

**POSITIONAL CALL - IPCA LABORATORIES LIMITED**

**CMP 692**

**TARGET 860**

*Dated : 28<sup>th</sup> Sept. 2018*

**BUY**

Price ₹	692
Target Price	860
Upside	24%
Div Yield	0.14%
Sensex	36324.17
Nifty	10977.55
Group/Index	A / S&P BSE 500

**Stock Details**

M.cap (₹ in cr)	8741
Equity (₹ In cr)	25.27
52 wk H/L ₹	822.80/444
Face Value ₹	2.00
NSE code	IPCALAB
BSE code	524494

IN ₹ Crores

**Results Update**

Particulars	Q1 FY 19	Q1 FY 18	% Change
Revenue	853.93	713.42	19.70
EBITDA	127.64	27.70	360.79
PBT	78.22	(21.22)	(468.61)
PAT	65.52	(20.25)	(423.56)
EPS	<b>5.19</b>	<b>(1.60)</b>	(423.56)

IN ₹ Crores

**Financial Highlights**

Particulars	FY 2018	FY 2017	% Change
Revenue	3219.21	3158.22	1.93
EBITDA	481.18	452.54	6.33
PBT	282.80	258.20	9.53
PAT	233.11	188.29	23.80
EPS	<b>18.45</b>	<b>14.90</b>	23.80

**Investment Rationale**

*IPCA is fully integrated pharmaceutical company with strong thrust on exports which now accounts for 44% of company's income.*

*Going forward, remain positive on IPCA on the back of the gradual revival in revenue growth and the stronger improvement in the margin led by lower remediation cost and a pick-up in the tender and US businesses.*

IPCA's key therapies in DF increased significantly during the quarter on a low base of past year. Its largest portfolio of Pain increased by 41% YoY, cardiac and anti-diabetic increased by 45% YoY and anti-bacterial has grown significantly by 83% YoY. Moreover, **DF remains on track to achieve 13-14% growth in FY19 on low base of FY18, incremental sales from new molecules and higher traction in existing molecules.**

Generic business contracted 15% YoY, primarily due to the absence of US sales and a marginal decline in the UK and flat growth in other regions. However, **IPCA has guided for 6-8% YoY growth in this business.**

Within branded segment, all geographies witnessed healthy growth during the quarter. **However, Russia sales were lower on account of lower dispatch. IPCA believes growth in Russia will be normalizing in FY19 on constant currency basis.**

**Anti-malaria business to revive in FY19**

Though Global Fund has completed the process of selection for supplying anti-malaria medicines, it is yet to award orders. However, ex-Global Fund, stable business continues. Further, **IPCA expects tender business to resume from Q2 onwards with overall revenue pegged at ₹ 1.8 - 2 Bn in FY19, up from ₹1.5 Bn in FY18 on the back of addition of molecules and incremental business from Global Fund.**

**Looking forward to USFDA inspection**

On the USFDA front, company has submitted request for reinspection of its 3 plants with at least one request having been submitted at least a year back **The most likely scenario is that even if a few plants are re-inspected, revenues from US geography unlikely to accrue at least till FY 20.**

Company has **completed remediation measures** to resolve import alert/warning letter issued by USFDA. One task in the remediation measure recommended by US FDA was to do data review of the past batches at all its facilities. **IPCA has completed the study at Silvasa and submitted to USFDA recently. IPCA is expected to complete similar study at Pithampur and Ratlam by Q3 FY19.**

**Key Highlights**

- o 13-14% growth for domestic market and 10% for Australia business in FY19
- o Guided for more than 200 bps improvement in margins for FY19
- o US ANDA filings were at 32 of which 28 are pending for approvals
- o Company has a low return on equity of 6.96% for last 3 years.
- o Company might be capitalizing the interest cost

*Indian pharma industry is expected to outperform the global pharma industry and grow over 10% per annum in next couple of years to a size of about US \$ 55 billion by 2020 thereby emerging as one of the top 10 pharmaceutical market globally by absolute size. Indian pharmaceutical export which was about US \$ 16 billion in 2017 is expected to reach a size of about US \$ 20 billion by 2020.*

*Management is confident of achieving its guidance of more than 200 bps margins improvement in FY19 & 13-14% growth in domestic formulations. On the exports front, despite a delay in Global Funds tender business, the overall institutional tender business expectation remains upbeat. Overall, things are looking much stable in coming years both on revenues and margins front. Therefore, we recommend to BUY.*



*Share price Chart has been taken for a period of past 1 year. There is a strong support at the levels of ₹ 656 with resistance of ₹ 748 in short term. If stock breaks the levels of ₹748, then may reach at level of ₹797 & further reach to 52W/H @850-860 in medium term.*

**Disclosures & Disclaimers**

**Disclosures :**

**1) Business Activity :**

Rudra Shares & Stock Brokers Limited is engaged in the business of providing broking services & distribution of various financial products. RUDRA is also registered as a Research Analyst under SEBI(Research Analyst) Regulations, 2014. SEBI Reg. No. INH100002524.

**2) Disciplinary History :**

There has been no instance of any Disciplinary action, penalty etc. levied/passed by any regulation/administrative agencies against RUDRA and its Directors. Pursuant to SEBI inspection of books and records of Rudra, as a Stock Broker, SEBI has not issued any Administrative warning to Rudra.

**3) Terms & Conditions of issuance of Research Report:**

The Research report is issued to the registered clients. The Research Report is based on the facts, figures and information that are considered true, correct and reliable. The information is obtained from publicly available media or other sources believed to be reliable. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation to buy or sell or subscribe for securities or other financial instruments for clients.

**4) Disclosures with regard to ownership and material conflicts of interest :**

<u>Sr. No.</u>	<u>Disclosures</u>	<u>Yes/No</u>
a)	Rudra or its research analysts, or his/her relative or associate has any direct or indirect financial interest in the subject company.	No
b)	Rudra or its research analysts, or his/her relative or associate has any other material conflict of interest at time of publication of the research report.	No
c)	Rudra or its research analysts, or his/her relative or associates have actual/beneficial ownership of one per cent or more securities of the subject company.	No

**5) Disclosures with regard to receipt of compensation :**

<u>Sr. No.</u>	<u>Disclosures</u>	<u>Yes/No</u>
a)	Rudra or its associates have received any compensation from the subject company in the past twelve months.	No
b)	Rudra or its associates have managed or co-managed public offering of securities for the subject in the past twelve months.	No
c)	Rudra or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report .	No

**6) Other Disclosures:**

<u>Sr. No.</u>	<u>Disclosures</u>	<u>Yes/No</u>
a)	The research analyst has served as an officer,director,employee of the subject company.	No
b)	Rudra or its research analyst has been engaged in market making activity for the subject company.	No
c)	Rudra or its or associates have received any compensation from the subject company in the past twelve months.	No

**Disclaimers:**

This Research Report (hereinafter called report) has been prepared and presented by **RUDRA SHARES & STOCK BROKERS LIMITED**, which does not constitute any offer or advice to sell or does solicitation to buy any securities. The information presented in this report, are for the intended recipients only. Further, the intended recipients are advised to exercise restraint in placing any dependence on this report, as the sender, Rudra Shares & Stock Brokers Limited, neither guarantees the accuracy of any information contained herein nor assumes any responsibility in relation to losses arising from the errors of fact, opinion or the dependence placed on the same.

Despite the information in this document has been previewed on the basis of publicly available information, internal data , personal views of the research analyst(s)and other reliable sources, believed to be true, we do not represent it as accurate, complete or exhaustive. It should not be relied on as such, as this document is for general guidance only. Besides this, the research analyst(s) are bound by stringent internal regulations and legal and statutory requirements of the Securities and Exchange Board of India( SEBI) and the analysts' compensation was, is, or will be not directly or indirectly related with the other companies and/or entities of Rudra Shares & Stock Brokers Ltd and have no bearing whatsoever on any recommendation, that they have given in the research report. Rudra Shares & Stock Brokers Ltd or any of its affiliates/group companies shall not be in any way responsible for any such loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Rudra Shares & Stock Brokers Ltd has not independently verified all the information, which has been obtained by the company for analysis purpose, from publicly available media or other sources believed to be reliable. Accordingly, we neither testify nor make any representation or warranty, express or implied, of the accuracy, contents or data contained within this document. Rudra Share & Stock Brokers Ltd and its affiliates are engaged in investment advisory, stock broking, retail & HNI and other financial services. Details of affiliates are available on our website i.e. [www.rudrashares.com](http://www.rudrashares.com).

We hereby declare, that the information herein may change any time due to the volatile market conditions, therefore, it is advised to use own discretion and judgment while entering into any transactions, whatsoever.

Individuals employed as research analyst by Rudra Shares & Stock Brokers Ltd or their associates are not allowed to deal or trade in securities, within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, we and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or profits.