



Unichem Laboratories Ltd.

STOCK INFO.	BLOOMBERG
BSE Sensex:18,311	UL.IN
S&P CNX:5,505	REUTERS CODE
	UNLB.BO

25 August 2010

Buy

Initiating Coverage

₹430

(Consolidated)	₹ CRORES		
Y/E MARCH	FY10A	FY11E	FY12E
Net sales	747	811	907
EBITDA	178	212	247
RPAT	122	148	172
BV/Share (₹)	156	184	217
Adj. EPS (₹)	34	41	48
EPS growth (%)	12	20	17
P/E (x)	12.6	10.5	9.0
P/BV (x)	2.8	2.3	2.0
EV/EBITDA (x)	8.7	7.3	6.3
Div yld (x)	2.3	2.6	3.0
ROE (%)	23	24	24
RoCE (%)	26	27	27

STOCK DATA

52-W High/Low Range (₹)	507/215
Major Shareholders (as of March 2010)	
Promoter	48.4
FII & DII	16.3
Public & Others	35.3
Average Daily Turnover(6 months)	
Volume	23026
Value (₹cr)	0.99
1/6/12 Month Rel. Performance (%)	3/13/2022
1/6/12 Month Abs. Performance (%)	-9/26/103
Shares Outstanding (cr)	3.6
Market Cap. (₹cr)	1548
Market Cap. (US\$ m)	332
Past 3 yrs Sales Growth (%)	6
Past 3 yrs NP Growth (%)	21

Maximum Buy Price : ₹450

GROWTH DRIVERS

To gain from strong demand growth: The Indian pharmaceuticals industry is likely to grow at 12-15% compounded average growth rate (CAGR) over FY10-FY12E after having grown by 14% CAGR over the last 15 years. Unichem's domestic business, which contributed 81.5% to revenues in FY10, had a market share of 1.5% and is currently ranked 25th. The company plans to add 700 medical representatives over FY10-FY12E to grow in line with industry growth rates.

Strong brands power domestic growth: Ampoxin (₹83 cr, Rank 30th, Anti-infective), and cardiovascular drugs Losar-H (₹60 cr, Rank 61st) and Losar (₹56 cr, Rank 73rd) were among the top 100 Indian pharmaceutical brands during MAT March, 2010. Unichem has a presence in only 25% of therapeutic segments in the Indian market and is working on expanding its therapeutic coverage. This planned coverage expansion and strong presence in the fast growing Cardiovascular, Diabetes and Neurology segments is estimated to grow the domestic formulations business by 13.5% CAGR over FY10-FY12.

US to constitute 4% of FY12E revenues: Unichem entered the US market in FY10 with 4 products. Current approvals by USFDA stand at 9, with 6 more awaiting approvals and 1-2 filings per quarter likely in FY11 and FY12. US revenue is estimated at \$4-5 million in FY11E and \$8-9 million in FY12E. As a result of higher gross margins in this geography, overall raw material cost is likely to decline by 2-3% of sales p.a. over FY10-FY12 from 34% of sales in FY10.

Turnaround likely in wholly-owned UK-based subsidiary: Niche Generics sources and sells formulations in UK. In FY10, Niche's losses reduced to £0.19 million from £1.3 million in FY09 despite flat sales at £1 million aided by increase in sourcing from India at 20% of revenues. The management expects a turnaround in FY11 due to improved product mix, cost rationalization and increased sourcing from India.

Valuations & View: Revenue growth of 10% CAGR over FY10-FY12E and margin expansion is estimated to lead to 18%+ CAGR in earnings over FY10-FY12. We expect EBITDA margins to expand due to increased sourcing from India by US and UK subsidiaries. The company pays out one third of its earnings as dividend. Unichem has announced a split of its share from ₹5 face value to ₹2 face value. With an ROE of 23% and greater than ₹60 per share in cash and cash equivalent at FY12E end, the stock is extremely attractive at less than 10x FY12E and more than 3% FY12E dividend yield. **We recommend a BUY with a target price of ₹560 - 12x FY12E earnings.**

CONCERNS

Dependence on key brands : On ₹630 cr of MAT sales as per IMS, the top three brands contributed close to ₹200 cr. Ampoxin its largest brand contributed close to 14% of retail sales value. The large dependence on key brands will continue to be a concern for this company until it manages to scale up other brands. Unichem has done this successfully with TG-TOR, a Cardio-vascular drug, introduced in April 2009 and ₹5 cr of group sales in FY10.

BACKGROUND

Unichem Laboratories Ltd. (Unichem) is an India-based pharmaceutical company, engaged in manufacturing of formulations and active pharmaceutical ingredients (API). It has a presence in numerous therapeutic segments such as cardiovascular, diabetes, psychiatry, neurology, gastro-intestinal, anti-infective and women's health. In India, the company has six manufacturing facilities spread across Maharashtra, Goa, Madhya Pradesh, Uttar Pradesh, Sikkim and Himachal Pradesh. The company has four wholly owned subsidiaries in South Africa, Brazil, USA and UK.

FINANCIALS AND RECENT RESULTS

Standalone revenues, EBITDA and net income in the quarter ended June 2010 grew 10.7%, 3.3% and 3% respectively for the quarter. EBDITA margins were lower during the quarter due to new headcounts, increased R&D expenses and commissioning of new plants at Baddi and Sikkim. Profit was also depressed by increased tax provisioning on account of higher rate of MAT.

Quarterly Performance (Standalone)

₹ CRORES	QE JUN-09	QE JUN-10	% Y/Y
Net Sales	167.6	186.5	11
Other Operating Income	1.7	1.0	-40
Other Income	0.7	2.0	188
Total Income	170.0	189.5	11
Total Expenditure	124.0	139.3	12
PBIDT	46.0	50.2	9
Depreciation	5.2	6.6	26
EBIT	40.8	43.6	7
Interest	0.0	0.3	733
PBT	40.8	43.4	6
Tax	8.4	10.0	20
RPAT	32.4	33.4	3
EBITDA %	27	27	
Tax rate %	21	23	

The company has a history of paying uninterrupted dividend payments since 1962. We view this as a big positive from an investor perspective.

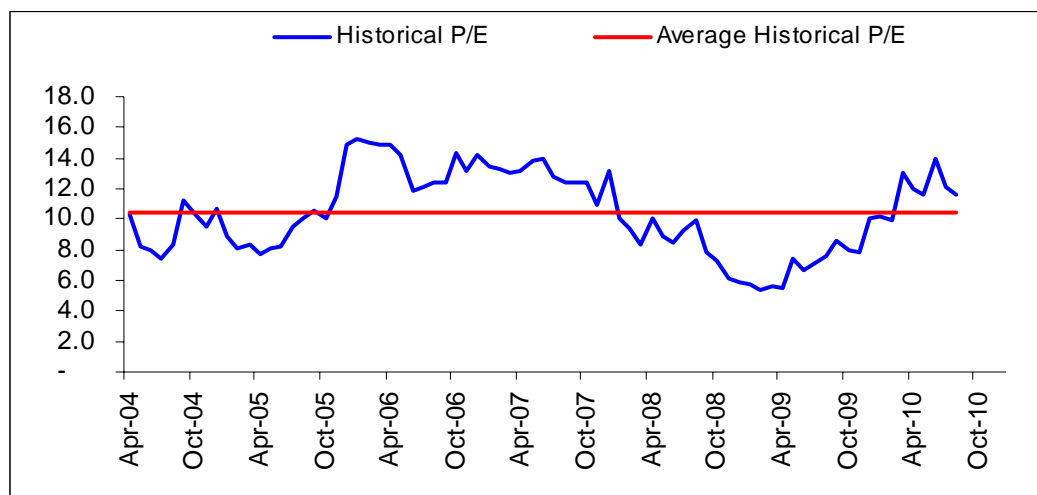
Unichem Laboratories Ltd.- Financials & Valuation

INCOME STATEMENT (Consolidated)						RATIOS					
Y/E MARCH						Y/E MARCH					
	2008A	2009A	2010A	2011E	2012E		2008A	2009A	2010A	2011E	2012E
Net Sales	666	735	747	811	907	Adjusted EPS (₹)	15.3	30.3	34.0	41.0	47.9
growth (%)	7	10	2	8	12	Growth (%)	-20	98	12	20	17
Other Income	13	10	7	12	15	Cash EPS (₹)	20.3	36.5	40.5	47.9	56.1
Total Income	679	745	754	823	922	Book Value (₹)	114.2	134.3	156.3	184.5	217.1
Staff Costs	95	101	103	115	127	DPS (₹)	5.0	8.0	10.0	11.0	13.0
Mfg. & other expenses	328	311	293	300	330	Payout (Incl. Div. Tax) (%)	38	31	34	31	32
Admn, S&D Exp.	154	172	174	189	211	Valuation (x)					
Other Expenses	13	7	6	6	7	P/E(x)	-	-	12.6	10.5	9.0
Total Expenditure	590	591	576	611	676	Cash P/E(x)	-	-	10.6	9.0	7.7
EBITDA	88	154	178	212	247	Price/Book Value(x)	-	-	2.8	2.3	2.0
% of Net Sales	13	21	24	26	27	EV/EBITDA(x)	-	-	8.7	7.3	6.3
Depreciation/Amortization	18	22	23	25	30	EV/Sales(x)	-	-	2.1	1.9	1.7
Finance Charges	2	3	2	3	2	Div. Yld(%)	-	-	2.3	2.6	3.0
PBT	68	129	153	184	215	Profitability Ratios (%)					
Tax	17	19	30	37	43	RoE(%)	14	24	23	24	24
RPAT	51	110	122	148	172	RoCE(%)	16	26	26	27	27
growth (%)	-27	113	12	21	17	Leverage (x)					
						Debt/Equity (x)	0.1	0.1	0.1	0.1	0.0

BALANCE SHEET (Consolidated)						CASH FLOW STATEMENT (Consolidated)					
Y/E MARCH						Y/E MARCH					
	2008A	2009A	2010A	2011E	2012E		2008A	2009A	2010A	2011E	2012E
Equity Share Capital	18	18	18	18	18	PBT before EO items	68	129	153	184	215
Preference Share Capital	0	0	0	0	0	Add : Depreciation	18	22	23	25	30
Reserves	394	466	545	646	764	Interest	2	3	2	3	2
Shareholders' Funds	412	484	563	664	782	(Inc)/Dec in WC	16	-28	-9	-5	-14
Debt	24	40	36	36	36	Others	-34	-23	-40	-40	-47
Net deferred tax	32	32	35	38	43	CF from Operating activities	70	103	129	168	186
SOURCES OF FUNDS	468	557	633	738	860	(Inc)/Dec in Fixed assets	-84	-58	-45	-50	-50
Net Block	238	301	333	337	408	Others	2	0	-55	0	0
Capital WIP	103	76	64	85	35	CF from Investing activities	-82	-58	-100	-120	-135
Net Tangible Assets	341	377	397	422	443	Inc/(Dec) in debt	-2	11	0	0	0
Investments	0	1	59	129	214	Dividend paid	-18	-29	-29	-40	-47
Current Assets	261	325	344	373	411	Less: Interest paid	-2	-3	-2	-3	-2
Inventories	83	103	110	119	133	Others	15	11	-8	0	0
Sundry Debtors	140	152	167	181	203	CF from financing activities	-5	-21	-40	-42	-49
Cash and Bank Balances	10	34	24	29	31	Inc/(Dec) in cash	-17	24	-11	5	3
Loans and Advances	28	36	44	44	44	Add: Beginning balance	27	10	34	24	29
Other Current Assets	0	0	0	0	0	Closing Balance	10	34	24	29	31
Current Liabilities & Provisions	135	146	167	186	208						
Net Current Assets	127	179	177	187	203						
APPLICATION OF FUNDS	468	557	633	738	860						

PEER COMPARISON (FY10)	UNICHEM	WOCKHARDT	STRIDES ACROLAB
	FY10	CY09	CY09
Sales(₹cr)	747	4501	1304
3 yr growth	6%	19%	20%
Adj Profit(₹cr)	122	-1000	63.6
3 yr growth	12%	N/A	16%
P/E	12.6	N/A	15.6
M.Cap/Sales	2.1	0.6	1.4
D/E	0.1	N/A	1.6
ROE	23%	N/A	8.4%

Unichem Laboratories Ltd. Valuation Chart (Historical P/E)



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1. Analyst ownership of the stock
2. Group/Directors ownership of the stock
3. Broking relationship with company covered
4. Investment Banking relationship with company covered

Unichem Laboratories Ltd.

No
No
No
No

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