

## Ipca Laboratories

### Performance Highlights

Ipca Laboratories (Ipca) reported lower-than-estimated 4QFY2010 results on the Operating front on account of higher raw material cost and lower contribution from the Export Branded Generic Segment. Net Sales came in at Rs365.1cr, up 15.4%, driven by the Domestic Formulation and Export API Segments. The company disappointed on the Operating front, with OPM increasing marginally to 17.8% resulting in Net Profit of Rs37.3cr. For FY2011, however, the company has guided for Top-line growth of 18-20% with OPM in the 21-22% range, driven by the Domestic and Export (Branded and Generic) Formulation Segments. In Domestic Formulations, management proposes to increase its field force by 30% in FY2011 to nearly 4,000 MRs and expects to receive the US FDA's approval for its Indore SEZ plant by 3QFY2011. **We maintain an Accumulate on the stock.**

**Operating Profit below estimates:** Ipca reported Net Sales of Rs365.1cr (Rs316.5cr), up 15.4%, for the quarter, which was primarily in line with our estimates, driven by the Domestic Formulation and Export APIs. OPM stood at of 17.8% (16.6%), up by 113 bp yoy, but below our expectation of 22.5% on the back of higher raw material cost. Management indicated a 1.5x increase in the cost of one of its primary raw materials (Arthemether) due to increase in demand and decline in the contribution of high-Margin Export Branded Generic Segment during the quarter, which led to a 400bp dip in OPM on a qoq basis. Ipca reported Net Profit of Rs37.3cr (Rs8.0cr), up 367.5% on a low base. However it was lower-than-expected on the back of lower OPM and higher Tax expenses. For FY2010, on a Standalone basis, the company reported Net Sales of Rs1,546cr (Rs 1,265cr), up 22.1%, with OPM of 21.0% (20.5%) and Net Profit of Rs209.2cr (Rs91.2cr).

**Outlook and Valuation:** Ipca seeks to leverage its strong API development capabilities to build a competitive position in its Generic and Branded Export Segments. We expect Net Sales to post 17.4% CAGR to Rs2,150cr and EPS to register 20.0% CAGR to Rs23.7 over FY2010-12E, driven by the US and Domestic markets and the API Segment. At Rs263, the stock is trading at 13.6x and 11.2x FY2011E and FY2012E Earnings, respectively. We maintain an Accumulate on the stock, with a Target Price of Rs284.

### Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
<b>Net Sales</b>	<b>1,284</b>	<b>1,560</b>	<b>1,834</b>	<b>2,150</b>
% chg	23.2	21.5	17.6	17.3
<b>Net Profit</b>	<b>100.6</b>	<b>205.4</b>	<b>243.6</b>	<b>295.7</b>
% chg	(28.7)	104.1	18.6	21.4
<b>EPS</b>	<b>8.1</b>	<b>16.4</b>	<b>19.5</b>	<b>23.7</b>
EBITDA Margin (%)	20.0	20.7	20.9	21.0
P/E (x)	32.9	16.1	13.6	11.2
RoE (%)	29.0	28.0	27.5	27.1
RoCE (%)	20.1	22.0	22.6	23.9
P/BV (x)	5.2	4.2	3.4	2.7
EV/Sales (x)	2.9	2.4	2.1	1.7
EV/EBITDA (x)	14.7	11.7	9.8	8.2

Source: Company, Angel Research.

## ACCUMULATE

CMP	Rs263
Target Price	Rs284

Investment Period	12 Months
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### Stock Info

Sector	Pharmaceutical
Market Cap (Rs cr)	3,298
Beta	0.3
52 WK High / Low	304 / 95
Avg. Daily Volume	13,344
Face Value (Rs)	2
BSE Sensex	16,863
Nifty	5,067
Reuters Code	IPCA.BO
Bloomberg Code	IPCA@IN

### Shareholding Pattern (%)

Promoters	46.2
MF/Banks/Indian FIs	36.2
FII/NRIs/OCBs	5.3
Indian Public	12.3

Abs. (%)	3m	1yr	3yr
Sensex	2.6	18.0	17.1
Ipca Lab.	20.4	170.6	113.7

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**Exhibit 1: 4QFY2010 Performance (Standalone)**

Y/E March (Rs cr)	4QFY10	4QFY09	% chg	FY10	FY09	% chg
<b>Net Sales</b>	<b>365</b>	<b>317</b>	<b>15.4</b>	<b>1,546</b>	<b>1,265</b>	<b>22.1</b>
Other Income	3.4	2.1		13.4	10.3	
<b>Total Income</b>	<b>369</b>	<b>319</b>	<b>15.7</b>	<b>1,559</b>	<b>1,276</b>	<b>22.2</b>
PBIDT	64.9	52.7	<b>23.2</b>	324.7	259.8	<b>25.0</b>
<b>Operating Margin (%)</b>	<b>17.8</b>	<b>16.6</b>		<b>21.0</b>	<b>20.5</b>	
Interest	5.9	7.8	(25.0)	25.8	30.4	(15.0)
Depreciation	11.7	10.6	10.6	46.3	39.3	17.9
PBT	50.7	36.3	39.6	265.9	200.3	32.7
Provision for Taxation	15.2	2.9	425.5	62.5	23.2	169.1
<b>PAT before Extra-ord. item</b>	<b>35.5</b>	<b>33.4</b>	<b>6.1</b>	<b>203.4</b>	<b>177.1</b>	<b>14.8</b>
Less: Exceptional Items	1.8	(25.4)	-	5.8	(85.4)	-
<b>PAT after Extra-ord. item &amp; MI</b>	<b>37.3</b>	<b>8.0</b>	<b>367.5</b>	<b>209.2</b>	<b>91.2</b>	<b>129.3</b>
<b>EPS (Rs)</b>	<b>3.0</b>	<b>1.4</b>		<b>16.7</b>	<b>8.1</b>	

Source: Company, Angel Research

**Key Highlights**

**Revenue in line with expectation, up 15.4%:** Ipca reported Net Sales of Rs365.1cr (Rs316.5cr), up 15.4%, for the quarter, which was primarily in line with our estimates. Growth was driven by the Domestic Formulation and Export API Segments. The Domestic Formulation Segment grew by 28.9% to Rs121.0cr (Rs93.9cr), while the Domestic API Segment grew 9.5% to Rs32.3cr (Rs29.6cr). However, the Export Formulation Segment disappointed, registering mere growth of 1.3% to Rs130.9cr (Rs129.3cr), as the Branded Generic business comprising mainly the CIS region declined by 45.8% to Rs26.0cr (Rs48.0cr), while the Generic Segment grew by a strong 29.2% to Rs104.4cr (Rs80.8cr). The Export API Segment grew at a healthy 25.8% to Rs79.1cr (Rs62.8cr). Overall, the high-Margin Formulation Segment grew by 12.9% to Rs251.9cr (Rs223.2cr), while the low-Margin API Segment grew at a stronger pace of 20.6% to Rs111.5cr (Rs92.4cr) for the quarter. For FY2010, the company reported Net Sales of Rs1,546cr (Rs 1,265cr), up 22.1%, driven by the Domestic Formulation and the API Segments.

**OPM below expectation on higher Raw material cost:** Ipca reported OPM of 17.8% (16.6%), up 113 bp yoy, but below our expectation of 22.5%. This was largely on account of higher raw material cost. Management indicated a 1.5x increase in the cost of one of its primary raw materials (Arthemether) on the back of increase in demand and decline in the contribution of the high-Margin Export Branded Generic Segment during the quarter, which led to the 400bp dip in OPM on a qoq basis. However, going forward, the company expects raw material cost (Arthemether) to decline and contribution from the high-Margin Export Branded Generic Segment to grow at a stronger pace. Employee expenses for the quarter came in at Rs53.0cr (Rs49.4cr), up 7.3% yoy. For FY2010, the company reported OPM of 21.0% (20.5%), up 50bp on the back of lower other expenses.

**Net Profit hit by lower OPM, higher Tax charges:** Ipca reported Net Profit of Rs37.3cr (Rs8.0cr), up 367.5% on a low base. However, it was lower-than-expected on the back of lower OPM and higher Tax expenses. For FY2010, Net Profit doubled to RsRs209.2cr (Rs91.2cr) on a low base. Excluding one-offs, Recurring Net Profit grew 14.8% to Rs203.4cr (Rs177.1cr).

### Other Takeaways

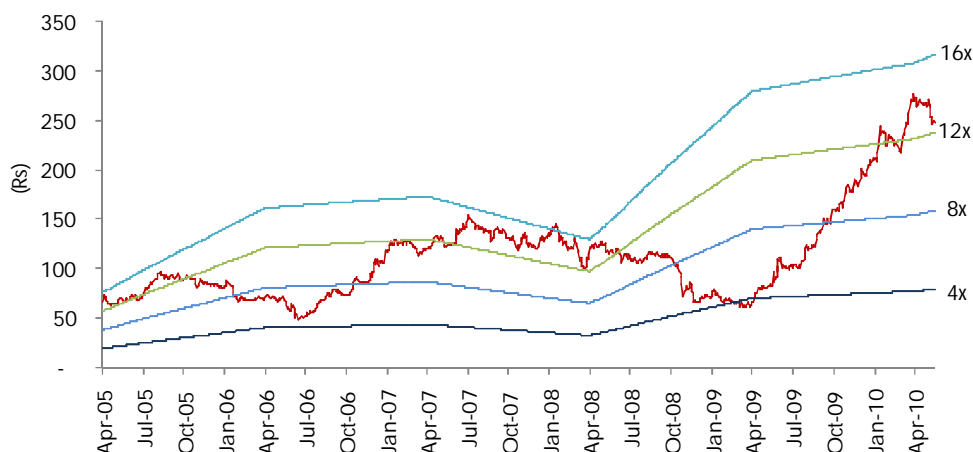
- Ipca has guided for Top-line growth of 18-20% and OPM of 21-22% for FY2011E. Management expects the Export Branded Generic business to grow at a stellar pace on a low base and stable pricing environment. The company is also targeting the Tender business of Rs80cr-100cr in FY2011E on the anti-Malarial front.
- Ipca has forward hedges worth US \$144mn, which covers 50% of its exports for the next 18 months at Rs48.4/US\$.
- Management expects its Indore SEZ to get the USFDA's nod by 3QFY2011, which will provide a significant boost to the company's US business. Management also plans to file 12 ANDAs during the year.
- Management expects to incur capex of Rs150cr in FY2011E primarily at its Sikkim facility.
- Management plans to ramp up its field force significantly by 1,000MR (30% increase) by adding three more divisions in the Domestic Formulation Segment, taking the total strength to nearly 4,000 MRs by end FY2011.

### Outlook and Valuation

Ipca, a vertically integrated company with a geographically diversified business model, has been registering steady growth. Over FY2006-09, the company posted CAGR of 19.1% and 17.9% in Net Sales and Net Profit, respectively. Growth was primarily driven by the Domestic Formulations Segment. Going ahead, Ipca seeks to leverage its strong API development capabilities to build a competitive position in its Generic Formulation and Branded Exports Segments. Ipca's increasing visibility in the US Generic Formulation Segment started contributing from FY2009. The Domestic Formulation business, which contributed nearly 39% to total Revenues in FY2010, will continue to register strong growth and register higher Margins, as the company increases its presence in the Chronic and Lifestyle Therapeutic Segments and expands its field force.

We expect Ipca to post CAGR of 17.4% in Net Sales to Rs2,150cr, while EPS is expected to register CAGR of 20.0% to Rs23.7 over FY2010-12E, largely driven by the US and Domestic markets and the API Segment. At Rs263, the stock is trading at 13.6x and 11.2x FY2011E and FY2012E Earnings. **We maintain an Accumulate on the stock, with a Target Price of Rs284.**

#### Exhibit 2: One-year Forward PE Band



Source: C-line, Angel Research

<b>Profit &amp; Loss Statement (Consolidated)</b>							<b>(Rs cr)</b>
<b>Y/E March</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010E</b>	<b>FY2011E</b>	<b>FY2012E</b>	
Gross sales	985	1,097	1,326	1,626	1,888	2,212	
Less: Excise duty	57	46	43	67	54	62	
<b>Net Sales</b>	<b>928</b>	<b>1,051</b>	<b>1,284</b>	<b>1,560</b>	<b>1,834</b>	<b>2,150</b>	
Other operating income	12	40	9	7	15	18	
<b>Total operating income</b>	<b>940</b>	<b>1,092</b>	<b>1,292</b>	<b>1,567</b>	<b>1,848</b>	<b>2,168</b>	
% chg	18.9	16.1	18.4	21.2	18.0	17.3	
Total Expenditure	743	884	1,027	1,236	1,450	1,698	
Net Raw Materials	401	464	507	646	766	905	
Other Mfg costs	115	134	147	-	202	237	
Personnel	117	147	188	221	238	280	
Other	109	138	185	370	244	277	
<b>EBITDA</b>	<b>186</b>	<b>168</b>	<b>256</b>	<b>324</b>	<b>383</b>	<b>452</b>	
% chg	40.6	(9.6)	52.8	26.2	18.5	17.9	
(% of Net Sales)	20.0	16.0	20.0	20.7	20.9	21.0	
Depreciation & Amortisation	29	33	40	47	52	57	
<b>EBIT</b>	<b>156</b>	<b>135</b>	<b>217</b>	<b>277</b>	<b>331</b>	<b>395</b>	
% chg	51.6	(13.4)	60.2	27.8	19.7	19.2	
(% of Net Sales)	16.8	12.9	16.9	17.8	18.1	18.4	
Interest & other Charges	22	20	32	26	33	33	
Other Income	9	20	1	3	1	1	
(% of PBT)	5.6	11.5	0.3	1.0	0.4	0.3	
Share in profit of Associates	-	-	-	-	-	-	
<b>Recurring PBT</b>	<b>154</b>	<b>175</b>	<b>194</b>	<b>260</b>	<b>314</b>	<b>380</b>	
% chg	103.0	13.7	10.8	33.8	20.7	21.2	
Extraordinary Expense/(Inc.)	(0.8)	-	76.2	(6.3)	-	-	
<b>PBT (reported)</b>	<b>155</b>	<b>175</b>	<b>118</b>	<b>266</b>	<b>314</b>	<b>380</b>	
Tax	29.4	35.8	23.3	62.7	70.1	84.4	
(% of PBT)	18.9	20.4	19.7	23.6	22.4	22.2	
<b>PAT (reported)</b>	<b>126</b>	<b>140</b>	<b>95</b>	<b>204</b>	<b>244</b>	<b>296</b>	
Add: Share of earnings of associate	(0)	(4)	6	2	-	-	
Less: Minority interest (MI)	-	-	-	-	-	-	
Prior period items	-	-	-	-	-	-	
<b>PAT after MI (reported)</b>	<b>126</b>	<b>136</b>	<b>101</b>	<b>205</b>	<b>244</b>	<b>296</b>	
<b>ADJ. PAT</b>	<b>125</b>	<b>136</b>	<b>177</b>	<b>199</b>	<b>244</b>	<b>296</b>	
% chg	101.5	8.9	29.9	12.6	22.3	21.4	
(% of Net Sales)	13.5	12.9	7.8	13.2	13.3	13.8	
<b>Basic EPS (Rs)</b>	<b>10.1</b>	<b>10.8</b>	<b>8.1</b>	<b>16.4</b>	<b>19.5</b>	<b>23.7</b>	
<b>Fully Diluted EPS (Rs)</b>	<b>10.1</b>	<b>10.8</b>	<b>8.1</b>	<b>16.4</b>	<b>19.5</b>	<b>23.7</b>	
% chg	110.3	7.5	(25.8)	104.1	18.6	21.4	

<b>Balance Sheet (Consolidated)</b>							<b>(Rs cr)</b>
<b>Y/E March</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010E</b>	<b>FY2011E</b>	<b>FY2012E</b>	
<b>SOURCES OF FUNDS</b>							
Equity Share Capital	25	25	25	25	25	25	
Reserves & Surplus	449	564	606	767	953	1,180	
Shareholders Funds	<b>474</b>	<b>589</b>	<b>631</b>	<b>792</b>	<b>978</b>	<b>1,205</b>	
Minority Interest	-	-	(0)	(0)	(0)	(0)	
Total Loans	239	353	460	481	471	421	
Deferred Tax Liability	51	57	65	93	110	115	
<b>Total Liabilities</b>	<b>764</b>	<b>1,000</b>	<b>1,156</b>	<b>1,366</b>	<b>1,559</b>	<b>1,741</b>	
<b>APPLICATION OF FUNDS</b>							
Gross Block	511	579	779	919	1,079	1,179	
Less: Acc. Depreciation	136	165	202	246	298	355	
<b>Net Block</b>	<b>375</b>	<b>414</b>	<b>577</b>	<b>673</b>	<b>781</b>	<b>824</b>	
Capital Work-in-Progress	57	128	14	14	14	14	
Goodwill	-	-	-	-	-	-	
<b>Investments</b>	<b>9</b>	<b>10</b>	<b>41</b>	<b>41</b>	<b>41</b>	<b>41</b>	
Current Assets	466	605	740	880	1,011	1,220	
Cash	10	9	11	10	13	47	
Loans & Advances	39	69	83	133	156	183	
Other	417	527	645	738	843	990	
Current liabilities	143	157	216	243	288	359	
<b>Net Current Assets</b>	<b>323</b>	<b>448</b>	<b>524</b>	<b>638</b>	<b>723</b>	<b>861</b>	
Mis. Exp. not written off	-	-	-	-	-	-	
<b>Total Assets</b>	<b>764</b>	<b>1,000</b>	<b>1,156</b>	<b>1,366</b>	<b>1,559</b>	<b>1,741</b>	

<b>Cash Flow (Consolidated)</b>							<b>(Rs cr)</b>
<b>Y/E March</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010E</b>	<b>FY2011E</b>	<b>FY2012E</b>	
Profit before tax	154	175	118	268	314	380	
Depreciation	29	33	40	47	52	57	
(Inc)/Dec in Working Capital	(54)	(48)	(88)	(115)	(82)	(104)	
Less: Other income							
Direct taxes paid	(24)	(29)	(22)	(34)	(53)	(80)	
<b>Cash Flow from Operations</b>	<b>106</b>	<b>131</b>	<b>48</b>	<b>165</b>	<b>230</b>	<b>253</b>	
(Inc.)/Dec. in Fixed Assets	(89)	(144)	(90)	(140)	(160)	(100)	
(Inc.)/Dec. in Investments	(1)	(4)	-	-	-	-	
Other income							
<b>Cash Flow from Investing</b>	<b>(90)</b>	<b>(148)</b>	<b>(90)</b>	<b>(140)</b>	<b>(160)</b>	<b>(100)</b>	
Issue of Equity	0	2	(5)	-	-	-	
Inc./(Dec.) in loans	19	74	26	22	(10)	(50)	
Dividend Paid (Incl. Tax)	(19)	(22)	(34)	(48)	(57)	(69)	
Others	(11)	(37)	56	-	-	-	
<b>Cash Flow from Financing</b>	<b>(11)</b>	<b>17</b>	<b>44</b>	<b>(27)</b>	<b>(67)</b>	<b>(119)</b>	
Inc./(Dec.) in Cash	5	(1)	2	(1)	3	34	
<b>Opening Cash balances</b>	<b>5</b>	<b>10</b>	<b>9</b>	<b>11</b>	<b>10</b>	<b>13</b>	
<b>Closing Cash balances</b>	<b>10</b>	<b>9</b>	<b>11</b>	<b>10</b>	<b>13</b>	<b>47</b>	

**Key Ratios**

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	26.3	24.4	32.9	16.1	13.6	11.2
P/CEPS	21.3	19.7	23.6	13.1	11.2	9.4
P/BV	7.0	5.6	5.2	4.2	3.4	2.7
Dividend yield (%)	0.6	0.6	0.8	1.2	1.5	1.8
EV/Sales	3.8	3.5	2.9	2.4	2.1	1.7
EV/EBITDA	19.1	21.9	14.7	11.7	9.8	8.2
EV / Total Assets	4.6	3.7	3.3	2.8	2.4	2.1
<b>Per Share Data (Rs)</b>						
EPS (Basic)	10.1	10.8	8.1	16.4	19.5	23.7
EPS (fully diluted)	10.1	10.8	8.1	16.4	19.5	23.7
Cash EPS	12.4	13.4	11.2	20.2	23.7	28.2
DPS	1.5	1.6	2.2	3.3	3.9	4.7
Book Value	37.9	47.0	50.5	63.3	78.3	96.4
<b>Dupont Analysis</b>						
EBIT margin	16.8	12.9	16.9	17.8	18.1	18.4
Tax retention ratio	81.1	79.6	80.3	76.4	77.6	77.8
Asset turnover (x)	1.4	1.3	1.2	1.3	1.3	1.3
ROIC (Post-tax)	19.5	12.8	16.4	17.0	17.9	19.1
Cost of Debt (Post Tax)	8.4	5.5	6.3	4.3	5.4	5.8
Leverage (x)	0.5	0.5	0.6	0.7	0.5	0.4
Operating ROE	25.1	16.7	23.0	25.3	24.5	24.3
<b>Returns (%)</b>						
ROCE (Pre-tax)	23.5	15.3	20.1	22.0	22.6	23.9
Angel ROIC (Pre-tax)	25.4	17.3	21.7	22.4	23.1	24.6
ROE	29.6	25.6	29.0	28.0	27.5	27.1
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	1.9	2.0	1.9	1.8	1.9	1.9
Inventory / Sales (days)	82	84	81	76	72	70
Receivables (days)	62	74	85	85	84	84
Payables (days)	30	28	31	29	25	26
WC cycle (ex-cash) (days)	132	126	134	133	132	128
<b>Solvency ratios (x)</b>						
Net debt to equity	0.5	0.6	0.7	0.6	0.5	0.3
Net debt to EBITDA	1.2	2.0	1.8	1.5	1.2	0.8
Interest Coverage (EBIT / Interest)	6.9	6.6	6.8	10.5	9.9	11.8

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Disclosure of Interest Statement	Ipca Laboratories
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

<b>Ratings (Returns) :</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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Angel Broking Ltd: BSE Sebi Regn No : INB 010996539 / CDSL Regn No: IN - DP - CDSL - 234 - 2004 / PMS Regn Code: PM/INP000001546 Angel Securities Ltd: BSE: INB010994639/INF010994639 NSE: INB230994635/INF230994635 Membership numbers: BSE 028/NSE:09946  
 Angel Capital & Debt Market Ltd: INB 231279838 / NSE FNO: INF 231279838 / NSE Member code -12798 Angel Commodities Broking (P) Ltd: MCX Member ID: 12685 / FMC Regn No: MCX / TCM / CORP / 0037 NCDEX : Member ID 00220 / FMC Regn No: NCDEX / TCM / CORP / 0302