

## Venus Remedies

 BSE code: 526953  
 NSE code: VENUSREM

**CMP: Rs 465**
**Target: Rs 708**
**BUY**
**Alok Dalal**

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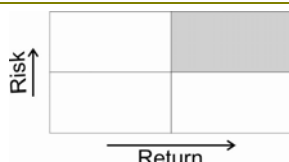
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**Company data**

Particulars	
Market cap (Rs bn / US\$ mn)	3.9/97.0
Outstanding equity shares (mn)	8.4
52-week high/low (Rs)	549/350
6-month average daily volume	33,658

**Financial snapshot**

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	1,413.0	2,109.9	3,123.6
Growth (%)	53.3	49.3	48.0
Adj net profit (Rs mn)	287.8	426.6	667.1
Growth (%)	77.4	48.2	56.4
FDEPS (Rs)	29.7	44.0	68.8
Growth (%)	77.4	48.2	56.4
P/E (x)	15.7	10.6	6.8
RoE (%)	63.6	54.9	52.5

**Risk-return profile**

**Shareholding pattern**

(%)	Sep-07	Jun-07
Promoters	26.0	21.1
FIs	18.3	21.6
Banks & FIs	0.3	0.3
Public	55.4	57.0

**Stock performance**

Returns (%)	CMP	1-mth	3-mth	6-mth
Venus Remedies	465	(9.6)	(5.7)	3.3
Sensex	17,614	6.3	12.0	26.5
BSE HC	3,730	2.1	(1.8)	1.5

**Company website** [www.venusremedies.com](http://www.venusremedies.com)
**Sustained momentum**

Venus Remedies' Q2FY08 results were in line with expectations. The company posted strong 37% YoY topline growth led by an estimated 29% increase in domestic market sales to Rs 386mn coupled with a ~77% rise in exports. The EBITDA margin of 25.9% was also in line with estimates. The strong operational performance resulted in 39% YoY PAT growth to Rs 98.3mn.

Venus' performance has been in line with our H1FY08 estimates and we expect this momentum to sustain for the remainder of the year. Key brands, R&D products and new launches would drive a 36% domestic revenue CAGR over FY07-FY09. Further, greater penetration of semi-regulated markets and forays into regulated markets should result in a 100% CAGR in exports over this period.

At Rs 465, the stock is trading at 10.6x FY08E EPS of Rs 44 and 6.8x FY09E EPS of Rs 68.8. We believe Venus remains one of the most undervalued stocks in the pharma space with significant growth potential over the next two years. We maintain Buy with a target price of Rs 708 based on two-stage DCF valuation.

**Actual vs estimated performance**

(Rs mn)	Actual	Estimated	% Variance
Net sales	495.3	493.7	(0.3)
EBIDTA	128.3	125.0	2.6
PAT	98.3	98.7	(0.4)
EPS (Rs)	11.7	11.8	(0.4)

Source: Company, Religare Research

**Quarterly results**

(Rs mn)	Q2FY08	Q2FY07	% Chg	H1FY07	H1FY06	% Chg
Net sales	495.2	361.2	37.1	931.4	679.8	37.0
Expenditure	366.9	274.7	33.6	688.9	517.2	33.2
Operating profit	128.3	86.53	48.2	242.5	162.6	49.2
Other income	1.1	5.11	(78.0)	2.4	7.8	(68.9)
Interest	10.8	8.2	30.6	20.8	13.5	54.2
Depreciation	7.9	4.0	98.7	14.8	7.7	91.7
PBT	110.8	79.5	39.4	209.3	149.1	40.4
Tax	12.5	8.9	40.1	23.7	16.7	41.6
Adj PAT	98.3	70.5	39.4	185.7	132.4	40.2
OPM (%)	25.9	24.0	-	26.0	23.9	-
EPS (Rs)	11.7	8.4	39.0	22.0	15.7	39.9
P/E (x)	11.4	-	-	12.0	-	-

Source: Company, Religare Research

## Result highlights

### Strong volume growth in key brands Ronem, Mucomelt and Neurotol

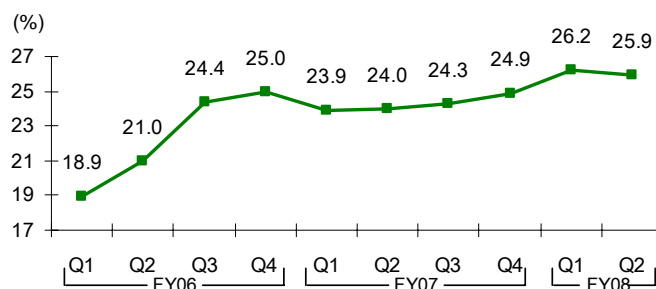
#### Sales growth in line with estimates

Venus's topline growth of 37% YoY to Rs 495mn was in line with estimates. The growth was driven by an estimated 29% increase in domestic market sales to Rs 386mn and ~77% rise in exports to Rs 108mn. Key brands like *Ronem*, *Mucomelt* and *Neurotol* recorded strong volume growth while R&D products are witnessing increasing demand from the company's marketing partners. Export sales witnessed strong traction in semi-regulated markets. The company is on track to expand operations in 40 countries outside India.

#### EBITDA margin expanded by 190bps YoY to 25.9%

Strong topline growth has resulted in a 190bps YoY expansion in the EBITDA margin to 25.9%. The gross margin improved sharply by 510bps to 71.6% as the contribution from high-margin exports has started increasing. Other expenses as a percentage of sales declined by 20bps to 12.7%, as commissioning of phase-II of the Baddi unit started realising its potential, decreasing overheads.

#### EBITDA margin trend



Source: Company, Religare Research

#### Net profit growth outpaces topline growth

The strong operational performance has led to a 39% YoY bottomline growth for the company, ahead of the increase in sales. The quarter saw higher depreciation due to commissioning of phase-II at Baddi during March 2007. Venus reported an EPS of Rs 11.7 for the quarter.

## Recent developments

#### Two research products registered in Ukraine

The company has registered two of its research products in Ukraine. The first order for bulk supplies of an innovative formulation was successfully executed during this quarter.

#### In-licensed a product from Chinese inventor company

Venus entered into an in-licensing agreement with a Chinese inventor company to exclusively manufacture and market the latter's patented amino-glycoside formulation in India for 10 years. Phase-III, multi-centre clinical trials for the product will begin over the next few months, and launch is scheduled for Q3FY09. The formulation has an addressable market of Rs 6bn, growing at 8% p.a. The management expects to capture 10% of the market within two years of launch.

#### Agreement with Pharma Match

Venus has signed an agreement with Amsterdam-based Pharma Match R&D for jointly preparing, registering and marketing an EU-CTD dossier for a latest generation carbapenem injectible.

### Agreement with Dutch Pharma Match for a latest generation carbapenem injectible

## Valuation

### Maintain Buy with target of Rs 708

Venus' performance has been in line with our H1FY08 estimates and we expect this momentum to sustain throughout the year. Key brands, R&D products and new launches would drive a 36% domestic revenue CAGR over FY07-FY09. Further, greater penetration of semi-regulated markets and forays into regulated markets should result in a 100% CAGR in exports over the same period.

**Venus remains one of the most undervalued stocks in the pharma space; reiterate Buy**

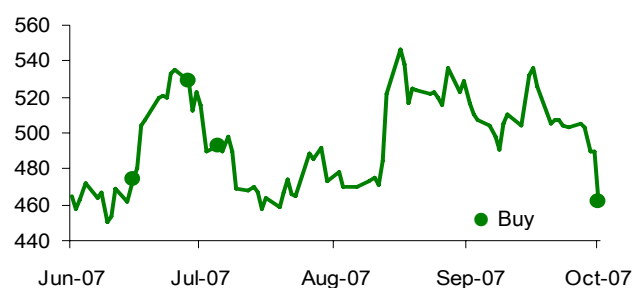
At Rs 465, the stock is trading at 10.6x FY08E EPS of Rs 44 and 6.8x FY09E EPS of Rs 68.8. We believe Venus remains one of the most undervalued stocks in the pharma space with significant growth potential over the next two years. We maintain Buy with a target price of Rs 708 based on two-stage DCF valuation.

### Recommendation history

Date	Event	Reco price	Target	Reco
05-Jul-07	Initiating Coverage	474	708	Buy
18-Jul-07	Company Update	527	708	Buy
25-Jul-07	Results Update	492	708	Buy
23-Oct-07	Results Update	465	708	Buy

Source: Religare Research

### Stock performance



Source: Religare Research

## Financials

### Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	922.0	1,413.0	2,109.9	3,123.6
Growth (%)	170.4	53.3	49.3	48.0
EBITDA	211.1	349.0	541.3	832.7
Growth (%)	236.1	65.4	55.1	53.8
Depreciation	9.2	21.5	33.3	43.7
EBIT	201.9	327.6	508.1	789.0
Growth (%)	248.9	62.3	55.1	55.3
Interest	19.3	27.9	29.8	40.5
Other income	0.8	22.2	1.0	1.0
EBT	183.3	321.8	479.3	749.5
Growth (%)	284.6	75.6	48.9	56.4
Tax	14.9	34.0	52.7	82.4
Effective tax rate	8.1	10.6	11.0	11.0
Adj net income	162.2	287.8	426.6	667.1
Growth (%)	303.3	77.4	48.2	56.4
Shares outstanding (mn)	8.4	8.4	8.4	8.4
FDEPS (Rs)	16.7	29.7	44.0	68.8
DPS (Rs)	2.3	3.4	4.4	6.9
CEPS (Rs)	17.7	31.9	47.4	73.3

Source: Company, Religare Research

### Cash flow statement

(Rs mn)	FY06	FY07E	FY08E	FY09E
Net income	162.2	287.8	426.6	667.1
Depreciation	9.2	21.5	33.3	43.7
Other adjustments	5.6	8.0	17.6	27.5
Changes in WC	(66.5)	2.8	(222.9)	(233.4)
Operating cash flow	110.6	320.2	254.5	504.9
Capital expenditure	(206.8)	(648.6)	167.4	(200.0)
Investments	2.6	(230.2)	(269.8)	(200.0)
Other investing inc/(exp)	(42.7)	(39.9)	(87.7)	(60.3)
Investing cash flow	(246.9)	(918.6)	(190.1)	(460.3)
Free cash flow	(136.3)	(598.5)	64.4	44.6
Issue of equity	3.9	0.2	-	-
Issue/repay debt	148.3	633.6	18.0	90.0
Dividends paid	(19.1)	(28.8)	(42.7)	(66.7)
Others	4.9	7.3	(0.0)	(0.0)
Financing cash flow	137.9	612.4	(24.7)	23.3
Beg. cash & cash eq	13.6	15.3	29.1	69.0
Chg in cash & cash eq	1.7	14.0	39.8	67.9
Closing cash & cash eq	15.3	29.1	69.0	136.9

Source: Company, Religare Research

### Balance sheet

(Rs mn)	FY06	FY07E	FY08E	FY09E
Cash and cash eq	15.3	29.1	69.0	136.9
Accounts receivable	76.4	93.9	260.1	470.7
Inventories	142.7	181.0	352.9	485.2
Others current assets	89.9	129.8	217.4	277.7
Current assets	324.3	433.7	899.4	1,370.5
LT investments	-	230.2	500.0	700.0
Net fixed assets	234.0	507.6	674.3	830.6
CWIP	63.8	417.4	50.0	50.0
Total assets	622.1	1,588.9	2,123.7	2,951.1
Payables	35.9	47.8	120.3	163.2
Others	38.3	85.0	127.7	194.4
Current liabilities	74.2	132.8	248.0	357.6
LT debt	216.4	850.0	868.0	958.0
Other liabilities	12.7	20.7	38.3	65.8
Equity capital	84.1	84.3	84.3	84.3
Reserves	234.8	501.2	885.1	1,485.5
Net Worth	318.9	585.5	969.4	1,569.8
Total liabilities	622.1	1,589.0	2,123.7	2,951.1
BVPS (Rs)	37.9	69.4	115.0	186.2

Source: Company, Religare Research

### Financial ratios

	FY06	FY07E	FY08E	FY09E
EBITDA margin (%)	22.9	24.7	25.7	26.7
EBIT margin (%)	21.9	23.2	24.1	25.3
Net profit margin (%)	17.6	20.4	20.2	21.4
FDEPS growth (%)	303.3	77.4	48.2	56.4
Receivables (days)	23.3	22.0	30.6	42.7
Inventory (days)	69.4	61.9	76.5	84.4
Payables (days)	23.0	16.0	24.1	28.6
Current ratio (x)	4.4	3.3	3.6	3.8
Interest coverage (x)	10.4	11.7	17.1	19.5
Debt/equity ratio (x)	0.7	1.5	0.9	0.6
ROE (%)	66.8	63.6	54.9	52.5
ROCE (%)	51.1	32.7	30.5	35.3
ROAE (%)	44.3	29.6	27.4	31.1
EV/Sales (x)	5.1	3.3	2.2	1.5
EV/EBITDA (x)	22.3	13.5	8.7	5.7
P/E (x)	27.8	15.7	10.6	6.8
P/BV (x)	22.3	12.3	6.7	4.0
P/CEPS (x)	26.3	14.6	9.8	6.3

Source: Company, Religare Research

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**Recommendation parameters**

<b>Large-caps*</b>	> 10%	< - 5%	<b>Returns</b>	<b>Absolute</b>
	BUY	SELL		
<b>Mid-caps**</b>	> 25%	< 10%		

*\*Market cap over US\$ 1bn \*\*Market cap less than US\$ 1bn*

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