

March 6, 2019

## Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	921		921	
Sales (Rs. m)	43,317	49,568	43,317	49,568
% Chng.	-	-	-	-
EBITDA (Rs. m)	8,144	9,567	8,144	9,567
% Chng.	-	-	-	-
EPS (Rs.)	42.5	51.6	42.5	51.6
% Chng.	-	-	-	-

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	32,836	37,655	43,317	49,568
EBITDA (Rs. m)	4,547	6,797	8,144	9,567
Margin (%)	13.8	18.1	18.8	19.3
PAT (Rs. m)	2,394	4,251	5,367	6,517
EPS (Rs.)	19.0	33.7	42.5	51.6
Gr. (%)	24.8	77.5	26.3	21.4
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	9.3	14.7	15.9	16.4
RoCE (%)	8.5	14.1	16.1	17.5
EV/Sales (x)	3.5	3.0	2.5	2.2
EV/EBITDA (x)	25.1	16.5	13.5	11.2
PE (x)	46.0	25.9	20.5	16.9
P/BV (x)	4.1	3.5	3.0	2.6

### Key Data

IPCA.BO | IPCA IN

52-W High / Low	Rs.889 / Rs.590
Sensex / Nifty	36,636 / 11,053
Market Cap	Rs.110bn/ \$ 1,568m
Shares Outstanding	126m
3M Avg. Daily Value	Rs.282.5m

### Shareholding Pattern (%)

Promoter's	46.07
Foreign	15.77
Domestic Institution	24.79
Public & Others	13.37
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	16.3	10.1	31.5
Relative	17.4	14.9	19.6

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## Enhanced visibility of multiple growth drivers

We met IPCA management, who charted out its vision to achieve a resolution with USFDA and turn around its business verticals which had faced challenges since CY15. IPCA's institutional tender business for anti-malaria drugs would substantiate its medicines supply to the Global Fund from April FY20E. Meanwhile, its partner Bristol Lab received resolution of UKMHRA which paved way for IPCA's generics in the country. With the addition of one more partner, IPCA expects its existing portfolio of UK generics to take a few quarters more to re-gain its market position. Branded business both in India and ROW markets will sustain momentum and benefit from operating leverage from new launches without proportionate increase in overheads.

IPCA guided for a 20% growth in AP, 15% growth in India and overall revenue growth of 13% in FY20E-22E without discounting revenue from US. We assume 15% CAGR in revenues during FY18-21E with turnaround in EU generics and partial success in US generics. We maintain our earnings estimates and the stock trades at PE 20.5x FY20E and 16.9x FY21E respectively. We maintain 'Buy' and retain TP at Rs921.

The key takeaways from the meeting are:

### Guidance on growth and margin

- Overall growth of IPCA to be 12-13% CAGR for FY20E-23E with an improvement of 200bps every year. Management expects to achieve an EBITDA margin of 24-25% in the near to medium term as it was in FY14, just before issues of US FDA manufacturing cropped up in the three plants. Eventually, ban by the regulator impacted sales growth and margins.

### India formulations

- Domestic formulations are expected to grow at 13-15% for FY20E-22E and pain management to lead a growth in India's portfolio. IPCA plans to launch more FDCs (those are approved by Indian regulator) in pain management along with addition of a few more products in the derma segment.
- IPCA's pain management (PMS) division contributes 42% of revenues in domestic formulations. It expects that the PMS division should continue to lead its domestic business as it expects 15-20% growth to continue in arthritis (rheumatoid and osteo) segment along with launches of more products in NSAID segment in FY20E-22E. IPCA also expects 25% CAGR in anti-malaria brands and a similar growth in anti-bacteria products.
- Among its brands, Zerodol has become a Rs4bn brand with 25-30% market share in the combination molecules. It also expects more opportunities by expanding market share in combination products of paracetamol.

## APIs

- IPCA expects 20% YoY growth FY20E mainly from group of sartans and specifically from losartan API from exports in non-US and non-EU markets.
- Losartan API currently contributes Rs1bn revenues with 20% margin.

## Formulation exports: US, EU, ROW

- IPCA has discontinued its distribution partnership with Sun Pharma (came through erstwhile Ranbaxy Lab) for US generics. With acquisition of Bayshore Inc. in October CY18, IPCA plans to distribute its own products in US and other North and Latin American markets.
- Currently, IPCA has filed 45 ANDAs, of which 18 are approved while 8 products are launched in US before it received import ban in CY15. Management plans to re-launch all the 8 products as many of those drugs are in shortage list and current price is more than the price when it was banned from IPCA plants. The ANDA on Clopidogrel (gPlavix) is dropped by the company.
- With backward integration-led low manufacturing costs of existing 8 products, IPCA plans to utilize the opportunities in sartan group of products, mainly Valsartan and Losartan (along with combinations). As guided by the new revised guidance of USFDA/EMEA on its sartan group of products, it was found that all its sartans are fully compliant with new benchmarks of contaminated nitrosamines (e.g. NDEA, NDMA, NMBA, EPINA and DIPNA). Currently, IPCA exports majority of its sartan APIs in ROW markets as well as in European markets.
- IPCA produces 2 tons of sartan APIs currently and expects to increase its productions to 8-9 tons by Q1FY20E mainly for exports to ROW markets. However, there are strong demands of supplying 12 tons from its clients in global markets. Management expects API revenues to be driven by sartan APIs in FY20E. Sartan price in global markets increased to US\$400/Kg from US\$80/Kg in CY18 and current price settles at US\$250/Kg. Divis Lab and Alembic drew strong benefits in M9FY19 due to the shortage of sartans in global markets including US and EU.
- The regulatory issues (UK MHRA) of UK partner Bristol Lab is resolved, although the management expects more time would be required to gain momentum in revenues from EU generics. With addition of one more partner, IPCA has started a new initiative to regain market share with old customers.
- For IPCA, CIS countries contribute 50% of revenues from ROW markets of which 80% revenues are from Russia.
- There are around 500 medical reps catering to ROW markets for branded products. While there are head rooms to utilize current field force to launch more brands, IPCA has provisioned for addition of 100 more reps in the medium term.
- China: IPCA has a business relationship in exports of API currently and expects revenues from the formulation exports in medium to long term.

## Tender business (WHO, the Global Fund)

- In FY20E-21E, management expects to gain 8-10% of global anti-malaria markets with a high single-digit CAGR in revenues.
- IPCA received WHO-pre qualification approval for its anti-malaria injectable and is currently going through a process of registering with individual countries. This will take 6 months to complete the registrations in key countries and apply for major approvals in FY20E. The drug is also eligible for bidding in the Global Fund tender business in FY20E. Overall, tender market size of the injectable is US\$60-70m @US\$1/vial.
- IPCA has not yet received an order for offtake from its US\$60m contract with the Global fund since there are technical issues lingering the process. As per communicated by IPCA, the management suggests that Nigerian market will be outside the ambit of the Global Fund.
- IPCA also suggested that a new round of bidding is expected from the Global Fund by as early as March CY19 and offtake of the tender will begin from April CY19. The new bidding process will include both the new approvals (DT and Injectable) as well as the two legacy products of IPCA
- IPCA continues to procure API/intermediates from its anti-malaria products from China.
- Management also plans to foray in western Africa branded markets for its anti-malaria portfolio. Ajanta Pharma has sizeable revenues from West Africa's anti-malaria markets.

## Plant information

- Out of the three plants (banned by USFDA since CY15), IPCA's consultant filed data with USFDA on the past batches of last 5 years sent for export markets (including USA) of Silvassa and Indore formulations plant. The similar data of Ratlam API plant is to be filed with the US regulator by March-end CY19, as it has been delayed by 3 months (earlier guided for December CY18)
- Management expects cGMP visit of USFDA by Q2FY20E and re-approvals of the three plants in FY20E. Also, it guided that all ANDAs which are approved as well as pending for approvals are all backward integrated and that will be criterion for filings of new ANDAs by IPCA, going forward.
- IPCA increases its stake to take management control of Krebs Biochem in November CY18 and plans to utilize its fermentation facility for manufacturing better quality simvastatin, lovastatin and few more APIs.

## Financials

- IPCA's expenditures on consultant fees were Rs500m in FY18 and is expected to be Rs600m in FY19E. IPCA guided that consultant fees of Rs200-250m to continue as annual recurring expenditures, as its new policy focuses on continuous upgradation (of employees and processes) with best practices in operation management. Besides, IPCA continues to spend annually Rs200 for maintaining registration of its plants with USFDA.
- COGS continues to be at 31-32% while expansion of EBITDA margin will be led by low utilization of operating leverage mainly for US and EU generics-manufacturing plants.
- Current Net Debt of IPCA is Rs1.5bn and set target to be net debt free by the end of FY20E.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>32,836</b>	<b>37,655</b>	<b>43,317</b>	<b>49,568</b>
YoY gr. (%)	6.2	14.7	15.0	14.4
Cost of Goods Sold	11,248	12,238	13,645	15,366
Gross Profit	21,588	25,417	29,672	34,202
Margin (%)	65.7	67.5	68.5	69.0
Employee Cost	7,359	7,625	8,663	9,914
Other Expenses	997	1,130	1,300	1,487
<b>EBITDA</b>	<b>4,547</b>	<b>6,797</b>	<b>8,144</b>	<b>9,567</b>
YoY gr. (%)	19.7	49.5	19.8	17.5
Margin (%)	13.8	18.1	18.8	19.3
Depreciation and Amortization	1,777	1,879	1,970	2,056
<b>EBIT</b>	<b>2,770</b>	<b>4,918</b>	<b>6,174</b>	<b>7,510</b>
Margin (%)	8.4	13.1	14.3	15.2
Net Interest	240	174	136	106
Other Income	418	431	443	457
<b>Profit Before Tax</b>	<b>2,948</b>	<b>5,174</b>	<b>6,481</b>	<b>7,861</b>
Margin (%)	9.0	13.7	15.0	15.9
Total Tax	511	880	1,069	1,297
Effective tax rate (%)	17.3	17.0	16.5	16.5
<b>Profit after tax</b>	<b>2,437</b>	<b>4,294</b>	<b>5,412</b>	<b>6,564</b>
Minority interest	42	44	45	46
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,394</b>	<b>4,251</b>	<b>5,367</b>	<b>6,517</b>
YoY gr. (%)	24.8	77.5	26.3	21.4
Margin (%)	7.3	11.3	12.4	13.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,394</b>	<b>4,251</b>	<b>5,367</b>	<b>6,517</b>
YoY gr. (%)	24.9	77.5	26.3	21.4
Margin (%)	7.3	11.3	12.4	13.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,394	4,251	5,367	6,517
<b>Equity Shares O/s (m)</b>	<b>126</b>	<b>126</b>	<b>126</b>	<b>126</b>
<b>EPS (Rs)</b>	<b>19.0</b>	<b>33.7</b>	<b>42.5</b>	<b>51.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>24,171</b>	<b>25,921</b>	<b>27,771</b>	<b>29,621</b>
Tangibles	23,324	24,924	26,624	28,324
Intangibles	847	997	1,147	1,297
<b>Acc: Dep / Amortization</b>	<b>5,114</b>	<b>6,993</b>	<b>8,963</b>	<b>11,020</b>
Tangibles	4,788	6,530	8,360	10,267
Intangibles	326	463	603	752
<b>Net fixed assets</b>	<b>19,058</b>	<b>18,928</b>	<b>18,808</b>	<b>18,601</b>
Tangibles	18,536	18,394	18,264	18,057
Intangibles	522	534	544	545
Capital Work In Progress	730	673	605	646
Goodwill	472	472	472	472
Non-Current Investments	1,313	1,420	1,669	1,968
Net Deferred tax assets	(1,580)	(1,701)	(1,830)	(1,987)
Other Non-Current Assets	128	115	138	166
<b>Current Assets</b>				
Investments	694	707	722	758
Inventories	8,806	10,832	12,817	14,667
Trade receivables	6,023	7,015	8,307	9,506
Cash & Bank Balance	1,506	2,404	3,350	4,448
Other Current Assets	1,471	1,500	1,650	1,898
<b>Total Assets</b>	<b>41,173</b>	<b>45,045</b>	<b>49,615</b>	<b>54,366</b>
<b>Equity</b>				
Equity Share Capital	252	252	252	252
Other Equity	26,633	30,884	36,251	42,769
<b>Total Network</b>	<b>26,886</b>	<b>31,136</b>	<b>36,504</b>	<b>43,021</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	2,340	1,872	1,404	913
Provisions	259	311	373	298
Other non current liabilities	16	14	13	11
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,936	3,345	2,342	1,522
Trade payables	4,235	5,158	5,934	5,704
Other current liabilities	1,906	1,508	1,217	909
<b>Total Equity &amp; Liabilities</b>	<b>41,173</b>	<b>45,045</b>	<b>49,615</b>	<b>54,366</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	2,905	4,294	5,412	6,564
Add. Depreciation	1,777	1,879	1,970	2,056
Add. Interest	240	174	136	106
Less Financial Other Income	418	431	443	457
Add. Other	(136)	715	1,622	4,250
Op. profit before WC changes	4,787	7,063	9,140	12,976
Net Changes-WC	(801)	(2,527)	(3,027)	(3,981)
Direct tax	(575)	(1,069)	(1,883)	(1,892)
<b>Net cash from Op. activities</b>	<b>3,411</b>	<b>3,467</b>	<b>4,231</b>	<b>7,103</b>
Capital expenditures	(1,356)	(1,708)	(1,812)	(1,918)
Interest / Dividend Income	4	4	5	5
Others	(3)	(84)	(87)	(111)
<b>Net Cash from Inv. activities</b>	<b>(1,354)</b>	<b>(1,788)</b>	<b>(1,894)</b>	<b>(2,024)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(926)	(1,282)	(1,254)	(3,875)
Dividend paid	(153)	-	-	-
Interest paid	(225)	(174)	(136)	(106)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,304)</b>	<b>(1,457)</b>	<b>(1,389)</b>	<b>(3,981)</b>
<b>Net change in cash</b>	<b>753</b>	<b>222</b>	<b>947</b>	<b>1,098</b>
Free Cash Flow	2,056	1,759	2,418	5,185

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Net Revenue</b>	<b>7,816</b>	<b>8,539</b>	<b>9,978</b>	<b>9,476</b>
YoY gr. (%)	16.8	19.7	15.4	10.3
Raw Material Expenses	2,560	2,777	3,134	2,997
Gross Profit	5,256	5,762	6,845	6,479
Margin (%)	67.2	67.5	68.6	68.4
<b>EBITDA</b>	<b>1,087</b>	<b>1,140</b>	<b>1,728</b>	<b>2,317</b>
YoY gr. (%)	(32.6)	4.9	51.6	34.1
Margin (%)	13.9	13.4	17.3	24.5
Depreciation / Depletion	432	445	432	426
<b>EBIT</b>	<b>656</b>	<b>695</b>	<b>1,296</b>	<b>1,891</b>
Margin (%)	8.4	8.1	13.0	20.0
Net Interest	65	49	24	49
Other Income	126	136	138	126
<b>Profit before Tax</b>	<b>717</b>	<b>782</b>	<b>1,410</b>	<b>1,968</b>
Margin (%)	9.2	9.2	14.1	20.8
Total Tax	204	127	213	366
Effective tax rate (%)	28.4	16.2	15.1	18.6
<b>Profit after Tax</b>	<b>513</b>	<b>655</b>	<b>1,197</b>	<b>1,602</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>513</b>	<b>655</b>	<b>1,197</b>	<b>1,602</b>
YoY gr. (%)	15.6	(423.6)	24.1	51.7
Margin (%)	6.6	7.7	12.0	16.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>513</b>	<b>655</b>	<b>1,197</b>	<b>1,602</b>
YoY gr. (%)	15.6	(423.6)	24.1	51.7
Margin (%)	6.6	7.7	12.0	16.9
Other Comprehensive Income	26	26	(23)	(12)
<b>Total Comprehensive Income</b>	<b>540</b>	<b>681</b>	<b>1,175</b>	<b>1,590</b>
Avg. Shares O/s (m)	126	126	126	126
<b>EPS (Rs)</b>	<b>4.1</b>	<b>5.2</b>	<b>9.5</b>	<b>12.7</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	19.0	33.7	42.5	51.6
CEPS	33.1	48.6	58.1	67.9
BVPS	213.0	246.7	289.3	340.9
FCF	16.3	13.9	19.2	41.1
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	8.5	14.1	16.1	17.5
ROIC	7.6	12.9	15.1	16.7
RoE	9.3	14.7	15.9	16.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.1	0.0	(0.1)
Net Working Capital (Days)	118	123	128	136
<b>Valuation(x)</b>				
PER	46.0	25.9	20.5	16.9
P/B	4.1	3.5	3.0	2.6
P/CEPS	26.4	18.0	15.0	12.8
EV/EBITDA	25.1	16.5	13.5	11.2
EV/Sales	3.5	3.0	2.5	2.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Key Operating Metrics (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Domestic Formulations	14,254	16,534	18,684	20,926
Domestic API	1,785	1,927	2,062	2,165
Export Formulations	9,940	12,125	14,482	17,466
Export API	5,703	6,632	7,641	8,557

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Mar-18	BUY	837	666
2	23-May-18	BUY	837	665
3	31-May-18	BUY	837	674
4	21-Jun-18	BUY	837	673
5	10-Jul-18	BUY	829	679
6	5-Oct-18	BUY	829	642
7	15-Nov-18	BUY	829	753
8	7-Jan-19	BUY	899	784
9	13-Feb-19	BUY	921	751

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	952	761
2	Cadila Healthcare	Accumulate	362	322
3	Cipla	Reduce	475	535
4	Dr. Lal PathLabs	Accumulate	1,070	1,031
5	Dr. Reddy's Laboratories	Reduce	2,558	821
6	Eris Lifesciences	Accumulate	695	678
7	Glenmark Pharmaceuticals	Reduce	591	569
8	Indoco Remedies	Reduce	111	186
9	Ipca Laboratories	BUY	921	751
10	Jubilant Life Sciences	Accumulate	822	714
11	Lupin	Reduce	820	842
12	Sun Pharmaceutical Industries	Reduce	427	442
13	Thyrocare Technologies	BUY	795	501

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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