

Neuland Laboratories

15 October, 2015

A niche transformation

INITIATING COVERAGE

Sector: Pharma **Rating:** Buy
CMP: Rs781 **Target Price:** Rs1,050

Stock Info

Sensex/Nifty	27,010/8,180
Bloomberg	NLL IN
Equity shares (mn)	9.0
52-wk High/Low	Rs924/310
Face value	Rs10
M-Cap (Rsbm)/(\$ bn)	Rs7.0bn/\$0.1bn
3-m Avg volume	\$0.1mn

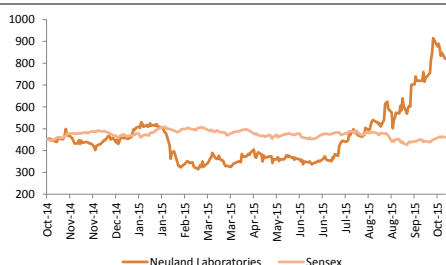
Financial Snapshot (Rsmn)

Y/E Mar	FY15	FY16e	FY17e
Net sales	4,647	5,671	6,953
EBITDA	619	907	1,182
PAT	158	344	522
EPS (Rs)	17.6	38.4	58.3
PE (x)	44.3	20.3	13.4
EV/EBITDA (x)	13.0	9.1	7.1
P/B (x)	4.4	3.6	2.9
RoE (%)	14.6	19.9	23.4
RoCE (%)	9.9	17.8	21.5
Dividend yield (%)	0.2	0.3	0.3

Shareholding pattern (%)

	Sep'15	Jun '15	Mar '15
Promoter	51.7	51.7	51.7
-Pledged	-	-	-
FII	1.7	1.5	1.5
DII	2.7	2.2	1.0
Others	43.9	44.6	45.7

Stock Performance (1-year)



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Neuland Laboratories Ltd (Neuland) is a 30-year-old pharmaceutical company engaged in R&D, manufacturing and marketing of a wide range of bulk drugs, intermediates and custom synthesis of APIs (CMS). While catering to the generic and innovator customers in developed markets of the US, Europe and Japan (~88% of sales), Neuland has fast transformed its products basket into niche segments like ophthalmics, schizophrenia, anti-asthma, anti-fungals, anti-depressants and CNS among others. Given its two state-of-the-art manufacturing facilities and R&D infrastructure, the company has developed a rich portfolio of over 75 products and has made over 652 regulatory filings, positioning itself among the most advanced API and CRAMS platforms in India. We expect revenue and profit CAGR of 23% and 64% over FY15-18e. We initiate coverage on Neuland with a Buy rating and target price of Rs1,050 (18x FY17e EPS).

Key investment rationale

Transformation from a low-end API player to complex products: Neuland has created a strong pipeline of differentiated products where competition is low. For example, of the 48 DMF filed with USFDA, 18 belong to niche therapy areas like bronchioliders (respiratory segment), ophthalmic and anti-psychotic segments. The company is the first and sole DMF holder of 9 products and the only competitor in case of six products. Besides, Neuland has taken initiatives in peptide-based chemistry (developed two products) which showcases its technical expertise. The end-product (finished dosages) market size for DMF filed in the US is pegged ~\$22bn, while products under development relate to an end-product market size of \$3.5bn. The company targets the contribution of complex products to increase to 20% in FY18, from 15% in FY15.

CMS business to see 21% CAGR over FY15-18e: Neuland's custom manufacturing solutions (CMS) business derives its strength from superior chemistry skills, brand equity and experience. It has non-exclusive agreements to manufacture products with leading generic and innovator companies across Europe, US and Japan. In FY15, CMS contributed to 15% of revenue. We expect CMS' revenue to post 21% CAGR over FY15-18e.

Significant contribution from APIC: Neuland recently commissioned a new block to manufacture APIs in collaboration with APIC (subsidiary of Mitsubishi Chemicals, Japan), based on a joint business agreement entered in 2013. This tie-up will pave the way for Neuland to establish a stronger foothold in Japan. We estimate a revenue contribution of Rs700mn and Rs900mn from this venture in FY17e and FY18e respectively.

Change in products mix to boost margin profile: A higher contribution from complex products, stronger traction in CMS business and contribution from APIC are set to boost Neuland's margin profile. We expect the EBITDA margin to improve from 13.3% in FY15 to 17% in FY18e, which will help post an earnings CAGR of 64% over FY15-18e.

Pressure on balance sheet eases: Post the restructuring of business divisions in 2014 and a Rs250mn rights issue in FY15, the pressure on balance sheet has eased partially. We expect the D/E ratio to decline from 1.1x in FY15 to 0.57x in FY18e on the back of free cash flows of Rs900mn generated during this period. RoE is likely to improve from 14.6% in FY15 to 25.4% in FY18e.

Valuation and view: The stock trades at 13.5x FY17e EPS (three-year average being 13.3x). We believe the stock will see a gradual re-rating on the back of stronger products pipeline and improved return ratios. We assign a valuation multiple of 18x FY17e EPS to arrive at a target price of Rs1,050. We initiate coverage on Neuland with a Buy rating.

FINANCIALS (STANDALONE)

Profit & Loss Statement

YE: Mar (Rs mn)	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	4,657	4,647	5,671	6,953	8,607
YoY growth %	4.9	6.0	14.8	14.6	15.6
- Op. expenses	3,963	4,028	4,764	5,771	7,144
EBIDTA	694	619	907	1,182	1,463
EBIDTA margin (%)	14.9	13.3	16.0	17.0	17.0
- Interest expenses	236	273	284	284	284
- Depreciation	149	153	174	194	214
+ Other income	34	52	52	52	52
- Tax	75.6	87.0	158.2	234.6	315.4
Effective tax rate (%)	22.1	35.5	31.5	31.0	31.0
PAT	266	158	344	522	702
+/- Extraordinary items	(1)	-	-	-	-
Reported PAT	266	158	344	522	702
Adj. FDEPS (Rs/share)	29.8	17.6	38.4	58.3	78.4
Adj. FDEPS growth (%)	95.9	(40.9)	118.0	51.7	34.5

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY14	FY15	FY16e	FY17e	FY18e
Share capital	77.30	89.54	89.55	89.55	89.55
Reserve and Surplus	1,149	1,509	1,839	2,340	3,020
Net worth	1,226	1,598	1,929	2,429	3,110
Total Debt	1,735	1,790	1,858	1,858	1,858
Def. tax Laib(net)	103	122	122	122	122
Capital Employed	3,063	3,511	3,909	4,410	5,090
Net Fixed assets	1,654	1,645	1,753	1,909	2,055
Investments	76.4	76.7	76.7	76.7	76.7
- of which liquid					
Net Working capital	1,330	1,724	1,960	2,325	2,789
Cash and bank balance	3	65	120	99	169
Capital deployed	3,063	3,511	3,909	4,410	5,090
Net debt	1,732	1,725	1,738	1,759	1,689
WC (days)	104	135	126	122	118
Book value (Rs/sh)	136.9	178.5	215.4	271.3	347.3

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY14	FY15	FY16e	FY17e	FY18e
PAT	266	158	344	522	702
+ Non cash items	225	240	332	428	530
Cash profit	491	398	676	951	1,232
- Incr/(Decr) in WC	244	394	236	365	464
Operating cash flow	246	4	440	585	767
- Capex	70	120	281	350	360
Free cash flow	176	(116)	159	235	407
- Dividend	27	16	22	22	22
- Tax	76	87	158	235	315
+ Equity raised	1.0	241.2	7.8	-	-
+ Debt raised	(129)	55	68	-	-
- Investments	-	0	-	-	-
- Misc. items	(55)	15	(0)		
Net cash flow	0	62	55	(21)	70
+ Opening cash	3	3	65	120	99
Closing cash	3	65	120	99	169

Source: Company, Systematix Institutional Research

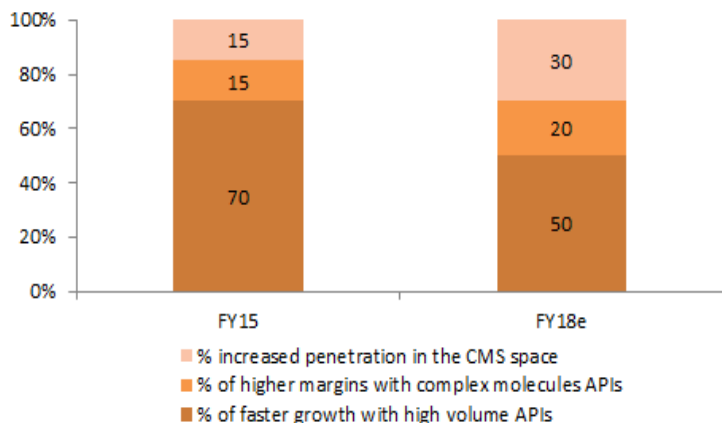
Ratios

YE: Mar	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	26.2	44.3	20.3	13.4	10.0
P/CEPS (x)	16.8	22.5	13.5	9.8	7.6
P/B (x)	5.7	4.4	3.6	2.9	2.2
EV/EBITDA (x)	10.7	13.0	9.1	7.1	5.7
EV/Sales (x)	1.7	1.9	1.5	1.3	1.0
RoE (%)	17.5	14.6	19.9	23.4	25.3
RoCE (%)	21.8	9.9	17.8	21.5	22.6
Fixed Asset turnover (x)	1.6	1.5	1.7	1.9	2.1
Dividend yield (%)	0.4	0.2	0.3	0.3	0.3
Dividend payout (%)	10.1	10.1	6.3	4.1	3.1
Debtors (days)	91.4	101.2	90.0	90.0	90.0
Revenue growth (%)	4.9	6.0	14.8	14.6	15.6
EBITDA growth (%)	19.3	(10.7)	46.6	30.3	23.8
PAT growth (%)	94.7	(40.6)	118.0	51.7	34.5
EPS growth (%)	95.9	-40.9	118.0	51.7	34.5
Net D/E ratio (x)	1.4	1.1	0.9	0.7	0.5

Source: Company, Systematix Institutional Research

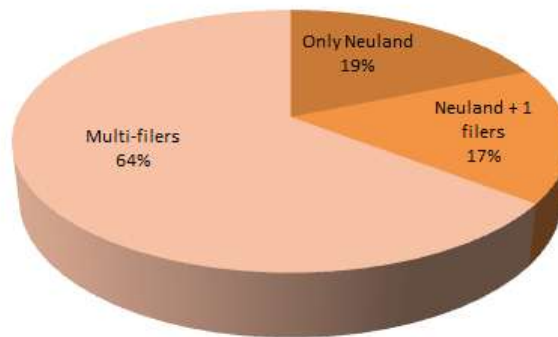
Charting the story

Chart 1: Moving up the complexity profile (revenue contribution)



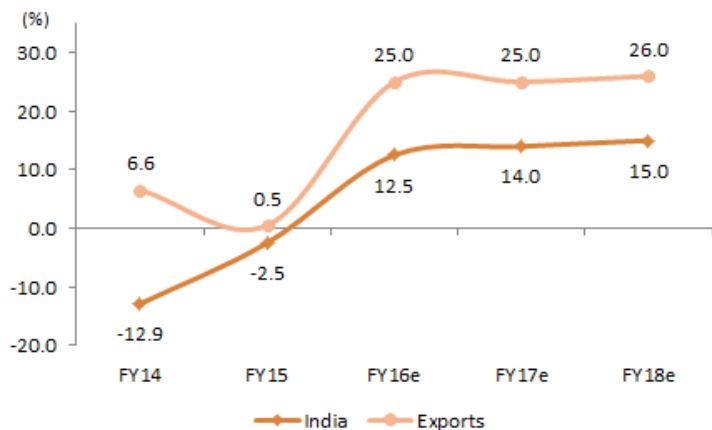
Source: Company, Systematix Institutional Research

Chart 2: Competitive landscape (quality of DMF filings)



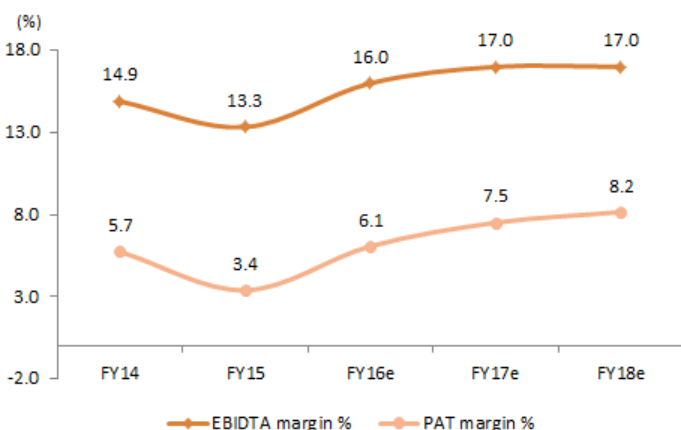
Source: Company, Systematix Institutional Research; USFDA

Chart 3: Revenue growth to accelerate



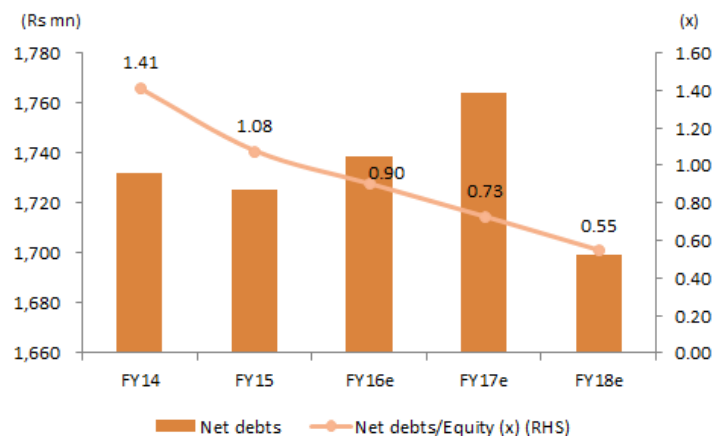
Source: Company, Systematix Institutional Research

Chart 4: Better products mix to help improve margins



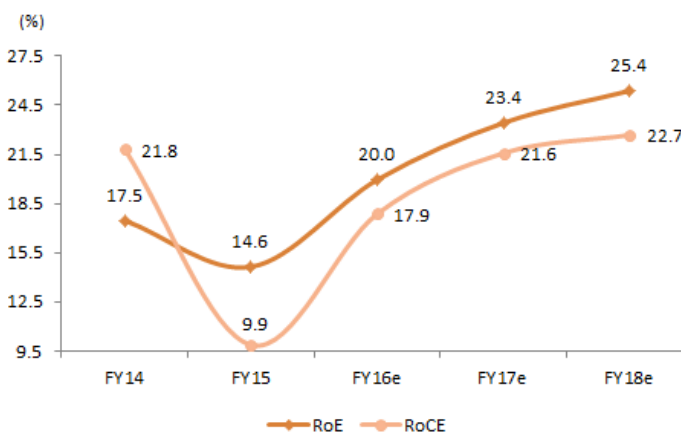
Source: Company, Systematix Institutional Research

Chart 5: Improvement in debt/equity ratio



Source: Company, Systematix Institutional Research

Chart 6: Return ratios to improve

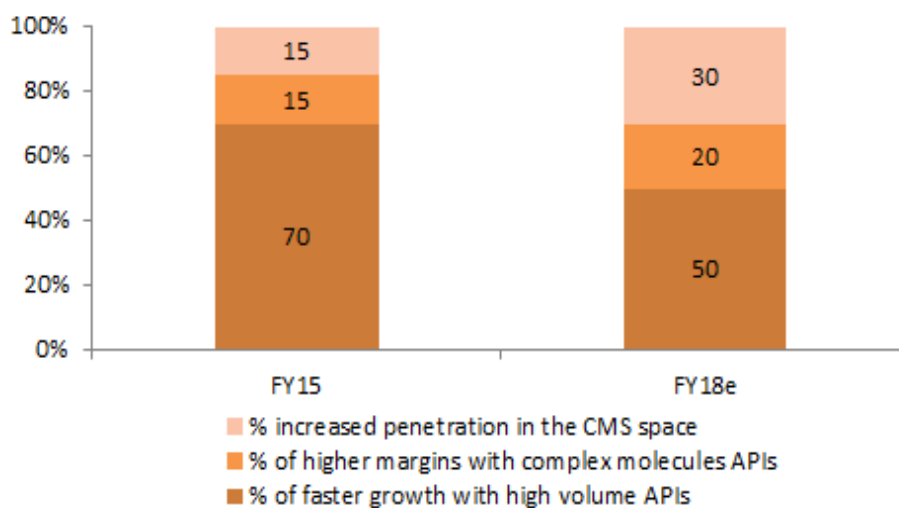


Source: Company, Systematix Institutional Research

Neuland's journey from vanilla to niche-and-complex products

Neuland has meticulously transformed from a commoditised API business to niche segments and focuses on complex products where the entry barrier is high. For example, the revenue from antibiotic API ciprofloxacin which used to contribute near 40% of the revenue four years ago, contributes close to 15-16% of the revenue now. While the low-end API (low margin products) still constitutes a significant portion of the revenue, the company chose to ramp up volume in these segments with a focus on niche therapy and gradually moving to more complex APIs. Currently, ~70% of Neuland's revenue is contributed by products which are high volume API (but margin not so high) and 15% from complex molecules, where the margin is high. The remaining 15% is contributed by custom synthesis business, which normally posts near 24-26% kind of the margin. Currently, top five products of the company contribute close to 4% of the revenue, while contribution of top five customers stands at 43% of revenue.

Chart 7: Moving up the value scale (revenue contribution)



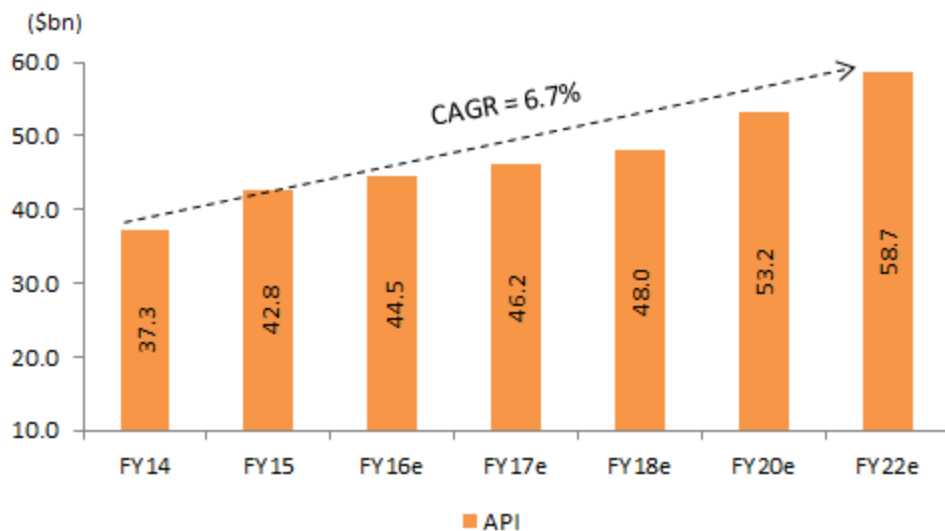
Complex products will contribute 20% of revenue by FY18e

Source: Company, Systematix Institutional Research

Advantages of being niche API player

The merchant API industry is estimated at \$43bn, which is likely to reach at \$48bn by FY18, at a CAGR of 7%. India is among the top five API producers and accounts for 30% of the global production.

A pure API player like Neuland can expect huge opportunities due to: 1) drugs increasingly coming out of patent and leading to a surge in demand from generic drugs and 2) most integrated players (formulators) have limited resource to produce multiple batches of different products (often in small-to-mid size quantities). Hence, players like Neuland, with a niche to focus on complex products, will see a strong demand and value in business.

Chart 8: Trend in global API market (merchant sales)

Source: Company, Systematix Institutional Research

A huge market opportunity for Neuland

Neuland has developed a strong products pipeline which relates to a \$12bn finished dosages market size. The company timed its products development to target certain key products' patent expiries in the next two to three years. We note that 35% of the total DMF filed in the US belongs to products which are yet to see a patent expiry, while 65% of DMF filed belongs to generic products. As much as 23% of DMF filed with the US will see a patent expiry during FY15-18.

Moreover, the company is increasingly focusing on the low-competition space as is evident from its DMF filings patterns in the US. Neuland is the sole DMF filer for 9 products and only one additional DMF filer for eight products.

The company is developing ~9-14 APIs on an annual basis and these are for the US and European markets. Thus, by FY20-21, significant launches can be expected in the US market.

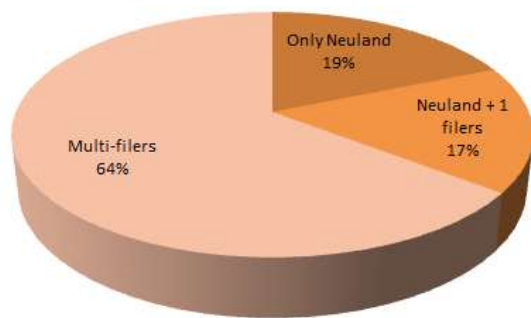
Table 1: Products snap shot (FY15)

US DMF filed	48
Filings with Health Canada	25
EUDMF filings	400
CEPs Received for different products	19
Japanese DMF filed	5
Filings with KFDA Korea	11
ROW filings	144
Total	652

Source: Company, Systematix Institutional Research

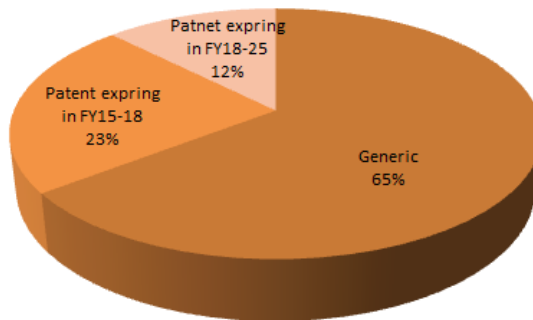
Neuland aims to launch 8-10 products every year in the US market

Chart 9: Competitive intensity of DMF filings



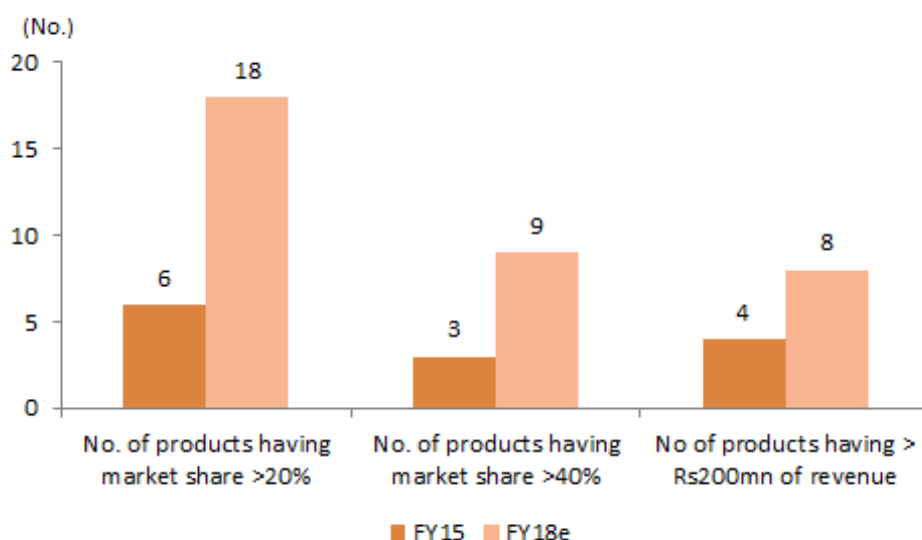
Source: Company, Systematix Institutional Research

Chart 10: Quality of US-DMF filings-based on IP profile



Source: Company, Systematix Institutional Research

Chart 11: Market share profile of key products



At least 9 products will have a market share of more than 40% by FY18e

Source: Company, Systematix Institutional Research

Key products to change profitability landscape

Neuland has built a strong products pipeline which will be unlocked over the next few years. We highlight select products which will play a significant role in the company’s financials over FY18-19:

- (a) **Salmeterol** is a key element of anti-asthma drug Servent (market size \$100mn) and Advair/Seretide (combination of salmeterol+fluticasonepropionate; market size \$5.5bn). The company launched this API in the smaller markets (Europe and RoW) and looks forward to launch it in the US. Recently, Mylan has launched the generic version of Advair in Europe and we expect one to two players to join the fray. The complexity of the formulation will limit competition in this segment.
- (b) **Entacapone** is an anti-Parkinson drug (brand name Comtan; US market size ~\$300mn) and available in the generic space. Neuland has launched it in Europe and is likely to launch in the US in FY16.
- (c) **Propofol** is a key anesthetic drug (US market size ~\$250mn), which is widely used during surgery. The product recently lost patent in the US. The company has launched propofol in the smaller markets of Europe and looks forward to launch it in the US by FY18-19.

- (d) **Levetiracetam** (US market size \$800mn) is an anti-epilepsy drug and is available in the generic space in the US and Europe but loses patent in the Japanese market in January 2018. Levetiracetam continues to be among the top revenue contributor for Neuland (among the top 10 products).

Table 2: Management's commentary on key products

API	Reference brand	US market size	Management commentary
Salmeterol	Serevent	100	Salmeterol is a complex launch and it may happen over several quarters in several regions
Propofol	Diprivan	250	Propofol in the US will not be launched in FY16, but in other regions globally
Linezolid	Zyvox	900	Linezolid is still under patent but in certain regions already started the launches
Palonosetron hydrochloride	Aloxi	100	Not too excited about Palonosetron except for a little bit of sales in the Japanese market
Bosentan monohydrate	Tracleer	1,200	May be launched in 2018 and 2019, it is not a big product in the US, but a major product in Europe, though approval pathway for Bosentan is not very clear
Entacapone	Comtan	300	Launched in Europe; US launch may happen in FY16
Levetiracetam	Keppra	800	Continues to be among top 10 products for the company
Ezetimibe	Zetia/vytorin	2,400	Has been commercially launched in few markets
Pemetrexed disodium	Alimta	1,750	Nothing happening as of now

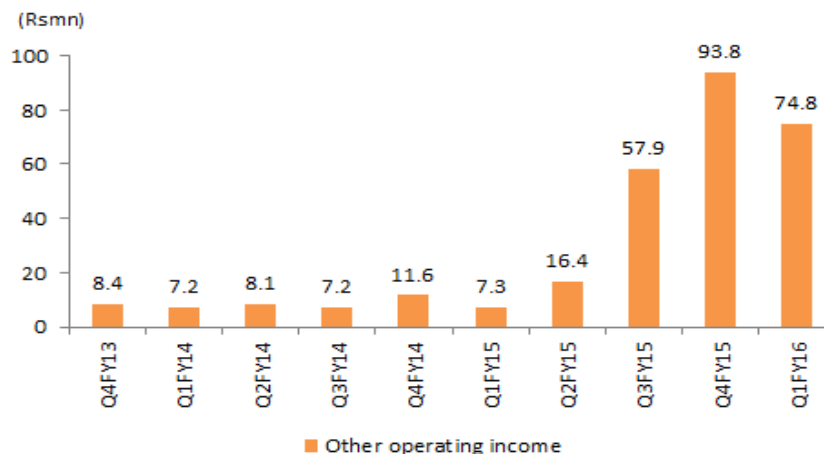
Source: Company, Systematix Institutional Research

CMS business to see 21% CAGR over FY15-18e

The revenue from Custom Manufacturing Solutions (CMS) business clocked a CAGR of 73% over FY12-15 and contributed 15% of revenue in FY15. The CMS business involves manufacturing API to customer specifications, designing and developing manufacturing processes, process optimisation for competitiveness and filing of DMF/CMC for the API among others. Neuland has non-exclusive agreements to manufacture products with leading generic and innovator companies across Europe, the US and Japan. Recently, one of the CMS customers in the US filed an NDA for the US market, which opens an interesting opportunity for the company. We expect the CMS business revenue to post a CAGR of 21% over FY15-18e.

APIC pact to contribute to revenue, expect gradual ramp-up

As per the joint business agreement between Neuland and API Corporation, Japan (March 6, 2013,) the company agreed to manufacture and supply various APIs and intermediates needed by APIC, for which it would carve out a dedicated area of manufacturing within the existing unit at Pashamylaram. APIC initially invested Rs150mn to create the manufacturing infrastructure. Neuland meanwhile commissioned a new block to manufacture APIs in collaboration with APIC in FY15. The company gets reimbursement of the operating expenses incurred on the facility and the same is shown under other operating income. The higher other operating incomes during the last three quarters reflect the scaled up operations at this site. APIC has initially identified two products to be rolled out in the current fiscal (only exhibit and validation batches), while more products may be on stream by FY18-19.

Chart 12: Quarterly trend in other operating income

The other operating income includes revenue from APIC in the form of reimbursement of operating expenses incurred by Neuland

Source: Company, Systematix Institutional Research

Peptide-based products offer revenue potential

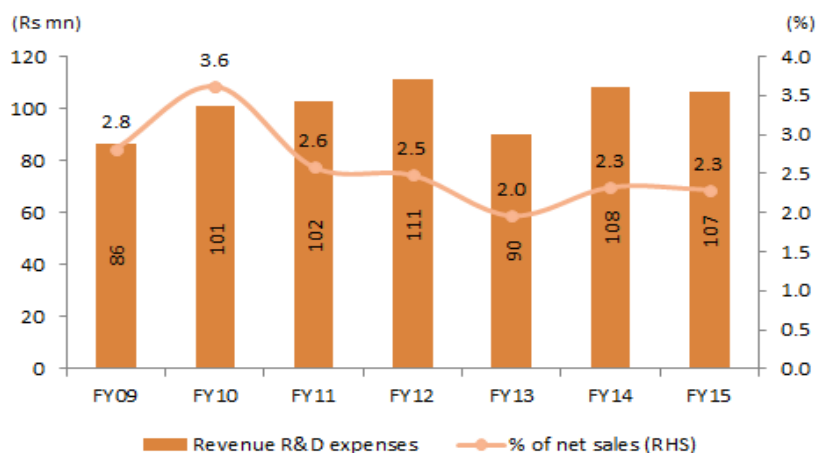
The protein and peptide therapeutics market is a multi-billion dollar play and involves a complex chemistry. Neuland has developed niche capabilities that reflect technical expertise in the field of complex peptide. It manufactured a decapeptide and deuterated API during FY15. Globally, decapeptide is the first peptide-based drug for the treatment of vitiligo (skin disease which causes white patches). Although, most of the peptide-based drugs are currently in the development phase, the market space is likely to be less crowded.

Rs350mn capex to aid growth

The company has earmarked Rs350mn of capex for FY16 to back growth. Neuland's current manufacturing capacity will fall short of demand by FY17. The company is looking forward to a mix of strategy to cope with the situation and that may involve capacity debottlenecking, outsourcing a part of manufacturing or inorganic expansions.

R&D backup

Neuland has spent Rs700mn on R&D (revenue expenses) during the last seven years to produce a portfolio of near 50 products and to execute various custom synthesis services. Annually, it spends ~2-2.5% of the revenue to develop 7-9 products.

Chart 13: Annual trend in R&D revenue expenditure

Source: Company, Systematix Institutional Research

Financial performance

Renovation and multiple audits of key facilities affected FY15 revenue

Neuland's revenue remained flat in FY15 at Rs4.65bn mainly as the renovation activity disrupted manufacturing during 3QFY15 and a string of audits undertaken by various regulatory agencies disturbed normal operations for a month. Besides, the joint business with APIC got moved out by about six months during the fiscal. However, processes got normalised from 4QFY15 onwards. In 1QFY16, the company's revenue rose by 12.2% to Rs1.15bn.

Table 3: Expect revenue CAGR of 21% over FY15-18e

Business break up (Rs,mn)	FY14	FY15	FY16e	FY17e	FY18e
CMS	699	697	802	1002	1252
API	3958	3950	4443	5421	6722
Japanese-APIC	-	-	390	570	900
Total	4657	4646	5635	6993	8874
Revenue growth %					
CMS	153	(0.2)	16	22	24
API	(9)	(0.2)	14	20	20
Japanese-APIC				46	58
Total	1.1	(0.2)	22.7	22.1	23.7

Source: Company, Systematix Institutional Research

The company reported a 5.6% YoY increase in revenue to Rs3bn in Q1FY16, while net profit declined by 4.6% to Rs288mn due to 120bps contraction in EBIDTA margins to 13.8%. The decline in profit was caused by high base effects.

Table 4: Quarterly performance

Quarterly (Standalone)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16
Revenue	2,441	2,910	2,782	2,659	2,560	3,091
YoY%	(1.6)	10.0	3.3	(0.1)	5.5	5.6
QoQ%	(9.7)	21.5	(4.7)	(4.4)	(4.7)	21.6
Expenditure	2,126	2,473	2,448	2,574	2,412	2,664
EBIDTA	316	437	334	84	148	427
YoY%	(24.6)	(14.1)	(33.5)	(82.5)	(53.1)	(2.3)
QoQ%	(34.4)	38.4	(23.6)	(74.7)	75.5	188.1
EBIDTA margin%	12.9	15.0	12.0	3.2	5.8	13.8
PBT	4,451	3,964	2,764	227	1,192	3,951
PAT	305	302	223	21	98	288
YoY%	(1.7)	(16.3)	(38.4)	(97.2)	(67.8)	(4.6)
QoQ%	(58.9)	(1.0)	(26.1)	(90.8)	376.4	193.4
PAT margin%	12.5	10.4	8.0	0.8	3.8	9.3
EPS	3.4	3.3	2.5	0.2	1.1	3.2
No. of shares (mn)	90.7	90.7	90.7	90.8	90.8	90.8

Source: Company, Systematix Institutional Research

We expect a healthy growth in revenue going forward on the back of better traction in CMS business, over 20 product launches during FY17-19 coupled with capacity expansions and Japanese APIC taking off. We estimate a revenue CAGR of 23% during FY15-18e on the back of 21% and 18% CAGR in CMS and API segment, while APIC will contribute Rs570mn and Rs900mn in FY17e and FY18e, respectively.

EBITDA margin to expand on better products mix, expect 370bps expansion during FY15-18e

The company's EBITDA margin was inconsistent during the past few years. It reported EBITDA margin of 13.3% in FY15, compared to 14.9% in FY14 and 12.6% in FY13. However, as Neuland is transiting to a more profitable products mix, we expect significant changes in the EBITDA profile. We expect EBITDA margin to expand by 270bps to 16% in FY16e and 100bps to 17% in FY17e. The management though targets to achieve 20% EBITDA margin on the back of a more profitable business and products mix.

PAT to see 64% CAGR over FY15-18e

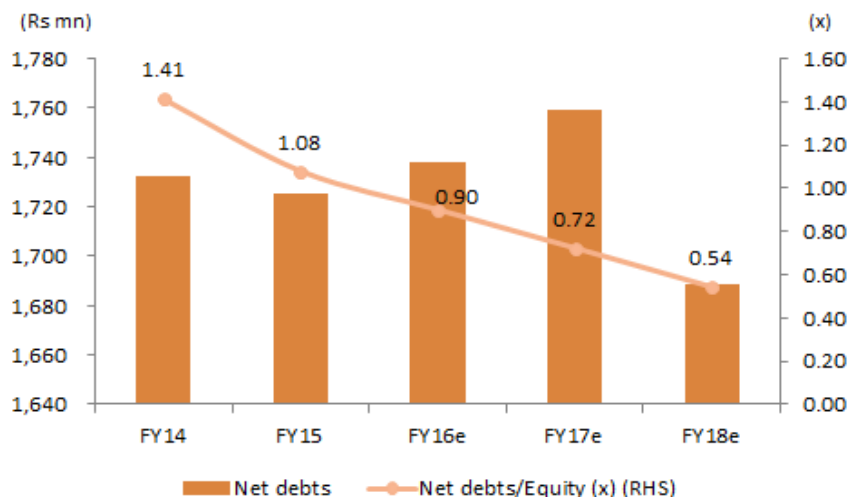
The company reported a profit CAGR of 33% over FY11-15 on the back of expansion in margins and optimisation of facilities giving better operating leverage. In FY15, net profit declined by 41% to Rs158mn mainly due to the 160bps decline in EBITDA margin, higher interest costs and taxation. Interest cost rose by 16% during the year, while the effective tax rate spiked to 36% in FY15, compared to 22% in FY14.

Neuland falls under the full tax bracket, which led to an effective tax rate of 35.5% in FY15. However, the effective tax rate is likely to soften to 31-32% in FY16 on the back of R&D benefits. Going forward, we expect a net profit growth of 118%, 52% and 35% to Rs344mn, Rs522mn and Rs702mn during FY16e, FY17e and FY18e, respectively.

Capex of Rs1bn over FY16-18e to keep debt level steady till FY17

The company has considerably reduced its debt/equity ratio during the past five years on the back of increased profitability, limited capex (Rs400mn during FY11-15) and rights issue of equities. It raised Rs250mn from the rights issue last year to meet the capex program.

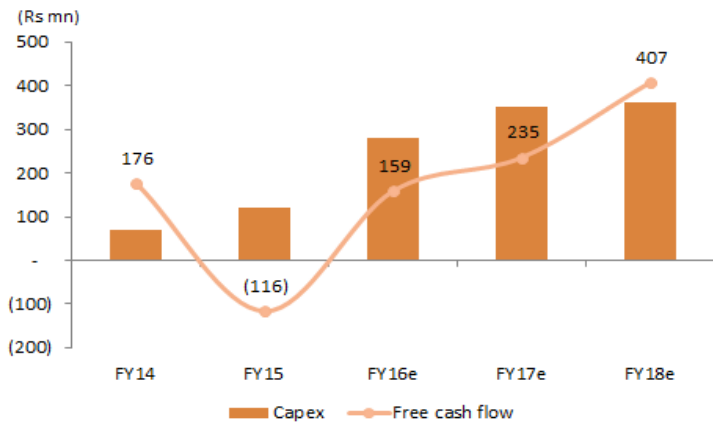
Chart 14: Trend in net debts



Source: Company, Systematix Institutional Research

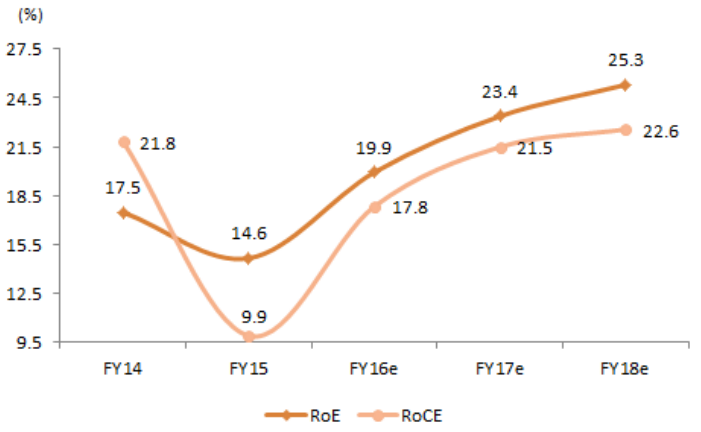
Neuland may need to significantly expand capacity in FY17 and FY18 to back up the products launch plan. We expect Rs1bn capex for FY16e-18e, which will restrict the scope to reduced debts. Currently, it has debts of Rs1.8bn (as of June-15) and mostly denominated in INR. We expect the debt level to remain at this level during FY16-17, as most of the internal accruals will be ploughed back into the business. However, increasing profitability will reduce the debt-equity ratio from 1.12x in FY15 to 0.6x in FY18e.

Chart 15: Trend in capex and free cash flow



Source: Company, Systematix Institutional Research

Chart 16: Significant improvement in return ratios

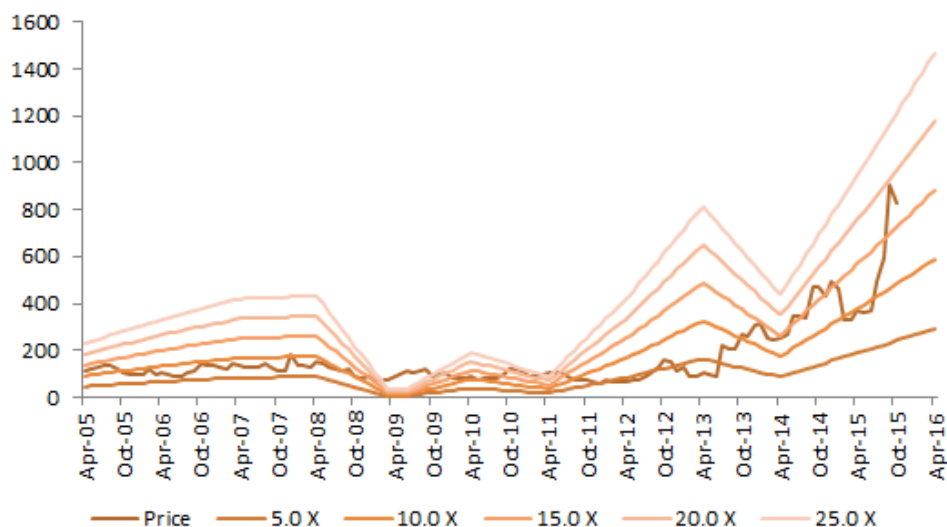


Source: Company, Systematix Institutional Research

Valuation and view

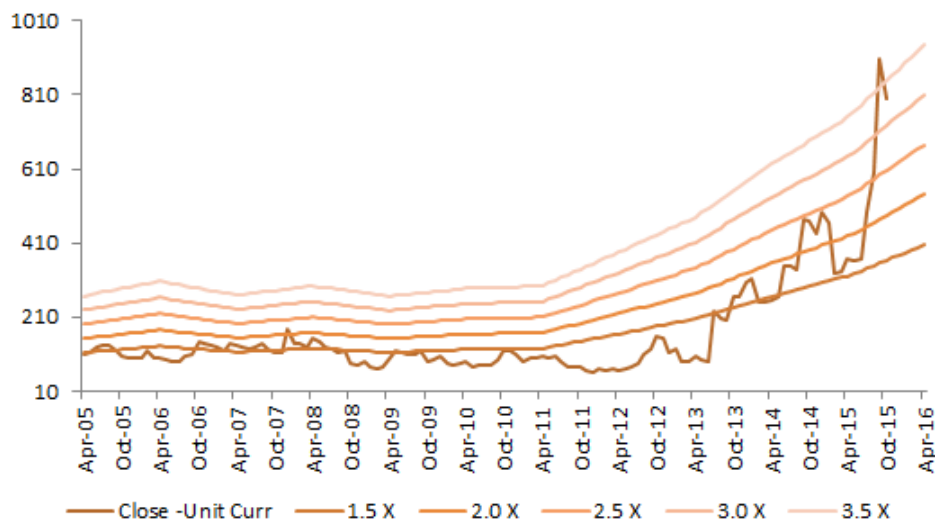
The transformation process which started a couple of years back, will reflect in Neuland's financial performance in the next couple of years when key drugs go offpatent and open up attractive opportunities for the company. This will help Neuland differentiate itself among the local peers and command better valuation. The balance of portfolio among high value and high volume products will help it see a faster growth in earnings. Although, the requirements of capex in the next three years may restrict the scope to reduce debts, the debt/equity ratio will attain a comfortable position in FY18. The stock has seen successive re-rating over the past few years, albeit the scope for further re-rating exists.

Chart 17: P/E band



Source: Bloomberg, Systematix Institutional Research

Chart 18: P/B band



Source: Blommborg, Systematix Institutional Research

Recommend Buy with a target price of Rs1,050: The stock trades at 13.4x FY17e EPS (three-year average being 13.3x). We believe the stock will see a gradual re-rating on the back of stronger products pipeline and improved return ratios. We assign a valuation multiple of 18x FY17e EPS to arrive at a target price of Rs1,050.

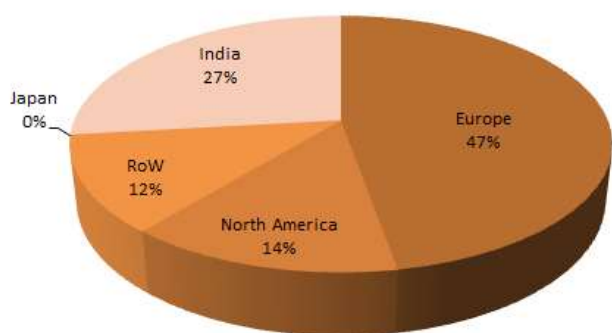
Key risks

- (a) **Demand risk:** The API business is dependent on the requirement of formulation players, which often causes inconsistency in offtake. Similar is the case for CMS business which keeps fluctuating due to demand variations. Thus, quarter-on-quarter performance may fluctuate and that will have an impact on the stock price.
- (b) **Quality compliance risk:** The stringent quality norms prescribed by the key regulatory agencies lead to risks of recalls, production delays and ban of manufacturing activities. The company has recently undergone the USFDA inspections and came out clean with minor observations.
- (c) **Delay in products approvals:** Delay in approvals of finished dosages may lead to a delay in offtake for API and may slow down projects' execution under CMS business. On the other hand, an early genericisation of key drugs may provide an upside risk for the company.

Company description

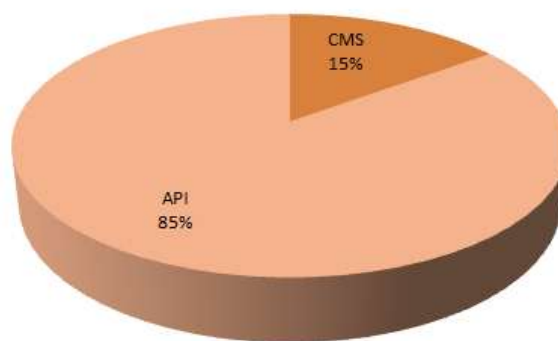
Neuland Laboratories is promoted by D R Rao, a PhD in organic chemistry with wide expertise in R&D. The 30-year-old Hyderabad-based company is engaged in manufacturing API and end-to-end solutions for the pharmaceutical industry for chemistry related services. The company is one of the few pureplay API manufacturer, which has built a strong products basket of 75 plus products developed, 400+ regulatory filings and presence in over 80 countries. Exports contribute 75% of revenue (mainly regulated markets). Top 10 products of Neuland include Ciprofloxacin HCl, Mirtazapine, Ranitidine HCl, Enalapril Maleate, Ramipril, Sotalol HCl, Olanzapine, Ipratropium Bromide, Itraconazole and Salmeterol. The company has two USFDA and EDQM inspected manufacturing facilities (located at Bonthapally and Pashamylaram in Andhra Pradesh) and a 40,000sqft state-of-the-art R&D facility at Hyderabad. The R&D centers have 200 scientists with 31 PhDs. The R&D facility has the capability to develop 10-14 APIs annually and also execute 10-12 projects for process development.

Chart 19: Geographical breakup of revenue (FY15)



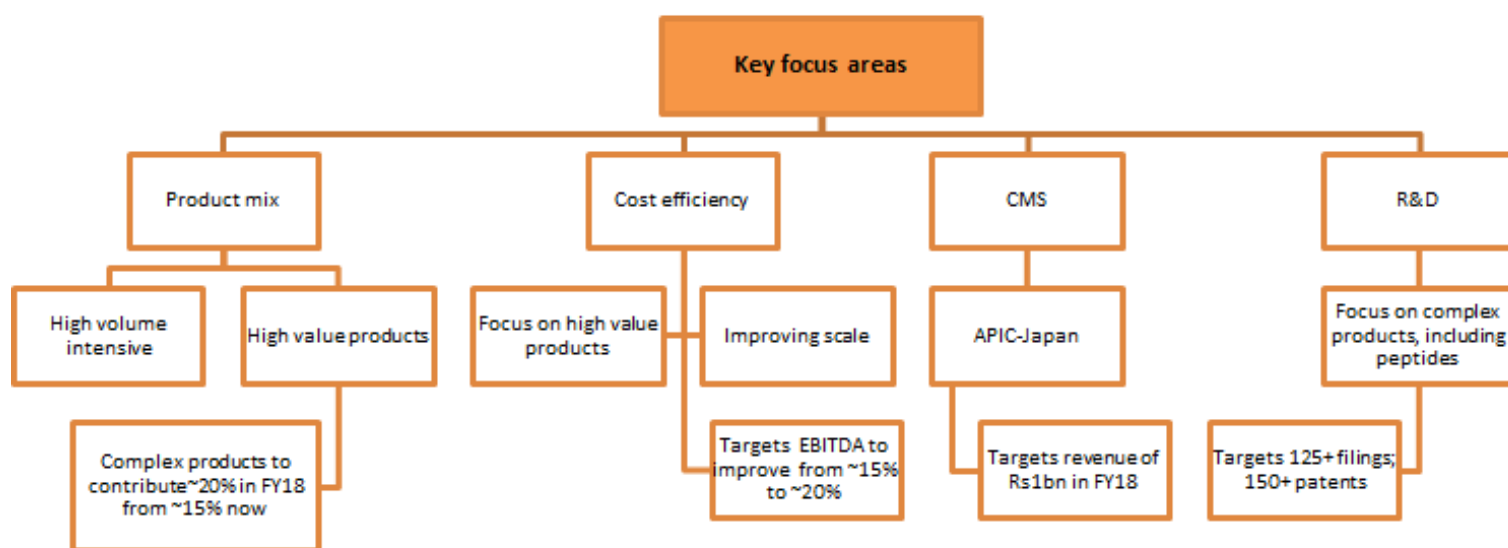
Source: Company, Systematix Institutional Research

Chart 20: Segment-wise breakup (FY15)



Source: Company, Systematix Institutional Research

Chart 21: Strategic landscape



Source: Company, Systematix Institutional Research

Table 5: Key management team

Name	Designation	Promoter / Non Promoter	Executive / Non-Executive	Qualifications
D R Rao	Chairman & Managing Director	Promoter	Executive	MSc PGD in Technology & PhD in Organic Chemistry
HumayunDhanrajgir	Independent Director	NA	Non-Executive	BTech MI CHEM (E)
P V Maiya	Director	NA	Non-Executive	MA(Econ) CAIIB
Will Mitchell	Director	NA	Non-Executive	PhD
Christopher M Cimarusti	Director	NA	Non-Executive	PhD in Organic Chemistry
D Sucheth Rao	Whole Time Director & CEO	Promoter	Executive	B Tech(Mech) & MBA in Corporate Finance
D Saharsh Rao	Whole-time Director	Promoter	Executive	Engineering Graduate Masters in MIS MBA
SaradaBhamidipati	Company Secretary	NA	NA	NA
Bharati Rao	Additional Director	NA	NA	NA
Nirmala Murthy	Additional Director	NA	NA	NA

Source: Company, Systematix Institutional Research

Table 6: Fund raising history

Date	Amount (Rs mn)	Route
Apr-12	101	Right issues
Dec-12	250	Inter-corporate deposits from group companies (NPRPL and NHSPL)
Mar-13	361	Divestment of R&D assets to group companies
Feb-14	250	Right issues
Total	962	

Source: Company, Systematix Institutional Research

Annexure

Table 7: Details of DMF filings

Drug	Brand name	Innovator	Patent expiry	Therapy	No. of DMF filers
Benzyl albuterol (intermediate)	NA	NA	NA	Precursor to salbutamol	Single player
Albuterol sulfate	Proairhfa, ventolinhfa	Teva/gsk	18-dec-17	Bronchodilator	Cipla
Ranitidine	Zantac	Gsk/concordia	Generic	Antihistamine	Multiple players
Ranitidine hydrochloride	Zantac	Gsk/concordia	Generic	Antihistamine	Multiple players
Ciprofloxacin hydrochloride	Cipro	Bayer hlthcare	Generic	Antibacterial	Multiple players
Sotalol hydrochloride	Sorine	Upsher smith/arbor pharms llc	Generic	Antiarrhythmic	Heumann pharma gmbh
Ipratropium bromide	Atroventhfa/duoneb	Boehringerelheim	Generic	Anticholinergic	Single player
Ranitidine hydrochloride	Zantac	Gsk/concordia	Generic	Antihistamine	Multipleplayers
Ofloxacin	Ocuflox	Allergan	Generic	Ophthalmic/antibacterial	Multipleplayers
Enalapril maleate	Vasotec	Valeant intl	Generic	Antihypertensive	Multipleplayers
Itraconazole	Onmel/sporanox	Merz pharms/janssen pharms	12-may-17	Antifungal	Glenmark
Mirtazapine	Remeron	Organonusainc	Generic	Antidepressant	Multipleplayers
Albuterol	Ventolin hfa	Glaxo grp ltd	16-jan-18	Anti-asthma	Cipla
Albuterol sulfate	Ventolin hfa	Glaxo grp ltd	16-jan-18	Anti-asthma	Cipla
Ramipril	Altace	King pharms	30-aug-20	Antihypertensive	Multipleplayers
Levofloxacin	Levaquin	Janssen pharms	Generic	Antibiotoc	Multipleplayers
Levetiracetam	Keppra	Ucbinc	Generic	Anticonvulsant	Multipleplayers
Ciprofloxacin	Cipro	Bayer hlthcare	Generic	Antibiotoc	Multipleplayers
Moxifloxacin hydrochloride	Avelox	Bayer hlthcare	5-dec-16	Antibiotoc	Multipleplayers
Levofloxacin	Levaquin	Janssen pharms	Generic	Antibiotoc	Multipleplayers
Fluticasone propionate	Dymista	Meda pharms	29-aug-23	Allergic rhinitis	Sun, Cipla
Olanzapine	Zyprexa	Lilly	Generic	Antipsychotic	Multipleplayers
Ropinirole hydrochloride	Requip	Glaxosmithklinellc	Generic	Antiparkinsonian	Multipleplayers
Escitalopram oxalate	Lexapro	Forest labs	Generic	Antidepressant	Multipleplayers
Enalapril maleate	Vasotec	Valeant intl	Generic	Antihypertensive	Multipleplayers
Palonosetron hydrochloride	Aloxi	Helsinnhlthcare	30-jul-24	Anti-nausea	Multipleplayers
Donepezil hydrochloride	Aricept	Eisai inc	Generic	Anti-alzheimer	Multipleplayers
Dorzolamide	Trusopt	Merck	Generic	Ophthalmic	Single player
Entacapone	Comtan	Orion pharma	14-sep-18	Anti-parkinsonian	Multipleplayers
Tiotropium	Spiriva	Boehringerelheim	24-sep-21	Chronic obstructive pulmonary disease	Single player
Ezetimibe	Zetia/vytorin	Msdintl	Generic	Antihyperlipidemic	Multipleplayers
Aripiprazole	Abilify	Otsuka	Generic	Antipsychotic	Multipleplayers
Salmeterol	Advair hfa	Glaxo grp ltd	Generic	Bronchodilator	Multipleplayers
Voriconazole	Vfend	Pfizer	24-may-16	Antifungal	Multipleplayers
Paricalcitol	Zemlar	Abbvie	Generic	Vitamin d compound	Dishman
Mirtazapine	Remeron	Organonusainc	Generic	Antidepressant	Multipleplayers
Linezolid	Zyvox	Pharmacia and upjohn	Generic	Antibacterial	Multipleplayers
Ezetimibe	Zetia/vytorin	Msdintl	Generic	Cholesterol lowering agent	Multipleplayers
Montelukast sodium	Singulair	Merck	Generic	Anti asthma/allergies	Multipleplayers
Pemetrexed disodium	Alimta	Lilly	24-jul-16	Anti-cancer	Multipleplayers
Deferasirox	Exjade	Novartis	5-apr-19	Chelating agent	Multipleplayers
Brinzolamide	Azopt	Alcon pharms ltd	Generic	Ophthalmic	Single player
Bosentan	Tracleer	Actelion pharms ltd	20-nov-15	Antihypertensive	Multipleplayers
Paliperidone	Invegasustenna	Janssen pharms	12-nov-17	Antipsychotic	Multipleplayers
Dapiprazole	NA	NA	Generic	Ophthalmic	Single player
Ropinirole	Requip	Glaxosmithklinellc	Generic	Parkinson's disease/cns	Multipleplayers
Brinzolamide	Azopt	Alcon pharms ltd	Generic	Ophthalmic	Single player
Propofol	Diprivan	Fresenius kabiusa	22-sep-15	Anesthetic	Single player
Ethacrynic	Edecrin	Aton	Generic	Diuretic	Cadila
Alcaftadine	Lastacaft	Allergan	5-oct-29	Antihistaminic	Single player

Source: Company, Systematix Institutional Research

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