investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
BHEL	11-Nov-05	1,203	**2,279**	2,650
Cadila Healthcare	21-Mar-06	297	**328**	425
Deepak Fertilisers	17-Mar-05	50	**83**	126
ICICI Bank	23-Dec-03	284	**856**	1,240
TCS	06-Mar-06	852	**1,247**	1,508

Gateway Distriparks

Cannonball

Stock Update

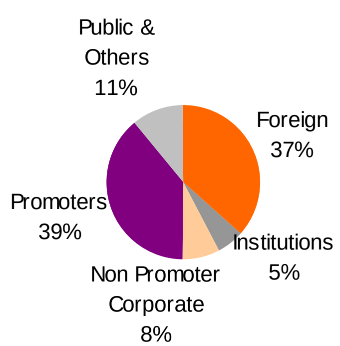
Gateway forms a 51:49 JV with Concor

Buy; CMP: Rs160

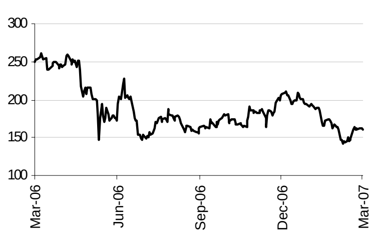
Company details

Price target:	Rs250
Market cap:	Rs1,475 cr
52 week high/low:	Rs267/138
BSE volume: (No of shares)	3.9 lakh
BSE code:	532622
NSE code:	GDL
Sharekhan code:	GATEWAY
Free float: (No of shares)	5.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.1	-20.6	1.6	-32.3
Relative to Sensex	0.1	-14.9	-2.8	-42.7

Key points

- Gateway Distriparks Ltd (GDL) through its subsidiary Gateway Rail has formed a 51:49 joint venture with Container Corporation of India (Concor) to construct and operate a rail-linked double-stack container terminal at Garhi-Harsaru, 7 kilometre from Gurgaon in Haryana.
- The rail-linked inland container depot (ICD) currently operated by GDL will be transferred to the joint venture. The excess land (approximately 70 acre) owned by GDL will also be transferred to the joint venture and GDL will earn lease rentals on the same.
- The total cost of setting up the joint venture will be Rs70 crore which will be funded in the debt/equity ratio of 2:1.
- The revenues (handling charges and ground rent) arising from the joint venture will be shared in the ratio of the stakes held by the two companies.
- The profits from the rail operations for the movement of container rakes from the Garhi ICD to the ports will be equally shared between GDL and Concor.
- We maintain our bullish stance on the company as it will be the direct beneficiary of the growth in container traffic, which currently accounts for just 10% of the total cargo.
- The stock has significantly underperformed the Sensex in the last three months, declining by 21% over the period. So we believe this to be a good buying opportunity for the investors and thus maintain our Buy recommendation with a price target of Rs250.

GDL through its subsidiary Gateway Rail has formed a 51:49 joint venture with Concor to construct and operate a rail-linked double-stack container terminal at Garhi-Harsaru, 7 kilometre from Gurgaon in Haryana. This agreement replaces the existing agreement between GDL and Concor on train operations from ICD at Garhi-Harsaru.

Earnings table

Year ended March 31	FY04	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	19.1	34.9	73.0	79.6	111.5
Shares in issue (cr)	6.4	7.5	9.2	9.2	9.2
EPS (Rs)	3.0	4.7	7.9	8.6	12.1
% y-o-y growth	*27.3*	*82.7*	*109.2*	*9.0*	*40.0*
PER (x)	53.6	34.4	20.2	18.5	13.2
Book value (Rs)	12.7	22.0	62.4	71.0	83.1
P/BV (Rs)	12.6	7.3	2.6	2.3	1.9
EV/EBIDTA (x)	37.9	22.6	13.8	14.8	9.1
RoCE (%)	24.4	27.1	20.0	14.4	17.5
RoNW (%)	23.5	21.1	12.7	12.2	14.5

Details of the agreement are as follows.

- The rail-linked ICD currently operated by GDL will be transferred to the joint venture. The excess land (approximately 70 acre) owned by GDL will also be transferred to the joint venture and GDL will earn lease rentals on the same.
- The total cost of setting up the joint venture will be Rs70 crore which will be funded in the debt/equity ratio of 2:1.
- The revenues (handling charges and ground rent) arising from the joint venture will be shared in the ratio of the stakes held by the two companies.
- The profits from the rail operations for the movement of container rakes from the Garhi ICD to the ports will be equally shared between GDL and Concor.

ICD to be operated by joint venture

The ICD that is currently operated by GDL will be transferred to the joint venture and the profits will be shared by both the companies in the ratio of their stakes in the joint venture. The excess land of about 70 acre owned by GDL will also be transferred to the joint venture. The land will be used for building a double-stacked container terminal, which will cost close to Rs70 crore. The funding is likely to be done in a debt/equity ratio of 2:1.

The profits from the rail operations to be shared equally

At present Concor provides rail connectivity to this ICD. In future the rail operations would be carried out jointly by Gateway Rail and Concor. Gateway Rail has already placed an order for two rakes, one of which is expected to be delivered within two weeks.

Both the companies, ie GDL and Concor, have agreed to share the profits arising from the rail operations from the ICD equally; however we believe that initially the profits would be shared proportionate to the trains operated by the companies.

ICD to be a major link between NCR and western ports

The ICD will have connectivity to the proposed Western Dedicated Freight Corridor as well. It will also have connectivity to the proposed Kundali-Manesar-Palwal Expressway. This location has an advantage of direct connectivity to industries in the Kundali, Sonepat and Faridabad areas, and thus eliminate the need for border-crossing. This, in turn, would fulfill a long-standing requirement of the Delhi administration for decongesting the Delhi roads of container trailers. The terminal will also facilitate the export-import traffic from the proposed Haryana special economic zone.

Positive impact on GDL

Prima facie, the new agreement may appear negative for GDL, as the company will have to forego 49% of the profits from the operations of the ICD in favour of Concor. But this loss will be more than offset by the profits earned from operating the trains, as the rail operations are more profitable.

Also on account of Concor's clientele, GDL will benefit from the higher volumes at the ICD. The double-stack container terminal, once operational, will also be a significant growth driver for the company.

Outlook

We maintain our bullish stance on the company as it will be the direct beneficiary of the growth in container traffic, which currently accounts for just 10% of the total cargo. The company's strategy to become an integrated player by entering into rail-based container movement business will tremendously improve its competitive position in the industry in the long run. Also, with the large players like Reliance Industries and the AV Birla group betting on food retailing in a big way, the company's strategy to enter the cold chain business comes at the right time and will add significant value to its business going ahead. At the current market price of Rs160, the GDL stock is trading at 18.5x its FY2007E earnings and 13.2x its FY2008E earnings.

The stock has significantly underperformed the Sensex in the last three months, declining by 21% over the period. So we believe this to be a good buying opportunity for the investors and thus maintain our Buy recommendation with a price target of Rs250.

The author doesn't hold any investment in any of the companies mentioned in the article.

Glenmark Pharmaceuticals

Viewpoint

An all-round growth

CMP: Rs614

Company background

Glenmark Pharmaceuticals Ltd is a research-led, global, fully integrated pharmaceutical company. The company is a leader in India in the discovery of new molecules and is focused in the areas of inflammation and metabolic disorders. The company has generic formulation and active pharmaceutical ingredient (API) business interests in over 80 countries across the world including the highly regulated markets of the USA and Europe.

Glenmark acquires Czech-based Medicamenta

Glenmark Pharmaceuticals, through its wholly-owned Swiss subsidiary Glenmark Holdings, has acquired a majority stake (>90%) in the Czech-based Medicamenta a.s. (Medicamenta) for an undisclosed consideration. Under the Czech law, a holding of more than 90% shares in a company will trigger a mandatory takeover bid for the remaining shares.

Medicamanta is a Czech-based company, which has sales and marketing operations in both the Czech Republic and Slovakia. Medicamenta's projected revenues for the calendar year 2007 are $8 million, with earnings before interest, tax, depreciation and amortisation (EBITDA) margins of around 20%. Medicamenta has 60 employees and brings along a basket of 29 solid dose and semisolid products. These products are manufactured at its plant in Vysoke Myto, Czech Republic, which spreads over 13,000 square metres and is approved by the Czech Regulatory Agency.

Europe plans start to fructify

With presence in the USA, Glenmark has been waiting for an entry into the fast growing European market. The company has been scouting for acquisitions across Europe to gain an entry point. The above acquisition provides Glenmark with a strategic entry point into two of the fastest growing and attractive markets in Europe. The pharmaceutical market in both the countries (Czech Republic & Slovakia) is dominated by branded generics. Through Medicamenta, Glenmark has created a base for its branded business in Europe. Glenmark is also looking to develop and expand Medicamenta's current portfolio of pharmaceutical products. Further, it plans to make use of Medicamenta's plant capacity to support its broader operations, by providing additional manufacturing, packaging, quality release and warehousing for its European business.

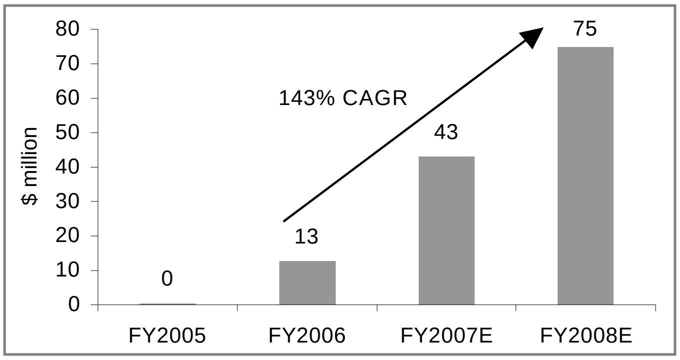
With this acquisition, Glenmark is planning to launch 15 new generic drugs in Europe in the next 2-3 years. Even though Glenmark currently has a formulation plant in Goa and an API plant in Ankleshwar, both these facilities have been inspected but not yet approved by the UK MHRA. Hence, Glenmark cannot launch products from these facilities into the European markets as of now. In order to overcome this problem, Glenmark will manufacture these drugs at its Indian facilities, while the quality approval, which is mandatory for marketing in Europe will be done at Medicamenta's plant.

US business on a high growth trajectory; potential Para IV wins to provide additional upsides

Glenmark's US business has reported a stupendous 465% jump in sales in M9FY2007. With a steady stream of 2-3 new launches per quarter, prudent product selection with a focus on niche areas like dermatology and controlled substances, Glenmark has been able to scale up its US business substantially in a relatively short span of time. The company now has twelve products in the US market and a strong pipeline of 26 abbreviated new drug applications (ANDAs) pending approval from the US Food and Drug Administration (FDA).

Moreover, Glenmark's pipeline consists of an exciting mix of Para III filings, controlled release substances, niche products such as dermatology and some Para IV first to file ANDAs. In fact, Glenmark has just disclosed and confirmed its Para IV ANDA filing for Schering Plough's generic Ezetimibe. Glenmark is first to file for this product and would be entitled to win a 180-day exclusivity to market this product in the USA should it win the patent challenge case against Schering. Zetia has 3 patents listed in the FDA's Orange Book, the last of which expires in January 2022. As of now, Glenmark has not disclosed information about which particular patent its ANDA filing challenges. However, in order to launch the product prior to the patent expiry in January 2022, Glenmark's ANDA filing will have to invalidate all three patents. We expect the patent litigation to go on for atleast 3-5 years and hence we believe that this product is not likely to have any impact in the medium term on Glenmark's earnings. With $2.7 billion in annual sales, a favourable outcome of the patent challenge litigation in relation to generic Ezetimibe alone can result in windfall gains to Glenmark. Assuming a price erosion of 40% and a 40% market share for Glenmark during the exclusivity period, the product could add $180 million (approximately Rs792 crore) to Glenmark's revenues during the 180-day exclusivity. Assuming net margins of 40% during the exclusivity, this could yield profits of $72 million (approximately Rs317 crore), which translates into fully diluted earnings of approximately Rs25 per share during the exclusivity period.

US revenues set to grow by leaps and bounds



Glenmark believes that it will continue to maintain the growth momentum seen in its US business over the next 2-3 years through a steady expansion of its product basket and an improvement in the market share of its existing product portfolio. The company is continually trying to expand its portfolio either through its own product filings or through product development alliances and licencing of marketing rights. Glenmark expects its US business to grow at a 143% compounded annual growth rate (CAGR) from $13 million in FY2006 to $75 million in FY2008E.

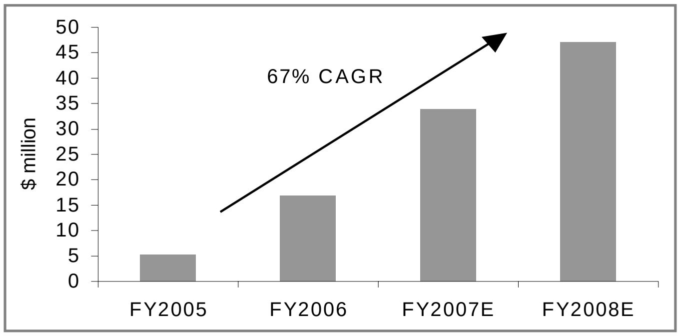
Targeting a 100% jump in the Latin American business

Glenmark entered the Latin American market in 2004 through the acquisition of its wholly-owned subsidiary Glenmark Farmaceutida. It further expanded into the market through the acquisition of Argentina-based Servycal in October 2005.

Since then, the company has integrated the activities of Servycal with the Glenmark operations, and has launched multiple Servycal products into Brazil. It has expanded its field force and has also commenced commercial operations in 8 additional countries including Brazil and Argentina. Through all the above-mentioned initiatives, Glenmark's revenues from its Latin American business have shown an over 100% jump in M9FY2007 to over Rs76 crore.

Going forward, the company is targeting to achieve a 100% growth in Latin America. For this, Glenmark plans to expand its presence in the oncology segment to the other Latin American markets apart from Argentina and Brazil, and expects to file additional 8-10 dossiers in the markets across Latin America. The company also plans to launch 4 new products in Brazil in Q4FY2007.

67% CAGR expected in Latin America



Glenmark—a research driven company

Glenmark believes that the creation and ownership of intellectual property (IP) are critical for differentiation and value creation. Accordingly it plans to focus on building IP assets and out-licencing these to drive its growth. The company currently has six new chemical entity (NCE) molecules in its pipeline; two in Phase-II trials, one in Phase-I trials, two entering the Phase-I trials shortly and one in the pre-clinical stages. In line with its strategy to build IP assets and out-licence them, Glenmark has out-licenced two of its molecules after bringing them to Phase-II clinical trials.

GRC 3886 (Oglemilast): Glenmark's lead molecule GRC 3886 (Oglemilast) for asthma was out-licenced in 2006 to Forest Laboratories. The company has already received one milestone payment of $30 million from Forest in 2006 and

Glenmark's NCE pipeline

Molecule	Indications	Status	Target launch	Remarks
GRC 3886 (Oglelimast)	Asthma	Phase II	2009/10	Out-licenced to Forest Laboratories. Expecting second milestone payment of $30 million in early FY2008.
GRC 8200	Diabetes	Phase II	2010	Out-licenced to Merck KgA. Expecting second milestone payment of $39 million in FY2008.
GRC 6211	Pain, migraine, incontinence & asthma	Phase I	2011	In talks with global players for out-licencing. Expects to conclude the deal by Q4FY2007.
GRC 10693	Pain, migraine, incontinence & asthma	Pre-clinical	2012	Phase-I to start in Q1FY2008.
GRC 4039	Rheumatoid Arthritis	Pre-clinical	2012	Phase-I to start in Q2FY2008.
GRC 10801	Obesity	Pre-clinical	2011	Phase-I to start in March/April 2007.

is expecting another payment of $30 million in early FY2008. As per Glenmark, Oglemilast continues to progress well in Phase-II clinical trials. Additionally, Glenmark is currently in the process of evaluating several European partners to develop and market Oglemilast in Europe.

GRC 8200: Glenmark's second candidate GRC 8200 for diabetes is currently in Phase-II clinical testing in India and South Africa. The company's wholly-owned Swiss subsidiary, Glenmark Pharmaceuticals SA had out-licenced GRC 8200 to Merck KGaA of Darmstadt, Germany for the North American, European and Japanese territories for potential milestone payments of 190 million euros. Glenmark will retain commercialisation rights for India and share the marketing rights with Merck KGaA for the other markets in the rest of the world. Glenmark has already received an upfront payment of 25 million euros from its German partner towards the end of Q3FY2007 and is expecting another milestone payment towards the successful completion of the Phase-II clinical trials of this molecule in FY2008.

Talks ongoing to out-licence GRC-6211: Glenmark also announced three new NCE compounds GRC 4039, a PDE4 inhibitor, GRC 6211, a TRP V1 antagonist and GRC 10622, a CB2 agonist. All these compounds are being developed for different pain and inflammatory indications and are expected to enter Phase-I studies in FY2007. The management has revealed that talks are ongoing and in an advanced stage to out-licence one more molecules GRC-6211 with some global life science companies for further clinical studies and development. The company hopes to conclude the deal in Q4FY2007.

Initiated research on biologics in Switzerland: In line with its strategy to emerge as a global research-based company, Glenmark has set up a biologics research centre in Switzerland. It plans to start research on bio improvics and has a target to start Phase-I trials on the first lead molecule by 2009. To expand its reach into the biologics space, Glenmark has also recently entered into a funded research agreement with US-based Dyax Corporation, wherein Dyax will identify and develop therapeutic antibodies for three of Glenmark's targets.

Domestic formulations to grow in line with industry

Glenmark's domestic formulation business has grown at 12% in M9FY2007, in line with the Indian pharmaceutical industry. Glenmark is ranked amongst the top three players (after GSK) in dermatology, with a strong presence across the therapeutic segments of women's healthcare, paediatrics, respiratory and anti-infectives. The company has launched 26 new products including combination products in M9FY2007. Going forward, Glenmark plans to strengthen its presence in the respiratory, pain management and metabolic diseases segment and increase its market penetration through a ramp-up in its sales force and an increased coverage of the general practitioners through its newly launched sales division. The company also plans to increase its efforts to in-licence products from global companies for the Indian market and focus on building brands. With all the above initiatives, Glenmark expects its domestic formulation business to grow by 15% over the next two years.

Valuation and view

The recent developments on Glenmark are indicative of the management's aggressiveness in growing the company. The management has been undertaking an all-round effort to grow in all the different segments of the business, whether it is expanding its product basket in the USA and Latin America, entering new markets like Europe or creation and unlocking value from assets created out of its research and development (R&D) assets. Through selection of niche, difficult to manufacture products with limited competition for the US market, Glenmark has been able to capitalise on each of its products and grow its US business by leaps and bounds. The recent disclosure of its Para IV ANDA filing for generic Ezetimibe (for which it is the only ANDA filer till date) is reflective of the strong product selection strategy of the company. Further, Glenmark has positioned itself as a truly innovative, research-driven company by the successful creation and unlocking of value of its IP assets.

Glenmark is upbeat about its growth prospects for the next two years, with its US and Latin American business being the major growth engines. As per the company's projections, it is planning to grow at a CAGR of 52% over FY2006-08E to $379 million, with the profits growing at a CAGR of over 137% over the same period to $115 million. The company has given earnings per share (EPS) guidance of Rs23.6 per share in FY2007E and Rs43.8 per share in FY2008E. The projected EPS however includes the anticipated milestone payments of $31 million in FY2007 and $69 million in FY2008. On excluding the impact of the uncertain milestone payments, the EPS would reduce by 50%.

At the current market price of Rs614, the stock is trading at 19.4x its consensus FY2008 earnings. Even though valuations seem reasonable at current levels, strong growth triggers exist in terms of the anticipated milestone payments from Forest Laboratories for Oglemilast and from Merck KgA for GRC 8200, the potential out-licencing of GRC 6211 and further acquisitions in Europe.

Valuation table Rs (cr)

Paticulars	FY2005	FY2006	FY2007E*	FY2008E*
Net operating income	569.4	702.0	1009.8	1517.2
Net profit	107.1	88.0	224.9	405.0
Shares in issue (cr)	11.9	11.9	12.5	12.8
EPS (Rs)	9.0	7.3	18.0	31.6
PER (x)	68.6	84.3	34.1	19.4

* indicates consensus estimates

Monsoon Watch

Indian monsoon outlook gets a fillip

In our Special Market Outlook issue "Setting sights on 16000" dated January 02, 2007, we had mentioned about certain risks among which El Nino and its impact on the Indian monsoon were important ones. We had also mentioned that we needed to follow the development of the El Nino pattern. In this write-up we have revisited the latest developments surrounding the El Nino weather pattern.

What is El Nino?

El Nino (a Spanish word meaning "Baby Christ", named after its time of origination which is around Christmas) is characterised by abnormal warming of surface waters in the central and eastern Pacific Ocean, coupled with changes in the atmosphere that affect weather patterns across much of the Pacific basin. In the past, in majority of the El Nino years, the monsoon turned out to be below normal.

What was the status in December 2006?

The US National Oceanographic and Atmospheric Administration (NOAA) had suggested in December 2006 that based on the trends and forecasts, El Nino conditions should intensify during the following three months and might continue through April-June 2007, casting a shadow over the Indian monsoon in 2007.

What's the latest El Nino status?

A recent NOAA forecast suggests that El Nino indicators have weakened markedly in recent weeks, with most now in the near-normal range. The easing of these indicators implies that the 2006-07 El Nino events have ended.

What's the implication for Indian economy?

The Indian monsoon outlook definitely looks to get a fillip from the latest developments on the El Nino front. Better monsoons would definitely help our agriculture sector record better growth. Of late we have seen only the manufacturing and services sectors driving the gross domestic product (GDP) growth while agriculture continues to lag behind. In FY2007 the share of agriculture in the GDP declined to 18.5% while that of industry and services improved to 26.4% and 55.1% respectively.

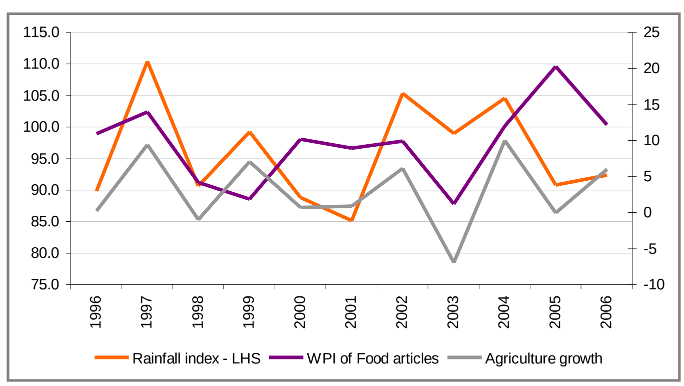
The chart below depicts the relationship between rainfall, agriculture growth and food article prices. The rainfall index is a ratio of actual rainfall to normal rainfall in a particular year expressed in percentage terms. The agriculture growth and the rainfall index do show a direct relationship with above 100-rainfall index translating into almost 9-10% agricultural GDP growth in the years 1996-97 and 2003-04. However the prices of food articles tend to show an inverse relationship with a lag effect, as better agricultural growth tends to bring down prices and vice versa.

Benefits of a good monsoon

There are some concerns that the Indian economy is overheating and the current 9% GDP growth would not be sustainable. However, the current forecast for agriculture is only at 2.7% for FY2007. A better monsoon can help to improve that growth rate in FY2008. Agriculture has been an engine of growth not only due to the output from this sector but also due to its demand and supply linkages to the non-agricultural sectors. Sectors like fast moving consumer goods stand to gain with increased rural purchasing power while the demand for tractors and other agricultural inputs like pesticides and seeds should also increase.

Another positive factor would be increased supply of agricultural produce, which should help in controlling inflation. Inflation is of utmost importance as it retards growth and is also a politically sensitive issue. With many state elections scheduled all through FY2008, the government would not like to see the prices of food articles going out of control once again and in this case a good monsoon would only help the cause.

Influence of rainfall on Indian agriculture and food article prices



Source: CMIE, CSO

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

Home