

Dr Reddys Labs | SELL

Pipeline hopes roll forward

Adjusting for the many one-offs, 3QFY18 was a soft quarter for Dr Reddy's. Revenues grew 7% QoQ (+3% YoY) to INR 38,060mn (3% above JMFe) largely on account of a one-time milestone income of INR 1.3bn (related to the USFDA NDA approval of IMPOYZ; recently out-licensed to Encore Dermatology) booked under proprietary products. Adjusting for this milestone income and the US DoJ litigation settlement charges (INR 319mn), EBITDA margin declined 52bps QoQ (-481bps YoY) to 18.2% due to higher price erosion (in low double-digits) in base business and adverse FX impact (4% depreciation of USD), translating into adj. EBITDA declining 22% YoY to INR 6,367mn. US generics revenues grew 12% sequentially to c.USD 246mn mainly aided by contribution of gRenvela and ramp up of sales of other recent launches. While domestic formulations sales growth was decent (+11% YoY on a like-to-like basis), EM (-1% YoY) and Europe (-7% YoY) businesses disappointed.

Our stance that revenue growth in US (and thus earnings) would be challenging in FY19 and will be hostage to launch timelines of key assets stands vindicated by the management guidance that: (i) gNuvaRing launch would be pushed back to mid-FY19 (vs. early-FY19 expectations), (ii) Queries on gCopaxone DMF would be responded to in 4-5 months (which should push back launch by atleast 2 quarters in our view), and, (iii) Launch of gSuboxone being contingent on the litigation outcome (critical for approval). Moreover, the low-to-mid double-digit pricing erosion in the base business with no meaningful launches (excl. key assets), with the re-inspection of Duvvada facility being c. 3-6 months away, does not instill confidence in Dr Reddy's ability to meet the aggressive ask rate of earnings growth that the current stock price is implying. Consequently, we cut our significantly lower than consensus earnings estimates for FY19/20 by 4%/3%, respectively. We roll forward our estimates and arrive at a Mar'19 TP of INR 2,200. We maintain our SELL rating on the stock.

■ Key operating details:

- Recent launches drive US generics sales: North American generics sales grew 12% sequentially (declined 2% YoY) to INR 16,073mn aided by contribution of gRenvela and ramp up of recently launches (such as gVytorin, gDoxil, gAngiomax) which offset the price erosion in the base business due to the impact of buyer group consolidation and increasing competition in key products (like gVidaza, gValcyte and gDacogen), further exacerbated by faster approval rates. The management believes that most big assets have already witnessed significant erosion and the further erosion has been fairly limited this year. Going forward, the management expects quality of launches to improve, although this is mainly on account of the expected launch of few key assets.
- Proprietary products in-line (ex-milestone income): Proprietary products revenues grew 145% YoY to INR 2.5bn mainly aided by milestone payment from Encore Dermatology related to USFDA NDA approval of IMPOYZ in 3QFY18. Ex-milestone income, revenues were in-line with our estimates. Zembrace sales grew 7% QoQ (+25% YoY) while growth for Sernivo was slower (although prescriptions have picked up in recent times)



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Recommendation and Price Target

Current Reco.	SELL
Previous Reco.	SELL
Current Price Target (12M)	2,200
Upside/Downside	-12.3%
Previous Price Target	2,150
Change	2.3%

Key Data – DRRD IN

Current Market Price	INR2,508
Market cap (bn)	INR415.9/US\$6.5
Free Float	71%
Shares in issue (mn)	165.8
Diluted share (mn)	165.9
3-mon avg daily val (mn)	INR1,403.8/US\$22.1
52-week range	3,177/1,901
Sensex/Nifty	36,050/11,070
INR/US\$	63.6

Price Performance

%	1M	6M	12M
Absolute	7.5	-6.8	-16.3
Relative*	1.2	-16.7	-35.7

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	154,708	140,809	143,852	160,766	178,796
Sales Growth (%)	4.4	-9.0	2.2	11.8	11.2
EBITDA	39,282	24,089	24,601	31,562	37,064
EBITDA Margin (%)	25.4	17.1	17.1	19.6	20.7
Adjusted Net Profit	20,013	12,039	10,289	15,832	20,223
Diluted EPS (INR)	117.0	72.1	62.0	95.4	121.9
Diluted EPS Growth (%)	-10.3	-38.4	-14.0	53.9	27.7
ROIC (%)	19.0	7.6	5.7	8.7	10.7
ROE (%)	16.7	9.5	8.1	11.6	13.5
P/E (x)	21.4	34.8	40.4	26.3	20.6
P/B (x)	3.3	3.4	3.2	2.9	2.6
EV/EBITDA (x)	10.4	18.6	18.0	13.9	11.6
Dividend Yield (%)	0.8	0.8	0.8	0.8	0.8

Source: Company data, JM Financial. Note: Valuations as of 25/Jan/2018

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

as the company awaits coverage by CVS Caremark (as achieved for Zembrace). NDA filings for two of its Ph. III assets are expected in FY19 while the BLA filing for E-777 (in-licensed from Eisai) is expected in 2019/2020.

- Decent growth in domestic sales: Domestic formulations business growth was soft, with revenues growing 3% YoY (+11% YoY on like-to-like basis adj. for GST; -4% QoQ) to INR 6,126mn. The management expects double-digit growth rate going ahead with improving channel inventory levels.
 - Weakness in Europe and EM: After 4 consecutive quarters of growth, Europe generics sales declined 7% YoY (in cc terms) to INR 2,006mn due to higher price erosion in some key molecules and some temporary supply disruptions (partly on account of the adverse action on the Duvvada facility by the German regulator). EM revenue growth of -1% YoY (in INR terms) was mainly driven by 9% YoY growth in Russia (+5% YoY in RUB terms) while revenues in CIS and RoW declined 2% YoY and 17% YoY, respectively. However, the entry into newer markets (like Brazil and Colombia) and plans to enter 4 new markets next year, leveraging its existing Oncology and Biosimilar assets, should drive EM growth going forward.
 - PSAI—in-line: The API business grew 1% YoY to INR 5,436mn, supported by growth in India and other countries which offset the decline in North America and Europe.
- **Launch of key assets delayed:** Given the double-digit price erosion in the base business and lack of meaningful products in the pipeline (partly on account of regulatory issues at key facilities), US revenues for FY19 are highly contingent on the successful approval and commercialisation of key assets such as gCopaxone, gNuvaRing and gSuboxone. However, their contribution to earnings remains hostage to the USFDA approval, outcome of ongoing litigation, and the competitive dynamics at the time of launch of these products. The management commentary on the earnings call was uninspiring with some pending issues on all key assets.
- gSuboxone – litigation a key hurdle: The management indicated that a lot is riding on the litigation outcome which is critical for the ANDA approval. However, the management was fairly confident about approval pathway with respect to technical aspects of the development of the asset, although they have received a minor CRL to which they will be responding in a month or so. The recent USFDA approval for Sublocade (once-monthly injectable) and its expected launch in 1QCY18 is likely to trigger a switch from Suboxone Film (daily dosage) given that the former has a lower dosage frequency and will have a restricted distribution system, which are preferable, given that it treats opioid addiction. We expect Dr Reddy's to launch gSuboxone film in 4QFY19 and would thus be targeting a significantly reduced market (assuming c.30-40% market switch) although the film's significantly lower pricing and less restrictive distribution would continue to favour the Suboxone film market. Delay of Dr Reddy's launch into FY20 would mean entering along with competition which would reduce the overall realisations from the product.
 - gCopaxone – DMF queries to delay approval: The Target Approval Dates (TAD) for both the 20mg and 40mg version are expected to be delayed as there are still pending USFDA queries on the DMF (received a couple of weeks back) which requires significant volume of technical work which the management believes will take 4-5 months to gather and respond. Thus, gCopaxone launch will be pushed into 2HFY19, which will most likely expose it with increased competitive pressures given that Sandoz/Momenta are expecting launch of their 40mg generic version around the same time (or potentially earlier). Moreover, we remain cautious of the overall gCopaxone opportunity potential for Dr Reddy's given the significant price erosion observed in the 40mg version following entry of Mylan's generic as well as the slow pace of ramp up in market share (c. 13%) in the first 3 months since the launch.
 - gNuvaRing – launch pushed into 2HFY19: The early-FY19 launch expected previously is now delayed as the company received follow-up queries and the TAD has thus been shifted to early-2QFY19 (vs. Mar'18 earlier). Given no pending litigation issues (patent expiring in Apr'18), USFDA approval remains the key hurdle and the management

expects a mid-FY19 launch for the product. However, this would mean that Teva's generic version could get significant lead time to capture the market.

Exhibit 1. JM vs. street estimates on key assets

Asset	JM (pre-results)	JM (post-results)	Street
gCopaxone	USD 78mn / INR 15	USD 60mn / INR 12	USD 180 / INR 27
gNuvaRing	USD 55mn / INR 11	USD 55mn / INR 11	USD 100 / INR 20
gSuboxone	USD 18mn / INR 4	USD 18mn / INR 4	USD 50 / INR 15

Source: JM Financial; Expressed as Revenues/EPs

Exhibit 2. Status of key assets

Asset	New Guidance	Previous Guidance
gCopaxone 40mg	DMF queries to be answered in 4-5 months; TAD delayed	TAD in Mar'18
gCopaxone 20mg	DMF queries to be answered in 4-5 months; TAD delayed	TAD in Nov'17
gNuvaRing	TAD in early 2QFY19; launch in mid-FY19	TAD in Mar'18; Apr'18 launch expected
gSuboxone	Outcome dependent on litigation	Outcome dependent on litigation

Source: Company, JM Financial

- Resolution of facilities still some time away:** Dr Reddy's US growth trajectory continues to be impaired by the delays in resolution of key facilities. The management now expects re-inspection of the Duvvada injectables facility in 1-2 quarters (vs. end-4QFY18 guided earlier), although resolution would be a challenge, in our view, especially in the backdrop of the severity of issues as well as the lapses on management's part to effectively resolve the issues previously pointed out in the Establishment Inspection Report (EIR) issued by the USFDA for the facility in Nov'17. With respect to the flagship Srikakulam API plant, Dr Reddy's has recently responded to some queries sent by the USFDA. Although several products have been transferred to other sites in the last 18 months, the process is not an easy exercise, especially given the complexity of the filings. We continue to believe that all three facilities need to be cleared for the Nov'15 Warning Letter to be lifted since these were jointly part of a global Corrective and Preventive Action (CAPA).
- Key financials:** In 3QFY18, revenues grew 3% YoY (+7% QoQ) to INR 38,060 (3% above JMFe) mainly on account of a one-time milestone income of INR 1.3bn in the proprietary products business. Gross margin thus improved 295bps QoQ to 56.3% (vs. JMFe 53.6%); adjusting for the milestone income, gross margin stood at 54.7% (111bps above JMFe; up 46bps QoQ) but declined 437bps YoY due to higher price erosion and adverse FX impact. EBITDA margin improved 144bps QoQ (-286bps QoQ) to 20.1% (JMFe 18.3%) translating into EBITDA growing 16% QoQ (-10% YoY) to INR 7,667mn, a 13% beat on our est. However, adj. for milestone payment and INR 319mn dues on account of settlement with US DoJ on litigation involving packaging, EBITDA margin stood at 18.2% (in-line with JMFe). PAT declined 29% YoY but was up 17% QoQ at INR 3,344mn (2% above est.) as higher taxes (44% vs. JMFe 22%; due to one-time charge of INR 930mn on account of change in US tax rates) were partly offset by the increase in profit on sale of investments (INR 698mn). Net debt/Equity declined to 0.25x at end-3QFY18 (vs. 0.3x at end-2QFY18 and 0.25x at end-FY17).

Exhibit 3. Dr Reddy's 3QFY18 earnings snapshot

Dr. Reddy's P&L (INR mn)	Q3FY17A	Q3FY18A	% YoY	Q3FY18E	% Delta vs JMFe	Q3FY18E (cons.)	% Delta vs cons	Q2FY18A	% QoQ
Net Sales	37,065	38,060	3%	37,047	3%	36,881	3%	35,460	7%
Cost of goods sold	15,166	16,649	10%	17,190	-3%			16,559	1%
SG&A (excl. amort)	10,353	11,166	8%	10,558	6%			10,170	10%
R&D	4,956	4,667	-6%	4,668	0%			4,175	12%
EBITDA*	8,526	6,686	-22%	6,781	-1%	6,919	-3%	6,634	1%
% Margin	23.0%	17.6%	-544 bps	18.3%	-74 bps	18.8%	-119 bps	18.7%	-114 bps
D&A	2,924	2,971	2%	3,150	-6%			2,940	
Op. Income	5,602	4,696	-16%	3,631	29%			3,694	27%
% Margin	15.1%	12.3%	-278 bps	9.8%	254 bps			10.4%	192 bps
Fx gains (loss)	-10	-30	200%	0				47	
Equity in affiliates	89	85	-4%	120	-29%			92	-8%
Other Income/(Expenses)	187	313	67%	250	25%			114	175%
Net Finance expense/(Income)	-54	-881	1531%	-215	310%			71	-1341%
Profit Before Tax	5,922	5,945	0%	4,216	41%			3,876	53%
Tax	1,221	2,601	113%	927	180%			1,027	153%
% Tax rate	20.6%	43.8%		22.0%				26.5%	
Reported Net Profit	4,701	3,344	-29%	3,288	2%	3,375	-1%	2,849	17%
% Net Profit Margin	12.7%	8.8%		8.9%		9.2%	-37 bps	8.0%	
EPS	28.3	20.1	-29%	19.8	1%	20.7	-3%	17.2	17%

* JMFe EBITDA is Operating profit + D&A

% Cost Ratios	Q3FY17A	Q3FY18A	% YoY	Q3FY18E	% Delta vs JMFe	Q2FY18A	% QoQ
COGS	40.9	43.7	283 bps	46.4	-266 bps	46.7	-295 bps
SG&A	27.9	29.3	141 bps	28.5	84 bps	28.7	66 bps
R&D	13.4	12.3	-111 bps	12.6	-34 bps	11.8	49 bps

Sales Break-up	Q3FY17A	Q3FY18A	% YoY	Q3FY18E	% Delta vs JMFe	Q2FY18A	% QoQ
Global Generics	30,638	30,105	-2%	30,391	-1%	28,618	5%
North America	16,595	16,073	-3%	15,224	6%	14,318	12%
Europe	2,148	2,006	-7%	2,248	-11%	2,424	-17%
India	5,947	6,126	3%	6,304	-3%	6,370	-4%
Russia & CIS	4,100	4,400	7%	4,582	-4%	4,100	7%
Others	1,848	1,500	-19%	2,033	-26%	1,406	7%
PSAI	5,400	5,436	1%	5,424	0%	5,654	-4%
North America	1,259	863	-31%	1,143	-24%	962	-10%
Europe	1,828	1,572	-14%	2,080	-24%	1,938	-19%
India	409	627	53%	454	38%	436	44%
Others	1,904	2,374	25%	1,747	36%	2,318	2%
Prop products and Others	1,027	2,519	145%	1,232	104%	1,188	112%
Net Sales	37,065	38,060	3%	37,047	3%	35,460	7%

Source: Company, JM Financial

*Note: Operating margins are not exactly comparable with previous periods since 2QFY18 and 3QFY18 revenues are net of GST whereas excise duty was part of expenses in previous periods.

Exhibit 4. Dr Reddy's estimate changes

	FY18E				FY19E				FY20E				Drivers for change
	Old	New	growth	chg %	Old	New	growth	chg %	Old	New	growth	chg %	
GENERIC													
North America generic - base USD	930	937	-2%	1%	1,116	1,059	13%	-5%	1,250	1,197	13%	-4%	We cut our estimates mainly to account for delay in launch of key assets.. Broadly maintain our growth estimates.
EU EUR	116	113	12%	-3%	130	126	11%	-4%	145	138	10%	-4%	
Total generics - INR	69,220	69,476	-2%	0%	82,450	78,386	13%	-5%	91,666	87,736	12%	-4%	
% of total revenue	48%	48%			50%	49%			50%	49%			
BRANDED													
Branded formulations - Russia RUB	12,428	12,368	16%	0%	14,292	14,223	15%	0%	16,150	16,072	13%	0%	Increasing traction in EM portfolio with focus on Biologics and Institutional business
Branded formulations - CIS RUB	3,821	3,683	8%	-4%	4,509	4,346	18%	-4%	5,185	4,998	15%	-4%	
Branded formulations - Others INR	6,457	5,924	1%	-8%	6,973	6,813	15%	-2%	7,461	7,630	12%	2%	We increase our growth estimates in outer years to account for entry into new markets.
Branded formulations - India INR	23,363	23,065	0%	-1%	26,401	25,833	12%	-2%	29,305	28,675	11%	-2%	Expect low double-digit growth slightly ahead of IPM
Total branded - INR	48,019	46,897	6%	-2%	54,431	53,351	14%	-2%	60,661	59,798	12%	-1%	
% of total revenue	34%	33%			33%	33%			33%	33%			
PSAI													
North America USD	60	56	5%	-6%	66	62	11%	-6%	73	68	10%	-6%	
Europe EUR	109	101	-10%	-7%	116	108	7%	-7%	123	115	6%	-7%	
India USD	28	31	17%	9%	30	32	6%	9%	31	34	5%	9%	
Others USD	113	126	12%	12%	113	126	0%	12%	113	126	0%	12%	
Total PSAI - INR	21,199	21,410	1%	1%	22,386	22,535	5%	1%	22,950	23,078	2%	1%	
% of total revenue	15%	15%			14%	14%			13%	13%			
Others & proprietary products - INR	4,783	6,069	47%	27%	6,457	6,494	7%	1%	8,200	8,183	26%	0%	FY18 growth aided by IMPOYZ milestone payment. Maintain outer year estimates.
% of total revenue	3%	4%			4%	4%			4%	5%			
Total revenue	1,43,221	1,43,852	2%	0%	1,65,723	1,60,766	12%	-3%	1,83,477	1,78,796	11%	-3%	
Gross profit	76,050	77,520	-1%	2%	92,142	89,064	15%	-3%	1,03,298	1,00,662	13%	-3%	We broadly maintain our gross margin estimates; the expected launch of gCopaxone, Suboxone and NuvaRing in FY19 will drive gross margin improvement in the outer years.
% margin	53.1%	53.9%			55.6%	55.4%			56.3%	56.3%			
EBITDA	23,615	24,601	2%	4%	32,594	31,562	28%	-3%	38,365	37,064	17%	-3%	Margin estimates broadly maintained.
% margin	16.5%	17.1%			19.7%	19.6%			20.9%	20.7%			
PAT (reported)	10,346	10,289	-15%	-1%	16,528	15,832	54%	-4%	20,900	20,223	28%	-3%	
Adjusted EPS	62	62	-14%	-1%	100	95	54%	-4%	126	122	28%	-3%	

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	154,708	140,809	143,852	160,766	178,796	
Sales Growth	4.4%	-9.0%	2.2%	11.8%	11.2%	
Other Operating Income	0	0	0	0	0	
Total Revenue	154,708	140,809	143,852	160,766	178,796	
Cost of Goods Sold/Op. Exp	62,427	62,453	66,332	71,702	78,134	
Personnel Cost	0	0	0	0	0	
Other Expenses	52,999	54,267	52,918	57,502	63,598	
EBITDA	39,282	24,089	24,601	31,562	37,064	
EBITDA Margin	25.4%	17.1%	17.1%	19.6%	20.7%	
EBITDA Growth	17.4%	-38.7%	2.1%	28.3%	17.4%	
Depn. & Amort.	10,537	11,656	12,059	14,621	15,265	
EBIT	28,745	12,433	12,542	16,941	21,799	
Other Income	2,299	1,945	2,142	2,500	3,000	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	31,044	14,378	14,684	19,441	24,799	
Excep. & Forex Inc./Loss(-)	-4,133	-74	27	0	0	
PBT	26,911	14,304	14,711	19,441	24,799	
Taxes	7,127	2,614	4,798	4,209	5,376	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	229	349	375	600	800	
Reported Net Profit	20,013	12,039	10,289	15,832	20,223	
Adjusted Net Profit	20,013	12,039	10,289	15,832	20,223	
Net Margin	12.9%	8.5%	7.2%	9.8%	11.3%	
Diluted Share Cap. (mn)	171.1	167.0	165.9	165.9	165.9	
Diluted EPS (INR)	117.0	72.1	62.0	95.4	121.9	
Diluted EPS Growth	-10.3%	-38.4%	-14.0%	53.9%	27.7%	
Total Dividend + Tax	4,106	4,008	3,981	3,981	3,981	
Dividend Per Share (INR)	20.0	20.0	20.0	20.0	20.0	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	128,336	124,044	130,352	142,203	158,445	
Share Capital	853	829	829	829	829	
Reserves & Surplus	127,483	123,215	129,523	141,374	157,616	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	33,403	48,988	48,988	48,988	48,988	
Def. Tax Liab. / Assets (-)	-4,230	-4,376	-4,376	-4,376	-4,376	
Total - Equity & Liab.	157,509	168,656	174,964	186,815	203,057	
Net Fixed Assets	78,605	105,837	108,163	108,815	110,178	
Gross Fixed Assets	82,590	93,494	105,002	117,060	130,112	
Intangible Assets	58,008	82,818	85,695	88,910	92,486	
Less: Depn. & Amort.	-69,543	-77,121	-89,180	-103,801	-119,066	
Capital WIP	7,550	6,646	6,646	6,646	6,646	
Investments	38,331	21,110	21,710	21,710	21,710	
Current Assets	85,717	87,294	89,663	105,997	126,189	
Inventories	25,578	28,529	25,904	29,367	33,694	
Sundry Debtors	41,306	38,065	39,412	44,046	48,985	
Cash & Bank Balances	4,921	3,866	7,176	13,533	22,456	
Loans & Advances	0	0	0	0	0	
Other Current Assets	13,912	16,834	17,172	19,051	21,055	
Current Liab. & Prov.	45,144	45,585	44,573	49,707	55,020	
Current Liabilities	15,461	17,494	15,908	17,851	19,764	
Provisions & Others	29,683	28,091	28,665	31,856	35,256	
Net Current Assets	40,573	41,709	45,091	56,290	71,169	
Total - Assets	157,509	168,656	174,964	186,815	203,057	

Source: Company, JM Financial

Cash Flow Statement						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	27,140	14,653	15,086	20,041	25,599	
Depn. & Amort.	10,250	11,277	12,059	14,621	15,265	
Net Interest Exp. / Inc. (-)	-1,425	-880	-300	500	1,000	
Inc (-) / Dec in WCap.	-188	-5,350	-72	-4,843	-5,956	
Others	12,484	7,583	0	0	0	
Taxes Paid	-7,014	-5,770	-4,798	-4,209	-5,376	
Operating Cash Flow	41,247	21,513	21,976	26,111	30,532	
Capex	-14,875	-40,984	-14,385	-15,273	-16,628	
Free Cash Flow	26,372	-19,471	7,591	10,838	13,904	
Inc (-) / Dec in Investments	-6,831	21,885	-600	0	0	
Others	1,283	628	1,221	1,000	1,000	
Investing Cash Flow	-20,423	-18,471	-13,764	-14,273	-15,628	
Inc / Dec (-) in Capital	1	-15,693	0	0	0	
Dividend + Tax thereon	-4,106	-3,390	-3,981	-3,981	-3,981	
Inc / Dec (-) in Loans	-11,979	16,316	0	0	0	
Others	-5,213	-1,330	-921	-1,500	-2,000	
Financing Cash Flow	-21,297	-4,097	-4,902	-5,481	-5,981	
Inc / Dec (-) in Cash	-473	-1,055	3,310	6,357	8,923	
Opening Cash Balance	5,394	4,921	3,866	7,176	13,533	
Closing Cash Balance	4,921	3,866	7,176	13,533	22,456	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	12.9%	8.5%	7.2%	9.8%	11.3%
Asset Turnover (x)	1.0	0.8	0.8	0.8	0.9
Leverage Factor (x)	1.3	1.4	1.4	1.4	1.4
RoE	16.7%	9.5%	8.1%	11.6%	13.5%

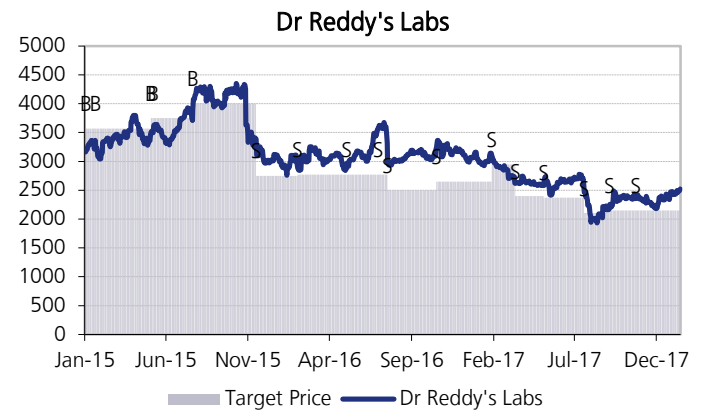
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	750.1	742.8	785.9	857.2	955.2
ROIC	19.0%	7.6%	5.7%	8.7%	10.7%
ROE	16.7%	9.5%	8.1%	11.6%	13.5%
Net Debt/Equity (x)	-0.1	0.2	0.2	0.1	0.1
P/E (x)	21.4	34.8	40.4	26.3	20.6
P/B (x)	3.3	3.4	3.2	2.9	2.6
EV/EBITDA (x)	10.4	18.6	18.0	13.9	11.6
EV/Sales (x)	2.6	3.2	3.1	2.7	2.4
Debtor days	97	99	100	100	100
Inventory days	60	74	66	67	69
Creditor days	39	42	36	39	40

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
30-Jan-15					3570	0.0
13-May-15					3750	5.0
17-May-15					3750	0.0
30-Jul-15	210.0				4000	6.7
25-Nov-15	167.5	-20.2			2750	-31.3
10-Feb-16	154.4	-7.8			2770	0.7
12-May-16	154.4	0.0			2770	0.0
9-Jul-16	157.9	2.3	178.7		2770	0.0
27-Jul-16	123.8	-21.6	148.0	-17.2	2500	-9.7
26-Oct-16	119.8	-3.2	145.2	-1.9	2650	6.0
6-Feb-17	122.5	2.3	147.1	1.3	2950	11.3
22-Mar-17	99.2	-19.0	120.2	-18.3	2400	-18.6
14-May-17	92.9	-6.4	118.6	-1.3	2370	-1.3
28-Jul-17	81.2	-12.6	105.3	-11.2	2105	-11.2
13-Sep-17	81.2	0.0	105.3	0.0	2150	2.1
1-Nov-17	62.4	-23.2	99.7	-5.3	2150	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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