

India

REDUCE (no change)

Consensus ratings*: Buy 6 Hold 9 Sell 6

Current price:	Rs907
Target price:	Rs825 ▲
Previous target:	Rs759
Up/downside:	-9.0%
InCred Research / Consensus:	-0.4%
Reuters:	IPCA.NS
Bloomberg:	IPCA IN
Market cap:	US\$2,777m Rs230,080m
Average daily turnover:	US\$6.6m Rs548.4m
Current shares o/s:	253.7m
Free float:	53.7%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	17.0	30.4	(2.3)
Relative (%)	18.4	23.9	(11.0)

Major shareholders	% held
Promoter	46.3
HDFC MF	7.1
DSP MF	6.7

Analyst(s)



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Ipca Laboratories Ltd

Muted FY24F outlook; retain REDUCE

- 1QFY24 earnings of Ipca Laboratories were weak, as strong India business growth was offset by a weak trajectory in the API/institutional businesses.
- Ex-Unichem, margins should tread at 20%+ in FY25F, although Unichem's cost base is likely to be a drag on the medium-term earnings.
- Resume coverage on the stock and retain its REDUCE rating, valuing the stock at 25x FY25F EPS to arrive at a higher target price of Rs825.

India business shines but exports underperform

India business growth of Ipca Laboratories (Ipca) was strong at 14% YoY in 1QFY24; it has registered a three-year CAGR of 13%, much above the industry growth. A large part of this growth over the last three years was driven by the pain segment (mainly Zerodol), which now accounts for more than 50% of India sales. Exports were relatively weak led by a fall in API sales (decline in anti-malaria APIs, reduction in KSM prices) and a decline in the antiretroviral or ARV business (reduced offtake by Global Fund, plant shutdown for upgradation). Branded generics grew strongly on a low base while the EU business grew in double digits. Gross margin improved by 660bp QoQ and management expects it to sustain led by a better product mix and lower input costs.

Guidance implies muted growth in FY24F

Ipca gave its guidance as follows: a) 12-14% growth in India business (better than most peers). b) 12-14% growth in branded generic markets (lower due to rouble depreciation). c) 10-12% fall in the active pharmaceutical ingredient or API business due to lower KSM prices and lower anti-malaria drug offtake. d) 7-8% growth in the generics business, implying an overall growth in the range of 6-8% for FY24F. The EBITDA margin is likely to improve by 350-400bp over FY23 level which, we feel, is quite achievable.

Unichem acquisition is a drag on the overall medium-term financials

Ipca expects to complete its Unichem buyout by the end of Sep 2023F. We feel the acquisition will be a significant drag on Ipca's financials in the medium term, as Unichem's business has been growing at low-single digits and had posted operating losses in FY23. Ipca gave guidance of Rs18bn revenue and Rs3bn EBITDA for the next two years post deal closure (vs. Rs13.4bn revenue and Rs460m EBITDA loss in FY23). While Unichem reported positive EBITDA for the last two quarters (around 4-6% margins), we believe the guidance of Rs3bn is a tall task and the execution will be key. We haven't included Unichem's numbers in our estimates, pending deal closure, but Ipca's FY23 margins to decline by ~300bp on a proforma basis if Unichem's numbers are combined.

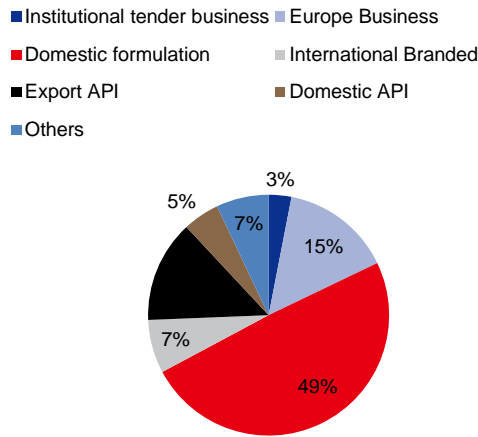
Resume coverage with a REDUCE rating and a higher TP of Rs825

Ipca trades at ~27x FY25F earnings, at the higher end of its historical band. Given the near-term earnings risk due to Unichem buyout & muted FY24F earnings, we resume coverage on Ipca with a REDUCE rating. Upside risk: Unichem's faster turnaround.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	54,200	58,298	62,443	66,080	74,839
Operating EBITDA (Rsm)	15,444	13,093	9,268	12,386	15,167
Net Profit (Rsm)	11,400	8,841	4,713	6,768	8,402
Core EPS (Rs)	44.9	34.8	18.6	26.7	33.1
Core EPS Growth	79.8%	(22.5%)	(46.7%)	43.6%	24.1%
FD Core P/E (x)	20.19	26.03	48.82	34.00	27.39
DPS (Rs)	4.0	8.0	4.0	4.0	5.0
Dividend Yield	0.44%	0.88%	0.44%	0.44%	0.55%
EV/EBITDA (x)	14.74	17.00	23.80	18.14	14.69
P/FCFE (x)	13.87	23.48	20.97	(123.08)	22.10
Net Gearing	(3.8%)	(10.1%)	(12.2%)	(5.1%)	(7.4%)
P/BV (x)	4.89	4.19	3.94	3.62	3.25
ROE	27.4%	17.3%	8.3%	11.1%	12.5%
% Change In Core EPS Estimates				(1.98%)	7.36%
InCred Research/Consensus EPS (x)					

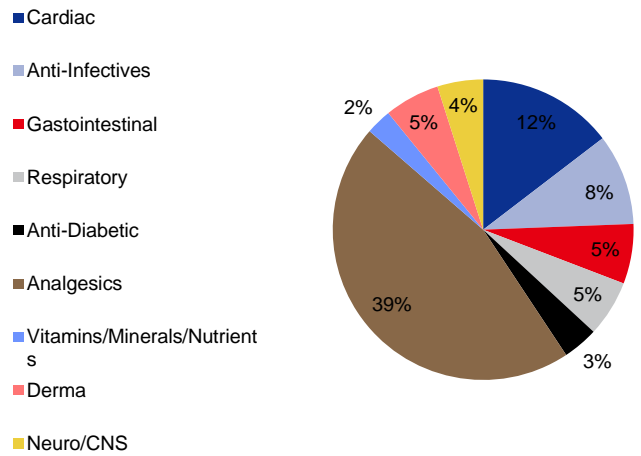
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Revenue breakup of Ipca



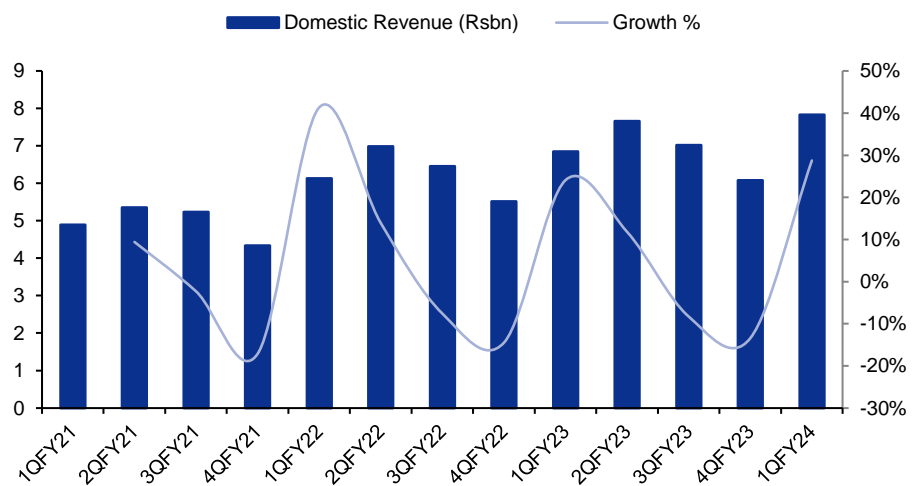
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Analgesics have been a major revenue contributor for Ipca



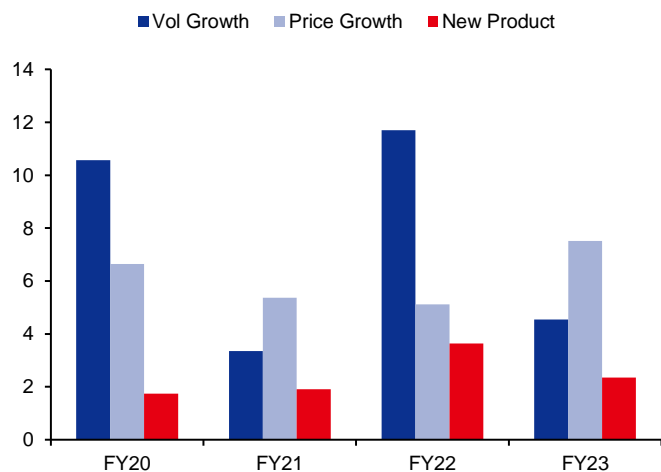
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Figure 3: Domestic revenue growth continues to do well



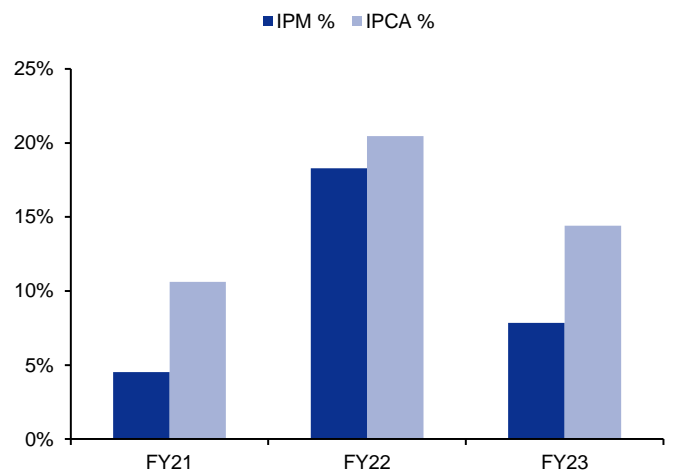
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Pricing/volume largely driving India business growth



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Ipca has been consistently outperforming the IPM over the years



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: CAGR of top 25 products over FY20 to FY23

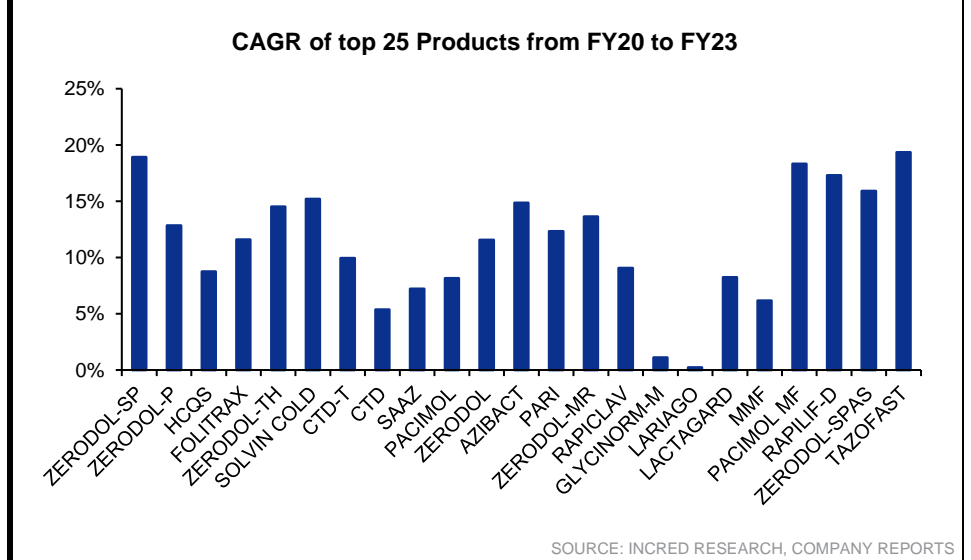


Figure 7: Medical representative or MR productivity witnessed a dip in FY23 due to addition of MRs

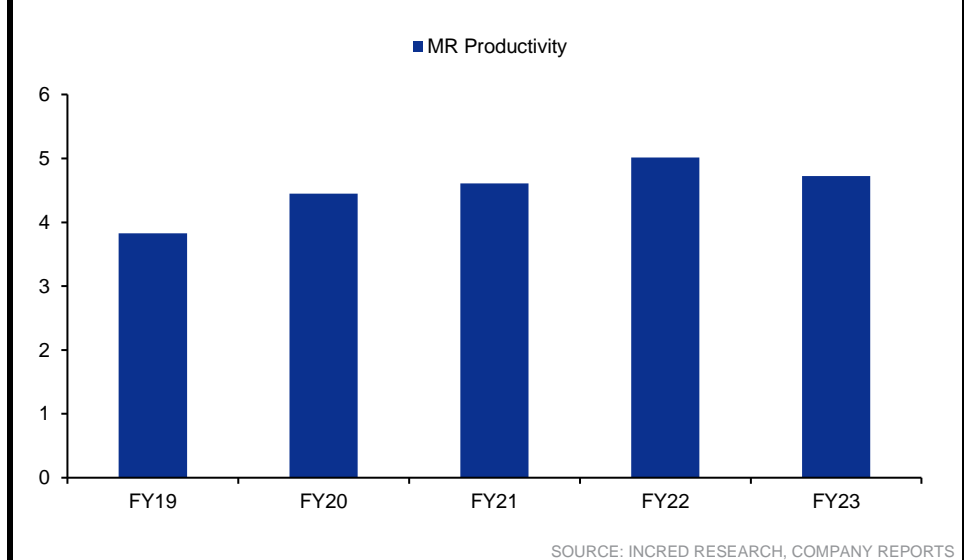


Figure 8: Institutional tender business has witnessed a decline because of reduction in demand for the antimalarial drug



Figure 9: UK market recovery reflects in EU growth

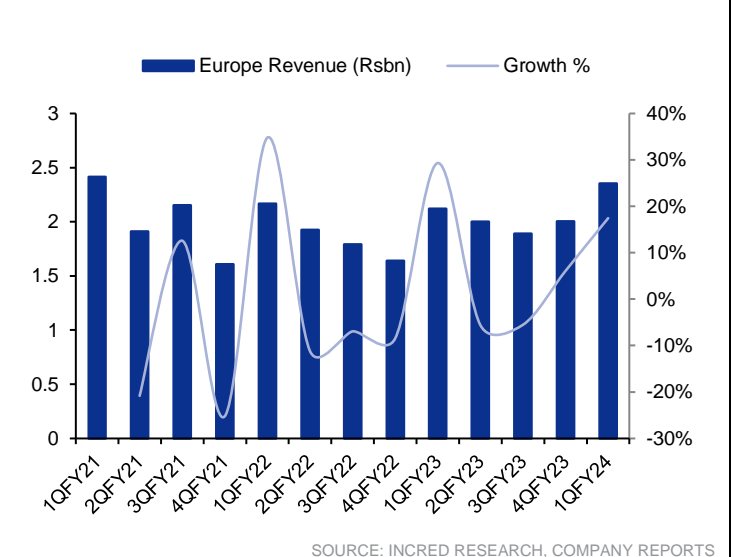
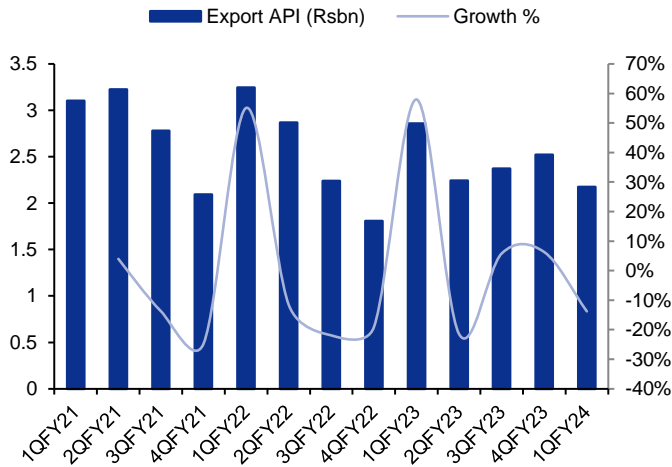
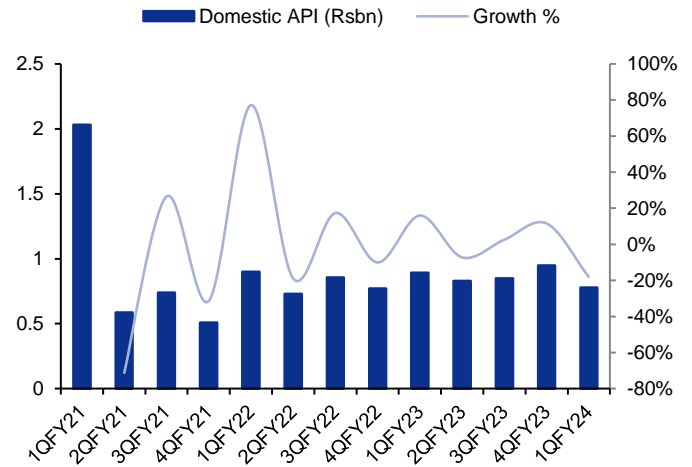


Figure 10: 1QFY24 export growth has been the weakest in recent quarters



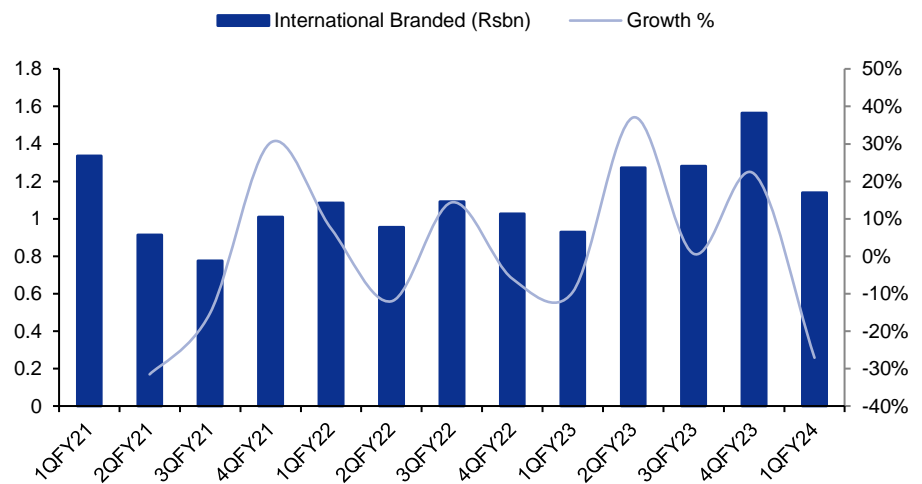
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Domestic API business has been consistently underperforming



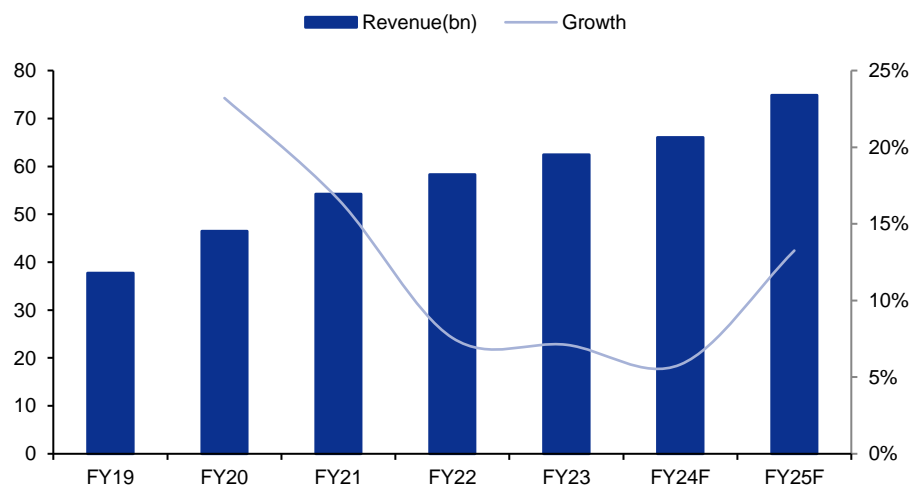
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: International branded business has also been the weakest in recent quarters



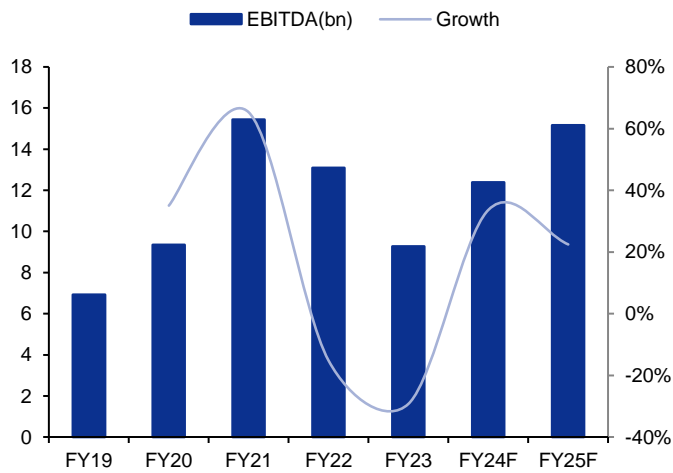
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: India business drives Ipca's overall revenue growth



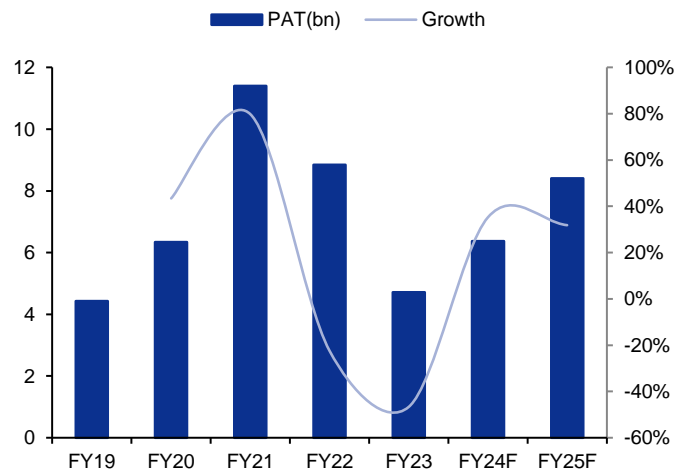
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: EBITDA decreased in FY23, and we expect it to grow in the coming years



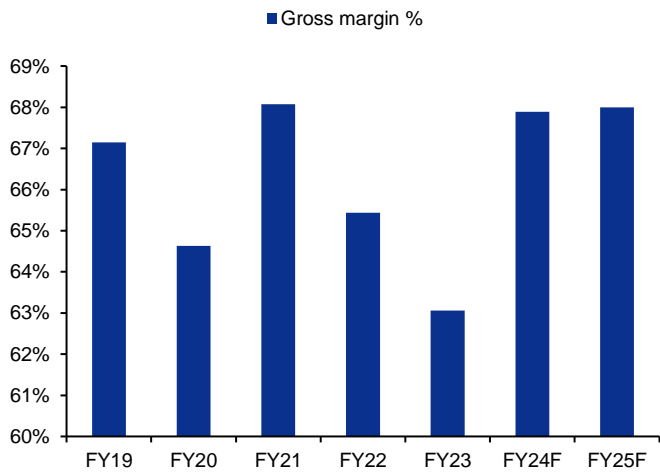
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: PAT follows a similar trend as that of EBITDA



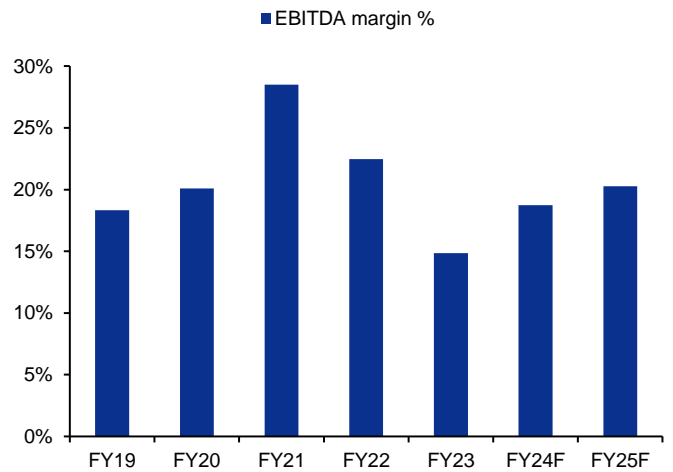
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Gross margin trend of Ipca



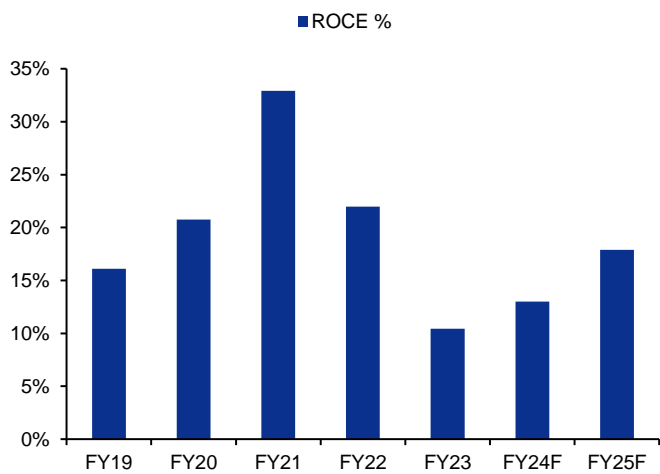
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: EBITDA margin trend of Ipca



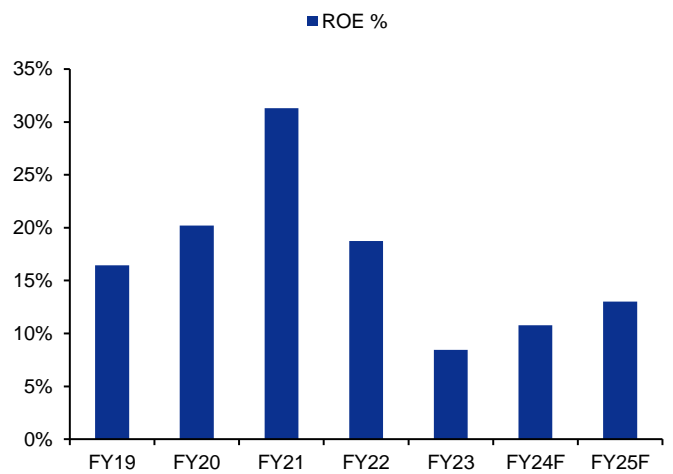
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: ROCE trend of Ipca



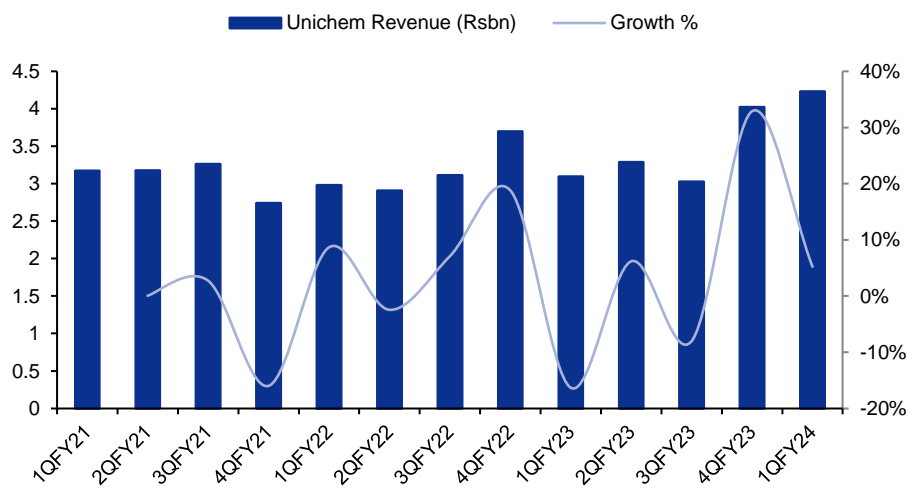
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: ROE margin trend of Ipca



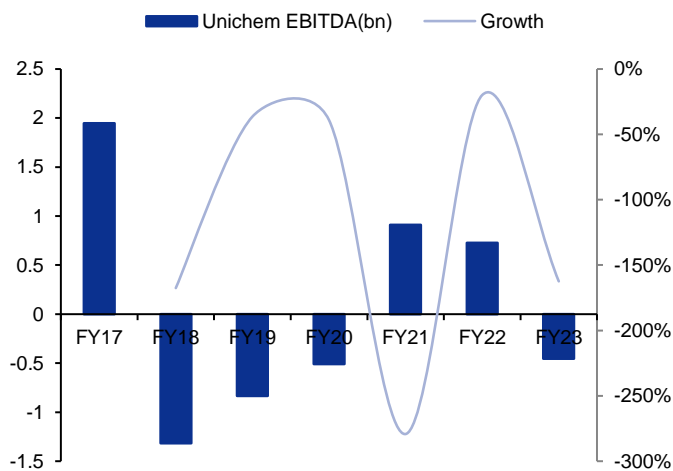
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 20: Unichem's revenue growth has seen the best quarter in 1QFY24



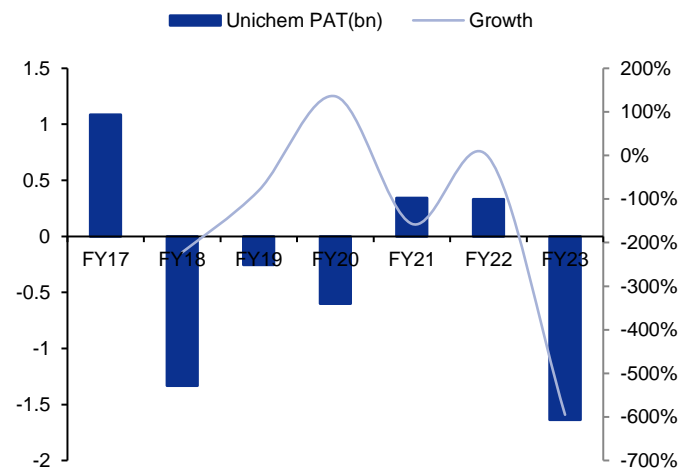
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 21: EBITDA growth has been volatile for Unichem



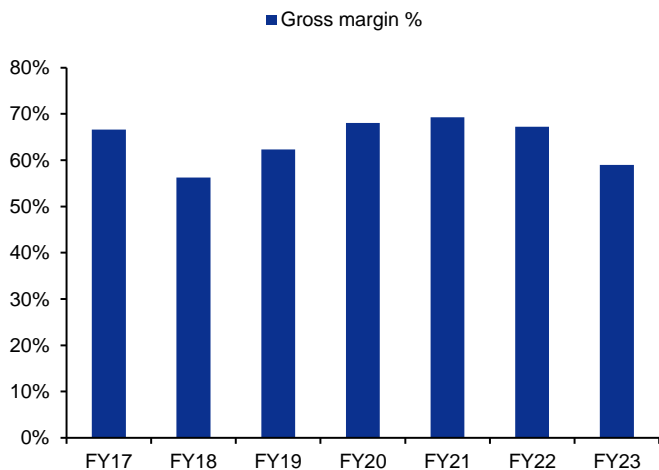
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 22: PAT also follows a similar trend as that of EBITDA for Unichem



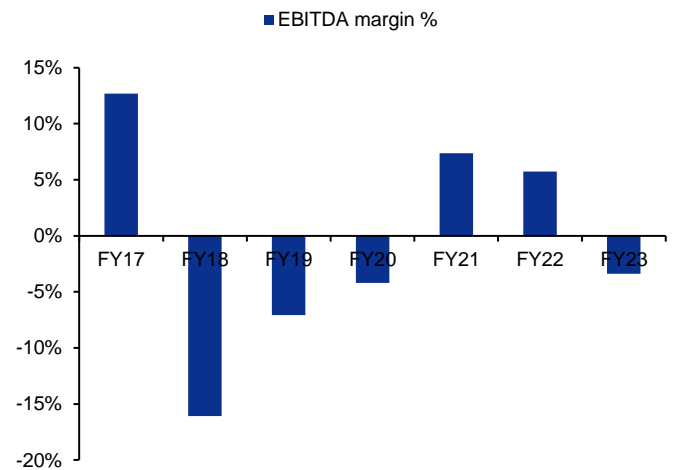
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 23: Gross margin of Unichem is constantly on the decline



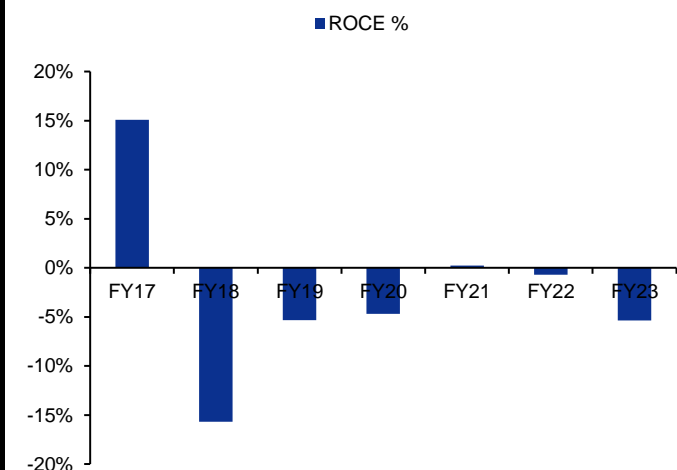
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 24: The EBITDA margin of Unichem has been volatile



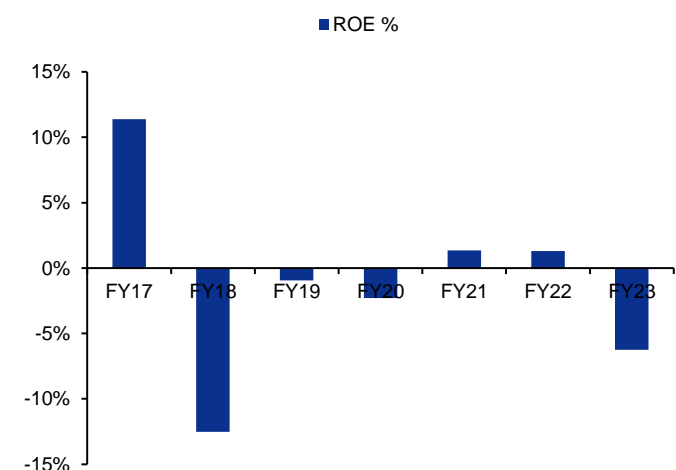
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 25: ROCE trend of Unichem



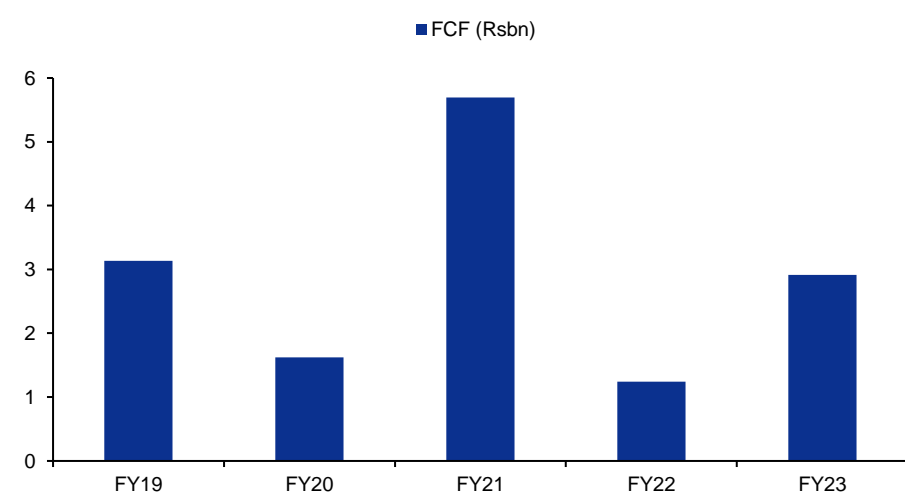
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 26: ROE trend of Unichem



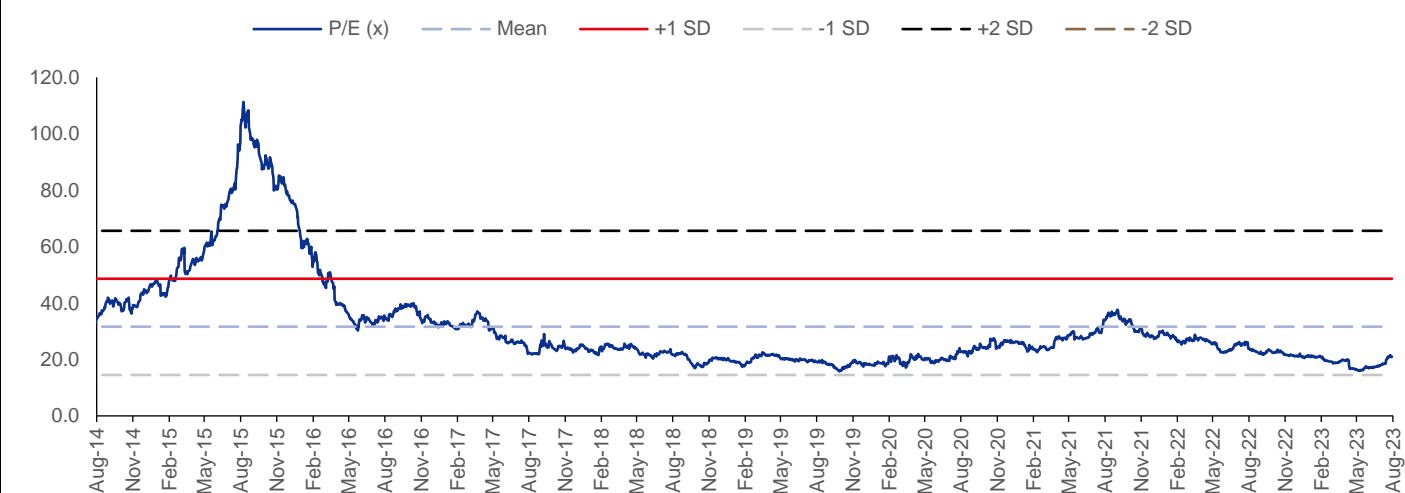
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 27: FCF generation trend of Ipca



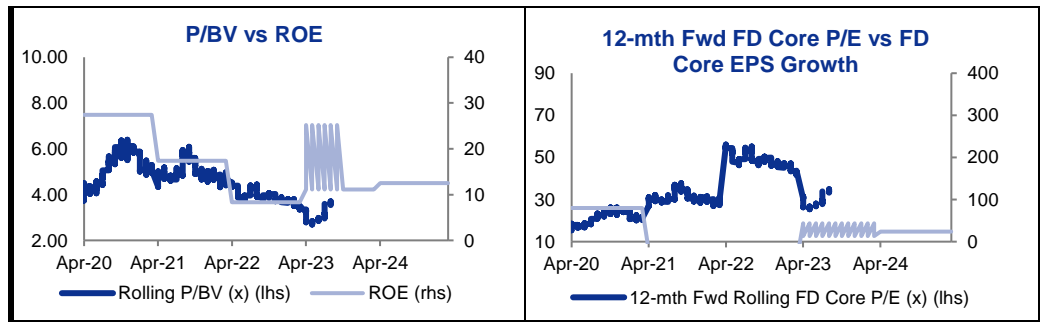
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 28: One year forward P/E of Ipca



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	54,200	58,298	62,443	66,080	74,839
Gross Profit	36,897	38,149	39,378	44,861	50,890
Operating EBITDA	15,444	13,093	9,268	12,386	15,167
Depreciation And Amortisation	(2,092)	(2,324)	(2,616)	(2,793)	(3,050)
Operating EBIT	13,352	10,768	6,652	9,593	12,117
Financial Income/(Expense)	(90)	(77)	(455)	(1,214)	(1,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	628	666	1,256	1,499	1,600
Profit Before Tax (pre-EI)	13,890	11,357	7,453	9,878	12,217
Exceptional Items					
Pre-tax Profit	13,890	11,357	7,453	9,878	12,217
Taxation	(2,401)	(2,248)	(2,534)	(2,963)	(3,665)
Exceptional Income - post-tax					
Profit After Tax	11,489	9,109	4,919	6,914	8,552
Minority Interests	(89)	(269)	(206)	(146)	(150)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,400	8,841	4,713	6,768	8,402
Recurring Net Profit	11,400	8,841	4,713	6,768	8,402
Fully Diluted Recurring Net Profit	11,400	8,841	4,713	6,768	8,402

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	15,444	13,093	9,268	12,386	15,167
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,363)	(2,728)	490	(7,961)	(3,895)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,179)	(1,805)	(1,700)	(3,110)	(3,815)
Net Interest (Paid)/Received	(90)	(77)	(455)	(1,214)	(1,500)
Tax Paid	(2,640)	(2,394)	(2,500)	(3,394)	(3,915)
Cashflow From Operations	10,901	8,560	8,058	1,315	7,457
Capex	(3,616)	(4,761)	(4,583)	(4,500)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments		(2,310)	(453)		
Other Investing Cashflow	(1,591)	(250)	(106)		
Cash Flow From Investing	5,694	1,239	2,916	(3,185)	2,957
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	358				
Shares Repurchased					
Dividends Paid	(69)	(1,015)	(1,015)	(1,015)	(1,015)
Preferred Dividends					
Other Financing Cashflow	(3,347)	9,828	6,194	(11,065)	(969)
Cash Flow From Financing	(3,058)	8,813	5,179	(12,080)	(1,983)
Total Cash Generated	2,636	10,052	8,095	(15,265)	974
Free Cashflow To Equity	16,596	9,800	10,974	(1,870)	10,414
Free Cashflow To Firm	16,686	9,877	11,429	(656)	11,914

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	3,651	13,703	21,798	6,533	7,507
Total Debtors	8,118	9,108	9,890	11,894	13,471
Inventories	15,948	18,580	17,434	19,163	21,703
Total Other Current Assets	6,653	3,181	2,771	7,269	8,232
Total Current Assets	34,370	44,572	51,893	44,859	50,913
Fixed Assets	21,310	25,152	26,946	28,653	30,103
Total Investments	773	2,699	3,027	3,027	3,027
Intangible Assets	1,608	2,088	1,972	1,972	1,972
Total Other Non-Current Assets	2,623	1,879	2,427	2,427	2,427
Total Non-current Assets	26,314	31,817	34,372	36,079	37,529
Short-term Debt	1,492	4,005	8,058	8,058	8,058
Current Portion of Long-Term Debt					
Total Creditors	6,662	8,595	5,251	7,111	7,931
Other Current Liabilities	3,178	2,058	4,750	3,160	3,525
Total Current Liabilities	11,331	14,659	18,058	18,329	19,514
Total Long-term Debt	365	4,067	6,518	(4,832)	(5,901)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,825	1,974	2,535	2,535	2,535
Total Non-current Liabilities	2,191	6,041	9,053	(2,297)	(3,365)
Total Provisions					
Total Liabilities	13,522	20,700	27,111	16,032	16,148
Shareholders Equity	47,017	54,920	58,420	63,632	70,869
Minority Interests	145	769	733	879	1,029
Total Equity	47,162	55,689	59,153	64,511	71,899

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	16.6%	7.6%	7.1%	5.8%	13.3%
Operating EBITDA Growth	65.3%	(15.2%)	(29.2%)	33.6%	22.5%
Operating EBITDA Margin	28.5%	22.5%	14.8%	18.7%	20.3%
Net Cash Per Share (Rs)	7.07	22.20	28.47	13.04	21.09
BVPS (Rs)	185.32	216.47	230.27	250.82	279.34
Gross Interest Cover	147.70	140.03	14.61	7.90	8.08
Effective Tax Rate	17.3%	19.8%	34.0%	30.0%	30.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	57.48	53.92	55.52	60.16	61.86
Inventory Days	307.77	312.74	284.95	314.77	311.42
Accounts Payables Days	134.59	138.19	109.55	106.32	114.63
ROIC (%)	21.5%	16.3%	9.7%	11.7%	13.6%
ROCE (%)	29.8%	19.1%	9.7%	13.6%	17.1%
Return On Average Assets	20.4%	13.4%	6.5%	9.4%	11.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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