

BUZZING

STOCK

# Ipca Laboratories Ltd

CMP – Rs.539

**Analyst**

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**Key Stock Data**

Sensex	13382
Nifty	3832
Sector	Pharmaceuticals
Bloomberg	IPCA@IN
Reuters	IPCA.BO
No. of shares (m)	25
Market Cap (Rs m)	13,278
Market Cap (US\$ m)	306
52-week H/L	Rs.564/235

**Shareholding Pattern (%)**

Promoters	52.11
Mutual Funds	20.99
FII's	8.09
Corporate Bodies	4.86
Pubic & Others	13.95

Ipca Laboratories is a Mumbai based pharmaceutical company with its operations dealing with APIs and formulations. Ipca's manufacturing facilities are recognized by different regulatory authorities like USFDA, UK-MHRA, South Africa's MCC, Brazil's ANVISA and Australia's TGA. This allows the company to have a strong international presence with over 100 countries and 52% of its revenue is realized through exports. Ipca is one of the biggest manufacturers in the world for APIs like Atenolol, Chloroquine Phosphate, Furosemide and Pyrantel salts. Along with this, it also enjoys the profile of one of the largest suppliers of these APIs and their intermediates throughout the world.

**Alliance with Ranbaxy:** Ipca entered into a strategic alliance with Ranbaxy's US arm, Ranbaxy Pharmaceuticals Inc. to develop generic prescription pharmaceutical products which will be marketed by Ranbaxy in US. Ranbaxy would be filing for regulatory approval and also support manufacturing of these products. Ipca will be manufacturing the products at its Indian facilities. Ranbaxy would be commercializing the products using its marketing expertise and distribution network in US.

**Strong anti-malarial market presence:** In the formulations segment, Ipca enjoys leadership in anti-malarial drugs. It has recently launched a fixed dose combination of oral Artemether and Lumefantrine tablets which is the first ACT (Artemisinin based Combination Therapy) in India. The anti-malarial segment is responsible for 22% of Ipca's revenue. The divisions, which are marketing anti-malarial products, General Pharma and Intima, have registered a robust growth of 31% and 37% respectively in FY06. It also entered into joint venture with Holley Group of China, earlier this year. Holley group is the largest manufacturer of Artemisinin in the world. Artemisinin is recommended by WHO to treat P. Falciparum Malaria, one of the dangerous strains of bacteria causing malaria. This venture markets Artemisinin based APIs and formulations to international institutions, NGOs, Government and Semi-Government bodies globally.

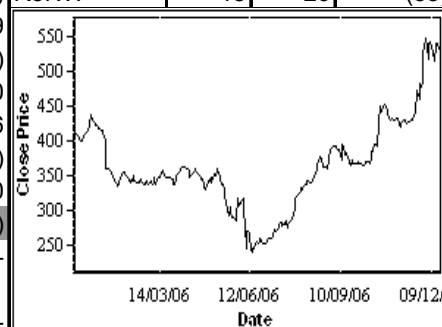
**Quality Manufacturing:** Ipca has seven cGMP qualifying manufacturing facilities located at Athal and Silvassa (Union territory of Dadra and Nagar Haveli), Indore and Ratlam (Madhya Pradesh), Aurangabad (Maharashtra), Dehradun (Uttaranchal) and Kandla (Gujarat). The facility at Athal has undergone expansion and up gradation recently to meet domestic formulation needs. It also plans to set up a new manufacturing facility in SEZ at Indore for which it has got an initial capital outlay of Rs.600 m. Its Dehradun facility went on steam in May 2006 and will be catering domestic formulations requirements.

**R&D Operations :** Research at Ipca is particularly focused on innovative process and product development for the manufacture of APIs with non-infringing processes. This is also accompanied with a cost reduction initiative. R&D Centers of Ipca are located at Mumbai, Ratlam and Indore. Ipca spent more than 5% of its turnover on R&D operations for FY06 that is equivalent to Rs.378 m.

**Valuation:** Ipca's main thrust is on formulations business that constitutes 67% of its total business where almost 60% comes from domestic market while rest is realized from exports. However, the API export segment is stronger with 76% share in API business. The formulation business of the company increased by 12% in FY06 due to increased sales in the territory of India, Russia and Ukraine. It is also focusing on new therapeutic segments like lifestyle diseases. There is a significant shift in the revenues from developing markets like CIS, Asia and Africa whose contributions are growing in the total export revenue. All these initiatives are being percolated into the quarterly results for FY07. The revenue in 2QFY07 grew by 23% YoY at Rs.2.6 b. EBIDTA of Rs.586 m also increased by 72% YoY. The EBITDA margin showed an upside of 650+ bps due to favorable stock adjustment. The PAT increased by 102% YoY at Rs.354 m. The stock is currently trading at 9.5x the annualized Q2FY07 EPS of Rs.57.

### Financial Snapshot

Ipca Laboratories Ltd.							Rs.m				Ratios (%)		
Financial Year End: March	Q2 FY06	Q2 FY05	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)			
Net Sales	2440	1958	25	7514	6822	10	Debt -Equity	0.6	0.6	(5)			
Other Income	5	6	(15)	20	71	(73)	PBIDTM	15	18	(20)			
Total Income	2445	1964	24	7533	6893	9	PBDTM	13	17	(23)			
Total Expenditure	1859	1623	15	6362	5548	15	RoCE	16	24	(30)			
PBIDT	586	341	72	1171	1345	(13)	RoNW	18	26	(33)			
Interest	58	27	112	141	109	29							
PBDT	528	314	68	1030	1235	(17)							
Depreciation	73	59	22	246	190	30							
Tax	82	48	71	70	60	16							
Reported Profit After Tax	354	175	102	640	807	(21)							
Extra -ordinary Items	0	0	0	0	30	0							
Adj. Profit After Extra-ordinary item	354	175	102	640	777	(18)							
No. of shares (m)	25	25	-	25	25	-							
EPS (annualised.) (Rs.)	56.6	28.0	-	25.6	32.3	-							
P/E	9.5	19.2	-	21.0	16.7	-							



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