

28th July 2008

BUY

Price	Target Price
Rs540	Rs965

Sensex –	14,275
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	(14)	(18)	(23)
Rel. to Sensex	(5)	1	5	(15)

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	IPCA.BO
Bloomberg	IPCA@IN
Equity Capital (Rs mn)	251
Face Value (Rs)	10
No of shares o/s (mn)	25
52 Week H/L (Rs)	760/451
Market Cap (Rs bn /USD mn)	14/331
Daily Avg Vol (No of shares)	36862
Daily Avg Turnover (US\$ mn)	0.5

Shareholding Pattern (%)

	30/6/08	31/03/08	31/12/07
Promoters	46.1	46.1	46.0
FII/NRI	0.7	1.6	1.3
Institutions	33.3	32.2	33.6
Private Corp.	9.0	8.9	7.4
Public	11.0	11.3	11.6

Source: Capitaline

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Ipca's Q1FY09 revenues grew by 20% to Rs2.95bn (Rs2.46bn in Q1FY08) which was above our expectation. The increase in revenues is largely driven by 40% growth in export sales to Rs 1525.2mn (Rs1093mn in Q1FY08). The branded formulation business in semi-regulated markets grew by 40%. On the domestic front, Ipca has reported muted performance. Domestic business grew by just 2% to Rs1429mn in Q1FY09 (Rs1401mn in Q1FY08). This was mainly because last year, company has got tender business of Rs120mn in the domestic market, which was not there this year. Excluding this tender business, branded formulation revenues grew by 13.5%, in-line with the industry growth. EBIDTA for the quarter was down by 25% to Rs420mn on the back of Rs176.5mn of forex loss in Q1FY09 vs. forex gain of Rs136.5mn in Q1FY08. However after adjusting for forex loss/ gain, EBIDTA margins for the quarter expanded by 320 bps to 20.2% (17.0% in Q1FY08) on the back of 450 bps reduction in raw material cost. PAT declined by 29% to Rs236.3mn in Q1FY09 (Rs 330.7mn in Q1FY08). After adjusting the forex loss/gain, the Adjusted PAT witnessed a growth of 113% to Rs 413mn (Rs 194.2mn). Adjusted EPS for Q1FY09 stood at Rs16.5 (up by 113% over corresponding period of Rs 7.8). Management has given strong outlook for FY09E with revenue and profit guidance of 18-20% and EBIDTA margins in the range of 22 to 24%. At CMP of Rs540, the stock is trading at 7.9x FY09E and 6.8x FY10E earnings. We maintain our BUY rating with a price target of Rs965. Key risk to our call remains the currency appreciation.

Result Highlights

- Revenues grew by 20% to Rs2.95bn on the back of strong performance in export business which grew by 40% to Rs1525.5mn. Domestic formulation business for the quarter grew by 13.5%, in-line with the industry growth. However overall domestic business was flat this year since last year Ipca had institutional order of Rs120mn last year.
- Recently Ipca and couple of other Indian companies entered into a long term drug supply agreement with Clinton foundation, to tackle malaria across the world. The management is of the view that deal will pave the way for Ipca to deal with the governments of other countries. Company expects revenues from the malarial drugs to double and clock Rs400crore (current revenue ~Rs200crore) over the next three years. Further they have hinted that EBIDTA margins in these tenders are in the range of 20-25%.
- Ipca along with its alliance partner 'Ranbaxy' has received 6 approvals in US market. Recently Ipca has received approval of metoclopramide tablets which has a market size of US\$27mn. Company expects good momentum of its APIs business in US from FY09E onwards. Ipca is filing 6-8 ANDAs every year and we expect US to contribute \$20mn in FY09.
- EBIDTA for the quarter was down by 25% to Rs420mn in Q1FY09 on the back of forex loss of Rs176.5mn vs forex gain of Rs136.5mn in Q1FY08 because of restatement of forex debt. Excluding this EBIDTA margins have improved by 320 bps to 20.2% in Q1FY09 from 17% in Q1FY08 mainly because of reduction in raw material cost by 450bps.
- PAT was down by 29% to Rs236mn in Q1FY09. However after adjusting to forex loss/ gain, APAT was up by 113% to Rs413mn.
- Diluted EPS has gone up by 113% to Rs16.5 in Q1FY09 (Rs7.8 in Q1FY08).

Management has given strong outlook for FY09 with revenue and profit guidance of 18-20% and EBITDA margins in the range of 22 to 24%.

Outlook and Valuation

We continue to be very positive on the growth story of Ipca and believe that the business profile of the company has improved substantially in the last 2-3 years. Over the last five years (FY2003-2008) the branded formulation business of the company grew by a CAGR of 24% and currently contributes 74% of the total revenues. We expect it to further improve with strategic focus on branded formulations segment, geographical expansions in semi-regulated markets (a 500+ sales people network across multiple semi-regulated markets (excluding India)), new product launches in fast growing life style segments and focus on European and US markets. Going forward, its focus in the US market will become growth driver from FY09E onwards. With strong visibility of an earning growth, 30% ROE, no fears of dilution, we believe that Ipca is an excellent opportunity. At CMP of Rs 540, the stock is trading at 7.9x FY09E and 6.8x FY10E earnings. We maintain our BUY rating with a price target of Rs965 based on 12x FY10E EPS of Rs80.

Key Financials

Income Statement	Standalone					Consolidated		
Y/E,Mar (Rs. m)	Q1FY09	Q1FY08	Y-o-Y Gr.(%)	Q4FY08	Q-o-Q Gr.(%)	FY08	FY09E	FY10E
Net Sales	2951	2466	20%	2538	16%	10914	12671	14332
Expenses	2354	2046	15%	2073	14%	8660	9915	11229
Raw Materials	1165	1084	7%	1079	8%	4639	5251	5914
% of sales	39.5	44.0	(10%)	42	(7%)	42.5	41.4	41.3
Employee cost	439	370	19%	360	22%	1470	1691	1919
% of sales	14.9	15.0	(1%)	14	5%	13.5	13.3	13.4
Other expenses	750	592	27%	634	18%	2551	2973	3396
% of sales	25.4	24.0	6%	25	2%	23	23	24
EBIDTA	597	420	42%	466	28%	2254	2756	3103
EBIDTA %	20.2	17.0	320 bps	18.3	190 bps	20.7	21.8	21.6
Other income	4	6	(39%)	13	(71%)	28	11	5
Interest	40	48	(17%)	46	(14%)	204	203	167
Depreciation	90	76	18%	85	6%	325	398	428
PBT	294.5	422.2	(30%)	247.4	19%	1752.9	2166.7	2513.1
Total Tax	58.2	91.5	(36%)	21.0	177%	357.9	444.2	515.2
Effective tax rate (%)	19.8	21.7	(9%)	8.5	133%	20.4	20.5	20.5
RPAT	236.3	330.7	(29%)	226.4	4%	1395.0	1722.6	1997.9
E/O items	(176.5)	136.5		(100.0)		0.0	0.0	0.0
Adjusted PAT	412.8	194.2	113%	326.4	26%	1359.6	1722.6	1997.9
Net Margin (%)	14.0	7.9	612 bps	12.9	113 bps	12.5	13.6	13.9
EPS (diluted)	16.5	7.8	113%	13.1	26%	54.5	68.7	79.7

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