

IPCA Laboratories

We had upgraded IPCA Labs to BUY in our Q3 FY15 result update dated [February 10, 2015](#) with a target of Rs760. The stock has surpassed our target in today's trading session translating in to 18.8% return in 1 month and we close our recommendation. Following our meeting with the company, we believe that except US (due to US FDA import alert on Ratlam API facility), other businesses would recover gradually from the next fiscal. We would shortly review our target and reco in a detailed report based on our management meeting.

Change in <input checked="" type="checkbox"/> Estimates <input checked="" type="checkbox"/> Rating <input checked="" type="checkbox"/> Target					
Q3 FY15					
IPCA Laboratories					
<ul style="list-style-type: none"> Q3 results weaker than expected as revenues decline ~11% yoy and 5.1% qoq on the back of lower anti malarial sales adding to the shortfall arising from US FDA woes Margin declined as expected on negative operating leverage headwinds resulting in to lower than estimated PAT (down 32.3% qoq, ~70% yoy) Cut FY16 estimates as Ratlam import resolution takes 18-24 months based on past experience with peers; expect ex-US business to stabilize and upgrade to BUY with revised 9-12mth target of Rs760 					
Result table					
(Rs m)	Q3 FY15	Q2 FY15	% qoq	Q3 FY14	% yoy
Net sales	7,407	7,806	(5.1)	8,330	(11.1)
Adj RM	(2,416)	(2,418)	(0.1)	(2,592)	(6.8)
Purchase of traded goods	(311)	(292)	6.5	(188)	64.9
Staff	(1,344)	(1,375)	(2.3)	(1,243)	8.1
Other expenditure	(2,125)	(2,373)	(10.5)	(2,132)	(0.3)
Operating profit	1,211	1,348	(10.1)	2,173	(44.3)
OPM (%)	16.4	17.3	(91) bps	26.1	(974) bps
Depreciation	(420)	(396)	6.0	(256)	64.2
Interest	(59)	(57)	2.6	(54)	8.3
Other income	64	87	(26.1)	54	18.8
PBT	797	981	(18.8)	1,917	(58.4)
Tax	(270)	(275)	(1.6)	(502)	(46.2)
Effective tax rate (%)	33.9	28.0	591 bps	26.2	772 bps
Extra ordinary items	(112)	(94)	19.1	(24)	360.7
Reported PAT	415	613	(32.3)	1,391	(70.1)
Source: Company, India Infoline Research					
<p>IPCA Q3: all round miss on decline in CIS exports, lower anti malarial sales</p> <p>IPCA Q3 results were much below our estimates as revenues were impacted on the back of 1) branded business decline due to currency fluctuations in CIS countries wherein although the company prices its sales in US\$ but it had to share some of the currency depreciation pain with the local distributors 2) Institutional malaria business declined 40% yoy which resulted in a 21.5% yoy decline in formulations exports. US exports were practically zilch though the company would resume supplies of two key APIs Hydroxychloroquine Sulfate (HCQS) and Propanolol and still has a ~40% share in the HCQS market. Margin decline was expected as weaker topline led to negative operating leverage headwinds translating in to ~32% qoq decline in PAT.</p>					
Revenue breakup					
Revenues Rs mn	Q3 FY15	Q2 FY15	% qoq	Q3 FY14	% yoy
Formulations	5,838	6,341	(7.9)	6,350	(8.1)
Domestic	2,787	3,279	(15.0)	2,463	13.1
Exports	3,051	3,062	(0.4)	3,886	(21.5)
APIs	1,504	1,407	6.8	1,870	(19.6)
Domestic	370	445	(16.9)	419	(11.6)
Exports	1,134	962	17.8	1,451	(21.9)
Total	7,341	7,749	(5.3)	8,220	(10.7)
Source: Company, India Infoline Research					
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Rating: BUY					
Target : Rs760					
CMP: Rs640					
Upside: 18.8%					
Sector: Pharmaceuticals					
Sector view: Positive					
Sensx: 28,227					
52 Week h/l (Rs): 907 / 591					
Market cap (Rscr) : 8,271					
6m Avg vol ('000Nos): 109					
Bloomberg code: IPCA IB					
BSE code: 524494					
NSE code: IPCALAB					
FV (Rs): 2					
Price as on February 09, 2015					
Share price trend					
					
Share holding pattern					
%	Jun-14	Sep-14	Dec-14		
Promoters	45.9	45.9	45.9		
Insti	36.2	35.8	34.7		
Others	17.9	18.3	19.4		
Research Analyst: Bhavesh Gandhi research@indiainfoline.com February 10, 2015					
Result Update					

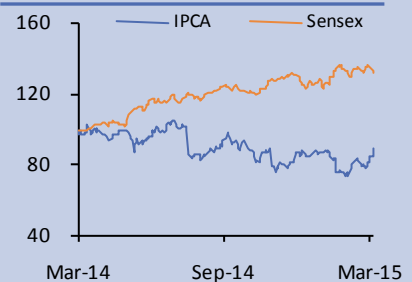
Reco Price: Rs640
 Closure Price: Rs760
 Return Achieved: 18.8%

Sector: **Pharmaceuticals**
 Sector view: **Positive**
 Sensx: 28,772
 52 Week h/l (Rs): 899 / 591
 Market cap (Rscr) : 9,892
 6m Avg vol ('000Nos): 109
 Bloomberg code: IPCA IB
 BSE code: 524494
 NSE code: IPCALAB
 FV (Rs): 2
 Price as on March 11, 2015

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

%	Mar-14	Jun-14	Dec-14
Promoters	45.9	45.9	45.9
Insti	36.2	35.8	34.7
Others	17.9	18.3	19.4

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

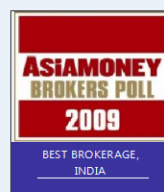
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Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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