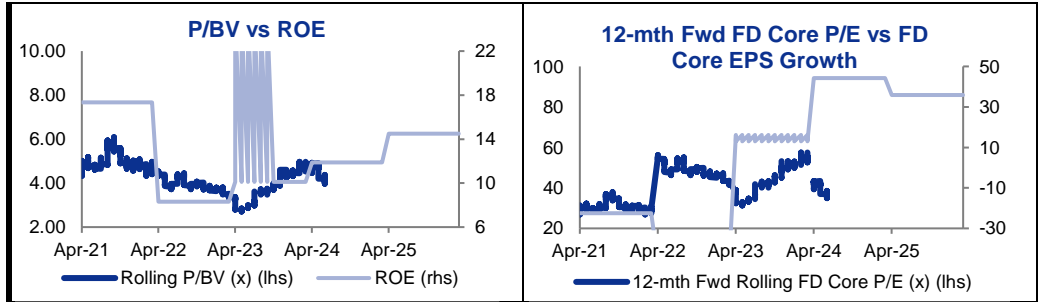
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	58,298	62,443	77,074	87,681	99,661
Operating EBITDA (Rsm)	13,093	9,268	12,821	16,017	20,696
Net Profit (Rsm)	8,841	4,713	5,474	7,897	10,727
Core EPS (Rs)	34.8	18.6	23.3	31.1	42.3
Core EPS Growth	(22.5%)	(46.7%)	25.3%	33.7%	35.8%
FD Core P/E (x)	32.42	60.81	48.53	36.29	26.72
DPS (Rs)	8.0	4.0	4.0	5.0	5.0
Dividend Yield	0.71%	0.35%	0.35%	0.44%	0.44%
EV/EBITDA (x)	21.31	29.90	23.61	18.87	14.47
P/FCFE (x)	29.25	26.12	(355.42)	33.90	20.21
Net Gearing	(10.1%)	(12.2%)	6.8%	5.0%	0.7%
P/BV (x)	5.22	4.91	4.53	4.11	3.66
ROE	17.3%	8.3%	9.7%	11.9%	14.5%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>58,298</b>	<b>62,443</b>	<b>77,074</b>	<b>87,681</b>	<b>99,661</b>
<b>Gross Profit</b>	<b>38,149</b>	<b>39,378</b>	<b>51,317</b>	<b>58,747</b>	<b>67,271</b>
<b>Operating EBITDA</b>	<b>13,093</b>	<b>9,268</b>	<b>12,821</b>	<b>16,017</b>	<b>20,696</b>
Depreciation And Amortisation	(2,324)	(2,616)	(3,572)	(4,000)	(4,500)
<b>Operating EBIT</b>	<b>10,768</b>	<b>6,652</b>	<b>9,249</b>	<b>12,017</b>	<b>16,196</b>
Financial Income/(Expense)	(77)	(455)	(1,383)	(1,300)	(1,300)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	666	1,256	1,248	1,350	1,500
<b>Profit Before Tax (pre-EI)</b>	<b>11,357</b>	<b>7,453</b>	<b>9,114</b>	<b>12,067</b>	<b>16,396</b>
Exceptional Items			(687)		
<b>Pre-tax Profit</b>	<b>11,357</b>	<b>7,453</b>	<b>8,427</b>	<b>12,067</b>	<b>16,396</b>
Taxation	(2,248)	(2,534)	(3,134)	(3,620)	(4,919)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>9,109</b>	<b>4,919</b>	<b>5,292</b>	<b>8,447</b>	<b>11,477</b>
Minority Interests	(269)	(206)	181	(550)	(750)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>8,841</b>	<b>4,713</b>	<b>5,474</b>	<b>7,897</b>	<b>10,727</b>
Recurring Net Profit	8,841	4,713	5,905	7,897	10,727
<b>Fully Diluted Recurring Net Profit</b>	<b>8,841</b>	<b>4,713</b>	<b>5,905</b>	<b>7,897</b>	<b>10,727</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>13,093</b>	<b>9,268</b>	<b>12,821</b>	<b>16,017</b>	<b>20,696</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,728)	490	(916)	(5,369)	(5,438)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,805)	(1,700)	(2,459)	(4,170)	(5,669)
Net Interest (Paid)/Received	(77)	(455)	(1,383)	(1,300)	(1,300)
Tax Paid	(2,394)	(2,500)	(1,637)	(4,220)	(5,869)
<b>Cashflow From Operations</b>	<b>8,560</b>	<b>8,058</b>	<b>9,447</b>	<b>6,478</b>	<b>9,589</b>
Capex	(4,761)	(4,583)	(4,020)	(4,500)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(2,310)	(453)	(15,680)		
Other Investing Cashflow	(250)	(106)			
<b>Cash Flow From Investing</b>	<b>1,239</b>	<b>2,916</b>	<b>(10,253)</b>	<b>1,978</b>	<b>4,589</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,015)	(1,015)	(507)	(1,015)	(1,269)
Preferred Dividends					
Other Financing Cashflow	9,828	6,194	1,763	11,421	(1,643)
<b>Cash Flow From Financing</b>	<b>8,813</b>	<b>5,179</b>	<b>1,256</b>	<b>10,406</b>	<b>(2,911)</b>
Total Cash Generated	10,052	8,095	(8,997)	12,384	1,678
<b>Free Cashflow To Equity</b>	<b>9,800</b>	<b>10,974</b>	<b>(806)</b>	<b>8,456</b>	<b>14,178</b>
<b>Free Cashflow To Firm</b>	<b>9,877</b>	<b>11,429</b>	<b>576</b>	<b>9,756</b>	<b>15,478</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	13,703	21,798	8,646	21,030	22,708
Total Debtors	9,108	9,890	16,865	18,413	20,929
Inventories	18,580	17,434	24,696	26,304	29,898
Total Other Current Assets	3,181	2,771	5,182	6,138	6,976
<b>Total Current Assets</b>	<b>44,572</b>	<b>51,893</b>	<b>55,389</b>	<b>71,885</b>	<b>80,511</b>
Fixed Assets	25,152	26,946	46,631	47,131	47,631
Total Investments	2,699	3,027	3,036	3,036	3,036
Intangible Assets	2,088	1,972	2,333	2,333	2,333
Total Other Non-Current Assets	1,879	2,427	3,624	3,624	3,624
<b>Total Non-current Assets</b>	<b>31,817</b>	<b>34,372</b>	<b>55,624</b>	<b>56,124</b>	<b>56,624</b>
Short-term Debt	4,005	8,058	8,071	8,071	8,071
Current Portion of Long-Term Debt					
Total Creditors	8,595	5,251	7,761	7,905	8,744
Other Current Liabilities	2,058	4,750	7,725	6,324	6,995
<b>Total Current Liabilities</b>	<b>14,659</b>	<b>18,058</b>	<b>23,556</b>	<b>22,300</b>	<b>23,811</b>
Total Long-term Debt	4,067	6,518	5,804	17,175	15,332
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,974	2,535	4,382	4,382	4,382
<b>Total Non-current Liabilities</b>	<b>6,041</b>	<b>9,053</b>	<b>10,186</b>	<b>21,557</b>	<b>19,714</b>
Total Provisions					
<b>Total Liabilities</b>	<b>20,700</b>	<b>27,111</b>	<b>33,743</b>	<b>43,857</b>	<b>43,525</b>
Shareholders Equity	54,920	58,420	63,322	69,654	78,362
Minority Interests	769	733	13,948	14,498	15,248
<b>Total Equity</b>	<b>55,689</b>	<b>59,153</b>	<b>77,270</b>	<b>84,152</b>	<b>93,610</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	7.6%	7.1%	23.4%	13.8%	13.7%
Operating EBITDA Growth	(15.2%)	(29.2%)	38.3%	24.9%	29.2%
Operating EBITDA Margin	22.5%	14.8%	16.6%	18.3%	20.8%
Net Cash Per Share (Rs)	22.19	28.47	(20.61)	(16.62)	(2.74)
BVPS (Rs)	216.47	230.27	249.59	274.55	308.87
Gross Interest Cover	140.03	14.61	6.69	9.24	12.46
Effective Tax Rate	19.8%	34.0%	37.2%	30.0%	30.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	53.92	55.52	63.35	73.43	72.04
Inventory Days	312.74	284.95	298.50	321.67	316.67
Accounts Payables Days	138.19	109.55	92.19	98.81	93.81
ROIC (%)	16.3%	9.7%	8.3%	10.0%	12.7%
ROCE (%)	19.1%	9.7%	11.2%	12.0%	14.3%
Return On Average Assets	13.4%	6.5%	7.1%	7.9%	9.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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