AXIS DIRECT

2 AUG 2017 | Quarterly Update

BIOCON

PHARMACEUTICALS

BUY

Target Price: Rs 450

Weak Q1; Progress on biosimilars key catalyst

Q1FY18 PAT was 10% below our estimates. Higher costs led by commissioning of Malaysia facility were expected, but lower revenue growth led by 17% YoY decline in small molecule and branded formulations was a negative surprise. Biocon remains confident of FY19 revenue guidance of USD 200 mn for biosimilar sales – implying 57% CAGR over FY17-19E – mostly from EMs and small portion from EU. Progress on TAD's of Trastuzumab & Peg-filgrastim, regulatory clearance on its mab* & insulin facility and filing of Glargine in US – key catalysts.

We believe earnings will see inflection point from FY20 with monetization of its biosimilar pipeline in the US/EU – expected to be ~2x by FY20 over FY17 base. Maintain **BUY** with TP of Rs 450 (38x FY19E EPS) with improving regulatory pathway unlocking value of biosimilar players – Celltrion (trading at 30x CY18 EPS), Samsung Biologics (138x CY18 EPS) as per BBG estimates.

CMP	: Rs 390
Potential Upside	: 15%

MARKET DATA

No. of Shares	: 600 mn
Free Float	: 39%
Market Cap	: Rs 234 bn
52-week High / Low	: Rs 424 / Rs 256
Avg. Daily vol. (6mth)	: 3.0 mn shares
Bloomberg Code	: BIOS IB Equity
Promoters Holding	: 61%
FII / DII	: 17% / 3%

- **Weak sales growth (-6% YoY) led by decline in small molecules and branded formulations:** Small molecules declined 17% YoY impacted by pricing pressure, rupee depreciation, sluggish API sales and impact of Ind-AS adjustments in Q1'17. Branded formulations declined 17% YoY given continued discontinuation of key product (Abraxane) and pre-GST channel destocking. Strong growth in Biologics segment (15% YoY, grew 27% YoY adj. for Ind-AS impact in Q1FY17) led by good traction in Insulin business in EMs^ (LATAM, Malaysia government contracts). Research services' (Syngene) revenue grew 6% YoY (10% in cc# terms) as it continues to recover from the fire in Dec'16
- **Margin pressure led by commissioning of Malaysia facility (as per guidance):** Weak sales growth coupled with higher staff costs (18% YoY) and R&D expenses (13% YoY) led to 27% decline in EBITDA. EBITDA margin was at 20.6% (-595 bps YoY/ +44 bps QoQ). We expect operating costs from Malaysia facility would increase with rise in revenue contribution. Higher depreciation (49% YoY) and interest costs (182% YoY) led by commissioning of Malaysia facility paired with higher tax rate of 29% (vs. 24% in Q1FY17; 4% in Q4FY17) led to 51% YoY decline in PAT (10% below our estimate)

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Financial summary (Consolidated)

Y/E March	FY17	FY18E	FY19E	FY20E
Sales (Rs mn)	39,216	44,421	55,031	71,591
Adj PAT (Rs mn)	6,121	5,012	7,110	12,075
Con. EPS* (Rs)	-	9.1	13.2	16.4
EPS (Rs)	10.2	8.4	11.8	20.1
Change YOY (%)	57.0	(18.1)	41.9	62.8
P/E (x)	38.2	46.7	32.9	19.4
RoE (%)	13.8	9.8	12.8	19.8
RoCE (%)	12.1	10.4	13.3	20.4
EV/E (x)	25.5	23.6	17.3	11.2
DPS (Rs)	1.0	1.7	1.7	1.7

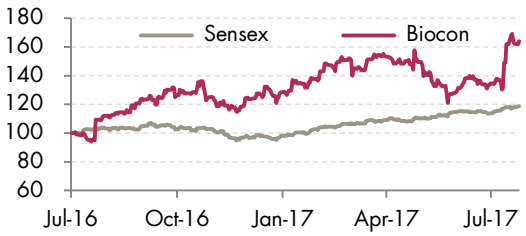
Source: *Consensus broker estimates, Company, Axis Capital

#Constant Currency ^Emerging Market @Target Action Date *monoclonal antibodies

Valuation

Valuation	Old Mar'19	New Mar'19	Potential Mar'20
EPS	12	12	19
Target PE	38	38	28
R&D value	-	-	-
Target Price	470	450	546

Price performance



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- **Biosimilar pipeline continues to progress well: (1) Tratuzumab (TAD in Sept'17):** USFDA's Advisory Committee (ODAC) unanimously voted 16-0 in favor of approval for all indications. Company is awaiting further update from the USFDA with respect to clearance of facility (post inspection in Q1FY18). Approval and global settlement has specified timelines for launch in other markets, which would be at different dates depending on the market; **(2) Pegfilgrastim (TAD Oct'17):** Biocon has a TAD@ of Oct 9th 2017. We note that all other filers (Sandoz, Apotex, Coherus) have now received CRLs and have been challenged by the innovator on their respective filings. As per management, the molecule may require a committee approval but the management is not aware of any such committee being constituted for review of its molecule; **(3) Insulin Glargine:** Biocon filed the product with European Medicines Agency (EMA) in Nov'16 and had earlier guided for US filing in H1FY18. However, the company is in discussion with USFDA to enable regulatory filing of the product
- **Other key concall highlights: (1) Regulatory update:** Has responded with Corrective and Preventative Action (CAPA) plan to the USFDA for its **Bangalore facility** and is awaiting reply from the agency. Company expects to receive an Establishment Inspection Report (EIR) in the near term; **Malaysia facility** has been inspected by the European regulatory authorities in Mar-Apr'17, triggered by its biosimilar Insulin Glargine filing in Europe; Biocon has responded with a CAPA plan. **(2) R&D expenses** were lower at Rs 582 mn at ~9% of Biopharma Q1'18 sales (vs. 10% Q4'17); R&D guidance of 12-15% of Biopharma sales. **(3) gCopaxone:** Biocon has received a Complete Response Letter (CRL) and expects to submit a detailed response letter to the USFDA by FY18 end

Exhibit 1: Muted performance across segments

(Rs mn)	% sales	Q1'17	Q4'17	Q1'18	YoY chg	QoQ chg	FY16	FY17	YoY chg
Small molecules	39%	4,354	3,948	3,629	-17%	-8%	13,620	15,030	10%
Biologics	20%	1,606	1,633	1,839	15%	13%	3,510	4,420	26%
Branded Formulations	14%	1,580	1,310	1,304	-17%	0%	5,570	5,500	-1%
Research Services	31%	2,745	2,828	2,911	6%	3%	10,600	11,380	7%
Licensing fees#	1%	172	155	77	-55%	-50%	1,210	1,310	8%
Less (inter segment revenue)	-4%	(365)	(408)	(346)					
Total Revenue		**9,920**	**9,311**	**9,337**	**-6%**	**0%**	**34,510**	**37,640**	**9%**
Total (ex-one off & Research Services)		**7,175**	**6,483**	**6,426**	**-10%**	**-1%**	**25,471**	**28,601**	**12%**
EBITDA margin (%)		1.193							
Biocon		26.5%	20.1%	20.6%	-595 bps	44 bps	22.7%	25.0%	227 bps
Syngene		32.3%	34.5%	33.0%	63 bps	-149 bps	34.4%	33.9%	-42 bps
Biocon (ex-Syngene)		**24.3%**	**13.6%**	**15.0%**	**-934 bps**	**134 bps**	**17.0%**	**21.0%**	**398 bps**
Biocon (ex-Licensing & Syngene, incl. R&D)		27.8%	19.6%	21.2%	-664 bps	158 bps	20.6%	20.1%	-45 bps

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

Exhibit 2: EBITDA declined on increased costs from Malaysia facility

(Rs mn)	Q1'17	Q4'17	Q1'18	YoY chg	QoQ chg
Net Sales	9,920	9,311	9,337	-6%	0%
Material costs	4,380	3,830	4,099	-6%	7%
Gross margins	55.8%	58.9%	56.1%	25 bps	-277 bps
Employee expenses	1,642	1,779	1,931	18%	9%
R&D expenses	514	652	582	13%	-11%
R&D expenses (% of biopharma sales)	7%	10%	9%	189 bps	-100 bps
Other expenses	753	1,175	804	7%	-32%
EBITDA	**2,631**	**1,875**	**1,921**	**-27%**	**2%**
EBITDA margins (%)	**26.5%**	**20.1%**	**20.6%**	**-595 bps**	**44 bps**
Adj EBITDA (adj. for Licensing Income)	**2,459**	**1,720**	**1,844**	**-25%**	**7%**
Adj EBITDA margin (%)	**25.2%**	**18.8%**	**19.9%**	**-531 bps**	**113 bps**
Other income	409	432	540	32%	25%
Depreciation	661	725	988	49%	36%
Interest	57	50	161	182%	222%
PBT	2,322	1,532	1,312	-43%	-14%
Tax	552	103	376	-32%	265%
Tax rate	24%	7%	29%	489 bps	2194 bps
Minority Interest	104	154	123	18%	-20%
Adjusted PAT	**1,666**	**1,275**	**813**	**-51%**	**-36%**
Extra ordinary income/ (exp.)	0	0	0		
Reported PAT	**1,666**	**1,275**	**813**	**-51%**	**-36%**

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 Q1 was sequentially lower at ~9% of biopharma sales

Rs mn	Q1'17	Q4'17	Q1'18	YoY chg	QoQ chg
Gross R&D expense	**920**	**980**	**960**	**4%**	**-2%**
% of biopharma sales	12.8%	15.1%	14.9%	212 bps	-18 bps
Revenue (expensed in P&L)	**514**	**652**	**582**	**13%**	**-11%**
% of biopharma sales	7.2%	10.1%	9.1%	189 bps	-100 bps
Capital	406	328	378	-7%	15%

Source: Company

Conference call highlights

Guidance

- Maintains cautiously optimistic outlook for FY18; much depends on regulatory approvals and tender outcomes for biosimilars in key emerging markets
- Maintains FY19 Biosimilars revenue guidance of USD 200 mn (with substantial contribution from emerging markets and some sales from Europe)
- Expects branded formulations to exhibit steady growth in FY18, and expects Syngene to exhibit high teen growth in FY18 with significant pick-up in H2FY18

Biosimilar update

- **Trastuzumab (USD 2.5bn in sales in US):** Awaiting further update from the USFDA with respect to clearance of facility, but approval and global settlement has specified timelines for launch in other markets, which would be at different dates depending on the market
  - USFDA's Advisory Committee (ODAC) unanimously voted 16-0 in favor of approval of Biocon/ Mylan's MYL-1401O, biosimilar Trastuzumab (Herceptin) for all indications
  - We note Biocon-Mylan's filing, MYL-1401O, is the 'only' Herceptin filing currently accepted for USFDA review. This would also have positive implications for approval in other regulated markets (EU sales of USD 2.1 bn)
  - Emerging markets sales opportunity at USD 1.2bn
- **Pegfilgrastim (USD 4bn in sales in US):** This molecule may require a committee approval, but the management is not aware of any such committee being constituted for review of its molecule
  - All other filers (who have now received CRLs) have been challenged by the innovator on their respective filings
  - Biocon-Mylan's Pegfilgrastim Biologics License Application (BLA) was accepted in Feb 2017 with the anticipated FDA goal date set under the Biosimilar User Fee Act (BsUFA) of Oct 9, 2017
- **Insulin Glargine (USD 3.5 bn in sales in US):** Biocon is in discussion with USFDA to enable regulatory filings
- **Adalimumab:** Biocon is in discussion with USFDA to enable regulatory filings
- **Bevacizumab**: Received regulatory approvals from the Indian regulator for its biosimilar Bevacizumab
- **Itolizumab (Novel-CD6-autoimmune):** Initiated stage 2 of the phase I study for a subcutaneous form of our novel anti- CD6 mAb, Itolizumab, in Australia
- **Insulin Tregopil (Novel – oral insulin):** Clinical Trial Application for a phase 3 study in Type 2 diabetes filed with the Indian regulator (DCGI) in Q4FY17 is under review. Plans for clinical trials for patients with Type 1 Diabetes are underway

Small molecules (39% of Q1 sales)

- Revenue declined 17% YoY on pricing pressure, rupee appreciation and one-time positive impact to this segment in Q1FY17 due to transition to Ind AS. Adjusted for Ind-AS impact in Q1FY17, revenue declined 5% YoY due to sluggish API sales
- Commissioning of its manufacturing facility for complex solid oral dosage forms in FY18 will support its regulatory filings for generic formulations in developed and emerging markets
- **gCopaxone**: Received CRL; Biocon to submit detailed response by end FY18

Biologics (19% of Q1 sales): Strong 15% YoY/ 13% QoQ led by strong growth in Insulins business in emerging markets owing to increased traction in NAFTA and LATAM regions as well as sales in Malaysia under a government contract.

- Adjusted for Ind-AS impact in Q1FY'17, Biologics sales grew 27% YoY. Expect Biologics to continue its strong performance contingent on regulatory approvals and tender outcomes for its Biosimilars in key emerging markets
- **Malaysia Insulin facility**: Booked interest and depreciation expenses of USD 12 mn in Q1FY18. (Had guided for USD 48 mn cost (fixed operating costs of USD 30 mn (incl. interest costs) + USD 18 mn depreciation) + raw material/variable costs to be expensed in the P&L)
- Recovered Rs 374 mn from co-development partners in Q1FY18 (vs. Rs 128 mn in Q4FY17) for costs related to Malaysia and Bangalore facility
- The company has guided for a cautious outlook for FY18; though OTA (Malaysia Tender) sales have started (USD 20 mn annual sales), revenue from other sources will be lumpy over the quarters as Biosimilar are commercialized in other emerging markets (where approval timelines uncertain, unlike US), reimbursement receipts from Mylan for development batches

Branded formulations (14% of Q1 sales):

- Revenue declined 17% YoY due to discontinuation of its key product Abraxane, and pre-GST market dynamics (inventory at hospitals and stockists reduced by nearly 50%, during June 2017) in India. Biocon anticipates the GST impact to roll over into Q2FY18; however, believes the situation would normalize by the end of H1FY18. Most of its key brands continue to do well and 13 of its brands currently have a market share of over 20%.
- Branded formulations business in UAE continues to do well. Biocon launched Biosimilar Insulin Glargine in UAE under the brand name Glaricon. During Q1FY18, Biocon in-licensed 2 more innovator brands from Novartis, Imprida (Amlodipine + Valsartan) and Imprida HCT (Amlodipine + Valsartan + Hydrochlorothiazide) to fortify its position in the UAE cardiovascular market, where it currently ranks among the top 10 companies

Licensing income (1% of Q1 sales): Licensing income was lower at Rs 77 mn vs. Rs 172 mn in Q1FY17

Syngene (research services, 31% of Q1 sales): Revenue grew 6% YoY with growth primarily impacted by fire at one of its facility in Dec'16.

- Expanded its Amgen Research Centre by 25,000 sq ft to double its floor space to 50,000 sq. ft and increase scientist team to 185 multi-disciplinary scientists (vs. 100 scientists previously)
- Entered into a multi-year manufacturing contract with a Japanese specialty pharma company for supply of a Novel Chemical Entity (NCE) for commercial launch in the Japanese market. The NCE used in the gastrointestinal therapeutic segment will be manufactured at its Bangalore facility

Regulatory update

Bangalore:

- USFDA – Biocon responded with a CAPA plan to the USFDA; have not heard back from the USFDA. Company expects to receive EIR in the near term
- Europe – the French Health agency – ANSM (on behalf on European Medicines Agency/EMA) issued GMP compliance certificates for 2 of Biocon's drug substance manufacturing facilities for both Trastuzumab and Pegfilgrastim.

Certain observations issued to its drug product facility relating to the manufacturing block and quality control unit for Trastuzumab and Pegfilgrastim. Biocon had submitted a detailed CAPA plan to ANSM, and ANSM has informed Biocon that it needs to reinspect to verify the CAPA implementation

Malaysia facility has been inspected by the European regulatory authorities in Mar-Apr'17 triggered by its Biosimilar Insulin Glargine filing in Europe; Biocon has responded with a CAPA plan

R&D expenses

- R&D expenses were lower at Rs 650 mn at ~10% of Biopharma Q4'17 sales (vs. 15% in Q4'16 and 12% Q3'17).
- Gross R&D spends (incl capitalized) of Rs 960 mn. Capitalized R&D of Rs 380 mn in Q1

Forex related gains of Rs 170 mn (largely led by Syngene).

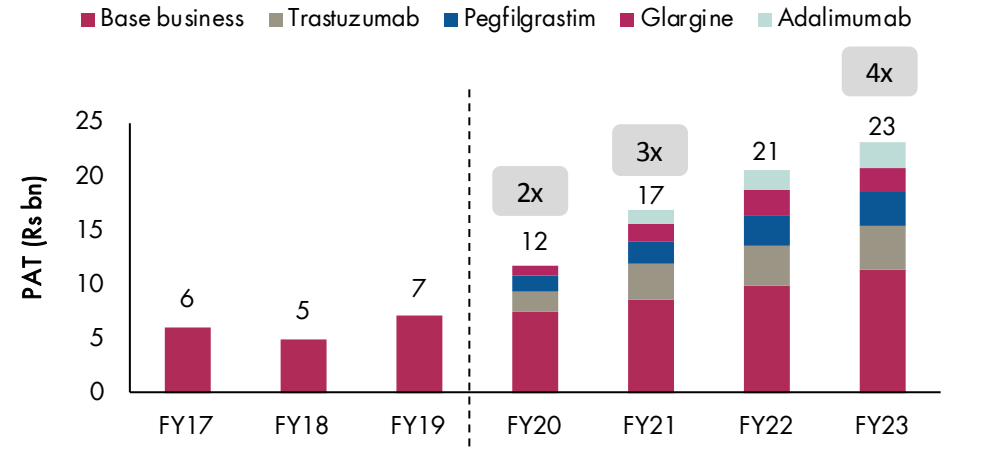
Exhibit 4: PAT to grow multifold driven by its biosimilar pipeline in US & EU

(Rs mn)	FY17 (A)	FY18	FY19	FY20	FY21	FY22	FY23
Glargine			151	879	1,747	2,446	2,330
Trastuzumab			514	1,899	3,358	3,834	4,130
Adalimumab			-	-	1,264	1,760	2,297
Pegfilgrastim			-	1,467	1,997	2,733	3,055
Incremental PAT			**666**	**4,245**	**8,367**	**10,773**	**11,811**
Base business PAT#	**6,121**	**5,012**	**6,444**	**7,455**	**8,573**	**9,859**	**11,337**
Total PAT...(B)	**6,121**	**5,012**	**7,110**	**11,699**	**16,939**	**20,631**	**23,148**
Growth Multiplier...(B/A)				**1.9**	**2.8**	**3.4**	**3.8**

Source: Axis Capital

Growth Multiplier = Total PAT/FY17 PAT # build in 15% CAGR for base business PAT from FY21

Exhibit 5: Biocon's earnings to witness inflection from FY20



Source: Axis Capital Growth Multiplier = Total PAT/FY17 PAT

Exhibit 6: Biocon's strong earnings growth visibility warrants higher PE

Valuation	Mar'19 New	Mar'20 Projected	Mar'21 Projected	Mar'22 Projected	Mar'23 Projected
PAT	7,110	11,699	16,939	20,631	23,148
EPS	11.8	19.5	28.2	34.4	38.6
Target PE	**38**	**28**	**24**	**22**	**20**
R&D value					
Target Price	450	546	678	756	772
Current market price	365				
Upside %	23%	50%	86%	107%	111%
Potential annual return	23%	22%	23%	20%	16%

Returns attractive for 3-5 year investment perspective

Source: Axis Capital

build in 15% CAGR for base business PAT from FY21

**We note Celltrion trades at 33x CY18 EPS & Samsung Biologics trades at 140x CY18 EPS (as per BBG estimates)

Exhibit 7: Market dynamics for Biocon's key 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-Mylan announced positive results of the global clinical studies of MYL – 1501D (insulin Glargine) in June 2017

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)
Trastuzumab	♦ 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 Authorization 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 9: Biocon in a sweet spot – USD 61 bn biosimilar 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 10: 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, Boehringer Ingelheim-FDA,EMA, Coherus, Momenta, Pfizer, Serono, Fuji Kirin, Oncobiologics	Amgen – US, EU
bevacizumab	Celltrion	Sandoz, Daiichi, Oncobiologics, Cipla	**Biocon (Global, RoW),** Amgen - FDA, EMA, Boehringer Ingelheim, 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	FY17	FY18E	FY19E	FY20E
Net sales	39,216	44,421	55,031	71,591
Other operating income	-	-	-	-
Total operating income	**39,216**	**44,421**	**55,031**	**71,591**
Cost of goods sold	(14,466)	(16,325)	(19,811)	(24,699)
Gross profit	24,750	28,096	35,220	46,892
Gross margin (%)	*63.1*	*63.3*	*64.0*	*65.5*
Total operating expenses	(14,955)	(18,111)	(21,591)	(25,765)
EBITDA	**9,795**	**9,986**	**13,628**	**21,127**
EBITDA margin (%)	*25.0*	*22.5*	*24.8*	*29.5*
Depreciation	(2,772)	(3,858)	(4,413)	(5,150)
EBIT	**7,023**	**6,128**	**9,215**	**15,977**
Net interest	(260)	(715)	(712)	(675)
Other income	1,571	1,900	1,800	2,000
Profit before tax	**8,334**	**7,313**	**10,303**	**17,302**
Total taxation	(1,616)	(1,719)	(2,421)	(4,239)
Tax rate (%)	*19.4*	*23.5*	*23.5*	*24.5*
Profit after tax	6,718	5,594	7,882	13,063
Minorities	(760)	(832)	(1,072)	(1,337)
Profit/ Loss associate co(s)	163	250	300	350
Adjusted net profit	6,121	5,012	7,110	12,075
Adj. PAT margin (%)	*15.6*	*11.3*	*12.9*	*16.9*
Net non-recurring items	-	-	-	-
Reported net profit	6,121	5,012	7,110	12,075

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	1,000	1,000	1,000	1,000
Reserves & surplus	47,377	52,776	56,584	63,057
Net worth	48,377	53,776	57,584	64,057
Borrowing	22,054	21,957	21,869	19,682
Other non-current liabilities	-	-	-	-
Total liabilities	**74,192**	**80,326**	**85,119**	**90,765**
Gross fixed assets	54,361	65,287	71,287	80,352
Less: Depreciation	(18,110)	(21,968)	(26,381)	(31,531)
Net fixed assets	36,251	43,319	44,906	48,821
Add: Capital WIP	8,392	7,500	7,500	7,500
Total fixed assets	44,643	50,819	52,406	56,321
Total Investment	12,538	2,500	2,500	2,500
Inventory	6,353	7,404	9,172	11,932
Debtors	8,832	10,953	13,569	17,653
Cash & bank	10,443	24,806	26,491	24,412
Loans & advances	11,131	11,105	13,758	17,898
Current liabilities	19,748	27,261	32,777	39,950
Net current assets	17,011	27,007	30,213	31,944
Other non-current assets	-	-	-	-
Total assets	**74,192**	**80,326**	**85,119**	**90,765**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	8,334	7,313	10,303	17,302
Depreciation & Amortisation	2,772	3,858	4,413	5,150
Chg in working capital	*(2,270)*	*(499)*	*(5,005)*	*(7,788)*
Cash flow from operations	**6,400**	**7,768**	**6,202**	**9,100**
Capital expenditure	*(7,619)*	*(11,190)*	*(6,000)*	*(6,000)*
Cash flow from investing	**(4,985)**	**(11,190)**	**(6,000)**	**(6,000)**
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	*(1,232)*	*(97)*	*(87)*	*(2,187)*
Dividend paid	-	*(1,204)*	*(1,204)*	*(1,204)*
Cash flow from financing	**(1,775)**	**(1,301)**	**(1,291)**	**(3,391)**
Net chg in cash	(360)	(4,723)	(1,089)	(290)

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	10.2	8.4	11.8	20.1
CEPS (Rs)	14.8	14.8	19.2	28.7
DPS (Rs)	1.0	1.7	1.7	1.7
Dividend payout ratio (%)	9.8	20.0	14.1	8.3
GROWTH				
Net sales (%)	16.0	13.3	23.9	27.5
EBITDA (%)	27.6	1.9	36.5	50.0
Adj net profit (%)	57.0	(18.1)	41.9	62.8
FDEPS (%)	57.0	(18.1)	41.9	62.8
PERFORMANCE				
RoE (%)	13.8	9.8	12.8	19.8
RoCE (%)	12.1	10.4	13.3	20.4
EFFICIENCY				
Asset turnover (x)	0.7	0.7	1.0	1.1
Sales/ total assets (x)	0.4	0.4	0.5	0.6
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	82.2	90.0	90.0	90.0
Inventory days	78.8	78.5	80.9	86.3
Payable days	91.8	106.5	106.5	106.5
FINANCIAL STABILITY				
Total debt/ equity (x)	0.5	0.4	0.4	0.3
Net debt/ equity (x)	0.2	(0.1)	(0.1)	(0.1)
Current ratio (x)	1.9	2.0	1.9	1.8
Interest cover (x)	27.0	8.6	12.9	23.7
VALUATION				
PE (x)	38.2	46.7	32.9	19.4
EV/ EBITDA (x)	25.5	23.6	17.3	11.2
EV/ Net sales (x)	6.4	5.3	4.3	3.3
PB (x)	4.8	4.4	4.1	3.7
Dividend yield (%)	0.3	0.4	0.4	0.4
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

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

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