

# IPCA Laboratories


  
DOLAT CAPITAL

CMP: ₹ 444

Target Price: ₹ 487

Accumulate

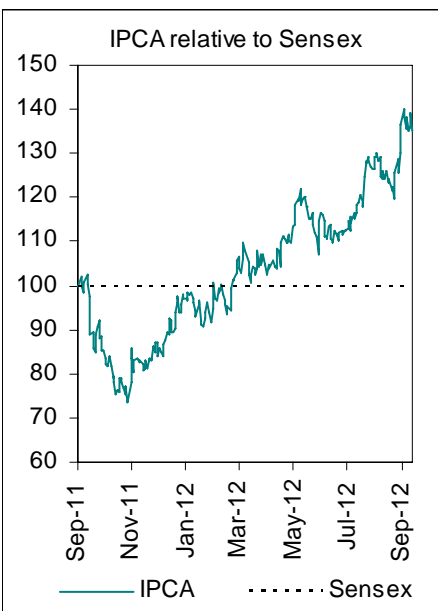
BSE Sensex	18,464
NSE Nifty	5,577

## Scrip Details

Equity	₹ 253mn
Face Value	₹ 2/-
Market Cap	₹ 56bn
	USD 1bn
52 week High / Low	₹ 470 / 230
Avg. Volume (no)	258524
BSE Code	524494
NSE Symbol	IPCALAB
Bloomberg Code	IPCA IN
Reuters Code	IPCA.BO

## Shareholding Pattern as on June'12 (%)

Promoter	45.91
MF/Banks/FIs	21.36
FII's	10.49
Public / Others	22.24



IPCA has transformed itself from a leading API manufacturer to a fully integrated formulation company. We anticipate domestic formulations to sustain growth trajectory from hereon (16% CAGR over FY12-14E) aided by growth in CVS & pain management. We expect export formulations to register 21% growth over FY12-14E mainly driven by increasing ramp up in its US generics biz and higher contribution from institutional based sales. The Indore SEZ will contribute revenue of ₹ 300-400mn in FY13E (all of it in Q4FY13E) and ₹ 1bn in FY14E. Approvals from the recently FDA approved Indore SEZ facility (approx 12-14 filings so far) is expected to kick in Oct-Nov'12 onwards. The management appears confident of US generics business to reach USD100mn by FY16E.

EBITDA margin guidance for the year is an improvement of 225bps YoY (150bps shall be forex benefit). The management re-iterates its long term growth strategy - doubling of revenues every four years.

## Key takeaways from management interaction

### Domestic formulation business: To sustain growth trajectory..

- Anti-malarial segment derives revenue from anti-falciparum and anti-vivax category products in roughly equal proportion. Brands such as Lumerax, Rapither are doing well.
- Field force productivity has come down from ₹ 3 lakhs per month sales per MR to ₹ 2.25 lakhs (lowest being 2 lakhs). The average cost per MR is ₹ 30k with potential business generation of ₹ 1Lakh. The management indicated that it will add an MR so long as he adds to the topline growth. Prefers revenue addition to field force productivity. The attrition rate stands comfortable at 18-20%.
- Uptick in sales growth was also on account of realignment of sales force to target specific TA's. For instance, a focused team has been allocated towards CVS and pain management segments. The benefit from this restructuring is expected to continue in subsequent quarters as well.
- The implementation of proposed pricing policy (format of ceiling price fixed at average of top 3 brands) shall not have a significant impact on topline.
- The company does not appear keen to enter into any marketing tie ups with MNC's as a growth strategy which most peers have adopted.
- Remains confident of 16-20% growth in domestic formulations. EBITDA margin is in the range of 24-25% for this vertical.

## Financials

Year	Net Sales#	Growth-%	EBITDA	OPM%	Adj. PAT	Growth-%	Adj. EPS(₹)	Growth-%	PER(x)	ROANW-%	ROACE-%
FY11	18,998	21.3	3,741	19.7	2,194	10.2	17.5	10.2	25.4	22.9	21.3
FY12	23,587	24.2	5,135	21.8	3,298	50.3	26.1	49.8	17.0	28.6	25.4
FY13E	27,969	18.6	6,526	23.3	3,984	20.8	31.5	20.5	14.1	28.1	27.0
FY14E	32,706	16.9	7,692	23.5	4,739	18.9	37.5	18.9	11.8	26.5	26.9

Figure in ₹ mn, # Includes Other Operating Income

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September 14, 2012

### US Generics: Scale up potential in sight

- Despite being a late entrant in the US, the company is confident of garnering at least 20% market share (witnessed earlier with launches through Ranbaxy) owing to backward integrated manufacturing capabilities.
- Entered into a profit-sharing agreement with Ranbaxy for marketing most of its products in US. The agreement is valid for 5 years from the launch of a product. Under the agreement, the company will share 10% sales and 50% of profit with Ranbaxy.
- IPCA enjoys as low as 20% and as high as 70% market share in the products it manufactures and sells. This is due to its fully integrated capabilities.
- So far, a total of 25 ANDAs have been filed (12 approved) in US. Of them, 7-8 are from Indore SEZ and another 5 will be filed from the facility this year, taking the total to 12-13 products. Approvals are expected to start from Oct 2012.
- Besides, the company has also applied for 5-6 site transfers, which will be approved in Feb 2013.
- The Indore SEZ will contribute revenue of ₹ 300-400mn in FY13E (all of it in Q4FY13E) and ₹ 1bn in FY14E. Revenue contribution is subject to timely product approvals by the FDA.
- Can generate ₹ 4bn in sales at peak capacity with all 12-13 products approved by FY16E. Total US sales is expected to reach USD 100mn in FY16E.
- Only 7 acres of land of the 60 acres available has been utilized at the Indore site. Total investment till date has been ₹ 1.6bn.
- Commercialization of the unit and consequent sales to the US will accrue operating leverage benefits to be reflected FY14E onwards.

### Institutional business: Headroom for growth

- Garnered 20% market share in the artemether+lumafantrine market. Will garner ₹ 500-600mn from artesunate+amodiaquine in FY13E and overall ₹ 4 - 4.25bn from the institutional business in FY14E.
- Has started developing artemisinin (raw material for anti-malarials) in-house to enable timely availability. Current production is taking care of domestic supply.
- Currently, the commonly applied injectable anti-malarial is quinine which is highly toxic. IPCA is developing artemisinin 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 grow by 12-15%. European business excluding UK is expected to grow by 30% due to low base effect, 3-4 new launches every year and increased geographical penetration.

### Other Key highlights

- 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.
- The company has an objective of doubling its topline every four years.
- Hedges only 9 months of its net exports. Imports constitute an insignificant proportion of their raw material cost. 2/3rds of the long term borrowing is forex denominated. Outstanding hedges stand at USD 70mn.

### Revised Estimates

Particulars (In ₹ Mn)	Revised		Earlier		Chg %	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Income from Operations	27,969	32,706	27,969	32,441	0.0%	0.8%
EBIDTA (Ex Other Income)	6,526	7,692	6,526	7,452	0.0%	3.2%
EBITDAM%	23.3	23.5	23.3	23.0		
Adj.Net Profit	3,984	4,739	3,984	4,557	0.0%	4.0%

*\* Factored in higher profit margins aided by favourable sales mix & operating leverage benefits from Indore SEZ.*

### 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 FY14E EPS estimate by 4% to reflect higher profit margins aided by favourable sales mix & operating leverage benefits from Indore SEZ.

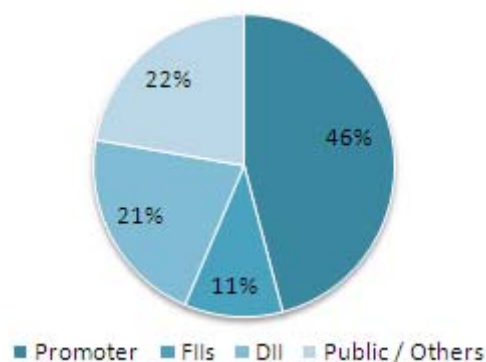
At CMP, the stock trades at 14.1x FY13E and 11.8x FY14E earnings. **We recommend 'Accumulate' on the stock with a revised target price of ₹ 487 (13x FY14E EPS).**

INCOME STATEMENT		₹ mn			
Particulars	Mar11	Mar12	Mar13E	Mar14E	
<b>Net Sales</b>	<b>18,835</b>	<b>23,140</b>	<b>27,569</b>	<b>32,356</b>	
Operating Income	163	448	400	350	
<b>Income from Operations</b>	<b>18,998</b>	<b>23,587</b>	<b>27,969</b>	<b>32,706</b>	
Other income	84	120	100	100	
Total Income	19,082	23,707	28,070	32,806	
Total Expenditure	15,257	18,452	21,443	25,015	
<b>EBIDTA (Excl. Other Income)</b>	<b>3,741</b>	<b>5,135</b>	<b>6,526</b>	<b>7,692</b>	
<b>EBIDTA (Incl. Other Income)</b>	<b>3,824</b>	<b>5,255</b>	<b>6,626</b>	<b>7,792</b>	
Interest	294	413	530	532	
<b>Gross Profit</b>	<b>3,530</b>	<b>4,842</b>	<b>6,096</b>	<b>7,260</b>	
Depreciation	558	671	855	1,022	
Profit Before Tax & EO Items	2,973	4,170	5,241	6,238	
Profit Before Tax	2,973	4,170	5,241	6,238	
Tax	784	881	1,257	1,499	
Net Profit	2,189	3,289	3,984	4,739	
Share of associates	(5)	(9)	0	0	
<b>Adj.Net Profit</b>	<b>2,194</b>	<b>3,298</b>	<b>3,984</b>	<b>4,739</b>	
Forex Losses/(Gains)	(434)	527	0	0	
<b>PAT</b>	<b>2,628</b>	<b>2,771</b>	<b>3,984</b>	<b>4,739</b>	

**BALANCE SHEET**

Particulars	Mar11	Mar12	Mar13E	Mar14E
<b>Sources of Funds</b>				
Equity Capital	251	252	253	253
Share Premium	424	436	436	436
Other Reserves	9,841	11,852	15,174	19,178
<b>Net Worth</b>	<b>10,516</b>	<b>12,540</b>	<b>15,863</b>	<b>19,867</b>
Secured Loans	4,271	5,038	5,063	4,813
Unsecured Loans	1,047	984	1,445	1,445
<b>Loan Funds</b>	<b>5,318</b>	<b>6,022</b>	<b>6,508</b>	<b>6,258</b>
Deferred Tax Liability	807	932	932	932
Minority Interest	(7)	0	0	0
<b>Total Capital Employed</b>	<b>16,635</b>	<b>19,493</b>	<b>23,303</b>	<b>27,057</b>
<b>Applications of Funds</b>				
Gross Block	9,884	13,150	16,305	19,105
Less: Accumulated Depreciation	2,892	3,945	4,800	5,822
<b>Net Block</b>	<b>6,992</b>	<b>9,205</b>	<b>11,505</b>	<b>13,283</b>
Capital Work in Progress	1,132	1,155	800	800
Goodwill	0	236	236	236
<b>Investments</b>	<b>408</b>	<b>341</b>	<b>341</b>	<b>341</b>
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	4,664	6,699	7,176	8,510
Sundry Debtors	3,672	3,491	5,287	6,383
Cash and Bank Balance	104	122	144	190
Loans and Advances	2,146	2,025	2,125	2,225
Other Current Assets				
<i>sub total</i>	10,586	12,337	14,732	17,308
<b>Less : Current Liabilities &amp; Provisions</b>				
Current Liabilities	2,063	3,403	3,809	4,370
Provisions	420	377	501	540
<i>sub total</i>	2,483	3,780	4,310	4,910
Net Current Assets	8,103	8,556	10,422	12,398
<b>Total Assets</b>	<b>16,635</b>	<b>19,493</b>	<b>23,303</b>	<b>27,057</b>

E-estimates

**Shareholding Pattern as on June'12 (%)**


CASH FLOW		₹ mn			
Particulars	Mar11	Mar12	Mar13E	Mar14E	
<b>Profit before tax</b>	<b>2,973</b>	<b>4,170</b>	<b>5,241</b>	<b>6,238</b>	
Depreciation & w.o.	558	671	855	1,022	
Net Interest Exp	294	413	530	532	
Direct taxes paid	(784)	(881)	(1,257)	(1,499)	
Chg. in Working Capital	(1,213)	(435)	(1,843)	(1,930)	
<b>(A) CF from Opt. Activities</b>	<b>1,828</b>	<b>3,938</b>	<b>3,527</b>	<b>4,363</b>	
Capex	(1,821)	(3,289)	(2,800)	(2,800)	
Free Cash Flow	7	649	727	1,563	
Inc./ (Dec.) in Investments	(222)	0	0	0	
<b>(B) CF from Invnt. Activities</b>	<b>(2,043)</b>	<b>(3,289)</b>	<b>(2,800)</b>	<b>(2,800)</b>	
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)	
<b>(C) Cash Flow from Financing</b>	<b>211</b>	<b>(631)</b>	<b>(705)</b>	<b>(1,517)</b>	
Net Change in Cash	(4)	18	22	46	
<b>Opening Cash balances</b>	<b>108</b>	<b>104</b>	<b>122</b>	<b>144</b>	
<b>Closing Cash balances</b>	<b>104</b>	<b>122</b>	<b>144</b>	<b>190</b>	

E-estimates

**IMPORTANT RATIOS**

Particulars	Mar11	Mar12	Mar13E	Mar14E
<b>(A) Measures of Performance (%)</b>				
EBIDTA Margin (excl. O.I.)	19.7	21.8	23.3	23.5
EBIDTA Margin (incl. O.I.)	20.1	22.3	23.7	23.8
Interest / Sales	1.6	1.8	1.9	1.6
Gross Profit Margin	18.5	20.4	21.7	22.1
Tax/PBT	26.4	21.1	24.0	24.0
Net Profit Margin	11.5	14.0	14.2	14.5

**(B) As Percentage of Net Sales**

Particulars	Mar11	Mar12	Mar13E	Mar14E
Raw Material	40.9	38.7	38.2	38.5
Employee Expenses	14.0	14.2	13.7	13.2
Other Expenses	25.4	25.3	24.8	24.8

**(C) Measures of Financial Status**

Particulars	Mar11	Mar12	Mar13E	Mar14E
Debt / Equity (x)	0.5	0.5	0.4	0.3
Interest Coverage (x)	13.0	12.7	12.5	14.6
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 Working Capital (₹ Mn)	7,999	8,435	10,278	12,208

**(D) Measures of Investment**

Particulars	Mar11	Mar12	Mar13E	Mar14E
EPS (₹) (excl EO)	17.5	26.1	31.5	37.5
EPS (₹)	20.9	22.0	31.5	37.5
CEPS (₹)	21.9	31.5	38.3	45.5
DPS (₹)	3.2	3.2	4.5	5.0
Dividend Payout (%)	15.3	14.6	14.3	13.3
Profit Ploughback (%)	84.7	85.4	85.7	86.7
Book Value (₹)	83.7	99.4	125.4	157.1
RoANW (%)	22.9	28.6	28.1	26.5
RoACE (%)	21.3	25.4	27.0	26.9
RoAIC (%) (Excl Cash & Invest.)	21.5	25.5	27.1	27.1

**(E) Valuation Ratios**

Particulars	Mar11	Mar12	Mar13E	Mar14E
CMP (₹)	444	444	444	444
P/E (x)	25.4	17.0	14.1	11.8
Market Cap. (₹ Mn)	55,811	56,011	56,154	56,154
MCap/ Sales (x)	3.0	2.4	2.0	1.7
EV (₹ Mn)	61,026	61,911	62,518	62,223
EV/Sales (x)	3.2	2.7	2.3	1.9
EV/EBDITA(x)	16.3	12.1	9.6	8.1
P/BV (x)	5.3	4.5	3.5	2.8
Dividend Yield (%)	0.7	0.7	1.0	1.1

E-estimates



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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