

BUZZING

STOCK

Sharon Bio Medicine Ltd

CMP – Rs.155

Analyst

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Key Stock Data

| | |
|---------------------|-----------------|
| Sensex | 13602 |
| Nifty | 3922 |
| Sector | Pharmaceuticals |
| Bloomberg | NA |
| Reuters | SHBM.BO |
| No. of shares (m) | 10 |
| Market Cap (Rs m) | 1,562 |
| Market Cap (US\$ m) | 35 |
| 52-week H/L | Rs.159/61 |

Shareholding Pattern (%)

| | |
|------------------|-------|
| Promoters | 63.92 |
| FII's | 2.88 |
| Corporate Bodies | 16.75 |
| Pubic & Others | 16.46 |

The Mumbai based CRAMS player Sharon Bio Medicine Ltd. (SBML), is in the news with its marketing pact for US, Canada and Baltic countries as well as its recent non-disclosure agreement with UK firm. The company is also coming up with a cutting edge technology plant at Dehradun, Uttaranchal. The stock is currently trading at 11x-annualized Q1FY07 EPS of Rs.14.1

Non-disclosure Agreement for UK Market: Keeping the basic CRAMS model of the company intact, Sharon has signed a non-disclosure agreement with a UK based marketing company. Sharon would be manufacturing the products on contract basis and will be marketing them in European markets. These products are already registered by another UK based company and are proposed in Phase I. They belong to the therapeutic class of anti-fungal and anti-convulsants. According to IMS forecasts, there is a possibility of European market's growth declining from expected 4-5% to 3-4% in 2006 due to cot-containment measures, incentives for using generics and scrutiny of cost/benefit of drugs. But this development will provide better exposure of highly competitive, margin stretched European markets to Sharon.

Marketing Tie-ups for North America and Baltic Countries: Sharon Bio Medicine is a provider of an integrated solutions model, which comprises of process development, manufacturing of API, formulation development and commercial manufacturing. This has enabled Sharon to enter into a long-term agreement with US based marketing company for development, scale up, manufacturing and supplies to US and Canada for the generic formulation. The supplies will be provided from its upcoming plant at Dehradun, Uttaranchal. The company will be holding the market rights for rest of world including Europe. Sharon is especially eyeing the Baltic states of Estonia, Latvia and Lithuania. On this front, it has signed an agreement with a Latvian company for selling formulation in Baltic region from Dehradun plant. This segment constitutes the group of emerging markets where per capita Gross National Income is less than \$20,000. These emerging countries would be representing 30% of global pharma market next year compared to 17% currently.

Well-integrated domestic operations -: The Dehradun formulations facility at Uttaranchal will be ready for commercial production in the month of December 2006. The facility would be having an in-house formulation development lab, which would be working towards economies of scale for manufacturing of formulations. The cost of this project is more than Rs.370m, which is funded by bank loans and internal accruals. A plan has been worked out for setting up injectables plant at Dehradun along with the current solid dosage unit. The Uttaranchal plant will be enjoying a tax holiday of 10 years. Sharon is a leader in manufacturing Trimetazidine di HCL (80% Share), Ketoconazole (60% Share) and Pantoprazole Sodium (45% Share). Trimetazidine is a cardiovascular agent indicated in Angina Pectoris, Ketoconazole is an anti-fungal agent while Pantoprazole Sodium is a proton pump inhibitor used in gastroesophageal reflux. 75% of its revenue is realized from domestic operations while remaining is sourced from exports.

Future Prospectus: Sharon is expected to extend its presence into contract manufacturing of formulations, Oncology injectables and Oncology API. Ageing population and improved diagnostics have resulted in greater demand for oncology products where the market size for it is valued at \$40-45bn contributing 20% of total market growth. Sharon will also tap high growth areas like anti-depressants and anti-retrovirals in coming future. It has also got plans to set up an R&D center in the near future.

Valuation-: The revenue for Q1FY07 grew by whopping 143% YoY at Rs.317m. The EBITDA also increased by 128% YOY at Rs.51.6 m while the margins dropped by 100 bps due to rise in raw material cost. The PAT stood at Rs.35.3m, up by 75% YoY. The annualized Q1FY07 EPS of Rs.14 discounts the current stock price by 11x.

Note-: Sharon Bio Medicine has been covered under Buzzing Stock heading on 29th August 2006 when the stock price was Rs.97.55

Financial Snapshot

| Sharon Bio Medicine Ltd. | | | | | | | Rs.m | | Ratios (%) | | |
|---------------------------------------|------------|------------|-------------|------|------|-------------|--------------|------|------------|---------|--|
| Financial Year End: June | 1Q FY07 | 1Q FY06 | Chg. (%) | FY06 | FY05 | Chg. (%) | | FY06 | FY05 | Chg.(%) | |
| Net Sales | 317 | 131 | 143 | 891 | 369 | 142 | Debt -Equity | 0.7 | 0.4 | 55 | |
| Other Income | 0 | 0 | 0 | 2 | 1 | 150 | PBIDTM | 16 | 8 | 97 | |
| Total Income | 317 | 131 | 142 | 893 | 370 | 142 | PBDTM | 15 | 7 | 124 | |
| Total Expenditure | 266 | 108 | 145 | 752 | 340 | 121 | RoCE | 45 | 14 | 227 | |
| PBIDT | 52 | 23 | 128 | 140 | 30 | 374 | RoNW | 58 | 14 | 327 | |
| Interest | 2 | 2 | 7 | 6 | 5 | 31 | | | | | |
| PBDT | 50 | 21 | 137 | 134 | 25 | 441 | | | | | |
| Depreciation | 2 | 1 | 67 | 6 | 5 | 10 | | | | | |
| Tax | 13 | 0 | 0 | 20 | 1 | 2757 | | | | | |
| Reported Profit After Tax | 35 | 20 | 75 | 107 | 17 | 517 | | | | | |
| Extra -ordinary Items | 0 | 0 | 0 | 0 | 0 | 0 | | | | | |
| Adj. Profit After Extra-ordinary item | 35 | 20 | 75 | 107 | 17 | 517 | | | | | |
| No. of shares (m) | 10 | 10 | - | 10 | 10 | - | | | | | |
| EPS (annualised.) (Rs.) | 14.1 | 8.1 | - | 10.7 | 1.7 | - | | | | | |
| P/E | 11.0 | 19.2 | - | 14.5 | 91.4 | - | | | | | |

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