

Company Background

Orchid Chemicals & Pharmaceuticals Ltd. (OCPL) commenced operations in 1994 as a 100% export-oriented undertaking (EOU). It is an integrated manufacturer of active pharmaceutical ingredients (APIs) and finished dosage forms.

The company has presence in high technology life-saving antibiotics; cephalosporins, betalactams and carbapenems, with core competencies in sterile injectibles (crystalline and lyophilised), both in API and dosage form levels and complex non-penicillin, non-cephalosporin products.

The company operates 6 manufacturing facilities, 5 located in India and 1 in China. The facilities are US FDA and UK MHRA approved.

Financial highlights

(RsCr)

Particulars	Standalone						Consolidated		
	Q3FY07	Q3FY08	Growth	9MFY07	9MFY08	Growth	9MFY07	9MFY08	Growth
Net Sales	238.73	332.69	39.4%	686.17	866.02	26.2%	721.28	908.48	26.0%
Expenditure									
Raw Materials	75.54	107.91	42.9%	231.25	257.62	11.4%	242.59	287.38	18.5%
Staff Costs	19.24	28.24	46.8%	57.34	74.40	29.7%	58.60	86.42	47.5%
Other Expenditure	69.56	98.40	41.4%	184.95	266.24	44.0%	216.34	272.56	26.0%
Total Expenditure	164.34	234.54	42.7%	473.55	598.26	26.3%	517.53	646.36	24.9%
EBITDA	74.39	98.15	31.9%	212.63	267.76	25.9%	203.75	262.12	28.6%
Other Income	0.26	0.30	14.4%	1.27	0.91	-28.3%	1.52	0.04	-97.4%
Interest	26.44	19.52	-26.2%	74.06	56.85	-23.2%	74.84	57.76	-22.8%
PBDT	48.22	78.93	63.7%	139.83	211.81	51.5%	130.43	204.39	56.7%
Depreciation	20.38	23.58	15.7%	59.80	68.89	15.2%	61.81	70.75	14.5%
Exceptional Items	-3.45	-6.43	86.3%	-1.04	-79.05	7466.9%	-1.04	-79.05	7466.9%
Profit Before Tax	31.28	61.78	97.5%	81.08	221.97	173.8%	69.66	212.69	205.3%
Tax	2.96	7.66	158.8%	8.71	53.28	511.7%	8.71	53.28	511.7%
Profit After Tax	28.32	54.12	91.1%	72.37	168.69	133.1%	60.95	159.41	161.5%
EBITDA margin	31.2%	29.5%	-1.7%	31.0%	30.9%	-0.1%	28.2%	28.9%	0.6%
EPS (Rs)	4.30	8.22	91.0%	11.00	25.62	133.0%	9.26	24.21	161.5%
Paid-up Equity Cap	65.82	65.84	0.0%	65.82	65.84	0.0%	65.82	65.84	0.0%

Key Highlights

Strong performance in Q3FY08

The company recorded 39.4% revenue growth and 91.1% earnings growth in Q3FY08.

The robust earnings growth is in spite of lower EBITDA margin (down 170 bps y-o-y, from 31.2% to 29.5%). Margin impact is due to high raw material prices and escalating staff costs.

Earnings growth is therefore attributable to the sharp decline in interest costs, coupled with forex gains of Rs3.50Cr. Interest costs declined by 26.2% on account of reduced leverage. Interest coverage ratio improved from 2.2x to 4.2x y-o-y.

The company made forex gains of Rs3.50Cr (net of taxes) on account of gains from translation of FCCB loans due to rupee appreciation.

We rate Q3FY08 as a good quarter for OCPL in terms of new business developments and continuation of dominant position in the US market, all leading to better revenue and earnings visibility. We estimate revenue growth and earnings growth at a CAGR of 26.8% and 36.1% respectively over FY08-10.

Dominant position in the US market

OCPL's US generics business constituted 51% of total revenues. The company has a dominant position in the Cephalosporins market comprising of Cefepime, Cefoxitin and Cefazolin injections and Cefdinir oral products, in the US. It is the sole generic player in the Cefepime market and a key player in Cefoxitin and Cefazolin segments. During the quarter, the company launched two sterile Cephalosporin injectibles, viz., Ceftriaxone Sodium and Cefoxitin Sodium.

New products in the pipeline for the US and EU markets

During Q3FY08, OCPL filed another Para-IV FTF (First-To-File). Its cumulative ANDA (Abbreviated New Drug Application) filing count stands at 43, of which 28 are in the Cephalosporin segment, 13 in the NPNC (non-penicillin, non-cephalosporin) segment and 2 in the Betalactam space. The total count of ANDAs approved till date increased to 23, out of which 22 are in the Cephalosporin Segment and 1 in the NPNC segment.

OCPL submitted its first dossier in the oral NPNC segment in Q3FY08. Its cumulative Marketing Authorizations (MA) filing count stands to 14 comprising of the EU dossier filings at 12 in the Cephalosporin segment and 1 each in the NPNC and Betalactam segments.

In an important development, the company's Chennai facilities for manufacturing sterile Cephalosporin and Penicillin injections received the approval of the Medicines Control Council (MCC), South Africa.

Outlook remains positive; though rupee appreciation still a concern

We are positive on OCPL's outlook due to the strong products pipeline and its delivery capabilities. We believe the short term triggers would include the launch of Tazobactam and Piperacilin API (market size of \$480mn) in the US market in the next quarter.

The company is expected to launch its veterinary product Ceftiofur in next couple of quarters. Ceftiofur faces very limited competition in the US, due to the complexity involved in its manufacture. Besides these developments, in our view, the company's declining leverage is a major positive.

We consider rupee appreciation a major worry, while other major risks are related to stringent regulatory approvals in regulated markets and the company's marketing capabilities.

Keynote Capitals's estimates and valuation

	FY08E	FY09E	FY10E
Net Sales (RsCr)	1256.73	1684.02	2020.82
EBITDA (RsCr)	366.97	486.68	569.87
Net Profit (RsCr)	204.14	290.43	378.14
EBITDA margin	29.2%	28.9%	28.2%
EPS (Rs)	22.56	30.41	39.60
P/e (x)	11.5	8.5	6.5
ROCE	11.2%	12.7%	14.5%
ROE	9.1%	11.7%	13.4%

Keynote Capitals Ltd.

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