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Unichem Laboratories Ltd (Unichem) is an integrated pharmaceutical company. It manufactures and markets generics & branded generics in India and several other markets across the world. Apart from formulations, the core business of Unichem, the company also manufactures active pharmaceutical ingredients (APIs).

Key Developments

Domestic business:

Over the past two years, Unichem witnessed muted growth in the domestic market due to NLEM (National List of Essential Medicines) price regulation (~21% of domestic portfolio is under NLEM) & restructuring activities. However, the company has rationalized its product portfolio and is focussing on non-NLEM products. It has also initiated several measures such as strengthening the field force, brand extensions & foray into OTC segment to spur growth in the domestic market. Moreover, the company is entering into new segments such as hospital products, women health and nutrition to explore growth opportunities. Importantly, to ensure better inventory and working capital management, Unichem has changed its distribution strategy to C&F (carry & forward) model.

Increasing demand of US formulations:

Export formulations contribute 37% to the total revenues. Importantly, US formulations constitute significant chunk of revenues (20% of total revenues). The company has identified ~50 molecules for development and has filed 36 ANDAs (Abbreviated New Drug Application) with the USFDA, 20 of which are approved and 16 products have already been commercialized.

Focus shifting to Para IV products:

Historically, Unichem's molecule selection was based on Paragraph III strategy, where in either all the patents listed in the USFDA orange book had expired or would expire by the time the ANDA was approved by FDA. However, for the last couple of years, with increasing R&D capabilities the company has decided to shift its focus to Para IV products (either the patent(s) listed in the orange book are invalid or not infringed by Unichem's product). This bodes well for the company.

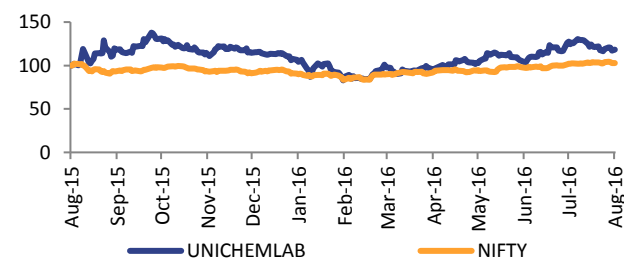
Market Data

CMP (Rs.)	268
Face Value	2.0
52 week H/L (Rs.)	334/189
Adj. all time High (Rs.)	334
Decline from 52WH (%)	19.6
Rise from 52WL (%)	42.0
Beta	1.3
Mkt. Cap (Rs. Cr)	2,438
Enterprise Value (Rs. Cr)	2,518

Fiscal Year Ended

	FY14	FY15	FY16
Total revenue (Rs.cr)	1,133	1,202	1,335
Adj. PAT (Rs.cr)	128	75	112
Share Capital (Rs. Cr)	18	18	18
EPS (Rs.)	14.1	8.3	12.3
P/E (x)	19.0	32.3	21.9
P/BV (x)	3.0	2.8	2.6
ROE (%)	16.6	9.0	12.2

One year Price Chart

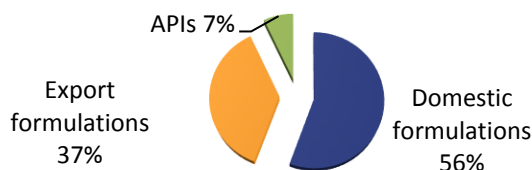


Shareholding	Jun16	Mar16	Diff.
Promoters (%)	50.1	50.1	-
Public (%)	49.9	49.9	-
Others (%)	-	-	-

Unichem Laboratories Ltd.: Business overview

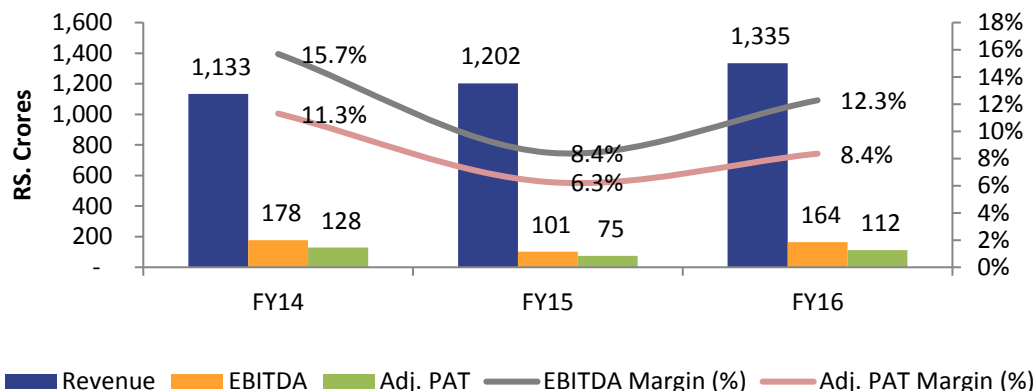
Unichem Laboratories Ltd (Unichem) is an integrated pharmaceutical company. It manufactures and markets generics & branded generics in India and several other markets across the world. In India, the company is a prominent player in niche therapy areas of cardiology, neurology, orthopedics and anti-infectives. Apart from formulations, the core business of Unichem, the company also manufactures active pharmaceutical ingredients (APIs).

Revenue break-up (FY16)



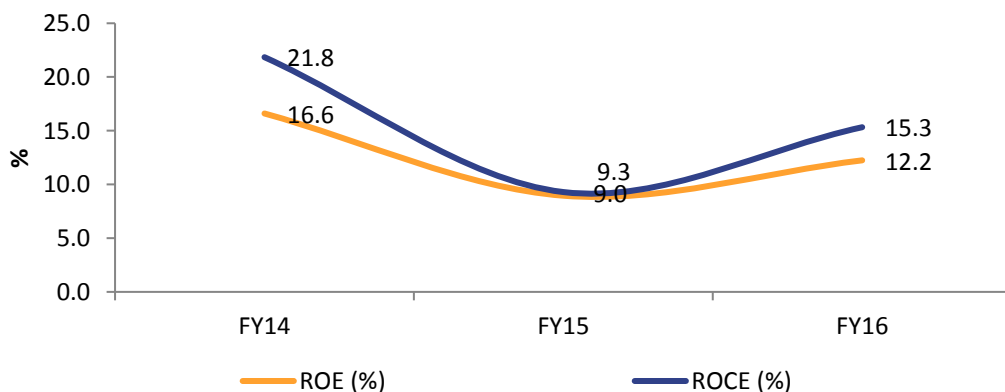
Source: Company, In-house research

Financial snapshot of Unichem Labs



Source: Company, In-house research

Return Ratios Trend



Source: Company, In-house research

Contribution of the domestic business to Unichem

India is the key market for the company as it contributes 56% to overall revenue. While chronic therapies account for 57% of the domestic formulations portfolio, acute therapies account for the remaining 43%. In FY16, Unichem's top 10 brands contributed ~47% to the domestic revenues. Over the past two years, Unichem witnessed muted growth in the domestic market due to NLEM price regulation (~21% of domestic portfolio is under NLEM) & restructuring activities. However, the company has rationalized its product portfolio and is focussing on non-NLEM products. Importantly, the company has a dedicated strong field force of 1,500 MRs for 6 chronic verticals and 1,200MRs for 5 acute verticals. This further helps in enhancing its market share in key products. Further, the company has initiated several measures such as strengthening the field force, brand extensions & foray into OTC segment to spur growth in the domestic market.

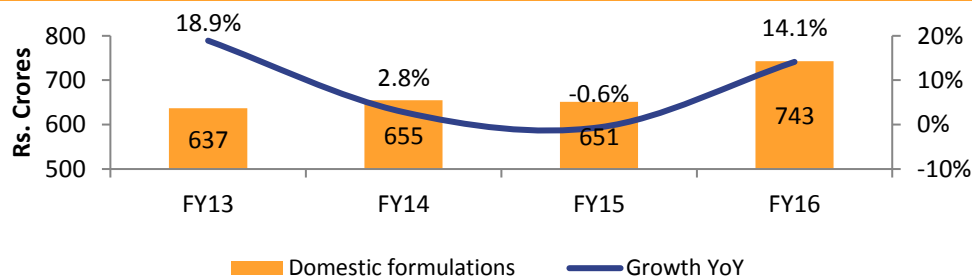
To offset the negative impact of NLEM price regulations, the company has adopted two major strategies: a) ramping up the volumes of flagship brands which fall under price control and face stiff competition and b) launching new products to fill the portfolio gap in certain divisions (Cosmetology, Derma and Infertility segment) which are out of price control and are witnessing strong growth. Moreover, the company is entering into new segments such as hospital products, women health and nutrition to explore growth opportunities. Importantly, to ensure better inventory and working capital management, Unichem has changed its distribution strategy to C&F (carry & forward).

Top 10 product groups performance

	MAT March, 2016 (in Rs.Cr)	% growth	% Market share	% contribution to revenue
Total Revenue	896	13.7	0.9	100
Losar	173	9.3	34.8	19.3
Amoxin	79	9.9	34.2	8.8
Unienzyme	62	11.8	16.3	6.9
Telsar	54	12.3	3.1	6.0
Olsar	35	13.9	5.3	3.9
Vizylac	32	16.9	13.1	3.6
Trika	28	-1.9	20.1	3.1
Pregaba	25	35.0	5.5	2.8
Serta	22	12.2	28.8	2.4
Metride	20	6.8	0.8	2.2

Source: Company, In-house research

Domestic business growth trend

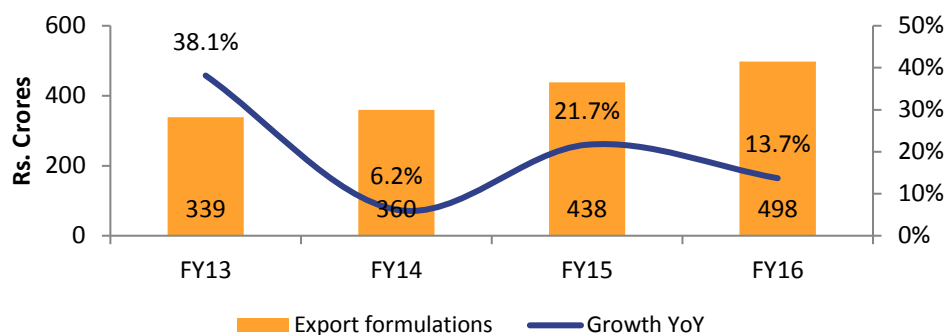


Source: Company, In-house research

US formulations

Export formulations contribute 37% to the total revenues. Importantly, US formulations constitute significant chunk of revenues (20% of total revenues). The company has identified ~50 molecules for development and has filed 36 ANDAs with the USFDA, 20 of which are approved and 16 products have already been commercialized. During FY16, the company witnessed improvement in revenue from its South African and Irish subsidiaries.

Export formulations revenue growth trend



Source: Company, In-house research

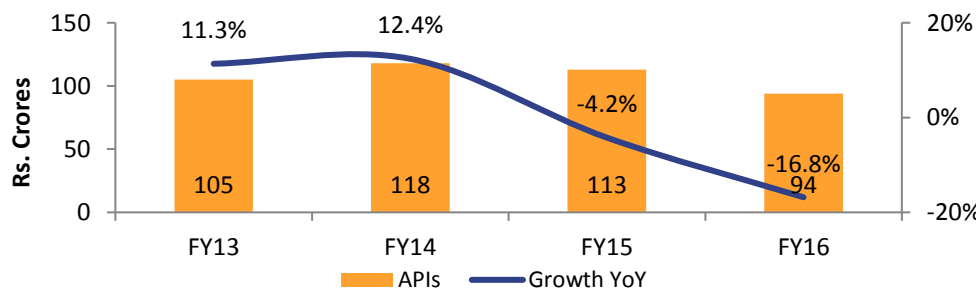
Focus shifting to Para IV products

Historically, Unichem's molecule selection was based on Paragraph III strategy, where in either all the patents listed in the USFDA orange book had expired or would expire by the time the ANDA was approved by FDA. This strategy was successfully exploited by the company through efficient supply chain management, resulting in higher market share in the key markets for some of its products. However, for the last couple of years, with increasing R&D capabilities the company has decided to shift its focus to Para IV products (either the patent(s) listed in the orange book are invalid or not infringed by Unichem's product). This bodes well for the company.

Captive consumption of APIs

API integration plays an important role in the formulations revenue growth as several ANDAs are supported by in-house APIs. Unichem undertook capacity expansion at Pithampur API plant, a part of which was successfully commissioned during FY2016. It is further expanding its manufacturing capacity in Goa & Pithampur. Besides, Unichem is building a API facility in Kolhapur, Maharashtra, which will initially cater to domestic and non-regulated markets. The company has cumulatively filed 46 USDMFs, 24 CEPs and 214 eCTDs across Europe.

APIs business performance over the years



Source: Company, In-house research

Balance Sheet (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Share Capital	18	18	18
Reserve and surplus	798	849	937
Net Worth	817	868	955
Minority Interest	-	-	-
Total Debt	26	22	36
Other non-current liabilities	73	54	53
Total Equity & Liabilities	915	943	1,044
Net Fixed Assets	419	416	403
Capital WIP	91	123	237
Goodwill	-	-	-
Investments	11	41	13
Net current assets	346	319	360
Deferred tax assets (net)	-	-	-
Other non-current assets	48	45	30
Total Assets	915	943	1,044

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY14	FY15	FY16
Net profit/loss before tax& extraordinary items	171	77	138
Net cashflow from operating activities	87	78	112
Net cash used in investing activities	36	(52)	(85)
Net cash used from financing activities	(95)	(51)	(33)
Net inc/dec in cash and cash equivalents	28	(25)	(7)

Financial performance snapshot

Net sales of the company stood at Rs. 1,335 Crores in FY16, a growth of 11.0% as compared to Rs. 1,202 Crores in FY15. The operating expenses of the company increased by 6.4% YoY to Rs. 1,171 Crores from Rs. 1,100 Crores during the year. The company's EBITDA grew by 61.7% YoY to Rs. 164 Crores in FY16 from Rs. 101 Crores in FY15. EBITDA margin expanded by 385 bps to 12.3% in FY16 from 8.4% in FY15. Adjusted profit increased by 48.0% to Rs. 112 Crores in FY16 from Rs. 75 Crores in FY15. Adj. PAT Margin expanded by 209 bps to 8.4% from 6.3% during the period under review.

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Net revenue	1,133	1,202	1,335
Expenses	956	1,100	1,171
EBITDA	178	101	164
Depreciation	46	41	39
EBIT	132	60	125
Interest cost	3	3	3
Other Income	42	20	19
Profit Before Tax	171	77	141
Tax	43	2	29
Profit After Tax	128	75	112
Minority Interest	-	-	-
P/L from Associates	-	-	-
Adjusted PAT	128	75	112
E/o expense / (income)	41	-	(4)
Reported Profit	169	75	108

Key Ratios (Consolidated)

	FY14	FY15	FY16
EBITDA Margin (%)	15.7	8.4	12.3
EBIT Margin (%)	11.7	5.0	9.4
NPM (%)	11.3	6.3	8.4
ROCE (%)	21.8	9.3	15.3
ROE (%)	16.6	9.0	12.2
EPS (Rs.)	14.1	8.3	12.3
P/E (x)	19.0	32.3	21.9
BVPS(Rs.)	90.1	95.6	105.1
P/BVPS (x)	3.0	2.8	2.6
EV/EBITDA (x)	13.5	24.0	15.0



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