

Ipcap Laboratories

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	IPCA IN
Equity Shares (m)	254
M.Cap.(INRb)/(USDb)	316.9 / 3.8
52-Week Range (INR)	1375 / 683
1, 6, 12 Rel. Per (%)	-6/-1/61
12M Avg Val (INR M)	566

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	77.1	87.5	100.7
EBITDA	13.1	15.8	18.6
Adjusted PAT	5.3	7.9	10.2
EBIT Margin (%)	12.3	13.6	14.6
Cons. Adj EPS (INR)	20.8	31.3	40.2
EPS Gr. (%)	0.0	50.4	28.7
BV/Sh. (INR)	249.6	276.2	310.4
Ratios			
Net D-E	0.2	0.3	0.2
RoE (%)	8.7	11.9	13.7
RoCE (%)	9.2	10.7	11.6
Payout (%)	36.9	23.5	19.0
Valuation			
P/E (x)	59.9	39.9	31.0
EV/EBITDA (x)	24.3	20.1	17.1
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	-7.6	1.5	2.6
EV/Sales (x)	4.1	3.6	3.2

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	46.3	46.3	46.3
DII	34.4	34.5	34.1
FII	10.5	10.3	10.6
Others	8.8	8.9	9.1

FII Includes depository receipts

CMP: INR1,249 **TP: INR1,140 (-9%)** **Neutral**

DF/generic exports lead to superior operating performance

Work in progress in integrating Unichem

- Ipcap Laboratories (IPCA) delivered better-than-expected operating performance in 4QFY24, led by improved domestic formulation (DF) sales and stable pricing in the API segment. Adjusted earnings were lower than our estimate, largely due to higher minority interest.
- We cut our earnings estimates by 12%/14% for FY25/FY26, factoring in: 1) a gradual uptick from the re-launches of ANDAs in the US market, 2) a challenging outlook in the branded generic exports segment, and c) moderation in the growth outlook in acute therapies within the DF segment. We value IPCA at 26x 12M forward earnings to arrive at our TP of INR1,140.
- IPCA continues to progress well on improving the profitability of Unichem and enhancing synergy with it. Management is also working on scaling up the US generics business from its own facility. Further, it remains on track to outperform the industry in the DF segment. Accordingly, we model a 39% earnings CAGR over FY24-26, partly due to the low base of FY24. The current valuation adequately factors in the upside in earnings. **Reiterate Neutral.**

Product-mix drives margins YoY

- IPCA's 4QFY24 sales grew 34.5% YoY to INR20.3b (in line). Formulation sales grew 11.8% YoY to INR11.6b (57% of sales). DF sales rose 13.5% YoY to INR6.9b (59% of formulation sales). Export sales increased 9.5% YoY to INR4.7b (41% of formulation sales). Exports of generic formulations grew 15% YoY to INR2.3b (49% of export sales). Exports of branded formulations rose 3.5% YoY to INR1.6b (34% of export sales). Exports of institutional sales grew 7.5% YoY to INR814m (17% of export sales). API sales declined 3.6% YoY to INR3.3b (16% of sales). Domestic API sales declined 19% YoY to INR766m (23% of API sales). Export API sales grew 2.2% YoY to INR2.6b (77% of API sales). Revenue from subsidiaries surged 4.8x YoY to INR5.2b (26% of sales). The revenue growth was largely due to Unichem.
- Gross margin (GM) expanded 540bp YoY to 66.3% due to superior product mix/lower RM costs.
- However, EBITDA margin expanded at a lower rate of 390bp YoY to 15.8% (our est: 13.6%), due to higher employee expenses/other expenses (+130bp/30bp YoY as % of sales).
- EBITDA grew 78% YoY to INR3.2b (our est: INR2.7b).
- There was a one-off charge of INR1.4b on account of a provision for a European commission fine and an impairment of exposure in Associate.
- Adjusting for this charge and FX gain of INR173m, Adj. PAT for the company grew 32.7% YoY to INR930m (our estimate: INR1.3b).
- For FY24**, revenue/EBITDA grew 23%/33% YoY to INR77b/INR13b, while PAT was flat YoY at INR5.3b. EBITDA margin expanded 130bp YoY to 17%.

Highlights from the management commentary

- IPCA guided consol. revenue/EBITDA at INR90b/INR16b for FY25.

Y/E March	Quarterly Performance								(INR m)			
	FY23				FY24				FY23	FY24	Est.	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	4QE	% Chg		
Net Revenues (Core)	15,857	16,010	15,460	15,116	15,876	20,340	20,529	20,330	62,569	77,074	19,976	1.8
YoY Change (%)	1.3	3.7	8.1	17.3	0.1	27.0	32.8	34.5	7.3	23.2	32.2	
EBITDA	2,835	2,722	2,319	1,810	2,941	3,606	3,310	3,219	9,812	13,076	2,725	18.1
YoY Change (%)	-31.9	-29.3	-24.7	-25.0	3.8	32.4	42.7	77.9	-27.4	33.3	50.6	
Margins (%)	17.9	17.0	15.0	12.0	18.5	17.7	16.1	15.8	15.7	17.0	13.6	
Depreciation	617	637	666	695	693	903	995	981	2,616	3,572	997	
EBIT	2,218	2,085	1,654	1,115	2,249	2,702	2,315	2,238	7,197	9,503	1,728	29.5
YoY Change (%)	-38.5	-36.5	-33.6	-38.2	1.4	29.6	40.0	100.7	-35.7	32.0	55.0	
Margins (%)	14.0	13.0	10.7	7.4	14.2	13.3	11.3	11.0	11.5	12.3	8.7	
Interest	69	93	108	185	314	441	334	294	455	1,383	336	
Other Income	221	362	309	259	449	386	225	16	1,151	1,075	232	
PBT before EO Expense	2,369	2,354	1,854	1,189	2,383	2,647	2,205	1,960	7,892	9,195	1,624	
One-off (gain)/ Expense	142	116	161	-105	-135	393	-684	1,194	314	769	0	
PBT after EO Expense	2,227	2,238	1,693	1,294	2,518	2,254	2,889	766	7,579	8,426	1,624	
Tax	743	770	537	482	856	879	662	737	2,532	3,135	349	
Rate (%)	33.3	34.4	31.7	37.2	34.0	39.0	22.9	96.2	32.1	34.1	21.5	
Reported PAT	1,484	1,468	1,156	812	1,662	1,374	2,227	29	5,044	5,292	1,276	-97.7
Minority Interest	-54	-29	-78	-46	-34	76	-428	-598	-206	-984	-75	
Adj PAT after Minority Int	1,525	1,861	1,188	701	1,539	1,690	1,115	930	5,275	5,274	1,276	-27.1
YoY Change (%)	-50.3	-31.0	-37.2	-52.8	0.9	-9.2	-6.1	32.7	-42.8	0.0	82.1	
Margins (%)	9.6	11.6	7.7	4.6	9.7	8.3	5.4	4.6	8.4	6.8	6.4	

E: MOFSL Estimates. Quarter - Standalone; Full year - Consolidated

Key performance Indicators

Y/E March	FY23				FY23				FY23	FY24	Est.
	INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	4QE	
Domestic formulations	6,848	7,657	7,023	6,079	7,827	8,450	7,796	6,898	27,607	30,972	6,571
YoY Change (%)	11.7	9.7	8.8	10.2	14.3	10.4	11.0	13.5	10.1	12.2	8.1
Exports formulations	4,018	4,044	4,004	4,326	3,979	4,707	4,331	4,737	16,392	17,753	4,481
YoY Change (%)	-9.1	15.2	15.2	24.9	-1.0	16.4	8.2	9.5	10.3	8.3	3.6
API sales	3,751	3,072	3,222	3,470	2,951	3,349	2,850	3,343	13,773	12,493	3,126
YoY Change (%)	-9.5	-14.6	4.2	34.6	-21.3	9.0	-11.6	-3.6	2.7	-9.3	-9.9
Cost Break-up											
RM Cost (% of Sales)	36.5	35.9	36.3	39.1	32.5	33.3	34.0	33.7	36.9	33.4	34.8
Staff Cost (% of Sales)	20.4	19.9	20.6	21.7	22.5	20.9	22.4	22.9	20.6	22.2	23.1
Other Cost (% of Sales)	25.3	27.2	28.1	27.3	26.5	28.0	27.6	27.5	26.9	27.5	28.5
Gross Margins(%)	63.5	64.1	63.7	60.9	67.5	66.7	66.0	66.3	63.1	66.6	65.2
EBITDA Margins(%)	17.9	17.0	15.0	12.0	18.5	17.7	16.1	15.8	15.7	17.0	13.6
EBIT Margins(%)	14.0	13.0	10.7	7.4	14.2	13.3	11.3	11.0	11.5	12.3	8.7

E: MOFSL Estimates



Highlights from the management commentary

- DF and export generics segment sales are expected to grow 12% YoY each, while API segment sales are anticipated to grow 7-8% YoY for FY25.
- The branded generics exports segment is facing some challenges, partly due to currency headwinds.
- Unichem is expected to deliver INR2.3b EBITDA in FY25 vs. INR1b in FY24
- IPCA indicated to re-launch 6-7 ANDAs in FY25
- Extreme weather condition is affecting acute therapies' outlook. In 4QFY24, the acute therapy grew 3% YoY at the industry level.
- As per IQVIA, IPCA delivered 15% YoY growth in the DF segment vs. IPM growth of 6% in 4QFY24.

- The Silvassa site has started manufacturing for the US market. About 2-3 products are in the commercialization stage on this site. The Pithampur site has at about 30% utilization.
- KREBS, a subsidiary of IPCA, has been making losses due to under-utilization of fermenters. IPCA is exploring opportunities to scale-up production/add newer products to reduce losses
- R&D expenses would be INR2.5b for FY25.

Growth in DF/generic exports to be partly offset by challenges in branded exports segment

Superior execution/additional MR force to drive the DF segment

- In FY24, the DF segment grew 12% YoY to INR31b, led majorly by Derma, Pain, Cardiac and anti-Neoplast therapies. IPCA outperformed the IPM by 560bp YoY in 9MFY24, as per IMS data.
- Additionally, IPCA continues to implement efforts toward increasing its field-force productivity.
- Accordingly, we expect 12% sales CAGR in the DF segment to INR38.8b over FY24-26, led by increased traction in key therapies and MR productivity.

API segment to be driven by capacity expansion

- In FY24, API sales declined 9.3% YoY to INR12.5b due to a considerable reduction in prices.
- The prices are now stabilized for major APIs supplied by IPCA.
- It is also adding capacity to not only have captive consumption, but also external sales.
- We expect an 8.8% sales CAGR in this segment to INR14.8b over FY24-26.

Portfolio expansion/synergies with Unichem to drive growth

- In FY24, export sales grew 8% YoY at INR17.8b, led by robust performance across generic formulations. However, it was offset by subdued performance by institutional business.
- Particularly, in the US, IPCA has enhanced efforts to build a robust product pipeline and it will gradually start filing in the US. Further, IPCA is commercializing the already-approved ANDA in the US market.
- It is also working on multiple aspects to improve business prospects as well as build synergy with the Unichem acquisition.
- Accordingly, we expect overall export formulations to clock 29% sales CAGR to reach INR29.7b over FY24-26.

Valuation and view

- We cut our earnings estimates by 12%/14% for FY25/FY26, factoring in: 1) a gradual uptick from the re-launches of ANDAs in the US market, 2) a challenging outlook in the branded generic exports segment, and c) moderation in the growth outlook in acute therapies within the DF segment. We value IPCA at 26x 12M forward earnings to arrive at our TP of INR1,140.
- IPCA continues to progress well on improving the profitability of Unichem and enhancing synergy with it. Management is also working on scaling up the US generics business from its own facility. Further, it remains on track to

outperform the industry in the DF segment. Accordingly, we model a 39% earnings CAGR over FY24-26, partly due to the low base of FY24. The current valuation adequately factors in the upside in earnings. **Reiterate Neutral.**

Exhibit 1: P/E chart

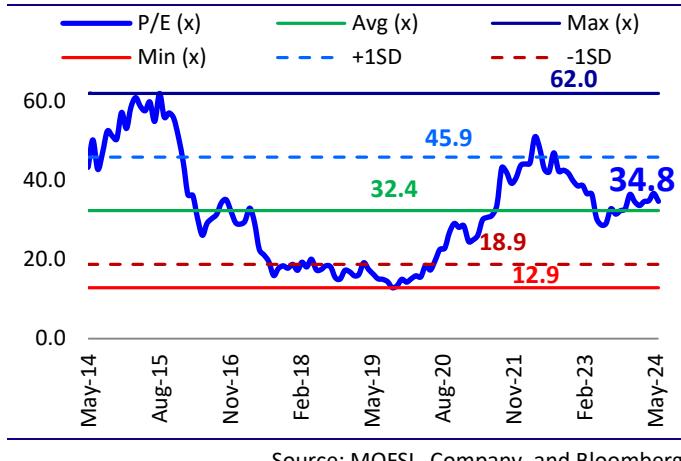
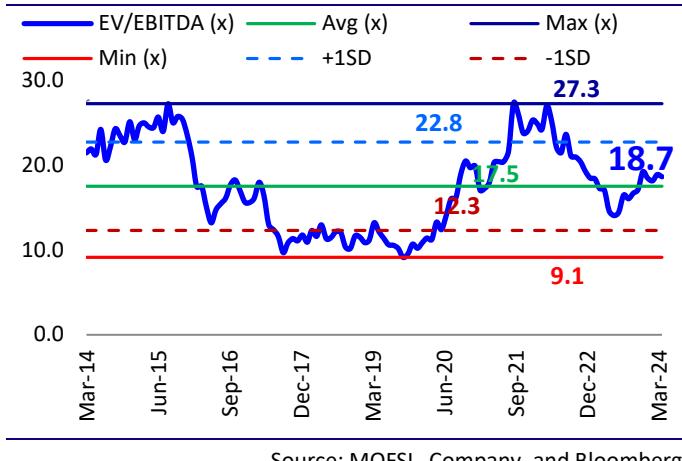


Exhibit 2: EV/EBITDA chart



Story in charts

Exhibit 3: Total sales grew 34.5% YoY in 4QFY24

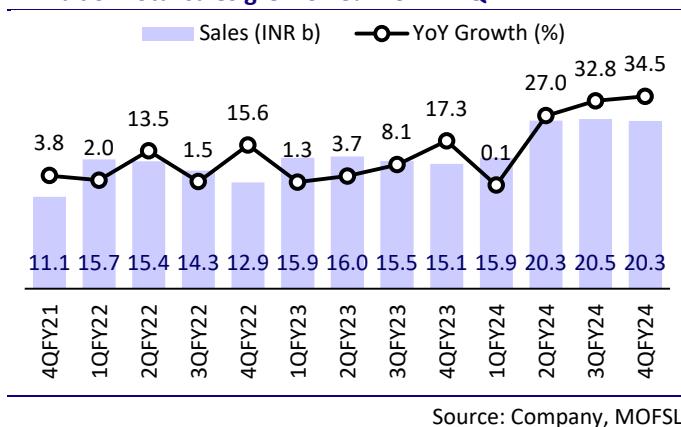


Exhibit 4: DF sales grew 13.5% YoY in 4QFY24

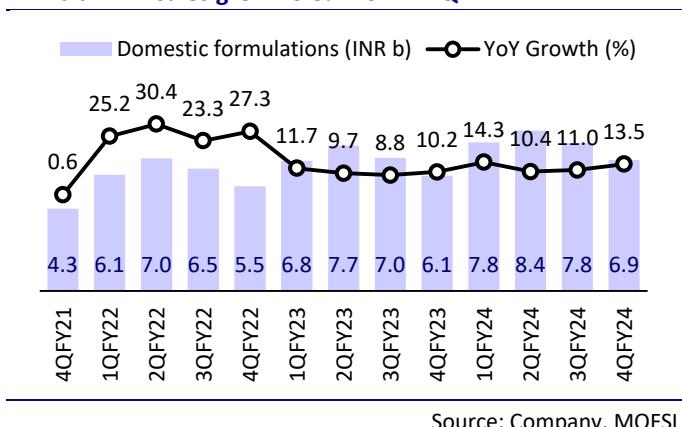


Exhibit 5: Export formulation sales grew 9.5% YoY

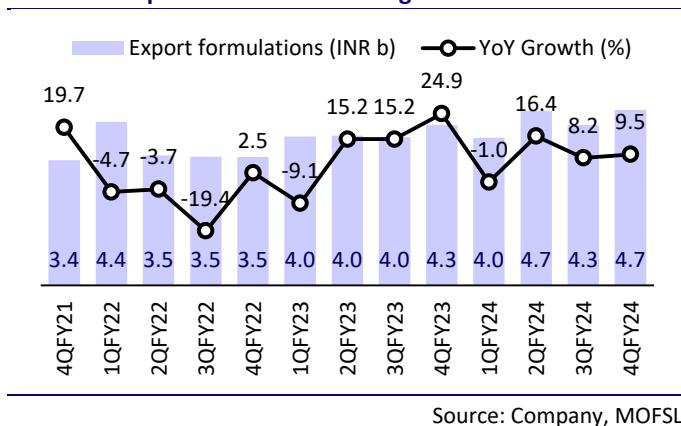


Exhibit 6: API sales declined 3.6% YoY in 4QFY24

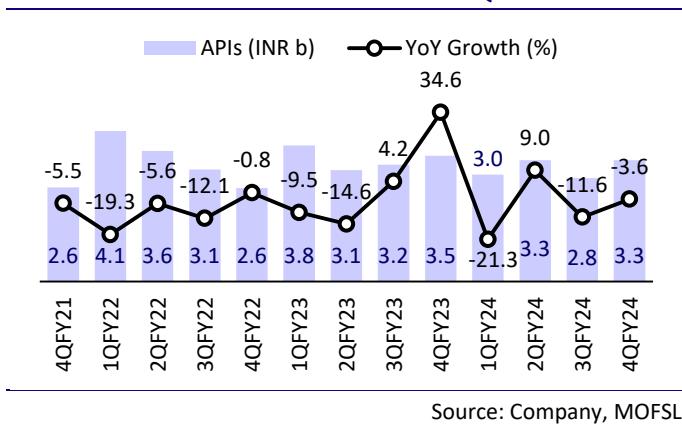
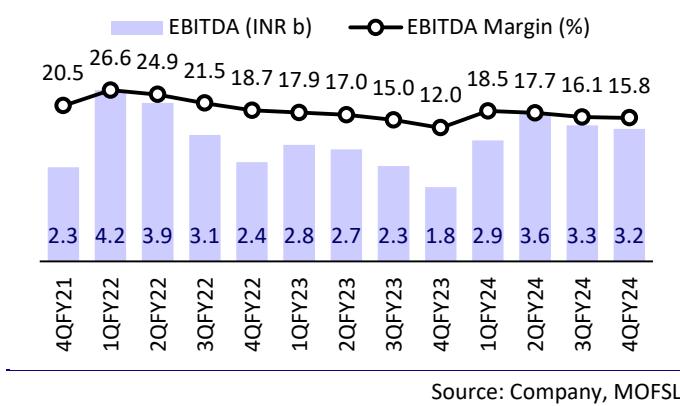
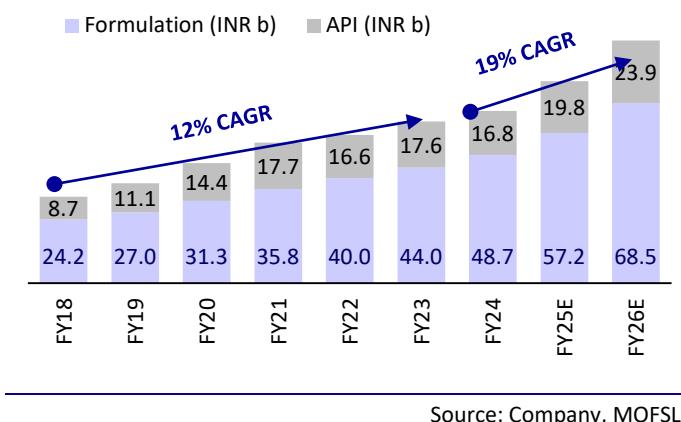
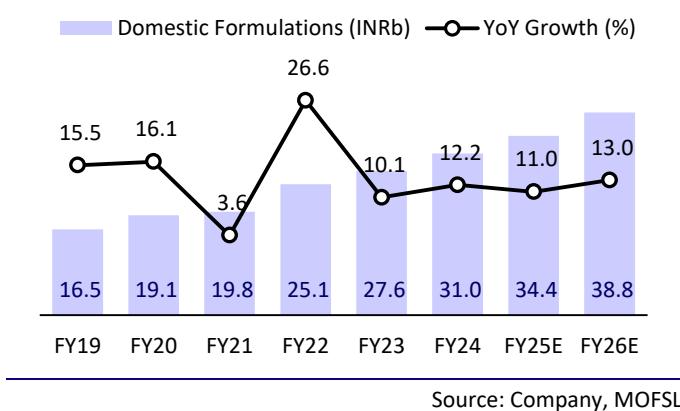
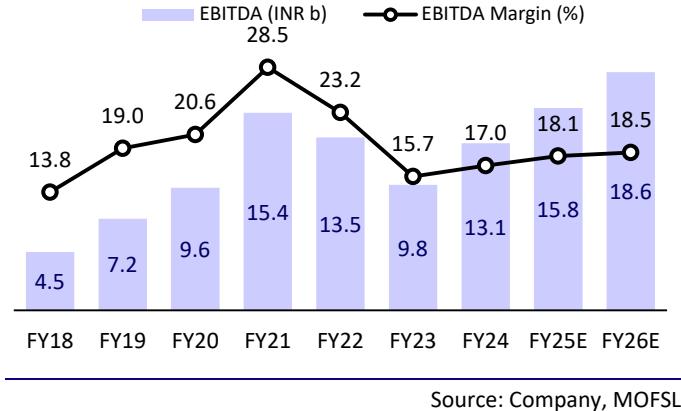
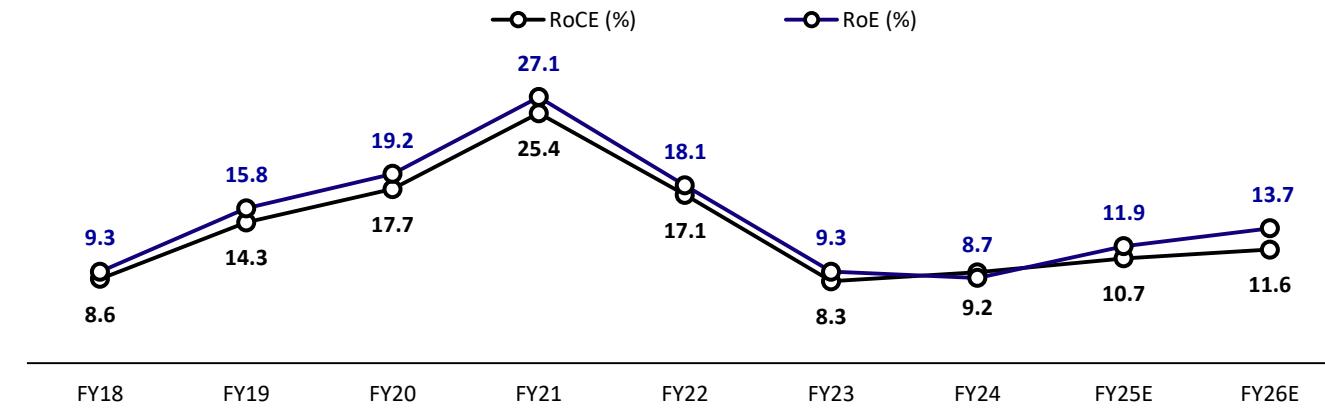


Exhibit 7: EBITDA margin expanded 390bp YoY in 4QFY24**Exhibit 8: Expect 19% sales CAGR over FY24-26****Exhibit 9: Expect 12% DF sales CAGR over FY24-26****Exhibit 10: Expect margin to expand over FY24-26****Exhibit 11: Expect return ratios to improve over FY24-26**

Financials and valuations

Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	37,732	46,487	54,200	58,298	62,569	77,074	87,475	1,00,678
Change (%)	14.9	23.2	16.6	7.6	7.3	23.2	13.5	15.1
EBITDA	7,170	9,580	15,444	13,509	9,812	13,076	15,833	18,625
Margin (%)	19.0	20.6	28.5	23.2	15.7	17.0	18.1	18.5
Depreciation	1,824	2,105	2,092	2,324	2,616	3,572	3,902	3,926
EBIT	5,346	7,475	13,352	11,184	7,197	9,503	11,931	14,700
Int. and Finance Charges	189	165	90	77	455	1,383	969	950
Other Income - Rec.	483	578	457	666	1,151	1,075	900	950
PBT before EO Expense	5,640	7,888	13,719	11,773	7,892	9,195	11,862	14,699
EO Expense/(Income)	157	445	-171	416	314	769	0	0
PBT after EO Expense	5,483	7,442	13,890	11,357	7,579	8,426	11,862	14,699
Current Tax	1,218	1,406	2,487	2,070	2,302	3,102	3,143	3,748
Deferred Tax	-176	-53	-85	178	230	33	237	294
Tax	1,042	1,353	2,401	2,248	2,532	3,135	3,381	4,042
Tax Rate (%)	18.5	17.2	17.5	19.1	32.1	34.1	28.5	27.5
Reported PAT	4,441	6,090	11,488	9,110	5,047	5,291	8,480	10,656
Less: Minority Interest	18	78	91	269	-206	984	550	450
Net Profit	4,423	6,012	11,398	8,841	5,253	4,307	7,930	10,206
Adj PAT	4,580	6,485	11,255	9,218	5,275	5,274	7,930	10,206
Adj PAT growth (%)	91.3	41.6	73.6	-18.1	-42.8	0.0	50.4	28.7

Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	252	252	254	254	254	254	254	254
Total Reserves	30,971	35,903	46,763	54,666	58,167	63,068	69,810	78,486
Net Worth	31,224	36,275	47,017	54,920	58,420	63,322	70,063	78,739
Deferred Liabilities	1457	1398	1316	1506	1856	3062	3300	3594
Total Loans	3,505	4,328	1,988	8,027	14,746	14,274	24,474	23,047
Capital Employed	36,342	42,137	50,466	65,222	75,755	94,607	97,837	1,05,380
Gross Block	26,657	30,268	31,872	37,647	43,601	65,195	66,695	68,195
Less: Accum. Deprn.	6,951	9,056	11,148	13,472	16,088	19,660	23,562	27,488
Net Fixed Assets	19,706	21,212	20,724	24,175	27,514	45,535	43,133	40,707
Capital WIP	361	708	2,348	3,064	1,404	3,429	3,429	3,429
Investments	1,204	2,719	4,711	9,892	6,260	8,620	8,620	8,620
Curr. Assets	24,217	27,939	32,881	39,237	51,051	53,386	57,754	70,001
Inventory	10,725	13,231	15,948	18,580	17,434	24,713	27,081	30,617
Account Receivables	6,815	8,952	8,118	9,108	9,890	16,865	19,412	22,618
Cash and Bank Balance	2,823	1,809	3,651	6,407	18,532	2,968	1,228	5,219
Loans & Advances	3,854	3,947	5,164	5,143	5,194	8,840	10,032	11,547
Curr. Liability & Prov.	9,147	10,441	10,198	11,147	10,473	16,364	15,098	17,377
Account Payables	8,190	9,182	8,781	9,704	8,923	13,050	13,421	15,447
Provisions	957	1,259	1,417	1,443	1,550	3,314	1,678	1,931
Net Current Assets	15,070	17,498	22,682	28,091	40,577	37,022	42,655	52,624
Appl. of Funds	36,342	42,137	50,466	65,222	75,755	94,607	97,837	1,05,380

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
EPS (INR)	18.1	25.6	44.4	36.3	20.8	20.8	31.3	40.2
Cash EPS	24.8	32.2	53.2	44.0	31.0	31.1	46.6	55.7
BV/Share	123.7	143.2	185.3	216.5	230.3	249.6	276.2	310.4
DPS	0.5	3.6	6.8	6.6	7.7	7.8	7.9	8.1
Payout (%)	2.8	14.8	14.9	18.3	38.3	36.9	23.5	19.0
Valuation (x)								
P/E	69.0	48.7	28.1	34.3	59.9	59.9	39.9	31.0
P/BV	10.1	8.7	6.7	5.8	5.4	5.0	4.5	4.0
EV/Sales	8.4	6.8	5.9	5.5	5.1	4.1	3.6	3.2
EV/EBITDA	44.3	33.2	20.6	23.5	32.4	24.3	20.1	17.1
Dividend Yield (%)	0.0	0.3	0.5	0.5	0.6	0.6	0.6	0.6
Return Ratios (%)								
RoE	15.8	19.2	27.1	18.1	9.3	8.7	11.9	13.7
RoCE	14.3	17.7	25.4	17.1	8.3	9.2	10.7	11.6
RoIC	14.0	18.0	28.7	21.1	10.2	9.7	10.4	12.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.9	2.3	2.6	2.6	2.4	2.1	2.0	2.4
Debtor (Days)	65	70	54	56	58	80	81	82
Inventory (Days)	104	104	107	116	102	117	113	111
Working Capital Turnover (Days)	118	123	128	136	129	161	173	172
Leverage Ratio (x)								
Interest Cover Ratio	28.3	45.3	147.7	145.4	15.8	6.9	12.3	15.5
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	0.2	0.3	0.2

Cash Flow Statement

	(INRm)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Oper. Profit/(Loss) before Tax	7,170	9,580	15,444	13,509	9,812	13,076	15,833	18,625
Interest/Dividends Recd.	483	578	457	666	1,151	1,075	900	950
Direct Taxes Paid	-1,165	-1,412	-2,484	-2,058	-2,181	-1,928	-3,143	-3,748
(Inc)/Dec in WC	-1,686	-3,442	-3,343	-2,652	-361	-12,009	-7,373	-5,977
CF from Operations	4,803	5,304	10,075	9,464	8,421	213	6,216	9,850
Others	365	784						
EO Expense / (Income)	157	445	-171	416	314	769	0	0
CF from Oper. incl EO Exp.	5,010	5,643	10,246	9,048	8,107	-556	6,216	9,850
(inc)/dec in FA	-1,632	-3,958	-3,244	-6,491	-4,294	-23,618	-1,500	-1,500
Free Cash Flow	3,379	1,685	7,002	2,557	3,813	-24,174	4,716	8,350
(Pur)/Sale of Investments	-336	-1,515	-1,992	-5,181	3,632	-2,360	0	0
Others	317	376	0	0	0	0	0	0
CF from Investments	-1,651	-5,097	-5,236	-11,672	-662	-25,979	-1,500	-1,500
Issue of shares	0	0	1	0	0	0	0	0
(Inc)/Dec in Debt	-1,070	804	-2,331	6,663	6,683	12,743	-3,748	-1,427
Interest Paid	-189	-165	-90	-77	-455	-1,383	-969	-950
Dividend Paid	-126	-902	-1,710	-1,670	-1,933	-1,950	-1,989	-2,029
CF from Fin. Activity	-1,832	-1,305	-3,169	5,222	4,681	10,705	-5,816	-3,338
Inc/Dec of Cash	1,528	-758	1,841	2,598	12,126	-15,830	-1,100	5,012
Add: Beginning Balance	2,181	3,709	2,954	4,795	7,393	19,519	3,689	2,590
Forex/ Business acquisition	0	3	0	0	0	0	0	0
Closing Balance	3,709	2,954	4,795	7,393	19,519	3,689	2,590	7,601
Bank balances / Mutual fund (gain)/ loss	-886	-1,145	-1,145	-986	-986	-721	-741	2,382
Closing Balance	2,823	1,809	3,650	6,407	18,533	2,968	1,849	5,219

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NOTES

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