

# Shilpa Medicare

**BSE SENSEX**  
36,387

**S&P CNX**  
10,907

**CMP: INR400**

**TP: INR620(+55%)**

**Buy**



Innovating for  
affordable healthcare

**Stock Info**

Bloomberg	SLPA IN
Equity Shares (m)	80
52-Week Range (INR)	32.6 / 0.5
1, 6, 12 Rel. Per (%)	605 / 358
M.Cap. (INR b)	5/10/-34
Avg Val, INRm	20
Free float (%)	46.2

**Financials Snapshot (INR b)**

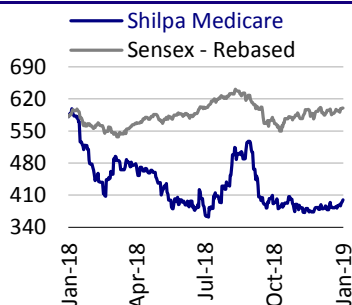
Y/E Mar	FY19E	FY20E	FY21E
Net Sales	8.2	10.3	12.2
EBITDA	2.0	2.5	3.3
PAT	1.5	2.0	2.2
EPS (INR)	18.7	25.4	26.9
Gr. (%)	45.8	35.7	6.0
BV/Sh (INR)	153.5	177.1	202.2
RoE (%)	12.8	15.1	14.0
RoCE (%)	10.5	12.6	11.9
P/E (x)	21.4	15.7	14.9
P/BV (x)	2.6	2.3	2.0

**Shareholding pattern (%)**

As On	Sep-18	Jun-18	Sep-17
Promoter	53.8	53.8	54.7
DII	13.2	13.1	13.2
FII	19.0	19.0	18.9
Others	14.0	14.2	13.2

FII Includes depository receipts

**Stock Performance (1-year)**



## G-Gleevec to boost profitability

### US generics the key growth driver for SLPA over medium term

- **Shilpa Medicare (SLPA) has received the USFDA’s final approval for Imatinib Mesylate (g-Gleevec) used in Leukemia in the form of tablets (100mg and 400mg). g-Gleevec (Imatinib Mesylate) is expected to open business opportunity of USD10-12m for SLPA in the US generics segment.**
- **With four ANDA approvals (3-final and 1-tentative) in place, SLPA’s ANDA pipeline is strong with 34 ANDAs pending for approval. This implies strong growth for SLPA over the next 2-3 years.**
- **We expect SLPA to deliver revenue CAGR of 16% and earnings CAGR of 28% for FY18-21.**
- **We remain positive on SLPA on the back of strong growth in earnings led by forward integration to formulations and increased business from the regulated markets. We continue to value SLPA at 23x 12M forward earnings and arrive at a price target of INR620. Re-iterate BUY.**
- **g-Gleevec to drive revenues; improve operating leverage:** SLPA has received the USFDA’s final approval for Imatinib Mesylate (g-Gleevec) used in Leukemia in the form of tablets (100mg and 400mg). Besides having para-IV filing for g-Gleevec, SLPA had a settlement in place with the innovator, with respect to litigation on the generic version of Gleevec since FY17. Also, SLPA has regulatory compliance in place with respect to its formulation and API facility. Thus, final approval was the last key milestone for g-Gleevec. The drug has a market size of USD885m (IQVIA MAT Q2 2018) with six other generic approvals, of which two approvals came in the last six months. Based on the competitive scenario, we expect SLPA to garner sales of USD10-12m from this product on annualized basis. This would also enhance operating leverage thereby improving profitability of SLPA in the US generics business.
- **Robust outlook on the US business:** For FY18, US sales stood at ~INR1.4b (USD20m; 19% of total sales), which came in largely from only two products (Capecitabine and Azacitidine). Thus, on FY18 base business of USD19m, g-Gleevec would contribute meaningfully in the US generic segment. Currently, SLPA has four ANDA approvals (including g-Gleevec) and a healthy pipeline of 34 products pending for approval. We expect US sales to reach INR3.2b in FY20 (32% of sales) on the back of new launches and better traction in approved molecules.
- **Good compliance record; minimal regulatory risk over near term:** SLPA’s API facility located at Raichur received EIR for inspection, which was carried out in Jan’18. The formulations facility at Jadcherla received EIR in Mar’18 for inspection carried out in Dec’17. Till date, SLPA’s formulation and API facilities have been inspected thrice by the USFDA and have been complied within stipulated period of time. Thus, we expect minimal regulatory risk over the near term.

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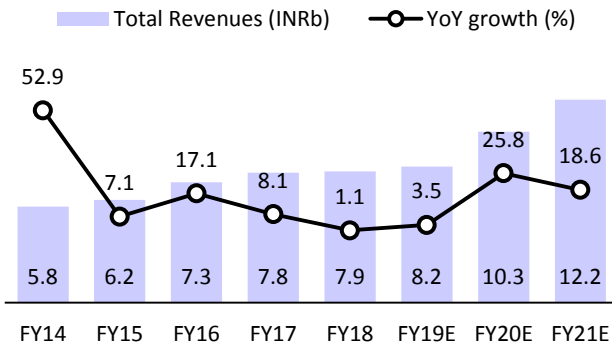
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- **Valuation and view:** We continue to value SLPA at a P/E multiple of 23x, a 15% premium to industry average. We have factored in the strong growth in earnings due to forward integration in formulations and increased business from regulated markets. We expect SLPA to deliver revenue CAGR of 16% and earnings CAGR of 28% for FY18-21. Accordingly, we arrive at a price target of INR620, based on 23x 12M forward earnings and re-iterate BUY on the stock.

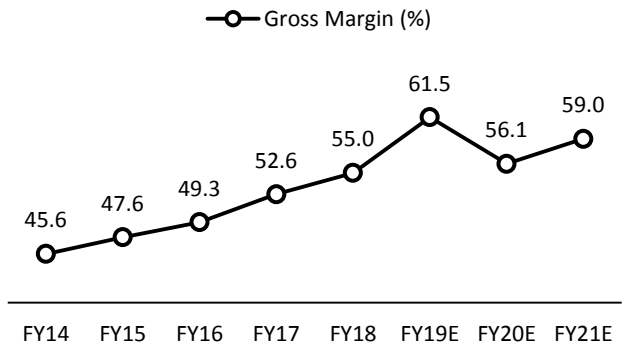
## Story in Charts

**Exhibit 1: SLPA to see revenue CAGR of 16% for FY18-21**



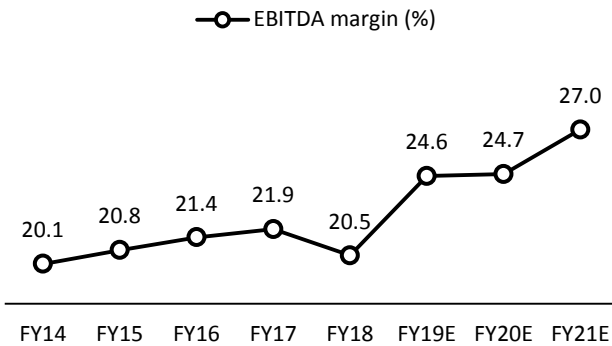
Source: MOSL, Company

**Exhibit 2: Higher US formulation sales to improve GM**



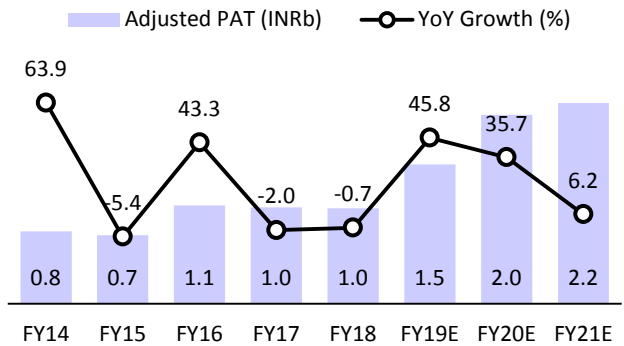
Source: MOSL, Company

**Exhibit 3: EBITDA margins expected to improve**



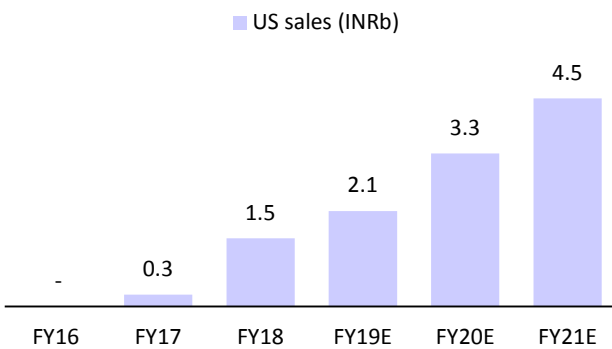
Source: MOSL, Company

**Exhibit 4: Earnings to grow at 28% CAGR for FY18-21**



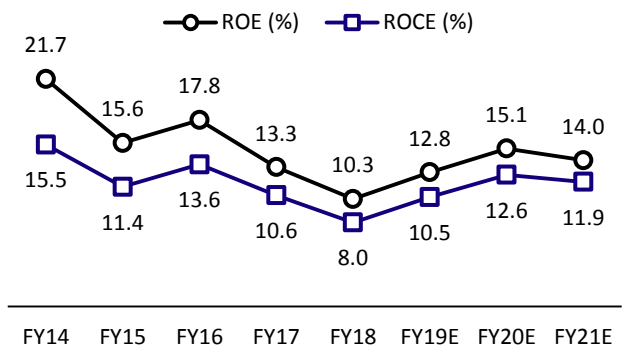
Source: MOSL, Company

**Exhibit 5: US sales to grow on back of new approvals**



Source: MOSL, Company

**Exhibit 6: Gradual improvement in ROE and ROCE**



Source: MOSL, Company

## Financials & Valuations

Consolidated Income Statement								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Total income from Operations</b>	<b>5,785</b>	<b>6,195</b>	<b>7,251</b>	<b>7,838</b>	<b>7,925</b>	<b>8,202</b>	<b>10,317</b>	<b>12,237</b>
<b>EBITDA</b>	<b>1,160</b>	<b>1,286</b>	<b>1,554</b>	<b>1,713</b>	<b>1,622</b>	<b>2,018</b>	<b>2,548</b>	<b>3,304</b>
Margin (%)	20.1	20.8	21.4	21.9	20.5	24.6	24.7	27.0
Depreciation	232	214	286	306	372	434	513	587
EBIT	928	1,072	1,267	1,406	1,250	1,584	2,035	2,717
Int. and Finance Charges	35	41	69	31	27	18	17	17
Other Income	91	48	46	197	217	221	261	171
<b>PBT before EO Exp.</b>	<b>984</b>	<b>1,080</b>	<b>1,245</b>	<b>1,511</b>	<b>1,368</b>	<b>1,997</b>	<b>2,710</b>	<b>2,871</b>
EO items	-29	-1	-24	-45	0	338	0	0
<b>PBT after EO Exp.</b>	<b>955</b>	<b>1,078</b>	<b>1,221</b>	<b>1,465</b>	<b>1,368</b>	<b>2,334</b>	<b>2,710</b>	<b>2,871</b>
Current Tax	153	233	255	292	274	581	675	715
Deferred Tax	50	119	-21	141	65	0	0	0
Tax Rate (%)	21	33	19	29	25	29	25	25
LesS: Minority interest	-5	-11	-51	29	0	0	0	0
<b>Reported PAT</b>	<b>757</b>	<b>737</b>	<b>1,038</b>	<b>1,004</b>	<b>1,029</b>	<b>1,753</b>	<b>2,035</b>	<b>2,156</b>
<b>Adjusted PAT</b>	<b>780</b>	<b>738</b>	<b>1,057</b>	<b>1,036</b>	<b>1,029</b>	<b>1,500</b>	<b>2,035</b>	<b>2,156</b>
Change (%)	63.9	-5.4	43.3	-2.0	-0.7	45.8	35.7	6
Margin (%)	13.1	11.9	14.3	12.8	13.0	21.4	19.7	17.6

Consolidated Balance Sheet								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	74	77	77	80	82	82	82	82
Total Reserves	3,891	5,392	6,316	9,082	10,769	12,428	14,355	16,396
<b>Net Worth</b>	<b>3,964</b>	<b>5,469</b>	<b>6,393</b>	<b>9,162</b>	<b>10,850</b>	<b>12,510</b>	<b>14,436</b>	<b>16,477</b>
Minority Interest	100	144	23	-24	-52	-52	-52	-52
Deferred Tax Liabilities	259	378	510	618	918	918	918	918
Total Loans	989	1,631	821	2,395	1,712	1,612	1,612	1,612
<b>Capital Employed</b>	<b>5,313</b>	<b>7,622</b>	<b>7,747</b>	<b>12,151</b>	<b>13,428</b>	<b>14,987</b>	<b>16,914</b>	<b>18,955</b>
<b>Net Fixed Assets</b>	<b>2,814</b>	<b>2,984</b>	<b>3,828</b>	<b>4,327</b>	<b>6,324</b>	<b>6,689</b>	<b>7,676</b>	<b>8,589</b>
Goodwill on Consolidation	131	177	89	98	369	369	369	369
Capital WIP	1,110	2,216	916	897	748	748	748	748
<b>Total Investments</b>	<b>105</b>	<b>657</b>	<b>1,361</b>	<b>3,240</b>	<b>2,326</b>	<b>2,326</b>	<b>2,326</b>	<b>2,326</b>
<b>Curr. Assets, Loans &amp; Adv</b>	<b>2,618</b>	<b>3,012</b>	<b>3,099</b>	<b>5,166</b>	<b>5,550</b>	<b>6,647</b>	<b>8,222</b>	<b>9,691</b>
Inventory	1,233	1,308	1,342	1,898	1,887	1,854	2,329	2,679
Account Receivables	680	814	1,254	1,709	2,203	2,283	2,872	3,406
Cash and Bank Balances	92	184	109	965	739	1,535	1,713	1,859
Loans and Advances	599	666	206	257	89	92	115	137
Other Current Assets	16	40	187	337	632	883	1,192	1,610
<b>Curr. Liability and Prov.</b>	<b>1,465</b>	<b>1,423</b>	<b>1,562</b>	<b>1,607</b>	<b>1,888</b>	<b>1,792</b>	<b>2,427</b>	<b>2,768</b>
Account Payables	930	755	1,007	1,112	1,105	980	1,406	1,558
Other Current Liabilities	382	493	365	286	537	556	700	830
Provisions	153	175	190	209	246	255	321	380
<b>Net Current Assets</b>	<b>1,153</b>	<b>1,588</b>	<b>1,537</b>	<b>3,559</b>	<b>3,662</b>	<b>4,856</b>	<b>5,795</b>	<b>6,922</b>
Deferred tax Assets	0	0	14	0	0	0	0	0
<b>Appl. of Funds</b>	<b>5,313</b>	<b>7,622</b>	<b>7,747</b>	<b>12,151</b>	<b>13,428</b>	<b>14,987</b>	<b>16,913</b>	<b>18,954</b>

## Financials & Valuations

### Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>(INR)</b>								
<b>EPS</b>	<b>9.7</b>	<b>9.2</b>	<b>13.2</b>	<b>12.9</b>	<b>12.8</b>	<b>18.7</b>	<b>25.4</b>	<b>26.9</b>
Cash EPS	13.8	12.3	17.4	16.8	17.2	23.7	31.3	33.7
BV/ Share	53.9	70.9	82.9	114.4	133.1	153.5	177.1	202.2
DPS	0.5	0.5	0.6	0.6	0.6	1.0	1.1	1.2
Payout (%)	5.4	6.0	4.5	4.3	4.4	5.1	4.4	4.4
<b>Valuation (x)</b>								
P/E	41.1	43.4	30.3	30.9	31.2	21.4	15.7	14.9
Cash P/E	29.1	32.4	23.0	23.9	23.3	16.9	12.8	11.9
P/BV	7.4	5.6	4.8	3.5	3.0	2.6	2.3	2.0
EV/Sales	5.3	5.3	4.4	4.3	4.3	4.0	3.2	2.7
EV/ EBITDA	26.3	25.3	20.5	19.7	20.9	16.4	12.9	9.9
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3
FCF per Share	-4.7	-9.1	-2.9	-8.6	-15.2	12.1	3.5	3.2
<b>Return Ratios (%)</b>								
ROE	21.7	15.6	17.8	13.3	10.3	12.8	15.1	14.0
ROCE	15.5	11.4	13.6	10.6	8.0	10.5	12.6	11.9
<b>Working Capital Ratios</b>								
Inventory (Days)	78	94	85	97	110	110	98	102
Debtor (Days)	35	44	52	69	90	100	91	94
Creditor (Days)	57	63	56	63	64	62	56	61
<b>Leverage Ratios (x)</b>								
Current Ratio	1.7	2.5	2.5	5.1	4.0	4.9	4.3	4.4
Interest Coverage Ratio	26.3	26.5	18.5	44.9	47.0	88.8	117.1	156.3
Debt/Equity	0.3	0.3	0.2	0.3	0.2	0.2	0.1	0.1
<b>Cash Flow Statement</b>								
<b>(INR m)</b>								
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	955	1,078	1,221	1,465	1,368	2,334	2,710	2,871
Depreciation	232	214	286	306	372	434	513	587
(Interest received)	-14	-17	-5	0	0	0	0	0
Direct Tax Paid	-216	-254	-316	-292	-274	-581	-675	-715
(Inc)/ Dec in WC	-234	-401	74	-1,357	-247	-398	-762	-981
<b>CF from Operations</b>	<b>723</b>	<b>621</b>	<b>1,261</b>	<b>123</b>	<b>1,219</b>	<b>1,789</b>	<b>1,787</b>	<b>1,762</b>
Others	-22	67	68	0	0	0	0	0
<b>CF from Operating incl EO</b>	<b>701</b>	<b>688</b>	<b>1,329</b>	<b>123</b>	<b>1,219</b>	<b>1,789</b>	<b>1,787</b>	<b>1,762</b>
(Inc)/ Dec in FA	-1,086	-1,428	-1,568	-822	-2,461	-800	-1,500	-1,500
<b>Free Cash Flow</b>	<b>-386</b>	<b>-740</b>	<b>-239</b>	<b>-699</b>	<b>-1,242</b>	<b>990</b>	<b>287</b>	<b>262</b>
(Pur)/ Sale of Investments	429	-550	149	-1,581	1,133	0	0	0
Others	168	26	5	0	612	0	0	0
<b>CF from Investments</b>	<b>-489</b>	<b>-1,951</b>	<b>-1,414</b>	<b>-2,403</b>	<b>-717</b>	<b>-800</b>	<b>-1,500</b>	<b>-1,500</b>
Issue of Shares	0	814	0	1,720	0	0	0	0
Inc / (Dec) in debt	-213	586	197	1,537	-674	-100	0	0
Dividend Paid	-37	-45	-106	-54	-55	-94	-109	-115
Interest paid	0	-37	-54	0	0	0	0	0
Others	-33	44	4	-3	0	0	0	0
<b>CF from financial activity</b>	<b>-283</b>	<b>1,362</b>	<b>41</b>	<b>3,200</b>	<b>-729</b>	<b>-194</b>	<b>-109</b>	<b>-115</b>
<b>Inc / (Dec) in Cash</b>	<b>-72</b>	<b>99</b>	<b>-44</b>	<b>921</b>	<b>-226</b>	<b>796</b>	<b>178</b>	<b>147</b>
Opening Balance	169	92	184	159	965	739	1,535	1,713
<b>Closing Balance</b>	<b>92</b>	<b>184</b>	<b>159</b>	<b>1,080</b>	<b>739</b>	<b>1,535</b>	<b>1,713</b>	<b>1,860</b>

# NOTES

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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