

CMP: ₹ 1590

Target: ₹ 1910(20%)

Target Period: 12 months

BUY

November 22, 2024

Unichem integration working; focus on synergies...

About the stock: Ipca Laboratories is an integrated pharmaceutical company which manufactures and market over 350 formulations and 80 API's across various therapeutic segments. The Company has 18 manufacturing units in India producing API's and formulations.

- Top 3 therapeutic segments which include pain management, cardiovascular and anti-infectives, together account for 59% of domestic revenues (IQVIA MAT Sep 24)
- Revenue break-up Q2FY25 – Formulations: 62% (domestic: 39%, export: 23% - export generic: 12%, export institutional: 5%, export branded: 6%), API: 13% (export API: 9%, domestic API: 4%), subsidiaries: 23%

Investment Rationale:

- Q2FY25- Domestic formulations and Unichem drive sales; margins still muted - Revenues grew ~16% YoY to ₹ 2355 crore driven by domestic formulations growth and Unichem integration. Domestic formulations grew 11% YoY to ₹ 873 crore, driven strong traction in pain management. Institutional exports grew 85% to ₹ 112 crore while generic exports grew 8% to ₹ 287 crore. Branded exports on the other hand de-grew 2% to ₹ 143 crore and so did total APIs which de-grew ~5% to ₹ 319 crore. EBITDA grew 37% YoY to ₹ 442 crore while EBITDA margins improved 295 bps to 18.7% driven by 110 bps GPM improvement (67.8%) and lower growth in total expenses. PAT grew 58% YoY to ₹ 230 crore.
- Focus shifts to margin expansion with Unichem improvement, domestic momentum -Acquisition of Unichem Labs was met with lots of scepticisms for Ipca for changing an otherwise smooth business model of linear growth and firm EBITDA margins. Cut Q2FY25 and things are looking normal. Marked improvement in Unichem's EBITDA profile (from 6% to 12%) has brought lot of comfort on that front. Going ahead, we expect full impact of synergy especially on the US front to trickle down on numbers. The synergy can be in the form of common API sourcing or using Ipca's own API source or using Unichem's front-end to sale combined portfolio in the US. There will be product rationalisation as well. Although the EBIDTA margins (continue to languish below 20% level, we expect synergy benefits and continuing momentum from the legacy domestic formulations and export formulations to lead margin expansion. With Ipca's own USFDA focused plants out of USFDA embargo, we expect better capacity utilisation and hence better operating leverage. We change our neutral stance encouraged by the progress and future guidance by the management.

Rating and Target price

- Our target price is ₹ 1910 based on 23x FY26E EBITDA of ₹ 2050.9.

Key Financial Summary

Key Financials (₹ crore)	FY22	FY23	FY24	2 year CAGR (FY22-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Revenues	5829.8	6243.5	7707.4	15.0	8838.6	9786.8	12.7
EBITDA	1309.2	925.9	1282.1	-1.0	1727.8	2050.9	26.5
EBITDA Margins (%)	22.5	14.8	16.6		19.5	21.0	
Net Profit	884.1	470.5	547.4	-21.3	935.4	1163.0	45.8
EPS (₹)	34.8	18.5	21.6		36.8	45.8	
PE (x)	44.7	84.0	72.2		42.2	34.0	
EV to EBITDA (x)	30.0	42.5	31.3		23.1	18.7	
RoNW (%)	16.1	8.1	9.3		14.0	15.1	
RoCE (%)	17.4	10.3	11.0		14.6	15.9	

Source: Company, ICICI Direct Research



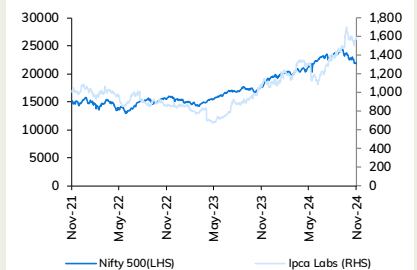
Particulars

Particular	Amount
Market Capitalisation	₹ 40386 crore
Debt (FY24)	₹ 1438 crore
Cash (FY24)	₹ 209 crore
EV	₹ 41615 crore
52 week H/L (₹)	1708/1041
Equity capital	₹ 25 crore
Face value	₹ 1 crore

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	46.3	46.3	46.3	46.3
FII	10.3	10.5	10.9	10.8
DII	34.2	34.1	33.5	33.9
Others	9.3	9.2	9.4	9.0

Price Chart



Key risks

- Slower ramp up in new launches especially in the US.
- Regulatory issues which keep on emerging.

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Exhibit 1: Quarterly Summary

₹ Crore	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Net Sales	1544.4	1430.5	1289.1	1585.7	1600.1	1546.0	1511.6	1587.6	2034.0	2052.9	2033.0	2092.6	2354.9	15.8	12.5
Raw Material Expenses	544.4	498.6	426.2	578.7	574.8	561.8	591.2	515.3	677.6	697.0	685.9	643.5	758.6	12.0	17.9
% of Revenue	35.2	34.9	33.1	36.5	35.9	36.3	39.1	32.5	33.3	34.0	33.7	30.8	32.2	-110bps	146bps
Gross Profit	1000.0	931.9	862.9	1007.0	1025.3	984.2	920.5	1072.3	1356.4	1355.9	1347.1	1449.1	1596.3	17.7	10.2
GPM (%)	64.8	65.1	66.9	63.5	64.1	63.7	60.9	67.5	66.7	66.0	66.3	69.2	67.8	110bps	-146bps
Employee Expenses	296.4	283.7	297.7	322.7	319.2	318.4	327.3	357.5	425.9	459.0	466.0	487.9	509.8	19.7	4.5
% of Revenue	19.2	19.8	23.1	20.4	19.9	20.6	21.7	22.5	20.9	22.4	22.9	23.3	21.7	71bps	-166bps
Other expense	338.1	340.4	345.8	415.1	446.4	449.9	412.1	407.1	609.2	565.5	559.2	568.6	645.0	5.9	13.5
% of Revenue	21.9	23.8	26.8	26.2	27.9	29.1	27.3	25.6	30.0	27.5	27.5	27.2	27.4	-256bps	22bps
Total Expenditure	1178.9	1122.7	1069.8	1316.5	1340.3	1330.1	1330.6	1280.0	1712.7	1721.5	1711.1	1699.9	1913.4	11.7	12.6
% of Revenue	76.3	78.5	83.0	83.0	83.8	86.0	88.0	80.6	84.2	83.9	84.2	81.2	81.3	-295bps	2bps
EBITDA	365.6	307.8	219.3	269.2	259.8	215.9	181.0	307.6	321.3	331.3	321.9	392.7	441.5	37.4	12.4
EBITDA Margin (%)	23.7	21.5	17.0	17.0	16.2	14.0	12.0	19.4	15.8	16.1	15.8	18.8	18.7	295bps	-2bps
Depreciation	57.0	58.7	60.9	61.7	63.7	66.6	69.5	69.3	90.3	99.5	98.1	98.9	100.4	11.1	1.5
Interest	1.1	1.4	3.4	6.9	9.3	10.8	18.5	31.4	44.1	33.4	29.4	24.1	22.6	-48.9	-6.2
Other Income	18.1	12.9	14.5	22.1	36.2	30.9	36.4	44.9	38.6	22.5	18.9	20.6	26.3	-31.9	27.4
PBT	325.6	260.7	169.5	222.7	223.0	169.3	129.4	251.8	225.4	220.9	213.3	290.4	344.8	53.0	18.7
Tax	67.9	57.3	28.8	74.3	77.0	53.7	48.4	85.6	87.9	66.2	73.7	91.4	99.4	13.0	8.7
Tax Rate (%)	20.9	22.0	17.0	33.3	34.5	31.7	37.4	34.0	39.0	30.0	34.5	31.5	28.8	-1019bps	-266bps
PAT	250.2	197.0	130.2	143.1	143.1	107.8	76.5	162.8	145.1	180.0	59.6	192.2	229.5	58.2	19.4

Source: Company, ICICI Direct Research

Q2FY25 Results / Conference call highlights

- Ipca at present has 7000 MRs in India and productivity stands at ₹ 4.62 Lakhs PM.
- Domestic business to grow at a CAGR of 11-12%
- The company enjoys ~60% market share in Rheumatoid Arthritis in India.
- It will take another 5-6 month to merging synergies of Ipca with Unichem.
- Unichem has not yet started sourcing products from Ipca, once started they will benefit by cost reduction (25-30%) in raw material.
- Unichem will also get benefited by common API buying.
- The management for Unichem had guided EBITDA of ₹ 200 crore in FY26 however it is expected to surpass in current year itself.
- Unichem Business in FY25 will remain around ₹ 1850 - ₹1900 crore (with 14-15% EBITDA margin in H2).
- Unichem plans to launch 4-5 formulation per year.
- Unichem capacity utilization- Goa unit 1 and Ghaziabad -70-80%. Goa unit 2 and Baddi plant at 20% and 30% respectively.
- The company will market Unichem's product in different market.
- Company during current year (in US) plans to launch 6 products in total (3 already launched)
- US sales at present is Nil but it is expected to witness good traction.
- RoW market (Branded formulation) will grow 12-13% from Q3 and overall year 7-8% growth.
- Generic Business to witness 7-8% Growth in FY25
- Overall generic business to grow 10-12% (including US launches)
- Institutional business is expected to fluctuate in the range of ₹ 300 - ₹400 crore going forward.
- Topline Growth (ex-Unichem) in FY25 is expected to be around 9-10%
- EBITDA FY25 guidance for standalone is 22%
- Overall R&D for FY26 to be around 4-4.5%

Financial Tables

Exhibit 2: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	6,243.5	7,707.4	8,838.6	9,786.8
Growth (%)	7.1	23.4	14.7	10.7
Raw Material Expenses	2,306.5	2,575.8	2,895.0	3,229.6
Employee Expenses	1,287.6	1,708.4	1,948.4	2,157.4
Other Expense	1,723.4	2,141.1	2,267.4	2,348.8
Total Operating Expenditur	5,317.6	6,425.3	7,110.9	7,735.9
EBITDA	925.9	1,282.1	1,727.8	2,050.9
Growth (%)	-29.3	38.5	34.8	18.7
Interest	45.5	138.3	91.7	91.7
Depreciation	261.6	357.2	399.9	420.5
Other Income	125.6	124.8	95.8	106.1
PBT after EO/Forex	744.4	842.7	1,331.9	1,644.8
Total Tax	253.4	313.5	391.6	477.0
MI & Profit from associates	-5.3	-30.7	7.1	7.3
PAT	470.5	547.4	935.4	1,163.0
Growth (%)	-46.8	16.4	70.9	24.3
Adjusted PAT	470.5	590.6	935.4	1,163.0
EPS	18.5	21.6	36.8	45.8
EPS (Adjusted)	18.5	23.3	36.8	45.8

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit after Tax	521.6	546.4	935.4	1,163.0
Add: Depreciation	261.6	357.2	399.9	420.5
(Inc)/dec in Current Assets	88.7	-185.5	-47.0	306.3
Inc/(dec) in CL and Provisions	-39.7	93.9	148.6	-116.3
Others	-26.4	132.6	91.7	91.7
CF from operating activities	805.8	944.6	1,528.7	1,865.3
(Inc)/dec in Fixed Assets	-458.3	-402.7	-511.3	-350.0
(Inc)/dec in Investments	-45.3	39.7	-81.8	0.0
Others	-221.3	-928.8	6.5	143.2
CF from investing activities	-725.0	-1,291.8	-586.6	-206.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	648.6	-370.1	-236.2	0.0
Dividend paid & dividend tax	-101.5	-50.7	-140.3	-174.4
Other	-688.4	238.3	144.5	-91.7
CF from financing activities	507.2	-552.6	-468.2	-266.2
Net Cash flow	266.9	-1,446.5	-499.8	1,392.4
Opening Cash	990.9	1,655.5	755.8	255.9
Closing Cash	1,257.8	209.0	255.9	1,648.3
Free Cash Flow	347.5	542.0	1,017.4	1,515.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	25.4	25.4	25.4	25.4
Reserve and Surplus	5,816.7	6,306.8	6,675.0	7,663.6
Total Shareholders funds	5,842.0	6,332.2	6,700.4	7,688.9
Total Debt	1,481.3	1,438.4	1,202.2	1,202.2
Deferred Tax Liability	189.2	310.5	321.5	344.0
Minority Interest	73.3	1394.8	1417.3	1,559.0
LTP & Other LTL	47.3	87.8	96.2	102.9
Total Liabilities	7,633.0	9,563.7	9,737.6	10,897.1
Gross Block - Fixed Assets	4,331.1	6,437.9	6,796.4	7,146.4
Accumulated Depreciation	1,617.8	1,975.1	2,375.0	2,795.6
Net Block	2,713.2	4,462.8	4,421.4	4,350.8
Capital WIP	140.4	342.9	495.7	495.7
Total Fixed Assets	2,853.7	4,805.7	4,917.0	4,846.5
Goodwill on Consolidation	38.1	90.6	90.6	90.6
Investments	626.0	862.2	943.9	943.9
LT L&A, Non Current Assets	242.7	362.4	397.8	425.5
Inventory	1,743.4	2,469.6	2,518.2	2,441.1
Debtors	989.0	1,686.5	1,813.6	1,550.3
Loans and Advances	3.2	9.4	41.6	44.5
Other Current Assets	872.5	606.1	445.2	476.4
Cash	1,257.9	208.9	255.9	1,648.3
Total Current Assets	4,866.0	4,980.5	5,074.5	6,160.6
Creditors	525.1	776.1	906.1	735.2
Provisions	108.0	244.6	264.1	282.6
Other current liabilities	360.3	517.0	516.0	552.1
Total Current Liabilities	993.4	1,537.6	1,686.2	1,569.9
Net Current Assets	3,872.5	3,442.9	3,388.3	4,590.6
Application of Funds	7,633.0	9,563.7	9,737.6	10,897.1

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Adjusted EPS	18.5	23.3	36.8	45.8
BV per share	230.0	249.3	263.8	302.7
Dividend per share	5.6	5.4	6.0	6.9
Operating Ratios (%)				
Gross Profit Margins	63	67	67	67
EBITDA Margins	15	17	20	21
PAT Margins	8	8	11	12
Inventory days	276	350	317	276
Debtor days	58	80	75	58
Creditor days	83	110	114	83
Asset Turnover	1.4	1.2	1.3	1.4
EBITDA conversion Rate	87.0	73.7	88.5	90.9
Return Ratios (%)				
RoE	8.1	9.3	14.0	15.1
RoCE	10.3	11.0	14.6	15.9
RoIC	11.8	11.6	16.8	21.4
Valuation Ratios (x)				
P/E	84.0	72.2	42.2	34.0
EV / EBITDA	42.5	31.3	23.1	18.7
EV / Net Sales	6.3	5.2	4.5	3.9
Market Cap / Sales	6.3	5.1	4.5	4.0
Price to Book Value	6.8	6.2	5.9	5.1
Solvency Ratios				
Debt / EBITDA	1.6	1.1	0.7	0.6
Debt / Equity	0.3	0.2	0.2	0.2
Current Ratio	3.6	3.1	2.9	2.9

Source: Company, ICICI Direct Research

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