

## Positive outlook persists

We maintain **BUY** on NLL following a beat on our estimates. Our TP is revised to **Rs 920/sh (14x FY21E EPS)**. Hopes are hinged on ramp up in critical products like **Austedo** and **Salmeterol**.

### HIGHLIGHTS OF THE QUARTER

- NLL continued to improve its operational performance with Rs 184mn EBITDA, 10.7% margin and Rs 67mn profits, up 16%, 142bps and 46% QoQ respectively. This was largely driven by backward integration and commissioning of Unit-3 for Intermediates. We expect margin to expand further going into FY20/21E with the help of profitable products like Austedo/Salmeterol APIs and increased backward integration.
- On a high base of 4QFY18, NLL reported 8% YoY growth to Rs 1.7bn, driven by 18% YoY growth in Niche and 5% YoY growth in Prime APIs. CMS declined 12% YoY to Rs 311mn in 4QFY19. Levetiracetam and Levofloxacin in Prime API, and Dorzolamide, Deferasirox and Donepezil in Niche API were the key growth contributors.
- CMS segment has witnessed decline on account of volatility in orders. Overall, the management indicated that CMS revenues will continue to grow on the back of a higher number of active projects and increased

revenues from existing commercial supplies. Teva's Austedo remains the key molecule in this portfolio. We believe it could add Rs 20/sh EPS at its peak sales potential of US\$ 1bn (Teva's formulation revenues). We expect CMS segment to grow ~40% over FY19-21E.

- Net debt stood at Rs 1.6bn, down 41% YoY. Net D/E came in at 0.2x, as against 0.5x on Mar-18
- Near-term outlook:** Expect the stock to remain range bound.

### STANCE

**Easing of raw material price hikes, higher capacity utilization (Unit-3) and scale up in high margin segments (Niche API, CMS) will enable robust revenue growth (~13%) and sharp margin recovery over FY19-21E.**

**The US Salmeterol market is also gaining traction and we believe Neuland is well placed to benefit from this opportunity, which will reflect in improved operating performance over the next two years. Additionally, another potential blockbuster, Austedo, is expected to ramp up by FY21E. We maintain our positive stance on the company owing to a high visibility on growth and attractive valuations of 21/10x FY20/21E P/E at CMP.**

### Financial Summary (Consolidated)

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Net Sales	1,727	1,602	7.8	1,715	0.7	5,292	6,668	7,485	8,489
EBITDA	184	188	(2.1)	158	16.1	504	584	917	1,515
APAT	67	81	(16.4)	46	46.3	121	164	411	845
Diluted EPS (Rs)	5.2	7.2	(27.3)	3.6	46.3	10.8	12.8	32.1	65.8
P/E (x)						61.9	52.2	20.9	10.2
RoE (%)						2.2	2.6	5.7	10.9

Source: Company, HDFC sec Inst Research

INDUSTRY	PHARMA
<b>CMP (as on 17 May 2019)</b>	<b>Rs 669</b>
<b>Target Price</b>	<b>Rs 920</b>
Nifty	11,407
Sensex	39,931
<b>KEY STOCK DATA</b>	
Bloomberg	NLL IN
No. of Shares (mn)	17
MCap (Rs bn) / (\$ mn)	12/166
6m avg traded value (Rs mn)	25
<b>STOCK PERFORMANCE (%)</b>	
<b>52 Week high / low</b>	<b>Rs 827/425</b>
	3M 6M 12M
Absolute (%)	14.4 24.7 (5.6)
Relative (%)	8.5 17.7 (13.5)
<b>SHAREHOLDING PATTERN (%)</b>	
	Dec-18 Mar-19
Promoters	36.04 35.90
FIs & Local MFs	10.34 10.47
FPIs	27.31 27.36
Public & Others	26.31 26.27
Pledged Shares	1.56 1.56
Source : BSE	

### Amey Chalke

amey.chalke@hdfcsec.com  
+91-22-6171-7321

### Eshan Desai

eshan.desai@hdfcsec.com  
+91-22-6639-2476

**Revenue grew ~8% YoY to Rs 1.7bn on the back of expanded capacity, dragged partly by de-growth in CMS**

**Gross margin improved sequentially owing to easing raw material costs and better product mix**

**EBITDA margin expanded on the back of gross margin improvement**

**Net debt stood at Rs 1.6bn, down 41% YoY. Net D/E came in at 0.2x, as against 0.5x on Mar-18**

### Quarterly Financials Snapshot (Consolidated)

Particulars (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
<b>Net Sales</b>	<b>1,727</b>	<b>1,602</b>	<b>7.8</b>	<b>1,715</b>	<b>0.7</b>
Material Expenses	911	803	13.5	932	(2.3)
Employee Expenses	273	225	21.5	268	2.0
Other Expenses	359	387	(7.3)	356	0.7
<b>EBITDA</b>	<b>184</b>	<b>188</b>	<b>(2.1)</b>	<b>158</b>	<b>16.1</b>
Depreciation	69	56		74	
<b>EBIT</b>	<b>115</b>	<b>132</b>	<b>(13.0)</b>	<b>85</b>	<b>35.1</b>
Other Income	13	3		4	
Interest Cost	47	49		30	
<b>PBT</b>	<b>81</b>	<b>86</b>	<b>(5.8)</b>	<b>59</b>	<b>37.2</b>
Tax	14	5		13	
<b>PAT</b>	<b>67</b>	<b>81</b>	<b>(16.4)</b>	<b>46</b>	<b>46.3</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)
Material Expenses % Net Sales	52.7	50.1	266	54.4	(162)
Employee Expenses % Net Sales	15.8	14.0	180	15.6	20
Other Expenses % Net Sales	20.8	24.1	(338)	20.8	0
<b>EBITDA Margin (%)</b>	<b>10.7</b>	<b>11.7</b>	<b>(107)</b>	<b>9.2</b>	<b>142</b>
Tax Rate (%)	16.8	6.3	1,055	22.0	(515)
<b>PAT Margin (%)</b>	<b>3.9</b>	<b>5.0</b>	<b>(113)</b>	<b>2.7</b>	<b>121</b>

Source: Company, HDFC sec Inst Research

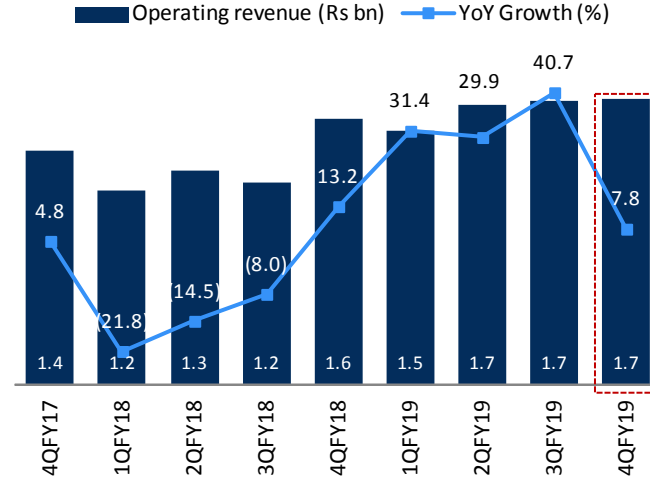
*Revenue growth slowed down due to a high base and de-growth in CMS*

*EBITDA margin recovered sequentially, to further improve over FY20-21 as profitable segments of Niche/CMS ramp up further*

*Prime API revenue growth was driven by ramp up in Levetiracetam and Levofloxacin APIs*

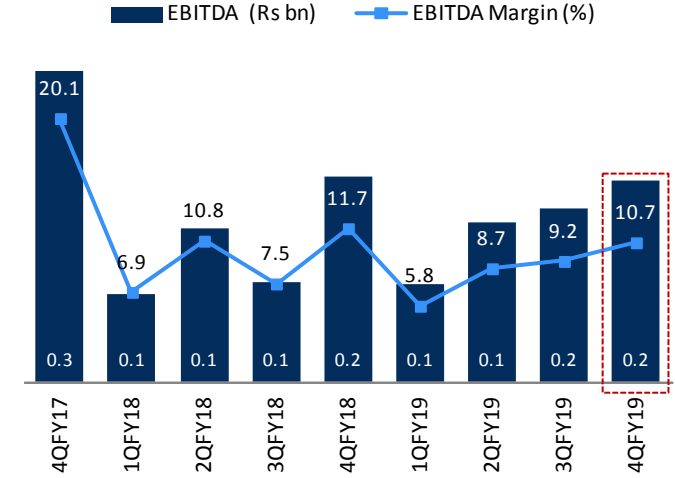
*Dorzolamide, Deferasirox and Donepezil, within the Niche segment, gained traction during the quarter*

**Revenue: Slower Growth On A High Base**



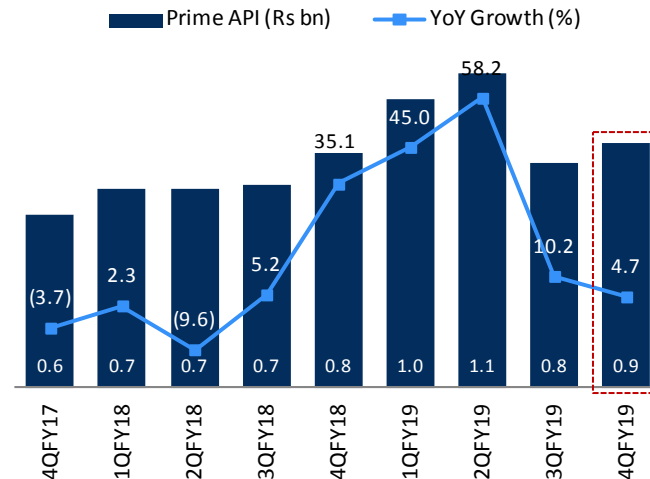
Source: Company, HDFC sec Inst Research

**EBITDA Margin: Improved To 140bps Sequentially**



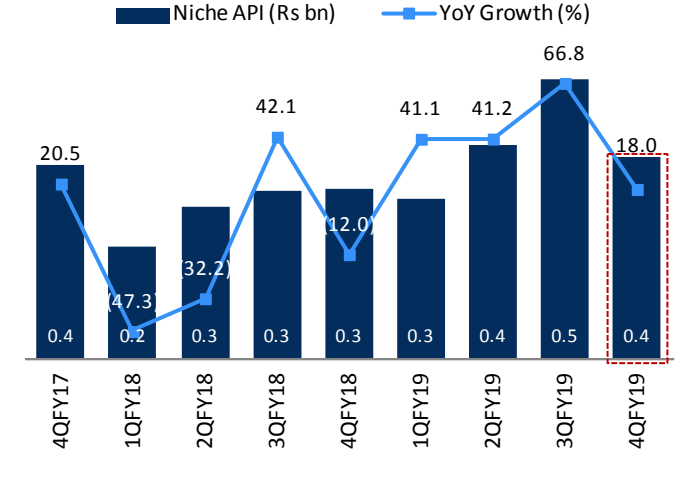
Source: Company, HDFC sec Inst Research

**Prime API: Accounts For ~51% Of Revenues**



Source: Company, HDFC sec Inst Research

**Niche API: Healthy Double-digit Growth**



Source: Company, HDFC sec Inst Research

***NLL continues to add projects to its CMS segment. It currently has 56 projects, compared to 54 in the previous quarter***

***CMS segment declined due to volatility in orders. Mgmt. remains bullish on the segment and has a healthy orderbook for FY20. A ramp up in Austedo will enable strong revenue growth in the next ~2 years***

***The mgmt. is focused on the high-margin segments on Niche and CMS, which will improve overall margins going ahead***

***Opening up for the generic Salmeterol market in the US will drive robust growth of NLL in the Niche segment***

***The mgmt. is targeting 15-20% growth in revenue and margin expansion to 18-19% over the next 2-3 years***

### Segmental Quarterly Performance

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Prime API	881	841	4.7	806	9.3
Niche/Specialty API	397	336	18.0	549	(27.6)
CMS	311	352	(11.8)	274	13.3
Other	138	72	91.6	86	61.1
<b>Total</b>	<b>1,727</b>	<b>1,602</b>	<b>7.8</b>	<b>1,715</b>	<b>0.7</b>

Source: HDFC sec Inst Research

### Assumptions

Key Segments (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Prime API	2,806	2,857	3,601	3,571	3,808
Growth (%)	(3.5)	1.8	26.0	(0.8)	6.6
Niche/Specialty API	1,477	1,058	1,667	2,035	2,370
Growth (%)	7.2	(28.3)	57.5	22.1	16.5
CMS	1,394	1,058	934	1,400	1,820
Growth (%)	60.8	(24.1)	(11.8)	50.0	30.0
Other		317	467	478	490
Growth (%)			47.0	2.5	2.5
<b>Total</b>	<b>5,677</b>	<b>5,292</b>	<b>6,668</b>	<b>7,485</b>	<b>8,489</b>
<b>Growth (%)</b>	<b>10.2</b>	<b>(6.8)</b>	<b>26.0</b>	<b>12.3</b>	<b>13.4</b>

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 (%)			
					FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E
Sun Pharma	981	409	BUY	640	13.0	15.3	20.7	27.2	31.5	26.8	19.8	15.0	8.3	9.3	11.7	13.7
Dr Reddy's Labs	456	2,745	BUY	3,320	59.2	104.9	125.8	147.0	46.4	26.2	21.8	18.7	7.8	13.1	13.9	14.1
Cipla	438	544	BUY	630	18.6	16.8	21.1	28.6	29.3	32.4	25.8	19.0	11.2	9.1	10.6	12.9
Divi's Labs	433	1,633	SELL	1,445	32.4	52.4	56.8	65.7	50.4	31.2	28.8	24.9	15.2	21.6	20.2	20.4
Aurobindo Pharma	393	670	NEU	800	41.4	42.2	54.1	53.2	16.2	15.9	12.4	12.6	23.0	19.2	20.4	16.8
Lupin	341	753	BUY	930	38.2	16.4	27.3	42.1	19.7	45.8	27.6	17.9	12.8	5.4	8.7	12.3
Torrent Pharma	279	1,648	BUY	2,000	40.1	45.8	61.8	83.5	41.1	36.0	26.7	19.7	15.1	15.8	18.6	21.5
Cadila Healthcare	256	250	NEU	315	13.0	11.0	13.2	17.7	19.2	22.7	18.9	14.1	17.0	11.9	12.6	14.9
Alkem Laboratories	202	1,692	BUY	2,240	57.6	63.4	80.9	101.9	29.4	26.7	20.9	16.6	14.8	14.7	16.6	18.3
Glenmark	164	581	BUY	835	17.5	27.0	33.9	43.7	33.3	21.5	17.1	13.3	9.4	12.7	14.0	15.7
Alembic Pharma	100	528	NEU	570	21.9	25.8	25.1	31.6	24.1	20.5	21.0	16.7	20.0	19.7	16.4	18.1
Jubilant Life Sciences	95	596	BUY	915	45.5	53.8	60.2	76.2	13.1	11.1	9.9	7.8	19.3	19.3	18.3	19.6
Laurus Labs	40	373	BUY	535	15.8	10.7	17.0	29.4	23.6	34.9	21.9	12.7	11.9	6.2	10.8	16.7
Strides Pharma	37	414	BUY	570	13.2	6.9	29.3	35.7	31.5	60.2	14.1	11.6	2.9	2.3	9.5	10.7
Dishman Carbogen Amcis	33	205	BUY	400	13.2	16.7	20.5	26.5	15.5	12.2	10.0	7.7	14.6	15.4	15.7	17.2
Suven Life Sciences	32	255	NR	465	9.7	5.6	9.8	11.3	26.2	45.7	26.0	22.7	17.2	8.9	14.2	14.5
Granules India	27	106	BUY	170	5.2	9.3	11.4	13.9	20.3	11.4	9.3	7.6	12.0	16.7	17.5	18.5
J B Chemicals & Pharmaceuticals	27	335	NR	470	16.6	23.8	28.4	33.6	20.2	14.1	11.8	10.0	9.9	13.2	14.8	15.4
<b>Neuland Labs</b>	<b>12</b>	<b>669</b>	<b>BUY</b>	<b>920</b>	<b>10.8</b>	<b>12.8</b>	<b>32.1</b>	<b>65.8</b>	<b>61.9</b>	<b>52.2</b>	<b>20.9</b>	<b>10.2</b>	<b>2.2</b>	<b>2.6</b>	<b>5.7</b>	<b>10.9</b>

Source: HDFC sec Inst Research

***We have cut our FY20E estimates on delay in ramp up of gAdvair market in the US, leading to postponement in Salmeterol API orders***

**Change in estimates**

Rs mn	Previous			New			% Chg		
	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E
Net Sales	6,533	7,399	8,455	6,668	7,485	8,489	2.1	1.2	0.4
EBITDA	560	1,017	1,509	584	917	1,515	4.2	(9.9)	0.4
APAT	139	481	854	164	411	845	18.4	(14.4)	(1.1)

Source: HDFC sec Inst Research

**Income Statement (Consolidated)**

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
<b>Net Revenues</b>	<b>5,877</b>	<b>5,292</b>	<b>6,668</b>	<b>7,485</b>	<b>8,489</b>
<b>Growth (%)</b>	<b>15.2</b>	<b>(10.0)</b>	<b>26.0</b>	<b>12.3</b>	<b>13.4</b>
Material Expenses	2,629	2,384	3,662	3,855	3,905
Employee Expenses	927	1,030	1,105	1,228	1,341
Selling and Administration Expenses	462	401	433	561	620
Other Operating Expenses	795	973	884	925	1,109
<b>EBITDA</b>	<b>1,063</b>	<b>504</b>	<b>584</b>	<b>917</b>	<b>1,515</b>
<b>EBITDA Margin (%)</b>	<b>18.1</b>	<b>9.5</b>	<b>8.8</b>	<b>12.2</b>	<b>17.9</b>
<b>EBITDA Growth (%)</b>	<b>31.5</b>	<b>(52.6)</b>	<b>15.8</b>	<b>57.0</b>	<b>65.3</b>
Depreciation	192	221	259	312	380
<b>EBIT</b>	<b>871</b>	<b>283</b>	<b>325</b>	<b>605</b>	<b>1,136</b>
Other Income (Including EO Items)	12	45	35	40	60
Interest	211	189	157	131	140
<b>PBT</b>	<b>672</b>	<b>139</b>	<b>203</b>	<b>514</b>	<b>1,056</b>
Tax (Incl Deferred)	203	19	39	103	211
<b>RPAT</b>	<b>469</b>	<b>121</b>	<b>164</b>	<b>411</b>	<b>845</b>
Minority Interest	-	0	0	0	0
<b>APAT</b>	<b>469</b>	<b>121</b>	<b>164</b>	<b>411</b>	<b>845</b>
<b>APAT Growth (%)</b>	<b>74.5</b>	<b>(74.3)</b>	<b>36.4</b>	<b>150.2</b>	<b>105.4</b>
<b>Adjusted EPS (Rs)</b>	<b>42.0</b>	<b>10.8</b>	<b>12.8</b>	<b>32.1</b>	<b>65.8</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

As at March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	90	90	129	129	129
Reserves	5,367	5,491	6,864	7,236	7,999
<b>Total Shareholders Funds</b>	<b>5,456</b>	<b>5,580</b>	<b>6,993</b>	<b>7,365</b>	<b>8,128</b>
Long Term Debt	298	1,035	607	757	907
Short Term Debt	1,511	1,992	1,491	1,501	1,511
<b>Total Debt</b>	<b>1,809</b>	<b>3,027</b>	<b>2,098</b>	<b>2,258</b>	<b>2,418</b>
Net Deferred Taxes	151	128	112	112	112
Long Term Provisions & Others	95	302	322	313	313
<b>TOTAL SOURCES OF FUNDS</b>	<b>7,511</b>	<b>9,037</b>	<b>9,524</b>	<b>10,047</b>	<b>10,970</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	4,357	4,450	5,117	5,805	6,425
CWIP	196	1,261	1,045	750	500
Investments	302	302	302	302	302
LT Loans & Advances	250	229	305	125	125
<b>Total Non-current Assets</b>	<b>5,105</b>	<b>6,242</b>	<b>6,769</b>	<b>6,982</b>	<b>7,353</b>
Inventories	1,351	1,751	1,927	2,271	2,247
Debtors	1,811	1,939	1,640	2,051	2,558
Other Current Assets	388	534	515	567	626
Cash & Equivalents	200	248	453	29	64
<b>Total Current Assets</b>	<b>3,750</b>	<b>4,472</b>	<b>4,535</b>	<b>4,918</b>	<b>5,495</b>
Creditors	859	1,243	1,223	1,267	1,284
Other Current Liabilities & Provns	486	434	556	586	594
<b>Total Current Liabilities</b>	<b>1,345</b>	<b>1,677</b>	<b>1,779</b>	<b>1,853</b>	<b>1,878</b>
<b>Net Current Assets</b>	<b>2,405</b>	<b>2,795</b>	<b>2,756</b>	<b>3,065</b>	<b>3,617</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>7,511</b>	<b>9,037</b>	<b>9,524</b>	<b>10,047</b>	<b>10,970</b>

Source: Company, HDFC sec Inst Research

## Cash Flow (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	672	139	203	514	1,055
Non-operating & EO items	36	(6)	(51)	(40)	(60)
Interest expenses	211	189	157	131	140
Depreciation	192	221	259	312	380
Working Capital Change	(559)	(400)	189	(562)	(518)
Tax Paid	(165)	(31)	(39)	(103)	(211)
<b>OPERATING CASH FLOW ( a )</b>	<b>387</b>	<b>113</b>	<b>718</b>	<b>251</b>	<b>786</b>
Capex	(410)	(1,327)	(709)	(705)	(750)
Free cash flow (FCF)	(23)	(1,214)	9	(454)	36
Investments	(15)	154	-	-	-
Non-operating Income	4	10	0	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(421)</b>	<b>(1,163)</b>	<b>(709)</b>	<b>(705)</b>	<b>(750)</b>
Debt Issuance/(Repaid)	223	1,271	(929)	160	160
Interest Expenses	(212)	(222)	(122)	(91)	(80)
FCFE	(12)	(165)	(1,042)	(384)	116
Share Capital Issuance	0	-	1,239	-	-
Dividend	(12)	-	(18)	(39)	(81)
Others	(0)	0	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(1)</b>	<b>1,049</b>	<b>170</b>	<b>30</b>	<b>(1)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(35)</b>	<b>(2)</b>	<b>179</b>	<b>(424)</b>	<b>35</b>
Equivalents (as at y-end)	165	215			
<b>Closing Cash &amp; Equivalents</b>	<b>200</b>	<b>248</b>	<b>426</b>	<b>29</b>	<b>64</b>

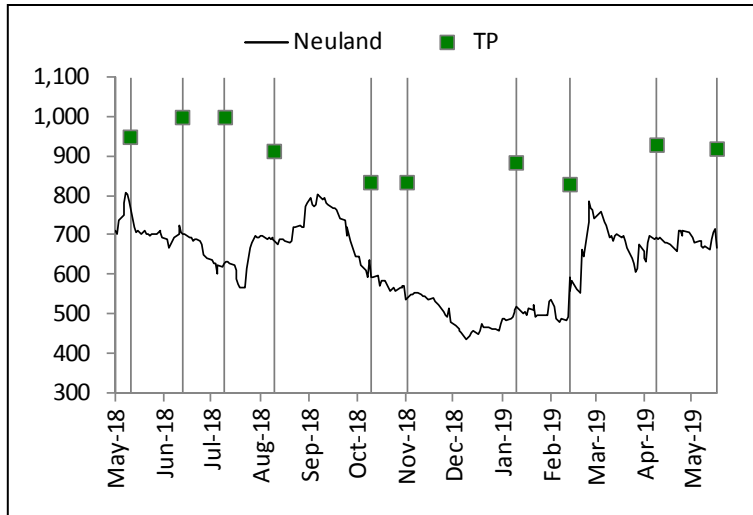
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY17	FY18	FY19P	FY20E	FY21E
<b>PROFITABILITY (%)</b>					
GPM	55.3	55.0	45.1	48.5	54.0
EBITDA Margin	18.1	9.5	8.8	12.2	17.8
APAT Margin	8.0	2.3	2.5	5.5	9.9
RoE	12.8	2.2	2.6	5.7	10.9
RoIC (or Core RoCE)	11.8	3.3	3.1	6.7	11.3
RoCE	10.8	3.4	3.1	5.5	9.4
<b>EFFICIENCY</b>					
Tax Rate (%)	30.2	13.4	19.2	20.0	20.0
Fixed Asset Turnover (x)	3.4	2.6	2.2	1.9	1.7
Inventory (days)	83.9	120.8	105.5	110.7	96.6
Debtors (days)	112.5	133.8	89.8	100.0	110.0
Other Current Assets (days)	24.1	36.9	28.2	27.7	26.9
Payables (days)	53.4	85.7	66.9	61.8	55.2
Other Current Liab & Provns (days)	30.2	30.0	30.5	28.6	25.6
Cash Conversion Cycle (days)	137.0	175.7	126.0	148.0	152.8
Debt/EBITDA (x)	1.7	6.0	3.6	2.5	1.6
Net D/E (x)	0.3	0.5	0.2	0.3	0.3
Interest Coverage (x)	4.1	1.5	2.1	4.6	8.1
<b>PER SHARE DATA (Rs)</b>					
EPS	42.0	10.8	12.8	32.1	65.8
Dividend	-	-	1.2	2.6	5.3
Book Value	489.1	500.3	545.1	574.0	633.5
<b>VALUATION</b>					
P/E (x)	15.9	61.9	52.2	20.9	10.2
P/BV (x)	1.4	1.3	1.2	1.2	1.1
EV/EBITDA (x)	8.5	20.3	17.5	11.8	7.2
EV/Revenues (x)	1.5	1.9	1.5	1.4	1.3
OCF/EV (%)	4.3	1.1	7.0	2.3	7.2
FCF/EV (%)	(0.3)	(11.9)	0.1	(4.2)	0.3
FCFE/Mkt Cap (%)	(0.2)	(2.2)	(12.1)	(4.5)	1.3
Dividend Yield (%)	-	-	0.2	0.4	0.8

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
11-May-18	787	BUY	950
13-Jun-18	724	BUY	1,000
10-Jul-18	618	BUY	1,000
13-Aug-18	687	BUY	914
10-Oct-18	609	BUY	835
5-Nov-18	560	BUY	835
10-Jan-19	508	BUY	885
14-Feb-19	592	BUY	830
9-Apr-19	694	BUY	930
19-May-19	669	BUY	920

**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



## INSTITUTIONAL RESEARCH

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**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

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**HDFC securities**

**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board : +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)