

IPCA - Sales Growth + Margin Improvement + Stock Price Correction = Ideal Time To Enter

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Abstracts

IPCA had a stupendous Q2 FY12 result despite a dull performance in the domestic formulations market. We believe margin will improve further once the much awaited USFDA approval for its Indore SEZ is received. Domestic market performance remained under pressure due to (1) a weak season for Acute therapies, especially malaria (2) integration issues of an expanded sales force. Both these issues are transient and we strongly believe IPCA would be able to retrieve its high teen's growth rate. Besides these, growth will be driven by (1) anti malarial tender sales of generic Coartem and later generic Coarsucam to WHO member nations (2) US generics and (3) branded generic markets of Russia, Africa and mid-east countries.

The stock has corrected by ~17% in last 3 months owing to an expectation of a weak quarter. At current valuation, IPCA trades at a PE of 11.3x FY12 earnings. This makes IPCA the cheapest stock available with a sustainable ROCE of 20-22%.

We thus rate IPCA as our top pick in Indian Pharma with a target price of Rs. 400.

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