Prabhudas Lilladher

Ankur Drugs & Pharma

Roping in new clients

Q4 FY08 Result Update

April 17, 2008

Rating	**BUY**
Price	Rs242
Target Price	Rs389
Implied Upside	61.1%
Sensex	16,481

(Prices as on April 17, 2008)

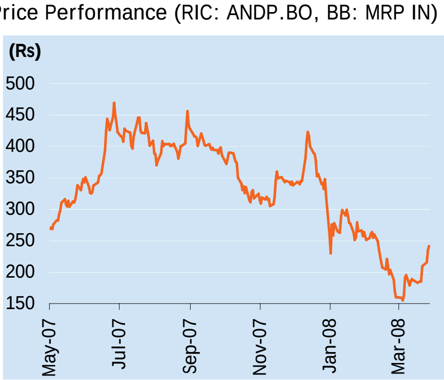
Trading Data	
Market Cap. (Rs bn)	6.3
Shares o/s (m)	26
Free Float	67.0%
Avg. Daily Vol ('000)	76.8
Avg. Daily Value (Rs m)	17.5

Major Shareholders	
Promoters	33.0%
Foreign	12.2%
Domestic Inst.	7.0%
Public & Others	47.8%

Stock Performance

(%)	1M	6M	12M
Absolute	28.6	(38.9)	NA
Relative	17.3	(27.0)	NA

Price Performance (RIC: ANDP.BO, BB: MRP IN)



Source: Bloomberg

- **Results:** Ankur Drugs & Pharma's (ADPL) Q4FY08 results were above our expectations. On consolidated basis, net sales grew by 80% YoY from Rs1.15bn to Rs2.08bn (we expected Rs1.86bn), mainly due to the new manufacturing facility at Baddi going on-stream during Q3FY08. The company's EBIDTA margin improved by 170bps from 14.9% to 16.6% YoY (we expected 16.5%), mainly due to decline in material cost. Personnel expenses declined by 40bps from 1.9% to 1.5% of net sales due to high sales growth and high level of automation in the new facility. The company's net profit grew by 119% YoY from Rs91m to Rs200m (we expected Rs161m).

- **Capex update:** ADPL set-up the greenfield manufacturing facility at a capital outlay of over Rs4.0bn at Baddi. The tablets and capsules facility went on-stream in Q3FY08. The company is also establishing dedicated manufacturing facility for rapid films and patches at a capital outlay of Rs1.5bn. ADPL's entire capex is now financed.

- **Valuation:** We expect the company to report 34% CAGR in net sales and 52% CAGR in net profit over the next two years. We also expect its EBIDTA margin to improve from 15.7% in FY08 to 17.6% in FY10 due to rapid expansion and entry into new range of products.

  At the CMP of Rs242, the stock trades at 10.0x FY08 EPS of Rs24.2, 5.9x FY09E EPS of Rs41.3 and 4.3x FY10E EPS of Rs55.6. We reiterate BUY rating on the stock with a price target of Rs389 (7x FY10 earnings) over the next 12 months, which is an upside of 61.1% over the current price.

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	3,732	6,739	9,863	12,182
Growth (%)	*173.5*	*80.6*	*46.4*	*23.5*
EBITDA (Rs m)	580	1,058	1,663	2,146
PAT (Rs m)	326	628	1,073	1,446
EPS (Rs)	12.5	24.2	41.3	55.6
Growth (%)	*107.0*	*92.6*	*70.8*	*34.7*
Net DPS (Rs)	2.0	2.0	2.5	2.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	*15.5*	*15.7*	*16.9*	*17.6*
RoE (%)	*60.5*	*32.0*	*26.3*	*25.4*
RoCE (%)	*16.9*	*15.9*	*16.1*	*17.6*
EV / sales (x)	1.4	1.4	1.1	0.8
EV / EBITDA (x)	9.2	8.8	6.4	4.5
PE (x)	19.2	10.0	5.9	4.3
P / BV (x)	3.3	1.8	1.3	1.0
Net dividend yield (%)	*0.8*	*0.8*	*1.0*	*1.0*

Source: Company Data; PL Research

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Highlights

Excellent sales growth

On consolidated basis, ADPL posted growth of 80% YoY in net revenue from Rs1.15bn to Rs2.08bn, due to the expansion facility going on-stream during Q3FY08. The company's tablet and capsule manufacturing facility went on-stream in October 2007 and has contributed substantially to sales. Moreover, the merger of Vaibhav Healthcare (VHL) was completed during the quarter. Hence, the results of both the quarters and FY08 are on consolidated basis.

Margin improved by 170bps

Due to decline in material cost, ADPL's EBIDTA margin improved by 170bps from 14.9% to 16.6% YoY. Material cost declined by 170bps from 79.7% to 78.0% of net sales due to change in product mix and efficiency in purchasing. Personnel expenses declined by 40bps from 1.9% to 1.5% of net sales, mainly due to high sales growth and high level of automation in the new manufacturing facility at Baddi. Other expenses increased by 40bps from 3.5% to 3.9% of net sales.

Cost structure as % of net sales and EBITDA margin

Particulars	Q3FY08	Q4FY08	FY08
Material cost	77.6	78.0	78.9
Personnel cost	1.6	1.5	1.6
Other expenses	4.5	3.9	3.8
EBIDTA margin	16.4	16.6	15.7

Source: PL Research

As seen from the above table, the company's EBIDTA margin has improved by 20bps QoQ. ADPL was able to reduce material cost in the last two quarters, and hence EBIDTA margin during the last two quarters were higher than FY08 margins. Increase in other expenses in the last two quarters was due to the commencement of new manufacturing facility at Baddi. We believe that with the stabilisation of production at this facility, expenses are likely to come down.

PAT grew by 119% YoY

On consolidated basis, ADPL's depreciation increased by 35% from Rs16m to Rs21m due to the new manufacturing facility at Baddi going on-stream. Interest cost increased by 80% from Rs44m to Rs79m during the quarter due to increase in working capital. ADPL's PBT for the quarter grew by 115% from Rs114m to Rs245m. Effective tax rate came down from 19.9% to 18.6%. This has resulted in a PAT growth of 119% from Rs91m to Rs200m.

Outlook

We expect the company to report improved growth in FY09 due to the benefits of merger of VHL with the company. Moreover, injectables, dry powder and suspension facilities are likely to go on-stream in April 2008 and are likely to contribute from Q1FY09 onwards.

ADPL has added one new customer – Rajasthan Antibiotics – during the quarter. The company is in the process of roping more customers for its new facility.

Novartis AG, Switzerland has entered into a long-term supply agreement with ADPL to outsource various products for its global requirements. This is likely to account for over 25% of its new capacity. The supplies of its Voveran range have already commenced. Moreover, Novartis India has commenced outsourcing of six products from ADPL. These products were previously being sourced from Emcure Pharma, Pune.

Concerns

ADPL's rapid film technology project has also been delayed by over two quarters. Any further delay in project execution is likely to affect sales and profitability of the company.

The reduction in excise duty from 16% to 8% on pharmaceutical formulations in the recent budget may result in lower sourcing from Baddi. However, the company has indicated that the company has not lost any customer after the excise duty reduction announcement.

Excellent growth in FY08

On consolidated basis for FY08, ADPL has reported 81% rise in net sales from Rs3.73bn to Rs6.74bn. Its EBIDTA margin has improved by 20bps from 15.5% to 15.7%. Net profit was up by 92% from Rs327m to Rs628m.

Valuation

We expect the company to report 34% CAGR in net sales and 52% CAGR in net profit over the next two years. We also expect its EBIDTA margin to improve from 15.7% in FY08 to 17.6% in FY10 due to the rapid expansion and entry into new range of products. Its rapid film technology and skin patches are likely to be introduced in Q2FY09. These are high margin products and are unlikely to face any competition as they are patented. Moreover, there is good scope for exporting these products to South-East Asian countries.

At the CMP of Rs242, the stock trades at 10.0x FY08 EPS of Rs24.2, 5.9x FY09E EPS of Rs41.3 and 4.3x FY10E EPS of Rs55.6. We reiterate BUY rating on the stock with a price target of Rs389 (7x FY10 earnings) over the next 12 months, which is an upside of 61.1% over the current price.

Q4FY08 result overview *(Rs m)*

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net sales	**2,075**	**1,153**	*80.0*	**1,799**	**3,732**	**6,737**	*80.5*
Expenditure							
Raw materials	1,619	919	*76.2*	1,395	2,961	5,315	*79.5*
as % of net sales	*78.0*	*79.7*		*77.6*	*79.3*	*78.9*	
Personnel expenses	31	22	*40.6*	28	73	108	*47.8*
as % of net sales	*1.5*	*1.9*		*1.6*	*2.0*	*1.6*	
Other expenses	82	40	*103.7*	80	118	256	*116.2*
as % of net sales	*3.9*	*3.5*		*4.5*	*3.2*	*3.8*	
Total expenditure	1,732	981	*76.6*	1,504	3,153	5,679	*80.1*
OPBDIT	**344**	**172**	*99.4*	**295**	**580**	**1,058**	*82.4*
Op. margin (%)	*16.6*	*14.9*		*16.4*	*15.5*	*15.7*	
Other income	2	2	*46.7*	1	3	5	*62.5*
PBDIT	**346**	**174**	*99.0*	**296**	**583**	**1,063**	*(45.2)*
Depreciation	21	16	*35.0*	19	60	72	*18.8*
Interest	79	44	*80.2*	70	129	245	*89.2*
PBT	**245**	**114**	*115.0*	**206**	**394**	**747**	*89.8*
Prov. for tax	46	23	*100.9*	39	68	119	*75.3*
% of PBT	*18.6*	*19.9*		*18.7*	*17.3*	*15.9*	
PAT	**200**	**91**	*118.5*	**168**	**326**	**628**	*92.8*
Extra-ordinary item	-	-	*NA*	-	(2)	-	*NA*
Reported PAT	**200**	**91**	*118.5*	**168**	**327**	**628**	*91.8*

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PL's Recommendation Nomenclature					
BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer** (OP)	:	5 to 15% Outperformance to Sensex
Market Performer (MP)	:	-5 to 5% of Sensex Movement	**Underperformer** (UP)	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly