

Elder Pharmaceuticals (ELDPHA)

RESULT UPDATE ✓

PRICE TARGET.....	Unchanged
Diluted EPS (FY10E).....	Rs 52.07
Diluted EPS (FY09E).....	Rs 44.31
Diluted EPS (FY08E).....	Rs 35.11
RATING.....	Outperformer

Current price Rs 265	Target price Rs 416
Potential upside 56%	Time Frame 12-15 months

OUTPERFORMER

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Elder Pharma's results for Q2FY09 were below our expectations. For Q2FY09, net profit declined by 12.7% to Rs 15 crore on the back of higher raw material and employee expenses, which together accounted for 65% of net sales. Net sales improved by 14% in Q2FY09 to Rs 151 crore as against Rs 132 crore in Q2FY08. Operating margins declined by 211 bps to 17.28% from 19.39% in Q2FY08. The impact was also felt on the bottomline hitting the net profit margins by 308 bps to 9.97% as against 13.05% in Q2FY08. We maintain our Outperformer rating. However, looking at the onset of the bear phase we slash our target price by 26% to Rs 416.

Modest topline growth

The net sales of the company exhibited a modest growth of 14% from Rs 132 crore in Q2FY08 to Rs 151 crore in Q2FY09. This was due to decent performance by the company's various business segments. The women's Healthcare division derived its strength across the in-licensing operations. The nutraceuticals business segment recorded increased sales owing to good reputation and successful brand building exercise. New launches such as Phytomega, Imbran and Hibor also added positively to the topline. The significant addition to the numbers is expected in the coming few quarters.

Key Financials (Standalone)

Rs Crore	Q2FY09	Q2FY08	% growth	H1 FY2009	H1 FY2008	% growth
Net Sales	151.08	132.27	14.22%	297.75	252.96	17.71%
Other Income	1.85	1.24		2.83	2.06	
Total Income	152.93	133.51		300.58	255.02	
Total Expenditure	124.98	106.63		243.28	204.20	
Raw material cost	76.80	65.41	17.42%	148.64	126.42	17.57%
Employee cost	21.35	17.55	21.71%	42.21	34.94	20.82%
Other expenditure	26.83	23.67	13.32%	52.43	42.84	22.39%
EBIDTA	26.10	25.65	1.78%	54.48	48.77	11.70%
Depreciation	3.28	3.06	6.98%	6.51	5.89	10.66%
Interest	7.61	4.56	66.89%	14.19	8.60	65.00%
PBT	17.06	19.26	-11.43%	36.60	36.34	0.72%
Tax	2.00	2.00		4.00	4.00	
Net PAT	15.06	17.26	-12.75%	32.60	32.34	0.80%
EPS						
Basic	7.99	9.26		17.29	17.34	
Diluted	7.46	9.26		16.76	17.34	
EBIDTA %	17.28%	19.39%	-2.11%	18.30%	19.28%	-5.10%
PAT %	9.97%	13.05%	-3.08%	10.95%	12.79%	-14.36%

Source: ICICIdirect.com Research

Exhibit: Business Break-up

Rs Crore	Q2FY09	% share	Q2FY08	% share
Neutraceuticals	14.261	9.4%	11.533	8.7%
Pain Management	19.081	12.6%	18.223	13.8%
Anti Infective	14.524	9.6%	11.658	8.8%
Cardiac	6.133	4.1%	4.633	3.5%
Women's Healthcare	33.068	21.9%	28.305	21.4%
Others	64.016	42.4%	57.923	43.8%
Total	151.083		132.275	

Source: Company

Higher expenditure hits EBIDTA margins

Elder has witnessed a significant increase in costs due to implementation of new initiatives across the organisation. Staff cost increased by 22% to Rs 21.35 crore compared to Rs 17.55 crore during the same period last year. In H1FY09, Elder has seen a substantial increase in its staff cost at Rs 42.21 crore compared to Rs 34.94 crore in H1FY08. This was mainly on account of expansion of sales force and R&D facilities, which has manpower as the major cost element in the overall portfolio of the company. The cost of materials consumed in Q2FY09 has gone up marginally by 9% to Rs 27.23 crore compared to Rs 24.96 crore in the corresponding period last year. H1FY09 has recorded a sharp rise of 49% to Rs 58.74 crore from Rs 39.49 crore in H1FY08 owing to increased costs of raw materials across the globe and especially due to stricter environmental norms causing sudden shutdown of manufacturing facilities in China.

Higher interest cost hits bottomline

Elder's Q2FY09 PBT was at Rs 17 crore compared to Rs 19.3 crore in the corresponding quarter last year due to increase in interest costs. The net profits in the period were at Rs 15.06 crore as against Rs 17.26 crore giving a diluted EPS of Rs 7.46 in comparison with Rs 9.26 in Q2FY08. In the half-year period, PBT remained stable at Rs 36.6 crore from Rs 36.34 crore. Despite increased contribution from women's healthcare and neutraceuticals to the topline and better results in the pain management business segment, high interest cost affected the overall profitability of Elder. Net profit for H1FY09 was at Rs 15.06 crore compared to Rs 32.34 crore in the corresponding period last year. H1FY09 diluted EPS, thus, stood at Rs 16.76 compared to Rs 17.34 in H1FY08.

Mixed geographical performance

The domestic operations of the company continued to deliver robust results with sales rising 22% from Rs 121 crore to Rs 147.7 crore in the second quarter of FY09. On a YoY basis, export revenue declined sharply by 69% from Rs 11.15 crore to Rs 3.41 crore. Even on a half yearly basis, contribution from exports has dropped by 7.5% from the first half of FY07-08. Elder is harping growth opportunities in other markets like Bulgaria and UK, although there is still time for commencement of operations in Europe and UK on a full scale. The company is venturing into these markets via the inorganic route and for FY09. We expect some addition to the EPS from these acquisitions.

Exhibit: Geographical revenue break-up

Rs Crore	Q2FY09	% share	Q2FY08	% share
Domestic	147.7	98	121.1	92
International	3.42	2	11.2	8

Source: Company

Valuations

We believe Elder will continue to show robust growth in the years to come. The consolidation of recent acquisitions in the international market is likely to add in the range of Rs 5 to Rs 7 to the EPS from FY09 onwards. The higher domestic exposure of Elder makes it a safe bet in such volatile market conditions. We maintain our rating on the stock. However, looking at market conditions, we slash our target price to Rs 416, 8x FY10E EPS of Rs 52.07.

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Outperformer: 20% or more;
Performer: Between 10% and 20%;
Hold: $\pm 10\%$ return;
Underperformer: -10% or more.

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