

Unichem Laboratories (UNILAB)

₹ 197

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 171 to ₹ 217
EPS (FY13E).....	Changed from ₹ 13.4 to ₹ 14.8
EPS (FY14E).....	Changed from ₹ 17.1 to ₹ 18.1
RATING.....	Changed from Hold to Buy

Restructuring exercise delivering results...

Unichem reported better than expected Q2FY13 numbers. Net sales grew by ~33% to ₹ 261 crore (I-Direct Estimate: ₹ 253 crore) buoyed by ~74% growth in exports, which constitute 33% of the net sales. Exports growth along with ~21% growth in the domestic formulations enabled the company to improve on the EBITDA margins front which improved by ~474 bps to 20% (I-Direct Estimate: 18%). Robust profitability at the operating level helped the company to post robust 83% growth in the net profit to ₹ 35 crore (I-Direct Estimate: ₹ 31.5 crore) despite higher tax outgo. In the backdrop of successful restructuring, we have upgraded the stock from HOLD to BUY with multiple up-gradation.

Indian formulations growth on the back of restructuring and lower base

Domestic Branded formulations grew by 20.7% YOY to ₹ 172 crore driven by inventory rationalization during most part of FY12 which has brought down the channel inventory from ~90 days to less than 40 days at present. As per AWACS, the September quarter growth stood at 8.6% YoY as it is still reflecting the flow of old inventory in the channel.

Exports registered strong growth driven by both Formulations and APIs

Export formulations grew 76% to ₹ 58.1 crore as it registered ~₹ 12 crore sales from CRAMS business for a US customer and benefited from favourable currency. It filed 2 ANDAs during the quarter taking total ANDA count to 27. Of which, it received final approval for 11 products and launched 8 drugs till date. It has identified 10 products for generic filing over the next 3 quarters.

Successful business overhaul warrants re-rating

We have upgraded FY13E / FY14E EPS by one rupee each on the back of improved visibility post restructuring of domestic branded formulations as reflected in the H1FY13 numbers. Other growth drivers will be- 1) incremental product launches in the US and 2) improved off-take by CRAMS vendors. We expect revenues, EBITDA and net profit to grow at a CAGR of 14%, 17% and 20%, respectively, in FY12-14E. We have updated our target multiple from 9x at Q4FY12 to 12x for future targets. Our revised target price is ₹ 217, based on 12x FY14E EPS of ₹ 18.1. We recommend BUY.

Exhibit 1: Financial Performance

(₹ Crore)	Q2FY13 A	Q2FY13 E	Q2FY12	Q1FY13	YoY Gr. (%)	QoQ Gr. (%)
Revenues	264.3	253.0	198.8	264.9	32.9	-0.2
EBIDTA	52.9	46.3	30.4	47.8	74.1	10.7
EBIDTA Margin (%)	20.0	18.3	15.3	18.0		
Depreciation	8.2	8.5	6.9	8.3	18.7	-1.0
Interest	0.7	1.2	0.9	0.9	-24.1	-23.3
Reported PAT	35.1	31.5	19.1	33.1	83.2	5.8
EPS (₹)	3.9	3.5	2.1	3.7		

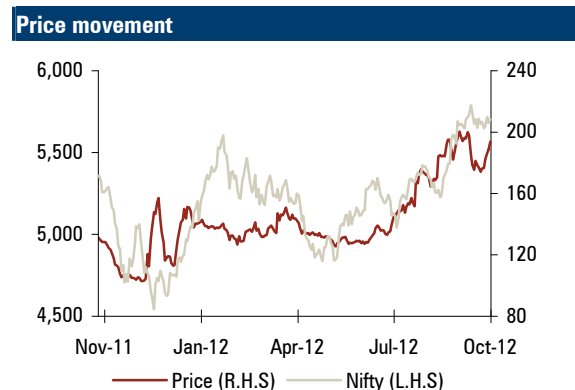
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 217
Target Period	: 12 months
Potential Upside	: 10 %

Key Financials				
(₹crore)	FY11	FY12	FY13E	FY14E
Revenues	824.0	875.5	1088.0	1240.3
EBITDA	150.1	118.3	200.6	244.4
Net Profit	95.0	71.3	133.9	163.5

Valuation summary				
	FY11	FY12	FY13E	FY14E
EPS (₹)	10.5	7.9	14.8	18.1
PE (x)	18.7	25.0	13.3	10.9
Target PE (x)	20.7	27.5	14.7	12.0
EV to EBITDA (x)	12.0	15.3	9.0	7.2
Price to book (x)	2.9	2.7	2.3	2.0
RoNW (%)	15.4	10.8	17.6	18.4
RoCE (%)	18.1	12.0	19.7	21.8

Stock data	
Market Capitalisation	₹ 1782 crore
Debt (FY12)	₹ 69 crore
Cash (FY12)	₹ 23 crore
EV	₹ 1828 crore
52 week H/L	203/101
Equity capital	₹ 18.08 crore
Face value	₹ 2
MF Holding (%)	9.9
FII Holding (%)	4.0

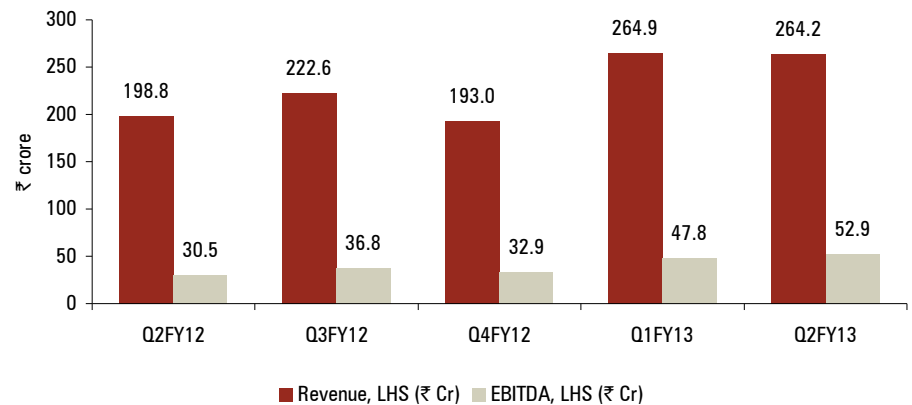


Analyst's name	
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Quarter Highlights

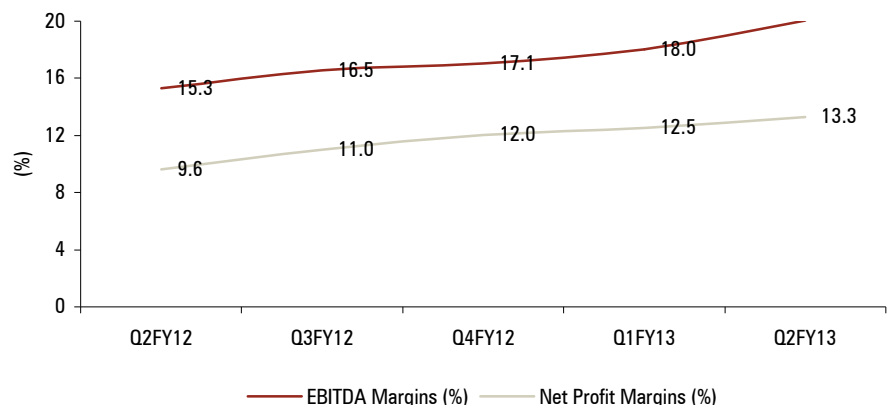
- Standalone Revenues increased by 33% YoY to ₹ 264.2 crore, slightly higher than our expectation of ₹ 253 crore driven by higher than anticipated growth in the domestic formulations business and API exports. The domestic formulations business grew by 20.5% to ₹ 172 crore on the back of strong growth in emerging brands like Unienzyme (Gastro Intestinal) and Telsar (Cardiac) and recovery in the power brands such as Losar (Anti-hypertensive).
- EBITDA margins improved by 470 bps YoY to 20% (higher than our estimates of 18.3%) on the back of recovery in the high margin domestic branded formulations business and favourable currency. The 200 bps improvement in margins on QoQ basis came in as a surprise despite addition of 150 MRs in the first half. EBITDA in value terms increased by 74% to ₹ 52.9 crore, higher than our estimates of ₹ 46.3 crore.
- Higher growth in sales coupled with improvement in EBITDA margins led the net profit growth of 83.2% to ₹ 35.1 crore, higher than our estimates of ₹ 31.5 crore.

Exhibit 2: Trends in Revenues & EBITDA



Source: Company, ICICIdirect.com Research

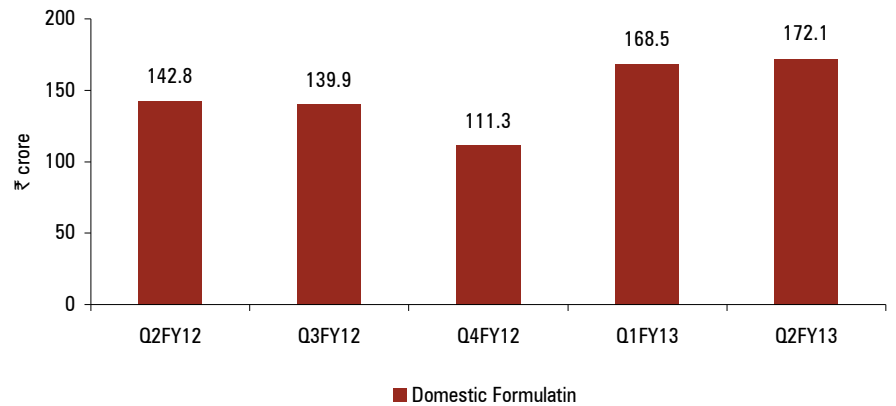
Exhibit 3: Trends in EBITDA & Net profit margins (%)



Source: Company, ICICIdirect.com Research

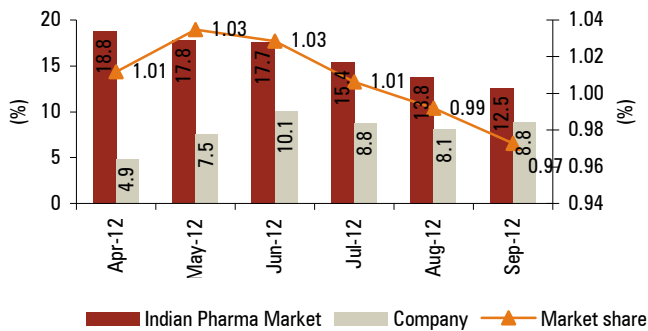
After completion of restructuring the domestic formulations business in FY12, the company has posted strong growth of 20.7% in the domestic formulations business to ₹ 172 crore. It had reduced inventory in the channel from 90 days earlier to 40 days now. The management is confident of maintaining optimum re-order level with the company's distributors. It also started converting their distributors business into C&F business model. The company had added 150 MRs in the first half mainly to support the cardiac division. As per management, the attritions rate of MR has come down due to change in the HR policy which also facilitated higher growth in the domestic formulations business

Exhibit 4: Domestic formulations grew by 20.7% YoY



Source: Company, ICICIdirect.com Research

Exhibit 5: Domestic formulation performance



Source: AIOCD data base, ICICIdirect.com Research

As per AWACS AIOCD data, the September quarter growth stood at 8.6% YoY as it is still reflecting the flow of old inventory in the channel. However the data also reflects that power brands such as the Losar group (Anti-hypertensive) and Unienzyme (GI) have crawled back to normalized growth rate.

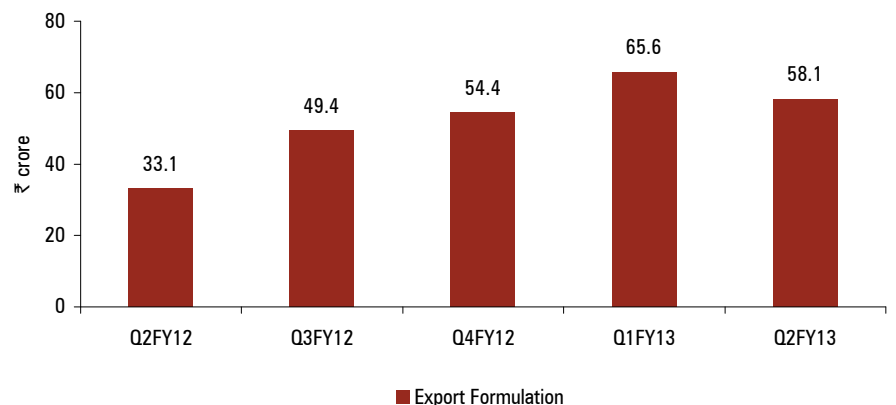
Export formulations grew 76% to ₹ 58.1 crore as it registered ~₹ 12 crore sales (₹ 21 crore in Q1) from the recently started CRAMS business for a US customer and benefited from favorable currency. However, on QoQ basis, exports formulations declined due to lower off-take from US and EU based CRAMS customers. It filed 2 ANDAs during the quarter taking total ANDA count to 27. Of which, it received final approval for 11 products and launched 8 drugs till date. The company has identified 10 products for generic filing over the next 3 quarters. It expects to get USFDA approval for three to four products in the current fiscal and plans to launch the same.

Exhibit 6: Top 10 brands performance

Brand	Therapy	Q2FY13	Q2FY12	Var. (%)	Q1FY13	Var. (%)
Losar H	Cardiac	20.1	17.4	16	18.3	10
Losar	Cardiac	18.2	15.2	19	16.4	11
Amproxin	Anti-Infectives	16.1	16.3	-1	13.4	20
Unienzyme	Gastro Intestinal	11.5	7.1	62	12.2	-6
Trika	Neuro / Cns	8.6	8.1	6	8.4	2
Vizylac	Gastro Intestinal	6.1	4.4	39	6.1	1
Telsar	Cardiac	3.9	3.2	24	3.7	5
Lincox	Anti-Infectives	4.6	3.9	17	3.7	25
Telsar-H	Cardiac	3.8	3.0	27	3.6	6
Tg-Tor	Cardiac	3.3	3.5	-5	3.3	1

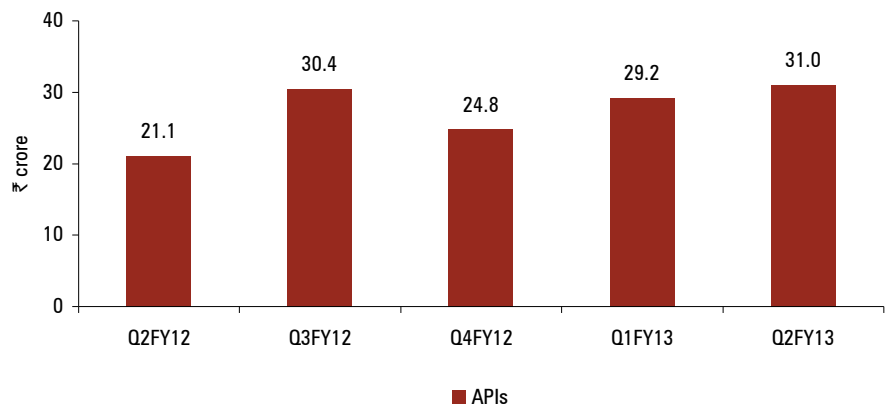
Source: AIOCD data base, ICICIdirect.com Research

Exhibit 7: Exports formulations grew by 76% YoY



Source: Company, ICICIdirect.com Research

Exhibit 8: APIs business grew by 47% YoY



API business grew 47% YoY to ₹ 31 crore on the back of strong growth of 76% in exports API to ₹ 26.4 crore while domestic APIs posted a de-growth of 11% to ₹ 4.5 crore.

Source: Company, ICICIdirect.com Research

Exhibit 9: Assumptions Table

(₹ crore)	FY11	FY12	FY13E	FY14E
Domestic	575.8	534.3	636.2	731.7
YoY Growth (%)	7.0	-7.2	19.1	15.0
Exports	111.8	161.9	253.4	295.2
YoY Growth (%)	37.0	44.9	56.6	16.5
Formulations	687.5	696.2	889.7	1026.8
Domestic	22.0	20.9	24.1	25.6
YoY Growth (%)	11.0	-5.1	15.5	6.0
Exports	48.3	77.8	98.3	108.2
YoY Growth (%)	16.0	61.2	26.4	10.0
APIs	70.3	97.7	122.5	133.7
Standalone Sales	757.8	793.9	1012.1	1160.6
Subsidiary	59.3	72.3	75.9	79.8
Consolidated Sales	817.1	866.2	1088.0	1240.3

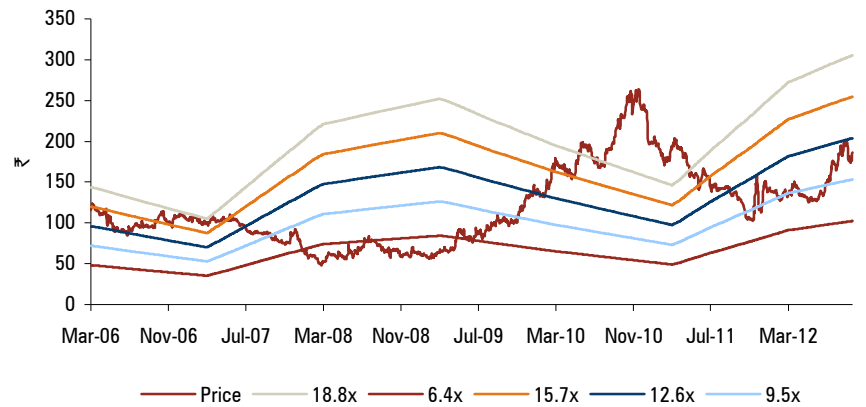
Source: Company, ICICIdirect.com Research

Valuation

We have upgraded FY13E / FY14E EPS by one rupee each on the back of improved visibility post restructuring of domestic branded formulations as reflected in the H1FY13 numbers. Other growth drivers will be- 1) incremental product launches in the US and 2) improved off-take by CRAMS vendors. We expect revenues, EBITDA and net profit to grow at a CAGR of 14%, 17% and 20%, respectively, in FY12-14E. We have updated our target multiple from 9x at Q4FY12 to 12x for future targets. Our revised target price is ₹ 217, based on 12x FY14E EPS of ₹ 18.1. We recommend BUY.

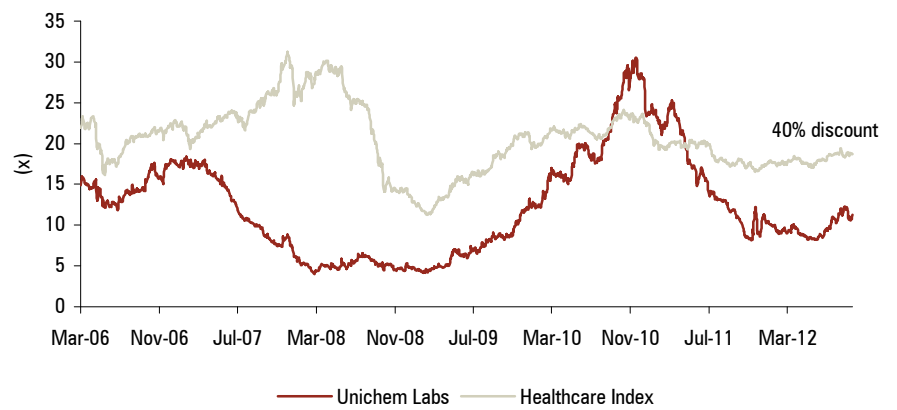
Key risks- De-growth in power brands in the domestic formulations (ii) delay in getting approval from the USFDA and (iii) Possible adverse impact on account of implementation of new pricing policy

Exhibit 10: One year forward PE



Source: Company, ICICIdirect.com Research

Exhibit 11: One year forward PE of company vs. BSE Healthcare Index



Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

(Year-end March)/ (₹ crore)	FY11	FY12	FY13E	FY14E
Revenues	824.0	875.5	1,088.0	1,240.3
Growth (%)	10.3	6.2	24.3	14.0
Raw Material Expenses	276.1	315.3	395.7	428.4
Employee Expenses	136.5	140.1	178.0	202.5
Other Expenditure	261.4	301.8	313.7	365.0
Total Operating Expenditure	674.0	757.1	887.4	995.9
EBITDA	150.1	118.3	200.6	244.4
Growth(%)	-12.2	-21.1	69.5	21.8
Depreciation	29.2	30.4	34.4	40.0
Interest	0.9	4.1	2.7	2.0
PBT before Exceptional Items	126.8	94.0	176.6	212.4
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	126.8	94.0	176.6	212.4
Total Tax	31.6	22.8	42.7	48.9
Less: Prior Period Items	0.2	0.0	0.0	0.0
PAT	95.0	71.3	133.9	163.5
Growth(%)	-22.9	-25.0	88.0	22.1
EPS(₹)	10.5	7.9	14.8	18.1

Source: Company, ICICIdirect.com Research

Cash flow statement

(Year-end March)/ (₹ crore)	FY11	FY12	FY13E	FY14E
Profit after Tax	95.0	71.3	133.9	163.5
Add: Depreciation	29.2	30.4	34.4	40.0
(Inc)/dec in Current Assets	-67.5	-13.3	-76.9	-90.7
Inc/(dec) in CL and Provisions	-0.2	40.8	33.5	65.5
CF from operating activities	56.5	129.2	124.9	178.4
(Inc)/dec in Investments	59.2	0.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-72.4	-111.4	-80.0	-60.0
Inc/(dec) Deferred tax liability	3.1	0.7	3.0	3.0
CF from investing activities	-39.8	-111.4	-94.6	-83.3
Inc / (Dec) in Sec. Loan	12.0	18.6	10.0	-10.0
Inc / (Dec) in Unsec. Loan	2.2	0.8	0.0	-20.0
Dividend paid & dividend tax	-42.0	-31.5	-31.7	-37.0
ESOP	0.1	-0.1	0.0	0.0
Inc/(dec) in Sec. premium	0.7	1.2	0.0	0.0
CF from financing activities	-25.9	-9.0	-21.7	-67.0
Net Cash flow	-9.2	8.8	8.6	28.1
Opening Cash	23.6	14.4	23.2	31.8
Closing Cash	14.4	23.2	31.8	59.9

Source: Company, ICICIdirect.com Research

Balance sheet

(Year-end March)/ (₹ crore)	FY11	FY12	FY13E	FY14E
Liabilities				
Equity Capital	18.0	18.1	18.1	18.1
Reserve and Surplus	599.6	642.5	744.7	871.2
Total Shareholders funds	617.7	660.6	762.8	889.3
Total Debt	50.0	69.4	79.4	49.4
Deferred Tax Liability	37.8	38.5	41.5	44.5
Others	7.9	10.2	10.2	10.2
Total Liabilities	713.4	778.6	893.9	993.4
Assets				
Gross Block	537.0	599.3	762.0	822.0
Less: Acc Depreciation	159.7	190.9	225.2	265.2
Net Block	377.3	408.4	536.8	556.8
Capital WIP	62.9	112.8	30.0	30.0
Total Fixed Assets	440.2	521.2	566.8	586.8
Investments	21.3	14.5	19.5	24.5
Long ter L & A	16.3	26.0	38.6	60.0
Inventory	150.3	158.0	166.7	238.4
Debtors	185.1	183.3	221.4	236.3
Cash	14.4	23.2	31.8	59.9
Loans and Advances	50.0	56.0	84.1	88.4
Other current assets	3.0	4.4	6.3	6.0
Total Current Assets	402.8	424.8	510.3	629.0
Creditors	110.0	140.3	162.3	202.6
Provisions	31.1	33.3	48.7	60.8
Other current Liabilities	26.0	34.3	30.4	43.6
Net Current Assets	167.1	207.9	241.4	306.9
Net Current Assets	235.6	216.9	268.9	322.1
Application of Funds	713.4	778.6	893.9	993.4

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY11	FY12	FY13E	FY14E
Per share data (₹)				
EPS	10.5	7.9	14.8	18.1
Cash EPS	13.8	11.3	18.6	22.5
BV	68.4	73.1	84.5	98.5
DPS	4.0	3.0	3.0	3.5
Cash Per Share	1.6	2.6	3.5	6.6
Operating Ratios (%)				
EBITDA Margin	18.2	13.5	18.4	19.7
PBT / Revenues	15.4	10.7	16.2	17.2
PAT Margin	11.5	8.1	12.3	13.2
Inventory days	58.0	64.9	55.0	60.0
Debtor days	82.7	77.2	75.0	70.0
Creditor days	49.1	59.1	55.0	60.0
Return Ratios (%)				
RoE	15.4	10.8	17.6	18.4
RoCE	18.1	12.0	19.7	21.8
RoIC	13.3	9.1	15.3	18.0
Valuation Ratios (x)				
P/E	18.7	25.0	13.3	10.9
EV / EBITDA	12.0	15.3	9.0	7.2
EV / Revenues	2.2	2.1	1.7	1.4
Market Cap / Revenues	2.2	2.0	1.6	1.4
Price to Book Value	2.9	2.7	2.3	2.0
Solvency Ratios				
Debt/EBITDA	0.3	0.6	0.4	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.4	2.0	2.1	2.0
Quick Ratio	2.3	1.9	2.0	1.9

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			PE(x)			EV/EBITDA (x)			RoCE (%)			RoNW (%)		
						FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Apollo Hospitals	APOHOS	754	715	HOLD	10,491	16.3	21.9	27.4	46.2	34.5	27.5	21.6	17.5	14.4	11.7	13.6	15.0	8.8	10.4	11.8
Aurobindo Pharma	AURPHA	157	110	HOLD	4,568	-4.2	15.0	19.4	-37.0	10.5	8.1	12.3	8.1	6.5	7.6	11.5	14.0	-5.3	16.0	17.6
Biocon	BIOCON	268	313	BUY	5,352	16.9	18.5	22.4	15.8	14.5	11.9	9.4	8.6	7.2	15.9	18.4	19.8	14.9	14.7	15.9
Cadila Healthcare	CADHEA	851	936	BUY	17,422	31.9	38.7	52.0	26.7	22.0	16.4	18.5	13.6	10.6	21.7	24.2	29.1	28.7	28.8	31.4
Divi's Laboratories	DIVLAB	1127	1066	HOLD	14,964	41.1	50.5	59.2	27.4	22.3	19.1	20.9	16.5	13.0	28.4	29.5	30.5	25.1	25.7	25.1
Elder Pharma	ELDPHA	295	342	BUY	606	34.5	39.0	58.5	8.6	7.6	5.0	7.1	5.9	4.7	10.1	11.8	13.9	10.8	10.5	14.1
Fortis Healthcare	FORHEA	104	84	SELL	4,216	1.8	-5.2	0.5	422.9	NA	1651	25.8	14.2	11.9	2.1	4.7	5.6	2.2	-6.9	0.6
Glenmark Pharma	GLEPHA	401	432	HOLD	10,850	17.0	18.8	27.0	23.6	21.3	14.9	15.1	14.7	11.1	15.3	18.7	23.2	19.3	19.9	23.9
Indoco Remedies	INDREM	65	63	HOLD	598	5.0	7.1	9.0	12.9	9.1	7.2	9.1	6.4	5.4	11.0	14.2	14.5	12.0	14.8	16.2
Ipca Laboratories	IPCLAB	459	476	HOLD	5,791	22.0	27.7	39.7	20.9	16.6	11.6	12.4	9.9	8.0	23.5	26.6	28.3	22.1	22.6	25.4
Jubilant Life Sciences	VAMORG	229	209	HOLD	3,642	0.6	20.3	32.3	371.5	11.3	7.1	8.2	6.8	5.8	10.7	12.8	14.1	0.4	12.5	17.0
Lupin	LUPIN	573	617	HOLD	25,642	19.4	26.1	32.5	29.5	22.0	17.7	18.6	14.4	11.5	21.0	25.1	27.1	22.1	24.2	24.5
Natco Pharma	NATPHA	381	378	HOLD	1,185	19.2	25.6	32.5	17.1	12.8	10.1	12.1	9.7	8.1	14.0	15.7	17.1	12.6	14.8	16.2
Opto Circuits	OPTCIR	127	256	BUY	3,074	23.6	24.2	28.5	5.4	5.2	4.4	6.4	5.0	3.8	20.0	22.4	24.0	33.7	27.7	26.4
Strides Arcolab	STRARC	908	1007	BUY	5,338	38.5	45.2	67.2	23.6	20.1	13.5	14.8	11.7	9.1	10.4	12.8	15.9	16.4	43.3	17.0
Sun Pharma	SUNPHA	695	651	HOLD	71,952	25.0	24.8	27.2	27.8	28.0	25.6	21.2	19.9	17.8	29.2	27.7	25.3	21.3	19.3	18.2
Torrent Pharma	TORPHA	677	746	HOLD	5,725	33.6	47.2	53.3	20.2	14.3	12.7	11.2	9.2	7.6	24.9	27.6	27.9	25.8	30.0	27.3
Unichem Laboratories	UNILAB	197	171	BUY	1,782	7.9	14.8	18.1	25.0	13.3	10.9	15.4	9.1	7.2	12.0	19.7	21.8	10.8	17.6	18.4

Exhibit 12: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 13: Recent Releases

Date	Event	CMP	Target Price	Rating
6-Jan-12	Q3FY12 Preview	113	140	BUY
23-Jan-12	Q3FY12 Result Update	143	134	HOLD
4-Apr-12	Q4FY12 Preview	139	134	HOLD
16-May-12	Q4FY12 Result Update	133	134	HOLD
5-Jul-12	Q1FY13 Preview	133	134	HOLD
16-Aug-12	Q1FY13 Result Update	172	171	HOLD
8-Oct-12	Q2FY13 Preview	175	171	HOLD

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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