

Institutional Equities  
 India Research

# Ipca Labs

**RESULT REVIEW**

 Bloomberg: IPCA IN  
 Reuters: IPCA.BO

**SELL**

## Revenues Outperform, Margins Lower due to higher R & D

Revenues increased by 26.9%YoY to Rs8,056mn compared to Rs6,344mn in Q1FY13. Operating margins are down by 110bps to 21.2% as against 22.3% in Q1FY13 due to higher R & D expenses. Net Profit increased by 67%YoY to Rs718mn in Q1FY14 in line with our expectation of Rs 702mn.

**Revenue Details:** Ipca's Export formulation grew by 46.9% YoY to Rs.3300mn higher than our expectations of Rs2,945mn. However, Domestic formulation business increased by 12 % YoY to Rs2504mn in line with our expectation of Rs2511mn. In Exports formulations, Branded promotion revenues grew by 62%YoY to Rs730mn. Institutional business grew by 40%YoY to Rs839mn while Generic Business showed growth of 47%YoY to Rs1,730mn. In APIs, Exports increased by 17%YoY to Rs1,666mn while Domestic grew by 16%YoY to Rs456mn.

**Margins Contract:** Company's EBITDA Margins stood at 21.2% (our estimates 22.5%) in Q1FY14 lower than 22.3% reported in Q1FY13. Margins were lower on account of high material cost due to product-mix and higher R & D expenses due to clinical trials conducted for a 505(b)2 product. Company's net profit stood at Rs718mn in Q1FY14, in line with our estimate of Rs. 702mn.

**Outlook and Valuation:** We decrease our revenues by 0.4% to Rs34.7bn for FY14E and by 1 % to Rs 41.6 bn for FY 15E mainly on account of downgrade in Export API business. We marginally downgrade EBITDA margins but our EPS downgrade is 3.1 % for FY14E to Rs37.8 and by 1.1% for FY15E to Rs45.8. We reduce our price target by 1 % to Rs687 based on 15x FY15E. Due to limited upside (3%) we maintain our SELL recommendation on the stock.

**Key Financials**

Y/E Mar (Rs Mn)	FY11	FY12	FY13	FY14E	FY15E
Net sales	18,988	23,587	28,130	34,739	41,642
EBITDA	3,761	5,135	6,231	7,823	9,401
Net Profit	2,672	2,898	3,632	4,771	5,781
Reported Net Profit	2,658	2,762	3,260	4,771	5,781
EPS (Rs)	21.1	21.8	25.8	37.8	45.8
EPS growth (%)	30.7	3.3	18.3	46.4	21.2
EBITDA margin (%)	19.8	21.8	22.1	22.5	22.6
PER (x)	31.6	30.6	25.9	17.7	14.6
EV/EBITDA (x)	23.6	17.4	14.4	11.6	9.6
RoCE (x)	24.3	22.9	23.4	27.0	26.9
RoE (%)	27.9	25.1	25.9	27.2	26.2
P/S	4.4	3.6	3.0	2.4	2.0

Source: Company, Karvy Institutional Research

Indian GAAP Consolidated

**Recommendation**

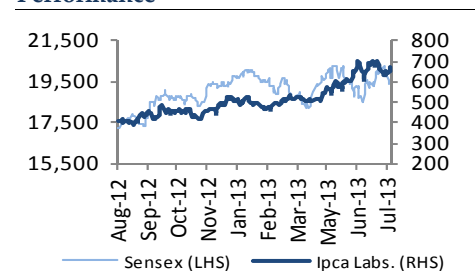
CMP:	Rs667
Target Price:	Rs687
Previous Target Price	Rs693
Upside (%)	3%

**Stock Information**

Market Cap. (Rs bn / US\$ mn)	84/1,381
52-week High/Low (Rs)	709/384
3m ADV (Rs mn /US\$ mn)	155/2.6
Beta	0.5
Sensex/ Nifty	19,346/5,742
Share outstanding (mn)	126

**Stock Performance (%)**

	1M	3M	12M	YTD
Absolute	1.8	31.2	66.4	28.6
Rel. to Sensex	2.0	32.3	48.3	29.1

**Performance**


Source: Bloomberg

**Earnings Revision**

(%)	FY14E	FY15E
Revenue	↓1.9	↓1.1
EBITDA	↓2.8	↓1.0
PAT	↓3.1	↓1.0

Source: Karvy Institutional Research

**Analysts Contact**

**Rahul Sharma**  
 022 - 6184 4310  
 rahul.sharma@karvy.com

**Amey Chalke**  
 022 - 6184 4325  
 amey.chalke@karvy.com

## Key Takeaways

- Ipca has 35 ANDA filings and 15 final approvals till date in US. However, it has commercialized 8 opportunities in the market.
- In Domestic market, Management is not expecting any price growth in FY14. The company had a price growth of 3 % last year.
- Management expects UK revenues to grow at 25%YoY for FY14.
- In the Institutional Generics business, company is not witnessing price undercutting with the entry of Strides. The company is a most backward integrated player in this space. Funding is not a constraint and is in place till December 2016.
- Company has witnessed lower growth in domestic Anti-malarial for Q1FY14 which they expect to get back to normal in later half of Q2FY14. The reports are very encouraging.
- The company's R & D cost for the quarter is to the tune of Rs 320 mn as against Rs 175 mn in the corresponding quarter of the previous year. This has also been on account of the clinical trials conducted for a 505(b)2 product.
- Filing for the 505(b) 2 product should happen in November 2013 and the product should see the light of the day in FY 2016E.
- Capex was to the tune of Rs470mn for Q1FY14. It is expected to be at Rs3000 mn for FY14.
- Total MR Strength is at 3800. Going Forward, Management does not expect any major recruitment. Focus will be on improving productivity.

### Exhibit 1: Quarterly Performance

Y/E Mar (Rs Mn)	Q1FY13	Q4FY13	Q1FY14	QoQ%	YoY%
Net Sales	6344	6717	8056	19.9	27.0
Cost	4926	5294	6345	19.9	28.8
EBITDA	1418	1423	1710	20.2	20.6
EBITDA Margin (%)	<b>22.3</b>	<b>21.2</b>	<b>21.2</b>		
Other Income	30	26	45	74.5	49.3
Interest	95	55	71	29.4	(25.0)
Forex Loss/(Gain)	589	(78)	480		
Depreciation	199	216	241	11.5	21.0
Profit before Tax	565	1255	963	(23.3)	70.4
Tax	135	501	245	(51.1)	81.5
Tax rate (%)	23.9	39.9	25.4		
<b>Net Profit</b>	<b>430</b>	<b>754</b>	<b>718</b>	<b>(4.8)</b>	<b>67.0</b>

Source: Company, Karvy Institutional Research

**Exhibit 2: changes in estimates**

Y/E Mar (Rs. Mn)	FY14E			FY15E			Comments
	New	Old	% change	New	Old	% change	
Domestic formulations	10,287	10,133	1.5	12,010	11,636	3.2	Upgrade in domestic formulations numbers in line with company guidance.
Export formulations	8,857	8,735	1.4	10,821	10,572	2.4	
Branded	3927	3,805	3.2	4798	4,649	3.2	Scale up in select prescription markets
Exports API	6,541	7,413	(11.8)	7,526	8,559	(12.1)	Downgrade in line with lower growth anticipated
Revenues	34,739	35,418	(1.9)	41,642	42,125	(1.1)	
Raw material	13,614	13,923	(2.2)	16,314	16,700	(2.3)	Better gross margins factored
Other expenses	8,529	8,841	(3.5)	10,221	10,512	(2.8)	Savings in expenses
EBITDA	7,823	8,051	(2.8)	9,401	9,499	(1.0)	
EBITDA margin (%)	22.5	22.7		22.6	22.6		Increased R & D to offset savings in expenses
Other income	173	145	19.1	314	285	10.1	
Interest charges	382	383	(0.2)	432	434	(0.4)	
Depreciation	1,014	1,046	(3.1)	1,170	1,190	(1.7)	
Net Profit	4,771	4,922	(3.1)	5,781	5,837	(1.0)	
EPS (Rs.)	37.8	39.0	(3.1)	45.8	46.2	(1.0)	

Source: Company, Karvy Institutional Research

## Financials

### Exhibit 3: Profit & Loss Statement

Y/E Mar (Rs Mn)	FY11	FY12	FY13	FY14E	FY15E
Net Domestic Form	8,403	8,973	10,226	11,732	13,455
Export Revenues	10,422	14,359	17,309	22,330	27,408
Operating Income	163	448	595	678	779
Net Revenues	18,988	23,587	28,130	34,739	41,642
% growth	21.2	24.2	19.3	23.5	19.9
Raw Material	7,764	9,131	10,966	13,614	16,314
Staff	2,663	3,355	3,918	4,773	5,707
Other expenses	4,800	5,966	7,015	8,529	10,221
Total Expenditure	15,227	18,452	21,899	26,916	32,241
EBITDA	3,761	5,135	6,231	7,823	9,401
EBITDA margin (%)	19.8	21.8	22.1	22.5	22.6
Other income	81	120	161	173	314
Interest expense	314	413	334	382	432
Extraordinary expense	-	-	-	-	-
Depreciation	558	671	867	1,014	1,170
Forex fluctuation net	(434)	527	631	-	-
Profit Before Tax	3,405	3,643	4,559	6,499	7,872
Tax	747	881	1,299	1,728	2,092
Effective tax rate %	21.9	24.2	28.5	26.6	26.6
Net Profit	2,658	2,762	3,260	4,771	5,781
EOI	(30)	7	3	-	-
Reported Net Profit	2,628	2,771	3,252	4,771	5,781

Source: Company, Karvy Institutional Research

**Exhibit 4: Balance sheet**

Y/E Mar (Rs Mn)	FY11	FY12	FY13	FY14E	FY15E
Equity	251	252	252	252	252
Reserves	10,265	12,288	15,285	19,348	24,287
Net worth	10,516	12,540	15,538	19,600	24,539
Deferred Tax Liability	807	932	1,304	1,304	1,304
Short-term Loans	2,639	2,014	1,571	1,944	2,332
Long-term Loans	2,670	3,313	4,599	5,059	5,565
Total Loans	5,308	5,326	6,170	7,003	7,897
Minority Interest	(7)	-	-	-	-
<b>Total Liabilities</b>	<b>16,625</b>	<b>18,798</b>	<b>23,012</b>	<b>27,907</b>	<b>33,740</b>
Gross Block	9,884	13,115	15,526	17,960	20,687
Depreciation	2,892	3,849	4,638	5,652	6,822
Net Block	6,992	9,266	10,888	12,308	13,865
Capital work-in-progress	1,132	885	1,210	1,776	2,049
Goodwill on Consolidation	-	236	236	236	236
Long-term Investments	408	341	90	90	90
Inventories	4,664	6,699	7,410	9,144	10,953
Debtors	4,637	3,491	4,178	5,168	6,201
Cash	104	122	582	979	2,362
Other Current assets	1,182	2,235	2,374	2,880	3,453
Total Current assets	10,586	12,547	14,545	18,171	22,969
Creditors	943	2,369	2,684	3,332	3,992
Other current liabilities	1,551	2,106	1,274	1,343	1,476
Total current liabilities	2,493	4,475	3,958	4,675	5,468
Net current assets	8,093	8,071	10,588	13,497	17,500
<b>Total Assets</b>	<b>16,625</b>	<b>18,798</b>	<b>23,012</b>	<b>27,907</b>	<b>33,740</b>

Source: Company, Karvy Institutional Research

**Exhibit 5: Cash Flow Statement**

Y/E Mar (Rs Mn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	3,203	4,464	5,363	6,808	8,230
Change in working capital	(1,203)	40	(2,056)	(2,513)	(2,621)
<b>Cash flow from operations</b>	<b>2,000</b>	<b>4,503</b>	<b>3,308</b>	<b>4,296</b>	<b>5,610</b>
Other income	81	120	161	173	314
Depreciation	558	671	867	1,014	1,170
Deferred tax liabilities	14	124	372	-	-
Interest paid (-)	(314)	(413)	(334)	(382)	(432)
Dividends paid(-)	(468)	(468)	(587)	(709)	(842)
Tax paid (-)	(747)	(961)	(1,308)	(1,728)	(2,092)
Forex gain/loss	(434)	527	631	-	-
Extraordinaries	(29)	7	3	-	-
<b>Net cash from operations</b>	<b>1,530</b>	<b>3,056</b>	<b>1,851</b>	<b>2,664</b>	<b>3,729</b>
Capital Expenditure	(1,920)	(2,698)	(2,815)	(3,000)	(3,000)
Goodwill on consolidation		(236)	-	-	-
<b>Free Cash Flow</b>	<b>(390)</b>	<b>122</b>	<b>(964)</b>	<b>(336)</b>	<b>729</b>
Change in short-term borrowing	293	(625)	(442)	372	388
Change in long-term borrowing	471	643	1,286	460	506
<b>Change in borrowings</b>	<b>764</b>	<b>18</b>	<b>844</b>	<b>832</b>	<b>894</b>
Change in Investments	(83)	67	251	-	-
Equity issue/buyback	(295)	(342)	348	-	-
Cash from Financial Activities	410	(246)	1,445	832	894
Others	(24)	142	(20)	(100)	(240)
Opening cash	108	104	122	582	979
Closing cash	104	122	582	979	2,362
Change in Cash	(4)	18	461	396	1,383

Source: Company, Karvy Institutional Research

**Exhibit 6: Ratios**

Y/E Mar (Rs Mn)	FY11	FY12	FY13	FY14E	FY15E
EV/EBDITA(x)	23.6	17.4	14.4	11.6	9.6
ROE (%)	27.9	25.1	25.9	27.2	26.2
ROCE (%)	24.3	22.9	23.4	27.0	26.9
P/BV(x)	8.0	6.7	5.4	4.3	3.4
P/S	4.4	3.6	3.0	2.4	2.0

Source: Company, Karvy Institutional Research

## Institutional Equities Team

Rangachari Muralikrishnan	Head – Institutional Equities / Research / Strategy	+91-22 61844301	muralikrishnan@karvy.com
K. Anant Rao	Head - Sales-Trading & Derivatives	+91-22 61844303	k.anantrao@karvy.com
Uday Raval	Karvy Inc. USA	+1 212 2674334	udayr@karvy.com
<b>INSTITUTIONAL RESEARCH</b>			
Analysts	Industry / Sector	Desk Phone	Email ID
Amey Chalke	Research Associate - Pharmaceuticals	+91 -22 61844325	amey.chalke@karvy.com
Ankur Lakhotia	Derivatives and Quant Associate	+91 -22 61844327	ankur.lakhotia@karvy.com
Hatim Broachwala, CFA	Banking	+91-22 61844329	hatim.broachwala@karvy.com
Kruti Shah, CFA	Economist	+91-22 61844320	kruti.shah@karvy.com
Manoj Kumar Manish	Derivatives and Quant Analyst	+91-22 61844343	manojkumar.m@karvy.com
Maruti Kadam	Research Associate	+91-22 61844326	maruti.kadam@karvy.com
Mitul Shah	Automobiles	+91-22 61844312	mitul.shah@karvy.com
Parikshit Kandpal	Infra / Real Estate / Strategy	+91-22 61844311	parikshit.kandpal@karvy.com
Rahul Sharma	Pharmaceuticals	+91-22 61844310	rahul.sharma@karvy.com
Rahul Singh	MidCap	+91-40-44857911	rahulsingh@karvy.com
Rajesh Kumar Ravi	Cement & Logistics	+91-22 61844313	rajesh.ravi@karvy.com
Rupesh Sankhe	Power/Capital Goods	+91-22 61844315	rupesh.sankhe@karvy.com
Sagar Shah	Media & Entertainment	+91 22 61844316	sagarshah@karvy.com
Varun Chakri	Research Associate	+91 22 61844326	varun.chakri@karvy.com
Vinay Nair	Oil & Gas	+91-22 61844319	vinaynair@karvy.com
<b>INSTITUTIONAL SALES</b>			
R. Sriram	Sales	+91-22 61844340	sriram.rangarajan@karvy.com
Shabbir Dahodwala	Sales (USA)	+1-212-2674334	shabbir@karvy.com
Tejash Gandhi	Sales	+91-22 61844345	tejash.gandhi@karvy.com
Celine Dsouza	Sales	+91-22 61844341	celine.dsouza@karvy.com
Edelbert Dcosta	Sales	+91-22 61844302	edelbert.dcosta@karvy.com
<b>INSTITUTIONAL SALES TRADING &amp; DEALING</b>			
Bhavesh Gandhi	Institutional Dealer	+91-22 61844368 /69	bhavesh.gandhi@karvy.com
Prashant Oza	Institutional Dealer	+91-22 61844370 /71	prashant.oza@karvy.com
Gurdarshan Singh Kharbanda	Sales Trader	+91-22-61844368 / 69	gurdarshansingh.k@karvy.com
<b>PRODUCTION</b>			
Asim Kumar Mohapatra	Editor	+91-22 61844318	asim.mohapatra@karvy.com
Vijayalaxmi L. Moolya	Production	+91-22 61844328	vijayalaxmi.m@karvy.com

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

---

For further enquiries please contact:

---

**research@karvy.com**

**Tel: +91-22-6184 4300**

## Disclosures Appendix

### Analyst certification

The following analyst(s), who is (are) primarily responsible for this report, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

### Disclaimer

The information and views presented in this report are prepared by Karvy Stock Broking Limited. The information contained herein is based on our analysis and upon sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither Karvy nor Karvy Stock Broking nor any person connected with any associate companies of Karvy accepts any liability arising from the use of this information and views mentioned in this document.

The author, directors and other employees of Karvy and its affiliates may hold long or short positions in the above mentioned companies from time to time. Every employee of Karvy and its associate companies are required to disclose their individual stock holdings and details of trades, if any, that they undertake. The team rendering corporate analysis and investment recommendations are restricted in purchasing/selling of shares or other securities till such a time this recommendation has either been displayed or has been forwarded to clients of Karvy. All employees are further restricted to place orders only through Karvy Stock Broking Ltd. This report is intended for a restricted audience and we are not soliciting any action based on it. Neither the information nor any opinion expressed herein constitutes an offer or an invitation to make an offer, to buy or sell any securities, or any options, futures nor other derivatives related to such securities.

## Karvy Stock Broking Limited

### Institutional Equities

Office No. 702, 7<sup>th</sup> Floor, Hallmark Business Plaza, Opp.-Gurunanak Hospital, Mumbai 400 051

Regd Off : 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034.

Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.