

Ipsca Laboratories | BUY

Unichem surprises

IPCA consolidated Unichem w.e.f. Aug'23, which reflected in Dec-Q's 33% revenue growth and lower margin of 16%. While the management guides for INR 20bn revenue and INR 3bn EBITDA by FY26, we believe this can be achieved ahead of expectations. The key highlight during the quarter was 29% miss on branded formulations due to deferment of shipments to CIS, issues in Myanmar and lower demand. Generic formulations grew 33%YoY and we expect this trajectory to continue. Domestic business' 11% growth will place IPCA at the lower end of 12-14% full year guidance. IPCA's US business is at an inflection point – regulatory issues at its facilities have been resolved, supplies are expected to start w.e.f. 1Q25 and Unichem is outperforming street expectations. Unichem's integration remains management's top priority. US turnaround, strong domestic franchise and exports growth builds a compelling case for our BUY thesis. We assign a multiple of 26x (+1 SD above 5Y average PE) to derive a TP of INR 1280.

- Base business weak; Generics outperforms:** Domestic formulations reported a revenue of INR 7.8bn (3% miss). IPCA's chronic and acute portfolio growth was ahead of the market. Notably, Zerodol growth has slowed down to 8-9%. NLEM price hikes did not materially benefit IPCA. The management is likely to meet their lower end of guidance of 12-14% growth in FY24 as MR productivity continues to improve. Exports growth was flat YoY (10% miss) due to significant miss on branded formulations partly offset by healthy performance in Generic (+33% YoY; 7% beat) and Institutional (-8% YoY; 15% beat) businesses. The management does not expect any loss in South Africa business now and expects UK business to sustain momentum with the new launches lined up next year. The only risk to this growth is the on-going geo-political tensions. Branded formulations were weak due to deferment in shipments to CIS and issue in licenses for export to Myanmar. API segment also declined -13%YoY due to decline in volumes although sartan prices have stabilised now. The company expects 2% margin expansion next year driven by better mix, operating leverage Unichem integration.
- Unichem beats street expectations:** The management is guiding for INR 20bn top-line with INR 3bn EBITDA in FY26 but is likely to achieve this ahead of expectations, in our view. The management, last quarter, detailed a few initiatives: (1) API process optimisation which could lead to 30-40% cost reduction; (2) Procurement efficiencies due to bulk purchase as in IPCA does; (3) Reducing utility cost by 12-14cr; (4) Reducing logistic costs due to decline in % of air shipments; (5) Reduction in losses in UK and Ireland; (6) 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. Post clearance of US facilities, IPCA aims to resume supplies to the US in 1Q25. The company plans to launch 8-9 products next fiscal. 10 products can be started quickly post revalidation and also plans to launch 9 ANDAs next year (incl. 3 Para IVs). The distribution of products in the US will be done via Unichem franchise (the company is integrating Bayshore with Unichem).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,280
Upside/(Downside)	11.1%
Previous Price Target	1,055
Change	21.3%

Key Data – IPCA IN

Current Market Price	INR1,152
Market cap (bn)	INR292.3/US\$3.5
Free Float	54%
Shares in issue (mn)	253.7
Diluted share (mn)	253.7
3-mon avg daily val (mn)	INR465.0/US\$5.6
52-week range	1,264/670
Sensex/Nifty	72,050/21,911
INR/US\$	83.0

Price Performance

%	1M	6M	12M
Absolute	1.1	30.3	36.6
Relative*	2.9	18.3	16.2

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	57,668	62,069	77,132	95,458	1,10,072
Sales Growth (%)	7.5	7.6	24.3	23.8	15.3
EBITDA	13,093	9,268	13,032	17,273	22,794
EBITDA Margin (%)	22.5	14.8	16.8	18.0	20.6
Adjusted Net Profit	8,841	4,713	5,851	9,584	13,473
Diluted EPS (INR)	34.8	18.6	23.1	37.8	53.1
Diluted EPS Growth (%)	-61.2	-46.7	24.1	63.8	40.6
ROIC (%)	18.4	8.3	9.1	10.7	14.5
ROE (%)	17.3	8.3	9.5	14.1	17.3
P/E (x)	33.1	62.0	50.0	30.5	21.7
P/B (x)	5.3	5.0	4.6	4.0	3.5
EV/EBITDA (x)	22.3	31.5	24.2	17.9	13.3
Dividend Yield (%)	0.3	0.3	0.2	0.5	0.7

Source: Company data, JM Financial. Note: Valuations as of 15/Feb/2024

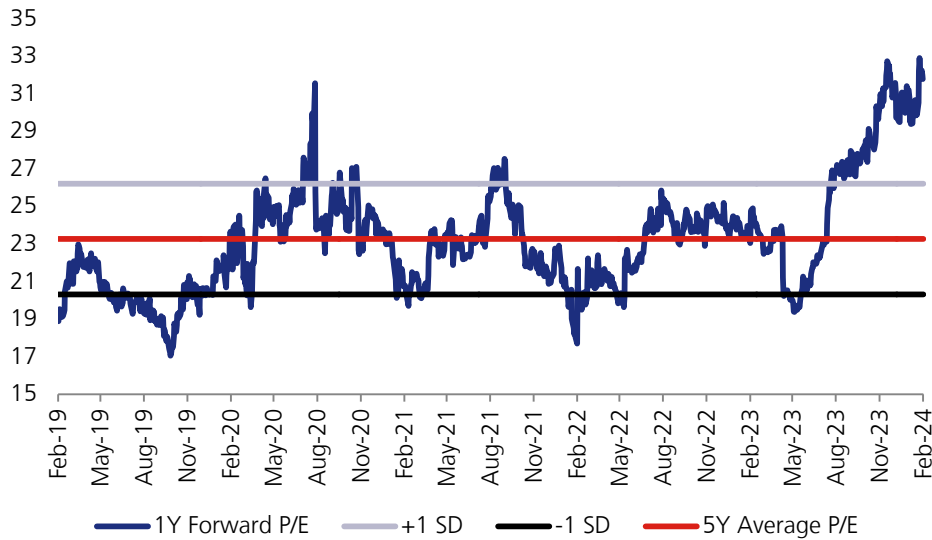
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- Key financials:** Revenue/EBITDA/Adj.PAT of INR 20.5bn/3.3bn/1.3bn which was -3%/-2%/-24% vs JMFe and -1%/-3%/-23% vs. consensus estimates. The YoY financials are not comparable due to Unichem acquisition. EBITDA margin improved 220bps YoY to 16.1% (JMFe: 16%) due to better performance of Unichem. Reported PAT includes one-time gain on sale of Optimus Drugs by Unichem. However, Adj. PAT is lower due to higher minority interest (primarily from this gain of Unichem). India formulations grew 11%yoy to INR 7.78bn (3% miss). Overall exports were 10% below expectations due to miss on branded formulations of 29% offset by better institutional and generic business. Export API sales were INR 2.1bn (-13%YoY) and were -21% below estimates.

Exhibit 1. Valuation



Source: Bloomberg, JM Financial

Exhibit 2. 3Q24 Result Review

Ipca P&L (INR mn)	3QFY23A	3QFY24A	% YoY	3QFY24E	% Delta vs JMFe	3QFY24E (cons)	% Delta vs Cons.	2QFY24A	% QoQ
Total Income	15,460	20,529	33%	21,226	-3%	20,740	-1%	20,340	1%
Raw material	5,618	6,970	24%	7,217	-3%			6,776	3%
Gross Profit	9,842	13,559	38%	14,009	-3%			13,564	0%
% Gross Profit Margin	64%	66%	239 bps	66%	5 bps			67%	-64 bps
Staff cost	3,184	4,590	44%	4,563	1%			4,259	8%
Mfg & Other expense	4,499	5,655	26%	6,049	-7%			6,092	-7%
EBITDA	2,159	3,313	53%	3,396	-2%	3,400	-3%	3,213	3%
% EBITDA Margin	14.0%	16.1%	218 bps	16.0%	14 bps	16.4%		15.8%	34 bps
Other income	309	225	-27%	280	-20%			386	-42%
Interest Expense	108	334	208%	450	-26%			441	-24%
Depreciation	666	995	49%	950	5%			903	10%
Extraordinary income (expense)		680							
Other foreign exchange gain (loss)									
Profit Before Tax (PBT)	1,693	2,889	71%	2,276	27%			2,254	28%
Tax	537	662	23%	683	-3%			879	-25%
% Tax rate	32%	23%		30%				39%	
Minority Interest	-78	-428		75				76	
Reported PAT	1,078	1,799	67%	1,668	8%	1,650	9%	1,451	24%
Adj. PAT	1,078	1,275		1,668	-24%	1,650	-23%	1,451	-12%
Reported EPS	4.3	7.1	67%	6.6	8%			5.7	24%
% Cost Ratios	3QFY23A	3QFY24A	% YoY	3QFY24E	% Delta vs JMFe			2QFY24A	% QoQ
Raw Materials	36.3	34.0	-239 bps	34.0	-5 bps			33.3	-64 bps
Staff cost	20.6	22.4	176 bps	21.5	86 bps			20.9	-142 bps
Mfg & Other expense	29.1	27.5	-155 bps	28.5	-95 bps			30.0	240 bps
Sales Break-up	3QFY23A	3QFY24A	% YoY	3QFY24E	% Delta vs JMFe			2QFY24A	% QoQ
Domestic	7,872	8,573	9%	8,897	-4%			9,299	-8%
Formulations	7,023	7,796	11%	8,006	-3%			8,450	-8%
API	849	777	-9%	892	-13%			849	-9%
Exports	6,377	6,403	0%	7,093	-10%			7,207	-11%
Formulations	4,004	4,331	8%	4,483	-3%			4,707	-8%
- Generic	1,889	2,517	33%	2,343	7%			2,642	-5%
- Branded	1,282	1,048	-18%	1,474	-29%			1,459	-28%
- Institutional	833	766	-8%	666	15%			606	26%
Subsidiaries	1,132	1,117	-1%	1,132	-1%			3,713	-70%
API	2,373	2,073	-13%	2,610	-21%			2,500	-17%

Source: Company, JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	57,668	62,069	77,132	95,458	1,10,072	
Sales Growth	7.5%	7.6%	24.3%	23.8%	15.3%	
Other Operating Income	630	374	438	504	579	
Total Revenue	58,298	62,443	77,570	95,961	1,10,652	
Cost of Goods Sold/Op. Exp	20,149	23,065	25,986	32,147	36,515	
Personnel Cost	11,774	12,876	17,065	20,152	22,020	
Other Expenses	13,283	17,234	21,487	26,389	29,323	
EBITDA	13,093	9,268	13,032	17,273	22,794	
EBITDA Margin	22.5%	14.8%	16.8%	18.0%	20.6%	
EBITDA Growth	-15.2%	-29.2%	40.6%	32.5%	32.0%	
Depn. & Amort.	2,324	2,616	3,596	4,586	4,975	
EBIT	10,769	6,652	9,436	12,687	17,819	
Other Income	666	1,256	1,319	1,823	2,102	
Finance Cost	77	455	1,431	1,060	862	
PBT before Excep. & Forex	11,357	7,453	9,324	13,450	19,059	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	11,357	7,453	9,324	13,450	19,059	
Taxes	2,248	2,534	3,077	3,766	5,337	
Extraordinary Inc./Loss(-)	0	0	680	0	0	
Assoc. Profit/Min. Int.(-)	-155	-53	-100	400	750	
Reported Net Profit	8,841	4,713	6,327	9,584	13,473	
Adjusted Net Profit	8,841	4,713	5,851	9,584	13,473	
Net Margin	15.2%	7.5%	7.5%	10.0%	12.2%	
Diluted Share Cap. (mn)	253.7	253.7	253.7	253.7	253.7	
Diluted EPS (INR)	34.8	18.6	23.1	37.8	53.1	
Diluted EPS Growth	-61.2%	-46.7%	24.1%	63.8%	40.6%	
Total Dividend + Tax	1,015	1,015	633	1,438	2,021	
Dividend Per Share (INR)	4.0	4.0	2.5	5.7	8.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	54,920	58,420	64,114	72,261	83,713	
Share Capital	254	254	254	254	254	
Reserves & Surplus	54,666	58,167	63,861	72,007	83,459	
Preference Share Capital	0	0	0	0	0	
Minority Interest	769	733	12,983	13,233	13,733	
Total Loans	7,912	14,575	12,775	11,775	10,775	
Def. Tax Liab. / Assets (-)	1,506	1,856	1,856	1,856	1,856	
Total - Equity & Liab.	65,107	75,584	91,729	99,125	1,10,077	
Net Fixed Assets	27,031	28,669	49,755	49,037	48,187	
Gross Fixed Assets	33,770	39,781	64,463	68,770	73,334	
Intangible Assets	3,637	3,687	11,887	11,887	11,887	
Less: Depn. & Amort.	13,314	16,020	27,316	31,903	36,878	
Capital WIP	2,939	1,222	722	283	-155	
Investments	9,892	6,260	5,260	5,260	5,260	
Current Assets	39,445	51,300	50,736	61,941	75,460	
Inventories	18,580	17,434	23,377	26,291	30,316	
Sundry Debtors	9,108	9,890	12,751	15,774	18,189	
Cash & Bank Balances	2,752	12,579	826	5,590	12,267	
Loans & Advances	103	32	32	32	32	
Other Current Assets	8,903	11,366	13,750	14,253	14,656	
Current Liab. & Prov.	11,262	10,644	14,022	17,113	18,830	
Current Liabilities	5,713	5,424	8,005	10,742	12,179	
Provisions & Others	5,549	5,220	6,017	6,370	6,652	
Net Current Assets	28,184	40,656	36,714	44,829	56,630	
Total - Assets	65,107	75,584	91,729	99,125	1,10,077	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	11,357	7,453	10,004	13,450	19,059	
Depn. & Amort.	2,324	2,616	3,596	4,586	4,975	
Net Interest Exp. / Inc. (-)	-266	-338	112	-763	-1,240	
Inc (-) / Dec in WCcap.	-2,728	490	-5,764	-3,350	-5,124	
Others	-107	74	-350	150	250	
Taxes Paid	-2,020	-2,237	-3,077	-3,766	-5,337	
Operating Cash Flow	8,560	8,058	4,521	10,307	12,583	
Capex	-4,790	-4,945	-3,182	-3,868	-4,126	
Free Cash Flow	3,771	3,113	1,338	6,439	8,457	
Inc (-) / Dec in Investments	-2,358	-453	1,000	0	0	
Others	-1,403	-1,852	-8,227	1,823	2,102	
Investing Cash Flow	-8,551	-7,250	-10,410	-2,045	-2,024	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-1,015	-1,015	-633	-1,438	-2,021	
Inc / Dec (-) in Loans	5,403	6,577	-3,800	-1,000	-1,000	
Others	-121	-490	-1,431	-1,060	-862	
Financing Cash Flow	4,268	5,072	-5,864	-3,497	-3,883	
Inc / Dec (-) in Cash	4,278	5,880	-11,753	4,765	6,677	
Opening Cash Balance	1,660	2,752	12,579	826	5,590	
Closing Cash Balance	2,752	12,579	826	5,590	12,267	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		15.2%	7.5%	7.5%	10.0%	12.2%
Asset Turnover (x)		1.0	0.9	0.9	1.0	1.1
Leverage Factor (x)		1.1	1.3	1.4	1.4	1.3
RoE		17.3%	8.3%	9.5%	14.1%	17.3%

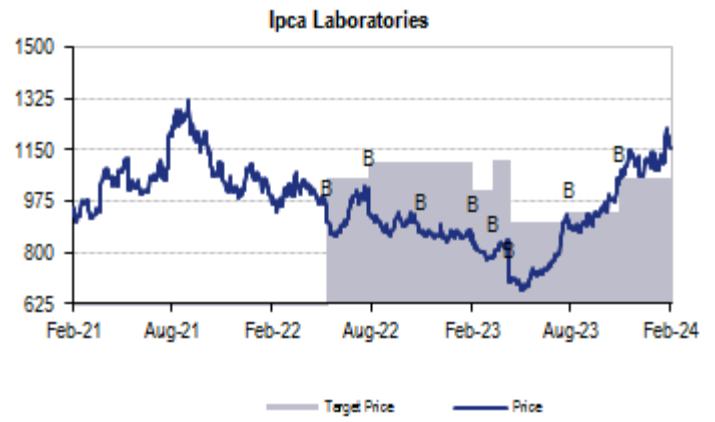
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		216.5	230.3	252.7	284.8	330.0
ROIC		18.4%	8.3%	9.1%	10.7%	14.5%
ROE		17.3%	8.3%	9.5%	14.1%	17.3%
Net Debt/Equity (x)		0.0	0.0	0.2	0.1	0.0
P/E (x)		33.1	62.0	50.0	30.5	21.7
P/B (x)		5.3	5.0	4.6	4.0	3.5
EV/EBITDA (x)		22.3	31.5	24.2	17.9	13.3
EV/Sales (x)		5.0	4.7	4.1	3.2	2.7
Debtor days		57	58	60	60	60
Inventory days		116	102	110	100	100
Creditor days		45	36	44	49	50

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

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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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.
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