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**Elder Pharmaceuticals Ltd.****(Rs. 367.00, FY09E - P/E 8.2x, BUY with a Target Price of Rs. 535)**

Particulars (Rs Mn)	Q4FY08	Q4FY07	%YoY	FY08	FY07	%YoY
Net sales	1564.0	1182.4	32.3	5481.4	4492.5	22.0
Other Income	17.9	4.8	270.7	43.3	47.1	-8.0
Total Income	1581.9	1187.2	33.2	5524.7	4539.6	21.7
Total Expenditure	1248.9	945.5	32.1	4376.6	3712.5	17.9
EBDITA	333.0	241.7	37.8	1148.1	827.1	38.8
EBDITA (%)	20.2	20.0	0.6	20.2	17.4	16.1
Interest	57.4	41.1	39.9	193.6	128.2	51.1
Depreciation	36.4	26.1	39.5	126.5	87.9	43.8
PBT	239.2	174.6	37.0	828.0	611.0	35.5
Provision for tax	35.0	25.0	40.0	110.0	83.3	32.1
PAT	204.2	149.6	36.5	718.0	527.7	36.1
Equity Capital	187.9	185.7	1.2	187.9	186.0	1.0
EPS (Rs)	10.9	8.1	35.0	38.2	28.9	32.4

Source: Company

**Elder registers 32% YoY topline growth for quarter ended March, 2008**

*Elder reported 32% YoY growth in top line in Q4FY08 on the back of strong performance of its leading brands*

The company reported decent performance during the fourth quarter ended March 2008. Its top line grew by 32.3% YoY to Rs 1564 mn during Q4FY08 as compared to corresponding quarter last year. For full year FY08, total revenue increased by 22% YoY to Rs 5481.4 mn. The growth in revenues was mainly on account of strong performance by its leading brands like Shelcal, Chymoral, Eldervit etc. Also, new launches during the year supported the revenue growth momentum. Its new launches like 'Phitomega', 'Shelcal CT' and 'Hibor' received mega response. The company expects this new launches to become mega brand going ahead. The company has plans to launch 8 new products in FY09. In Q4FY08, Elder reported EBDITA growth of 37.8% YoY to Rs 333 mn as compared to Rs 241.7 mn in corresponding quarter last year. For FY08, EBDITA growth stood at 38.8% YoY to Rs 1148.1 mn. The Total expenditure increased by 32.1% YoY to Rs 1248.9 mn in Q4FY08. For FY08, total expenditure increased by 18% YoY to Rs 4376.6 mn. The company successfully brought down its other expenses and maintained its material costs and staff costs at a same level as a percentage of net sales during the period.

*Elder's EBDITA margin grew by 280 basis points to 20.2% in FY08 compared to 17.4% for last year*

Elder's EBDITA margin remained stable at 20.2% during the fourth quarter ended March 2008. For full year FY08, EBDITA margin grew by 280 basis points to 20.2% as compared to 17.4% for last year. The company witnessed margin expansion mainly on account of shifting its manufacturing operations to tax free zone of Himachal Pradesh. The operating margin expansion was restricted as the company commissioned one more facility for topical dosage forms at the excise free zone and the initial set up cost of that restricted the margin expansion. Elder is setting up another plant in excise free zone of Uttarakhand which is expected to be commissioned by June 2008. With these capacity additions, the tax free zones facilities would gradually cater ~75% of domestic formulation sales by FY09E from the current level of ~40%. Interest expenses grew by 40% to Rs 57.4 mn in Q4FY08 and 51% to Rs 193.6 mn in FY08. This is mainly on account of ECB of US \$20 mn raised to fund the expansion plans. On account of new capacities coming in tax free zones and higher capital expenditure, depreciation increased by 43.8% YoY to Rs 126.5 mn in FY08.

*Net profit grew by 36.5% YOY in Q4FY08 and 36.1% in FY08*

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Elder recorded 36.5% YoY growth at net profit level to Rs 204.2 mn during Q4FY08 compared to corresponding quarter last year. For FY08, net profit witnessed growth of 36.1% YoY to Rs 718 mn.

### Business Outlook and Valuation –

*Elder has become preferred partner for the foreign firms due to its strong sales force of over 1,600 employees and wide distribution network*

Apart from having strong own-product portfolio and premium brands, Elder Pharma has successfully adapted in-licensing model and expanded its product portfolio. Unlike its peers, Elder always chose the in-licencing model over manufacturing of generic versions of patented molecules, which has helped it build high credibility in the international space. Elder has become preferred manufacturing and marketing partner for the foreign firms in India because of its strong sales force of over 1,600 employees spread all over the country and wide distribution network (31 C&F agents and over 3,000 stockists). Also it strictly abides by the laws of non-infringement of patent rights, the key quality that all the foreign companies look for in a domestic partner. At present, the company has over 30 in-licencing agreements in place. The company expects more in - licensing deals going ahead to enhance product portfolio and drive growth. Also, the Company has taken concrete steps to increase its exports and geographical reach. We believe acquisition of NeutraHealth and Biomeda are strategic decisions to increase its global reach. We believe the benefits of these initiatives will be seen over the next two to three years. We expect total exports to grow at CAGR 69.4% over FY07-FY10E. Moreover, these acquisitions have created CRAMS opportunity for the company. Also, Elder is on its way to generating substantial cost savings by shifting its manufacturing activities to tax-free zones of Uttaranchal and Himachal Pradesh. As more products start coming in from these facilities, the company will be able to reap the benefits of lower excise and tax rates. We expect Elder to report strong growth in net revenues at CAGR of 27% during FY07-FY10E. We expect the company to record Net profit growth at CAGR of 34% during FY07- FY10E.

### Financial Estimates

Particulars	FY09E	FY10E
Net Sales (Rs Mn)	7128.8	9278.8
EBITDA (Rs Mn)	1415.0	1867.7
EBITDA(%)	18.9	19.4
PAT (RS Mn)	835.4	1188.3
EPS (Rs)	44.6	63.5
P/E (x) AT Rs 367	8.2	5.8

Source: Emkay Private Client Research

*We maintain BUY at target price of Rs 535*

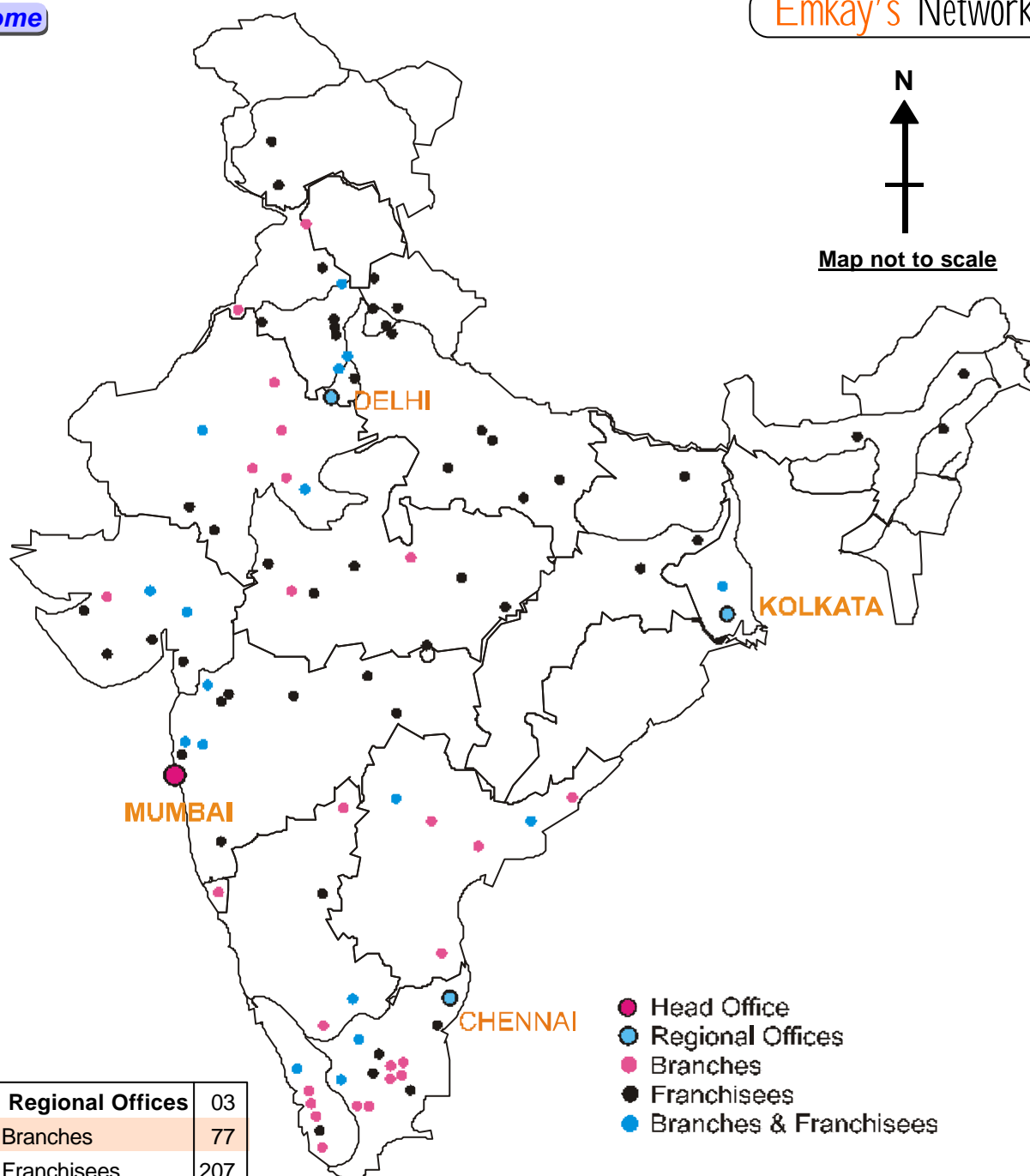
The company has also lined up series of new product launches to drive growth going forward. We are quite optimistic about Elder's future revenue growth. The stock is currently trading at 8.2x FY09E EPS of Rs 44.6 and 5.8x FY10E EPS of Rs. 63.5. It is trading at 7.2x FY09E and 5.6x FY10E EV/EBDITA. We believe these valuations are attractive and offer excellent long term investment opportunity considering its strong growth potential through in-licensing agreements, series of new product launches, presence in niche segments, likely CRAMS opportunities, expected growth in exports via acquisitions, effective cost cutting measures and substantial tax benefits arising from shifting its manufacturing activities to new plants located in tax free zones. We maintain 'BUY' on the stock with target price of Rs. 535.

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Emkay's Network



Map not to scale



Total Regional Offices	03
Total Branches	77
Total Franchisees	207

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Analyst's holding in the stocks mentioned in the report: **NIL**

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