

**Solvay Pharma India Limited**

CMP Rs. 2,300.0  
HOLD

Q4CY09  
Result Update

Solvay Pharma India Ltd. (SPIL) reported excellent set of numbers for the fourth quarter ended December 2009. The Y-o-Y performance is as follows:

- Net Revenues increased by almost 20% from Rs. 551.6 Mn. in Q4CY08 to Rs. 661 Mn. in Q4CY09.
- SPIL witnessed a jump of close to 25% & 38% in Materials Cost & Staff Costs respectively.
- However, with a fall in Other Expenses to the tune of 14% Y-o-Y, the company managed to register a Y-o-Y increase of 52.7% in Operating Profits to Rs. 155.1 Mn. for Q4CY09.
- Operating profit Margins (OPM) also improved by a whopping 505 bps to 23.5%.
- Depreciation Expense increased more than three times Y-o-Y to Rs. 9.5 Mn., largely due to the retrospective change in method of providing depreciation & revision in estimated useful life of its assets by the company.
- This also led to an Extraordinary Item of Rs. 12.5 Mn. for the full year ended 2009.
- The MNC pharma reported a bottomline growth of almost 53% Y-o-Y from Rs. 68.6 Mn. in Q4CY08 to Rs. 104.8 Mn. in Q4CY09.
- EPS for the quarter ended December 2009 stood at Rs. 20.8.

On a sequential basis, SPIL reported a flattish quarter ended 31st December 2009.

- Net Revenues increased by 4.3% from Rs. 633.6 Mn. in Q3CY09 to Rs. 661 Mn. in Q4CY09.
- With about 15% Q-o-Q increase in Staff Costs & Other Expenses taken together, the MNC pharma reported a marginal dip of 2.6% in Operating Profits.
- Increase in Staff Costs & Other Expenses as a percentage of Sales led to a decline in Operating Margins by more than 166 bps over the previous quarter.
- SPIL saw a Q-o-Q decline of 29.2% in Other Income from Rs. 16.6 Mn. in Q3CY09 to Rs. 11.8 Mn. in Q4CY09.
- Reported PAT was down by 6.8% Q-o-Q to Rs. 104.8 Mn. in Q4CY09 vis-à-vis Rs. 112.4 Mn. in the previous quarter.

For twelve months ended December 2009, Solvay Pharma reported a Y-o-Y growth of 20.7% in its topline to Rs. 2,417.9Mn. as against Rs. 2,003.4 Mn. for the same period last year. Operating Profits increased by almost 30% to Rs. 602.6 Mn. for full year CY2009. OPM for the full year 2009 stood at 25% vis-à-vis 23.2% for CY2008. The company reported a bottomline of Rs. 400.3 Mn. for CY2009, marking an increase of 22% over CY2008. EPS for the full year stood at Rs. 79.3 as against Rs. 65.0 for CY2008. Apart from the Interim Dividend of Rs. 12.5, the MNC declared a final dividend of Rs. 20.0 per share for 2009.

**Our View**

We continue to remain positive about the growth prospects of Solvay Pharma India Ltd. The company has been able to register good double digit growth for full year 2009. Besides, we believe that the prospective merger of the company with Abbott India Ltd., post the merger of their respective global parent companies, would be beneficial for the shareholders of SPIL.

SPIL has surpassed our earnings estimate for CY2009; reporting an EPS of Rs. 79.3, much above our full year estimate of Rs. 72.4. In line with this, we have revised our EPS estimates for CY2010E to Rs. 92.1 (10.2% higher) from Rs. 83.6 earlier. At CMP of Rs. 2,300.0, the scrip trades at an expensive 25x our EPS estimate of Rs. 92.1 for CY2010E. Recommend HOLD.

## Quarterly Financials

Earnings Statement								
YE Dec (Rs. Mn.)	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)	12MCY09	12MCY08	Y-Y(%)
Net Revenues	661.0	633.6	4.3%	551.6	19.8%	2,417.9	2,003.4	20.7%
Cost of Materials	289.9	286.7	1.1%	232.4	24.7%	1,068.5	862.8	23.8%
Gross Profit	371.1	346.9	7.0%	319.2	16.3%	1,349.4	1,140.6	18.3%
Staff Costs	76.3	65.7	16.1%	55.3	37.9%	264.8	213.8	23.9%
Other Expenses	139.7	121.9	14.6%	162.3	-13.9%	482.0	462.3	4.3%
Total Expenditure	216.0	187.6	15.1%	217.6	-0.7%	746.8	676.1	10.5%
Operating Profit	155.1	159.2	-2.6%	101.6	52.7%	602.6	464.5	29.8%
OPM (%)	23.5%	25.1%	(166.3)	18.4%	504.8	24.9%	23.2%	174.1
Other Income	11.8	16.6	-29.2%	9.8	20.3%	37.1	51.0	-27.2%
EBITDA	166.9	175.8	-5.1%	111.4	49.8%	639.8	515.5	24.1%
Depreciation	9.5	11.1	-14.1%	3.0	216.4%	45.7	13.3	244.4%
EBIT	157.4	164.7	-4.5%	108.4	45.2%	594.1	502.2	18.3%
Interest	0.0	0.0	-90.9%	0.1	-97.6%	0.0	0.1	-79.1%
PBT	157.4	164.7	-4.5%	108.3	45.3%	594.1	502.1	18.3%
Tax	52.5	52.3	0.5%	39.7	32.3%	206.3	174.1	18.5%
Current Tax	54.7	49.5	10.5%	42.2	29.6%	196.4	177.3	10.7%
Fringe Benefit Tax	0.0	0.0		0.0		0.0	0.0	
Deferred tax	(2.1)	2.8		(2.5)	-14.3%	9.9	(3.3)	
PAT	104.8	112.4	-6.8%	68.6	52.8%	387.8	328.0	18.2%
Extraordinary Item	0.0	0.0		0.0		12.5	0.0	
Reported PAT	104.8	112.4	-6.8%	68.6	52.8%	400.3	328.0	22.0%
Equity Capital	50.5	50.5		50.5		50.5	50.5	
EPS	20.8	22.3	-6.8%	13.6	52.8%	79.3	65.0	22.0%
Ratio Analysis								
Profitability								
YE Dec	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)	12MCY09	12MCY08	Y-Y(%)
OPM (%)	23.5%	25.1%	(166.3)	18.4%	504.8	24.9%	23.2%	174.1
EBITDA (%)	25.2%	27.8%	(250.7)	20.2%	505.5	26.5%	25.7%	72.9
EBIT (%)	23.8%	26.0%	(219.8)	19.6%	415.8	24.6%	25.1%	(49.9)
PAT (%)	15.9%	17.7%	(189.1)	12.4%	342.2	16.0%	16.4%	(33.8)
Operational Parameters								
YE Dec	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)	12MCY09	12MCY08	Y-Y(%)
RM Consumed	43.9%	45.3%	(139.7)	42.1%	172.2	44.2%	43.1%	112.2
Staff Cost	11.5%	10.4%	116.7	10.0%	151.4	10.9%	10.7%	28.0
Other Expenditure	21.1%	19.2%	189.3	29.4%	(828.4)	19.9%	23.1%	(314.3)
Effective Tax Rate	33.4%	31.7%	165.0	36.7%	(327.4)	34.7%	34.7%	6.2

## Financials

Earnings Statement							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09A	CY10E
Total Revenues	1,161.5	1,297.4	1,440.9	1,677.7	2,003.4	2,417.3	2,858.6
- Growth (%)		11.7%	11.1%	16.4%	19.4%	20.7%	18.3%
Total Expenditure	886.1	995.8	1,129.9	1,236.1	1,536.7	1,815.2	2,145.5
Operating Profit	275.4	301.6	311.1	441.6	466.7	602.0	713.1
Forex Gain/(Loss)	(3.2)	2.4	(4.7)	1.6	(2.2)	0.0	0.0
Other Income	16.2	26.4	35.6	35.8	51.0	37.8	46.7
EBITDA	288.4	330.4	342.0	479.0	515.5	639.8	759.8
Depreciation	46.8	45.9	45.9	49.7	13.3	45.7	44.1
EBIT	241.5	284.5	296.0	429.3	502.2	594.1	715.7
Interest	1.8	0.2	0.8	0.3	0.1	0.0	0.0
PBT	239.8	284.3	295.2	429.0	502.1	594.1	715.7
Tax	93.7	102.1	107.9	147.8	174.1	206.3	250.5
PAT Before EI	146.1	182.2	187.3	281.2	328.0	387.8	465.2
- Growth (%)		24.7%	2.8%	50.1%	16.7%	18.2%	20.0%
Extra-ordinary Items	87.5	0.0	0.0	0.0	0.0	12.5	0.0
PAT	233.6	182.2	187.3	281.2	328.0	400.3	465.2

Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	23.7%	23.2%	21.6%	26.3%	23.3%	24.9%	24.9%
EBITDA (%)	24.8%	25.5%	23.7%	28.6%	25.7%	26.5%	26.6%
PBIT (%)	20.8%	21.9%	20.5%	25.6%	25.1%	24.6%	25.0%
PAT (%)	20.1%	14.0%	13.0%	16.8%	16.4%	16.6%	16.3%
Interest Cover (x)	137.2	1,589.4	360.6	1,460.3	4,116.6	24,753.5	29,820.4
EPS (Rs.)	46.3	36.1	37.1	55.7	65.0	79.3	92.1
P/E (x)	49.7	63.8	62.0	41.3	35.4	29.0	25.0
P/BV (x)	21.8	17.1	14.2	13.4	10.6	8.9	7.3
BVPS (Rs.)	105.3	134.5	162.5	171.9	216.4	257.6	314.6
Market Cap (Rs. Mn.)	11,614.3	11,614.3	11,614.3	11,614.3	11,614.3	11,614.3	11,614.3
M Cap/Sales (x)	10.0	9.0	8.1	6.9	5.8	4.8	4.1
EV (Rs. Mn.)	11,345.9	11,261.6	11,205.1	11,370.4	11,544.9	11,532.5	11,474.2
EV/EBITDA (x)	39.3	34.1	32.8	23.7	22.4	18.0	15.1
EV/Sales (x)	9.8	8.7	7.8	6.8	5.8	4.8	4.0
ROCE (%)	45.2%	41.8%	36.1%	49.5%	46.0%	45.7%	45.0%
RONW (%)	27.5%	26.8%	22.8%	32.4%	30.0%	29.8%	29.3%
Debt/Equity Ratio (x)	0.0	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	75.0	75.0
Debtors T/o Days	35.8	35.7	36.3	36.3	33.2	35.0	35.0
Advances T/o Days	12.1	17.9	17.2	17.1	33.0	25.0	25.0
Creditors T/o Days	40.3	40.9	48.1	38.4	58.7	53.0	53.0
Working Cap T/o Days	123.9	143.6	151.2	87.1	95.1	73.4	78.9
Fixed Assets T/o (Gross)	4.6	5.1	5.3	5.8	7.2	3.8	4.5
DPS (Rs.)	5.0	6.0	8.0	40.0	17.5	32.5	30.0
Dividend Payout (%)	10.8%	16.6%	21.6%	71.8%	26.9%	41.0%	32.6%
Dividend Yield (%)	0.2%	0.3%	0.3%	1.7%	0.8%	1.4%	1.3%

## Quarterly Financials

Balance Sheet							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Equity Capital	50.5	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	1,538.4
Shareholders Funds	531.8	679.4	820.6	868.0	1,092.7	1,300.9	1,588.9
Borrowed Funds	2.7	1.6	0.4	0.0	0.0	0.0	0.0
Deferred Tax Liability	2.5	(2.7)	(12.0)	(24.7)	(28.0)	(18.0)	(18.0)
<b>Total Liabilities</b>	<b>537.0</b>	<b>678.4</b>	<b>809.0</b>	<b>843.3</b>	<b>1,064.7</b>	<b>1,282.9</b>	<b>1,570.8</b>
Fixed Assets	142.5	98.0	71.9	44.7	376.1	330.4	286.4
Investments	0.1	70.1	140.2	398.4	166.6	466.6	666.6
Current Assets							
Inventory	142.5	173.4	236.5	227.4	568.4	496.7	587.4
Sundry Debtors	113.8	126.7	143.2	166.9	182.2	231.8	274.1
Interest Accrued on Invest.		3.2	2.9	2.9	0.0	0.0	0.0
Loans & Advances	38.4	63.7	68.0	78.6	180.9	165.6	195.8
Cash & Bank Balance	271.2	354.3	409.7	243.9	69.4	81.8	140.1
Current Liabilities							
Sundry Creditors	128.1	145.2	190.0	176.5	322.3	351.0	415.1
Provisions	43.3	65.8	73.3	143.1	156.8	139.1	164.5
Net Current Assets	394.4	510.3	596.9	400.2	521.9	485.8	617.9
Miscellaneous Expenditure							
<b>Total Assets</b>	<b>537.0</b>	<b>678.4</b>	<b>809.0</b>	<b>843.3</b>	<b>1,064.7</b>	<b>1,282.9</b>	<b>1,570.8</b>

Cash Flow							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Opening Cash & Bank	16.4	271.2	354.3	409.7	243.9	69.4	81.8
Profit After Tax	233.6	182.2	187.3	281.2	328.0	400.3	465.2
Investment Income	(16.2)	(26.4)	(35.6)	(35.8)	(51.0)	(37.8)	(46.7)
Interest Paid	1.8	0.2	0.8	0.3	0.1	0.0	0.0
Miscellaneous Exp W/Off	0.0	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	44.1
Deferred Taxation	(0.9)	(5.2)	(9.3)	(12.7)	(3.3)	9.9	0.0
Others	26.9	(0.9)	(1.0)	(1.8)	(6.9)	0.0	0.0
Change in Working Cap	8.3	(32.7)	(31.3)	31.0	(296.2)	48.5	(73.8)
CF - Operating Activities	300.4	163.1	156.9	311.9	(16.0)	466.7	388.9
Change in Fixed Assets	(0.5)	(0.5)	(18.8)	(20.7)	(337.8)	0.0	0.0
Change in Investments	0.0	(70.0)	(70.1)	(258.2)	231.8	(300.0)	(200.0)
Investment Income	16.2	26.4	35.6	35.8	51.0	37.8	46.7
CF - Investing Activities	15.7	(44.1)	(53.4)	(243.1)	(55.0)	(262.2)	(153.3)
Increase in Equity	0.0	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	0.0
Interest Paid	(1.8)	(0.2)	(0.8)	(0.3)	(0.1)	(0.0)	(0.0)
Dividend Paid	(28.5)	(34.5)	(46.1)	(233.8)	(103.4)	(192.0)	(177.2)
CF - Financing Activities	(61.3)	(35.8)	(48.1)	(234.5)	(103.5)	(192.0)	(177.3)
Net Change in Cash	254.7	83.1	55.4	(165.7)	(174.5)	12.4	58.3
Closing Cash & Bank Balance	271.2	354.3	409.7	243.9	69.4	81.8	140.1

# 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 India Limited

NO  
NO  
NO

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## Contact

Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Hiren Samani	Analyst - Investment Research	hiren@ppfas.com	91 22 2284 6555 Extn 206

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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

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