

Shilpa Medicare

BSE SENSEX	S&P CNX
33,034	10,225
Bloomberg	SLPA IN
Equity Shares (m)	80
M.Cap.(INRb)/(USDb)	52.7 / 0.8
52-Week Range (INR)	787 / 528
1, 6, 12 Rel. Per (%)	-6/-14/-8
Avg Val, INRm	41
Free float (%)	45.3

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	7.8	8.7	10.9
EBITDA	1.8	2.0	2.7
PAT	1.1	1.5	2.4
EPS (INR)	14.0	18.1	29.9
Gr. (%)	6.2	29.3	65.1
BV/Sh (INR)	114.4	131.5	159.8
P/E(x)	47.0	36.3	22.0
P/B (x)	5.8	5.0	4.1
ROE (%)	14.4	14.7	20.5
RoCE (%)	11.5	11.2	16.2

CMP: INR658 TP: INR797 (+21%)

Buy

Margins driven by superior product mix; remains aggressive in filings

- **Strong growth in sales post adjusting for shift in business to JV:** Sales fell 3.4% YoY to INR2b, but were better than our estimate of INR1.9b. The sales decline can be ascribed to the transfer of the CRAMS business to a JV (since 3QFY17). Excluding the impact of this transfer, sales growth stands higher at 24% (led by addition of formulations and healthy traction in Onco-API).
- **Superior product mix drives margins:** Gross margin expanded 970bp YoY to 58%, led by a superior product mix and higher income from exhibit batches. EBITDA margin of 27.8% expanded at a lower rate due to higher R&D and other expenses. Loss in JV and higher tax led to a PAT decline of 12% YoY to INR336m.
- **Stable US sales from approved products:** SLPA had US formulation sales of ~INR200m in 2QFY18 from two products. The company continued gaining market share in g-Vidaza. SLPA has filed eight ANDAs in 1HFY18, taking the total to 33 (only two approved till date).
- **Changes in estimates to factor in shift of CRAMS business to JV:** We have cut our sales estimates by 19%/22%/22% for FY18E/19E/20E to factor in the shift of the CRAMS business to the JV. We cut EPS estimate for FY18 by 16% to factor in lower profitability of JV due to lower capacity utilization. We marginally reduce our earnings estimate for FY19 and FY20, as we expect profitability from JV business to be back on track, with likely entry into newer markets from Q4FY18. Accordingly, we revise our price target to INR797 (prior: INR805), valuing at 25x 12M forward earnings.
- **Valuation view:** We continue to like SLPA on aggressive ANDA filings and transformation from a pure API play to integrated formulator. Reiterate **Buy**.

Quarterly performance

	(INR m)											
	FY17				FY18E				FY17	FY18E	FY18	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE	(%)	
Net Sales	1,672	2,113	1,836	2,237	1,685	2,040	2,423	2,548	7,858	8,696	1,930	5.7
YoY Change (%)	11.7	21.1	-8.2	13.1	0.8	-3.4	32.0	13.9	8.8	10.7	-8.6	
Total Expenditure	1,339	1,624	1,487	1,650	1,344	1,473	1,879	2,000	6,100	6,696	1,525	
EBITDA	333	489	348	587	341	567	544	548	1,758	2,000	405	39.8
Margins (%)									22.4	23.0	21.0	
Depreciation	70	75	78	78	84	83	95	100	300	362	82	
Interest	7	6	7	7	5	5	9	12	27	32	5	
Other Income	24	37	40	79	52	53	40	35	180	180	75	
PBT before EO expense	280	446	304	581	303	531	480	471	1,610	1,786	393	35.0
Share of P/L in Associate/ JV	-62	54	-37	-7	28	-76	55	92	0	99	30	
EO expense	0	0	0	45	0	0	0	0	45	0	0	
PBT	342	391	340	633	275	607	425	379	1,655	1,687	363	67.0
Tax	80	124	97	147	90	119	107	117	447	434	114	
Rate (%)	36.5	24.7	36.1	27.8	27.2	26.2	20.0	20.8	28.5	23.0	27.0	
Minority Interest & Profit/Loss	-9	-6	-4	-8	0	0	0	0	-27	0	0	
Reported PAT	147	382	175	390	241	336	428	446	1,145	1,452	309	8.6
Adj PAT	147	382	175	423	241	336	428	446	1,178	1,452	309	8.6
YoY Change (%)	-5.3	52.4	-37.1	7.7	64.0	-12.2	145.5	5.5	388.4	332.3	-24.9	
Margins (%)	8.8	18.1	9.5	18.9	14.3	16.5	17.7	17.5	15.0	16.7	14.9	

E: MOSL Estimates

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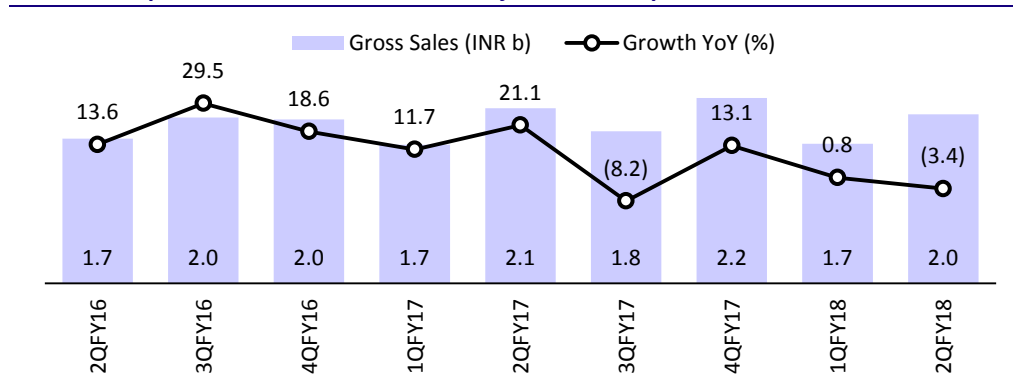
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Healthy momentum in revenue run-rate, adjusting for CRAMS sales

Revenue declined 3.4% YoY to INR2b in 2QFY18, continuing the downtrend. This was largely due to the transfer of the CRAMS business from its existing facilities to facilities under JV with ICE. Adjusting for the same, YoY growth would have been 24% in 2QFY18 (led by addition of formulation revenue, higher dossier income and healthy off-take of Oncology API).

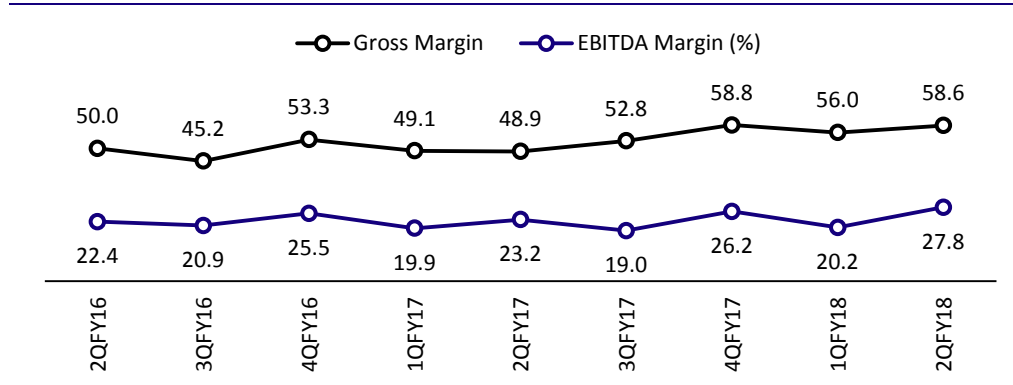
Exhibit 1: Reported sales down 3.4% YoY; adjusted sales up 33% YoY



Source: MOSL, Company

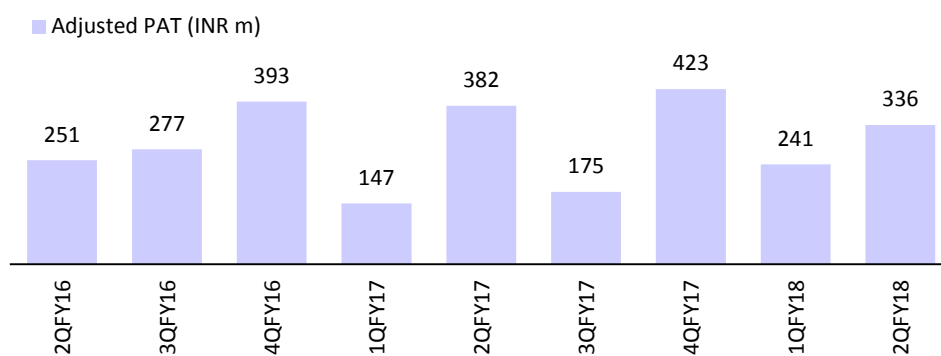
Gross margin improved 970bp YoY and 265bp QoQ, led by a superior product mix and higher development income. However, EBITDA margin expanded at a lower rate of 462bp YoY on higher R&D and other operating expenses.

Exhibit 2: Gross margin up 970bp YoY; EBITDA margin up 462bp YoY



Source: MOSL, Company

SLPA reported a loss of INR76m from JV. This is largely due to lower capacity utilization. With regulatory approvals from newer market, business is expected to increase, which would increase capacity utilization and thus profitability of the company.

Exhibit 3: Despite loss in JV, PAT has been higher YoY

Source: MOSL, Company

SLPA continues to gain market share from approved products in US market

SLPA maintained its US sales quarterly run-rate at ~INR200m from two approved ANDAs. SLPA has been aggressive in filing ANDAs for the US market. SLPA filed about eight ANDAs in 1HFY18, taking cumulative filings to 33 (31 pending for approval). The product pipeline remains healthy and approval followed by commercialization may result in strong growth in revenue over the next 2-3 years. We expect SLPA to show increased traction in the coming quarters, taking formulation sales to INR1.5b in FY18.

Exhibit 4: Changes in estimates and Valuation

INR m	New estimates			Old estimates			Change (%)		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sales	8,696	10,923	13,116	10,696	14,026	16,809	(18.7)	(22.1)	(22.0)
EBITDA	2,000	2,731	3,410	2,460	3,507	4,370	(18.7)	(22.1)	(22.0)
EBITDA margin (%)	23.0	25.0	26.0	23.0	25.0	26.0	0.1	(0.4)	0.2
PAT	1,452	2,398	3,026	1,692	2,435	3,049	(14.2)	(1.5)	(0.7)
EPS	18.1	29.9	37.8	21.1	30.4	38.1	(14.2)	(1.5)	(0.7)
Price Target (INR)	797			805					

Source: MOSL

We have cut our sales estimates by 19%/22%/22% for FY18E/19E/20E to factor in the shift of the CRAMS business to the JV. We cut EPS estimate for FY18 by 16% to factor in lower profitability of JV due to lower capacity utilization. We marginally reduce our earnings estimate for FY19 and FY20, as we expect profitability from JV business to be back on track, with likely entry into newer markets from Q4FY18. Accordingly, we revise our price target to INR797 (prior: INR805), valuing at 25x 12M forward earnings.

We continue to like SLPA on aggressive ANDA filings and transformation from a pure API play to integrated formulator. Reiterate **Buy**.

Financials and Valuations

Consolidated Income Statement								(INR million)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total income from Operations	3,784	5,785	6,195	7,251	7,836	8,696	10,923	13,116
EBITDA	686	1,160	1,286	1,554	1,754	2,000	2,731	3,410
Margin (%)	18.1	20.1	20.8	21.4	22.4	23.0	25.0	26.0
Depreciation	153	232	214	286	300	362	443	525
EBIT	533	928	1,072	1,267	1,454	1,638	2,288	2,885
Int. and Finance Charges	23	35	41	69	27	32	32	26
Other Income	60.6	90.7	48.0	46.4	180.0	180.0	180.0	180.0
PBT before EO Exp.	571	984	1,080	1,245	1,556	1,885	3,114	3,930
EO items	-1.0	-29.0	-1.3	-24.0	-45.4	0.0	0.0	0.0
PBT after EO Exp.	570	955	1,078	1,221	1,511	1,885	3,114	3,930
Current Tax	83	153	233	255	447	434	716	904
Deferred Tax	12	50	119	-21	0	0	0	0
Tax Rate (%)	17	21	33	19	29	23	23	23
Less: Minority interest	0	-5	-11	-51	-27	0	0	0
Reported PAT	475	757	737	1,038	1,091	1,452	2,398	3,026
Adjusted PAT	476	780	738	1,057	1,123	1,452	2,398	3,026
Change (%)	17	64	-5	43	6	29	65	26
Margin (%)	12.5	13.1	11.9	14.3	13.9	16.7	21.9	23.1

Balance Sheet								(INR million)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	49	74	77	77	80	80	80	80
Total Reserves	3,155	3,891	5,392	6,316	9,082	10,456	12,726	15,591
Net Worth	3,204	3,964	5,469	6,393	9,162	10,536	12,806	15,671
Minority Interest	87	100	144	23	-24	-24	-24	-24
Deferred Tax Liabilities	209	259	378	510	618	618	618	618
Total Loans	1,157	989	1,631	821	2,395	2,395	2,395	1,395
Capital Employed	4,658	5,313	7,622	7,747	12,151	13,525	15,794	17,659
Net Fixed Assets	1,756	2,814	2,984	3,828	4,327	5,383	6,690	7,666
Goodwill on Consolidation	52	131	177	89	98	98	98	98
Capital WIP	1,291	1,110	2,216	916	897	897	897	897
Total Investments	507	105	657	1,361	3,240	3,240	3,240	3,240
Curr. Assets, Loans & Adv	1,909	2,618	3,012	3,099	5,166	5,743	7,095	8,391
Inventory	743	1,233	1,308	1,342	1,898	2,090	2,557	3,029
Account Receivables	418	680	814	1,254	1,709	1,897	2,383	2,861
Cash and Bank Balances	169	92	184	109	965	1,004	1,166	1,219
Loans and Advances	433	599	666	206	257	285	358	430
Other Current Assets	146	16	40	187	337	468	631	852
Curr. Liability and Prov.	856	1,465	1,423	1,562	1,607	1,836	2,225	2,632
Account Payables	513	930	755	1,007	1,112	1,287	1,535	1,804
Other Current Liabilities	234	382	493	365	286	317	398	478
Provisions	110	153	175	190	209	232	291	350
Net Current Assets	1,053	1,153	1,588	1,537	3,559	3,907	4,870	5,759
Deferred tax Assets	0	0	0	14	0	0	0	0
Appl. of Funds	4,658	5,313	7,622	7,747	12,151	13,525	15,795	17,659

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
(INR)								
EPS	5.9	9.7	9.2	13.2	14.0	18.1	29.9	37.8
Cash EPS	12.8	13.8	12.3	17.4	17.8	22.6	35.5	44.3
BV/ Share	65.3	53.9	70.9	82.9	114.4	131.5	159.8	195.6
DPS	0.6	0.5	0.5	0.6	0.6	0.8	1.3	1.7
Payout (%)	11.0	5.4	6.0	4.5	4.3	4.5	4.5	4.5
Valuation (x)								
P/E				49.9	47.0	36.3	22.0	17.4
Cash P/E				37.8	37.1	29.1	18.6	14.8
P/BV				7.9	5.8	5.0	4.1	3.4
EV/Sales				7.1	7.0	6.3	5.0	4.1
EV/ EBITDA				33.3	31.0	27.2	19.9	15.6
Dividend Yield (%)				0.1	0.1	0.1	0.2	0.3
FCF per Share				-3.0	-10.1	1.5	3.6	15.2
Return Ratios (%)								
ROE	15.9	21.7	15.6	17.8	14.4	14.7	20.5	21.3
ROCE	11.9	15.5	11.4	13.6	11.5	11.2	16.2	17.9
Working Capital Ratios								
Inventory (Days)	83.5	78.0	94.5	84.9	97.2	108.7	103.5	105.0
Debtor (Days)	39.7	34.6	44.0	52.0	69.0	75.7	71.5	73.0
Creditor (Days)	63.6	56.9	62.6	56.4	63.6	65.4	62.9	62.8
Leverage Ratios (x)								
Current Ratio	2.7	1.7	2.5	2.5	5.1	4.8	4.6	4.5
Interest Coverage Ratio	23.5	26.3	26.5	18.5	54.1	50.5	70.5	109.0
Debt/Equity	0.4	0.3	0.3	0.2	0.3	0.3	0.2	0.1

Cash Flow Statement

(INR million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	570	955	1,078	1,221	1,511	1,885	3,114	3,930
Depreciation	153	232	214	286	300	362	443	525
(Interest received)	-4	-14	-17	-5	0	0	0	0
Direct Tax Paid	-110	-216	-254	-316	-447	-434	-716	-904
(Inc)/ Dec in WC	-139	-234	-401	74	-1,357	-308	-801	-836
CF from Operations	471	723	621	1,261	7	1,505	2,040	2,715
Others	-34	-22	67	68	0	0	0	0
CF from Operating incl EO	437	701	688	1,329	7	1,505	2,040	2,715
(Inc)/ Dec in FA	-1,025	-1,086	-1,428	-1,568	-816	-1,389	-1,750	-1,500
Free Cash Flow	-588	-386	-740	-239	-809	116	290	1,215
(Pur)/ Sale of Investments	177	429	-550	149	-1,581	0	0	0
Others	-104	168	26	5	0	0	0	0
CF from Investments	-952	-489	-1,951	-1,414	-2,397	-1,389	-1,750	-1,500
Issue of Shares	4	0	814	0	1,720	0	0	7
Inc / (Dec) in debt	666	-213	586	197	1,537	0	0	-1,000
Dividend Paid	-25	-37	-45	-106	-58	-78	-128	-162
Interest paid	-22	0	-37	-54	0	0	0	0
Others	41	-33	44	4	47	0	0	-7
CF from financial activity	663	-283	1,362	41	3,246	-78	-128	-1,162
Inc / (Dec) in Cash	148	-72	99	-44	856	39	162	53
Opening Balance	23	169	92	184	109	965	1,004	1,166
Closing Balance	169	92	184	159	965	1,004	1,166	1,219

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Shilpa Medicare

- Analyst ownership of the stock

No

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