

## Equities

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# Indian Pharma & Ag Daily Dose

## Glenmark (Arbitration Against Napo); Hospira (Gemcitabine Soln Approval); NPPA (Hikes 62 Formulation Prices)

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 Prashant Nair, CFA

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- **From the Research Desk (Pg 3) — Cipla (CIPL.BO)** - 1Q: Sluggish Top Line Remains a Concern; **Ranbaxy (RANB.BO)** - 2QCY11: Top Line Strong, Margins Lag; **Aurobindo Pharma (ARBN.BO)** - 1QFY12: Adverse Mix Drag on Margins.
- **BSE to include Coal India, Sun Pharma in Sensex from Aug 8** — BSE would include Coal India and Sun Pharma in the Sensex effective from August 8, 2011. Sun Pharma was part of the sensex earlier and is making a comeback. (*Economic Times*)
- **Glenmark - Filing of Arbitration Claims against Napo** — Glenmark Pharmaceuticals Ltd has informed BSE about Filing of Arbitration Claims against Napo in order to seek a declaration of Glenmark's exclusive rights for indications and territories licensed to Glenmark and prevent Napo from distributing products into Glenmark's Territories through relief agencies. (*BSE India*)
- **Hospira Announces U.S. Approval of Solution Version of Gemcitabine Injection** — Hospira announced USFDA approval of gemcitabine injection, a solution form of the drug. The solution presentations include 200 mg, 1 gm and 2 gm with a concentration of 38 mg/ml. The oncology medication had U.S. sales of more than US\$750m in 2010, led by Eli Lilly's Gemzar®. Hospira expects to launch the product in early September. Hospira is the first company to offer gemcitabine in a solution formulation for the U.S. market. (*Press Release*)
- **Divi's Lab Q1 net up 19% to Rs1bn** — Divi's Labs said its net profit rose by 18.9% to Rs1bn for the first quarter ended June 30, 2011, over the same period previous fiscal. The company had a net profit of Rs862m in the same period last financial year, Divi's Labs said. (*Smart Investor*)
- **Other stories (Pg 2)** — Biosimilars: US payers "will want more data than FDA"; Hong Kong widens GSK antibiotic recall again; Chinese pricing plan threatens pharma profits; NPPA hikes prices of 62 formulation packs of medicines; Shasun sees margins up for a few more quarters.

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 Figure 1. Market Summary (see details in Fig 2 inside)

BSE Sensex down 4.1%; S&amp;P Nifty down 4.1%; BSE H/C down 3.2%

Key Gainers: Cipla up 1%

Key Losers: Jubilant down 6%, Fortis down 5%

Volumes: Strong volumes in Cipla, Ranbaxy, United Phosphorus &amp; Sun Pharma

Source: dataCentral, Bloomberg

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 See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Other Top Stories

- **Biosimilars: US payers "will want more data than FDA"** — To feel comfortable with generic biologics (biosimilars), US payers are likely to require more clinical information than what might be accepted by the USFDA for approvals, a new report suggests. For example, FDA approval of biosimilar versions of monoclonal antibodies (MAbs) for oncology indications will not allay all the concerns felt by the majority of payers about bioequivalence, says the report, from research firm Decision Resources. (*Pharmatimes*)
- **Hong Kong widens GSK antibiotic recall again** — GSK turned up plasticizers in two more strengths of its Augmentin antibiotic, triggering another recall in Hong Kong. After recalls of two other versions of the antibiotic, the company launched an internal probe, finding the chemicals in 625-mg and 1-g tabs made at a U.K. plant. "According to GSK's in-house search, the source of the plasticizers was possibly from abrasion of the polyvinyl chloride (PVC) plastic tubing used to transfer powder and granules during tablet production. In view of this reported quality defect, DH orders extension of the recall to cover all Augmentin tablet formulations manufactured in U.K.," according to Hong Kong's Department of Health. (*Fierce Pharma*)
- **Chinese pricing plan threatens pharma profits** — China is fast becoming the new frontier of drug-price cuts. A government pilot project in the hinterlands managed to lower prices by as much as 90% on essential meds, Bloomberg reports. So now, the approach may go nationwide. It also might be applied to more drugs. (*Fierce Pharma*)
- **NPPA hikes prices of 62 formulations packs of medicines** — The government said the prices of 62 formulation packs have been increased by the NPPA based on applications of the different manufacturers. The increase in the prices of medicines includes drugs for diabetes and tuberculosis from companies, including Novartis, Biocon, Wockhardt, Cipla and Lupin among others, Minister of State for Chemicals and Fertilisers Srikant Kumar Jena said in a written reply to the Rajya Sabha. "This is mainly due to increase in input material cost and revision in the conversion cost, packing charges and packing material norms," he said, adding the price hike was carried out in March this year. (*Economic Times*)
- **Shasun sees margins up for a few more quarters** — Shasun Pharma is pinning hopes on the improved process efficiencies to achieve higher margins during this fiscal. "We have been working on strengthening the processes within the company for sometime now. In the next few quarters, the margins are definitely going to increase. Also, the capacity utilisation, too, would go up due to the higher efficiencies, resulting in more volumes," a senior company official said. Shasun has identified four key drivers for future growth — Ibuprofen derivatives, Gabapentin, formulations and the opportunities arising in the Crams market. It has strengthened its production of Ibuprofen derivatives such as Ibuprofen Sodium, Ibuprofen Lysinate and S-Ibuprofen. (*DNA India*)
- **Dr Reddy's expects North American biz to drive growth this FY** — Dr Reddy's Labs expects generics business in North America to be its main growth driver this fiscal. The company plans to launch around 9-12 products in the US market this fiscal, which includes antipsychotic Olanzapine 20mg and anti-diabetic Rosiglitazone in the American market this fiscal with 180 days of market exclusivity. (*Economic Times*)

## From the Research Desk

- [Cipla \(CIPL.BO\) - 1Q: Sluggish Top Line Remains a Concern](#) — Growth Concerns Remain — Recurring PAT was marginally higher than our estimate (missed consensus) but the biz remains sluggish. While a better revenue mix supported margins, we remain concerned over the continued tepid growth in revenues. Although a favorable base effect to growth and a material de-rating (now at c17x FY13E EPS) could limit downside, we believe there are better options in the sector. *(Prashant Nair, India)*
- [Ranbaxy \(RANB.BO\) - 2QCY11: Top Line Strong, Margins Lag](#) — A Mixed Bag — RANB's initiatives to rejuvenate its business have started paying off in terms of top-line momentum in several key markets. However, margin improvement, while visible, is at a slower pace than expected. Nevertheless, we remain positive on the turnaround & maintain Buy. Resolution of FDA issues remains the main catalyst. *(Prashant Nair, India)*
- [Aurobindo Pharma \(ARBN.BO\) - 1QFY12: Adverse Mix Drag on Margins](#) — Mixed Bag — Recurring PAT was c10% below our estimate, as adverse revenue mix (higher share of ARVs, lower in US) suppressed margins, despite strong topline growth remaining strong. We expect things to normalize going forward, on ramp-up in deals with key partners, new launches in the US & higher capacity utilization in the SEZ (Unit VII). Valuations remain attractive (8x FY12E core EPS) but a sustained re-rating would be contingent on more clarity vis-à-vis the FDA issues at Unit III. Maintain Buy. *(Prashant Nair, India)*

## Results Calendar

Figure 2. Indian Pharma & Ag – 1QFY12 Earnings & Earnings Call Details

Company	Result Date	Conf. Call Details	
		Date/Time (IST)	Dial in
Cadila Healthcare	19-Jul	19-Jul 4:00pm	
Dr. Reddy's Labs	20-Jul	20-Jul 6:30pm	
Biocon	21-Jul	21-Jul 12:30pm	
Glenmark	26-Jul	26-Jul 4:00pm	
Lupin	27-Jul	28-Jul 12:00pm	
Dishman	28-Jul	28-Jul 5:00pm	
Sun Pharma	28-Jul	29-Jul 10:00 am	
United Phosphorus	29-Jul	29-Jul 4:00pm	
Cipla	05-Aug		
Ranbaxy	05-Aug	05-Aug 4:00pm	+91 22 6629 0361/+91 22 3065 0141
Aurobindo Pharma	06-Aug		
Jubilant Lifesciences	09-Aug	10-Aug	
GSK Pharma	10-Aug		
Apollo Hospitals	10-Aug		
Fortis Healthcare	12-Aug		

Source: Company Information, Citi Investment Research and Analysis

## Stock Trends & Valuations

Figure 3. CIRA India Pharma Universe — Price & Volume Movement

Name	RIC	Price (Rs)		Price Change (%)		Volume (k Shares)		CIRA Rating	TP (Rs)
		05 Aug 11		1-day	YTD	1-day	3-m avg		
BSE Sensex		17,305.9		(4.1)	(17.8)	20,414	12,165		
NIFTY Index		5,211.3		(4.1)	(17.2)	196,017	109,987		
BSE Healthcare		6,219.3		(3.2)	(9.5)	4,783	1,830		
Apollo Hospitals	APLH.BO	536.5		(0.9)	15.1	87	98	1L	615
Aurobindo Pharma	ARBN.BO	162.3		(1.2)	(40.9)	1,922	1,401	1M	285
Biocon	BION.BO	342.0		(0.8)	(19.9)	1,063	457	2M	480
Cadila HC	CADI.BO	851.0		(1.9)	5.2	482	135	3M	810
Cipla	CIPL.BO	308.3		0.6	(17.9)	2,183	1,245	3M	330
Dishman Pharma	DISH.BO	82.1		(1.4)	(50.4)	921	138	1M	115
Dr.Reddy's Labs	REDY.BO	1,530.7		(0.9)	(8.5)	700	401	1L	1,835
Fortis HC	FOHE.BO	156.8		(4.5)	6.4	382	363	1L	190
GSK Pharma	GLAX.BO	2,200.9		(3.5)	(8.3)	18	22	3L	2,170
Glenmark	GLEN.BO	323.8		(2.3)	(12.5)	970	911	1M	430
Jubilant	JULS.BO	195.2		(6.0)	(32.5)	90	231	1M	290
Lupin	LUPN.BO	449.8		(2.0)	(10.6)	1,168	1,091	1L	525
Ranbaxy	RANB.BO	520.1		(2.4)	(14.5)	2,025	996	1M	700
Sun Pharma	SUN.BO	499.0		(0.4)	1.5	4,130	981	2L	525
United Phosphorus	UNPO.BO	154.4		(0.7)	(11.9)	3,142	1,187	1H	240

Source: dataCentral, Bloomberg and CIRA estimates

Figure 4. CIRA Indian Pharma — Valuation Snapshot

Company	RIC	Rating	MCap (US\$M)	Price (Rs)		Target Price	EPS(Rs/sh)		P/E (x)		EV/EBITDA (x)		EV/S (x)		RoCE		RoE	
				05 Aug 11			FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
<b>Generic Pharma</b>																		
Aurobindo	ARBN.BO	1M	1,058	162	285	19.4	22.8	8.4	7.1	6.8	6.1	1.6	1.4	14%	15%	26%	24%	
Biocon	BION.BO	2M	1,527	341	480	18.2	19.7	18.7	17.3	11.5	10.3	2.4	3.1	15%	15%	19%	18%	
Cadila HC	CADI.BO	3M	3,904	853	810	33.0	40.3	25.8	21.2	17.9	14.9	4.0	3.4	25%	25%	37%	33%	
Cipla	CIPL.BO	3M	5,537	308	330	12.0	15.1	25.7	20.5	18.3	15.5	3.9	3.5	14%	16%	15%	17%	
Dr Reddy	REDY.BO	1L	5,796	1,530	1,835	63.8	79.1	24.0	19.3	19.3	15.6	3.6	3.0	19%	20%	25%	26%	
Glenmark	GLEN.BO	1M	1,945	322	430	14.2	27.3	22.7	11.8	16.6	10.0	3.5	2.8	12%	19%	21%	31%	
Lupin	LUPN.BO	1L	4,470	448	525	19.3	23.2	23.2	19.3	17.5	13.9	3.6	3.0	22%	23%	29%	28%	
Ranbaxy	RANB.BO	1M	4,905	520	700	6.1	16.4	85.0	31.7	12.7	6.0	2.7	1.7	11%	29%	30%	45%	
Sun Pharma	SUN.BO	2L	11,525	498	525	17.5	21.0	28.4	23.7	24.4	19.7	8.4	6.4	23%	20%	21%	21%	
<b>Innovator CRAMS</b>																		
Dishman	DISH.BO	1M	147	82	115	10.1	7.3	8.1	11.1	8.5	7.3	1.4	1.3	5%	6%	10%	7%	
Jubilant	JULS.BO	1M	696	195	290	15.5	15.3	12.6	12.7	10.0	8.9	1.6	1.6	6%	7%	11%	12%	
<b>Hospitals</b>																		
Apollo Hosp.	APLH.BO	1L	1,576	537	615	14.5	21.5	37.0	25.0	17.3	13.5	2.8	2.3	9%	11%	11%	15%	
Fortis Health.	FOHE.BO	1L	1,425	157	190	2.5	5.2	63.9	30.4	34.1	13.5	4.8	2.4	2%	7%	5%	7%	
<b>MNC Pharma</b>																		
GSK Pharma	GLAX.BO	3L	4,176	2,205	2,170	68.6	78.2	32.1	28.2	21.8	18.9	7.7	6.7	n/a	n/a	31%	32%	
<b>AgroChem</b>																		
United Phos.	UNPO.BO	1H	1,593	154	240	13.9	16.9	11.1	9.1	6.5	5.4	1.2	1.1	18%	18%	19%	19%	

Source: dataCentral, CIRA estimates

## Appendix A-1

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