

7 January 2008

BUYPrice
Rs414Target Price
Rs536

Sensex -20,687

Price Performance

(%)	1M	3M	6M	12M
Absolute	18	(5)	0	6
Rel. to Sensex	13	(21)	(39)	(43)

Source: Bloomberg

Stock Details

Sector	Biotechnology
Reuters	PNCA.BO
Bloomberg	PNCB@IN
Equity Capital (Rs mn)	67
Face Value	Rs1
52 Week H/L	Rs 494/315
Market Cap(Rs bn)	27.6
Daily Avg Volume (No of shares)	24107
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

Promoters	66.2
FII/NRI	21.9
Institutions	1.7
Private Corp.	5.6
Public	4.5

Source (31st Mar.'07)

Source: Capitaline

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Panacea Biotec

WHO approval for combination vaccines

Stock update

Panacea Biotec has received much awaited WHO pre-approval for two of its combination vaccines, EasyFour (DTP + Hib) and Ecovac (DTP+Hep). Company also expects WHO pre-approval for its pentavalent combination vaccine, Easyfive (DTP + Hib + Hep. B), in another month. We believe this approval a huge positive for the company, as the total market for these combination vaccine is worth \$400mn and we expect revenue of \$20mn for Panacea Biotec in FY09E from these combination vaccines (already factored in our estimates).

Other Potential Triggers

- **Recombinant Anthrax Vaccine for US**

US govt. has issued Draft RPF (tender) for 25 mn Anthrax dosage requirement (\$250mn estimated opportunity) and currently apart from Panacea, Avecia of Europe is the only other company who is likely to bid for this tender for Recombinant Anthrax Vaccine. We believe this opportunity may materialize in FY09, which we have not projected in our earning model. Panacea Biotec has already completed Phase I/ IIa clinical trials and Phase IIb is expected to be over in another 2-3 months.

- **JV with Family Vaccines for Philippines market**

Panacea Biotec has also entered into an MOA with Family Vaccines for exports of combination vaccines to the private market. Panacea Biotec would be the first entrant into the estimated US\$100mn combination vaccine market in Philippines (~10mn doses @ realization of US\$10 per dose) and we expect supplies to begin in 4QFY08E. We believe this deal may fetch \$10mn for Panacea in next 2 years.

- **Price hike will reflect from Q3 onwards**

Panacea Biotec's recent 10% price hike in polio vaccine to WHO will offset the lower price realization due to a strong rupee. The impact of price hike will be reflecting from Q3 onwards.

- **Possible collaborations for NDDS based products in US/EU and Launch of Organ Transplant Products in Brazil**

Outlook and Valuations

We estimate Q3FY08 revenues to be at Rs2100mn, a growth of 7%. However, because of higher operating cost, increased SG&A expenses on new division 'OncoTrust' and higher depreciation cost on account of new vaccine facility will result PAT to be at Rs210mn, down by 22% y-o-y. Though we do believe that FY08 would be more of a consolidation year, real growth will start reflecting from FY09 onwards. Key risk to our call remains an escalation in rupee appreciation.

We maintain our FY08 and FY09 consolidated earnings estimates at Rs.23.1 and Rs.34 respectively. At CMP of Rs.414, stock is trading at 12.7x of FY09E EPS of Rs.34. Maintain 'Buy' with a price target of Rs 536.

Financials

Year	Net Sales	EBIDTA		PAT	EPS	ROE	P/E	EV/	P/BV	Div. Yld
End	(Rs mn)	Core	(%)	(Rs mn)	(Rs)	(%)	(x)	EBIDTA (X)	(x)	(%)
FY06	5419	1191	22.0	545	7.6	39.4	50.4	19.6	14.2	0.3
FY07	8424	2239	26.6	1453	20.4	32.5	18.9	12.4	3.7	0.3
FY08E	9602	2523	26.3	1647	23.1	20.2	16.7	11.0	3.1	0.3
FY09E	12381	3578	28.9	2423	34.0	24.0	11.3	7.8	2.4	0.3

Income Statement

March (Rs. in mn)	FY05	FY06	FY07	FY08E	FY09E
Net Sales	3279	5419	8424	9602	12381
Growth (%)	25	65	55	14	29
Expenses	2679	4228	6185	7079	8803
Growth (%)	19	58	46	14	24
Raw Materials	1575	2678	3837	4369	5507
% of sales	48	49	46	46	44
Employee cost	373	460	834	951	1189
% of sales	11	8	10	10	10
Manufacturing exps	198	320	413	442	496
% of sales	6	6	5	5	4
R&D	141	281	500	650	813
% of sales	4	5	6	7	7
Selling & Dist exps	394	489	600	666	800
% of sales	12	9	7	7	6
EBIDTA	600	1191	2239	2523	3578
Growth (%)	55	99	88	13	42
EBIDTA %	18.3	22.0	26.6	26.3	28.9
Other income	56	72	305	160	150
Interest	114	133	152	27	36
Depreciation	140	143	273	368	460
Misc. Exp. W/O	0				
PBT	402	987	2119	2287	3231
Total Tax	129	394	642	640	808
Effective tax rate (%)	32	40	30	28	25
PAT (Before E/O items)	273	593	1477	1647	2423
E/O items	(12)	1	0	0	0
Prof. Div.	49.7	46.4	23.8	0.0	0.0
APAT	235	545	1453	1647	2423
Growth (%)	54	132	167	13	47
NPM	7.2	10.1	17.2	17.2	19.6

Source: Company, Emkay research

Cash Flow Statement

March (Rs. in mn)	FY05	FY06	FY07	FY08E	FY09E
Pre-tax profit	402	987	2119	2287	3231
Depreciation	140	143	273	368	460
Chg in working cap	(284)	602	(860)	(821)	(650)
Tax paid	(69)	(283)	(506)	(640)	(808)
Operating cash Inflow	189	1449	1026	1194	2233
Capital expenditure	(439)	(1135)	(1496)	(1000)	(1000)
Free Cash Flow	(250)	315	(470)	194	1233
Investments	1	0	(168)	0	0
Equity Capital Raised	0	-144	4450	0	0
Loans Taken / (Repaid)	(123)	4252	(6589)	100	50
Dividend (incl tax)	(147)	(112)	(101)	(84)	(84)
Others	(28)	34	0	0	0
Increase in Msc Exp	5	5	0	0	0
Net chg in cash	(542)	4349	(2878)	210	1200
Opening cash position	642	100	4449	1571	1782
Closing cash position	100	4449	1571	1782	2982

Source: Company, Emkay research

Balance Sheet

March (Rs. in mn)	FY05	FY06	FY07	FY08E	FY09E
Equity share capital	57	57	71	71	71
Share Premim	169	25	4460	4460	4460
Other Reserves	990	1470	2846	4409	6749
Networth	1216	1552	7377	8941	11281
Deferred tax liability	136	247	383	383	383
Diventure/pref. Share	904	5367	0	0	0
Secured Loans	510	380	178	178	178
Unsecured Loans	1101	1020	1	101	151
Loan Funds	1611	1400	178	278	328
Total Liabilities	3867	8566	7938	9602	11992
Gross Block	1681	2134	4597	5597	6597
Less: Depreciation	561	740	1012	1381	1841
Net block	1120	1394	3584	4216	4756
Capital work in progress	285	967	0	0	0
Investment	0	0	168	168	168
Current Assets	3291	7734	5762	6449	8602
Inventories	1934	1817	2153	2482	3088
Sundry debtors	786	767	1053	1200	1548
Cash & bank balance	100	4449	1571	1782	2982
Loans & advances	471	701	985	985	985
Other assets	0	0	0	0	0
Current liabilities	844	1539	1585	1241	1544
Current liabilities	601	1030	1076	1241	1544
Provisions	243	509	509	0	0
Net current assets	2447	6195	4176	5208	7058
Misc expenditure	14	10	10	10	10
Total Assets	3867	8566	7938	9602	11992

Source: Company, Emkay research

Key Ratios (%)

March	FY05	FY06	FY07	FY08E	FY09E
Profitability (%)					
EBIDTA margin	18.3	22.0	26.6	26.3	28.9
PAT margin	7.2	10.1	17.2	17.2	19.6
ROCE	11.2	15.8	22.3	23.7	28.7
ROE	20.4	39.4	32.5	20.2	24.0
Per share data (Rs.)					
EPS (Consolidated)	4.1	7.6	20.4	23.1	34.0
CEPS	6.6	12.1	24.2	28.2	40.4
BVPS	21.3	27.2	103.4	125.3	158.0
DPS (Rs)	1.5	1.0	1.0	1.0	1.0
Valuations					
P/E	93.6	50.4	18.9	16.7	11.3
Cash PE	58.7	31.9	15.9	13.6	9.5
P/BV	18.1	14.2	3.7	3.1	2.4
EV / Net Sales	7.2	4.3	3.3	2.9	2.2
EV / EBITDA	39.3	19.6	12.4	11.0	7.8
Dividend Yield (%)	0.4	0.3	0.3	0.3	0.3
Turnover (x) Days					
Debtors T/O	87.5	51.6	45.0	45.0	45.0
Inventory T/O	215.3	122.4	90.0	90.0	90.0
Gearing Ratio					
Total Debt/Equity (x)	1.3	0.9	0.0	0.0	0.0

Source: Company, Emkay research

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