



Company Name	: IPCA LABORATORIES
BSE Code	: 524494
Time Duration	: 1 year
CMP	: ₹952.25 (as on 11 July, 2019)
Target Price	: ₹1133

Our Value Pick for the month of July 2019 is Ipca Laboratories pharmaceutical company manufacturing active pharmaceutical ingredients (APIs), branded formulation and generic drugs. It is a fully integrated Indian pharmaceutical company manufacturing more than 350 formulations and 80 APIs for various therapeutic segments. The company is a therapy leader in India for anti-malarials with a market-share of over 34 per cent with a fast-growing presence in the international market as well. It has leading brands in five therapeutic areas, with three of its branded formulations being ranked among the top-300 Indian brands by ORG-IMS. Its international client list includes global pharmaceutical giants like AstraZeneca, GlaxoSmithKline, Merck, Roche and Sanofi Aventis; most of these have been partnering with Ipca over the years.

Ipca has emerged as one of India's top exporters of APIs with nearly 25 per cent of the revenue coming from APIs. Regulated markets like the USA, Canada, Europe and Australia account for 75 per cent of company's API exports. The company's formulations basket includes generics for the developed markets and branded formulations for the emerging markets. Formulations account for 67 per cent of export revenue, making Ipca one of India's largest formulation exporters. It manufactures over 350 formulations in virtually every dosage form: oral solids and liquids, dry powders for suspension and injectables (liquid and dry).

Removal of overhang of USFDA to spur growth of Ipca significantly

During FY19, the company incurred USFDA related remedial cost of Rs. 49 crore and the management has guided Rs 18 crore in FY20E. Ipca has submitted responses to all queries of USFDA related to all its three sites, with no queries pending currently. Most of the data related work required from FDA perspective is over; hence from Q2FY19, remedial costs of Rs. 50-60 crore will come down significantly. If plants are clear and import alert is lifted, Ipca can immediately launch approved ANDAs without any delay. A successful outcome of the inspection would be the key

to resolving regulatory issues.

Export business to boost overall revenue growth

Earlier, Ipca's UK generics business was impacted significantly due to the regulator's imposition against Ipca's major customer. The regulatory hurdle at the distributor's end is now resolved. Therefore, the revenue from the export business is expected to witness uptick in the coming quarters. Further, Ipca has been re-selected as the panel supplier for anti-malarial medicines to the global fund pooled procurement mechanism and for private sector co-payment mechanisms for an initial period of three years in FY19. Owing to these, the revenue visibility for export business is getting better and this should reflect in the ongoing financial year. The company plans to launch only 3-5 products in the domestic formulations annually and continue to focus on brand building.

Tailwinds in API business augur well for the company

The main global suppliers of APIs are Chinese players and the supply disruption due to environmental issues in China and regulatory issues for peers has led to the enormous opportunity for players like Ipca to gain momentum in the API business. At present, the API business accounts for nearly 25 per cent of the total revenue. The company imports only the basic building blocks from China and then manufactures intermediates; some of the industry players import even intermediates, which makes IPCA one of the lowest cost producers. Going forward, better pricing environment and increased volume offtake is likely to aid API performance.

Financial performance

Despite the overhang of the USFDA issue, the company has managed to report healthy performance. In the last concluded quarter, the company reported net sales growth of 6.7 per cent yoy to Rs. 833.8 crore. This was aided by 10 per cent yoy increase in domestic formulation to Rs. 355.70 crore. EBITDA

Continued On PG 2...

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer**: The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSIJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations. Disclosure : Kindly refer to the detailed disclosures as per SEBI (investment advisors) regulations, 2013 placed at www.DSIJ.in

DSIJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsij.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

DSIJ INVESTMENT ADVISORY UNIT (CRU)

during the quarter surged almost 61 per cent yoy to Rs. 174.7 crore, with corresponding margin expansion of 704 bps. EBITDA margin for the quarter stood at 20.95 per cent. This strong operational performance has led to significant jump of 113.4 per cent in net profit to Rs. 109.5 crore from corresponding quarter of the previous year. In terms of full year 2018-19, the net sales grew by nearly 14 per cent to Rs. 3633.2 crore, while the net profit almost doubled to Rs. 454.9 crore in FY19 from Rs. 233.11 crore in FY18.

Valuation and outlook

The robust growth in the domestic formulations business, coupled with enormous opportunities in the API space and additional business from the institutional anti-malaria segment, provides significant revenue growth in the years to come. The company's return ratios, ROE and ROCE, stand at 8.83 per cent and 9.33 per cent, respectively. The stock of Ipca Lab is presently available at attractive P/E multiple of 27.03x as compared to its five-year median P/E multiple of 36.7x. Thus, we recommend a BUY on the stock with a target of Rs. 1133, representing 19 per cent upside.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	3633.15	3193.40	3102.21	2843.06	3087.84
Total Income	3687.74	3251.10	3158.73	2889.33	3146.49
Total Expenditure	2939.98	2766.48	2703.54	2585.54	2582.48
PBIDT	747.76	484.62	455.19	303.79	564.01
PAT	454.91	233.11	188.29	92.52	256.11
Dividend %	150.00	50.00	50.00		50.00
Adj. EPS(Rs)	36.00	18.47	14.92	7.33	20.29

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201903	201812	Q on Q Var%	201803	Y on Y Var%
Net Sales	833.81	947.59	-12.01	781.56	6.69
Total Expenditure	659.14	715.89	-7.93	672.86	-2.04
PBIDT (Excl OI)	174.67	231.70	-24.61	108.70	60.69
PAT	109.47	160.18	-31.66	51.31	113.35
PBIDTM% (Excl OI)	20.95	24.45	-14.31	13.91	50.61
PBIDTM%	22.70	25.78	-11.95	15.52	46.26
PATM%	13.13	16.90	-22.31	6.57	99.85
Adj. EPS(Rs)	8.66	12.68	-31.70	4.07	112.78

Stock vs. Index



**Track calls using our new investor app