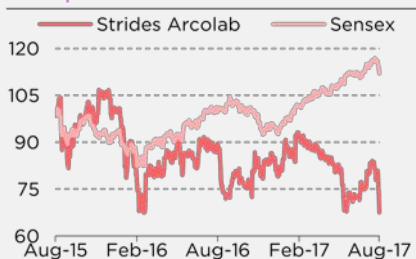


**12 August 2017**
**BSE Sensex: 31214**
**Sector: Pharmaceuticals**
**Stock data**

|                        |             |
|------------------------|-------------|
| CMP (Rs)               | 875         |
| Mkt Cap (Rs bn/USD m)  | 78.3 /1,222 |
| Target Price (Rs)      | 994         |
| Change in TP (%)       | -7.4        |
| Potential from CMP (%) | 13.6        |
| Earnings change (%)    |             |
| FY17E                  | -14.2       |
| FY18E                  | -5.2        |

|  |           |
|--|-----------|
| Bloomberg code                           | STR IN    |
| 1-yr high/low (Rs)                       | 1,275/848 |
| 6-mth avg. daily volumes (m)             | 0.3       |
| 6-mth avg. daily traded value (Rsm/USDm) | 311.2/4.9 |
| Shares outstanding (m)                   | 89.5      |
| Free float (%)                           | 68.9      |
| Promoter holding (%)                     | 31.1      |

**Price performance - relative & absolute**


| (%)        | 3-mth  | 6-mth  | 1-yr   |
|------------|--------|--------|--------|
| STR IN     | (18.4) | (26.4) | (24.6) |
| BSE Sensex | 3.2    | 10.2   | 12.0   |

**Q1FY18 result highlights**

- Cons. revenues came in at Rs8.4bn (down 5% qoq), below est of Rs9bn primarily due to miss in regulated markets revenues which came 16% below estimates. EMs / PSAI revenues were in-line.
- Reported EBITDA at Rs0.87bn (down 34%/44% yoy/qoq) was significantly below est of Rs1.45bn. EBITDA margins came at 10.4% vs est of 16%. EBITDA miss was driven by lower revenues combined with sharply lower GMs at 50.2% (56.7% in Q4) vs our est of 54%.
- Other income stood lower at Rs361mn vs est of Rs450m. Continuing business PAT came at Rs84mn vs est of Rs646m. PAT was aided by Rs 33m tax credit on account of Rs54m deferred tax credit.
- Mgt is on course with the restructuring its business involving divestment / demerger of lower margin business as part of its strategy to transform Strides into primarily a B2C company. While it will shrink revenues, it should improve the overall profitability of the business.

**Key positives:** Inline EMs and PSAI revenues, -ve tax, overhead costs

**Key negatives:** Lower regulated market revenues; lower GMs

**Impact on financials:** We have reduced FY18/FY19 earnings by 14%/5%

**Valuations & view**

Strides 2.0 has continued to fine-tune its business model as it seeks to effectively integrate the 10 odd M&A transactions it has undertaken over last 18m or so. Recent announced corporate actions should create a more focussed, profitable B2C business model with reduced leverage and results should be visible over the next 6m once these transactions close. We remain positive on the medium term earnings possibilities of Strides 2.0's diversified business model and its value creating potential. Maintain Outperformer with a TP of Rs994 (16x FY19e plus Rs91/share value for the stake in the demerged PSAI entity).

**Key financials (quarterly)**

| (Rs m)        | Q1FY17 | Q4FY17 | Q1FY18 | % ch qoq | % ch yoy | % var from est |
|---------------|--------|--------|--------|----------|----------|----------------|
| Net sales     | 7,895  | 8,884  | 8,418  | -5.2     | 6.6      | -7.2           |
| EBITDA        | 1,322  | 1,569  | 873    | -44.4    | -34.0    | -39.8          |
| OPM (%)       | 16.7   | 17.7   | 10.4   | -729.2   | -38.1    | -35.1          |
| Other inc.    | 208    | 731    | 361    | -50.6    | 73.6     | -19.8          |
| Interest      | 559    | 592    | 640    | 8.2      | 14.5     | 16.4           |
| Dep. & Amort. | 424    | 529    | 511    | -3.3     | 20.8     | 2.3            |
| PBT           | 547    | 1,178  | 82     | -93.1    | -85.1    | -90.4          |
| PAT           | 458    | 1,011  | 84     | -91.6    | -81.6    | -86.9          |
| Reported PAT  | 324    | 1,319  | 57     | -95.7    | -82.3    | -91.1          |
| EPS (Rs)      | 5.1    | 11.3   | 0.9    | -91.6    | -81.6    | -86.9          |

*Source: Company, IDFC Securities Research*

**Nitin Agarwal**  
nitin.agarwal@idfc.com  
91-22-662 22568

**Sumit Singhania**  
sumit.singhania@idfc.com  
91-22-662 22628

## Exhibit 1: Quarterly Result (consolidated)

| (Rs m)                 | Q1FY17       | Q2FY17       | Q3FY17       | Q4FY17        | Q1FY18        | Comments   |
|------------------------|--------------|--------------|--------------|---------------|---------------|--|
| <b>Net Sales</b>       | <b>7,895</b> | <b>9,535</b> | <b>9,339</b> | <b>8,884</b>  | <b>8,418</b>  | Below est led by lower revenues from the regulated markets |
| <b>Expenses</b>        |              |              |              |               |               |  |
| Cost of sales          | 3,729        | 4,002        | 4,021        | 3,844         | 4,193         | Significantly lower than our est                           |
| SG&A expenses          | 2,843        | 3,988        | 3,341        | 3,471         | 3,351         | Lower than est   |
| <b>Total Expenses</b>  | <b>6,573</b> | <b>7,990</b> | <b>7,362</b> | <b>7,315</b>  | <b>7,545</b>  |  |
| <b>EBITDA</b>          | <b>1,322</b> | <b>1,545</b> | <b>1,977</b> | <b>1,569</b>  | <b>873</b>    | Lower than est led by lower revenues and lower GMs         |
| <i>OPM (%)</i>         | <i>16.7</i>  | <i>16.2</i>  | <i>21.2</i>  | <i>17.7</i>   | <i>10.4</i>   | Significantly lower than est of 22.4%                      |
| Other Income           | 208          | 423          | 262          | 731           | 361           | Lower than est   |
| Interest               | 559          | 617          | 570          | 592           | 640           | Higher than est  |
| Depreciation           | 424          | 468          | 494          | 529           | 511           |  |
| Forex gain             |              |              |              |               |               |  |
| <b>PBT</b>             | <b>547</b>   | <b>884</b>   | <b>1,176</b> | <b>1,178</b>  | <b>82</b>     |  |
| Current Tax            | 88           | 152          | 81           | 175           | (33)          | We est 14%   |
| <i>Tax Rate (%)</i>    | <i>21.3</i>  | <i>15.1</i>  | <i>4.0</i>   | <i>11.7</i>   | <i>(61.3)</i> |  |
| Minority interest      | 1.0          | 113.4        | 88.5         | (6.9)         | 30.6          |  |
| <b>PAT</b>             | <b>458</b>   | <b>618</b>   | <b>1,006</b> | <b>1,011</b>  | <b>84</b>     | Significantly lower than est                               |
| Extraordinary expenses |              |              |              |               |               |  |
| Extraordinary Income   | (134)        | 124          | 868          | 308           | (27)          |  |
| <b>Reported PAT</b>    | <b>324</b>   | <b>741</b>   | <b>1,874</b> | <b>1,319</b>  | <b>57</b>     |  |
| <i>% chg yoy</i>       |              |              |              |               |               |  |
| <b>Sales</b>           | <b>28.8</b>  | <b>35.8</b>  | <b>7.7</b>   | <b>(11.3)</b> | <b>6.6</b>    |  |
| <b>EBITDA</b>          | <b>84.5</b>  | <b>47.4</b>  | <b>29.8</b>  | <b>(17.2)</b> | <b>(34.0)</b> |  |
| Interest               | 101.7        | 82.9         | 5.6          | (9.1)         | 14.5          |  |
| Depreciation           | 33.1         | 28.4         | 22.7         | 12.8          | 20.8          |  |
| <b>PBT</b>             | <b>40.1</b>  | <b>92.7</b>  | <b>74.2</b>  | <b>(10.8)</b> | <b>(85.1)</b> |  |
| PAT                    | 49.7         | 97.5         | 71.7         | (17.5)        | (81.6)        |  |
| <b>Reported PAT</b>    | <b>2.1</b>   | <b>1.7</b>   | <b>2.2</b>   | <b>0.4</b>    | <b>(0.8)</b>  |  |
| <b>EPS</b>             |              |              |              |               |               |  |
| Equity                 | 89.4         | 89.4         | 89.4         | 89.4          | 89.4          |  |
| EPS                    | 5.1          | 6.9          | 11.3         | 11.3          | 0.9           |  |

Source: Company, IDFC Securities Research

## Other key highlights

## Exhibit 2: Quarterly Revenues

|                   | Q1FY17       | Q1FY18       | yoy (%)     |
|-------------------|--------------|--------------|-------------|
| Regulated markets | 3,706        | 4,147        | 11.9        |
| Emerging business | 2,526        | 2,697        | 6.8         |
| PSAI              | 1,369        | 1,514        | 10.6        |
| <b>Total revs</b> | <b>7,601</b> | <b>8,358</b> | <b>10.0</b> |

Source: Company, IDFC Securities Research

## □ Regulated Markets - Tepid performance

- ◆ Regulated Markets - Strides reported Rs4.2bn (up 12% yoy) revenues which was below our est of Rs4.9bn.
- ◆ The growth in the regulated market was impacted in US on account of the slower pace of niche ANDA approvals / launches and higher than expected price erosion especially in the partnered products. Mgt indicated that the direct to market (DTM) portfolio was relatively steady.
- ◆ Australia performed steadily for the company in the current quarter. The company remains very bullish on the outlook for the business in Australia as it has undertaken multiple initiatives to drive growth in that geography

### **US market**

- ◆ The management highlighted that it is witnessing pricing pressure to the tune of mid single digit and further indicated that the pricing pressure is moderating
- ◆ Going forward the management said that the proportion of partnered portfolio is going to shrink and the DTM share is going to increase. The company will be marketing more of its own products in the US.
- ◆ In North America the company has been able to maintain and increase its market share gain in 4-5 of the existing products and particularly good traction witnessed in the new launch Ranitidine. Company expects to replicate similar performance in some more of its vertically integrated ANDAs in the future
- ◆ During the quarter, the company has got approval for 6 products in US as compared to no new approval in the previous quarter. The pickup in the couple of OTC approvals will be relatively more gradual compared to the Rx drugs.
- ◆ Earlier, the mgt had guided to potential receipt of 15-20 ANDA approvals in FY18 and they remain on course for the same. Going forward, the management has guided to receipt of couple of high value niche ANDAs including gLovaza and another modified release ANDA. These approvals are expected to come through by Q2-end and should drive significant pickup in US in H2FY18.
- ◆ On the filing front, Strides made 5 filings in Q1FY18 (8 ANDA filings in FY17) and it has now 29 ANDAs pending with the FDA. These filings include 2 soft gels, 7 Topicals, 3 modified release, 11 tablets and 5 hard gelatin capsules.
- ◆ With the R&D infrastructure now in place, the company is aiming to materially ramp-up its filings going forward now and expects to file 15-20 ANDAs in FY18 spread across multiple dosage formats.
- ◆ Given the reducing approval timelines at the FDA's end for recent filings, the company remains confident of getting 15-20 approvals annually over the medium term.
- ◆ During the quarter, the company spent Rs373mn (+64% yoy) as compared to Rs228mn last year. R&D spends were Rs1.36bn in FY17 (+80% yoy).
- ◆ The company believes that its R&D spends will peak at Rs1.5bn-2bn (excluding the Biotech spend) 90% of which would be allocated to regulated markets with major focus on niche and complex filings

### **Australian Market**

- ◆ Strides has slight reduction in qoq sales due to pre-stocking in Q4 in anticipation of the PBS price cuts.
- ◆ During the quarter, Strides launched 3 new products. The company launched 20 new drugs in FY17. The company expects further expansion in the portfolio aided by new products from Generic Partners.
- ◆ On the distribution side, Strides continues to gain enhanced distribution access post the distribution tie-up with the Pharmacy Alliance. Strides now is the frontline generic supplier in >1000 pharmacies and continues to work on expanding its distribution footprint. This distribution strength is a major competitive advantage for Strides.

- ♦ Going forward, the company is now focussing on ensuring better compliance for Arrow products at store level and on enhanced backward integration of the product portfolio. Strides has got its first site transfer and a few more switches are in the pipeline. Company expects that material gains from this backward integration should be visible from FY18 onwards.
- ♦ Mgt had earlier guided that the Australian business is currently doing revenues of around US\$45m on a quarterly basis from the earlier run rate of ~US\$22m around the time of the Aspen business acquisition. The management highlighted that the led by the volume growth and the market share gains in the Australian market it is able to maintain EBITDA at an absolute level however the margins level have come off since the time of the acquisitions. The company is also building on the OTC portfolio. However, given the opportunities for shifting production to India as well as supplying larger number of products across pharmacies, management remains positive on increasing profitability over the medium term.

#### □ Emerging Markets (including institutional business)

- ♦ Revs at Rs2.7bn were up 7% yoy and in line with estimates
- ♦ African brand business grew well during the quarter with market share gains across key brands. India business was impacted by the destocking prior to GST implementation
- ♦ On the institutional side, business growth was driven by the ARV portfolio due to the low malaria tender supplies. With new malaria tenders likely to be finalized only in Q3FY18, this business will likely stay soft for next couple of quarters. Mgt had previously cited that while they have won ~20% of the FY18 malaria tender, the donor funding is down 40-50% for FY18 which has reduced the size of the tender market
- ♦ The company is on track for the local manufacturing of institutional products in Africa at its recently acquired Universal Corporation facility and backward integration into API is expected to provide better visibility with the donor agencies.
- ♦ On the ARV business outlook, mgt guided that expect to be a competitive player in some of the newer drugs which are likely to be approved by the donors in coming years.

#### □ API business

- The PSAI business grew 11% to Rs1.5bn in line with estimates
- On Sevelamer Carbonate, mgt expects supplies to resume from Q2FY18 onwards which should also drive up the profitability of this business
- In view of the challenges being faced by the business, the company has opted to demerger this business into a separately listed company. The details of the proposed transaction are included later in the note.

#### □ Other points

- In Q1FY18, 4 facilities (API cum formulations) have undergone FDA inspection of which three facilities were issued no observations while the Bangalore facility was issued Form 483 with 3 observations. The management highlighted that it has addressed the observations and post the inspection the company has got 2 products approved.
- In some key board level changes highlighted in Q4FY17, Arun Kumar – Funder and Executive VC will move to a Non-executive positive as Chairman of the Board. He will continue to provide strategic inputs to the management. Shashank Sinha, Group CEO, and Badree Komandur, Group CFO will join the board as Executive Directors.
- Singapore formulation facility (meant for regulated markets) expected to go on-stream in H2FY18
- As of Jun 17 the net debt has increased by Rs1bn compared to FY17end at Rs22.5bn and it includes the PSAI segment debt of Rs4.5bn.

- Post the demerger of the PSAI business, the debt should come down by further -Rs4.5bn. Mgt is comfortable with the current net debt levels of ~3x debt / EBITDA and is aiming to bring it down further to ~2.5x over the next 4-6 quarters.
- Going forward as highlighted earlier, debt levels are expected to stay steady and potentially reduce given the relatively limited capex plans (\$15-20m per annum over next 2 years). Further, Strides needs to pay Rs1.75bn to complete the Perrigo and Vivimed transactions with another \$8m receivables expected from the Africa business sale.

## Strides 2.0 - Almost there

Strides management had announced a flurry of corporate transactions (including some which are significant reversals of earlier strategic thinking) as it continued on its journey to fine-tune Strides 2.0's new business model. Most these transactions have been completed and the pending demerger of the commodity business should be completed by H1FY18. These transactions include

- Agreement with Vivimed to form a 50:50 JV for its USFDA approved Alathur (Chennai) formulations facility - expected to be closed over next few months
- Demerger of the commodity API business into Solara Active Pharma Sciences (SARS) - appointed date of the transaction is Oct 1, 2017; expected to be closed sometime around that.
- Acquisition of a new API facility for captive consumption - completed
- Divestment of the generic generic Africa business - completed
- Divestment of probiotic business in India - completed
- Cancellation of plans to demerge Biotech business while limiting Strides' investment in the business - completed

The new business structure should be in place by H2FY18.

### □ Key outcomes from these transactions include

- ♦ Significant reduction in B2B business and making the company more B2C focussed
- ♦ Significant reduction in lower margin commodity businesses thereby increasing the underlying profitability of the business. However, revenue base will likely shrink meaningfully in the process
- ♦ Significant reduction in Strides' consolidated debt as some of the demerged / divested business (API business and biotech) have significant debt (Rs7-8bn put together). This should enhance Strides' ability to undertake some more bolt-on transactions in its key focus business segments. However, the mgt indicated that it aims to focus on consolidating its business in the near term

The company is also changing its name from Strides Shasun to Strides Pharma as the company evolves into a pure play formulation business with no 3<sup>rd</sup> party API business.

### □ Updates on transactions that closed in Q1FY18 or are expected to close shortly

***Formation of 50:50 JV with Vivimed for its USFDA approved formulation facility - Transaction has achieved closure in the current quarter***

- ♦ Strides has signed definitive agreements with Vivimed Labs to form a 50:50 JV on its USFDA approved formulations facility in Alathur Chennai. Strides will pay Rs750m towards this JV
- ♦ As part of this JV, Strides will get access to the 1bn tablet capacity for manufacturing some of its own ANDAs as well as getting marketing rights to ANDAs being developed by Vivimed
- ♦ On the manufacturing front, this will be Strides' 4<sup>th</sup> facility in addition to the Bengaluru, Puducherry and Singapore (upcoming). This capacity should be sufficient for volume requirements over next 3-4 years. This should lead to sharply lower capex requirements going forward

- ◆ Further, Strides believes that Vivimed is developing / filing some interesting vertically integrated ANDAs from this site that Strides will get access to as part of this partnership. This will strengthen Strides' US portfolio. Currently, Vivimed has filed 4 ANDAs with another 4 pending approval.

***API business related transactions - Demerger of the third party API business...***

- ◆ During the last few interactions the management had indicated that the commodity API business acquired from Shasun was facing challenges on account of lower profitability as well need to upgrade compliance standards from a regulatory aspect. The business required significant upgradation of capabilities from a quality and compliance perspective. While the business had limited synergies with Strides' formulation business, it also posed some risk to the formulation business which was integrated to these API supplies.
- ◆ The company has proposed to hive off its commodity business in a separately listed company - to be called SAPS. Further, the human API business from another promoter group company, Sequent Scientific will also get demerged from the company and merged into this new API entity
- ◆ While Strides' API business generated revenues of ~Rs5.3bn in FY17, Sequent's Human API business generated ~Rs3bn revenues in FY16. Therefore the combined entity should have revenues > Rs10bn in FY18 and will be a meaningful third party pure play API player. Management sees significant growth prospects for this business over the medium term given the presence of relatively few pure play API players globally along with increasing concerns related to over reliance on Chinese API supplies
- ◆ Strides shareholders will get 1 share each of SAPS for every 6 shares of Strides Shasun. Based on the swap ratios, we estimate that Strides' shareholders will own ~60% stake in SAPS.
- ◆ The effective date for the transaction is Oct 1, 2017. We estimate the transaction may get closed sometime in H2FY18
- ◆ We value this PSAI business at 10x FY19EBITDA which gives us a fair value of 91/share.
- ◆ The company has got the approval from the CCI, stock exchanges and SEBI. The company is now awaiting clearance from National Company Law Tribunal and taking shareholder and creditor approval

**Income statement**

| Year to 31 Mar (Rs m)      | FY15          | FY16          | FY17          | FY18E         | FY19E         |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net sales</b>           | <b>11,958</b> | <b>28,622</b> | <b>34,834</b> | <b>34,466</b> | <b>37,338</b> |
| % growth                   | (10.8)        | 139.3         | 21.7          | (1.1)         | 8.3           |
| Operating expenses         | 9,670         | 24,482        | 28,406        | 27,739        | 29,428        |
| <b>EBITDA</b>              | <b>2,289</b>  | <b>4,140</b>  | <b>6,428</b>  | <b>6,728</b>  | <b>7,910</b>  |
| % change                   | 2.4           | 80.9          | 55.3          | 4.7           | 17.6          |
| Other income               | 386           | 874           | 1,686         | 1,400         | 1,400         |
| Net interest cost          | 474           | 1,682         | 2,269         | 1,998         | 1,795         |
| Depreciation               | 640           | 1,313         | 1,872         | 1,734         | 1,512         |
| Pre-tax profit             | 1,560         | 2,020         | 3,973         | 4,396         | 6,003         |
| Deferred tax               | 0             | 144           | (189)         | 0             | 0             |
| Current tax                | 532           | 281           | 659           | 703           | 961           |
| <b>Profit after tax</b>    | <b>1,027</b>  | <b>1,595</b>  | <b>3,503</b>  | <b>3,693</b>  | <b>5,043</b>  |
| Preference dividend        | 0             | 0             | 0             | 0             | 0             |
| Minorities                 | 6             | 0             | 4             | 0             | 0             |
| <b>Adjusted net profit</b> | <b>1,033</b>  | <b>1,595</b>  | <b>3,506</b>  | <b>3,693</b>  | <b>5,043</b>  |
| Non-recurring items        | 7,267         | (645)         | 953           | 0             | 0             |
| <b>Reported net profit</b> | <b>8,300</b>  | <b>950</b>    | <b>4,459</b>  | <b>3,693</b>  | <b>5,043</b>  |
| % change                   | (53.0)        | (88.6)        | 369.4         | (17.2)        | 36.6          |

**Balance sheet**

| As on 31 Mar (Rs m)                   | FY15          | FY16          | FY17          | FY18E         | FY19E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Paid-up capital</b>                | <b>596</b>    | <b>894</b>    | <b>894</b>    | <b>894</b>    | <b>894</b>    |
| Preference capital                    | 0             | 0             | 0             | 0             | 0             |
| Reserves & surplus                    | 10,962        | 25,685        | 26,210        | 28,961        | 32,958        |
| <b>Shareholders' equity</b>           | <b>11,697</b> | <b>27,081</b> | <b>28,744</b> | <b>31,496</b> | <b>35,492</b> |
| Total current liabilities             | 8,005         | 11,707        | 16,295        | 15,581        | 16,879        |
| <b>Total debt</b>                     | <b>4,768</b>  | <b>35,022</b> | <b>34,847</b> | <b>30,347</b> | <b>30,347</b> |
| Deferred tax liabilities              | 112           | 473           | 756           | 756           | 756           |
| Other non-current liabilities         | 190           | 294           | 430           | 430           | 430           |
| Total liabilities                     | 13,074        | 47,495        | 52,328        | 47,114        | 48,412        |
| <b>Total equity &amp; liabilities</b> | <b>24,771</b> | <b>74,576</b> | <b>81,072</b> | <b>78,609</b> | <b>83,904</b> |
| Net fixed assets                      | 7,032         | 26,415        | 27,970        | 26,736        | 29,724        |
| Investments                           | 6,683         | 12,663        | 15,246        | 15,246        | 15,246        |
| Cash                                  | 1,474         | 3,116         | 3,295         | 2,419         | 3,309         |
| Other current assets                  | 8,161         | 22,769        | 24,692        | 24,339        | 25,755        |
| Deferred tax assets                   | 54            | 347           | 200           | 200           | 200           |
| Other non-current assets              | 1,368         | 9,267         | 9,670         | 9,670         | 9,670         |
| Net working capital                   | 1,630         | 14,177        | 11,692        | 11,177        | 12,186        |
| <b>Total assets</b>                   | <b>24,771</b> | <b>74,576</b> | <b>81,072</b> | <b>78,609</b> | <b>83,904</b> |

**Cash flow**

| Year to 31 Mar (Rs m)       | FY15          | FY16            | FY17          | FY18E        | FY19E        |
|-----------------------------|---------------|-----------------|---------------|--------------|--------------|
| Pre-tax profit              | 1,560         | 2,020           | 3,973         | 4,396        | 6,003        |
| Depreciation                | 640           | 1,313           | 1,872         | 1,734        | 1,512        |
| Chg in Working capital      | 3,968         | (10,905)        | 2,664         | (361)        | (118)        |
| Total tax paid              | (532)         | (281)           | (659)         | (703)        | (961)        |
| Net Interest                | 474           | 1,682           | 2,269         | 1,998        | 1,795        |
| Others                      | 7,267         | (645)           | 953           | 0            | 0            |
| <b>Operating cash flow</b>  | <b>12,468</b> | <b>(6,713)</b>  | <b>11,208</b> | <b>7,064</b> | <b>8,231</b> |
| Capital expenditure         | (2,500)       | (28,595)        | (3,828)       | (500)        | (4,500)      |
| <b>Free cash flow (a+b)</b> | <b>10,442</b> | <b>(33,626)</b> | <b>9,649</b>  | <b>8,561</b> | <b>5,526</b> |
| Chg in investments          | (2,252)       | (5,980)         | (2,584)       | 0            | 0            |
| Debt raised/(repaid)        | (698)         | 30,253          | (175)         | (4,500)      | 0            |
| Net interest                | (474)         | (1,682)         | (2,269)       | (1,998)      | (1,795)      |
| Capital raised/(repaid)     | 1             | 297             | 1             | 0            | 0            |
| Dividend (incl. tax)        | (298)         | (732)           | (837)         | (942)        | (1,046)      |
| Other items                 | (6,472)       | 14,430          | (2,478)       | 0            | 0            |
| <b>Net chg in cash</b>      | <b>(838)</b>  | <b>1,642</b>    | <b>179</b>    | <b>(876)</b> | <b>890</b>   |

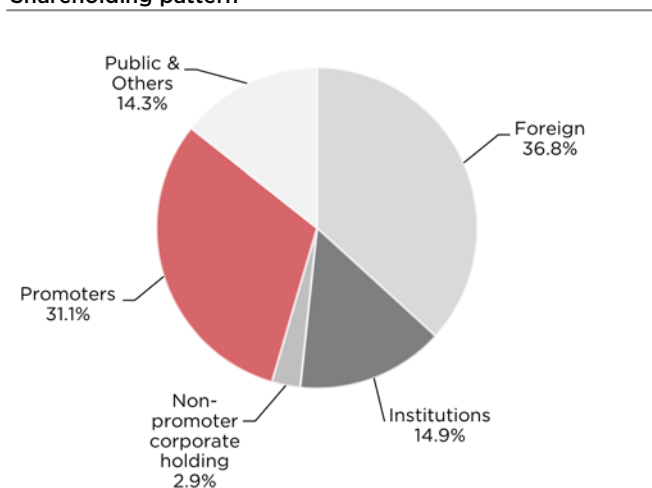
**Key ratios**

| Year to 31 Mar       | FY15 | FY16   | FY17 | FY18E | FY19E |
|----------------------|------|--------|------|-------|-------|
| EBITDA margin (%)    | 19.1 | 14.5   | 18.5 | 19.5  | 21.2  |
| EBIT margin (%)      | 13.8 | 9.9    | 13.1 | 14.5  | 17.1  |
| PAT margin (%)       | 8.6  | 5.6    | 10.1 | 10.7  | 13.5  |
| RoE (%)              | 9.2  | 8.2    | 12.6 | 12.3  | 15.1  |
| RoCE (%)             | 9.6  | 7.1    | 7.1  | 7.8   | 9.8   |
| Gearing (x)          | 0.3  | 1.2    | 1.1  | 0.9   | 0.8   |
| Net debt/ EBITDA (x) | 1.4  | 7.7    | 4.9  | 4.2   | 3.4   |
| FCF yield (%)        | 19.1 | (45.2) | 9.4  | 8.4   | 4.8   |
| Dividend yield (%)   | 0.6  | 0.9    | 1.1  | 1.2   | 1.3   |

**Valuations**

| Year to 31 Mar           | FY15         | FY16        | FY17        | FY18E       | FY19E       |
|--------------------------|--------------|-------------|-------------|-------------|-------------|
| <b>Reported EPS (Rs)</b> | <b>139.3</b> | <b>10.6</b> | <b>49.9</b> | <b>41.3</b> | <b>56.4</b> |
| Adj. EPS (Rs)            | 17.3         | 17.9        | 39.2        | 41.3        | 56.4        |
| PE (x)                   | 50.5         | 49.0        | 22.3        | 21.2        | 15.5        |
| Price/ Book (x)          | 4.5          | 2.9         | 2.7         | 2.5         | 2.2         |
| EV/ Net sales (x)        | 4.6          | 3.9         | 3.2         | 3.1         | 2.9         |
| EV/ EBITDA (x)           | 24.3         | 26.7        | 17.3        | 16.0        | 13.5        |
| EV/ CE (x)               | 3.3          | 1.8         | 1.7         | 1.7         | 1.6         |

**Shareholding pattern**



As of Jun 17

## Disclaimer

This document has been prepared by IDFC Securities Ltd (IDFC SEC). IDFC SEC is a full-service, integrated investment banking, and institutional broking group. There are no material disciplinary actions taken against IDFC SEC.

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, the opinions and information in this report are subject to change without notice and IDFC SEC, its subsidiaries and associated companies, their directors and employees ("IDFC SEC and associates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent IDFC SEC and its associates from doing so. Thus, the opinions expressed / information provided herein should be considered those of IDFC SEC as of the date on this document only. We do not make any representation either express or implied that information contained herein is accurate or complete and it should not be relied upon as such.

The information contained in this document has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed in the document may not be suitable for all investors. Investors should make their own investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and investment decisions based upon their own financial objectives and financial resources. Investors assume the entire risk of any use made of the information contained in the document. Investments in general involve some degree of risk, including the risk of capital loss. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested.

Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or the price of, or income derived from, the investment. In addition, investors in securities, the values of which are influenced by foreign currencies, effectively assume currency risk.

Associates of IDFC SEC may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDFC SEC and its associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of, and to observe, such applicable restrictions.

Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

IDFC SEC and its associates, their directors, officers, and employees may from time to time have positions in, purchase or sell, or be materially interested in any of the securities mentioned or related securities. IDFC SEC and associates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall IDFC SEC, any of its associates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind including but not limited to any direct or consequential loss or damage, however arising, from the use of this document. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of IDFC SEC and associates.

This document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. IDFC SEC will not treat recipients as customers by virtue of their receiving this report.

The analyst certifies that all of the views expressed in this research report accurately reflect his/her personal views about any and all of the subject issuer(s) or securities. The analyst certifies that no part of his / her compensation was, is, or will be directly or indirectly related to the specific recommendation(s) and/or views expressed in this report.

### Additional Disclosures of interest:

- The Research Analyst(s), IDFC Sec, does not have any financial interest in the company(ies)/ entities covered in this report. The associate of Research Analyst or his relative, might have financial interest (e.g. as investor, etc.) in the company(ies)/ entities covered in this report. Please read this in conjunction with other disclosures herein.
- The Research Analyst, IDFC SEC or relatives of the Research Analyst collectively do not hold more than 1% of the securities of the company (ies) covered in this report as of the end of the month immediately preceding the date of distribution of the research report.
- Associates of IDFC SEC are engaged in different businesses and may collectively hold more than 1% of the securities of the company (ies) covered in this report as of the end of the month immediately preceding the date or distribution of the research report.
- The Research Analyst, his associate, his relative and IDFC SEC do not have any material conflict of interest at the time of publication of this research report.
- IDFC SEC and its associates might have received compensation including for investment banking or merchant banking or brokerage services or banking services or for any other products or services from the company(ies) covered in this report, in the past twelve months. IDFC SEC and its Research Analysts did not receive any compensation or other benefits from the companies/entities mentioned in the report or third party in connection with preparation of the research report.
- IDFC SEC or its associates might have managed or co-managed in the previous twelve months, a private or public offering of securities for the company (ies)/ entities covered in this report or might have been mandated by the company (ies)/ entities covered in this report for any other assignment in the previous twelve months.
- The Research Analyst might have served as an Officer, Director or employee of the company (ies) covered in the Research report.
- The Research Analyst and IDFC SEC has not been engaged in market making activity for the company(ies) covered in the Research report.

### Explanation of Ratings:

- Outperformer : More than 5% to Index
- Neutral : Within 0-5% (upside or downside) to Index
- Underperformer : Less than 5% to Index

Copyright in this document vests exclusively with IDFC Securities Ltd.

|                         | SEBI Registration Nos. of IDFC Securities Limited |
|-------------------------|---|
| <b>Research Analyst</b> | <b>INH 00000 131</b>                              |
| <b>Stock Broker</b>     |   |
| NSE Capital Markets     | INB 23 12914 37                                   |
| NSE Futures & Options   | INF 23 12914 37                                   |
| BSE Capital Markets     | INB 01 12914 33                                   |
| BSE Futures & Options   | INF01 12914 33                                    |
| <b>Merchant Banker</b>  | <b>INM000011336</b>                               |

### US Disclaimer:

This report is distributed in the US, by IDFC Securities (Parent of IDFC Capital (USA) Inc.) only to major U.S institutional investors (as defined in Rule 15a-6 under the U.S Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption (a)(2) of the Rule and any transaction effected by a U.S customer in the securities described in this report must be effected through IDFC USA as defined in the Rule.

Neither the report nor any analyst who prepared or approved the report is subject to U.S legal requirements or Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts.

This communication is produced by an analyst/strategist of IDFC Securities Ltd.

This material was produced by IDFC Securities solely for information purposes and for the use of the recipient, it is not to be reproduced under any circumstances and is not be copied or made available to any person other than the recipient, it is distributed in the United States of America by IDFC Securities under 15a-6(a)(2). And elsewhere in the world by IDFC Securities or any authorised associate of IDFC Securities.



| <b>Anish Damania</b>           | <b>CEO, Strategy</b>                                     | <b>anish.damania@idfc.com</b> | <b>91-22-6622 2522</b>      |
|--------------------------------|--|-------------------------------|-----------------------------|
| <b>Analyst</b>                 | <b>Sector/Industry/Coverage</b>                          | <b>E-mail</b>                 | <b>Tel.+91-22-6622 2600</b> |
| Shirish Rane                   | HoR; Construction, Power, Infrastructure Developers      | shirish.rane@idfc.com         | 91-22-662 22575             |
| Nitin Agarwal                  | Pharmaceuticals, Real Estate                             | nitin.agarwal@idfc.com        | 91-22-662 22568             |
| Mahrugh Adajania               | Financials   | mahrugh.adajania@idfc.com     | 91-22-662 22574             |
| Bhoomika Nair                  | Engineering, Cement, Power Equipment, Logistics          | bhoomika.nair@idfc.com        | 91-22-662 22561             |
| Shashi Bhusan                  | IT Services  | shashi.bhusan@idfc.com        | 91-22-662 22631             |
| Ashish Shah                    | Construction, Infrastructure Developers, Power, Airlines | ashish.shah@idfc.com          | 91-22-662 22560             |
| Deepak Jain                    | Automobiles, Auto ancillaries                            | deepak.jain1@idfc.com         | 91-22-662 22562             |
| Vijayaraghavan G               | Agri-inputs, Midcaps                                     | vijayaraghavan.g@idfc.com     | 91-22-662 22690             |
| Rohit Dokania                  | Media & Entertainment, Midcaps                           | rohit.dokania@idfc.com        | 91-22-662 22567             |
| Abhishek Gupta                 | Telecom, IT services                                     | abhishek.gupta@idfc.com       | 91-22-662 22661             |
| Mohit Kumar, CFA               | Construction, Power                                      | mohit.kumar@idfc.com          | 91-22-662 22573             |
| Ashish Kejriwal                | Metals, Mining   | ashish.kejriwal@idfc.com      | 91-22-662 22594             |
| Probal Sen                     | Oil & Gas  | probal.sen@idfc.com           | 91-22-662 22569             |
| Harit Kapoor                   | FMCG, Retail, Alcoholic Beverages                        | harit.kapoor@idfc.com         | 91-22-662 22649             |
| Jiten Rushi                    | Construction, Infrastructure Developers, Airlines        | jiten.rushi@idfc.com          | 91-22-662 22615             |
| Mehul Desai                    | FMCG, Retail, Alcoholic Beverages                        | mehul.desai@idfc.com          | 91-22-662 22640             |
| Ankit Shah, CFA                | Engineering, Cement, Power Equipment, Logistics          | ankit.shah@idfc.com           | 91-22-662 22655             |
| Sumit Singhania                | Pharmaceuticals, Real Estate                             | sumit.singhania@idfc.com      | 91-22-662 22628             |
| Miloni Bagadia                 | Agri-inputs, Midcaps                                     | miloni.bagadia@idfc.com       | 91-22-662 22663             |
| Aditya Vora                    | Automobiles, Auto ancillaries                            | aditya.vora@idfc.com          | 91-22-662 22564             |
| Sanket Chheda                  | Financials   | sanket.chheda@idfc.com        | 91-22-662 22565             |
| Aasim Bharde, CFA              | Media & Entertainment, Midcaps                           | aasim.bharde@idfc.com         | 91-22-662 22576             |
| Saday Sinha                    | Strategy   | saday.sinha@idfc.com          | 91-22-662 22532             |
| Bhawana Chhabra                | Strategy   | bhawana.chhabra@idfc.com      | 91-22-662 22629             |
| Neeraj Agarwal                 | Alternative Research                                     | neeraj.agarwal@idfc.com       | 91-22-6622 2625             |
| Dharmendra Sahu                | Database Analyst   | dharmendra.sahu@idfc.com      | 91-22-662 22580             |
| <b>Equity Sales</b>            | <b>Designation</b>                                       | <b>E-mail</b>                 | <b>Tel.+91-22-6622 2500</b> |
| Rajesh Makharia                | Director, Sales  | rajesh.makharia@idfc.com      | 91-22-6622 2528             |
| Nilisha Barbora                | Director, Head Asia Sales                                | nilisha.barbora@idfc.com      | 91-22-6622 2595             |
| Varun Saboo                    | Director, Sales  | varun.saboo@idfc.com          | 91-22-6622 2558             |
| Hemal Ghia                     | Director, Sales  | hemal.ghia@idfc.com           | 91-22-6622 2533             |
| Pranav Verma                   | SVP, Sales   | pranav.verma@idfc.com         | 91-22-6622 2597             |
| Abhinav Rathee                 | SVP, Sales   | abhinav.rathee@idfc.com       | 91-22-6622 2586             |
| Parees Purohit, CFA            | SVP, Sales   | parees.purohit @idfc.com      | 91-22-6622 2650             |
| Saira Ansari                   | VP, Sales  | saira.ansari@idfc.com         | 91-22-662 22696             |
| Chandan Asrani                 | AVP, Sales   | chandan.asrani@idfc.com       | 91-22-6622 2540             |
| Sneha Baxi                     | AVP, Sales   | sneha.baxi@idfc.com           | 91-22-6622 2537             |
| Yohann Carvalho                | AVP, Sales   | yohann.carvalho@idfc.com      | 91-22-6622 2513             |
| <b>Equity Sales Dealing</b>    | <b>Designation</b>                                       | <b>E-mail</b>                 | <b>Tel.+91-22-6622 2500</b> |
| Suryakant Bhatt                | Director & Head - Sales trading                          | suryakant.bhatt@idfc.com      | 91-22-6622 2693             |
| Mukesh Chaturvedi              | Director, Sales trading                                  | mukesh.chaturvedi@idfc.com    | 91-22-6622 2512             |
| Viren Sompura                  | SVP, Sales trading                                       | viren.sompura@idfc.com        | 91-22-6622 2527             |
| Rajashekhar Hiremath           | SVP, Sales trading                                       | rajashekhar.hiremath@idfc.com | 91-22-6622 2516             |
| Alok Shyamsukha                | SVP, Sales trading                                       | alok.shyamsukha@idfc.com      | 91-22-6622 2523             |
| Suketu Parekh                  | VP, Sales trading  | suketu.parekh@idfc.com        | 91-22-6622 2674             |
| Sailesh Jain                   | SVP, Head derivatives                                    | sailesh.jain@idfc.com         | 91-22-6622 2653             |
| Devanshu Soni                  | AVP, derivatives   | devanshu.soni@idfc.com        | 91-22-6622 2536             |
| <b>IDFC Capital (USA) Inc,</b> | <b>Designation</b>                                       | <b>E-mail</b>                 | <b>Tel.+91-22-6622 2500</b> |
| Palak Shah                     | CEO  | palak.shah@idfc.com           | 001-6465712444              |

**IDFC Securities**

Naman Chambers, C-32, 7<sup>th</sup> floor,  
G- Block, Bandra-Kurla Complex,  
Bandra (East), Mumbai 400 051  
INDIA

Tel: +91 22 6622 2600

Fax: +91 22 6622 2503

**IDFC Capital (USA) Inc,**

Regus Business Centre  
600 Third Avenue,  
2<sup>nd</sup> Floor,  
New York, 10016

Tel: +1 646 571 2303

Fax: +1 646 571 2301

Our research is also available on Bloomberg and Thomson Reuters

For any assistance in access, please contact [research@idfc.com](mailto:research@idfc.com)