

October 31, 2011

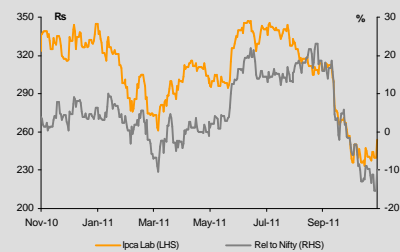
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs254	Rs392
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,327
Sensex	17,705

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(23)	(15)	(22)
Rel. to Nifty	(8)	(20)	(9)	(12)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	IPCA@IN
Equity Capital (Rs mn)	251
Face Value(Rs)	2
No of shares o/s (mn)	126
52 Week H/L	351/230
Market Cap (Rs bn/USD mn)	32/656
Daily Avg Volume (No of sh)	172975
Daily Avg Turnover (US\$m)	1.0

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	46.1	46.1	46.1
FII/NRI	10.1	10.4	9.1
Institutions	22.2	22.2	22.7
Private Corp	10.1	9.7	10.4
Public	11.5	11.6	11.8

Source: Capitaline

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- **IPCA's Q2FY12 results were above expectations with a) Revenues at Rs6.2bn (up 20% YoY), b) EBITDA at Rs1.5bn (up 34% YoY) and c) APAT at Rs1bn (up 61% YoY)**
- **Loss of anti-malarial sales in domestic market was more than compensated by institutional anti-malarial sales in African market**
- **Management has guided for 20% growth in top-line in H2FY12 and 1% improvement in overall EBITDA margins in FY12**
- **Maintain Buy with a target of Rs392 (14x FY13 EPS)**

Result Highlights

Formulations business grew 23% YoY in Q2FY12 (contributed 79%) to Rs4.9 bn driven by

- Export formulations (contributed 37%) which grew by 49% to Rs2.6bn on back of
 - Anti-malarial institutional business up 242% to Rs908mn
 - Generic business up 20% to Rs1.2bn led by h73% growth in US
 - Promotional business remained flat at Rs446mn, due to no shipments to Sudan and Yemen because of political turbulence
- Domestic formulations (contributed 42%) grew at a lower rate of 3% YoY to Rs2.3bn in Q2FY12
 - Lower growth was mainly due to decline in Anti bacterial and anti-malarial portfolio led by adverse market condition, new divisionalization and higher attrition rate

API grew by 9% to Rs1.3bn (contributes 21% to overall sales)

Future growth drivers

- Anti malarial business to grow from Rs1.2bn last year to Rs2.5bn this year and with the prequalification of Artesunate, company will further be able to participate in the rest of the 20% of anti malarial tender business (total market \$300mn)
- The company is expecting USFDA to visit its Indore SEZ plant and expects approval by Q4FY12. Post the approval, Ipca expects 4-5 launches from this facility in the initial year with peak revenue potential of Rs3-4bn over the next 2-3 years. Till date, Ipca has 24 filings in the US with 13 pending approvals
- Management has lowered it's a domestic growth guidance to 9-10% in H2FY12, however has maintained its FY13E growth guidance at 15-18% and operating margins are expected to improve once the additional field force becomes productive

Valuation

We expect Ipca to report 14% growth in revenues in FY12E and 19% growth in FY13E. EBITDA margins are expected to increase from 19.1% in FY11 to 19.9% in FY12E and 20.9% in FY13E. Earnings will grow by 23% CAGR over FY11-13E. Based on strong growth in export formulations, we maintain our rating on the stock to Buy with a target price of Rs392 (14x FY13E earnings). At CMP, IPCA trades at 11.5x FY12E and 9.1x FY13E EPS.

Financials

Rs mn

YE-	Net	EBITDA		APAT	EPS	EPS	RoE	EV/		
Mar	Sales	(Core)	(%)		(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	15,596	3,236	20.7	1,991	16.0	20.4	26.6	15.9	11.2	3.7
FY11	18,825	3,598	19.1	2,294	18.4	15.2	23.9	13.8	10.3	3.0
FY12E	21,506	4,276	19.9	2,760	22.2	20.4	23.6	11.5	8.8	2.5
FY13E	25,567	5,336	20.9	3,489	28.0	26.4	24.1	9.1	7.0	2.0

Key Financials – Quarterly

Rs mn

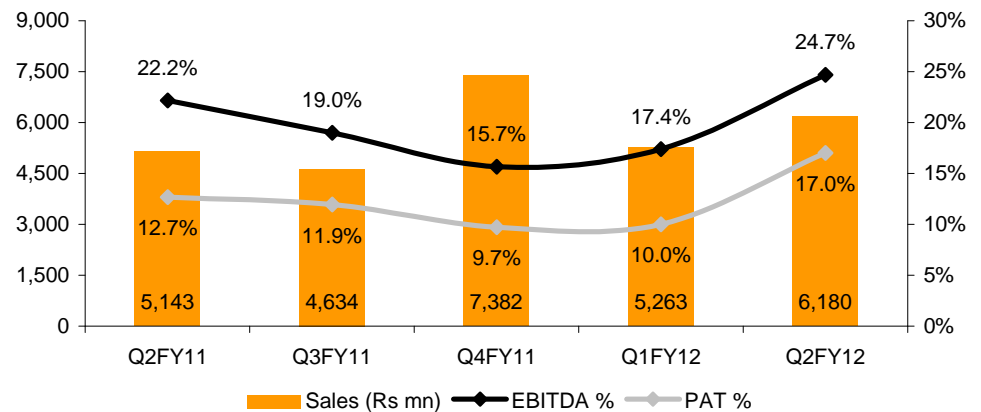
	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	5,143	4,634	7,382	5,263	6,180	20.2	17.4	11,444	9,288	23.2
Expenditure	4,003	3,754	6,226	4,347	4,655	16.3	7.1	9,002	7,470	20.5
<i>as % of sales</i>	<i>78%</i>	<i>81%</i>	<i>84%</i>	<i>83%</i>	<i>75%</i>	-	-	<i>79%</i>	<i>80%</i>	-
Consumption of RM	2,044	1,912	3,226	2,104	2,435	19.1	15.7	4,538	3,793	19.7
<i>as % of sales</i>	<i>40%</i>	<i>41%</i>	<i>44%</i>	<i>40%</i>	<i>39%</i>	-	-	<i>40%</i>	<i>41%</i>	-
Employee Cost	700	649	1,099	836	728	4.0	(12.9)	1,564	1,357	15.2
<i>as % of sales</i>	<i>14%</i>	<i>14%</i>	<i>15%</i>	<i>16%</i>	<i>12%</i>	-	-	<i>14%</i>	<i>15%</i>	-
Other expenditure	1,259	1,193	1,901	1,408	1,492	18.5	6.0	2,900	2,321	25.0
<i>as % of sales</i>	<i>24%</i>	<i>26%</i>	<i>26%</i>	<i>27%</i>	<i>24%</i>	-	-	<i>25%</i>	<i>25%</i>	-
EBITDA	1,140	880	1,156	916	1,526	33.8	66.5	2,442	1,818	34.3
Depreciation	137	142	228	154	176	28.5	14.1	330	266	24.2
EBIT	1,003	738	928	762	1,350	34.5	77.1	2,112	1,552	36.1
Other Income	40	4	102	62	81	103.0	30.5	143	81	77.9
Interest	62	56	113	83	118	89.7	41.2	201	111	81.6
PBT	981	685	917	741	1,313	33.9	77.3	2,054	1,522	35.0
Total Tax	337	188	306	215	262	(22.2)	21.9	478	460	3.8
Adjusted PAT	730	553	611	526	1,051	44.1	99.9	1,577	1,147	37.4
PAT after adjustment	652	553	717	526	1,051	61.3	99.9	1,577	1,070	47.4
Extra ordinary items	296	142	26	91	-272	-	-	-181	267	(167.7)
Reported PAT	940	640	636	617	780	(17.1)	26.4	1,396	1,329	5.1
AEPS	5.2	4.4	5.8	4.2	8.4	61.3	99.9	12.7	8.6	47.4

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	22.2	19.0	15.7	17.4	24.7	252	728	21.3	19.6	177	
EBIT	19.5	15.9	12.6	14.5	21.8	233	736	18.5	16.7	175	
EBT	19.1	14.8	12.4	14.1	21.3	217	718	18.0	16.4	157	
PAT	12.7	11.9	9.7	10.0	17.0	433	702	13.8	11.5	226	
Effective Tax rate	34.3	27.4	33.4	29.0	20.0	(1,437)	(907)	23.2	30.2	(698)	

Revenue Break-up

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY Gr.	QoQ Gr.	YTD'12	YTD'11	YoY %
Formulations	3970	3446	3563	3956	4897	23.3%	23.8%	8852	6872	28.8%
Domestic	2219	1775	1288	1890	2292	3.3%	21.3%	4182	3901	7.2%
Exports	1751	1671	2275	2066	2605	48.8%	26.1%	4671	2971	57.2%
APIs	1172	1187	1176	1308	1283	9.5%	-1.9%	2591	2415	7.3%
Domestic	408	322	354	407	356	-12.7%	-12.5%	763	768	-0.6%
Exports	764	865	823	901	927	21.3%	2.9%	1828	1647	11.0%
Total	5142	4633	4739	5263	6180	20.2%	17.4%	11444	9287	23.2%

Quarterly trend



Source: Company, Emkay Research

- **EBITDA margins** at 24.7% improved by over 250bps YoY
 - **Gross margins** expanded by 100bps to 61% due to lower anti-malarial sales which has lower margins
 - **Staff cost** (12% of sales, declined by 200bps YoY) due to reversal of incentives and provisions in the domestic market as there were lower anti-malarial sales compared to Q2FY11. However, for the first half, employee cost increased by 15% and management has guided for similar growth for the full year. The total MR strength stands at 4000
 - **Other expenses** (24% of sales) increased by 19% YoY due to higher freight, rail and power cost
- **PAT margin** for the quarter expanded by 433bps to 17% in spite of higher depreciation (up 29% YoY) and higher interest cost (up 90% YoY) due to –
 - Higher other income (up 103% YoY) and
 - Reported PAT for the quarter stood at Rs780mn, however, adjusting for forex loss of Rs271.5mn in Q2FY12 (gain of Rs288.4mn in Q2FY11), PAT increased by 61% to Rs1.05bn
 - The forex loss was on account of provision for loss of Rs245mn on ECBs of US\$55mn, realized gain of Rs64.6mn, MTM loss on forward covers to the tune of Rs70mn and translational loss of Rs20mn for subsidiaries

Impact of drug price control policy

- 67% of the domestic portfolio comes under the NLEM which includes the products supplied to hospitals and the one's which are priced at less than Rs3
- Main impact will be on Rheumatoid Arthritis where 90% of the products are covered under NLEM and there will be 2-3% price reduction
- However, positive impact may come from anti-malarial products where some products may see some price increases under the new policy

Valuation

We expect Ipca to report 14% growth in revenues in FY12E and 19% growth in FY13E. EBITDA margins are expected to increase from 19.1% in FY11 to 19.9% in FY12E and 20.9% in FY13E. Earnings will grow by 23% CAGR over FY11-13E. Based on strong growth in export formulations, we maintain our rating on the stock to Buy with a target price of Rs392 (14x FY13E earnings). At CMP, IPCA trades at 11.5x FY12E and 9.1x FY13E EPS.

Ipca Labs – Domestic Metrics

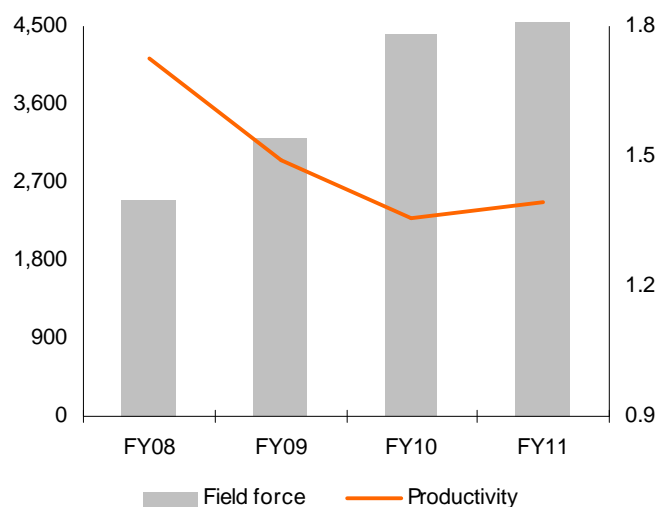
Ipca Labs therapeutic growth

Rs Cr	FY11 % Contribution	MAT Sep'11	MAT Sep'10	YoY Gr.
Anti-Malarials	23.6%	232.4	204.4	13.7%
Pain Mgmt	19.2%	189.4	141.9	33.5%
CVS	18.8%	184.9	163.7	13.0%
Anti-Infective	8.8%	86.2	90.6	-4.8%
Gastro	7.7%	75.7	62.2	21.7%
Anti-diabetic	6.6%	64.9	54.8	18.3%
CNS	3.7%	36.8	36.9	-0.3%
Respiratory	3.7%	36.4	31.6	15.1%
Derma	2.4%	24.0	19.4	23.6%
Others	5.5%	53.9	34.1	58.1%
Acute	70.4%	693.4	581.9	19.2%
Chronic	29.6%	291.1	257.7	13.0%
Total Sales	100.0%	984.5	839.6	17.3%

Sep'11 MAT growth for Ipca has been above industry rate at 17%

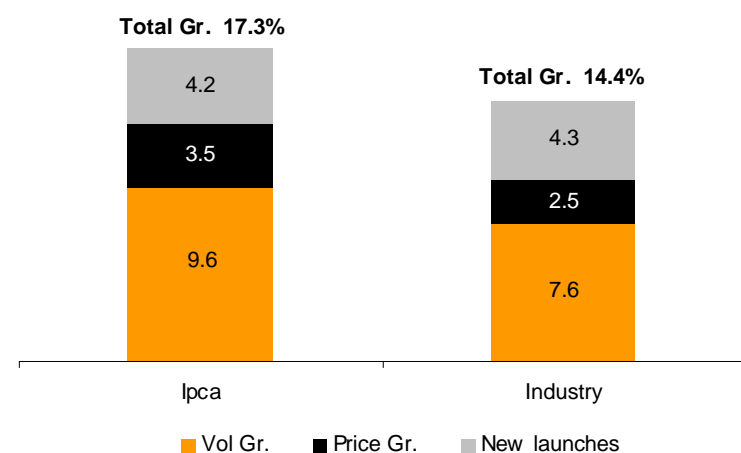
- Acute segment which contributes 70% grew by 19%
- Chronic segment which contributes 30% grew by 13%

Field Force Productivity



- Ipca has added 600 people to its field force during FY11
- MR productivity declined due to higher MR additions which are yet to contribute meaningfully to the top line

Growth drivers - Volume/ Price/ New launches



- Ipca's out-performance to the industry was due to strong volume uptake in existing brands coupled with price increase and 4.2% growth from new launches during MAT Sep'11

Source: AIOCD, Emkay Research

Top 10 brand performance

Rs Cr	MAT Sep'11	MAT Sep'10	YoY Gr.	Therapy
Lariago	57.0	63.2	-9.8%	Malaria
HCQS	44.9	37.3	20.3%	Malaria
Rapither	38.6	26.6	44.7%	CNS
Zerodol P	37.1	34.5	7.5%	Malaria
Perinorm	35.1	22.3	57.2%	Malaria
Larinate	30.8	30.5	0.8%	Gastro
Zerodol SP	26.5	16.2	64.0%	CNS
Glyconorm M	24.2	18.5	30.6%	CNS
Zerodol	23.9	21.4	11.8%	Diabetes
Tenoric	23.8	14.6	62.7%	Malaria
Total	341.8	285.2	19.8%	

- Top 10 brands contribute 35% to the domestic formulation sales
- HCQS, Zerodol, Rapither and Perinorm clocked growth in excess of 20%. However, company's top malaria brand Lariago declined 10% during the period.

Financial Snapshot

Rs mn	FY11	FY12E	YoY %	FY13E	YoY %
Formulations	13,881	16,490	18.8%	20,604	25.0%
Domestic	6,964	7,669	10.1%	8,797	14.7%
Exports	6,917	8,820	27.5%	11,807	33.9%
Branded	1,500	2,010	34.0%	2,833	41.0%
Generics	5418	6811	25.7%	8974	31.8%
Europe	3121	3410	9.2%	4203	23.3%
America	1072	1401	30.6%	2455	75.3%
Malaria tender	1224	2000	63.4%	2000	0.0%
APIs	4778	5017	5.0%	5278	5.2%
Domestic	1,443	1,515	5.0%	1,637	8.0%
Exports	3,335	3,501	5.0%	3,641	4.0%
Other Income	166	0	-	0	-
Total Sales	18,825	21,506	14.2%	25,882	20.3%
EBITDA	3,598	4,276	18.9%	5,336	24.8%
EBITDA margins	19.1	19.9		20.9	
APAT	2,294	2,760	20.4%	3,489	26.4%
PAT margins	12.2	12.8		13.6	
EPS	18.4	22.2	20.4%	28.0	26.4%
PE @CMP	13.8	11.5		9.1	

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	15,596	18,825	21,506	25,567
Growth (%)	20.6	20.7	14.2	18.9
Expenditure	12,360	15,227	17,230	20,231
Raw Materials	6,456	7,764	8,585	10,048
SGA	3,697	4,800	5,570	6,530
Employee Cost	2,207	2,663	3,075	3,653
Other Exp	0	0	0	0
EBITDA	3,236	3,598	4,276	5,336
Growth (%)	21.9	11.2	18.9	24.8
EBITDA margin (%)	20.7	19.1	19.9	20.9
Depreciation	467	558	618	760
EBIT	2,768	3,040	3,658	4,576
EBIT margin (%)	17.7	16.1	17.0	17.9
Other Income	161	246	244	275
Interest expenses	329	314	364	377
PBT	2,663	3,407	3,539	4,473
Tax	627	784	778	984
Effective tax rate (%)	23.6	23.0	22.0	22.0
Adjusted PAT	2,009	2,299	2,760	3,489
(Profit)/loss from JV's/Ass/MI	18	5	0	0
Adjusted PAT after MI	1,991	2,294	2,760	3,489
Growth (%)	20.4	15.2	20.4	26.4
Net Margin (%)	12.8	12.2	12.8	13.6
E/O items	63	434	0	0
Reported PAT	2,054	2,628	2,760	3,489
Growth (%)	104.2	28.0	5.0	26.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	2,502	3,160	3,294	4,199
Depreciation	467	558	618	760
Interest Provided	329	314	364	377
Other Non-Cash items	0	0	0	0
Chg in working cap	-1,664	-1,210	-788	-1,607
Tax paid	-485	-784	-778	-984
Operating Cashflow	1,149	2,039	2,710	2,744
Capital expenditure	-1,317	-1,920	-2,500	-2,000
Free Cash Flow	-167	119	210	744
Other income	161	246	244	275
Investments	86	-83	0	0
Investing Cashflow	-1,069	-1,757	-2,256	-1,725
Equity Capital Raised	45	39	0	0
Loans Taken / (Repaid)	-54	763	500	-100
Interest Paid	-329	-314	-364	-377
Dividend paid (incl tax)	-409	-437	-437	-437
Income from investments	0	0	0	0
Others	662	-338	0	0
Financing Cashflow	-86	-286	-301	-914
Net chg in cash	-5	-4	153	105
Opening cash position	113	108	104	256
Closing cash position		104	256	361

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	250	251	251	251
Reserves & surplus	8,398	10,265	12,651	15,767
Net worth	8,649	10,516	12,902	16,019
Minority Interest	0	0	0	0
Secured Loans	3,791	4,554	4,854	4,754
Unsecured Loans	754	754	954	954
Loan Funds	4,545	5,308	5,808	5,708
Net deferred tax liability	793	807	807	807
Total Liabilities	13,987	16,631	19,518	22,534
Gross Block	8,812	9,884	12,384	14,384
Less: Depreciation	2,433	2,892	3,510	4,270
Net block	6,379	6,992	8,874	10,114
Capital work in progress	383	1,132	1,132	1,132
Investment	325	408	408	408
Current Assets	8,992	10,593	12,256	14,490
Inventories	3,802	4,664	5,355	6,297
Sundry debtors	3,880	4,644	5,355	6,297
Cash & bank balance	108	104	256	361
Loans & advances	1,201	1,182	1,290	1,534
Current liab & Prov	0	0	0	0
Current liabilities	2,091	2,494	3,152	3,609
Provisions	1,850	2,073	2,677	3,101
Net current assets	241	420	474	508
Misc. exp & Def. Assets	6,900	8,099	9,104	10,880
Total Assets	13,987	16,631	19,518	22,534

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	20.7	19.1	19.9	20.9
Net Margin	12.8	12.2	12.8	13.6
ROCE	22.7	21.3	21.4	22.9
ROE	26.6	23.9	23.6	24.1
RoIC	22.9	21.5	22.3	23.8
Per Share Data (Rs)				
EPS	16.0	18.4	22.2	28.0
CEPS	19.2	19.4	27.1	34.1
BVPS	69.5	84.5	103.6	128.7
DPS	3.3	3.5	3.5	3.5
Valuations (x)				
PER	15.9	13.8	11.5	9.1
P/CEPS	13.2	13.1	9.4	7.4
P/BV	3.7	3.0	2.5	2.0
EV / Sales	2.3	2.0	1.7	1.5
EV / EBITDA	11.2	10.3	8.8	7.0
Dividend Yield (%)	1.3	1.4	1.4	1.4
Gearing Ratio (x)				
Net Debt/ Equity	0.5	0.5	0.4	0.3
Net Debt/EBITDA	1.3	1.4	1.2	1.0
WC Cycle	159	155	152	153

Recommendation History: Ipca Laboratories – IPCA IN

Date	Reports	Reco	CMP	Target
26/09/2011	Pharma Sector Report Domestic			
01/08/2011	IPCA Lab Q1FY12 Result Update	Buy	328	409
25/05/2011	Ipca Laboratories Q4FY11 Result Update	Buy	301	409
27/01/2011	Ipca Laboratories Q3FY11 Result Update	Accumulate	312	336

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/10/2011	Dr Reddys Lab Q2FY12 Result Update	Hold	1,580	1,604
24/10/2011	Unichem Labs Q2FY12 Result Update	Hold	132	148
19/10/2011	Torrent Pharma Q2FY12 Result Update	Hold	577	618
16/09/2011	Jubilant Life Sciences Company Update	Buy	216	359

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