IPCA Laboratories

BSE SENSEX	S&P CNX
78,699	23,813

Stock Info

Bloomberg	IPCA IN
Equity Shares (m)	254
M.Cap.(INRb)/(USDb)	414.1 / 4.8
52-Week Range (INR)	1709 / 1052
1, 6, 12 Rel. Per (%)	9/51/44
12M Avg Val (INR M)	688
Free float (%)	53.7

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	89.7	102.1	119.8
EBITDA	16.7	20.3	24.3
Adj. PAT	8.7	11.4	14.1
EBIT Margin (%)	14.2	15.9	16.8
Adj. EPS (INR)*	34.4	44.8	55.5
EPS Gr. (%)	65.3	30.3	23.8
BV/Sh. (INR)	278.8	316.9	364.0
Ratios			
Net D:E	0.1	0.0	-0.1
RoE (%)	13.0	15.0	16.3
RoCE (%)	12.2	14.0	15.2
Payout (%)	21.5	17.2	19.3
Valuations			
P/E (x)	47.7	36.6	29.6
EV/EBITDA (x)	25.0	20.5	17.2
Div. Yield (%)	0.5	0.5	0.7
FCF Yield (%)	2.0	1.8	2.5
EV/Sales (x)	4.7	4.1	3.5

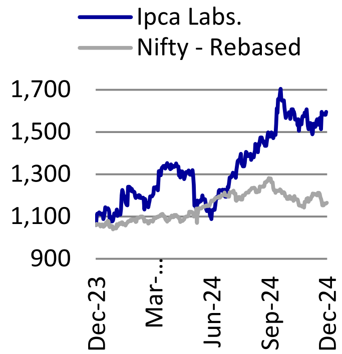
* Cons.

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	46.3	46.3	46.3
DII	34.2	33.8	35.0
FII	10.8	10.9	9.9
Others	8.6	9.1	8.8

FII Includes depository receipts

Stock performance (one-year)



CMP: INR1,633 TP: INR1,980 (+21%) Buy

Scaling US operations/outpacing IPM to aid robust earnings growth

- **Following a muted performance in the US over the past eight years due to compliance issues, IPCA is well-poised to revive its US business through new product launches, relaunches, stable pricing in its base business, and the integration of the Unichem business over the next 12-24M.**
- **Further, its (ex-US) business is in a strong position, with a better outlook driven by enhanced offerings in the export markets such as Australia, New Zealand, and Europe (EU) by adding Unichem's products to the existing portfolio.**
- **With the top 10 therapies experiencing double-digit growth over MAT Nov'20-24, IPCA is focusing on launching new divisions in the fast-growing therapies such as cosmeto-dermatology and orthopedics. Additionally, the company is working towards creating new divisions and adding 500-700 MRs, as well as improving its MR productivity.**
- **Considering a 27% earnings CAGR and an anticipated improvement in the return ratio to ~16% over FY24-27, we value IPCA at 36x 12M forward earnings to arrive at our TP of INR1,980. We reiterate our BUY rating on IPCA as we factor in better operational efficiency, a revival in the US business, synergies from the Unichem acquisition, and a well-established DF business.**

US – the key growth driver over the next two years

- Given that IPCA's sites are now regulatory compliant, it received 11 approvals from the USFDA over the 12 months ended Sep'24.
- Further, the company is relaunching the earlier approved products in the US market. Interestingly, the price erosions that were visible in the portfolio are now stable.
- While IPCA has already shipped the products to the US market, it is planning to file 15-17 products in the US market over the next two years.
- IPCA's efforts to improve Unichem's profitability are evident, with its EBITDA improving from breakeven in 1QFY23 to 12.4% in 2QFY25. Additionally, IPCA is sourcing its own APIs for Unichem, thereby further enhancing the margins.
- Having said this, we expect 52% sales CAGR over FY24-27 led by process efficiency, improving utilization of existing plants, filing new drugs, and integrating the front end of Unichem.

Ex-US, exports to sustain the strong growth momentum

- With the Unichem acquisition, IPCA is leveraging its presence in Australia, New Zealand, Europe, and ROW markets to cross-sell Unichem's products, where the latter currently has a minimal presence.
- With a shorter gestation period and faster approvals thanks to the local drug authority's acceptance of USFDA-approved medications, IPCA intends to enter the Chilean market.
- We expect its exports to post 23% CAGR over FY24-27 (ex-US), fueled by the filing of more products in the Russian market and setting up its own distribution in the EU market.

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- Additionally, IPCA is also building a niche pipeline of eight biosimilars in oncology, ophthalmology, and anti-inflammatory therapies that are under various stages of development.
- The company is focusing on long-term growth opportunities in key markets such as India, the UK, the EU, ROW, and subsequently, the US markets.

Domestic business is well-positioned to outperform IPM

- Backed by strong brand recall, improvement in MR productivity, a rise in volume, and effective management of seasonality, IPCA has witnessed double-digit growth in the top 10 therapies over the past four years.
- To further continue the strong growth momentum, the company is focusing on launching new fast-growing divisions such as comesto-dermatology and orthopedics in derma and pain therapies.
- Further, IPCA is creating new specialized divisions for its key therapies and adding around 500-700 MRs in its field force.
- Supported by new product launches and market share gains, we expect the DF segment to register 14% CAGR over FY25-27.

Valuation and view

- During FY19-FY24, IPCA's earnings recorded a meager 3% CAGR, led by a 200bp drop in its EBITDA margin. Nonetheless, we anticipate that the company would generate a robust earnings growth of 27% during FY25-FY27, driven by the 170bp improvement in margin. Despite enjoying a strong position in the export and DF markets, IPCA is reviving its US business through new and relaunched products as well as the integration with Unichem. To further improve Unichem's margin, IPCA is optimizing its processes, improving operational efficiency, and sourcing raw materials from its site.
- We value the stock at 36x 12M forward earnings to arrive at our TP of INR1,980. **We reiterate our BUY rating on the stock.**

Key downside risks

- Pricing pressure in the API segment to hurt growth.
- Higher freight costs and delays in exports due to geopolitical challenges.
- Inclusion of brands in the NLEM price list.

Exhibit 1: Valuation snapshot

Company	Reco	MCap	EPS (INR)			EPS Gr. YoY (%)		P/E (x)		EV/EBITDA (x)		RoE (%)		
		(USD b)	FY25E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY25E	FY26E	FY27E
Ajanta Pharma	Buy	4.1	76.7	88.6	104.0	15.5	17.5	34.3	29.2	22.6	20.0	24.8	23.9	23.6
Alembic Pharma	Neutral	2.4	31.7	37.9	47.5	19.6	25.4	27.7	22.1	17.2	14.2	12.1	13.1	14.5
Alkem Lab	Neutral	7.6	189.5	209.5	232.1	10.5	10.8	26.2	23.6	22.7	20.2	20.2	19.2	18.4
Aurobindo Pharma	Neutral	8.6	61.7	70.8	81.1	14.8	14.5	17.9	15.7	9.2	7.9	11.5	11.8	12.1
Biocon	Neutral	4.9	2.1	4.8	9.8	124.5	103.8	73.5	36.1	14.8	12.1	1.3	2.8	5.5
Cipla	Neutral	14.1	56.8	62.7	66.1	10.3	5.5	24.0	22.8	14.9	13.6	15.0	14.4	13.3
Divi's Lab.	Neutral	18.2	77.2	98.2	120.3	27.2	22.5	59.8	48.8	43.3	35.8	14.3	16.4	17.8
Dr Reddy's Labs	Neutral	13.2	69.3	79.7	69.9	15.0	-12.3	17.4	19.9	9.5	9.8	18.8	18.2	13.8
Eris Lifescience	Neutral	2.2	28.6	40.1	54.2	40.4	35.1	33.5	24.8	15.3	12.9	14.3	17.6	20.1
Gland Pharma	Buy	3.5	49.3	60.2	71.2	22.1	18.2	30.1	25.4	18.2	15.6	8.9	9.9	10.5
Glenmark Pharma	Buy	5.1	48.4	60.7	70.6	25.4	16.3	26.1	22.5	14.5	12.3	16.0	17.0	16.7
Glaxosmit Pharma	Neutral	4.4	50.2	56.2	64.6	12.1	14.9	40.4	35.1	29.0	25.4	39.3	36.0	33.4
Granules India	Buy	1.7	21.6	28.6	36.0	32.8	25.8	20.4	16.3	12.5	10.2	15.1	17.2	18.2
Ipca Labs.	**Buy**	**4.7**	**34.4**	**44.8**	**55.5**	**30.3**	**23.8**	**36.4**	**29.4**	**19.9**	**16.4**	**13.0**	**15.0**	**16.3**
Laurus Labs	Buy	3.6	6.3	11.0	15.2	75.0	38.4	53.4	38.6	23.7	19.4	7.9	12.7	15.6
Lupin	Neutral	11.6	68.3	75.0	83.2	9.8	10.9	29.7	26.8	17.1	14.7	19.7	18.1	16.9
Mankind Pharma	Buy	13.6	54.6	60.1	76.6	10.1	27.4	47.8	37.5	26.2	21.9	21.5	20.2	21.9
Piramal Pharma	Buy	4.0	2.4	5.2	7.5	115.2	45.2	49.0	33.8	20.0	16.2	4.0	8.0	10.6
Sun Pharma.Inds.	Buy	51.7	49.3	59.3	67.4	20.2	13.7	31.4	27.6	25.1	21.5	17.2	17.8	17.1
Torrent Pharma.	Neutral	13.5	59.8	79.3	99.4	32.5	25.4	43.0	34.3	24.7	20.7	27.0	29.8	30.8
Zydus LifeScience	Neutral	11.3	45.2	49.4	43.6	9.1	-11.7	19.7	22.3	12.0	12.9	20.1	18.0	13.9

Source: MOSL, Bloomberg

US – the key growth driver over the next two years

- **Given that IPCA's sites are now regulatory compliant, it received 11 approvals from the USFDA over the 12 months ended Sep'24. Further, IPCA is on track to file 15-17 products over the next two years, which would drive future growth.**
- **In fact, IPCA has already shipped certain products to the US and is in the process of manufacturing and enhancing its business prospects for the US market.**
- **With the lifting of the import alert at its manufacturing sites focused on the US market, IPCA is gearing up to relaunch the earlier approved products as well as new approvals.**
- **Interestingly, the market potential for certain products of IPCA remains high given the prices have remained stable for its portfolio, unlike price erosion at an industry level.**
- **IPCA's efforts to improve Unichem's profitability are evident, with its EBITDA improving from breakeven in 1QFY23 to 12.4% in 2QFY25. Additionally, it is sourcing its own APIs for Unichem, thereby further enhancing the profitability at the group level.**
- **We expect 52% sales CAGR over FY24-27 fueled by process efficiency, improving utilization of existing plants, filing new drugs, and integrating the front end of Unichem.**

Improved compliance at IPCA's site to revive the US business

- Before the import alert, IPCA had peak US sales of ~USD69m in FY14.
- The import alert adversely impacted its US business prospects for eight long years. IPCA implemented remediation measures with compliance coming back on track after the re-inspection over Apr-Jun'23.

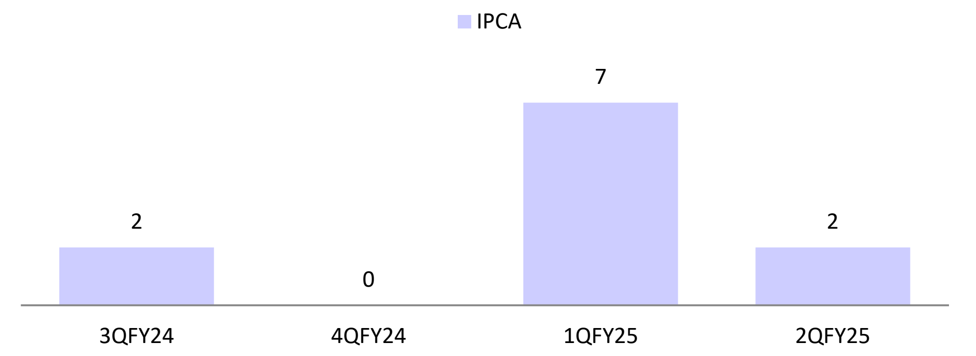
Exhibit 2: Clearance of key plants after about eight years

Company	City	Inspection end date	Classification
IPCA	Dhar	Jun'23	VAI
	Ratlam	Jun'23	VAI
	Silvassa	Apr'23	VAI
	Silvassa	Aug'19	OAI
	Ratlam	Jan'15	Import alert
	Dhar	Mar'15	Import alert
	Silvassa	Mar'15	Import alert

Source: MOFSL, Company

- The clearance of the facility has led to a rise in the approvals for IPCA from 3QFY24 onwards.

Exhibit 3: ANDA approvals have increased post-clearance of IPCA plants in 1QFY24



Source: MOFSL, Company

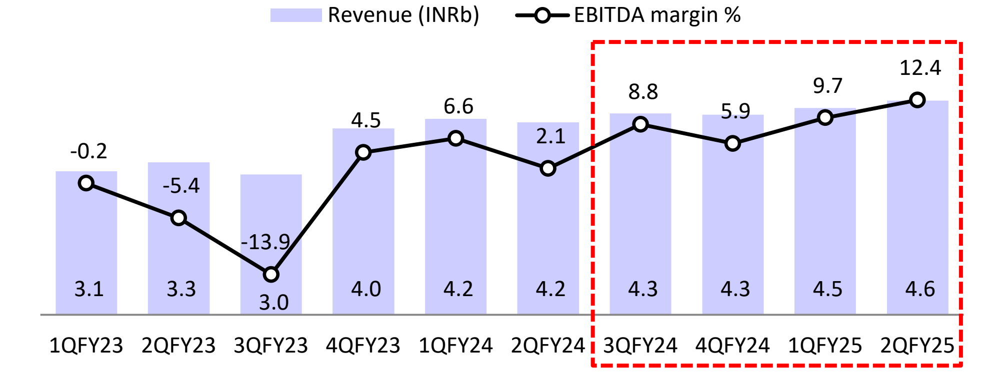
Market potential for IPCA's approved products remains robust

- Interestingly, IPCA's products have witnessed stable/elevated pricing over the past 7-8 years, unlike the conventional way of experiencing price erosion in the US generics business.
- This is partly because the company had a majority share in certain products, and IPCA's exit led to stable/elevated pricing.
- While IPCA might not be able to regain its entire market share, it would be able to garner USD25-30m business from the already approved products, in our opinion.
- IPCA is planning to relaunch six products in 2HFY25 with commercial benefit to come from 3QFY25. Further, IPCA is on track to file ~15-17 products over the next two years, which would drive growth.

Strong turnaround of Unichem

- After the consolidation of Unichem's business in Sep'23, the company experienced robust growth of 15% YoY for the 12 months ended Sep'24. This growth was supported by an improvement in margins, which expanded from a negative 13.9% in Dec'22 to as high as 12.4% in Sep'24.
- On a 12-month basis ended Sep'24, revenue experienced mid-teens growth, driven by new product launches and robust performance in the US and other key markets.
- However, prior to the acquisition, Unichem's overhead costs, including logistics, R&D, and raw materials, were high, resulting in a lower to negative EBITDA margin.

Exhibit 4: Sharp recovery in Unichem's EBITDA margin post-acquisition



Source: MOFSL, Company

- Post-acquisition, the EBITDA margin has significantly improved from EBITDA breakeven in 1QFY23 to 12.4% in 2QFY25, propelled by: 1) improvement in capacity utilization of the existing plant, 2) reduction in the freight costs to 17-18% from 50% of sales with a change in logistic plan, 3) sourcing of low-cost raw material and backward integration, 4) lower R&D costs, 5) process optimization, and 6) reduction in other overhead costs.

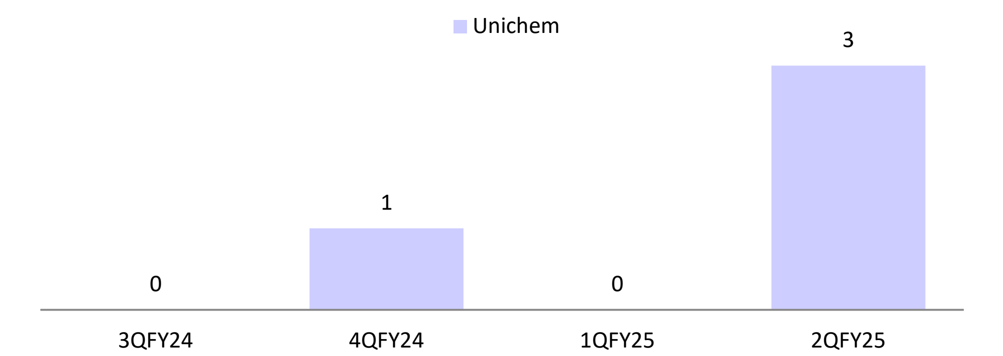
Exhibit 5: All facilities are compliant to the USFDA regulations

Company	City	Inspection End Date	Classification
Unichem	Pilerne Bardez	Jul-24	VAI
	Ghaziabad	Feb-24	NAI
	East Brunswick	Sep-23	NAI
	District Raigad	Feb-20	NAI
	Pilerne Bardez	Jan-20	VAI

NAI- No Action Indicated, VAI- Voluntary Action Indicated, OAI- Official Action Indicated, Source: MOFSL, USFDA

- Unichem has a sound compliance record. Since 2009, it has witnessed 28 USFDA inspections, with an outcome of either NAI or VAI.

Exhibit 6: Unichem received four ANDA approvals during the 12 months ended Sep'24



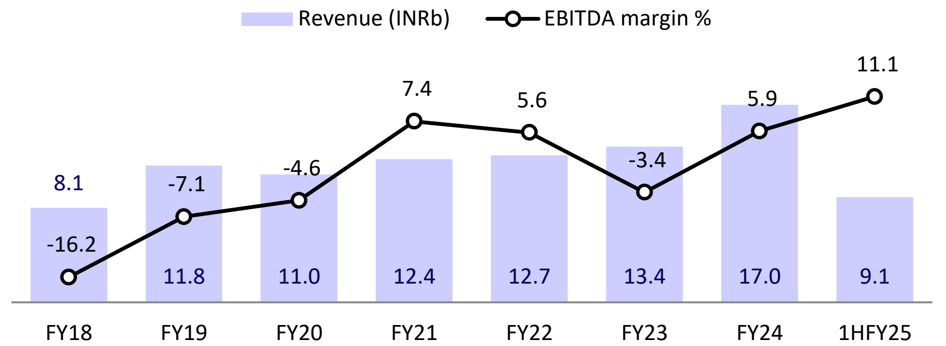
Source: MOFSL, USFDA

- Unichem is receiving approvals due to its consistent compliance track record. It is on track to file ~15-17 products over the next two years, which would drive growth.

Integration with Unichem to revive IPCA’s US business

- With clearance of the three sites, IPCA is working on filing new products in the US market, which would yield benefits over the medium term.
- IPCA is integrating its operations with Unichem’s front end and its own front-end business (Bayshore), strengthening its US team, leveraging superior market reach, and reducing costs.

Exhibit 7: Unichem is improving its operating parameters



Source: MOFSL, Company

- Further, IPCA would modernize Unichem’s Goa-2 plant with a new capacity and capability that would aid the company in scaling up its production. Moreover, there is enough room to improve capacity utilization of IPCA’s Pithampur (30% utilization) and Piparia (25-30% utilization) plants, which would drive growth.
- Unichem has its own R&D team and a product pipeline in place. IPCA plans to retain Unichem's R&D operations while optimizing processes to reduce turnaround times and expedite approvals, thereby enhancing revenue and profitability.
- The company is likely to increase its R&D spending from ~2.6% in FY24 to ~4.0%, as it is planning to file 15-17 products over the next two years.
- We expect that on an overall group level, the US sales would register a 52% CAGR over FY24-27, fueled by process efficiency, filing new complex drugs, improving capacity utilization of the existing plant, and integrating Unichem’s front-end business.

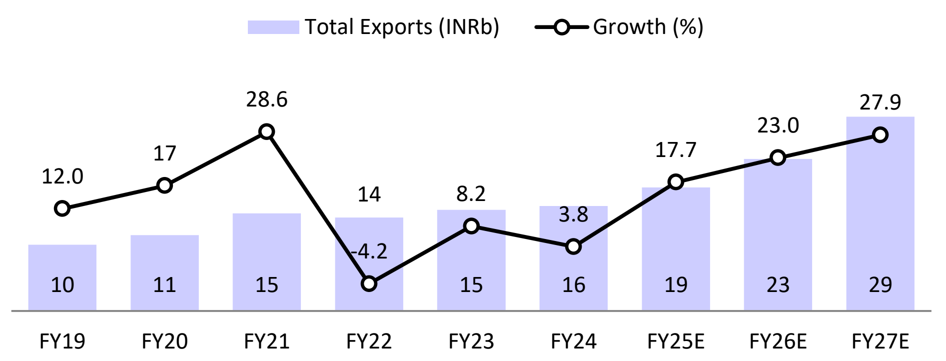
Ex-US, exports to sustain the strong growth momentum

- **During FY19-24, IPCA's exports business (ex-US) experienced a 9.6% CAGR.**
- **We expect its exports to post 23% CAGR over FY24-27 (ex-US), fueled by cross-selling of products where IPCA has a strong presence and entering into the Chilean market.**
- **IPCA is also investing in its biosimilar portfolio and has seven mAbs and one non-mAb product under various stages of development.**
- **The company will commercialize the products by out-licensing and building capacity, which would commercialize by FY27.**

Leveraging strong local presence to cross-sell the products

- During FY19-24, IPCA's exports business (ex-US) experienced a 9.6% CAGR led by strong growth in Australia, Asia, and Africa businesses.
- From FY22 onwards, the branded formulation exports to countries like Russia, Kazakhstan and Belarus have been under pressure owing to geopolitical conflicts.

Exhibit 8: Exports (ex-US) to experience a 23% CAGR over FY24-27



Source: MOFSL, Company

- IPCA has a well-established presence in the EU, Australia, and New Zealand, where Unichem has minimal presence. By leveraging its strong market position, IPCA plans to introduce and market Unichem's products in these regions, driving better facility utilization and revenue growth.
- The company also plans to enter the Chilean market, where the Drug Authority accepts the USFDA-approved drugs without additional examination. Unichem's strong presence in the US will facilitate faster approvals in Chile, significantly reducing the gestation period for market entry.
- Further, IPCA has started registering the products in Germany and intends to have its own distribution in Europe, same as that of the UK. In addition, the company has filed 7-8 products in the Russian market.
- Accordingly, we expect the exports business to register 23% CAGR over FY24-27.

Building biosimilar pipeline for future growth

- IPCA is focusing on long-term growth by investing in a biosimilars portfolio targeting India, the UK, the EU, and ROW markets, with plans to expand to the US subsequently.

- The company has seven mAbs (Monoclonal Anti-body) at various stages of development in the oncology, anti-inflammatory, and ophthalmic segments, and one non-mAb is also under the development stage.
- The company has set up the R&D center in 2015 for mammalian-based mAbs development. It is further investing in the cGMP bio-manufacturing plant at Pithampur with an outlay of INR2b. The plant is likely to be ready by May'25.

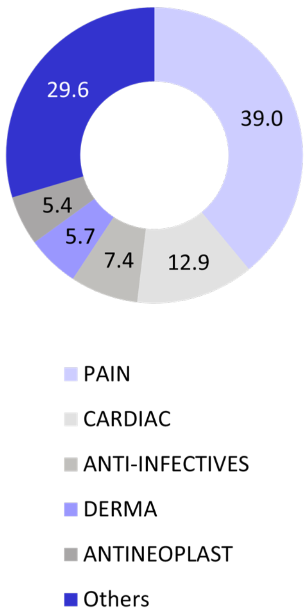
Exhibit 9: Biosimilar pipeline

Molecules	Development	Pre-Clinical	Clinical Trials	MAA/Launch
mAb1			FY26	FY27
mAb2			FY26	FY27
mAb3			FY27	FY28
mAb4	FY25	FY26	FY28	FY29
mAb5	FY25	FY26	FY28	FY29
mAb6	FY25	FY27		
mAb7	FY26			
non-mAb1	FY25			

Source: MOFSL, Company

- The company expects to start commercial manufacturing by FY27 from the plant after successful validation, inspection from authorities, approvals of products, and completion of clinical trials.
- Also IPCA has signed the out-licensing agreement with Omexa. As per the agreement, Omexa has a non-exclusive right to research, develop, manufacture, and market an anti-cancer biosimilar for the global market.
- Further, IPCA remains open for collaboration and out-licensing opportunities for its technology or molecules (covering both drug substance and drug product).

Pain is IPCA's biggest therapy, contributing 39% to DF sales



Domestic business is well-positioned to outperform IPM

- **Backed by strong brand recall, improvement in MR productivity, a rise in volume, and effective management of seasonality, IPCA has witnessed double-digit growth in the top 10 therapies over the past four years.**
- **To further improve its growth prospectus over the next 12-18 months, the company is focusing on launching new divisions such as cosmeto-dermatology in derma therapy and orthopedics in pain therapies.**
- **IPCA is continuously adding MRs since FY18; despite this, MR productivity has improved, led by superior execution. Further, IPCA is creating new specialized divisions for its key therapies and adding around 500-700 MRs in its field force.**
- **In 8MFY25/MAT Nov'24, IPCA has outperformed IPM by 5.9%/5.1%, led by strong brand equity, improved productivity, and an increase in volumes.**
- **Even after taking higher price hikes during MAT Nov'20-24, IPCA experienced higher volume growth compared to IPM.**
- **Despite generating 66% from acute therapies, IPCA has outperformed IPM as well as its peers.**
- **Supported by new product launches and market share gains, we expect the DF segment to register 14% CAGR over FY25-27.**

Broad-based growth across therapies

- IPCA's almost all the top 10 therapies have experienced double-digit growth and outperformed IPM, fueled by strong brand recall, improvement in MR productivity, rise in volume, and management of seasonality.
- In Derma therapy, the company has significantly outperformed IPM by 19.4% over the last four years; further, it has outperformed IPM by 12.1% on a YoY basis. This healthy performance is led by strong brand recall, new launches, and improvement in productivity. Further, the company has added a new division of cosmeto-dermatology, which is one of the fastest-growing segments in the derma segment.
- Its Pain therapy has outperformed IPM by 540bp over the last four years and 420bp on a YoY basis. This was due to strong brand equity and specialized division for the segment.

Exhibit 10: All therapies registered double-digit growth

Sr No	Therapy	MAT Nov'24	4 years IPCA CAGR %	4 years IPM CAGR %	IPCA YoY growth %	IPM YoY growth %
1	PAIN / ANALGESICS	18,216	17.9	12.5	11.7	7.5
2	CARDIAC	6,011	10.1	10.5	16.7	11.7
3	ANTI-INFECTIVES	3,456	12.3	10.9	6.2	3
4	DERMA	2,672	27.9	8.5	21.6	9.5
5	ANTINEOPLAST	2,528	13.3	21.2	16.2	16.9
6	GASTRO INTESTINAL	2,304	11.2	12.4	11.0	8.7
7	UROLOGY	2,166	31.8	14.8	36.0	13.8
8	RESPIRATORY	2,038	18.8	10.9	1.5	0.6
9	NEURO / CNS	1,915	18.7	10.4	14.9	8.4
10	ANTI MALARIALS	1,891	4.1	2.1	4.7	2.1

Source: IQVIA, Company, MOFSL

- The cardiac therapy has grown in line with IPM over the last four years; further, on a YoY basis, it outperformed IPM by 500bp. This was fueled by strong brand growth and MR productivity improvement.

Top brands growing faster than IPM

- ZERODOL-SP is used in pain management related to inflammation relief and swelling and aids faster recovery of inflamed or injured tissues. The drug has registered a 22.3% CAGR over the past four years, surpassing the growth of therapy as well as the molecule, indicating strong brand equity and enhanced productivity of the specialized division.
- Further, ZERODOL-SP is superior to ZERODOL-P, owing to the introduction of Serrapeptase molecule, resulting in a reduction of inflammation and edema (swelling) and promoting faster tissue repair compared to ZERODOL-P.

Exhibit 11: Except HCQ and CTD, all other brands are growing in high double digits

Top 10 brands	Therapy	Molecule	MAT Nov'24 INRm	YoY Growth %	4 Year Brand CAGR	4 years Therapy CAGR %	4 Years molecule CAGR %
Zerodol-SP	Pain	❖ Aceclofenac + Paracetamol + Serrapeptase	5909	13.7	22.3	12.5	18.7
Zerodol-P	Pain	❖ Aceclofenac + Paracetamol	2973	8.5	13	12.5	10.3
HCQS	Pain	❖ Hydroxychloroquine Sulfate	1972	9.5	4.4	12.5	3.4
Folitrax	Antineoplast	❖ Methotrexate And Comb.	1402	14	14.7	21.2	14.8
Zerodol-TH	Pain	❖ Aceclofenac + Thiocolchicoside	1275	9.3	14.7	12.5	11.1
CTD-T	Cardiac	❖ Chlortalidone + Telmisartan	1145	25.9	18.5	10.5	12
Solvin Cold	Respiratory	❖ Chlorphenamine Maleate + Paracetamol + Phenylephrine Hydrochloride	917	1.1	16.9	10.9	8
TFCT-NIB	Pain/Derma	❖ Tofacitinib Citrate	795	26	194.1	12.5	112.2
CTD	Cardiac	❖ Chlortalidone	794	9.3	6.9	10.5	6.6
Pacimol	Pain	❖ Paracetamol	709	7.2	14.4	12.5	15

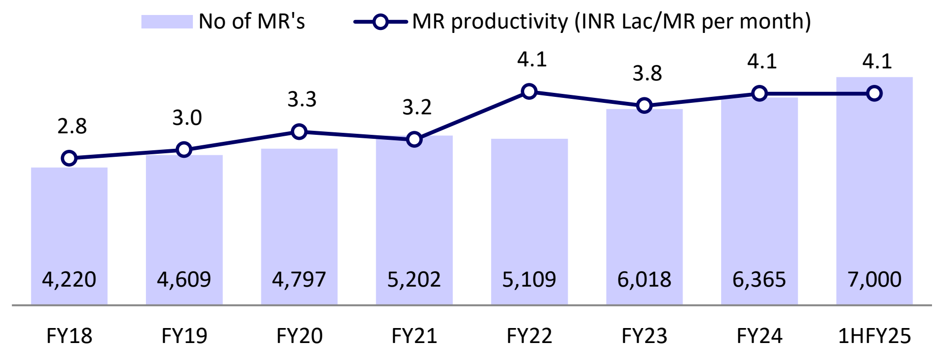
Source: IQVIA, Company, MOFSL

- The CTD brand has seen moderate growth of 6.9% over the last four years and has underperformed the cardiac therapy. CTD is used for reducing fluid and salt in the body to lower blood pressure.
- While CTD-T is a combination drug of Chlortalidone + Telmisartan, it provides a stronger and more comprehensive control of high blood pressure by targeting both fluid reduction and blood vessel relaxation.
- This has resulted in faster growth of CTD-T (18.5% CAGR over the last four years) vs. CTD (6.9% CAGR over the same period). Further CTD-T is growing faster than the molecule and therapy.

Focus on improving MR productivity and increasing field force

- IPCA has expanded its field force to 7,000 in 1HFY25 from 4,220 in FY18.
- Despite addition of MRs over ~7 years, the productivity of the field force has improved owing to improvement in efficiency.

Exhibit 12: MR productivity has remained stable since FY22



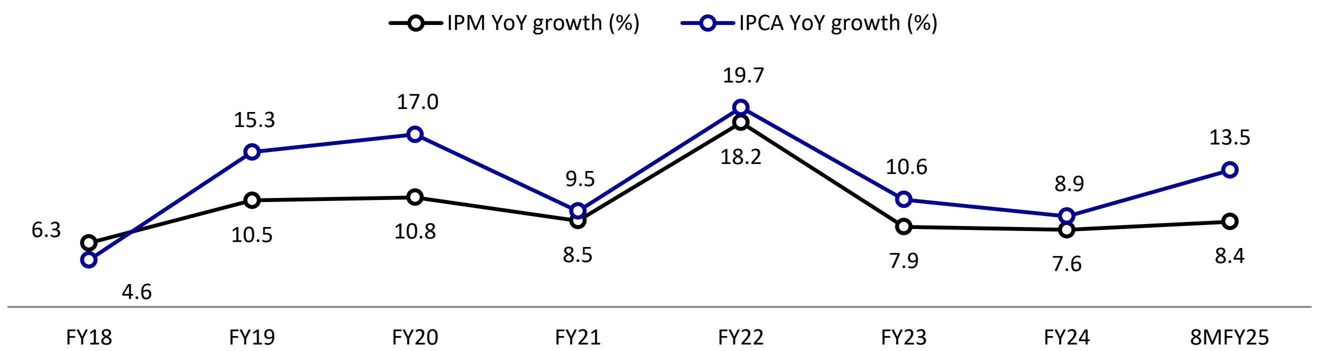
Source: Company, MOFSL

IPCA is planning to increase the field force with addition of around 500-600 MRs. The major addition would be done in the ortho, diabetes, and blood pressure divisions.

IPCA continues to outperform IPM

- Over FY19-24, IPCA consistently outperformed IPM with an average outperformance of 2.9%. During 8MFY25, IPCA has grown 13.5% YoY to INR33.4b, led by growth across key therapies.
- In FY23 and FY24, although IPCA outperformed IPM, its YoY growth declined due to the high base of Covid-19 and moderate growth in key therapies such as anti-infectives. Strong brand equity led to consistent outperformance against IPM over FY19-24.
- Despite having 17% of its portfolio under the National List of Essential Medicines (NLEM), IPCA has consistently outperformed IPM since FY19. This can be attributed to strong brand recall, effective management of seasonality, a rise in volume, decluttering the MRs for enhanced brand focus, and improved productivity.

Exhibit 13: IPCA has consistently outperformed IPM



Source: IQVIA, Company, MOFSL

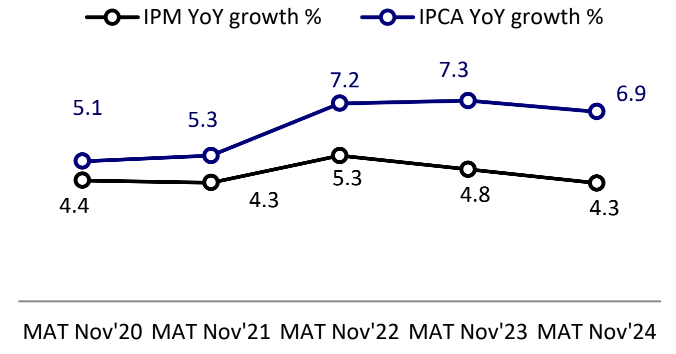
- IPCA has posted a CAGR of 16% over FY21-24, outperforming IPM by ~480bp. IPCA outperformed IPM in Derma/Pain/Anti-Infectives by 21.7%/5.2%/1.7% over FY21-24.
- In FY21, although IPCA outperformed IPM, DF growth declined YoY to 9.5% due to the adverse impact of the Covid-induced lockdown, leading to temporary disturbances in the supply chain. However, in FY22, the company registered a

robust growth of 19.7% YoY, due to rising demand on account of Covid-19, higher growth in the respiratory division, and a low base of FY21.

Price hikes and volumes driving overall growth

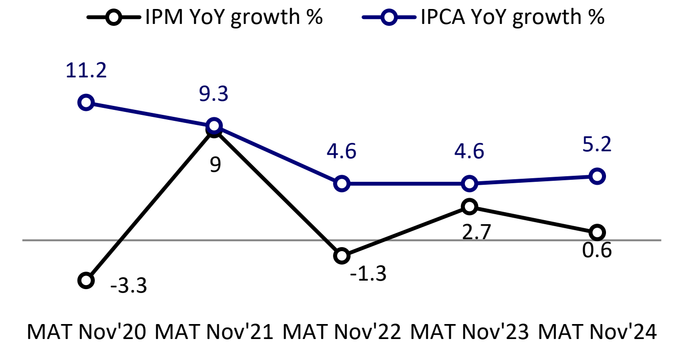
- Since MAT Nov’20, IPCA has witnessed growth in the domestic market led by price hikes and volume.
- IPCA has consistently outperformed IPM in terms of price and volume growth since MAT Nov’20.

Exhibit 14: IPCA has outperformed IPM in price….



Source: MOFSL, Company, IQVIA

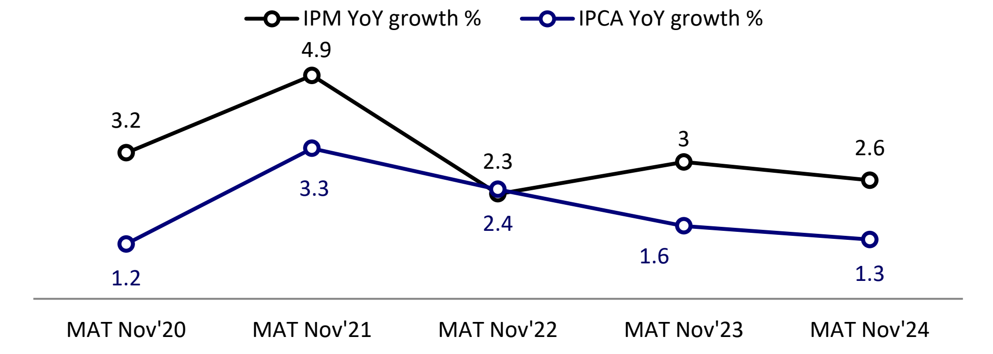
Exhibit 15: …. as well as in volume growth



Source: MOFSL, Company, IQVIA

- Despite taking aggressive price hikes, IPCA has also witnessed volume growth led by strong brand equity and superior execution by the field force.

Exhibit 16: IPCA has underperformed IPM in case of new product launches



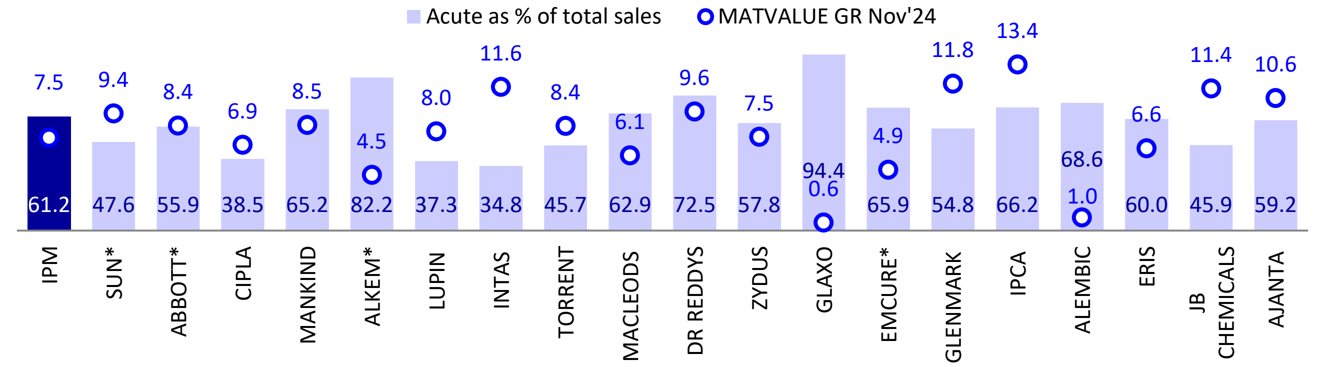
Source: MOFSL, Company, IQVIA

- However, IPCA has underperformed IPM in terms of new product launches over MAT Nov’20-24.

Despite higher acute share, IPCA has outperformed its peers

- IPCA derives 66% of its revenue from acute therapy, a proportion significantly higher than the acute therapy share within the overall IPM (61%).
- Despite having higher proportion from the acute therapy, IPCA is growing faster than overall IPM and peers in MAT Nov’24.

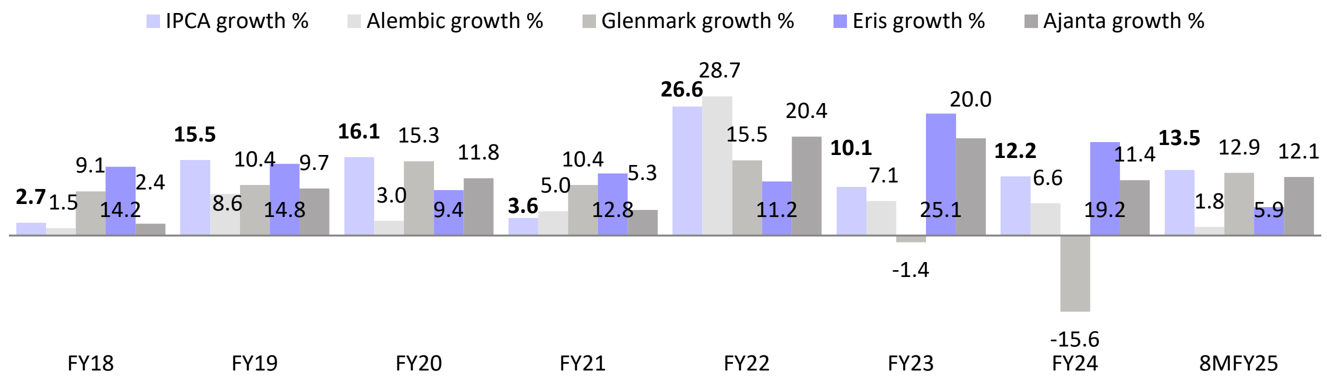
Exhibit 17: IPCA has 66% acute therapy share



Source: IQVIA, Company, MOFSL

- IPCA is outperforming its peers over 8MFY25 led by strong growth in all the key therapies and brands.

Exhibit 18: In 8MFY25, IPCA is outperforming its peers



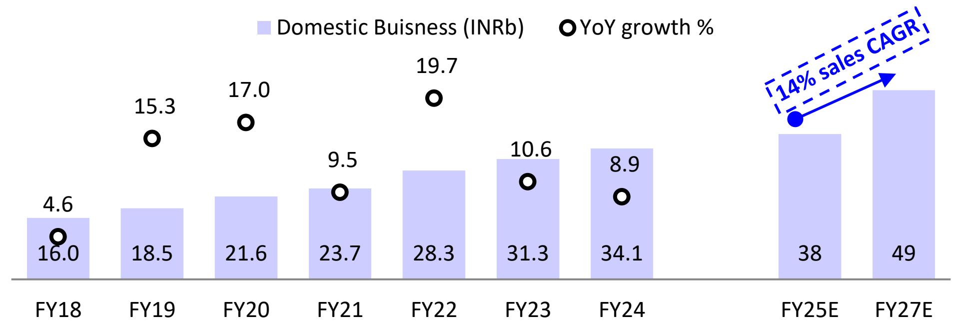
Source: IQVIA, Company, MOFSL

- Apart from FY18 and FY21, IPCA has mostly outperformed its peers. In FY23 and FY24, ERIS' overall growth was higher compared to the peers due to significant acquisitions during the period.

IPCA is well-poised to outperform IPM with 14% CAGR

- As of Aug'24, IPCA received marketing rights for Novalead's patented drug, Diulicus, for the treatment of diabetic foot ulcer. Owing to a high diabetes rate among people, this deal would help IPCA grow over the medium to long term.
- Along with addition of MRs and improving productivity, the company is launching the specialized division for key therapeutic areas.
- Accordingly, we expect DF sales to clock a CAGR of 14% over FY25-27 to INR49b.

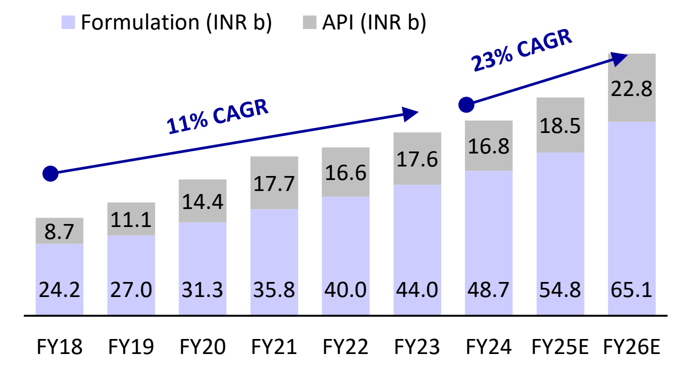
Exhibit 19: DF business to register a CAGR of 14% over FY25-27



Source: Company, MOFSL

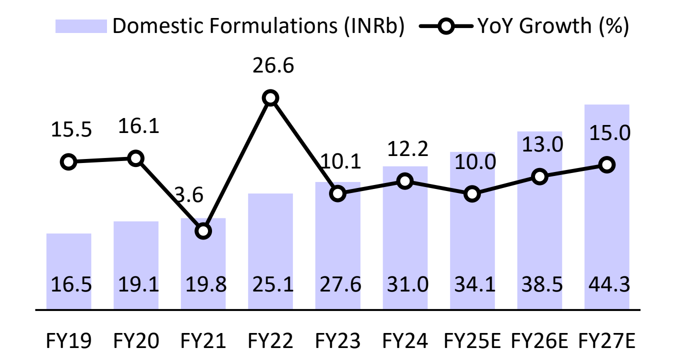
Story in charts

Exhibit 20: Expect 23% sales CAGR over FY25-27



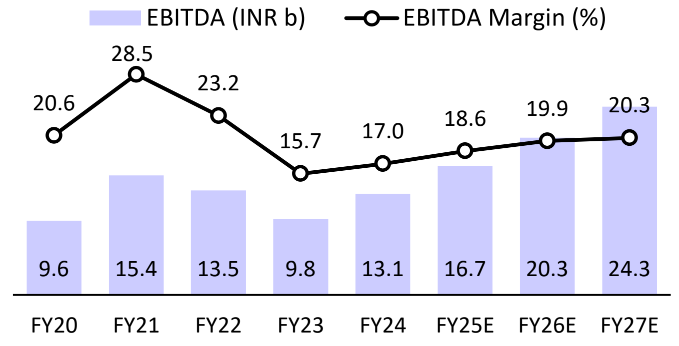
Source: Company, MOFSL

Exhibit 21: Expect 14% DF sales CAGR over FY25-27



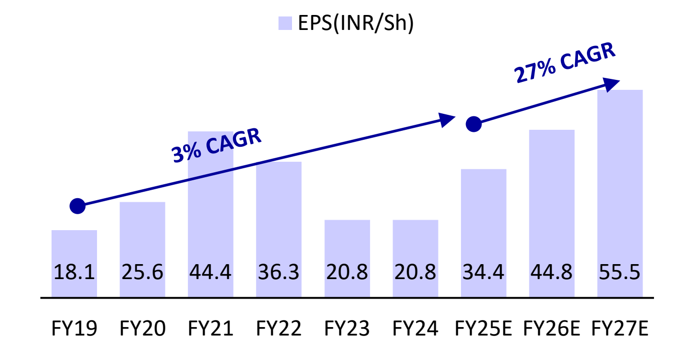
Source: Company, MOFSL

Exhibit 22: Expect margin to expand over FY25-27



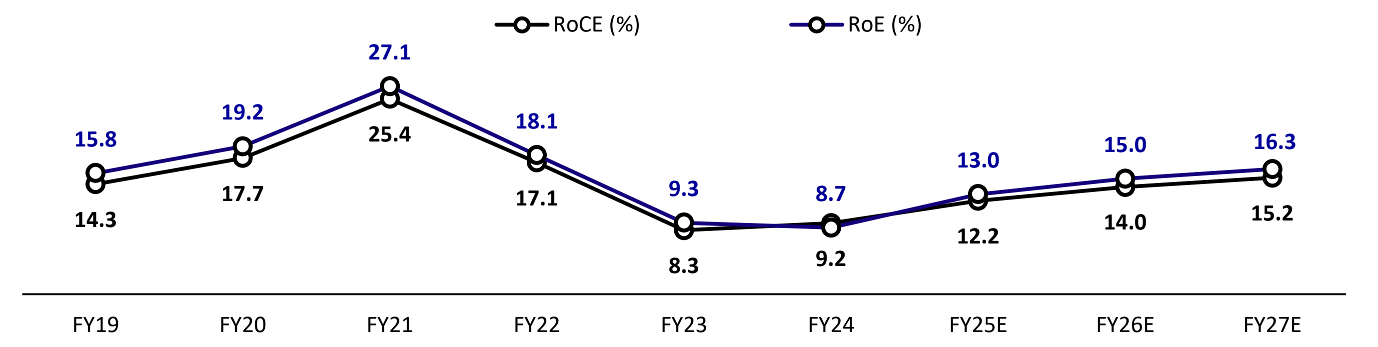
Source: Company, MOFSL

Exhibit 23: Expect 27% earnings CAGR over FY25-27



Source: Company, MOFSL

Exhibit 24: Expect return ratios to improve over FY25-27



Source: Company, MOFSL

Financials and valuations

Income Statement									(INRm)
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**	**89,703**	**1,02,131**	**1,19,815**
Change (%)	14.9	23.2	16.6	7.6	7.3	23.2	16.4	13.9	17.3
EBITDA	**7,170**	**9,580**	**15,444**	**13,509**	**9,812**	**13,076**	**16,685**	**20,324**	**24,322**
Change (%)	57.7	33.6	61.2	-12.5	-27.4	33.3	27.6	21.8	19.7
Margin (%)	19.0	20.6	28.5	23.2	15.7	17.0	18.6	19.9	20.3
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**	**12,717**	**16,265**	**20,172**
Int. and Finance Charges	189	165	90	77	455	1,383	651	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**	**12,966**	**16,758**	**20,722**
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**	**12,966**	**16,758**	**20,722**
Current Tax	1,218	1,406	2,487	2,070	2,302	3,102	3,436	4,609	5,885
Deferred Tax	-176	-53	-85	178	230	33	259	335	414
Tax	1,042	1,353	2,401	2,248	2,532	3,135	3,695	4,944	6,299
Tax Rate (%)	18.5	17.2	17.5	19.1	32.1	34.1	28.5	29.5	30.4
Reported PAT	**4,441**	**6,090**	**11,488**	**9,110**	**5,047**	**5,291**	**9,270**	**11,814**	**14,422**
Less: Minority Interest	18	78	91	269	-206	984	550	450	350
Net Profit	**4,423**	**6,012**	**11,398**	**8,841**	**5,253**	**4,307**	**8,721**	**11,364**	**14,072**
Adj PAT	**4,580**	**6,485**	**11,255**	**9,218**	**5,275**	**5,274**	**8,721**	**11,364**	**14,072**
Adj PAT growth (%)	91.3	41.6	73.6	-18.1	-42.8	0.0	65.3	30.3	23.8

Balance Sheet									(INRm)
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	70,481	80,141	92,103
Net Worth	**31,224**	**36,275**	**47,017**	**54,920**	**58,420**	**63,322**	**70,735**	**80,395**	**92,356**
Deferred liabilities	1457	1398	1316	1506	1856	3062	3322	3657	4071
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**	**1,00,003**	**1,09,291**	**1,21,031**
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**	**59,386**	**73,802**	**92,789**
Inventory	10,725	13,231	15,948	18,580	17,434	24,713	25,068	30,220	36,437
Account Receivables	6,815	8,952	8,118	9,108	9,890	16,865	17,941	21,825	26,261
Cash and Bank Balance	2,823	1,809	3,651	6,407	18,532	2,968	6,090	10,043	16,350
Loans & Advances	3,854	3,947	5,164	5,143	5,194	8,840	10,288	11,713	13,742
Curr. Liability & Prov.	**9,147**	**10,441**	**10,198**	**11,147**	**10,473**	**16,364**	**14,500**	**17,069**	**21,665**
Account Payables	8,190	9,182	8,781	9,704	8,923	13,050	12,780	15,110	19,367
Provisions	957	1,259	1,417	1,443	1,550	3,314	1,720	1,959	2,298
Net Current Assets	**15,070**	**17,498**	**22,682**	**28,091**	**40,577**	**37,022**	**44,886**	**56,733**	**71,123**
Appl. of Funds	**36,342**	**42,137**	**50,466**	**65,222**	**75,755**	**94,607**	**1,00,003**	**1,09,291**	**1,21,031**

E: MOFSL Estimates

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**	**34.4**	**44.8**	**55.5**
Cash EPS	24.8	32.2	53.2	44.0	31.0	31.1	50.0	60.8	71.8
BV/Share	123.7	143.2	185.3	216.5	230.3	249.6	278.8	316.9	364.0
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	21.5	17.2	19.3
Valuation (x)									
P/E	90.8	64.1	36.9	45.1	78.8	78.8	47.7	36.6	29.6
P/BV	13.2	11.4	8.8	7.6	7.1	6.6	5.9	5.2	4.5
EV/Sales	11.1	9.0	7.7	7.2	6.7	5.4	4.7	4.1	3.5
EV/EBITDA	58.2	43.6	27.0	30.9	42.5	31.9	25.0	20.5	17.2
Dividend Yield (%)	0.0	0.2	0.4	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	15.0	16.3
RoCE	14.3	17.7	25.4	17.1	8.3	9.2	12.2	14.0	15.2
RoIC	14.0	18.0	28.7	21.1	10.2	9.7	11.3	13.6	15.6
Working Capital Ratios									
Fixed Asset Turnover (x)	1.9	2.3	2.6	2.6	2.4	2.1	2.0	2.4	3.1
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	19.5	35.6	46.9
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	0.2	0.1	0.0	-0.1

Cash Flow Statement **(INRm)**

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	16,685	20,324	24,322
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	-3,436	-4,609	-5,885
(Inc)/Dec in WC	-1,686	-3,442	-3,343	-2,652	-361	-12,009	-4,742	-7,894	-8,084
CF from Operations	**4,803**	**5,304**	**10,075**	**9,464**	**8,421**	**213**	**9,406**	**8,772**	**11,333**
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**	**9,406**	**8,772**	**11,333**
(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**	**7,906**	**7,272**	**9,833**
(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	-651	-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	131	1,068	1,168
CF from Fin. Activity	**-1,832**	**-1,305**	**-3,169**	**5,222**	**4,681**	**10,705**	**-4,785**	**-2,125**	**-2,688**
Inc/Dec of Cash	**1,528**	**-758**	**1,841**	**2,598**	**12,126**	**-15,830**	**3,122**	**5,147**	**7,145**
Add: Beginning Balance	2,181	3,709	2,954	4,795	7,393	19,519	2,968	6,090	10,043
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**	**6,090**	**11,237**	**17,188**
Bank balances / Mutual fund (gain)/ loss	-886	-1,145	-1,145	-986	-986	-721	0	1,194	839
Closing Balance	**2,823**	**1,809**	**3,650**	**6,407**	**18,533**	**2,968**	**6,090**	**10,043**	**16,350**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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