

# Elder Pharmaceuticals Ltd

## BUY

**C.M.P:**  
Rs.371.00

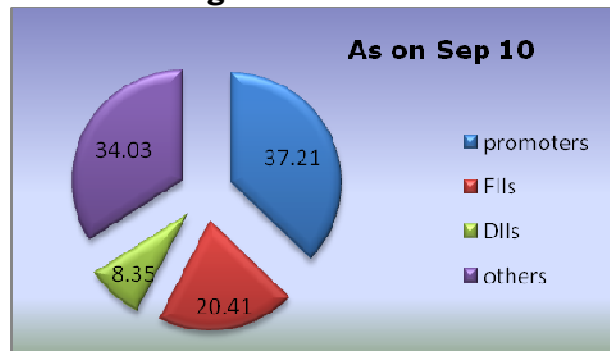
**Target Price:**  
Rs.427.00

Dec 16<sup>th</sup>, 2010

### Stock Data

|                              |               |
|------------------------------|---------------|
| <b>Sector</b>                | Pharma        |
| <b>Face Value Rs.</b>        | 10.00         |
| <b>52 wk. High/Low (Rs.)</b> | 440.00/264.20 |
| <b>Volume (2 wk. Avg.)</b>   | 52000         |
| <b>BSE Code</b>              | 532322        |
| <b>Market Cap (Rs.In mn)</b> | 7619.2        |

### Share Holding Pattern



### 1 Year Comparative Graph



### SYNOPSIS

- Elder is one the leading companies in the pharmaceutical formulation market in India. Company is engaged in manufacturing and marketing of prescription pharmaceutical brands, surgical and medical devices.
- Net Sales and PAT of the company are expected to grow at a CAGR of 14% and 18% over 2009 to 2012E respectively.
- During the quarter ended, the robust growth of revenue is increased by 20.51% Rs.2042.50 million.
- The board has approved for authorizing to increase the borrow upto Rs.1250 cr
- Elder Pharmaceuticals Ltd has declared of dividend @ 30% for the year ended March 31, 2010.
- Company's arm has further stake has been increased to 92.2%.

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| Financials (Rs.in.mn) | FY10   | FY11E  | FY12E  |
|-----------------------|--------|--------|--------|
| <b>Net Sales</b>      | 7024.2 | 8288.5 | 9200.3 |
| <b>EBIDTA</b>         | 1326.3 | 1713.0 | 1908.3 |
| <b>PAT</b>            | 552.5  | 749.9  | 828.8  |
| <b>EPS</b>            | 29.30  | 36.52  | 40.36  |
| <b>P/E</b>            | 12.66  | 10.16  | 9.19   |

## Investment Highlights

### ✚ Q2 FY11 Results Update

Elder Pharmaceuticals reported a substantial rise in standalone net profit for the quarter ended September 2010. During the quarter, the profit of the company rose 39.20% to Rs 161.35 million from Rs 115.91 million in the same quarter last year. Net sales for the quarter for the quarter rose 20.51% to Rs 2,042.50 million, while total income for the quarter rose 19.94% to Rs 2,054.38 million, when compared with the prior year period. It posted earnings of Rs 7.86 a share during the quarter ended Sept.

| Quarterly Results - standalone (Rs in mn) |         |         |         |
|---|---------|---------|---------|
| As At                                     | Sep-10  | Sep-09  | %change |
| <b>Net sales</b>                          | 2042.50 | 1694.89 | 20.51   |
| <b>PAT</b>                                | 161.35  | 115.91  | 39.20   |
| <b>Basic EPS</b>                          | 7.86    | 6.15    | 27.82   |

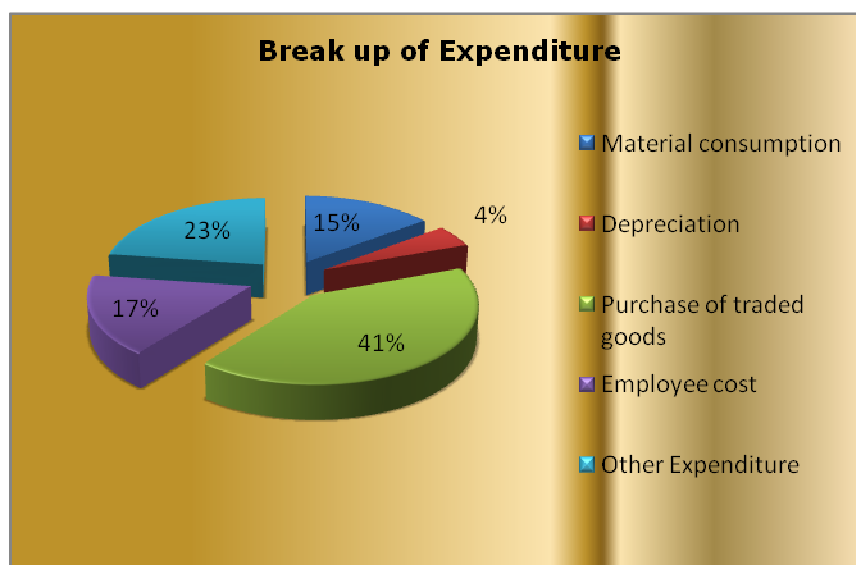
### ✓ Approved scheme of arrangement

Elder Pharmaceuticals Ltd has approved the Scheme of Arrangement. The General Meeting of NeutraHealth plc was also held in October 25, 2010 to implement the scheme of arrangement. All the resolutions in order to approve and implement the Scheme received the requisite number of votes and were accordingly approved.

✓ **Hike Stake in its arm**

Elder Pharmaceuticals Ltd holds a 61% stake in Elder Biomedica AD, Bulgaria through the Company's wholly owned subsidiary in Dubai. The Company has further informed that the stake has been increased to 92.2%.

✓ **Break up of Expenditure**



**Company Profile**

Elder Pharmaceuticals was incorporated in the year 1983. The company is engaged into manufacturing and marketing of prescription pharmaceutical brands, surgical and medical devices. Elder is one the leading companies in the pharmaceutical formulation market in India. It holds market leader position in three therapeutic segments - Women's Healthcare, Wound Care and Nutraceuticals. EPL entered into alliances with foreign companies for manufacture and sale of their products under license from them.

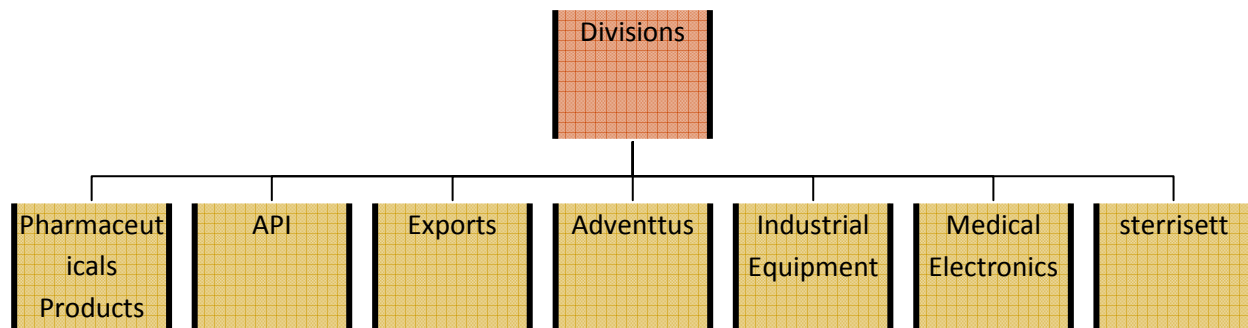
The group has three companies namely Elder Pharmaceutical, Elder HealthCare (EHC) and Elder Projects. The main therapeutic areas of interest for the company are osteoporosis and wound-care. The company has also positioned itself in the emerging markets of cardiology, respiratory disorders and cerebral diseases. Other areas of activity are dermatology, nutritional products and antioxidants. Export markets include Switzerland, Germany, England, Denmark and a few African countries.

### **International operations**

Elder manufactures API and formulations across 6 manufacturing plants in India and one in Nepal possessing a capability to manufacture various dosage forms like tablets, capsules, syrups, injectibles, topical creams and ointments.

Over the years, Elder upgraded its capacities in line with international standards to cater to the requirements of a wider patient community. Even as it upgraded its facilities, it also invested in capacity expansion through investments in internationally benchmarked greenfield facilities.

### **Divisions**



### **Products**

Elder manufactures API and formulations spread across 6 manufacturing plants in India and one in Nepal. It manufactures various dosage forms like tablets, capsules, syrups, injectibles, topical creams and ointments. It manufactures wide range of pharmaceutical brands such as Thrive G, Formic, Carnitor, Tanatril, B-long, Cranbe,

Bonviva etc. Company Shelcal brand is one of the top brands in the Indian pharmaceutical industry.

### **Industrial Equipment**

Elder Instruments Pvt Ltd is part of "Elder Group of Companies", having strategic interests in Pharmaceuticals, Bulk Drugs, Healthcare, Consumer Products, Medical Equipments, and Process Instrumentation, besides Industrial Automation. Being a part of Rs 3000 Million group, Elder Instruments has registered significant growth since its inception in the year 1993. There is a decade old organization, but have built a reputation as a reliable solution provider for various instrumentation and weighing based automation needs of the Industry.

After having served the industry for more than 10 years, they are ready to undertake specialized trunk jobs involving Material Handling, System Automation, Software Development & application based customized solutions. Their efforts have been recognized & applauded by various Industries in the Oil & Petroleum sector.

### **Peer Group Comparison**

| <b>Name of the company</b> | <b>CMP(Rs.)</b> | <b>Market Cap.(Rs.Mn.)</b> | <b>EPS(Rs.)</b> | <b>P/E(x)</b> | <b>P/Bv(x)</b> | <b>Dividend (%)</b> |
|----------------------------|-----------------|----------------------------|-----------------|---------------|----------------|---------------------|
| Elder Pharma               | 371.00          | 7619.2                     | 32.72           | 11.34         | 1.60           | 30.00               |
| Ankur Drugs                | 85.00           | 1642.1                     | 38.65           | 2.20          | 0.46           | 22.50               |
| Cipla                      | 353.25          | 283270.7                   | 13.51           | 26.15         | 4.80           | 100.00              |
| IPCA Labs                  | 328.00          | 41190.7                    | 18.19           | 18.03         | 4.71           | 140.00              |

## Financials Results

### 12 Months Ended Profit & Loss Account (Standalone)

| Value(Rs.in.mn)         | FY09           | FY10           | FY11E          | FY12E          |
|-------------------------|----------------|----------------|----------------|----------------|
| Description             | 12m            | 12m            | 12m            | 12m            |
| <b>Net Sales</b>        | <b>6200.22</b> | <b>7024.22</b> | <b>8288.58</b> | <b>9200.32</b> |
| Other Income            | 81.38          | 80.24          | 80.24          | 86.66          |
| Total Income            | 6281.60        | 7104.46        | 8368.82        | 9286.98        |
| Expenditure             | -5206.53       | -5778.09       | -6655.73       | -7378.66       |
| <b>Operating Profit</b> | <b>1075.07</b> | <b>1326.37</b> | <b>1713.09</b> | <b>1908.32</b> |
| Interest                | -373.93        | -523.45        | -591.50        | -656.56        |
| Gross profit            | 701.14         | 802.92         | 1121.59        | 1251.76        |
| Depreciation            | -115.23        | -150.34        | -217.99        | -250.69        |
| Profit Before Tax       | 585.91         | 652.58         | 903.60         | 1001.07        |
| Tax                     | -79.47         | -100.00        | -153.61        | -172.18        |
| Profit After Tax        | 506.44         | 552.58         | 749.99         | 828.88         |
| Extraordinary items     | 0.00           | 0.00           | 0.00           | 0.00           |
| <b>Net Profit</b>       | <b>506.44</b>  | <b>552.58</b>  | <b>749.99</b>  | <b>828.88</b>  |
| Equity capital          | 188.58         | 188.58         | 205.37         | 205.37         |
| Reserves                | 3964.43        | 3964.43        | 4714.42        | 5543.30        |
| Face value (Rs.)        | 10.00          | 10.00          | 10.00          | 10.00          |
| <b>EPS</b>              | <b>26.86</b>   | <b>29.30</b>   | <b>36.52</b>   | <b>40.36</b>   |

### Quarterly Ended Profit & Loss Account (Standalone)

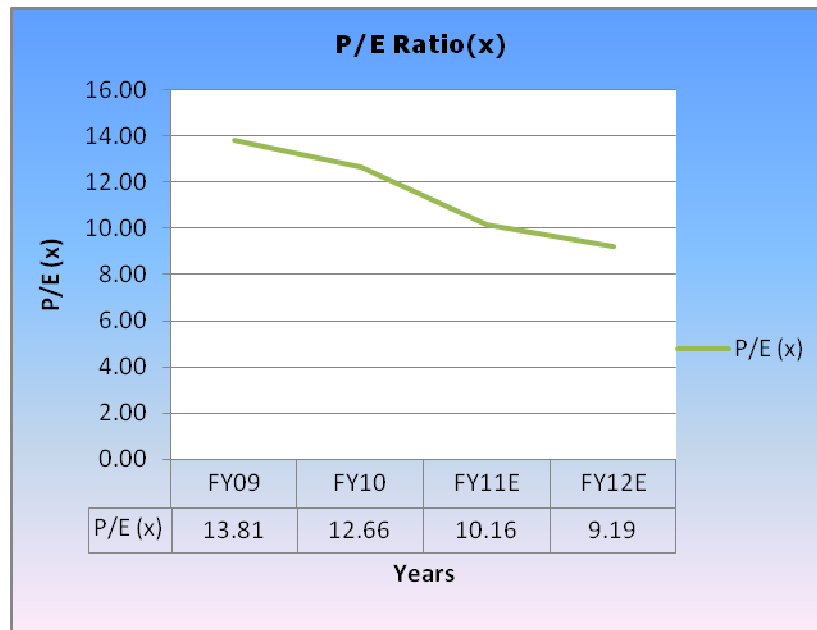
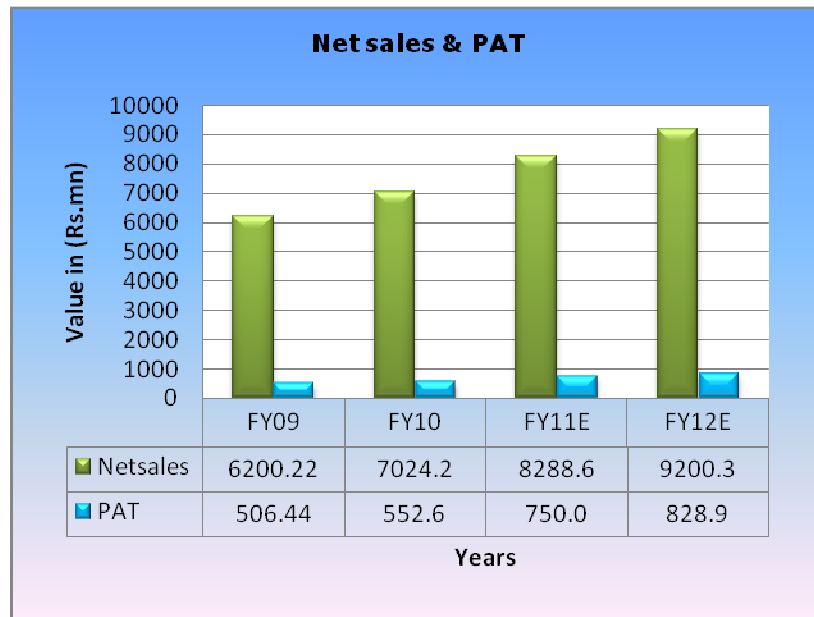
| Value(Rs.in.mn)         | 31-Mar-10      | 30-Jun-10      | 30-Sep-10      | 31-Dec-10E     |
|-------------------------|----------------|----------------|----------------|----------------|
| Description             | 3m             | 3m             | 3m             | 3m             |
| <b>Net sales</b>        | <b>1897.96</b> | <b>1912.51</b> | <b>2042.50</b> | <b>2205.90</b> |
| Other income            | 32.07          | 20.59          | 11.88          | 13.07          |
| Total Income            | 1930.03        | 1933.10        | 2054.38        | 2218.97        |
| Expenditure             | -1567.90       | -1527.50       | -1619.92       | -1764.72       |
| <b>Operating profit</b> | <b>362.13</b>  | <b>405.60</b>  | <b>434.46</b>  | <b>454.25</b>  |
| Interest                | -128.48        | -137.32        | -141.76        | -153.10        |
| Gross profit            | 233.65         | 268.28         | 292.70         | 301.15         |
| Deprecation             | -45.51         | -49.50         | -73.85         | -79.76         |
| Profit Before Tax       | 188.14         | 218.78         | 218.85         | 221.39         |
| Tax                     | -20.00         | -30.00         | -57.50         | -36.09         |
| Profit After Tax        | 168.14         | 188.78         | 161.35         | 185.30         |
| Extraordinary Items     | 0.00           | 0.00           | 0.00           | 0.00           |
| <b>Net Profit</b>       | <b>168.14</b>  | <b>188.78</b>  | <b>161.35</b>  | <b>185.30</b>  |
| Equity capital          | 188.57         | 188.57         | 205.37         | 205.37         |
| Face value (Rs.)        | 10.00          | 10.00          | 10.00          | 10.00          |
| <b>EPS</b>              | <b>8.92</b>    | <b>10.01</b>   | <b>7.86</b>    | <b>9.02</b>    |

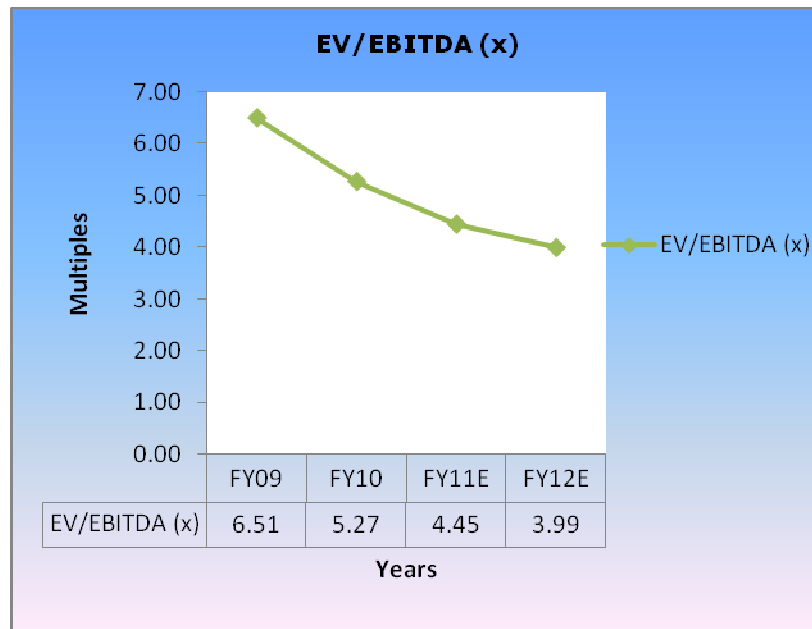
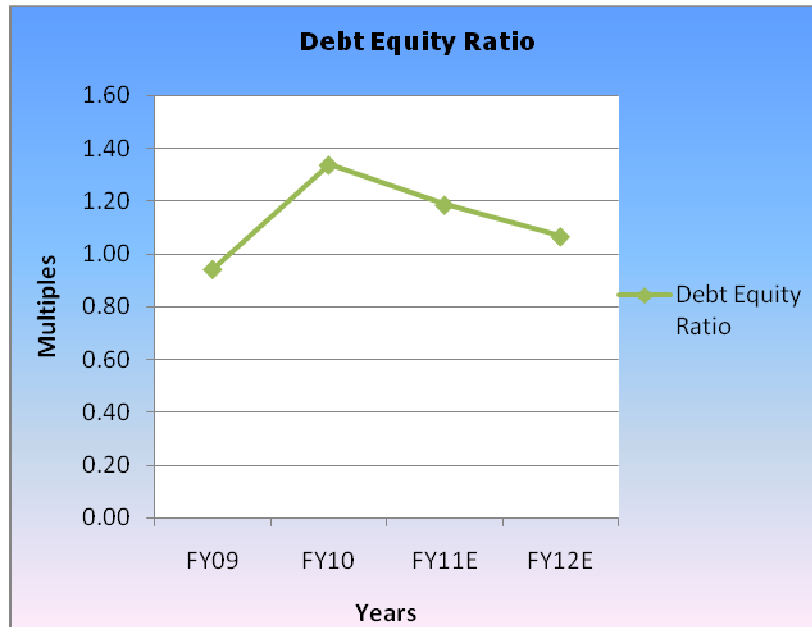
## Key Ratios

| Particulars               | FY09   | FY10   | FY11E  | FY12E  |
|---------------------------|--------|--------|--------|--------|
| No. of Shares(In Million) | 18.86  | 18.86  | 20.54  | 20.54  |
| EBITDA Margin (%)         | 17.34% | 18.88% | 20.67% | 20.74% |
| PBT Margin (%)            | 9.45%  | 9.29%  | 10.90% | 10.88% |
| PAT Margin (%)            | 8.17%  | 7.87%  | 9.05%  | 9.01%  |
| P/E Ratio (x)             | 13.81  | 12.66  | 10.16  | 9.19   |
| ROE (%)                   | 12.19% | 13.31% | 15.24% | 14.42% |
| ROCE (%)                  | 14.76% | 15.21% | 17.96% | 18.18% |
| Debt Equity Ratio         | 0.94   | 1.34   | 1.19   | 1.07   |
| EV/EBITDA (x)             | 6.51   | 5.27   | 4.45   | 3.99   |
| Book Value (Rs.)          | 220.23 | 220.23 | 239.56 | 279.92 |
| P/BV                      | 1.68   | 1.68   | 1.55   | 1.33   |



**Charts:**





## Outlook and Conclusion

- At the current market price of Rs.371.00, the stock is trading at 10.16 x FY11E and 9.19 x FY12E respectively.
- Price to Book Value of the stock is expected to be at 1.55 x and 1.33 x respectively for FY11E and FY12E.
- Earning per share (EPS) of the company for the earnings for FY11E and FY12E is seen at Rs.36.52 and Rs.40.36 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 14% and 18% over 2009 to 2012E respectively.
- On the basis of EV/EBITDA, the stock trades at 4.45 x for FY11E and 3.99 x for FY12E.
- We expect that the company will keep its growth story in the coming quarters also. We recommend 'BUY' in this particular scrip with a target price of Rs.427.00 for Medium to Long term investment.

## Industry Overview

India's pharmaceutical industry is now the third largest in the world in terms of volume and stands 14th in terms of value. According to data published by the Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, the total turnover of India's pharmaceuticals industry between September 2008 and September 2009 was US\$ 21.04 billion. Of this the domestic market was worth US\$ 12.26 billion.

The Indian pharmaceuticals market is expected to reach US\$ 55 billion in 2020 from US\$ 12.6 billion in 2009, according to a report 'India Pharma 2020: Propelling access and acceptance, realising true potential' by McKinsey & Company. The report states that the market has the further potential to reach US\$ 70 billion by 2020 in an aggressive growth scenario.

Moreover, according to an Ernst & Young and industry body study, the increasing population of the higher-income group in the country, will open a potential US\$ 8

billion market for multinational companies selling costly drugs by 2015. Besides, the report said the domestic pharma market is estimated to touch US\$ 20 billion by 2015, making India a lucrative destination for clinical trials for global giants.

Further, IMS Health India, which tracks drug sales in the country through a network of nationwide drug distributors, estimates the healthcare market in India to reach US\$ 31.59 billion by 2020.

### **Growth**

The Indian pharmaceutical market reached US\$ 10.04 billion in size, with a value-wise growth rate of 20.4 per cent over the previous year's corresponding period on a Moving Annual Total (MAT) basis for the 12 months ended July 2010, according to data from IMS Health India.

Cipla maintained its leadership position in the domestic market with 5.27 per cent share, followed by Ranbaxy. The highest growth in the domestic market was for Mankind Pharma, which grew 37.2 per cent. Leading companies in the domestic market such as Sun Pharma (25.7 per cent), Abbott (25 per cent), Zydus Cadila (24.1 per cent), Alkem Laboratories (23.3 per cent), Pfizer (23.6 per cent), GSK India (19 per cent), Piramal Healthcare (18.6 per cent) and Lupin (18.8 per cent) had impressive growth during July 2010, shows the data.

According to the All India Organisation of Chemists and Druggists (AIOCD), the pharmaceuticals industry in India will grow by over 100 per cent over the next two years.

"The people are increasingly becoming health conscious and the sell of all types of medicines, particularly anti-biotic, will zoom up in the coming years. We expect the business to double by 2012", as per JS Shinde, President, AIOCD.

According to Shinde, the pharmaceutical industry is currently growing at the rate of 12 per cent, but this will accelerate soon. The sale of all types of medicines in the country stands at US\$ 9.61 billion, which is expected to reach around US\$ 19.22 billion by 2012.

India's domestic pharmaceutical market is valued approximately at US\$ 12 billion in 2010, and has shown a strong growth of 21.3 per cent for the 12 months ending September 2010, as per consulting firm Pricewaterhouse Coopers (PwC). It estimates that over the next 10 years, the domestic market will grow to US\$ 49 billion, at a compounded annual growth rate (CAGR) of 15 per cent.

Further, a RNCOS report titled 'Booming Pharma Sector in India' projects that the formulations industry is expected to prosper parallel to the pharmaceutical industry. It is expected that the domestic formulations market in India will grow at an annual rate of around 17 per cent in 2009-10, owing to increasing middle class population and rapid urbanisation.

### **Diagnostics Outsourcing/Clinical Trials**

According to the research published by RNCOS titled 'Indian Diagnostic Market Analysis' published in January 2010, the Indian diagnostic services are projected to grow at a CAGR of more than 20 per cent during 2010-2012.

Some of the major Indian pharmaceutical firms, including Sun Pharma, Cadilla Healthcare and Piramal Life Sciences, had applied for conducting clinical trials on at least 12 new drugs in 2010, indicating a growing interest in new drug discovery research.

### **Generics**

According to Mr Srikant Kumar Jena, Union Minister of State for Chemicals and Fertilisers, India tops the world in exporting generic medicines worth US\$ 11 billion and currently, the Indian pharmaceutical industry is one of the world's largest and most developed.

Moreover, as per a press release by research firm RNCOS in May 2010, the report titled 'Booming Generics Drug Market in India' projects the Indian generic drug market to grow at a CAGR of around 17 per cent between 2010-11 and 2012-13. Mr Anand Sharma, Union Minister of Commerce and Industry and Lim Hng Kiang, Minister for Trade and Industry, Singapore , have signed a 'Special Scheme for

Registration of Generic Medicinal Products from India' in May 2010, which seeks to fast-track the registration process for Indian generic medicines in Singapore.

According to Lim Hng Kiang, "What we have agreed is that if your (Indian) generics have already cleared the regulations of one of the five countries/ regions - US, Canada, the European Union, UK or Australia - Singapore will take that as 'already cleared' and we will import it (the generic medicines) without any additional clearances."

Mr Sharma said, "This (understanding) will facilitate quick registration and approvals (of Indian generic drugs) in Singapore. It is a major movement forward. One-fourth of the world's generics come from India. This has ensured easy availability of life-saving medicines particularly where affordability has been an issue."

### **Government Initiative**

100 per cent foreign direct investment (FDI) is allowed under the automatic route in the drugs and pharmaceuticals sector including those involving use of recombinant technology. (DIPP)

The Government plans to set up a US\$ 639.56 million venture capital (VC) fund to give a boost to drug discovery and strengthen the pharma infrastructure in the country.

According to Mr Ashok Kumar, Secretary, Department of Pharmaceuticals, the Government had issued an expression of interest (EoI) for technical and financial bids for the selection of a global level consultant (GLC) for the preparation of a detailed project report (DPR) in order to develop India as a drug discovery and pharma innovation hub by 2020.

The Drugs and Pharmaceuticals Manufacturers Association has received an in-principle approval for its proposed special economic zone (SEZ) for pharmaceuticals, bulk drugs, active pharmaceutical ingredients (APIs) and formulations to be located at Nakkapalli mandal in Visakhapatnam district, according to a government press release.

According to Mr Srikant Kumar Jena, Union Minister of State for Chemicals and Fertilisers, the Department of Pharmaceuticals has prepared a "Pharma Vision 2020"

for making India one of the leading destinations for end-to-end drug discovery and innovation and for that purpose provides requisite support by way of world class infrastructure, internationally competitive scientific manpower for pharma research and development (R&D), venture fund for research in the public and private domain and such other measures.

The government plans to open 3,000 Jan Aushadhi stores, which sell unbranded generic drugs at heavy discounts to branded drugs, in the next two years

### **Investment**

The healthcare sector has attracted growing investor support in 2010 with nearly a tenth of the total private equity funding going to this sector. In the third quarter the calendar year 2010, a total of US\$ 2,047 million was invested across 88 deals, of which 9 per cent were healthcare deals, according to research firm Venture Intelligence.

Further, in October 2010, the pharma, healthcare and biotech sector witnessed five merger and acquisition transactions (M&A) worth US\$ 250 million, according to global consultancy firm Grant Thornton.

The drugs and pharmaceuticals sector has attracted FDI worth US\$ 1,825.43 million between April 2000 and September 2010, according to data published by Department of Industrial Policy and Promotion (DIPP).

Some of the major investment developments in the sector include:

- Hyderabad-based Natco Pharma plans to raise US\$ 22.22 million to fund its expansion plans and research activities.
- Private equity major Sequoia Capital has made its first investment in the pharmaceutical sector in the country by investing US\$ 15.86 million into Celon Labs, which will use the funds to double its manufacturing facility.
- Belgium based Helvoet Pharma, part of the Daetwyler Group is setting up its first greenfield production facility in Khandala Industrial Area, phase I (SEZ), on

Pune- Bangalore Highway, near Pune. The company has invested US\$ 26.56 million for the plant.

- Swiss Pharma major Lonza AG, would invest around US\$ 55.33 million through its Indian subsidiary in a phased manner in Genome Valley project, Hyderabad, said Stefan Borgas, CEO, Lonza.
- Chennai-based Bafna Pharmaceuticals plans to raise around US\$ 4.43 million for its future expansion by issuance of warrants and shares.
- Hyderabad Menzies Air Cargo Private Limited, a joint venture between GMR Hyderabad International Airport Limited (GHIAL) and Menzies Aviation, has launched India's first airport-based pharma zone, a dedicated pharmaceutical cargo storage and handling facility, at Hyderabad. The project involved an investment of US\$ 1.22 million.

### **Road Ahead**

According to a report by PwC in April 2010, India will join the league of top 10 global pharmaceuticals markets in terms of sales by 2020 with the total value reaching US\$ 50 billion.



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