

IPCA Laboratories

Export momentum will continue

We believe export momentum will continue with pick-up in branded promotional and tender sales. Increasing capacity along with improving demand will keep Ipca's export business buoyant even in future. The Artesunate + Amodiaquine (AS-AQ) combination drug (Rs500mn) launch in 1QFY14 will be the next strong trigger in tender sales. The fear of losing on international tender sales also has subsided for the time being with continuation of AMFM programme (Affordable Medicines Facility for Malaria) over CY13-14E. Thus, on back of strong supplies and incremental AS-AQ combination launch, we expect the company to generate ~Rs5bn sales in FY14. We believe the Artesunate injectable (high margin and low competition) drug is the long term trigger with expected supplies to start by FY15. Additionally, FDA audit for its Indore facility, which is due in February 2013 will add to the increase in export business from US (management expects commercialization by in ~H2 FY14).

Domestic growth intact; Minimal impact of new pricing policy

Domestic market contributes ~30% to IPCA's total business, is expected to maintain its strong growth. Higher productivity and strong visibility is likely to spur the growth in FY14 (~18%). Ipca has one of the best franchise in domestic market. The domestic mix of drugs also bodes well with the strategy to minimize the impact by new pricing policy. Management expects to recuperate a part of the loss via price hikes in non-NLEM products. We believe some portion of the loss will also be compensated by increase in volumes of high-value brands after price control. In domestic business, we estimate ~16% growth in FY13 and ~200 bps improvements in FY14 (~18%).

Attractive valuations; Recommend BUY

Ipca has a strong franchise in Indian branded business (~55% of total business) coupled with high margin exports. We estimate Revenue and PAT CAGR of 19% and 26% over FY12-15, respectively. With multiple growth drivers for revenue and margin expansions, we believe the valuations are still attractive at 11.5x FY15E EPS of Rs43.7. We recommend BUY

Financial summary

Y/e 31 Mar (Rs m)	FY12	FY13E	FY14E	FY15E
Revenues	23,587	28,296	33,675	39,172
yoy growth (%)	24.2	20.0	19.0	16.3
Operating profit	5,135	6,310	7,644	9,009
OPM (%)	21.8	22.3	22.7	23.0
Pre-exceptional PAT	3,297	3,881	4,804	5,525
Reported PAT	2,771	3,881	4,804	5,525
yoy growth (%)	5.6	40.1	23.8	15.0
EPS (Rs)	26.1	30.7	38.0	43.7
P/E (x)	19.4	16.4	13.3	11.5
Price/Book (x)	5.1	4.1	3.3	2.7
EV/EBITDA (x)	13.6	11.2	9.2	7.9
Debt/Equity (x)	0.5	0.5	0.4	0.5
RoE (%)	28.6	27.5	27.3	25.3
RoCE (%)	26.3	26.9	27.6	26.2

Source: Company, India Infoline Research

January 17, 2013

Rating: BUY

Target (3 months): Rs556

CMP: Rs505

Upside: 10.1%

Sector: Pharmaceutical

Sector view: Positive

Sensex: 19,893

52 Week h/l (Rs): 536/272

Market cap (Rscr) : 6,378

6m Avg vol ('000Nos): 217

Bloomberg code: IPCA IN

BSE code: 524494

NSE code: IPCALAB

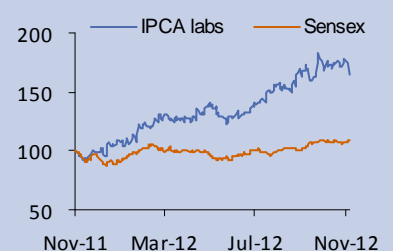
FV (Rs): 2

Price as on Jan 17, 2013

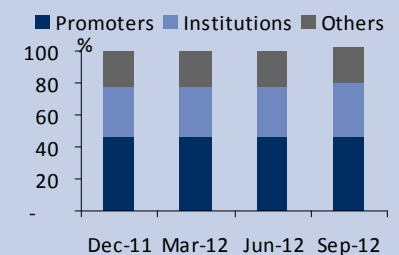
Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth				■	
Cash Flow				■	
B/S Strength				■	
Valuation appeal				■	
Risk	■				

Share price trend



Share holding pattern



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Other awards



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