

India

ADD (no change)

Consensus ratings*: Buy 12 Hold 4 Sell 4

| | |
|------------------------------|--------------------------|
| Current price: | Rs1,425 |
| Target price: | Rs1,720 |
| Previous target: | Rs1,720 |
| Up/downside: | 20.7% |
| InCred Research / Consensus: | 5.5% |
| Reuters: | IPCA.NS |
| Bloomberg: | IPCA IN |
| Market cap: | US\$4,223m Rs361,411m |
| Average daily turnover: | US\$7.6m Rs649.5m |
| Current shares o/s: | 253.7m |
| Free float: | 53.7% |

*Source: Bloomberg

Key changes in this note

- Cut FY26F PAT estimate by 5%.
- Introduce FY27F estimates and roll forward the valuation to the same.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|-------|------|
| Absolute (%) | 1.7 | 5.1 | 14.0 |
| Relative (%) | 0.5 | (5.5) | 3.6 |

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

Research Analyst(s)

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Ipca Laboratories Ltd

Growth & margin improvement to sustain

- 4QFY25 revenue was in line. The EBITDA margin was 130bp below estimate.
- Unichem's margin declined by 180bp QoQ due to its product mix. For Unichem, the guidance is a 100bp margin improvement in FY26F.
- Cut FY26F PAT by 5% because of revised margin estimates. We maintain our ADD rating on the stock with an unchanged target price of Rs1,720.

Consistent growth but margin falls short of expectations

Ipca Laboratories' (Ipca) 4QFY25 performance was broadly in line with expectations, although margin fell short by 130bp while EBITDA was 6% below our estimate. The India business segment posted its ninth consecutive quarter of double-digit growth at 10.8% YoY, below our 13.9% estimate but above the industry growth of 8%. The market share in top-30 metro cities improved from 32.7% in FY22 to 37.5% in FY25. Export business witnessed strong growth, with 14% QoQ and 10% YoY increase. The generics business grew by 7% YoY and 10% QoQ. In FY25, the South African market faced challenges due to tender losses while inventory rationalization impacted Australia and New Zealand. The generics segment is expected to grow by 8–10% in FY26F. Branded business remained stable, after a recovery in 3Q (+3% YoY/ QoQ). Institutional business posted robust growth of 50% QoQ/36% YoY. It is expected to grow by 8-10% in FY26F. The consolidated EBITDA margin stood at 19.1% while subsidiary Unichem reported a margin of 14.3%, a QoQ decline, due to its product mix. Ipca's base business margin improved by 150bp to 21.2% in FY25, and the consolidated margin at 19.3% exceeded the guidance of 18%.

Unichem subsidiary – delivering ahead of time

The synergy benefits to Unichem got reflected in FY25. Although Unichem's gross margin improved nominally by 40bp in FY25 (as gross margin fell significantly in 4Q by 900bp due to its product mix), the improvement in the EBITDA margin has been significant. Unichem's margin improved from 5% in FY24 to 12.5% in FY25. It has been able to reach mid-teen margin a year earlier than its guidance. The synergies have arisen from a substantial reduction in procurement prices, manufacturing of initial six products by Unichem witnessing manufacturing-related cost savings of 25-30%, Ipca's cost efficiency, and many more in the pipeline. Further, the API sourcing from Ipca will lead to a further reduction in input costs. Ipca expects Unichem to report 8-10% topline growth in FY26F and 10-12% growth over the next three years. Margin improvement is expected to be 100bp in FY26F.

Maintain ADD rating with an unchanged target price of Rs1,720

We believe Ipca is well-positioned for sustained double-digit growth over the next few years driven by robust performance in its India and exports segments, market share gains in key metro cities and resilient generics business. Margin improvement in both - the base business and Unichem - is supported by cost synergy and efficient API sourcing. We maintain our ADD rating on Ipca with an unchanged target price of Rs1,720, while trimming our FY26F EPS by 5% due to a revision in margin estimates. Downside risk: Slower margin expansion in Unichem.

| Financial Summary | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
|-----------------------------------|---------|----------|---------|---------|---------|
| Revenue (Rsm) | 62,443 | 77,074 | 89,396 | 98,574 | 110,125 |
| Operating EBITDA (Rsm) | 9,268 | 12,821 | 17,261 | 19,921 | 23,384 |
| Net Profit (Rsm) | 4,713 | 5,474 | 7,375 | 10,813 | 13,409 |
| Core EPS (Rs) | 18.6 | 23.3 | 34.7 | 42.6 | 52.9 |
| Core EPS Growth | (46.7%) | 25.3% | 49.1% | 22.8% | 24.0% |
| FD Core P/E (x) | 76.69 | 61.21 | 41.06 | 33.43 | 26.96 |
| DPS (Rs) | 4.0 | 4.0 | 5.0 | 5.0 | 5.0 |
| Dividend Yield | 0.28% | 0.28% | 0.35% | 0.35% | 0.35% |
| EV/EBITDA (x) | 37.98 | 29.45 | 21.76 | 18.71 | 15.49 |
| P/FCFE (x) | 32.94 | (448.26) | 19.66 | 24.00 | 12.53 |
| Net Gearing | (12.2%) | 6.8% | 2.3% | (1.7%) | (12.0%) |
| P/BV (x) | 6.19 | 5.71 | 5.20 | 4.61 | 4.01 |
| ROE | 8.3% | 9.7% | 13.3% | 14.6% | 15.9% |
| % Change In Core EPS Estimates | | | | (4.80%) | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Guidance remains healthy

1. Ipca has given overall topline growth guidance of 8-10% for FY26F and the consolidated margin to improve by 100bp. 2. Domestic formulations to grow by 1.5x, compared to market growth, implying a growth of 11-12% in FY26F. 3. The US business is expected to contribute Rs1bn in revenue in FY26F. 4. API business volume has improved, and prices remain stable. Expected to grow by 6-7% in FY26F. 5. Export formulations to witness a growth of 10-11% in FY26F. 6. R&D spending on standalone basis will be around 4% in FY26F.

Figure 1: Financial summary

| (Rs m) | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 | 4QFY25 | Y-o-Y (%) | Q-o-Q (%) |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------|-----------|
| Revenue | 15,116 | 15,876 | 20,340 | 20,529 | 20,330 | 20,926 | 23,549 | 22,454 | 22,467 | 11% | 0% |
| Consumption of raw materials | 5,912 | 5,153 | 6,776 | 6,970 | 6,859 | 6,435 | 7,586 | 6,682 | 7,083 | 3% | 6% |
| as % of sales | 39.1% | 32.5% | 33.3% | 34.0% | 33.7% | 30.8% | 32.2% | 29.8% | 31.5% | | |
| Employee costs | 3,273 | 3,575 | 4,259 | 4,590 | 4,660 | 4,879 | 5,098 | 4,854 | 5,008 | 7% | 3% |
| as % of sales | 21.7% | 22.5% | 20.9% | 22.4% | 22.9% | 23.3% | 21.7% | 21.6% | 22.3% | | |
| Other expenditure | 4121 | 4071 | 6092 | 5655 | 5592 | 5686 | 6450 | 6286 | 6087 | 9% | -3% |
| as % of sales | 27.3% | 25.6% | 30.0% | 27.5% | 27.5% | 27.2% | 27.4% | 28.0% | 27.1% | | |
| EBITDA | 1,810 | 3,076 | 3,213 | 3,313 | 3,219 | 3,927 | 4,415 | 4,631 | 4,289 | 33% | -7% |
| Margins (%) | 12.0% | 19.4% | 15.8% | 16.1% | 15.8% | 18.8% | 18.7% | 20.6% | 19.1% | | |
| Depreciation | 695 | 693 | 903 | 995 | 981 | 989 | 1,004 | 985 | 1,001 | 2% | 2% |
| Other income | 364 | 449 | 386 | 225 | 189 | 206 | 263 | 201 | 258 | | |
| Interest | 150 | 314 | 441 | 334 | 294 | 241 | 226 | 168 | 215 | -27% | 28% |
| PBT | 1,329 | 2,518 | 2,254 | 2,209 | 2,133 | 2,904 | 3,448 | 3,679 | 3,331 | 56% | -9% |
| Total tax | 0 | -1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | | |
| Tax rate (%) | 36.4% | 34.0% | 39.0% | 30.0% | 34.5% | 31.5% | 28.8% | 24.6% | 18.7% | | |
| PAT before MI | 1,329 | 2,519 | 2,254 | 2,209 | 2,133 | 2,904 | 3,447 | 3,679 | 3,330 | 56% | -9% |
| Minority interest (MI) | -46 | -34 | 76 | -428 | 567 | -69 | -160 | -292 | 20 | | |
| Adj. PAT before extraordinary items | 800 | 1,628 | 1,451 | 1,119 | 1,963 | 1,921 | 2,295 | 2,481 | 2,729 | 39% | 10% |
| Extraordinary expenses | 0 | 0 | 0 | 680 | -1,367 | 0 | 0 | 0 | -2,051 | | |
| Reported PAT | 800 | 1,628 | 1,451 | 1,799 | 596 | 1,921 | 2,295 | 2,481 | 678 | 14% | -73% |
| No. of shares | 253.7 | 253.7 | 253.7 | 253.7 | 253.7 | 253.7 | 253.7 | 253.7 | 253.7 | | |
| EPS | 3.2 | 6.4 | 5.7 | 4.4 | 7.7 | 7.6 | 9.0 | 9.8 | 10.8 | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

| (Rs m) | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 | 4QFY25 | Y-o-Y (bp) | Q-o-Q (bp) |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------------|------------|
| Margins (%) | | | | | | | | | | | |
| Gross | 61% | 68% | 67% | 66% | 66% | 69% | 68% | 70% | 68% | 221 | -177 |
| EBITDA | 12% | 19% | 16% | 16% | 16% | 19% | 19% | 21% | 19% | 325 | -154 |
| Adj. PAT | 5% | 10% | 7% | 5% | 10% | 9% | 10% | 11% | 12% | 249 | 109 |
| Effective tax rate | 36% | 34% | 39% | 30% | 35% | 31% | 29% | 25% | 19% | -1586 | -594 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

| (Rs m) | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 | 4QFY25 | Y-o-Y (%) | Q-o-Q (%) |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------|-----------|
| Institutional tenders | 758 | 484 | 606 | 766 | 814 | 577 | 1,123 | 741 | 1,110 | 36% | 50% |
| % total revenue | 5.0% | 3.0% | 3.0% | 3.7% | 4.0% | 2.8% | 4.8% | 3.3% | 4.9% | | |
| Europe revenue | 2,005 | 2,354 | 2,642 | 2,517 | 2,303 | 2,249 | 2,865 | 2,240 | 2,461 | 7% | 10% |
| % total revenue | 13.3% | 14.8% | 13.0% | 12.3% | 11.3% | 10.7% | 12.2% | 10.0% | 11.0% | | |
| Domestic formulations | 6,079 | 7,827 | 8,450 | 7,796 | 6,898 | 8,734 | 9,405 | 8,772 | 7,641 | 11% | -13% |
| % total revenue | 40.2% | 49.3% | 41.5% | 38.0% | 33.9% | 41.7% | 39.9% | 39.1% | 34.0% | | |
| International branded | 1,564 | 1,140 | 1,459 | 1,048 | 1,619 | 1,128 | 1,427 | 1,600 | 1,664 | 3% | 4% |
| % total revenue | 10.3% | 7.2% | 7.2% | 5.1% | 8.0% | 5.4% | 6.1% | 7.1% | 7.4% | | |
| Exports API / intermediates | 2,522 | 2,174 | 2,500 | 2,073 | 2,577 | 1,955 | 2,214 | 2,228 | 2,508 | -3% | 13% |
| % total revenue | 16.7% | 13.7% | 12.3% | 10.1% | 12.7% | 9.3% | 9.4% | 9.9% | 11.2% | | |
| Domestic API / intermediates | 948 | 777 | 849 | 777 | 766 | 925 | 972 | 952 | 906 | 18% | -5% |
| % total revenue | 6.3% | 4.9% | 4.2% | 3.8% | 3.8% | 4.4% | 4.1% | 4.2% | 4.0% | | |
| Other operating income / others | 1,241 | 1,119 | 3,833 | 5,552 | 5,352 | 5,359 | 5,543 | 5,921 | 6,177 | 15% | 4% |
| % total revenue | 8.2% | 7.0% | 18.8% | 27.0% | 26.3% | 25.6% | 23.5% | 26.4% | 27.5% | | |
| Total revenue | 15,116 | 15,876 | 20,340 | 20,529 | 20,330 | 20,926 | 23,549 | 22,454 | 22,467 | 11% | 0% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

| | Actuals | Incred Estimate | Variance (%) | Bloomberg Estimate | Variance (%) |
|---------------|---------|-----------------|--------------|--------------------|--------------|
| Revenue (Rsm) | 22,467 | 22,446 | 0% | 22,223 | 1% |
| EBITDA (Rsm) | 4,289 | 4,572 | -6% | 4,146 | 3% |
| Margin (%) | 19.1 | 20.4 | | 18.7 | |
| PAT (Rsm) | 678 | 2,454 | -72% | 2,196 | -69% |

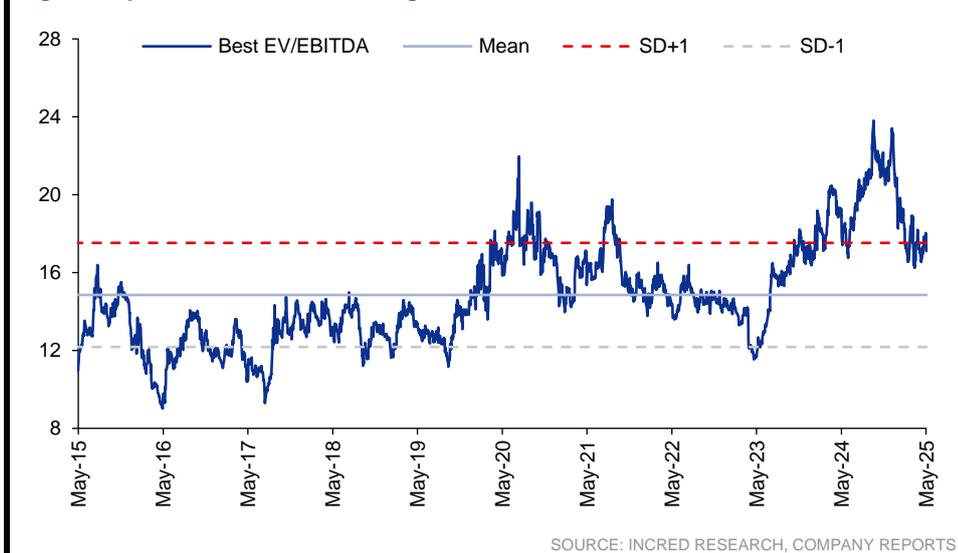
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

| | FY26F | | |
|---------------|----------|--------|--------------|
| | Old | New | Variance (%) |
| Revenue (Rsm) | 1,00,527 | 98,574 | -2% |
| EBITDA (Rsm) | 20,717 | 19,921 | -4% |
| Margin (%) | 20.6 | 20.2 | |
| PAT (Rsm) | 11,358 | 10,813 | -5% |

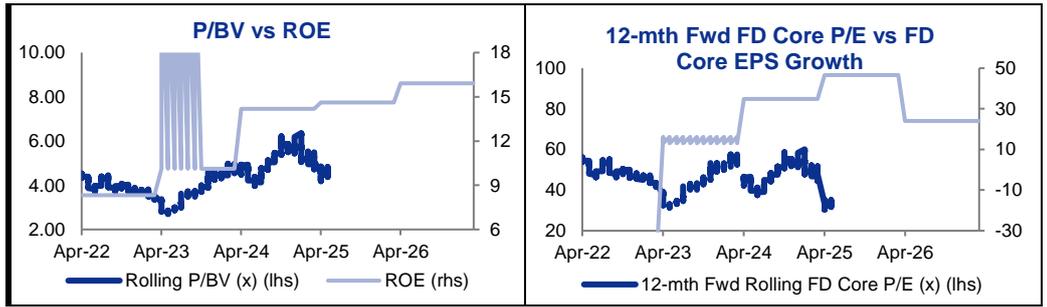
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Ipca Laboratories is trading close to its SD+1 level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
|---|---------|---------|---------|---------|---------|
| Total Net Revenues | 62,443 | 77,074 | 89,396 | 98,574 | 110,125 |
| Gross Profit | 39,378 | 51,317 | 61,610 | 68,016 | 75,435 |
| Operating EBITDA | 9,268 | 12,821 | 17,261 | 19,921 | 23,384 |
| Depreciation And Amortisation | (2,616) | (3,572) | (3,978) | (4,500) | (4,850) |
| Operating EBIT | 6,652 | 9,249 | 13,283 | 15,421 | 18,534 |
| Financial Income/(Expense) | (455) | (1,383) | (849) | (700) | (550) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | 1,256 | 1,248 | 928 | 1,200 | 1,000 |
| Profit Before Tax (pre-EI) | 7,453 | 9,114 | 13,362 | 15,921 | 18,984 |
| Exceptional Items | | (687) | (2,051) | | |
| Pre-tax Profit | 7,453 | 8,427 | 11,311 | 15,921 | 18,984 |
| Taxation | (2,534) | (3,134) | (3,436) | (4,458) | (5,126) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 4,919 | 5,292 | 7,875 | 11,463 | 13,859 |
| Minority Interests | (206) | 181 | (500) | (650) | (450) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 4,713 | 5,474 | 7,375 | 10,813 | 13,409 |
| Recurring Net Profit | 4,713 | 5,905 | 8,803 | 10,813 | 13,409 |
| Fully Diluted Recurring Net Profit | 4,713 | 5,905 | 8,803 | 10,813 | 13,409 |

Cash Flow

| (Rs mn) | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
|----------------------------------|---------|----------|---------|---------|---------|
| EBITDA | 9,268 | 12,821 | 17,261 | 19,921 | 23,384 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | 490 | (916) | (1,765) | (4,032) | (886) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | (1,700) | (2,459) | (2,284) | (5,108) | (5,576) |
| Net Interest (Paid)/Received | (455) | (1,383) | (849) | (700) | (550) |
| Tax Paid | (2,500) | (1,637) | (312) | (5,608) | (6,026) |
| Cashflow From Operations | 8,058 | 9,447 | 13,213 | 10,781 | 16,922 |
| Capex | (4,583) | (4,020) | (7,702) | (6,500) | (5,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | (453) | (15,680) | (335) | | |
| Other Investing Cashflow | (106) | | | | |
| Cash Flow From Investing | 2,916 | (10,253) | 5,176 | 4,281 | 11,922 |
| Debt Raised/(repaid) | | | | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (1,015) | (507) | (1,015) | (1,269) | (1,269) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 6,194 | 1,763 | (1,732) | 1,497 | (3,007) |
| Cash Flow From Financing | 5,179 | 1,256 | (2,747) | 229 | (4,276) |
| Total Cash Generated | 8,095 | (8,997) | 2,430 | 4,509 | 7,647 |
| Free Cashflow To Equity | 10,974 | (806) | 18,390 | 15,061 | 28,845 |
| Free Cashflow To Firm | 11,429 | 576 | 19,239 | 15,761 | 29,395 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

| (Rs mn) | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
|--------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Total Cash And Equivalents | 21,798 | 8,646 | 11,076 | 15,585 | 23,232 |
| Total Debtors | 9,890 | 16,865 | 18,738 | 20,701 | 19,822 |
| Inventories | 17,434 | 24,696 | 25,604 | 28,586 | 30,835 |
| Total Other Current Assets | 2,771 | 5,182 | 7,267 | 6,900 | 8,259 |
| Total Current Assets | 51,893 | 55,389 | 62,685 | 71,772 | 82,149 |
| Fixed Assets | 26,946 | 46,631 | 46,851 | 48,851 | 49,001 |
| Total Investments | 3,027 | 3,036 | 2,163 | 2,163 | 2,163 |
| Intangible Assets | 1,972 | 2,333 | 2,035 | 2,035 | 2,035 |
| Total Other Non-Current Assets | 2,427 | 3,624 | 3,871 | 3,871 | 3,871 |
| Total Non-current Assets | 34,372 | 55,624 | 54,920 | 56,920 | 57,070 |
| Short-term Debt | 8,058 | 8,071 | 7,585 | 7,585 | 7,585 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 5,251 | 7,761 | 8,462 | 8,554 | 9,808 |
| Other Current Liabilities | 4,750 | 7,725 | 7,816 | 8,269 | 8,859 |
| Total Current Liabilities | 18,058 | 23,556 | 23,862 | 24,408 | 26,251 |
| Total Long-term Debt | 6,518 | 5,804 | 5,432 | 6,429 | 2,972 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 2,535 | 4,382 | 4,428 | 4,428 | 4,428 |
| Total Non-current Liabilities | 9,053 | 10,186 | 9,861 | 10,858 | 7,400 |
| Total Provisions | | | | | |
| Total Liabilities | 27,111 | 33,743 | 33,723 | 35,265 | 33,652 |
| Shareholders Equity | 58,420 | 63,322 | 69,485 | 78,379 | 90,069 |
| Minority Interests | 733 | 13,948 | 14,398 | 15,048 | 15,498 |
| Total Equity | 59,153 | 77,270 | 83,883 | 93,427 | 105,567 |

Key Ratios

| | Mar-23A | Mar-24A | Mar-25A | Mar-26F | Mar-27F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 7.1% | 23.4% | 16.0% | 10.3% | 11.7% |
| Operating EBITDA Growth | (29.2%) | 38.3% | 34.6% | 15.4% | 17.4% |
| Operating EBITDA Margin | 14.8% | 16.6% | 19.3% | 20.2% | 21.2% |
| Net Cash Per Share (Rs) | 28.47 | (20.61) | (7.65) | 6.19 | 49.96 |
| BVPS (Rs) | 230.27 | 249.59 | 273.88 | 308.94 | 355.02 |
| Gross Interest Cover | 14.61 | 6.69 | 15.64 | 22.03 | 33.70 |
| Effective Tax Rate | 34.0% | 37.2% | 30.4% | 28.0% | 27.0% |
| Net Dividend Payout Ratio | | | | | |
| Accounts Receivables Days | 55.52 | 63.35 | 72.68 | 73.02 | 67.16 |
| Inventory Days | 284.95 | 298.50 | 330.38 | 323.64 | 312.62 |
| Accounts Payables Days | 109.55 | 92.19 | 106.55 | 101.62 | 96.60 |
| ROIC (%) | 9.7% | 8.3% | 11.3% | 12.3% | 14.6% |
| ROCE (%) | 9.7% | 11.2% | 14.1% | 15.1% | 16.6% |
| Return On Average Assets | 6.5% | 7.1% | 9.2% | 9.7% | 10.7% |

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.