RETAILRESEARCH

Initiating Coverage

Ipca Laboratories Ltd.

September 13, 2021

Ipca Laboratories Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 2582	Buy on declines at Rs 2359 & add more on dips to Rs 2080	Rs 2664	Rs 2867	2 quarters

HDFC Scrip Code	IPCLABEQNR
BSE Code	524494
NSE Code	IPCALAB
Bloomberg	IPCA IN
CMP Sep 13, 2021	2582
Equity Capital (Rs cr)	25.3
Face Value (Rs)	2
Equity Share O/S (cr)	12.6
Market Cap (Rs cr)	32780
Book Value (Rs)	372
Avg. 52 Wk Volumes	282311
52 Week High	2664
52 Week Low	1787

Share holding Pattern % (Jun, 2021)	
Promoters	46.3
Institutions	43.1
Non Institutions	10.6
Total	100.0

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Our Take:

Ipca Labs is one of the leading players in Indian Pharmaceutical Market. Its key therapeutic segments include Cardiac, Pain Management (Rheumatology), Anti-Malarial and Anti-Diabetic etc. Company derived ~46% of its revenues from domestic market while 54% from international markets in FY21. In the exports, key regions include UK, US, Africa, Asia and Australia. Ipca has been steadily making progress toward increasing its backward integration with 60% of its formulation revenue integrated in FY21 vs. 56% in FY20. This strategy is likely to provide sustainable cost advantages for the company. Company had faced regulatory issues from US FDA with 2 formulations and one API plant which continues to remain under US FDA import alert due to data integrity issues. However, US FDA had made exception to the import alert (since Jan-2015) for Ipca's plants: (a) HCQS APIs manufacturing unit at Ratlam (MP); and (b) HCQS formulations manufacturing units at SEZ Indore, Pithampur (MP) and Piparia (Silvassa). US FDA noted that exception will be re-considered if the shortage implications change. Despite US FDA issues remaining unresolved, Ipca has managed to post strong performance in FY20 and FY21. It can be attributed to healthy growth from domestic business, export of APIs and UK business. The company has a prolonged history of being an Anti-malarial player. However, with falling incidences of malaria worldwide, the company has switched its focus to other therapeutic areas such as Pain Management, Cardiac, Anti-Diabetic, Dermatology, Urology etc. in the domestic formulation space. Domestic formulations account for ~37% of overall sales, is on a strong footing and management has guided for high double-digit growth in FY22E. Strong position of the company across chronic and acute therapies and demand environment are key growth drivers for the domestic formulations segment. Growth prospects for the API segment are also strong, however growth could moderate in FY22 given exceptional growth witnessed in FY21. However, over the long term, commissioning of Dewas plant and a robust growth outlook for APIs would drive segment's performance.

IPCA registered 17% YoY revenue growth in FY21, backed by higher institutional sales and API sales, including one-off sales of chloroquine (CQ) and hydroxychloroquine (HCQ) in both the domestic and export markets. Operating margin expanded sharply by 900bps, supported by healthy revenue growth, lower marketing expenses amidst the Covid-19 pandemic and subsequent lockdown, and high margin one-off CQ and HCQS sales. Company continues to maintain leadership position in segments such as rheumatoid arthritis and orthopedic therapies in the domestic market. Export growth momentum is expected to sustain on the back of healthy growth in API segment in the international market. US business has seen some improvement and now forms ~10% of the overall revenues. Timely resolution of import alert issued by the US FDA could provide additional uptick to revenue growth and profitability. Any favorable outcome from US FDA for its facilities would further rerate the stock.

Valuation & Recommendation:

We estimate 11% revenue CAGR led by 9% growth from domestic formulations business and 13% CAGR from exports formulations over FY21-23E. API business may register 10% CAGR over the same period. We expect EBITDA margin to stay around 26-27%. Ipca Labs had recorded exceptional performance in FY21 due to one off business related to Covid-19, with margin improving 900bps YoY and 88% surge in net profit. Management indicated the possibility of an upward revision in its earlier revenue and margin guidance (25%) given robust Q1 and a strong outlook. Ipca has guided for overall topline growth of 8-10% for FY22, driven by strong growth in the formulations segment, while the API segment's sales growth is expected to moderate as compared to FY21. Growth guidance is on a high base of FY2021 due to HCQS opportunities. Segment-wise for FY22, the management has guided, domestic formulations business is expected to grow by 16-18% while generic formulation sales would grow 5% YoY in FY22; Institutional sales are expected to grow 5% YoY and overall API growth would be ~5%. Management has guided for EBITDA margin of around 25% for FY22 as compared to 28.5% in FY21. However, management has stated that demand environment for the high-margin domestic formulations segment is strong; there could be a possibility for upward revision in guidance for FY22, post Q2FY22. The second quarter is always good for Ipca, within that July was very good and August trend was also very good. There is a good chance of guidance revision on the upside post Q2FY22 results.

We are positive on Ipca Labs on the back of: i) strong volume growth in domestic formulation across therapeutic areas, ii) cost competitive and consistent quality driving better business prospects in API segment, iii) robust debt free B/S with strong liquidity in the form of cash, liquid investments to the tune of around Rs 920cr as on June, 2021 and strong return ratios and iv) better traction in the international markets such as Europe and Asia. We feel investors can buy the stock on declines at Rs 2359 and add more on dips to Rs 2080 (20.5x FY23E EPS) for base case target of Rs 2664 (26.25x FY23E EPS) and bull case target price of Rs 2867 (28.25x FY22E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E
Total Revenues	1566	1534	2.1	1115	40.4	3,773	4,649	5,420	5,935	6,718
EBITDA	417	588	-29.2	229	81.9	692	907	1544	1538	1793
Depreciation	56	51	9.8	53	6.7	182	211	209	230	257
Other Income	21	12	75.0	20	5.0	58	67	63	72	85
Interest Cost	2	3	-33.3	2	5.9	19	17	9	5	4
Tax	71	100	-29.2	31	128.4	104	135	240	259	318
PAT	307	446	-31.3	161	90.3	442	606	1140	1103	1282
EPS (Rs)						35.0	48.0	90.2	87.3	101.5
RoE (%)						15.2	18.0	27.4	21.2	20.5
P/E (x)						73.8	53.8	28.6	29.6	25.4
EV/EBITDA (x)						47.8	36.5	21.4	21.5	18.5

(Source: Company, HDFC sec)

Q1FY22 result update

Ipca reported better than expected numbers mainly driven by strong YoY sales growth in domestic formulations and institutional exports. Revenue grew 2% YoY to Rs 1565 crore. Strong 31% YoY growth in institutional exports along with 25.2% YoY increase in domestic formulations at Rs 613cr got offset by API sales decline of 19.3% YoY to Rs 414cr in the quarter.

Gross margin contracted 670bps YoY to 65.1% due to a change in the product mix. EBITDA margin contracted at a higher rate (1,170bps YoY) to 26.6%. Q1FY21 had significant contribution from the high margin HCQS business due to the COVID-19 pandemic. Net profit was down 31% YoY at Rs 307cr.
Domestic formulation business registered 25.2% YoY growth at Rs 613cr. Exports generic revenue declined 10% YoY at Rs 217cr while branded export business declined 19% YoY at Rs 109cr. Institutional export sales grew 31% YoY at Rs 117cr.

Concall Highlights

- Excluding HCQS sales of Rs 250cr in Q1FY21, the company recorded 23% YoY growth.
- Cost of raw material and logistics costs, container hiring cost continues to be higher. Shipping cost has also gone up significantly.
- Expect gross margin to improve due to change in product mix. HCQS business in Q1FY21 happened at much higher margin.
- Segment wise YoY growth: Pain-management (36%), cardio & anti-diabetic (14%), anti-bacterial (177%), dermatology (89%), anti-malarial (95%), cough & cold (83%) in Q1 FY22.
- Promotional activities are back. Also made higher provision for incentive payment, the payout will depend on performance in coming quarters.
- Company has guided for capex of Rs 400-450cr each year for the next 2 years. It may need capacity even for domestic as second plant is running at full capacity.
- ETR would be at MAT tax rate for FY22/FY23. From FY24 onwards, the tax rate would increase to ~25%
- Earlier, the company had guided for 16-18% growth in the domestic business.
- Average price hike 6% (as against normal 4% increase) which should offset increasing raw material pricing.
- Ipca added people in CNS, ophthalmology and dermatology segment. These costs have already come in the quarter.
- Company does not see any challenges in growing its established brands.
- Hypertension (cardiac) brand CTD - expanding offerings in terms of combination.

International

- Revised down growth guidance from 14% to 12% growth in FY22.
- CIS market – impact of currency; Myanmar market is disturbed. Africa, Franco Africa regions are doing well.
- UK grew 15% YoY in Q1FY22. Started marketing generics in own trade name. Should continue to grow at 10-12% for next 3-4 years. UK is highly competitive market. Europe should grow higher than UK.

API Business

- Exports - 10% YoY growth in FY22. Exporting to regions like Iran which are facing issues and shipments not happening.
- Domestic API should do better. Earlier, the company was expecting significant decline in domestic API.
- Declining Sartans prices - While revenue has registered de growth, company has taken higher market share in terms of volumes.
- Total API business should grow at 8-10% YoY.

Subsidiary

- Pisgah will remain in loss in FY22; it won 2 CRAMS projects.

- Ramdev - changing product portfolio. It was in intermediate side and now focusing on APIs. The validation and stability work is going on. Currently in losses, should turnaround in FY23.
- Trophic Wellness dealing with nutraceutical products. It is into direct selling to customers.

Capacity Expansion

- Dewas plant delayed; 3 months gap in project implementation. The plant was expected to operationalize in the end of Q3 but will be delayed to Q4FY22. Not available for commercial production in FY22.
- N-1 intermediates will be transferred to Ratlam till the time plant is commercialised.
- Dewas is API site for exports and captive consumption.
- Ratlam plant also got delayed; should become operational at the end of Q3FY22.
- These plants should contribute meaningfully from next fiscal. Overall API capacity should go up by 20%.

Business background and its outlook

Ipca Labs has come long way from being an anti-malarial player to cater to multiple therapeutic segments. IPCA is a strongly positioned in therapies like Pain, Rheumatology, Anti-malarial therapies in India. Within exports, the company sells to both regulated and non-regulated markets, with sales to Europe being the highest at ~28% in FY21. Formulations continue to contribute larger portion of revenues at 73% with balance contributed by APIs and Intermediates in FY21. Pain management constitutes ~47% of its domestic sales while anti diabetics constitute the maximum share of around 30% of its exports. Derma, Ophthalmology. CNS and Urology are next growth markets for IPCA. Active Pharmaceutical Ingredients (APIs) business grew by 28% in FY21. Being a panel supplier for Global Fund for its anti-malarial medicines, IPCA achieved revenue of Rs 350cr from exports to institutional segment in FY21. The company has a diversified product portfolio with no brand contributing more than 5% and has low dependence on any single therapeutic segment Formulations continue to contribute larger portion of the revenues at 70% with balance contributed by APIs and Intermediates in FY21. Domestic formulations constituted 55% of total formulations business Within the domestic formulation business, the product portfolio its well diversified with the top 10 drugs contributing to ~42% of the total domestic formulation revenue. Pain management constitutes ~52% of its domestic sales and 28% in export sales. Active Pharmaceutical Ingredients (APIs) business grew by 28% in FY21.

International Business

Growth in exports formulations (29% of FY21 revenue) was on the back of growth in international generics business. The international anti-malarial institutional business also contributed to overall exports growth. US traction will take more time than earlier estimated due to US FDA import alerts for the Ratlam facility that is the only API source for Silvassa and Pithampur formulations plants along with Silvassa and Pithampur (Indore) plants that are specifically cater to US business. The company has implemented comprehensive remedial measures at all its manufacturing sites to ensure quality and regulatory compliances.

Ipca exports its products to more than 100 countries across the globe. During the year, the international business amounted to Rs 2717cr as against Rs 2144cr in the previous year, a growth of 27%. Formulation exports of the company increased 31% to Rs 1597cr and exports of APIs and Drug Intermediates grew by 21% to Rs 1120cr.

The company's formulations manufacturing sites at Silvassa and Indore SEZ and API manufacturing facility at Ratlam continue to be under US FDA import alert. The company has implemented comprehensive remedial measures at all its manufacturing sites to ensure quality and regulatory compliances. These remedial measures included review of all processes and procedures, revamping of training system, recruitment of senior quality personnel as well as automation of quality control laboratories. These manufacturing sites are awaiting re-inspection by the US FDA. Except US FDA import alert on three of its manufacturing sites, none of the Company's manufacturing sites have any outstanding regulatory/compliance issues with any other regulatory agency. There are two DMFs filed from Pisgah plant in US and expect FDA visit in the medium term.

Europe

Europe export sales increased 19% YoY at Rs 757cr during the year. The company has developed and submitted 62 generic formulation dossiers for registration in Europe out of which 61 dossiers are registered. It has also obtained certificate of suitability (COS) of 47 APIs from European Directorate for Quality Medicines. Company has started marketing generic formulations in the United Kingdom in its own label.

Africa

The company registered robust 55% growth in export sales at Rs 532.6cr to Africa during FY21. Ipca exports branded and generic formulations as well as APIs to many African countries. The company markets branded formulations in Africa through dedicated field force. The Company also supplies generics formulations to South Africa. It is expanding its branded formulations business in this continent through expansion of geographical coverage and increase in the number of branded formulations marketed. Ipca is also continuously filing new formulation dossiers for registration in the African countries.

Americas

Company achieved 33% sales growth at Rs 572.4cr during FY21. US formulations and API business continues to be impacted due to ongoing US FDA import alert for three of the company's manufacturing facilities. 46 ANDA applications of generic formulations are filed with the US FDA out of which 18 ANDA applications are granted. 45 DMFs are also currently filed with US FDA.

Asia

Asia business recorded 23% growth in sales at Rs 475.6cr. Company exports formulations as well as APIs to several Asian countries. In countries like Nepal, Sri Lanka, Myanmar, Philippines and Vietnam, the company markets its branded formulations through dedicated field force.

Confederation of Independent States (CIS)

CIS business recorded 2% growth at Rs 188.9cr in FY21. Most of the business is from branded formulation sales in Russia, Ukraine, Kazakhstan and Belarus. Company's branded formulations are marketed in this continent by its own field force appointed through its non-trading offices.

Australasia

Company exports APIs to Australia and formulations to Australia and New Zealand in this sub-continent. The business reported 17% YoY growth at Rs 190.8cr during the year. Company has developed and submitted 75 generic formulation dossiers for registration in this market out of which 72 dossiers are registered.

US growth issue to persist given regulatory authority challenges

US business will take longer time due to US FDA import alerts for key manufacturing facilities. Formulations sites at Silvassa and Indore SEZ and APIs manufacturing facility at Ratlam continue to be under US FDA import alert. However, in March-2020, following drug shortages due to Covid 19, US FDA gave exemption from import alert to APIs Chloroquine Phosphate and Hydroxycholoroquine Sulphate manufactured at the Ratlam unit and

formulations of Hydroxychloroquine Sulphate manufactured at the company's Indore and Piparia (Silvassa) manufacturing sites. In Aug-2019, US FDA inspected formulations manufacturing unit situated at Piparia (Silvassa). This inspection had resulted into issue of 3 observations in Form 483 by US FDA. The company has responded to these observations and is awaiting re-inspection by US FDA of its other two manufacturing facilities which are under import alert. Timely resolution of the regulatory issue and consequent revival of operations remain a key credit monitorable.
However, sustained traction from branded and generics exports sales with a revival in Europe business is expected to drive international business growth. Company has completed the remediation process as well as submission to the regulator. A reply from the regulator is awaited. Due to COVID-19 pandemic, Ipca expects a possible delay in the re-inspection of plants. Consequently, growth in the US business is likely to remain constrained.

Domestic Formulations Business

Ipca Labs has strong presence in Pain Management, Cardiac and Anti-Malarials therapies in domestic formulations. Therapeutic areas such as Pain Management (Rheumatology), Cardiovascular & anti-diabetic, Anti-Infectives, Dermatology and Anti-Malarial together accounted for ~85% of domestic formulation revenues. Domestic branded formulations business comprises of 16 marketing divisions focusing on key therapeutic segments with a portfolio of about 145 brands. Ipca is at No.19 in the domestic formulations market as per IQVIA - MAT March, 2021.
Ipca Labs is one of the leaders in Pain Management therapeutic area in IPM, with its top brand Zerodol. Aceclofenac is gaining market share from other products in Rheumatoid Arthritis treatment due to lower Gastro-Intestinal side effects.
Zerodol is also gaining market share in the Aceclofenac molecule due to strong doctor-MR connect and brand recall amongst patients. CNS, Dermatology, and Ophthalmic are other growth therapies that the company is focusing on to grow its business. It has also added 200 MRs in CNS, Ophthalmic, and Dermatology divisions, which will further boost promotional activities in these growth therapies. We expect established strength in Pain and Growth therapies to drive 9% sales CAGR over FY21-23E, on a high base of FY21, which included one off HCQS Institutional sales.
During FY21, domestic formulations business recorded 4% growth at Rs 1981.7cr. Due to Covid-19, there was significant reduction in patient footfall in dispensaries, OPDs and hospitals for routine ailments as well as re-scheduling of non-critical surgeries which impacted prescriptions, launch of new products, field force activities and thus impacted business growth in the branded formulations market. However, the company's APIs and formulations business of Hydroxychloroquine Sulphate and Chloroquine Phosphate significantly improved in the year during the initial phase of Covid-19 outbreak since these molecules were then considered to be useful in the treatment of Covid-19.
Indian pharmaceutical companies are focusing on global generic and API business, R&D activities and contract research and manufacturing alliances. Increasing use of pharmaceutical generics in developed markets to reduce healthcare cost would also provide attractive growth opportunities to Indian generic formulations manufacturers and thus Indian pharmaceutical industry is poised for an accelerated growth in the coming years.
However, poor public healthcare funding and infrastructure, low per capita consumption of medicines in developing and under developed countries including India, currency fluctuations, regulatory issues, government mandated price controls, inflation and resultant all round increase in input costs are few causes of concern.

Active Pharmaceutical Ingredients (APIs) and Intermediates Business

Ipca Labs is one of the largest manufacturers of APIs - Atenolol (anti-hypertensive), Chloroquine Phosphate (anti-malarial), Furosemide (diuretic), Hydroxychloroquine Sulphate (NSAID), Metoprolol Succinate (anti-hypertensive), Metoprolol Tartrate (anti-hypertensive) and Pyrantel Salts (antihelmintic). For over 20 years, company has been playing a lead role in the Indian APIs market, both in the anti-malarial and anti-hypertensive therapeutic segments. Ipca is the first manufacturer in India for APIs like Atenolol, Hydroxycholoquine Sulphate, Morantel Citrate, Pyrantel Pamoate and Zaltoprofen. In the domestic market, its customers include pharmaceutical majors like Abbott, Astrazeneca, Cipla, Dr. Reddy's, Merck, Pfizer and Sun Pharma etc.

During the financial year, the APIs and Intermediates business recorded 28.4% YoY growth in sales at Rs 1506.3cr. About 80% of the APIs and Intermediates business is from International markets. API business also benefited from the sales of APIs Hydroxychloroquine Sulphate and Chloroquine Phosphate, being molecules considered to be beneficial for the treatment of Covid-19 in the initial phase of its outbreak.

The company exports its APIs across the globe. Company is in the process of commercializing new APIs for the global market. Ipca is setting up a new API manufacturing unit at Dewas (MP) with an initial capital outlay of about Rs 250cr. The land for this project has been acquired and company has already obtained all the necessary environmental approvals.

Sales in Q1FY22 were also impacted due to a decline in Sartan API prices. However, Ipca managed to grow its volumes in Sartans (Cardiac) and increase market share to counter impact of lower prices.

Recent Acquisitions

Ramdev Chemical Private Ltd.

In Apr-2019, Ipca Labs announced the acquisition of Ramdev Chemical for Rs 108.5cr. Ramdev is engaged in manufacturing and marketing of advanced drug intermediates, fine chemicals, custom synthesis molecules and active pharmaceutical ingredients (APIs). The Products are exported to many countries across the globe including US, UK, Japan, Germany and Canada. The clientele includes major Indian pharma companies as well as several multinational companies. The acquisition helped the company grow its API business by adding new molecules with possibility of forward integrating such products in its dosage formulations business for the global markets. Ramdev had reported revenue of Rs 76cr and EBITDA/PAT of Rs 9cr/3cr respectively for FY19.

Ipca is changing focus of Ramdev from Intermediates to APIs. This transformation is under implementation and Ramdev could report losses in FY22 but may return to profits in FY23.

Acquired additional 13% stake in Trophic Wellness for Rs 21.2cr

Ipca Laboratories said that it has acquired additional 13.09% stake in Trophic Wellness Pvt Ltd for a cash consideration of Rs 21.2cr. Ipca Labs had 19% stake as on Mar-2019, which was raised to 39.26% in FY21 and now, the company holds 52.35 percent stake in Trophic Wellness Pvt Ltd (TWPL). Company is engaged in the business of manufacturing and marketing of several SKUs of Nutraceuticals under the brand name “Nutricharge”. The company’s manufacturing facility is situated at Sikkim. It had recorded revenue of Rs 102.8cr and net profit of Rs 21.8cr in FY21. It is a debt free entity and had net worth of Rs 84cr as on Mar-2021.

COVID-led disturbance to delay Dewas greenfield; Ratlam plant likely to be ready by Q4FY22

Ipca is expanding its API facilities at Dewas as it looks to reduce dependence on others for APIs and intermediaries. The company is setting up a new Greenfield plant at Dewas at an outlay of Rs. 300-350cr. Company has commenced civil work for the plant, but due to COVID-led delays, the work is progressing slower, leading to delay of about 3-4 months as per earlier schedule. Consequently, the Dewas plant is expected to be ready in FY23; and post this, the plant would undergo inspection for regulators before the company starts API exports from the plant. In addition to Dewas, Ipca is in the process of setting up a small API unit at its Ratlam facility, which is likely to be ready by Q4FY22 and is likely to contribute from Q1FY23.

Key Risks

- Ipca faces competition and pricing pressure in the global generics market. Globally, the generic players are facing severe price erosions, significant government pressures to reduce prices along with increasing competition may impact its performance.
- Regulatory risk: Ipca has presence in multiple countries across the world. Company is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have a serious consequence on the operations of the company. Ratlam, Silvasa and Indore facilities continue to be under US FDA import alert. During FY2016 to FY2020, IPCA had incurred cost towards remediation of regulatory issues raised by the US Food and Drug Administration (US FDA) at three of its plants.
- Addition of drugs in the National List of Essential Medicines (NLEM) could hurt the domestic business.
- Adverse currency fluctuations could impact revenue and margin especially as about 55% of revenues of Ipca comes from exports/global markets. Weakness in emerging market currencies could affect growth prospects.
- Pain management therapy contributed 52% of domestic formulation sales and 28% of export formulation sales in FY21. Any threat from competition or regulation could impact its revenue and margin for the company.

Company Background

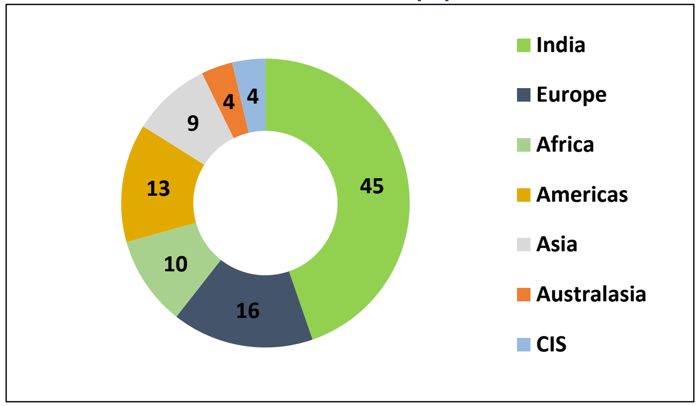
Ipca Laboratories has presence across formulations, API & Intermediates in domestic market and exports. It has come a long way from being an anti-malarial player to a player offering a list of other therapeutic products. Overall formulations to API ratio are 73:27 as on Mar-2021. Exports formulations business is divided into - 1) branded formulations, 2) generic formulations and 3) institutional business. The US business is being accounted for in the generic exports formulation category. In domestic formulations, the company has a field force of ~5000 MRs covering 12 therapy focused marketing divisions. Major therapies in domestic formulations are - 1) pain management 2) anti-diabetic 3) cardiovascular (CVS) and 4) gastrointestinal (GI) and 5) anti-malaria. The company has 14,600 permanent employees as on March, 2021. Company spends 2.5-3% of revenue in R&D. Company has 17 manufacturing plants across India which have accreditations from agencies such as UK's Medicine and Healthcare Products Regulatory Agency (MHRA), World Health Organization (WHO), European Directorate for the Quality of Medicines (EDQM), India's Central Drugs Standard Control Organization along with several country wise regulatory approvals.

Peer Comparison

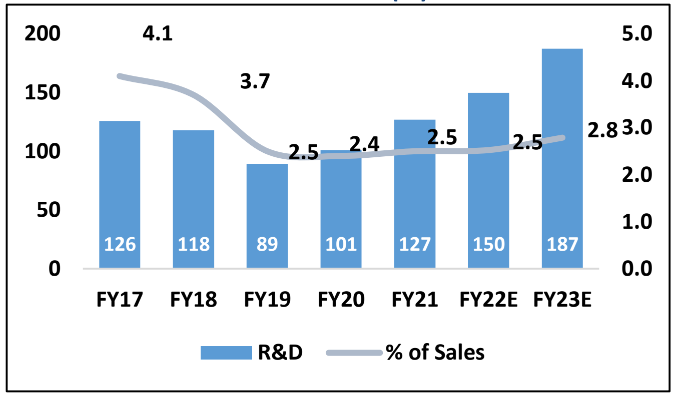
Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				RoE			
		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Cadila Healthcare	57135	14253	15102	15629	16825	19.5	22.1	22.4	22.7	1540	2339	2228	2561	13.8	17.0	12.8	13.5
Ipca Labs	32780	4649	5420	5935	6718	19.5	28.5	25.9	26.7	606	1140	1103	1282	18.0	27.4	21.2	20.5
Torrent Pharma	52608	7939	8005	8698	9782	27.3	31.1	32.1	33.3	1025	1252	1389	1752	21.3	21.8	20.5	21.5

Company	EV/EBITDA				P/E			
	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Cadila Healthcare	21.8	17.5	15.5	13.8	34.2	22.5	23.5	20.7
Ipca Labs	36.5	21.4	21.5	18.5	53.8	28.6	29.6	25.4
Torrent Pharma	25.3	21.8	18.8	15.8	50.0	41.5	37.5	29.8

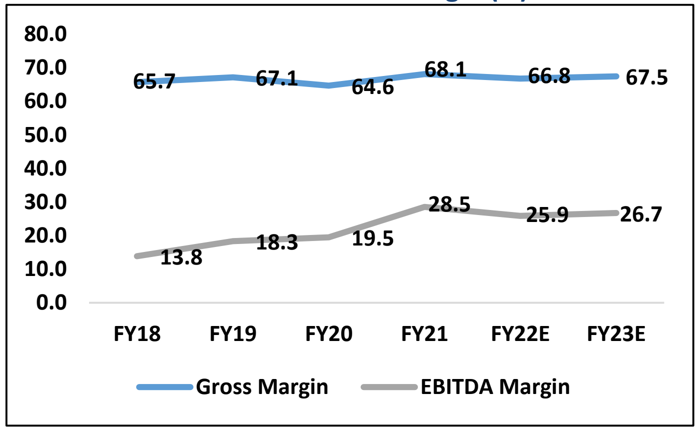
Revenue Mix (%)

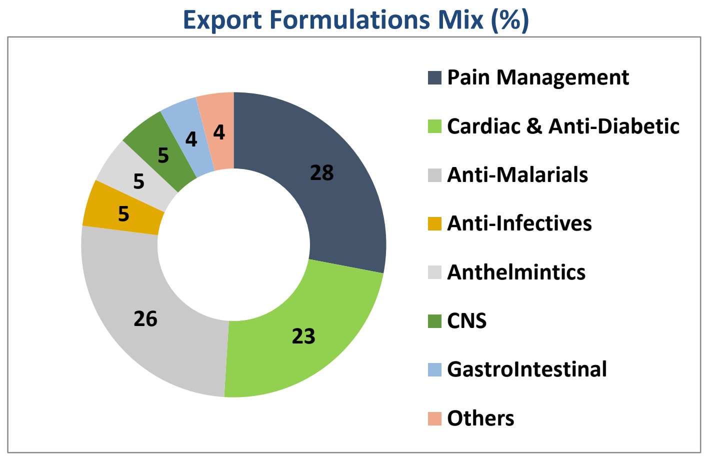


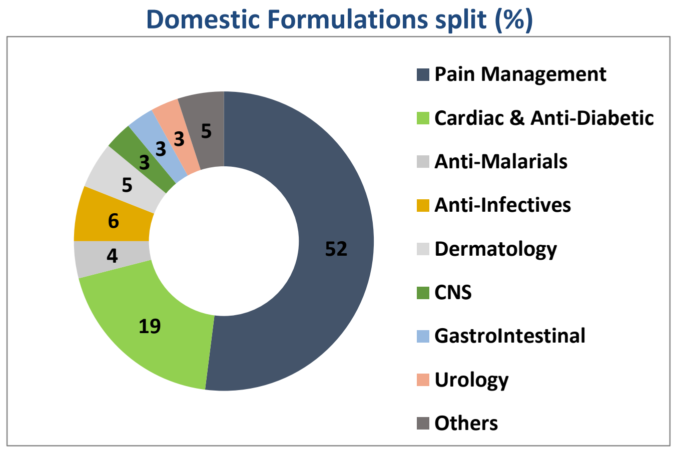
R&D Trend (%)

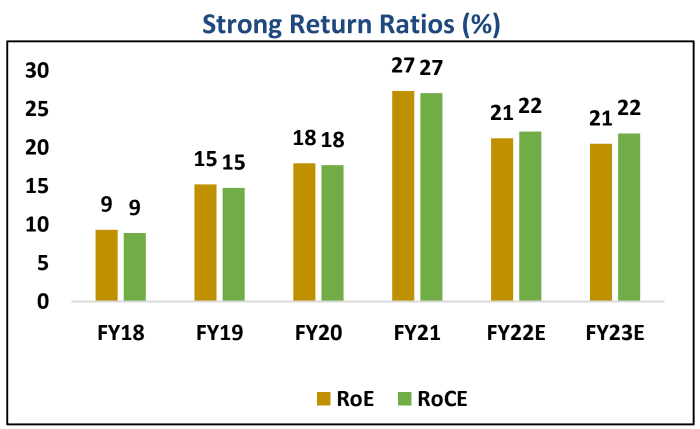


Gross and EBITDA margin (%)









Source: Company, HDFC sec Research

Financials – (Consolidated)

Income Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Total Revenue	**3773**	**4649**	**5420**	**5935**	**6718**
Growth (%)	14.9	23.2	16.6	9.5	13.2
Operating Expenses	3081	3742	3876	4397	4925
EBITDA	**692**	**907**	**1544**	**1538**	**1793**
Growth (%)	52.2	31.1	70.3	-0.4	16.6
EBITDA Margin (%)	18.3	19.5	28.5	25.9	26.7
Depreciation	182	211	209	230	257
EBIT	509	696	1335	1308	1537
Other Income	58	67	63	72	85
Interest expenses	19	17	9	5	4
PBT	546	739	1381	1365	1605
Tax	104	135	240	259	318
RPAT	**442**	**606**	**1140**	**1103**	**1282**
Growth (%)	84.4	37.2	88.0	-3.3	16.3
EPS	35.0	48.0	90.2	87.3	101.5

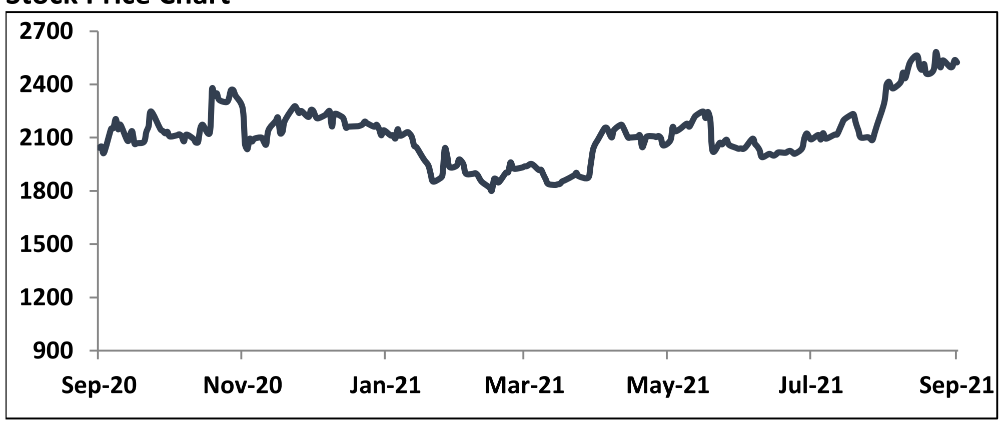
Balance Sheet

As at March (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	25.3	25.3	25.3	25.3	25.3
Reserves	3097	3602	4676	5663	6791
Shareholders' Funds	**3122**	**3627**	**4702**	**5689**	**6816**
Long Term Debt	141	116	45	48	40
Net Deferred Taxes	143	139	131	124	115
Long Term Provisions & Others	27	35	41	42	45
Minority Interest	16	14	15	15	15
Total Source of Funds	**3448**	**3931**	**4933**	**5918**	**7030**
APPLICATION OF FUNDS					
Net Block (incl. CWIP)	1783	1993	2147	2445	2568
Goodwill & Intangible Assets	224	199	161	161	161
Long Term Loans & Advances	161	210	322	349	388
Total Non-Current Assets	**2168**	**2402**	**2629**	**2955**	**3117**
Current Investments	91	238	394	429	511
Inventories	1073	1323	1595	1577	1749
Trade Receivables	682	895	812	1057	1288
Cash & Equivalents	282	181	365	751	1277
Other Current Assets	248	215	269	290	319
Total Current Assets	**2378**	**2857**	**3436**	**4109**	**5151**
Short-Term Borrowings	210	317	154	122	100
Trade Payables	524	611	666	692	776
Other Current Liab & Provisions	293	306	210	220	238
Short-Term Provisions	70	94	103	112	125
Total Current Liabilities	**1097**	**1328**	**1133**	**1146**	**1238**
Net Current Assets	1281	1529	2303	2963	3913
Total Application of Funds	**3448**	**3931**	**4933**	**5918**	**7030**

Cash Flow Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	546	739	1,381	1,365	1,605
Non-operating & EO items	-58	-67	-63	-72	-85
Interest Expenses	19	17	9	5	4
Depreciation	182	183	209	230	257
Working Capital Change	-87	-150	-200	-272	-424
Tax Paid	-111	-152	-246	-259	-318
OPERATING CASH FLOW (a)	**492**	**570**	**1,090**	**997**	**1,040**
Capex	-181	-415	-362	-530	-380
Free Cash Flow	211	38	377	467	660
Investments	-34	-161	-222	-30	-42
Non-operating income	58	67	63	72	85
INVESTING CASH FLOW (b)	**-157**	**-509**	**-521**	**-488**	**-338**
Debt Issuance / (Repaid)	-164	-57	-196	1	-12
Interest Expenses	-19	-17	-9	-5	-4
FCFE	86	-2	295	462	644
Share Issuance/MI	16	-2	1	0	0
Dividend	-15	-122	-102	-119	-160
FINANCING CASH FLOW (c)	**-182**	**-197**	**-306**	**-124**	**-176**
NET CASH FLOW (a+b+c)	**153**	**-137**	**263**	**386**	**527**

Stock Price Chart



Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Profitability Ratios (%)					
Gross Margin	67.1	64.6	68.1	66.8	67.5
EBITDA Margin	18.3	19.5	28.5	25.9	26.7
EBIT Margin	13.5	15.0	24.6	22.0	22.9
PAT Margin	11.7	13.0	21.1	18.6	19.2
RoE	15.2	18.0	27.4	21.2	20.5
RoCE	14.8	17.7	27.1	22.1	21.8
Solvency Ratio					
Net Debt/EBITDA (x)	0.0	0.0	-0.4	-0.7	-0.9
D/E	0.1	0.1	0.0	0.0	0.0
Net D/E	0	0	0	0	0
PER SHARE DATA					
EPS	35.0	48.0	90.2	87.3	101.5
CEPS	49.4	64.7	106.8	105.5	121.8
BV	247	287	372	450	539
Dividend	3.0	5.0	8.0	9.0	12.0
Turnover Ratios (days)					
Debtor days	66	70	55	65	70
Inventory days	94	94	98	97	95
Creditors days	86	80	83	80	81
VALUATION					
P/E	73.8	53.8	28.6	29.6	25.4
P/BV	10.4	9.0	6.9	5.7	4.8
EV/EBITDA	47.8	36.5	21.4	21.5	18.5
EV / Revenues	8.8	7.1	6.1	5.6	4.9
Dividend Payout (%)	8.6	10.4	8.9	10.3	11.8

(Source: Company, HDFC sec Research)

HDFC Sec Retail Research Rating Description

Green Rating stocks
This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks
This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks
This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.