

22 October 2012

## Unichem Laboratories

Fairly valued; Hold

Rating: **Hold**

Target Price: ₹212

Share Price: ₹188

Unichem Laboratories (Unichem) reported better-than-estimated 2Q results, led by strong performance of domestic formulations. The segment grew 20.5% yoy, leading to better EBITDA margins and above expected PAT (adj.). We, however, believe that current valuations already factor in the strong performance. Hence, we maintain Hold on the stock with target price of ₹212.

- 2QFY13 results.** Revenue grew 34.1% yoy to ₹2.6bn, slightly higher than our estimate of ₹2.5bn, led by higher-than-estimated domestic formulations growth. EBITDA margin increased 540bps yoy to 20% (vs. estimated 17.5%) due to strong growth in high-margin domestic business. Higher margins led to strong adjusted PAT growth of 83% yoy to ₹351m.
- All-round growth.** Exports formulation remained a key growth driver with 76% revenue increase on account of commercialization of new MNC contract from Ghaziabad plant in 3QFY12. Domestic formulation surprised with 20.5% yoy revenue growth on a low base, but higher than our estimate of 15%. Export APIs also grew 76% yoy in revenue.
- Healthier financials.** Revenues have grown substantially after slowing down in FY12. We expect growth momentum to continue in 2HFY13 on a low base, led by recovery in domestic formulations. EBITDA margin has also started recovering from a low of 15% in FY12 to 19% in 1HFY13, which we expect to stabilise at 18-20% in coming quarters.
- Valuation.** The stock currently trades at 15.5x FY13e and 12.5x FY14e earnings. We maintain Hold, mainly on fair valuations with a target price of ₹212 per share based on 14x FY14e earnings. **Risks.** Currency fluctuations and regulatory hurdles.

Key data	UL IN / UNLB.BO
52-week high / low	₹203 / ₹101
Sensex / Nifty	18682 / 5684
3-m average volume	US\$0.5m
Market cap	₹17bn / US\$0.3bn
Shares outstanding	90.4m

Shareholding pattern (%)	Sep '12	Jun '12	Mar '12
Promoters	49.5	49.6	49.6
- of which, Pledged	0.0	0.0	0.0
Free Float	50.5	50.4	50.4
- Foreign Institutions	4.0	4.0	4.0
- Domestic Institutions	9.9	9.7	9.8
- Public	36.5	36.7	36.7

Financials (YE Mar)	FY13e	FY14e
Sales (₹m)	10,345	11,761
Net profit (₹m)	1,102	1,370
EPS (₹)	12.2	15.2
Growth (%)	54.8	24.3
PE (x)	15.4	12.4
PBV (x)	2.3	2.1
RoE (%)	15.8	17.6
RoCE (%)	14.0	15.7
Dividend yield (%)	1.9	2.4
Net gearing (%)	6.2	0.1

Source: Anand Rathi Research

Quarterly results (YE Mar)	2QFY12	2QFY13e	% yoy	1H FY12	1H FY13	% yoy
Sales (₹m)	1,971	2,642	34.1	3,858	5,291	37.1
EBITDA (₹m)	287	529	84.3	557	1,007	81.0
EBITDA margin (%)	14.6	20.0	540bps	14.4	19.0	460bps
Interest (₹m)	2	7	188.2	4	15	278.3
Depreciation (₹m)	69	82	18.8	136	165	20.8
Other income (₹m)	44	22	(50.8)	60	90	51.6
PBT (₹m)	260	462	77.7	476	918	92.9
Tax (₹m)	69	112	62.3	128	236	83.7
Tax rate (%)	26.4	24.2	(230)bps	26.9	25.7	(130)bps
PAT (₹m)	191	351	83.2	348	682	96.2

Source: Company

**Sriram Rathi**  
+9122 6626 6737  
sriramrathi@rathi.com

**Sanjeev Chiniwar**  
+9122 6626 6716  
sanjeevchiniwar@rathi.com

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net revenues	8,171	8,755	10,345	11,761	13,198
Revenue growth (%)	10.3	7.1	18.2	13.7	12.2
- Op. expenses	6,745	7,571	8,630	9,708	10,817
<b>EBIDTA</b>	<b>1,426</b>	<b>1,183</b>	<b>1,715</b>	<b>2,053</b>	<b>2,381</b>
EBITDA margin (%)	17.5	13.5	16.6	17.5	18.0
- Interest expenses	24	41	37	37	32
- Depreciation	292	304	362	389	414
+ Other income	111	102	135	176	176
- Tax	316	228	348	433	506
Effective tax rate (%)	25	24	24	24	24
Reported PAT	950	713	1,102	1,370	1,604
+/- Extraordinary items	47	0	0	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	916	712	1,102	1,370	1,604
Adj. FDEPS (₹/share)	10.2	7.9	12.2	15.2	17.8
Adj. FDEPS growth (%)	-25.7	-22.4	54.8	24.3	17.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	180	181	181	181	181
Reserves & surplus	5,997	6,425	7,141	8,030	9,071
Net worth	6,177	6,606	7,321	8,211	9,252
Minority interest	0	0	0	0	0
Total debt	878	694	794	694	594
Def. tax liab. (net)	378	384	384	384	384
<b>Capital employed</b>	<b>7,055</b>	<b>7,684</b>	<b>8,500</b>	<b>9,289</b>	<b>10,230</b>
Net fixed assets	4,564	5,212	5,850	5,961	6,546
Investments	213	0	0	0	0
- of which, Liquid	213	213	213	213	213
Net working capital	2,126	2,240	2,546	2,858	3,177
Cash and bank balance	152	232	104	470	506
<b>Capital deployed</b>	<b>7,055</b>	<b>7,684</b>	<b>8,500</b>	<b>9,289</b>	<b>10,230</b>
Net debt	513.9	248.5	477.4	10.9	-125.1
WC days	75.8	90.8	76.8	76.2	76.1
Book value (₹/sh)	68.5	73.1	81.1	90.9	102.4

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

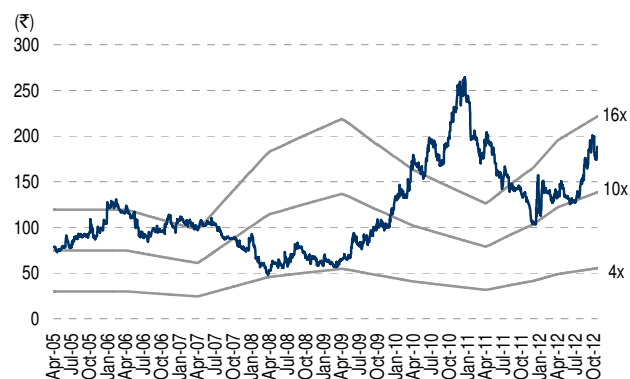
Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
PAT	952	712	1,102	1,370	1,604
+ Non-cash items	323	311	362	389	414
Cash profit	1,275	1,023	1,464	1,759	2,018
- Incr./decr. in WC	591	(201)	306	312	319
Operating cash-flow	685	1,224	1,158	1,448	1,699
- Capex	879	1,121	1,000	500	1,000
Free cash-flow	(195)	103	158	948	699
- Dividend	420	213	387	481	563
+ Equity raised	0	0	0	0	0
+ Debt raised	142	186	100	(100)	(100)
- Investments	(379)	0	0	0	0
- Misc. items	(8)	(5)			
Net cash-flow	(85)	81	(129)	367	36
+ Op. cash & bank bal.	236	152	232	104	470
Cl. cash & bank bal.	152	232	104	470	506

Source: Company, Anand Rathi Research

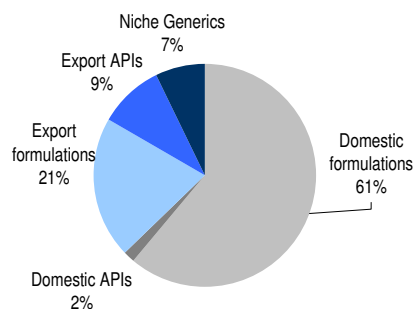
**Fig 4 – Ratio analysis @ ₹188**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
P/E (x)	18.5	23.9	15.4	12.4	10.6
P/B (x)	2.8	2.6	2.3	2.1	1.8
EV/EBITDA (x)	12.2	14.8	10.3	8.4	7.2
RoE (%)	15.5	11.1	15.8	17.6	18.4
RoCE (%)	14.0	9.9	14.0	15.7	16.7
Dividend yield (%)	2.1	1.6	1.9	2.4	2.8
Dividend payout (%)	39.4	38.1	30.0	30.0	30.0
Asset turnover (x)	1.6	1.5	1.6	1.6	1.7
Net Debt/Equity (x)	0.1	0.0	0.1	0.0	0.0
Net debt/EBITDA (x)	0.4	0.2	0.3	0.0	-0.1
Net debt/Op. CF (x)	0.8	0.2	0.4	0.0	-0.1
Interest coverage (x)	47.4	21.6	36.4	44.8	61.1
P/CEPS (x)	14.1	16.7	11.6	9.7	8.4
EV/ sales (x)	2.1	2.0	1.7	1.5	1.3
M-cap/sales (x)	2.1	1.9	1.6	1.4	1.3

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Share of revenue, by segment (2QFY13)**


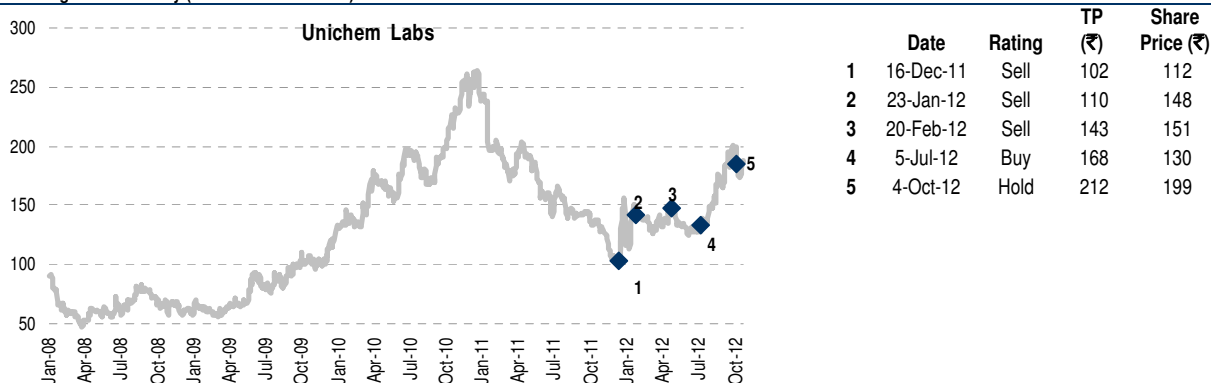
Source: Company

## Appendix

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