

**Solvay Pharma India Limited**CMP Rs. 730.0  
BUYResult Update  
Q2CY09

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Solvay Pharma India Ltd. (SPIL) reported excellent set of numbers for the second quarter ended 30th June 2009. The sequential performance was as follows:

- Net Revenues grew by almost 25% Q-o-Q to Rs. 623.2 Mn. in Q2CY09 from Rs. 500.3 Mn. in the previous quarter.
- The MNC pharma witnessed a sequential increase of 24.2% & 16.1% in Staff Costs & Other Expenses respectively over the previous quarter.
- However, it still managed to increase its Operating Profits by almost 47% Q-o-Q from Rs. 117 Mn. in Q1CY09 to Rs. 171.6 Mn. in Q2CY09.
- SPIL reported an improvement of more than 400 bps in its OPM for the second quarter.
- Depreciation charge more than doubled in Q2CY09 as compared to Q1CY09.
- SPIL reported a Q-o-Q increase of a stunning 44.1% in PAT levels from 75 Mn. in Q1CY09 to Rs. 108 Mn. in Q2CY09 & PAT margins improved by almost 235 bps.
- EPS for the second quarter stood at Rs. 21.4.

The second quarter performance has been very good even on a Y-o-Y comparison.

- SPIL reported a top-line growth of 23% Y-o-Y to Rs. 623.2 Mn. in Q2CY09 from Rs. 506.4 Mn. in the year ago period.
- With an increase of 22% in Total Expenditure over last year, the company reported an increase of almost 28% in Operating Profits for Q2CY09.
- Other Income dipped from Rs. 13.3 Mn. in Q2CY08 to Rs. 4.4 Mn. in Q2CY09.
- Depreciation charge increased by almost 1.87 times over the same period last year, mainly due to the new premises that the company acquired during this year.
- The bottom-line increased by 12.3% Y-o-Y to Rs. 108 Mn. from Rs. 96.2 Mn. in Q2CY08.
- However, there was a dip of 165 bps in PAT margins Y-o-Y.

Similarly for the first half of 2009, the MNC pharma reported good growth both in its top-line & bottom-line, to the tune of 24% & 12.9% respectively. Solvay Pharma also declared an Interim Dividend of Rs. 12.5 per share (125%) for the first half of 2009.

**About the Company**

Solvay Pharma India Ltd. (SPIL) is the Indian pharmaceutical arm of the Solvay Group of Belgium, that holds about 68.85% in SPIL's equity of Rs. 50.5 Mn. SPIL operates in niche therapeutic areas of Neuroscience, Gastroenterology, Women's Health, Hormone Therapies, Influenza Vaccines & Other therapies like Hepatology, Perinatology, Muscle Relaxants, Digestive Enzymes & Allergy.

**Our View**

We remain positive about the growth prospects of Solvay Pharma India Ltd. The company has been able to register strong growth for the first six months of 2009 & we believe this momentum to continue going forward. SPIL should easily be able to achieve our EPS estimate of Rs. 69 for the full year ended December 2009. At CMP of Rs. 730.0, the scrip trades at around 9.5x CY10E earnings of Rs. 77.2 per share. Maintain BUY.

## Solvay Pharma : Q2CY09 Quarterly Analysis

Earnings Statement								
YE Dec (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCY09	6MCY08	Y-Y(%)
Net Revenues	623.2	500.3	24.6%	506.4	23.1%	1,123.5	906.0	24.0%
Cost of Materials	265.2	226.6	17.1%	219.6	20.8%	491.8	388.7	26.5%
Gross Profit	358.0	273.7	30.8%	286.8	24.8%	631.7	517.3	22.1%
Staff Costs	68.0	54.7	24.2%	57.5	18.3%	122.7	106.4	15.4%
Other Expenses	118.4	102.0	16.1%	95.1	24.4%	220.4	186.0	18.5%
Total Expenditure	186.4	156.7	18.9%	152.6	22.1%	343.1	292.4	17.3%
Operating Profit	171.6	117.0	46.7%	134.2	27.9%	288.6	224.9	28.3%
OPM (%)	27.5%	23.4%	415.5	26.5%	103.8	25.7%	24.8%	86.4
Other Income	4.4	4.1	8.3%	13.3	-67.0%	8.4	27.7	-69.5%
EBITDA	176.0	121.0	45.4%	147.5	19.4%	297.0	252.6	17.6%
Depreciation	8.6	3.9	122.3%	3.0	187.8%	12.5	7.2	73.2%
EBIT	167.4	117.1	42.9%	144.5	15.9%	284.5	245.4	16.0%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	167.4	117.1	42.9%	144.5	15.9%	284.5	245.3	16.0%
Tax	59.3	42.2	40.7%	48.3	22.9%	101.5	83.2	21.9%
Current Tax	57.4	42.2	36.1%	48.9	17.3%	99.5	83.4	19.3%
Fringe Benefit Tax	0.0	0.0		0.0		0.0	0.0	
Deferred tax	1.9	0.0		(0.6)		1.9	(0.2)	
PAT	108.0	75.0	44.1%	96.2	12.3%	183.0	162.1	12.9%
Equity Capital	50.5	50.5		50.5		50.5	50.5	
EPS	21.4	14.9	44.1%	19.0	12.3%	36.2	32.1	12.9%
Ratio Analysis								
Profitability								
YE Dec (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCY09	6MCY08	Y-Y(%)
OPM (%)	27.5%	23.4%	415.5	26.5%	103.8	25.7%	24.8%	86.4
EBITDA (%)	28.2%	24.2%	404.9	29.1%	(88.2)	26.4%	27.9%	(144.4)
EBIT (%)	26.9%	23.4%	344.0	28.5%	(167.5)	25.3%	27.1%	(176.0)
PAT (%)	17.3%	15.0%	234.7	19.0%	(165.6)	16.3%	17.9%	(160.2)
Operational Parameters								
YE Dec (Rs. Mn.)	Q2CY09	Q1CY09	Q-Q(%)	Q2CY08	Y-Y(%)	6MCY09	6MCY08	Y-Y(%)
RM Consumed	42.6%	45.3%	(273.2)	43.4%	(80.6)	43.8%	42.9%	87.2
Staff Cost	10.9%	10.9%	(3.1)	11.4%	(44.2)	10.9%	11.7%	(81.6)
Other Expenditure	19.0%	20.4%	(139.2)	18.8%	20.9	19.6%	20.5%	(91.9)
Effective Tax Rate	35.4%	36.0%	(53.9)	33.4%	202.0	35.7%	33.9%	174.1

## Solvay Pharma : Financials

Earnings Statement							
Particulars (Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Total Revenues	1,161.5	1,297.4	1,440.9	1,677.7	2,003.4	2,271.9	2,533.2
- Growth (%)		11.7%	11.1%	16.4%	19.4%	13.4%	11.5%
Total Expenditure	886.1	995.8	1,129.9	1,236.1	1,536.7	1,744.5	1,956.6
Operating Profit	275.4	301.6	311.1	441.6	466.7	527.4	576.6
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	35.0	50.0
EBITDA	288.4	330.4	342.0	479.0	515.5	562.4	626.6
Depreciation	46.8	45.9	45.9	49.7	13.3	31.5	31.5
EBIT	241.5	284.5	296.0	429.3	502.2	531.0	595.1
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	531.0	595.1
Tax	93.7	102.1	107.9	147.8	174.1	183.2	205.3
PAT Before EI	146.1	182.2	187.3	281.2	328.0	347.8	389.8
- Growth (%)		24.7%	2.8%	50.1%	16.7%	6.0%	12.1%
Extra-ordinary Items	87.5	0.0	0.0	0.0	0.0	0.0	0.0
PAT	233.6	182.2	187.3	281.2	328.0	347.8	389.8

Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	23.7%	23.2%	21.6%	26.3%	23.3%	23.2%	22.8%
EBITDA (%)	24.8%	25.5%	23.7%	28.6%	25.7%	24.8%	24.7%
PBIT (%)	20.8%	21.9%	20.5%	25.6%	25.1%	23.4%	23.5%
PAT (%)	20.1%	14.0%	13.0%	16.8%	16.4%	15.3%	15.4%
Interest Cover (x)	137.2	1,589.4	360.6	1,460.3	4,116.6	-	-
EPS (Rs.)	46.3	36.1	37.1	55.7	65.0	68.9	77.2
P/E (x)	15.8	20.2	19.7	13.1	11.2	10.6	9.5
P/BV (x)	6.9	5.4	4.5	4.2	3.4	2.8	2.3
BVPS (Rs.)	105.3	134.5	162.5	171.9	216.4	265.4	320.3
Market Cap (Rs. Mn.)	3,686.3	3,686.3	3,686.3	3,686.3	3,686.3	3,686.3	3,686.3
M Cap/Sales (x)	3.2	2.8	2.6	2.2	1.8	1.6	1.5
EV (Rs. Mn.)	3,417.8	3,333.6	3,277.0	3,442.3	3,616.9	3,485.1	3,423.9
EV/EBITDA (x)	11.9	10.1	9.6	7.2	7.0	6.2	5.5
EV/Sales (x)	2.9	2.6	2.3	2.1	1.8	1.5	1.4
ROCE (%)	45.2%	41.8%	36.1%	49.5%	46.0%	39.6%	36.8%
RONW (%)	27.5%	26.8%	22.8%	32.4%	30.0%	26.0%	24.1%
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	60.0	60.0
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	78.3	83.8
Fixed Assets T/o (Gross)	4.6	5.1	5.3	5.8	7.2	3.6	4.0
DPS (Rs.)	5.0	6.0	8.0	40.0	17.5	17.0	19.0
Dividend Payout (%)	10.8%	16.6%	21.6%	71.8%	26.9%	24.7%	24.6%
Dividend Yield (%)	0.7%	0.8%	1.1%	5.5%	2.4%	2.3%	2.6%

## Solvay Pharma : 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	1,289.5	1,567.0
Shareholders Funds	531.8	679.4	820.6	868.0	1,092.7	1,340.0	1,617.5
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)	(41.2)	(56.1)
<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>1,298.8</b>	<b>1,561.4</b>
Fixed Assets	142.5	98.0	71.9	44.7	376.1	344.6	313.2
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	373.5	416.4
Sundry Debtors	113.8	126.7	143.2	166.9	182.2	217.9	242.9
Interest Accrued on Investments		3.2	2.9	2.9	0.0	0.0	0.0
Loans & Advances	38.4	63.7	68.0	78.6	180.9	155.6	173.5
Cash & Bank Balance	271.2	354.3	409.7	243.9	69.4	201.2	262.4
Current Liabilities							
Sundry Creditors	128.1	145.2	190.0	176.5	322.3	329.9	367.8
Provisions	43.3	65.8	73.3	143.1	156.8	130.7	145.7
Net Current Assets	394.4	510.3	596.9	400.2	521.9	487.5	581.7
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>1,298.8</b>	<b>1,561.4</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	201.2
Profit After Tax	233.6	182.2	187.3	281.2	328.0	347.8	389.8
Investment Income	(16.2)	(26.4)	(35.6)	(35.8)	(51.0)	(35.0)	(50.0)
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	31.5	31.5
Deferred Taxation	(0.9)	(5.2)	(9.3)	(12.7)	(3.3)	(13.3)	(14.9)
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)	166.2	(32.9)
CF - Operating Activities	300.4	163.1	156.9	311.9	(16.0)	497.2	323.5
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	35.0	50.0
CF - Investing Activities	15.7	(44.1)	(53.4)	(243.1)	(55.0)	(265.0)	(150.0)
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)	(100.4)	(112.2)
CF - Financing Activities	(61.3)	(35.8)	(48.1)	(234.5)	(103.5)	(100.4)	(112.2)
Net Change in Cash	254.7	83.1	55.4	(165.7)	(174.5)	131.8	61.2
Closing Cash & Bank Balance	271.2	354.3	409.7	243.9	69.4	201.2	262.4

# 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

NO  
NO  
NO

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