

## Subdued Q2 performance amid high base...

Q2 revenues declined 13% YoY to ₹ 237.4 crore mainly due to higher base of one-time pharma contract in Q2FY20. Pharma segment de-grew 30.3% YoY to ₹ 144 crore. Specialty chemicals grew 25.6% YoY to ₹ 68 crore. EBITDA margins contracted 446 bps to 41.5% amid higher employee cost and other expenditure. EBITDA declined 21.5% to ₹ 98.5 crore. PAT declined 20.4% YoY to ₹ 74.1 crore. Delta vis-à-vis EBITDA was mainly due to higher depreciation, lower other income partially offset by lower tax rate.

### Key conference call takeaways

- Decline in demand for new projects due to pandemic, which will not impact FY21 but may impact FY22. Some increase is seen in demand for new projects in Q2FY21
- The ₹ 600 crore capex plan (in two to three years) is to increase Pashamylaram facility capacity, relocation of R&D facilities, new technology adoption, replacement & modernisation of some existing facilities
- Guidance: FY21 growth rate to be 15-20% in topline and bottomline
- Sequential decline in gross margin due to change in product mix; other manufacturing expenses higher due to higher third party costs and environmental costs
- Eleven ANDA filings; five approved. Three already commercialised, two to be launched in FY21; another three to four to be filed in H2FY21, seven to eight in FY22
- Two specialty chemicals under development with possible launch in 2021-22 with a ₹ 50 crore run rate each
- Rising pharma- profit share contribution could be ~₹ 40 crore for FY21
- Effective tax rate for FY21 to be ~24%
- Formulation sales for Q2FY21 was ₹ 10.2 crore, and profit share is ₹ 2 crore; CRAMS & formulations to grow 15-20%

### Valuation & Outlook

Q2 results were lower than I-direct estimates on margin and profitability front. Revenues were in line with I-direct estimates. Despite pandemic and high base, the company has guided 15-20% growth based on strong order book position (albeit some expected delays). Regarding the optically high capex plan of ₹ 600 crore for modernisation and technology upgradation, we believe this has to do with the need to cater to the changed priorities and requirements at the behest of the clients, the benefits of which may be visible in the long run. We continue to emphasise on the strong execution capability and focused approach without the burden of success/failure of the innovative pipeline. We upgrade from HOLD to **BUY** rating with a target price of ₹ 400 based on 20x on FY23E EPS of ₹ 20.

### Key Financial Summary

₹Crore	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E (%)
Revenues	833.8	981.7	1103.2	1237.4	14.1
EBITDA	384.8	435.9	499.2	566.1	13.7
EBITDA margins (%)	46.1	44.4	45.3	45.8	
Net Profit	317.0	369.2	450.1	509.2	17.1
EPS (₹)	12.5	14.5	17.7	20.0	
PE (x)	25.2	21.7	17.8	15.7	
EV to EBITDA (x)	21.2	18.2	15.6	13.4	
RoE (%)	37.5	31.0	27.8	24.2	
RoCE (%)	35.6	32.5	30.8	27.1	

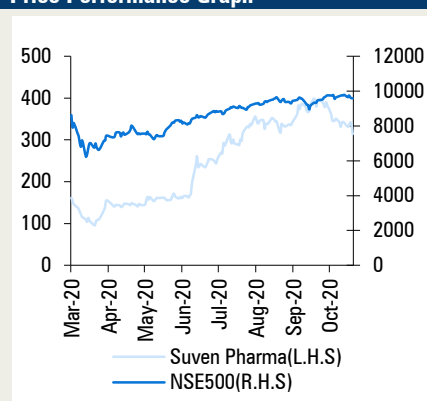
Source: ICICI Direct Research; Company



### Particulars

Particular	Amount
Market Capitalisation	₹8004 crore
Debt (FY 20)	₹185 crore
Cash (FY 20)	₹14 crore
EV	₹8175 crore
52 week H/L (₹)	416/87
Equity capital	₹25.5 crore
Face value	₹1

### Price Performance Graph



### Research Analyst

Siddhant Khandekar  
siddhant.khandekar@icicisecurities.com

Mitesh Shah  
mitesh.shah@icicisecurities.com

Sudarshan Agarwal  
sudarshan.agarwal@icicisecurities.com

**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	Comments
Revenue	237.4	272.9	238.2	-13.0	-0.4	YoY decline amid higher base of one-time contract in Q2
Raw Material Expenses	73.6	91.1	70.7	-19.1	4.1	
Gross margins (%)	69.0	66.6	70.3	234.8	-131.6	
Employee Expenses	20.9	13.1	17.4	59.6	20.0	Sharp increase amid additional cost due to pandemic and increments
Other Expenditure	44.3	43.4	38.0	2.3	16.8	increased due to environmental related expenses and Covid related expenses
EBITDA	98.5	125.4	112.1	-21.5	-12.1	
EBITDA (%)	41.5	45.9	47.0	-445.6	-555.8	Sharp decline in margins amid higher employee cost and other expenditure
Interest	3.3	4.4	3.2	-26.2	1.8	
Depreciation	7.5	5.4	7.1	37.7	6.2	
Other Income	0.4	5.4	5.7	-93.4	-93.8	
PBT before EO & Forex	88.1	121.0	107.6	-27.2	-18.1	
Forex & EO	0.0	0.0	0.0			
Profit from Associates	8.8	3.5	10.3	148.5	-15.2	
PBT	96.8	124.5	117.9	-22.2	-17.8	
Tax	22.8	31.5	26.3	-27.7	-13.6	
Net Profit	74.1	93.0	91.5	-20.3	-19.1	Delta vis-à-vis EBITDA owing to higher depreciation and lower other income, which was partially offset by lower tax rate
<b>Key Metrics</b>						
CRAMS - Pharma	144.2	206.8	127.6	-30.3	13.0	
CRAMS - Spec Chem	68.2	54.3	97.0	25.6	-29.7	
Formulations & Others	25.0	13.2	13.6	89.3	83.8	

Source: ICICI Direct Research

**Exhibit 2: Change in Estimates**

(₹Crore)	FY21E			FY22E			Comments
	Old	New	Change	Old	New	Change	
Revenue	955.6	981.7	2.7	1,068.8	1,103.2	3.2	
EBITDA	431.4	435.9	1.0	489.0	499.2	2.1	
EBITDA Margin (%)	45.1	44.4	-75 bps	45.8	45.3	-50 bps	
PAT	374.3	369.2	-1.3	445.3	450.1	1.1	
EPS (₹)	14.7	14.5	-1.3	17.5	17.7	1.1	

Source: ICICI Direct Research

**Exhibit 3: Change in Estimates**

(₹crore)	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
CRAMS - Pharma	379.0	468.0	561.4	628.7	533.7	597.7	Changed as per management guidance
CRAMS - Spec Chem	216.0	304.0	337.7	378.2	350.5	392.5	Changed mainly due to lower than expected sales in 1H
Formulations & Others	50.0	70.0	82.6	96.3	71.4	78.6	Changed mainly due to higher than expected sales in 1H

Source: ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenues</b>	<b>833.8</b>	<b>981.7</b>	<b>1,103.2</b>	<b>1,237.4</b>
Growth (%)	NA	17.7	12.4	12.2
Raw Material Expenses	229.2	293.7	325.5	365.0
Employee Expenses	65.1	76.3	80.0	89.7
Other Manufacturing Expenses	154.7	175.8	198.6	216.5
Total Operating Expenditure	449.0	545.8	604.0	671.3
<b>EBITDA</b>	<b>384.8</b>	<b>435.9</b>	<b>499.2</b>	<b>566.1</b>
Growth (%)	124.3	13.3	14.5	13.4
Interest	23.1	12.3	8.4	8.4
Depreciation	23.5	29.6	39.1	49.1
Other Income	18.1	41.5	84.9	95.3
PBT before Exceptional Items	356.3	435.5	536.7	603.9
Less: Forex & Exceptional Item	0.0	0.0	0.0	0.0
PBT	404.5	482.6	592.2	670.0
Total Tax	87.5	113.4	142.1	160.8
PAT before MI	317.0	369.2	450.1	509.2
Minority Interest	0.0	0.0	0.0	0.0
PAT	317.0	369.2	450.1	509.2
<b>Adjusted PAT</b>	<b>317.0</b>	<b>369.2</b>	<b>450.1</b>	<b>509.2</b>
Growth (%)	190.1	16.5	21.9	13.1
EPS	12.5	14.5	17.7	20.0
<b>EPS (Adjusted)</b>	<b>12.5</b>	<b>14.5</b>	<b>17.7</b>	<b>20.0</b>

Source: Company, ICICI Direct Research

Exhibit 5: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	318.1	369.2	450.1	509.2
Add: Depreciation & Amortization	23.7	29.6	39.1	49.1
Net Increase in Current Assets	18.0	-57.3	-48.6	-53.6
Net Increase in Current Liabilities	27.2	16.1	14.2	15.7
Others	5.9	0	0	0
<b>CF from operating activities</b>	<b>415.9</b>	<b>369.9</b>	<b>463.2</b>	<b>528.8</b>
(Inc)/dec in Fixed Assets	-99.3	-139.0	-300.0	-300.0
(Inc)/dec in Investments	-337.2	0.0	0.0	0.0
Others	15.4	2.1	2.3	2.6
<b>CF from investing activities</b>	<b>-421.1</b>	<b>-136.9</b>	<b>-297.7</b>	<b>-297.4</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in sec. Loan	102.5	-40.0	-40.0	0.0
Dividend & Dividend Tax	-76.7	-23.0	-23.0	-23.0
Others	-19.41	-12.28	-8.42	-8.42
<b>CF from financing activities</b>	<b>6.4</b>	<b>-75.3</b>	<b>-71.4</b>	<b>-31.4</b>
Net Cash flow	1.2	157.7	94.2	199.9
Opening Cash	12.9	14.1	171.8	266.0
<b>Closing Cash</b>	<b>14.1</b>	<b>171.8</b>	<b>266.0</b>	<b>465.9</b>
Free Cash Flow	316.7	230.9	163.2	228.8

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	12.7	25.5	25.5	25.5
Reserve and Surplus	832.0	1,165.5	1,592.7	2,078.9
Total Shareholders fund	844.8	1,191.0	1,618.1	2,104.3
Total Debt	185.3	145.3	105.3	105.3
Deferred Tax Liability	27.6	30.4	33.4	36.7
Minority Interest	0.0	0.0	0.0	0.0
Other Non Current Liabilities	8.8	9.7	10.7	11.7
<b>Source of Funds</b>	<b>1,066.5</b>	<b>1,376.3</b>	<b>1,767.5</b>	<b>2,258.1</b>
Gross Block - Fixed Assets	456.7	681.7	781.7	981.7
Accumulated Depreciation	99.9	129.5	168.6	217.6
Net Block	356.7	552.2	613.1	764.0
Capital WIP	101.7	15.7	215.7	315.7
Net Fixed Assets	458.4	567.9	828.8	1,079.7
Investments	338.1	338.1	338.1	338.1
Inventory	174.9	205.9	231.4	259.5
Cash	14.1	171.8	266.0	465.9
Debtors	117.2	138.0	155.1	173.9
Loans & Advances & Other CA	0.0	0.0	0.0	0.0
Total Current Assets	361.0	576.0	718.8	972.3
Creditors	71.1	83.7	94.0	105.4
Provisions & Other CL	35.3	38.8	42.7	47.0
Total Current Liabilities	106.3	122.5	136.7	152.4
Net Current Assets	254.6	453.5	582.1	819.9
LT L& A, Other Assets	15.3	16.8	18.5	20.3
Deferred Tax Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,066.5</b>	<b>1,376.3</b>	<b>1,767.5</b>	<b>2,258.1</b>

Source: Company, ICICI Direct Research

Exhibit 7: Ratio Analysis				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	12.5	14.5	17.7	20.0
Cash EPS	11.5	13.6	16.8	19.1
BV	33.2	46.8	63.6	82.7
DPS	0.9	0.9	0.9	0.9
Cash Per Share	3.9	5.1	6.6	8.5
<b>Operating Ratios (%)</b>				
Gross Profit margins	72.5	70.1	70.5	70.5
EBITDA margins	46.1	44.4	45.3	45.8
Net Profit margins	38.0	37.6	40.8	41.2
Asset Turnover	1.8	1.4	1.4	1.3
Inventory days	76.6	76.6	76.6	76.6
Debtor days	51.3	51.3	51.3	51.3
Creditor days	31.1	31.1	31.1	31.1
<b>Return Ratios (%)</b>				
RoE	37.5	31.0	27.8	24.2
RoCE	35.6	32.5	30.8	27.1
RoIC	79.5	66.8	72.4	69.1
<b>Valuation Ratios (x)</b>				
P/E	25.2	21.7	17.8	15.7
EV / EBITDA	21.2	18.2	15.6	13.4
EV / Revenues	9.8	8.1	7.1	6.2
Market Cap / Revenues	9.6	8.2	7.3	6.5
Price to Book Value	9.5	6.7	4.9	3.8
<b>Solvency Ratios</b>				
Debt / Equity	0.2	0.1	0.1	0.1
Debt/EBITDA	0.5	0.3	0.2	0.2
Current Ratio	3.3	3.3	3.3	3.3

Source: Company, ICICI Direct Research

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Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruvi Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

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