

Pharmaceuticals

Target price: Rs410

Earnings revision

(%)	FY22E	FY23E
Sales	3.8	7.2
EPS	(5.7)	(2.1)

Target price revision

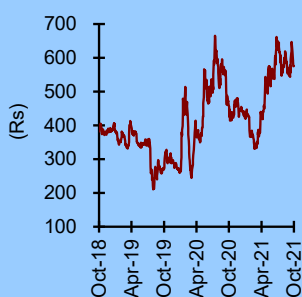
Rs410 from Rs387

Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	53.3	53.3	53.3
Institutional investors	20.6	18.8	15.2
MFs and others	3.0	2.0	2.3
FIs/Banks	0.5	0.6	0.6
FII	17.1	16.2	12.3
Others	26.1	27.9	31.5

Source: BSE India

Price chart



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INDIA

Shilpa Medicare

SELL

Maintained

Rs583

Growth comes at the cost of margins

Shilpa Medicare (Shilpa) reported Q2FY22 results above our estimates on revenue front, though net profit was lower due to restricted margins and higher tax out go. Revenue grew 5.9% YoY to Rs3.0bn (I-Sec: Rs2.4bn), however, amid negative operational leverage. EBITDA margin dropped 660bps YoY to 18.0% (I-Sec: 17.0%) and adj. PAT was down 68.4% YoY to Rs143mn. API revenues grew 9.4% YoY to Rs1.9bn and formulations revenue grew 3.5% YoY to Rs911mn with incremental sales from EU. The company is implementing the remedial measures post import alert at Jadcherla formulations unit and has incurred additional expenses of Rs46.5mn on the same. We believe performance would remain weak in near-term until USFDA resolution, though contract manufacturing for both *Sputnik V* and *ZyCoV-D* vaccines will provide some upside. Maintain SELL.

- **API drives growth:** Revenue grew 5.9% YoY to Rs3.0bn driven by 9.4% growth in API business. Despite Import alert, formulations revenues grew 3.5% owing to higher sales in EU and continued sales from the three exempted products in US. 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 grew 9.4% YoY. The proportion of low margin CRAMS business will continue to reduce. In addition to manufacturing contract for *Sputnik V* vaccine, the company has also entered in an agreement with Cadila for production-supply of the *ZyCov-D* vaccine drug substance.
- **Cost base increases significantly:** EBITDA margin was down to 18.0% due to material rise in operating costs including incremental expenses for import alert remediation. We believe higher revenue is being generated at lower margins. We expect the margin to revert to ~20-21% level once revenue base increases in coming quarters, particularly in formulations business.
- **Outlook:** Considering the import alert 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 18-24 months with growth improving thereafter (FY24E onwards). *Sputnik V* manufacturing agreement with Dr. Reddy's Lab for 100mn doses annually for three years would provide near term upside. We value this opportunity at Rs43/share. Apart from this, recent *ZyCov-D* manufacturing agreement with cadila is also likely to provide additional upside.
- **Valuations and risks:** We decrease earnings estimates by 2-6% for FY22E-FY23E due to dilution of shares amid recent fund raise and remain cautious on outlook for profitable growth. We model revenue/EBITDA/PAT CAGR of 12.8/15.2/19.0% over FY21-23E. Maintain **SELL** rating on the stock with a target price of Rs410/share (earlier Rs387) based on 22x FY23E earnings and Rs43/share for vaccine manufacturing. Key upside risks: early resolution of import alert, high value launches in formulations and early success in biosimilars.

Market Cap	Rs47.6bn/US\$636mn
Reuters/Bloomberg	SHME.BO/SLPA IN
Shares Outstanding (mn)	81.5
52-week Range (Rs)	662/330
Free Float (%)	46.7
FII (%)	12.3
Daily Volume (USD/'000)	6,528
Absolute Return 3m (%)	(7.4)
Absolute Return 12m (%)	30.5
Sensex Return 3m (%)	13.0
Sensex Return 12m (%)	51.2

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	9,079	9,011	10,346	11,466
Net Income (Rs mn)	1,562	1,022	1,267	1,447
EPS (Rs)	19.2	12.5	14.6	16.7
% Chg YoY	62.3	(34.6)	16.5	14.2
P/E (x)	30.4	46.5	39.9	35.0
CEPS (Rs)	24.5	19.2	21.6	24.9
EV/E (x)	23.2	30.2	26.8	23.6
Dividend Yield (%)	0.4	-	0.1	0.1
RoCE (%)	10.0	5.9	5.9	5.9
RoE (%)	12.4	7.3	7.5	7.4

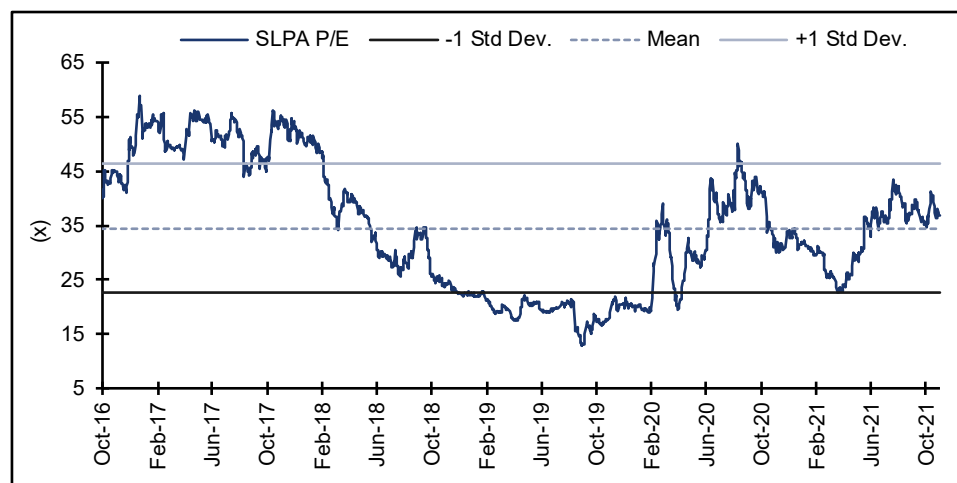
Table 1: Q2FY22 performance*(Rs mn, year ending March 31)*

	Q2FY22	Q2FY21	YoY % Chg	Q1FY22	QoQ % Chg
Net Sales	2,953	2,789	5.9	2,374	24.4
EBITDA	532	687	(22.6)	319	66.7
Other income	1	92	(98.5)	12	(88.8)
PBIDT	533	779	(31.5)	331	60.9
Depreciation	192	127	51.0	176	8.8
Interest	116	40	192.9	103	12.3
Extra ordinary income/ (exp.)	89	-	-	-	-
PBT	314	612	(48.6)	52	508.0
Tax	116	160	(27.7)	36	224.9
Minority Interest	(1)	(2)		0	
Reported PAT	200	454	(56.0)	16	1,156.9
Adjusted PAT	143	454	(68.4)	16	802.1
EBITDA margins (%)	18.0	24.6	(660)bps	13.4	460bps

Source: Company data, I-Sec research

Valuations

We expect Shilpa's earnings to grow 19.0% over FY21-FY23E with a revenue growth of 12.8% 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 and ZyCoV-D* vaccines would provide some upside. We maintain **SELL** with a target price of Rs410/share based on 22x FY23E and Rs43/share for vaccine manufacturing (earlier: Rs387/share). The stock currently trades at 40.2x FY22E and 35.2x FY23E earnings and EV/EBITDA of 27.0x FY22E and 23.8x FY23E. The company has traded at an average PE of 34.5x 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	10,346	11,466
yoy Growth%	23.8	(0.7)	14.8	10.8
Total Op. Exp.	6,881	7,195	8,236	9,053
EBITDA	2,198	1,817	2,110	2,412
Margins %	24.2	20.2	20.4	21.0
yoy Growth%	41.0	(17.4)	16.1	14.3
Depreciation	438	540	612	712
EBIT	1,760	1,277	1,498	1,700
Other Income	166	284	332	365
Interest	46	219	265	276
EO Items	-	608	-	-
PBT	1,881	1,951	1,564	1,789
Tax	335	488	313	358
Tax Rate (%)	17.8	25.0	20.0	20.0
Minority Interest	(16)	(16)	(16)	(16)
Reported PAT	1,562	1,478	1,267	1,447
Adj. PAT	1,562	1,022	1,267	1,447
Net Margins (%)	17.2	11.3	12.2	12.6

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	87	87
Reserves & Surplus	13,212	14,705	18,878	20,253
Total Equity	13,294	14,787	18,965	20,340
Minority Interest	-79	-112	-127	-143
Total Debt	3,899	8,491	9,191	9,191
Deferred Liabilities	420	473	473	473
Capital Employed	17,533	23,639	28,502	29,860
Current Liabilities	2,359	2,737	3,228	3,621
Total Liabilities	19,892	26,376	31,730	33,482
Net Fixed Assets	13,167	16,518	18,906	20,194
Investments	105	212	212	212
Inventory	2,264	3,168	3,627	3,987
Debtors	2,468	2,227	2,557	2,833
Other Current Assets	1,445	3,021	3,276	3,489
Cash and Equivalents	443	1,228	3,152	2,767
Total Cur. Assets	6,621	9,645	12,612	13,076
Total Assets	19,892	26,376	31,730	33,482

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	1,564	1,789
Depreciation	438	540	612	712
Net Chg in WC	(683)	(996)	(655)	(544)
Taxes	(422)	(476)	(313)	(358)
Others	(15)	(766)	104	87
CFO	1,198	252	1,312	1,687
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	-	-	2,970	-
Change in Debts	1,935	4,582	700	-
Div. & Div Tax	(206)	-	(63)	(72)
Others	(538)	(6)	-	-
CFF	1,191	4,576	3,606	(72)
Total Cash Generated	(500)	785	1,919	(386)
Cash Opening Balance	945	446	1,231	3,155
Cash Closing Balance	446	1,231	3,155	2,769

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	19.2	12.5	14.6	16.7
YoY Growth%	62.3	(34.6)	16.5	14.2
Cash EPS	24.5	19.2	21.6	24.9
EBITDA - Core (%)	24.2	20.2	20.4	21.0
NPM (%)	17.2	11.3	12.2	12.6
Net Debt to Equity (x)	0.3	0.5	0.3	0.3
P/E (x)	30.4	46.5	39.9	35.0
EV/EBITDA Core (x)	23.2	30.2	26.8	23.6
P/BV (x)	3.6	3.2	2.7	2.5
EV/Sales (x)	5.6	6.1	5.5	5.0
RoCE (%)	10.0	5.9	5.9	5.9
RoE (%)	12.4	7.3	7.5	7.4
RoIC (%)	10.4	6.0	6.4	6.6
Book Value (Rs)	163	181	218	234
DPS (Rs)	2.5	-	0.7	0.8
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	84	86
Avg Inventory days	110	138	151	153

Source: Company data, I-Sec research

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