

Q2FY2012 Review
 Sector: Pharmaceuticals
 Sensex: 17,481

Ipca Laboratories

Maintain **HOLD**
 CMP **Rs275**
 TP **Rs279**

Result Review

Growth boosted by AMFm and US segments, OPM expansion a positive surprise

Ipca reported results which were higher than consensus and our estimates boosted by the strong growth in AMFm and US segments. However, the growth on the domestic formulation segment continues to remain sluggish. OPM expansion was led by drop in employee expenses QoQ (reversal of incentive provision) and favourable product mix.

We have primarily revised our FY12 sales and earnings estimates upward by 2% and 21% respectively to factor in the higher sales growth on the AMFm business, and improvement in operating margins on back of lower employee cost and favorable product mix. However, the Indore SEZ could face further delay in USFDA approval (expected Q4FY12) and we continue to remain skeptical of the AMFm business in FY13E on back of funding issue (clarity expected by end of FY12). We maintain **HOLD** on the stock with a revised target price of Rs279 (Rs262).

Strong growth led by AMFm and US segments

Sales grew by 20.2% YoY to Rs6.2bn driven by export formulation growth which was up by 48.8% YoY to Rs2.6bn led by US and AMFm segment. US sales grew by 73% YoY while AMFm business contributed Rs907mn (15% of sales as compared to 10% in Q1FY12). However, domestic formulation business remains sluggish at 3% YoY, with growth impacted by anti-malarial, anti-bacteria and Derma segments poor performance.

Margin expansion aided by lower staff costs and favourable product mix

Ipca reported operating margins of 24.7%, expansion of 252bps YoY and 728bps on sequential basis. The gross margins expanded by 40bps YoY driven by favourable product mix. Employee cost was up mere 4.0% YoY and was down 12.9% QoQ to Rs728mn as the company reversed the incentive provision on back of sluggish performance on the domestic formulation segment. As a result the net profit before forex grew by 61.3% YoY to Rs1.1bn.

VALUATIONS AND RECOMMENDATION

The stock is trading at 11.9x FY12E and 11.8x FY13E earnings. We maintain 'HOLD' with a revised target price of Rs279 (Rs262).

KEY FINANCIALS (Rs mn)

	FY09	FY10	FY11	FY12E	FY13E
Total Revenues	12,925	15,668	18,989	22,824	25,468
YoY Gr. (%)	18.4	21.2	21.2	20.2	11.6
EBIDTA	2,651	3,337	3,761	4,623	4,930
OPM (%)	20.5	21.3	19.8	20.3	19.4
Net Profit	1,709	2,026	2,292	2,902	2,969
YoY Gr. (%)	44.1	18.5	13.1	26.6	2.3

KEY RATIOS

EPS (Rs)	13.7	16.2	18.2	23.1	23.3
ROCE (%)	22.2	24.6	22.7	23.9	21.7
RoE (%)	16.5	27.4	27.4	25.0	21.4
PER (x)	34.1	16.7	13.1	11.9	11.8
EV/ Net Sales (x)	3.0	2.5	2.1	1.7	1.6
EV/EBDITA (x)	15.0	11.8	10.9	8.9	8.5

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	June-11	Sept-11
Net sales	4,904	5,263	6,180
YoY Gr. (%)	29.4	27.0	20.2
Op. Profit	901	916	1,526
OPM (%)	18.4	17.4	24.7
Net Profit	995	617	780
YoY Gr. (%)	1.8	58.8	(17.1)

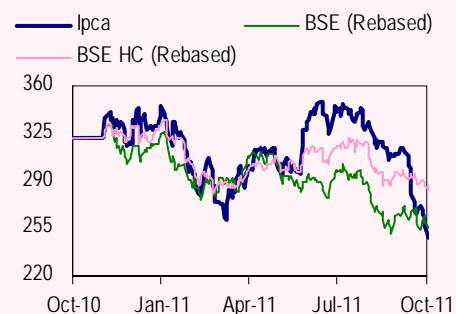
STOCK DATA

Market cap	Rs35bn
Book Value per share	Rs98
Shares O/S (F.V. Rs2)	126mn
Free Float	54%
Avg. Trade Value (6 months)	Rs462mn
52 week High/Low	351 / 230
Bloomberg Code	IPCA IN
Reuters Code	IPCA.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	6.3	(17.1)	(15.1)
Relative	0.1	(13.1)	(1.1)

RELATIVE PERFORMANCE



Key call takeaways

- 1) Domestic: a) Growth in the domestic formulations segment was hampered by poor performance across the Antimalarial, Anti-infective and Dermatology therapeutic segments b) The management has guided growth of 9-10% for H2FY12. c) The company expects recovery in the overall domestic market from Q3FY12. d) For FY13E, growth of 15-18% is expected e) There is no pricing pressure witnessed in the acute segment f) Current sales force count is 4000.
- 2) US: a) One ANDA was filed during the quarter b) No clarity on the USFDA inspection of Indore SEZ c) Company is facing capacity constraints for which it is looking for alternatives for expansions of existing plants and de-bottlenecking d) The full year target for the AMFm business is around Rs2.5bn, while for FY13E is expected to be around Rs3-3.1bn. Further, the company expects the funding issue to get resolved by end of FY12.
- 3) The company maintains its full year guidance of 18-20% sales growth, with a 1% improvement on the operating margin front.
- 4) Tax rate for the full year is guided ~25%.
- 5) Capex of Rs2.2bn is maintained for the full year.
- 6) With regards to the new pricing policy under debate, if implemented, Ipca would have ~67% of its portfolio under price control. However, the overall impact would be neutral post the consideration of price reduction.

Exhibit 1 - Earnings Summary (Rsmn)

Year to Mar 31	Q2FY11	Q2FY12	% Ch YoY	Q1FY12	% Ch QoQ	H1FY11	H1FY12	% Ch YoY	PINC Comments
Net Sales	5,143	6,180	20.2	5,263	17.4	9,288	11,444	23.2	Led by the robust growth across the export formulations segment.
Other Income	47.5	81.2	70.9	62.2	30.5	107	143	33.5	
Gross Profit	3,099	3,746	20.9	3,160	18.5	5,495	6,905	25.7	
Gross Margin (%)	60.2	60.6	36 bps	60.0	58 bps	59.2	60.3	118 bps	Improvement on back of favorable product mix.
Staff cost	700	728	4.0	836	(12.9)	1,357	1,564	15.2	Decreased due to the reversal of incentive provisions made for the domestic market.
% of sales	13.6	11.8	(183) bps	15.9	(410) bps	14.6	13.7	(95) bps	
Other Expenses	1,259	1,492	18.5	1,408	6.0	2,321	2,900	25.0	
% of sales	24.5	24.1	(33) bps	26.7	(261) bps	25.0	25.3	36 bps	
EBITDA	1,140	1,526	33.8	916	66.5	1,818	2,442	34.3	
EBITDA Margin (%)	22.2	24.7	252 bps	17.4	728 bps	19.6	21.3	177 bps	Boosted by the lower staff cost during the quarter
Depreciation	137	176	28.5	154	14.1	266	330	24.2	
Interest Expense	62	118	89.7	83	41.2	130	201	54.7	Increased due to overall increase in the borrowing amount and rate.
PBT	989	1,313	32.8	741	77.3	1,529	2,054	34.3	
Tax	337	262	(22.2)	215	21.9	460	477.5	3.8	
Effective tax rate	34.1	20.0	(1,411) bps	29.0	(907) bps	30.1	23.2	(683) bps	
Recurring Net Income	652	1,051	61.3	526	99.9	1,069	1,577	47.4	
One off expenses/(Income)	(289)	272	na	(91)	na	(259)	181	(169.7)	
Reported Net Income	941	780	(17.1)	617	26.4	1,329	1,396	5.1	Impacted by the forex loss of Rs272mn.

Source: PINC Research, Company

Exhibit 2 - Sales break-up (Rs mn)

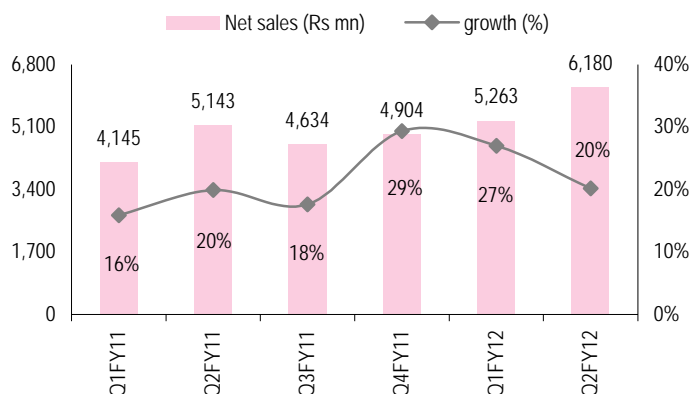
Year to Mar 31	Q2FY11	Q2FY12	% Ch YoY	Q1FY12	% Ch QoQ	H1FY11	H1FY12	% Ch YoY	PINC Comments
Formulations	3,970	4,897	23.3	3,956	23.8	6,873	8,852	28.8	Boosted by the growth across the export formulation segment.
<i>% of Sales</i>	<i>77.2</i>	<i>79.2</i>		<i>75.2</i>		<i>74.0</i>	<i>77.4</i>		
Domestic formulations	2,219	2,292	3.3	1,890	21.3	3,901	4,182	7.2	Majorly impacted due to poor performance across the antimalarial, anti bacterial and Derma segments.
<i>% of Total Sales</i>	<i>43.2</i>	<i>37.1</i>		<i>35.9</i>		<i>42</i>	<i>37</i>		
Export formulations	1,751	2,605	48.8	2,066	26.1	2,971	4,671	57.2	Led by strong growth across the AMFm business.
<i>% of Total Sales</i>	<i>34.0</i>	<i>42.1</i>		<i>39.2</i>		<i>32</i>	<i>41</i>		
API	1,173	1,283	9.4	1,308	(1.9)	2,415	2,591	7.3	
<i>% of Total Sales</i>	<i>22.8</i>	<i>20.8</i>		<i>24.8</i>		<i>26</i>	<i>23</i>		
Domestic API	408	356	(12.8)	407	(12.5)	768	763	(0.6)	
<i>% of Total Sales</i>	<i>7.9</i>	<i>5.8</i>		<i>7.7</i>		<i>8</i>	<i>7</i>		
Export API	764	927	21.3	901	2.9	1,647	1,828	11.0	
<i>% of Total Sales</i>	<i>14.9</i>	<i>15.0</i>		<i>17.1</i>		<i>17.7</i>	<i>16.0</i>	<i>14.9</i>	

Source: PINC Research, Company

VALUATIONS AND RECOMMENDATION

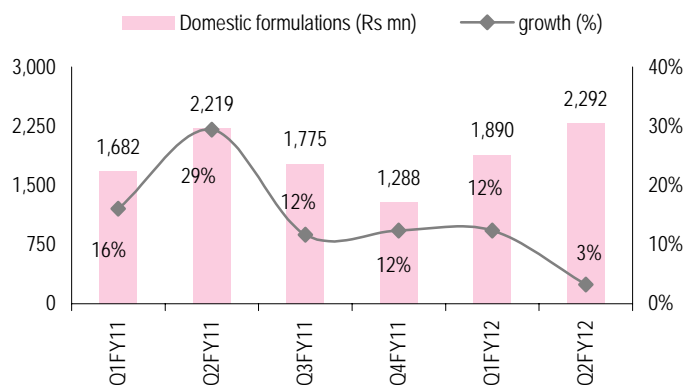
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Exhibit 3 - Net sales trend



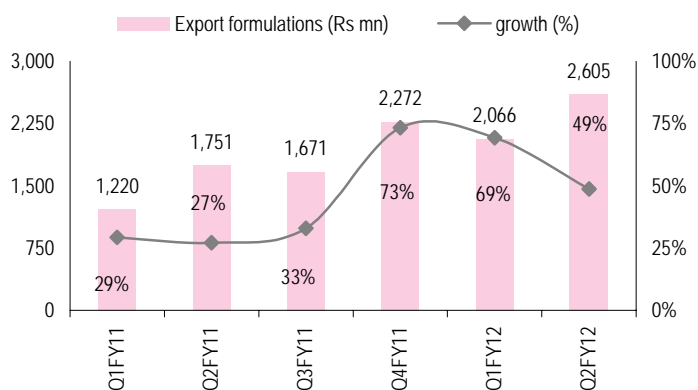
Source: PINC Research, Company

Exhibit 4 - Domestic formulations sales trend



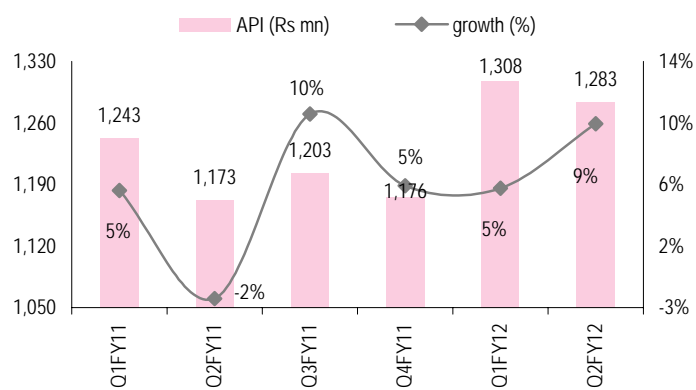
Source: PINC Research, Company

Exhibit 5 - Export formulations sales trend



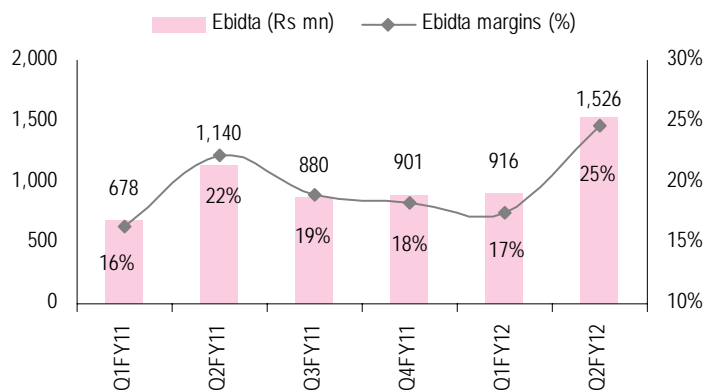
Source: PINC Research, Company

Exhibit 6 - API sales trend



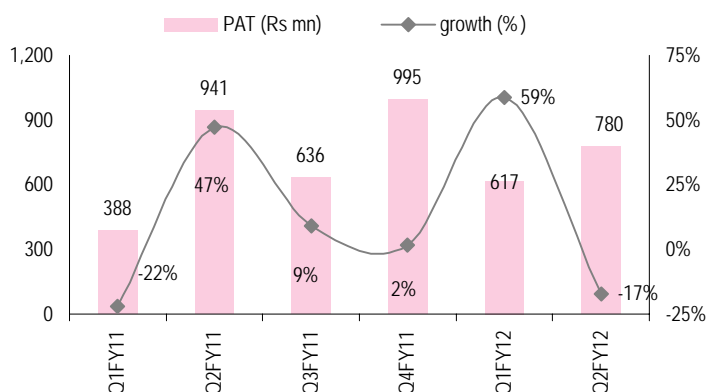
Source: PINC Research, Company

Exhibit 7 - EBITDA trend



Source: PINC Research, Company

Exhibit 8 - Net profit trend



Source: PINC Research, Company

Year Ended March (Figures in Rs mn)

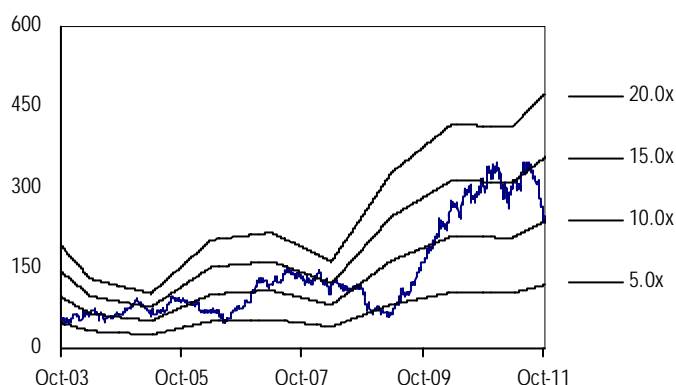
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net sales	12,836	15,596	18,825	22,639	25,261
Other operating income	88	72	163	185	206
Total Revenues	12,925	15,668	18,989	22,824	25,468
Growth (%)	18.4	21.2	21.2	20.2	11.6
EBITDA	2,651	3,337	3,761	4,623	4,930
Growth (%)	27.4	25.9	12.7	22.9	6.7
Depreciation	397	467	558	593	706
Other Income	6	89	83	51	51
EBIT	2,261	2,959	3,287	4,080	4,275
Interest Paid	318	329	314	411	439
PBT (before E/o items)	1,943	2,629	2,973	3,670	3,836
Tax Provision	233	627	784	768	866
E/o income/(loss)	704	(52)	(440)	-	-
Net Profit	1,006	2,054	2,628	2,902	2,969
Adjusted Net Profit	1,709	2,026	2,292	2,902	2,969
Growth (%)	44.1	18.5	13.1	26.6	2.3
Diluted EPS (Rs)	13.7	16.2	18.2	23.1	23.3

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	1,183	2,663	3,412	3,670	3,836
Depreciation	397	467	558	593	706
Total Tax Paid	(224)	(459)	(644)	(661)	(690)
Chg in working capital	(876)	(985)	(984)	(810)	(1,248)
Other operating activities	1,050	226	(207)	-	-
Cash flow from oper (a)	1,530	1,913	2,135	2,793	2,603
Capital Expenditure	(898)	(1,341)	(1,962)	(2,198)	(2,199)
Chg in investments	-	-	-	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv.(b)	(898)	(1,341)	(1,962)	(2,198)	(2,199)
Free cash flow (a+b)	631	572	173	595	405
Equity raised/(repaid)	(46)	0	22	-	-
Debt raised/(repaid)	261	(70)	539	333	433
Dividend (incl. Tax)	(336)	(379)	(439)	(679)	(695)
Other financing activities	(491)	(129)	(300)	-	-
Cash flow from fin. (c)	(612)	(577)	(177)	(346)	(262)
Net chg in cash (a+b+c)	19	(5)	(4)	249	143

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity Share Capital	250	250	251	251	254
Reserves & surplus	6,064	8,398	10,265	12,487	14,762
Shareholders' funds	6,314	8,649	10,516	12,739	15,016
Minorities interests	(4)	(6)	(7)	(7)	(7)
Total Debt	4,599	4,545	5,308	5,641	6,074
Capital Employed	10,909	13,188	15,818	18,373	21,084
Net fixed assets	5,912	6,761	8,124	9,729	11,224
Cash & Cash Eq.	113	108	104	352	495
Net Other current assets	5,123	6,787	7,989	8,799	10,047
Investments	412	325	408	408	408
Net Deferred tax Assets	(651)	(793)	(807)	(915)	(1,091)
Total Assets	10,909	13,188	15,818	18,373	21,084

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	20.5	21.3	19.8	20.3	19.4
Net Margin (%)	13.3	13.0	12.2	12.8	11.8
Div. Yield (%)	0.8	1.0	1.2	1.7	1.7
Net debt/Equity (x)	0.6	0.5	0.5	0.4	0.3
Net WC (days)	145	158	154	141	144
ROCE (%)	22.2	24.6	22.7	23.9	21.7
RoE (%)	16.5	27.4	27.4	25.0	21.4
EV/Net Sales (x)	3.0	2.5	2.1	1.7	1.6
EV/EBITDA (x)	15.0	11.8	10.9	8.9	8.5
PER (x)	34.1	16.7	13.1	11.9	11.8
PCE (x)	24.5	13.6	10.8	9.9	9.5
Price/Book (x)	5.4	4.0	3.3	2.7	2.3

P/E Band



Sales Breakup (Rs mn)	FY12E	FY13E	CAGR FY11-13 (%)
Domestic formulations	7,573.5	8,564.8	11%
Domestic API	1,515.5	1,667.0	7.5%
Export formulations	9,794.7	10,969.5	26%
Export API	3,586.0	3,887.0	8.0%
TOTAL	22,469.6	25,088.4	16%

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