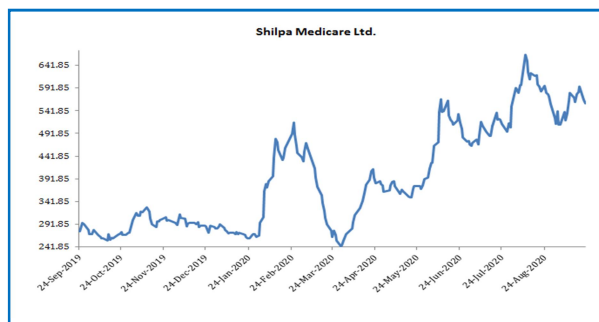


Shilpa Medicare Ltd. (SML)

Industry	Pharmaceuticals & Drugs
No. of Shares (Crore)	8.15
Face value (Rs)	1.00
Mkt. Cap (Rs. Crore)	4,552.87
Price (22/09/2020)	558.45
Book Value (Rs)	173.68
P/BV	3.22
BSE Code	530549
NSE Code	SHILPAMED
Bloomberg	SLPA.IN
Reuters	SHME.BO
Avg. Weekly Volume (BSE)	107,776
52 W H/L (Rs)	692.45/240.30
Shareholding Pattern	%
Indian Promoters	53.80
Foreign Promoters	0.00
Institutions	7.81
FPI	19.03
Non - Institutions	14.32
Bodies Corporate	5.04
Total	100.00
(As on June 30, 2020)	
Recommendation	
BUY	



Company Background

Shilpa Medicare Ltd (SML) started its operations as API manufacturer in 1987 at Raichur, Karnataka. SML deals in high-quality APIs, intermediates, formulations, novel drug delivery systems, biotechnology and specialty chemicals among others. SML specializes in oncology, Anti-RetroVirals (ARV) and other therapeutic areas such as multiple sclerosis, immunosuppressant therapies. SML operates six manufacturing facilities across Raichur, Telangana, Hubli and Austria and has 4 R&D units in Raichur, Dharwad, Bangalore and Hubli. The API segment constitutes 55% & formulations segment 27% of standalone FY20 revenue.

Investment Rationale

- SML range includes 44 oncology and non-oncology APIs. Leveraging on strength in the API space, SML has forward integrated into high-margins formulation business backed by sturdy product pipeline of 16 injectable dosage forms, 19 oral solid dosage forms and 13 formulations under SML's subsidiary Shilpa Therapeutics Pvt Ltd.
- SML supplies more than 30 oncology APIs for various regulated markets including USA, Europe, Japan, South Korea, Russia, Mexico, Brazil, and other emerging markets.
- SML, successfully entered US Generic formulations market through the launch of Capacitabine & Azacitadine in FY16-17. Revenue from this segment recorded CAGR of 46.48% since 2018 to Rs.191crs in FY20. This has also led to change in revenue contribution of this segment from 16% in FY18 to 27% in FY20. Currently, SML formulations product pipe line has total 22 ANDA (abbreviated new drug application) of which 13 had been approved and 9 pending approvals as on June 30, 2020.
- SML had received two Establishment inspection report for API unit & one for formulations. The company has undergone 8 USFDA inspections till date at its Raichur (API) and Jadcherla (Formulations) plants.
- SML would continue to explore organic and inorganic growth to strengthen manufacturing and research. In FY21, the company acquired FTF Pharma an integrated drug development company which would enhance its R&D facilities as well as increase its product portfolio.
- For the period of FY18-20, SML's consolidated net sales and net profit grew at a CAGR of ~7% and ~22% respectively. In Q1FY21 SML's consolidated net sales grew by 38.44%, its operating profit and PAT grew by 128.30% & 488.35% respectively due to its high margin formulations segment contribution to sales. In FY20, net sales and PAT grew by 23.80% & 39.10% respectively. The company has timely rewarded its stakeholder with handsome dividend.

Recommendation

A leading player in APIs and an emerging player in oncology formulations, with robust profit and operating margins, backed by strong product portfolio bode well for company's future. SML has lined up investments over the next two years towards capacity enhancements, including de-bottlenecking. In FY20, The debt/equity ratio remained low at around 0.2x thus reflecting strong balance sheet. At CMP of Rs. 558.45 the stock trades at ~19 times of its FY22e earnings. **Hence, we recommend a BUY on the stock with a Target Price of Rs. 685 with an upside potential of ~23% from the current level with an investment horizon of 9-12 months.**

Particulars (In Rs.Crs)	Q1FY21	Q1FY20	Var%	FY20	FY19	Var%	FY18	FY17
Net Sales	222.87	160.99	38.44	907.91	733.39	23.80	788.83	779.16
Operating Profit	65.75	28.80	128.30	214.52	154.00	39.30	151.23	161.61
Other Income	5.48	1.98	176.77	22.22	15.56	42.81	32.62	29.34
Total expenditure	157.11	132.19	18.85	693.39	579.39	19.68	637.60	617.55
Profit After Tax	86.31	15.74	448.35	156.15	112.26	39.10	105.24	107.58
PBIDTM%	29.50	17.89	64.91	23.63	21.00	12.52	19.17	20.74
PATM%	38.86	9.07	328.45	17.20	15.31	12.36	13.34	13.81
EPS (Rs.)	10.59	1.93	448.70	19.15	13.77	39.07	12.91	13.43

SML'S Key Strategies

Strategic Priorities	Major - Achievements during the year	Plans for the forthcoming year / years
Capacity Expansion / Capex to aid future growth in APIs and Formulations and R&D.	Increased capacity of API facility for Tranexamic Acid by nearly 100%. In FY2020-21 acquired FTF Pharma an integrated drug development company.	In the process of debottlenecking oncology production blocks by enhancing capacity by 40-70%.
Launching new products/formulations across the globe.	Launched the first Indian Branded Generic of Lenvatinib Mesylate under the brand name Lenshil which is used for the treatment of differentiated thyroid cancer (DTC) and hepatocellular carcinoma.	Pursuing growth from Biologicals, oral dissolving films, transdermal products and dermatological formulations.
Expanding sales distribution network for generic formulations.	Stepping into FY 2020-21 established wholly owned subsidiaries in Canada & Spain.	Expanding sales partnerships for sales of generic formulations. Developing a marketing team across Russia, Europe, Brazil, and other geographies.
8-9 ANDA filings every year.	In FY 19-20, SML filed four ANDAs and one NDA including one as a First to File (FTF). Received approval (including tentative approval) for its ANDAs for the generic versions of Pirfenidone, Zoledronic acid, Erlotinib & Busulfan and Bortezomib in FY 2019-20.	16 ANDAs pending approval as on December 31, 2019. Expected to launch soon in USA.
Research focus on developing APIs with non-infringing process and development of finished dosage forms.	As on 31st March, 2020 SML total patents filing stands at 357 with 47 granted. SML Formulation product pipeline consists of 61 with 38 approvals.	

Source: AUM Research, Company annual report

Financials

Consolidated Quarterly Results (Value in Rs. Crs)			
Particulars	Q1FY21	Q1FY20	Var%
Net Sales	222.87	160.99	38.44
Total Expenditure	157.11	132.19	18.85
PBIDT (Excl OI)	65.75	28.80	128.30
Other Income	5.48	1.98	176.77
Operating Profit	71.23	30.78	131.42
Interest	4.00	1.46	173.97
Exceptional Items	60.84	0.00	na
PBDT	128.07	29.32	336.80
Depreciation	12.33	10.66	15.67
Tax	29.14	4.06	617.73
Profit After Tax	86.60	14.61	492.74
Minority Interest	0.33	0.78	-57.69
Share of Associate	-0.62	0.36	-272.22
Consolidated Net Profit	86.31	15.74	448.35
EPS (Rs.)	10.59	1.93	448.35

Consolidated Income Statement (Value in Rs. Crs)				
Particulars	FY17	FY18	FY19	FY20
Net Sales & Other Operating Income	779.16	788.83	733.39	907.91
Total Expenditure	617.55	637.60	579.39	693.39
PBIDT (Excl OI)	161.61	151.23	154.00	214.52
Other Income	29.34	32.62	15.56	22.22
Operating Profit	190.95	183.84	169.56	236.74
Interest	3.13	2.66	3.68	4.56
PBDT	187.82	181.18	165.88	232.18
Depreciation	30.64	37.22	42.06	43.78
Exceptional Income/ Expense	-4.54	0.00	19.87	0.00
Tax	42.04	33.91	26.18	33.49
Profit After Tax	110.59	110.05	117.52	154.91
Minority Interest	3.12	2.38	2.76	1.59
Share of Associate	-6.14	-7.19	-8.02	-0.35
Consolidated Net Profit	107.58	105.24	112.26	156.15
EPS (Rs.)	13.43	12.91	13.77	19.15

Source: Company, Ace Equity, AUM Research

Consolidated Balance Sheet (Value in Rs. Crs)				
Particulars	FY17	FY18	FY19	FY20
EQUITY AND LIABILITIES				
Share Capital	8.01	8.15	8.15	8.15
Share Warrants & Outstandings	0.00	0.00	0.00	0.00
Total Reserves	978.88	1076.88	1189.43	1321.21
Shareholder's Funds	986.90	1085.03	1197.58	1329.36
Minority Interest	-2.84	-5.22	-7.62	-7.91
Secured Loans	141.20	67.09	80.39	164.48
Unsecured Loans	1.30	1.03	0.70	0.53
Deferred Tax Assets / Liabilities	85.11	59.30	47.67	41.98
Other Long Term Liabilities	6.75	5.74	16.08	23.76
Long Term Provisions	16.89	20.32	21.77	26.17
Total Non-Current Liabilities	251.26	153.48	166.62	256.94
Trade Payables	111.86	103.74	80.72	89.46
Other Current Liabilities	28.03	59.59	81.62	142.11
Short Term Borrowings	92.41	98.12	86.58	165.27
Short Term Provisions	4.60	4.39	4.52	10.90
Total Current Liabilities	236.90	265.84	253.44	407.74
Total Liabilities	1472.21	1499.13	1610.02	1986.13
ASSETS				
Gross Block	704.89	793.24	853.16	986.42
Less: Accumulated Depreciation	212.96	259.04	295.15	335.98
Net Block	491.93	534.20	558.01	650.44
Capital Work in Progress	89.66	135.06	304.46	482.08
Intangible assets under development	50.85	74.79	124.66	184.17
Non Current Investments	27.99	20.79	2.25	10.45
Long Term Loans & Advances	77.09	37.47	48.75	32.42
Other Non Current Assets	4.80	24.86	26.84	5.78
Total Non-Current Assets	742.33	827.16	1064.96	1365.35
Currents Investments	224.62	119.54	0.00	0.00
Inventories	190.00	188.71	187.67	226.43
Sundry Debtors	170.93	220.27	203.73	243.72
Cash and Bank	100.39	73.83	94.54	44.56
Other Current Assets	22.00	26.08	45.04	76.81
Short Term Loans and Advances	21.95	43.54	14.08	29.25
Total Current Assets	729.88	671.97	545.06	620.78
Net Current Assets (Including Current Investments)	492.98	406.13	291.62	213.04
Total Assets	1472.21	1499.13	1610.02	1986.13

Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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