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Q1FY22 result review

Pharmaceuticals

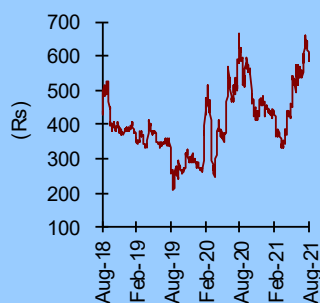
Target price: Rs387

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	53.3	53.3	53.3
Institutional investors	19.5	20.6	18.8
MFs and others	2.3	3.0	2.0
FIs/Banks	0.0	0.5	0.6
FIIIs	17.2	17.1	16.2
Others	27.2	26.1	27.9

Source: BSE India

Price chart



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INDIA

Shilpa Medicare

SELL**Maintained****Rs600**

Weak quarter; import alert remains an overhang

Shilpa Medicare (Shilpa) reported Q1FY22 results below our estimates due to decline in API sales and significant jump in operating costs, partly on account of USFDA related remedial measures. Revenue grew 6.5% YoY to Rs2.4bn (I-Sec: Rs2.5bn), EBITDA margin dropped 1,610bps YoY to 13.4% (I-Sec: 20.5%) and adj. PAT was down 96.1% to Rs16mn. Formulations revenue was up 50.8% YoY to Rs936mn with incremental sales from EU, however, APIs declined. The company is implementing the remedial measures post import alert at Jadcherla formulations unit and has incurred additional expenses of Rs182mn on the same. We expect these expenses to continue in near future. We believe performance would remain weak in near-term until USFDA resolution, though contract manufacturing of *Sputnik V* vaccines will provide some upside. **Maintain SELL.**

- **API sales drop, EU drove formulations growth:** Revenue grew 6.5% YoY to Rs2.4bn during the quarter. This was primarily driven by higher sales in EU, with incremental sales in US from the three exempted products post import alert. We believe import alert would remain an overhang in near to mid-term for US formulations business as new approvals would get delayed. However, the company is trying to increase sales in EU to offset the impact. API business declined 11.8% YoY. The proportion of low margin CRAMS business will continue to reduce. The company has signed another CDMO contract which would start contributing to revenue from Q2FY22. Shilpa has also received approval from DRDO for manufacturing of 2DG.
- **Cost base increases significantly:** EBITDA margin was down to 13.4% due to material rise in operating costs despite lower revenue. Gross margin also dropped due to change in revenue mix. Lower revenue has resulted in negative operating leverage which coupled with increased SG&A costs resulted in sharp drop in EBITDA margin. We expect the margin to revert to ~21-22% level once revenue base increases in coming quarters.
- **Outlook:** Considering the import alert at formulations facility and reducing CRAMS business, the revenue growth would be limited to 8.9% CAGR over FY21-FY23E. We assume import alert will be resolved over the next 24-30 months with growth improving thereafter (FY24E onwards). The company has signed manufacturing agreement with Dr. Reddy's Lab for 100mn doses annually for three years which would provide near term upside. We value this opportunity at Rs46/share based on three years supplies.
- **Valuations and risks:** We maintain our estimates and remain cautious on outlook for profitable growth. We model revenue/EBITDA/PAT CAGR of 8.9/13.4/16.6% over FY21-23E. Maintain **SELL** rating on the stock with a target price of Rs387/share based on 20x FY23E earnings and Rs46/share for vaccine manufacturing. Key upside risks: early resolution of import alert, high value launches in formulations and early success in biosimilars.

Market Cap	Rs48.9bn/US\$658mn
Reuters/Bloomberg	SHME.BO/SLPA IN
Shares Outstanding (mn)	81.5
52-week Range (Rs)	671/317
Free Float (%)	46.7
FII (%)	16.2
Daily Volume (USD/'000)	6054
Absolute Return 3m (%)	33.6
Absolute Return 12m (%)	(1.8)
Sensex Return 3m (%)	14.6
Sensex Return 12m (%)	46.2

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	9,079	9,011	9,971	10,694
Net Income (Rs mn)	1,562	1,022	1,262	1,388
EPS (Rs)	19.2	12.5	15.5	17.0
% Chg YoY	62.3	(34.6)	23.5	10.0
P/E (x)	31.3	47.9	38.8	35.2
CEPS (Rs)	24.5	19.2	23.3	26.0
EV/E (x)	23.8	30.6	27.1	24.5
Dividend Yield (%)	0.4	-	0.1	0.1
RoCE (%)	10.0	5.9	6.1	6.3
RoE (%)	12.4	7.3	8.2	8.3

Please refer to important disclosures at the end of this report

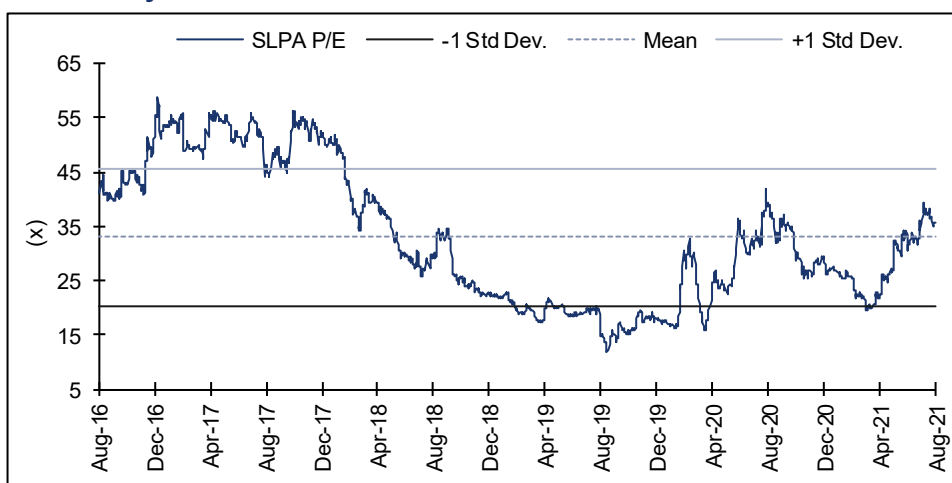
Table 1: Q1FY22 performance*(Rs mn, year ending March 31)*

	Q1FY22	Q1FY21	YoY % Chg	Q4FY21	QoQ % Chg
Net Sales	2,374	2,229	6.5	2,080	14.1
EBITDA	319	657	(51.5)	262	21.7
Other income	12	49	(74.5)	66	(81.1)
PBIDT	331	706	(53.1)	328	1.1
Depreciation	176	123	43.1	152	15.8
Interest	103	40	157.7	91	13.1
Extra ordinary income/ (exp.)	-	608	-	-	-
PBT	52	1,151	(95.5)	84	(38.5)
Tax	36	291	(87.8)	8	345.3
Minority Interest	0	(3)	-	(2)	-
Reported PAT	16	863	(98.2)	78	(79.7)
Adjusted PAT	16	409	(96.1)	78	(79.7)
EBITDA margins (%)	13.4	29.5	(1610)bps	12.6	80bps

Source: Company data, I-Sec research

Valuations

We expect Shilpa's earnings to be 16.6% over FY21-FY23E with a revenue growth of 8.9% and stable EBITDA margins over the period on a low base. The announced import alert would remain a hurdle for the key growth segment of oncology formulations over the medium term as anecdotal evidence suggests it would take more than two years for the company to clear the regulatory issues. We believe performance would remain weak in near-term until USFDA resolution, though contract manufacturing of Sputnik vaccines would provide some upside. Hence, we maintain **SELL** with a target price of Rs387/share based on 20x FY23E and Rs46/share for vaccine manufacturing (earlier: Rs336/share). The stock currently trades at 38.8x FY22E and 35.2x FY23E earnings and EV/EBITDA of 27.1x FY22E and 24.5x FY23E. The company has traded at an average PE of 33.0x one-year forward earnings over the past five years.

Chart 1: 1-year forward P/E

Source: Company data, I-Sec research

Financial summary (Consolidated)

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Net Revenue	9,079	9,011	9,971	10,694
yoy Growth%	23.8	(0.7)	10.7	7.3
Total Op. Exp.	6,881	7,195	7,863	8,357
EBITDA	2,198	1,817	2,108	2,338
Margins %	24.2	20.2	21.1	21.9
yoy Growth%	41.0	(17.4)	16.1	10.9
Depreciation	438	540	635	729
EBIT	1,760	1,277	1,473	1,608
Other Income	166	284	332	365
Interest	46	219	247	258
EO Items	-	608	-	-
PBT	1,881	1,951	1,557	1,716
Tax	335	488	311	343
Tax Rate (%)	17.8	25.0	20.0	20.0
Minority Interest	(16)	(16)	(16)	(16)
Reported PAT	1,562	1,478	1,262	1,388
Adj. PAT	1,562	1,022	1,262	1,388
Net Margins (%)	17.2	11.3	12.7	13.0

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	82	82	82	82
Reserves & Surplus	13,212	14,705	15,904	17,223
Total Equity	13,294	14,787	15,985	17,304
Minority Interest	(79)	(112)	(127)	(143)
Total Debt	3,899	7,885	8,585	8,585
Deferred Liabilities	420	473	473	473
Capital Employed	17,533	23,032	24,915	26,218
Current Liabilities	2,359	3,343	3,676	3,928
Total Liabilities	19,892	26,376	28,592	30,147
Net Fixed Assets	13,167	16,518	18,883	20,154
Investments	105	212	212	212
Inventory	2,264	3,168	3,463	3,680
Debtors	2,468	2,227	2,464	2,643
Other Current Assets	1,445	3,021	3,204	3,342
Cash and Equivalents	443	1,228	366	116
Total Cur. Assets	6,621	9,645	9,497	9,781
Total Assets	19,892	26,376	28,592	30,147

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	1,881	1,951	1,557	1,716
Depreciation	438	540	635	729
Net Chg in WC	(683)	(996)	(456)	(338)
Taxes	(422)	(476)	(311)	(343)
Others	(15)	(766)	75	56
CFO	1,198	252	1,500	1,819
Capex	(3,445)	(4,119)	(3,000)	(2,000)
Net Investments made	504	51	-	-
Others	53	25	-	-
CFI	(2,888)	(4,043)	(3,000)	(2,000)
Change in Share capital	-	-	-	-
Change in Debts	1,935	4,582	700	-
Div. & Div Tax	(206)	-	(63)	(69)
Others	(538)	(6)	-	-
CFF	1,191	4,576	637	(69)
Total Cash Generated	(500)	785	(863)	(250)
Cash Opening Balance	945	446	1,231	368
Cash Closing Balance	446	1,231	368	119

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	19.2	12.5	15.5	17.0
YoY Growth%	62.3	(34.6)	23.5	10.0
Cash EPS	24.5	19.2	23.3	26.0
EBITDA - Core (%)	24.2	20.2	21.1	21.9
NPM (%)	17.2	11.3	12.7	13.0
Net Debt to Equity (x)	0.3	0.5	0.5	0.5
P/E (x)	31.3	47.9	38.8	35.2
EV/EBITDA Core (x)	23.8	30.6	27.1	24.5
P/BV (x)	3.7	3.3	3.1	2.8
EV/Sales (x)	5.8	6.2	5.7	5.4
RoCE (%)	10.0	5.9	6.1	6.3
RoE (%)	12.4	7.3	8.2	8.3
RoIC (%)	10.4	6.2	6.4	6.4
Book Value (Rs)	163	181	196	212
DPS (Rs)	2.5	-	0.8	0.9
Dividend Payout (%)	13.2	-	5.0	5.0
Div Yield (%)	0.4	-	0.1	0.1
Asset Turnover Ratio	0.5	0.4	0.4	0.4
Avg Collection days	91	95	86	87
Avg Inventory days	110	138	154	156

Source: Company data, I-Sec research

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