

June 15, 2011

Reco Hold	Previous Reco Accumulate
CMP Rs 161	Target Price Rs 167
EPS change FY12E/13E (%)	- 17 / - 15
Target Price change (%)	- 22
Nifty	5,501
Sensex	18,309

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(9)	(38)	(15)
Rel. to Nifty	(11)	(8)	(33)	(20)

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	269/154
Market Cap (Rs bn/USD mn)	14/313
Daily Avg Volume (No of sh)	76655
Daily Avg Turnover (US\$m)	0.3

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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- Unichem is restructuring its distribution model in domestic market and moving from distributors to C&F agents which will result in loss of one months domestic sales in FY12
- Higher attrition rate & recruitment of new MR's will take a toll on domestic business resulting in 8-10% growth in FY12
- Outsourcing contract with MNC generic company will commence in H2FY12E; potential revenues of Rs600mn & Rs1.2bn in FY12/13E respectively
- Inventory rationalization and addition of new MR's will continue to pressurize margins, cut earnings by 17%/ 15% to Rs11.2/ Rs15.2 for FY12/FY13E; re-rate the stock to hold

Domestic formulations which contributes 70% to overall sales; will remain subdued in FY12

- Unichem is restructuring its distribution model in domestic market and moving from distributors to C&F agents which will result in loss of one month's domestic sales in FY12. Unichem is one of the few pharma companies, which is following distribution model (~65% of domestic sales) in the domestic market. The company currently maintains 60 days of inventory at the distributors, out of which 40 days is an unpaid inventory. Post restructuring, inventory days will reduce to 20-30 days from current levels resulting in loss of one –months sale
- During FY11, Unichem witnessed one of the highest attrition rates in the industry i.e. 30%. This led to negative growth in domestic business in Q4FY11. Going ahead, the company will be focusing on improving the productivity of newly recruited MRs. As a result, domestic business will grow at lower than industry rate of 14% i.e. 8-10%

Exports formulations to grow at 37% CAGR over FY11-13E

- Emerging markets (contribute 9% to sales) to grow at 9% CAGR over FY11-13E. Unichem has more than 500 filings.
- Niche Generics (contributes 8% to sales) to remain flat on account of pruning of product pipeline by the company and price erosion in the European market.
- US business (contributes 3% to sales) to grow at 23% CAGR over FY11-13E. Unichem has 17 ANDA filings with 8 pending for approvals and 7 already commercialized.
- Commencement of outsourcing contract with MNC generic company in H2FY12E will generate revenues of Rs600mn & Rs1.2bn in FY12/13E respectively.

Valuation

We expect Unichem to report 15% revenue growth in FY12E and 16% growth in FY13E. We expect EBIDTA margins to range from 18.2% in FY11 to 17% in FY12E and 18.6% in FY13E. Earnings will grow by 20% CAGR over FY11-13E. We revise the target price on the stock to Rs 167 (11x FY13 EPS) with a Hold rating. At current price, the stock trades at 14x FY12E EPS of Rs11.3 and 11x FY13E EPS of 15.2

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	11.6	8.6	2.6
FY11	8,240	1,501	18.2	952	10.6	(23.8)	16.1	15.2	10.0	2.3
FY12E	9,503	1,615	17.0	1,015	11.3	6.7	15.4	14.3	9.5	2.1
FY13E	11,024	2,055	18.6	1,369	15.2	34.9	18.5	10.6	7.6	1.9

Revenue Breakup (Consolidated)

Rs mn	FY11	FY12E	YoY %	FY13E	YoY %
Formulations	7463	8674	8	10145	11
Domestic	5758	6253	9	6966	11
Exports	1706	2421	42	3179	31
Emerging markets	773	829	7	912	10
Niche Generics	696	700	0	707	1
New Contracts	0	600	-	1200	-
US	237	293	24	360	23
API	739	790	7	844	7
Gross Sales	8203	9464	13	10988	16
EBITDA	1,501	1,615	8	2,055	27
<i>EBITDA margins %</i>	<i>18.2</i>	<i>17.0</i>	<i>0.0</i>	<i>18.6</i>	<i>0.0</i>
APAT	952	1,015	7	1,369	35
<i>PAT margins %</i>	<i>11.6</i>	<i>10.7</i>	<i>0.0</i>	<i>12.4</i>	<i>0.0</i>
EPS	10.6	11.3	7	15.2	35
PE @CMP	15.2	14.3	-	10.6	-

Cut earning estimates; Downgrade to Hold

We expect Unichem to report 15% revenue growth in FY12E and 16% growth in FY13E. We expect EBITDA margins to range from 18.2% in FY11 to 17% in FY12E and 18.6% in FY13E. Earnings will grow by 20% CAGR over FY11-13E. We revise the target price on the stock to Rs167 (11x FY13 EPS) with a Hold rating. At current price, the stock trades at 14x FY12E EPS of Rs11.3 and 11x FY13E EPS of 15.2

Revised Financials

Owing to subdued growth in the domestic market led by higher attrition & inventory rationalization at the distributor level, delay in break-even of its subsidiaries (primarily UK and US based) and higher staff and SGA cost associated with increase in field force, we cut our earning estimates for FY12E and FY13E by 18% and 15% respectively. However, we believe that post the restructuring phase in FY12, growth will gradually be back on track.

Rs mn	Old Financials		New Financials		% Change	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Sales	9499	11221	9,503	11,024	0	-2
EBITDA	1830	2351	1,615	2,055	-12	-13
PAT	1221	1614	1,015	1,369	-17	-15
EPS	13.6	17.9	11.3	15.2	-17	-15
Target Price	215		167		-22	

Target Price Calculation

	Multiple	Target Price	% Upside from CMP
Bear Case	9	137	-15.0
Base Case	11	167	3.9
Bull Case	13	198	22.8

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	7,473	8,240	9,503	11,024
<i>Growth (%)</i>	1.6	10.3	15.3	16.0
Expenditure	5,743	6,740	7,888	8,969
Raw Materials	2,579	2,761	3,546	4,118
SGA	1,952	2,353	2,584	2,946
Employee Cost	1,011	1,365	1,443	1,533
Other Exp	202	261	316	372
EBITDA	1,730	1,501	1,615	2,055
<i>Growth (%)</i>	64.7	21.7	-13.3	7.6
EBITDA margin (%)	23.2	18.2	17.0	18.6
Depreciation	232	292	349	376
EBIT	1,498	1,209	1,266	1,679
EBIT margin (%)	20.0	14.7	13.3	15.2
Other Income	66	69	51	93
Interest expenses	10	9	15	17
PBT	1,532	1,268	1,302	1,755
Tax	304	316	286	386
<i>Effective tax rate (%)</i>	19.9	24.9	22.0	22.0
Adjusted PAT	1,252	952	1,015	1,369
(Profit)/loss from JV's/Ass/MI	3	0	0	0
Adjusted PAT after MI	1,249	952	1,015	1,369
<i>Growth (%)</i>	19.5	-23.8	6.7	34.9
Net Margin (%)	16.7	11.6	10.7	12.4
E/O items	-22	0	0	0
Reported PAT	1,231	952	1,015	1,369
<i>Growth (%)</i>	13.9	-22.7	6.7	34.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	1,466	1,199	1,250	1,662
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	-372	-441
Tax paid	-304	-316	-286	-386
Operating Cashflow	1,312	594	956	1,227
Capital expenditure	-435	-887	-1,200	-800
Free Cash Flow	878	-293	-244	427
Other income	66	69	51	93
Investments	-582	379	0	0
Investing Cashflow	-950	-439	-1,149	-707
Equity Capital Raised	-26	21	1	0
Loans Taken / (Repaid)	-40	142	350	200
Interest Paid	-10	-9	-15	-17
Dividend paid (incl tax)	-421	-422	-203	-548
Income from investments	0	0	0	0
Others	27	29	0	0
Financing Cashflow	-470	-239	133	-364
Net chg in cash	-107	-85	-59	156
Opening cash position	344	236	152	92
Closing cash position	236	152	92	248

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	180	180	180	180
Reserves & surplus	5,449	5,997	6,810	7,632
Net worth	5,629	6,177	6,991	7,812
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	8,219	9,241
Gross Block	4,646	5,975	7,081	7,822
Less: Depreciation	1,312	1,545	1,843	2,180
Net block	3,334	4,430	5,237	5,643
Capital work in progress	636	134	177	196
Investment	592	213	213	213
Current Assets	3,445	4,035	4,546	5,317
Inventories	1,095	1,503	1,807	2,081
Sundry debtors	1,670	1,857	2,043	2,354
Cash & bank balance	236	152	92	248
Loans & advances	444	524	604	633
Other current assets	0	0	0	0
Current lia & Prov	1,673	1,757	1,955	2,128
Current liabilities	1,316	1,391	1,585	1,754
Provisions	356	366	371	374
Net current assets	1,772	2,278	2,591	3,188
Misc. exp & Def. Assets	0	0	0	0
Total Assets	6,333	7,055	8,219	9,241

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	23.2	18.2	17.0	18.6
Net Margin	16.7	11.6	10.7	12.4
ROCE	27.9	20.2	18.1	21.2
ROE	23.4	16.1	15.4	18.5
RoIC	21.2	14.0	13.1	15.3
Per Share Data (Rs)				
EPS	13.9	10.6	11.3	15.2
CEPS	16.5	13.8	15.2	19.4
BVPS	62.5	68.6	77.7	86.8
DPS	4.0	4.0	1.9	5.2
Valuations (x)				
PER	11.6	15.2	14.3	10.6
P/CEPS	9.8	11.6	10.6	8.3
P/BV	2.6	2.3	2.1	1.9
EV / Sales	2.0	1.8	1.6	1.4
EV / EBITDA	8.6	10.0	9.5	7.6
Dividend Yield (%)	2.5	2.5	1.2	3.2
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.1	0.1	0.1
Net Debt/EBIDTA	0.1	0.2	0.5	0.5
Working Cap Cycle (days)	92	110	110	110

Recommendation History: Unichem Laboratories - UL@IN

Date	Reports	Reco	CMP	Target
16/05/2011	Unichem Labs Q4FY11 Result Update	Accumulate	180	215
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
01/06/2011	Torrent Pharma Q4FY11 Result Update	Hold	619	598
30/05/2011	Sun Pharma Q4FY11 Result Update	Hold	465	497
26/05/2011	Dishman Pharma Q4FY11 Result Update	Accumulate	96	125
25/05/2011	Ipca Laboratories Q4FY11 Result Update	Buy	301	409

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