

Venus Remedies

 BSE code: 526953
 NSE code: VENUSREM

CMP: Rs 444
Target: Rs 708
BUY
Alok Dalal

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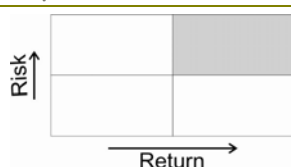
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Company data

Particulars	
Market cap (Rs bn / US\$ mn)	4.3/106.6
Outstanding equity shares (mn)	8.4
52-week high/low (Rs)	582/350
6-month average daily volume	11,484

Financial snapshot

Particulars	FY07	FY08	FY09E
Sales (Rs mn)	1,413.0	2,136.1	3,123.6
Growth (%)	53.3	51.2	46.2
Rep net profit (Rs mn)	287.8	422.0	640.7
Growth (%)	68.8	46.6	51.8
FDEPS (Rs)	30.0	44.0	66.7
Growth (%)	68.8	46.6	51.8
P/E (x)	14.8	10.1	6.7
RoE (%)	63.6	54.4	51.1

Risk-return profile

Shareholding pattern

(%)	Mar-08	Dec-07
Promoters	25.6	25.9
FIs	21.7	17.0
Banks & FIs	0.0	0.0
Public	52.7	57.1

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Venus	444	10.7	(3.6)	(8.7)
Sensex	17,600	14.7	(5.7)	(10.2)
BSE HC	4,289	11.5	13.8	10.2

Company website www.venusremedies.com
Robust margin expansion

Venus Remedies' Q4FY08 results were in line with estimates. The company posted strong 77% YoY topline growth led by an estimated 57% increase in domestic market sales to Rs 463mn coupled with a 170% rise in exports. Key brands like Ronem, Mucomelt and Neutrotol witnessed over 35% YoY growth, while patented products also clocked a healthy performance. Exports are gaining momentum with Venus selling products in 10-12 semi-regulated markets. A strong product mix and increasing contribution from exports led to a 180bps expansion in the EBITDA margin, whereas PAT witnessed a growth of 62% to Rs 123.1mn for the quarter.

FY08 has been another robust year with strong growth in the domestic market and sustained momentum in exports. We believe Venus has the necessary infrastructure in place to achieve a revenue CAGR of 47.4% over FY08-FY10 driven by new product launches in the domestic market, increasing penetration of semi-regulated markets and entry into regulated markets in mid-FY09. EBITDA margins will remain strong over this period as the product mix improves and the contribution from exports increases. With a robust earnings CAGR of 54.7% expected over FY08-FY10 to Rs 1bn and valuations at 4.2x FY10E earnings, 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	625.8	599.7	4.4
EBITDA	167.0	148.2	12.7
PAT	123.1	127.2	(3.2)
EPS (Rs)	14.7	15.1	(3.2)

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q4FY08	Q4FY07	Growth (%)	FY08	FY07	Growth (%)
Net sales	625.8	354.1	76.7	2,136.1	1,412.2	51.3
Expenditure	(458.8)	(266.0)	72.5	(1,575.9)	(1,063.9)	48.1
Operating profit	167.0	88.1	89.6	560.2	348.3	60.8
Other income	0.7	9.0	(92.6)	3.4	35.3	(90.4)
Interest	(16.5)	(4.0)	312.5	(42.2)	(21.5)	96.3
Depreciation	(12.4)	(7.5)	65.0	(45.6)	(27.9)	63.4
PBT	138.8	85.6	62.1	475.9	334.2	42.4
Tax	(15.7)	(9.6)	63.5	(53.9)	(46.8)	15.1
RPAT	123.1	76.0	62.0	422.0	287.4	46.8
OPM (%)	26.7	24.9	180bps	26.2	24.7	160bps
FDEPS (Rs)	12.8	7.9	62.0	44.0	29.9	46.8

Source: Company, Religare Research

Result highlights

Best quarterly performance with 77% YoY topline growth

Strong all-round performance leads to sales growth of 77%

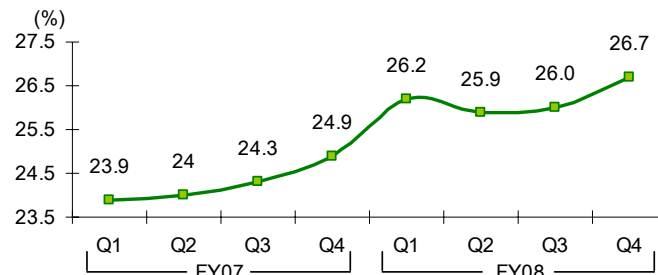
Venus has posted its best quarterly performance with a 77% YoY topline growth led by an estimated 57% increase in domestic market sales to Rs 463mn coupled with an increase of ~170% in exports. Key brands like Ronem, Mucomelt and Neutrotol witnessed over 35% YoY growth, while patented products also clocked a healthy performance. Venus successfully launched three new specialty products for the critical care segment in its domestic operations division, apart from four new products for hormones and pre-filled syringes under strategic marketing tie-ups with various pharma companies.

Exports are gaining momentum with Venus selling products in 10–12 semi-regulated markets. With key regulatory approvals expected in FY09 and contract manufacturing opportunities for European companies, the company is on track to expand operations in 40 countries outside India by 2010.

EBITDA margin expands 180bps YoY to 26.7%

Strong topline growth has resulted in a 180bps YoY expansion in the EBITDA margin to 26.7%. The gross margin improved sharply by 1,860bps to 74.9% as the contribution from high-margin exports has started increasing while the product mix has improved. Other expenses as a percentage of sales declined by 130bps to 12.3%, as commissioning of phase-II of the Baddi unit started realising its potential, decreasing overheads.

EBITDA margin trend



Source: Company

Net profit expands 62%, in line with estimates

The strong operational performance has led to a 62% YoY bottomline growth for the company, in line with our estimates. The quarter saw higher depreciation due to commissioning of phase-II at Baddi during March 2007 as well as Venus' state-of-the-art R&D centre. Venus reported an FDEPS of Rs 12.8 for the quarter.

Recent developments

DCGI permission for fifth patented product, to be launched in June 2008

Venus has received DCGI permission to launch its fifth research product, which will be marketed as the only solution for the treatment of infections in cystic fibrosis patients. The patent application for this drug is already in process and it shall be launched in June after completion of Phase III clinical trials. The domestic market size for the product is estimated at Rs 1bn.

Receives DCGI approval to launch novel treatment for infections in cystic fibrosis patients

Antibiotic treatment of bacterial infections in children likely to hit markets in FY10

Filed seventh patented product with IPO

Venus recently filed its seventh patent application with the Indian Patent Office (IPO) for a novel antibiotic treatment of bacterial or multi-bacterial infections in children. The patent titled "A Low Dose Combination Anti-biotic Formulation" is an FDC (fixed dose combination) of a latest generation carbapenem and a latest generation aminoglycoside. The management expects this FDC to be the best available solution for the treatment of multi-bacterial infections in neonatals and children, being 4-8 times more effective at low dosage levels. The product is likely to hit the markets in FY10.

Valuation

Maintain Buy with target of Rs 708

FY08 has been another robust year with strong growth in the domestic market and sustained momentum in exports. We believe Venus has the necessary infrastructure in place to achieve a revenue CAGR of 47.4% over FY08-FY10 driven by new product launches in the domestic market, increasing penetration of semi-regulated markets and entry into regulated markets in mid-FY09 (through contract manufacturing for leading European pharma majors).

New launches and growing market penetration will ensure strong growth, Buy

EBITDA margins will remain strong over this period as the product mix improves and the contribution from exports increases. With a robust earnings CAGR of 54.7% expected over FY08-FY10 to Rs 1bn and valuations at 4.2x FY10E earnings, 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.

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
4-Mar-08	Company Update	427	708	Buy
5-May-08	Results Update	444	708	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	1,413.0	2,136.1	3,123.6	4,639.9
Growth (%)	53.3	51.2	46.2	48.5
EBITDA	349.0	560.2	832.7	1,263.0
Growth (%)	63.7	60.5	48.6	51.7
Depreciation	21.5	42.2	55.5	66.3
EBIT	327.6	518.0	777.2	1,196.7
Growth (%)	60.5	58.1	50.0	54.0
Interest	27.9	45.6	58.3	63.2
Other income	22.2	3.4	1.0	1.0
EBT	321.8	475.8	719.9	1,134.4
Income taxes	34.0	53.8	79.2	124.8
Effective tax rate (%)	10.6	11.3	11.0	11.0
Adjusted net income	287.8	422.0	640.7	1,009.6
Growth (%)	68.8	46.6	51.8	57.6
Reported net income	287.8	422.0	640.7	1,009.6
Growth (%)	68.8	46.6	51.8	57.6
Shares outstanding (mn)	8.4	8.4	8.4	9.6
Basic EPS (Rs) (adj)	34.1	50.1	76.0	105.2
FDEPS (Rs) (adj)	30.0	44.0	66.7	105.2
DPS (Rs)	3.0	3.5	4.0	4.5

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	287.8	422.0	640.7	1,009.6
Depreciation	21.5	42.2	55.5	66.3
Other adjustments, net	9.7	(54.2)	(15.3)	29.2
Changes in working capital	(38.7)	(246.6)	(231.2)	(384.7)
Cash flow from operations	280.3	163.4	449.7	720.5
Capital expenditure	(708.6)	167.4	(200.0)	(150.0)
Change in investments	(170.3)	(329.7)	(200.0)	(200.0)
Other investing inc/(exp)	-	-	-	-
Cash flow from investing	(878.9)	(162.3)	(400.0)	(350.0)
Free cash flow	(598.6)	1.2	49.7	370.5
Issue of equity	0.2	-	-	11.7
Issue/repay debt	633.6	68.0	70.0	(478.0)
Dividends paid	(41.2)	(48.5)	(73.7)	(116.1)
Other financing cash flow	19.8	6.3	9.6	521.1
Cash flow from financing	612.4	25.8	5.9	(61.3)
Change in cash & cash eq	13.8	26.9	55.7	309.2
Opening cash & cash eq	15.3	29.1	56.0	111.7
Closing cash & cash eq	29.1	56.0	111.7	420.9

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	29.1	56.0	111.7	420.9
Accounts receivable	93.9	263.4	470.7	737.3
Inventories	181.0	270.0	325.0	525.0
Others current assets	129.8	239.4	326.1	442.1
Current assets	433.7	828.8	1,233.5	2,125.3
Long-term investments	170.3	500.0	700.0	900.0
Net fixed assets	567.6	725.4	869.8	953.6
CWIP	417.4	50.0	50.0	50.0
Other assets	-	-	-	-
Total assets	1,589.0	2,104.2	2,853.3	4,028.8
Accounts payable	47.8	55.0	67.0	110.0
Others	85.0	127.2	191.3	292.2
Current liabilities	132.8	182.2	258.3	402.2
Debt funds	850.0	918.0	988.0	510.0
Other liabilities	20.7	38.6	65.0	148.2
Equity capital	84.3	84.3	84.3	96.0
Reserves	501.2	881.0	1,457.7	2,872.4
Shareholder's funds	585.5	965.3	1,542.0	2,968.4
Total liabilities	1,589.0	2,104.2	2,853.3	4,028.8
BVPS (Rs)	69.4	114.5	182.9	309.2

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	24.7	26.2	26.7	27.2
EBIT margin (%)	23.2	24.2	24.9	25.8
Net profit margin (%)	20.4	19.8	20.5	21.8
FDEPS growth (%)	68.8	46.6	51.8	57.6
Receivables (days)	22.0	30.5	42.9	47.5
Inventory (days)	55.5	52.2	47.4	45.9
Payables (days)	14.3	11.9	9.7	9.6
Current ratio (x)	3.3	4.5	4.8	5.3
Quick ratio (x)	1.9	3.1	3.5	4.0
Interest coverage ratio (x)	11.3	10.3	12.0	17.0
Debt / equity (x)	1.5	1.0	0.6	0.2
ROE (%)	63.6	54.4	51.1	44.8
ROA (%)	26.0	22.9	25.8	29.3
ROCE (%)	32.7	30.7	34.4	38.5
EV/Sales (x)	3.6	2.4	1.6	1.1
EV/EBITDA (x)	14.7	9.1	6.2	4.1
P/E (x)	14.8	10.1	6.7	4.2
P/BV (x)	6.4	3.9	2.4	1.4

Source: Company, Religare Research

RELIGARE RESEARCH

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Recommendation parameters

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

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

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