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Bloomberg	SLPA IN
Equity Shares (m)	80
M.Cap.(INRb)/(USDb)	57.1 / 0.8
52-Week Range (INR)	787 / 517
1, 6, 12 Rel. Per (%)	-18/-35/-15
Avg Val, INRm	42
Free float (%)	45.3

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	7.8	10.7	14.0
EBITDA	1.8	2.5	3.5
PAT	1.1	1.7	2.4
EPS (INR)	14.0	21.1	30.4
Gr. (%)	6.2	50.7	43.9
BV/Sh (INR)	114.4	134.3	163.1
P/E(x)	39.1	26.0	18.0
P/B (x)	4.8	4.1	3.4
ROE (%)	26.0	18.7	13.1
RoCE (%)	5.8	4.3	3.3

CMP: INR551 TP: INR805 (+46%)
Buy

US formulation on track; Outlook positive

- **SLPA's sales rose marginally by 0.8% YoY to INR1.7b** due to the shift of part of the CRAMS business to the JV with ICE. This shift of operations started 3QFY17 onward. The company, however, has witnessed improved traction on the formulations front over the past year. EBITDA margin expanded 30bp YoY to 20.2%, which, along with higher other income and lower taxes, led to an increase in PAT to INR241m from INR147m in the year-ago period.
- **Sales much higher adjusting for business shift to JV:** SLPA has begun shifting some of CRAMS' business to its JV with ICE. We note that the transferred part of the business recorded sales of ~INR550m, adjusting for which, YoY sales growth would have been ~33% (led by US formulation, CRAMS and Oncology API segments).
- **Higher formulation sales drive gross margin:** Gross margin improved 690bp YoY due to superior product mix. However, EBITDA margin expanded by just 30bp YoY due to higher other expenses (led by increased R&D spend).
- **Gradual build-up in formulation sales:** Formulation sales came in at INR200m for the quarter, compared to INR140m in 4QFY17, driven by two ANDA approvals for the US market. In addition, it has a good pipeline of 26 ANDAs pending for approval, largely in Oncology. On this basis, we expect SLPA to garner USD24m in FY18.
- **Inspection update:** In July 2017, its formulations facility at Jadcherla, Telangana, was inspected by the USFDA, which issued only one minor observation. We thus believe SLPA faces minimal regulatory risk over the medium term.
- **Valuation view:** We continue valuing SLPA on 25x FY19E earnings, given its healthy product pipeline, strong growth potential and minimal regulatory risk. Accordingly, we maintain our TP of INR805 and **Buy** rating.

Quarterly Performance (Consolidated)

	FY17				FY18E				FY17	FY18E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	1,672	2,113	1,836	2,237	1,685	1,930	2,233	2,365	7,858	8,213
YoY Change (%)	11.7	21.1	-8.2	13.1	0.8	-8.6	21.6	5.7	366.3	325.6
Total Expenditure	1,339	1,624	1,487	1,650	1,344	1,496	1,664	1,738	6,100	6,242
EBITDA	333	489	348	587	341	434	569	627	1,758	1,971
Margins (%)	19.9	23.2	19.0	26.2	20.2	22.5	25.5	26.5	22.4	24.0
Depreciation	70	75	78	78	84	82	83	82	300	331
Interest	7	6	7	7	5	5	5	5	27	20
Other Income	24	37	40	79	52	75	85	95	180	307
PBT before EO expense	280	446	304	581	303	422	566	635	1,610	1,927
Share of profit/ (Loss) in Associate/ JV	-62	54	-37	-7	28	50	85	95	0	258
Extra-Ord expense	0	0	0	45	0	0	0	0	45	0
PBT	342	391	340	633	275	372	481	540	1,655	1,669
Tax	80	124	97	147	90	113	137	153	447	493
Rate (%)	36.5	24.7	36.1	27.8	27.2	24.0	21.0	21.0	28.5	22.6
Minority Interest & Profit/Loss of Asso. Cos.	-9	-6	-4	-8	0	0	0	0	-27	0
Reported PAT	147	382	175	390	241	359	515	576	1,145	1,691
Adj PAT	147	382	175	423	221	321	447	501	1,178	1,491
YoY Change (%)	-5.3	52.4	-37.1	7.7	50.2	-16.1	156.4	18.6	433.3	364.8
Margins (%)	8.8	18.1	9.5	18.9	13.1	16.6	20.0	21.2	15.0	18.2

E: MOSL Estimates

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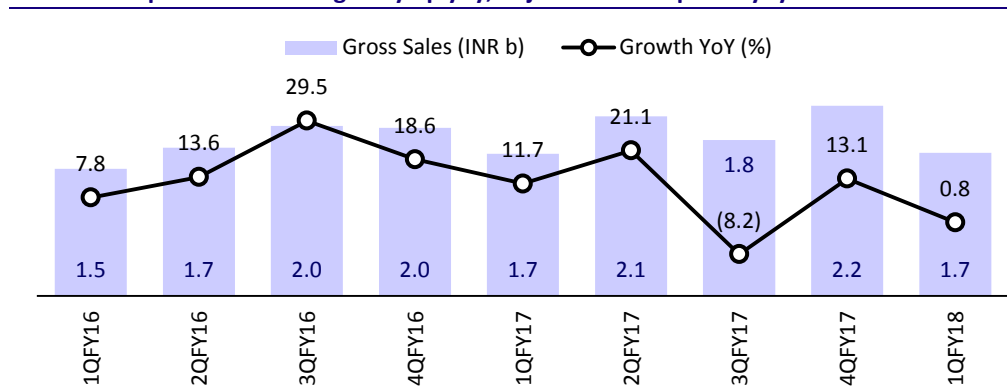
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Robust adjusted revenue for the quarter

Revenue on reported basis is showing downtrend largely due to transfer of CRAMS business from its existing facilities to facilities under JV with ICE. Revenue at INR1.7b is excluding business transferred to JV. Adjusting the same, SLPA delivered ~33% YoY growth in 1QFY18. Part of the growth is attributed to formulation sales to US market. SLPA continued to have robust growth in CRAMS business, led by higher volume off-take by its customer, aiding overall sales growth for SLPA.

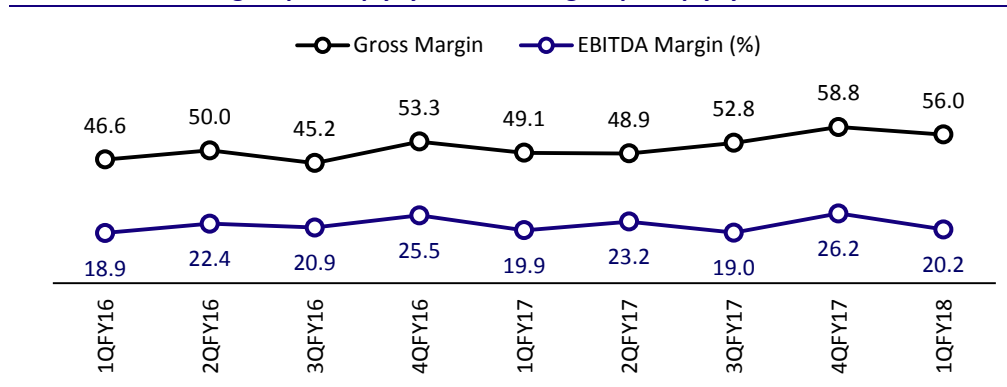
Exhibit 1: Reported sales marginally up yoy; adjusted sales up 33% yoy



Source: MOSL, Company

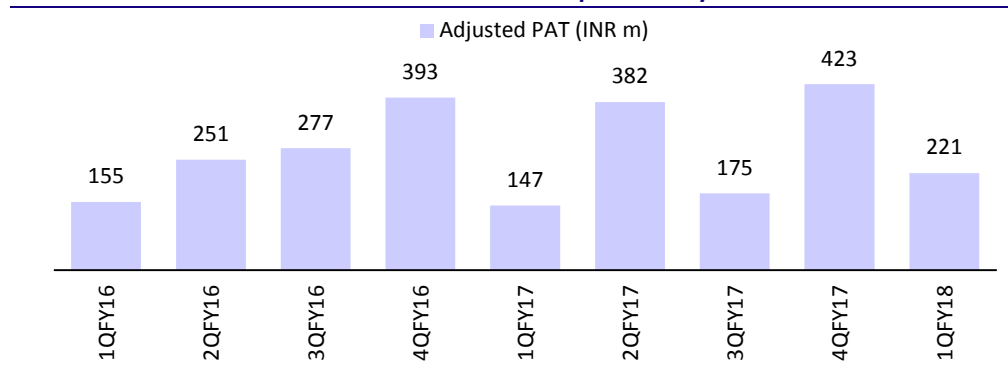
Gross margin continued its uptrend, led by increase share of high margin products and higher development income. However, EBITDA margin increased at lower rate on higher R&D spent and other operating expenses.

Exhibit 2: Gross margin up 690bp yoy; EBITDA margin up 30bp yoy



Source: MOSL, Company

JV facility is of double the existing capacity and SLPA’s current operating expense is marginally higher than revenue transferred to JV. As a result, JV is yet to contribute in consolidated net income of SLPA.

Exhibit 3: Lower net income from JV affects overall profitability

Source: MOSL, Company

Gradual increase in Formulation sales from US market

US sales came in at ~INR200m from 2 approved ANDAs. SLPA continue to show improvement in revenue in formulation from US market. SLPA filed about 3 ANDAs in 1QFY18, taking cumulative filing to 28 with 26 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.

Inspection Update

The formulation facility was recently inspected by USFDA and was issued 483 with one minor observation.

Valuation and View

We remain positive on SLPA on the back of transformation from pure API play to integrated formulator, strong product pipeline already filed with USFDA, focus on oncology products and minimal regulatory risk over medium term.

Given the scenario, wherein, peers with high base business from US market are facing pricing pressure and efforts by USFDA towards reducing timeline for ANDA approval, SLPA is in suitable position with very low base business and 26 ANDAs pending for approval.

Hence we continue to value SLPA at 25x FY19 earnings to arrive at price target of INR805, implying potential upside of 47% from current levels. Re-iterate 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	10,696	14,026	16,809
EBITDA	686	1,160	1,286	1,554	1,754	2,460	3,507	4,370
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	2,098	3,063	3,846
Int. and Finance Charges	23	35	41	69	27	81	81	66
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	2,197	3,162	3,960
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	2,197	3,162	3,960
Current Tax	83	153	233	255	447	505	727	911
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	1,692	2,435	3,049
Adjusted PAT	476	780	738	1,057	1,123	1,692	2,435	3,049
Change (%)	17	64	-5	43	6	51	44	25
Margin (%)	12.5	13.1	11.9	14.3	13.9	15.8	17.4	18.1

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	10,683	12,988	15,874
Net Worth	3,204	3,964	5,469	6,393	9,162	10,763	13,068	15,954
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	13,752	16,057	17,943
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	6,392	7,989	9,416
Inventory	743	1,233	1,308	1,342	1,898	2,570	3,283	3,882
Account Receivables	418	680	814	1,254	1,709	2,333	3,060	3,667
Cash and Bank Balances	169	92	184	109	965	671	555	464
Loans and Advances	433	599	666	206	257	350	459	551
Other Current Assets	146	16	40	187	337	468	631	852
Curr. Liability and Prov.	856	1,465	1,423	1,562	1,607	2,259	2,857	3,374
Account Payables	513	930	755	1,007	1,112	1,583	1,971	2,312
Other Current Liabilities	234	382	493	365	286	390	511	613
Provisions	110	153	175	190	209	285	374	449
Net Current Assets	1,053	1,153	1,588	1,537	3,559	4,134	5,132	6,042
Deferred tax Assets	0	0	0	14	0	0	0	0
Appl. of Funds	4,658	5,313	7,622	7,747	12,151	13,752	16,057	17,943

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	21.1	30.4	38.1
Cash EPS	12.8	13.8	12.3	17.4	17.8	25.6	35.9	44.6
BV/ Share	65.3	53.9	70.9	82.9	114.4	134.3	163.1	199.1
DPS	0.6	0.5	0.5	0.6	0.6	0.9	1.4	1.7
Payout (%)	11.0	5.4	6.0	4.5	4.3	4.5	4.5	4.5
Valuation (x)								
P/E	92.3	56.3	59.5	41.5	39.1	26.0	18.0	14.4
Cash P/E	42.7	39.8	44.4	31.4	30.9	21.4	15.3	12.3
P/BV	8.4	10.2	7.7	6.6	4.8	4.1	3.4	2.8
EV/Sales	7.4	7.2	7.1	6.0	5.8	4.3	3.3	2.7
EV/ EBITDA	40.8	35.7	34.2	27.9	26.0	18.7	13.1	10.3
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3
FCF per Share	-7.3	-4.8	-9.2	-3.0	-10.1	-2.5	0.2	13.4
Return Ratios (%)								
ROE	15.9	21.7	15.6	17.8	14.4	17.0	20.4	21.0
ROCE	11.9	15.5	11.4	13.6	11.5	12.9	16.4	18.0
Working Capital Ratios								
Inventory (Days)	83.5	78.0	94.5	84.9	97.2	99.0	101.5	105.1
Debtor (Days)	39.7	34.6	44.0	52.0	69.0	69.0	70.2	73.0
Creditor (Days)	63.6	56.9	62.6	56.4	63.6	59.7	61.7	62.8
Leverage Ratios (x)								
Current Ratio	2.7	1.7	2.5	2.5	5.1	4.2	4.0	3.8
Interest Coverage Ratio	23.5	26.3	26.5	18.5	54.1	25.9	37.7	58.1
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	2,197	3,162	3,960
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	-505	-727	-911
(Inc)/ Dec in WC	-139	-234	-401	74	-1,357	-868	-1,114	-1,002
CF from Operations	471	723	621	1,261	7	1,185	1,764	2,572
Others	-34	-22	67	68	0	0	0	0
CF from Operating incl EO	437	701	688	1,329	7	1,185	1,764	2,572
(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	-204	14	1,072
(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	-90	-130	-163
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	-90	-130	-1,163
Inc / (Dec) in Cash	148	-72	99	-44	856	-294	-116	-91
Opening Balance	23	169	92	184	109	965	671	555
Closing Balance	169	92	184	159	965	671	555	464

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Shilpa Medicare

- Analyst ownership of the stock

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