

Pharmaceutical

EARLIER RECO

Hold	
Price	₹ 545
Target	₹ 650
Date	October 07, 2010

SHARE HOLDING (%)

Promoters	48.3
FII	3.8
FI	14.1
Body Corporates	6.7
Public & Others	27.1

STOCK DATA

Reuters Code	UNLB.BO	
Bloomberg Code	UL IN	
BSE Code	506690	
NSE Symbol	UNICHEMLAB	
Market Capitalization*	₹ 19,325.5 mn US\$ 438.3 mn	
Shares Outstanding*	36.1 mn	
52 Weeks (H/L)	₹ 581 /238	
Avg. Daily Volume (6m)	17,089 Shares	
Price Performance (%)		
1 M	3M	6M
20	15	33
200 Days EMA: ₹ 418		

*On fully diluted equity shares



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Outlook for the Company

Unichem Laboratories Limited (UL) is an integrated specialty pharmaceutical company involved in API and Formulation business. UL is present in areas of cardiology, neurology, orthopedics and anti-infectives. It generates majority of its revenues from Domestic market which is expected to grow significantly going forward. The top-line during Q2 FY11 grew on the back of y-o-y growth in domestic and international formulation business. Domestic Formulation Business grew at 14.8% y-o-y while International Formulation Business grew at 31.0% y-o-y during Q2 FY11. This was slightly offset by de-growth of 12.3% y-o-y in Domestic API business with International API business remaining flat. The top-line performance was in line with our estimates and we continue to be positive on the future prospects of the company. At the current market price of ₹ 536, UL is available at valuation of 9.5x its FY12E EPS of ₹ 56.1. We initiated coverage with a BUY at levels of ₹ 400 for initial target price of ₹ 561. At levels of ₹ 545, we recommended investors to book partial profits and HOLD balance for revised target price of ₹ 650. We maintain our HOLD rating on the stock at current levels for target price of ₹ 650.

Financial Highlights

Quarter Ended September FY 1011

₹ Mn

Particulars	Q2FY1011	Q2FY0910	Y-o-Y (%)	FY0910	FY0809	Y-o-Y (%)
Standalone				12 mts	12mts	
Net Sales	2,000.8	1,732.8	15.5	6,838.4	6,488.7	5.4
Other Op. Income	19.6	13.7	43.1	67.6	80.0	(15.5)
Total Income	2,020.4	1,746.5	15.7	6,906.0	6,568.7	5.1
Expenditure	1,524.4	1,283.5	18.8	5,112.5	5,206.4	(1.8)
Operating Profit	495.9	463.0	7.1	1,793.5	1,362.2	31.7
Interest	1.7	3.1	(45.2)	5.1	6.4	(21.0)
Depreciation	67.0	52.8	26.9	214.5	199.2	7.6
Other Income	20.0	16.9	18.3	65.8	104.1	(36.8)
PBT	447.3	424.1	5.5	1,639.8	1,440.9	13.8
Tax	100.1	84.3	18.7	303.7	192.0	58.2
PAT	347.2	339.8	2.2	1,336.1	1,248.9	7.0
Equity Capital*	180.5	180.3	0.1	180.3	180.3	-
EPS	9.6	9.4	2.1	37.1	34.6	7.2
Gross Cash Flow	414.2	392.6	5.5	1,550.5	1,448.1	7.1
OPM(Net Sales)%	24.8	26.7	-	26.0	20.7	-

* FV of ₹ 5.

- Unichem Ltd's net sales increased by 15.5% y-o-y during Q2 FY11 to ₹ 2,000.8 mn which is in line with our estimates.
- At the Operating level, UL recorded growth of 7.1% to ₹ 495.9 mn on y-o-y basis. Margins declined to 24.8% during Q2 FY11 as against 26.7% achieved during same period last year.
- Depreciation cost increased by 26.9% during Q2 FY11 to ₹ 67.0 mn and tax expense increased 18.7% y-o-y on account of higher MAT rate.
- UL's net profit grew 2.2% y-o-y during Q2 FY11 at ₹ 347.2 mn.
- EPS during Q2 FY11 increased 2.1% y-o-y to ₹ 9.6.

Result Highlights

- Domestic Formulation business grew at 14.8% y-o-y to ₹ 1,573.2 mn however UL witnessed sharp decline in its Domestic API business which declined 12.3% y-o-y to ₹ 39.3 mn. The decline in API business was primarily due to debottlenecking exercise undertaken by UL. Growth in the Domestic Formulation business was driven by Domestic branded formulations which grew by 19.1% y-o-y. This was slightly offset by decline in Domestic generic business.
- In terms of International operations, UL's Formulations business grew by 31.0% y-o-y during Q2 FY11 and API business stood flat at ₹ 93.9 mn.
- Domestic markets contributed 80.6% to the net sales whereas 19.4% was contributed by Exports.
- Total Raw Materials consumption as percentage of sales declined to 32.3% as against 35.8% during the same period last year.
- EBITDA margins declined by 193 bps due to increase in headcount related expenses, increase in Marketing expenses, higher R&D expenses and commissioning of new plants at Baddi and Sikkim.
- Net profit for Q2 FY 2011 stood at ₹ 347.2 mn as against ₹ 339.8 mn achieved during Q2 FY10. The decline in EBITDA, higher depreciation costs and increased tax provision due to higher rate of MAT affected the growth in net profit.
- UL's European subsidiary Niche Generics Limited recorded topline of GBP2.36 mn and incurred loss of GBP0.22 mn during Q2 FY11. UL's USA subsidiary Unichem Pharmaceuticals USA Inc., recorded topline of USD0.77 mn and loss of USD0.16 mn during Q2 FY11. UL's Brazilian Subsidiary, Unichem Pharmaceuticals Do Brasil Ltda, recorded topline of BRL0.03 mn and Net Loss of BRL0.29 mn during Q2 FY11.
- During Q2 FY11, The National Pharmaceutical Pricing Authority (NPPA) slashed prices of Sun Pharma and UL's combination blood pressure medicines Spironolactone and Torsemide. This did not affect UL as contribution of these drugs to UL's topline is insignificant.

RECOMMENDATION

We initiated coverage with a BUY at levels of ₹ 400 for initial target price of ₹ 561. At levels of ₹ 545, we recommended investors to book partial profits and HOLD balance for revised target price of ₹ 650. We continue to maintain our positive outlook considering future growth prospects and its subsidiaries turning profitable. We therefore recommend investors to HOLD the stock at current levels for target price of ₹ 650.

Please Note that our technical calls are totally independent of our fundamental calls.

Additional information with respect to any securities referred to herein will be available upon request.

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