IPCA Loboratories

Buy

DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

Robust Q1, guidance to be potentially revised upwards

IPCA delivered a significant beat across parameters driven by sharp improvement across businesses in Q1FY22. Revenue/PAT beat estimates by 13%/33% at Rs15bn/3bn respectively. IPCA's end to end integration (61% of sales) enables it to benefit significantly despite inflationary raw material prices as gross margins expanded at 65% thereby aiding margins at 26% (we saw 24%) despite normalization of SGA spend. Basis the strong demand witnessed in API, management guided for 10% YoY growth in FY22E, despite a higher base. Further, basis the strong traction seen across segments, it could potentially revise its guidance upwards vs guidance of 9-10% growth in top-line and EBITDA margins at 25% given earlier for FY22E. Impacted by COVID, commercialization of its greenfield facility at Dewas and brownfield expansion of its API facility at Ratlam are expected to commercialize by Q1FY23E and 3QFY22 respectively.

Key triggers: 1) Top domestic brands are growing faster than the market – Zerodol and Rheumatology where company has leadership 2) Domestic formulations is estimated to grow in mid-teens CAGR led by pain and cardio; 3) EU recovery is visible in growth guidance despite a 'high' base; 4) IPCA's continued cost optimization will help maintain mid-20's EBITDA margin; and 5) Ratlam debottlenecking in Q3FY22 and Dewas commercialization in 2HFY23 will drive API 6) USFDA clearance of its manufacturing sites.

Outlook and Valuation: On a cumulative capex of Rs14bn, IPCA generated incremental revenue of Rs25bn, productivity of 1.8x, indicating its superior capex efficiency. We believe strong API capabilities are at the core of IPCA's diversified exports business model, which, in our view, is a major competitive advantage, given growing cost pressures in global generics. Sustained outperformance in the branded domestic formulation space coupled with enhanced opportunities in the API segment indicates that IPCA has enough headroom to be on a strong earnings trajectory over the next 3-4 years. USFDA resolution of its 3 sites is an optionality. We build in 9% earnings CAGR over FY21-23E to account for growth enhanced by integration. At CMP, the stock trades at 20x FY23 EPS. Reiterate Buy.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	15,658	15,344	2.0	11,147	40.5
Total Expense	11,527	9,521	21.1	8,990	28.2
EBITDA	4,131	5,823	(29.1)	2,157	91.5
Depreciation	559	510	9.5	525	6.4
EBIT	3,572	5,313	(32.8)	1,632	118.9
Other Income	210	121	73.9	199	5.5
Interest	18	27	(33.6)	17	7.1
EBT	3,799	5,466	(30.5)	1,946	95.2
Tax	708	999	(29.2)	309	128.8
RPAT	3,091	4,468	(30.8)	1,637	88.8
APAT	3,067	4,457	(31.2)	1,612	90.2
			(bps)		(bps)
Gross Margin (%)	65.1	71.9	(672)	69.6	(448)
EBITDA Margin (%)	26.4	38.0	(1157)	19.3	703
NPM (%)	19.7	29.1	(937)	14.7	505
Tax Rate (%)	18.6	18.3	36	15.9	274
EBIT Margin (%)	22.8	34.6	(1181)	14.6	817

CMP	Rs 2,171
Target / Upside	Rs 2,674 / 23%
NIFTY	16,238

Scrip Details

Equity / FV	Rs 254mn / Rs 2
Market Cap	Rs 275bn
	USD 3.7bn
52-week High/Low	Rs 2,460/ 1,785
Avg. Volume (no)	250,111
Bloom Code	IPCA IN

Price Performance	1M	3M	12M
Absolute (%)	3	4	10
Rel to NIFTY (%)	1	(7)	(35)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	46.3	46.3	46.3
MF/Banks/FIs	33.3	33.8	33.6
FIIs	18.2	17.5	17.8
Public / Others	2.2	2.4	2.3

Valuation (x)

	FY21E	FY22E	FY23E
P/E	24.1	24.3	20.3
EV/EBITDA	17.5	16.8	13.8
ROE (%)	27.4	22.0	22.2
RoACE (%)	24.3	20.6	21.3

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	54,200	60,689	68,613
EBITDA	15,444	15,551	18,342
PAT	11,411	11,336	13,572
EPS (Rs.)	90.0	89.4	107.0

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Exhibit 1: Revenue Mix

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY22E	FY21	YoY (%)
Formulations	**10,548**	**9,531**	**10.7**	**7,716**	**36.7**	**40,887**	**35,789**	**14.2**
Domestic	**6,130**	**4,894**	25.2	**4,336**	**41.4**	23,384	19,817	18.0
Exports	4,418	4,636	(4.7)	3,380	**30.7**	17,503	15,972	9.6
Branded formulations	1,086	1,335	5,997.8	1,010	**7.5**	4,120	3,613	14.0
Generic formulations	2,168	2,415	(10.2)	1,608	**34.8**	9,221	8,505	8.4
Institutional business	1,165	887	31.4	762	**52.8**	4,162	3,854	8.0
API	**4,144**	**5,133**	**(19.3)**	**2,599**	**59.4**	**16,160**	**15,063**	**7.3**
Domestic	900	2,030	(55.7)	508	**77.1**	4,327	3,863	12.0
Exports	3,245	3,103	4.6	2,092	**55.1**	11,833	11,200	5.7
Subsidiaries	**872**	**490**	**77.8**	**737**	**18.2**	**3,089**	**2,808**	**10.0**
Total Sales	**15,564**	**15,154**	**2.7**	**11,053**	**40.8**	**60,136**	**53,660**	**12.1**

Source: DART, Company

Conference call takeaways:

Guidance:

- India to grow 16-18% in FY22E led by recovery in acute and traction in chronic segment. Management stated that it would most likely revise this guidance upwards potentially in Q2. Pain management is guided to grow at 18-20% YoY in FY22E.
- Traction in generic exports (UK/Europe) to continue. Branded exports guided at 13-15% growth, generics at 5% YoY for FY22E.
- Overall API to grow 10% YoY despite a higher base while domestic export guidance is revised to >10% YoY growth vs a decline by 28-30% on a higher base earlier.
- Tender business is expected to grow 5% YoY despite high base basis order visibility in FY22E.
- Management guided overall sales growth of 9-10% in FY22E, led by improved output post de-bottlenecking exercise.
- Gross margins guided at 69% and EBITDA margin to sustain higher at ~25% in FY22E as management believes it still has scope of improvement w.r.t. plant utilization, process improvements and cost optimization at subsidiary levels.
- Capex to be in the range of Rs6-6.5bn for FY22/23E.

Capital allocation to enhance its end to end manufacturing integration: IPCA is expanding its API capacity (Dewas/Ratlam) for external sales as well as to increase backward integration. It is undertaking debottlenecking at Ratlam to increase capacity until its new facilities under development turn operational. Capex at the Ratlam and Dewas API facilities would increase capacity by 20%. IPCA has also planned for major capex for intermediates in FY23 to increase backward integration. Its proposed continued production (v/s traditional batch production) for some intermediates is expected to result in higher throughput and profitability for these products.

- Nobel Explochem to come on stream from FY23E: The EC regulatory process is delayed due to COVID and is expected to come in next 3-4 months. It would take ~12 months to revamp and commercialize the unit. This unit would have multiple blocks (3-4 intermediates are already lined up).

- **Dewas commercialization in Q4FY23:** This is expected to be up and running by Q4FY23E (installation delayed due to COVID and lack of industrial oxygen). Dewas will add 300mt of API capacity, an addition of 20% to the current capacity. The installation work is expected to be completed in 2HFY22 and capacity is expected to come on stream by 4QFY23 as multiple approvals required.
- **API unit at Ratlam:** IPCA has spent Rs1bn to build its 25 block API plant at Ratlam and capacity de-bottlenecking. This plant is expected to complete validation batches by end of 2Q. This project was delayed by a quarter due to COVID.

India: Revenue from domestic formulations grew 25% YoY. Adjusted for HCQS sales of Rs2.6bn in Q1FY21, growth still remained robust at 23% YoY.

- Its portfolio growth was led by pain (46% YoY) and cardiac segment (14% YoY).
- Chronic divisions in CNS, derma, nutraceuticals and ophthalmic have grown in the range of 80-150% YoY on a lower base. Pain and Cardiac comprise 70% of total sales.
- Going ahead, IPCA expects to sustain its growth of 16-18% led by favourable demand, market share gains and superior execution.
- Higher raw material prices will be passed through price hikes in end portfolio. Price hikes to be taken in the range of 6% vs an average of 4%.
- Its brand building capability is evident from continuous growth in Zerodol franchise (grew 36% YoY in Q1 led by higher volumes).
- Added 200 MRs for CNS, Ophthal and derma.

API – strong trend visibility: 1Q grew 59% QoQ at Rs4.1bn. The growth comes from both domestic and exports market despite correction in prices of Sartan intermediates. Despite the higher base and lower price of sartans, management remains confident of ~10% growth YoY in FY22E.

- **Price hike impact:** Backward integration along-with ability to pass higher prices to customers makes IPCA a beneficiary of volume led growth.
- **Sartans:** Losartan is IPCA's flagship product with industry leading volumes despite not being present in the US. **Despite price correction in sartans, IPCA has gained market share led by higher volumes and thus maintain sales**.
- **Prices has also increased by 18-**20% for solvents and packing material.

Ex-US exports

- **EU:** IPCA has smartly increased its business in Europe (ex-UK), which offers higher margins than overall company's blended margins. UK grew 15% YoY in Q1FY21. With no distributor issues and own front end, growth from generic segment shall improve as European business ramps up.
- **CIS** sales were flat on a YoY basis impacted by COVID and unfavourable currency. Business is gradually recovering and new launches shall aid future growth.
- **Tender business:** Institutional tender revenues grew 31% YoY and 53% QoQ in 1Q. Order visibility from global funds, USAIDs and country specific tenders will continue to drive growth despite higher base. Further, IPCA has received approval for dispersible tablets of Arthemether Lumefantrine and expects to monetize this in FY22E.

US: IPCA continue to wait for clearance on its plants (Silvassa, Piparia and Indore SEZ) under import alert. Currently these plants are running at ~20% capacity and IPCA continues to book losses to the tune of Rs600mn p.a. on them. IPCA has ~20 ANDAs filed from Indore and this remains a critical facility.

- **Bayshore**: In a bid to start its front end in the US, IPCA acquired 80% stake in Bayshore Pharma for US$10mn in FY20. Bayshore turned profitable in 3Q with PAT of Rs100mn with total FY21 PAT at Rs80mn. Further, Bayshore can also be used to manufacture API if Indore SEZ does not get clearance soon.
- **Pisgah Labs:** Turned profitable in FY21 with Rs55mn PAT vs loss of Rs130mn in FY20. The company is in the process of transferring technology to file 2 DMFs from Pisgah. This facility is largely used for CRAMS.
- **Ramdev Chemicals:** Is loss making at PBT level and is expected to remain loss making in FY22E as well. Ramdev primarily was an intermediate facility with no relevant chemicals for IPCA's portfolio. IPCA is in process of switching the entire portfolio to APIs making it a high value low volume portfolio.
- **Tropic Wellness:** This is into nutraceuticals and reported Rs1bn of sales and PAT of Rs200mn.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**46,487**	**54,200**	**60,689**	**68,613**
Total Expense	**37,420**	**38,756**	**45,138**	**50,271**
COGS	16,441	17,283	19,420	22,098
Employees Cost	9,212	10,136	10,824	11,563
Other expenses	11,767	11,338	14,894	16,611
EBIDTA	**9,067**	**15,444**	**15,551**	**18,342**
Depreciation	2,105	2,092	2,241	2,372
EBIT	**6,962**	**13,352**	**13,310**	**15,970**
Interest	165	90	54	30
Other Income	670	628	653	687
Exc. / E.O. items	0	0	0	0
EBT	**7,467**	**13,890**	**13,909**	**16,627**
Tax	1,353	2,401	2,504	2,993
RPAT	6,036	11,411	11,336	13,572
Minority Interest	0	0	0	0
Profit/Loss share of associates	**(78)**	**(77)**	**(69)**	**(62)**
APAT	**6,036**	**11,411**	**11,336**	**13,572**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	253	254	254	254
Minority Interest	256	145	145	145
Reserves & Surplus	35,903	46,763	55,663	66,191
Net Worth	**36,155**	**47,017**	**55,917**	**66,444**
Total Debt	4,139	1,857	1,357	857
Net Deferred Tax Liability	2,869	2,885	1,798	1,652
Total Capital Employed	**43,419**	**51,904**	**59,217**	**69,099**
Applications of Funds				
Net Block	**19,963**	**20,258**	**20,863**	**20,490**
CWIP	1,957	2,814	3,166	3,571
Investments	618	1,243	1,553	1,942
Current Assets, Loans & Advances	**30,040**	**36,349**	**45,039**	**55,540**
Inventories	13,231	15,948	15,782	17,090
Receivables	8,952	8,118	8,567	8,944
Cash and Bank Balances	1,809	3,651	11,286	19,154
Loans and Advances	2,323	3,286	3,887	4,629
Other Current Assets	1,342	1,408	1,578	1,785
Less: Current Liabilities & Provisions	**9,159**	**8,760**	**11,404**	**12,445**
Payables	6,098	6,662	7,183	7,628
Other Current Liabilities	3,061	2,098	4,221	4,817
sub total				
Net Current Assets	20,881	27,589	33,635	43,095
Total Assets	**43,419**	**51,904**	**59,217**	**69,099**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	64.6	68.1	68.0	67.8
EBIDTA Margin	19.5	28.5	25.6	26.7
EBIT Margin	15.0	24.6	21.9	23.3
Tax rate	18.1	17.3	18.0	18.0
Net Profit Margin	13.0	21.1	18.7	19.8
(B) As Percentage of Net Sales (%)				
COGS	35.4	31.9	32.0	32.2
Employee	19.8	18.7	17.8	16.9
Other	25.3	20.9	24.5	24.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	42.2	147.7	245.1	532.2
Inventory days	104	107	95	91
Debtors days	70	55	52	48
Average Cost of Debt	4.3	3.0	3.4	2.7
Payable days	48	45	43	41
Working Capital days	164	186	202	229
FA T/O	2.3	2.7	2.9	3.3
(D) Measures of Investment				
AEPS (Rs)	47.6	90.0	89.4	107.0
CEPS (Rs)	64.2	106.4	107.0	125.7
DPS (Rs)	10.7	8.0	0.1	9.6
Dividend Payout (%)	22.5	8.9	0.1	9.0
BVPS (Rs)	285.0	370.6	440.8	523.8
RoANW (%)	17.9	27.4	22.0	22.2
RoACE (%)	15.6	24.3	20.6	21.3
RoAIC (%)	18.3	29.7	27.7	32.6
(E) Valuation Ratios				
CMP (Rs)	2171	2171	2171	2171
P/E	45.6	24.1	24.3	20.3
Mcap (Rs Mn)	275,436	275,436	275,436	275,436
MCap/ Sales	5.9	5.1	4.5	4.0
EV	275,383	269,704	261,569	253,201
EV/Sales	5.9	5.0	4.3	3.7
EV/EBITDA	30.4	17.5	16.8	13.8
P/BV	7.6	5.9	4.9	4.1
Dividend Yield (%)	0.5	0.4	0.0	0.4
(F) Growth Rate (%)				
Revenue	23.2	16.6	12.0	13.1
EBITDA	31.0	70.3	0.7	17.9
EBIT	36.7	91.8	(0.3)	20.0
PBT	36.2	86.0	0.1	19.5
APAT	36.5	89.1	(0.7)	19.7
EPS	36.5	89.1	(0.7)	19.7

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	4,440	10,970	13,407	14,505
CFI	(5,365)	(6,114)	(3,918)	(3,305)
CFF	(89)	(3,014)	(1,854)	(3,332)
FCFF	(925)	4,855	9,489	11,200
Opening Cash	2,823	1,809	3,651	11,286
Closing Cash	1,809	3,651	11,286	19,154

E – Estimates

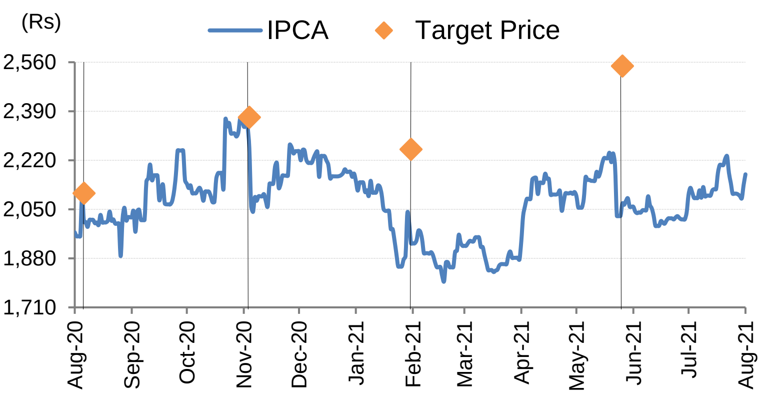
DART

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Accumulate	2,106	2,006
Nov-20	Accumulate	2,369	2,262
Feb-21	Buy	2,258	1,932
May-21	Buy	2,547	2,071

*Price as on recommendation date

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