

India

**ADD** (no change)

Consensus ratings\*: Buy 12 Hold 2 Sell 7

Current price:	Rs1,491
Target price:	Rs1,720
Previous target:	Rs1,720
Up/downside:	15.4%
InCred Research / Consensus:	10.6%
Reuters:	IPCA.NS
Bloomberg:	IPCA IN
Market cap:	US\$4,352m Rs378,178m
Average daily turnover:	US\$9.1m Rs786.7m
Current shares o/s:	253.7m
Free float:	53.7%

\*Source: Bloomberg

**Key changes in this note**

- FY25F/26F PAT raised by 10%/4%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.6)	(0.9)	28.5
Relative (%)	(5.4)	1.1	20.7

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

**Research Analyst(s)**



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# Ipca Laboratories Ltd

## Overall outperformance in 3Q

- 3Q revenue was in line. EBITDA and PAT were above expectations by 4%/9%.
- Unichem's margin up 700bp in 9MFY25 vs. FY24. Ex-Unichem margin guidance at 23-24% (vs. 22%); consol. margin guidance 19.2-19.5% (vs. 18%).
- Raise FY25F/26F PAT by 10%/4%, respectively. Maintain ADD rating on the stock with an unchanged target price of Rs1,720.

### Healthy 3QFY25 performance with beat on profitability front

Ipca Laboratories' (Ipca) 3QFY25 performance was in line on the revenue front, with a beat on profitability (EBITDA/PAT above 4%/9% vs. our estimates, respectively). India business registered its eighth consecutive quarter of double-digit growth (12.5% YoY), higher than industry growth (7.4% YoY). However, export business was muted (6% growth); generics business declined 11% YoY (South Africa business impacted due to the loss of tender, supply constraints in Australia/New Zealand); UK business improved in 3Q and is likely to grow by 15-17% in FY26F. Branded business rebounded well (+53% YoY on a low base/+12% QoQ). Institutional business declined by 3% YoY/ 34% QoQ. The business has around Rs400m exposure to USAID and Ipca is assessing the likely impact of funding closure. Margin stood at 20.6% (120bp above estimate) while subsidiary Unichem had a solid margin of 16% (our estimate of 14%). Ipca's base business margin rose by 120bp QoQ to 20.9% led by gross margin growth due to lower raw material costs (down 5%).

### Unichem subsidiary – synergy benefits have started showing up

Unichem's synergies have started showing up. Unichem's gross margin improved significantly by 180bp in 9MFY25 vs. FY24 due to a substantial reduction in procurement prices whereas the margin was up 700bp in 9MFY25 vs. FY24. 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 (9MFY25 EBITDA of Rs1.8bn already). Ipca expects Unichem to report Rs18.5-19bn sales in FY25F. Beyond FY25F, it expects Unichem's margin to touch 15%.

### Guidance remains robust

1. Ex-Unichem, Ipca expects its overall business to register a margin of 23-24% (22%, as per earlier guidance) while the consolidated margin is expected to be 19.2-19.5% (18%, as per earlier guidance).
2. Branded formulations likely to register 9% growth in FY25F.
3. EU market to continue its double-digit growth while APIs to clock 8-10% growth.
4. Aggregate R&D costs of Ipca & Unichem to rise from 3-3.25% to 4% of revenue.

### Maintain ADD rating with a target price of Rs1,720

EPS raised by 10%/4% for FY25F/26F, respectively. We have valued the stock at 21x FY25F/26F EV/EBITDA (in line with other branded companies). 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	88,545	100,527
Operating EBITDA (Rsm)	13,093	9,268	12,821	17,269	20,717
Net Profit (Rsm)	8,841	4,713	5,474	8,956	11,358
Core EPS (Rs)	34.8	18.6	23.3	35.3	44.8
Core EPS Growth	(22.5%)	(46.7%)	25.3%	51.7%	26.8%
FD Core P/E (x)	42.79	80.25	64.05	42.23	33.30
DPS (Rs)	8.0	4.0	4.0	5.0	5.0
Dividend Yield	0.54%	0.27%	0.27%	0.34%	0.34%
EV/EBITDA (x)	28.31	39.79	30.76	22.80	18.83
P/FCFE (x)	38.60	34.47	(469.06)	42.05	25.12
Net Gearing	(10.1%)	(12.2%)	6.8%	4.6%	(0.4%)
P/BV (x)	6.89	6.47	5.97	5.36	4.73
ROE	17.3%	8.3%	9.7%	13.4%	15.1%
% Change In Core EPS Estimates				9.99%	4.25%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	15,460	15,116	15,876	20,340	20,529	20,330	20,926	23,549	22,454	9%	-5%
Consumption of raw materials as % of sales	5,618	5,912	5,153	6,776	6,970	6,859	6,435	7,586	6,682	-4%	-12%
Employee costs as % of sales	3,184	3,273	3,575	4,259	4,590	4,660	4,879	5,098	4,854	6%	-5%
Other expenditure as % of sales	4338	4121	4071	6092	5655	5592	5686	6450	6286	11%	-3%
EBITDA	2,319	1,810	3,076	3,213	3,313	3,219	3,927	4,415	4,631	40%	5%
Margins (%)	15.0%	12.0%	19.4%	15.8%	16.1%	15.8%	18.8%	18.7%	20.6%		
Depreciation	666	695	693	903	995	981	989	1,004	985		
Other income	148	364	449	386	225	189	206	263	201		
Interest	108	150	314	441	334	294	241	226	168		
PBT	1,693	1,329	2,518	2,254	2,209	2,133	2,904	3,448	3,679	67%	7%
Total tax	0	0	-1	0	0	0	0	1	0		
Tax rate (%)	31.7%	36.4%	34.0%	39.0%	30.0%	34.5%	31.5%	28.8%	24.6%		
PAT before MI	1,693	1,329	2,519	2,254	2,209	2,133	2,904	3,447	3,679	67%	7%
Minority interest (MI)	-78	-46	-34	76	-428	567	-69	-160	-292		
Adj. PAT before extraordinary items	1,078	800	1,628	1,451	1,119	1,963	1,921	2,295	2,481	122%	8%
Extraordinary expenses	0	0	0	0	680	-1,367	0	0	0		
Reported PAT	1,078	800	1,628	1,451	1,799	596	1,921	2,295	2,481	38%	8%
No. of shares	253.7	253.7	253.7	253.7	253.7	253.7	253.7	253.7	253.7		
EPS	4.2	3.2	6.4	5.7	4.4	7.7	7.6	9.0	9.8		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	64%	61%	68%	67%	66%	66%	69%	68%	70%	419	245
EBITDA	15%	12%	19%	16%	16%	16%	19%	19%	21%	448	188
Adj. PAT	7%	5%	10%	7%	5%	10%	9%	10%	11%	560	131
Effective tax rate	32%	36%	34%	39%	30%	35%	31%	29%	25%	-535	-420

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Institutional tenders	833	758	484	606	766	814	577	1,123	741	-3%	-34%
% total revenue	5.4%	5.0%	3.0%	3.0%	3.7%	4.0%	2.8%	4.8%	3.3%		
Europe revenue	1,889	2,005	2,354	2,642	2,517	2,303	2,249	2,865	2,240	-11%	-22%
% total revenue	12.2%	13.3%	14.8%	13.0%	12.3%	11.3%	10.7%	12.2%	10.0%		
Domestic formulations	7,023	6,079	7,827	8,450	7,796	6,898	8,734	9,405	8,772	13%	-7%
% total revenue	45.4%	40.2%	49.3%	41.5%	38.0%	33.9%	41.7%	39.9%	39.1%		
International branded	1,282	1,564	1,140	1,459	1,048	1,619	1,128	1,427	1,600	53%	12%
% total revenue	8.3%	10.3%	7.2%	7.2%	5.1%	8.0%	5.4%	6.1%	7.1%		
Exports API / intermediates	2,373	2,522	2,174	2,500	2,073	2,577	1,955	2,214	2,228	7%	1%
% total revenue	15.3%	16.7%	13.7%	12.3%	10.1%	12.7%	9.3%	9.4%	9.9%		
Domestic API / intermediates	849	948	777	849	777	766	925	972	952	22%	-2%
% total revenue	5.5%	6.3%	4.9%	4.2%	3.8%	3.8%	4.4%	4.1%	4.2%		
Other operating income / others	1,212	1,241	1,119	3,833	5,552	5,352	5,359	5,543	5,921	7%	7%
% total revenue	7.8%	8.2%	7.0%	18.8%	27.0%	26.3%	25.6%	23.5%	26.4%		
Total revenue	15,460	15,116	15,876	20,340	20,529	20,330	20,926	23,549	22,454	9%	-5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rs m)	22,454	23,013	-2%	22,634	-1%
EBITDA (Rs m)	4,631	4,454	4%	4,099	13%
Margin (%)	20.6	19.4		18.1	
PAT (Rs m)	2,481	2,282	9%	2,080	19%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

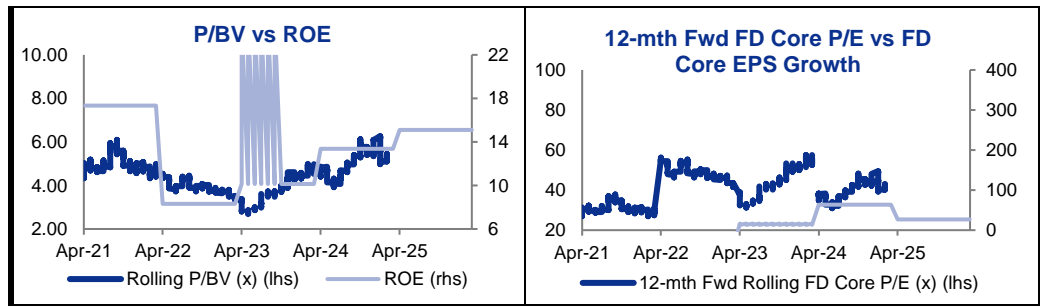
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rs m)	85,482	88,545	4%	97,089	1,00,527	4%
EBITDA (Rs m)	16,468	17,269	5%	20,737	20,717	0%
Margin (%)	19.3	19.5		21.4	20.6	
PAT (Rs m)	8,142	8,956	10%	10,896	11,358	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Ipca Laboratories is trading near its SD+1 valuation



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>88,545</b>	<b>100,527</b>
<b>Gross Profit</b>	<b>38,149</b>	<b>39,378</b>	<b>51,317</b>	<b>61,539</b>	<b>69,364</b>
<b>Operating EBITDA</b>	<b>13,093</b>	<b>9,268</b>	<b>12,821</b>	<b>17,269</b>	<b>20,717</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>13,269</b>	<b>16,217</b>
Financial Income/(Expense)	(77)	(455)	(1,383)	(850)	(600)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	666	1,256	1,248	900	1,200
<b>Profit Before Tax (pre-EI)</b>	<b>11,357</b>	<b>7,453</b>	<b>9,114</b>	<b>13,319</b>	<b>16,817</b>
Exceptional Items			(687)		
<b>Pre-tax Profit</b>	<b>11,357</b>	<b>7,453</b>	<b>8,427</b>	<b>13,319</b>	<b>16,817</b>
Taxation	(2,248)	(2,534)	(3,134)	(3,663)	(4,709)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>9,109</b>	<b>4,919</b>	<b>5,292</b>	<b>9,656</b>	<b>12,108</b>
Minority Interests	(269)	(206)	181	(700)	(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>8,956</b>	<b>11,358</b>
Recurring Net Profit	8,841	4,713	5,905	8,956	11,358
<b>Fully Diluted Recurring Net Profit</b>	<b>8,841</b>	<b>4,713</b>	<b>5,905</b>	<b>8,956</b>	<b>11,358</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>17,269</b>	<b>20,717</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,728)	490	(916)	(6,159)	(5,229)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,805)	(1,700)	(2,459)	(4,363)	(5,459)
Net Interest (Paid)/Received	(77)	(455)	(1,383)	(850)	(600)
Tax Paid	(2,394)	(2,500)	(1,637)	(4,413)	(6,059)
<b>Cashflow From Operations</b>	<b>8,560</b>	<b>8,058</b>	<b>9,447</b>	<b>6,747</b>	<b>10,029</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>2,247</b>	<b>5,029</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	11,738	(1,138)
<b>Cash Flow From Financing</b>	<b>8,813</b>	<b>5,179</b>	<b>1,256</b>	<b>10,724</b>	<b>(2,407)</b>
Total Cash Generated	10,052	8,095	(8,997)	12,971	2,622
<b>Free Cashflow To Equity</b>	<b>9,800</b>	<b>10,974</b>	<b>(806)</b>	<b>8,994</b>	<b>15,058</b>
<b>Free Cashflow To Firm</b>	<b>9,877</b>	<b>11,429</b>	<b>576</b>	<b>9,844</b>	<b>15,658</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	21,617	24,240
Total Debtors	9,108	9,890	16,865	18,594	21,111
Inventories	18,580	17,434	24,696	26,563	30,158
Total Other Current Assets	3,181	2,771	5,182	6,198	7,037
<b>Total Current Assets</b>	<b>44,572</b>	<b>51,893</b>	<b>55,389</b>	<b>72,973</b>	<b>82,546</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	7,744	8,700
Other Current Liabilities	2,058	4,750	7,725	6,195	6,960
<b>Total Current Liabilities</b>	<b>14,659</b>	<b>18,058</b>	<b>23,556</b>	<b>22,011</b>	<b>23,732</b>
Total Long-term Debt	4,067	6,518	5,804	17,493	15,754
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>21,875</b>	<b>20,137</b>
Total Provisions					
<b>Total Liabilities</b>	<b>20,700</b>	<b>27,111</b>	<b>33,743</b>	<b>43,886</b>	<b>43,868</b>
Shareholders Equity	54,920	58,420	63,322	70,563	79,903
Minority Interests	769	733	13,948	14,648	15,398
<b>Total Equity</b>	<b>55,689</b>	<b>59,153</b>	<b>77,270</b>	<b>85,211</b>	<b>95,301</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%	14.9%	13.5%
Operating EBITDA Growth	(15.2%)	(29.2%)	38.3%	34.7%	20.0%
Operating EBITDA Margin	22.5%	14.8%	16.6%	19.5%	20.6%
Net Cash Per Share (Rs)	22.19	28.47	(20.61)	(15.55)	1.63
BVPS (Rs)	216.47	230.27	249.59	278.13	314.95
Gross Interest Cover	140.03	14.61	6.69	15.61	27.03
Effective Tax Rate	19.8%	34.0%	37.2%	27.5%	28.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	53.92	55.52	63.35	73.09	72.08
Inventory Days	312.74	284.95	298.50	346.39	332.17
Accounts Payables Days	138.19	109.55	92.19	104.78	96.30
ROIC (%)	16.3%	9.7%	8.3%	11.0%	12.6%
ROCE (%)	19.1%	9.7%	11.2%	13.1%	14.1%
Return On Average Assets	13.4%	6.5%	7.1%	8.6%	9.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.