

Fulford India Limited

 CMP Rs. 485.00
BUY

 Result Update
Q2CY09

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Fulford India Ltd. (FIL) reported stellar set of numbers for the second quarter ended 30th June 2009. The company reported Net Revenues of Rs. 536.3 Mn. for Q2CY09 as against Rs. 321.7 Mn. for Q1CY09, a stunning jump of more than 66% Q-o-Q. The first quarter performance ending March has always been on the lower side for the MNC. With more than 44% increase in Cost of Materials over the previous quarter, FIL reported Operating Profits of Rs. 105.9 Mn. against an Operating Loss of Rs. 25.6 Mn. for Q1CY09. The Operating Profit Margins were healthy at 19.7% for the second quarter ended 30th June 2009. Analyzing the Cost components as a percentage of Sales, FIL has achieved significant improvements on a Q-o-Q basis. Other Income was down by more than 16% Q-o-Q at Rs. 16.1 Mn. against Rs. 19.3 Mn. for Q1CY09. FIL paid Tax amounting to Rs. 39.1 Mn. for the quarter ended 30th June 2009, at an effective rate of 32.8%. Reported PAT for Q2CY09 stood at Rs. 80.2 Mn. vis-à-vis a Net Loss of Rs. 11.2 Mn. for the first quarter ended March 2009. EPS for the quarter ended June 2009 stood at Rs. 20.6.

In comparison the quarter ended June 2008, FIL reported decent performance for June 2009. The top-line grew by 4% Y-o-Y from Rs. 515.6 Mn. for Q2CY08 to Rs. 536.3 Mn. for Q2CY09. Cost of Materials as a percentage of Sales decreased by almost 320 bps to 43.9% for Q2CY09 as against 47.1% for the year ago period. Operating Profits increased by 14% Y-o-Y to Rs. 105.9 Mn. for Q2CY09 from Rs. 92.9 Mn. for Q2CY08. OPM improved by 173 bps Y-o-Y. The company reported an increase of 13.4% Y-o-Y in Reported PAT from Rs. 70.7 Mn. for Q2CY08 to Rs. 80.2 Mn. for Q2CY09.

Key result highlights for the first half of 2009 are as follows:

- The MNC pharma company saw a marginal increase of 3.4% Y-o-Y in Net Revenues for the first six months of 2009, over the same period last year.
- FIL saw an increase of 21% Y-o-Y in Staff Costs.
- Subdued performance for the first quarter of 2009 resulted in a decline of close to 10% Y-o-Y in Operating Profits.
- Loss for the first quarter ended March 2009 impacted the bottom-line of FIL, which stood at Rs. 69 Mn. for the first half of 2009 vis-à-vis Rs. 74.7 Mn. for the same period last year.

About the company

Fulford India Ltd. is a 53.93% subsidiary of the US Pharmaceutical company – Schering-Plough Corporation, which has been recently bought over by Merck & Co. Inc. US. FIL operates in therapeutic areas like Dermatology, Allergy & Respiratory, Anti-Infective, Hepatitis, Rheumatology, Oncology & Cardiovascular.

Our View

We continue to remain bullish about the future growth prospects of this MNC pharmaceutical subsidiary. The company has been performing well over the years & has shown decent growth year after year. Though it remains very small in size compared to its MNC peers, the likes of GKS Pharma, Aventis, Pfizer etc., we still believe that decent growth prospects & strong parental commitment adds to the company's advantage. Besides, a completely debt-free status, cash rich balance sheet & decent dividends make it a good investment candidate. 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. 485.0, the scrip trades at 8.2x CY10E earnings of Rs. 59.2 per share. Maintain BUY.

Fulford India Ltd. : Q2CY09 Quarterly Analysis

Earnings Statement								
YE March (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCY09	6MCY08	Y-Y(%)
Net Revenues	536.3	321.7	66.7%	515.6	4.0%	858.0	829.4	3.4%
Cost of Materials	235.3	162.6	44.7%	242.7	-3.0%	397.9	380.9	4.5%
Gross Profit	301.0	159.1	89.2%	272.9	10.3%	460.1	448.5	2.6%
Staff Costs	78.4	70.5	11.2%	72.5	8.1%	148.9	123.1	21.0%
Other Expenses	116.7	114.2	2.2%	107.5	8.6%	230.9	236.3	-2.3%
Total Expenditure	195.1	184.7	5.6%	180.0	8.4%	379.8	359.4	5.7%
Operating Profit	105.9	(25.6)		92.9	14.0%	80.3	89.1	-9.9%
OPM (%)	19.7%	-8.0%		18.0%	172.9	9.4%	10.7%	(138.4)
Other Income	16.1	19.3	-16.6%	18.5	-13.0%	35.4	33.6	5.4%
EBITDA	122.0	(6.3)		111.4	9.5%	115.7	122.7	-5.7%
Depreciation	2.7	2.9	-6.9%	3.2	-15.6%	5.6	6.5	-13.8%
EBIT	119.3	(9.2)		108.2	10.3%	110.1	116.2	-5.2%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	119.3	(9.2)		108.2	10.3%	110.1	116.2	-5.2%
Tax	39.1	2.0	1855.0%	37.5	4.3%	41.1	41.5	-1.0%
<i>Current Tax</i>	37.1	2.0	1757.1%	35.5	4.8%	39.1	38.1	2.7%
<i>Fringe Benefit Tax</i>	2.0	0.0		2.1	-4.4%	2.0	3.4	-42.4%
Reported PAT	80.2	(11.2)		70.7	13.4%	69.0	74.7	-7.6%
Equity Capital	39.0	39.0		39.0		39.0	39.0	
EPS	20.6	(2.9)		18.1	13.4%	17.7	19.2	-7.6%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCY09	6MCY08	Y-Y(%)
OPM (%)	19.7%	-8.0%		18.0%	172.9	9.4%	10.7%	(138.4)
EBITDA (%)	22.7%	-2.0%		21.6%	114.3	13.5%	14.8%	(130.9)
EBIT (%)	22.2%	-2.9%		21.0%	126.0	12.8%	14.0%	(117.8)
PAT (%)	15.0%	-3.5%		13.7%	124.2	8.0%	9.0%	(96.5)
Operational Parameters								
YE March (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCY09	6MCY08	Y-Y(%)
RM Consumed	43.9%	50.5%	(666.9)	47.1%	(319.7)	46.4%	45.9%	45.1
Staff Cost	14.6%	21.9%	(729.6)	14.1%	55.7	17.4%	14.8%	251.2
Other Expenditure	21.8%	35.5%	(1,373.9)	20.8%	91.1	26.9%	28.5%	(157.9)
Effective Tax Rate	32.8%			34.7%	(188.4)	37.3%	35.7%	161.5

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	1,973.4	2,170.7
- Growth (%)		15.6%	1.8%	12.0%	10.9%	5.7%	10.0%
Total Expenditure	1,101.2	1,237.0	1,320.0	1,405.6	1,613.6	1,732.4	1,893.9
Operating Profit	177.3	240.5	184.0	278.8	253.8	241.0	276.8
Other Income	22.2	13.4	25.5	72.7	77.0	92.3	95.8
EBITDA	199.5	253.8	209.5	351.6	330.8	333.3	372.6
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	317.5	355.3
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	317.5	355.3
Tax	69.8	93.6	70.1	120.7	118.6	111.1	124.4
PAT Before EI	117.6	150.4	127.4	218.1	197.4	206.4	230.9
- Growth (%)		27.9%	-15.3%	71.2%	-9.5%	4.6%	11.9%
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	206.4	230.9
Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	13.9%	16.3%	12.2%	16.6%	13.6%	12.2%	12.8%
EBITDA (%)	15.6%	17.2%	13.9%	20.9%	17.7%	16.9%	17.2%
PBIT (%)	14.7%	16.5%	13.1%	20.1%	16.9%	16.1%	16.4%
PAT (%)	9.2%	10.2%	8.5%	13.0%	10.6%	10.5%	10.6%
Interest Cover (x)	45.0	376.7	410.5	2,221.7	30,732.7	30,880.5	34,552.9
EPS (Rs.)	36.8	47.0	32.7	55.9	50.6	52.9	59.2
P/E (x)	13.2	10.3	14.8	8.7	9.6	9.2	8.2
P/BV (x)	6.4	4.1	2.1	1.7	1.5	1.3	1.1
BVPS (Rs.)	76.1	119.7	230.5	281.0	329.3	378.7	433.3
Market Cap (Rs. Mn.)	1,552.0	1,552.0	1,891.5	1,891.5	1,891.5	1,891.5	1,891.5
M Cap/Sales (x)	1.2	1.1	1.3	1.1	1.0	1.0	0.9
EV (Rs. Mn.)	1,482.4	1,462.2	1,373.3	1,197.2	916.7	967.4	863.7
EV/EBITDA (x)	7.4	5.8	6.6	3.4	2.8	2.9	2.3
EV/Sales (x)	1.2	1.0	0.9	0.7	0.5	0.5	0.4
ROCE (%)	75.5%	62.8%	22.0%	30.9%	24.6%	21.5%	21.0%
RONW (%)	48.3%	39.3%	14.2%	19.9%	15.4%	14.0%	13.7%
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	202.6	204.3
Fixed Assets T/o (Gross)	17.7	19.4	18.0	19.8	19.7	18.8	18.9
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%	5.7%	6.8%
Dividend Yield (%)	0.5%	0.6%	0.6%	0.8%	0.4%	0.6%	0.8%

Fulford India Ltd. : Financials

Balance Sheet							
Particulars (Rs. Mn.)	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	1,438.0	1,650.7
Shareholders Funds	243.5	382.9	898.9	1,096.1	1,284.3	1,477.0	1,689.7
Minority Interest							
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	1,462.8	1,675.5
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	259.5	285.5
Sundry Debtors	82.6	97.1	89.9	118.7	175.7	129.8	142.7
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	70.3	77.3
Cash & Bank Balance	80.1	96.6	518.7	694.8	974.8	924.1	1,027.8
Current Liabilities							
Sundry Creditors	112.5	137.1	137.6	196.8	369.4	232.5	255.7
Provisions	50.8	64.8	48.3	49.5	77.5	64.9	71.4
Net Current Assets	209.2	168.7	664.0	921.0	1,096.7	1,095.2	1,215.1
Miscellaneous Expenditure							
Total Assets	243.6	380.9	893.1	1,090.1	1,270.1	1,462.8	1,675.5

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	925.7
Profit After Tax	117.6	150.4	127.4	218.1	197.4	206.4	230.9
Investment Income	(22.2)	(13.4)	(25.5)	(72.7)	(77.0)	(92.3)	(95.8)
Interest Paid	4.3	0.6	0.5	0.2	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	(49.2)	(16.2)
CF - Operating Activities	103.7	193.2	40.3	71.8	231.8	80.7	136.2
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	92.3	95.8
CF - Investing Activities	8.5	(161.5)	0.1	125.4	59.4	(117.7)	(14.2)
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	(50.7)	103.7
Closing Cash & Bank Balance	80.1	96.6	518.7	694.8	976.4	925.7	1,029.4

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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
YES
YES

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