

IPCA Laboratories

BUY

CMP Rs1,942

Target Rs2,750

Upside 41.6%

Q3 FY21 call highlights

- ✓ Robust margin guidance of 25-26% implies OPM crosses previous all time high, a result of improved profitability and cost savings
- ✓ Solid revenue visibility in domestic market with leadership brand in pain management to potentially double in 5-6 years
- ✓ Cost normalisation built in FY22 but sustainable growth and robust margins of 31-32% on incremental revenues give comfort unavailable at US focused peers
- ✓ IPCA remains a top BUY based on unchanged target PE of 28x, at a slight premium to historical top end of range on a well oiled domestic business, lack of volatility in export markets and underrated API business which has scope for further scalability

Guidance

- ✓ Confident of maintaining margins at 25-26%
- ✓ Capex to be around Rs 3-3.5 bn for FY22.
- ✓ India business to grow by 12-13% in FY22; There will some cost saved due to lower medical conferences.
- ✓ **Branded business** - see 10% growth in FY21. Confident of good growth in 4Q in this segment.

Other highlights

- ✓ **Domestic business** - Pain and & Cardio business has shown good growth in the quarter. CMS, derma, ophthalmology has turned positive growth. Anti-malaria, cold and cough segment has continued to see de-growth
- ✓ **Margins** - Higher material and freight has impacted the margins. temporary phase as certain intermediaries were not available from China. The company expect things to normalize from 1Q FY22.
- ✓ **Sartans** - price reduction due to significant reduction in raw material prices and the company has passed on the benefit; currently prices stable
- ✓ **Branded promotion business**- CIS (Russia) was impacted due to COVID-19 due to lower offtake, in the current quarter the company has lowered the shipment due to COVID-19 and expect 4QFY21 to be normal.
- ✓ **Capex**- Setting up API plant at Ratlam; commissioning will start by March and commercial ops by Q2 FY22; will add 10% capacity
- ✓ By 2Q FY22, Devas plant should be ready for commissioning and by 4Q FY22 should be ready operational; to add 25% of capacity
- ✓ **Aurangabad plant** - delay due to covid-19 and the plant is commissioned now; company will look to set up another plant in FY22
- ✓ **API** - Largely it is helped by Covid-19 in current year
- ✓ Have Rs 3.6 bn MAT credit and will use Rs1 bn in FY21 and Rs1.6 bn in FY22E of the remaining MAT credit and balance will be used in FY23E.

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Exhibit 1: Results summary

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3FY20	% yoy
Revenues	14,098	13,611	3.6	12,129	16.2
RM + inventory changes	(4,178)	(3,847)	8.6	(3,271)	27.7
Purchase of goods	(976)	(579)	68.5	(967)	1.0
Staff	(2,451)	(2,545)	(3.7)	(2,313)	6.0
Other expenses	(2,824)	(3,037)	(7.0)	(2,841)	(0.6)
Operating profit	3,669	3,602	1.9	2,737	34.1
OPM (%)	26.0	26.5	-44 bps	22.6	346 bps
Depreciation	(535)	(521)	2.7	(508)	5.3
Interest	(23)	(23)	(0.9)	(40)	(42.9)
Other income	154	155	(0.5)	181	(15.2)
PBT	3,265	3,212	1.6	2,370	37.8
Tax	(567)	(526)	7.9	(369)	53.8
Effective tax rate (%)	17.5	16.5	102 bps	15.7	176 bps
PAT	2,698	2,686	0.4	2,001	34.8
PAT margin (%)	19.1	19.7	-60 bps	16.5	264 bps
Minority/Associate	(22)	(19)		(25)	
PAT	2,676	2,667	0.3	1,975	35.4

Exhibit 2: Cost analysis

As a % of net sales	Q3 FY21	Q2 FY21	bps qoq	Q3FY20	bps yoy
RM + inventory changes	29.6	28.3	136	27.0	266
Purchase of goods	6.9	4.3	267	8.0	(105)
Staff	17.4	18.7	(132)	19.1	(169)
Other expenses	20.0	22.3	(228)	23.4	(339)
Total costs	74.0	73.5	44	77.4	(346)
Gross profit Rs mn	8,944	9,184	(2.6)	7,891	13.4
GM (%)	63.4	67.5	(403)	65.1	(161)

Exhibit 3: Financial summary

Financial summary	FY19	FY20E	FY21E	FY22E	FY23E
Revenues	37,732	46,487	54,399	60,823	68,367
yoy growth (%)	17.2	23.2	17.0	11.8	12.4
Operating profit	6,919	9,067	15,245	15,277	17,777
OPM (%)	18.3	19.5	28.0	25.1	26.0
Reported PAT	4,422	6,036	11,187	11,055	12,933
yoy growth (%)	89.7	36.5	85.3	(1.2)	17.0
EPS (Rs)	35.0	47.8	88.5	87.5	102.4
P/E (x)	55.5	40.7	21.9	22.2	19.0
P/BV (x)	7.9	6.8	5.3	4.3	3.5
EV/EBITDA (x)	35.2	26.8	15.5	15.0	12.3
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
ROE (%)	15.3	18.1	27.0	21.3	20.5
ROCE (%)	17.2	20.2	29.2	23.6	22.8

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