

**COMPANY UPDATE ✓**

# Elder Pharma (ELDPHA)

**WHAT'S CHANGED...**

PRICE TARGET.....	Changed to Rs 267 from Rs 324
EPS (FY09E).....	Changed to Rs 33.9 (adjusted) from Rs 38.3
EPS (FY10E).....	Changed to Rs 47.5 from Rs 53.9
RATING.....	Unchanged

**Current Price**  
 Rs 221

**Target Price**  
 Rs 267

**Potential upside**  
 21%

**Time Frame**  
 12-15 months

**OUTPERFORMER**
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## Riding on domestic portfolio...

Elder Pharma (EPL) is one of the leading India-focused plays in the domestic pharma industry. Lower international exposure, consistent delivery and focus on niche segments increases EPL's earning visibility. EPL recently started to expand outside India inorganically. We like its slow and steady geographical expansion plans, which would limit the potential risk on a mid-sized player like EPL. For international expansion, the company plans to follow a strategy of inorganic expansion, wherein it does not intend to buy 100% stake in the target company. Following a similar strategy, EPL plans to increase its stake in a UK-based AIM-listed Neutrahealth from the existing 21% to 60% once the shareholders of Neutrahealth approve the transaction. We believe the transaction will be earnings accretive to EPL post consolidation. In domestic markets, EPL is likely to grow consistently at a CAGR of 12% over the next two years.

We believe new product launches (both from its own stable and through in-licensing) will keep Elder Pharma on a high growth trajectory on account of its strong field force of more than 2000 people and strong presence in the niche segments as such.

We believe Elder will register topline CAGR of ~12% and bottomline CAGR of ~17.6% through FY08-11E. Currently, Elder Pharma is trading at a P/E of 6.5x and 4.7x FY09E and FY10E earnings, respectively. On an EV/EBITDA basis, it is trading at 5.4x FY10E EBITDA. We maintain our **OUTPERFORMER** rating on EPL with a target price of Rs 267, 21% higher than the CMP.

**Stock data....**

Market Cap.	Rs 415.9 Crore
Debt (FY08)	Rs 341.6 Crore
Cash	Rs 79.0 Crore
EV	Rs 678.5 Crore
52 week H/L	Rs 395/210
Equity capital	Rs 18.8 Crore
Face value	Rs 10
MF Holding (%)	1.2
FII Holding (%)	16.4

**Exhibit 1: Financial Summary**
**Rs Crore**

	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
Net Sales	259.4	281.8	350.8	447.3	551.2	613.0	696.6	769.7
Gr. %		8.6	24.5	27.5	23.2	11.2	13.6	10.5
EBITDA	36.2	42.6	63.7	78.0	105.0	113.5	138.1	163.0
Interest	11.6	11.4	11.4	12.8	19.4	29.2	25.5	25.3
Depreciation	3.3	3.9	6.2	8.8	12.7	16.4	16.0	12.9
Net PAT	15.8	18.7	38.1	49.2	69.7	63.8	89.3	113.4
Gr. %		18.6	103.4	29.2	41.6	-8.5	39.9	27.1
EBITDA margin (%)	13.9	15.1	18.2	17.4	19.1	18.5	19.8	21.2
NPM (%)	6.1	6.7	10.9	11.0	12.6	10.4	12.8	14.7
EPS	14.4	11.7	21.8	26.5	37.1	34.0	47.5	60.3
PE (x)	15.4	18.9	10.1	8.3	6.0	6.5	4.7	3.7
EV/ EBITDA (x)	10.0	10.8	8.6	7.6	6.5	6.4	5.4	4.3
EV/Sales	1.4	1.6	1.6	1.3	1.2	1.2	1.1	0.9
Mcap/Sales	0.9	1.3	1.0	0.9	0.7	0.7	0.6	0.5
ROCE (%)	12.6	11.5	12.6	13.1	13.6	12.8	14.3	15.5
RONW (%)	15.1	9.4	14.9	15.2	19.2	14.9	17.4	18.2

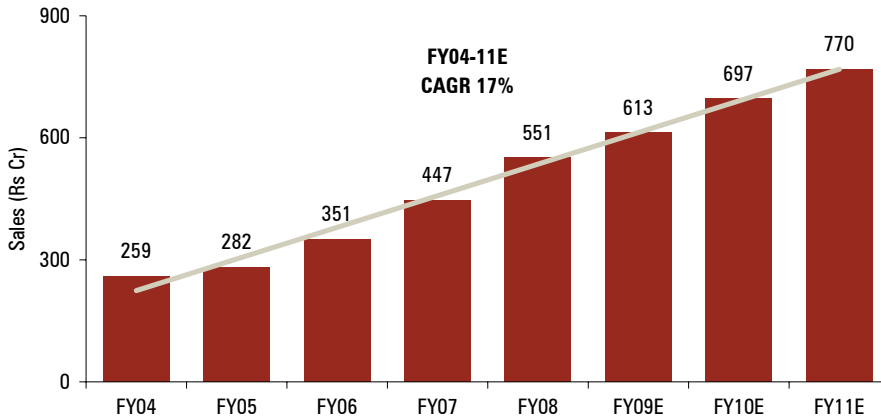
Source: Company, ICICIdirect.com Research

## Financials

### Decent topline growth

The topline is likely to witness robust growth at a CAGR of 12% over FY08-11E to Rs 769.7 crore (excluding the revenue accretion, which may come post Neutrahealth acquisition). Launch of new products and leadership in niche segments would keep the domestic topline growth upbeat. We believe expansion in international markets would complement domestic business growth, going forward.

#### Exhibit 2: Sales Trend

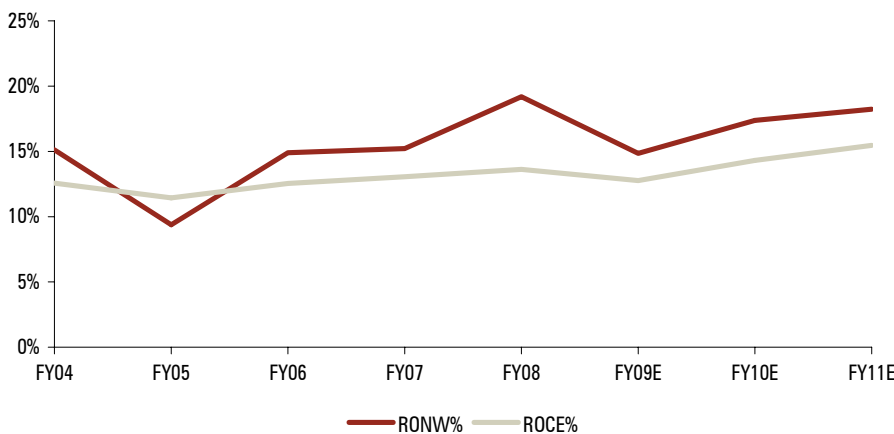


Source: Company, ICICIdirect.com Research

### Margin expansion to help improve return ratios

Q1FY10E onwards, Elder would start launching new products in the domestic market. We expect a margin expansion post its own production of raw material for the cephalosporin based formulation, which the company plans to manufacture at its Langa road facility post September 2009. Moreover, the margins would further get a boost on the company's plans to increase production from excise free zones, which would save excise and tax expenditure. We believe the bottomline will register a CAGR of ~17.5% over FY08-11E, which would lead to an increase in the return ratios.

#### Exhibit 3: Return ratios likely to expand on rise in net profit

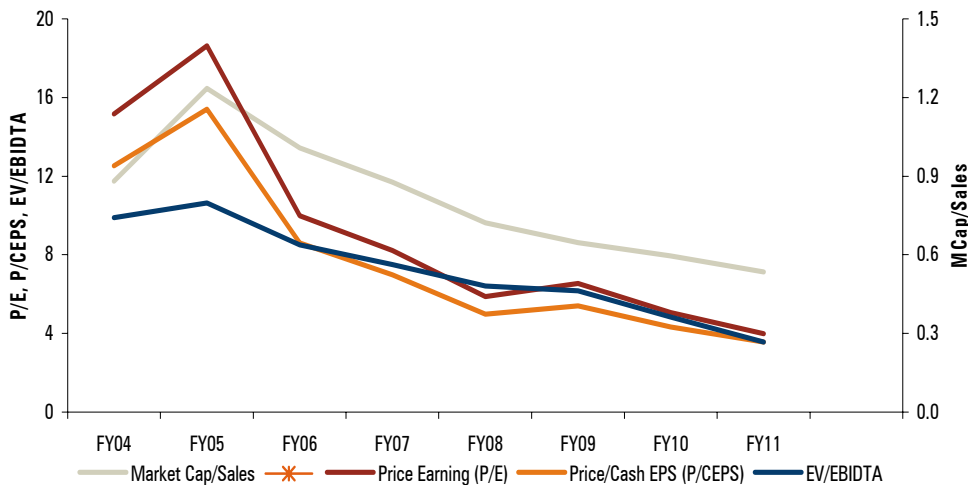


Source: Company, ICICIdirect.com Research

## Valuations

Despite the economic slowdown, we maintain that Elder will continue to grow at a CAGR of 12% over FY08-11E. Though Elder has made inroads into the global market through the inorganic route, we believe the acquisitions would add meaningfully to the EPS only after the company is successful in acquiring a 60% stake in Neutrahealth. We expect Elder's revenue and profits to grow at a CAGR of ~12% and ~17.6%, respectively, through FY08-11E. In light of the global economic slowdown and declining valuations of global equities, we have slashed our target P/E for Elder but maintain our **OUTPERFORMER** rating on the stock with a 12-15 months target price of Rs 267.

### Exhibit 4: Valuations at historic low

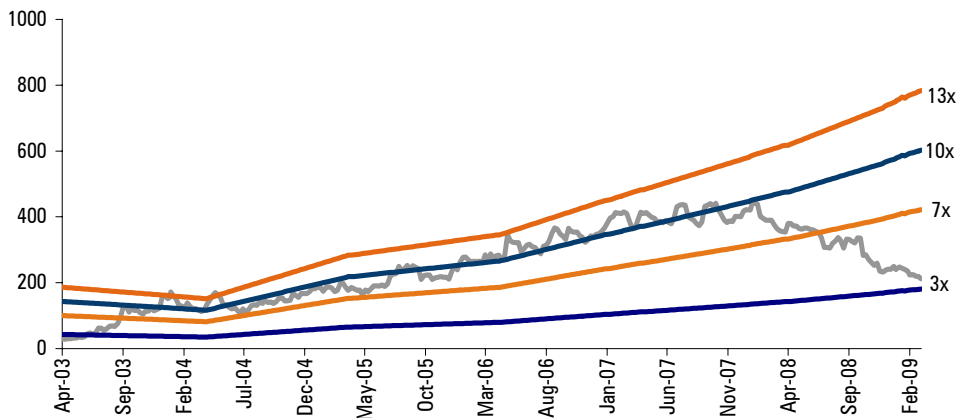


Source: Company, ICICIdirect.com Research

## P/E Band

The P/E band over the last four years suggests Elder has mostly traded at a P/E of over 7x one-year forward earnings. However, currently its valuation has declined to a P/E of 4x, the lowest during the last four years. The one year forward P/E band suggests the stock is trading at historically low valuations.

### Exhibit 5: P/E Band



Source: Company, ICICIdirect.com Research

**Exhibit 6: Profit & Loss A/c**

	FY08	FY09E	FY10E	FY11E
Net Sales	551.2	613.0	696.6	769.7
Growth %	23.2	11.2	13.6	10.5
Op Profit	105.0	113.5	138.1	163.0
Growth %	34.7	8.0	21.7	18.0
Other Income	4.3	4.2	6.0	5.6
Depreciation	12.7	16.4	16.0	12.9
EBIT	96.7	101.2	128.1	155.7
Growth %	30.9	4.6	26.6	21.5
Interest	19.4	29.2	25.5	25.3
PBT	77.4	72.0	102.6	130.4
Growth %	26.6	-6.9	42.4	27.1
Taxation	11.0	8.2	13.3	16.9
Net Profit	69.7	63.8	89.3	113.4
change YoY %	41.6	-8.5	39.9	27.1
EPS	37.1	34.0	47.5	60.3

Source: Company, ICICIdirect.com Research

**Exhibit 8: Ratios**

	FY08	FY09E	FY10E	FY11E
EPS	37.1	34.0	47.5	60.3
Cash EPS	43.8	42.7	56.0	67.1
Book Value	193.0	228.2	272.8	330.3
OPM (%)	19.1	18.5	19.8	21.2
NPM (%)	12.6	10.4	12.8	14.7
RoNW	19.2	14.9	17.4	18.2
RoCE	13.6	12.8	14.3	15.5
Debt/ Equity	0.9	0.8	0.7	0.6
Fixed Asset T/o	3.4	2.0	1.8	1.7
EV/ Sales	1.2	1.2	1.1	0.9
EV/ EBIDTA	6.5	6.4	5.4	4.3
Price/ BV	1.1	1.0	0.8	0.7
Debtors T/o	3.9	3.9	3.9	3.9
Inventory T/o	6.8	6.8	6.7	6.7
Current Ratio	4.3	4.7	4.3	4.8

Source: Company, ICICIdirect.com Research

**Exhibit 7: Balance Sheet**

	FY08	FY09E	FY10E	FY11E
Equity Share Capital	18.8	18.8	18.8	18.8
Reserves & Surplus	344.4	410.7	494.7	602.8
Secured Loan	170.4	188.8	209.0	230.4
Unsecured Loan	171.2	169.0	167.0	150.0
Deferred Tax	5.2	5.2	5.2	5.2
Total	710.0	792.5	894.7	1007.2
Net Block	169.2	311.3	410.0	457.4
Total Assets	710.0	792.5	894.7	1007.2
Investments	87.9	10.0	100.0	140.0
Cash	79.0	42.0	41.3	96.4
Trade Receivables	139.6	158.6	180.0	198.9
Loans & Advances	70.7	78.9	89.6	99.0
Inventory	83.7	93.7	106.9	118.2
C.L.& Provision	87.5	81.2	97.6	106.8
Total	710.0	792.5	894.7	1007.2

Source: Company, ICICIdirect.com Research

**Exhibit 9: Cash Flows**

	FY08	FY09E	FY10E	FY11E
Profit after tax	69.7	63.8	89.3	113.4
Misc. Exp.	0.0	0.0	0.0	0.0
Dividend Paid	-5.5	-5.3	-5.3	-5.3
Depreciation	12.7	16.4	16.0	12.9
Prov for deferred tax	-0.3	0.0	0.0	0.0
CF before WC change	76.5	75.0	99.9	121.0
Net Inc.in C.L.	-20.1	-6.4	16.4	9.2
Net Inc.in C.A.	-3.8	37.3	45.3	39.6
C.F.after WC changes	60.2	31.3	71.0	90.6
Purchase of F.A.	67.7	170.2	-0.1	0.0
(Inc)/Dec in Inv.	51.0	-77.9	90.0	40.0
Inc/(Dec) in Debt	105.1	16.2	18.2	4.4
Inc/(Dec) in Eq. cap.	-24.3	7.8	0.0	0.0
Op balance C&CE	61.0	83.2	46.2	45.5
Closing C&CE	79.0	42.0	41.3	96.4

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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**Outperformer (OP):** 20% or more;

**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (U):** -10% or more;

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