

<b>Solvay Pharma India Limited</b>	CMP Rs. 1,030.0 BUY	Result Update <b>Q3CY09</b>
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### Q3 CY09 Performance Review

Solvay Pharma India Ltd. (SPIL) reported a flattish third quarter ended 30th September 2009. The sequential performance was as follows:

- Net Revenues increased marginally by 1.7% from Rs. 623 Mn. in Q2CY09 to Rs. 633.6 Mn. in Q3CY09.
- The MNC pharma saw its Materials Costs rise by more than 8% Q-o-Q, thereby leading to a dip of 7.1% in Operating Profits for Q3CY09. Raw Materials as a percentage of Sales also increased by more than 260 bps sequentially.
- This led to a decline in Operating Margins by more than 230 bps over the previous quarter.
- SPIL reported a significant jump of 257% in Other Income from Rs. 4.7 Mn. in Q2CY09 to Rs. 16.6 Mn. in Q3CY09.
- Depreciation Expense also increased by more than 28% Q-o-Q to Rs. 11.1 Mn. in Q3CY09 vis-à-vis Rs. 8.6 Mn. in the previous quarter.
- Paying taxes at lower effective rate of 31.7% for Q3CY09, the company managed to report an increase of 4.1% in its bottom-line to Rs. 112.4 Mn.
- EPS for the third quarter stood at Rs. 22.3.

The MNC pharma reported better performance for the third quarter on a Y-o-Y basis:

- SPIL reported a top-line growth of 16.1% Y-o-Y to Rs. 633.6 Mn. in Q3CY09 from Rs. 545.9 Mn. in the year ago period.
- On the Expenditure front, the company witnessed increases in Materials Cost & Employee Cost to the tune of 18.6% & 26.2% respectively, compared to the same period last year.
- In spite of this increase in expenditures, the MNC was able to report an increase of 15.3% in Operating Profits to Rs. 159.2 Mn. for Q3CY09 from Rs. 138 Mn. in Q3CY08.
- Depreciation charge increased by almost 267% over the same period last year, mainly because of the change in method of providing depreciation.
- The bottom-line increased by 15.5% Y-o-Y to Rs. 112.4 Mn. from Rs. 97.4 Mn. in Q3CY08.

For the first nine months of 2009, the MNC pharma reported good growth both in its top-line & bottom-line, to the tune of 21% & 13.9% respectively. Solvay Pharma announced that it has retrospectively changed its method of providing depreciation on Fixed Assets from Written Down Value (WDV) method to Straight Line Method (SLM) & has also revised the estimated useful life of its assets w.e.f 1st January 2009. As a result, an amount of Rs. 12.5 Mn. has been written back & reflected only in the nine month results ended 30th September 2009, as an Exceptional Item.

### Recent Updates

At the close of third quarter ended September 2009, the Belgium based Solvay Group that holds 68.85% in the Indian subsidiary - SPIL, has announced that it has decided to sell its entire pharmaceutical business to Abbott Laboratories, US for a total Enterprise Value of EURO 5.2 Billion. This would include a purchase price of EURO 4.5 Billion in Cash, additional potential payments of up to EURO 300 Million if certain milestones are met between 2011 & 2013 & assumption of certain liabilities of approx. EURO 400 Million. The company mentioned that subject to required regulatory approvals, the transaction is expected to be completed by the first quarter of 2010.

We had first reported the possibility of Big Pharma lining up to acquire the pharmaceutical business of the Solvay Group in our initiating coverage report on SPIL. We believe that this is a positive development for both Solvay & Abbott. Also, both these companies have good presence in India through their Indian listed arms. So we believe that merger of the Indian subsidiaries would come up anytime after the global parent companies merge next year. We expect the shareholders of Solvay Pharma India Ltd. to benefit from the prospective merger with Abbott India, whenever it happens.

## 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 the first nine months of 2009. We are revising our EPS estimates upwards for CY09E & CY10E to Rs. 72.4 & Rs. 83.6 respectively. At CMP of Rs. 1,030.0, the scrip trades at around 12.3x CY10E earnings of Rs. 83.6 per share. Maintain BUY.

### Solvay Pharma : Q3CY09 Quarterly Analysis

Earnings Statement								
YE Dec (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
Net Revenues	633.6	623.0	1.7%	545.9	16.1%	1,756.2	1,451.8	21.0%
Cost of Materials	286.7	265.2	8.1%	241.7	18.6%	778.5	630.4	23.5%
Gross Profit	346.9	357.7	-3.0%	304.1	14.0%	977.7	821.4	19.0%
Staff Costs	65.7	68.0	-3.3%	52.1	26.2%	188.5	158.5	18.9%
Other Expenses	121.9	118.4	3.0%	114.0	6.9%	342.3	300.1	14.1%
Total Expenditure	187.6	186.4	0.7%	166.1	13.0%	530.8	458.5	15.8%
Operating Profit	159.2	171.3	-7.1%	138.0	15.3%	446.9	362.9	23.2%
OPM (%)	25.1%	27.5%	(237.8)	25.3%	(16.0)	25.4%	25.0%	45.3
Other Income	16.6	4.7	257.0%	13.5	23.5%	26.0	41.2	-37.0%
EBITDA	175.8	176.0	-0.1%	151.5	16.1%	472.9	404.1	17.0%
Depreciation	11.1	8.6	28.6%	3.0	267.6%	36.2	10.3	252.5%
EBIT	164.7	167.4	-1.6%	148.5	10.9%	436.7	393.9	10.9%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	164.7	167.4	-1.6%	148.5	10.9%	436.7	393.8	10.9%
Tax	52.3	59.3	-11.9%	51.1	2.3%	153.8	134.4	14.4%
Current Tax	49.5	57.4	-13.8%	51.7	-4.3%	141.7	135.1	4.9%
Fringe Benefit Tax	0.0	0.0		0.0		0.0	0.0	
Deferred tax	2.8	1.9	44.6%	(0.6)		12.1	(0.8)	
PAT	112.4	108.0	4.1%	97.4	15.5%	282.9	259.5	9.1%
Extraordinary Item	0.0	0.0		0.0		12.5	0.0	
Reported PAT	112.4	108.0	4.1%	97.4	15.5%	295.5	259.5	13.9%
Equity Capital	50.5	50.5		50.5		50.5	50.5	
EPS	22.3	21.4	4.1%	19.3	15.5%	58.5	51.4	13.9%
Ratio Analysis								
Profitability								
YE Dec (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
OPM (%)	25.1%	27.5%	(237.8)	25.3%	(16.0)	25.4%	25.0%	45.3
EBITDA (%)	27.8%	28.3%	(49.9)	27.8%	(0.3)	26.9%	27.8%	(91.0)
EBIT (%)	26.0%	26.9%	(86.5)	27.2%	(120.2)	24.9%	27.1%	(226.2)
PAT (%)	17.7%	17.3%	40.2	17.8%	(9.1)	16.1%	17.9%	(176.1)

## 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	2,311.1	2,657.7
- Growth (%)		11.7%	11.1%	16.4%	19.4%	15.4%	15.0%
Total Expenditure	886.1	995.8	1,129.9	1,236.1	1,536.7	1,763.3	2,019.0
Operating Profit	275.4	301.6	311.1	441.6	466.7	547.8	638.7
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	582.8	688.7
Depreciation	46.8	45.9	45.9	49.7	13.3	44.1	44.1
EBIT	241.5	284.5	296.0	429.3	502.2	538.7	644.7
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	538.7	644.7
Tax	93.7	102.1	107.9	147.8	174.1	185.8	222.4
PAT Before EI	146.1	182.2	187.3	281.2	328.0	352.8	422.2
- Growth (%)		24.7%	2.8%	50.1%	16.7%	7.6%	19.7%
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	365.4	422.2

Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	23.7%	23.2%	21.6%	26.3%	23.3%	23.7%	24.0%
EBITDA (%)	24.8%	25.5%	23.7%	28.6%	25.7%	25.2%	25.9%
PBIT (%)	20.8%	21.9%	20.5%	25.6%	25.1%	23.3%	24.3%
PAT (%)	20.1%	14.0%	13.0%	16.8%	16.4%	15.8%	15.9%
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	72.4	83.6
P/E (x)	22.3	28.6	27.8	18.5	15.9	14.2	12.3
P/BV (x)	9.8	7.7	6.3	6.0	4.8	3.9	3.2
BVPS (Rs.)	105.3	134.5	162.5	171.9	216.4	265.3	325.6
Market Cap (Rs. Mn.)	5,201.2	5,201.2	5,201.2	5,201.2	5,201.2	5,201.2	5,201.2
M Cap/Sales (x)	4.5	4.0	3.6	3.1	2.6	2.3	2.0
EV (Rs. Mn.)	4,932.8	4,848.5	4,791.9	4,957.3	5,131.8	4,992.7	4,904.3
EV/EBITDA (x)	17.1	14.7	14.0	10.3	10.0	8.6	7.1
EV/Sales (x)	4.2	3.7	3.3	3.0	2.6	2.2	1.8
ROCE (%)	45.2%	41.8%	36.1%	49.5%	46.0%	40.2%	39.2%
RONW (%)	27.5%	26.8%	22.8%	32.4%	30.0%	26.3%	25.7%
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	78.9	86.8
Fixed Assets T/o (Gross)	4.6	5.1	5.3	5.8	7.2	3.7	4.2
DPS (Rs.)	5.0	6.0	8.0	40.0	17.5	20.0	20.0
Dividend Payout (%)	10.8%	16.6%	21.6%	71.8%	26.9%	27.6%	23.9%
Dividend Yield (%)	0.5%	0.6%	0.8%	3.9%	1.7%	1.9%	1.9%

## 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	1,289.4	1,593.5
Shareholders Funds	531.8	679.4	820.6	868.0	1,092.7	1,339.9	1,644.0
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)	(41.4)	(57.5)
<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>1,298.4</b>	<b>1,586.4</b>
Fixed Assets	142.5	98.0	71.9	44.7	376.1	332.0	288.0
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	379.9	436.9
Sundry Debtors	113.8	126.7	143.2	166.9	182.2	221.6	254.9
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	158.3	182.0
Cash & Bank Balance	271.2	354.3	409.7	243.9	69.4	208.5	296.9
Current Liabilities							
Sundry Creditors	128.1	145.2	190.0	176.5	322.3	335.6	385.9
Provisions	43.3	65.8	73.3	143.1	156.8	133.0	152.9
Net Current Assets	394.4	510.3	596.9	400.2	521.9	499.8	631.8
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>1,298.4</b>	<b>1,586.4</b>

Cash Flow							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Opening Cash & Bank	16.4	271.2	354.3	409.7	243.9	69.4	208.5
Profit After Tax	233.6	182.2	187.3	281.2	328.0	365.4	422.2
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	44.1	44.1
Deferred Taxation	(0.9)	(5.2)	(9.3)	(12.7)	(3.3)	(13.5)	(16.1)
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)	161.3	(43.7)
CF - Operating Activities	300.4	163.1	156.9	311.9	(16.0)	522.2	356.5
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)	(118.2)	(118.2)
CF - Financing Activities	(61.3)	(35.8)	(48.1)	(234.5)	(103.5)	(118.2)	(118.2)
Net Change in Cash	254.7	83.1	55.4	(165.7)	(174.5)	139.1	88.4
Closing Cash & Bank Balance	271.2	354.3	409.7	243.9	69.4	208.5	296.9

# 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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