

October 24, 2011

Reco Hold	Previous Reco Hold
CMP Rs 132	Target Price Rs 148
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,098
Sensex	16,939

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(16)	(31)	(43)
Rel. to Nifty	(12)	(7)	(20)	(32)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	UL@IN
Equity Capital (Rs mn)	181
Face Value(Rs)	2
No of shares o/s (mn)	90
52 Week H/L	269/130
Market Cap (Rs bn/USD mn)	12/240
Daily Avg Volume (No of sh)	39176
Daily Avg Turnover (US\$m)	0.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	48.6	48.7	48.4
FII/NRI	7.4	7.5	5.7
Institutions	10.0	9.9	11.9
Private Corp	7.6	7.9	7.9
Public	26.4	26.0	26.2

Source: Capitaline

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- **Unichem's Q2FY12 results were in-line with a) Revenues at Rs2bn (down 2% YoY) b) EBITDA at Rs305mn (down 39% YoY) and c) APAT at Rs191mn (down 45% YoY)**
- **Domestic growth was subdued at -8% as expected due to ongoing rationalization of inventory at the distributor level, negatively impacting company-level sales**
- **EBITDA margins at 15.3% (down 922bps) was led by higher raw material cost (up 386bps), increase in sales & marketing cost and higher employee cost due to increase in sales force**
- **We continue to maintain Hold rating on the stock with a target price of Rs148 (11x FY13E EPS of Rs13.4)**

Inventory rationalization led to subdued Q2FY12; however sequential improvement in domestic business is visible

- Unichem has initiated inventory rationalization at the distributor level in order to improve internal processes and reduce inventory by 21-30 days in Q4FY11. This has led to 9% YoY decline in domestic formulation revenues in Q2FY12. Among the companies top 10 brands, 4 brands reported negative YoY growth. However, there has been a noticeable improvement in the company's branded domestic business from Q4FY11 to Q2FY12 led by improvement in performance by its CVS brands – Losar, Losar H & Telsar.
- Export formulation business grew 12.5% YoY led by traction across Latam and US/ Canadian markets.

Growth will remain subdued in FY12

- In the domestic market –
 - Restructuring in the domestic market will result in loss of one month's in FY12
 - Higher attrition rate at 30% and subdued sales force productivity will result in domestic business remaining flat over FY11-12E
- In the exports market –
 - Niche Generics (contributes 8% to sales) to remain flat on account of pruning of product pipeline and price erosion in the European market
 - US business (contributes 3% to sales) to show a stronger growth over FY11-13E
 - Commencement of outsourcing contract with MNC company in H2FY12E will generate revenues of Rs600mn & Rs1.2bn in FY12/13E respectively

Valuation

We expect Unichem to report 13% revenue growth in FY12E and 16% growth in FY13E. We expect EBITDA margins to range from 18.2% in FY11 to 15.1% in FY12E and 17.7% in FY13E. Earnings will grow by 13% CAGR over FY11-13E. We maintain our target price on the stock at Rs148 (11x FY13 EPS) with a Hold rating. At current price, the stock trades at 16x FY12E EPS of Rs9 and 11x FY13E EPS of 13.

Financials

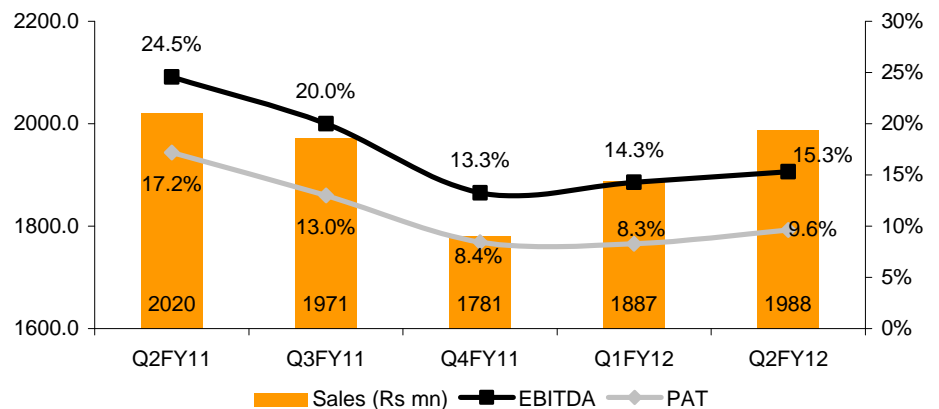
YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	7,473	1,730	23.2	1,249	13.9	19.6	23.4	10.3	7.6	2.3
FY11	8,240	1,500	18.2	951	10.6	(23.8)	16.1	13.5	8.9	2.1
FY12E	9,324	1,403	15.1	817	9.1	(14.1)	12.6	15.7	9.8	1.9
FY13E	10,848	1,915	17.7	1,210	13.4	48.1	16.8	10.6	7.3	1.7

Key Financials - Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	QFY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	2,020	1,971	1,781	1,887	1,988	(1.6)	5.3	3,876	3,895	(0.5)
Expenditure	1,524	1,577	1,545	1,618	1,684	10.4	4.1	3,302	2,917	13.2
<i>as % of sales</i>	<i>75.5</i>	<i>80.0</i>	<i>86.7</i>	<i>85.7</i>	<i>84.7</i>	-	-	<i>85.2</i>	<i>74.9</i>	-
Consumption of RM	647	671	651	697	713	10.3	2.3	1,411	1,245	13.3
<i>as % of sales</i>	<i>32.0</i>	<i>34.0</i>	<i>36.6</i>	<i>37.0</i>	<i>35.9</i>	-	-	<i>36.4</i>	<i>32.0</i>	-
Employee Cost	276	278	243	297	303	9.6	1.8	600	535	12.3
<i>as % of sales</i>	<i>13.7</i>	<i>14.1</i>	<i>13.6</i>	<i>15.8</i>	<i>15.2</i>	-	-	<i>15.5</i>	<i>13.7</i>	-
Other expenditure	601	629	650	623	667	11.0	7.1	1,290	1,137	13.5
<i>as % of sales</i>	<i>29.8</i>	<i>31.9</i>	<i>36.5</i>	<i>33.0</i>	<i>33.6</i>	-	-	<i>33.3</i>	<i>29.2</i>	-
EBITDA	496	394	236	269	305	(38.6)	13.1	574	978	(41.3)
Depreciation	67	69	71	67	69	3.1	2.5	136	133	2.8
EBIT	429	325	166	202	236	(45.1)	16.6	438	846	(48.2)
Other Income	20	13	20	15	27	34.4	78.1	42	40	6.1
Interest	2	2	0	2	2	35.3	-	4	4	(4.3)
PBT	447	336	186	215	260	(41.8)	20.8	476	881	(46.0)
Total Tax	100	80	35	59	69	(31.2)	15.9	128	200	(36.0)
Adjusted PAT	347	256	150	156	191	(44.9)	22.6	348	681	(48.9)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	-	-	0	0	-
APAT after MI	347	256	150	156	191	(44.9)	22.6	348	681	(48.9)
Extra ordinary items	0	0	2	0	0	-	-	0	0	-
Reported PAT	347	256	148	156	191	(44.9)	22.6	348	681	(48.9)
AEPS	3.85	1.73	1.67	1.73	2.12	(44.9)	22.6	3.85	7.55	(49.0)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	24.5	20.0	13.3	14.3	15.3	(922)	105	14.8	25.1	(1,030)
EBIT	21.2	16.5	9.3	10.7	11.8	(938)	114	11.3	21.7	(1,041)
EBT	22.1	17.1	10.4	11.4	13.1	(905)	167	12.3	22.6	(1,034)
PAT	17.2	13.0	8.4	8.3	9.6	(756)	136	9.0	17.5	(851)
Effective Tax rate	22.4	23.9	19.0	27.6	26.4	407	(111)	26.9	22.7	421

Quarterly trend



Quarterly Revenue Breakup (Standalone)

(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY Gr.	QoQ Gr.
Domestic	1612.6	1547.4	1277.9	1436.2	1479.7	-8.2%	3.0%
Formulations	1573.2	1490.9	1221.9	1392.5	1428.7	-9.2%	2.6%
API	39.3	56.6	56.0	43.8	51.0	29.6%	16.5%
Exports	388.2	403.4	484.1	430.6	491.1	26.5%	14.1%
Formulations	294.3	268.4	348.8	250.1	331.1	12.5%	32.4%
API	93.9	135.0	135.3	180.4	160.0	70.5%	-11.3%
Total Sales	2000.8	1950.9	1762.0	1866.8	1970.8	-1.5%	5.6%

Revenue Breakup (Consolidated)

Rs mn	FY11	FY12E	YoY %	FY13E	YoY %
Formulations	7463	7893	6%	8750	11%
Domestic	5758	5758	0%	6391	11%
Asia & Africa	333	366	10%	410	12%
Europe & UK	1119	1344	20%	1468	9%
Latam	17	19	10%	22	14%
US & Canada	237	406	72%	460	13%
New contracts	0	600	-	1200	-
API	739	790	7%	859	9%
Others	195	38	-80%	34	-11%
Total Sales	8397	9321	11%	10844	16%
EBITDA	1,500	1,403	-6%	1,915	36%
EBITDA margins %	18.2	15.1		17.7	
APAT	951	817	-14%	1,210	48%
PAT margins %	11.5	8.8		11.2	
EPS	10.6	9.1	-14%	13.4	48%
PE @CMP	13.5	15.7	-	10.6	-

Valuations

We expect Unichem to report 13% revenue growth in FY12E and 16% growth in FY13E. We expect EBITDA margins to range from 18.2% in FY11 to 15.1% in FY12E and 17.7% in FY13E. Earnings will grow by 13% CAGR over FY11-13E. We maintain our target price on the stock at Rs148 (11x FY13 EPS) with a Hold rating. At current price, the stock trades at 16x FY12E EPS of Rs9 and 11x FY13E EPS of 13.

Unichem's – Domestic Metrics

Unichem's therapeutic growth				
Therapies	FY11 % Contribution	MAT Sep'11	MAT Sep'10	YoY Gr. %
Cardiac	46.4%	304.8	279.7	9.0%
Anti-Infective	15.2%	100.0	97.6	2.5%
CNS	13.5%	89.0	89.2	-0.3%
Pain	3.7%	24.1	25.1	-4.2%
Gastro	8.6%	56.3	53.0	6.2%
Anti- diabetic	3.5%	22.8	22.1	3.4%
Respiratory	3.1%	20.1	17.7	13.4%
Vit/ Minerals	2.5%	16.5	18.8	-11.8%
Derma	2.3%	15.3	10.1	51.2%
Others	1.2%	7.8	6.2	25.9%
Acute	36.2%	237.4	225.9	5.1%
Chronic	63.8%	419.2	393.5	6.5%
Total Sales	100.0%	656.6	619.4	6.0%

Sep'11 MAT growth for Unichem is 6%

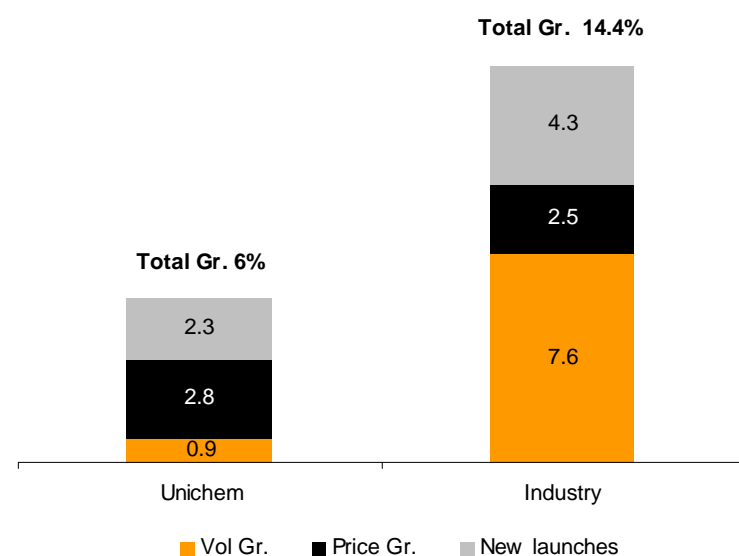
- Acute segment which contributes 36% grew by 5%
- Chronic segment which contributes 64% grew by 6.5%

Top 10 brands performance

Rs Cr	Therapies	MAT Sep'11	MAT Sep'10	YoY Gr.
Losar H	CVS	72.4	66.6	8.6%
Losar	CVS	64.0	60.6	5.5%
Amproxin	Anti-Infective	57.7	61.7	-6.4%
Trika	CNS	33.9	37.0	-8.5%
Unienzyme	Gastro	27.5	25.9	6.5%
Vizylac	Vitamins	16.0	15.0	7.2%
TG-TOR	CVS	15.5	16.4	-5.6%
Serta	CNS	13.1	14.0	-6.6%
Telsar	CVS	12.5	10.6	17.6%
Lincox	CVS	11.9	9.4	26.9%
Total		324.5	317.2	2.3%

- Top 10 brands contribute 49% to the domestic formulation sales
- Of the top 10 brands, 4 brands have de-grown by 5-8% during MAT Sep'11

Growth drivers - Volume/ Price/ New launches



- Unichem continues to grow below industry rates at 6% during MAT Sep'11 led by restructuring in the domestic business and growth erosion in top brands

Source: AIOCD, Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	7,473	8,240	9,324	10,848
<i>Growth (%)</i>	1.6	10.3	13.2	16.3
Expenditure	5,743	6,740	7,920	8,933
Raw Materials	2,579	2,761	3,340	3,998
SGA	1,952	2,353	2,643	2,888
Employee Cost	1,011	1,365	1,536	1,616
Other Exp	202	261	402	431
EBITDA	1,730	1,500	1,403	1,915
<i>Growth (%)</i>	64.7	21.7	-13.3	-6.4
EBITDA margin (%)	23.2	18.2	15.1	17.7
Depreciation	232	292	349	376
EBIT	1,498	1,208	1,055	1,539
EBIT margin (%)	20.0	14.7	11.3	14.2
Other Income	66	69	8	29
Interest expenses	10	9	15	17
PBT	1,532	1,267	1,048	1,551
Tax	304	316	231	341
<i>Effective tax rate (%)</i>	19.9	24.9	22.0	22.0
Adjusted PAT	1,252	951	817	1,210
(Profit)/loss from JV's/Ass/MI	3	0	0	0
Adjusted PAT after MI	1,249	951	817	1,210
<i>Growth (%)</i>	19.5	-23.8	-14.1	48.1
Net Margin (%)	16.7	11.5	8.8	11.2
E/O items	-22	0	0	0
Reported PAT	1,231	951	817	1,210
<i>Growth (%)</i>	13.9	-22.7	-14.1	48.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	1,466	1,199	1,039	1,522
Depreciation	232	292	349	376
Interest Provided	10	9	15	17
Other Non-Cash items	0	0	0	0
Chg in working cap	-91	-591	-362	-426
Tax paid	-304	-316	-231	-341
Operating Cashflow	1,312	593	810	1,148
Capital expenditure	-435	-887	-1,200	-800
Free Cash Flow	878	-293	-389	348
Other income	66	69	8	29
Investments	-582	379	0	0
Investing Cashflow	-950	-439	-1,191	-771
Equity Capital Raised	-26	18	-8	0
Loans Taken / (Repaid)	-40	142	350	200
Interest Paid	-10	-9	-15	-17
Dividend paid (incl tax)	-421	-420	-163	-484
Income from investments	0	0	0	0
Others	27	30	0	0
Financing Cashflow	-470	-239	163	-301
Net chg in cash	-107	-85	-218	76
Opening cash position	344	236	152	-66
Closing cash position	236	152	-66	10

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	180	180	180	180
Reserves & surplus	5,449	5,997	6,642	7,368
Net worth	5,629	6,177	6,823	7,549
Minority Interest	0	0	0	0
Secured Loans	122	172	372	472
Unsecured Loans	236	328	478	578
Loan Funds	358	500	850	1,050
Net deferred tax liability	347	378	378	378
Total Liabilities	6,333	7,055	8,051	8,977
Gross Block	4,646	5,370	7,081	7,822
Less: Depreciation	1,312	1,597	1,843	2,180
Net block	3,334	3,773	5,237	5,643
Capital work in progress	636	791	177	196
Investment	592	213	213	213
Current Assets	3,445	4,035	4,303	4,997
Inventories	1,095	1,503	1,773	2,047
Sundry debtors	1,670	1,857	2,004	2,317
Cash & bank balance	236	152	-66	10
Loans & advances	444	524	592	623
Other current assets	0	0	0	0
Current lia & Prov	1,673	1,758	1,880	2,071
Current liabilities	1,316	1,392	1,554	1,725
Provisions	356	366	326	346
Net current assets	1,772	2,278	2,424	2,926
Misc. exp & Def. Assets	0	0	0	0
Total Assets	6,333	7,055	8,051	8,977

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	23.2	18.2	15.1	17.7
Net Margin	16.7	11.5	8.8	11.2
ROCE	27.9	20.2	14.8	19.3
ROE	23.4	16.1	12.6	16.8
RoIC	21.2	14.0	11.0	14.1
Per Share Data (Rs)				
EPS	13.9	10.6	9.1	13.4
CEPS	16.5	13.8	13.0	17.6
BVPS	62.5	68.6	75.8	83.9
DPS	4.0	4.0	1.6	4.6
Valuations (x)				
PER	10.3	13.5	15.7	10.6
P/CEPS	8.7	10.4	11.0	8.1
P/BV	2.3	2.1	1.9	1.7
EV / Sales	1.8	1.6	1.5	1.3
EV / EBITDA	7.6	8.9	9.8	7.3
Dividend Yield (%)	2.8	2.8	1.1	3.2
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.1	0.1	0.1
Net Debt/EBIDTA	0.1	0.2	0.6	0.7
Working Cap Cycle (days)	92	110	110	110

Recommendation History: Unichem Laboratories - UL@IN

Date	Reports	Reco	CMP	Target
26/09/2011	Pharma Sector Report Domestic			
19/08/2011	Unichem Labs Q1FY12 Result Update	Hold	141	167
15/06/2011	Unichem Labs Management Meet Update	Hold	161	167
16/05/2011	Unichem Labs Q4FY11 Result Update	Accumulate	180	215

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/10/2011	Torrent Pharma Q2FY12 Result Update	Hold	577	618
16/09/2011	Jubilant Life Sciences Company Update	Buy	216	359
11/08/2011	Panacea Biotec Q1FY12 Result Update	Hold	165	185
11/08/2011	GSK Pharma Q2CY11 Result Update	Hold	2,122	2,161

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