

Current	Previous
CMP : Rs.403	
Rating : BUY	Rating : HOLD
Target : Rs.517	Target : Rs.345

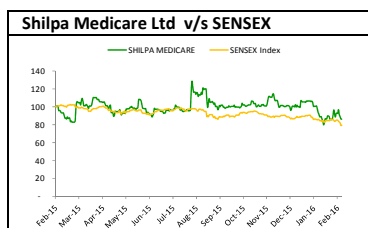
STOCK INFO	
Bse	530549
Nse	SHILPAMED
Bloomberg	SLPA IN
Reuters	SHME.BO
Sector	Pharmaceutical
Face Value (Rs)	2
Equity Capital (Rs mn)	37
Mkt Cap (Rs mn)	31,034
52w H(Rs)	624
52wL(Rs)	355
Avg Daily Vol (Bse+Nse)	103,051

SHAREHOLDING PATTERN		%
(as on Dec. 2015)		
Promoters	53.05	
Public	46.95	

Source: BSE

STOCK PER. (%)	1m	3m	12m
Shilpa Medicare Ltd	(11.6)	(22.8)	(13.5)
Sensex	(6.9)	(11.1)	(20.2)

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

Shilpa Medicare (SLPA IN) adjusted PAT was better-than-estimates led by better than expected y-y sales growth for the quarter. On Y-y basis, sales growth momentum is maintained with growth in onco-API, non-Onco API as well as CRAMS segment. Recently, SLPA received letter of compliance from USFDA for its Raichur-API facility. This event opens opportunity for business from US market. Given the scenario, where, business has been adversely impacted by regulatory hurdle for other pharma companies, letter of compliance is major positive for SLPA. Hence, we raise our PE multiple for SLPA from 16x to 18x. We now await clearance of regulatory hurdle at its Jadcherla formulation facility. We cut our EPS estimate for FY16E and FY17E by 20% and 19% to factor delay in getting regulatory clearance for its Raichur facility. We expect FY18 to have considerable business from API as well as formulation facility. We introduce FY18E estimates and roll forward our valuation to 18x FY18E EPS of Rs29. Accordingly, we raise our price target to Rs517 from Rs345 earlier. We upgrade SLPA from HOLD to BUY, based on potential upside of 28% from current levels.

Rs.mn	Q3FY16	Q3FY15	y-o-y (%)	Q2FY16	q-o-q (%)	INSL Est	Variance(%)
Revenue	1,982	1,545	28.3	1,733	14.4	1,777	11.6
EBIDTA	389	337	15.6	375	3.8	388	0.3
Adjusted PAT	249	203	22.5	225	10.8	236	5.5
PAT	249	169	47.0	201	24.1	236	5.5

Robust sales growth drives earnings for the quarter: Net sales came in at Rs2bn, up 28.3% y-y, led by healthy y-y growth in all the major segments – Onco API, non-Onco API as well as CRAMS segment. 3QFY16 is the fourth consecutive quarter to show uptrend in y-y growth in sales even after smoothening of base effect. Gross margin and EBITDA margin slipped 221bps y-y and 217bps y-y due to higher raw material cost. SLPA maintained its R&D spent at 4.5% of net sales for the quarter. Adjusted PAT grew by 47% y-y to Rs249mn for the quarter. Adjusted PAT grew at higher rate than EBITDA due to higher tax in 3QFY15. SLPA guided for capex of Rs1.5bn for FY16.

Valuation: We raise our PE multiple for SLPA from 16x to 18x to factor clearance of regulatory hurdle for its API facility for US market. We now await clearance of regulatory hurdle at its Jadcherla formulation facility. We cut our EPS estimate for FY16E and FY17E by 20% and 19% to factor delay in getting regulatory clearance for its Raichur facility. We expect FY18 to have considerable business from API as well as formulation facility. We introduce FY18E estimates and roll forward our valuation to 18x FY18E EPS of Rs29. Accordingly; we raise our price target to Rs517 from Rs345 earlier. We upgrade SLPA from HOLD to BUY, based on potential upside of 28% from current levels.

Key changes in estimates:

Rs mn	Old estimates		New estimates		Change (%)		Introducing FY18E
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	
Sales	7,672	11,032	6,997	9,897	(8.8)	(10.3)	14,980
EBITDA	1,661	2,438	1,449	2,091	(12.8)	(14.2)	3,281
PAT	1,125	1,623	901	1,313	(20.0)	(19.1)	2,202
EPS (Rs)	14.6	21.1	11.7	17.0	(20.0)	(19.1)	29
PT (Rs)		345					514

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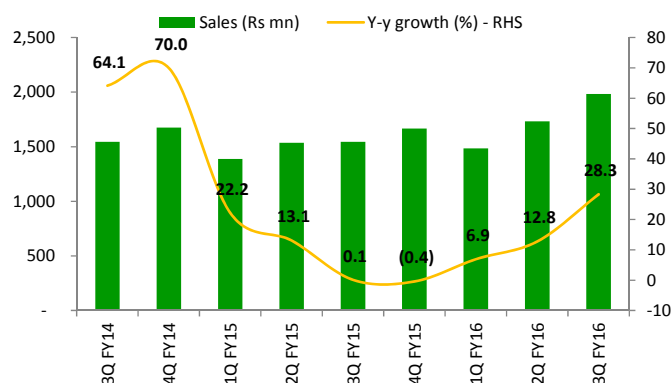
Quarterly results summary

Particulars (Rs Mn except EPS)	Q3FY16	Q3FY15	Y-o-Y (%)	Q2FY16	Q-o-Q (%)	9MFY16	9MFY15	Y-o-Y
Net Sales	1,982	1,545	28.3	1,733	14.4	5,200	4,471	16.3
Consumption of raw material	1,092	817	33.7	875	24.7	2,767	2,447	13.1
Employee Cost	252	195	29.2	218	15.5	677	575	17.8
Other Expenditure	250	197	27.0	264	(5.6)	709	539	31.5
Total Expenditure	1,593	1,208	31.9	1,358	17.3	4,154	3,562	16.6
EBITDA	389	337	15.6	375	3.8	1,046	909	15.1
Depreciation & Ammortization	84	54	57.2	65	30.4	202	160	26.5
EBIT	305	283	7.7	310	(1.8)	844	749	12.7
Other Income	25	8	209.9	18	41.0	45	40	12.0
Interest	23	10	125.8	15	55.3	47	31	50.3
Pre-tax Profit	306	281	9.1	313	(2.1)	842	758	11.1
Tax	57	113	(49.0)	88	(34.9)	211	249	(15.5)
Adj net profit	249	169	47.0	225	10.8	631	514	22.9
Foreign Exchange Gain/(loss), oth	-	(0)	NM	(24)	NM	(24)	(1)	NM
Net Profit (Reported)	249	169	47.4	201	24.1	607	513	18.3
EPS (Dil)	3.2	2.2	47.0	2.9	10.8	8.2	6.7	22.9
O/Share (In Million)	77	77	-	77	-	77	77	-

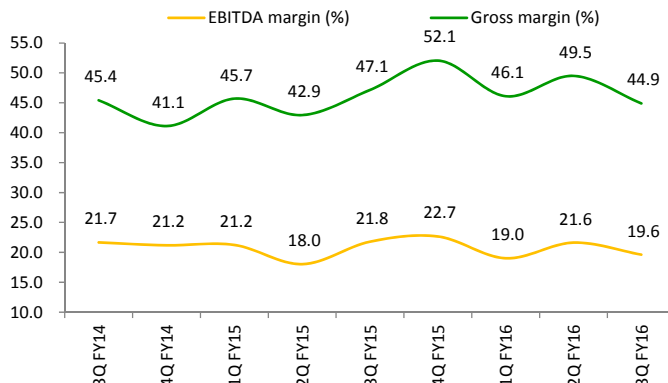
Key ratios

Particulars (%)	Q3FY16	Q3FY15	Bps	Q2FY16	Bps	9MFY16	9MFY15	Bps
Gross Margins	44.9	47.1	(221)	49.5	(455)	46.8	45.3	153
EBITDA margin	19.6	21.8	(217)	21.6	(201)	20.1	20.3	(21)
Net Margin	12.6	10.9	167	13.0	(41)	12.1	11.4	77
Material cost/Net Sales	55.1	52.9	221	50.5	455	53.2	54.7	(153)
Employee Cost/ Net Sales	12.7	12.6	9	12.6	12	13.0	12.9	17
Other Expenditure/ Net Slaes	12.6	12.7	(13)	15.3	(266)	13.6	12.1	158
Tax Rate	18.7	40.1	(2,141)	30.5	(1,181)	25.8	33.0	(720)

Sales momentum continues in 3QFY16 as well



Increased raw material cost lowers gross margin



Financial Statements (Consolidated)

Income statement

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Net sales	3,713	5,714	6,138	6,997	9,897	14,980
Growth %	16.7%	53.9%	7.4%	14.0%	41.4%	51.4%
Expenditure						
Raw Material	2,149	3,144	3,247	3,709	5,295	8,164
Employee cost	455	678	823	936	1,306	1,841
Other expenses	421	731	782	904	1,204	1,694
EBITDA	689	1,160	1,286	1,449	2,091	3,281
Growth %	13.6%	68.5%	10.9%	12.6%	44.4%	56.9%
EBITDA Margin %	18.5%	20.3%	21.0%	20.7%	21.1%	21.9%
Depreciation	153	232	214	275	368	406
EBIT	535	928	1,072	1,174	1,724	2,875
EBIT Margin %	14.4%	16.2%	17.5%	16.8%	17.4%	19.2%
Other Income	50	91	48	60	72	86
Interest	14	35	41	64	68	64
PBT	571	984	1,080	1,170	1,728	2,897
Tax	95	203	352	269	415	695
Effective tax rate %	16.8%	21.4%	32.9%	23.0%	24.0%	24.0%
Extraordinary items	(2)	(34)	(11)	-	-	-
Adjusted PAT	476	781	728	901	1,313	2,202
Growth%	17.0%	64.1%	-6.8%	23.8%	45.8%	67.7%
PAT margin %	12.8%	13.7%	11.9%	12.9%	13.3%	14.7%
Reported PAT	473	746	717	901	1,313	2,202
Growth%	14.8%	57.6%	-3.9%	25.6%	45.8%	67.7%

Source: Company filings, IndiaNivesh Research

Cash flow

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E	FY18E
PBT	570	954	1,080	1,170	1,728	2,897
Depreciation	153	232	214	275	368	406
Interest	14	35	41	64	68	64
Other non cash charges	(54)	(71)	9	-	-	-
Changes in working capital	(139)	(233)	(393)	(36)	(478)	(818)
Tax	(110)	(216)	(254)	(269)	(415)	(695)
Cash flow from operations	435	702	697	1,203	1,270	1,854
Capital expenditure	(974)	(1,068)	(1,416)	(1,399)	(990)	(899)
Free Cash Flow	(539)	(366)	(719)	(196)	281	955
Other income	(19)	16	57	-	-	-
Investments	42	563	(592)	-	-	-
Cash flow from investments	(952)	(489)	(1,952)	(1,399)	(990)	(899)
Equity capital raised	44	2	860	-	-	-
Loans availed or (repaid)	666	(213)	586	200	-	-
Interest paid	(22)	(35)	(50)	(64)	(68)	(64)
Dividend paid (incl tax)	(25)	(37)	(45)	(45)	(66)	(110)
Cash flow from Financing	663	(283)	1,350	91	(133)	(174)
Net change in cash	146	(75)	95	(105)	147	781
Cash at the beginning of the year	23	169	93	180	75	222
Cash at the end of the year	169	93	188	75	222	1,003

Source: Company filings, IndiaNivesh Research

Balance sheet

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Share Capital	49	74	74	74	74	74
Reserves & Surplus	3,155	3,891	5,392	6,248	7,496	9,587
Net Worth	3,204	3,964	5,466	6,322	7,569	9,661
Minority Interest	87	100	144	144	144	144
Non Current Liabilities						
Long term borrowing	705	675	1,023	1,223	1,223	1,223
Deferred Tax liabilities	209	259	378	378	378	378
Long term Provisions	71	111	135	135	135	135
	985	1,045	1,536	1,736	1,736	1,736
Current Liabilities						
Short term borrowings	451	303	585	585	585	585
Trade payables	513	930	755	862	1,231	1,898
Other current liabilities	234	382	499	569	804	1,218
Short term provisions	41	54	58	58	58	58
	1,238	1,668	1,896	2,073	2,678	3,758
Total Liabilities	5,514	6,778	9,041	10,274	12,126	15,298
Assets						
Net Block	3,098	4,054	5,377	6,501	7,123	7,616
Non Current Investments	1	2	2	2	2	2
Long term loans & Advances	295	384	389	389	389	389
Current Assets						
Current Investments	503	101	653	653	653	653
Inventories	743	1,233	1,308	1,491	2,109	3,192
Sundry Debtors	418	680	814	805	1,139	1,724
Cash & Bank Balances	169	93	180	75	222	1,003
Loans & Advances	287	231	319	358	489	720
	2,120	2,337	3,274	3,382	4,612	7,292
Total assets	5,514	6,778	9,041	10,274	12,126	15,298

Source: Company filings, IndiaNivesh Research

Key ratios

Y E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
EPS (Rs) Core	6.2	10.2	19.1	11.7	17.0	28.6
EPS Reported	12.9	20.6	19.1	11.7	17.0	28.6
Cash EPS (Rs)	17.1	27.7	24.7	15.2	21.8	33.8
DPS (Rs)	0.7	1.0	1.0	0.6	0.9	1.4
BVPS (Rs)	87	108	142	82	98	125
ROCE	11.1%	15.3%	10.2%	11.0%	13.9%	19.1%
ROE	14.8%	19.8%	13.5%	14.2%	17.4%	22.8%
Inventories Days	73	79	78	78	78	78
Sundry Debtors Days	41	43	48	42	42	42
Trades Payable Days	87	108	85	85	85	85
PER (x)	21.0	23.1	21.0	34.5	23.7	14.1
P/BV (x)	3.1	4.6	2.8	4.9	4.1	3.2
EV/EBITDA (x)	15.5	16.6	13.0	22.5	15.5	9.6
Dividend Yield %	0.3%	0.2%	0.2%	0.1%	0.2%	0.4%
m cap/sales (x)	2.7	3.2	2.5	4.4	3.1	2.1
net debt/equity (x)	0.2	0.3	0.2	0.3	0.2	0.1
net debt/ebitda (x)	1.1	1.0	1.0	1.1	0.7	0.2

Source: Company filings, IndiaNivesh Research