

# THE ECONOMIC TIMES ET Investor's Guide

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## SMALL CAP BUZZ

MUMBAI-BASED Twilight Litaka Pharma is engaged in the business of manufacturing drug formulations and nutraceuticals. Following its restructuring and a merger, the company managed to turn around its financials last year. With the domestic pharma industry growing at 12% per annum, the company's growth prospects over the next 2-3 years look attractive.

**BUSINESS:** Incorporated in 1974, the company was formerly called Li Taka Pharmaceuticals. It operationally merged with Care Unipac in October '05 to form Twilight Litaka Pharma. It manufactures various therapeutic drugs in the form of tablets, capsules, liquids and ointments. The company has three manufacturing plants in Maharashtra, and one in Baddi, Himachal Pradesh. It is now in the process of purchasing land in Sikkim to set up a fifth plant.

contract manufacturing agreements with US major Herbal Life, Malaysia's Elken and Russia's Art Life for manufacture of food and nutrition products. The company has entered into a structured finance deal with ICICI Bank for a credit of Rs 40 crore to fund its expansion and growth.

**FINANCIALS:** The synergies of the company's merger are reflected in its profitability since FY06. Twilight Litaka's growth accelerated in FY07, which was reflected in the 60% jump in operating profit and 47% surge in PAT. As a condition of merger, the promoters have a lock-in period of three

### IN GOOD HEALTH

Twilight Litaka Pharma's Financials

	H1 FY08	YoY CHG (%)
Income	141.1	49.3
Net Sales	140.8	50.2
Raw Material Cost	112.6	48.4
Operating Profit	28.5	66.3
Interest	3.9	30.0
PAT	10.1	63.1
EPS (Rs)	4.8	63.1
OPM*	12.9	130 bps

\*As % Of Net Sales

SOURCE: PROWESS

(RS CRORE)

## The Right Prescription

**After its recent turnaround and stunning growth performance, Twilight Litaka Pharma appears to be a promising pick**

Contract manufacturing and loan licensing account for around 50% of the company's revenues. It has contract manufacturing or loan licensing arrangements with companies like Novartis, Cipla, Wockhardt, Pfizer, Lupin and Serum. 35-40% of the company's revenues come from domestic sales of its formulations, while the remaining 10-15% is contributed by export sales. The company sells over 120 formulations through its 1,000+ marketing personnel and sells its products in 35 countries. It also has an exclusive marketing arrangement with Cipla to market its brands across 10 states.

**GROWTH STRATEGY:** The company posted a turnover of Rs 200 crore in FY07 and is currently utilising 70-80% of its total capacity. It aims to achieve a turnover of Rs 500 crore by '09-10. The proposed plant in Sikkim is likely to enjoy a 20-year excise tax benefit. The company is trying to hedge against risks faced by the pharma industry.

Apart from generic drugs, it has forayed into the manufacture of nutraceuticals and dietary & food supplements (DFS) as well. In '07, the company bought 17 brands from Bangalore-based Sami Labs.

Twilight Litaka recently entered into

years till '09. This is a good sign for retail investors as it will ensure committed participation from the promoter group.

The company's H1 FY08 earnings have been equally promising and highlight the impact of its turnaround. Although the debt-equity ratio for FY07 was higher at 2.3, it is likely to fall to 1.5 by the end of this fiscal year, considering the company's robust performance for the half year ended September '07. Any adverse change in government policies and steep appreciation in the rupee may be a cause of concern for the company.

**VALUATIONS:** At the current price of Rs 87 and a market capitalisation of Rs 185 crore, the company is trading at a trailing 12-month P/E of 10.3 on an EPS of Rs 8.46. This is lower than the average industry P/E of 18.5. The P/E of its peers ranges from 7-12.

Twilight Litaka has been an industry outperformer, giving 75% returns, against 1.7% returns of the ET Lifex (pharma index) over the past 12 months.

Despite the huge run-up in its price, the company looks attractive as it is currently trading at nine times its FY08 estimated earnings.

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