



Powered by the Sharekhan 3R Research Philosophy

3R MATRIX			
	+	=	-
Right Sector (RS)	✓	■	✗
Right Quality (RQ)	✓	■	✗
Right Valuation (RV)	✓	■	✗
+ Positive	= Neutral	- Negative	

What has changed in 3R MATRIX			
	Old	New	
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

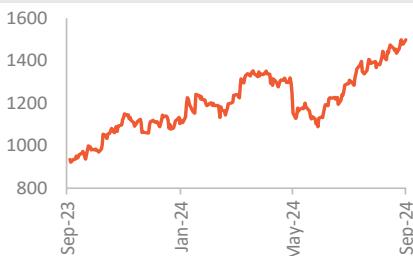
Company details

Market cap:	Rs. 37,964 cr
52-week high/low:	Rs. 1,528/918
NSE volume:	3.21 lakh
(No of shares)	
BSE code:	524494
NSE code:	IPCALAB
Free float:	6.8 cr
(No of shares)	

Shareholding (%)

Promoters	46.3
FII	10.9
DII	33.5
Others	9.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.8	19.8	9.3	45.0
Relative to Sensex	2.4	20.3	2.4	24.2

Sharekhan Research, Bloomberg

Ipcalab Ltd

Bayshore integration to unlock growth

Pharmaceuticals		Sharekhan code: IPCALAB		
Reco/View: Buy	↔	CMP: Rs. 1,497	Price Target: Rs. 1,734	↑
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- Ipcalab's board is set to discuss integration of Bayshore Pharmaceuticals' generics business into Unichem Pharma.
- Bayshore's integration would enhance growth prospects, drive international revenue, on recent regulatory approvals for US manufacturing sites. Ipcalab's investments in biologics and plans to revitalize its CDMO initiatives suggest significant growth potential, supporting our price target of 1734.
- Ipcalab is investing in biologics and plans to revitalize its contract drug development and manufacturing (CDMO) ambitions, which were previously affected by regulatory issues with the U.S. FDA.
- The stock currently trades at 39x and 30x based on its FY26E and FY27E EPS estimates of 37.77 and 49.52, respectively.

Ipcalab's board would discuss the strategic integration of Bayshore Pharmaceuticals' generics business into Unichem Pharma (USA) Inc on September 30, 2024. The meeting is timely, as international revenues are projected to recover, fueled by recent regulatory approvals for manufacturing sites in the US, which are expected to enhance production capabilities and market access. Furthermore, Ipcalab is making significant investments in biologics and is committed to revitalising its contract drug development and manufacturing (CDMO) ambitions, which had previously been hampered by regulatory challenges with the USFDA. These initiatives not only position Unichem for growth in a competitive market but also reflect a broader strategy to capitalise on emerging opportunities in the pharmaceutical sector, ultimately driving long-term value for stakeholders.

- Bayshore's integration into Unichem Pharmaceuticals (USA) Inc.:** The board's meeting will focus on the operational and financial implications of this integration, aiming to leverage the strengths of both companies to enhance market presence and streamline operations. By aligning Bayshore's generics portfolio with Unichem's existing framework, the board seeks to identify synergies that can lead to improved efficiency and expanded product offerings. This strategic move is expected to position Unichem favorably in the competitive pharmaceutical landscape.
- International revenue set to recover on US regulatory approvals:** The US regulatory approvals are crucial, as they will not only enhance production capabilities but also improve market access for pharmaceutical products. The ability to manufacture and distribute from compliant facilities in the US positions the company to capitalise on growing demand both domestically and abroad. As regulatory barriers diminish, opportunities for increased exports and partnerships are likely to arise, further bolstering international revenue streams.
- Strategic Investments in Biologics and Revitalization of CDMO Initiatives at Ipcalab:** Ipcalab is making significant investments in the biologics sector, reflecting a strategic shift aimed at capitalizing on the growing demand for innovative therapies. In addition to this focus on biologics, the company plans to revitalize its ambitions in contract drug development and manufacturing (CDMO), which faced challenges due to past regulatory issues with the USFDA. By addressing these regulatory hurdles, Ipcalab aims to restore its credibility and operational efficiency in the CDMO space. This revitalization strategy is not only intended to enhance Ipcalab's service offerings but also to attract new partnerships and clients seeking reliable manufacturing solutions.

Revision in estimates – Following the turnaround at Unichem and the integration of Bayshore, we have revised our estimates and introduced projections for FY27.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,734: The integration of Bayshore Pharmaceuticals' generics business into Unichem Pharmaceuticals (USA) Inc. is poised to significantly benefit the company, particularly as international revenue is expected to rebound. This recovery is further supported by growth opportunities stemming from recent regulatory approvals for manufacturing sites in the US, which will enhance production capabilities and market access. Additionally, Ipcalab's strategic investments in biologics, coupled with its plans to revitalize its contract drug development and manufacturing (CDMO) initiatives, highlight substantial growth potential moving forward. These factors collectively bolster our confidence in a price target of 1734 for the stock. Currently, the stock is trading at multiples of 39x and 30x based on its FY26E and FY27E EPS estimates of 37.77 and 49.52, respectively, suggesting that there is considerable upside potential for investors as the company capitalizes on these strategic developments.

Key Risks

- 1) Delay in regulatory clearance of Pithampur and the Pipariya plants and 2) adverse changes in the regulatory landscape could affect its profitability.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E	Rs cr
Sales	6206.9	7660.4	9023	10647	10721.6	
EBITDA	964.2	1321.2	1714	2022	2512	
EBITDA M (%)	15.5	17.2	19	19	20%	
PAT	471.3	622.8	812	958	1256	
NPM (%)	7.6	8.1	9	9	10	
EPS (Rs.)	18.6	24.5	32.01	37.77	49.52	
P/E	73.1	55.3	46.7	39.6	30.22	
P/BV	5.4	5.0	5.6	5	4.2	
EV/EBITDA	32.2	33.5	27	23	19	
ROE (%)	9.4	8.1	13	14.5	16.1	
ROCE (%)	11.6	8.5	10	12.5	14.2	

Source: Company Data; Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Multiple growth engines ahead

The Indian pharmaceutical market is growing with increased consumer spends and awareness. Additionally, Indian pharmaceutical companies with a large market share in the IPM and a strong pipeline of specialty products will help them gain market share in the US and, thereby, partially offset any impact of competitive pricing pressures in the US. Moreover, other factors such as faster product approvals and resolutions by the USFDA regarding plant observations and strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules, biosimilars, and injectables) and the commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential for Indian pharma companies going ahead.

■ Company Outlook – Long-term growth levers intact

Ipca is a fully integrated Indian pharmaceutical company, manufacturing a wide array of formulations and APIs for various therapeutic segments. The domestic formulations business is expected to grow at a healthy pace and is likely to be a key growth driver for the company. The company is witnessing strong demand traction in the API segment and is implementing de-bottlenecking to ease capacity constraints. Over the next year, the Dewas expansion would come on stream and drive the topline. Moreover, the company has set up a new API plant at its Ratlam facility with a 50MT capacity, which is on the verge of commercialisation. Expected improvement in the formulation business, increased opportunities in the API space, and healthy traction from the institutional segment indicate strong earnings potential for the company. In the near term, emerging cost pressures due to higher RM and logistics costs and time lag to pass on the price hike to customers coupled with de-stocking in key markets of Europe are expected to drag down growth. Consequently, while near-term growth seems to moderate, long-term growth levers are intact.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,734

The integration of Bayshore Pharmaceuticals' generics business into Unichem Pharmaceuticals (USA) Inc. is poised to significantly benefit the company, particularly as international revenue is expected to rebound. This recovery is further supported by growth opportunities stemming from recent regulatory approvals for manufacturing sites in the US, which will enhance production capabilities and market access. Additionally, Ipca's strategic investments in biologics, coupled with its plans to revitalize its contract drug development and manufacturing (CDMO) initiatives, highlight substantial growth potential moving forward. These factors collectively bolster our confidence in a price target of 1734 for the stock. Currently, the stock is trading at multiples of 39x and 30x based on its FY26E and FY27E EPS estimates of 37.77 and 49.52, respectively, suggesting that there is considerable upside potential for investors as the company capitalizes on these strategic developments.

About the company

Ipca is a fully integrated Indian pharmaceutical company manufacturing more than 350 formulations and 80 APIs for various therapeutic segments. Ipca is a therapy leader in India for anti-malaria with a market share of over 34% and a fast-growing presence in the international market as well. The company has leading brands in five therapeutic areas, with three of its branded formulations being ranked among the top-300 Indian brands by ORG-IMS. Ipca's APIs and formulations are produced at manufacturing facilities approved by leading drug regulatory authorities, including USFDA, UK-Medicines, Healthcare Regulatory Agency (MHRA), South Africa-Medicines Control Council (MCC), Brazil-Brazilian National Health Vigilance Agency (ANVISA), and Australia-Therapeutic Goods Administration (TGA) with operations in more than 100 countries.

Investment theme

Strong growth in the domestic formulation business coupled with increased opportunities in the API space and additional business from the institutional segment indicate strong earnings potential over the next 2-3 years. We feel most headwinds that impacted the company's sales and profitability (except for the import alert from USFDA) are now behind it. Management is also evaluating new therapeutic areas that would boost the company's overall growth. In addition, Ipca is implementing de-bottlenecking plans for its API facilities to ease capacity constraints. Further, Ipca is setting up new API capacities at Dewas and is looking to build the Nobel Epochem plant into a KSM plant. Collectively, incremental capacities are coming on stream and would fuel growth, though over the long term.

Key Risks

1) Lack/delay of clearance by other drug regulators would impact the export business outlook; 2) Addition of drugs in the NLEM list could hurt the domestic business.

Additional Data

Key management personnel

Premchand Godha	Chairman and Managing Director
Ajit Kumar Jain	Joint Managing Director
Harish Kamath	Corporate Counsel and Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	9.00
2	DSP Investment Managers Pvt Ltd	6.15
3	Kotak Mahindra Asset Management Co	5.21
4	Vanguard Group Inc/The	2.09
5	SBI Life Insurance Co Ltd	2.01
6	HDFC Life Insurance Co Ltd	1.95
7	Nippon Life India Asset Management	1.85
8	Vanguard Group Inc/The	2.09
9	PPFAS Asset Management	1.40
10	FundRock Management Co SA	1.36

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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