Shilpa Medicare

BSE SENSEX	S&P CNX
34,300	10,540

Bloomberg	SLPA IN
Equity Shares (m)	80
M.Cap.(INRb)/(USDb)	40.8 / 0.6
52-Week Range (INR)	749 / 474
1, 6, 12 Rel. Per (%)	-16/-21/-51
Avg Val, INRm	30.0
Free float (%)	46.2

Financials & Valuations (INR b)

Y/E Mar	FY18E	FY19E	FY20E
Net Sales	7.8	10.0	12.2
EBITDA	1.7	2.4	3.0
PAT	1.1	2.1	2.7
EPS (INR)	13.3	26.5	33.4
Gr. (%)	-5.0	99.2	26.1
BV/Sh (INR)	127.0	152.1	183.7
P/E(x)	38.2	19.2	15.2
P/B (x)	4.0	3.3	2.8
ROE (%)	11.0	19.0	19.9
RoCE (%)	8.4	14.8	16.6

Estimate change

TP change

Rating change

CMP: INR509 TP: INR749 (+47%) Buy

One-offs led weak results; Outlook remains promising

- **Plant specific issue dragged overall sales growth:** Shilpa Medicare (SLPA) delivered sales of INR1.9b (our est: INR2.4b), up 1.1% YoY. Lower US sales on account of equipment specific issues dragged overall sales growth for the quarter. In addition, it received lower development income for the quarter as it has started its own filing. Onco-API growth momentum was maintained for the quarter.
- **Higher raw material (RM) cost in CRAMS business impacted operating margins for the quarter:** Hike in RM prices in CRAMS led gross margin to fall by 205bp YoY to 50.8% in Q3FY18. Addition of employees in formulation led higher employee cost (20% of sales against 17% of sales YoY). This resulted in lower EBITDA margin of 14.7% (our est: 22.5%). Subdued operational performance led 6% YoY reduction in PAT to INR164m (our Est: 428m).
- **US sales stable; yet to see pick-up in growth:** SLPA had US formulation sales of ~INR250m in Q3FY18. SLPA continued to gain market share in g-Vidaza. SLPA has filed 33 ANDAs on cumulative basis with only 2 approved till date.
- **Changes in estimates and Valuation view:** We have reduced our EPS estimates by 26%/11%/11% for FY18E/19E/20E to factor 1) increased RM prices in CRAMS and 2) deferment of US business due to inspection related hurdle and equipment related issue. Accordingly, we have revised our price target to INR749 (from INR797 earlier) by valuing at 25x 12m forward earnings. Though Q3FY18 results were weak, we remain positive as SLPA has robust ANDA pipeline for US market, which is the key growth driver, subject to approval. Maintain Buy on potential upside of 47% from current levels.

Quarterly Performance (Consolidated) (INR m)

	FY17				FY18E				FY17	FY18E	FY18	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	1,672	2,113	1,836	2,237	1,685	2,040	1,855	2,255	7,858	7,835	2,423	-23.4
YoY Change (%)	11.7	21.1	-8.2	13.1	0.8	-3.4	1.1	0.8	8.8	-0.3		
Total Expenditure	1,339	1,624	1,487	1,650	1,344	1,473	1,584	1,781	6,100	6,182		
EBITDA	333	489	348	587	341	567	272	474	1,758	1,653	544	-50.1
Margins (%)	19.9	23.2	19.0	26.2	20.2	27.8	14.6	21.0	22.4	21.1		
Depreciation	70	75	78	78	84	83	92	95	300	354		
Interest	7	6	7	7	5	5	5	6	27	21		
Other Income	24	37	40	79	52	53	51	50	180	205		
PBT before EO expense	280	446	304	581	303	531	226	423	1,610	1,483	480	-53.0
Share of profit/ (Loss) in Asso./ JV	-62	54	-37	-7	28	-76	-8	-6	0	(62)		
Extra-Ord expense	0	0	0	45	0	0	0	0	45	0		
PBT	342	391	340	633	275	607	234	429	1,655	1,420	425	-45.0
Tax	80	124	97	147	90	119	54	87	447	351		
Rate (%)	36.5	24.7	36.1	27.8	27.2	26.2	24.7	21.0	28.5	24.7		
Minority Interest & P/L of Asso. Cos.	-9	-6	-4	-8	0	0	0	0	-27	0		
Reported PAT	147	382	175	390	241	336	164	329	1,091	1,067	428	-61.8
Adj PAT	147	382	175	423	241	336	164	329	1,123	1,067	428	-61.8
YoY Change (%)	-5.3	52.4	-37.1	7.7	64.0	-12.2	-6.1	-22.2	6.2	-5.0		
Margins (%)	8.8	18.1	9.5	18.9	14.3	16.5	8.8	14.6	14.3	13.6		

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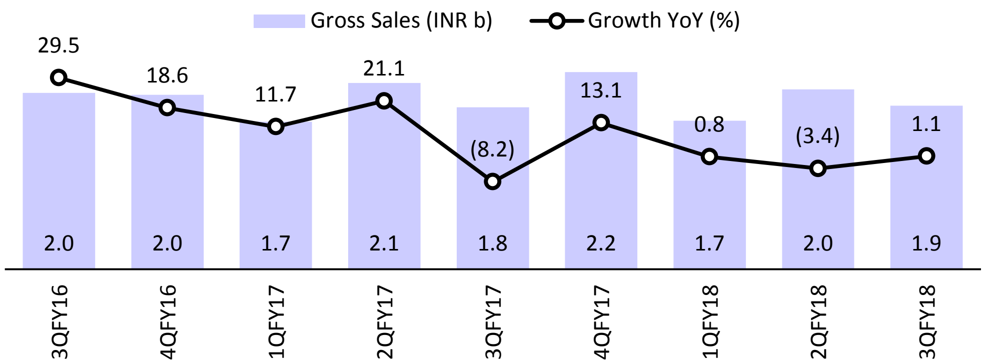
One-off issues impacts revenue growth for the quarter

After three quarters of downtrend in YoY growth in revenue, SLPA delivered 1.1% YoY growth to INR1.9b in Q3FY18. The growth in revenue is also partly on low base of past year. Addition of US sales (which was absent in Q3FY17) and steady CRAMS/Onco-API business led overall growth. However, SLPA had lower production of products for US market due to multiple inspections and equipment related issues occurred during the quarter. Adjusting for the same, the growth would have been higher for the quarter.

Exhibit 1: Total Sales at 1.9b was slightly up YoY

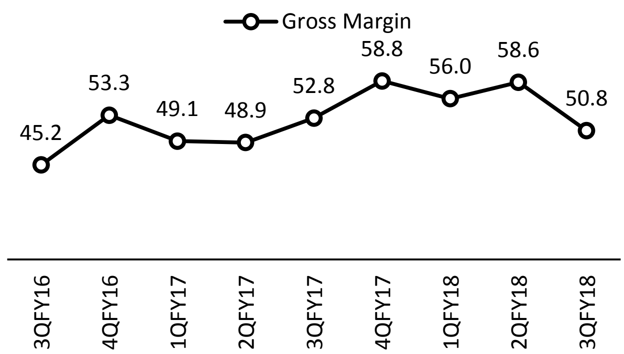


Source: MOSL, Company

Higher RM cost and employee cost adversely impacts margins for the quarter

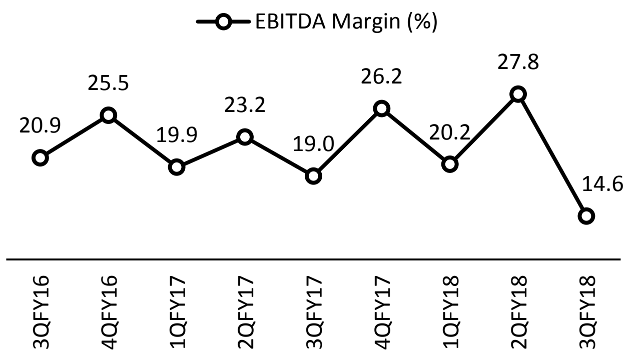
Gross margin fell sharply by 205bp YoY and 780bp QoQ in 3QFY18 to 50.8%. This is largely due to increase in raw material for CRAMS business and inability to subsequent increase in finished products for the quarter. In addition, there has been increase in employees for formulation facility resulting in overall EBITDA margin to reduce to 14.6% for the quarter. This is the lowest EBITDA margin in past sixteen quarters.

Exhibit 2: Increased RM cost hits gross margin (down 220bps YoY)



Source: MOSL, Company

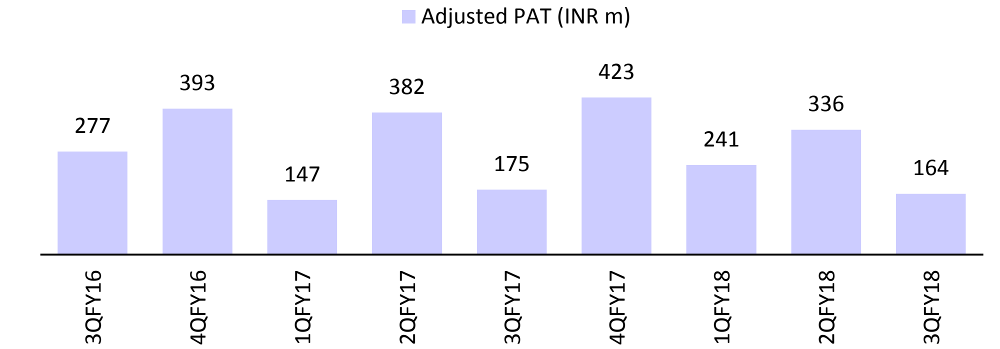
Exhibit 3: EBITDA margin also fell drastically by 440 bps YoY



Source: MOSL, Company

SLPA reported loss of INR8m 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 improve profitability of the company.

Exhibit 4: Lower sales growth and muted operating margin impacts PAT for the quarter



Source: MOSL, Company

US sales stable; yet to see considerable pick-up

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

Changes in estimates and Valuation

Exhibit 5: Key changes in estimates

INR m	New estimates			Old estimates			Change (%)		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sales	7,835	10,028	12,164	8,696	10,923	13,116	(9.9)	(8.2)	(7.3)
EBITDA	1,653	2,397	2,992	2,000	2,731	3,410	(17.3)	(12.2)	(12.2)
EBITDA margin (%)	21.1	23.9	24.6	23.0	25.0	26.0			
PAT	1,067	2,125	2,679	1,452	2,398	3,026	(26.5)	(11.4)	(11.5)
EPS	13.3	26.5	33.4	18.1	29.9	37.8	(26.5)	(11.4)	(11.5)
Price Target (INR)	**749**			**797**					

Source: MOSL

We have reduced our EPS estimates by 26%/11%/11% for FY18E/19E/20E to factor 1) increased RM prices in CRAMS and 2) deferment of US business due to inspection related hurdle and equipment related issue. Accordingly, we have revised our price target to INR749 (from INR797 earlier) by valuing at 25x 12m forward earnings. Though Q3FY18 results were weak, we remain positive as SLPA has robust ANDA pipeline for US market, which is the key growth driver, subject to approval. Maintain Buy on potential upside of 47% from current levels.

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**	**7,835**	**10,028**	**12,164**
EBITDA	**686**	**1,160**	**1,286**	**1,554**	**1,754**	**1,653**	**2,397**	**2,992**
Margin (%)	18.1	20.1	20.8	21.4	22.4	21.1	23.9	24.6
Depreciation	153	232	214	286	300	354	434	513
EBIT	533	928	1,072	1,267	1,454	1,299	1,963	2,479
Int. and Finance Charges	**23**	**35**	**41**	**69**	**27**	**21**	**21**	**17**
Other Income	60.6	90.7	48.0	46.4	180.0	205.0	209.1	213.3
PBT before EO Exp.	**571**	**984**	**1,080**	**1,245**	**1,556**	**1,420**	**2,830**	**3,567**
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**	**1,420**	**2,830**	**3,567**
Current Tax	83	153	233	255	447	354	705	888
Deffered Tax	12	50	119	-21	0	0	0	0
Tax Rate (%)	17	21	33	19	29	25	25	25
LesS: Minority interest	0	-5	-11	-51	-27	0	0	0
Reported PAT	**475**	**757**	**737**	**1,038**	**1,091**	**1,067**	**2,125**	**2,679**
Adjusted PAT	**476**	**780**	**738**	**1,057**	**1,123**	**1,067**	**2,125**	**2,679**
Change (%)	17	64	-5	43	6	-5	99	26
Margin (%)	12.5	13.1	11.9	14.3	13.9	13.6	21.2	22.0

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	10,092	12,103	14,639
Net Worth	**3,204**	**3,964**	**5,469**	**6,393**	**9,162**	**10,172**	**12,183**	**14,719**
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**	**13,160**	**15,172**	**16,707**
Net Fixed Assets	**1,756**	**2,814**	**2,984**	**3,828**	**4,327**	**5,391**	**6,708**	**7,695**
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**	**5,083**	**6,227**	**7,219**
Inventory	743	1,233	1,308	1,342	1,898	1,929	2,382	2,862
Account Receivables	418	680	814	1,254	1,709	1,709	2,187	2,653
Cash and Bank Balances	169	92	184	109	965	720	698	452
Loans and Adances	433	599	666	206	257	257	329	398
Other Current Assets	146	16	40	187	337	468	631	852
Curr. Liability and Prov.	**856**	**1,465**	**1,423**	**1,562**	**1,607**	**1,549**	**1,998**	**2,441**
Account Payables	513	930	755	1,007	1,112	1,054	1,364	1,673
Other Current Liabilities	234	382	493	365	286	286	366	443
Provisions	110	153	175	190	209	209	268	325
Net Current Assets	**1,053**	**1,153**	**1,588**	**1,537**	**3,559**	**3,534**	**4,229**	**4,778**
Deferred tax Assets	0	0	0	14	0	0	0	0
Appl.of Funds	**4,658**	**5,313**	**7,622**	**7,747**	**12,151**	**13,160**	**15,172**	**16,707**

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**	**13.3**	**26.5**	**33.4**
Cash EPS	12.8	13.8	12.3	17.4	17.8	17.7	31.9	39.8
BV/ Share	65.3	53.9	70.9	82.9	114.4	127.0	152.1	183.7
DPS	0.6	0.5	0.5	0.6	0.6	0.6	1.2	1.5
Payout (%)	11.0	5.4	6.0	4.5	4.3	4.5	4.5	4.5
Valuation (x)								
P/E	85.8	52.3	55.3	38.6	36.3	38.2	19.2	15.2
Cash P/E	39.7	37.0	41.2	29.2	28.7	28.7	15.9	12.8
P/BV	7.8	9.4	7.2	6.1	4.5	4.0	3.3	2.8
EV/Sales	6.9	6.7	6.6	5.6	5.4	5.5	4.3	3.5
EV/ EBITDA	38.0	33.2	31.8	25.9	24.2	25.9	17.9	14.0
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3
FCF per Share	-7.3	-4.8	-9.2	-3.0	-10.1	-2.3	1.1	11.2
Return Ratios (%)								
ROE	15.9	21.7	15.6	17.8	14.4	11.0	19.0	19.9
ROCE	11.9	15.5	11.4	13.6	11.5	8.4	14.8	16.6
Working Capital Ratios	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory (Days)	83.5	78.0	94.5	84.9	97.2	113.0	103.1	104.3
Debtor (Days)	39.7	34.6	44.0	52.0	69.0	79.6	70.9	72.6
Creditor (Days)	63.6	56.9	62.6	56.4	63.6	64.0	57.8	60.4
Leverage Ratios (x)								
Current Ratio	2.7	1.7	2.5	2.5	5.1	5.3	4.7	4.3
Interest Coverage Ratio	23.5	26.3	26.5	18.5	54.1	61.6	93.0	144.2
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	1,420	2,830	3,567
Depreciation	153	232	214	286	300	354	434	513
(Interest received)	-4	-14	-17	-5	0	0	0	0
Direct Tax Paid	-110	-216	-254	-316	-447	-354	-705	-888
(Inc)/ Dec in WC	-139	-234	-401	74	-1,357	-219	-718	-794
CF from Operations	**471**	**723**	**621**	**1,261**	**7**	**1,201**	**1,841**	**2,398**
Others	-34	-22	67	68	0	0	0	0
CF from Operating incl EO	**437**	**701**	**688**	**1,329**	**7**	**1,201**	**1,841**	**2,398**
(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**	**-188**	**91**	**898**
(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	-57	-114	-143
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**	**-57**	**-114**	**-1,143**
Inc / (Dec) in Cash	**148**	**-72**	**99**	**-44**	**856**	**-245**	**-23**	**-245**
Opening Balance	23	169	92	184	109	965	720	698
Closing Balance	**169**	**92**	**184**	**159**	**965**	**720**	**698**	**452**

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Disclosure of Interest Statement	Shilpa Medicare
Analyst ownership of the stock	No

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