

Sector	Pharmaceutical
Recommendation	Buy
CMP	Rs 430
Target Price-	Rs 526
Face Value-	5
Potential upside-	26%
Tenure-	3 Months

Bloomberg-	UL:IN
Reuters -	UNLB.NS
BSE--	UNICHEMLAB
NSE-	UNICHEMLAB

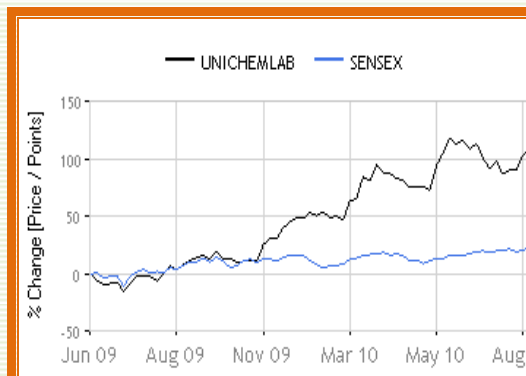
Date:- 16th September,2010

Stock Info:

Weekly H/L- 483.75/461.70

Monthly H/L- 483.75/417.05

52 Weeks H/L- 507.30/238.25



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Unichem Laboratories

Industry Overview:

Global Market:

At the end of the 2009, global market grew by 7% to \$387bn compared with 4.5% growth in 2008.

- *As per the IMS Health forecast unveiled that the growth of worldwide pharmaceuticals sales is expected to grow nearly US\$773 billion over next 5 years, reaching \$1.1 trillion in 2014.*
- *The compounded annual growth rate (CAGR) is 5% to 8%. Emerging/Developing countries contribution will be 48% in 2013 from last year 37%.*
- *The growth rate was a meagre 1% in USA as compared to 15% in Asian and African markets.*
- *Brazil, Mexico, South Korea, Turkey, India and Russia will contribute an average of 48% of global sales through 2013. Further, the increasing opportunities presented by products getting off patent in international markets offer sizeable revenue and margin enhancing opportunities. We expect the sector to reach 3.5%(approx) for the year ended Dec, 2010.*

Domestic Market:

India is emerging as a competitive outsourcing hub and is playing a major role the global pharmaceutical industry in manufacturing Active Pharmaceutical Ingredients (API) and intermediates for drug makers. Global pharmaceutical companies are establishing long term relationships with Indian manufacturing companies and contract research providers in India. Generic drugs produced in India are increasingly being accepted worldwide. Thus, the overall scenario is turning in favour of Indian Pharma industry.

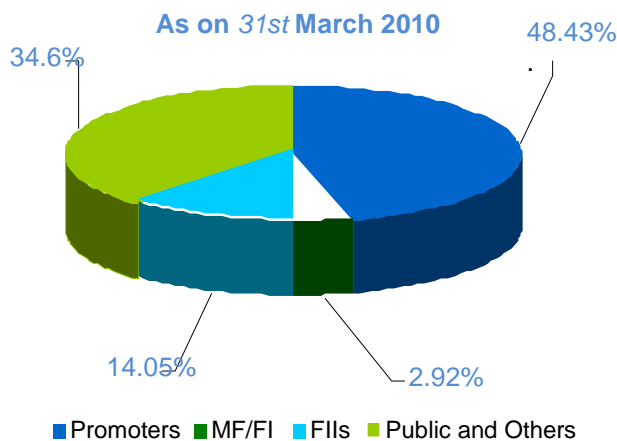
The Indian pharmaceutical industry total value is Rs 100, 611cr as the industry growth is back on track, according to Economic survey report, and 2009-10. The country now ranks 3rd in production volume (10% of world share) and 14th position by value.

Company overview:

Unichem Laboratories Limited manufactures pharmaceutical drug formulations, bulk drugs and veterinary products. The Company's pharmaceutical products include anti-infectives, pain killers, cardiology drugs, psychiatry drugs, hormone supplements, gastro-intestinal drugs, diabetes drugs and nutritional products.

Shareholding Pattern:

Exhibit: 1



Subsidiaries:

- Niche Generics Limited (UK)-It is engaged in manufacturing formulations, product development and dossier filing in European markets.
- Unichem SA (Proprietary) Limited (South African) –It has been set up for business development and to own product registrations.
- Unichem Farmaceutica Do Brasil Lt da. (Brazil)-It has been set up to own product registrations, launch generic and branded generic products in Brazilian market.
- Unichem Pharmaceuticals (USA) Inc-It has been set up for business development, filing of Abbreviated New Drug Application (ANDA's) and exploring opportunities for marketing alliances in North American markets.

Exhibit: 2 Quarterly financial performances:

Quarterly					
(In Cr.)	Jun-10	%Var(QoQ)	Mar-10	% Var(QoQ)	Dec-09
Income Statement					
Revenue	187.5	7.851596	173.85	0.630933	172.76
Other Income	1.96	-42.0118	3.38	212.963	1.08
Total Income	189.45	6.894995	177.23	1.950069	173.84
Expenditure	-139.25	5.229351	-132.33	4.328288	-126.84
Interest	-0.25	257.1429	-0.07	-22.2222	-0.09
PBDT	49.95	11.44578	44.82	-4.45534	46.91
Depreciation	-6.58	18.34532	-5.56	3.538175	-5.37
PBT	43.37	10.44054	39.27	-5.46461	41.54
Tax	-10.02	68.97133	-5.93	-24.5547	-7.86
Net Profit	33.35	-1.56434	33.88	0.593824	33.68
OPM %	26.77	3.639179	25.83	-5.03676	27.2
NPM %	17.79	-8.72242	19.49	-0.05128	19.5

Source: Research-cell, flourish Fin cap Pvt Ltd

Quarterly performance:

The company's revenue from operations stood at Rs 187.5 crores for the quarter ended 31st, Jun, 2010 against Rs 173 crores recorded during the corresponding quarter of the Previous year, reflecting overall growth of 11%.

Unichem Lab. EBITDA grew by approx.12% from last year.

Annual financial performance:

- Total income for the year stood at Rs 69,059.67 lakh compared to `65,686.66 lakh recorded last year, thus products have contributed to the ongoing market realignment. Reflecting 5.14 % growth.
- Net Profit after Tax for the year stood at Rs 13,394.43 lakh compared to Rs 12,475.15 lakh recorded last year, growth 7.37% on 31st, March 2010.
- Domestic Sales & Formulation sales grew by 8.98% and 8.34% respectively, stood at Rs 56,054 and Rs 53,663 lakh.

Valuation Outlook:

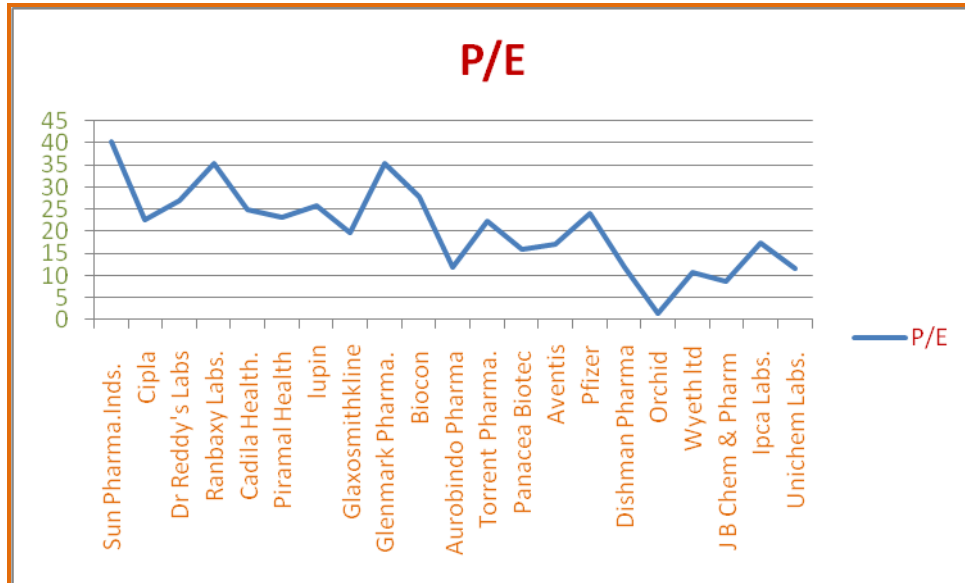
- At present stock is trading on Rs 477.65 and PE(X) 11.59.
- The company's 12 month trailing EPS (TTM) and P/BV are 37.11 and 2.54 respectively. The current book value is Rs 169.2.
- On the basis of peer group comparison and the relative valuation of the companies, unichem is the most favourable stock for long-term investment. As the company is focussing more on domestic side.

We recommend buy at target price Rs 526.

Exhibit: 3 Peer Group Comparisons:

Company	NPM	EPS	P/E	P/BV	EV/EBIDTA	EV/NET SALES	ROE
Sun Pharma.Inds.	35	43.6	40.4	6.34	33.9	14	15.7
Cipla	20.2	13.5	22.7	4.15	15.6	4.6	18.3
Dr Reddy's Labs	18.9	50	26.9	3.85	16.5	5.1	14.3
Ranbaxy Labs.	12.1	13.6	35.3	4.89	18	4.8	13.8
Cadila Health.	27.5	24.6	24.9	7.74	19.4	7.2	31
Piramal Health	16.7	21.2	23.2	6.84	13.9	4.1	29.5
lupin	17.9	17.3	25.8	6.62	20.7	4.8	25.6
Glaxosmithkline	44.3	98	19.6	9.23	17.5	7.8	29.1
Glenmark Pharma.	25.5	8.07	35.3	6.26	23.5	10	17.7
Biocon	21.4	12.4	27.8	4.41	18.1	6	15.9
Aurobindo Pharma	16.4	90.3	11.7	3.22	8.64	2.5	27.5
Torrent Pharma.	14.6	24.5	22.3	5.24	12	3.4	23.5
Panacea Biotec	9.05	12	15.8	1.82	9.06	2.2	11.5
Aventis	24.8	105	17.1	4.5	12.7	3.6	26.3
Pfizer	16.9	45.9	24.2	3.33	10.8	3.4	13.8
Dishman Pharma	38	16.6	11.9	2.62	15.1	5.8	11.6
Orchid	68.9	122	1.52	1.34	3.04	2.1	33.8
Wyeth ltd	44.3	74.6	10.7	6.51	9.47	4.2	35.9
J B Chem & Pharm	15.1	12	8.65	1.42	5.72	1.4	16.5
Ipca Labs.	13.3	16.7	17.2	4.12	11.1	2.6	23.9
Unichem Labs.	19.5	37.1	11.6	2.54	8.18	2.3	21.9

Source: Research-cell, Flourish Fincap Pvt Ltd.

Exhibit:4

Source:Research-cell,Flourish Fincap Pvt Ltd

Investment Rationale:

- *Company is planning to set up a plant in Indore and will spend Rs 600 million for cardiovascular and pain relief drugs for the U.S. market. It will start production in 2013.*
- *Additional 400 million rupees will be used to expand a research facility in Goa.*
- *The company expects to sell as much as \$5 million of drugs in the U.S. this year, 2010.*
- *In the Indian market, the company plans to start selling drugs to treat eye diseases and gynecological conditions and is looking to spend as much as 3 billion rupees for acquisitions.*

IPCA Lab-BUY**CMP Rs 299.73/T.P. Rs 410**

Ipca is a fully integrated, rapidly growing Indian pharmaceutical company with a strong thrust on exports. Ipca's APIs and Formulations produced at world class manufacturing facilities are approved by leading drug regulatory authorities including the US-Food and Drug Administration (FDA), UK-Medicines and Healthcare products Regulatory Agency (MHRA), South Africa-Medicines Control Council (MCC), Brazil-Brazilian National Health Vigilance Agency (ANVISA) and Australia-Therapeutic Goods Administration (TGA). With operations in over 100 countries, exports account for over 52% of the company's income.

Exhibit:5 Segment –wise business:

Break -up sales	2009-10			2008-09			
	Domestic	Exports	Total Growth	Growth	Domestic	Exports	Total Growth
Growth Formulations	597.84	498.15	1086.99	19%	476.59	437.17	913.76
API's Intermediaries	141.63	316.93	458.86	30%	108.34	243.22	351.56
Net Total Sales	739.47	806.47	1545.55	22%	243.22	680.39	1265.32
Growth	26%	18%	22%		16%	27%	21%

Source:Company

Exhibit:6

Formulation Exports - Therapeutic contribution		
Therapeutic Group	2009-10	2008-09
Cardiovasculars & Anti-diabetics	41%	39%
Non-steroidal anti-inflammatory drugs (NSAID)	21%	17%
Anti-bacterials	19%	16%
Anti-malarials	7%	15%
Gastro Intestinal (G.I.) products	2%	4%
Cough Preparations	1%	1%
CNS	1%	1%
Anthelmintics	2%	2%
Others	6%	5%
TOTAL	100%	100%

Source:Company

Investment Argument:

- *Strong presence in Global and domestic market.*
- *Strongly placed in formulation business.*
- *Indore SEZ to add momentum.*
- *Exports to drive growth.*
- *Recovery in anti-malaria segment.*
- *Earnings to grow at a CAGR of 31% compelling valuations.*

Financial performance:

Quarterly

Ipca Laboratories reported a steep drop in standalone net profit for the quarter ended June 2010. During the quarter, the profit of the company declined 21.96% to Rs 388.40 million from Rs 497.70 million in the same quarter previous year.

Net sales for the quarter for the quarter rose 16.45% to Rs 4,179.80 million, while total income for the quarter rose 13.36% to Rs 4,185.60 million, when compared with the prior year period. It posted earnings of Rs 3.10 a share during the quarter, registering 84.45% decline over previous year period.

Quarterly Results - Standalone (Rs in mn)			
	Jun-10	Jun-09	%Change
Net Sales	4,179.80	3,589.40	16.45
Net Profit	388.4	497.7	-21.96
Basic EPS	3.1	19.93	84.45

Source: Research-cell, Flourish Fincap Pvt Ltd

Annual financial performance:

Net total income of Rs 1,558.95 crores as against Rs 1,275.57 crores in the previous year, a growth of 22%. Ipca focus on formulations business resulted into increase in overall formulation sales to Rs 1,086.99 crores, an increase of 19% over previous year formulations sales of Rs 913.76 crores. Further, company expanded its therapeutic coverage with introduction of new formulations, both in the domestic and export markets, especially in the fast growing life style related segments.

The Active Pharmaceutical Ingredient (API) business also increased by 30% to Rs 458.56 crores.

During the financial year under report, the Earnings before interest, depreciation, foreign exchange translation gain/loss increased by 25% to Rs 338.10 crores as against Rs 270.01 crores in the previous financial year. The operations have resulted in a net profit of Rs 209.19 crores during the financial year under report as against Rs 91.22 crores in the previous financial year, an increase of 129%.

Valuation Outlook:

At present stock is trading at Rs 299.65 with P/E(x) 17.4.

The book value(BV) and P/BV are 4.1 & Rs 4.89 respectively and trailing 12 month EPS(TTM is 16.7%).

We recommend buy for the stock with target price Rs 410

Ranbaxy Labs.**CMP Rs 567 /Target Price Rs725**

Ranbaxy Laboratories Limited manufactures and distributes a wide range of pharmaceutical products. The Company makes multisource antibiotics, analgesics, anti-inflammatory drugs and anti-ulcerant/gastrointestinal drugs such as "Roskillin" (Ampicillin), "Cifran" (Ciprofloxacin) and "Sporidex" (Cephalexin).

Financials:

Consolidated sales were at Rs 2,102 crore, a growth of 22 per cent over the second quarter (Jun) 2009 sales number of Rs 1,795 crore (April).

Volatility in foreign exchange rates pulled down Ranbaxy Laboratories' second quarter profit by 52 per cent to Rs 332 crore compared with Rs 693 crore in the corresponding quarter last year.

Valuation Outlook:

- ❖ At present stock is trading at Rs 567.15 with P/E(X) 35.3 and trailing EPS(TTM) is 14%.
- ❖ Currently Book value and P/BV of the share is Rs 94.1 and 4.8 respectively.
- ❖ We recommend buy for the stock with target price Rs 725.

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