

July 21, 2010

### HOLD

Price	Target Price
Rs 194	Rs 209
Sensex	17,878

### Price Performance

(%)	1M	3M	6M	12M
Absolute	11	(9)	(14)	54
Rel. to Sensex	9	(12)	(16)	31

Source: Bloomberg

### Stock Details

Sector	Pharmaceuticals
Reuters	GRAN.BO
Bloomberg	PNCB@IN
Equity Capital (Rs mn)	67
Face Value (Rs)	1
No of shares o/s (mn)	67
52 Week H/L (Rs)	248/119
Market Cap (Rs bn /USD mn)	13/274
Daily Avg Vol (No of shares)	217258
Daily Avg Turnover (US\$ mn)	0.9

### Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	68.7	68.7	68.7
FII/NRI	13.1	12.7	13.2
Institutions	0.7	3.7	3.8
Private Corp	11.2	9.6	9.3
Public	6.3	5.3	5.0

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- **Favorable product mix has resulted better than expected growth in APAT to Rs339mn vs. our estimate of Rs170mn.**
- **Revenue at Rs2.58bn (up 43%) was in-line with our expectations driven by a) 46% growth in vaccines (Easyfive contributed revenue of Rs880mn) and b) 43% growth in pharma formulation business.**
- **On the back of increased contribution of high margin Easyfive vaccine, OPM for the quarter was at 23.8% (down 200bps YoY) vs. expectations of 19.4%.**
- **Lower tax provision (8% vs. est. of 25%) and lower interest cost (Rs88mn vs. Rs98mn) has resulted an EPS of Rs5.1 (up 160% YoY). We maintain our earning estimates of Rs17.1/ Rs22.8 for FY11E/ FY12E and retain Hold rating.**

### 43% revenue growth is aided by strong traction across the segment

Panacea has reported robust revenue growth of 43% largely driven by a) strong traction in Easyfive (Rs880mn vs. Rs187mn in Q1FY10) and BOPV vaccine (Rs350mn) which resulted 46% growth in vaccine business and b) commencement of supply of organ transplant products in Lat Am countries which resulted in 406% growth in export pharma formulation segment. Domestic pharma business for the quarter grew by 14%. The supply of Easyfive to UNICEF under new contract began from Jan'10 onwards and company has a long term contract worth US\$222mn to be executed till Dec'2012.

### Segment wise revenue break-up

Segment	Q12011	Q12010	Gr Y-o-Y	Q42010	Gr Q-o-Q
TOPV1	186.8	795.1	-77%	1180	-84%
MOPV1	207.9	0		250	-17%
MOPV3	56.9	160.6	-65%	80	-29%
BOPV	350	0	NA	420	-17%
Easy five	880	187	371%	560	57%
JV	80.8	61.8	31%	40	102%
others	0	0		70	-100%
<b>Total</b>	<b>1762.4</b>	<b>1204.5</b>	<b>46%</b>	<b>2600</b>	<b>-32%</b>
<b>Pharma</b>	<b>777</b>	<b>568</b>	<b>37%</b>	<b>591.6</b>	<b>31%</b>
<b>Total</b>	<b>2539.4</b>	<b>1772.5</b>	<b>43%</b>	<b>3191.6</b>	<b>-20%</b>

### Favorable product mix improved operating performance

Though operating margins for the quarter were down by 200bps to 23.8% mainly on account of higher overages in OPV vaccine but they were better than our expectations (19.4%). This is largely driven by improved contribution of high margin Easyfive and BOPV vaccine and lower contribution of low margin TOPV vaccine. On QoQ basis, operating margins expanded by 850bps. Despite 520 and 180bps reduction in other expenditures and employee cost, the 200bps YoY reduction in employee cost was largely because of 850bps increase in raw material cost.

### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Cr)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBIT	P/B
									DA	V
FY09	7,882	1,585	20.1	753	11.3	(41.6)	12.4	17.1	9.7	2.1
FY10	9,256	1,505	16.3	765	11.5	1.6	11.2	16.9	10.0	1.9
FY11E	11,780	2,516	21.4	1,142	17.1	49.3	15.9	11.3	6.8	1.8
FY12E	12,697	3,137	24.7	1,520	22.8	33.1	17.6	8.5	4.7	1.5

**160% growth in APAT driven by strong operating performance & lower tax provision**

The PBT for the quarter was up by 74% to Rs368mn driven by robust revenue growth and strong operating performance. This coupled with lower tax provision (8% vs. est. of 24%) and interest cost (down by 13%) has resulted 160% growth in APAT to Rs339mn. Management has indicated that lower tax provision was mainly because of utilization of MAT credit. However for FY11E as a whole, they have guided 23% tax rate. Similarly, on interest front, company expects the cost to rise in the coming quarters because of high working capital utilization.

**Announced buy-back of 5.5mn shares at a price not exceeding Rs229**

Panacea Biotec has recently announced the buy-back up to maximum of 5.59mn shares (8.3% of existing equity) at a price not exceeding Rs229. Company has already got the SEBI approval for the same. The total outlay for this buy back would be in the range of Rs1bn to 1.25bn and it will be done through both internal accruals as well as external funds. As of now, we are not factoring any change in our number.

**Maintain earning estimates and Hold rating with a price target of Rs209**

Despite better than expected operating performance, we are not changing our earning estimates because of uncertainty in product mix associated with OPV vaccine. With Easyfive supply already commissioned, we expect a significant jump in revenue in next two years. This will not only improve the top-line of the company but also have positive impact on the bottom-line as realization in Easyfive is even higher than MOPV vaccines. However, because of lower realization in OPV vaccines due to overages, we maintain our earning estimates of Rs17.1 and Rs22.8 for FY11E and FY12E respectively. We retain our Hold rating on the stock with a target price of Rs209. At CMP of Rs194, the stock is trading at 11.3x FY11E and 8.5x FY12E.

## Income Statement

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)	YTD'10	YTD'09	YoY (%)
<b>Revenue</b>	<b>1,809</b>	<b>1,701</b>	<b>2,314</b>	<b>3,287</b>	<b>2,584</b>	42.9	(21.4)	<b>2,584</b>	<b>1,809</b>	42.9
<b>Expenditure</b>	<b>1,352</b>	<b>1,409</b>	<b>1,908</b>	<b>2,783</b>	<b>1,970</b>	45.7	(29.2)	<b>1,970</b>	<b>1,352</b>	45.7
<i>as % of sales</i>	74.7	82.8	82.5	84.7	76.2			<b>76</b>	<b>75</b>	
Consumption of RM	697	729	1,279	1,976	1,214	74.2	(38.6)	<b>1,214</b>	<b>697</b>	74.2
<i>as % of sales</i>	38.5	42.9	55.3	60.1	47.0			<b>47</b>	<b>39</b>	
Employee Cost	231	271	244	244	285	23.3	16.8	<b>285</b>	<b>231</b>	23.3
<i>as % of sales</i>	12.8	15.9	10.6	7.4	11.0			<b>11</b>	<b>13</b>	
Other expenditure	424	409	385	563	471	11.1	(16.4)	<b>471</b>	<b>424</b>	11.1
<i>as % of sales</i>	23.4	24.0	16.6	17.1	18.2			<b>18</b>	<b>23</b>	
<b>EBITDA</b>	<b>457</b>	<b>292</b>	<b>406</b>	<b>504</b>	<b>615</b>	34.5	22.0	<b>615</b>	<b>457</b>	34.5
Depreciation	161	162	164	178	174	8.2	(2.4)	<b>174</b>	<b>161</b>	8.2
<b>EBIT</b>	<b>296</b>	<b>130</b>	<b>242</b>	<b>326</b>	<b>441</b>	48.7	35.3	<b>441</b>	<b>296</b>	48.7
Other Income	13	-	11	17	13	(0.8)	(27.6)	<b>13</b>	<b>13</b>	(0.8)
Interest	98	100	86	99	86	(12.6)	(13.4)	<b>86</b>	<b>98</b>	(12.6)
<b>PBT</b>	<b>211</b>	<b>30</b>	<b>167</b>	<b>244</b>	<b>368</b>	74.1	50.5	<b>368</b>	<b>211</b>	74.1
Total Tax	81	9	94	197	28	(64.9)	(85.6)	<b>28</b>	<b>81</b>	(64.9)
<b>Adjusted PAT</b>	<b>130</b>	<b>21</b>	<b>73</b>	<b>183</b>	<b>339</b>	160.5	85.2	<b>339</b>	<b>130</b>	160.5
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			<b>0</b>	<b>0</b>	
<b>APAT after MI</b>	<b>130</b>	<b>21</b>	<b>73</b>	<b>183</b>	<b>339</b>	160.5	85.2	<b>339</b>	<b>130</b>	160.5
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>528</b>	<b>14</b>		(97.4)	<b>14</b>	<b>0</b>	
<b>Reported PAT</b>	<b>130</b>	<b>21</b>	<b>73</b>	<b>574</b>	<b>326</b>	149.9	(43.3)	<b>326</b>	<b>130</b>	149.9
<b>Reported EPS</b>	<b>1.9</b>	<b>0.3</b>	<b>1.1</b>	<b>2.7</b>	<b>5.1</b>	160.0	84.8	<b>5</b>	<b>2</b>	160.0
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EBIDTA	25.3	17.2	17.5	15.3	23.8	(150)	850	<b>23.8</b>	<b>25.3</b>	(150)
EBIT	16.4	7.7	10.4	9.9	17.1	70	720	<b>17.1</b>	<b>16.4</b>	70
EBT	11.7	1.8	7.2	7.4	14.2	250	680	<b>14.2</b>	<b>11.7</b>	250
PAT	7.2	1.3	3.2	5.6	13.1	590	750	<b>13.1</b>	<b>7.2</b>	590
Effective Tax rate	38.3	29.7	56.0	80.6	7.7			<b>7.7</b>	<b>38.3</b>	-

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>Net Sales</b>	<b>7,882</b>	<b>9,256</b>	<b>11,780</b>	<b>12,697</b>
<i>Growth (%)</i>	(6.3)	17.4	27.3	7.8
<b>Expenditure</b>	<b>6,296</b>	<b>7,750</b>	<b>9,264</b>	<b>9,560</b>
Materials Consumed	2,686	4,720	5,964	6,186
Employee Cost	957	1,036	1,100	1,187
Other Exp	2,653	1,994	2,200	2,187
<b>EBITDA</b>	<b>1,585</b>	<b>1,505</b>	<b>2,516</b>	<b>3,137</b>
<i>Growth (%)</i>	(23.6)	(5.0)	67.1	24.7
<b>EBITDA margin (%)</b>	<b>20.1</b>	<b>16.3</b>	<b>21.4</b>	<b>24.7</b>
Depreciation	545	676	719	746
<b>EBIT</b>	<b>1,040</b>	<b>830</b>	<b>1,797</b>	<b>2,390</b>
<b>EBIT margin (%)</b>	<b>13.2</b>	<b>9.0</b>	<b>15.3</b>	<b>18.8</b>
Other Income	312	47	95	98
Interest expenses	348	385	408	454
<b>PBT</b>	<b>1,004</b>	<b>492</b>	<b>1,483</b>	<b>2,034</b>
<b>Tax</b>	<b>-207</b>	<b>404</b>	<b>341</b>	<b>514</b>
<i>Effective tax rate (%)</i>	(20.6)	82.0	23.0	25.3
<b>Adjusted PAT</b>	<b>753</b>	<b>765</b>	<b>1,142</b>	<b>1,520</b>
<i>Growth (%)</i>	(41.6)	1.6	49.3	33.1
<b>Net Margin (%)</b>	<b>9.6</b>	<b>8.3</b>	<b>9.7</b>	<b>12.0</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>753</b>	<b>765</b>	<b>1,142</b>	<b>1,520</b>
E/O items (net of Tax)	(1,412)	476	-	-
<b>Reported PAT</b>	<b>-660</b>	<b>724</b>	<b>1,142</b>	<b>1,520</b>
<i>Growth (%)</i>	(29.6)	95.2	12.8	9.5

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>-867</b>	<b>1,127</b>	<b>1,483</b>	<b>2,034</b>
Depreciation	545	676	719	746
Interest Provided	348	385	408	454
Other Non-Cash items	-	-	-	-
Chg in working cap	(310)	(954)	(1,092)	(199)
Tax paid	207	-404	-341	-514
<b>Operating Cashflow</b>	<b>-77</b>	<b>830</b>	<b>1,177</b>	<b>2,522</b>
Capital expenditure	(2,516)	(123)	(200)	(700)
<b>Free Cash Flow</b>	<b>-2,593</b>	<b>707</b>	<b>977</b>	<b>1,822</b>
Other income	312	47	95	98
Investments	(548)	-	-	-
<b>Investing Cashflow</b>	<b>-236</b>	<b>47</b>	<b>95</b>	<b>98</b>
Equity Capital Raised	0	0	-800	0
Loans Taken / (Repaid)	3,044	(800)	284	(1,300)
Interest Paid	(348)	(385)	(408)	(454)
Dividend paid (incl tax)	-	(20)	(39)	(78)
Income from investments	-	-	-	-
Others	-352	48	48	0
<b>Financing Cashflow</b>	<b>2,344</b>	<b>-1,156</b>	<b>-915</b>	<b>-1,833</b>
<b>Net chg in cash</b>	<b>-485</b>	<b>-403</b>	<b>156</b>	<b>87</b>
Opening cash position	1,547	748	299	360
<b>Closing cash position</b>	<b>748</b>	<b>299</b>	<b>360</b>	<b>350</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity share capital	67	67	67	67
Reserves & surplus	6,005	6,757	7,108	8,550
<b>Net worth</b>	<b>6,072</b>	<b>6,824</b>	<b>7,175</b>	<b>8,617</b>
<b>Minority Interest</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29</b>
Secured Loans	328	28	1,528	528
Unsecured Loans	6,703	6,203	4,986	4,686
<b>Loan Funds</b>	<b>7,030</b>	<b>6,230</b>	<b>6,514</b>	<b>5,214</b>
Net deferred tax liability	335	335	335	335
<b>Total Liabilities</b>	<b>13,465</b>	<b>13,417</b>	<b>14,052</b>	<b>14,194</b>
Gross Block	9,026	9,926	10,626	11,326
Less: Depreciation	2,213	2,889	3,608	4,354
<b>Net block</b>	<b>6,813</b>	<b>7,037</b>	<b>7,018</b>	<b>6,971</b>
Capital work in progress	1,777	1,000	500	500
<b>Investment</b>	<b>701</b>	<b>701</b>	<b>701</b>	<b>701</b>
<b>Current Assets</b>	<b>7,725</b>	<b>6,403</b>	<b>7,846</b>	<b>8,156</b>
Inventories	4,513	2,809	3,744	3,865
Sundry debtors	1,202	2,063	2,509	2,708
Cash & bank balance	748	299	360	350
Loans & advances	1,233	1,233	1,233	1,233
Other current assets	29	-	-	-
<b>Current lia &amp; Prov</b>	<b>3,554</b>	<b>1,728</b>	<b>2,017</b>	<b>2,138</b>
Current liabilities	1,693	1,615	1,914	1,975
Provisions	1,861	113	103	162
<b>Net current assets</b>	<b>4,171</b>	<b>4,676</b>	<b>5,830</b>	<b>6,018</b>
Misc. exp	4.2	4.2	4.2	4.2
<b>Total Assets</b>	<b>13,465</b>	<b>13,417</b>	<b>14,052</b>	<b>14,194</b>

## Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	20.1	16.3	21.4	24.7
Net Margin	9.6	8.3	9.7	12.0
ROCE	8.3	6.2	13.1	16.9
ROE	12.4	11.2	15.9	17.6
<b>Per Share Data (Rs)</b>				
EPS	11.3	11.5	17.1	22.8
CEPS	17.7	15.6	27.9	36.9
BVPS	90.9	102.2	107.4	129.0
DPS	-	0.3	0.5	1.0
<b>Valuations (x)</b>				
PER	17.1	16.9	11.3	8.5
P/CEPS	10.9	12.3	6.9	5.2
P/BV	2.1	1.9	1.8	1.5
EV / Sales	1.9	1.6	1.5	1.2
EV / EBITDA	9.7	10.0	6.8	4.7
Dividend Yield (%)	0%	13%	13%	13%
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.0	0.9	0.9	0.6
Net Debt/EBIDTA	4.0	3.9	2.4	1.5
Working Cap Cycle (days)	158.5	172.6	169.5	160.4

**Recommendation History: Panacea Biotec – PNCB IN**

Date	Reports	Reco	CMP	Target
12.05.2010	<a href="#">Panacea Biotec Q4FY10 Result Update</a>	Hold	188	209
02.02.2010	<a href="#">Panacea Biotec Q3FY10 Result Update</a>	Buy	213	270
30.10.2009	<a href="#">Panacea Biotec Q2FY10 Result Update</a>	Buy	157	225
31.07.2009	<a href="#">Panacea Biotec Q1FY10 Result Update</a>	Buy	155	173

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
09.07.2010	<a href="#">Jubilant Organosys Event Update</a>	Buy	378	455
02.07.2010	<a href="#">Dr Reddy's Management Meet Update</a>	Buy	1440	1543
01.07.2010	<a href="#">Divis Lab Management Meet Update</a>	Buy	779	852
01.06.2010	<a href="#">Disman Q4FY10 Result Update</a>	Hold	204	224

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