RELIGARE INSTITUTIONAL RESEARCH
Values that bind

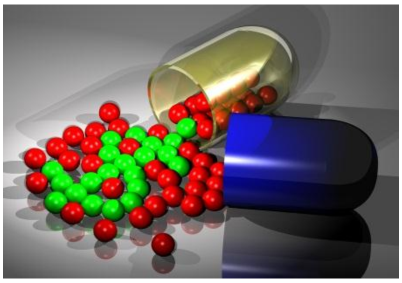
Company Update
INDIA
PHARMACEUTICALS

18 March 2015

BUY
TP: INR 1,353
▲ 20.0%

Strides Arcolab

STR IN



Striding ahead

We restate BUY on STR with a Mar'16 TP of Rs 1,353 (20% upside). We see vertical integration and other strategic benefits for STR post its merger with Shasun. Besides, STR is set to report 48% earnings CAGR over FY15-FY17E led by the US/EM markets and institutional business, and better margins. This along with improving return ratios and a strong balance sheet should narrow the valuation discount (25%) to peers and lead to a re-rating. Upside from the *Sovaldi* optionality lends us further comfort.

- **Shasun merger to strengthen business model:** From a strategic perspective, Shasun's merger is critical, in our view as (a) its adds vertical integration benefits (b) provides access to quality infrastructure and a strong R&D pipeline and (c) offers significant scope for margin expansion given Shasun's inflated cost base.
- **Strong earnings visibility:** We expect 48% earnings CAGR (excl. Shasun) for STR over FY15-FY17E led by (a) 27% revenue CAGR driven by the US/institutional businesses and EMs and (b) 250bps margin expansion on a better business mix. Shasun's margins should pick up from 11.5% in FY15E to 13% in FY17E as it streamlines its UK CRAMS biz and launches key APIs (*Sevelemar*, *Celecoxib*, *Pregablin*) in the US.
- **Sovaldi – huge option value:** Given the huge target market for Hepatitis C (~100mn patients) in EMs, we expect *Sovaldi* to emerge as a key growth driver for STR. We value Sovaldi at Rs 334/share, assuming peak revenues of US$ 400mn in FY20.
- **Scope for re-rating; BUY:** STR trades at 12x FY17E EPS (excl. Rs 51 for NPV of cash, and Rs 334 for Sovaldi optionality) – a 25% discount to peers, which should narrow going ahead given a robust, vertically-integrated business model, strong earnings visibility, better return ratios and a healthy balance sheet. We value the stock at 16x FY17E EPS of Rs 60.5 to arrive at a base business value of Rs 968. Our Mar'16 TP stands at Rs 1,353 (incl. values for cash NPV and Sovaldi optionality).

Financial Highlights

Y/E 31 Mar	CY12A	FY14E	FY15E	FY16E	FY17E
Revenue (INR mln)	9,618	13,410	12,189	32,464	39,572
EBITDA (INR mln)	1,006	2,234	2,438	5,239	7,005
Adjusted net profit (INR mln)	123	(2,062)	1,548	3,305	4,872
Adjusted EPS (INR)	2.1	(34.6)	26.0	41.0	60.5
Adjusted EPS growth (%)	(93.0)	(1758.8)	(175.0)	57.9	47.4
DPS (INR)	2.0	505.0	107.0	1.5	1.5
ROIC (%)	1.9	(18.9)	15.0	19.2	18.8
Adjusted ROAE (%)	0.7	(13.6)	13.9	21.4	23.0
Adjusted P/E (x)	539.8	(32.5)	43.4	27.5	18.6
EV/EBITDA (x)	90.4	36.4	28.8	13.4	10.9
P/BV (x)	3.3	6.7	5.5	4.8	3.9

Source: Company, Bloomberg, RCML Research | Note: FY16 & FY17 numbers include Shasun financials

REPORT AUTHORS

Praful Bohra
+91 22 6766 3463
praful.bohra@religare.com

PRICE CLOSE (17 Mar 15)
INR 1,126.80

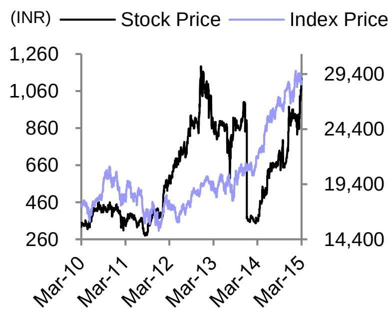
MARKET CAP
INR 67.2 bln
USD 1.1 bln

SHARES O/S
59.6 mln

FREE FLOAT
28.5%

3M AVG DAILY VOLUME/VALUE
0.6 mln / USD 9.5 mln

52 WK HIGH	52 WK LOW
INR 1,136.00	INR 309.14



Strong business model fortified further by Shasun merger

We reiterate BUY on STR with a Mar'16 TP of Rs 1,353. Post its merger with Shasun, STR will have a fairly robust business model with (a) a vertically integrated institutional business, (b) state-of-the-art infrastructure with six USFDA approved facilities (three formulations, two API and one CRAMS), and (c) a large and complementary R&D portfolio. Our analysis suggests that STR's own business (excluding Shasun) is also well poised to deliver over 48% CAGR over FY15-FY17E. Strong earnings growth, a relatively robust business model, improving return ratios and huge optionality from the *Sovaldi* launch should narrow the valuation discount (currently ~25%) with peers.

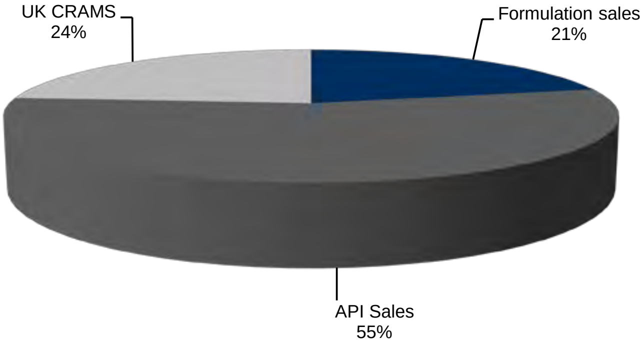
Shasun merger to plug in STR's key portfolio gaps

Robust business model led by strong earnings visibility, improving return ratios and huge optionality from the Sovaldi launch

Institutional business to become vertically integrated post-merger

Shasun is predominantly an API player (~55% of FY14 revenue) with global leadership in *Ibuprofen* and a key supplier of *Ranitidine* and *Gabapentin* worldwide. The company has around 43 commercialized DMFs (drug master files) and another 23 under development. Its API facilities are WHO as well as USFDA-approved.

Fig 1 - APIs constituted 55% of Shasun's revenue in FY14



Source: RCML Research, Company

STR to have access to in-house APIs post Shasun merger, as against third-party sourcing currently

Shasun's merger will plug in an important portfolio gap in STR's business model by enabling the company to have access its own APIs (sourced from third parties currently). The merger would particularly benefit STR's institutional business which is largely tender-based and where cost effective manufacturing is the key. The company so far has been a fringe player in this segment as against its vertically integrated peers like Cipla, ARBP, Hetero drugs and Mylan. With an integrated model, we expect the ramp-up in this business for STR to be much faster than in the past. Shasun has already filed a DMF for *Tenofovir* (anti-retroviral drug) and has commercialised *Cyclosrine* (anti-tuberculosis drug) for which it is one of the two suppliers approved by WHO.

Fig 2 - Most peers in ARV segment are vertically integrated

Company	Scale	Vertical integration
Aurobindo Pharma	✓✓	✓✓
Aspen	✓✓	×
Cipla	✓✓	✓✓
Hetero Drugs	✓✓	✓✓
Mylan	✓✓	✓✓
Strides	✓	×
Strides+Shasun	✓✓	✓✓

Source: RCML Research, Company

Access to quality manufacturing, R&D base

Shasun's merger will give STR access to state-of-the-art manufacturing infrastructure and a large R&D pipeline. Shasun has one USFDA-approved finished dosage facility, two USFDA-approved API facilities and one USFDA-approved CRAMS facility. With low utilisation rates (<70%), the current asset base should take care of STR's capex needs over the next few years. Shasun also has ~80-85 products in its pipeline to be filed over the next two-three years (largely in niche domains like extended release tablets, OTC), which will significantly strengthen STR's thin pipeline in the US (31 filed, 15 approved). The two companies also have a fairly complementary R&D pipeline with only one product overlap.

STR to have access to quality infrastructure and a pipeline of ~80-85 products post-merger

Fig 3 - Access to quality infrastructure

	Strides	Shasun	Merged entity
Formulation development R&D scientists	110	106	216
Process chemistry R&D scientists	0	187	187
Manufacturing staff and other employees	1,500	2,100	3,600
Formulation facilities – USFDA-approved	2	1	3
API facilities – USFDA-approved	0	2	2
CRAMS facilities – USFDA-approved	0	1	1
Emerging market facilities	6	0	6

Source: RCML Research, Company

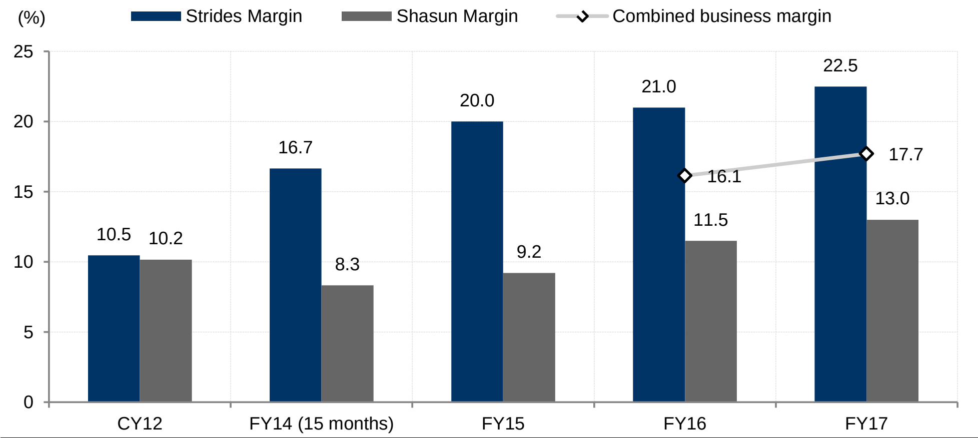
Significant scope for margin expansion

Shasun's loss-making UK CRAMS biz to be streamlined

Despite an inflated cost base, Shasun's gross margins (~50%) are largely comparable to peers. However, operating margins stand lower at ~9% (vs. 15-20% for peers) due to sub-optimal margins in its UK CRAMS business (<5% in FY14 and loss-making in H1FY15) which constitutes ~25% of overall revenues. Recently, the business has seen a decline in growth rates due to a 'Black Box Warning' on one of its key product, *Incivek* (Telaprevir; Hepatitis-C drug), that it was supplying to Vertex Pharmaceuticals. The STR management intends to gradually streamline/downsize this business, which should boost margins in the medium term.

Ex-UK CRAMS, Shasun's base business margins should normalise around 14%, as per management. We also see scope for margin expansion as operating leverage plays out at Shasun's underutilised plants, post-merger. Note that Shasun also has a few interesting (fig.4) APIs in the US which should entail better margins.

Fig 4 - Both Strides and Shasun has scope for margin expansion



Source: RCML Research, Company

Fig 5 - Shasun's DMF filings

	Brand	Market size (US$mn)	Revenue p.a (US$mn)	Potential launch
Milnacipran HCl	Savella	105	0.5	Unknown
Sevelamer HCl	Renagel	180	2.0	FY17
Sevelamer Carbonate	Renvela	700	7.9	FY17
Colesevelam	Welchol	360	1.8	FY16
Pregablin	Lyrica	2200	8.8	2018
Celecoxib	Celebrex	2440	9.8	End FY15/early FY16

Source: RCML Research, Company

STR to see 35% dilution post-merger

With the Shasun merger, STR will allot five shares of the company for every 16 held in Shasun; this would expand the company's current equity base from 59.5mn shares to 80.5mn shares, implying a dilution of ~35%. Post-merger, STR promoters will hold 24.9% stake (as against 16.48% earlier) in the company, while Shasun promoters (also to be classified under promoters) will hold 9.2%, taking the total promoter shareholding in the company to 34.1%.

Current equity base to expand from 59.5mn shares to 80.5mn shares, implying ~35% dilution

Fig 6 - Equity dilution

	Number of shares
STR total shares (mn)	59.57
Of which	
Promoter holding (mn)	16.48
Non-promoter Holding (mn)	43.08
For 16 shares of Shasun, an investor gets 5 shares of STR	
Additional shares to be issued in STR (mn)	21.01
New base for STR (mn)	80.57
Strides promoter (%)	20.46
Strides promoter (directly holding in Shasun) (%)	0.34
Through sequent (%)	4.11
Shasun promoters (%)	9.21
Total promoter holding (%)	34.12

Source: RCML Research, Company

Focus on rebuilding US franchise

STR's R&D efforts, both in terms of time and investments, have largely been focused on creating a solid US injectable pipeline. Hence, post divestment of the injectable business to Mylan, the residual US pipeline is thin with 31 filings and 15 approvals. To rebuild the US franchise, STR has (a) bought back all its partnered products (barring *Vancocin* partnered with Alvogen),(b) commissioned a new R&D facility at Bengaluru for generic product development and (c) set up its own front-end in January '15 (of the current portfolio, all products barring *Vancocin* are now sold by STR).

Further, the company has received USFDA approvals for its topical plant at Milan, Italy, and its Bengaluru facility in H1FY15, post which product approvals have surged (five in 9MFY15) and include a few lucrative ones like *Tacrolimus*, *Methoxsalen* and *Imiquimod* cream.

Buys back most partnered products to rebuild US injectable pipeline

Fig 7 - Recent approvals have been lucrative

Approval date	Brand	Molecule	Brand (US$ mn)	Timeline	Competition	Potential revenue p.a. (US$ mn)
6 June 2014	Oxsoralen	Methoxsalen	13.6	Launched	1	4.0
25 June 2014	Aldara	Imiquimod	140	Launched	6	2.1
23 July 2014	Prograf	Tacrolimus	676	2HFY15	6	14.0
26 August 2014	Buspar	Buspirone	65	Launched	8	0.7
16 December 2014	Rocaltrol	Calcitriol	50	4QFY15	4	2.0

Source: RCML Research, Company

Post-merger with Shasun, STR expects to significantly ramp-up its filings to 35-40 products annually; Shasun has around 80-85 products under development mostly in the extended release and OTC space.

Fig 8 - Shasun's pipeline to address concerns over STR's thin US pipeline

Post-merger, STR to significantly ramp-up its US filings to 35-40 products annually

Enhanced Regulated Market FDF Portfolio and Access to Pipeline of Complex Extended Release Products

USFDA	Approved	Filed	Pipeline	Total	Filing 2015	Launched	Partnered
SGC	2	5	1	8	-	2	-
Extended Release	-	2	32	34	1	-	13
Creams and Ointments	1	1	8	10	2	1	-
Suspension	-	-	6	6	-	-	-
OTC	3	3	7	13	2	3	-
505 (b(2))	-	-	1	1	-	-	-
FTF	-	1	1	2	1	-	-
Other	11	17	58	80	11	8	7
Total	17	29	114	160	17	14	20
PEPFAR	16	2	-	18	-	-	-

Source: RCML Research, Company

We expect the US segment (excluding Shasun) to grow from ~US$ 13mn in 15MFY14 to US$ 58mn in FY17E led by (a) the launch of recently-approved products including limited-competition opportunities (five approvals in 9MFY15) and (b) commercialisation of lucrative products like *Combivir*, *Lovaza* and *Avodart* over the next two years. Our estimates factor in lower revenues from *Vancocin* (~US$8mn in FY15) owing to additional competition from LPC.

Fig 9 - Future pipeline has some large opportunities

Brand	Molecule	Brand (US$ mn)	Timeline	Competition	Potential revenue p.a. (US$mn)
Combivir	Lamivudine+Zidovudine	250	2HFY15	6	5
			FY15	5	1.8
Avodart	Dutasteride	500	FY16	6 to 8	7.5
Lovaza	Omega 3	850	FY16	4 to 6	19

Source: RCML Research, Company

Institutional business – *Sovaldi*, anti-malaria contract to drive growth

Despite operating in the institutional market for some time now, STR has largely remained a fringe player (as it sources APIs from third parties) versus most of its vertically-integrated peers. Since the market is largely tender-based, low-cost manufacturing and reliable supplies are the most important factors for gaining market share. With Shasun's merger, the company will fill in an important portfolio gap, enabling it to bid aggressively.

Prominent supplier of ARV, anti-malarial and anti-tuberculosis drugs

Institutional business includes sales of HIV, malaria and tuberculosis medicines to Africa-based government programmes in Africa, which are backed by large donor agencies. The company is among the few WHO prequalified suppliers and among the seven prequalified suppliers for the global fund-managed AMFm programme for the arthemeter+lumefantrine (AL) combination drug (an artemisinin combination therapy or ACT-based anti-malarial drug in Africa; market size ~US$ 300mn). Currently, around 80% of its institutional business is driven by ARV drugs and the rest by anti-malarial and anti-tuberculosis drugs. The company has 19 PEPFAR (President's Emergency Plan for AIDS Relief) filings (16 tentative approvals) and over 555 dossiers globally, with 360 product registrations in more than 50 countries including Africa, LatAm and Asia.

Among the few WHO prequalified suppliers and among the seven prequalified suppliers for the global fund-managed AMFm programme

Anti-malarial business to pick up post AS-AL approval

STR is prequalified by the WHO for supplying the AS-AL (Arthemeter-Lumafantrine) combination drug, post which the company has secured 15-20% share in a two-year AS-AL tender worth ~US$ 250mn. Supplies for the tender commenced from Q3FY15 onwards and we expect this to be a key earnings driver in the medium term since combination products typically carry higher margins (IPCA, led by its vertically integrated model, generates ~22-23% margins from this product). Overall, we expect the institutional segment to post a 24% CAGR over FY15E-FY17E, primarily led by AL even as we expect the ARV business to grow only at a 10% CAGR over the forecast period.

Sovaldi – a huge option value

STR is one of the seven licensees of Gilead's blockbuster hepatitis-C drug, *Sofosbuvir* (for a royalty payment), in 91 developing countries that have a patient population of almost 100mn. *Sofosbuvir* was approved under the trade name *Sovaldi* by the USFDA in Dec'13 and by the European Commission in Jan'14, and is on track to become one of the best-selling drugs in the world (more than US$ 11bn in annual sales). In the US, Gilead sells the drug at US$ 84,000/treatment of 12 weeks, or at US$ 1,000/pill. The company has been following differential pricing across countries; it recently inked a deal to sell the 12-week course at ~US$ 51,000 in France and at US$ 900 in Egypt. STR's management expects the drug to be launched across countries in the range of US$ 1,000-US$ 2,000/treatment by many players, which implies a US$ 100mn target opportunity (assuming STR is able to target even 0.1% or 100,000 patients). Natco has recently launched the drug in India and Nepal and priced it at US$ 1000/treatment.

STR expects to launch the drug in Q4FY16 and source the API from Sequent. Taking US$ 1000/treatment as reference pricing, this can be a US$ 400mn opportunity annually for the company. We have valued *Sovaldi* at Rs 334/share assuming peak revenues of US$ 400mn in FY20E.

We value Sovaldi at Rs334/share

Fig 10 - *Sovaldi* has huge option value

Total patients in 91 countries (mn)	**100**
Assuming 1% conversion to generics (mn)	1
Strides market share @ 10%	0.1
Average treatment cost for three months (US$)	1000
Total treatment cost (three month treatment in US$ mn)	100
Total treatment cost (annualised in US$ mn)	400
Royalty to Gilead @ 8%	32
STR's revenue	368
Margin at 30%	110.4
Tax	22.0
PAT (US$ mn)	88.3
PAT (Rs mn)	5299.2
Total shares (on fully diluted basis)	80.6
EPS	65.8
Strides share post 50% profit sharing with Sequent (API partner)	32.9
Multiple (x)	16
Target value (FY20)	526.4
Target value (FY16; discount rate of 12%)	334.3

Source: RCML Research, Company

Emerging markets business set to grow at 31%CAGR over FY15-17E

Strong portfolio of branded generics and OTC products for EMs

STR's emerging market (EM) business (~25% of revenues in FY14) is largely driven by Africa and India, with Africa as the focus market (70% of EM revenues). STR has a presence in 27 countries of the sub-Saharan Africa, mostly in the west and French Africa. The company boasts of a portfolio of branded generics and OTC products with over 900 product registrations and another 300 in the pipeline (to be launched between 2014-18), mostly in oral, injectable and topical dosage forms. Around 35% of its revenue in Africa comes from the branded generic portfolio and rest from the generic-generic segment. STR has its own front-end sales and marketing personnel in a few markets, while it deals with local distributors in others.

Aggressive plans for Africa

STR has charted out an aggressive roadmap for the African market. In FY14, it expanded into five additional countries in the continent and increased its sales force by ~100 (current field-force: 200). The company aims to strengthen its field-force to 1,000 over the next 3-5 years (of which around 100 will be added by FY15-end); it also expects Africa to account for 70% of its sales force over the next 2-3 years. Additionally, STR intends to improve sales force productivity to US$ 100,000/person per annum, implying 20%+ growth over the next 3-4 years.

Further, STR is setting up manufacturing facilities in Sudan, Cameroon and Mozambique, and packaging facilities in Botswana and Namibia for faster registrations/approvals and meeting mandatory local packaging requirements. We expect this business to post a 35% CAGR over FY15-FY17E.

Africa business to grow at 35% CAGR over FY15-FY17E

India business – Built inorganically, growing steadily

STR's domestic presence has largely been built inorganically and focuses on CNS, diabetes, women's health, cardiac care and pain management therapies. The company acquired the *Renerve* brand from Grandix in 2007 (for Rs 1bn, at ~2x EV/sales), with the Renerve family now constituting ~45-50% of its domestic sales. The focus was so far limited to five states in the southern and western parts of the country. However, the company is now likely to have a pan-India presence (except in Rajasthan and J&K) with its recent acquisition of the domestic branded business of Bafna Pharmaceuticals (FY14 revenues Rs246mn; EV of Rs 650mn, EV/sales of 2.6x), including its flagship brand *Raricap.* The acquisition would also take the company's domestic field-force to ~600-700 medical representatives (from 300-400 MRs earlier). *Raricap* has annual sales of Rs200mn and has posted a 64% CAGR over the past three years.

Acquisition of Bafna Pharma's domestic branded biz has given STR a pan-India presence and nearly doubled its domestic field-force

With a small base and wider market reach (post Bafna's branded business acquisition), we expect the India business to deliver a 22% CAGR over FY15E-FY17E.

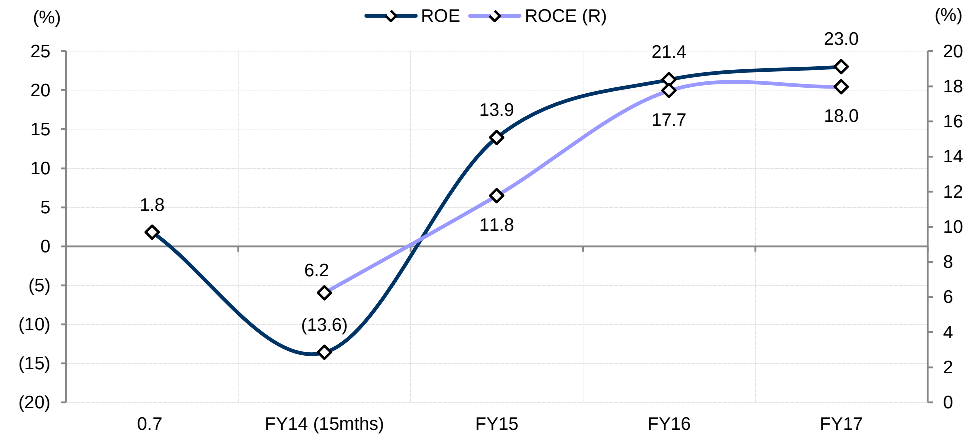
Focus charts

Fig 11 - Revenue break-up

(Rsmn)	CY12	FY14 (15 months)	Growth (%)	FY15	Growth (%)	FY16	Growth (%)	FY17	Growth (%)
Regulated markets	**3,560**	**5,060**	***42.1***	**4,721**	***(6.7)***	**5,632**	***19.3***	**7,372**	***30.9***
US	*448*	*780*	*74.1*	1,511	*93.7*	2,101	*39.0*	3,488	*66.0*
EU & Others	*3,112*	*4,280*	*37.5*	3,210	*(25.0)*	3,531	*10.0*	3,884	*10.0*
Institutional business	**3,520**	**5,336**	***51.6***	**3,574**	***(33.0)***	**5,014**	***40.3***	**5,515**	***10.0***
Anti-malarials	*0*	*0*	0	374	0	1,494	*300.0*	1,643	*10.0*
Anti-retrovirals, others	*3,520*	*5,336*	51.6	3,200	*(40.0)*	3,520	*10.0*	3,872	*10.0*
Emerging business	**2,179**	**3,351**	***53.8***	**3,943**	***17.7***	**5,263**	***33.5***	**6,781**	***28.8***
Africa	*1,526*	*2,345*	*53.7*	2,697	*15.0*	3,641	*35.0*	4,915	*35.0*
India	*653*	*1,006*	*54.1*	1247	*23.9*	1,623	*30.2*	1,866	*15.0*
Base biz	*653*	*1,006*	*54.1*	1107	*10.0*	1,273	*15.0*	1,463	*15.0*
Raricap	*0*	*0*	*0.0*	140	*0.0*	350	*150.0*	402.5	*15.0*
Total	**9,259**	**13,747**	***48.5***	**12,238**	***(11.0)***	**15,909**	***30.0***	**19,669**	***23.6***

Source: RCML Research, Company

Fig 12 - Expansion in return ratios



Source: RCML Research, Company

Since STR's capex drive is largely complete and the company now has access to Shasun's facilities, we do not expect major capex going forward. This coupled with strong base business growth and improvement in margins is expected to drive ROE/ROCE from ~14%/10% in FY15E and 23%/15% in FY17E. Further, the company has repaid most of its debt with money received from sale of the injectable business; consequently, net D/E has come down from 1.7x in CY12 to 0.2x currently. Even assuming Shasun's debt at US$ 100mn, we expect net D/E to remain comfortable at 0.3x.

Valuation

Excluding Rs 51 for NPV of cash and Rs 334 for the *Sovaldi* option value, STR trades at 12x FY17E EPS – around 25% discount to peers. While the stock's own valuation trend has been sporadic due to several corporate developments (sale of injectables business to Mylan, sale of Ascent Pharma to Watson, announcement of special dividends, merger of Shasun), we note that the discount is too steep and should narrow considering: (a) a relatively stronger business model with vertical integration in key segments, (b) 48% earnings CAGR (excluding Shasun) and 77% EPS CAGR over FY15-FY17E (including Shasun), (c) improving return ratios and (d) a strong balance sheet. STR's ability to drive business growth without stretching its balance sheet (Net D/E of 0.2x) and a track record of returning surplus cash to investors gives us further comfort.

Valuation discount to narrow; reiterate BUY

We value the stock at 16x FY17E EPS of Rs 60.5 to arrive at a base business value of Rs 968. On adding Rs 334 for the *Sovaldi* option value and Rs 51 for NPV of cash, we arrive at a Mar'16 TP of Rs 1,353 for the stock, implying a 20% upside from hereon.

Fig 13 - NPV value of cash

Tax holdback (To be received in one year)	
US$mn	40
Rsmn	2,400
Dividend distribution tax @ 18%	432
Available for distribution	1,968
No of shares (post dilution)	81
Dividend per sh	24
Post 25% discount	18
Cash in escrow account (to be received in four years)	
US$ mn	100
Rs mn	6,000
Dividend distribution tax @ 18%	1,080
Available for distribution	4,920
No of shares (post dilution)	81
Dividend per share	61
Discounting at 12% for 3 years	43
Post 25% discount	33
Total NPV	**51**

Source: Company, RCML Research

Fig 14 - STR compares favourably with peers

	EPS CAGR	ROE		P/E		P/BV	
	(FY15-17E)	FY16	FY17	FY16	FY17	FY16	FY17
Sun Pharmaceutical Industries Ltd	18.5	26.6	25.3	29.3	24.7	7.2	5.6
Cipla Ltd/India	34.7	15.7	17.4	30.5	23.8	4.5	3.8
Lupin Ltd	19.5	28.1	26.9	29.3	24.4	7.4	5.9
Cadila Healthcare Ltd	27.8	29.3	28.8	23.5	19.0	6.3	5.0
Dr Reddy's Laboratories Ltd	15.6	21.8	21.2	22.2	19.0	4.5	3.7
Aurobindo Pharma Ltd	21.5	31.0	28.2	18.4	15.1	5.1	3.9
Ipca Laboratories Ltd	27.2	19.3	20.0	19.8	16.3	3.6	3.1
Torrent Pharmaceuticals Ltd	19.6	31.2	30.3	22.1	18.1	6.2	5.0
Strides Arcolabs*	52.5	21.4	23.0	27.5	18.6	4.8	3.9

Source: RCML Research, Company *Includes Cash NPV and Sovaldi optionality

Key risks

- Sovaldi's value constitutes almost 25% of our target price; its failure to ramp up as per expectations is a key risk. We, however, believe that our estimates are fairly conservative for Sovaldi.
- Delay/non-realisation of merger synergy with Shasun and a slowdown in base business of both companies will be a significant risk to our estimates.
- SAL derives close to 90% of its revenue from exports with no forex hedging. Any adverse movement in the Indian rupee/US dollar rate can significantly impact earnings.

Per Share Data

Y/E 31 Mar (INR)	CY12A	FY14	FY15E	FY16E	FY17E
Reported EPS	121.1	(39.1)	26.0	41.0	60.5
Adjusted EPS	2.1	(34.6)	26.0	41.0	60.5
DPS	2.0	505.0	107.0	1.5	1.5
BVPS	344.6	169.0	203.9	233.4	292.2

Valuation Ratios

Y/E 31 Mar (x)	CY12A	FY14	FY15E	FY16E	FY17E
EV/Sales	9.5	6.1	5.8	2.2	1.9
EV/EBITDA	90.4	36.4	28.8	13.4	10.9
Adjusted P/E	539.8	(32.5)	43.4	27.5	18.6
P/BV	3.3	6.7	5.5	4.8	3.9

Financial Ratios

Y/E 31 Mar	CY12A	FY14	FY15E	FY16E	FY17E
Profitability & Return Ratios (%)					
EBITDA margin	10.5	16.7	20.0	16.1	17.7
EBIT margin	7.3	12.4	15.9	12.8	14.8
Adjusted profit margin	1.3	(15.4)	12.7	10.2	12.3
Adjusted ROAE	0.7	(13.6)	13.9	21.4	23.0
ROCE	1.8	(15.9)	9.5	14.6	14.7
YoY Growth (%)					
Revenue	(62.3)	39.4	(9.1)	166.3	21.9
EBITDA	(79.5)	122.1	9.1	114.9	33.7
Adjusted EPS	(93.0)	(1758.8)	(175.0)	57.9	47.4
Invested capital	(7.2)	(72.9)	19.4	110.9	12.4
Working Capital & Liquidity Ratios					
Receivables (days)	194	115	117	74	91
Inventory (days)	175	84	56	42	56
Payables (days)	222	119	102	67	89
Current ratio (x)	0.8	1.0	1.2	1.3	1.5
Quick ratio (x)	0.1	0.2	0.1	0.1	0.2
Turnover & Leverage Ratios (x)					
Gross asset turnover	0.6	1.0	1.4	2.3	2.0
Total asset turnover	0.2	0.4	0.6	1.1	0.9
Net interest coverage ratio	1.5	3.4	75.5	35.3	0.0
Adjusted debt/equity	0.7	0.3	0.3	0.5	0.3

DuPont Analysis

Y/E 31 Mar (%)	CY12A	FY14	FY15E	FY16E	FY17E
Tax burden (Net income/PBT)	1.7	(224.8)	81.0	82.0	82.0
Interest burden (PBT/EBIT)	1039.2	55.0	98.7	97.2	101.6
EBIT margin (EBIT/Revenue)	7.3	12.4	15.9	12.8	14.8
Asset turnover (Revenue/Avg TA)	19.0	39.1	58.0	106.6	92.3
Leverage (Avg TA/Avg equities)	297.9	226.3	189.4	196.7	202.5
Adjusted ROAE	0.7	(13.6)	13.9	21.4	23.0

Note: FY16 & FY17 numbers include Shasun financials

Income Statement

Y/E 31 Mar (INR mln)	CY12A	FY14	FY15E	FY16E	FY17E
Total revenue	**9,618**	**13,410**	**12,189**	**32,464**	**39,572**
EBITDA	1,006	2,234	2,438	5,239	7,005
EBIT	697	1,669	1,936	4,148	5,846
Net interest income/(expenses)	(453)	(486)	(26)	(118)	96
Other income/(expenses)	0	0	0	0	0
Exceptional items	7,001	(266)	0	0	0
EBT	245	1,183	1,911	4,031	5,942
Income taxes	(111)	(3,245)	(363)	(725)	(1,070)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(11)	0	0	0	0
Reported net profit	**7,124**	**(2,328)**	**1,548**	**3,305**	**4,872**
Adjustments	1,339	19,995	7,500	0	0
Adjusted net profit	**123**	**(2,062)**	**1,548**	**3,305**	**4,872**

Balance Sheet

Y/E 31 Mar (INR mln)	CY12A	FY14	FY15E	FY16E	FY17E
Accounts payables	4,631	2,679	2,782	7,180	8,660
Other current liabilities	4,583	821	821	1,394	1,394
Provisions	1,548	1,155	946	1,035	1,035
Debt funds	15,945	5,466	3,666	10,590	10,590
Other liabilities	0	0	0	0	0
Equity capital	588	596	596	806	806
Reserves & surplus	19,674	9,473	11,551	18,002	22,735
Shareholders' fund	20,262	10,068	12,147	18,808	23,541
Total liabilities and equities	**47,688**	**20,946**	**21,118**	**39,763**	**45,976**
Cash and cash eq.	1,657	2,311	566	1,427	3,171
Accounts receivables	4,832	3,640	4,174	9,000	10,761
Inventories	4,423	1,760	2,004	5,428	6,614
Other current assets	4,453	2,281	2,672	6,739	8,220
Investments	1	4,430	4,599	4,674	4,674
Net fixed assets	13,264	4,511	5,091	9,183	9,224
CWIP	2,414	995	995	2,137	2,137
Intangible assets	16,903	1,034	1,034	1,034	1,034
Deferred tax assets, net	(272)	(17)	(17)	142	142
Other assets	12	0	0	0	0
Total assets	**47,688**	**20,946**	**21,118**	**39,763**	**45,976**

Cash Flow Statement

Y/E 31 Mar (INR mln)	CY12A	FY14	FY15E	FY16E	FY17E
Net income + Depreciation	7,432	(1,763)	2,049	4,396	6,032
Interest expenses	453	486	26	118	(96)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	204	(89)	(1,065)	(2,472)	(2,949)
Other operating cash flows	302	(9,938)	670	174	0
Cash flow from operations	**8,391**	**(11,303)**	**1,680**	**2,215**	**2,987**
Capital expenditures	1,741	27,489	(1,081)	(1,200)	(1,200)
Change in investments	(1)	(4,430)	(169)	0	0
Other investing cash flows	342	602	488	950	1,163
Cash flow from investing	**2,083**	**23,662**	**(762)**	**(250)**	**(37)**
Equities issued	0	(1)	0	210	0
Debt raised/repaid	(10,483)	(10,478)	(1,801)	(150)	0
Interest expenses	(794)	(1,089)	(513)	(1,067)	(1,067)
Dividends paid	(136)	(137)	(348)	(139)	(139)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**(11,413)**	**(11,705)**	**(2,662)**	**(1,146)**	**(1,207)**
Changes in cash and cash eq	**(940)**	**654**	**(1,745)**	**818**	**1,744**
Closing cash and cash eq	**1,657**	**2,311**	**569**	**1,427**	**3,171**

Note: FY16 & FY17 numbers include Shasun financials

RCML India

ANALYST	SECTOR	EMAIL	TELEPHONE
Mihir Jhaveri	Auto, Auto Ancillaries, Cement, Logistics	mihir.jhaveri@religare.com	+91 22 6766 3459
Prateek Kumar	Auto, Auto Ancillaries, Cement, Logistics	prateek.kumar@religare.com	+91 22 6766 3435
Misal Singh	Capital Goods, Infrastructure, Utilities	misal.singh@religare.com	+91 22 6766 3466
Gaurang Kakkad	Consumer	gaurang.kakkad@religare.com	+91 22 6766 3470
Premal Kamdar	Consumer	premal.kamdar@religare.com	+91 22 6766 3469
Nitin Tiwari	Energy	nitin.tiwari@religare.com	+91 22 6766 3437
Parag Jariwala	Financials	parag.jariwala@religare.com	+91 22 6766 3442
Rumit Dugar	IT, Telecom, Media	rumit.dugar@religare.com	+91 22 6766 3444
Karan Taurani	IT, Telecom, Media	karan.taurani@religare.com	+91 22 6766 3445
Pritesh Jani	Metals	pritesh.jani@religare.com	+91 22 6766 3467
Arun Baid	Mid-caps	arun.baid@religare.com	+91 22 6766 3446
Praful Bohra	Pharmaceuticals	praful.bohra@religare.com	+91 22 6766 3463
Arun Aggarwal	Real Estate	arun.aggarwal@religare.com	+91 22 6766 3440
Pawan Parakh	Utilities	pawan.parakh@religare.com	+91 22 6766 3438
Prerna Singhvi	Strategy & Economics	prerna.singhvi@religare.com	+91 22 6766 3413

RESEARCH DISCLAIMER

Important Disclosures

This report was prepared, approved, published and distributed by a Religare Capital Markets ("RCM") group company located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by Enclave Capital LLC ("Enclave Capital"), a U.S. registered broker dealer, on behalf of RCM 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 in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Subject to any applicable laws and regulations at any given time, non-US Group Companies, their affiliates or companies or individuals connected with RCM (together, "Connected Companies") may make investment decisions that are inconsistent with the recommendations or views expressed in this report and may have long or short positions in, may from time to time purchase or sell (as principal or agent) or have a material interest in any of the securities mentioned or related securities or may have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. Any particular arrangements or relationships are disclosed below. As a result, recipients of this report should be aware that Connected Companies may have a conflict of interest that could affect the objectivity of this report.

See "Special Disclosures" for certain additional disclosure statements, if applicable.

This report is only for distribution to investment professionals and institutional investors.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Analysts and strategists are paid in part by reference to the profitability of RCM.

Stock Ratings are defined as follows

Recommendation Interpretation (Recommendation structure changed with effect from March 1, 2009)

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Stock Ratings Distribution

As of 1 March 2015, out of 190 rated stocks in the RCM coverage universe, 106 have BUY ratings (including 5 that have been investment banking clients in the last 12 months), 61 are rated HOLD and 23 are rated SELL.

Research Conflict Management Policy

RCM research has been published in accordance with our conflict management policy, which is available here.

Disclaimers

This report is not directed to, 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 or regulation or which would subject RCM to any registration or licensing requirement within such jurisdiction(s). This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to RCM. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of RCM. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of RCM or its affiliates, unless specifically mentioned otherwise.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. RCM has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. RCM will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Information and opinions presented in this report were obtained or derived from sources that RCM believes to be reliable, but RCM makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. RCM accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to RCM. This report is not to be relied upon in substitution for the exercise of independent judgment. RCM may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected absolute return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by RCM and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

This report is distributed in India by Religare Capital Markets Limited, which is a registered intermediary regulated by the Securities and Exchange Board of India. In Dubai, it is being distributed by Religare Capital Markets (Hong Kong) Limited (Dubai Branch) which is licensed and regulated by the Dubai Financial Services Authority. In Singapore, it is being distributed (i) by Religare Capital Markets (Singapore) Pte. Limited ("RCMS") (Co. Reg. No. 200902065N) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as ""institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations (the "FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to RCMS when providing any financial advisory service to an accredited investor, or "overseas investor" (as defined in regulation 36 of the FAR). Persons in Singapore should contact RCMS in respect of any matters arising from, or in connection with this publication/communication. In Hong Kong, it is being distributed by Religare Capital Markets (Hong Kong) Limited ("RCM HK"), which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In Australia, it is being distributed by RCMHK which is approved under ASIC Class Orders. In Sri Lanka, it is being distributed by Bartleet Mallory Stockbrokers, which is licensed under Securities and Exchange Commission of Sri Lanka. If you wish to enter into a transaction please contact the RCM entity in your home jurisdiction unless governing law provides otherwise. In jurisdictions where RCM is not registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation which may vary from one jurisdiction to another and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Religare Capital Markets does and seeks to do business with companies covered in our research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of research produced by Religare Capital Markets. Investors should consider our research as only a single factor in making their investment decision.

Any reference to a third party research material or any other report contained in this report represents the respective research organization's estimates and views and does not represent the views of RCM and RCM, its officers, employees do not accept any liability or responsibility whatsoever with respect to its accuracy or correctness and RCM has included such reports or made reference to such reports in good faith. This report may provide the addresses of, or contain hyperlinks to websites. Except to the extent to which the report refers to material on RCM's own website, RCM takes no responsibility whatsoever for the contents therein. Such addresses or hyperlinks (including addresses or hyperlinks to RCM's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or RCM's website shall be at your own risk.

Special Disclosures (if applicable)

Not Applicable