

Fulford India LimitedCMP Rs. 432.50
BUYResult Update
Q1CY09

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First Quarter Performance Review

Fulford India Ltd. (FIL) reported dismal set of numbers for the first quarter ended 31st March 2009. The MNC pharmaceutical company saw a Q-o-Q decline in Net Revenues by more than 31% to Rs. 321.7 Mn. for Q1CY09. Even though the Total Expenditure declined by more than 23% Q-o-Q, the components of Total Expenditure – Materials Cost, Staff Costs & Other Expenses as a percentage of Net Revenues increased in comparison to the earlier quarter, thereby leading to an Operating Loss of Rs. 25.6 Mn. compared to an Operating Profit of Rs. 37.7 Mn. With a 20% reduction in Other Income on a Q-o-Q basis, the pharmaceutical company reported a Net Loss of Rs. 11.2 Mn. vis-a-vis a Net Profit of Rs. 35.9 Mn. for Q4CY08.

On a Y-o-Y comparison, the company saw its top-line grow by a meager 2.5% from Rs. 313.8 Mn. for Q1CY08 to Rs. 321.7 Mn. for Q1CY09. However, Materials Cost getting dearer by more than 17% & increase in Staff Costs by more than 39% led to a higher Operating Loss of Rs. 25.6 Mn. compared to the Operating Loss reported for Q1CY08 of Rs. 3.8 Mn. Even with some respite coming from the increase in Other Income by close to 28% Y-o-Y, FIL reported a Net Loss of Rs. 11.2 Mn. vis-a-vis a Net Profit of Rs. 4 Mn. for the same period last year.

Other Operating Highlights

Portfolio expansion remains one of the key imperatives for Fulford India Ltd. During the year 2008, the company successfully launched in-licensed products 'Azuma' & 'Sicastat' in the anti-infective & wound healing segments respectively, both of which have been received well by the markets. FIL also launched 'Elocon' in the dermatology segment during early 2008. The company's anti-allergy brand – 'Alaspan' has gained market share & currently ranks 9th in the highly competitive anti-histamine market. Besides implementing several process improvement projects during 2008, the company also successfully migrated to SAP.

About the Company

Fulford India Ltd. is a 53.93% subsidiary of the US Pharmaceutical company – Schering-Plough Corporation, that was in news recently on the announcement of merger with Merck & Co. Inc. US. FIL operates in therapeutic areas like Dermatology, Allergy & Respiratory, Anti-Infective, Hepatitis, Rheumatology, Oncology & Cardiovascular.

Our View

Historically, compared to the other three quarters, March ending quarter has always been dismal for Fulford India Ltd. However, the company has been able to achieve better annual results for the past couple of years, & we expect this phenomena to continue. Going forward, we expect FIL to strengthen & expand its product portfolio & continue with its brand building exercises. Besides, a strong commitment of the parent – Schering-Plough, completely debt-free status & cash rich balance sheet are the other positives that support our stance. The impact of the merger between the parent company & Merck & Co. Inc. on the Indian subsidiary still remains a grey area. At CMP of Rs. 432.50, the scrip trades at 7.1x CY09E earnings & 6.5x CY10E earnings. We maintain our positive view about the future prospects of the company. Maintain Buy.

Fulford India Ltd. : Q1CY09 Quarterly Analysis

Earnings Statement					
YE March (Rs. Mn.)	Q1CY09	Q4CY08	Q-Q(%)	Q1CY08	Y-Y(%)
Net Revenues	321.7	469.7	-31.5%	313.8	2.5%
Cost of Materials	162.6	191.1	-14.9%	138.2	17.7%
Gross Profit	159.1	278.6	-42.9%	175.6	-9.4%
Staff Costs	70.5	81.3	-13.3%	50.6	39.3%
Other Expenses	114.2	159.6	-28.4%	128.8	-11.3%
Total Expenditure	184.7	240.9	-23.3%	179.4	3.0%
Operating Profit	(25.6)	37.7		(3.8)	573.7%
OPM (%)	-8.0%	8.0%		-1.2%	(674.7)
Other Income	19.3	24.2	-20.2%	15.1	27.8%
EBITDA	(6.3)	61.9		11.3	
Depreciation	2.9	5.3	-45.3%	3.3	-12.1%
EBIT	(9.2)	56.6		8.0	
Interest	0.0	0.0		0.0	
PBT	(9.2)	56.6		8.0	
Tax	2.0	20.7	-90.3%	4.0	-50.0%
<i>Current Tax</i>	2.0	18.6	-89.2%	2.7	-24.5%
<i>Fringe Benefit Tax</i>	0.0	2.1		1.4	
Reported PAT	(11.2)	35.9		4.0	
Equity Capital	39.0	39.0		39.0	
EPS	(2.9)	9.2		1.0	
Ratio Analysis					
Profitability					
YE March (Rs. Mn.)	Q1CY09	Q4CY08	Q-Q(%)	Q1CY08	Y-Y(%)
OPM (%)	-8.0%	8.0%		-1.2%	(674.7)
EBITDA (%)	-2.0%	13.2%		3.6%	
EBIT (%)	-2.9%	12.1%		2.5%	
PAT (%)	-3.5%	7.6%		1.3%	
Operational Parameters					
YE March (Rs. Mn.)	Q1CY09	Q4CY08	Q-Q(%)	Q1CY08	Y-Y(%)
RM Consumed	50.5%	40.7%	985.8	44.0%	650.3
Staff Cost	21.9%	17.3%	460.6	16.1%	579.0
Other Expenditure	35.5%	34.0%	152.0	41.0%	(554.6)
Effective Tax Rate	-21.7%	36.6%		50.0%	

Fulford India Ltd. : Financials

Earnings Statement							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Total Revenues	1,278.5	1,477.5	1,503.9	1,684.4	1,867.4	2,065.6	2,272.2
- Growth (%)		15.6%	1.8%	12.0%	10.9%	10.6%	10.0%
Total Expenditure	1,101.2	1,237.0	1,320.0	1,405.6	1,613.6	1,787.0	1,968.8
Operating Profit	177.3	240.5	184.0	278.8	253.8	278.7	303.4
Other Income	22.2	13.4	25.5	72.7	77.0	102.6	110.7
EBITDA	199.5	253.8	209.5	351.6	330.8	381.3	414.1
Depreciation	7.7	9.2	11.5	12.6	14.8	15.8	17.3
EBIT	191.7	244.6	198.0	339.0	316.0	365.5	396.9
Interest	4.3	0.6	0.5	0.2	0.0	0.0	0.0
PBT	187.5	244.0	197.5	338.8	316.0	365.5	396.9
Tax	69.8	93.6	70.1	120.7	118.6	127.9	138.9
PAT Before EI	117.6	150.4	127.4	218.1	197.4	237.6	258.0
- Growth (%)		27.9%	-15.3%	71.2%	-9.5%	20.4%	8.6%
Extra-ordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT	117.6	150.4	127.4	218.1	197.4	237.6	258.0
Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	13.9%	16.3%	12.2%	16.6%	13.6%	13.5%	13.4%
EBITDA (%)	15.6%	17.2%	13.9%	20.9%	17.7%	18.5%	18.2%
PBIT (%)	14.7%	16.5%	13.1%	20.1%	16.9%	17.7%	17.5%
PAT (%)	9.2%	10.2%	8.5%	13.0%	10.6%	11.5%	11.4%
Interest Cover (x)	45.0	376.7	410.5	2,221.7	30,732.7	35,548.7	38,595.0
EPS (Rs.)	36.8	47.0	32.7	55.9	50.6	60.9	66.1
P/E (x)	11.8	9.2	13.2	7.7	8.5	7.1	6.5
P/BV (x)	5.7	3.6	1.9	1.5	1.3	1.1	1.0
BVPS (Rs.)	76.1	119.7	230.5	281.0	329.3	386.7	448.2
Market Cap (Rs. Mn.)	1,384.0	1,384.0	1,686.8	1,686.8	1,686.8	1,686.8	1,686.8
M Cap/Sales (x)	1.1	0.9	1.1	1.0	0.9	0.8	0.7
EV (Rs. Mn.)	1,314.4	1,294.2	1,168.5	992.4	711.9	739.0	609.0
EV/EBITDA (x)	6.6	5.1	5.6	2.8	2.2	1.9	1.5
EV/Sales (x)	1.0	0.9	0.8	0.6	0.4	0.4	0.3
ROCE (%)	75.5%	62.8%	22.0%	30.9%	24.6%	24.2%	22.7%
RONW (%)	48.3%	39.3%	14.2%	19.9%	15.4%	15.8%	14.8%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	51.1	36.2	46.6	55.9	55.4	48.0	48.0
Debtors T/o Days	23.6	24.0	21.8	25.7	34.3	24.0	24.0
Advances T/o Days	8.8	7.3	11.3	19.6	19.7	13.0	13.0
Creditors T/o Days	32.1	33.9	33.4	42.6	72.2	43.0	43.0
Working Cap T/o Days	59.7	41.7	161.2	199.6	214.4	199.0	204.5
Fixed Assets T/o (Gross)	17.7	19.4	18.0	19.8	19.7	19.7	19.8
DPS (Rs.)	2.5	3.0	3.0	4.0	2.0	3.0	4.0
Dividend Payout (%)	6.8%	6.4%	9.2%	7.2%	4.0%	4.9%	6.0%
Dividend Yield (%)	0.6%	0.7%	0.7%	0.9%	0.5%	0.7%	0.9%

Fulford India Ltd. : Financials

Balance Sheet							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Equity Capital	32.0	32.0	39.0	39.0	39.0	39.0	39.0
Reserves	211.5	350.9	859.9	1,057.1	1,245.3	1,469.3	1,709.0
Shareholders Funds	243.5	382.9	898.9	1,096.1	1,284.3	1,508.3	1,748.0
Borrowed Funds	10.4	6.8	0.5	0.5	0.0	0.0	0.0
Deferred Tax Liability	(10.4)	(8.8)	(6.3)	(6.5)	(14.2)	(14.2)	(14.2)
Total Liabilities	243.6	380.9	893.1	1,090.1	1,270.1	1,494.0	1,733.8
Fixed Assets	34.4	41.0	38.5	34.4	29.4	23.6	16.4
Investments		171.2	190.6	134.7	144.1	344.1	444.1
Current Assets							
Inventory	179.2	146.4	192.2	257.9	283.6	271.6	298.8
Sundry Debtors	82.6	97.1	89.9	118.7	175.7	135.8	149.4
Other Current Assets	0.0	1.1	2.3	5.5	8.9	8.9	8.9
Loans & Advances	30.7	29.5	46.8	90.4	100.7	73.6	80.9
Cash & Bank Balance	80.1	96.6	518.7	694.8	974.8	947.7	1,077.7
Current Liabilities							
Sundry Creditors	112.5	137.1	137.6	196.8	369.4	243.3	267.7
Provisions	50.8	64.8	48.3	49.5	77.5	67.9	74.7
Net Current Assets	209.2	168.7	664.0	921.0	1,096.7	1,126.4	1,273.3
Miscellaneous Expenditure							
Total Assets	243.6	380.9	893.1	1,090.1	1,270.1	1,494.0	1,733.8
Cash Flow							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Opening Cash & Bank	43.5	80.1	96.6	518.7	694.8	976.4	949.3
Profit After Tax	117.6	150.4	127.4	218.1	197.4	237.6	258.0
Investment Income	(22.2)	(13.4)	(25.5)	(72.7)	(77.0)	(102.6)	(110.7)
Interest Paid	4.3	0.6	0.5	0.2	0.0	0.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	7.7	9.2	11.5	12.6	14.8	15.8	17.3
Deferred Taxation	5.2	1.6	2.6	1.2	(7.8)	0.0	0.0
Others	0.0	(12.2)	(3.0)	(6.7)	0.0	0.0	0.0
Change in Working Cap	(9.0)	57.0	(73.2)	(80.9)	104.3	(56.8)	(17.0)
CF - Operating Activities	103.7	193.2	40.3	71.8	231.8	94.0	147.5
Change in Fixed Assets	(13.7)	(3.7)	(6.0)	(3.2)	(8.2)	(10.0)	(10.0)
Change in Investments	0.0	(171.2)	(19.4)	55.8	(9.3)	(200.0)	(100.0)
Investment Income	22.2	13.4	25.5	72.7	77.0	102.6	110.7
CF - Investing Activities	8.5	(161.5)	0.1	125.4	59.4	(107.4)	0.7
Increase in Equity	0.0	0.0	401.8	(2.7)	0.0	0.0	0.0
Changes in Borrowings	(62.3)	(3.6)	(6.3)	0.0	(0.5)	0.0	0.0
Interest Paid	(4.3)	(0.6)	(0.5)	(0.2)	(0.0)	(0.0)	(0.0)
Dividend Paid	(9.0)	(10.9)	(13.3)	(18.3)	(9.1)	(13.7)	(18.3)
CF - Financing Activities	(75.6)	(15.2)	381.7	(21.1)	(9.7)	(13.7)	(18.3)
Net Change in Cash	36.6	16.5	422.1	176.1	281.6	(27.1)	130.0
Closing Cash & Bank Balance	80.1	96.6	518.7	694.8	976.4	949.3	1,079.3

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Disclosure of Interest Statement

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

Fulford India Ltd.

NO
NO
YES

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