

## Strong recovery continues

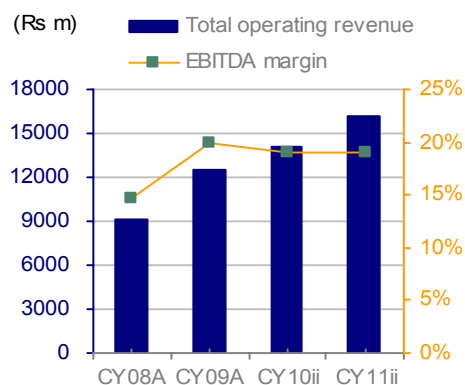
Plethico Pharma reported strong 1QCY10 numbers—revenue at Rs3.4bn (51% YoY) was in-line with our estimate, and EBITDA, at Rs722m, beat our estimate by 5%. EBITDA margin, at 21.5%, continues to show the strength of recovery from the slowdown in 2008-09. We continue to believe there is a large opportunity in the global OTC medicine and nutraceuticals market, and Plethico is well-equipped to increase its penetration in that market. Signs of stabilisation in the US business and quick ramp-up in Natrol exports and Tricon Russia businesses add to our confidence. We retain BUY and raise our price target to Rs518 from Rs440.

**Africa growth picking up, US recovers:** Plethico's Africa revenues rose 119% YoY growth in 1Q, driven by an increase in penetration of distribution chains and introduction of more products. This is the second straight strong quarter for the company's Africa business, and we believe the quarterly run rate is stabilising at the current high levels. On the other hand, the Natrol subsidiary in US recovered sharply from the declines in 2008-09 with 27% QoQ growth. The management attributed part of this to re-stocking at the retailer level.

**India and CIS support growth; new businesses take off:** The legacy India and CIS revenues grew 44% and 84% YoY, respectively. While these rates may not be sustainable, it's clear that growth is accelerating. Exports from the Natrol subsidiary in the US and sales under the new relationship with Tricon pharmacy chain network in Russia too picked up fast—together, they contributed Rs733m (21% of the quarter's topline).

**Attractive valuation:** Plethico shares trade at 8x CY10ii core earnings, at a significant discount to peer pharmaceutical / FMCG companies. We believe that stabilisation of growth and improvement in cash flows will improve valuations. Our price target of Rs518 is 9x CY10ii core earnings.

### Strong recovery from the slump



### Financial Summary

| Y/e 31 Dec                 | CY08A | CY09A  | CY10ii | CY11ii | CY12ii |
|----------------------------|-------|--------|--------|--------|--------|
| Revenues (Rs m)            | 9,090 | 12,570 | 14,077 | 16,131 | 18,450 |
| EBITDA Margins (%)         | 15%   | 20%    | 19%    | 19%    | 19%    |
| Pre-Exceptional PAT (Rs m) | 1,235 | 2,169  | 2,075  | 2,237  | 2,725  |
| Reported PAT (Rs m)        | 1,235 | 2,169  | 2,075  | 2,237  | 2,725  |
| EPS (Rs)                   | 36.2  | 63.6   | 60.8   | 65.6   | 79.9   |
| Growth (%)                 | -22.0 | 75.7   | -4.4   | 7.8    | 21.8   |
| PER (x)                    | 10.4  | 5.9    | 6.2    | 5.8    | 4.7    |
| ROE (%)                    | 16.8  | 23.0   | 18.2   | 16.5   | 16.9   |
| Debt/Equity (x)            | 0.9   | 0.7    | 0.6    | 0.4    | 0.2    |
| EV/EBITDA (x)              | 14.5  | 7.6    | 6.6    | 5.3    | 4.2    |
| Price/Book (x)             | 1.8   | 1.4    | 1.1    | 1.0    | 0.8    |

Price as at close of business on 14 May 2010

Source: Company, IIFL Research

12-mth TP (Rs) 518 (38%)

Market cap (US\$ m) 285

52Wk High/Low (Rs) 418/136

Diluted o/s shares (m) 34

Daily volume (US\$ m) 1

Dividend yield FY09ii (%) 0.7

Free float (%) 13.0

### Shareholding pattern (%)

Promoters 87.0

FII's 4.3

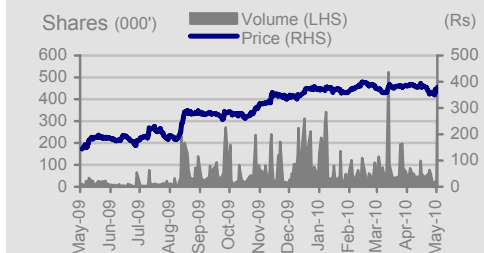
DII's 4.1

Others 4.7

### Price performance (%)

|                | 1M   | 3M  | 1Y    |
|----------------|------|-----|-------|
| Plethico       | -1.5 | 5.7 | 162.8 |
| Rel. to Sensex | 3.2  | 0.5 | 119.6 |
| Dishman        | -3.5 | 3.9 | 84.0  |
| Jubilant Organ | 1.5  | 5.4 | 154.3 |
| Opto Circuit   | 1.4  | 7.4 | 89.6  |

### Stock movement



Dr Bino Pathiparampil

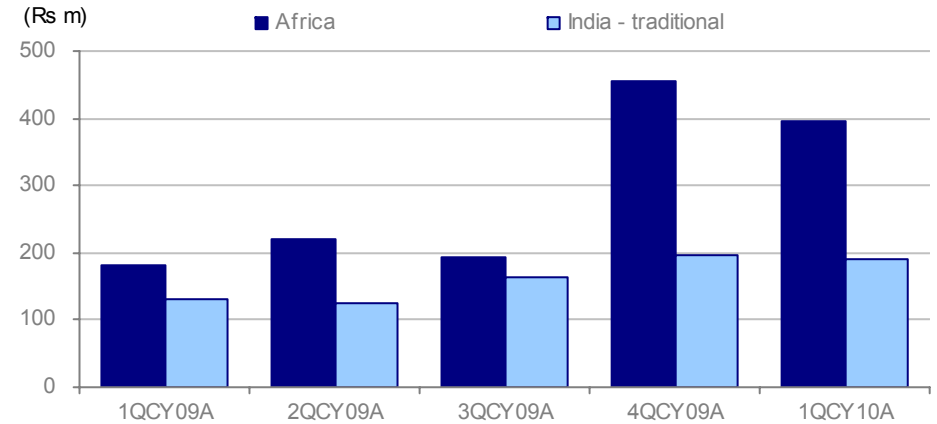
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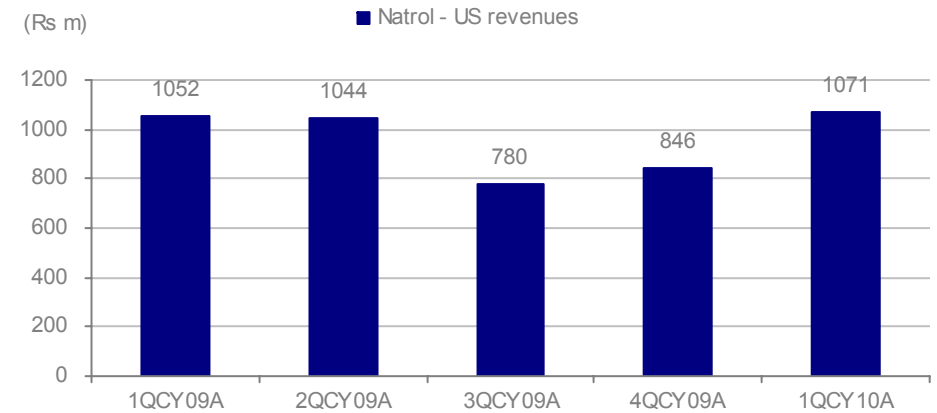
**Figure 1: Strong 1QCY10 with growth across businesses**

| Rs m                        | 1Q09A        | 4Q09A        | 1Q10A        | % YoY        | % QoQ        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| CIS – traditional           | 191          | 380          | 351          | 83.5         | -7.6         |
| Third Front                 | 553          | 808          | 631          | 14.2         | -21.9        |
| <b>Africa</b>               | <b>181</b>   | <b>456</b>   | <b>395</b>   | <b>118.6</b> | <b>-13.4</b> |
| <b>India - traditional</b>  | <b>131</b>   | <b>196</b>   | <b>189</b>   | <b>44.3</b>  | <b>-3.6</b>  |
| India - for Tricon CIS      |              | 313          | 227          | NA           | -27.5        |
| Plethico business total     | 1,056        | 2,153        | 1,886        | 78.6         | -12.4        |
| Natrol – US                 | 1,052        | 846          | 1,071        | 1.9          | 26.6         |
| Natrol – exports            | 110          | 791          | 506          | 360.8        | -36.0        |
| Natrol business total       | 1,161        | 1,637        | 1,577        | 35.8         | -3.7         |
| <b>Net sales</b>            | <b>2,217</b> | <b>3,790</b> | <b>3,353</b> | <b>51.2</b>  | <b>-11.5</b> |
| Other operating income      | 25           | 25           |              | NA           | NA           |
| Total operating revenue     | 2,217        | 3,815        | 3,353        | 51.2         | -12.1        |
| Cost of materials / goods   | 949          | 1,692        | 1,622        | 71.0         | -4.1         |
| Personnel cost              | 268          | 293          | 243          | -9.3         | -17.0        |
| Operating and other exp     | 781          | 877          | 766          | -1.9         | -12.7        |
| Total expenses              | 1,997        | 2,861        | 2,631        | 31.7         | -8.1         |
| <b>EBITDA</b>               | <b>220</b>   | <b>954</b>   | <b>722</b>   | <b>228.9</b> | <b>-24.3</b> |
| EBITDA Margin               | 9.9%         | 25.0%        | 21.5%        | 1160 bps     | (350 bps)    |
| Depreciation & amortization | 43           | 51           | 44           | 1.1          | -14.0        |
| Operating profit            | 176          | 903          | 678          | 284.6        | -24.9        |
| Operating margin            | 8.0%         | 23.7%        | 20.2%        | 1220 bps     | (350 bps)    |
| Other income                | 40           | 95           | 125          | 214.1        | 31.9         |
| Interest cost               | 78           | 78           | 71           | -9.6         | -9.0         |
| <b>PBT</b>                  | <b>138</b>   | <b>920</b>   | <b>733</b>   | <b>431.2</b> | <b>-20.3</b> |
| Total Provision for tax     | -1           | 6            | 22           | NA           | 247.5        |
| Tax rate                    | -0.5%        | 0.7%         | 3.0%         | NA           | 230 bps      |
| <b>Net profit</b>           | <b>139</b>   | <b>914</b>   | <b>711</b>   | <b>412.5</b> | <b>-22.2</b> |

Source: Company, IIFL Research

**Figure 2: Africa and India businesses have picked up significantly**


Source: Company, IIFL Research

**Figure 3: Recovery in the US business in 1QCY10**


Source: Company, IIFL Research

## Financial summary

### Income statement summary (Rs m)

| Y/e 31 Dec               | CY08A        | CY09A        | CY10ii       | CY11ii       | CY12ii       |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                  | 9,090        | 12,570       | 14,077       | 16,131       | 18,450       |
| EBITDA                   | 1,330        | 2,511        | 2,671        | 3,083        | 3,529        |
| <b>EBIT</b>              | <b>1,174</b> | <b>2,325</b> | <b>2,369</b> | <b>2,781</b> | <b>3,223</b> |
| Interest income          | 104          | 79           | 140          | 20           | 20           |
| Interest expense         | 186          | 301          | 310          | 315          | 215          |
| <b>Profit before tax</b> | <b>1,092</b> | <b>2,104</b> | <b>2,199</b> | <b>2,485</b> | <b>3,028</b> |
| Taxes                    | -142         | -66          | 125          | 249          | 303          |
| <b>Net profit</b>        | <b>1,235</b> | <b>2,169</b> | <b>2,075</b> | <b>2,237</b> | <b>2,725</b> |

### Cashflow summary (Rs m)

| Y/e 31 Dec                | CY08A         | CY09A       | CY10ii       | CY11ii       | CY12ii        |
|---------------------------|---------------|-------------|--------------|--------------|---------------|
| Profit before tax         | 1,774         | 2,104       | 2,199        | 2,485        | 3,028         |
| Depr. & amortization      | 156           | 186         | 302          | 302          | 306           |
| Tax paid                  | 136           | -66         | 125          | 249          | 303           |
| Working capital Δ         | -652          | -1,690      | -629         | -898         | -1,219        |
| Other operating items     | 237           | 222         | 170          | 295          | 195           |
| Operating cashflow        | 1,379         | 887         | 1,917        | 1,936        | 2,007         |
| Capital expenditure       | -4,860        | -300        | -300         | -300         | -300          |
| <b>Free cash flow</b>     | <b>-3,481</b> | <b>587</b>  | <b>1,617</b> | <b>1,636</b> | <b>1,707</b>  |
| Investments               | 619           | 79          | 140          | 20           | 20            |
| Debt financing/disposal   | 1,964         | -433        | 38           | -770         | -3,197        |
| Dividends paid            | -100          | -100        | -100         | -100         | -100          |
| Interest paid             | -195          | -301        | -310         | -315         | -215          |
| <b>Net change in cash</b> | <b>-1,194</b> | <b>-167</b> | <b>1,385</b> | <b>471</b>   | <b>-1,784</b> |

Source: Company data, IIFL Research

### Balance sheet summary (Rs m)

| Y/e 31 Dec                      | CY08A         | CY09A         | CY10ii        | CY11ii        | CY12ii        |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & equivalents              | 468           | 301           | 1,686         | 2,157         | 373           |
| Sundry debtors                  | 3,887         | 5,028         | 5,490         | 6,130         | 7,011         |
| Inventories - trade             | 1,215         | 1,760         | 1,971         | 2,258         | 2,583         |
| Other current assets            | 1,077         | 1,571         | 1,830         | 2,178         | 2,491         |
| <b>Fixed assets</b>             | <b>5,610</b>  | <b>5,725</b>  | <b>5,723</b>  | <b>5,721</b>  | <b>5,716</b>  |
| Intangible assets               | 2,542         | 2,542         | 2,542         | 2,542         | 2,542         |
| Other term assets               | 54            | 54            | 54            | 54            | 54            |
| <b>Total assets</b>             | <b>14,854</b> | <b>16,982</b> | <b>19,297</b> | <b>21,041</b> | <b>20,769</b> |
| Sundry creditors                | 918           | 1,408         | 1,711         | 2,088         | 2,387         |
| Long-term debt/CBs              | 6,816         | 6,383         | 6,420         | 5,651         | 2,454         |
| Other long-term liabs           | -239          | -239          | -239          | -239          | -239          |
| <b>Net worth</b>                | <b>7,360</b>  | <b>9,430</b>  | <b>11,405</b> | <b>13,542</b> | <b>16,167</b> |
| <b>Total liabs &amp; equity</b> | <b>14,854</b> | <b>16,982</b> | <b>19,297</b> | <b>21,041</b> | <b>20,769</b> |

### Ratio Analysis

| Y/e 31 Dec             | CY08A | CY09A | CY10ii | CY11ii | CY12ii |
|------------------------|-------|-------|--------|--------|--------|
| Revenue growth (%)     | 63.7  | 38.3  | 12.0   | 14.6   | 14.4   |
| Op Ebitda growth (%)   | -18.5 | 88.8  | 6.4    | 15.4   | 14.5   |
| Op Ebit growth (%)     | 12.9  | 98.0  | 1.9    | 17.4   | 15.9   |
| Op Ebitda margin (%)   | 14.6  | 20.0  | 19.0   | 19.1   | 19.1   |
| Op Ebit margin (%)     | 12.9  | 18.5  | 16.8   | 17.2   | 17.5   |
| Net profit margin (%)  | 13.6  | 17.3  | 14.7   | 13.9   | 14.8   |
| Dividend payout (%)    | 6.9   | 3.9   | 4.1    | 3.8    | 3.1    |
| Tax rate (%)           | -13.0 | -3.1  | 5.7    | 10.0   | 10.0   |
| Net debt/equity (%)    | 86.2  | 64.5  | 41.5   | 25.8   | 12.9   |
| Net debt/op Ebitda (x) | 4.8   | 2.4   | 2.4    | 1.8    | 0.7    |
| Return on equity (%)   | 16.8  | 23.0  | 18.2   | 16.5   | 16.9   |
| ROCE (%)               | 8.4   | 14.9  | 13.5   | 14.7   | 17.5   |
| Return on assets (%)   | 8.3   | 12.8  | 10.8   | 10.6   | 13.1   |

Source: Company data, IIFL Research



### Key to our recommendation structure

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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