

<p><b>Fulford India Limited</b></p>	<p>CMP Rs. 685.00 Underperform</p> <p>Result Update <b>Q3CY09</b></p>
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Fulford India Ltd. (FIL), the 54% subsidiary of the US pharmaceutical company – Schering-Plough Corporation, reported disappointing set of numbers for the third quarter ended 30th September 2009. The MNC reported a sequential rise of 6.5% in Net Revenues from Rs. 536.3 Mn. in Q2CY09 to Rs. 571.4 Mn. in Q3CY09. However, owing to sharp Q-o-Q increase in Cost of Materials & Other Expenses to the tune of 25.8% & 34.7% respectively, FIL saw a sequential dip of more than 57% in Operating Income from Rs. 105.9 Mn. to Rs. 44.8 Mn. in Q3CY09. Raw Material Consumption & Other Expenditure as a percentage of Sales increased by almost 795 bps & 575 bps respectively, leading to sharp decline of about 12% in Operating Profit Margins, down to 7.8% in Q3CY09. Contribution from Other Income was down 16% Q-o-Q leading to a more than 50% sequential drop in Reported PAT from Rs. 80.2 Mn. in Q2CY09 to Rs. 39.6 Mn. in Q3CY09. The company also saw a lot of margin pressures in the third quarter compared to the previous one. EPS for Q3CY09 stands at Rs. 10.2 vis-à-vis Rs. 20.6 for the preceding quarter.

Results for the quarter ended September 2009 were disappointing even on a Y-o-Y comparison. The company reported flat top-line of Rs. 571.4 Mn. against Rs. 568.6 Mn. for the same quarter last year. However, the Operating Profits declined by almost 65% Y-o-Y due to significant increases in Material Costs & Total Expenditures. The Operating Profit Margins (OPM) took a knock of 14.5%, from 22.4% in Q3CY08 to 7.8% in Q3CY09. Fulford India Ltd. witnessed more than 54% decline in its bottom-line to Rs. 39.6 Mn. in Q3CY09 from Rs. 86.7 Mn. in the same period last year.

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

- FIL saw a marginal increase of 2.3% Y-o-Y in Net Revenues for the first nine months ended September 2009 over the same period last year.
- Cost of Materials & Employee Costs increased by 11.3% & 10.1% Y-o-Y.
- Operating Profits for the nine months period declined sharply by 42% to Rs. 125.1 Mn. from Rs. 216 Mn. in the same period last year.
- The company also witnessed sharp decline of 670 bps in OPM, which stood at 8.8% compared to 15.5% the year ago.
- Loss for the first quarter ended March 2009 impacted the bottom-line of FIL, which stood at Rs. 108.6 Mn. for the first nine months of 2009 vis-à-vis Rs. 161.4 Mn. for the same period last year.
- EPS for nine months ended September 2009 stood at Rs. 27.8 compared to Rs. 41.4 for nine months ended September 2008.

Schering-Plough Corporation, the parent company of Fulford India Ltd., has been bought over by Merck & Co. Inc. US in a part-share & part-cash deal of USD 41.1 billion. The merger between the global parent companies is expected to be completed by the end of calendar year 2009. Merck US has a 100% wholly owned subsidiary in India named MSD Pharmaceuticals Private Ltd. We expect that once the global companies merge, we would get some clarification regarding the merger of their local subsidiaries in India.

**Our View**

Even though the performance of the first nine months of the current year has been lower in comparison to the previous year, we believe in the long-term growth prospects of this MNS pharma subsidiary - Fulford India Ltd. We believe that its merger with the local subsidiary of Merck & Co. Inc. in India would be beneficial for the company in the future. Besides, a completely debt-free status, cash rich balance sheet & decent dividends stand in its favor.

However, taking the first nine months performance of Fulford India Ltd. into account, we have revised down our earning estimates for the company to Rs. 39.1 (from Rs. 52.9) for CY09E & Rs. 49 (from Rs. 59.2) for CY10E. At CMP of Rs. 685, the scrip trades at 14x CY10E earnings of Rs. 49. We downgrade our call from BUY to UNDERPERFORM.

## Fulford India Ltd. : Q3CY09 Quarterly Analysis

Earnings Statement								
YE March (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
Net Revenues	571.4	536.3	6.5%	568.6	0.5%	1,429.4	1,397.7	2.3%
Cost of Materials	296.1	235.3	25.8%	242.7	22.0%	694.0	623.6	11.3%
Gross Profit	275.3	301.0	-8.5%	325.9	-15.5%	735.4	774.1	-5.0%
Staff Costs	73.3	78.4	-6.5%	78.8	-7.0%	222.2	201.9	10.1%
Other Expenses	157.2	116.7	34.7%	119.9	31.1%	388.1	356.2	9.0%
Total Expenditure	230.5	195.1	18.1%	198.7	16.0%	610.3	558.1	9.4%
Operating Profit	44.8	105.9	-57.7%	127.2	-64.8%	125.1	216.0	-42.1%
OPM (%)	7.8%	19.7%	(1,190.6)	22.4%	(1,453.0)	8.8%	15.5%	(670.2)
Other Income	13.5	16.1	-16.1%	18.9	-28.6%	48.9	52.8	-7.4%
EBITDA	58.3	122.0	-52.2%	146.1	-60.1%	174.0	268.8	-35.3%
Depreciation	2.2	2.7	-18.5%	3.0	-26.7%	7.8	9.5	-17.9%
EBIT	56.1	119.3	-53.0%	143.1	-60.8%	166.2	259.3	-35.9%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	56.1	119.3	-53.0%	143.1	-60.8%	166.2	259.3	-35.9%
Tax	16.5	39.1	-57.8%	56.4	-70.7%	57.6	97.9	-41.2%
<i>Current Tax</i>	16.5	37.1	-55.6%	53.5	-69.2%	55.6	91.6	-39.3%
<i>Fringe Benefit Tax</i>	0.0	2.0		2.9	-100.0%	2.0	6.3	-68.9%
Reported PAT	39.6	80.2	-50.6%	86.7	-54.3%	108.6	161.4	-32.7%
Equity Capital	39.0	39.0		39.0		39.0	39.0	
EPS	10.2	20.6	-50.6%	22.2	-54.3%	27.8	41.4	-32.7%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
OPM (%)	7.8%	19.7%	(1,190.6)	22.4%	(1,453.0)	8.8%	15.5%	(670.2)
EBITDA (%)	10.2%	22.7%	(1,254.5)	25.7%	(1,549.2)	12.2%	19.2%	(705.9)
EBIT (%)	9.8%	22.2%	(1,242.7)	25.2%	(1,534.9)	11.6%	18.6%	(692.5)
PAT (%)	6.9%	15.0%	(802.4)	15.2%	(831.8)	7.6%	11.5%	(395.0)
Operational Parameters								
YE March (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
RM Consumed	51.8%	43.9%	794.5	42.7%	913.6	48.6%	44.6%	393.6
Staff Cost	12.8%	14.6%	(179.1)	13.9%	(103.0)	15.5%	14.4%	110.0
Other Expenditure	27.5%	21.8%	575.1	21.1%	642.4	27.2%	25.5%	166.7
Effective Tax Rate	29.4%	32.8%	(336.3)	39.4%	(1,000.1)	34.7%	37.8%	(309.8)

## 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	1,918.7	2,053.0
- Growth (%)		15.6%	1.8%	12.0%	10.9%	2.7%	7.0%
Total Expenditure	1,101.2	1,237.0	1,320.0	1,405.6	1,613.6	1,748.1	1,820.5
Operating Profit	177.3	240.5	184.0	278.8	253.8	170.5	232.5
Other Income	22.2	13.4	25.5	72.7	77.0	68.6	74.6
EBITDA	199.5	253.8	209.5	351.6	330.8	239.1	307.1
Depreciation	7.7	9.2	11.5	12.6	14.8	11.6	17.3
EBIT	191.7	244.6	198.0	339.0	316.0	227.6	289.8
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	227.6	289.8
Tax	69.8	93.6	70.1	120.7	118.6	75.1	98.5
PAT Before EI	117.6	150.4	127.4	218.1	197.4	152.5	191.3
- Growth (%)		27.9%	-15.3%	71.2%	-9.5%	-22.8%	25.5%
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	152.5	191.3

Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	13.9%	16.3%	12.2%	16.6%	13.6%	8.9%	11.3%
EBITDA (%)	15.6%	17.2%	13.9%	20.9%	17.7%	12.5%	15.0%
PBIT (%)	14.7%	16.5%	13.1%	20.1%	16.9%	11.9%	14.1%
PAT (%)	9.2%	10.2%	8.5%	13.0%	10.6%	7.9%	9.3%
Interest Cover (x)	45.0	376.7	410.5	2,221.7	30,732.7	22,130.1	28,183.1
EPS (Rs.)	36.8	47.0	32.7	55.9	50.6	39.1	49.0
P/E (x)	18.6	14.6	21.0	12.2	13.5	17.5	14.0
P/BV (x)	9.0	5.7	3.0	2.4	2.1	1.9	1.7
BVPS (Rs.)	76.1	119.7	230.5	281.0	329.3	366.1	411.6
Market Cap (Rs. Mn.)	2,192.0	2,192.0	2,671.5	2,671.5	2,671.5	2,671.5	2,671.5
M Cap/Sales (x)	1.7	1.5	1.8	1.6	1.4	1.4	1.3
EV (Rs. Mn.)	2,122.4	2,102.2	2,153.3	1,977.2	1,696.7	1,596.5	1,422.7
EV/EBITDA (x)	10.6	8.3	10.3	5.6	5.1	6.7	4.6
EV/Sales (x)	1.7	1.4	1.4	1.2	0.9	0.8	0.7
ROCE (%)	75.5%	62.8%	22.0%	30.9%	24.6%	15.9%	18.1%
RONW (%)	48.3%	39.3%	14.2%	19.9%	15.4%	10.7%	11.9%
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	236.2	253.6
Fixed Assets T/o (Gross)	17.7	19.4	18.0	19.8	19.7	18.3	17.9
DPS (Rs.)	2.5	3.0	3.0	4.0	2.0	2.0	3.0
Dividend Payout (%)	6.8%	6.4%	9.2%	7.2%	4.0%	5.1%	6.1%
Dividend Yield (%)	0.4%	0.4%	0.4%	0.6%	0.3%	0.3%	0.4%

## 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	1,388.7	1,566.3
Shareholders Funds	243.5	382.9	898.9	1,096.1	1,284.3	1,427.7	1,605.3
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)
<b>Total Liabilities</b>	<b>243.6</b>	<b>380.9</b>	<b>893.1</b>	<b>1,090.1</b>	<b>1,270.1</b>	<b>1,413.5</b>	<b>1,591.0</b>
Fixed Assets	34.4	41.0	38.5	34.4	29.4	27.8	20.6
Investments		171.2	190.6	134.7	144.1	144.1	144.1
Current Assets							
Inventory	179.2	146.4	192.2	257.9	283.6	252.3	270.0
Sundry Debtors	82.6	97.1	89.9	118.7	175.7	126.2	135.0
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	68.3	73.1
Cash & Bank Balance	80.1	96.6	518.7	694.8	974.8	1,075.0	1,248.8
Current Liabilities							
Sundry Creditors	112.5	137.1	137.6	196.8	369.4	226.0	241.9
Provisions	50.8	64.8	48.3	49.5	77.5	63.1	67.5
Net Current Assets	209.2	168.7	664.0	921.0	1,096.7	1,241.6	1,426.4
Miscellaneous Expenditure							
<b>Total Assets</b>	<b>243.6</b>	<b>380.9</b>	<b>893.1</b>	<b>1,090.1</b>	<b>1,270.1</b>	<b>1,413.5</b>	<b>1,591.0</b>

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	974.8	1,075.0
Profit After Tax	117.6	150.4	127.4	218.1	197.4	152.5	191.3
Investment Income	(22.2)	(13.4)	(25.5)	(72.7)	(77.0)	(68.6)	(74.6)
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	11.6	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)	(1.6)	0.0	0.0
Change in Working Cap	(9.0)	57.0	(73.2)	(80.9)	104.3	(44.7)	(11.0)
CF - Operating Activities	103.7	193.2	40.3	71.8	230.2	50.8	122.9
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)	0.0	0.0
Investment Income	22.2	13.4	25.5	72.7	77.0	68.6	74.6
CF - Investing Activities	8.5	(161.5)	0.1	125.4	59.4	58.6	64.6
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)	(9.1)	(13.7)
CF - Financing Activities	(75.6)	(15.2)	381.7	(21.1)	(9.7)	(9.1)	(13.7)
Net Change in Cash	36.6	16.5	422.1	176.1	280.0	100.2	173.8
Closing Cash & Bank Balance	80.1	96.6	518.7	694.8	974.8	1,075.0	1,248.8

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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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