

**Coral Labs Ltd.**

₹ 455

*The Generic Specialist !***Buy**

Sep 11, 2015

**Company Background**

Coral Laboratories Limited (Coral) was incorporated in 1997 and is based in Mumbai, India. Coral engages in pharmaceutical business in India. It produces a variety of drugs like antibiotics, vitamin supplements, protein supplements, iron supplements, antacids, antiulcer medications, antispasmodics, analgesics, antipyretics, antiasthmatics, anthelmintics, antidiabetics, antiamebic, cough suppressants, expectorant, anticold, cardiac medicines, special cardiac products, herbal medicines, antibacterials, anti-eczematic and anti-fungal, and appetizers. The company also offers oral antiseptic, antimalarial drugs, muscle relaxants, nasal sprays, eye drops, ear drops, eye/ear drops, anti allergic, calcium preparations, mouthwashes, anti emetic, antipsychotic drugs, and injectables. The company offers its products in various dosage forms, such as tablets, drops, capsules, dry syrups, liquid orals, inhalers, sprays, and injectables.

**Key Highlights**

- ➔ Forayed with its more than 2 decade experience in pharma industries; Coral is equipped with an ultra modern strategically spread manufacturing units located in Daman, Dehradun and Vasai, which are ideal for manufacture of around 400 generic medicines on a significant scale in about 15 dosage forms. The company is an ideal candidate for Generic Exports
- ➔ In Q4 FY15, Net profit jumped to Rs. 26.26 mn an increase of 41.18% against Rs. 18.60 mn in the corresponding quarter of previous year. The company's net sales also registered 28.40% increase in Q4 FY15 and stood at a record Rs.186.62 mn from Rs.145.34 mn over corresponding quarter of previous year.
- ➔ Net profit of the company grew by 22% to Rs. 95.70 mn for the end of FY15 from Rs. 78.67 mn for the end of FY14. The company has also recommended Dividend @25% i.e. Rs. 2.5/- per equity share of Rs. 10/- each for the financial year 2014-15.
- ➔ The Exports of the company have also shown an impressive growth of 23% from Rs. 255.6 mn in the last FY to Rs. 315.9 mn in FY15. The Net Sales and PAT of the company are expected to grow at a CAGR of 16% and 20% over 2014 to 2017E respectively.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	428.8	520.2	620.1
Rev. growth (%)	5.0	21.3	19.2
EBITDA (INR mn)	89.7	112.7	149.3
Net profit (INR mn)	60.3	78.7	95.7
Shares outstanding (mn)	3.6	3.6	3.6
EPS (INR)	16.9	22.0	26.8
EPS growth (%)	111.1	30.5	21.6
P/E (x)	3.6	3.8	8.7
RONW (%)	14.8	16.9	17.5
ROCE (%)	14.7	16.7	17.2

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**Info Codes**

Reuters	: CORL.BO
Bloomberg	: CRLB@IN
NSE	: NA
BSE	: 524506

**Market Data**

52 Wk Range (₹)	: 162 / 603
Shares in Issue (mn)	: 3.6
Mkt. Cap (₹ bn)	: 1.64
BSE 2 Wk Avg Vol	: 2652

**Share Holding Pattern (%)**

Promoters	: 71.57
FII's	: 0.00
DII's	: 0.00
Others	: 28.43

**Investment Theme**

At the current market price of Rs. 455.00, the stock P/E ratio is at 9.94x FY16E and 9.14x FY17E earnings respectively. Looking at the previous rate of growth of the company, the EPS of the company for the earnings in FY16E and FY17E is expected at Rs.32.42 and Rs.35.26 respectively. The Net Sales and PAT of the company are expected to grow at a CAGR of 16% and 20% over 2014 to 2017E respectively. On the basis of EV/EBITDA, the stock trades at 7.36 x for FY16E and 6.69 x for FY17E. Price to Book Value of the stock is expected to be at 1.94 x and 1.64 x for FY16E and FY17E respectively. We expect that the company surplus scenario is likely to continue for the next three years, and it will demonstrate the same level of growth in the coming quarters also. We therefore recommend a 'BUY' in this scrip for a medium to long term.

**Coral - Looks like a stone but is a precious one !**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	428.3	524.6	22.48	614.6	17.16
Other Income	12.7	10.0	(21.26)	22.1	121.00
Change in Stocks	7.5	(12.5)	(266.67)	7.2	(157.60)
Raw Material Con.	167.7	184.6	10.08	211.0	14.30
Employee Exp.	29.9	36.4	21.74	42.7	17.31
Indirect Taxes	12.4	15.5	25.00	16.9	9.03
Other Exp.	148.8	172.9	16.20	224.0	29.55
Operating Exp.	351.3	421.9	20.10	487.4	15.53
Operating Profit	77.0	102.7	33.38	127.2	23.86
Total Interest	1.3	1.0	(23.08)	1.5	50.00
Gross Profit	88.4	111.7	26.36	147.8	32.32
Net Dep.	12.7	12.4	(2.36)	25.7	107.26
Total Taxation	15.4	20.6	33.77	26.4	28.16
Net Profit/Loss	60.3	78.7	30.51	95.7	21.60

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 12	Mar 13	Mar 14	Mar 15
<b>SOURCES OF FUNDS</b>	<b>381.3</b>	<b>440.6</b>	<b>507.9</b>	<b>604.5</b>
Equity Share capital	35.7	35.7	35.7	35.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	345.6	399.7	470.2	555.1
Long Term Loans	0.0	0.0	0.0	0.0
Short Term Loans	0.0	5.2	2.0	13.7
<b>USES OF FUNDS</b>	<b>381.3</b>	<b>440.6</b>	<b>507.9</b>	<b>604.5</b>
Gross Block	306.4	309.0	310.9	328.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	89.6	101.2	113.5	139.1
Net Block	216.8	207.8	197.4	189.3
Capital Work in Progress	0.0	0.0	0.0	0.0
Investments	11.7	11.7	11.7	11.7
Current Assets	260.7	363.0	395.9	523.5
Less : Current Liabilities	107.9	141.9	97.1	120.0
Total Net Current Assets	152.8	221.1	298.8	403.5
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	0.0	0.0	0.0	0.0
Mkt Val. Quoted Investments	33.1	36.7	33.8	64.3
Contingent Liabilities	2.1	1.9	1.9	1.9
Dividend (%)	15	15	20	25

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 14	Dec 14	Mar 15	Jun 15
Net Sales	151.6	138.0	186.6	151.4
Cost Of Sales	121.4	104.0	145.1	116.1
Operating Profit	30.2	34.0	41.5	35.3
Other Income	6.4	5.5	8.1	4.5
Adjusted PBDIT	36.6	39.5	49.6	39.8
Financial Expenses	0.0	0.1	0.1	0.1
Depreciation	4.6	3.8	14.1	4.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	32.0	35.6	35.4	34.9
Tax Charges	7.1	6.1	9.1	7.2
Adjusted PAT	24.9	29.5	26.3	27.7
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	24.9	29.5	26.3	27.7

## 52 Week Index Relative Percentage Appreciation



Coral vs SENSEX

## Risks Associated

- The Company has operations in many countries around the world. Each such country poses its own challenges in terms of the economic and political conditions of that country. Any adverse political and/or economic development in these countries may affect the business of the Company in those countries.
- The Company is present in the generics segment of pharmaceutical markets in different countries. The generics market is characterized by the presence of a large number of players who compete with each other continuously to increase their respective market shares. This competition puts constant pressure on the prices which the Company charges to its customers. Apart from this, the governments of different countries apply periodic price cuts on the pharmaceutical products so as to keep the healthcare cost under control.
- Stringent regulations and quality standards are prescribed by the regulatory authorities across the globe for the pharmaceutical products and their manufacturing and supply chain processes in order to protect the interests of the patients. Any deviation from the prescribed regulations or any variation in the quality from the prescribed standards may lead to punitive actions by the regulatory authorities.
- Competitors and innovator pharmaceutical companies holding patents for products and processes may sue the Company if the Company's products or processes are claimed to be infringing upon their intellectual property rights.

**In a Nutshell**

The Indian pharmaceutical industry is estimated to grow at 20 per cent compound annual growth rate (CAGR) over the next five years, as per India Ratings, a Fitch Group company. Indian pharmaceutical manufacturing facilities registered with US Food and Drug Administration (FDA) as on March 2014 was the highest at 523 for any country outside the US. We expect the domestic pharma market to grow at 10-12 per cent in FY15 as compared to 9 per cent in FY14. Going further the Indian pharma market size is expected to grow to US\$ 85 bn by 2020. The growth in Indian domestic market will be on back of increasing consumer spending, rapid urbanisation, raising healthcare insurance and so on. Going forward, better growth in domestic sales will depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers are on the rise. The government has been taking several cost effective measures in order to bring down healthcare expenses. Thus, governments are focusing on speedy introduction of generic drugs into the market. This too will benefit Indian pharma companies. Coral is among the many companies with a large scale manufacturing portfolio and expertise. It has 3 state of the art plants with CGMP & FDA approvals. Over the past some time it has also demonstrated healthy export growth. The past performance of the company also spells out that the future of the company is bright.

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**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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