

Current	Previous
CMP : Rs.51	
Rating : BUY	Rating : BUY
Target : Rs.140	Target : Rs.140

**STOCK INFO**

Bse	532908
Nse	SHARONBIO
Bloomberg	SBML IN
Reuters	SHBM.BO
Sector	Pharmaceutical
Face Value (Rs)	2
Equity Capital (Rs mn)	106
Mkt Cap (Rs mn)	5,363
52w H/L(Rs)	90 / 28
Avg Daily Vol (BSE+NSE)	1,359,437

**SHAREHOLDING PATTERN**

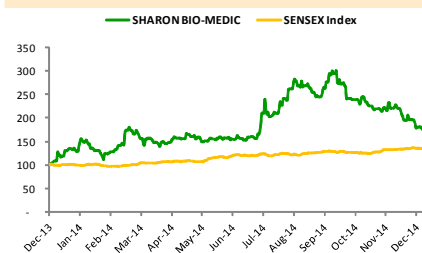
	%
<i>(as on Sep. 2014)</i>	
Promoters	60.2
FII's	1.0
DII's	2.5
Public & Others	36.4

Source: Company, Cline

STOCK PERFORMANCE (%)	1m	3m	12m
SHARON BIO-MED	(20.4)	(40.4)	75.9
SENSEX	1.2	3.2	34.3

Source: Capitaline, IndiaNivesh Research

**SHARON BIO-MEDICINE v/s SENSEX**



Source: Capitaline, IndiaNivesh Research

**Daljeet S. Kohli**  
Head of Research

Tel: +91 22 66188826  
[daljeet.kohli@indianivesh.in](mailto:daljeet.kohli@indianivesh.in)

**Tushar Manudhane**  
Research Analyst

Tel: +91 22 66188835  
[tushar.manudhane@indianivesh.in](mailto:tushar.manudhane@indianivesh.in)

*The stock has corrected by 40% in past three months on absolute basis. Though the business continues to be normal and stock has become attractive in terms of valuation, we suggest investors to wait for the results of key near term trigger – USFDA inspection and its subsequent assessment to review the investment decision. At CMP of Rs51, the stock is trading at 5.2x FY15E EPS of Rs9.9 and 3.7x FY16E EPS of Rs13.9. Currently, we maintain our estimates and continue to value SBML at 10x FY16E earnings to arrive at price target of Rs140. We maintain BUY rating on the stock.*

**USFDA approval – a key near term trigger:** SBML has completed the capex of Rs900mn at its Uttarakhand formulation facility. SBML received the UKMHRA approval for existing as well as expanded facility. The USFDA inspection is expected to happen anytime soon. The positive outcome would enable SBML to start selling in US market on considerable scale. This would also enhance profitability of SBML. However, given the uncertain nature of review of USFDA inspection, we have not yet built any upside from business in US market from this facility.

**Warrants issue to dilute EPS by 13% going forward:** SBML has issued 16.1 mn warrants to the Promoter group on preferential basis in October 2014. This would result in 13% dilution post conversion of warrants to equity shares. The infusion of funds by promoters would enable SBML to lower financial leverage to some extent and enhance profitability.

**Major capex done for now; SBML to start reaping benefits in medium term:** The net block has increased at CAGR of 141% over FY09-14, however, sales have increased by only 77% CAGR during the similar period, indicating ample scope of increasing turnover as well as profitability without increasing capex in medium term. As the long term structural driver for pharmaceutical companies in export market remains intact with India as low cost destination for manufacturing APIs as well as finished dosages, we believe that SBML is in sweet position to take the advantage of the same.

**Valuation:** At CMP of Rs51, the stock is trading attractive valuation of 5.2x FY15E EPS of Rs9.9 and 3.7x FY16E EPS of Rs13.9. With capex in place and probable shift to superior product mix, we expect SBML to deliver 20% and 39% CAGR in sales and profitability, respectively, over FY14-16. We maintain our estimates and price target of Rs140, based on 10x FY16E earnings. We have not yet factored dilution in earnings due to issue of warrants to promoter group. Despite stock correction of 40% over past three months, we suggest investors to wait for outcome of USFDA to accumulate further.

## Financial Statements

## Income statement

Y E June (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	8,054	10,747	13,248	15,897	19,077
Growth %	28.2	33.4	23.3	20.0	20.0
<b>Expenditure</b>	<b>7,081</b>	<b>9,525</b>	<b>11,673</b>	<b>13,909</b>	<b>16,500</b>
Raw Material	6,736	9,112	11,230	13,306	15,777
Employee cost	145	186	234	285	341
Other expenses	200	227	210	318	382
<b>EBITDA</b>	<b>973</b>	<b>1,222</b>	<b>1,575</b>	<b>1,989</b>	<b>2,577</b>
Growth %	32	26	29	26	30
<b>EBITDA Margin %</b>	<b>12.1</b>	<b>11.4</b>	<b>11.9</b>	<b>12.5</b>	<b>13.5</b>
Depreciation	89	121	154	170	190
EBIT	885	1,101	1,421	1,819	2,387
<b>EBIT Margin %</b>	<b>11.0</b>	<b>10.2</b>	<b>10.7</b>	<b>11.4</b>	<b>12.5</b>
Other Income	-	-	19	-	-
Interest	343	431	531	550	550
PBT	542	670	909	1,269	1,837
Tax	114	133	151	228	367
Effective tax rate %	21.1	19.9	16.6	18.0	20.0
Extraordinary items	(0)	-	-	(55)	-
Less: Minority Interest	-	-	-	-	-
<b>Adjusted PAT</b>	<b>428</b>	<b>537</b>	<b>758</b>	<b>1,040</b>	<b>1,470</b>
Growth%	28	26	41	37	41
<b>PAT margin %</b>	<b>5.3</b>	<b>5.0</b>	<b>5.7</b>	<b>6.5</b>	<b>7.7</b>
Reported PAT	428	537	703	1,040	1,470
Growth%	29	26	31	48	41

## Balance sheet

Y E June (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Share Capital	106	106	211	211	211
Advanced against Share Capital	548	548	806	806	806
Reserves & Surplus	1,797	1,864	2,506	3,547	5,017
<b>Net Worth</b>	<b>2,450</b>	<b>2,517</b>	<b>3,523</b>	<b>4,563</b>	<b>6,033</b>
Secured Loans	3,167	4,414	5,340	5,340	5,340
Unsecured Loans	1,457	2,025	1,914	1,914	1,914
Deferred Tax liabilities	70	83	105	105	105
<b>Total</b>	<b>7,144</b>	<b>9,038</b>	<b>10,881</b>	<b>11,921</b>	<b>13,391</b>
Gross Block	2,356	3,179	3,516	4,016	4,516
Less: Depreciation	343	463	617	787	977
Net Block	2,013	2,716	2,899	3,229	3,539
CWIP	599	428	500	1,000	1,000
Investments	33	33	6	6	6
Current Assets					
Inventories	1,962	2,602	3,225	3,496	4,195
Sundry Debtors	2,682	3,635	4,226	2,599	3,119
Cash & Bank Balances	63	63	123	1,806	1,897
Loans & Advances	462	321	715	715	715
Current Liabilities	552	616	633	750	900
Provisions	118	144	180	180	180
<b>Net Current Assets</b>	<b>4,499</b>	<b>5,862</b>	<b>7,476</b>	<b>7,687</b>	<b>8,847</b>
Miscellaneous Expenditure	0	0	0	0	0
<b>Total</b>	<b>7,144</b>	<b>9,038</b>	<b>10,881</b>	<b>11,921</b>	<b>13,391</b>

## Cash Flow

Y E June (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
PBT	542	670	909	1,269	1,837
Depreciation	88	120	154	170	190
Interest	(12)	(12)	-	-	-
Other non cash charges	-	-	(55)	-	-
Changes in working capital	(1,061)	(1,363)	(1,554)	1,472	(1,069)
Tax	(91)	(120)	(151)	(228)	(367)
<b>Cash flow from operations</b>	<b>(534)</b>	<b>(704)</b>	<b>(698)</b>	<b>2,682</b>	<b>591</b>
Capital expenditure	(621)	(652)	(409)	(1,000)	(500)
<b>Free Cash Flow</b>	<b>(1,156)</b>	<b>(1,356)</b>	<b>(1,107)</b>	<b>1,682</b>	<b>91</b>
Other income	12	12	-	-	-
Investments	(1)	-	28	-	-
<b>Cash flow from investments</b>	<b>(610)</b>	<b>(640)</b>	<b>(382)</b>	<b>(1,000)</b>	<b>(500)</b>
Equity capital raised	-	-	45	-	-
Loans availed or (repaid)	1,188	1,363	815	-	-
Dividend paid (incl tax)	(22)	(19)	-	-	-
Others	-	-	279	-	-
<b>Cash flow from Financing</b>	<b>1,166</b>	<b>1,345</b>	<b>1,140</b>	<b>-</b>	<b>-</b>
Net change in cash	21	1	60	1,682	91
Cash at the beginning of the year	42	64	64	124	1,806
<b>Cash at the end of the year</b>	<b>63</b>	<b>63</b>	<b>124</b>	<b>1,806</b>	<b>1,897</b>

## Key ratios

Y E June	FY12	FY13	FY14E	FY15E	FY16E
EPS (Rs) Core	4.1	5.1	6.7	9.9	13.9
EPS Reported	4.1	5.1	6.7	9.9	13.9
Cash EPS (Rs)	4.9	6.2	8.6	11.5	15.7
DPS (Rs)	-	-	-	-	-
BVPS (Rs)	23.2	23.9	33.4	43.3	57.2
ROCE (%)	11.0	10.9	11.9	13.1	15.1
ROE (%)	19.0	21.6	25.1	25.7	27.7
Inventories Days	80	78	80	77	74
Sundry Debtors Days	63	64	60	32	32
Loans & Advances Days	16	13	14	16	14
Trades Payable Days	21	20	17	16	16
PER (x)	12.6	10.0	7.7	5.2	3.7
P/BV (x)	2.2	2.1	1.5	1.2	0.9
EV/EBITDA (x)	10.2	9.6	7.9	5.4	4.2
Dividend Yield %	-	-	-	-	-
m cap/sales (x)	0.6	0.6	0.5	0.3	0.3
net debt/equity (x)	1.9	2.5	2.0	1.2	0.9
net debt/ebitda (x)	4.7	5.2	4.5	2.7	2.1

Source: Company Filings; IndiaNivesh Research



**IndiaNivesh Securities Private Limited**

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: [research@indianivesh.in](mailto:research@indianivesh.in) | Website: [www.indianivesh.in](http://www.indianivesh.in)

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