

## Biochem buy: Gaining depth in anti-infectives

### Quick Note

#### **Cadila acquires Biochem; expands presence in anti-infectives**

Cadila Healthcare announced that it has acquired a 100% stake in privately held Mumbai-based company Biochem for an undisclosed amount. Biochem has annual sales of INR2.65bn in FY11. Biochem is primarily an anti-infective player with 81% revenues from the segment with revenue CAGR of 13.7% over the last three years. Due to the intense competitive nature of the anti-infective segment, Biochem also shells out high amounts of bonuses (10.8% of net sales as bonus in MAT Nov 2011). With the acquisition, Cadila would catapult to 6th rank in IPM and 9th in anti-infective segment. The company hasn't disclosed the price paid for the acquisition. The growth rate for Biochem has accelerated in the recent past, but over the long term we expect the growth rate to moderate below the average market growth rate, given substantially higher dependence on slow growing anti-infective portfolio. Further, almost 85% of Biochem's portfolio shall come under a newly proposed draft Pricing Policy.

#### **Product spread is not complementary...**

As per our analysis based on AIOCD AWACS, there is considerable overlap in the portfolio. Out of 694 molecules in Cadila's portfolio, 160 are common to Biochem's portfolio (out of 252). As of moving annual total (MAT) November 2011, the combined sales of these 160 products account for sales of INR12.2bn, 46% of the combined sales.

#### **...but product depth is complementary**

Though there is considerable product overlap; we find areas of strengths differ. In certain anti-infective products like ampicillin, amkacin and cefotaxime, Biochem has a very dominate market share. We find that Cadila's sales in overlap products are not material. In overlapped products where Cadila has a smaller brand, sales are only INR58bn (0.2% of CDH domestic sales). Similarly, for Biochem brands in which it is smaller and there is an overlap, sales are only INR 379m. Thus, overall redundancy is only INR437m, which is 1.6% of combined sales.

#### **No major revenue synergy; expect cost synergy**

Given the overlap in the portfolio, we don't expect any material revenue synergy to emerge from this acquisition. However, there can be cost synergies. We note that Cadila has a sizable anti-infective presence and can possibly optimise field force utilisation and selling expenses.

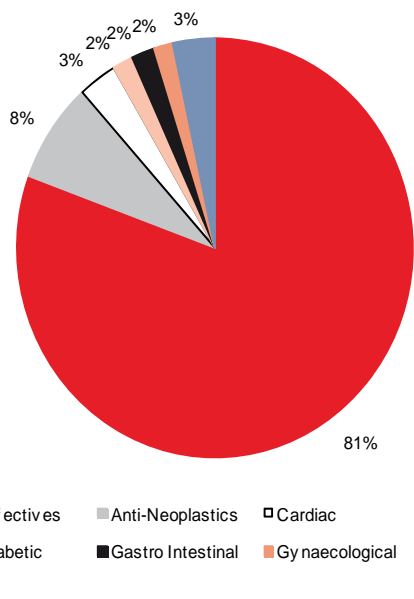
Given that no details are available on the acquisition price or Biochem financials, we aren't projecting earnings changes and value accretion at this stage.

December 21, 2011

**Rating**  
Remains **Buy****Target price**  
Remains **INR 937****Closing price**  
December 20, 2011 **INR 710****Research analysts****India Pharmaceuticals****Saion Mukherjee - NFASL**  
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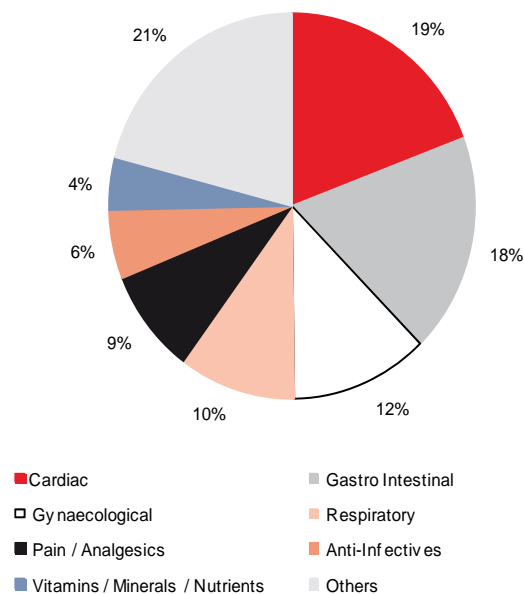
See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

**Fig. 1: Biochem's therapy area mix (MAT Nov 2011)**  
Portfolio dominated by anti-infectives



Source: AIOCD, Nomura research

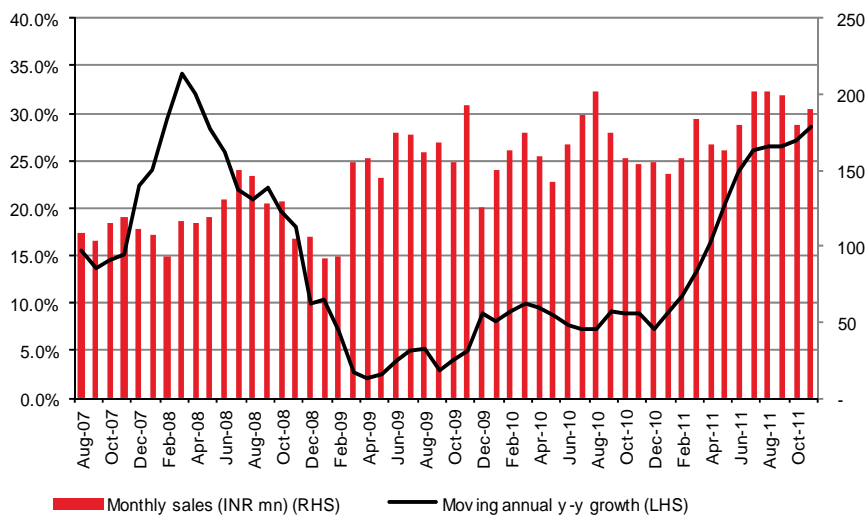
**Fig. 2: Cadila's therapy area mix (MAT Nov 2011)**  
Portfolio spread over Cardiac, gastro, gynae and others



Source: AIOCD, Nomura research

**Fig. 3: Biochem's moving annual net sales growth rate (y-y)**

Over the long term we expect growth to moderate to lower than broader market



Source: AIOCD, Nomura research

**Fig. 4: Biochem's brand profiling**

Brand concentration is high as the top five products comprise 51% of sales

Brands arranged by sales	MAT Nov 10 (INR mn)	MAT Nov 11 (INR mn)	Growth rate (%)	Growth contribution (%)	Sales contribution (%)
Brands #1-#5	1,280	1,505	17.6	34.5	51.4
Brands #6-#20	483	661	36.8	27.3	22.6
Brands #21-#50	323	484	49.5	24.6	16.5
Others	189	278	47.0	13.6	9.5
Total	2,276	2,928	28.7	100.0	100.0
Total number of brands:					362

Brands	MAT Nov 10 (INR mn)	MAT Nov 11 (INR mn)	Growth rate (%)	Growth contribution (%)	Sales contribution (%)
AMPILOX	381	468	22.8	13.4	16.0
AMICIN	381	420	10.3	6.0	14.3
BIOTAX	294	342	16.7	7.5	11.7
MONOTAX	151	192	27.2	6.3	6.6
ZITHROCIN	74	83	12.0	1.4	2.8
AMPILOX C	58	82	40.6	3.6	2.8
IMAT	2	68	2781.6	10.1	2.3
BIOTAX O	74	61	-17.7	-2.0	2.1
CEFOXIM	41	47	16.2	1.0	1.6
SULBACEF	38	47	21.3	1.3	1.6

Source: AIOCD, Nomura research

**Fig. 5: Anti Infective space**

Post acquisition, shall catapult to 9th position in the anti-infective space

Anti-Infectives	MAT Nov 08	MAT Nov 09	MAT Nov 10	MAT Nov 11	MAT Nov 11 Market Share	CAGR
<b>Anti-Infectives</b>	<b>67,251</b>	<b>74,974</b>	<b>84,343</b>	<b>92,853</b>		<b>11.4%</b>
Ranbaxy Laboratories Ltd	5,323	6,574	7,328	8,364	9.0%	16.3%
Alkem Laboratories Ltd.	5,448	5,949	7,047	8,042	8.7%	13.9%
Glaxosmithkline Pharmaceuticals Ltd.	4,818	5,367	5,992	6,818	7.3%	12.3%
Aristo Pharmaceuticals Pvt.Ltd	4,284	4,667	5,658	5,687	6.1%	9.9%
Cipla Ltd.	3,874	4,449	5,169	5,374	5.8%	11.5%
Macleods Pharmaceuticals Pvt.Ltd	2,246	2,680	3,689	4,985	5.4%	30.4%
Mankind Pharmaceuticals Ltd.	3,000	3,446	4,507	4,847	5.2%	17.3%
Piramal Healthcare Limited	2,544	3,729	4,232	4,746	5.1%	23.1%
FDC Ltd.	2,816	3,036	3,332	3,478	3.7%	7.3%
Alembic Ltd	2,436	2,609	3,112	3,419	3.7%	12.0%
Lupin Ltd	2,340	2,542	2,931	3,031	3.3%	9.0%
Pfizer Ltd	1,308	1,432	1,916	2,402	2.6%	22.5%
<b>Biochem Pharmaceutical Inds</b>	<b>1,689</b>	<b>1,846</b>	<b>1,996</b>	<b>2,359</b>	<b>2.5%</b>	<b>11.8%</b>

Source: AIOCD, Nomura research

**Fig. 6: Therapy Area Coverage**

Product spread is not complementary, in our view

Key Therapy Areas	Biochem Coverage	Cadila Coverage	Combined Entity
Anti Diabetic	49%	52%	57%
Anti-Infectives	79%	79%	86%
Anti-Neoplastics	45%	60%	82%
Cardiac	51%	82%	84%
Gastro Intestinal	50%	72%	76%
Gynaecological	20%	76%	77%
Others	34%	75%	75%
Pain / Analgesics	53%	72%	74%
Respiratory	37%	69%	71%
Vitamins / Minerals / Nutrients	54%	69%	74%
<b>Total</b>	<b>45%</b>	<b>70%</b>	<b>73%</b>

Source: AIOCD, Nomura research

# Appendix A-1

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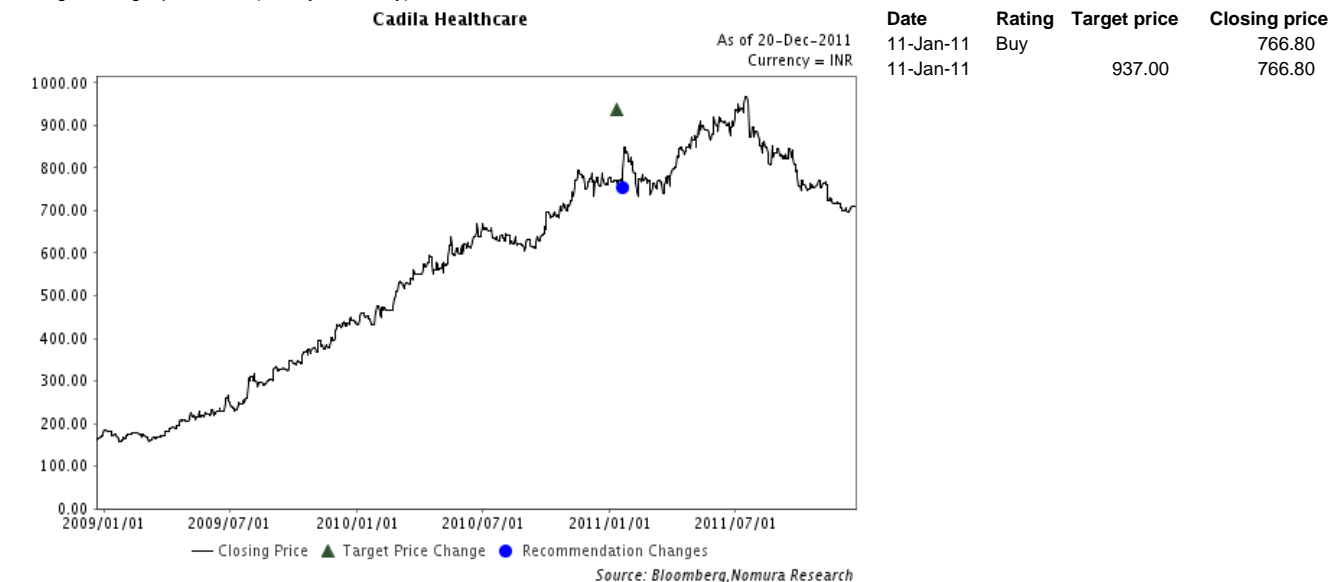
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Cadila Healthcare	CDH IN	INR 710	20-Dec-2011	Buy	Not rated	

### Previous Rating

Issuer name	Previous Rating	Date of change
Cadila Healthcare	Not Rated	11-Jan-2011

### Cadila Healthcare (CDH IN) INR 710 (20-Dec-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our 12-month target price of INR937 is based on 20x FY12-13F blended EPS. Our valuation multiple is in line with the current trading multiple, but at a 15% discount to front-line generic peers. We believe with improvement in growth visibility, the discount to front-line peers could narrow, presenting further upside to our current target price. We are quite comfortable with the valuation multiple given forecast compound growth of >20% in profits and RoE at 28-30% over the next three years.

**Risks that may impede the achievement of the target price** Risks that could impede the achievement of our target price include but are not restricted to the following: Lower-than-expected growth in emerging market revenues; Significant delay in approval of new products from the US FDA and other regulatory issues; Material delays in execution in the US market leading to delayed launches; Greater-than-expected price decline in any of the markets due to competition or regulatory changes; Lower-than-estimated growth in the Hospira JV and Significant appreciation in the INR against export currencies.

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