

Venus Remedies

 BSE code: 526953
 NSE code: VENUSREM

CMP: Rs 424
Target: Rs 708
BUY
Alok Dalal

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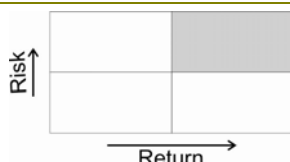
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Company data

Particulars	
Market cap (Rs bn / US\$ mn)	3.6/90.2
Outstanding equity shares (mn)	8.4
52-week high/low (Rs)	582/350
6-month average daily volume	33,658

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	1,413.0	2,109.9	3,123.6
Growth (%)	53.3	49.3	48.0
Adj net inc (Rs mn)	287.8	426.6	667.1
Growth (%)	77.4	48.2	56.4
FDEPS (Rs)	29.7	44.0	68.8
Growth (%)	77.4	48.2	56.4
P/E (x)	14.3	9.6	6.2
RoE (%)	63.6	54.9	52.5

Risk-return profile

Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	25.9	26.0
FIs	17.0	18.3
Banks & FIs	0.0	0.3
Public	57.1	55.4

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Venus	424	(7.7)	(12.0)	(9.4)
Sensex	18,153	(10.2)	(9.1)	19.2
BSE HC	3,646	(16.0)	(7.1)	(1.2)

Company website www.venusremedies.com
Consistent growth

Venus Remedies' Q3FY08 results were in line with expectations. The company has posted strong 53% YoY topline growth led by a 36% increase in domestic market sales to Rs 428mn coupled with a ~133% rise in exports. The EBITDA margin of 26% was also in line with estimates. The strong operational performance resulted in 50% YoY PAT growth to Rs 113.2mn.

Venus's performance has been in line with our FY08 estimates and we expect this momentum to sustain in FY09 also. Key brands, R&D products and new launches would drive a 36% domestic revenue CAGR over FY07-FY09. Further, greater penetration of semi-regulated markets and forays into regulated markets after recent regulatory approvals should result in a 100% CAGR in exports over the same period.

At Rs 424, the stock is trading at 9.6x FY08E EPS of Rs 44 and 6.2x FY09E EPS of Rs 68.8. We believe Venus remains one of the cheapest stocks in the pharma space with significant growth potential over the next two years. We maintain Buy with a target price of Rs 708 based on two-stage DCF valuation.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	578.8	580.2	(0.2)
PAT	113.2	116.0	(2.4)
EPS (Rs)	13.5	13.8	(2.4)

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q3FY08	Q3FY07	% Chg	9mFY08	9mFY07	% Chg
Net sales	578.8	379.5	52.5	1510.2	1059.3	42.6
Expenditure	428.2	287.0	49.2	1117.1	804.2	38.9
Operating profit	150.6	92.5	62.8	393.1	255.1	54.1
Other income	0.4	5.4	(92.6)	2.8	13.2	(78.6)
Interest	12.4	9.1	35.8	33.2	22.6	46.8
Depreciation	11.0	4.0	177.2	25.8	11.7	120.7
PBT	127.7	84.8	50.5	337.0	233.9	44.1
Tax	14.5	9.5	52.6	38.2	26.2	45.6
Adj PAT	113.2	75.3	50.2	298.8	207.7	43.9
OPM (%)	26.0	24.4	1.6	26.0	24.1	2.0
EPS (Rs)	13.4	9.0	49.8	35.4	24.7	43.5

Source: Company, Religare Research

Result highlights

Strong volume growth in key brands; exports to semi-regulated markets on the rise

Sales growth in line with estimates

Venus's topline growth of 53% YoY to Rs 578.8mn was in line with estimates, making Q3FY08 one of the best quarters for the company. The growth was driven by a 36% increase in domestic market sales to Rs 428mn and ~133% rise in exports to Rs 150mn.

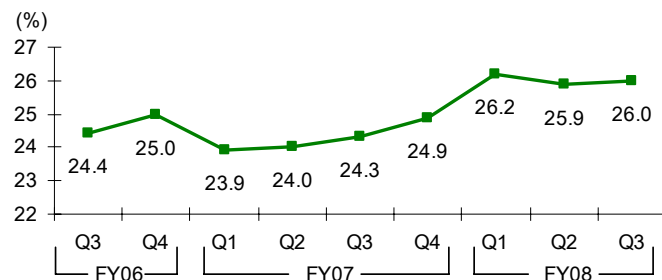
Key brands like *Ronem*, *Mucomelt* and *Neurotol* recorded strong volume growth while R&D products are witnessing increasing demand from the company's marketing partners. New launches have also contributed to growth. Export sales witnessed strong traction in semi-regulated markets, and the company is on track to expand operations in 40 countries outside India.

EBITDA margin expands 160bps YoY to 26%

Strong topline growth has resulted in a 160bps YoY expansion in the EBITDA margin to 26%. The gross margin improved sharply by 170bps to 69.2% as the contribution from high-margin exports has started increasing. Other expenses as a percentage of sales declined by 140bps to 11.3%, as phase-II of the Baddi unit started realising its potential, thus decreasing overheads.

EBITDA margin up 160bps YoY as share of exports has risen

EBITDA margin trend



Source: Company, Religare Research

Net profit growth keeps pace with topline growth

The strong operational performance has led to a 50% YoY bottomline growth for the company, in line with the increase in sales. The quarter saw higher depreciation due to commissioning of phase-II at Baddi during March 2007. Venus has reported an EPS of Rs 13.4 for the quarter.

Recent developments

State-of-the-art research centre at Baddi to enhance new product pipeline

Research facility at Baddi set up with an investment of Rs 250mn

Venus recently inaugurated its state-of-the-art research facility, 'Venus Medicine Research Centre', at its Baddi campus. This new R&D centre has been set up at an investment of ~Rs 250mn and is spread over an area of 40,000 sq ft. It is proposed to be driven by a team of 50 intellectuals, including 25 scientists, pharmacists, chemists, analysts and technicians.

The centre has seven dedicated pilot plants, built to latest international standards, for trial production of injections in super specialty segments, and eight fully equipped laboratories to meet a variety of in-house testing requirements. The facility will further enhance the company's research capabilities and help build a stronger pipeline of new drugs for diseases that are hard to treat.

Baddi facility accredited with European GMP Certification

Venus has received European GMP certification for its Baddi facility, becoming the only company in India to obtain such an approval for carbapenems. With this accreditation, Venus can now freely export to not only 36 countries of the EU, but also to Canada and Australia, which recognise European GMP. The company now plans to secure accreditation for this centre with the Indian government's Department of Science and Technology.

Valuation

Maintain Buy with target of Rs 708

Venus's performance has been in line with our FY08 estimates and we expect this momentum to sustain in FY09 also. Key brands, R&D products and new launches would drive a 36% domestic revenue CAGR over FY07-FY09. Further, greater penetration of semi-regulated markets and forays into regulated markets after recent regulatory approvals should result in a 100% CAGR in exports over the same period.

One of the most attractively valued pharma stocks; Buy

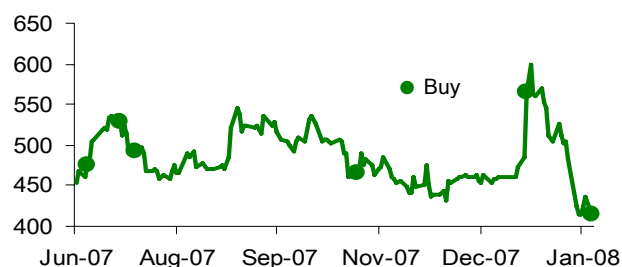
At Rs 424, the stock is trading at 9.6x FY08E EPS of Rs 44 and 6.2x FY09E EPS of Rs 68.8. We believe Venus remains one of the most attractively valued stocks in the pharma space with significant growth potential over the next two years. We maintain Buy with a target price of Rs 708 based on two-stage DCF valuation.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
05-Jul-07	Initiating Coverage	474	708	Buy
18-Jul-07	Company Update	527	708	Buy
25-Jul-07	Results Update	492	708	Buy
23-Oct-07	Results Update	465	708	Buy
2-Jan-08	Company Update	565	708	Buy
29-Jan-08	Results Update	424	708	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	922.0	1,413.0	2,109.9	3,123.6
Growth (%)	170.4	53.3	49.3	48.0
EBITDA	211.1	349.0	541.3	832.7
Growth (%)	236.1	65.4	55.1	53.8
Depreciation	9.2	21.5	33.3	43.7
EBIT	201.9	327.6	508.1	789.0
Growth (%)	248.9	62.3	55.1	55.3
Interest	19.3	27.9	29.8	40.5
Other income	0.8	22.2	1.0	1.0
EBT	183.3	321.8	479.3	749.5
Growth (%)	284.6	75.6	48.9	56.4
Tax	14.9	34.0	52.7	82.4
Effective tax rate	8.1	10.6	11.0	11.0
Adj net income	162.2	287.8	426.6	667.1
Growth (%)	303.3	77.4	48.2	56.4
Shares outstanding (mn)	8.4	8.4	8.4	8.4
FDEPS (Rs)	16.7	29.7	44.0	68.8
DPS (Rs)	2.3	3.4	4.4	6.9
CEPS (Rs)	17.7	31.9	47.4	73.3

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	162.2	287.8	426.6	667.1
Depreciation	9.2	21.5	33.3	43.7
Other adjustments	5.6	8.0	17.6	27.5
Changes in WC	(66.5)	2.8	(222.9)	(233.4)
Operating cash flow	110.6	320.2	254.5	504.9
Capital expenditure	(206.8)	(648.6)	167.4	(200.0)
Investments	2.6	(230.2)	(269.8)	(200.0)
Other investing inc/(exp)	(42.7)	(39.9)	(87.7)	(60.3)
Investing cash flow	(246.9)	(918.6)	(190.1)	(460.3)
Free cash flow	(136.3)	(598.5)	64.4	44.6
Issue of equity	3.9	0.2	-	-
Issue/repay debt	148.3	633.6	18.0	90.0
Dividends paid	(19.1)	(28.8)	(42.7)	(66.7)
Others	4.9	7.3	(0.0)	(0.0)
Financing cash flow	137.9	612.4	(24.7)	23.3
Beg. cash & cash eq	13.6	15.3	29.1	69.0
Chg in cash & cash eq	1.7	14.0	39.8	67.9
Closing cash & cash eq	15.3	29.1	69.0	136.9

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	15.3	29.1	69.0	136.9
Accounts receivable	76.4	93.9	260.1	470.7
Inventories	142.7	181.0	352.9	485.2
Others current assets	89.9	129.8	217.4	277.7
Current assets	324.3	433.7	899.4	1,370.5
LT investments	-	230.2	500.0	700.0
Net fixed assets	234.0	507.6	674.3	830.6
CWIP	63.8	417.4	50.0	50.0
Total assets	622.1	1,588.9	2,123.7	2,951.1
Payables	35.9	47.8	120.3	163.2
Others	38.3	85.0	127.7	194.4
Current liabilities	74.2	132.8	248.0	357.6
LT debt	216.4	850.0	868.0	958.0
Other liabilities	12.7	20.7	38.3	65.8
Equity capital	84.1	84.3	84.3	84.3
Reserves	234.8	501.2	885.1	1,485.5
Net Worth	318.9	585.5	969.4	1,569.8
Total liabilities	622.1	1,589.0	2,123.7	2,951.1
BVPS (Rs)	37.9	69.4	115.0	186.2

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	22.9	24.7	25.7	26.7
EBIT margin (%)	21.9	23.2	24.1	25.3
Net profit margin (%)	17.6	20.4	20.2	21.4
FDEPS growth (%)	303.3	77.4	48.2	56.4
Receivables (days)	23.3	22.0	30.6	42.7
Inventory (days)	69.4	61.9	76.5	84.4
Payables (days)	23.0	16.0	24.1	28.6
Current ratio (x)	4.4	3.3	3.6	3.8
Interest coverage (x)	10.4	11.7	17.1	19.5
Debt/equity ratio (x)	0.7	1.5	0.9	0.6
ROE (%)	66.8	63.6	54.9	52.5
ROCE (%)	51.1	32.7	30.5	35.3
ROAE (%)	44.3	29.6	27.4	31.1
EV/Sales (x)	4.7	3.1	2.0	1.4
EV/EBITDA (x)	20.4	12.4	8.0	5.2
P/E (x)	25.4	14.3	9.6	6.2
P/BV (x)	20.4	11.2	6.1	3.7
P/CEPS (x)	24.0	13.3	8.9	5.8

Source: Company, Religare Research

RELIGARE RESEARCH

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

*Market cap over US\$ 1bn **Market cap less than US\$ 1bn

Religare Securities

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