

India

REDUCE (no change)

Consensus ratings*:	Buy 10 Hold 8 Sell 6
Current price:	Rs868
Target price:	Rs831
Previous target:	Rs831
Up/downside:	-4.3%
InCred Research / Consensus:	-16.2%
Reuters:	
Bloomberg:	IPCA IN
Market cap:	US\$3,031m Rs220,060m
Average daily turnover:	US\$4.4m Rs316.2m
Current shares o/s:	253.7m
Free float:	53.8%

*Source: Bloomberg

Key changes in this note

- Reduce FY23F and FY24F core earnings estimates by 17% and 12%.
- Maintain REDUCE rating with an unchanged target price of Rs831.



Price performance	1M	3M	12M
Absolute (%)	(2.7)	(6.5)	(21.8)
Relative (%)	(8.8)	(10.0)	(23.2)

Major shareholders	% held
Promoter	46.2
DSP MF	5.4
HDFC MF	5.3

Analyst(s)



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Ipca Laboratories Ltd

Margin still on slippery slope

- 2QFY23 revenue and EBITDA missed our estimates by 7% and 33%. EBITDA margin was 70bp below Q1 level, despite 2Q being a seasonally strong quarter.
- 9.7% domestic growth on a high Covid base was not bad; we feel it is coming from sales field force addition and promotion at the cost of margins.
- We reduce our FY23F and FY24F core earnings estimates by 17% and 12%, respectively. Retain REDUCE rating with an unchanged target price of Rs831.

2QFY23 performance remains subdued

Ipca Laboratories' 2QFY23 revenue and EBITDA missed our estimates by 7% and 33%, respectively. Gross margin was in line with expectation, but other expenses grew 21% YoY versus revenue growth of only 4%. EBITDA margin at 16.3% was 70bp below 1QFY23 level, despite 2Q being a seasonally strong quarter.

Mixed topline performance

Domestic revenue (up 9.7% YoY), anti-malarial tender business and active pharmaceutical ingredient or API exports (down 27% YoY in USD terms) disappointed. Europe revenue and domestic API business did marginally better than expectations. International branded business compensated for other businesses, up 33% YoY.

Domestic business growing well but at high cost

Ipca Laboratories' 9.7% domestic business growth on a high Covid base was not bad, and the company seems to be on track to achieve its full-year growth guidance of 12%. However, we believe that it is coming at the cost of substantial addition to the sales field force that is visibly impacting productivity and margins. We will wait to see if the productivity level gets back to the earlier level over the next two-to-three years.

Nothing to look for anywhere else

Apart from the domestic business, we see no significant growth drivers. Europe and API businesses are low to mid-single digit growth businesses. Anti-malarial tender business is, at best, a flat business. There is still no visibility of restarting the US business that is impacted by US Food and Drug Administration import alerts.

Cut our estimates; maintain REDUCE rating

We reduce our FY23F and FY24F core earnings estimates by 17% and 12%, respectively, as we build in lower margins. Even after a 15% stock price correction since our downgrade, Ipca Laboratories trades at 29x our revised FY24F core earnings estimate, which is too high, in our opinion. We maintain REDUCE rating on the stock with an unchanged target price of Rs831, which is 25x our FY25F core earnings plus cash per share. Any sudden margin improvement from raw material prices declining, or better sales force productivity will be upside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	54,200	58,298	63,630	70,091	76,909
Operating EBITDA (Rsm)	15,444	13,093	11,055	12,939	14,432
Net Profit (Rsm)	11,400	8,841	6,435	7,580	8,524
Core EPS (Rs)	44.9	34.8	25.4	29.9	33.6
Core EPS Growth	79.8%	(22.5%)	(27.2%)	17.8%	12.5%
FD Core P/E (x)	19.31	24.90	34.21	29.04	25.82
DPS (Rs)	4.0	8.0	4.0	4.0	5.0
Dividend Yield	0.46%	0.92%	0.46%	0.46%	0.58%
EV/EBITDA (x)	14.09	16.23	19.24	16.28	14.36
P/FCFE (x)	13.26	22.46	32.11	21.48	17.60
Net Gearing	(3.8%)	(10.1%)	(9.3%)	(11.8%)	(15.3%)
P/BV (x)	4.68	4.01	3.72	3.35	3.02
ROE	27.4%	17.3%	11.3%	12.1%	12.3%
% Change In Core EPS Estimates			(12.96%)	(10.55%)	(9.56%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY23 results snapshot

(Rs m)	2QFY23	2QFY22	yoy(%)	1QFY23	qoq(%)
Revenue	16,010	15,444	4%	15,857	1%
EBITDA	2,606	3,656	-29%	2,692	-3%
EBITDA Margin (%)	16%	24%	-7%	17%	-1%
PAT	1,439	2,524	-43%	1,431	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs. estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	16,010	17,238	-7%
EBITDA	2,606	3,881	-33%
EBITDA Margin (%)	16%	23%	-28%
PAT	1,439	2,495	-42%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	16,010	16,552	-3%
EBITDA	2,606	3,371	-23%
EBITDA Margin (%)	16%	20%	-20%
PAT	1,439	2,226	-35%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Our revised estimates

(Rs m)	New Estimates		Old Estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	63,630	70,091	63,645	70,853	0%	-1%
EBITDA	11,055	12,939	12,347	14,147	-10%	-9%
EBITDA Margin (%)	17%	18%	19%	20%	-2%	-8%
PAT	6,435	7,580	7,389	8,474	-13%	-11%

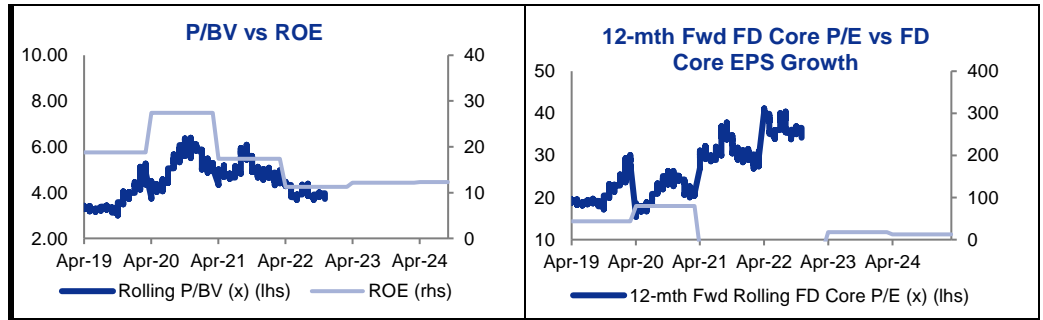
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	42.8	32.7	22.9	27.8	31.5
Core EPS growth	88.0%	-23.6%	-29.8%	21.3%	13.4%
Cash per share (Rs)	14.3	53.9	38.4	44.0	53.4
Current core P/E (Rs)	19.3	25.3	36.1	29.7	26.2
Core ROIC	34.5%	23.7%	17.0%	18.6%	19.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	54,200	58,298	63,630	70,091	76,909
Gross Profit	36,897	38,149	40,660	45,209	49,606
Operating EBITDA	15,444	13,093	11,055	12,939	14,432
Depreciation And Amortisation	(2,092)	(2,324)	(2,545)	(2,800)	(3,050)
Operating EBIT	13,352	10,768	8,510	10,139	11,382
Financial Income/(Expense)	(90)	(77)	(303)	(250)	(200)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	628	666	833	700	700
Profit Before Tax (pre-EI)	13,890	11,357	9,041	10,589	11,882
Exceptional Items					
Pre-tax Profit	13,890	11,357	9,041	10,589	11,882
Taxation	(2,401)	(2,248)	(2,474)	(2,859)	(3,208)
Exceptional Income - post-tax					
Profit After Tax	11,489	9,109	6,568	7,730	8,674
Minority Interests	(89)	(269)	(133)	(150)	(150)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,400	8,841	6,435	7,580	8,524
Recurring Net Profit	11,400	8,841	6,435	7,580	8,524
Fully Diluted Recurring Net Profit	11,400	8,841	6,435	7,580	8,524

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	15,444	13,093	11,055	12,939	14,432
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,363)	(2,728)	(3,021)	(2,557)	(2,570)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,179)	(1,805)	(2,607)	(3,009)	(3,358)
Net Interest (Paid)/Received	(90)	(77)	(303)	(250)	(200)
Tax Paid	(2,640)	(2,394)	(531)	(450)	(500)
Cashflow From Operations	10,901	8,560	5,427	7,372	8,504
Capex	(3,616)	(4,761)	(4,000)	(4,500)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		(2,310)			
Other Investing Cashflow	(1,591)	(250)			
Cash Flow From Investing	5,694	1,239	1,427	2,872	4,004
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	358				
Shares Repurchased					
Dividends Paid	(69)	(1,015)	(2,030)	(1,015)	(1,015)
Preferred Dividends					
Other Financing Cashflow	(3,347)	9,828	(3,335)	(424)	(608)
Cash Flow From Financing	(3,058)	8,813	(5,364)	(1,438)	(1,623)
Total Cash Generated	2,636	10,052	(3,937)	1,434	2,381
Free Cashflow To Equity	16,596	9,800	6,855	10,245	12,507
Free Cashflow To Firm	16,686	9,877	7,157	10,495	12,707

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	3,651	13,703	9,766	11,200	13,581
Total Debtors	8,118	9,108	11,453	12,616	13,844
Inventories	15,948	18,580	18,453	20,326	22,304
Total Other Current Assets	6,653	3,181	6,999	7,710	8,460
Total Current Assets	34,370	44,572	46,672	51,853	58,189
Fixed Assets	21,310	25,152	26,607	28,307	29,757
Total Investments	773	2,699	2,699	2,699	2,699
Intangible Assets	1,608	2,088	2,088	2,088	2,088
Total Other Non-Current Assets	2,623	1,879	1,879	1,879	1,879
Total Non-current Assets	26,314	31,817	33,272	34,972	36,422
Short-term Debt	1,492	4,005	1,492	1,492	1,492
Current Portion of Long-Term Debt					
Total Creditors	6,662	8,595	9,464	10,287	11,246
Other Current Liabilities	3,178	2,058	4,206	4,572	4,998
Total Current Liabilities	11,331	14,659	15,162	16,352	17,736
Total Long-term Debt	365	4,067	2,715	1,841	733
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,825	1,974	1,974	1,974	1,974
Total Non-current Liabilities	2,191	6,041	4,689	3,815	2,707
Total Provisions					
Total Liabilities	13,522	20,700	19,850	20,167	20,443
Shareholders Equity	47,017	54,920	59,192	65,607	72,966
Minority Interests	145	769	902	1,052	1,202
Total Equity	47,162	55,689	60,094	66,659	74,168

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	16.6%	7.6%	9.1%	10.2%	9.7%
Operating EBITDA Growth	65.3%	(15.2%)	(15.6%)	17.0%	11.5%
Operating EBITDA Margin	28.5%	22.5%	17.4%	18.5%	18.8%
Net Cash Per Share (Rs)	7.07	22.20	21.91	31.01	44.76
BVPS (Rs)	185.32	216.47	233.31	258.60	287.61
Gross Interest Cover	147.70	140.03	28.13	40.55	56.91
Effective Tax Rate	17.3%	19.8%	27.4%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	57.48	53.92	58.97	62.67	62.79
Inventory Days	307.77	312.74	294.23	284.43	284.95
Accounts Payables Days	134.59	138.19	143.48	144.86	143.94
ROIC (%)	21.5%	16.3%	11.8%	13.1%	13.7%
ROCE (%)	29.8%	19.1%	13.3%	15.1%	15.6%
Return On Average Assets	20.4%	13.4%	8.7%	9.5%	9.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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