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Unichem Laboratories Ltd is an international, integrated, specialty pharmaceutical company. Unichem is a leader in niche therapy areas of cardiology, neurology, orthopaedics and anti-infectives. It has strong skills in product development, process chemistry and manufacturing of complex API as well as dosage forms.

Investor's Rationale

Unichem witnessed satisfactory growth for Q4FY'13 and FY'13. It posted a 26.3% YoY rise in its standalone revenue at ₹2,435.3 mn in Q4FY'13. The company's domestic brand formulations grew 27.8 % YoY during the quarter, while international business reported a growth of 28.6% YoY. Moreover, API business posted an increase of 17.9% YoY in Q4FY'13. Net profit of the company stood at ₹310.3 mn. Besides, the company's revenue in FY'13 rose 25.2% YoY to ₹10,052.0 mn led by growth in domestic branded formulations, international formulations and API business by 19.1%, 56.1% and 10.3% YoY, respectively. Net profit for the period stood at ₹1,296 mn, as against ₹825 mn for FY'12.

Unichem is expected to enhance presence in US on the back of new product launches, despite being the late entrant. It has filed for 27 ANDAs till date and has 11 approvals of which 9 are launched in US. It has guided for 1-2 filing per quarter in US going ahead.

With significant capacities at Ghaziabad, Sikkim and Baddi, Unichem is in a better position to attract contract manufacturing agreements with MNC's from its facilities. Contract Research and Manufacturing Services (CRAMS) as a segment could be a big opportunity for the company and one new contract expected in FY'14 would spur growth next fiscal.

Unichem has a debt free balance sheet which will help it in exploring various new organic and inorganic opportunities. Recently, the company's board has approved the sale of its new formulation manufacturing unit in Dhar district in Madhya Pradesh along with all assets to Mylan Laboratories for a total consideration of ₹1.6 bn. The deal will further bolster the company's cash position.

Unichem has created world class drug manufacturing facilities across India which have been accredited by highly respected international regulatory bodies like USFDA, ISO, WHO (Geneva), MCC (South Africa) etc. It has been investing continuously in upgrading and expanding its manufacturing infrastructure. It has invested around ₹250 crore since last five years in building manufacturing facilities. Its continued investment in manufacturing facilities and its strategy to remain vertically integrated pharmaceutical business is a critical differentiator to create sustainable competitive advantage not only for products launched in international markets but also for contractual supplies to global generic companies.

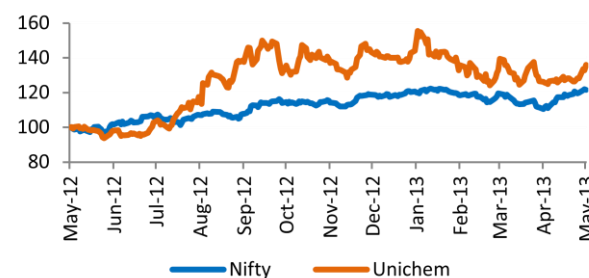
Market Data

Rating	BUY
CMP (₹)	163.9
Target (₹)	190
Potential Upside	~16.0%
Duration	Long Term
Face Value (₹)	2
52 week H/L (₹)	217.0/122.4
Adj. all time High (₹)	170.6
Decline from 52WH (%)	(24.5)
Rise from 52WL (%)	33.9
Beta	0.8
Mkt. Cap (₹ bn)	19.4
Enterprise Value (₹ bn)	15.0

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹ bn)	8.8	10.8	12.5	14.8
EBITDA (₹ bn)	1.2	1.7	2.1	2.4
Net Profit (₹ bn)	0.7	1.1	1.3	1.6
Adj EPS (₹)	7.9	12.5	14.9	18.0
P/E (x)	20.8	13.1	11.0	9.1
P/BV (x)	2.2	2.0	2.0	1.7
EV/EBITDA (x)	12.4	8.3	7.2	6.0
ROCE (%)	12.7	18.2	19.6	21.0
ROE (%)	10.8	15.6	16.6	17.5

One year Price Chart



Shareholding Pattern

Shareholding Pattern	Mar'13	Dec'12	Diff.
Promoters	50.01	49.53	0.48
FII	3.85	3.82	0.03
DII	10.04	10.15	(0.11)
Others	36.10	36.50	(0.40)

Unichem is a leader in niche areas of cardiology, neurology and other orthopaedics and anti-infectives.

Internationally, Unichem has wholly-owned subsidiaries in UK, USA, Brazil, South Africa and Ireland.

More than 65% of its APIs are exported mainly to Europe which is about 75% of total exports.

The motive behind transition is that the company wants to lower its dependence on distributors and also to avoid tax related issues when expected GST roll-out takes place next year.

India's oldest and largest pharmaceutical company

Unichem Laboratories Ltd, India's leading pharmaceutical company headquartered in Mumbai, was founded in 1944. It manufactures and markets a large basket of pharmaceutical formulations in India and several other markets across the world. In India, the company is a leader in niche areas of cardiology, neurology and other orthopaedics and anti-infectives. The company's domestic formulations portfolio revenues comprises of 63% from chronic therapies and 37% from acute therapies. During FY'13, Unichem entered into two new therapeutic segments i.e., hospital products and gynaecology. The top 10 brands of the company are Ampoxin, Losar, Losar H, Linox, Serta, Telsar, TG – Tor, Trika, Unienzyme and Vizylac. Moreover, it has launched around 12 new products in various therapeutic segments like Cardiology and Neurology.

The company has strong skills in product development, process chemistry and manufacturing of complex API as well as dosage forms. The company has made more than 500 product registrations across the world and more than 500 regulatory filings such as DMFs, EDMFs. It has been granted Certificate of suitability to European Pharmacopeia (CEP) by European Directorate for the Quality of Medicines and Healthcare (EDQM) for Alfuzosin Hydrochloride. It operates through four divisions, namely Unichem Pharma Division, Unichem Specialities Division, Unisearch Division and Neu-Foreva Division. Unichem has its plants located in Roha, Goa, Baddi & Ghaziabad, also new plant coming up in Sikkim. Internationally, Unichem has wholly-owned subsidiaries in UK, USA, Brazil, South Africa and Ireland. Besides, strategic alliances are in place for distribution and marketing of branded generics in SAARC countries, South East Asia, Baltic Republics, CIS, Central Asian Republics, Africa and the Middle East.

Vertically integrated APIs business

Unichem's APIs division supplies APIs and intermediates to both domestic as well as international regulated players. The company's Roha (Maharashtra) and Pithampur (MP) API facilities, both, are USFDA approved. More than 65% of its API's are exported mainly to Europe which is about 75% of total exports. The rationale behind its API Business is to contribute to the business performance of the company through the marketing of APIs globally and to capture the contractual supply opportunities in the drug intermediate's business. Moreover, it also provides necessary vertical integration to its formulation business which ensures regular supplies of the intermediates and helps in achieving cost efficiency.

Restructuring and corrective measures are delivering good results

Earlier, Unichem's formulation sales were primarily through distributors, which used to account for 65% of the company level sales, while the balance was booked through Carrying and Forwarding (C&F) agents. Now, the company has changed its distribution model to company's own C&F agents only. The motive behind transition is that the company wants to lower its dependence on distributors and also to avoid tax related issues when expected GST (Goods & Services Tax) roll-out takes place next year. It also target to decrease inventory days to 30-40 days from the current 50-60 days for the domestic formulation business. A change in the distribution model involved de-stocking at the distributor's end or larger revenue share from C&F agents. C&F agents work on lower margins of 3% than distributors which charge around 4.5%. The company hopes to improve the benefits from larger sales primarily through C&F agents in future. As per the management, the attritions rate of MR has come down due to change in the HR policy which also facilitated higher growth in the domestic formulations business. We expect the distribution model re-alignment to provide impetus to the future growth trajectory.

Domestic Formulation Business to drive overall growth

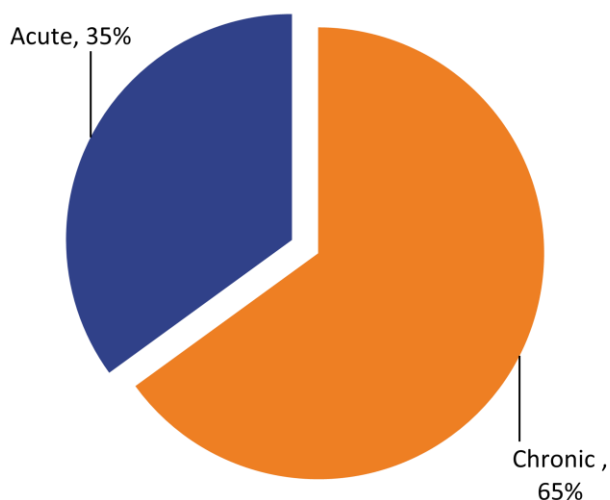
Unichem is ranked 17th in the domestic formulations market with a market share of 2.2% in the covered or representative market. Around 65% of its revenues come from chronic therapies, while the rest 35% come from acute therapies.

Top 4 brands - Ampoxin group, Losar-H, Unienzyme, and LOSAR and are featured among the top 300 Indian pharmaceutical brands during MAT November, 2012.

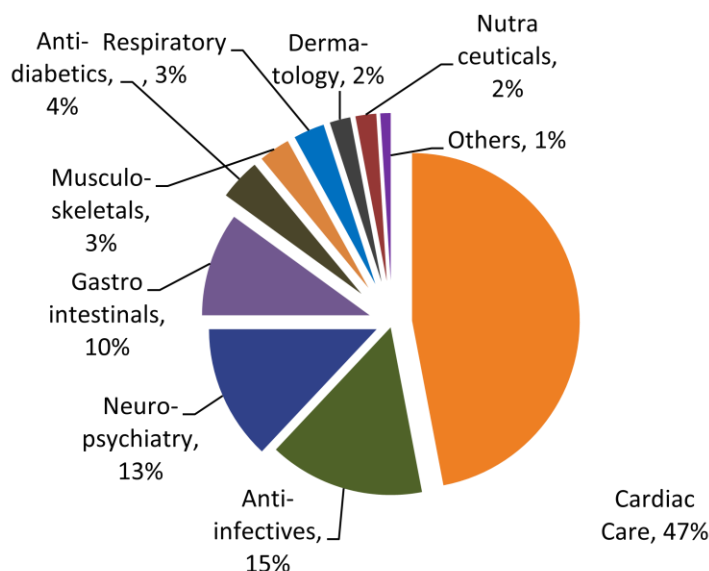
Unichem has a strong presence in domestic formulation business. During Q4FY'13, the company's domestic branded formulations grew ~28% YoY to ₹1,420 mn on the back of 1) lower base 2) traction from existing brands and 3) shuffle of product mix between acute and branded. Domestic formulation market as per MAT March 2013, is estimated at ₹705.3 bn by AWACS, reflecting a growth of 11.9 % over MAT March, 2013. Unichem is ranked 17th in the domestic formulations market with a market share of 2.2% in the covered or representative market. The company's portfolio composition is skewed towards chronic therapies. Around 65% of its revenues come from chronic therapies, while the rest 35% come from acute therapies. It addresses key therapeutic areas which include Cardiac care, Anti-diabetics, Neuro-psychiatry, Gastroenterologicals, Anti-infectives, Dermatology and Nutraceuticals etc. Of these, it has strong presence in niche therapy areas of cardiology, neurology, and anti-infectives (contributes around 75% of the total revenues).

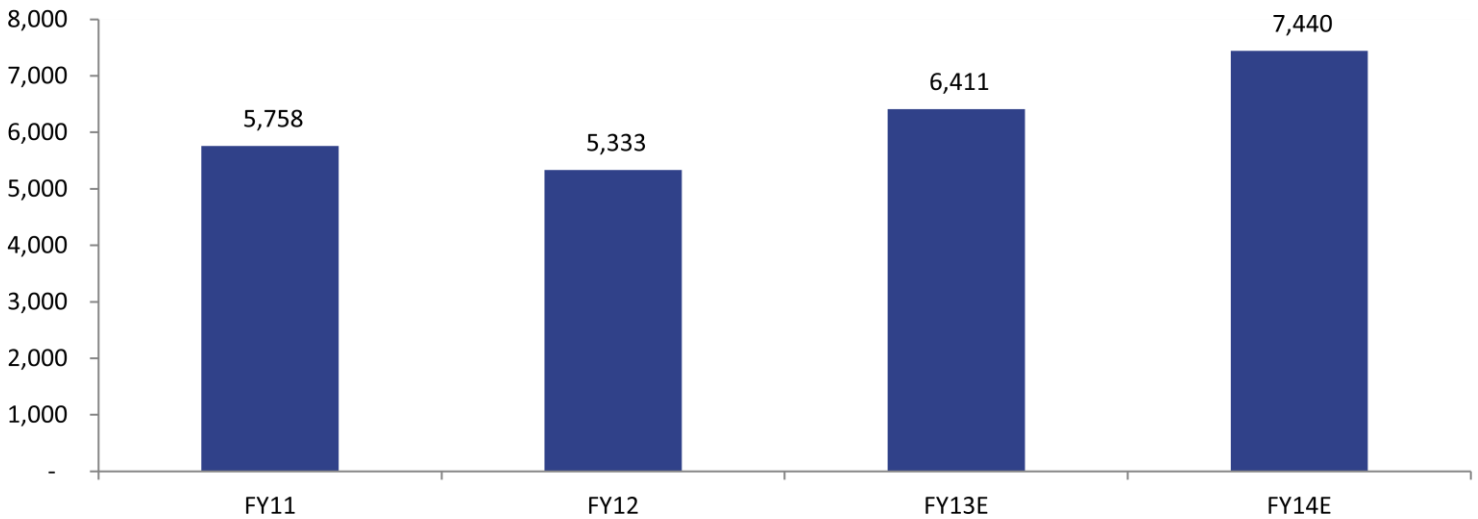
Unichem has demonstrated its ability to build large brands in growing categories (its brand LOSAR is a ₹1.6 bn brand in the cardiovascular segment). Its top 4 brands includes Ampoxin group, Losar-H, Unienzyme, and LOSAR and are featured among the top 300 Indian pharmaceutical brands during MAT November, 2012. Currently the company's top 25 brands contribute ~67% to the domestic revenues. Besides, the company has restructured its business to provide momentum to the core domestic formulations business. The restructuring measures include portfolio prioritization and sales force alignment to improve the coverage of the existing portfolio and strengthening its major second tier brands. The new Gynaecology and Dermatology divisions have been started with addition of around 150 MR's during this year. Moreover, the company plans to enhance its focus in diabetic segment which is expected to grow at a rapid pace.

Chronic/Acute therapies revenue break-up



Therapeutic segmental contribution



Eyeing strong growth in domestic formulations business (in ₹mn)


The company is currently supplying to an MNC customer from its Ghaziabad facility and one new contract is expected in FY'14.

Sale of Madhya Pradesh based new formulation manufacturing facility to Mylan for a total consideration of ₹1.6 bn will bolster the company's cash position.

All set to exploit CRAMS opportunities

The company has established capacities to cater both domestic and international markets. Over the past few years, it had done large capital expenditure to build-up the infrastructure to enhance its domestic and international business. It had invested in upgrading and expanding manufacturing and research facilities at multiple locations. Commissioned Sikkim and Baddi plant for Cephalosporin in FY'10, expanded packaging facility and constructed R&D centre at Goa in FY'12. Considering these capacities, Unichem exploits attractive opportunities through strategic alliances in CRAMS space. The company is currently supplying to an MNC customer from its Ghaziabad facility and one new contract is expected in FY'14.

A Debt-Free Balance Sheet to augment growth

Unichem's balance sheet is debt free. The company is very well placed to raise the funds through internal accruals or going for marginal debt for future expansion purpose. The company is planning to set up a biotech facility in Goa for which it has acquired additional land near to its existing facility. It is also exploring inorganic growth opportunities for which funding would not be an issue given its strong balance sheet.

Moreover, the company recently sold the new formulation manufacturing unit located at Pithampur Special Economic Zone (SEZ), Madhya Pradesh, to Mylan for a total consideration of ₹1.6 bn. The exercise was done on slump sale basis. This sale will bolster the company's cash position further.

Unichem is eyeing acquisitions in the space of dermatology, women health care or ophthalmic space and also in similar product lines which would help in expanding their market share. The management of the company has also shown keen interest in therapeutic areas of gynecology and hospitals segment which can be the future growth drivers for the company. We believe that capacity expansion and the inorganic growth would provide additional incremental growth for the company.

Standalone revenue of the company grew 26.3% YoY in Q4FY'13, on account of increase in revenue across its various business segments. Net profit stood at ₹310.3 mn for the quarter.

Witnessed moderate numbers in Q4FY'13 backed by growth across its various business segments

Unichem registered a growth of 26.3% in its standalone revenue at ₹2,435.3 mn in Q4FY'13 as against ₹1,929.7 mn in the corresponding period a year earlier. It was reported that Domestic Branded Formulations grew by 27.8 % YoY during the quarter, while increasing negatively by 6.8% QoQ. International Formulation business, on the other hand, witnessed a growth of 28.6% YoY and 18.4% QoQ. Besides, API business posted an increase of 17.9% YoY, while on sequential basis, it grew 49.0%. The company's EBIDTA margins for Q4FY'13 came in at 17.2% compared to the corresponding quarter of the previous year. Net profit of the company stood at ₹310.3 mn.

For FY'13, Unichem's standalone revenue from operations stood at ₹10,052.0 mn, as against ₹8,032.0 mn in the same period a year ago, reflecting overall growth of 25.2 % YoY. Domestic Branded Formulations grew by 19.1%, International Formulation business grew by 56.1% and API business grew by 10.3% YoY. EBITDA margin of the company stood at 18.5 % as against 15.9% in FY'12. Moreover, net profit for the period stood at ₹1,296.0 mn, as against ₹825.0 mn in FY'12.

Unichem Laboratories Represented/Covered Market

Therapy Market Segment	Representative Mkt.		Unichem Laboratories		
	Size (₹bn)	% Growth	Size (₹mn)	% Share	% Growth
Cardiac Care	54.9	14.8	3,380	6.2	8.4
Anti-infectives	88.2	10.2	1,120	1.3	8.7
Neuro-Psychiatry	23.3	12.3	900	3.8	1.3
Gastroenterologicals	36.7	12.7	790	2.1	27.7
Musculoskeletal	28.2	11.3	250	0.9	13.2
Anti-Diabetic	22.1	18.8	250	1.1	2.5
Respiratory	11.4	13.6	220	1.9	4.1
Nutraceuticals	31.0	11.3	150	0.5	(11.6)
Dermatological	12.8	11.9	120	0.9	(24.0)
Haematinics	9.9	6.9	10	0.1	(32.7)
Others	13.7	14.9	30	0.2	99.6
TOTAL	332.2	12.4	7,200	2.2	7.9

Unichem has reorganized its product portfolio by improving penetration of the existing brands and development of other major brands.

Improving penetration of the existing brands in order to restore the momentum in its core business

The company is focusing on improving penetration of its existing products so as to drive growth in its domestic formulation business. It is concentrating on improving penetration of its flagship brands including Losar and Ampoxin. Losar is the company's only brand to cross the milestone of ₹1.0 bn in primary sales. It also enjoys the top position among the anti-hypertensive brands in Indian pharmaceutical market. The company has significantly generated new LOSAR prescrip-

Losar is the only brand of the company to cross the milestone of ₹1.0 bn in primary sales.

Ampoxin and Losar group which jointly contributed about 57% of the revenues in FY'10, now their share stood at 31.6% to the revenues.

tions all specialties and initiated aggressive expansion at the family physician level to increase the penetration. Ampoxin brand (anti-infective) has the leadership position in the Ampicillin + Cloxacillin combination market, in both injectable as well as the solid market. Ampicillin + Cloxacillin combination is taken to tackle the menace of drug-resistant infections and bacteria. The company is taking corrective measures to arrest the slowdown in this market.

Meanwhile, Unichem is also focused on powering its next phase of products with intend to lower their dependence on their existing brands (Ampoxin and Losar group which jointly contributed about 57% of the revenues in FY'10, now their share stood at 31.6% to the revenues). The company has successfully developed brands like TELSAR and OLSAR which offer high growth potential. The company is leveraging the brand equity of its existing flagship brands to nurture the growth of its second tier power brands. TELSAR group of products, used for hypertension have generated revenues of ₹400 mn. Other group of brands i.e. OLSAR, used for cardiac care, has generated revenues of ₹370 mn. It is also expanding its sales force in order to capture the larger domestic market share.

Brand Group Scenario

	MAT Mar'13 (in ₹mn)	% Growth	% Market Share	% Contribution to Revenue
Total Revenue	7,200	7.9	1.0	100.0
Losar Group	1670	8.6	31.8	23.2
Ampoxin Group	620	3.1	30.4	8.6
Unienzyme Group	430	42.2	14.3	6.0
Telsar Group	410	19.9	4.7	5.8
Trika Group	360	2.2	23.5	5.0
Olsar Group	270	10.1	7.0	3.8
Vizylac	220	20.1	12.9	3.0
Metride Group	180	7.0	1.5	2.5
Linix	160	24.1	11.9	2.2
TG-Tor Group	160	(11.9)	1.6	2.2

Balance Sheet (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	181	181	181	181
Reserve and surplus	6,425	7,090	7,948	9,104
Net Worth	6,606	7,271	8,129	9,285
Long Term Debt	205	209	238	226
Other Liabilities	235	253	241	246
Current Liabilities	2,333	2,511	3,310	3,841
Long Term Provisions	102	92	144	170
Deferred tax Liabilities	385	390	385	385
Total equities & liabilities	9,866	10,725	12,447	14,153
Fixed Assets incl. Goodwill	5,212	5,800	6,465	7,833
Non Current Investments	0.3	57	0.3	0.3
Loans & Advances	260	84	378	446
Current Assets	4,394	4,784	5,604	5,874
Total assets	9,866	10,725	12,447	14,153

Key Ratios (Consolidated)

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	13.4	16.3	16.4	16.6
EBIT Margin (%)	10.9	13.9	14.3	14.6
NPM (%)	8.1	10.5	10.7	11.0
ROCE (%)	12.7	18.2	19.6	21.0
ROE (%)	10.8	15.6	16.6	17.5
Adj EPS (₹)	7.9	12.5	14.9	18.0
P/E (x)	20.8	13.1	11.0	9.1
BVPS (₹)	73.1	80.4	89.9	102.6
P/BVPS (x)	2.2	2.0	2.0	1.7
EV/Operating Income (x)	11.5	7.7	6.7	5.7
EV/EBITDA (x)	12.4	8.3	7.2	6.0
EV/EBIT (x)	15.20	9.71	8.26	6.84

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Net Sales	8,755	10,808	12,548	14,806
Expenses	7,582	9,065	10,487	12,344
EBITDA	1,173	1,743	2,061	2,462
<i>EBITDA margin (%)</i>	<i>13.4</i>	<i>16.3</i>	<i>16.4</i>	<i>16.6</i>
Other Income	86	134	154	160
Depreciation	304	383	422	455
EBIT	954	1,494	1,794	2,167
Interest	14	33	34	38
Profit Before Tax	940	1,461	1,759	2,129
Tax	228	328	413	500
Net Profit	713	1,132	1,346	1,629
<i>NPM (%)</i>	<i>8.1</i>	<i>10.6</i>	<i>10.7</i>	<i>11.0</i>

Valuation and view

We expect Unichem's revenues to grow at a CAGR of 17.0% and PAT to grow at a CAGR of 20.0% over FY12-14E. The necessary steps taken by the company to revive the domestic formulations business would fuel the future growth. Approval of new products by USFDA, any CRAMS deal with MNC, break-even of international subsidiaries and organic or inorganic expansion would act as potential triggers further.

At a current market price (CMP) of ₹163.9, the stock trades at 11.0x FY14E and of 9.1x FY15E, earnings. We recommend 'BUY' with a target price of ₹190, which implies potential upside of 16.0% to the CMP from long term (1 year) perspective.



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

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