Emkay Research

Venus Remedies

Result Update

Results below expectations

3rd February 2009

BUY

Price	Target Price
Rs196	Rs275

Sensex –	9149

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	(13)	(53)	(57)
Rel. to Sensex	(6)	(2)	(24)	(12)

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	VENR.BO
Bloomberg	VNR@IN
Equity Capital (Rs mn)	85
Face Value (Rs)	10
No of shares o/s (mn)	8
52 Week H/L (Rs)	490/143
Market Cap (Rs bn /USD mn)	2/41
Daily Avg Vol (No of shares)	8588
Daily Avg Turnover (US$ mn)	0.0

Shareholding Pattern (%)

	31/12/08	30/9/08	30/6/08
Promoters	25.8	25.8	25.8
FII/NRI	24.2	24.4	23.2
Institutions	3.5	2.1	2.1
Private Corp.	22.7	23.2	24.2
Public	23.9	24.5	24.8

Source: Capitaline

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Venus Remedies Q3FY09 numbers were below expectations. Revenue grew by 13% (est. of 17%) to Rs651mn, however on QoQ basis, its decline by 7% on the back of a) 14% QoQ decline (11% YoY decline) in revenues from strategic partners and b) Lower growth from export formulation business. The decline in revenues from strategic partners is primarily on account of inventory rationalizations and delay in the payments by few partners (where receivables have gone as high as 75-90 days from 30 days). However its own marketing division has continued to do well and grew by 33% YoY to Rs195mn. During Q3FY09, the company launched 8 new speciality products for the Critical care segment in its Domestic division. On the export front, lower than expected growth (up 17% YoY; down 11% QoQ) is mainly because of currency devaluations and conservative approach of the management towards receivables. On the operating front, EBIDTA declined by 2% to Rs147mn in Q3FY09. EBIDTA margins contracted by 340 bps to 22.6% in Q3FY09 mainly on the back of a) Increase in employee cost by 95 bps to 5% of sales and b) 313 bps increase in other expenses (22.6% of sales). Due to contraction in EBIDTA margin, lower other income and higher interest cost (up by 65%) in Q3FY09, the RPAT declined by 12% to Rs 99mn. On the back of lower revenue and earning growth coupled with inventory rationalization and cautious outlook of management towards receivables, we revised our earning estimates downward by 6% and 26% for FY09E and FY10E respectively. Due to downward revision in earnings, our target price has been revised downward to Rs275 (3.3xFY10E). We maintain Buy.

Revenue is impacted by lower growth in export formulation business

Revenues during Q3FY09 have grown by 13% to Rs651mn driven by new product launches (8 new specialty products for the Critical care segment) in its Domestic division. Domestic division during the quarter grew by 33% to Rs195mn. However, the lower growth in revenue is mainly because of a) 11% YoY decline in strategic tie-up segment and b) Company's conservative approach towards its export formulation business esp. in CIS countries (17% YoY growth; 11% QoQ decline), where because of economic crisis, company preferred to go slow. In strategic tie-up division, revenue de-grew by 11% YoY on the back of delay in the payments from some of the strategic partners and inventory rationalization because of economic crisis. During 9MFY09, the company reported a growth of 33% to Rs 2011mn (Rs 1510mn in 9MFY08).

EBIDTA margins contracted by 340 bps

EBIDTA margins for the quarter declined by 340 bps to 22.6% in Q3FY09. The contraction in the margin front was primarily on the on the back of a) 95 bps increase in employee cost and b) 310 bps increase in other expenses. The increase in the other expenditure was mainly due to change in the accounting policy from this year where company has started charging entire R&D expenses through P&L.

Higher interest cost and lower other income led to de-growth in PAT

During the quarter, the company reported a lower other income (down by 35%) and higher interest cost (up 65%). The RPAT declined by 12% to Rs 99mn (Rs 113mn in Q3FY08). For 9MFY09, the company reported a growth of 11% in RPAT to Rs 330mn (Rs 298mn in 9MFY08).

Segment-wise revenue break-up

Segment Breakup	Q309	Q308	Growth	Q209	Growth QoQ%
Domestic	195	147	32.9%	202	-3%
Exports	176	151	16.4%	197	-11%
Institution	33			12	174%
Strategic Tie -up	247	281	-11.9%	288	-14%
Total	**651**	**579**	**12.5%**	**700**	**-7%**

Recent developments

- Venus Remedies has successfully launched 8 new specialty products for the Critical Care segment in its Domestic Operations Division.
- The company has submitted 97 product dossiers for registration in 16 countries across the globe.
- The company has got 38 product registrations from 8 countries.
- Venus Remedies has US$12mn outstanding FCCBs (conversion price Rs437; YTM @ 6.3%, Total liability at redemption- $14mn), due for redemption in July2009. Management has indicated that they are planning to buyback the FCCBs, by raising fresh debt. We believe that raising the fresh debt may not be an issue for the company as the net gearing will be 0.5x in FY10E (after raising fresh debt to buyback the FCCBs)

Revised FY09 and FY10 earning estimates downward by 6% & 26%

On the back of inventory rationalization by strategic partners, slowdown in export formulation business, cautious outlook of management because of current economic crisis coupled with lower than expected growth in revenues and earnings, we have revised our earning estimates downward by 6% and 26% for FY09E and FY10E respectively. Our revised EPS for FY09E and FY10E is Rs51 and Rs60 respectively.

	FY09E	FY10E
Revenue (Rs mn)		
Old Estimate	3001	4241
New Estimate	2635	3162
% Change	-12%	-25%
EBIDTA Margins		
Old Estimate	24.0%	24.1%
New Estimate	23.9%	23.8%
% Change	-10 bps	-30 bps
PAT		
Old Estimate	521	781
New Estimate	429	504
% Change	-18%	-35%
EPS (Rs)		
Old Estimate	53.7	80.5
New Estimate	50.8	59.6
% Change	-6%	-26%

Valuations and outlook

Venus Q3FY09 result was primarily impacted because of current economic crisis, which led to inventory rationalization by domestic partners and lower growth in export formulation because of management cautious approach to its business towards CIS markets. Similarly in domestic market also, company has witnessed increase in receivables because of delay in payments by strategic partners. Though, we do believe that the underlying business model is still robust and has huge potential to grow, going forward, but because of current credit crisis, cautious outlook of management for next 2-3 quarters coupled with lower than expected growth in revenues and earnings, we have revised our earning estimates downward by 6% and 26% for FY09E and FY10E respectively. Due to downward revision in earnings, our target price has been revised downward to Rs275 (3.3X FY10E EPS of Rs59.6). We maintain Buy.

Key Financials

Income Statement	Standalone								Consolidated		
Y/E,Mar (Rs. mn)	Q3FY09	Q3FY08	Y-o-Y Gr.(%)	Q2FY09	Q-o-Q Gr.(%)	9MFY09	9MFY08	Y-o-Y Gr.(%)	FY08A	FY09E	FY10E
Net Sales	651	579	13%	700	-7%	2011	1510	33%	2165	2635	3162
Expenses	504	428	18%	536	-6%	1541	1117	38%	1652	2005	2410
Raw Materials	380	342	11%	408	-7%	1159	885	31%	1288	1581	1894
% of sales	58	59		58		58	59		59	60	60
Employee cost	30	21	42%	27	10%	83	51	65%	119	148	177
% of sales	5	4	95	4		4	3		5	6	6
Other expenses	94	65	44%	101	-8%	298	181	64%	246	276	339
% of sales	14	11		14		15	12		11.4	10.5	10.7
EBIDTA	147	151	-2%	163	-10%	470	393	20%	512	630	752
EBIDTA %	22.6	26.0		23.3		23.4	26.0		23.7	23.9	23.8
Other income	0.3	0.4	-35%	0	45%	1.4	2.8	-49%	19	10	10
Interest	20	12	65%	18	12%	56	33	67%	48	82	110
Depreciation	15	11	39%	14	6%	44	26	72%	50	75	84
EBIT	132	140	-5%	149		426	367	16%	462	565	678
EBIT %	20.3	24.1		21.2		21.2	24.3		21.4	21.4	21.4
PBT	112	128	-12%	131	-14%	372	337	10%	433	483	568
Total Tax	13	14	-12%	15	-14%	42	38	10%	75	55	64
Effective tax rate (%)	11.3	11.3	0%	11.3	0%	11.3	11.3	0%	17.4	11.3	11.3
PAT	99	113	-12%	116	-14%	330	299	10%	358	429	504
E/O items	0	1		0		0	1		0	0	0
RPAT	99	112	-12%	116	-14%	330	298	11%	358	429	504
Adjusted PAT	99	112	-12%	116	-14%	330	298	11%	358	429	504
Net Margin (%)	15.2	19.4		16.6		16.4	19.7		16.5	16.3	15.9
EPS (diluted)	11.8	13.4	18%	13.7	-14%	39.3	35.5	18%	36.9	50.8	59.6
FDEPS	10.2	11.7	-12%	11.9	-14%	34.0	30.8	10%	36.9	50.8	59.6

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