

IPCA Laboratories

CMP: ₹ 725
TP: ₹ 648
Reduce

High Points

- Domestic formulations to rebound in FY15E, on account of resolution of trade dispute
- Revenue guidance of 12% and operating margins of 24% for FY15E
- View: We recommend 'Reduce' with a revised target price of ₹ 648

IPCA Labs' recorded revenue growth of 17.1% YoY to ₹ 9.3bn, driven by healthy growth in export formulations.

Domestic formulations reported growth of 11.7% YoY at ₹ 2.9bn. Going forward, expects to grow in the range of 16-17% for FY15E.

Export formulations registered robust growth of 17.5% YoY at ₹ 3.9bn, led by generic biz. excl. institutional biz. Institutional generic sales stood at ₹ 1.14bn in Q1FY15. US & Canada biz. reported a growth of 14.2% in Q1FY15 to ₹ 570.2mn. However, Europe biz. declined by 10.6% to ₹ 773.1mn, on account of some modifications done to packaging line at Athal facility (supply to European market) and production is expected to start from Sept'14.

API biz. reported a growth of 16.5% YoY at ₹ 2.5bn incl. 40.6% YoY growth in domestic API and 9.9% YoY growth in export API.

Operating margins were up by 344bps to 24.7%. This was mainly on account of higher export biz.

R&D expenses during Q1FY15 stood at 3.0% of sales at ₹ 270mn.

PBT for quarter grew 34.2% YoY to ₹ 1.9bn. Tax rate stood at 26.0% against 17.0% in Q1FY14. Consequently, adjusted PAT grew 19.6% YoY to ₹ 1.4bn.

Scrip Details

Equity	₹ 252mn
Face Value	₹ 2/-
Market Cap	₹ 92bn
	USD 1.5bn
52 week High / Low	₹ 906 / 581
Avg. Volume (no)	433,071
BSE Sensex	25,481
NSE Nifty	7,603
Bloomberg Code	IPCA.IN
Reuters Code	IPCA.BO

Q1FY15 Result (₹ mn)

Particulars - Standalone	Q1FY15	Q1FY14	YoY%	Q4FY14	QoQ%
Net Sales	9282	7925	17.1%	7398	25.5%
Other Operational Income	78	130		98	
Income from Operations	9360	8056	16.2%	7496	24.9%
Total Expenditure	7050	6345	11.1%	5673	24.3%
EBIDTA	2309	1710	35.0%	1823	26.6%
OPM (%)	24.7%	21.2%	344	24.3%	35
Other Income	63	45	41.3%	62	1.0%
EBITDA (including Other Income)	2372	1755	35.2%	1886	25.8%
Depreciation & Amortization	379	241	57.2%	260	45.9%
EBIT	1993	1514	31.7%	1626	22.6%
Interest	57	71	-19.8%	63	-8.9%
PBT	1936	1442	34.2%	1563	23.8%
Tax	504	245	105.5%	375	34.4%
Adjusted PAT	1432	1197	19.6%	1188	20.5%
Forex Items- loss/(gains)	-23	480		-182	
Reported PAT	1455	718	102.7%	1370	6.2%

Financials

Year	Net Sales#	% growth	EBIDTA	OPM%	PAT*	% growth	EPS(₹)*	% growth	PER (x)	ROANW%	ROACE%
FY13	28,131	19.3	6,232	22.2	3,867	17.3	30.6	17.2	23.7	27.5	26.5
FY14	32,818	16.7	8,106	24.7	5,508	42.4	43.6	42.4	16.6	31.4	30.7
FY15E	36,144	10.1	8,641	23.9	5,624	2.1	44.6	2.1	16.3	25.6	27.7
FY16E	43,198	19.5	10,373	24.0	6,814	21.2	54.0	21.2	13.4	25.0	28.6

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

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Key takeaways from the Conference Call:**Guidance for FY15E:**

- The company has given revenue guidance of 12% and EBITDA margin guidance of 24% (Rupee-Dollar remaining same)
- **Capex-** ₹ 5.0bn of which ₹ 1.5bn would be spent on the Indore SEZ facility (doubling the capacity over a period of next 18 months), ₹ 1.2bn on maintenance capex and ₹ 2.3bn on new facility.
- **Domestic formulations:** The company has taken a price increase of 6.3% in non-price control drugs which would compensate for price decline in NLEM portfolio
- **US market:** Top 4 products contribute 75% of US sales.
- The institutional segment contributed ₹ 1.1bn in Q1FY15 and expects this biz. to generate ₹ 4.8bn revenues by FY15E.
- Ipca labs has received Form 483 with six observations for Ratlam facility (API facility), post the facility's inspection by USFDA. We believe, this development will impact current API production/supplies from the facility and there would be earnings impact.

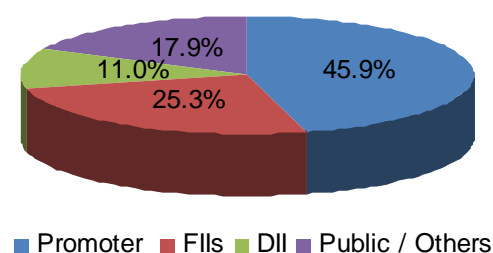
Valuation

We believe the inspection observation will be an overhang on the stock price in the near term given the uncertainty regarding the timelines for resolution. Even though the stock would appear to be cheap, we expect the stock to languish in the near term since the Ratlam API facility is critical for Ipca as it is the sole plant catering to the US market.

At CMP, the stock trades at 16.3x FY15E & 13.4x FY16E earnings. **We downgrade to 'Reduce' with a revised target price of ₹ 648 (12x FY16E EPS).**

INCOME STATEMENT		₹ mn			
Particulars	Mar13	Mar14	Mar15E	Mar16E	
Net Sales	27,537	31,994	35,309	42,348	
Operating Income	595	823	835	850	
Income from Operations	28,131	32,818	36,144	43,198	
Other income	143	223	225	230	
Total Income	28,274	33,040	36,369	43,428	
Total Expenditure	21,899	24,712	27,503	32,825	
EBIDTA (Excl. Other Income)	6,232	8,106	8,641	10,373	
EBIDTA (Incl. Other Income)	6,375	8,328	8,866	10,603	
Interest	334	269	262	257	
Gross Profit	6,041	8,059	8,605	10,346	
Depreciation	867	1,031	1,253	1,403	
Profit Before Tax & EO Items	5,174	7,028	7,351	8,943	
Profit Before Tax	5,174	7,028	7,351	8,943	
Tax	1,299	1,524	1,727	2,128	
Net Profit	3,875	5,504	5,624	6,814	
Share of associates	8	(3)	0	0	
Adj.Net Profit	3,867	5,508	5,624	6,814	
Forex Losses/(Gains)	631	722	0	0	
PAT	3,236	4,785	5,624	6,814	

BALANCE SHEET					
Particulars	Mar13	Mar14	Mar15E	Mar16E	
Sources of Funds					
Equity Capital	252	252	252	252	
Share Premium	436	436	436	436	
Other Reserves	14,849	18,908	23,646	29,575	
Net Worth	15,538	19,597	24,335	30,264	
Secured Loans	3,662	2,940	2,740	2,540	
Unsecured Loans	1,571	1,439	889	589	
Loan Funds	5,234	4,379	3,629	3,129	
Deferred Tax Liability	1,304	1,471	1,471	1,471	
Total Capital Employed	22,075	25,447	29,435	34,864	
Applications of Funds					
Gross Block	15,218	18,586	22,872	26,472	
Less: Accumulated Depreciation	4,638	5,606	6,860	8,263	
Net Block	10,580	12,980	16,013	18,209	
Capital Work in Progress	1,210	1,486	800	800	
Goodwill	236	236	236	236	
Investments	90	92	92	92	
Current Assets, Loans & Advances					
Inventories	7,410	8,476	8,706	10,442	
Sundry Debtors	4,178	4,495	4,353	5,221	
Cash and Bank Balance	582	763	2,740	3,788	
Loans and Advances	2,375	3,093	3,293	3,493	
Other Current Assets					
<i>sub total</i>	14,545	16,827	19,092	22,944	
Less : Current Liabilities & Provisions					
Current Liabilities	4,351	5,950	6,049	6,522	
Provisions	544	706	748	896	
<i>sub total</i>	4,894	6,656	6,797	7,417	
Net Current Assets	9,651	10,171	12,295	15,527	
Total Assets	22,075	25,447	29,435	34,864	

Shareholding Pattern as on June'14 (%)


CASH FLOW					
Particulars	Mar13	Mar14	Mar15E	Mar16E	
Profit before tax	5,174	7,028	7,351	8,943	
Depreciation & w.o.	867	1,031	1,253	1,403	
Net Interest Exp	334	269	262	257	
Direct taxes paid	(1,299)	(1,524)	(1,727)	(2,128)	
Chg. in Working Capital	(634)	(339)	(148)	(2,183)	
(A) CF from Opet. Activities	4,442	6,465	6,991	6,292	
Capex	(2,123)	(3,645)	(3,600)	(3,600)	
Free Cash Flow	2,319	2,821	3,391	2,692	
(B) CF from Invt. Activities	(2,123)	(3,644)	(3,600)	(3,600)	
Inc./(Dec.) in Debt	(788)	(854)	(750)	(500)	
Interest exp net	(334)	(269)	(262)	(257)	
Dividend Paid (Incl. Tax)	(589)	(738)	(886)	(886)	
Other (Bal.fig)	(148)	(779)	483	(0)	
(C) CF from Financing	(1,858)	(2,640)	(1,415)	(1,644)	
Net Change in Cash	461	180	1,977	1,048	
Opening Cash balances	122	582	763	2,740	
Closing Cash balances	582	763	2,740	3,788	

IMPORTANT RATIOS					
Particulars	Mar13	Mar14	Mar15E	Mar16E	
(A) Measures of Performance (%)					
Contribution Margin					
EBIDTA Margin (excl. O.I.)	22.2	24.7	23.9	24.0	
EBIDTA Margin (incl. O.I.)	22.7	25.4	24.5	24.5	
Interest / Sales	1.2	0.8	0.7	0.6	
Gross Profit Margin	21.4	24.4	23.7	23.8	
Tax/PBT	25.1	21.7	23.5	23.8	
Net Profit Margin	13.7	16.8	15.6	15.8	
(B) As Percentage of Net Sales					
Raw Material	39.0	34.6	36.0	35.7	
Employee Expenses	13.9	15.2	15.0	15.3	
Other Expenses	24.9	25.5	25.0	25.1	
(C) Measures of Financial Status					
Debt / Equity (x)	0.3	0.2	0.1	0.1	
Interest Coverage (x)	19.1	31.0	33.9	41.2	
Average Cost Of Debt (%)	5.9	5.6	6.5	7.6	
Debtors Period (days)	55	51	45	45	
Closing stock (days)	98	97	90	90	
Inventory Turnover Ratio (x)	3.7	3.8	4.1	4.1	
Fixed Assets Turnover (x)	1.8	1.7	1.5	1.6	
Working Capital Turnover (x)	2.9	3.1	2.9	2.7	
Non Cash Working Capital (₹ Mn)	9,069	9,408	9,556	11,739	
(D) Measures of Investment					
EPS (₹) (excl EO)	30.6	43.6	44.6	54.0	
EPS (₹)	25.6	37.9	44.6	54.0	
CEPS (₹)	37.5	51.8	54.5	65.1	
DPS (₹)	4.0	5.0	6.0	6.0	
Dividend Payout (%)	15.6	13.2	13.5	11.1	
Profit Ploughback (%)	84.4	86.8	86.5	88.9	
Book Value (₹)	123.1	155.3	192.8	239.8	
RoANW (%)	27.5	31.4	25.6	25.0	
RoACE (%)	26.5	30.7	27.7	28.6	
RoAIC (%) (Excl Cash & Invest.)	27.0	31.6	29.6	31.8	
(E) Valuation Ratios					
CMP (₹)	725	725	725	725	
P/E (x)	23.7	16.6	16.3	13.4	
Market Cap. (₹ Mn.)	91,495	91,495	91,495	91,495	
MCap/ Sales (x)	3.3	2.9	2.6	2.2	
EV (₹ Mn.)	96,146	95,112	92,385	90,836	
EV/Sales (x)	3.5	3.0	2.6	2.1	
EV/EBDITA (x)	15.4	11.7	10.7	8.8	
P/BV (x)	5.9	4.7	3.8	3.0	
Dividend Yield (%)	0.6	0.7	0.8	0.8	

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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