

Ipca Laboratories

Estimate change 

TP change 

Rating change 

CMP: INR1,491

TP: INR1,940 (+30%)

Buy

India and Unichem fuel profitable growth

Efforts in progress to improve business prospects across segments

- Ipca Laboratories (IPCA) delivered a better-than-expected performance in 3QFY25. It has consistently outperformed the industry in the domestic formulation (DF) market. However, this was partly offset by muted business in the South African market. The API prices have been stable, and inventories are moving towards normalized quantum at the industry level.
- We raise our earnings estimates by 4%/3%/2% for FY25/FY26/FY27 factoring in: 1) the increased share of higher-margin products, 2) better operating leverage for the US business of both IPCA and Unichem, and 3) a revival in the South African business. We value IPCA at 36x 12M forward earnings to arrive at our TP of INR1,940 on a 12M forward earnings basis.
- IPCA remains on track to: a) revive the US business from its own site as well as integrate/scale Unichem operations, b) increase offerings/enhance reach/gain market share in the DF segment, c) drive improvement in operating leverage. We model a 28% earnings CAGR over FY25-27. **Reiterate BUY.**

Better segmental mix partly offset by higher opex on a YoY basis

- IPCA's 3QFY25 sales grew 9.4% YoY to INR22.5b (our est: INR22.9b). DF sales grew 12.5% YoY to INR8.8b (39% of total sales). Exports formulation sales increased 5.8% YoY to INR4.6b (20% of total sales). Exports-branded sales rose 52.7% YoY to INR1.6b. Exports-generics sales dipped 11% YoY to INR2.2b. Exports-institutional sales declined 3.1% YoY to INR741m. API sales grew 11.6% YoY to INR3.2b (14% of sales).
- Revenue from subsidiaries grew 2% YoY to INR5.8b (23% of sales). The revenue growth is largely due to Unichem.
- Gross margin (GM) expanded 420bp YoY to 70.2%, due to superior product mix/lower RM costs.
- In line with gross margin, EBITDA margin expanded 450bp YoY to 20.6% (our est: 17.8%), as lower employee expenses (70bp YoY as a % of sales) were partly offset by higher other expenses (+40bp YoY as a % of sales).
- EBITDA rose 40% YoY to INR4.6b (our est: INR4.1b).
- Adj. PAT for the company grew 122.5% YoY to INR2.5b (our est: INR2.0b).
- Revenue/EBITDA/PAT grew 17.9%/31.7%/54.4% YoY in 9MFY25.

Highlights from the management commentary

- IPCA guided a standalone EBITDA margin of 23-24% and a consolidated EBITDA margin of 19.0-19.5% for FY25.
- GM for 3QFY25 was high due to a reduction in material costs. While the pricing was stable, a better product mix led to better GM. The chronic portfolio has done well, driving better GM.
- The Generics business was hit mainly by lower off-take for the South African market (INR1.2b to INR400m sales on an annualized basis). This was largely due to the loss of tender. Significant improvement is likely in FY26.
- IPCA reported volume growth of 6-7% and the price hike was 5-6% YoY for the quarter.

	IPCA IN
Bloomberg	
Equity Shares (m)	254
M.Cap.(INRb)/(USDb)	378.2 / 4.4
52-Week Range (INR)	1758 / 1052
1, 6, 12 Rel. Per (%)	-5/11/23
12M Avg Val (INR M)	704

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	89.1	100.8	117.0
EBITDA	17.1	20.9	24.7
Adjusted PAT	8.7	11.6	14.3
EBIT Margin (%)	14.7	16.7	17.6
Cons. Adj EPS (INR)	34.3	45.8	56.5
EPS Gr. (%)	65.1	33.4	23.4
BV/Sh. (INR)	278.8	317.7	365.7

Ratios

Net D-E	0.1	0.0	-0.1
RoE (%)	13.0	15.4	16.5
RoCE (%)	12.4	14.2	15.4
Payout (%)	21.3	16.8	19.0

Valuation

P/E (x)	43.4	32.6	26.4
EV/EBITDA (x)	22.2	18.2	15.4
Div. Yield (%)	0.5	0.5	0.7
FCF Yield (%)	2.1	2.0	2.7
EV/Sales (x)	4.3	3.8	3.2

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	44.7	46.3	46.3
DII	35.7	34.2	34.5
FII	11.1	10.8	10.3
Others	8.5	8.6	8.9

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	% Chg
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Revenues (Core)	15,876	20,340	20,529	20,330	20,926	23,549	22,454	22,187	77,074	89,116	22,929	-2.1
YoY Change (%)	0.1	27.0	32.8	34.5	31.8	15.8	9.4	9.1	23.2	15.6	11.7	
EBITDA	2,941	3,606	3,310	3,219	3,927	4,425	4,631	4,128	13,076	17,110	4,081	13.5
YoY Change (%)	3.8	32.4	42.7	77.9	33.5	22.7	39.9	28.2	33.3	30.9	23.3	
Margins (%)	18.5	17.7	16.1	15.8	18.8	18.8	20.6	18.6	17.0	19.2	17.8	
Depreciation	693	903	995	981	989	1,004	985	990	3,572	3,967	995	
EBIT	2,249	2,702	2,315	2,238	2,938	3,421	3,646	3,137	9,503	13,143	3,086	18.1
YoY Change (%)	1.4	29.6	40.0	100.7	30.7	26.6	57.5	40.2	32.0	38.3	33.3	
Margins (%)	14.2	13.3	11.3	11.0	14.0	14.5	16.2	14.1	12.3	14.7	13.5	
Interest	314	441	334	294	241	226	168	147	1,383	781	230	
Other Income	449	386	225	16	206	263	201	230	1,075	900	235	
PBT before EO Expense	2,383	2,647	2,205	1,960	2,904	3,458	3,679	3,220	9,195	13,261	3,091	
One-off (gain)/ Expense	-135	393	-684	1,194	0	0	0	0	769	0	0	
PBT after EO Expense	2,518	2,254	2,889	766	2,904	3,458	3,679	3,220	8,426	13,261	3,091	
Tax	856	879	662	737	914	994	906	1,098	3,135	3,912	927	
Rate (%)	34.0	39.0	22.9	96.2	31.5	28.7	24.6	34.1	34.1	29.5	30.0	
Reported PAT	1,662	1,374	2,227	29	1,990	2,464	2,773	2,122	5,292	9,349	2,164	28.2
Minority Interest	-34	76	-428	-598	-67	-160	-292	-123	-984	-642	-180	
Adj PAT after Minority Int	1,539	1,690	1,115	930	1,922	2,305	2,481	1,999	5,274	8,707	1,984	25.1
YoY Change (%)	0.9	-9.2	-6.1	32.7	24.9	36.4	122.5	114.9	0.0	65.1	77.9	
Margins (%)	9.7	8.3	5.4	4.6	9.2	9.8	11.1	9.0	6.8	9.8	8.7	

Key performance Indicators

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
INR m											
Domestic formulations	7,827	8,450	7,796	6,898	8,734	9,405	8,772	7,623	30,972	34,533	8,677
YoY Change (%)	14.3	10.4	11.0	13.5	11.6	11.3	12.5	10.5	12.2	11.5	11.3
Exports formulations	3,979	4,707	4,331	4,737	3,954	5,415	4,582	5,370	17,753	19,320	5,378
YoY Change (%)	-1.0	16.4	8.2	9.5	-0.6	15.0	5.8	13.4	8.3	8.8	24.2
API sales	2,951	3,349	2,850	3,343	2,880	3,186	3,179	3,285	12,493	12,530	3,212
YoY Change (%)	-21.3	9.0	-11.6	-3.6	-2.4	-4.9	11.6	-1.7	-9.3	0.3	12.7
Cost Break-up											
RM Cost (% of Sales)	32.5	33.3	34.0	33.7	30.8	32.2	29.8	30.4	33.4	30.8	33.0
Staff Cost (% of Sales)	22.5	20.9	22.4	22.9	23.3	21.7	21.6	22.3	22.2	22.2	22.2
Other Cost (% of Sales)	26.5	28.0	27.6	27.5	27.2	27.4	28.0	28.6	27.5	27.8	27.0
Gross Margin (%)	67.5	66.7	66.0	66.3	69.2	67.8	70.2	69.6	66.6	69.2	67.0
EBITDA Margin (%)	18.5	17.7	16.1	15.8	18.8	18.8	20.6	18.6	17.0	19.2	17.8
EBIT Margin (%)	14.2	13.3	11.3	11.0	14.0	14.5	16.2	14.1	12.3	14.7	13.5

E: MOFSL Estimates



Highlights from the management commentary

- IPCA shipped four products and seven to eight products are in the pipeline for the US market.
- IPCA's Acute segment reported YoY sales growth of 8.7% vs. +6.0% for IPM in 3Q.
- IPCA posted a sales growth of 17.1% YoY for the Chronic segment vs. +9.7% for IPM in 3QFY25.
- Backward integration, using IPCA API for Unichem formulation, to start reflecting in a couple of quarters.
- API segment has scope to grow 8-10% YoY. The Dewas facility started and running at 30-35% capacity utilization.
- Unichem – 3 / 4 product launches can be expected on an annual basis for the next 4-5 years. Unichem would not need any further formulation capacity

expansion over the next 4-5 years. IPCA would also file 5-6 ANDAs every year going forward.

- The Zerodol portfolio continues to grow well. However, it was offset partly by subdued growth in anti-malaria, infective, and cough & cold.
- IPCA's MR strength stood at ~6,700 in 3QFY25 (vs. 6,300 in 3QFY24) with per month MR productivity of INR0.45m in 9MFY25 vs. INR0.43m in 9MFY24. Going ahead, the company expects per month productivity improvement of INR25-30k
- Expected to add 300MR in the cardiology segment and add one more division in dermatology/cosmetology to sustain industry outperformance in the DF segment.
- ETR- 27-28% for FY25.

Enhancing scope to deliver sustainable growth/margins

Superior execution/additional MR force to drive the DF segment

- In 9MFY25, the DF segment grew 11.8% YoY to INR26.9b, led by growth across key therapies.
- IPCA's top therapy, i.e., pain, contributed ~39% of total revenue and grew 10% in 3QFY25. Cardiac therapy (13% of DF sales) grew 12.8% YoY for 3QFY25. While Derma contributes 6% of DF sales, it has grown at a phenomenal rate of 19.4% YoY for 3QFY25.
- Additionally, IPCA continues to implement efforts toward increasing its field-force productivity.
- Accordingly, we expect 14% sales CAGR in the DF segment to INR44.9b over FY25-27, led by increased traction in key therapies and MR productivity.

Portfolio expansion/synergies with Unichem to drive export growth

- During 9MFY25, IPCA's export sales grew 7.2% YoY to INR13.9b, led by ~32% YoY growth in the institutional business, followed by 14% YoY growth in the branded formulation business. This was partly offset by a 2% YoY decline in the generic business.
- Subsidiary sales grew 59% YoY to INR16.5b, primarily led by ~13% YoY growth in Unichem sales to INR14.4b.
- Product launches and increasing synergy between operations of IPCA and Unichem are likely to improve overall prospects of the US generics over the next 2-3 years.
- Accordingly, we expect the overall export formulations (including Unichem) business to clock 15% sales CAGR to reach INR55b over FY25-27.

Cost efficiency to propel market share gains in the API segment

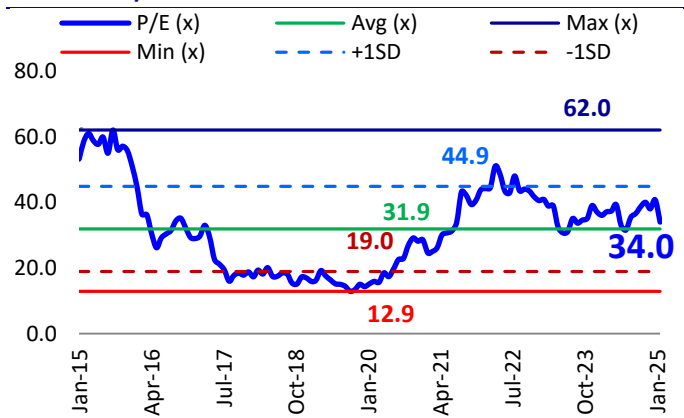
- During 9MFY25, API sales grew 7.2% YoY to INR14b due to a stable pricing environment.
- IPCA continues to gain market share in its key product, arresting the impact of price decline to some extent.
- With new introductions and improved cost efficiency, we expect a 14.3% sales CAGR in this segment to INR16.4b over FY25-27.

Valuation and view

- We raise our earnings estimates by 4%/3%/2% for FY25/FY26/FY27 factoring in: 1) the increased share of higher-margin products, 2) better operating leverage for the US business of both IPCA and Unichem, and 3) a revival in the South African business. We value IPCA at 36x 12M forward earnings to arrive at our TP of INR1,940 on a 12M forward earnings basis.
- IPCA remains on track to: a) revive the US business from its own site as well as integrate/scale Unichem operations, b) increase offerings/enhance reach/gain market share in the DF segment, c) drive improvement in operating leverage. We model a 28% earnings CAGR over FY25-27. **Reiterate BUY.**

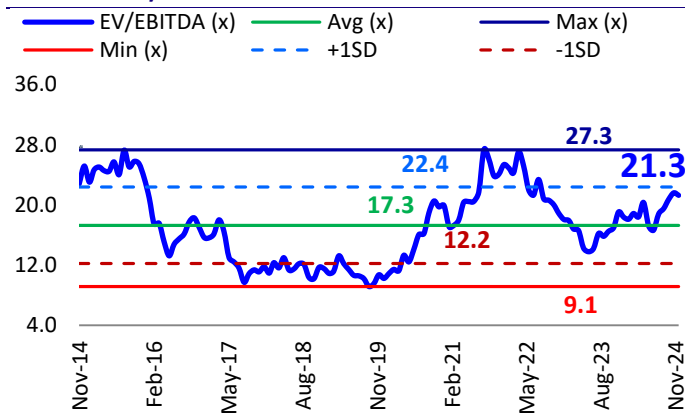
IPCA Ex-Unichem	FY25			FY24		
	IPCA consol	Unichem (3QFY25)	IPCA ex-Unichem	IPCA consol	Unichem (3QFY25)	IPCA ex-Unichem
Gross Sales	22,454	5,331	17,123	20,529	4,344	16,185
YoY Change (%)	32.8	22.7	5.8	32.8	43.6	
Gross Profit	15,772	3,580	12,191	13,559	2,405	11,155
Margins (%)	70.2	67.2	71.2	66.0	55.4	68.9
EBITDA	4,631	855	3,776	4,631	381	4,250
Margins (%)	20.6	16.0	22.1	22.6	8.8	26.3
Depreciation	985	305	679	995	279	716
Interest	168	68	101	334	56	278
Other Income	201	136	65	225	113	112
PBT before EO expense	3,679	618	3,061	2,205	160	3,367
Extra-Ord expense	0	0	0	-684	-680	-4
PBT	3,679	618	3,061	2,889	840	2,049

Exhibit 1: P/E chart



Source: MOFSL, Company, and Bloomberg

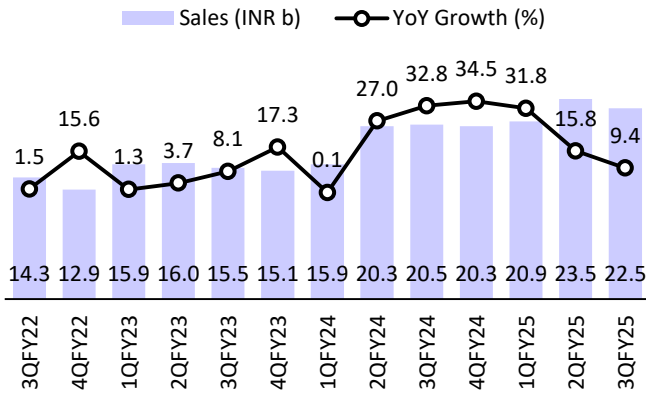
Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, and Bloomberg

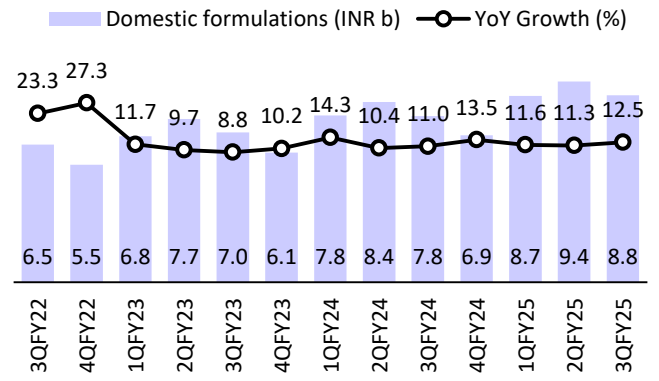
Story in charts

Exhibit 3: Total sales grew 9.4% YoY in 3QFY25



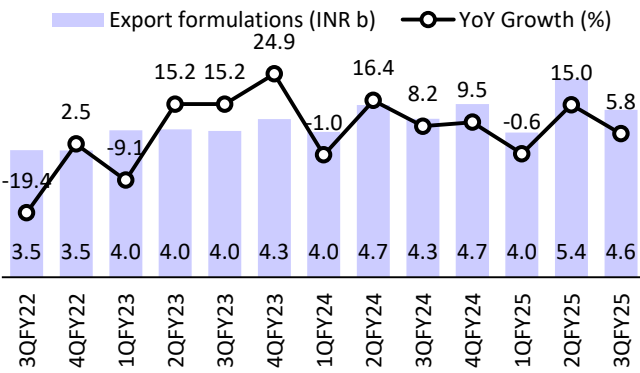
Source: Company, MOFSL

Exhibit 4: DF sales grew 12.5% YoY in 3QFY25



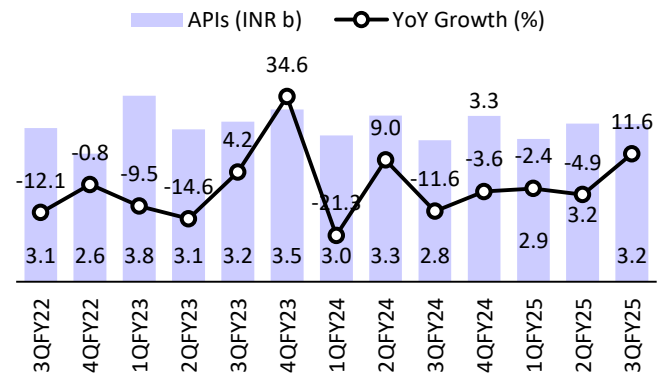
Source: Company, MOFSL

Exhibit 5: Export formulation sales grew 5.8% YoY in 3QFY25



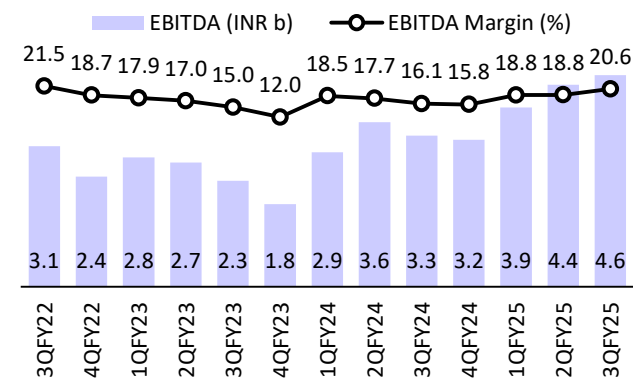
Source: Company, MOFSL

Exhibit 6: API sales grew 11.6% YoY in 3QFY25



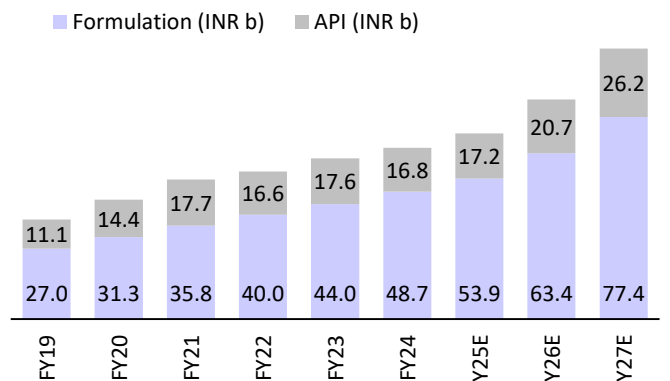
Source: Company, MOFSL

Exhibit 7: EBITDA margin improved 450bp YoY in 3QFY25



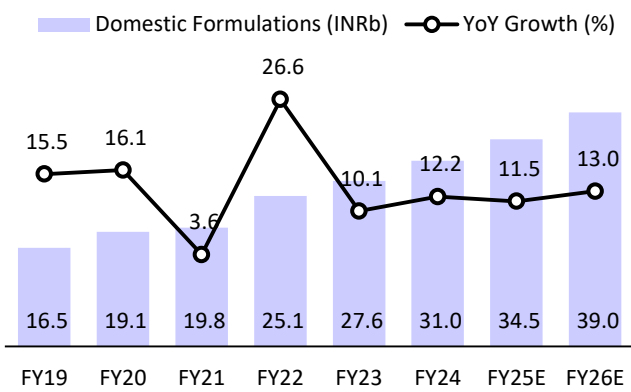
Source: Company, MOFSL

Exhibit 8: Expect 23% sales CAGR over FY24-26



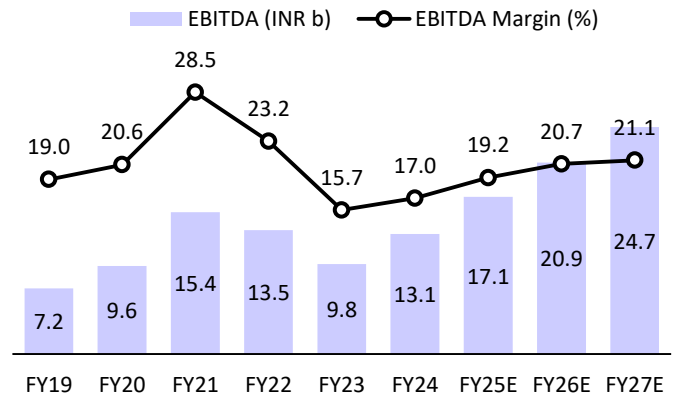
Source: Company, MOFSL

Exhibit 9: Expect 13% DF sales CAGR over FY25-27



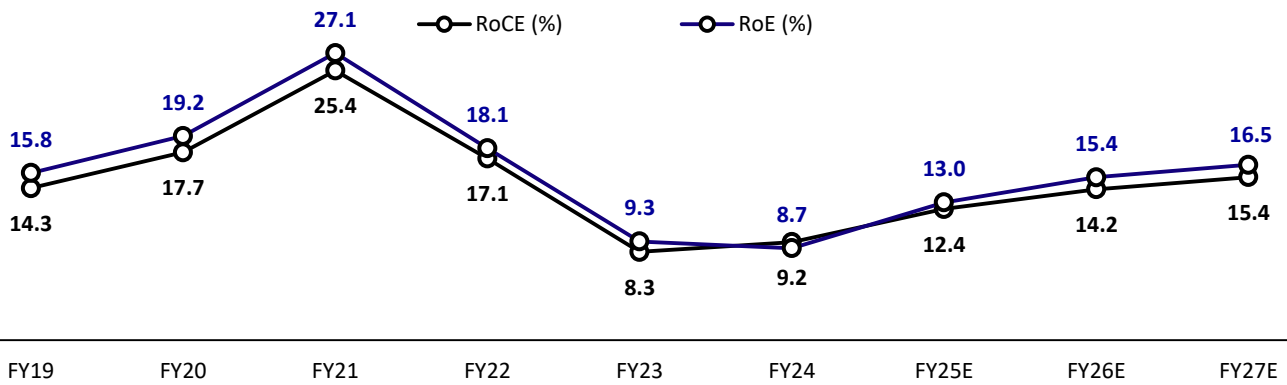
Source: Company, MOFSL

Exhibit 10: Expect margin to expand over FY25-27



Source: Company, MOFSL

Exhibit 11: Expect return ratios to improve over FY25-27



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	37,732	46,487	54,200	58,298	62,569	77,074	89,116	1,00,752	1,17,043
Change (%)	14.9	23.2	16.6	7.6	7.3	23.2	15.6	13.1	16.2
EBITDA	7,170	9,580	15,444	13,509	9,812	13,076	17,110	20,856	24,696
Change (%)	57.7	33.6	61.2	-12.5	-27.4	33.3	30.9	21.9	18.4
Margin (%)	19.0	20.6	28.5	23.2	15.7	17.0	19.2	20.7	21.1
Depreciation	1,824	2,105	2,092	2,324	2,616	3,572	3,967	4,059	4,150
EBIT	5,346	7,475	13,352	11,184	7,197	9,503	13,143	16,797	20,546
Int. and Finance Charges	189	165	90	77	455	1,383	781	457	430
Other Income - Rec.	483	578	457	666	1,151	1,075	900	950	980
PBT before EO Expense	5,640	7,888	13,719	11,773	7,892	9,195	13,261	17,290	21,096
EO Expense/(Income)	157	445	-171	416	314	769	0	0	0
PBT after EO Expense	5,483	7,442	13,890	11,357	7,579	8,426	13,261	17,290	21,096
Current Tax	1,218	1,406	2,487	2,070	2,302	3,102	3,647	4,876	5,991
Deferred Tax	-176	-53	-85	178	230	33	265	346	422
Tax	1,042	1,353	2,401	2,248	2,532	3,135	3,912	5,222	6,413
Tax Rate (%)	18.5	17.2	17.5	19.1	32.1	34.1	29.5	30.2	30.4
Reported PAT	4,441	6,090	11,488	9,110	5,047	5,291	9,348	12,067	14,682
Less: Minority Interest	18	78	91	269	-206	984	642	450	350
Net Profit	4,423	6,012	11,398	8,841	5,253	4,307	8,707	11,617	14,332
Adj PAT	4,580	6,485	11,255	9,218	5,275	5,274	8,707	11,617	14,332
Adj PAT growth (%)	91.3	41.6	73.6	-18.1	-42.8	0.0	65.1	33.4	23.4

Balance Sheet								(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	252	252	254	254	254	254	254	254	254
Total Reserves	30,971	35,903	46,763	54,666	58,167	63,068	70,469	80,345	92,528
Net Worth	31,224	36,275	47,017	54,920	58,420	63,322	70,723	80,599	92,782
Deferred liabilities	1457	1398	1316	1506	1856	3062	3328	3673	4095
Total Loans	3,505	4,328	1,988	8,027	14,746	14,274	11,774	11,067	10,431
Capital Employed	36,342	42,137	50,466	65,222	75,755	94,607	99,998	1,09,512	1,21,480
Gross Block	26,657	30,268	31,872	37,647	43,601	65,195	66,695	68,195	69,695
Less: Accum. Deprn.	6,951	9,056	11,148	13,472	16,088	19,660	23,627	27,686	31,837
Net Fixed Assets	19,706	21,212	20,724	24,175	27,514	45,535	43,068	40,509	37,859
Capital WIP	361	708	2,348	3,064	1,404	3,429	3,429	3,429	3,429
Investments	1,204	2,719	4,711	9,892	6,260	8,620	8,620	8,620	8,620
Curr. Assets	24,217	27,939	32,881	39,237	51,051	53,386	59,286	73,792	92,737
Inventory	10,725	13,231	15,948	18,580	17,434	24,713	24,904	29,812	35,594
Account Receivables	6,815	8,952	8,118	9,108	9,890	16,865	17,823	21,531	25,653
Cash and Bank Balance	2,823	1,809	3,651	6,407	18,532	2,968	6,338	10,895	18,066
Loans & Advances	3,854	3,947	5,164	5,143	5,194	8,840	10,221	11,555	13,424
Curr. Liability & Prov.	9,147	10,441	10,198	11,147	10,473	16,364	14,405	16,838	21,164
Account Payables	8,190	9,182	8,781	9,704	8,923	13,050	12,696	14,906	18,919
Provisions	957	1,259	1,417	1,443	1,550	3,314	1,709	1,932	2,245
Net Current Assets	15,070	17,498	22,682	28,091	40,577	37,022	44,881	56,954	71,573
Appl. of Funds	36,342	42,137	50,466	65,222	75,755	94,607	99,998	1,09,512	1,21,480

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Adj. EPS (INR)	18.1	25.6	44.4	36.3	20.8	20.8	34.3	45.8	56.5
Cash EPS	24.8	32.2	53.2	44.0	31.0	31.1	50.0	61.8	72.8
BV/Share	123.7	143.2	185.3	216.5	230.3	249.6	278.8	317.7	365.7
DPS	0.5	3.6	6.8	6.6	7.7	7.8	7.9	8.1	11.1
Payout (%)	2.8	14.8	14.9	18.3	38.3	36.9	21.3	16.8	19.0
Valuation (x)									
P/E	82.6	58.3	33.6	41.0	71.7	71.7	43.4	32.6	26.4
P/BV	12.1	10.4	8.0	6.9	6.5	6.0	5.3	4.7	4.1
EV/Sales	10.1	8.2	7.0	6.5	6.1	4.9	4.3	3.8	3.2
EV/EBITDA	53.0	39.7	24.6	28.1	38.7	29.1	22.2	18.2	15.4
Dividend Yield (%)	0.0	0.2	0.5	0.4	0.5	0.5	0.5	0.5	0.7
Return Ratios (%)									
RoE	15.8	19.2	27.1	18.1	9.3	8.7	13.0	15.4	16.5
RoCE	14.3	17.7	25.4	17.1	8.3	9.2	12.4	14.2	15.4
RoIC	14.0	18.0	28.7	21.1	10.2	9.7	11.5	13.9	16.1
Working Capital Ratios									
Fixed Asset Turnover (x)	1.9	2.3	2.6	2.6	2.4	2.1	2.0	2.4	3.0
Debtor (Days)	65	70	54	56	58	80	73	78	80
Inventory (Days)	104	104	107	116	102	117	102	108	111
Working Capital Turnover (Days)	118	123	128	136	129	161	158	167	167
Leverage Ratio (x)									
Interest Cover Ratio	28.3	45.3	147.7	145.4	15.8	6.9	16.8	36.8	47.8
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	0.2	0.1	0.0	-0.1

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Oper. Profit/(Loss) before Tax	7,170	9,580	15,444	13,509	9,812	13,076	17,110	20,856	24,696
Interest/Dividends Recd.	483	578	457	666	1,151	1,075	900	950	980
Direct Taxes Paid	-1,165	-1,412	-2,484	-2,058	-2,181	-1,928	-3,647	-4,876	-5,991
(Inc)/Dec in WC	-1,686	-3,442	-3,343	-2,652	-361	-12,009	-4,489	-7,517	-7,447
CF from Operations	4,803	5,304	10,075	9,464	8,421	213	9,875	9,413	12,238
Others	365	784							
EO Expense / (Income)	157	445	-171	416	314	769	0	0	0
CF from Oper. incl EO Exp.	5,010	5,643	10,246	9,048	8,107	-556	9,875	9,413	12,238
(inc)/dec in FA	-1,632	-3,958	-3,244	-6,491	-4,294	-23,618	-1,500	-1,500	-1,500
Free Cash Flow	3,379	1,685	7,002	2,557	3,813	-24,174	8,375	7,913	10,738
(Pur)/Sale of Investments	-336	-1,515	-1,992	-5,181	3,632	-2,360	0	0	0
Others	317	376	0	0	0	0	0	0	0
CF from Investments	-1,651	-5,097	-5,236	-11,672	-662	-25,979	-1,500	-1,500	-1,500
Issue of shares	0	0	1	0	0	0	0	0	0
(Inc)/Dec in Debt	-1,070	804	-2,331	6,663	6,683	12,743	-2,275	-707	-636
Interest Paid	-189	-165	-90	-77	-455	-1,383	-781	-457	-430
Dividend Paid	-126	-902	-1,710	-1,670	-1,933	-1,950	-1,989	-2,029	-2,790
Others	-447	-1,042	961	306	386	1,294	39	1,068	1,168
CF from Fin. Activity	-1,832	-1,305	-3,169	5,222	4,681	10,705	-5,007	-2,125	-2,688
Inc/Dec of Cash	1,528	-758	1,841	2,598	12,126	-15,830	3,368	5,788	8,049
Add: Beginning Balance	2,181	3,709	2,954	4,795	7,393	19,519	2,968	6,334	10,895
Forex/ Business acquisition	0	3	0	0	0	0	0	0	0
Closing Balance	3,709	2,954	4,795	7,393	19,519	3,689	6,336	12,123	18,944
Bank balances / Mutual fund (gain)/ loss	-886	-1,145	-1,145	-986	-986	-721	-2	1,228	878
Closing Balance	2,823	1,809	3,650	6,407	18,533	2,968	6,334	10,895	18,066

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