

BUZZING

STOCK

# Bal Pharma Ltd.

CMP – Rs.42

**Analyst**

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**Key Stock Data**

|                     |                 |
|---------------------|-----------------|
| Sensex              | 13949           |
| Nifty               | 4016            |
| Sector              | Pharmaceuticals |
| Bloomberg           | BLP@IN          |
| Reuters             | BAPL.BO         |
| No. of shares (m)   | 10              |
| Market Cap (Rs m)   | 453             |
| Market Cap (US\$ m) | 10              |
| 52-week H/L         | Rs.69/30        |

**Shareholding Pattern (%)**

|                  |       |
|------------------|-------|
| Promoters        | 51.68 |
| Mutual Funds     | 0.02  |
| FII's            | 0.00  |
| Corporate Bodies | 6.16  |
| Pubic & Others   | 42.13 |

Bal Pharma is a Bangalore based pharmaceutical company involved in manufacturing of formulations, bulk drugs, intermediates, fluids and ophthalmic solutions as well as marketing and distribution of finished drug dosage forms. It has got three manufacturing units located at Bangalore and Pune. Bal's strong marketing network is spread all over the country to promote branded formulations. The company's latest foray in the high profile Japanese market indicates good upside in revenues in future. It has been experiencing strong growth across all segments.

**Foray in Japanese Market :** A member of Bal's API portfolio, *Ebastine*, went off patent in FY05, which is registered with European drug authorities. The entry into Japanese and Spanish markets was on cards since last fiscal. *Ebastine* is an antihistaminic drug having estimated global market size of \$200 m, out of which a major pie of \$160 m is shared by Japan and Spain. The other drug to be marketed in Japanese market is Gliclazide, an antidiabetic bulk active. Japan is the third largest pharmaceutical market in the world with a size of \$60 bn. The company obtained foreign Manufacturer's accreditation from the Ministry of Health, Labour and Welfare and has been granted Japanese DMF. Many of the domestic companies have been trying to make it in Japanese market since Japanese officials have softened the norms about pharmaceutical market in Japan.

**State-of-art Manufacturing :** Bal has got three manufacturing units, out of which, two have been located at Bangalore while the third is situated at Pune. All three units confirm the GMP standards laid down by WHO. The Bangalore units produce formulations, bulk drugs and intermediates. Bal's Pune unit is equipped with Form, Fill and Seal (FFS) technology for small and large volume parenterals. It's also one of the four companies in country to have FFS technology being installed for small volume parenterals. High value niche products has been the focus of Bal. It's the lone manufacturer of Gliclazide in the country. An expansion at Bangalore facility has been planned to augment API manufacturing. It would also be setting up a formulations plant in the excise free zone of Uttaranchal.

**Marketing Network :** A strong marketing and distribution network spread across the country ensures the knowledge about Bal's products to general practitioners and traders. It also distributes generics throughout the country with the help of strong trade network. The company has got seven marketing divisions- Ethical, Serventus, Generics, Institutional, Exports, Bulk Drugs and Bal Vedics. Ethical is the main division with the portfolio comprising of gynaecology, antibiotics, anti-diabetics, antiseptics, antifungal and general products. Serventus is a specialized cardiology division. The management plans to intensify its marketing efforts in Institutional sales owing to strong growth. Bal has made its entry into ayurvedic products three years back and has 13 products under the division, Bal Vedics.

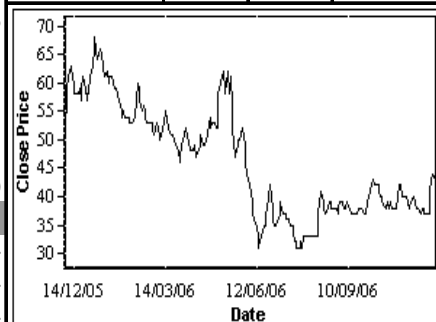
**Research and Development :** R&D Operations of Bal Pharma are centered on development of new formulations, quality improvement and increased output. The APIs in therapeutic areas like oncology, hypertension, allergic disorders and ophthalmic problems. It has also made a foray into development of active chiral intermediates. One of its R&D projects for pilot scale production of an API intermediary has been approved by the Government for partial grant.

**Strong Growth in FY06 :** The formulations division, major contributor to the revenue, Rs.310 m grew by 47% YoY in FY06. The 'Bal Vedics' which markets ayurvedic drugs increased its sales by 141%YOY at Rs.11.9 m in FY06. The API arm showed an upside of 70% in the sales at Rs.100 m.

**Valuation :** The revenue for Q2FY07 at Rs.183 m grew by 3.34% YoY. The EBITDA although showed a good upside of 26% YoY at Rs.27m. The EBITDA margin also increased by 260 bps on yearly basis due to better cost control in raw materials. The PAT of Rs.12.6m increased by 12.5% YoY. The stock is currently trading at 9x the annualized Q2FY07 EPS of Rs.4.8

### Financial Snapshot

| Bal Pharma Ltd.                       |            |            |             |      |      |             | Ratios (%)   |      |      |         |
|---------------------------------------|------------|------------|-------------|------|------|-------------|--------------|------|------|---------|
|                                       | Q2<br>FY07 | Q2<br>FY06 | Chg.<br>(%) | FY06 | FY05 | Chg.<br>(%) |              | FY06 | FY05 | Chg.(%) |
| <b>Financial Year End: March</b>      |            |            |             |      |      |             |              |      |      |         |
| Net Sales                             | 183        | 177        | 3           | 746  | 580  | 29          | Debt -Equity | 1.27 | 1.29 | (2)     |
| Other Income                          | 0          | 1          | (100)       | 11   | 1    | 1111        | PBIDTM       | 9.6  | 10.1 | (5)     |
| Total Income                          | 183        | 178        | 3           | 757  | 581  | 30          | PBDTM        | 5.7  | 5.8  | (1)     |
| Total Expenditure                     | 156        | 156        | 0           | 681  | 529  | 29          | RoCE         | 11   | 13   | (15)    |
| PBIDT                                 | 27         | 22         | 26          | 76   | 52   | 46          | RoNW         | 10   | 7    | 35      |
| Interest                              | 7          | 5          | 51          | 29   | 21   | 35          |              |      |      |         |
| PBDT                                  | 20         | 17         | 18          | 48   | 31   | 54          |              |      |      |         |
| Depreciation                          | 3          | 3          | 28          | 12   | 9    | 31          |              |      |      |         |
| Tax                                   | 2          | 2          | 0           | 0    | 6    | -93         |              |      |      |         |
| Reported Profit After Tax             | 13         | 10         | 21          | 29   | 13   | 122         |              |      |      |         |
| Extra -ordinary Items                 | 0          | (1)        | (100)       | (4)  | (2)  | (173)       |              |      |      |         |
| Adj. Profit After Extra-ordinary item | 13         | 11         | 13          | 33   | 15   | 127         |              |      |      |         |
| No. of shares (m)                     | 10         | 10         | -           | 10   | 7    | -           |              |      |      |         |
| EPS (annualised.) (Rs.)               | 4.8        | 4.0        | -           | 2.8  | 2.0  | -           |              |      |      |         |
| P/E                                   | 9.0        | 11.0       | -           | 15.4 | 21.7 | -           |              |      |      |         |



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