

SHILPA MEDICARE LTD

Result Update (**PARENT BASIS**): Q2 FY15

BUY

CMP	519.80
Target Price	577.00

NOVEMBER 29th 2014

ISIN: INE790G01023

Index Details

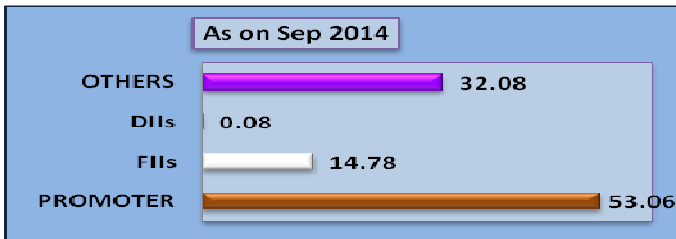
Stock Data

Sector	Pharmaceuticals
BSE Code	530549
Face Value	2.00
52wk. High / Low (Rs.)	581.00/240.10
Volume (2wk. Avg.)	2119
Market Cap (Rs. in mn.)	20038.29

Annual Estimated Results (A*: Actual / E*: Estimated)

YEARS	FY14A	FY15E	FY16E
Net Sales	5273.68	5811.60	6450.87
EBITDA	1265.71	1417.73	1567.23
Net Profit	808.57	899.52	1014.95
EPS	21.98	23.33	26.33
P/E	23.65	22.28	19.74

Shareholding Pattern (%)



1 Year Comparative Graph



SYNOPSIS

- Shilpa Medicare is engaged in the manufacture and sale of bulk drugs and intermediates in India. It offers oncology products, active pharmaceutical ingredients, fine chemicals, herbal products, and specialty chemical products.
- Net sales for the quarter rose by 12.33% to Rs. 1433.54 million from Rs. 1276.15 million, when compared with the prior year period.
- PAT increased by 25.26% at Rs. 220.82 million in current September quarter compared to Rs. 176.29 million in the corresponding quarter of the previous year.
- In Q2 FY15, EBIDTA is Rs. 335.81 million and increased by 14.10% as against Rs. 294.32 million in the corresponding period of the previous year.
- Reported earnings per share of the company stood at Rs. 5.73 a share during the quarter as against Rs. 4.79 over previous year period.
- During Q2 FY15, Bulk Drug and Power segment revenue recorded at Rs. 1404.55 million and Rs. 28.99 million.
- During the quarter, Profit before Tax increased by 20.87% to Rs. 280.42 million from Rs. 232.00 million over the corresponding quarter of the previous year.
- Net Sales and PAT of the company are expected to grow at a CAGR of 25% and 30% over 2013 to 2016E respectively.

PEER GROUPS	CMP	MARKET CAP	EPS	P/E (X)	P/BV(X)	DIVIDEND
Company Name	(Rs.)	Rs. in mn.	(Rs.)	Ratio	Ratio	(%)
Shilpa Medicare Ltd	519.80	20038.29	21.98	23.65	4.63	50.00
SMS Pharmaceuticals Ltd	408.00	3513.10	38.60	10.75	1.58	20.00
Claris Lifesciences Ltd	184.40	10040.50	13.05	14.10	1.07	0.00
Suven Life Sciences Ltd	195	22822.50	10.99	17.78	8.63	250.00

QUARTERLY HIGHLIGHTS (PARENT BASIS)

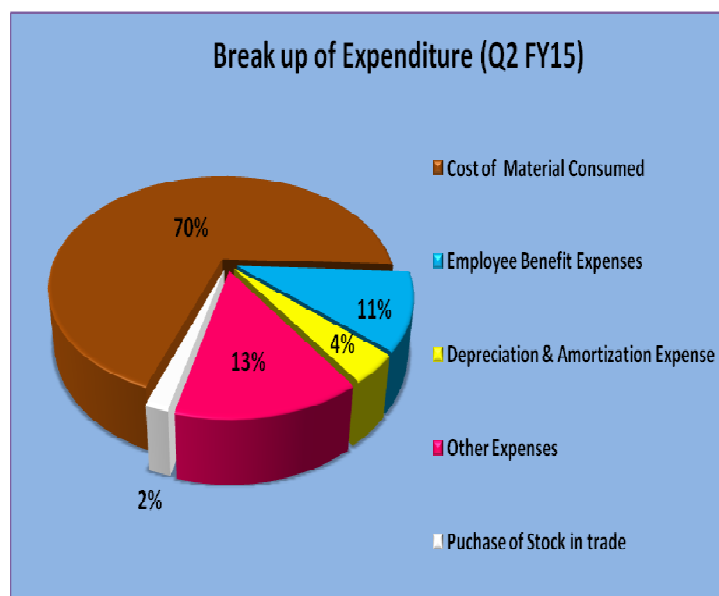
Results updates- Q2 FY15,

Months	Sep-14	Sep-13	% Change
Net Sales	1433.54	1276.15	12.33
PAT	220.82	176.29	25.26
EPS	5.73	4.79	19.53
EBITDA	335.81	294.32	14.10

The company net profit jumps to Rs. 220.82 million against Rs. 176.29 million in the corresponding quarter ending of previous year, an increase of 25.26%. The company achieved a turnover of Rs. 1433.54 million registering an increase of 12.33% for the 2nd quarter of the current year 2014-15 as against Rs. 1276.15 million in the corresponding quarter of the previous year. Reported earnings per share of the company stood at Rs. 5.73 a share during the quarter as against Rs. 4.79 over previous year period. Profit before interest, depreciation and tax is Rs. 335.81 million as against Rs. 294.32 million in the corresponding period of the previous year.

Break up of Expenditure

Particulars	Rs. Million	
	Q2 FY15	Q2 FY14
Cost of Material Consumed	817.31	756.88
Employee Benefit Expenses	125.74	95.80
Depreciation & Amortization Expense	44.97	52.42
Other Expenses	155.73	190.54
Purchase of Stock in trade	19.47	15.03



COMPANY PROFILE

Shilpa Medicare Limited was established in 1987. It is engaged in the manufacture and sale of bulk drugs and intermediates in India. It offers oncology products, active pharmaceutical ingredients, fine chemicals, herbal products, and specialty chemical products. The company also exports its products to the United States, Canada, Australia, and Japan; European countries, such as Germany, Switzerland, the Netherlands, Belgium, Spain, Greece, Cyprus, Italy, the United Kingdom, etc.; South American countries, including Mexico, Brazil, Columbia, etc.; African countries comprising Kenya, Nigeria, West Indies, etc.; and Asian countries consisting of Singapore, Taiwan, China, Malaysia, and Thailand.

Shilpa Medicare has increasingly established itself as one of few companies with integrated development, manufacturing and commercial expertise in complex sector of generic pharmaceuticals. We have a formidable track record of development

Currently the company is handling about ~ 50 niche products in 8 manufacturing sites and 2 R&D centers. All the APIs and formulations are manufactured according to established international norms and rules. Vertical integration with own APIs creates a synergistic effect in the business dealings and the end products on offer which includes a complete range of products spanning across injectable, oral drugs as well as new drug delivery solutions.

The company has evolved into a knowledge driven, R&D focused company aspiring to bring advanced, effective treatments at an affordable cost. With the overarching goal of providing affordable health and quality of life, the scientists are constantly trying to break new grounds in the development of medicines in cost effective manner thus passing on the price benefit to the clients and ultimately to patients.

Products

- Therapeutic Areas
 - Oncology
 - AntiRetroVirals
 - Other Pharma
- Collaborations

FINANCIAL HIGHLIGHT (PARENT BASIS)*(A* - Actual, E* - Estimations & Rs. In Millions)***Balance sheet as at March 31, 2013A-2016E**

	FY13A	FY14A	FY15E	FY16E
EQUITY AND LIABILITIES:				
Shareholders' Funds:				
Share Capital	49.05	73.57	77.10	77.10
Reserves and Surplus	3258.81	4052.08	4951.60	5966.55
1) Total Net worth	3307.86	4125.65	5028.70	6043.65
Non-Current Liabilities:				
Long-term borrowings	432.19	373.80	299.04	266.15
Deferred Tax Liabilities [Net]	206.30	269.74	318.29	356.49
Long Term Provisions	3.12	8.79	12.75	15.93
2) Long term liabilities	641.61	652.33	630.08	638.57
Current Liabilities:				
Short-term borrowings	389.23	220.22	193.79	156.97
Trade Payables	477.38	866.12	1022.02	1154.88
Other Current Liabilities	215.07	356.29	434.67	499.87
Short Term Provisions	38.00	47.79	57.35	65.95
3) Current Liabilities	1119.69	1490.42	1707.84	1877.68
Total Liabilities (1+2+3)	5069.16	6268.40	7366.61	8559.90
ASSETS:				
Non-Current Assets:				
Fixed Assets				
Tangible Assets	1525.56	2576.61	2860.04	3317.64
Capital work-in-progress	1142.72	492.35	566.20	594.51
a) Total Fixed Assets	2668.28	3068.96	3426.24	3912.16
b) Non Current Investments	370.07	650.65	735.23	906.13
c) Long Term Loans and Advances	203.91	305.23	360.17	417.80
4) Non-Current Assets	3242.26	4024.84	4521.65	5236.08
Current Assets:				
Current Investments	502.80	101.39	719.87	799.05
Inventories	661.30	1089.50	944.36	1104.90
Trade Receivables	318.77	603.09	591.03	721.05
Cash and Bank Balances	105.26	8.05	84.50	91.26
Short Term Loans and Advances	231.11	431.87	440.51	528.61
Other Current Assets	7.67	9.66	64.70	78.94
5) Current Assets	1826.90	2243.56	2844.97	3323.81
Total Assets (4+5)	5069.16	6268.40	7366.61	8559.90

Annual Profit & Loss Statement for the period of 2013 to 2016E

Value(Rs. mn)	FY13A	FY14A	FY15E	FY16E
Description	12m	12m	12m	12m
Net Sales	3281.96	5273.68	5811.60	6450.87
Other Income	50.06	88.53	75.25	83.53
Total Income	3332.02	5362.21	5886.85	6534.40
Expenditure	-2633.74	-4096.50	-4469.12	-4967.17
Operating Profit	698.28	1265.71	1417.73	1567.23
Interest	-13.59	-33.97	-41.10	-45.21
Gross profit	684.69	1231.74	1376.63	1522.01
Depreciation	-127.54	-210.92	-196.16	-215.77
Profit Before Tax	557.15	1020.82	1180.47	1306.24
Tax	-96.52	-212.25	-280.95	-291.29
Profit After Tax	460.63	808.57	899.52	1014.95
Extraordinary Items	-1.04	0.00	0.00	0.00
Net Profit	459.59	808.57	899.52	1014.95
Equity capital	49.05	73.57	77.10	77.10
Reserves	3258.81	4052.08	4951.60	5966.55
Face value	2.00	2.00	2.00	2.00
EPS	18.74	21.98	23.33	26.33

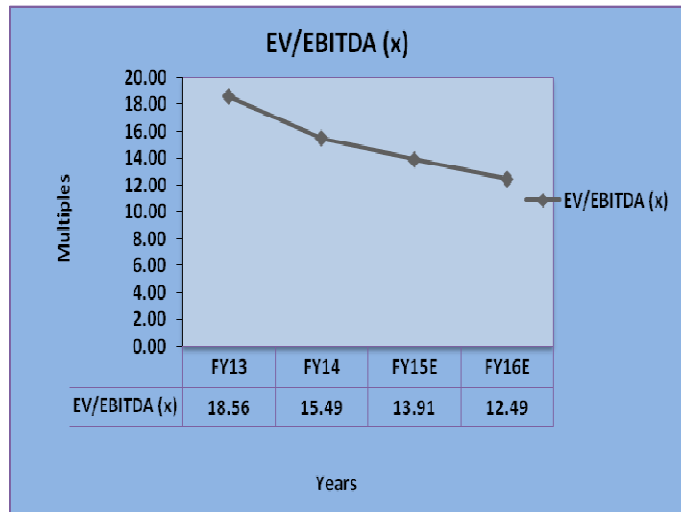
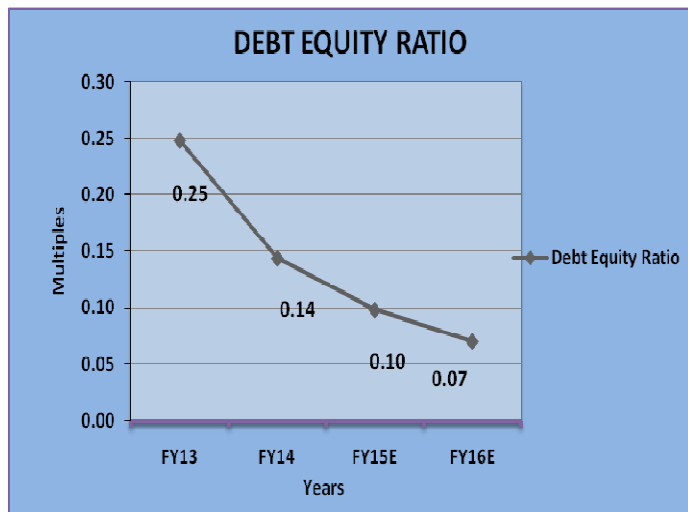
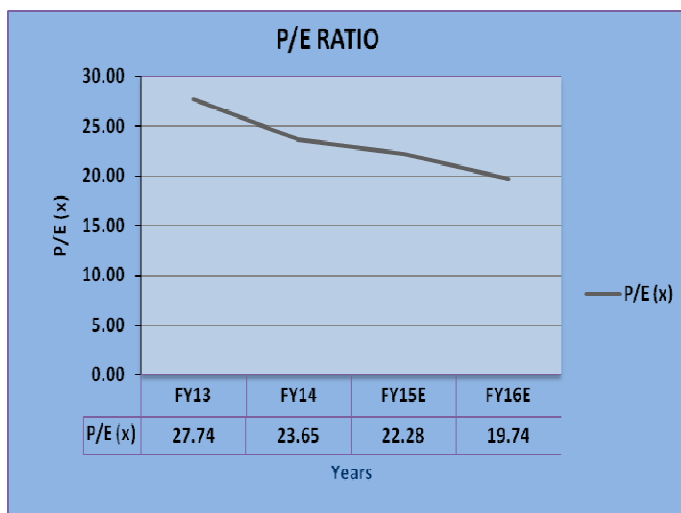
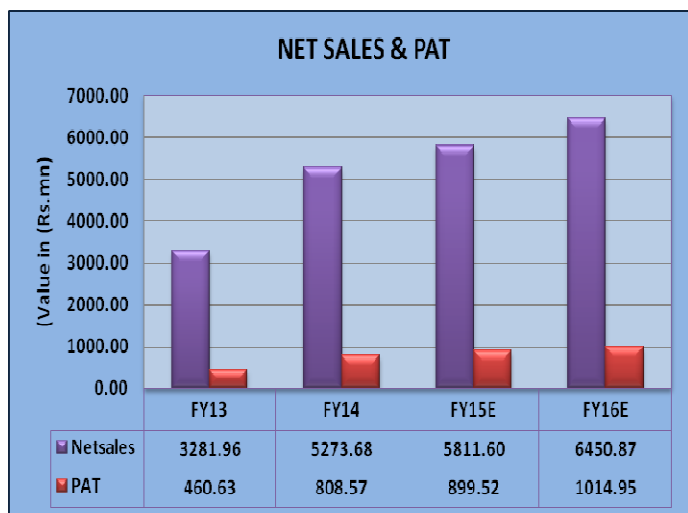
Quarterly Profit & Loss Statement for the period of 31st Mar, 2014 to 31st Dec, 2014E

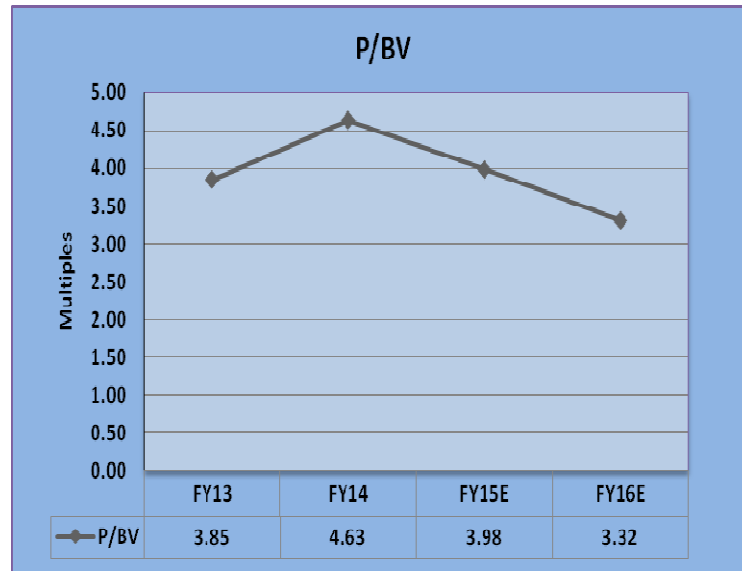
Value(Rs. mn)	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14E
Description	3m	3m	3m	3m
Net Sales	1563.77	1267.26	1433.54	1533.89
Other income	17.03	14.60	20.93	21.77
Total Income	1580.80	1281.86	1454.47	1555.66
Expenditure	-1209.95	-960.15	-1118.66	-1174.96
Operating profit	370.85	321.71	335.81	380.70
Interest	-11.04	-9.58	-10.42	-9.69
Gross profit	359.81	312.13	325.39	371.01
Depreciation	-54.19	-49.46	-44.97	-46.32
Profit Before Tax	305.62	262.67	280.42	324.69
Tax	-72.56	-72.32	-59.60	-74.68
Net Profit	233.06	190.35	220.82	250.01
Equity capital	73.57	77.10	77.10	77.10
Face value	2.00	2.00	2.00	2.00
EPS	6.34	4.94	5.73	6.49

Ratio Analysis

Particulars	FY13A	FY14A	FY15E	FY16E
EPS (Rs.)	18.74	21.98	23.33	26.33
EBITDA Margin (%)	21.28	24.00	24.39	24.29
PBT Margin (%)	16.98	19.36	20.31	20.25
PAT Margin (%)	14.04	15.33	15.48	15.73
P/E Ratio (x)	27.74	23.65	22.28	19.74
ROE (%)	13.93	19.60	17.89	16.79
ROCE (%)	20.00	31.29	29.23	27.57
Debt Equity Ratio	0.25	0.14	0.10	0.07
EV/EBITDA (x)	18.56	15.49	13.91	12.49
Book Value (Rs.)	134.88	112.16	130.45	156.77
P/BV	3.85	4.63	3.98	3.32

Charts





OUTLOOK AND CONCLUSION

- At the current market price of **Rs. 519.80**, the stock P/E ratio is at 22.28 x FY15E and 19.74 x FY16E respectively.
- Earnings per share (EPS) of the company for the earnings for FY15E and FY16E are seen at Rs. 23.33 and Rs. 26.33 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 25% and 30% over 2013 to 2016E respectively.
- On the basis of EV/EBITDA, the stock trades at 13.91 x for FY15E and 12.49 x for FY16E.
- Price to Book Value of the stock is expected to be at 3.98 x and 3.32 x respectively for FY15E and FY16E.
- We expect that the company surplus scenario is likely to continue for the next three years, will keep its growth story in the coming quarters also. We recommend '**BUY**' in this particular scrip with a target price of **Rs. 577.00** for Medium to Long term investment.

INDUSTRY OVERVIEW

The global pharmaceutical industry is expected to be worth more than \$ 1 trillion in 2014, growing at the compound annual growth rate of 4-5% over the five year period.

The global pharmaceutical industry is a multinational industry that is a highly regulated, capital intensive, and which is driven by large research and development expenditures. The industry is primarily privately owned and is technologically sophisticated. The strong growth in the developed and emerging countries will help to boost sales over the next five years.

Emerging markets such as China, South Korea, Brazil, Russia and Turkey have been experienced double-digit growth signaling an important shift occurring in the pharmaceutical industry. As growth in the mature markets is coming to flat, industry attention is shifting to smaller, developing markets that are doing exceptionally well. Many of these developing nations are experiencing significant gross domestic product growth which helps finance the healthcare systems, increase patient access and fuels the double digit growth. Pharmaceutical measures are gearing up to the challenges of meeting the unmet needs of these markets.

Indian Industry Overview

India is among the top five emerging pharma markets and has grown at an estimated compound annual growth rate (CAGR) of 13 per cent during the period FY 2009–2013. The Indian pharmaceuticals market grew at a CAGR of more than 15 percent in 2013. The Indian pharmaceutical market is poised to grow to US\$ 55 billion by 2020 from the current levels.

India's pharma industry accounts for about 1.4 per cent of the global pharma industry in value terms and 10 per cent in volume terms. Among the fastest growing pharma industries in the world, India's pharmaceutical sector is expected to expand at a compound annual growth rate (CAGR) of 12.1 per cent during 2012–2020 and reach US\$ 45 billion. By 2020, the country is expected to be within the top three pharmaceutical markets by incremental growth and sixth largest market globally in absolute size.

A new cluster of countries is contributing to the growth of the pharma industry, resulting in a robust jump in exports of drugs. Both domestic and export-led demand contributed towards the robust performance of the sector. On improved utilisation of manufacturing facilities, the domestic pharmaceutical market is likely to see high revenue growth and profit margins.

Currently, Indian drugs are exported to more than 200 countries in the world, with the US as the key market. It is responsible for about 40 per cent of the generic and over-the-counter drugs consumed in the US. During the year 2013 Foreign Direct Investment (FDI) into the Indian pharmaceutical sector has more than doubled.

Substantial increase of expenditure by the Government of India and its states would definitely create further demand to the pharmaceuticals. With 70 per cent of India's population residing in rural areas, pharma companies

have immense opportunities to tap this market. Demand for generic medicines in these regions has seen a sharp growth, and various companies are investing in the distribution network in rural areas. The share of generic drugs is expected to continue increasing. Oncology will be a key area of growth in India's healthcare sector. With increase in emphasis on health coverage both by central and state governments, spending on coverage of medicines for oncology will see substantial rise in next 3-5 years.

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