

October 22, 2012

Rating	Previous Reco
Hold	Hold
CMP	Target Price
Rs197	Rs192
EPS Chg FY13E/FY14E (%)	NA
Target Price change (%)	+ 10
Nifty	5,717
Sensex	18,793

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	46	34	47
Rel. to Nifty	1	33	24	31

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	UL IB
Equity Capital (Rs mn)	237
Face Value(Rs)	2
No of shares o/s (mn)	119
52 Week H/L	203/ 100
Market Cap (Rs bn/USD mn)	23/ 438
Daily Avg Volume (No of sh)	143,784
Daily Avg Turnover (US\$m)	0.5

Shareholding Pattern (%)

	Sep12	Jun12	Mar12
Promoters	49.6	49.6	49.3
FII/NRI	4.0	4.0	5.0
Institutions	9.7	9.7	9.5
Private Corp	10.0	10.1	9.7
Public	26.6	26.6	26.6

Source: Bloomberg

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- Unichem's Q2FY13 Results – a) Revenues at Rs2.6bn (up 33% YoY) b) EBITDA at Rs529mn (up 74% YoY) and c) APAT at Rs365mn (up 91% YoY)
- Domestic business grew by 20% on back of low base, addition of MRs and strong focus on chronic therapies
- Going ahead –India business will grow above industry rate at 18% in FY13E & 16% in FY14E. Traction in CRAMS contract with US MNC will lead to 24% CAGR in export formulations
- Current valuations factor-in the future developments. Maintain Hold on the stock with a target of Rs192 (12x FY14E EPS of Rs16)

Performance was led by strong domestic formulation business

- India formulations (contributes 66%) grew 21% YoY to Rs1.7bn on back of
 - low base and addition of MRs
 - strong focus on chronic therapies – the company is now focusing on gynecology & derma portfolio and has recently added 150 MRs
- Export formulation (contributes 22%) business grew 76% YoY led by contractual business for one of the MNC customer (contributes 11-12%), Emerging markets (contributes 6%) and the US business (contributes 5%)
- The CRAMS business contributed ~Rs200-250bn this quarter and is operating at 95% utilization rate.

Going ahead, growth will come from domestic business

- In the domestic market, we believe pain due to inventory rationalization is over. It has also started a new division for gynaec and dermatology with 150 MRs being added in FY13. We expect domestic business to grow by 16-18% CAGR over FY12-14E
- In the exports market, company initiated CRAMS supplies to MNC customer in Q3FY12. We expect this contract to generate revenues Rs1bn in FY13
 - US business (contributes 5% to sales) to grow at 14% CAGR over FY12-14E. Unichem has filed 27 ANDAs of which 11 are approved & 8 are commercialized. Company has guided for 1-2 filing per quarter in the US market going ahead.
- Management has guided for domestic business to out-perform industry growth rate. Margins are expected to remain healthy in 2HFY13 & FY14E as well.

Valuation

We expect Unichem to report 22% revenue growth in FY13E and 15% in FY14E. We expect EBITDA margins to move from 13.7% in FY12 to 16.4% in FY13E and 17.6% in FY14E. Earnings will grow by 42% CAGR over FY12-14E. Maintain Hold with a target price of Rs192. At current price, the stock trades at 15x FY13E EPS and 12x FY14E

Financial Snapshot (Consolidated)

(Rs mn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY11	8,240	1,500	18.2	950	10.6	(23.9)	16.1	18.7	12.2	2.9
FY12	8,771	1,200	13.7	718	8.0	(24.4)	11.2	24.7	15.4	2.7
FY13E	10,698	1,758	16.4	1,141	12.7	58.9	16.7	15.5	10.6	2.4
FY14E	12,269	2,164	17.6	1,437	16.0	25.9	17.9	12.3	8.7	2.1

Exhibit 1: Quarterly Financials

Rs mn	Q2FY11	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY (%)	QoQ (%)	1H FY13	1H FY12	YoY (%)
Revenue	1,988	2,226	1,930	2,649	2,642	32.9	(0.2)	5,291	3,876	36.5
Expenditure	1,684	1,858	1,601	2,171	2,113	25.5	(2.6)	4,284	3,302	29.7
as % of sales	84.7	83.5	82.9	82.0	80.0	(4.7)	(2.0)	81.0	85.2	
Consumption of RM	713	828	713	1,029	969	35.8	(5.8)	1,997	1,411	41.6
as % of sales	35.9	37.2	36.9	38.8	36.7	0.8	(2.2)	37.7	36.4	
Employee Cost	303	302	287	338	359	18.6	6.4	697	600	16.1
as % of sales	15.2	13.6	14.9	12.8	13.6	(1.6)	0.8	13.2	15.5	
Other expenditure	667	728	601	804	785	17.7	(2.4)	1,589	1,290	23.2
as % of sales	33.6	32.7	31.1	30.4	29.7	(3.8)	(0.6)	30.0	33.3	
EBITDA	305	368	329	478	529	73.7	10.7	1,007	574	75.4
Depreciation	69	67	79	83	82	18.8	(0.8)	165	136	20.8
EBIT	236	301	250	395	447	89.8	13.1	842	438	92.5
Other Income	27	21	16	13	22	(18.8)	73.5	34	37	(6.0)
Interest	2	4	8	9	7	188.2	(22.6)	15	4	278.3
PBT	260	318	259	399	462	77.7	15.8	862	470	83.2
Total Tax	69	73	27	124	112	62.3	(9.8)	236	128	83.7
Adjusted PAT	191	245	232	275	351	83.2	27.3	626	342	83.0
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	-	-	0	0	-
APAT after MI	191	245	232	292	365	90.9	25.0	658	344	91.3
Forex (gain)/ loss, adj	0	0	0	-39	15	-	-	-24	-4	-
Reported PAT	191	245	232	331	351	83.2	5.8	682	348	96.3
AEPS	2.12	2.71	2.57	3.24	4.05	90.9	25.0	7.29	3.81	91.3

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	15.3	16.5	17.1	18.0	20.0	471	198	19.0	14.8	422	
EBIT	11.8	13.5	13.0	14.9	16.9	507	200	15.9	11.3	463	
EBT	13.1	14.3	13.4	15.1	17.5	441	242	16.3	12.1	415	
PAT	9.6	11.0	12.0	11.0	13.8	420	279	12.4	8.9	356	
Effective Tax rate	26.4	23.1	10.3	31.0	24.2	(229)	(685)	27.3	27.3	7	

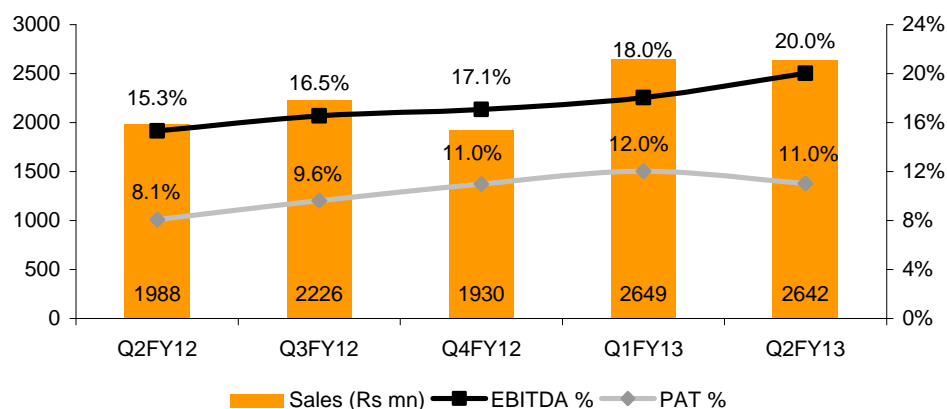
Source: Company, Emkay Research

Exhibit 2: Revenue Breakup

(Rs mn)	Q2FY11	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY Gr.	QoQ Gr.	1H FY13	1H FY12	YoY (%)
Domestic	1479.7	1456.3	1169.8	1761.1	1766.2	19.4%	0.3%	3527.4	2915.9	21.0%
Formulations	1428.7	1399.3	1112.6	1684.9	1721.1	20.5%	2.1%	3405.9	2821.2	20.7%
API	51.0	57.0	57.2	76.3	45.2	-11.5%	-40.8%	121.4	94.8	28.1%
Exports	491.1	741.4	733.8	871.9	845.4	72.1%	-3.0%	1717.3	921.7	86.3%
Formulations	331.1	494.1	543.5	656.2	581.1	75.5%	-11.5%	1237.3	581.2	112.9%
API	160.0	247.3	190.3	215.7	264.4	65.2%	22.6%	480.0	340.5	41.0%
Total Sales	1970.8	2197.8	1903.6	2633.0	2611.7	32.5%	-0.8%	5244.7	3837.6	36.7%

Source: Company, Emkay Research

Exhibit 3: Sales & Margins Trend



Source: Company, Emkay Research

EBITDA margins improve 471bps YoY to 20%

- Gross margins contracted 89YoY & expanded 198bps QoQ to 62.9% due to strong growth in domestic business
- Lower staff cost (down 163bps YoY) & lower other expenses (down 385bps YoY)

PAT adjusted for forex loss of Rs21mn grew 91% YoY to Rs365mn

Exhibit 4: Financial Snapshot

Rs mn	FY11	FY12	YoY %	FY13E	YoY %	FY14E	YoY %
Formulations	7463	7818	0%	9653	16%	11117	15%
Domestic	5758	5333	-7%	6293	18%	7300	16%
Exports	1706	2485	46%	3359	35%	3817	14%
Emerging markets	773	1029	33%	1193	16%	1374	15%
Niche Generics	696	700	0%	707	1%	714	1%
New Contracts	0	350	-	1000	-	1200	-
US	237	406	72%	460	13%	529	15%
API	832	987	19%	1127	14%	1258	12%
Gross Sales	8295	8805	6%	10780	22%	12375	15%
EBITDA	1,500	1,200	-20%	1,758	47%	2,164	23%
EBITDA margins %	18.2	13.7	-	16.4	-	17.6	-
APAT	950	718	-24%	1,141	59%	1,437	26%
PAT margins %	11.5	8.2	-	10.7	-	11.7	-
EPS	11	8.0	-24%	12.7	59%	16.0	26%
PE @CMP	18.7	24.7	-	15.5	-	12.3	-

Source: Company, Emkay Research

Unichem Labs – Domestic Metrics (MAT Aug'12)

Exhibit 5: Therapeutic growth

Therapies	% Contribution	MAT Aug'12	MAT Aug'11	YoY Gr. %
Anti-Infective	15.9%	130.7	132.8	-1.6%
CNS	12.9%	106.3	104.5	1.8%
Pain	3.6%	29.9	32.1	-6.8%
Gastro	7.8%	64.0	58.6	9.3%
Anti- diabetic	4.0%	33.0	32.7	0.7%
Respiratory	3.1%	25.6	26.6	-3.9%
Vit/ Minerals	4.5%	36.9	37.8	-2.3%
Derma	2.1%	17.1	18.0	-5.3%
Others	2.1%	17.5	16.4	6.9%
Acute	38.0%	312.0	313.3	-0.4%
Chronic	62.0%	510.0	498.5	2.3%
Total Sales	100.0%	821.9	811.7	1.3%
Anti-Infective	15.9%	130.7	132.8	-1.6%

Source: IMS, Emkay Research

Exhibit 6: Performance of Top 10 brands

Rs Cr	Therapies	MAT Aug'12	MAT Aug'11	YoY Gr.
Losar-H	CVS	78.3	73.0	7.3%
Amoxin	Anti-Infective	75.6	77.2	-2.1%
Losar	CVS	65.5	71.5	-8.3%
Unienzyme	Gastro	47.2	40.0	17.9%
Trika	CNS	36.8	39.9	-8.0%
Vizylac	Vitamins	25.4	23.4	8.4%
Telsar	CVS	21.0	20.6	1.9%
TG-TOR	CNS	20.3	23.7	-14.3%
Telsar-H	CVS	19.0	18.2	4.4%
Lincox	Anti-biotic	16.3	17.6	-7.1%
Total		405.5	405.2	0.1%

Conference Call Highlights

Domestic formulations

- The company is confident of beating industry growth rate in FY13/ 14 on the back of
 - Completion of inventory rationalization process at the distributor level
 - Developing derma & gynaec portfolio – added 150 MRs
 - Improving MR productivity

Pricing Policy Impact

As per Company's internal estimates the total portfolio which will be exposed to the pricing policy will have an impact of Rs15cr on top-line

Export Formulations

- **CMO**
 - This business contributed Rs200-250mn this quarter
 - The company is currently supplying to an MNC customer from its Ghaziabad facility which is currently running at 95% capacity utilization
- **US**
 - The company has filed 27ANDAs till date and has 11 approvals of which 8 are launched in US. One more product lamotrigine is expected to get launched in Q3FY13. The company has guided for 1-2 filing per quarter going ahead

Tax Rate: Company has guided for 22-23% tax rate for FY13

Capex

- FY13E - Guided for Rs100cr capex in FY13E which will be towards building of new R&D facility (~Rs40cr) and upcoming facility in SEZ
- FY14E – Capex to be lower than Rs100cr

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rsmn)	FY11	FY12	FY13E	FY14E
Net Sales	8,240	8,771	10,698	12,269
<i>Growth (%)</i>	10.3	6.4	22.0	14.7
Expenditure	6,741	7,571	8,941	10,105
Raw Materials	2,761	3,153	4,035	4,632
SGA	2,353	2,637	2,931	3,206
Employee Cost	1,365	1,401	1,646	1,889
Other Exp	263	381	329	378
EBITDA	1,500	1,200	1,758	2,164
<i>Growth (%)</i>	21.7	-13.3	-20.0	46.5
EBITDA margin (%)	18.2	13.7	16.4	17.6
Depreciation	292	304	337	371
EBIT	1,207	895	1,421	1,793
EBIT margin (%)	14.7	10.2	13.3	14.6
Other Income	83	86	86	86
Interest expenses	24	35	34	40
PBT	1,267	946	1,508	1,840
Tax	317	228	332	405
<i>Effective tax rate (%)</i>	25.0	24.1	22.0	22.0
Adjusted PAT	950	718	1,141	1,437
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	950	718	1,141	1,437
<i>Growth (%)</i>	-23.9	-24.4	58.9	25.9
Net Margin (%)	11.5	8.2	10.7	11.7
E/O items	0	0	35	0
Reported PAT	950	718	1,176	1,436
<i>Growth (%)</i>	-22.8	-24.4	63.8	22.1

Cash Flow

Y/E Mar (Rsmn)	FY11	FY12	FY13E	FY14E
PBT (Ex-Other income)	1,183	860	1,422	1,755
Depreciation	292	304	337	370
Interest Provided	24	35	34	40
Other Non-Cash items	0	0	0	0
Chg in working cap	-591	347	-339	-683
Tax paid	-317	-228	-332	-405
Operating Cashflow	592	1,319	1,122	1,077
Capital expenditure	-887	-951	-1,000	-800
Free Cash Flow	-295	367	122	277
Other income	83	86	86	86
Investments	379	68	0	0
Investing Cashflow	-425	-797	-914	-714
Equity Capital Raised	18	-8	0	1
Loans Taken / (Repaid)	142	194	150	150
Interest Paid	-24	-35	-34	-40
Dividend paid (incl tax)	-420	-317	-317	-317
Income from investments	0	0	0	0
Others	32	-274	0	0
Financing Cashflow	-252	-441	-201	-206
Net chg in cash	-84	81	7	157
Opening cash position	236	152	232	239
Closing cash position	152	232	239	396

Balance Sheet

Y/E Mar (Rsmn)	FY11	FY12	FY13E	FY14E
Equity share capital	180	181	181	181
Reserves & surplus	5,997	6,425	7,284	8,402
Net worth	6,177	6,606	7,465	8,583
Minority Interest	0	0	0	1
Secured Loans	172	440	540	640
Unsecured Loans	328	254	304	354
Loan Funds	500	694	844	994
Net deferred tax liability	378	385	385	385
Total Liabilities	7,055	7,684	8,693	9,962
Gross Block	5,370	5,993	6,993	7,793
Less: Depreciation	1,597	1,909	2,246	2,617
Net block	3,773	4,084	4,747	5,176
Capital work in progress	791	1,128	1,128	1,128
Investment	213	145	145	145
Current Assets	4,035	4,248	4,929	5,780
Inventories	1,503	1,580	1,947	2,235
Sundry debtors	1,857	1,833	2,212	2,539
Cash & bank balance	152	232	239	396
Loans & advances	524	604	531	609
Other current assets	0	0	0	0
Current lia & Prov	1,758	1,921	2,255	2,266
Current liabilities	1,392	1,430	1,905	1,967
Provisions	366	491	350	299
Net current assets	2,278	2,328	2,674	3,514
Misc. exp	0	0	0	0
Total Assets	7,055	7,684	8,693	9,962

Key Ratios

Y/E Mar	FY11	FY12	FY13E	FY14E
Profitability (%)				
EBITDA Margin	18.2	13.7	16.4	17.6
Net Margin	11.5	8.2	10.7	11.7
ROCE	20.4	14.0	19.3	21.0
ROE	16.1	11.2	16.7	17.9
RoIC	13.9	9.5	13.9	33.1
Per Share Data (Rs)				
EPS	10.6	8.0	12.7	16.0
CEPS	13.8	11.4	16.4	20.1
BVPS	68.6	73.4	82.9	95.4
DPS	4.0	3.0	3.0	3.0
Valuations (x)				
PER	18.7	24.7	15.5	12.3
P/CEPS	14.3	17.3	12.0	9.8
P/BV	2.9	2.7	2.4	2.1
EV / Sales	2.2	2.1	1.7	1.5
EV / EBITDA	12.2	15.4	10.6	8.7
Dividend Yield (%)	2.0	1.5	1.5	1.5
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.1	0.1	0.1
Net Debt/EBIDTA	0.2	0.3	0.5	0.3
Working Cap Cycle (days)	110	94	84	92

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