

IPCA Laboratories



DOLAT CAPITAL

CMP: ₹ 410

TP: ₹ 468

Accumulate

Topline above estimates with an operationally strong quarter. Forex losses restrict bottomline growth.

IPCA Labs' recorded better than expected revenue growth - up 19.7% YoY to ₹ 6.34bn. Growth was primarily driven by rebound in domestic formulation (up 18.6% YoY) and 58% growth in export API's (ramp-up in recently added capacities as well contribution from Tonira Pharma).

On the other hand, export formulations grew mere 9% YoY, restricted due to (1) "Track & Trace" issue & delay in artwork approval in the EU & Russia, (2) lagged US sales due to capacity constraints and (3) delayed shipment in the Institutional segment.

The Indore SEZ facility received FDA approval in July 2012 and will contribute to the topline by Q4FY13E (peak sales of USD 100mn). The company will apply for 8 ANDAs from the facility in FY13E, including 5-6 site transfer approvals.

The company also received approval for artesunate+amodiaquine - revenue contribution expected by Q4FY13E. The market size for the product is ₹ 1.5-2bn and no significant competition is envisaged for next two years.

EBITDA margins stood at 22.3% (up 450bps YoY) mainly due to lower staff costs at (down 130bps YoY) and other expenses (down 230bps YoY). Raw material costs too stood lower by 100bps YoY aided by favourable sales mix. About 300bps of the margin improvement was attributed to currency benefit.

The company has recorded forex loss of ₹ 589mn during the quarter (forex gain of ₹ 91mn - Q1FY12).

Reported PAT consequently de-grew by 30.5% YoY to ₹ 430mn.

The management has guided revenue growth in range of 17-20% for FY13E subject to recovery in anti-malarial segment. EBITDA margins are guided to improve by 225bps YoY aided by better sales mix, cost reduction in the API segment and higher export realizations.

Q1FY13 Result (₹ mn) - Standalone

Particulars	Q1FY13	Q1FY12	YoY%	Q4FY12	QoQ%
Net Sales	6303	5263	19.7	5531	13.9
Other Operational Income	42	36	-	80	-
Income from Operations	6344	5299	19.7	5611	13.1
Total Expenditure	4926	4356	13.1	4495	9.6
EBIDTA	1418	943	50.4	1117	27.0
OPM (%)	22.3%	17.8%	-	19.9%	-
Other Income	30	27	12.5	37	(19.2)
Depreciation & Amortization	199	154	29.3	142	40.3
EBIT	1248	815	53.2	1012	23.4
Interest	95	74	28.3	111	(14.5)
PBT	1153	741	55.7	900	28.1
Tax	135	215	(37.3)	186	(27.3)
Reported Profit After Tax (before EOI)	1018	526	93.7	715	42.5
Forex Items- loss/(gains)	589	-91	-	-51	-
Profit After Extra-ordinary item	430	617	(30.3)	766	(43.9)

Financials

Year	Net Sales#	% growth	EBIDTA	OPM%	PAT*	% growth	EPS(₹)*	% growth	PER (x)	ROANW%	ROACE%
FY11	18998	21.3	3741	19.7	2194	10.2	17.5	10.2	23.5	22.9	21.3
FY12	23587	24.2	5135	21.8	3298	50.3	26.1	49.8	15.7	28.6	25.4
FY13E	27969	18.6	6526	23.3	3984	20.8	31.5	20.5	13.0	28.1	27.0
FY14E	32441	16.0	7452	23.0	4557	14.4	36.0	14.4	11.4	25.6	26.0

Figures in ₹ mn; # Includes other operating income; * Excl. forex exceptional items.

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High Points

- Topline growth driven by domestic formulation and export APIs
- Indore SEZ plant receives FDA approval. Revenue contribution from Q4FY13
- Received approval for artesunate+amodiaquine.
- FY13E guidance of 17-20% revenue growth with 225bps YoY increase in EBITDA margins.
- View: We recommend 'Accumulate' with revised target price of ₹ 468

Scrip Details

Equity	₹ 252mn
Face Value	₹ 2/-
Market Cap	₹ 52bn
	USD 943mn
52 week High / Low	₹ 410 / 230
Avg. Volume (no)	196,762
BSE Sensex	17,257
NSE Nifty	5,240
Bloomberg Code	IPCA IN
Reuters Code	IPCA.BO



Key Highlights

- IPCA Labs' recorded better than expected revenue growth - up 19.7% YoY to ₹ 6.34bn. During the quarter the Formulations:API ratio stood at 71:29 compared to 75:25 in corresponding quarter last year.
- Domestic formulations witnessed a rebound and recorded healthy growth – up 18.6% YoY at ₹ 2.24bn. Growth was driven by strong performance in pain management (up 20%), cough & cold (up 30%) and CVS (up 14%).
- On the other hand, export formulations registered mere 9% growth YoY at ₹ 2.25bn. Growth was restricted due to (1) “Track & Trace” issue & delay in artwork approval in the EU & Russia, (2) lagged US sales due to capacity constraints and (3) delayed shipment in the Institutional segment. As a result, revenue from UK stood flat YoY at ₹ 590mn while US showed 13.2% YoY growth to ₹ 425mn. Institutional business recorded sales of ₹ 600mn, up 12.5%.
- Total API sales grew 39% YoY to ₹ 1.82bn led by (1) consolidation of Tonira API sales of ₹ 140mn (nil in Q1FY12) and (2) ramp-up in recently added facility.
- EBITDA margins stood at 22.3% (up 450bps YoY) mainly due to lower staff costs at 14.4% of sales (down 130bps YoY) and other expenses at 24.5% of sales (down 230bps YoY). Raw material costs too stood lower by 100bps YoY at 38.7% of sales aided by favourable sales mix. About 300bps of the margin improvement was attributed to currency benefit.
- Interest cost rose 28% YoY to ₹ 95mn, while depreciation shot up 29% YoY to ₹ 199mn.
- PBT (excluding fx items) stood better than expected growing by 55.7% to ₹ 1.15bn backed by a strong operational performance during the quarter.
- Tax rate (on PBT excluding forex items) stood lower at 11.7% (29% in Q1FY12).
- The company has recorded forex loss of ₹ 589mn during the quarter (forex gain of ₹ 91mn – Q1FY12).
- Reported PAT consequently de-grew by 30.5% YoY to ₹ 430mn.

Key takeaways from the Conference Call:

- The Indore SEZ facility received FDA approval in July 2012 and will contribute to the topline by Q4FY13E (peak sales of USD 100mn). The company will apply for 8 ANDAs from the facility in FY13E, including 5-6 site transfer approvals.
- Revenues of Tonira Pharma grew to ₹ 140mn in Q1FY13 from ₹ 80mn in Q1FY12.
- Of the ₹ 589mn of forex loss incurred, ₹ 238mn is pertaining to operations (₹ 208mn unrealized) and ₹ 351mn is towards liabilities (₹ 303mn unrealized).
- The company's hedging position includes forward covers of USD 81mn at an average rate of ₹ 49.1.
- Long term debt on book stands at ₹ 5.3bn which includes USD 60mn of ECB and ₹ 830mn of Rupee loan. Working capital stands at ₹ 1.5bn.
- Inventory days have decreased from 105 to 95 days. Procurement cost of Artemisinin has reduced from USD 675 in Q4FY12 to USD 530 (US\$400 in FY11). Receivable days stand at 75 down from average of 95 days.
- The company has filed 25 ANDAs (8 from Indore SEZ) of which 12 are approved and 8 are commercialized.

Guidance and outlook

- Guidance for growth in domestic formulations stands at 17-20% for FY13E. However, delayed monsoons have led to lower incidence of malaria and could restrict growth to 14-16%.
- Growth in US excluding the Indore SEZ plant is expected to be 10%, mainly aided by currency benefit.
- Institutional business is expected to garner ₹ 3.6bn in FY13E. The company has received approval for artesunate+amodiaquine and revenue contribution is expected by Q4FY13E. The market size for the product is ₹ 1.5-2bn and no significant competition is expected for next two years.
- Promotional business is expected to clock 25% growth for FY13E.
- The management had guided revenue growth in range of 17-20% for FY13E along with 225bps improvement in EBITDA margins led by better sales mix, cost reduction in the API segment and higher export realizations.
- Capex guidance for FY13E is ₹ 2.8bn towards (1) two upcoming API plants in Baroda, (2) one injectable facility, (3) one R&D centre and (4) maintenance.
- Tax guidance for FY13E is at 24%.

Revised Estimates

Particulars (In ₹ Mn)	Revised		Earlier		Chg %	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Net Sales	27,969	32,441	27,379	31,882	2.2	1.8
EBIDTA	6,526	7,452	6,073	7,023	7.5	6.1
EBITDAM%	23.3	23.0	22.2	22.0		
Adj.Net Profit	3,984	4,557	3,663	4,300	8.8	6.0

* Increased revenue contribution from Export API biz & factored in higher margins aided by favourable sales mix & currency benefits.

Valuation

IPCA's growth mantra revolves around creating a competitive position in formulations by leveraging on its API goldmine. We expect acceleration in export formulation revenues mainly led by the generics arm (US market in particular post FDA approval to its Indore site) and sustained growth in branded promotional markets. Healthy rebound in domestic formulation revenues hereon shall add to growth momentum.

We have increased our FY13E/14E EPS estimates by 8.8%/6.0% to reflect increased revenue contribution from Export API business and higher margins aided by favourable sales mix & currency benefits.

At CMP, the stock trades at 13x FY13E and 11.4x FY14E earnings. **We recommend 'Accumulate' on the stock with a revised target price of ₹ 468 (13x FY14E EPS).**

INCOME STATEMENT				
	₹ mn			
Particulars	Mar11	Mar12	Mar13E	Mar14E
Net Sales	18,835	23,140	27,569	32,091
Operating Income	163	448	400	350
Income from Operations	18,998	23,587	27,969	32,441
Other Income	84	120	100	100
Total Income	19,082	23,707	28,070	32,541
Total Expenditure	15,257	18,452	21,443	24,989
EBIDTA (Excl. Other Income)	3,741	5,135	6,526	7,452
EBIDTA (Incl. Other Income)	3,824	5,255	6,626	7,552
Interest	294	413	530	532
Gross Profit	3,530	4,842	6,096	7,020
Depreciation	558	671	855	1,022
Profit Before Tax	2,973	4,170	5,241	5,998
Tax	784	881	1,257	1,441
Net Profit	2,189	3,289	3,984	4,557
Share of associates	(5)	(9)	0	0
Adj.Net Profit	2,194	3,298	3,984	4,557
Forex Losses / (Gains)	(434)	527	0	0
Reported PAT	2,628	2,771	3,984	4,557

E-estimates

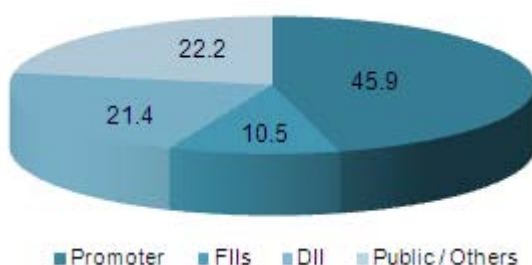
BALANCE SHEET

Particulars	Mar11	Mar12	Mar13E	Mar14E
Sources of Funds				
Equity Capital	251	252	253	253
Share Premium	424	436	436	436
Other Reserves	9,841	11,852	15,174	18,996
Net Worth	10,516	12,540	15,863	19,685
Secured Loans	4,271	5,038	5,063	4,813
Unsecured Loans	1,047	984	1,445	1,445
Loan Funds	5,318	6,022	6,508	6,258
Deferred Tax Liability	807	932	932	932
Minority Interest	(7)	0	0	0
Total Capital Employed	16,635	19,493	23,303	26,875

Applications of Funds

Gross Block	9,884	13,150	16,305	19,105
Less: Accumulated Depreciation	2,892	3,945	4,800	5,822
Net Block	6,992	9,205	11,505	13,283
Capital Work in Progress	1,132	1,155	800	800
Goodwill	0	236	236	236
Investments	408	341	341	341
Current Assets, Loans & Advances				
Inventories	4,664	6,699	7,176	8,440
Sundry Debtors	3,672	3,491	5,287	6,330
Cash and Bank Balance	104	122	144	129
Loans and Advances	2,146	2,025	2,125	2,225
<i>sub total</i>	10,586	12,337	14,732	17,124
Current Liabilities & Provisions				
Current Liabilities	2,063	3,403	3,809	4,369
Provisions	420	377	501	540
<i>sub total</i>	2,483	3,780	4,310	4,909
Net Current Assets	8,103	8,556	10,422	12,215
Total Assets	16,635	19,493	23,303	26,875

E-estimates

Shareholding Pattern as on June'12 (%)

CASH FLOW				
Particulars	Mar11	Mar12	Mar13E	Mar14E
Profit before tax	2,973	4,170	5,241	5,998
Depreciation & w.o.	558	671	855	1,022
Net Interest Exp	294	413	530	532
Direct taxes paid	(784)	(881)	(1,257)	(1,441)
Chg. in Working Capital	(1,213)	(435)	(1,843)	(1,809)
(A) CF from Opt. Activities	1,828	3,938	3,527	4,302
Capex	(1,821)	(3,289)	(2,800)	(2,800)
Free Cash Flow	7	649	727	1,502
Inc. / (Dec.) in Investments	(222)	0	0	0
(B) CF from Inv. Activities	(2,043)	(3,289)	(2,800)	(2,800)
Issue of Equity/ Preference	39	13	1	0
Inc. / (Dec.) in Debt	773	703	487	(250)
Interest exp net	(294)	(413)	(530)	(532)
Dividend Paid (Incl. Tax)	(468)	(468)	(662)	(735)
Other (Bal. fig.)	161	(466)	(0)	(0)
(C) CF from Fin. Activities	211	(631)	(705)	(1,517)
Net Change in Cash	(4)	18	22	(15)
Opening Cash balances	108	104	122	144
Closing Cash balances	104	122	144	129

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12	Mar13E	Mar14E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	19.7	21.8	23.3	23.0
EBIDTA Margin (incl. O.I.)	20.1	22.3	23.7	23.3
Interest / Sales	1.6	1.8	1.9	1.7
Gross Profit Margin	18.5	20.4	21.7	21.6
Tax/PBT	26.4	21.1	24.0	24.0
Net Profit Margin	11.5	14.0	14.2	14.0
(B) As Percentage of Net Sales				
Raw Material	40.9	38.7	38.2	38.8
Employee Expenses	14.0	14.2	13.7	13.2
Other Expenses	25.4	25.3	24.8	25.0
(C) Measures of Financial Status				
Debt / Equity (x)	0.5	0.5	0.4	0.3
Interest Coverage (x)	13.0	12.7	12.5	14.2
Average Cost Of Debt (%)	6.0	7.3	8.5	8.3
Debtors Period (days)	71	55	70	72
Closing stock (days)	90	106	95	96
Inventory Turnover Ratio (x)	4.0	3.5	3.8	3.8
Fixed Assets Turnover (x)	1.9	1.8	1.7	1.7
Working Capital Turnover (x)	2.3	2.7	2.6	2.6
Non Cash Work. Capital (₹ Mn)	7,999	8,435	10,278	12,087
(D) Measures of Investment				
EPS (₹) (excl EO)	17.5	26.1	31.5	36.0
EPS (₹)	20.9	22.0	31.5	36.0
CEPS (₹)	21.9	31.5	38.3	44.1
DPS (₹)	3.2	3.2	4.5	5.0
Dividend Payout (%)	15.3	14.6	14.3	13.9
Profit Ploughback (%)	84.7	85.4	85.7	86.1
Book Value (₹)	83.7	99.4	125.4	155.6
RoANW (%)	22.9	28.6	28.1	25.6
RoACE (%)	21.3	25.4	27.0	26.0
RoAIC (%) (Excl. Cash & Invest.)	21.5	25.5	27.1	26.2

(E) Valuation Ratios

CMP (₹)	410	410	410	410
P/E (x)	23.5	15.7	13.0	11.4
Market Cap. (₹ Mn)	51,537	51,722	51,854	51,854
MCap/ Sales (x)	2.7	2.2	1.9	1.6
EV (₹ Mn)	56,752	57,621	58,218	57,983
EV/Sales (x)	3.0	2.5	2.1	1.8
EV/EBDITA (x)	15.2	11.2	8.9	7.8
P/BV (x)	4.9	4.1	3.3	2.6
Dividend Yield (%)	0.8	0.8	1.1	1.2

E-estimates



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside of upto 5% or downside of upto 15%
SELL	Downside of more than 15%

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