

# Ipsca Laboratories | BUY

## US visibility, margin improvement ahead

Despite reporting a bit sober growth in some of the business segments (India, API, Branded exports) in 4Q, the management has largely maintained 14/15% growth and 18% margins guidance for FY25. It also expects domestic growth to be in double digit (higher than market), and US business to pick up led by 7 to 8 new product launches in FY25 (a few more from 20+ already approved products). API business will likely grow at high single digit while Institutional segment would deliver 14-15% growth. Margin improvement of 100bps+ will come from Unichem as well as the standalone business. While the margin delta has already started reflecting in Unichem's reported financials, the more tangible synergistic benefits will play out gradually. IPCA's US business is at an inflection point – supplies have just begun and 6-7 new launches are expected this fiscal. Given the imminent US turnaround, strong domestic franchise and margin improvement, we maintain BUY with a revised Mar'25 TP of INR 1365.

- **FY25 guidance:** The management guided for 10.5-11.5% revenue growth (standalone basis) with 130-170bps margin improvement to 20.5-21%. At a consol level, the management guided for INR 90bn+ revenues and INR 16bn+ EBITDA (18% EBITDAM).
- **Robust India formulations growth:** Domestic formulations reported largely in-line revenue of INR 6.9bn. IPCA's chronic and acute portfolio grew 12%/11% respectively (per IQVIA) vs. market growth of 3%/10% respectively. The non-NLEM portfolio growth was driven by 4-6% price increase, 5-6% volume growth and 2% from new products. Top 6 cities grew at a stellar 16% YoY. The management guided for ~12% revenue growth in FY25.
- **Exports are a mixed bag:** Exports grew 7% YoY (2% beat) led by +15% YoY growth in Generics business, 4% growth in branded and recovery in institutional business. Institutional/Generics business is expected to grow 14%/12% YoY in FY25. Branded formulations' growth was impacted by rouble devaluation and issues in West Africa. Accordingly, growth expectations here were tapered down. API segment growth remains subdued (3% beat) with FY25 growth also expected to be modest 7-8%.
- **Unichem's performance has been under-appreciated:** The management, detailed a few initiatives: (1) API process optimisation which could lead to cost reduction; (2) Procurement efficiencies due to bulk purchase as in IPCA does; (3) Reducing utility cost; (4) Reduction in losses in UK and Ireland; (5) Market extension of products – of the 17 US ANDAs identified, 5 products can also be filed in Europe, Australia, New Zealand, Canada and 12 products where biostudy needs to be repeated can also be filed in these geographies. Of the aforesaid initiatives, cost duplications, operational efficiencies and rationalisation of procurement has been factored in the current margin delta. However, the benefit of other initiatives will be realised over time. In FY25, Ipsca expects INR 2.25bn EBITDA from Unichem. The distribution of products in the US will be done via Unichem franchise (the company is integrating Bayshore with Unichem).
  - US recovery is imminent – IPCA has commenced shipment for 1 product this month



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,365
Upside/(Downside)	9.3%
Previous Price Target	1,280
Change	6.6%

### Key Data – IPCA IN

Current Market Price	INR1,249
Market cap (bn)	INR316.9/US\$3.8
Free Float	54%
Shares in issue (mn)	253.7
Diluted share (mn)	253.7
3-mon avg daily val (mn)	INR630.4/US\$7.6
52-week range	1,375/683
Sensex/Nifty	73,886/22,489
INR/US\$	83.3

### Price Performance

%	1M	6M	12M
Absolute	-6.7	10.3	81.6
Relative*	-6.0	0.0	53.9

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	57,668	62,069	76,604	93,076	1,06,242
Sales Growth (%)	7.5	7.6	23.4	21.5	14.1
EBITDA	13,093	9,268	13,212	17,314	22,328
EBITDA Margin (%)	22.5	14.8	17.1	18.5	20.9
Adjusted Net Profit	8,841	4,713	6,228	9,727	13,333
Diluted EPS (INR)	34.8	18.6	24.5	38.3	52.6
Diluted EPS Growth (%)	-61.2	-46.7	32.1	56.2	37.1
ROIC (%)	18.4	8.3	9.5	11.7	16.0
ROE (%)	17.3	8.3	10.2	14.4	17.3
P/E (x)	35.8	67.2	50.9	32.6	23.8
P/B (x)	5.8	5.4	5.0	4.4	3.8
EV/EBITDA (x)	24.1	34.2	25.5	19.0	14.2
Dividend Yield (%)	0.3	0.3	0.2	0.5	0.6

Source: Company data, JM Financial. Note: Valuations as of 30/May/2024

and expects to launch 6-7 this year. There are 18 approvals in place and 7-8 under WIP. We have factored in US sales benefit in FY25-26 (USD 25mn/ 45mn).

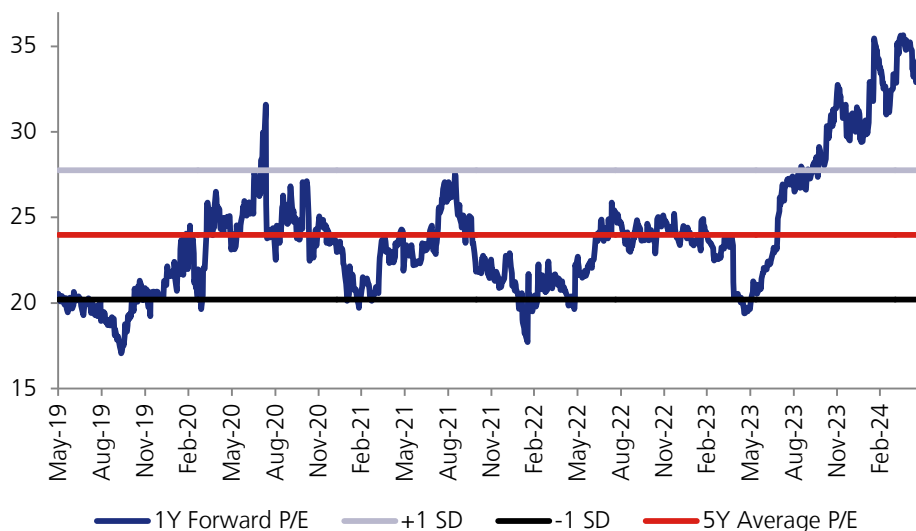
#### ■ Subsidiaries are yet to deliver:

- **Krebs:** Ipca has taken an impairment charge (INR 484mn) for Krebs as it was unable to fully utilise the large fermentation capacities. The company is evaluating opportunities like CMO and believes breakeven could be 1-1.5 years away.
- **Pisgah:** It was created for CRAMS in US primarily to manufacture low volume high value products. It has a small manufacturing facility for narcotic products. Some production may happen at Pisgah for Ipca's products. It is reporting losses currently.
- **Bayshore:** It was created to market Ipca's products in the US but has become redundant now (will be integrated with Unichem which is a bigger and better franchise).
- **Trophic Wellness:** It operates nutraceutical business and is making profits.
- **Onyx:** It is a contract manufacturer in the UK and is doing well (GBP 16-17mn profits).
- We are also yet to see any meaningful improvement in Lyka Labs.

#### ■ Key financials:

- Revenue/EBITDA/Adj.PAT of INR 20.3bn/3.2bn/ 1.6bn grew +34%/+78%/+115% YoY and were -2%/-5%/+14% vs. JMFe. The YoY financials are not comparable due to Unichem acquisition.
- EBITDA margin improved 390 bps YoY to 15.8% (JMFe: 16.4%)
- Reported PAT includes exceptional item amounting to INR 1.4bn, this is largely a provision for European commission fine (INR 1.26bn). However, Adj. PAT came in at INR 1.6bn and was impacted by higher minority interest (primarily from this gain of Unichem).
- India formulations grew 13%yoy to INR 6.9bn (2% miss).
- Overall exports grew 7% YoY (2% beat) above expectations due to growth in branded formulations of 9% YoY (in line)
- Export API sales were INR 2.6bn (+2%YoY) and were 3% above estimates.

#### Exhibit 1. Valuation



Source: Bloomberg, JM Financial

## Exhibit 2. 4QFY24 review

Ipca P&L (INR mn)	4QFY23A	4QFY24A	% YoY	4QFY24E	% Delta vs JMFe	4QFY24E (cons)	% Delta vs Cons.	3QFY24A	% QoQ
<b>Total Income</b>	<b>15,116</b>	<b>20,330</b>	<b>34%</b>	<b>20,719</b>	<b>-2%</b>	<b>20,300</b>	<b>0%</b>	<b>20,529</b>	<b>-1%</b>
Raw material	5,912	6,859	16%	7,045	-3%			6,970	-2%
Gross Profit	9,205	13,471	46%	13,675	-1%			13,559	-1%
% Gross Profit Margin	61%	66%	537 bps	66%	26 bps			66%	21 bps
Staff cost	3,273	4,660	42%	4,579	2%			4,590	2%
Mfg & Other expense	4,121	5,592	36%	5,698	-2%			5,655	-1%
<b>EBITDA</b>	<b>1,810</b>	<b>3,219</b>	<b>78%</b>	<b>3,398</b>	<b>-5%</b>	<b>3,211</b>	<b>0%</b>	<b>3,313</b>	<b>-3%</b>
<b>% EBITDA Margin</b>	<b>12.0%</b>	<b>15.8%</b>	<b>386 bps</b>	<b>16.4%</b>	<b>-57 bps</b>	<b>15.8%</b>		<b>16.1%</b>	<b>-31 bps</b>
Other income	364	189	-48%	250	-24%			225	-16%
Interest Expense	185	294	59%	330	-11%			334	-12%
Depreciation	695	981	41%	1,000	-2%			995	-1%
Extraordinary income (expense)		-1,367		0				680	
Other foreign exchange gain (loss)									
Profit Before Tax (PBT)	1,294	766	-41%	2,318	-67%			2,889	-73%
Tax	484	737	52%	672	10%			662	11%
% Tax rate	37%	96%		29%				23%	
Minority Interest	-46	567		-200				-428	
<b>Reported PAT</b>	<b>765</b>	<b>596</b>	<b>-22%</b>	<b>1,446</b>	<b>-59%</b>			<b>1,799</b>	<b>-67%</b>
<b>Adj. PAT</b>	<b>765</b>	<b>1,649</b>	<b>115%</b>	<b>1,446</b>	<b>14%</b>	<b>1,400</b>	<b>18%</b>	<b>1,275</b>	<b>29%</b>
<b>Reported EPS</b>	<b>3.0</b>	<b>2.3</b>	<b>-22%</b>	<b>5.7</b>	<b>-59%</b>			<b>7.1</b>	<b>-67%</b>
<b>% Cost Ratios</b>	<b>4QFY23A</b>	<b>4QFY24A</b>	<b>% YoY</b>	<b>4QFY24E</b>	<b>% Delta vs JMFe</b>			<b>3QFY24A</b>	<b>% QoQ</b>
Raw Materials	39.1	33.7	-537 bps	34.0	-26 bps			34.0	21 bps
Staff cost	21.7	22.9	127 bps	21.5	142 bps			22.4	-56 bps
Mfg & Other expense	27.3	27.5	25 bps	28.5	-99 bps			27.5	4 bps
<b>Sales Break-up</b>	<b>4QFY23A</b>	<b>4QFY24A</b>	<b>% YoY</b>	<b>4QFY24E</b>	<b>% Delta vs JMFe</b>			<b>3QFY24A</b>	<b>% QoQ</b>
<b>Domestic</b>	<b>7,027</b>	<b>7,664</b>	<b>9%</b>	<b>8,000</b>	<b>-4%</b>			<b>8,573</b>	<b>-11%</b>
Formulations	6,079	6,898	13%	7,052	-2%			7,796	-12%
API	948	766	-19%	948	-19%			777	-1%
<b>Exports</b>	<b>6,849</b>	<b>7,314</b>	<b>7%</b>	<b>7,201</b>	<b>2%</b>			<b>6,403</b>	<b>14%</b>
Formulations	4,326	4,737	9%	4,704	1%			4,331	9%
- Generic	2,005	2,303	15%	2,506	-8%			2,517	-9%
- Branded	1,564	1,619	4%	1,486	9%			1,048	54%
- Institutional	758	814	7%	712	14%			766	6%
Subsidiaries	1,100	907	-18%	1,166	-22%			1,117	-19%
API	2,522	2,577	2%	2,497	3%			2,073	24%

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	57,668	62,069	76,604	93,076	1,06,242	
Sales Growth	7.5%	7.6%	23.4%	21.5%	14.1%	
Other Operating Income	630	374	447	514	591	
<b>Total Revenue</b>	<b>58,298</b>	<b>62,443</b>	<b>77,050</b>	<b>93,590</b>	<b>1,06,833</b>	
Cost of Goods Sold/Op. Exp	20,149	23,065	25,758	31,165	35,255	
Personnel Cost	11,774	12,876	17,084	20,309	21,260	
Other Expenses	13,283	17,234	20,997	24,801	27,990	
<b>EBITDA</b>	<b>13,093</b>	<b>9,268</b>	<b>13,212</b>	<b>17,314</b>	<b>22,328</b>	
EBITDA Margin	22.5%	14.8%	17.1%	18.5%	20.9%	
EBITDA Growth	-15.2%	-29.2%	42.6%	31.1%	29.0%	
Depn. & Amort.	2,324	2,616	3,572	4,285	4,623	
EBIT	10,769	6,652	9,639	13,029	17,705	
Other Income	666	1,256	1,248	1,778	2,030	
Finance Cost	77	455	1,383	1,159	870	
PBT before Excep. & Forex	11,357	7,453	9,504	13,648	18,865	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	11,357	7,453	9,504	13,648	18,865	
Taxes	2,248	2,534	3,135	3,821	5,282	
Extraordinary Inc./Loss(-)	0	0	-1,078	0	0	
Assoc. Profit/Min. Int.(-)	-155	-53	-307	400	750	
Reported Net Profit	8,841	4,713	5,473	9,727	13,333	
<b>Adjusted Net Profit</b>	<b>8,841</b>	<b>4,713</b>	<b>6,228</b>	<b>9,727</b>	<b>13,333</b>	
Net Margin	15.2%	7.5%	8.1%	10.4%	12.5%	
Diluted Share Cap. (mn)	253.7	253.7	253.7	253.7	253.7	
<b>Diluted EPS (INR)</b>	<b>34.8</b>	<b>18.6</b>	<b>24.5</b>	<b>38.3</b>	<b>52.6</b>	
Diluted EPS Growth	-61.2%	-46.7%	32.1%	56.2%	37.1%	
Total Dividend + Tax	1,015	1,015	507	1,459	2,000	
Dividend Per Share (INR)	4.0	4.0	2.0	5.8	7.9	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	54,920	58,420	63,322	71,590	82,922	
Share Capital	254	254	254	254	254	
Reserves & Surplus	54,666	58,167	63,068	71,336	82,669	
Preference Share Capital	0	0	0	0	0	
Minority Interest	769	733	13,948	14,198	14,698	
Total Loans	7,912	14,575	13,875	12,875	10,875	
Def. Tax Liab. / Assets (-)	1,506	1,856	3,062	3,062	3,062	
<b>Total - Equity &amp; Liab.</b>	<b>65,107</b>	<b>75,584</b>	<b>94,207</b>	<b>1,01,725</b>	<b>1,11,558</b>	
Net Fixed Assets	27,031	28,669	46,800	46,476	46,083	
Gross Fixed Assets	33,770	39,781	66,030	70,492	75,222	
Intangible Assets	3,637	3,687	4,326	4,326	4,326	
Less: Depn. & Amort.	13,314	16,020	26,792	31,078	35,701	
Capital WIP	2,939	1,222	3,236	2,736	2,236	
Investments	9,892	6,260	8,620	8,620	8,620	
Current Assets	39,445	51,300	55,550	65,595	77,308	
Inventories	18,580	17,434	24,696	26,923	29,269	
Sundry Debtors	9,108	9,890	16,865	17,949	17,562	
Cash & Bank Balances	2,752	12,579	2,089	10,520	19,910	
Loans & Advances	103	32	94	94	94	
Other Current Assets	8,903	11,366	11,806	10,110	10,472	
Current Liab. & Prov.	11,262	10,644	16,763	18,967	20,454	
Current Liabilities	5,713	5,424	8,170	9,802	11,034	
Provisions & Others	5,549	5,220	8,593	9,166	9,420	
Net Current Assets	28,184	40,656	38,787	46,628	56,854	
<b>Total - Assets</b>	<b>65,107</b>	<b>75,584</b>	<b>94,207</b>	<b>1,01,725</b>	<b>1,11,557</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	11,357	7,453	8,427	13,648	18,865	
Depn. & Amort.	2,324	2,616	3,572	4,285	4,623	
Net Interest Exp. / Inc. (-)	-266	-338	753	-619	-1,160	
Inc (-) / Dec in WCap.	-2,728	490	-916	710	-836	
Others	-107	74	573	150	250	
Taxes Paid	-2,020	-2,237	-2,963	-3,821	-5,282	
<b>Operating Cash Flow</b>	<b>8,560</b>	<b>8,058</b>	<b>9,447</b>	<b>14,353</b>	<b>16,460</b>	
Capex	-4,790	-4,945	-4,106	-3,962	-4,230	
Free Cash Flow	3,771	3,113	5,341	10,391	12,231	
Inc (-) / Dec in Investments	-2,358	-453	390	0	0	
Others	-1,403	-1,852	-9,202	1,658	2,030	
<b>Investing Cash Flow</b>	<b>-8,551</b>	<b>-7,250</b>	<b>-12,918</b>	<b>-2,304</b>	<b>-2,200</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-1,015	-1,015	-507	-1,459	-2,000	
Inc / Dec (-) in Loans	5,403	6,577	-3,569	-1,000	-2,000	
Others	-121	-490	-1,449	-1,159	-870	
<b>Financing Cash Flow</b>	<b>4,268</b>	<b>5,072</b>	<b>-5,526</b>	<b>-3,618</b>	<b>-4,870</b>	
<b>Inc / Dec (-) in Cash</b>	<b>4,278</b>	<b>5,880</b>	<b>-8,997</b>	<b>8,431</b>	<b>9,391</b>	
Opening Cash Balance	1,660	2,752	12,579	2,089	10,520	
Closing Cash Balance	2,752	12,579	2,089	10,520	19,910	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
Net Margin		15.2%	7.5%	8.1%	10.4%	12.5%
Asset Turnover (x)		1.0	0.9	0.9	0.9	1.0
Leverage Factor (x)		1.1	1.3	1.4	1.5	1.4
RoE		17.3%	8.3%	10.2%	14.4%	17.3%

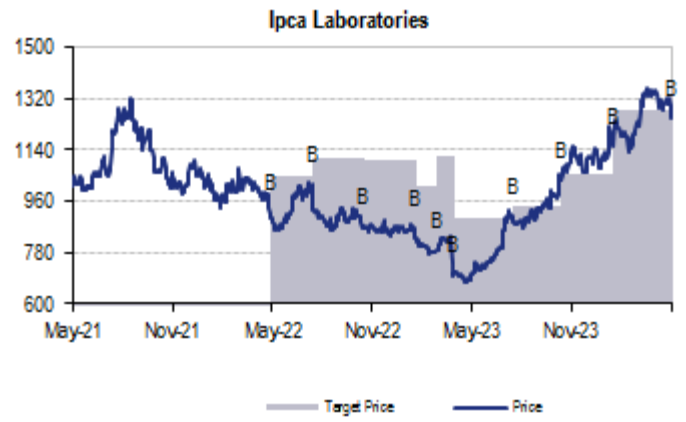
Key Ratios		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
BV/Share (INR)		216.5	230.3	249.6	282.2	326.8
ROIC		18.4%	8.3%	9.5%	11.7%	16.0%
ROE		17.3%	8.3%	10.2%	14.4%	17.3%
Net Debt/Equity (x)		0.0	0.0	0.1	0.0	-0.2
P/E (x)		35.8	67.2	50.9	32.6	23.8
P/B (x)		5.8	5.4	5.0	4.4	3.8
EV/EBITDA (x)		24.1	34.2	25.5	19.0	14.2
EV/Sales (x)		5.4	5.1	4.4	3.5	3.0
Debtor days		57	58	80	70	60
Inventory days		116	102	117	105	100
Creditor days		45	36	44	45	46

Source: Company, JM Financial

**History of Recommendation and Target Price**

Date	Recommendation	Target Price	% Chg.
26-May-22	Buy	1,050	
11-Aug-22	Buy	1,110	5.7
14-Nov-22	Buy	1,105	-0.5
16-Feb-23	Buy	1,010	-8.6
27-Mar-23	Buy	1,115	10.4
26-Apr-23	Buy	900	-19.3
13-Aug-23	Buy	940	4.4
12-Nov-23	Buy	1,055	12.2
15-Feb-24	Buy	1,280	21.3

**Recommendation History**



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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