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Q2FY23 result review and reco change

Pharmaceuticals

Target price: Rs292

Earnings revision

(%)	FY23E	FY24E
Sales	1.7	1.6
EPS	(64.4)	(20.4)

Target price revision

Rs292 from Rs346

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	50.0	50.0	50.0
Institutional investors	16.3	16.4	16.2
MFs and others	1.0	1.0	1.0
FIs/Banks	0.0	0.0	0.0
FII	15.3	15.4	15.2
Others	33.7	33.6	33.8

Source: BSE India

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Research Analysts:

Vinay Bafna

vinay.bafna@icicisecurities.com
+91 22 6807 7339

Rohan John

rohan.john@icicisecurities.com
+91 22 6807 7453

INDIA



Shilpa Medicare

HOLD

Upgrade from *Reduce*
Rs291

Margin woes continue

Shilpa Medicare's (Shilpa) Q2FY23 performance was a big miss on profitability front. Revenue declined 11.0% YoY to Rs2.6bn (I-Sec: Rs2.6bn) due to decline in sales in formulation segments. EBITDA margin at 4.9% (I-Sec: 12.0%) contracted 1,340bps YoY and 320bps QoQ. Company reported a loss of Rs187mn (I-Sec: profit of Rs59mn) in Q2FY23. API+CRAMS revenue remained flattish YoY to Rs2.0bn, while formulations revenue fell 28.5% YoY to Rs637mn. Shilpa is hopeful of USFDA re-inspection of the Jadcherla formulations unit, which has been under import alert. While revenues are set to grow at a steady pace, USFDA resolution is critical for faster growth. So, we remain cautious on the stock. However, significant correction (~25% in the past 3months) has made valuations fair, and hence, we upgrade the stock to HOLD from *Reduce* with target price of Rs292/share.

- **Business review:** Revenue declined 11.0% YoY to Rs2.6bn due to underperformance in formulations segment. API+CRAMS remained flattish YoY with inclusion of CRAMS income, with onco API and CRAMS reporting declines of 13.2% and 66.7%, respectively, while non-onco API grew 66.4% YoY. Formulation sales fell 28.5% YoY with sales in US, EU and India falling 20.2%, 46.2% and 10.3%, respectively, YoY. Import alert at Jadcherla unit remains an overhang for US formulations as new approvals will get delayed (~13-15 pending ANDAs). Revenue generation for biologicals segment has started with the company entering into CDMO agreements with the launch of *Adalimumab* in Q4FY23. Shilpa reported its worst EBITDA margin in several years at 4.6% which contracted 1.340bps YoY and 320bps QoQ following the sharp decline in gross margin (-930bps YoY, -450bps QoQ) due to unfavourable revenue mix, pricing pressure and high raw material costs. We expect the elevated cost environment to ease with new launches in coming quarters supporting profitability.
- **Key concall highlights:** 1) Import alert: completed all remediation activities as suggested by third-party consultants, 2) *Tranexamic Acid topical hemostatic spray* – target for India and RoW market currently. 3) *Albumin*: It is a product which is always in shortage and is targeting CY24 launch.
- **Outlook:** Considering the import alert, we estimate revenue growth to be limited to 8.4% CAGR over FY22-FY25E. However, it will translate to operating leverage resulting in 15.0% EBITDA CAGR with healthy margin expansion. High debt and underperforming assets are likely to keep RoE and RoCE depressed at ~4-5%.
- **Valuations and risks:** We cut our EPS estimates by 20-64% over FY23E-FY24E to factor in high costs, price erosion and lower revenue growth resulting in negative operating leverage. We remain cautious on the stock. However, significant correction (~25% in the past 3months) has made valuations fair, and hence, we upgrade the stock to **HOLD** from *Reduce* with target price of Rs292/share based on 21xSep'24E earnings (earlier: Rs346/share). **Key upside risks:** Early resolution of the import alert, high-value launches in formulations, and quick success in biosimilars. **Key downside risks:** Delay in new launches and regulatory hurdles.

Market Cap	Rs25.2bn/US\$310mn
Reuters/Bloomberg	SHME.BO/SLPA IN
Shares Outstanding (mn)	86.8
52-week Range (Rs)	593/291
Free Float (%)	50.0
FII (%)	15.2
Daily Volume (USD/'000)	1,069
Absolute Return 3m (%)	(26.6)
Absolute Return 12m (%)	(48.6)
Sensex Return 3m (%)	3.9
Sensex Return 12m (%)	2.9

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	11,455	12,295	13,206	14,576
Net Income (Rs mn)	555	343	996	1,418
EPS (Rs)	6.4	3.9	11.5	16.3
% Chg YoY	(49.0)	(38.2)	190.6	42.3
P/E (x)	45.5	73.7	25.4	17.8
CEPS (Rs)	15.6	14.1	22.8	28.8
EV/E (x)	16.2	23.3	14.2	11.2
Dividend Yield (%)	0.4	-	-	-
RoCE (%)	3.3	2.5	4.7	5.9
RoE (%)	3.4	1.9	5.2	7.0

Please refer to important disclosures at the end of this report

Table 1: Q2FY23 performance

(Rs mn, year ending March 31)

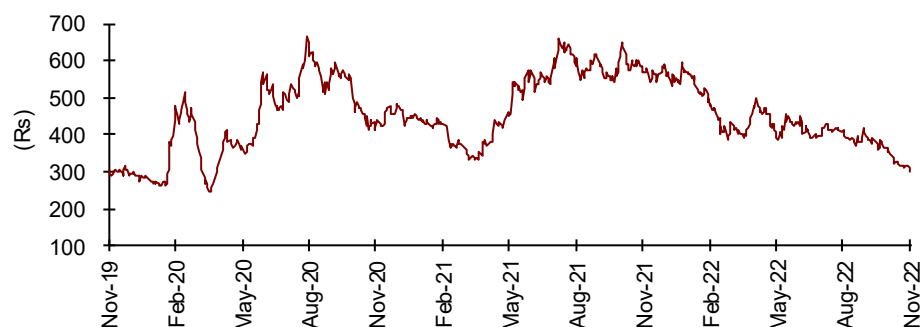
	Q2FY23	Q2FY22	YoY % Chg	Q1FY23	QoQ % Chg
Net Sales	2,629	2,953	(11.0)	2,612	0.7
EBITDA	122	532	(77.0)	206	(40.7)
Other income	22	1	1,480.2	74	(70.3)
PBITD	144	533	(73.0)	279	(48.5)
Depreciation	233	192	21.5	224	4.0
Interest	135	116	16.3	96	40.5
Extra ordinary income/ (exp.)	-	89		-	
PBT	(224)	314		(41)	
Tax	(38)	116		(64)	
Minority Interest	1	(1)		15	
Reported PAT	(187)	200		8	
Adjusted PAT	(187)	143		8	
EBITDA margins (%)	4.6	18.0	-1340bps	7.9	-320bps

Source: Company data, I-Sec research

Valuations

We expect Shilpa's earnings to grow at 36.7% over FY22-FY25E with revenue growth of 8.4%. EBITDA is expected to grow at a CAGR of 15% over FY22-FY25E driven by operating leverage. The import alert would remain a hurdle for the key growth segment of oncology formulations over medium term as anecdotal evidence suggests it would take more than two years for the company to clear the regulatory issues. We believe Shilpa's performance would remain steady going forward, with the USFDA resolution remaining key to faster growth. However, significant correction (~25% in the past 3months) has made valuations fair, and hence, we upgrade the stock to **HOLD** from **Reduce** with target price of Rs292/share based on 21xSep'24E earnings (earlier: Rs346 based on 24xFY24E earnings). The stock currently trades at 73.7xFY23E and 25.4xFY24E earnings and EV/EBITDA of 23.3xFY23E and 14.2xFY24E. It has traded at an average P/E of 53.3x 1-year forward earnings over the past five years.

Price chart



Source: Bloomberg

Financial summary (consolidated)

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Total Net Revenue	11,455	12,295	13,206	14,576
YoY Growth%	-	-	-	-
Total Op. Exp.	11,455	12,295	13,206	14,576
EBITDA	27.1	7.3	7.4	10.4
Margins %	9,417	10,825	10,772	11,473
YoY Growth%	2,039	1,470	2,434	3,103
Depreciation	17.8	12.0	18.4	21.3
EBIT	12.2	(27.9)	65.6	27.5
Other Income	798	881	981	1,081
Interest	1,241	588	1,453	2,021
EO Items	106	295	311	328
PBT	412	426	436	459
Tax	88	-	-	-
Tax Rate (%)	1,023	457	1,328	1,890
Minority Interest	417	114	332	473
Reported PAT	40.8	25.0	25.0	25.0
Adj. PAT	(1)	-	-	-
Net Margins (%)	607	343	996	1,418

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid-up Capital	87	87	87	87
Reserves & Surplus	18,135	18,478	19,474	20,891
Total Equity	18,222	18,565	19,561	20,978
Minority Interest	(110)	(110)	(110)	(110)
Total Debt	8,073	9,073	9,573	10,073
Deferred Liabilities	547	547	547	547
Capital Employed	26,732	28,075	29,571	31,488
Current Liabilities	2,023	2,504	2,563	2,821
Total Liabilities	28,755	30,579	32,134	34,310
Net Fixed Assets	18,480	19,599	20,617	21,536
Investments	342	342	342	342
Inventory	3,552	4,084	4,064	4,328
Debtors	3,863	4,146	4,454	4,916
Other Current Assets	2,179	2,260	2,349	2,482
Cash and Equivalents	338	148	307	705
Total Cur. Assets	9,932	10,638	11,174	12,431
Total Assets	28,755	30,579	32,134	34,310

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT (Adj. for Extraordinary)	1,023	457	1,328	1,890
Depreciation	798	881	981	1,081
Net Chg in WC	(720)	(448)	(353)	(655)
Taxes	(345)	(114)	(332)	(473)
Others	295	459	471	513
CFO	1,051	1,235	2,095	2,357
Capex	(3,312)	(2,000)	(2,000)	(2,000)
Net Investments made	143	-	-	-
Others	399	-	-	-
CFI	(2,770)	(2,000)	(2,000)	(2,000)
Change in Share capital	2,968	-	-	-
Change in Debts	(1,630)	1,000	500	500
Div. & Div Tax	(90)	-	-	-
Others	(420)	(426)	(436)	(459)
CFF	829	574	64	41
Total Cash Generated	(890)	(191)	160	398
Cash Opening Balance	1,231	341	151	310
Cash Closing Balance	341	151	310	708

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	6.4	3.9	11.5	16.3
YoY Growth%	(49.0)	(38.2)	190.6	42.3
Cash EPS	15.6	14.1	22.8	28.8
EBITDA - Core (%)	17.8	12.0	18.4	21.3
NPM (%)	4.8	2.8	7.5	9.7
Net Debt to Equity (x)	0.4	0.5	0.5	0.4
P/E (x)	45.5	73.7	25.4	17.8
EV/EBITDA Core (x)	16.2	23.3	14.2	11.2
P/BV (x)	1.4	1.4	1.3	1.2
EV/Sales (x)	2.9	2.8	2.6	2.4
RoCE (%)	3.3	2.5	4.7	5.9
RoE (%)	3.4	1.9	5.2	7.0
RoIC (%)	3.3	2.5	4.8	6.0
Book Value (Rs)	210	214	225	242
DPS (Rs)	1.0	-	-	-
Dividend Payout (%)	14.8	-	-	-
Div Yield (%)	0.4	-	-	-
Asset Turnover Ratio	0.4	0.4	0.4	0.4
Avg Collection days	97	119	119	117
Avg Inventory days	130	129	138	133

Source: Company data, I-Sec research

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