

Current	Previous
CMP : Rs.73	Rating : BUY
Rating : BUY	Target : Rs.74
Target : Rs.140	Achieved

Consolidated results were in line with expectation. Stock has ample scope of rating expansion. Maintain BUY with upward revised target of Rs 140 from earlier target of Rs 74 (valuing it at 10x FY16E EPS)

Q4FY14 Results Update

Revenue was in-line in the quarter

Sharon Bio Medicine (Sharon) reported stable performance on top-line in last quarter of its financial year on the back of favorable product mix. Its revenue grew ~7.5% y-o-y (up 9.7% sequentially) to Rs 3495.2 mn in Q1FY15.

Favorable product mix led to expansion in margins:

Company's gross margins increased ~379 bps y-o-y (10 bps q-o-q) to 16.3% level during the quarter mainly on account of favorable product mix & savings on material cost. In-line with gross margins expansion, company's EBITDA margins increased ~262 bps y-o-y (34 bps q-o-q) to 12.7% level (V/s INSPL est.=11.9%). Increase in employee expenditure & Other expenses related to higher spend on registrations in various markets partially offset some benefit of saving on material cost. The company's EBITDA grew ~35% y-o-y (13% q-o-q) to Rs 444.5 mn.

Adj Net profit grew ~47% y-o-y to Rs 219.8 mn in Q1FY15

Adjusting for forex loss of Rs 14.5 mn in Q4FY14 compared to loss of Rs 14.2 mn in Q3FY14 (nil in Q4FY13), company's net profit grew 47% y-o-y to Rs 219.8mn.

Full Year FY14 Consolidated performance

Sharon follows June year end hence quarter gone by was Q4 & last quarter for fiscal FY14.

Revenue grew 24% in FY14 over FY13 in line with our estimates of ~20% CAGR on top line over next couple of years.

Gross margins for full year were at 15.2% (up 11 bps YoY). Small savings in other expenses & stable employee costs resulted in EBITDA margin improvement from 11.3% in FY13 to 11.9% in FY14 in line with our estimates.

Despite interest expenses going up by ~24% on YoY basis, due to lower tax rate (19.9% Of PBT in FY13 v/s 17.7% in FY14) along with higher other income, net profit margin adjusted for forex impact improved from 5% in FY13 to 5.7% in FY14.

The company clocked EBITDA of Rs 1574.9 mn (up 30% YoY) & Adj net profit of Rs 757.9 mn (up 41% YoY).

Outlook:

In our earlier note dated July 3, 2014 wherein we initiated this stock as buy idea, we had mentioned change in revenue mix in favor of higher share of formulations will be a key driver for company's growth. We believe this quarter numbers are showing that rationale playing out well.

We have estimated conservative increase of 100 bps increase in EBITDA margins over next 2 years (with all probability of company beating these estimates). Since most of other costs have stabilized, favorable product mix will lead to savings on material costs leading to significant improvement in margins at all levels. In our view future EBITDA will be driven by change in revenue mix.

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As at end of June 30, 2014, Sharon spends ~33% of its EBITDA into paying interest expenses as it has large debt of Rs 7253.84 mn. The company has expanded in the past on back of borrowed funds, which has resulted in ballooning of debt to this high amount. However according to our discussions with the management in the past, they are not looking for any more large ticket capex (only maintenance capex will continue) implying that going forward interest expenses will go down. Also once the profitability will improve, the company will be in a position to repay debt & lower its interest costs. To remain conservative we have yet not factored any benefit from de-leveraging in our estimates.

In our opinion if the company is able to just change revenue mix in favor of formulations from current 70:30 in terms of API: Formulation to 50: 50 by FY16 June, then the company has ability to more than double its bottom line over FY14 levels with just 20% CAGR top line growth & only 100 bps increase each year on EBITDA margin. We highlight these estimates are on conservative side & have potential to be revised upwards.

Valuations:

At CMP of Rs 73, the stock is trading at P/E multiple of 7.3x of FY15E & 5.2x of FY16E earnings estimates.

We believe the company's strategy of focusing on formulations (higher margin products) v/s API has started showing some early results. Due to favorable product mix the savings on material costs are likely to result in continuous improvement in Gross & Operating margins which in turn will lead to PE multiple expansion for the stock.

On a conservative note, we continue to value the stock at 10x FY16E earnings to arrive at target price of Rs 140. Our earlier price target of Rs 74 has been achieved. However we believe the company has lot more potential to deliver hence we remain optimistic on stock's performance. We maintain BUY rating

Quick Financials

Units Rs/Mn	FY13A	FY14A	FY15E	FY16E
Net Sales	10,735	13,248	15,897	19,077
EBITDA	1,222	1,575	1,987	2,575
EBITDA Margin (%)	11.4	11.9	12.5	13.5
PAT	537	735	1,054	1,471
PAT Margin (%)	5.0	5.5	6.6	7.7
EPS	5.1	7.0	10.0	13.9
P/E	9.7x	10.5x	7.3x	5.2x

Note Year ending June 30.

Source: Company reports; IndiaNivesh Research

Q4FY14 & FY14 (Consolidated, June year ending)

Particulars (Rs Mn except EPS)	Q4FY14	Q4FY13	Y-o-Y	Q3FY14	Q-o-Q	FY14	FY13	Y-o-Y
Net Sales	3,495.20	3,252.60	7.5%	3,184.90	9.7%	13,247.90	10,735.20	23.4%
Other Income						0	1.19	
Total Income	3,495.20	3,252.60	7.5%	3,184.90	9.7%	13,247.90	10,736.39	23.4%
(increase)/Decrease in closing stock	-303.6	-366.5	-17.2%	-164.6	84.4%	-622.1	-640.2	-2.8%
Consumption of raw material	2,657.70	2,629.80	1.1%	2,167.00	22.6%	9,480.90	7,667.58	23.6%
Purchase of finished goods	571.3	582.2	-1.9%	666.5	-14.3%	2,370.90	2,084.20	13.8%
Employee Cost	65.7	51.6	27.3%	60.97	7.8%	233.6	186.1	25.5%
Other Expenditure	59.6	27.1	119.9%	60.8	-2.0%	209.7	227.1	-7.7%
Total Expenditure	3,050.70	2,924.20	4.3%	2,790.67	9.3%	11,673.00	9,524.78	22.6%
EBITDA	444.5	328.4	35.4%	394.23	12.8%	1,574.90	1,211.61	30.0%
Depreciation & Amortization	29.9	38.6	-22.5%	42	-28.8%	153.5	121.3	26.5%
EBIT	414.6	289.8	43.1%	352.23	17.7%	1,421.40	1,090.31	30.4%
Other Income	11.53	1.28	802.2%	1.78	549.2%	19.33	11	75.7%
Interest	141.8	107.3	32.2%	140.1	1.2%	531.4	430.6	23.4%
Pre-tax Profit	284.33	183.78	54.7%	213.91	32.9%	909.33	670.71	35.6%
Tax	64.5	34.5	87.0%	19	239.5%	151.4	133.3	13.6%
Profit before minority interest	219.83	149.28	47.3%	194.91	12.8%	757.93	537.41	41.0%
Minority Interest	-	-	0.0%	-	0.0%	-	-	
Adj net profit	219.83	149.28	47.3%	194.91	12.8%	757.93	537.41	41.0%
Foreign Exchange Gain/(loss), others	-14.5	-		-14.2	2.1%	-54.9	-	
Net Profit (Reported)	205.33	149.28	37.5%	180.71	13.6%	703.03	537.41	30.8%
EPS	20.83	14.14	47.0%	18.46	12.8%	71.8	50.91	41.0%
O/ Share Current (In Million)	10.56	10.56	0.0%	10.56	0.0%	10.56	10.56	0.0%

Ratios	Q4FY14	Q4FY13	Bps	Q3FY14	Bps	FY14	FY13	Bps
Gross Margins	16.3%	12.5%	379	16.20%	10	15.2%	15.1%	11
EBITDA margin	12.7%	10.1%	262	12.40%	34	11.9%	11.3%	60
Net Margin	6.3%	4.6%	170	6.10%	17	5.7%	5.0%	72
Material cost/Net Sales	83.7%	87.5%	-379	83.80%	-10	84.8%	84.9%	-11
Employee Cost/ Net Sales	1.9%	1.6%	29	1.90%	-3	1.8%	1.7%	3
Other Expenditure/ Net Sales	1.7%	0.8%	87	1.90%	-20	1.6%	2.1%	-53
Tax Rate	23.9%	18.8%	513	9.50%	1,439	17.7%	19.9%	-216

Source: Company reports; IndiaNivesh Research



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