

IPCA Laboratories


 DOLAT CAPITAL

CMP: ₹ 505

Target Price: ₹ 572

Accumulate

BSE Sensex	19363
NSE Nifty	5851

Scrip Details

Equity	₹ 252mn
Face Value	₹ 2/-
Market Cap	₹ 64bn
	USD 1202mn
52 week High / Low	₹ 551 / 320
Avg. Volume (no)	139,549
BSE Code	524494
NSE Symbol	IPCALAB
Bloomberg Code	IPCA IN
Reuters Code	IPCA.BO

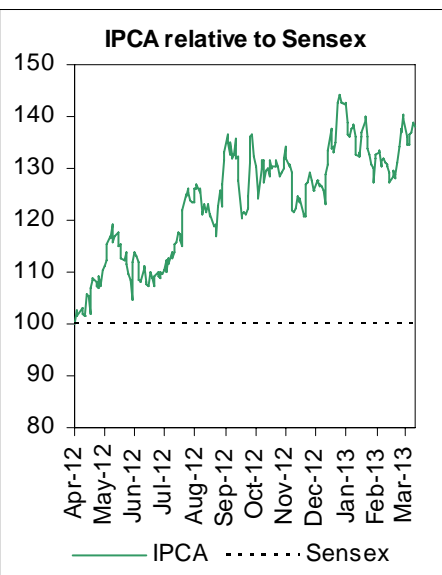
Shareholding Pattern as on Dec'12 (%)

Promoter	45.91
MF/Banks/FIs	17.61
FII's	18.11
Public / Others	18.37

IPCA has transformed itself from a leading API manufacturer to a fully integrated formulation company. We anticipate growth in its domestic franchise (16% CAGR over FY13-15E) to be mainly driven by key TA's - CVS & pain management. Notably, approx. 45-50% of the company's current product portfolio will come under coverage of the new pricing policy, which may restrict growth momentum.

On the other hand, we expect export formulations to register 20% growth over FY13-15E mainly driven by ramp up in its US generics biz and higher contribution from institutional based sales. We anticipate the Indore SEZ unit shall contribute revenue of ₹ 550mn in FY14E (assuming successful re-inspection in April'13) and ₹ 1.2bn in FY15E. The company has secured 4 product approvals so far and has 16-17 filings from the Indore unit. It anticipates Indore plant to deliver EBITDA margins in the range of 15-20% owing to backward integrated manufacturing efficiencies. Operating leverage benefits shall be fully reflected FY15E onwards. Delay in FDA nod to Indore unit poses a risk to estimates for FY14E.

The management is confident of achieving 18-20% growth during the year, while it expects on a continuing basis a moderate 16% growth in FY14E (assuming nil revenues from Indore unit). However, FY15E shall witness a healthy 18-20% growth rate with increased contribution from US generics (factoring in revenue from Indore facility).



Key takeaways from management interaction

Domestic formulation business: To sustain growth trajectory.

- Top 10 brands contribute 47% of sales and has registered growth in excess of 20% while the balance portfolio is growing +12% YoY. A third of the product portfolio is subject to seasonal climatic vagaries.
- The implementation of proposed pricing policy (simple average price of all having MS of $\geq 1\%$) will bring in 40-50% of its product portfolio under coverage against the earlier guidance of ₹ 2bn. Also, one of its key products Lariago (anti-malarial DPCO controlled) which grew by 2% will be out of the ambit of price control and will be subject to price hike linked to WPI (approx. - 8 to 9%).
- The management has field force strength of 3800MR's and reaches out to 2.5l doctors. It aims to further increase doctor penetration by another 1.5l in the years to come with insignificant addition to field force.
- Its key TA's - Pain, CVS shall continue to register healthy growth in subsequent quarters as well. Remains confident of 15-20% growth in domestic formulations.

Financials (Consolidated)

Year	Net Sales#	Growth-%	EBITDA	OPM%	Adj. PAT	Growth-%	Adj. EPS(₹)	Growth-%	PER(x)	ROANW-%	ROACE-%
FY12	23,587	24.2	5,135	21.8	3,298	50.3	26.1	49.8	19.3	28.6	25.4
FY13E	27,877	18.2	6,140	22.0	4,102	24.4	32.5	24.3	15.5	28.8	25.7
FY14E	32,886	18.0	7,313	22.2	4,612	12.4	36.5	12.4	13.8	25.8	26.1
FY15E	38,525	17.1	8,728	22.7	5,550	20.3	44.0	20.3	11.5	25.1	26.6

Includes other operating income, * Excl. forex exceptional items.

US Generics: Scale up potential in sight

- The Indore SEZ FDA re-inspection is due in mid-April'13. The management had come across falsification of documents made by a few employees (*related to ANDA applications which were consequently withdrawn*) and hence voluntarily took a step back and referred the same to FDA. Going forward post FDA nod, it shall take another six months to successfully commercialize operations at the unit. The management appears confident of unit going on stream by Oct'13.
- Can generate ₹ 4bn in sales at peak capacity (in three years of operations). So far only 5 acres of land of the 60 acres available has been utilized at the Indore site.
- We expect the Indore plant to contribute revenue of ₹ 550mn in FY14E & ₹1.2bn in FY15E respectively. Revenue contribution is subject to timely product approvals by the FDA. So far the company has received 4 approvals and expects another 2 by the year end.
- Commercialization of the unit and consequent sales to the US will accrue operating leverage benefits to be fully reflected in FY15E. It anticipates Indore plant to deliver EBITDA margins in the range of 15-20% owing to backward integrated manufacturing efficiencies.
- So far, a total of 35-36 ANDAs have been filed (16 approved) in US. Of them, 16-17 are from Indore SEZ with another 3-4 to be added from this facility this year. These filings are in the TA's of CVS, CNS & Pain management.

Institutional business: Headroom for growth

- Garnered 20-25% market share in the artemether+lumefantrine (AL) market. The company is currently addressing the child market in the AL compound which has lower realisation against the adult segment. It aims to garner ₹ 350mn from artesunate+amodiaquine supplies in FY14E.
- Currently, the commonly applied injectable anti-malarial is quinine which is highly toxic. IPCA is developing Artemesinin injectables as an alternative to quinine which has single player dominance today.

Europe: Non UK revenue growth at 30-35% albeit on low base.

- UK business is expected to de-grow by 10-15% (*issues at distributor level now resolved*) during the year while it expects to deliver 20% growth in FY14E. European business excluding UK is expected to grow by 25-30% due to low base effect; 3-4 new launches every year and increased geographical penetration.

Other Key highlights

On a broader scale, the guidance set out for all its segments is as follows:

- Domestic franchise is expected to grow by 15-20%
 - Export Branded business shall deliver 25-30% growth.
 - Export Generic (excl. institutional biz.) shall see 7-8% growth during the current year while it expects 15% growth in FY14E (excl. sales from Indore unit)
 - Export API segment to grow by 15-20%
 - India API business to witness 10% growth
- Russia and India business operates at 90% and 70% gross margins (27-28% EBITDA margins) while the Institutional generic business delivers 25-30% EBITDA margin.

- The company will incur capex of ₹ 2.5bn towards adding adding 2 API plants in Baroda (expected to be commercialized in Dec 2013), 1 injectables plant, 1 office and R&D centre. The company's current API capacity is running close to optimum level.

Revised Estimates

Particulars (₹ mn)	Revised*		Earlier		% Change	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Net Sales	32,886	38,525	33183	38437	-0.9%	0.2%
EBIDTA	7,313	8,728	7562	8727	-3.3%	0.0%
EBITDAM%	22.2	22.7	22.8	22.7		
Adj.Net Profit	4,612	5,550	4802	5550	-3.9%	0.0%

* Factored in higher other expenses (includes R&D outgo & ANDA filing charges) and delay in operating leverage benefits from Indore in FY14E

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.

We have lowered our FY14E EPS estimate by 4% to reflect a) lowered revenue contribution from Indore SEZ and postponement in operating leverage benefits to FY15E and b) increasing R&D spend.

Downside risks to our FY14E earning estimates includes: a) Any further delay in FDA approval to its Indore SEZ & b) Deceleration in domestic formulations business (45-50% portfolio coverage under NLEM).

At CMP, the stock trades at 13.8x FY14E and 11.5x FY15E earnings. **We recommend 'Accumulate' on the stock with target price of ₹ 572 (13x FY15E EPS).**

INCOME STATEMENT					CASH FLOW				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
Net Sales	23,140	27,381	32,336	38,025	Profit before tax	4,170	5,102	6,072	7,304
Operating Income	448	495	550	500	Depreciation & w.o.	671	866	1,027	1,172
Income from Operations	23,587	27,877	32,886	38,525	Net Interest Exp	413	368	415	402
Other income	120	196	200	150	Direct taxes paid	-881	-1,000	-1,460	-1,754
Total Income	23,707	28,073	33,086	38,675	Chg. in Working Capital	-435	-1,566	-1,901	-2,855
Total Expenditure	18,452	21,737	25,573	29,797	(A) CF from Opt. Activities	3,938	3,770	4,153	4,269
EBIDTA (Excl. Other Income)	5,135	6,140	7,313	8,728	Capex	-3,289	-2,800	-2,800	-2,800
EBIDTA (Incl. Other Income)	5,255	6,336	7,513	8,878	Free Cash Flow	649	970	1,353	1,469
Interest	413	368	415	402	(B) CF from Investing Activities	-3,289	-2,800	-2,800	-2,800
Gross Profit	4,842	5,968	7,098	8,476	Issue of Equity/ Preference	13	0	0	0
Depreciation	671	866	1,027	1,172	Inc./(Dec.) in Debt	703	87	-90	-100
Profit Before Tax & EO Items	4,170	5,102	6,072	7,304	Interest exp net	-413	-368	-415	-402
Profit Before Tax	4,170	5,102	6,072	7,304	Dividend Paid (Incl. Tax)	-468	-660	-807	-953
Tax	881	1,000	1,460	1,754	Other (Bal.fig)	-466	-0	-0	-0
Net Profit	3,289	4,102	4,612	5,550	(C) CF from Financing	-631	-941	-1,312	-1,455
Share of associates	-9	0	0	0	Net Change in Cash	18	29	41	14
Adj.Net Profit	3,298	4,102	4,612	5,550	Opening Cash balances	104	122	150	191
Forex Losses/(Gains)	527	0	0	0	Closing Cash balances	122	150	191	205
PAT	2,771	4,102	4,612	5,550	E-estimates				

BALANCE SHEET					IMPORTANT RATIOS				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
Sources of Funds					(A) Measures of Performance (%)				
Equity Capital	252	252	252	252	Contribution Margin				
Share Premium	436	436	436	436	EBIDTA Margin (excl. O.I.)	21.8	22.0	22.2	22.7
Other Reserves	11,852	15,293	19,099	23,696	EBIDTA Margin (incl. O.I.)	22.3	22.7	22.8	23.0
Net Worth	12,540	15,982	19,787	24,384	Interest / Sales	1.8	1.3	1.3	1.1
Secured Loans	5,038	5,063	4,963	4,813	Gross Profit Margin	20.4	21.3	21.5	21.9
Unsecured Loans	984	1,045	1,055	1,105	Tax/PBT	21.1	19.6	24.0	24.0
Loan Funds	6,022	6,108	6,018	5,918	Net Profit Margin	14.0	14.7	14.0	14.4
Deferred Tax Liability	932	932	932	932	(B) As Percentage of Net Sales				
Total Capital Employed	19,493	23,022	26,737	31,234	Raw Material	38.7	39.3	39.5	39.7
Applications of Funds					Employee Expenses	14.2	14.2	13.9	13.5
Gross Block	13,150	16,305	19,105	21,905	Other Expenses	25.3	24.4	24.3	24.1
Less: Accumulated Depreciation	3,945	4,811	5,837	7,009	(C) Measures of Financial Status				
Net Block	9,205	11,494	13,267	14,896	Debt / Equity (x)	0.5	0.4	0.3	0.2
Capital Work in Progress	1,155	800	800	800	Interest Coverage (x)	12.7	17.2	18.1	22.1
Goodwill	236	236	236	236	Average Cost Of Debt (%)	7.3	6.1	6.8	6.7
Investments	341	341	341	341	Debtors Period (days)	55	70	71	73
Current Assets, Loans & Advances					Closing stock (days)	106	93	94	97
Inventories	6,699	6,977	8,328	10,105	Inventory Turnover Ratio (x)	3.5	3.9	3.9	3.8
Sundry Debtors	3,491	5,251	6,290	7,605	Fixed Assets Turnover (x)	1.8	1.7	1.7	1.7
Cash and Bank Balance	122	150	191	205	Working Capital Turnover (x)	2.7	2.7	2.7	2.5
Loans and Advances	2,025	2,125	2,225	2,425	Non Cash Working Capital (₹ Mn)	8,435	10,001	11,901	14,756
Other Current Assets					(D) Measures of Investment				
sub total	12,337	14,503	17,035	20,341	EPS (₹) (excl EO)	26.1	32.5	36.5	44.0
Less : Current Liabilities & Provisions					EPS (₹)	22.0	32.5	36.5	44.0
Current Liabilities	3,403	3,852	4,402	4,693	CEPS (₹)	31.5	39.4	44.7	53.3
Provisions	377	500	540	686	DPS (₹)	3.2	4.5	5.5	6.5
sub total	3,780	4,352	4,942	5,379	Dividend Payout (%)	14.5	13.8	15.0	14.8
Net Current Assets	8,556	10,151	12,093	14,962	Profit Ploughback (%)	85.5	86.2	85.0	85.2
Total Assets	19,493	23,022	26,737	31,234	Book Value (₹)	99.4	126.6	156.8	193.2
E-estimates					RoANW (%)	28.6	28.8	25.8	25.1
					RoACE (%)	25.4	25.7	26.1	26.6
					RoAIC (%) (Excl Cash & Invest.)	25.5	25.9	26.3	26.8
					(E) Valuation Ratios				
					CMP (₹)	505	505	505	505
					P/E (x)	19.3	15.5	13.8	11.5
					Market Cap. (₹ Mn.)	63,706	63,731	63,731	63,731
					MCap/ Sales (x)	2.8	2.3	2.0	1.7
					EV (₹ Mn.)	69,606	69,689	69,557	69,443
					EV/Sales (x)	3.0	2.5	2.2	1.8
					EV/EBDITA(x)	13.6	11.3	9.5	8.0
					P/BV (x)	5.1	4.0	3.2	2.6
					Dividend Yield (%)	0.6	0.9	1.1	1.3
					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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