



India

ADD (previously **REDUCE**)

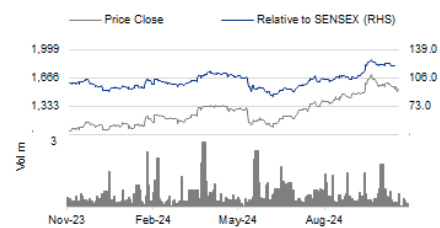
Consensus ratings*: Buy 8 Hold 2 Sell 8

Current price:	Rs1,537
Target price: ▲	Rs1,720
Previous target:	Rs1,279
Up/downside:	11.9%
InCred Research / Consensus:	17.8%
Reuters:	IPCA.NS
Bloomberg:	IPCA IN
Market cap:	US\$4,618m Rs389,757m
Average daily turnover:	US\$8.2m Rs691.8m
Current shares o/s:	253.7m
Free float:	53.7%

*Source: Bloomberg

Key changes in this note

- Raise FY25F/26F EPS by 1-6%.
- Raise the target price to Rs1,720 from Rs1,279 earlier.
- Upgrade the rating to ADD from REDUCE.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.7)	13.9	45.7
Relative (%)	(3.7)	16.1	23.4

Major shareholders

	% held
Promoter	46.3
HDFC MF	7.2
DSP MF	6.8

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Ipca Laboratories Ltd

Faster turnaround in Unichem portfolio

- 2Q revenue was in line, although EBITDA marginally below expectation.
- Revenue growth guidance at 9-10% (10-11% earlier); ex-Unichem margin guidance at 22% (21% earlier). FY25F/26F EPS raised by 6%/1%, respectively.
- Upgrade our rating to ADD (from REDUCE) with a higher TP of Rs1,720.

In-line 2QFY25 revenue, but miss on the profitability front

Ipca Laboratories' (Ipca) 2QFY25 performance was in line on the revenue front, although it missed on the profitability front (EBITDA/PAT below 5%/9% vs. our/Bloomberg estimates). India business growth was strong at 11% YoY, higher than industry growth (8% YoY). Export business was mixed – generics business was up 8% YoY (UK was weak, likely to be flat YoY in FY25F; supply constraints in Australia/New Zealand in 1H, sorted now), though the branded business was weak (-2% YoY, currency problem). Institutional business was notably strong at 85% YoY (the base period was impacted due to plant renovation), and Ipca expects to sustain the momentum in the rest of FY25F. Margin stood at 18.7% (flat QoQ, -130bp below expectations), while Unichem had a solid margin of 12% (+200bp QoQ). Ipca's base business margin was down 90bp QoQ at 20.3%, led by lower gross margin or GM (-70bp QoQ, led by lower branded business sales).

Unichem subsidiary – synergy benefits have started showing up

Unichem's synergies have started showing up. Unichem's GM improved significantly by 210bp in 1HFY25 vs. FY24 due to a substantial reduction in procurement prices. API sourcing from Ipca (another five-to-six months away) will lead to a further reduction in input costs. The initial six products from Unichem have seen manufacturing cost savings of around 25-30%, with Ipca's cost efficiency, and more are in the pipeline. However, market extension for Unichem products is still some time away. Nevertheless, Unichem's EBITDA guidance of Rs2bn by the end of two years is likely to be achieved in the first year itself (1HFY25 EBITDA of Rs1bn already). Ipca expects Unichem to report Rs18.5-19bn sales in FY25F. Beyond FY25F, it expects Unichem's margin to touch 15%.

Resets guidance

Ex-Unichem, Ipca expects its overall business to grow 9-10% YoY (10-11% earlier) and the margin at 22% (21% earlier). While 1H revenue is weak, the pick-up in generics business in 2H, partly led by deferred sales in Australia/New Zealand and US sales (around Rs300m shipped so far, but not booked) will help achieve the guidance. So far, Ipca has relaunched three products in the US (five-to-six planned in FY25F & FY26F each).

Upgrade to ADD rating with a higher target price of Rs1,720

We upgraded the stock's rating to ADD (from REDUCE) with a higher target price of Rs1,720 (Rs1,279 earlier). We valued the stock at 21x EV/EBITDA (in line with other branded companies). FY25F/26F EPS raised by 6%/1%, respectively. Downside risk: Slower margin expansion in Unichem.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	58,298	62,443	77,074	85,482	97,089
Operating EBITDA (Rsm)	13,093	9,268	12,821	16,468	20,737
Net Profit (Rsm)	8,841	4,713	5,474	8,142	10,896
Core EPS (Rs)	34.8	18.6	23.3	32.1	42.9
Core EPS Growth	(22.5%)	(46.7%)	25.3%	37.9%	33.8%
FD Core P/E (x)	44.10	82.71	66.01	47.88	35.78
DPS (Rs)	8.0	4.0	4.0	5.0	5.0
Dividend Yield	0.52%	0.26%	0.26%	0.33%	0.33%
EV/EBITDA (x)	29.20	41.04	31.66	24.58	19.37
P/FCFE (x)	39.78	35.52	(483.42)	37.97	27.14
Net Gearing	(10.1%)	(12.2%)	6.8%	4.0%	(0.4%)
P/BV (x)	7.10	6.67	6.16	5.58	4.95
ROE	17.3%	8.3%	9.7%	12.2%	14.7%
% Change In Core EPS Estimates				5.73%	0.70%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	16,010	15,460	15,116	15,876	20,340	20,529	20,330	20,926	23,549	16%	13%
Consumption of raw materials as % of sales	5,748	5,618	5,912	5,153	6,776	6,970	6,859	6,435	7,586	12%	18%
Employee costs as % of sales	3,192	3,184	3,273	3,575	4,259	4,590	4,660	4,879	5,098	20%	5%
Other expenditure as % of sales	4,464	4,338	4,121	4,071	6,092	5,655	5,592	5,686	6,450	6%	13%
EBITDA	2,606	2,319	1,810	3,076	3,213	3,313	3,219	3,927	4,415	37%	12%
Margin (%)	16.3%	15.0%	12.0%	19.4%	15.8%	16.1%	15.8%	18.8%	18.7%		
Depreciation	637	666	695	693	903	995	981	989	1,004		
Other income	362	148	364	449	386	225	189	206	263		
Interest	93	108	150	314	441	334	294	241	226		
PBT	2,238	1,693	1,329	2,518	2,254	2,209	2,133	2,904	3,448	53%	19%
Total tax	0	0	0	-1	0	0	0	0	1		
Tax rate (%)	34.4%	31.7%	36.4%	34.0%	39.0%	30.0%	34.5%	31.5%	28.8%		
PAT before MI	2,238	1,693	1,329	2,519	2,254	2,209	2,133	2,904	3,447	53%	19%
Minority interest (MI)	-29	-78	-46	-34	76	-428	567	-69	-160		
Adj. PAT before extraordinary items	1,439	1,078	800	1,628	1,451	1,119	1,963	1,921	2,295	58%	19%
Extraordinary expenses	0	0	0	0	0	680	-1,367	0	0		
Reported PAT	1,439	1,078	800	1,628	1,451	1,799	596	1,921	2,295	58%	19%
No. of shares	253.7	253.7	253.7	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	7.7	7.6	9.0		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	64%	64%	61%	68%	67%	66%	66%	69%	68%	110	-146
EBITDA	16%	15%	12%	19%	16%	16%	16%	19%	19%	295	-2
Adj. PAT	9%	7%	5%	10%	7%	5%	10%	9%	10%	261	57
Effective tax rate	34%	32%	36%	34%	39%	30%	35%	31%	29%	-1019	-266

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Institutional tenders	770	833	758	484	606	766	814	577	1,123	85%	95%
% total revenue	4.8%	5.4%	5.0%	3.0%	3.0%	3.7%	4.0%	2.8%	4.8%		
Europe revenue	2,000	1,889	2,005	2,354	2,642	2,517	2,303	2,249	2,865	8%	27%
% total revenue	12.5%	12.2%	13.3%	14.8%	13.0%	12.3%	11.3%	10.7%	12.2%		
Domestic formulations	7,657	7,023	6,079	7,827	8,450	7,796	6,898	8,734	9,405	11%	8%
% total revenue	47.8%	45.4%	40.2%	49.3%	41.5%	38.0%	33.9%	41.7%	39.9%		
International branded	1,273	1,282	1,564	1,140	1,459	1,048	1,619	1,128	1,427	-2%	27%
% total revenue	8.0%	8.3%	10.3%	7.2%	7.2%	5.1%	8.0%	5.4%	6.1%		
Exports API / intermediates	2,243	2,373	2,522	2,174	2,500	2,073	2,577	1,955	2,214	-11%	13%
% total revenue	14.0%	15.3%	16.7%	13.7%	12.3%	10.1%	12.7%	9.3%	9.4%		
Domestic API / intermediates	828	849	948	777	849	777	766	925	972	14%	5%
% total revenue	5.2%	5.5%	6.3%	4.9%	4.2%	3.8%	3.8%	4.4%	4.1%		
Other operating income / others	1,237	1,212	1,241	1,119	3,833	5,552	5,352	5,359	5,543	45%	3%
% total revenue	7.7%	7.8%	8.2%	7.0%	18.8%	27.0%	26.3%	25.6%	23.5%		
Total revenue	16,010	15,460	15,116	15,876	20,340	20,529	20,330	20,926	23,549	16%	13%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	23,549	23,487	0%	23,254	1%
EBITDA (Rsm)	4,415	4,694	-6%	4,644	-5%
Margin (%)	18.7	20.0		20.0	
PAT (Rsm)	2,295	2,627	-13%	2,534	-9%

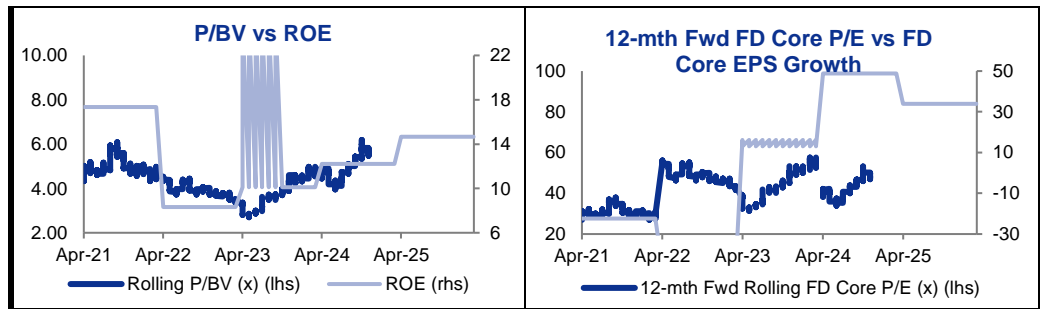
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	84,093	85,482	2%	96,382	97,089	1%
EBITDA (Rsm)	15,937	16,468	3%	20,628	20,737	1%
Margin (%)	19.0	19.3		21.4	21.4	
PAT (Rsm)	7,701	8,142	6%	10,819	10,896	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	58,298	62,443	77,074	85,482	97,089
Gross Profit	38,149	39,378	51,317	58,555	66,991
Operating EBITDA	13,093	9,268	12,821	16,468	20,737
Depreciation And Amortisation	(2,324)	(2,616)	(3,572)	(4,000)	(4,500)
Operating EBIT	10,768	6,652	9,249	12,468	16,237
Financial Income/(Expense)	(77)	(455)	(1,383)	(950)	(800)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	666	1,256	1,248	900	1,200
Profit Before Tax (pre-EI)	11,357	7,453	9,114	12,418	16,637
Exceptional Items			(687)		
Pre-tax Profit	11,357	7,453	8,427	12,418	16,637
Taxation	(2,248)	(2,534)	(3,134)	(3,725)	(4,991)
Exceptional Income - post-tax					
Profit After Tax	9,109	4,919	5,292	8,692	11,646
Minority Interests	(269)	(206)	181	(550)	(750)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,841	4,713	5,474	8,142	10,896
Recurring Net Profit	8,841	4,713	5,905	8,142	10,896
Fully Diluted Recurring Net Profit	8,841	4,713	5,905	8,142	10,896

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	13,093	9,268	12,821	16,468	20,737
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,728)	490	(916)	(4,809)	(5,314)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,805)	(1,700)	(2,459)	(4,275)	(5,741)
Net Interest (Paid)/Received	(77)	(455)	(1,383)	(950)	(800)
Tax Paid	(2,394)	(2,500)	(1,637)	(4,225)	(6,141)
Cashflow From Operations	8,560	8,058	9,447	7,384	9,682
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)			
Cash Flow From Investing	1,239	2,916	(10,253)	2,884	4,682
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	11,394	(1,413)
Cash Flow From Financing	8,813	5,179	1,256	10,379	(2,682)
Total Cash Generated	10,052	8,095	(8,997)	13,263	2,000
Free Cashflow To Equity	9,800	10,974	(806)	10,267	14,364
Free Cashflow To Firm	9,877	11,429	576	11,217	15,164

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	13,703	21,798	8,646	21,909	23,910
Total Debtors	9,108	9,890	16,865	17,951	20,389
Inventories	18,580	17,434	24,696	25,645	29,127
Total Other Current Assets	3,181	2,771	5,182	5,984	6,796
Total Current Assets	44,572	51,893	55,389	71,489	80,221
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
Total Non-current Assets	31,817	34,372	55,624	56,124	56,624
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	7,508	8,295
Other Current Liabilities	2,058	4,750	7,725	6,006	6,636
Total Current Liabilities	14,659	18,058	23,556	21,585	23,003
Total Long-term Debt	4,067	6,518	5,804	17,248	15,435
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,974	2,535	4,382	4,382	4,382
Total Non-current Liabilities	6,041	9,053	10,186	21,631	19,818
Total Provisions					
Total Liabilities	20,700	27,111	33,743	43,215	42,820
Shareholders Equity	54,920	58,420	63,322	69,900	78,777
Minority Interests	769	733	13,948	14,498	15,248
Total Equity	55,689	59,153	77,270	84,398	94,025

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	7.6%	7.1%	23.4%	10.9%	13.6%
Operating EBITDA Growth	(15.2%)	(29.2%)	38.3%	28.4%	25.9%
Operating EBITDA Margin	22.5%	14.8%	16.6%	19.3%	21.4%
Net Cash Per Share (Rs)	22.19	28.47	(20.61)	(13.44)	1.59
BVPS (Rs)	216.47	230.27	249.59	275.52	310.51
Gross Interest Cover	140.03	14.61	6.69	13.12	20.30
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	74.33	72.07
Inventory Days	312.74	284.95	298.50	341.19	332.11
Accounts Payables Days	138.19	109.55	92.19	103.48	95.82
ROIC (%)	16.3%	9.7%	8.3%	10.5%	12.8%
ROCE (%)	19.1%	9.7%	11.2%	12.4%	14.3%
Return On Average Assets	13.4%	6.5%	7.1%	7.9%	9.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.