



PHARMACEUTICALS EXPORT PROMOTION COUNCIL
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A healthy dose for your investment portfolio

Ram Prasad Sahu / Mumbai June 25, 2010, 0:16 IST

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Midcap pharma companies are likely to sustain high growth rates and are available at reasonable valuations vis-à-vis their larger peers.



The recent wave of mergers and acquisitions in the pharma space, outsourcing tie-ups between generic players and multinational companies, and the robust growth in the domestic formulations business have led to a surge of interest in the Indian generic pharmaceutical players. The BSE Healthcare Index, which has gained over 50 per cent in the last one year, has been touching its lifetime highs recently. In a volatile market, defensives are considered to be a safe bet — the sector not only promises stability, but also increasing revenue visibility

However, the large-cap pharma stocks have run up considerably, with the healthcare index quoting at 23 times trailing earnings. In this context, we look at mid-cap pharma companies from the broader BSE 500 basket, with a track record of good revenue and earnings growth that have the potential to grow, and are available at reasonable valuations.

Dishman Pharma

Though CRAMS player Dishman did not have a good March quarter, with consolidated recurring net profit falling by half to Rs 20 crore, the next two years are likely to see improved performance on the back of higher revenues from its key customer, Solvay, and commissioning of its facility that will expand its presence in the niche oncology space. This, coupled with new contracts, should see revenues grow 21 per cent, while profits are likely to grow 36 per cent over for the next two financial years. The stock is trading at 10 times its 2011-12 estimated earnings per share and should yield good returns over a two-year period.

Opto Circuits

This medical equipment company has been a consistent performer. It achieved an annual growth rate of 68 per cent in revenues and net profits over the last five years, aided by acquisitions. Its numbers for 2009-10 were boosted by a strong performance in the invasive segment, which helped revenues and operating profit grow 57 per cent and 51 per cent, respectively, in the March quarter. In addition to newly-launched products in the invasive segments, benefits of which accrue in this financial year, the company is also benefiting from higher volumes and realisations of its patient monitoring and sensors (non-invasive segment). The stock is currently trading at a reasonable 12 times its 2010-11 estimated earnings.

Torrent Pharma

It is the one of the largest domestic players in the high-margin chronic therapeutic categories of central

nervous systems, cardio vascular and diabetes. Its branded formulations segment, which accounts for half of its revenues, is expected to grow by a fifth over the next two financial years, both from the domestic market as well as from Brazil, where it is the largest Indian player. In the March quarter, while branded domestic formulations business grew 20 per cent to Rs 165 crore, Brazilian business grew 40 per cent to Rs 77 crore. Expect the Brazilian business to grow on the back of new launches and contribute about 18 per cent to revenues in 2011-12 from about 16 per cent now. The stock is trading at 13 times 2011-12 estimated earnings and should fetch good returns.

POTENT PROSPECTS

	5-year CAGR (%)		Price (Rs)	Mkt cap*	EPS (Rs)	
	Net sales	Adj. PAT			FY11E	FY12E
Dishman Pharma.	37.30	27.30	225	1,815	16.60	21.30
FDC	15.00	21.60	95	1,760	NA	NA
Ipca Labs.	17.90	23.60	292	3,566	19.90	24.80
Opto Circuits	68.60	68.80	242	4,417	19.50	23.60
Panacea Biotec	22.40	20.60	184	1,229	15.90	18.50
Strides Arcolab	29.50	17.30	430	1,743	34.10	49.80
Torrent Pharma.	27.30	36.50	581	4,915	37.20	46.10

Market cap & price as on June 24

*In Rs crore
Bloomberg

Source: CapitaLine,

Ipca Labs

The company is focusing on expanding its presence in the chronic therapy areas of cardiovascular and diabetes as well as pain management from its traditional strengths of anti-malarials and anti-infective drugs. The share of the last two (most of the drugs under price control) have come down to 26 per cent from 37 per cent over the last five years. The share of pain management has doubled to a quarter of revenues in the domestic formulations segment. In addition to the domestic segment, Ipca is banking on the generic formulations business (exports) to grow rapidly, especially in the EU region on the back of higher filings and approvals. The company, which started catering to the US market in 2008, is likely to see higher sales from this market after its Indore special economic zone (SEZ) is approved. The stock is trading at 11.8 times its 2011-12 estimated earnings and should be considered.

Strides Arcolabs

Strides Arcolabs is a key player in the sterile injectables space and oncology space. The company recently entered into a contract with Pfizer for the supply of 45 products to be sold in the developed markets. In addition, the company has also entered into a deal with GSK, whereby the UK-based multinational will market its range of branded generic drugs in 95 countries. The company has filed 130 abbreviated new drug applications (ANDAs) with the US FDA and has plans to file a further 40 ANDAs in the current year on products that have a market size of \$6.1 billion. On the back of its tie-ups, supply arrangements with MNCs and expansion of its business in key markets should see it improve its revenues by over 35 per cent with margins improving from 16 per cent to about 21 per cent. The stock, which has run up recently, is quoting at 12.6 times its CY11 estimated earnings. Buy on dips.