

May 16, 2011

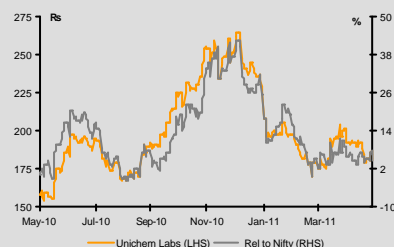
Reco Accumulate	Previous Reco Accumulate
CMP Rs 180	Target Price Rs 215
EPS change FY12E/13E (%)	- 27 / - 24
Target Price change (%)	- 12
Nifty	5,499
Sensex	18,345

Price Performance

(%)	1M	3M	6M	12M
Absolute	(10)	(8)	(29)	9
Rel. to Nifty	(4)	(14)	(22)	1

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	UL@IN
Equity Capital (Rs mn)	180
Face Value(Rs)	2
No of shares o/s (mn)	90
52 Week H/L	269/150
Market Cap (Rs bn/USD mn)	16/360
Daily Avg Volume (No of sh)	95921
Daily Avg Turnover (US\$m)	0.4

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	48.7	48.4	48.4
FII/NRI	7.5	5.7	3.8
Institutions	9.9	11.9	13.3
Private Corp	7.9	7.9	7.3
Public	26.0	26.2	27.3

Source: Capitaline

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Inventory rationalization drags Q4, Downgrade estimates

- Unichem's Q4FY11 results were below expectations with a) Revenues at Rs1.78bn (up 2% YoY) b) EBITDA at Rs236mn (down 43% YoY) and c) APAT at Rs150mn (down 55% YoY)
- Domestic formulation growth was sluggish due to rationalization of inventory at the distributor level, negatively impacting company-level sales
- EBITDA margins at 13% (down 1068bps) was on account of higher raw material cost, increase in sales & marketing cost and higher employee cost due to increase in sales force
- With inventory rationalization to hurt sales and pressurize margins, we revise FY12/FY13 earnings downwards; cut target price to Rs215 (earlier Rs243)

Inventory rationalization led to subdued Q4FY11

- Unichem has initiated inventory rationalization at the distributor level in order to improve internal processes and reduce inventory by 21-30 days. This has led to 7% YoY decline in domestic formulation revenues in Q4FY11
- Export formulation business grew 71% YoY led by traction across Latam and US/Canada markets

Growth will continue going forward but with a lag

- The shift in the distribution model from the distributors to the company's C&F agents will delay the growth prospects in the domestic business. The shift involves inventory de-stocking at the distributor's end (currently contributes ~65% of domestic sales), thereby negatively impacting company-level sales. Although the management remains confident of clocking 16-17% growth in secondary sales, primary sales are expected to grow at 8-9% YoY. Accordingly, we expect domestic business to grow at lower CAGR of 11% over FY11-13E
- The company is also negotiating generic supply agreements from the Ghaziabad formulations and the Baddi cephalosporin blocks. We expect the CMO contracts to kick-in during H2FY12E clocking sales of Rs600mn in FY12E and Rs1.2bn in FY13E

Valuation

We expect Unichem to report 15% revenue growth in FY12E and 18% growth in FY13E. We expect EBITDA margins to move from 18.2% in FY11 to 19.3% in FY12E and 21% in FY13E. Earnings will grow by 30% CAGR over FY11-13E. We value the company at 12x FY13 EPS of Rs17.9 with a target price of 215 and Accumulate rating. At current price, the stock trades at 13x FY12E EPS of Rs13.6 and 10x FY13E EPS of 17.9

Financials

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	7,473	1,730	23.2	1,249	13.9	19.6	23.4	13.0	9.6	2.9
FY11	8,240	1,501	18.2	952	10.6	(23.8)	16.1	17.0	11.1	2.6
FY12E	9,499	1,830	19.3	1,221	13.6	28.3	18.5	13.3	9.1	2.3
FY13E	11,221	2,351	21.0	1,614	17.9	32.2	21.1	10.0	7.1	2.0

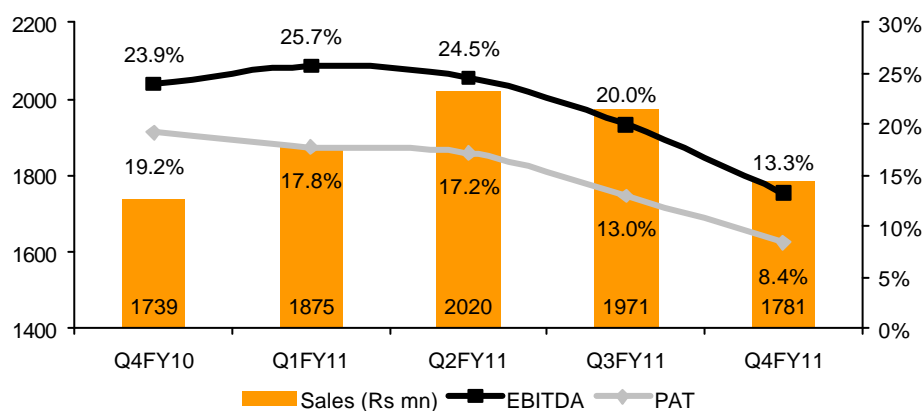
Key Financials - Quarterly

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY10 (C)	FY11 (C)	YoY (%)
Revenue	1,739	1,875	2,020	1,971	1,781	2.4	(9.6)	7,473	8,240	10.3
Expenditure	1,322	1,393	1,524	1,577	1,545	16.8	(2.0)	5,743	6,740	17.4
as % of sales	76.1	74.3	75.5	80.0	86.7			76.8	81.8	
Consumption of RM	560	599	647	671	651	16.3	(2.9)	2,578.7	2,760.7	7.1
as % of sales	32.2	31.9	32.0	34.0	36.6			34.5	33.5	
Employee Cost	212	258	276	278	243	14.4	(12.5)	1,010.9	1,364.7	35.0
as % of sales	12.2	13.8	13.7	14.1	13.6			13.5	16.6	
Other expenditure	550	536	601	629	650	18.3	3.5	2,153.3	2,614.2	21.4
as % of sales	31.6	28.6	29.8	31.9	36.5			28.8	31.7	
EBITDA	416	482	496	394	236	(43.2)	(40.0)	1,730	1,501	(13.3)
Depreciation	56	66	67	69	71	26.7	3.0	232.1	292.2	25.9
EBIT	360	417	429	325	166	(54.1)	(49.1)	1,498.3	1,208.6	(19.3)
Other Income	34	20	20	13	20	(40.6)	55.9	44.0	68.6	55.8
Interest	1	3	2	2	0	(112.3)	(105.0)	10.4	9.3	(10.2)
PBT	394	434	447	336	186	(52.8)	(44.8)	1,531.9	1,267.9	(17.2)
Total Tax	60	100	100	80	35	(41.2)	(56.2)	304.3	315.9	3.8
Adjusted PAT	334	334	347	256	150	(54.9)	(41.2)	1,227.6	952.0	(22.5)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			21.1	-	
APAT after MI	334	334	347	256	150	(54.9)	(41.2)	1,248.7	952.0	(23.8)
Extra ordinary items	0	0	0	0	2			3.3	(1.9)	
Reported PAT	334	334	347	256	148	(55.5)	(42.0)	1,231.0	950.1	(22.8)
AEPS	3.76	3.70	3.85	2.98	1.67	(55.7)	(44.1)	13.6	10.6	(22.5)

Margins (%)					(bps)	(bps)				(bps)
EBIDTA	23.9	25.7	24.5	20.0	13.3	(1,068)	(672)	23.2	18.2	(494)
EBIT	20.7	22.2	21.2	16.5	9.3	(1,144)	(721)	20.0	14.7	(538)
EBT	22.6	23.1	22.1	17.1	10.4	(1,221)	(664)	20.5	15.4	(511)
PAT	19.2	17.8	17.2	13.0	8.4	(1,074)	(454)	16.7	11.6	(516)
Effective Tax rate	15.2	23.1	22.4	23.9	19.0	374	(494)	19.9	24.9	505

* FY10/ FY11 are consolidated numbers

Quarterly trend



Quarterly Revenue Breakup (Standalone)

(Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY Gr.	QoQ Gr.
Domestic	1392.4	1539.9	1612.6	1547.4	1277.9	-8.2%	-17.4%
Formulations	1313.9	1471.6	1573.2	1490.9	1221.9	-7.0%	-18.0%
API	78.4	68.3	39.3	56.6	56.0	-28.5%	-0.9%
Exports	323.5	324.5	388.2	403.4	484.1	49.7%	20.0%
Formulations	204.3	206.1	294.3	268.4	348.8	70.7%	29.9%
API	119.1	118.5	93.9	135.0	135.3	13.6%	0.2%
Total Sales	1715.8	1864.5	2000.8	1950.9	1762.0	2.7%	-9.7%

Revenue Breakup (Consolidated)

(Rs mn)	FY11	FY12E	YoY %	FY13E	YoY %
Formulations	7336	8063	10%	9093	13%
Domestic	5758	6368	11%	7149	12%
Asia & Africa	296	329	11%	368	12%
Europe & UK	1111	1153	4%	1222	6%
Latam	17	23	30%	27	20%
US & Canada	154	191	24%	327	71%
New contracts	0	600	-	1200	-
API	708	792	12%	888	12%
Others	195	44	-78%	40	-9%
Total Sales	8240	9499	15%	11221	18%
EBITDA	1,501	1,830	22%	2,351	28%
EBITDA margins %	18.2	19.3		21.0	
APAT	952	1,221	28%	1,614	32%
PAT margins %	11.6	12.9		14.4	
EPS	10.6	13.6	28%	17.9	32%
PE @CMP	17.0	13.3	-	10.0	-

Cut earning estimates; Maintain Accumulate

Owing to subdued performance in Q4FY11, inventory rationalization at the distributor level and delay in break-even of its subsidiaries (primarily UK and US based), we cut our earning estimates for FY12E and FY13E by 27% and 24% respectively. In the near term, margins could be adversely affected by increased costs from field force ramp up and commercialization of new facilities.

We expect Unichem to report 15% revenue growth in FY12E and 18% growth in FY13E. We expect EBITDA margins to move from 18.2% in FY11 to 19.3% in FY12E and 21% in FY13E. Earnings will grow by 30% CAGR over FY11-13E. We value the company at 12x FY13 EPS of 17.9 with a target price of 215 and Accumulate rating. At current price, the stock trades at 13x FY12E EPS of Rs13.6 and 10x FY13E EPS of 17.9

We have lowered our top-line growth estimates over the projected period. We have factored-in pressure on margins led by higher sales & marketing expenses and the newly commissioned assets. However, as we believe that the company's growth drivers remain intact and the valuations still attractive, we maintain our positive stance on the company.

Revised Financials

	Old Financials		New Financials		% Change	
	FY12	FY13	FY12	FY13	FY12	FY13
Sales	10558	12912	9,499	11,221	-10	-13
EBITDA	2394	2953	1,830	2,351	-24	-20
PAT	1682	2124	1,221	1,614	-27	-24
EPS	18.7	23.6	13.6	17.9	-27	-24
Target Price	243		215		-12	

Target Price Calculation

	Multiple	Target Price	% Upside from CMP
Bear Case	10	179	-0.3
Base Case	12	215	19.6
Bull Case	14	251	39.5

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	7,473	8,240	9,499	11,221
<i>Growth (%)</i>	1.6	10.3	15.3	18.1
Expenditure	5,743	6,740	7,669	8,869
Raw Materials	2,579	2,761	3,401	4,022
SGA	1,952	2,353	2,628	2,997
Employee Cost	1,011	1,365	1,347	1,560
Other Exp	202	261	292	290
EBITDA	1,730	1,501	1,830	2,351
<i>Growth (%)</i>	64.7	21.7	-13.3	22.0
EBITDA margin (%)	23.2	18.2	19.3	21.0
Depreciation	232	292	309	331
EBIT	1,498	1,209	1,522	2,020
EBIT margin (%)	20.0	14.7	16.0	18.0
Other Income	66	69	74	87
Interest expenses	10	9	10	10
PBT	1,532	1,268	1,586	2,097
Tax	304	316	365	482
<i>Effective tax rate (%)</i>	19.9	24.9	23.0	23.0
Adjusted PAT	1,252	952	1,221	1,614
(Profit)/loss from JV's/Ass/MI	3	0	0	0
Adjusted PAT after MI	1,249	952	1,221	1,614
<i>Growth (%)</i>	19.5	-23.8	28.3	32.2
Net Margin (%)	16.7	11.6	12.9	14.4
E/O items	-22	0	0	0
Reported PAT	1,231	952	1,221	1,614
<i>Growth (%)</i>	13.9	-22.7	28.3	32.2

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	1,466	1,199	1,512	2,010
Depreciation	232	292	309	331
Interest Provided	10	9	10	10
Other Non-Cash items	0	0	0	0
Chg in working cap	-91	-591	-333	-512
Tax paid	-304	-316	-365	-482
Operating Cashflow	1,312	594	1,133	1,357
Capital expenditure	-435	-887	-747	-894
Free Cash Flow	878	-293	386	462
Other income	66	69	74	87
Investments	-582	379	0	0
Investing Cashflow	-950	-439	-673	-807
Equity Capital Raised	-26	21	1	0
Loans Taken / (Repaid)	-40	142	30	10
Interest Paid	-10	-9	-10	-10
Dividend paid (incl tax)	-421	-422	-391	-363
Income from investments	0	0	0	0
Others	27	29	0	0
Financing Cashflow	-470	-239	-369	-363
Net chg in cash	-107	-85	91	186
Opening cash position	344	236	152	242
Closing cash position	236	152	242	428

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	180	180	180	180
Reserves & surplus	5,449	5,997	6,828	8,079
Net worth	5,629	6,177	7,009	8,260
Minority Interest	0	0	0	0
Secured Loans	122	172	162	152
Unsecured Loans	236	328	368	388
Loan Funds	358	500	530	540
Net deferred tax liability	347	378	378	378
Total Liabilities	6,333	7,055	7,917	9,178
Gross Block	4,646	5,975	6,640	7,473
Less: Depreciation	1,312	1,545	1,803	2,095
Net block	3,334	4,430	4,836	5,379
Capital work in progress	636	134	166	187
Investment	592	213	213	213
Current Assets	3,445	4,035	4,677	5,591
Inventories	1,095	1,503	1,727	2,043
Sundry debtors	1,670	1,857	2,104	2,507
Cash & bank balance	236	152	242	428
Loans & advances	444	524	603	613
Other current assets	0	0	0	0
Current lia & Prov	1,673	1,757	1,975	2,191
Current liabilities	1,316	1,391	1,583	1,789
Provisions	356	366	392	402
Net current assets	1,772	2,278	2,702	3,400
Misc. exp & Def. Assets	0	0	0	0
Total Assets	6,334	7,055	7,917	9,179

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	23.2	18.2	19.3	21.0
Net Margin	16.7	11.6	12.9	14.4
ROCE	27.9	20.2	22.4	25.8
ROE	23.4	16.1	18.5	21.1
RoIC	21.2	14.0	16.1	18.9
Per Share Data (Rs)				
EPS	13.9	10.6	13.6	17.9
CEPS	16.5	13.8	17.0	21.6
BVPS	62.5	68.6	77.9	91.8
DPS	4.0	4.0	3.7	3.4
Valuations (x)				
PER	13.0	17.0	13.3	10.0
P/CEPS	10.9	13.0	10.6	8.3
P/BV	2.9	2.6	2.3	2.0
EV / Sales	2.2	2.0	1.8	1.5
EV / EBITDA	9.6	11.1	9.1	7.1
Dividend Yield (%)	2.2	2.2	2.1	1.9
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.1	0.0	0.0
Net Debt/EBIDTA	0.1	0.2	0.2	0.1
Working Cap Cycle (days)	92	110	110	110

Recommendation History: Unichem Laboratories - UL@IN

Date	Reports	Reco	CMP	Target
17/01/2011	Unichem Q3FY11 Result Update	Accumulate	208	243
18/10/2010	Unichem Labs Initiating Coverage	Buy	530	670

Recent Research Reports

Date	Reports	Reco	CMP	Target
13/05/2011	Dr Reddys Lab Q4FY11 Result Update	Accumulate	1,655	1,750
13/05/2011	Lupin Q4FY11 Result Update	Buy	424	501
11/05/2011	Ranbaxy Labs Q1CY11 Result Update	Hold	478	412
11/05/2011	Jubilant Life Sciences Q4FY11 Result Update	Hold	159	144

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