

November 10, 2010

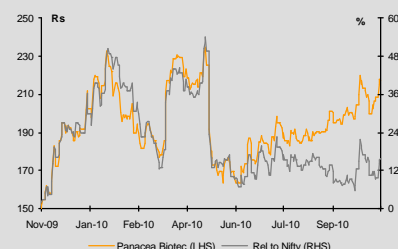
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs218	Rs241
EPS change FY11E/12E (%)	6 / 6
Target Price change (%)	15
Nifty	6,276
Sensex	20,086

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	13	23	49
Rel. to Nifty	6	(1)	1	16

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	PNCB@IN
Equity Capital (Rs mn)	67
Face Value(Rs)	1
No of shares o/s (mn)	67
52 Week H/L	248/140
Market Cap (Rs bn/USD mn)	15/339
Daily Avg Volume (No of sh)	91013
Daily Avg Turnover (US\$m)	0.4

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	74.4	68.7	68.7
FII/NRI	5.8	13.1	12.7
Institutions	0.6	0.7	3.7
Private Corp	12.3	11.2	9.6
Public	7.0	6.3	5.3

Source: Capitaline

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- **Panacea Biotec's Q2FY11 PAT was impacted by higher tax provisioning. Revenues at Rs2.56bn (est. of Rs2.47) and, b) EBITDA at Rs564mn (est. of Rs580mn) were in-line**
- **Revenues were driven by a) 61% growth in vaccines (Easyfive contributed revenue of Rs723mn) and b) 37% growth in pharma formulation business**
- **Higher tax provision (41% vs. est. of 24%) and higher interest cost (up 14% YoY) restricted PAT at Rs190mn vs. est. of Rs256mn**
- **Earning estimates revised upward by 6% to Rs18 and Rs24 for FY11E and FY12E respectively, owing to buy back of equity; Raise target price and maintain Hold rating**

52% revenue growth is aided by strong traction across the segment

Panacea has reported robust revenue growth of 52% largely driven by a) strong traction in Easy five (Rs723mn vs. Rs243mn in Q2FY10) resulted 61% growth in vaccine business and b) 37% growth in the pharma business. Commencement of supply of organ transplant products in Lat Am countries resulted in 285% growth in export pharma formulation segment. Domestic pharma business for the quarter grew by 18% to Rs659mn. 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. This imparts long term visibility to the vaccine business.

Revenue Break up

	Q2FY10	Q1FY11	Q2FY11	YoY Gr.	Rs mn QoQ Gr.
TOPV1	529	186.8	179	-66%	-4%
MOPV1	0	207.9	57	-	-72%
MOPV3	189	56.9	6	-97%	-89%
BOPV	0	350	649	-	85%
Easy five	243	880	723	198%	-18%
JV	87	80.8	75	-13%	-7%
others	0	0	0	-	-
Total	1047	1762.4	1690	61%	-4%
Pharma	604	777	827	37%	6%
Total	1651	2539	2516	52%	-1%

Favorable product mix improved operating performance

Though operating margins on a YOY basis were up 751bps to 22%, margins were down 178bps QoQ on account of lower currency realization and lower contribution of Easy Five vaccine of Rs723mn in Q2FY11 vs. Rs880mn in Q2FY10. Margin expansion was also aided by lower contribution of low margin TOPV vaccine

Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY09	7,882	1,585	20.1	743	11.1	(42.3)	(10.1)	19.6	10.4	2.4
FY10	9,001	1,117	12.4	311	4.7	(58.1)	11.0	46.8	14.1	2.1
FY11E	11,780	2,516	21.4	1,128	18.0	287.0	15.7	12.1	8.1	1.9
FY12E	12,697	3,137	24.7	1,507	24.1	33.6	18.7	9.1	6.1	1.6

Key Financials – Quarterly

Rs mn

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	1,688	2,314	3,287	2,584	2562	51.8	(0.8)	5,147	3,497	47.2
Expenditure	1,444	1,908	2,783	1,970	1,999	38.5	1.5	3,968	2,795	42.0
<i>as % of sales</i>	<i>85.5</i>	<i>82.5</i>	<i>84.7</i>	<i>76.2</i>	<i>78.0</i>			<i>77</i>	<i>80</i>	
Consumption of RM	729	1,279	1,976	1,214	1118	53.4	(7.9)	2,332	1,426	63.6
<i>as % of sales</i>	<i>43.2</i>	<i>55.3</i>	<i>60.1</i>	<i>47.0</i>	<i>43.6</i>			<i>45</i>	<i>41</i>	
Employee Cost	271	244	244	285	309	14.0	8.3	594	502	18.3
<i>as % of sales</i>	<i>16.0</i>	<i>10.6</i>	<i>7.4</i>	<i>11.0</i>	<i>12.1</i>			<i>12</i>	<i>14</i>	
Other expenditure	444	385	563	471	572	28.8	21.4	1,043	868	20.2
<i>as % of sales</i>	<i>26.3</i>	<i>16.6</i>	<i>17.1</i>	<i>18.2</i>	<i>22.3</i>			<i>20</i>	<i>25</i>	
EBITDA	245	406	504	615	564	130.4	(8.3)	1,178	702	67.9
Depreciation	162	164	178	174	185	14.2	6.3	358	322	11.2
EBIT	83	242	326	441	379	356.9	(14.0)	820	379	116.1
Other Income	13	11	17	13	41	231.2	228.6	54	25	114.3
Interest	100	86	99	86	114	13.9	33.2	200	198	0.8
PBT	(5)	167	244	368	307	(6,765.2)	(16.6)	674	207	226.4
Total Tax	9	94	197	28	117	1,197.8	311.3	145	90	61.5
Adjusted PAT	(14)	73	183	339	190	(1,495.6)	(44.1)	529	117	353.5
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	(14)	73	183	339	190	-	(44.1)	529	117	353.5
Extra ordinary items	-35	0	528	14	21		52.9	35	-35	
Reported PAT	21	73	574	326	169	692.0	(48.2)	494	152	226.1
Reported EPS	0.3	1.1	2.7	5.5	3.1	872.5	(43.9)	8.6	2	280.7

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	14.5	17.5	15.3	23.8	22.0	751	-178	22.9	20.1	283
EBIT	4.9	10.4	9.9	17.1	14.8	988	-226	15.9	10.9	508
EBT	(0.3)	7.2	7.4	14.2	12.0	1,224	-227	13.1	5.9	720
PAT	(0.8)	3.2	5.6	13.1	7.4	821	-573	10.3	3.3	695
Effective Tax rate	29.7	56.0	(69.5)	8.0	40.9	1,121	3289	22.7	37.2	(1,452)

APAT impacted by higher tax provisioning and interest outgo

The PBT for the quarter grew strongly to Rs307mn driven by robust revenue growth and strong operating performance. However, higher tax provisioning (41% vs. est. of 24%) and interest cost (up by 14% YoY) restricted expansion in net profit margin to 7.4% in Q2FY11. We believe higher tax provision was mainly because of lower utilization of MAT credit. However for FY11E as a whole, management has guided 23% tax rate. Similarly, on interest front, company expects the cost to rise in the coming quarters because of high working capital utilization. EPS for the quarter and H1FY11 stood at Rs3.1 and Rs8.6 respectively, against our full year expectation of Rs16.9.

Completed buy-back of 5.59mn shares at a average price of Rs196.39

Panacea Biotec has bought back 5.5mn shares for a total consideration of Rs1090mn through internal accruals. Post buy-back of 6.2% of the equity, the promoter stake has gone up to 72.7% and the equity of the company has come down to 61.6mn shares. Panacea is also going to redeem FCCB worth US\$36.5mn (US\$52.55mn including YTM; conversion price-Rs357.57) by February 2011, funded through both internal as well as external accruals.

Raise earning estimates and target price; maintain Hold

Owing to in-line performance, we maintain our profit estimates of Rs1128mn and Rs1506mn for FY11E and FY12E respectively. However, our EPS estimates have been revised upward by 6% to Rs18 and Rs24 for FY11E and FY12E respectively owing to reduction in equity. With Easyfive supply in full swing, 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. Rolling over the target price on FY12E, we raise the target price on the stock to Rs241 from Rs209. We retain our Hold rating on the stock.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	7,882	9,001	11,780	12,697
Growth (%)	-6.3	14.2	30.9	7.8
Expenditure	6,296	7,884	9,264	9,560
Raw Materials	2,686	4,720	5,964	6,186
SGA	1,341	1,444	1,042	1,062
Employee Cost	957	1,036	1,100	1,187
Other Exp	1,312	684	1,158	1,125
EBITDA	1,585	1,117	2,516	3,137
Growth (%)	-8.6	-25.3	84.1	23.9
EBITDA margin (%)	20.1	12.4	21.4	24.7
Depreciation	545	500	679	729
EBIT	1,040	618	1,837	2,407
EBIT margin (%)	13.2	6.9	15.6	19.0
Other Income	312	301	95	98
Interest expenses	348	426	466	490
PBT	-867	1,128	1,465	2,016
Tax	-207	404	337	510
Effective tax rate (%)	23.9	35.8	23.0	25.3
Adjusted PAT	743	311	1,128	1,507
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	743	311	1,128	1,507
Growth (%)	-42.3	-58.1	262.7	33.6
Net Margin (%)	9.4	3.5	9.6	11.9
E/O items	-1,871	635	0	0
Reported PAT	-660	724	1,128	1,506
Growth (%)	-151.2	-209.7	55.8	33.5

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	-1,179	827	1,371	1,918
Depreciation	545	500	679	729
Interest Provided	348	426	466	490
Other Non-Cash items	0	0	0	0
Chg in working cap	-310	-1,581	-749	-163
Tax paid	207	-28	-337	-510
Operating Cashflow	-389	143	1,430	2,464
Capital expenditure	-2,516	-654	-480	-500
Free Cash Flow	-2,905	-511	950	1,964
Other income	312	301	95	98
Investments	-548	-26	0	0
Investing Cashflow	-2,752	-379	-386	-402
Equity Capital Raised	0	20	0	0
Loans Taken / (Repaid)	3,044	24	397	-1,400
Interest Paid	-348	-426	-1,272	-490
Dividend paid (incl tax)	0	-20	-37	-73
Income from investments	0	0	0	0
Others	-354	359	0	0
Financing Cashflow	2,342	-43	-911	-1,963
Net chg in cash	-799	-279	133	99
Opening cash position	1,547	748	470	604
Closing cash position	748	470	604	703

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	67	67	61	61
Reserves & surplus	6,005	6,957	7,232	8,665
Net worth	6,072	7,024	7,294	8,726
Minority Interest	29	48	48	48
Secured Loans	328	321	1,821	821
Unsecured Loans	6,703	6,734	5,631	5,231
Loan Funds	7,030	7,054	7,452	6,052
Net deferred tax liability	335	710	710	710
Total Liabilities	13,465	14,837	15,504	15,537
Gross Block	9,026	9,737	10,537	11,237
Less: Depreciation	2,213	2,823	3,502	4,231
Net block	6,813	6,914	7,035	7,006
Capital work in progress	1,777	1,720	1,400	1,200
Investment	701	727	727	727
Current Assets	7,725	7,495	8,364	8,751
Inventories	4,513	4,577	4,972	5,145
Sundry debtors	1,202	1,076	1,448	1,562
Cash & bank balance	748	470	604	703
Loans & advances	1,233	1,341	1,341	1,341
Other current assets	29	31	0	0
Current lia & Prov	3,554	2,021	2,024	2,148
Current liabilities	1,693	1,532	1,906	1,972
Provisions	1,861	489	118	176
Net current assets	4,171	5,474	6,340	6,602
Misc. exp & Def. Assets	4	2	2	2
Total Assets	13,465	14,837	15,504	15,537

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	20.1	12.4	21.4	24.7
Net Margin	9.4	3.5	9.6	11.9
ROCE	12.2	7.2	13.3	16.0
ROE	-10.1	11.0	15.7	18.7
RoIC	18.0	9.5	16.6	19.3
Per Share Data (Rs)				
EPS	11.1	4.7	18.0	24.1
CEPS	47.3	2.6	28.9	35.7
BVPS	91.3	105.8	117.3	140.1
DPS	0.0	0.3	0.5	1.0
Valuations (x)				
PER	19.6	46.8	12.1	9.1
P/CEPS	4.6	83.0	7.5	6.1
P/BV	2.4	2.1	1.9	1.6
EV / Sales	2.5	2.2	1.8	1.6
EV / EBITDA	10.4	14.1	8.1	6.1
Dividend Yield (%)	0.0	0.1	0.2	0.5
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.7	0.9	0.6
Net Debt/EBITDA	2.3	3.5	2.6	1.7
Working Cap Cycle (days)	245	223	181	175

Recommendation History: Panacea Biotec – PNCB IN

Date	Reports	Reco	CMP	Target
21/07/2010	Panacea Q1FY11 Result Update	Hold	194	209
12/05/2010	Panacea Biotec Q4FY10 Result Update	Hold	188	209
02/02/2010	Panacea Biotec Q3FY10 Result Update	Buy	213	270
30/10/2009	Panacea Biotec Q2FY10 Result Update	Buy	157	225

Recent Research Reports

Date	Reports	Reco	CMP	Target
10/11/2010	Divis Lab Q2FY11 Result Update	Accumulate	723	756
10/11/2010	Sun Pharma Q2FY11 Result Update	Hold	2,318	2,300
09/11/2010	Aurobindo Pharma Q2FY11 Result Update	Buy	1,343	1,581
29/10/2010	GlaxoSmithKline Pharma Q3CY10 Result Update	Hold	2,262	2,020

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