

INDUSTRY	PHARMA
CMP (as on 1 Aug 2014)	Rs 725
Target Price	Rs 850
Nifty	7,603
Sensex	25,481

KEY STOCK DATA	
Bloomberg /Reuters	IPCA IN/IPCA.BO
No. of Shares (mn)	126
MCap (Rs bn) / (\$ mn)	91 / 1,496
6m avg traded value (Rs mn)	128

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 907/609		
	3M	6M	12M
Absolute (%)	(13.3)	(12.6)	8.9
Relative (%)	(27.0)	(36.8)	(23.0)

SHAREHOLDING PATTERN (%)	
Promoters	45.89
FIs & Local MFs	10.98
FIIIs	25.26
Public & Others	17.87

Source : BSE

Meeta Shetty, CFA
 meeta.shetty@hdfcsec.com
 +91-22-6171-7338

Confidence building up

IPCA Labs (IPCA) reported inline results. Revenues were up 17% YoY at Rs 9.3bn led by strong domestic/exports formulations growth (at 17%/18%). EBIDTA margins expanded 344bps YoY led by better gross margins (up 395bps). APAT at Rs 1.4bn is up 35%.

IPCA reiterated its guidance of resolving the Ratlam plant issues in next six months. We believe there is a strong possibility of IPCA resuming supplies sooner than six months given that the remedial measures (automations at plant) required for resolution were already underway before inspection. Moreover, IPCA is also confident of (1) not losing substantial market share in its key products (Atelnolol, Furosemide, Chroloquine and Hydrochlorothiazide) (2) recouping lost market share in few months (6-8 months) post re-launch. Hence we believe IPCA's US revenues may not be impacted to the extent we assumed. (We had revised our US formulations revenue estimates from US\$45/86 to US\$23/48 for FY15E/16E). However, we await some more clarity before we change our estimates.

FINANCIAL SUMMARY (Rs mn)	1QFY15	1QFY14	YoY (%)	4QFY14	QoQ (%)	FY13	FY14	FY15E	FY16E
Net Sales	9,282	7,925	17.1	7,398	25.5	27,537	31,994	35,845	43,798
EBITDA	2,309	1,710	35.0	1,826	26.4	6,232	8,106	7,928	10,484
APAT	1,438	1,067	34.7	1,237	16.2	3,686	5,333	4,631	6,316
Diluted EPS (Rs)	11.4	8.5	34.7	9.8	16.2	29.2	42.3	36.7	50.0
P/E (x)	-	-	-	-	-	24.8	17.2	19.8	14.5
EV / EBITDA (x)	-	-	-	-	-	15.6	11.9	12.1	9.0
ROE	-	-	-	-	-	26.3	30.4	21.5	24.2

Source: Company, HDFC sec Inst Research

- Key concall takeaways :** (1) IPCA expects to post ~12% growth in revenues and report EBIDTA margins of ~24% in FY15E post factoring for Ratlam plant voluntary stoppage (in Jul-14). Growth will be mainly driven by domestic (~16%), generics (ex-US) (25%) and RoW (~25%). (2) Capex guidance at Rs 5.0bn, Tax to remain ~25% for FY15E. (3) Institutional business guidance at Rs 4.8bn (IPCA reported Rs 4.37bn in FY14). IPCA's current market share in Malaria tender stood at ~30% (4) IPCA's EU revenues were down 11% in 1QFY15 due to modification at Athal plant. (5) The new list added to the NLEM list will not impact IPCA significantly (amount undisclosed). (6) IPCA's top 3 products in US contribute ~75% to US revenues.
- Outlook and Valuation :** Factoring the possibility of earlier than expected resolution of Ratlam API plant, we value IPCA at 17x (earlier 14x). **We upgrade IPCA to BUY (earlier NEUTRAL) with a TP of Rs 850 (earlier Rs 709) at 17x FY16E EPS of Rs 50.0.**
- Key upside risk :** If IPCA manages to resume supplies from Ratlam sooner than six months, our FY16E EPS could get revised from Rs 50.0 to Rs 57.5 (in the best case scenario).

QUARTERLY FINANCIALS SNAPSHOT

(Rs mn)	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	YoY (%)	QoQ (%)
Net Sales	7,925	8,343	8,152	7,398	9,282	17.1	25.5
Material Expenses	3,238	2,834	2,781	2,418	3,426	5.8	41.7
Employee Expenses	1,144	1,208	1,243	1,184	1,389	21.5	17.3
Other Operating Expenses	1,964	2,080	2,132	2,067	2,235	13.8	8.1
Operating Profits	1,580	2,221	1,995	1,728	2,232	41.2	29.1
Other Operating Income	130	124	178	98	78	(40.4)	(20.8)
EBITDA	1,710	2,345	2,173	1,826	2,309	35.0	26.4
Interest Cost	71	57	54	63	57	(19.8)	(8.9)
Depreciation	241	252	256	260	379	57.2	46.0
Other Income	45	53	54	62	63	41.3	1.0
Forex (Loss) / Gain	(480)	(399)	(24)	182	23	(104.7)	(87.6)
PBT	963	1,690	1,893	1,748	1,958	103.4	12.0
Tax	245	396	502	375	504	105.5	34.4
RPAT	718	1,295	1,391	1,374	1,455	102.7	5.9
E/o (adj for tax)	350	251	28	(136)	(17)	(104.8)	(87.7)
APAT	1,067	1,546	1,419	1,237	1,438	34.7	16.2

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

Margin Analysis	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	YoY (bps)	QoQ (bps)
Material Expenses as % of Net Sales	40.9	34.0	34.1	32.7	36.9	(394.9)	422.6
Employee Expenses as % of Net Sales	14.4	14.5	15.3	16.0	15.0	53.8	(104.3)
Other Operating Expenses as % of Net Sales	24.8	24.9	26.2	27.9	24.1	(69.6)	(386.2)
Operating Margin (%)	19.9	26.6	24.5	23.4	24.0	410.7	67.9
EBITDA Margin (%)	21.2	27.7	26.1	24.4	24.7	344.2	30.7
APAT Margin (%)	13.2	18.3	17.0	16.5	15.4	211.6	(114.2)
Tax Rate (%)	25.4	23.4	26.5	21.4	25.7	26.1	427.6

Source: Company, HDFC sec Inst Research

Revenues were up 17% YoY led by higher domestic formulations segment growth

Depreciation expense increased during the quarter as the estimated life of assets were revalued

Material expenses though dropped YoY (390bps), were down 420bps sequentially due to product mix change

Domestic/export APIs posted 75/37% QoQ growth (much higher than our expectations), however for FY15E mgt expects to post ~12% growth

SALES MIX

(Rs mn)	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	YoY (%)	QoQ (%)	FY13	FY14*	FY15E	FY16E
Domestic business	2,963	3,167	2,882	2,331	3,573	20.6	53.3	10,227	11,340	13,288	15,317
- Formulations	2,504	2,762	2,463	1,966	2,932	17.1	49.2	8,781	9,694	11,395	13,160
- API	459	405	419	365	641	39.6	75.6	1,446	1,645	1,892	2,157
Exports	4,965	5,176	5,269	5,067	5,709	15.0	12.7	17,309	20,478	22,558	28,481
- API	1,666	1,550	1,451	1,335	1,831	9.9	37.1	5,219	6,002	6,622	7,579
Revenues	7,928	8,343	8,152	7,398	9,282	17.1	25.5	27,537	31,818	35,845	43,798

Source: Company, HDFC sec Inst Research *FY14 rev brk up is standalone

KEY MODEL ASSUMPTIONS

Growth for key segments (%)	FY11	FY12	FY13	FY14	FY15E	FY16E
Domestic formulations	16.5	8.2	16.6	10.4	17.5	15.5
Africa (tender supplies)	116.2	107.4	22.2	21.8	15.0	25.0
US generics (in \$ terms)	24.2	35.1	39.1	41.7	18.0	46.0
Operational matrix						
US product launches	8.0	8.0	8.0	8.0	14.0	14.0
Per product revenue in US (US\$)	3.0	4.4	4.9	5.2	1.3	3.3
Domestic - MR productivity	1.6	2.0	2.2	2.4	2.8	3.3
Currency						
USD/Rs	45.5	48.0	54.0	61.0	61.0	61.0

Source: HDFC sec Inst Research

CHANGE IN ESTIMATES

Rs mn	FY15E			FY16E		
	Old	New	% change	Old	New	% change
Net Sales	35,845	35,845	0.0	43,798	43,798	(0.0)
EBIDTA	7,928	7,928	(0.0)	10,484	10,484	0.0
EBIDTA %	21.5	21.5	-	23.4	23.4	-
APAT	4,706	4,631	(1.6)	6,391	6,316	(1.2)

Source: HDFC sec Inst Research

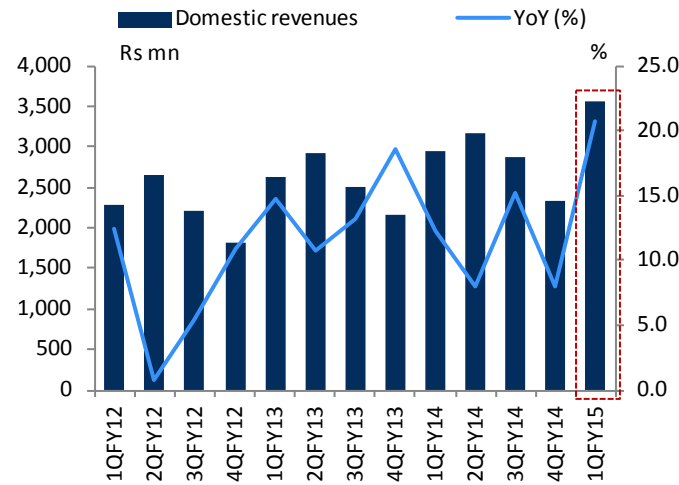
We revise our depreciation estimates higher by ~Rs100mn for both FY15E/16E to factor change in estimated life of assets

PEER COMPARISON

	CMP (Rs)	Mcap (Rs bn)	Reco	TP (Rs)	EPS				P/E				EV/EBIDTA				RoE (%)			
					FY13	FY14E	FY15E	FY16E	FY13	FY14E	FY15E	FY16E	FY13	FY14E	FY15E	FY16E	FY13	FY14E	FY15E	FY16E
Alembic Pharma	337	63	BUY	380	8.8	12.5	17.5	23.7	38.4	26.9	19.3	14.2	25.9	18.0	13.3	9.7	36.8	40.0	42.3	43.5
Aurobindo	707	206	NEU	692	14.5	45.6	35.0	49.4	48.9	15.5	20.2	14.3	26.8	11.3	13.5	10.1	17.0	41.8	24.2	27.2
Biocon	465	93	SELL	436	15.3	20.7	23.5	27.3	30.3	22.5	19.8	17.1	15.2	11.7	10.7	8.9	12.9	15.0	15.2	15.8
Cadila Hc	1091	223	BUY	1248	31.9	39.2	49.5	62.4	34.2	27.8	22.1	17.5	22.4	20.9	15.5	12.6	23.6	24.3	26.4	26.9
Cipla	443	355	NEU	377	18.0	16.1	17.0	22.2	24.5	27.5	26.0	20.0	15.7	17.0	15.8	12.6	17.4	13.5	12.9	15.0
Dr Reddy's	2759	468	NEU	2849	65.5	114.0	114.3	137.7	42.1	24.2	24.1	20.0	16.2	15.2	13.6	10.8	27.6	27.8	21.6	22.3
Indoco	245	23	BUY	246	5.7	6.4	11.7	16.4	43.3	38.0	20.9	14.9	25.5	20.5	12.7	9.3	13.1	13.6	21.5	24.5
IPCA	725	91	BUY	850	29.2	42.3	36.7	50.0	24.8	17.2	19.4	14.3	15.6	12.0	12.2	9.2	26.3	30.4	21.8	24.4
Lupin	1165	521	BUY	1361	27.7	36.7	50.4	59.2	42.1	31.8	23.1	19.7	23.5	17.6	13.8	11.6	28.5	30.3	28.6	26.4
Sun Pharma	769	1,592	BUY	779	16.5	23.4	25.0	28.8	46.7	32.9	30.8	23.6	31.7	21.6	18.4	15.7	21.9	19.0	28.2	24.8
Torrent Pharma	745	126	NEU	717	27.3	44.4	41.2	42.2	27.3	16.8	18.1	17.7	18.0	12.3	11.5	10.4	35.4	45.2	31.8	25.7

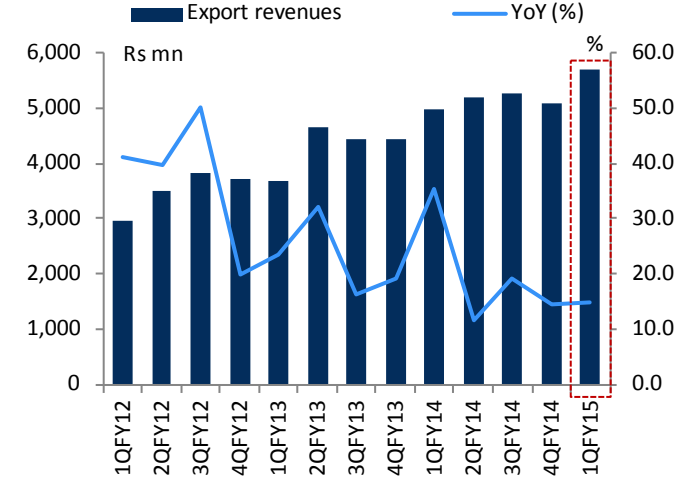
Source : HDFC sec Inst Research

Domestic formulation growth spurts led by seasonality



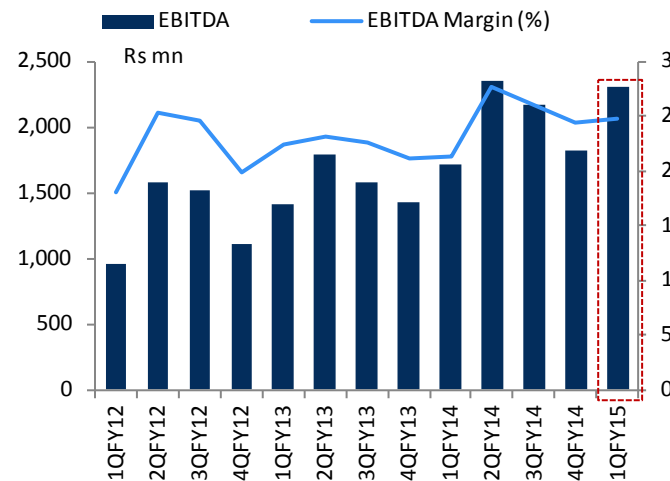
Source: Company, HDFC sec Inst Research

Lower EU revenues impacts growth



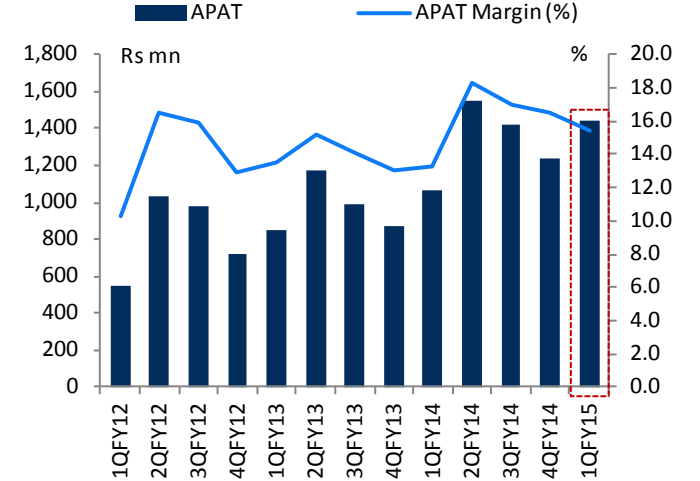
Source: Company, HDFC sec Inst Research

EBIDTAM getting steadier



Source: Company, HDFC sec Inst Research

PAT margins on a declining trend



Source: Company, HDFC sec Inst Research

INCOME STATEMENT

Year ending March (Rs mn)	FY12	FY13	FY14	FY15E	FY16E
Net Sales	23,299	27,537	31,994	35,845	43,798
Growth (%)	23.8	18.2	16.2	12.0	22.2
Material Expenses	9,131	10,966	11,366	13,263	15,767
Employee Expenses	3,355	3,918	4,980	5,976	7,171
Other Operating Expenses	5,966	7,015	8,366	9,626	11,464
Operating Profits	4,846	5,637	7,282	6,981	9,395
Operating Profit Margin (%)	20.8	20.5	22.8	19.5	21.5
Other Operating Income	288.7	594.7	823.4	946.9	1088.9
EBIDTA	5,135	6,232	8,106	7,928	10,484
EBIDTA (%)	21.8	22.2	24.7	21.5	23.4
EBIDTA Growth (%)	37.6	21.4	30.1	-2.2	32.2
Other Income	120	143	223	246	264
Depreciation	671	867	1,031	1,549	1,853
EBIT	4,583	5,508	7,297	6,626	8,895
Interest	413	334	269	501	524
Forex gain / (loss)	(527)	(631)	(722)	-	-
PBT	3,643	4,543	6,306	6,125	8,371
Tax	881	1,299	1,524	1,544	2,105
PAT	2,762	3,243	4,782	4,581	6,266
Minority Interest	9	(8)	3	3	4
EO items (net of tax)	400	451	548	-	-
APAT	3,170	3,686	5,333	4,631	6,316
APAT Growth (%)	38.8	16.3	44.7	-13.2	36.4
EPS	25.1	29.2	42.3	36.7	50.0
EPS Growth (%)	38.3	16.2	44.7	-13.2	36.4

Source: Company, HDFC sec Inst Research

BALANCE SHEET

Year ending March (Rs mn)	FY12	FY13	FY14	FY15E	FY16E
SOURCES OF FUNDS					
Share Capital	252	252	252	252	252
Reserves	12,288	15,285	19,344	23,170	28,534
Total Shareholders' Funds	12,540	15,538	19,597	23,423	28,787
Minority Interest	-	-	-	-	-
Long Term Debt	3,997	4,599	4,586	4,604	4,645
Short Term Debt	2,014	1,571	1,439	1,655	1,904
Total Debt	6,011	6,170	6,026	6,259	6,549
Deferred Taxes	932	1,304	1,471	1,780	2,201
Long Term Provisions & Others	98	129	162	179	196
TOTAL SOURCES OF FUNDS	19,580	23,141	27,256	31,640	37,733
APPLICATION OF FUNDS					
Net Block	10,150	12,098	14,841	16,457	17,785
Goodwill	236	236	344	344	344
Investments, LT Loans & Advances	787	663	895	1,015	1,154
Inventories	6,699	7,410	8,476	9,330	11,399
Debtors	3,449	4,178	4,495	5,401	6,600
Cash & Equivalents	122	582	763	1,576	3,625
ST Loans & Advances, Others	1,831	1,802	2,290	2,518	2,770
Total Current Assets	12,100	13,973	16,023	18,825	24,394
Creditors	2,345	2,684	3,413	3,437	4,200
Other Current Liabilities & Provns	1,348	1,145	1,434	1,564	1,745
Total Current Liabilities	3,693	3,828	4,847	5,001	5,944
Net Current Assets	8,407	10,145	11,176	13,823	18,449
TOTAL APPLICATION OF FUNDS	19,580	23,141	27,256	31,640	37,733

Source: Company, HDFC sec Inst Research

CASH FLOW

Year ending March (Rs mn)	FY12	FY13	FY14	FY15E	FY16E
Reported PAT	2,762	3,243	4,782	4,631	6,316
Non-operating & EO items	363	410	480	(73)	(75)
PAT from Operations	3,125	3,653	5,262	4,558	6,240
Interest expenses	413	334	269	501	524
Depreciation	671	867	1,031	1,549	1,853
Working Capital Change	(451)	(1,276)	(851)	(1,835)	(2,577)
OPERATING CASH FLOW (a)	3,758	3,577	5,711	4,773	6,041
Capex	(3,118)	(2,815)	(3,882)	(3,165)	(3,181)
Free cash flow (FCF)	641	762	1,829	1,608	2,859
Inves and other non curr assets	23	124	(232)	(121)	(139)
INVESTING CASH FLOW (b)	(3,094)	(2,691)	(4,114)	(3,286)	(3,320)
Share capital Issuance	7	-	-	-	-
Debt Issuance	709	160	(145)	234	290
Interest expenses	(118)	743	209	325	439
Dividend	(413)	(334)	(269)	(501)	(524)
others	(467)	(586)	(732)	(805)	(952)
FINANCING CASH FLOW (c)	(283)	(16)	(936)	(747)	(747)
NET CASH FLOW (a+b+c)	381	870	661	740	1,974
Non-operating and EO items	(363)	(410)	(480)	73	75
Closing Cash & Equivalents	122	582	763	1,576	3,625

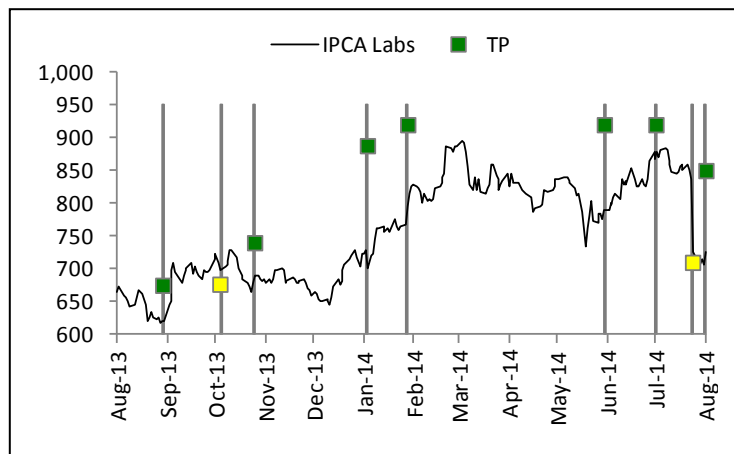
Source: Company, HDFC sec Inst Research

KEY RATIOS

	FY12	FY13	FY14	FY15E	FY16E
PROFITABILITY (%)					
GPM	61.3	61.0	65.4	63.0	64.0
EBITDA Margin	21.8	22.2	24.7	21.5	23.4
APAT Margin	13.4	13.1	16.3	12.6	14.1
RoE	27.5	26.3	30.4	21.5	24.2
ROIC	25.4	25.9	29.1	22.8	27.1
RoCE	25.3	25.8	29.0	22.7	25.8
EFFICIENCY					
Tax Rate (%)	24.2	28.6	24.2	25.0	25.0
Asset Turnover (x)	1.2	1.2	1.2	1.1	1.2
Inventory (days)	104.9	98.2	96.7	95.0	95.0
Debtors (days)	54.0	55.4	51.3	55.0	55.0
Payables (days)	36.7	35.6	38.9	35.0	35.0
Cash Conversion Cycle (days)	122.2	118.0	109.0	115.0	115.0
Debt/EBITDA (x)	1.2	1.0	0.7	0.8	0.6
Net D/E	0.5	0.4	0.3	0.2	0.1
Interest Coverage	10.8	16.1	26.3	12.7	16.5
PER SHARE DATA					
EPS (Rs/sh)	25.1	29.2	42.3	36.7	50.0
CEPS (Rs/sh)	30.5	36.1	50.4	49.0	64.7
DPS (Rs/sh)	3.2	4.0	5.0	5.5	6.5
BV (Rs/sh)	99.4	123.1	155.3	185.6	228.1
VALUATION					
P/E	28.8	24.8	17.2	19.8	14.5
P/BV	7.3	5.9	4.7	3.9	3.2
EV/EBITDA	18.9	15.6	11.9	12.1	9.0
OCF/EV (%)	3.9	3.7	5.9	5.0	6.4
FCF/EV (%)	0.7	0.8	1.9	1.7	3.0
FCFE/EV(%)	0.2	0.4	1.6	1.2	2.5
Dividend Yield (%)	0.4	0.6	0.7	0.8	0.9

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
29-Aug-13	621	BUY	675
7-Oct-13	698	NEU	675
25-Oct-13	690	BUY	740
6-Jan-14	700	BUY	888
28-Jan-14	796	BUY	920
30-May-14	789	BUY	920
2-Jul-14	867	BUY	920
24-Jul-14	727	NEU	709
1-Aug-14	725	BUY	850

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclaimer: This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HDFC Securities Ltd or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently send or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HDFC Securities Ltd .

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HDFC Securities Ltd may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HDFC Securities and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HDFC Securities Ltd, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HDFC Securities Ltd and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organisations described in this report.

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park, Senapati Bapat Marg, Lower Parel,

Mumbai - 400 013

Board : +91-22-6171 7330

www.hdfcsec.com