

## PAT below expectation; maintain Buy

 30<sup>th</sup> October 2009

### BUY

Price	Target Price
<b>Rs157</b>	<b>Rs225</b>

Sensex –	<b>16,053</b>
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#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(20)	(8)	112	(16)
Rel. to Sensex	(16)	(13)	51	(53)

Source: Bloomberg

#### Stock Details

Sector	Pharmaceuticals
Reuters	PNCA.BO
Bloomberg	PNCB@IN
Equity Capital (Rs mn)	67
Face Value (Rs )	1
No of shares o/s (mn)	67
52 Week H/L (Rs )	207/51
Market Cap (Rs bn /USD mn)	10/211
Daily Avg Vol (No of shares)	62117
Daily Avg Turnover (US\$ mn)	0.2

#### Shareholding Pattern (%)

	30-Sep-09	30-Jun-09	31-Mar-09
Promoters	68.7	68.7	68.0
FII/NRI	14.1	14.5	16.3
Institutions	3.0	2.3	1.0
Private Corp	9.8	10.3	10.3
Public	4.4	4.1	4.4

Source: Capitaline

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Panacea's reported mix set of numbers with a) Revenue grew by 15% to Rs1.69bn (est. of Rs1.65bn), b) Operating margins were flat at 16.6% (est. of 23%) and c) APAT of Rs21mn vs. loss of Rs20mn in Q2FY09 (est. of 128mn). Though revenue was in-line mainly because of 16% growth in vaccine business and 9% growth in formulation business, operating performance was mainly impacted because of higher contribution of TOPV vaccine where the realizations are low. Moreover, dollar depreciation had adverse impact at operational level as company had raw material at higher cost and revenue realization was at lower level. These two things have resulted gross margins to come down from 67.4% in Q2FY09 to 56.8% in Q2FY10 (on QoQ basis, gross margins were down by 1200 bps).

Since the supply of high margin MOPV1 has already resumed to UNICEF from Oct' 2009 onwards and with Pentavalent supply starting from Jan' 10 onwards, we expect company to report strong set of numbers from Q3FY10E onwards. We maintain our earning estimates of Rs13.9 and Rs22.5 for FY10E and FY11E and reiterate our 'Buy' rating with a target price of Rs225.

#### Revenue up by 15% YoY

During the quarter, the company reported a revenue growth of 15% to Rs 1688mn. The growth was mainly on the back of 15.5% YoY and 9.1% YoY growth in the vaccine and formulation segment respectively. However QoQ basis, the vaccine sales have declined by 9.9%. As mentioned in our Q1FY10 result update we had expected the vaccine sales to remain under pressure for one more quarter and expect to pickup from Q3FY10E onwards because of supply of MOPV1 as well as Pentavalent vaccine. During August 2009, the company received an order of US\$222mn from UNICEF for Easy Five which we believe will not only enhance the long term visibility in the revenue but it will also reduce its dependency on OPV business.

#### Segment wise revenue break-up

	Q2FY10	Q2FY09	Grwth YoY%	H1FY10	H1FY09	Grwth YoY%
<b>Vaccines</b>	<b>1050.4</b>	<b>909.1</b>	<b>15.5%</b>	<b>2258.9</b>	<b>2505.9</b>	<b>-9.9%</b>
<b>OPV</b>	<b>720</b>	<b>840</b>	<b>-14.3%</b>	<b>1675.7</b>	<b>2362</b>	<b>-29.1%</b>
<b>JV</b>	<b>90</b>	<b>40</b>	<b>125.0%</b>	<b>151.7</b>	<b>115</b>	<b>31.9%</b>
<b>Pentavalent</b>	<b>240</b>	<b>0</b>		<b>427</b>	<b>0</b>	
<b>Others</b>		<b>20</b>				
<b>Formulation</b>	<b>613.2</b>	<b>562.1</b>	<b>9.1%</b>	<b>1185.3</b>	<b>1229.1</b>	<b>-3.6%</b>
<b>Domestic</b>	<b>560</b>	<b>480</b>	<b>16.7%</b>	<b>1088.8</b>	<b>972</b>	<b>12.1%</b>
<b>Export</b>	<b>50</b>	<b>80</b>	<b>-37.5%</b>	<b>86.3</b>	<b>255</b>	<b>-66.2%</b>
<b>Revenues</b>	<b>1664</b>	<b>1471</b>	<b>13.1%</b>	<b>3444</b>	<b>3735</b>	<b>-7.8%</b>

#### EBIDTA margins remain flat to 16.6%

On the operating front, EBIDTA for the quarter increased by 15% YoY however the EBIDTAM% remained flat to 16.6% vs. our estimate of 23%. The pressure on margins was primarily on the back of 1054 bps increase in raw material cost due to lower contribution of high margin OPV business.

#### APAT down by 84% QoQ

Inspite of higher interest cost (up by 66%) and lower other income (down by 80%) the company reported a profit of Rs 21mn as compared to a loss of Rs 441mn in Q2FY09. After adjusting the forex loss of Rs 420mn in Q2FY09, the company reported a profit of Rs 21mn as compared to a loss of Rs 20mn. However on QoQ basis the company has reported a 84% decline in the bottomline primarily due to contraction in margins and lower other income.

### Outlook and Valuation

With MOPV1 supply already commenced from Oct' 09 onwards and Pentavalent supply to UNICEF starting from Jan'10 onwards, we believe worst is behind us. We are of the view that from here onwards, Panacea Biotech will have strong earning traction both on YoY and QoQ basis. Just to put the things in perspective, in 1HFY10, the EPS for Panacea Biotech was Rs2.1. We expect the second half EPS for Panacea Biotech to be at Rs11.8 which indicate very strong YoY and QoQ growth. On the back of strong revenue and earning visibility, we maintain our earning estimates of Rs13.9 and Rs22.5 for FY10E and FY11E and reiterate our 'Buy' rating with a target price of Rs225.

### Financials

Y/E, Mar (Rs. mn)	Q2FY10	Q2FY09	Y-o-Y Gr.(%)	Q1FY10	Q-o-Q Gr.(%)	H1FY10	H1FY09	Y-o-Y Gr.(%)	FY10E	FY11E
Net Sales	1688	1469	14.9%	1772	-5%	3497	3714	-5.8%	9367	11435
Expenses	1409	1225	15%	1352	4%	2760	2874	-4%	7070	8417
Raw Materials	729	479	52%	697	5%	1426	1281	11%	3185	3899
Employee cost	271	234	16%	231	17%	502	466	8%	1138	1418
Other expenses	409	512	-20%	424	-3%	833	1128	-26%	2747	3100
EBIDTA	280	244	15%	421	-34%	737	839	-12%	2297	3018
Other income	13	63	-80%	49	-75%	25	117	-78%	215	208
Interest	100	60	66%	98	2%	198	109	82%	370	244
Depreciation	162	150	8%	161	1%	322	287	12%	902	977
Misc Exp W/O	0	-420		0		0	0			
PBT	30	-323	-109%	211.2	-86%	242	564	-57%	1239	2005
Total Tax	9	117	-92%	80.9	-89%	90	244	-63%	309.7	501.2
Effective tax rate (%)	30	-36		38.3		37	43		25.0	25.0
PAT	21	-441	-105%	130.3	-84%	152	320	-53%	929	1503
E/O items	0	-420		0.0		0	0			
<b>Adjusted PAT</b>	<b>21</b>	<b>-20</b>	<b>-204%</b>	<b>130.3</b>	<b>-84%</b>	<b>152</b>	<b>320</b>	<b>-53%</b>	<b>929</b>	<b>1503</b>
<b>FDEPS</b>	<b>0.3</b>	<b>-0.3</b>	<b>-204%</b>	<b>1.8</b>	<b>-84%</b>	<b>2.1</b>	<b>4.5</b>	<b>-53%</b>	<b>13.9</b>	<b>22.5</b>
<b>Operational Matrix</b>										
Raw Materials	43.2	32.6	1050 bps	31.2	1200 bps	40.8	34.5	630 bps	34	34
Employee cost	16.0	15.9	15 bps	10.0	610 bps	14.4	12.5	180 bps	12	12
Other expenses	24.2	34.9	(1060) bps	29.9	(565) bps	23.8	30.4	(655) bps	29	27
EBIDTA %	16.6	16.6	-	29.0	(1245) bps	21.1	22.6	(155) bps	24.5	26.4
Net Margin (%)	1.3	-1.4	-	10.9	(970) bps	4.3	8.6	(430) bps	9.9	13.1

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