

Solvay Pharma India LimitedCMP Rs. 2,978.60
EXITResult Update
Q1CY10Ruchak Mehta | ruchak@ppfas.com

Solvay Pharma India Ltd.(SPIL) reported an excellent set of numbers for the quarter ended Mar 2010.

On a yoy basis, Net Revenues grew by 24.4% from Rs.500.3 Mn to Rs.622.5 Mn. On the other hand, Cost of Materials was down by 296 bps, from Rs.226.6 Mn to Rs.263.5 Mn. SPIL imports a major chunk of its Raw Material requirements (84% for CY2009). As a result, an appreciating Rupee against the Euro is favorable for the Company on the Raw Materials front. Operating Margins improved by 322 bps from 23.4% to 26.6%. Significantly higher Cash position at the end of CY09 seemed to show in Other Income, which increased from Rs.4.1 Mn to Rs.12.5 Mn. The Company had also changed its Depreciation method last year and revised the estimated useful life of its assets. Consequently, Depreciation was up from Rs.3.9 Mn to Rs.7.9 Mn. PAT was up 50.6% at Rs.112.9 Mn. EPS stood at Rs.22.4.

In September 2009, the Belgium based Solvay Group decided to sell its entire pharmaceutical business to Abbott Laboratories. This included SPIL where it held a 68.85% stake. Subsequently, on 17th Feb, 2010, Abbott Laboratories made a Public Announcement for an Open Offer for upto 20% of equity capital of SPIL. The Company has offered a price of Rs.3,054.73 per share. The offer is currently going on and will close on 8th May, 2010.

SPIL is one of the faster growing companies in the MNC Pharmaceutical sector. It is debt-free, with a strong cash position and healthy cashflows. However, at the CMP of Rs.2,990.35, the stock is trading at an expensive PE(TTM) of 34.3. Valuations are extremely rich. Also, as part of the Solvay Groups pharmaceutical business takeover, Abbott Laboratories had made a consideration for the SPIL holding (i.e. 68.85%) at Euro 70 million which translates to Rs.1,420.08 per share (as of Sept 25, 2009). Based on this, the Company is trading at a premium of 110%. Going ahead, the Company may benefit from an appreciating rupee and also get to extract synergies from the Abbott acquisition. While the former would be more of a temporary phenomenon, the latter seems to be factored into the price already. Thus, on the whole, we recommend investors to Exit.

[Financials >>](#)

Quarterly Analysis

Earnings Statement								
YE Dec (Rs. Mn.)	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	12MCY09	12MCY08	Y-Y(%)
Net Revenues	622.5	661.0	-5.8%	500.3	24.4%	2,417.9	2,003.4	20.7%
Cost of Materials	263.5	289.9	-9.1%	226.6	16.3%	1,068.5	862.8	23.8%
Gross Profit	359.0	371.1	-3.3%	273.7	31.1%	1,349.4	1,140.6	18.3%
Staff Costs	74.0	76.3	-3.0%	54.7	35.2%	264.8	213.8	23.9%
Other Expenses	119.3	139.7	-14.6%	102.0	17.0%	482.0	462.3	4.3%
Total Expenditure	193.4	216.0	-10.5%	156.7	23.4%	746.8	676.1	10.5%
Operating Profit	165.6	155.1	6.8%	117.0	41.6%	602.6	464.5	29.8%
OPM (%)	26.6%	23.5%	314.3	23.4%	322.6	24.9%	23.2%	174.1
Other Income	12.5	11.8	6.3%	4.1	208.7%	37.1	51.0	-27.2%
EBITDA	178.1	166.9	6.7%	121.0	47.2%	639.8	515.5	24.1%
Depreciation	7.9	9.5	-17.5%	3.9	102.5%	45.7	13.3	244.4%
EBIT	170.3	157.4	8.2%	117.1	45.4%	594.1	502.2	18.3%
Interest	0.0	0.0	0.0%	0.0		0.0	0.1	-79.1%
PBT	170.3	157.4	8.2%	117.1	45.3%	594.1	502.1	18.3%
Tax	57.4	52.5	9.2%	42.2	36.1%	206.3	174.1	18.5%
Current Tax	58.8	54.7	7.5%	42.2	39.5%	196.4	177.3	10.7%
Fringe Benefit Tax	0.0	0.0		0.0		0.0	0.0	
Deferred tax	(1.4)	(2.1)		0.0		9.9	(3.3)	
PAT	112.9	104.8	7.7%	75.0	50.6%	387.8	328.0	18.2%
Extraordinary Item	0.0	0.0		0.0		12.5	0.0	
Reported PAT	112.9	104.8	7.7%	75.0	50.6%	400.3	328.0	22.0%
Equity Capital	50.5	50.5		50.5		50.5	50.5	
EPS	22.4	20.8	7.7%	14.9	50.6%	79.3	65.0	22.0%
Ratio Analysis								
Profitability								
YE Dec	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	12MCY09	12MCY08	Y-Y(%)
OPM (%)	26.6%	23.5%	314.3	23.4%	322.6	24.9%	23.2%	174.1
EBITDA (%)	28.6%	25.2%	337.1	24.2%	442.7	26.5%	25.7%	72.9
EBIT (%)	27.4%	23.8%	355.1	23.4%	394.0	24.6%	25.1%	(49.9)
PAT (%)	18.1%	15.9%	228.5	15.0%	315.0	16.0%	16.4%	(33.8)
Operational Parameters								
YE Dec	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	12MCY09	12MCY08	Y-Y(%)
RM Consumed	42.3%	43.9%	(152.9)	45.3%	(296.0)	44.2%	43.1%	112.2
Staff Cost	11.9%	11.5%	34.9	10.9%	95.0	10.9%	10.7%	28.0
Other Expenditure	19.2%	21.1%	(196.3)	20.4%	(121.6)	19.9%	23.1%	(314.3)
Effective Tax Rate	33.7%	33.4%	29.4	36.0%	(229.8)	34.7%	34.7%	6.2

Financials

Earnings Statement						
Particulars (Rs Mn.)	CY04	CY05	CY06	CY07	CY08	CY09
Total Revenues	1,161.5	1,297.4	1,440.9	1,677.7	2,003.4	2,417.3
- Growth (%)		11.7%	11.1%	16.4%	19.4%	20.7%
Total Expenditure	886.1	995.8	1,129.9	1,236.1	1,536.7	1,815.2
Operating Profit	275.4	301.6	311.1	441.6	466.7	602.0
Forex Gain/(Loss)	(3.2)	2.4	(4.7)	1.6	(2.2)	0.0
Other Income	16.2	26.4	35.6	35.8	51.0	37.8
EBITDA	288.4	330.4	342.0	479.0	515.5	639.8
Depreciation	46.8	45.9	45.9	49.7	13.3	45.7
EBIT	241.5	284.5	296.0	429.3	502.2	594.1
Interest	1.8	0.2	0.8	0.3	0.1	0.0
PBT	239.8	284.3	295.2	429.0	502.1	594.1
Tax	93.7	102.1	107.9	147.8	174.1	206.3
PAT Before EI	146.1	182.2	187.3	281.2	328.0	387.8
- Growth (%)		24.7%	2.8%	50.1%	16.7%	18.2%
Extra-ordinary Items	87.5	0.0	0.0	0.0	0.0	12.5
PAT	233.6	182.2	187.3	281.2	328.0	400.3

Ratio Analysis						
Particulars	CY04	CY05	CY06	CY07	CY08	CY09
OPM (%)	23.7%	23.2%	21.6%	26.3%	23.3%	24.9%
EBITDA (%)	24.8%	25.5%	23.7%	28.6%	25.7%	26.5%
PBIT (%)	20.8%	21.9%	20.5%	25.6%	25.1%	24.6%
PAT (%)	20.1%	14.0%	13.0%	16.8%	16.4%	16.6%
Interest Cover (x)	137.2	1,589.4	360.6	1,460.3	4,116.6	24,753.5
EPS (Rs.)	46.3	36.1	37.1	55.7	65.0	79.3
P/E (x)	64.6	82.9	80.6	53.7	46.0	37.7
P/BV (x)	28.4	22.2	18.4	17.4	13.8	11.6
BVPS (Rs.)	105.3	134.5	162.5	171.9	216.4	257.6
Market Cap (Rs. Mn.)	2,122.1	3,043.5	2,514.8	3,556.8	2,825.3	8,847.6
M Cap/Sales (x)	1.8	2.3	1.7	2.1	1.4	3.7
EV (Rs. Mn.)	1,853.7	2,690.8	2,105.5	3,312.8	2,755.9	8,318.3
EV/EBITDA (x)	6.4	8.1	6.2	6.9	5.3	13.0
EV/Sales (x)	1.6	2.1	1.5	2.0	1.4	3.4
ROCE (%)	45.2%	41.8%	36.1%	49.5%	46.0%	45.7%
RONW (%)	27.5%	26.8%	22.8%	32.4%	30.0%	29.8%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	44.8	48.8	59.9	49.5	103.6	51.3
Debtors T/o Days	35.8	35.7	36.3	36.3	33.2	23.6
Advances T/o Days	12.1	17.9	17.2	17.1	33.0	20.8
Creditors T/o Days	40.3	40.9	48.1	38.4	58.7	35.6
Working Cap T/o Days	123.9	143.6	151.2	87.1	95.1	113.0
Fixed Assets T/o (Gross)	4.6	5.1	5.3	5.8	7.2	3.8
DPS (Rs.)	5.0	6.0	8.0	40.0	17.5	32.5
Dividend Payout (%)	10.8%	16.6%	21.6%	71.8%	26.9%	41.0%
Dividend Yield (%)	0.2%	0.2%	0.3%	1.3%	0.6%	1.1%

Financials

Balance Sheet						
Particulars (Rs Mn.)	CY04	CY05	CY06	CY07	CY08	CY09
Equity Capital	50.5	50.5	50.5	50.5	50.5	50.5
Reserves	481.3	628.9	770.1	817.5	1,042.2	1,250.4
Shareholders Funds	531.8	679.4	820.6	868.0	1,092.7	1,300.9
Borrowed Funds	2.7	1.6	0.4	0.0	0.0	0.0
Deferred Tax Liability	2.5	(2.7)	(12.0)	(24.7)	(28.0)	(18.0)
Total Liabilities	537.0	678.4	809.0	843.3	1,064.7	1,282.9
Fixed Assets	142.5	98.0	71.9	44.7	376.1	375.4
Investments	0.1	70.1	140.2	398.4	166.6	159.3
Current Assets						
Inventory	142.5	173.4	236.5	227.4	568.4	339.5
Sundry Debtors	113.8	126.7	143.2	166.9	182.2	156.3
Interest Accrued on Investments		3.2	2.9	2.9	0.0	0.0
Loans & Advances	38.4	63.7	68.0	78.6	180.9	137.5
Cash & Bank Balance	271.2	354.3	409.7	243.9	69.4	529.2
Current Liabilities						
Sundry Creditors	128.1	145.2	190.0	176.5	322.3	235.5
Provisions	43.3	65.8	73.3	143.1	156.8	178.8
Net Current Assets	394.4	510.3	596.9	400.2	521.9	748.2
Miscellaneous Expenditure						
Total Assets	537.0	678.4	809.0	843.3	1,064.7	1,282.9

Cash Flow						
Particulars (Rs Mn.)	CY04	CY05	CY06	CY07	CY08	CY09
Opening Cash & Bank	16.4	271.2	354.3	409.7	243.9	69.4
Profit After Tax	233.6	182.2	187.3	281.2	328.0	400.3
Investment Income	(16.2)	(26.4)	(35.6)	(35.8)	(51.0)	(37.8)
Interest Paid	1.8	0.2	0.8	0.3	0.1	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	46.8	45.9	45.9	49.7	13.3	45.7
Deferred Taxation	(0.9)	(5.2)	(9.3)	(12.7)	(3.3)	9.9
Others	26.9	(0.9)	(1.0)	(1.8)	(6.9)	(32.4)
Change in Working Cap	8.3	(32.7)	(31.3)	31.0	(296.2)	233.6
CF - Operating Activities	300.4	163.1	156.9	311.9	(16.0)	619.3
Change in Fixed Assets	(0.5)	(0.5)	(18.8)	(20.7)	(337.8)	(12.6)
Change in Investments	0.0	(70.0)	(70.1)	(258.2)	231.8	7.4
Investment Income	16.2	26.4	35.6	35.8	51.0	37.8
CF - Investing Activities	15.7	(44.1)	(53.4)	(243.1)	(55.0)	32.6
Increase in Equity	0.0	0.0	(0.0)	0.0	(0.0)	(0.0)
Changes in Borrowings	(31.0)	(1.1)	(1.2)	(0.4)	0.0	0.0
Interest Paid	(1.8)	(0.2)	(0.8)	(0.3)	(0.1)	(0.0)
Dividend Paid	(28.5)	(34.5)	(46.1)	(233.8)	(103.4)	(192.0)
CF - Financing Activities	(61.3)	(35.8)	(48.1)	(234.5)	(103.5)	(192.0)
Net Change in Cash	254.7	83.1	55.4	(165.7)	(174.5)	459.8
Closing Cash & Bank Balance	271.2	354.3	409.7	243.9	69.4	529.2

Disclaimer

Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Solvay Pharma

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Contact

Ruchak Mehta

Analyst - Investment Research

ruchak@ppfas.com

91 22 2284 6555 Extn 202

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Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

www.ppfas.com