Unichem Laboratories Limited

Quarterly Update

Pharmaceutical Generic

Unichem Labs continues to show good growth in export formulation segment. We are confident that restructuring of domestic business with the turnaround of international operation will be value-enhancing in the long run. As per the management, the company is negotiating generic supply contracts from Ghaziabad formulation and Baddi Cephalosporin blocks with one of the leading global generic companies with the revenues expected to start flowing in from FY12 onwards. We expect revenue contribution from Ghaziabad formulation to contribute around ₹ 600mn- ₹ 800mn in FY12 & around ₹1bn in FY13.

Exports to see good momentum; domestic business to remain subdued

Unichem reported 2.4% growth in revenue to ₹1.78bn in Q4FY11 driven by a) 8.2% degrowth in domestic business and b) 50% growth in exports business. Domestic formulation business degrew by 7% on account of destocking of inventory at distributors end. The company is focusing on improving its working capital cycle and supplying to C&F agents to reduce dependency on distributors due to which domestic sales is expected to be under pressure for next two quarters. Export formulation business reported a robust growth of 70.7% YoY in Q4FY11. The company got the approval of 10 ANDAs out of 17 ANDAs filed and 7 ANDAs have been launched so far in FY11 which is expected to contribute around US$7-8mn in FY12. We expect Domestic segment to grow by 7.3% and 12% in FY12E & FY13E respectively. Consolidated Export segment is expected to grow by 38% and 31% in FY12E & FY13E respectively. Overall Revenues would grow at a CAGR of 15% over FY11-13E.

Margins to remain under pressure due to destocking of inventory

Ebitda margins declined by 1068bps YoY and 672bps QoQ to 13.3% in Q4FY11. The margin pressure was mainly driven by a) lower domestic sales b) employee addition and c) 18% increase in other expenditure on account of higher marketing cost and commercialization of new facilities. Going forward, we expect operating margins to remain under pressure for the next 2-3 quarters due to inventory rationalization, increase in field force and ongoing commissioning of facilities. We expect EBITDA margins to decline to 16.4% in FY12E (from 18.2% in FY11) on account of increased expenditure from both domestic and export business. PAT margins declined by 1074bps YoY and 454bps to 8.4% in Q4FY11 due to lower EBITDA and 27% increase in depreciation cost. EPS for the quarter stood at ₹1.6.

International operations' turnaround is on track:

UK subsidiary, Niche Generics reported sales of GBP 10.04mn & modest net loss of GBP 0.79mn for FY11 while USA subsidiary recorded sales of US$2.98mn and net loss of US$0.92 mn in the same period. Niche generic commenced launch of Anastrazole (anti-cancer drug at the end of FY11. We expect Niche Generics to breakeven and US subsidiary to show marginal loss in FY12E.

Financial Performance

Particulars	FY09	FY10	FY11	FY12E	FY13E
Sales (₹ Mn)	7,352	7,473	8,240	9,281	10,908
Growth (YoY)	9.5%	1.6%	10.3%	12.6%	17.5%
EBITDA Margins	19.3%	23.2%	18.2%	16.4%	18.8%
APAT (₹ Mn)	1,045	1,249	952	1,000	1,396
APAT Margins	14.2%	16.7%	11.5%	10.8%	12.8%
EPS	11.6	13.8	10.5	11.1	15.5
P/E	12.1	10.6	13.7	13.0	9.3
EV/EBITDA	9.2	7.6	8.9	8.7	6.4

Source: Company, ULJK Research

Accumulate

UL.IN, UNLB.BO

CMP: ₹144.3

Price Target: ₹171

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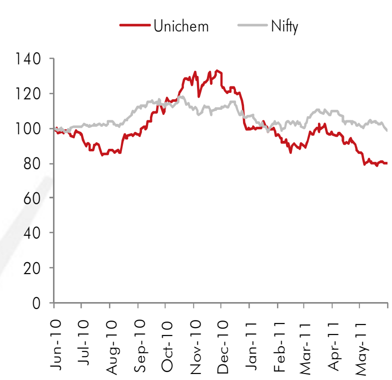
ULJK Financial Services Private Limited

Market Data

Market Data	
Market Cap (₹ Mn)	13023
Outstanding Shares (Mn)	90.3
52 Week High/Low (₹)	269/143
Avg. Volume	40400
Face Value	2

Shareholding	%
Promoter	48.65
MF/Banks/Indian FIs	9.92
FII/NRIs/OCB	6.75
Indian Public/Others	34.68

Nifty and Stock Movement



Please refer to the important disclosures and analyst certifications at the end of the document

Q4FY11 Quarterly Update

Particulars(₹Mn)	Q4FY11	Q4FY10	y-o-y	Q3FY11	q-o-q	FY11	FY10	y-o-y
Net Sales	1,762	1,716	3%	1,951	-10%	8,172	7,406	10%
Other Operating income	19	23	-17%	20	-6%	69	68	2%
Total Sales	**1,781**	**1,739**	**2%**	**1,971**	**-10%**	**8,241**	**7,474**	10%
Consumption of RM	651	560	16%	671	-3%	2761	2518	10%
as % of sales	37%	33%	400 bps	34%	300 bps	34%	34%	(20) bps
Employee Cost	243	212	14%	278	-12%	1365	1133	20%
Other Expenditure	650	550	18%	629	3%	2614	2114	24%
Total Expenditure	**1,545**	**1,322**	**17%**	**1,577**	**-2%**	**6,740**	**5,765**	**17%**
EBITDA	**236**	**416**	**-43%**	**394**	**-40%**	**1,501**	**1,709**	**-12%**
EBITDA Margins	13%	24%	(1068) bps	20%	(672) bps	18%	23%	(464) bps
Depreciation	71	56	27%	69	3%	292	232	26%
EBIT	166	360	-54%	325	-49%	1,209	1,476	-18%
EBIT margins	9%	21%	(1144) bps	17%	(721) bps	14.7%	19.8%	(510) bps
Other Income	20	34	-41%	13	56%	69	66	3%
Interest	0	1	-112%	2	-105%	9	10	-10%
PBT	186	394	-53%	336	-45%	1,268	1,532	-17%
Total Tax	35	60	-41%	80	-56%	316	304	4%
RPAT	148	339	-56%	256	-42%	950	1,231	-23%
Extra ordinary items	-2.0	5.5	-137%	0	-	-1.89	3.349	-156%
APAT	**150**	**334**	**-55%**	**256**	**-41%**	**952**	**1,228**	**-22%**
APAT margins	8%	19%	(1074)bps	13%	(454) bps	11.6%	16.4%	(480) bps
AEPS	1.67	3.76	-56%	2.84	-41%	10.6	13.6	-22%
bps: basis points								

Source: Company, ULJK Research

Revenue Break-up (₹Mn)	Q4FY11	Q4FY10	y-o-y	Q3FY11	q-o-q	FY11	FY10	y-o-y
Domestic	**1,278**	**1,392**	**-8%**	**1,547**	**-17%**	**5,978**	**5,576**	**7%**
Formulations	1,222	1,314	-7%	1,491	-18%	5,758	5,356	7%
API	56	78	-29%	57	-1%	220	220	0%
Exports	**484**	**323**	**50%**	**403**	**20%**	**1,600**	**1,262**	**27%**
Formulations	349	204	71%	268	30%	1,118	836	34%
API	135	119	14%	135	0%	483	426	13%
Total Sales	**1,762**	**1,716**	**3%**	**1,951**	**-10%**	**7,578**	**6,838**	**11%**

Source: Company, ULJK Research

Outlook and Valuation

We remain confident about company's future prospects driven by strong growth in export segment and expect its UK subsidiary to breakeven in FY12. We upgrade revenue estimates marginally by 0.1% and 3% for FY12E and FY13E respectively. However, on account of lower domestic sales and increased expenses from field force ramp up & export business, we expect EBITDA margins to decline to 16.4% in FY12E and recover to 19.8% in FY13E. Owing to lower EBITDA margins we downgrade our EPS estimates by 33% and 18% respectively for FY12E & FY13E respectively. We value the company on 11x FY13E EPS of ₹.15.5 to arrive at a target price of 171 and recommend ACCUMULATE on the stock . At CMP of ₹ 144.3, the stock is trading at 13x FY12E EPS of ₹11.1 and 9.3x FY13E EPS of ₹15.5.

	Old Financials			New Financials			% Change		
	FY11	FY12	FY13	FY11	FY12	FY13	FY11	FY12	FY13
Sales	8,197	9,272	10548	8,240	9,281	10,908	1%	0%	3%
EBITDA	1,843	2,114	2384	1,501	1,526	2,053	-19%	-28%	-14%
PAT	1,282	1,491	1696	952	1,000	1,396	-26%	-33%	-18%
EPS	14.3	16.6	18.9	10.6	11.1	15.5	-26%	-33%	-18%
Target Price			245			171			-30%

Financial Statements

Rs in Millions

Income Statement

Y/E, Mar (₹mn)	FY09	FY10	FY11	FY12E	FY13E
Total Sales	**7,352**	**7,473**	**8,240**	**9,281**	**10,908**
Growth (%)	9.5%	1.6%	10.3%	12.6%	17.5%
Total Expenditure	5,930	5,743	6,740	7,755	8,855
EBITDA	**1,422**	**1,730**	**1,501**	**1,526**	**2,053**
Growth (%)	64.7%	21.7%	-13.3%	1.7%	34.5%
EBITDA margin (%)	**19.3%**	**23.2%**	**18.2%**	**16.4%**	**18.8%**
Depreciation	224	232	292	311	334
EBIT	1,198	1,498	1,209	1,215	1,719
EBIT margin (%)	16.3%	20.0%	14.7%	13.1%	15.8%
Other Income	51	66	69	77	81
Interest expenses	19	10	9	10	10
PBT	1,230	1,554	1,268	1,282	1,789
Tax	192	304	316	282	394
Effective tax rate (%)	15.6%	19.6%	24.9%	22.0%	22.0%
RPAT	1,080	1,231	950	1,000	1,396
E/O items	-1.4	3.3	-1.9	0.0	0.0
APAT	**1,045**	**1,249**	**952**	**1,000**	**1,396**
Net Margin (%)	**14.2%**	**16.7%**	**11.5%**	**10.8%**	**12.8%**

Cash Flow

Y/E, Mar (₹mn)	FY09	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	1,223	1,466	1,199	1,205	1,709
Operating Cashflow	**997**	**1,312**	**594**	**1,044**	**1,149**
Capital expenditure	-577	-435	-887	-704	-867
Free Cash Flow	**419**	**878**	**-293**	**339**	**283**
Other income	51	66	69	77	81
Investments	-9	-582	379	0	0
Investing Cashflow	**-536**	**-950**	**-439**	**-627**	**-786**
Equity Capital Raised	-13	-26	21	1	0
Loans Taken / (Repaid)	154	-40	142	33	13
Interest Paid	-19	-10	-9	-10	-10
Dividend paid (incl tax)	-337	-421	-422	-320	-314
Income from investments	0	0	0	0	0
Others	-1	27	29	0	0
Financing Cashflow	**-217**	**-470**	**-239**	**-296**	**-311**
Net chg in cash	**243**	**-107**	**-85**	**121**	**52**
Opening cash position	101	344	236	152	273
Closing cash position	344	236	152	273	325

Balance Sheet

Y/E, Mar (₹ mn)	FY09	FY10	FY11P	FY12E	FY13E
Equity share capital	180	180	180	180	180
Reserves & surplus	4,664	5,449	5,997	6,678	7,760
Net worth	**4,844**	**5,629**	**6,177**	**6,858**	**7,940**
Secured Loans	135	123	173	160	148
Unsecured Loans	263	236	328	373	398
Loan Funds	**397**	**359**	**501**	**533**	**546**
Net deferred tax liability	324	347	378	378	378
Total Liabilities	**5,565**	**6,334**	**7,056**	**7,770**	**8,864**
Gross Block	4,141	4,646	5,926	6,566	7,369
Less: Depreciation	1,133	1,312	1,545	1,806	2,100
Net block	**3,008**	**3,334**	**4,381**	**4,760**	**5,269**
Capital work in progress	**759**	**636**	**183**	**197**	**221**
Investment	10	592	213	213	213
Current Assets	**3,251**	**3,445**	**4,036**	**4,543**	**5,251**
Inventories	1,034	1,095	1,503	1,588	1,869
Sundry debtors	1,516	1,670	1,857	2,093	2,463
Cash & bank balance	344	236	152	273	325
Loans & advances	357	444	524	589	595
Current lia & Prov	**1,463**	**1,673**	**1,757**	**1,943**	**2,091**
Current liabilities	1,171	1,316	1,391	1,605	1,736
Provisions	292	356	366	338	355
Net current assets	**1,788**	**1,772**	**2,278**	**2,600**	**3,160**
Total Assets	**5,565**	**6,334**	**7,056**	**7,770**	**8,864**

Source: Company, ULJK Research

Key ratios

Y/E, Mar	FY09	FY10	FY11P	FY12E	FY13E
Leverage Ratios					
Debt/Equity	0.1	0.1	0.1	0.1	0.1
Interest coverage Ratio	66	150	137	130	176
Per share data					
Basic EPS	11.6	13.8	10.5	11.1	15.5
Cash EPS	14.0	16.4	13.8	14.5	19.2
DPS	3.2	4.0	4.0	3.0	3.0
BVPS	53.7	62.4	68.5	76.0	88.0
Valuation Ratios					
P/E	12.1	10.6	13.7	13.0	9.3
P/BV	2.7	2.3	2.1	1.9	1.6
EV/EBIDTA	9.2	7.6	8.9	8.7	6.4
EV/Sales	1.8	1.8	1.6	1.4	1.2
Profitability Ratios					
EBIDTA Margins	19.3%	23.2%	18.2%	16.4%	18.8%
PAT Margins	14.2%	16.7%	11.5%	10.8%	12.8%
RoCE	26.0%	27.9%	20.2%	18.4%	22.7%
RoE	23.3%	23.8%	16.1%	15.3%	18.9%
Growth Ratios					
Sales	9.5%	1.6%	10.3%	12.6%	17.5%
PAT	85.9%	19.5%	-23.8%	5.1%	39.6%

Research Desk	Tel: 022 - 3028 4719

Institutional Sales Desk	Tel: 022 - 2272 1687

Disclosure Appendix

ULJK Financial Services Pvt Ltd: (Time range– 12 months)
BUY: Returns>20%; **ACCUMULATE**: 5%<Returns<20% ; **HOLD**: -5%<Returns<5%, **REDUCE** -20%<Returns<-5% and **SELL**: Returns<-20%

Analyst(s) holding in the Stock : Nil

Analyst Certification

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