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Shilpa Medicare receives Cofepris GMP certificate, Mexico for Ambroxol, Nifedipine and Gemcitabine; maintain HOLD with PT of Rs473

Our view: We believe that Mexico certification is a sentiment booster for Shilpa Medicare (SLPA IN). We continue to like business model of SLPA and believe that groundwork for next phase of growth is on track. We expect return on investment to improve going forward as new capacity gets utilized and product mix shifts to relatively higher margin products. The key near term trigger – USFDA approval for Raichur facility- is yet to play out. Even if the USFDA approval gets delayed, the existing business would be least impacted and base business growth would remain intact. Hence, we remain positive on the stock and have faith that company has capability to show robust growth in future.

Valuation: At CMP of Rs710, the stock is trading at 34x FY15E EPS of Rs21 and 24.6x FY16E EPS of Rs29. Though the stock is trading at expensive valuation which implies 34% away from our price target of Rs473 (based on 16x FY16 Earnings), we maintain HOLD rating on the stock as the levers for further upside in earnings as well as re-rating of stock due to shift towards superior product mix are in place and are yet to play out.