

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	STBI.BO
Bloomberg code	SLT IN
Market cap. (US\$ mn)	600
6M avg. daily turnover (US\$ mn)	1.3
Issued shares (mn)	250
Target price (Rs)	132

Performance (%)	1M	3M	12M
Absolute	1	13	(24)
Relative	(2)	13	(58)

#### Valuation ratios

Yr to 31 Dec	CY10E	CY11E
EPS (Rs)	9.0	13.2
+/- (%)	29.0	47.2
PER (x)	12.0	8.2
PBV (x)	1.2	1.1
Dividend/Yield (%)	0.5	0.5
EV/Sales (x)	3.0	2.3
EV/EBITDA (x)	8.2	5.9

#### Major shareholders (%)

Promoters	36
FII's	3
Public & Others	61

#### Financial highlights

(Rs mn)	4QCY08	4QCY09	YoY %	CY09	CY10E	YoY %	CY11E	YoY %
Net Sales	3,331	3,733	12.1	14,470	15,874	9.7	19,700	24.1
EBITDA	1,289	1,375	6.6	5,144	5,888	14.5	7,566	28.5
EBITDA Margin (%)	38.7	36.8	-	35.5	37.1	-	38.4	-
Other Income	-	-	-	-	79	-	100	26.4
Interest	244	515	110.9	1,494	1,256	(16.0)	1,198	(4.6)
Depreciation	288	303	5.3	1,230	1,553	26.2	1,803	16.1
PBT before extraordinary item	757	556	(26.5)	2,419	3,159	30.6	4,666	47.7
EI	(38)	699	(1,928.4)	621	(80)	(112.9)	(80)	-
PBT after extraordinary item	718	1,255	74.8	3,040	3,079	1.3	4,586	48.9
Tax	261	194	-	686	924	-	1,376	-
Reported PAT	457	1,061	132.2	2,353	2,155	(8.4)	3,210	48.9
Adj PAT	495	362	(26.9)	1,733	2,235	29.0	3,290	47.2

## Sterling Biotech

Maintain Outperformer

Price: Rs 108

BSE Index: 17,528

31 March 2010

### 4QCY09 Result – Gain on FCCB buyback boosted profitability

Sterling Biotech reported mixed results with 12% revenue growth and 132% growth in net profits due to extraordinary gain of Rs 720 mn on FCCB buyback. Adjusting gain on FCCB buyback, profits declined by 27% YoY. While Sterling's revenue grew by 12%, its EBITDA grew by only 7% YoY on account of high raw material cost and high other expenditure. Consequently, its EBITDA margin contracted 190 bps YoY (on QoQ basis, its margin expanded by 214 bps) to 36.8% against 38.7% in 4QCY08. During the quarter, the company raised US\$ 90 mn through external commercial borrowings (ECBs) and bought back its FCCBs worth US\$ 90.5 mn at a discount and paid US\$ 74 mn. Due to ECBs raised, the interest expense for the quarter increased by 111% to Rs 515 mn.

During the quarter, the company increased its Gelatin manufacturing capacity by 1,500 MTPA through modernising and de-bottlenecking its existing plant. It is in a process to increase its Gelatin and Coenzyme Q10 capacity in the next two years with a total capital expenditure of ~Rs 9 bn. Gelatin capacity is expected to be 30,000 MTPA in CY11E from the current capacity of 22,500 MTPA. For Coenzyme Q10, it plans to double its capacity to ~87 tonnes by the end of CY10E. We expect the demand for Gelatin to increase, as the global pharma industry is expected to grow at 5% per annum and domestic industry to grow at an average of 13% per annum. On the other hand, Coenzyme Q10 (CoQ10) is witnessing huge demand from the US, European and Japanese market. Key concern remains the leveraged balance sheet and long working capital cycle. At Rs 108, the stock trades at 12x CY10E and 8x CY11E earnings. Maintain Outperformer.

#### Key highlights

- During the quarter, the company bought back FCCBs due 2010 worth US\$ 7.5 mn and FCCBs due 2012 worth US\$ 83 mn at a discount and paid US\$ 74 mn, thus gaining US\$ 16.5 mn on the transaction.

- The company is still trying to buyback its FCCBs, as the last date to buyback FCCBs at a discount has been extended to 30 June 2010. To fund the FCCBs due 2010, the company plans to use internal accruals and may have to raise further debt.

#### Outstanding FCCB

<b>FCCB particulars</b>	<b>Amount outstanding (US\$ mn)</b>	<b>Conversion price per equity share (Rs)</b>	<b>Conversion date</b>
0.5% US\$ 175 mn FCCB due 2010	93.7	152	September 2010
US\$ 250 mn ZFCCB due 2012	134.6	205	June 2012

Source: Company

**Income Statement**

Yr end 31 Dec (Rs mn)	CY08	CY09	CY10E	CY11E
<b>Net Sales</b>	<b>11,784</b>	<b>14,470</b>	<b>15,874</b>	<b>19,700</b>
Growth (%)	29.4	22.8	9.7	24.1
Operating Expenses	(6,771)	(9,327)	(9,986)	(12,135)
Operating Profit	5,013	5,144	5,888	7,566
<b>EBITDA</b>	<b>5,013</b>	<b>5,144</b>	<b>5,888</b>	<b>7,566</b>
Growth (%)	22.7	2.6	14.5	28.5
Depreciation	(1,072)	(1,230)	(1,553)	(1,803)
Other Income	100	-	79	100
<b>EBIT</b>	<b>4,042</b>	<b>3,913</b>	<b>4,415</b>	<b>5,863</b>
Interest Paid	(592)	(1,494)	(1,256)	(1,198)
Pre-tax profit	3,450	2,419	3,159	4,666
(before non-recurring items)				
Non-recurring items	(123)	621	(80)	(80)
Pre-tax profit	3,327	3,040	3,079	4,586
(after non recurring items)				
Tax (current + deferred)	(1,135)	(686)	(924)	(1,376)
<b>Net Profit</b>	<b>2,192</b>	<b>2,353</b>	<b>2,155</b>	<b>3,210</b>
Prior period adjustments	-	17	-	-
Reported PAT	2,192	2,370	2,155	3,210
Adjusted net profit	2,315	1,733	2,235	3,290
Growth (%)	18.4	(25.2)	29.0	47.2

**Balance Sheet**

Yr end 31 Dec (Rs mn)	CY08	CY09E	CY10E	CY11E
Current assets	13,839	14,930	15,041	19,296
Cash & Marketable sec.	1,445	500	500	2,698
Other Current Assets	12,393	14,430	14,541	16,598
Investments	2,640	2,640	2,640	2,640
Net fixed assets	30,708	32,878	31,325	29,843
<b>Total assets</b>	<b>47,187</b>	<b>50,449</b>	<b>49,007</b>	<b>51,779</b>
Current Liabilities	979	1,185	1,209	1,371
Total debt	26,695	25,948	21,808	20,397
Other non-current liabilities	2,473	3,051	3,636	4,507
<b>Total Liabilities</b>	<b>30,147</b>	<b>30,184</b>	<b>26,652</b>	<b>26,275</b>
Share capital	244	249	249	249
Reserves & Surplus	17,036	20,176	22,186	25,255
Less : Misc. Expenditure	(240)	(160)	(80)	-
<b>Shareholder's funds</b>	<b>17,040</b>	<b>20,265</b>	<b>22,355</b>	<b>25,504</b>
<b>Total equity &amp; liabilities</b>	<b>47,187</b>	<b>50,449</b>	<b>49,007</b>	<b>51,779</b>
<b>Capital Employed</b>	<b>46,208</b>	<b>49,264</b>	<b>47,798</b>	<b>50,408</b>

**Cash Flow Statement**

Yr end 31 Dec (Rs mn)	CY08	CY09E	CY10E	CY11E
Pre-tax profit	3,327	3,040	3,079	4,586
Depreciation	1,072	1,330	1,553	1,803
Chg in working capital	(4,989)	(1,834)	(87)	(1,890)
Total tax paid	(319)	(109)	(339)	(504)
<b>Cash flow from Oper. (a)</b>	<b>(910)</b>	<b>2,427</b>	<b>4,206</b>	<b>3,994</b>
Capital expenditure	(12,403)	(3,500)	-	(320)
Chg in investments	(2,618)	422	-	(698)
<b>Cash flow from Inv. (b)</b>	<b>(15,021)</b>	<b>(3,078)</b>	<b>-</b>	<b>(1,018)</b>
<b>Free cash flow (a+b)</b>	<b>(15,931)</b>	<b>(651)</b>	<b>4,206</b>	<b>2,977</b>
Equity raised / (repaid)	2,425	1,108	80	80
Debt raised / (repaid)	6,610	(747)	(4,140)	(1,411)
Dividend (incl tax.)	(134)	(143)	(146)	(108)
<b>Cash flow from fin. (c)</b>	<b>8,901</b>	<b>111</b>	<b>(4,206)</b>	<b>(1,477)</b>
<b>Net chg in cash (a + b + c)</b>	<b>(7,030)</b>	<b>(540)</b>	<b>-</b>	<b>1,500</b>

**Key Ratios**

Yr end 31 Dec (%)	CY08	CY09E	CY10E	CY11E
Adjusted EPS (Rs)	9.5	7.0	9.0	13.2
Growth	11.4	(26.7)	29.0	47.2
Book NAV/Share (Rs)	69.9	81.4	89.8	102.5
Dividend/Share (Rs)	0.5	0.5	0.5	0.5
Dividend payout ratio	6.2	8.4	6.5	3.1
Tax	34.1	22.6	30.0	30.0
EBITDA margin	42.5	35.5	37.1	38.4
EBIT margin	34.3	27.0	27.8	29.8
RoCE	10.0	8.2	9.1	11.9
Net debt/Equity	148.2	125.6	95.3	69.4

**Valuations**

Yr end 31 Dec (x)	CY08	CY09E	CY10E	CY11E
PER	11.4	15.5	12.0	8.2
PCE	7.8	9.1	7.1	5.3
Price / Book	1.5	1.3	1.2	1.1
Yield (%)	0.5	0.5	0.5	0.5
EV / Net sales	4.4	3.6	3.0	2.3
EV / EBITDA	10.4	10.2	8.2	5.9

**Du Pont Analysis – ROE**

Yr end 31 Dec (x)	CY08	CY09E	CY10E	CY11E
Net margin (%)	19.6	12.0	14.1	16.7
Asset turnover	0.3	0.3	0.3	0.4
Leverage factor	2.8	2.6	2.3	2.1
Return on equity (%)	15.6	9.3	10.5	13.7

**Gaurav Chugh**  
**gaurav.chugh@bksec.com**  
**+91-120-460 5630**

**Analyst Declaration:** I, Gaurav Chugh, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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**B & K SECURITIES INDIA PRIVATE LTD.**

**Equity Research Division:** City Ice Bldg, 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.  
**Registered Office:** Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

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