

IPCA - Awaiting Re-rating

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Abstracts

We reiterate IPCA as our TOP PICK among the mid-cap pharma sector after the stupendous Q3 FY12 result. With sales growth of 30%, improvement in EBITDA margin (ex-operational forex benefits) by ~100 bps, further visibility in sales growth and margin improvement, the stock simply awaits re-rating.

Going forward, earnings will be driven by (1) domestic market growth returning to mid-high teen's growth (2) continued growth in anti malarial tender sales of generic Coartem to WHO partnered nations (3) US generics growth with USFDA approval of Indore facility in sight (6) continued growth in branded formulation markets on the back of new product launches and (6) margin improvement due to increase in contribution from domestic formulations and capacity utilization of Indore SEZ facility with USFDA approval in sight.

We change our FY12 and FY13 earnings by 5-6%. At current valuation, IPCA trades at a PE of 10x on FY13 earnings. This makes IPCA the cheapest stock available with a sustainable ROCE of 20-22%. We thus rate this as our top pick in mid-cap Indian Pharma with a target price of Rs.400.

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IPCA

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