

Muted performance; maintain Hold

We maintain Hold rating for FDC and revise our TP to Rs260 (earlier Rs280) based on 17x March'20E EPS of Rs15.3. FDC's Q4FY18 revenues were in line with our expectations but EBIDTA and net profit were lower than our estimates. FDC's revenue grew 6% YoY, EBIDTA margin declined by 980bps to 11.2% and net profit declined by 36%. Seven out of its top nine brands grew faster than the market and are likely to drive future growth. FDC has completed buyback of 3.43mn shares at Rs350 per share aggregating to Rs1.2bn. Key upside risks to our assumptions are faster growth of its major brands and key downside risk includes slow growth of the domestic pharma market. We recommend a switch to Aurobindo or Cipla.

- **Revenue grew 6% YoY:** FDC's Q4FY18 revenue grew 6%YoY to Rs2.71bn from Rs2.56bn due to re-stocking by trade on successful GST implementation. As per AIOCD AWACS MAT data-March'18, FDC's revenue grew 14.8%, compared to the market growth rate of 9.5%. Nine of the company's major brands appear among the top 1,000 domestic brands and contributed ~59% to its revenues, indicating high dependence on these brands. Seven out of the top nine brands, namely Electral, Vitcofol, Enerzal, Zifi, Zifi CV, Zifi AZ and Zifi O grew faster than the market growth rate of 9.5% and would drive future growth. FDC derives ~25% of its revenues from Zifi and its line extensions.
- **Margin set to improve:** FDC's EBIDTA margin declined by 980bps to 11.2% from 21.0%, due to overall rise in expenses. Material cost grew 160bps YoY to 35.0% from 33.4% due to a change in the product mix. Personnel expenses grew by 280bps. Other expenses grew by 540bps. FDC markets over 160 products through over 4,000 MRs. We expect margin improvement led by new product launches, volume growth of existing products and price increase up to 10% for non-NLEM products.
- **Net profit set to grow:** FDC's net profit declined by 36% YoY to Rs315mn from Rs491mn due to margin decline and higher tax rate. FDC's other income grew by 57%YoY to Rs252mn from Rs161mn from treasury operations. The company's tax rate grew to 32.5% from 19.2% of PBT. We expect net profit to improve on normalisation in trade channels.
- **Valuation and view:** We expect FDC to report good performance in the domestic market due to its strong brands and marketing thrust. We maintain Hold for FDC with a TP of Rs260 based on 17x March'20E EPS of Rs15.3, and an upside of 9.7% from CMP. We have revised our FY19E and FY20E EPS downwards by 12% and 6% respectively. Key upside risks to our assumptions are higher growth of its major brands and key downside risk includes slowdown of the domestic pharma market.

Particulars (Rs mn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Q4FY18E	% Var.
Total Revenues	2,714	2,564	5.9	2,488	9.1	2,800	(3.1)
Raw material cost	951	856	11.1	735	29.4	870	9.3
Employee cost	564	462	22.1	554	1.8	560	0.7
Other expenses	896	708	26.6	677	32.3	740	21.1
EBIDTA	303	538	(43.7)	522	(42.0)	630	(51.9)
EBIDTA margin (%)	11.2	21.0		21.0		22.5	
Depreciation	84	88	(4.5)	84	0.0	90	(6.7)
Interest	4	3	33.3	4	0.0	4	0.0
Other income	252	161	56.5	122	106.6	140	80.0
PBT	467	608	(23.2)	556	(16.0)	676	(30.9)
Prov. For tax	152	117	29.9	130	16.9	170	(10.6)
Adj. PAT	315	491	(35.8)	426	(26.1)	506	(37.7)

Source: Company, Centrum Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY16	10,174	14.4	2,286	22.5	1,691	14.1	9.5	16.7	16.5	20.2	16.4
FY17	10,510	3.3	2,435	23.2	1,943	14.9	10.9	16.5	16.3	18.6	16.9
FY18	10,831	3.1	2,267	20.9	1,741	(10.4)	9.7	13.7	13.6	21.7	18.5
FY19E	11,804	9.0	2,773	23.5	2,212	27.1	12.4	17.1	17.0	19.1	16.5
FY20E	13,099	11.0	3,358	25.6	2,729	23.4	15.3	20.2	20.0	15.5	13.4

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs260	Key Data	
CMP*	Rs237	Bloomberg Code	FDCLT IN
Upside	9.7%	Curr Shares O/S (mn)	174.4
Previous Target	Rs280	Diluted Shares O/S(mn)	174.4
Previous Rating	Hold	Mkt Cap (Rsbn/USDmn)	41.3/615.2
Price Performance (%)*		52 Wk H / L (Rs)	319.8/163.3
		5 Year H / L (Rs)	319.8/79
FDCLT IN	(7.0)	12.1	25.2
Nifty	0.7	5.6	10.8
		Daily Vol. (3M NSE Avg.)	79369

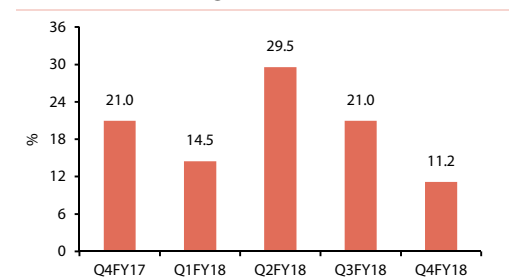
*as on 1st June 2018 Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-18	Dec-17	Sept-17	June-17
Promoter	69.1	68.9	68.9	68.9
Fils	9.6	9.4	9.3	9.8
Dils	4.1	4.2	4.1	4.2
Others	17.2	17.5	17.7	17.1

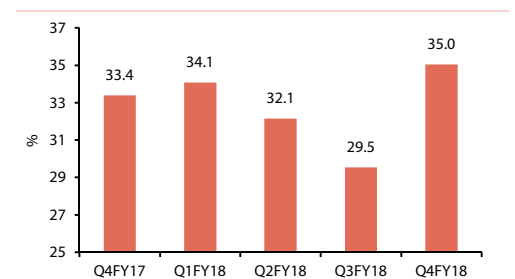
Source: BSE, *as on 1st June 2018

Trend in EBIDTA margin (%)



Source: Company, Centrum Research

Trend in material cost (%)



Source: Company, Centrum Research

Earning Revision

Particulars (Rsmn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	11,804	12,395	(4.8)	13,099	13,908	(5.8)
EBITDA	2,773	3,123	(11.2)	3,358	3,657	(8.2)
EBITDA Margin (%)	23.5	25.2	0bps	25.6	26.3	0bps
PAT	2,212	2,502	(11.6)	2,729	2,912	(6.3)

Source: Centrum Research Estimates

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Brands driven growth

Major brands and their performance

As per AIOCD AWACS March'18 data, FDC's revenue grew by 14.8% YoY compared to the industry growth rate of 9.5% due to re-stocking by trade after successful GST implementation. FDC's nine major brands appear in the list of top 1,000 brands and contributed ~59% to the revenues, indicating high dependence on these products. The company's seven major brands grew faster than the industry growth rate of 9.5%. We expect these brands to drive future growth. Zifi and its line extensions contributed ~25% to the company's revenues. Zifi AZ had the fastest growth of 89.9%YoY. Hence, FDC is largely dependent on Zifi and its line extensions.

The details are as follows:

Exhibit 1: Major products and their performance

Products (Rs mn)	Therapeutic Category	January'18		February'18		March'18	
		Rs mn	Gr. Rate %	Rsmn	Gr. Rate %	Rs mn	Gr. Rate %
Pharma market		1,00,565	9.5	97,543	7.1	1,00,292	9.5
FDC		866	9.1	860	9.7	906	14.8
Zifi	anti-infective	131	3.6	130	11.7	143	31.2
Electral	ORS	157	23.6	166	31.4	180	33.0
Vitcofol	multivitamin	31	19.5	31	7.1	34	15.2
Enerzal	neutraceutical	20	31.4	28	10.6	44	35.6
Zocon	antifungal	32	14.7	28	13.7	28	6.5
Zifi CV	anti-infective	34	12.2	35	21.8	34	18.9
Amodep AT	CVS	28	15.4	25	1.4	24	1.5
Zifi AZ	anti-infective	24	63.2	27	79.9	30	89.9
Zifi O	anti-infective	16	18.3	17	25.8	20	35.0
Total		473		487		537	

Source: AIOCD AWACS monthly data-January-March'18

Buyback of shares

FDC has completed buyback of 3.43mn equity shares of Rs1 each at Rs350 per share aggregating to Rs1.2bn in FY18. This is equivalent to 1.93% of equity shares of the company. The buyback price of Rs350 per share was 48% higher than CMP of Rs237. We expect FDC to announce buyback of Rs1.29bn and Rs1.40bn for FY19 and FY20 respectively.

Valuations and key risks

FDC's performance in Q4FY18 was impacted by sharp reduction in EBIDTA margin. We expect FDC to report good performance in the future due to its sturdy brands. Seven of its major brands Zifi, Electral, Enerzal, Zifi CV, Zifi AZ, Zifi O and Vitcofol grew faster than the market and are likely to drive future growth. We maintain Hold rating for FDC with a target price of Rs260 based on 17x March'20E EPS of Rs15.3 and an upside of 9.7% from CMP. Key upside risks to our assumptions are faster growth of its major brands and key downside risk would be slower growth of the domestic pharma market. We recommend a switch to Aurobindo or Cipla.

Earning Revision

Based on the muted Q4FY18 results, we have revised FY19E and FY20E EPS downwards by 12% and 6% respectively as follows:

Exhibit 2: Earning Revision

Particulars	FY19E			FY20E		
	Current	Earlier	Chg(%)	Current	Earlier	Chg(%)
Sales	11,804	12,395	(4.8)	13,099	13,908	(5.8)
EBIDTA	2,773	3,123	(11.2)	3,358	3,657	(8.2)
EBIDTA margin (%)	23.5	25.2	0bps	25.6	26.3	0bps
Net profit	2,212	2,502	(11.6)	2,729	2,912	(6.3)

Source: Centrum Research Estimates

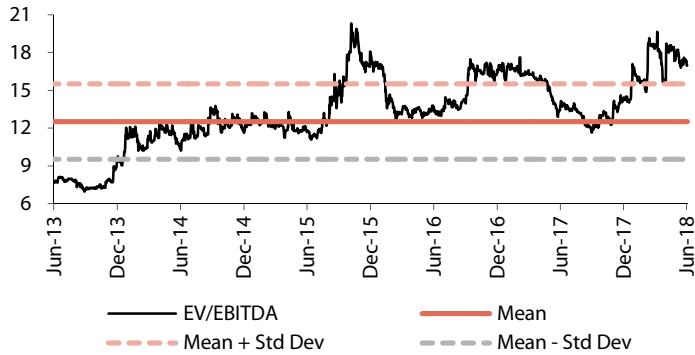
Valuation & key risks

Exhibit 3: Sensitivity Analysis

Sensitivity to key variables – FY19E	% change	% impact on EBITDA	% impact on EPS
Sales	1	4.3	5.3
Material cost	1	(1.3)	(1.7)

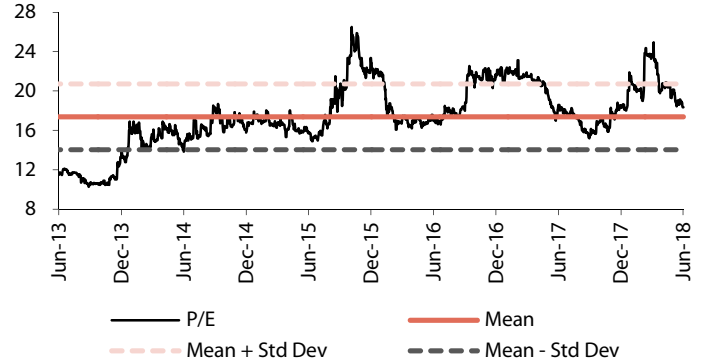
Source: Company, Centrum Research Estimates

Exhibit 4: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 5: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 6: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E
FDC	40,717	6.0	6.7	6.7	23.2	20.9	23.5	18.6	21.7	19.1	16.9	18.5	16.5	16.5	13.7	17.1	1.3	3.3	3.2
Indoco Remedies	17,923	12.5	29.0	59.6	13.2	15.7	17.4	52.6	26.1	17.1	17.7	10.2	9.0	6.2	9.4	12.8	0.4	1.1	1.4
J.B. Chemicals	22,652	11.6	12.8	23.0	18.0	16.8	18.4	19.0	13.7	11.1	8.8	8.8	6.0	9.9	11.2	12.4	NA	NA	NA

Source: Company, Centrum Research Estimates, Bloomberg Consensus Estimates, Prices as on 1st June 2018

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 7: Quarterly Financials -consolidated

PARTICULARS (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Total Sales	2,716	2,923	2,312	2,564	2,454	3,046	2,488	2,714
Materials Cost	907	925	680	856	836	979	735	951
Personnel expenses	470	464	503	462	486	551	554	564
Other expenses	658	701	762	708	777	616	677	896
Total Expenditure	2,035	2,090	1,945	2,026	2,099	2,146	1,966	2,411
EBIDTA	682	833	367	538	355	900	522	303
Other income	129	153	52	161	138	110	122	252
PBDIT	811	986	419	699	493	1010	644	555
Depreciation	85	83	89	88	93	89	84	84
Interest	4	4	4	3	3	3	4	4
PBT	723	899	326	608	397	918	556	467
Tax	174	230	106	117	105	269	130	152
PAT	549	669	220	491	292	649	426	315
Extraordinary item	59	0	0	0	0	0	0	0
Reported PAT	490	669	220	491	292	649	426	315
Growth Rates %								
Sales	4.7	10.3	0.3	2.8	(9.7)	4.2	7.6	5.9
EBIDTA	8.7	37.9	(19.9)	(7.4)	(47.9)	8.0	42.2	(43.7)
Net profit	16.1	39.1	(31.5)	18.3	(46.8)	(3.0)	93.6	(35.8)
Margin %								
EBIDTA margin	25.1	28.5	15.9	21.0	14.5	29.5	21.0	11.2
PBT margin	26.6	30.8	14.1	23.7	16.2	30.1	22.3	17.2
Net margin	20.2	22.9	9.5	19.1	11.9	21.3	17.1	11.6

Source: Company, Centrum Research

Exhibit 8: Key performance indicators

Key performance indicator	FY16	FY17	FY18	FY19E	FY20E
Sales Growth %	14.4	3.3	3.1	9.0	11.0
Material cost %	35.2	32.1	32.5	31.2	30.3

Source: Centrum Research Estimates

Financials -consolidated

Exhibit 9: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	10,174	10,510	10,831	11,804	13,099
Material cost	3,578	3,377	3,521	3,684	3,970
% of revenues	35.2	32.1	32.5	31.2	30.3
Employee cost	1,758	1,911	2,167	2,295	2,480
% of revenues	17.3	18.2	20.0	19.4	18.9
Other Expenses	2,552	2,787	2,876	3,052	3,291
% of revenues	25.1	26.5	26.6	25.9	25.1
EBIDTA	2,286	2,435	2,267	2,773	3,358
EBIDTA margin (%)	22.5	23.2	20.9	23.5	25.6
Depreciation & Amortisation	337	346	351	403	459
EBIT	1,949	2,089	1,916	2,370	2,899
Interest Expenses	14	14	14	13	19
PBT from operations	1,935	2,075	1,902	2,357	2,880
Other income	391	502	510	610	700
PBT	2,326	2,577	2,412	2,967	3,580
Tax provision	635	634	671	755	850
Effective tax rate (%)	27.3	24.6	27.8	25.4	23.7
Net profit	1,691	1,943	1,741	2,212	2,730
Minority interest	-	-	-	-	-
Reported net profit	1,691	1,943	1,741	2,212	2,729
Adj. Net profit	1,691	1,943	1,741	2,212	2,729

Source: Company, Centrum Research Estimates

Exhibit 10: Key Ratios

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Growth Ratios (%)					
Revenues	14.4	3.3	3.1	9.0	11.0
EBIDTA	15.1	6.5	(6.9)	22.3	21.1
Adj. Net Profit	14.1	14.9	(10.4)	27.1	23.4
Margin Ratios (%)					
EBIDTA margin	22.5	23.2	20.9	23.5	25.6
PBT from operations margin	19.0	19.7	17.6	20.0	22.0
Adj. PAT margin	16.6	18.5	16.1	18.7	20.8
Return Ratios (%)					
RoCE	16.5	16.3	13.6	17.0	20.0
RoE	16.7	16.5	13.7	17.1	20.2
RoIC	23.1	20.4	17.6	21.9	26.0
Turnover ratios (days)					
Gross Block Turnover (x)	1.5	1.4	1.4	1.4	1.5
Debtors	22	26	28	28	28
Creditors	30	27	33	24	57
Inventory	47	48	54	51	54
Cash Conversion Cycle	40	47	49	56	24
Solvency Ratio					
Debt-Equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Current Ratio	1.5	1.7	1.5	1.7	1.6
Interest Coverage Ratio	0.0	0.0	0.0	0.0	0.0
Gross Debt/EBIDTA	0.0	0.0	0.0	0.0	0.0
Per Share (Rs)					
FDEPS (adjusted)	9.5	10.9	9.7	12.4	15.3
CEPS	11.4	12.8	11.7	14.6	17.8
Book Value	60.6	71.1	72.8	76.1	82.6
Dividend	2.2	2.3	6.9	7.5	8.3
Dividend Payout (%)	28.5	24.6	69.0	58.4	51.3
Valuations (x) (Avg Mkt Cap)					
PER	20.2	18.6	21.7	19.1	15.5
P/BV	3.2	2.8	2.9	3.1	2.9
EV/EBIDTA	16.4	16.9	18.5	16.5	13.4
Dividend Yield (%)	1.4	1.3	3.3	3.2	3.5
5-yr Avg AOCF/EV yield(%)	0.2	0.3	4.8	5.4	5.8

Source: Company, Centrum Research Estimates

Exhibit 11: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	179	179	175	172	168
Reserves & surplus	10,652	12,523	12,586	12,909	13,740
Total shareholders Funds	10,830	12,702	12,761	13,081	13,908
Total Debt	8	7	6	12	15
Minority interest	0	0	0	0	0
Deferred tax Liab.	187	174	152	184	192
Total Liabilities	11,025	12,883	12,919	13,277	14,115
Gross Block	7,086	7,458	8,064	8,324	9,375
Less: Acc. Depreciation	334	678	1,030	1,433	1,891
Net Block	6,752	6,780	7,035	6,891	7,484
Capital WIP	199	64	129	150	170
Net Fixed Assets	6,951	6,844	7,164	7,041	7,654
Investments	3,249	4,910	4,713	4,800	4,880
Inventories	1,310	1,372	1,605	1,660	1,930
Debtors	619	761	817	922	1,002
Loans & Advances	127	145	94	110	130
Cash & Bank Balance	184	285	293	430	530
Other assets	223	256	357	370	440
Total Current Assets	2,463	2,819	3,166	3,492	4,032
Trade payable	826	779	973	780	2060
Other current Liabilities	603	659	870	871	0
Provisions	209	252	280	405	390
Net Current Assets	825	1,129	1,043	1,436	1,582
Total Assets	11,025	12,883	12,919	13,277	14,115

Source: Company, Centrum Research Estimates

Exhibit 12: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
CF before WC changes	1,779	2,217	2,065	2,647	3,196
Working Capital Changes	(31)	(203)	95	(256)	(46)
CF from Operations	1,748	2,014	2,160	2,391	3,150
Adj OCF (OCF-Interest)	1,703	2,000	2,146	2,378	3,131
Change in fixed assets	(3,059)	(239)	(671)	(281)	(1,071)
Adj. FCF (AOCF-Capex)	(1,356)	1,761	1,475	2,097	2,060
CF from Investing	(747)	(1,900)	(474)	(368)	(1,151)
CF from Financing	(967)	(479)	(1,205)	(1,289)	(1,401)
Net change in Cash	34	(365)	480	734	598

Source: Company, Centrum Research Estimates

Appendix A

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FDC price chart



Source: Bloomberg, Centrum Research

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