



India

REDUCE (previously ADD)

Consensus ratings*: Buy 8 Hold 2 Sell 8

Current price:	Rs1,349
Target price: ▲	Rs1,279
Previous target:	Rs1,268
Up/downside:	-5.2%
InCred Research / Consensus:	3.1%
Reuters:	IPCA.NS
Bloomberg:	IPCA IN
Market cap:	US\$4,076m Rs342,196m
Average daily turnover:	US\$8.3m Rs697.4m
Current shares o/s:	253.7m
Free float:	53.7%

*Source: Bloomberg

Key changes in this note

- Revise FY25F/26F PAT by -2%/+1%.
- Downgrade to REDUCE rating (ADD earlier).
- Raise the target price slightly to Rs1,279 (from Rs1,268 earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.9	5.7	52.5
Relative (%)	12.1	(2.5)	26.1

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

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Ipca Laboratories Ltd**Adverse risk-reward ratio after a recent rally**

- In-line 1Q, with revenue miss and margin beat. Margins improved in Unichem as well as Ipca Labs' base business, although export revenue remained weak.
- Ipca Labs cut revenue guidance (10.5-11% to 9% YoY) while it raised margin guidance by 50-100bp to 19-19.5%. Our earnings estimates remain the same.
- After a sharp run-up in its stock price, we find the risk-reward ratio adverse. Downgrade its rating to REDUCE. Our target price raised slightly to Rs1,279.

Broadly in-line 1QFY25; revenue growth dismal, margins surprise

1QFY25 performance of Ipca Laboratories was broadly in line with expectations. India business growth was strong at 12% YoY, higher than the industry (9% YoY), although the export business was weak with a 4% YoY decline in the generics business, flat international branded business and a 10% fall in the API business. Exports were impacted due to delayed shipment and other supply chain problems. Unichem posted a revenue growth of 3% YoY and a margin of 9.7%, a significant margin improvement of 390bp QoQ. Overall margin for Ipca Laboratories stood at 18.8% (+300bp QoQ / +170bp YoY); ex-Unichem, the margin was 21.2% (+270bp QoQ); margin improvement was largely due to the product mix and lower input costs.

Unichem – synergy benefits start flowing in

Unichem subsidiary started FY25F with a strong performance on the margin front. The gross margin improved significantly by 270bp QoQ due to a substantial reduction in procurement prices resulting from a combined volume (Ipca Laboratories + Unichem). Cost optimization measures and synergy benefits led to operating cost efficiency and utility cost savings. In addition, Unichem turned profitable in 1Q and posted a PAT of Rs930m (from a loss of Rs370m in 4QFY24). Ipca Laboratories expects Unichem to register double-digit growth in FY25F. Beyond FY25F, it expects Unichem's margin to touch 15%.

Resets guidance

Ex-Unichem, Ipca Laboratories gave overall business growth guidance of 9% YoY (down from 10.5-11% earlier); while revenue should recover starting 2QFY25F, the weak 1Q will drag overall growth for the year. On a positive note, Ipca Laboratories expects its ex-Unichem margins to sustain around 21-21.5%, which can drive the overall margin higher by 50-100bp than its earlier guidance of 18.5%. The US business should see around 12-13 product launches between FY25F-26F, of which 5-6 launches are planned in FY25F (two products already launched) and 6-7 launches are planned in FY26F.

Downgrade its rating to REDUCE

We had recently upgraded the stock's rating to ADD ([note](#)) on a favourable risk-reward ratio; the stock has run up almost 20% in the last one month, rendering the current valuation much above our comfort level and +2SD higher than the historical average, leaving little room for error. We expect the stock to underperform from here on and downgrade our rating on it to REDUCE. Our FY25F/26F EPS estimates remain broadly unchanged, while our target price is marginally up at Rs1,279 (Rs1,268 earlier). 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	84,093	96,382
Operating EBITDA (Rsm)	13,093	9,268	12,821	15,937	20,628
Net Profit (Rsm)	8,841	4,713	5,474	7,701	10,819
Core EPS (Rs)	34.8	18.6	23.3	30.4	42.6
Core EPS Growth	(22.5%)	(46.7%)	25.3%	30.4%	40.5%
FD Core P/E (x)	38.71	72.62	57.96	44.44	31.63
DPS (Rs)	8.0	4.0	4.0	5.0	5.0
Dividend Yield	0.59%	0.30%	0.30%	0.37%	0.37%
EV/EBITDA (x)	25.56	35.90	27.95	22.40	17.17
P/FCFE (x)	34.93	31.19	(424.43)	31.89	24.86
Net Gearing	(10.1%)	(12.2%)	6.8%	3.9%	(0.3%)
P/BV (x)	6.23	5.86	5.41	4.93	4.37
ROE	17.3%	8.3%	9.7%	11.6%	14.6%
% Change In Core EPS Estimates				(2.48%)	0.86%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	15,857	16,010	15,460	15,116	15,876	20,340	20,529	20,330	20,926	32%	3%
Consumption of raw materials	5,787	5,748	5,618	5,912	5,153	6,776	6,970	6,859	6,435	25%	-6%
as % of sales	36.5%	35.9%	36.3%	39.1%	32.5%	33.3%	34.0%	33.7%	30.8%		
Employee costs	3,227	3,192	3,184	3,273	3,575	4,259	4,590	4,660	4,879	36%	5%
as % of sales	20.4%	19.9%	20.6%	21.7%	22.5%	20.9%	22.4%	22.9%	23.3%		
Other expenditure	4151	4464	4338	4121	4071	6092	5655	5592	5686	40%	2%
as % of sales	26.2%	27.9%	28.1%	27.3%	25.6%	30.0%	27.5%	27.5%	27.2%		
EBITDA	2,692	2,606	2,319	1,810	3,076	3,213	3,313	3,219	3,927	28%	22%
Margin (%)	17.0%	16.3%	15.0%	12.0%	19.4%	15.8%	16.1%	15.8%	18.8%		
Depreciation	617	637	666	695	693	903	995	981	989		
Other income	221	362	148	364	449	386	225	189	206		
Interest	69	93	108	150	314	441	334	294	241		
PBT	2,227	2,238	1,693	1,329	2,518	2,254	2,209	2,133	2,904	15%	36%
Total tax	0	0	0	0	-1	0	0	0	0		
Tax rate (%)	33.3%	34.4%	31.7%	36.4%	34.0%	39.0%	30.0%	34.5%	31.5%		
PAT before MI	2,227	2,238	1,693	1,329	2,519	2,254	2,209	2,133	2,904	15%	36%
Minority interest (MI)	-54	-29	-78	-46	-34	76	-428	567	-69		
Adj. PAT before extraordinary items	1,431	1,439	1,078	800	1,628	1,451	1,119	1,963	1,921	18%	-2%
Extraordinary expenses	0	0	0	0	0	0	680	-1,367	0		
Reported PAT	1,431	1,439	1,078	800	1,628	1,451	1,799	596	1,921	18%	222%
No. of shares	253.7	253.7	253.7	253.7	253.7	253.7	253.7	253.7	253.7		
EPS	5.6	5.7	4.2	3.2	6.4	5.7	4.4	7.7	7.6		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margin (%)											
Gross	64%	64%	64%	61%	68%	67%	66%	66%	69%	171	299
EBITDA	17%	16%	15%	12%	19%	16%	16%	16%	19%	-61	293
Adj. PAT	9%	9%	7%	5%	10%	7%	5%	10%	9%	-108	-48
Effective Tax rate	33%	34%	32%	36%	34%	39%	30%	35%	31%	-252	-307

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Institutional tenders	970	770	833	758	484	606	766	814	577	19%	-29%
% total revenue	6.1%	4.8%	5.4%	5.0%	3.0%	3.0%	3.7%	4.0%	2.8%		
Europe revenue	2,119	2,000	1,889	2,005	2,354	2,642	2,517	2,303	2,249	-4%	-2%
% total revenue	13.4%	12.5%	12.2%	13.3%	14.8%	13.0%	12.3%	11.3%	10.7%		
Domestic formulations	6,848	7,657	7,023	6,079	7,827	8,450	7,796	6,898	8,734	12%	27%
% total revenue	43.2%	47.8%	45.4%	40.2%	49.3%	41.5%	38.0%	33.9%	41.7%		
International branded	929	1,273	1,282	1,564	1,140	1,459	1,048	1,619	1,128	-1%	-30%
% total revenue	5.9%	8.0%	8.3%	10.3%	7.2%	7.2%	5.1%	8.0%	5.4%		
Exports API / intermediates	2,858	2,243	2,373	2,522	2,174	2,500	2,073	2,577	1,955	-10%	-24%
% total revenue	18.0%	14.0%	15.3%	16.7%	13.7%	12.3%	10.1%	12.7%	9.3%		
Domestic API / intermediates	893	828	849	948	777	849	777	766	925	19%	21%
% total revenue	5.6%	5.2%	5.5%	6.3%	4.9%	4.2%	3.8%	3.8%	4.4%		
Other operating income / Others	1,241	1,237	1,212	1,241	1,119	3,833	5,552	5,352	5,359	379%	0%
% total revenue	7.8%	7.7%	7.8%	8.2%	7.0%	18.8%	27.0%	26.3%	25.6%		
Total revenue	15,857	16,010	15,460	15,116	15,876	20,340	20,529	20,330	20,926	32%	3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	20,926	22,561	-7%	21,679	-3%
EBITDA (Rsm)	3,927	3,961	-1%	3,816	3%
Margin (%)	18.8	17.6		17.6	
PAT (Rsm)	1,921	2,114	-9%	1,888	2%

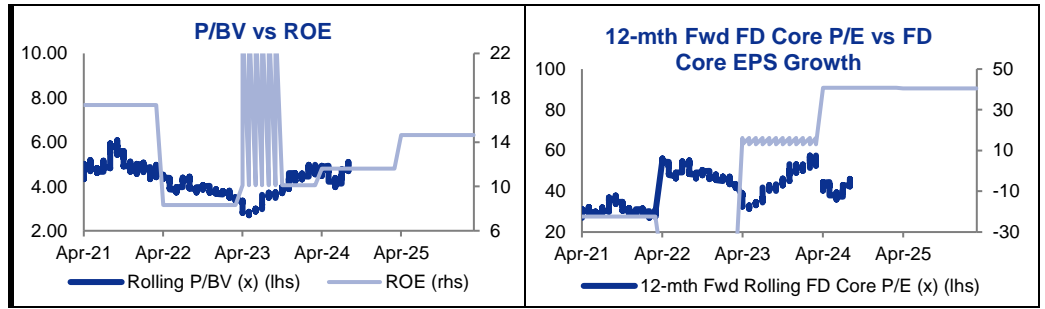
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	87,681	84,093	-4%	99,661	96,382	-3%
EBITDA (Rsm)	16,017	15,937	0%	20,696	20,628	0%
Margin (%)	18.3	19.0		20.8	21.4	
PAT (Rsm)	7,897	7,701	-2%	10,727	10,819	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	84,093	96,382
Gross Profit	38,149	39,378	51,317	58,025	66,503
Operating EBITDA	13,093	9,268	12,821	15,937	20,628
Depreciation And Amortisation	(2,324)	(2,616)	(3,572)	(4,000)	(4,500)
Operating EBIT	10,768	6,652	9,249	11,937	16,128
Financial Income/(Expense)	(77)	(455)	(1,383)	(1,050)	(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	11,787	16,528
Exceptional Items			(687)		
Pre-tax Profit	11,357	7,453	8,427	11,787	16,528
Taxation	(2,248)	(2,534)	(3,134)	(3,536)	(4,958)
Exceptional Income - post-tax					
Profit After Tax	9,109	4,919	5,292	8,251	11,569
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	7,701	10,819
Recurring Net Profit	8,841	4,713	5,905	7,701	10,819
Fully Diluted Recurring Net Profit	8,841	4,713	5,905	7,701	10,819

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	13,093	9,268	12,821	15,937	20,628
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,728)	490	(916)	(4,235)	(5,537)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,805)	(1,700)	(2,459)	(4,086)	(5,708)
Net Interest (Paid)/Received	(77)	(455)	(1,383)	(1,050)	(800)
Tax Paid	(2,394)	(2,500)	(1,637)	(3,936)	(6,108)
Cashflow From Operations	8,560	8,058	9,447	7,616	9,383
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)	3,116	4,383
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	11,162	(1,410)
Cash Flow From Financing	8,813	5,179	1,256	10,147	(2,679)
Total Cash Generated	10,052	8,095	(8,997)	13,263	1,704
Free Cashflow To Equity	9,800	10,974	(806)	10,732	13,766
Free Cashflow To Firm	9,877	11,429	576	11,782	14,566

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	23,613
Total Debtors	9,108	9,890	16,865	17,660	20,240
Inventories	18,580	17,434	24,696	25,228	28,914
Total Other Current Assets	3,181	2,771	5,182	5,887	6,747
Total Current Assets	44,572	51,893	55,389	70,683	79,515
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	7,379	8,263
Other Current Liabilities	2,058	4,750	7,725	5,903	6,610
Total Current Liabilities	14,659	18,058	23,556	21,353	22,943
Total Long-term Debt	4,067	6,518	5,804	17,116	15,306
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	21,498	19,688
Total Provisions					
Total Liabilities	20,700	27,111	33,743	42,851	42,632
Shareholders Equity	54,920	58,420	63,322	69,458	78,259
Minority Interests	769	733	13,948	14,498	15,248
Total Equity	55,689	59,153	77,270	83,956	93,507

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	7.6%	7.1%	23.4%	9.1%	14.6%
Operating EBITDA Growth	(15.2%)	(29.2%)	38.3%	24.3%	29.4%
Operating EBITDA Margin	22.5%	14.8%	16.6%	19.0%	21.4%
Net Cash Per Share (Rs)	22.19	28.47	(20.61)	(12.92)	0.93
BVPS (Rs)	216.47	230.27	249.59	273.78	308.47
Gross Interest Cover	140.03	14.61	6.69	11.37	20.16
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	74.93	71.76
Inventory Days	312.74	284.95	298.50	349.50	330.71
Accounts Payables Days	138.19	109.55	92.19	105.99	95.54
ROIC (%)	16.3%	9.7%	8.3%	10.1%	12.7%
ROCE (%)	19.1%	9.7%	11.2%	11.9%	14.3%
Return On Average Assets	13.4%	6.5%	7.1%	7.6%	9.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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