Rating matrix		
Rating	:	Hold
Target	:	₹ 955
Target Period	:	12-15 months
Potential Upside	:	2%

What's Changed?	
Target	Changed from ₹ 1055 to ₹ 955
EPS FY18E	Changed from ₹ 22.9 to ₹ 25.5
EPS FY19E	Changed from ₹ 21.2 to ₹ 16
Rating	Changed from Buy to Hold

Quarterly Performance

	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	445.3	340.3	30.9	577.8	-22.9
EBITDA	136.7	77.2	77.0	241.1	-43.3
EBITDA (%)	30.7	22.7	801 bps	41.7	-1103 bps
Adj.Net Profit	90.9	47.7	90.6	176.7	-48.6

Key Financials

(₹ crore)	FY16	FY17E	FY18E	FY19E
Revenues	1149.2	2049.9	2111.6	1937.0
EBITDA	269.8	668.2	661.2	446.8
Net Profit	157.8	470.9	445.6	279.6
EPS (₹)	9.0	27.0	25.5	16.0

Valuation summary

	FY16	FY16	FY18E	FY19E
PE (x)	103.2	103.2	36.7	58.4
Target PE(x)*	44.0	14.8	15.6	25.0
EV to EBITDA (x)	60.7	60.7	25.0	36.6
Price to book (x)	12.6	12.6	8.3	7.5
RoNW (%)	12.2	12.2	22.6	12.8
RoCE (%)	16.0	16.0	27.6	16.2

* Base Business

Stock data

Particular	Amount
Market Capitalisation	₹ 16315 crore
Debt (FY16)	₹ 222 crore
Cash (FY16)	₹ 24 crore
EV	₹ 16512 crore
52 week H/L (₹)	1090/495
Equity capital	₹ 34.9 crore
Face value	₹ 2

Price performance (%)

	1M	3M	6M	1Y
Natco Pharma	-7.0	3.3	25.2	48.2
Unichem Labs	-1.8	-0.2	-3.1	-6.8
Indoco Remedies	3.8	-10.3	-24.0	-35.2

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Natco Pharma (NATPHA)

₹ 936

Oseltamivir profit sharing boosts numbers...

- Revenues grew 31% YoY to ₹ 445 crore (I-direct estimate: ₹ 396 crore) mainly due to profit sharing from Oseltamivir sales in the US and robust export API sales
- EBITDA margins improved 801 bps YoY to 30.7% (I-direct estimate: 27.5%) mainly due to a favourable product mix. EBITDA grew 77% to ₹ 137 crore (I-direct estimate: ₹ 109 crore)
- Adjusted net profit increased 96% YoY to ₹ 93 crore (I-direct estimate: ₹ 68 crore) mainly on account of a strong operational performance

Focused approach in US

Natco has carved out its own identity via tie-ups to tap a limited but niche products pipeline including 20 Para IVs and two limited competition products. The company had earlier tried to pursue the route of retail pharmacies as a gateway for entry into the US market. Later on, it revisited the strategy and sold two pharmacies. It currently owns and operates a single store. As per the revised and more feasible game plan, Natco plans to market products via tie-ups with established players in the generic space. We believe this is a bold step to make inroads in the US generics space. Till June 2017, the company filed 43 ANDAs, which includes FTF opportunities such as 1) Lenalidomide capsules (anticancer), settled for March 2022 launch with limited quantity and unlimited quantity from February 2026, 2) Lanthanum Carbonate chewable tablets (hyperphosphatemia), 3) Oseltamivir Phosphate suspension (anti-infectives), 4) Lapatinib Ditosylate tablets (anti-cancer). Besides these, it has also filed ANDAs for limited competition products such as 1) Glatiramer Acetate injection (multiple sclerosis), 2) Lansoprazole (anti-ulcerant; launched post approval) and 3) Budesonide (Crohn's disease). There are even more such products in the pipeline.

Hep C segment to strengthen domestic portfolio along with oncology

Natco is a leading player in the domestic oncology segment with a product basket of 28 products (as on 31, March, 2017). The segment has grown at a CAGR of 17% in FY12-17 on the back of consistent product launches. We expect the momentum in oncology segment to continue on the back of incremental launches. From FY16, Hepatitis C segment has opened up another important avenue for growth. We expect domestic sales to grow at a CAGR of 12% in FY17-19E to ₹ 1095 crore.

Near term growth prospects factored in price; downgrade to HOLD

Like FY17, Q1 also witnessed a windfall of Oseltamivir profit sharing for which the company enjoyed exclusivity. However, this was partly offset by GST transition impact in domestic sales. Going forward, the Hepatitis C group continues to be the main catalyst for growth. This augurs well in the long run as it will complement the oncology franchisee. Despite possible crowding in the Hepatitis C space, we expect the product to generate significant cash flows from India and other emerging markets. On the exports front, the US would remain a key long term driver base on its strong complex FTF/Para IV filings. We continue to value the stock on an SOTP basis to capture the emerging FTF/limited competition opportunities in the US. Our new target price is ~₹ 955, which includes base business value of ~₹ 400 (25x FY19E EPS of ₹ 16) + ~₹ 555 for NPV of other FTF/Para IVs.

Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	Q4FY17	YoY (%)	QoQ (%)	Comments
Revenue	445.3	396.0	340.3	577.8	30.9	-22.9	YoY growth mainly on account of profit sharing of Oseltamivir and robust growth in export API
Raw Material Expenses	126.6	112.9	107.8	130.3	17.5	-2.8	
Employee Expenses	63.1	59.4	51.7	79.6	22.1	-20.7	
Other Expenditure	118.9	114.8	103.6	126.8	14.8	-6.2	
Total Operating Expenditure	308.6	287.1	263.1	336.7	17.3	-8.3	
EBITDA	136.7	108.9	77.2	241.1	77.0	-43.3	
EBITDA (%)	30.7	27.5	22.7	41.7	801 bps	-1103 bps	YoY increase and beat vis-à-vis I-direct estimates mainly due to higher-than-expected profit sharing from Oseltamivir sales in US
Interest	6.4	4.3	3.2	6.4	100.0	0.0	
Depreciation	15.0	17.7	13.1	13.5	14.5	11.1	
Other Income	3.4	2.7	5.2	-0.6	-34.1	LP	
EO	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	118.7	89.6	66.1	220.6	79.7	-46.2	
Tax	27.5	21.5	18.6	44.2	47.8	-37.8	
PAT before MI	91.2	68.1	47.5	176.4	92.1	-48.3	
MI	0.3	-0.3	-0.2	-0.3	LP	LP	
Adj.Net Profit	90.9	68.4	47.7	176.7	90.6	-48.6	Sharp YoY growth mainly in sync with EBITDA
Key Metrics							
APIs	86.3	43.2	40.0	56.0	115.8	54.1	YoY increase and beat vis-à-vis I-direct estimates mainly due 149% YoY growth in export revenue
Domestic Oncology	73.0	62.1	73.0	84.0	0.0	-13.1	Growth was impacted due to GST transition
Export Formulations	133.8	133.4	51.0	292.0	162.4	-54.2	Includes ₹ 72 crore of profit sharing from Oseltamivir sales. Beat vis-à-vis estimates mainly due to higher-than-expected Oseltamivir sales
Domestic Hep-C	100.3	111.8	131.0	130.0	-23.4	-22.8	Growth was impacted by GST transition

Source: Company, ICICIdirect.com Research

Change in estimates

	FY18E			FY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	1,954.0	2,111.6	8.1	2,352.8	1,937.0	-17.7	Increased gDoxil sales expectation in FY18. Reduction in FY19 sales estimates mainly due to increased competition in domestic Hep-C segment and US base business
EBITDA	604.0	661.2	9.5	564.7	446.8	-20.9	Change largly in sync with revenue
EBITDA Margin (%)	30.9	31.3	41 bps	24.0	23.1	-93 bps	
PAT	400.3	445.6	11.3	370.4	279.6	-24.5	Changed mainly in sync with EBITDA
EPS (₹)	22.9	25.5	11.3	21.2	16.0	-24.5	

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier		Comments
	FY16	FY17E	FY18E	FY19E	FY18E	FY19E	
APIs	164.2	183.0	243.6	255.8	192.2	201.8	
Dometic Oncology	252.0	322.0	351.7	409.8	374.3	430.5	
Domestic Hep-C	314.0	514.0	541.9	648.3	625.5	787.7	Trimmed mainly due to increased competition
Exports formulations	252.0	322.0	351.7	409.8	365.9	469.2	Changed mainly due to delay in product launches and increase in competition

Source: Company, ICICIdirect.com Research

Company Analysis

Natco Pharma (NPL) is a mid-sized pharmaceutical company with a presence across the pharma value chain. The company also has a US retail business. It owns six manufacturing facilities including four formulations facilities and two API facilities. Overall revenues grew at a CAGR of 32% in FY12-17.

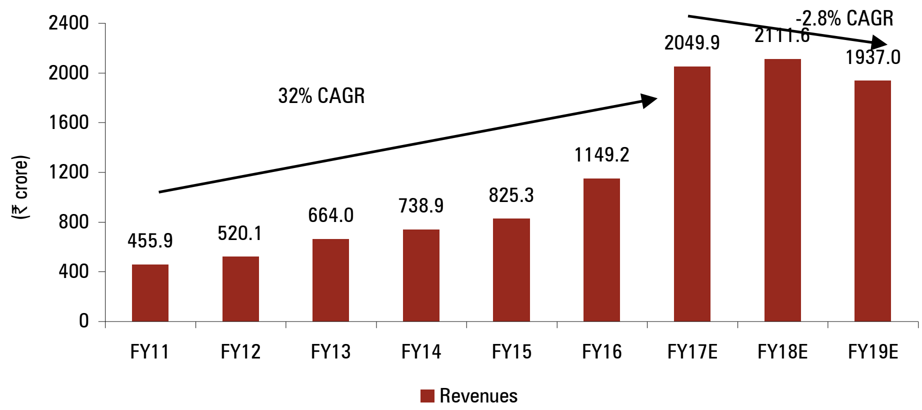
Natco is a leading domestic player in the oncology space. The company derives ~35-40% of sales from the oncology business (both APIs and Formulations). NPL's product pipeline consists of drugs, which are used for various types of cancer like blood cancer, breast cancer, brain cancer, ovarian cancer, lung cancer and prostate cancer. Currently, NPL is marketing ~28 products in the Indian market (as on 31, March, 2017).

On the export front, Natco exports products to the US, Canada and Europe. Despite being a late entrant in the US market, it has carved out its own identity via tie-ups to tap limited but niche products pipeline including 16 Para IVs and limited competition products. The products, which have first to file status, are Lenalidomide capsules, Oseltamivir Phosphate capsules, Lanthanum Carbonate chewable tablets, Lapatinib Ditosylate tablets and Bendamustine Hydrochloride powder. The other limited competition products are Glatiramer Acetate Injection (Para IV) and Budesonide. There are still more such candidates in the pipeline.

The company entered the Hepatitis C market with the launch of Hepatitis C drug Sofosbuvir (HEPCNAT) and other combinations with the same. The company has a royalty base agreement with Gilead Sciences and Bristol Myers Squibb (BMS) to supply generic version of hepatitis C medicines in India and other developing nations. Despite possible crowding in the Hepatitis C space, we expect the product to generate significant cash flows from India and other emerging markets, going ahead.

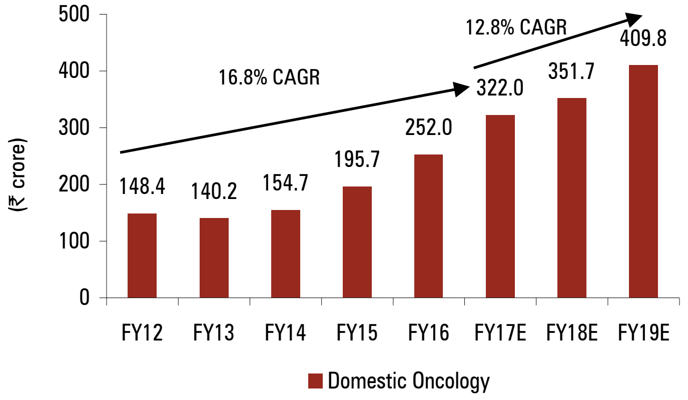
Natco had earlier tried to pursue the route of retail pharmacies as a gateway for entry into the US market. Later on, it revisited the strategy and sold two pharmacies and currently owns and operates a single store. As per the revised and more feasible game plan, it plans to market products via tie-ups with established players in the generic space. Overall, we expect revenues to remain subdued and decline at CAGR of 3% in FY17-19E to ₹ 1937 crore.

Exhibit 1: Revenues to decline at CAGR of 3% in FY17-19E



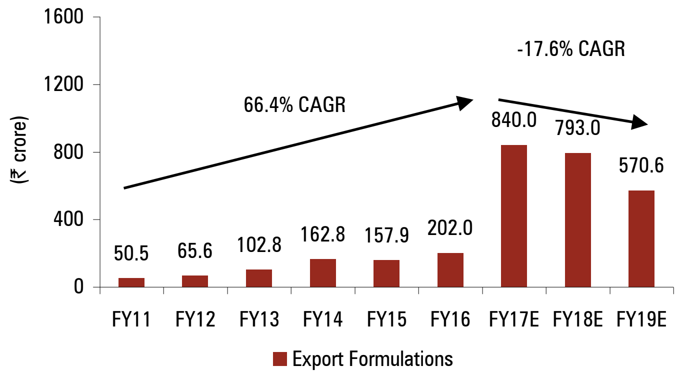
Source: Company, ICICIdirect.com Research

Exhibit 2: Domestic oncology to grow at CAGR of 13% in FY17-19E



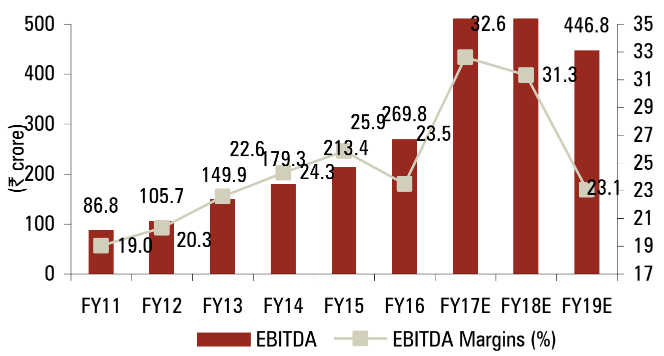
Source: Company, ICICIdirect.com, Research

Exhibit 3: High base of gTamiflu in FY17 to impact growth



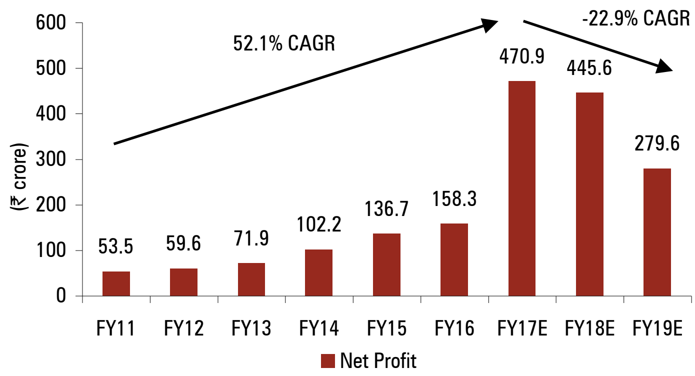
Source: Company, ICICIdirect.com, Research

Exhibit 4: EBITDA margin to stay pressurised due to adverse product mix



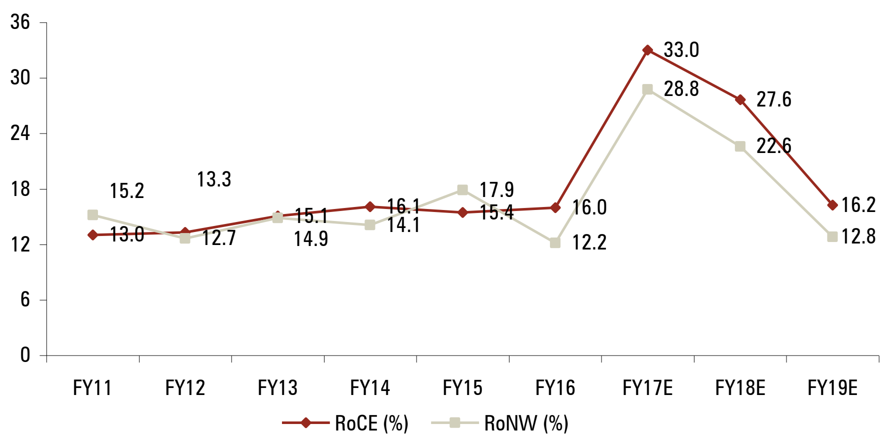
Source: Company, ICICIdirect.com, Research

Exhibit 5: Net profit to de-grow at CAGR of 23% in FY17-19E



Source: Company, ICICIdirect.com, Research

Exhibit 6: Return ratios likely to improve on the back of likely improvement in product mix



Source: Company, ICICIdirect.com Research

Exhibit 7: Trends in quarterly financials

₹ Crore	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)
Net Sales	190.3	209.1	184.3	190.6	215.7	236.5	275.2	394.4	297.7	415.2	642.9	577.8	402.3	35.1	-30.4
Other operating income	19.5	10.2	11.2	10.2	8.0	6.5	12.9	0.0	27.5	52.7	36.2	0.0	24.0	-12.8	NA
Revenues	209.8	219.2	195.5	200.8	223.7	243.0	288.1	394.4	325.2	467.9	679.0	577.8	426.3	31.1	-26.2
Raw Material Expenses	65.4	64.4	63.1	49.5	69.8	67.4	92.2	99.8	107.8	183.8	205.4	130.3	126.6	17.5	-2.8
% of Revenues	31.2	29.4	32.3	24.7	31.2	27.7	32.0	25.3	33.1	39.3	30.3	22.6	29.7	-275 bps	-770 bps
Gross Profit	144.4	154.8	132.4	151.3	153.9	175.7	195.9	294.6	217.4	284.1	473.6	447.5	299.7	37.8	-33.0
Gross Profit Margin (%)	68.8	70.6	67.7	75.3	68.8	72.3	68.0	74.7	66.9	60.7	69.7	77.4	70.3	275 bps	770 bps
Employee Expenses	31.6	33.7	33.3	38.4	40.4	43.3	47.2	53.3	51.7	55.4	56.0	79.6	63.1	22.1	-20.7
% of Revenues	15.0	15.4	17.0	19.1	18.1	17.8	16.4	13.5	15.9	11.8	8.2	13.8	14.8	26 bps	553 bps
Other Expenses	55.3	62.3	51.6	63.5	56.2	74.1	87.7	148.1	103.6	123.9	157.4	126.8	118.9	14.8	-6.2
% of Revenues	26.4	28.4	26.4	31.6	25.1	30.5	30.4	37.6	31.9	26.5	23.2	21.9	27.9	-1561 bps	-124 bps
Total Expenditure	152.3	160.4	147.9	151.3	166.4	184.8	227.0	301.2	263.1	363.1	418.8	336.7	308.6	17.3	-8.3
% of Revenues	72.6	73.2	75.7	75.4	74.4	76.0	78.8	76.4	80.9	77.6	61.7	58.3	72.4	-1810 bps	-341 bps
EBITDA	57.5	58.8	47.6	49.5	57.3	58.2	61.1	93.2	62.1	104.8	260.2	241.1	117.7	89.4	-51.2
EBITDA Margins(%)	27.4	26.8	24.3	24.6	25.6	24.0	21.2	23.6	19.1	22.4	38.3	41.7	27.6	1810 bps	341 bps
Depreciation	11.1	11.2	12.2	12.8	12.6	12.7	13.3	12.3	13.1	14.1	13.7	13.5	15.0	14.5	11.1
Interest	6.6	7.2	8.5	9.4	8.1	7.7	3.6	3.6	3.2	4.2	4.6	6.4	6.4	100.0	0.0
Other income	1.2	3.2	7.3	3.2	1.8	2.1	5.4	0.4	5.2	3.2	6.1	-0.6	3.4	-34.1	-666.7
Less: Exceptional Items	0.0	0.0	15.1	0.0	0.0	0.0	0.0	-0.6	0.0	0.0	0.0	0.0	0.0		
PBT	41.0	43.6	19.1	30.5	38.4	39.9	49.5	78.3	51.0	89.7	248.0	220.6	99.7	95.5	-54.8
Total Tax	8.8	12.4	5.4	8.5	11.0	11.0	13.1	14.1	18.6	23.5	53.1	44.2	27.5	47.8	-37.8
Tax rate (%)	21.4	28.4	28.4	27.9	28.7	27.6	26.4	18.0	36.5	26.2	21.4	20.0	27.6		
PAT	32.2	31.2	13.7	22.0	27.4	28.9	36.5	64.2	32.4	66.2	194.8	176.4	72.2	122.9	-59.1
PAT Margin (%)	15.4	14.2	7.0	10.9	12.2	11.9	12.7	16.3	10.0	14.2	28.7	30.5	16.9	1425 bps.	183 bps.
Minority Interest	-1.3	-1.1	-0.7	-1.3	-0.7	-0.4	-0.5	0.2	-0.2	-0.3	-0.2	-0.3	0.3		
PAT after MI	33.5	32.4	14.3	23.3	28.1	29.3	36.9	64.0	32.6	66.6	195.1	176.7	71.9	120.5	-59.3
EPS (₹)	10.7	10.4	4.6	7.4	8.9	9.3	11.8	19.3	9.9	20.1	59.0	53.4	20.7		
Adj PAT	33.5	32.4	29.5	23.3	28.1	29.3	36.9	63.4	32.6	66.6	195.1	176.7	71.9	120.5	-59.3

Source: Company, ICICIdirect.com Research

SWOT Analysis

Strengths - Focus on limited but niche opportunities, tie-ups with the MNCs, larger Indian companies to share risks, focus on Oncology in the domestic space, strong balance sheet

Weakness – higher segment concentration. Oncology and Hep C group accounts for ~90% of domestic formulations.

Opportunities - The US Generics space

Industry Threats - Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation in the US.

Exhibit 8: Natco US/EU key product pipeline

Brand Name	API	Dose Form	Therapeutic use	Status	Patent Litigation Status	Partner	ANDA ownership	Expected Launch Date	Annual Sales (US$)
US Pipeline:									
Fosrenol	Lanthanum Carbonate	Tablets	End stage renal disease	Para IV/ FTF	NA	Lupin	Natco	2016	74 million
Copaxone	Glatiramer prefilled	Injection	Multiple Sclerosis	Para IV	In process	Mylan	Mylan	2015	4.3 billion
Gleevec	Imatinib	Tablets	Cancer- CML	NA	No	Helm	Activis	2016	2.3 billion
Revlimid	Lenalidomide	Capsules	Multiple Myeloma	Para IV/FTF	Still Due	Actavis	Natco	2017	3.5 billion
Tamiflu	Oseltamivir	Capsules	Influenza infection	Para IV/FTF	Approved	Alvogen	Natco	Approved	403 million
Tykerb	Lapatinib	Tablets	Anti cancer	Para IV/FTF	NA	Lupin	Lupin	NA	74 million
Nuvugil	Armodafinil	Tablets	Anti-ulcer	Para IV	NA	Activis	Activis	NA	482 million
Treanda	Bendamustine	Injection	Lymphocytic Leukemia	Para IV/FTF	NA	Breckenridge	Breckenridge	NA	710 million
Jevtana	Cabazitaxel	Injection	prostate cancer	Para IV/FTF	NA	Breckenridge	Breckenridge	NA	137 million
Gilenya	Fingolimod	Capsules	Multiple Scherosis	Para IV/FTF	NA	NA	Natco	NA	1.8 billion
Nexavar	Sorafenib Tosylate	Tablets	Kidney & Liver Cancer	Para IV/FTF	NA	Mylan	Mylan	NA	300 million
Europe Pipeline:									
Gleevec	Imatinib	Tablets	CML	NA	No	Helm	Activis	2016	4 billion
Treanda	Bendamustine	Vial	Lymphocytic Leukemia	NA	NA	Helm	Helm	NA	860 million

Source: Company, ICICIdirect.com Research

Conference call highlights

- For Q1FY18, exports formulation sales included profit sharing of ₹ 72 crore pertaining to Oseltamivir (gTamiflu; anti-infective) sales by US based Alvogen
- The management expects approval for Oseltamivir suspension in FY18
- The management expects to file four to five ANDAs in US in FY18
- On the domestic formulations front, for Q1FY18, oncology revenues were at ₹ 73 crore, pharma brands at ~₹ 85 crore and third party at ~₹ 25 crore
- The management has guided for ₹ 350-400 crore of capex in FY18 on funding for newly develop Vizag plant (₹ 100 crore) and enhancing domestic API (Chennai, Hyderabad) and formulation facilities (Guwahati, Dehradun). The company has till now spent ₹ 86 crore as capex in FY18
- Azacitidine (gVidaza; oncology) and Lanthanum carbonate (Foserenol; nephrology) launches are expected in FY18
- The management is focussed on increasing its India and RoW exposure. It expects to clock 20% growth in India in FY18. The company expects 15-20 launches in India
- On 20 mg Glatiramer (Copaxone), the company expects to get USFDA approval in FY18
- The company has incurred ₹ 7-8 crore of one-time expense in Q1FY18 due to GST transition
- On the R&D front, the company is positive on realigning its spend in the proportion of 50-60% India, 25% US and 25% other geographies
- On its HepC portfolio, the company has filed its drug in 30 countries and has received approval in 12 countries

Exhibit 9: Major facilities

Location	Segment	Regulatory Approvals	Type
Mekaguda, Telangana	API	US FDA, German Health Authority Hamburg, Iran Ministry of Health, Korea FDA, EU GMP, Cofepris Mexico	
Chennai	API	WHO GMP	Cytotoxic API's, Biotech products.
Kothur, Telangana	Formulations	US FDA, TPD Canada, Minsitry of Health Greece, Infarmed Portugal, German Health Authority Hamburg	Tablets, Capsules, Pellets
Nagarjuna Sagar, Telangana	Formulations	GMP	Small Volume Parentarels, Sterile Dry Powders
Dehradun	Formulations	GMP, WHOGMP, EUGMP	Tablets, Capsules, Injectables
Guwahati	Formulations		

Source: Company, ICICIdirect.com Research

Valuation

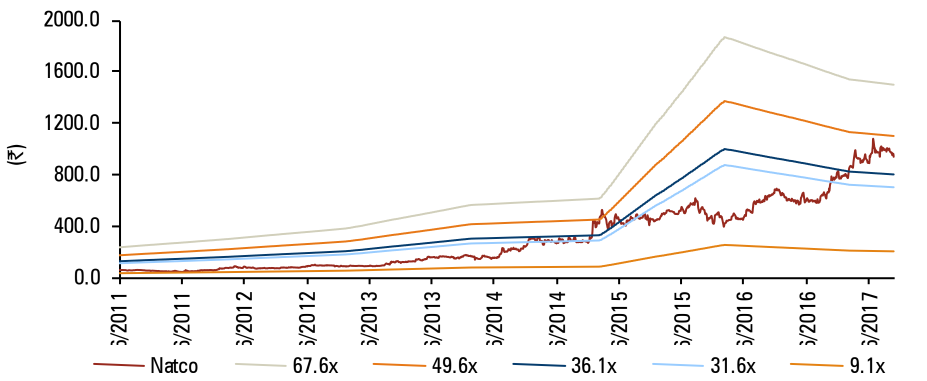
The quarter witnessed windfall Oseltamivir inventory sales as well as profit sharing for which the company enjoyed exclusivity. Besides this, the Hepatitis C group continues to be the main catalyst for growth. This augurs well in the long run as it will complement the oncology franchisee. Despite possible crowding in the Hepatitis C space, we expect the product to generate significant cash flows from India and other emerging markets. On the exports front, the US would remain a key long term driver base on its strong complex FTF/Para IV filings. Natco has demonstrated a more nimble footed approach vis-à-vis other Indian generic players on the US product launches front. We continue to value the stock on an SOTP basis to capture the emerging FTF/limited competition opportunities in the US. Our new target price is ₹ 1055, which includes base business value of ₹ 530 (25x FY19E EPS of ₹ 21.2) + ₹ 525 for NPV of other FTF/Para IVs.

Exhibit 10: Valuation

	₹ share
Base Business (25x FY19E EPS of ₹ 16)	400
Para IV Opportunities	555
Target Price	**955**

Source: Company, ICICIdirect.com Research

Exhibit 11: One year forward PE



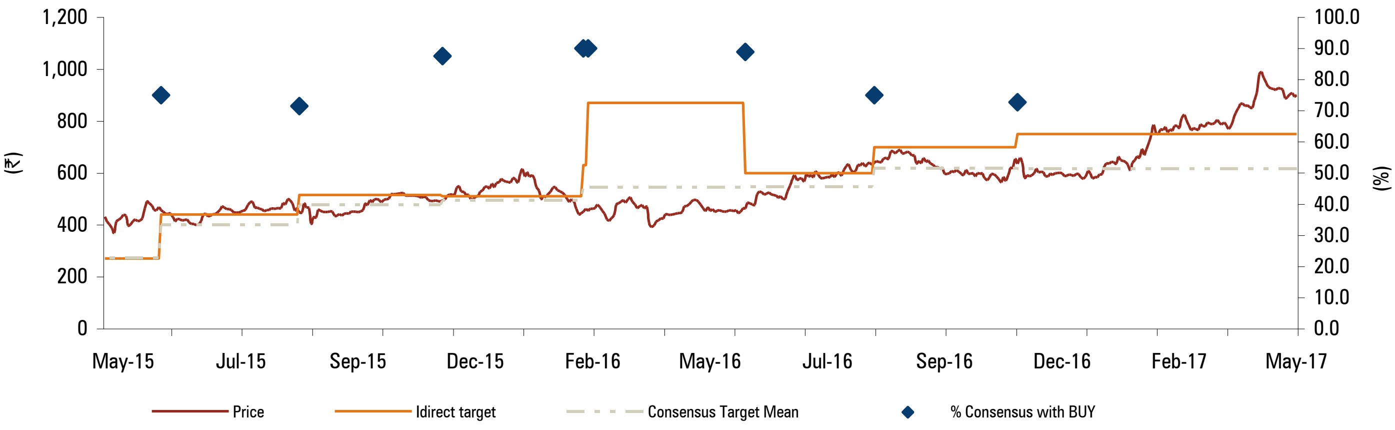
Source: Company, ICICIdirect.com Research

Exhibit 12: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY16	1149	39.3	9.0	4.3	103.2	60.7	12.2	16.0
FY17E	2050	78.4	27.0	198.4	34.7	24.7	28.8	33.0
FY18E	2112	3.0	25.5	-5.4	36.7	25.0	22.6	27.6
FY19E	1937	-8.3	16.0	-37.3	58.4	36.6	12.8	16.2

Source: Company, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICIdirect.com Research

Key events

Date	Event
Oct-08	Files first ANDA with Para IV certification with USFDA for Lanthanum Carbonate chewable tablets.
Aug-10	Files ANDA with para IV certification with USFDA for the generic version of Celgene's Revlimid Capsules. Entitled to 180 days exclusivity
Feb-11	Files ANDA with para IV certification for the generic version of Oseltamivir phosphate capsules. Entitled to 180 days exclusivity
Jun-11	Enters into an alliance with Lupin to jointly market generic anti-cancer Lapatinib Ditosylate tablets in the US market
Dec-11	Raises ₹ 67.5 crore through issue of 30,00,000 shares in a QIP issue
Mar-12	Indian Patent office grants India's first compulsory license to Natco Pharma to launch the generic version of Sorafenib Tosylate in India.
Dec-12	Receives final approval for Lansoprazole DR capsules, a limited competition product in the US
Jul-13	Wins patent litigation relating to Copaxone (Glatiramer Acetate) against Teva Pharma in US court of Appeals for the federal circuit
Oct-13	Raises ₹ 153.22 crore from CX securities (foreign institutional investor) by issuing 24 lakhs shares on a preference allotment basis
Jan-14	Teva launches Copaxone in 40 mg strength.
Sep-14	USFDA grants EIR to the formulation facility at Kothur
Mar-15	Natco launches Sofosbuvir in India
Aug-16	Natco with its marketing partner Alvogen receives USFDA approval for the generic version of Roche's Tamiflu (Oseltamivir Phosphate)
Aug-16	Chennai and Kothur facilities receive establishment inspection report (EIR) from USFDA
Jan-17	Natco's Kothur formulation facility receives six USFDA observations

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Chan
1	Nannapaneni (V C)	30-Jun-17	20.2	35.3m	0.0m
2	Time Cap Pharma Labs Pvt. Ltd.	30-Jun-17	9.8	17.2m	0.0m
3	Natsoft Information Systems Pvt. Ltd.	30-Jun-17	9.0	15.8m	0.0m
4	Shanghvi (Dilip S)	30-Jun-17	3.3	5.8m	0.0m
5	Nannapaneni (Venkaiah Chowdary) HUF	30-Jun-17	3.1	5.4m	0.0m
6	Vistra ITCL India, Ltd.	30-Jun-17	2.7	4.7m	0.0m
7	CX Securities, Ltd.	30-Jun-17	2.6	4.5m	-1.5m
8	Birla Sun Life Asset Management Company Ltd.	30-Jun-17	2.2	3.9m	0.2m
9	Nannapaneni (Durga Devi)	30-Jun-17	2.0	3.5m	0.0m
10	Kantamani (Venkata Satya Swathi)	30-Jun-17	1.6	2.9m	0.0m

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	51.3	51.3	51.3	51.2	51.2
Others	48.7	48.7	48.7	48.8	48.8

Recent Activity

Buys			Sells		
Investor name	Value ($)	Shares	Investor name	Value ($)	Shares
Nannapaneni (Rajeev)	23.2m	1.5m	CX Securities, Ltd.	-23.3m	-1.5m
The Vanguard Group, Inc.	8.4m	0.5m	Morgan Stanley Investment Management Inc. (US)	-11.6m	-1.0m
Wasatch Advisors, Inc.	3.1m	0.2m	Carnegie Fonder AB	-5.2m	-0.3m
Jupiter Asset Management Ltd.	3.0m	0.2m	Nordea Funds Oy	-3.0m	-0.2m
Birla Sun Life Asset Management Company Ltd.	3.1m	0.2m	Axis Asset Management Company Limited	-1.9m	-0.1m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Revenues	1,149.2	2,049.9	2,111.6	1,937.0
Growth (%)	39.3	78.4	3.0	-8.3
Raw Material Expenses	329.2	627.3	610.4	581.1
Employee Expenses	184.2	242.7	269.6	306.1
Other expenses	366.1	511.7	570.4	603.0
Total Operating Expenditure	879.5	1,381.7	1,450.4	1,490.2
EBITDA	269.8	668.2	661.2	446.8
Growth(%)	26.4	147.7	-1.1	-32.4
Depreciation	50.9	54.4	60.0	84.2
Interest	22.9	18.4	25.6	11.7
Other Income	9.7	13.9	17.1	18.6
PBT	206.2	609.3	592.7	369.5
Total Tax	49.2	139.4	145.8	88.7
PAT before MI	156.9	469.9	446.8	280.8
Minority Interest	-1.4	-1.1	1.2	1.2
Adjusted PAT	157.8	470.9	445.6	279.6
Growth(%)	4.3	198.4	-5.4	-37.3
EPS (Adjusted)	9.0	27.0	25.5	16.0

*Source: Company, ICICIdirect.com Research, *Includes windfall of Oseltamivir exclusivity in US*

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit/(Loss) after taxation	158.3	470.9	445.6	279.6
Add: Depreciation	50.9	54.4	60.0	84.2
(Inc)/dec in Current Assets	-296.7	-253.2	-71.2	70.9
Inc/(dec) in CL and Provisions	195.6	10.4	64.7	-25.9
CF from operating activities	108.1	282.5	499.2	408.8
(Purchase)/Sale of Fixed Assets	-137.3	-298.5	-350.0	-180.0
(Increase)/Decrease in Investmen	-19.3	-11.2	-20.0	-20.0
Others	0.5	14.4	1.2	1.2
CF from investing activities	-156.2	-295.2	-368.8	-198.8
Inc / (Dec) in Equity Capital	317.1	0.1	0.0	0.0
Inc / (Dec) in Loan	-4.8	14.1	0.0	0.0
Dividend & Dividend tax	-23.1	-117.7	-111.4	-69.9
Others	-209.4	95.6	0.0	-100.0
CF from financing activities	79.8	-8.0	-111.4	-169.9
Net Cash flow	31.8	-20.7	19.0	40.1
Opening Cash	13.4	45.1	24.4	43.4
Closing Cash	45.1	24.4	43.4	83.5
Free Cash Flow	-29.2	-16.0	149.2	228.8

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Equity Capital	34.8	34.9	34.9	34.9
Reserve and Surplus	1,263.5	1,603.1	1,937.4	2,147.1
Total Shareholders funds	1,298.3	1,638.0	1,972.3	2,182.0
Total Debt	98.4	221.6	221.6	121.6
Deferred Tax Liability	14.4	15.0	15.0	15.0
Minority Interest / Others	5.7	4.9	6.1	7.3
Long Term Provisions	12.5	21.9	21.9	21.9
Total Liabilities	1,429.3	1,901.4	2,236.9	2,347.8
Gross Block - Fixed Assets	977.2	1,154.3	1,504.3	1,684.3
Accumulated Depreciation	272.6	327.0	387.0	471.2
Net Block	704.6	827.3	1,117.3	1,213.1
Capital WIP	211.8	336.3	336.3	336.3
Total Fixed Assets	916.4	1,163.6	1,453.6	1,549.4
Net Intangible Assets	8.9	5.8	5.8	5.8
Investments	21.0	32.2	52.2	72.2
Inventory	357.3	348.9	574.8	529.3
Debtors	261.6	475.2	320.5	295.1
Loans and Advances	103.8	78.7	78.7	78.7
Cash	45.1	24.4	43.4	83.5
Other Current Assets	43.5	116.6	116.6	116.6
Total Current Assets	811.3	1,043.8	1,133.9	1,103.1
Creditors	275.5	262.7	327.4	301.4
Provisions	4.9	1.8	1.8	1.8
Other Current Liabilities	114.2	140.4	140.4	140.4
Total Current Liabilities	394.6	404.9	469.6	443.6
Net Current Assets	416.8	638.9	664.4	659.5
LT L & A & Other Non CA	66.1	60.9	60.9	60.9
Application of Funds	1,429.2	1,901.4	2,236.9	2,347.8

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
Adjusted EPS	9.0	27.0	25.5	16.0
BV per share	74.4	93.9	113.0	125.0
Dividend per share	1.3	6.7	6.4	4.0
Cash Per Share	2.6	1.4	2.5	4.8
Operating Ratios (%)				
Gross Profit Margins	71.4	69.4	71.1	70.0
EBITDA Margins	23.5	32.6	31.3	23.1
PAT Margins	13.7	23.0	21.1	14.4
Inventory days	113.5	62.1	99.4	99.7
Debtor days	83.1	84.6	55.4	55.6
Creditor days	87.5	46.8	56.6	56.8
Asset Turnover	0.8	1.1	0.9	0.8
EBITDA Conversion Rate	40.1	42.3	75.5	91.5
Return Ratios (%)				
RoE	12.2	28.8	22.6	12.8
RoCE	16.0	33.0	27.6	16.2
RoIC	19.0	39.9	32.4	18.8
Valuation Ratios (x)				
P/E	103.2	34.7	36.7	58.4
EV / EBITDA	60.7	24.7	25.0	36.6
EV / Net Sales	14.2	8.1	7.8	8.5
Market Cap / Sales	14.2	8.0	7.7	8.4
Price to Book Value	12.6	10.0	8.3	7.5
Solvency Ratios				
Debt / EBITDA	0.4	0.3	0.3	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.9	2.5	2.3	2.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
Ajanta Pharma	AJAPHA	1319	1,880	Buy	11604.0	110.0	56.6	58.2	69.8	12.0	23.3	22.7	18.9	46.2	41.8	33.7	32.3	37.3	33.2	26.8	25.6
Alembic Pharma	ALEMPHA	531	570	Hold	10010.2	38.2	21.2	19.1	28.6	13.9	25.1	27.8	18.6	52.2	25.3	18.7	23.9	45.1	21.0	16.5	20.8
Apollo Hospitals	APOHOS	1264	1,400	Buy	17579.2	13.2	12.8	16.5	33.3	95.7	98.4	76.4	37.9	6.6	6.0	6.7	10.8	5.3	4.9	5.9	10.9
Aurobindo Pharma	AURPHA	730	755	Buy	42754.8	33.9	38.3	37.1	42.1	21.5	19.0	19.6	17.3	23.3	24.8	19.6	19.9	28.1	23.9	19.0	17.9
Biocon	BIOCON	351	380	Hold	21060.0	7.7	11.0	7.8	13.5	45.5	32.0	45.1	26.0	9.3	11.9	10.1	15.9	11.5	13.6	9.0	13.9
Cadila Healthcare	CADHEA	528	420	Hold	54022.9	15.0	14.5	15.4	20.5	35.3	36.3	34.2	25.7	24.9	13.1	15.2	18.5	34.4	21.4	19.4	21.6
Cipla	CIPLA	571	470	Hold	45950.9	18.5	12.9	17.8	25.3	30.9	44.4	32.0	22.6	12.0	8.0	11.0	14.5	12.5	8.1	10.4	13.1
Divi's Lab	DIVLAB	678	665	Hold	17985.5	41.5	39.3	34.6	41.5	16.3	17.2	19.6	16.3	30.5	25.0	20.3	21.5	25.7	19.5	15.4	16.4
Dr Reddy's Labs	DRREDD	2122	2,400	Hold	35166.7	141.4	70.6	72.4	126.2	15.0	30.1	29.3	16.8	15.3	6.1	6.8	11.9	19.2	9.5	9.0	13.9
Glenmark Pharma	GLEPHA	678	730	Hold	19142.3	32.2	46.0	38.7	40.6	21.1	14.8	17.5	16.7	16.2	18.9	15.9	15.5	21.2	25.5	17.9	15.9
Indoco Remedies	INDREM	200	180	Hold	1843.0	9.4	8.4	7.7	11.4	21.3	23.9	25.9	17.5	12.9	8.4	8.9	12.1	14.8	12.0	10.2	13.4
Ipca Laboratories	IPCLAB	457	525	Hold	5767.3	7.4	15.4	17.6	27.9	61.9	29.6	25.9	16.4	4.5	8.7	9.3	13.2	4.1	7.9	8.4	12.0
Jubilant Life	JUBLIF	687	845	Buy	10942.6	26.0	36.1	44.3	59.1	26.4	19.0	15.5	11.6	12.0	13.3	14.8	17.6	14.2	16.8	17.3	19.0
Lupin	LUPIN	977	1,070	Hold	44113.2	50.4	56.6	41.4	53.4	19.4	17.2	23.6	18.3	17.8	16.6	12.4	15.5	20.3	18.9	12.4	14.2
Natco Pharma	NATPHA	936	955	Hold	16315.2	9.0	27.0	25.5	16.0	103.5	34.7	36.7	58.4	16.0	33.0	27.6	16.2	12.2	28.8	22.6	12.8
Sun Pharma	SUNPHA	502	550	Hold	120442.2	23.4	29.0	20.3	25.5	21.4	17.3	24.8	19.7	18.6	19.8	13.5	15.0	18.0	19.0	12.0	13.4
Syngene Int.	SYNINT	468	490	Hold	9369.0	11.1	14.3	14.3	17.4	43.6	33.6	33.6	27.7	14.1	16.8	16.2	17.8	21.6	20.3	17.2	17.4
Torrent Pharma	TORPHA	1270	1,250	Hold	21497.3	110.9	55.2	48.3	65.8	11.5	23.0	26.3	19.3	46.5	18.9	17.6	20.7	53.7	21.5	16.5	19.2
Unichem Lab	UNILAB	261	235	Hold	2373.9	12.3	12.0	17.3	23.6	21.2	21.8	15.1	11.0	13.8	11.8	11.6	13.9	11.7	10.2	13.1	15.5

Source: Company, ICICIdirect.com Research

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