

BSE Code: 500126 NSE Code: MERCK Reuters Code: MERCK.BO Bloomberg Code: EMER:IN

Incorporated in 1967, Merck Ltd. (Merck) is the first Asian subsidiary of the US-based drug manufacturer Merck. It is engaged in the production of innovative and quality products in healthcare, life science and performance materials. The Company operates through two broader segments in India viz; pharmaceuticals and chemicals businesses. The company offers effect pigments for paint, plastics, printing and coatings industries as well as for cosmetic applications and various active ingredients used in skin care and personal care products. It also deals in functional and pearl luster effect pigments. Its key products include tablets & capsules, reagents, syrups/ointments, injections and bulk drugs with major revenue (~38%) coming from tablets & capsules.

Key Developments

🌀 **EBITDA increased by 214.8% and net profit grew by 170.2% in Q1CY15:**

Merck has reported increase in its EBITDA to Rs. 12.9 Crore in Q1CY15, up by 214.8% YoY mainly led by decrease in operating expenses, where raw materials costs and traded goods expenses fell by 16.1% and 21.3% YoY in Q1CY15 respectively. Net profit also increased by 170.2% in this quarter reflecting the effect of EBITDA growth.

🌀 **Merck Serono and Consumer Health business; the major contributor to revenue**

The pharmaceuticals segment of the company has two business divisions, namely Merck Serono and Consumer Health. Merck Serono and Consumer Health divisions are the major revenue contributors to Merck India with 47% and 21% respective contribution to the topline in Q1CY15. The former caters towards formulating drugs for six major segments in the Indian Pharmaceuticals sector viz; oncology, immunology, Neurodegenerative Diseases, immune-oncology, Endocrinology, Fertility. While the latter caters to mostly over the counter drug market.

🌀 **Cash position of the company constitute ~38% of its balance sheet size**

Merck India has cash levels constituting ~38% of the total balance sheet size. Cash and cash equivalents of the company at the end of CY14 stood at Rs. 164.0 Crore.

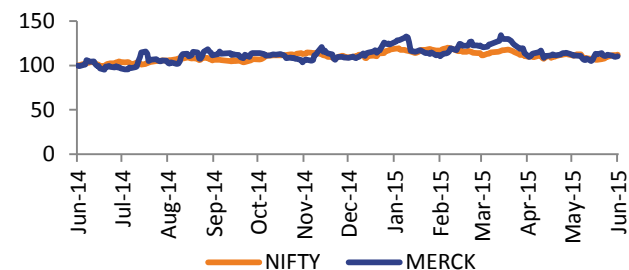
Market Data

CMP (₹)	796
Face Value	10.0
52 week H/L (₹)	1,009/700
Adj. all time High (₹)	1,009
Decline from 52WH (%)	21.1
Rise from 52WL (%)	13.7
Beta	0.9
Mkt. Cap (₹Cr)	1,325
Book Value per share (₹)	334

Fiscal Year Ended

	CY12A	CY13A	CY14A
Net Sales (₹Cr)	687.3	797.8	867.5
Net Profit (₹Cr)	78.4	55.9	43.2
Share Capital (₹Cr)	16.6	16.6	16.6
EPS (₹)	47.2	33.7	26.0
P/E (x)	16.8	23.6	30.6
P/BV (x)	2.7	2.5	2.5
ROE (%)	16.2	10.7	7.8

One year Price Chart



Shareholding	Jun15	Mar15	Diff.
Promoters	51.8	51.8	0.0
DII	16.4	17.1	(0.7)
FII	1.5	1.4	0.1
Others	30.3	29.7	0.6

Merck carries out its manufacturing activities at three major locations in India.

Manufacturing capabilities at Merck

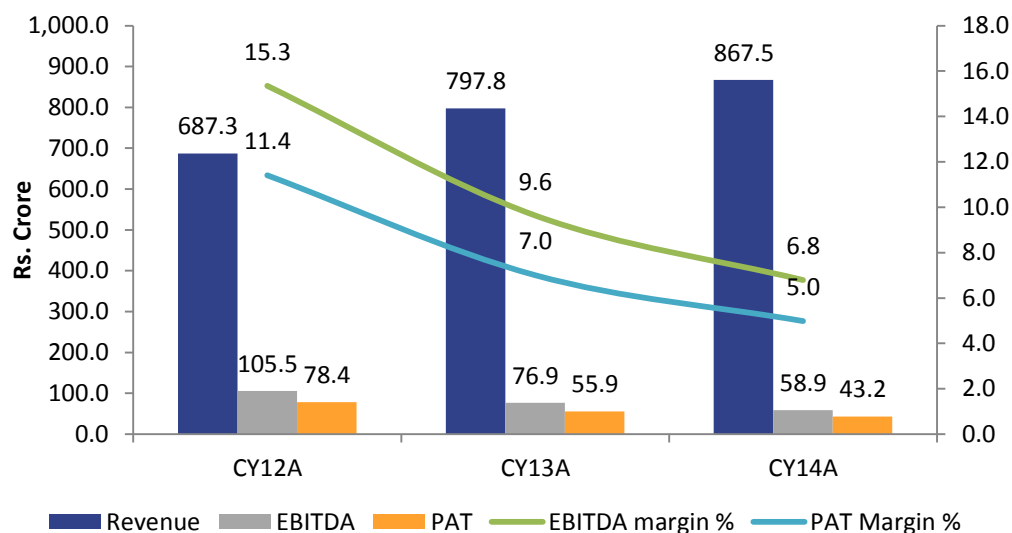
Merck has established manufacturing facilities at three locations in India by transferring the technology of manufacturing and analytics to new locations.

Goa site: The Company's manufacturing activities commenced in 1983 at Ponda, Goa. The site has facilities for both Pharmaceuticals and Chemicals manufacturing. Merck India's major Pharmaceuticals products being manufactured here are injectables and soft-gel capsules. In terms of the Chemicals segment, the company is a manufacturer of Vitamin E and chemicals – Guaiazulene, Thiamine Disulphide and Oxynex ST for Merck worldwide. The Dehydrated Culture Media Plant that was set up here in 2008 is the first outside Germany. The site is spread over 150,000 sq. m. and employs more than 300 people. The facility caters to the production requirements of the Pharma segment and also of various other toll manufacturing units.

Merck Millipore Bangalore Site 1: Millipore India Pvt Ltd, incorporated in 1986 as a joint venture with Millipore Corporation, USA became a 100% subsidiary of Millipore Corporation in 2009. Thereafter, it was acquired by Merck Chemicals in March 2010. The facility's comprises of domestic manufacturing as well as Export Oriented Units (EOU) serving both Global & Domestic customers. The plant is engaged in manufacturing of Standard Tangential Flow Filtration and Chromatography Purification systems. It is also an ISO 9001:2008 Certified facility.

Merck Millipore Bangalore Site 2: Merck Millipore India commenced its Bioscience product manufacturing operations at Bangalore in 1995. The site is involved in carrying out development & manufacturing activities in the field of biologics catering to academia & research institutions under the brand name of GeNei™. The site has more than 65 people which comprises of Post graduates and Doctorates in Life Sciences.

Financial snapshot for Merck



Merck Serono and Consumer Health business; the major contributor to revenue

The pharmaceuticals segment of the company has two business division, namely Merck Serono and Consumer Health. Merck Serono and Consumer Health divisions are the major revenue contributors to Merck India with 47% and 21% respective contribution to the topline in Q1CY15. The former caters towards formulating drugs for six major segments in the Indian Pharmaceuticals sector viz; oncology, immunology, Neurodegenerative Diseases, immun-oncology, Endocrinology, Fertility. While the latter caters to mostly over the counter drug market.

Fall in the operating expenses led to increase in EBITDA in Q1CY15

Merck has reported increase in its EBITDA to Rs. 12.9 Crore in Q1CY15, up by 214.8% YoY. The growth in EBITDA was due to the decrease in operating expenses, where raw materials costs and traded goods expenses fell by 16.1% and 21.3% YoY in Q1CY15 respectively. As a result, the EBITDA margin increased by 439 bps YoY to 6.5% in Q1CY15.

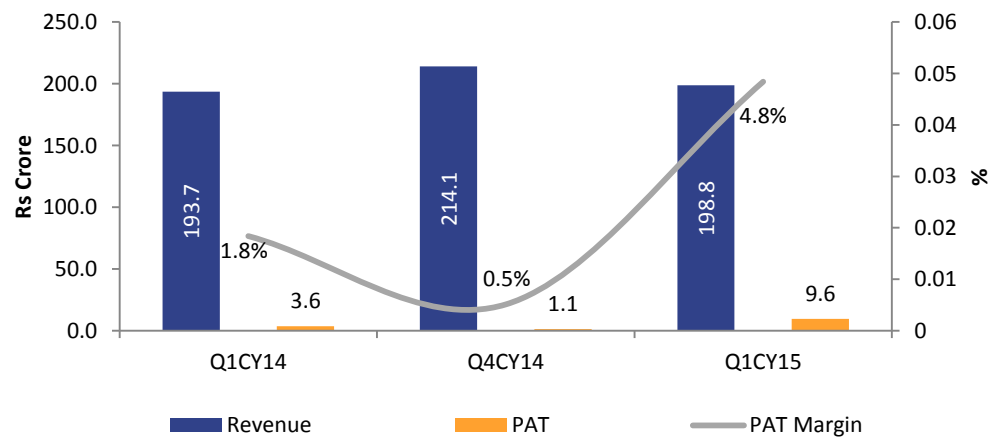
The company also witnessed marginal growth in its net revenue during the period, up by 2.6% YoY at Rs. 198.8 Crore in Q1CY15 mainly driven by revenues from Pharmaceuticals division which grew by 11.6% to Rs. 137.74 Crore, partially offset by a minor fall in the revenues from Chemicals division by 2% to Rs. 73.47 Crore. On sequential basis, the net revenue for the company fell by 7.2% impacted by decline in revenues from the Pharmaceuticals division by 4.4%, which offset the growth in revenue from the Chemicals division by 4.9%. Operating profit stood at Rs. 17.9 Crore in Q1CY15, an increase of 96.1% YoY and 201.0% QoQ reflecting growth in EBITDA and offsetting the minor fall in other income by 1.4% YoY and 10.2% QoQ. Lastly, net profit increased by 170.2% YoY to Rs. 9.6 Crore, while it grew by 786.2% QoQ, due to fall in the tax rate from 41% in Q1CY14 to 28.5% in Q1CY15. As a result, the PAT margin increased by 300 bps to 4.8% in Q1CY15.

EBITDA of Merck stood at Rs. 12.9 Crore in Q1CY15, up by 214.8% YoY.

Net revenue for Merck Ltd stood at Rs. 198.8 Crore in Q1CY15, up by 2.6% YoY.

Net Profit increased by 170.2% YoY to Rs. 9.62 Crore.

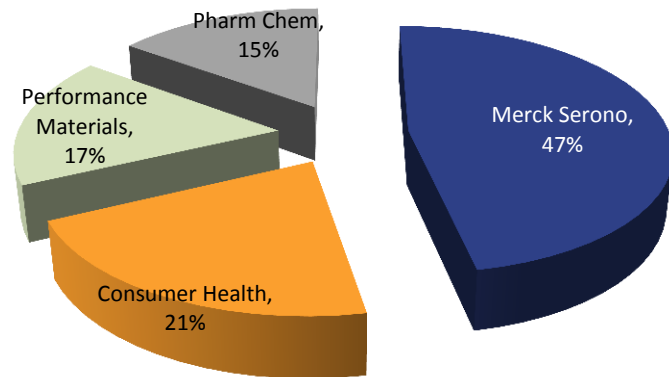
Quarterly performance trend



Segmental performance in CY14

- **Pharmaceuticals segment-** This segment contributes ~67% to the top-line and has two business divisions, namely Merck Serono and Consumer Health. Merck Serono division is the major contributor to the company's revenue accounting for 47% of the company's turnover, registering a growth of 8% over 2013 mainly driven by its product Dvion growing at 25% in CY14. In 2014, Consumer Health division accounted for 21% of the Company's turnover, with main brands like Neurobion, Nasivion, Seven Seas and Electrobian, witnessed a revenue growth of 9%.
- **Chemicals segment-** Chemical segment of the company contributes ~33% to the revenue saw a revenue growth of 13.5% in CY14 to reach Rs. 271.0 Crore as against Rs. 238.7 Crore in CY13. The Chemicals segment comprises two divisions, namely Pharma Chem Solutions and Performance Materials. However, the company's performance of the materials division witnessed a de-growth in sales for CY14 by 6.1% YoY.

Segment break-up



Balance Sheet (Standalone)

(₹Cr)	CY12A	CY13A	CY14A
Share Capital	16.6	16.6	16.6
Reserve and surplus	467.06	506.4	537.7
Net Worth	483.7	523.0	554.3
Long-term provisions	12.8	12.2	18.7
Deferred tax liability	0.7	1.1	0.0
Current Liabilities	97.1	112.3	135.2
Total Equity & Liabilities	594.3	648.6	708.2
Fixed Assets	76.9	94.1	137.3
Long term loans and advances	58.9	67.8	70.1
Deferred tax assets	0.0	0.0	2.2
Other non-current assets	0.0	8.7	0.0
Current Assets	458.5	478.1	498.6
Total Assets	594.3	648.6	708.2

Profit & Loss Account (Standalone)

(₹Cr)	CY12A	CY13A	CY14A
Net Sales	687.3	797.8	867.5
Expenses	581.8	720.9	808.6
EBITDA	105.5	76.9	58.9
Other Income	20.2	21.5	20.3
Depreciation	8.9	10.1	12.7
EBIT	116.8	88.3	66.6
Profit Before Tax	116.8	88.3	66.6
Tax	38.4	32.4	23.3
Net Profit	78.4	55.9	43.2

Cash Flow (Standalone)

Y/E (₹ Cr)	CY12A	CY13A	CY14A
Net profit/loss before extraordinary items and tax	116.8	88.3	66.6
Net cashflow from operating activities	54.3	0.5	5.0
Net cash used in investing activities	(81.8)	7.0	10.6
Net cash used from financing activities	0.0	(4.8)	(16.6)
Net inc/dec in cash and cash equivalents	(27.6)	2.7	(1.1)
Cash and cash equivalents begin of year	31.5	3.9	6.6
Cash and cash equivalents end of year	3.9	6.6	5.5
Net profit/loss before extraordinary items and tax	116.8	88.3	66.6

Key Ratios (Standalone)

	CY12A	CY13A	CY14A
EBITDA Margin (%)	15.3	9.6	6.8
EBIT Margin (%)	17.0	11.1	7.7
NPM (%)	11.4	7.0	5.0
ROCE (%)	23.5	10.4	7.5
ROE (%)	16.2	10.7	7.8
EPS (Rs.)	47.2	33.7	26.0
P/E (x)	16.8	23.6	30.6
BVPS(Rs.)	291.4	315.1	333.9
P/BVPS (x)	2.7	2.5	2.5
EV/EBITDA (x)	7.1	7.6	14.5

Financial performance snapshot

Net revenue was reported at Rs. 867.5 Crore in CY14 showing an increase of 8.7% over the last year owing to the growth in revenue from the pharmaceuticals segment of the company. EBITDA stood at Rs. 58.9 Crore in CY14 showing a decline of 23% in comparison to the last year. In line with de-growth in EBITDA, profit after tax (PAT) for the year CY14 decreased by 23% YoY to Rs. 43.2 Crore impacted by increase in operational costs, higher depreciation charges and the continued devaluation of the Indian Rupee vis-a-vis major currencies.



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