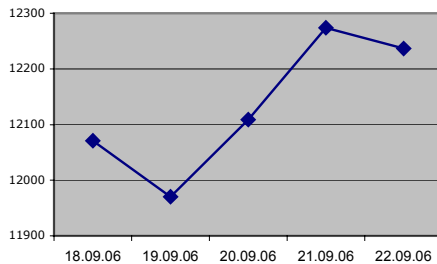
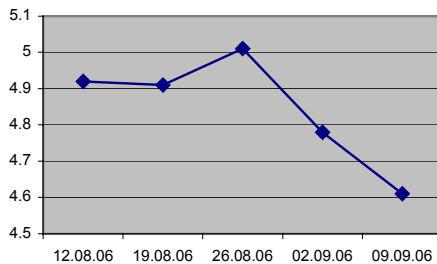
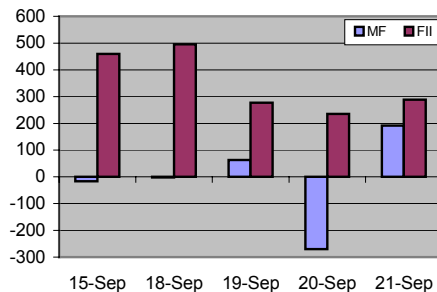
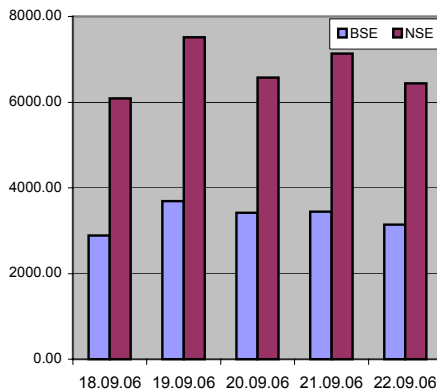


RECAP OF THE WEEK
September 23, 2006
SENSEX

INFLATION (%)

MF/FII-Net Equity Flow (Rs.Cr)

BSE/NSE Cash Turnover (Rs. Cr)


The upward trend continued in the Indian markets for ninth consecutive week. Moreover, the weekly rate of growth has picked up from the way the benchmark indices were rising sluggishly over past few weeks. What is commendable is the fact that all the major world indices took a downturn this week, while our market managed to rise by close to 2% week on week. But, it could be a sign of things to come too, so caution needs to be exercised. Among the sectoral indices, FMCG and Teck led the rest, while Consumer Durables was the major laggard. Despite the gain in the market, the Mid Cap index lost nominally on weekly basis and the Small Cap index also under-performed the benchmark indices.

Market highlight of the week was that the Sensex surpassed 12,218, which was the shadow of the close of May 17, 2006, on closing basis. Global Crude oil prices continued their southward movement, coming in kissing distance of \$60 a barrel, and falling in excess of 4% week on week.

In line with expectations, the US FOMC kept the Fed rate unchanged at 5.25%, on the back of housing slump in August and lower than expected rise in producer prices.

Economy News

The WPI-based inflation further subsided to 4.61% for the week ended September 9, as against expectations of 4.51%, and against 4.78% the previous week. This comes mainly due to cheaper chemicals, cement and some non-food items.

Corporate & Industry News

RIL has struck oil at Saurashtra Block SR-OS-94/1 via drilling the exploratory well SR-01-A1 at the onshore block.

Bharti Airtel has won a license to provide GSM-based wireless services in Channel Islands, Europe.

ONGC and China's Sinopec International have jointly acquired the Colombian assets of Omimex Resources for US\$ 850 mn. ONGC has also signed production-sharing deal with Cuba's CUPET.

Ranbaxy has received approval from the US FDA to manufacture and market Furosemide tablets USP, 20 mg, 40 mg, and 80 mg.

Suzlon Energy has received 247-MW order from John Deere Wind Energy.

A fire broke out at **Tata Motors'** Pune plant, which is likely to impair the production at its paint shop for about a week.

MARKET INDICATORS

Indices	22.09.06	15.09.06	Change (Pts)	Change (%)
NIFTY	3544.05	3478.60	65.45	1.88
SENSEX	12236.78	12009.59	227.19	1.89
BSE-100	6207.63	6113.75	93.88	1.54
BSE-200	1464.06	1444.54	19.52	1.35
BSE-500	4637.94	4580.24	57.70	1.26
BSEMIDCAP	5007.41	5035.12	-27.71	-0.55
BSESMLCAP	6016.10	5985.63	30.47	0.51

SECTORAL INDICES

Indices	22.09.06	15.09.06	Change (Pts)	Change (%)
BSE FMCG	2061.73	2009.30	52.43	2.61
BSE TECK	2998.33	2927.98	70.35	2.40
BSE IT	4394.03	4330.15	63.88	1.48
BSE OIL&GAS	5784.79	5715.98	68.81	1.20
BSE CAPITAL GOODS	8156.60	8099.38	57.22	0.71
BSE BANKEX	5679.10	5642.31	36.79	0.65
BSE HEALTH CARE	3617.71	3596.78	20.93	0.58
BSE PSU	5708.69	5678.83	29.86	0.53
BSE AUTO	5214.65	5197.77	16.88	0.32
BSE METAL	8213.32	8222.92	-9.60	-0.12
BSE CONS. DURABLES	3020.60	3071.66	-51.06	-1.66

WEEKLY SENSEX GAINERS & LOSERS

Top Gainers		
Company	Price	Gain %
REL COMM.	347.15	9.32
HDFC	1406.75	5.73
HLL	257.25	5.63
BHARTI	469.25	5.21
BAJAJ AUTO	2918.75	4.54

Top Losers		
Company	Price	Loss %
TATA MOTORS	835.45	-3.93
TISCO	496.70	-1.53
MARUTI	937.15	-1.27
SBI	975.35	-0.44
REL	462.60	-0.28

WEEKLY A-GROUP GAINERS & LOSERS

Top Gainers		
Company	Price	Gain
BF UTILITIES	1882.75	14.70
PANTALOON RET.	1843.30	13.44
OBC	251.70	11.13
DREDGING CORP.	567.75	9.64
UCO BANK	21.80	9.55

Top Losers		
Company	Price	Loss %
STERLING BIOTEC	91.75	-12.70
HOTEL LEELA	66.80	-9.36
HINDUJA TMT	525.65	-8.75
CPCL	211.10	-8.69
GUJARAT ALKALIES	176.10	-8.04

ADVANCE –DECLINE

SENSEX	
Positive	22
Negative	8
Unchanged	0
Total	30

A GROUP COMPANIES	
Positive	108
Negative	101
Unchanged	0
Total	209

WORLD INDICES

INDEX	22.09.06	15.09.06	% Change
Dow Jones	11508.10	11560.77	-0.46
NASDAQ	2218.93	2235.59	-0.75
FTSE	5822.30	5877.00	-0.93
NIKKEI	15634.67	15866.93	-1.46

MARKETS AT A GLANCE
Indian Markets

Indices	As on 22.09.06	As on 15.09.06	% Change
SENSEX	12236.78	12009.59	1.89
NIFTY	3544.05	3478.60	1.88

US Markets

Indices	As on 22.09.06	As on 15.09.06	% Change
DJIA	11508.10	11560.77	-0.46
NASDAQ	2218.93	2235.59	-0.75

BSE 200

Scripts	CMP (Rs)	Weekly % Chg
Gainers		
BF UTILITIES	1882.75	14.70
PANTALOON RET.	1843.30	13.44
OBC	251.70	11.13
DREDGING CORP.	567.75	9.64
UCO BANK	21.80	9.55
LOSERS		
STERLING	91.75	-12.70
HOTEL LEELA.	66.80	-9.36
HINDUJA TMT	525.65	-8.75
CPCL	211.10	-8.69
EIH	101.90	-8.40

US Listings

Scripts	Close (\$)	Weekly % Chg
NYSE		
DR REDDY	15.91	-0.81
HDFC BANK	57.27	-3.03
ICICI BANK	28.35	-0.39
MTNL	6.70	-0.15
PATNI	18.85	-0.79
SATYAM	38.46	0.44
TATA MOTOR	18.08	-4.69
VSNL	17.25	-2.21
WIPRO	12.60	0.48
NASDAQ		
INFOSYS	46.09	-1.75

Institutional Activity (Rs Cr)

	For the week	For the month	For the year
Mutual Funds	-32.53	468.18	12918.78
FIIIs	1755.50	3780.60	20982.80

DERIVATIVES WATCH

DERIVATIVE WEEKLY SUMMARY

The bull-run continued for the 9th consecutive week when Nifty gained almost 2% on weekly basis and cheered the investors. US Federal Reserve's decision regarding not to hike interest rates and the southward trend in the Crude Oil prices helped the indices to build some further gains. Large cap stocks have shown the strength as compared to Mid-caps and Small-caps.

Among the sectors, FMCG, TECK, IT and Oil & Gas indices were among the gainers while Metal and Consumer Durables were the losers. Being stock specific, RCOM was the highest gainer followed by HDFC, HLL and Bharti while Tata Motors was the top loser followed by TISCO, Maruti and SBI.

Overall open interest rose by Rs. 4,050 Cr or 10% week on week to Rs. 41,967 Cr from Rs. 37,914 Cr last week. In terms of No of shares, Open Interest rose by 7% to 94.19 Cr from 88.44 Cr. The position in the derivative segment at Rs 41,967 Cr is the highest so far since May for these many days into the settlement. Nifty Put-Call ratio based on OI has increased significantly to 1.61 from 1.38 week on week, which indicates that market players are expecting limited downside in the market.

Among the Nifty stocks Bharti, BPCL, Tata Steel, Reliance and Grasim have shown higher addition in the Open Interest on weekly basis while M&M, Dr Reddy, Cipla, VSNL and ITC have shown some reduction in Open Interest. Chennai Petro, Syndicate Bank, Federal Bank, G E Shipping and BILT are amongst the midcaps that have added significant amount of Open Interest on weekly basis.

DERIVATIVE VIEWPOINT

Open Interest increased by Rs 1,275 Cr or 3.1% at Rs 41,967 Cr. Open Interest in terms of number of shares went up by 1.7% from 94.12 Cr to 95.74 Cr. Nifty futures have added 6% in Open Interest while FII net sold worth Rs 1,136 Cr in Index futures and net sold worth of Rs 148 Cr in stock futures on Friday. This fresh addition of short positions by FII in Index future may have some negative impact on the market on Monday. Nifty Open Interest PCR decreased to 1.61 from 1.68 level. This fall in PCR was largely attributed by the call writing, indicating that the market will face strong resistance at higher levels.

Nifty 3,550 & 3,600 Call added 2,310 & 3,576 contracts respectively in OI with decreasing IVS, which indicates call writing, so going forward Nifty will face strong resistance between 3,580-3,600 levels. Nifty 3,500 & 3,550 Put added 1,012 & 1,348 contracts respectively in OI with increasing IVS which indicates put buying, so we can conclude that market may find strong support at 3,500-3,520 levels.

Weekly Summary

Underlying	Weekly Chg (%)		Open Interest Value (Rs. Cr)				Put/Call Ratio (OI)
	In price	OI (Rs. Cr.)	Futures	Call	Put	Total	
NIFTY	1.88	12	10118	3443	5531	19092	1.61
RELIANCE	1.35	18	2069	456	129	2654	0.28
TATASTEEL	-1.49	20	763	227	51	1041	0.22
HINDALCO	0.92	8	604	123	20	747	0.16
TATAMOTORS	-3.89	10	506	89	15	610	0.17
SBIN	-0.36	3	476	77	47	600	0.62

FII Activity for the Week (from September 18 to September 22)

	Contracts Bought		Contracts Sold		Open Interest	
	Nos.	Value (Rs. Cr)	Nos.	Value (Rs. Cr)	Nos.	Value (Rs. Cr)
Index Future	180636	6348	185649	6514	275985	9798
Index Option	16072	554	5501	189	94166	3337
Stock Future	106411	3357	120977	3844	376578	11754
Stock Option	387	14	170	6	4404	144

TECHNICAL TALK

Broad Market Trend

The market has absorbed two bouts of selling pressure over the past two weeks and has continued to maintain its upward trend, as the major indices have moved into a higher trading zone on short-term technicals. Sustainability in these higher trading zones will get tested in the early part of the coming week. If the indices hold above their crucial supporting gaps, then the market will continue to move higher in its new zone. But a break below the supporting gaps can arrest the upside momentum to an extent and lead to increased volatility in the broad market.

NIFTY (3544)

Nifty gap of 3,510-3,525 will be decisive for the market momentum. In case the index sustains above this supporting gap, it will gain potential to rally further till the near target of 3,590 and the far target of 3,640-3,650. Levels near 3,640-3,650 will act as major resistance for the Nifty on the upside. In case the supporting gap of 3,510-3,525 is decisively violated on the downside, the market will slide till 3,483 or 3,435-3,445. The zone of 3,435-3,445 will act as a major support area for the Nifty on the downside.

SENSEX (12237)

The gap of 12,130-12,170 will be critical for the momentum in the Sensex. If the index sustains above this supporting gap, then it will find space on the upside to rally till the near target of 12,400. The far target of 12,550-12,600 will act as major resistance for the Sensex. If the supporting gap of 12,130-12,170 is decisively violated on the downside, the index will see a decline till 12,010-12,035 or 11,840-11,890. The zone of 11,840-11,890 will act as a major support area for the Sensex on the downside.

NIFTY – Hourly Technicals



Review of Stocks Recommended Last Week

STOCK	RECOMMENDATION	PRICE 15.09.06	STOP- LOSS	TARGETS	REVIEW
EVEREST KANTO CYL.	BUY	474.45	445	500, 525	FIRST TARGET ACHIEVED
GUJARAT ALKALIES	BUY	191.50	184	205.50, 215	STOP LOSS TRIGGERED
HEXAWARE TECH.	BUY	162.05	155	171, 176.50	HOLD
RELIANCE NATURAL RES.	BUY / ACCUMULATE	21.80	20.80	23.40, 25	BOTH TARGETS ACHIEVED
SATYAM COMPUTER	BUY	828.80	800	865	HOLD

Technical Picks for the Forthcoming Week

STOCK	RECOMMENDATION	CMP	STOP-LOSS (Rs)	TARGETS (Rs)
BOMBAY DYEING	BUY	734.85	690	818
DATAMATICS TECHNOLOGIES	BUY	61.30	57	67, 70
HIMACHAL FUTURISTIC	BUY	28.25	26.70	30.70, 34

Review of Earlier Open Calls

Stocks	Reco. Date	Reco. Price	SL	Review
BALRAMPUR CHINI MILLS	02-Sep-06	95.30	94	HOLD
CMP: 95.60				
HIND. OIL EXP.	09-Sep-06	119.05	109	STOP LOSS TRIGGERED
ZUARI INDUSTRIES	09-Sep-06	180.40	162	RAISE STOP LOSS TO 168
CMP: 175.55				

BOMBAY DYEING (CMP 734.85)
BUY

The stock is on an upward trend with a near support of 712 and a far support of 690. The stock is placed close to the trigger level of 742. Expect a surge in upside momentum above the 742 mark on increased demand in the counter. The stock will rally up to 780-787 and 818, where it will face an important resistance on the upside.

DATAMATICS TECHNOLOGIES (CMP 61.30)
BUY

Fourth wave of consolidation has ended. The stock has broken out into the fifth and final up-wave of the 5-wave intermediate up-trend. This upswing has a support base of 57. On the upside, the stock will rally up to the 67 and 70 levels.

HIMACHAL FUTURISTIC (CMP 28.25)
BUY

 HIMACHAL FUT [B500183] 27.40, 28.50, 27.00, 28.25, 3598883 3.67%
 Price Avg


- The stock is looking bullish on its daily chart, as it has closed above 50 days moving average with good volumes. The stock has also given upside breakout from the Symmetric Triangle, which was forming lower highs and higher lows as can be seen on the above chart.
- Momentum Indicator like MACD Histogram has reached into positive zone, which shows the aggressiveness of bulls towards this stock.
- Leading Indicator like RSI (Relative Strength Index) has sustained above the level of 50 and it has also given breakout from the negative divergence, which shows the strength in the stock.
- We recommend buying the stock at current market price for position trading with the targets of 30.70 and 34, keeping a stop loss of 26.70

Review of Stock Covered 3 Months Back

Company	Price (Rs) 22.09.06	Recommendation	Reco. Price (Rs) 24.06.06	Return (%)
SENSEX	12237		10401	18
BLUE STAR LTD.	135	ACCUMULATE	120*	13
TRIVENI ENGINEERING & INDUSTRIES LTD.	66	ACCUMULATE	80	(19)

ADJUSTED*Stock Covered This Week**

Company	Price (Rs) 22.09.06	Report Type	Recommendation
JHS SVENDGAARD LABORATORIES LTD.	49 - 58	IPO NOTE	SUBSCRIBE AT CUT OFF
RANBAXY LABORATORIES LTD.	414	RESEARCH REPORT	ACCUMULATE

IPO NOTE
JHS Svendgaard Labs Ltd.
PRICE BAND: Rs 49 - 58
September 23, 2006
SUBSCRIBE
Issue Details

Issue size to public	62 lacs shares
Face Value	10
Bid opens	September 26
Bid closes	October 4
Issue band	Rs 49 – Rs 58
Issue Type	100% Book building
Lead Managers	UTI Bank, Centrum Capital and Bajaj Capital
Registrar	Intime Spectrum Registry Ltd.

Source: RHP

Shareholding Pattern Post-IPO (%)

Promoters	49.35
Public & Others	49.60

Source: RHP

Background and Business

JHS Svendgaard Laboratories Ltd. is in the business of manufacturing of dental and oral healthcare products (including tooth brushes and toothpastes). It is a contract manufacturer for many of the national and international brand names. The company has exports and domestic sales in the proportion of 54% and 46%. The company manufactures following products:

- Toothbrushes
- Toothpaste
- Whitening gel
- Whitening Mouth Rinse
- Denture Cleaning Effervescent Tablets
- Tongue Cleaners

Incorporated in Oct 2004, this company is further consolidated w.e.f. April 1, 2005 through the acquisition of three proprietorship firms: M/s Sunehari Svendgaard Labs, M/s Sunheri Oral care and M/s Jai Hanuman Exports. It has existing production facilities (Unit I & II) at New Delhi and a 100% Export Oriented Unit at NOIDA Special Economic Zone (Unit III) in UP. The company's promoter has a decade long experience in the dental care industry. In addition to this, it also has a highly empowered team with industry specific knowledge.

Objects of the Issue

To raise capital for setting up the proposed Anchor free Toothbrush facility and facility for other products in Himachal Pradesh, and to increase the installed production capacities of existing products at NOIDA. Till Aug 31, 2006, Rs 1.47 Cr has been deployed. The details of the proceeds are:

Sr. No.	Particulars	Amount (Rs Cr)
1	Expansion plan / New project	
	Building and Civil works	7.7
	Plant and Machinery	40.1
	Margin money for working capital	1.6
	Contingencies	2.4
2	General corporate purposes	(*)
3	Issue expenses	(*)
	Total funds required	(*)

 Analyst: Sukhwinder Singh
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Large potential in Oral-care Industry to push up demand of the company's products

Strong Client base & additions to keep momentum intact

Expansion by more than 2 times to result in significant growth in FY08

Investment Positives

Growth in oral healthcare segment continues to be supported by consumer habits: Oral care market is largely represented by Toothbrush and Toothpaste. Other products in this category include mouthwash, sprays and oral rinses.

Toothbrush market is very large globally. In India, toothbrush market segmentation has increased significantly in the last few years. In India, the potential is large, as the consumer habits are quite different. In advanced societies, brushing twice a day is a norm. In India, less than 15% of the toothpaste users brush twice a day. Also the frequency of replacing toothbrush is quite low among Indians. Although it is recommended that toothbrushes be replaced every 3-6 months for proper cleaning, most consumers continue to use it until it is fully worn out. Price-wise, the price for branded toothbrush varies from Rs 7 to Rs 45. Similarly in case of Toothpaste segment, it is segmented based on product attributes as White, Gel, Herbal etc. Besides, there are many dental problems and usage of specialized medicinal toothpaste is prevalent only for problem solving after prescription by doctors. Thus, more awareness regarding dental care has the potential to push up demand for these products.

Increasing Demand from large players to keep the growth momentum: Currently, the company does almost 100% Contract manufacturing for its clients. It has 56% export sales out of which 89% is to US and the balance to Europe. 5 Global clients contribute exports Sales. It has around 15 large clients & contract period ranges between 2-5 years. The company has recently added 2 large retailers as clients, to whom supply is expected to start after Dec 06. In toothbrushes & toothpastes, the company has 10% market share in India. In Mouthwash, Pfizer is the leader. About 50% of Sales come from Top 3 clients. The company has been adding clients every quarter and therefore the growth is robust in the next 2-3 years.

Expansion of existing products to result in significant growth in FY07 and FY08: Currently, the company out-sources manufacturing of most products to 3rd party vendors. Currently, there is 100% or more than 100% utilization in all the products. In some, its 150%. In order to reduce dependence on them, and to cater to increasing demand from clients, it is expanding its capacities in most of its products.

The proposed capacities are:

Products	Existing capacity	Proposed capacity	Total capacity
Toothbrushes (million units)	40	76	116
Toothpaste (tonnes pa)	450	2250	2700
Denture cleaning Effervescent tablets (million units pa)	5	175	180
Other oral care products (litres pa)	60000	440000	500000

Tax concessions for New facility

Expansion in some products is more than 2 times. Full impact of the expansion will be there in FY08, while part of it will be during Q4FY07. Sales growth due to expansion in FY07 would be around 35%.

Locational advantage along with Excise concessions: The Company plans to set up a toothbrush manufacturing plant in the state of Himachal Pradesh, which is an excise free zone. The company would therefore be able to get the tax concessions along with passing on the cost benefits to their existing and prospective customers.

Under utilization of capacity and client concentration to impact growth**Investment Concern**

Under Utilization of Capacities: The company plans for a major expansion with regards to expected increase in business. However, in case the expected business doesn't fructify, the same may lead to substantial under-utilization of capacities leading to cost overrun due to higher fixed cost of a bigger setup. This can result in decrease in margins.

Client concentration: Top three customers contributes 50% of the total revenue, hence any cancellation or any discontinuation of contracts with these three may largely impact the growth and the earnings.

Consolidated result show good growth in the last 3 years**Financial Results:**

The company has been consolidated with the acquisition of three proprietorship firms: M/s Sunehari Svendgaard Labs, M/s Sunheri Oral care and M/s Jai Hanuman Exports.

- M/s Sunehari Svendgaard Labs is in the business of manufacturing and trading of toothbrushes, plastic goods including tongue cleaner, packing tray etc. Sunehari Oral care is in the business of contract manufacturing of toothpaste, mouth rinse, whitening gel, effervescent tablets. The firm also manufactured and promoted toothpaste in retail category under the brand name of "TAAZGI". Jai Hanuman Exports is in the manufacturing of high-end speciality products like manufacturing and trading of toothbrushes with Whitening bristles, anti-bacterial nylon etc. The consolidated financials show robust growth in the last 3 years.

The audited consolidated financial statement of the erstwhile proprietary concerns for FY03, FY04 and FY05 are as under :

(Rs crore)	FY03	FY04	FY05	FY06
Total income	4.48	18.10	29.11	36.93
Total exp.	4.07	12.80	22.02	31.30
PBDT	0.40	5.30	7.09	4.93
Net profit	0.04	4.68	6.04	4.03

- Net sales in FY06 has showed a growth of 26%, and Net profit has shown a degrowth of 33%. The NPM has been 13.4%. EPS at the post issue equity stands at Rs 3.2. In Q1FY07, Net Sales have been at Rs 9 Cr. Looking at the growth in the oral care segment & the expansion of capacities, the company expects a growth of 30% in FY07 .

Valuation

JHS Svendgaard Labs is the only company in the whole oral care segment spanning from oral FMCG to Oral pharma products. The company is on a growth trajectory backed by continuous clients addition and the Retail growth in the Domestic as well as Global market. The company is expanding capacities by more than 2 times in most of the products. Expansion will be completed by Dec 06. Full impact of expansion will be there in FY08, while part of it will be during Q4FY07. Sales growth due to the expansion in FY07 would be around 35%. Q1FY07 results showed a Sales of Rs 9 Cr. The company is expected to show EPS of Rs 5.

There is no competitor to JHS Labs, as it has FMCG as well as Pharma products. The issue is priced in the band of Rs 49-58. At the upper price of Rs 58, it quotes at a forward PE of 11.6, and at the lower price of Rs 49, at a PE of 10 on post issue Equity of 12.5 Cr. The valuations are attractive considering the growth in the oral care segment. Therefore, we recommend subscribe to the issue at the cut-off price for long term perspective.

P/E of FY07E is 11.6 at the higher band of Rs 58

Financial Snapshot

FY06 Performance

(For Consolidated result of 3 concerns)

(Rs Cr)	FY06
Net Sales	30.0
Other income	0.6
Inventory - Inc/(Dec)	6.3
Total income	36.9
Expenditure	31.3
PBIDT	5.6
Interest	0.7
PBDT	4.9
Depreciation	0.4
PBT	4.5
Current tax	0.4
PAT	4.0
EPS (Rs)	3.2
Equity	12.5
FV (Rs)	10.0
Margin (%)	
NPM	13.4

RESEARCH REPORT
Ranbaxy Labs Ltd.
CMP: Rs 414
September 23, 2006
ACCUMULATE

BSE Code	500359
NSE Code	RANBAXY

Key Data

Sensex	12236
52 Week H/L (Rs.)	531/317
Aug. Month H/L (Rs.)	415/365
Market Cap (Rs Cr)	15437
Avg. daily volume (6m)	568772
Face Value (Rs)	5

Source: Capitaline

Shareholding Pattern (%)

Promoters	34.87
Institution	16.34
Foreign holding	27.37
Non-promoter corporate holding	2.37
Public & Others	19.06

Source: Capitaline

One-Year Performance (Rel. to Sensex)


Source: Capitaline

 Analyst: Sukhwinder Singh
 sukhwinder.singh@anagram.co.in

Background & Business

Ranbaxy Laboratories Limited, is an integrated, research-based, international pharmaceutical company producing a wide range of quality, affordable generic medicines. Ranbaxy's continued focus on R&D has resulted in several approvals in developed markets and significant progress in New Drug Discovery Research. The Company is serving its customers in over 125 countries and has an expanding international portfolio of affiliates, joint ventures and alliances, ground operations in 49 countries and manufacturing operations in 8 countries.

Investment Positives

US market continues to provide growth momentum: US is the largest Pharmaceutical market (US\$ 236 bn) & therefore the company continues to focus on it with blockbuster drugs and continuous ANDA filings. These will continue to maintain the momentum through:

- Generics market:** Ranbaxy has a robust product portfolio in the US region, it being the largest market, and with a CAGR of 10% till 2008E, the company has 56 ANDA pending for approvals, of which 49 are first-to-file. These will provide consistent growth despite pricing pressure in the coming years. Recently, the company got 180-day exclusivity approval for Loperamide Hydrochloride and Simethicone Tablets (OTC), a Anti-diarrhoea OTC drug with Total sales of US\$ 25.3 mn (IRI - MAT: June 2006). It also got tentative approval for Risperidone (Schizophrenia drug) with annual sales of US\$ 66 mn (IMS - MAT: March 2006). Thus, there has been continuous new drug approvals & introductions which would maintain the growth.
- Blockbuster drugs with 180-days exclusivity:** Ranbaxy launched a blockbuster drug "Zocor", a Cholesterol lowering drug (Simvastatin) on June 23rd 2006. Ranbaxy got exclusivity for 80 mg dosages, which has US sales of US\$ 200 mn, assuming 60% price reduction. Ranbaxy competes with Dr. Reddy's in this dosage while Teva is present in 10, 20, 80 mg dosages. Thus, this will provide an incremental EPS of Rs 3.6 in the 6-month period till Dec 23rd. Also, the FDA approval for additional dosages is expected to add further earnings in the coming quarters.

**Inorganic growth
through acquisitions in
Europe**

- **New launches in Canada:** Canada is the 8th largest market in the world (US\$ 11 bn) and Ranbaxy has become the 1st Indian company to launch a licensed generic product. It launched a Psychotherapeutic product Resperidone. It intends to have major share in this market in the next 2-3 years.

European market: Between now and 2011, Europe's four largest markets – Germany, UK, France and Italy are set to witness patent expirations of Euro 11.8 bn (Rs 62,000 Cr). In order to target these markets and isolate it from US generics business, Ranbaxy has pursued aggressively for various acquisitions in Europe in the last 4 months. All these acquisitions are EPS-accretive immediately along with prospects for long-term revenue growth. These acquisitions will result in significant upside in terms of revenue and profit over a long term.

- **Terapia acquisitions:** Ranbaxy acquired Terapia, a Romanian generics firm in March 2006. Terapia is the leading generics player in the US\$ 1.2 bn Romanian pharma market, the fastest growing market in the central and Eastern European regions. Terapia has a 2005 Sales of US\$ 80 mn (Rs 350 Cr) with 35% OPM. With Terapia, Ranbaxy will have 5.5% market share in Romania. This will provide incremental EPS of Rs 1.2 in CY06. The integration process is progressing as per plan.
- **Acquisition in Italy:** Ranbaxy acquired the unbranded generic business of Allen, a division of GlaxoSmithKline in Italy. Italian generic market is one of the fastest growing markets in Europe. As per IMS, December, 2005, the value of the Italian generic market was approximately EUR350 mn (US\$ 420 mn), with an annual growth rate of 49%. Ranbaxy also got the 3000 work force of Allen with this acquisition.
- **Acquisition in Belgium:** Ranbaxy acquired Ethimed, a generics company in Belgium. This diversifies the revenue stream within the European region. Belgium is the 7th largest pharmaceutical market in Europe and Netherlands is the 6th largest market with a combined market size including Luxembourg, of USD 7.6 Bn (MAT Dec 05). Generic drugs account for less than 5% of the US\$ 4.4 bn (€ 3.6 bn) Belgian pharmaceutical market, and is expected to grow at around 16.5% annually through 2008. It is expected to generate Sales of Rs 33.4 Cr in CY06.
- **Acquisition in Spain:** In July 2006, the Company acquired Mundogen S.A., the Generics business of GlaxoSmithKline (GSK), in Spain to further strengthen its presence in this fast emerging Generics market. It is expected to generate sales of Rs 16.8 Cr in CY06.

Launches in Japan to supplement growth

New launches in Japan to supplement growth: Japan is the 2nd largest pharma market in the world. Japan pharma market is \$60 bn which has a generic component of \$4 bn and set to grow. Dynamics of the market are in favour of Companies. While the price erosions are lower, the industry is evolving as govt policies are pro-generics and drugs worth \$2.5-3 bn are going off-patent in next 2 years. Ranbaxy has launched 2 products - Antibiotic Clairthroymycin 50, 200 mg Tablets & Antifungal Terbinafine 125 mg. With these 2 products, the company is looking at a combined market of roughly \$700mn – i.e. Rs 3,150 Cr. Earlier it launched Diabetes drug Vogseal exactly an year ago and has got the largest market share in the Japan. Thus, additional launches will have increased sales from Japan.

More acquisitions likely in future

Domestic market growth intact: The Company continues to introduce new products in the domestic market, which account for 5-6% of Sales. It recently launched branded product, Aversa (Formoterol + Fluticasone) inhalation capsules in India for the treatment of Asthma. India presently has an estimated 15-20 mn asthmatic patients and the estimated prevalence rate in 5-11 year old children is between 10-15%. A large segment of population is susceptible to this disorder.

Looking at more acquisitions: Ranbaxy has stated that it is targeting gross revenues of US\$ 2 bn by CY07E. Taking the four acquisitions of Europe (Terapia, Allen, Ethimed and Mundogen) into effect, Ranbaxy's sales for CY07E are expected to be about US\$ 1.6 bn (Rs 7,360 Cr). Therefore, we believe that the company is likely to target few more acquisitions to reach the US\$ 2 bn target.

Pricing pressure in US to continue**Investment concerns**

Pricing pressure in the US market: There is severe pricing pressure in the US market for generics with most quoting at 90-95% of the Innovator's price. Even in Zocor, which was launched in June, the innovator Merck reduced the prices before the launch in a tie up with Insurance companies. This has put pressure on Teva and Ranbaxy to reduce the prices on Day 1 of launch.

Better performance in Q2CY06**Trades at 24 times Estimated EPS of Rs 14 for CY07 – attractive for long-term****Quarterly Results**

Ranbaxy had a second consecutive quarter of better performance in the June quarter.

- Q2'06 Consolidated Sales recorded an increase of over 7% over the corresponding period of the previous year from Rs 1,348 Cr to Rs 1,446 Cr.
- Q2'06 Net Profits recorded an increase of 70% versus Q1'06 (trailing quarter), from Rs 71.4 Cr to Rs 121.1 Cr and 20% versus Q2'05 (corresponding quarter) from Rs 101.3 Cr to Rs 121.1 Cr.
- In line with the Company's focused efforts to control costs, SGA and R&D expenses were lower by 7% and 27% respectively at Rs 411.7 Cr and Rs 81.9 Cr versus Q2 '05.
- USA recorded sales of Rs 409 Cr for the quarter, an increase of 8% over the corresponding quarter. This was led by the launch of Simvastatin Tablets 80 mg with 180-day exclusivity. The product has garnered more than 50% share of the generics market. For H1'06, sales were at Rs 810 Cr, up 9%.
- Phase IIb clinical studies in respect of Anti malaria drug RBX 11160, being developed under a collaborative research programme with Medicines for Malaria Venture (MMV), have begun and patients are being enrolled in India, Thailand and Africa.

Valuation

Ranbaxy has a robust business model with products present in every Pharma segment along with revenue streams from different geographies. The acquisitions of 3 companies in Europe will leverage the patent expirations in the next 4 years. The outlook for business is fairly good with incremental EPS coming from Zocor launch and Acquisitions in Europe. Besides, it will continue to focus on controlling costs. In the H1CY06, Ranbaxy got an EPS of Rs 5.2. H2 will be much better considering the recent launches and inorganic initiatives. Ranbaxy is confident of achieving Sales growth of 18%+ for CY06 and OPM of 16% for CY06. There is also likelihood of few acquisitions to reach the target of Gross Sales of \$2 bn by CY07.

At the current price of Rs 414, the stock trades at 29 times its Estimated CY06 EPS of Rs 14 and at 24 times its CY07E EPS of Rs 17, which is attractively priced. Therefore, considering the growth potential from product launches & inorganic initiatives, we recommend an Accumulate rating on the stock for a long-term perspective.

Financial Highlights

Quarterly Performance

(Rs Crore)	Q3CY05	Q4CY05	Q1CY06	Q2CY06	YoY(%)
Net Sales	1283.0	1387.7	1263.1	1433.9	8.8
Operating expenditure	1162.6	1240.5	1077.0	1109.5	2.7
R & D Expenditure	153.2	123.2	72.9	81.9	-26.9
PBIDTA	31.2	65.4	148.2	264.8	55.9
Interest	15.9	19.5	25.7	27.7	62.9
Depreciation & Amort.	35.5	44.7	42.7	45.7	22.2
Interest and OI	4.8	2.2	5.5	15.1	77.6
PBT	-15.4	31.9	85.3	155.8	23.4
Tax	-34.1	-37.7	13.5	33.6	36.0
Adj PAT	18.4	68.6	71.4	121.0	19.4
EPS	0.5	1.8	1.9	3.3	5.2
Equity	186.1	186.1	186.1	186.1	
Margins(%)					
OPM	9.4	10.6	14.7	22.6	
NPM	1.4	4.9	5.7	8.4	

Annual Performance

(Rs Crore)	CY05	CY04	YoY(%)
Net Sales	5109.9	5245.1	-2.6
Operating expend.	4458.5	4113.1	8.4
R & D Expenditure	469.0	337.6	38.9
PBIDTA	396.3	981.4	-59.6
Interest	66.2	33.5	97.6
Depre. & Amortis.	150.2	121.5	23.6
PBIT	179.9	845.5	-78.7
Tax	-34.0	188.1	-118.1
Adj PAT	259.1	698.6	-62.9
EPS	7.0	18.8	
Equity	186.1	186.1	
Margins(%)			
OPM	12.7	21.6	
NPM	5.1	13.3	

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RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period
Accumulate Expected to appreciate up to 20% over a 12-month period
Hold Expected to remain in a narrow range
Avoid Expected to depreciate up to 10% over a 12-month period
Exit Expected to depreciate more than 10% over a 12-month period

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