

July 30, 2010

BUY

Price	Target Price
Rs 274	Rs 336
Sensex	17,992

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	1	21	138
Rel. to Sensex	(10)	(2)	10	101

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	IPCA.BO
Bloomberg	IPCA@IN
Equity Capital (Rs mn)	250
Face Value (Rs)	2
No of shares o/s (mn)	125
52 Week H/L (Rs)	325/114
Market Cap (Rs bn/USD mn)	34/730
Daily Avg Vol (No of shares)	259644
Daily Avg Turnover (US\$ mn)	1.6

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	46.2	46.2	46.3
FII/NRI	6.8	5.3	2.2
Institutions	29.0	30.4	33.9
Private Corp	5.8	5.9	5.4
Public	12.1	12.3	12.3

Source: Capitaline

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- High employee and SGA cost impacted operating performance of the company
- Addition in the field force has impacted short term profitability but long term growth visibility
- This quarter performance is an aberration and believes that growth trajectory will be normalizing from next quarter onwards.
- Maintain earning estimates and Buy rating with a price target of Rs336

Revenue growth is impacted by poor malaria off-take

Ipca's revenue growth of 15% to Rs4.14bn (est. of Rs4.16bn) is largely impacted because of 20% decline in anti-malaria group (contribute around 17% of overall revenue). Domestic formulation business during the quarter grew by 16% to Rs1.7bn, which is lower than its average growth of 20% CAGR over last five years. CVS and pain segment grew by 16% and 26% respectively during the quarter. The growth in the domestic formulation business was impacted because of 15% decline in anti-malaria formulation business (revenue was lowered by Rs37mn). This is mainly because of poor malaria season; however the off-take of anti-malaria products is good in the month of July and management is confident to recover the lost ground in formulation business (expect over 20% growth in FY11E). Company has also added 500 sales representatives in Q1FY11 (2 new divisions) and now the total field force in the domestic market is approx. 4000 (one of the largest field force).

Export formulation business during the quarter grew by 29% driven by 41% growth in generic formulation and 15% growth in branded formulation (CIS grew by 15% QoQ). Generic formulation growth was driven by 100% growth in US generic market and 12% growth in UK franchises (up 17% in CER). Branded formulation business, which declined in FY10, is now back on track and company expects this business to grow 30-35% in next 3 quarters. The total field force in the emerging markets is over 500 people. The API business as a whole grew marginally by 5%. The lower growth in API is mainly because of 24% decline in anti-malaria APIs (expect partial recovery) and loss of revenue of Metoprolol API (Rs50mn) because of plant closure of its client. Company expects this issue to remain continue for one more quarter. Ipca also has firm order of Rs400mn (expect to go up to Rs700mn in FY11E) of FDC formulation of Artemether + Lumefantrine, which will be executed in next two quarters. Overall company expects its FY11E revenue to grow by 18.5-19% from its earlier guidance of 20%.

Revenue break-up

	Q1FY11	Q1FY10	Y-o-Y Gr.(%)	Q4FY10	FY09	Q-o-Q Gr.(%)
Domestic	2042	1826	11.8%	1549	5849	17.8%
Formulation	1682	1449	16%	1225	4766	18.3%
API	360	377	-5%	324	1083	16.2%
Exports	2103	1752	20.0%	2102	6804	-16.6%
Formulation	1220	946	29.0%	1312	4372	-27.8%
API	883	806	9.6%	790	2433	1.9%
Total	4145	3578	15.9%	3651	12653	-2.0%

Financials

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	12,928	2,655	20.5	1,657	13.7	67.0	28.0	20.6	15.1	5.4
FY10	15,596	3,235	20.7	2,003	16.6	21.1	28.5	17.0	12.1	4.1
FY11E	18,872	3,963	21.0	2,491	20.0	20.3	26.5	13.7	10.0	3.2
FY12E	22,504	4,726	21.0	3,054	24.5	22.6	25.4	11.2	8.2	2.5

High employee and SGA cost impacted operating performance

Operating margins for the quarter declined by 370bps to 16.3% mainly because of 150bps increase in employee cost (company has added 500 people in Q1FY11) and 160bps increase in other expenditures. The increase in other expenditures is mainly on account of higher SGA cost (new people addition) and launch of 2 new divisions (Nephro and Uro) which had an impact of Rs30mn in Q1FY11. Raw material cost as % of raw material remains stable at 42%. Moreover, company is also incurring cost of Rs50mn per quarter on account of Indore SEZ which has yet to contribute in topline (FDA inspection is expected in Q3FY11E) Going forward, as the new joint venture will start contributing, we expect margins to go back to normal level of 20-21%. Company has also guided EBITDA margins of 20.5-21% for FY11E.

APAT at Rs418mn is below our expectation

Despite lower interest cost (down by 36%), APAT was flat at Rs418mn because of a) 17% increase in depreciation cost and b) higher tax provision (24.1% of PBT vs. 21.6% of PBT). The company has incurred forex loss of Rs29mn vs. forex gain of Rs62mn in Q1FY10. Company has a net debt of Rs4.5bn (average cost of debt is 6%) and guided for a capex of Rs1.5bn.

Reiterate buy with a target price of Rs336, upside potential of 22%

Despite lower than expected Q1FY11 performance, we continue to maintain our earning estimates of Rs20 and Rs24.5 for FY11E and FY12E respectively. We believe that this quarter performance is an aberration and company will return to normalize growth trajectory from next quarter onwards. Over the last 4 years, company has significantly reduced its dependency on one product or one market and has expanded its reach in key geographies. We are of the view that Ipca provides good visibility in terms of consistent CAGR growth of 20% over next few years on the back of its focus on branded formulations segment, geographical expansions in semi-regulated markets, new product launches in fast growing chronic segment and focus on European and US markets. We re-iterate our Buy rating with a price target of Rs336 (14x FY12E).

Key Financials – Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	3,589	4,303	3,957	3,678	4,145	15.5	12.7
Toatl revenue	3,589	4,303	3,957	3,678	4,145	15.5	12.7
Expenditure	2,871	3,281	3,054	2,992	3,468	20.8	15.9
<i>as % of sales</i>	<i>80.0</i>	<i>76.3</i>	<i>77.2</i>	<i>81.3</i>	<i>78.7</i>		
Consumption of RM	1,491	1,737	1,604	1,577	1,748	17.2	10.9
<i>as % of sales</i>	<i>41.6</i>	<i>40.4</i>	<i>40.5</i>	<i>42.9</i>	<i>42.2</i>		
Employee Cost	518	574	541	530	658	26.9	24.1
<i>as % of sales</i>	<i>14.4</i>	<i>13.4</i>	<i>13.7</i>	<i>14.4</i>	<i>15.9</i>		
Other expenditure	861	971	909	885	1,062	23.3	20.0
<i>as % of sales</i>	<i>24.0</i>	<i>22.6</i>	<i>23.0</i>	<i>24.1</i>	<i>25.6</i>		
EBITDA	719	1,021	903	686	678	(5.7)	(1.2)
Depreciation	110	117	119	117	129	17.1	10.1
EBIT	609	904	784	569	549	(9.8)	(3.6)
Other Income	41	5	9	-	41	(1.2)	-
Interest	76	71	53	59	49	(36.2)	(17.6)
PBT	635	833	724	528	511	(19.5)	(3.1)
Total Tax	138	195	141	152	123	(10.5)	(19.1)
Reported PAT	498	639	583	376	388	(22.0)	3.3
Extra ordinary items	62	-6	-17	18	29		62.8
AdjustedPAT	422	643	596	358	418	(1.0)	16.7
EPS	3.4	5.2	4.8	2.9	3.4	(1.1)	16.7
Margins (%)						(bps)	(bps)
EBIDTA	20.0	23.7	22.8	18.7	16.3	(368)	-231
EBIT	17.0	21.0	19.8	15.5	13.2	(372)	-223
EBT	17.7	19.4	18.3	14.4	12.3	(536)	-202
PAT	11.8	15.0	15.1	9.7	10.1	(168)	34
Effective Tax rate	21.6	23.3	19.5	28.8	24.1		

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	12,928	15,596	18,872	22,504
Growth (%)	21.4	20.6	21.0	19.2
Expenditure	10,273	12,360	14,909	17,778
Raw Materials	5,073	6,456	7,398	8,822
SGA	3,318	3,697	4,812	5,739
Employee Cost	1,882	2,207	2,699	3,218
Other Exp	0	0	0	0
EBITDA	2,655	3,235	3,963	4,726
Growth (%)	46.0	23.3	21.0	19.2
EBITDA margin (%)	20.5	20.7	21.0	21.0
Depreciation	397	467	563	616
EBIT	2,258	2,768	3,400	4,110
EBIT margin (%)	17.5	17.7	18.0	18.3
Other Income	6	70	30	30
Interest expenses	318	264	276	274
PBT	1,947	2,590	3,153	3,866
Tax	233	627	662	812
Effective tax rate (%)	11.9	20.0	21.0	21.0
Adjusted PAT	1,657	2,003	2,491	3,054
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	1,657	2,003	2,491	3,054
Growth (%)	67.0	21.1	20.3	22.6
Net Margin (%)	12.8	12.8	13.2	13.6
E/O items	-762	51	0	0
Reported PAT	1,010	2,054	2,491	3,054
Growth (%)	67.0	21.1	20.3	22.6

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	1,940	2,530	3,123	3,836
Depreciation	397	488	563	616
Interest Provided	318	256	276	274
Other Non-Cash items	-762	0	0	0
Chg in working cap	-736	-991	-1,283	-1,416
Tax paid	-233	-518	-662	-812
Operating Cashflow	925	1,765	2,017	2,498
Capital expenditure	-889	-956	-1,000	-750
Free Cash Flow	36	809	1,017	1,748
Other income	6	60	30	30
Investments	-316	0	0	0
Investing Cashflow	-1,199	-896	-970	-720
Equity Capital Raised	38	4	0	0
Loans Taken / (Repaid)	1,069	-200	-300	-900
Interest Paid	-318	-256	-276	-274
Dividend paid (incl tax)	-323	-146	-146	-146
Income from investments	0	0	0	0
Others	-176	4	0	0
Financing Cashflow	290	-594	-722	-1,319
Net chg in cash	20	267	326	458
Opening cash position	94	113	385	710

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	250	250	250	250
Reserves & surplus	6,063	7,989	10,335	13,244
Net worth	6,313	8,239	10,585	13,494
Minority Interest	-4	0	0	0
Secured Loans	3,408	3,308	3,108	2,608
Unsecured Loans	1,191	1,091	991	591
Loan Funds	4,599	4,399	4,099	3,199
Net deferred tax liability	651	651	651	651
Total Liabilities	11,560	13,290	15,335	17,344
Gross Block	7,790	8,890	9,890	10,640
Less: Depreciation	2,022	2,510	3,073	3,689
Net block	5,768	6,380	6,816	6,950
Capital work in progress	144	0	0	0
Investment	412	412	412	412
Current Assets	7,398	8,822	10,916	13,322
Inventories	3,062	3,734	4,513	5,365
Sundry debtors	3,391	3,768	4,561	5,438
Cash & bank balance	113	385	710	1,169
Loans & advances	832	935	1,132	1,350
Other current assets	0	0	0	0
Current lia & Prov	2,162	2,324	2,808	3,340
Current liabilities	1,962	2,027	2,450	2,912
Provisions	200	296	359	428
Net current assets	5,236	6,499	8,108	9,982
Misc. exp & Def. Assets	0	0	0	0
Total Assets	11,560	13,290	15,336	17,344

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	20.5	20.7	21.0	21.0
Net Margin	12.8	12.8	13.2	13.6
ROCE	20.5	21.9	23.2	24.5
ROE	28.0	28.5	26.5	25.4
RoIC	19.6	18.9	19.7	20.7
Per Share Data (Rs)				
EPS	13.7	16.6	20.0	24.5
CEPS	16.9	20.6	24.5	29.5
BVPS	50.7	66.2	85.0	108.4
DPS	0.4	1.0	1.0	1.0
Valuations (x)				
PER	20.6	17.0	13.7	11.2
P/CEPS	16.2	13.3	11.2	9.3
P/BV	5.4	4.1	3.2	2.5
EV / Sales	3.1	2.6	2.1	1.7
EV / EBITDA	15.1	12.1	10.0	8.2
Dividend Yield (%)	0.1	0.4	0.4	0.4
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.5	0.2	0.1
Net Debt/EBIDTA	1.7	1.2	0.9	0.4

Recommendation History: Ipca Laboratories – IPCA IN

Date	Reports	Reco	CMP	Target
31.05.2010	Ipca Laboratories Q4FY10 Result Update	Buy	263	336
22.01.2010	Ipca Laboratories Q3FY10 Result Update	Buy	1,183	1,440
17.12.2009	Ipca Laboratories Event Update	Buy	999	1,107
28.10.2009	Ipca Laboratories Q2FY10 Result Update	Buy	850	971

Recent Research Reports

Date	Reports	Reco	CMP	Target
29.07.2010	Lupin Pharma Q1FY11 Result Update	Accumulate	1,920	2,111
28.07.2010	Jubilant Organosys Q1FY11 Result Update	Buy	352	455
28.07.2010	Glenmark Pharma Q1FY11 Result Update	Hold	285	308
27.07.2010	Cadila Healthcare Q1FY11 Result Update	Buy	645	720

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