

INDUSTRY PHARMA

CMP (as on 10 Aug 2018) Rs 687

Target Price Rs 914

Nifty 11,430

Sensex 37,869

KEY STOCK DATA

Bloomberg NLL IN

No. of Shares (mn) 17

MCap (Rs bn) / (\$ mn) 12/174

6m avg traded value (Rs mn) 11

STOCK PERFORMANCE (%)

52 Week high / low Rs 1,425/551

3M 6M 12M

Absolute (%) (14.2) (1.2) (44.0)

Relative (%) (21.6) (12.6) (64.1)

SHAREHOLDING PATTERN (%)

Promoters 36.1

FIs & Local MFs 22.39

FPIs 14.8

Public & Others 26.8

Source : BSE

Difficult times

Neuland Labs (NLL) delivered poor performance in its 1QFY19 results. Revenue grew 31%YoY to Rs 1.54bn (down 4%QoQ) and EBITDA at Rs 90mn was up 11.3%YoY (sequential drop of 52%) with margin at 5.8% (declining by ~100bpsYoY). PAT reduced by 37%YoY and 95%QoQ, standing at Rs 4.1mn. while revenue beat our estimates by 6%; EBITDA, margin, and PAT were missed by 54%, 750bps, and 94% respectively. Growth in prime API segment led to overall top-line growth in the quarter.

NLL's gross margin for the quarter was 44% (v/s 58% in 1QFY18 and 50% in 4QFY18) which was impacted by two factors: (1) inability to pass on increased input cost to customers, and (2) larger contribution of the low margin prime API segment. The company is working with customers to pass on these hikes and to take gross margin 50% plus in coming quarters. The commercialization of 8 CMS projects which are currently in development and ramp up in existing niche API molecules and approvals for gAdvair in the US (CY18), will further expand margins for NLL. It is also likely to shift 3-4 APIs to new unit 3 in FY19-20,

Financial Summary

Year Ending March (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	1,540	1,172	31.4	1,602	(3.9)	5,789	5,274	6,037	7,455
EBITDA	90	81	11.3	188	(52.2)	1,063	504	640	1,327
APAT	4	7	(36.6)	81	(94.9)	469	121	231	742
Diluted EPS (Rs)	0.4	0.6	(36.6)	7.3	(94.9)	42.6	11.0	18.0	57.9
EV/EBITDA (x)						8.6	20.5	15.0	6.9
RoE (%)						12.8	2.2	3.7	10.1

Source: Company, HDFC sec Inst Research

with which it will overcome capacity constraints and see volume growth in its prime API segment. With the expectation that revenue growth will continue and margin expansion will follow, we estimate 18% revenue CAGR, EBITDA margin expanding to ~17%, and PAT growing 6x over FY18-20E. Maintain BUY with a TP of Rs 914 (16x FY20E EPS)

Highlights of the quarter

- Prime API segment grew 45%YoY driven by products like Levofloxacin, Mirtazapine, and Sotalol.
- Niche API segment, which grew at 41%YoY, will see growth in existing molecules like Dorzolamide and Donepazil. Few more molecules like Bosentan and Salmeterol are likely to see generic approvals in the US market in FY19 which would drive growth in coming quarters. The progress on DMF filings has been very encouraging, with 4 DMF filings in CY18. Looking forward to file more 5-6 more in coming quarters.
- After raising Rs 1.2bn through QIP, NLL has reduced debt by Rs 1bn from 4Q to 1Q (Rs 2.2bn current debt).
- Near term outlook:** Mylan's gAdvair approval in CY18 remains key trigger for stock which can add Rs 18 EPS.

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Quarterly Financials Snapshot (Consolidated)

Particulars	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net Sales	1,540	1,172	31.4	1,602	(3.9)
Material Expenses	867	490	76.8	803	8.1
Employee Expenses	256	235	8.7	225	13.7
Other Expenses	327	365	(10.5)	387	(15.5)
EBITDA	90	81	11.3	188	(52.2)
Depreciation	57	53		56	
EBIT	33	28	18.0	132	(74.8)
Other Income	11	26		3	
Interest Cost	39	45		49	
PBT	6	9	(35.9)	86	(93.6)
Tax	1	2		5	
Minority Interest					
RPAT	4	7	(36.6)	81	(94.9)
EO Items (Adj For Tax)					
APAT	4	7	(36.6)	81	(94.9)

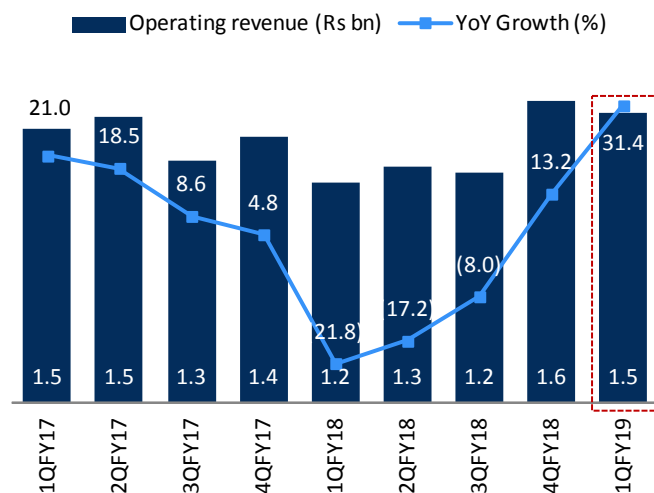
Source: Company, HDFC sec Inst Research

Margin Analysis

	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Material Expenses % Net Sales	56.3	41.9	1,447	50.1	624
SG&A Expenses % Net Sales	16.6	20.1	(347)	14.0	257
Other Expenses % Net Sales	21.2	31.2	(994)	24.1	(292)
EBITDA Margin (%)	5.8	6.9	(105)	11.7	(590)
Tax Rate (%)	25.0	24.1	89	6.3	1,872
APAT Margin (%)	0.3	0.6	(29)	5.0	(476)

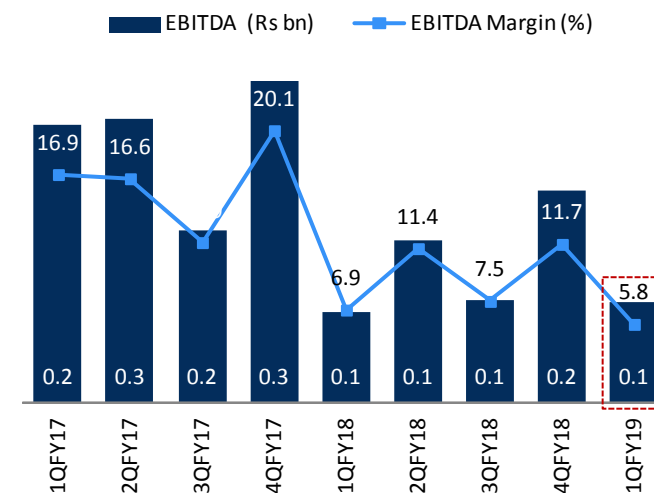
Source: Company, HDFC sec Inst Research

Revenue: Robust Growth Of 31%YoY



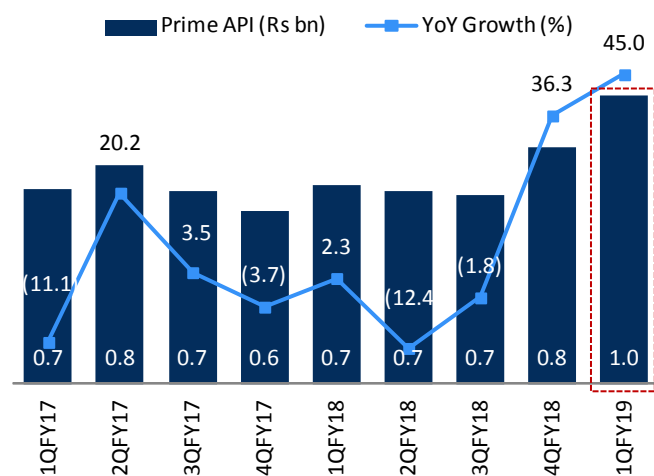
Source: Company, HDFC sec Inst Research

EBITDA Margin Declined Significantly



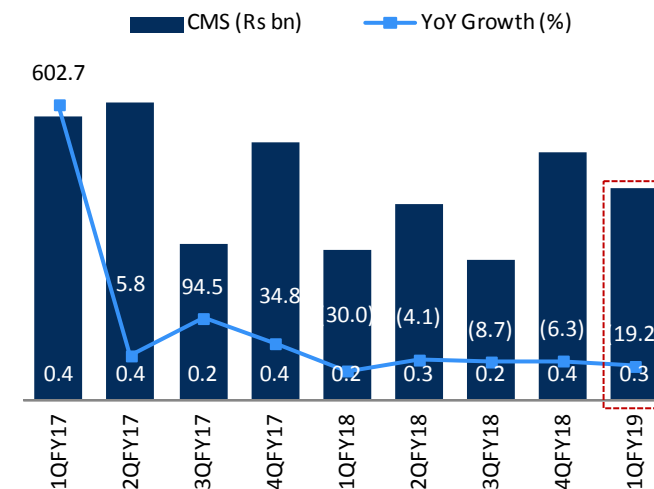
Source: Company, HDFC sec Inst Research

Prime API Segment Jumped 45%YoY



Source: Company, HDFC sec Inst Research

Sequential Drop in CMS Revenue



Source: Company, HDFC sec Inst Research

Segmental Quarterly Performance

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Prime API	1,036	715	45.0	849	22.0
Niche API	314	223	41.1	369	(14.8)
CMS	189	234	(19.2)	385	(50.8)
Total	1,540	1,172	31.4	1,602	(3.9)

Source: HDFC sec Inst Research

Assumptions

	FY16	FY17	FY18	FY19E	FY20E
Prime API	2,907	2,806	2,938	2,953	3,153
Growth (%)	(4.7)	(3.5)	4.7	0.5	6.8
Niche API	1,377	1,477	1,088	1,481	1,732
Growth (%)	33.4	7.2	(26.3)	36.1	17.0
CMS	867	1,394	1,225	1,531	2,526
Growth (%)	42.1	60.8	(12.2)	25.0	65.0
Total	5,151	5,677	5,251	5,965	7,412
Growth (%)	9.8	10.2	(7.5)	13.6	24.2

Source: HDFC sec Inst Research

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP/FV	Adj EPS (Rs/sh)				P/E (x)				RoE (%)			
					FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
Sun Pharma	1,333	554	BUY	640	26.0	13.0	16.4	24.6	21.3	42.7	33.7	22.5	17.9	9.1	12.3	14.8
Cipla	499	621	NEU	595	12.5	17.5	22.5	28.6	49.7	35.4	27.6	21.7	8.4	10.5	12.0	13.7
Cadila Healthcare	386	377	BUY	525	14.5	12.9	14.6	21.2	25.9	29.3	25.7	17.8	23.5	16.8	16.1	20.1
Dr Reddy's Labs	376	2,214	NEU	2,340	72.7	59.2	75.7	102.5	30.5	37.4	29.2	21.6	9.5	7.8	9.5	11.5
Lupin	364	809	BUY	1,000	33.4	38.0	27.4	45.3	24.3	21.3	29.5	17.9	12.2	12.7	8.9	13.5
Aurobindo Pharma	352	610	BUY	691	39.3	34.4	36.6	45.4	15.3	17.5	16.4	13.2	27.6	19.1	16.9	17.8
Divi's Labs	298	1,124	NEU	1,150	39.9	33.0	44.6	51.4	28.1	34.0	25.2	21.9	22.0	15.5	18.7	18.9
Torrent Pharma	287	1,697	NEU	1,540	51.2	40.1	46.1	69.9	33.1	42.4	36.8	24.3	22.1	15.1	15.9	20.9
Alkem Laboratories	240	2,060	BUY	2,410	74.6	57.6	73.1	100.5	27.5	35.6	28.1	20.4	21.9	14.8	16.8	20.0
Glenmark	167	591	BUY	710	29.6	17.5	27.0	38.8	20.0	33.8	21.9	15.2	18.1	9.4	12.8	16.1
Jubilant Life Sciences	114	731	BUY	990	37.0	46.6	57.9	70.1	19.8	15.7	12.6	10.4	18.0	19.3	20.1	20.3
Alembic Pharma	109	578	NEU	560	21.4	21.9	23.8	31.1	27.0	26.4	24.2	18.6	23.0	20.0	18.8	20.9
Laurus Labs	46	438	NR	505	18.0	15.8	18.3	28.2	24.3	27.6	24.0	15.5	17.4	11.9	12.3	16.6
Dishman Carbogen Amcis	42	259	BUY	440	9.0	9.6	13.4	19.9	28.8	27.1	19.3	13.1	3.0	3.1	4.2	5.9
Strides Shasun	37	411	BUY	480	34.0	12.7	15.5	28.7	12.1	32.4	26.5	14.3	13.1	4.4	5.5	9.6
Suven Life Sciences	30	235	NR	450	6.8	9.7	10.3	11.4	34.3	24.2	22.7	20.6	13.8	17.2	16.0	15.5
Granules India	26	104	BUY	120	7.5	5.2	7.8	10.0	13.9	19.9	13.4	10.5	21.0	12.0	14.3	16.5
Neuland Labs	12	687	BUY	914	42.6	11.0	17.4	57.1	16.1	62.6	39.5	12.0	12.8	2.2	3.5	10.0

Source: HDFC sec Inst Research

Change In Estimates (Consolidated)

Rs mn	Previous			New			% Chg		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Net Sales	5,274	6,041	7,459	5,274	5,945	7,387	0.0	(1.6)	(1.0)
EBITDA	504	822	1,328	504	630	1,315	0.0	(23.3)	(1.0)
APAT	121	317	685	121	223	733	0.0	(29.6)	6.9

Income Statement (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	5,100	5,789	5,274	5,945	7,387
Growth (%)	8.7	13.5	(8.9)	12.7	24.2
Material Expenses	2,535	2,629	2,384	2,973	3,139
Employee Expenses	557	927	1,030	1,052	1,271
Other Operating Expenses	514	462	425	713	554
EBITDA	685	707	931	577	1,108
EBITDA Margin (%)	809	1,063	504	630	1,315
EBITDA Growth (%)	15.9	18.4	9.6	10.6	17.8
Depreciation	21.4	31.5	(52.6)	25.0	108.6
EBIT	157	192	221	240	315
Other Income (Including EO Items)	651	871	283	390	1,000
Interest	18	12	45	50	60
PBT	249	211	189	157	132
Tax (Incl Deferred)	420	672	139	283	928
RPAT	149	203	19	59	195
Minority Interest	271	469	121	223	733
EO (Loss) / Profit (Net Of Tax)	(2)	-	0	0	0
APAT	269	469	121	223	733
APAT Growth (%)	68.2	74.5	(74.3)	85.1	228.2
Adjusted EPS (Rs)	30.9	42.6	11.0	17.4	57.1

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	90	90	90	128	128
Reserves	1,777	5,367	5,491	6,893	7,555
Total Shareholders Funds	1,866	5,456	5,580	7,021	7,684
Long Term Debt	1,700	298	1,035	1,010	985
Short Term Debt	120	1,511	1,992	1,202	1,212
Total Debt	1,820	1,809	3,027	2,212	2,197
Net Deferred Taxes	146	151	128	151	151
Long Term Provisions & Others	94	95	302	313	313
TOTAL SOURCES OF FUNDS	3,927	7,511	9,037	9,697	10,344
APPLICATION OF FUNDS					
Net Block	1,388	4,655	4,748	5,958	6,193
CWIP	405	196	1,261	600	400
Investments	74	4	4	4	4
LT Loans & Advances	232	250	229	125	125
Total Non-current Assets	2,099	5,105	6,242	6,687	6,722
Inventories	1,267	1,351	1,751	1,547	1,548
Debtors	1,191	1,811	1,939	1,710	2,024
Other Current Assets	587	388	534	206	213
Cash & Equivalents	97	200	248	1,440	1,822
Total Current Assets	3,142	3,750	4,472	4,903	5,607
Creditors	931	859	1,243	1,099	1,161
Other Current Liabilities & Provns	383	486	434	794	823
Total Current Liabilities	1,314	1,345	1,677	1,893	1,985
Net Current Assets	1,828	2,405	2,795	3,010	3,622
TOTAL APPLICATION OF FUNDS	3,927	7,511	9,037	9,697	10,344

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	420	672	139	283	928
Non-operating & EO items	30	139	(69)	(27)	(60)
Interest expenses	150	211	189	157	132
Depreciation	157	192	221	240	315
Working Capital Change	(192)	(491)	(114)	1,092	(230)
Tax Paid	(117)	(203)	(19)	(59)	(195)
OPERATING CASH FLOW (a)	448	520	349	1,686	890
Capex	(193)	(457)	(1,379)	(789)	(350)
Free cash flow (FCF)	255	63	(1,030)	897	540
Investments	(14)	-	-	-	-
Non-operating Income	8	70	(0)	-	-
INVESTING CASH FLOW (b)	(199)	(387)	(1,379)	(789)	(350)
Debt Issuance/(Repaid)	(57)	(11)	1,218	(815)	(15)
Interest Expenses	(163)	(199)	(144)	(107)	(72)
FCFE	30	(77)	44	(25)	453
Share Capital Issuance	-	0	-	1,239	-
Dividend	(16)	(37)	(10)	(21)	(70)
Others	14	(121)	-	-	-
FINANCING CASH FLOW (c)	(222)	(368)	1,064	295	(158)
NET CASH FLOW (a+b+c)	28	(235)	34	1,192	382
Closing Cash & Equivalents	98	(138)	234	1,440	1,822

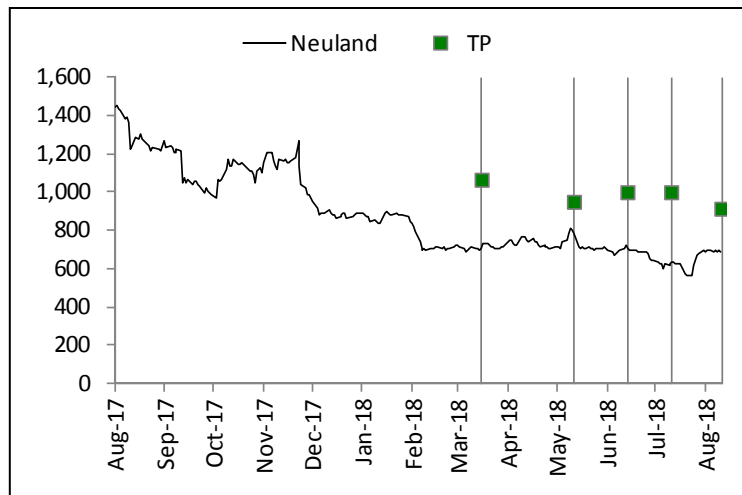
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	50.3	54.6	54.8	50.0	57.5
EBITDA Margin	15.9	18.4	9.6	10.6	17.8
APAT Margin	5.4	8.1	2.3	3.8	9.9
RoE	15.7	12.8	2.2	3.5	10.0
RoIC (or Core RoCE)	12.3	11.5	3.1	3.7	12.1
RoCE	11.2	10.8	3.4	3.7	8.6
EFFICIENCY					
Tax Rate (%)	35.5	30.2	13.4	21.0	21.0
Fixed Asset Turnover (x)	1.7	1.6	1.4	1.1	1.3
Inventory (days)	90.7	85.2	121.2	95.0	76.5
Debtors (days)	85.3	114.2	134.2	105.0	100.0
Other Current Assets (days)	42.0	24.5	37.0	12.6	10.5
Payables (days)	66.6	54.2	86.0	67.5	57.4
Other Current Liab & Provns (days)	27.4	30.6	30.1	48.7	40.7
Cash Conversion Cycle (days)	123.9	139.1	176.3	96.4	89.0
Debt/EBITDA (x)	2.3	1.7	6.0	3.5	1.7
Net D/E (x)	0.9	0.3	0.5	0.1	0.0
Interest Coverage (x)	2.6	4.1	1.5	2.5	7.6
PER SHARE DATA (Rs)					
EPS	30.9	42.6	11.0	17.4	57.1
Dividend	2.0	2.8	0.8	1.4	4.6
Book Value	211.1	496.0	507.3	547.2	598.9
VALUATION					
P/E (x)	22.2	16.1	62.6	39.5	12.0
P/BV (x)	3.3	1.4	1.4	1.3	1.1
EV/EBITDA (x)	9.6	8.6	20.5	15.2	7.0
EV/Revenues (x)	1.5	1.6	2.0	1.6	1.2
OCF/EV (%)	5.8	5.7	3.4	17.6	9.7
FCF/EV (%)	3.3	0.7	(10.0)	9.4	5.9
FCFE/Mkt Cap (%)	0.5	(1.0)	0.6	(0.3)	5.1
Dividend Yield (%)	0.3	0.4	0.1	0.2	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
15-Mar-18	704	BUY	1,065
11-May-18	787	BUY	950
13-Jun-18	724	BUY	1,000
10-Jul-18	618	BUY	1,000
12-Aug-18	687	BUY	914

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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