

Anuh Pharma

BSE SENSEX
 24,659.23

S&P CNX
 7,485.30

CMP: INR235 TP: INR300 (+27%) Buy

(INR CRORES)

Y/E MARCH	FY16E	FY17E	FY18E
Revenue	335	375	434
EBITDA	42	51	64
EBITDA Margin	12.7%	13.7%	14.8%
NP (Adj.)	26	32	41
EPS (Adj.)	10.4	12.7	16.5
EPS Growth	19%	22%	31%
BV/share	50	58	69
ROE (%)	21	22	24
ROCE (%)	34	35	37
P/E (x)	22.6	18.6	14.2
P/BV (x)	4.7	4.0	3.4

KEY FINANCIALS

Shares Outstanding (cr)	2.5
Market Cap. (INR cr)	589
Market Cap. (USD m)	87
Past 3 yrs Sales Growth (%)	8%
Past 3 yrs NP Growth (%)	20%

STOCK DATA

52-W High/Low Range (INR)	415/153
Major Shareholders (as of December 2015)	
Promoter	70.7
Non Promoter Corp Holding	0.1
Public & Others	29.2
Average Daily Turnover(6 months)	
Volume	23012
Value (Rs cr)	0.72
1/6/12 Month Rel. Performance (%)	-18/-18/46
1/6/12 Month Abs. Performance (%)	-19/-16/62

Maximum Buy Price :INR 250

We recommend a BUY on Anuh Pharma with a target of INR 300 - valuing the company at 18x FY18E EPS.

Rising contribution from regulated markets to improve margins:

Anuh's EBITDA margins have expanded to 12.8% in 9MFY16 from 7.1% in FY13 primarily on the back of higher exposure to regulated markets. Current contribution to regulated markets stands at 12% of sales which was negligible three years back. Anuh intends to grow regulated market exposure to 25% over the next three years. Given that regulated market margins are almost 2-2.5x of non-regulated markets, we expect margins to expand by 320bp over FY15-18E to 14.8%. Anuh is setting up a new facility dedicated for regulated markets (initially non US) which is expected to be commissioned by late FY17E / early FY18E at a cost of INR 35cr.

Launch of new products to act as a catalyst:

Anuh's existing basket of 28 APIs comprise of 1st & 2nd generation products and hence in its bid to add new high value products Anuh has been developing new APIs which have recently gone off patent (post 2014 or which are likely to go off patent in the future). These new APIs will have much higher margins compared to the existing basket. Anuh currently has 20 products in the pipeline of which 4 would be launched in FY17E in the areas of cardio vascular and anticonvulsants. Anuh has already launched 2 products (Ambroxol HCL and Moxifloxacin) in 1Q FY16.

Superior financial profile: Over the past decade, Anuh has grown its topline and bottom-line at 19% CAGR with an average ROE/ROCE of 21%/32% and dividend payout of 35%. The company has constantly maintained an average cash balance of 55% of its capital employed over the same period. Currently, the company has a cash balance of INR 47cr. Thus, core ROE (ex cash) over the last five years has averaged at 44%. Anuh's working capital cycle is the lowest among listed API players at 33 days. Anuh's strong financial profile shall enable expansion for future growth without resorting to debt.

Valuations & View: We expect Anuh's revenue/EBITDA/profits to compound at 15%/25%/24% CAGR over FY15-18E. Given the robust revenue visibility that the company enjoys from its dependence on the domestic and global pharmaceutical industry, incremental focus on high margin regulated markets, new product launches and strong earnings growth backed by superior return ratios (ROE of >20%) and high dividend payout (average of 40%); we believe the company is available at reasonable valuations of 14.2x FY18E EPS. We recommend a BUY rating on the stock and value the business at 18.0x (in line with industry) FY18E EPS of INR 16.5 to arrive at a TP of INR 300.

Jehan Bhadha (jehan.bhadha@MotilalOswal.com); Tel: +91 22 33124915

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Proxy play on the domestic and global pharma industry: Anuh Pharma is a high quality API supplier to a wide spectrum of pharmaceutical companies with exports constituting 48% of revenue (for 9MFY16). The company is the market leader in erythromycin salts wherein it commands a global market share of 18%. Anuh has a product portfolio of 28 APIs covering macrolides, anti-bacterial, anti-TB, corticosteroids and others. It is the 1st or 2nd largest player in most of the products it is present in. It is the 3rd largest player in corticosteroids.

Focus on high value products within the existing portfolio: Within the existing product basket, the company is focusing on high value products such as corticosteroids. The global market for corticosteroids stands at 100MTPA and Anuh has a market share of 5% with annual sales of around INR 60cr, being the 3rd largest player. Anuh is expanding its capacities in corticosteroids from 7MTPA to 12MTPA and expects a significant increase in its market share. Corticosteroids which contributed to 16% to revenues in 9MFY16 is slated to increase its share to 22% by FY18E.

CONCERN:

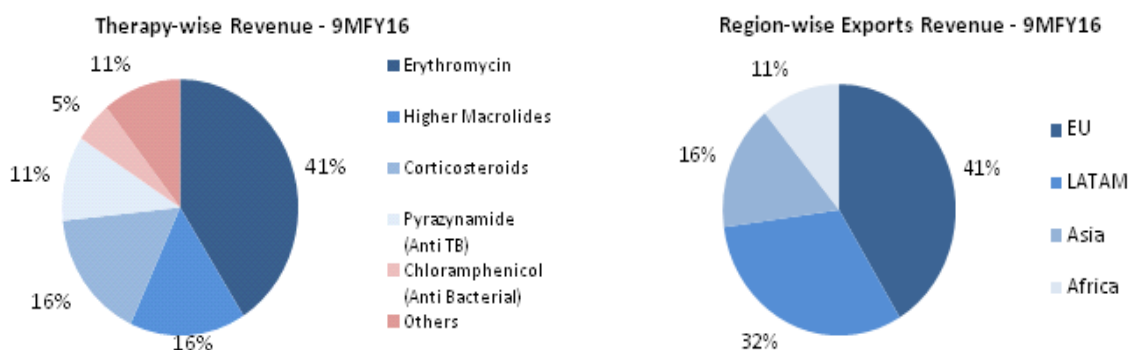
Adverse pricing action under DPCO: Any action by the government under the DPCO (Drug Price Control Order) to add more drugs under the price control mechanism could act as a dampener for the sector which could have an impact on the company as well. However, since Anuh has a basket of 28 products, it shall be able to wither such an impact in case it was to happen.

Adverse impact of currency movements: Although Anuh's exports for FY15 stood at INR 120cr forming 42% of revenue, it imported raw materials worth INR 193cr in FY15 and thus its net import exposure stood at INR 74cr. Thus unlike a typical pharma company which benefits from rupee depreciation, Anuh stands to lose out in such a scenario. However, owing to the strong growth in its business, the company has been able to withstand the currency impact historically.

Volatility in quarterly earnings: Although Anuh has a track record of strong financials, we would caution investors in terms of quarterly volatility in earnings due to changes in product mix and variation in shipment schedules (which impacted its 3QFY16 results). We would thus recommend the stock to patient investors who would want to own the business for the long term and also suggest investors to focus on annual financials as opposed to quarterly financials for Anuh.

Company Background

Anuh Pharma, an API manufacturing company is part of the INR 8.5bn SK Group having presence in pharma, trading, distribution and logistics. The Company's manufacturing facility is located at Tarapur, Maharashtra. Anuh derived 42%/48% of its revenue from exports in FY15/9MFY16. Anuh is the largest manufacturer of macrolides & anti-TB products in India and has 18% global market share of erythromycin. It is also a major player in antibacterial, antimalarial, antihypertension and corticosteroids. It is the 1st or 2nd largest player in most of the products it is present in. Currently, erythromycin, higher macrolides & corticosteroids account for over 70% of its revenue.



Anuh Pharma Financials & Valuation

INCOME STATEMENT						RATIOS					
(INRCR)											
Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
Revenues	266	284	335	375	434	Adjusted EPS (INR)	7.0	8.8	10.4	12.7	16.5
Growth	10%	6%	18%	12%	16%	Book Value	103	121	50	58	69
COGS	214	222	258	285	325	Div Per Share	2.6	2.3	3.0	4.0	5.0
Gross Profit	52	62	77	90	109	Dividend Payout	43%	32%	35%	38%	36%
GP Margin	19.6%	21.9%	23.0%	24.0%	25.1%	Net Debt / Equity	(0.5)	(0.6)	(0.3)	(0.2)	(0.3)
Employee Cost	5	6	7	7	8	P/E			22.6	18.6	14.2
Other Expenses	21	24	28	31	36	P/BV			4.7	4.0	3.4
EBITDA	27	33	42	51	64	EV/EBITDA			13.9	11.5	9.1
EBITDA Margin	10.0%	11.6%	12.7%	13.7%	14.8%	EV/Sales			1.8	1.6	1.4
Depreciation	2	3	2	3	4	Dividend Yield			1.3%	1.7%	2.1%
Other Income	4	5	3	3	4	Return Ratios					
PBIT	29	35	43	51	64	ROCE	34%	34%	34%	35%	37%
E/O. Inc/(Loss)	(4)	(3)	(3)	(3)	(3)	ROCE (ex Cash)	67%	79%	47%	45%	52%
Interest Cost	0	0	0	0	0	ROE	20%	22%	21%	22%	24%
PBT	25	32	39	47	61	ROE (ex Cash)	40%	50%	29%	28%	33%
Tax	8	10	13	16	20	W.Cap. Ratios					
Rate	31%	31%	34%	33%	32%	Debtor days	102	88	101	100	100
Adjusted PAT	18	22	26	32	41	Inventory days	30	25	37	39	39
Growth	40%	25%	19%	22%	31%	Creditor days	102	79	87	86	85
PAT Margin	6.6%	7.8%	7.8%	8.5%	9.6%	W.Cap cycle	30	33	51	53	54

BALANCE SHEET						CASH FLOW					
(INRCR)						(INRCR)					
Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E	Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
Share Capital	4	4	13	13	13	EBITDA	27	33	42	51	64
Reserves	82	97	114	133	160	Adjustments	(4)	(3)	0	0	0
Networth	86	101	126	146	172	(Inc)/Dec in W.Cap	(1)	(3)	(24)	(9)	(10)
SOURCES OF FUNDS	86	101	126	146	172	Pre Tax OCF	22	26	18	43	54
Gross Fixed Assets	24	23	47	63	69	Tax Paid	(8)	(11)	(13)	(16)	(20)
Less: Depreciation	12	13	16	19	22	CF from Operations	14	16	5	27	34
Net Fixed Assets	12	10	31	44	46	(Inc)/Dec in FA	(1)	1	(24)	(16)	(6)
Capital WIP	0	0	0	0	0	Invst in Bank Deposits	0	0	5	(3)	(3)
Inventories	19	16	31	38	44	Interest Received	4	5	3	3	4
Debtors	75	68	93	103	119	CF from Investing act.	3	6	(16)	(17)	(6)
Cash & Investments	42	57	36	34	48	Inc/(Dec) in Debt	(1)	0	0	0	0
Loans & Advances	14	16	21	24	27	Interest Paid	(0)	(0)	0	0	0
Other Curr Assets	0	1	1	2	2	Divd Paid (incl Tax)	(8)	(7)	(9)	(12)	(15)
Curr. Assets	151	158	182	200	240	CF from Financing act.	(8)	(7)	(9)	(12)	(15)
Creditors and Prov.	77	67	87	99	114	Inc/(Dec) in Cash	9	14	(21)	(2)	14
Net Current Assets	74	91	95	102	125	Add: Opening Balance	33	42	57	36	34
Less Net Def. Tax Liab	0	0	0	0	-1	Closing Balance	42	57	36	34	48
APPLICATION OF FUNDS	86	101	126	146	172						

Disclaimer: This document has been prepared by Motilal Oswal Securities Limited (hereinafter referred to as Most) to provide information about the company(ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies). This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

MOST and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We and our affiliates have investment banking and other business relationships with a some companies covered by our Research Department. Our research professionals may provide input into our investment banking and other business selection processes. Investors should assume that MOST and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may educate investors on investments in such business. The research professionals responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting information. Our research professionals are paid on twin parameters of performance & profitability of MOST.

MOST generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, MOST generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. MOST and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of MOST even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition MOST has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent MOST's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Most and its associates may have managed or co-managed public offering of securities, may have received compensation for investment banking or merchant banking or brokerage services, may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Most and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. Subject Company may have been a client of Most or its associates during twelve months preceding the date of distribution of the research report

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Motilal Oswal Securities Limited is under the process of seeking registration under SEBI (Research Analyst) Regulations, 2014.

There are no material disciplinary action that been taken by any regulatory authority impacting equity research analysis activities

Motilal Oswal Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000000412

A graph of daily closing g prices of securities is available at www.nseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Anuh Pharma
1. Analyst ownership of the stocks mentioned above	No
2. Served as an officer, director or employee	No

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 6, Sayani Road, Prabhadevi, Mumbai 400 025
 Phone: (91-22) 30894200 Fax: (91-22) 22885038. E-mail: info@motilaloswal.com