

Q1FY22 result review

Pharmaceuticals

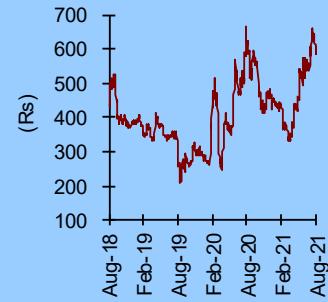
Target price: Rs387

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
FIIs/Banks	0.0	0.5	0.6
FIIs	17.2	17.1	16.2
Others	27.2	26.1	27.9

Source: BSE India

Price chart



Research Analysts:

Sriraam Rathi

sriraam.rathi@icicisecurities.com
+91 22 6637 7574

Vinay Bafna

vinay.bafna@icicisecurities.com
+91 22 6637 7339

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 an 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 20xFY23E 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

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 20xFY23E and Rs46/share for vaccine manufacturing (earlier: Rs336/share). The stock currently trades at 38.8xFY22E and 35.2xFY23E earnings and EV/EBITDA of 27.1xFY22E and 24.5xFY23E. 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

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Sriram Rathi, CA; Vinay Bafna, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.