

IPCA - Better Visibility of Sales and Margin Growth

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Abstracts

We reiterate our Outperform rating on IPCA with an increased target price post its largely inline result adjusted for the translation forex losses. Y-o-Y EBITDA margin increased by 440 bps, of which 300 bps was due to favorable forex. Delay in shipment for UK and Russia (due to implementation of trace and track system) and for Africa (artemisinin + lumafentrine) led to a modest a 9% growth in export formulations. This was compensated by 58% growth in export APIs.

We are not concerned about the delays as the company has already recovered those delayed sales. In addition, we are not too worried about the slower malaria season as Q2 FY12 too had a low base. On the other hand, Ipca received the much awaited USFDA approval for its Indore facility and also received the WHO prequalification of generic Coarsucam (artesunate + amodiaquine). All these drivers, along with a favorable forex will also help improve the overall margin.

We keep our estimates largely unchanged for FY13. We derive our new target price of Rs.538 by applying a PE of 18x to FY13 EPS. The higher PEx is justified due to better visibility of earnings post USFDA approval and Coarsucam prequalification. We retain our Outperform rating.

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