

**Sector: Pharmaceuticals**

Sensex:	17,814
CMP (Rs):	335
Target price (Rs):	382
Upside (%):	14.0
52 Week h/l (Rs):	352 / 225
Market cap (Rscr) :	4,210
6m Avg vol ('000Nos):	195
No of o/s shares (mn):	126
FV (Rs):	2
Bloomberg code:	IPCA IS
Reuters code:	IPCA.BO
BSE code:	524494
NSE code:	IPCALAB

Closing price as on 13 March, 2012.

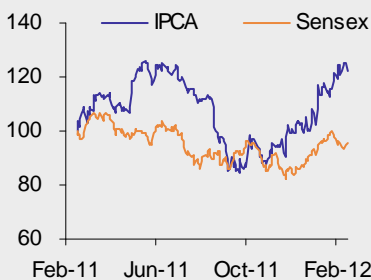
**Shareholding pattern**

<b>December '11</b>	<b>(%)</b>
Promoters	46.1
Institutions	31.5
Non promoter corp hold	10.2
Public & others	12.3

**Performance rel. to sensx**

(%)	<b>1m</b>	<b>3m</b>	<b>1yr</b>
IPCA	4.4	16.8	20.2
Cipla	(10.3)	(18.0)	5.5
Torrent	5.0	(2.5)	21.1
Unichem	(1.6)	17.7	(22.3)

**Share price trend**



Feb-11 Jun-11 Oct-11 Feb-12

**Research Analyst**

**Bhavika Thakker**  
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Ipca is all set to enter into a new growth trajectory with the long awaited Indore SEZ approval now in sight. Management announced that the new facility at Indore has gone through successful FDA inspection and should receive formal approval shortly. The company expects immediate FDA clearance of six ANDAs with approval of the facility. We believe full utilization of new capacity at Indore can add ~Rs4bn incremental sales. Ipca has a strong franchise in the Indian branded business coupled with high margin exports. Ipca had consistently grown above the Indian pharmaceutical industry. While last few quarter's performance was lackluster, we expect robust performance to set in at the domestic front. Export business, which was restrained due to capacity constraint, will also flourish following the Indore SEZ approval. We raise our FY12-14E estimates to factor in Indore SEZ contribution & higher margins. We expect 20% CAGR in revenues and 23% CAGR in earnings. We maintain our BUY rating on Ipca and raise our 9-month target price from Rs332 to Rs382.

**US FDA approval expected shortly; a near term trigger**

Ipca has been facing capacity issues for the last few quarters. USFDA approval for Indore SEZ is a key trigger for accelerating growth in the US. Management announced that new facility at Indore has gone through successful FDA inspection and should receive formal approval shortly (no #483 observations during inspection). We believe this will further enhance margins as company currently incurs fixed cost of ~Rs60mn every quarter.

**Well capitalized on Anti-Malarial brand**

Ipca is one of the few WHO approved companies for sourcing of drugs like Amodiaquine, Artesunate, Artemether & Lumefantrine. Ipca has very well capitalized on the opportunity (evident from past few quarter's sales from this business). The Company now aims for Rs4bn revenue by participating in tender process (FY11 sales at Rs1.2bn and opportunity worth ~US\$250mn).

**Valuation attractive; recommend BUY**

We estimate revenue and PAT CAGR of 20% and 23% respectively over FY11-14. Ipca has a strong franchise in Indian branded business (55% of total business) coupled with high margin exports. We believe the valuations are still attractive at 11x FY13E EPS as we expect expansion in trading multiple. We maintain our BUY rating with a revised 9-month target price at Rs382.

**Financial summary**

Y/e 31 Mar (Rs m)	FY11	FY12E	FY13E	FY14E
Revenues	18,989	22,785	27,312	32,547
yoy growth (%)	21.2	20.0	19.9	19.2
Operating profit	3,756	4,785	5,954	7,291
OPM (%)	19.8	21.0	21.8	22.4
Pre-exceptional PAT	2,177	2,978	3,781	4,707
Reported PAT	2,612	2,978	3,781	4,707
yoy growth (%)	27.4	14.0	26.9	24.5
EPS (Rs)	17.3	23.7	30.0	37.4
P/E (x)	19.4	14.2	11.2	9.0
Price/Book (x)	4.0	3.3	2.6	2.1
EV/EBITDA (x)	12.6	10.0	8.2	6.7
Debt/Equity (x)	0.5	0.5	0.4	0.3
RoE (%)	22.7	25.4	26.1	26.3
RoCE (%)	21.4	23.7	25.0	26.0

Source: Company, India Infoline Research

**Formulation export**

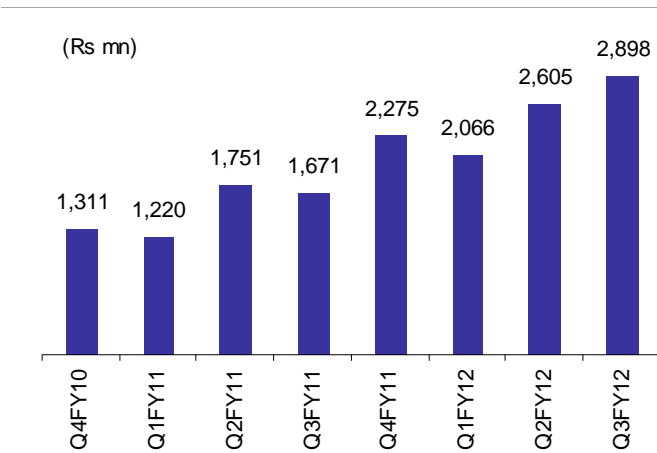
Region	FY07-11 CAGR (%)
Europe	23.8
America	214.2
CIS	1.8
Asia	11.0
Africa	28.6
Australia	56.3

Source: Company, India Infoline Research

**Indore SEZ approval expected in near term; positive trigger**

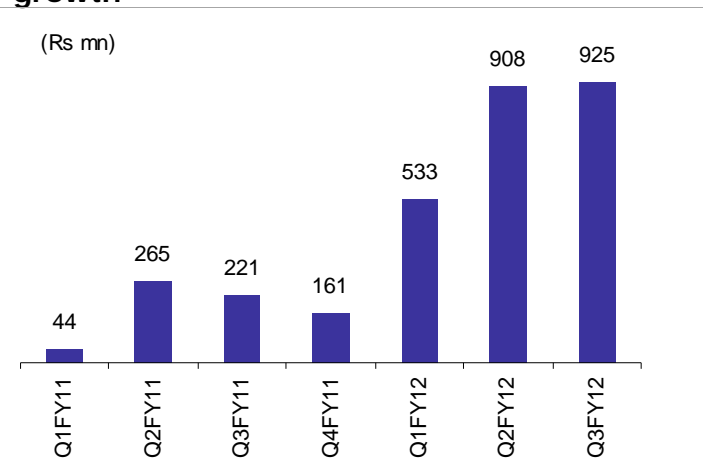
Ipca derives ~37% of the sales from the export formulation business. The export segment has been the main growth driver for the company in the past. Ipca clocked in a CAGR of ~27% over FY07-11 in exports. EU which constitutes around 45% to the exports will witness slower growth driven by difficult pricing environment and stringent government regulations but growth from US business will very well compensate for it. With Indore SEZ, company is very confident of achieving strong future growth. Management announced that the new facility at Indore has gone through successful FDA inspection and should receive formal approval shortly (no #483 observations during inspection). We believe this will further enhance margins as company

**Impressive quarterly trend in export revenues**



Source: Company, India Infoline Research

**Tender business aided to post strong export growth**



The company is currently facing capacity constraints to serve US market; USFDA approval of Indore SEZ would be the key for future growth

currently incurs fixed cost of ~Rs60mn every quarter.

Ipca's US generic formulation business started in September 2009. The US business currently constitutes ~17% to generic formulation business. The company has 10 ANDA approvals in hand out of 24 filed. Out of the 10 approvals, Ipca is marketing 7 ANDA and has more than 15% market share in all the molecules. We expect incremental growth to accrue from US. Now, with Indore SEZ approval in sight, setback due to capacity constraints for the company will now be a thing of the past. Post approval, Ipca plans for 10-12 ANDA filing each year for next three years. We expect revenues to size up with more filings on the back of lucrative patent expiry opportunity in US.

**Well capitalized on Anti-Malarial brand**

Ipca is one of the few WHO approved companies for sourcing of drugs like Amodiaquine, Artesunate, Artemether & Lumefantrine. Ipca has very well capitalized on the opportunity (evident from past few quarter's sales from this business). The Company now aims for Rs4bn revenue by participating in tender process (FY11 sales at Rs1.2bn and opportunity worth ~US\$250mn). Ipca has WHO prequalification for Artesunate 50mg + Amodiaquine 153.1mg Co-blister Tablets and Artemether + Lumefantrine 20/120mg Tablets.

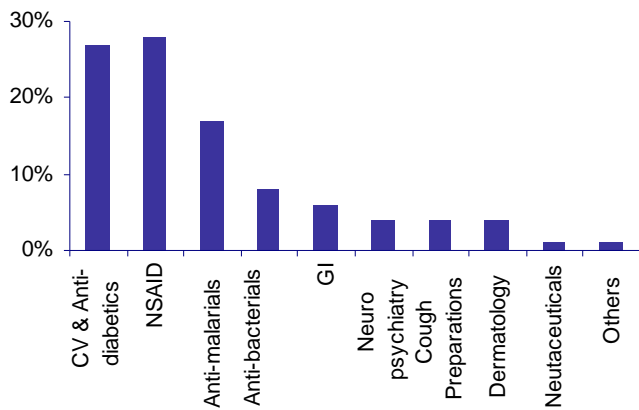
Ipca is an active participant in Global Fund's VPP & AMFm programs. It has sales of anti-malarial formulations to UNICEF, WHO, IDA, Mission Pharma, PSI, SCMS, MSF, MEG & Ministries of Health in Africa. The company also supplies API to many MNCs like Astrazeneca, Pfizer, Bayer, Sanofi Aventis, Dafra, Mepha, Parke Davis and others.

We expect continuous improvement on the margin front led by increasing productivity of newly added field force.

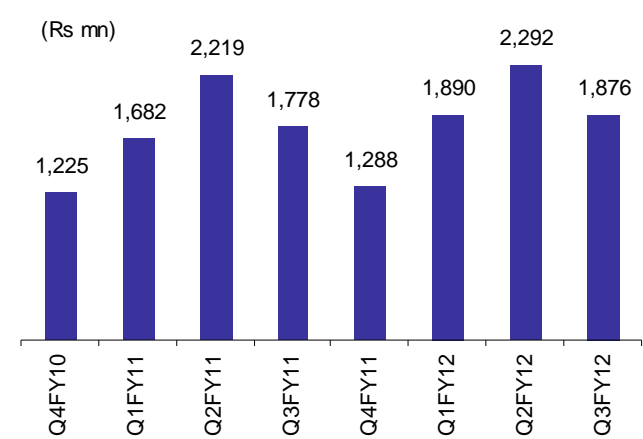
**Domestic market growth set to improve**

Ipca is one of the few companies which have outperformed Indian Pharmaceutical Market (IPM) by ~600 bps, with a CAGR of ~14% over FY06-11. Currently, with a market share of 1.7%, the company is struggling hard to keep pace with IPM because of intense competition in pricing as well as war at the penetration front. The ever increasing thrust of more penetration led to almost all domestic-focus pharma companies increasing their field force. In addition, there has been an increase in commissions paid to doctors besides the price war. Even Ipca entered in expansion phase with addition of 1000 MRs ( Market representatives) in FY11 taking the count to ~5000 MRs. Increasing cost along with higher overheads took a toll on margin front. But, as we expected margins stabilized for Ipca in last quarter and from here on we expect continuous improvement on the margin front led by increasing productivity of newly added field force. We expect 14% revenue CAGR over FY11-14 in domestic formulations.

**Therapy focus in domestic market**



**Trend in domestic revenues**



Source: Company, India Infoline Research

**Top domestic brands of Ipca**

Brands	Therapy
Tenolol	CVS- Diabetology
Tenoric	CVS- Diabetology
Glycinorm	CVS- Diabetology
Ramcor	CVS- Diabetology
X'tor	CVS- Diabetology
Glyree	CVS- Diabetology
Piomed	CVS- Diabetology
Losarnorm	CVS- Diabetology
Revelol	CVS- Diabetology
Lariago	Anti-malarials
Rapither	Anti-malarials
Hcqs	Anti-malarials
Larinate	Anti-malarials
Zerodol	CNS
Glycinorm m	Anti Diabetic

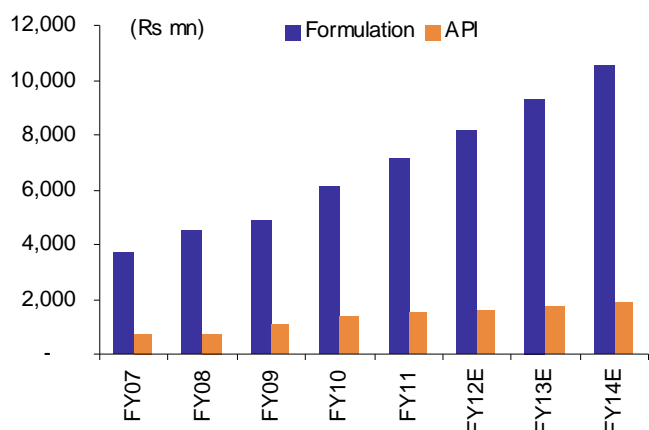
Source: Company, India Infoline Research

**Expect 20% revenue CAGR over FY11-14**

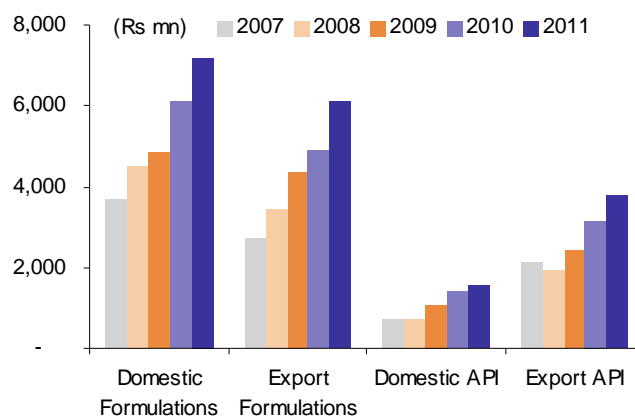
*Ipca has a well-focused strategy which has helped the company diversify the revenue base. We expect 20% CAGR of revenue over FY11-14E.*

Ipca, with a strong presence in domestic market and continuous thrust for a pie in the international market, has registered 16% CAGR growth in revenue over the past decade. Ipca has a well-focused strategy which has helped the company to diversify its revenue base. The strategy to build brands in non-regulated markets in the therapeutic areas like CV-Anti-Diabetic, NSAID and Anti-malarial drugs and size up the generic business in US and Europe with more filings and competitive offerings in niche segments has facilitated the growth. Increasing focus towards high value products has been the strategy of Ipca to deliver high growth and better margins. We expect its international business to flourish with Indore SEZ approval and domestic business will return to its higher double digit growth with increasing productivity of MRs. We expect 20% CAGR of revenue over FY11-14E.

**Increasing focus towards formulations**

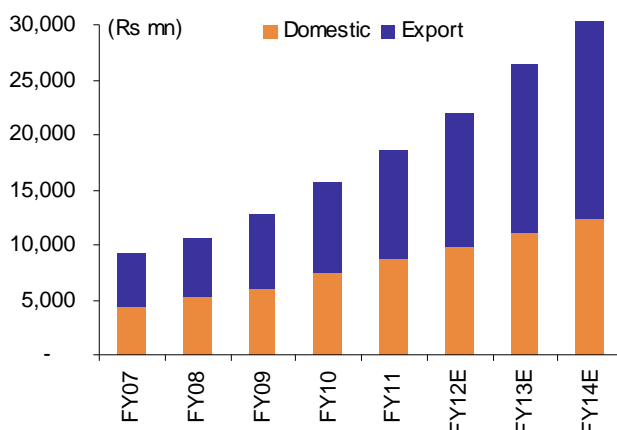


**Increasing focus towards formulation and specially export formulation**



Source: Company, India Infoline Research

**Export business to overtake domestic business with a greater margin**



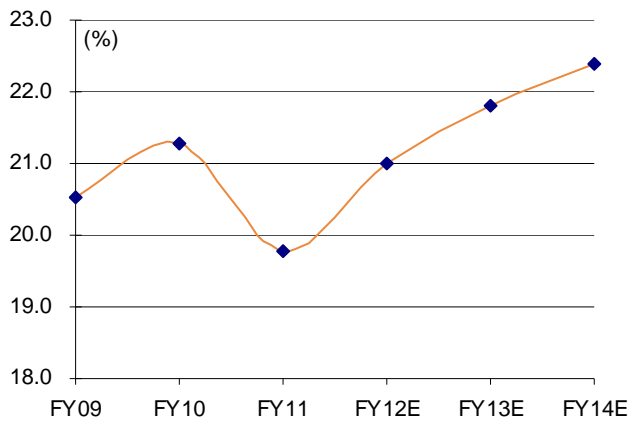
Source: Company, India Infoline Research

**Improvement in margin and return ratio**

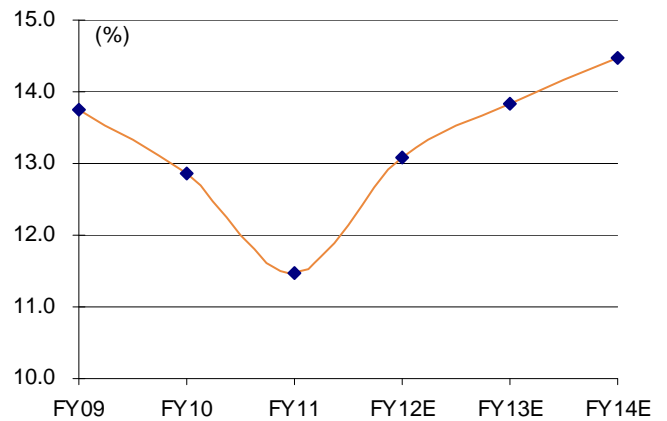
Margins eroded 150 bps in FY11 and were under pressure for the past two quarters. This was mainly attributed to the cost pressures following increase in headcount and higher input cost along with the expenses of ~Rs250mn towards Indore SEZ (including depreciation). We expect Indore SEZ approval to come by FY13 start. With the commercialisation of Indore SEZ, we expect higher contribution from US region leading to higher margin expansion. The company remains confident of bouncing back to normal margin by FY13. We maintain a cautious stand and expect ~70bps improvement in margin in successive years till FY14.

*We maintain a cautious stand and expect 50bps improvement in margin in FY13*

**Expect improvement in EBITDA margin**

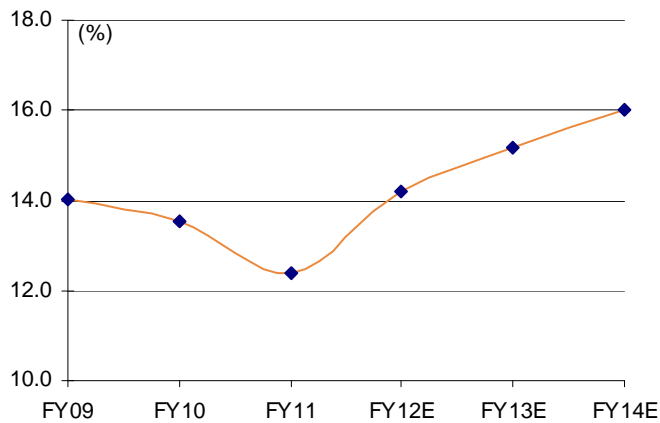


**Net margin will also improve**

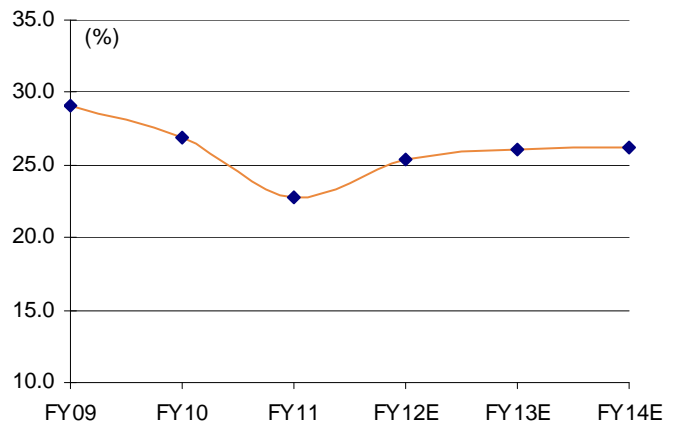


Source: Company, India Infoline Research

**Improvement in ROA**



**Improvement in ROE**



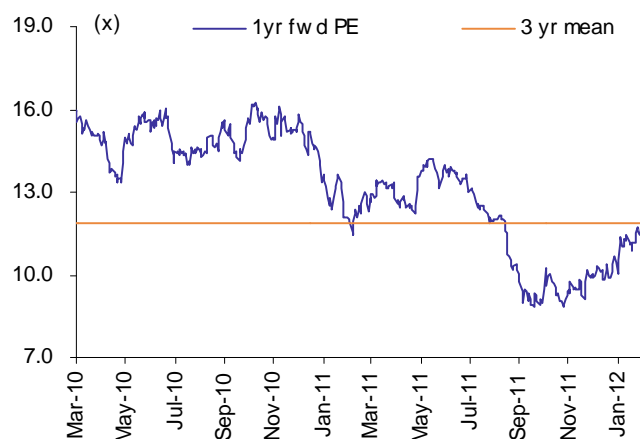
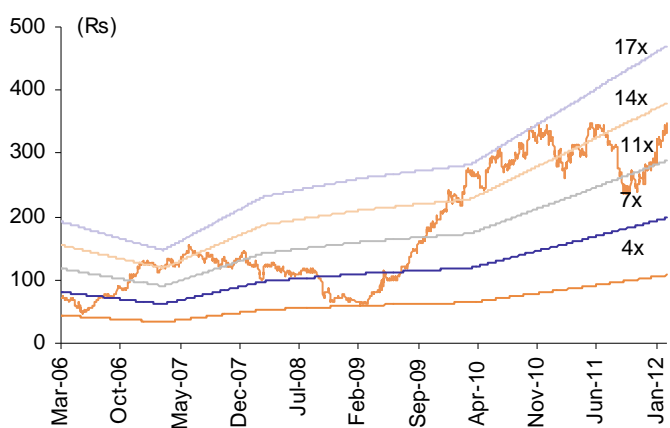
Source: Company, India Infoline Research

*Domestic business will return to its higher double digit growth with increasing productivity of MRs and US business will flourish with Indore SEZ approval*

### Valuations

Ipca had consistently grown above the Indian pharmaceutical market. We formulate revenue and PAT CAGR of 20% and 23% respectively in FY11-14E. The commercialization of Indore SEZ facility along with higher realization in domestic business holds the key for future growth. We expect margins expansion over the next two years. Ipca has a strong franchise in Indian branded business coupled with high margin exports. Export business, which was restrained due to capacity constraint, will also flourish with Indore SEZ approval which will lead IPCA into a new growth trajectory. We raise our FY12-14E estimates to factor in Indore SEZ contribution and hence higher margins. We expect 20% CAGR in revenues and 23% CAGR in earnings. We believe the valuations are still attractive at 11x FY13E EPS as we expect expansion in multiple with improvement in margin profile. We maintain our BUY rating on Ipca and raise our 9-month target price from Rs332 to Rs382.

### 1 year forward PE



Source: Company, India Infoline Research

### About the Company

Ipca Lab is a fully integrated pharmaceutical company with balanced focus at domestic and international market. In domestic market Ipca is a market leader in the therapeutic segments like Anti-malarial and Rheumatoid Arthritis. Currently it operates in 110 countries with its export accounting for 50% of the company' total income. It has a marketing network of ~2000 wholesalers and ~5000 medical representatives. Forbes Asia selected Ipca, for three consecutive years as one among the first 200 'Best under a Billion Company' in Asia in the year of 2003 to 2005 and in 2007 it selected Ipca as best under a billion Forbes Global's 200 best small companies in 2007.

### Manufacturing capability

The company has production units at various locations in India. Ipca has 8 formulation units and 3 API manufacturing units in India (with Tonira amalgamation, API plants stands at 5). Ipca's Sikkim plant is under construction and the Indore SEZ plant which is to cater to US business is ready and awaiting USFDA approval. The Formulation units of Ipca more or less operate at 90% capacity (Except Indore SEZ which is awaiting approval). The strategy is to relocate export production to SEZ facility to have export benefits.

### Concerns

- ⊕ Forex risks: Ipca derives its overseas revenue in dollar terms. 40% of anticipated exports for nearly 18 months are currently hedged at around Rs48-50. For the remaining portion, we believe company would get better realization.
- ⊕ Delay in product approval and Indore SEZ approval
- ⊕ Risk associated with policy changes in domestic and international market
- ⊕ In India, higher than estimated impact of price cuts under new proposed pharma policy can impact negatively. Though management comments there would not be any impact for them.

### Manufacturing Units

Location	Dosage form	Approvals
Formulation plants		
Athal (Silvassa)	Tablets & Capsules	UK-MHRA, TGA-Australia, MCC-South Africa, HPB Canada, WHO-Geneva
Ratlam (Madhya Pradesh)	Tablets, Liquids & Injectables	MCC-S.Africa
Kandla (Gujarat)	Betalactum – Tablets, Capsules & Dry Syrups.	UK-MHRA, MCC – South Africa,
Silvassa	Tablets & Capsules	UK -MHRA, US -FDA. TGA-Australia, HPB Canada
Dehradun(Uttaranchal)	Phase I – Tablets & Capsules, Phase II- Cephalosporin Injectables	WHO GMP
Indore (SEZ) (Madhya Pradesh)	Tablets & Capsules	US FDA approval awaited.
Sikkim	Tablets & Capsules	Under construction
Piparia	Tablets	UK -MHRA, US -FDA. TGA-Australia, HPB Canada
API plants		
Ratlam (Madhya Pradesh)	-	US – FDA ,TGA – Australia, EDQM, Danish Regulatory, Authority, PMDA- Japan, WHO-Geneva
Indore (Madhya Pradesh)	-	GMP
Aurangabad (Maharashtra)	-	GMP

Source: Company, India Infoline Research

## Financials

### Income statement

Y/e 31 Mar (Rs mn)	FY11	FY12E	FY13E	FY14E
Revenue	18,989	22,785	27,312	32,547
<b>Operating profit</b>	<b>3,756</b>	<b>4,785</b>	<b>5,954</b>	<b>7,291</b>
Depreciation	(558)	(592)	(710)	(846)
Interest expense	(314)	(381)	(398)	(406)
Other income	83	114	136	162
<b>Profit before tax</b>	<b>2,967</b>	<b>3,925</b>	<b>4,983</b>	<b>6,201</b>
Taxes	(789)	(942)	(1,196)	(1,488)
Minorities and other	(1)	(5)	(6)	(6)
<b>Adj. profit</b>	<b>2,177</b>	<b>2,978</b>	<b>3,781</b>	<b>4,707</b>
Exceptional items	434	-	-	-
<b>Net profit</b>	<b>2,612</b>	<b>2,978</b>	<b>3,781</b>	<b>4,707</b>

### Balance sheet

Y/e 31 Mar (Rs mn)	FY11	FY12E	FY13E	FY14E
Equity capital	252	252	252	252
Reserves	10,265	12,685	15,753	19,571
<b>Net worth</b>	<b>10,516</b>	<b>12,937</b>	<b>16,005</b>	<b>19,823</b>
Minority interest	(7)	(12)	(18)	(24)
Debt	5,308	5,972	6,625	6,759
Deferred tax liab (net)	807	807	807	807
<b>Total liabilities</b>	<b>16,625</b>	<b>19,704</b>	<b>23,420</b>	<b>27,366</b>
Fixed assets	8,104	9,280	11,056	12,748
Intangible assets	20	20	20	20
Investments	408	408	408	408
<b>Net working capital</b>	<b>7,989</b>	<b>9,810</b>	<b>11,762</b>	<b>14,020</b>
Inventories	4,664	5,582	6,691	7,974
Sundry debtors	4,637	5,595	6,710	7,999
Other current assets	1,182	1,709	2,048	2,441
Sundry creditors	(2,073)	(2,734)	(3,277)	(3,906)
Other current liabilities	(420)	(342)	(410)	(488)
Cash	104	185	174	169
<b>Total assets</b>	<b>16,625</b>	<b>19,704</b>	<b>23,420</b>	<b>27,366</b>

### Cash flow statement

Y/e 31 Mar (Rs mn)	FY11	FY12E	FY13E	FY14E
Profit before tax	2,967	3,925	4,983	6,201
Depreciation	558	592	710	846
Tax paid	(789)	(942)	(1,196)	(1,488)
Working capital	(1,203)	(1,819)	(1,953)	(2,258)
Operating cashflow	1,534	1,757	2,544	3,301
Capital expenditure	(1,920)	(1,769)	(2,485)	(2,539)
<b>Free cash flow</b>	<b>(387)</b>	<b>(12)</b>	<b>58</b>	<b>763</b>
Equity raised	(343)	-	-	-
Investments	(83)	-	-	-
Δ Debt	777	663	653	134
Dividends paid	(402)	(569)	(723)	(901)
Other items	433	-	-	-
<b>Net Δ in cash</b>	<b>(4)</b>	<b>82</b>	<b>(12)</b>	<b>(5)</b>

### Key ratios

Y/e 31 Mar	FY11	FY12E	FY13E	FY14E
<b>Growth matrix (%)</b>				
Revenue growth	21.2	20.0	19.9	19.2
Op profit growth	12.6	27.4	24.4	22.4
EBIT growth	13.4	31.2	24.9	22.8
Net profit growth	8.0	36.8	26.9	24.5
<b>Profitability ratios (%)</b>				
OPM	19.8	21.0	21.8	22.4
EBIT margin	17.3	18.9	19.7	20.3
Net profit margin	11.5	13.1	13.8	14.5
RoCE	21.4	23.7	25.0	26.0
RoNW	22.7	25.4	26.1	26.3
RoA	12.4	14.2	15.2	16.0

### Per share ratios

EPS	17.3	23.7	30.0	37.4
Dividend per share	2.7	4.0	5.2	6.6
Cash EPS	21.7	28.4	35.7	44.1
Book value per share	83.5	102.8	127.1	157.4

### Valuation ratios

P/E	19.4	14.2	11.2	9.0
P/CEPS	15.4	11.8	9.4	7.6
P/B	4.0	3.3	2.6	2.1
EV/EBIDTA	12.6	10.0	8.2	6.7

### Payout (%)

Dividend payout	18.5	19.1	19.1	19.1
Tax payout	26.6	24.0	24.0	24.0

### Liquidity ratios

Debtor days	89	90	90	90
Inventory days	90	89	89	89
Creditor days	40	44	44	44

### Leverage ratios

Interest coverage	10.4	11.3	13.5	16.3
Net debt / equity	0.5	0.4	0.4	0.3
Net debt / op. profit	1.4	1.2	1.1	0.9

### Du-Pont Analysis

Y/e 31 Mar	FY11	FY12E	FY13E	FY14E
Tax burden (x)	0.73	0.76	0.76	0.76
Interest burden (x)	0.90	0.91	0.93	0.94
EBIT margin (x)	0.17	0.19	0.20	0.20
Asset turnover (x)	1.08	1.09	1.09	1.11
Financial leverage (x)	1.84	1.79	1.72	1.64
<b>RoE (%)</b>	<b>22.7</b>	<b>25.4</b>	<b>26.1</b>	<b>26.3</b>



**In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.**

## 'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

## 'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

## Other awards



### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +10%

**Market Performer** – Absolute return between -10% to +10%

**Sell** – Absolute return below -10%

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