

Merck Ltd



Key Stock Indicators

NSE Ticker :	MERCK	CMP (as on 30 Dec 2010—Rs/share):	717.8	Shares outstanding (mn) :	16.6
Bloomberg Ticker :	EMER:IN	52-week range up to 30 Dec 2010 (Rs)(H/L):	940.25/578.80	Free Float (%) :	48.2
Face value / Share :	10.0	Market Cap as on 30 Dec 2010 (Rs mn):	11,914	Average daily volumes (12 months) :	16,892
Div. Yield (%) :	2.8	Enterprise Value as on 30 Dec 2010 (Rs mn):	8,668	Beta (2 year) :	0.7

Merck Limited (Merck), formerly E Merck Ltd, was set up in India in 1967. It was the first company of the Merck group in Asia. The Merck group holds ~52% stake in the company. Merck's operations are divided into two major segments -- pharmaceuticals and chemicals. The pharmaceuticals segment includes two business divisions, i.e. Merck Serono and consumer health care, while the chemical segment includes two business divisions i.e. life science solutions and pigments.

KEY HIGHLIGHTS

Part of a global pharmaceutical giant

Merck is a part of Merck KGaA, which has over 40,000 employees in 64 countries. The parent company is headquartered in Darmstadt, Germany. This helps Merck India to replicate the systems and processes used by its MNC parent viz global reward system, global grading system etc.

Pharma accounts for bulk of revenues

The pharmaceuticals segment contributed ~67% of Merck's total revenue in CY09. This segment comprises two business divisions -- Merck Serono and consumer health care (CHC). Merck Serono is the larger of the 2 divisions and includes vitamins, nutritional supplements, cardiologists, haematinics, cough and cold, anti-malarials and antibiotics etc. Some of the well known brands of this division are Polybion and Evion. CHC focuses on cough and cold, everyday health protection, women and children care and mobility.

KEY RISKS

- Drug price control order (DPCO) continues to challenge the Indian pharmaceutical industry
- Competitive pressures
- Foreign exchange fluctuations

Stock Performances vis-à-vis market

	Returns (%)			
	YTD	1-m	3-m	12-m
MERCK	24	0	2	23
NIFTY	17	4	1	18

Note:

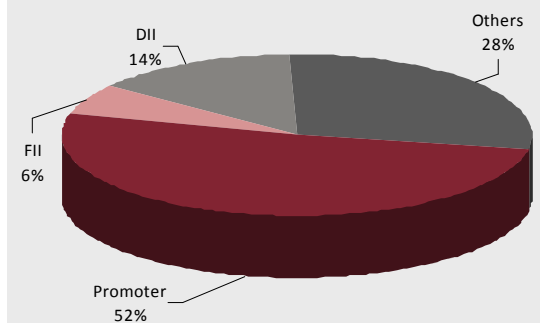
- 1) YTD returns are since Jan 04, 2010 to Dec 30, 2010.
- 2) 1-m, 3-m and 12-m returns are up to Dec 30, 2010.

Key Financial Indicators

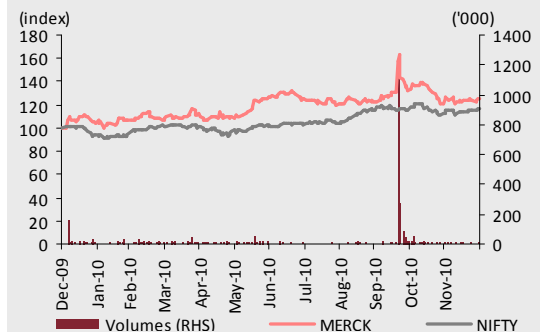
	Dec-07	Dec-08	Dec-09
Revenue (Rs mn)	3,270.1	4,055.5	4,874.7
EBITDA margins (%)	24.9	16.7	15.6
PAT (Rs mn)	688.2	630.1	654.8
PAT margins (%)	21.0	15.5	13.4
Gearing (x)	-	-	-
EPS (Rs/share)	40.8	37.4	39.4
PE (x)	10.9	8.1	18.2
P/BV (x)	1.8	1.1	2.6
RoCE (%)	24.2	20.8	20.8
RoE (%)	16.9	14.4	14.3
EV/EBITDA (x)	7.8	4.8	11.4

n.m. : Not meaningful

Shareholding (As on September 30, 2010)



Indexed price chart



Merck Ltd

BACKGROUND

Merck (formerly E. Merck Limited) was set up in India in 1967; the first Merck group company in Asia. The parent now holds ~52% of the share capital of Merck Ltd. The company has two lines of business -- pharmaceuticals and chemicals. Export contributes around 12% of total sales for the company.

Major products in the pharmaceutical segment include vitamins, nutritional supplements, cardiovascular diseases, respiratory, hematinics, cough and cold, antibiotics and anti-malarials, etc. Major products in the chemical segment are life science solutions and speciality pigments. Merck has its pharmaceutical R&D centre at Nerul, Navi Mumbai, which is recognised by the Department of Scientific and Industrial Research under the Union science ministry.

COMPETITIVE POSITION

Peer Comparison

	Merck Ltd Dec-09	Ajanta Pharmaceuticals		J.B.Chemicals & Pharmaceuticals Ltd	
		Ltd Mar-10	Aventis Pharma Ltd Dec-09	Pharmaceuticals Ltd Mar-10	
Revenue (Rs mn)	4,874.7	4,084.1	10,889.7		7,425.5
EBITDA margins (%)	15.6	19.1	18.9		22.7
PAT (Rs mn)	654.8	340.0	1,574.1		1,187.5
PAT margins (%)	13.4	8.3	14.5		16.0
Gearing (x)	-	1.2	-		0.2
EPS (Rs/share)	39.4	28.8	68.4		14.1
PE (x)	18.2	7.5	28.0		10.0
P/BV (x)	2.6	1.4	4.8		2.2
RoCE (%)	20.8	14.0	28.2		22.4
RoE (%)	14.3	20.0	18.2		23.9
EV/EBITDA (x)	11.4	6.0	18.6		7.4

n.m.: Not meaningful

FINANCIAL PROFILE

Top-line growth strong, margins fall

Merck registered a strong top-line growth of over 22% CAGR between CY07 and CY09 with top-line growing to Rs 4.8 billion in CY09 from Rs 3.2 billion in CY07. This was on account of the chemicals division registering an impressive growth of around 71%, while turnover of the pharmaceuticals division grew around 10%. The company's exports too increased, rising to Rs 579.8 million in CY09 from Rs 353.2 million in CY08, for a growth of 64.2%.

Operating margins stood at 15.6% in CY09 as compared with 16.7% in CY08, on account of increased operating expenditure. The company's operating profitability has been declining since CY07.

Key Financial Indicators

	Units	Dec-07	Dec-08	Dec-09
Revenue	Rs million	3,270.1	4,055.5	4,874.7
EBITDA margins	Per cent	24.9	16.7	15.6
PAT	Rs million	688.2	630.1	654.8
PAT margins	Per cent	21.0	15.5	13.4
Revenue growth	Per cent	-2.9	24.0	20.2
EBITDA growth	Per cent	-7.7	-16.6	11.8
PAT growth	Per cent	-48.4	-8.4	3.9
Gearing	Times	0.0	0.0	0.0
RoCE	Per cent	24.2	20.8	20.8
RoE	Per cent	16.9	14.4	14.3

INDUSTRY PROFILE

Pharmaceuticals

Over the past five years, the Indian pharmaceutical industry grew at a CAGR of about 22-24 per cent and reached a market size of about \$21.4 billion in 2009-10. The industry is dominated by exports which are estimated to have contributed about 60 per cent to the industry in 2009-10. The strong growth in the Indian pharmaceuticals industry has been primarily driven by exports of formulations and bulk drugs while the domestic formulations market has maintained its steady growth. Between 2004-05 and 2009-10, formulation exports have surged at a CAGR of 25-27 per cent owing to the opening-up of a huge generic opportunity in regulated market while demand from the semi-regulated market remained robust. In the domestic market, the emergence of lifestyle segments such as anti-diabetic, cardiovascular and gastrointestinal have been chief growth (12-14 per cent) drivers over the last 4-5 years. Bulk drug exports have grown at a compounded rate of 34-35 per cent over the last five years to an estimated \$7.5 billion in 2009-10. Indian companies have the advantage of lower costs and well-developed process chemistry skills (employee and manufacturing costs) as compared to companies in US and Europe. Indian players are increasingly focusing on exports to generic players and innovators in regulated markets.

ANNUAL RESULTS

Income Statement

(Rs million)	Dec-07	Dec-08	Dec-09
Net Sales	3,125.5	3,874.4	4,723.4
Operating Income	3,270.1	4,055.5	4,874.7
EBITDA	814.3	678.8	759.1
EBITDA Margin	24.9	16.7	15.6
Depreciation	65.9	57.3	75.1
Interest	-2.1	-3.1	-6.5
Other Income	248.1	292.8	274.0
PBT	998.6	917.4	964.5
PAT	688.2	630.1	654.8
PAT Margin	21.0	15.5	13.4
No. of shares (Mn No.)	16.9	16.9	16.6
Earnings per share (EPS)	40.8	37.4	39.4

Cash flow

(Rs million)	Dec-07	Dec-08	Dec-09
Pre-tax profit	998.6	917.4	964.5
Total tax paid	-308.3	-311.5	-312.3
Depreciation	65.9	57.3	75.1
Change in working capital	-330.9	-175.4	-30.6
Cash flow from operating activities	425.3	487.8	696.7
Capital Expenditure	-67.8	-274.4	-93.3
Investments and others	141.0	810.4	1,291.1
Cash flow from investing activities	73.2	536.0	1,197.8
Equity raised/(repaid)	0.0	0.0	-2.6
Debt raised/(repaid)	0.0	0.0	0.0
Dividend (incl. tax)	-389.5	-345.2	-388.4
Others (incl extraordinary)	0.0	0.0	-104.8
Cash flow from financing activities	-389.5	-345.2	-495.8
Change in cash position	109.0	678.6	1,398.7
Opening cash	1,060.1	1,169.1	1,847.7
Closing cash	1,169.1	1,847.7	3,246.4

n.m : Not meaningful;

Balance sheet

(Rs million)	Dec-07	Dec-08	Dec-09
Equity share capital	168.6	168.6	166.0
Reserves and surplus	4,057.8	4,341.1	4,503.9
Tangible net worth	4,226.4	4,509.7	4,669.9
Deferred tax liability: asset	48.0	23.8	21.2
Long-term debt	0.0	0.0	0.0
Short-term-debt	0.0	0.0	0.0
Total debt	0.0	0.0	0.0
Current liabilities	291.9	519.2	426.2
Total provisions	313.1	537.1	541.7
Total liabilities	4,879.4	5,589.8	5,659.0
Gross block	1,047.7	1,280.9	1,357.0
Net fixed assets	402.4	617.9	637.3
Investments	2,339.7	1,529.3	238.2
Current assets	2,137.3	3,442.6	4,783.5
Receivables	311.2	444.4	438.1
Inventories	362.9	729.8	584.9
Cash	1,169.1	1,847.7	3,246.4
Total assets	4,879.4	5,589.8	5,659.0

Ratio

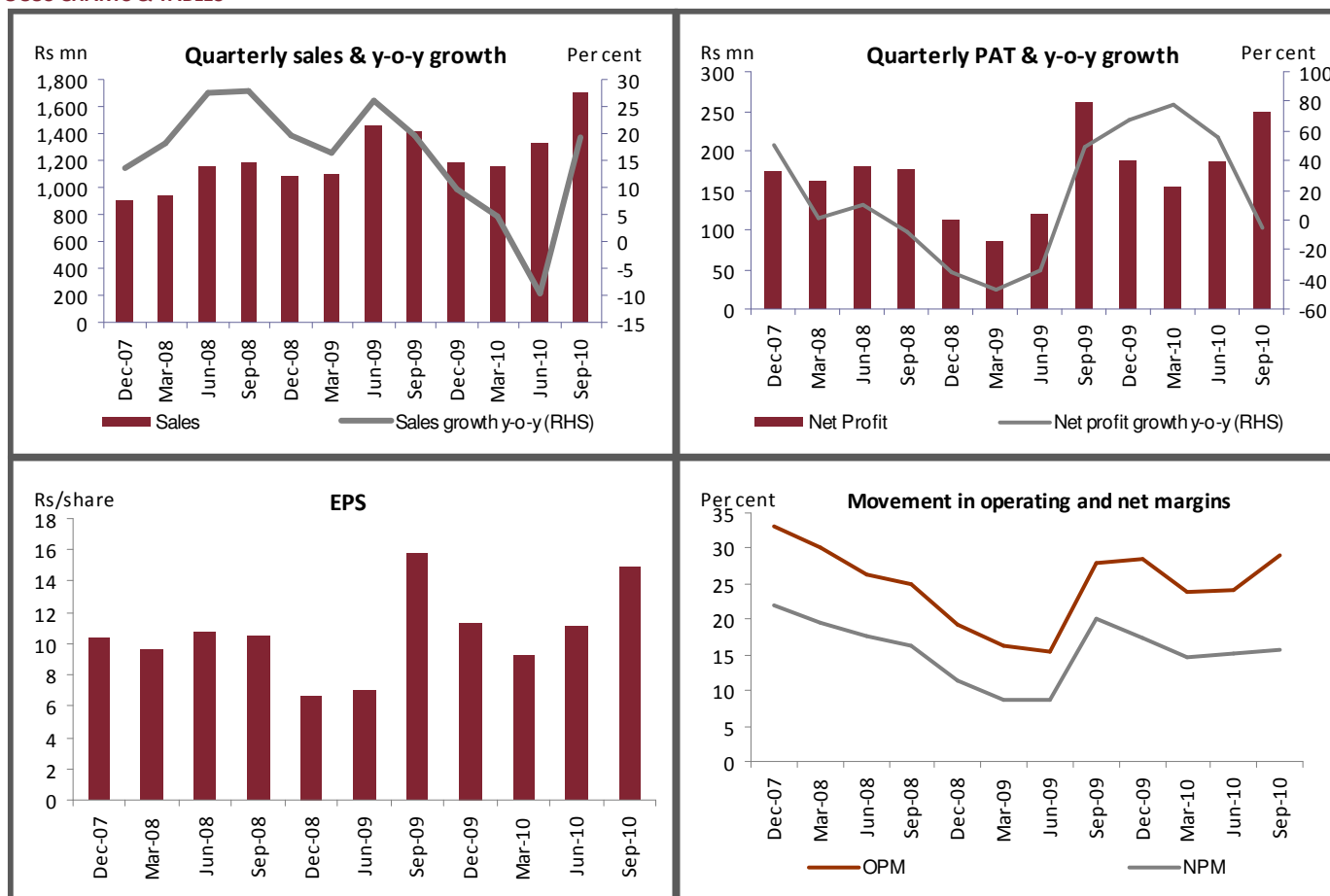
	Dec-07	Dec-08	Dec-09
Revenue growth (%)	-2.9	24.0	20.2
EBITDA growth(%)	-7.7	-16.6	11.8
PAT growth(%)	-48.4	-8.4	3.9
EBITDA margins(%)	24.9	16.7	15.6
Tax rate (%)	30.9	34.0	32.4
PAT margins (%)	21.0	15.5	13.4
Dividend payout (%)	49.0	46.8	50.7
Return on Equity (%)	16.9	14.4	14.3
Return on capital employed (%)	24.2	20.8	20.8
Gearing (x)	0.0	0.0	0.0
Interest coverage (x)	0.0	0.0	0.0
Debt/EBITDA (x)	0.0	0.0	0.0
Asset turnover (x)	3.1	3.5	3.7
Current ratio (x)	6.2	4.1	5.2
Gross current assets (days)	214	286	335

QUARTERLY RESULTS

Profit and loss account

(Rs million)	Sep-10	% of Rev	Sep-09	% of Rev	Jun-10	% of Rev	Sep-10	% of Rev	Sep-09	% of Rev
No of Months	3		3		3		9		9	
Revenue	1,694.5	100.0	1,419.0	100.0	1,321.9	100.0	4,166.5	100.0	3,979.2	100.0
EBITDA	457.5	27.0	362.8	25.6	295.2	22.3	1,002.3	24.1	730.8	18.4
Interest	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.3	0.0
Depreciation	14.7	0.9	18.2	1.3	18.9	1.4	52.1	1.3	54.6	1.4
PBT	342.7	20.2	344.6	24.3	276.3	20.9	850.1	20.4	675.8	17.0
PAT	247.6	14.6	261.6	18.4	184.6	14.0	585.7	14.1	466.6	11.7

FOCUS CHARTS & TABLES



Shareholding Pattern (Per cent)

	Dec 2009	Mar 2010	Jun 2010	Sep 2010
Promoter	51.8	51.8	51.8	51.8
FII	4.7	5.6	5.6	5.8
DII	16.1	15.6	14.2	14.0
Others	27.5	27.1	28.5	28.4

Board of Directors

Director Name	Designation
Suresh Narsappa Talwar (Mr.)	Non-Executive Chairman
Marek Dziki (Dr.)	Managing Director
Homi Cooverji Bhabha (Mr.)	Non-Executive Director
Ek Nath Atmaram Kshirsagar (Mr.)	Non-Executive Director
Shivkumar Kunchithapatham (Mr.)	Director
Pramod Pimplikar (Mr.)	Director
Ranjal Laxman Shenoy (Mr.)	Director
Timothy Kneen (Mr.)	Non-Executive Director

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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