



INDIAN PHARMA

Geared for Growth



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Attractive Valuations with Improved Visibility

The increasing earnings visibility driven by mid teens growth in the core business and better visibility of cash flows from Para IV pipelines remain under appreciated by the street. Unlike their global counter parts, Indian players are more geographically diversified making them relatively less vulnerable to changes in the industry dynamics in any particular market. With most Indian companies at the end of the capex cycle, return on capital is also set to improve.

Valuations at 15x FY10E earnings are near -1x standard deviation over the last 8 years. The 30% premium to the Sensex P/E is also at -1x standard deviation over the last 8 years.

Emerging markets to drive growth, advantage India

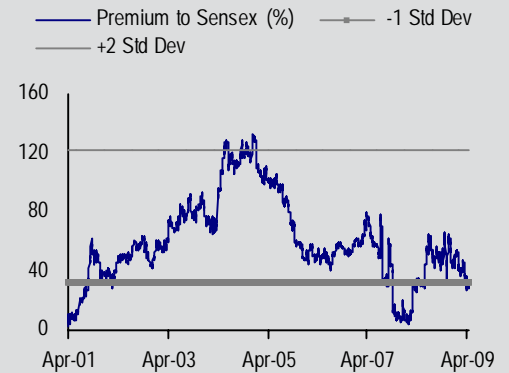
With growth in the emerging economies exceeding that of the developed economies, generic companies are focusing more on the emerging world. Indian pharma companies are at a strategic advantage to their global peers in tapping the 'branded' generic markets in the emerging world due to the cost advantage and the experience of selling cheap branded generics in India. Glenmark's foray in Brazil, Dr Reddy's success in CIS and Ranbaxy's success in South Africa are cases in point.

Big getting more aggressive in developed markets

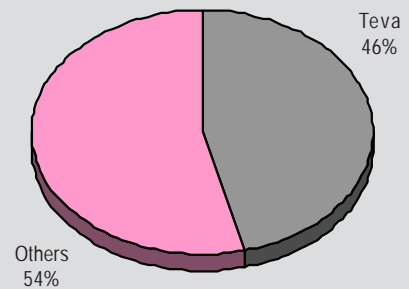
Teva has a lion's share in the US generics with a 24% market share in the TRx and aims to raise it to 31% by 2012. Teva seems to be targeting a 46% share in most of the new product launches. Even in the EU, Teva aims to increase market share from the current 15% to 25% by 2012 indicating >50% share in the growth. With Mylan having acquired Merck generics and Sandoz with considerable size, we believe the big players will get more aggressive in the US and EU.

17 April 2009

Pharma premium to Sensex



Share of incremental sale in US Generic through 2012



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COMPANIES UNDER INITIATION

Company	Ticker	Reco	CMP	M. Cap (Rs bn)	TP	Upside	P/E (FY10E)	EV/EBITDA (FY10E)
Sun Pharma	SUNP	Sell	1,236	256	973	-21%	20.5x	16.6x
Cipla Ltd.	CIPLA	Sell	238	185	179	-25%	21.4x	13.8x
Glaxosmith	GLXO	Sell	1,099	93	961	-13%	18.4x	11.1x
Dr.Reddy's Labs	DRRD	Hold	524	88	534	2%	15.1x	14.7x
Ranbaxy	RBXY	Buy	186	88	222	19%	14.5x	7.9x
Glenmark	GNP	Buy	181	49	227	25%	14.2x	8.9x
Piramal Health	PIHC	Buy	215	45	265	23%	12.6x	8.9x

Note: Based on recurring earnings, excluding profits from one time opportunities

Better earnings visibility from patent settlements...

Improving earnings visibility

The increasing earnings visibility on the back of mid teens growth in the core business and better visibility of cash flows from para IV pipelines remain under appreciated by the street. Moreover unlike most of their global counter parts, Indian generic players are more geographically diversified making them relatively less vulnerable to changes in the industry dynamics in any particular market. With earnings growth at high teens, return on capital is also set to improve as most Indian companies are at the end of the capex cycle.

Valuations at -1x std deviation over the last 8 years...

Valuations getting attractive

Valuations for the Pharma sector at 15x FY10E earnings stand at less than -1x the standard deviation over the last 8 years. The 30% premium to the Sensex P/E is also at -1x standard deviation over the last 8 years.

Indian companies focusing on emerging markets...

Emerging markets to drive growth, Indian players at an advantage

With growth in the emerging economies exceeding that of the developed economies, generic companies are focusing more on the emerging world. Indian pharma companies are at a strategic advantage to their global peers in tapping the branded generic markets in the emerging world due to the cost advantage and the experience of selling cheap branded generics in India. Glenmark's foray in Brazil, Dr Reddy's success in CIS and Ranbaxy's success in South Africa are cases in point. Thus while US and EU led the growth in the past, it will be the emerging markets that will lead growth in the future. Key under penetrated markets include Japan, Eastern Europe, Brazil, Australia and South Africa.

Big generic players to gain from their large scale...

Big getting bigger and more aggressive in developed markets

Teva has a lion's share in the US generics with a 24% market share in the TRx and aims to raise it to 31% by 2012. Teva seems to be targeting a 46% share in most of the new product launches. We believe Teva has the scale (>350 products, 160 pending approvals, >40 FTFs, 13 global manufacturing sites), product portfolio and the supply chain to achieve these targets. Even in the EU, Teva aims to increase market share from the current 15% to 25% by 2012 indicating >50% share in the growth. With Mylan having acquired Merck generics and Sandoz with considerable size, we believe the big players will get more aggressive in US and EU.

Our grading of Indian generics

We highlight several factors that we believe are to survive in the long run in the generic industry. These include breadth and quality of products, cost competitiveness, ability to get to the market faster, relationship with customers, para IV pipeline to augment cash flows and geographic spread. We rate players on a scale of 1 to 5 on each of these parameters and accordingly pick winners.

Key Recommendations

We initiate coverage on Sun Pharma, Cipla and GSK India with a *Sell* rating; Ranbaxy, Glenmark and Piramal Healthcare with a *Buy* rating and Dr Reddy's with a *Hold* rating.

Key Trends

A new world

The global generic industry is poised to grow at 10% CAGR over 2007-2012.

Developed markets to face more competition...

The developed world (US/ Western Europe/ Japan) is faced by increasing healthcare costs due to demographic changes (increasing non working and aged population) and the fact that a large part of healthcare costs is borne by the government. With government finances under pressure, most governments are looking at cutting these costs or increasing the footprint of healthcare programs at the same costs. As such higher generic consumption is the only way forward for these countries. Most governments have also stated pro-generic measures in their policies.

Developing markets to drive growth on the back of rising population and incomes...

In the developing world (Latin America, Central Europe, Asia, Russia) growth is driven by rising population, increasing incomes and consequent rise in medicine penetration. Most of these markets are already predominantly generic markets with Indian players already having a significant presence in some of these markets.

The big 3 generic players intend to get bigger and broader

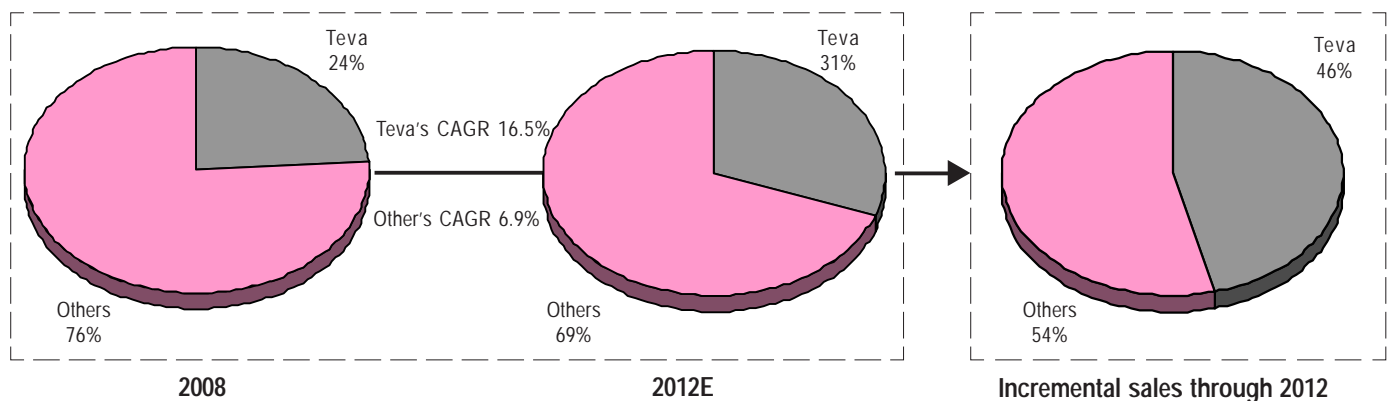
Teva seems to be targeting >45% share of the incremental sales in the US/ EU generics...

Teva has a lion's share in the US generics with a 24% market share in the TRx and aims to raise it to 31% by 2012. Teva seems to be targeting a 46% share in incremental growth in the market. We believe it has the scale (>350 products, 160 pending approvals, >40 FTFs, 13 global manufacturing sites), product pipeline and the supply chain to achieve this. Even in the EU, Teva aims to augment its market share from the current 15% to 25% by 2012 indicating >50% share in the growth.

The emerging world is also equally important for Teva's growth given its high base. It has indicated that it would aggressively pursue growth in the emerging markets.

Other large players like Sandoz (c10% of the global generic market) and Mylan/Merck combine (c10% of the global generic market) are also likely to expand aggressively in the emerging world given that traditional favourites like US and EU are facing tough challenges.

US Market Opportunity & Teva's Market Share



Source: PINC Research

Key Trends (Cont'd)

Innovators join the generics race

Over the last year, we have witnessed several innovator pharma companies indicating plans to venture in the generics space. Daiichi's acquisition of Ranbaxy, Sanofi's bid for Zentiva, GSK's acquisition in Turkey, Pfizer -Aurobindo are cases in point.

Innovators Join the Generic Race

Innovator	Mode	Generic partner
GSK	Supply arrangement	Strides
Sanofi Aventis	Acquisition	Zentiva
Daiichi Sankyo	Acquisition	Ranbaxy
Pfizer	Supply agreement	Aurobindo Pharma
Fresenius	Acquisition	Dabur Pharma

Source: PINC Research

World pharma consumption growth has shifted from the developed world to the developing world, most of which are already into the 'branded' generic markets. This is on the back of rise in population and improvement in poverty levels leading to higher medicine penetration.

In order to tap this opportunity most innovators have realised that they need to have a large product portfolio base in order to optimally exist in these markets. GSK India is a case in point where it sells the parents generic products as well as patented products besides generic products of other companies. We believe most 'big pharma' companies will follow a similar model in the emerging markets.

Market Outlook

Indian companies would face strong competition from Teva in US generic market...

US generic market

The US generic market remains a large opportunity for most Indian players despite the ever increasing competition in the market. At 24% market share, Teva's clout over the market is increasing. Indian players offer an efficient and dependable alternative to Teva. While Teva's clout in the market does not give any pricing power, nonetheless it does ensure a strong market share for Teva.

Most Indian players have resorted to settlement of patent litigation. This leads to providing certainty to hitherto uncertain opportunities thereby improving earnings visibility. It also avoids draining of cash in expensive litigations.

EU generics market

Indian players target the branded generic markets like France and Italy...

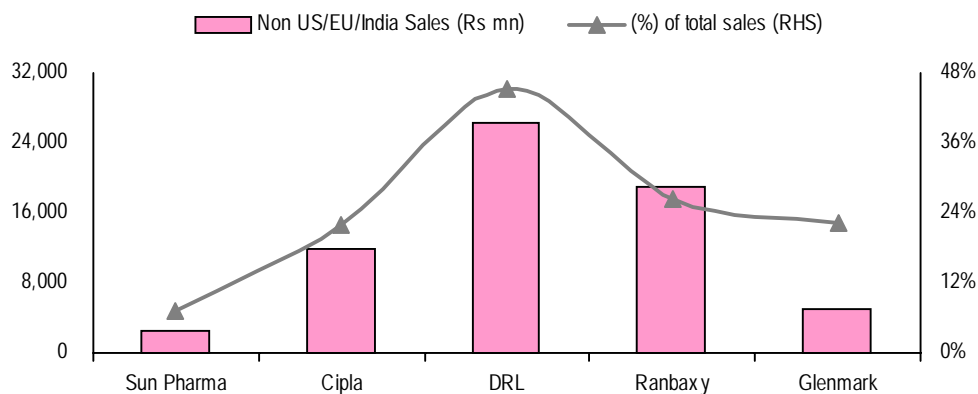
EU is a fragmented market with every market having its own drivers and structures. Indian players have been successful in the EU markets like UK which are based on the US generics model. Indian players have also been focussing on the branded generic markets like France and Italy and some Central European companies. We believe that Indian players have an experience in tapping the branded generic markets since India is a branded generic market. Branded generic markets tend to be difficult to penetrate and generally have a slow and steady growth.

RoW markets (include Russia, Latin America etc.)

Gaining traction in the emerging markets like Russia and Latin America...

Indian players have been fairly successful in tapping the emerging world. The emerging world markets like Central and Eastern Europe, Latin America, Russia/CIS are predominantly branded generic markets and hence have structures similar to the Indian domestic market, thus giving the Indian players an edge over the other international players.

Share of Indian Pharma Companies in Non US/EU/India



Source: PINC Research

India

India has been a slow and steady growth market for most players and is reasonably profitable for most companies. In the current difficult financial environment where capital availability is difficult, we believe it is the Indian market which is relatively defensive and more attractive. Broadly we expect most players to witness 12-15% growth with stable margins in the Indian market driven by higher levels of medicine penetration and income levels.

World Generic Market Landscape

	Generic penetration	Generic mkt size (USD mn)	Market Growth	Entry barriers	Concerns	Drivers
North America	56%	41,000	9%	Scale	Pricing pressure and Competition	Large market with pro-generic structure
Western Europe						
Germany	19%	5,588	-1%		regulatory and structural changes, fierce competition	Large market
UK	22%	4,625	6%	Low	Pricing pressure and Competition	Large market with pro-generic structure
France	10%	2,513	20%	High		Low generic penetration
Italy	5%	688	30%	High		Low generic penetration
Spain	7%	825	22%			Low generic penetration
Netherlands	20%	1,256	10%			
Sweden	16%	519	5%			
Portugal	17%	550	17%			
Denmark	12%	275	6%			
Finland	14%	338	7%			
Ireland	8%	156	11%			Low generic penetration
East. Europe/ CIS						
Russia/CIS	61%	3,588	17%		Currency fluctuation, Recovery of receivables	
Romania	50%	1,015	35%		Strong local players, Change in regulatory environment	Higher medicine penetration and consumption on the back of GDP growth
Czech republic	47%	938	11%		Strong local players	Higher medicine penetration & consumption on the back of GDP growth
Slovakia	50%	510	13%			
Poland	64%	3,400	12%	Significant MNC presence		Higher medicine penetration & consumption on the back of GDP growth
Turkey	50%	4,455	16%			Favourable demographics and large population
Hungary					Strong local players	Higher medicine penetration & consumption on the back of GDP growth
Ukraine	72%	1,025	18%			Higher medicine penetration & consumption on the back of GDP growth
Serbia	67%	450	31%			
Latin America						
Brazil	20%	1500	25%	Significant MNC presence	Strong local players, Currency volatility	Government push to higher generic consumption
Mexico		3400				Government push to higher generic consumption
Asia						
India	95%	7,260	13%	Low	Competition, Counterfeit drugs	Higher medicine penetration & consumption on the back of GDP growth
Japan	18%	3300	15%	Language		Government push to higher generic consumption
Australia	<20%	1700		Complicated healthcare framework		
China		12700		Language	Competition, Counterfeit drugs	

Source: Teva, Stada, Zentiva annual reports

Factors Critical to Success

The generic sector has been facing tough times in the recent past on the back of lower assets turnovers due to continued pricing pressure (lower entry barriers leading to more competition). As a result of heated competition most generic products have seen more than 8-10 launches on the first day post patent expiry in the US market, with more than 3-4 Indian companies in most of the products. As a result, we remain skeptical of the prospects of the Indian generic companies especially in mature generic markets like the US and UK where the entry barriers are lower and the buyers (US distributors) are consolidated.

We look at some of the key elements which we believe are critical in the current environment to survive.

Geographical diversification

Traditionally favourite markets of US/EU face challenges

US & EU would face challenges...

Although the US and EU markets continue to remain dominant generic markets, they are no longer drivers for growth for most generic companies. These generic markets seem to be facing challenges like regulatory interference and change in healthcare policies, shift from branded generic to full substitution generics and lack of entry barriers.

Newer markets witness intensified competition

Generic players diversifying to other markets...

Given the lack of entry barriers in the generic segment, we believe geographical diversity is essential to reduce earnings volatility as competition heats up in most traditionally important markets like US and EU. Hitherto untapped markets (Central Europe, Latin America etc.) are increasingly being tapped by newer players. Moreover exploring newer markets also provides scale in manufacturing.

Economic compulsions call for greater generic usage in some developed markets

Potential of higher generic usage in developed world...

We remain positive on the developed markets like Japan, Italy, France, Spain in the developed world due to low generic penetration and stressed fiscal environment leading to a compelling case for increased generic usage.

Higher medicine penetration in the developing world

Income and population growth result in higher medicine penetration...

In the developing markets we are positive on the markets like Brazil, Poland and Mexico, which despite being highly genericised markets are showing good growth on the back of increased medical penetration, income growth and population growth.

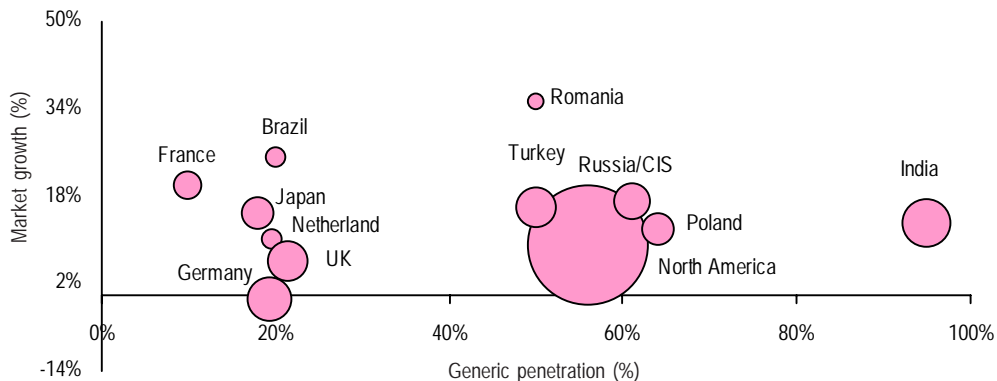
Domestic market in India provides safety and stability

Domestic market requires lower working capital and show high earning growth...

Given the tough financial environment, exporters have found it difficult to scale up revenues given the relatively long working capital for exports (>120 days) v/s the domestic markets (<50 days). In such an environment we believe, Indian market is attractive and companies leveraged on the Indian markets will show resilient earnings growth. Moreover, exporters face more challenges in terms of the currency volatility in most regions.

Factors Critical to Success (Cont'd)

Global Generic Penetration and Market Growth



Note: Size of bubble indicates Generic market size (USD mn)
Source: PINC Research

Product portfolio/pipeline

We believe that products selection will be critical to succeed in competitive markets like US/ UK. Meanwhile in the emerging markets, which are predominantly branded generic markets, it is the breadth of products portfolio that will be important.

Patent settlements provide earnings visibility, but are not valuation drivers

Most Indian players have pursued para IV challenges actively. However, we believe Para IV opportunities are not valuation drivers over the longer term since the outcomes are uncertain. However, on settlement with the innovator these opportunities provide earnings visibility and augment cash flows. Moreover, increasing number of settlement with innovators provides certainty to hitherto uncertain opportunities and improves earnings visibility.

Are niche products really niche?

Most Indian players have their own niche products/ therapies or segments which act as anchors for customers. However, in our view niche segments (like para IV challenges) cannot be pursued in isolation. These opportunities need to be pursued in tandem with the plain vanilla generic products which bring scale and profitability to the business. Besides most generic products face competition over a period of time and thus may not remain niches for long.

Patent settlements provide earnings visibility but have less significance in valuations...

Development of new products and segments would enhance competitiveness...

Niche Segments

Company	Niches
Sun Pharma	Diabetes, Cardio, Neurology, Oncology
Cipla	Respiratory, ARVs
Glaxo	Parent's patented pipeline
DRL	Cardio, Diabetes
Ranbaxy	Cephalosporin, Penems, Bio Similar
Glenmark	Dermatology, Controlled substances

Source: PINC Research

Factors Critical to Success (Contd)

Financial prudence

Working capital efficiency is key to near term earnings

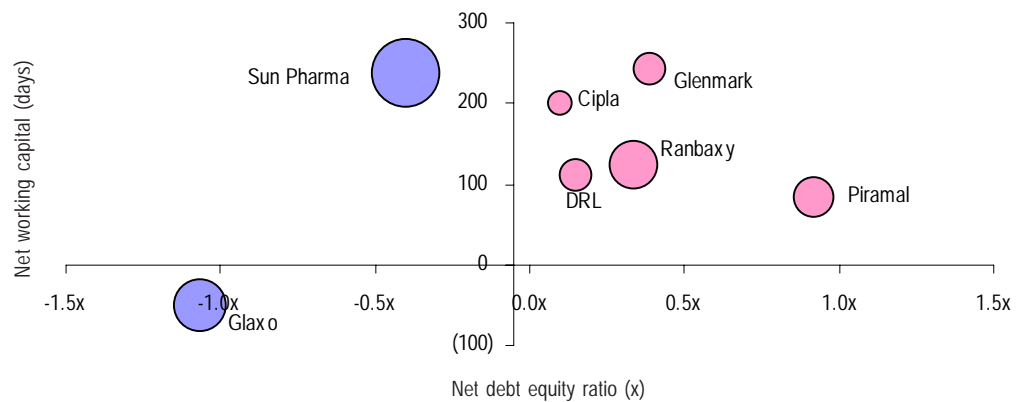
Exporters have to maintain high working capital...

In the current tough financial environment it is critical for companies to manage their working capital as this would impact future growth. Broadly, companies with higher revenues from the Indian market have lower working capital cycle as compared to companies that have higher exports.

Debt equity

We also look at the debt equity to analyse the financial prudence of companies. For companies with outstanding FCCBs, we include the FCCBs in the debt portion to arrive at the total debt levels.

Net Debt Equity and Working Capital



Note: Size of bubble indicates Net debt (Rs bn)
Source: PINC Research

Efficient operations

Given the competitive nature of the generic industry it is essential for players to maintain low cost operations. Operating cost efficiency can be achieved from low cost raw material sourcing/ production and tight control on overheads. We rate companies on the basis of OPMs to arrive at the efficient players.

Relative Grading

Company	Geographical spread/ Markets			Efficient Operation		Product Portfolio			Financial Prudence		Total Score
	Exposure to attractive export markets			Integration	Overall cost structure	Niche portfolio	Breadth of portfolio	Visibility on one time opportunities	Working Capital days	Net Debt Equity	
	Diversification	India	India								
Sun Pharma	2	4	4	5	5	5	5	1	1	5	37.0
Cipla	2	4	4	2	3	4	5	2	2	4	32.0
Glaxo	1	1	5	1	5	2	3	1	5	5	29.0
DRL	4	3	2	5	1.5	3	2	4	4	4	32.5
Ranbaxy	5	3	2	4	1	2	5	5	3	3	33.0
Piramal	2	3	3	3	2	1	1	1	4	2	22.0
Glenmark	5	2	2	4	4	3	3	2	1	3	29.0

Note: Rating on a scale of 1 to 5 (5 being the best)
Source: PINC Research

SWOT Analysis of Indian Pharma Industry

Strengths	Weakness
<ul style="list-style-type: none"> ● Availability of low cost raw materials (APIs) both from India and China ● Process chemistry skills due to a long history of reverse engineering of products ● Entrepreneurship among Indian promoters that has driven them to diversify in other markets 	<ul style="list-style-type: none"> ● Lack of scale due to fragmentation ● Lack of differentiation in strategy to tap new markets
Opportunities	Threats
<ul style="list-style-type: none"> ● Increased pressure on fiscal finances in the developed world leading to greater thrust on generic consumption ● Growth in the emerging markets (due to demographic changes) which are largely branded generic markets with Indian players already having a strong foothold in some markets like Russia, Brazil and Central Europe ● Settlements of patent challenges with innovators ● Consolidation amongst Indian pharma players could provide the much needed scale to Indian players to compete with the bigger generic players (Teva, Sandoz, Mylan) 	<ul style="list-style-type: none"> ● Increased due diligence and action on default over compliance with standards ● Stiff competition both from local as well as global players in hitherto untapped markets as the opportunity for the big generic players shrinks in major markets like US and EU ● Cross currency volatility leading to earning fluctuation.

Foreign currency exposure

Most pharma companies have significant revenue contributions from exports and as such may benefit from INR depreciation. We look at the foreign exchange issue in detail and point out companies that are likely to benefit in the scenario.

Grading Based on Foreign Currency Impact

Company	Rev. benefit (Net of hedges)	Costs in foreign currency	MTM on inventory	MTM on Loans	MTM on Derivatives	Overall	Comments
Sun Pharma	1	2	1	1	1	6	Predominantly USD exposure
Cipla	1	1	1	1	2	6	Significant cost is INR denominated making its earnings more vulnerable to currency movements
DRL	2	3	2	2	1	10	Exposure to several markets including emerging markets indicates less predictability of currency impact
Ranbaxy	3	3	3	2	3	14	Exposure to several markets including emerging markets indicates less predictability of currency impact
Piramal	3	2	3	3	1	12	Exposure to innovators as customers enables some pass on over the longer term,
Glenmark	2	3	2	2	1	10	Exposure to several markets including emerging markets indicates less predictability of currency impact

Note: Scale of 1 to 3, 1 being the most beneficial in a depreciating INR environment
 Source: PINC Research

Key elements of foreign exposure and the likely impact on profitability

Revenue benefit

INR depreciation had mixed impact...

With a depreciating INR, export realisations increase to the extent of the sales exposure not already hedged. We note that pharma companies have exposure to various markets including US/EU and emerging countries and hence the impact of the depreciating INR could be mixed depending on the currency exposure.

Costs in foreign currency

Natural hedge in costs in foreign currency...

Most pharma companies have some form of natural hedging against the currency in the form of imported raw materials or SG&A in foreign currency. Companies like Cipla that do not have own front end in international markets tend to be more vulnerable than peers like Ranbaxy and Dr Reddy's that have front presence in important export markets.

Mark to market of current assets (inventory and debtors)

Currency impact would also be at the operating level...

Unlike IT services, most pharma companies have high debtors and inventory days for the exports markets. Both these items are marked to market at the end of every quarter and the gain/loss thereon impacts the margins. In case of a depreciation of the INR, cost of raw materials is lower due to higher valuation of inventory. Similarly MTM gains on debtors for export sales also increase EBITDA margins.

Foreign currency exposure (Cont'd)

Companies with high foreign debt would be exposed to currency changes...

Mark to market on foreign currency denominated debt

Indian accounting standards warrant that foreign exchange denominated liabilities need to be marked to market at the end of every quarter at the quarter end rate. In case of a depreciating INR, there will be a loss on account of MTM on foreign currency denominated debt.

Mark to market on derivative contracts

Recently introduced accounting standards make it mandatory for companies to mark their derivatives exposure to market prices at the end of the quarter.

Forex Impact on Financials

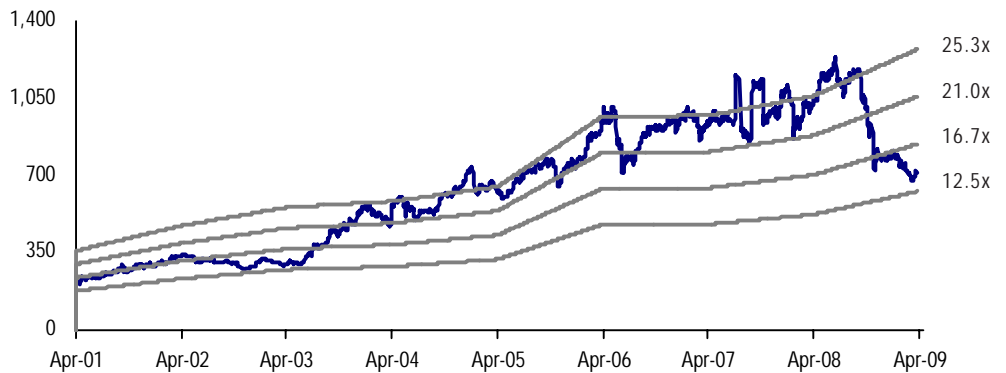
Factors	Current Period (In a INR depreciation)		In the future periods	
	Impact on P&L	Impact on CF	Impact on CF, if status quo is maintained	Impact on CF, if the situation reverses
Revenue, (net of fwd cover)	Higher sales realisation	Higher CF	none	none
MTM on inventory	Lower raw material cost and consequent higher gross margin	none	Increase in CF will be realised in the consequent qts	CF will decrease to the extent of decrease in realisation
MTM on debtors	Foreign exchange gain above the EBITDA line	none	Increase in CF will be realised in the consequent qts	CF will decrease to the extent of decrease in realisation
MTM on foreign loans	Forex loss below the EBITDA	none	none	Forex gain below the EBITDA
MTM on Derivative contracts	Forex loss below the EBITDA	none	Realisations will be lower to the extent of cover extinguished	Forex gain below the EBITDA to the extent of cover not extinguished

CF - Cash Flows
Source: PINC Research

Indian Pharma Valuations

Indian Pharma P/E (x) Band

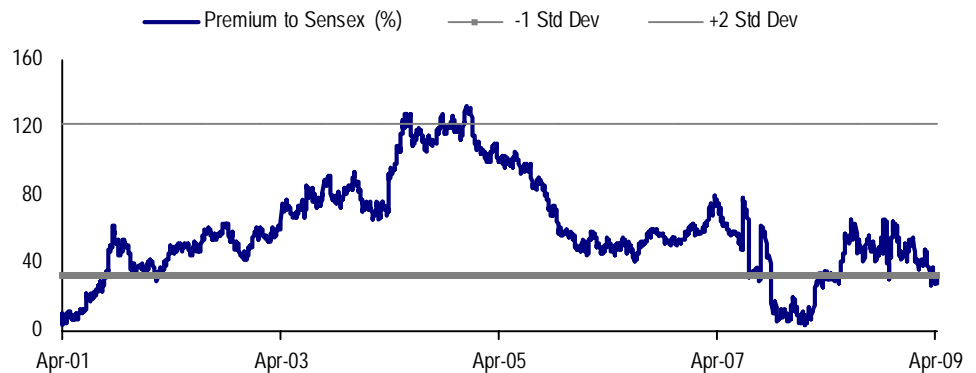
Indian pharma is trading at ~15x P/E that is the lowest in last 5 years...



Source: PINC Research

Indian Pharma P/E (x) premium to Sensex P/E (x)

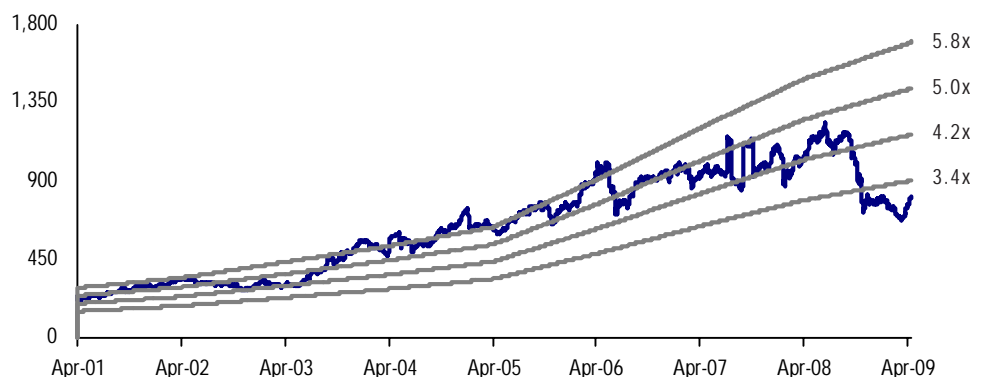
Indian pharma P/E is at 30% premium to the Sensex P/E, this is close to -1 standard deviation of last 8 years...



Source: PINC Research

Indian Pharma P/BV (x) Band

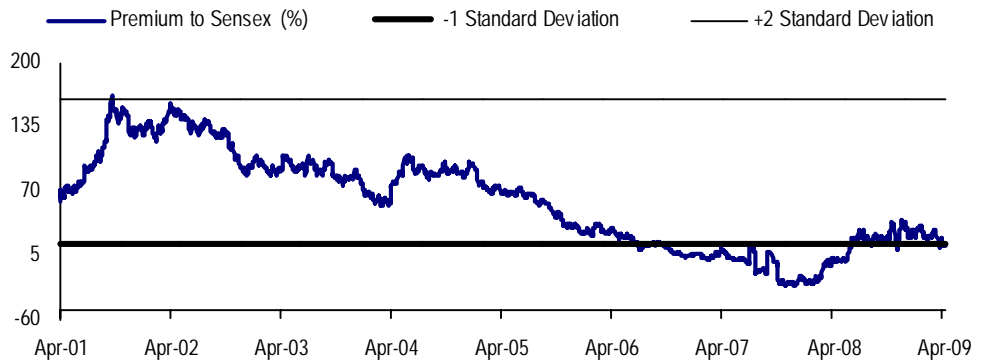
Pharma sector is trading at 8 years lowest P/BV...



Source: PINC Research

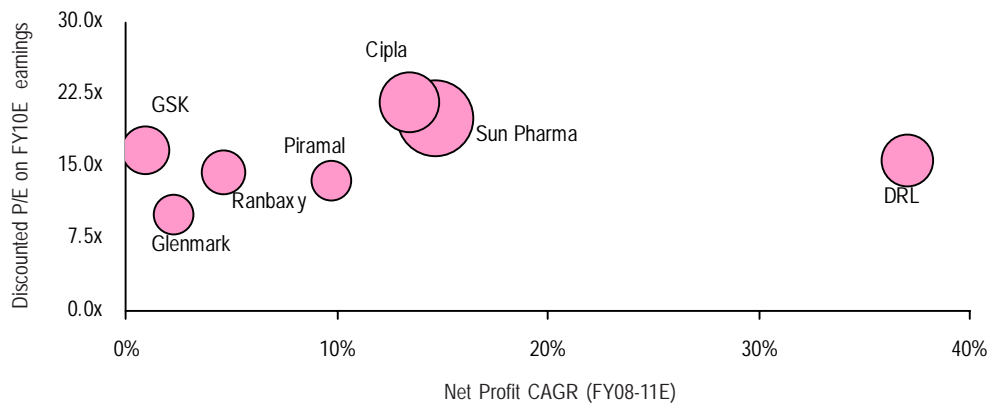
Indian Pharma Valuations (Cont'd)

Indian Pharma P/BV (x) premium to Sensex P/BV (x)



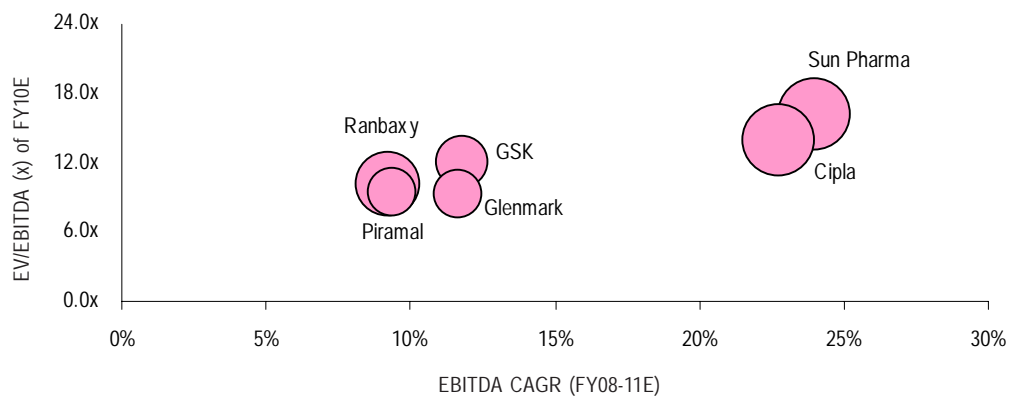
Source: PINC Research

P/E (x) v/s EPS CAGR (%) (FY08-11E)



Note: Size of the bubble indicates the net profit in FY10 (Rs mn)
Source: PINC Research

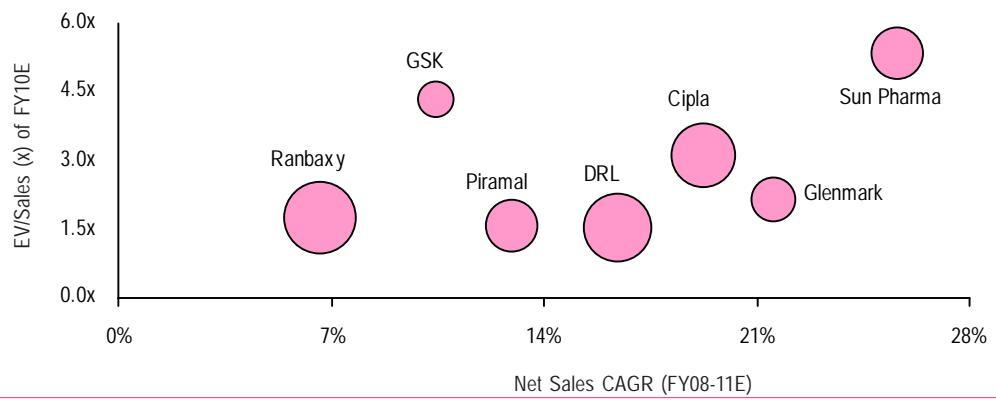
FY10E EV/EBITDA (x) v/s EBITDA CAGR (%) (FY08-11E)



Note: Size of the bubble indicates the EBITDA (Rs mn) in FY10E
Source: PINC Research

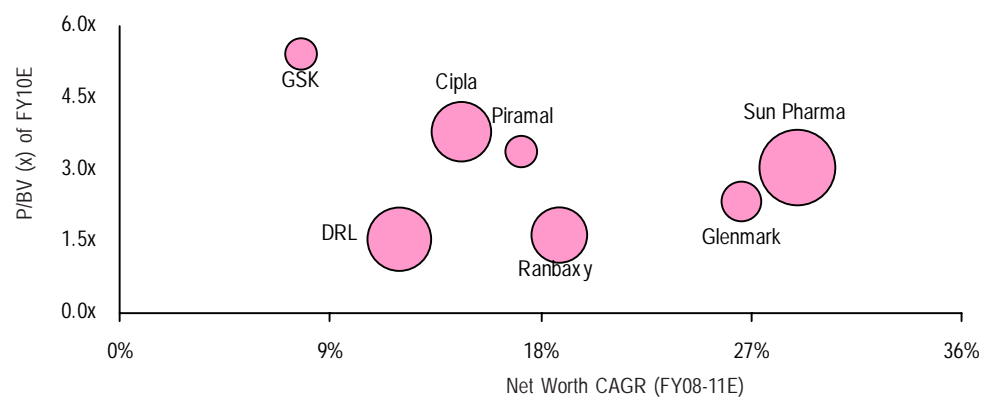
Indian Pharma Valuations (Cont'd)

FY10E EV/Sales (x) v/s Net Sales CAGR (%) (FY08-11E)



Note: Size of the bubble indicates the FY10 net sales (Rs mn)
 Source: PINC Research

P/BV (x) v/s Net Worth CAGR (%) (FY08-11E)



Note: Size of the bubble indicates the net worth in FY10E (Rs mn)
 Source: PINC Research

SUN PHARMACEUTICALS INDUSTRIES LTD

SELL

CMP : Rs1,236 TP : Rs973

BSE Sensex : 10,947

We initiate coverage on Sun Pharmaceuticals Industries Ltd. (Sun) with a SELL. Sun's large exposure to the Indian market (c50% of FY09 recurring sales) makes earnings less volatile compared to peers which are more focussed on the exports market. However, we are concerned with Sun's US exports (45% of recurring sales) where it faces challenges in the US FDA warning and high base in FY09 on the back of one time sales during exclusivity. We believe Sun has a robust business model and a superior track record. Our Sell is premised on expensive valuations in the back drop of declining reported earnings in FY10E.

US exports face challenges

Excluding one time opportunities we estimate Sun's recurring sales and earnings to have grown modestly in FY08 and FY09. We reckon challenges for the US generics due to the warning letter received by the Detroit facility (20% of pipeline) which we believe is likely to be sorted only when the next inspection by the US FDA will be due. Consequently we estimate that Sun's reported earnings to fall by 9.5% in FY10E on the high base of FY09.

Domestic market is stable and growing

Sun's India business has witnessed phenomenal success with a CAGR of 27% over FY03-09 and is expected to maintain the momentum at CAGR of 22% over the FY09-12E driven by higher geographic penetration, product launches and economic growth. While the market has witnessed some signs of a slowdown we believe this to be an inventory rationalisation rather than a genuine consumption slowdown.

RISKS

1) Further delays in the closure of Taro 2) uncertainty over the US FDA warning letter 3) over-dependence on the competitive US generics for exports.

VALUATIONS

We value Sun at 16x FY10E recurring earnings at a premium to the sector. We believe the premium is justified due to the superior track record, exposure to the stable Indian market and the option value of an eventual resolution of the Taro imbroglio.

KEY FINANCIALS (CONSOLIDATED)						Rs mn
	FY07	FY08	FY09E	FY10E	FY11E	
Net Sales YoY Gr. (%)	30.3	15.0	34.4	22.7	20.3	
OPM (%)	31.5	46.2	46.5	38.0	34.1	
Adjusted Net Profit	7,843	8,391	10,639	12,511	16,050	
YoY Gr. (%)	36.8	7.0	26.8	17.6	28.3	
KEY RATIOS						
ROCE (%)	15.9	31.4	31.7	21.5	16.9	
RONW (%)	35.4	37.2	31.5	22.1	17.8	
P/E (x)	32.6	30.5	24.1	20.5	16.0	
EV/Sales (x)	11.0	9.7	6.9	5.5	4.4	
EV/EBITDA (x)	34.8	27.3	18.8	16.6	13.0	

17 April 2009

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STOCK DATA

Market Cap	Rs251bn
Book Value per share	Rs330
Eq Shares O/S (FV Rs5)	207mn
Free Float	36.3%
Avg. Traded Value (6 mths)	Rs472mn
52 Week High/Low	Rs1540/972
Bloomberg Code	SUNPIN
Reuters Code	SUN.BO

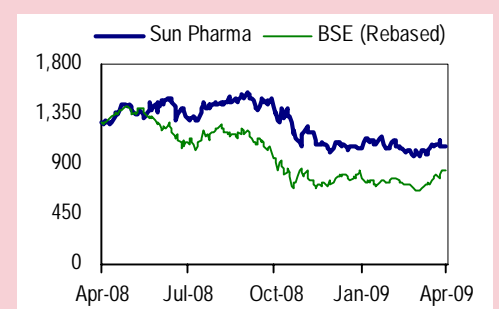
TOP SHAREHOLDERS

Name	% holding
Aberdeen Asset Managers Ltd.	1.2
HDFC Standard Life Insurance Ltd.	1.1
Lakshdeep Invest & Finance Pvt Ltd.	1.7
Genesis Indian Investment Ltd.	2.0

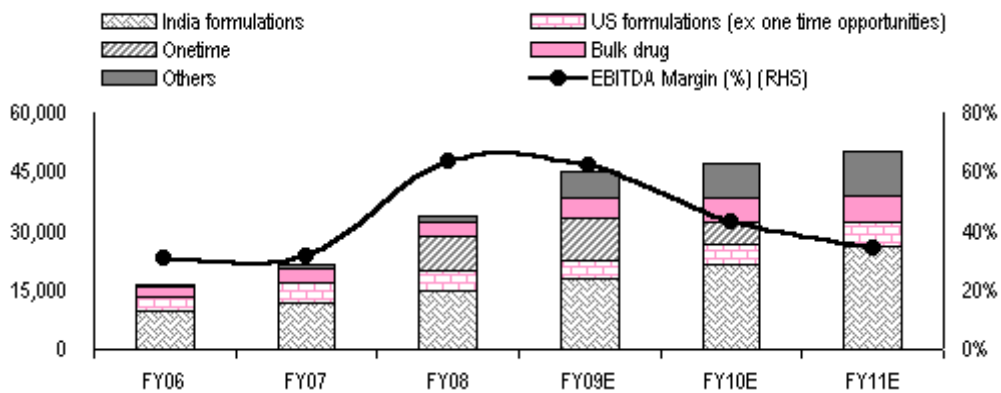
PERFORMANCE (%)

	1M	3M	12M
Absolute	24.0	10.5	(2.6)
Relative	2.1	(6.9)	31.0

RELATIVE PERFORMANCE

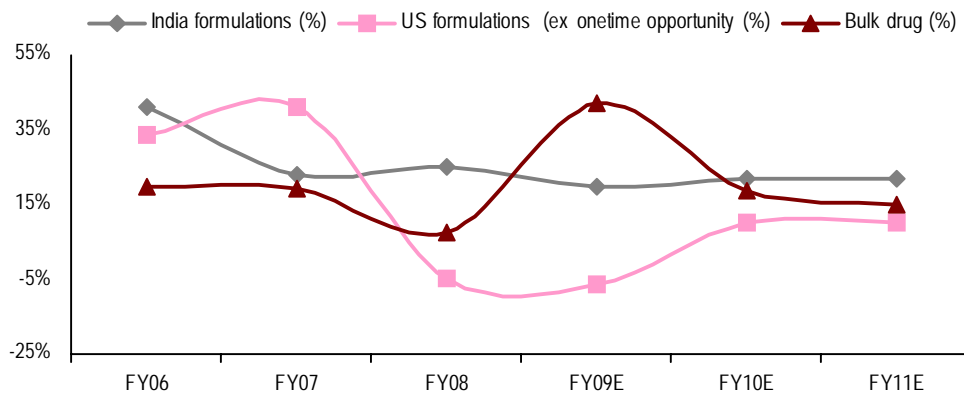


Revenue Breakup (Rs mn) and EBITDA Margin



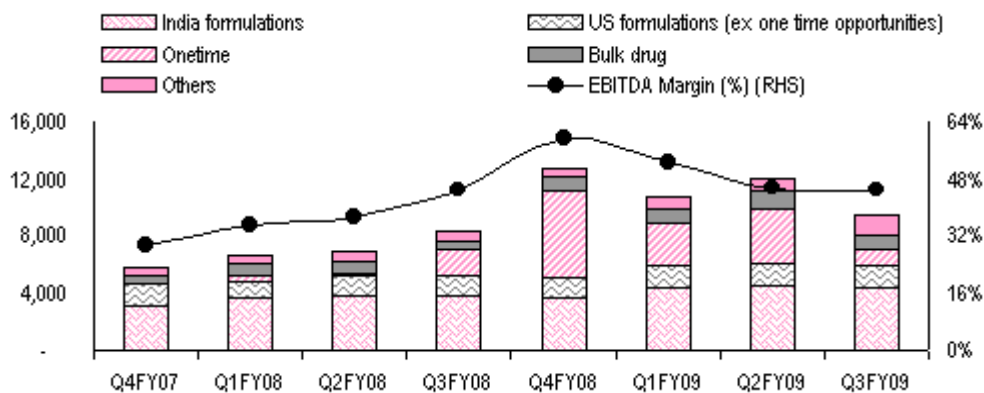
Source: PINC Research

Revenue Growth of India & US Formulations and Bulk Drug



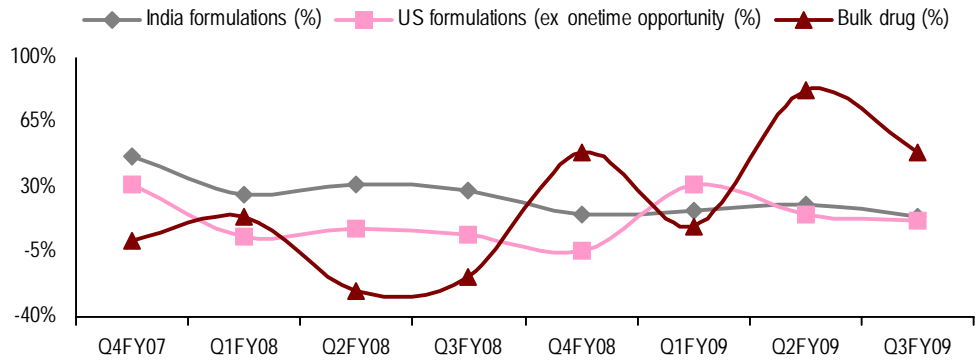
Source: PINC Research

Quarterly Revenue Mix (Rs mn) and EBITDA Margin



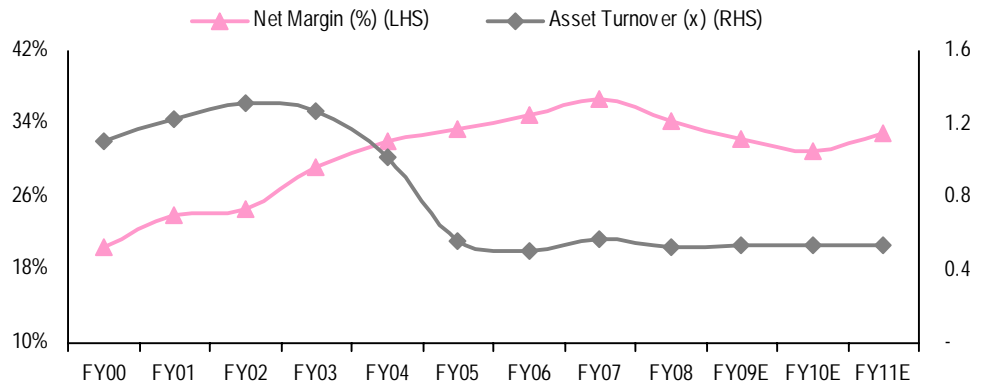
Source: PINC Research

Growth in Quarterly Revenues of India & US formulations and Bulk



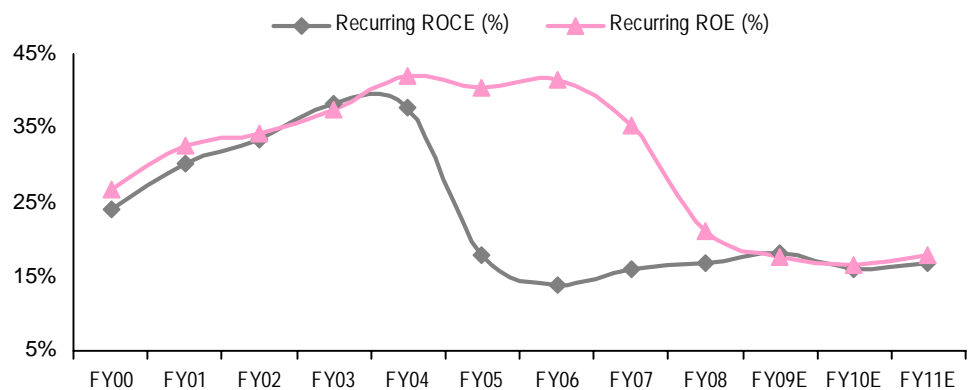
Source: PINC Research

Net Margin v/s Asset Turnover



Source: PINC Research

ROCE and ROE



Source: PINC Research

Year Ended March (Figures in Rs mn)

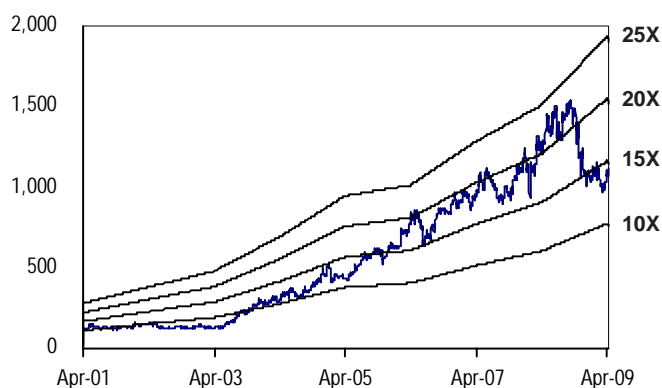
Income Statement	FY07	FY08	FY09E	FY10E	FY11E
Net sales	21,321	24,511	32,938	40,415	48,632
Growth (%)	30.3	15.0	34.4	22.7	20.3
Other operating income	-	9,092	11,066	5,606	-
Total Revenue	21,321	33,603	44,004	46,021	48,632
EBITDA	6,720	15,511	20,443	17,509	16,570
Growth (%)	32.9	130.8	31.8	(14.4)	(5.4)
Depreciation	813	969	1,039	1,095	1,146
Other Income	2,428	1,451	1,374	2,799	3,274
EBIT	8,335	15,994	20,777	19,213	18,698
Interest Paid	-	-	-	-	-
PBT (before E/o items)	8,335	15,994	20,777	19,213	18,698
Tax Provision	(67)	485	1,039	1,537	1,496
E/o income/(loss)	559	640	800	960	1,152
Reported Net Profit	7,843	14,869	18,938	16,716	16,050
Adjusted Net Profit	7,843	8,391	10,639	12,511	16,050
Growth (%)	36.8	7.0	26.8	17.6	28.3
Recurring Diluted EPS (Rs)	37.9	40.5	51.4	60.4	77.5
Diluted EPS Growth (%)	36.8	7.0	26.8	17.6	28.3

Cash Flow Statement	FY07	FY08	FY09E	FY10E	FY11E
Pre-tax profit	8,335	15,994	20,777	19,213	18,698
Depreciation	813	969	1,039	1,095	1,146
Total Tax Paid	(444)	(1,822)	(1,039)	(1,537)	(1,496)
Chg in working capital	(4,154)	(9,340)	(8,048)	(6,565)	(7,136)
Other operating activities	(2,156)	(753)	-	-	-
Cash flow from oper (a)	2,395	5,048	12,730	12,206	11,211
Capital Expenditure	(2,000)	(1,995)	(1,686)	(1,686)	(1,686)
Chg in investments	1,367	(5,242)	(18,435)	(5,000)	(5,000)
Other investing activities	1,272	1,177	-	-	-
Cash flow from inv.(b)	639	(6,060)	(20,121)	(6,686)	(6,686)
Free cash flow (a+b)	3,034	(1,013)	(7,392)	5,520	4,525
Equity raised/(repaid)	(0)	(14)	-	-	-
Debt raised/(repaid)	(1,712)	(27)	(1,438)	-	-
Change in Minority Int	(30)	808	-	-	-
Dividend (incl. Tax)	(2,629)	(18)	(3,331)	(2,983)	(2,903)
Other financing activities	(127)	(88)	-	-	-
Cash flow from fin. (c)	(4,498)	661	(4,769)	(2,983)	(2,903)
Net chg in cash (a+b+c)	(1,464)	(352)	(12,161)	2,537	1,623

Balance Sheet	FY07	FY08	FY09E	FY10E	FY11E
Equity Share Capital	967	1,036	1,036	1,036	1,036
Reserves & surplus	26,747	48,879	64,624	78,357	91,504
Shareholders' funds	27,714	49,915	65,660	79,393	92,540
Minorities interests	438	1,886	2,686	3,646	4,798
Total Debt	11,158	1,438	-	-	-
Capital Employed	39,310	53,238	68,345	83,039	97,338
Net fixed assets	10,122	11,040	11,687	12,278	12,818
Cash & Cash Eq.	13,802	13,382	2,190	4,727	6,350
Net Other current assets	13,041	20,614	28,662	35,227	42,364
Investments	2,543	6,565	25,000	30,000	35,000
Net Deferred tax Assets	-	-	-	-	-
Total Assets	39,310	53,238	68,345	83,039	97,338

Key Ratios	FY07	FY08	FY09E	FY10E	FY11E
OPM (%)	31.5	46.2	46.5	38.0	34.1
Net Margin (%)	36.8	44.2	43.0	36.3	33.0
Div. Yield (%)	0.6	1.0	1.3	1.2	1.1
Net debt/Equity (x)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital (days)	223.3	223.9	237.7	279.4	318.0
ROCE (%)	15.9	31.4	31.7	21.5	16.9
RoE (%)	35.4	37.2	31.5	22.1	17.8
EV/Net Sales (x)	11.0	9.7	6.9	5.5	4.4
EV/EBITDA (x)	34.8	27.3	18.8	16.6	13.0
PER (x)	32.6	30.5	24.1	20.5	16.0
PCE (x)	29.6	16.2	12.8	14.4	14.9
Price/Book (x)	6.8	4.9	3.7	3.1	2.6

P/E Band



Key Assumptions

	FY08	FY09E	FY10E	FY11E
Domestic formulations (% Chg.)	23.4	20.0	21.6	21.6
Recurring US Exports (% chg YoY)	(4.8)	(6.2)	10.0	10.0
Non US exports (% change YoY)	10.4	200.0	35.0	25.0
One time opportunities (Rs mn)	9,092	11,066	5,606	0
Bulk Drugs - exports (% chg YoY)	9.4	50.0	20.0	15.0
Bulk Drugs - domestic (% chg YoY)	2.0	20.0	15.0	15.0
EPS - excluding exclusivities (Rs)	40.5	51.4	60.4	77.5
Recurring growth (%)	7.0	26.8	17.6	28.3

CIPLA LTD.

SELL

CMP : Rs238 TP : Rs179

BSE Sensex : 10,947

17 April 2009

We initiate coverage on Cipla with a SELL. Cipla's supply based model for exports despite being vulnerable to pricing pressures is less risky as far as recoveries and execution challenges are concerned. We are positive on Cipla's domestic formulation business (50% of revenues) which is stable and makes earnings resilient in the current volatile macro environment. However, in our view valuations are expensive at 21x FY10E earnings and factor in most of the positives. Hence we recommend a Sell.

Supply based exports inferior to integrated models

Cipla's supply based model to tap the exports market is vulnerable to pricing pressures but is also less risky as far as recoveries and execution challenges are concerned. This also enables Cipla to focus on its core strengths of product development and manufacturing. Over the longer term this model is inferior to the integrated model followed by peers who also have control over the front end.

Weak INR boost to near term earnings

Cipla's business model has significant costs in INR while exports form ~1/2 of revenues. This makes earnings vulnerable to currency volatility. Cipla's performance in 9MFY09 has been muted despite the currency advantage due to the hedges (USD450mn as on Mar'08). A significant part of these hedges have been exhausted in the 9MFY09 (exports of USD450mn) and as such from Q4FY09 onwards we believe that Cipla stands to benefit the most due to the INR depreciation.

RISKS

1) Uncertainty over the outcome in litigations with Indian authorities regarding overpricing of drugs 2) slowdown in product launches in India 3) increased pricing pressure in exports as customers face more pricing pressure 4) lack of succession plan.

VALUATIONS

We value Cipla at 16x FY10E EPS, which is at a premium to the sector. Despite being an inferior exports model over the longer term, we believe the premium is justified in the current financial environment since it is less risky and has higher earnings resilience.

KEY FINANCIALS (CONSOLIDATED)						Rs mn
	FY07	FY08	FY09E	FY10E	FY11E	
Net Sales YoY Gr. (%)	18.8	16.2	27.1	16.0	15.9	
OPM (%)	23.9	20.1	24.1	22.3	21.9	
Adjusted Net Profit	6,669	6,996	7,903	8,657	10,232	
YoY Gr. (%)	29.9	4.9	13.0	9.5	18.2	
KEY RATIOS						
ROCE (%)	27.0	21.3	20.4	19.8	20.8	
RONW (%)	25.6	20.0	19.6	18.7	19.3	
P/E (x)	27.7	26.4	23.5	21.4	18.1	
EV/Sales (x)	5.2	4.5	3.6	3.1	2.6	
EV/EBITDA (x)	21.6	22.4	14.8	13.8	12.1	

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STOCK DATA

Market Cap	Rs185bn
Book Value per share	Rs56
Eq Shares O/S (FV Rs2)	777mn
Free Float	60.2%
Avg. Traded Value (6 mths)	Rs289mn
52 Week High/Low	Rs244/146
Bloomberg Code	CIPLA IN
Reuters Code	CIPL.BO

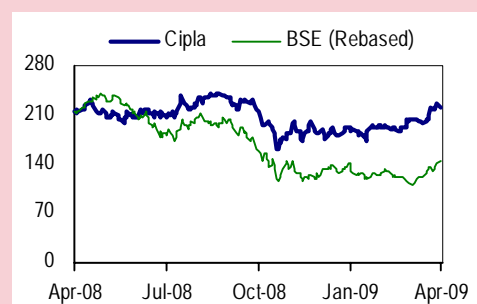
TOP SHAREHOLDERS

Name	% holding
LIC India	13.5
Dodge & Cox International Stock Fund	2.4
Magellan	2.1

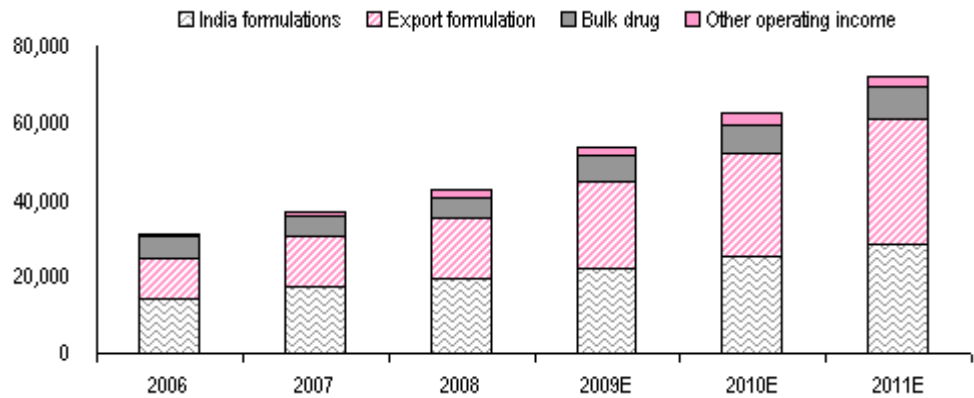
PERFORMANCE (%)

	1M	3M	12M
Absolute	19.4	30.2	7.5
Relative	(2.5)	12.8	41.1

RELATIVE PERFORMANCE

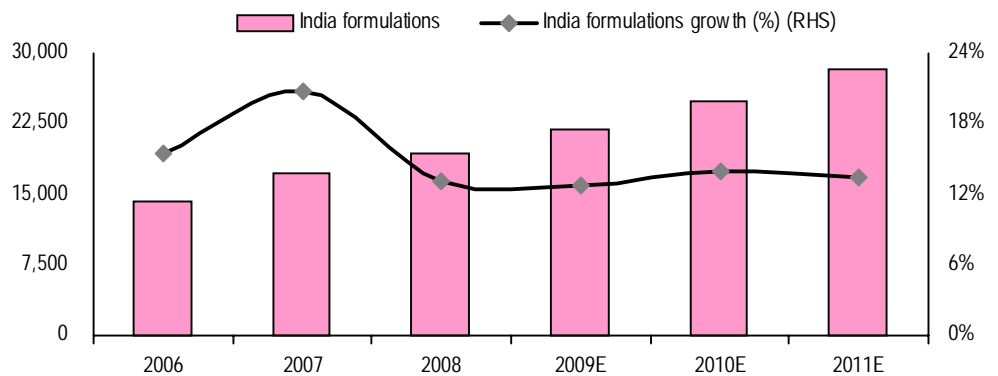


Revenue Breakup (Rs mn)



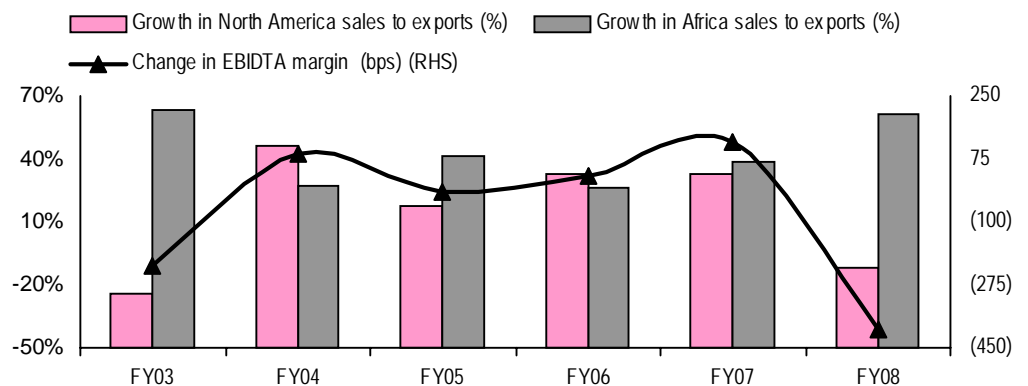
Source: PINC Research

India Formulations Revenues (Rs mn) and Growth



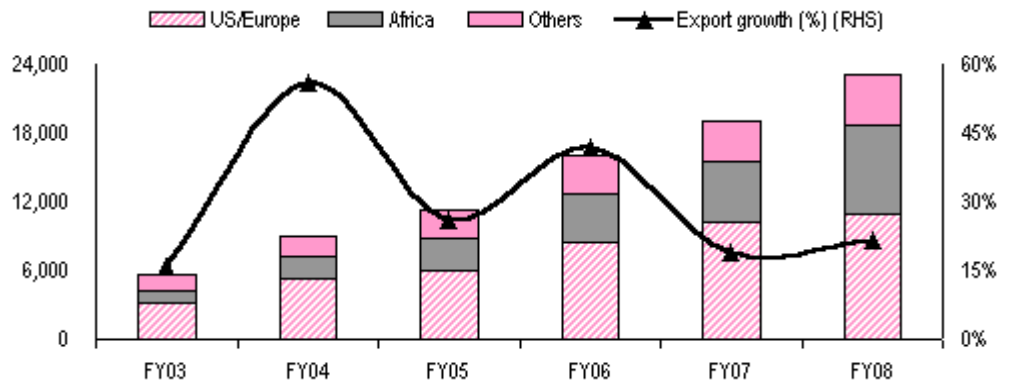
Source: PINC Research

EBITDA Margin and US and Africa Sales Growth



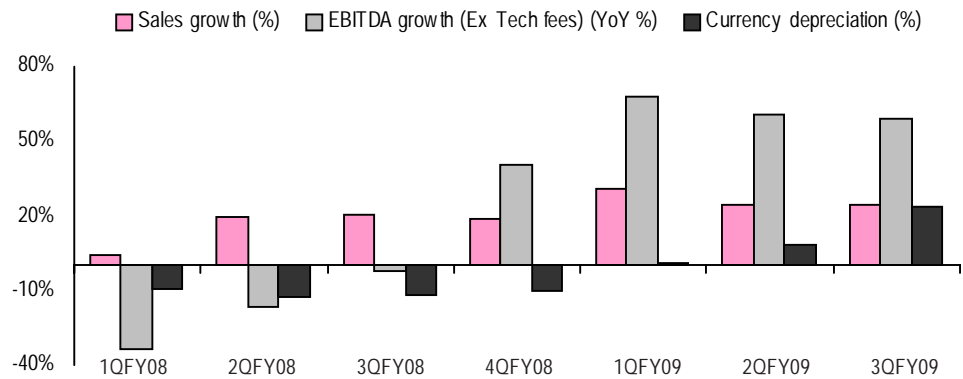
Source: PINC Research

Export Revenues (Rs mn) and Growth



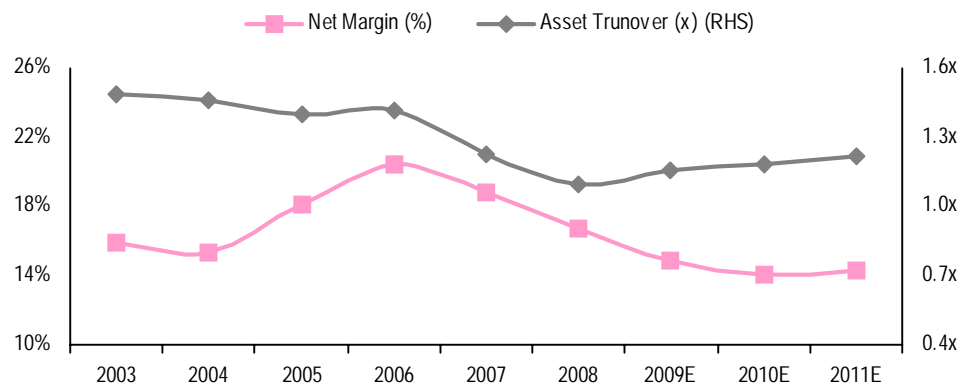
Source: PINC Research

Sales and EBITDA Growth in Relation to Currency Depreciation



Source: PINC Research

Net Margin and Asset Turnover



Source: PINC Research

Year Ended March (Figures in Rs mn)

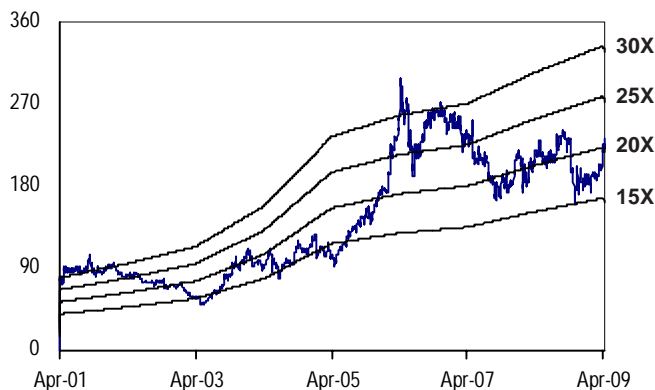
Income Statement	FY07	FY08	FY09E	FY10E	FY11E
Net sales	34,855	40,499	51,477	59,714	69,207
Growth (%)	18.8	16.2	27.1	16.0	15.9
Other operating income	765	1,534	1,841	2,025	2,126
Total Revenues	35,620	42,033	53,317	61,739	71,333
EBITDA	8,514	8,458	12,847	13,758	15,625
Growth (%)	27.2	(0.7)	51.9	7.1	13.6
Depreciation	1,034	1,307	1,453	1,478	1,479
Other Income	658	1,331	(1,673)	(1,660)	(1,646)
EBIT	8,138	8,482	9,721	10,620	12,500
Interest Paid	70	117	289	289	289
PBT (before E/o items)	8,068	8,365	9,431	10,331	12,210
Tax Provision	1,400	1,369	1,528	1,674	1,978
E/o income/(loss)	11	18	-	-	-
Net Profit	6,680	7,014	7,903	8,657	10,232
Adjusted Net Profit	6,669	6,996	7,903	8,657	10,232
Growth (%)	29.9	4.9	13.0	9.5	18.2
Diluted EPS (Rs)	8.6	9.0	10.2	11.1	13.2
Diluted EPS Growth (%)	9.9	5.0	12.7	9.5	18.2

Cash Flow Statement	FY07	FY08	FY09E	FY10E	FY11E
PBIT	7,480	7,151	11,394	12,280	14,145
Depreciation	1,034	1,307	1,453	1,478	1,479
Total Tax Paid	(1,400)	(1,369)	(1,528)	(1,674)	(1,978)
Chg in working capital	(5,093)	(6,029)	(4,755)	(6,903)	(5,562)
Other operating activities	589	1,214	(1,962)	(1,949)	(1,935)
Cash flow from oper (a)	2,609	2,274	4,602	3,232	6,150
Capital Expenditure	(4,192)	(5,620)	(2,000)	(1,500)	(1,500)
Chg in investments	(954)	231	(289)	801	(1,657)
Other investing activities	-	-	-	-	-
Cash flow from inv.(b)	(5,146)	(5,390)	(2,289)	(699)	(3,157)
Free cash flow (a+b)	(2,537)	(3,115)	2,313	2,532	2,993
Equity raised/(repaid)	8,118	-	-	-	-
Debt raised/(repaid)	(3,454)	4,570	(20)	-	-
Change in Minority Int	2	3	4	5	6
Dividend (incl. Tax)	(1,819)	(1,819)	(2,312)	(2,532)	(2,993)
Other financing activities	320	-	(1,165)	(1,165)	(1,165)
Cash flow from fin. (c)	3,168	2,754	(3,492)	(3,692)	(4,152)
Net chg in cash (a+b+c)	631	(361)	(1,179)	(1,160)	(1,159)

Balance Sheet	FY07	FY08	FY09E	FY10E	FY11E
Equity Share Capital	1,555	1,555	1,555	1,555	1,555
Reserves & surplus	30,808	36,004	41,614	47,739	54,979
Shareholders' funds	32,363	37,558	43,169	49,294	56,533
Minorities interests	-	-	-	-	-
Total Debt	1,236	5,805	5,786	5,786	5,786
Capital Employed	33,598	43,364	48,954	55,079	62,319
Net fixed assets	14,613	18,945	19,492	19,514	19,535
Cash & Cash Eq.	1,315	793	500	500	500
Net Other current assets	17,619	24,170	29,217	36,121	41,683
Investments	1,178	948	1,237	436	2,093
Net Deferred tax Assets	(1,127)	(1,492)	(1,492)	(1,492)	(1,492)
Total Assets	33,598	43,364	48,954	55,079	62,319

Key Ratios	FY07	FY08	FY09E	FY10E	FY11E
OPM (%)	23.9	20.1	24.1	22.3	21.9
Net Margin (%)	19.1	17.3	15.4	14.5	14.8
Div. Yield (%)	0.8	0.8	1.1	1.2	1.4
Net debt/Equity (x)	(0.0)	0.1	0.1	0.1	0.1
Net Working Capital (days)	180.5	209.9	200.0	213.5	213.3
ROCE (%)	27.0	21.3	20.4	19.8	20.8
RoE (%)	25.6	20.0	19.6	18.7	19.3
EV/Net Sales (x)	5.2	4.5	3.6	3.1	2.6
EV/EBITDA (x)	21.6	22.4	14.8	13.8	12.1
PER (x)	27.7	26.4	23.5	21.4	18.1
PCE (x)	24.0	22.3	19.8	18.3	15.8
Price/Book (x)	5.7	4.9	4.3	3.8	3.3

P/E Band



Key Assumptions

	FY08	FY09E	FY10E	FY11E
Formulation Export Gr. (% chg YoY)	20.2	45.0	20.0	20.0
Bulk Export Gr. (% chg YoY)	13.8	15.0	10.0	10.0
Domestic Formul Gr. (% chg YoY)	13.1	12.8	13.9	13.5
Domestic Bulk Gr. (% chg YoY)	2.8	82.5	2.0	2.0
Capital expenditure (Rs mn)	5,620	2,000	1,500	1,500
Gross margins (%)	51.0	52.3	50.7	50.8
EBITDA margins (%)	20.1	24.1	22.3	21.9

GLAXOSMITHKLINE PHARMACEUTICALS LTD

SELL

CMP : Rs1,099 TP : Rs961

BSE Sensex : 10,947

We initiate coverage on Glaxo Pharma (GSK) with a SELL. GSK has a stable business (with 10-12% growth on the base generic business) with high margins (>33%) and return ratios (ROCE of >30%). With not much incremental capex beyond maintenance, free cash generation is high as is the dividend payout (more than 90%). However valuations at 18x CY09 earnings are expensive in the back drop of muted earnings growth at 7% over the next 3 years. Moreover, the patented product opportunity is unlikely to make a material difference to GSK over the next 2 years given the large base and profitability of GSK's generic business and size of the sales from patented products.

Near term hurdles for patented products

GSK India, with a strong marketing presence in India is well equipped to take advantage of the robust pipeline of GSK Plc of 82 mid-late stage of development. However there are uncertainties surrounding the market potential of patented products in India such as pricing, potential margins, and potential volumes.

Muted growth in base business

GSK's generic business in India has been struggling for growth in the recent past given that it has higher DPCO exposure and intensifying competition from Indian players. We believe, given the large base and lack of strong generic product launch pipeline, GSK will struggle to show mid teens growth. GSK India also has a formidable positioning in the private vaccines market in India with a strong product portfolio and should be able to leverage the parent's pipeline in India. We estimate that the private market growth for vaccines in India will outpace the overall pharma growth of mid-teens on increased volume demand for existing products and new product launches.

RISKS

1) delays in product launches of patented products 2) Any large acquisition by the parent in the Indian generic space which could lead to some uncertainty.

VALUATIONS

We value GSK at 16x CY09E earnings at a premium to the sector to account for stability and certainty of earnings.

KEY FINANCIALS (CONSOLIDATED)						Rs mn
	CY07	CY08	CY09E	CY10E	CY11E	
Net Sales YoY Gr. (%)	1.7	5.3	16.0	10.3	10.9	
OPM (%)	34.6	35.2	35.0	35.9	36.7	
Adjusted Net Profit	5,475	5,911	5,058	5,627	6,338	
YoY Gr. (%)	(0.4)	8.0	(14.4)	11.3	12.6	
KEY RATIOS						
ROCE (%)	29.6	29.3	30.7	32.6	33.7	
RONW (%)	31.7	31.3	31.4	33.4	35.2	
P/E (x)	22.7	20.1	18.4	16.5	14.7	
EV/Sales (x)	5.8	5.5	4.7	4.3	3.9	
EV/EBITDA (x)	16.8	15.6	13.5	12.0	10.5	

17 April 2009

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STOCK DATA

Market Cap	Rs93bn
Book Value per share	Rs186
Eq Shares O/S (FV Rs10)	85mn
Free Float	49.3%
Avg. Traded Value (6 mths)	Rs43.0mn
52 Week High/Low	Rs1210/974
Bloomberg Code	GLXO IN
Reuters Code	GLAX.BO

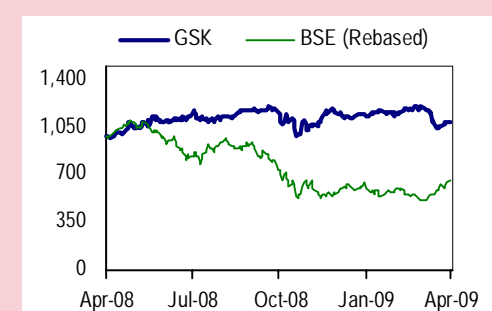
TOP SHAREHOLDERS

Name	% holding
LIC India	7.5
Aberdeen Assets Managers Ltd.	3.8
Aberdeen Assets Managers Ltd. Global	1.5
General Insurance Corp of India	1.5
LIC of India- Market Plus	1.3

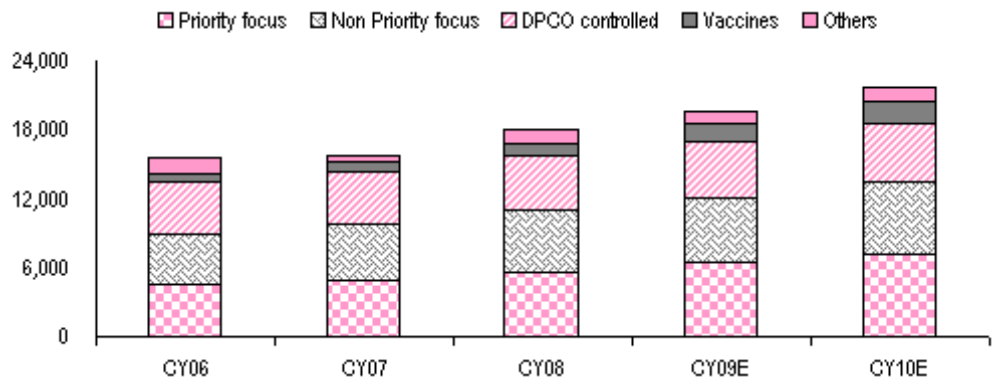
PERFORMANCE (%)

	1M	3M	12M
Absolute	0.1	(5.8)	9.4
Relative	(21.8)	(23.2)	43.0

RELATIVE PERFORMANCE

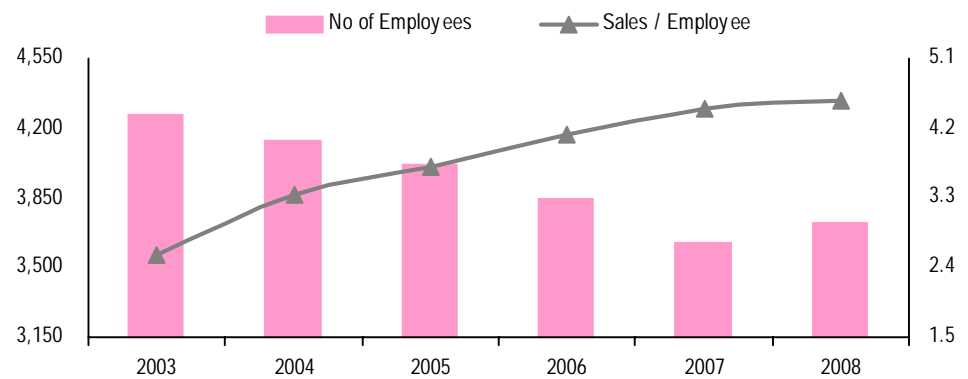


Revenue Breakup (Rs mn)



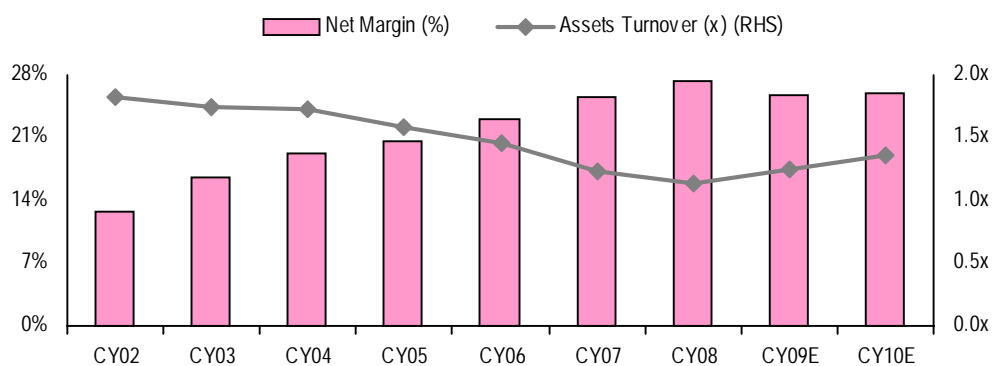
Source: PINC Research

Revenues Per Employee



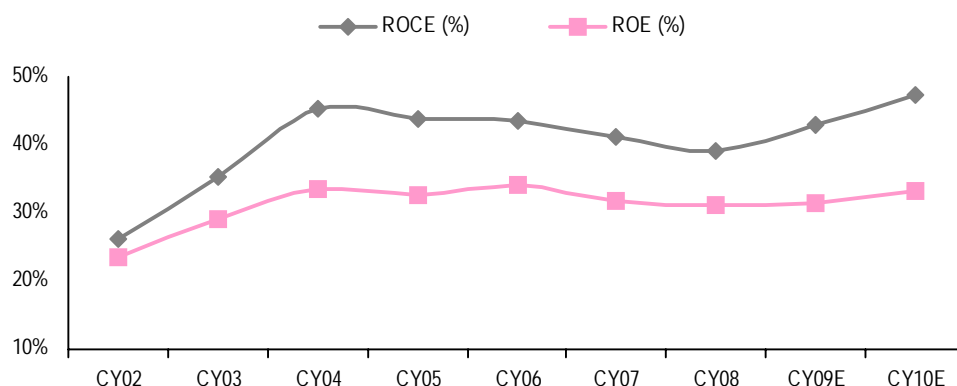
Source: PINC Research

Net Margin and Asset Turnover Ratio



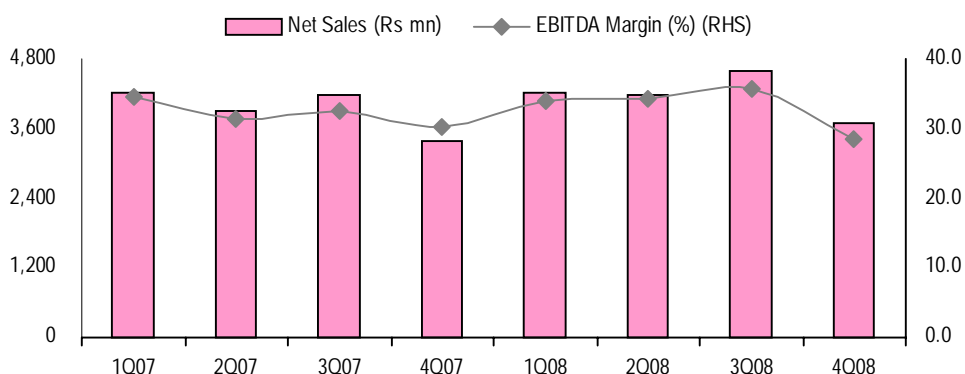
Source: PINC Research

ROCE and ROE



Source: PINC Research

Quarterly Net Sales and EBITDA Margin



Source: PINC Research

Parent's Pipeline

Product	Brand name	Indications	Filing globally	India launch	Global sales 2010E (USD mn)	India sales in 3rd year (Rs mn)
Precription Pharma						
Fluticasone furoate	Allermist	New glucocorticoid against for allergic rhinitis	2006	2009	614	200
Eltrombopag	Promacta/Revolade	idiopathic thrombocytopenic purpura (ITP)	2007	2010	437	na
Vaccines						
Rotarix	Rotarix	Gastroenteritis (Rotavirus causes diarrhoe)	2005	Q2 2008	583	300
Cervarix	Cervarix	Cervical Cancer	2006	2009	1,343	150
Streptorix	Streptorix	Streptococcal Pneumonia	2008	2010	0	400
Infanrix Hexa	Infanrix Hexa	Combination vaccine for 6 ailments	2006	2009	0	300

Source: PINC Research

Year Ended Dec. (Figures in Rs mn)

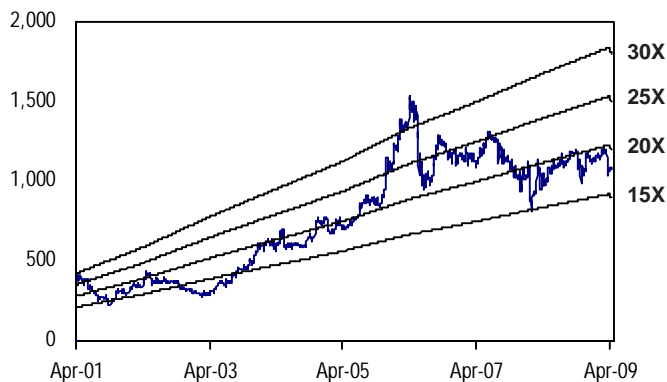
Income Statement	CY07	CY08	CY09E	CY10E	CY11E
Net sales	16,082	16,934	19,638	21,661	24,018
<i>Growth (%)</i>	<i>1.7</i>	<i>5.3</i>	<i>16.0</i>	<i>10.3</i>	<i>10.9</i>
Other operating income	-	-	-	-	-
Total Revenues	16,082	16,934	19,638	21,661	24,018
EBITDA	5,559	5,954	6,879	7,766	8,825
<i>Growth (%)</i>	<i>13.3</i>	<i>7.1</i>	<i>15.5</i>	<i>12.9</i>	<i>13.6</i>
Depreciation	205	163	168	175	182
Other Income	929	1,220	931	932	932
EBIT	6,282	7,010	7,641	8,522	9,575
Interest Paid	7	-	-	-	-
PBT (before E/o items)	6,275	7,010	7,641	8,522	9,575
Tax Provision	2,180	2,381	2,583	2,895	3,238
E/o income/(loss)	1,379	1,282	-	-	-
PAT (before E/o items)	4,096	4,629	5,058	5,627	6,338
Reported PAT	5,475	5,911	5,058	5,627	6,338
<i>Growth (%)</i>	<i>(0.4)</i>	<i>8.0</i>	<i>(14.4)</i>	<i>11.3</i>	<i>12.6</i>
Diluted EPS (Rs)	48.4	54.6	59.7	66.4	74.8
<i>Diluted EPS Growth (%)</i>	<i>11.9</i>	<i>13.0</i>	<i>9.3</i>	<i>11.3</i>	<i>12.6</i>

Cash Flow Statement	CY07	CY08	CY09E	CY10E	CY11E
Pre-tax profit	7,655	8,292	7,641	8,524	9,577
Depreciation	205	163	168	175	182
Total Tax Paid	(2,058)	(2,405)	(2,483)	(2,770)	(3,113)
Chg in working capital	1,430	71	(598)	156	(1,368)
Other operating activities					
Cash flow from oper (a)	7,232	6,122	4,728	6,085	5,279
Capital Expenditure	(146)	(238)	(280)	(350)	(350)
Chg in investments	-	-	-	-	-
Other investing activities					
Cash flow from inv.(b)	(146)	(238)	(280)	(350)	(350)
Free cash flow (a+b)	7,086	5,884	4,448	5,735	4,929
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)					
Change in Minority Int	-	-	-	-	-
Dividend (incl. Tax)	(3,476)	(3,475)	(4,345)	(4,828)	(4,828)
Other financing activities					
Cash flow from fin. (c)	(3,476)	(3,475)	(4,345)	(4,828)	(4,828)
Net chg in cash (a+b+c)	3,610	2,409	103	907	101

Balance Sheet	CY07	CY08	CY09E	CY10E	CY11E
<i>Equity Share Capital</i>	847	847	847	847	847
<i>Reserves & surplus</i>	12,961	14,908	15,621	16,422	17,933
Shareholders' funds	13,808	15,755	16,468	17,269	18,780
Minorities interests	-	-	-	-	-
Total Debt	58	56	-	-	-
Capital Employed	13,866	15,812	16,468	17,269	18,780
Net fixed assets	929	1,004	1,116	1,291	1,459
Cash & Cash Eq.	1,550	9,567	1,509	1,441	1,441
Net Other current assets	(2,281)	(2,352)	(1,755)	(1,911)	(543)
Investments	13,465	7,295	15,300	16,175	16,175
Net Deferred tax Assets	203	298	298	273	248
Total Assets	13,866	15,812	16,468	17,269	18,780

Key Ratios	CY07	CY08	CY09E	CY10E	CY11E
OPM (%)	34.6	35.2	35.0	35.9	36.7
Net Margin (%)	34.0	34.9	25.8	26.0	26.4
Div. Yield (%)	3.3	3.6	4.1	4.5	4.5
Net debt/Equity (x)	(1.1)	(1.1)	(1.0)	(1.0)	(0.9)
Net Working Capital (days)	(51.8)	(50.7)	(32.6)	(32.2)	(8.2)
ROCE (%)	29.6	29.3	30.7	32.6	33.7
RoE (%)	31.7	31.3	31.4	33.4	35.2
EV/Net Sales (x)	5.8	5.5	4.7	4.3	3.9
EV/EBITDA (x)	16.8	15.6	13.5	12.0	10.5
PER (x)	22.7	20.1	18.4	16.5	14.7
PCE (x)	16.4	15.3	17.8	16.0	14.3
Price/Book (x)	6.7	5.9	5.7	5.4	5.0

P/E Band



Key Assumptions

	CY08	CY09E	CY10E	CY11E
Pharma products (% chg YoY)	20.3	9.7	10.8	11.4
Vaccines (% chg YoY)	35.0	35.0	35.0	35.0
Revenue growth (% chg YoY)	5.3	16.0	10.3	10.9
EBITDA margins (%)	35.2	35.0	35.9	36.7
Effective Tax rate (%)	34.0	33.8	34.0	33.8

DR REDDY'S LABORATORIES LTD.

HOLD

CMP : Rs524 TP : Rs534

BSE Sensex : 10,947

We initiate coverage on Dr Reddy's with a HOLD and a 12 month target price of Rs534/share indicating a limited upside. We remain sceptical of the potential upside in revenue and profitability that the AOK tenders provide since the pricing environment in Germany remains challenging. Growth in India continues to be anaemic with added uncertainty in Russia on the back of the falling currency. US is the only silver lining with strong growth.

Recent optimism short lived

DRL has recently risen on the back of positive news flow on generic Prilosec and generic Arixtra. A favourable summary judgement on generic Prilosec OTC would improve the earnings visibility for H2 FY10E onwards. We note that while Dr Reddy's may enjoy an extended (12 month v/s the usual 6 month) exclusivity on the product, it is a one off and should be treated as such. An approval by the US FDA and subsequent launch of generic Arixtra in US would be a unique opportunity and we incorporate the same in our earnings for FY11E.

Profitability to remain muted

Dr Reddy's has a high SG&A ratio of c30%. We believe that with a large part of its SG &A cost in foreign currency DRL remain at a disadvantage v/s peers in a depreciating INR environment. With continued pressure on margins in APIs and Germany, a significant build out of speciality business in US and currency headwinds in Russia any improvement in profitability is expected to remain muted.

RISKS

1) Improvement in German market environment 2) An improvement in financial environment in Russia and Mexico. 3) Any potential unlocking of the intellectual property in the innovative R&D.

VALUATIONS

We value Dr Reddy's at 15x FY10E recurring earnings at a premium to the sector. We recognise that DRL's asset impairment policy depresses profitability and hence we argue for a premium to the sector multiple since peers do not do the same.

KEY FINANCIALS (CONSOLIDATED)						Rs mn
	FY07	FY08	FY09E	FY10E	FY11E	
Net Sales YoY Gr. (%)	92.0	0.5	26.9	13.1	10.1	
OPM (%)	16.2	4.6	11.8	11.2	13.9	
Adjusted Net Profit	9,328	3,635	6,837	6,758	9,756	
YoY Gr. (%)	904.1	(61.0)	88.1	(1.2)	44.4	
KEY RATIOS						
ROCE (%)	13.7	2.7	8.9	8.5	11.3	
RONW (%)	28.6	10.4	13.8	12.4	15.9	
P/E (x)	14.9	37.8	19.1	15.1	14.7	
EV/Sales (x)	1.9	2.1	1.7	1.5	1.3	
EV/EBITDA (x)	16.3	107.3	17.8	14.4	12.6	

17 April 2009

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STOCK DATA

Market Cap	Rs88bn
Book Value per share	Rs315
Eq Shares O/S (FV Rs5)	168mn
Free Float	68.7%
Avg. Traded Value (6 mths)	Rs216mn
52 Week High/Low	Rs728/374
Bloomberg Code	DRRDIN
Reuters Code	REDY.BO

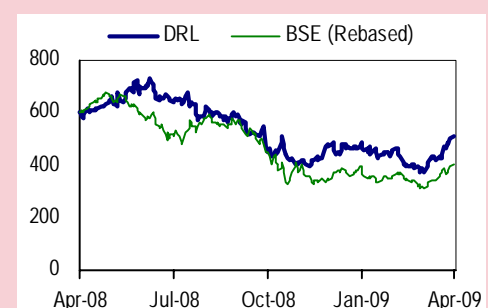
TOP SHAREHOLDERS

Name	% holding
LIC India	12.8
HSBC Global Investment Fund	3.7
HDFC Trustee Co Ltd.	2.4
The Master Trust Bank of Japan Ltd.	1.7
Bajaj Allianz Life Insurance Co Ltd.	1.5

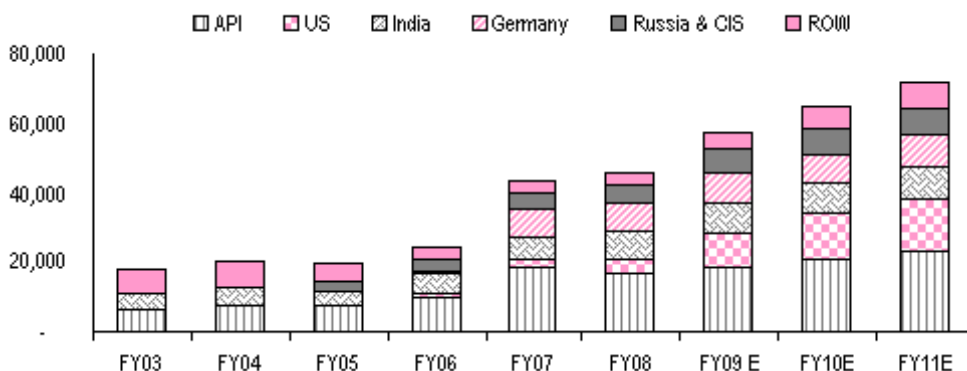
PERFORMANCE (%)

	1M	3M	12M
Absolute	20.2	17.2	(13.6)
Relative	(1.7)	(0.2)	19.9

RELATIVE PERFORMANCE

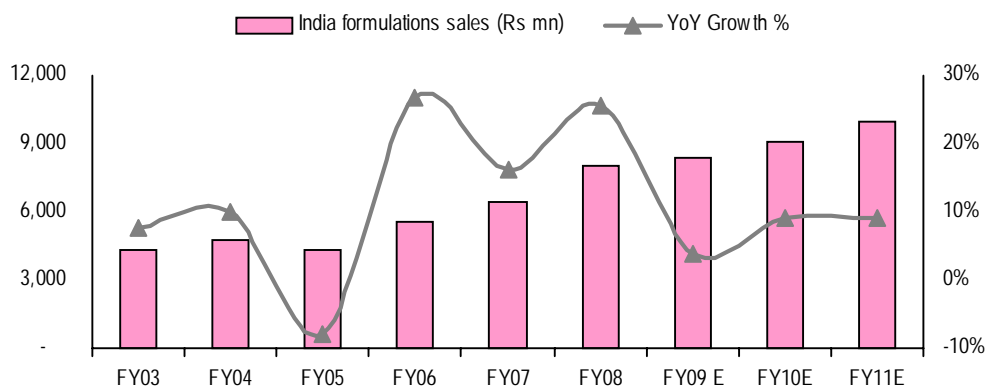


Revenues Breakup (Rs mn)



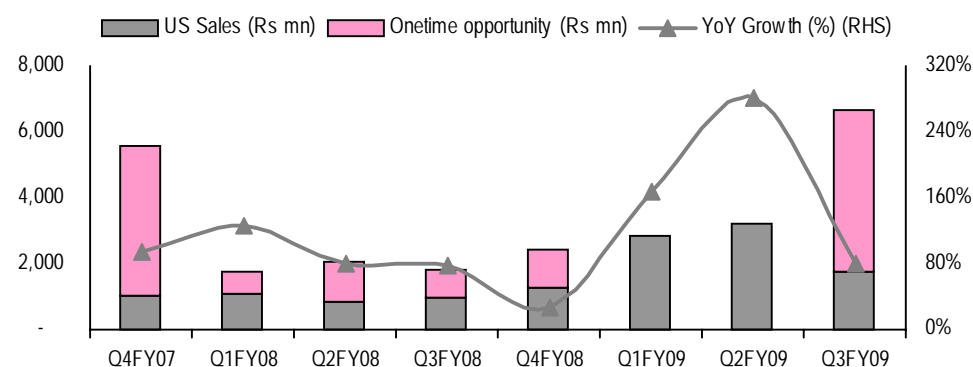
Source: PINC Research

India Formulations Sales (Rs mn) and Growth



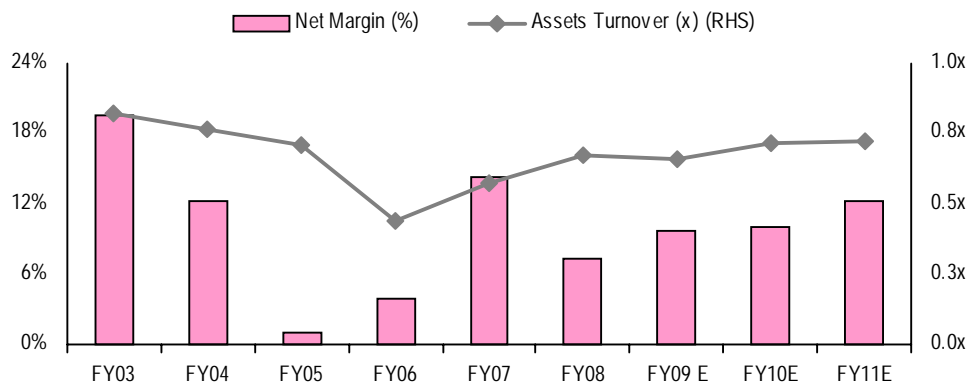
Source: PINC Research

Quarterly US Sales, Overtime Opportunity and YoY Growth



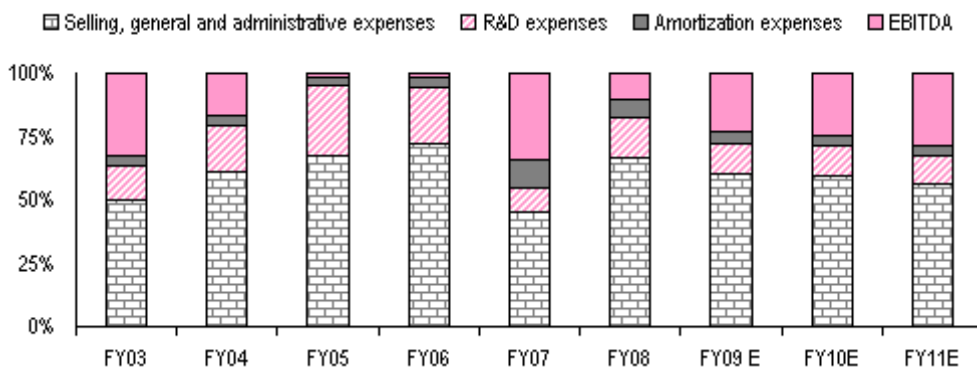
Source: PINC Research

Net Margin and Assets Turnover Ratio



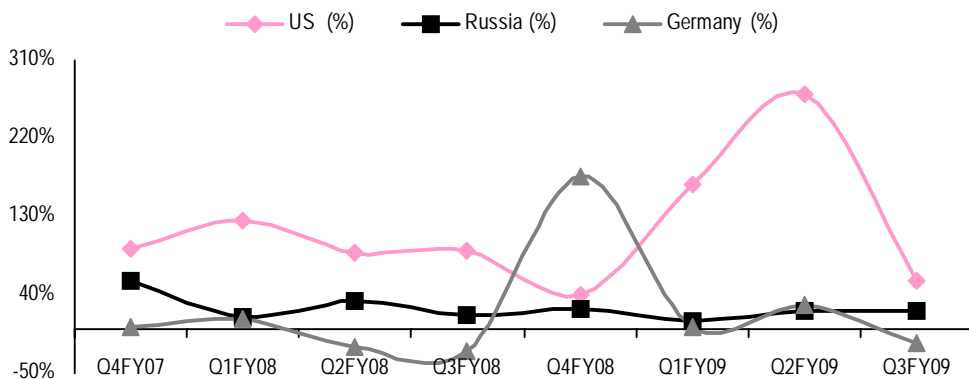
Source: PINC Research

Key Expenses and EBITDA (Rs mn)



Source: PINC Research

Currency Adjusted Sales Growth in US, Russia and Germany



Source: PINC Research

Year Ended March (Figures in Rs mn)
Based on US GAAP

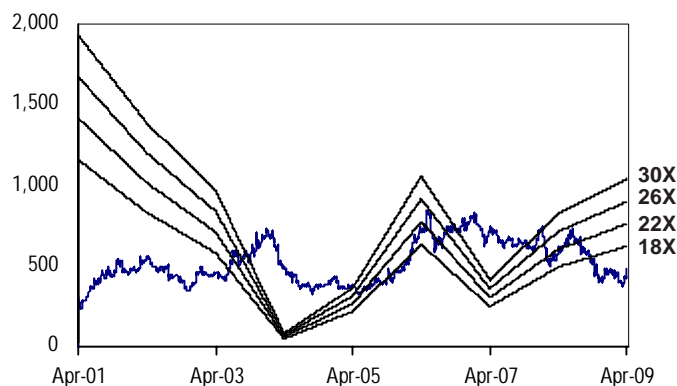
Income Statement	FY07	FY08	FY09E	FY10E	FY11E
Recurring Net sales	45,242	45,446	57,650	65,205	71,772
Growth (%)	92.0	0.5	26.9	13.1	10.1
Onetime opportunities	19,853	4,559	8,869	2,481	8,368
Total Revenues	65,095	50,005	66,519	67,685	80,139
EBITDA	10,567	2,321	7,876	7,610	11,138
Growth (%)	6,587.9	(78.0)	239.3	(3.4)	46.4
Depreciation	-	-	-	-	-
Other Income	(3)	30	(10)	400	400
EBIT	10,564	2,351	7,866	8,010	11,538
Interest Paid	-	-	-	-	-
PBT (before E/o items)	10,564	2,351	7,866	8,010	11,538
Tax Provision	(1,177)	1,279	(1,046)	(1,193)	(1,722)
E/o income/(loss)	1,770	141	-	-	-
Net Profit (before E/o items)	11,098	3,776	6,837	6,758	9,756
Adjusted Net Profit	9,328	3,635	6,837	6,758	9,756
Growth (%)	904.1	(61.0)	88.1	(1.2)	44.4
Diluted EPS (Rs)	66.0	22.5	40.7	40.2	58.0
Diluted EPS Growth (%)	1,094.6	(66.0)	81.1	(1.2)	44.4

Cash Flow Statement	FY07	FY08	FY09E	FY10E	FY11E
Pre-tax profit	9,327	4,678	6,837	6,758	9,756
Depreciation	3,010	3,388	-	-	-
Total Tax Paid	-	-	-	-	-
Chg in working capital	(3,401)	(482)	(7,863)	(425)	(4,538)
Other operating activities	3,025	(1,462)	(4,363)	-	-
Cash flow from oper (a)	11,961	6,123	(5,389)	6,333	5,218
Capital Expenditure	(4,652)	(6,715)	(900)	(900)	(900)
Chg in invetments	(224)	(3,468)	-	-	-
Other investing activities	5,313	583	-	-	-
Cash flow from inv.(b)	436	(9,600)	(900)	(900)	(900)
Free cash flow (a+b)	12,397	(3,477)	(6,289)	5,433	4,318
Equity raised/(repaid)	10,040	15	-	-	-
Debt raised/(repaid)	(7,849)	(6,106)	-	-	-
Change in Minority Int	-	-	-	-	-
Dividend (incl. Tax)	(437)	(737)	(869)	(869)	(869)
Other financing activities	118	(278)	-	-	-
Cash flow from fin. (c)	1,872	(7,106)	(869)	(869)	(869)
Net chg in cash (a+b+c)	14,269	(10,583)	(7,157)	4,564	3,450

Balance Sheet	FY07	FY08	FY09E	FY10E	FY11E
Equity Share Capital	840	841	841	841	841
Reserves & surplus	40,739	46,226	52,194	58,083	66,970
Shareholders' funds	41,578	47,067	53,035	58,924	67,811
Minorities interests	10	-	-	-	-
Total Debt	18,154	13,344	13,344	13,344	13,344
Capital Employed	59,743	60,410	66,379	72,267	81,155
Net fixed assets	46,862	50,371	51,271	52,171	53,071
Cash & Cash Eq.	18,588	7,421	264	4,828	8,277
Net Other current assets	620	8,020	20,246	20,671	25,209
Investments	1,316	240	240	240	240
Net Deferred tax Assets	(7,643)	(5,642)	(5,642)	(5,642)	(5,642)
Total Assets	59,743	60,410	66,379	72,267	81,155

Key Ratios	FY07	FY08	FY09E	FY10E	FY11E
OPM (%)	16.2	4.6	11.8	11.2	13.9
Net Margin (%)	17.0	7.6	10.3	10.0	12.2
Div. Yield (%)	0.8	0.9	0.9	0.9	0.9
Net debt/Equity (x)	(0.0)	0.0	0.1	0.1	(0.0)
Net Working Capital (days)	5.3	57.2	110.0	110.4	113.9
ROCE (%)	13.7	2.7	8.9	8.5	11.3
RoE (%)	28.6	10.4	13.8	12.4	15.9
EV/Net Sales (x)	1.9	2.1	1.7	1.5	1.3
EV/EBITDA (x)	16.3	107.3	17.8	14.4	12.6
PER (x)	14.9	37.8	19.1	15.1	14.7
PCE (x)	6.9	16.8	10.5	10.9	8.0
Price/Book (x)	2.1	1.9	1.7	1.5	1.3

P/E Band



Key Assumptions

	FY08	FY09E	FY10E	FY11E
Recurring business (% chg YoY)	0.5	26.9	13.1	10.1
One time opportunities (Rs mn)	4,559	8,869	2,481	8,368
Gross Margins on base business (%)	50.4	54.8	48.3	49.8
OPMs - Ex one time (%)	1.9	9.8	10.2	10.3
Recurring EPS (Rs)	13.9	27.5	34.7	35.7
Recurring EPS growth (% chg YoY)	(60.6)	98.5	26.0	2.9

RANBAXY LABORATORIES LTD.

BUY

CMP : Rs186 TP : Rs222

BSE Sensex : 10,947

We initiate coverage on Ranbaxy with a BUY. With new owners, a stronger balance sheet and front end presence in 60 countries across most important generic markets, Ranbaxy is poised to take advantage of the growth in the global generics. Moreover, we believe Ranbaxy is the best placed to tap the huge Japanese generics market. While uncertainties regarding the US FDA ban and aggressive foreign exchange cover persist, we believe, valuations remain compelling at 12x CY09E recurring earnings.

Uncertainties surrounding the US FDA ban

While the US FDA ban on import of products from 2 facilities in India continues, we remain sanguine of the company's ability to tackle the issue over the longer term. In our view the charges levied against Ranbaxy of falsifying records etc. are serious and could have grave ramifications on Ranbaxy's US business. However, with Daiichi announcing the formation of a joint team to tackle the situation, uncertainties around this issue are nearer to closure.

Financials remain vulnerable to Forex fluctuations

Given the global and diversified operations of Ranbaxy and the significant hedges taken by the company, its financials remain vulnerable to currency volatility. EBITDA margins on constant currency improved by c300bps to 13% in CY08 even as currency fluctuations led reported margins to contract to 8.3%. This trend is likely to continue in the near term as the currencies markets across the world remain volatile.

RISKS

1) Aggressive foreign exchange management leaves earnings vulnerable to currency fluctuations 2) Further worsening of the US FDA imbroglio (v/s our expectations of an improvement) 3) write-offs related to sales in some of the emerging markets

VALUATIONS

We value Ranbaxy at 17x one year forward earnings, at a premium to the sector given Ranbaxy's scale and reach of operations. We add the NPV of one time patent settlements of Rs50/share to our target price. Hence our SOTP based target price of Rs222/share.

KEY FINANCIALS (CONSOLIDATED)					Rs mn
	CY07	CY08	CY09E	CY10E	CY11E
Net Sales YoY Gr. (%)	10.5	8.7	2.8	8.5	10.2
OPM (%)	33.6	8.3	14.3	16.7	15.4
Adjusted Net Profit	4,351	(1,392)	4,488	4,984	6,362
YoY Gr. (%)	(13.9)	(132.0)	(422.4)	11.1	27.6
KEY RATIOS					
ROCE (%)	12.5	5.6	8.0	8.1	9.2
RONW (%)	16.1	(3.5)	8.9	9.8	12.1
P/E (x)	11.8	(46.6)	14.5	13.0	10.2
EV/Sales (x)	1.6	1.7	1.8	1.7	1.6
EV/EBITDA (x)	11.6	20.6	12.2	11.6	10.3

17 April 2009

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STOCK DATA

Market Cap	Rs78bn
Book Value per share	Rs121
Eq Shares O/S (FV Rs5)	419mn
Free Float	35.0%
Avg. Traded Value (6 mths)	Rs643mn
52 Week High/Low	Rs598/135
Bloomberg Code	RBXY IN
Reuters Code	RANB.BO

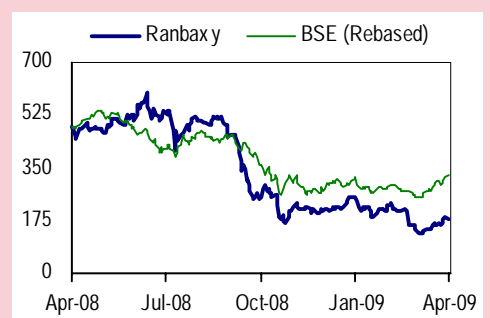
TOP SHAREHOLDERS

Name	% holding
LIC India	7.3

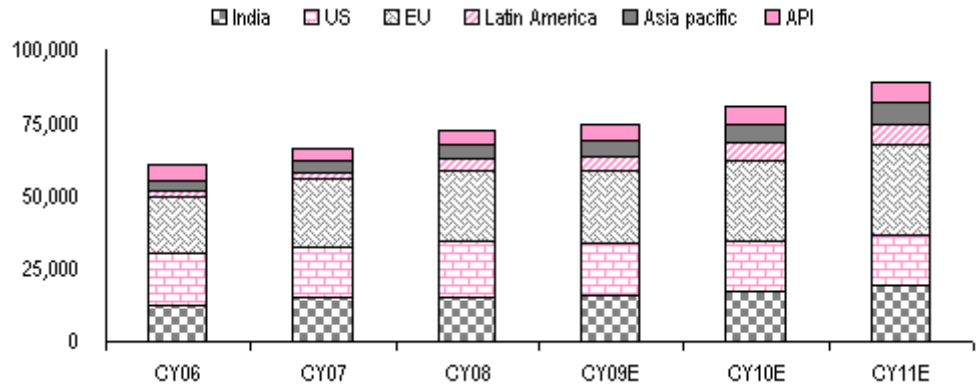
PERFORMANCE (%)

	1M	3M	12M
Absolute	27.9	(14.4)	(61.2)
Relative	6.0	(31.8)	(27.6)

RELATIVE PERFORMANCE

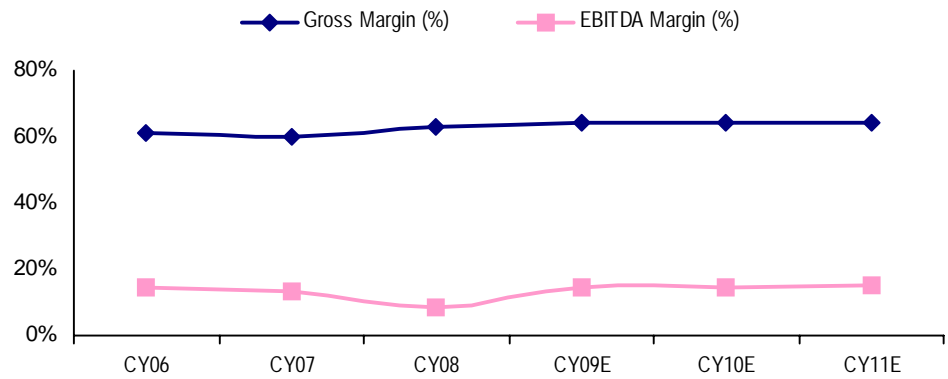


Revenue Breakup (Rs mn)



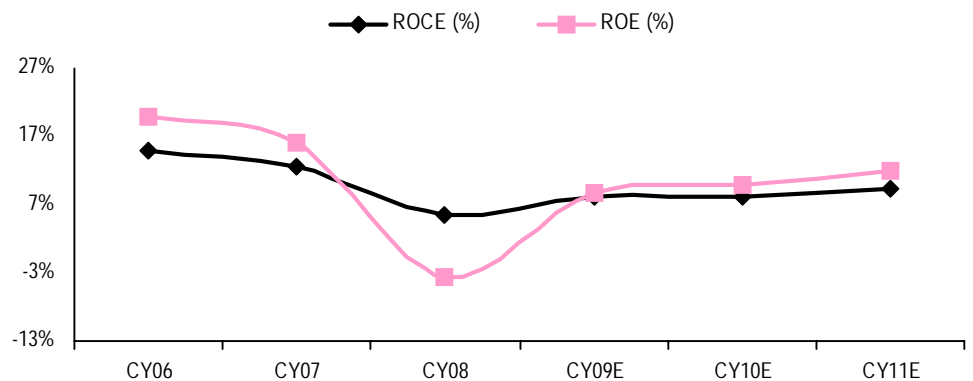
Source: PINC Research

Gross and EBITDA Margin



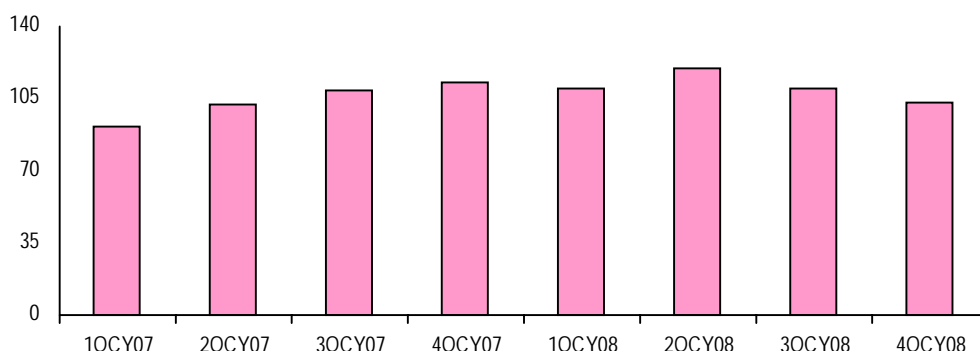
Source: PINC Research

ROCE and ROE



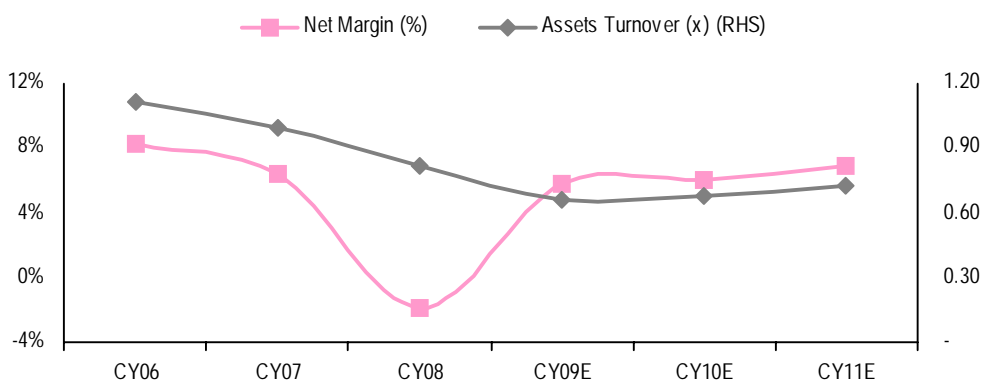
Source: PINC Research

Quarterly USA Revenues (USD mn)



Source: PINC Research

Net Margin and Assets Turnover



Source: PINC Research

Benefits of Onetime Opportunities

Molecule	Launch Date	Branded Sales	Annual Sales (Rs mn)	Annual cash flows (Rs mn)	Particulars of Cash flows	NPV (Rs/ Share)
Lipitor (US)	30-Nov-11	4,112	19,899	11,939	For 180 days since Launch	16
Lipitor (Non US markets)	30-Nov-11	2,000	7,854	4,713	For 90 days post launch	6
Nexium Formulation supply	15-May-10	na	11,021	1,102	For 4 years since launch	6
Nexium API	15-May-09	na	12,245	1,225	For 5 years since launch	8
Nexium	15-May-14	2,800	10,778	6,467	For 180 days since Launch	5
Valtrex	23-Nov-09	250	1,037	518	For 180 days since Launch	1
Flomax	2-Mar-10	1,868	6,456	3,228	For 8 Months since Launch	6
Total		11,030	69,289	29,192		48

Source: PINC Research

Year Ended Dec. (Figures in Rs mn)

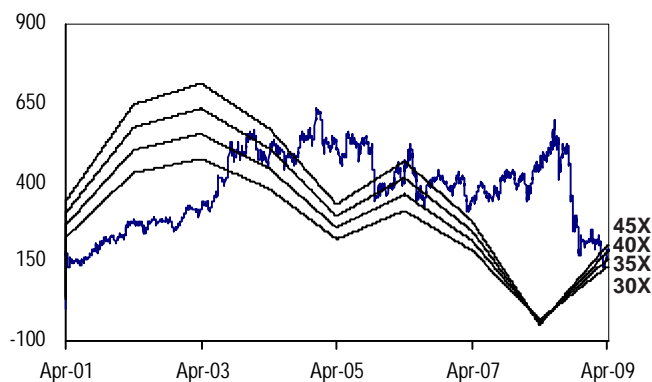
Income Statement	CY07	CY08	CY09E	CY10E	CY11E
Net sales	66,480	72,269	74,327	80,679	88,875
<i>Growth (%)</i>	<i>10.5</i>	<i>8.7</i>	<i>2.8</i>	<i>8.5</i>	<i>10.2</i>
One time opportunities	-	-	6,295	18,746	26,580
Other operating income	1,330	2,254	2,289	21,098	29,022
EBITDA	9,147	6,167	11,838	16,971	18,110
<i>Growth (%)</i>	<i>4.3</i>	<i>(32.6)</i>	<i>92.0</i>	<i>43.4</i>	<i>6.7</i>
Depreciation	2,183	2,656	2,945	3,322	3,625
Other Income	-	(9,389)	(970)	(394)	(78)
EBIT	6,964	(5,878)	7,923	13,254	14,406
Interest Paid	637	1,108	1,802	2,043	2,141
PBT (before E/o items)	6,327	(6,986)	6,121	11,212	12,265
Tax Provision	2,119	(5,605)	924	1,167	1,577
E/o income/(loss)	3,338	(7,766)	(802)	(326)	(65)
Reported Net Profit	7,422	(9,158)	3,686	4,658	6,297
Adjusted Net Profit	4,351	(1,392)	4,488	4,984	6,362
<i>Growth (%)</i>	<i>(13.9)</i>	<i>(132.0)</i>	<i>(422.4)</i>	<i>11.1</i>	<i>27.6</i>
Diluted EPS (Rs)	11.7	(3.0)	9.5	10.6	13.5
<i>Diluted EPS Growth (%)</i>	<i>(13.9)</i>	<i>(125.4)</i>	<i>(422.4)</i>	<i>11.1</i>	<i>27.6</i>

Cash Flow Statement	CY07	CY08	CY09E	CY10E	CY11E
Pre-tax profit	9,985	(14,752)	4,621	5,836	7,885
Depreciation	2,183	(2,656)	(2,945)	(3,322)	(3,625)
Total Tax Paid	(1,411)	(5,605)	924	1,167	1,577
Chg in working capital	1,670	(5,709)	(4,136)	(2,461)	(3,320)
Other operating activities	(2,738)	9,664	427	(668)	(986)
Cash flow from oper (a)	9,689	(19,058)	(1,110)	552	1,531
Capital Expenditure	(5,227)	(1,088)	(5,000)	(3,750)	(3,750)
Chg in investments	(4,272)	(29,686)	(1,628)	652	(1,229)
Other investing activities	1,090	(494)	(226)	(696)	(898)
Cash flow from inv.(b)	(8,408)	(31,268)	(6,854)	(3,794)	(5,877)
Free cash flow (a+b)	1,280	(50,325)	(7,963)	(3,243)	(4,346)
Equity raised/(repaid)	92	-	-	-	-
Debt raised/(repaid)	4,333	18,881	9,000	2,500	3,500
Change in Minority Int	236	(113)	-	-	-
Dividend (incl. Tax)	(3,642)	(3,924)	(3,924)	(3,924)	(3,924)
Other financing activities	(1,412)	1,886	2,269	2,556	2,706
Cash flow from fin. (c)	(392)	16,730	7,344	1,132	2,282
Net chg in cash (a+b+c)	889	(33,595)	(619)	(2,111)	(2,064)

Balance Sheet	CY07	CY08	CY09E	CY10E	CY11E
<i>Equity Share Capital</i>	1,865	2,096	2,096	2,096	2,096
<i>Reserves & surplus</i>	26,169	48,645	48,405	49,139	51,512
Shareholders' funds	28,034	50,742	50,501	51,235	53,608
Minorities interests	571	582	593	604	615
Total Debt	41,416	60,297	69,297	71,797	75,297
Capital Employed	70,020	111,620	120,390	123,635	129,520
Net fixed assets	45,619	44,482	46,968	47,827	48,383
Cash & Cash Eq.	4,379	11,226	11,521	11,401	11,282
Net Other current assets	19,053	25,257	29,619	32,776	36,994
Investments	2,403	32,089	33,717	33,066	34,295
Net Deferred tax Assets	(1,434)	(1,434)	(1,434)	(1,434)	(1,434)
Total Assets	70,020	111,620	120,390	123,635	129,520

Key Ratios	CY07	CY08	CY09E	CY10E	CY11E
OPM (%)	33.6	8.3	14.3	16.7	15.4
Net Margin (%)	6.5	(1.9)	6.0	6.2	7.2
Div. Yield (%)	4.6	4.3	4.3	4.3	4.3
Net debt/Equity (x)	1.2	0.3	0.5	0.5	0.6
Net Working Capital (days)	102.6	123.7	141.1	144.1	147.9
ROCE (%)	12.5	5.6	8.0	8.1	9.2
RoE (%)	16.1	(3.5)	8.9	9.8	12.1
EV/Net Sales (x)	1.6	1.7	1.8	1.7	1.6
EV/EBITDA (x)	11.6	20.6	12.2	11.6	10.3
PER (x)	11.8	(46.6)	14.5	13.0	10.2
PCE (x)	7.2	(12.0)	11.8	9.8	7.9
Price/Book (x)	2.5	1.5	1.5	1.5	1.5

P/E Band



Key Assumptions

	FY08	FY09E	FY10E	FY11E
India (% chg YoY)	19.3	0.0	6.0	10.0
EU, CIS and Africa (% chg YoY)	25.7	3.6	3.5	10.5
North America (% chg YoY)	(3.3)	12.8	(9.0)	(3.2)
API Sales (% chg YoY)	(20.2)	21.5	10.0	15.0
One time revenues (Rs mn)	0	6,295	18,746	26,580
One time EBITDA (Rs mn)	0	699	5,049	4,316
Recurring Net Income (Rs mn)	(1,392)	4,488	4,984	6,362

GLENMARK PHARMACEUTICALS LTD.

BUY

CMP : Rs181 TP : Rs227

BSE Sensex : 10,947

17 April 2009

We initiate coverage on Glenmark with a BUY. Glenmark's diversified generics business model has been badly hurt in the current environment where capital availability is difficult and there is destocking of inventory especially in emerging markets like Latin America, Asia and Russia which account for 22% of sales. This has been compounded by delays in approvals in the US (34% of sales). We believe that Glenmark would be at the forefront of taking advantage of the long term growth in the emerging markets. At 14x FY10E earnings (excluding milestones) valuations remain compelling and offer significant upside.

Uncertainty over out-licensing deals and higher NCE R&D spend

Given the difficult financial environment most pharma companies are cautious in building early stage (pre Phase 3) pipelines. However we continue to have faith in the innovative pipeline and the management's capability to capitalise on the pipeline given its track record of 3 out-licensing deals with large innovators. Increased R&D spend on innovative research (USD40mn in FY10E) may lead to depressed earnings growth.

Base business facing headwinds, higher R&D spend

Glenmark's performance in the generic business in 9MFY09 has been disappointing as is the guidance over the next 12 months on the back of delays in US approvals, inventory adjustments in Latin America and depreciating currency in some of the emerging markets. We view each of these factors as short term negatives masking the long term value proposition of Glenmark's geographically diversified and profitable generic business.

RISKS

1) discontinuation of development of any of the molecules 2) Any negative outcome from the enquiry by the Ministry of Corporate Affairs in the financials of the company 3) write-offs related to sales/ receivables in the emerging markets given that some of these economies have been under pressure in the current financial environment.

VALUATIONS

We value the base business at a 13x FY10E earnings at Rs161/share. Using a probability-based NPV methodology, we value its R&D molecules at INR66/share. Hence our sum of the part based target price of Rs227/share.

KEY FINANCIALS (CONSOLIDATED)					Rs mn
	FY07	FY08	FY09E	FY10E	FY11E
Net Sales YoY Gr. (%)	52.1	59.2	25.0	19.9	19.8
OPM (%)	34.1	39.9	30.6	23.4	24.6
Adjusted Net Profit	1,887	4,274	4,257	3,409	4,576
YoY Gr. (%)	190.9	126.5	(0.4)	(19.9)	34.2
KEY RATIOS					
ROCE (%)	23.9	32.3	17.2	12.6	14.5
RONW (%)	57.3	57.7	24.8	16.4	18.7
P/E (x)	15.7	7.6	11.4	14.3	10.6
EV/Sales (x)	4.8	3.1	2.5	2.0	1.7
EV/EBITDA (x)	18.5	9.8	8.0	8.7	6.7

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STOCK DATA

Market Cap	Rs45 bn
Book Value per share	Rs71
Eq Shares O/S (FV Rs1)	249mn
Free Float	47.9%
Avg. Traded Value (6 mths)	Rs369mn
52 Week High/Low	Rs710/121
Bloomberg Code	GNPIN
Reuters Code	GLEN.BO

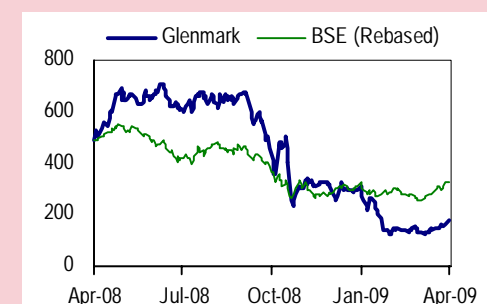
TOP SHAREHOLDERS

Name	% holding
Merill Lynch Capital Mkt Espana S.V.	1.8
Solane Robinson LLP (Mauritius) Int	1.5
Solane Robinson LLP (Mauritius) Asia	1.8
HSBC Global Investment Funds	4.7
General Insurance Corp of India	1.4

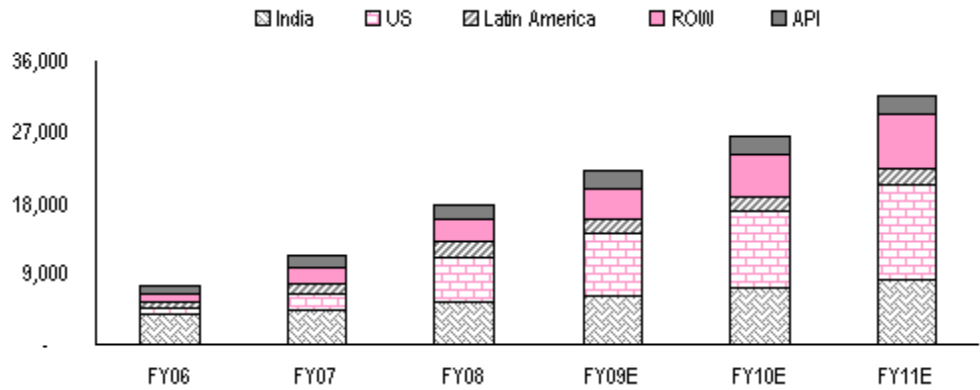
PERFORMANCE (%)

	1M	3M	12M
Absolute	25.9	(31.7)	(67.4)
Relative	3.9	(49.1)	(33.8)

RELATIVE PERFORMANCE

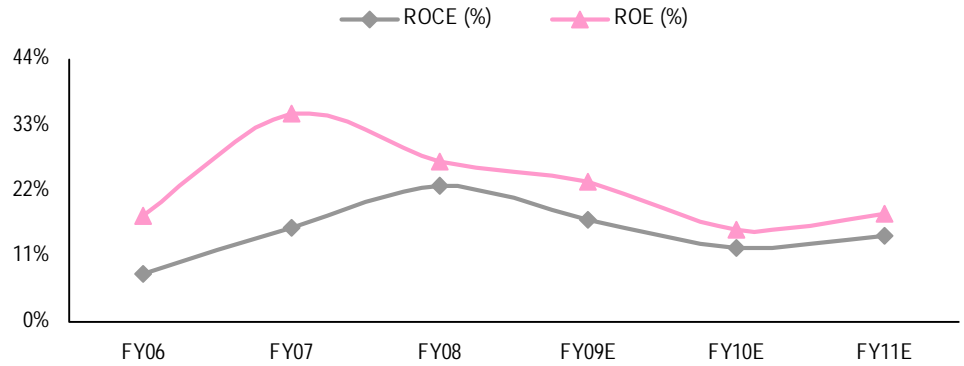


Revenue Breakup (Rs mn)



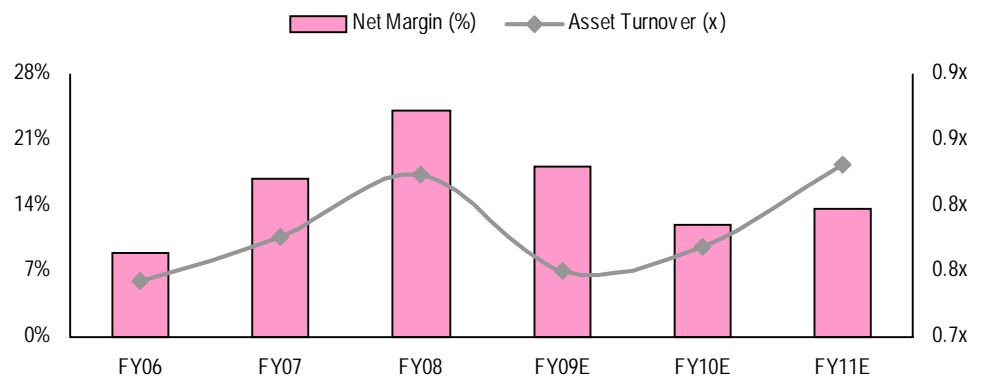
Source: PINC Research

ROCE and ROE



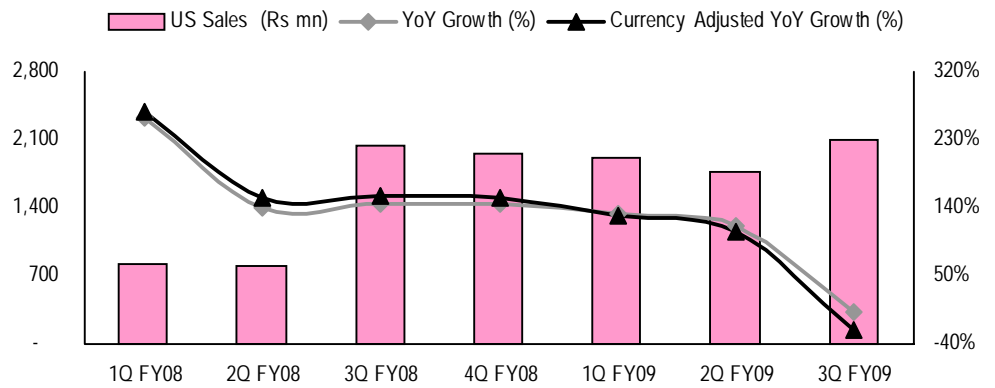
Source: PINC Research

Net Margin and Asset Turnover Ratio



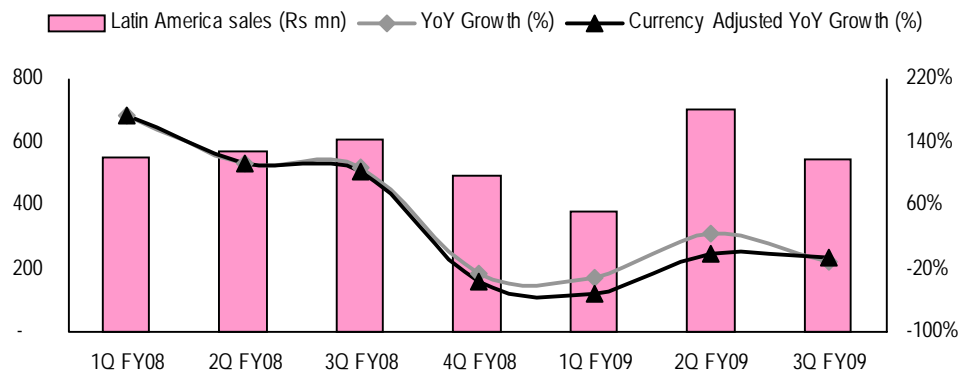
Source: PINC Research

Quarterly US Sales (Rs mn) and Growth



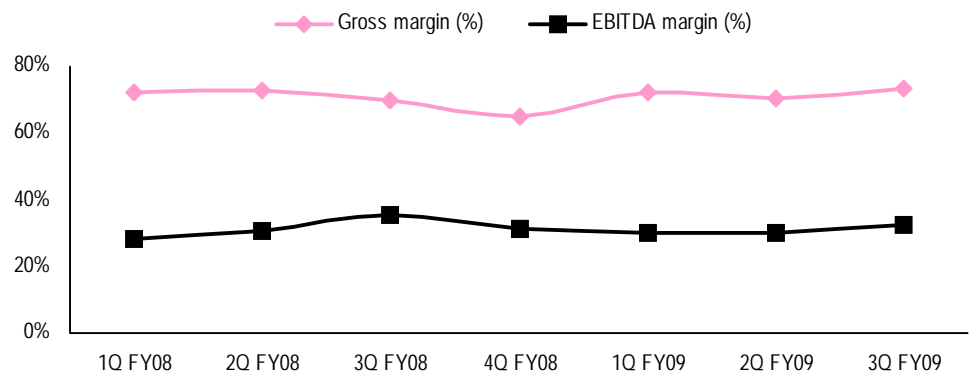
Source: PINC Research

Quarterly Latin America Sales and Growth



Source: PINC Research

Gross and EBITDA Margin



Source: PINC Research

Year Ended March (Figures in Rs mn)

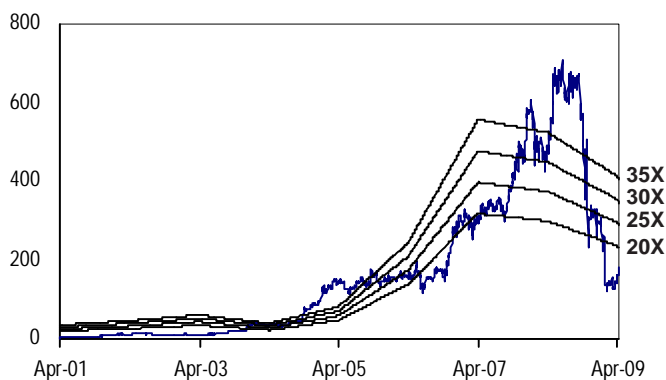
Income Statement	FY07	FY08	FY09E	FY10E	FY11E
Net sales	11,120	17,704	22,128	26,533	31,779
<i>Growth (%)</i>	<i>52.1</i>	<i>59.2</i>	<i>25.0</i>	<i>19.9</i>	<i>19.8</i>
Milestone Payments	1,395	2,403	-	-	-
Total Revenues	12,515	20,107	22,128	26,533	31,779
EBITDA	4,263	8,020	6,780	6,208	7,823
<i>Growth (%)</i>	<i>210.7</i>	<i>88.1</i>	<i>(15.5)</i>	<i>(8.4)</i>	<i>26.0</i>
Depreciation	423	716	1,040	1,059	1,139
Other Income	157	196	110	70	70
EBIT	3,997	7,500	5,850	5,218	6,753
Interest Paid	384	637	733	733	733
PBT (before E/o items)	3,613	6,863	5,117	4,485	6,021
Tax Provision	513	499	1,344	1,076	1,445
E/o income/(loss)	-	-	(485)	-	-
Net Profit	3,093	6,356	4,249	3,401	4,568
Adjusted Net Profit	1,887	4,274	4,257	3,409	4,576
<i>Growth (%)</i>	<i>190.9</i>	<i>126.5</i>	<i>(0.4)</i>	<i>(19.9)</i>	<i>34.2</i>
Diluted EPS (Rs)	11.5	23.7	15.9	12.7	17.0
<i>Diluted EPS Growth (%)</i>	<i>258.0</i>	<i>105.5</i>	<i>(33.1)</i>	<i>(20.0)</i>	<i>34.3</i>

Cash Flow Statement	FY07	FY08	FY09E	FY10E	FY11E
Pre-tax profit	3,613	7,115	5,117	4,485	6,021
Depreciation	423	717	1,040	1,059	1,139
Total Tax Paid	(277)	(885)	(1,075)	(861)	(1,156)
Chg in working capital	(3,263)	(3,846)	(3,021)	(2,973)	(3,541)
Other operating activities	436	617	733	733	733
Cash flow from oper (a)	932	3,718	2,793	2,443	3,196
Capital Expenditure	(2,711)	(5,174)	(1,000)	(1,000)	(1,000)
Chg in investments	10	(3)	-	-	-
Other investing activities	13	79	-	-	-
Cash flow from inv.(b)	(2,688)	(5,099)	(1,000)	(1,000)	(1,000)
Free cash flow (a+b)	(1,755)	(1,381)	1,793	1,443	2,196
Equity raised/(repaid)	311	1,987	-	-	-
Debt raised/(repaid)	1,733	471	(30)	-	-
Change in Minority Int	-	15	-	-	-
Dividend (incl. Tax)	(117)	(201)	(282)	(282)	(282)
Other financing activities	(171)	(383)	(733)	(733)	(733)
Cash flow from fin. (c)	1,757	1,888	(1,044)	(1,015)	(1,015)
Net chg in cash (a+b+c)	2	507	749	428	1,181

Balance Sheet	FY07	FY08	FY09E	FY10E	FY11E
<i>Equity Share Capital</i>	240	249	249	249	249
<i>Reserves & surplus</i>	6,624	14,930	18,905	22,033	26,327
Shareholders' funds	6,864	15,179	19,154	22,281	26,575
Minorities interests	-	15	15	15	15
Total Debt	9,367	9,909	9,880	9,880	9,880
Capital Employed	16,231	25,103	29,049	32,176	36,470
Net fixed assets	8,104	12,557	12,517	12,458	12,318
Cash & Cash Eq.	1,058	1,565	2,314	2,743	3,924
Net Other current assets	7,602	11,738	14,759	17,732	21,273
Investments	187	188	188	188	188
Net Deferred tax Assets	(720)	(946)	(730)	(945)	(1,234)
Total Assets	16,231	25,103	29,049	32,176	36,470

Key Ratios	FY07	FY08	FY09E	FY10E	FY11E
OPM (%)	34.1	39.9	30.6	23.4	24.6
Net Margin (%)	27.8	35.9	19.2	12.8	14.4
Div. Yield (%)	0.2	0.6	0.6	0.6	0.6
Net debt/Equity (x)	1.2	0.5	0.4	0.3	0.2
Net Working Capital (days)	221.7	213.1	243.4	243.9	244.3
ROCE (%)	23.9	32.3	17.2	12.6	14.5
RoE (%)	57.3	57.7	24.8	16.4	18.7
EV/Net Sales (x)	4.8	3.1	2.5	2.0	1.7
EV/EBITDA (x)	18.5	9.8	8.0	8.7	6.7
PER (x)	15.7	7.6	11.4	14.3	10.6
PCE (x)	21.1	9.7	9.2	10.9	8.5
Price/Book (x)	7.1	3.2	2.5	2.2	1.8

P/E Band



Key Assumptions

	FY08	FY09E	FY10E	FY11E
US Sales (% Chng YoY)	155.5	38.8	25.0	25.0
India Sales (% Chng YoY)	27.1	14.5	15.0	14.7
Latin America (% Chng YoY)	66.0	(9.3)	10.0	10.0
ROW (% Chng YoY)	8.6	35.6	26.4	26.7
APIs (% Chng YoY)	48.6	10.0	5.0	5.0
Milestones (Rs mn)	2,402.7	0.0	0.0	0.0

PIRAMAL HEALTHCARE LTD.

BUY

CMP : Rs215 TP : Rs265

BSE Sensex : 10,947

17 April 2009

We initiate coverage on Piramal (PIHC) with a BUY. PIHC's strong presence in the Indian formulations (c50% of sales) augurs well in the current difficult financial environment due to stable growth and cash flow generation. In the CRAMS segment, >80% of revenue comes from custom manufacturing which is more stable as compared to custom research that has witnessed a general slowdown. Valuations at 12.6x FY10E earnings appear reasonable compared to other players like Sun Pharma and Cipla which also have >50% of revenues from the stable Indian formulations market.

CRAMS to decline marginally in FY10 on inventory de-stocking

The global financial crisis has hit contract research as innovators are getting more cautious about their spending. Also emerging pharma companies have also been hit by the lack of availability of capital. On the other hand, contract manufacturing (>80% of PIHC's CRAMS sales) is more stable and has higher visibility given that it is not discretionary in nature. However given the industry wide inventory de-stocking, volume offtake by PIHC's customers will suffer in FY10 leading to marginal decline in CRAMS revenues in FY10.

India formulations have exhibited strong and stable growth

PIHC has a stable business in domestic formulations which has organically grown c18% in 9M FY09 and generates significant cash flows. We forecast a 15% CAGR and stable margins over the next 3 years driven by increased penetration in tier II cities and improvement in productivity of its field force. With c13% (500 representatives) of its field force in tier II cities (most of which was added in FY08), we believe benefits of higher penetration may come through in the near future.

RISKS

1) Further deterioration in the foreign exchange scenario 2) Lumpy CRAMS revenues dependent on customer off-take 3) lack of any third-party checks in CRAMS, and 4) unfavourable action by government to control prices in India.

VALUATIONS

We value PIHC at 15x FY10E earnings considering the valuations of the Indian generic players and CRAMS players.

KEY FINANCIALS (CONSOLIDATED)					Rs mn
	FY07	FY08	FY09E	FY10E	FY11E
Net Sales YoY Gr. (%)	55.2	13.9	15.3	14.6	11.3
OPM (%)	14.7	19.4	15.7	16.6	17.3
Adjusted Net Profit	2,121	3,664	3,002	3,696	4,862
YoY Gr. (%)	94.6	72.7	(18.1)	23.1	31.5
KEY RATIOS					
ROCE (%)	14.9	22.0	16.6	17.0	19.8
RONW (%)	21.4	34.4	26.4	28.5	30.6
P/E (x)	19.9	13.5	22.1	12.6	9.5
EV/Sales (x)	2.1	1.8	1.7	1.5	1.2
EV/EBITDA (x)	13.9	9.4	11.0	9.0	7.1

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STOCK DATA

Market Cap	Rs45bn
Book Value per share	Rs56
Eq Shares O/S (FV Rs2)	209mn
Free Float	50.4%
Avg. Traded Value (6 mths)	Rs69mn
52 Week High/Low	Rs 377/172
Bloomberg Code	PIHCIN
Reuters Code	PIRA.BO

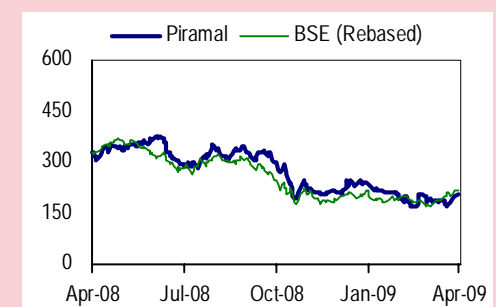
TOP SHAREHOLDERS

Name	% holding
LIC India	4.0
Aberdeen Asset Managers Ltd.	4.4
FID Funds (Mauritius) Ltd.	3.2
IndiaHold Ltd.	2.7
Genesis Indian Investment Co Ltd.	1.9

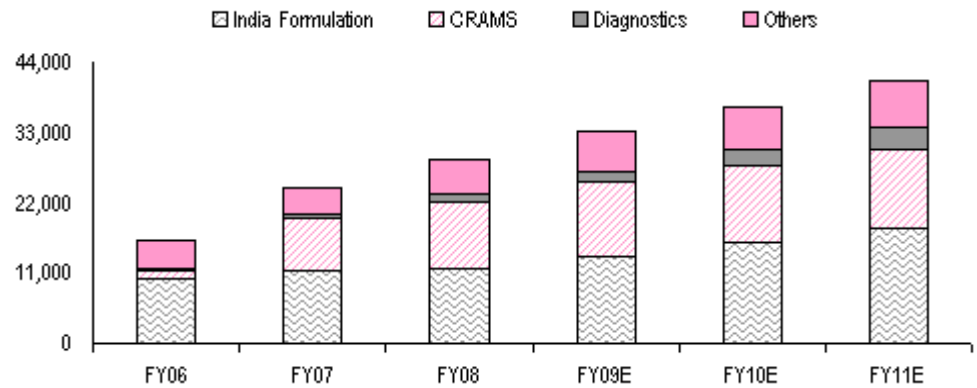
PERFORMANCE (%)

	1M	3M	12M
Absolute	13.5	(2.5)	(35.6)
Relative	(8.5)	(19.9)	(2.0)

RELATIVE PERFORMANCE

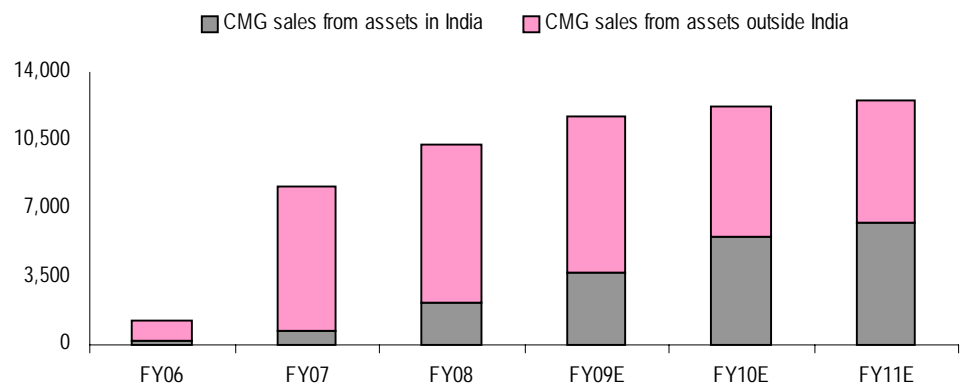


Revenue Breakup (Rs mn)



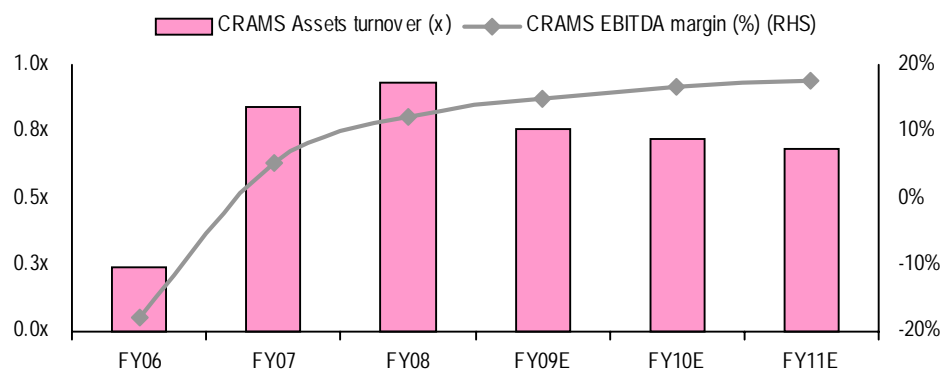
Source: PINC Research

CMG Sales Classification (Rs mn)



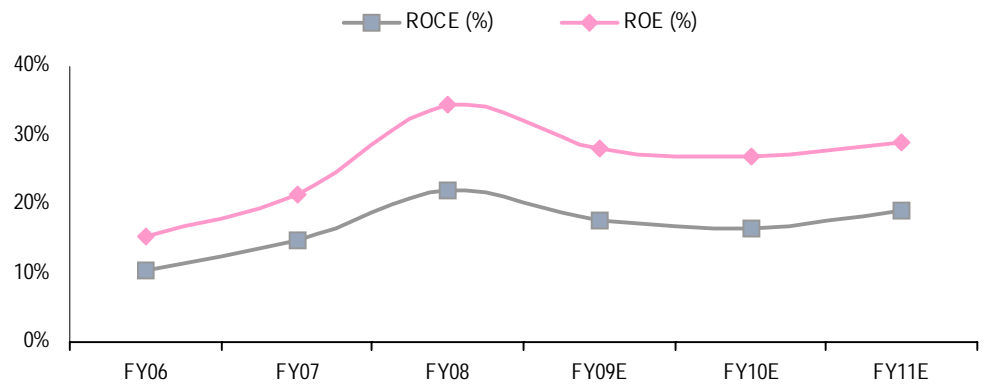
Source: PINC Research

Assets Turnover and EBITDA Margin of CMG



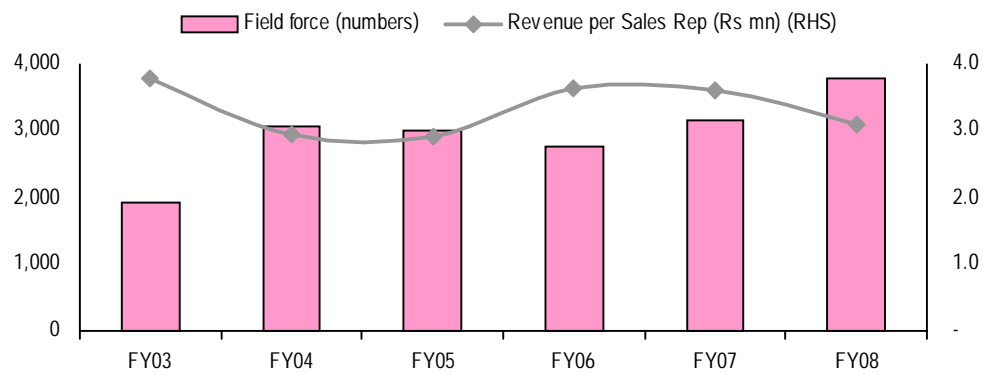
Source: PINC Research

ROCE and ROE



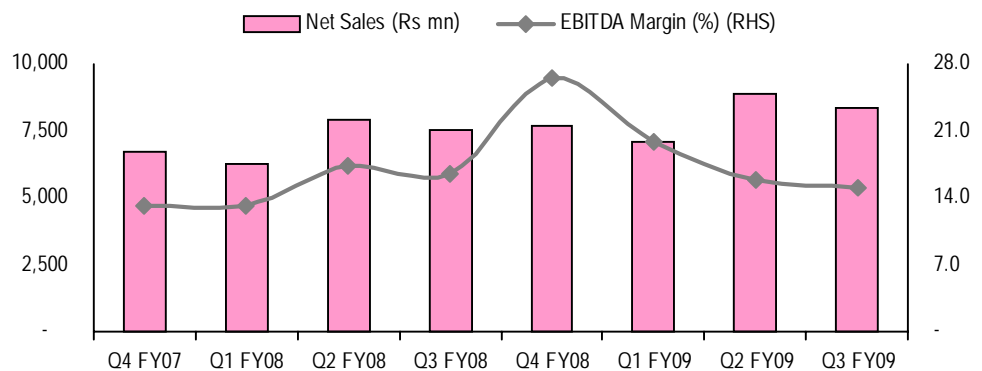
Source: PINC Research

Domestic Sales Per Field Force



Source: PINC Research

Quarterly Net Sales and EBITDA Margin



Source: PINC Research

Year Ended March (Figures in Rs mn)

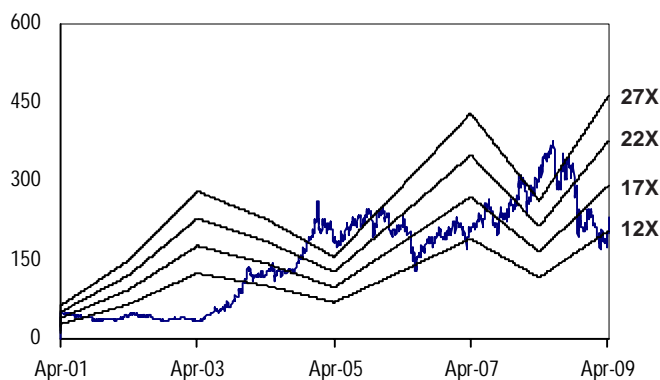
Income Statement	FY07	FY08	FY09E	FY10E	FY11E
Net sales	24,567	27,977	32,253	36,967	41,141
<i>Growth (%)</i>	<i>55.2</i>	<i>13.9</i>	<i>15.3</i>	<i>14.6</i>	<i>11.3</i>
Other operating income	340	306	306	306	306
Total revenues	24,906	28,283	32,560	37,273	41,447
EBITDA	3,657	5,478	5,116	6,188	7,160
<i>Growth (%)</i>	<i>74.5</i>	<i>49.8</i>	<i>(6.6)</i>	<i>21.0</i>	<i>15.7</i>
Depreciation	818	947	1,040	1,133	1,162
Other Income	4	-	20	37	119
EBIT	2,842	4,530	4,095	5,092	6,116
Interest Paid	305	463	787	881	581
PBT (before E/o items)	2,537	4,067	3,309	4,211	5,535
Tax Provision	389	377	281	489	648
E/o income/(loss)	135	(339)	(963)	(133)	(133)
Reported Net Profit	2,256	3,324	2,039	3,563	4,728
Adjusted Net Profit	2,121	3,664	3,002	3,696	4,862
<i>Growth (%)</i>	<i>94.6</i>	<i>72.7</i>	<i>(18.1)</i>	<i>23.1</i>	<i>31.5</i>
Diluted EPS (Rs)	10.8	15.9	9.8	17.0	22.6
Diluted EPS Growth (%)	86.5	47.3	(38.7)	74.8	32.7

Cash Flow Statement	FY07	FY08	FY09E	FY10E	FY11E
Pre-tax profit	2,672	3,728	2,345	4,077	5,401
Depreciation	818	947	1,040	1,133	1,162
Total Tax Paid	(508)	(492)	(211)	(367)	(486)
Chg in working capital	(740)	(1,474)	(2,167)	(1,157)	1,714
Other operating activities	152	650	787	881	581
Cash flow from oper (a)	2,395	3,359	1,794	4,568	8,373
Capital Expenditure	(2,217)	(2,307)	(4,660)	(1,592)	(1,584)
Chg in investments	-	(368)	-	-	-
Other investing activities	(1,795)	(134)	20	37	119
Cash flow from inv.(b)	(4,012)	(2,809)	(4,640)	(1,554)	(1,466)
Free cash flow (a+b)	(1,617)	549	(2,846)	3,013	6,907
Equity raised/(repaid)	28	-	-	-	-
Debt raised/(repaid)	2,616	1,163	5,837	(1,500)	(3,000)
Change in Minority Int	-	-	-	-	-
Dividend (incl. Tax)	(1,491)	(140)	(1,025)	(1,192)	(1,311)
Other financing activities	13	(1,583)	(807)	(919)	(700)
Cash flow from fin. (c)	1,164	(560)	4,006	(3,610)	(5,011)
Net chg in cash (a+b+c)	(453)	(11)	1,160	(597)	1,897

Balance Sheet	FY07	FY08	FY09E	FY10E	FY11E
<i>Equity Share Capital</i>	418	418	418	418	418
<i>Reserves & surplus</i>	10,444	10,508	11,370	13,742	17,159
Shareholders' funds	10,862	10,926	11,788	14,160	17,577
Minorities interests	5	49	74	99	124
Total Debt	6,392	7,163	13,000	11,500	8,500
Capital Employed	17,259	18,138	24,862	25,759	26,201
Net fixed assets	12,238	12,585	16,205	16,664	17,086
Cash & Cash Eq.	506	551	1,559	962	2,859
Net Other current assets	5,122	5,246	7,413	8,570	6,856
Investments	287	653	653	653	653
Net Deferred tax Assets	(893)	(897)	(967)	(1,089)	(1,251)
Total Assets	17,259	18,138	24,862	25,759	26,201

Key Ratios	FY07	FY08	FY09E	FY10E	FY11E
OPM (%)	14.7	19.4	15.7	16.6	17.3
Net Margin (%)	9.1	11.8	6.3	9.6	11.4
Div. Yield (%)	1.6	2.0	2.0	2.3	2.6
Net debt/Equity (x)	0.5	0.5	0.9	0.7	0.3
Net Working Capital (days)	76.2	66.5	83.1	83.9	60.4
ROCE (%)	14.9	22.0	16.6	17.0	19.8
RoE (%)	21.4	34.4	26.4	28.5	30.6
EV/Net Sales (x)	2.1	1.8	1.7	1.5	1.2
EV/EBITDA (x)	13.9	9.4	11.0	9.0	7.1
PER (x)	19.9	13.5	22.1	12.6	9.5
PCE (x)	14.6	10.5	14.5	9.5	7.6
Price/Book (x)	4.3	4.1	3.8	3.2	2.6

P/E Band



Key Assumptions

	FY08	FY09E	FY10E	FY11E
CMG (% chg YoY)	22.5	11.9	12.2	3.3
CMG - India assets (% chg YoY)	186.8	67.7	33.6	23.6
CMG - global assets (% chg YoY)	5.3	(4.0)	1.5	(10.0)
CMG margins (%)	11.9	13.0	17.5	18.6
Domestic Sales (% chg YoY)	3.9	14.5	13.2	13.3
Non CMG margins (%)	20.6	17.1	16.1	16.7
R & D/Sales (%)	2.8	2.8	2.8	2.8
EBITDA margin (%)	19.0	15.7	16.6	17.3

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