

BSE Sensex: 13,616.7 ↑ 14.8 (+0.1%)

NSE 50 Nifty: 3,928.2 ↑ 6.5 (+0.2%)

Market Movement

	Close	Diff	% Chg
BSE 100	6,903.7	5.1	0.1%
CNX Nifty Jr	7,017.2	-0.4	-0.0%
Dow Jones	12,226.7	90.3	0.7%
Nasdaq	2,432.2	19.6	0.8%

Turnover

	Rs mn		% Chg
BSE	44,090	↑	6.0%
NSE	80,840	↓	-2.1%

Advances/Declines (%)

	Advances	Declines
BSE	63.8%	33.7%
NSE	63.3%	33.0%

Nifty Delivered Statistics

	Delivered Quantity	% Daily Quantity*
Most Delivered		
Hero Honda	1,043,210	88.7
Matrix Labs	861,778	83.6
Patni	214,865	83.3
SCI	88,496	83.2
Least Delivered		
ACC	170,763	16.1
Reliance Capital	246,472	15.9
Titan	31,107	15.1
Century Textile	105,123	14.9

* to trade quantity.

Institutional Activity

28 November 2006	Cash (Rs mn)	F&O (Rs mn)
FII's		
Buy	30,829	54,238
Sell	26,773	77,173
Net	4,056	-22,936
Mutual Funds		
Buy	4,040	-
Sell	6,729	-
Net	-2,688	-

Key Statistics

	Close	Change
Rs/US\$	44.74	0.02
Rs/Euro	58.91	0.06
10 yr G-Sec (%)	7.39	0.01
Call rate (%)	6.10	-
Brent-spot (US\$/bbl)	62.79	-0.09
WTI-spot (US\$/bbl)	62.46	1.47
Aluminium (LME, US\$/t)	2,651	-22.00
Copper (LME, US\$/t)	6,901	-80.00
Zinc (LME, US\$/t)	4,320	-158.00
Steel (US\$/t)	600	0.00

Inside

□ Ipca Labs: Good times to continue...

We have increased our profit (adjusted) estimates by 36% for FY07E and by 24% for FY08E. This would be driven by visibility of continuing strong momentum in branded generics, stabilisation of UK generics, new APIs for advanced markets, US generics and tender business for malaria. We have also revised our revenue estimates upward by 6% for FY07E and FY08E to reflect the same. The robust performance would continue to be supported by excise and income tax benefits from its Dehradun facility, which commenced operations recently.

We believe that Ipca is building a strong pipeline in each of the markets and is also expanding into newer markets. This would provide better visibility to long-term earnings. Quality and profile of the business is also undergoing a change reducing volatility of earnings in future. The stock trades at 10.8x FY07E earnings and 8.9x FY08E earnings. We reiterate our Buy rating on the stock with a revised 12-month price target of Rs648 (12x FY08E earnings) from earlier Rs522.

[\(Please click here for details on page 2\)](#)

Sector: Pharmaceuticals

Target Price	Rs648
Market cap (bn)	Rs11.9/US\$0.3
52-week range	Rs505/235
Shares in issue (mn)	25.0
6-mon avg daily vol (no of shares)	41,140
6-mon avg daily vol (mn)	Rs19.7/US\$0.4
Bloomberg	IPCA IN
Reuters	IPCA.BO
BSE Sensex	13617
Website	www.ipcalabs.com

Shareholding Pattern (%)

Promoter	51.8
FII's	8.1
MFs / FIIs / Banks	19.9
Others / Public	20.2

(As of 30 September 2006)

Price Performance (%)

	1M	3M	12M
Absolute	8.4	28.7	15.0
Relative*	2.9	12.4	(37.4)

* To the BSE Sensex

Relative Performance



(As of 29 November 2006)

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Good times to continue...

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Strong growth in domestic formulations to continue

- **New products driving growth:** Ipca has maintained its domestic focus by introducing new products at regular intervals and has launched 12 products in FY06. The new products launched during last four years contribute 33% to domestic formulation business. The company launched six products in 1H FY07 and expects to launch 13-14 products in FY07. Key launches in the last few years like Zerodol, HCQS and Keftrugard are growing at fast pace and are expected to attain a critical size going forward.

- **Fiscal benefits from Dehradun:** Ipca started shifting domestic formulations sales to its Dehradun facility from May 2006. Dehradun facility is eligible for excise and income tax exemptions (see Exhibit 1).

Exhibit 1: Shift to Dehradun boost earnings

(Rs mn)

	1H FY07	FY07E	FY08E	FY09E
Revenue Shift	440	1000	1500	2000
Net Fiscal Benefits		70-80	120-140	140-160

Source: Company data, ASK Raymond James

Exhibit 2: Financial summary

(Rs mn)

Y/E March	FY04	FY05	FY06	FY07E	FY08E
Net Sales (Rs mn)	6,329	6,903	7,618	9,291	11,205
EBITDA	1,267	1,283	1,126	1,821	2,196
EBITDA Margin (%)	20.0	18.6	14.8	19.6	19.6
Rep. PAT (Rs mn)	792	824	639	1,103	1,349
Adj. PAT (Rs mn)	792	777	639	1,103	1,349
EPS (Rs)	31.7	31.1	25.6	44.1	54.0
EPS Growth (%)	28.0	(1.9)	(17.8)	72.6	22.3
RoE (%)	30.9	24.8	17.7	25.5	25.2
RoCE (%)	28.9	22.7	16.0	24.7	25.3
PER (x)	15.1	15.4	18.7	10.8	8.9
EV/Sales	2.1	2.0	1.8	1.5	1.3
EV/EBITDA	10.6	11.0	12.3	7.7	6.4

Source: Company data, ASK Raymond James. Note: Valuations as of 29 November 2006.

Please see important disclaimer at the end of the report.

- **Domestic formulations to grow at 20% YoY:** The management guided for 20-25% growth in domestic formulations market over next five years. We expect the domestic formulations business to grow at 20% YoY over the next two years driven by new launches, higher focus on existing brands, improvement in marketing productivity and increased number of MRs.

Branded promotional markets growing aggressively

- **Promotional markets to grow at 37% CAGR (FY06-FY08E):** Branded formulations in promotional markets of CIS, Asia and Africa have grown 40% at Rs580 mn during 1H FY07. The management expects these markets to grow at 50% p.a. for the next five years on back of strong product pipeline, relatively low base and underlying potential in these markets. We expect Ipca to grow at 47% to Rs1.63 bn in FY07E and 29% to Rs2.1 bn in FY08E. This would be driven by aggressive dossier registrations, strong economic growth in CIS and deeper penetration through strengthening field force.

Revival in UK generics

- **Back on track:** The UK generics business, which had primarily pulled down performance in FY06, has now stabilised. Large part of pricing pressure has already been absorbed and the management does not expect any significant drop in pricing in these products from hereon. Presently large part of Ipca's UK sales come from products owned by distributors due to which margins have been lower. With more focus on own products, margins are set to bounce back going forward.
- **New launches to ease pressure:** The company has targeted own dossier registrations for 75 products in UK and has launched 10 products out of 14 approved dossiers and 21 pending approvals. The management expects more approvals in FY07E. New launches in the UK markets are likely to ease pressure to some extent, as these are better molecules and realizations are relatively better. Further, strong sterling pound vis-à-vis rupee is also helping ease pressure. Going forward, we expect the company to grow at 15% p.a. for the next two years in the UK generics segment.

Growth in API exports

- **Gaining impetus in outsourcing:** The company expects momentum in API exports driven by strong urge of outsourcing felt by international players. The company is well positioned with generic companies in the US and European markets. We expect API exports to grow by 19% to Rs2.64 bn in FY08E.
- **Supplies to Ranbaxy for US markets:** Ipca has entered into an exclusive agreement with Ranbaxy in US for 20 products. Ipca would supply APIs till its USFDA approved facility becomes operational.

US generics to start from FY08E

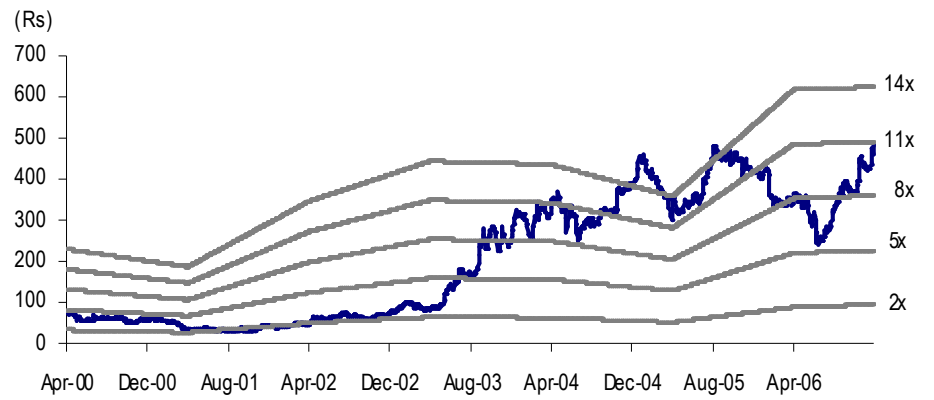
- **Five ANDAs filed, four more by FY07E:** Ipca has identified 30 products for development and ANDA filings. Of these, the company has tied up for 20 products (current US sales US\$1.5 bn) with Ranbaxy on profit sharing basis. These 20 products are off-patent and supported by mainly own DMFs. Ipca expects to garner 10% market share in three years from market launch of these products. It has already filed five ANDAs till now and is targeting four more ANDA filings by March 2007.
- **The first ANDA (Furosemide) approved:** Ipca received its first ANDA approval for Furosemide (US\$60-70 mn). However, Ipca will initially supply only APIs, as Ipca does not have any US FDA approved facility, and Ranbaxy would manufacture at their US site. Few more approvals in FY07E would be supported by Ranbaxy's site. However, all these products would be shifted to Ipca's site once the US FDA approves its facilities in 2007/2008. Ipca has already filed two products from Silvassa facility and expects to get approval over the next few months.
- **Commencement facility for US markets from 2H FY08E:** The company is setting up a new formulation facility for US markets at Indore SEZ, which is expected to be complete by 2H FY08 and would go in for US FDA approval. We expect US generics to contribute US\$4 mn in FY08E with at least 5-7 products.

Earnings upgraded

- **Revenues revised upward by 6% for FY07E and FY08E:** We have revised our revenue estimates upward by 6% in FY07E and FY08E in light of significantly better performance across all the segments in 1H FY07. We believe that the robust performance would continue to be driven by branded generics, stabilisation of UK generics and new APIs.
- **Profits revised upward in the range of 24-36%:** We have increased our profit (adjusted) estimates by 36% for FY07E and by 24% for FY08E driven by sharp expansion in EBITDA margin by around 320 bps for FY07E and 250 bps for FY08E. This is on back of aggressive growth in branded formulations contributing higher margins and favourable change in business mix.

Valuations still attractive

- **Attractive valuations:** The stock is currently trading at 10.8x FY07E earnings and 8.9x FY08E earnings respectively. We reiterate our Buy rating on the stock with a revised price target of Rs648 (12x FY08E earnings) from earlier Rs522.

Exhibit 3: PE band (1-year forward)

Source: Bloomberg, ASK Raymond James.

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