

1QFY24 Result Update

# IOL Chemicals and Pharmaceuticals

Capex guidance increased to Rs 2.5 bn, non-  
Ibuprofen EBIT margins to ride to double-digit

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**B&K SECURITIES**

WE UNDERSTAND MONEY

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## Maintain BUY

### Share Data

Market Cap.	Rs 21 bn (US\$ 283 mn)
Price	Rs 369
Target Price	Rs 510
BSE Sensex	65,539
Reuters	IOLC.BO
Bloomberg	ICP IN
6M avg. daily turnover (US\$ mn)	1.9
52-week High/Low (Rs)	469.9/272.2
Issued Shares	59 mn

### Performance (%)

	1M	3M	12M
Absolute	1	(11)	4
Relative	1	(16)	(5)

### Valuation Ratios

Year to 31 Mar	FY23	FY24E	FY25E
EPS (Rs)	23.7	35.5	44.5
+/- (%)	(23.4)	49.6	25.5
PER (x)	15.6	10.4	8.3
PBV (x)	1.4	1.3	1.2
Dividend Yield (%)	(2.2)	(2.2)	(2.2)
EV/Sales (x)	1.0	0.9	0.8
EV/EBITDA (x)	9.8	6.7	5.4

### Shareholding Pattern (%)

Promoters	48
FII's	4
Public & Others	48

## First Cut Feel of the Results

- Sales declined marginally by 0.3% to Rs 5.6 bn led by 22% YoY growth in Pharma sales to Rs 3.5 bn which was offset by 10% decline in Specialty Chemical segment to Rs 3 bn, primarily due to lower realisation of Ethyl Acetate and Acetic Acid.
- Growth in the pharma segment was driven by 31% rise in Ibuprofen segment to Rs 2.2 bn and 8% YoY increase in non-Ibuprofen segment to Rs 1.2 bn. Ibuprofen sales growth was driven by increased capacity utilisation of 85-90 (65-72% capacity utilisation in 1QFY23).
- Gross margin increased by 500 bps YoY to 35% in 1QFY24, led by softening of raw material cost which declined by 8% YoY to Rs 3.6 bn (contributing 65% of the sales in 1QFY24 versus 70% in 1QFY23) and 22% increase in Pharma sales to Rs 3.5 bn.
- Subsequently, EBITDA grew by 30% YoY to Rs 725 mn in 1QFY24. EBITDA margin increased by 300 bps YoY and stood at 12.9% in 1QFY24 (versus 10% in 1QFY23) and is expected to sustain as EBIT pharma margin is expected to rise from the current 14% in 1QFY24.
- Healthy operations led to PAT growth of 32% to Rs 459 mn in 1QFY24 and EPS stood at Rs 7.8 per share.
- IOL has increased its capex guidance from earlier Rs 2 bn to Rs 2.5 bn. Capex allocation is largely attributed towards growth products in pharma segment largely non-Ibuprofen APIs. The management intends to add new capacities in segments where they are integrated depending on the demand.

## Business highlights

### Pharma business: Non- Ibuprofen segment

- IOL's non-Ibuprofen API EBIT margins are trading in single-digit and is expected to touch Ibuprofen margins of double-digit by FY24E led by 1) increased demand, 2) higher capacity utilisation of 90%, 3) backward integration and 4) no decline in realisation rates.
- Non-Ibuprofen APIs like Paracetamol is operating at 90% utilisation rate. The company presently has doubled its capacity in Paracetamol to 3,600 mtpa with fully backward integration of Para Amino Phenol (PAP) and Acetic Anhydride.
- Paracetamol is amongst the largest volume drug in the world with global demand estimated to be around 6-7 lakh tpa of Paracetamol.

- IOL was granted EDQM certificate for Paracetamol. This will enable IOL to export Paracetamol in the European markets in eight-nine months. Export of Paracetamol to European markets to aid in 20-25% incremental sales from regulated markets of exports.
- The management expects non-Ibuprofen APIs to be 50% of Pharma sales from currently 36% in 1QFY24. The management has also guided for non-Ibuprofen APIs sales to clock at ~Rs 5-5.5 bn in FY24E.
- Currently, Metformin is the 2nd largest API contributor by volume after Ibuprofen. IOL is witnessing stability in pricing for Metformin. To produce Metformin, China is the only supplier of DCDA, KSM for Metformin.
- **Ibuprofen segment** – IOL's Ibuprofen segment grew by 31% YoY to Rs 2.2 bn in 1QFY24 and the contribution has increased to 40% of sales in 1QFY24 (30% in 1QFY23). The growth in sales is led by an increased utilisation rate which is operating at 85-90%. After the slump in prices last year to US\$ 8-10/kg, the prices have stabled with pick-up in demand resulting in healthy traction. IOL is the largest producer of Ibuprofen in the world with 12,000 tpa and is the only company worldwide with backward integration into Iso Butyl Benzene (IBB) with ~35% global market share.
- IOL's pharma margins is at 14%, out of which Ibuprofen EBIT margin stands at double-digit due to being fully integrated.

**Chemical segment** – IOL's chemical segment declined by 23% to Rs 3.5 bn in 1QFY24 with share decreasing to 38% of sales in 1QFY24 (50% in 1QFY23).

- Chemical prices have softened, especially Ethyl Acetate price and Acetic Acid. Prices of chemicals is expected to remain soft for upcoming quarters which to lead to decreased profitability.
- The chemical segment's EBIT margin is at 4% and is expected to rise to 5-6% going forward.
- Global capacity for Ethyl Acetate is 700k tpa and IOL has capacity of 100k tpa. The intent of the company is to serve more clients in the existing geographies by utilising 100% of the new capacity.
- IOL has installed capacity of 1 lakh tpa for Ethyl Acetate and is expected to increase by 20k tonnes to 1.20 lakh tpa through debottlenecking (to cost Rs 150 mn) and is currently running at 90-95% asset utilisation.

## Outlook and Recommendation

IOL reported good set of numbers in pharma segment led by Ibuprofen and non-Ibuprofen APIs. Ibuprofen prices have stabled followed by improved capacity utilisation which is expected to sustain. IOL is also witnessing healthy demand for other APIs like Metformin, Paracetamol, Clopidogrel, Pantoprazole, Fenofibrate, Lamotrigine, etc. with stable growth. The non-Ibuprofen APIs is expected to grow at 20-25% with double-digit margins. IOL is expected to maintain its double-digit EBITDA margins led by 1) increased utilisation of Ibuprofen sales, 2) higher utilisation of non-Ibuprofen APIs, 3) gradual recovery in Specialty Chemicals and 4) raw material cost rationalisation.

IOL has also increased its capex to Rs 2.5 bn in FY24E (incurred Rs 2 bn in FY23) in the growing segment of non-Ibuprofen APIs. Benefits from expanded capacity and higher utilisation to result in better operating leverage which can improve its EBITDA margins to 15% in FY25E. At the current market price of Rs 368 (mkt cap of US\$ 283 mn), IOL trades at attractive valuations of 10x FY24E EPS of Rs 36 per share and 8x FY25E EPS of Rs 45 per share. With rising share of non-Ibuprofen portfolio to nearly 50% of total pharma revenues and incurring capex towards growth products, we believe this to increase RoE from 9% in FY23 to 13% in FY24E, hence we maintain Buy rating on IOL with an unchanged target price of Rs 510 (valuing at 12x FY25E EPS, considerable discount of 70% to industry leaders like Divi's, Syngene and Suven).

## Financial highlights

(Rs mn)	IQFY23	IQFY24	YoY (%)	4QFY23	QoQ (%)	FY22	FY23	YoY (%)	FY24E	YoY (%)	FY25E	YoY (%)
<b>Net sales</b>	<b>5,650</b>	<b>5,632</b>	(0.3)	<b>5,872</b>	(4.1)	<b>21,840</b>	<b>22,171</b>	1.5	<b>24,894</b>	12.3	<b>27,305</b>	9.7
<b>Material cost</b>	<b>3,945</b>	<b>3,650</b>	(7.5)	<b>3,777</b>	(3.4)	<b>15,705</b>	<b>15,471</b>	(1.5)	<b>16,804</b>	8.6	<b>18,021</b>	7.2
% of sales	69.8	64.8	-	64.3	-	71.9	69.8	-	67.5	-	66.0	-
<b>Gross profit</b>	<b>1,705</b>	<b>1,982</b>	16.3	<b>2,096</b>	(5.4)	<b>6,135</b>	<b>6,700</b>	9.2	<b>8,091</b>	20.8	<b>9,284</b>	14.7
<b>Gross margin (%)</b>	<b>30.2</b>	<b>35.2</b>	-	<b>35.7</b>	-	<b>28.1</b>	<b>30.2</b>	-	<b>32.5</b>	-	<b>34.0</b>	-
Personnel cost	440	541	22.9	420	28.7	1,413	1,682	19.0	1,867	11.0	2,048	9.7
% of sales	7.8	9.6	-	7.2	-	6.5	7.6	-	7.5	-	7.5	-
Other expenses	707	716	1.4	722	(0.9)	2,139	2,761	29.1	2,987	8.2	3,208	7.4
% of sales	12.5	12.7	-	12.3	-	9.8	12.5	-	12.0	-	11.8	-
<b>EBITDA</b>	<b>558</b>	<b>725</b>	30.0	<b>953</b>	(23.9)	<b>2,583</b>	<b>2,257</b>	(12.6)	<b>3,236</b>	43.4	<b>4,028</b>	24.4
<b>EBITDA margin (%)</b>	<b>9.9</b>	<b>12.9</b>	-	<b>16.2</b>	-	<b>11.8</b>	<b>10.2</b>	-	<b>13.0</b>	-	<b>14.8</b>	-
Other income	52	71	36.8	87	(19.1)	320	256	(20.1)	220	(14.0)	225	2.4
Interest	34	40	16.9	49	(19.1)	83	165	98.7	198	20.0	200	1.0
Depreciation	110	145	31.6	121	19.3	433	462	6.7	483	4.7	571	18.2
<b>PBT after exceptionals</b>	<b>466</b>	<b>612</b>	<b>31.3</b>	<b>870</b>	<b>(29.7)</b>	<b>2,249</b>	<b>1,887</b>	<b>(16.1)</b>	<b>2,776</b>	<b>47.1</b>	<b>3,482</b>	<b>25.5</b>
Current tax	119	153	28.5	223	(31.2)	571	495	(13.3)	694	40.2	871	25.5
Tax/PBT(%)	25.6	25.0	-	25.6	-	25.4	26.2	-	25.0	-	25.0	-
<b>Reported PAT</b>	<b>347</b>	<b>459</b>	32.2	<b>648</b>	(29.2)	<b>1,677</b>	<b>1,391</b>	(17.0)	<b>2,082</b>	49.6	<b>2,612</b>	25.5
<b>Adjusted PAT</b>	<b>347</b>	<b>459</b>	32.3	<b>648</b>	(29.2)	<b>1,817</b>	<b>1,391</b>	(23.4)	<b>2,082</b>	49.6	<b>2,612</b>	25.5
<b>EPS (Rs)</b>	<b>5.9</b>	<b>7.8</b>	32.3	<b>11.0</b>	(29.2)	<b>30.9</b>	<b>23.7</b>	(23.4)	<b>35.5</b>	49.6	<b>44.5</b>	25.5

### Revenue break-up

(Rs mn)	1QFY23	1QFY24	YoY (%)	4QFY23	QoQ (%)	FY22	FY23	YoY (%)	FY24E	YoY (%)	FY25E	YoY (%)
<b>Chemicals</b>	<b>3,353</b>	<b>3,008</b>	(10.3)	<b>2,916</b>	3.2	<b>13,225</b>	<b>11,949</b>	(9.7)	<b>12,571</b>	5.2	<b>13,092</b>	4.1
% of sales	53.5	45.8	-	43.6	-	56.1	48.1	-	46.0	-	43.9	-
<b>Pharma</b>	<b>2,851</b>	<b>3,480</b>	22.1	<b>3,677</b>	(5.3)	<b>10,083</b>	<b>12,585</b>	24.8	<b>14,563</b>	15.7	<b>16,491</b>	13.2
% of sales	45.5	52.9	-	55.0	-	42.7	50.7	-	53.2	-	55.3	-
Ibuprofen	1,720	2,250	30.8	2,500	(10.0)	6,520	7,860	20.6	8,915	13.4	9,962	11.7
% of sales	27.5	34.2	-	37.4	-	27.6	31.6	-	32.6	-	33.4	-
Others	1,130	1,240	9.7	1,210	2.5	3,563	4,725	32.6	5,648	19.5	6,529	15.6
% of sales	18.0	18.9	-	18.1	-	15.1	19.0	-	20.6	-	21.9	-
<b>Unallocated</b>	<b>60.7</b>	<b>85.7</b>	<b>41.2</b>	<b>94.0</b>	<b>(8.8)</b>	<b>286.2</b>	<b>304.8</b>	<b>6.5</b>	<b>220.0</b>	<b>(27.8)</b>	<b>231.0</b>	<b>5.0</b>
<b>Total revenues</b>	<b>6,264</b>	<b>6,575</b>	<b>5.0</b>	<b>6,687</b>	<b>(1.7)</b>	<b>23,594</b>	<b>24,839</b>	<b>5.3</b>	<b>27,354</b>	<b>10.1</b>	<b>29,814</b>	<b>9.0</b>
Less: Inter-segment revenue	-	-	-	-	-	1,434	2,411	-	2,460	-	2,509	-
<b>Net sales</b>	<b>6,264</b>	<b>6,575</b>	-	<b>6,687</b>	-	<b>22,161</b>	<b>22,427</b>	-	<b>24,894</b>	-	<b>27,305</b>	-
Other income	52	71	-	87	-	320	256	-	220	-	225	-
<b>Gross sales</b>	<b>6,213</b>	<b>6,504</b>	-	<b>6,599</b>	-	<b>21,840</b>	<b>22,171</b>	-	<b>24,674</b>	-	<b>27,080</b>	-

### Quarterly trend

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
<b>Segmental revenue</b>													
Chemicals	1,558	2,055	2,199	2,481	3,171	3,346	3,438	3,270	3,353	2,912	2,768	2,916	3,008
Pharma	3,131	3,359	3,037	2,196	2,128	2,407	2,579	2,970	2,851	3,025	3,032	3,677	3,480
Unallocated	40	41	53	66	95	60	66	66	61	64	86	94	86
Gross sales	4,728	5,455	5,288	4,743	5,394	5,812	6,083	6,306	6,264	6,002	5,886	6,687	6,575
<b>EBIT break-up</b>													
Chemicals	84	229	324	366	493	32	125	(57)	132	(30)	(15)	109	100
Pharma	1,379	1,401	1,185	653	484	357	391	397	335	238	347	796	501
Gross EBIT	1,463	1,630	1,508	1,019	977	389	516	340	467	207	332	905	601
Total EBIT	1,486	1,662	1,551	1,074	1,056	435	570	411	500	257	376	919	699
<b>EBIT margin (%)</b>													
Chemicals	5.4	11.1	14.7	14.8	15.5	0.9	3.6	(1.7)	3.9	(1.0)	(0.5)	3.7	3.3
Pharma	44.1	41.7	39.0	29.7	22.7	14.8	15.2	13.4	11.7	7.9	11.5	21.6	14.4
Total EBIT	32.3	31.1	30.2	23.3	20.4	8.1	10.3	7.2	8.8	4.7	7.2	15.7	11.5

### Income Statement

Period end (Rs mn)	Mar 22	Mar 23	Mar 24E	Mar 25E
<b>Net sales</b>	<b>21,840</b>	<b>22,171</b>	<b>24,894</b>	<b>27,305</b>
Growth (%)	11.0	1.5	12.3	9.7
Operating expenses	(19,257)	(19,914)	(21,658)	(23,278)
<b>Operating profit</b>	<b>2,583</b>	<b>2,257</b>	<b>3,236</b>	<b>4,028</b>
<b>EBITDA</b>	<b>2,583</b>	<b>2,257</b>	<b>3,236</b>	<b>4,028</b>
Growth (%)	(56.4)	(12.6)	43.4	24.4
Depreciation	(433)	(462)	(483)	(571)
Other income	320	256	220	-
<b>EBIT</b>	<b>2,471</b>	<b>2,051</b>	<b>2,973</b>	<b>3,682</b>
Finance cost	(83)	(165)	(198)	(200)
Exceptional & extraordinary	(139)	-	-	-
<b>Profit before tax</b>	<b>2,249</b>	<b>1,887</b>	<b>2,776</b>	<b>3,482</b>
Tax (current + deferred)	(571)	(495)	(694)	(871)
<b>Profit / (Loss) for the period</b>	<b>1,677</b>	<b>1,391</b>	<b>2,082</b>	<b>2,612</b>
P/L of Associates, Min Int, Pref Div	-	390	299	-
Reported Profit / (Loss)	1,677	1,391	2,082	2,612
Adjusted net profit	1,817	1,391	2,082	2,612
Growth (%)	(59.1)	(23.4)	49.6	25.5

### Balance Sheet

Period end (Rs mn)	Mar 22	Mar 23	Mar 24E	Mar 25E
Share capital	587	587	587	587
Reserves & surplus	13,336	14,490	16,044	18,068
<b>Shareholders' funds</b>	<b>13,923</b>	<b>15,077</b>	<b>16,631</b>	<b>18,655</b>
<b>Non-current liabilities</b>	<b>566</b>	<b>582</b>	<b>612</b>	<b>616</b>
Other non-current liabilities	566	582	612	616
<b>Current liabilities</b>	<b>5,134</b>	<b>4,563</b>	<b>4,782</b>	<b>5,080</b>
ST borrowings, Curr maturity	438	798	798	798
Other current liabilities	4,696	3,765	3,984	4,282
<b>Total (Equity and Liabilities)</b>	<b>19,623</b>	<b>20,221</b>	<b>22,024</b>	<b>24,352</b>
<b>Non-current assets</b>	<b>8,815</b>	<b>11,017</b>	<b>9,849</b>	<b>11,478</b>
Fixed assets (Net block)	6,627	8,332	9,849	11,478
Other non-current assets	2,188	2,685	-	-
<b>Current assets</b>	<b>10,808</b>	<b>9,204</b>	<b>12,175</b>	<b>12,874</b>
Cash & current investment	1,400	218	781	802
Other current assets	9,408	8,986	11,394	12,072
<b>Total (Assets)</b>	<b>19,623</b>	<b>20,221</b>	<b>22,024</b>	<b>24,352</b>
Total debt	438	798	798	798
Capital employed	14,927	16,457	18,040	20,069

### Cash Flow Statement

Period end (Rs mn)	Mar 22	Mar 23	Mar 24E	Mar 25E
<b>Profit before tax</b>	<b>2,249</b>	<b>1,887</b>	<b>2,776</b>	<b>3,482</b>
Depreciation	433	462	483	571
Change in working capital	(766)	(521)	(2,085)	(375)
Total tax paid	(2,760)	(961)	1,991	(871)
Others	(238)	(91)	(23)	(26)
<b>Cash flow from oper. (a)</b>	<b>(1,082)</b>	<b>775</b>	<b>3,143</b>	<b>2,782</b>
Capital expenditure	(1,453)	(2,167)	(2,000)	(2,200)
Change in investments	(12)	(2)	(74)	-
Others	320	256	220	225
<b>Cash flow from inv. (b)</b>	<b>(1,144)</b>	<b>(1,913)</b>	<b>(1,854)</b>	<b>(1,975)</b>
<b>Free cash flow (a+b)</b>	<b>(2,226)</b>	<b>(1,137)</b>	<b>1,289</b>	<b>807</b>
Debt raised/(repaid)	438	360	-	-
Dividend (incl. tax)	(398)	(470)	(528)	(587)
Others	(61)	65	(198)	(200)
<b>Cash flow from fin. (c)</b>	<b>(22)</b>	<b>(44)</b>	<b>(726)</b>	<b>(787)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(2,248)</b>	<b>(1,182)</b>	<b>563</b>	<b>21</b>

### Key Ratios

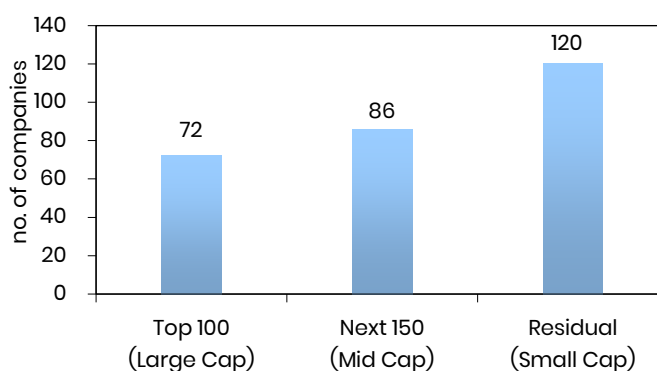
Period end (%)	Mar 22	Mar 23	Mar 24E	Mar 25E
Adjusted EPS (Rs)	<b>30.9</b>	<b>23.7</b>	<b>35.5</b>	<b>44.5</b>
Growth	(59.1)	(23.4)	49.6	25.5
CEPS (Rs)	38.3	31.6	43.7	54.2
Book NAV/share (Rs)	237.1	256.8	283.3	317.8
Dividend/share (Rs)	6.8	8.0	9.0	10.0
Dividend payout ratio	23.7	33.8	25.4	22.5
EBITDA margin	11.8	10.2	13.0	14.8
EBIT margin	11.3	9.3	11.9	13.5
Tax rate	23.9	26.2	25.0	25.0
RoCE	17.6	13.1	17.2	19.3
Total debt/Equity (x)	0.0	0.1	0.0	0.0
Net debt/Equity (x)	(0.1)	0.0	(0.0)	(0.0)
<b>Du Pont Analysis – RoE</b>				
Net margin	8.3	6.3	8.4	9.6
Asset turnover (x)	1.2	1.1	1.2	1.2
Leverage factor (x)	1.3	1.4	1.3	1.3
Return on equity	13.7	9.6	13.1	14.8

### Valuations

Period end (x)	Mar 22	Mar 23	Mar 24E	Mar 25E
PER	12.1	15.6	10.4	8.3
PCE	9.7	11.7	8.4	6.8
Price/Book	1.6	1.4	1.3	1.2
Yield (%)	1.8	2.2	2.4	2.7
EV/EBITDA	8.1	9.8	6.7	5.4



### B&K Universe Profile – by AMFI Definition



**B&K Securities is the trade name of Batlivala & Karani Securities India Pvt. Ltd.**

### B&K Investment Ratings

	LARGE CAP (Market Cap > USD 2 bn)	MID & SMALL CAP (Market Cap < USD 2 bn)
<b>BUY</b>	>+15%	>+20%
<b>HOLD</b>	+15% to -10 %	+20% to -15 %
<b>SELL</b>	<-10%	<-15%

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