AXIS DIRECT

BIOCON

PHARMACEUTICALS

4 MAY 2017 | Quarterly Update

HOLD

Target Price: Rs 1,000

EBITDA miss; Pitstop on road to transition

EBITDA (down 20% YoY) was 35% below consensus and our estimates due to weak sales across segments and higher other expenses (led by forex loss). While Biocon maintained FY19 sales guidance at USD 1 bn, it was cautiously optimistic for FY18 as commercialization of Malaysia facility would impact margins in P&L (costs capitalized earlier) whereas upside of Biosimilar sales in EM is likely to pick up in H2FY18. It expects the tax rate to increase to 24-25% (vs. 22% in past).

We cut FY18/19E EPS estimates by ~8%, as we expect weak H1FY18, higher operating expense, depreciation and tax. However, Biocon remains in a sweet spot given its strong biosimilar pipeline. Filing of Insulin Glargine and Adalimumab in the US are the next key triggers. We maintain **HOLD** with a revised SOTP TP of Rs 1,000 (22x FY19E EPS + R&D value of Rs 170) vs. Rs 1,040 earlier.

CMP	: Rs 1,105
Potential Upside	: -10%

MARKET DATA

No. of Shares	: 200 mn
Free Float	: 39%
Market Cap	: Rs 221 bn
52-week High / Low	: Rs 1,188 / Rs 570
Avg. Daily vol. (6mth)	: 7,90,272 shares
Bloomberg Code	: BIOS IB Equity
Promoters Holding	: 61%
FII / DII	: 20% / 3%

- **Weak operating performance:** Muted sales across segments – small molecules (-1% YoY), domestic formulation (-1% YoY), Biologics (4% YoY) – led by elongated approval timelines in some EMs and discontinuance of some in-licensed products. Research services' (Syngene) revenue declined 14% YoY due to impact of fire. Licensing income was also muted, as it was primarily booked in last 9MFY17. While 20% YoY decline in EBITDA was led by forex loss (restatement of debtors, etc), adjusted PAT grew 18% on account of lower tax (R&D incentives and deferred tax). While Biocon reported Q4FY17 EBITDA margin of 17.9% (-313 bps YoY/-781 bps QoQ), adjusted EBITDA margin (ex-licensing, ex forex loss) stood at 18.7% in Q4'17 (-80 bps QoQ in Q3'17 and -40 bps YoY)
- **Malaysia facility brings upfront costs, sales to pick up in H2**: Biocon has stopped capitalization of Malaysia facility costs post Q4'17. Fixed operating costs of USD30 mn (incl. interest costs) + USD18 mn depreciation+ raw material costs to be expensed in the P&L from Q1'18. Although ~USD 20mn annual Malaysia tender sales have started, other EM^ sales are expected to begin shortly. Despite increasing sales, higher costs at Malaysia facility would keep margin under check in near to medium term until sales to developed markets (US/EU) commence *(Continued on pg 2...)*

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	33,370	38,760	45,917	57,844
Adj PAT (Rs mn)	4,030	6,200	5,398	7,549
Con. EPS* (Rs)	-	-	30.9	31.9
EPS (Rs)	20.2	31.0	27.0	37.7
Change YOY (%)	0.2	53.8	(12.9)	39.8
P/E (x)	54.9	35.7	41.0	29.3
RoE (%)	11.0	14.0	10.6	13.5
RoCE (%)	10.5	12.1	11.1	14.4
EV/E (x)	32.2	25.3	21.6	16.2
DPS (Rs)	5.0	3.0	5.0	5.0

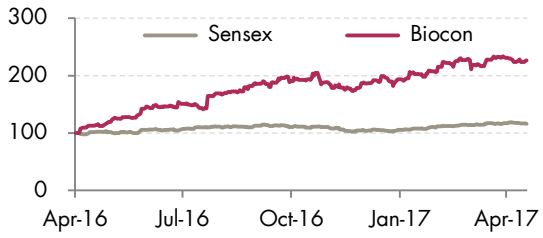
Source: *Consensus broker estimates, Company, Axis Capital

#European Medicines Agency^Emerging market

R&D value – Biosimilar pipeline

Molecule	EU	US	Total
Insulin Glargine	18	49	66
Trastuzumab	13	18	30
Adalimumab	9	26	35
Pegfilgrastim	5	34	38
Total	44	125	170

Price performance



Prakash Agarwal Executive Director - Pharmaceuticals
prakash.agarwal@axiscap.in+91 22 4325 1147

Gaurav TinaniAVP - Pharmaceuticals
gaurav.tinani@axiscap.in+91 22 4325 1132

[...Continued from page 1]

- **While strong biosimilar pipeline, R&D progressing slower than expected:** We highlight that Biocon remains in a sweet spot addressing USD 61 bnbiosimilar opportunity (exhibit 8). Filing for Trastuzumab and Peg-filgrastim was accepted by EU and US regulators in FY17 and Biocon now guides for filing of insulin Glargine (US) and Adalimumab (US/EU) in FY18 (vs. earlier filing guidance in FY17). It has guided for gross R&D spends of 12-15% (of Biopharma sales) split into over 50% in biosimilars/insulins and 30-40% towards novel pipeline

Exhibit 1: Muted performance across segments

(Rs mn)	% sales	Q4'16	Q3'17	Q4'17	YoY chg	QoQ chg	FY16	FY17	YoY chg
Small molecules	42%	3,850	3,830	3,810	-1%	-1%	13,620	15,030	10%
Biologics	13%	1,140	1,200	1,190	4%	-1%	3,510	4,420	26%
Branded Formulations	14%	1,320	1,230	1,310	-1%	7%	5,570	5,500	-1%
Research Services	30%	3,160	3,170	2,720	-14%	-14%	10,600	11,380	7%
Licensing fees	1%	230	790	120	-48%	-85%	1,210	1,310	8%
Total Revenue		**9,700**	**10,220**	**9,150**	**-6%**	**-10%**	**34,510**	**37,640**	**9%**
Total (ex-one off & Research Services)		**6,540**	**7,050**	**6,430**	**-2%**	**-9%**	**25,471**	**28,601**	**12%**
EBITDA margin (%)									
Biocon		21.1%	25.7%	17.9%	-313 bps	-781 bps	21.7%	23.2%	156 bps
Syngene		35.4%	34.0%	34.5%	-95 bps	50 bps	34.4%	33.9%	-42 bps
Biocon (ex-Syngene)		**13.3%**	**21.3%**	**9.9%**	**-338 bps**	**-1141 bps**	**15.5%**	**18.2%**	**265 bps**
Biocon (ex-Licensing & Syngene, incl. R&D)		22.4%	22.0%	16.8%	-563 bps	-522 bps	20.6%	20.1%	-45 bps

Source: Company, (As per Indian GAAP) Note : FY16 includes one-off of Rs 440mn as reservation fee towards Fidoximycin supply

Exhibit 2: EBITDA margin contracted due to forex losses, higher business development costs

(Rs mn)	Q4'16	Q3'17	Q4'17	YoY chg	QoQ chg
Net Sales	9,699	10,220	9,150	-6%	-10%
Gross margins	58.6%	60.2%	58.1%	-43 bps	-203 bps
Employee expenses	1,606	1,770	1,780	11%	1%
R&D expenses	998	850	650	-35%	-24%
R&D expenses (% of biopharma sales)	15%	12%	10%	-515 bps	-195 bps
Other expenses	1,035	900	1,250	21%	39%
EBITDA	**2,042**	**2,630**	**1,640**	**-20%**	**-38%**
EBITDA margins (%)	**21.1%**	**25.7%**	**17.9%**	**-313 bps**	**-781 bps**
Adj EBITDA (adj. for Licensing Income)	**1,812**	**1,840**	**1,520**	**-16%**	**-17%**
Adj EBITDA margin (%)	**19.1%**	**19.5%**	**16.8%**	**-230 bps**	**-268 bps**
Other income	336	590	470	40%	-20%
Depreciation	628	690	710	13%	3%
Interest	14	90	50	257%	-44%
PBT	1,736	2,440	1,350	-22%	-45%
Tax	459	540	-10	-102%	-102%
Tax rate	26%	22%	-1%	-2718 bps	-2287 bps
Minority Interest	229	190	180	-21%	-5%
Adjusted PAT	**1,048**	**1,720**	**1,240**	**18%**	**-28%**
Extra ordinary income/ (exp.)	2,561	0	0		
Reported PAT	**3,609**	**1,720**	**1,240**	**-66%**	**-28%**

Source: Company (As per Indian GAAP), Q4'17 EBITDA margin adjusted for fx loss, ex-licensing income stood at 18.7%; Q4FY16 reported PAT includes EO income of Rs 2.5bn (on account of deferred revenue recognition pertaining to rh-insulin development and associated taxes)

Exhibit 3: R&D expenses in Q4 was lower at ~10% of biopharma sales

Rs mn	Q4'16	Q3'17	Q4'17	YoY chg	QoQ chg	FY16	FY17	YoY chg
GrossR&D expense	1,524	1,000	980	-36%	-2%	4,270	4,020	-6%
Revenue (expensed in P&L)	998	850	650	-35%	-24%	2,746	2,670	-3%
% of biopharma sales	15.3%	12.1%	10.1%	-515 bps	-195 bps	11.3%	9.9%	-138 bps
Capital	526	150	330	-37%	120%	1,524	1,350	-11%

Source: Company

Conference call highlights

Guidance

- Cautiously optimistic outlook for FY18, as commercialization of Malaysia facility would have an USD 48mn cost (USD 30mn operating fixed cost plus USD 18mn in depreciation) in P&L (as was capitalized earlier) whereas the upside of Biosimilar sales in EM is likely to pick up in H2FY18 due to uncertainty of approval timelines. Biocon still expects double digit revenue growth in FY18. Maintains FY19 Biosimilars revenue guidance of USD 200 mn
- Gross R&D spend (incl capitalized) to be ~12% - 15% of Biopharma sales in FY18 (~15% of FY17 Biopharma sales)
- Capex: FY18at ~Rs 7bn (ex-Syngene). Capex would remain high for the next 4-5 years (new biological facility + ~USD200mn for phase 2 expansion of Insulin facility in Malaysia)
- Tax rate: 24%-25% in FY18 (22% in FY17; 16.5% including deferred tax) as Biocon's India facilities are losing beneficial tax breaks

Biosimilar update

- **Trastuzumab:** Biologic license application was accepted by the USFDA in Jan'17. Biocon has received a Target Action Date of September 2017 from the USFDA. Genentech (Roche) and Mylan (partner Biocon) have agreed to the terms of a global confidential patent settlement for Herceptin® (Trastuzumab) which provides Mylan with global licenses for its Trastuzumab product. Mylan anticipates potentially being the 1st company to launch a biosimilar to Herceptin in the US
- **Pegfilgrastim:** Second biosimilar filing accepted by USFDA in Feb 2017. The anticipated FDA goal date set under the Biosimilar User Fee Act (BsUFA) is Oct 9, 2017
- **Insulin Glargine:** Marketing Authorization Application (MAA) accepted by the European Medicines Agency for review in Q3. US filing expected in the near term. Regulatory submissions for Insulin Glarginemade in Australia and Canada
- **Adalimumab:** Continues to move towards regulatory submissions for biosimilarAdalimumab. Expected filing in FY18 for development markets
- **Bevacizumab**: Completed ROW-focussed Phase 3 clinical trial in metastatic colorectal cancer, and submitted its Marketing Authorization Application in India. It has commenced an additional global Phase 3 trial in non- small cell lung cancer
- **Insulin Aspart/Lispro** development also advancing well

- **Itolizumab (Novel-CD6-autoimmune):** Completed stage-1 dose escalation in Australia and stage-2 is scheduled to start soon. No severe adverse safety events have been reported
- **Insulin Tregopil (Novel – oral insulin):** A Clinical Trial Application (CTA) for Insulin Tregopil has been filed with the Indian regulator for a pivotal Phase III study to clinically validate its promise as orally delivered, rapid acting prandial insulin in managing Type 2 diabetes. A multiple ascending dose study in Type 1 diabetes patient population is planned in FY18

Small molecules (42% of Q4 sales)

- Muted revenue (-1% YoY)due to pricing pressure in statins
- Expect to file 5-6 ANDA's in FY18, and will continue to develop specialty API products
- **gCopaxone**: Biocon yet to respond to USFDA queries. Currently not factored in management's FY18 guidance. No timeline on approval

Biologics (13% of Q4 sales)

- Modest 4% YoY growth led by higher penetration of biosimilarTrastuzumab in some of the emerging markets. Sales of rh-Insulin cartridges and reusable insulin pens to the Ministry of Health (MoH), Malaysia also supported growth
- Slower growth was also due to elongated approval timelines in some emerging markets. Expects to receive regulatory approvals from other emerging markets at the Malaysia facility in following quarters
- **Malaysia Insulin facility**: Has stopped capitalization of Malaysia facility costs post Q4'17. Fixed operating costs of USD30 mn (incl. interest costs) + USD18 mn depreciation+ raw material/variable costs to be expensed in the P&L from Q1'18. The company has guided for a cautious outlook for FY18, as though OTA (Malaysia Tender) sales have started (USD 20mn annual sales), revenue from other source will be lumpy over the quarters as biosimilar molecules are commercialized in other EM's (approval timelines uncertain, unlike US), reimbursement receipts from Mylan for development batches
- Additionally regarding Biosimilar launch in EU, Biocon will be initially supplying to Mylan at cost+ model and profits will be shared after Mylan has sold the inventory in the market

Branded formulations (14% of Q4 sales)

- Muted revenue (-1% YoY) in domestic formulation business – due to discontinuation of its key product Abraxane, an in-licensed productbecause of discontinuation of supplies by licensor
- Proposed generic generic model: Currently untenable, as it requires uniform regulatory requirements to ensure quality across different state regulatory authorities

Licensing income (1% of Q4 sales)

- Licensing income was muted this quarter as was primarily booked in 9MFY17

Syngene (research services, 30% of Q4 sales)

- Revenues declined 14% YoY, primarily impacted by fire at one of its facility in Dec'16

R&D expenses

- R&D expenses were lower at Rs 650mn at ~10% of Biopharma Q4'17 sales (vs. 15% in Q4'16 and / 12% Q3'17).
- Gross R&D spends (incl capitalized) of Rs 980mn. Capitalized R&D in Q4 on account of development work towards Insulin Glargine in developed markets
- Gross R&D spend (incl capitalized) to be ~12% - 15% of Biopharma sales in FY18 (~15% of FY17 Biopharma sales)
- >50% of R&D spends towards Biosimilars/Insulins, and an additional 30-40% of R&D spends towards novel pipeline

Other expenses were higher due to forex related losses of Rs 170mn (BioconFx loss Rs 330mn partially offset by Syngene'sFx gain of Rs 160 mn). This is related to restatement of receivables/debtors due to Re appreciation against USD.

Lower tax rate in Q4FY17 due to recognition of FY17 R&D incentives and deferred tax assets (Rs 120 mn in Q4'17, Rs 270mn in FY17).

Exhibit 4: USD 1 bn revenue guidance to be driven by biologics segment, in our view

(Rs mn)	FY16	FY17	% of FY17 sales	FY18F	FY19F	% of FY19 sales	FY17-19 CAGR
Small molecules	13,870	15,870	41%	17,457	20,076	35%	12.5%
Biologics	3,420	4,580	12%	6,870	11,473	20%	58.3%
Branded Formulations	4,400	5,490	14%	6,588	7,906	14%	20.0%
Research Services	10,600	11,380	29%	13,502	16,890	29%	21.8%
Licensing fees	1,080	1,440	4%	1,500	1,500	3%	2.1%
Total Revenue	**33,370**	**38,760**		**45,917**	**57,844**		**22.2%**

Source: Company, Axis Capital (As per Ind-AS)

Exhibit 5: We value Biosimilarpipeline at Rs170

Molecule	EU	US	Total
Insulin Glargine	18	49	**66**
Trastuzumab	13	18	**30**
Adalimumab	9	26	**35**
Pegfilgrastim	5	34	**38**
Total	**44**	**125**	**170**

Source: Axis Capital

R&D progressing slower than expected: Filing forTrastuzumab and Peg-filgrastim was accepted by EU & US regulators in FY17 and Biocon now guides for filing of

insulin Glargine (US) and Adalimumab(US/EU) in FY18 (vs.earlier filing guidance in FY17).

Exhibit 6: Biocon'sPegfilgrastimBiosimilar application accepted for review by USFDAin Q4'17

Product	Latest Progress
Glargine	• Launched in Japan in Q2FY17 (25% discount to innovator and ~10% discount to 1st generic) • Will launch in Malaysia and other EMs by H2FY17 (to be produced out of Malaysia facility) • Marketing Authorisation Application (MAA) accepted for review by EMA in Nov '16 (approval cycle is ~1-1.5 years)
Trastazumab	• Phase III study completed; achieved primary endpoint & confirmed the efficacy, safety and immunogenicity • Presented efficacy data at ASCO in Q1'17 & at ESMO in Oct 2016 • Marketing Authorisation Application (MAA) accepted for review by EMA in Aug '16 (approval cycle is ~1-1.5 years) • Filing submitted to USFDA in Nov'16 (first US filing). Biologics License Application accepted by FDA in Jan'17. Target action date is in Sep 2017 • Mylan (Partner) settled litigation with Genentech (Roche) for patent expiring in June 18, 2019
Pegfilgrastim	• Marketing Authorisation Application (MAA) accepted for review by EMA in Jul'16 (approval cycle is ~1-1.5 years) • Presented results of Phase III study at ESMO in Oct 2016 • Biologics License Application accepted by FDA in Feb'17. Target action date is in October 2017.
Adalimumab	• Primary end point data awaited; On track for filings in Emerging & developed markets • Expects filing in CY17

Source: Company, Axis Capital

Exhibit 7: Market dynamics for Biocon'skey molecules

Product Name	Compound Patent expiry		Mkt size (USD mn)		No of players	
	US	EU	US	EU	US	EU
Glargine	Expired	Expired	3,563	887	3	3
Trastazumab	2019	Expired	2,534	2,076	5	5
Adalimumab	2022	2018	10,432	2,801	7	7
Pegfilgrastim	Expired	Expired	3,987	420	4	4

Source: Company, Axis Capital

Exhibit 8: Biocon in a sweet spot – USD61 bnbiosimilar opportunity

Category	Molecule	Type	Status	Market Size* (US$ bn)
INSULINS	Rh Insulin	Recombinant Human Insulin	US development – Preclinical	3.2
	Glargine	Long Acting Basal Insulin	Global Phase 3, under review in EU. Approved in Japan	6.4
	Aspart	Rapid Acting Insulin Analog	Preclinical/Scale Up	4.5
	Lispro	Rapid Acting Insulin Analog	Preclinical/Scale Up	2.8
			Insulins Total Market Size (rounded off)	**17**
BIOSIMILARS	Adalimumab	Chronic Plaque Psoriasis	Global Phase 3	16.1
	Trastuzumab	mBreast Cancer	Global Phase 3, under review in US & EU	6.9
	Pegfilgrastim	Chemo-induced Neutropenia	Under review in EU	4.6
	Bevacizumab	Non-Squamous NSCLC, mColorectal Cancer	Global Phase 3 initiated, RoW Phase 3	6.9
	Filgrastim	Chemo-induced Neutropenia	Preclinical/Scale Up	1
	Etanercept	Auto-immune	Preclinical/Scale Up	8.9
			Biosimilars Total Market Size (rounded off)	**44**

Source: Company, Axis Capital

*Market Size of innovator products in the current portfolio: Innovator Sales CY 2016

Conversion into USD done using average exchange rate for CY 2016 as given on http://www.federalreserve.gov/releases/G5a/current/default.htm

Exhibit 9: Biosimilar Pipeline: Biocon well placed in the competitive landscape

	Biosimilar Development Pipeline@			
Molecule	Pre-Clinical	Phase I	Phase III/Filed	Approved/ Marketed
pegfilgrastim	Pfizer	Dr. Reddy's	**Biocon - EMA/FDA;** Apotex -FDA/EMA; Coherus - FDA, EMA; Sandoz, Cinfa	
trastuzumab	Oncobiologics, Dr. Reddy's	Meiji Seika	**Biocon - EMA/FDA,** Celltrion - EMA, Samsung - EMA, Amgen, Pfizer, Hanhwa	
insulin glargine			**Biocon (EMA)**, Samsung - FDA	**Biocon – JP,** Eli Lilly – EU, US, JP, CAN, Samsung - EU
adalimumab	Epirus	Dr. Reddy's, Meiji Seika	**Biocon,** Samsung - EMA, Sandoz, BoehringerIngelheim-FDA,EMA, Coherus, Momenta, Pfizer, Serono, Fuji Kirin, Oncobiologics	Amgen – US, EU
bevacizumab	Celltrion	Sandoz, Daiichi, Oncobiologics, Cipla	**Biocon (Global, RoW),** Amgen - FDA, EMA, BoehringerIngelheim, Pfizer, Samsung, Fuji Kirin – Astra Zeneca, Dr Reddy	
filgrastim	**Biocon,** Pfizer		Apotex (US)	Sandoz – US, EU; Teva-JP,EU; Accord-EU, Apotex – EU, Hospira – EU, ANZ, Fuji – JP, CTA-EU
etanercept	**Biocon,** Celltrion	Hanwha-Merck Serono	Coherus, Lupin	Samsung – EU, Sandoz – FDA, EMA
insulin aspart	**Biocon**			
insulin lispro	**Biocon**		Sanofi-EMA	
rh-insulin	**Biocon – US**			

Source: Company, Axis capital

Financial summary (Consolidated)

Profit &loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	33,370	38,760	45,917	57,844
Other operating income	-	-	-	-
Total operating income	**33,370**	**38,760**	**45,917**	**57,844**
Cost of goods sold	(12,904)	(14,466)	(16,943)	(21,113)
Gross profit	20,466	24,294	28,974	36,731
Gross margin (%)	*61.3*	*62.7*	*63.1*	*63.5*
Total operating expenses	(13,226)	(14,954)	(18,408)	(22,131)
EBITDA	**7,240**	**9,340**	**10,566**	**14,600**
EBITDA margin (%)	*21.7*	*24.1*	*23.0*	*25.2*
Depreciation	(2,490)	(2,770)	(3,969)	(4,847)
EBIT	**4,750**	**6,570**	**6,596**	**9,753**
Net interest	(290)	(260)	(628)	(566)
Other income	1,230	2,030	1,900	1,780
Profit before tax	**5,690**	**8,340**	**7,868**	**10,968**
Total taxation	(1,300)	(1,540)	(1,849)	(2,577)
Tax rate (%)	*22.8*	*18.5*	*23.5*	*23.5*
Profit after tax	4,390	6,800	6,019	8,390
Minorities	(580)	(760)	(871)	(1,142)
Profit/ Loss associate co(s)	220	160	250	300
Adjusted net profit	4,030	6,200	5,398	7,549
Adj. PAT margin (%)	*12.1*	*16.0*	*11.8*	*13.1*
Net non-recurring items	1,470	(80)	-	-
Reported net profit	5,500	6,120	5,398	7,549

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	1,000	1,000	1,000	1,000
Reserves & surplus	39,340	47,380	52,778	56,972
Net worth	40,340	48,380	53,778	57,972
Borrowing	24,670	22,050	19,845	17,861
Other non-current liabilities	-	-	-	-
Total liabilities	**67,670**	**74,190**	**78,254**	**81,605**
Gross fixed assets	34,090	55,630	72,165	88,119
Less: Depreciation	(16,610)	(19,380)	(23,349)	(28,196)
Net fixed assets	17,480	36,250	48,815	59,923
Add: Capital WIP	22,400	8,390	7,500	7,500
Total fixed assets	39,880	44,640	56,315	67,423
Total Investment	9,020	12,540	2,500	2,500
Inventory	5,420	6,350	7,653	9,641
Debtors	7,150	8,830	11,322	14,263
Cash & bank	15,380	10,440	16,971	7,553
Loans & advances	7,730	11,140	11,479	14,461
Current liabilities	16,910	19,750	27,986	34,235
Net current assets	18,770	17,010	19,438	11,683
Other non-current assets	-	-	-	-
Total assets	**67,670**	**74,190**	**78,254**	**81,605**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	5,690	8,340	7,868	10,968
Depreciation & Amortisation	2,490	2,770	3,969	4,847
Chg in working capital	*(448)*	*(4,720)*	*(1,223)*	*(5,609)*
Cash flow from operations	**5,264**	**3,080**	**7,493**	**6,414**
Capital expenditure	*(8,106)*	*(10,700)*	*(11,190)*	*(6,000)*
Cash flow from investing	**(9,540)**	**(10,700)**	**(11,190)**	**(6,000)**
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	*12,079*	*(2,620)*	*(2,205)*	*(1,985)*
Dividend paid	*(1,000)*	*(722)*	*(1,204)*	*(1,204)*
Cash flow from financing	**10,867**	**(3,342)**	**(3,409)**	**(3,188)**
Net chg in cash	6,591	(10,962)	(7,105)	(2,774)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	20.2	31.0	27.0	37.7
CEPS (Rs)	40.0	44.5	46.8	62.0
DPS (Rs)	5.0	3.0	5.0	5.0
Dividend payout ratio (%)	18.2	9.8	18.5	13.2
GROWTH				
Net sales (%)	8.0	16.2	18.5	26.0
EBITDA (%)	4.0	29.0	13.1	38.2
Adj net profit (%)	0.2	53.8	(12.9)	39.8
FDEPS (%)	0.2	53.8	(12.9)	39.8
PERFORMANCE				
RoE (%)	11.0	14.0	10.6	13.5
RoCE (%)	10.5	12.1	11.1	14.4
EFFICIENCY				
Asset turnover (x)	0.8	0.7	0.7	0.9
Sales/ total assets (x)	0.4	0.4	0.5	0.5
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	78.2	83.2	90.0	90.0
Inventory days	75.7	78.8	79.0	81.4
Payable days	85.2	91.8	106.5	106.5
FINANCIAL STABILITY				
Total debt/ equity (x)	0.6	0.5	0.4	0.3
Net debt/ equity (x)	0.2	0.2	0.1	0.2
Current ratio (x)	2.1	1.9	1.7	1.3
Interest cover (x)	16.4	25.3	10.5	17.2
VALUATION				
PE (x)	54.9	35.7	41.0	29.3
EV/ EBITDA (x)	32.2	25.3	21.6	16.2
EV/ Net sales (x)	7.0	6.1	5.0	4.1
PB (x)	5.5	4.6	4.1	3.8
Dividend yield (%)	0.5	0.3	0.5	0.5
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL 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. I/we or my/our relative or ASL or its associates do not have any material conflict of interest. I/we have not served as director, officer or employee in the subject company.

Research Team

Sr. No	Name	Designation	E-mail
1	Akhand Singh	Research Analyst	akhand.singh@axissecurities.in
2	Poonam Darade	Research Associate	poonam.darade@axissecurities.in

5. ASL or its associates has not received any compensation from the subject company in the past twelve months. ASL or its Research Analysts has not been engaged in market making activity for the subject company.

6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential 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 ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, 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 report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advise 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.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. 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 ASL 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.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808/022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkarMarg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.