

## Ipca Laboratories

### Performance Highlights

| Y/E March (₹ cr)              | 2QFY2017   | 1QFY2017   | % chg (QoQ) | 2QFY2016   | % chg (YoY)  |
|-------------------------------|------------|------------|-------------|------------|--------------|
| <b>Net sales</b>              | <b>853</b> | <b>822</b> | <b>3.8</b>  | <b>739</b> | <b>15.5</b>  |
| Other income                  | 33         | 17         | 90.7        | 16         | 108.4        |
| Operating profit              | 109        | 108        | 0.9         | 79         | 38.7         |
| Tax                           | 37         | 29         | 29.0        | 8          | 355.5        |
| <b>Adj. net profit/(loss)</b> | <b>55</b>  | <b>48</b>  | <b>15.5</b> | <b>12</b>  | <b>345.3</b> |

Source: Company, Angel Research

Ipca Laboratories posted numbers lower than expected on the net profit and OPM front. On sales front, the company posted sales of ₹853cr (vs. ₹750cr expected vs. ₹739cr in 2QFY2016), posting a yoy growth of 15.5%. On the operating front, the EBITDA margin came in at 12.8% vs. 14.9% expected vs. 10.6% in 2QFY2016. Consequently, the Adj. PAT came in at ₹54.9cr vs. ₹53.3cr expected vs. ₹12.3cr in 2QFY2016. Apart from better than expected OPM, the company also posted higher than expected other income (₹33cr in 2QFY2017 vs. ₹16cr in 2QFY2016). **We maintain our Accumulate rating.**

**Results lower than expected on sales and operating fronts:** On sales front, the company posted sales of ₹853cr (vs. ₹750cr expected vs. ₹739cr in 2QFY2016), posting a yoy growth of 15.5%. The formulation sales (₹668cr) posted a yoy growth of 20.0%, while API (₹185cr) posted a yoy growth of 2.0%. On the operating front, the EBITDA margin came in at 12.8% vs. 14.9% expected vs. 10.6% in 2QFY2016. Consequently, the Adj. PAT came in at ₹54.9cr vs. ₹53.3cr expected vs. ₹12.3cr in 2QFY2016. Apart from better than expected OPM, the company also posted higher than expected other income (₹33cr in 2QFY2017 vs. ₹16cr in 2QFY2016).

**Outlook and Valuation:** We expect net sales to post a CAGR of 15.6% to ₹3,799cr and EPS to register a CAGR of 36.5% to ₹19.7 over FY2016–18E. The company's financials will be impacted by the USFDA import alert on the Ratlam, Indore and Silvassa facilities. While the problems are likely to persist for a while, we expect the company's performance to witness a gradual pick-up going forward. Given the inexpensive valuations, **we maintain our Accumulate rating.**

### Key financials (Consolidated)

| Y/E March (₹ cr)       | FY2015       | FY2016       | FY2017E      | FY2018E      |
|------------------------|--------------|--------------|--------------|--------------|
| <b>Net sales</b>       | <b>3,117</b> | <b>2,844</b> | <b>3,303</b> | <b>3,799</b> |
| % chg                  | (2.6)        | (8.7)        | 16.1         | 15.0         |
| <b>Adj. Net profit</b> | <b>254</b>   | <b>133</b>   | <b>219</b>   | <b>248</b>   |
| % chg                  | (48.6)       | (47.6)       | 64.2         | 13.5         |
| <b>EPS</b>             | <b>20.1</b>  | <b>10.6</b>  | <b>17.3</b>  | <b>19.7</b>  |
| EBITDA margin (%)      | 16.2         | 10.6         | 15.3         | 15.3         |
| P/E (x)                | 26.8         | 51.2         | 31.2         | 27.5         |
| RoE (%)                | 12.2         | 5.9          | 9.1          | 9.4          |
| RoCE (%)               | 10.9         | 4.1          | 8.4          | 8.8          |
| P/BV (x)               | 3.1          | 3.0          | 2.7          | 2.5          |
| EV/Sales (x)           | 2.4          | 2.5          | 2.1          | 1.9          |
| EV/EBITDA (x)          | 14.5         | 23.5         | 14.1         | 12.4         |

Source: Company, Angel Research; Note: CMP as of November 15, 2016

## ACCUMULATE

|              |      |
|--------------|------|
| CMP          | ₹540 |
| Target Price | ₹613 |

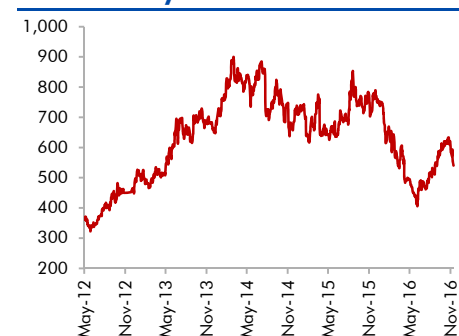
|                   |           |
|-------------------|-----------|
| Investment Period | 12 Months |
|-------------------|-----------|

| Stock Info         |                |
|--------------------|----------------|
| Sector             | Pharmaceutical |
| Market Cap (₹ cr)  | 6,820          |
| Net Debt (₹ cr)    | 337            |
| Beta               | 0.7            |
| 52 Week High / Low | 807/402        |
| Avg. Daily Volume  | 55,139         |
| Face Value (₹)     | 2              |
| BSE Sensex         | 26,305         |
| Nifty              | 8,108          |
| Reuters Code       | IPCA.BO        |
| Bloomberg Code     | IPCA@IN        |

| Shareholding Pattern (%) |      |
|--------------------------|------|
| Promoters                | 46.0 |
| MF / Banks / Indian Fls  | 25.6 |
| FII / NRIs / OCBs        | 16.0 |
| Indian Public / Others   | 12.4 |

| Abs. (%) | 3m    | 1yr    | 3yr    |
|----------|-------|--------|--------|
| Sensex   | (6.6) | 2.7    | 28.9   |
| Ipca     | 1.6   | (24.8) | (20.5) |

### 3-Year Daily Price Chart



Source: Company, Angel Research

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**Exhibit 1: 2QFY2017 – Standalone performance**

| Y/E March (₹ cr)                      | 2QFY2017    | 1QFY2017    | % chg (QoQ) | 2QFY2016    | % chg (YoY)  | 1HFY2017    | 1HFY2016    | % chg (yoy)  |
|---------------------------------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|--------------|
| <b>Net sales</b>                      | <b>853</b>  | <b>822</b>  | <b>3.8</b>  | <b>739</b>  | <b>15.5</b>  | <b>1674</b> | <b>1485</b> | <b>12.8</b>  |
| Other income                          | 33          | 17          | 90.7        | 16          | 108.4        | 51          | 29          | 74.2         |
| <b>Total income</b>                   | <b>886</b>  | <b>839</b>  | <b>5.6</b>  | <b>754</b>  | <b>17.4</b>  | <b>1725</b> | <b>1514</b> | <b>13.9</b>  |
| Gross profit                          | 511         | 508         | 0.5         | 458         | 11.6         | 1042        | 907         | 14.8         |
| <b>Gross margins (%)</b>              | <b>59.9</b> | <b>61.9</b> |             | <b>62.0</b> |              | <b>62.2</b> | <b>61.1</b> |              |
| Operating profit                      | 109         | 108         | 0.9         | 79          | 38.7         | 217         | 146         | 48.2         |
| <b>Operating margin (%)</b>           | <b>12.8</b> | <b>13.1</b> |             | <b>10.6</b> |              | <b>12.9</b> | <b>9.8</b>  |              |
| Interest                              | 7           | 7           | 3.5         | 7           | (3.4)        | 13          | 13          | 1.9          |
| Depreciation                          | 43          | 42          | 1.8         | 44          | (1.7)        | 85          | 77          | 10.7         |
| PBT                                   | 92          | 77          | 20.6        | 44          | -            | 169         | 86          | 97.8         |
| Provision for taxation                | 37          | 29          | 29.0        | 8           |              | 66          | 18          | 270.9        |
| Less: Exceptional Items (gains)/ loss | 0           | 0           |             | (24)        |              | 0           | 34          |              |
| <b>Reported Net profit</b>            | <b>55</b>   | <b>48</b>   | <b>15.5</b> | <b>12</b>   | <b>345.3</b> | <b>103</b>  | <b>33</b>   | <b>208.2</b> |
| <b>Adj. Net profit/(loss)</b>         | <b>55</b>   | <b>48</b>   | <b>15.5</b> | <b>12</b>   | <b>345.3</b> | <b>103</b>  | <b>60</b>   | <b>70.1</b>  |
| <b>EPS (₹)</b>                        | <b>4.3</b>  | <b>3.7</b>  |             | <b>1.0</b>  |              | <b>8.0</b>  | <b>4.7</b>  |              |

Source: Company, Angel Research, FY numbers are consolidated

**Exhibit 2: 2QFY2017 – Actual vs Angel estimates**

| (₹ cr)                            | Actual     | Estimates  | Variation (%) |
|-----------------------------------|------------|------------|---------------|
| <b>Net sales</b>                  | <b>853</b> | <b>750</b> | <b>13.7</b>   |
| Other income                      | 33         | 13         | 155.6         |
| Operating profit                  | 109        | 106        | 2.7           |
| Interest                          | 7          | 7          | (3.4)         |
| Tax                               | 37         | 15         | 149.3         |
| <b>Adjusted Net profit/(loss)</b> | <b>55</b>  | <b>53</b>  | <b>3.0</b>    |

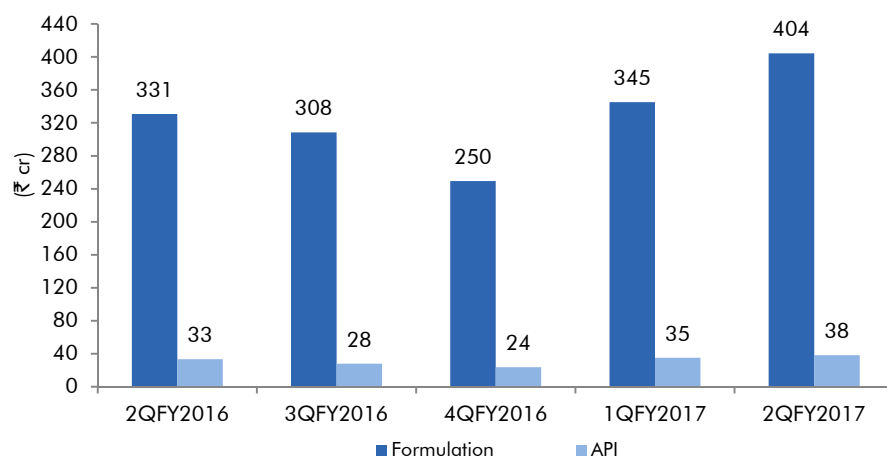
Source: Company, Angel Research

**Revenue above our estimate; grew by 15.5% yoy:** The formulation sales (₹668cr) posted a yoy growth of 20.0%, while API (₹185cr) posted a yoy growth of 2.0%. The formulation sales growth was driven by Domestic Formulation (₹404.4cr), posting a yoy growth of 23.0%.

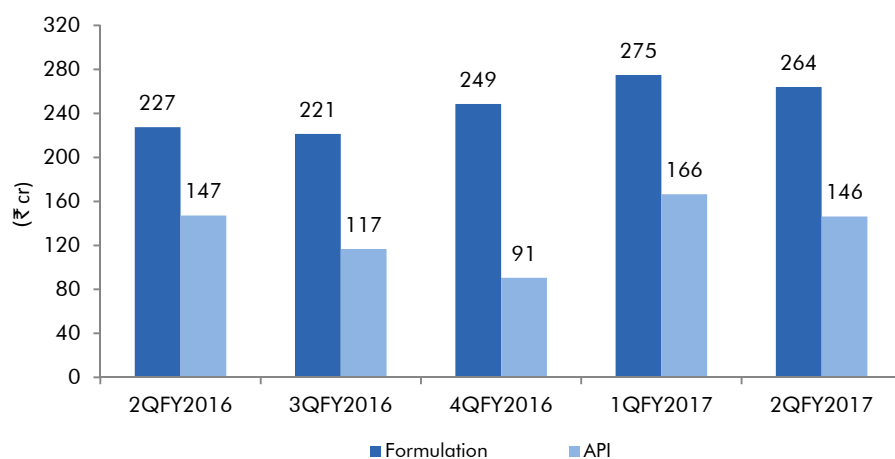
Domestic formulation sales (₹404.4cr) posted a yoy growth of 23.2%, while exports formulation sales (₹264cr) posted a yoy growth of 16%. Domestic API sales (₹38cr) posted a growth of 15% yoy and export API sales were flat at ₹146cr.

In Domestic market, its malaria portfolio saw a robust 54% growth and non-malaria portfolio grew by 18% in 2QFY2016. It expects domestic formulation to see 12-14% growth in 2HFY2017 led by the immediate price hike in its non-NLEM portfolio.

Overall, for 2QFY2017, exports contributed 48.1% to the top-line while the domestic business contributed the rest. The overall contribution of formulations was at 78.4% of total sales during the quarter. This is against 75.6% in 2QFY2016.

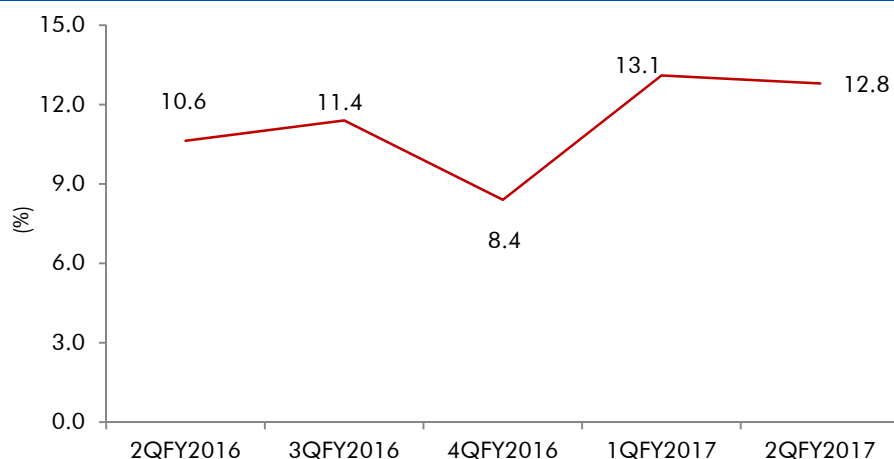
**Exhibit 3: Domestic sales trend**


Source: Company, Angel Research

**Exhibit 4: Exports sales trend**


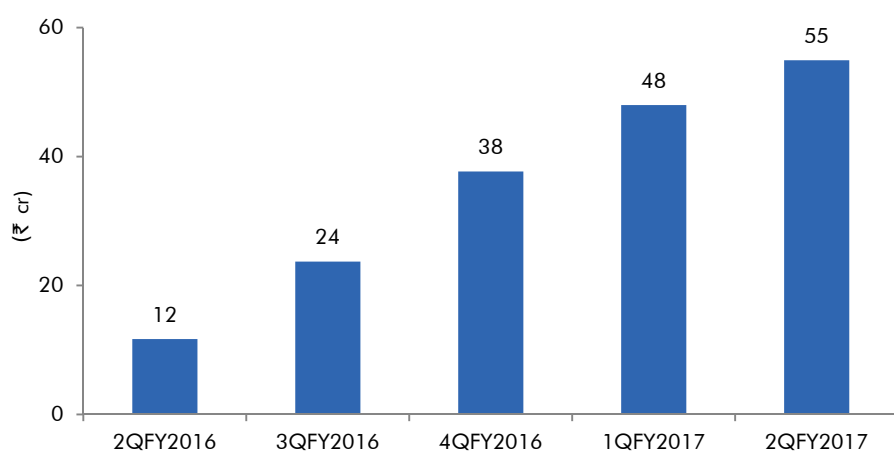
Source: Company, Angel Research

**OPM expands yoy; but lower than expected:** On the operating front, the EBITDA margin came in at 12.8% vs. 14.9% expected vs. 10.6% in 2QFY2016. Apart from the gross margin expansion (which came in at 59.9% in 2QFY2017 vs. 62.0% in 2QFY2016), lower expenses during the quarter aided the OPM expansion. Other expenses posted a yoy growth of 6.6%. The Management expects the EBDITA margin to be around 14.0-15.0%.

**Exhibit 5: OPM trend**


Source: Company, Angel Research

**Reported net profit marginally higher than estimates:** Consequently, the Adj. PAT came in at ₹54.9cr vs. ₹53.3cr expected vs. ₹12.3cr in 2QFY2016. Apart from better than expected OPM, the company also posted higher than expected other income (₹33cr in 2QFY2017 vs. ₹16cr in 2QFY2016).

**Exhibit 6: Adj. Net profit trend**


Source: Company, Angel Research

### Concall Highlights

- Top-line growth for FY2017 estimated by Management is ~14.0-15.0% yoy, with EBDITA margin of 14-15%.
- Ipca expects to invite USFDA for re-inspection for its problematic formulation plants at Piparia (Silvassa) and Pithampur (M.P.) followed by Ratlam API plant (M.P.) in early FY2018. However, expects no immediate drug approval from USFDA post plant clearance.
- It filed for three ANDAs in 1HFY2017 and expects 3-4 ANDAs filing in 2HFY2016.

## Investment arguments

- **Domestic formulations business – the cash cow:** Ipca has been successful in changing its business focus to the high-margin chronic and lifestyle segments from the low-margin anti-malarial segment. The chronic and lifestyle segments comprising CVS, anti-diabetics, pain-management, CNS and dermatology products, constitute more than 50% of the company's domestic formulation sales. The Management has ramped up its field force significantly with addition of divisions in the domestic formulations segment, taking the current total strength to nearly 4,000MRs. With an expected pick-up in sales in FY2017, we expect the domestic formulation business to grow at a CAGR of 16.2% over FY2016-18E.
- **Exports currently under pressure; should pickup only by FY2018:** On the formulations front, Ipca has been increasing its penetration in regulated markets, viz Europe and the US, by expanding the list of generic drugs backed by its own API. In the emerging and semi-regulated markets, the company plans to focus on building brands in the CVS, CNS, pain-management and anti-malarial segments along with tapping new geographies. On the API front, where the company is among the low-cost producers, it is aggressively pursuing supply tie-ups with pharmaceutical MNCs.

After the USFDA inspection at the company's API manufacturing facility at Ratlam (Madhya Pradesh), the company has received certain inspection observations in Form 483, consequent to which the company had voluntarily decided to temporarily suspend API shipments from this manufacturing facility to the US markets until the issue getting resolved. However, the Form 483 was converted into an import alert, except for 4 APIs which constituted around 45% of US sales in FY2014.

The company's Silvassa and Indore facilities (formulation facilities) are also under import alert. These developments impacted FY2015 sales, while FY2018 should see some revival. We expect exports to grow at a CAGR of 15.0% over FY2016-18E.

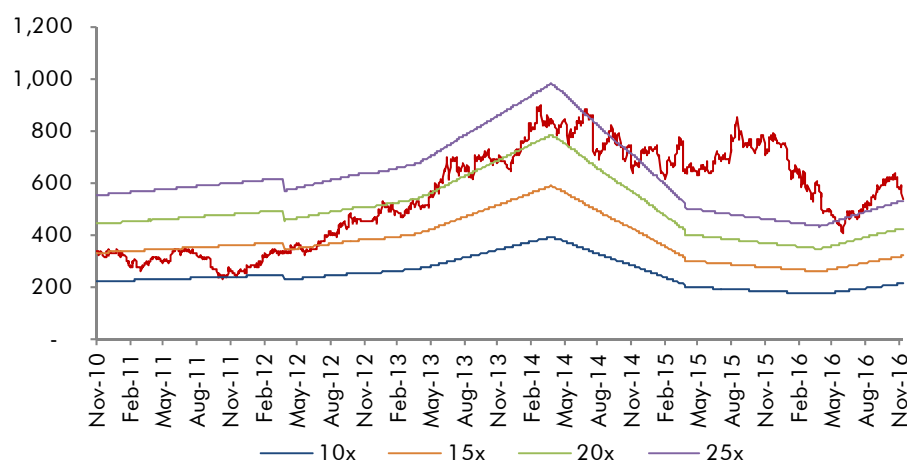
## Outlook & Valuation:

We expect net sales to post a CAGR of 15.6% to ₹3,799cr and EPS to register a CAGR of 36.5% to ₹19.7cr over FY2016–18E. The company's financials will be impacted by the USFDA import alert on the Ratlam, Indore and Silvassa facilities. While the problems are likely to persist for a while, we expect a gradual pick-up in performance only by FY2018. Still, given the valuations, **we maintain our Accumulate rating on the stock with a price target of ₹613.**

**Exhibit 7: Key Assumptions**

|                       | FY2017E | FY2018E |
|-----------------------|---------|---------|
| Sales growth (%)      | 16.1    | 15.0    |
| Domestic growth (%)   | 17.4    | 15.0    |
| Exports growth (%)    | 15.0    | 15.0    |
| Operating margins (%) | 15.3    | 15.3    |
| R&D Exp ( % of sales) | 4.0     | 4.0     |
| Capex (₹ cr)          | 500     | 500     |

Source: Company, Angel Research

**Exhibit 8: One-year forward PE band**


Source: Company, Angel Research

**Exhibit 9: Recommendation summary**

| Company           | Reco.      | CMP   | Tgt Price | Upside |        | FY2018E      |               | FY16-18E        | FY2018E  |         |
|-------------------|------------|-------|-----------|--------|--------|--------------|---------------|-----------------|----------|---------|
|                   |            | (₹)   | (₹)       | (%)    | PE (x) | EV/Sales (x) | EV/EBITDA (x) | CAGR in EPS (%) | RoCE (%) | RoE (%) |
| Alembic Pharma    | Neutral    | 631   | -         | -      | 20.7   | 2.8          | 13.0          | (10.8)          | 27.5     | 25.3    |
| Aurobindo Pharma  | Buy        | 733   | 877       | 19.7   | 15.5   | 2.6          | 10.8          | 18.1            | 22.5     | 26.1    |
| Cadila Healthcare | Accumulate | 358   | 400       | 11.7   | 18.7   | 2.9          | 13.0          | 13.4            | 22.7     | 25.7    |
| Cipla             | Neutral    | 553   | -         | -      | 20.3   | 2.6          | 14.0          | 20.4            | 13.5     | 15.2    |
| Dr Reddy's        | Neutral    | 3,309 | -         | -      | 22.9   | 2.9          | 13.3          | 1.7             | 16.2     | 15.9    |
| Dishman Pharma    | Neutral    | 229   | -         | -      | 20.2   | 3.0          | 10.0          | 3.1             | 10.3     | 10.9    |
| GSK Pharma*       | Neutral    | 2,650 | -         | -      | 43.6   | 6.6          | 32.0          | 17.3            | 35.3     | 32.1    |
| Indoco Remedies   | Sell       | 286   | 240       | (18.5) | 17.9   | 2.1          | 11.5          | 33.2            | 19.1     | 20.1    |
| Ipca labs         | Accumulate | 540   | 613       | 13.4   | 27.5   | 1.9          | 12.4          | 36.5            | 8.8      | 9.4     |
| Lupin             | Buy        | 1,440 | 1,809     | 25.6   | 20.8   | 3.4          | 12.8          | 17.2            | 24.4     | 20.9    |
| Sanofi India*     | Neutral    | 4,253 | -         | -      | 24.7   | 2.6          | 17.7          | 22.2            | 24.9     | 28.8    |
| Sun Pharma        | Buy        | 683   | 944       | 38.3   | 20.8   | 4.1          | 13.2          | 22.0            | 33.1     | 18.9    |

Source: Company, Angel Research; Note: \*December year ending

## **Company background**

Formed in 1949, Ipca Laboratories is a market leader in the anti-malarials and rheumatoid arthritis segments. The company is a notable name in the domestic formulations category with 150 formulations across major therapeutic segments like cardiovascular (CVS), anti-diabetes, anti-malaria, pain-management (NSAID), anti-bacterial, central nervous system (CNS) and gastro-intestinal. The company has 7 production units, which are approved by most of the discerning regulatory authorities including USFDA, UKMHRA, Australia-TGA, South Africa-MCC and Brazil-ANVISA.

**Profit & loss statement (Consolidated)**

| Y/E March (₹ cr)                | FY2013       | FY2014       | FY2015       | FY2016       | FY2017E      | FY2018E      |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Gross sales</b>              | <b>2,778</b> | <b>3,232</b> | <b>3,157</b> | <b>2,891</b> | <b>3,356</b> | <b>3,859</b> |
| Less: Excise duty               | 25           | 33           | 40           | 47           | 53           | 61           |
| <b>Net Sales</b>                | <b>2,754</b> | <b>3,199</b> | <b>3,117</b> | <b>2,844</b> | <b>3,303</b> | <b>3,799</b> |
| Other operating income          | 59           | 82           | 40           | 41           | 41           | 41           |
| <b>Total operating income</b>   | <b>2,813</b> | <b>3,282</b> | <b>3,157</b> | <b>2,885</b> | <b>3,344</b> | <b>3,839</b> |
| % chg                           | 19.3         | 16.7         | (3.8)        | (8.6)        | 15.9         | 14.8         |
| Total expenditure               | 2,190        | 2,471        | 2,613        | 2,543        | 2,799        | 3,219        |
| Net raw materials               | 1,097        | 1,137        | 1,155        | 1,058        | 1,173        | 1,349        |
| Other mfg costs                 | 245          | 250          | 277          | 253          | 294          | 338          |
| Personnel                       | 392          | 498          | 565          | 627          | 728          | 837          |
| Other                           | 456          | 587          | 616          | 606          | 604          | 695          |
| <b>EBITDA</b>                   | <b>564</b>   | <b>728</b>   | <b>504</b>   | <b>301</b>   | <b>504</b>   | <b>580</b>   |
| % chg                           | 19.5         | 29.1         | (30.8)       | (40.2)       | 67.4         | 15.0         |
| (% of Net Sales)                | 20.5         | 22.8         | 16.2         | 10.6         | 15.3         | 15.3         |
| Depreciation & amortisation     | 87           | 103          | 180          | 172          | 233          | 268          |
| <b>EBIT</b>                     | <b>477</b>   | <b>625</b>   | <b>324</b>   | <b>129</b>   | <b>271</b>   | <b>312</b>   |
| % chg                           | 17.8         | 31.1         | (48.1)       | (60.2)       | 110.3        | 15.0         |
| (% of Net Sales)                | 17.3         | 19.5         | 10.4         | 4.5          | 8.2          | 8.2          |
| Interest & other charges        | 33           | 27           | 28           | 32           | 32           | 32           |
| Other Income                    | 14           | 22           | 28           | 17           | 17           | 17           |
| (% of PBT)                      | 2.8          | 3.2          | 7.8          | 10.9         | 5.7          | 5.0          |
| <b>Recurring PBT</b>            | <b>517</b>   | <b>703</b>   | <b>364</b>   | <b>155</b>   | <b>297</b>   | <b>338</b>   |
| % chg                           | 24.0         | 35.9         | (48.2)       | (57.5)       | 91.8         | 13.7         |
| Extraordinary expense/(Inc.)    | 63.3         | 72.2         | -            | 39.5         | -            | -            |
| <b>PBT (reported)</b>           | <b>454</b>   | <b>631</b>   | <b>364</b>   | <b>115</b>   | <b>297</b>   | <b>338</b>   |
| Tax                             | 129.9        | 152.4        | 101.9        | 18.6         | 74.2         | 84.4         |
| (% of PBT)                      | 28.6         | 24.2         | 28.0         | 16.1         | 25.0         | 25.0         |
| <b>PAT (reported)</b>           | <b>324</b>   | <b>478</b>   | <b>262</b>   | <b>97</b>    | <b>223</b>   | <b>253</b>   |
| Add: Share of earnings of asso. | -            | 0            | (5)          | (3)          | -            | -            |
| <b>PAT after MI (reported)</b>  | <b>324</b>   | <b>478</b>   | <b>254</b>   | <b>94</b>    | <b>219</b>   | <b>248</b>   |
| <b>ADJ. PAT</b>                 | <b>340</b>   | <b>495</b>   | <b>254</b>   | <b>133</b>   | <b>219</b>   | <b>248</b>   |
| % chg                           | 18.4         | 45.6         | (48.6)       | (47.6)       | 64.2         | 13.5         |
| (% of Net Sales)                | 11.8         | 14.9         | 8.2          | 3.3          | 6.6          | 6.5          |
| <b>Basic EPS (₹)</b>            | <b>26.9</b>  | <b>39.2</b>  | <b>20.1</b>  | <b>10.6</b>  | <b>17.3</b>  | <b>19.7</b>  |
| <b>Fully Diluted EPS (₹)</b>    | <b>26.9</b>  | <b>39.2</b>  | <b>20.1</b>  | <b>10.6</b>  | <b>17.3</b>  | <b>19.7</b>  |
| % chg                           | 18.4         | 45.6         | (48.6)       | (47.6)       | 64.2         | 13.5         |



**Balance sheet (Consolidated)**

| Y/E March (₹ cr)            | FY2013       | FY2014       | FY2015       | FY2016       | FY2017E      | FY2018E      |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>SOURCES OF FUNDS</b>     |              |              |              |              |              |              |
| Equity share capital        | 25           | 25           | 25           | 25           | 25           | 25           |
| Reserves & surplus          | 1,529        | 1,934        | 2,183        | 2,281        | 2,485        | 2,718        |
| <b>Shareholders Funds</b>   | <b>1,554</b> | <b>1,960</b> | <b>2,208</b> | <b>2,306</b> | <b>2,510</b> | <b>2,743</b> |
| Minority interest           | -            | -            | -            | -            | -            | -            |
| Total loans                 | 523          | 603          | 829          | 595          | 671          | 809          |
| Other Long Term Liabilities | 1            | 1            | -            | -            | -            | -            |
| Long Term Provisions        | 12           | 15           | 22           | 23           | 23           | 23           |
| Deferred tax liability      | 130          | 147          | 174          | 169          | 169          | 169          |
| <b>Total Liabilities</b>    | <b>2,220</b> | <b>2,726</b> | <b>3,233</b> | <b>3,094</b> | <b>3,350</b> | <b>3,722</b> |
| <b>APPLICATION OF FUNDS</b> |              |              |              |              |              |              |
| Gross block                 | 1,537        | 1,882        | 2,626        | 2,828        | 3,328        | 3,828        |
| Less: Acc. depreciation     | 475          | 578          | 758          | 930          | 1,163        | 1,431        |
| <b>Net Block</b>            | <b>1,063</b> | <b>1,303</b> | <b>1,868</b> | <b>1,898</b> | <b>2,165</b> | <b>2,397</b> |
| Goodwill                    | 42           | 50           | 34           | 34           | 34           | 34           |
| Capital work-in-progress    | 129          | 165          | 165          | 165          | 165          | 165          |
| <b>Investments</b>          | <b>9</b>     | <b>9</b>     | <b>16</b>    | <b>96</b>    | <b>96</b>    | <b>96</b>    |
| Long Term Loans and Adv.    | 57           | 71           | 115          | 108          | 125          | 144          |
| Current assets              | 1,397        | 1,602        | 1,614        | 1,522        | 1,767        | 2,032        |
| Cash                        | 58           | 76           | 125          | 162          | 189          | 223          |
| Loans & advances            | 42           | 67           | 47           | 43           | 50           | 50           |
| Other                       | 1,297        | 1,459        | 1,442        | 1,317        | 1,529        | 1,759        |
| <b>Current liabilities</b>  | <b>477</b>   | <b>485</b>   | <b>579</b>   | <b>729</b>   | <b>847</b>   | <b>974</b>   |
| <b>Net Current Assets</b>   | <b>921</b>   | <b>1,117</b> | <b>1,035</b> | <b>793</b>   | <b>920</b>   | <b>1,058</b> |
| Other Non current Assets    | -            | 9            | -            | -            | .            | .            |
| <b>Total Assets</b>         | <b>2,220</b> | <b>2,726</b> | <b>3,233</b> | <b>3,094</b> | <b>3,350</b> | <b>3,722</b> |

**Cash flow statement (Consolidated)**

| Y/E March (₹ cr)                 | FY2013       | FY2014       | FY2015       | FY2016       | FY2017E      | FY2018E      |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Profit before tax                | 454          | 631          | 364          | 115          | 297          | 338          |
| Depreciation                     | 87           | 103          | 180          | 172          | 233          | 268          |
| (Inc)/Dec in working capital     | (116)        | (193)        | 88           | 286          | (411)        | 1,088        |
| Direct taxes paid                | (130)        | (152)        | (102)        | (19)         | (74)         | (84)         |
| <b>Cash Flow from Operations</b> | <b>295</b>   | <b>389</b>   | <b>530</b>   | <b>555</b>   | <b>137</b>   | <b>1,722</b> |
| (Inc.)/Dec.in fixed assets       | (257)        | (380)        | (745)        | (202)        | (500)        | (500)        |
| (Inc.)/Dec. in Investments       | -            | -            | -            | -            | -            | -            |
| <b>Cash Flow from Investing</b>  | <b>(257)</b> | <b>(380)</b> | <b>(745)</b> | <b>(202)</b> | <b>(500)</b> | <b>(500)</b> |
| Issue of Equity                  | 0            | -            | -            | -            | -            | -            |
| Inc./(Dec.) in loans             | (5)          | 83           | 232          | (232)        | 76           | 138          |
| Dividend Paid (Incl. Tax)        | (59)         | (74)         | (15)         | (15)         | (15)         | (15)         |
| Others                           | 72           | 1            | 47           | (69)         | 419          | (72)         |
| <b>Cash Flow from Financing</b>  | <b>8</b>     | <b>10</b>    | <b>264</b>   | <b>(316)</b> | <b>480</b>   | <b>51</b>    |
| Inc./(Dec.) in Cash              | 46           | 18           | 49           | 37           | 27           | 38           |
| <b>Opening Cash balances</b>     | <b>12</b>    | <b>58</b>    | <b>76</b>    | <b>125</b>   | <b>162</b>   | <b>189</b>   |
| <b>Closing Cash balances</b>     | <b>58</b>    | <b>76</b>    | <b>125</b>   | <b>162</b>   | <b>189</b>   | <b>223</b>   |

### Key Ratios

| Y/E March                       | FY2013 | FY2014 | FY2015 | FY2016 | FY2017E | FY2018E |
|---------------------------------|--------|--------|--------|--------|---------|---------|
| <b>Valuation Ratio (x)</b>      |        |        |        |        |         |         |
| P/E (on FDEPS)                  | 19.7   | 13.8   | 26.8   | 51.2   | 31.2    | 27.5    |
| P/CEPS                          | 15.7   | 11.4   | 15.7   | 22.3   | 15.1    | 13.2    |
| P/BV                            | 4.4    | 3.5    | 3.1    | 3.0    | 2.7     | 2.5     |
| Dividend yield (%)              | 0.8    | 0.8    | 0.8    | 0.8    | 0.8     | 0.8     |
| EV/Sales                        | 2.6    | 2.2    | 2.4    | 2.5    | 2.1     | 1.9     |
| EV/EBITDA                       | 12.7   | 9.9    | 14.5   | 23.5   | 14.1    | 12.4    |
| EV / Total Assets               | 3.2    | 2.6    | 2.3    | 2.3    | 2.1     | 1.9     |
| <b>Per Share Data (₹)</b>       |        |        |        |        |         |         |
| EPS (Basic)                     | 26.9   | 39.2   | 20.1   | 10.6   | 17.3    | 19.7    |
| EPS (fully diluted)             | 26.9   | 39.2   | 20.1   | 10.6   | 17.3    | 19.7    |
| Cash EPS                        | 33.8   | 47.4   | 34.4   | 24.2   | 35.8    | 40.9    |
| DPS                             | 4.0    | 5.0    | 1.0    | 1.0    | 1.0     | 1.0     |
| Book Value                      | 123.1  | 155.3  | 175.0  | 182.7  | 198.9   | 217.4   |
| <b>DuPont Analysis</b>          |        |        |        |        |         |         |
| EBIT margin                     | 17.3   | 19.5   | 10.4   | 4.5    | 8.2     | 8.2     |
| Tax retention ratio             | 71.4   | 75.8   | 72.0   | 83.9   | 75.0    | 75.0    |
| Asset turnover (x)              | 1.4    | 1.4    | 1.1    | 1.0    | 1.1     | 1.2     |
| ROIC (Post-tax)                 | 17.2   | 20.2   | 8.2    | 3.6    | 6.8     | 7.1     |
| Cost of Debt (Post Tax)         | 4.5    | 3.6    | 2.9    | 3.7    | 3.7     | 3.2     |
| Leverage (x)                    | 0.4    | 0.3    | 0.3    | 0.3    | 0.2     | 0.2     |
| Operating ROE                   | 21.8   | 24.9   | 9.8    | 3.6    | 7.3     | 7.9     |
| <b>Returns (%)</b>              |        |        |        |        |         |         |
| RoCE (Pre-tax)                  | 23.2   | 25.3   | 10.9   | 4.1    | 8.4     | 8.8     |
| Angel RoIC (Pre-tax)            | 25.0   | 27.7   | 12.0   | 4.5    | 9.4     | 9.9     |
| RoE                             | 24.2   | 28.2   | 12.2   | 5.9    | 9.1     | 9.4     |
| <b>Turnover ratios (x)</b>      |        |        |        |        |         |         |
| Asset Turnover (Gross Block)    | 2.0    | 1.9    | 1.4    | 1.1    | 1.1     | 1.1     |
| Inventory / Sales (days)        | 92     | 88     | 103    | 111    | 96      | 97      |
| Receivables (days)              | 49     | 48     | 46     | 46     | 52      | 52      |
| Payables (days)                 | 42     | 45     | 43     | 90     | 60      | 60      |
| WC cycle (ex-cash) (days)       | 106    | 106    | 113    | 97     | 74      | 74      |
| <b>Solvency ratios (x)</b>      |        |        |        |        |         |         |
| Net debt to equity              | 0.3    | 0.3    | 0.3    | 0.2    | 0.2     | 0.2     |
| Net debt to EBITDA              | 0.8    | 0.7    | 1.4    | 1.4    | 1.0     | 1.0     |
| Interest Coverage (EBIT / Int.) | 14.3   | 23.3   | 11.4   | 4.1    | 8.6     | 9.9     |

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### Ipca Laboratories

|   |    |
|---|----|
| 1. Financial interest of research analyst or Angel or his Associate or his relative             | No |
| 2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives | No |
| 3. Served as an officer, director or employee of the company covered under Research             | No |
| 4. Broking relationship with company covered under Research                                     | No |

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)