

# IPCA Laboratories

DOLAT CAPITAL



CMP: Rs 330

Target Price: Rs 378

View: Accumulate

## High Points

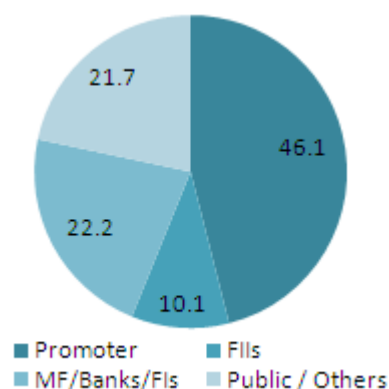
- Q1FY12 revenue beats estimates, export formulations drives growth.
- Domestic formulations records slower growth.
- Operating margins inch up 90bps YOY to 18%.
- Topline growth in FY12E guided at 18-20% despite lowering its guidance for domestic formulations as exports would do well.
- View: Maintain Accumulate with target price of Rs 378

BSE Sensex	18,314
NSE Nifty	5,517

## Scrip Details

Equity	Rs 251mn
Face Value	Rs 2/-
Market Cap	Rs 41bn
	USD 922mn
52 week High/Low	Rs 351 / 255
Avg. Volume (no)	130,854
Bloomberg Code	IPCA IN
Reuters Code	IPCA.BO

## Shareholding Pattern as on June'11(%)



## Financials (Consolidated)

Year	NetSales#	%growth	EBIDTA	OPM%	Adj PAT*	%growth	Adj EPS(Rs.)*	%growth	PER (x)	ROANW%	ROACE%
FY10	15,668	21.2	3,308	21.1	1,991	11.6	15.8	11.6	20.8	26.6	22.9
FY11	18,989	21.2	3,761	19.8	2,194	10.2	17.5	10.2	18.9	22.9	21.5
FY12E	22,431	18.1	4,614	20.6	2,764	26.0	22.0	26.0	15.0	23.7	22.2
FY13E	26,164	16.6	5,496	21.0	3,397	22.9	27.0	22.9	12.2	24.0	22.8

Figure in Rs.mn, # Includes other operating income, \* Excl.forex exceptional items.

## IPCA Labs revenue beats estimates, export formulations drives growth

IPCA Labs's topline grew 26.8% YoY to Rs 5.3bn, primarily led by a 69.3% growth in export formulations, while domestic revenue slipped to 12.3% YoY.

Domestic formulations recorded slower growth on account of:

- a) re-grouping of products and divisions
- b) declining growth in CNS and anti-bacterial sales, and
- c) lower productivity and attrition related issues.

The company will consolidate its field force now at 4,200 marketing reps and expects gradual improvement in productivity from here on.

On the other hand, the export generic segment (excluding institutional tender sales) grew 30% YoY to Rs 1.5bn, led by higher contribution from the US market. Institutional business (*supplies of Artemether Lumefantrine – AL – formulation*) scaled up well and contributed Rs 533.2mn to the topline.

The branded business witnessed traction and grew 65% YoY to Rs 419mn, led by healthy performance in the CIS (doubled its revenues at Rs 200mn).

Operating margins increased 90bps YoY to 18%. Higher revenue contribution from branded formulations and increased captive consumption of APIs led to higher gross margins. However, higher other expenses related selling and distribution costs and general expenses restricted margin expansion.

Interest cost rose 22.7% YoY to Rs 83mn. Tax rate stood higher at 29% (22.7% in Q1 FY11) on account of higher deferred tax. Consequently PAT (excluding forex items) grew 26% YoY to Rs 526mn.

## Q1FY12 Result

Particulars	Q1FY12	Q1FY11	YoY (%)	Q4FY11	QoQ (%)
Net Sales	5263	4145	27.0	4738	11.1
Other Operational Income	36	35		47	
Income from Operations	5299	4180	26.8	4785	10.7
Total Expenditure	4347	3468	25.4	3802	14.3
EBIDTA	952	712	33.6	983	-3.1
OPM (%)	18.0%	17.0%		20.5%	
Other Income	27	25	5.6	68	-60.8
EBITDA ( including Other Income)	978	737	32.7	1050	-6.9
Depreciation & Amortization	154	129	19.6	147	5.0
EBIT	824	609	35.4	904	-8.8
Interest	83	68	22.7	145	-42.4
PBT	741	541	37.0	759	-2.4
Tax	215	123	75.0	136	58.6
Reported Profit After Tax (before EOI)	526	418	25.9	623	-15.6
Forex Items- loss/(gains)	-91	29		-62	
Profit After Extra-ordinary item	617	388	58.8	586	5.3
Adj. PAT (Excl. Forex gains/losses)	526	418	25.9	524	0.4

The management has guided for 18-20% revenue growth in FY12E despite lowering its guidance in domestic formulations as export formulations is expected to perform better than expected.

The USFDA nod to its Indore SEZ facility is expected by the year-end and will be a key growth driver.

We maintain our **Accumulate** rating on the stock with target price of Rs 378 (14x FY13E EPS).

### Key highlights

- Revenue grew 26.8% YoY in Q1 FY11 to Rs 5.3bn, primarily led by 69.3% growth in export formulations. Domestic formulations grew 12.3% YoY.
- Slowdown in domestic formulations (36% of sales) was due to regrouping of products and divisions. Anti-bacterials and CNS declined during the quarter while CVS grew a mere 6% YoY. Other key divisions, namely cough & cold (up 57% YoY), pain (up 23% YoY) and malaria (up 28% YoY), performed well. Higher attrition also affected performance. Going forward, the company plans to launch 7-8 products in FY12E and increase its focus on brand building. The current field force stands at around 4,200 marketing reps with no more additions planned.
- The export generic segment (excluding institutional tender sales) grew 30% YoY to Rs 1.5bn, led by higher contribution from the US market. The US generics business clocked revenues of Rs 375.3mn in Q1 FY12 (up 64% YoY) while UK revenues rose 3.6% at Rs 608.3mn.
- Institutional business (*supplies of Artemether Lumefantrine – AL – formulation*) contributed Rs 533.2mn to the topline.
- As expected, the export branded business witnessed traction and grew 65% YoY to Rs 419mn, led by healthy performance in the CIS market, which saw its revenues double to Rs 200mn.
- Operating margins rose 90bps YoY to 18%. While raw material cost declined 210bps YoY to 39.7% of sales (aided by higher API captive consumption), other expenses stood higher (up 120bps YoY) at 26.6% due to higher spends related to promotional campaigns and fuel cost etc. Employee expenses stood flat at 15.8%.
- Interest cost rose 22.7% YoY to Rs 83mn. Tax rate (on PBT without EOI) stood higher at 29% (22.7% in Q1 FY11) on account of higher deferred tax of Rs 39.2mn.
- PAT (excluding forex items) grew 26% YoY to Rs 526mn.
- The company has incurred forex gains of Rs 91mn (on account of forwards and bills) as against loss of Rs 29.3mn in Q1 FY11. It has hedged around 50% of its coming 12 months exports (around USD 155mn) at a rate of Rs 48.2 per dollar.

### Brief highlights from con-call:

- The Indore SEZ facility awaits US FDA inspection and expects it to be approved by the year end. The management guided that post-approval it will launch five products (3-4 transfers and 1-2 new products) in the US. It has launched one product in EU from its Indore facility, which is currently generating revenue of Rs 10mn (peak potential of Rs 200mn).
- It has made two ANDA filings in the quarter and eight products are currently marketed in the US.

- The management expects to clock higher revenue in its institutional tender business and guides for Rs 2bn in sales during FY12E. 'Artemether Lumefantrine' (AL) accounts for around 85% of the addressable market potential of USD 250-300mn while the balance is contributed by 'Artesunate Amodiaquine' (AA). IPCA has already filed for prequalification and undergone inspection, and currently awaits approval for AA. The only supplier is Sanofi Aventis, which ensures significant headroom for growth for IPCA on product launch.
- The management has guided for 20% topline growth YoY in FY12E. Notably, it has lowered its growth guidance in domestic formulations (from 18-20% earlier to 16-18% now) while it expects better performance from export formulations. It expects better operating margins, aided by a gradual increase in productivity of its recently increased field force.
- IPCA has guided Rs 2.5bn in capex (includes expansion of API capacities at Ratlam, and the upcoming facility at Baroda) during FY12E.

### Valuations

IPCA's growth mantra revolves around creating a competitive position in formulations by leveraging on its API goldmine. We expect acceleration in export formulation revenues with higher contribution from the branded business and steady growth in generics (entry in newer EU markets and higher institutional based sales). Traction in the US generics (post USFDA accreditation - Indore SEZ facility) and additional API supply contracts in the offing are positive growth triggers. At CMP, the stock trades at 15x FY12E and 12.2x FY13E earnings. We maintain our **Accumulate** rating on the stock with target price of Rs 378 (14x FY13E EPS).

INCOME STATEMENT					Rs.mn	CASH FLOW				
Particulars	Mar10	Mar11	Mar12E	Mar13E		Particulars	Mar10	Mar11	Mar12E	Mar13E
<b>Net Sales</b>	<b>15,596</b>	<b>18,825</b>	<b>22,326</b>	<b>26,059</b>		<b>Profit before tax</b>	2,600	2,973	3,644	4,392
Operating Income	72	163	105	105		Depreciation & w.o.	467	558	692	798
<b>Income from Operations</b>	<b>15,668</b>	<b>18,989</b>	<b>22,431</b>	<b>26,164</b>		Net Interest Exp	329	314	358	385
Other income	89	83	80	80		Direct taxes paid	(627)	(784)	(880)	(995)
Total Income	15,757	19,072	22,511	26,244		Chg. in Working Capital (Non Cash)	(1,664)	(1,203)	(1,613)	(1,719)
Total Expenditure	12,360	15,227	17,818	20,669		Other (Bal.fig)	811	161	183	199
Raw Material	6,456	7,764	9,109	10,740		<b>(A) CF from Opt. Activities</b>	<b>1,917</b>	<b>2,019</b>	<b>2,383</b>	<b>3,060</b>
Employee Expenses	2,207	2,663	2,983	3,422		Capex {Inc./ (Dec.) in FA n WIP}	(1,261)	(1,821)	(2,000)	(2,000)
Other Expenses	3,697	4,800	5,725	6,507		Inc./ (Dec.) in Investments	86	(222)	0	0
<b>EBIDTA (Excl. Other Income)</b>	<b>3,308</b>	<b>3,761</b>	<b>4,614</b>	<b>5,496</b>		<b>(B) CF from Investing Activities</b>	<b>(1,174)</b>	<b>(2,043)</b>	<b>(2,000)</b>	<b>(2,000)</b>
<b>EBIDTA (Incl. Other Income)</b>	<b>3,397</b>	<b>3,844</b>	<b>4,694</b>	<b>5,576</b>		Issue of Equity/ Preference	45	39	0	0
Interest	329	314	358	385		Inc./ (Dec.) in Debt	(49)	763	367	30
<b>Gross Profit</b>	<b>3,067</b>	<b>3,530</b>	<b>4,336</b>	<b>5,191</b>		Interest exp net	(329)	(314)	(358)	(385)
Depreciation	467	558	692	798		Dividend Paid (Incl. Tax)	(409)	(468)	(512)	(586)
Profit Before Tax & EO Items	2,600	2,973	3,644	4,392		<b>(C) Cash Flow from Financing</b>	<b>(742)</b>	<b>20</b>	<b>(503)</b>	<b>(941)</b>
Profit Before Tax	2,600	2,973	3,644	4,392		Net Change in Cash	0	(4)	(120)	120
Tax	627	784	880	995		<b>Opening Cash balances</b>	107	108	104	(17)
Net Profit	1,973	2,189	2,764	3,397		<b>Closing Cash balances</b>	108	104	(17)	103
Share of associates	(18)	(5)	0	0		E-estimates				
<b>Adj.Net Profit</b>	<b>1,991</b>	<b>2,194</b>	<b>2,764</b>	<b>3,397</b>		<b>IMPORTANT RATIOS</b>				
Forex Losses/(Gains)	(63)	(434)	0	0		<b>Particulars</b>	<b>Mar10</b>	<b>Mar11</b>	<b>Mar12E</b>	<b>Mar13E</b>
<b>PAT</b>	<b>2,054</b>	<b>2,628</b>	<b>2,764</b>	<b>3,397</b>		<b>(A) Measures of Performance (%)</b>				
<b>BALANCE SHEET</b>						<b>Contribution Margin</b>				
<b>Particulars</b>	<b>Mar10</b>	<b>Mar11</b>	<b>Mar12E</b>	<b>Mar13E</b>		EBIDTA Margin (excl. O.I.)	21.1	19.8	20.6	21.0
<b>Sources of Funds</b>						EBIDTA Margin (incl. O.I.)	21.7	20.2	20.9	21.3
Equity Capital	250	251	251	251		Interest / Sales	2.1	1.7	1.6	1.5
Share Premium	385	424	424	424		Gross Profit Margin	19.5	18.5	19.3	19.8
Other Reserves	8,013	9,841	12,092	14,904		Tax/PBT	24.1	26.4	24.1	22.7
<b>Net Worth</b>	<b>8,649</b>	<b>10,516</b>	<b>12,767</b>	<b>15,579</b>		Net Profit Margin	12.7	11.6	12.3	13.0
Secured Loans	3,641	4,273	4,530	4,560		<b>(B) As Percentage of Net Sales</b>				
Unsecured Loans	904	1,036	1,145	1,145		Raw Material	41.2	40.9	40.6	41.0
<b>Loan Funds</b>	<b>4,545</b>	<b>5,308</b>	<b>5,675</b>	<b>5,705</b>		Employee Expenses	14.1	14.0	13.3	13.1
Deferred Tax Liability	793	807	983	1,182		Other Expenses	23.6	25.3	25.5	24.9
Minority Interest	(6)	(7)	0	0		<b>(C) Measures of Financial Status</b>				
<b>Total Capital Employed</b>	<b>13,981</b>	<b>16,625</b>	<b>19,425</b>	<b>22,466</b>		Debt / Equity (x)	0.5	0.5	0.4	0.4
<b>Applications of Funds</b>						Interest Coverage (x)	10.3	12.2	13.1	14.5
Gross Block	8,812	9,884	13,016	15,016		Average Cost Of Debt (%)	7.2	6.4	6.5	6.8
Less: Accumulated Depreciation	2,433	2,892	3,584	4,383		Debtors Period (days)	91	90	90	92
<b>Net Block</b>	<b>6,379</b>	<b>6,992</b>	<b>9,431</b>	<b>10,633</b>		Closing stock (days)	89	90	91	91
Capital Work in Progress	383	1,132	0	0		Inventory Turnover Ratio (x)	4.1	4.0	4.0	4.0
<b>Investments</b>	<b>325</b>	<b>408</b>	<b>408</b>	<b>408</b>		Fixed Assets Turnover (x)	1.8	1.9	1.7	1.7
<b>Current Assets, Loans &amp; Advances</b>						Working Capital Turnover (x)	2.3	2.3	2.3	2.3
Inventories	3,802	4,664	5,566	6,497		Non Cash Working Capital (Rs Mn)	6,787	7,989	9,480	11,322
Sundry Debtors	3,880	4,637	5,505	6,568		<b>(D) Measures of Investment</b>				
Cash and Bank Balance	108	104	106	103		EPS (Rs.) (excl EO)	15.8	17.5	22.0	27.0
Loans and Advances	1,259	1,182	1,282	1,382		EPS (Rs.)	16.3	20.9	22.0	27.0
Other Current Assets						CEPS (Rs.)	19.6	21.9	27.5	33.4
<b>sub total</b>	<b>9,049</b>	<b>10,586</b>	<b>12,459</b>	<b>14,550</b>		DPS (Rs.)	2.8	3.2	3.5	4.0
<b>Less : Current Liabilities &amp; Provisions</b>						Dividend Payout (%)	17.1	15.3	15.9	14.8
Current Liabilities	1,842	2,073	2,398	2,621		Book Value (Rs.)	69.1	83.7	101.6	123.9
Provisions	313	420	475	504		RoANW (%)	26.6	22.9	23.7	24.0
<b>sub total</b>	<b>2,155</b>	<b>2,493</b>	<b>2,873</b>	<b>3,126</b>		RoACE (%)	22.9	21.5	22.2	22.8
Net Current Assets	6,895	8,093	9,586	11,425		RoAIC (%) (Excl Cash & Invest.)	23.1	21.6	22.3	22.9
Misc Expenses						<b>(E) Valuation Ratios</b>				
<b>Total Assets</b>	<b>13,981</b>	<b>16,625</b>	<b>19,425</b>	<b>22,466</b>		CMP (Rs.)	330	330	330	330
E-estimates						P/E (x)	20.8	18.9	15.0	12.2
						Market Cap. (Rs. Mn.)	41,316	41,481	41,481	41,481
						MCap/ Sales (x)	2.6	2.2	1.9	1.6
						EV (Rs. Mn.)	45,753	46,686	47,050	47,083
						EV/Sales (x)	2.9	2.5	2.1	1.8
						EV/EBDITA (x)	13.8	12.4	10.2	8.6
						P/BV (x)	4.8	3.9	3.2	2.7
						Dividend Yield (%)	0.8	1.0	1.1	1.2
						E-estimates				



*Intentionally Left Blank*

BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

## DOLAT TEAM

Principal	Sector / Tel. No.	Sales	Tel. No.
<b>Purvag Shah</b> <a href="mailto:purvag@dolatcapital.com">purvag@dolatcapital.com</a>	+9122 4096 9747	<a href="mailto:sales@dolatcapital.com">sales@dolatcapital.com</a>	
<b>Research</b> <a href="mailto:research@dolatcapital.com">research@dolatcapital.com</a>		<b>Mayur Shah</b> <a href="mailto:mayur@dolatcapital.com">mayur@dolatcapital.com</a>	+9122 4096 9796
<b>Amit Khurana, CFA</b> <a href="mailto:amit@dolatcapital.com">amit@dolatcapital.com</a>	<i>Head of Research</i> +9122 4096 9745	<b>Vikram Babulkar</b> <a href="mailto:vikram@dolatcapital.com">vikram@dolatcapital.com</a>	+9122 4096 9746
<b>Senior Analysts</b>		<b>Kapil Yadav</b> <a href="mailto:kapil@dolatcapital.com">kapil@dolatcapital.com</a>	+9122 4096 9735
<b>Amit Purohit</b> <a href="mailto:amitp@dolatcapital.com">amitp@dolatcapital.com</a>	<i>FMCG &amp; Media</i> +9122 4096 9724	<b>Head Dealing - Equities</b>	
<b>Bhavin Shah</b> <a href="mailto:bhavin@dolatcapital.com">bhavin@dolatcapital.com</a>	<i>Pharma &amp; Agro Chem</i> +9122 4096 9731	<b>P. Sridhar</b> <a href="mailto:sridhar@dolatcapital.com">sridhar@dolatcapital.com</a>	+9122 4096 9728
<b>Priyank Chandra</b> <a href="mailto:priyank@dolatcapital.com">priyank@dolatcapital.com</a>	<i>Oil &amp; Gas</i> +9122 4096 9737	<b>Equity Sales Traders</b>	
<b>Rahul Jain</b> <a href="mailto:rahul@dolatcapital.com">rahul@dolatcapital.com</a>	<i>IT</i> +9122 4096 9754	<a href="mailto:salestrading@dolatcapital.com">salestrading@dolatcapital.com</a>	+9122 4096 9797
<b>Rakesh Kumar</b> <a href="mailto:rakesh@dolatcapital.com">rakesh@dolatcapital.com</a>	<i>Financials</i> +9122 4096 9750	<b>Jignesh Shahukar</b> <a href="mailto:jignesh@dolatcapital.com">jignesh@dolatcapital.com</a>	+9122 4096 9727
<b>Ram Modi</b> <a href="mailto:ram@dolatcapital.com">ram@dolatcapital.com</a>	<i>Metals &amp; Mining</i> +9122 4096 9756	<b>Parthiv Dalal</b> <a href="mailto:parthiv@dolatcapital.com">parthiv@dolatcapital.com</a>	+9122 4096 9705
<b>Sameer Panke</b> <a href="mailto:sameer@dolatcapital.com">sameer@dolatcapital.com</a>	<i>Construction &amp; Infrastructure</i> +9122 4096 9757	<b>Derivatives Team</b>	
<b>Analysts</b>		<b>Head of Derivatives</b>	
<b>Gracy Mittal</b> <a href="mailto:gracy@dolatcapital.com">gracy@dolatcapital.com</a>	<i>Utilities</i> +9122 4096 9722	<b>Aadil R. Sethna</b> <a href="mailto:aadil@dolatcapital.com">aadil@dolatcapital.com</a>	+9122 4096 9708
<b>Nehal Shah</b> <a href="mailto:nehals@dolatcapital.com">nehals@dolatcapital.com</a>	<i>Midcaps</i> +9122 4096 9753	<b>Derivatives Sales Traders</b>	
<b>Associates</b>		<b>Chirag Makati</b> <a href="mailto:chiragm@dolatcapital.com">chiragm@dolatcapital.com</a>	+9122 4096 9702-03
<b>Dhaval Shah</b> <a href="mailto:dhaval@dolatcapital.com">dhaval@dolatcapital.com</a>	<i>Engineering &amp; Capital Goods</i> +9122 4096 9726	<b>Mihir Thakar</b> <a href="mailto:mihir@dolatcapital.com">mihir@dolatcapital.com</a>	+9122 4096 9701
<b>Hetal Shah</b> <a href="mailto:dhaval@dolatcapital.com">dhaval@dolatcapital.com</a>	<i>Financials</i> +9122 4096 9725	<b>Quantitative Research</b> <a href="mailto:derivativesinfo@dolatcapital.com">derivativesinfo@dolatcapital.com</a>	
<b>Mahvash Ariyanfar</b> <a href="mailto:mahvash@dolatcapital.com">mahvash@dolatcapital.com</a>	<i>Economy, Midcaps</i> +9122 4096 9736	<b>Prachi Save</b> <a href="mailto:prachi@dolatcapital.com">prachi@dolatcapital.com</a>	<i>Derivatives Research</i> +9122 4096 9733
<b>Pranav P. Joshi</b> <a href="mailto:pranavj@dolatcapital.com">pranavj@dolatcapital.com</a>	<i>Oil &amp; Gas</i> +9122 4096 9706	<b>Bloomberg Id</b> <a href="mailto:dolatcapital@bloomberg.net">dolatcapital@bloomberg.net</a>	
<b>Praveen Kumar</b> <a href="mailto:praveen@dolatcapital.com">praveen@dolatcapital.com</a>	<i>IT</i> +9122 4096 9723	<b>Board Lines</b>	+9122 4096 9700
<b>Rohit Natarajan</b> <a href="mailto:rohit@dolatcapital.com">rohit@dolatcapital.com</a>	<i>Construction &amp; Infrastructure</i> +9122 4096 9751	<b>Fax Lines</b>	+9122 2265 0410 +9122 2265 1278
<b>Vishal Kothari</b> <a href="mailto:vishal@dolatcapital.com">vishal@dolatcapital.com</a>	<i>Pharma &amp; Agro Chem</i> +9122 4096 9748	<b>Production Staff</b>	
		<b>Harish C Menon</b> <a href="mailto:harishc@dolatcapital.com">harishc@dolatcapital.com</a>	<i>Editor - Research</i> +9122 4096 9749
		<b>Paresh Girkar</b> <a href="mailto:pareshgirkar@dolatcapital.com">pareshgirkar@dolatcapital.com</a>	+9122 4096 9742
		<b>Rajesh Shinde</b> <a href="mailto:rajesh@dolatcapital.com">rajesh@dolatcapital.com</a>	+9122 4096 9743

## Dolat Capital Market Pvt. Ltd.

20, Rajabhadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001

This report contains a compilation of publicly available information, internally developed data and other sources believed to be reliable. While all reasonable care has been taken to ensure that the facts stated are accurate and the opinion given are fair and reasonable, we do not take any responsibility for inaccuracy or omission of any information and will not be liable for any loss or damage of any kind suffered by use of or reliance placed upon this information. **For Pvt. Circulation & Research Purpose only.**

Our Research reports are also available on Reuters, Thomson Publishers and Bloomberg (DCML <GO>)