

August 12, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23EE	FY22E	FY23EE
Rating	HOLD		BUY	
Target Price	1,962		1,839	
Sales (Rs. m)	58,604	67,126	58,416	66,669
% Chng.	0.3	0.7		
EBITDA (Rs. m)	12,981	15,573	12,705	14,500
% Chng.	2.2	7.4		
EPS (Rs.)	72.7	88.8	71.3	94.7
% Chng.	2.0	(6.3)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	46,487	51,227	58,604	67,126
EBITDA (Rs. m)	9,067	13,601	12,981	15,573
Margin (%)	19.5	26.5	22.1	23.2
PAT (Rs. m)	6,036	9,745	9,181	11,214
EPS (Rs.)	47.8	77.1	72.7	88.8
Gr. (%)	37.3	61.5	(5.8)	22.1
DPS (Rs.)	8.0	1.0	1.0	1.0
Yield (%)	0.4	0.1	0.1	0.1
RoE (%)	18.2	24.1	18.1	18.4
RoCE (%)	18.8	25.7	19.7	20.9
EV/Sales (x)	5.5	4.8	4.2	3.6
EV/EBITDA (x)	28.1	18.2	18.8	15.5
PE (x)	42.1	26.1	27.7	22.7
P/BV (x)	7.3	5.5	4.6	3.8

Key Data

IPCA.BO | IPCA IN

52-W High / Low	Rs.2,175 / Rs.844
Sensex / Nifty	38,407 / 11,323
Market Cap	Rs.254bn/ \$ 3,402m
Shares Outstanding	126m
3M Avg. Daily Value	Rs.1261.02m

Shareholding Pattern (%)

Promoter's	46.07
Foreign	12.39
Domestic Institution	28.22
Public & Others	13.32
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	21.0	61.2	109.0
Relative	15.2	73.0	104.5

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Covid benefits beat estimates; Downgrade to Hold

Quick Pointers:

- One-off opportunity of Rs2.59bn related to Chloroquine (CQ,) Hydroxy-Chloroquine(HCQS) lift earnings.
- Adj. India formulation growth was 4%YoY (v/s reported 8%) and 1Q had revenue spillover of Rs260m.
- EPS increased by 33%/2% for FY21/22E while 6% decreased for FY23E.

1QFY21 earnings was much higher than our estimate due to 1) incremental revenue of Rs2.59bn related to HCQS and CQ supply 2) better gross margin for COVID led products at 80% v/s 66% company level for FY20 3) spillover of Rs260m revenue and 4) EBITDA margin at 40% due to lower marketing expense and operating leverage. We believe 1QFY21 was a one-off performance and replicating this would be difficult. We still find IPCA as one of the best mid-cap pharma companies due to 1) its API expansion plan 2) new launches in institutional segment 3) India formulations growth of 10-12%. But with recent sharp price run-up, its trades at challenging valuation of PE 28x (FY22E). We incorporate management guidance of incremental core EBITDA margin expansion of 50-100 bps each year and increase our PE multiple assigned to 27x (earlier 26x) due to better pricing environment in export markets. We have increased EPS by 33%/2% for FY21/22E while 6% decreased for FY23E. We downgrade to HOLD (earlier Buy) and derive new TP of Rs1,962 (earlier Rs1,839) on 27x of FY22E.

One-off opportunity and better realization drives earnings: Revenue grew 47% YoY and QoQ to Rs14.8bn (PLe: Rs10.5bn) led by demand of COVID products. HCQS and CQ incrementally contributed Rs2.59bn to revenue in 1QFY21. Overall, formulation business grew 37% YoY led by growth of 8% /46% /225% /92% YoY in India formulations /Branded /Insti /Generics. API segment grew 72% YoY. Gross margin was 72.6% v/s 64% YoY due to better realization, forex gain and supply of HCQS and CQ. EBITDA grew 200% YoY and QoQ to Rs5.8bn (PLe: Rs2bn). EBITDA margin was 39.6% (PLe: 19%) vs. 19.3% YoY and 19.2% QoQ. Employee cost increased 18% YoY as IPCA gave an incentive of Rs200m to plant operators while SG&A declined 12% YoY with lower sales and promotion activities. PBT grew 228% YoY to Rs5.5bn (PLe: Rs1.6bn). PAT grew 243% YoY to Rs4.5bn (PLe: Rs1.3bn).

Conference Call and other key highlights:

- India formulations:** Reported 8% growth YoY while Adj. growth was 4% YoY. IPCA had Rs260mn spillover of revenue from previous quarter. It has 5,000 MR's which were off-field in 1QFY21, which led lower spend on marketing and traveling exps. IPCA however guided for higher SGA costs as MRs to start on-field visiting of doctors gradually. Guided for 11-12% growth for FY21E.

- **HCQS:** Q1FY21 earnings benefitted due to HCQS and CQ supply in India and export markets. However, this trend would not sustain going ahead as FDA has already revoked Emergency Use Authorization(EUA) status for HCQ and other developing countries already have sufficient stock.
- **Export Formulation:** Grew 89% YoY with Branded /Institutional/ Generics growing at 46% /225% /92% YoY. IPCA has temporarily suspended its biz with its European front-end partner due to increase in receivables. Management plans to set-up its own front-end and market its product in the UK. IPCA maintained its guidance of Rs2bn for institutional segment in FY21E and also seeks approval for hormone related product which would be key for growth post FY22E.
- **API:** Overall API sales grew by 72% YoY with India /export growth of 209% /33% YoY. The growth was led by supply of HCQS and CQ intermediates. IPCA acquired 35-acre land at Dewas and Noble Explochem plant to expand its API business. These facilities would come on stream from 2HFY22E and FY23E. IPCA highlighted prices of Losartan and Valsartan in export markets (especially in EU) have been stabilized.
- **CAPEX/R&D/Tax rate:** Guided CAPEX of Rs2.5bn for FY21E, of which Rs600-700m would be utilized in development of Dewas plant. R&D was at 2.5% of sales in FY20 and guided at 3-3.5% of sales for FY21E. Tax rate would be 17% for next few years as it has Rs3bn MAT credit.
- **Regulatory Status update:** Ratlam, Silvasa and Piparia continue to be under USFDA scanner. IPCA completed remediation work and is waiting for a response from the regulator. There are two DMFs filed from Pisingah plant in US and expect FDA visit in near term. The two APIs have higher realization with requirement of lower volume. Remediation cost was Rs160m and Rs30m for FY20 and Q4FY20 respectively. IPCA stated it would not incur incremental remediation cost in FY21E.
- **Working Capital:** Inventory/ Receivables days were 107/ 71 in FY20 vs 104/64 in FY19. Inventory days stretched due to high captive utilization level (55%) while receivables extended due to global lockdown.

Exhibit 1: 1QFY20 Result Overview (Rs mn)

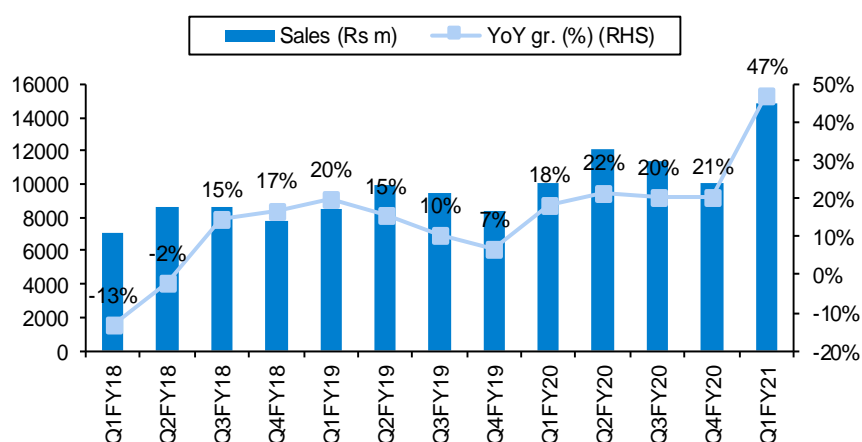
Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	14,846	10,110	46.8	10,048	51,227	46,487	10.2
Raw Material	4,074	3,626	12.4	3,269	17,392	16,441	5.8
<i>% of Net Sales</i>	<i>27.4</i>	<i>35.9</i>		<i>32.5</i>	<i>34.0</i>	<i>35.4</i>	
Personnel Cost	2,419	2,055	17.7	2,279	8,709	9,212	(5.5)
<i>% of Net Sales</i>	<i>16.3</i>	<i>20.3</i>		<i>22.7</i>	<i>17.0</i>	<i>19.8</i>	
Others	2,479	2,479	0.0	2,573	11,526	11,767	(2.0)
<i>% of Net Sales</i>	<i>16.7</i>	<i>24.5</i>		<i>25.6</i>	<i>22.5</i>	<i>25.3</i>	
Total Expenditure	8,973	8,160	10.0	8,121	37,626	37,420	0.6
EBITDA	5,873	1,950	201.1	1,927	13,601	9,067	50.0
<i>Margin (%)</i>	<i>39.6</i>	<i>19.3</i>		<i>19.2</i>	<i>26.6</i>	<i>19.5</i>	
Depreciation	452	420	7.6	454	2,323	2,105	10.4
EBIT	5,421	1,530	254.3	1,473	11,277	6,962	62.0
Other Income	117	194	(39.9)	133	710	670	6.0
Interest	25	45	(45.0)	35	150	165	(9.0)
PBT	5,513	1,680	228.2	1,572	11,837	7,467	58.5
Extra-Ord. Inc./Exps.	-	-		-	80	78	
Total Taxes	983	359	173.7	294	2,012	1,353	48.7
<i>ETR (%)</i>	<i>17.8</i>	<i>21.4</i>		<i>18.7</i>	<i>17.0</i>	<i>18.1</i>	
Reported PAT	4,530	1,321	243.1	1,278	9,745	6,036	61.5
Other Comprehensive Income	-	(9)		(33)	-	-	
Total Comprehensive Income	4,530	1,312	245.3	1,244	9,745	6,036	61.5

Source: Company, PL

Exhibit 2: Major Sources of Revenue

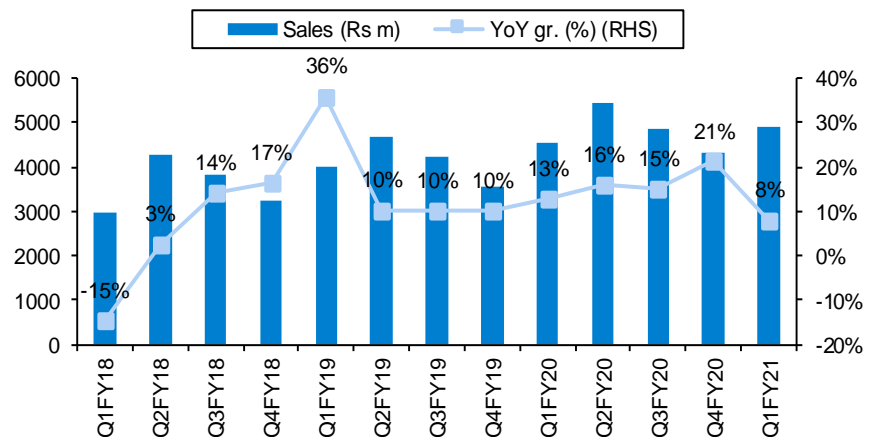
Major sources of revenues	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Domestic	6,925	5,185	33.5	4,958	27,298	25,050	9.0
Formulations	4,894	4,528	8.1	4,310	24,487	22,541	8.6
APIs	2,030	657	209.0	649	2,810	2,509	12.0
Exports	7,739	4,775	62.1	4,927	23,929	21,437	11.6
Formulations	4,636	2,448	89.4	2,825	13,746	12,215	12.5
APIs	3,103	2,326	33.4	2,102	10,183	9,222	10.4
Net Sales	14,663	9,960	47.2	9,885	51,227	46,487	10.2

Source: Company, PL

Exhibit 3: Total Sales (Rs mn) and YoY Gr (%)


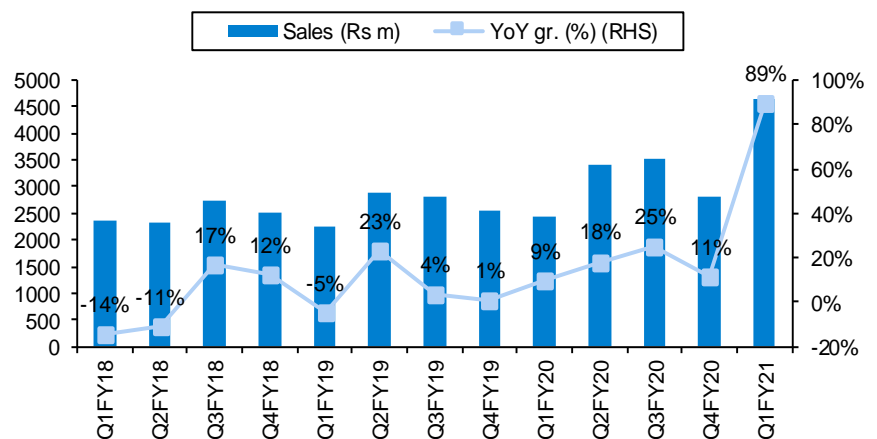
Source: Company, PL

Exhibit 4: India Formulation (Rs mn) and YOY Gr (%)



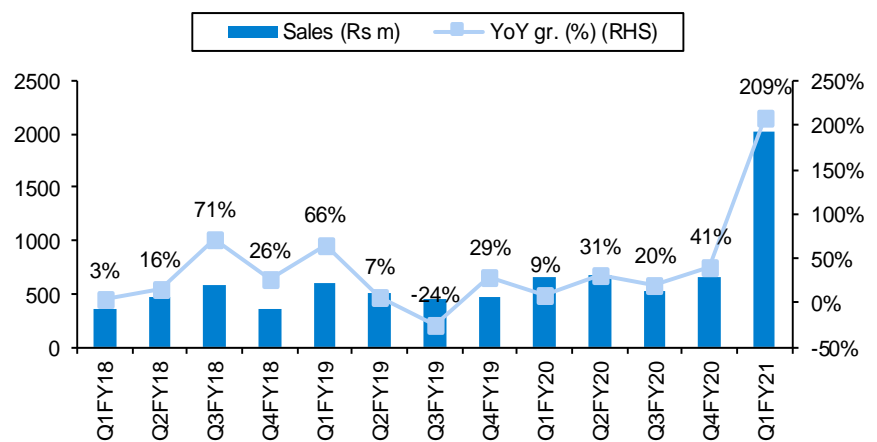
Source: Company, PL

Exhibit 5: Export Formulation (Rs mn) and YoY Gr (%)



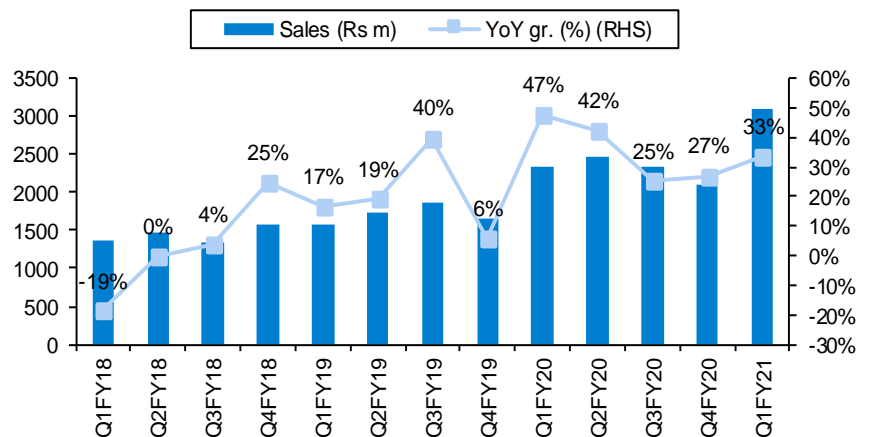
Source: Company, PL

Exhibit 6: Domestic API (Rs mn) and YoY Gr (%)



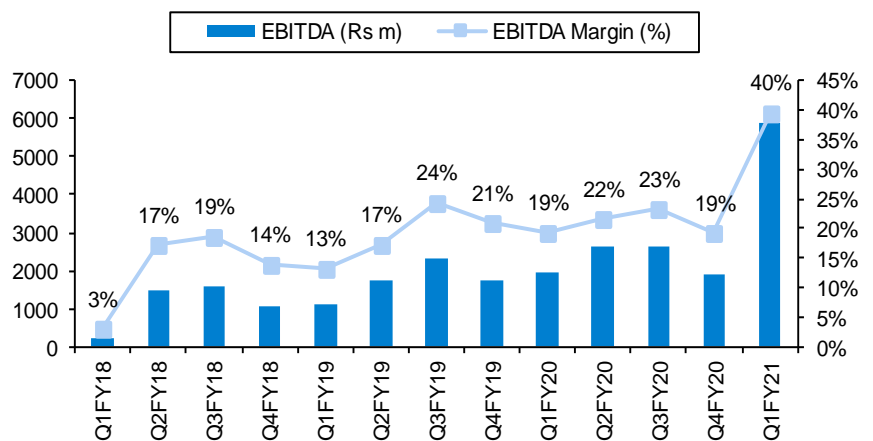
Source: Company, PL

Exhibit 7: API Export and YoY Gr (%)



Source: Company, PL

Exhibit 8: EBITDA (Rs mn) % EBITDA Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	46,487	51,227	58,604	67,126
YoY gr. (%)	23.2	10.2	14.4	14.5
Cost of Goods Sold	16,441	17,392	20,101	23,024
Gross Profit	30,046	33,835	38,503	44,102
Margin (%)	64.6	66.0	65.7	65.7
Employee Cost	9,212	8,709	10,226	11,076
Other Expenses	1,255	1,281	1,817	2,014
EBITDA	9,067	13,601	12,981	15,573
YoY gr. (%)	31.1	50.0	(4.6)	20.0
Margin (%)	19.5	26.5	22.1	23.2
Depreciation and Amortization	2,105	2,323	2,550	2,534
EBIT	6,962	11,277	10,430	13,039
Margin (%)	15.0	22.0	17.8	19.4
Net Interest	165	150	89	58
Other Income	670	710	753	798
Profit Before Tax	7,467	11,837	11,094	13,779
Margin (%)	16.1	23.1	18.9	20.5
Total Tax	1,353	2,012	1,831	2,480
Effective tax rate (%)	18.1	17.0	16.5	18.0
Profit after tax	6,114	9,825	9,264	11,299
Minority interest	78	80	83	85
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,036	9,745	9,181	11,214
YoY gr. (%)	37.3	61.5	(5.8)	22.1
Margin (%)	13.0	19.0	15.7	16.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,036	9,745	9,181	11,214
YoY gr. (%)	37.3	61.5	(5.8)	22.1
Margin (%)	13.0	19.0	15.7	16.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,036	9,745	9,181	11,214
Equity Shares O/s (m)	126	126	126	126
EPS (Rs)	47.8	77.1	72.7	88.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	27,920	29,970	32,020	34,070
Tangibles	25,840	27,740	29,640	31,540
Intangibles	2,080	2,230	2,380	2,530
Acc: Dep / Amortization	9,043	11,366	13,917	14,808
Tangibles	8,398	10,541	12,893	13,720
Intangibles	645	825	1,023	1,088
Net fixed assets	18,877	18,604	18,103	19,262
Tangibles	17,442	17,199	16,746	17,820
Intangibles	1,435	1,405	1,357	1,442
Capital Work In Progress	852	979	806	697
Goodwill	624	624	624	624
Non-Current Investments	2,081	2,302	3,332	4,944
Net Deferred tax assets	(1,398)	(1,655)	(1,877)	(2,152)
Other Non-Current Assets	282	338	1,014	3,041
Current Assets				
Investments	2,383	2,502	3,752	4,653
Inventories	13,231	14,877	17,180	19,678
Trade receivables	8,952	10,105	11,721	13,425
Cash & Bank Balance	1,809	6,891	8,333	8,784
Other Current Assets	1,342	1,544	2,161	3,026
Total Assets	51,293	59,730	68,451	80,256
Equity				
Equity Share Capital	253	253	253	253
Other Equity	36,022	45,767	54,948	66,162
Total Network	34,970	46,019	55,200	66,414
Non-Current Liabilities				
Long Term borrowings	1,030	669	435	283
Provisions	322	258	271	284
Other non current liabilities	23	20	18	16
Current Liabilities				
ST Debt / Current of LT Debt	3,168	2,059	1,339	870
Trade payables	6,099	5,895	6,422	7,356
Other current liabilities	3,998	3,024	2,759	2,749
Total Equity & Liabilities	51,293	59,730	68,451	80,256

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,114	9,825	9,264	11,299
Add. Depreciation	2,105	2,323	2,550	2,534
Add. Interest	165	150	89	58
Less Financial Other Income	670	710	753	798
Add. Other	1,683	2,974	(9,054)	(10,936)
Op. profit before WC changes	10,066	15,273	2,849	2,955
Net Changes-WC	(2,987)	(4,291)	(4,741)	(4,845)
Direct tax	(1,883)	(1,892)	(1,907)	(3,596)
Net cash from Op. activities	5,197	9,090	(3,799)	(5,487)
Capital expenditures	(2,397)	(2,192)	(1,838)	(1,891)
Interest / Dividend Income	5	5	5	5
Others	(1,551)	(194)	(1,328)	(980)
Net Cash from Inv. activities	(3,944)	(2,381)	(3,160)	(2,865)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,254)	(3,875)	8,196	8,509
Dividend paid	-	-	-	-
Interest paid	(165)	(150)	(89)	(58)
Others	-	-	-	-
Net cash from Fin. activities	(1,419)	(4,025)	8,107	8,451
Net change in cash	(165)	2,684	1,148	99
Free Cash Flow	2,800	6,898	(5,637)	(7,378)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	12,126	11,390	10,048	14,846
YoY gr. (%)	21.5	20.2	20.5	46.8
Raw Material Expenses	4,097	3,815	3,269	4,074
Gross Profit	8,029	7,575	6,779	10,772
Margin (%)	66.2	66.5	67.5	72.6
EBITDA	2,616	2,654	1,927	5,873
YoY gr. (%)	51.4	14.5	10.3	201.1
Margin (%)	21.6	23.3	19.2	39.6
Depreciation / Depletion	451	461	454	452
EBIT	2,165	2,193	1,473	5,421
Margin (%)	17.9	19.3	14.7	36.5
Net Interest	41	38	35	25
Other Income	143	176	133	117
Profit before Tax	2,267	2,331	1,572	5,513
Margin (%)	18.7	20.5	15.6	37.1
Total Tax	307	365	294	983
Effective tax rate (%)	13.5	15.7	18.7	17.8
Profit after Tax	1,960	1,966	1,278	4,530
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,960	1,966	1,278	4,530
YoY gr. (%)	63.7	22.7	16.7	243.1
Margin (%)	16.2	17.3	12.7	30.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,960	1,966	1,278	4,530
YoY gr. (%)	63.7	22.7	16.7	243.1
Margin (%)	16.2	17.3	12.7	30.5
Other Comprehensive Income	(33)	-	(33)	-
Total Comprehensive Income	1,927	1,966	1,244	4,530
Avg. Shares O/s (m)	126	126	126	126
EPS (Rs)	15.5	15.6	10.1	35.9

Source: Company Data, PL Research

Key Financial Metrics

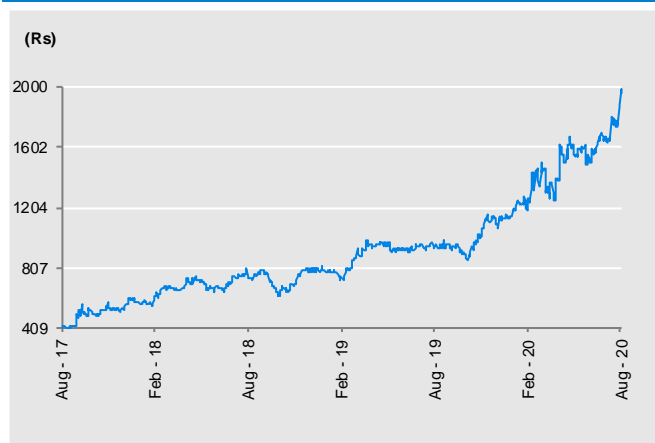
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	47.8	77.1	72.7	88.8
CEPS	64.4	95.5	92.8	108.8
BVPS	276.8	364.2	436.9	525.6
FCF	22.2	54.6	(44.6)	(58.4)
DPS	8.0	1.0	1.0	1.0
Return Ratio(%)				
RoCE	18.8	25.7	19.7	20.9
ROIC	17.4	27.1	21.4	21.9
RoE	18.2	24.1	18.1	18.4
Balance Sheet				
Net Debt : Equity (x)	-	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	126	136	140	140
Valuation(x)				
PER	42.1	26.1	27.7	22.7
P/B	7.3	5.5	4.6	3.8
P/CEPS	31.2	21.1	21.7	18.5
EV/EBITDA	28.1	18.2	18.8	15.5
EV/Sales	5.5	4.8	4.2	3.6
Dividend Yield (%)	0.4	0.1	0.1	0.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Domestic Formulations	19,126	21,039	23,563	
Domestic API	2,509	2,810	3,035	
Export Formulations	12,215	13,746	16,670	
Export API	9,222	10,183	11,852	

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	1,839	1,636
2	17-Jun-20	BUY	1,839	1,563
3	04-May-20	Accumulate	1,728	1,619
4	18-Apr-20	Accumulate	1,728	1,498
5	14-Apr-20	Accumulate	1,826	1,603
6	02-Mar-20	BUY	1,826	1,361
7	13-Feb-20	BUY	1,826	1,423
8	03-Jan-20	Accumulate	1,238	1,139
9	08-Nov-19	Accumulate	1,238	1,074
10	03-Oct-19	Accumulate	1,008	905

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	802
2	Cadila Healthcare	Sell	329	396
3	Cipla	Reduce	657	729
4	Dr. Lal PathLabs	Sell	1,006	1,892
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	511
7	Glenmark Pharmaceuticals	Sell	365	419
8	Indoco Remedies	Hold	219	208
9	Ipca Laboratories	BUY	1,839	1,636
10	Jubilant Life Sciences	Sell	414	703
11	Lupin	BUY	1,001	880
12	Sun Pharmaceutical Industries	Reduce	479	532
13	Thyrocare Technologies	Sell	307	677

PL's Recommendation Nomenclature (Absolute Performance)

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



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