

## Unichem Laboratories Ltd.

BUY: Rs 165 Target: Rs 211

Unichem Laboratories Ltd. (ULL), has a leadership position in the Indian pharma space, it has a notable market size in therapeutic areas such as cardiology, neurology, orthopedics and anti-infectives. The chronic business accounts for 65% of the total domestic business. It has marked its presence in cardiac care and anti-infective segments with popular brands like Losar and Ampoxin. Between FY09-FY13 ULL's revenues have grown at a CAGR of 13.3% and we expect it to grow at a CAGR of 14.6% during FY13-FY15e. We initiate coverage on Unichem with Buy recommendation for the target price of Rs.211, indicating 28% upside.

**Domestic formulation business to grow at a CAGR of 13.9% between FY13-FY15e**, driven by 1) Unichem's efforts to build brands by leveraging brand equity that it has built through brands like Losar and Ampoxin (2) increased focus on statins and sartans (other than Losaratan) (3) sharpened focus on domestic formulations business through reorganization of product portfolio, field resource allocation and customer coverage alignments.

**Export revenues to grow at a CAGR of 18.2% during FY13-FY15e**: Between FY09-13, its overseas revenue had grown at a CAGR of 24.6%, during FY13-FY15e we forecast it to grow at a CAGR of 18.2%, which would be driven by (1) improved performance of its subsidiaries (2) increased focus on emerging markets (like Brazil, Australia and New Zealand) (3) Stepped into contractual business (in FY13 contractual sales were 35.% of total overseas revenues) and (4) Higher pursuit to expand their business line in the US.

**Margins set to improve**: We expect EBITDA margin to improve from here on, due to 1) MR Strength of Unichem has reached to an optimum level (currently ~2400) and productivity per MR to improve now onwards. 2) Conversion of remaining 2/3 distributors to C&F agents is expected to be accomplished in next 15-18 months 3) US and Brazilian subsidiary have also shown a sign of revitalization, together with an improvement at Niche generic, are expected to slice down the difference between standalone and consolidated operations.

**Valuation**: The Company has a strong balance sheet, along with a meager debt of Rs.52.3crs (D/E ratio: 0.07x) and positive free cash flow. We expect its CVS, anti-diabetic and CNS segments to grow at 16%, 15% and 20% respectively, as lifestyle diseases and the cases of epilepsy + depression are on rise. At the current market price of Rs.165 the stock is trading at a P/E of 10.9x and 8.6x of its FY14e and FY15e earnings, respectively. The value of Unichem's business is pegged at Rs211 per share by discounting FY15e EPS of Rs19.2 by 11x.

### STOCK DATA

BSE Code	506690
NSE Code	UNICHEMLAB
Bloomberg Code	UL:IN
52 Week High / Low (Rs.)	216.80 / 138.15
Face Value (Rs.)	2
Diluted Number of Shares (Cr.)	9.1
Market Cap. (Rs Cr.)	1,493.8
Avg. Yearly Volume	59,756

### SHAREHOLDING PATTERN (%)

Particulars	Jun-13	Mar-13	Dec-12	Sep-12
Promoters	50.0	50.0	49.5	49.5
FII's	3.7	3.9	3.8	4.0
Other Institutions	10.0	10.0	10.2	9.9
Public & Others	36.3	36.1	36.5	36.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

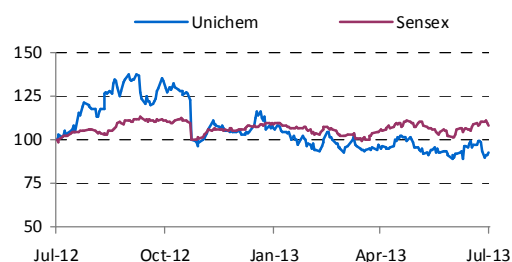
### RETURNS STATISTICS (%)

	3 M	6 M	12 M
Sensex	2.1	-1.5	17.6
Unichem	-2.8	-12.5	13.6

### VALUATION RATIOS (x)

Particulars	FY11	FY12	FY13e	FY14e
PE	20.9	13.2	10.9	8.6
P/BV	2.3	2.1	1.8	1.6
EV/EBIDTA	12.0	8.1	6.7	5.4
EV/Sales	1.8	1.4	1.2	1.1
Mcap/sales	1.7	1.4	1.2	1.1
Price/sales	0.2	0.2	0.1	0.1
PEG	-0.8	0.2	0.5	0.3
Div. Yield (%)	1.8	2.7	2.7	2.7

### RELATIVE TO SENSEX



### FINANCIAL SUMMARY

(Rs. in Crs.)

Year	Sales	EBITDA	PBT	PAT	EPS (Rs)	DPS (Rs)	BVPS (Rs)
FY12	875.5	118.4	94.1	71.3	7.9	3.0	73.2
FY13	1080.8	174.2	146.0	113.2	12.5	4.5	80.4
FY14e	1228.7	212.6	177.8	136.9	15.1	4.5	90.5
FY15e	1420.3	262.8	224.4	173.9	19.2	4.5	104.5

ANKIT GOR - Research Analyst

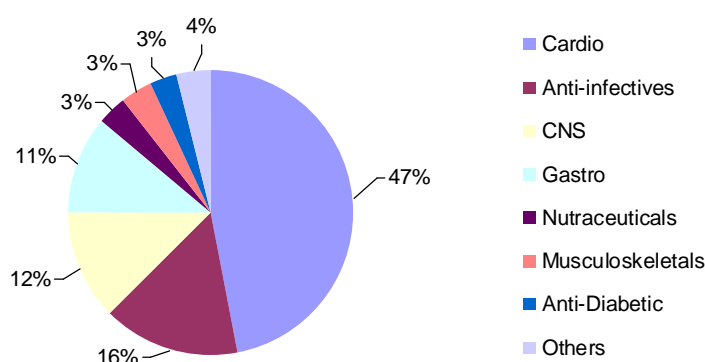
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## Domestic formulation business to drive growth - CVS segment to gain traction - Focusing more on same product sales

**Strong hold over domestic formulation market:** Unichem has a strong foothold over domestic formulation market. It has a good presence in cardiovascular (CVS), anti-infectives and central nervous system (CNS) segments, in each of these therapies it holds around 25% of the total market share. In FY13, 60% of the revenues contributed by domestic formulation segment, out of this 65% were accrued by chronic therapies and rest is by acute therapies. Its top 10 brands contribute nearly 50% of the Company's domestic revenues, viz., Losar, Ampoxin, Unienzyme, Telsar, Trika, Olsar, Vizylac, Metride, Linx and TG-Toar.

### DOMESTIC THERAPY MIX



Source: SSL Research, Company

The Company will not be aggressive in launching new products, the management has guided for 4-5 products launches in a quarter. ULL has intentions to launch extensions (like sartans & statins) of their mature brands to drive growth. ULL's formulation business has shown first-rate recovery in FY13 and posted 19% growth on the back of initiatives taken last year on product portfolio prioritization and sales force alignment.

**Extending (de-risking Losartan) sartan franchise:** Within CVS segment, Losar brand is the highest grosser with Rs.167Cr., around 23% of the total domestic formulation business and is growing at >10% annually. Brand Losar is likely to come under price control, except Losar-H and Losar-A, so high dependence on a Losar franchise may not be favourable. To de-risk Losar franchise, ULL is adding other sartans in the basket. Telsar (Telmisartan) and Olsar (Olmesartan) are the other sartans, which now have combinedly become Rs.68Cr. brand. Telsar and Olsar have grown at a CAGR of 18% and 39% respectively, during FY10-FY13.

**Increased focus on statins:** It is also focusing on statins, Atorvastatin (TG-TOR group) is Rs. 16crs brand now, along with it, ULL is also positive on Atorvastatin+Fenofibrate (Lorlip) and Atorvastatin+Aspirin (Unistar) combinations. It is also mulling on adding beta-blockers in its portfolio.

**Unichem is also concentrating on other therapeutic areas:**

**Anti-diabetic:** Unichem is addressing type II diabetes where Voglibose is reflecting decent growth and Metride is already doing well, anti-diabetic segment is fetching >2.5% of the total domestic formulation revenues.

**CNS segment:** Unichem has aggressively expanded and strengthened its position in this segment covering a wide array of products that include anti-depressant, anti-psychotic, tranquilizer, cerebral activator, anti-platelet and neuropathic pain drugs, here brands like Serta and Trika contribute >5% to the total domestic formulation revenues.

TOP 10 BRANDS (AWACS MAT, MAR13)				(Rs. in Crore)
Brand	Therapy	Sales (FY13)	% of total	% market share
Losar	Cardio	167.0	23.1	31.8
Amproxin	Anti-infectives	62.0	8.6	30.4
Unienzyme	Gastro	43.0	6.0	14.3
Telsar	Cardio	41.0	5.7	4.7
Trika	CNS	36.0	5.0	23.5
Olsar	Cardio	27.0	3.7	7.0
Vizylac	Gastro	22.0	3.0	12.9
Metride	Anti-Diabetic	18.0	2.5	1.5
Lincox	Anti-infectives	16.0	2.2	11.9
Tg-Tor	Cardio	16.0	2.2	1.6
<b>ULL top 10 brands</b>		<b>448.0</b>	<b>62.0</b>	
<b>Total domestic formulation rev.</b>			<b>722.0</b>	

Source: SSL Research, Company

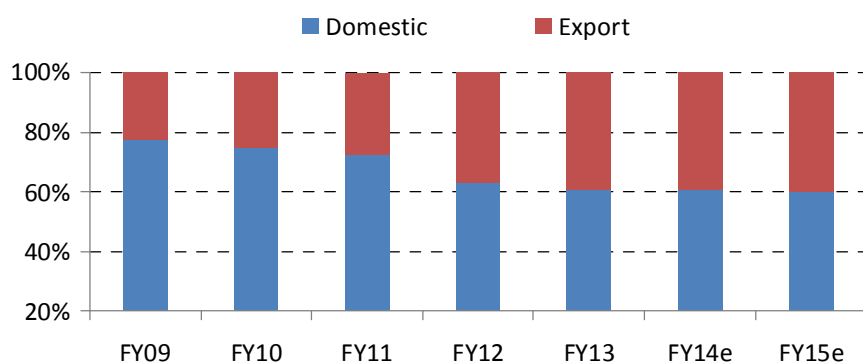
We forecast 13.9% CAGR between FY13-FY15e driven by 1) Unichem's efforts to build brands by leveraging brand equity that it has built through brands like Losar and Amproxin (2) increased focus on statins and sartans (other than Losaratan) (3) sharpened focus on domestic formulations business through reorganization of product portfolio, field resource allocation and customer coverage alignments.

## International business to support growth - Subsidiaries are showing sign of rival - entering into newer markets

Major chunk of international business contributed by formulation division (68%) followed by API. In FY13, its overseas business has nurtured Rs.425crs (39%) of the total revenues, out of which Rs.120crs were earned from contractual sales.

**Niche Generic - Turning around:** It's UK 100% subsidiary, Niche Generic, is contributing around 20% of its overseas business, while rest is come from US, Russia, CIS, Africa, Brazil, Southeast Asia and the rest of Europe. Niche generic has turned profitable on the net basis this year, for the year ended March 2013, it has recorded sales and net profit of GBP 10.8 mn. and GBP 0.1 mn., respectively, for the next fiscal we expect it to post lower double digit sales growth.

### SALES BREAK UP



Source: SSL Research, Company

**Brazilian subsidiary to ramp up its operations:** Brazilian subsidiary has filled 16 fillings to date, out of which it has launched two products in anti-infective and pain management segments. Two more product approval is expected in Q2FY14 in CVS and CNS segments. After ANVISA has called off the strike, we expect increase in approvals and fillings from Brazilian subsidiary.

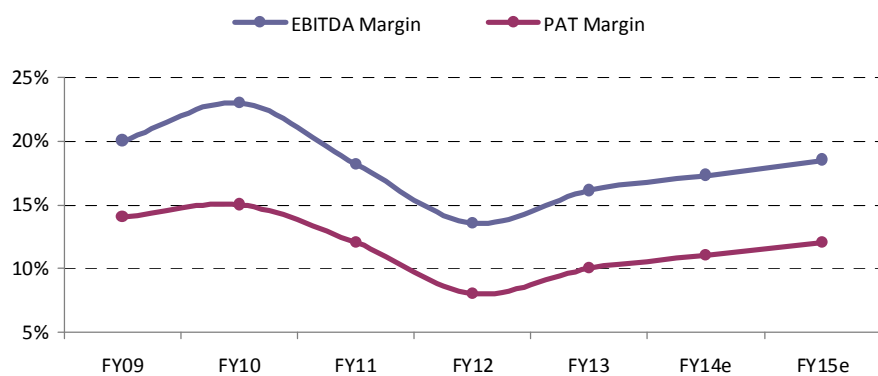
**ANDA filling to remain modest and entering into emerging markets:** Unichem has made a significant investments in building infrastructure to support international business. So far it has filled 29 ANDAs and 15 of them have been approved (including 2 tentative approvals) out of which it has launched 10 products in US, Unichem is to fill 5-8 ANDAs in FY14. The registration activities are also initiated in Australia and New Zealand.

**To grow at a CAGR of 18.2% during FY13-FY15e:** Between FY09-13, its overseas revenue has grown at a CAGR of 24.6%, during FY13-FY15e we forecast it to grow at a CAGR of 18.2%, driven by (1) improved performance of its subsidiaries (2) increased focus on emerging markets (like Brazil, Australia and New Zealand) (3) Stepped into contractual business (in FY13 contractual sales were 35.% of total overseas revenues) and (4) higher quest to expand in the US.

## Margins set to improve

We expect EBITDA margin to improve hereon, due to 1) MR Strength of Unichem has reached to an optimum level (currently ~2400) and productivity per MR is to improve now onwards. 2) Conversion of remaining 2/3 distributors to C&F agents is expected to be accomplished in next 15-18 months 3) US and Brazilian subsidiary have shown a sign of revitalization, together with an improvement at Niche generic, are expected to slice down the difference between standalone and consolidated operations.

### EBITDA & PAT MARGINS



Source: SSL Research, Company

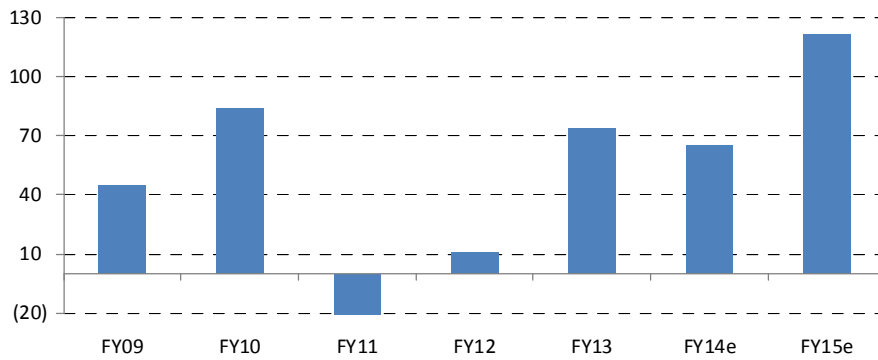
## Proceeds from sale of Indore SEZ

During Q4FY13, Unichem has announced sale of plant at the Indore SEZ to Mylan, for the consideration of Rs160crs. Selling of the plant will not have any impact on the production as it was not contributing to revenues. The transaction is expected to close in the Q2FY14 and profit from the plant is subject to MAT. We have not considered proceeds from sale of plant while forecasting revenues.

## Debt free company with a strong balance sheet

The Company has an almost debt-free balance sheet, currently debt on books is of Rs52crs (D/E ratio: 0.07x), which includes deposits from the clients and working capital loan of overseas subsidiaries. Further, with proceeds from sale of Indore SEZ Unichem to become net cash surplus company.

The Company is generating positive free cash flow from operations along with a debt free balance sheet, which gives comfort to Unichem to go for an inorganic growth. The Company is scouting for acquisitions in domestic market, to fill the gaps in its drug portfolio where it has no or lesser presence like derma and ophthalmic. In its latest annual report, the management has also hinted of acquiring API facilities of Unichem's need.

**FREE CASH FLOW FROM OPERATIONS (Rs. in Cr.)**

Source: SSL Research, Company

**Capex:** Proceeds from sale of Indore SEZ and budgeted capex of around Rs100crs - Rs125crs (for FY14) is to be utilized for adding formulation capacity at Goa, expansion of API facility at Pithampur and investment in bioscience. The management has guided for the capex of Rs75crs for FY15.

## Company Background

Unichem Laboratories Ltd. is an integrated Mumbai based pharmaceutical company with strong hold over its domestic formulation business. It has a notable market size in niche therapy areas such as cardiology, neurology, orthopedics and anti-infectives. The chronic business accounts for 65% of the total domestic business. It has been able to mark its presence in cardiac care and anti-infective segments with popular brands like Losar and Ampoxin.

The Company has a R&D facility at Goa with six state of art manufacturing plants:

**Formulation facilities** - Goa, Ghaziabad in Uttar Pradesh, Baddi in Himachal Pradesh and Sikkim

**API facilities** - Roha in Maharashtra and Pithampur in Madhya Pradesh

### Subsidiaries:

Niche Generics Limited	It has been engaged in manufacturing formulations and dossier filing in European markets.
Unichem Pharmaceuticals (USA) Inc.	It has been set up for business development, filing of ANDA's and exploring the opportunities for marketing alliances in North American markets.
Unichem Farmaceutica Do Brasil Ltda	It has been set-up to own product registrations, launch generic and branded generics products in the Brazilian market.
Unichem SA (Proprietary) Limited	It has been set-up for business development and to own product registrations in South Africa.
Unichem Laboratories Ltd. Ireland	It was incorporated last year under review for business development and to own product registrations.

Source: SSL Research, Company

### REVENUE BREAK-UP (Rs. in crs.) (FY13)

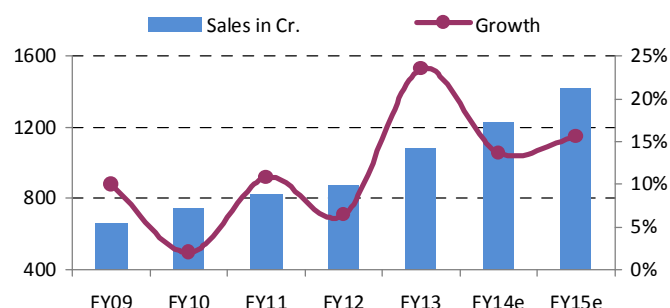
	FY13	FY12	Var. (%)
<b>Domestic Operations</b>			
Formulation	635	533	19
API	21	21	0
<b>Intl. Operations</b>			
Formulation	253	162	56
API	88	78	13
Other Opting Inc.	84	82	3
<b>Total</b>	<b>1081</b>	<b>876</b>	<b>23</b>

Source: SSL Research, Company

## Financial Performance

Between FY09 to FY13, top line grew at a CAGR of 13.3%; we expect it to grow at a CAGR of 14.6% over next two years.

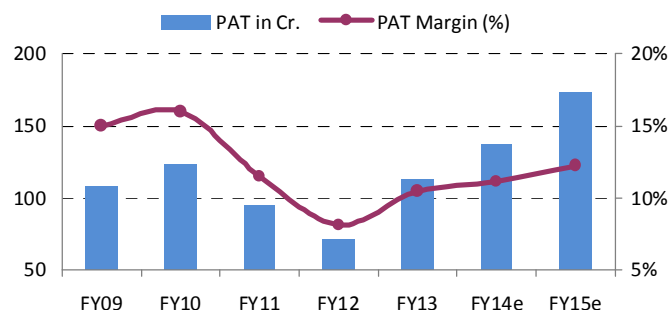
### NET SALES (Cr.) & GROWTH (%)



Source: SBICAP Securities Research

Net profit grew at a CAGR of 1.2% over FY08 to FY13, for the next two years we expect it to grow by 23.9%.

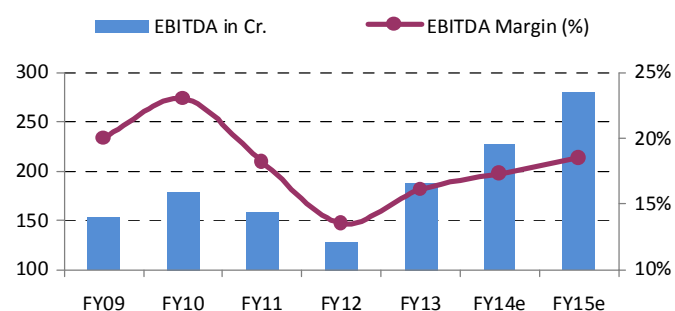
### NET PROFIT (Cr.) & MARGINS (%)



Source: SBICAP Securities Research

EBITDA grew at a CAGR of 5.4% over FY08 to FY13, for the next two years we expect it to grow by 22.1%.

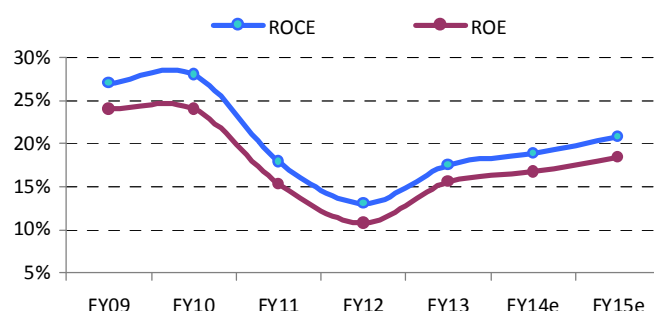
### EBITDA (Cr.) & MARGINS (%)



Source: SBICAP Securities Research

Return ratios are expected to improve, on the back better performance and constant increase in net worth.

### ROCE & ROE (%)



Source: SBICAP Securities Research

## Q1FY14 Performance

- The company's revenues stood at Rs.265.6crs against Rs.264.9crs in Q1FY13, 0.3% growth. On sequential quarter revenue grew by 9.1%. PAT for the quarter stood at Rs.36.1crs (corresponding quarter previous year: Rs.33.1crs). On sequential quarter PAT grew by 16.3%. Diluted EPS stood at Rs.4.0 (corresponding quarter previous year: Rs. 3.7).
- Domestic Branded Formulations grew by 4.2% compared to the same quarter of the previous year, while on sequential quarter it grew by 23.5 %.
- International Formulation Business de-grew by 14.2 % compared to Q1FY13, while on sequential quarter it de-grew by 19.5%.
- API revenue stood at Rs.30.3crs against Rs.29.3crs recorded in Q1FY13 reflecting 3.8% growth.

## Key Concerns

- **NELM impact:** Around 18-20% of the Company's product portfolio is under NELM. This may impact Unichem's top line and bottom line by around 3-4%. This may adversely impact our revenues and margins estimates.
- **Performance of the subsidiaries:** Our revenue estimates are also vulnerable to performance of the subsidiaries.



## Peer Comparison and Valuation

Company Name	Net sales (Cr.)	Growth (%)	EBITDA (Cr.)	OPM (%)	PAT (Cr.)	PATM (%)	EPS (%)	RoCE (%)	RoNW (%)	Div.Yield (%)	P/E (x)	P/BV (x)
IPCA	2,813.1	19.3	577.5	20.5	324.3	11.5	25.0	27.0	23.0	0.6	25.1	5.3
FDC	769.1	8.7	227.2	29.5	155.2	20.2	8.5	23.5	19.8	2.5	10.2	1.9
Indoco remedies	630.8	10.8	94.1	14.9	42.8	6.8	4.5	13.0	10.0	1.7	14.1	1.5
<b>Average</b>	<b>1,404.3</b>	<b>12.9</b>	<b>299.6</b>	<b>21.7</b>	<b>174.1</b>	<b>12.8</b>	<b>12.7</b>	<b>21.2</b>	<b>17.6</b>	<b>1.6</b>	<b>16.5</b>	<b>2.9</b>
Unichem Labs.	1,094.2	23.5	158.1	14.4	113.2	10.3	12.5	17.5	15.4	2.8	14.8	2.4

### Valuation and Recommendation

Unichem has a strong presence in CVS and anti-infective segment, along with good brand building ability. In the past Unichem has successfully build brands like Losar, Ampoxin, Trika and Vizylac. To reduce the dependence on the trade mark brands Unichem is in the process of developing other brands like Telsar (CVS), Olsar (CVS), Co-Amoxyclav (anti-infective), and Serta (CNS) along with developing these brands it is also focusing on adjunct therapies. We believe these strategies to have a positive impact on revenues.

Last 2-3 years were rough patch for the Company, as it was facing high attrition level and piled up with inventory, but the worst seems to be over now. We forecast its consolidated revenues to grow at a CAGR of 14.6% over FY13-FY15e, driven by (1) Unichem's efforts to build brands by leveraging brand equity that it has built through brands like Losar, Ampoxin and Trika (2) increased focus on statins and sartans (other than Losaratan) (3) sharpened focus on domestic formulations business through reorganization of product portfolio, field resource allocation and customer coverage alignments (4) improving performance of its subsidiaries - Niche Generics has turned profitable on the net basis this year and will continue to do well (5) higher thrust to enter into emerging markets like Brazil, Australia and New Zealand (6) Stepped into contractual business (in FY13 contractual sales were 35.% of total overseas revenues) and (7) higher quest to expand into the US market.

The Company has a strong balance sheet, along with a meager debt of Rs.52.3crs (D/E ratio: 0.07x) and positive free cash flow. We expect its CVS, anti-diabetic and CNS segments to grow at 16%, 15% and 20% respectively as lifestyle diseases and the cases of epilepsy + depression are on rise. At the current market price of Rs.165 the stock is trading at a P/E of 10.9x and 8.6x of its FY14e and FY15e earnings, respectively. The value of Unichem's business is pegged at Rs211 per share by discounting FY15e EPS of Rs19.2 by 11x.

## Financial Statements

### Statement of Profit and Loss

Figures in Cr.

Particulars	FY12	FY13	FY14e	FY15e
Sales	875.5	1080.8	1228.7	1420.3
Other Income	10.2	13.4	14.7	17.0
<b>Total Income</b>	<b>885.7</b>	<b>1094.2</b>	<b>1243.5</b>	<b>1437.4</b>
<b>EBIDTA</b>	<b>118.4</b>	<b>174.2</b>	<b>212.6</b>	<b>262.8</b>
Interest	4.1	3.3	3.4	3.5
Depreciation	30.4	38.3	46.1	52.0
PBT	94.1	146.0	177.8	224.4
Tax	22.8	32.8	40.9	50.5
<b>PAT</b>	<b>71.3</b>	<b>113.2</b>	<b>136.9</b>	<b>173.9</b>

### Cash Flow Statement

Figures in Cr.

Particulars	FY12	FY13	FY14e	FY15e
<b>Net Profit before Tax</b>	<b>94.1</b>	<b>146.0</b>	<b>177.8</b>	<b>224.4</b>
Depreciation	30.4	38.3	46.1	52.0
Others	5.3	10.4	3.1	3.0
Optg. Profit before WC Chg.	133.1	193.9	227.0	279.3
Change in Working Capital	18.5	-3.1	-43.1	-59.9
CF Before Direct Tax	150.1	210.8	180.9	212.1
<b>Cash generated from optg.</b>	<b>124.1</b>	<b>172.0</b>	<b>195.0</b>	<b>221.6</b>
<b>CF From Investing Activities</b>				
Purchase of Fixed Assets	-113.1	-98.0	-130.0	-100.0
Others	11.6	-20.1	-15.0	-58.9
<b>Net Cash used in Inves. Act.</b>	<b>-101.5</b>	<b>-118.1</b>	<b>-145.0</b>	<b>-158.9</b>
<b>CF from Fin. Activities</b>				
Issue of equity shares	0.0	0.0	0.0	0.0
Dividend & tax	-31.5	-47.6	-47.6	-47.6
Others	0.9	14.2	-3.1	-0.8
<b>Net CF from Fin. Activities</b>	<b>-14.2</b>	<b>-52.6</b>	<b>-45.4</b>	<b>-53.0</b>
Net Inc./ (Dec.) in cash & Cash Eq.	8.4	1.2	4.7	9.7
Cash & Bank Bal. (Opening)	14.4	22.8	24.0	28.6
<b>Cash &amp; Bank Bal. (Closing)</b>	<b>22.8</b>	<b>24.0</b>	<b>28.6</b>	<b>38.3</b>

### Du Pont Analysis - ROE

Particulars	FY12	FY13	FY14e	FY15e
Tax Burden	0.8	0.8	0.8	0.8
Interest Burden	0.7	0.8	0.8	0.8
EBIT Margin	0.1	0.2	0.2	0.2
Asset Turnover Ratio	1.7	1.9	1.9	2.0
Financial Leverage	0.8	0.8	0.8	0.7
<b>Return On Equity (ROE) (%)</b>	<b>10.8</b>	<b>15.6</b>	<b>16.7</b>	<b>18.4</b>

### Balance Sheet

Figures in Cr.

Particulars	FY12	FY13	FY14e	FY15e
<b>EQUITY &amp; LIABILITIES</b>				
Shareholder's Fund	660.8	726.8	818.4	945.2
Capital res. on Consol.	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0
Non-Current Liabilities	92.7	94.3	104.0	106.3
Current Liabilities	233.3	251.1	282.7	293.9
<b>Total</b>	<b>986.8</b>	<b>1072.3</b>	<b>1205.2</b>	<b>1345.4</b>
<b>ASSETS</b>				
Fixed Assets	521.9	580.3	642.8	695.1
Non-Current Inv.	0.0	5.8	5.8	5.8
Deferred Tax Assets	0.0	0.0	0.0	0.0
Long-term loans & adv.	26.0	8.4	18.4	28.4
Other non-current assets	0.0	0.0	0.0	0.0
Cash & Cash Equivalents	22.8	24.0	28.6	38.3
Other Current assets	416.1	453.8	509.5	577.8
<b>Total</b>	<b>986.8</b>	<b>1072.3</b>	<b>1205.2</b>	<b>1345.4</b>

### Ratios

Particulars	FY12	FY13	FY14e	FY15e
<b>Per Share Data</b>				
EPS (Rs.)	7.9	12.5	15.1	19.2
CEPS	61.1	89.0	102.9	126.5
Book Value (Rs.)	73.2	80.4	90.5	104.5
<b>Profitability Ratios (%)</b>				
Operating Margin	13.5	16.1	17.3	18.5
Net profit Margin	8.1	10.5	11.1	12.2
ROCE	13.0	17.5	18.9	20.8
ROE	10.8	15.6	16.7	18.4
<b>Turnover Ratios</b>				
Market Cap (Cr.)	1491.3	1493.8	1493.8	1493.8
Enterprise Value (Cr.)	1537.9	1522.1	1532.5	1520.5
PER (x) Basic	20.9	13.2	10.9	8.6
P/BV (x)	2.3	2.1	1.8	1.6
EV/EBIDTA (x)	12.0	8.1	6.7	5.4
EV/Sales (x)	1.8	1.4	1.2	1.1
Mcap/Sales (x)	1.7	1.4	1.2	1.1
<b>Leverage Ratios (x)</b>				
Debt/Equity	0.1	0.1	0.1	0.1
Interest coverage	24.1	45.4	53.3	65.5

Source: SSL Research

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