

India

HOLD (no change)

Consensus ratings*: Buy 7 Hold 4 Sell 7

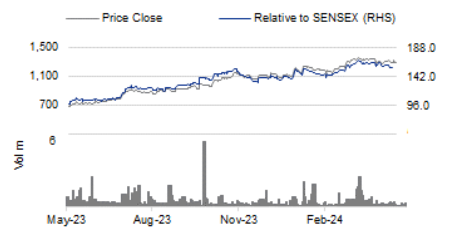
Current price: Rs1,249
 Target price: ▲ Rs1,268
 Previous target: Rs1,203
 Up/downside: 1.5%
 InCred Research / Consensus: 5.2%

Reuters: IPCA.NS
 Bloomberg: IPCA IN
 Market cap: US\$3,804m
 Rs316,919m
 Average daily turnover: US\$6.8m
 Rs566.1m
 Current shares o/s: 253.7m
 Free float: 53.7%

*Source: Bloomberg

Key changes in this note

- Increase our FY25F/26F EPS estimates by 2%/5%.
- Raise our target price to Rs1,268 from Rs1,203.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.7)	4.7	78.2
Relative (%)	(6.0)	2.7	51.1

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

Research Analyst(s)



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Ipca Laboratories Ltd

In-line 4QFY24 results and FY25F guidance

- Ipca Laboratories posted in-line 4QFY24 results led by strong growth in India and generics business. Branded and API businesses were relatively weak.
- Unichem turned EBITDA positive during FY24 with a margin of 5.9%. Unichem EBITDA is guided to touch Rs2.25bn in FY25F, implying a margin of 10-11%.
- The stock is valued fairly. Retain our HOLD rating on it with a higher target price of Rs1,268, with minor adjustments of +2%/5% to FY25F/26F EPS.

In-line 4QFY24 performance; margin improvement visible

Ipca Laboratories' (Ipca Labs) revenue/EBITDA were in line with estimates while the miss on PAT was on account of exceptional items. India business growth was strong at 13% YoY, outperforming the industry growth (of 6% YoY) across acute as well as chronic therapies. The generics business also outperformed, although the international branded business as well as API business dragged overall growth. Export business was impacted due to a weak showing in Russia and West Africa, as well as the Africa institutional business. Unichem posted a growth of 7% YoY during 4Q, and ended FY24 with a robust 27% growth. The EBITDA margin stood at 15.8% (+386bp YoY/flattish QoQ); ex-Unichem, the margin is 18.5% (+40bp QoQ).

Unichem – moving in the right direction

Unichem ended FY24 on a strong note, both on the revenue as well as margin fronts. Ipca Laboratories expects Unichem to clock around Rs20bn in revenue and around Rs2.25bn EBITDA in FY25F, implying around 10-11% margin. Unichem turned profitable in FY24 and posted an EBITDA of Rs1bn (from an EBITDA loss of Rs450m in FY23). Beyond FY25F, Ipca Laboratories expects Unichem's margin to touch 15%.

Guidance is broadly in line with expectations

Ex-Unichem, Ipca Laboratories expects India business and export generics business to grow at 12% YoY in FY25F, although the branded business is likely to remain moderate 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 Labs (ex-Unichem). The standalone margin is likely to be around 20.5-21%, although including Unichem, the consolidated business should be around 18%. The US business should see around six-to-seven product launches during the year, although a meaningful swing should show up only from FY26F.

Retain HOLD rating on the stock

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. However, after the recent run-up, the risk-reward ratio is unfavourable and we await a better entry point. We retain our HOLD rating. Slower margin expansion in Unichem is a downside risk while faster US market ramp-up is an upside 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)	37.13	69.65	55.59	41.57	30.60
DPS (Rs)	8.0	4.0	4.0	5.0	5.0
Dividend Yield	0.62%	0.31%	0.31%	0.39%	0.39%
EV/EBITDA (x)	24.50	34.40	26.86	21.48	16.49
P/FCFE (x)	33.50	29.92	(407.11)	38.83	23.15
Net Gearing	(10.1%)	(12.2%)	6.8%	5.0%	0.7%
P/BV (x)	5.98	5.62	5.18	4.71	4.19
ROE	17.3%	8.3%	9.7%	11.9%	14.5%
% Change In Core EPS Estimates				1.89%	5.40%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	12,891	15,857	16,010	15,460	15,116	15,876	20,340	20,529	20,330	34%	-1%
Consumption of RM	4,262	5,787	5,748	5,618	5,912	5,153	6,776	6,970	6,859	16%	-2%
as % of sales	33.1%	36.5%	35.9%	36.3%	39.1%	32.5%	33.3%	34.0%	33.7%		
Employee costs	2,977	3,227	3,192	3,184	3,273	3,575	4,259	4,590	4,660	42%	2%
as % of sales	23.1%	20.4%	19.9%	20.6%	21.7%	22.5%	20.9%	22.4%	22.9%		
Other expenditure	3,458	4,151	4,464	4,338	4,121	4,071	6,092	5,655	5,592	36%	-1%
as % of sales	26.8%	26.2%	27.9%	28.1%	27.3%	25.6%	30.0%	27.5%	27.5%		
EBITDA	2,193	2,692	2,606	2,319	1,810	3,076	3,213	3,313	3,219	78%	-3%
Margins (%)	17.0%	17.0%	16.3%	15.0%	12.0%	19.4%	15.8%	16.1%	15.8%		
Depreciation	609	617	637	666	695	693	903	995	981		
Other Income	145	221	362	148	364	449	386	225	189		
Interest	34	69	93	108	150	314	441	334	294		
PBT	1,696	2,227	2,238	1,693	1,329	2,518	2,254	2,209	2,133	61%	-3%
Total Tax	0	0	0	0	0	-1	0	0	0		
Tax Rate (%)	17.0%	33.3%	34.4%	31.7%	36.4%	34.0%	39.0%	30.0%	34.5%		
PAT before MI	1,695	2,227	2,238	1,693	1,329	2,519	2,254	2,209	2,133	61%	-3%
Minority interest (MI)	-106	-54	-29	-78	-46	-34	76	-428	567		
Adj. PAT before extraordinary items	1,302	1,431	1,439	1,078	800	1,628	1,451	1,119	1,963	145%	75%
Extraordinary expenses	0	0	0	0	0	0	0	680	-1,367		
Reported PAT	1,302	1,431	1,439	1,078	800	1,628	1,451	1,799	596	-25%	-67%
No. of shares	253.7	253.7	253.7	253.7	253.7	253.7	253.7	253.7	253.7		
EPS	5.1	5.6	5.7	4.2	3.2	6.4	5.7	4.4	7.7		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	67%	64%	64%	64%	61%	68%	67%	66%	66%	537	21
EBITDA	17%	17%	16%	15%	12%	19%	16%	16%	16%	386	-31
Adj. PAT	10%	9%	9%	7%	5%	10%	7%	5%	10%	437	421
Effective tax rate	17%	33%	34%	32%	36%	34%	39%	30%	35%	-185	457

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Institutional tenders	799	970	770	833	758	484	606	766	814	7%	6%
% total revenue	6.2%	6.1%	4.8%	5.4%	5.0%	3.0%	3.0%	3.7%	4.0%		
Europe revenue	1,639	2,119	2,000	1,889	2,005	2,354	2,642	2,517	2,303	15%	-9%
% total revenue	12.7%	13.4%	12.5%	12.2%	13.3%	14.8%	13.0%	12.3%	11.3%		
Domestic formulations	5,518	6,848	7,657	7,023	6,079	7,827	8,450	7,796	6,898	13%	-12%
% total revenue	42.8%	43.2%	47.8%	45.4%	40.2%	49.3%	41.5%	38.0%	33.9%		
International branded	1,027	929	1,273	1,282	1,564	1,140	1,459	1,048	1,619	4%	54%
% total revenue	8.0%	5.9%	8.0%	8.3%	10.3%	7.2%	7.2%	5.1%	8.0%		
Exports API / intermediates	1,809	2,858	2,243	2,373	2,522	2,174	2,500	2,073	2,577	2%	24%
% total revenue	14.0%	18.0%	14.0%	15.3%	16.7%	13.7%	12.3%	10.1%	12.7%		
Domestic API / intermediates	770	893	828	849	948	777	849	777	766	-19%	-1%
% total revenue	6.0%	5.6%	5.2%	5.5%	6.3%	4.9%	4.2%	3.8%	3.8%		
Other operating income / others	1,330	1,241	1,237	1,212	1,241	1,119	3,833	5,552	5,352	331%	-4%
% total revenue	10.3%	7.8%	7.7%	7.8%	8.2%	7.0%	18.8%	27.0%	26.3%		
Total revenue	12,891	15,857	16,010	15,460	15,116	15,876	20,340	20,529	20,330	34%	-1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	20,330	20,250	0%	20,352	0%
EBITDA (Rsm)	3,219	3,119	3%	3,211	0%
Margin (%)	15.8	15.4		15.8	
PAT (Rsm)	596	1,033	-42%	1,403	-58%

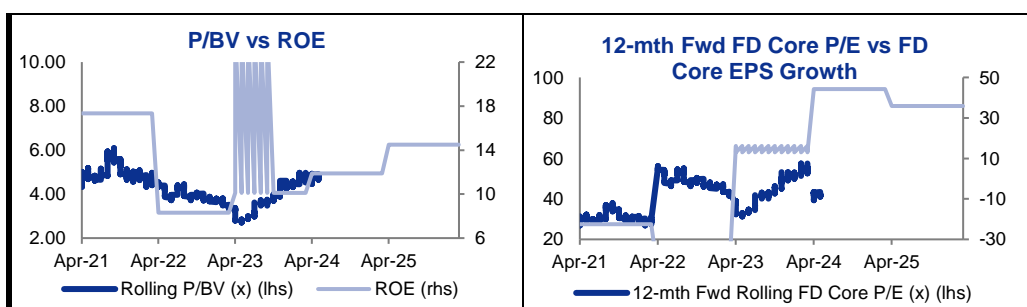
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	91,345	87,681	-4%	1,02,431	99,661	-3%
EBITDA (Rsm)	17,465	16,017	-8%	21,468	20,696	-4%
Margin (%)	19.1	18.3		21.0	20.8	
PAT (Rsm)	7,750	7,897	2%	10,178	10,727	5%

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	87,681	99,661
Gross Profit	38,149	39,378	51,317	58,747	67,271
Operating EBITDA	13,093	9,268	12,821	16,017	20,696
Depreciation And Amortisation	(2,324)	(2,616)	(3,572)	(4,000)	(4,500)
Operating EBIT	10,768	6,652	9,249	12,017	16,196
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
Profit Before Tax (pre-EI)	11,357	7,453	9,114	12,067	16,396
Exceptional Items			(687)		
Pre-tax Profit	11,357	7,453	8,427	12,067	16,396
Taxation	(2,248)	(2,534)	(3,134)	(3,620)	(4,919)
Exceptional Income - post-tax					
Profit After Tax	9,109	4,919	5,292	8,447	11,477
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	7,897	10,727
Recurring Net Profit	8,841	4,713	5,905	7,897	10,727
Fully Diluted Recurring Net Profit	8,841	4,713	5,905	7,897	10,727

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	13,093	9,268	12,821	16,017	20,696
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)
Cashflow From Operations	8,560	8,058	9,447	6,478	9,589
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)	1,978	4,589
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)
Cash Flow From Financing	8,813	5,179	1,256	10,406	(2,911)
Total Cash Generated	10,052	8,095	(8,997)	12,384	1,678
Free Cashflow To Equity	9,800	10,974	(806)	8,456	14,178
Free Cashflow To Firm	9,877	11,429	576	9,756	15,478

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	21,030	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
Total Current Assets	44,572	51,893	55,389	71,885	80,511
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	7,905	8,744
Other Current Liabilities	2,058	4,750	7,725	6,324	6,995
Total Current Liabilities	14,659	18,058	23,556	22,300	23,811
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
Total Non-current Liabilities	6,041	9,053	10,186	21,557	19,714
Total Provisions					
Total Liabilities	20,700	27,111	33,743	43,857	43,525
Shareholders Equity	54,920	58,420	63,322	69,654	78,362
Minority Interests	769	733	13,948	14,498	15,248
Total Equity	55,689	59,153	77,270	84,152	93,610

Key Ratios

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
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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