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..... in search of Market Beating Stocks

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Panacea Biotec Ltd.

CMP – Rs. 107.85 BSE Code –531349 NSE Symbol - PANACEABIO

Panacea Biotech, India's 2nd largest Vaccine manufacturer has been facing tough times for past 3 years – however with the approval of its plant & relisting of products by WHO coupled with new innovations and initiatives taken by the company to expand product reach to other countries – we believe this may be the start of good times for the company.

Background & Product Portfolio

Panacea Biotec Ltd. (Panacea) is Indian's 2nd largest Vaccine manufacturer. The company's product portfolio includes Pharmaceutical Formulations for Nephrology, Diabetes & Cardiovascular Management, Pain & Arthritis Management, Gastrointestinal Disorders, Paediatrics, Orthopaedics, Respiratory Therapy & Oncology segments. The company sells a number of products in the above referred segments. Besides, the company has a number of products in the vaccine segment too. For more details, readers can visit the links below :-

http://www.panaceabiotec.com/Product_List.html

http://www.panaceabiotec.com/Product_List_vaccine.html

The company has been credited with supply of over 9.7 billion doses of Oral Polio Vaccine to Government of India through UN Agencies in India & abroad.

The company has strong Research capabilities with four dedicated Research & Development Centres. The company has six manufacturing facilities for vaccines & pharmaceutical formulations which comply with several International regulatory bodies like USFDA, BfArM, Germany, ANVISA, Brazil and WHO-cGMP standards. The company has an employee base of over 2800 with around 150 Scientists working on new vaccine development, bio-pharmaceuticals, monoclonal antibodies, novel drug delivery systems, etc. The Company's vaccine bulk manufacturing facility at Lalru and formulation facility at Baddi is pre-qualified by World Health Organisation (WHO) for supply of pentavalent vaccine to UN Agencies. In the vaccine segment, the Company was mainly supplying its Oral Polio Vaccine (OPV) and pentavalent vaccine, Easyfive–TT to WHO until 2011.

Financials

The latest financials of the company are given as under :-

QUARTERLY - LATEST RESULTS - Panacea Biotec Ltd (Curr: Rs in Cr.)

Particulars	Quarter Ended (Dec 13)	Quarter Ended (Dec 12)	Quarter Ended (% Var)	YTD / Latest Half (Dec 13)	YTD / Latest Half (Dec 12)	YTD / Latest Half (% Var)	Year Ended (Mar 13) (12)	Year Ended (Mar 12) (12)	Year Ended (%Var)
Sales	105.8	166.28	-36.4	310.99	346.05	-10.1	530.42	688.38	-22.9
Other Income	177.72	2.57	6815.2	178.17	19.06	834.8	11.26	7.46	50.9
PBIDT	138.49	-13.72	LP	127.7	-35.32	0	-61.35	-86.46	29
Interest	39.79	26.98	47.5	108.73	70.03	55.3	105.74	101.11	4.6
PBDT	98.7	-40.7	LP	18.97	-105.35	0	-167.09	-187.57	10.9
Depreciation	15.91	21.58	-26.3	53.37	62.52	-14.6	83.54	75.39	10.8
PBT	82.79	-62.28	LP	-34.4	-167.87	79.5	-250.63	-262.96	4.7
Tax	0	0	-	0	-20.5	100	-20.5	-55.16	62.8
Deferred Tax	0	0	-	0	0	0	0	0	-
PAT	82.79	-62.28	LP	-34.4	-147.37	76.7	-230.13	-207.8	-10.7

SHARE PRICE - LATEST EQUITY - Panacea Biotec Ltd (Curr: Rs in Cr.)**Latest Data**

Latest Data		
Latest Equity(Subscribed)	6.12	
Latest Reserve	182.82	
Latest Reserve (cons.)	202.79	
Latest EPS -Unit Curr.	0	
Latest EPS (cons.) -Unit Curr.	0	
Latest Bookvalue -Unit Curr.	30.87	
Latest Bookvalue (cons.) -Unit Curr.	34.14	
Face Value	1	
Book Value (with YTD NP) - Unit Curr.	25.25	
Stock Exchange	BSE	NSE
Latest Market Price--Unit Curr.	107.85	107.55
Latest P/E Ratio	0	0
Latest P/E Ratio -cons	0	0
Latest P/BV	3.49	3.48
Latest P/BV - cons	3.16	3.15
52 Week High -Unit Curr.	148.65	148.6
52 Week High-Date	19/09/2013	19/09/2013
All Time High -Unit Curr.	531	535
All Time High-Date	21/04/2006	21/04/2006
52 Week Low -Unit Curr.	82.3	83
52 Week Low-Date	19/08/2013	19/08/2013
All Time Low -Unit Curr.	3.35	3
All Time Low-Date	23/04/1997	29/05/1996
Market Capitalisation	660.04	658.21
Dividend Yield -%	0	0
Dividend Yield -% - cons	0	0
Price Date	11/04/2014	11/04/2014

(Source : Capitaline)

What Went Wrong & What has Changed Now

Panacea Biotec was doing well till FY 10-11 wherein it clocked revenues of over Rs.1165 crores, made Operating Profit of Rs.285 crores and a PAT of Rs.155 crores.

However, the pentavalent vaccine, EasyFive-TT was de-listed from the WHO pre-qualification criteria in August, 2011 on account of deficiencies observed by WHO in the Company's Quality Management System at the Company's Lalru plant. Further, the company voluntarily withdrew its OPV vaccine from WHO's list of pre-qualified vaccines in Feb-12, in the light of series of changes made at Vaccines facility at New Delhi and WHO assessment.

These developments were a major setback to the company since Easyfive was one of the bestsellers for the company & contributed significantly to its profitability. The result was a sharp decline in sales for the company & start of the bad times. Sales dropped to Rs. 708 crores in FY 12 and fell further to Rs.600 crores in FY 13. The company made losses of roughly Rs.208 crores in FY 12 and Rs.230 crores in FY13.

The company has thereafter totally revamped its quality management system at both its plants at Lalru & Baddi. **WHO conducted audit of the company's plants in Feb - March 2013, has cleared the plants & relisted the products for supply in October 2013. The company has received UNICEF Award for the supply of the vaccines to UNICEF during the period 2014-2016. The company has started supplying vaccines to International markets against UNICEF Purchase order.**

Other Developments / Events/ Observations

Strategic Alliance with Foreign Collaborators

The Company has made a number of strategic alliances with Foreign Collaborators.

Strategic Tie-up with Binnopharm, Russia - In Vaccine segment, the Company has entered into a strategic collaboration with Binnopharm, a leading Company in Russia, for establishing its Hib Conjugate Vaccine. The Company is currently in process of filing the registration dossier with MOH, Russia. The Company is also in discussion with Binnopharm to expand the collaboration by including the Pentavalent Vaccine Easyfive-TT also for the Russian markets.

Strategic Tie-up with Kremers Urban - The company had in November 2012 entered into a strategic alliance with Kremers Urban Inc., a part of UCB group for 11 generic drugs starting with Tacrolimus Capsules for which Panacea's ANDA was approved in Sep 2012. Under the Collaboration, the Company launched its first product Tacrolimus in USA in Dec-2012. The Company has one more ANDA under this collaboration.

Strategic Tie-up with Osmotica Pharma, Hungary - Panacea Biotech, in September '12, entered into a Strategic Tie-up with US based Osmotica Pharmaceuticals to enter generic and branded pharmaceutical products in the US & other key strategic markets across the globe. Under the collaboration, Panacea would lead product identification, research, development and manufacturing whereas Osmotica would lead product registration, litigations, marketing, sales & distribution. The company has filed 3 ANDAs in July-Sep 13 under the collaboration.

Nano Particle based Innovations

In the year 2011, the Company had launched the first indigenously developed nano particle based product for treatment of breast cancer, PacliALL (albumin bound paclitaxel). PacliALL was awarded “Product of the Year Award for 2011” by Biospectrum and also “First Nanotech Innovation Award” by Govt. of Karnataka. Considering its success in the domestic market and potential in the international markets, the Company has set-up a state-of-the-art oncology facility at Baddi which has recently been commissioned. The Company is planning to roll out several anti-cancer products in the near future from this facility which it is currently sourcing from third parties in addition to the new products which are currently under development.

Rich in Assets

Panacea Newrise Hospital, Gurgaon

Panacea through a subsidiary Newrise Healthcare Pvt. Ltd. is setting up a 224 bedded multispeciality Hospital in Gurgaon with an investment of around Rs.170 crores.

100 Acres Residential & Commercial Development in Gurgaon

The company's wholly owned subsidiary Best on Health Ltd. owns over 100 acres freehold land in Gurgaon – the company has tied up with Bestech Developers, a Gurgaon based Real Estate firm for Commercial & Residential Development of the land. The company had earlier conceptualised a Pharma SEZ on the land earlier which was later abandoned. The development is expected to generate revenues of around Rs.750 crores for Panacea Biotech. **Besides, a step down subsidiary of Panacea Biotech**

owns land in Rajasthan as a part of plan to carry out the business of Agriculture & setting up of Motels & Tourist resorts etc.

High Debt – Corporate Debt Restructuring

The company has debt of over Rs.950 crores on a Consolidated basis and owing to poor cash flows has been finding hard to service its debt. This is a cause of concern. The company has applied to the Bankers for restructuring of debt.

Buyback of Shares

The company did a buyback of shares in 2010 after which the Equity Capital of the company came down from Rs.6.68 crores to Rs.6.12 crores and promoter's holding went up from 68.73% to 74.81%.

An amount of Rs.110 crores was utilised for buying back 55.92 lakh shares. The buyback was done through market purchases at an average price of Rs.196.39.

Acquisition of Shares by Serum Institute of India

An interesting observation is the gradual accumulation of company's stock by Serum Institute of India. Serum Institute had zero stake till March 2008 has been accumulating the stock since 2008 and till date accumulated over 14.58% in the company, all through market purchases. Serum Institute of India owned by Dr. Cyrus Poonawalla, is India's largest manufacturer of Vaccines and an arch rival of Panacea Biotech. Promoters hold close to 75% in the company and with Serum Institute acquiring 14.58% – leaves very little floating stock.

Conclusion

The last few years were tough for Panacea Biotech. Pursuant to the delisting by WHO on account of quality systems, the company suffered financial losses in last 3 years. However, there have been significant developments in the last 3 years – the company has totally revamped its quality management systems at its manufacturing facilities & has been relisted by WHO ; the company has forged strategic partnerships

with various foreign companies which will give it greater distribution reach ; filing of fresh ANDAs ; Innovations by the company in discovering new molecules, especially nano particle based products – we believe the results of these will start coming to the company in the coming years. Moreover, the restructuring of debt obligation will take away the near term strain on the financials & cash flows of the company. Moreover, the acquisition of shares by Serum Institute of India, an arch rival, who knows the industry & the company well, for all these years while the company was facing troubled times & making heavy losses, is probably an indication of the confidence of the main competitor of the long term potential of Panacea Biotec.

The company is focussing on various International markets as future growth drivers and have been tying up with local partners to achieve greater penetration & higher sales in those markets. The company has tied up with various companies for Russian, Brazilian, US & European markets and is actively scouting for partners for the Japanese markets. We believe the efforts put in by the company to focus on International markets in the last few years will start bearing fruit in the coming years.

We believe the stock merits investment at the current price & on declines. We believe the worst may be over for the company.

Ashish Chugh is an equity analyst based at New Delhi, INDIA. At the time of writing this article, he, his firm or dependent family members donot have a position in the stock mentioned above. The author, his firm or any of his dependent family members may make purchases or sale of the securities mentioned in the report while the report is in circulation.

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